IRONVINE
CAPITAL PARTNERS, LLC

Investors & Friends of Ironvine-

The first nine months of 2023 have presented a number of challenges for investors to navigate. A weakening consumer, stubborn inflation, the highest interest rates our economy has experienced since 2007, broadening geopolitical turmoil, and the meteoric rise of artificial intelligence are just a few of the disruptive developments capturing significant attention. If we had foreseen how these events would materialize coming into the year, we wouldn't have put a 13% year-to-date (through 9/30/23; YTD) return in the S&P 500 on our bingo card. Incidentally, a closer investigation of equity markets tells an entirely different story. As the table below outlines, YTD investment returns have been more concentrated than at any point over the past 30 years when the market has been in the black. A subcomponent of the ten largest companies in the S&P 500 index, the so-called Magnificent Seven, have collectively produced stock price increases over 50% this year.[1] In practical terms, this means the other 493 businesses that make up the index have combined to generate a comparatively meager 3.2% return. Similarly, the S&P 500 equal-weighted index has earned just 1.8% through September while a broader measure of equities made up of the 1,500 largest companies has returned 1.4%.

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10 as % of Total	S&P 500 % Perf.
2023 YTD	**96.5%**	**11.7%**
2007	78.7%	3.5%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

While we have yet to experience the most anticipated recession of our investment lifetimes, it's undeniably tougher sledding out there. Good jobs are harder to come by and housing affordability is near an all-time low. U.S. fiscal spending is beginning to feel the pinch of higher interest rates, with more budgetary pressure likely on the come. Low and middle-income households have in many cases both exhausted savings and begun tapping credit more heavily. The increasingly insular Chinese economy, saddled with a dormant property market and secular demographic challenges, has continued to slow, creating ripple effects across many industries accustomed to years of rising demand. These factors, among others, at least partially explain why all but a select few businesses have experienced otherwise unexciting performance this year.

Within Ironvine portfolios, individual company results have been more widely divergent than usual. The headwinds facing discount retailers and life science tools and diagnostics businesses have stiffened further. Amazon, on the other hand, appears to be making faster than expected progress leveraging its substantial logistics investments with cloud spending at AWS

[1] The "Magnificent Seven" includes Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla

nearing a growth inflection. Microsoft, Costco, UnitedHealth Group, and payment networks Visa and Mastercard continue to generate steady growth.

Without question, the teams responsible for leading our companies have faced a highly dynamic operating environment the past several years. And, as is often the case, the challenges presented by uncertainty and change have provided a litmus test for our assessment of managerial acumen. We aspire to own businesses with the rare combination of enduring competitive entrenchment, a willingness AND ability to reinvest in expanding and prolonging those advantages, and a team and culture that operate with a long-term owner's mentality. These characteristics represent three of the six components that form Ironvine's durability ranking system.[2] By design, few businesses score highly across each of these paradigms, helping us filter out lower quality companies and weigh trade-offs in perceived durability with market prices. In fact, not a single business in our investment universe earns the highest ranking in each category. And, we think appropriately, stewardship is the category we assign the fewest top rankings, with only eight businesses receiving our highest mark.

Assessing cultures and management teams is a subjective exercise that can't be judged or measured neatly by numbers alone. It is more complicated than aggregating how much stock a company's CEO, executive team, or board owns, or how adeptly they operate the business (though these things are important). It includes how consistently and respectfully customers are treated, how willing leadership is to endure short-term pain for long-term benefit, and how intelligently managers act upon risk and opportunity. We thought it would be informative to do a real-time survey of stewardship through the lens of several businesses to drive home why we believe it's a critical component of long-term investment returns.

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We begin with Black Knight, an investment we recently sold in our Core Equity strategy after four years of ownership. The company provides software for the day-to-say servicing of nearly two-thirds of the residential mortgages in the United States. We were drawn to the essential nature of Black Knight's core product, which results in high switching costs for customers, limited cyclical swings in profitability, and attractive returns on capital employed in the business.

We made our investment understanding that governance was a potential risk. Chairman Emeritus Bill Foley had carved Black Knight out of another business he'd built and has ownership in a myriad of other ventures, including a publicly traded private equity vehicle he controls called Cannae Holdings. At the time of our purchase, BKI and Cannae had recently partnered in a successful, but unconventional deal with Dun & Bradstreet that had the potential to be a distraction to day-to-day operations. Nonetheless, Foley had a proven history of creating value in financial service-oriented software and we surmised his ~$280 million position in Black Knight would align him with equity holders.

In July 2020 Black Knight agreed to purchase a controlling stake in software / marketplace business Optimal Blue from its private equity owners for $1.8 billion. BKI didn't have the liquidity to buy the company outright and turned to a familiar set of private equity partners to finance 40% of the deal, including Foley's Cannae Holdings. The entry price looked quite steep to us, but management was optimistic about the synergies that could be unlocked alongside Black Knight's existing mortgage servicing business.[3] Roughly

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[2] The Ironvine Durability Ranking system assesses a business' competitive positioning, cyclicality, financial strength, capital efficiency, growth opportunity, and stewardship and ranks each category from '1' (best) to '6' (poor)

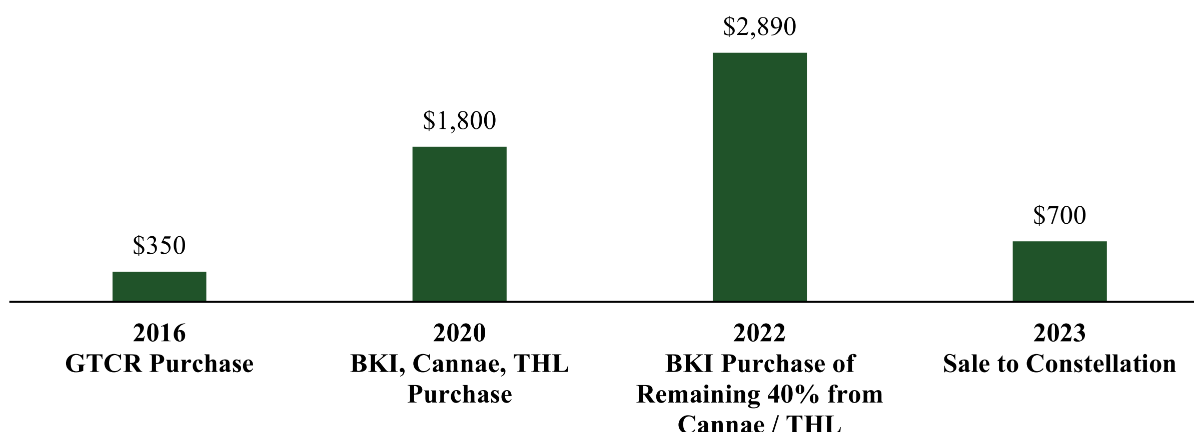
[3] BKI and its partners paid $1.8 billion for Optimal Blue, equating to ~30x EBITDA, a massive premium to BKI's own multiple and more than 5x what the seller paid for the business four years earlier

18 months later, BKI announced it was exercising its option to purchase the remaining 40% of Optimal Blue, this time at a valuation 60% higher and again at roughly 2x the multiple its own shares were valued at. Ignoring leverage, BKI's minority partners (including Foley) nearly doubled their money in short order.

As Black Knight's stock languished alongside broader markets in early 2022, management and the board became frustrated with *"the lack of correlation between Black Knight's strong financial performance and organic growth and the trading price of Black Knight's common stock"* and began pursuing a sale of the business.[4] After months of conversations with numerous parties the board reached an agreement to sell the company to Intercontinental Exchange (ICE) on May 4, 2022. In an attempt to obtain quick regulatory approval for the transaction, ICE offered to divest an overlapping portion of BKI's business. Unfortunately and unsurprisingly, regulators at the FTC were far from satisfied with the concessions being offered. Back at the negotiating table, BKI agreed to a reduced sale price of ~$11.5 billion (from ~$13 billion), creating room for ICE to divest the necessary operations to gain approval. Shortly thereafter the companies announced Optimal Blue would be sold to Constellation Software for $700 million, with the majority of the proceeds taking the form of a seller-financed note.

To summarize, BKI bought 60% of Optimal Blue at a $1.8 billion valuation, folded in a small related operating company, ran the business for 18 months, and then bought the remaining 40% from affiliated entities at a $2.9 billion valuation. One year later the highest price Optimal Blue could fetch, including a sweetheart seller financing package, was $700 million.

Optimal Blue Transaction Valuations Over Time
USD in Millions



Despite clear value destruction for equity holders, Black Knight insiders made out quite well. The company's top five managers "earned" accelerated vesting on a total of $125 million in compensation. CEO Anthony Jabbour's special bonus tied to consummating a sale was paid in calendar year 2022, *nine months prior to the close of the deal*, purportedly to help optimize his personal tax planning. And Foley's Cannae Holdings received a huge windfall for its "value add" in bridging BKI to full ownership of Optimal Blue.

As we reflect on the events that transpired over our four years of ownership, it seems clear that management and related parties elevated their own interests over those of minority shareholders, truncating returns for

[4] Source: Schedule 14A / Merger Proxy filed with the SEC on 8/19/22

Black Knight owners. As a result of this poor stewardship, the 7.3% annualized internal rate of return we realized fell disappointingly short of our expectations.

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Let's turn the page to CoStar Group, an active investment Ironvine has held in both equity strategies since 2020. CoStar is led by Andy Florance who cofounded the business in 1987 as a commercial real estate information provider to brokerage houses in Washington D.C. Over the ensuing three-plus decades, he expanded CoStar's commercial real estate platform across most of the United States, deepened the pool of data available to users, and increased adoption outside of traditional brokers. Today CoStar offers the most comprehensive, timely, and standardized information in commercial real estate. The company's strategic push into the U.S. and UK residential markets makes an analysis of CoStar's stewardship a timely exercise.

CoStar has served both customers and shareholders well under Florance's leadership, demonstrating a unique ability to build, buy, and operate assets intelligently. The team has:

- Successfully developed two durable and increasingly valuable franchises, including Apartments.com which is the leading digital multifamily marketplace—revenue has increased from $84 million at the time of acquisition in 2014 to over $900 million this year
- Been willing to approach opportunities like a long-term owner regardless of Wall Street's prevailing appetite and clear preference for near-term visibility
- Invested aggressively yet prudently in attacking underserved or poorly served markets
- Exercised price discipline and flexibility when pursuing acquisitions, as evidenced by decisions not to overpay for CoreLogic or Realtor.com
- Maintained a net debt-free balance sheet, enabling the team to play offense in environments when peers cannot

As with all companies, however, there are counterbalancing factors for owners to consider such as:

- CoStar has consistently sought to capture a significant portion of the value it creates for customers through price increases, leaving less "consumer surplus" and at times frustrating its core user base (the company's rebuttal is that it aims to be the best—as opposed to lowest cost—solution and continually reinvests to enhance the value of its offerings/marketplaces)
- It is difficult to ascertain the managerial depth behind 56-year-old CEO Andy Florance, but numerous current and former executives point to highly centralized decision making and the lack of a clear succession plan or internal successor(s)
- CoStar issued 37 million shares representing approximately 10% of the company via equity offerings in 2020 and 2022 at prices that Ironvine believed were below intrinsic value and has yet to find meaningful uses for this capital
- Despite founding the company, Florance owns very little CoStar stock

At present, CoStar is asserting its well-honed marketplace muscles by taking on Zillow, Redfin, and others in serving residential real estate agents and house hunters via the recently acquired Homes.com domain. The company invested approximately $200 million last year and is likely investing over $400 million this year to construct an agent-friendly digital platform with proprietary housing-related content. For a business generating over $900 million in EBITDA *before* incorporating residential investment, this is a big bet. Homes.com has a lot of important milestones ahead, including formally launching its advertising model this upcoming spring. But early datapoints have been encouraging—there are now over one million U.S. real estate agents registered on the Homes.com platform and monthly unique visitors exceeded 100 million

in September. Audience interest is the linchpin in any two-sided marketplace, and Homes.com is gathering increasing, albeit early, attention. Florance believes residential advertising and related services could eventually produce over $1 billion in annual EBITDA, a multiple of CoStar's current run rate. While our investment does not hinge on that degree of success, we are confident entrusting an investment of this scale to the team given its track record building differentiated digital marketplaces. Importantly, we believe Florance has demonstrated a willingness to cut bait in the event these substantial sums are not bearing fruit.

"…we want to avoid overpaying materially for something…So if we think that we can build traffic on a given portal up to the number one position, if we can take a portal from number four to number one, we can estimate the cost of what it takes to do that and we know the cost of bringing the technology in. We balance that against the cost of buying the number one portal and so if it's cheaper to build versus buy, we'll build but build from the context of acquire and invest as opposed to acquire number one and try to hold that number one position…So we look at it through that lens, the value you get for the price you're paying…" - CoStar CEO Andy Florance

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We'll conclude by looking at a company we have long admired but have yet to make a direct investment in. The market for auctioning salvage vehicles deemed a total loss by insurance companies is dominated by two businesses—Copart and Insurance Auto Auctions (IAA). The cultural paths they chose to take—indiscernible from the outside by looking at their financial results not too long ago—could not have been more different.

Copart is an exceptional business run by a special group of people. Its founder and Chairman and his Co-CEO son-in-law collectively own more than 9% of the company worth a combined $4 billion. Both have been integral to the business' enormous success prior to and during its 29-year history as a public company—a period in which its shares have compounded at 22% annually and grown in value by 30,500%.

Copart was founded in 1982 by Willis Johnson who together with longtime lieutenant Jay Adair built a single yard operator in Vallejo, California, into the most dominant remarketer of total loss vehicles for insurance companies in North America. Today the company has something in the vicinity of 40%-50% market share of salvage unit volumes.

To fully appreciate Copart is to understand the upbringing, work ethic, and character of Johnson and the people that helped him build the company he started 40 years ago. As a teenager, Willis would wake up at 3AM to milk his family's cows daily. After graduating high school, he was drafted into Vietnam where he won a Purple Heart and Medal of Merit for heroism. As a Forward Observer looking for ambushes and booby traps, he lost many mates in combat and was still removing shrapnel from his body five years after coming home.

In 1989, Willis Johnson met 18-year-old Jay Adair who had just graduated from high school and was dating his daughter. Although he couldn't stand him at first, Willis warmed up to Adair and there began one of the most productive business partnerships we have studied. After a summer internship at Copart following his freshman year of college, Adair dropped out to work for the company full time, starting as a forklift operator in its yards and working in the mechanic shops. Johnson eventually gave him the opportunity to move inside to improve salvage titling processes with state DMVs. After that, he began handling the front counter and customer service. He even took Johnson's lead as a rite of passage and moved his new wife (Willis' daughter) into the trailer on Copart's Sacramento yard to stay close to the business just as Willis did decades

prior. Adair is credited with leading Copart's culture of hustle to serve customers, overseeing the design and deployment of the company's technology stack, and meticulously integrating its acquisitions.

But no story about Copart is complete without a comparison to its largest competitor, Insurance Auto Auctions. IAA's history also dates back to the early 1980s. It was once bigger than Copart, went public first, and grew organically and through horizontal acquisitions just as Copart did. After IAA went public in 1991, Willis concluded it was inferior to Copart, and if they could raise money and expand nationally, so could he.

As they grew, the differences in style between the two companies couldn't have been starker. While courting acquisition targets, IAA management would show up in limos wearing suits. Willis Johnson would show up in a rental car wearing his cowboy boots. While IAA was shooting first and asking questions later on the acquisition front, Copart carefully integrated each of its targets into a single, cohesive operating unit. Johson wanted every Copart yard to run on the same systems, with the same pricing, and to do business with its customers and vendors the same way. IAA managed M&A by spreadsheet, Johnson got to know the owners, how many personal cars the company was paying for, and which family members were on the payroll (but not working there). Johnson bought the land under his yards to ensure he could control his own destiny while IAA blindly adhered to "capital light" dogma and leased properties even when it could have acquired them at a fraction of their value. In 2003, Copart took the bold action of moving its auction platform entirely online, expanding the member base to out-of-state and foreign buyers which unleashed the beginnings of an unprecedented increase in average selling prices and recoveries for insurers. IAA was reluctant to follow suit and only moved fully online out of necessity during the pandemic and has struggled to attract anywhere near Copart's international bidders as a result.

IAA Founder and longtime CEO Bradley Scott stepped down from the company in March 1996. By 2001, the last vestiges of Scott's executive team had either left the company or been replaced by outsiders with no industry experience. IAA was acquired by private equity in 2005 and then in a three-part deal merged into KAR Auction Services along with wholesale auto auction house ADESA in 2007. After years of fits and starts trying to find a strategic direction, IAA—long starved for investment—was spun out of KAR in 2019 and languished as a financially constrained standalone public company for roughly four years, returning a paltry 2% annually while Copart compounded at 19%.

In late 2022, another governance failure commenced when Ann Fandozzi came knocking at IAA's door. At the time, Ms. Fandozzi was in her third year as CEO of used industrial equipment auctioneer Ritchie Brothers (RBA) and had recently outlined the company's "robust" prospects at a company investor day. Fandozzi stunned investors when RBA made a bid to acquire IAA for $7.3 billion in a highly dilutive deal financed largely with stock it had just alleged was woefully undervalued. Notably, IAA processes and sells entirely different assets (mostly, damaged consumer vehicles) for a completely different set of customers (largely, insurance companies) to a completely different set of buyers (dismantlers, recyclers, and exporters) than RBA.

In a scathing rebuke of the attempted transaction, longtime RBA shareholder Luxor Capital outlined how IAA had lost a stunning 25 points of market share and that Copart's unit volumes had grown 60% larger than IAA's despite the two having been roughly equal in size six years prior. Copart is mentioned 140 times in the 21-page letter and 137-page slide deck Luxor furnished to RBA's board urging them to abandon the acquisition. Ritchie Brothers nonetheless won approval for the deal, formally acquiring IAA in March of 2023. Five months later, the company fired Fandozzi and her CFO Eric Jacobs when a dispute over her compensation demands erupted in the board room creating irreconcilable differences.

With its chief architect now gone, will RBA have the courage to enter the deep chasm of investment necessary to bring IAA back to the competitive shape it was once in? Our expectation is that it will remain somewhat rudderless and similarly starved beneath RBA's ownership, and that its competitive disadvantages to Copart will widen further, ceding still more market share as a result.

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As minority owners, the quality of the people we partner with is usually a significant contributing factor to the success of our investments. There is no one size fits all approach to determining how good a management team will be at stewarding shareholder's resources. Founder-led businesses often stand out from the crowd (Berkshire, HEICO, Costar). We've also seen well-designed compensation structures incentivize owner-oriented behavior (Microsoft, Dollar Tree). In other cases, strong cultural norms have been handed down through the lineage to new leaders with an innate loyalty to the company's business methods and ongoing success (Costco, Danaher, Old Dominion). Whatever the case might be, we take considerable care in understanding the character of who we're investing with, their operating and capital allocation track records, and the incentives that will drive their behavior in the future.

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Thank you for your continued trust and confidence.

The Ironvine Team

October 30th, 2023

IRONVINE
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Concentrated Equity

			Annualized Returns as of 09/30/23				Cumulative
	YTD 09/30/23	1 Year	3 Year	5 Year	10 Year	Inception 04/01/12	Inception 04/01/12
Ironvine Concentrated (net)	7.44%	15.05%	6.84%	9.06%	9.08%	10.39%	211.55%
S&P 500	13.07%	21.62%	10.15%	9.92%	11.91%	12.32%	280.42%
Equities	1.35%	12.65%	13.48%	5.93%	8.09%	9.38%	180.58%
Bonds	(2.87%)	(1.93%)	(7.54%)	(0.16%)	0.83%	0.85%	10.18%
Cash	3.71%	4.63%	1.75%	1.71%	1.09%	0.96%	11.59%

Performance reflects the results of the Ironvine Concentrated Equity Composite. Index returns are shown on a total return basis which assumes the reinvestment of dividends and interest income. Equities represent the total return of the S&P 1,500 equal-weighted index. Bonds represent the returns of the Bloomberg US Treasury index with 7-10 years to maturity. Cash represents the returns of the Bloomberg 1-3 month Treasury Bill index. Indices are unmanaged, do not incur fees or other expenses, and are generally not available for investment. See the Important Disclaimers at the end of this document for additional pertinent information.

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CORE EQUITY

			Annualized Returns as of 09/30/23			Cumulative
	YTD 09/30/23	1 Year	3 Year	5 Year	Inception 01/01/16	Inception 01/01/16
Ironvine Core (net)	8.82%	13.71%	5.37%	10.43%	12.24%	144.75%
S&P 500	13.07%	21.62%	10.15%	9.92%	12.08%	141.96%
Equities	1.35%	12.65%	13.48%	5.93%	9.13%	96.78%
Bonds	(2.87%)	(1.93%)	(7.54%)	(0.16%)	(0.00%)	(0.03%)
Cash	3.71%	4.63%	1.75%	1.71%	1.40%	11.40%

Performance reflects the results of the Ironvine Core Equity Composite. Index returns are shown on a total return basis which assumes the reinvestment of dividends and interest income. Equities represent the total return of the S&P 1,500 equal-weighted index. Bonds represent the returns of the Bloomberg US Treasury index with 7-10 years to maturity. Cash represents the returns of the Bloomberg 1-3 month Treasury Bill index. Indices are unmanaged, do not incur fees or other expenses, and are generally not available for investment. See the Important Disclaimers at the end of this document for additional pertinent information.

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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.

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Ironvine Capital Partners, LLC (Ironvine) is an independent registered investment adviser registered with the United States Securities and Exchange Commission. The firm definition includes all assets that are managed by Ironvine.

The Ironvine Concentrated Equity Composite *includes all accounts over which Ironvine deems to have discretion and that follow the composite strategy. Ironvine Concentrated Equity seeks to earn above average returns by investing primarily in a concentrated portfolio of global issuers in all facets of capital structures, including and not limited to common and preferred stocks, debt instruments, convertibles etc.*

The Ironvine Concentrated Equity Composite was created on December 1, 2013, with an inception date of April 1, 2012. The strategy does not seek to directly track or compare itself to any particular equity benchmark, but 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 Concentrated Equity employs a total return strategy and the S&P 500 is provided 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.

Performance presented prior December 1, 2013 occurred while the Portfolio Management Team was affiliated with a prior firm and the Portfolio Management Team members were the only individual(s) responsible for selecting the securities to buy and sell. 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.

Prior to October 2017 the composite was named "The Ironvine Composite."

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 a 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 12/29/2017, with an inception date of January 1, 2016. The strategy does not seek to directly track or compare itself to any particular equity benchmark, but 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 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.

Performance presented prior 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 and was a primary decision maker in that capacity at Ironvine until his retirement on 12/31/20. This performance record was incorporated into the Ironvine Core Equity Composite in compliance with the portability requirements of the GIPS standards. A copy of the Portability report is available upon request.

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Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. To be included in the composite an account must have a minimum value of $25,000 at the beginning of a month. The U.S. Dollar is the currency used to express performance. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Returns are presented net of management fees and commissions and include the reinvestment of all income. Net of fee and commission performance was calculated using actual management fees and commissions. The investment management fee schedule for the composite is tiered, at 1.0% for relationships less than $10 million, 0.90% for relationships between $10 million - $25 million, 0.80% for relationships between $25 million - $50 million, 0.70% for relationships between $50 million - $100 million, and 0.60% for relationships above $100 million (each tier indicated as an annual percentage charged quarterly). Actual investment advisory fees incurred by clients may vary. The collection of fees produces a compounding effect on the total return net of fees. For example, a portfolio that earned 8% annually for ten years would result in a cumulative return of 115.9% before investment management fees and 96.7% net of such fees, assuming a 1.00% fee per year.

The firm's list of composite descriptions is available upon request. Effective 1/1/2017 Ironvine merged with Saddle Road Partners, LLC (Saddle Road). The surviving entity is Ironvine Capital Partners, LLC. For more information about any of the above contact Paul Penke at 402.916.1702 or ppenke@ironvinecapital.com. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission.