



Second Quarter 2024 (July 1, 2024)

The close of the second quarter marks the seven-year anniversary of the Suncoast Small to Mid-Capitalization portfolio. Year to date the **Suncoast-SMID Portfolio (SEM-SMID)** posted results +9.5% after fees vs the S&P 400 Growth index +11.7%. Since Inception SEM-SMID has earned an annual rate of return of 13.3% after fees versus the S&P 400 Growth of +9.9%, effectively growing an investment of \$1 million into \$2.4 million and \$1.9 million, respectively. We discuss the slight increase of **Nice LTD**, as well as the divestment of **Agilent Technologies**. We also highlight companies that actively repurchase shares using their free cash flow to benefit shareholders as well as the companies we have owned since inception.

Portfolio Activity

During the quarter, we continued to increase our investment in **NICE LTD (NICE)** as its positive momentum persisted. NICE is seeing strong demand for bookings from enterprise clients with cloud services +27% in the first quarter and recurring revenues accounting for 88% of total sales. Despite macroeconomic challenges affecting small and medium sized customers in 2023, NICE is starting to see improvements in the segment. Management raised guidance and now anticipates revenue growth in the mid-teens and earnings growth in the high teens.

Conversely, we decided to sell our position in **Agilent Technologies (A)**, which operates in the life sciences, diagnostics, and applied markets, and provides instruments, software, services, and consumables for laboratories. The Pharmaceuticals segment, Agilent's largest business segment, remained weak with customers delaying capital equipment purchases as well as concerns over a soft Chinese market. With reduced guidance we reallocated the proceeds to NICE, which is currently exhibiting stronger business momentum.

Portfolio Update

One of the core criteria of the **SEM-Disciplined Investment System (SEM-DIS)** is that our chosen companies must demonstrate robust free cash flow, alongside business momentum and a strong balance sheet.



This financial strength enables companies to return capital to shareholders through share buybacks and dividends. Strong free cash flow provides companies with the flexibility to reinvest in the business, repurchase their own shares and pay out dividends. The reduction in shares outstanding benefits all shareholders by enhancing the value per share. Several of the companies in our portfolio have consistently returned capital to investors through share buybacks over the past seven years, as detailed in the table below.

Company - Share Count Reduction from 2016-2023

CDW Corp	-16%	Genpact	-10%
Corpay Inc.	-22%	Idexx Labs	-6%
Deckers Outdoor Corp.	-20%	ITT Corp	-7%
Edwards Lifesciences	-5%	Medpace	-24%
Fair Issac Corp.	-19%	Mettler Toledo	-17%

Portfolio Highlights – 7 years of ownership

Six of our companies have been in the portfolio since inception, and listed below:

<u>Portfolio Holding</u>	<u>2016 Net Income*</u>	<u>2024 Estimated Net Income*</u>	<u>% Change</u>
Cintas	\$456.9	\$1,560.0	241%
Copart	\$255.2	\$1,390.0	445%
Edward Lifesciences	\$630.0	\$1,665.0	164%
IDEXX Labs	\$222.0	\$910.0	310%
Mettler Toledo	\$384.4	\$830.0	116%
Roper	\$658.6	\$1,970.0	199%

* \$ in Millions, value line data

While these companies offer assorted products and services, all have successfully grown their businesses. The slowest growth among them still doubled their net income over the 8-year period. Importantly none of the growth required raising additional capital from investors.



The two fastest growing businesses over that period were **Copart (CPRT)** and **IDEXX Labs (IDXX)**. CPRT is a remarkably simple, yet lucrative, business that only has one primary competitor. CPRT is an essential service provider to the insurance industry, as it is the world's largest auctioneer and repurpose service company of salvaged vehicles. Mostly a result of accidents, CPRT either junks a car at its own junk yards, and it becomes a source for parts, or it remarkets the car by auctioning it in international markets where there are less restrictions and strong interest in more affordable transportation. Two business trends continue to support CPRT's organic growth. First as the average age of a car in service in the U.S. rises, the closer it gets to being salvaged. Second, with increasing technology and sensors in cars, and with greater information available to consumers about an auto's history, insurance companies are quicker to "total" cars because of the "Diminished Value" concept, and thereby replace the car instead of repair it. But since insurance companies are trying to recoup as much as they can, as they paid for the replacement, they lean on CPRT to get the highest value possible from scrapping it or selling the vehicle in the international market. CPRT's investment in technology has given it the leadership position in global auto auctions and the business results during our seven years of ownership speak for themselves.

IDEXX develops, manufactures, and distributes diagnostic services, products and equipment for pets and livestock. The company is benefiting from two key trends that are likely to continue. First pet ownership continues to grow from a secular perspective, albeit at a slower pace post pandemic. As of this year, 66% of U.S. households own a pet up from 56% in 1988, per a report from *Forbes* magazine citing industry and government statistics. Second, pets are such an important part of the family. Owners have demonstrated a willingness to spend more on their companion animals since 1994, per a recent *Morningstar* report. Artificial Intelligence (AI) will have many applications and health services will be a critical area. Traditionally fecal and blood smear tests have been reviewed by a lab technician doing the tedious job of looking through a microscope. Under fast development, use and sale by IDXX are AI based fecal, blood, dermatologic and urine tests, in which samples are digitally compared against collections of data from vets and laboratories across the world. To design the first AI test, 50,000+ samples of more than 100 different parasites were collected and loaded into algorithms from 3,000 vets. As the database continues to grow, it also cuts down on the cost of providing the data to an owner and importantly on the time they must wait, from hours or days down to just a few minutes. IDEXX's future remains bright as we continue to care for our pets!



Outlook

As we reach the seven-year milestone it truly feels like we are just getting started. It is our passion to identify smaller companies with strong business outlooks, great balance sheets and a reasonable share price. Please contact us with any questions and thanks for your continued support.

Sincerely,

Don

Donald R. Jowdy

CIO

Cheeroke

Cheeroke Townsend

Co-Portfolio Manager, Analyst



Suncoast Equity Management, LLC

Performance results versus the Standard & Poor's 400 Growth Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&P 400 Growth % Return</u>	<u>SEM Growth of \$1,000,000</u>	<u>S&P 400 Growth- Growth of \$1,000,000</u>
First Six Months 2024	+9.5%	+11.7%	\$ 1,095,400	\$ 1,117,000
One-Year	+17.6%	+18.8%	\$ 1,175,600	\$ 1,188,200
Three-Year	+4.2%	+ 4.0%	\$ 1,129,900	\$ 1,126,200
Five-Year	+12.2%	+10.5%	\$ 1,776,000	\$ 1,646,900
<i>Inception (7 years)</i>	+13.3%	+9.9%	\$ 2,397,500	\$ 1,942,200

* Composite results of all SEM Small-Mid Capitalization Growth managed accounts, net of all fees.

Note: Performance for the three, five and since inception year periods represent the annual average rates of return.



Performance Disclosure

Suncoast Equity Management, LLC is an independent investment management firm established in 1997. Suncoast Equity Management is primarily an equity investment manager that invests in U.S.-based securities. As of June 2017, SEM also offers a Small to Mid Cap (SMID) Growth Composite. The SMID Composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the SMID composite is 6/30/2017.

The SMID Growth composite is an equity composite employing the principles of Benjamin Graham & Warren Buffett. The discipline is a bottom-up fundamental approach and blends value and growth parameters. The portfolio consists of between 20-30 stocks. This strategy of smaller companies will own businesses with high earnings growth relative to the market, while incurring moderately more risk than SEM Growth Composite. Potential investors should have a minimum three year time horizon, since selling at a disadvantageous time could result in principal impairment.

Bundled fees include management consultant fees, custodial, trading, and advisor fees. Performance is calculated gross of all foreign withholding taxes. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS Reports, as well as a complete list and description of composites, is available upon request.

For the non-bundle fee accounts, the performance results presented are net of actual investment advisory fee and net of all transaction costs. For the bundle fee accounts, the performance results presented are net of actual investment advisory fee and net of all transaction costs and expenses. Investment advisory fees are described in Part II of Suncoast Equity Management, LLC's Form ADV. The management fee schedule is as follows: 1.00% fee on assets managed. The Firm does not assess performance-based fees.

It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes. As of 1/1/2021 we retroactively changed the index used for comparison to the Standard and Poor's 400 Growth Total Return Index is an unmanaged index with no expenses, which covers growth stocks within the S&P 400 index. It is a float adjusted market capitalization-weighted index calculated on a total return basis with dividends reinvested. Prior to this change, the index used for comparison was the Russell 2000 Growth index.

Valuations and returns are computed and stated in U.S. Dollars. The Firm does not use leverage or derivatives to implement the intended strategies.

Beginning in June 2002, accounts that experience cash flows in excess of 10% of the account's market value are temporarily removed from the composite. These accounts are added back to the composite when they are considered fully invested. The minimum account value for inclusion in the composite is \$100,000. Additional information regarding the treatment of significant cash flows is available upon request.

Suncoast Equity Management adheres to the GIPS valuation hierarchy principles.

Past performance does not guarantee future results. Investment returns and principal value will fluctuate. Investments may be worth more or less than their original cost when sold. It should not be assumed that investment decisions we make in the future will be profitable. Current performance may be lower or higher than the performance data shown. Returns include the reinvestment of all income.

Suncoast Equity Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Suncoast Equity Management has been independently verified for the periods 12/31/97 – 12/31/22. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The SMID composite has had a performance examination for the periods 6/30/17 – 12/31/22. The verification and performance examination reports are available upon request. For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.

This is not a solicitation or recommendation to purchase the securities mentioned herein. An actual portfolio may not hold some or any of these securities. These securities may or may not be purchased by Suncoast Equity Management LLC in the future. This piece is solely the opinion of Suncoast Equity Management LLC. The information presented here is believed to be accurate as of the time of this writing.