



# Blue Line Futures Macro Corner

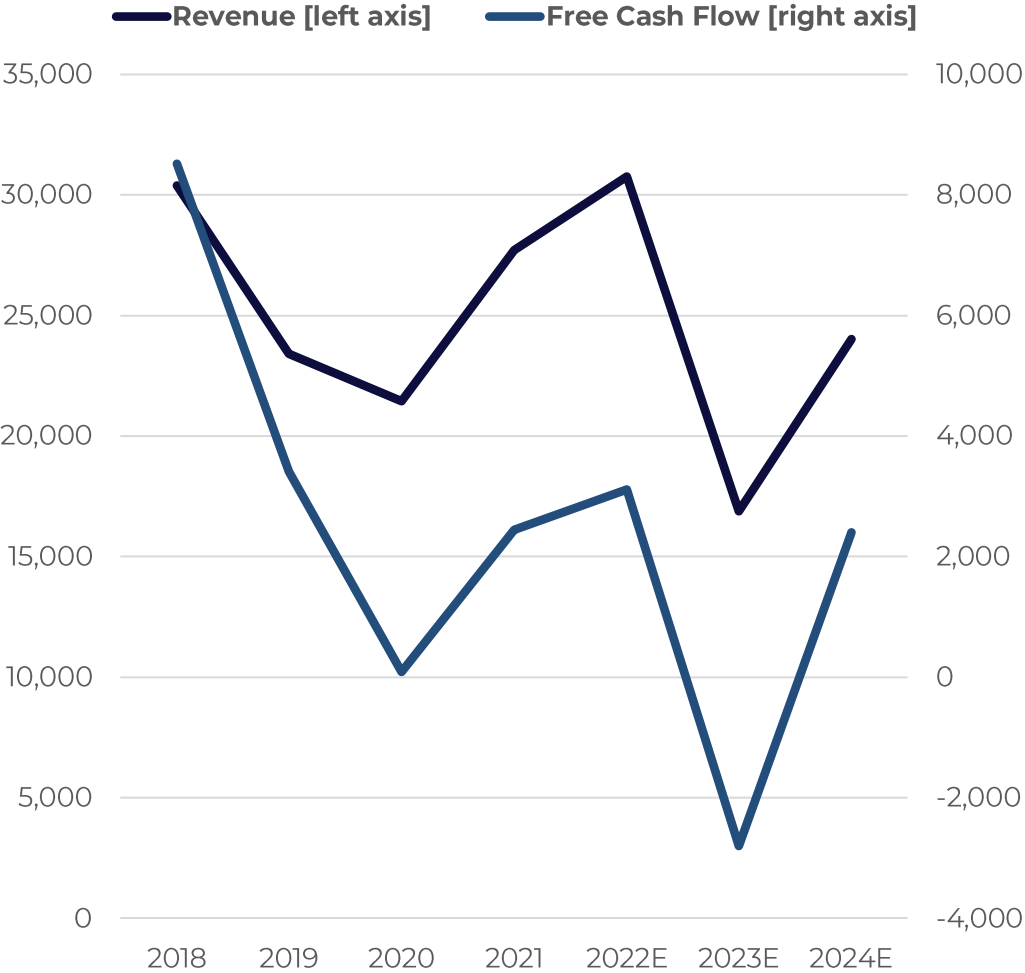
The State Of Corporate America  
Episode 29

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Paul Wankmueller, CMT & Jannis Meindl

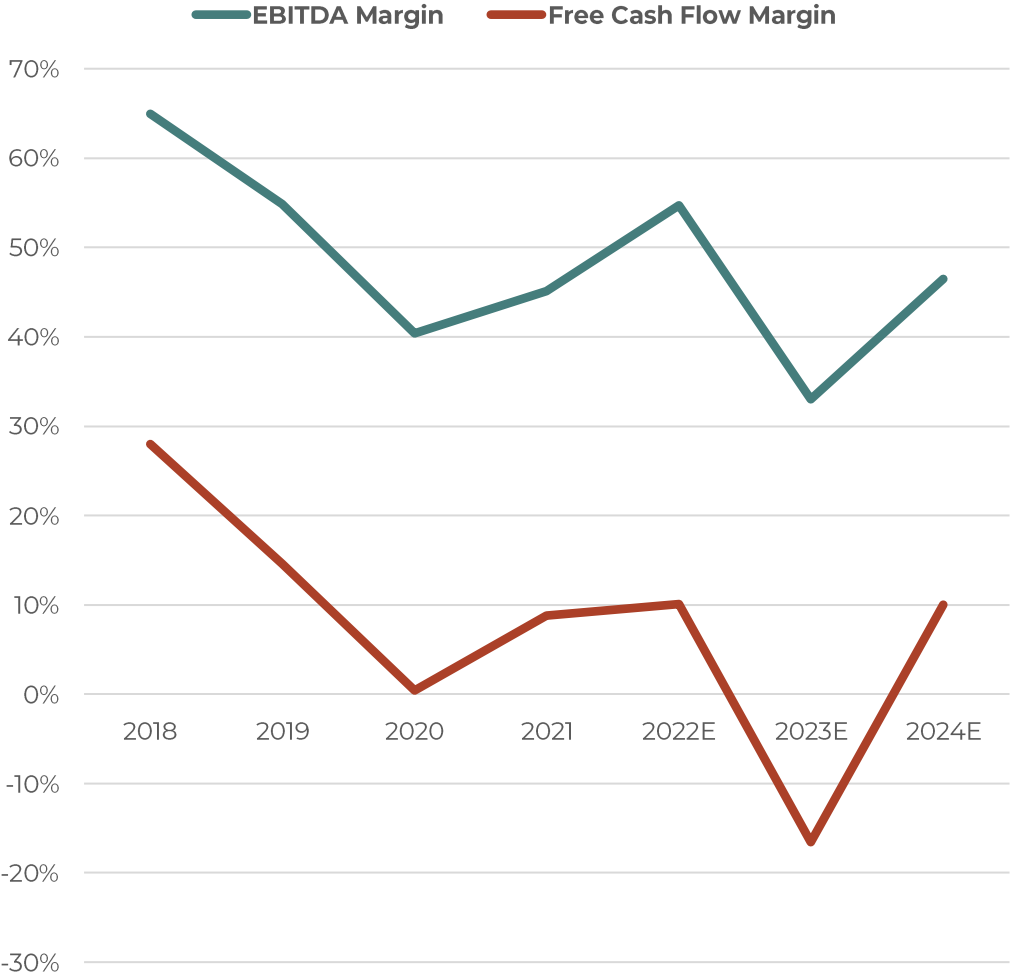
# Micron Technology

Following The Traditional Semi Inventory Cycle, Over-Ordering From The Past Is Getting Punished Today.



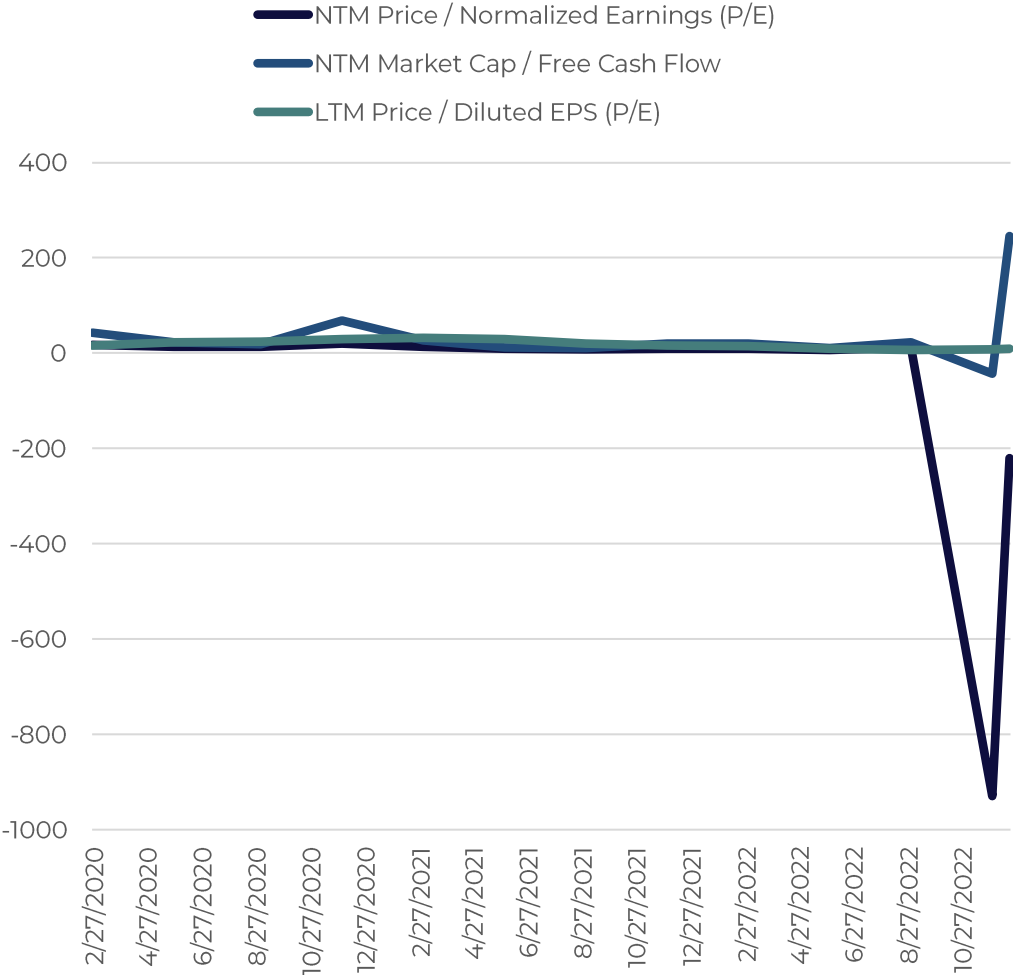
Sources: TIKR, Blue Line Futures

Margins Are Expected To Decline Further Into 2023 But Anticipated To Recover In 2024.



# Micron Multiples & Ratios

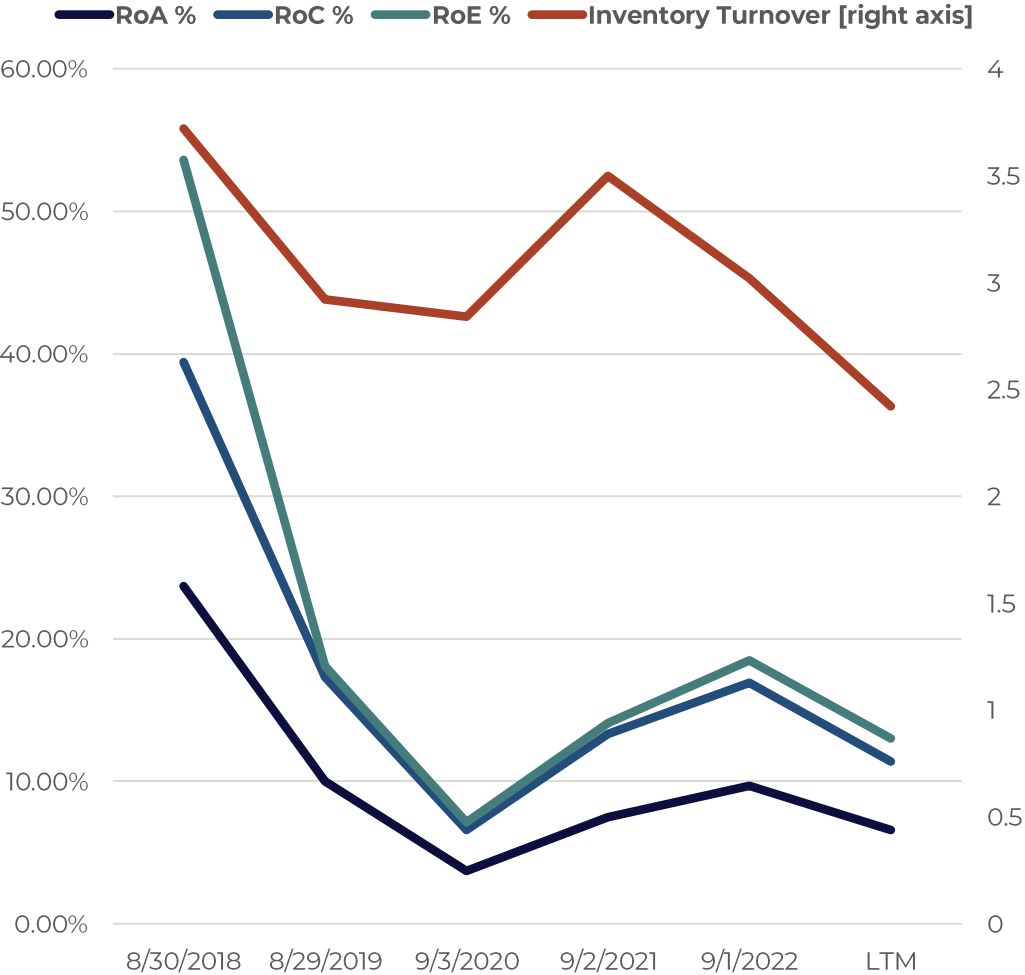
As Fundamental Numbers Swing Around, So Do Multiples. Attention Shifts To Calendar Year 2023 And 2024.



Sources: TIKR, Blue Line Futures

12/25/2022

As Sales Have Slowed, Inventory Turnover Has Too. Simultaneously, Lower Income Has Led To A Compression Of Returns.



# Micron Earnings Highlights & Stock Performance

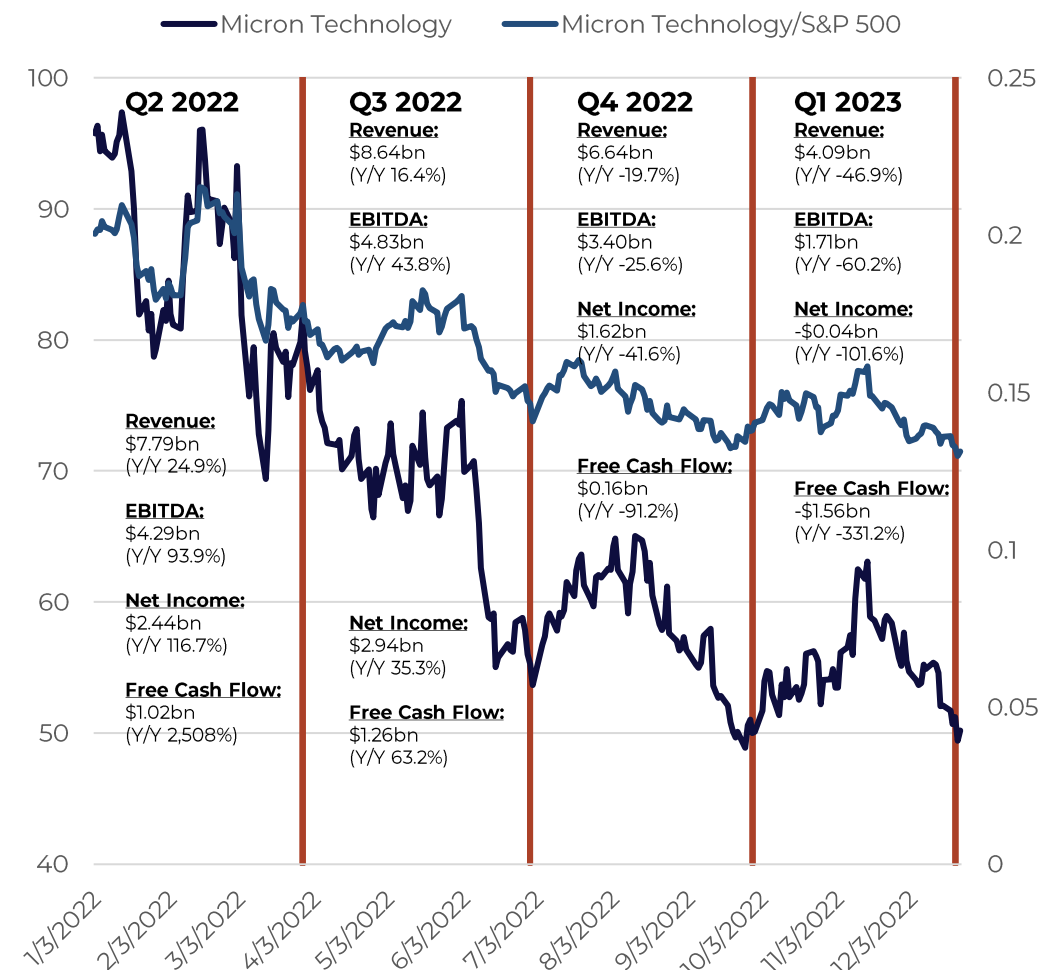
## Quotes From Q1 2023 Earnings Call

- ...we're assuming 10% to 20% through the balance of the fiscal year (underutilization rate)
- We have taken a lot of aggressive actions in '23, reduced our CapEx, reduced our CapEx further on WFE side in '24.
- ...we were at 214 in the second quarter...expect to remain at elevated levels, but down in days in the third quarter then down in the fourth quarter, closer to 150 obviously we are today. (on days of inventory)
- On the smartphone side...pretty sharp pullbacks in calendar '22 in terms of units...unit growth in handsets in 2023 as some expectations that China's recovery will start to regain its footing.
- The automotive market is the most resilient...PC market and smartphone market were the ones that entered this downturn first, and those customers have made some progress on the inventory.
- ...since our industry consolidated about a decade ago in DRAM, we have had relatively well-contained cycles and relatively healthy...this cycle, there has been a demand shock ... one for the history books in terms of multi-decade sort of challenges on that front (macro).
- NTM P/E: -26.32 (TTM: 9.01)
- NTM Market Cap/Free Cash Flow: -56.88 (TTM Levered: -56.15)
- NTM EV/EBITDA: 8.85 (TTM: 3.78)

Sources: Micron IR, TIKR, Refinitiv, Blue Line Capital

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## Fundamental Developments (Numbers)



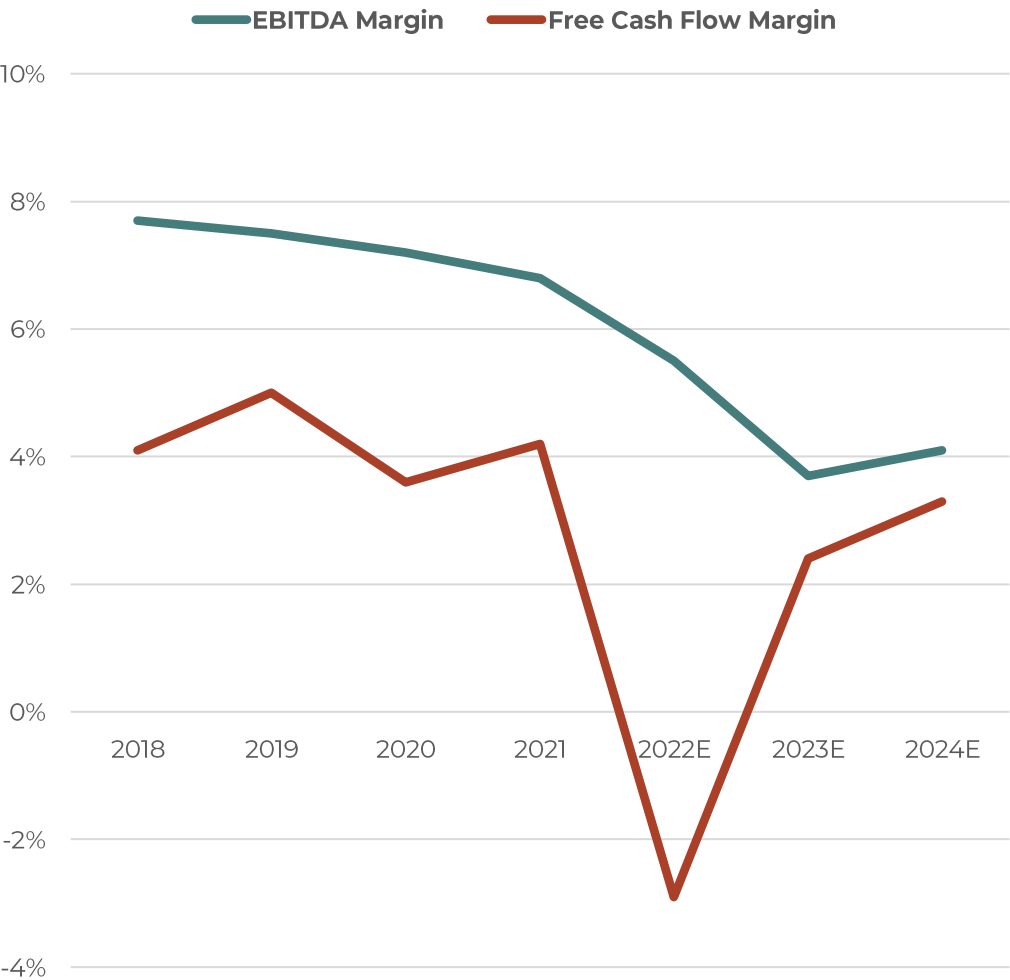
# CarMax

Significant Demand For Cars Has Helped The Revenue Acceleration From 2020 To 2022. A Slower Economy Writ Large Points To A Slowdown.



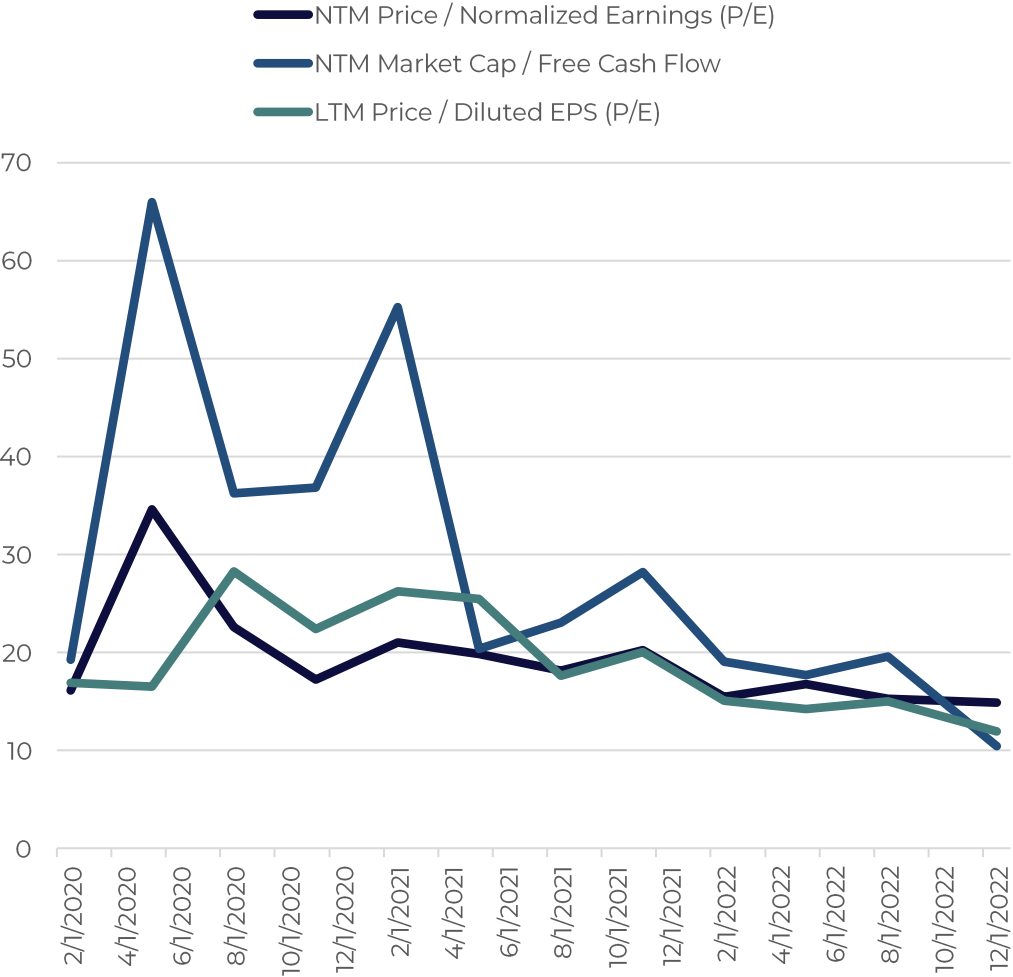
Sources: TIKR, Blue Line Futures

Margin Compression Expected.



# CarMax Multiples & Ratios

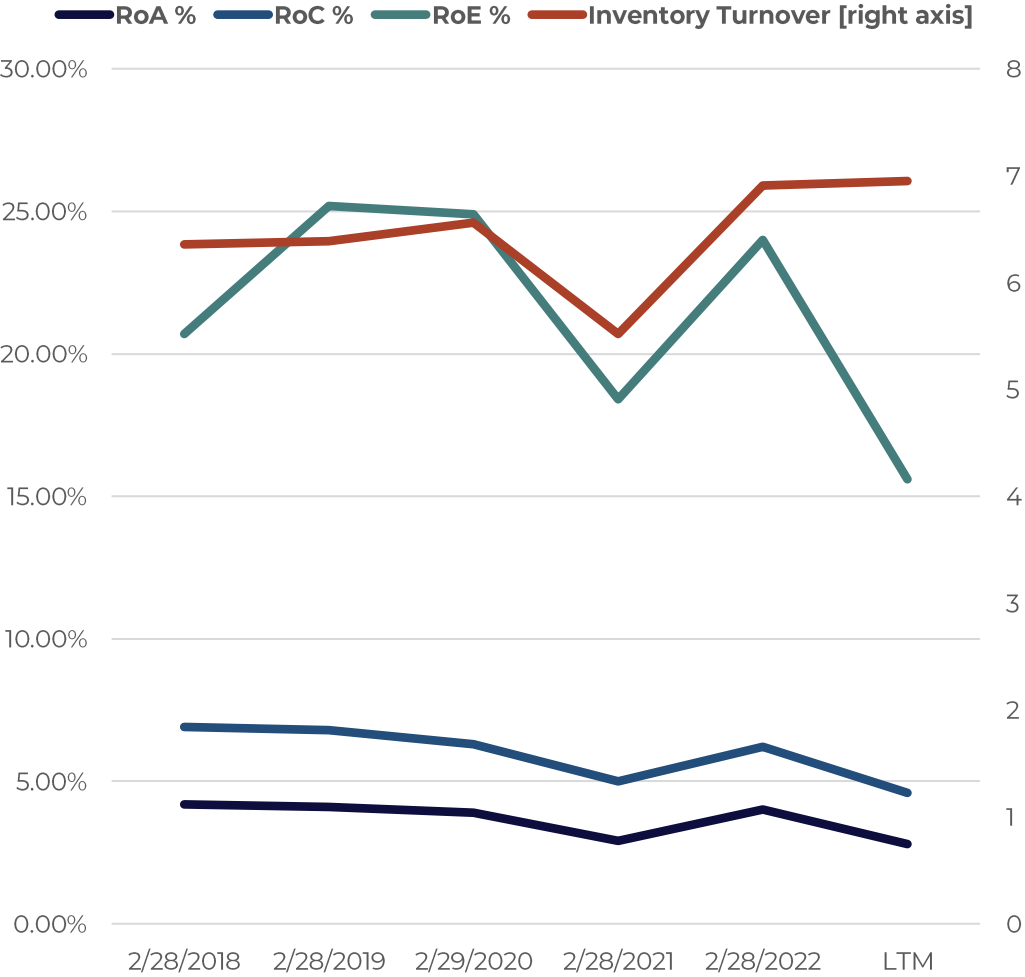
Forward Multiples Are Compressing Across The Board Given The Business Slowdown. CarMax's Forward Multiples Are In Line With The S&P 500.



Sources: TIKR, Blue Line Futures

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Inventory Turnover Has Remained Relatively Resilient, But At Threat Given Consumers May Become Exhausted In 2023.





# CarMax Earnings Highlights & Stock Performance

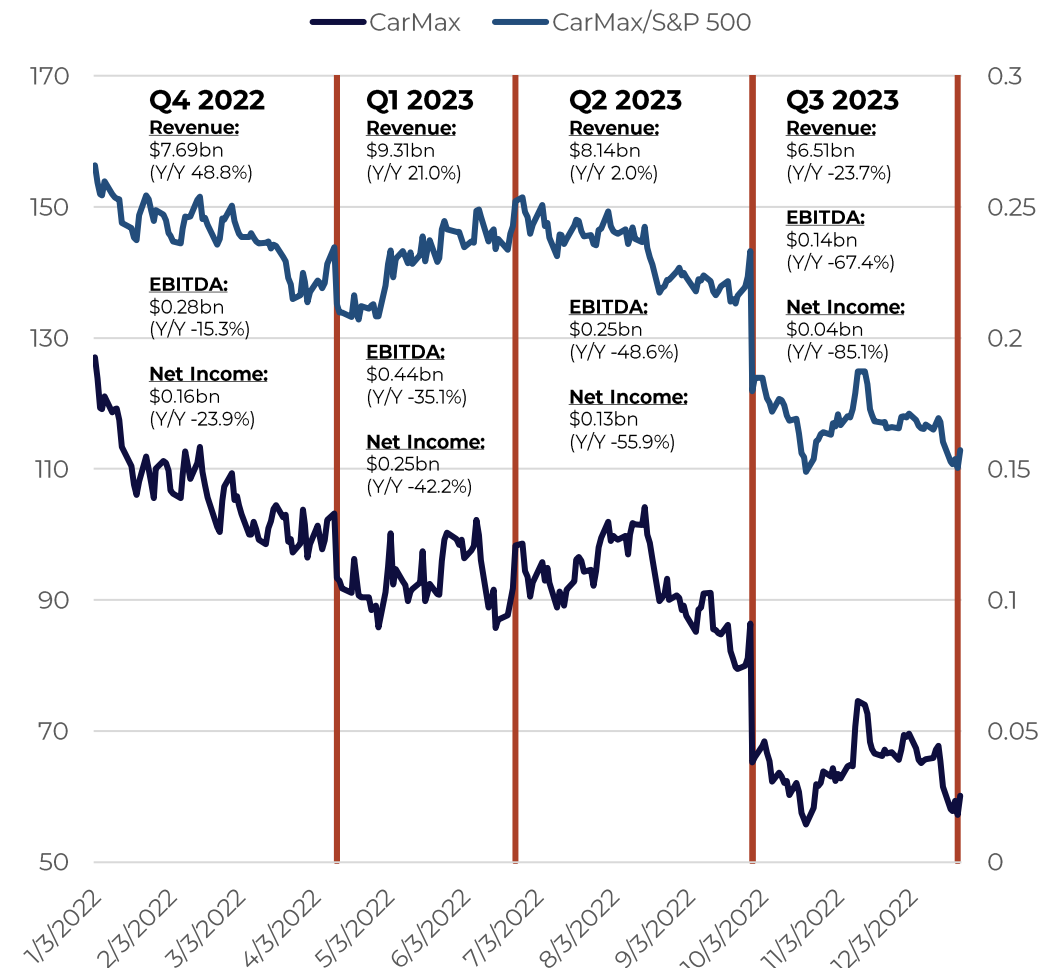
## Quotes From Q3 2023 Earnings Call

- *Our third quarter results reflect the continuation of widespread pressures across the used car industry.*
- *...we've been talking deliberate steps to support our business for both the short term and for the long run.*
- *...selling a higher mix of older, lower-price vehicles, slowing (indiscernible) in light of the steep market depreciation...*
- *...bought approximately 238,000 vehicles from consumers and dealers during the third quarter, down 40% versus last year's period.*
- *CarMax Auto Finance or CAF delivered income of \$152 million, down from \$166 million during the same period last year.*
- *The last time we spoke, it was middle of September – latter part of September, we talked about sales being down in mid-teens. It actually got a little softer by the end of September, and it continued – we continue to see even more softness in October and November.*
- NTM P/E: 22.12 (TTM: 16.83)
- NTM Market Cap/Free Cash Flow: 9.44 (TTM Levered: 5.16)
- NTM EV/EBITDA: 30.35 (TTM: 24.49)

Sources: CarMax IR, TIKR, Refinitiv, Blue Line Capital

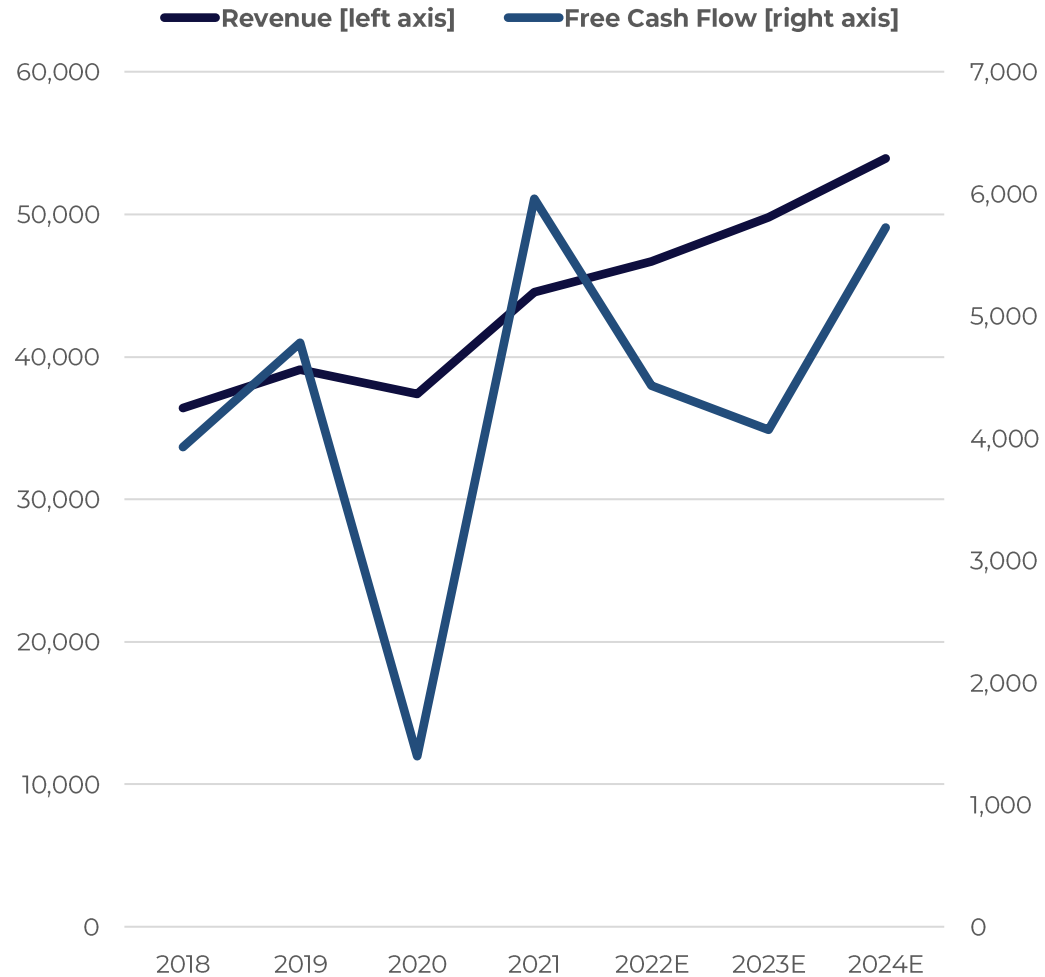
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## Fundamental Developments (Numbers)



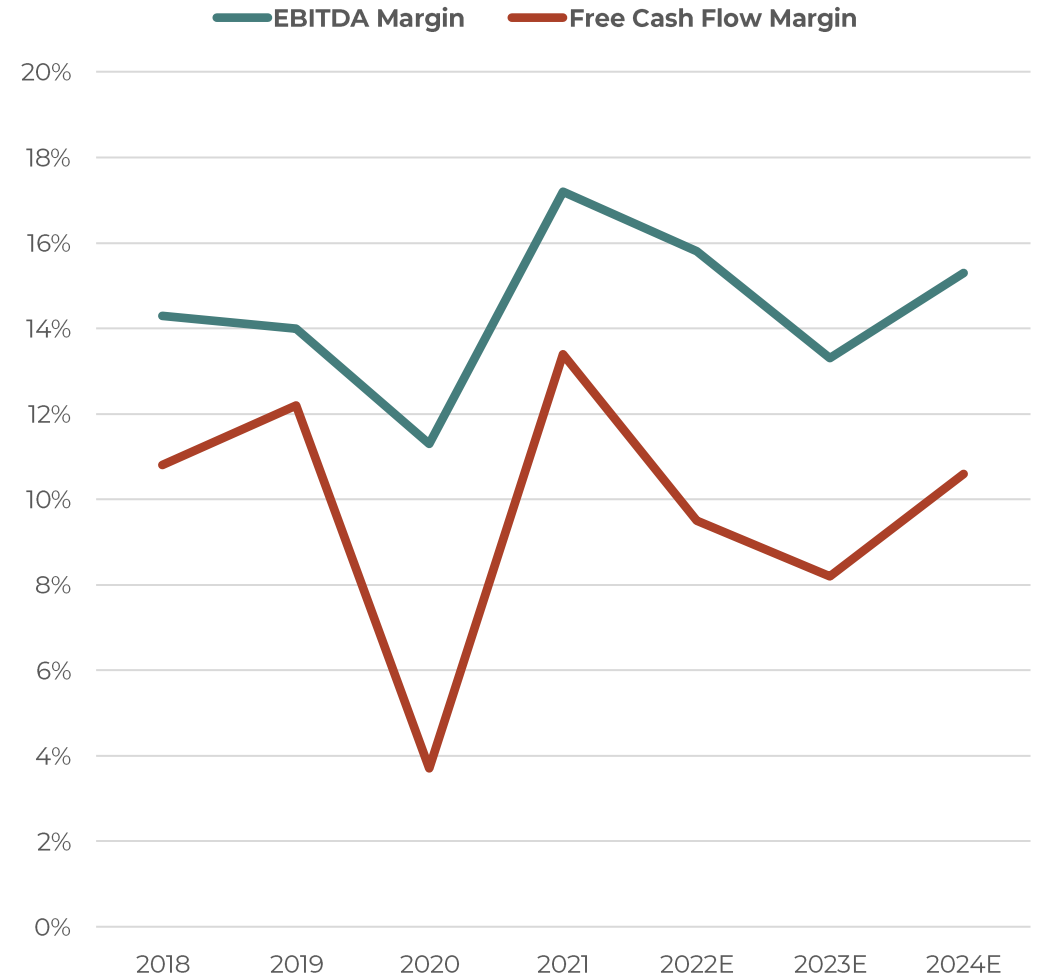
# Nike

Unlike Other Areas Measuring Consumer Spending, Nike's Proven To Be Rather Resilient. Both, Revenues And Free Cash Flows Are Projected To Remain Strong.



Sources: TIKR, Blue Line Futures

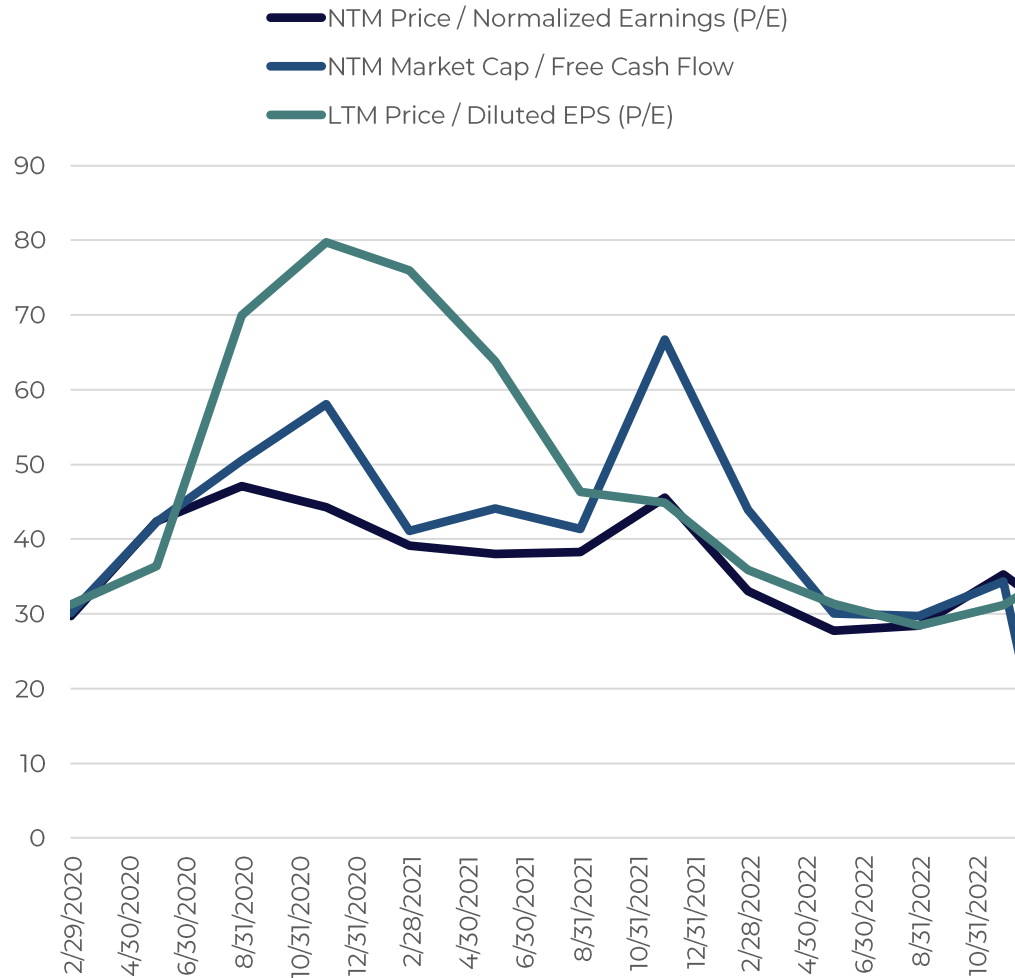
Some Margin Compression Expected.





# Nike Multiples & Ratios

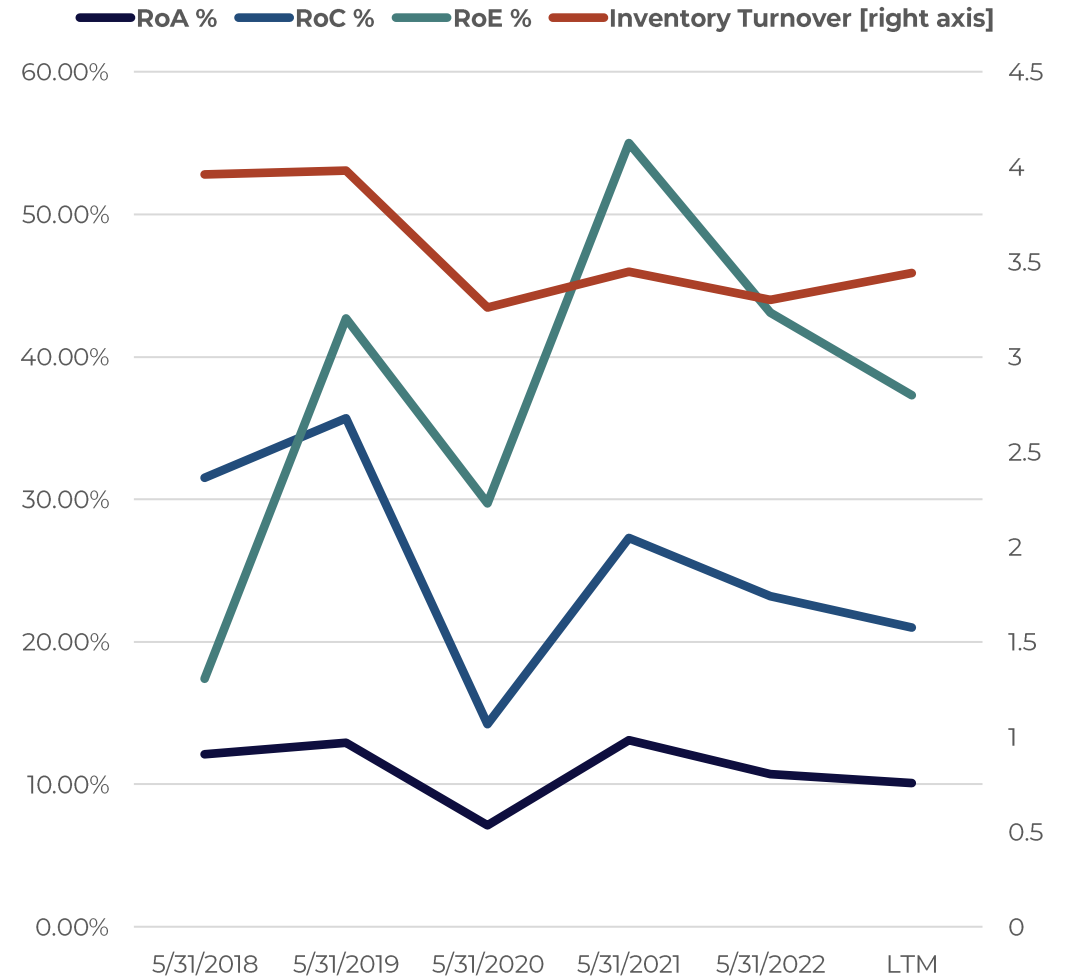
Nike's Quality Has Justified Higher Multiples Historically. Measured Against The Broader Market, A 30+ P/E Is Elevated.



Sources: TIKR, Blue Line Futures

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As Revenues Have Kept Up, So Has Inventory Turnover (COGS/ $\Delta$ Inventory)



# Nike Earnings Highlights & Stock Performance

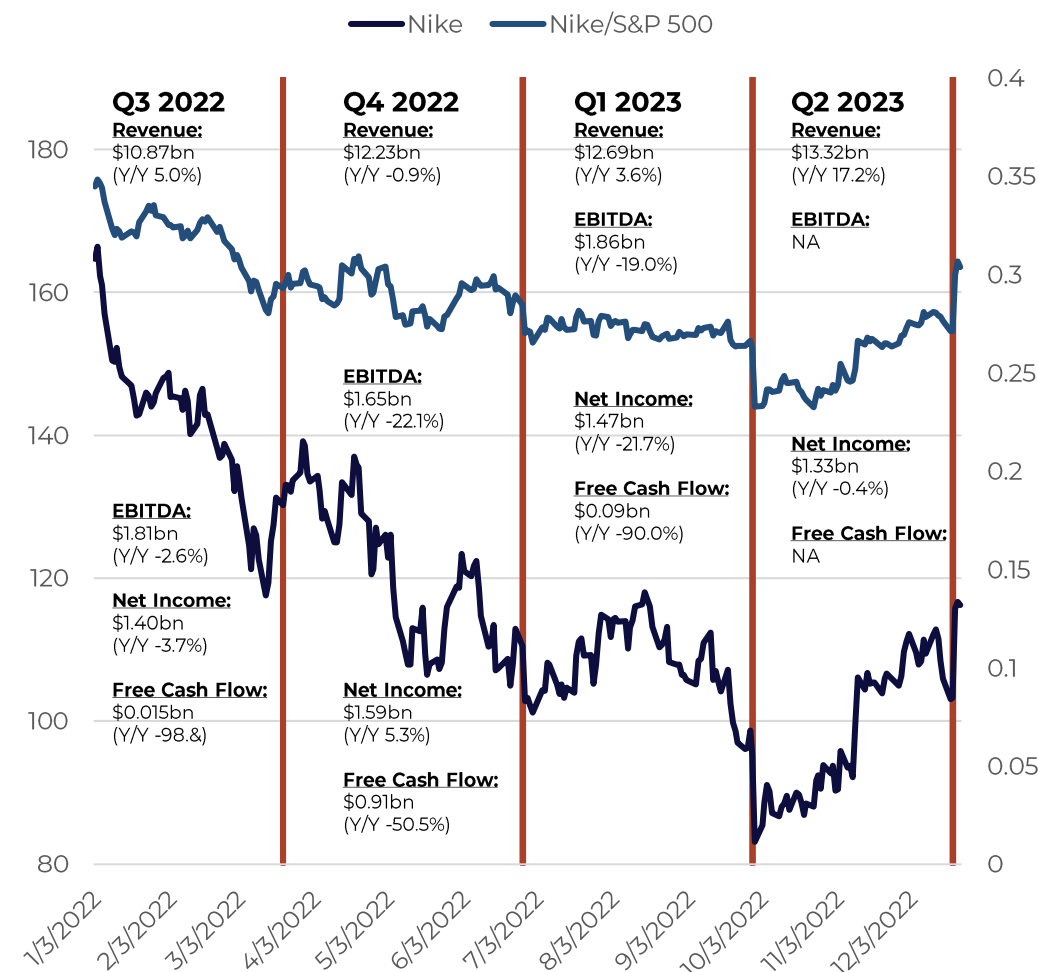
## Quotes From Q2 2023 Earnings Call

- We delivered a strong quarter in Q2, with revenue growth of 17% on a reported basis and 27% on a currency-neutral basis.
- ...Greater China grew 6% on a currency-constant basis, translated to minus 3% on a reported basis due to foreign exchange.
- ...we're executing in the areas we spoke to 90 days ago as we take decisive actions to clear excessive inventory.
- Consumer Direct Acceleration is fueling our marketplace approach in which we directly connect with the consumer no matter how they shop.
- Membership was a key reason our digital business grew an industry-leading 34% this quarter...we have roughly 160 million active members who engage with us on a regular basis.
- In EMEA, we closed our biggest Cyber Week ever, increasing demand by 75% from last year.
- In North America, year-over-year growth in inventory dollars decelerated from 65% in Q1 to 54% in Q2.
- ...grew digital 34% in e-commerce – global e-commerce market that most people would say is low single digits.
- ...the supply chain dimensions and what we've been doing with our membership is just phenomenal, having gone from 10% digital to 27% delivering fast delivery times, fewer reduced and split shipments.
- NTM P/E: 33.07 (TTM: 32.85)
- NTM Market Cap/Free Cash Flow: 22.61 (TTM Levered: 80.18)
- NTM EV/EBITDA: 25.23 (TTM: 25.60)

Sources: Nike IR, TIKR, Refinitiv, Blue Line Capital

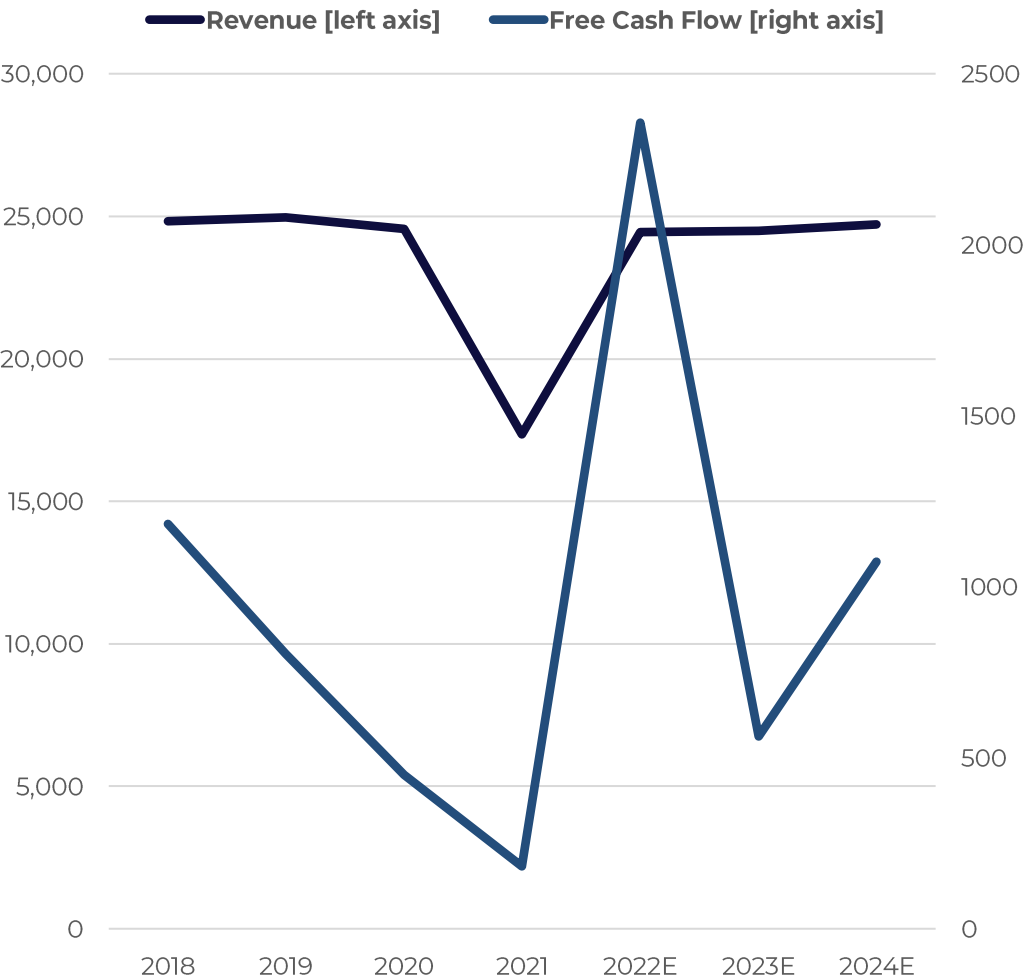
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## Fundamental Developments (Numbers)



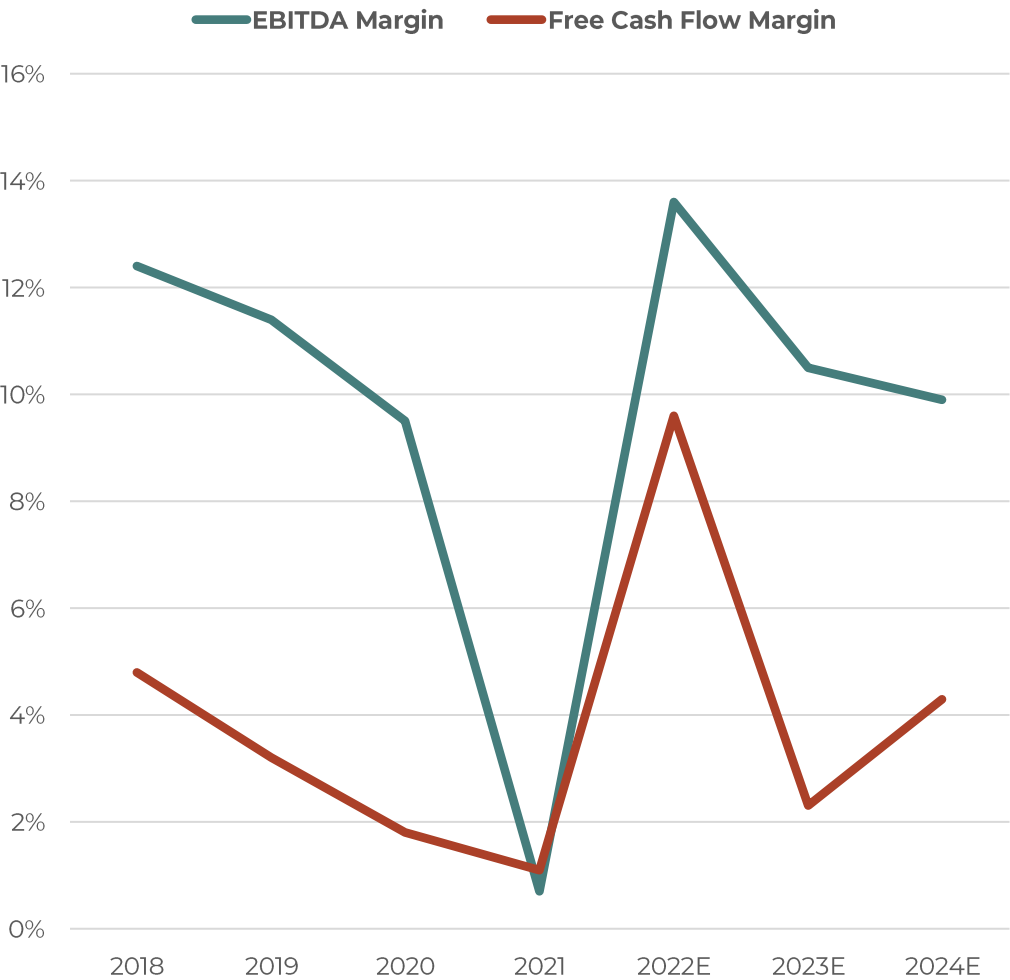
# Macy's

Macy's Has Clearly Benefitted From Excess Spending On Goods. As E-Commerce Demand Disappoints, How Resilient Will Brick-And-Mortar Demand Be Post-Holidays?



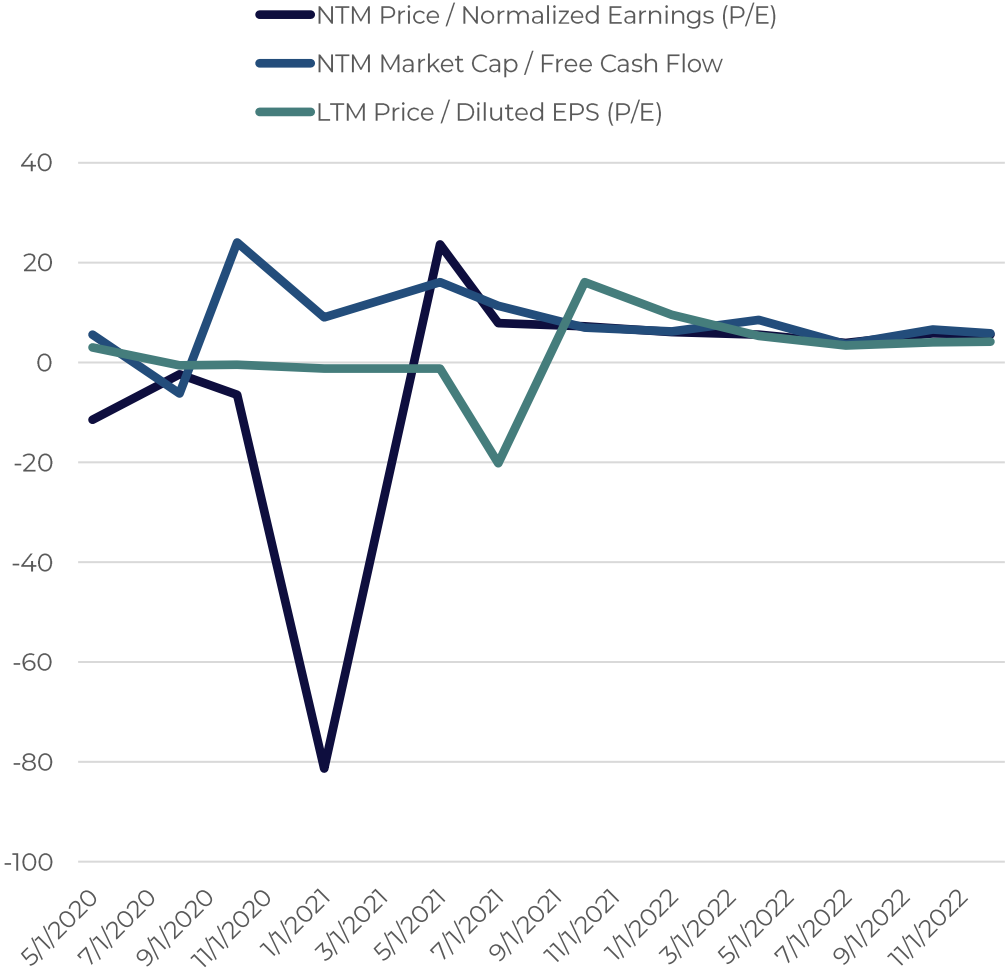
Sources: TIKR, Blue Line Futures

Margins Expected To Decline Into Next Year.



# Macy's Multiples & Ratios

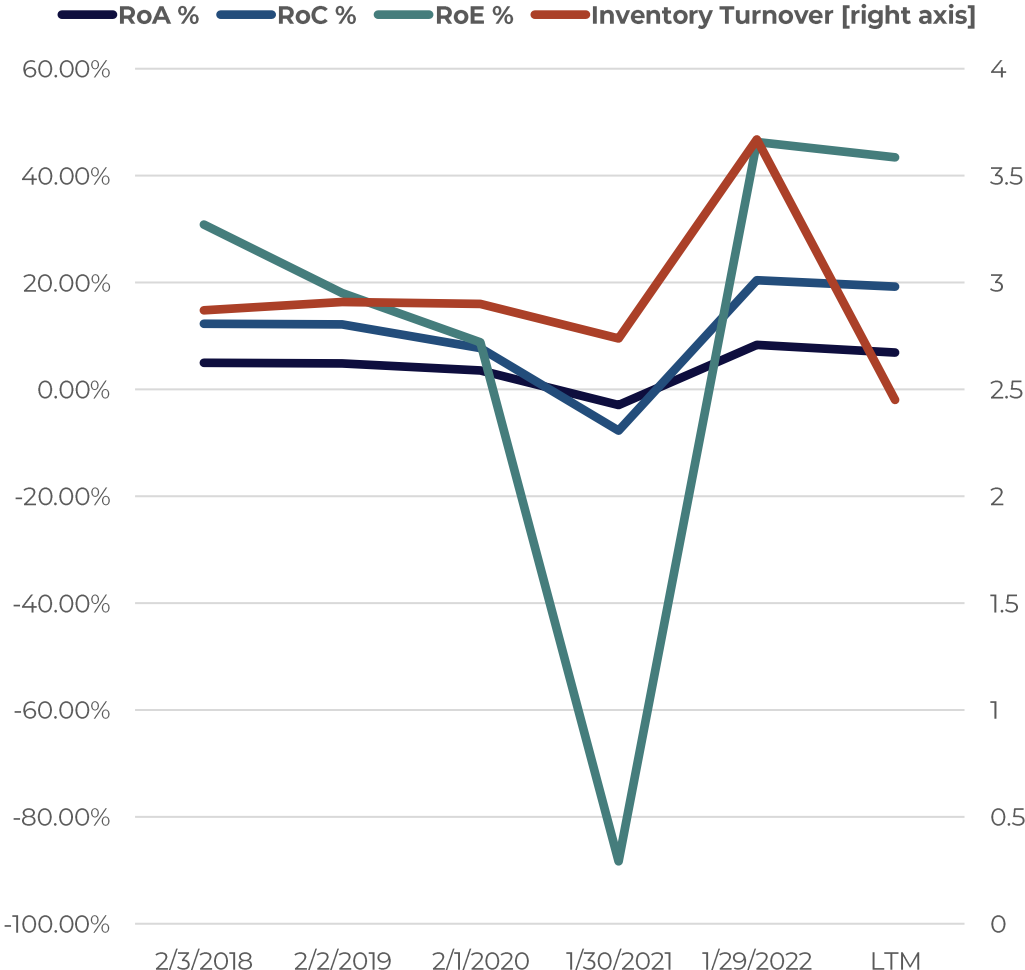
The Market Continues To View Macy's As Late In Its Lifecycle, Demonstrated By The Stock's Multiples.



Sources: TIKR, Blue Line Futures

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Inventory Turnover Has Declined, Returns Relatively Resilient For The Time Being.



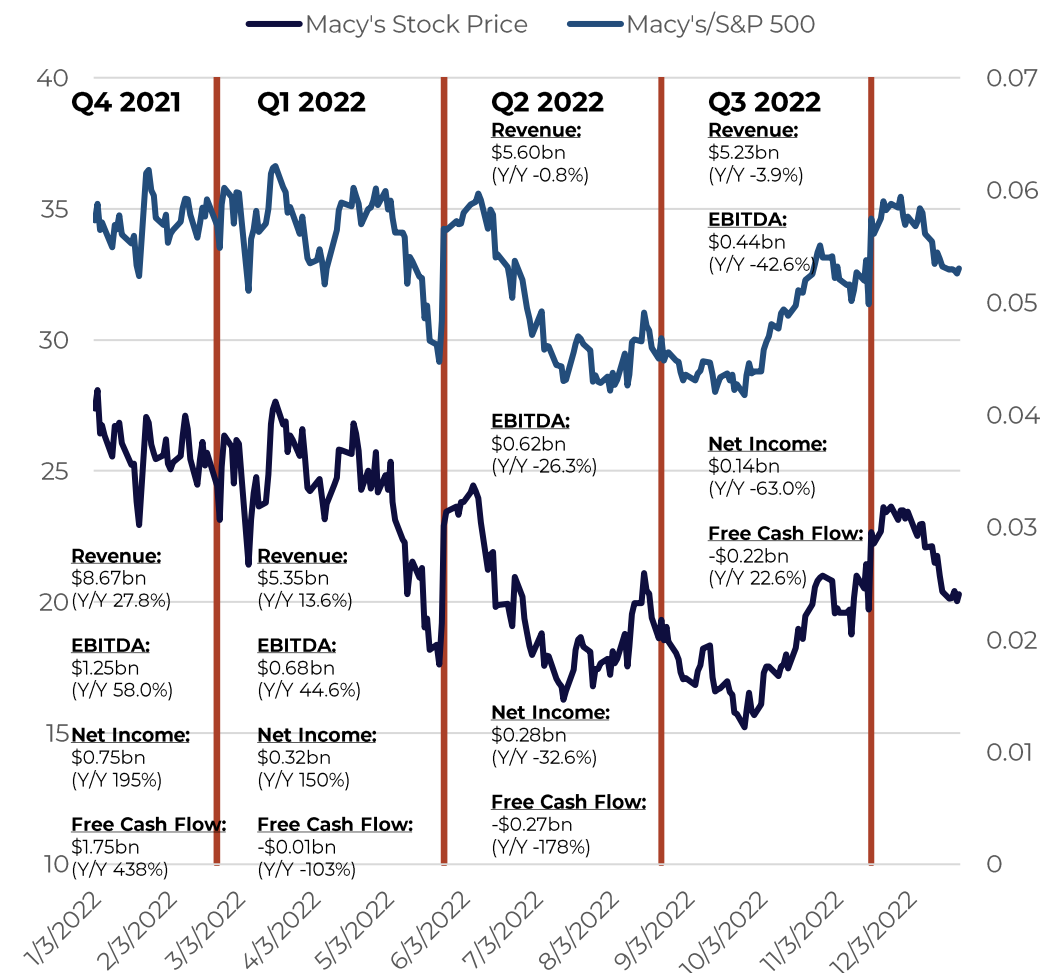
# Macy's Earnings Highlights & Stock Performance

## Quotes From Q3 2022 Earnings Call

- ...relative outperformance of brick-and-mortar sales, which declined 1% to last year. Digital sales declined 9% to last year. Relative to 2019, brick-and-mortar sales declined 9% and digital sales rose 35%.
- Macy's digital traffic remained relatively consistent, but conversion softened, suggesting that while discovery is still occurring online, there has been a shift in in-person transactions.
- Luxury nameplates, Bloomingdale's and Bluemercury continued to outperform. Bloomingdale's posted 4.1% comp sales growth and expanded its active customer file by 9% on a trailing 12-month basis, while Bluemercury saw comp sales growth of 14% and grew its active customer file by 15%.
- Beginning in August 2021, our teams took a series of aggressive actions to pay down over \$1.8bn of long-term debt and we ladder our fixed interest rate debt maturities.
- For the quarter, gross margin was 38.7%, down 230 basis points from the prior year period and better than our expectation. The gross margin rate decline was driven by a 230 basis point decline in merchandise margin, reflecting an increase in promotional and clearance markdowns to sell lower moving categories...
- Inventory increased 4% year-over-year, which was better than our expectations and down 12% compared to '19.
- For the full year, we expect capital expenditures to be \$1.2bn, up from \$1bn, reflecting investments to improve our omnichannel capabilities and strengthen our competitive position in the marketplace.
- ...digital penetration of the business in '19 was 25%. During the pandemic, it was 40%. We're calling the 2022 at 33%, down from our initial estimation that it was going to be in the 37% range.
- NTM P/E: 5.57 (TTM: 4.15)
- NTM Market Cap/Free Cash Flow: 5.82 (TTM Levered: 4.75)
- NTM EV/EBITDA: 4.89 (TTM: 4.33)

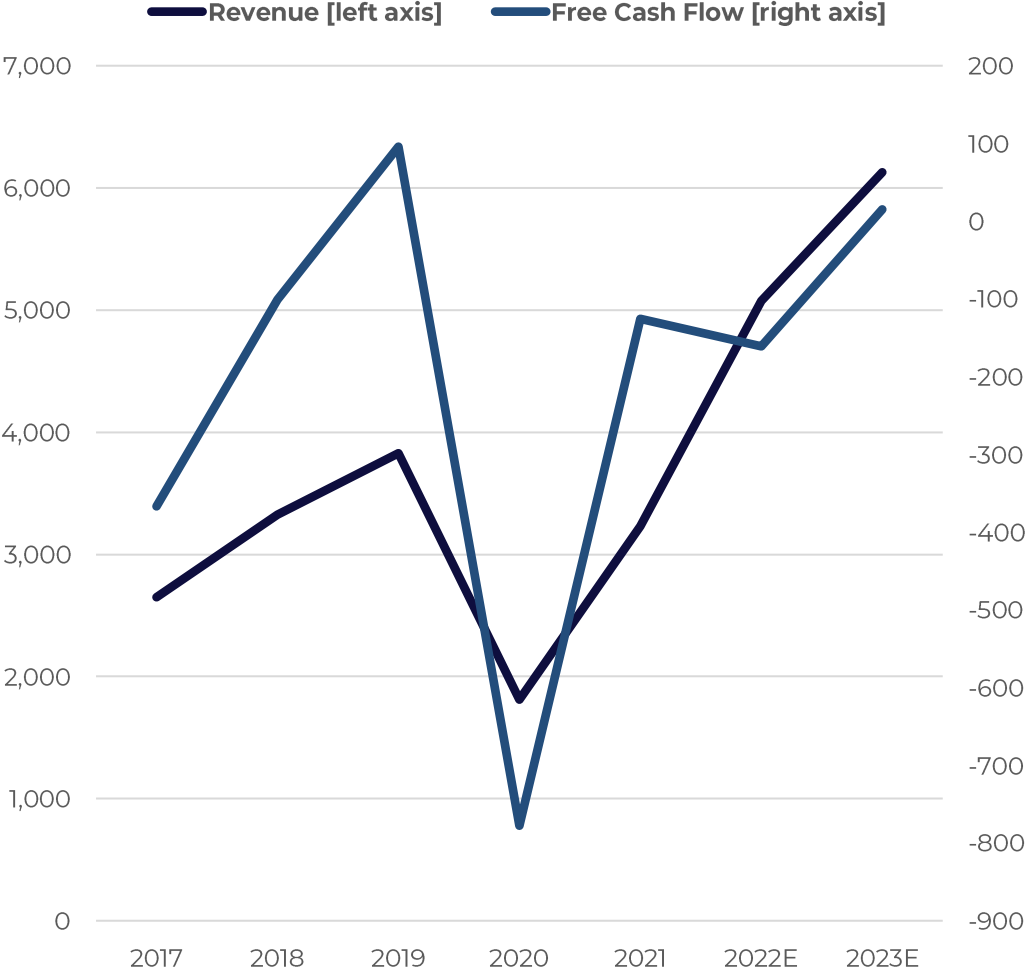
Sources: Macy's IR, TIKR, Refinitiv, Blue Line Capital

## Fundamental Developments (Numbers)



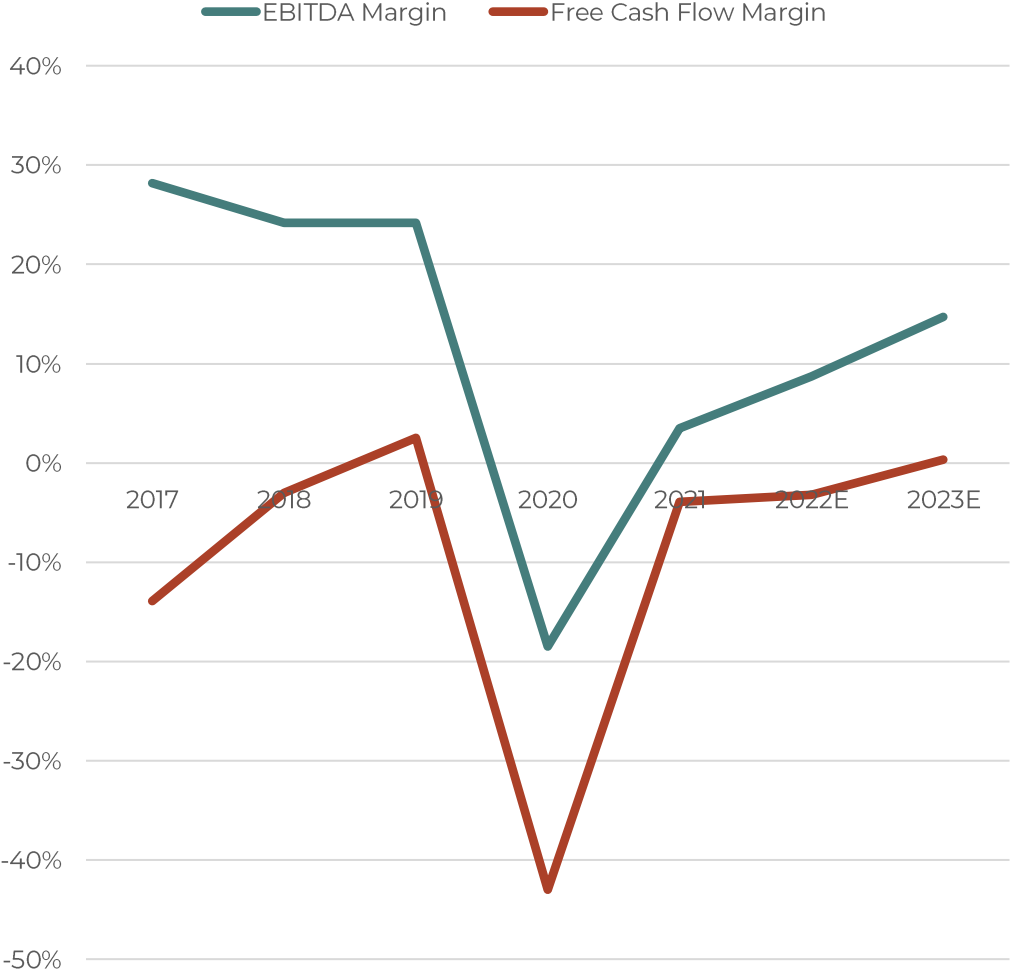
# Spirit Airlines

Given Strong Travel Trends, Spirit Has Seen A Significant Revenue Acceleration.



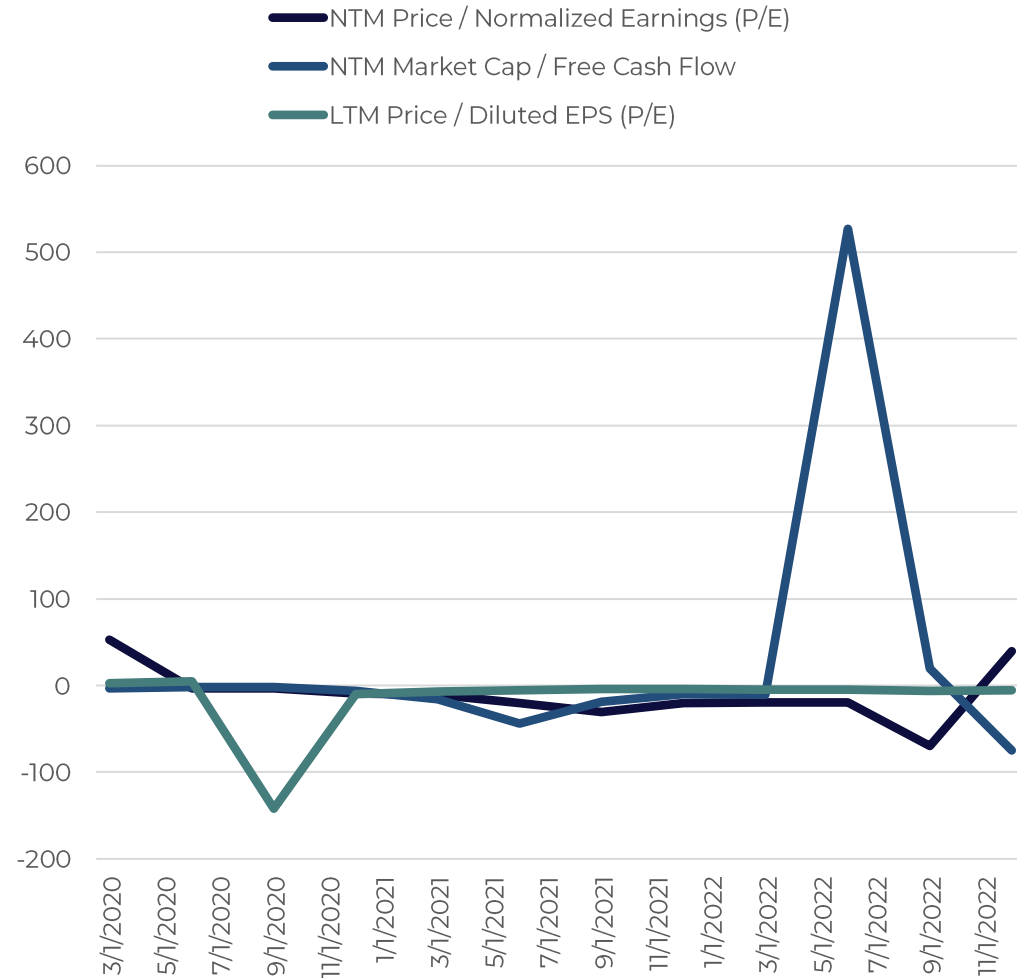
Sources: TIKR, Blue Line Futures

Margins Are Projected To Be Slightly Positive.



# Spirit Airlines Multiples & Ratios

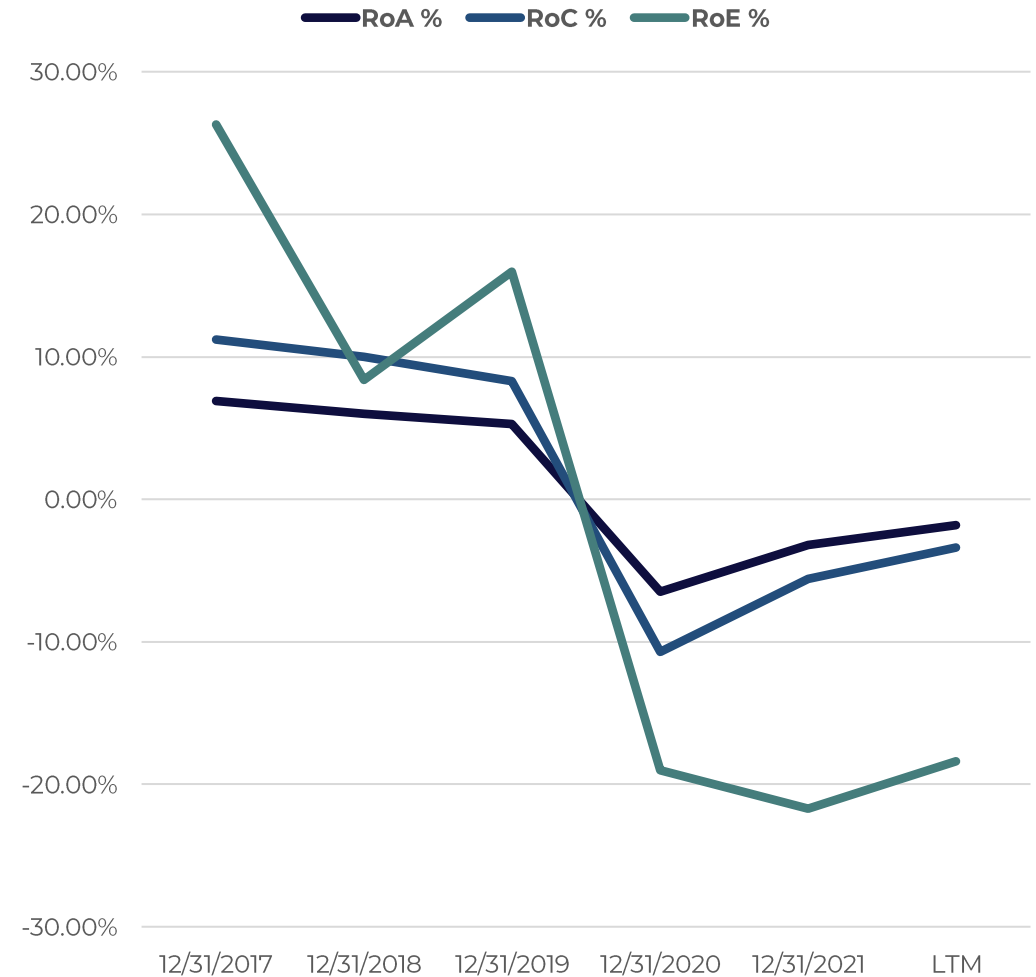
As Airlines Continue To Lack Free Cash Flow, Investors Are Reluctant To Reward Spirit.



Sources: TIKR, Blue Line Futures

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Returns Continue To Look Dismal With Big Debt Burdens On Airlines' Balance Sheets.





# Spirit Airlines Earnings Highlights & Stock Performance

## Quotes From Q3 2022 Earnings Call

- ...we continue to face infrastructure constraints that are impeding our return to normalized margins and full utilization.
- Attrition rates remain elevated, which means we've had to build a bigger schoolhouse and increase resources to train the number of pilots needed to support our growth and to cover the higher attrition.
- ...September load factor was 2.2 points below that of September 2019 on 26% more capacity, the percent change in total RASM was up nearly 20%. We were not seeing any signs of leisure demand slowing down...
- ...total revenue per passenger increased 22% to over \$134. Passenger revenue per segment increased 23% to \$67.52 and non-ticket per segment increased 21% to \$67.07.
- Given the various infrastructure constraints on our network, anticipated Airbus delivery delays and engine supply chain issues, for planning purposes, we are now targeting 60 billion to 62 billion available seat miles for 2023 or up 23% to 27% and compared to full ear 2022.
- ...hired and trained over 800 new crew members...

- NTM P/E: 39.96 (TTM: -5.75)
- NTM Market Cap/Free Cash Flow: -74.33 (TTM Levered: -22.11)
- NTM EV/EBITDA: 7.56 (TTM: -132.08)

Sources: Spirit IR, TIKR, Refinitiv, Blue Line Capital

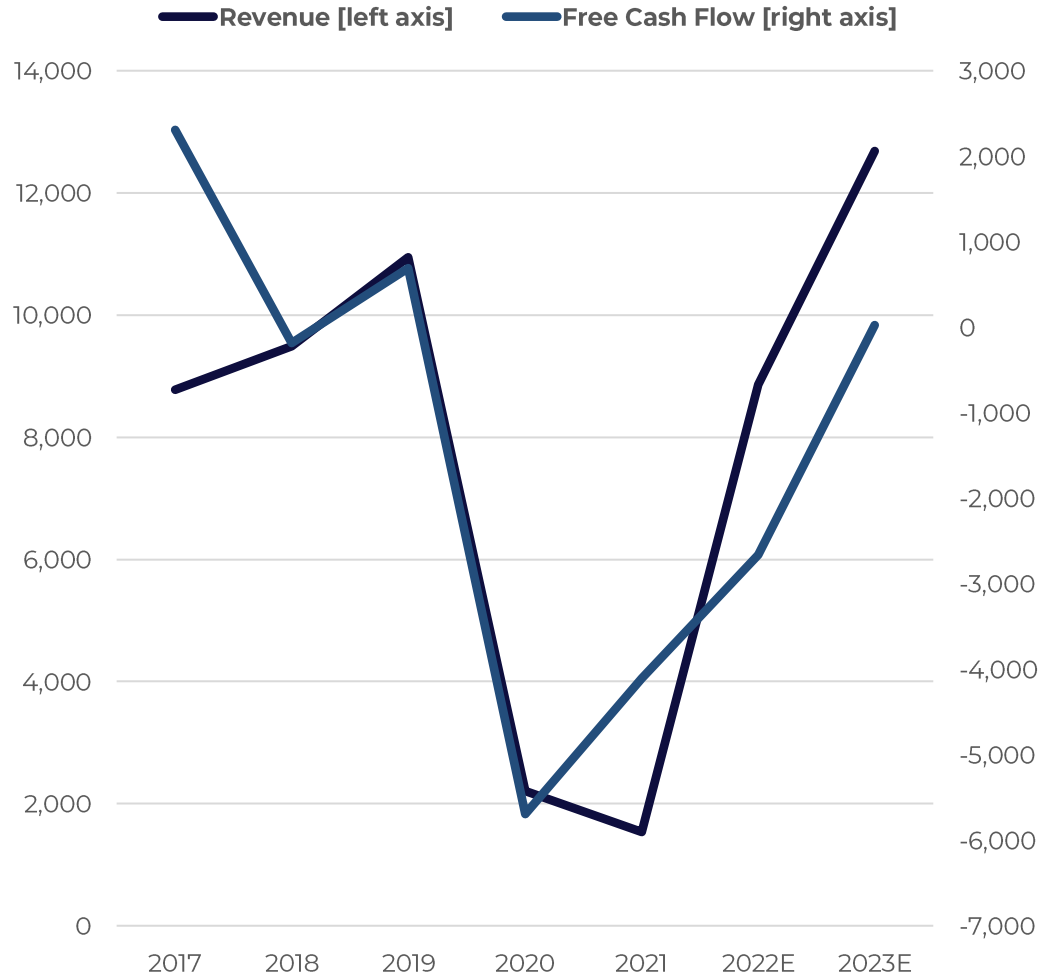
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## Fundamental Developments (Numbers)



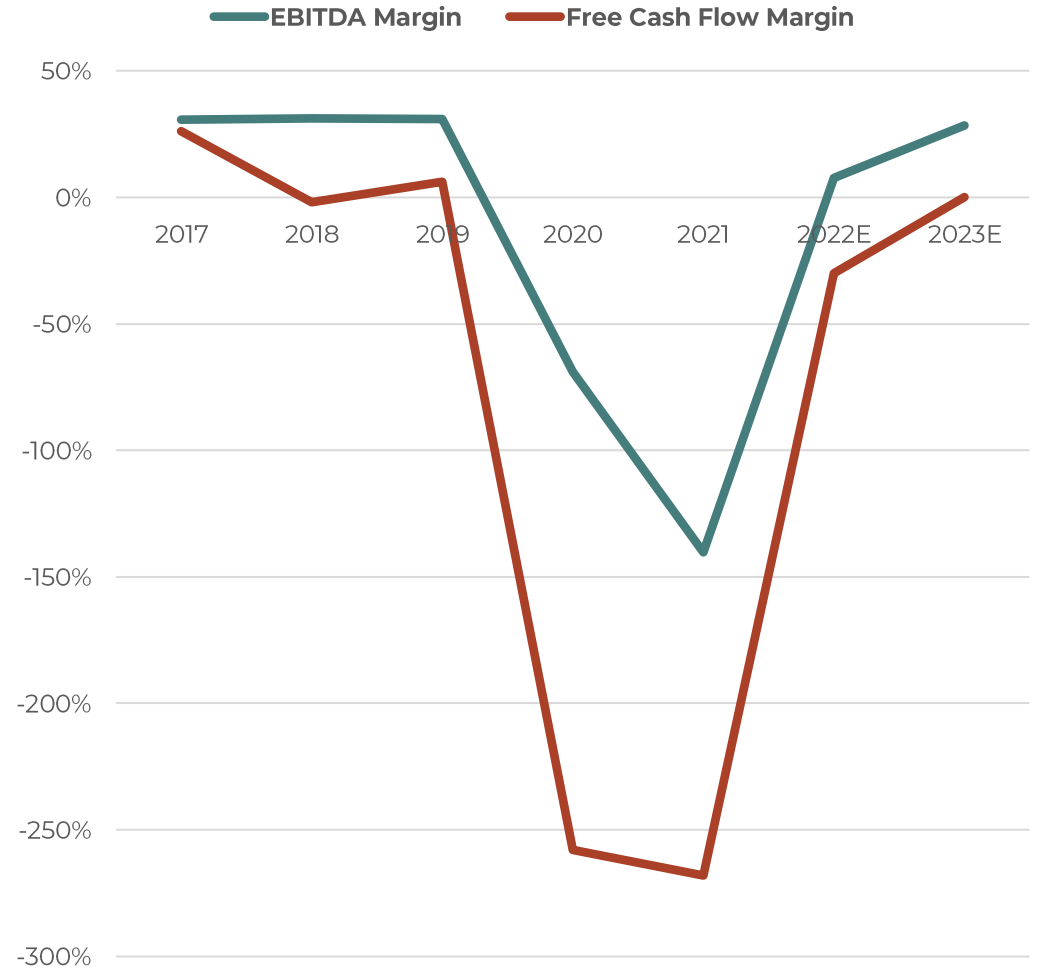
# Royal Caribbean

Revenue Rapidly Accelerating As Bookings Recover Into 2023, But Free Cash Flow Not Expected To Be Positive Next Year.



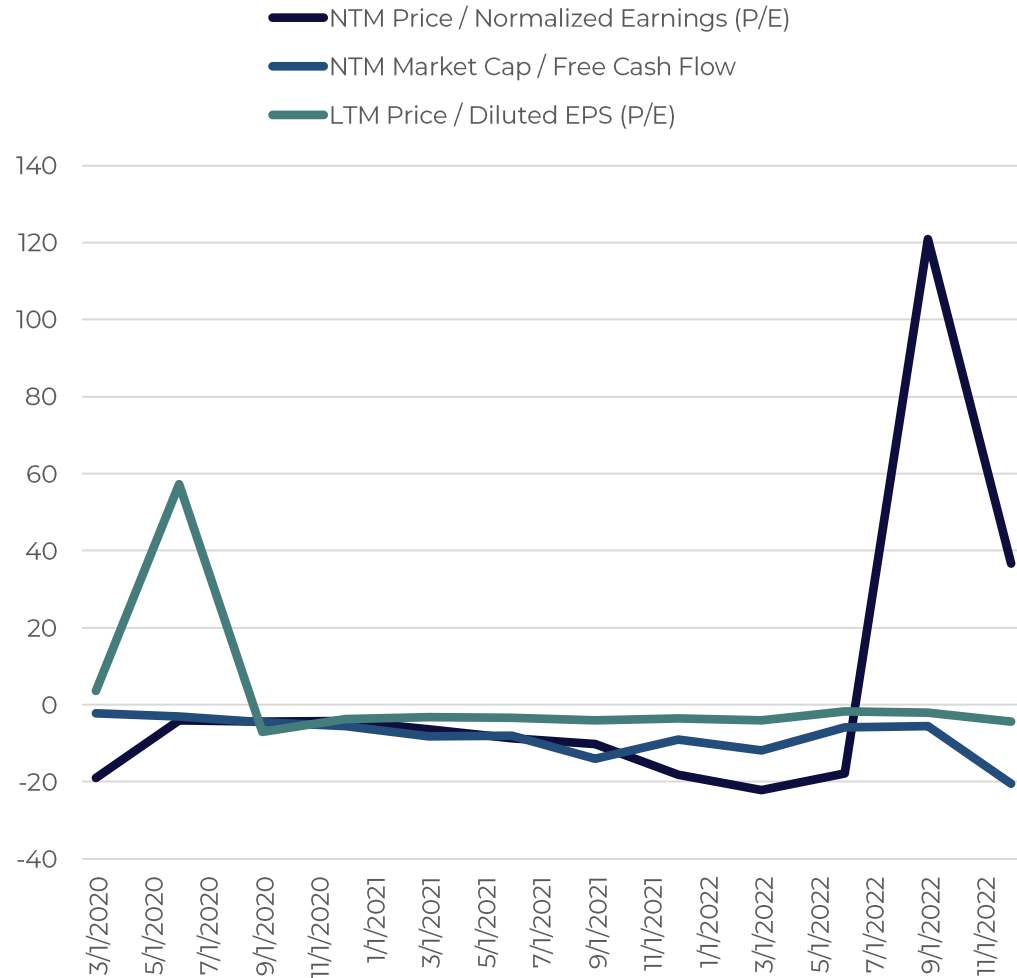
Sources: TIKR, Blue Line Futures

Margins Look Questionable For Cruises.



# Royal Caribbean's Multiples & Ratios

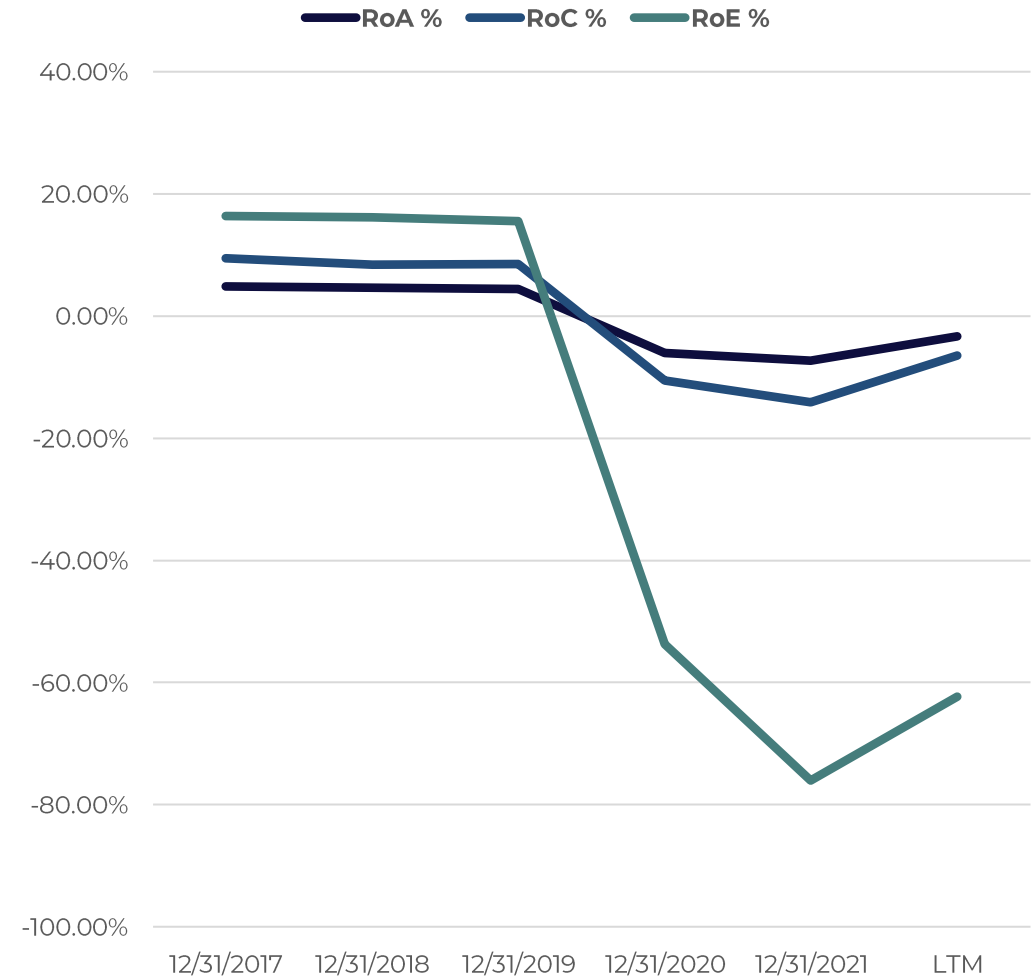
A Lack Of Free Cash Flow Generation Leads To Negative Multiples.



Sources: TIKR, Blue Line Futures

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A Lack Of Net Income Generation Calls For Capital Allocation Discipline.



**BLUE LINE FUTURES**

# Royal Caribbean Earnings Highlights & Stock Performance

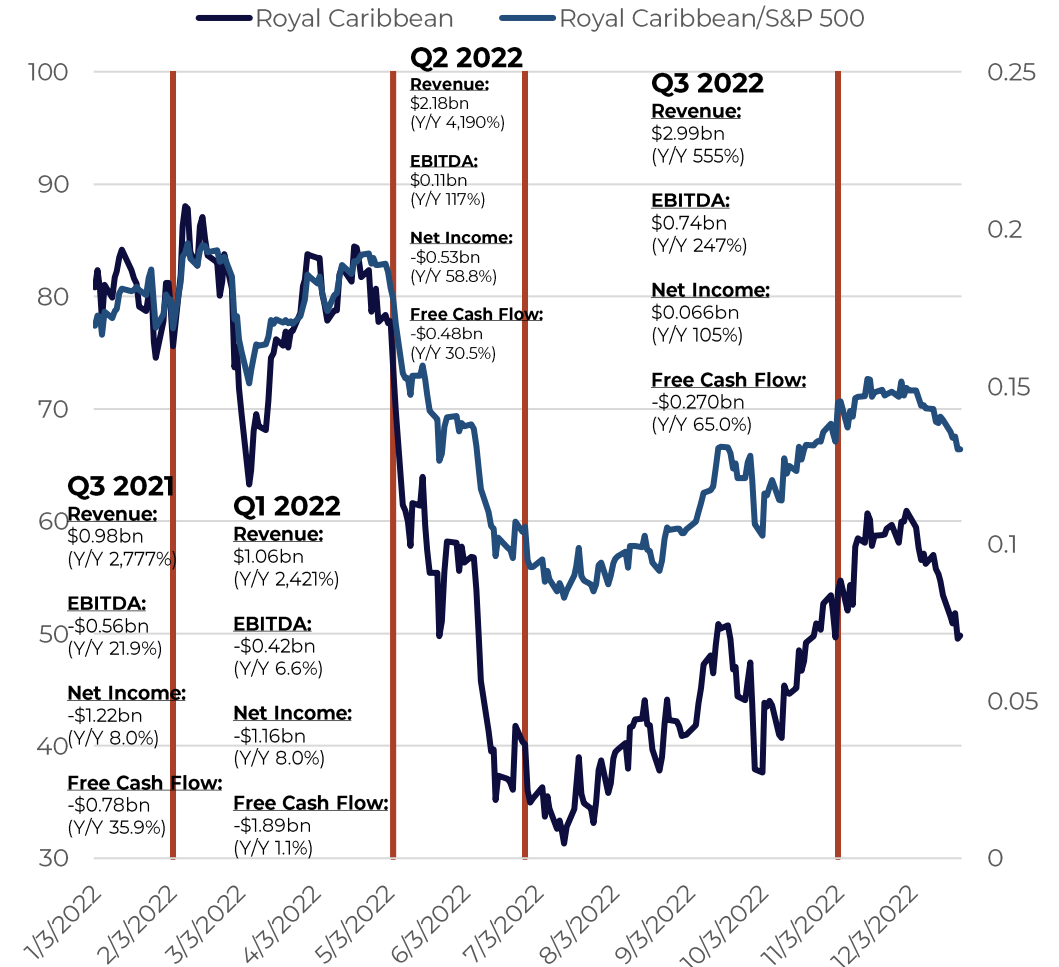
## Quotes From Q3 2022 Earnings Call

- Demand for our experiences was very strong, and we achieved 96% load factors overall, with Caribbean at close to 105%, at record pricing and high satisfaction scores.
- Our plan is well grounded in a set of underlying strategies, robust secular and demographic trends, a strong culture and a powerful foundation of leading global brands, the most innovative ships...
- Global demand for travel is ramping up as consumers continue to shift spend to experiences.
- Our guests continue to seek the rich experiences we offer, spending significantly onboard our ships compared to 2019 across nearly all categories.
- 2 weeks ago we revealed details on our new and amazing Icon of the Seas, which will be delivered in late 2023 ahead of its January 2024 debut.
- ...2023 is shaping up to be a strong year for the company and a return to normal typical business. Our overall capacity will grow 14% compared to 2019 on account of 10 new ships which have joined or will join the fleet across our brands during this period net of dispositions.
- We received twice as many bookings for 2023 sailings in Q3 as we did in Q2...
- As of today, fuel consumption is 64% hedged for the fourth quarter and 50% hedged for 2023.
- We don't have any China business assumed for 2023.
- NTM P/E: 35.24 (TTM: -4.21)
- NTM Market Cap/Free Cash Flow: -19.75 (TTM Levered: -5.74)
- NTM EV/EBITDA: 11.42 (TTM: -91.42)

Sources: Royal Caribbean IR, TIKR, Refinitiv, Blue Line Capital

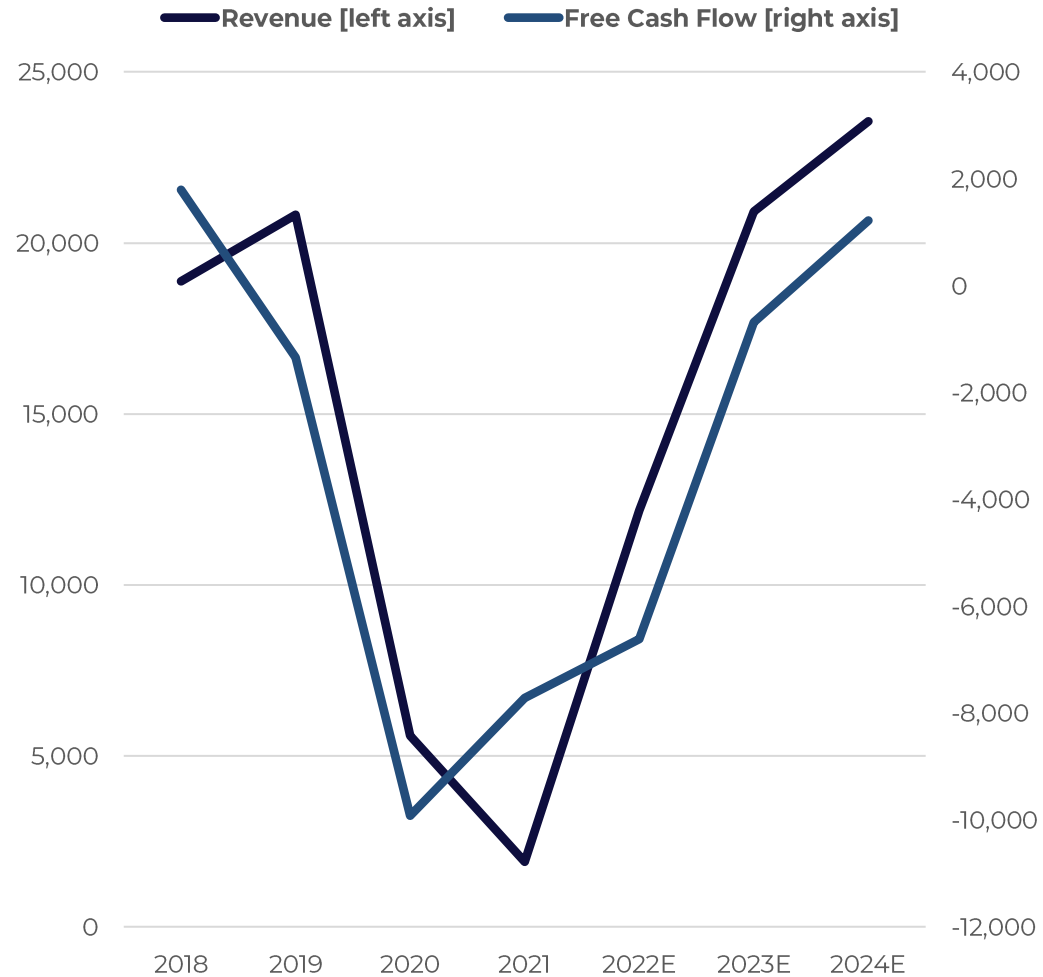
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## Fundamental Developments (Numbers)



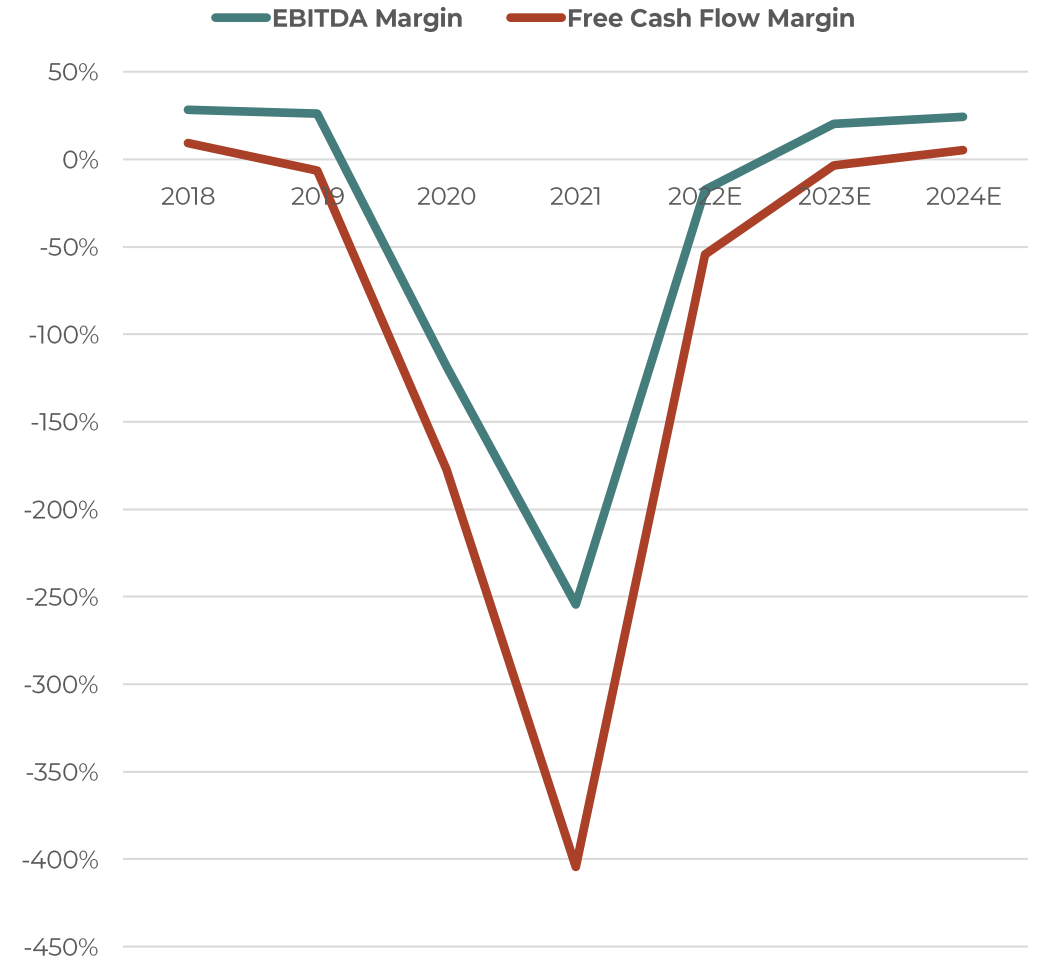
# Carnival Cruises

**Carnival's International Exposure May Prolong The Company's Recovery.**



Sources: TIKR, Blue Line Futures

**Margins Barely Positive For 2023 and 2024.**



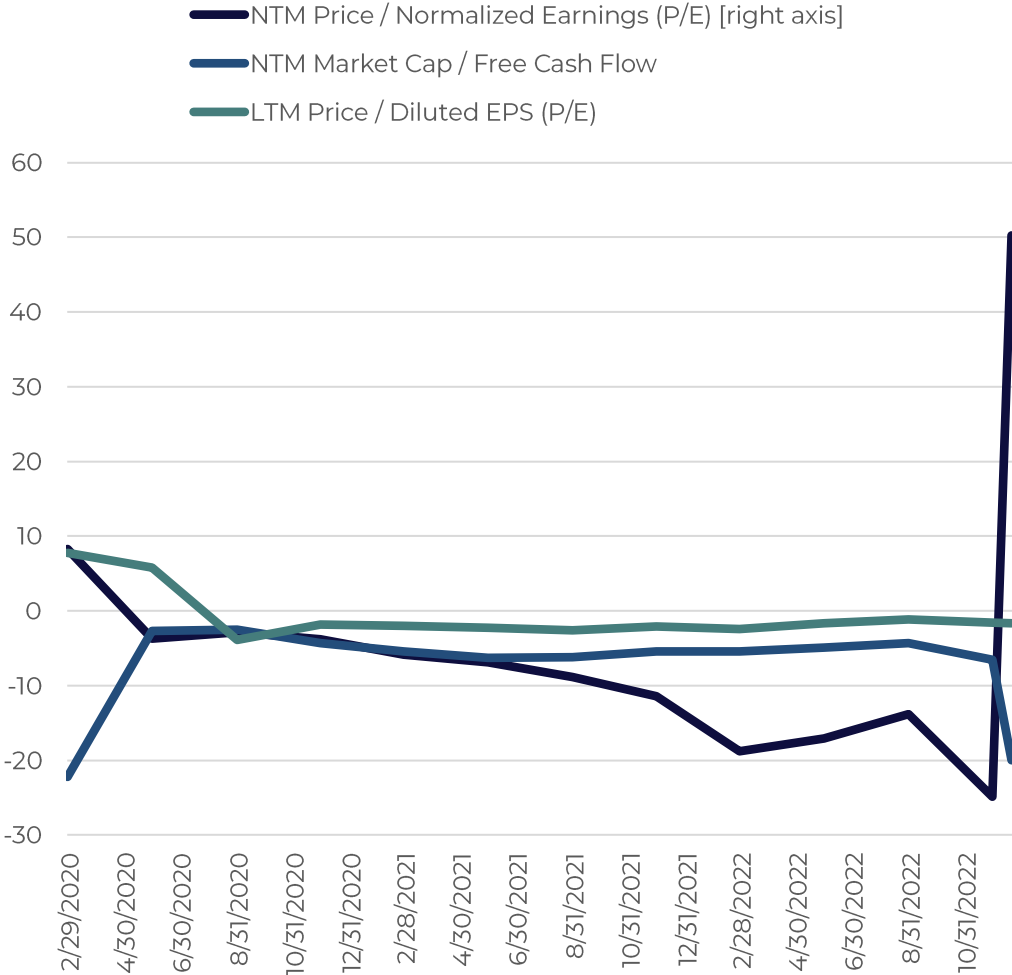
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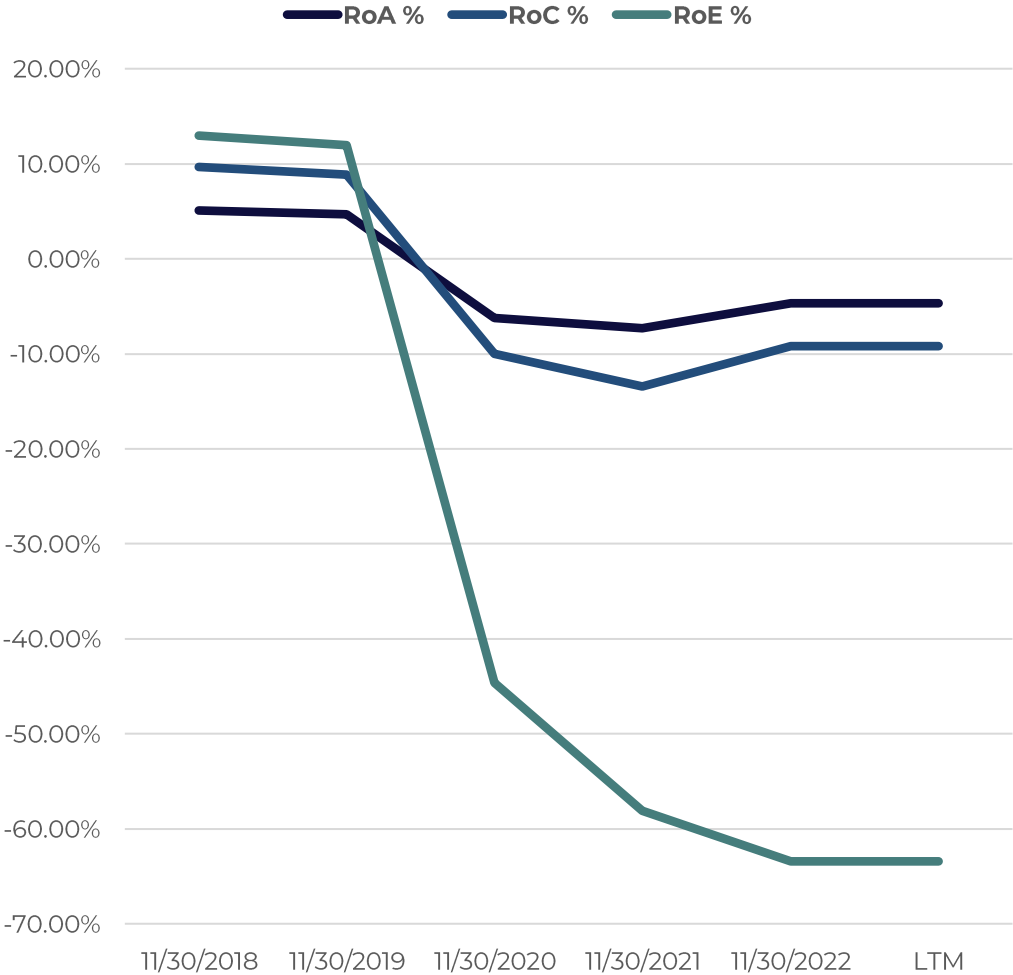
# Carnival Cruises Multiples & Ratios

Forward Multiples Indicate Profitability Prospects But Challenged On A Trailing Basis.



Sources: TIKR, Blue Line Futures

As Carnival's Business Model Has Been Under Threat As A Result Of Global Lockdowns, Returns Have Been Dismal.



# Carnival Cruises Earnings Highlights & Stock Performance

## Quotes From Q4 2022 Earnings Call

- ...returned another 35% of our fleet to service in 2022, reaching 99% of our 2019 capacity levels during the fourth quarter.
- We delivered stunning new flagships for 5 of our brands...
- ...we are truly a global company with 45% of those guests sourced outside of North America...we believe that having the #1 or 2 brand in each of the largest cruise markets such as North America, the U.K., Germany, Australia, Italy, France and Spain, is the foundation of our portfolio strategy...
- In 2019, 1/3 of our non-North American guests, 2 million people came from Australia, Asia and The Baltics...the lagging reopening of these markets has triggered multiple changes in deployment and guest sourcing...continue to be felt for the first half of 2023.
- Given Costa's significant presence in Asia with 5 ships planned to operate their year-round pre-pause, we've taken actions to rightsize the Costa brand
- Overall, in 2023, we'll have just 3% capacity growth compared to 2019 while still retaining the excitement and demand from 12 fantastic ships delivered in 2020.
- ...I've authorized our brands to take a significant step up in advertising activities, including a nearly 20% increase in our investment this part quarter over 2019...
- ...we've taken a hard look at 2023 and beyond and reshaped investment spending by \$300 million annually for a cumulative reduction of \$1.7bn. We have just 4 ships on order through 2025 plus our second incredible Seabourn luxury expedition ship to be delivered in 2023. This is our lowest orderbook in decades.
- NTM P/E: -1,061 (TTM: -1.51)
- NTM Market Cap/Free Cash Flow: -14.07 (TTM Levered: -2.69)
- NTM EV/EBITDA: 9.74 (TTM: -25.00)

Sources: Carnival IR, TIKR, Refinitiv, Blue Line Capital

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## Stock Performance & Earnings Data (Net Income Normalized)





# Disclosure

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