



Third Quarter 2024 (October 1, 2024)

Through the first nine months of 2024 the **Suncoast-SMID Portfolio (SEM-SMID)** composite is +18.0% versus the S&P 400 Growth benchmark at +16.9%. In the third quarter we initiated a position in **Checkpoint Systems (CHKP)** and sold our position in **CDW Corporation (CDW)**. We also highlight long term holdings **Deckers Outdoor (DECK)** and **Cintas Corp (CTAS)**.

Portfolio Activity

During the third quarter, we initiated a position in **Checkpoint Systems (CHKP)**, a previous **SEM Select Growth** holding. Checkpoint Systems develops and supports a variety of IT security products and services. With experience from our previous ownership, we believe the company was very conservatively managed. Its balance sheet and cash flow management tell the story. CHKP generates significant free cash flow, and its business demands very little in capital expenditures; free cash flow should reach the \$1 billion level this year. The company has a very strong balance sheet with zero debt and \$3.1 billion in cash. Its enterprise valuation at a \$193 stock price is at \$22 billion. Over the last 15 years or so the company used its free cash to reduce shares outstanding to 113 million, down from 210 million, or a decline of 46%! While share buybacks are a prudent choice of capital allocation when growth opportunities for a business are sparse, the better use of capital in a growing industry such as internet security is to invest in the business.

Looking forward, CHKP recently appointed Nadav Zafrir as CEO starting in December 2024. Zafrir is a cybersecurity veteran and founder of the venture capital firm Team8. A new CEO can potentially make a real difference here; SEM believes Zafrir's leadership will drive growth above Checkpoint's historical averages. Zafrir will likely pursue both organic and inorganic growth given his experience in mergers and acquisitions. For 2024, revenue is expected to grow in the mid-single digits, with EPS projected in the mid to high single digits; we believe Zafrir can potentially improve earnings growth to the low teens in 2025 and beyond.

At the time we purchased CHKP, we sold our position in **CDW Corporation (CDW)**, a provider of integrated IT solutions. Originally purchased in June of 2019, CDW has recently faced prolonged sales cycles and reduced customer IT spending, slowing its momentum. Given these headwinds, we opted to exit CDW and allocate the proceeds to Checkpoint Systems.



Portfolio Update

The **SEM-Disciplined Investment System (SEM-DIS)** emphasizes robust free cash flow, business momentum, and a strong balance sheet. Since our first purchase of **Deckers Outdoor (DECK)** in late 2021, it has consistently demonstrated strong business momentum and maintains a solid balance sheet. DECK designs and sells footwear, apparel, and accessories for both performance and casual use, with its UGG and HOKA brands accounting for over 90% of sales. HOKA sneakers have been a key growth driver, gaining market share from **Nike (NKE)** and other brands in the U.S., a previous **SEM-Select Growth** and **Dividend Growth** holding. DECK's business momentum started during the pandemic and has been maintained, fueled by innovation, growth in Direct-To-Consumer (DTC) channels, store expansion, a strong wholesale business, and plain-old grass roots marketing. A recent *Wall Street Journal* article highlighted an interview with a participant in a Portland, Oregon running group (NKE's corporate headquarters location) who said the HOKA reps have been there four times this year, while a NKE rep visited maybe once in the three years he has been a member. For fiscal year 2025, which began April 1st, growth may slow a bit but will likely still achieve revenue and earnings growth in the 10% range. As of June 30, 2024, Deckers had \$1.4 billion in cash on the balance sheet and no debt.

Cintas Corp (CTAS) has been part of the portfolio since its inception and is the leader in uniform rentals, sales, and related services. One of the key financial characteristics we favor are businesses that can increase their operating margins. During our seven year ownership, CTAS's operating margins have expanded to 26.2% from 18.9%, an increase of nearly 40%. In the latest quarter, Cintas showed continued strong momentum, with organic revenue growing in the high single digits, driven by cross-selling and new product adoption. All business segments saw solid growth, alongside margin expansion. As a result, CTAS raised both revenue and earnings guidance for fiscal year 2025 ending May 31st.

Outlook

We believe the SMID portfolio is well-positioned for sales and earnings growth as we enter 2025, and we remain committed to preserving and growing your capital. Please contact us with any questions.

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 Nine Months 2024	+18.0%	+16.9%	\$ 1,179,500	\$ 1,168,700
One-Year	+33.4%	+28.5%	\$ 1,334,400	\$ 1,284,900
Three-Year	+6.5%	+6.3%	\$ 1,206,500	\$ 1,201,800
Five-Year	+13.4%	+11.6%	\$ 1,873,100	\$ 1,733,600
<i>Inception (7 ¼ years)</i>	+14.0%	+10.3%	\$ 2,581,600	\$ 2,032,100

* 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.