



ENSEMBLE CAPITAL



Masimo (MASI)  
MOI Best Ideas Omaha 2022  
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Senior Investment Analyst

## FIRM INTRODUCTION

Ensemble Capital Management, founded in 1997, is a 100% employee-owned San Francisco-based investment firm with over \$1.6 billion of institutional and high-net-worth assets under management. The firm offers separately managed accounts and the Ensemble Fund (ENSBX) as investment vehicles for the concentrated equity strategy, comprising \$1.2 billion in assets. In addition to active investment management offerings, Ensemble Capital provides tailored wealth management solutions and philanthropic planning services to clients.

## STRATEGY INTRODUCTION

The strategy represents a long-only equity offering that invests in competitively-advantaged businesses which can be purchased at compelling prices based on their long-term earnings potential. It is a high-conviction, concentrated, unconstrained strategy with a benchmark agnostic portfolio construction. Central to the security analysis is verifying the existence and sustainability of a company's moat. These competitive advantages have the most influence on rates of return on invested capital over time. High returns on invested capital, which are far more persistent than high growth rates, result in more distributable cash per dollar of reported earnings.

## PORTFOLIO EXPECTATIONS

- 15 to 30 securities, primarily mid-to-large company equities, that are traded on U.S. exchanges
- Characterized by competitively advantaged business models rather than by simplistic growth and value characteristics
- Higher than average tangible returns on invested capital
- Portfolio weightings driven by the degree of confidence in the long-term business model, and discount to fair value
- Individual holding weights ranging from 1% to 10%
- Disciplined framework of target weights and maximum weights at both cost and market
- Cash is a residual of the investment process; there is never a target percentage for cash nor a mandate to be fully invested
- Active share generally >90%

## ALIGNMENT

Sean Stannard-Stockton, President and Chief Investment Officer, has the majority of his invested net worth in the strategy.

# TARGET INVESTMENT PHILOSOPHY

## VALUE CREATION

Does management understand and execute on creating economic value?

## CAPITAL ALLOCATION

Does management thoughtfully weigh dividends, buybacks, M&A, and debt repayment?

## INTEGRITY

## CULTURE

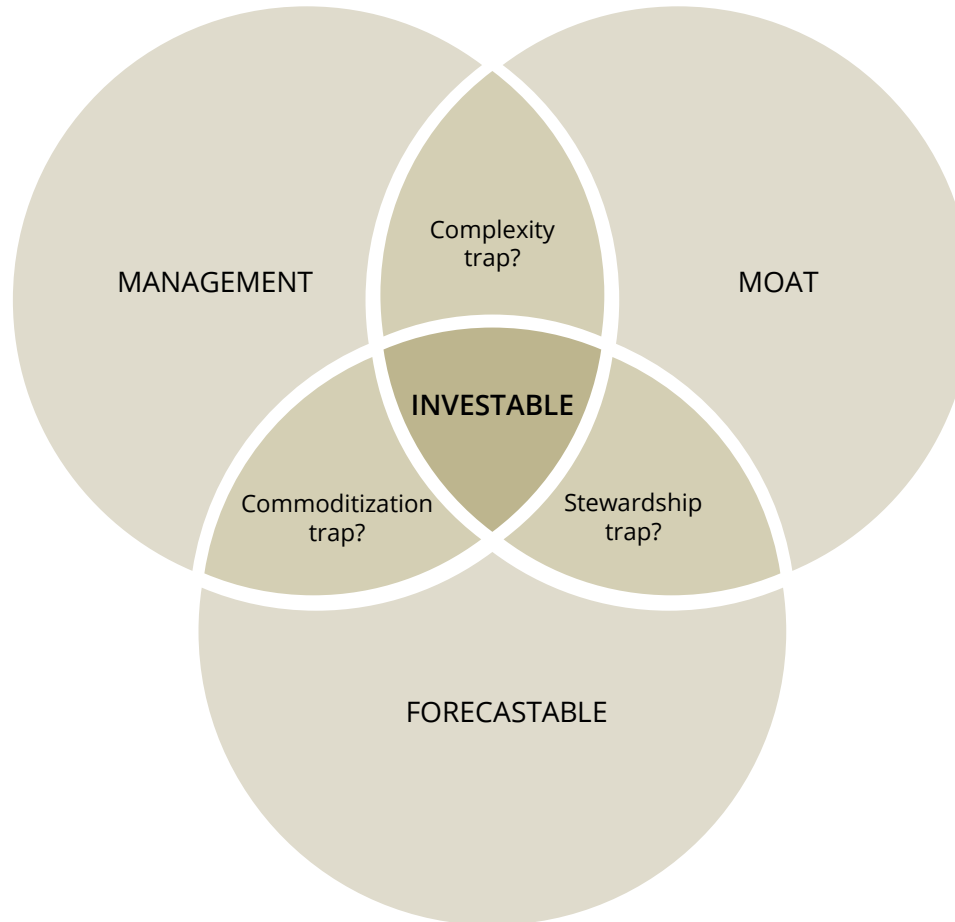
## STAKEHOLDER ANALYSIS

## ROIC & GROWTH FOCUS

## VISIONARY/OPTIMIZER

## UNDERSTANDABLE

Do the business dynamics of the company match our investment team's expertise?



## DURABILITY

How likely will the moat be intact in 10 years?

## RELEVANCE

How likely will customers value the product/service in 10 years?

## IDIOSYNCRATIC BUSINESS

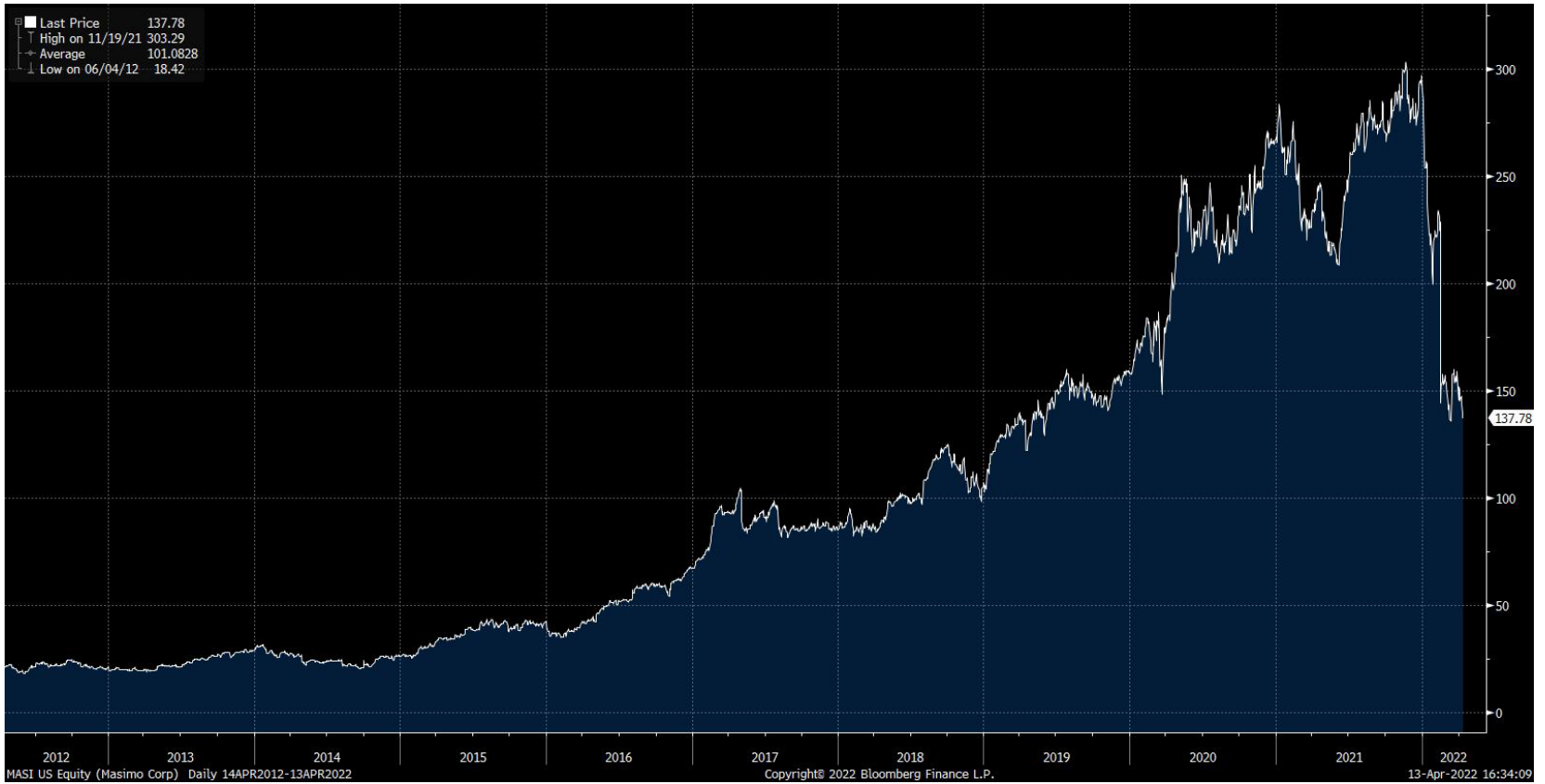
## PRICING POWER

REINVESTMENT MOAT VS LEGACY MOAT

## EMERGING MOAT

## FORECASTABILITY

Does the business lend itself to accurate forecasting of long-term outcomes?



Razor



Technology Boards

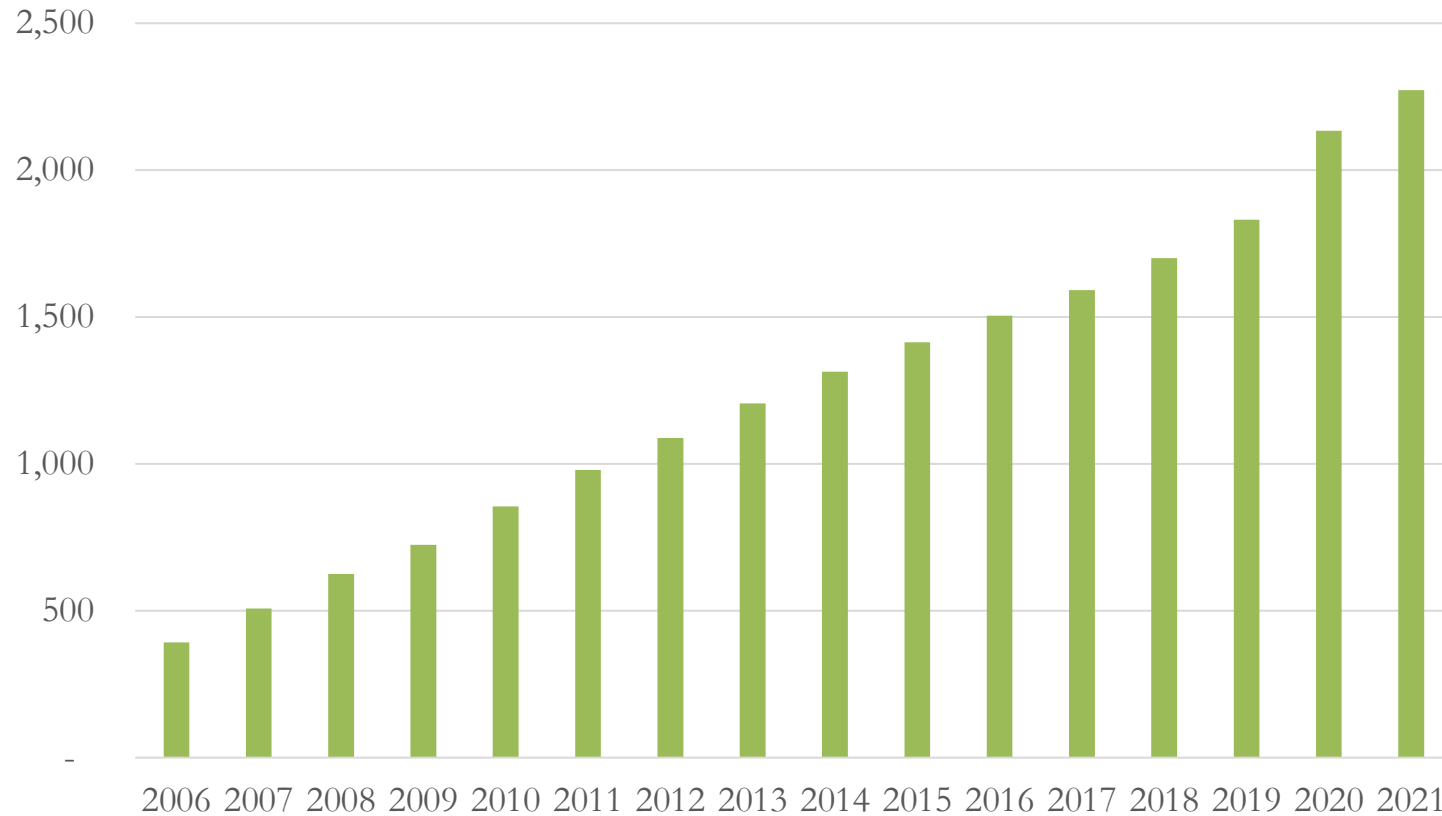


Monitors

Blade



### Installed Drivers net of Retirements, 000s



Source: Company Filings, ECM estimates

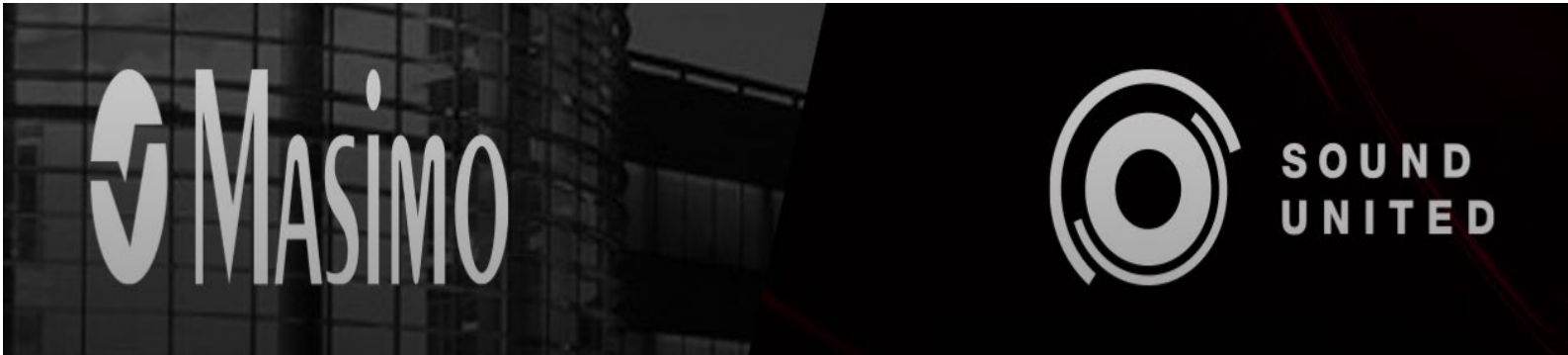
# Mission Statement: “Improving Patient Outcomes and Reducing the Cost of Care.”

## Guiding Principles:

- › Remain faithful to your promises and responsibilities.
- › Thrive on fascination and accomplishment and not on greed and power.
- › Strive to make each year better than the year before both personally and for the team.
- › Make each day as fun as possible.
- › Do what is best for patient care.







	Bowers & Wilkins		

# Market reaction focused on

- CEO comments:

“Since I was a kid, I’ve been an enthusiast of audiophile equipment.”

“I wish I could share with you our vision of where we’re going with this.”

- Lack of cost synergies
- Move into more competitive consumer wearables landscape

# More to the story

- Convergence of medical device and consumer wearables
- New category for over-the-counter hearing aids in the US
- Masimo's expertise is signal extraction technology
- Unlike consumer-first competitors Masimo has proven track record and built trust in hospital setting



# CHRONIC DISEASES IN AMERICA

6 IN 10

Adults in the US  
have a **chronic disease**



4 IN 10

Adults in the US  
have **two or more**

THE LEADING CAUSES OF DEATH AND DISABILITY  
and Leading Drivers of the Nation's **\$3.8 Trillion** in Annual Health Care Costs





# Bonus optionality – Apple royalty

- In 2020, Masimo sued Apple for patent infringement related to pulse oximetry for Apple Watch sensors
- Separate suit with International Trade Commission
- Claim starts with the Apple Watch 6, which includes a pulse oximeter
- Masimo has won settlements from Medtronic and Philips
- Even a small royalty on each Apple Watch would be material for Masimo's bottom line

# Bottom line

- Legacy Masimo razor-and-blade business alone appears undervalued at current prices
  - 10% revenue growth to 2031
  - 70% gross margin
  - 30% operating margin
  - Current P/E of 30x
- Large growth opportunity in telehealth to improve patient outcomes and lower systemwide costs

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Q&A

@intrinsicinv



## DISCLOSURES

### 2022 Q1 Contributors and Detractors to Absolute Return Data

Description	Symbol	Average Weight	Contribution	Description	Symbol	Average Weight	Contribution
Nintendo Co LTD	NTDOY	4.50%	0.25%	ServiceNow. Inc.	NOW	1.91%	-0.41%
Charles Schwab Corp.	SCHW	3.62%	0.18%	Intuitive Surgical, Inc.	ISRG	2.59%	-0.43%
Costco Wholesale Corp.	COST	1.95%	0.03%	Starbucks Corp.	SBUX	1.83%	-0.44%
Paychex, Inc.	PAYX	1.73%	0.02%	Broadridge Financial Solutions, Inc.	BR	2.75%	-0.44%
Mastercard Inc. Class-A	MA	7.46%	-0.05%	Blackline, Inc.	BL	1.51%	-0.48%
Chipotle Mexican Gril, Inc.	CMG	5.24%	-0.07%	Ferrari NV	RACE	5.85%	-0.56%
Booking Holdings, Inc.	BKNG	4.48%	-0.11%	First American Financial Corp.	FAF	3.76%	-0.60%
Heico Corp. Class-A	HEI/A	2.55%	-0.11%	NVR, Inc.	NVR	3.67%	-0.91%
Fastenal Co.	FAST	2.97%	-0.19%	First Republic Bank	FRC	5.72%	-1.18%
Peloton Interactive, Inc. Class-A	PTON	0.78%	-0.20%	Home Depot, Inc.	HD	7.91%	-2.29%
Alphabet, Inc. Class-A	GOOGL	7.00%	-0.25%	Masimo Corp.	MASI	5.12%	-3.15%
Landstar Systems, Inc.	LSTR	2.48%	-0.31%	Netflix, Inc.	NFLX	7.88%	-3.42%
Illumina, Inc.	ILMN	6.13%	-0.37%				

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