

# PALOS

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## Weekly Commentary

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By *Charles Marleau CIM<sup>®</sup>* and *William Mitchell CIM<sup>®</sup>*

## Shopify – A Homegrown E-Commerce Giant

**Shopify Inc.** (TSX/NASDAQ: SHOP) is a Canadian based e-commerce giant that provides cloud-based commerce platforms to customers worldwide. Located in Ottawa, Shopify is one of Canada's fastest growing companies and claims more than one million merchants as customers. The company's market capitalization recently approached a whopping CAD\$ 250 billion having easily surpassed the likes of Royal Bank of Canada, TD Bank and Canadian National Railway.

Shopify released Q4 and full year 2020 results on February 17. Adjusted Earnings per Share (EPS) of \$1.58 were reported versus 43 cents one year prior. Gross Merchandise Value (GMV) exceeded USD\$ 41 billion for the fourth quarter and reached USD\$140 billion for 2020. Fourth quarter revenue grew by 94% year-over-year while subscriptions revenue climbed by 53%. Clearly, the onset of the Covid-19 pandemic led to game changing behavior by both shoppers and merchants. Shopify was quick to respond to many pandemic challenges faced by retailers.

Among the initiatives was the launch of **Shopify POS**, a software designed to assist traditional retailers with the transition to online purchases, curb side pickup and intelligent inventory management. **Shopify Capital**, which offers cash advances to Shopify merchants, engages clients by facilitating access to capital at a time when traditional methods face challenges. Using data analytics as a means of identifying prospects and determining eligibility helps to expediate the process and mitigate risk. Merchants who borrow pay a service fee.

Shopify services have historically been focused on small-to-medium sized businesses. Looking to 2021 and beyond, the addition of larger merchants has created another segment poised for rapid growth. Many large retailers have recognized their need to expand their e-commerce capabilities to capitalize on evolving consumer behaviour. Recent trends point to a growing number of consumers who shop using social media platforms and mobile apps.

While Covid-19 accelerated the adoption of digital commerce, the industry is still in its infancy and there remains a huge opportunity for growth. Shopify has its sights set on expanding the ecosystem into services that includes shipping/delivery, payments, fulfillment, and logistics. By expanding the SHOP platform, a

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growing number of higher margin services can be added to a customer's suite. This will further enhance the overall merchant experience and improve customer retention and long-term revenue growth.

With customers in over 175 countries, SHOP is ideally positioned to continue its strong growth trajectory among both merchants and consumers from around the globe. The shift to online shopping offers unprecedented opportunity in digital marketing, enterprise management software, customer engagement, payments, capital management and data gathering technologies. Enhancing the company's image as a "business of the future" are initiatives related to carbon neutrality, lowered barriers of entry for entrepreneurs and a commitment to impacting positive social change.

The **Palos Income Fund LP** and the **Palos Equity Income Fund** are invested in Shopify. From our initial purchase on February 4, 2020 through February 19, 2021, shares in SHOP have increased by 153%.

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## Important Reminder to Contribute to Your RRSP and TFSA

### RRSP

#### Benefits:

- RRSP contributions are tax deductible.
- Savings grow tax free while held in a registered plan.
- When you retire, you can convert your RRSP to an RRIF receive regular income.
- A spousal RRSP can reduce your combined tax burden.
- You can borrow from your RRSP to buy your first home or pay for your education.

#### RRSP Contribution Details :

- The **deadline** for making your 2020 RRSP contribution is March 1, 2021.
- Your 2020 RRSP contribution limit is calculated as 18% of your earned up to a maximum of \$27,230. For 2021 the maximum is \$27,830.
- If you've already made your 2020 RRSP contribution, consider making your 2021 contribution now to benefit from the power of tax-deferred growth.
- Unused contributions can be carried forward from a previous year. You can find your RRSP contribution information on your most recent CRA **Notice of Assessment**, or by calling the **CRA Tax Information Phone Service (TIPS)** at 1-800-267-6999.

### TFSA

#### Benefits :

- Capital gains and income are exempt from paying taxes - true tax-free saving.
- You do not need earned income to contribute.
- You can make a withdrawal whenever you want, without penalty or paying tax.
- Withdrawals can be re-contributed the following year without penalty.

#### TFSA Contribution Details:

- The annual contribution limit for 2020 is \$6,000 and the same for 2021 (\$6,000).
- The TFSA contribution room is cumulative and has been offered to Canadians since 2009. Unused contribution room carries forward and is currently capped at \$75,500.
- Anyone 18 older who has a Social Insurance Number is eligible to open a TFSA.

The sooner you start contributing to an RRSP or TFSA, the more money you'll have when it's time to retire. There's nothing like the power of tax-free compounding returns.

If you would like to open, contribute, or have any questions about RRSP or TFSA accounts, please contact your Palos Advisor.

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## Rappel important pour cotiser à votre REER et à votre CELI

### REER Avantages:

- Les cotisations à un REER sont déductibles d'impôt.
- Vos épargnes augmentent à l'abri de l'impôt.
- Lorsque vous prenez votre retraite, vous pouvez convertir votre REER dans un (FERR) pour obtenir un revenu régulier.
- Un REER de conjoint peut réduire votre fardeau fiscal combiné.
- Vous pouvez emprunter de votre REER pour acheter votre première maison ou payer vos études.

### Détails sur la cotisation au REER :

- La date limite pour verser votre cotisation REER 2020 est le 1er mars 2021.
- Votre plafond de cotisation REER 2020 est basé sur les droits de cotisation inutilisés reportés de 2020 et le montant de votre cotisation 2020 (18% du revenu gagné de votre exercice précédent, sous réserve d'un plafond de 27 830\$ en 2020).
- Si vous avez déjà effectué votre cotisation 2020, songez maintenant à cotiser à votre REER de 2020 pour bénéficier de la plus-value d'un REER avec impôt différé. La limite de cotisation maximale à un REER pour 2020 est de 27 830 \$.

### CELI Avantages :

- Vous pouvez économiser en franchise d'impôt.
- Vous n'avez pas besoin de gagner un revenu pour cotiser.
- Vous pouvez retirer l'argent quand vous le souhaitez, sans payer d'impôt.
- Si vous retirez de l'argent, vous pouvez réinvestir ce montant l'année suivante.

### Détails sur la cotisation CELI:

- La limite de contribution annuelle pour 2019 est de 6 000 \$.
- Les droits de cotisation CELI sont cumulatifs et s'accumulent depuis 2009. Les droits de cotisation inutilisés sont reportés, jusqu'à présent le maximum accumulé est de 75 500 \$.
- Toute personne âgée de 18 ans qui possède un numéro d'assurance sociale est admissible à ouvrir un CELI.
- Renseignements sur les cotisations REER sur votre plus récent **avis de cotisation** de l'ARC, ou en appelant le **Système électronique de renseignements par téléphone** (SERT) au 1-800-267-6999.

Plus tôt vous commencez à cotiser à un REER ou à un CELI, plus le montant au moment de prendre votre retraite sera important. Rien ne vaut le pouvoir (n'égal la puissance) des rendements composés libres d'impôt. Si vous souhaitez ouvrir, cotiser ou si vous avez des questions sur les REER ou CELI, veuillez communiquer avec votre conseiller Palos.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.39	7.33%
Palos Equity Income Fund - RRSP	PAL101	\$6.83	6.95%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.62	47.97%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$13.82	16.15%
S&P TSX Composite (Total Return with dividends reinvested)			5.79%
S&P 500 (Total Return with dividends reinvested)			4.22%
S&P TSX Venture (Total Return with dividends reinvested)			25.51%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.34%
Canadian Government 10-Year			1.21%
Crude Oil Spot			US \$59.24
Gold Spot			US \$1775.80
US Gov't10-Year/Moody BAA Corp. Spread			212 bps
USD/CAD Exchange Rate Spot			US \$0.7925

<sup>1</sup> Period ending February 19, 2021. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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