Blue Line Capital

What Cards Does Wall Street Hold?

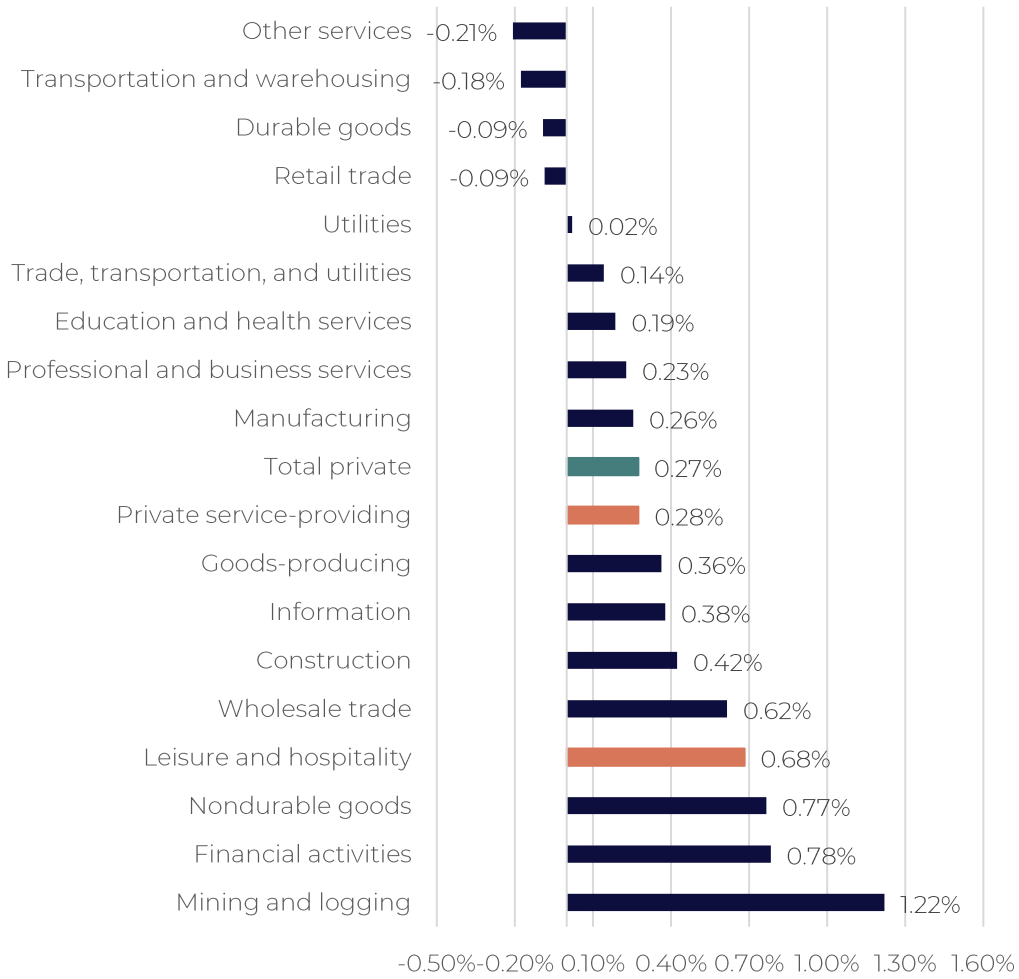
Wage Data, China & Corporate Trends

Jobs, Wages & China

Encouraging Wage Trends From Nonfarm Payrolls
China Reopening Acceleration

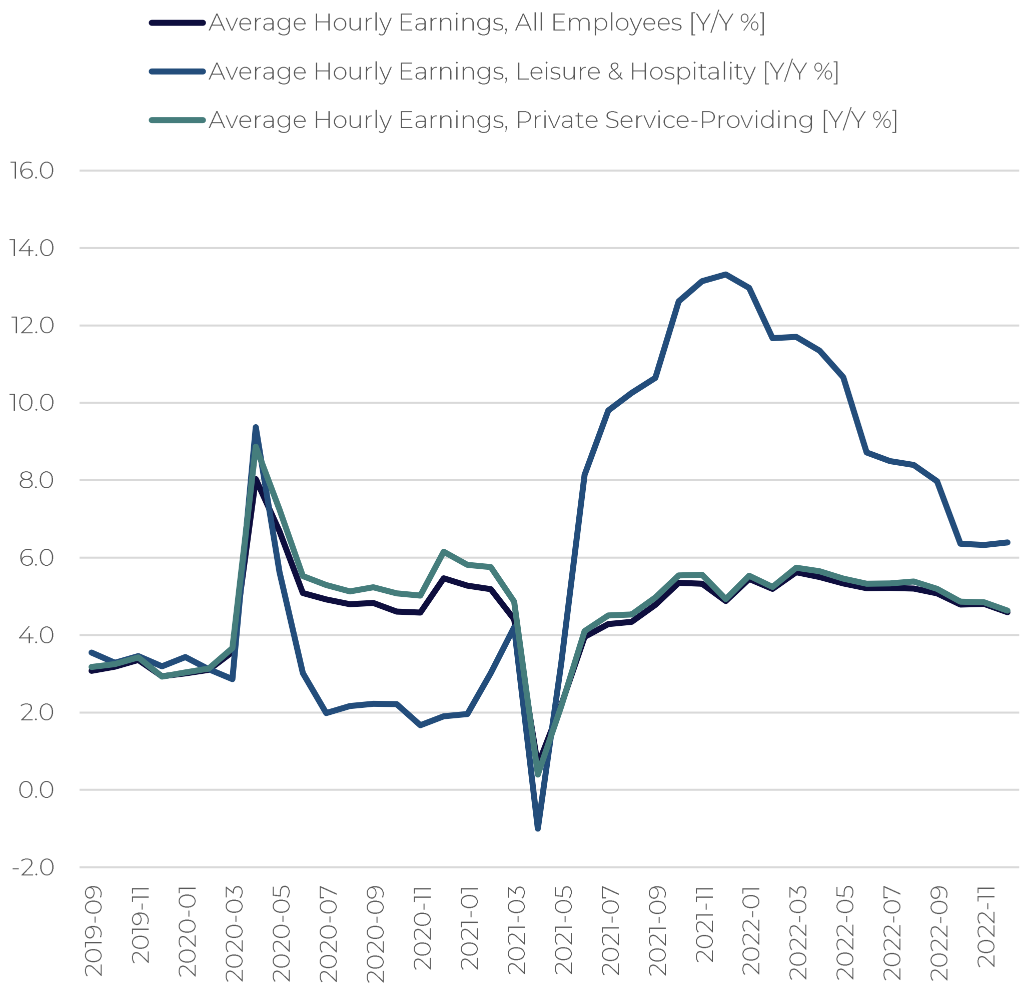
Positive Wage Developments

Positive Wage Trends In Services.



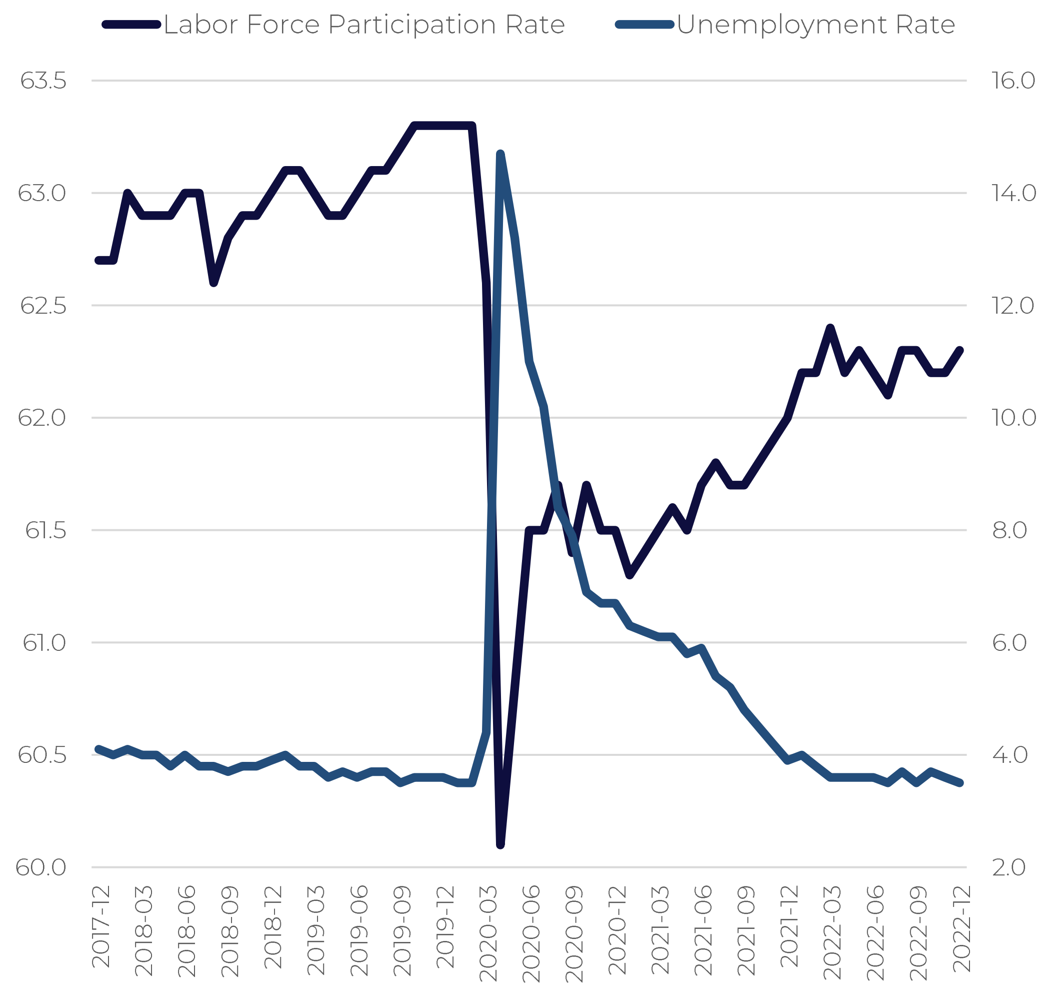
Sources: BLS, FRED, Blue Line Capital, Blue Line Futures

Services In Line With Broader Wage Developments Outside Leisure & Hospitality.

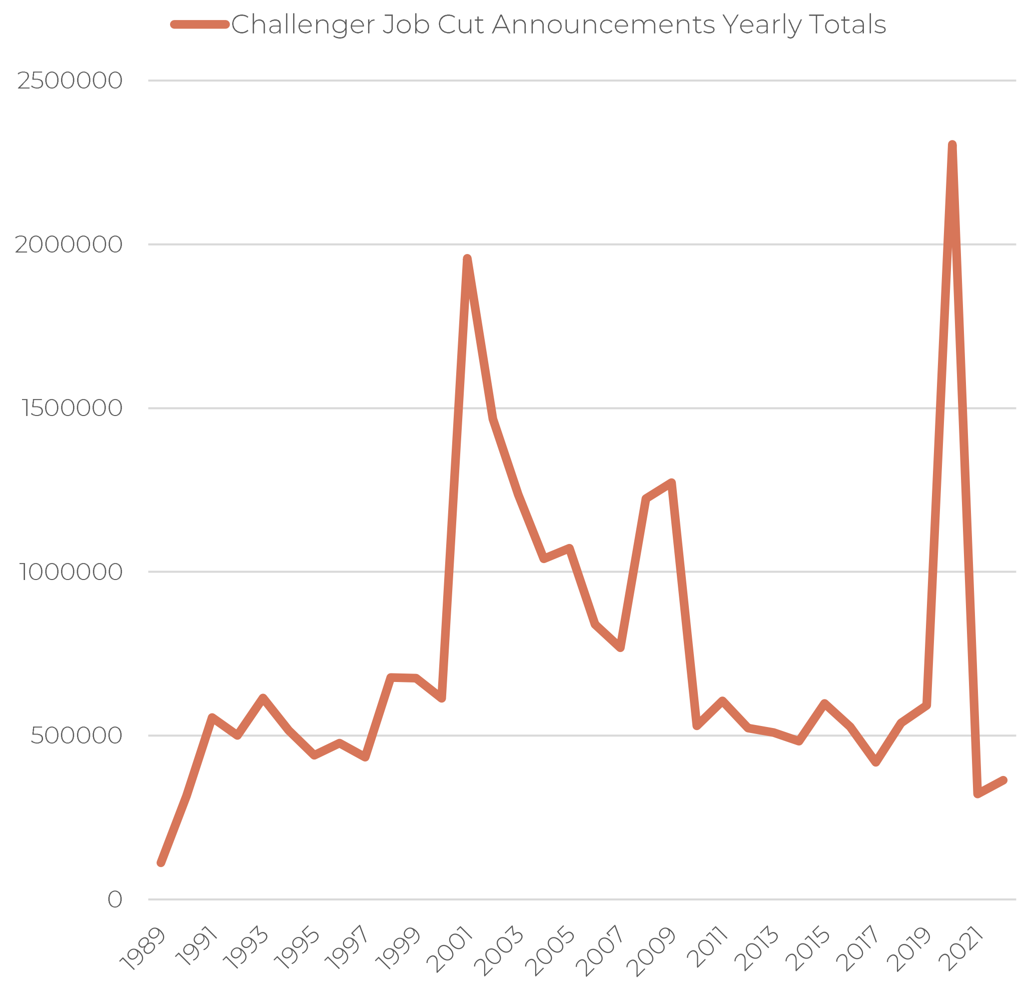


Robust Jobs Market

Labor Force Participation Ticked Up Despite Great Resignation Fears.



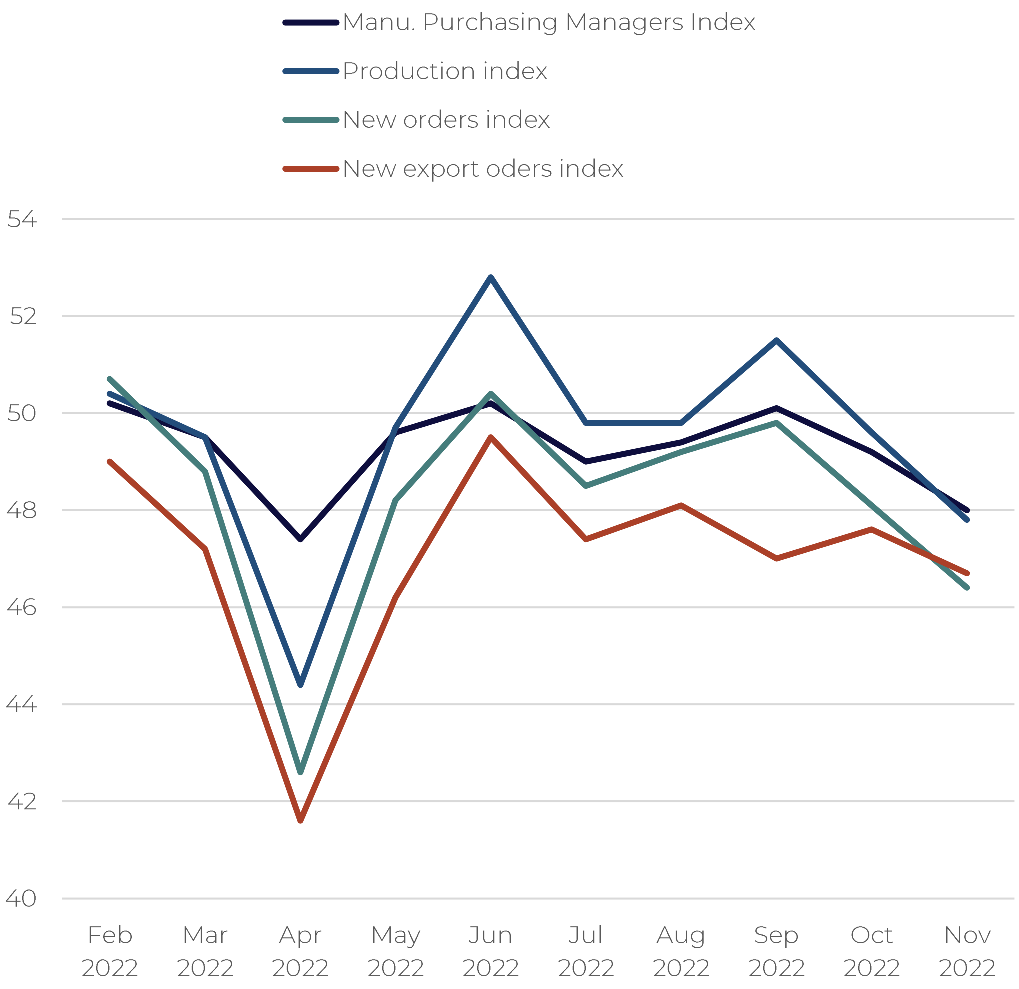
Are Headline News Too Concerned About Job Cuts?



Sources: FRED, Challenger, Gray & Christmas Blue Line Capital, Blue Line Futures

China As 2023's Inflation Risk

China's Economy Is Working Off A Low Base.



Sources: National Bureau of Statistics of China, Blue Line Capital, Blue Line Futures

Recent Reopening News Commentary

After a ban on Australian coal in 2020, China is set to start buying from one of its geostrategic adversaries again. With a whole slew of reopening news, China appears to be making a 180 (although within a common prosperity framework.) Not only has Beijing accelerated its reopening timeline, but China has also decided to lower the rhetoric against adversaries. China's Foreign Minister Qin Gang talked about being 'deeply impressed' by his time in Washington, representing a stark shift in tone from what was a grim relationship in 2022. Beijing also seems to backtrack on Xi Jinping's recent agenda that 'homes are for living, not speculation.' Instead, we got news that Beijing plans on relaxing leverage ratios among real estate developers. Furthermore, we also got word that Beijing is in talks with Pfizer to buy its Covid antiviral drug Paxlovid. As we laid out recently, global oil consumption was 4m bb/day below 1980-2019 trend in 2021, indicating that there's substantial consumption catch-up potential.

Earnings Data & Corporate Developments

S&P Global, MasTec, Cognex

S&P Global

Recurring Market Intelligence vs. Cyclical Ratings

S&P Global Earnings Highlights & Stock Performance

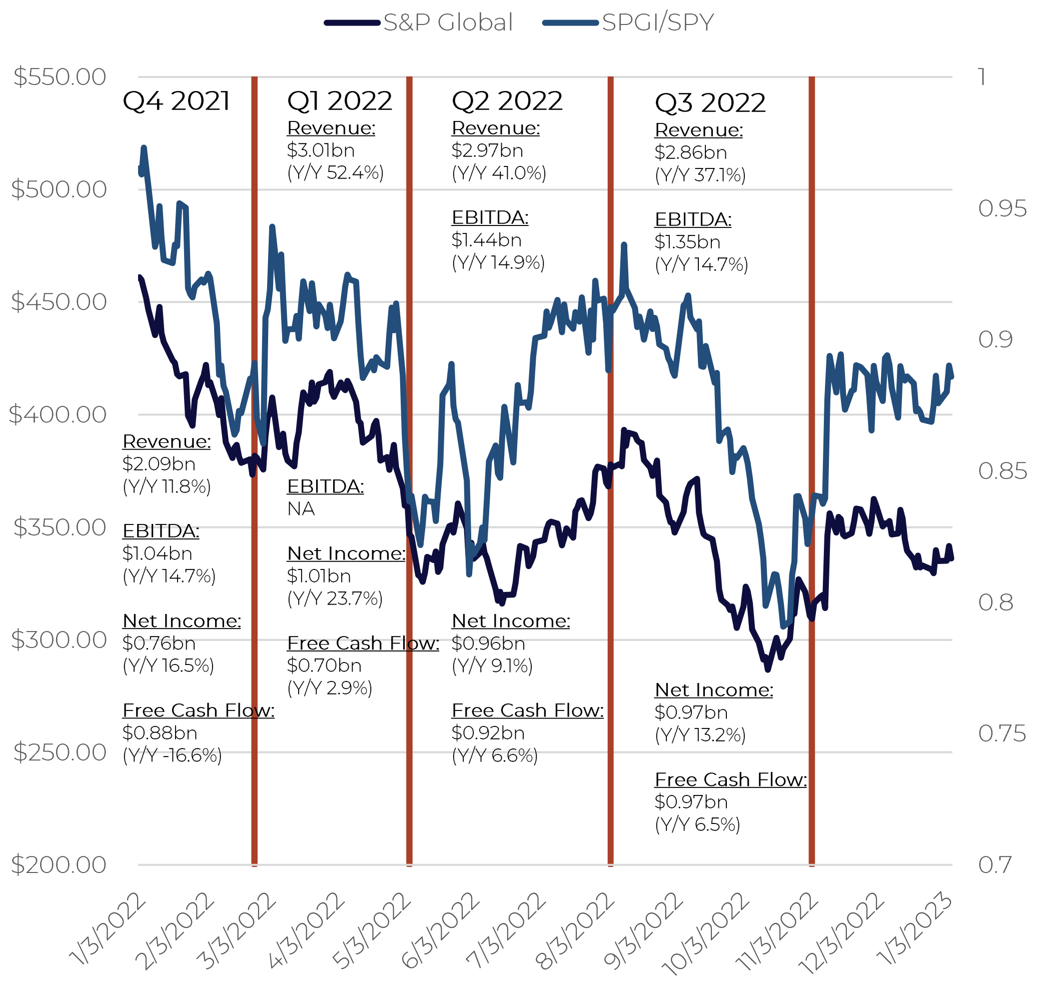
Management Commentary From Q3 2022 Earnings Call

- **Market Intelligence:** *For this quarter, recurring revenue accounted for approximately 96% of Market Intelligence total revenue. Positive secular trends like the energy transition as well as the near-term benefit we see from volatility and the need for insights and analytics in times of turbulence.*
- **Ratings:** *During the quarter, global-rated issuance decreased 40% Y/Y. In the U.S., rated issuance in aggregated decreased 47%. European-rated issuance decreased 19%; and in Asia, rated issuance declined 47%. High yield was down 80% Y/Y in both US and Europe and was down nearly 100% in Asia.*
- **Mobility:** Big trends in automotive: 1.) Used car market and what's happening with OEMs and supply chains there (CARFAX suite), 2.) Shift from ICUs to EVs.
- **Indices:** *Asset-linked fees were down 5%, primarily driven by lower AUM in ETFs. Exchange-traded derivative revenue increased 37% on increased trading volumes across key contracts, including a more than 60% increase in S&P 500 Index Options volume*

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	29.39	9.36	26.19	22.45	NA
TTM	29.64	10.97	28.56 *	26.02	3.04
*Levered FCF					

Sources: S&P Global IR, TIKR, Blue Line Capital

Quarterly Data

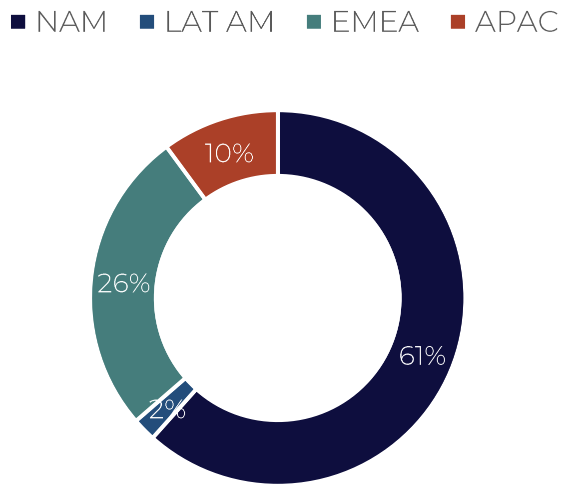


S&P Global Segment Trends

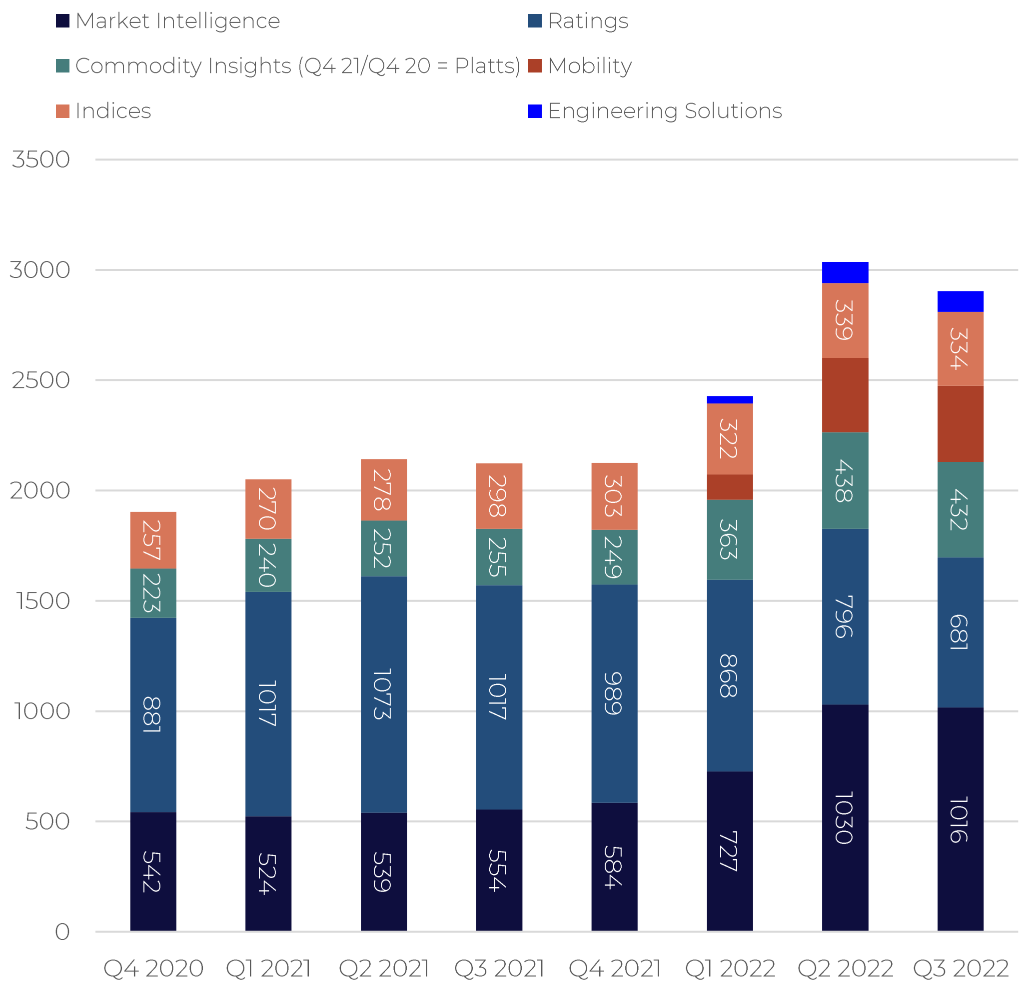
Segment Trends

- **Market Intelligence (Recurring Rev.):** The need for quantitative information in a world full of noise continues to increase. Reliable information partners like S&P are crucial for organizations across industries.
- **Ratings:** Dependent on soft-landing prospects. M&A, IPO, and issuance activity are key.
- **Indices (Asset-Linked):** Depending on the market trajectory, AUM of the overall market will fluctuate.

Geographic Exposure In Ratings Segments



Revenue By Segment



Sources: S&P Global IR, Blue Line Capital

S&P Global Expectations & Returns

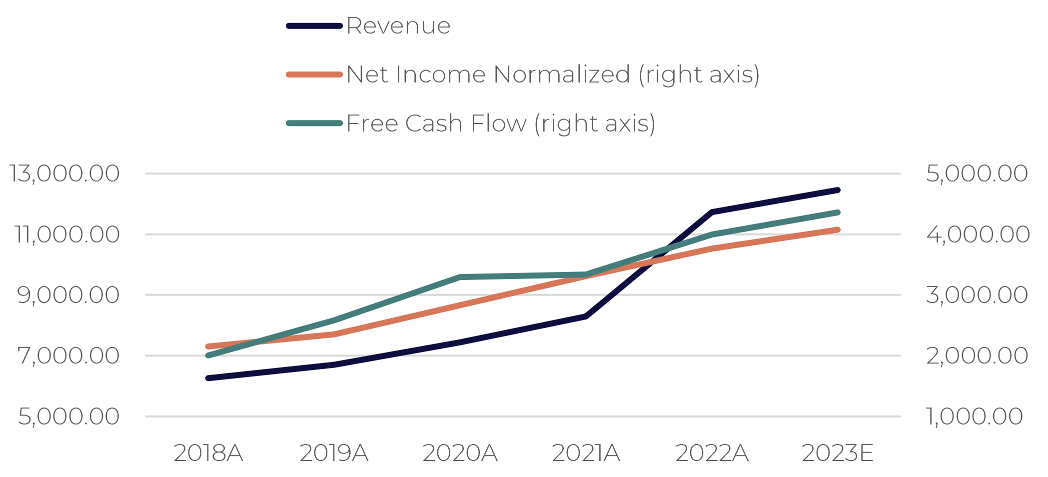
Return Ratios Compared To 2019

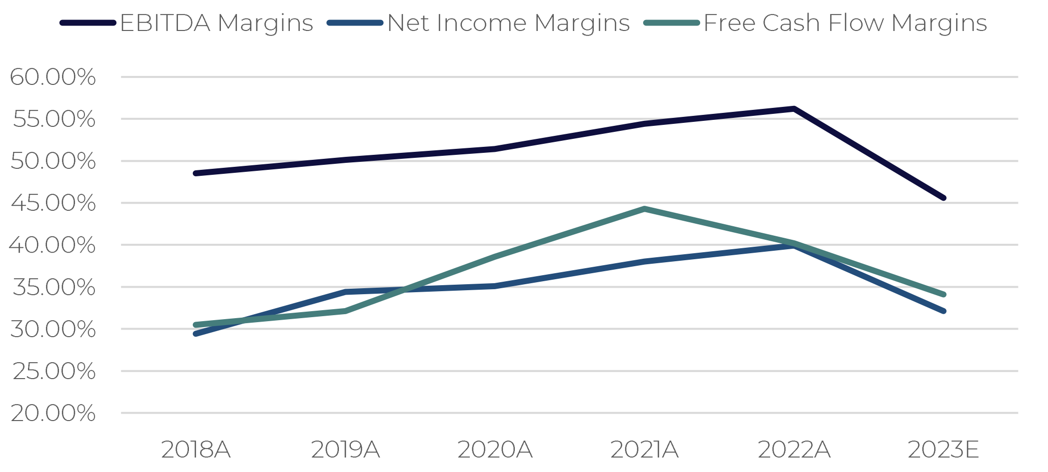
Profitability metrics across the business have deteriorated slightly as S&P's ratings business has slowed materially from excessive issuance.

		LTM	2019
Return Ratios	RoA	6.90%	19.70%
	RoC	7.40%	42.60%
	RoE	16.50%	90.20%
Margins	Gross Profit Margin	67.60%	70.50%
	EBITDA Margin	47.90%	51.90%
	Net Income Margin	33.80%	31.70%
	Levered Free Cash Flow Margin	37.70%	34.50%
Asset Turnover	Asset Turnover	0.17	0.59
	Fixed Asset Turnover	13.98	10.58
	Receivables Turnover	5.65	4.43
	Inventory Turnover	NA	NA
Solvency	Total Debt/Equity	28.50%	166.90%
	Total Debt/Capital	20.40%	60.90%
	EBITDA/Interest Expense	20.83	25.64
	(EBITDA/Capex)/Interest Expense	20.57	24.82

Sources: S&P Global IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates





S&P Global Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
S&P Global	22.45	29.39	16%	1%	-12%
Moody's	20.04	25.69	19%	5%	-13%
BlackRock	15.96	22.32	35%	22%	3%
Invesco	9.51	12.32	33%	21%	-11%
Charles Schwab	12.47	18.2	15%	36%	1%
CME Group	18.82	21.36	3%	-14%	-27%
ICE	15.4	19.17	16%	12%	-17%
Median	15.96	21.36	16%	12%	-12%
Mean	16.38	21.21	20%	12%	-11%

Sources: TIKR, Google Finance, Blue Line Capital

MasTec

Communications Infrastructure, CleanTech & Pipelines

MasTec Earnings Highlights & Stock Performance

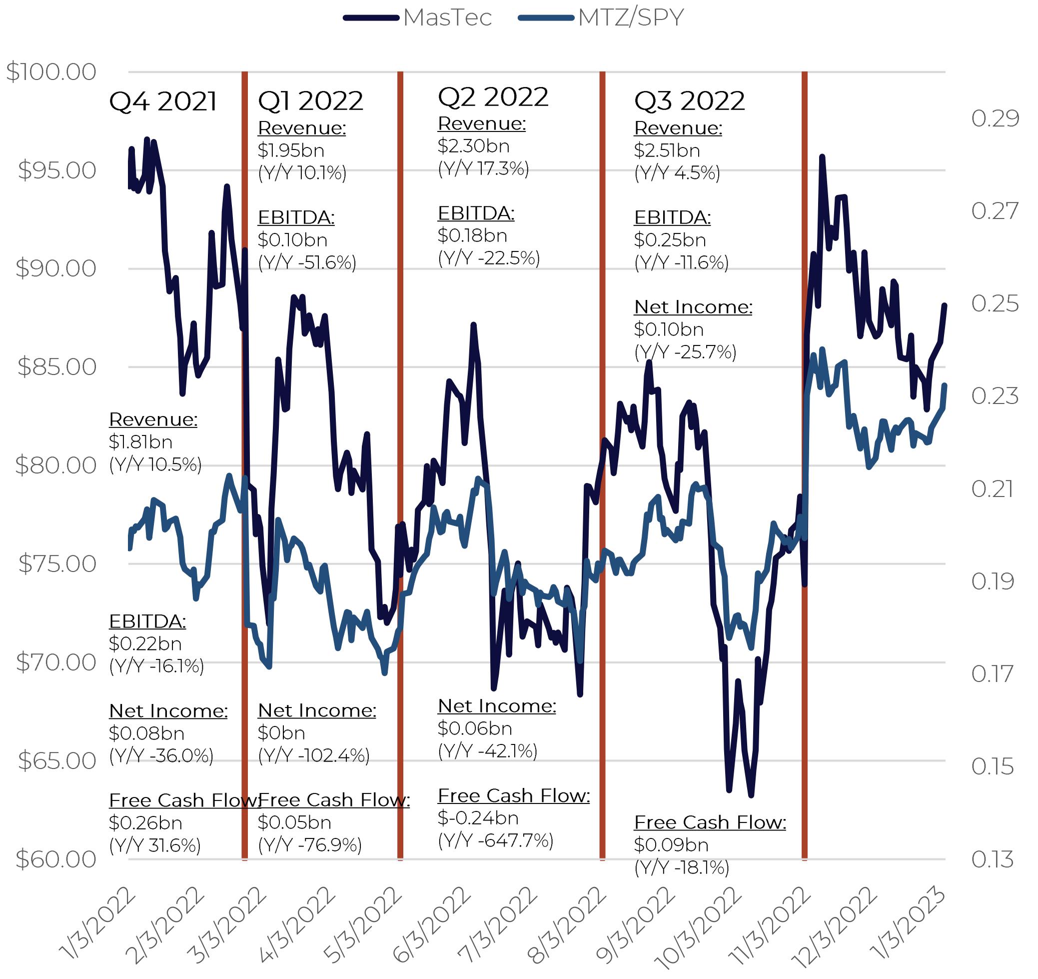
Management Commentary From Q3 2022 Earnings Call

- **Transition From Oil & Gas To Clean-Tech:** *Had seen significant impact to oil & gas business entering 201. 56% of operational EBITDA came from oil & gas in 2020. Non-oil & gas revenues were up 38% Y/Y and represented 85% of revenue and 80% of operational EBITDA in Q3.*
- **On Backlog:** *Not including IEA, backlog is at record levels and Q2 to Q3 backlog increased sequentially for the first time since 2018.*
- **On IEA acquisition:** *Adding union workers. Adds nearly 6,000 team members in a market where skilled labor to serve a growing market is scarce.*
- **On communication customers:** *33% Y/Y increase in communications segment. AT&T with 33% increase; Comcast with 21%; T-Mobile with 50%; Verizon with 42%.*
- **More on communication:** *Significant demand related to fiber opportunities, the 5G revolution continues to transform the communications ecosystem. New equipment added to existing cell towers, millions of new small and micro cells must also be built and connected, including fiber and power.*

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	21.31	0.57	13.32	8.89	NA
TTM	65.21	0.82	-79.01 *	14.67	2.66
*Levered FCF					

Sources: MasTec IR, TIKR, Blue Line Capital

Quarterly Data



Blue Line Capital maintains a long position in MasTec.

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MasTec Segment Trends

Segment Trends

- **<u>Communications:</u>** Given that 5G is higher-frequency has higher capacity for data, the range of the towers decreases. As a result, there's a need for more towers across shorter ranges. American Tower noted that its acquisition of CoreSite's 28 datacenters makes sense given that the company thinks datacenter providers like AWS & Microsoft Azure will become major users of towers if they want to reduce transport costs and improve latency; this area would represent a major growth opportunity besides existing tailwinds (smart cities, smart homes etc.)

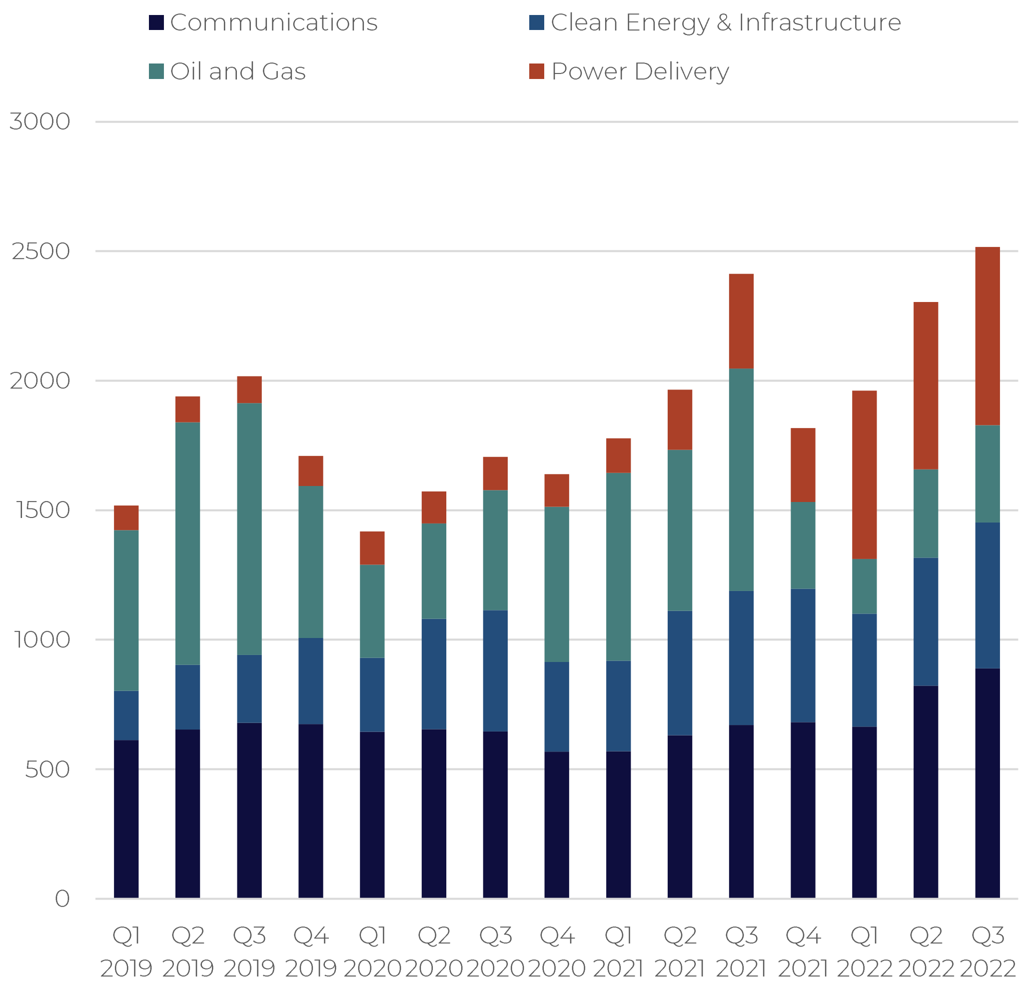
- **<u>Clean Energy & Infrastructure:</u>** Revenue growth from $300m in 2017 to $2.6bn in 2022, supported by growth in wind, solar, biomass, hydrogen, battery storage, and carbon capture projects. Dominion Energy's VP Josh Bennett was quoted in the WSJ: "There's so much demand now…It you were to attempt to do an offshore wind project starting today, it would take you out into the late '20s or early '30s."

- **<u>Power Delivery:</u>** Aging grid, improving reliability (think of TX power outages etc.), improving system capacity, improving reliability. The Infrastructure Investment & Jobs Act provides $65bn for transmission distribution and smart grid ($7.5bn for EV charging stations.)

- **<u>Energy Pipeline and Facilities:</u>** Traditional oil & gas pipelines with more demand in 23, 24, 25. Also active in water, CO2, and hydrogen pipelines.

Sources: MasTec IR, Blue Line Capital

Revenue By Segment



MasTec Expectations & Returns

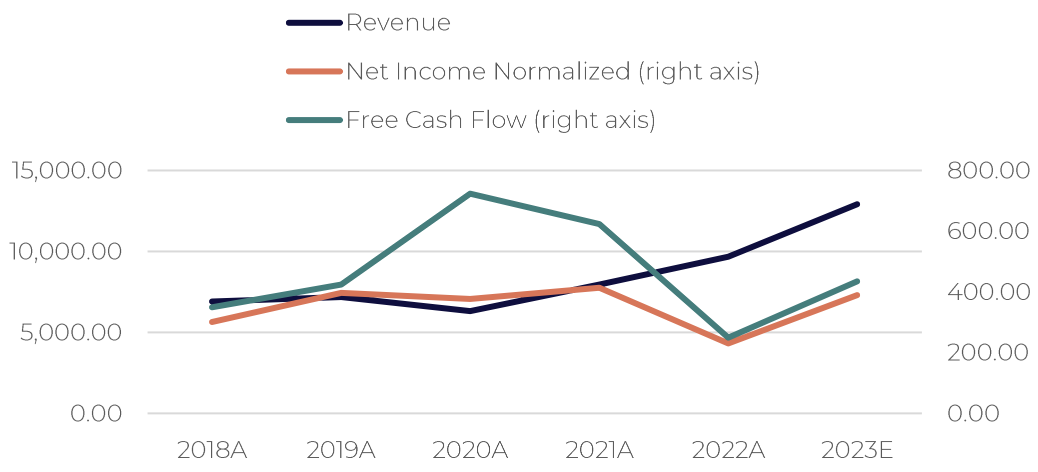
Return Ratios Compared To 2019

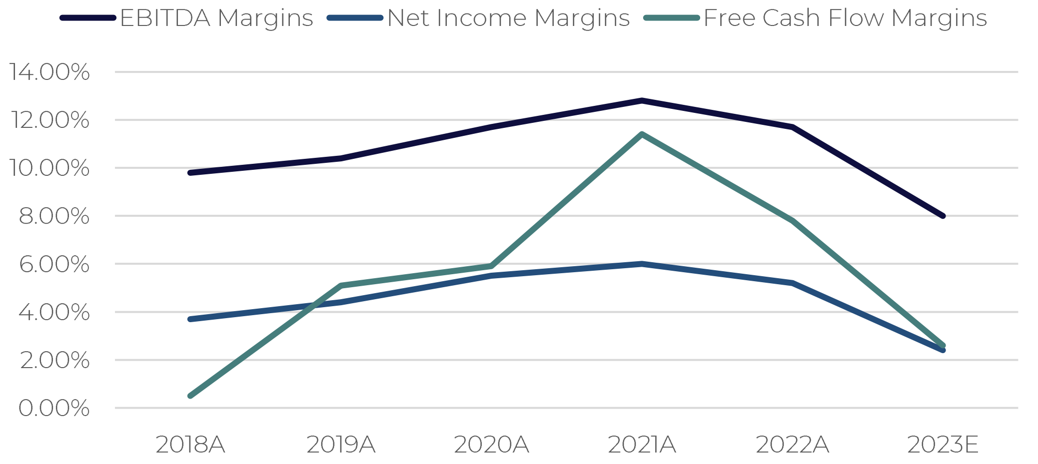
MasTec's return ratios have deteriorated since 2019, but management's focus on ROIC is encouraging for improvements ahead.

		LTM	2019
Return Ratios	RoA	1.80%	7.80%
	RoC	3.50%	15.80%
	RoE	4.40%	24.80%
Margins	Gross Profit Margin	12.50%	15.50%
	EBITDA Margin	7.50%	11.50%
	Net Income Margin	1.20%	5.50%
	Levered Free Cash Flow Margin	-1.00%	4.20%
Asset Turnover	Asset Turnover	1.15	1.44
	Fixed Asset Turnover	5.68	7.87
	Receivables Turnover	3.58	3.78
	Inventory Turnover	68.44	56.79
Solvency	Total Debt/Equity	97.30%	93.10%
	Total Debt/Capital	45.10%	44.40%
	EBITDA/Interest Expense	14.47	18.05
	(EBITDA/Capex)/Interest Expense	11.18	16.41

Sources: MasTec IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates





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MasTec Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
MasTec (MTZ)	8.89	21.31	39%	24%	12%
Quanta Services (PWR)	13.57	20.74	8%	9%	3%
MYR Group (MYRG)	9.59	20.00	12%	13%	6%
Dycom Industries (DY)	8.97	19.37	-2%	1%	1%
Jacobs Solutions (J)	13.68	17.35	14%	3%	-10%
Primoris Services (PRIM)	7.00	7.53	35%	9%	-15%
Median	9.28	19.69	13%	9%	2%
Mean	10.28	17.72	18%	10%	-1%

Sources: TIKR, Google Finance, Blue Line Capital

Blue Line Capital maintains a long position in MasTec.

Cognex

Automation Tailwinds vs. Overcapacity Headwinds

Cognex Earnings Highlights & Stock Performance

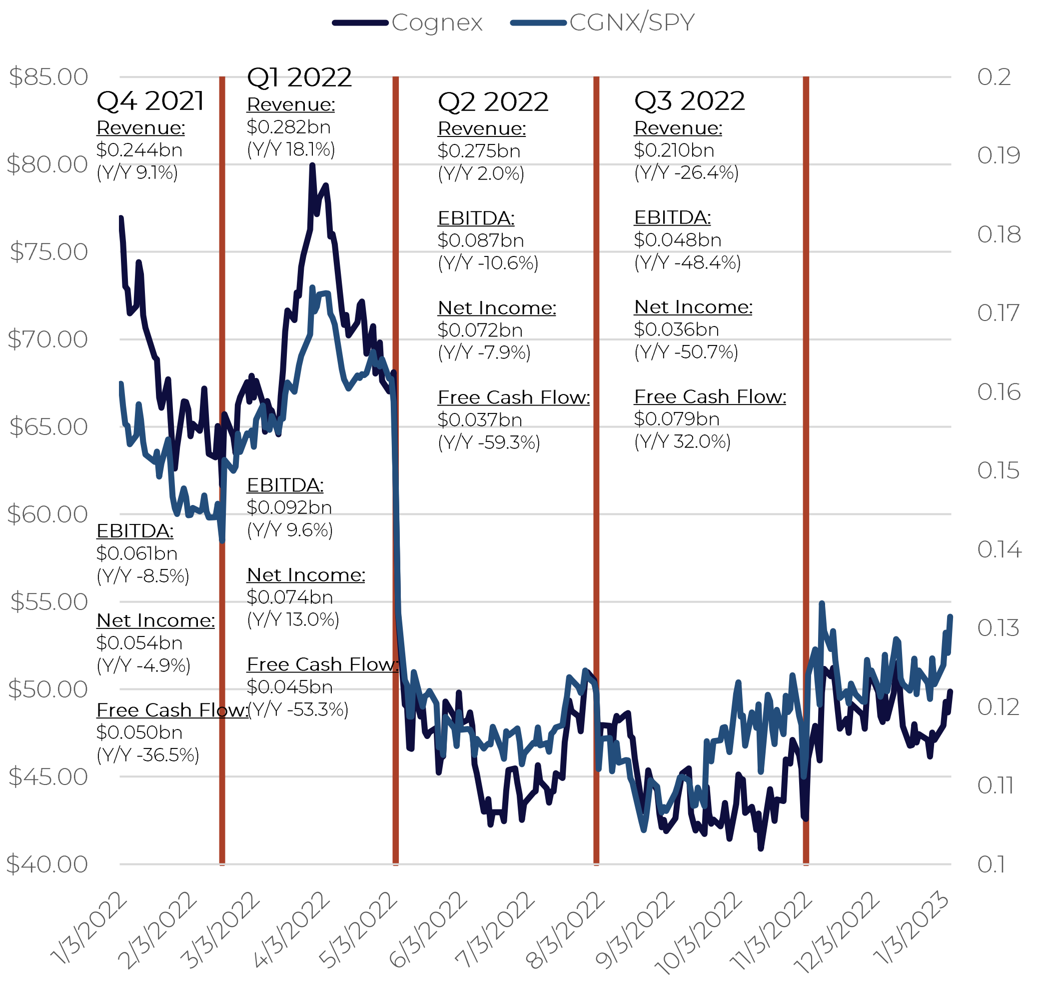
Management Commentary From Q4 2022 Earnings Call

- **On business challenges:** *One concerned the June fire at our primary contract manufacturer and the other related to overcapacity at a few of our large logistics customers.*
- **On large customers:** *E-commerce technology leaders are taking post-pandemic timeout to absorb excess capacity. This follows 2 years of heavy investment through Q3 of 2021….was a record-setting quarter for both logistics revenue and Cognex overall.*
- **Tailwind:** *Expected growth from the broader factory automation market. Business activity in broader factory automation market is holding up, although it's less robust than it was a year ago, particularly in Asia. We're not expecting a big budget flush this year overall.*
- **On China trends:** *We're seeing investments and incremental investments outside of China, which is a positive thing for Cognex…would expect that to keep playing out over the coming years.*

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	35.64	8.58	32.65	26.66	NA
TTM	41.23	8.53	47.57 *	28.39	6.21
*Levered FCF					

Sources: Cognex IR, TIKR, Blue Line Capital

Quarterly Data



 Blue Line Capital maintains no position in Cognex.

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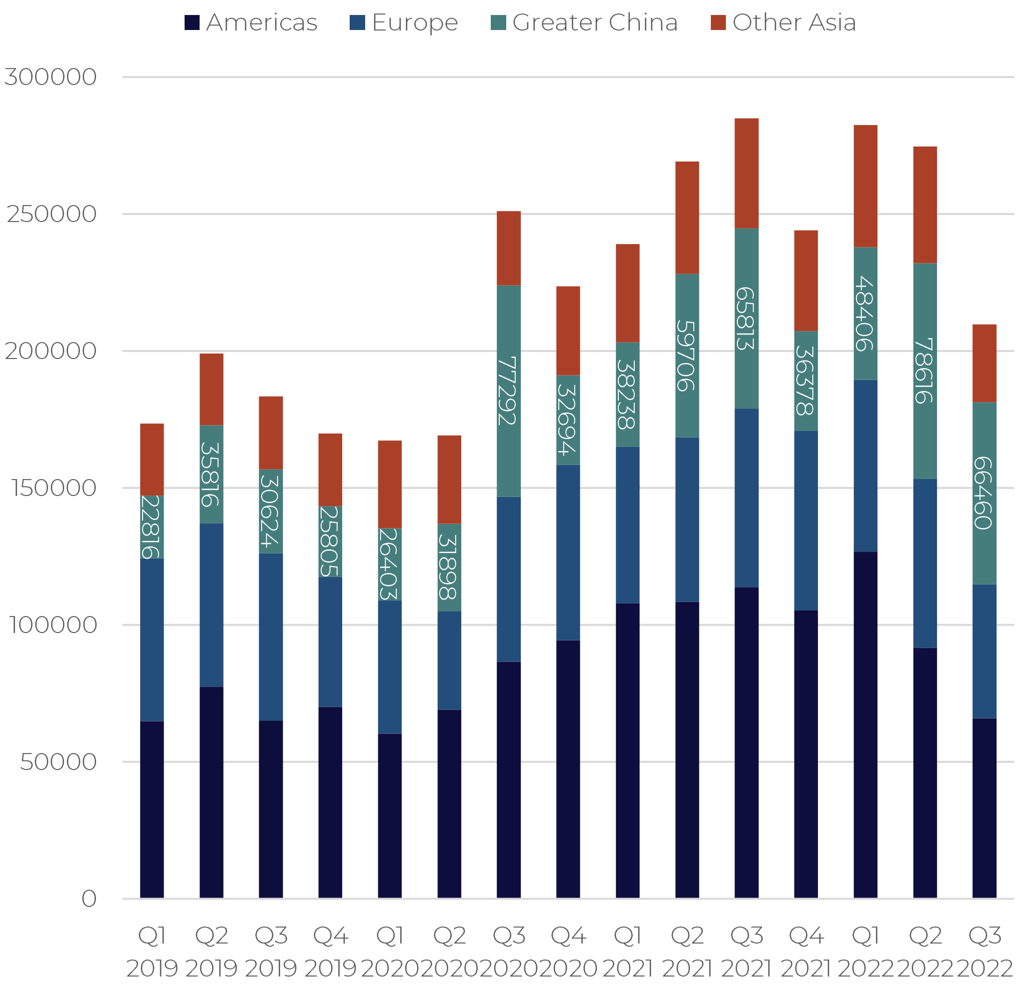
Cognex Macro Trends & Geography

Revenue Trends By Geography

- *Automation has been a trend for a while, yet robotics need the necessary macro tailwinds for capital-for-labor substitution to make economic sense.*
- *China has 200-300 million workers it can instantly mobilize to respond to surges in manufacturing demand. As the population ages, the workforce is inevitably going to shrink.*
- *Services-driven economies that are shoring more production domestically will likely complement high-value add jobs with automated work processes.*
- *The build-up of supply-chain buffers requires fixed asset investment. Interestingly, despite end-market slowdowns in e-commerce, automation trends have proven to be strong.*
- *Cognex will be an outsized beneficiary of an acceleration in China reopening given the company's exposure.*
- *Over-capacity concerns in logistics somewhat concerning in the near-term.*

Revenue By Geography



Sources: Cognex IR, TIKR, Blue Line Capital

Cognex Expectations & Returns

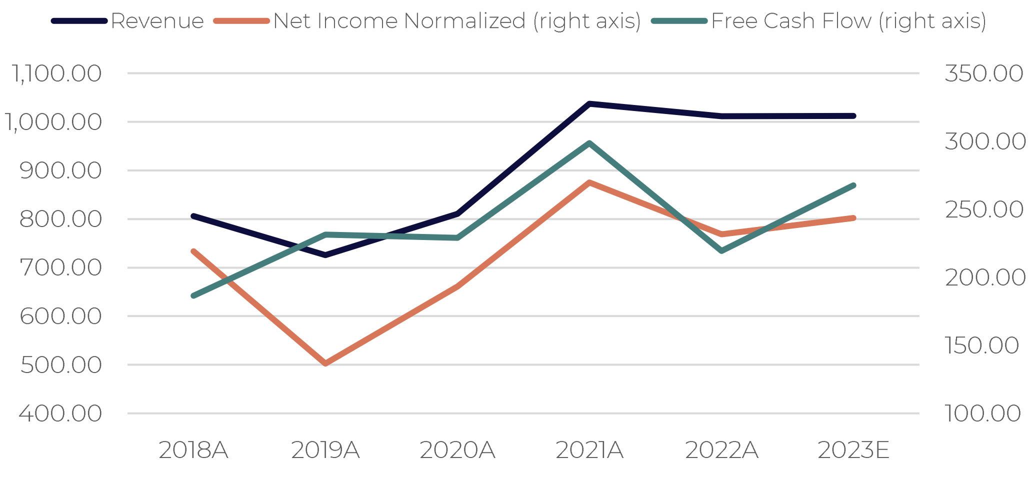
Return Ratios Compared To 2019

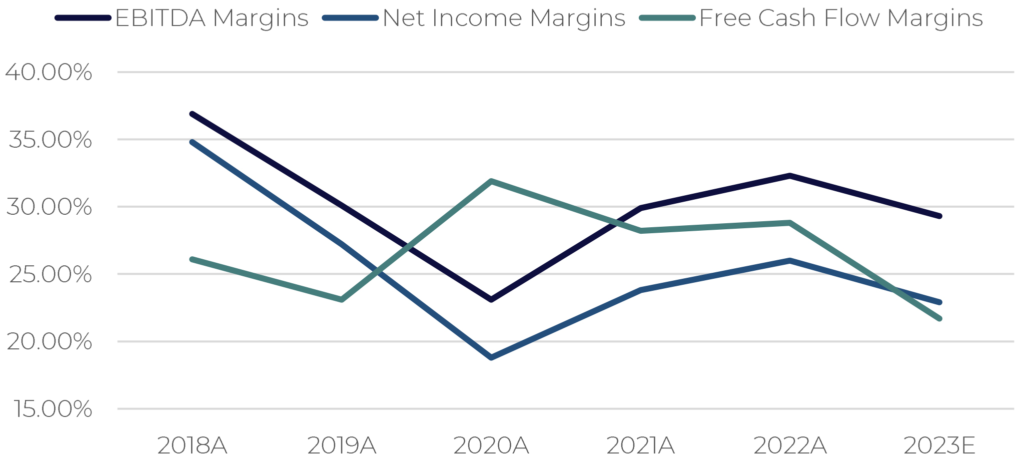
After economic activity amongst Cognex's major clientele peaked in Q3 2021, return ratios have improved compared to 2019. Turnover ratios have worsened and margins are a mixed bag.

		LTM	2019
Return Ratios	RoA	8.50%	5.60%
	RoC	16.00%	8.40%
	RoE	14.80%	16.40%
Margins	Gross Profit Margin	72.00%	73.80%
	EBITDA Margin	28.50%	23.10%
	Net Income Margin	21.10%	28.10%
	Levered Free Cash Flow Margin	17.90%	29.00%
Asset Turnover	Asset Turnover	0.53	0.38
	Fixed Asset Turnover	9.54	7.32
	Receivables Turnover	8.58	6.16
	Inventory Turnover	2.99	2.64
Solvency	Total Debt/Equity	2.40%	1.30%
	Total Debt/Capital	2.00%	1.10%
	EBITDA/Interest Expense	NA	NA
	(EBITDA/Capex)/Interest Expense	NA	NA

Sources: Cognex IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates





Blue Line Capital maintains no position in Cognex.

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Cognex Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Cognex	26.66	35.64	17%	15%	-30%
Rockwell	19.23	25.06	19%	35%	0%
Snap-On	9.87	14.22	13%	19%	13%
Keysight Technologies	17.82	21.87	9%	24%	19%
Zebra Technologies	12.74	15.41	6%	-6%	-32%
Emerson Electric	18.62	23.98	25%	24%	5%
Honeywell	16.33	23.01	22%	21%	8%
Median	17.82	23.01	17%	21%	5%
Mean	17.32	22.74	16%	19%	-3%

Sources: TIKR, Google Finance, Blue Line Capital

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