

# PALOS

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## Weekly Commentary

Issue No. 49 | DECEMBER 6, 2021

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## AutoCanada Inc. – Autopoint Acquisition Grows the Footprint

**AutoCanada Inc. (TSX/ACQ)** operates a geographically diversified group of automotive dealerships in Canada and the U.S. (Illinois). In Canada, ACQ operates 60 franchised dealerships in eight provinces. The Illinois business accounts for 18 franchises. ACQ franchises represent over two dozen major brands.

Last Wednesday, ACQ announced the acquisition of **Autopoint Group (Autopoint)**, an Ontario-based group that operates 11 dealerships in the London, Guelph, Brantford and Hamilton areas. The acquisition of Autopoint doubles the Ontario footprint and adds sales of approximately 6,000 new/3,000 used vehicles and annual revenues of over \$345 million.

On November 9, ACQ reported Q3 earnings: revenue increased to \$1.2 billion compared to \$1.02 billion in Q3/2020, an increase of 19%. This was the third largest quarterly revenue reported in ACQ history. Total gross profit increased by 22.7% to \$220 million as both used car sales and finance & insurance (F&I) were strong. This offset supply chain challenges (i.e. semiconductor shortages) that currently plague the automobile manufacturing industry. While global production levels for OEM manufacturers have shown significant declines in 2021, we expect production to ramp up as “chip” shortages begin to abate. While this could be an ongoing problem for manufacturers, there are signals that supply chains should start normalizing at some point in 2022. The question is, how quickly.

What we do know is that disrupted supply chains + lowered production is resulting in lower dealer inventories. Recent headlines abound about ‘empty’ dealer lots and pricing pressures (inflation) facing consumers in both the new and used car markets. Although near-term inventories should remain historically low, order backlogs and an extended cycle bodes well for consumer demand in the longer term. In addition to this, personal savings rates are also at record levels. Bottom line: consumers will need to turn over their leased or owned vehicles in the coming years and consumers are flush with cash and ready to spend.

ACQ shares traded at a seven-year high of \$59.26 on August 13 before correcting to a low of \$30.78 on November 30, a 48% pullback and a significant underperformance versus OEM manufacturers like Ford, GM and Tesla. We view recent price weakness in ACQ shares as an opportunity. We are confident the correction was based on short-sighted investor emotions and on December 1, following the announcement of the acquisition, we initiated a position with share purchases in the **Palos Equity Income Fund** and the **Palos Income Fund LP**. We are maintaining an optimistic view.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.72	18.18%
Palos Equity Income Fund - RRSP	PAL101	\$7.50	18.74%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL213	\$18.26	41.99%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$10.22	22.48%
S&P TSX Composite (Total Return with dividends reinvested)			21.29%
S&P 500 (Total Return with dividends reinvested)			22.43%
S&P TSX Venture (Total Return with dividends reinvested)			2.58%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.34%
Canadian Government 10-Year			1.44%
Crude Oil Spot			US \$66.26
Gold Spot			US \$1,782.00
US Gov't10-Year/Moody BAA Corp. Spread			180 bps
USD/CAD Exchange Rate Spot			US \$0.7785

<sup>1</sup> Period ending December 3rd, 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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