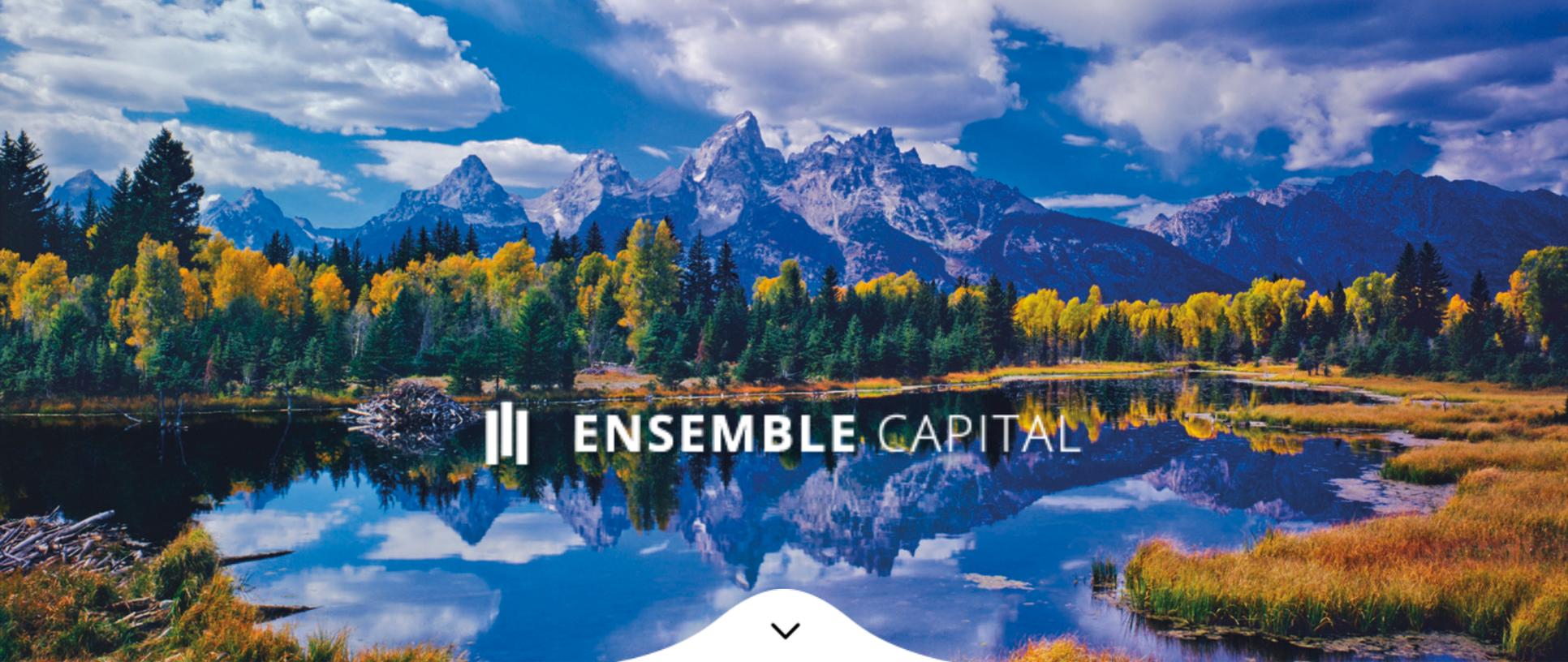




Todd Wenning

Senior Investment Analyst, Ensemble Capital





ENSEMBLE CAPITAL



Masimo (MASI)
MOI Wide Moat Conference 2020
Todd Wenning, CFA
Senior Investment Analyst

FIRM INTRODUCTION

Ensemble Capital Management, founded in 1997, is a 100% employee-owned San Francisco Bay Area investment firm with \$880 million 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 \$650 million 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

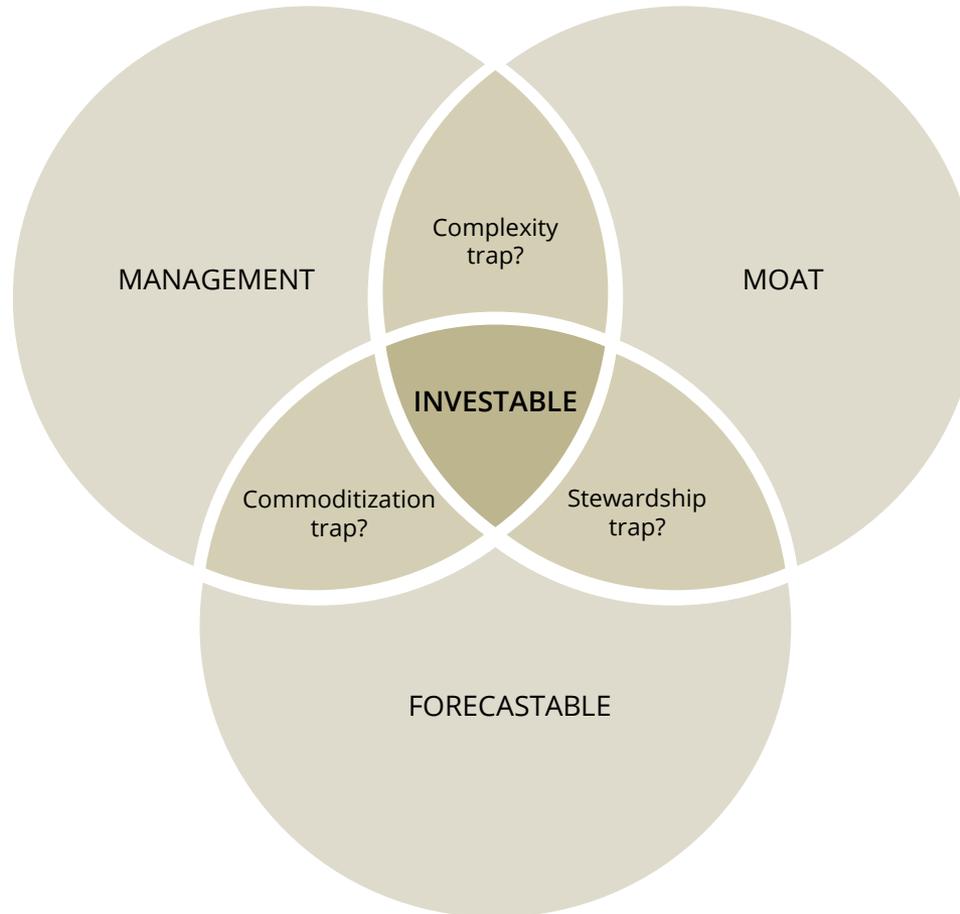
STAKEHOLDER ANALYSIS

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

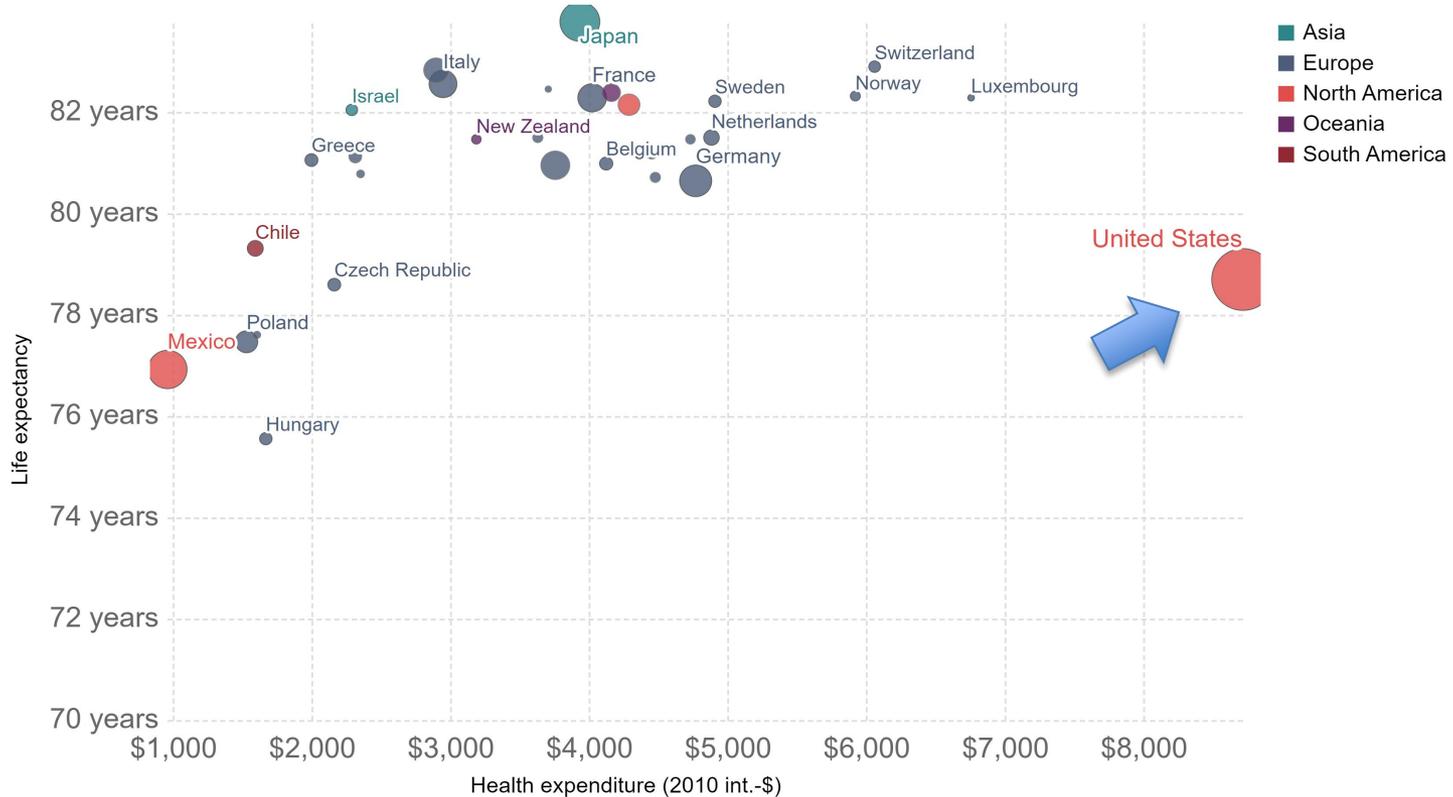
Does the business lend itself to accurate forecasting of long-term outcomes?

The healthcare backdrop

Life expectancy vs. health expenditure, 2015

Health financing is reported as the annual per capita health expenditure and is adjusted for inflation and price level differences between countries (measured in 2010 international dollars).

Our World
in Data



Source: World Bank, Health Expenditure and Financing - OECDstat (2017), Population (Gapminder, HYDE(2016) & UN (2019))
OurWorldInData.org/the-link-between-life-expectancy-and-health-spending-us-focus • CC BY

Why Masimo?

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.

History

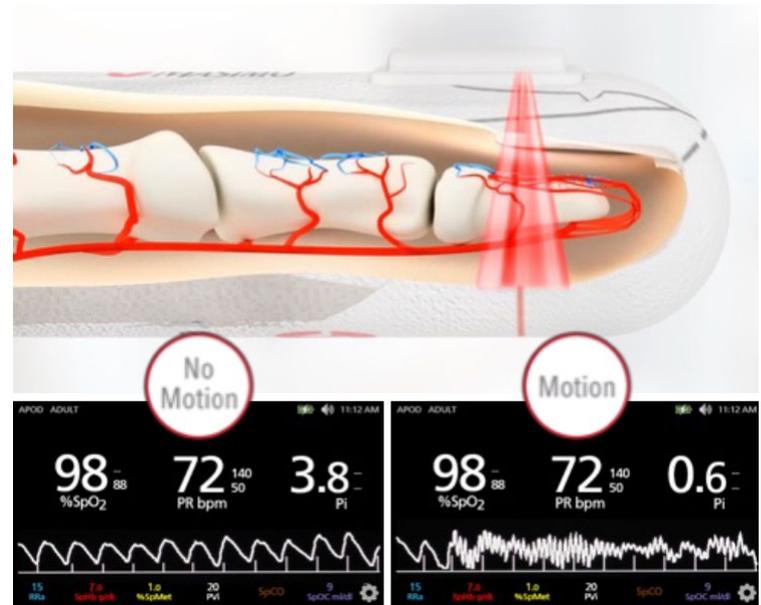


“He wondered: ‘Why are people going into hospitals and not coming out?’” – Frederic J. Harris, engineer and mentor to Kiani

Medical errors are the third highest cause of death in the U.S. – Johns Hopkins 2016 study



SET Pulse Oximeters



SET is the core moat

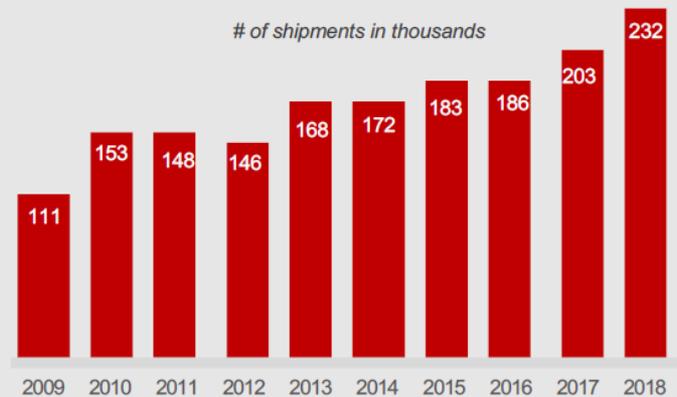
Growing Installed Base of Masimo Technology Boards and Monitors



Over 200 multi-parameter monitors and devices from 70 leading brands have integrated Masimo technologies

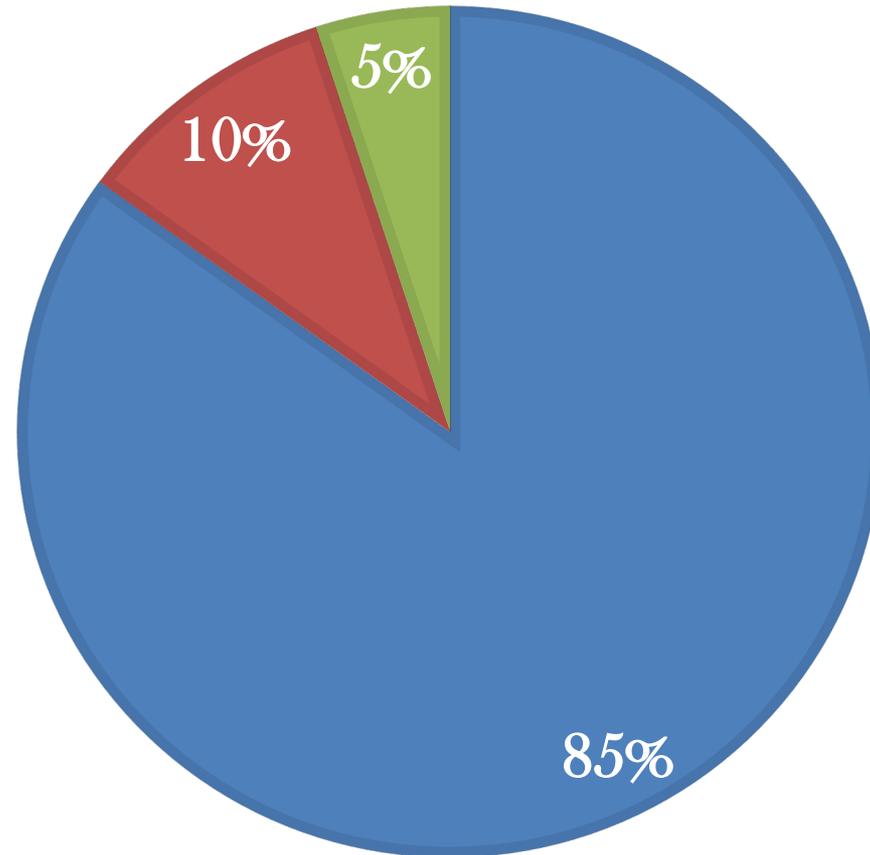
Shipped ~1.7 million technology boards and monitors over the last 10 Years

of shipments in thousands



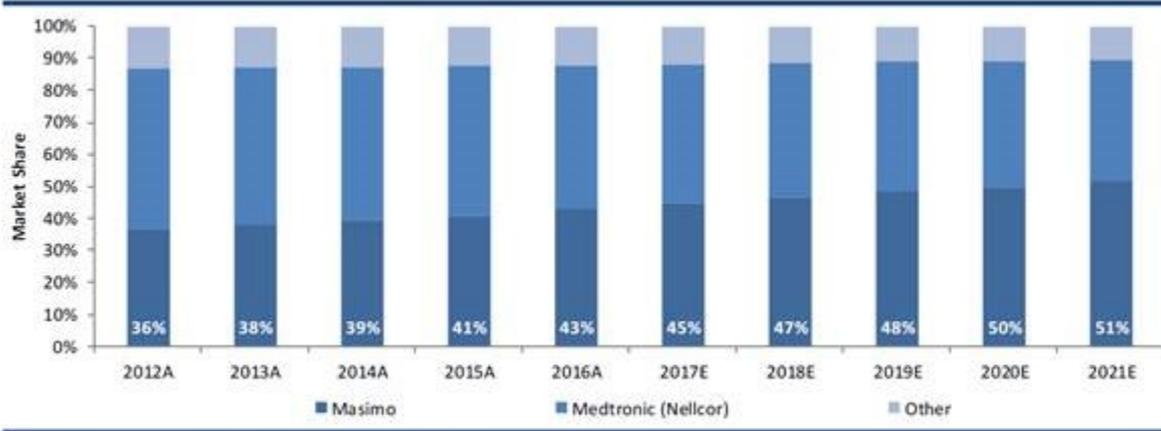
2019 revenue mix

■ SET ■ rainbow ■ Other



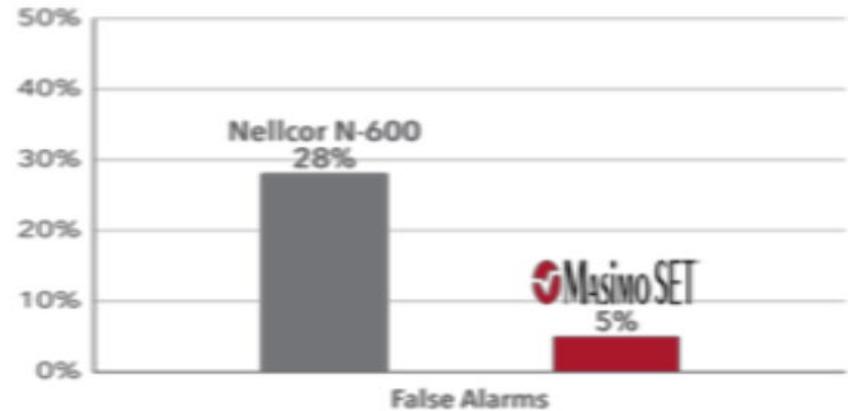
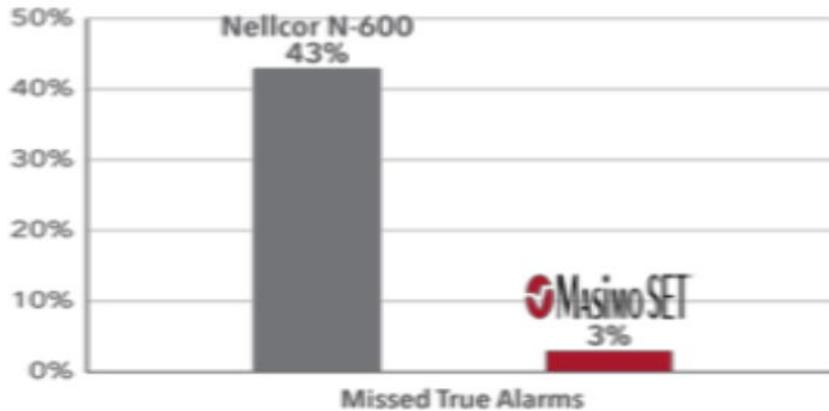
Incumbents

Exhibit 2: Masimo Continues to Steadily Capture Pulse Oximetry Market Share



Source: Company reports and presentations, Stifel estimates

Alarm Reliability During Motion and Low Perfusion¹

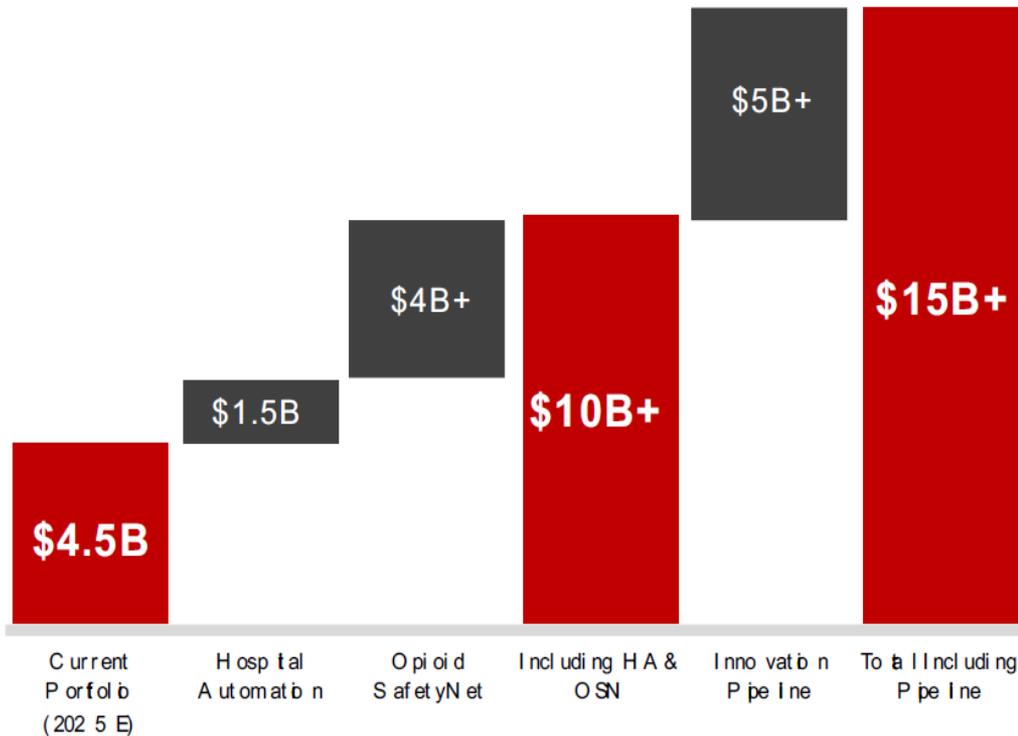


¹Shah N et al. *J Clin Anesth*. 2012 Aug;24(5):385-91.

Results shown are calculated by combining sensitivity and specificity outcomes of machine-generated and volunteer-generated motion.

Opportunities

Total Addressable Market Opportunity

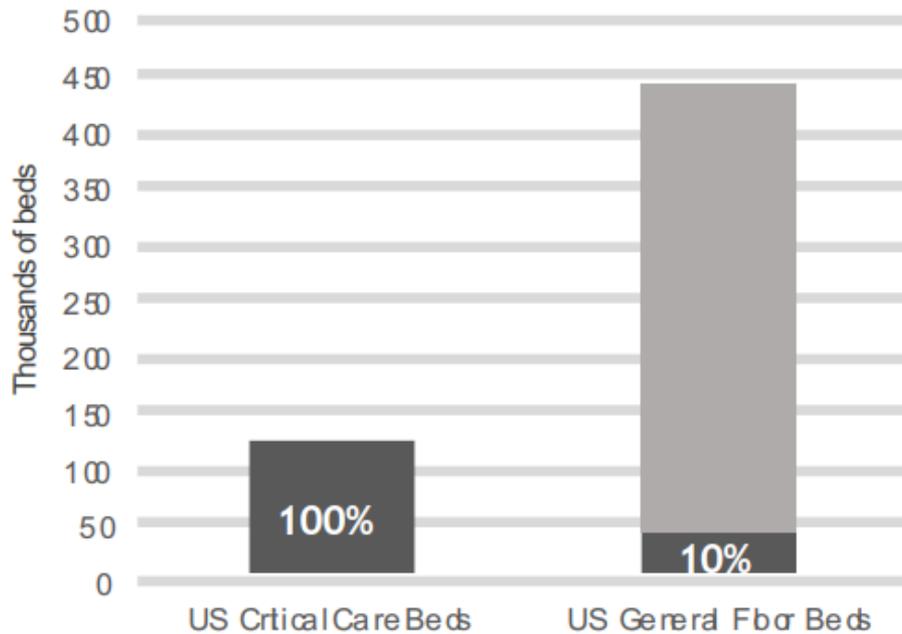


Innovation Pipeline Opportunities	
Pipeline Opportunity	\$1.0B
Pipeline Opportunity	\$0.5B
Pipeline Opportunity	\$0.2B
Pipeline Opportunity	\$1.0B
Pipeline Opportunity	\$1.0B+
Pipeline Opportunity	\$1.0B+
Total	\$5B+



General Floor

U.S. Hospital Continuous Monitoring Penetration



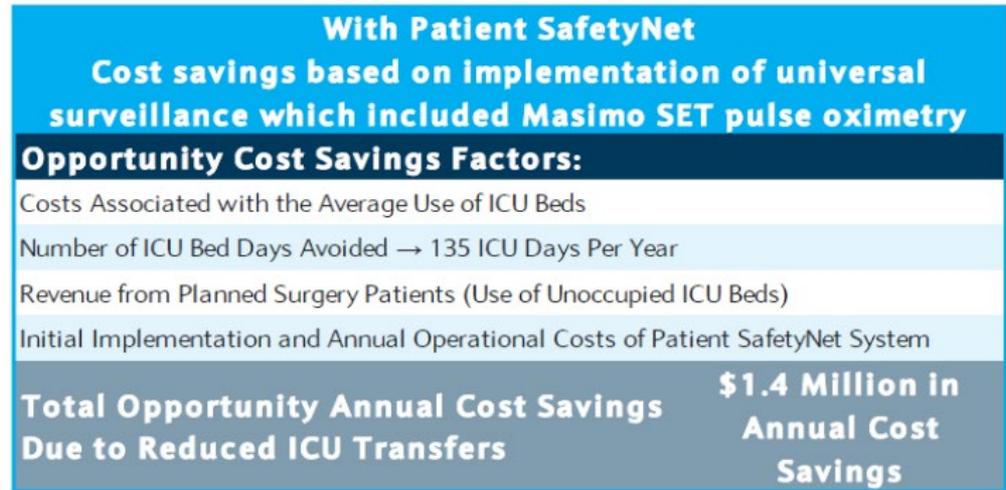
- SpO₂ is Standard of Care
 - Critical Care (OR, NICU, and ICU)
 - Emergency Medical Settings
- Expansion Opportunity
 - General floor ~10% penetrated
 - Long-term care settings



SafetyNet



FIGURE 20
Quantifiable Savings - SafetyNet



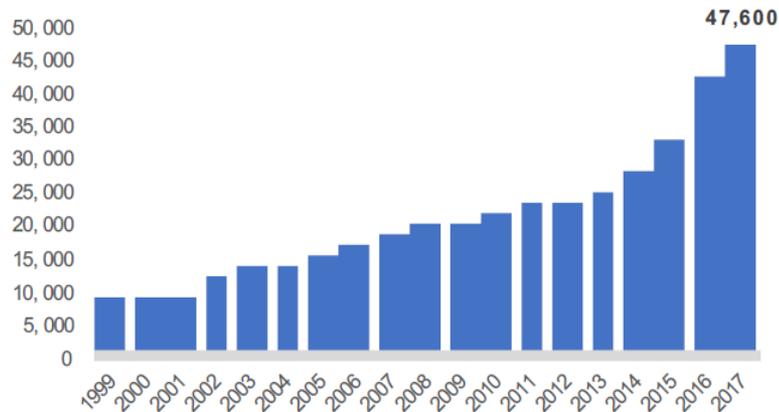
Source: Barclays Research, company filings.

Opioid SafetyNet

47,600 Opioid-related Deaths in 2017

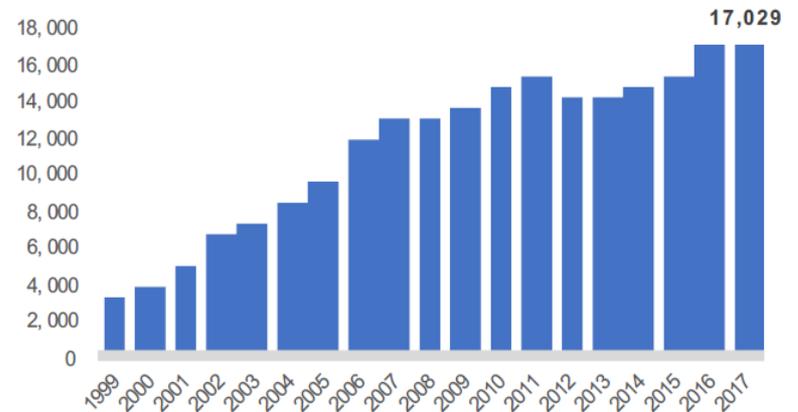
National Drug Overdose Deaths Involving Any Opioid¹

Number Among All Ages, 1999-2017



National Drug Overdose Deaths Involving Prescription Opioids¹

Number Among All Ages, 1999-2017



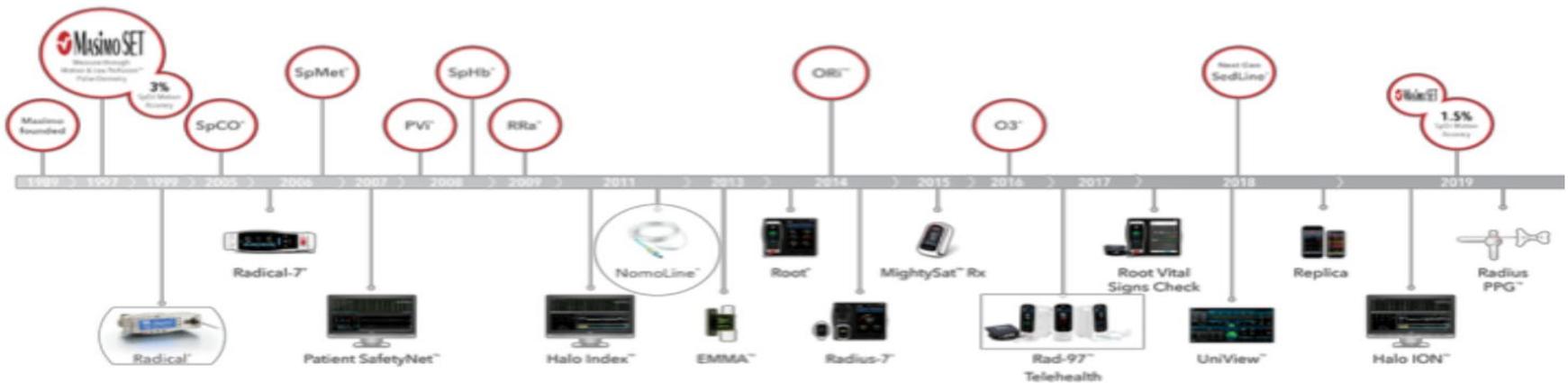
¹ Source: Centers for Disease Control and Prevention, National Center for Health Statistics. Multiple Cause of Death 1999-2017 on CDC WONDER Online Database, released December, 2018



SafetyNet at Home



Management



GROWTH AND PROFITABILITY

- Revenue growth of 8 – 10%
- Operating margins of 30%
- EPS growth of 12 – 15%
- Free cash flow of \$300M+

INDUSTRY-LEADING INNOVATIONS

- Innovation never stops at Masimo!
- Hospital automation
- Opioid safety

DISCIPLINED CAPITAL DEPLOYMENT

- Reinvest to drive innovation
- Strategic acquisitions
- Selective share repurchases

Valuation

- Legacy MASI is worth \$180.
 - 11% annualized product revenue growth
 - 70% gross margins
 - 30% operating margins by 2025
 - 2021 P/E of 30x
- Optionality value – two approaches
- We expect ROIC to expand from 30% in 2019 to 50% in 2026. Positive moat trend.

Q&A

DISCLOSURES

2020 Q1 Contributors and Detractors to Absolute Return Data

Description	Symbol	Average Weight	Contribution	Description	Symbol	Average Weight	Contribution
Netflix, Inc.	NFLX	7.69%	1.32%	Fastenal Co.	FAST	5.33%	-0.94%
Masimo Corp.	MASI	2.44%	0.22%	NVR, Inc.	NVR	2.44%	-0.96%
TransDigm Group, Inc.	TDG	0.09%	0.05%	Starbucks Corp.	SBUX	3.84%	-1.02%
Blackline, Inc.	BL	1.14%	-0.02%	First American Financial Corp.	FAF	5.65%	-1.55%
Chipotle Mexican Gril, Inc.	CMG	0.39%	-0.07%	Paychex, Inc.	PAYX	5.87%	-1.76%
Intuitive Surgical, Inc.	ISRG	2.05%	-0.37%	Broadridge Financial Solutions, Inc.	BR	6.87%	-1.77%
Ferrari NV	RACE	7.54%	-0.50%	Charles Schwab Corp.	SCHW	7.40%	-2.35%
Home Depot, Inc.	HD	3.11%	-0.53%	First Republic Bank	FRC	6.90%	-2.39%
Alphabet, Inc. Class-A	GOOGL	6.99%	-0.71%	Booking Holdings, Inc.	BKNG	7.47%	-3.01%
Mastercard Inc. Class-A	MA	6.19%	-0.76%	Sensata Technologies Holdings PLC	ST	4.62%	-3.42%
Landstar Systems, Inc.	LSTR	5.53%	-0.82%				

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