Blue Line Capital

Credit Markets & Sector Dynamics

info@BlueLineCapLLC.com

Macro Dynamics

Credit Markets & Sector Dynamics

info@BlueLineCapLLC.com

Fed Hikes Rates By 25bps

Recent indicators point to modest growth in spending and production. Job gains have picked up in recent months and are running at a robust pace; the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.

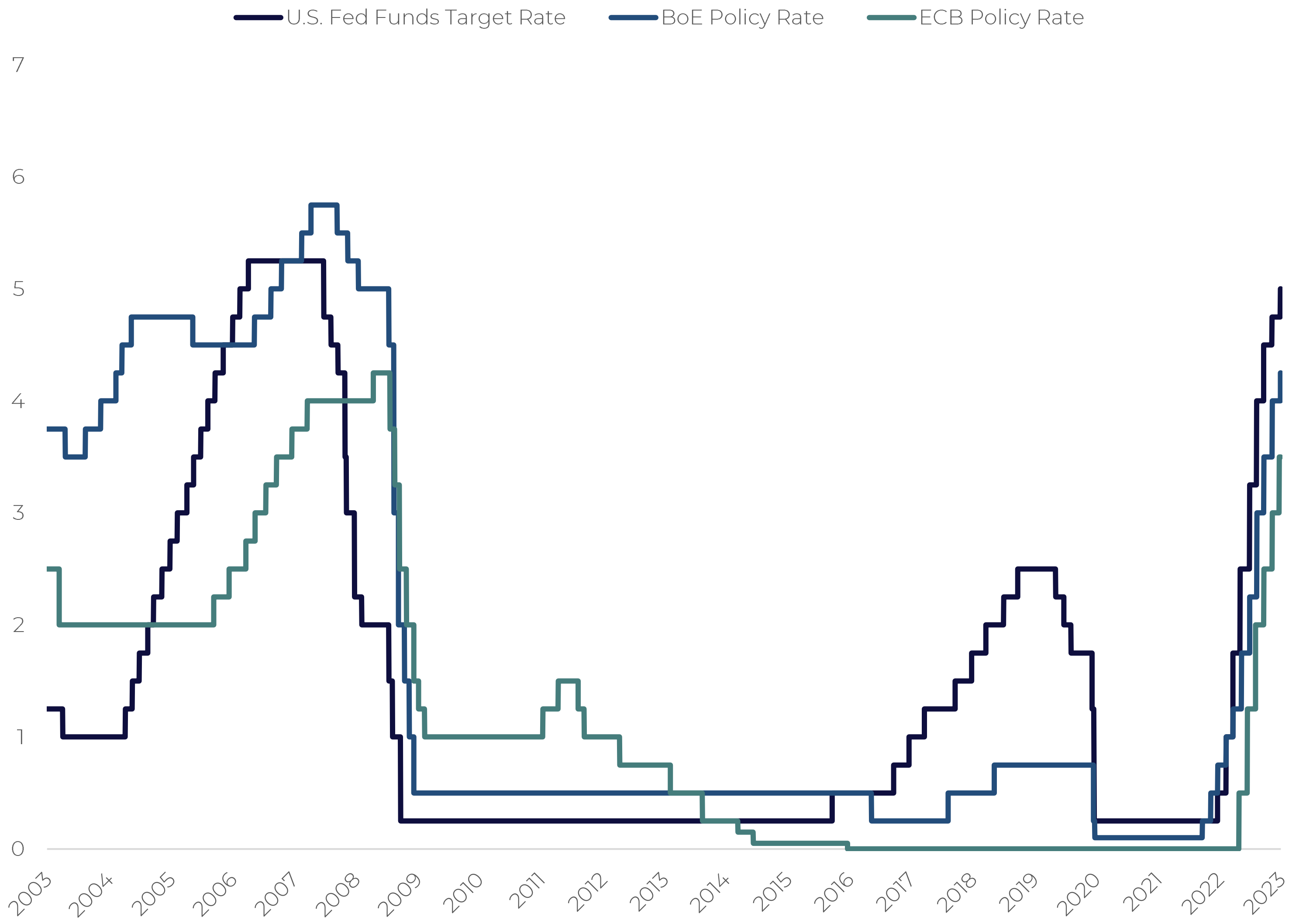
The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 4-3/4 to 5 percent. The Committee will closely monitor incoming information and assess the implications for monetary policy. The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the extent of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

- Emphasis has shifted away from “ongoing” rate increases
- Balance sheet runoff continues, although one has to question the effect in light of recent expansion of the Fed’s Balance Sheet.

Sources: Fed, Blue Line Capital, Blue Line Futures

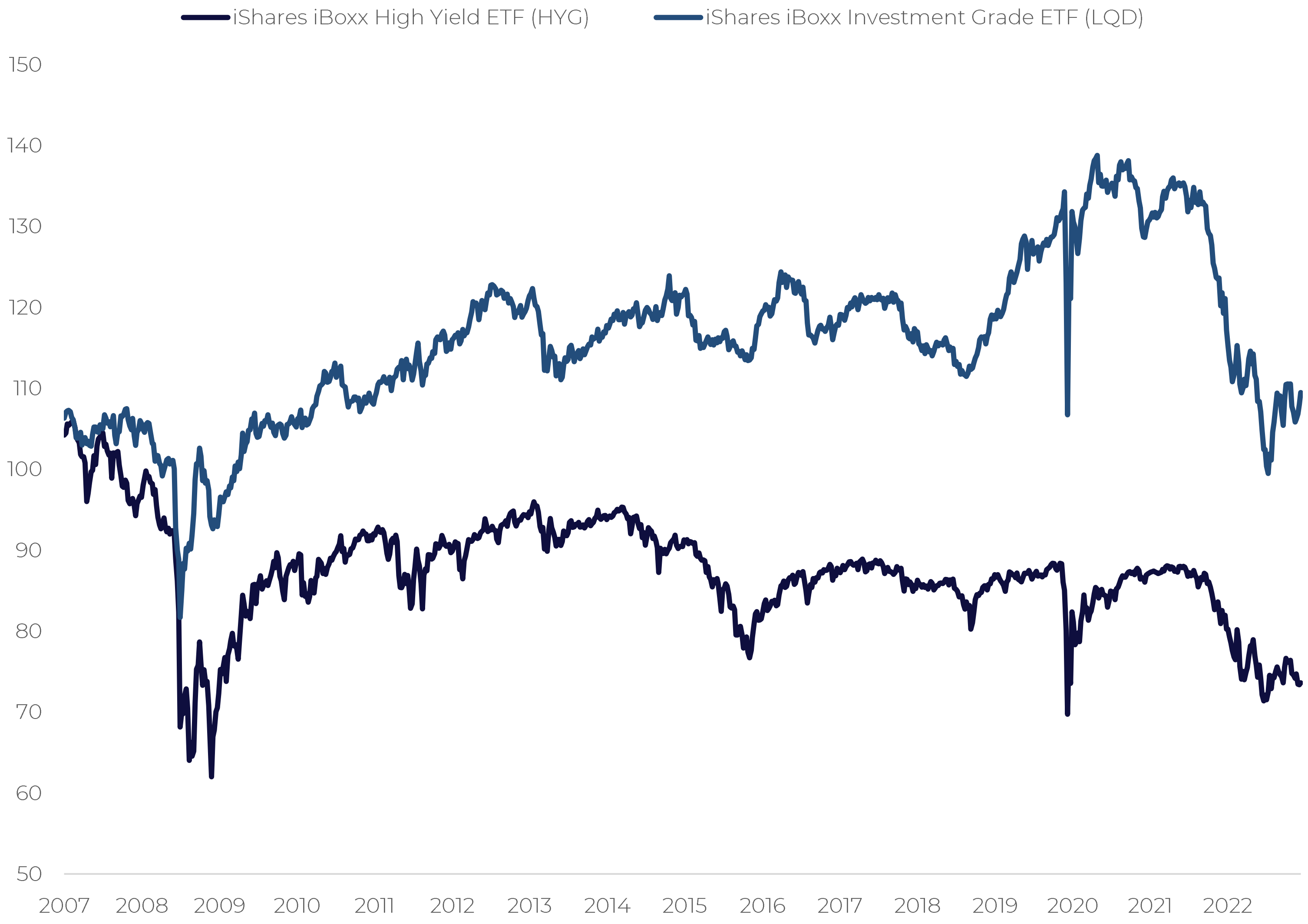
Fed, BoE, ECB Policy Rates



- In the fight against inflation, central banks have raised rates. As of late, monetary authorities are grappling with emerging financial stability concerns, but are afforded the luxury to do so as inflation appears to have cooled significantly by many metrics.

Sources: Refinitiv, Blue Line Capital, Blue Line Futures

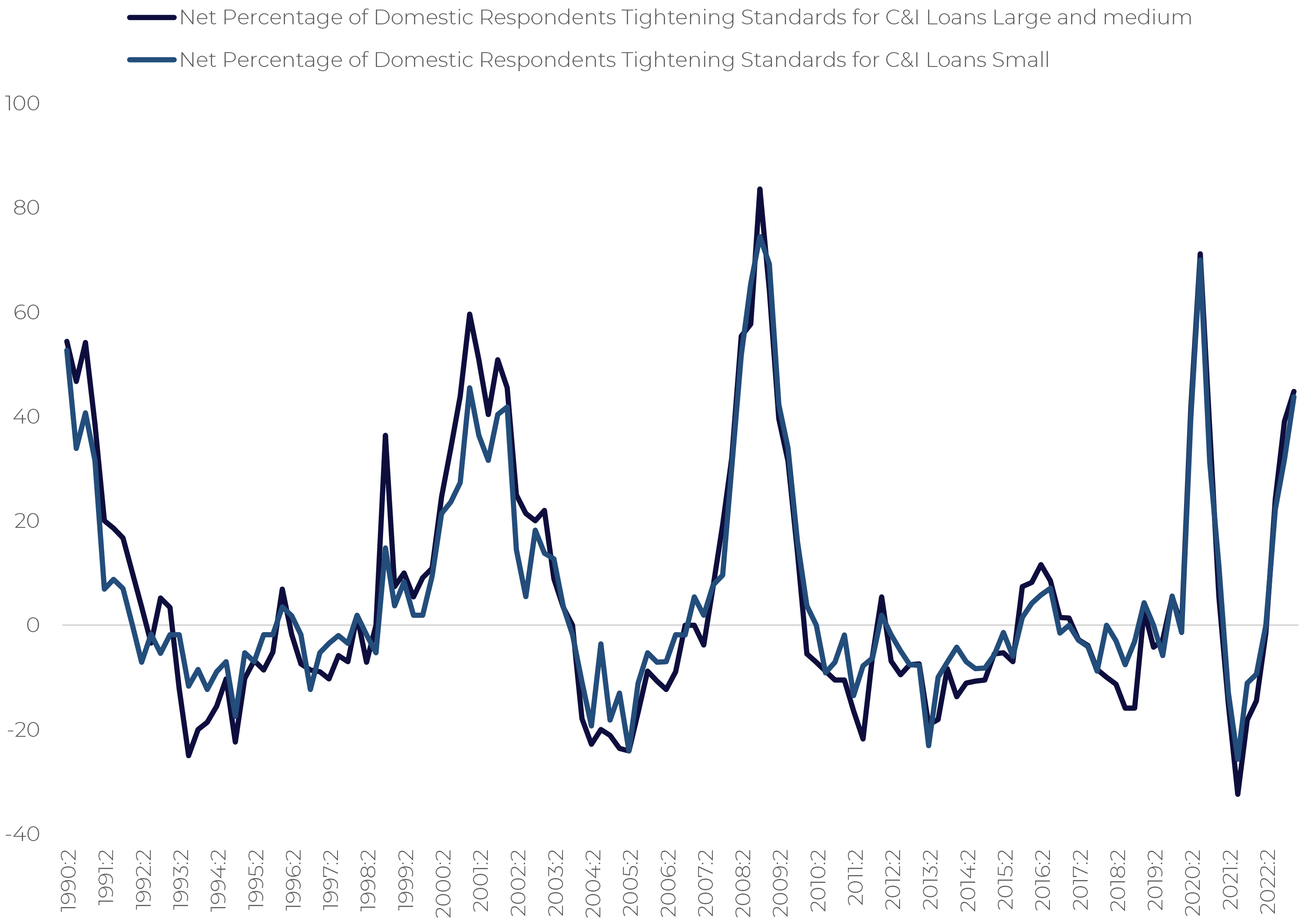
High Yield & Investment Grade Investors Have Seen Drawdowns



- As rates have risen, the price of bonds has declined across HY and IG securities.
- U.S. high-yield instruments are trading ~16.6% off Sep. 2021 highs with investment grade down ~19.9% on average.
    - This indicates that the sell-off has not been due to distress but due to rates rising.
- Unlike S&P 500 sector weights geared towards technology, High Yield indices are heavily skewed towards consumer disc., communications, and energy.

Sources: Refinitiv, Blue Line Capital, Blue Line Futures

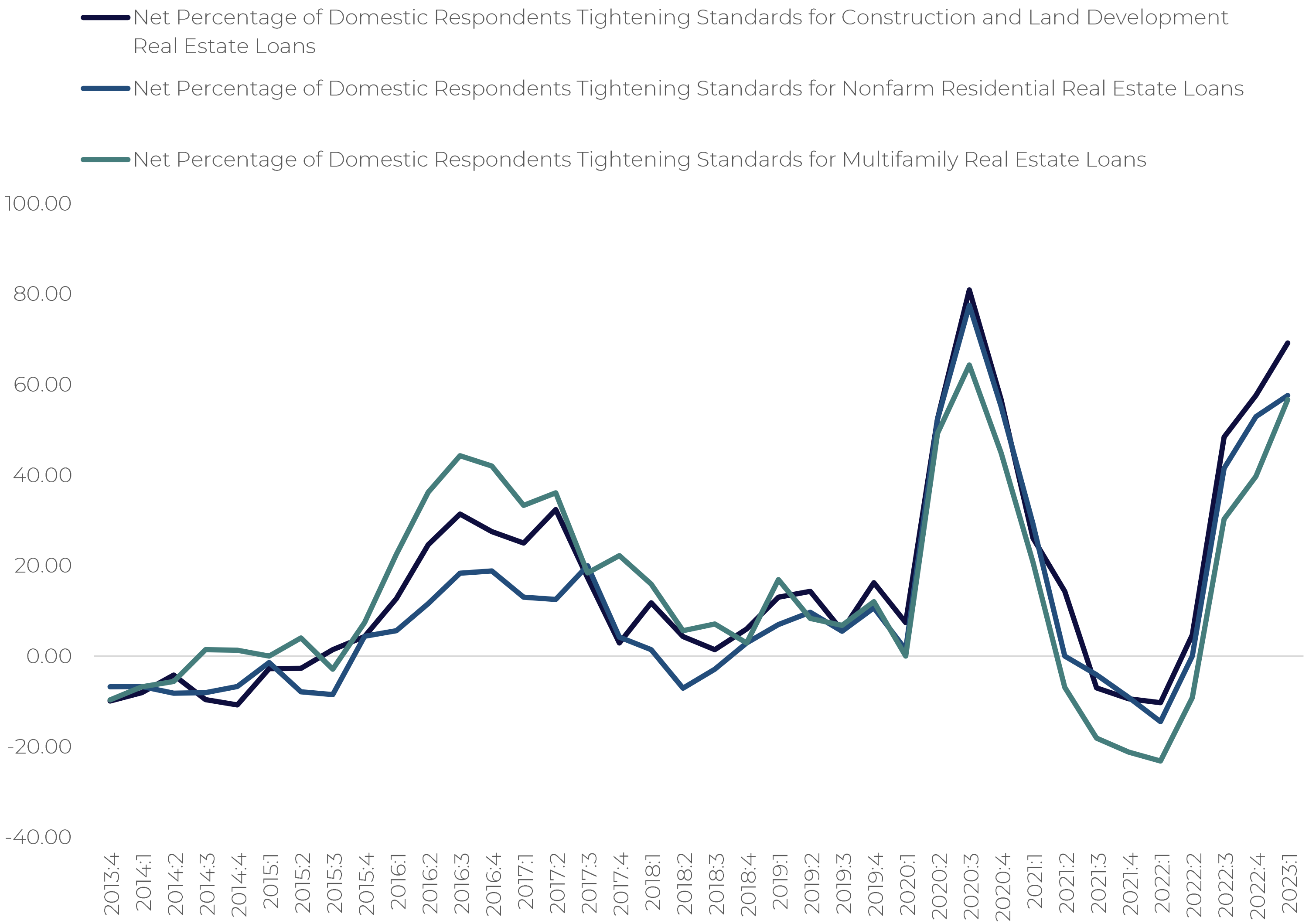
Tightening Lending To Commercial & Industrial Businesses



- 44.8% of commercial banks are tightening loans to large commercial and industrial businesses, which compared to 41.5% in February and 71.2% in March of 2020.
- Loans to small commercial & industrial businesses are also getting tighter, with 43.8% of respondents indicating stricter standards.

Sources: Fed, Blue Line Capital, Blue Line Futures

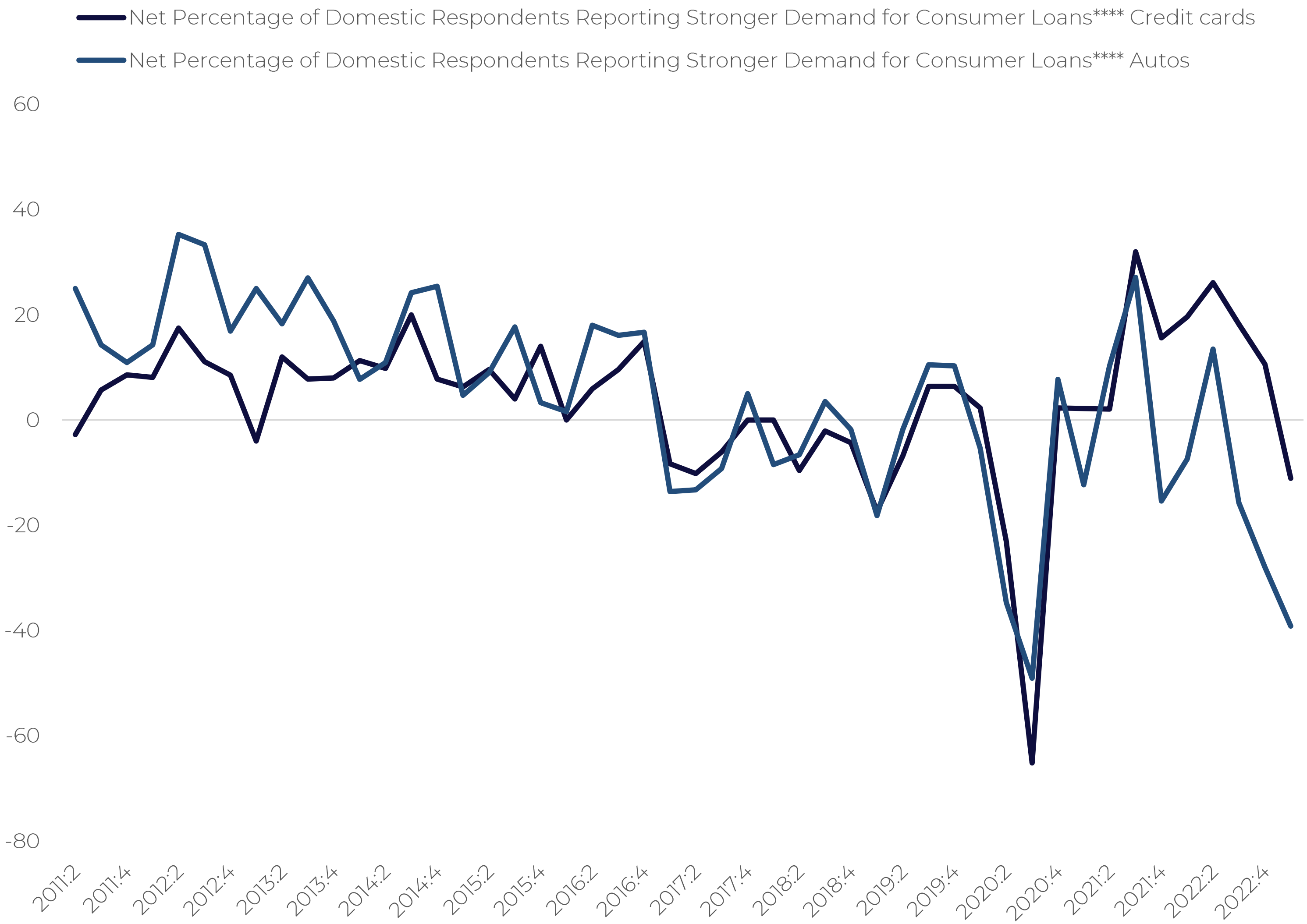
Lending To Real Estate Slowing Materially



- 69.2% of senior loan officers indicate that they're tightening lending standards for construction and land development loans, the highest since October 2020 (on a net basis.)
- Multifamily homes lending standards have seen the steepest acceleration of tightening at 56.7% (on a net basis.)

Sources: Fed, Blue Line Capital, Blue Line Futures

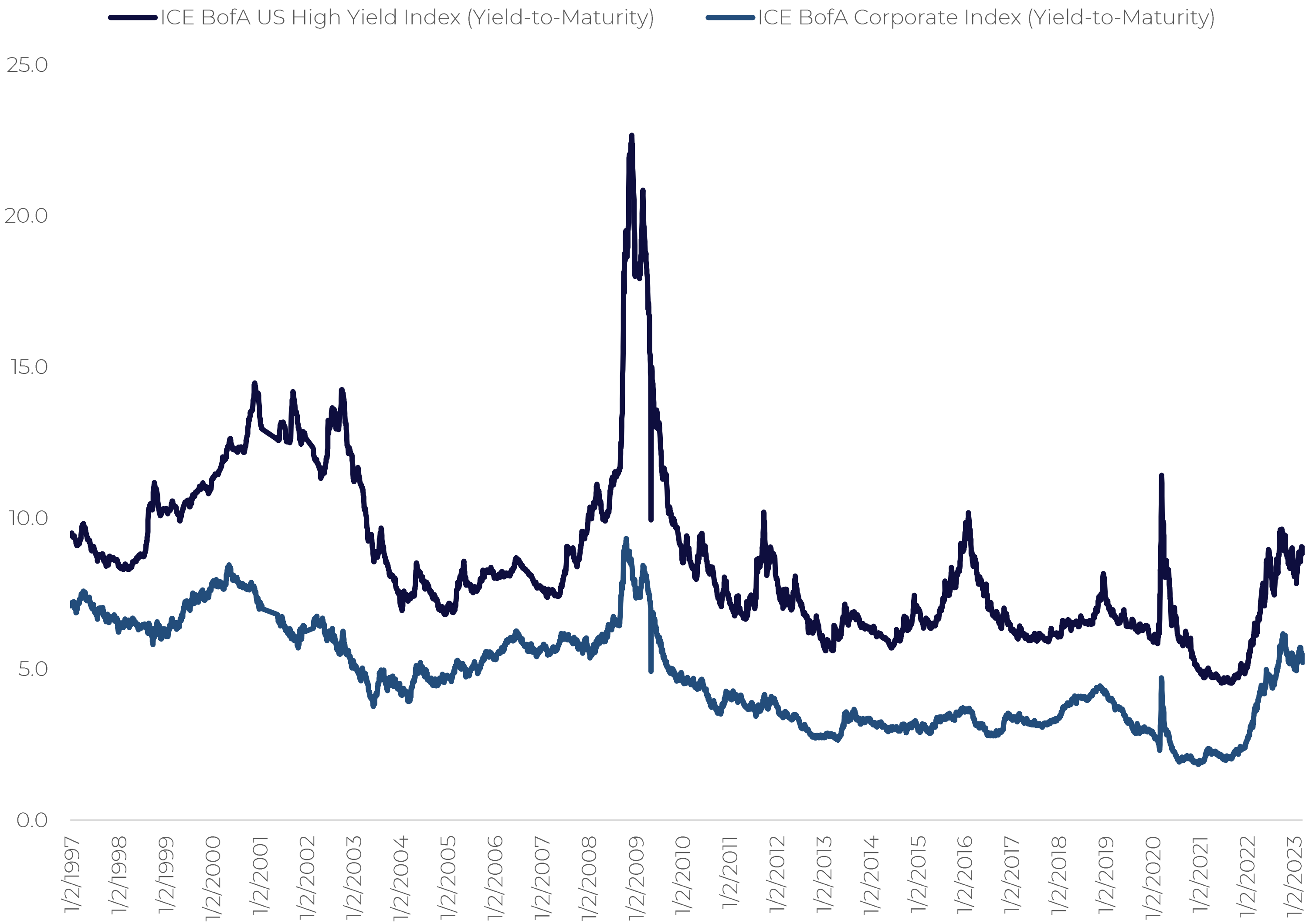
Credit Card & Auto Loan Demand Declining



- On net, loan officers indicate that demand for credit card loans has slowed with a much more rapid deceleration for auto loan demand, now at the lowest level since October 2020.

Sources: Fed, Blue Line Capital, Blue Line Futures

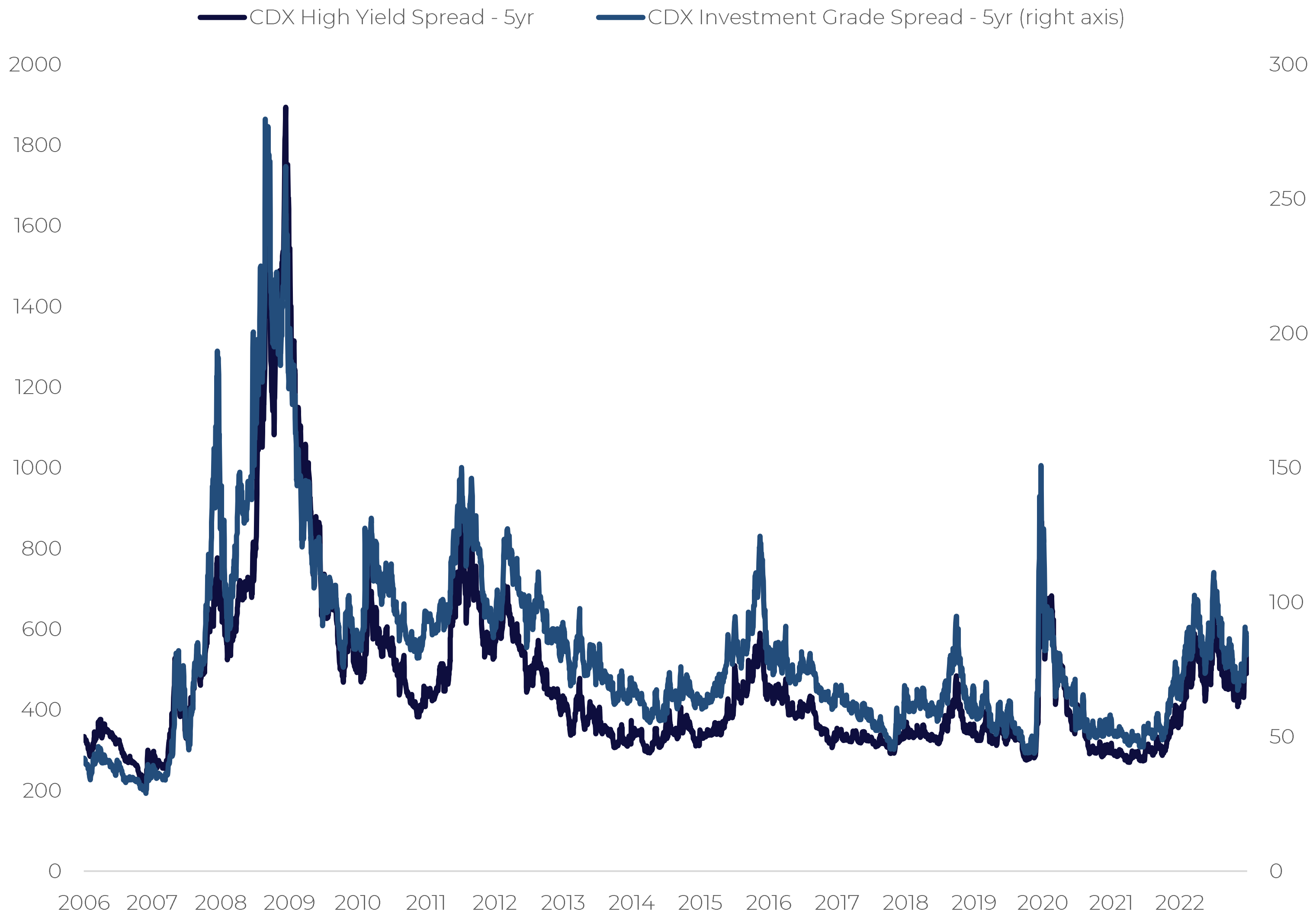
High Yield & Investment Grade Financing Becoming More Expensive



- While IG and HY credit spreads have remained rather well contained, the yield at which borrowers can get money is elevated and comparable to Covid highs.
- High yield borrowers now borrow at ~8.8% with IG at 5.2%, compared to March 2020 levels in excess of 11.4% for HY and 4.7% for IG borrowers.

Sources: Refinitiv, Blue Line Capital, Blue Line Futures

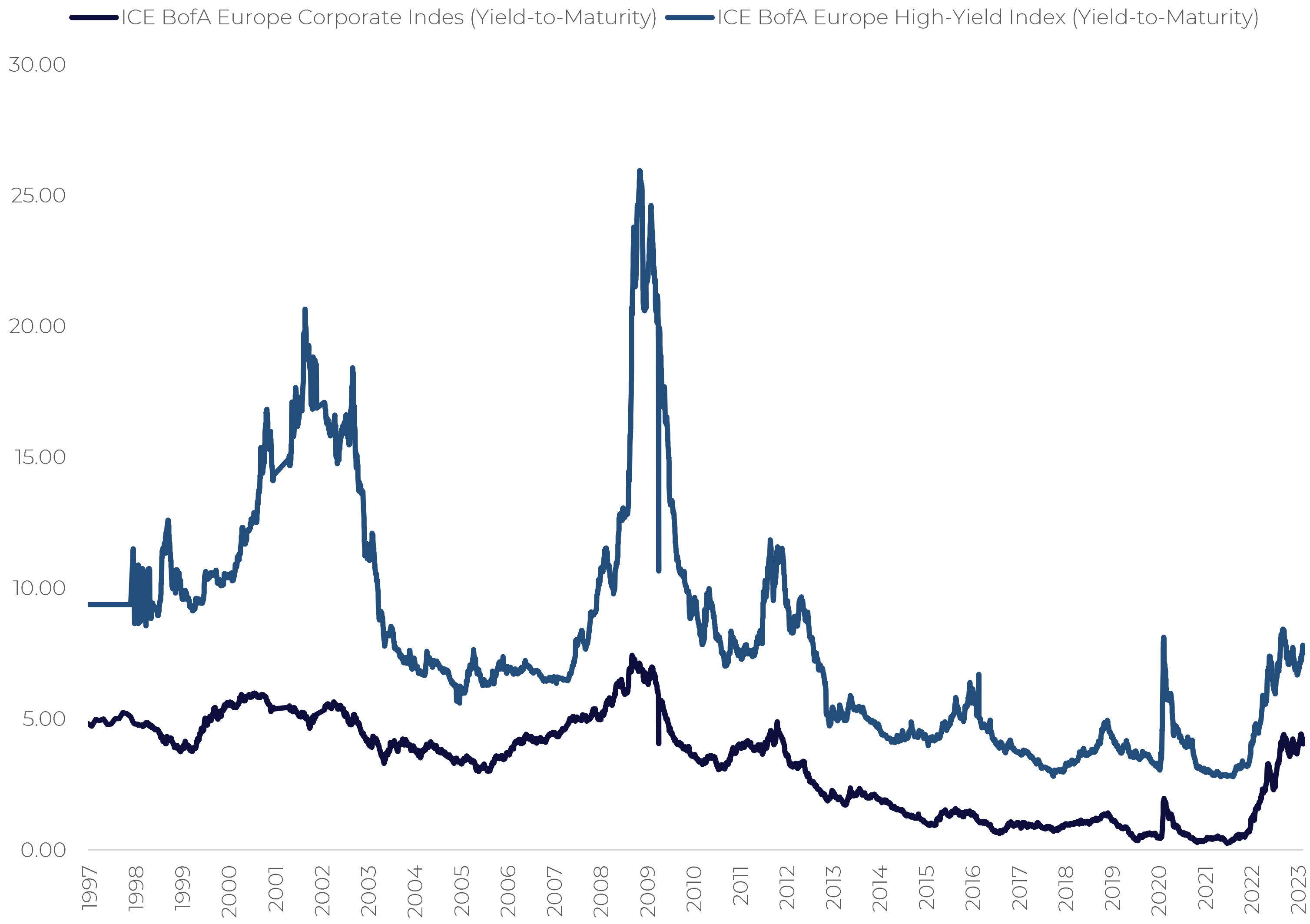
HY& IG Spreads Expanding But Not Distressed



Sources: Refinitiv, Blue Line Capital, Blue Line Futures

- Unlike yields, HY and IG spreads have not breached Covid 2020 highs, indicating that investors are still willing to extend credit without charging elevated excess returns.
- HY borrowers can get money 518bps in excess of risk free over a 5-year term with IG borrowing at a mere 85bps in excess of risk-free.
    - In March 2020, HY borrowers had to pay 866bps in excess of risk free with IG paying as much as 151bps in excess of risk-free.

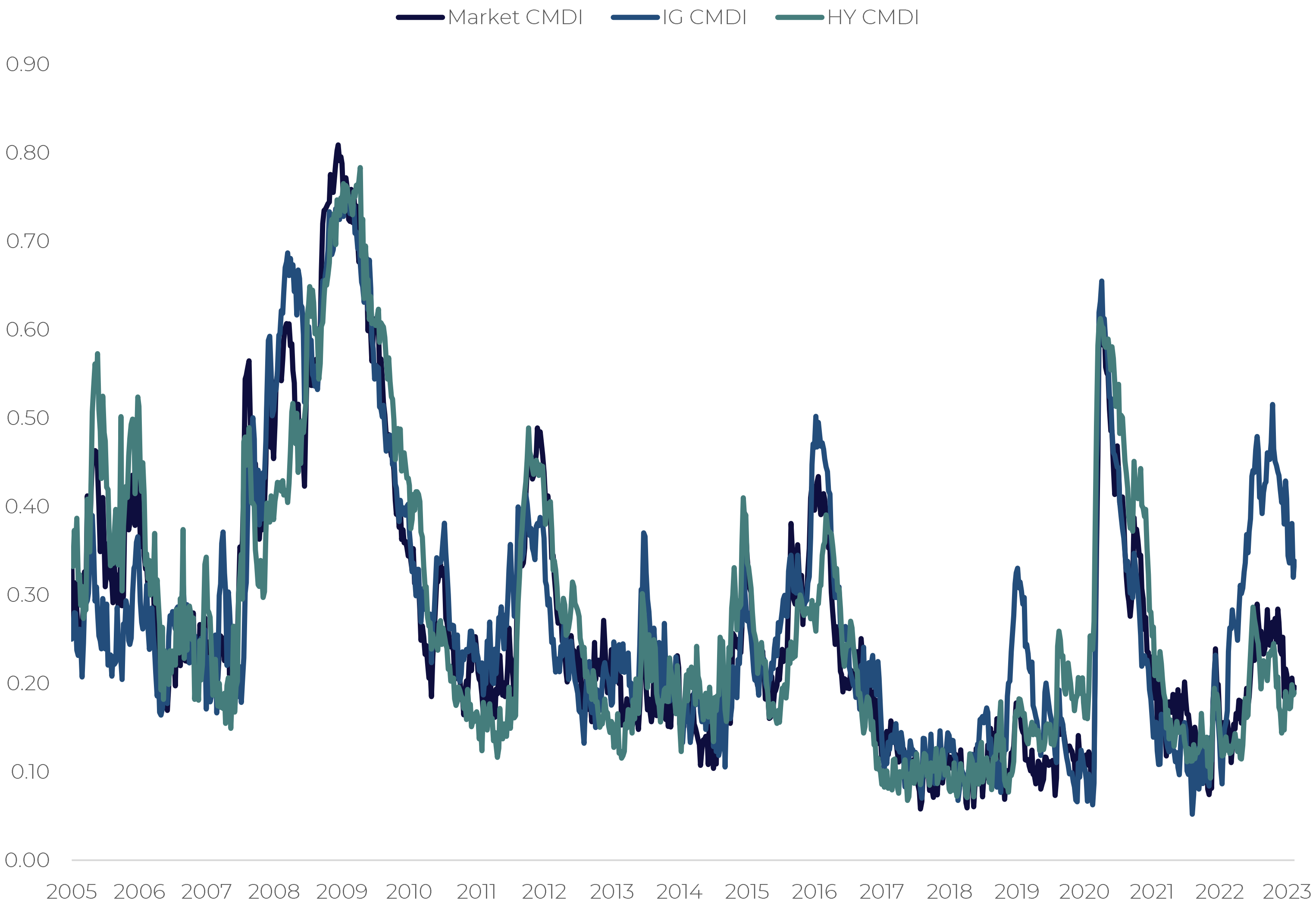
European HY & IG Financing Becoming More Expensive



- European HY borrowers are getting money at lower yields but higher spreads.
  - HY borrowing at 7.54%, in excess of Covid highs
  - IG borrowing at 4.05% compared to 1.90% in March 2020

Sources: Refinitiv, Blue Line Capital, Blue Line Futures

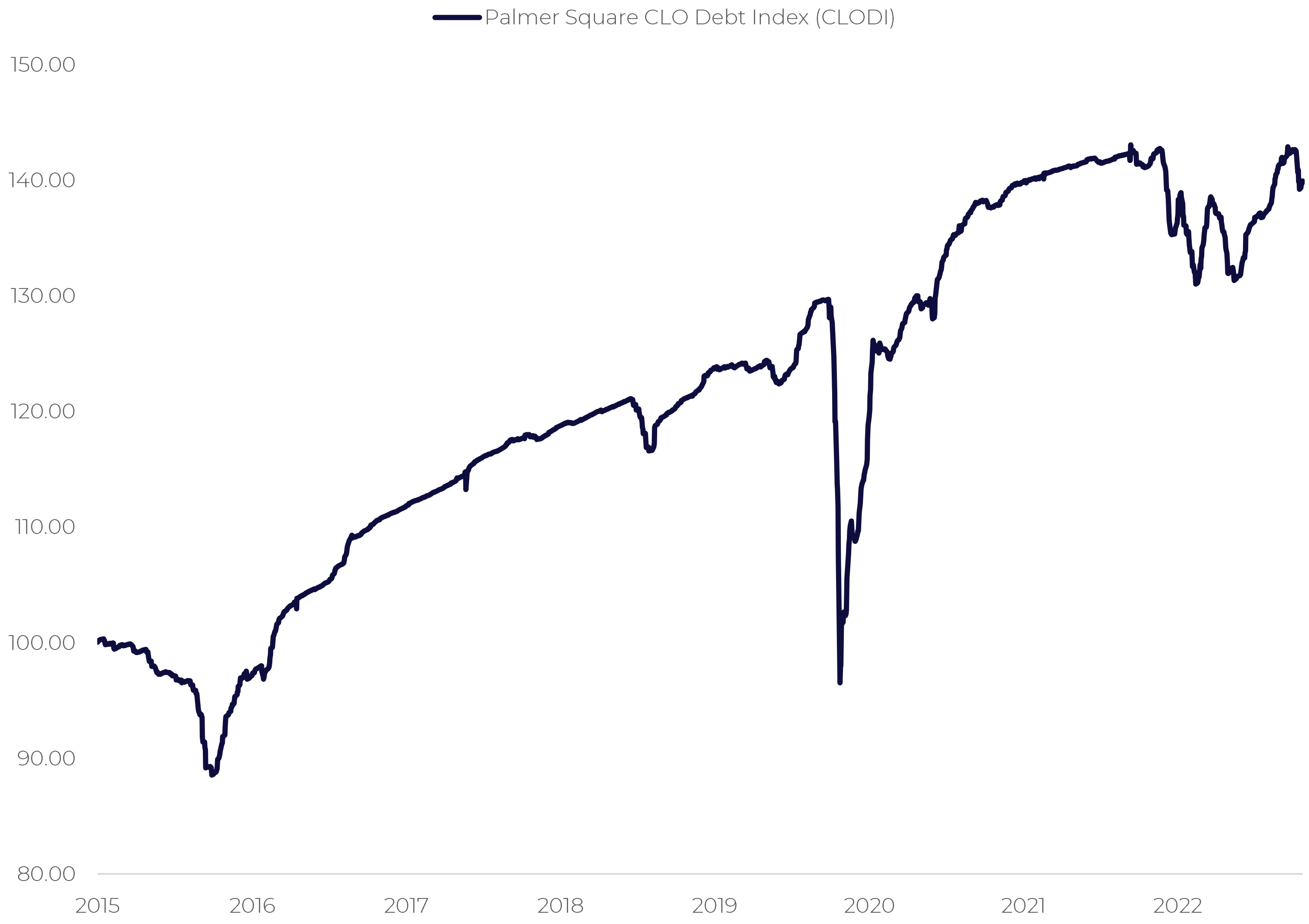
Credit Has Tightened But Not Distressed



- While U.S. spreads are wider, distress in credit is nowhere to be found.
  - Credit is following a theme of concentrated risks in areas of the market, without much systemic signs of stress.

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

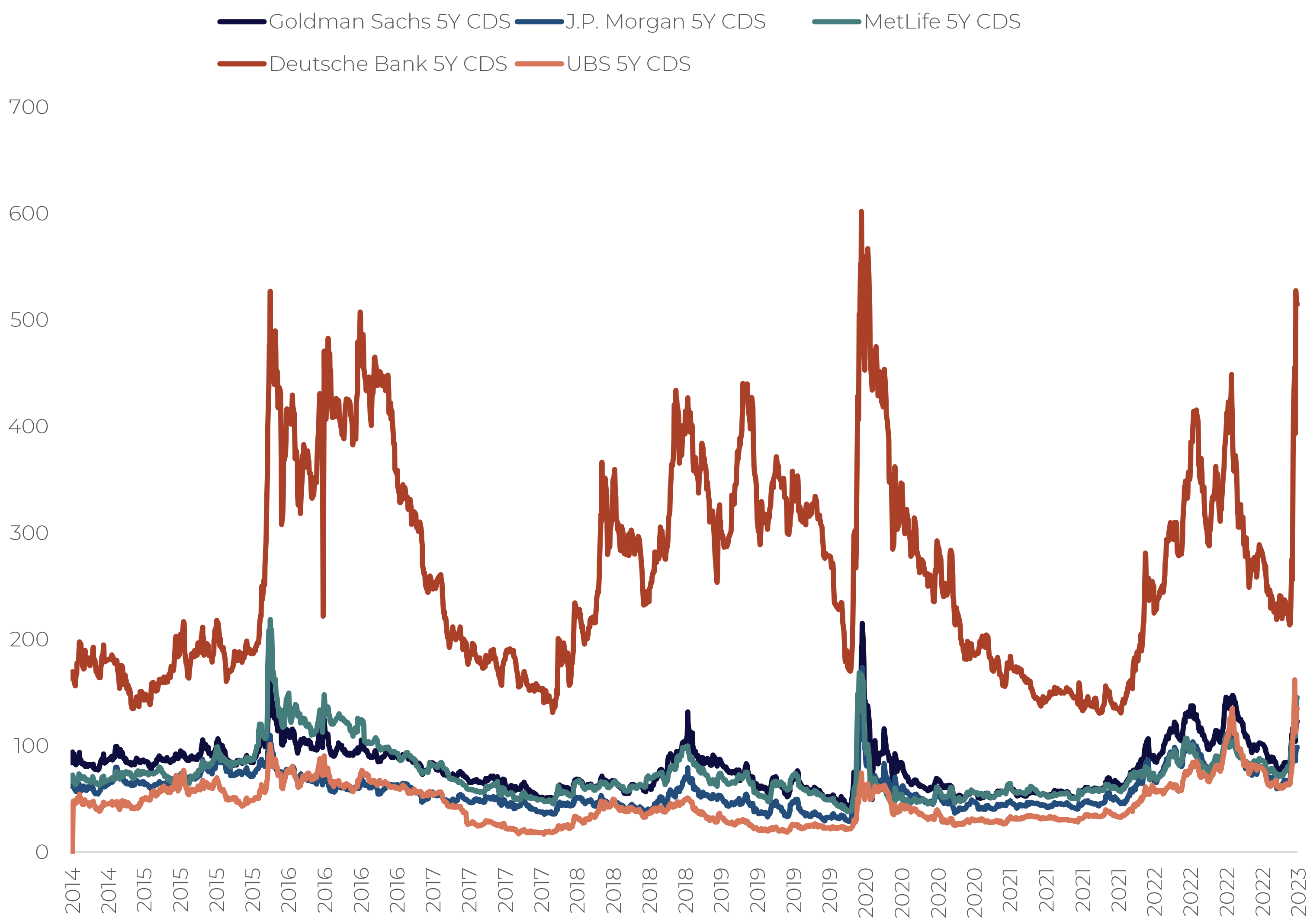
Collateralized Loan Obligations Performing Well Despite Concerns



- Floating rate CLOs have not shown distress of any kind on an index level, indicating that corporate loans are performing well despite cases of stress in the economy.
- CLOs have experienced very low default rates and high recovery rates given their place in the capital structure.

Sources: Refinitiv, Blue Line Capital, Blue Line Futures

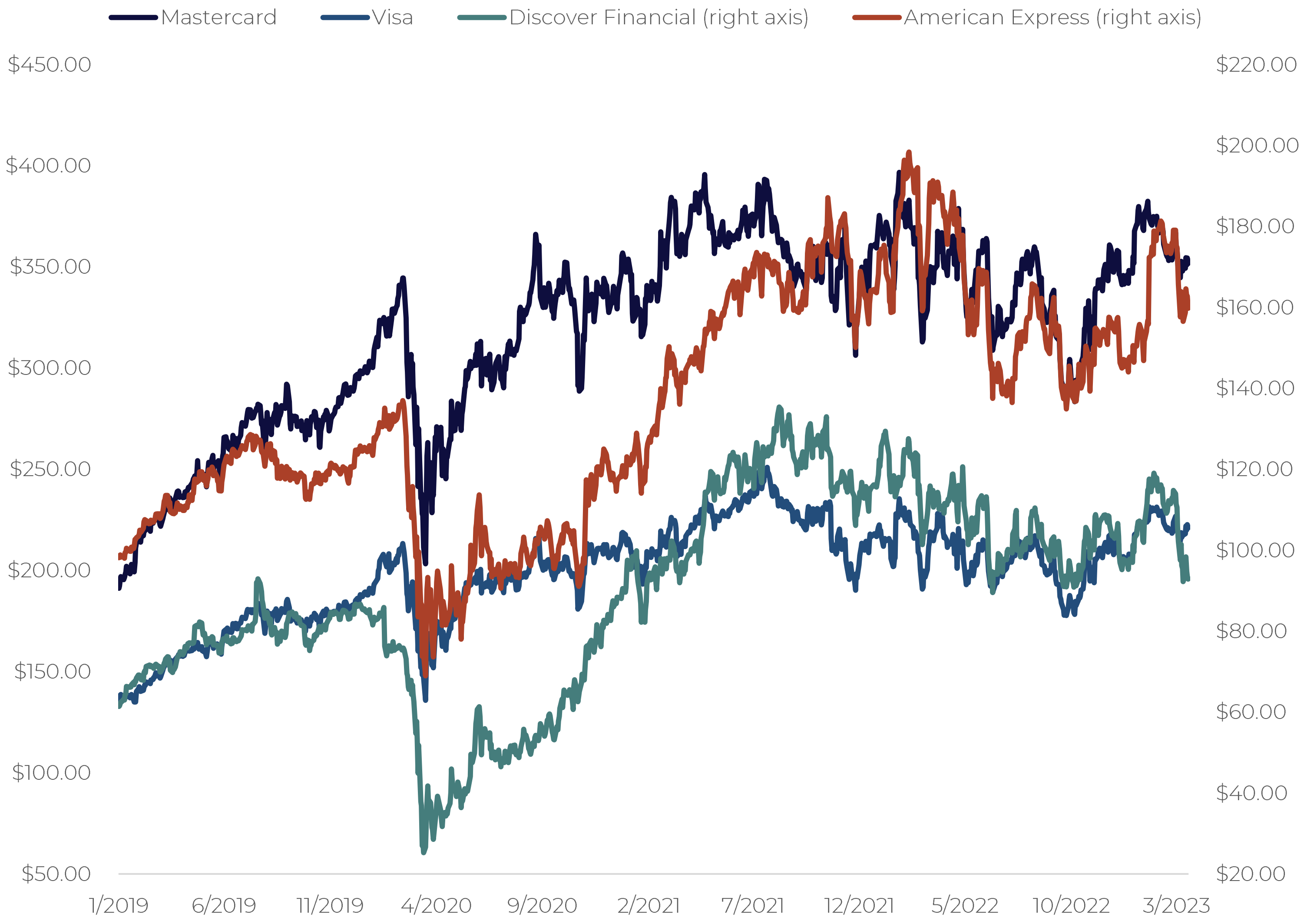
Credit Concerns At Deutsche Bank



Sources: Refinitiv, Blue Line Capital, Blue Line Futures

- After Credit Suisse's fall on the back of a massive CDS blowout, markets are watching Deutsche Bank's 5Y CDS at 515bps, UBS at 135bps, both above or near prior stress situations.
- In the U.S., investors are somewhat wary of stress in life insurance, given their exposure to commercial real estate securities that show unmarked losses. MetLife 5Y CDS at 145bps is a tad shy of 169bps in March 2020.

Credit Card Companies With A Pulse On The Consumer

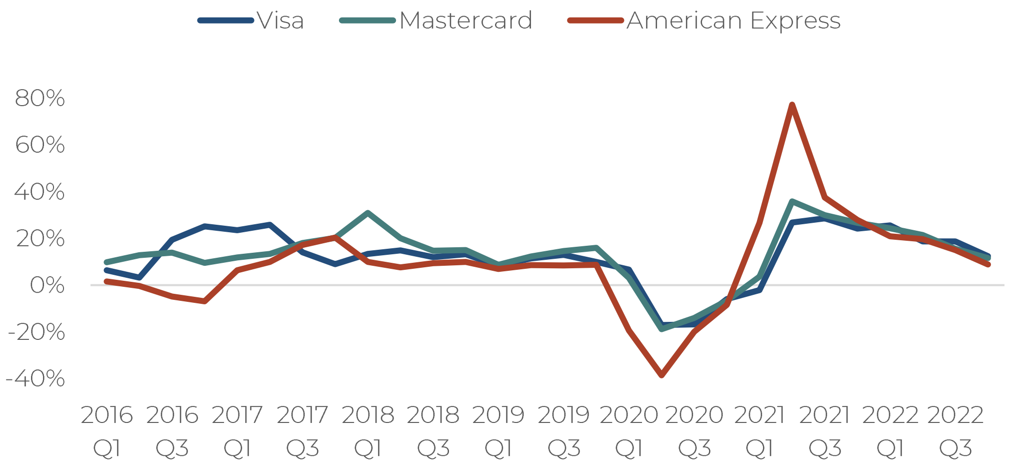


Sources: Blue Line Capital, Blue Line Futures

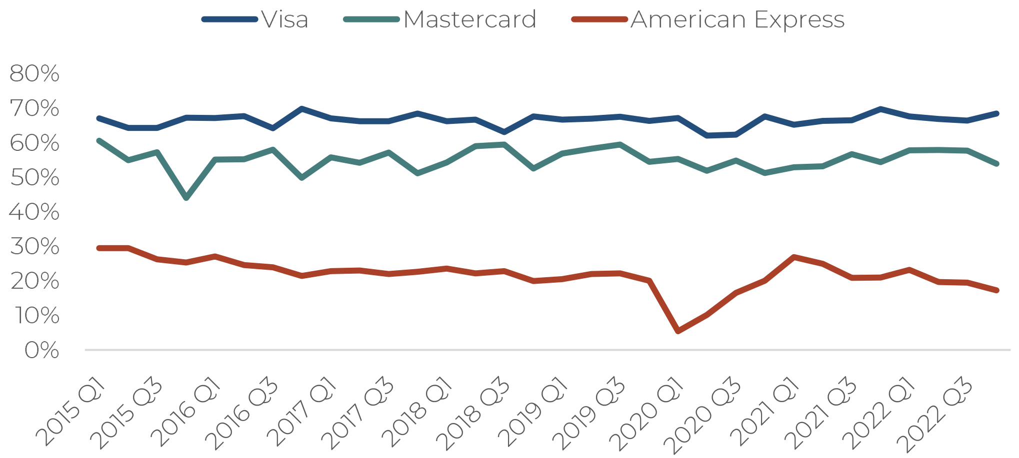
- Performance Numbers
  - 1-Month Return:
    - 0% Mastercard
    - 1% Visa
    - -17% Discover
    - -8% American Express
  - 3-Month Return:
    - 2% Mastercard
    - 7% Visa
    - -5% Discover
    - 9% American Express
  - 6-Month Return
    - 20% Mastercard
    - 20% Visa
    - -1% Discover
    - 14% American Express

Credit Card Companies With A Pulse On The Consumer

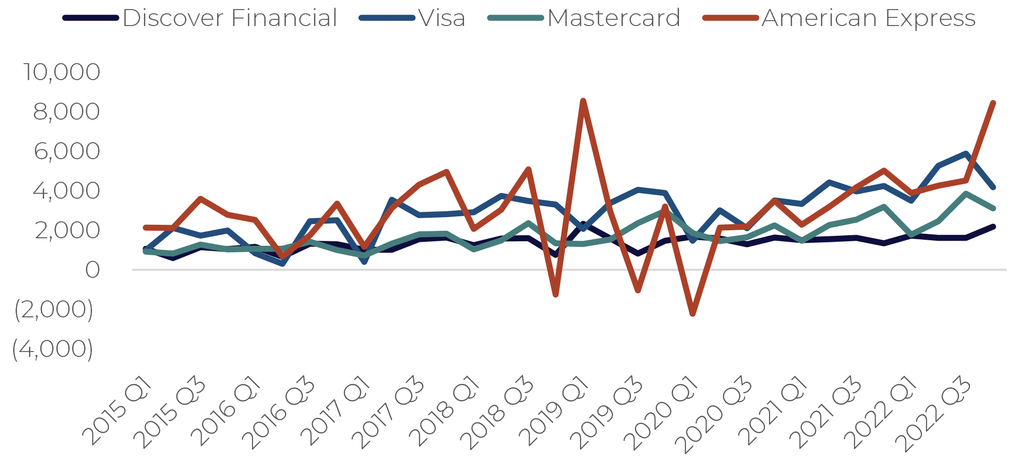
Yearly Revenue Trends Of Credit Card Companies



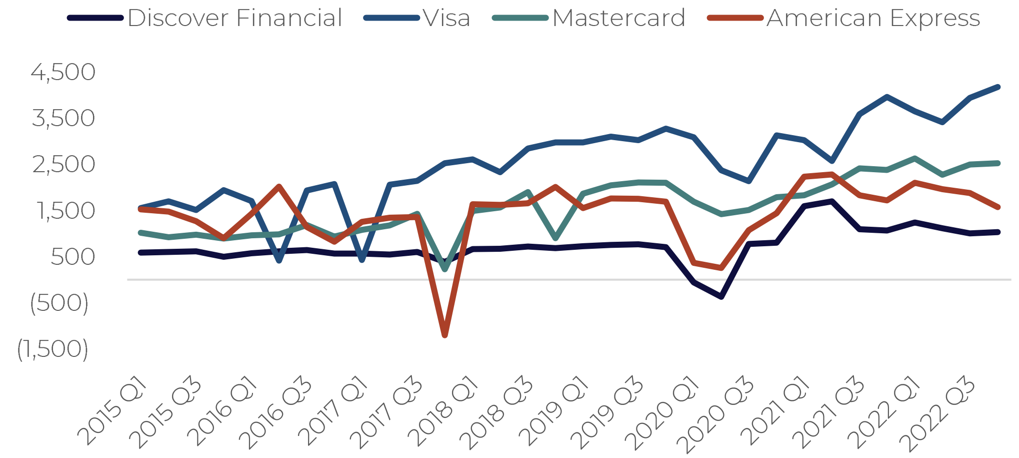
Operating Income Margins



Quarterly Revenues

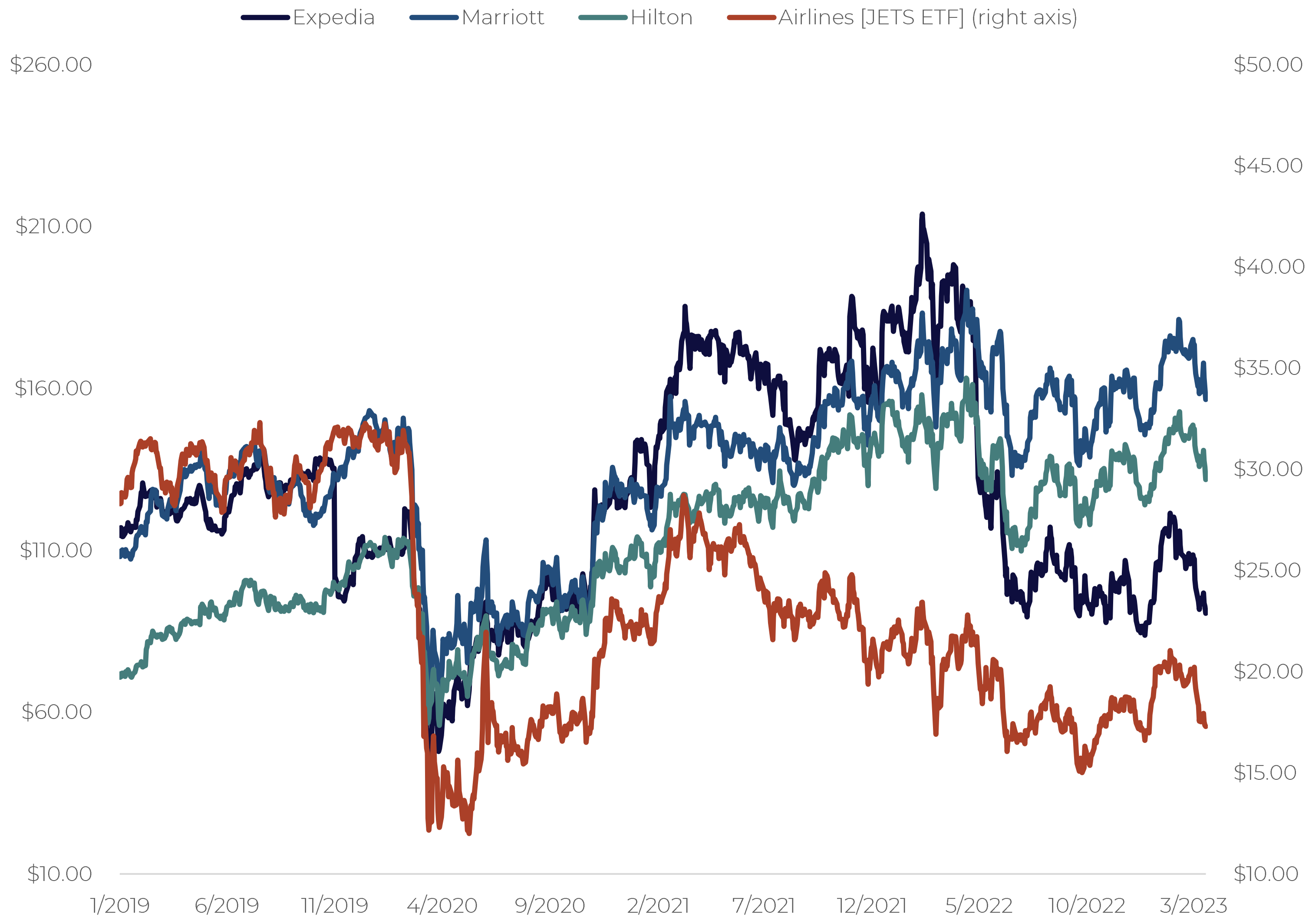


Quarterly Net Income



Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Leisure & Travel Performance Is Bifurcated

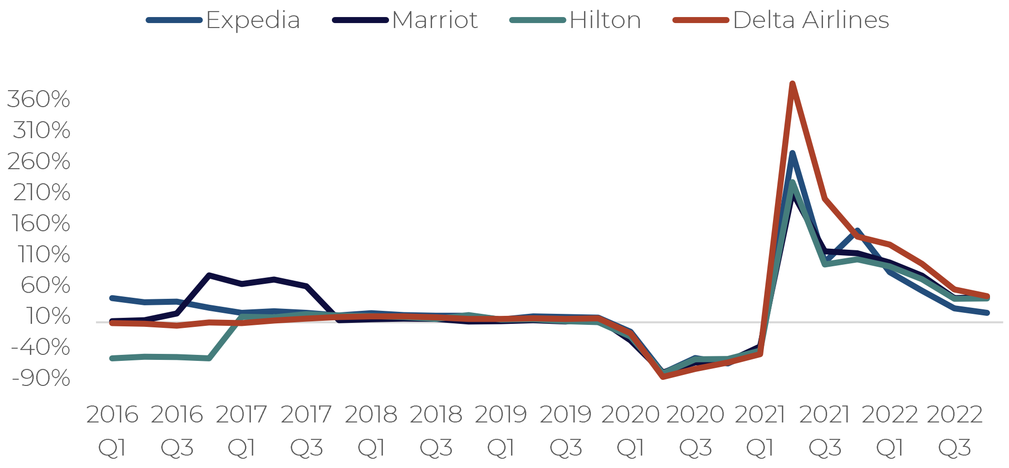


- Performance Numbers
  - 1-Month Return:
    - -13% Expedia
    - -8% Marriott
    - -9% Hilton
    - -11% Airlines
  - 3-Month Return:
    - 5% Expedia
    - 5% Marriott
    - 4% Hilton
    - 0% Airlines
  - 6-Month Return
    - -1% Expedia
    - 14% Marriott
    - 11% Hilton
    - 12% Airlines

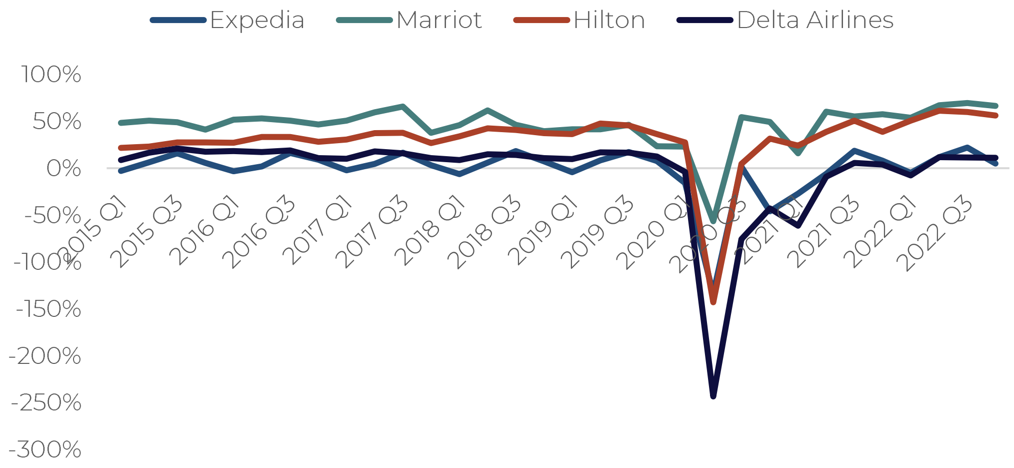
Sources: Blue Line Capital, Blue Line Futures

Leisure & Travel Fundamental Trends

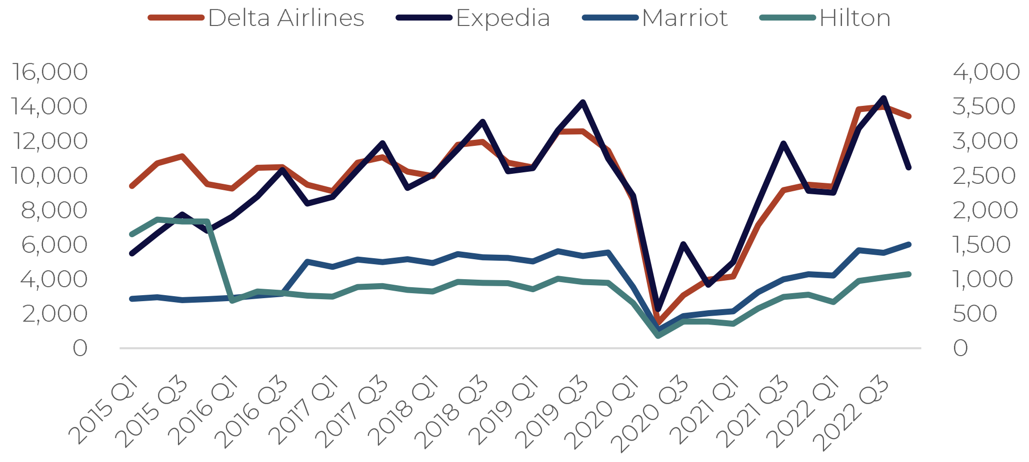
Yearly Revenue Trends Of Leisure & Travel Companies



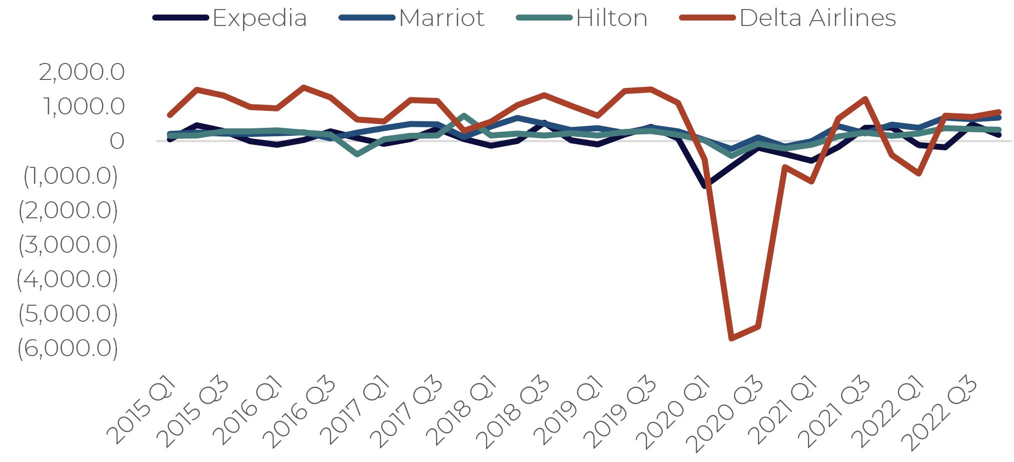
Operating Income Margins



Quarterly Revenues (Expedia, Marriot, Hilton – right axis)

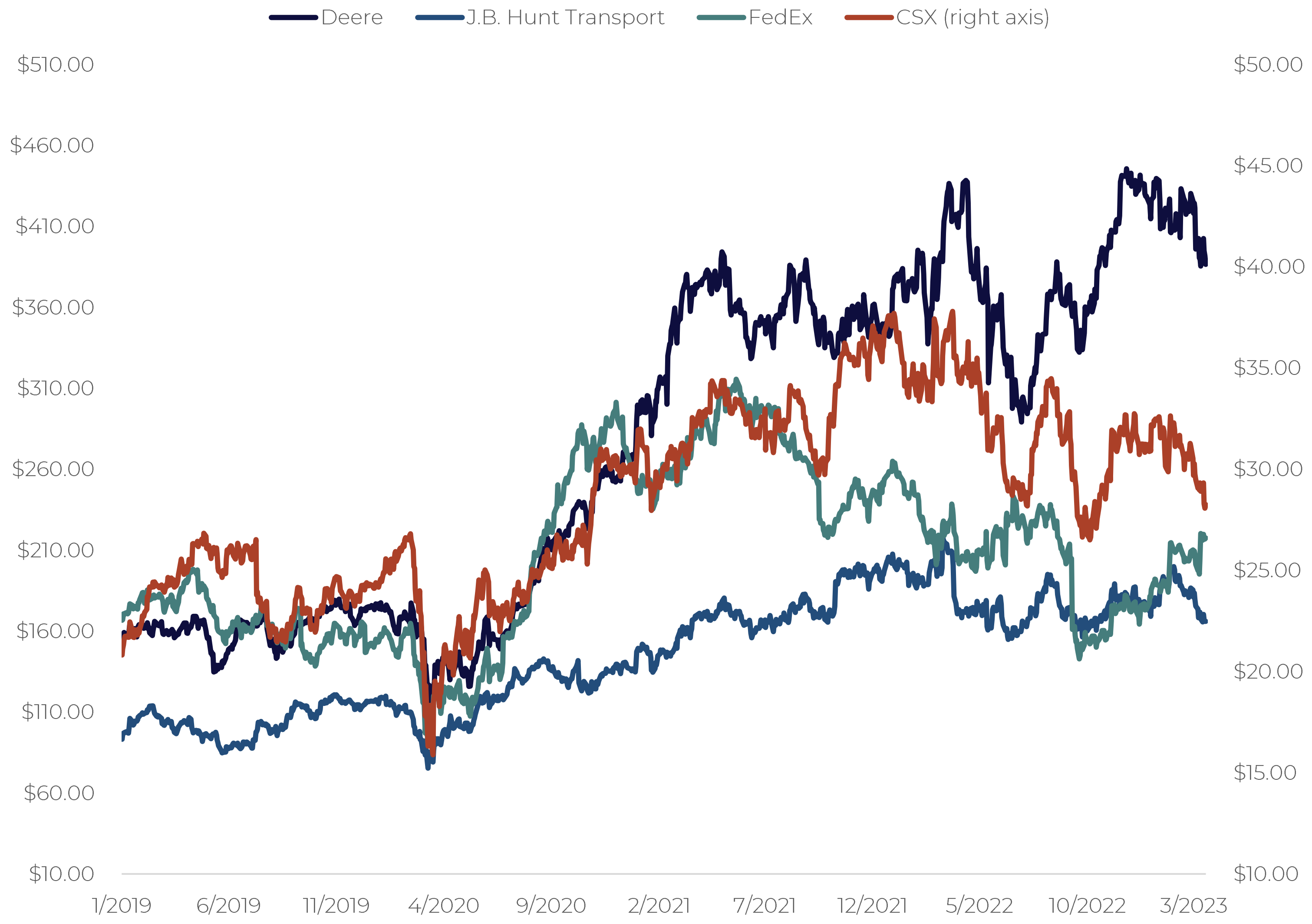


Quarterly Net Income



Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Industrials & Transportation Stocks Show Stability

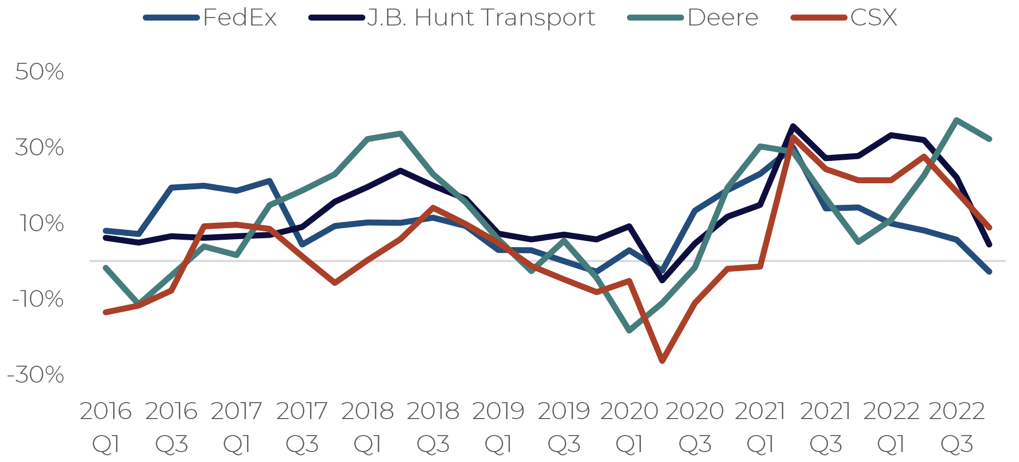


Sources: Blue Line Capital, Blue Line Futures

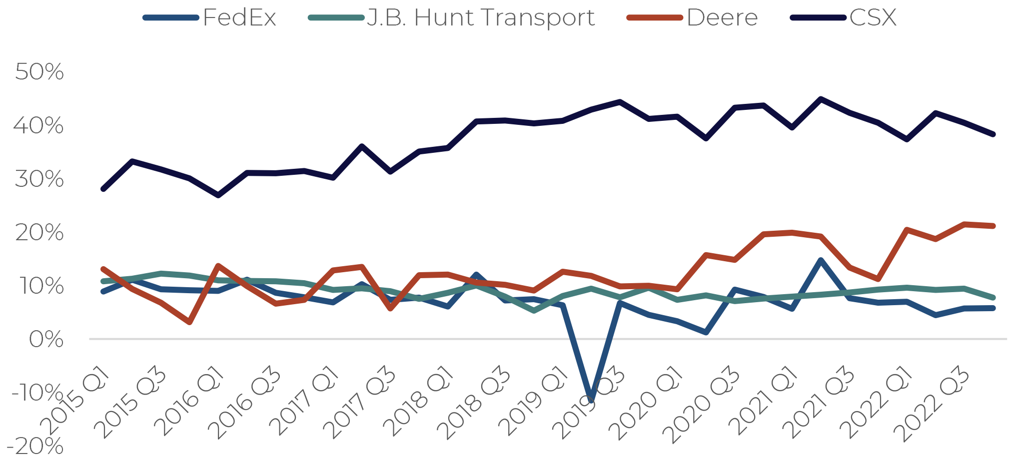
- Performance Numbers
  - 1-Month Return:
    - -7% Deere
    - -10% J.B. Hunt Transport
    - 7% FedEx
    - -8% CSX
  - 3-Month Return:
    - -12% Deere
    - -6% J.B. Hunt Transport
    - 24% FedEx
    - -10% CSX
  - 6-Month Return
    - 16% Deere
    - 3% J.B. Hunt Transport
    - 46% FedEx
    - 2% CSX

Industrials & Transportation Fundamental Trends

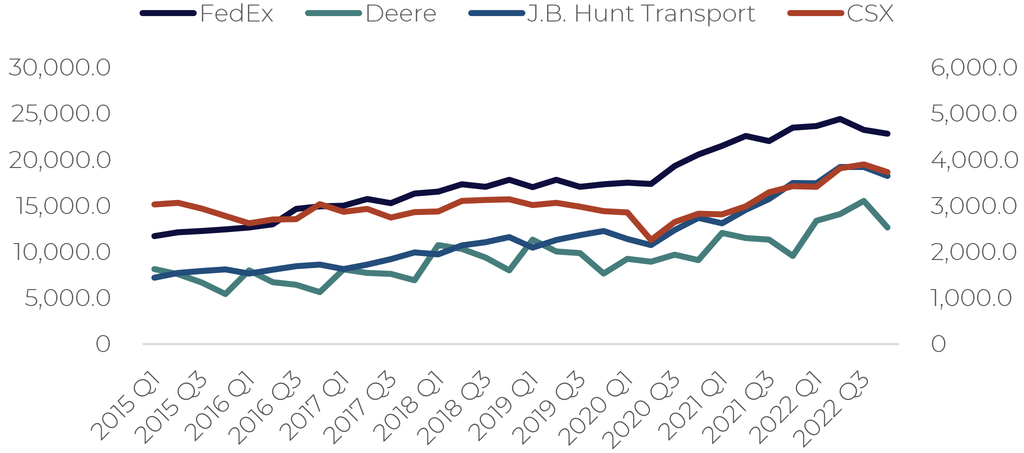
Yearly Revenue Trends Of Industrials & Transportation Companies



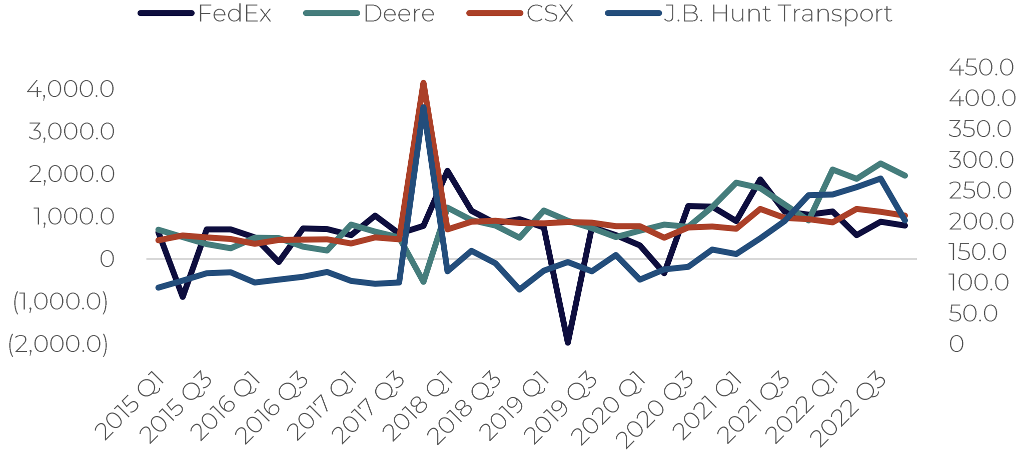
Operating Income Margins



Quarterly Revenues (J.B. Hunt, CSX– right axis)

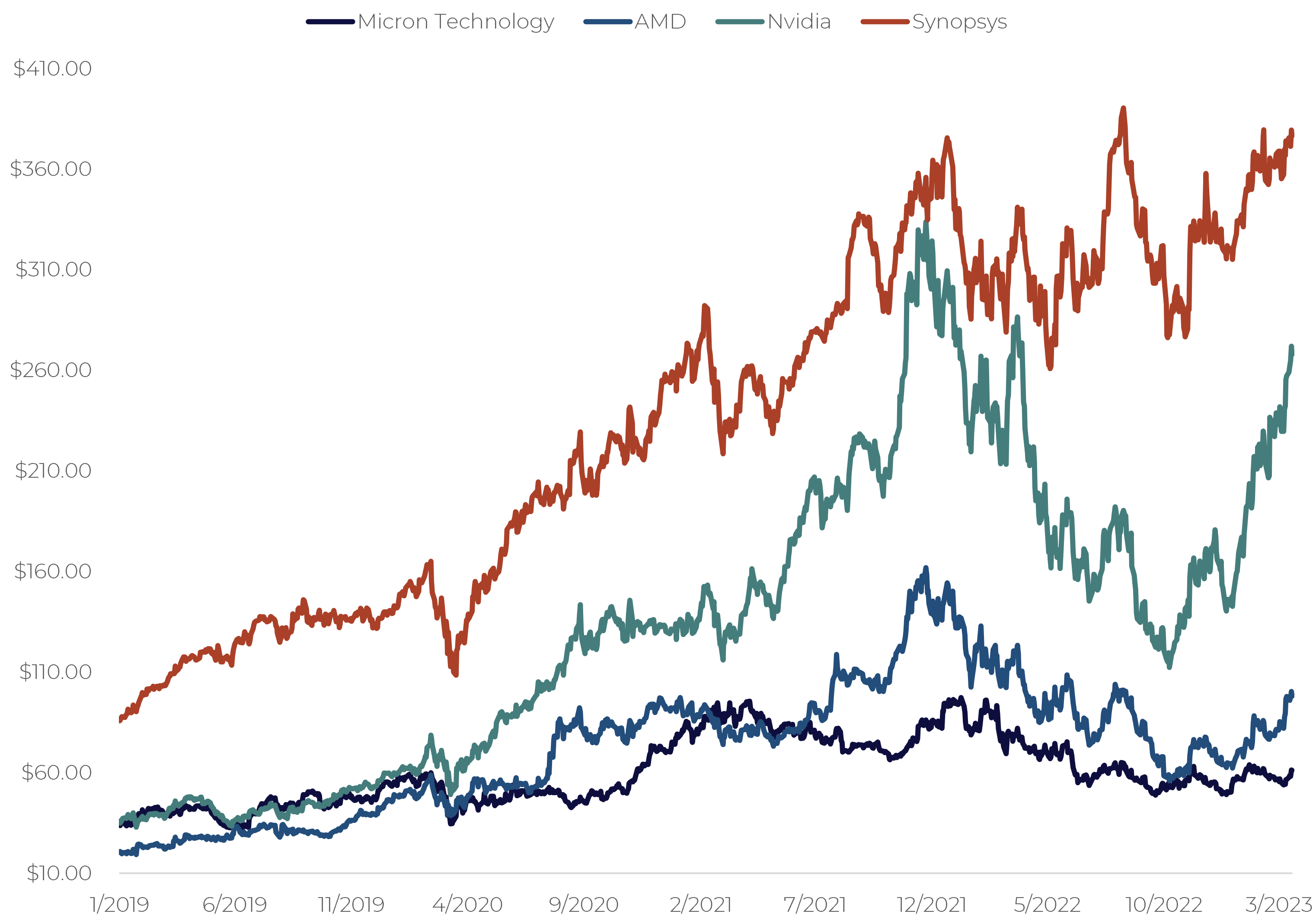


Quarterly Net Income (J.B. Hunt, CSX– right axis)



Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Semiconductors Showing Strength

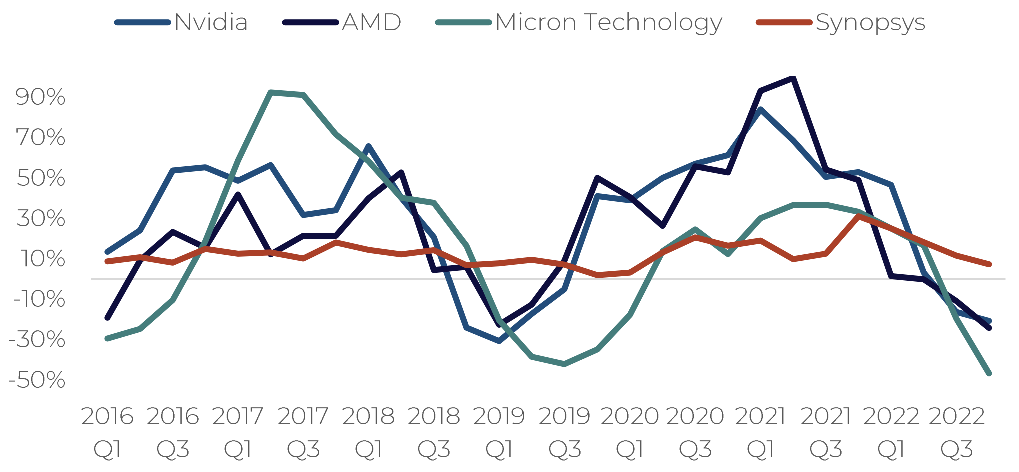


- Performance Numbers
  - 1-Month Return:
    - 5% Micron Technology
    - 25% AMD
    - 15% Nvidia
    - 4% Synopsys
  - 3-Month Return:
    - 22% Micron Technology
    - 52% AMD
    - 76% Nvidia
    - 18% Synopsys
  - 6-Month Return
    - 22% Micron Technology
    - 44% AMD
    - 114% Nvidia
    - 24% Synopsys

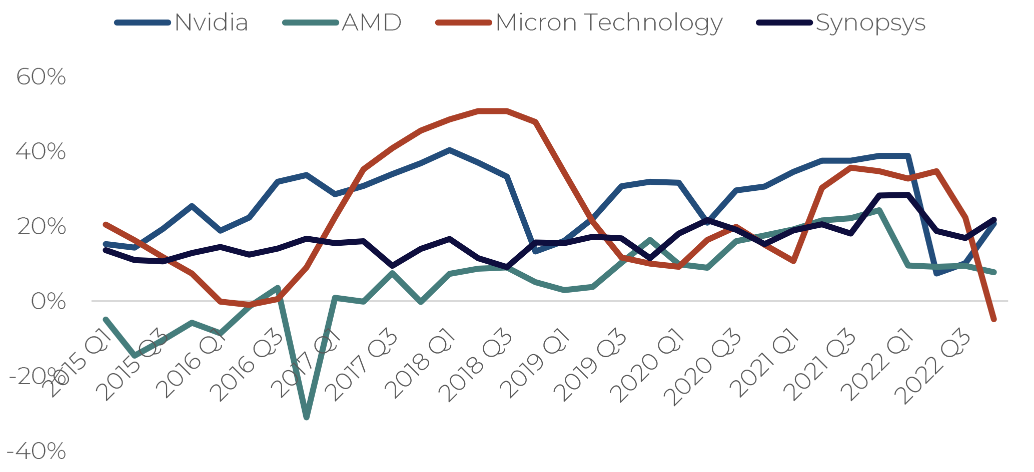
Sources: Blue Line Capital, Blue Line Futures

Semiconductors Fundamental Trends

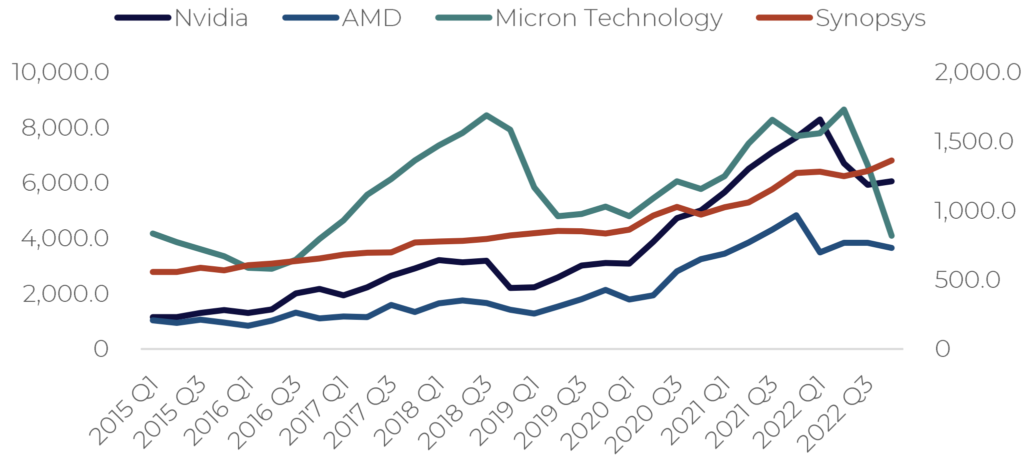
Yearly Revenue Trends Of Semiconductor Companies



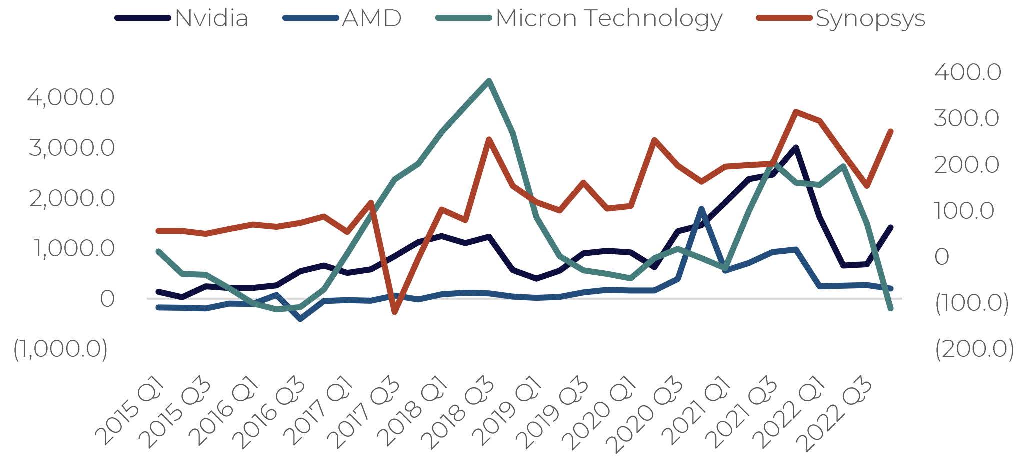
Operating Income Margins



Quarterly Revenues (Synopsys– right axis)

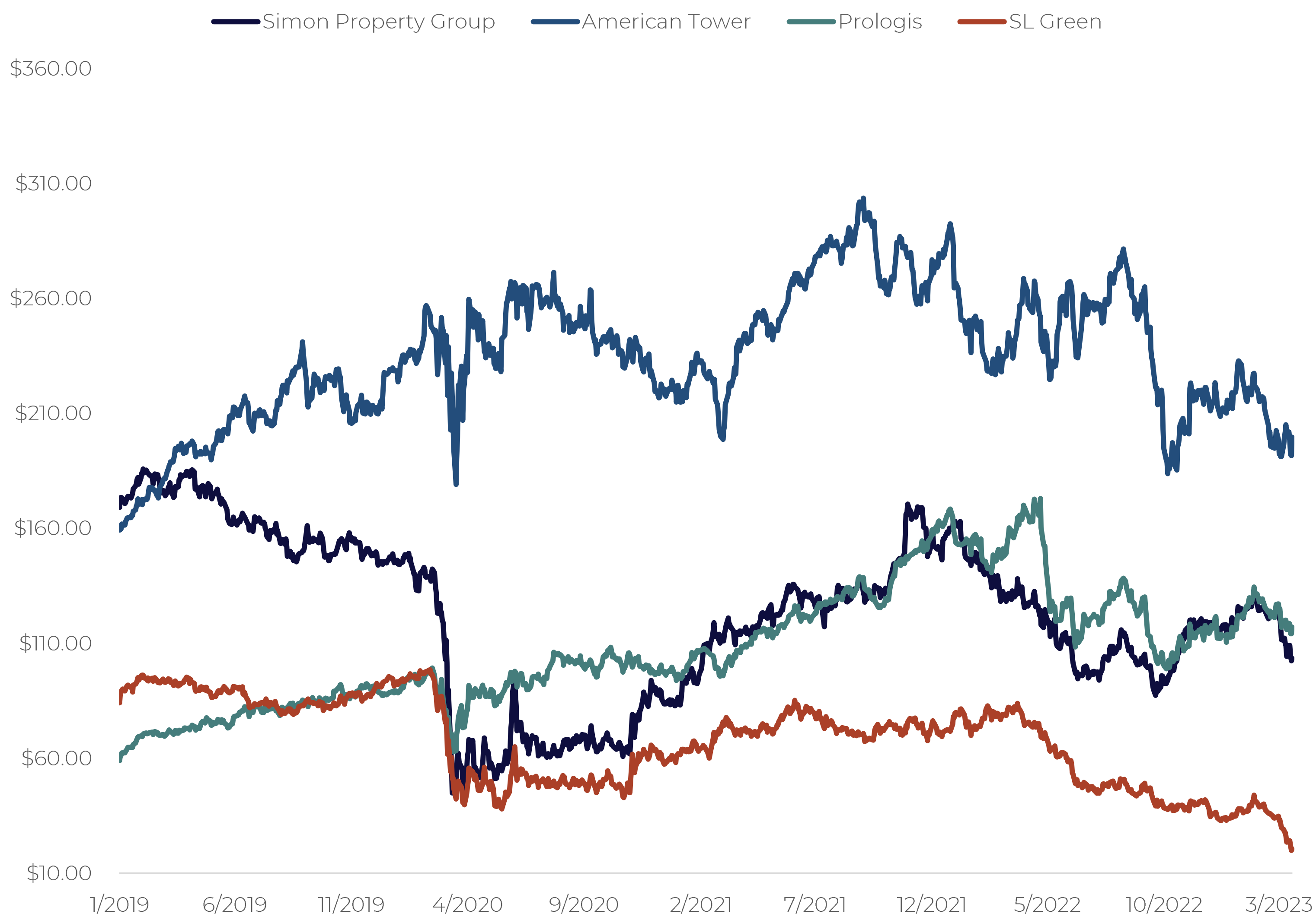


Quarterly Net Income (Synopsys– right axis)



Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

REITs Remain A Challenged Asset Class

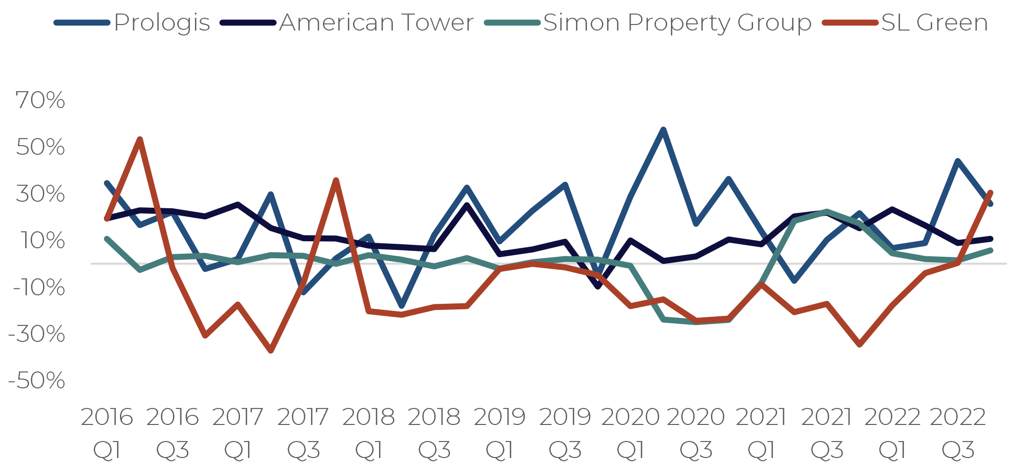


- Performance Numbers
  - 1-Month Return:
    - -15% Simon Property
    - 2% American Tower
    - -4% Prologis
    - -43% SL Green
  - 3-Month Return:
    - -12% Simon Property
    - -6% American Tower
    - 3% Prologis
    - -39% SL Green
  - 6-Month Return
    - 15% Simon Property
    - -13% American Tower
    - 8% Prologis
    - -51% SL Green

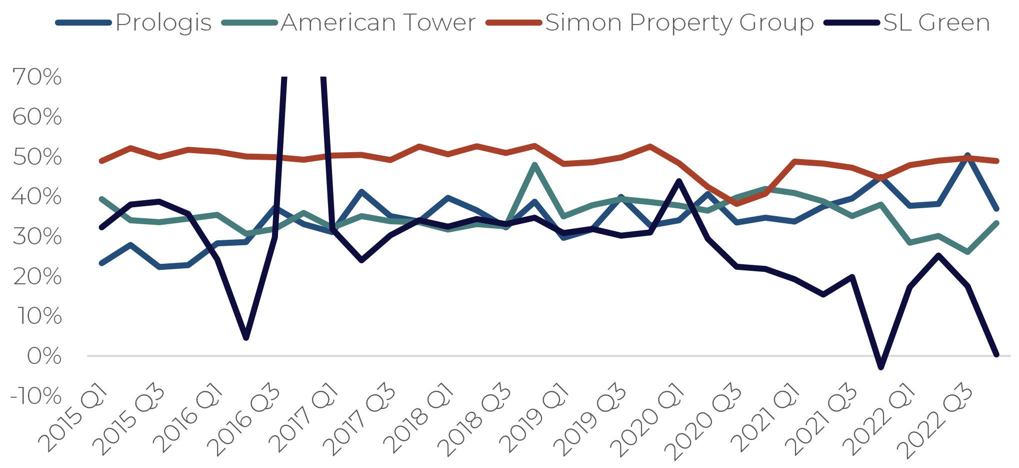
Sources: Blue Line Capital, Blue Line Futures

REITs Fundamental Trends

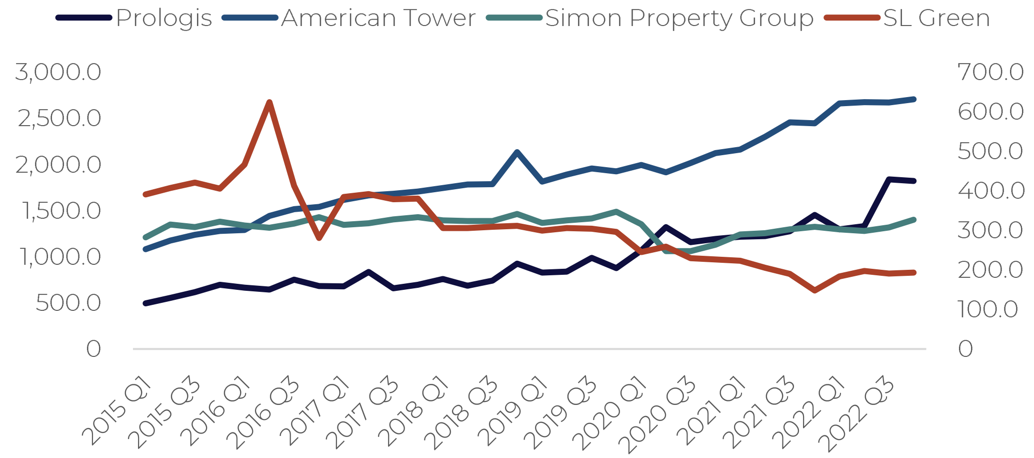
Yearly Revenue Trends Of REITs



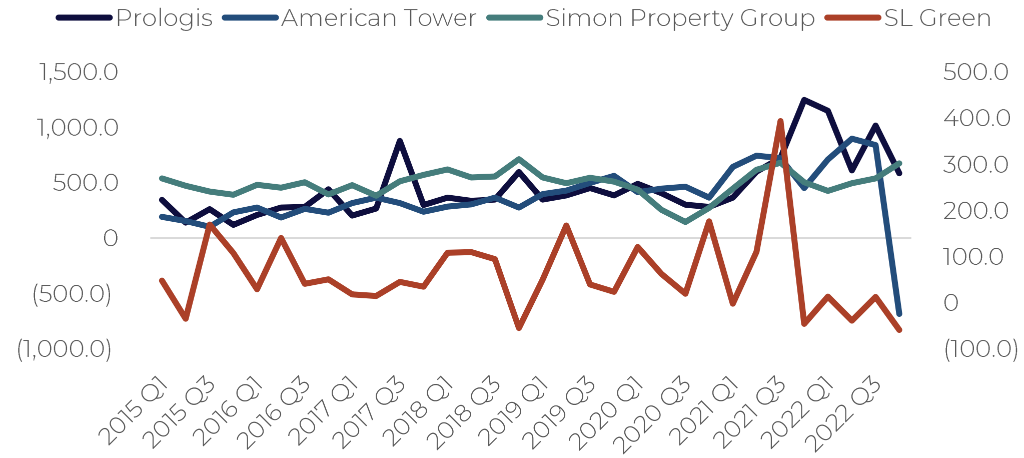
Operating Income Margins



Quarterly Revenues (SL Green– right axis)



Quarterly Net Income (SL Green– right axis)



Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Equity Trends Research

Micron Technology

American Express

Lennar

info@BlueLineCapLLC.com

Micron Technology

The Memory Chip Oligopoly

info@BlueLineCapLLC.com

Micron Earnings Highlights & Stock Performance

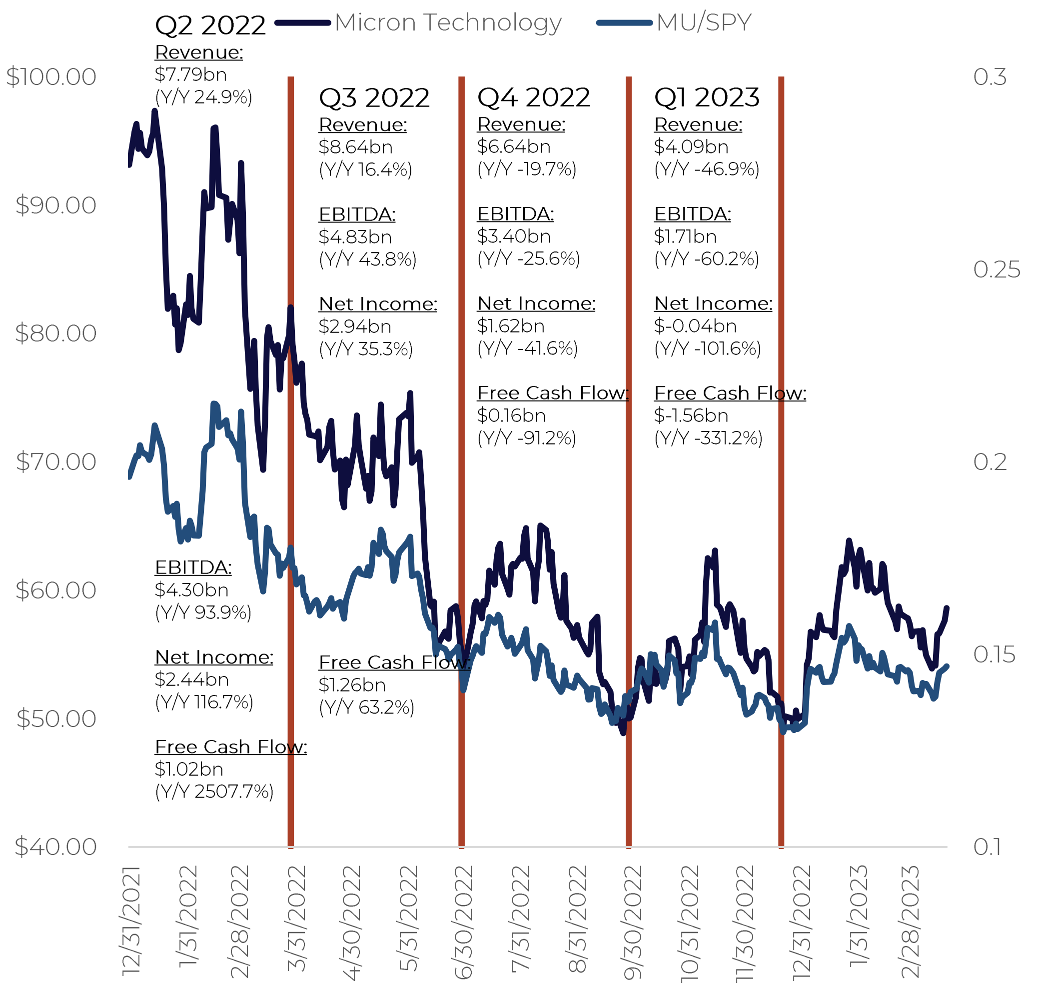
Management Commentary From Q1 2023 Earnings Call

- Supply & Demand: The industry is experiencing the most severe imbalance between supply and demand in both DRAM And NAND in the last 13 years. Micron is exercising supply discipline by making significant cuts to our CapEx and wafer starts. We expect most customers to have reduced inventory to relatively healthy levels by mid-calendar 2023.
- NAND & DRAM: We are first to market with 1-beta DRAM and 232-layer NAND. While both on 1-beta DRAM and 232-layer NAND offer strong cost reductions, we have slowed their ramps to better align our supply with market demand.
- Datacenter Memory: Cloud customers not immune to macroeconomic challenges. DDR5 is extremely important for data center customers as the industry begins to transition to this new technology in calendar Q1.
- CPU Bottlenecks: As modern servers pack more processing cores into CPUs, the memory bandwidth per CPU core has been decreasing. Micron D5 alleviates this bottleneck by providing higher bandwidth compared to previous generating.
- Pricing & Volume: DRAM revenue declined 41% sequentially with bit shipments decreasing in the mid-20% range and prices declining the low 20% range. Fiscal Q1 NAND revenue was $1.1bn, representing 27% of Micron's total revenue. NAND revenue declined 35% sequentially with bit shipments declining in the mid-teens % range and prices declining in the low 20% range.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	-22.65	3.9	-49.44	16.56	NA
TTM	11.01	2.46	-68.61	4.64	1.36
*Levered FCF					

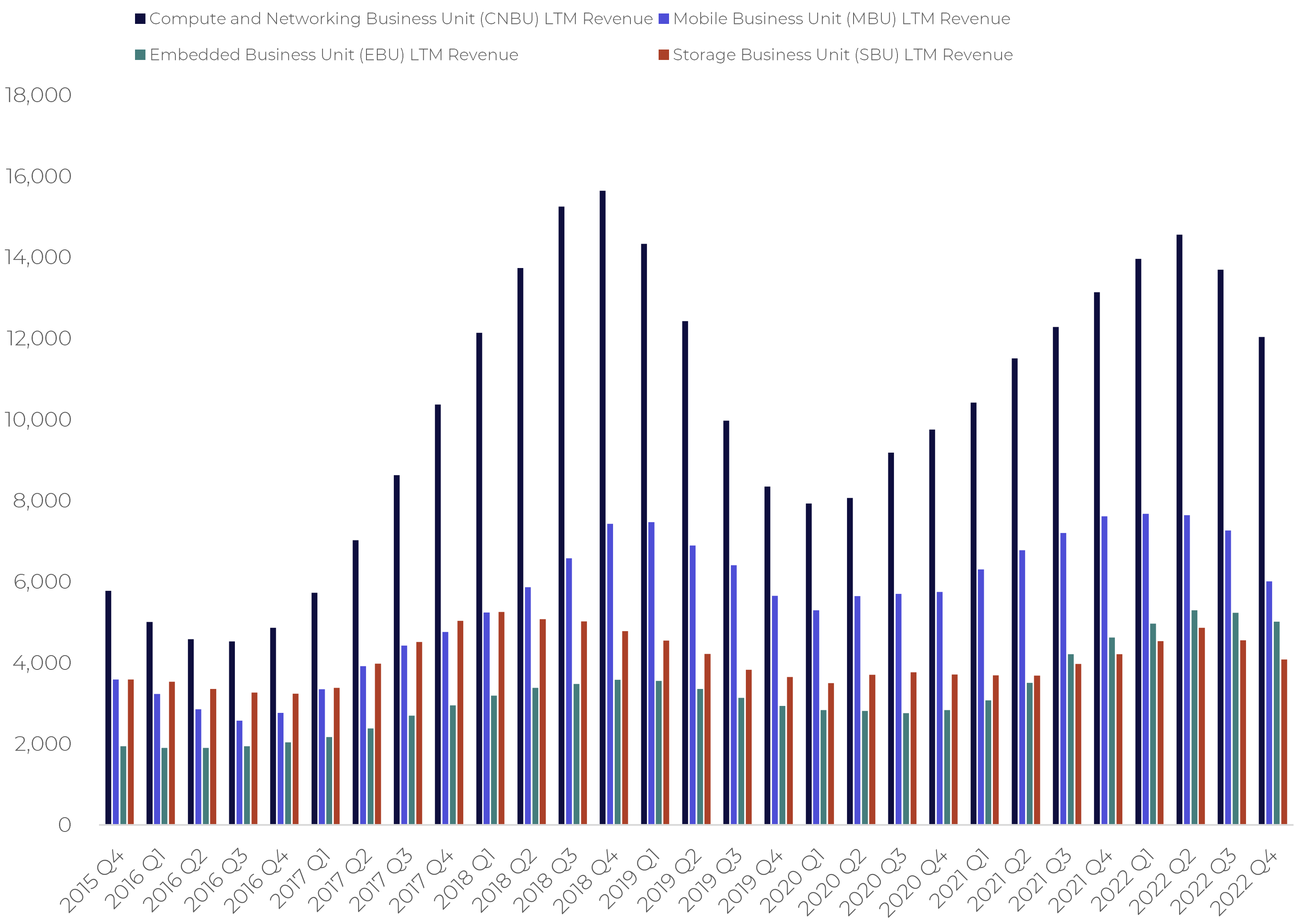
Sources: Micron IR, TIKR, Blue Line Capital

Quarterly Data



BLUE LINE CAPITAL

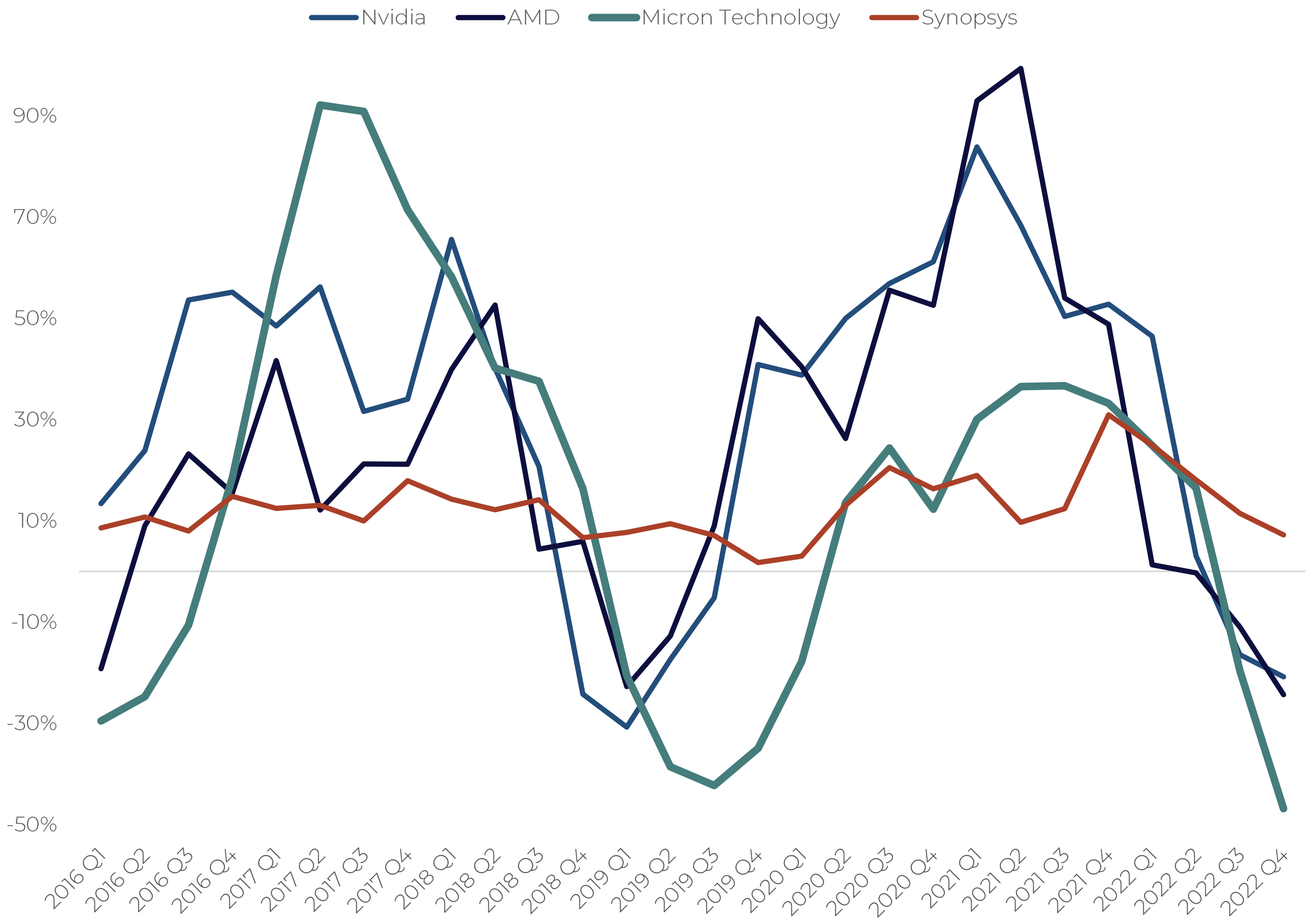
Micron's LTM Revenue Composition



- CNBU was 44% of revenue and 60% of operating profit over the last twelve months. It is also the most cyclical business of Micron.
  - Operating profit margins have contracted from 46% in Q2 2022 to 11% in Q4 2022.
- The companies mobile business unit ran at a -30% operating loss margin with Micron's storage business unit also generating an operating loss margin of -38% in Q4 (mobile tend to be in the high 20s/low 30s; storage in the high single digits/low 10s).

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

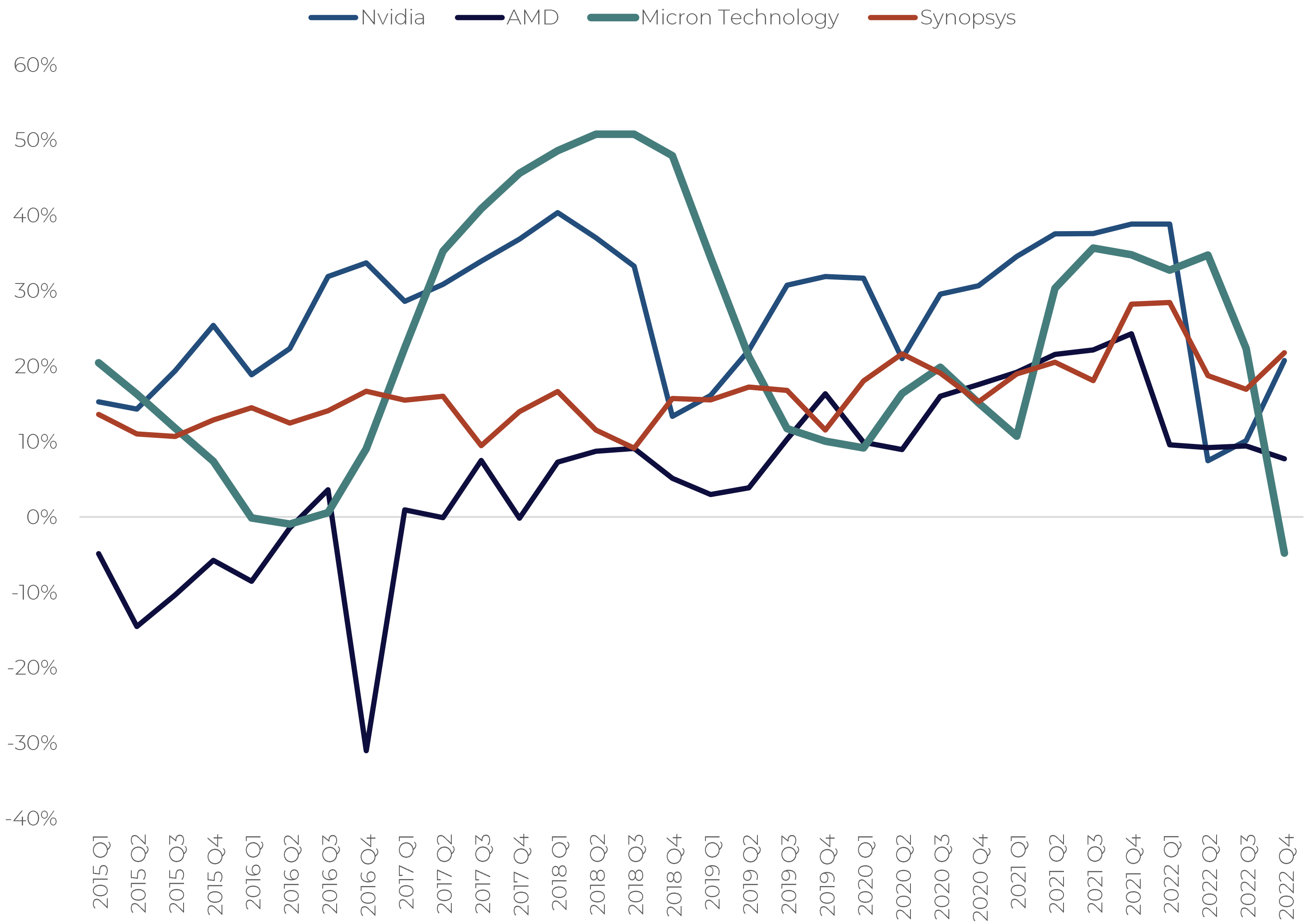
Semiconductors Cyclical Revenues



- Semiconductor Y/Y Revenue Numbers Decelerated In Q4:
  - Nvidia -21% (vs. -17% in Q3)
  - AMD -24% (vs. -11% in Q3)
  - Micron Technology -47% (vs. -20% in Q3)
  - Synopsys 7% (vs. 11% in Q3)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

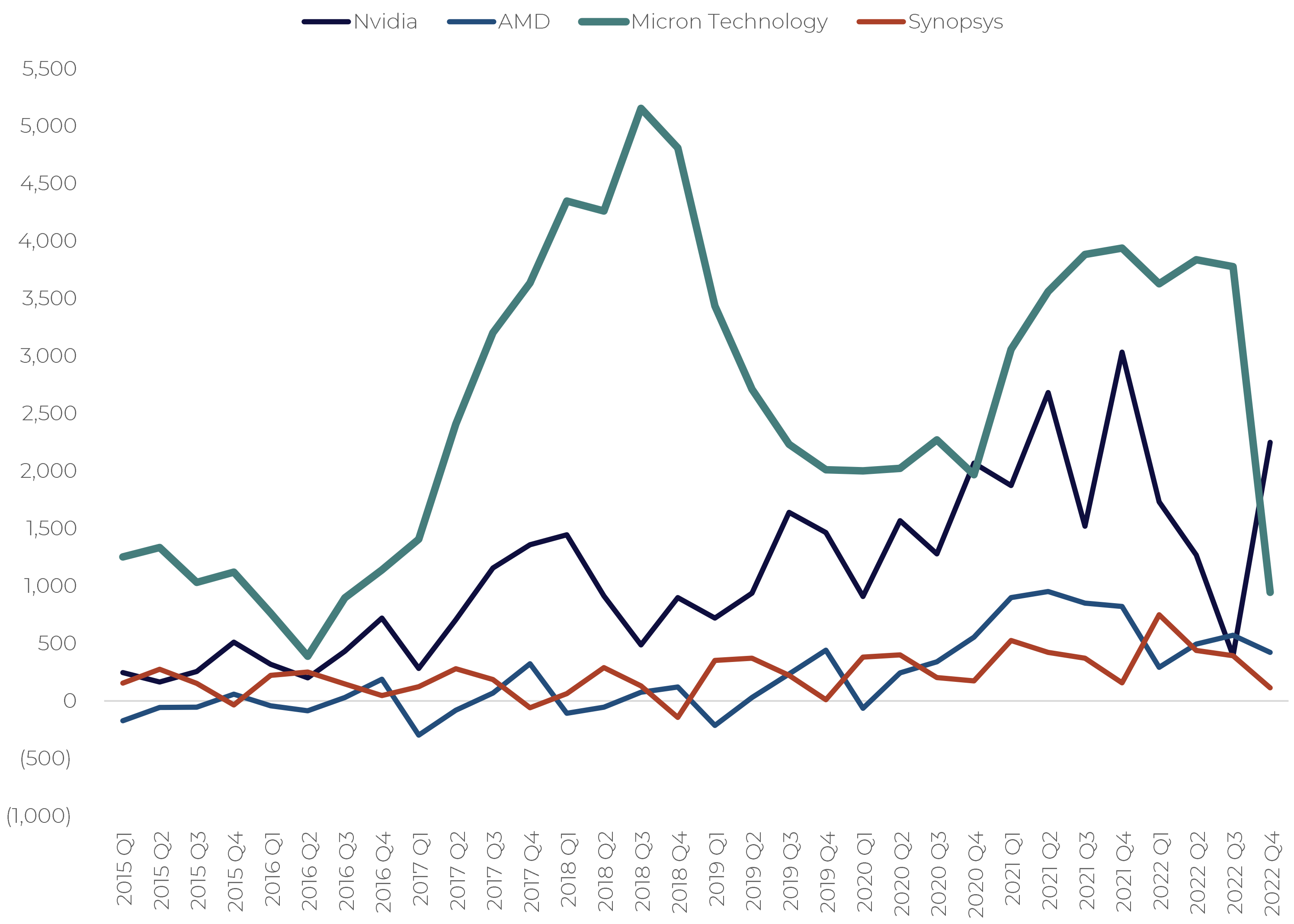
Micron's Operating Margin Collapsed



- Semiconductor Operating Income Margins in Q4:
  - Nvidia 21% (vs. 10% in Q3)
  - AMD 8% (vs. 9% in Q3)
  - Micron Technology -5% (vs. 22% in Q3)
  - Synopsys 22% (vs. 17% in Q3)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Micron's Cash From Operations In Free Fall



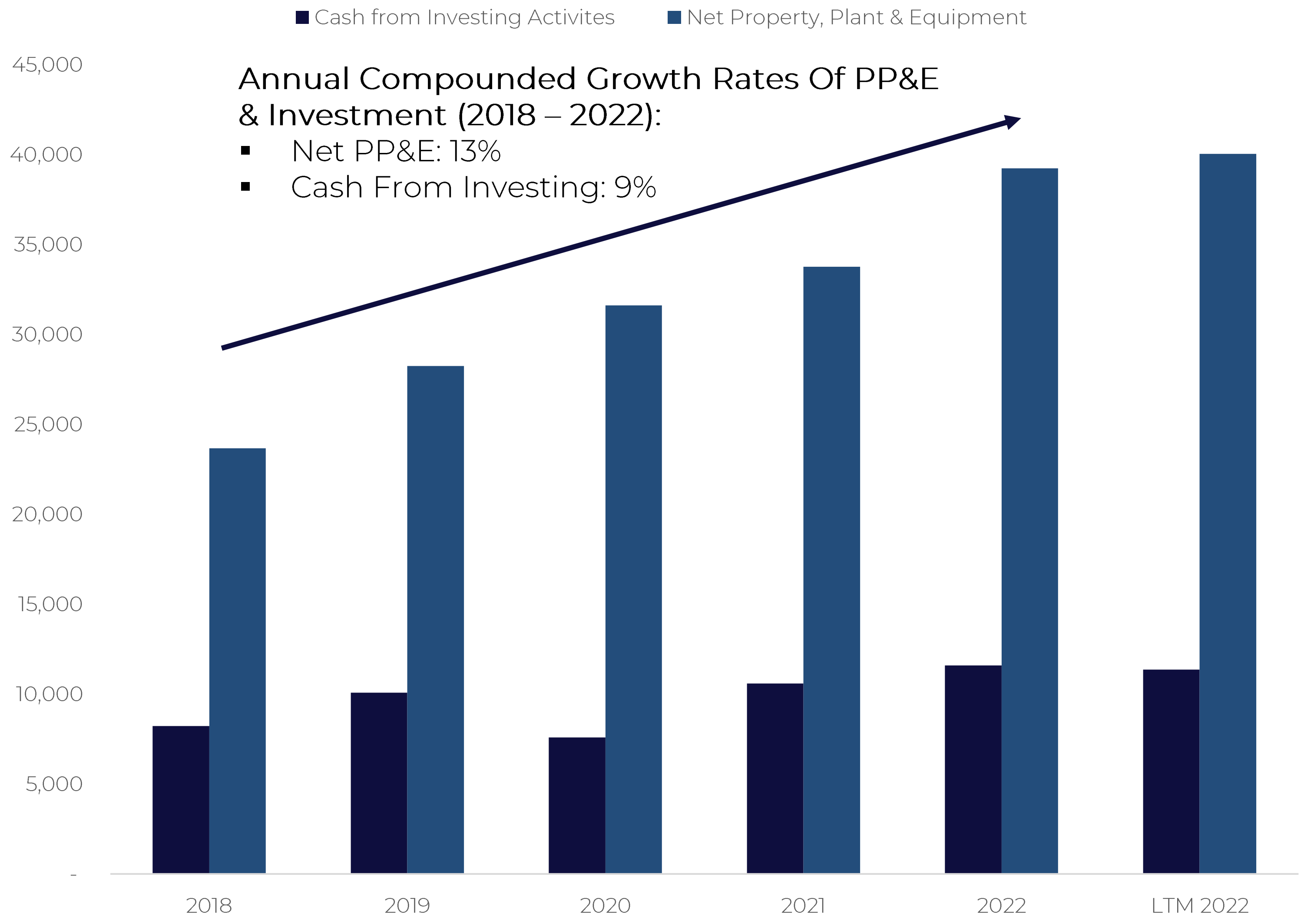
- Semiconductor Cash Flow From Operations in Q4:
  - Nvidia $2.25bn ($0.39bn Q3)
  - AMD $0.42bn ($0.57bn Q3)
  - Micron Technology $0.94bn ($3.80bn in Q3)
  - Synopsys $0.27bn ($0.15bn Q3)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Blue Line Capital maintains a long position in Micron.

BLUE LINE CAPITAL

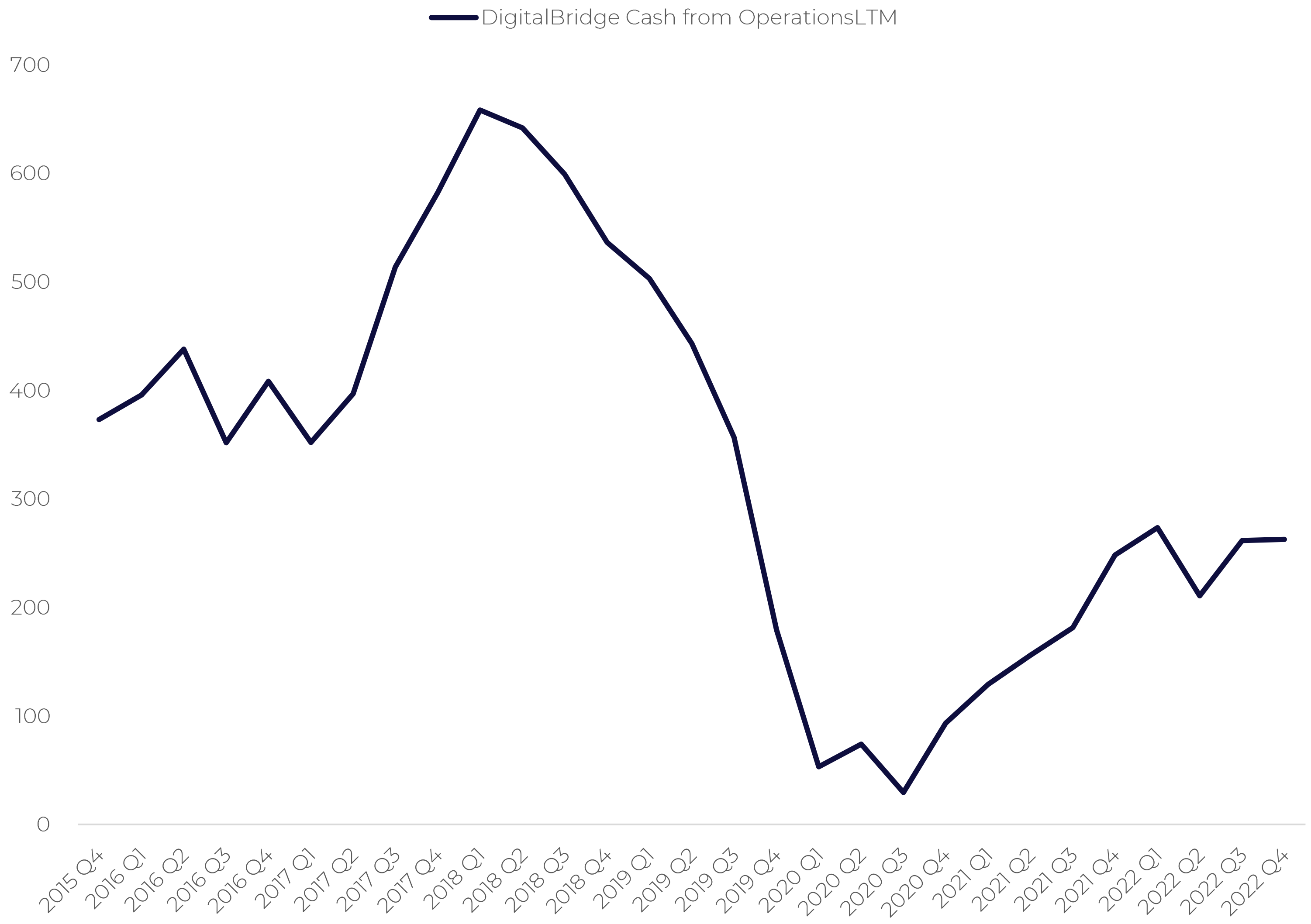
Micron's Spending Plans



- Micron guided for $7 - $7.5bn in capital expenditures for property, plant, ad equipment.
- Micron operates 11 manufacturing plants.
- Micron on its manufacturing expansion:
  - From 5G smartphones to the AI-enabled cloud, memory fuels everything that computes and is essential to growing the data economy. To address 2030-era demand for memory, Micron plans to invest more than $150bn globally in manufacturing and R&D over the next decade. – Micron

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

DigitalBridge



- DigitalBridge has 25 years of investing and operational experience across the digital economy, including cell towers, data centers, fiber, small cells, and edge infrastructure. The company manages a portfolio of digital infrastructure assets.
- DigitalBridge owns 35 datacenters and leases 49 of them globally.
- The stock price has declined from ~$32 at the end of 2021 to $11.4 as of March 27, 2023.
  - 12-month cash flows from operations have peaked below $700m, now less than $300m.
- Datacenter operators like Cyxtera have struggled significantly.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Micron Expectations & Returns

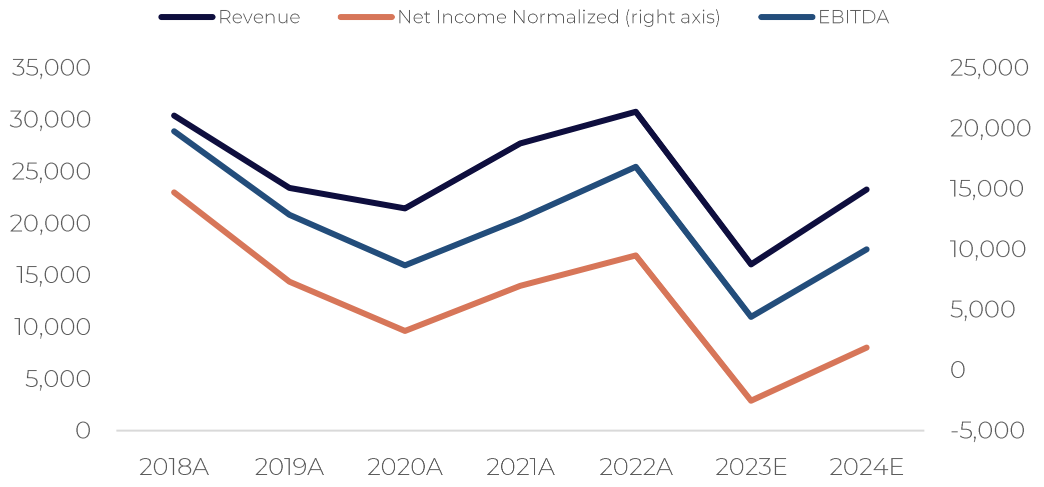
Return Ratios Compared To 2019

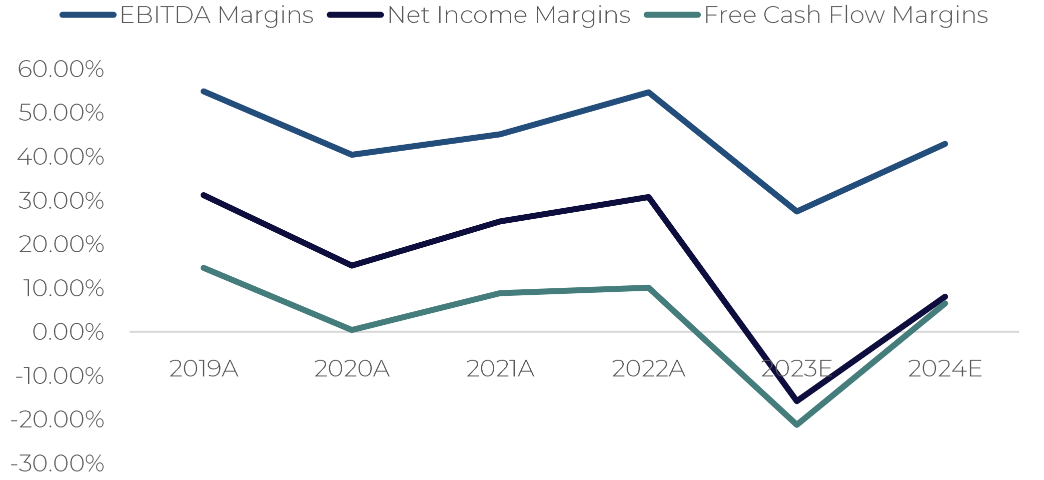
Return ratios and margins have contracted since 2019 in lieu of the latest slowdown in semiconductors.

		LTM	2019
Return Ratios	RoA	6.60%	10.00%
	RoC	11.30%	17.30%
	RoE	13.00%	18.50%
Margins	Gross Profit Margin	41.30%	45.70%
	EBITDA Margin	52.30%	54.70%
	Net Income Margin	22.80%	27.00%
	Levered Free Cash Flow Margin	-3.60%	5.90%
Asset Turnover	Asset Turnover	0.4	0.48
	Fixed Asset Turnover	0.72	0.9
	Receivables Turnover	6.96	5.98
	Working Capital Turnover	1.66	2.31
Solvency	Total Debt/Equity	22.20%	15.90%
	Total Debt/Capital	18.20%	13.70%
	EBITDA/Interest Expense	73.52	100.11
	(EBITDA - Capex)/Interest Expense	15.83	23.70

Sources: Micron IR, TIKR, Blue Line Capital

Revenue and Net Income Estimates





Micron Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Micron Technology (MU)	16.56	-22.65	15%	18%	0%
Nvidia (NVDA)	67.85	60.39	59%	109%	55%
Marvell (MRVL)	21.85	27.91	6%	-5%	-14%
AMD (AMD)	22.25	32.88	42%	38%	11%
Synopsys (SNPS)	26.19	34.97	13%	22%	20%
Intel (INTC)	13.37	55.01	6%	1%	-26%
Broadcom (AVGO)	12.79	15.2	13%	33%	26%
Median	21.85	32.88	13%	22%	11%
Mean	25.84	29.10	22%	31%	10%

Sources: TIKR, Google Finance, Blue Line Capital

Micron Chart

Sources: Trading View, Blue Line Capital

American Express

Consumer Lending Activity Status Update

info@BlueLineCapLLC.com

American Express Earnings Highlights & Stock Performance

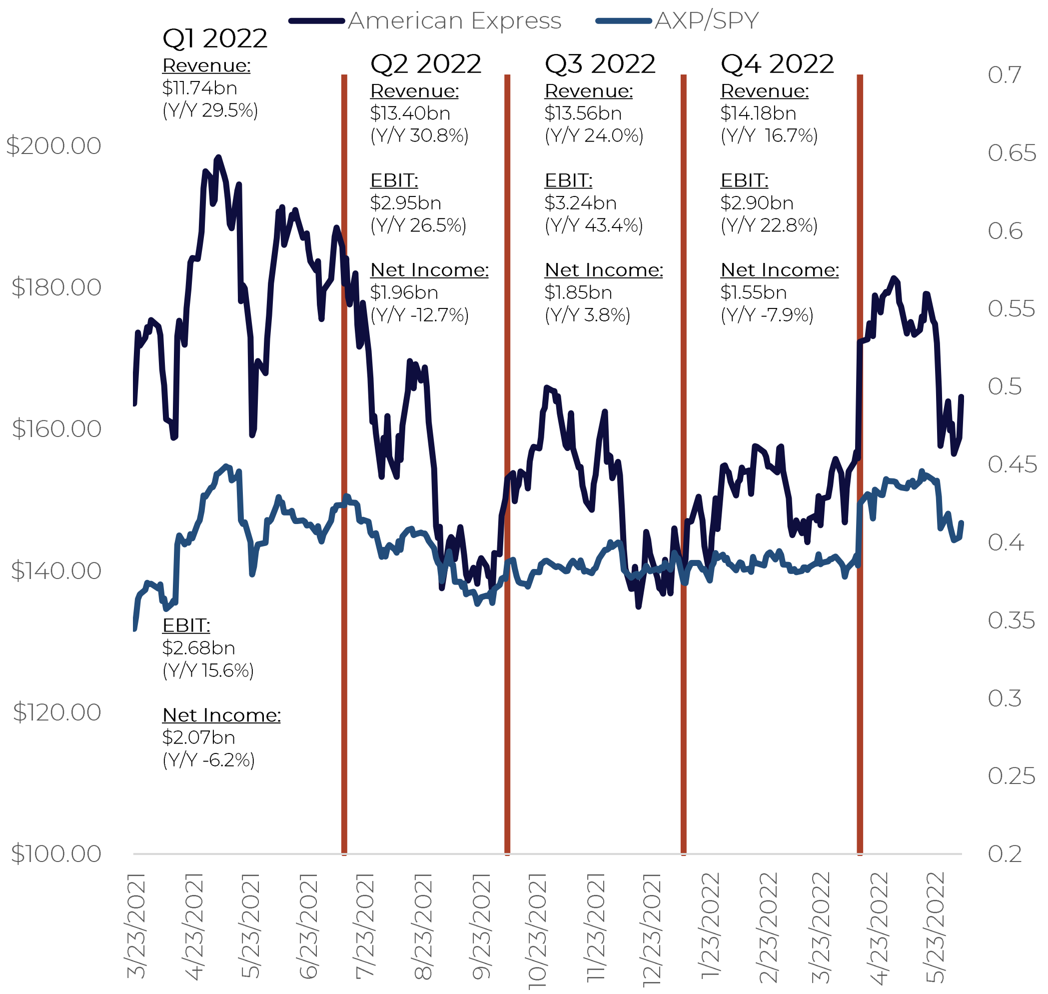
Management Commentary From Q4 2022 Earnings Call

- Quarterly Trends: Q4 billed business reached a record quarterly high of $357 billion and was up 25% for the full year demonstrating our continued ability to acquire, engage and retain high spending premium card members.
- Customer satisfaction: We were recognized by our customers for providing industry best products and services, ranking number one in customer satisfaction in both the 2022 J.D. Power U.S. consumer credit card study and the U.S. small business card study.
- Customer acquisition: We acquired 3 million new card members in the fourth quarter even as we increased already high credit thresholds through the year. For the full year, new card acquisitions reached a record level, growing at $12.5 million and nearly 70% of our new accounts acquired are on our fee-based products. Millennial and Gen Z customers continue to be the largest drivers of our growth, representing over 60% of proprietary consumer card acquisitions in the quarter and for the full year.
- Global Customers: Moving to our U.S. large and global corporate customers, the one small customer type that has not come back to pre-pandemic spend levels.

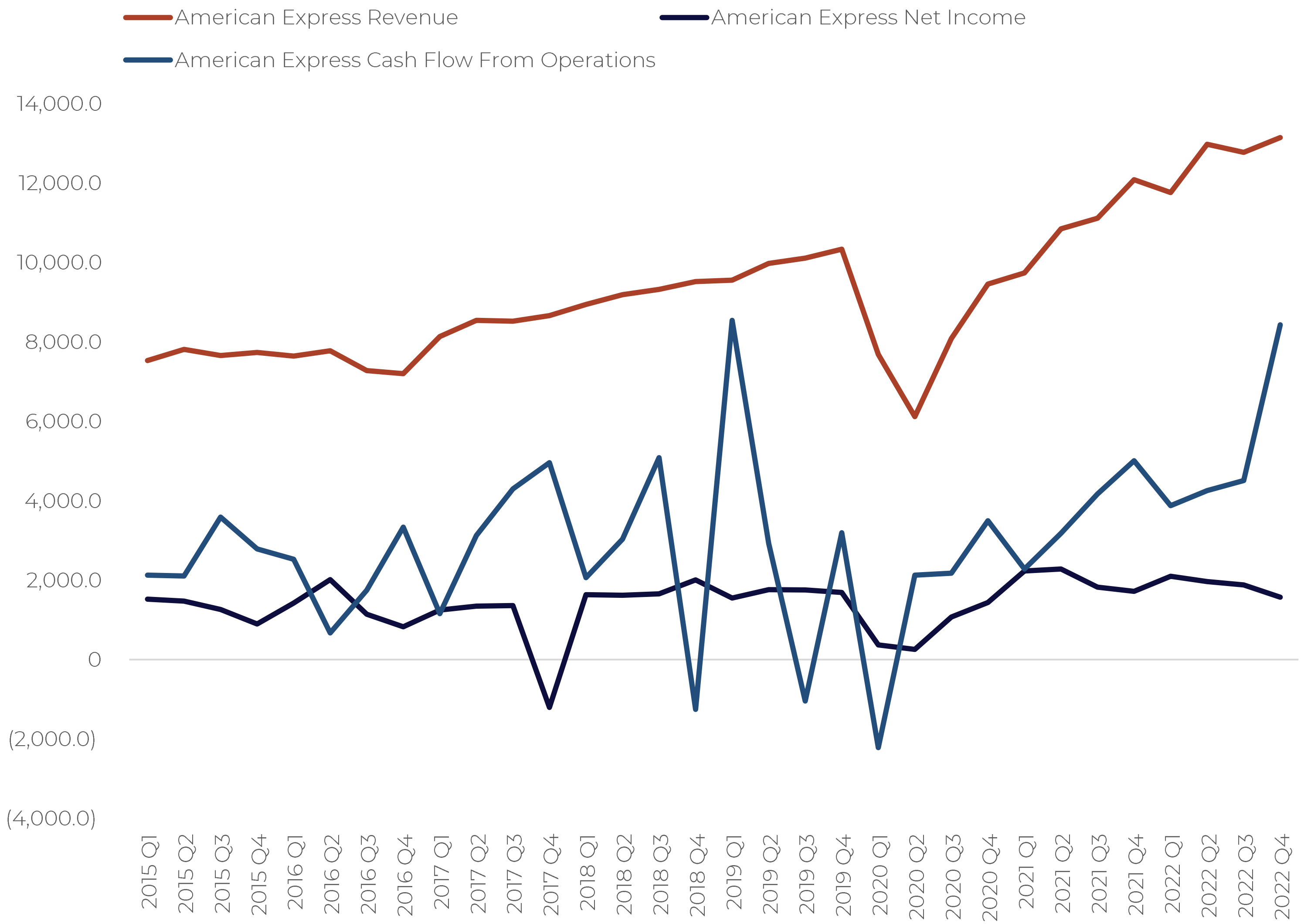
	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	14.6	2	NA	NA	NA
TTM	16.52	2.39	NA	NA	4.89
*Levered FCF					

Sources: American Express IR, TIKR, Blue Line Capital

Quarterly Data



American Express Financial Performance



- Yearly revenue growth of 9% in Q4 2022, moderating significantly from prior quarters.
- Net Income contracted by 9% Y/Y
- Cash flow from operations accelerated by 68% Y/Y in Q4

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Blue Line Capital no position in American Express.

Higher Fees Are Not Deterring Customers

A higher Amex Platinum annual fee

These new perks, credits and discounts are accompanied by a new higher annual fee on the Amex Platinum. Starting July 1, 2021, the card will have an annual fee of $695, up from the previous $550 (see rates and fees). For card members who opened their accounts prior to July 1, 2021, the new annual fee will take effect on your annual renewal date on or after January 1, 2022.

PAYMENTS DIVE   Deep Dive   Opinion   Library   Events   Topics

Strategy shift

In the past, Amex employed a "low and grow" strategy, bringing on young customers with no-fee products and tightly controlled credit lines, and moving them to fee-bearing cards over time. Realizing it was leaving money on the table, the company changed its approach several years ago, opening up premium cards to younger customers.

- American Express raised the fee for its Amex Platinum from $550 to $695/year in 2021.
  - Customers welcomed the higher fee in exchange for more benefits (Source: CNN)
    - $200 statement credit for prepaid bookings at Amex Fine Hotels
    - $189 statement credit for a CLEAR membership (expedited security screenings at airports)
    - Up to $300 in annual statement credit on purchase of select Equinox Fitness Club memberships

Sources: CNN, PaymentsDive, Blue Line Capital, Blue Line Futures

American Express Adoption By Millennials and GenZ

Today's young people differ from yesterday's.

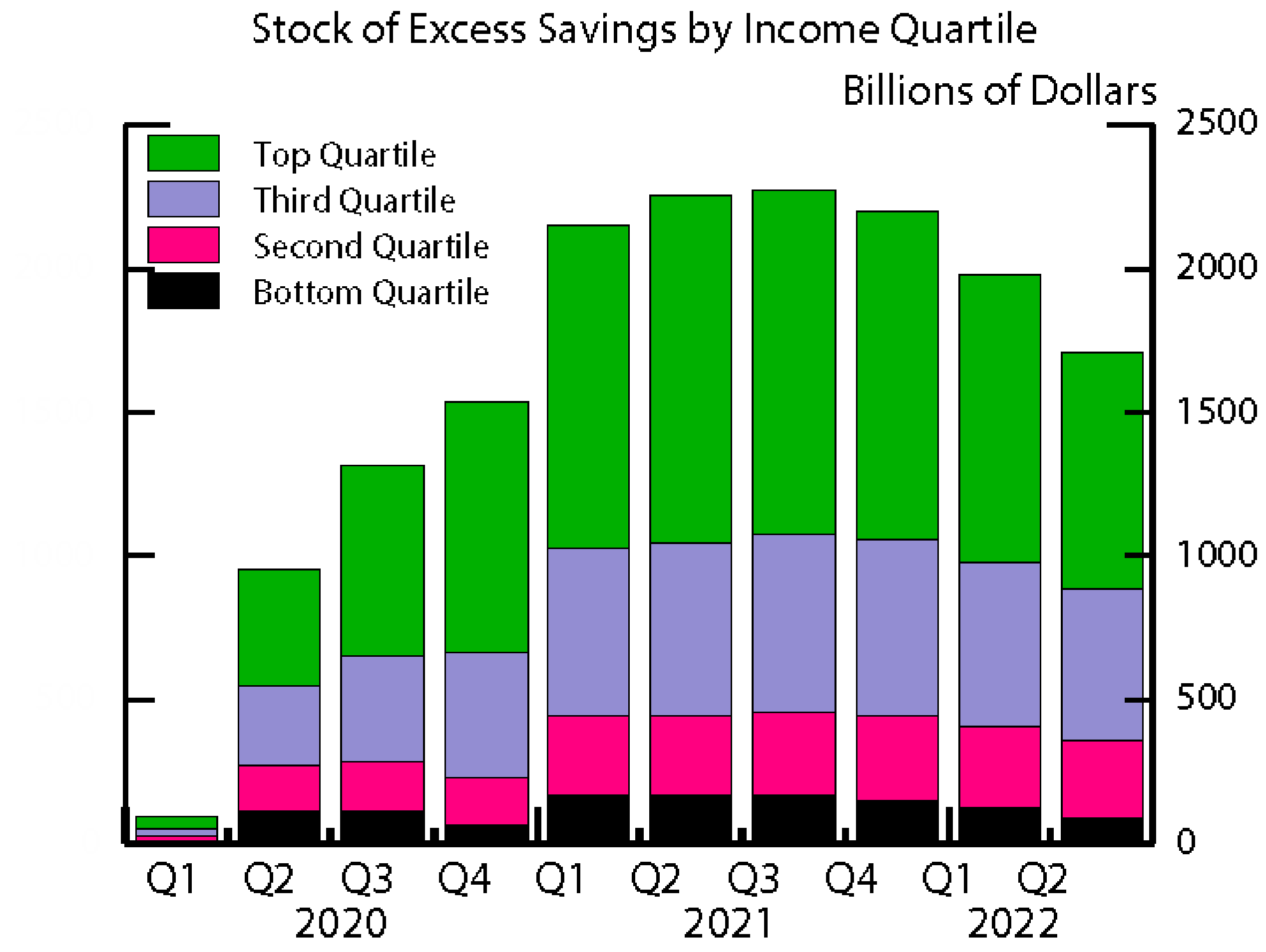
	B Baby boomer 1940–59	X Gen X 1960–79	Y Gen Y (millennial) 1980–94	Z Gen Z 1995–2010
Context	• Postwar • Dictatorship and repression in Brazil	• Political transition • Capitalism and meritocracy dominate	• Globalization • Economic stability • Emergence of internet	• Mobility and multiple realities • Social networks • Digital natives
Behavior	• Idealism • Revolutionary • Collectivist	• Materialistic • Competitive • Individualistic	• Globalist • Questioning • Oriented to self	• Undefined ID • "Communaholic" • "Dialoguer" • Realistic
Consumption	• Ideology • Vinyl and movies	• Status • Brands and cars • Luxury articles	• Experience • Festivals and travel • Flagships	• Uniqueness • Unlimited • Ethical

McKinsey&Company

- Over 75% of the new people we brought into the franchise in 2022 were Millennial and Gen Z. And while we've always had some portion of our customer base that were young, you are correct if I went back 20 years, Sanjay, it would not be that high a number. And I would say probably starting, if you go back kind of 7, 8 years ago, we began to realize that we needed to do a better job of being attractive to that younger demographic. – Jeffrey Campbell, American Express CFO, KBW Fintech Conference

Sources: McKinsey, Blue Line Capital, Blue Line Futures

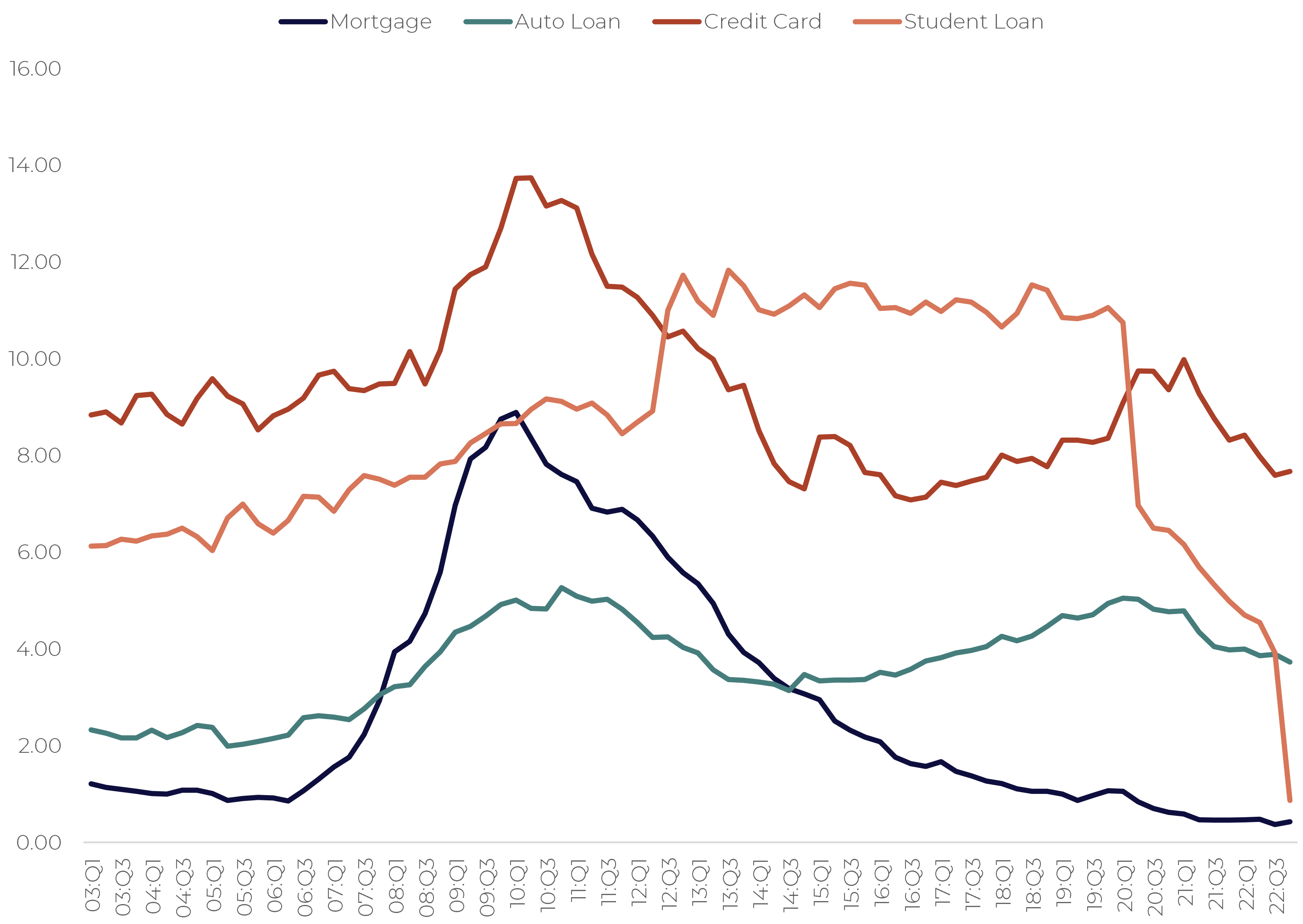
American Express Serves Affluent Clients With High Savings



- Excess savings from transfer payments are concentrated in the top quartiles of the income distribution; the people that American Express serves.

Sources: Fed, Blue Line Capital, Blue Line Futures

Credit Card Delinquency Rates Remain Low



- 90day+ delinquency rates across sectors have remained extremely low despite layoff announcements by firms.
- Delinquency Rates Comparison [Q4 2022 - Q4 2019] (%)
  - Mortgage [0.43 - 1.07]
  - Auto Loan [3.73 - 4.94]
  - Credit Card [7.67 - 8.36]
  - Student Loan [0.87 - 10.75]

Sources: Fed, Blue Line Capital, Blue Line Futures

American Express Expectations & Returns

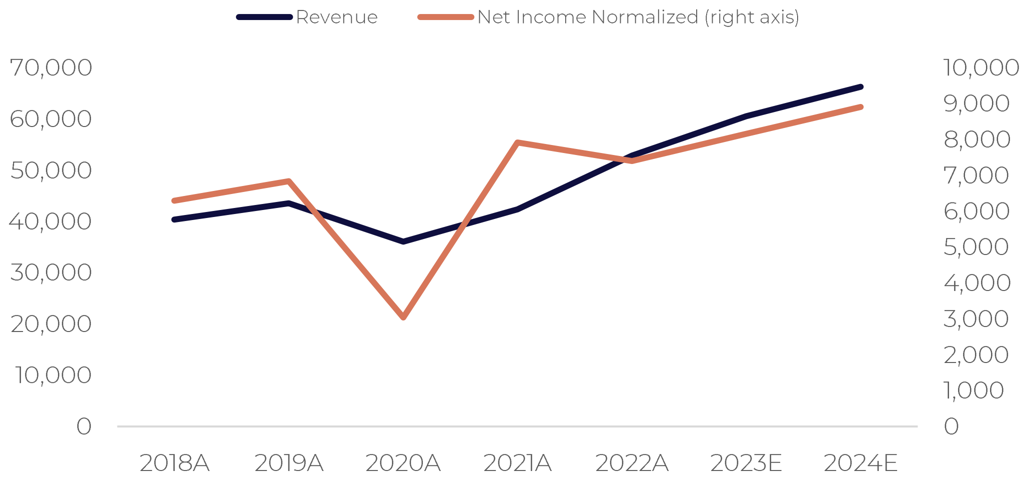
Return Ratios Compared To 2019

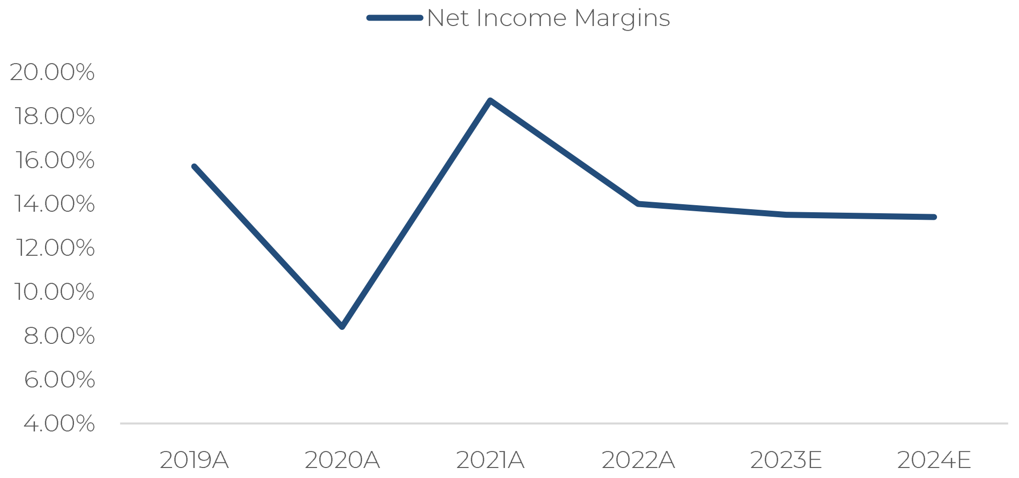
Return ratios have remained rock-solid since 2019 while margins have contracted since pre-Covid.

		LTM	2019
Return Ratios	RoA	3.60%	3.50%
	RoC	NA	NA
	RoE	32.10%	29.80%
Margins	Gross Profit Margin	56.80%	68.30%
	EBITDA Margin	NA	NA
	Net Income Margin	14.80%	16.90%
	Levered Free Cash Flow Margin	NA	NA
Asset Turnover	Current Ratio	1.51	1.75
	Quick Ratio	1.5	1.75
	Receivables Turnover	NA	NA
	Working Capital Turnover	NA	NA
Solvency	Total Debt/Equity	183.00%	280.10%
	Total Debt/Total Assets	89.20%	88.40%
	EBITDA/Interest Expense	NA	NA
	(EBITDA-Capex)/Interest Expense	NA	NA

Sources: American Express IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates





BLUE LINE CAPITAL

American Express Valuation Vs. Peers

	NTM P/S	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
American Express (AXP)	2	14.6	12%	15%	14%
Mastercard (MA)	13.45	29.01	3%	19%	8%
Visa (V)	13.82	25.72	7%	19%	9%
Discover Financial (DFS)	1.6	6.88	1%	4%	0%
Capital One (COF)	0.93	6.18	5%	-1%	-14%
SoFi (SOFI)	2.75	*-24.6	20%	4%	-6%
Synchrony Financial (SYF)	0.94	5.44	-10%	1%	2%
Median	2.00	10.74	5%	4%	2%
Mean	5.07	14.64	5%	9%	2%

Sources: TIKR, Google Finance, Blue Line Capital

American Express Chart

Sources: Trading View, Blue Line Capital

Lennar

Home Buyer Sentiment & Regional Bank Lending

info@BlueLineCapLLC.com

Lennar Highlights & Stock Performance

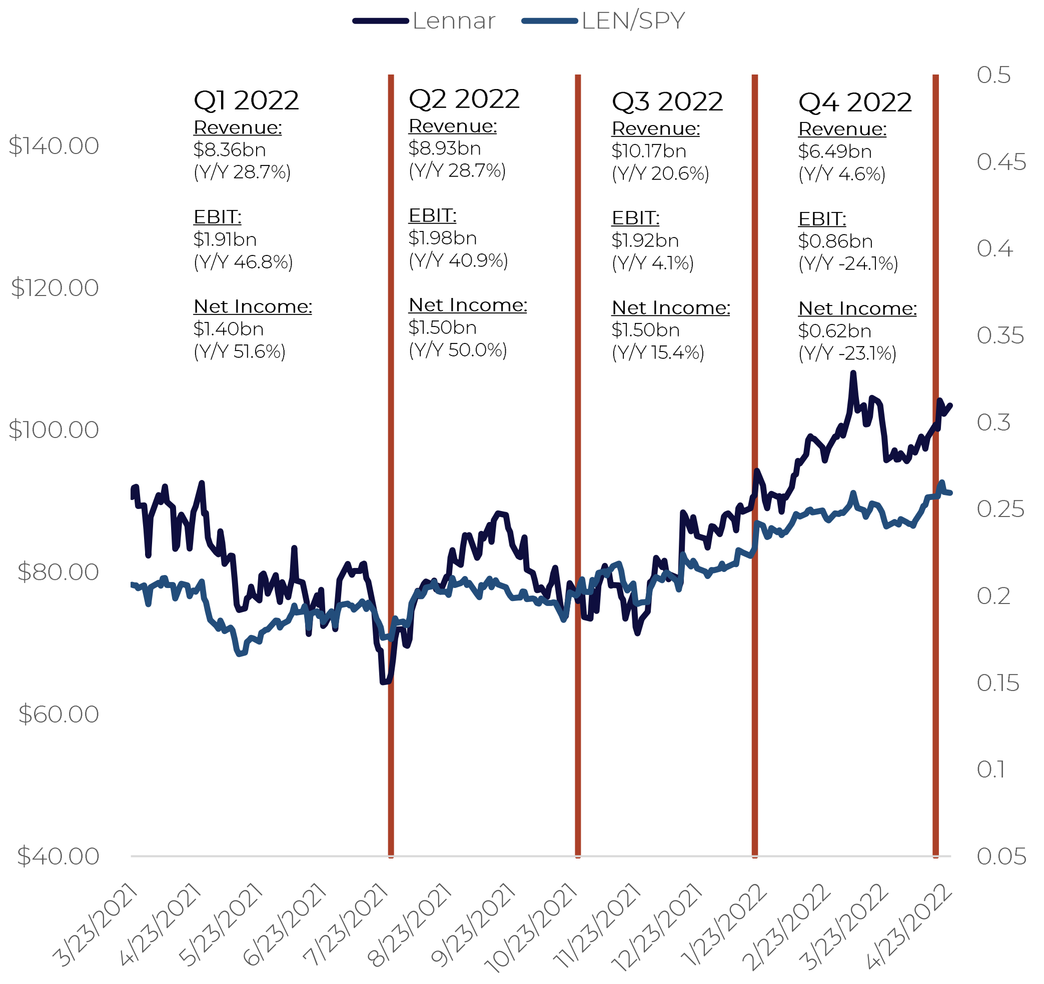
Management Commentary From Q4 2022 Earnings Call

- Cancellations: Our first quarter cancellation rate improved to 21.5%. While this is higher than the 10.2% last year, it is decidedly lower than the 26% last quarter and has been falling in each consecutive month.
- Margins: We saw our margins fall to 21.2%, reflecting sales from prior quarters and adjustments to backlog. While margins fell 360 basis points over the prior quarter and 570 basis points year-over-year, they reflected the use of price reductions and incentives that is closing cost payments and interest rate buy-downs. While there continues to be a lag in those reductions coming through our reported numbers, in the back half of the year, cost reductions will improve lagging margins.
- Inventory & migration: Very limited new home inventory exists, limited existing home supply exists as existing homeowners hold on to extremely low mortgage rates. Improved cycle time will improve our inventory turn, which now stands at 1.2.
    - We have no category 3 markets. During the first quarter and so far in March, we had 10 markets that are performing well. These are Southeast Florida, Southwest Florida, Tampa, Palm Atlantic, New Jersey, Philly Metro, Charlotte, Coastal Carolinas, Indi and San Diego.
    - These markets are benefitting from extremely low inventory and many are benefiting from strong local economy, employment growth and migration.

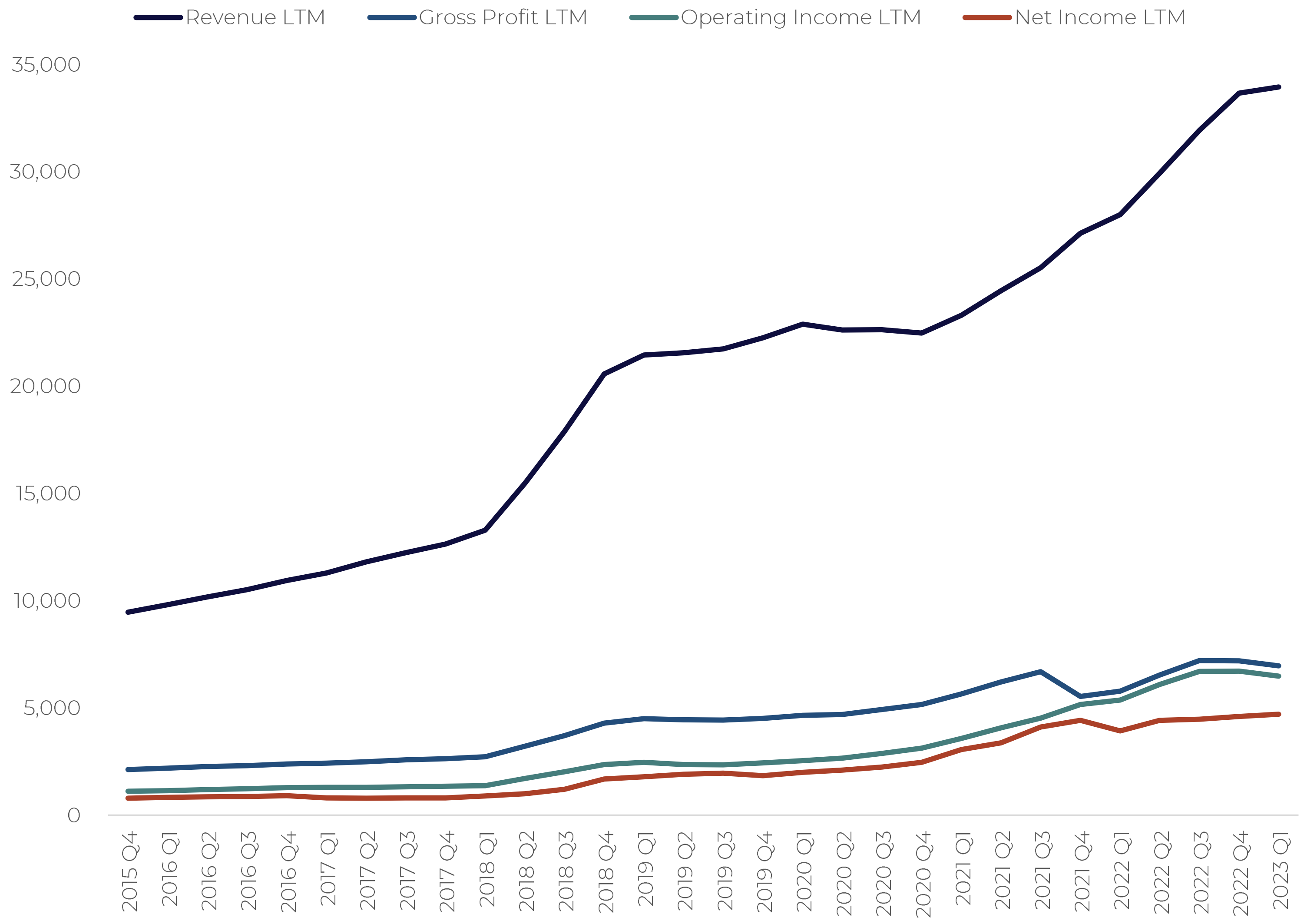
	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	10.72	1.03	7.89	7.33	NA
TTM	6.4	0.86	NA	4.47	1.21
*Levered FCF					

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

Quarterly Data



Lennar Financial Performance



- Compounded Revenue Growth Since Q4 2015
  - Revenue LTM: 19%
  - Gross Profit LTM: 17%
  - Operating Income LTM: 26%
  - Net Income: 27%
- Margins Have Compressed Recently:
  - Net income margin declined from 16% in Q3 2022 to 9% in Q1 2023 (but up from 8% in Q1 2022)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Suburban Home Activity Trends In The East & West

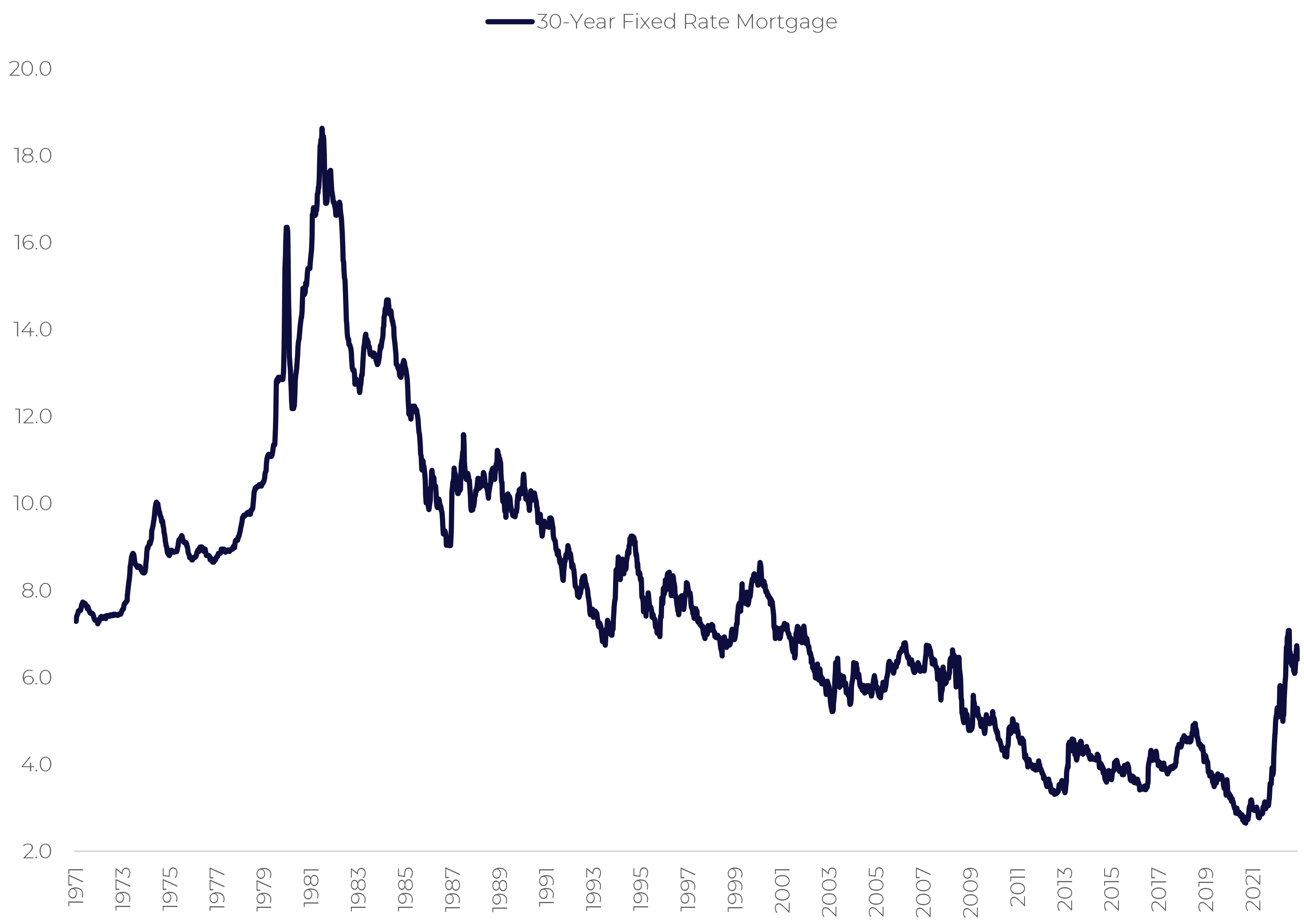
East: Alabama, Florida, New Jersey, Pennsylvania and South Carolina
Central: Georgia, Illinois, Indiana, Maryland, Minnesota, North Carolina, Tennessee and Virginia
Texas: Texas
West: Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah and Washington
Other: Urban divisions

	At February 28,		For the Three Months Ended February 28,					
	2023	2022	2023	2022	2023	2022	2023	2022
New Orders:	Active Communities		Homes		Dollar Value		Average Sales Price	
East	346	347	4,277	4,910	$ 1,851,896	2,133,056	$ 433,000	434,000
Central	293	298	2,305	3,112	970,098	1,402,138	421,000	451,000
Texas	219	216	3,142	2,766	879,456	921,785	280,000	333,000
West	356	340	4,465	4,954	2,708,326	3,335,932	607,000	673,000
Other	3	3	5	5	3,686	4,628	737,000	926,000
Total	1,217	1,204	14,194	15,747	$ 6,413,462	7,797,539	$ 452,000	495,000

- Dollar value of home deliveries has gone down, and so has quantity.
- The average sales price in the East has declined by $1,000, down by $30,000 in Central, down $53,000 in TX, and down by $70,000 in the West.

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

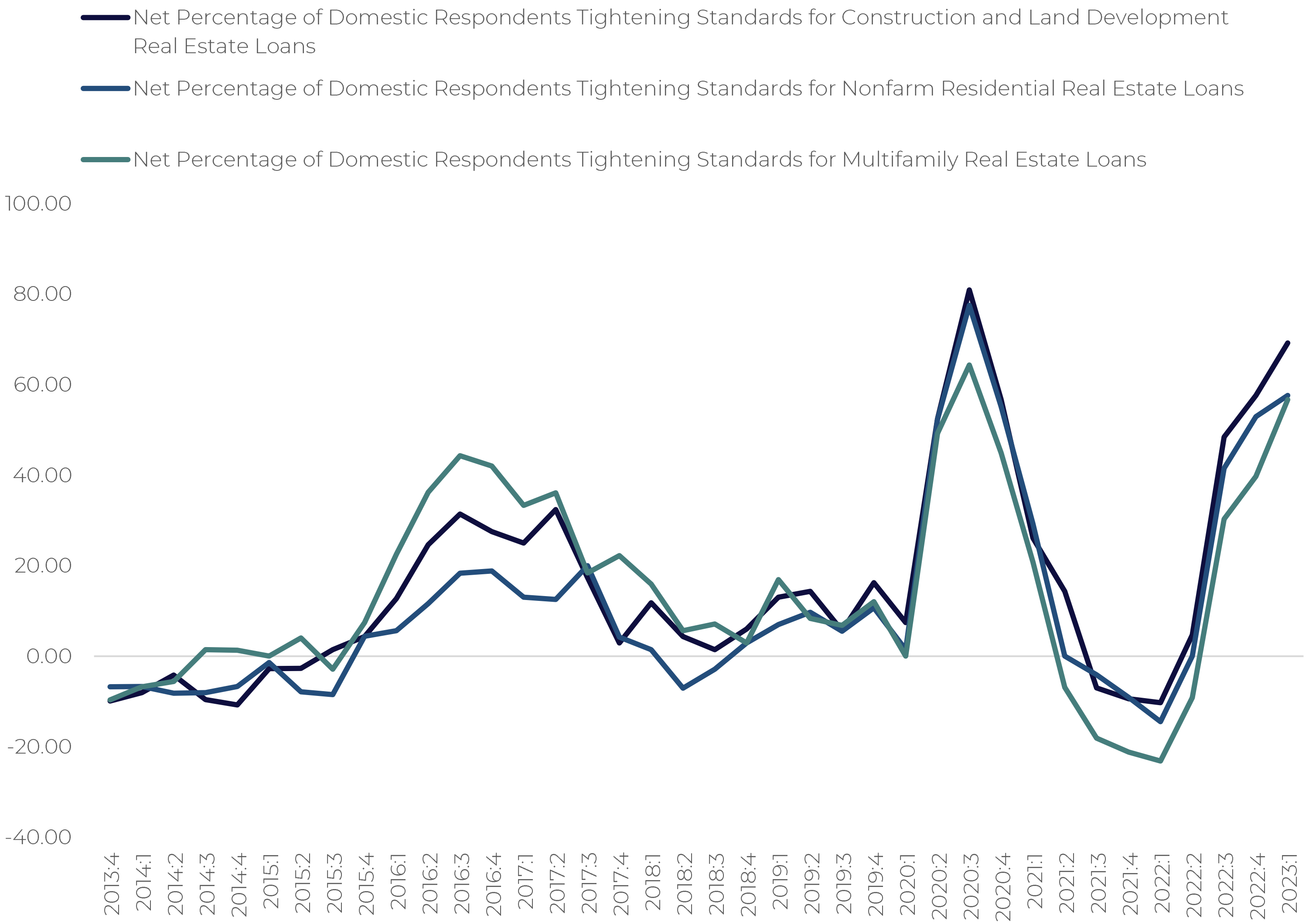
30-Year Fixed Rate Mortgage



- 30-year fixed mortgage rates have risen from the high 2s/low3s in 2020 to 6.4% as of last week.

Sources: FRED, Blue Line Capital, Blue Line Futures

Tighter Lending Standards In Real Estate

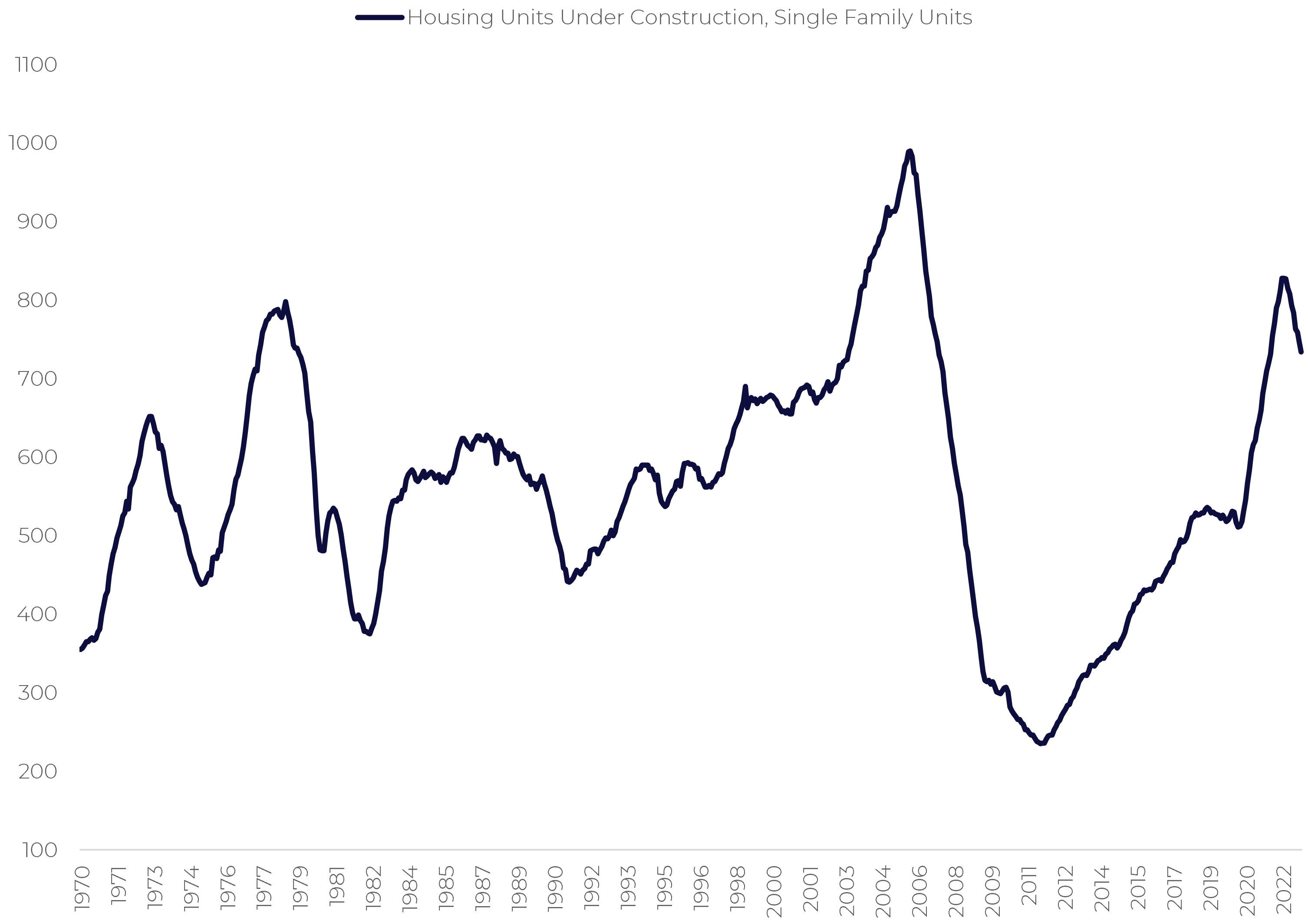


- 69.2% of senior loan officers indicate that they're tightening lending standards for construction and land development loans, the highest since October 2020 (on a net basis.)
- Multifamily homes lending standards have seen the steepest acceleration of tightening at 56.7% (on a net basis.)

Sources: Fed, Blue Line Capital, Blue Line Futures

Blue Line Capital maintains no position in Lennar.

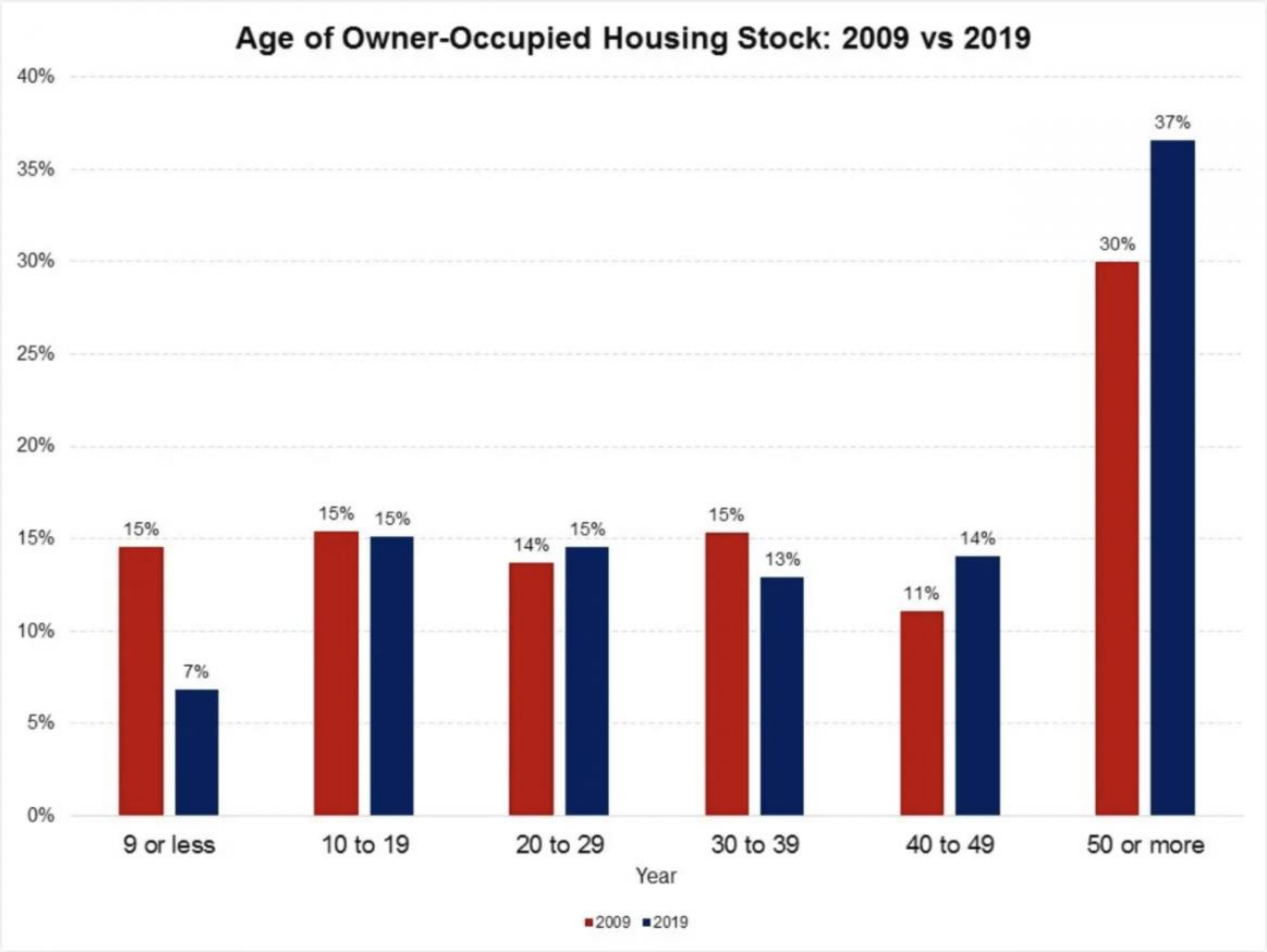
Single-Family Construction Declining



- Single family units under construction has declined from 828k units under construction in April 2022 to 734k units in February.
- Prior peaks:
  - 983k units in 2006
  - 789k in 1978
  - 652k in 1973

Sources: FRED, Blue Line Capital, Blue Line Futures

Suburban Home Activity Trends In The East & West

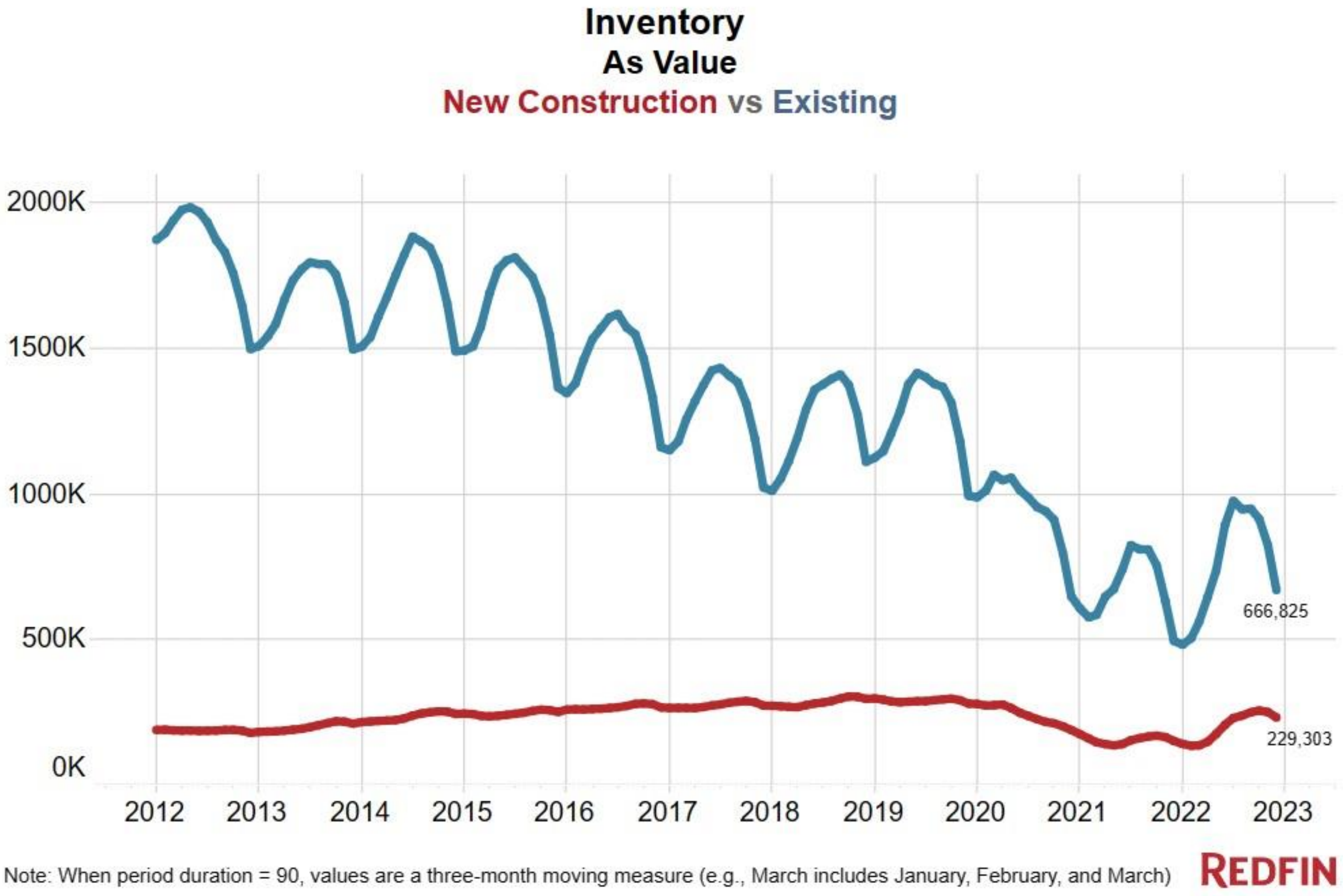


- It is estimated that the average age of the U.S. home is above 40 years, up significantly from 29 years in 1995 (according to Moody's).
- Today's housing shortage represents 1.5 years of underbuilding (Moody's).

Sources: National Association of Realtors, Blue Line Capital, Blue Line Futures

Blue Line Capital maintains no position in Lennar.

The Decline Of Existing Housing Inventory



- Existing housing inventory has fallen from close to 2 million units to 666,825 (all of residential.)
- More construction required to meet demand from first-time home buyers.

Sources: Redfin, Blue Line Capital, Blue Line Futures

Lennar Expectations & Returns

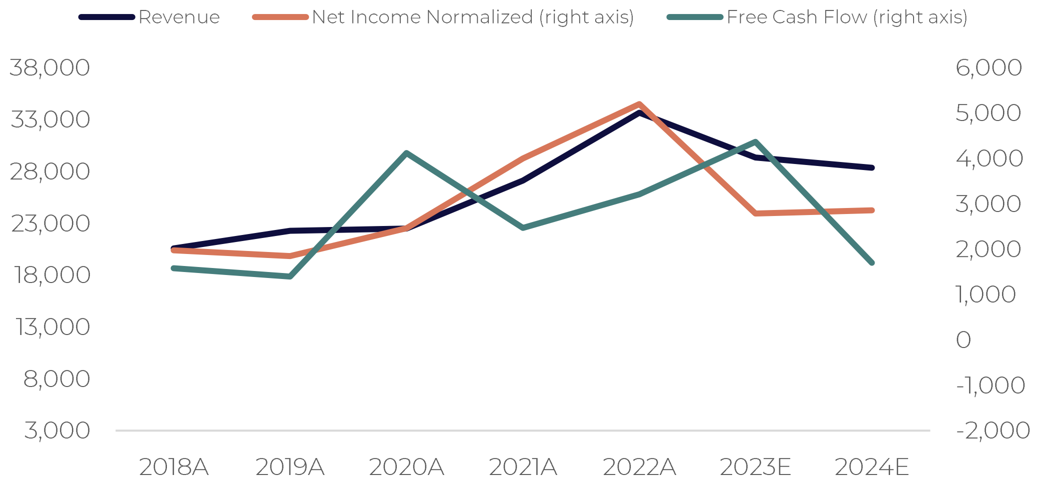
Return Ratios Compared To 2019

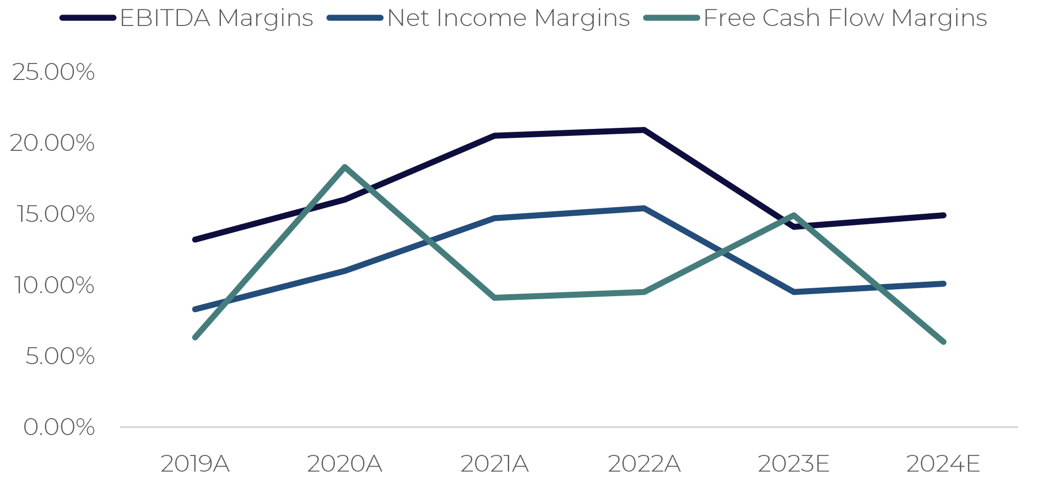
Return ratios and margins have improved drastically since 2019; largely due to the fact that the U.S. does not have enough housing supply.

		LTM	2019
Return Ratios	RoA	11.70%	5.30%
	RoC	22.70%	9.60%
	RoE	20.90%	12.00%
Margins	Gross Profit Margin	20.50%	12.60%
	EBITDA Margin	19.30%	11.50%
	Net Income Margin	13.90%	8.30%
	Levered Free Cash Flow Margin	*10.7%	0.90%
Asset Turnover	Asset Turnover	0.93	0.76
	Fixed Asset Turnover	96.89*	74.27
	Receivables Turnover	59.32	110.01
	Working Capital Turnover	1.37	1.07
Solvency	Total Debt/Equity	16.40%	59.70%
	Total Debt/Capital	14.10%	37.40%
	EBITDA/Interest Expense	375.93	145.27
	(EBITDA-Capex)/Interest Expense	375.93	140.36

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

Revenue, Net Income, and FCF Estimates





BLUE LINE CAPITAL

Lennar Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Lennar (LEN)	7.33	10.72	14%	34%	44%
PulteGroup (PHM)	5.99	7.51	22%	43%	38%
Toll Brothers (TOL)	6.29	6.97	13%	38%	28%
Green Brick Partners (GRBK)	8.94	10.02	34%	49%	67%
KB Home (KBH)	7.47	7.58	14%	38%	25%
D.R. Horton (DHI)	9.56	11.75	8%	36%	42%
Meritage Homes (MTH)	6.79	8.83	21%	54%	49%
Median	7.33	8.83	14%	38%	42%
Mean	7.48	9.05	18%	42%	42%

Sources: TIKR, Google Finance, Blue Line Capital

Lennar Chart

Sources: Trading View, Blue Line Capital

 Blue Line Capital maintains no position in Lennar.