



Blue Line Capital

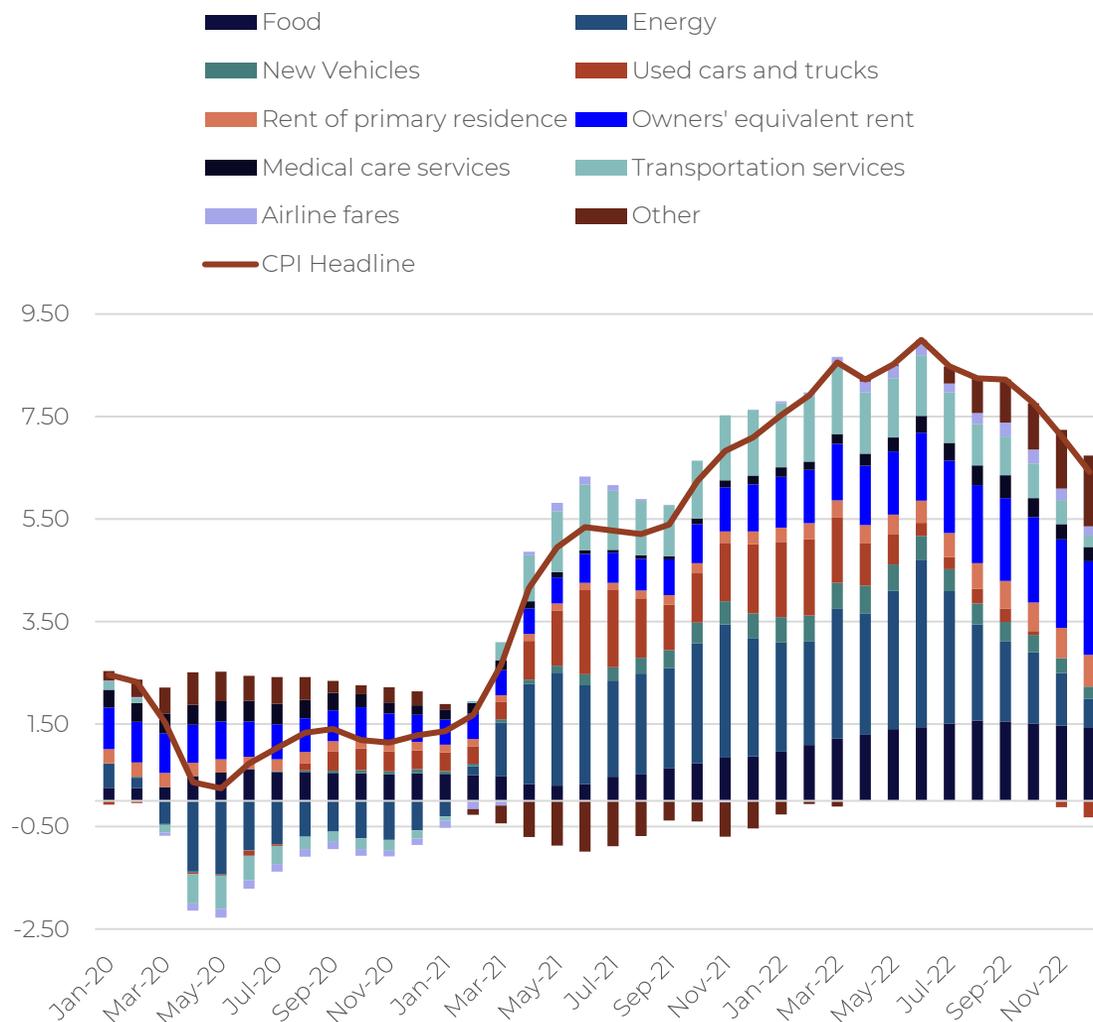
Declogging The Train To Wall Street
Renormalization Of Inflation, Earnings &
Behaviors



Inflation

Decomposing Consumer Prices

CPI Headline (De)Composition



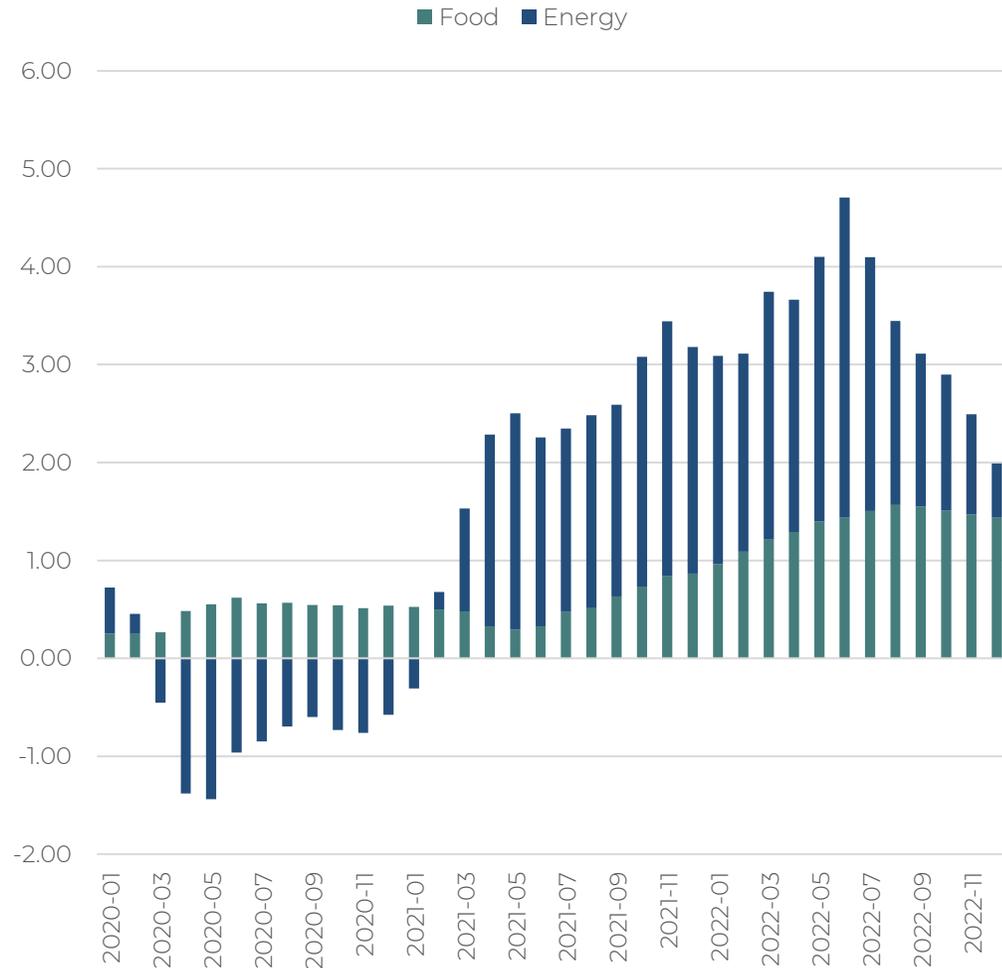
Sources: BLS, FRED, Hapag Lloyd IR, Moller Maersk IR, CF Industries IR, Dow Chemical IR, Blue Line Capital

Inflation Trends Signaled By Corporations

- “In the first nine months of 2022, orders were placed for the construction of 293 container vessels with a transport capacity totaling 1.8 million TEU, significantly less than the 4.1 million TEU in the prior year period...compared with previous years, however, the volume of new orders remains at a high level. According to MDS Transmodal, the tonnage of the commissioned container vessels rose further to around 6.7 million TEU at the end of September, up from around 5.4 million TEU in the previous year. – Hapag Lloyd, September 2022
- “...the global warehousing footprint continued to expand, and 21 new warehouses (net) were opened in Q3, adding 373k sqm, for a total capacity 3.8m sqm across 247 warehouses, 24% higher capacity than in Q3 2021.” – A.P. Moller – Maersk, Q3 2022
- “An estimated 60% of European ammonia capacity did not operate in Q3 2022.” – CF Industries, Q3 2022 Earnings Call
- ‘Results in Packaging & Specialty Plastics “driven by lower polyethylene prices.”’ – Dow Chemical, Q3 2022
- ‘Results in Perf. Materials & Coatings “driven by lower prices for siloxanes and increased raw material and energy costs.”’ – Dow Chemical, Q3 2022

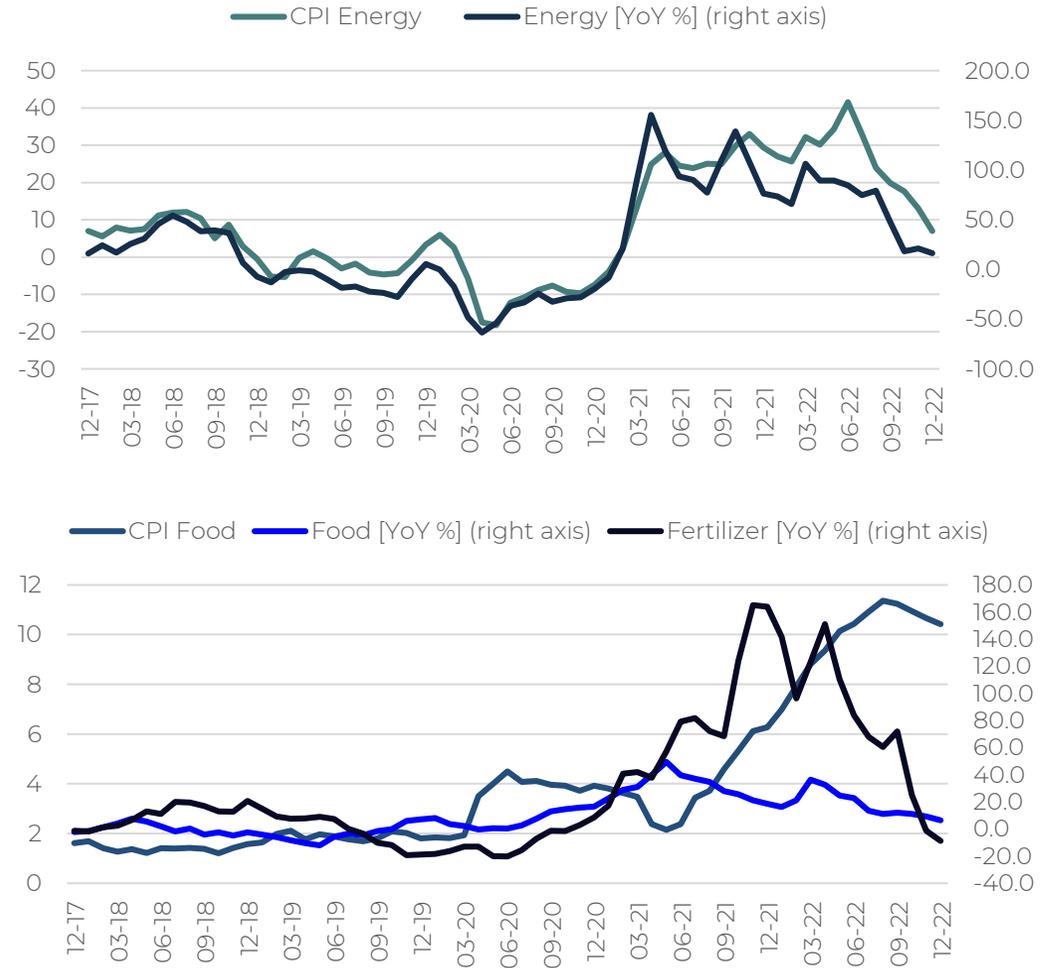
Inflation Drivers (Food, Energy)

Food & Energy CPI Contribution



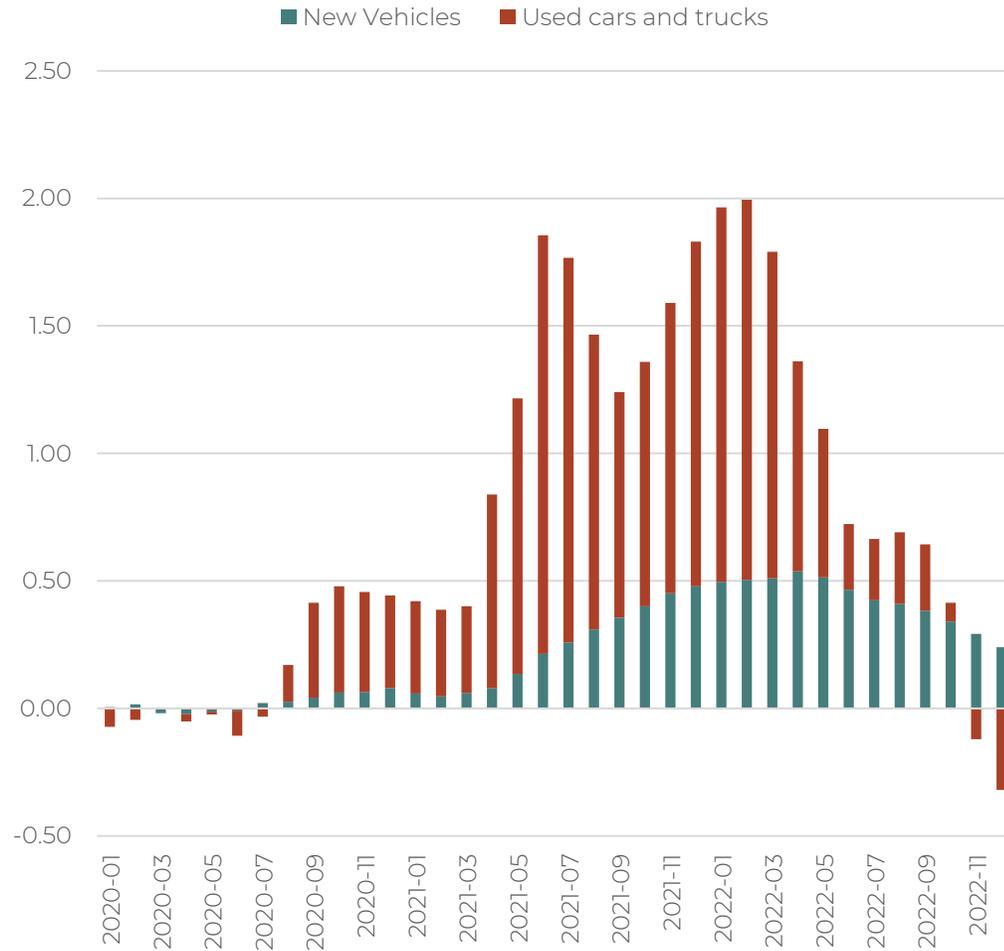
Sources: BLS, FRED, Blue Line Capital, Blue Line Futures

Underlying Energy & Food Dynamics

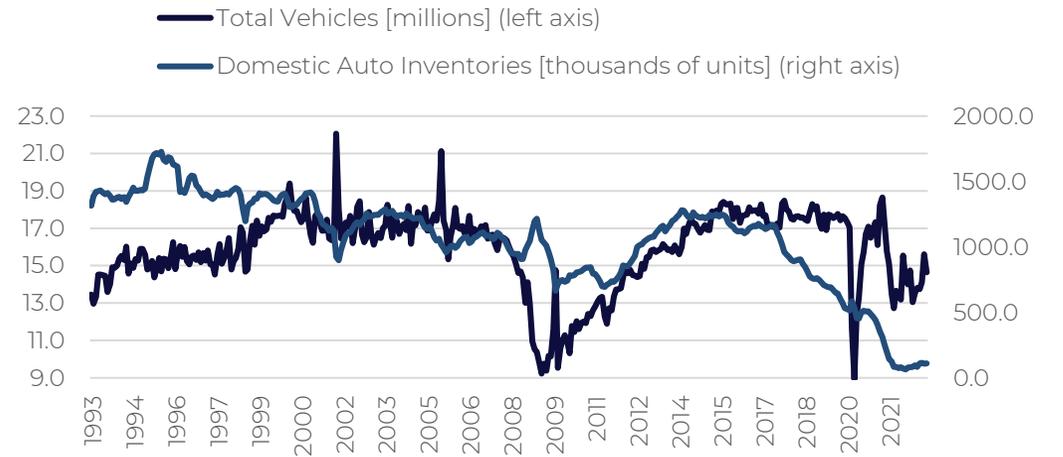
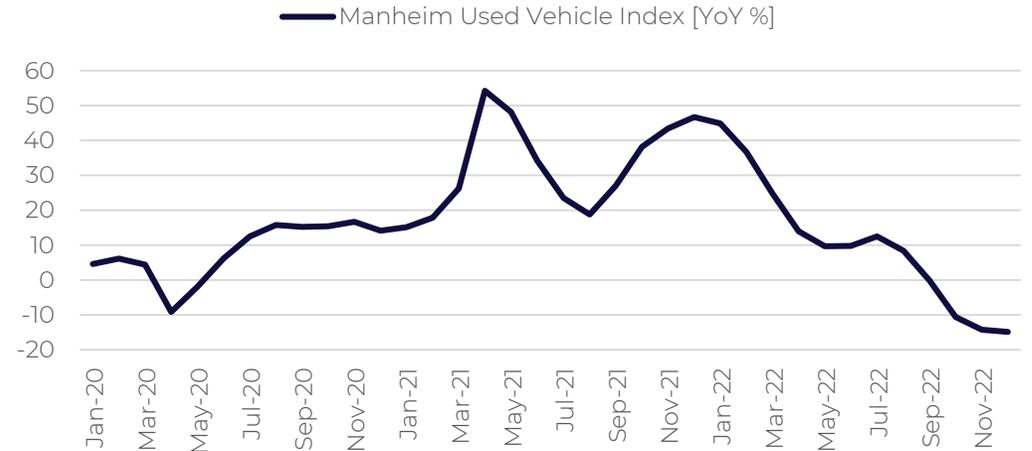


Inflation Drivers (Vehicles)

New & Used Vehicles CPI Contribution



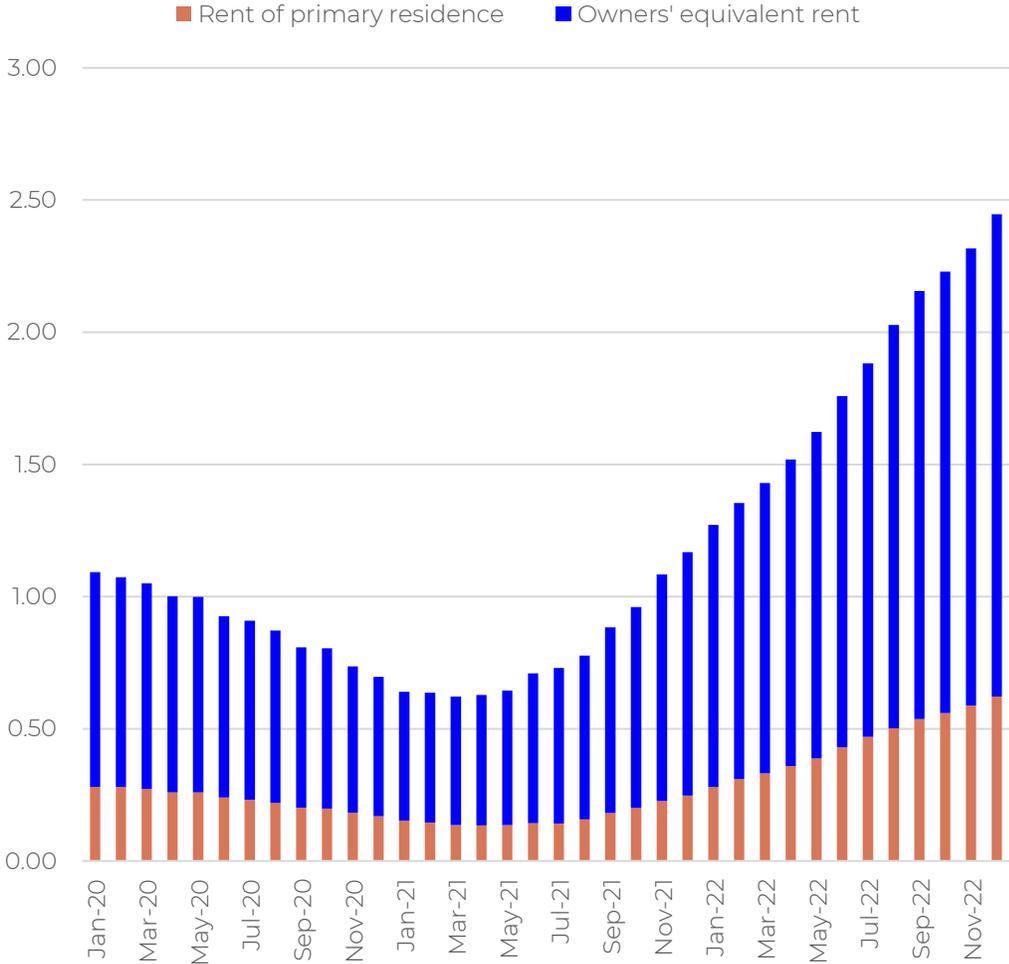
New & Used Vehicles CPI Contribution



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

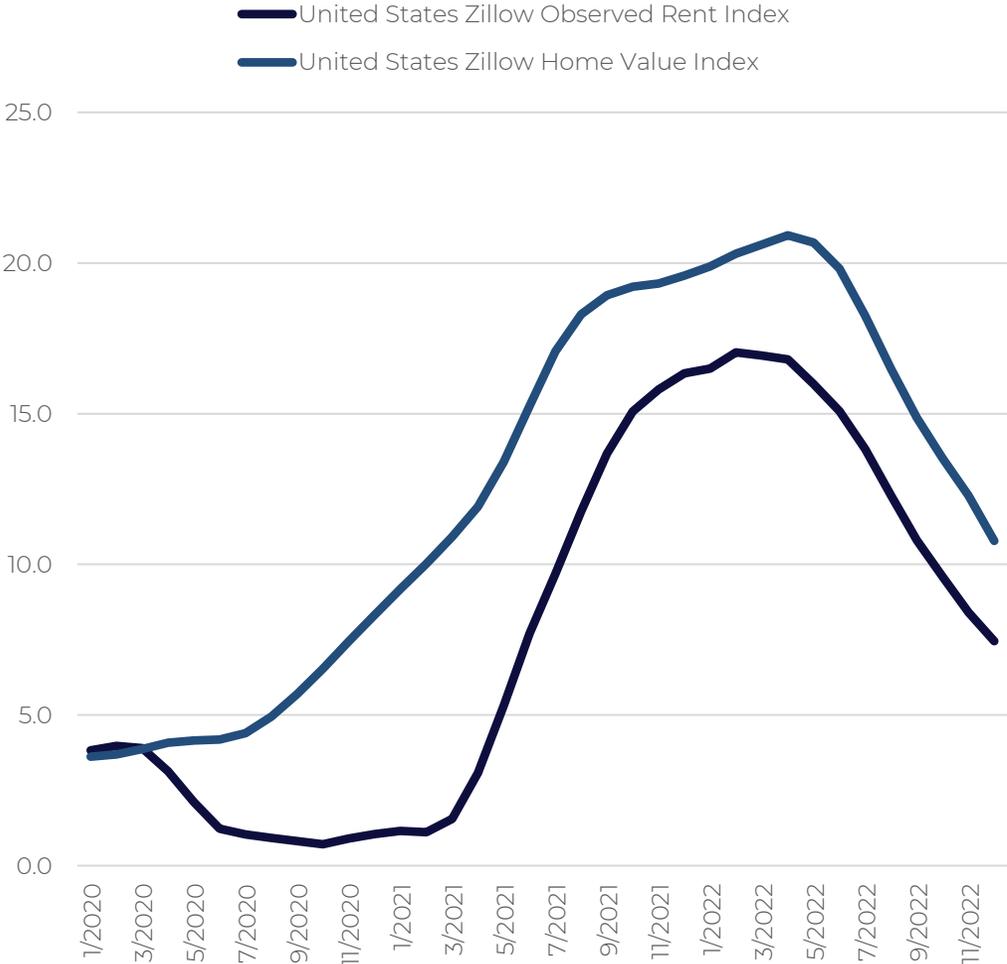
Inflation Drivers (Shelter)

Shelter CPI Contribution



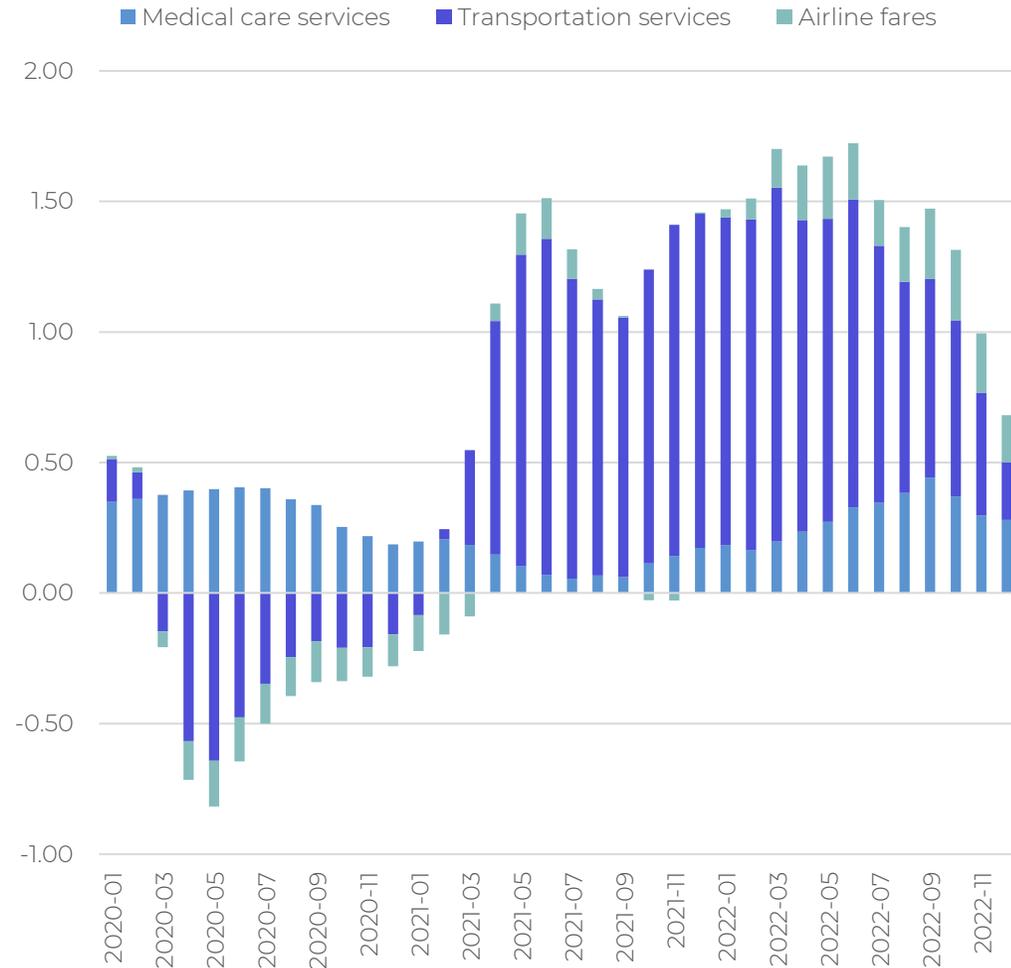
Sources: BLS, FRED, Zillow, Blue Line Capital, Blue Line Futures

Zillow Real-Time Housing Indicators



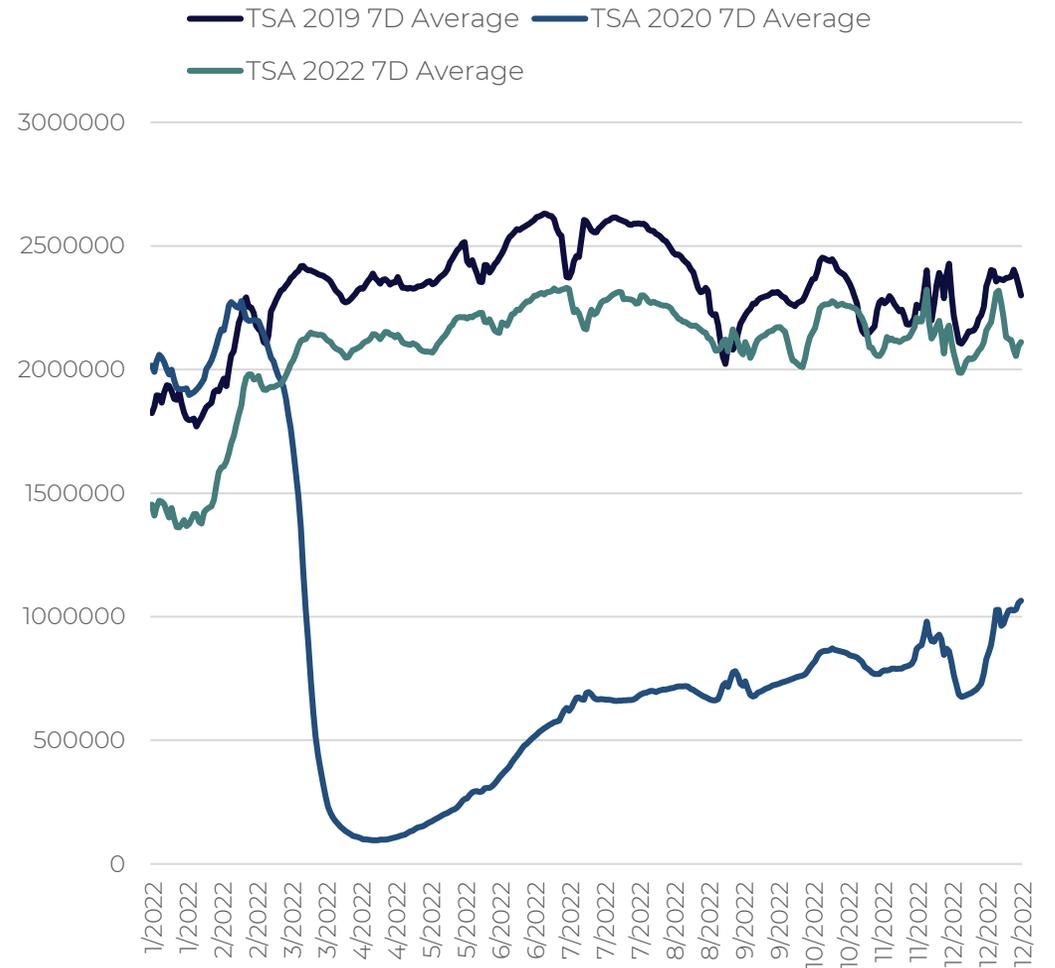
Inflation Drivers (Services)

Service Sectors CPI Contribution



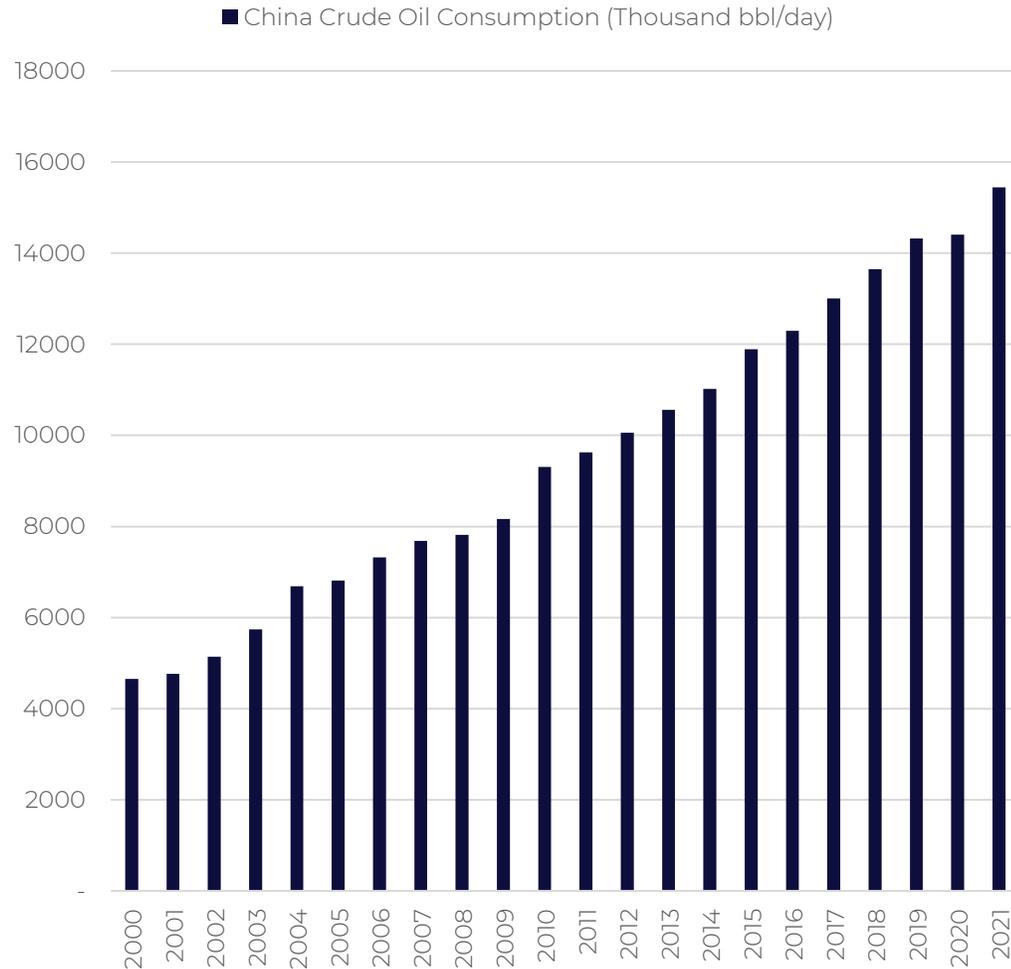
Sources: BLS, FRED, TSA Blue Line Capital, Blue Line Futures

TSA Travel Trends



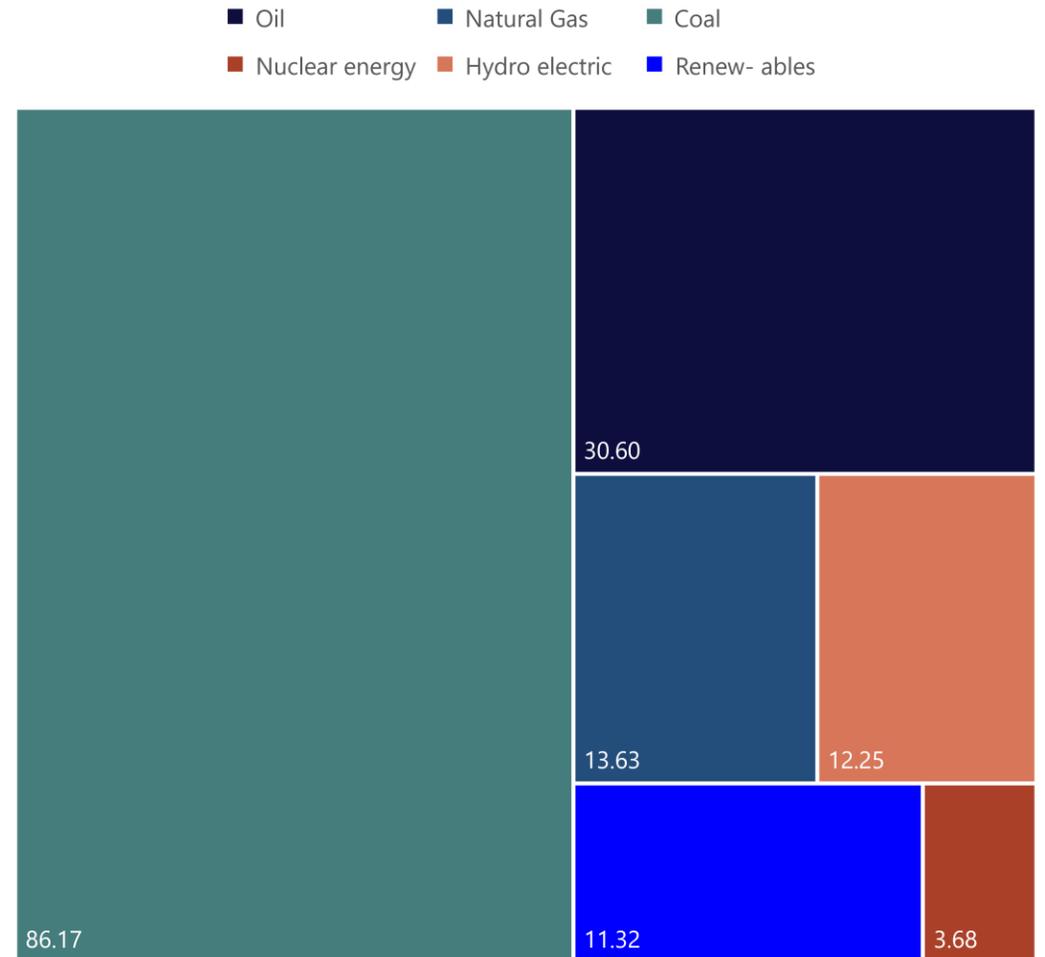
China Exporting Commodities Inflation

China Crude Oil Consumption



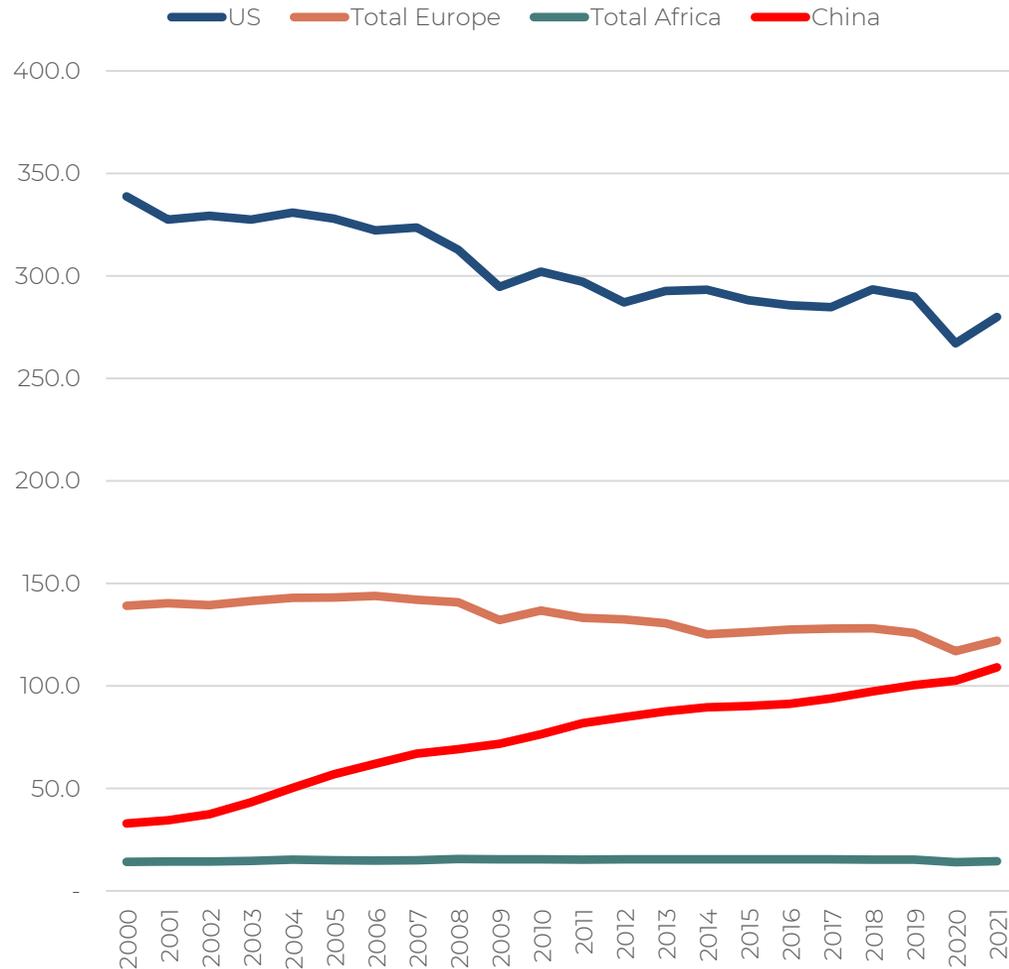
Sources: BP, Blue Line Capital, Blue Line Futures

China Primary Energy Consumption (De) Composition [Exajoules]



Per Capita Energy Consumption & OPEC Market Share

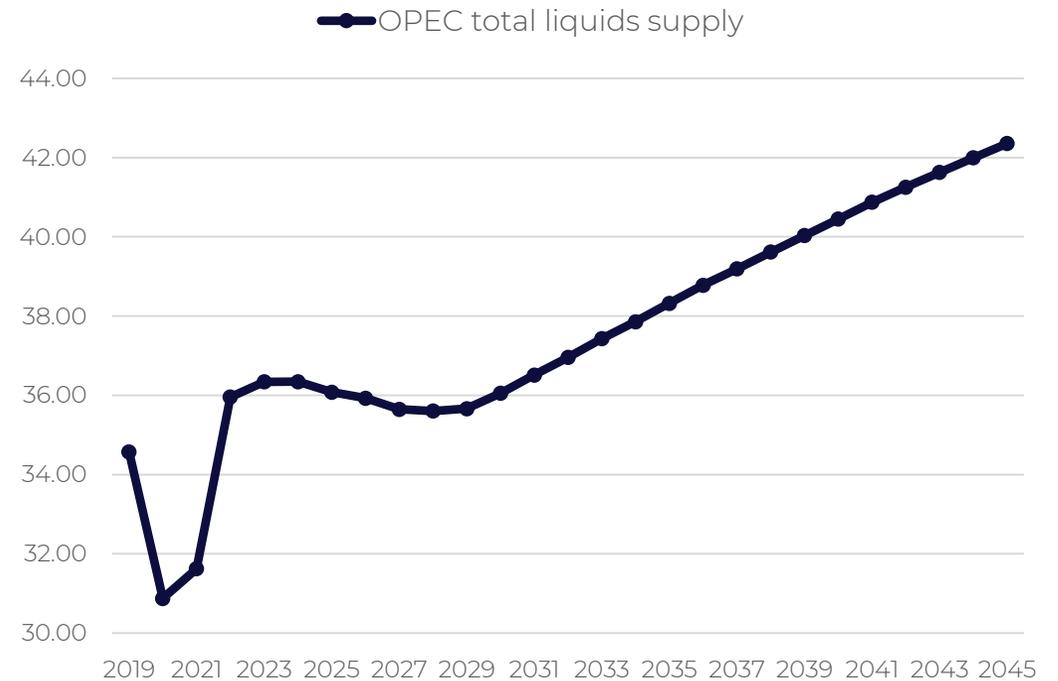
Energy Consumption Comparison (Gigajoules/Capita)



Sources: BP, OPEC, Blue Line Capital, Blue Line Futures

OPEC Expected To Lose More Market Share

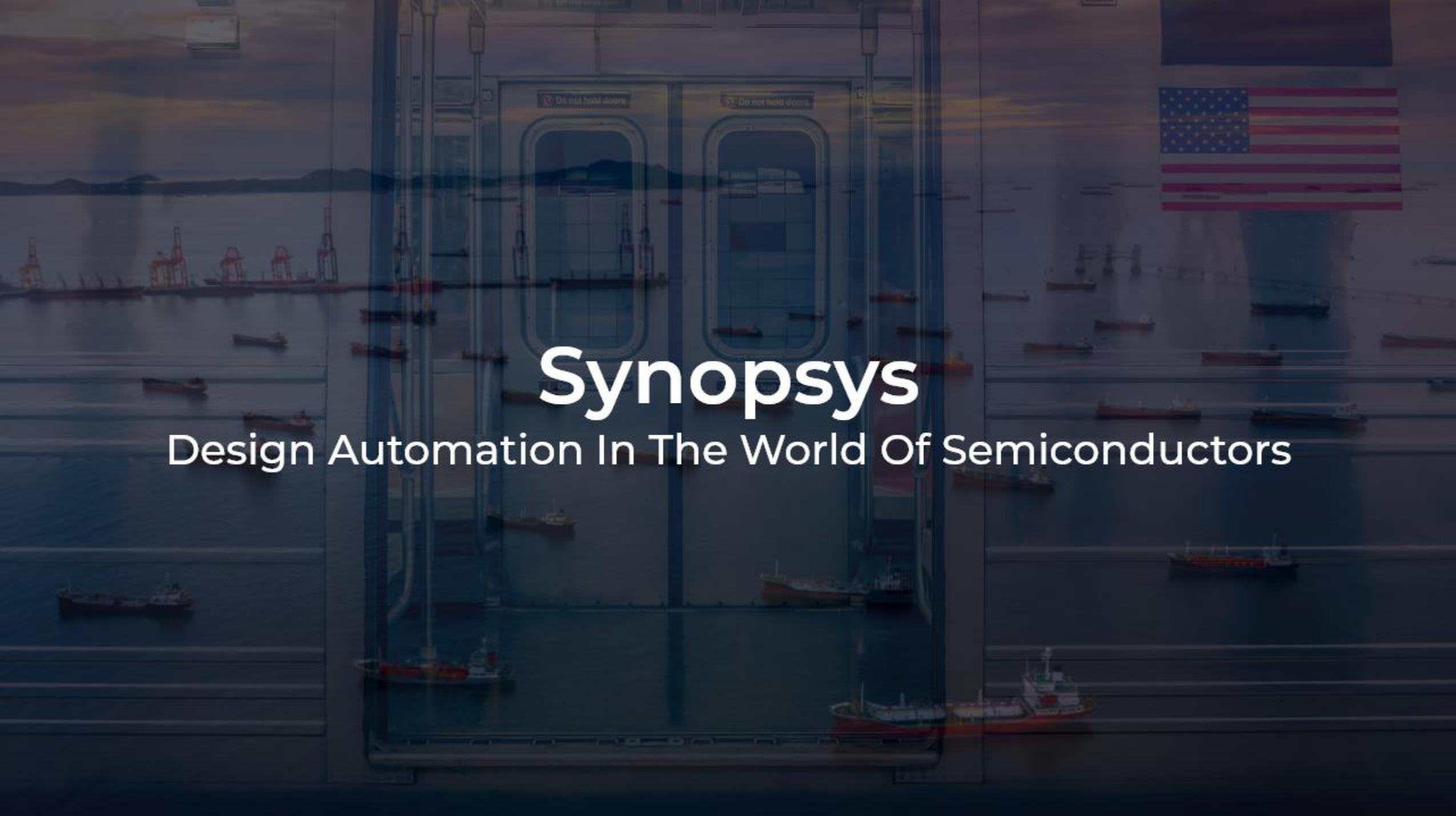
I think shale itself will plateau in the United States, 2025, 2026, and probably will run as a country, 13 million to 13.5 million a day. So I think people need to understand as the world needs more oil and demand grows to your point on macro, shale will be important, but it's no longer the swing producers. – John Hess, GS Conference (Jan5 2023)





Earnings Data & Corporate Trends

Wells Fargo, Synopsys, Boeing



Synopsys

Design Automation In The World Of Semiconductors

Synopsys Earnings Highlights & Stock Performance

Management Commentary From Q4 2022 Earnings Call

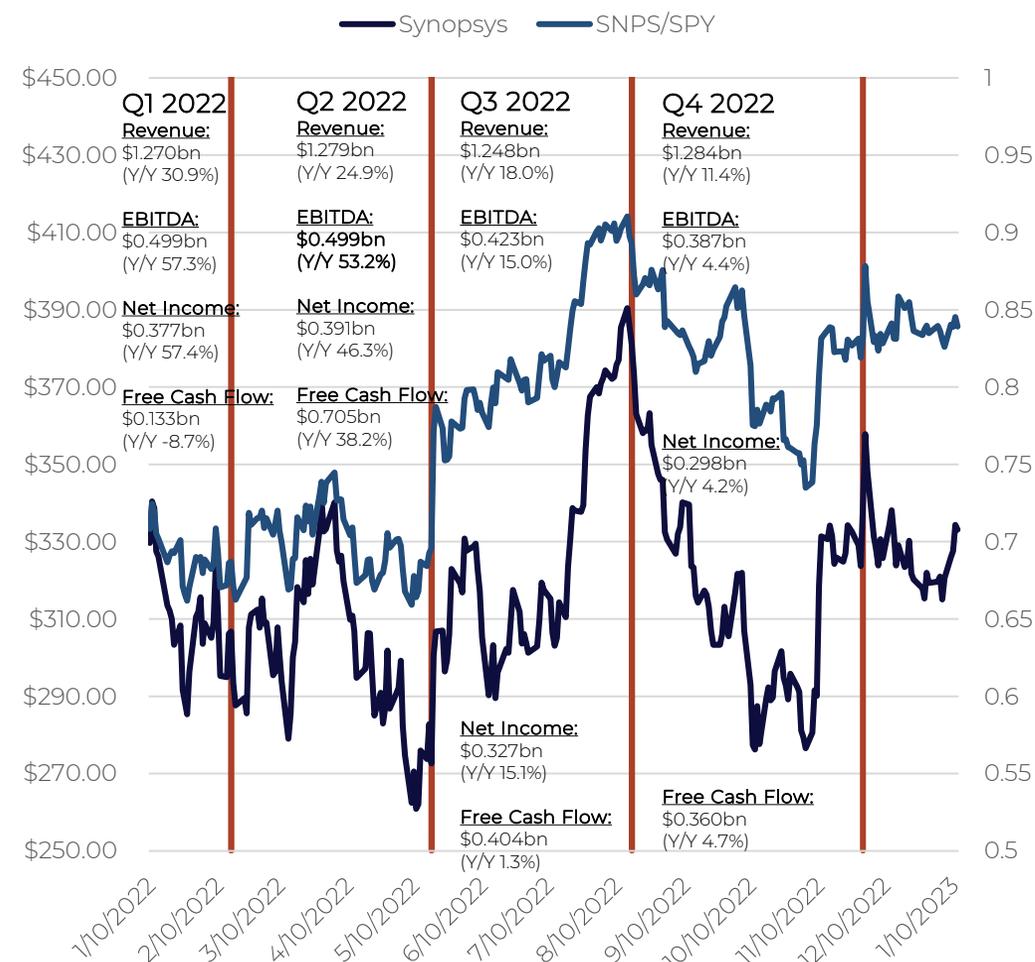
- **Strength In Semiconductor Design:** While semiconductor industry revenue growth has moderated, design activity remains robust. In addition, our term-based business model, with \$7.1bn of noncancelable backlog and diversified customer base.
- **Secular Trends In AI & Smart Devices:** First, the macro quest for smart everything devices and, with it, AI and big data infrastructure is unrelenting and expect it to drive a decade of strong semiconductor growth. Second, semiconductor and systems companies, be it traditional or new entrants, prioritize design engineering throughout the economic cycle precisely to be ready to feel competitive new products when the market turns upward again.
- **Specialized Chips:** Our customers are racing to differentiate along 3 axes: first, still higher complexity chips with massive compute capability; second, super tightly integrated systems of chips optimized for the software that will run on them; and third, increasing focus on security and safety across both software and hardware in virtually all vertical segments.

| | P/E | P/S | Market Cap/FCF | EV/EBITDA | P/B |
|-----|-------|------|----------------|-----------|-----|
| NTM | 32.22 | 8.75 | 34.01 | 23.77 | NA |
| TTM | 52.94 | 9.99 | 31.80* | 37.36 | 9.2 |

*Levered FCF

Sources: Synopsys IR, TIKR, Blue Line Capital

Quarterly Data

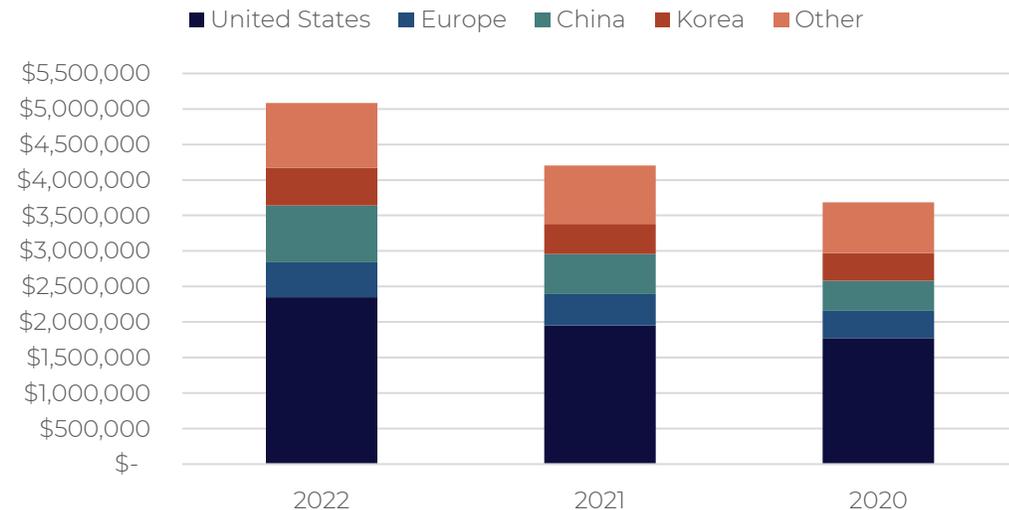


Synopsys Segment Trends

Cyclical & Secular Trends

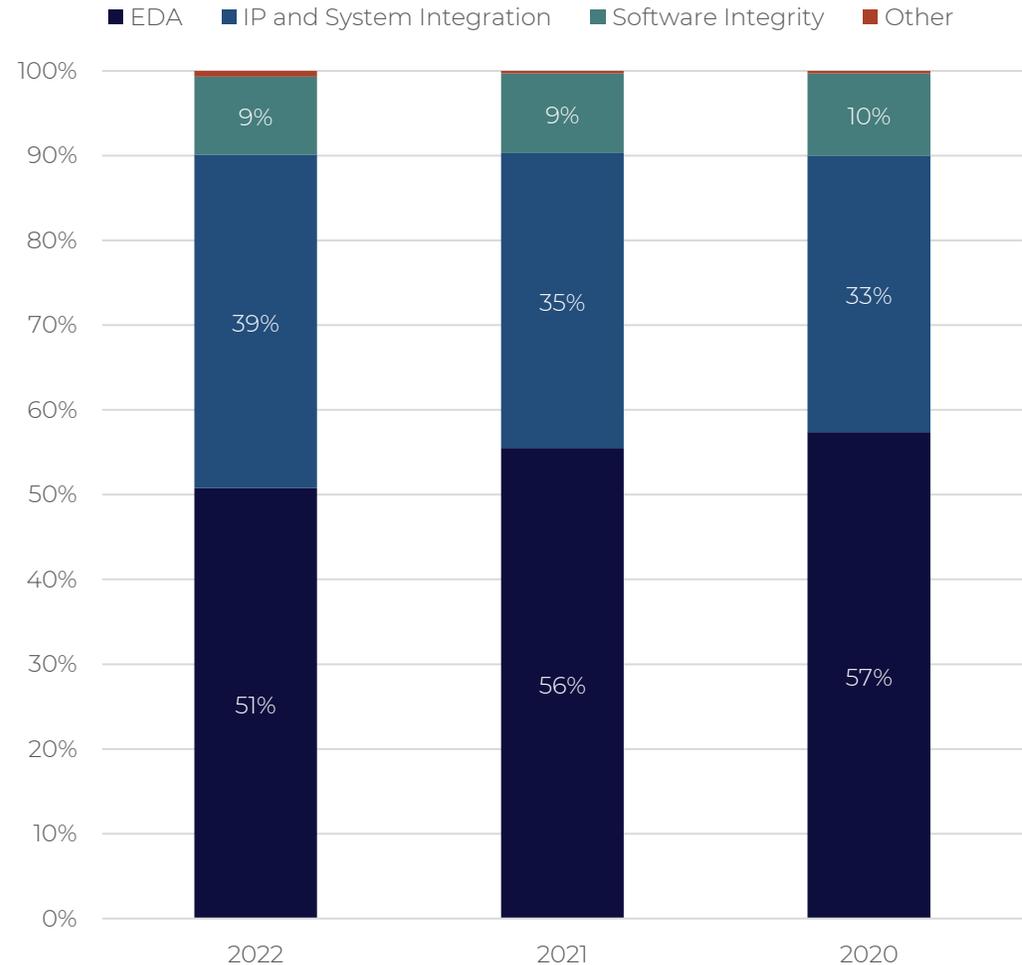
- **Specialized Chip Design:** As Moore's Law is getting ever more challenged by the limits of physics, chips become more specialized rather than relying on central processing units with more compute.
- **Chip Inventory Cycle:** Synopsys' business has proven to be extremely resilient against the traditional inventory cycle.
- **Geopolitical Importance Of Semis:** Semis are of geopolitical importance, indicating that Synopsys will benefit in a duopoly design industry.

Revenue By Geography



Sources: Synopsys IR, Blue Line Capital

Revenue By Segment



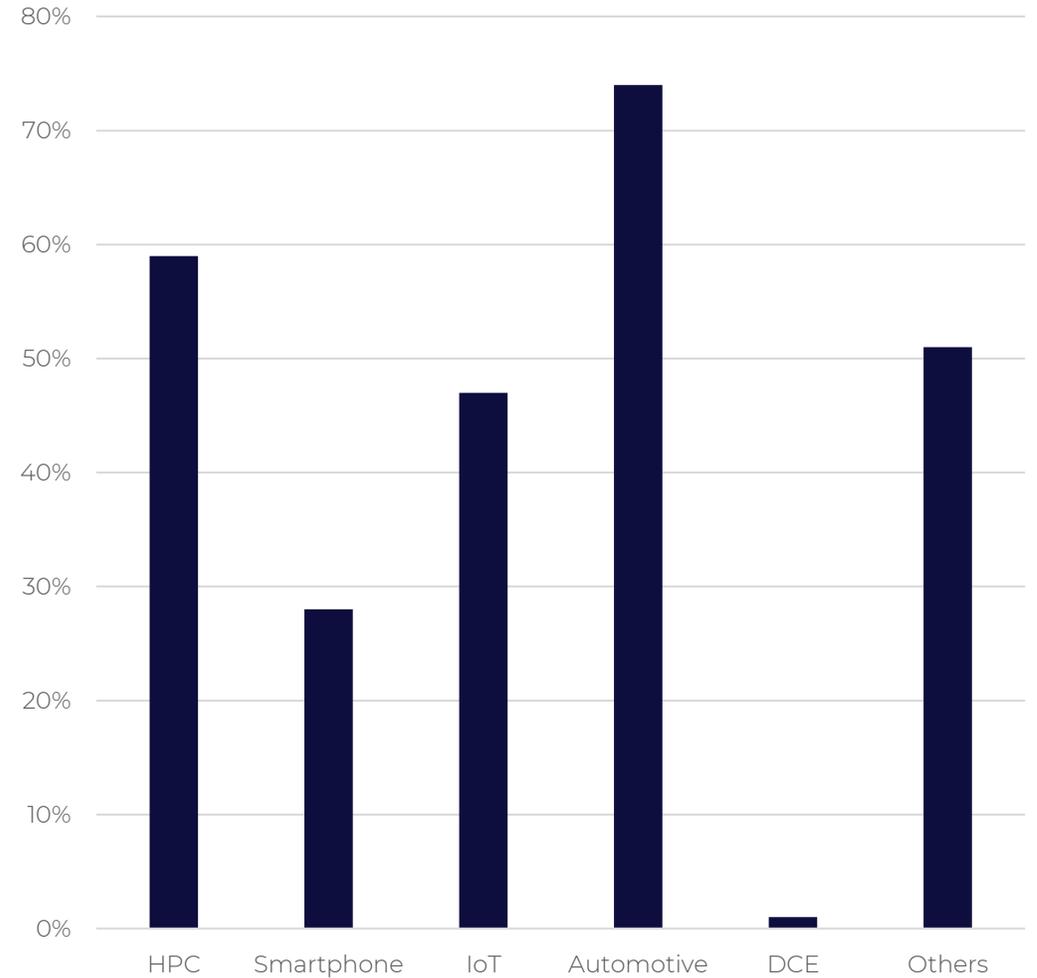
Industry Trends

Samsung Device Solutions Y/Y Revenue Trend



Sources: Samsung IR, Taiwan Semi IR, Blue Line Capital

Taiwan Semiconductor Y/Y Growth Rate By Segment



Synopsys Expectations & Returns

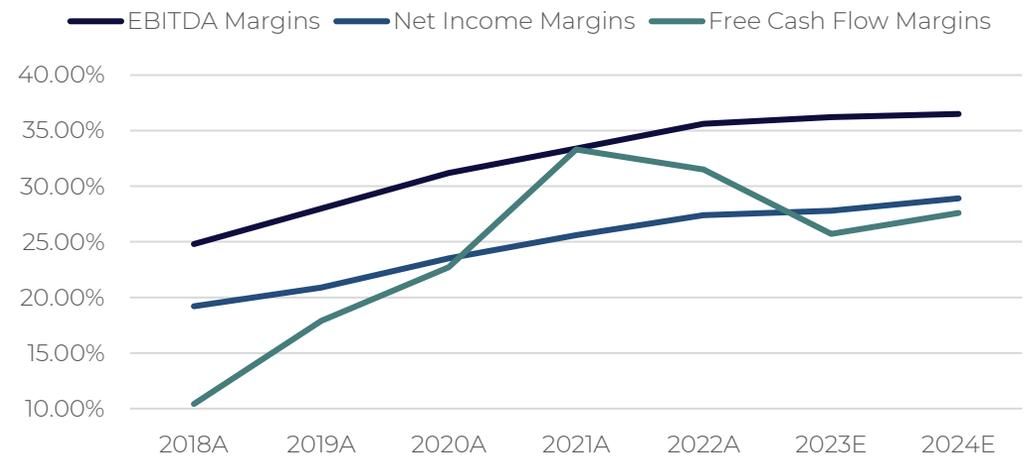
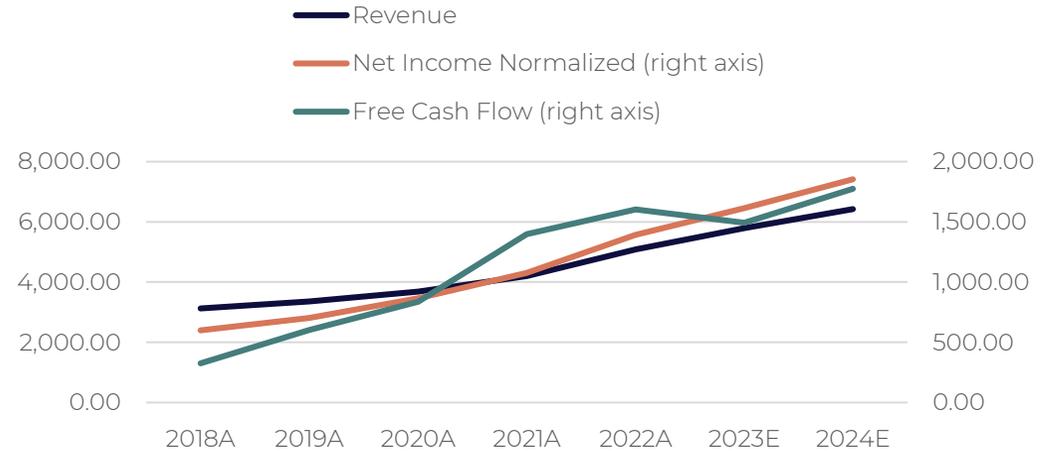
Return Ratios Compared To 2019

Profitability and return metrics have been trending, indicating resilient demand trends in a duopoly design industry.

| | | LTM | 2019 |
|----------------|---------------------------------|--------|--------|
| Return Ratios | RoA | 8.10% | 5.70% |
| | RoC | 18.90% | 13.40% |
| | RoE | 18.00% | 14.10% |
| Margins | Gross Profit Margin | 80.40% | 79.40% |
| | EBITDA Margin | 26.30% | 21.10% |
| | Net Income Margin | 19.40% | 15.80% |
| | Levered Free Cash Flow Margin | 31.40% | 10.40% |
| Asset Turnover | Asset Turnover | 0.54 | 0.52 |
| | Fixed Asset Turnover | 5.06 | 9.1 |
| | Receivables Turnover | 5.32 | 5.1 |
| | Inventory Turnover | 4.52 | 5.25 |
| Solvency | Total Debt/Equity | 11.80% | 3.40% |
| | Total Debt/Capital | 10.60% | 3.30% |
| | EBITDA/Interest Expense | 847.46 | 60.9 |
| | (EBITDA/Capex)/Interest Expense | 767.01 | 43.91 |

Sources: Synopsys IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Synopsys Vs. Peers

| | EV/EBITDA | NTM P/E | Past 3M Return | Past 6m Return | Past 12m Return |
|------------------------|-----------|---------|----------------|----------------|-----------------|
| Synopsys | 22.47 | 30.9 | 14% | 4% | 10% |
| Cadence Design Systems | 28.41 | 38.09 | 9% | 5% | 9% |
| Applied Materials | 13.27 | 16.08 | 36% | 14% | -6% |
| Broadcom | 12.08 | 14.07 | 31% | 16% | -2% |
| Qualcomm | 8.86 | 11.4 | 4% | -19% | -16% |
| Akamai Technology | 10.10 | 16.28 | 9% | -1% | -27% |
| Nvidia | 44.28 | 40.86 | 33% | 1% | -27% |
| Median | 13.27 | 16.28 | 14% | 4% | -6% |
| Mean | 19.92 | 23.95 | 19% | 3% | -8% |

Sources: TIKR, Google Finance, Blue Line Capital



Wells Fargo

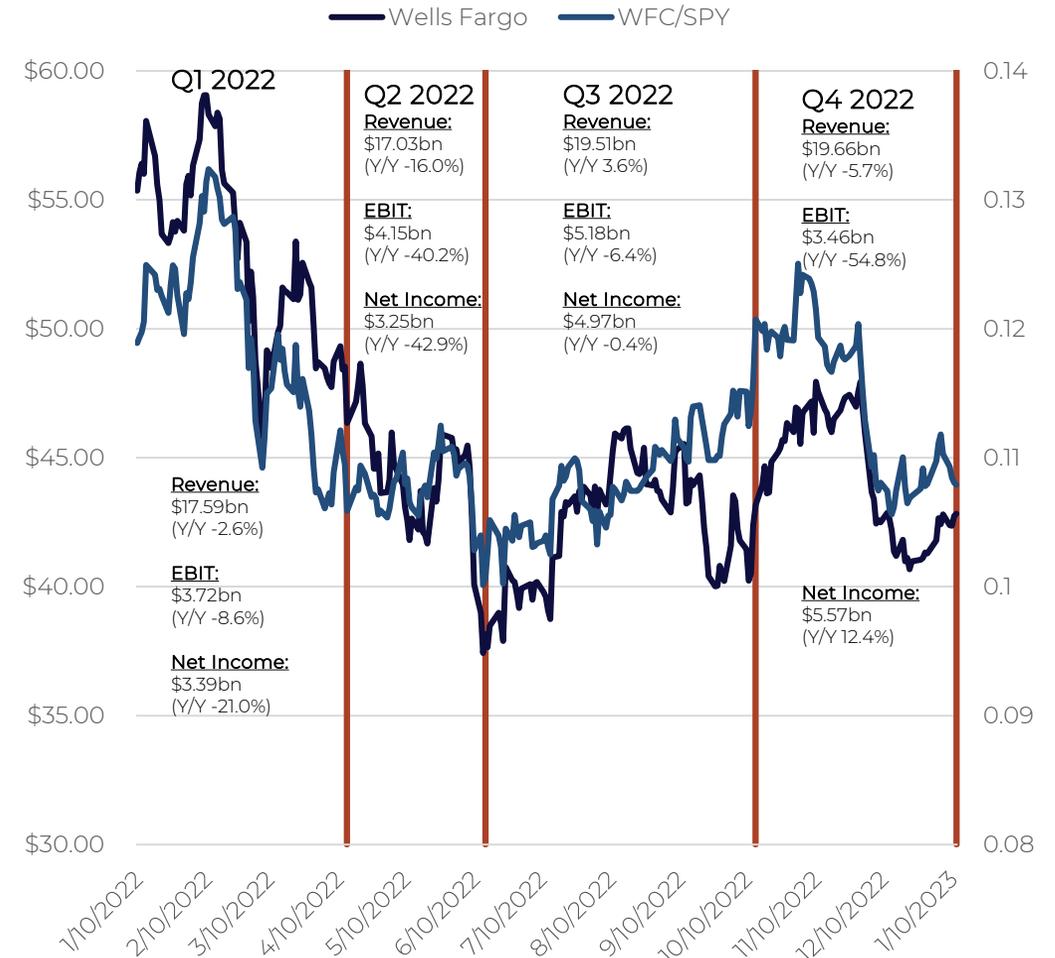
Deposit Withdrawal, Lending Activity, Economic
Conditions

Wells Fargo Earnings Highlights & Stock Performance

Management Commentary From Q4 2022 Earnings Call

- **Consumer Credit:** We are starting to see the impact on consumer spend, credit, housing and demands for goods and services, but at this point, the impact of consumers and businesses has been manageable. And though there will certainly be some industries and segments that are more impacted than others, the rate of impact in our customers base is not materially accelerating.
- **Net Interest Income:** Putting this all together, we currently expect net interest income to grow by approximately 10% in 2023 versus 2022. Ultimately, the amount of net interest income we earned in 2023 will depend on a variety of factors, many of which are uncertain including the absolute level of interest rates, the shape of the yield curve, deposit balances, mix and pricing in loan demand.
- **On Cash Alternatives:** We're seeing it kind of most acutely happen in the wealth business as people move into cash alternatives, out of deposits, and that's what's happening in a lot of wealth management businesses these days as people move that cash around.

Quarterly Data



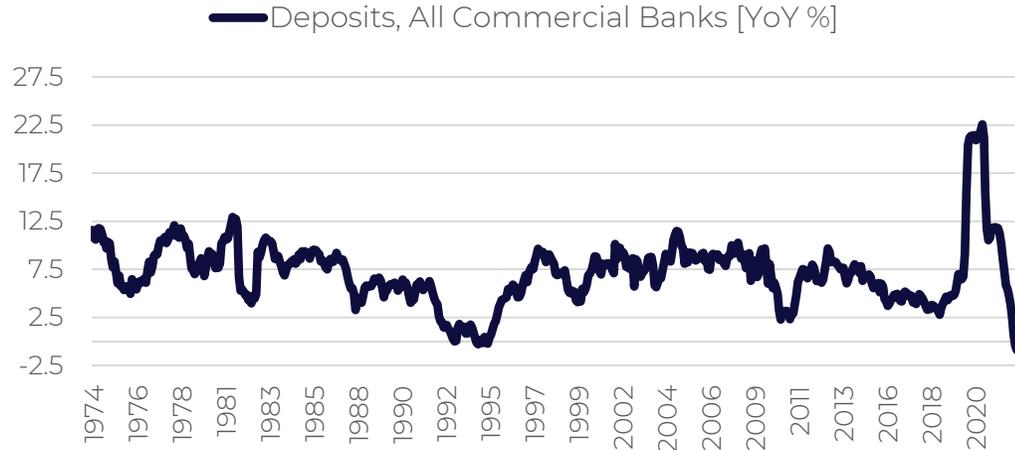
| | P/E | P/S | Market Cap/FCF | EV/EBITDA | P/B |
|-----|-------|------|----------------|-----------|------|
| NTM | 8.68 | 2.15 | NA | NA | NA |
| TTM | 14.08 | 2.35 | NA | NA | 1.05 |

*Levered FCF

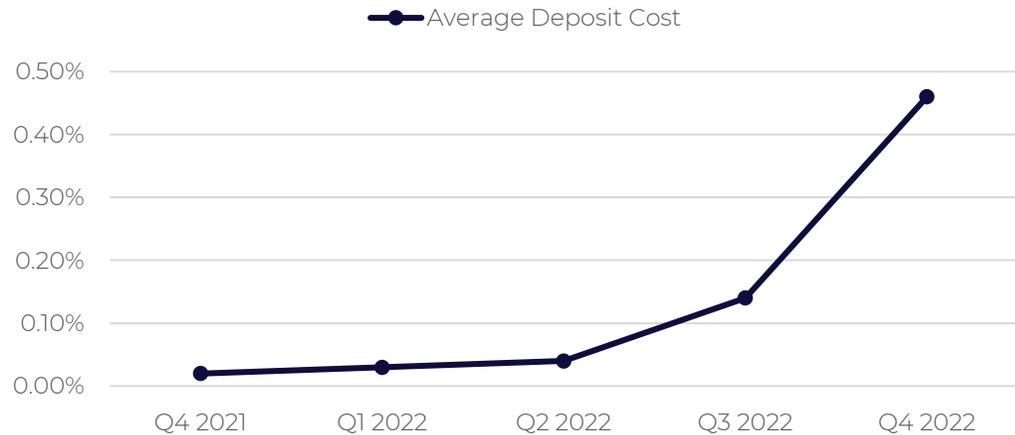
Sources: Wells Fargo IR, TIKR, Blue Line Capital

Wells Fargo Deposit Trends

Withdrawal Of Cheap Capital For Banks

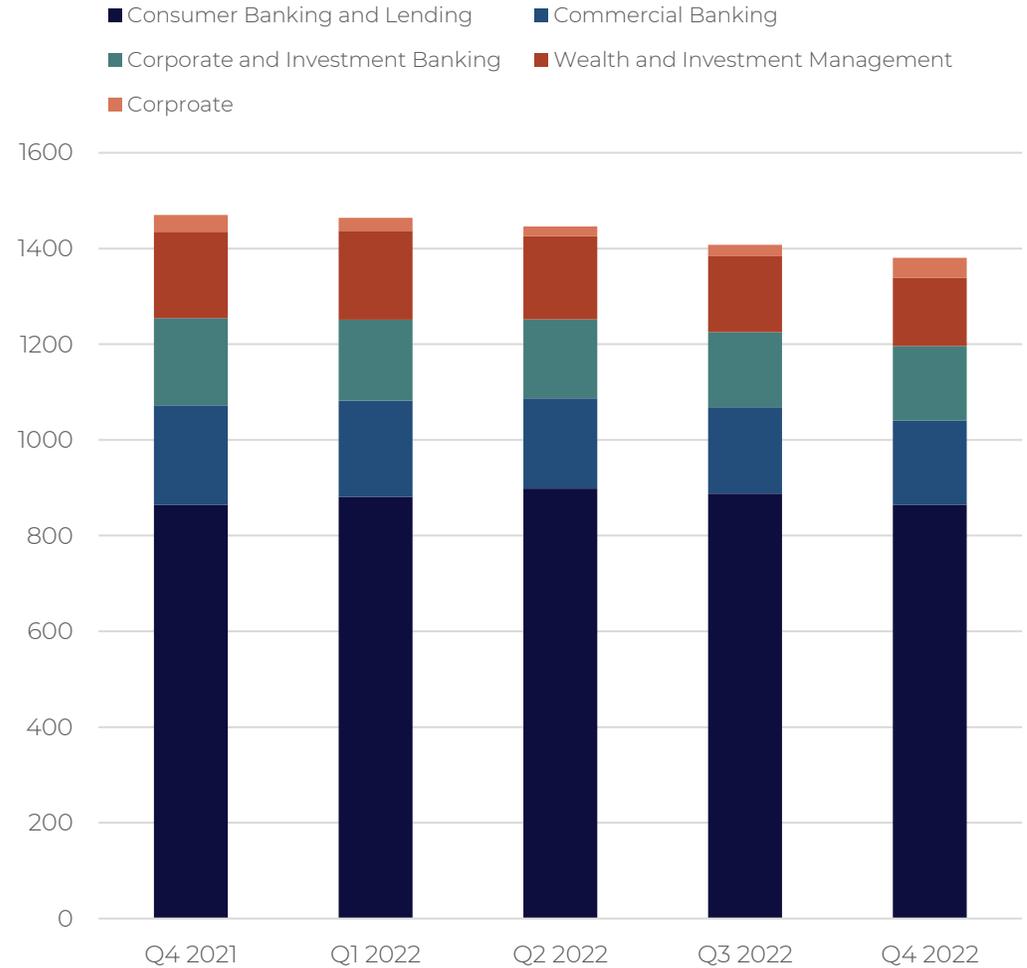


Deposit Costs Rising, But Low Considering Fed Funds At 425-450bps



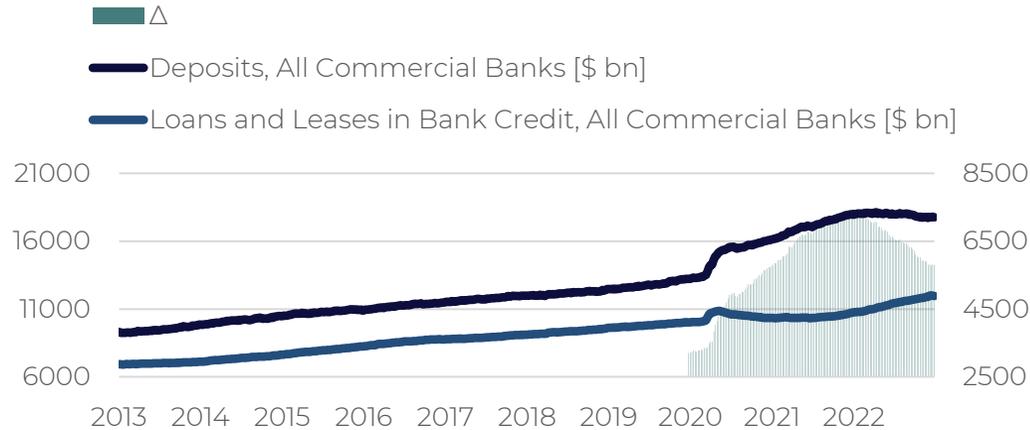
Sources: Wells Fargo IR, FRED, Blue Line Capital

Deposit Levels By Division (\$ in bn)

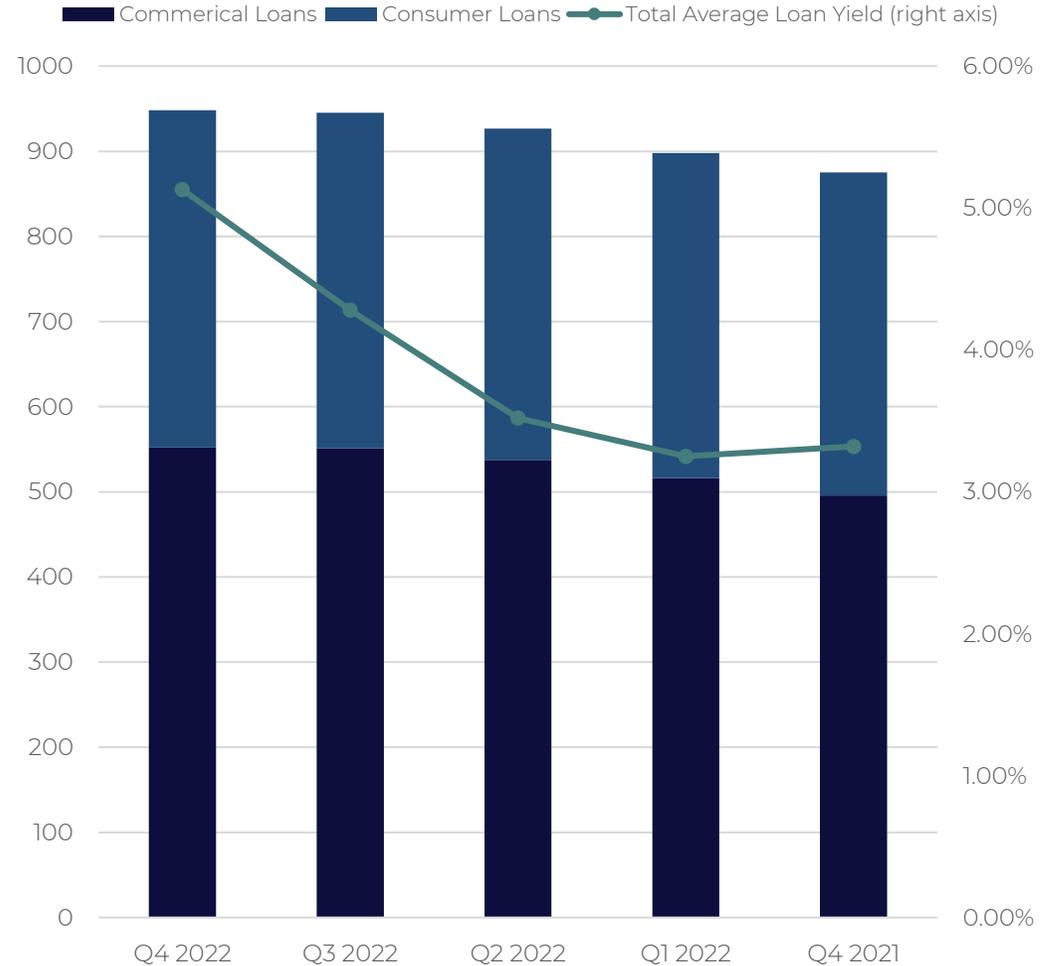


Wells Fargo Loan and Net Interest Trends

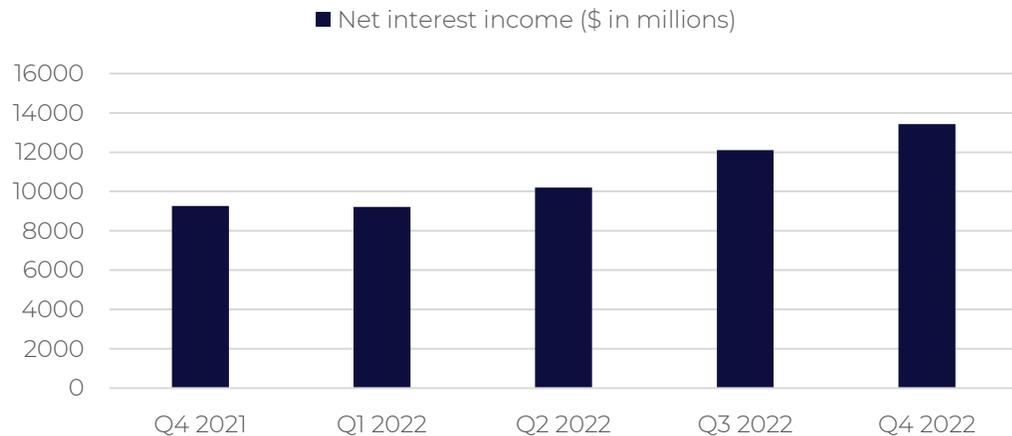
Loan Activity Rising Along A Deposits Decline



While Loan Activity In Autos & Housing Has Declined, Overall Activity Along With Interest Earned Is Strong



Net Interest Income Setting Cyclical Highs



Sources: Wells Fargo IR, FRED, Blue Line Capital

Wells Fargo Expectations & Returns

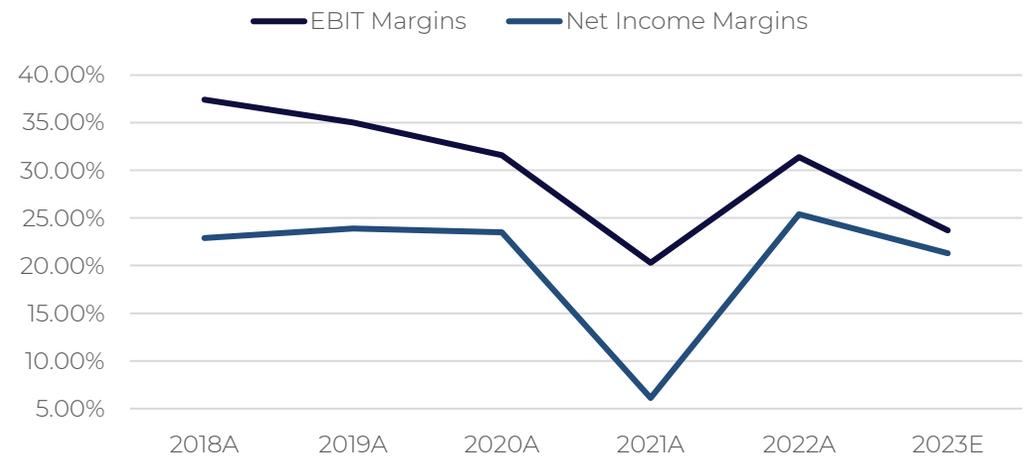
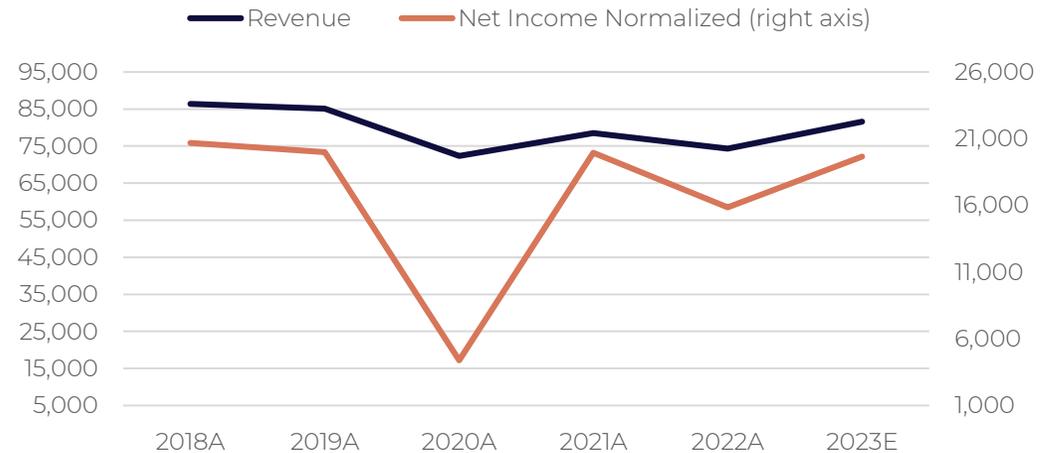
Return Ratios Compared To 2019

Wells Fargo's margins under pressure despite net interest income rising significantly, leading to lower multiples.

| | | LTM | 2019 |
|----------------|---------------------------------|--------|--------|
| Return Ratios | RoA | 0.70% | 1.10% |
| | RoC | NA | NA |
| | RoE | 6.90% | 10.50% |
| Margins | Gross Profit Margin | NA | NA |
| | EBT Margin | 20.70% | 30.80% |
| | Net Income Margin | 18.20% | 23.40% |
| | Levered Free Cash Flow Margin | NA | NA |
| Asset Turnover | Asset Turnover | NA | NA |
| | Fixed Asset Turnover | NA | NA |
| | Receivables Turnover | NA | NA |
| | Inventory Turnover | NA | NA |
| Solvency | Total Debt/Equity | NA | NA |
| | Total Debt/Capital | NA | NA |
| | EBITDA/Interest Expense | NA | NA |
| | (EBITDA/Capex)/Interest Expense | NA | NA |

Sources: Wells Fargo IR, TIKR, Blue Line Capital

Revenue and Net Income Estimates



Wells Fargo Valuation Vs. Peers

| | LTM Price/Book | NTM P/E | Past 3M Return | Past 6m Return | Past 12m Return |
|-----------------------------|----------------|---------|----------------|----------------|-----------------|
| Wells Fargo | 1.03 | 8.62 | 5% | 9% | -10% |
| J.P. Morgan | 1.59 | 10.88 | 34% | 28% | 8% |
| Goldman Sachs | 1.17 | 10.77 | 21% | 27% | 8% |
| Bank of America | 1.14 | 10.03 | 14% | 13% | -12% |
| Morgan Stanley | 1.63 | 13.28 | 16% | 19% | 3% |
| Charles Schwab | 6.01 | 18.44 | 19% | 41% | 14% |
| Discover Financial Services | 2.18 | 7.32 | 15% | 6% | -9% |
| Median | 1.59 | 10.77 | 16% | 19% | 3% |
| Mean | 2.11 | 11.33 | 18% | 21% | 0% |

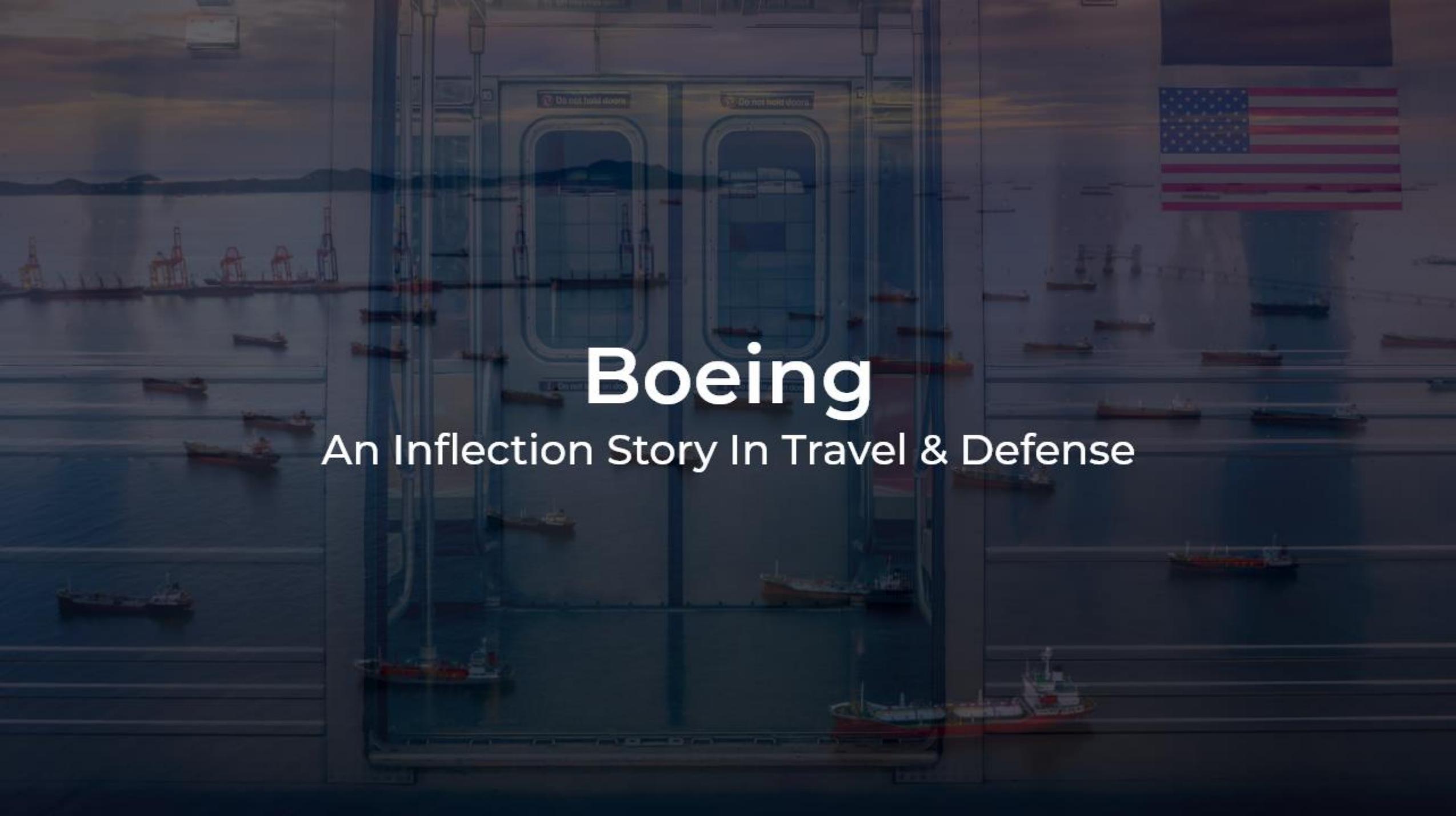
Sources: TIKR, Google Finance, Blue Line Capital

1/16/2023

Blue Line Capital maintains a long position in Wells Fargo.

21

BLUE LINE CAPITAL



Boeing

An Inflection Story In Travel & Defense

Boeing Earnings Highlights & Stock Performance

Management Commentary From Q3 2022 Earnings Call

- **Bookings & China:** Bookings in pretty much every geography is strong with the exceptions of China. It is really hard for me to find signals that things are going to change in China and move in our direction.
- **People & Training:** We've added more than 10,000 people this year, and we are investing in training and development to accelerate their experience curve and improve our productivity over time.
- **787 & 737 Max:** We have reached important milestones across the business and made progress on commercial deliveries with the resumption of the 787 in August. Also, the 737 MAX return to service is largely complete, and we're de-risking the near-term delivery skyline for China.
- **Global Travel Trends:** In August, domestic traffic was at 85% of 2019 levels led by the U.S., Europe and Latin America. Going forward, the recovery will be driven by China domestic and international traffic, which remain below 2019 levels at 62% and 67%, respectively. In aggregate, commercial passenger traffic was at 74% of 2019 levels.

| | P/E | P/S | Market Cap/FCF | EV/EBITDA | P/B |
|-----|--------|------|----------------|-----------|-------|
| NTM | 106.93 | 1.6 | 19.31 | 25.69 | NA |
| TTM | -15.03 | 2.08 | 30.79* | -63.65 | -7.21 |

*Levered FCF

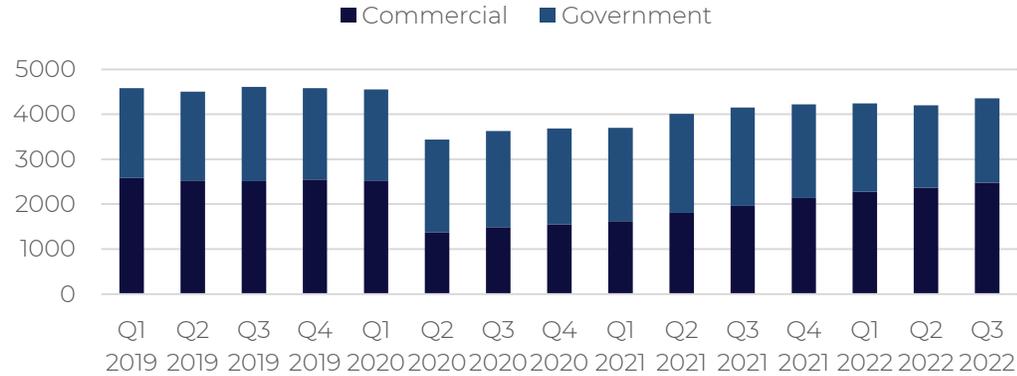
Sources: Boeing IR, TIKR, Blue Line Capital

Quarterly Data

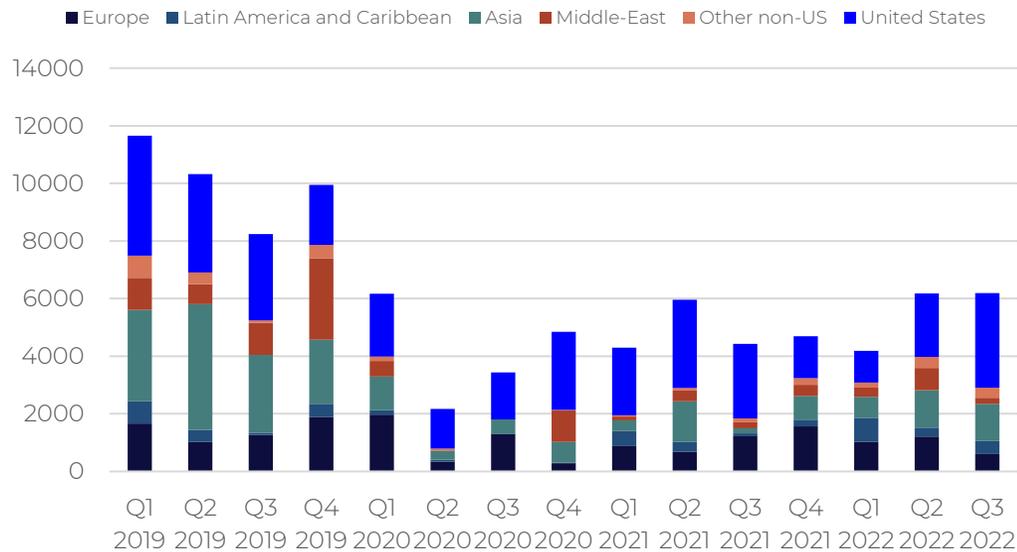


Boeing Segment Trends

Services Offering Stability Amidst Commercial Uncertainties

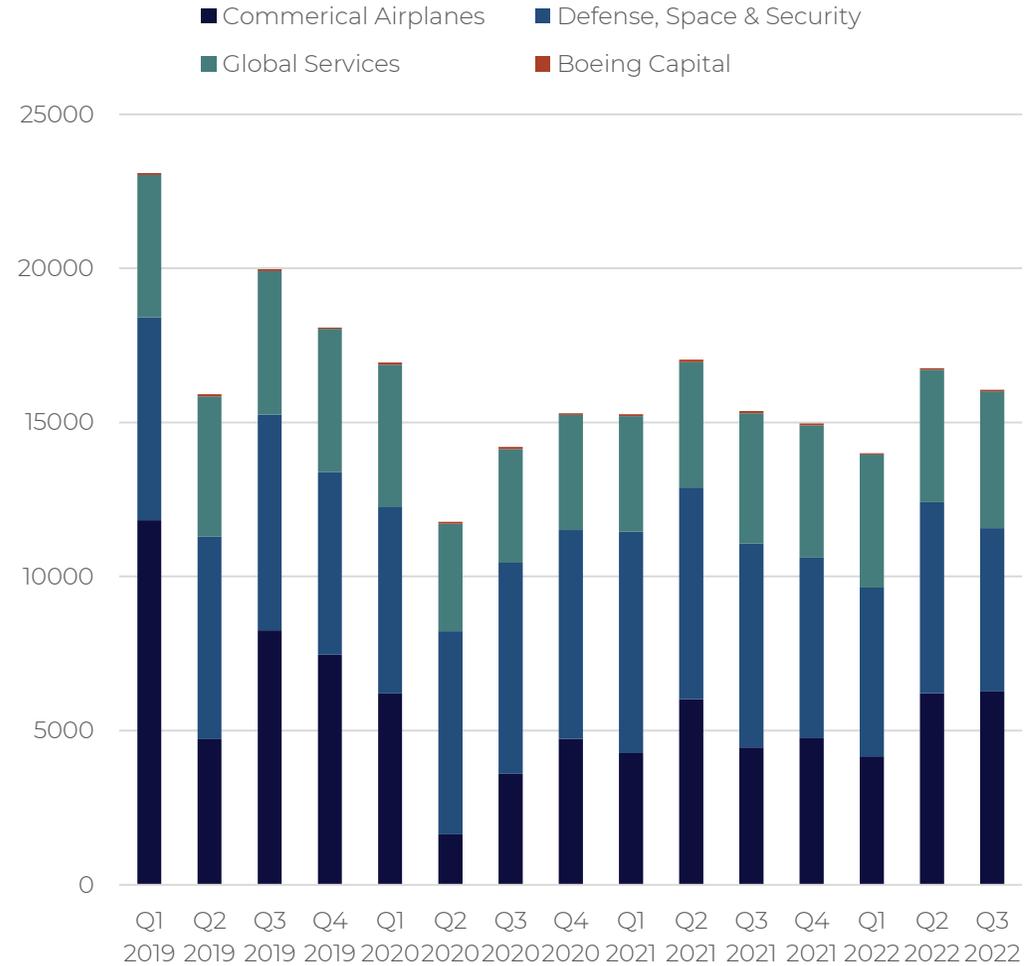


Geographic Revenue Trends



Sources: Boeing IR, Blue Line Capital

Revenue By Segment



Boeing Expectations & Returns

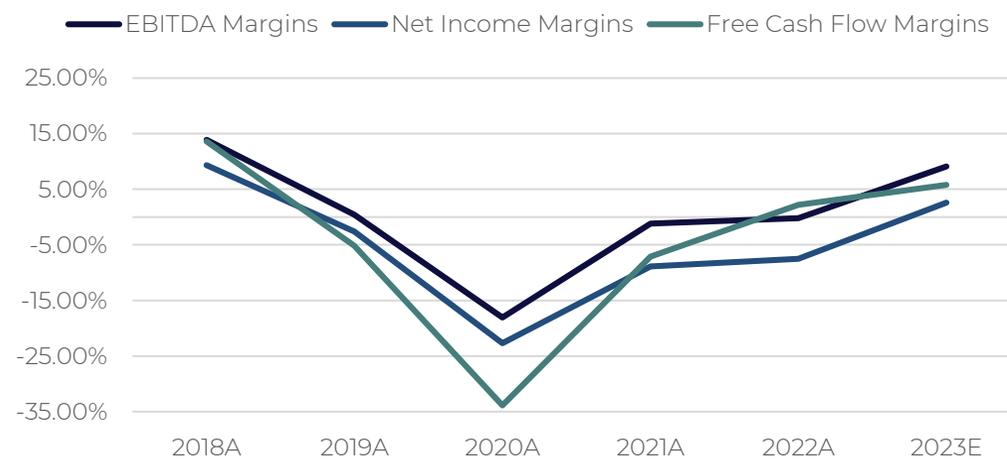
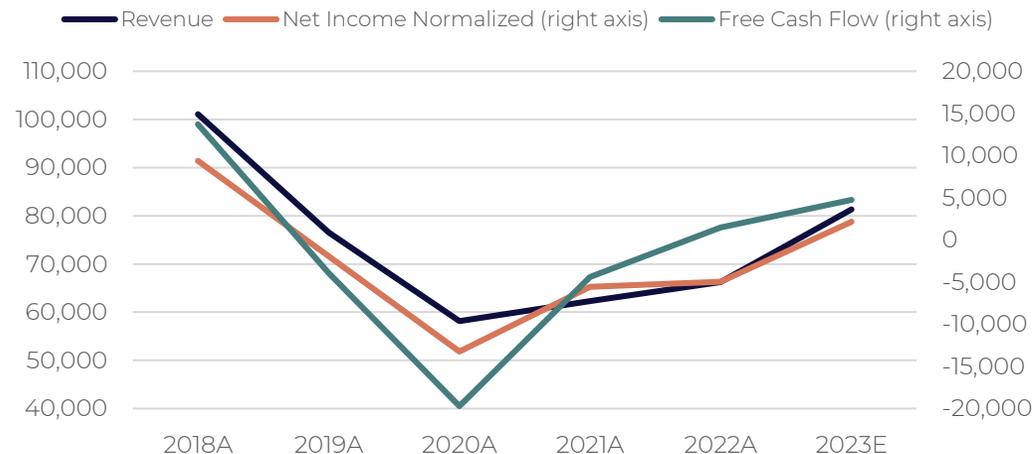
Return Ratios Compared To 2019

Return ratios have been dismal across the board, which turns investors' attention to the 'new normal' post-Covid.

| | | LTM | 2019 |
|----------------|---------------------------------|----------|----------|
| Return Ratios | RoA | -2.10% | -1.00% |
| | RoC | -11.80% | -10.20% |
| | RoE | 53.60% | 16.10% |
| Margins | Gross Profit Margin | 1.50% | 6.20% |
| | EBITDA Margin | -4.40% | 0.20% |
| | Net Income Margin | -13.70% | -0.80% |
| | Levered Free Cash Flow Margin | 6.70% | -3.70% |
| Asset Turnover | Asset Turnover | 0.45 | 0.57 |
| | Fixed Asset Turnover | 5.68 | 5.82 |
| | Receivables Turnover | 5.07 | 5.84 |
| | Inventory Turnover | 0.75 | 1.03 |
| Solvency | Total Debt/Equity | -324.50% | -343.80% |
| | Total Debt/Capital | 143.70% | 138.20% |
| | EBITDA/Interest Expense | -0.9 | 0.69 |
| | (EBITDA/Capex)/Interest Expense | -1.33 | -1.85 |

Sources: Boeing IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Boeing Valuation Vs. Peers

| | EV/EBITDA | NTM P/E | Past 3M Return | Past 6m Return | Past 12m Return |
|------------------|-----------|---------|----------------|----------------|-----------------|
| Boeing | 25.1 | 105.19 | 60% | 42% | 16% |
| Airbus | 11.14 | 21.57 | 24% | 15% | 9% |
| Raytheon | 16.41 | 20.47 | 20% | 11% | -4% |
| General Dynamics | 14.26 | 18.54 | 11% | 18% | 2% |
| Northrop Grumman | 17.3 | 21.91 | 1% | 8% | 6% |
| Lockheed Martin | 12.67 | 17.42 | 16% | 15% | -1% |
| Honeywell | 16.41 | 23.14 | 22% | 25% | 10% |
| Median | 16.41 | 21.57 | 20% | 15% | 6% |
| Mean | 16.18 | 32.61 | 22% | 19% | 5% |

Sources: TIKR, Google Finance, Blue Line Capital

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Blue Line Capital maintains no position in Boeing.

26

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