



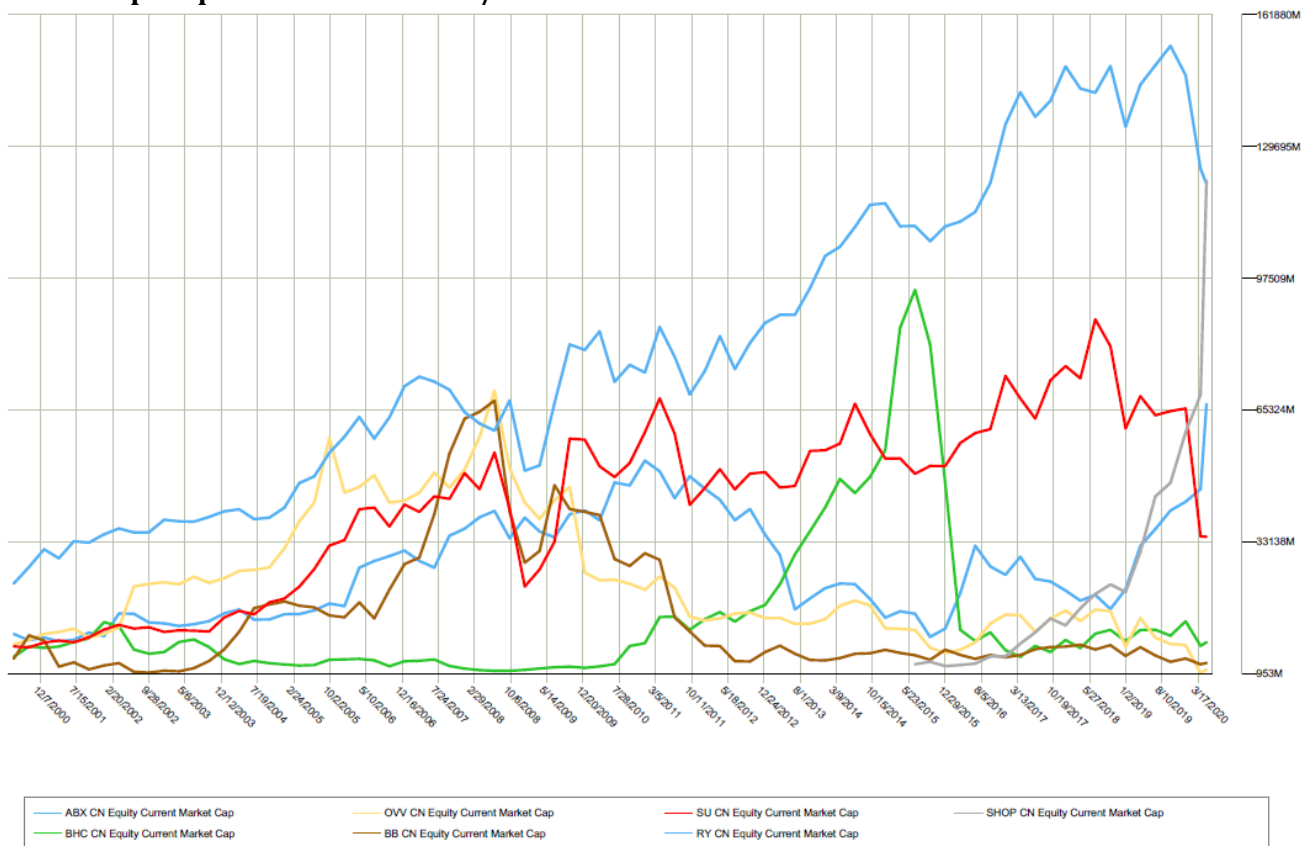
## A NEW CANADIAN CHAMPION

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On May 7, 2020, Shopify (a Canadian multinational e-commerce company) surpassed Royal Bank of Canada (the largest bank in Canada by market cap) to become the company with the largest market capitalization in Canada. Previous “winners” to top RBC in terms of the S&P/TSX composite index, in terms of its weighting, have subsequently not fared well.

### Market Cap: Top Winners of the S&P/TSX



Source: Bloomberg, Cambridge Global Asset Management, May 7, 2020



Royal Bank of Canada has long been a market leader as one of the most valuable companies in Canada. From time to time, their reign has been challenged by faster growing companies; however, none have ever sustained the lead. The poster child for rapid growth in market value was Nortel Networks Corporation. In 2000, the multinational telecommunications and data networking equipment manufacturer became the first Canadian company to break \$200 billion in market value – just four months after the company broke the \$100 billion barrier. By July of the same year, the market value of Nortel had soared to nearly \$400 billion and represented almost 40% of the S&P/TSX index. It was Nortel that forced the creation of the S&P/TSX Capped index limiting companies weighting to 10% of the total benchmark. Less than nine years later, Nortel filed for bankruptcy.

Another technology darling, Research in Motion (RIM), makers of Blackberry devices, burst onto the scene in the early 2000's, and by the end of 2007 had grown to become one of the most valuable companies in Canada with a market value of \$67 billion. Unfortunately, RIM's dismissal of Apple's iPhone after they launched the first version in late 2007 along with several other issues marked the beginning of the end for Blackberry. Today, Blackberry is just a shadow of its former self, with a market value of just \$3.3 billion.

Investor focus pivoted from technology to commodities shortly thereafter. Agriculture became the hot topic as the need to feed a growing global population, and its shift to more protein-based diets drove forecasts for both grains and fertilizer demand dramatically higher. Potash Corporation, one of the largest global fertilizer providers, was the primary beneficiary of investor enthusiasm. By the Summer of 2008, Potash had surpassed RBC as the largest company on the TSX with a market capitalization exceeding \$70 billion. In September of 2016 Potash Corp. merged with Agrium. The merged company we now know as Nutrien was then valued at \$36 billion, today, Nutrien Ltd. has a \$28 Billion market cap.

Synchronized global growth and the expansion of globalization also lead to increased energy consumption and fear of "peak oil" in the 2008-2011 period. The second largest company in 2008 was Encana (now Ovintiv, Inc.) with a market capitalization of just over \$70 billion. Today, Ovintiv calls Denver its corporate headquarters and trades at a market capitalization of \$2 billion.

In early 2011, Suncor grew to become the third largest company in Canada. At that time, the energy weighting in the TSX was roughly the same as financials with a weighting of 25% each. Today, the market value of Suncor is less than a third than that of RBC.

In July of 2015, we witnessed the emergence of a new leader from the healthcare sector, Valeant Pharmaceuticals, now known as Bausch Health Company. In a span of a little over two years, Valeant's share price rose seven-fold, increasing from \$50 to \$350 as its market capitalization soared to \$115 billion, about even with RBC. The enthusiasm didn't last long, as the share price fell 90% in the following year. Today, Bausch Health Co.'s market cap sits at a little over \$8 billion.



More recently, Shopify is nipping at the heels of RBC for the market cap crown. While I think Shopify is a fine company, I am disheartened by the fact that Canada’s largest company may be one that has never generated an operating profit. Granted, goals and objectives of technology companies may not emphasize profitability during their growth phase, but by most reasonable measures, Shopify’s valuation measures have stretched to impressive levels. By way of comparison let’s look at the table below:

Company	Market Cap	Revenue
Shopify	\$120 billion	57x their \$2.09 billion revenue (2019)
Nortel	\$400 billion (at its peak)	13x their \$30 billion revenue (2000)
Research in Motion	\$67 billion (at its peak)	23x their \$3 billion revenue (2007)

Source: Bloomberg, Cambridge Global Asset Management, May 6, 2020

The companies that surpassed the Royal Bank of Canada in market cap failed for various different reasons, but why they succeeded was always the result of excessive investor optimism and overvaluation. In the case of the commodity led stocks, demand never quite materialized to the degree of a supply response. With Blackberry, it was competitive forces. I suspect with Shopify, competitive forces may play a future role, but the reality is that this is a company that hasn’t been profitable yet but is now the most valuable in the country. There is nothing to suggest that Shopify can’t sustain its market cap leadership, but history might suggest otherwise. For those of you who fear seeing your favorite player showcased on the cover of Sports Illustrated, or on Madden NFL, you may want to look the other way.

Robert Swanson

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