Third Quarter 2025 (October 1, 2025)

The **Suncoast-SMID Portfolio (SEM-SMID)** year-to-date results +2.6%, after fees, is now lagging the comparative S&P 400 Growth index at +6.1%. During the third quarter we initiated a position in **Sprouts Famers Markets** and **HealthEquity**, and sold two smaller but longer-term holdings, **Mettler-Toledo International** and **Roper Technologies**.

<u>Portfolio Activity</u>

Sprouts (SFM) is one of the larger U.S. specialty food retailers with a focus on natural and organic products. They operate over 440 stores, with approximately 35% in California, just over 10% in Texas, and another 10% or so in Florida and Arizona. Post-pandemic, SFM's store count grew 12% from 2020 through 2023 while net income hovered just below $300 million. We believe SFM showed it is a well-managed business during these three years of minimal profit growth, as capital allocation was balanced between organic growth (new store openings), opportunistic acquisitions of small chains, balance sheet management, and return of excess capital to shareholders. SFM's peak debt level of $573 million in 2018 has been paid off, and the company is in a net cash position of approximately $255 million as of the second quarter 2025. Cash flow has also been returned to shareholders in the form of stock buybacks; shares outstanding have been reduced to 98 million from 153 million in 2015. Simply put, that reduction is the equivalent of a private business shrinking its owners to 2 from 3, effectively using the cash flow to buy out the 3rd owner. On a going-forward basis, the 2 remaining owners now share 50% of the profits, significantly better than sharing 33% each.

SFM's operating margins have stair-stepped from the 31% range in 2015-2017, to the 33% range 2018-2019, to 36% in the post Covid period 2020 to 2023 and climbed to a record high of 38%+ in 2024. With margin improvement, net income jumped 25%+ from the $300 million range to $380 million in 2024. While we don't expect the same high percentage growth rate this year, we believe the levers in place support low to mid-teens earnings growth going forward, sans a general recession. SFM's levers include market share gains, traffic growth and operating expense control. Sprouts should also drive customer satisfaction with a recently launched loyalty program. With the initial pilot of 75 stores set up at the end of July, including its home state of Arizona, the company expects to complete the rollout to all stores by the end of October. Sprouts is also continuing the expansion of its private label business which could support higher margins. We believe SFM's valuation is attractive relative to its growth prospects and anticipate increasing our initial portfolio weighting.

HealthEquity (HQY) is a cloud-based platform that enables participants to manage and make healthcare savings and spending decisions on a tax-advantaged basis. The company caught our attention as it has been generating strong net income growth 2023-2025 with this fiscal year ending January 31st, after four years of flat net income between 2019-2022. We believe the potential ramp for future growth remains strong and believe HQY is also improving its return on capital profile and operating margins. Recent industry estimates identify there are nearly 40 million Health Savings Accounts (HSA) in the U.S., implying less than 15% market penetration. In its most recent quarter HQY reported 10 million HSA customer accounts, growth of 6% year over year, which represents 25% market share. Further growth is supported by HQY marketing to both employer clients and to respective HSA members (employees) to drive new member accounts as well as contributions into those accounts from existing HSA members. We look forward to reporting company updates as we increase our portfolio weighting.

We sold two small positions from the portfolio this quarter, in part to make room for the purchase of **Sprouts** and **HealthEquity**. **Mettler-Toledo International (MTD)** and **Roper Technologies (ROP)** served us well, with both more than doubling our investment over our holding period. MTD is a good operator, though growth has slowed and we believe market share gains may have peaked unless they compete on pricing, not a path we would like to see them take. ROP historically managed a portfolio of industrial businesses. Over the last few years, however, it has been transitioning its portfolio to more asset-light, software-related businesses through both dispositions and acquisitions, and software now represents more than 75% of revenues. While margins have increased, the higher valuations it has been paying, including the proposed acquisition of Subsplash for $800 million, comes at a high cost and lowers the return on capital. We will continue to monitor both businesses for future reconsideration, but felt our funds were better allocated to SFM and HQY at this time.

Portfolio Highlights – Plethora of Acquisitions

The **SEM-Disciplined Investment System (SEM-DIS)** mandates that our portfolio holdings generate cash in excess of their operating needs. In essence this requirement builds financial strength and enhances the

"Margin of Safety" of our companies. One allocation path management may choose for excess cash is acquisitions. Acquisitions can be done out of strength and opportunity or done out of weakness or necessity. Sometimes it is obvious and other times it takes a bit of time for our analysis to determine if it is the former or the latter. As you can see in our above comments about **Roper**, we decided to exit our position mostly because of our belief that an expensive acquisition could weaken its return on capital.

We've had a few holdings announce acquisitions recently. **Nice Limited (NICE)** announced the acquisition of privately held Cognigy for $955 million. Cognigy brings advanced AI agent platforms including multilingual services on any channel to NICE's enterprise software platform that serves customer engagement as well as financial crime and compliance markets. The acquisition seems both additive and a necessity to better serve its clients and the price tag represents a little over one year of NICE's free cash flow. **Check Point Software (CHKP)** will acquire Lakera for an estimated $300 million, which is a drop in the bucket for a company that has about $3 billion in cash and marketable securities on its balance sheet. Regarding CHKP, we hope for and expect additional acquisitions to boost growth with new CEO Nadav Zafrir. Finally, we will be closely watching the outcome of a "sharing of confidential information" between our company **US Foods Holding (USFD)** and its potential acquisition of **Performance Food (PFGC),** both of which are leading food service distributors. USFD's operating margins are twice that of PFGC and revenues are 60% higher.

<u>Outlook</u>

Though we are lagging the index performance year to date, versus being ahead of it through June 30th, our businesses should close out 2025 with strong sales and earnings growth, and the early look to 2026 is also favorable. We believe comparing short-term stock market returns can be more like a popularity contest, and less of a reflection of the companies' fundamentals. Thanks for continued confidence and we will keep working hard at it.

Sincerely,

Don	*Eric*
Donald R. Jowdy	Eric Lynch
CIO	Managing Director / Co-Portfolio Manager

5550 W. Executive Drive, Suite 320 Tampa, FL 33609 813-963-0502 www.suncoastequity.com

Suncoast Equity Management, LLC

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

Time Period	**SEM % Return***	**S&P 400 Growth % Return**	**SEM Growth of $1,000,000**	**S&P 400 Growth Growth of $1,000,000**
First Nine Months 2025	+ 2.6%	+ 6.1%	$ 1,026,200	$ 1,061,000
One-Year	+ 2.4%	+ 5.3%	$ 1,023,700	$ 1,052,600
Three-Year	+ 17.8%	+ 16.3%	$ 1,634,100	$ 1,571,800
Five-Year	+ 10.3%	+ 11.0%	$ 1,633,900	$ 1,685,800
Inception (8 1/4 years)	***+ 12.5%***	***+ 9.7%***	***$ 2,642,800***	***$ 2,139,000***

* 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.

The composite dispersion represents a measurement of the consistency of the composite's performance results with respect to the returns of the individual accounts within the composite over an annual period. The annual dispersion is measured by the asset-weighted standard deviation of the composite and is calculated using net of fees returns. Only portfolios that have been managed for the full period are included in the composite dispersion calculation. In accordance with the GIPS standards, dispersion data is not provided for years in which the composite is comprised of five or fewer accounts and of periods of less than one year. 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. The 3-year annualized Ex-Post Standard Deviation is calculated using 36 consecutive monthly net of fees returns to the end calculation period. 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 – 12/31/23. 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 – 12/31/23. 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.

5550 W. Executive Drive, Suite 320 Tampa, FL 33609 813-963-0502 www.suncoastequity.com