

Blue Line Capital



Hitting The Rewind On 2019 The Macro Safari Continues

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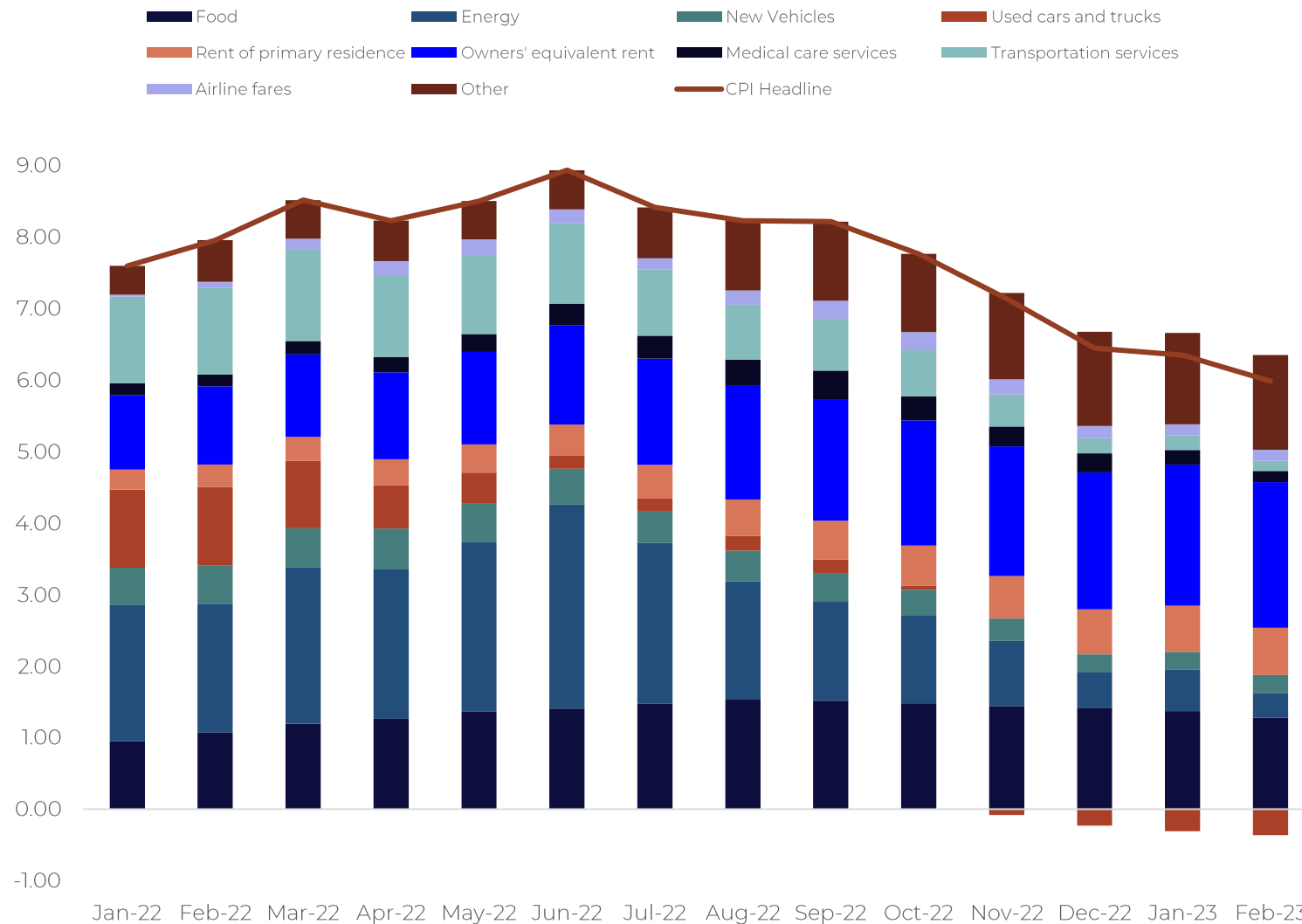


Macro Dynamics

A Review Of Inflation Trends

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Consumer Price Index Y/Y Deceleration To 6%

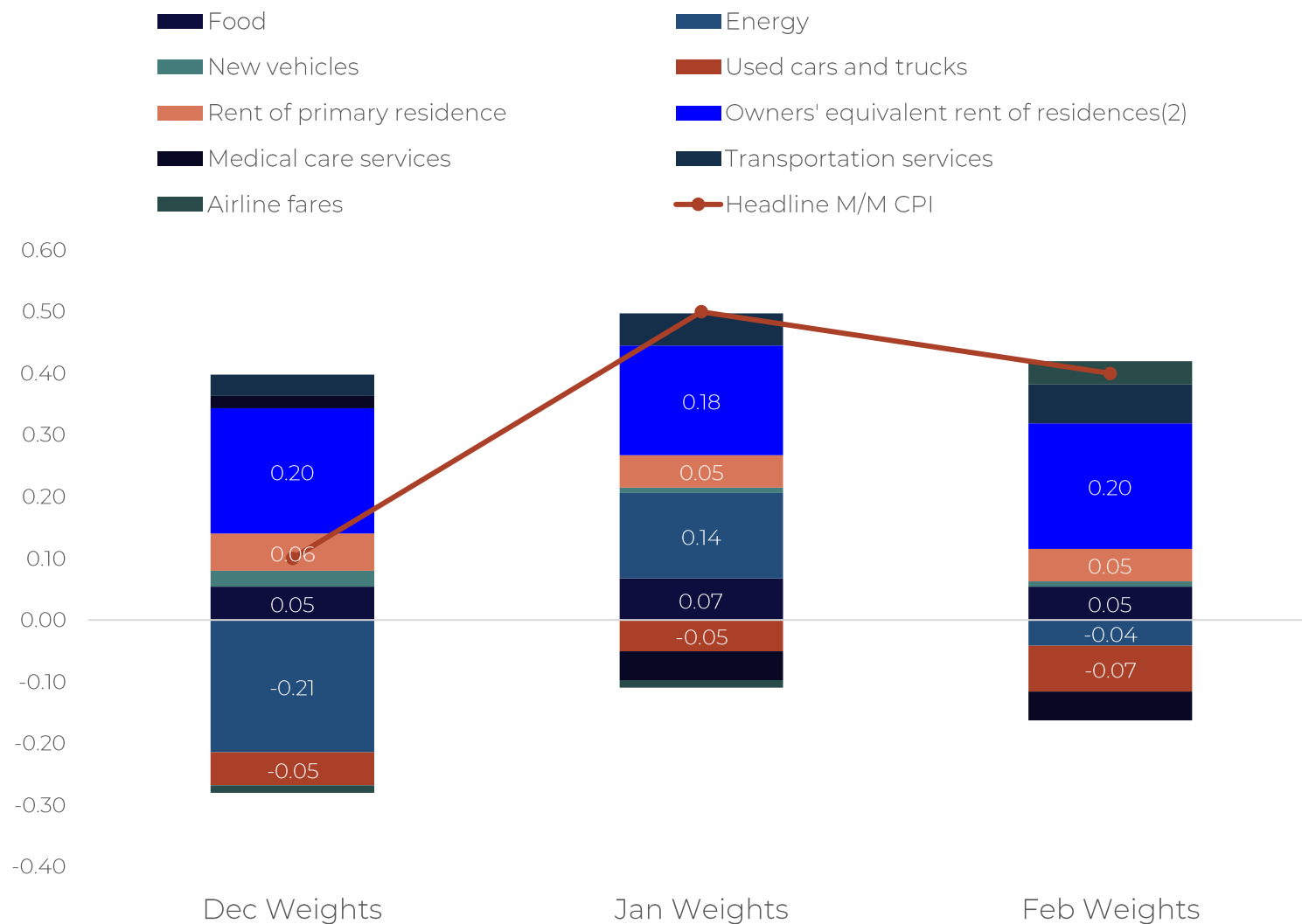


- Yearly % Changes [Feb|Jan] & Yearly Headline Contribution ()
 - Food: [9.5|10.1] (1.28)
 - Energy: [5.0|8.4] (0.34)
 - New Vehicles: [5.8|5.8] (0.25)
 - Used cars and trucks: [-13.6|-11.6] (-0.36)
 - Rent of primary residence: [8.8|8.6] (0.66)
 - Owners' equivalent rent: [8.0|7.8] (2.04)
 - Medical Care Services: [2.3|3.1] (0.16)
 - Transportation and warehousing services: [2.4|3.6] (0.14)
 - Airline fares: [26.5|25.6] (0.16)

Sources: FRED, Blue Line Capital, Blue Line Futures

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Shelter Contributing The Lion's Share Of Monthly CPI

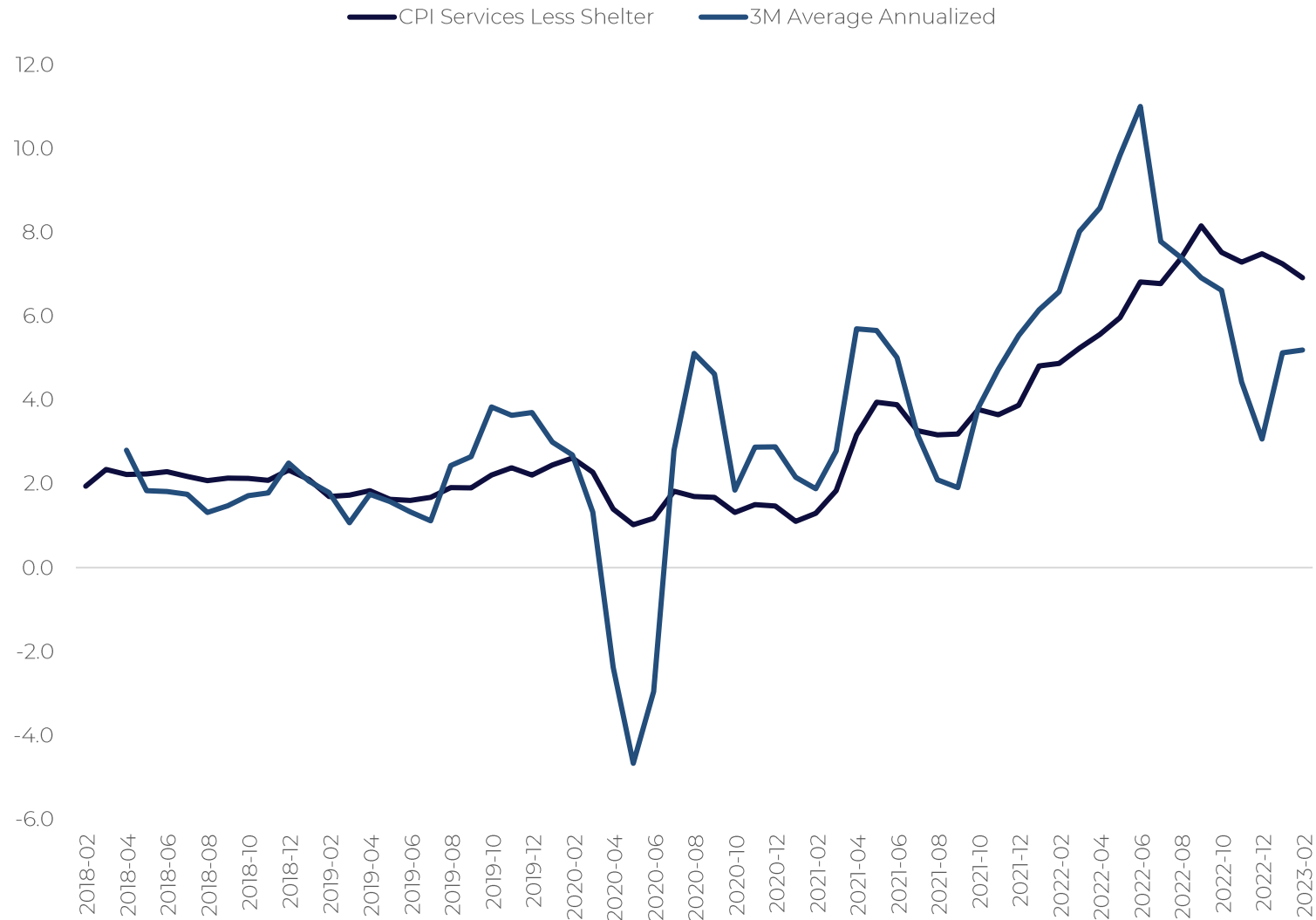


- February headline CPI was reported at 0.4% M/M, of which 0.25% was shelter while energy, used cars and trucks, and medical care services were in outright deflation on a monthly basis.
- Airline fares flipped from deflation to marginal inflation, with a contribution of 0.04% to monthly headline.

Sources: FRED, Blue Line Capital, Blue Line Futures

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Services CPI Less Shelter

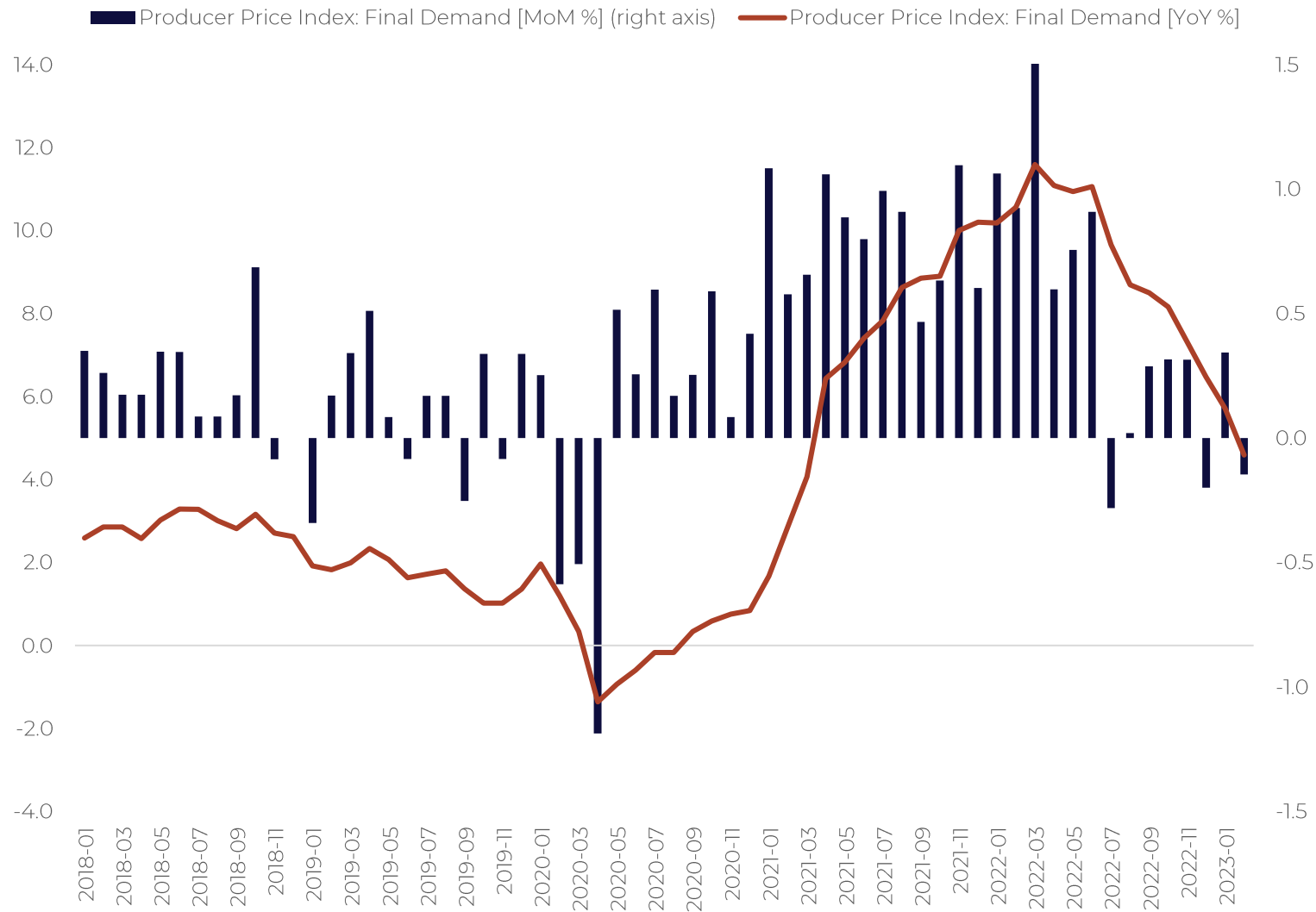


- CPI services less shelter, the Fed's key datapoint for wages has decelerated from a high of 8.1% Y/Y in September '22 to 6.9% in February '23. 3-month annualized has accelerated from a low of 3.1% in December '22 to 5.2% in February '23.
 - However, M/M data at 0.1% was preceded by two 0.6% M/M prints.

Sources: FRED, Blue Line Capital, Blue Line Futures

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February PPI Decelerates To 4.6%

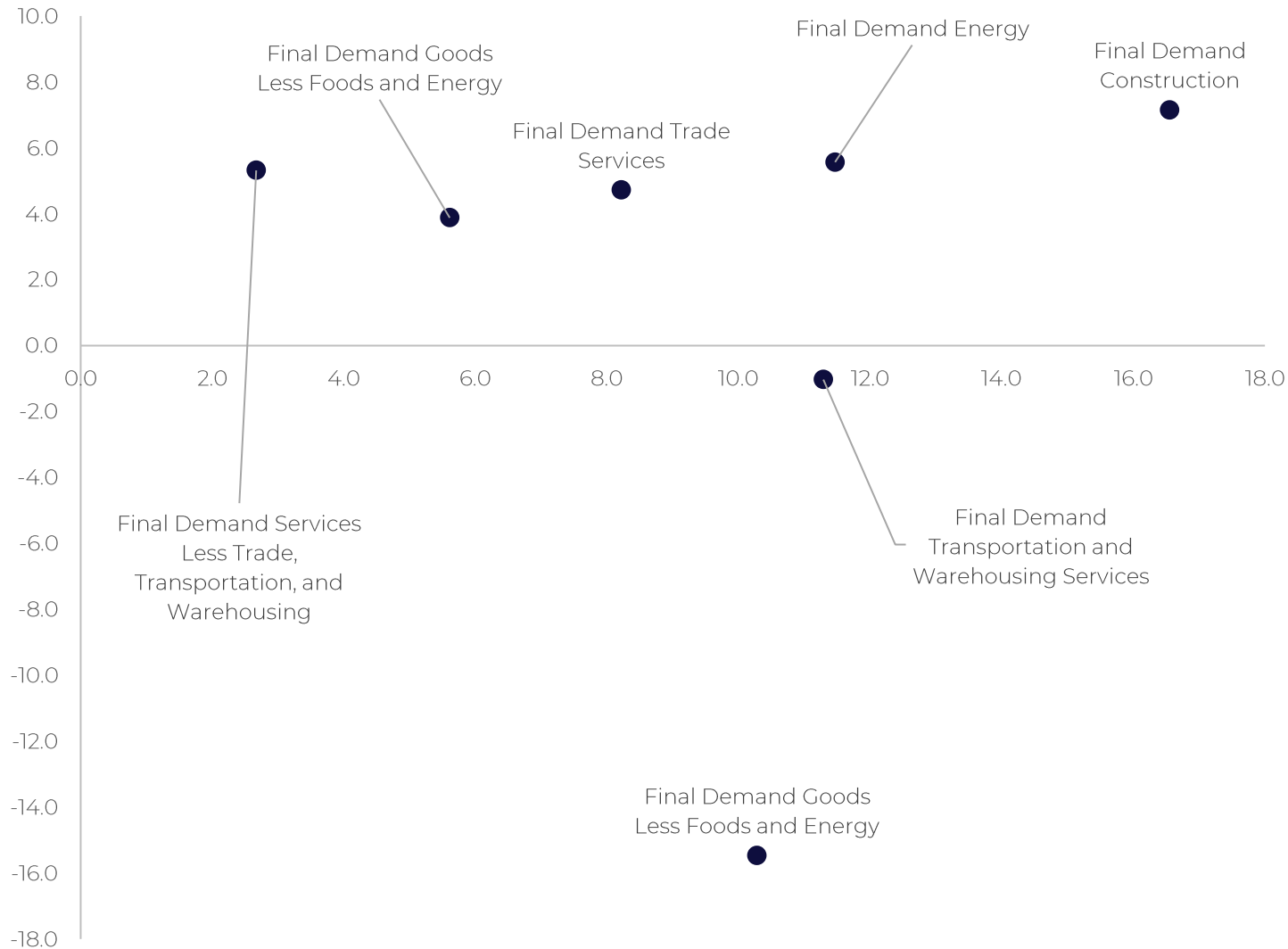


- Producer Price Index decelerated to 4.6% (from 5.7% a month earlier)
- Monthly data translates into a 3-month average annualized of -0.01% after 1.83% in January.

Sources: FRED, Blue Line Capital, Blue Line Futures

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3-Month Annualized PPIs Slowdown Bonanza



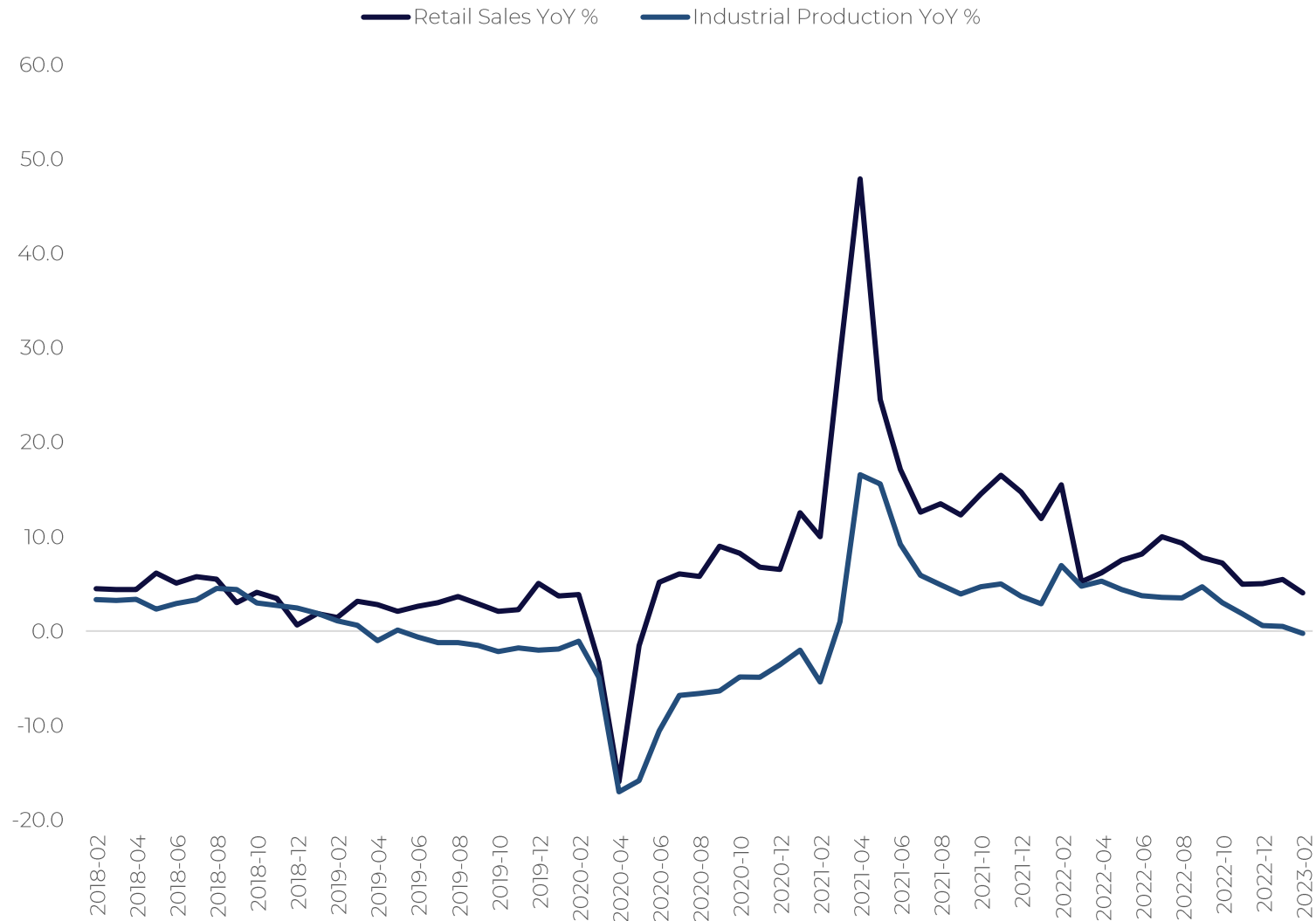
- Producer Price Index decelerated to 4.6% (from 5.7% a month earlier)
- All but one PPI components are trending below 1% on a 3m average annualized basis.

	Y/Y %	3m Average Annualized
Foods	6.8	-17.2
Energy	5.0	-5.6
Goods Less Foods & Energy	5.5	-1.6
Trade Services	4.3	-4.7
Transportation & Warehousing Services	6.9	-8.5
Services Less Trade, Transportation, and Warehousing	3.9	1.0
Construction	16.2	7.8

Sources: FRED, Blue Line Capital, Blue Line Futures

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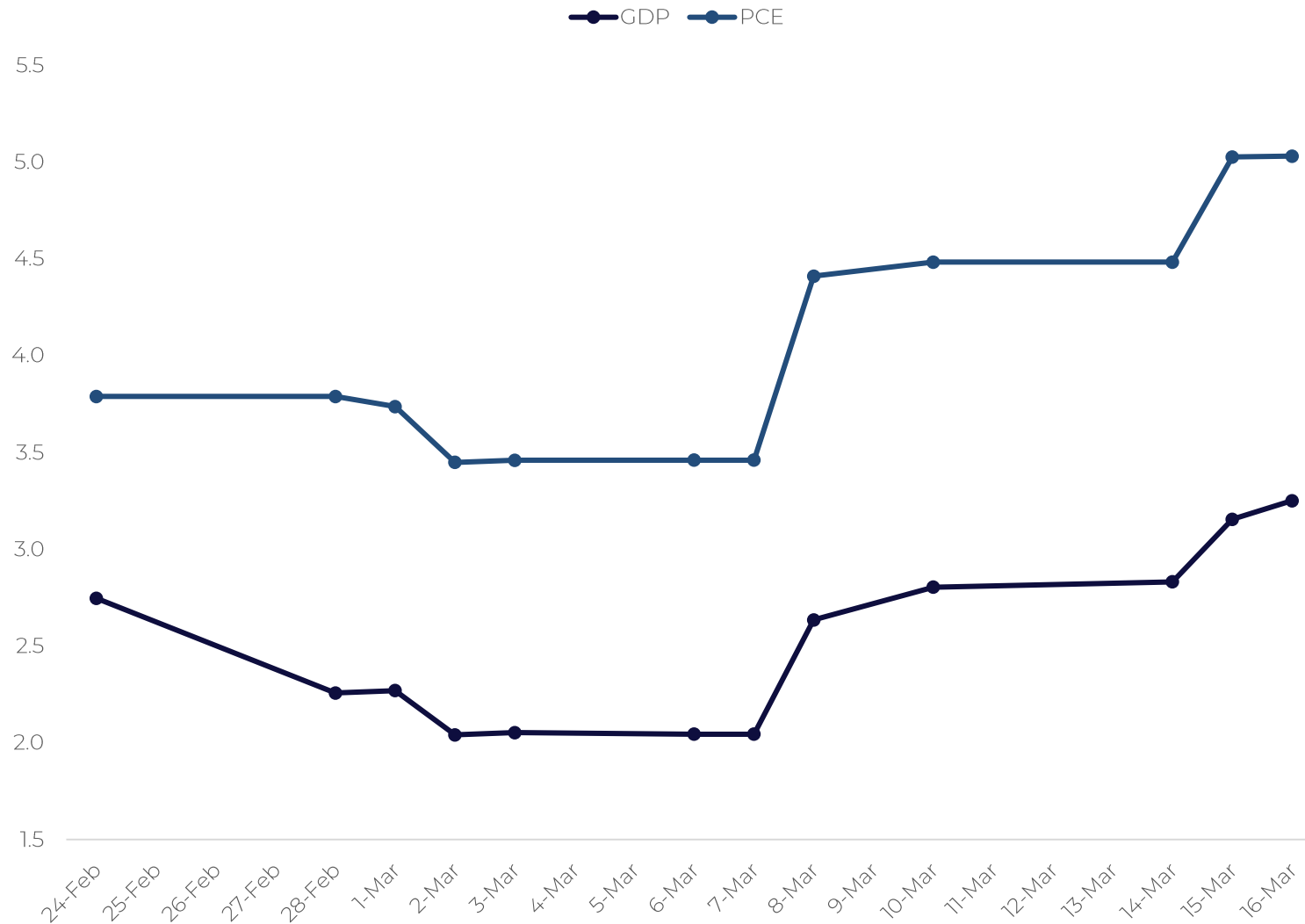
The Spending Boom Is Moderating



Sources: FRED, The Transcript, Blue Line Capital, Blue Line Futures

- The Transcript ([@TheTranscript](#)) on Twitter quoted Visa's CFO: "If you shut yourself up in the room & all you did was look at our numbers...not to be influenced by the opinions you hear people express starting all the way back to Jan. 2022, the business has been remarkably stable."
- Retail Sales at 4.0% Y/Y this week
- Industrial Production contracting Y/Y at -0.2%
- Recent stock performance of Discover Financial (DFS) and American Express (AXP) suggest some cooling of consumer spending.

Atlanta GDP & PCE

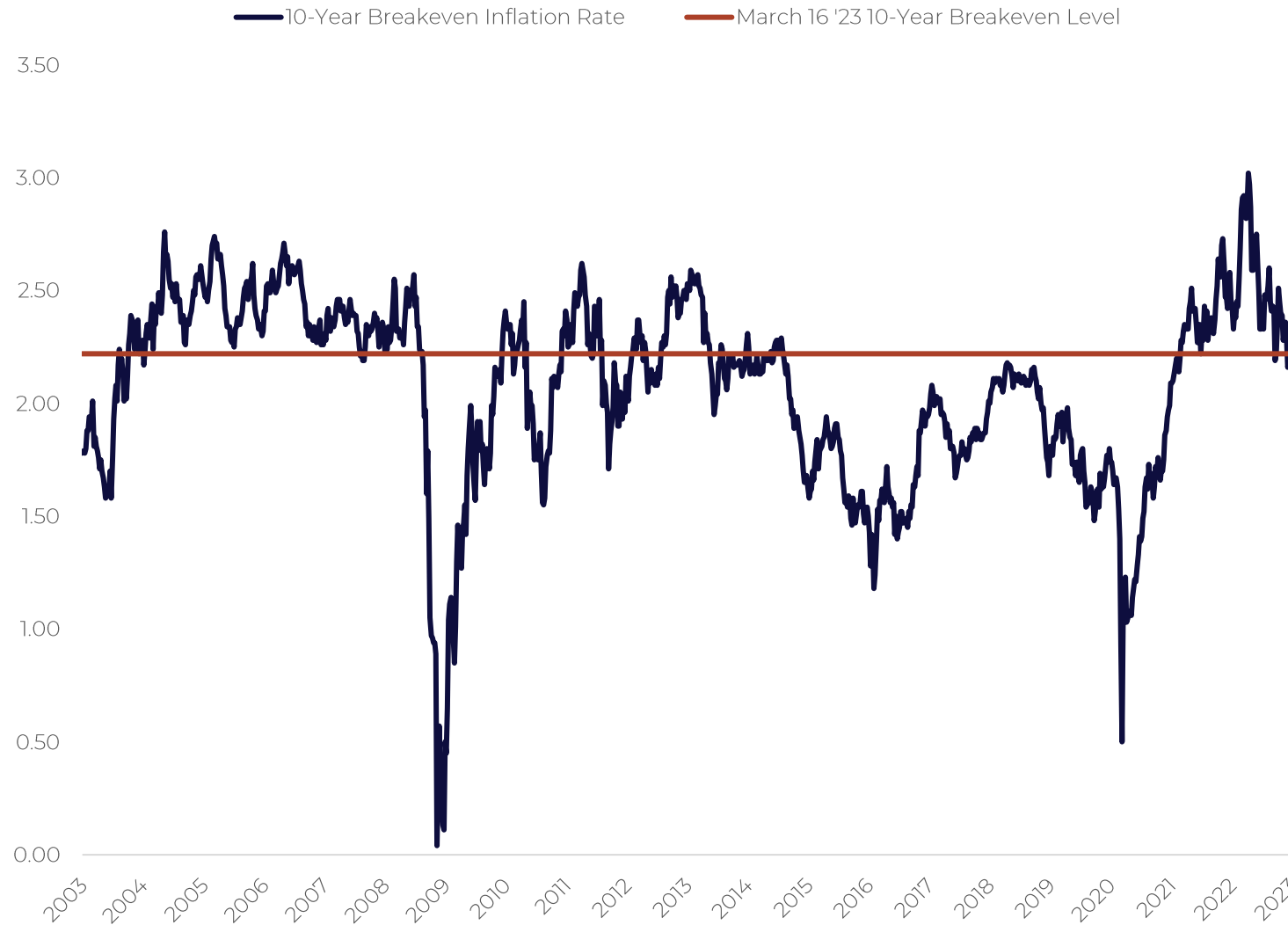


- Atlanta GDP Now in March went from a trough of 2.0% to 3.2% on March 15
- Simultaneously, PCE went from 3.4% to 5.0%
- The New York Fed's Weekly Economic Index at 0.96% annual GDP trends below Atlanta GDP, but not recessionary.

Sources: Atlanta Fed, Blue Line Capital, Blue Line Futures

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Breakeven Rates Renormalizing



- The 10-year breakeven rate, representing a market-based indication of expected inflation over the next 10 years.
 - As of March 16 '23, 10-year breakevens traded at 2.22%, down from a high of 3.02% in April '22.
- The 5-year breakeven rate has gone from 3.57% in March '22 to 2.26% as of Mar 16 '23.

Sources: Fred, Blue Line Capital, Blue Line Futures

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Equity Trends Research



Illumina

Intuit

Pioneer Natural Resources

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Illumina

The World Of Oncology & Genetic
Disease Testing

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Illumina Earnings Highlights & Stock Performance

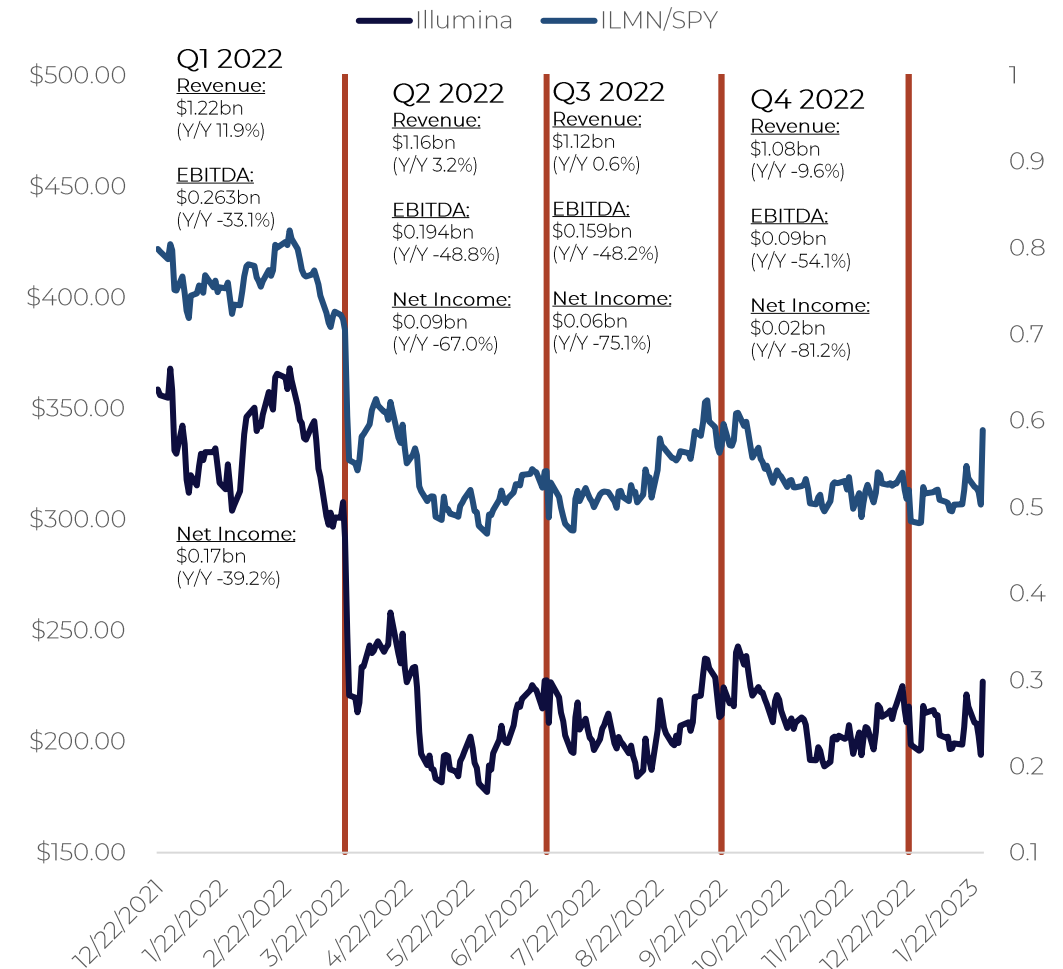
Management Commentary From Q4 2022 Earnings Call

- **GRAIL:** GRAIL must be held and operated separately and independently from Illumina, pursuant to the interim measures ordered by the European Commission, which prohibited our acquisition of GRAIL under the EU merger regulation.
 - GRAIL continues to have strong demand from consumers. Galleri is the only multi-cancer early detection test in a \$40+ billion market.
- **NovaSeqX:** The NovaSeq X has the strongest pre-order book of any Illumina instrument launch.
- **NextSeq Product Series:** Moving to mid-throughput. In 2022, we shipped a record 1,215 instruments and saw the fourth consecutive record year for NextSeq shipments. Customers appreciate NextSeq 1000/2000's unique capabilities as the only mid-throughput sequencer with built-in analysis and the first mid-throughput instrument to include 2x300 kits. Close to 25% of NextSeq 1000/2000 units in 2022 were placed with new to Illumina customers.
- **Insurance Companies:** Recently, 2 of the largest health insurance companies in the U.S., based on the number of patients served, announced the whole genome sequencing will be covered for patients with rare and undiagnosed genetic diseases, starting this quarter.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	28.88	7.7	23.16	20.91	NA
TTM	61.1	8.33	32.63	35.19	7.41
*Levered FCF					

Sources: Illumina IR, TIKR, Blue Line Capital

Quarterly Data



Illumina Expectations & Returns

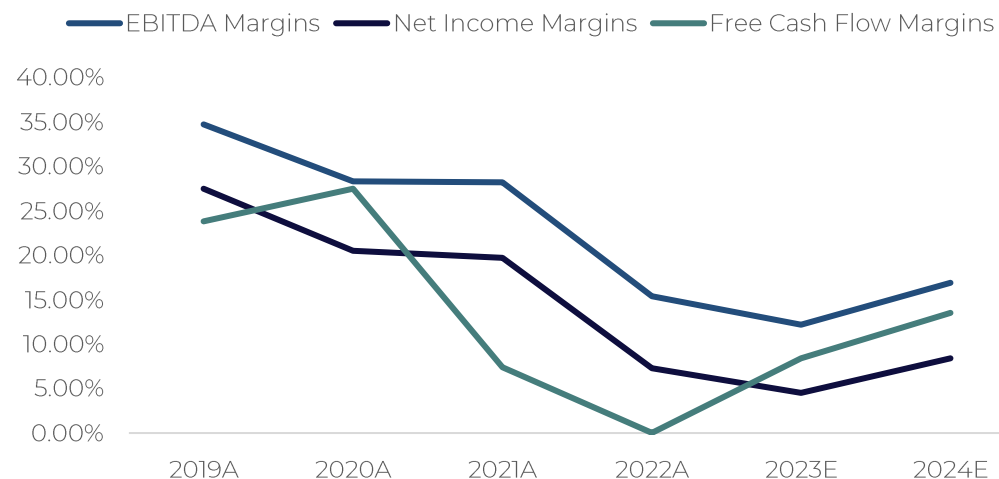
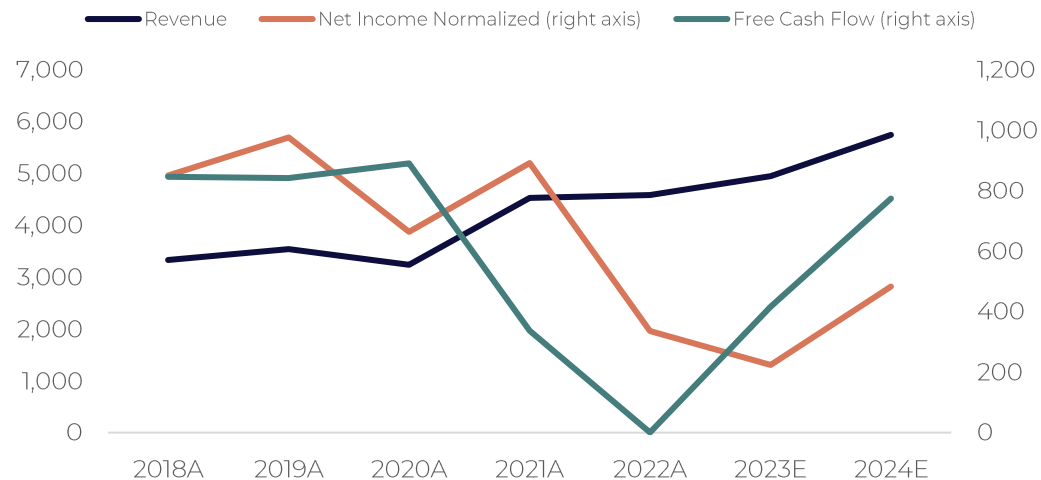
Return Ratios Compared To 2019

Return and margin ratios have worsened across the board compared to 2019.

		LTM	2019
Return Ratios	RoA	0.80%	8.60%
	RoC	1.80%	15.20%
	RoE	-50.80%	23.90%
Margins	Gross Profit Margin	68.60%	70.60%
	EBITDA Margin	12.50%	28.80%
	Net Income Margin	-96.10%	28.30%
	Levered Free Cash Flow Margin	14.50%	18.80%
Asset Turnover	Asset Turnover	0.37	0.48
	Fixed Asset Turnover	2.67	2.81
	Receivables Turnover	6.78	6.52
	Working Capital Turnover	5.82	0.94
Solvency	Total Debt/Equity	53.90%	40.80%
	Total Debt/Capital	35.00%	29.00%
	EBITDA/Interest Expense	25.58	23.94
	(EBITDA - Capex)/Interest Expense	14.58	19.92

Sources: Illumina IR, TIKR, Blue Line Capital

Revenue and Net Income Estimates



Illumina Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Illumina (ILMN)	62.23	161.25	10%	14%	25%
Thermo Fisher (TMO)	19.8	23.45	-2%	0%	6%
Agilent Technologies (A)	19.42	23.43	-11%	3%	18%
Danaher (DHR)	19.41	24.87	-10%	-13%	-1%
Amgen (AMGN)	9.74	13.15	-12%	2%	-1%
Gilead (GILD)	8.71	11.7	-8%	21%	32%
Merck & Co (MRK)	11.98	15.32	-2%	23%	22%
Median	19.41	23.43	-8%	3%	18%
Mean	21.61	39.02	-5%	7%	14%

Sources: TIKR, Google Finance, Blue Line Capital

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Blue Line Capital maintains no position in Illumina.

Intuit

Finding Simplicity In Software
TurboTax, QuickBooks, Mailchimp...

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Intuit Earnings Highlights & Stock Performance

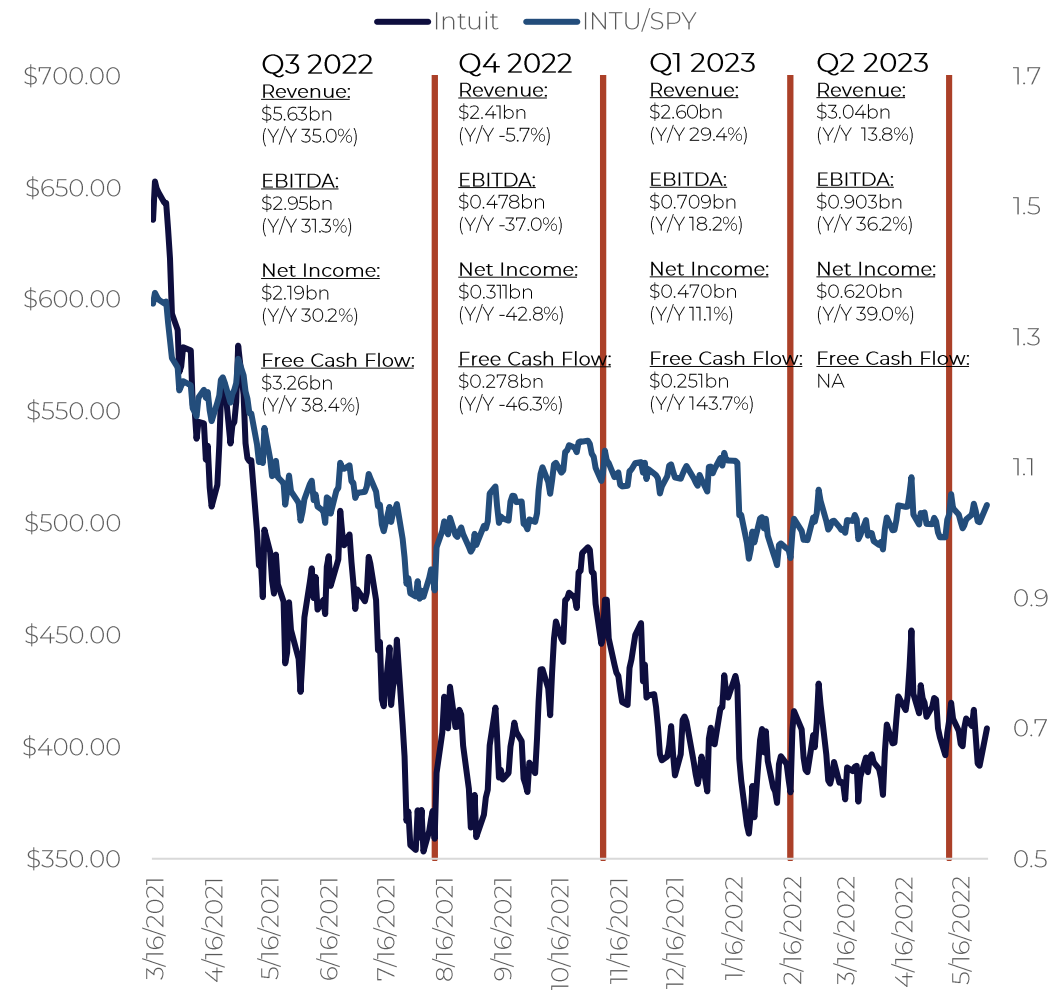
Management Commentary From Q2 2023 Earnings Call

- **Quarterly Trends:** Second quarter revenue grew 14%, fueled by Small Business and Self-Employed Group revenue growth of 20% and Consumer revenue growth of 26%.
- **Business Trends:** In Q2, growth in both the number of companies running online payroll and the number of employees paid on our platform remains strong. Total online payments volume grew 25%, moderating some from Q1.
- **Intuit Brands**
 - **TurboTax:** Best alternative in the assisted tax segment for consumers and small businesses, a combined \$30bn TAM.
 - **QuickBooks:** Evolving QuickBooks Live into a portfolio of expert services and are embedding these services as part of our lineup, similar to TurboTax Live. Tremendous opportunity as 70% of B2B transactions are still completed with checks. This quarter, we launched a QuickBooks business network to millions of QuickBooks customers to further digitize B2B payments in the US.
 - **CreditKarma:** Integration of TurboTax and Credit Karma, approved members can get money in their hands in as little as one minute after the IRS accepts their return.
 - **MailChimp:** Mailchimp is what brought down Online Services growth to 21%, because it is growing slower (low teens)

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	18.46	1.19	17.25	13.26	NA
TTM	21.73	1.32	18.87	15.47	5.53
*Levered FCF					

Sources: Intuit IR, TIKR, Blue Line Capital

Quarterly Data



Intuit Expectations & Returns

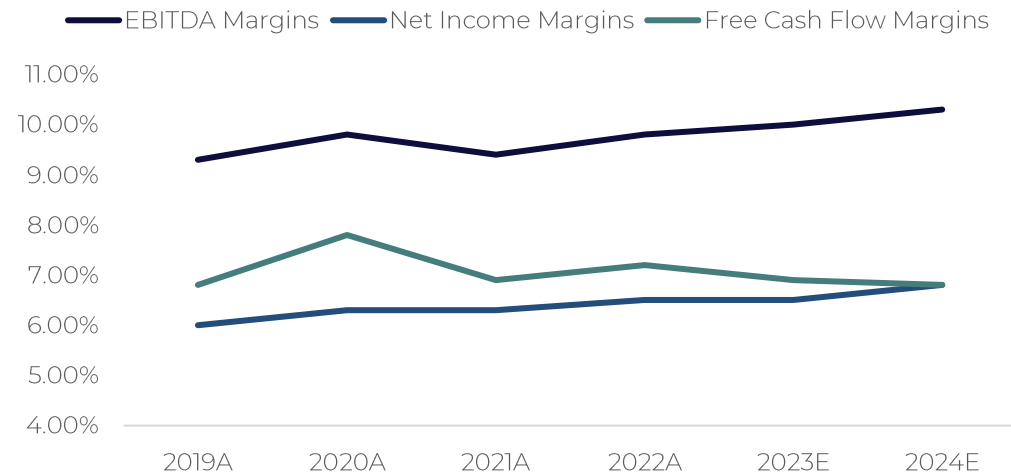
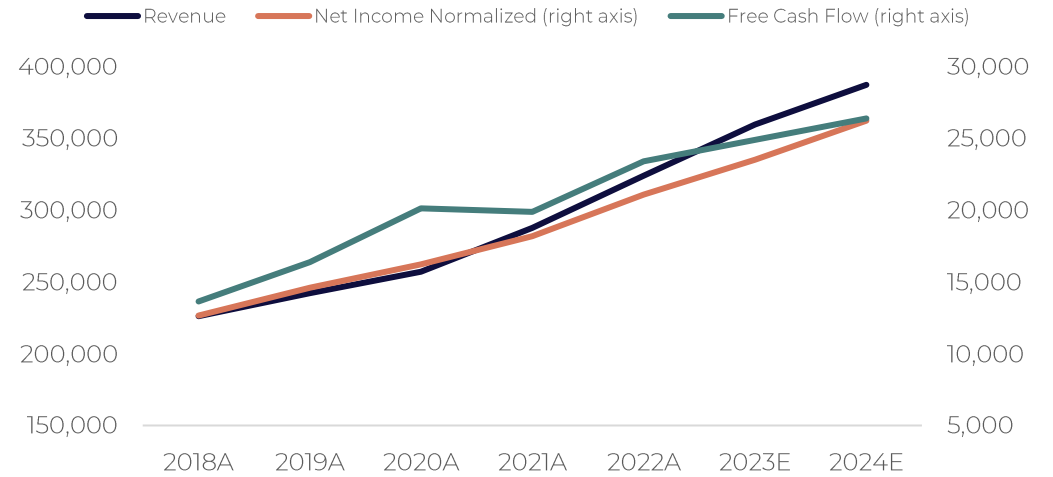
Return Ratios Compared To 2019

Returns and margins have held steady across the board.

		LTM	2019
Return Ratios	RoA	7.80%	7.50%
	RoC	18.80%	18.60%
	RoE	25.40%	24.10%
Margins	Gross Profit Margin	24.60%	23.80%
	EBITDA Margin	9.50%	9.00%
	Net Income Margin	6.20%	5.70%
	Levered Free Cash Flow Margin	7.00%	6.40%
Asset Turnover	Asset Turnover	1.32	1.39
	Fixed Asset Turnover	57.3	42.15
	Receivables Turnover	NA	NA
	Working Capital Turnover	-13.36	-10.9
Solvency	Total Debt/Equity	72.30%	65.40%
	Total Debt/Capital	41.20%	38.40%
	EBITDA/Interest Expense	15.36	12.73
	(EBITDA-Capex)/Interest Expense	14.02	11.51

Sources: Intuit IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Intuit Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
United Health (UNH)	13.26	18.46	-16%	-10%	-1%
CVS Health (CVS)	7.59	8.72	-26%	-23%	-16%
Cigna Group (CI)	9.23	11.14	-19%	-4%	12%
HCA Healthcare (HCA)	9.04	14.35	2%	16%	36%
Humana (HUM)	11.61	17.06	-9%	2%	11%
Cardinal Health (CAH)	7.74	12.1	-10%	7%	39%
Molina Healthcare (MOH)	7.79	13.21	-26%	-24%	0%
Median	9.04	13.21	-16%	-4%	11%
Mean	9.47	13.58	-15%	-5%	12%

Sources: TIKR, Google Finance, Blue Line Capital

3/17/2023

Blue Line Capital maintains no position in Intuit.

Pioneer Natural Resources



Finding High-Quality Wells With Oil
Below \$70

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Pioneer Natural Resources Highlights & Stock Performance

Management Commentary From Q4 2022 Earnings Call

- **Production & Cash Returns:** During '22, Pioneer was the most active driller and the largest oil producer in the state of Texas, achieved our fifth straight year of drilling and completion efficiency gains. Returned greater than 95% of free cash flow to shareholders through \$26/share in dividends and \$1.65bn in share repurchases.
- **Capital Spending:** Drilling completions and capital facilities budget of \$4.45bn - \$4.75bn reflects approximately 10% inflation and 2 incremental rigs.
- **Well Productivity & 15,000 lateral foot wells:** Our 15,000+ foot lateral length developments deliver strong productivity and increased returns when compared to a 10,000-foot lateral well.
- **Breakeven:** This combination resulted in 2023 corporate maintenance breakeven WTI oil price of \$39/barrel. Including our base dividend, our maintenance program is fully funded at \$47 WTI.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	21.56	7.84	19.07	15.86	NA
TTM	32.6	8.58	24.08	22.27	10.83
*Levered FCF					

Sources: Pioneer Natural Resources IR, TIKR, Blue Line Capital

Quarterly Data



Pioneer Natural Resources Expectations & Returns

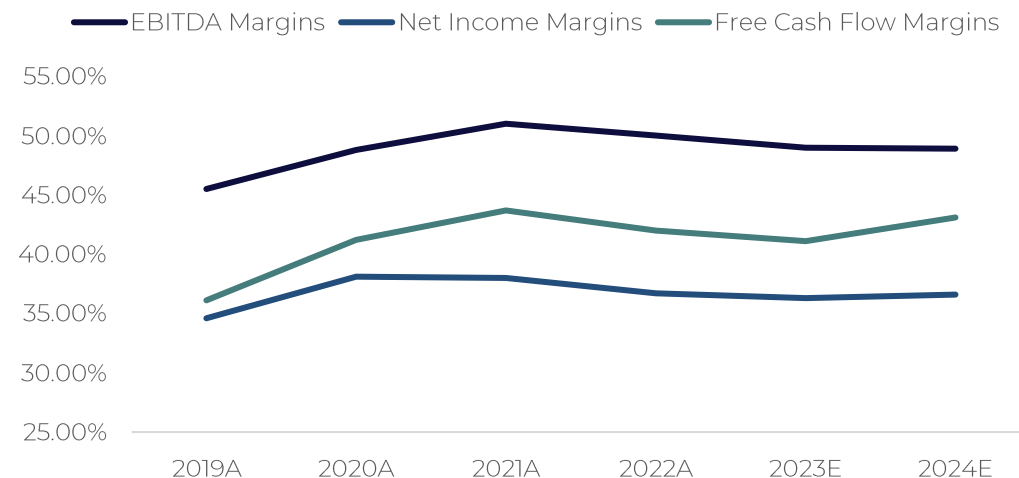
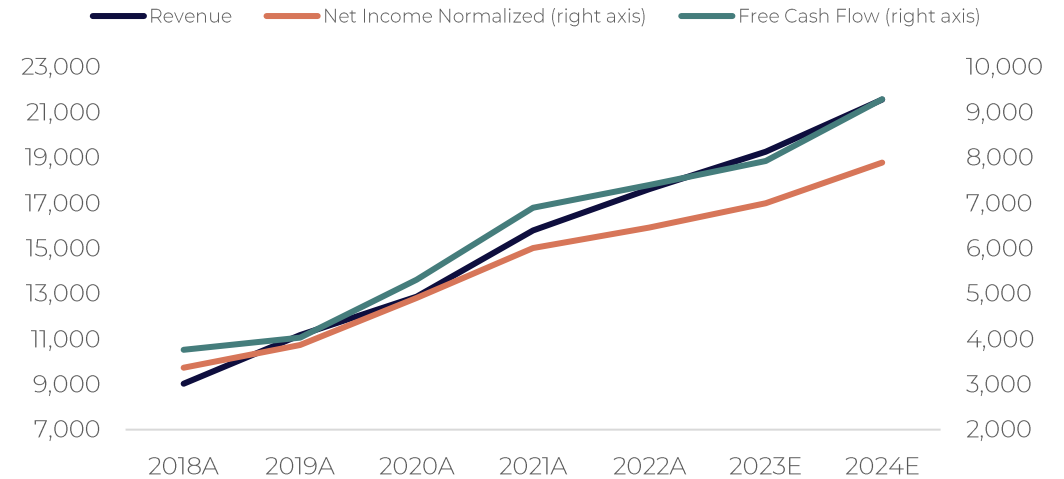
Return Ratios Compared To 2019

Return ratios have strengthened across the board and so have profit margins.

		LTM	2019
Return Ratios	RoA	14.50%	10.30%
	RoC	33.30%	22.10%
	RoE	33.90%	29.70%
Margins	Gross Profit Margin	87.70%	85.00%
	EBITDA Margin	37.30%	36.00%
	Net Income Margin	26.30%	26.40%
	Levered Free Cash Flow Margin	35.70%	28.20%
Asset Turnover	Asset Turnover	0.67	0.54
	Fixed Asset Turnover	7.99	9.43
	Receivables Turnover	10.33	7.84
	Working Capital Turnover	19.89	-6.59
Solvency	Total Debt/Equity	29.00%	39.30%
	Total Debt/Capital	22.50%	27.90%
	EBITDA/Interest Expense	58.98	25.64
	(EBITDA-Capex)/Interest Expense	55.16	23.12

Sources: Pioneer Natural Resources IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Pioneer Natural Resources Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Adobe (ADBE)	15.86	21.56	-3%	-11%	-13%
Microsoft (MSFT)	17.18	25.11	-2%	-1%	-1%
Shutterstock (SSTK)	10.95	17.45	38%	30%	27%
Getty Images (GETY)	10.75	25.89	-4%	-54%	-50%
Salesforce (CRM)	16.94	24.27	30%	10%	3%
Alphabet (GOOGL)	9.30	17.71	-3%	-13%	-17%
Avid Technology (AVID)	14.42	17.32	5%	12%	12%
Median	14.42	21.56	-2%	-1%	-1%
Mean	13.63	21.33	9%	-4%	-6%

Sources: TIKR, Google Finance, Blue Line Capital

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Blue Line Capital maintains no position in Pioneer Natural Resources.

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