
**Ironvine Capital Partners Ten-Year Anniversary Celebration & Investor Day**

**Happy Hollow Club, Omaha, NE**

**September 6, 2022**

*Remarks have been edited for clarity and relevance. Slides referenced during prepared remarks can be found at the end of the written commentary.*

**Ryan Mendlik:** Alright, I'll go through a couple of logistics here just as people are grabbing their seats. First, thanks everybody for coming, glad to see all of you. My name is Ryan Mendlik, as many of you know. The way we're going to run this is we're going to do roughly 30 minutes of prepared remarks with Dave, Matt, and myself, then we'll do questions for maybe 30 or 40 minutes, and then we'll have refreshments afterwards. So let's go ahead and dive in.

First, I just want to start with a big thank you. It's humbling to have the opportunity to stand before you as our partners to commemorate our ten-year anniversary. April of this year was the official ten-year mark, but the story goes back further. Matt and I first met when we overlapped for three or four years at the family office that was responsible for stewarding Bill and Melinda Gates capital along with their foundation. We helped managed large portfolios of public equities, fixed income, currencies, commodities, futures, swaps, etc. and quickly developed a close friendship, which morphed into conversations about starting our own firm someday. But it was always down the road, when we had more experience, a deeper network, more financial wherewithal, etc.

Eventually it sort of hit us that if we wish away the opportunity waiting for just the right time we might miss it entirely, so we dove in. The reality is when we formalized our investment strategy and set out to raise outside capital we faced an uphill battle to reach the place Ironvine is today. We did have some relevant experience and had been exposed to a fairly broad spectrum of investment styles and structures. But we were young, we didn't have a formal track record and we had limited personal capital as a buffer. And the truth is the majority of teams with our set of circumstances don't make it.

But what we did have was significant conviction in the strategy that we were setting out on. After years of studying successes and failures in the capital markets, it really resonated with us that if we own a small collection of outstanding businesses, led by management teams who think and act like owners, purchased at reasonable prices, that we'd be able to compound our capital at attractive rates for a long period of time. That message is taken almost verbatim from the first letter we wrote to clients in 2012 and it's just as much our approach today as it was then.

Taking a step back from the history for a minute it's instructive to peel back why we care so much about the repeatability of our process. As the chart on the screen (slide 3) illustrates, growing capital at 8, or 10, or 12% annually for 5-10 years is great, but it's really the persistence of returns over 20, 30, 40 years where the power of compound interest really kicks in.

The chart is a simplification of the concept of compounding returns, and public equities are of course more volatile than the linear shape that we have on the curve. But over rolling three- and five-year periods of time returns do tend to smooth out.

As the illustration shows, holding the amount of capital and time horizon constant there is a big difference between compounding at 8% and 10% over a 30-year period. It's for that reason that our aim has always been to own businesses with economics that allow us to compound our capital at double digit rates, and thus far we've been able to do that. To be clear, the market provided a strong tailwind over that period, but we've also had some self-inflicted wounds along the way, and we hope that our process improvements, which we'll discuss in some detail today, will prevent, or at least limit, those going forward.

So going back to 2012, armed with our strategy in place, Matt and I put essentially all of our money into about a dozen businesses and started telling the story to anybody who would listen. Those conversations centered on the reality that attractive opportunities with prudent risk profiles are rare, and when we find them, we want to take a meaningful position. This inherently creates a portfolio that looks nothing like an index. The early portfolio looked a lot like what we own today, consisting of essential services businesses, companies with subscription-based revenue, and companies with significant advantages.

As things go, the early people to trust us were family and friends. It's humbling to look around this room, and we'll extend that virtually because there's a number of folks who couldn't be here with us physically, and to be able to say that essentially all of our earliest clients are still with us today. That's something that we don't take for granted. We've been very blessed with a patient capital base, which is a big advantage for a firm like ours.

As we continued to grow the business and tell our story we met another investor in Omaha by the name of Rich Jarvis. After getting to know Rich over the course of multiple years the stars aligned for him to join us as a partner at Ironvine in January 2017. Rich shares a true passion for investing and has a very strong work ethic. He's also a lifelong learner, and over the years had settled on a slightly more diversified portfolio than our legacy strategy. That fit well, because over the years we'd spoken with many people who appreciated our approach but were more comfortable in a more diversified portfolio.

Rich's strategy evolved into Ironvine Core Equity, and our original strategy was renamed Ironvine Concentrated Equity. Rich retired at the end of 2020, reaching a well-earned milestone after almost 35 years of successfully compounding client capital with a very solid track record.

Part of the logic behind the combination was to be able to serve a broader range of clients using the same investment approach. Our thinking was that if we were successful, we could invest the incremental scale to serve our clients better over time.

The first opportunity we had to do that was when we brought David Perkins into the firm as a partner in 2019. Dave has been a great addition for us and his investment strategy aligns very

closely with ours. He immediately added depth and breadth to our research pool across a number of industries and businesses, which is well represented in the portfolio at this point.

Dave joined us from a background managing a similar strategy as ours, and he brought fresh perspective that has been constructive for us as a team. Over the last handful of years, we've become incrementally more methodical with several components of our research process, and we've also standardized how we monitor on deck opportunities compared to what's already in our portfolios.

As we've skinned our knees a few times and taken time to reflect along the way we've narrowed our focus further with the characteristics we believe are most determinant of the quality of a business. We're more focused on a company's ability to consistently delight its customers, we're less focused on businesses that have significant debt loads, and when it comes to portfolio construction, we're slightly more diversified around the edges.

Again, what we're really seeking is durability of returns over an extended period, so we can allow the power of compounding to work its magic, and we think these tweaks around the margin increase the repeatability of what we're doing.

Over the last 18 months we've made significant investments to deepen our bench of talent. In March of 2021 we added Paul Penke to our team. Paul joined us with roughly 15 years of financial and actuarial consulting experience and has been a great addition. Paul heads up our operations and client services functions and has put us in a good position to scale the organization and serve our clients well, while ensuring our primary focus can remain on research.

Eric Ruden joined us in February of this year. Eric is a research analyst for us and has worked hard to hit the ground running. He recently passed the last of the CFA exams and has gotten us up to speed on a number of new businesses that we've added to our coverage universe. Eric joined us from prior roles in investment banking and public equity and we're pleased with the work he's done so far.

And finally, Jake Wilson joined us a couple months ago and is ramping quickly as we work to build out redundancy in key operational and client service functions.

So, as I wrap up, I just want to reiterate a few things. We started this company with a mission of dedicating the vast majority of our resources to studying great businesses and exemplary management teams with the hope of finding a couple dozen that we could own for a long, long time. That's still our mission and primary focus today, and the three of us owners continue to have the vast majority of our net worth invested in those same strategies alongside all of you. But as we've grown and sought to improve, we've formalized our internal processes and deepened our bench significantly, with the goal of being able to increase the repeatability of our efforts by working as a team that is bigger than one or two people.

We're thankful to all of you who give us the opportunity to do what we love on a daily basis, and look forward to being back up here again in 10 years articulating a similar message, albeit from incrementally stronger footing.

Dave is now going chat through a little bit more of what we do from a process perspective and dive in another layer deeper.

**Dave Perkins:** Great, thanks Ryan. My name is Dave Perkins, and I've had the opportunity to get to know most all of you over the last three and a half to four years, but for those of you I haven't, I look forward to putting a face with a name here at our reception afterwards. So, thanks again for giving us a portion of a warm fall afternoon.

As Ryan mentioned, over the past several years we've continued honing our process in the spirit of making it more rigorous, consistent, and scalable, and one thing that's emerged from that work is what you'll see up here on the slide (slide 8). Our durability ranking system has evolved into the foundational layer of our day-to-day research process. If we could synthesize what we're looking for in just a few words, it would be uncovering and sticking with outstanding businesses generating durable growth over the long run.

Every company that we own and every company that we might own has to make its way through this grid on at least a quarterly basis. You'll note on the left-hand side that there are six key characteristics. These are the bedrock of our analytical framework that the team uses daily. They guide and direct our initial due diligence and our ongoing monitoring and provide the means via which we compare what we own and what we could own in its place. Four of these six characteristics are objective in nature and measurable, that's capital efficiency, cyclicality, financial strength, and growth opportunity. Each of those are things that we can quantify. They're sandwiched between two critical variables that are more subjective, that being competitive positioning and stewardship. Both require judgment and a significant investment of time, understanding, and comparison. This is consistent with our belief that investing at its core is truly a blend of art and science.

We rank each business that we spend time on from one being the best on the left to six on the right being the worst, along each of these six dimensions. And the castles that you see up on the screen are representative of the weighted average scores across the entire Ironvine complex. Our aim, put simply, is to pay fair or better prices to stay on the left-hand side of this table.

We aim to be common sense thinkers and talkers, so if all of that sounded a little abstract or technical let's step back and talk in a little more practical terms. We spend a lot of time thinking about that first characteristic, which is assessing the durability of a business's competitive advantage. What does an advantaged business look like? The first four bullets on this slide (slide 9) provide a good overview.

Plumbing as we all know is essential to the proper day-to-day functioning of dwelling places. If it's not working you know about it, and problems ensue. When you're installing plumbing you make the decision once, you choose quality parts, you hire a skilled plumber, and you move on with life to bigger and better things. Changing your plumbing isn't necessary because it's doing its job and because switching out is messy, expensive, and a big distraction. At our core, we want to own the plumbing of stable and attractively growing markets. We don't want to invest in companies that take advantage of the fact that changing the plumbing is expensive or difficult. We want customers, users, others to be receiving fair, or better yet, fantastic value for what they're paying. If they do, they're likely to bring our companies more business over time and tell their friends and peers.

We love breakthrough innovation as much as any of you. We love reading about it and we use it, but the vast majority of the businesses that we're invested in operate in industries where change is very gradual. And that's intentional on our part. If the competitive landscape resets every 12 to 36

months, the reinvention treadmill eventually wears a business down. For investors like us with a long-term horizon, we leave rapid change in the too hard pile.

The final two bullets here on this slide address the concepts of cyclicality and financial strength. Most Ironvine-held businesses, given the essential nature of what they do, tend to not have their sales or earnings draw down materially during economic downturns. Some even act countercyclically, meaning that they tend to grow even when the economy is contracting.

Lastly, conservative balance sheets keep us and the management teams that run our businesses sleeping well at night through all kinds of weather, and they enable us and our companies to think about playing offense during downturns when others are pulling back.

So, we look for things that are essential, useful, fair, and steady. What falls outside that realm and should make you raise an eyebrow or two if you see it show up in the portfolio? This list of five is the inverse of what we just talked about. If you see an oil and gas producer, a consumer tech hardware business, or a non-profitable startup in our portfolios you should be asking us a lot of questions.

So that's durability conceptually. What does this look like in practice? Matt and I are going to spend a few minutes walking through some portfolio companies as representative examples of our process at work. And the companies that we're going to talk about here represent a meaningful portion of your capital and our capital. We won't have time today to walk through all of them in detail but if you want to chat more about any of them, please let us know during Q&A or grab one of us in the hallway afterward and we're happy to dive in.

So, let's talk about our low-price consumer conduits here. First, the four companies that you see up on the screen (slide 11) are each Ironvine Capital holdings, and most of you are probably either familiar, or customers of, one or more of these four. I can imagine that we have a few Costco and Amazon Prime members in the audience here today. If you're not one, we've tasked Eric and Jake to give you an application before you leave tonight, so make sure and see them on your way out. What each of these businesses has in common is they combine two of the characteristics in the pie chart on the left. Any one of those by itself is pretty vulnerable competitively. But when you combine two, which is difficult to do consistently, you've created a business model that's very hard to compete with. So, the dollar stores which you see on the left, uniquely combine price and convenience.

Let's focus on Dollar General for a moment, which is a business that we've owned since 2017. The company has grown from one store in Kentucky in 1955, to 18,500 stores today, sprinkled across the United States. Almost all of that growth has been organic, and the business model has evolved from selling things at a dollar or less, to selling everything in the store for a dollar, and now today to a multi-price point strategy. The business model existed and thrived before e-commerce was even a thing, and continues to do so now that e-commerce is off and running. A natural question is what has enabled this level of consistency? We return to the price and convenience slices. Dollar General is 30% cheaper than pharmacies and convenience stores, 20% cheaper than your average grocery store, and is a closer and more convenient stop than mass-retail. That last point—being located close to your consumer—is especially valuable when we think about high gas prices. Strong economy or weak, people continue shopping at Dollar General for everyday needs like groceries and toiletries. And because Dollar General focuses on smaller markets, oftentimes they're the only game in town. That rural distribution network is an extremely valuable and durable asset

because of Dollar General's scale and store density. They can deliver a good or a unit to the vast majority of their markets more cheaply than anyone else. Casey's General Store, which you're likely familiar with, also does this well, but its footprint is roughly 1/10 the size of Dollar General's.

So, relevant assortment, low prices, and convenient locations have enabled remarkably steady growth as you can see from the same store sales chart on the right-hand side of the slide (slide 11). For those keeping score at home, that is 30 consecutive years of positive same store sales growth, an incredibly durable model. Even with 18,500 stores, Dollar General has a long runway of attractive reinvestment ahead including an exciting new store concept called pOpshelf, and a potential expansion into Mexico.

That was a semi-brief overview of Dollar General. Let's switch gears here really quick, and we're going to transition out of our consumer-focused businesses and into precision instrumentation. Don't reach for your phones to check e-mail and text, I know that this doesn't sound very interesting, but we're going to try to keep this at a high-level here for the next minute or two.

Thermo Fisher, Catalent, and Danaher all principally work in the field of medicine and material science. So, think of these guys as the infrastructure behind the world's global R&D engine. We like razor and razor blade businesses focused on biopharmaceutical and other precision manufacturing principally for four reasons. First, their revenues are highly visible and recurring in nature, and essential to providing treatments. Once a biopharmaceutical customer begins production of a treatment during the research process, they typically do not switch out the equipment, the inputs, or the manufacturing location over the entire life of a medication.

To bring this to life for you just a little bit, Catalent, the company up there in the middle has produced well in excess of 8,000 medications throughout its history, and only twice have medications left to be manufactured somewhere else. It puts into perspective how sticky this revenue base is. Secondly, instruments, inputs, and the manufacturing process itself do not represent a significant cost burden. They don't drive medical cost inflation as they typically represent a very small portion of cost. And contract manufacturer's revenues are tied to units produced, not the price at which manufacturers sell their drugs.

Third, and this is what the point of the slide (slide 12) here is to show. There's a long and attractive reinvestment runway ahead for all three. As the bar chart points out, the means of treating diseases is expanding to include many new methods of delivering medication into the human body, from roughly three 30 years ago, now up to pushing 20 today. We think over the next five years these three companies could probably invest somewhere around $60 billion in support of the commercialization of a lot of this technology, and that's within the context of an end-market that's about $240 billion in annual revenue. So, a lot of good reinvestment ahead at attractive returns.

Finally, and perhaps most importantly, we get to participate on an ongoing basis in what scientific research unlocks without having to call the winners or losers in each class of medicine. So, we get to ride and support a rising tide.

Before handing things over to Matt here, I wanted to briefly highlight two niche component manufacturers to give you a flavor of the diversity of the things that we're invested in. These two companies together represent about 10% of your and our capital.

By way of introduction, HEICO manufacturers over 13,000 different FAA approved parts for commercial and military aircraft. It offers what can be thought of as private label or generic parts, which are exact replicas of the originals, but sell at a 30% or greater discount. Because air safety is paramount, and regulators don't want to have to monitor a large number of manufacturers, HEICO is effectively the only scaled alternative parts manufacturer in the world. It's very, very difficult to get into this business because of the regulatory burden. HEICO's business is tied to flight hours-- takeoffs and landings, as opposed to much more cyclical new aircraft cycles.

The other business on the screen here (slide 13) is Analog Devices, which manufacturers analog semiconductors. That may sound highly technical, but basically what analog semiconductors do is help convert real-world inputs like temperature, light, and pressure into digital signals. And as you can imagine almost everything today has semiconductors in it in some form to help us convert the physical world onto phones and other electronics. They are typically very low-cost components. The average analog semiconductor costs $0.33 to make but is essential to most modern mechanical devices functioning properly. Creating something once, and then selling it over and over and over for 10, 20, 30 years, is a very profitable thing to do. And while this isn't a very glamorous business, it is a very profitable one. Analog Devices' margins mirror those of our software businesses which is amazing for something that involves steel and manufacturing assets.

There have been and likely will continue to be multi-decade tailwinds for air and space activities, as well as a growing need for analog semiconductor content as the world continues to digitize. So, with a 2% share of global aftermarket revenues, HEICO could very easily be several times larger than it is today over the next decade. And while ADI's revenues are a little more cyclical than some of the others that we own, this chart (slide 13) demonstrates why we are willing to overlook a down year two. There are just good, strong, secular tailwinds there.

So, I'm going to stop and hand it over to Matt, and he's going to help bring this to light through the lens of a few other portfolio companies and then bring us in for a landing.

**Matt Barnes:** OK, great. I'm going to touch on a few more of the things that Dave has been discussing here as it pertains to what it is we're pursuing in the companies that we invest in. Really, what makes them jump off the pages to us as having something unique that might give them a structural advantage.

My name is Matt Barnes, I'm a research analyst and I also help manage the investments. It's great to be here and to see so many familiar faces, and to see a lot of new faces, thank you all for coming. Alright, so this is a great quote. If a competitor comes in at half the price and still has no chance of success you've got yourself a great business. These comments were taken from testimony Warren Buffett gave to Congress in 2010, in the aftermath of the financial crisis. I think I read this in 2012 and it taught me something important, and that's this notion that when an industry coalesces around a set of standards, we've got something special on our hands.

It really is hard to overstate just how important Moody's and S&P ratings are to the functioning of debt capital markets. Ratings dictate which securities money market funds, insurance companies, and asset managers can own, they influence capital requirements for banks, and they improve market liquidity by making it easy for two parties to compare price and trade securities of different businesses.

This Baa1/BBB+ nomenclature that Moody's and S&P use is stitched so deeply into the investment policies and regulatory documents that govern the industry that it's going to be nearly impossible for anyone, even if they do phenomenal credit work at a fraction of the price, to gain a competitive advantage.

We see similar dynamics in the owners of indices. The S&P Dow Jones family of indices dominates the US equity index market, and MSCI, which we've owned in the past, has a similar competitive position in international equity indices. There's nearly $3 trillion of assets under management tied to S&P licensed ETF's and they earn fees on all of that, generating 65 to 70% margins from those revenues.

CoStar has painstakingly built the deepest suite of commercial real estate data in North America that brokers, bankers, asset owners, and large tenants have grown increasingly dependent on to do their job effectively and efficiently.

So, what are the common threads here? First-- once established, and the longer that these benchmarks and data sets reign supreme as the industry standard, these things become very hard to undo.

Two, these are intangible assets. Ratings indices and data sets don't require anything material in the form of plant and equipment to sustain their current level of business or growth. So, margins and returns on capital are prolific.

When you think about it, rating agencies and index owners effectively have a royalty on the nominal value of debt and equity in the system. These are pretty powerful things, and they can make for some very productive investments, so it's an area where we spend a lot of time.

We wanted to share one more of these models with you that's widely represented in our portfolio, and that's the idea of mission critical software, where you basically build it once and sell it a million times.

What do we mean by mission critical? Let's look at a case study here of what Office 365 does for Ironvine. We pay Microsoft about $36 per seat, per month, or $2,600 annually for six seats. We rely heavily on Outlook for email communications and digital calendaring. We use Word to write our business memos and our quarterly letters to you all. PowerPoint helps us build presentations like the one you see on the screen here. OneNote is our centralized repository for writing, distributing, and referencing the notes we write any time one of our portfolio companies says something important. And then there's Microsoft Excel, which aside from a good Internet connection and a transcript service, is probably the most important tool in our belt. And we store all this on our server using Microsoft's cloud. This rapidly growing base of content now includes 4,000 separate folders and numbers 30,000 individual documents.

Needless to say, these tools are absolutely essential to us, yet they represent just a fraction of our overall operating costs. We've had this discussion with many of you in the past, but honestly, Microsoft could charge us five times what they do is today, and we wouldn't flinch.

We could go through several different end-markets that would suffer greatly if certain software companies went offline. Again, just looking inside Ironvine, we could name three or maybe four enterprise software products that would create material operating dis-efficiencies for us if they suddenly went down.

Outside of Ironvine we can see a number of these as well. Adobe's creative cloud bundle is incredibly entrenched in the lives of designers, photographers, publishers, and video editors. If you're in the mortgage industry you know how crucial Black Knight's mortgage servicing software is for customers. This is a business where if you screw up, you have regulators all over you.

The punchline here is that these systems can become frighteningly important to their users, and when we see that, it gets our attention. When this stuff becomes mission critical you tend to see recurring, subscription-like revenues that are very sticky. Over time, as organizations standardize on a particular software product, they inevitably create loads of data which also becomes critical, so the rip and replace costs of moving to another vendor become excruciating. So you tend to see pricing power. These are also capital light businesses that scale, and so you tend to see very strong margins and returns on invested capital at maturity.

OK, so we've covered a lot of ground here, and hopefully this gives you a flavor for the types of businesses that we want to own, and the commonalities between them that make them stand out to us amongst the crowd. We've uncovered a lot of good businesses since we got things started here in 2012, but that search continues. Our work is never done. We are constantly trying to dig up the next Moody's, or Dollar General, or the next HEICO, and there's some really good research getting done here behind the scenes at Ironvine. We're steadily adding to this library of companies that we understand, that have staying power, and that can thrive in all kinds of economic environments.

We've been studying leading edge semiconductor manufacturing, where one company in particular has widened its lead considerably and has built some incredible economies of scale. We've been doing work in areas of freight transportation where these physical networks are difficult or legally impossible to replicate. There's never going to be another Class 1 rail built in the United States, for instance. We're always working on enterprise software. This is very fertile ground if we haven't made that abundantly clear already. Waste disposal, aggregates, and billboards are some of the old economy areas where we spend a lot of time. These businesses are highly likely to be around in 50 years in pretty much their current form, yet legal barriers to entry make it nearly impossible for new competitors to enter. The list goes on.

The purpose of this research, of course, is to develop insights. If we see that a business is creating value for society because it's built a good product or service, and we can identify that it has advantages against its competitors and is well run, and so forth, it's likely to be selling more of its products or services to customers in the years ahead. And its earnings are going to be higher over time as a result. Equity returns are ultimately going to reflect that earnings growth, and our batting average at finding companies whose earnings compound consistently over time is pretty good. And we think it will remain good as long as our research engine continues humming.

Alright, so I'm going to stop there. In just a moment we're going to open up the stage for Q&A.

We've received several questions over email that we plan to address, and we've anticipated a few more that we would like to have answered if our roles were reversed that we're also going to try to cover if we've got enough time. As much as possible, we want to focus on questions that relate to what we're doing at Ironvine, but we also want this to be interactive and conversational. So, please when the time comes let your questions be known.

While we're getting ready for Q&A, I just wanted to thank you all once again for coming out today. The idea of Ironvine started with a spirited conversation in Seattle when Katie and I were having

dinner at Ryan and Andrea's apartment in 2009. Soon thereafter, Ryan and I were writing out our investment creed in the basement of his new home on Harney Parkway after a Berkshire Hathaway annual meeting. Ironvine grew from a simple set of beliefs or ideas that we could compound capital at a double-digit rate of return over an extended period by investing in good businesses, led by good people, purchased at fair prices. And that if we found a handful of like-minded investors that wanted to join us on this journey, we could do this as a vocation for the rest of our lives. Never to grow wealthy off of our clients, but to grow wealthy with them, because we're invested so heavily alongside them.

Ironvine the company is a byproduct of those simple ideas, and those ideas remain the guideposts that inform almost every single decision that we make today. Does it improve our long-term rate of return? Does it help us service our clients? That's it. It's really that simple.

So, again thank you for coming out tonight, it's been really terrific to see this this turn-out, so thank you. Q&A

**Paul Penke:** OK, we're going to jump into the Q&A session here. The first question is as follows. A concentrated equity strategy seems straightforward when markets are relatively predictable, what new challenges has a recessionary, high-inflation environment created? Further, how are you rethinking your approach, if at all, in light of these current realities? Dave, do you want to take that?

**DP:** Appreciate Ryan handing me the mic on the macro question, which is always the easiest one to answer. But we'll maybe tackle that from a couple perspectives. First off, we approach the macroeconomic environment with a lot of humility. There's just a lot of variables, and there's any number of shocks that would be very difficult to predict. And I think more recently, Ukraine and COVID have kind of underscored that notion, and so we care about the macro, but we don't invest needing to predict it. We monitor the weather as it's out there, but we're not trying to change our stripes or change what we're doing based upon which way the wind is blowing. I think that's kind of an important point.

This environment is really unique. I think throughout most of our investment careers, including when we were first cutting our teeth, the Fed has been a tailwind. They've typically either had interest rates stable or they've been lowering rates, and we're in an environment now with inflation at a level where we could be in a sustained period where the Fed is a headwind instead of a tailwind. For us that doesn't necessarily change any of the key characteristics that we outlined earlier, or what we're looking for in individual businesses, but what it does mean is we need to have our pencils sharp in terms of what we're willing to pay and expect that we could continue to see the price that the markets are willing to pay for our cash flow streams go down over time as competition rises for capital. So, we're pretty conservative when we go about underwriting and valuing our businesses as a general rule. We bake in some of that as we're thinking about the kinds of returns we'd expect to earn from the investments we're making, but that very well may be the case for the next couple of years for us.

Just to give you one example of what this looks like in practice, we actually have an enterprise software business that we've spent a lot of time on that we love. It's the only business that we've spent time on so far that I think we've given a perfect score on our durability ranking. But we've

not invested in that business at this point just because we're afraid that the valuation at some point will return to earth, and then we could impair half of your and our capital just on the basis of price alone. So, we love everything about it. We're going to continue to be disciplined on price. I don't know, what would you guys add to that?

**RM:** Yeah, I mean I think inflation is tough in general. We haven't seen inflation like we're seeing now in four or five decades, and that's never good for a business. But companies that have high returns on capital, that don't need to replace entire plants, that have pricing power-- those are good characteristics to have in a highly inflationary environment and our process tends to draw us to those kinds of businesses.

**PP:** So, this is one that just came in today. One of our other managers referenced the poem The Calf Path by Sam Foss when reflecting on their 10-year anniversary, which I think provides an excellent framework for looking at existing methods and processes. Essentially, in the poem, a major highway gets built along a crooked path originally traveled by a calf. Because nobody ever stopped to ask, why are we doing it this way? Or can we do this better? Precedent can cause a lot of inertia. So, at the 10-year mark of Ironvine do you see any calf-paths inside Ironvine or any of your businesses that should be addressed over the next 10-years?

**RM:** I would say we're always looking for ways to improve our processes. One of the ways that we've really dialed in our processes is the durability ranking system that Dave went through earlier. We have a database where we track businesses where we have specific prices or ranges of prices, where we want to act. Those are a couple of ways where we've really tried to dial things in. We're always looking for more opportunities. There's pros and cons to being a boutique shop like ours. One of the pros is that if we think of a better way to do it, we don't have to go convince someone else that that's the way we should do it. We just change what we're doing.

Thinking about portfolio companies-- I think we could probably have a long discussion about portfolio companies changing their stripes. Microsoft has been one of our biggest investments across the history of our firm, and I think the way that the current CEO Satya Nadella has sort of repositioned the company from being very siloed, very only-Microsoft, to opening their software and tools to Apple devices, Android devices, whatever they may be, and what that's done from a partnership perspective would be a really good example of a portfolio company who maybe had a calf-path that they modified.

**MB:** I would just say that if you're not learning, you're dying. Inertia is a killer, whether you're an investment management firm, or a business in Ironvine Capital's portfolio, we have a few different perspectives. With respect to bringing Eric and Dave on board, and you know the old days it was Ryan and I yelling at each other and trying to figure out whether the economics of a business were improving or getting worse. Dave came in with a little bit of a softer tone, and we formalized the process even further. And Eric's now on board with a different perspective, and so we're not sharp tongued, but if there's something, some form of inertia taking place inside of Ironvine, from the way we manage the business, to the way that we analyze businesses, or something that's going on in a business, where maybe one of the research analysts here who has primary coverage on that business is just not seeing reality, those things tend to get known and vocalized pretty quickly by somebody else in the group.

**DP:** Maybe just to add one more thing. I like the calf path analogy, and just that question and maybe bringing it to a portfolio business of interest. We mentioned Dollar General a little bit

earlier. We own Dollar Tree as well, and I imagine many of you have been in a Dollar Tree before, but for 35 years that model just hummed, and they sold everything in the store for a dollar. Well, with inflation and everything else that's happened, they've had to up-end their business dramatically, and it's hard to do that when you've had 35 years of success doing one thing really well. But they've had some activists come in, and we think that they're making changes that make a whole ton of sense and probably should have been made five to seven years ago. And one of those things, the hardest thing, is moving from the bread-and-butter of selling everything in the store for $1.00, to "breaking the buck" so to speak, to $1.25. Now they're introducing some other items in the store, too. So, that's a great example I think of a business being willing to change and adapt to an environment that has frankly just moved against the core of what they were, even though what they were was wonderful for three decades.

**PP:** Matt, I think just going off your comment about the gnashing of the teeth, the conversations that you have, we recently sold the remaining portion of our cable investment. Did you guys want to comment on that? Or kind of talk through that? I think it's appropriate at this point.

**MB:** Yeah, so we've owned Comcast, Charter Communications, and Liberty Broadband in certain respects for a very long time, and we sold each of those here in the last handful of months. In short, what happened was a lot more competition began to surface, and it started to surface a lot quicker than we expected, and the result of that was broadband subscriber growth has ground to a halt. So, when we initiated this investment, we had bordering on a local monopoly. This business, and the industry in general, just spewed all the virtues that we look for in companies. They were effectively oligopolies. Two to three business markets. And really cable infrastructure, with superior speed and throughput at the time was competing with inept telcos, and so really what we saw was this long runway of broadband subscriber growth. Video was being diminished from an importance perspective. Video is very expensive from an operational cost standpoint, and capital intensive, from a customer premise equipment perspective. Really what had taken place was this massive shift to a more profitable broadband business, and as a result the business was getting less capital intensive. Then with respect to Charter, you had a management team and a board of directors that had a long history of cannibalizing their outstanding shares.

So, we looked at this in 2014, in 2015, and 2016 as Charter was bringing Bright House Networks and Time Warner Cable together, and just said wow this is going to be a free cash flow per share machine. And it was that story that roughly came to bear. But over time, here came the over-builders, and the over-builders came with fiber, which is a superior product, and they came with seemingly lower return thresholds. They came in spades. This is a bit of an outlier, but I read last week that AT&T is going to be the sixth broadband provider in the town of Mesa, AZ when they enter the market in three or four years. So, in a very short period of time what we saw take place was effectively a pretty consolidated and rational market structure devolve into an arms race, and we don't like arms races. We certainly don't like arms races when we are levered, and Charter and Comcast both use leverage liberally. So, that's really the rationale of why we sold those businesses.

**RM:** In addition to the fiber over-builders, there's been fixed wireless overbuilt too, which is an entirely new entrant to the market that has gained pretty meaningful traction.

**PP:** Ironvine owns shares of Microsoft, Alphabet, Amazon, Meta Platforms (formerly Facebook) and Apple. Can you explain the rationale for owning these widely followed and very large companies? Can they continue to compound at attractive rates given their size?

**RM:** I guess first thing I'd say is we own each company for its own merits. This isn't a FAANG bet or a big tech exposure bet. We also purchased each of them at different times. The investment in Microsoft goes back to 2013 when the business was priced as if it was in runoff mode. The Apple investment was made shortly after Jobs passed away and people were concerned about the company's ability to grow in the future. Facebook was purchased in the midst of a broader market sell off combined with the Cambridge Analytica scandal, and most recently we initiated the Amazon investment after roughly a 50% drawdown in the current bear market along with concerns about the company over-building its fulfillment platform.

We could get into these in a lot of detail, which we probably don't have time for today, but I'll start with Microsoft. The original thesis was that its business had this massive incumbent vantage, which was a computer on every desk and in every home. From there, Microsoft was able to grow that into the largest distribution footprint, which they've been able to morph over time into newer and better products. Matt went through the ways that we use Microsoft; they've continued to develop new products. Teams is a good example, five years ago teams had zero users, today it's got 270 million monthly active users. And then they've also spawned a huge cloud computing business, which was not in our original underwriting. At this point it produces over $25 billion a year of EBIT. Just last quarter Microsoft announced a $1 billion contract with a single customer, which is obviously a huge contract. We see tech as a percentage of GDP continuing to grow, and we see Microsoft continuing to be a key component of that tech spend.

**MB:** I would just say one thing as aside on Microsoft. It's interesting to us that when Ryan and I were trying to get this thing off the off the ground and were working out of our garages late at night, Microsoft had this thing called Sky Drive. We were a startup company, we have no capital, no budget, we had nothing whatsoever. We were emailing Excel spreadsheets and Word files and all this crap back and forth. It was just unbelievable how much stuff we had housed in our Gmail and Hotmail accounts. So, Microsoft rolls out this product, and I'm like "Hey Ryan, look at this." This is something called online cloud storage. This is amazing. We were never going to own a server and never going to get on the Oracle train, where they up their prices on customers 50% a year, and then we would be having to re-up an Oracle server every five or seven years. This was just revolutionary for us. It was interesting at the time; this is when we bought Microsoft.

The investment community was very concerned that that these cloud migrations were going to cannibalize Microsoft's very profitable server and tools business. Ryan and I looked at that and we said, no there's going to be so much net-new business that manifests from this cloud computing, and all the different things that are capable in storage. We were using the most basic concept of cloud computing. This was very much a horse and buggy type of analogy when the car came out. The market was just totally missing the boat on how to define the addressable market. It was an interesting thing because it's not why we bought Microsoft, but we were certainly surprised and glad that they came up with this. And over the next five, seven, eight years, I mean look how huge it is now.

OK, so briefly on Alphabet. Google owns search. They know more about customer intent than probably any other company in the world. Something like 90% share of search, really from an adjusted market perspective, we would define as anybody in the world using a connected device to look for information. I mean they literally have the answers to the test. As we all know, you go ahead and insert whatever you're searching for. Then they built this amazing advertising business around it. So, with the billions and billions of queries that we insert into Google every day, and it

continues to get smarter and smarter, and they continue to invest wisely on the different artificial intelligence initiatives they have, the product just keeps getting better. We own Google for search, and we would include in that Maps and the other advertising businesses they have. We assign less value to YouTube, and we don't assign any value in our math to Google Cloud and the Other Bets segment, which is basically Waymo.

It's interesting, I mean Google is a fantastic business, and trades at somewhere around 20 times earnings despite losing ten, twelve, $13 billion on cloud and Other Bets. If you carve those businesses out, net off excess cash, you get a business in search that is trading somewhere around 16-17 times earnings. Which is just absurd. You have arguably one of the best business models in the world trading at something around a market multiple.

**DP:** I'll be brief on Apple, and if anybody wants to talk about any of these companies in more detail afterward, just grab us. I don't want to bore you with details here, I mean everybody is familiar with Apple. The iPhone is sort of a once in a generation product. It's changed everything. If you want to go back to our plumbing analogy, it is the plumbing of most of our daily lives. We do almost everything on it, and therefore it's very sticky. Unlike Microsoft though, it's more consumer plumbing than it is enterprise plumbing. Nonetheless we like it, and they've done a phenomenal job. I think the installed base of iPhones has grown every single year for the last 15 years since it's been introduced, and on top of that they've introduced lots of other new hardware. Then in addition, $80 billion in revenue now in the Services business. Thinking about each component of the Services business, including the App Store, they each have fairly low penetration rates. So while there's not as much growth left in selling iPhones, there's a lot more revenue to be had via Services on that valuable real estate that's in front of our faces three to four hours a day, or 8 hours a day depending on who we're talking about.

With that said, with Apple there's also risks. It's a great business. It's well entrenched, has highly recurring revenue, but it has some unique risks among the tech companies that we own. It's much more dependent on both China and Taiwan than any of our other businesses. That's true from a customer perspective, but more importantly from a manufacturing perspective. So, that's something that we've got to keep a close eye on. It has impacted the size of position we've been willing to own. A couple of other risks: Alphabet pays them a very healthy sum to be the default search engine. The U.S. Justice Department is keenly interested in that relationship, so we'll see if that ever changes in the future. But that's around 15% of Apple's earnings. A check Google writes them every year just to say, 'hey thanks for letting us be the place where people land on all your devices.' Then lastly, one of the key drivers for Apple over time has been they've bought back a ton of their stock at low prices, and the market is onto the fact that Apple is a great business. It's now valued much more like a consumer-packaged goods business than it was at the 10- or 11-times earnings back when I think Berkshire first bought it. The business still generates lots of cash, but that cash doesn't go as far as it used to in terms of share repurchase. We like Apple's business, but the returns from here are probably different than what they were five or ten years ago.

**PP:** That's great. Taking a step away for a second from company specific questions, do you guys want to talk broadly about performance and what discussions look like when you guys talk about performance and what you expect collectively going forward?

**MB:** I guess I can start and then I'll hand it off to Ryan and Dave. We own 100% of this firm and we have all our personal capital invested alongside all of you. We own what you own, we own it

in the same proportion as you own it. The investment research process here is not going to be governed by a marketing department, or be governed by a different owner, or something of the sort where the sentiments are completely misaligned. So, I can say that we eat our own cooking here. Our mantra here is to compound capital at 10 to 15% without losing sleep at night. I am probably more willing to say that than these two, but that's kind of my mantra.

So, what do we mean by sleeping at night? And what do we mean without it? Really what it means is if we have a known business that we understand well, that has incredible economics, that has this wonderful reinvestment opportunity, and we estimate that this thing is going to generate 13% returns from now until kingdom come, we are not going to trade that for a second for something that we don't know, or something that we don't understand, that is growing a lot faster and that a bunch of people around us own and are making a bunch of money on. We don't swing for the fences. We're going to compound this pool of capital by sticking to our knitting, and as we've described many times through Ryan's and Dave's and my presentations. That is, by owning competitively advantaged businesses that are run by thoughtful and talented people, and paying fair prices. We think it really all comes down to durable earnings growth, and to be more particular, per share earnings growth. I think the data that we had on one of our slides demonstrates that we've done a pretty good job of putting together a decent batting average. It shows we can find businesses that compound earnings at pretty good rates of return and ultimately our returns are going to follow that earnings growth.

**Audience:** Matt you got into it a little bit when you talked about valuations on some of the businesses that you own, but wondering if you could comment on how you think about valuation? And whether you have kind of a stable of businesses that meet the criteria that you have, that don't meet your valuation expectations and you know, if they did, you would pounce type logic?

**DP:** Great question. We do, and that's where a lot of our research ends up happening. We do a lot of work, but in any given year we fire maybe two or three bullets. So, we've got a stable that we're building out. Eric Ruden, who joined us in February, has been helpful continuing to further that. We've broadened out the places that we're looking, and deepened them a little bit too, which has been helpful.

Some representative examples might be helpful. We talked about HEICO during our prepared remarks, and it's unique culture and growth attributes have been well recognized over the years. People have looked at that team and that business and said, wow this is an outstanding franchise, so we've known about that company dating back 15, 20 years. What gave us the opportunity to pull the trigger was, frankly, COVID. We would have loved to own it earlier, but we could never stomach the price, and so it took a period with that much uncertainty where planes were on the ground for multiple months for the price to come into a range where we were able to swing the bat. And so we did. Some of these companies are going to sit in that on-deck circle for four or five, maybe even ten years. What we want is to be ready to swing when the opportunity comes, and I think there have been a couple of good examples of that, more recently HEICO being one of them.

**RM:** A little more specifically, we've got probably a couple dozen, two or three dozen businesses that we would like to own at the right price, but we haven't gotten there yet. There's a lot that goes into valuation, and like we said earlier, we try to be conservative in that regard.

**Audience:** I'm an employee of PayPal, and we just had COVID where growth went crazy, off the charts, and expectations were really high. And the stock price went really high. Since then we've

seen that fall way back. I know that's one of the companies that Ironvine owns, but across the rest of the portfolio are you seeing some of the same reset? Or how have the expectations for those companies changed? Just that maybe grew during COVID and now the business is different? How are you figuring that out?

**RM:** PayPal is an interesting one. There's been a number of businesses that experienced a big pull forward from COVID, and PayPal would be one, Amazon would be one, Facebook in some ways, Google, and then we saw others where COVID was very difficult. The dollar stores had several headwinds around supply chain disruptions. There were a lot of different ups and downs, and now we're looking at where there's opportunities emerging from this.

**MB:** I think the best example of what's in our portfolio, is a business called Thermo Fisher Scientific, who took advantage of the COVID situation and recognized that they were going to generate an enormous amount of capital from COVID testing and things of that nature. They used that excess capital to go out and buy another outstanding business and add it into their portfolio.

We have seen a wild delineation between businesses that recognized that they were getting a pull forward, and businesses that had no idea that they had a pull forward and instead, they thought their business got a lot better. It was remarkable, because all these CEOs, PayPal included, thought that they had caught lightning in a bottle. They thought PayPal was the greatest thing on earth. It's easy to see in hindsight, but PayPal is effectively driven by the nexus of e-commerce and electronic payments. The PayPal checkout button, they make enormous amounts of high margin revenue on all the gross merchandise volume or GMV that runs through PayPal's platform. When you have this massive pull forward in e-commerce penetration, PayPal is going to print money. They took that capital, and they invested it in a lot of ways that I think in hindsight, they wish they probably wouldn't have. They also thought that they were good enough to toss out an all-stock bid for Pinterest, which is the most ridiculous idea that we have ever heard. I have some sentiments toward CEO Dan Schulman and PayPal in general, but roughly speaking, it's interesting for us to sit back, one year hence, and decide now who actually did a good job managing their business through COVID, and who really had no idea what was going on. I'm going to put Dave on the spot, but this example of Thermo is just phenomenal.

**DP:** I'll try to be brief. Thermo is an investment across both of our strategies. As you may know, they were pretty involved in understanding and attempting to treat COVID. Thermo actually operated one of the primary PCR testing platforms. So they were kind of at ground zero helping with testing and everything else. To make a long story short, over the course of the last three years, I think they generated roughly $20 billion in revenue and $8 billion in profit just from COVID testing and vaccine production. They do vaccine fill-finish helped create a lot of the injections. All of us hoped that business was going to go away, and do hope that it's going away, so they took a lot of that profitability and then bought a contract research organization.

Thermo Fisher is a wonderful business. It's grown from something that was very siloed to now being "the bundle" in life sciences. They're able to offer more services at better prices to almost anyone in that world—biopharmaceuticals all the way down to material science, basically across the board, to the point that customers are now inviting Thermo Fisher in to run their entire laboratory organizations. Thermo not only supplies the instruments and related consumables, but the people too. There is a great degree of trust there. So, Thermo Fisher used that COVID dividend, for lack of a better term, to buy into another business line that will enhance everything the

businesses they already own. And the contract research business has long term durability, whereas those COVID revenues and profits most likely won't. They have great C-Suite relationships with basically every pharmaceutical manufacturer around the world, and so they can pull more business into that contract research platform than PPD could on their own

**Audience:** What do you guys feel and how much are you concerned with, let's address the elephant in the room in terms of what's going on with our country. Just say for example what's happening at the border, and millions of people coming in that are unemployed. They don't have homes, you know, we all know what's happening. How do you think that's going to affect not just Ironvine, but as a whole what's that going to do to our future?

**MB:** Ultimately the answer is we don't know. We aren't naive to the macro and geopolitical curveballs that get thrown at us daily. We read about them daily just like you do. Fortunately for us, we don't let that infiltrate our day-to-day, we don't let that impact our focus on the microeconomics of businesses, and I would just say that we're optimists. The legal structure of this country, even though it has its issues, is a breeding ground for capitalism, and for the entrepreneurial spirit. It has been in this country forever and even though we have the issues that we have today, this ovarian lottery concept that Buffett came up with, still stands true today. If you're born in this country—even in 2022—you're going to have a better shot than anywhere else in the world and so I will just leave it at that.

**DP:** I'd just add one thing. You all entrust your money to us, and one of the reasons you pay us is to be sort of professional worriers. I don't want to leave you with the impression that we don't worry about a lot of the things that are going on. I think one of the reasons that we focus in on the kinds of businesses that we do, is that if the world ends, we've all got bigger problems, right? But due to the essential nature of what they're doing most of the time, to do anything throughout life well you're going to need a lot of the services that a lot of our companies provide. So, we're trying to avoid things that are purely discretionary, big-ticket items, which can be avoided for months, or years, or that aren't needed to function day to day. When Matt said we read about these things, we're concerned about certain ones. We have a chart that we like to show, and we look at internally that we call our "wall of worry," and it's a reminder that over time, in almost any environment, you can point to three or four things that feel important because they are important. And they feel like they could derail the system. And the reality is they probably could… but over time, things have tended to work themselves out. So, at any given moment if we took the score of the game, we'd be like boy it's the third quarter we're down by 8 and we don't love that, but thankfully we've got another quarter and a half to play. It's kind of how we see these things end up. It's worked well for our system and for our businesses.

**MB:** We don't mean to minimize the seriousness of any of these risks. So, interesting story. I was homeschooled Kindergarten through the 6th grade and my mom was my teacher, and my mom had a giant map and she slapped the USSR with it the whole time. And I learned a lot about the Cold War at a very young age. I mean, we were on the brink of nuclear war for a long period, nearly two decades or something like that. Nuclear war is obviously very concerning, it's still concerning today, and so I would just say I think Dave said it well. We are always on the precipice of something that could be concerning, or is very concerning. We just don't have a lot of control over those things. What we do have control over is studying the microeconomics of these businesses and sticking to our knitting. And again, just to reiterate, not letting the macro and the geopolitical concerns infiltrate what we're trying to do on a day-to-day basis.

**PP:** Matt you kind of made your comments and feelings known about PayPal management a minute ago, and Ryan you've talked about Microsoft. So, when you look at the durability ranking system that we had up on the screen earlier, one of the key qualitative measures is management, and how well management is operating. How do you gauge that on a day-to-day, or month-to-month level?

**DP:** Great question. It's one of the hardest things that we do. We try to gauge management risk appetite--how much risk are the executives in control willing to take, and will they be willing to take the right kinds of risks at the right time? We pay a lot of attention to shifting narratives and moving goal posts, and there's a lot of that in the public equity world. So, we try to match up actions with words. I think it would be true for any of us, actions speak a lot louder than words, and so we look at what's going on, not what's being said. We also spend a fair bit of time looking for who we think are the most talented business operators and capital allocators around, and then follow what they're up to, and what they're doing. If we find people who we think have a lot of those intangibles, we're very likely to want to invest alongside them at some point in time, assuming we see the right kinds of prices. I think over time we've become more skeptical and choosier about the kinds of people that we want to partner with, and we're a lot less likely to invest in a business where it becomes clear to us that it is purely a financial exercise with the consumers or customers simply along for the ride. We run for the hills when we see that. What else would you guys add?

**RM:** The proof is in the pudding, you know. As Dave said earlier, as part of our underwriting processes, we go back in time and read three to five years of quarterly transcripts from a management team, or more. And the you match that up to what happens, and if those two things don't line up, then it's not for us. And that weeds things out quickly.

**DP:** One last point I meant to make. We really like when the people who are running our portfolio companies have a lot of their own capital invested in the business. That's not a unique desire, but we do have investments alongside a lot of owner operators, and it's amazing how your own money will help you focus on doing the right thing. That's been true for a lot of our investments and we've got several teams in our strategies that own a significant amount of stock. A lot of people have talked about this dynamic, Charlie Munger among them, but incentives really matter, and we do look for incentive structures that incent management teams to behave like we want them to. We want them getting paid for the things that really add value over time. Most of the businesses in the S&P 500 do not have incentives that create value for shareholders.

**PP:** That's great. I think this is pretty natural place to conclude our conversation. Are there any last comments you guys want to make?

**RM:** Thanks everybody for coming out. We really appreciate you spending time with us this afternoon.

*Disclosures*

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For more information about any of the above or to learn more about Ironvine visit our website at https://ironvinecapital.com/ or contact Paul Penke at (402) 916-1702 or ppenke@ironvinecapital.com.


# Investor Day

1

## Our Aim

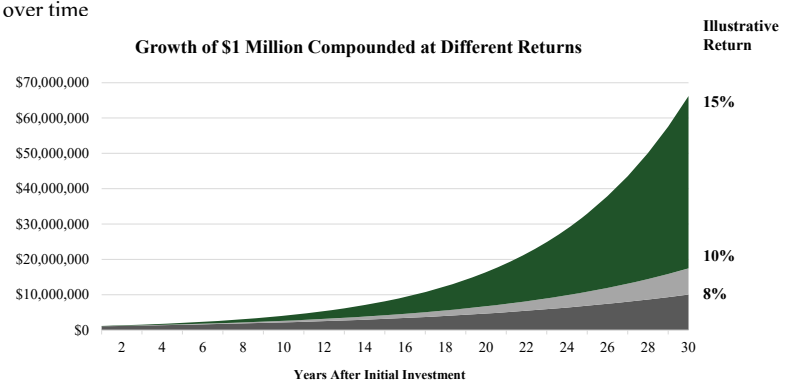
- Own a curated collection of outstanding businesses
- Run by honest and talented managers / owners
- Purchased at reasonable prices
- Let them compound



2

# The Power of Compounding

- The power of compound interest is simple, but often dismissed as unattainable
- Our role is to make it attainable by building a portfolio that can be held through all types of market environments
- To capture the power of compound interest the investment approach must be scalable over time




The above is meant to be an illustration of the power of long-term compounding and is in no way an estimate of expected future returns

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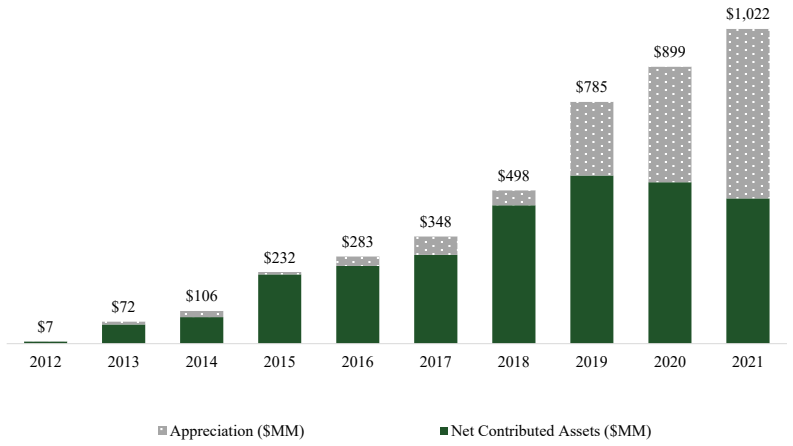
# Assets Under Management




*Note: Saddle Road Partners merged with Ironvine Capital Partners in January 2017. Data prior to 2017 represents the combined firms' AUM*

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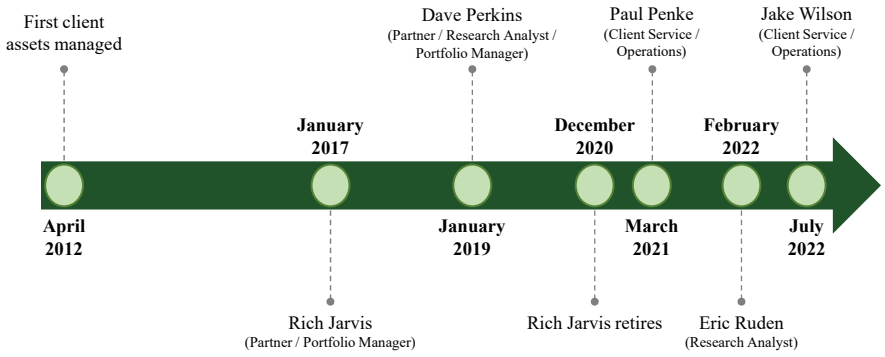
# Personnel Timeline

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# IVCP Durability Ranking System

Best ⟷ Worst

| | 1 | 2 | 3 | 4 | 5 | 6 | Ironvine Average |
|---|---|---|---|---|---|---|---|
| Competitive Positioning | | | | | | | 1.5 |
| Capital Efficiency | | | | | | | 2.0 |
| Cyclicality | | | | | | | 2.0 |
| Financial Strength | | | | | | | 2.0 |
| Growth Opportunity | | | | | | | 2.5 |
| Stewardship | | | | | | | 2.0 |

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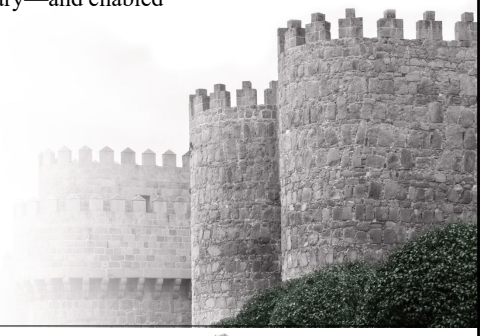
## Defining Durability

What we look for…

- Provides the "plumbing" necessary for day-to-day life / activity
- Need for consistency / quality makes switching impractical / unnecessary
- User receives fair to disproportionate value incenting further / wider adoption
- Change is evolutionary—not revolutionary—and enabled by our tools / platforms
- The business must weather downturns well…
- …enabling management to consistently think about offense when deploying capital



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9

## Non-durable

What we aim to avoid…

- Highly discretionary, less essential products / services
- Customers can and do switch back and forth between product / services given commoditized nature and/or ease of switching
- Industry / competitive landscape is constantly shifting
- Business creates reasons for customers to look elsewhere or consider discontinuing relationship
- Highly cyclical industries where downturns consistently cause retrenching

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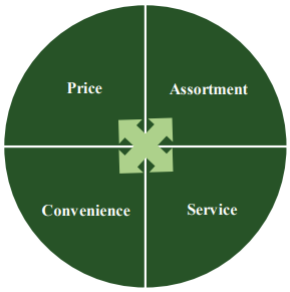
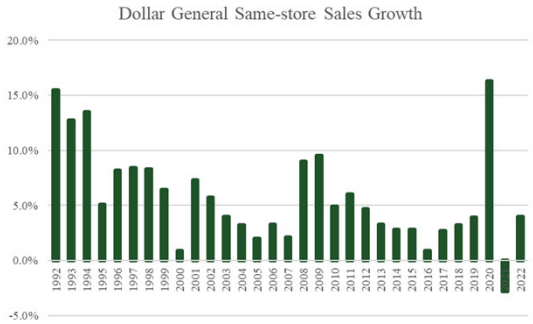
10

# Low Price Consumer Conduits




*Source: Bernstein Research, company filings, IVCP estimates*

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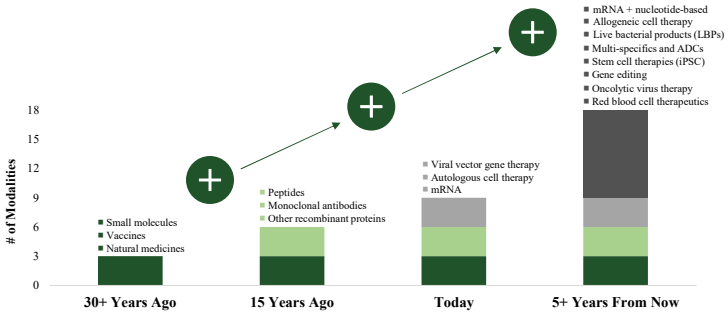
# Precision Instruments / Manufacturing




*Source: Catalent*

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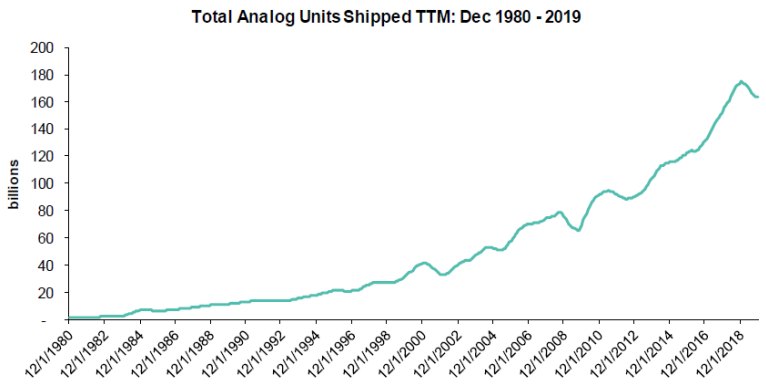
## Niche Components




*Source: Bernstein Research*



## Standards, Industry Benchmarks, & Data

*"There are very few businesses that have the competitive position that Moody's and S&P have…It's a natural duopoly to some extent…where anybody coming in and offering to cut their price in half has no chance of success. That's the nature of the ratings business and it's a naturally obtained one. I mean, it's assisted by the fact that the two of them became the standard for regulators…It's been assisted by the governmental actions over time. But it's a natural duopoly."*

# Mission Critical Software

Microsoft Adobe BLACK KNIGHT

**Office 365 Case Study: Ironvine Capital**

**User Perspective**

- Office 365 E3 for Enterprise: Six seats
- $36/month per seat -- Annual cost of $2,600
- Productivity suite -- Excel, OneNote, Outlook, Word, PowerPoint, Teams
- Serverless network architecture built on Microsoft's Cloud
- Core security and compliance capabilities
- Use anywhere on any device

**Microsoft Perspective**

- Subscription model with recurring revenue
- SaaS enables collaboration + insights into usage patterns allowing for continuous product updates while lessening piracy / version skipping
- Constantly improving product increases switching costs and pricing power
- Unparalleled lifetime customer value

**O365: A fraction of IVCP's operating costs yet critical to our ability to operate**

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# The "On Deck" Circle

- Vertical Software
- Semiconductor Production
- Advertising Platforms
- Domestic Freight Transportation
- Precision Instrumentation / Consumables
- Data Providers / Exchanges

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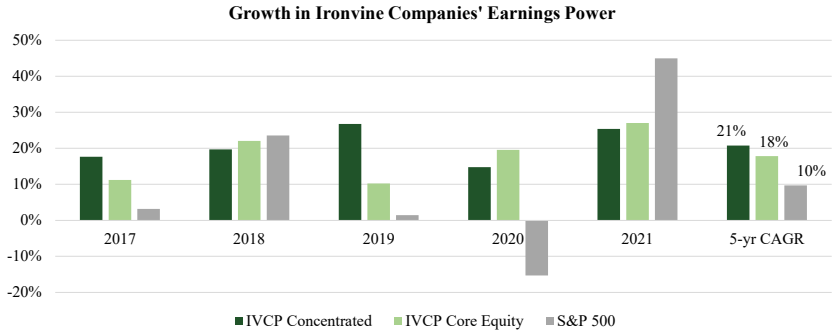
# Earnings Power Drives Business Value

- Over a long time horizon a company's value grows at roughly the rate of change of its earnings power. The same holds for a portfolio of companies
- Not all earnings / cash flow streams are created equal
- *Durable* growth in earnings / free cash flow per share is the most sustainable way to create value and the primary means by which we expect to compound capital over time




*Source: FactSet Data Research; IVCP estimates*

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## Investor Day