

PALOS

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Weekly Commentary

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Shopify - Takes the Pole Position as Canada's Largest Company

Last Friday, Shopify Inc. (TSX/NYSE: SHOP) closed the week's trading at a record high of CAD\$2,139.82 per share. The Ottawa based e-commerce giant, which carries a market capitalization of CAD\$268 billion, finds its valuation at the summit in terms of market valuations amongst Canada's most prominent corporations. Shopify's cap has surpassed mega-cap peers Royal Bank of Canada at CAD\$188 billion, Toronto-Dominion Bank (CAD\$167 billion), Brookfield Asset Management (CAD\$167 billion), and Canadian National Railway (CAD\$167 billion).

Shopify offers a cloud-based, omni-channel, e-commerce platform that's designed to assist merchants in managing their businesses. Shopify solutions primarily target entrepreneurs and small-to-medium sized businesses (SMB's). The SHOP platform offers subscription-based services that integrate sales, order processing, payments, social media engagement, analytics and more, under a secure, web-based platform. Shopify's disruptive technological innovation has transitioned the way e-commerce, as well as traditional 'brick-and-mortar' retailers, manage their businesses.

Over the four-year period ended October 27, 2021, SHOP shares trading on the TSX gained a whopping 1,122 percent, easily outpacing returns generated by peer companies in the technology sector. Prior to the opening on October 28, Shopify released Q3/2021 results. The initial reaction was a swift selloff that saw SHOP shares trade lower by roughly 7% (a four-month low) before rallying to close 7.0% higher on the day. The initial tumble was attributed to concerns from investors that the gradual normalization to pre-pandemic shopping habits would have a negative impact on SHOP's bottom line. Despite a 'soft' Q3, management's forward-looking comments during the earnings conference call comforted investors' worries and shares moved higher during the session.

According to company President Harley Finkelstein, Shopify's cumulative Gross Merchandise Value (GMV) had doubled to over \$400 billion from \$200 billion over the preceding 16 months. Additional comments made during the call emphasized that execution was on track and that expectations for future growth remained solidly intact. During the quarter, the Shopify Markets platform ('markets') was introduced. The 'markets'

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platform is designed to allow any merchant, regardless of size, to access a global marketplace that should result in growing international sales. While maintaining an existing localized platform, the ability to attract business internationally expands a merchant's total addressable market, or TAM. Social media channels include the likes of Facebook, Instagram, Pinterest, Tik Tok and Snap.

The company also accelerated its Shop Pay service ('pay'), a solution that's designed to simplify the checkout process and grow sales conversion. 'Pay' is now available to U.S. merchants via Facebook and Instagram, even for those not subscribed through Shopify. The number of registered and active 'Pay' users was higher than any previous quarter and the 'Pay' platform has facilitated over \$35 billion in GMV since its inception in 2017.

The full slate of offerings continues to grow. Shopify Plus ('Plus') is a customizable, cost effective and efficient platform designed to assist merchants in managing their marketing, sales and social media campaigns. In addition, the platform enables the automation of order processing, payments, fulfillment, and shipping. Shopify Capital ('capital') is designed to help companies simplify access to funds for uses ranging from payroll needs, inventory funding, and short-term capital needs. The system is less restrictive and faster than borrowing through traditional methods, and repayment can be made from future sales. Shopify Shipping ('shipping') provides merchants with tools to calculate discounted shipping rates, print labels and track shipments. 'Shipping' partners include UPS, DHL, and major postal services. Shopify Markets ('Markets') is designed to allow any customer to optimize and scale sales on the web.

Shopify continues to build its ecosystem. The company launched its enterprise resource planning offering (ERP), which includes partnering with Microsoft and Oracle's NetSuite. ERP enhances an organization's ability to seamlessly manage core tasks that include data collection, analytics, supply chain management, customer relations, human resources, and accounting solutions.

We view Shopify as a leader in e-commerce infrastructure and its portfolio of solutions continues to grow. On the recent earnings call, management reaffirmed its full-year guidance and expects operating income to exceed 2020. Management added that the potential of omnichannel commerce remains in the early stages, and as Shopify continues to add new solutions to its portfolio, the cumulative effect each service reinforcing the other, will create what's referred to as a 'flywheel effect' which will drive future growth of the company and entrench Shopify as a world leader in e-commerce. The Palos Income Fund LP and the Palos Equity Income Fund have held shares in SHOP since our initial investment in April 2020.



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$10.15	23.41%
Palos Equity Income Fund - RRSP	PAL101	\$7.78	23.20%
Palos Merchant Fund L.P. (Dec 31, 2020) ²	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL213	\$25.54	59.98%
Palos-Mitchell Alpha Fund ³	PAL300	\$11.07	32.70%
S&P TSX Composite (Total Return with dividends reinvested)			26.55%
S&P 500 (Total Return with dividends reinvested)			26.66%
S&P TSX Venture (Total Return with dividends reinvested)			13.58%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.55%
Canadian Government 10-Year			1.66%
Crude Oil Spot			US \$76.10
Gold Spot			US \$1,851.60
US Gov't10-Year/Moody BAA Corp. Spread			173 bps
USD/CAD Exchange Rate Spot			US \$0.7910

¹ Period ending November 19th, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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