

Blue Line Capital

Hitting The Rewind On 2019 The Macro Safari Continues

info@BlueLineCapLLC.com

Data Disclosures

Performance, portfolio, sector and holdings data is provided by Morningstar. (c) Morningstar 2022. All rights reserved. Use of this content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

General Disclosures

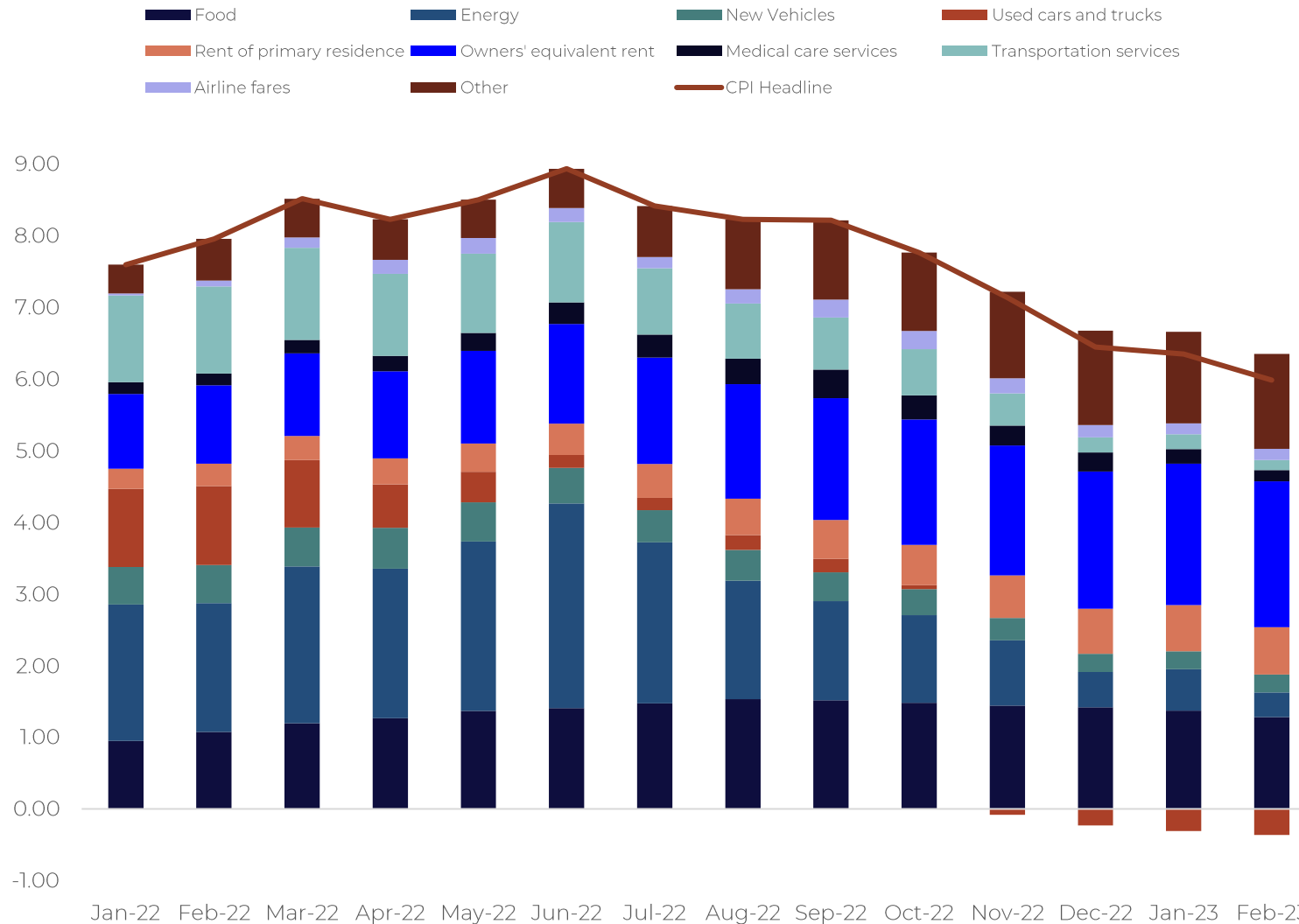
The information contained in this document pertains to Blue Line Capital, LLC ("BLC"). All rights are reserved. These materials are the sole property of BLC. The information supplied herein is proprietary and confidential and is intended only for the persons to whom it is transmitted. Receipt or possession of this document does not convey any rights to disclose its contents, in whole or in part, to any third party, or to develop, manufacture, use, or sell anything described herein.

Macro Dynamics

A Review Of Inflation Trends

info@BlueLineCapLLC.com

Consumer Price Index Y/Y Deceleration To 6%

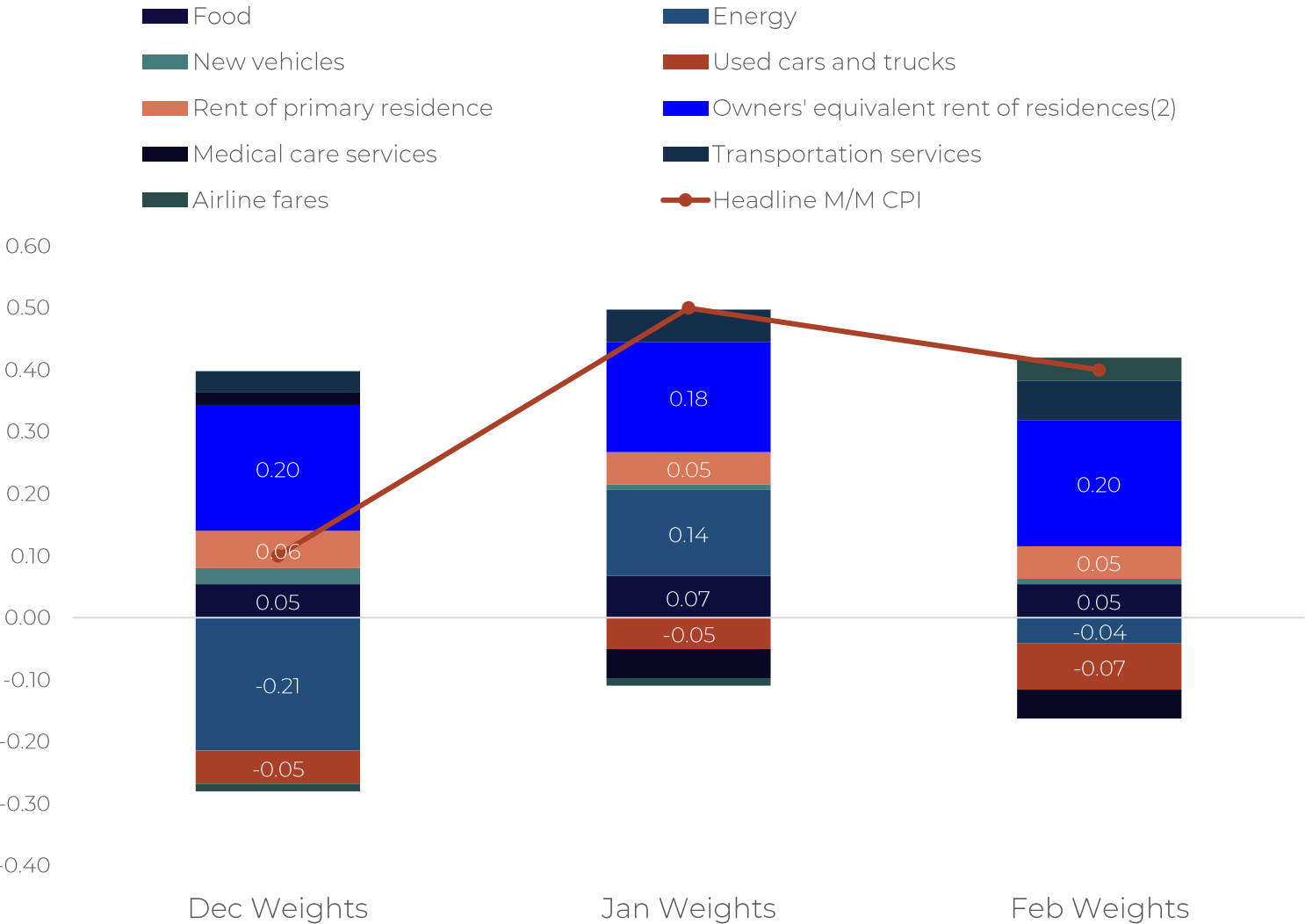


- Yearly % Changes [Feb|Jan] & Yearly Headline Contribution ()
 - Food: [9.5|10.1] (1.28)
 - Energy: [5.0|8.4] (0.34)
 - New Vehicles: [5.8|5.8] (0.25)
 - Used cars and trucks: [-13.6|-11.6] (-0.36)
 - Rent of primary residence: [8.8|8.6] (0.66)
 - Owners' equivalent rent: [8.0|7.8] (2.04)
 - Medical 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

3/23/2023

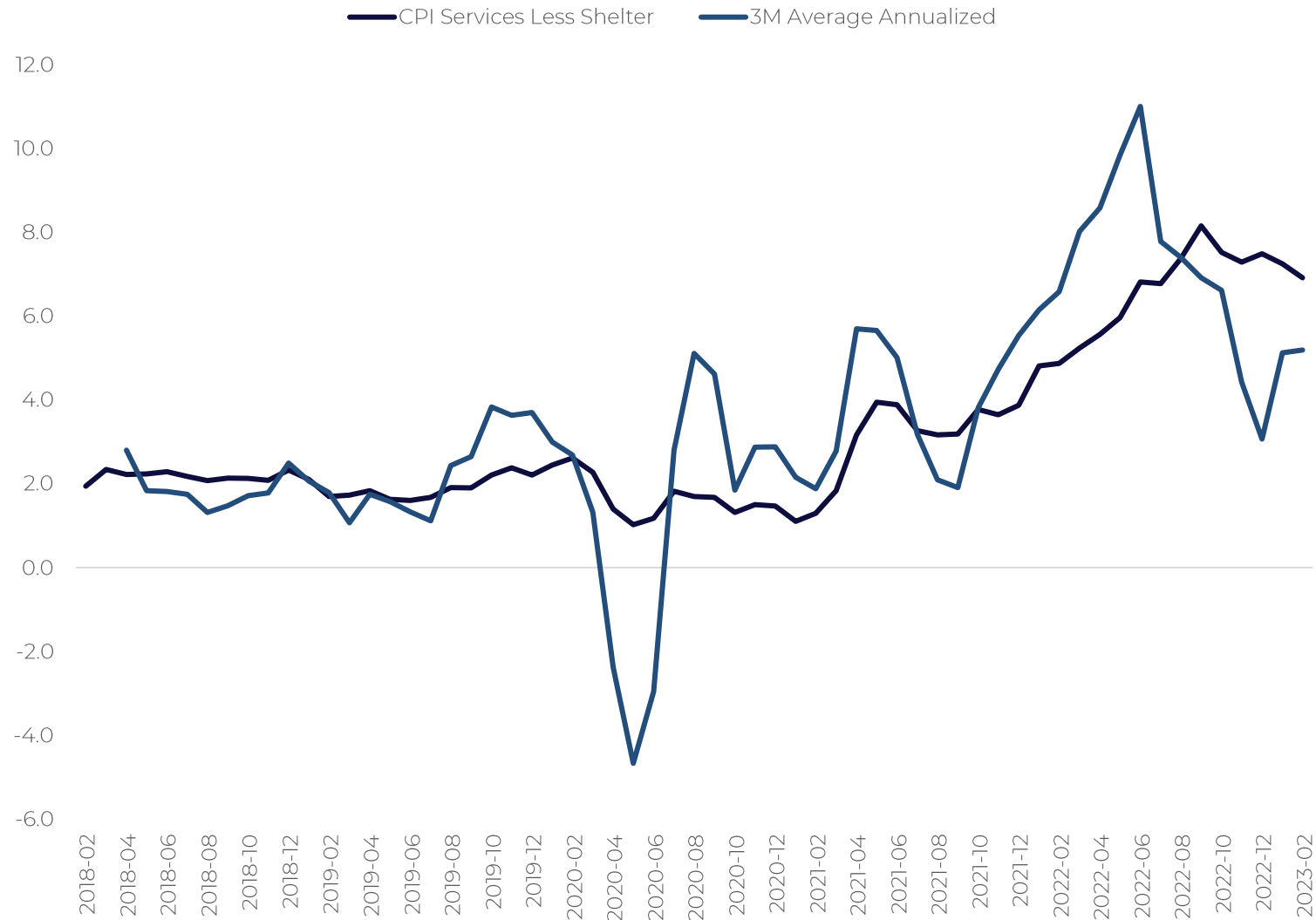
Shelter Contributing The Lion's Share Of Monthly CPI



- 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

Services CPI Less Shelter

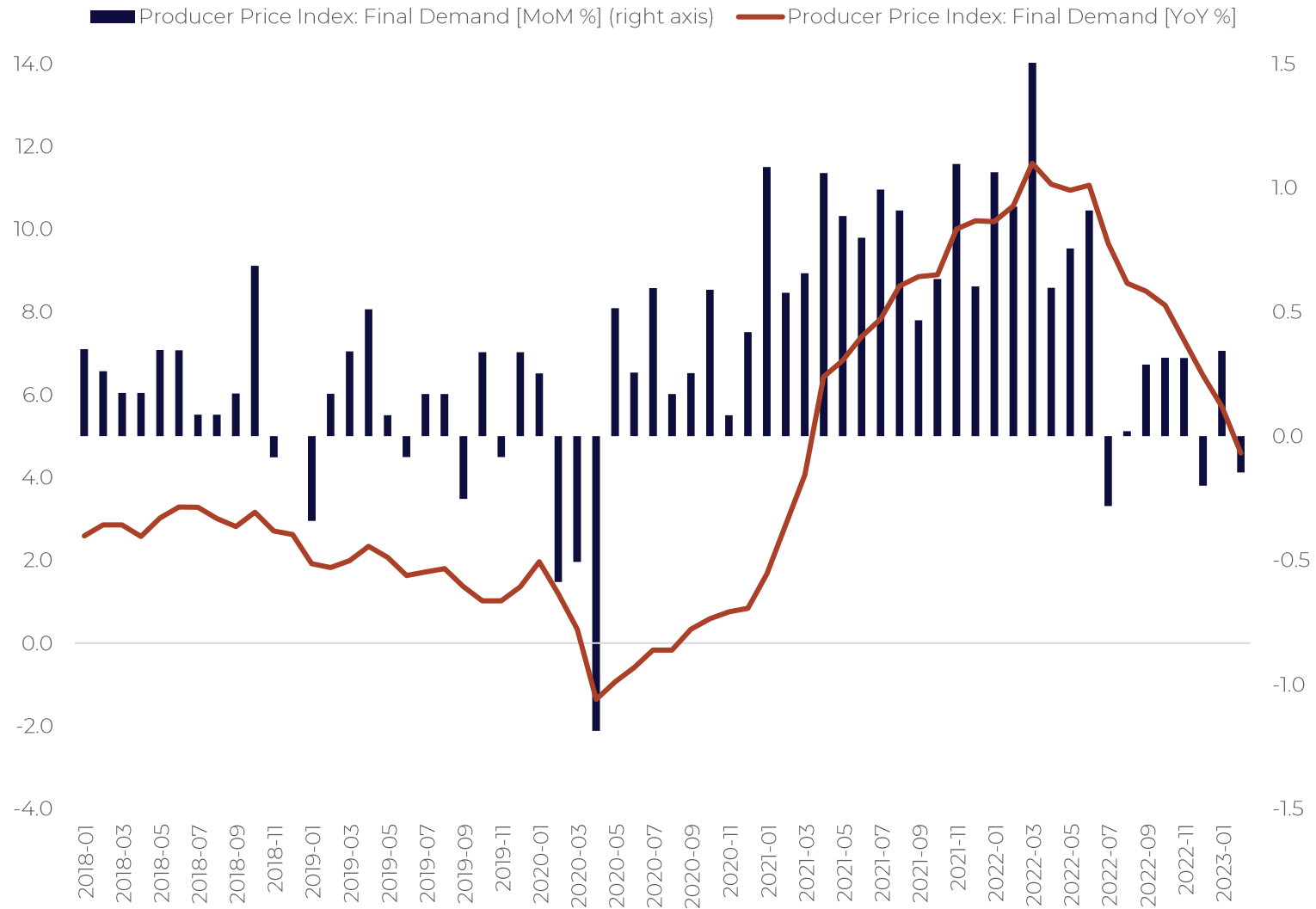


- CPI services less shelter, the Fed's key datapoint for wages has decelerated from a high of 8.1% Y/Y in September '22 to 6.9% in February '23. 3-month annualized has accelerated from a low of 3.1% in December '22 to 5.2% in February '23.
 - However, M/M data at 0.1% was preceded by two 0.6% M/M prints.

Sources: FRED, Blue Line Capital, Blue Line Futures

3/23/2023

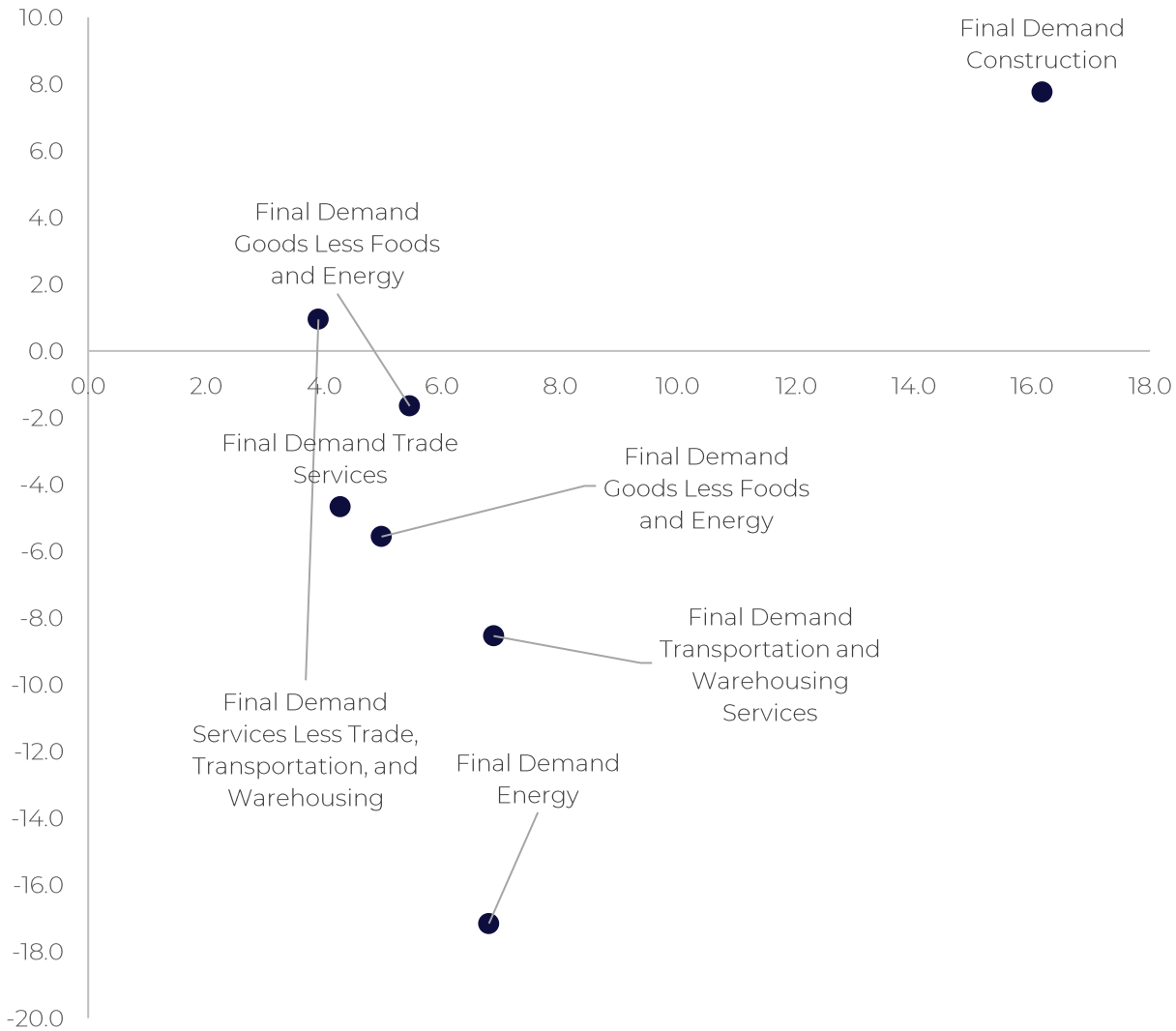
February PPI Decelerates To 4.6%



- 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

3-Month Annualized PPIs Slowdown Bonanza

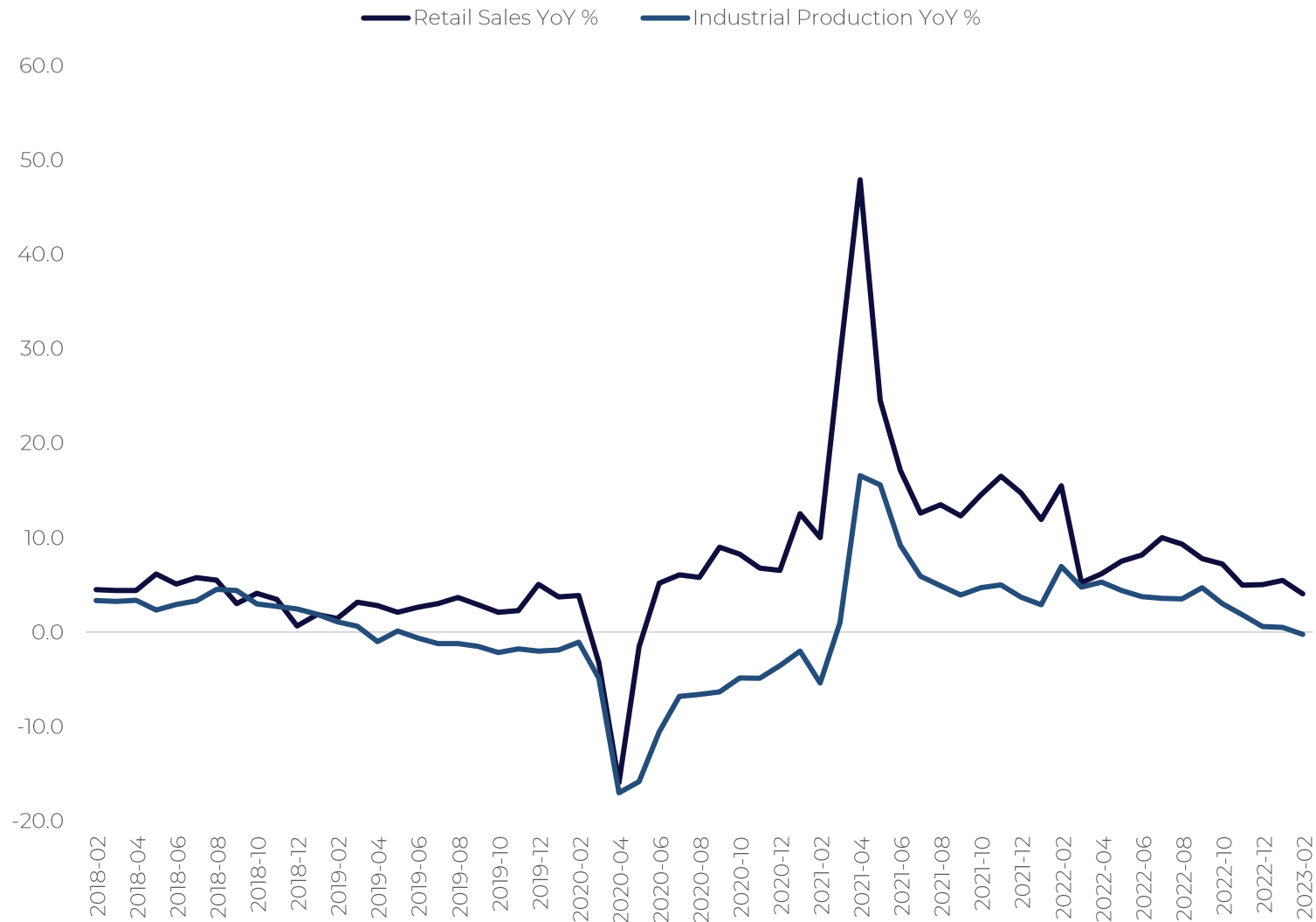


- Producer Price Index decelerated to 4.6% (from 5.7% a month earlier)
- All but one PPI components are trending below 1% on a 3m average annualized basis.

	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

The Spending Boom Is Moderating

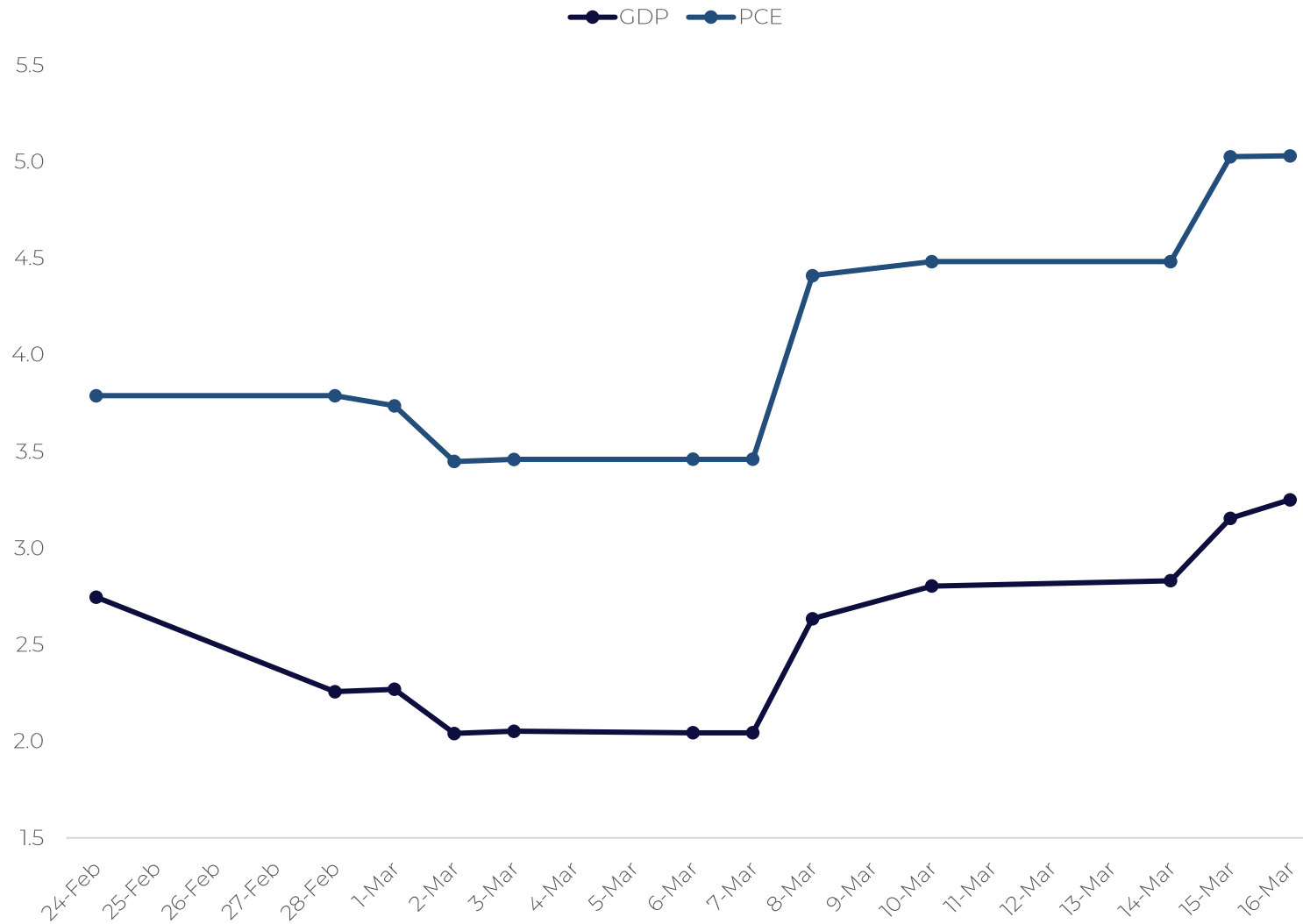


- The Transcript ([@TheTranscript](#)) on Twitter quoted Visa's CFO: "If you shut yourself up in the room & all you did was look at our numbers...not to be influenced by the opinions you hear people express starting all the way back to Jan. 2022, the business has been remarkably stable."
- Retail Sales 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.

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

3/23/2023

Atlanta GDP & PCE

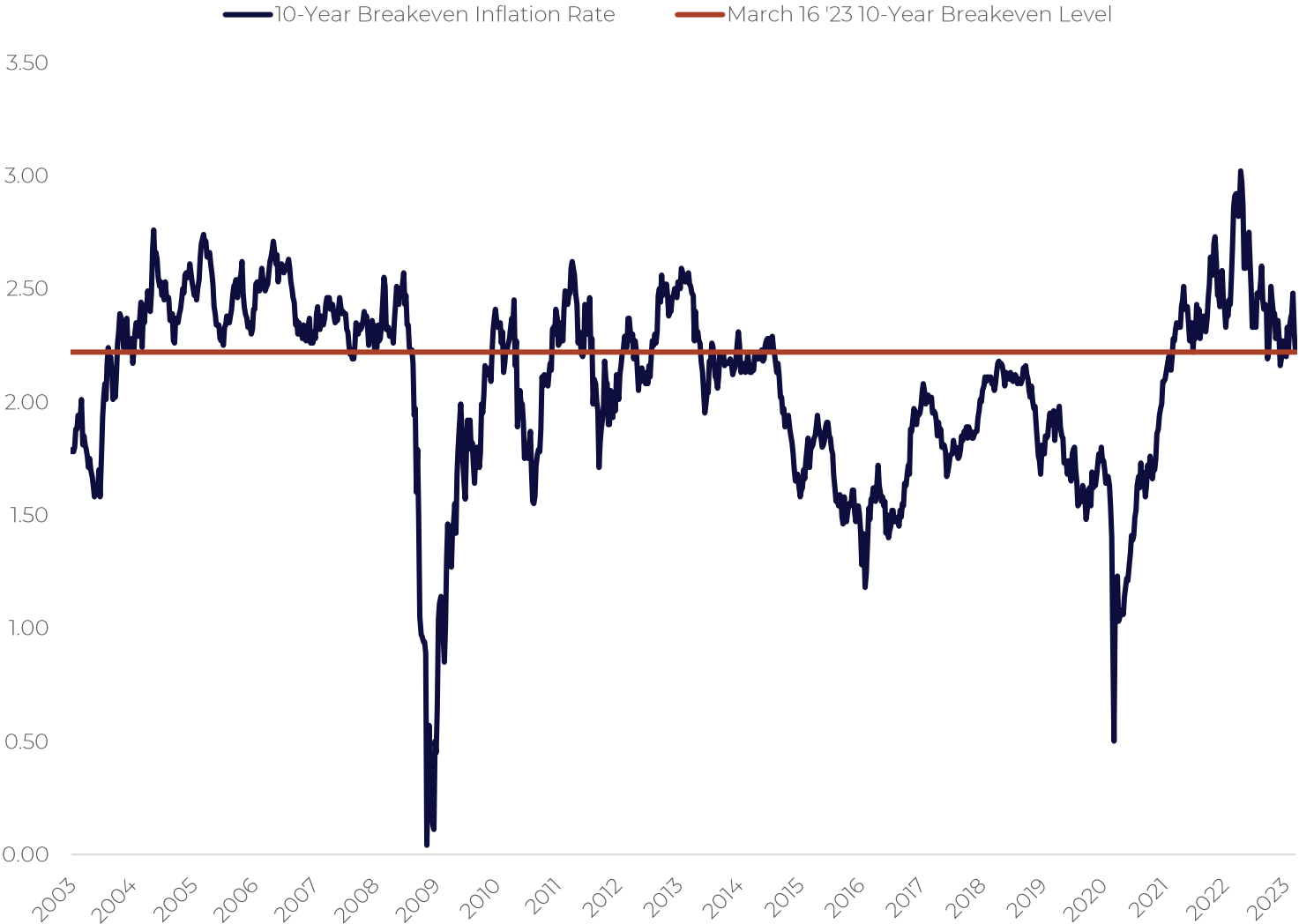


- Atlanta GDP Now in March went from a trough of 2.0% to 3.2% on March 15
- Simultaneously, PCE went from 3.4% to 5.0%
- The New York Fed's Weekly Economic Index at 0.96% annual GDP trends below Atlanta GDP, but not recessionary.

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

3/23/2023

Breakeven Rates Renormalizing



Sources: Fred, Blue Line Capital, Blue Line Futures

3/23/2023

- 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.



Equity Trends Research

Illumina

Intuit

Pioneer Natural Resources

info@BlueLineCapLLC.com

Illumina

The World Of Oncology & Genetic
Disease Testing



info@BlueLineCapLLC.com

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	155.68	6.93	92.91	59.36	NA
TTM	-7.74	7.49	51.47	62.53	5.2
*Levered FCF					

Sources: Illumina IR, TIKR, Blue Line Capital

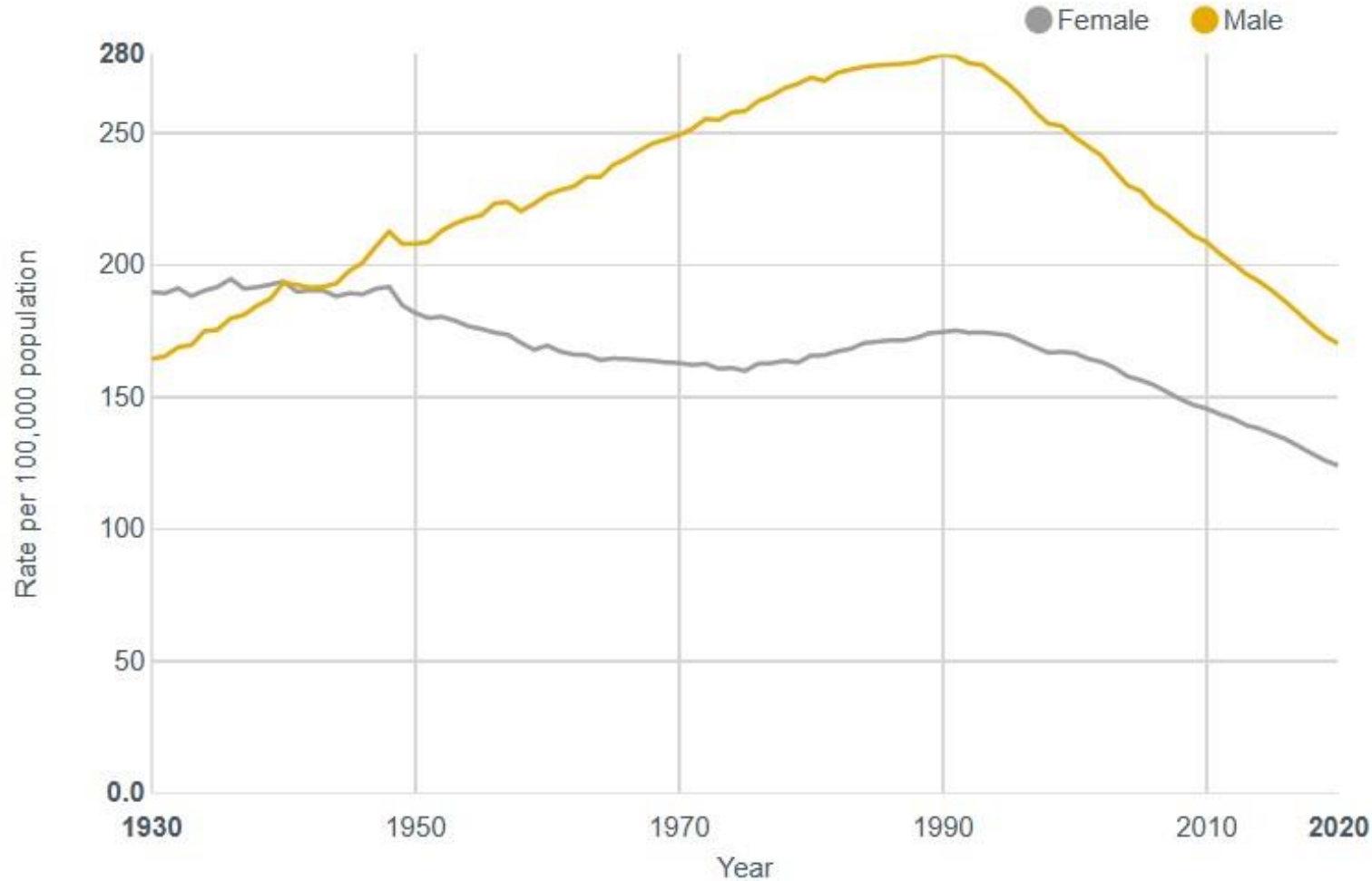
Quarterly Data



Carl Icahn's Letter To Shareholders

- The company first sold GRAIL, then bought it back for \$8bn, realizing a gain of \$5.3bn for the sellers before Illumina had to write-off \$3.9bn.
- The acquisition of GRAIL was done without certainty about the European Commission's regulatory response, proving costly for Illumina shareholders.
- Illumina is pursuing a parallel strategy, continuing its appeals process while also exploring the divestiture option.
- Illumina might face \$1.75bn in taxes on gains if it has to divest GRAIL.
- Hiccups come amidst stricter lending standards, constraining Illumina's ability to borrow.

U.S. And Global Cancer Developments

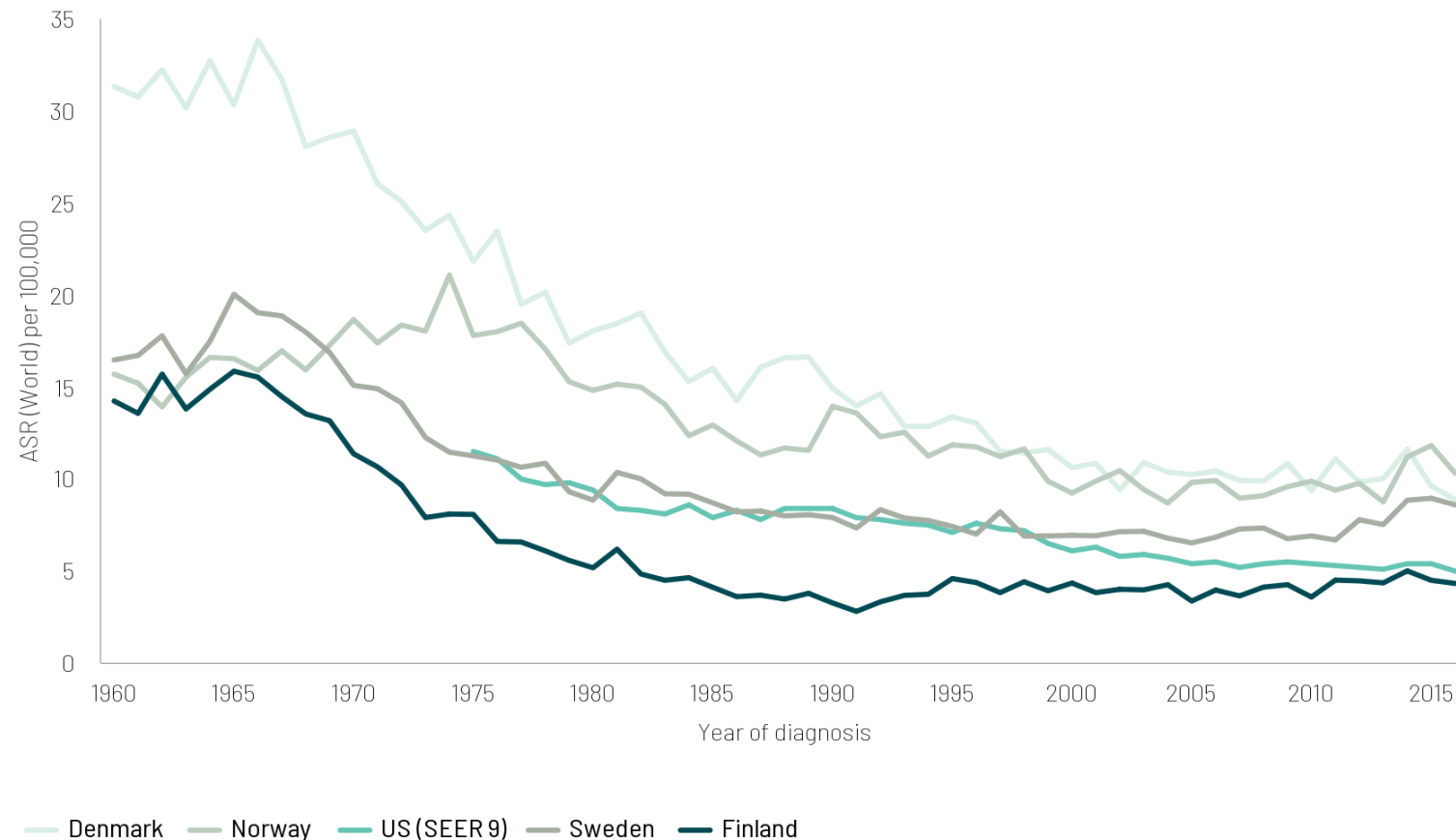


- In the US, there were an estimated 1.9 million new cancer cases diagnosed and 609,360 cancer deaths
- Cancer accounts for about 1 in every 6 deaths worldwide – second to cardiovascular disease.
- In 2020, there were an estimated 18.1 million new cancer cases and 9.9 million cancer deaths globally. By 2040, the global burden is expected to reach 28.0 million new cancer cases and 16.2 million cancer deaths (growing and aging population.)
 - Tobacco (1/4 cancers)
 - Infection
 - Excess Body Weight
- The American Cancer Society estimates that 42% of cancer cases are attributed to potentially modifiable risk factors, and cancer prevention and early detection through screening can reduce the cancer burden even further.

Sources: [American Cancer Society](#), Blue Line Capital, Blue Line Futures

The Importance Of Early Cancer Detection

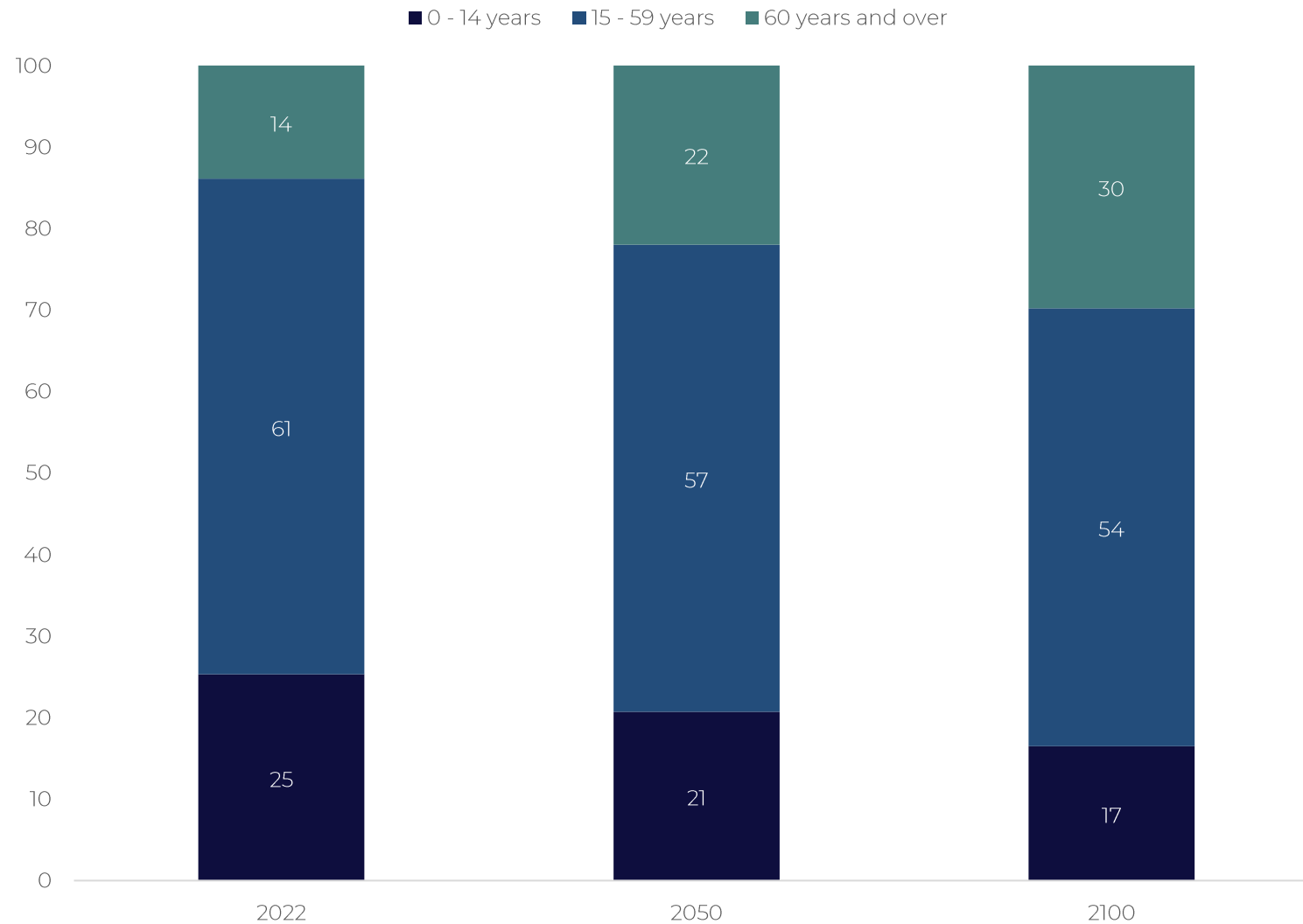
Decreases in cervical cancer incidence rates between 1960–2016



- Early screening is essential to detecting cancers early.
- With the introduction of the Pap test, high income regions have significantly reduced cancer incidence rates since 1960.
- The WHO suggests that 30-50% of cancers could be prevented with early screenings.
- ~50% of cancers are still only detected in advanced stage.

Sources: [The Cancer Atlas](#), [WHO](#), [Science](#), Blue Line Capital, Blue Line Futures

The World's Population Is Aging



- The world's population is getting older. By 2050, the world's 60+ population is going to expand to 22% of total, from 14% today.
 - By 2100, the 60+ population is set to expand to 30% of total

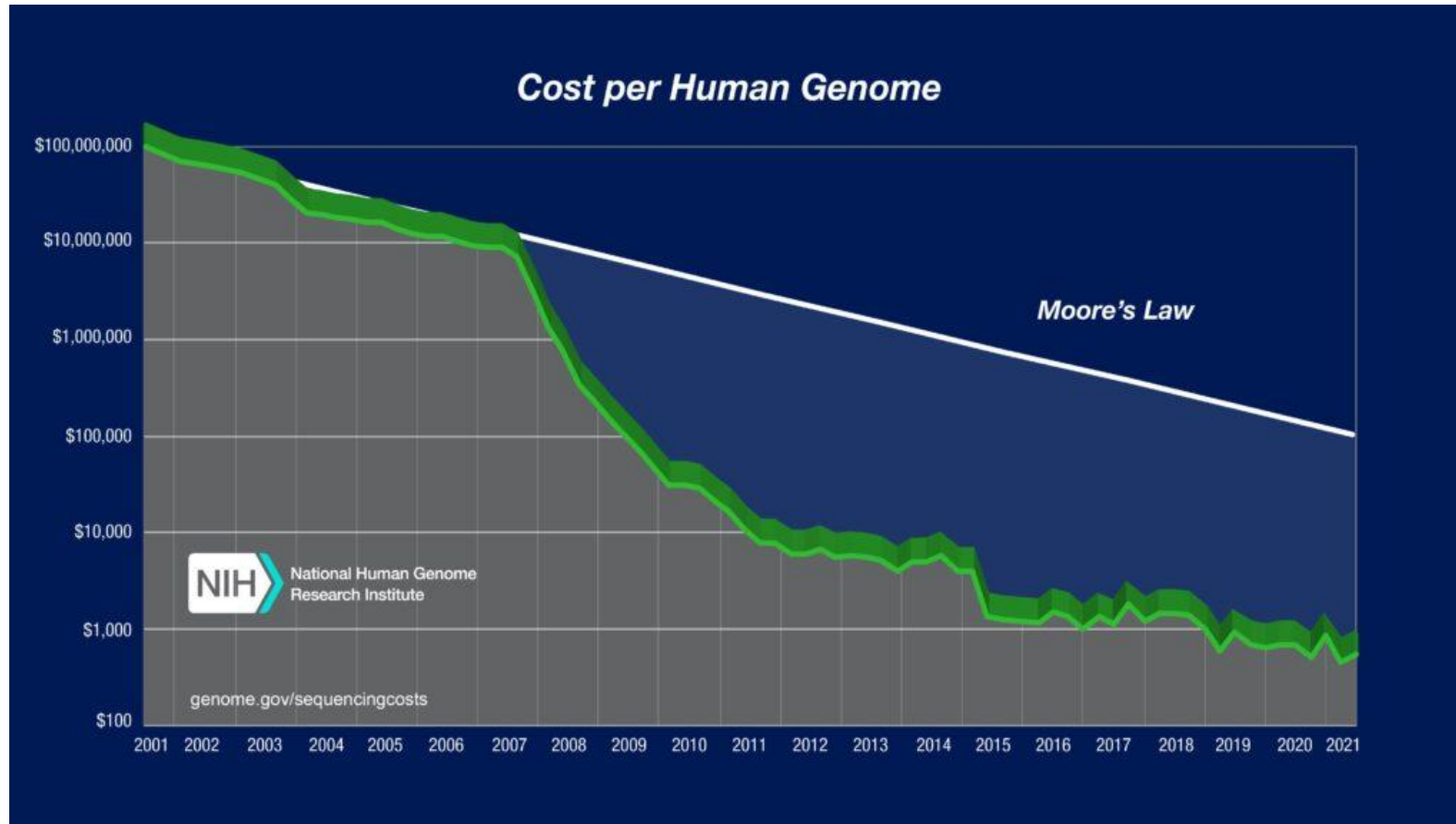
Sources: Statista, Blue Line Capital, Blue Line Futures

3/23/2023

16

BLUE LINE CAPITAL

Cost Of Sequencing & Applications



- Research use-cases:
 - Cancer Research
 - Microbiology
 - Agrigenomics
 - Complex Disease
 - Cell and Molecular Biology
- Clinical Applications:
 - Reproductive Health
 - Genetic & Rare Diseases
 - Oncology
 - More Clinical Solutions
- Specialized Areas of Interest:
 - Pharmacogenomics (understand response to medications)
 - Population Genomics
 - Drug Discovery & Development
 - Precision Health (personalized health)
 - Immunogenomics
 - Neurogenomics

Sources: [Illumina](#), [Stanford Healthcare Innovation Lab](#), Blue Line Capital, Blue Line Futures

3/23/2023

17

BLUE LINE CAPITAL

CRISPR & Next-Generation Sequencing

CRISPR/Cas9 and next generation sequencing in the personalized treatment of Cancer

[Sushmaa Chandralekha Selvakumar](#), [K. Auxzilia Preethi](#), [Kehinde Ross](#), [Deusdedit Tusubira](#) ,
[Mohd Wajid Ali Khan](#), [Panagal Mani](#), [Tentu Nageswara Rao](#) & [Durairaj Sekar](#) 

[Molecular Cancer](#) **21**, Article number: 83 (2022) | [Cite this article](#)

7008 Accesses | **9** Citations | [Metrics](#)

Abstract

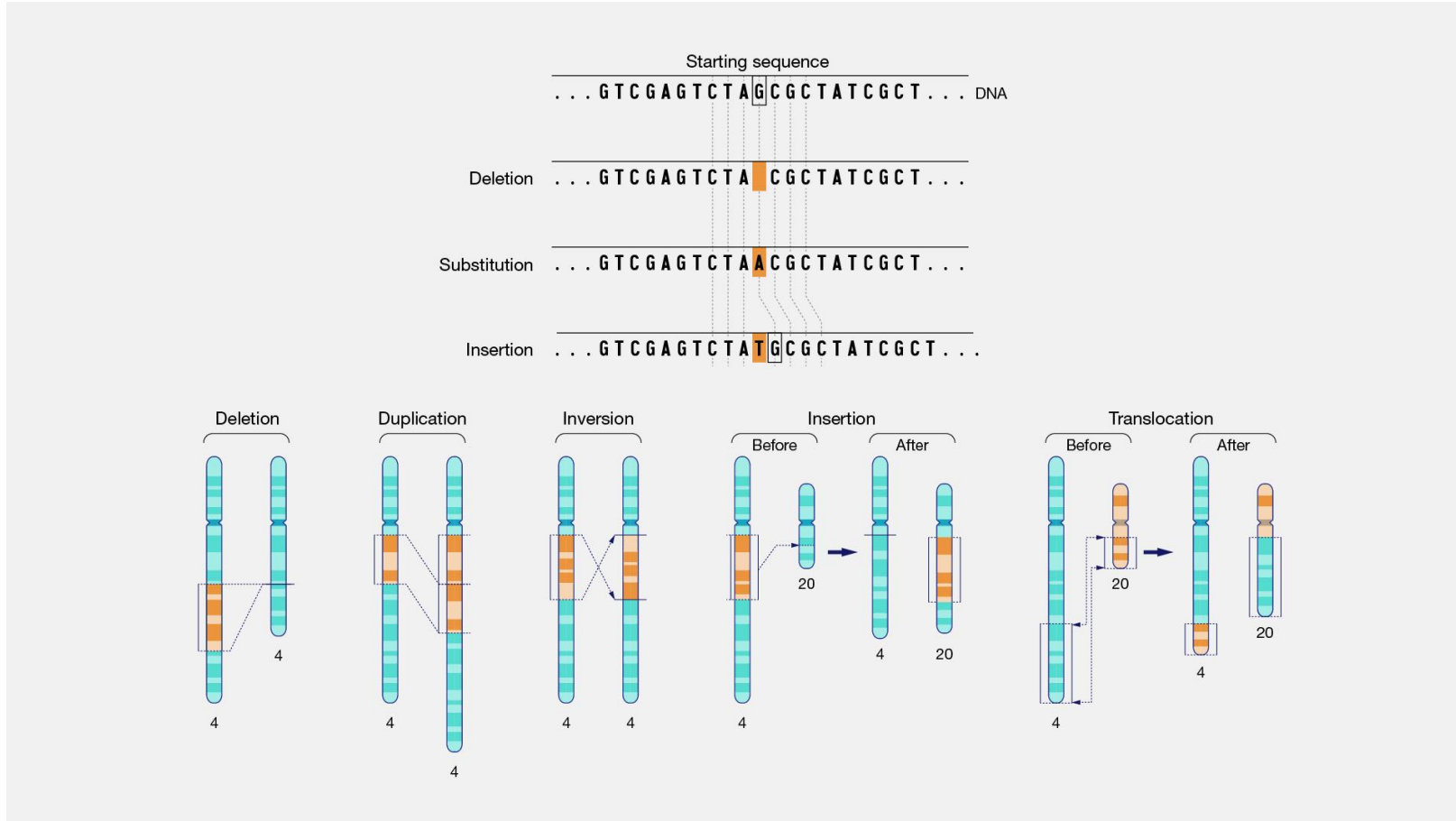
Background

Cancer is caused by a combination of genetic and epigenetic abnormalities. Current cancer therapies are limited due to the complexity of their mechanism, underlining the need for alternative therapeutic approaches. Interestingly, combining the Clustered Regularly Interspaced Short Palindromic Repeats (CRISPR/Cas9) system with next-generation sequencing (NGS) has the potential to speed up the identification, validation, and targeting of high-value targets.

- The first approval decision for a CRISPR gene therapy in 2023 represents a major milestone, setting expectations for things to come. ~ Pharmaceutical Technology
- Vertex and CRISPR Therapeutics started submissions of a sickle cell treatment:
 - Sickle cell treatment involves frequent blood transfusion for a person.
 - Lifetime treatment cost is expected between \$4m - \$6m.
- Regulators remain skeptical but researchers keep pushing the limits.

Sources: [Molecular Cancer](#), [Pharmaceutical Technology](#), [Fierce Pharma](#), Blue Line Capital, Blue Line Futures

Profiling The Human Genome Is Critical To Detect Potential Disease



- Mutations can result from errors in DNA replications during cell division, exposure to mutagens or a viral infection. Germline mutations (that occur in eggs and sperm) can be passed to offspring, while somatic mutations (that occur in body cells) are not passed on. ~ National Human Genome Research Institute
- Each time a cell divides, It must first duplicate its genetic material in a process called DNA replication. Because defects in this process can cause mutations that eventually lead to cancer, understanding the details of how replication works could point to possible cancer treatments. ~ National Cancer Institute

Illumina Expectations & Returns

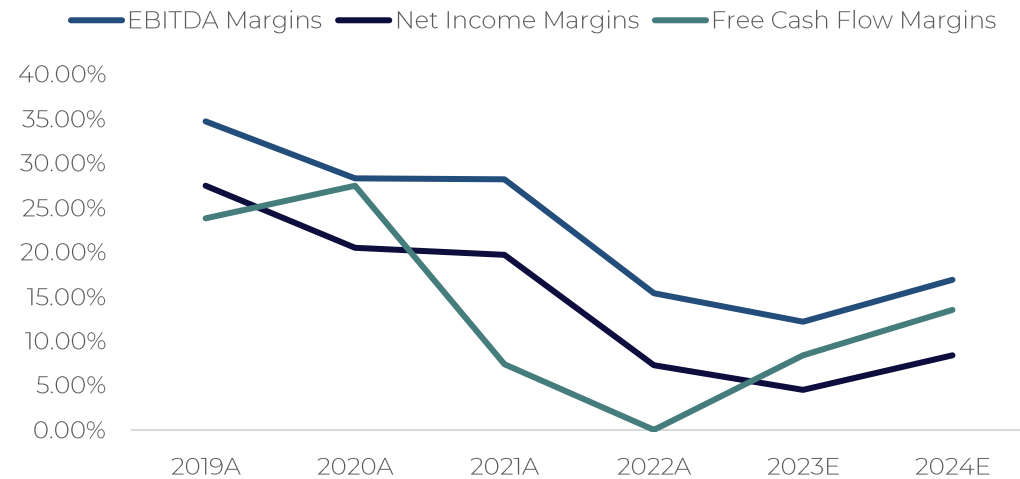
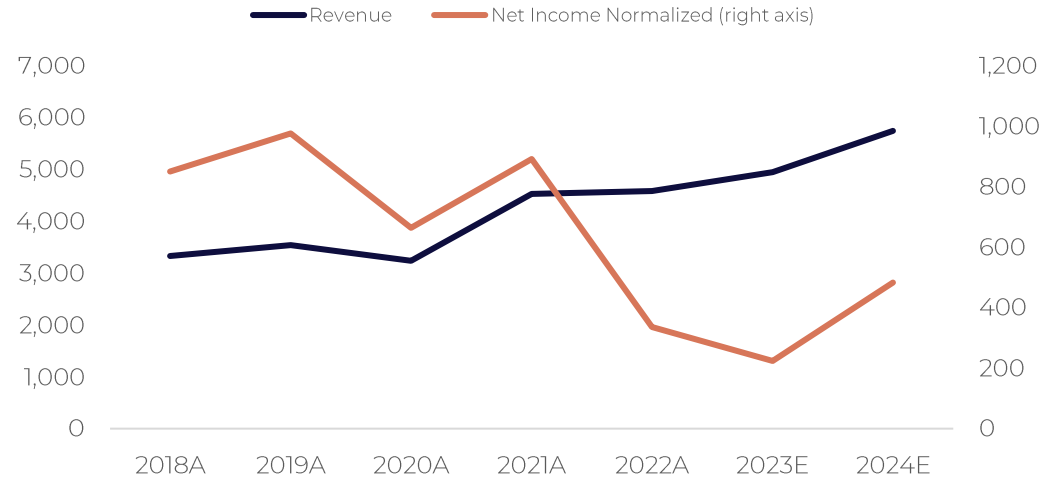
Return Ratios Compared To 2019

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

3/23/2023

Blue Line Capital maintains no position in Illumina.

21

BLUE LINE CAPITAL

Illumina Chart



Sources: Trading View, Blue Line Capital

3/23/2023

Blue Line Capital maintains no position in Illumina.

Intuit

Finding Simplicity In Software

TurboTax, QuickBooks, Mailchimp...

info@BlueLineCapLLC.com

Intuit Earnings Highlights & Stock Performance

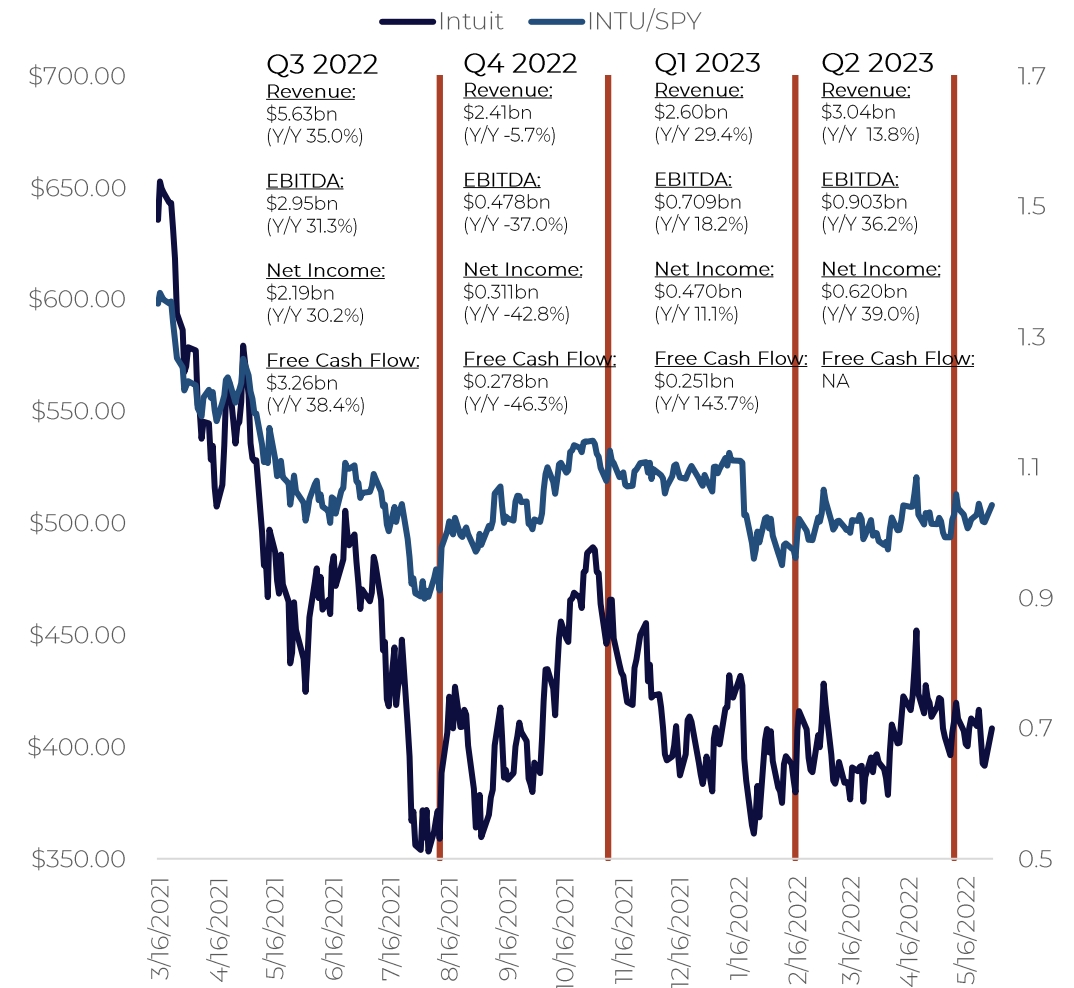
Management Commentary From Q2 2023 Earnings Call

- **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	28.61	7.85	24.18	21.3	NA
TTM	60.53	8.49	33.27	35.84	7.34
*Levered FCF					

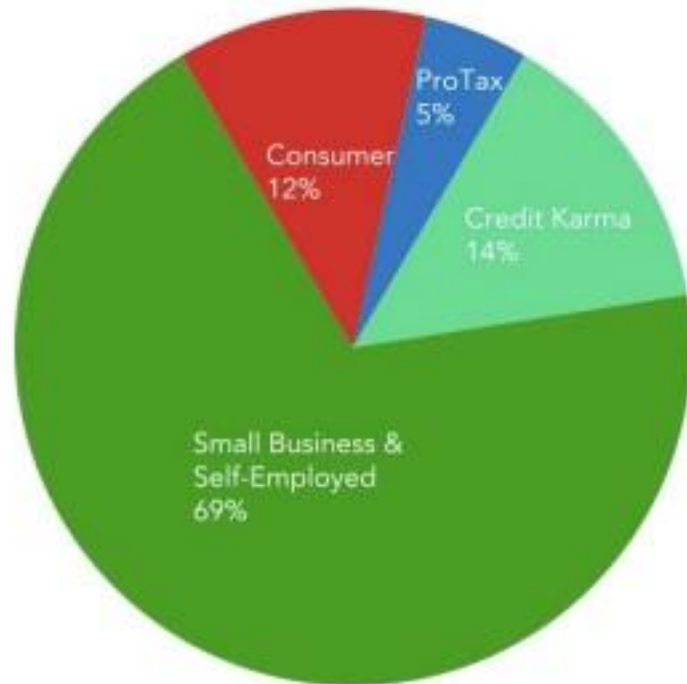
Sources: Intuit IR, TIKR, Blue Line Capital

Quarterly Data



Intuit Segments

YTD Q2 FY23
% of Total Revenue



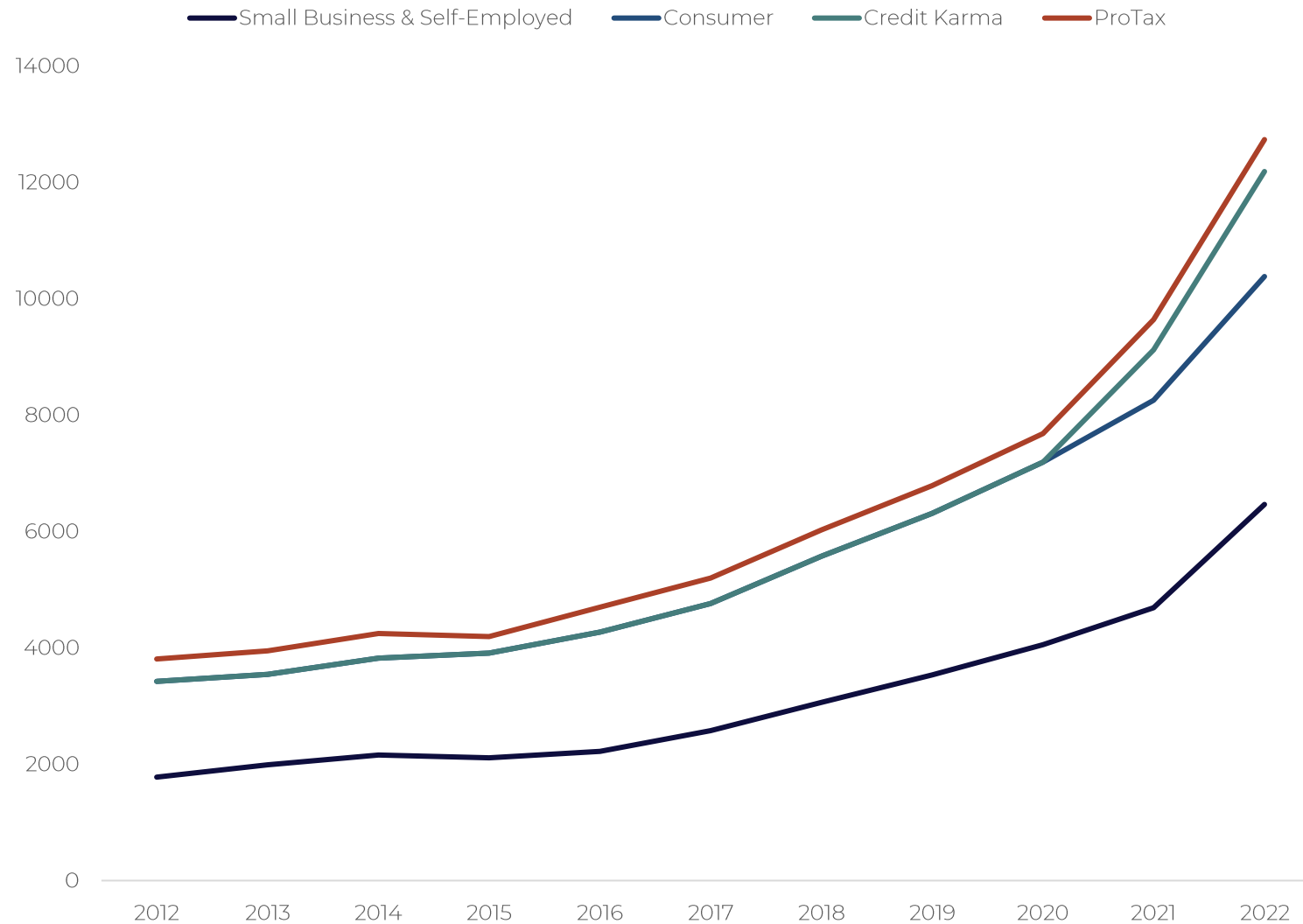
Small Business & Self-Employed: This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our QuickBooks offerings include financial and business management online services and desktop software, payroll solutions, time tracking, merchant payment processing solutions, and financing for small businesses. Our Mailchimp offerings include e-commerce, marketing automation, and customer relationship management.

Consumer: This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada.

Credit Karma: This segment serves consumers with a personal finance platform that provides personalized recommendations of credit card, home, auto and personal loan, and insurance products; online savings and checking accounts through an FDIC member bank partner; and access to their credit scores and reports, credit and identity monitoring, credit report dispute, and data-driven resources. Our Mint offering is a personal finance offering which helps customers track their finances and daily financial behaviors.

ProTax: This segment serves professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, and ProConnect Tax Online in the U.S., and ProFile and ProTax Online in Canada.

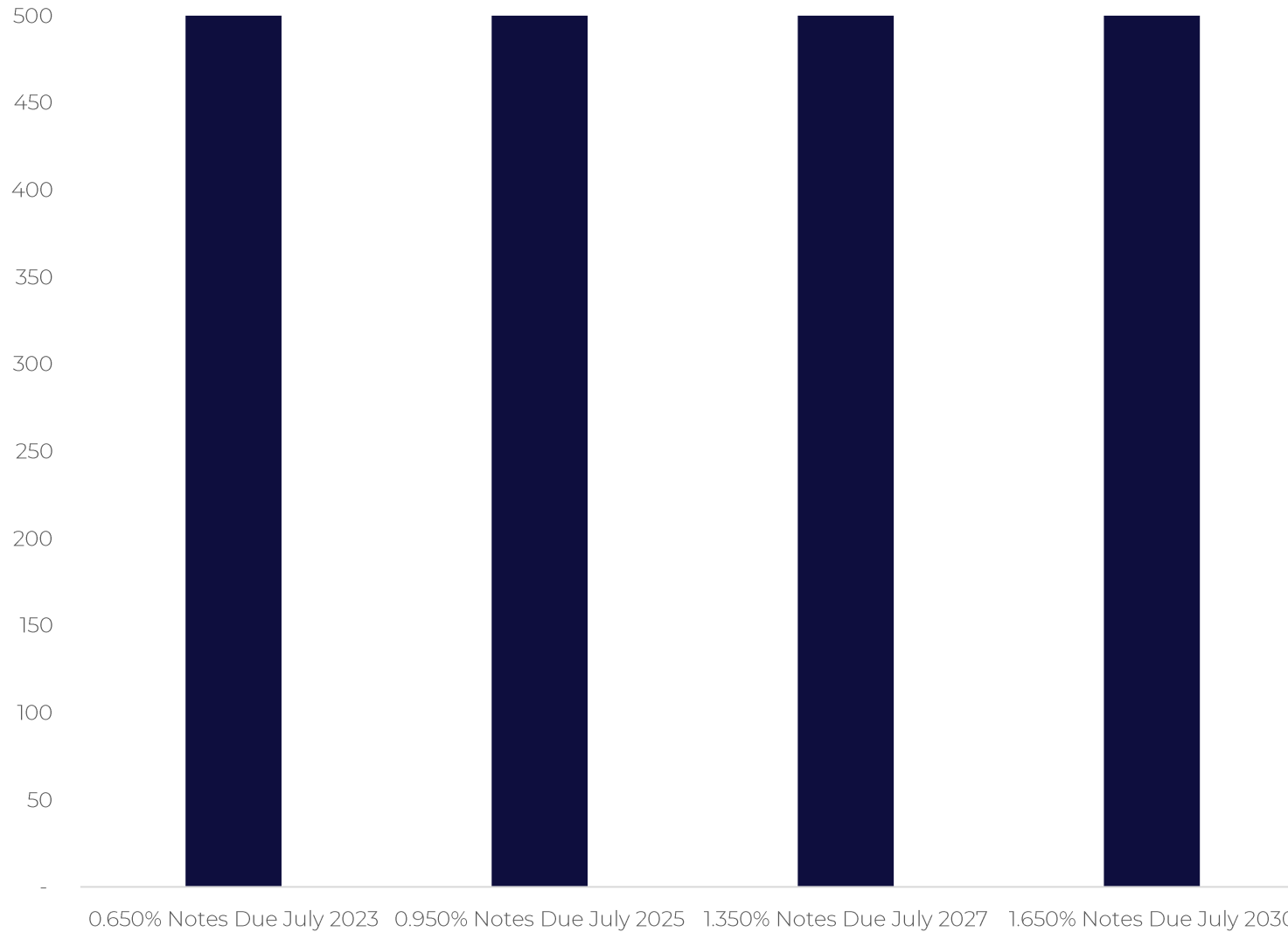
Intuit Revenue Trends



- Revenue growth rate of 12.8% since 2012
- Annual revenue share by segment:
 - Small Business 51%
 - Consumer 31%
 - Credit Karma 14%
 - ProTax 4%
- Y/Y % Revenue By Segments
 - Small Business: 20%
 - Consumer: 26%
 - Credit Karma: -16%
 - ProTax: 7%

Sources: Intuit IR, Blue Line Capital, Blue Line Futures

Intuit Maturity Wall



- As rates have risen, Intuit will inevitably face higher cost of debt.
 - \$500m due in July 2023, 2025, 2027 and 2030.
- Intuit has ~\$2bn in cash and is well positioned to refinance.

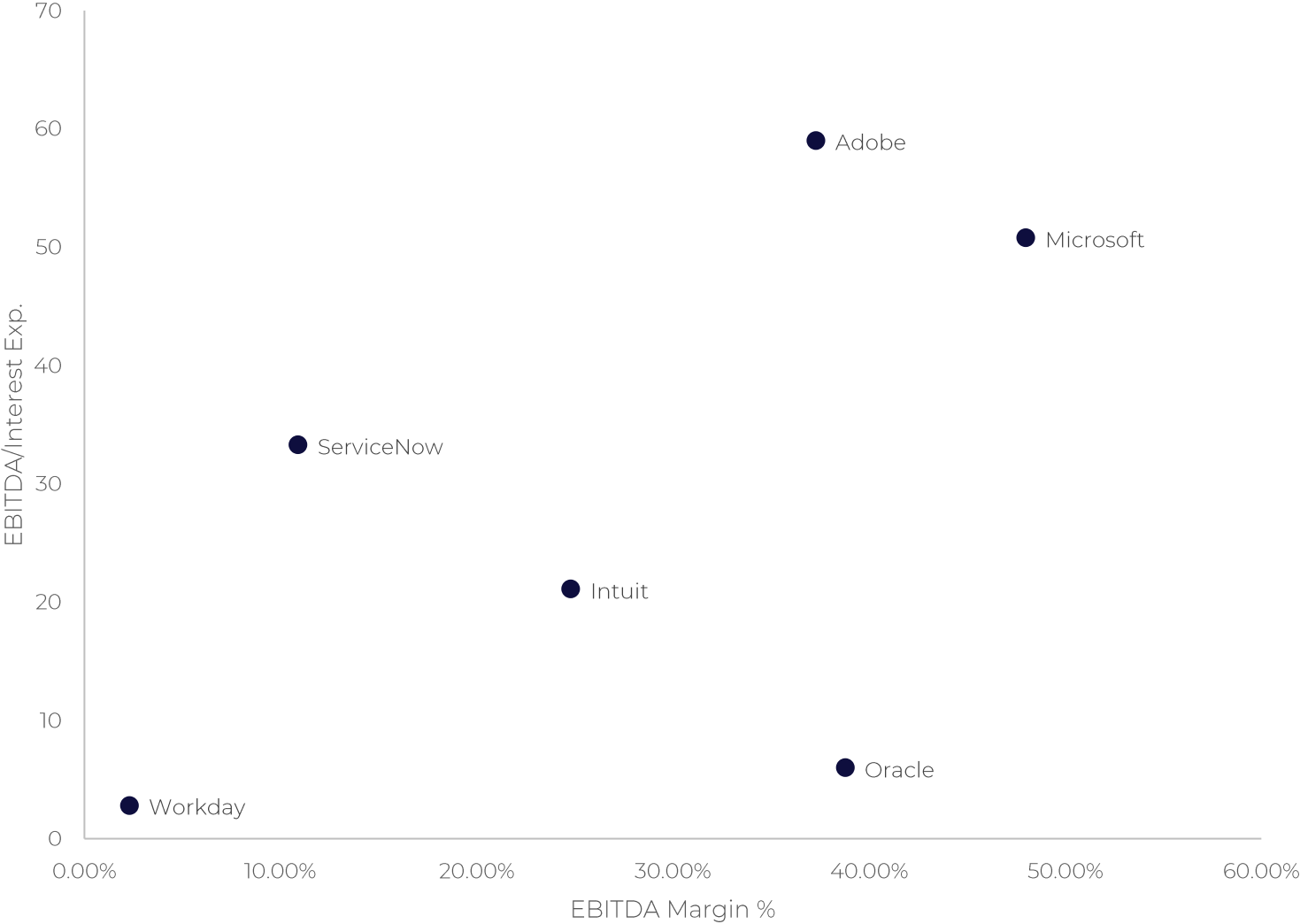
Sources: Intuit IR, Blue Line Capital, Blue Line Futures

3/23/2023

27

BLUE LINE CAPITAL

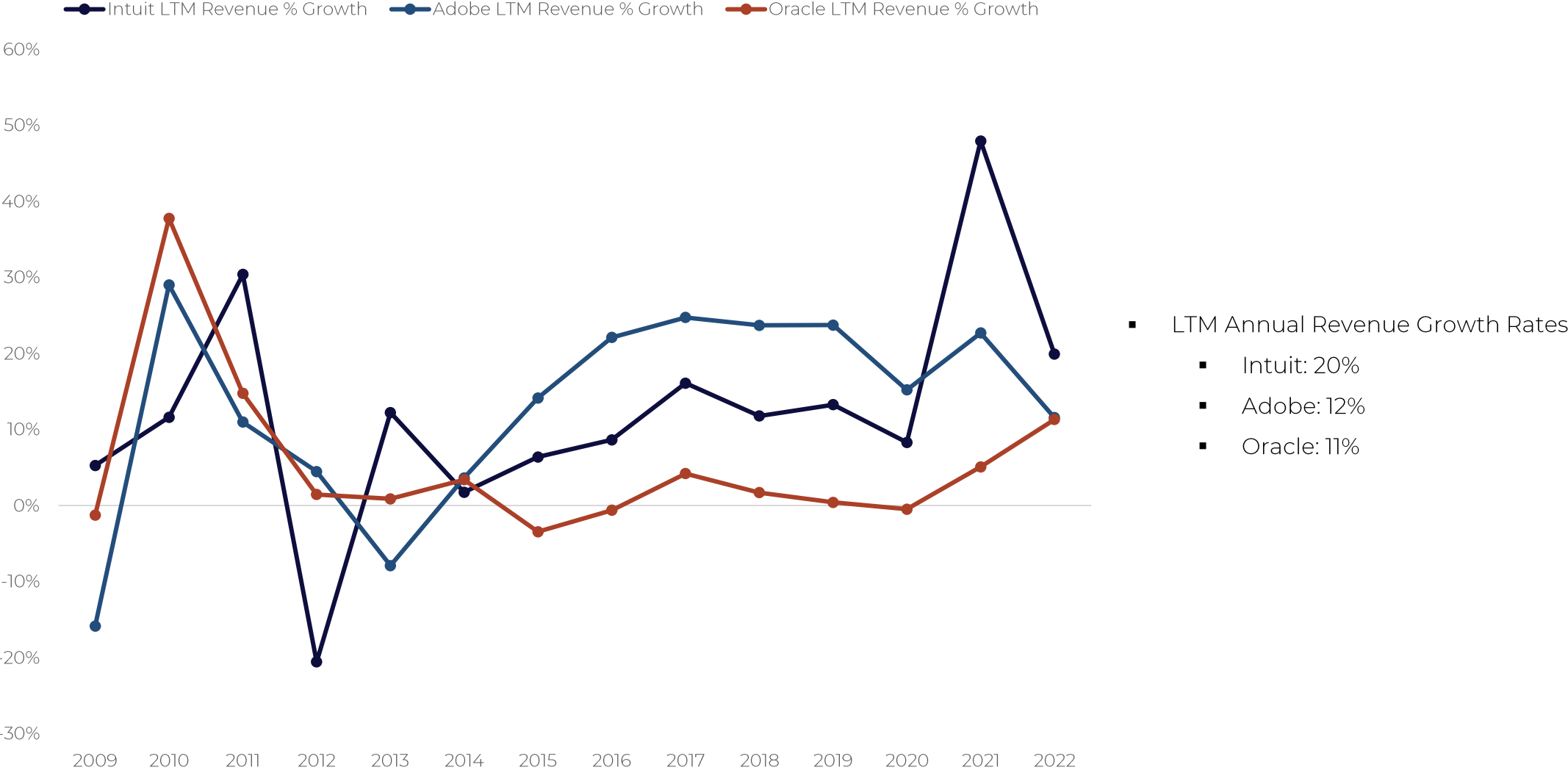
Intuit Solvency & Margin Position



- Intuit has an EBITDA margin of 24.80% with EBITDA covering interest expense 21.1x over.
- Margins position the company well for future refinancing.

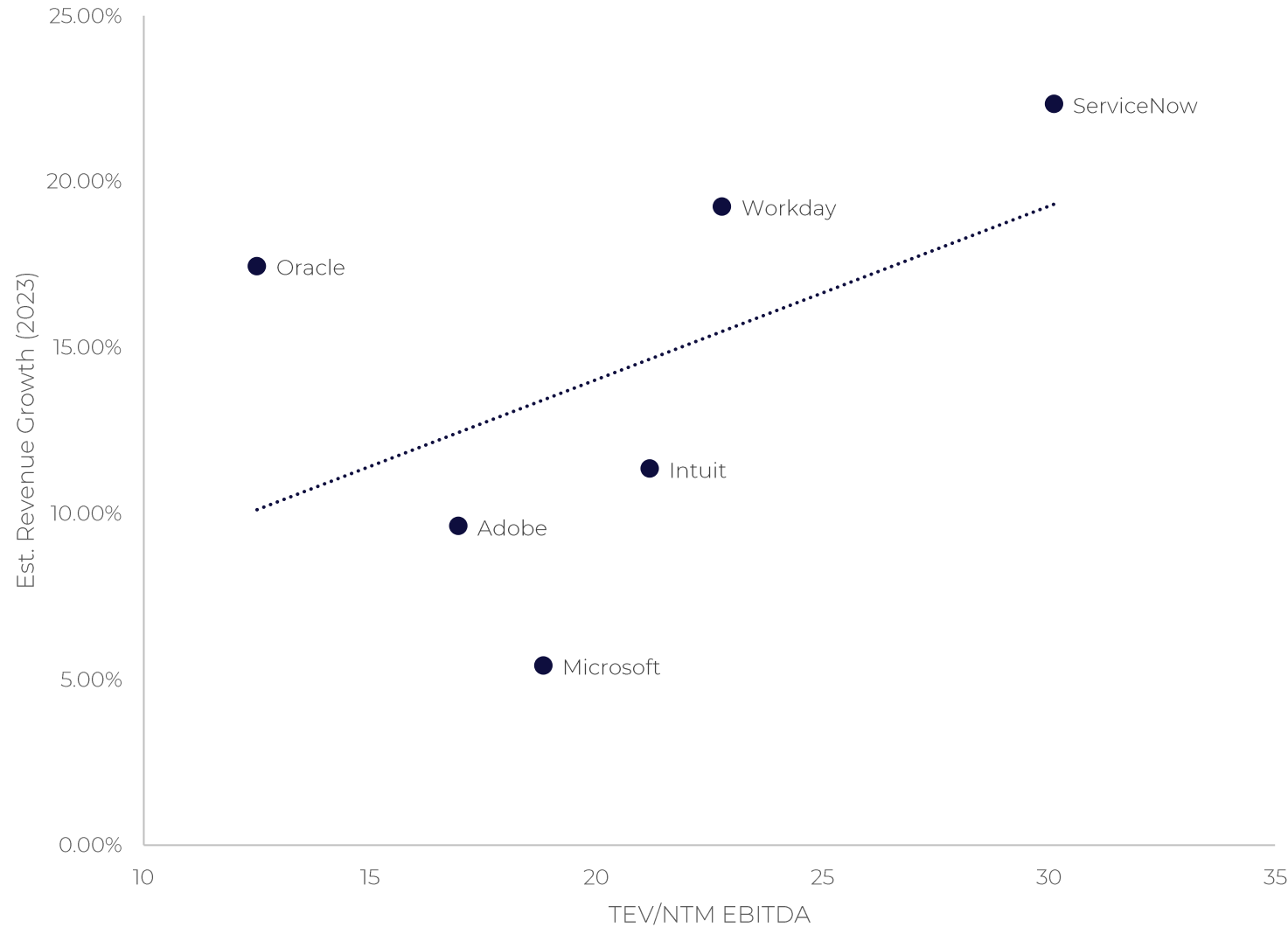
Sources: Intuit IR, Blue Line Capital, Blue Line Futures

Intuit - Peer Group Annual Revenue Growth



Sources: Intuit IR, Adobe IR, Oracle IR, Blue Line Capital, Blue Line Futures

Intuit Growth & Multiple Profile



- Intuit's EV/NTM EBITDA multiple is roughly in line with peers as analysts expect ~11% revenue growth in 2023 and 2024.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Intuit Expectations & Returns

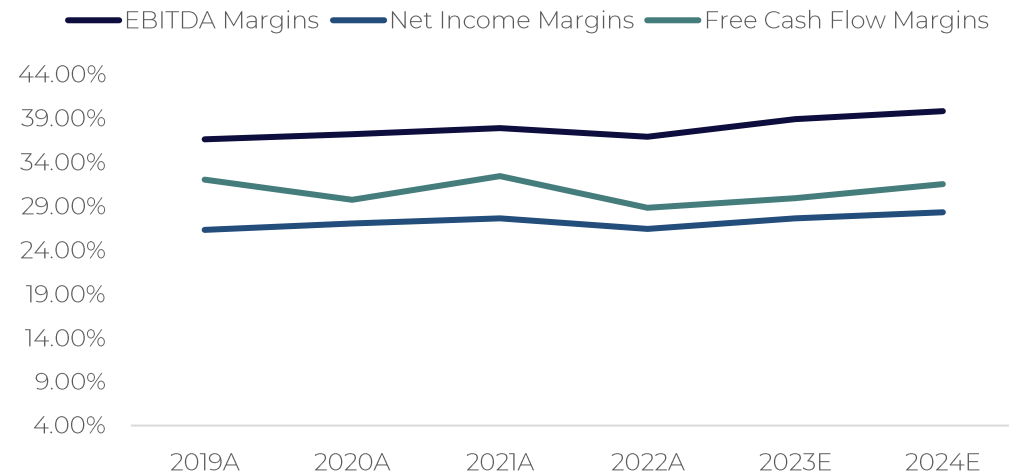
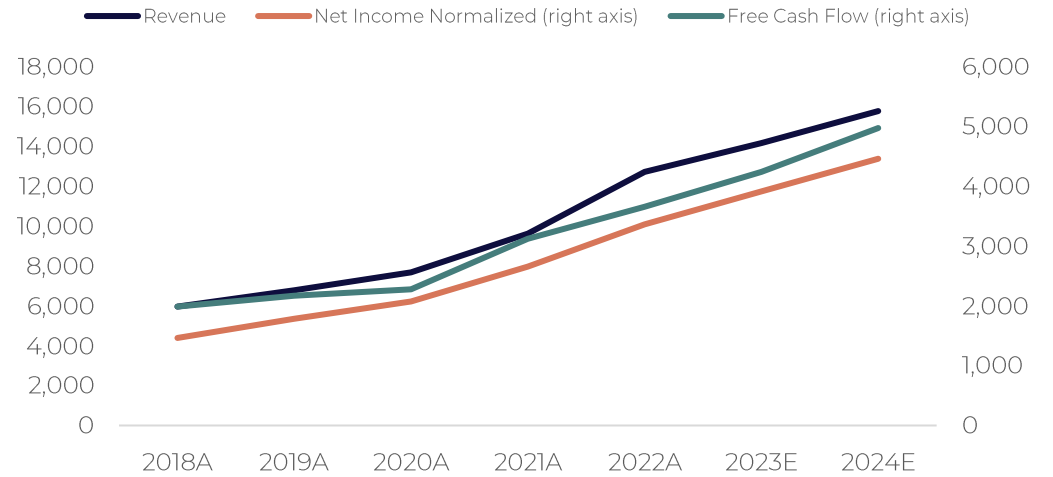
Return Ratios Compared To 2019

Return ratios have worsened and so have margins since 2019.

		LTM	2019
Return Ratios	RoA	6.40%	20.30%
	RoC	11.40%	43.90%
	RoE	12.40%	47.40%
Margins	Gross Profit Margin	80.20%	83.10%
	EBITDA Margin	24.80%	30.40%
	Net Income Margin	14.20%	23.00%
	Levered Free Cash Flow Margin	25.50%	25.00%
Asset Turnover	Asset Turnover	0.5	1.08
	Fixed Asset Turnover	10.1	8.52
	Receivables Turnover	15.27	73.34
	Working Capital Turnover	15.31	4.17
Solvency	Total Debt/Equity	48.50%	11.60%
	Total Debt/Capital	32.20%	10.30%
	EBITDA/Interest Expense	21.11	137.27
	(EBITDA-Capex)/Interest Expense	20.02	132.2

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
Intuit (INTU)	20.91	28.88	7%	6%	4%
ServiceNow (NOW)	30.64	48.06	14%	15%	-10%
Workday (WDAY)	22.83	36.73	12%	27%	29%
Constellation Software	19.62	31.75	NA	NA	NA
H&R Block (HRB)	7.98	9.86	-12%	-20%	-2%
Adobe (ADBE)	15.57	22.19	10%	30%	-2%
Atlassian (TEAM)	60	95.48	11%	-30%	-24%
Median	20.91	31.75	10%	11%	-2%
Mean	25.36	38.99	7%	5%	-1%

Sources: TIKR, Google Finance, Blue Line Capital

3/23/2023

Blue Line Capital maintains no position in Intuit.

32

BLUE LINE CAPITAL

Intuit Chart



Sources: Trading View, Blue Line Capital

3/23/2023

Blue Line Capital maintains no position in Intuit.

33

BLUE LINE CAPITAL



Pioneer Natural Resources

Finding High-Quality Wells With Oil
Below \$70

info@BlueLineCapLLC.com

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	7.87	2.05	10.37	4.47	NA
TTM	6	1.75	11.36	3.78	1.95

*Levered FCF

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

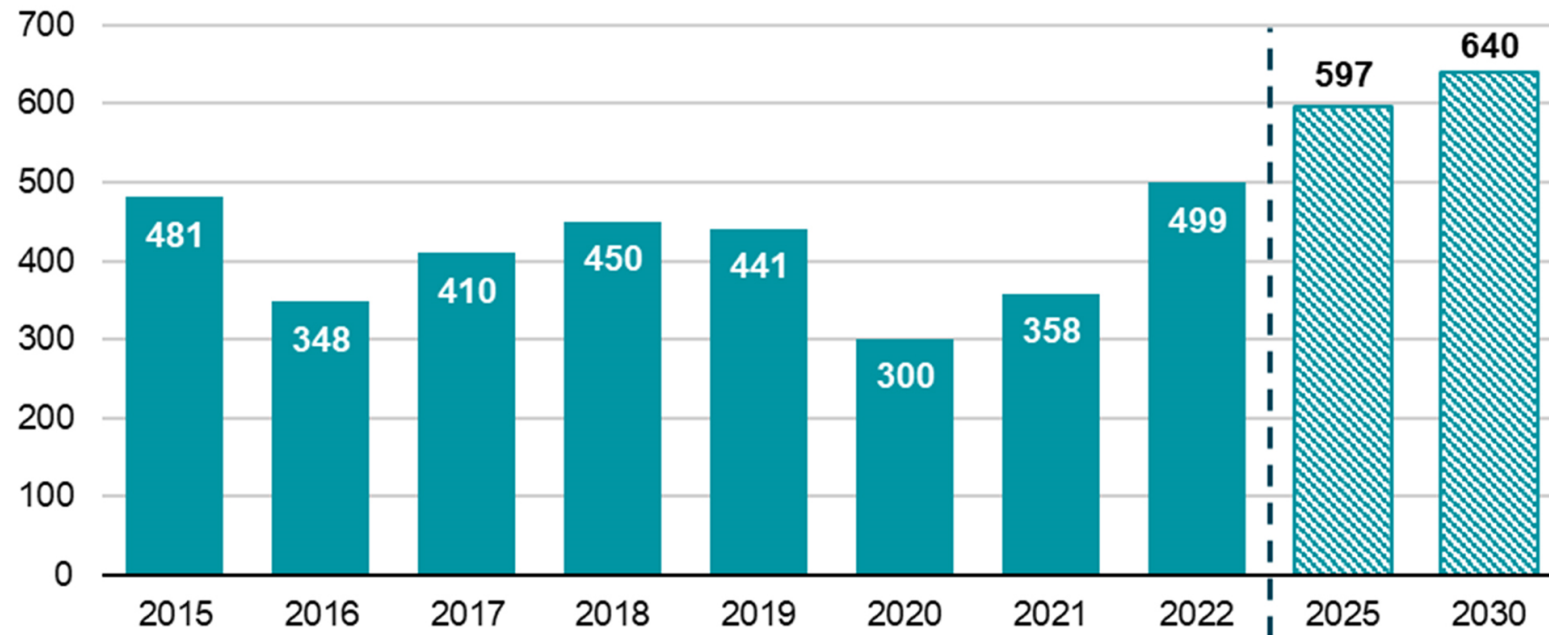
Quarterly Data



Global Oil & Gas Upstream Capex

Global Oil & Gas Upstream Capex

Billion USD (nominal)



Source: IEF, S&P Global Commodity Insights

- 2022 Global Oil & Gas Upstream Capex at \$499bn was the highest it's been since 2014
 - The IEF projects investment needs to the tune of \$597bn by 2025 and \$640bn by 2030 to meet demand.

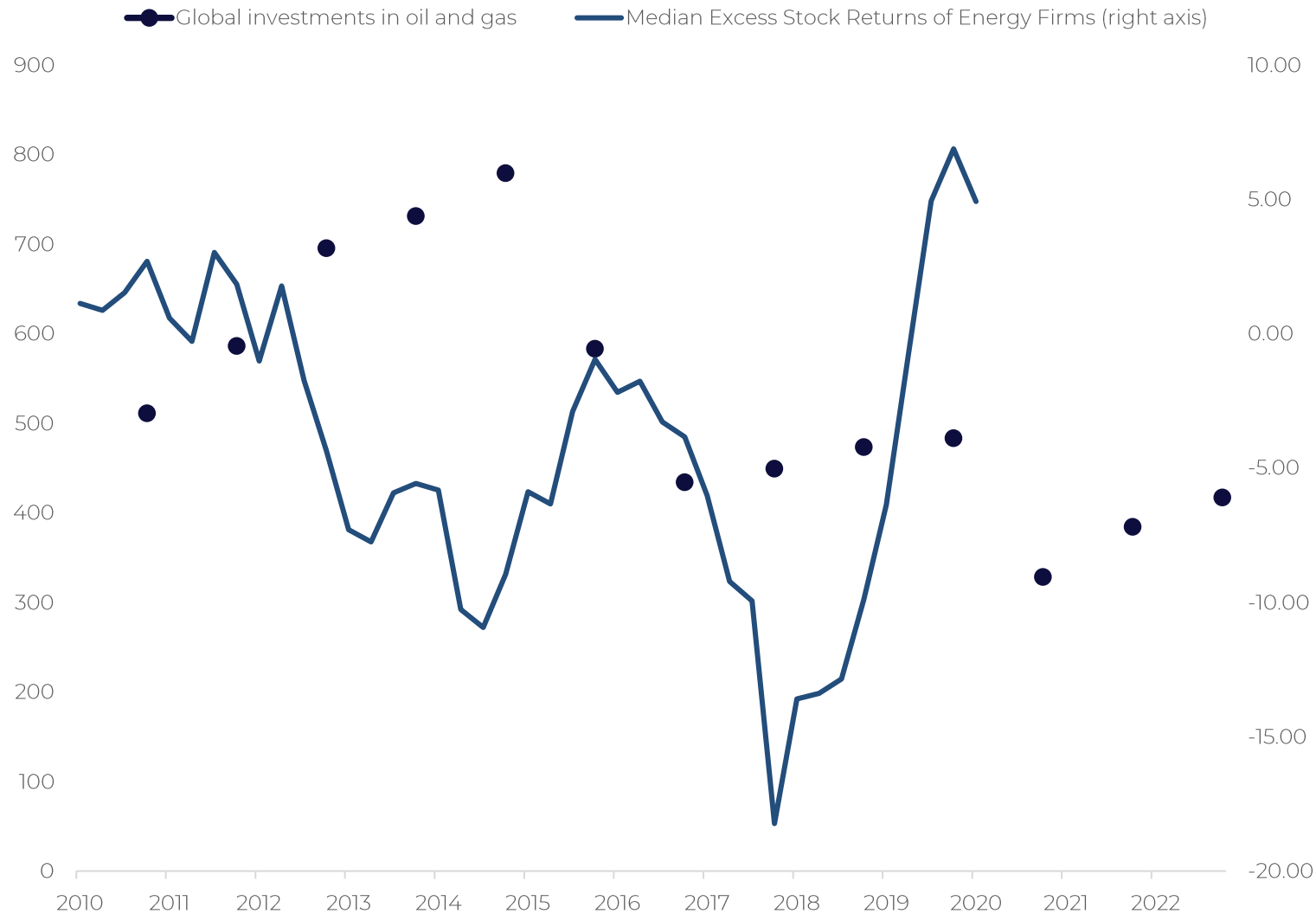
Sources: IEF, Blue Line Capital, Blue Line Futures

3/23/2023

36

BLUE LINE CAPITAL

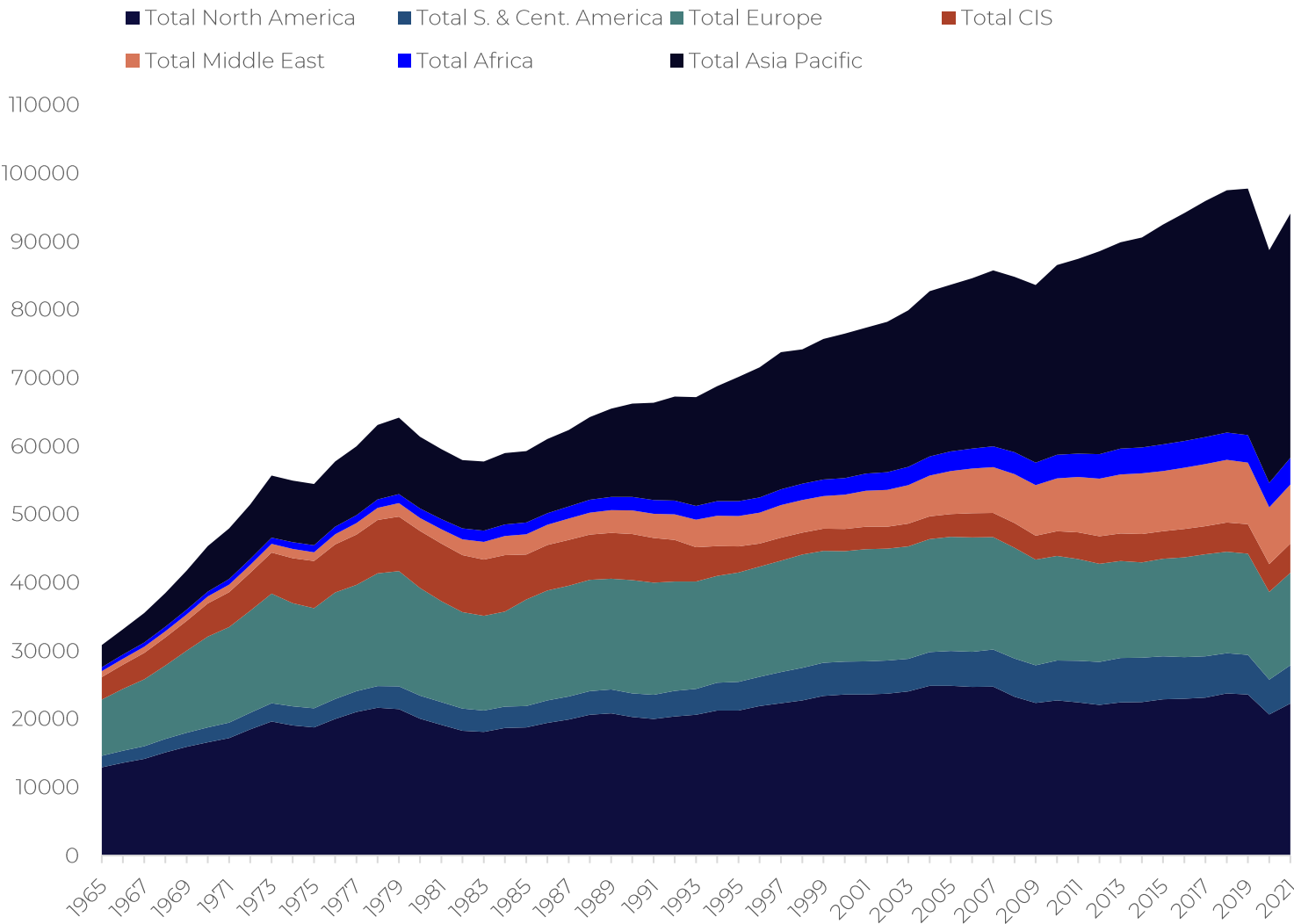
Global Investment In Oil & Gas Production



- Investment acts on a lag to returns.
- Given last year's return as the best-performing sector, it does make sense for E&P companies to increase CAPEX.
 - Compared to different demand-supply scenarios, structurally lower investment may eventually lead to a hockey-stick moment in Crude Oil

Sources: BIS, Blue Line Capital, Blue Line Futures

World Oil Consumption

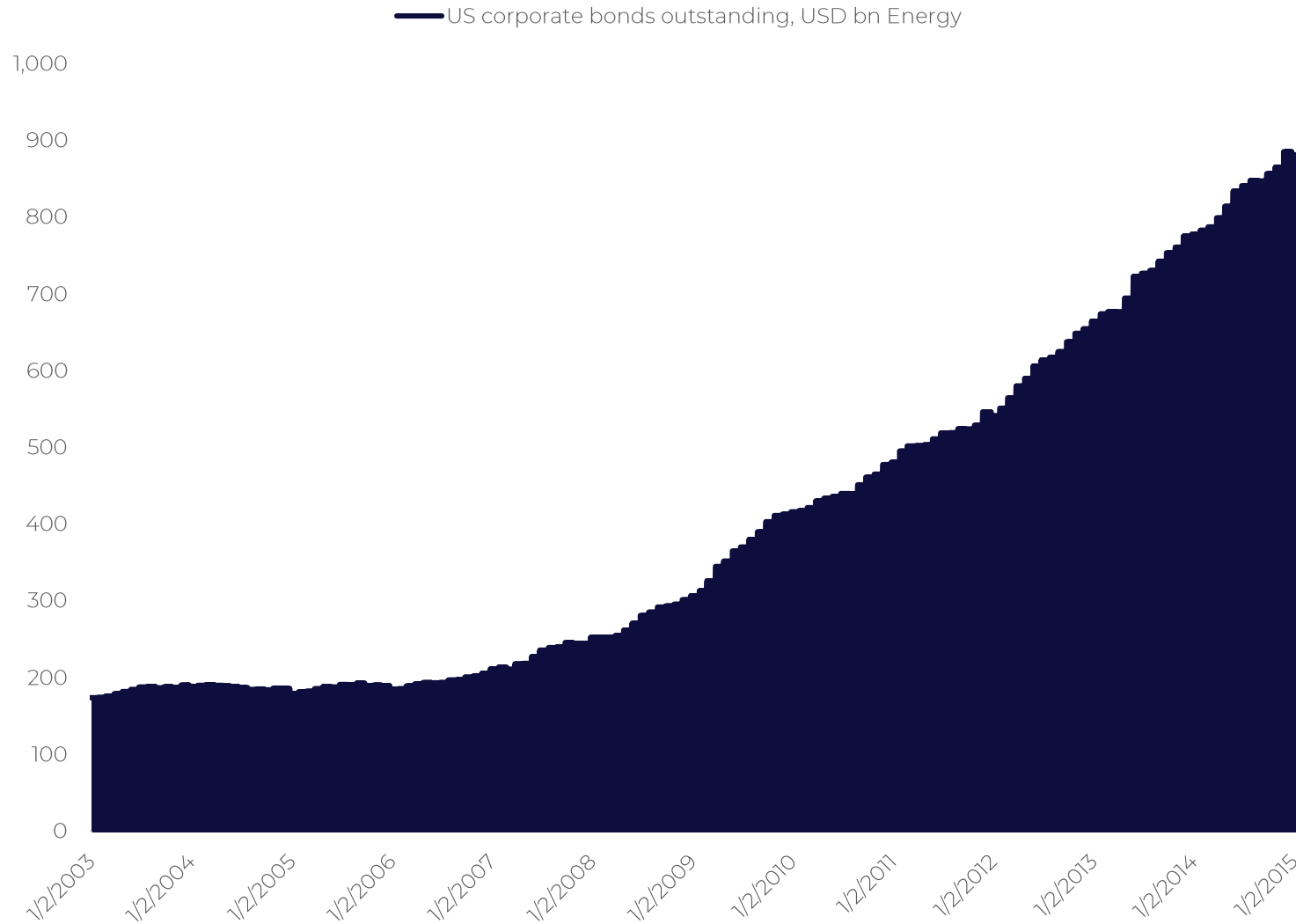


- 2000 – 2019 Annual Compounded Consumption Growth Rates:
 - Total North America: 0.0%
 - Total South & Central America: 1.0%
 - Total Europe: -0.5%
 - Total CIS: 1.5%
 - Total Middle East: 3.1%
 - Total Africa: 2.6%
 - Total APAC: 2.9%

- Share Of Global Oil Consumption 2019:
 - Total North America: 24.2%
 - Total South & Central America: 5.9%
 - Total Europe: 15.2%
 - Total CIS: 4.4%
 - Total Middle East: 9.2%
 - Total Africa: 4.1%
 - Total APAC: 37.0%

Sources: Baker Hughes, Blue Line Capital, Blue Line Futures

The E&P Leverage Cycle



- U.S. Corporate Bonds outstanding kept rising until the bitter end in 2016 when oil went below \$30/bbl in a market share fight against OPEC+.
 - Since then, capital discipline has been front & center.
 - From 2003 to 2015, corporate energy debt outstanding increased by 411%.

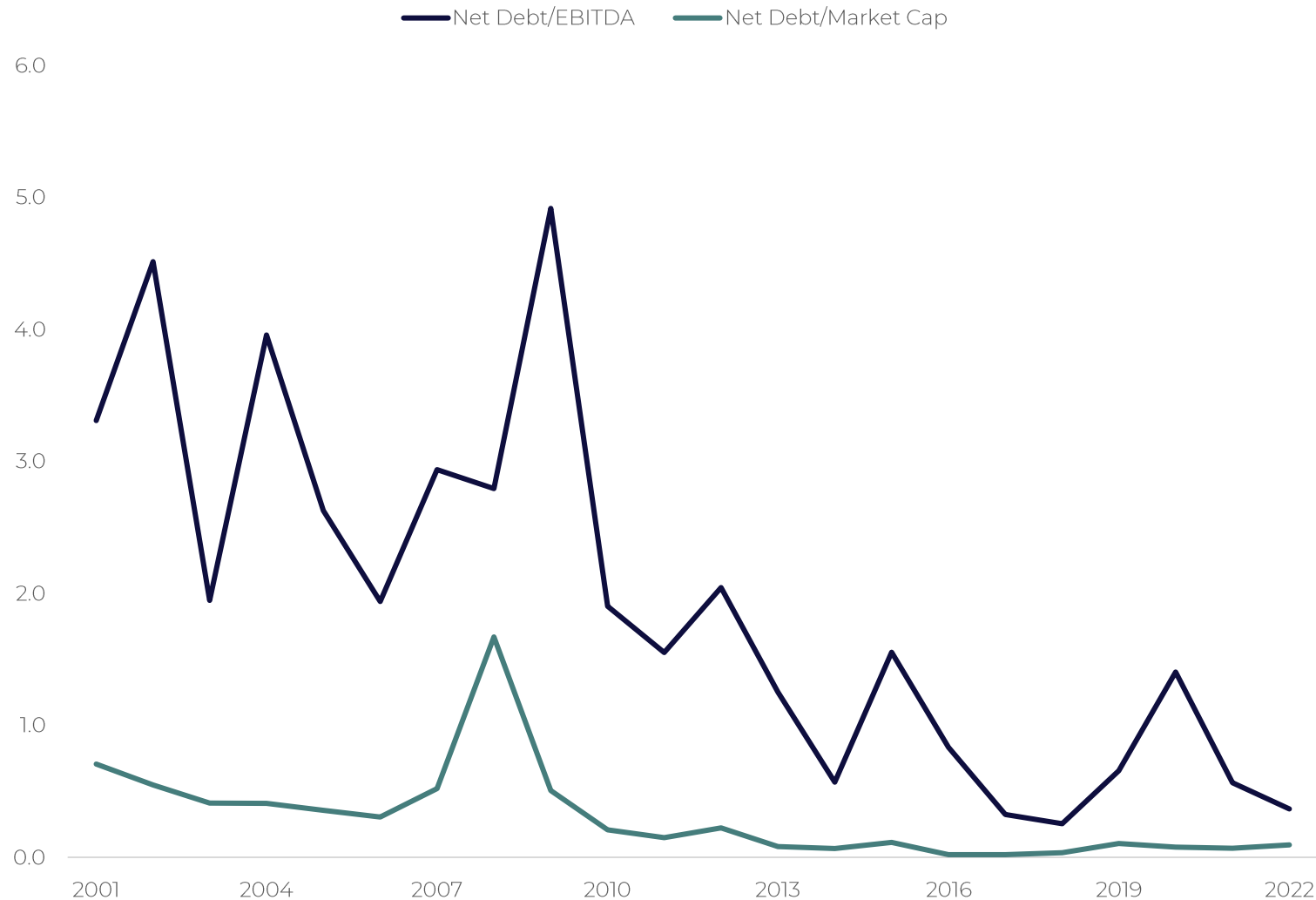
Sources: Pioneer IR, BIS, Blue Line Capital, Blue Line Futures

3/23/2023

39

BLUE LINE CAPITAL

Pioneer's Leverage Reduction



- Pioneer is better positioned for a potential downturn than in the past, given the company's reduced leverage.
 - Net-Debt/EBITDA stood at 0.4 compared to 2 in 2012 and 2.9 in 2007
 - Net-Debt/Market Cap at 0.10 compared to 0.22 in 2012 and 0.52 in 2007.

Sources: Pioneer IR, Blue Line Capital, Blue Line Futures

3/23/2023

40

BLUE LINE CAPITAL

Pioneer's Expanding Reserves Base



- Pioneer's reserves have increased drastically since the shale boom, despite what many have touted an underinvestment cycle in Oil & Gas.
 - Developed reserves have increased by 223% since 2014.
 - Undeveloped reserves have increased by 30% since 2014.
 - Total reserves have increased by 176% since 2014.
- [OnePetro](#) Org defines reserves: Developed reserves are expected quantities to be recovered from existing wells and facilities or when the costs to do so are relatively minor compared to the cost of a well. Undeveloped reserves are quantities expected to be recovered through future investment.

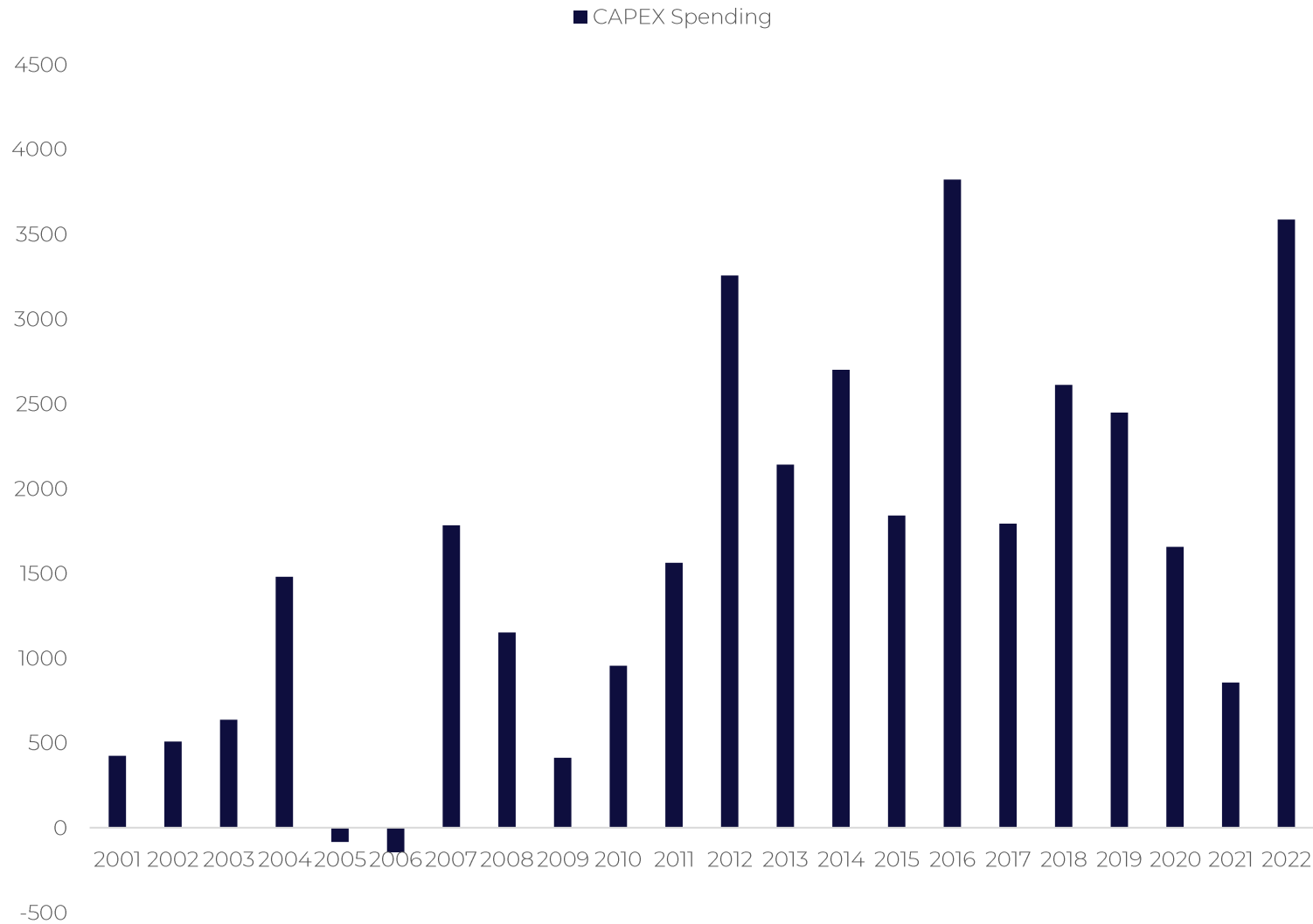
Sources: Pioneer IR, OnePetro, Blue Line Capital, Blue Line Futures

3/23/2023

41

BLUE LINE CAPITAL

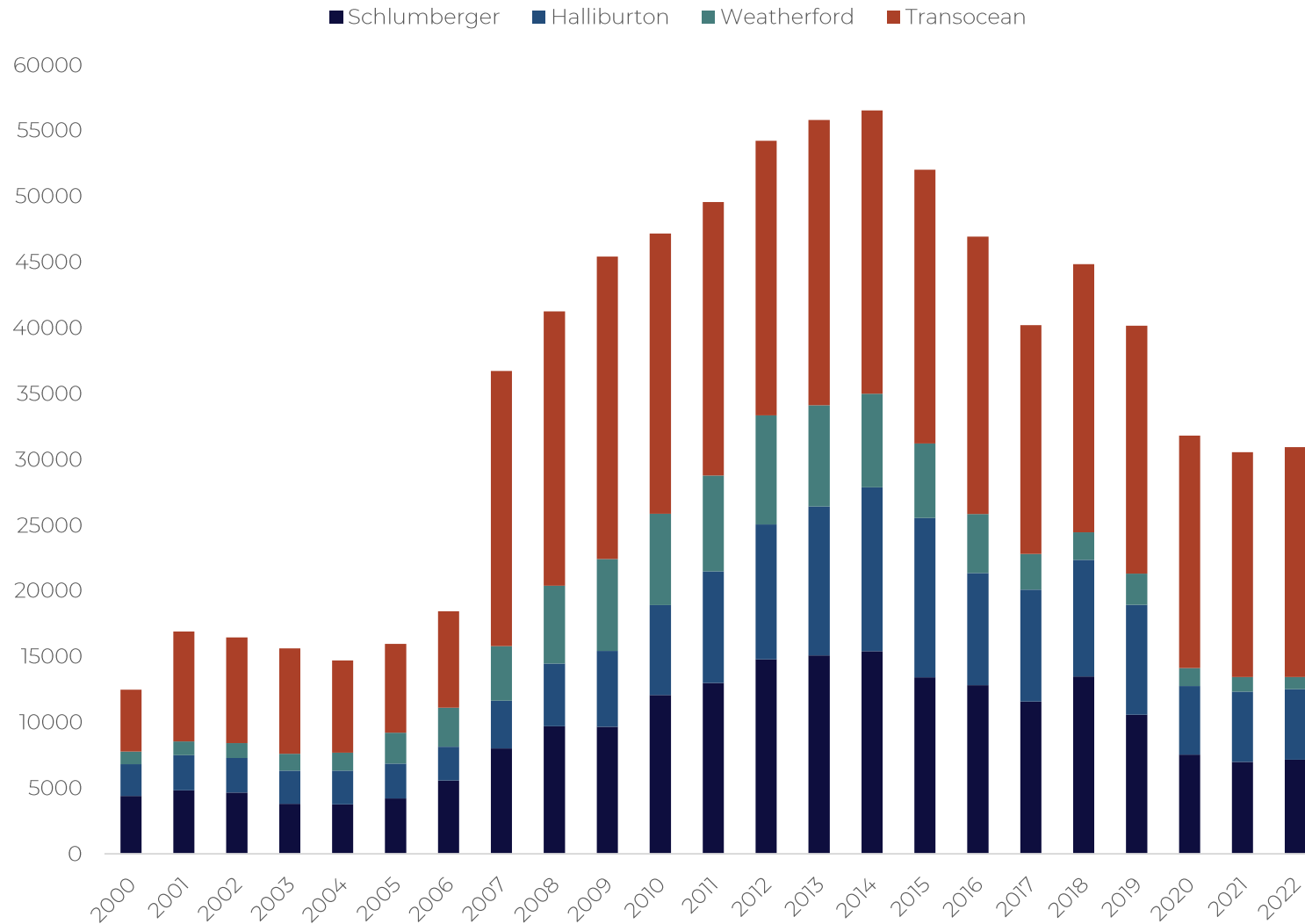
Pioneer Capital Spending



- Scott Sheffield on CNBC
 - After China's Congress ends in April, demand in China is set to increase 800k – 1m bbl/day.
 - The EIA just came out, the U.S. only added 0.5m bbl/day in production in 2022.
 - Service costs are up significantly. Our estimated of Free Cash Flow for 2023 is \$4bn compared to \$8bn in 2022 as costs are up significantly.
 - I think we may get back to 13m bbl/day in 2-3 years.

Sources: Pioneer IR, OnePetro, Blue Line Capital, Blue Line Futures

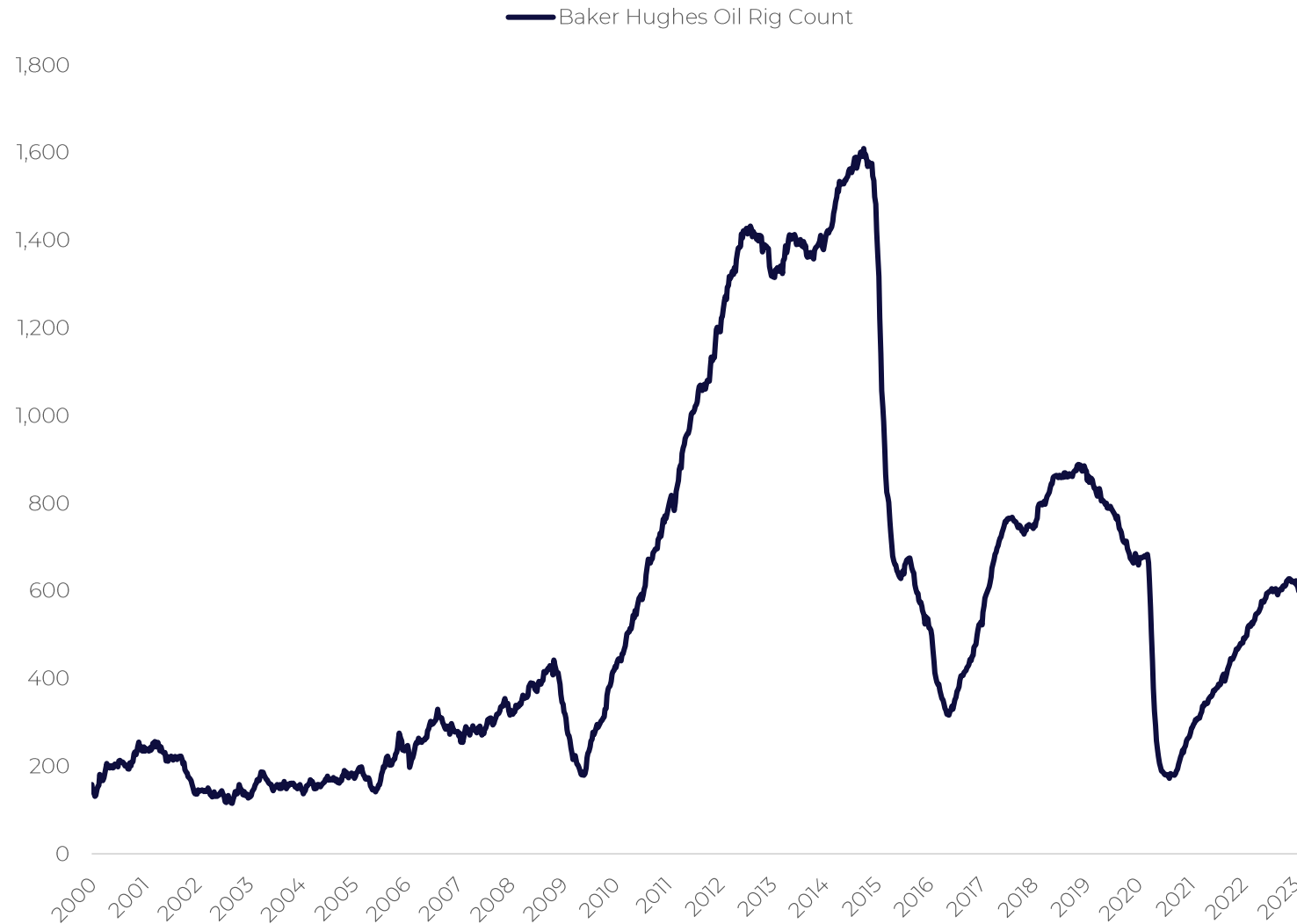
Services Costs Burden – Net PPE Base



- Scott Sheffield on CNBC
 - After China’s Congress ends in April, demand in China is set to increase 800k – 1m bbl/day.
 - The EIA just came out, the U.S. only added 0.5m bbl/day in production in 2022.
 - Service costs are up significantly. Our estimated of Free Cash Flow for 2023 is \$4bn compared to \$8bn in 2022 as costs are up significantly.
 - I think we may get back to 13m bbl/day in 2-3 years.

Sources: Pioneer IR, OnePetro, Blue Line Capital, Blue Line Futures

U.S. Oil Rig Count



- Scott Sheffield on CNBC
 - After China's Congress ends in April, demand in China is set to increase 800k – 1m bbl/day.
 - The EIA just came out, the U.S. only added 0.5m bbl/day in production in 2022.
 - Service costs are up significantly. Our estimated of Free Cash Flow for 2023 is \$4bn compared to \$8bn in 2022 as costs are up significantly.
 - I think we may get back to 13m bbl/day in 2-3 years.

Sources: Baker Hughes, Blue Line Capital, Blue Line Futures

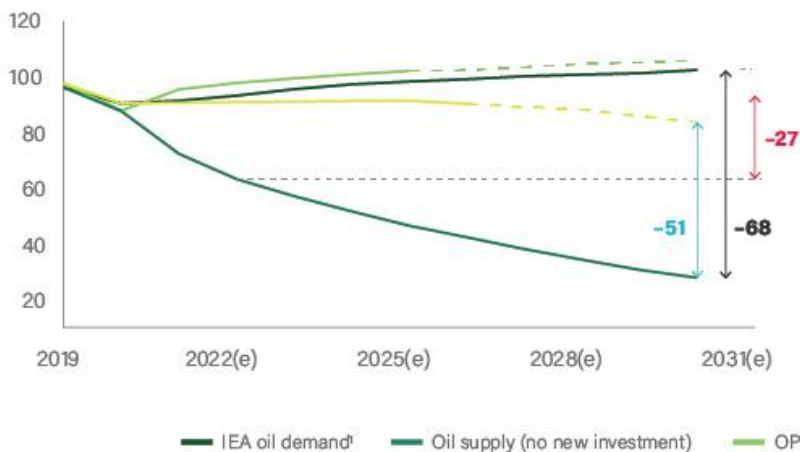
3/23/2023

Oil Demand – Supply Gap

Exhibit 2 - The Most Critical Long-Term Risk to the Industry in the Aftermath of Covid-19 Will Relate to Investment

Demand and supply gap with no new investment

Millions of barrels per day



Additional production needed to offset declines

2022: 27 mmb/d of new production needed if demand recovers slightly

2030: 68 mmb/d of new production needed if demand recovers and continues growth at lower than the historic average

2030: 51 mmb/d of new production needed even if demand peaks

- U.S. Corporate Bonds outstanding kept rising until the bitter end in 2016 when oil went below \$30/bbl in a market share fight against OPEC+.
- Since then, capital discipline has been front & center.
- From 2003 to 2015, corporate energy debt outstanding increased by 411%.

Sources: IEA; OPEC; BP.

Note: Dotted lines connect organization-provided forecasts. (e) = estimated; mmb/d = million barrels of oil equivalent per day.

1 IEA stated policy scenario

2 OPEC references case.

3 BP new zero scenario, Energy Outlook 2020.

Sources: IEF, Blue Line Capital, Blue Line Futures

3/23/2023

45

BLUE LINE CAPITAL

Pioneer Natural Resources Expectations & Returns

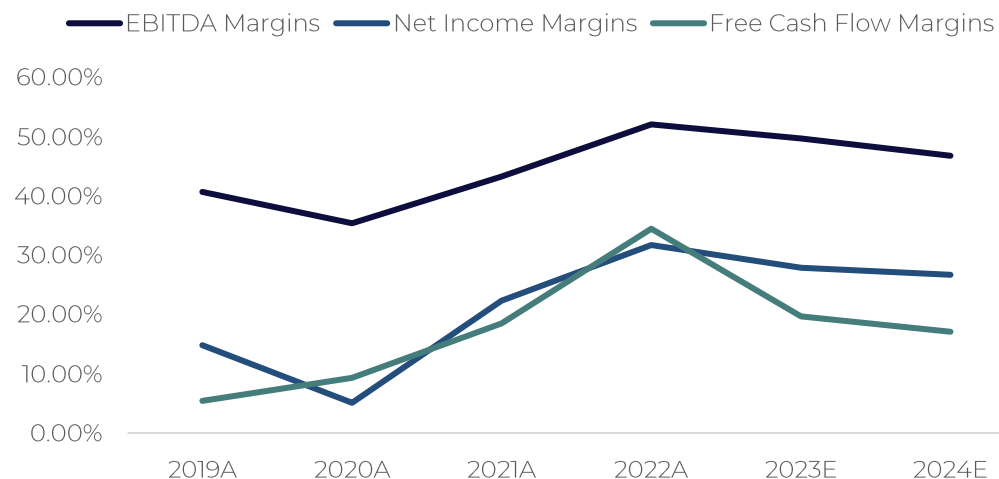
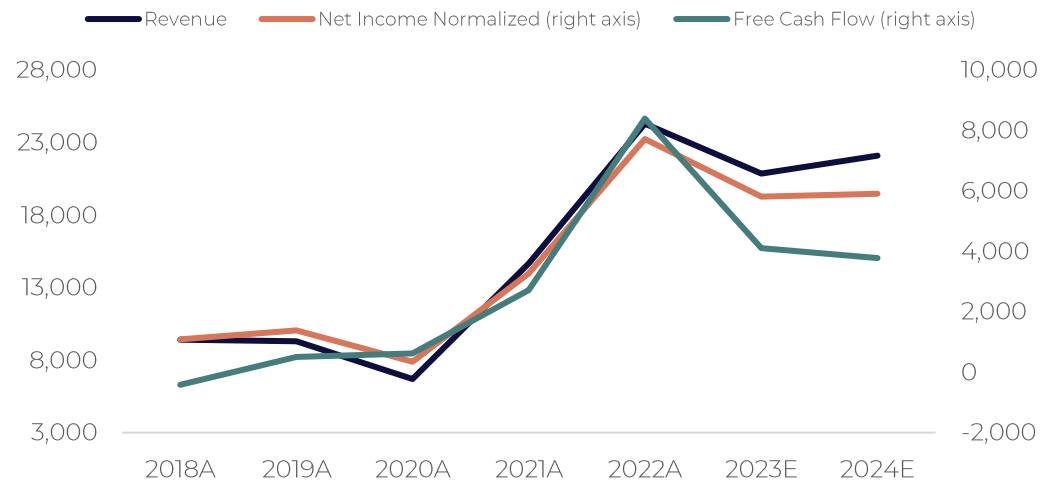
Return Ratios Compared To 2019

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

		LTM	2019
Return Ratios	RoA	17.20%	6.30%
	RoC	30.90%	11.10%
	RoE	34.60%	6.40%
Margins	Gross Profit Margin	54.40%	41.70%
	EBITDA Margin	51.30%	37.00%
	Net Income Margin	32.20%	8.00%
	Levered Free Cash Flow Margin	15.40%	-2.30%
Asset Turnover	Asset Turnover	0.68	0.51
	Fixed Asset Turnover	0.79	0.62
	Receivables Turnover	13.78	11.21
	Working Capital Turnover	-151.45	-31.72
Solvency	Total Debt/Equity	25.70%	26.10%
	Total Debt/Capital	18.00%	19.00%
	EBITDA/Interest Expense	100.43	31.49
	(EBITDA-Capex)/Interest Expense	69.8	6.79

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
Pioneer Natural Resources (PXD)	4.47	7.87	-13%	-14%	-15%
Occidental Petroleum (OXY)	4.97	9.39	-5%	-3%	2%
Chevron (CVX)	5.24	10.04	-9%	3%	8%
Exxon Mobil (XOM)	5.05	9.51	-1%	18%	20%
Energy Transfer (ET)	7.62	8.56	1%	7%	19%
Hess Corporation (HES)	7.66	17.46	-10%	10%	18%
Phillips 66 (PSX)	5.38	6.52	-8%	16%	10%
Median	5.24	9.39	-8%	7%	10%
Mean	5.77	9.91	-6%	5%	9%

Sources: TIKR, Google Finance, Blue Line Capital

3/23/2023

Blue Line Capital maintains no position in Pioneer Natural Resources.

47

BLUE LINE CAPITAL

Pioneer Natural Resources Chart



Sources: Trading View, Blue Line Capital

3/23/2023

Blue Line Capital maintains no position in Pioneer Natural Resources.

Pioneer Relative To Peer Group



Sources: Trading View, Blue Line Capital

3/23/2023

Blue Line Capital maintains no position in Pioneer Natural Resources.

49

BLUE LINE CAPITAL