



Consumer Sector Spotlight: e-Commerce

Artisan Partners Growth Team

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Insights

For Institutional Investors Only—Not for Onward Distribution

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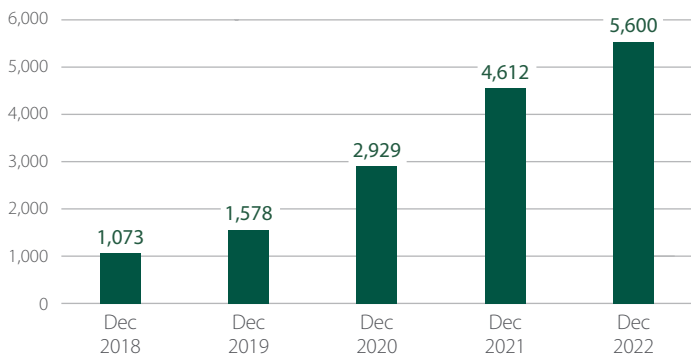
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Consumer Sector Spotlight: e-Commerce

During COVID-19, e-commerce experienced a boom. Consumers around the world were confronted with lockdowns, social distancing and limited, or no, access to physical stores. The logical result was a massive surge in online shopping for everything from essential daily items like food and toiletries to discretionary items like home fitness equipment and hardware supplies for home improvement projects.

Shopify is a prime example of the e-commerce experience. The company helps entrepreneurs, small businesses and enterprises create online storefronts and manage their businesses across multiple sales channels. Its ecosystem of products (payment processing, financing, shipping, customer engagement tools), partners, sales channels, and apps help its merchants sell online and establish direct relationships with customers. The company thrived as an e-commerce enabler for small and medium businesses. They relied on Shopify's platform throughout the pandemic amid lockdowns and a decline in brick-and-mortar foot traffic. And Shopify's revenues nearly tripled through 2020 and 2021.

Exhibit 1: Shopify Annual Revenue (\$M)



Source: FactSet/Artisan Partners.

However, after a period of phenomenal performance, the market placed a premium valuation multiple on the company at the same time economies started to reopen and interest rates started rapidly rising thanks to surging inflation. Shopify's growth suffered as consumers headed back to physical stores, while its stock suffered significant multiple compression.

Exhibit 2: Shopify, Inc. Class A - P/Sales - Next 12-Months



Source: FactSet/Artisan Partners.

This is just one example of an e-commerce company that experienced a rapid spike in demand followed by a period of normalization over the past few years.

So, Where Are We Now?

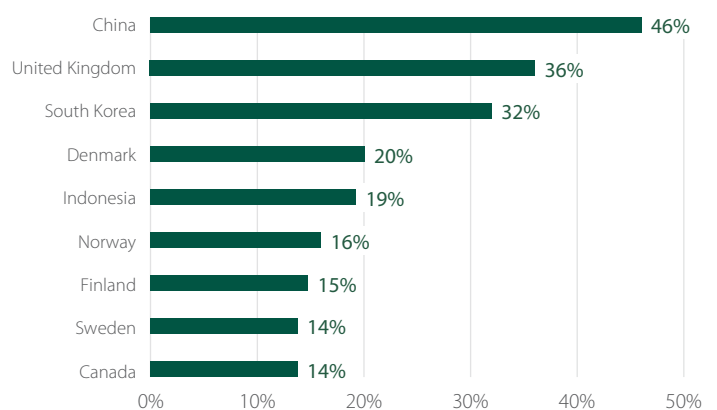
First, we continue to believe the secular e-commerce trend is alive and well. The percentage of retail sales happening online spiked during the pandemic and has fallen to levels that remain well above the pre-pandemic period. And we believe that trend will continue moving higher from here. Looking at e-commerce penetration within other countries, the US continues to lag many other nations, such as the UK at more than 35% and China at more than 45%.

Exhibit 3: E-Commerce Retail Sales as a Percent of Total Sales (%)—U.S.



Source: Census Bureau, E-Commerce Retail Sales as a Percent of Total Sales [ECOMPCTSA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/ECOMPCTSA>, 26 Mar 2023.

Exhibit 4: Countries with the Highest Percentage of Retail Sales Taking Place Online in 2022



Source: Census Bureau, E-Commerce Retail Sales as a Percent of Total Sales [ECOMPCTSA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/ECOMPCTSA>, 26 Mar 2023.

Second, we believe the pandemic-induced e-commerce surge has led to long-term changes in consumer and corporate behavior. Many consumers, having experienced the convenience of online shopping, will continue to shop online more frequently. And many traditional retailers that had not fully embraced e-commerce before, have now accelerated their digital transformations.

And last, valuations of many leading franchises appear attractive after this period of multiple compression.

Recent GardenSM Investments

Our U.S. Mid-Cap and Global Opportunities portfolios have initiated new campaigns in **Shopify** with the view that this is a leading franchise that will continue to benefit from key secular tailwinds. We were concerned about the company’s capital-intensive fulfillment investments in the face of a slowing e-commerce market and welcomed the news that it decided to exit the logistics business by selling Deliverr and 6 River Systems and return to a partnered approach. In our eyes, this change in strategy significantly narrows the downside range of outcomes and allows us to focus on traction within its core business of helping entrepreneurs establish and grow their businesses through software solutions. And on this front, the company has a dizzying amount of product releases, including AI products like Sidekick, which is a chat interface that help merchants tackle tasks across multiple different workstreams, Audiences, which enables merchants to acquire new customers using first party data to replace the losses from Apple’s privacy changes, and a wide array of other products to tackle the B2B market, offline point-of-sale, and international. Shopify has offered almost all its product innovations to its merchants at no additional cost over the last decade, and we believe that the company has a significant monetization opportunity over time as its take rate is significantly below other e-commerce platforms. Finally, Shopify has historically focused on the small- and mid-sized business category and is now focused on the enterprise market opportunity with products like Hydrogen and Oxygen, which is a headless architecture for more complex e-commerce builds and Commerce Components, which makes it easier for enterprise merchants to take advantage of Shopify products like Payments without going through a full software re-platform. We believe this is a large market with legacy solutions that Shopify has the opportunity to displace.

Our Global Opportunities portfolio has initiated a new campaign in **Amazon**. The company has gone through a period of massive investment. It doubled its fulfillment network and hired over 800,000 people to meet growing demand during the pandemic when e-commerce demand was heightened. Capital expenditures (capex) in the 2017–2019 period were \$10B–\$17B per year before ramping up to \$40B in 2020, \$61B in 2021 and \$64B in 2022. Our thesis was that the company was in the later innings of this capex cycle and would start to harvest the benefits of those investments through higher margins and free cash flow. Recent earnings results have reinforced this view. When looking at the most recent Q3 2023 financial results, revenue growth was 13% and operating income jumped to \$11.2B versus \$2.5B a year earlier. Furthermore, we believe that Amazon Web Services is well positioned as the leader in public cloud to benefit from the ongoing trend towards digital transformation through cloud computing and emerging artificial intelligence workloads.

Our U.S. Mid-Cap Growth and U.S. Small-Cap Growth portfolios have initiated campaigns in **Etsy**. Etsy is the leading e-commerce marketplace for buyers and sellers of unique, hard-to-find products that are handmade or vintage. We believe the company has a long runway for further top-line growth given its large addressable market and strong traffic trends, experienced management team and its unique technology investments around cataloging and displaying millions of unique products to buyers searching on their platform.

Holding	Global Opportunities	Global Discovery	U.S. Mid-Cap Growth	U.S. Small-Cap Growth
Shopify	■		■	
Amazon	■			
Etsy			■	■

Holdings information as of 30 Sep 2023.

Artisan Partners Growth Team

The following team members contributed to this report



Jim Hamel, CFA
Portfolio Manager



Matt Kamm, CFA
Portfolio Manager



Angela Wu
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Investment Process Highlights

We seek to invest in companies with franchise characteristics that are benefiting from an accelerating profit cycle and are trading at a discount to private market value.

Security Selection

We seek to identify companies with franchise characteristics that are selling at attractive valuations and are benefiting from an accelerating profit cycle. We look for companies that are well positioned for long-term growth, driven by demand for their products and services, at an early enough stage in their profit cycle to benefit from the increased cash flows produced by the emerging profit cycle.

Capital Allocation

Based on our fundamental analysis of a company's profit cycle, we divide the portfolio into three parts. GardenSM investments are small positions in the early part of their profit cycle that will warrant a more sizeable allocation once their profit cycle accelerates. CropSM investments are positions that are being increased to a full weight because they are moving through the strongest part of their profit cycle. HarvestSM

investments are positions that are being reduced as they near our estimate of full valuation or their profit cycle begins to decelerate. We believe that adhering to this process increases the likelihood of delivering upside participation with downside protection.

Broad Knowledge

We overlay security selection and capital allocation with the capability to invest opportunistically across the entire global equity spectrum. It is our goal to have broad knowledge of the global economy to ensure that we are able to find growth wherever it occurs. This capability extends from the design of our team, which leverages the broad experience of the portfolio managers and the deep expertise of the analysts on the team.

Team Overview

We believe deep industry expertise, broad investment knowledge, a highly collaborative decision-making process and individual accountability are a powerful combination. Since the inception of the team in 1997, we have been committed to building a team of growth investors that retains these attributes and is solely dedicated to our process and approach.

For more information: Visit www.artisanpartners.com

Unless otherwise indicated, the Artisan Strategy characteristics relate to that of an investment composite or a representative account managed within a composite. It is intended to provide a general illustration of the investment strategy and considerations used by Artisan Partners in managing that strategy. Individual accounts may differ, at times significantly, from the reference data shown due to varying account restrictions, fees and expenses, and since-inception time periods, among others. Where applicable, this information is supplemental to, and not to be construed with, a current or prospective client's investment account information. References to individual security performance relate to a representative account in the composite. Individual holding periods may differ.

This summary represents the views of the portfolio managers as of 31 Oct 2023. Those views may change and the Strategies disclaim any obligation to advise investors of such changes. For the purposes of determining the portfolios' holdings, exposures are delta-adjusted at the issuer level and may include multiple securities of the same issuer. The holdings mentioned above comprise the following percentages of a representative account within the Composite's total net assets as of 30 Sep 2023: Artisan Global Opportunities Strategy: Amazon.com Inc 1.7%, Shopify Inc 0.6%, Artisan U.S. Mid-Cap Growth Strategy: Shopify Inc 1.3%, Etsy Inc 0.7%, Artisan U.S. Small-Cap Growth Strategy: Etsy Inc 0.7%. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. Securities named in the commentary but not listed here are not held in the portfolio as of the date of this report.

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Our capital allocation process is designed to build position size according to our conviction. Portfolio holdings develop through three stages: GardenSM, CropSM and HarvestSM. GardenSM investments are situations where we believe we are right, but there is not clear evidence that the profit cycle has taken hold, so positions are small. CropSM investments are holdings where we have gained conviction in the company's profit cycle, so positions are larger. HarvestSM investments are holdings that have exceeded our estimate of intrinsic value or holdings where there is a deceleration in the company's profit cycle. HarvestSM investments are generally being reduced or sold from the portfolios.

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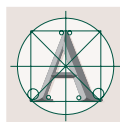
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