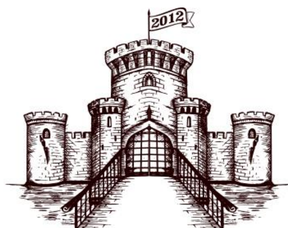

IRONVINE
CAPITAL PARTNERS, LLC

CORE EQUITY

To our Fellow Investors-

For the 4th Quarter of 2019, the Ironvine Core Equity composite increased +9.5%. Since inception, Core Equity's annual rate of return stands at +16.0% which equates to a cumulative return of +81.3%. These figures, along with the data in the following table, are presented on a total return basis and shown net of all fees and expenses.

Cumulative Returns	Since Inception (1/1/16)	3 Year	2019
Ironvine Core Equity (net)	81.33%	56.07%	38.25%
S&P 500	71.49%	53.17%	31.49%

Average Annual Returns	Since Inception (1/1/16)	3 Year	2 Year
Ironvine Core Equity (net)	16.04%	16.00%	16.05%
S&P 500	14.43%	15.27%	12.13%

Note: Ironvine Capital Partners performance data is presented net of all fees and expenses.
Please refer to the Important Disclaimers at the end of this document.

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2019 was quite a year for U.S. equity markets, extending what has been a prosperous decade. Investors willing to stay the course through political, economic, trade and policy uncertainty have been handsomely rewarded. The reality of investing is that each of these variables is in a permanent state of flux, often shifting in unpredictable ways. As long-term business owners, we are less concerned with when the current market progression will end and instead focus on what our 30 portfolio companies can accomplish over the next five and ten years. Our day-to-day activities remain centered on identifying superior businesses and acquiring them at reasonable prices. Time treats favorably companies that combine durable competitive advantages, high capital efficiency, and significant ongoing reinvestment behind their core strengths. Concentrating our capital in outstanding businesses provides an opportunity to produce above average results over time, regardless of the market environment.

After periods of unusually strong or unusually poor absolute returns, it is helpful to remember that price and value are not one and the same. As Berkshire Hathaway CEO Warren Buffett has so often taught, "Price

is what you pay, value is what you get." As we look back on the past year, we would offer a handful of observations:

- Collective business value growth within the Core Equity portfolio was strong during 2019, well into the double-digits by our estimation; this is a fine result, and will be the enduring source of wealth creation for Core Equity investors

- Stock prices rose more quickly following a lackluster 2018; when looking at results over the past two calendar years, Core Equity's +16% annualized return matches our portfolio companies' weighted average earnings per share growth almost identically (it is worth remembering that both have been beneficiaries of U.S. corporate tax reform)

- Prospective returns are likely lower beginning 2020 than they were a year ago as a result of the above, but we continue to believe Core Equity offers the opportunity to compound wealth at reasonable rates over the long term

- In the long run, what matters most is the reliability with which Ironvine's holdings grow per share cash flows at attractive rates

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"If you don't like change, you're going to like irrelevance even less."

- General Eric Shinseki, U.S. Army

Back in October of 2013, several months after Ironvine initiated its investment, PayPal co-founder and early Facebook investor Peter Thiel described Microsoft (MSFT) as a bet "against technological innovation." Following a forgettable decade for the stock, investors at the time largely agreed. Microsoft shares changed hands at free cash flow yields in the low teens. Many believed stagnation was the bull case. Years of insular thinking and unbridled success had left the company unprepared for the shift to mobile, and its consumer-facing businesses were struggling. The ongoing demise of Blackberry, Hewlett-Packard and Yahoo! underscored the notion that technology's old guard was incapable of true and lasting transformation.

As we studied Microsoft, we were struck by two things: 1) the prevailing story – that Microsoft was moving the way of the dinosaurs – was true for maybe only a portion of its business, and 2) that a fresh perspective and shift in strategic direction could allow MSFT to continue to build on its enterprise strengths. Microsoft had won over the years by creating platforms that developers could fruitfully create businesses upon. The famed Windows operating system came to dominate computing largely as a result. But as carrying smartphones became mainstream and desktop PC usage declined, Microsoft fought to continue to dictate terms to users and developers who increasingly had alternatives. "It doesn't matter how big your castle is," former Andreesen Horowitz partner Benedict Evans points out, "if the trade routes move somewhere else."

To avoid any temptation of revisionist history, Microsoft was cheap but not an obvious winner. Hindsight has a way of making things look simpler than they were. At the time, the company was onboarding Nokia, beginning to transition customers (and its own technology) to cloud-based offerings, shifting valuable licenses to subscriptions across key platforms, and chasing Amazon Web Services' (AWS) 10-year head start in cloud infrastructure. Its poor acquisition history (made only slightly better by Yahoo! having twice spurned its advances) led many to discount – in some cases, even ignore – the value of its overcapitalized balance sheet (net cash exceeded 20% of the company's market cap). We knew next to nothing about Satya Nadella, Microsoft's soon-to-be CEO, despite his two decades at the company, nor did we know Microsoft would become one of two globally dominant cloud providers. What we *did* know was Microsoft's core enterprise business (~70% of revenue and ~90% of operating profits) was firmly embedded in customer work flows and growing.

Despite being priced like one, Microsoft wasn't a classic turnaround. Regular consumers of our letters know of our distaste for these types of situations – more often than not, they end in tears (particularly when one considers opportunity cost). Microsoft checked the boxes on entrenched franchise (high switching costs), consistent excess cash generation, conservative capital structure and attractive reinvestment opportunities. What it lacked was focus, a plan for winning in a "more-than-just-the-PC" world, and a partnership-worthy management team that appreciated Microsoft's core strengths and was willing to play the long game (even if it meant short-term pain).

Outgoing CEO Steve Ballmer, who we believe gets a bit of a bad rap from investors, deserves credit for flattening and reorienting Microsoft's sprawling organization into cross-functional teams before his departure. Beginning in early 2014, Nadella built upon this new structure, streamlining decision making and prioritizing the enterprise. He pruned the consumer-focused business, electing to keep and expand Microsoft's gaming franchise via the $2.5 billion purchase of Minecraft while jettisoning mobile hardware (Nokia). He made Microsoft Office available on Apple's iPad, opened Windows to competing mobile operating systems and forged partnerships with competitors Oracle and Salesforce (an idea most would have thought impossible 12 months prior). Nadella identified the value of LinkedIn and what it could bring to Microsoft's suite of productivity tools, and later added the open development platform GitHub. He also recognized the promise of cloud-based subscription models to both lower customer costs and restore Microsoft's growth, and accelerated the transition of the company's core offerings already underway.

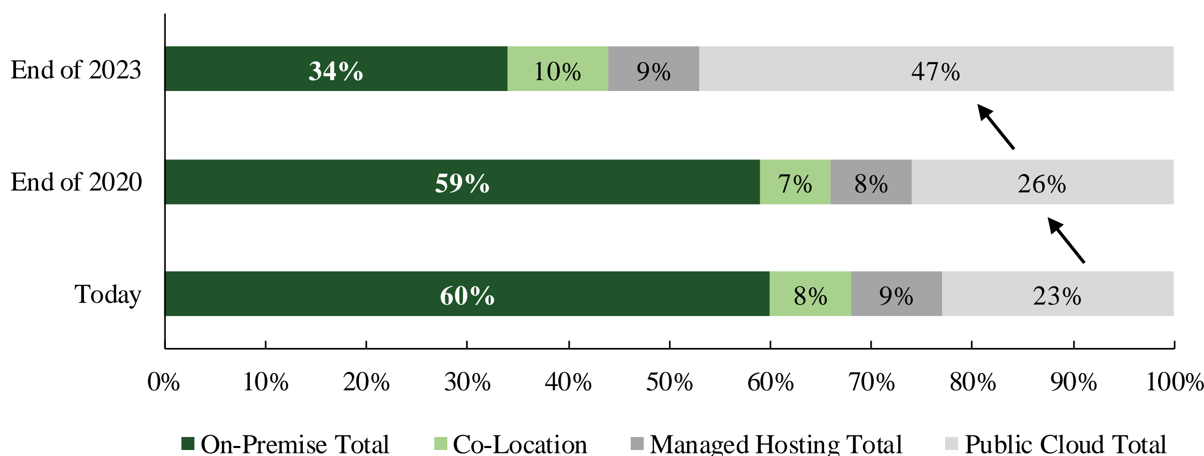
These early initiatives, and the resulting business momentum, strengthened our belief that MSFT had an opportunity to not only maintain relevance in Nadella's "mobile first, cloud first" world, but expand it. By mid-2017, the transition of Microsoft Office to Office 365 subscriptions was ahead of pace at roughly 50% of users, up from ~25% just two years prior. The company's decision to offer Windows 10 as a single platform across *any* connected device began slowly drawing developers back into the fold. Significant capital investments in building out a global data center footprint (Azure) fueled interest in Microsoft's cloud-based offerings. Application vendors such as Adobe, SAP and DocuSign began to shift their datacenter workloads to Microsoft. Commercial cloud revenue jumped from roughly $6 billion in fiscal 2015 to $15 billion in 2017, with profitability expanding at an even faster clip. While Microsoft's high-level financial results had yet to reflect it, momentum was building, culminating in a significant increase in earnings power beginning in FY18.

Avg. Annual Growth	FY12-14	FY15-17	FY18-20	FY21-23*
Revenue	7%	4%	13%	High-single digits
Operating Earnings	1%	2%	19%	Low-double digits
Era	"Old Guard"	Sowing	Initial Harvest	Sustain

* IVCP internal forecast

Despite missing the opportunity to become the dominant non-iOS mobile operating system – a lapse co-founder Bill Gates has called the worst mistake of his career – Microsoft continued to invest aggressively behind its Azure and cloud offerings, positioning itself well in the emerging "winner-take-most" cloud marketplace. Focusing on hybrid workloads – allowing customers to utilize both on-premise and Microsoft's cloud infrastructure seamlessly – provided an alternative to the "all or nothing" nature of AWS, offering enterprises greater control over the pace of their technology transitions. Following another $20-$25 billion of data center investments in 2018-2019, Microsoft Azure is now believed by many to have leveled the playing field with Amazon. While the competitive environment will undoubtedly remain intense in the ensuing years, Microsoft's scale (global footprint, lower costs, financial firepower), existing enterprise relationships and sound leadership should enable the company to successfully address a $1+ trillion market transition that remains in its early innings (see table below).

Location of Application Workloads
(% of Total Workloads)



Source: AlphaWise, Morgan Stanley Research, n = 100 (US and EU data)

Microsoft's six-year renaissance has been well-chronicled, but we think it is a prime example of our investment process at work:

- Idea sourcing – amidst the proverbial hunt for competitively entrenched businesses at reasonable (or better) prices, the marriage of Ironvine's qualitative and quantitative framework surfaced Microsoft and quickly moved it to the top of the new idea "stack"

- Thinking for ourselves – ensuing research and analytical work led us to a conclusion that differed materially from the prevailing sentiment surrounding the company at the time; Microsoft (alongside several other Ironvine holdings) serves as a reminder that even amongst large publicly traded companies, great values still periodically "hide in plain sight"

- Business (and management) quality matters – as is so often the case with competitively advantaged businesses run by thoughtful managers, the balance of inevitable surprises that accompany a dynamic world have been positive, not negative; our confidence in Nadella's strategic acumen has only grown with time

- Emphasis on reinvestment – Microsoft was (and is) uniquely positioned to exploit what could prove to be a multi-decade reinvestment opportunity as businesses and IT infrastructure become more nimble and efficient

- Winning by compounding – while the opportunity to benefit from investors "re-rating" Microsoft to (what we deemed) a more appropriate free cash flow yield was appealing, our primary interest was (and remains) in the company's ability to reliably generate attractive per-share cash flow growth well into the future

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The tables below provide a snapshot of Core Equity's largest positions ending the year, as well as a summary of 2019's key contributors and detractors. Your individual account weightings as of December 31st may differ slightly from the below depending upon the timing of cash flows, the size of your account and/or rounding. In early January, consistent with our portfolio management disipline, we trimmed several of our largest positions and established "starter positions" in two new holdings that we believe enhance the after-tax return profile of the Core Equity strategy. We look forward to discussing these businesses in more detail in future communications.

Top 10 Holdings as of 12/31/2019	
Company	**Allocation**
APPLE INC.	5.9%
MICROSOFT CORP.	5.6%
LOWE'S COMPANIES INC.	4.5%
MOODY'S CORP.	3.9%
VISA INC.	3.9%
WALT DISNEY COMPANY	3.8%
COSTCO WHOLESALE CORP.	3.8%
THERMO FISHER SCIENTIFIC INC.	3.7%
S&P GLOBAL INC.	3.6%
MASTERCARD INC.	3.5%
Top 10 as % of Assets	**42.2%**

Company	Average Weight	Portfolio Contribution
Top Contributors -12 months ended 12/31/2019		
APPLE INC.	4.9%	3.6%
MICROSOFT CORP.	5.4%	2.8%
MOODY'S CORP.	3.6%	2.3%
LIBERTY BROADBAND CORP.	3.1%	2.0%
S&P GLOBAL INC.	3.5%	2.0%
Top Detractors -12 months ended 12/31/2019		
CIMPRESS LTD.	0.2%	-0.6%
DOLLAR TREE STORES	3.0%	0.0%
BLACK KNIGHT INC.	3.0%	0.0%
JOHNSON & JOHNSON	0.4%	0.1%
EMERSON ELECTRIC	1.8%	0.2%

Thank you for your continued trust and confidence. It is a privilege to steward your capital.

The Ironvine Investment Team

January 31st, 2020

Important Disclaimers

Reported performance figures represent an average, or composite, of our progress. Individual returns will vary based on the timing of your investment with us, fee differentials, or other account-specific circumstances. Client reporting, including positioning and performance, is sent under separate cover.

Past performance is not a guarantee or a reliable indicator of future results. All investments contain risk and may lose value. This material contains the current opinions of the authors such opinions are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Core Equity portfolio holdings mentioned, including the Top Ten Holdings, are subject to change and are not recommendations to buy or sell any security.

Ironvine Capital Partners (Ironvine) is an investment adviser registered with the SEC that commenced managing client assets in November of 2013. The Firm definition includes all assets that are managed in Ironvine's Concentrated Equity, Core Equity, and Dividend Growth Strategies.

Ironvine Capital Partners claims compliance with the Global Investment Performance Standards (GIPS®). To receive a description of Ironvine Capital Partners' composites and a presentation that adheres to the GIPS standards, please contact Ryan Mendlik, rmendlik@ironvinecapital.com, 402.715.5224, or write Ironvine Capital Partners; 9290 W. Dodge Rd, Ste 203; Omaha, NE 68114.

The Ironvine Core Equity Composite *includes all accounts over which Ironvine deems to have discretion and that follow the composite strategy. Ironvine Core Equity seeks to earn above average long-term returns by investing primarily in portfolio of common equity securities with a particular focus on companies that have the ability to generate high and sustainable returns on invested capital.*

The Ironvine Core Equity Composite was created on 12/31/2017, with an inception date of January 1, 2016. The strategy does not seek to track or compare itself to any particular equity benchmark, but for informational purposes the composite is compared against the total return of the S&P 500. The benchmark includes 500 stocks representing all major industries of the economy. Ironvine Core Equity employs a total return strategy and the S&P 500 is provided for illustrative purposes only, as it is the most widely-recognized alternative to any actively managed mandate amongst global investors. Past performance is not indicative of future results. All results are calculated in US Dollars and include reinvestment of dividends and other earnings.

Ironvine claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Ironvine has been independently verified for the periods 12/1/13– 12/31/18.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Ironvine Core Equity Composite has been examined for the periods 01/01/17– 12/31/18. The verification and performance examination reports are available upon request.

Performance presented prior to January 1, 2017 occurred while the Portfolio Manager, Richard L. Jarvis, was affiliated with a prior firm. Mr. Jarvis was the only individual responsible for selecting the securities to buy and sell at the predecessor firm. A review of the performance record for compliance with the portability requirements of the GIPS standards was completed by an independent accounting firm. The verification and performance examination report are available upon request.

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