

Blue Line Capital



The Macro Outlook & European Equities

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Macro Dynamics

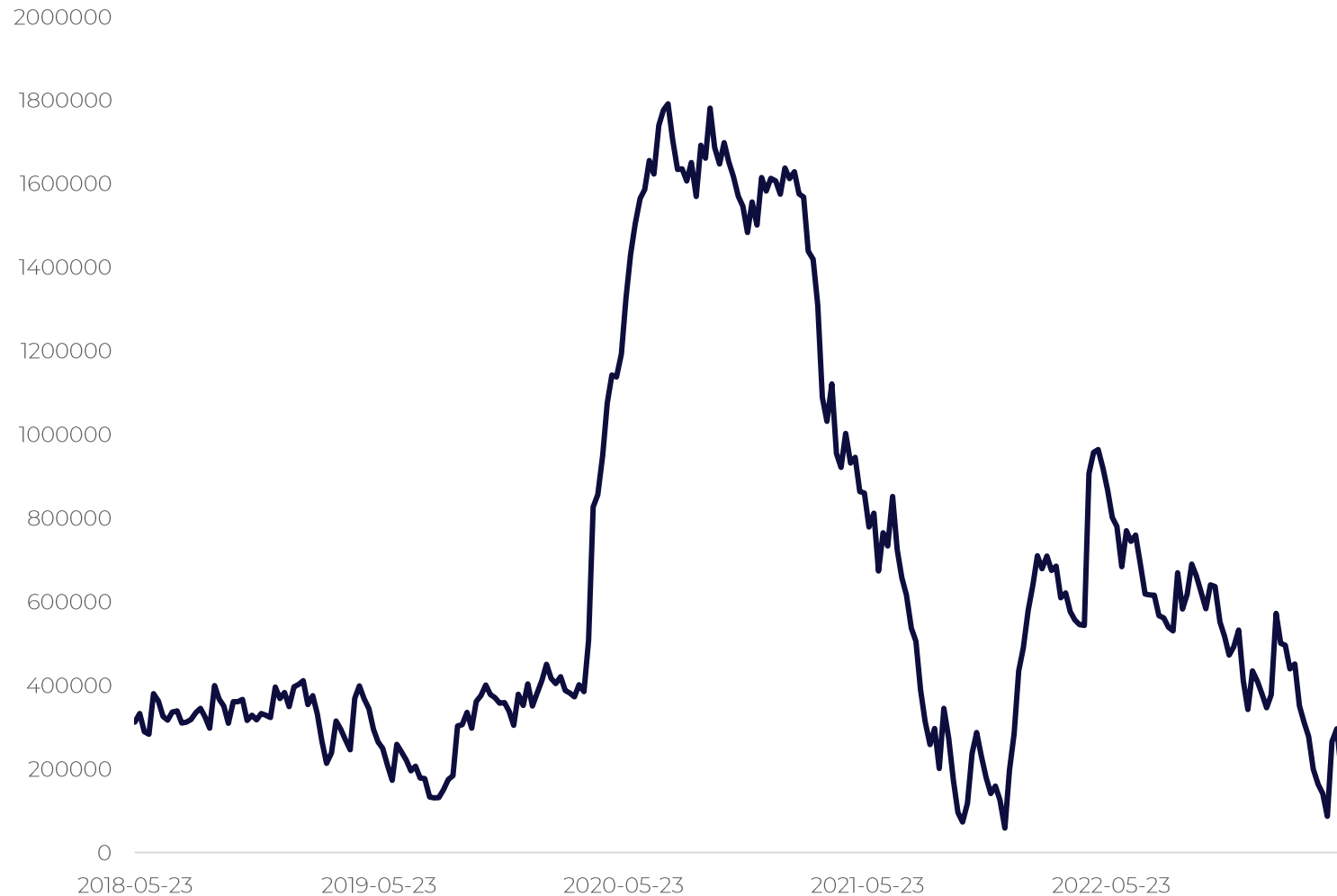
Debt Ceiling

Fed & Financial Conditions

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Treasury X-Day As TGA Hits \$69bn

— US Treasury, General Account (Wednesday Level)

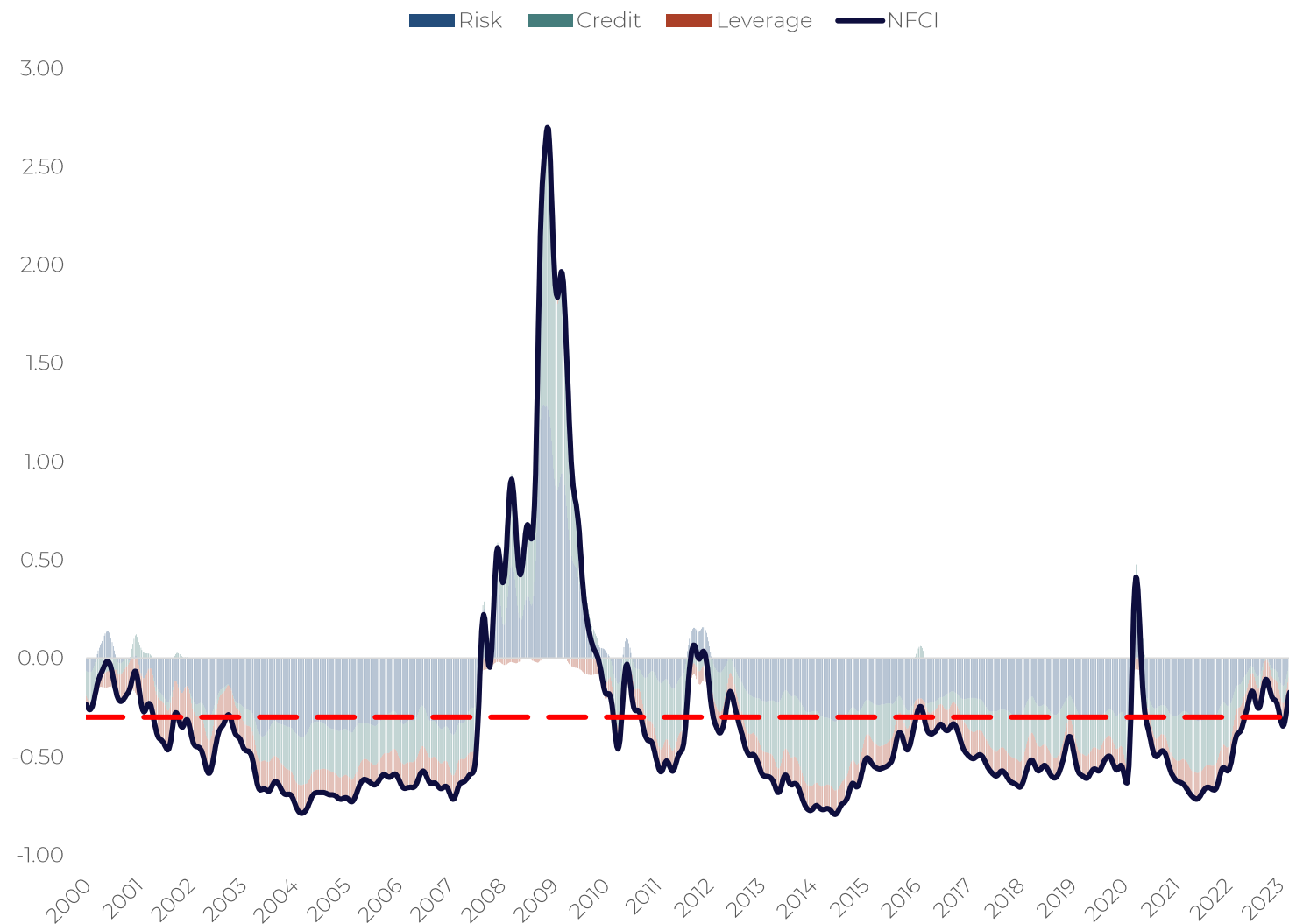


- As of May 12th, financial conditions have been the easiest they've been since early February and the easiest since May 2022 as the started to lift rates higher.
- The path of financial conditions will depend on the inflation & growth backdrop.

Sources: FRED, Blue Line Capital, Blue Line Futures

5/25/2023

Financial Conditions Easing Despite Fed Tightening

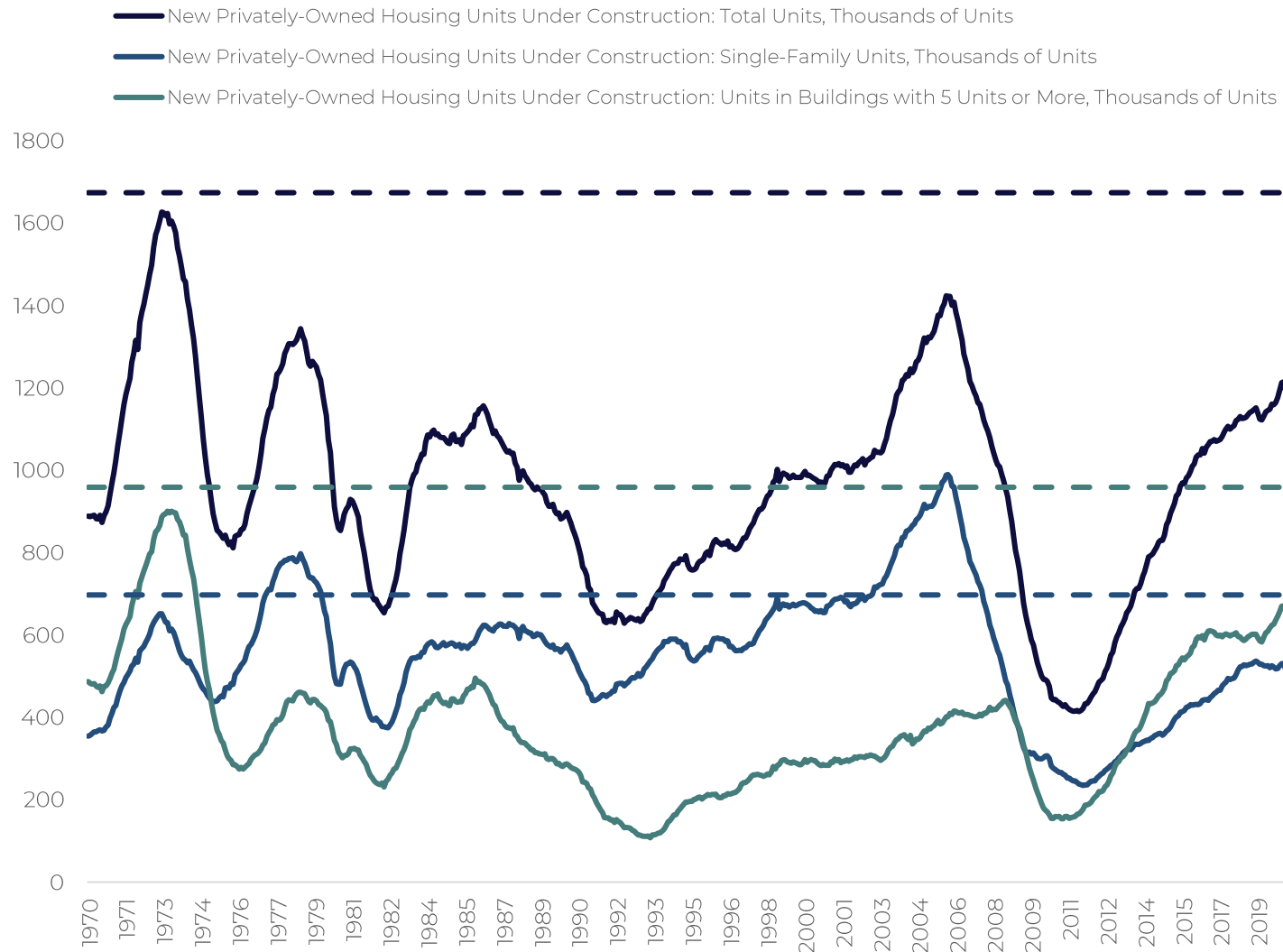


- As of May 12th, financial conditions have been the easiest they've been since early February and the easiest since May 2022 as the started to lift rates higher.
- The path of financial conditions will depend on the inflation & growth backdrop.

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

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More Housing Supply On The Way

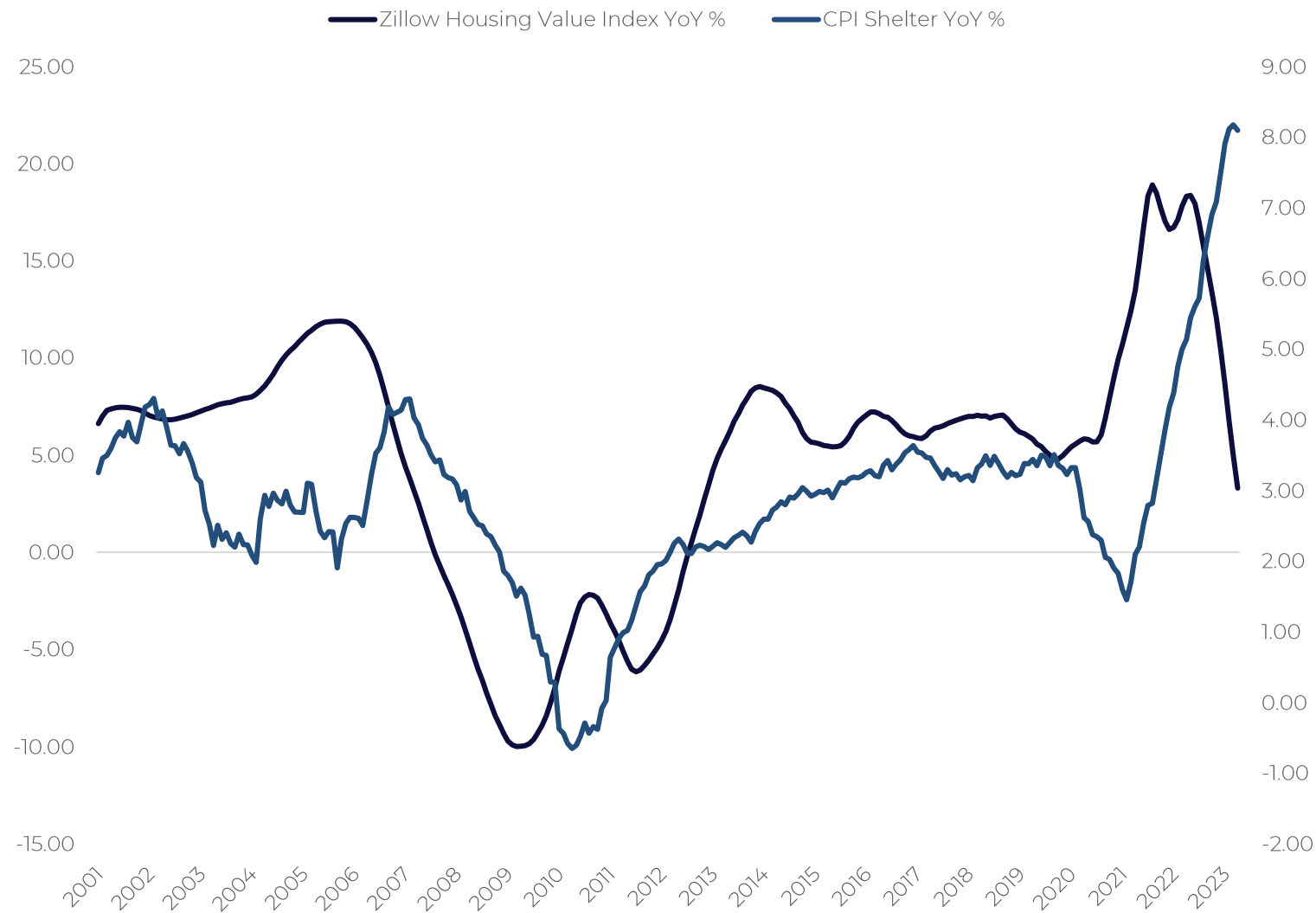


- New privately-owned housing units under construction at all-time-highs.
- First-time home buyer generation will seek new supply.
- The housing market has been remarkably rebust despite higher mortgage rates as existing inventory has been extraordinarily low.

Sources: FRED, Blue Line Capital, Blue Line Futures

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CPI Shelter – Zillow Home Value Lag

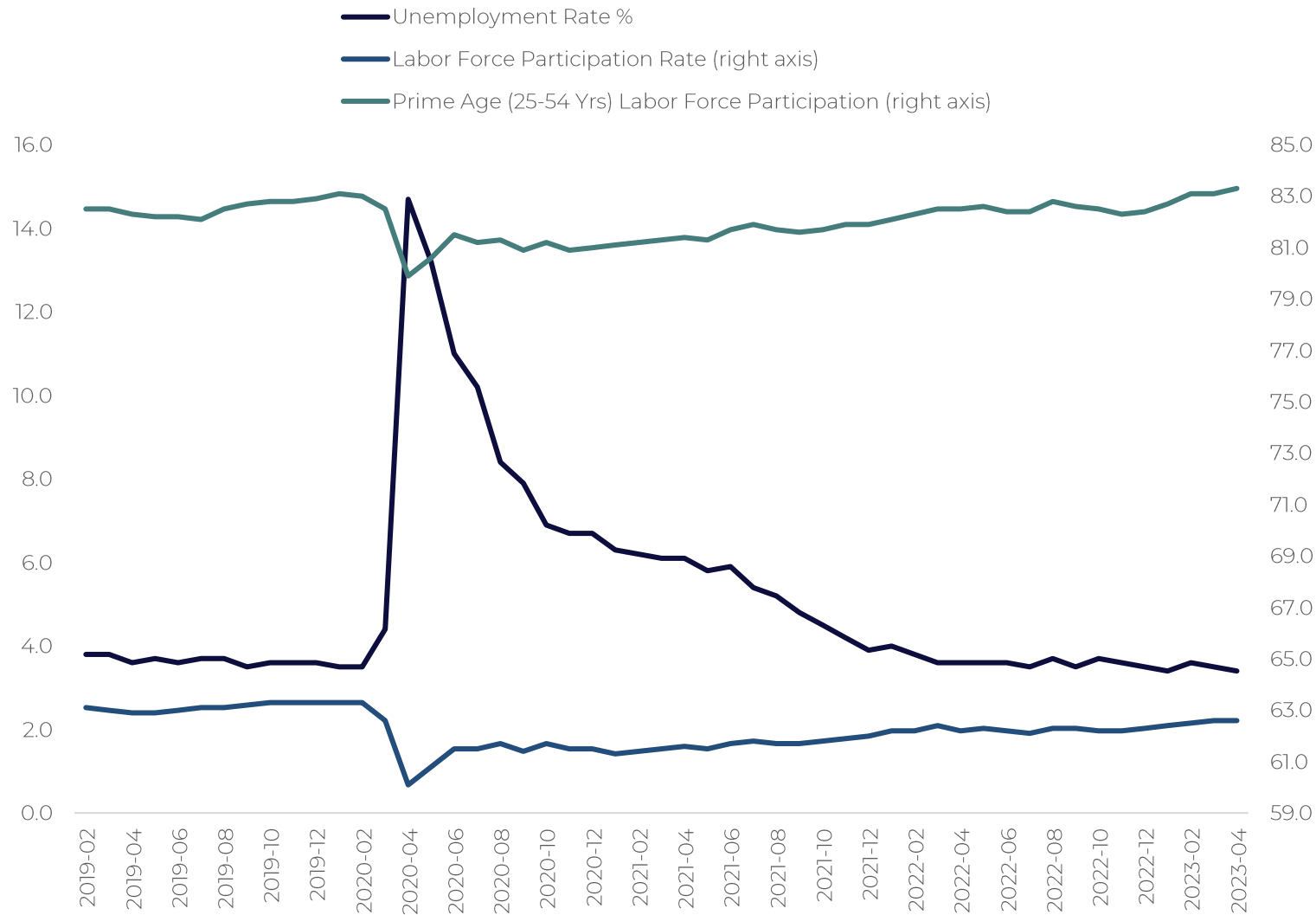


- While the CPI shelter component is still at 8.1% YoY while the Zillow Home Value Index has rolled over to 3.3% after topping at 18.9% in August 2021.

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

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The Job Market Is Loosening Slightly But Remains Robust

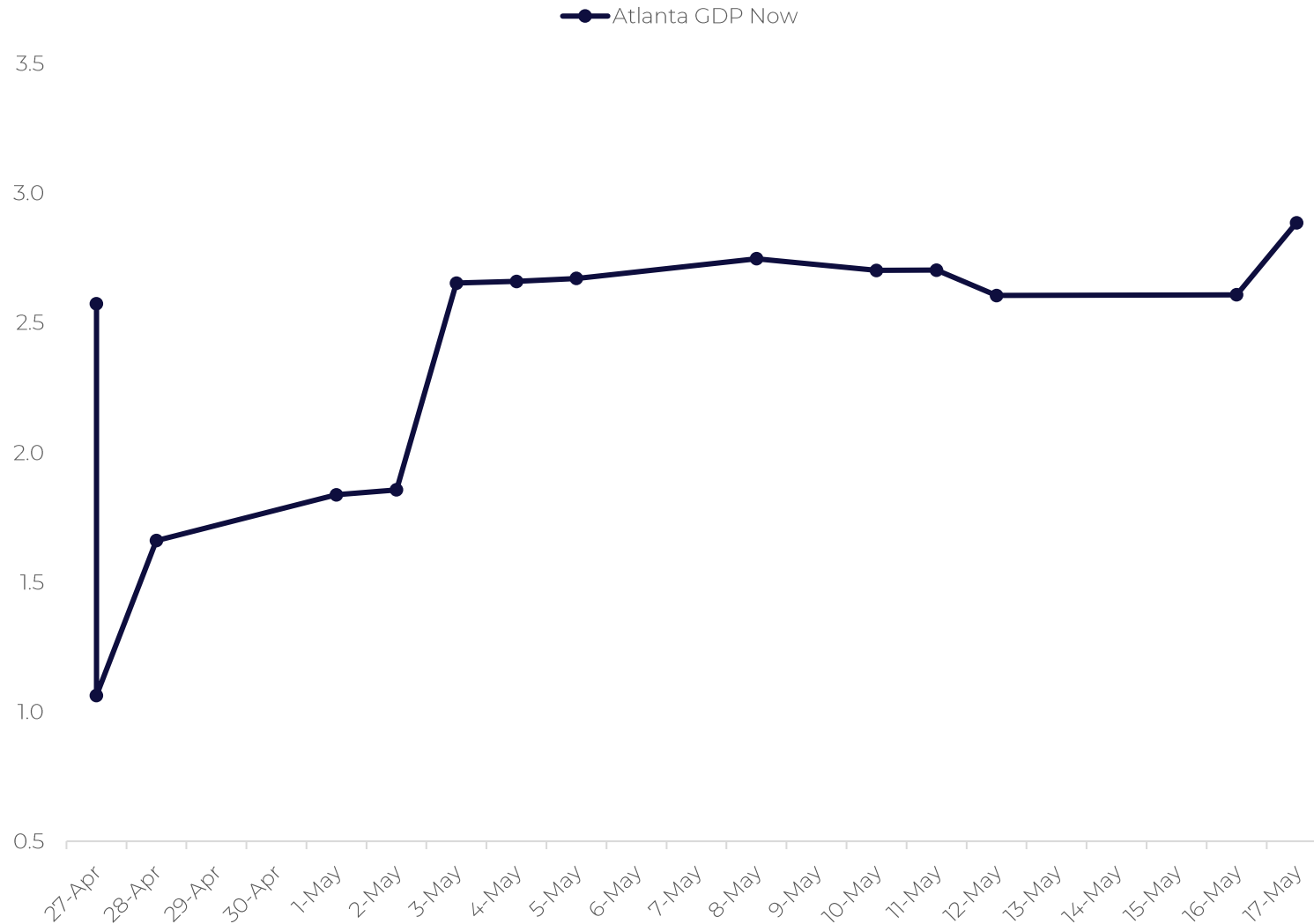


- The unemployment rate ticked down from 3.5% in March to 3.4% in April
- Labor Force Participation stays below pre-Covid levels, but has gone up to 62.6%
- Prime-age labor force participation has steadily increased to new highs at 83.3% in April.

Sources: FRED, Blue Line Capital, Blue Line Futures

5/25/2023

Atlanta GDP Now Showing 2.9% Growth In Q1

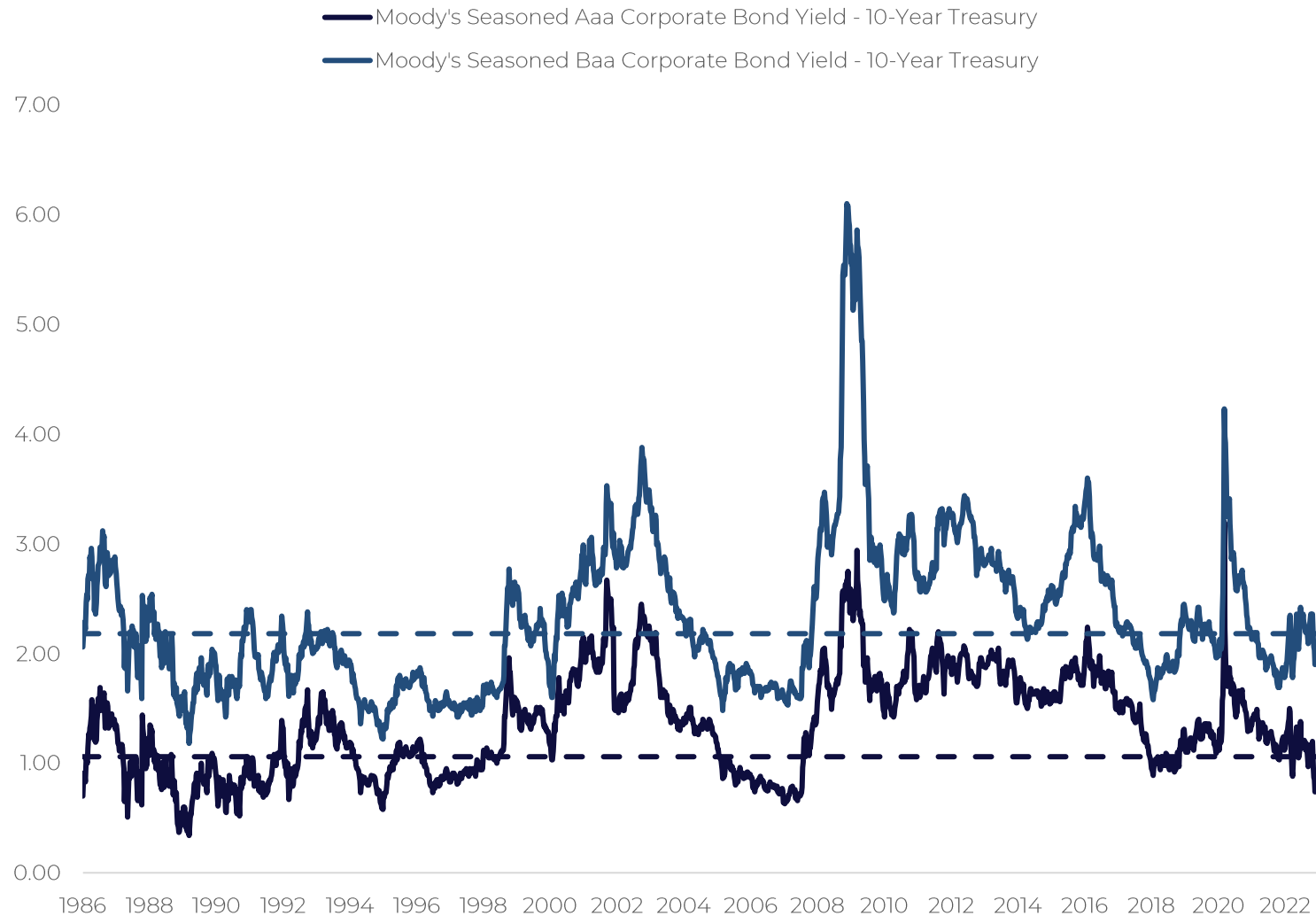


- Atlanta GDP Now at 2.9% despite central bank tightening.

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

5/25/2023

Credit Spreads Have Been Extremely Contained

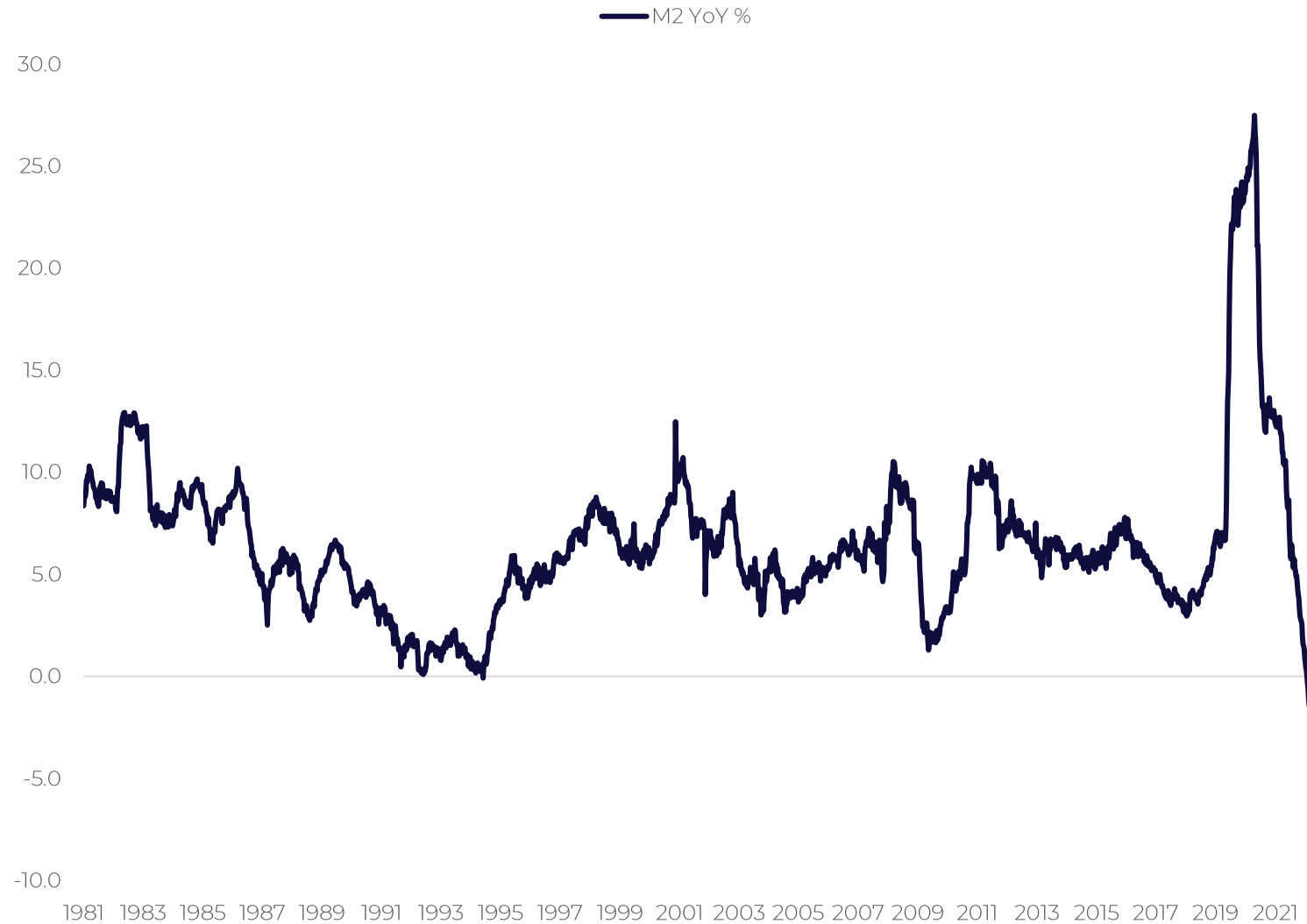


- Credit Spreads have remained extremely contained, although higher on an absolute basis.
 - Especially adjustable rate borrowers are facing higher cost of capital as their loan rates have adjusted higher.

Sources: Fred, Blue Line Capital, Blue Line Futures

5/25/2023

Liquidity Drain



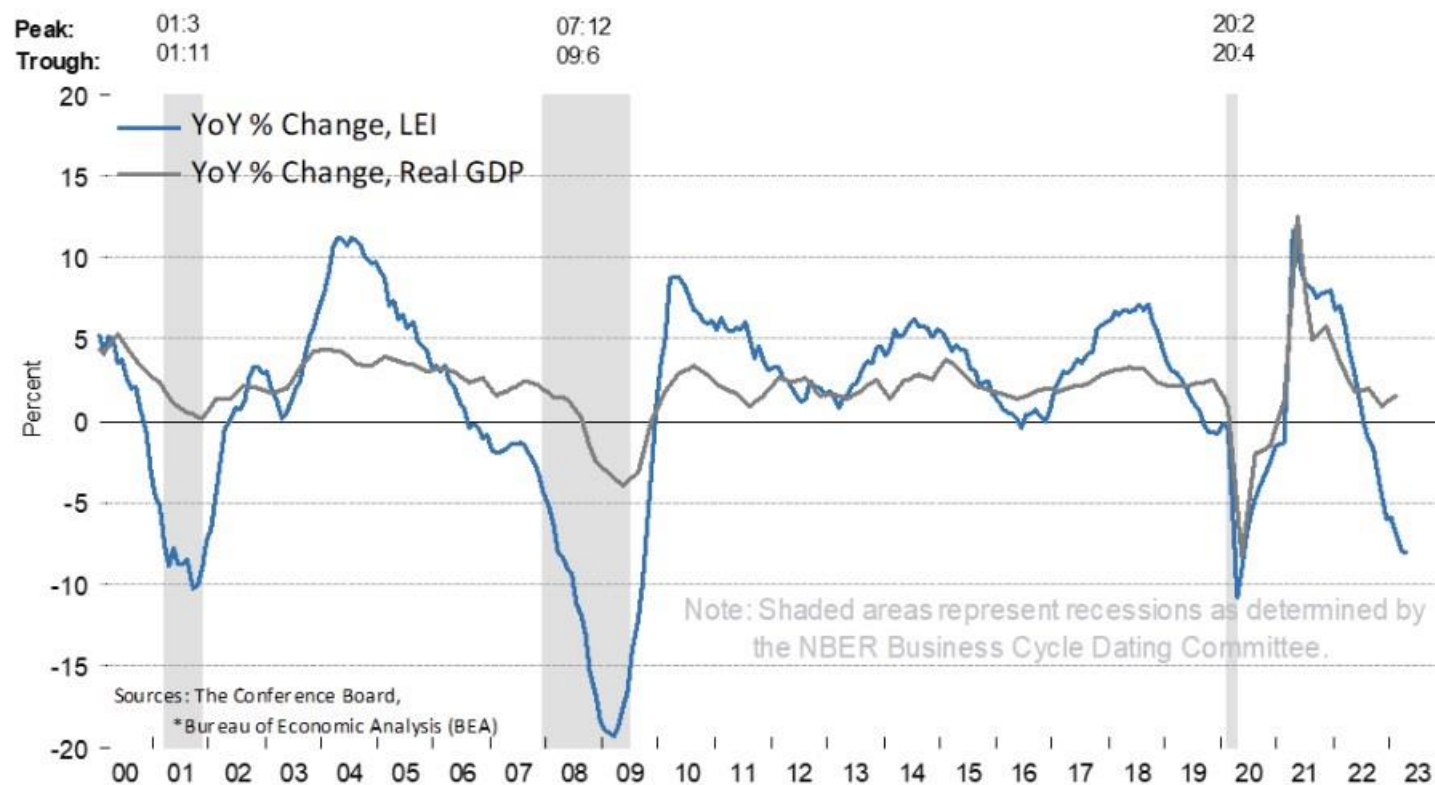
- As deposits flow out of the banking system, money supply is contracting by 4.6% YoY.
- The liquidity contraction comes on the heels of regional bank stress and

Sources: Fred, Blue Line Capital, Blue Line Futures

5/25/2023

Conference Board Leading Economic Indicator

The annual growth rate of the US LEI continued to decline signaling weak GDP growth ahead



Most components contributed negatively to the LEI

Sources: Conference Board, Blue Line Capital, Blue Line Futures

5/25/2023

Equity Trends Research



ASML

Siemens

Infineon

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ASML

The Monopoly Play In EUV Lithography



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ASML Earnings Highlights & Stock Performance

Management Commentary From Q1 2023 Earnings Call

- **Demand Weakness:** Customers continue to see demand weakness in consumer-driven end markets, causing the industry to actively reduce inventory and lower the utilization for their production base.
- **CAPEX:** While demand in other end markets such as automotive and industrial remains relatively strong, specifically memory customers are more aggressively lowering CapEx and are limiting wafer output to reduce inventory to more healthy levels. Logic customers are also moderating wafer output for some market segments while demand continues to be strong in other markets, especially in markets requiring more mature nodes.
- **Managing Cash Flows:** One dynamic I mentioned is that everyone in the entire value chain is managing their cash flow levels. And obviously, that means that also our free cash flow, it might be a little bit out of pressure. So that's one dynamic. And then indeed, the second dynamic that we talked about is that we believe it is appropriate in the current environment to sustain or to maintain higher levels of cash.
- **Utilization:** So what you generally see, and this is why there is an upside in H2, they were all right. And we are looking at this as a shorter-term downturn, whereby towards the end of the year, you will see the signs of a recovery. Then customers will start scratching their head and we will push it and say, listen, you're still not at 100% utilization, but you're probably going to get there in 1 or 2 quarters. So you have to do this now because you can see the upturn coming.

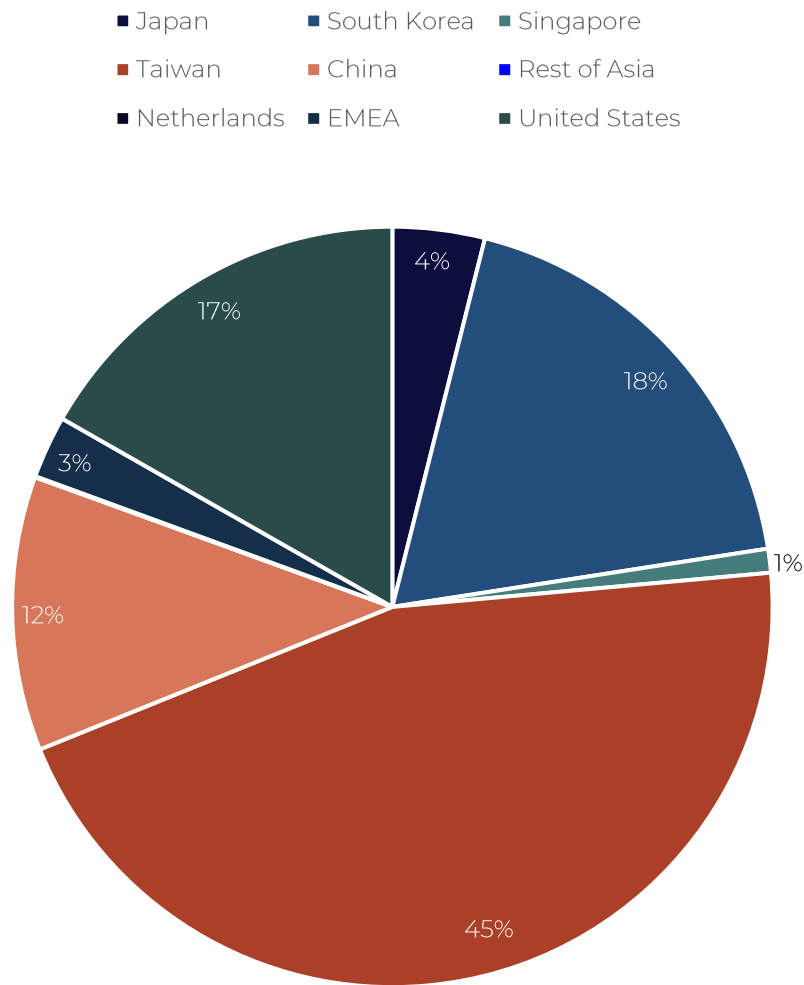
	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	34.05	9.6	38.41	27.17	NA
TTM	37.08	10.41	39.49	29.69	25.96
*Levered FCF					

Sources: ASML IR, CapilQ Blue Line Capital

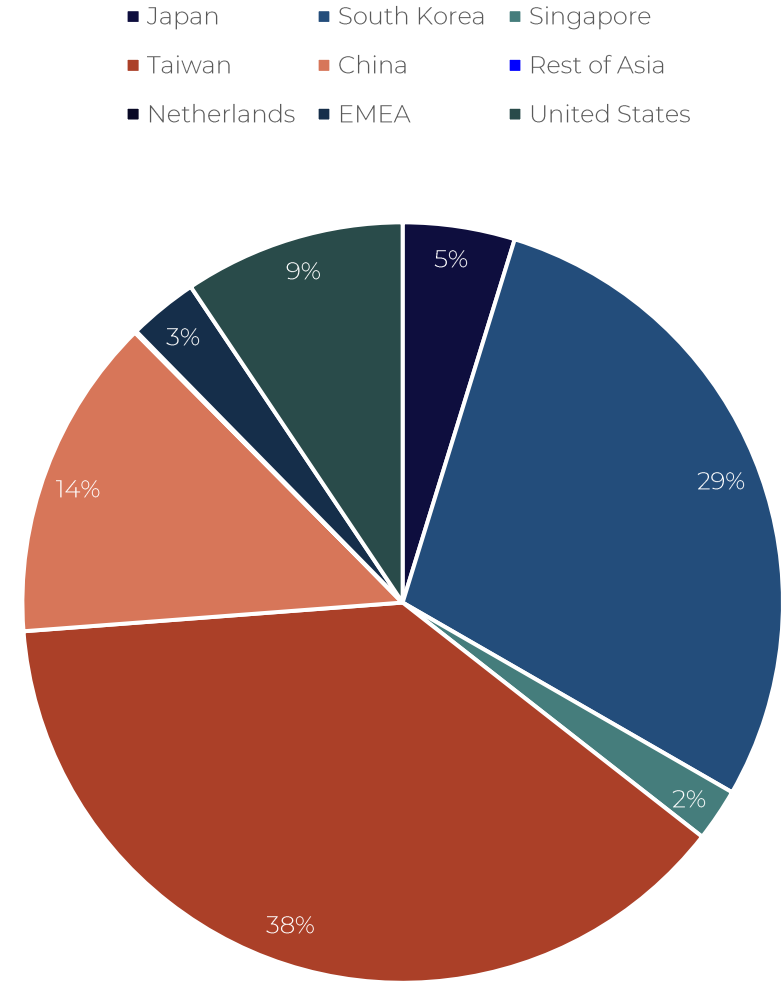
Quarterly Data



ASML Revenue By Geography



2019 → 2022

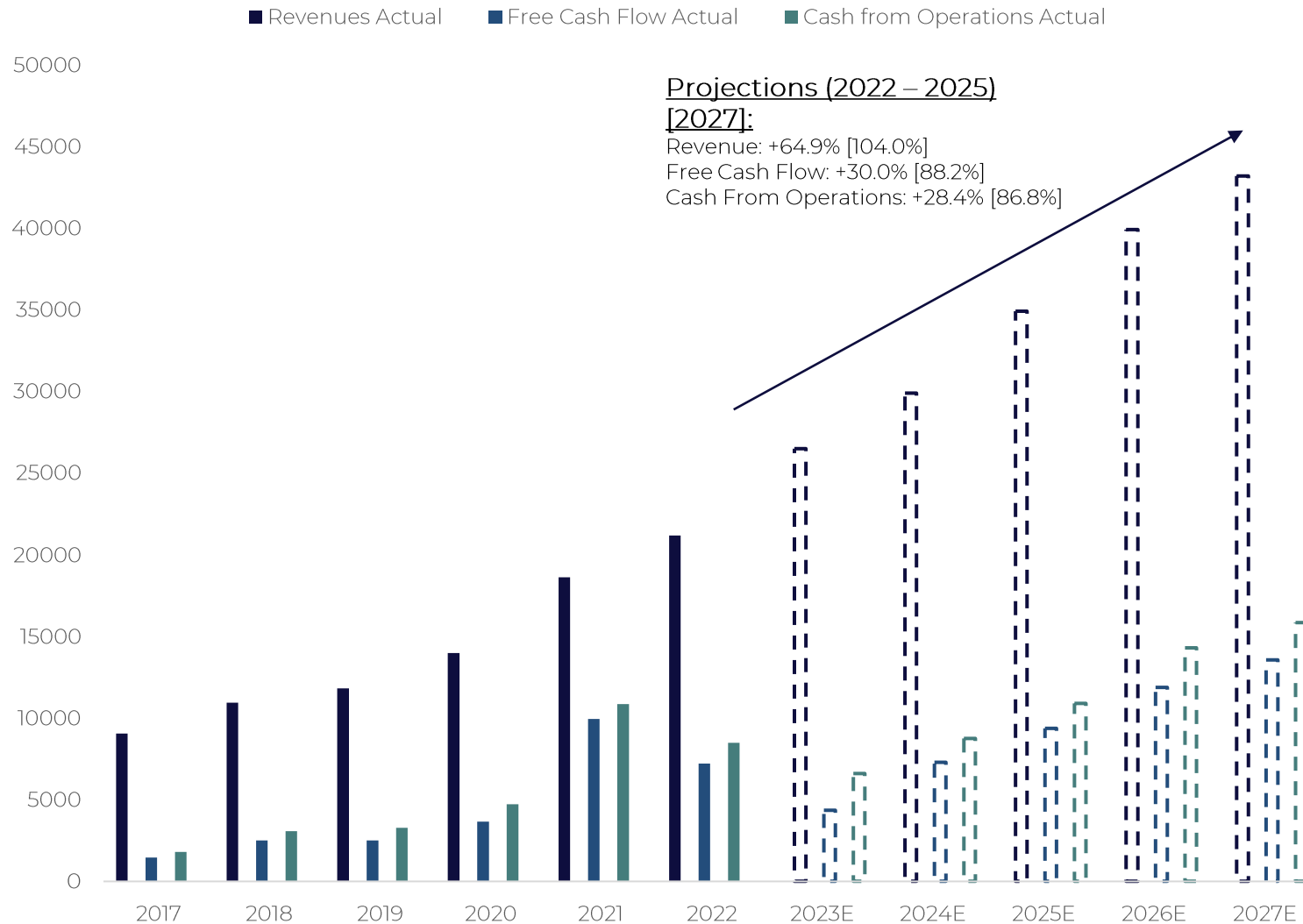


Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

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Blue Line Capital maintains no position in ASML.

ASML Projections



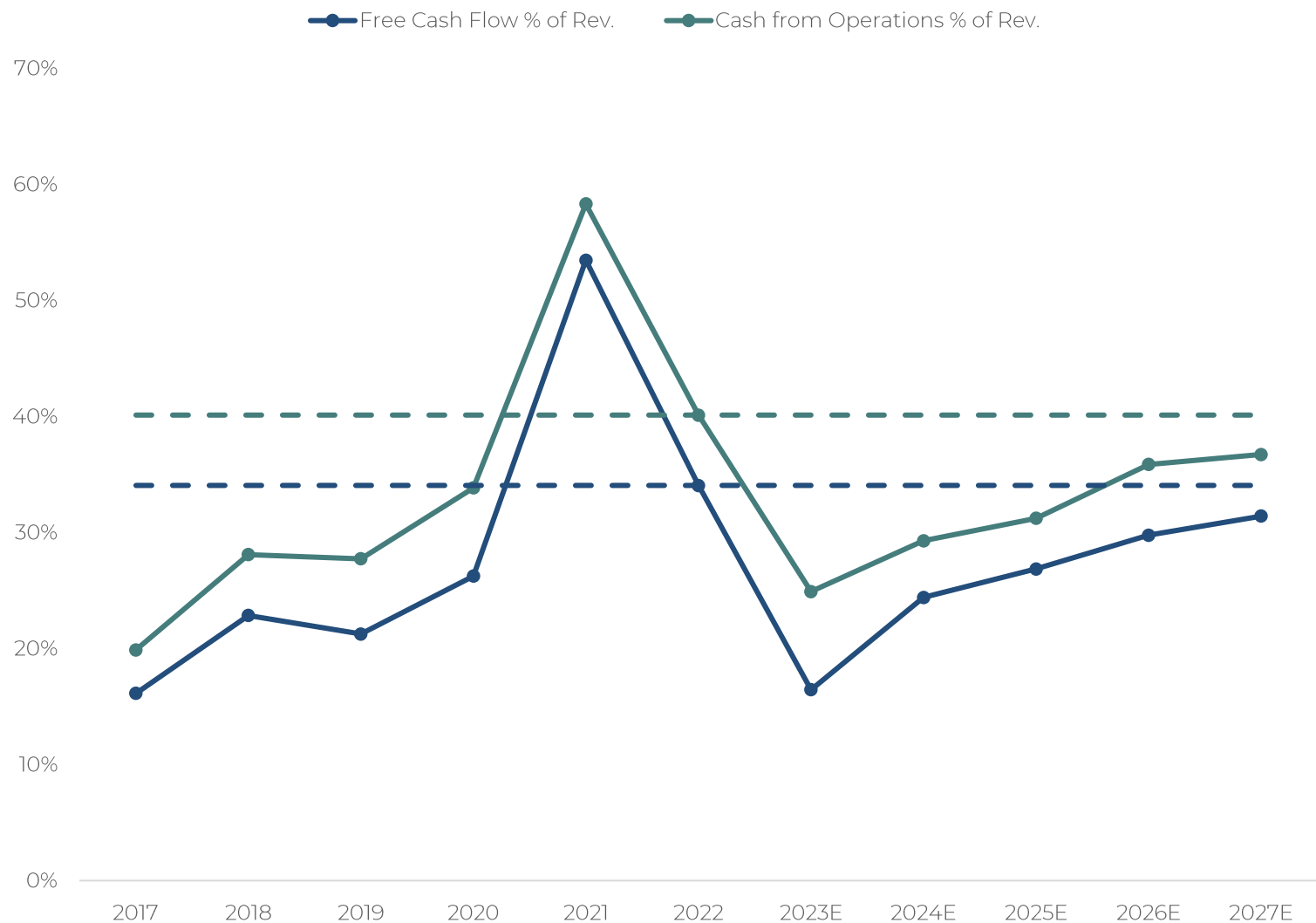
- Revenue
 - Projected to increase from ~EUR 21.2bn in 2022 to EUR 26.5bn in 2023 and rise to EUR 29.9bn in 2024 (EUR 43.2bn in 2027)
- Free Cash Flow
 - Projected to decline from ~EUR 7.2bn in 2022 to EUR 4.4bn in 2023 and rise to EUR 7.3bn in 2024 (EUR 13.6bn in 2027)
- Cash from Operations
 - Projected to decline from ~EUR 8.5bn in 2022 to EUR 6.6bn in 2023 and rise to EUR 8.8bn in 2024 (EUR 15.8bn in 2027)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

Blue Line Capital maintains no position in ASML.

ASML Cash Flow Margin Projections



- Free Cash Flow as % of Revenue projected to decline from 34% in 2022 to 16% in 2023, but set to recovery to 24% in 2024.
- Cash from Operations as % of Revenue projected to decline from 40% in 2022 to 25% in 2023, and expected to recover to 29% in 2024.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

ASML Expectations & Returns

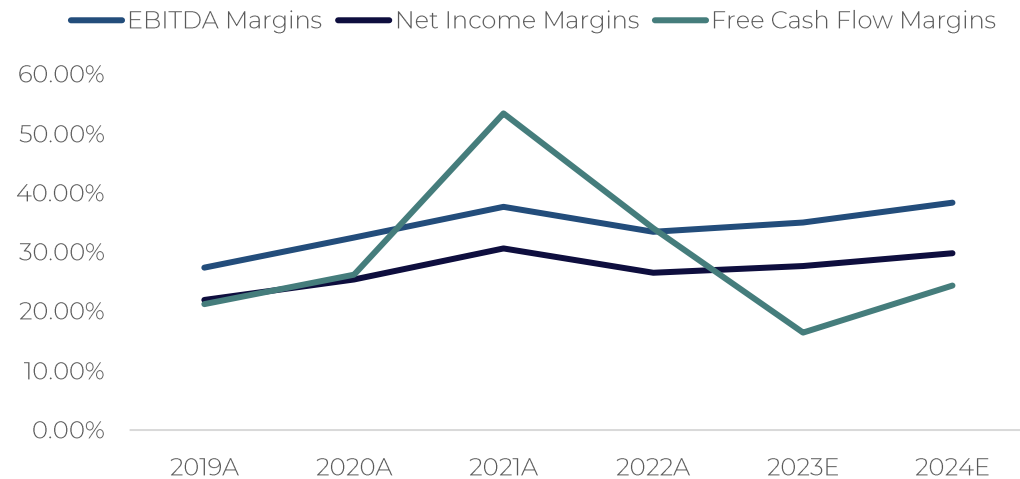
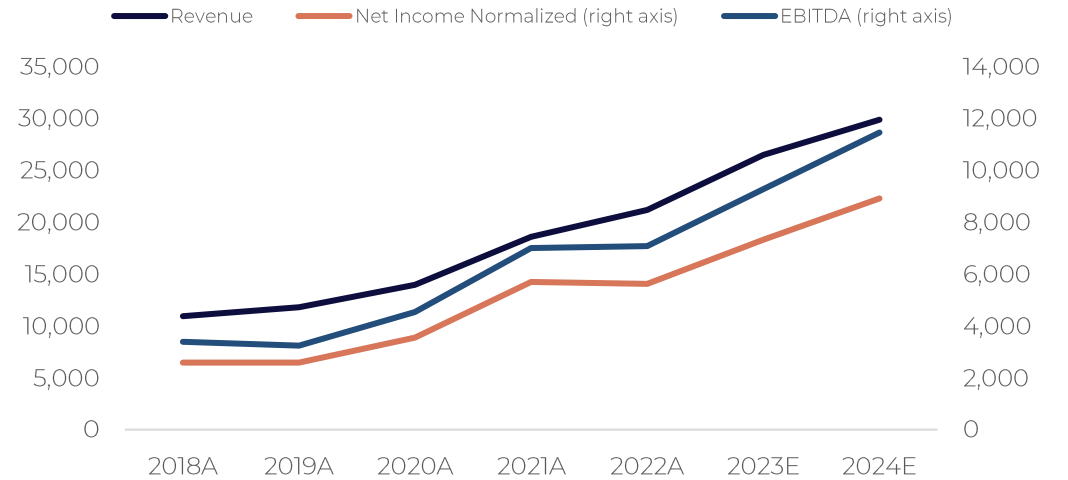
Return Ratios Compared To 2019

Return and margin ratios have improved across the board.

		LTM	2019
Return Ratios	RoA	15.10%	8.20%
	RoC	56.20%	17.50%
	RoE	74.00%	21.40%
Margins	Gross Profit Margin	50.80%	44.70%
	EBITDA Margin	34.70%	27.40%
	Net Income Margin	28.20%	21.90%
	Levered Free Cash Flow Margin	26.40%	11.30%
Asset Turnover	Asset Turnover	0.69	0.52
	Fixed Asset Turnover	6.11	5.84
	Receivables Turnover	4.79	4.94
	Working Capital Turnover	5.93	1.599
Solvency	Total Debt/Equity	40.60%	26.30%
	Total Debt/Capital	28.30%	20.80%
	EBITDA/Interest Expense	187.11	88.49
	(EBITDA - Capex)/Interest Expense	152.29	67.55

Sources: ASML IR, TIKR, Blue Line Capital

Revenue and Net Income Estimates



ASML Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
ASML (ASML)	27.17	34.05	8%	13%	36%
Nvidia (NVDA)	74.58	68.53	31%	86%	94%
Taiwan Semi (TSM)	8.44	18.13	4%	10%	9%
Lam Research (LRCX)	18.55	24.95	19%	24%	29%
Applied Materials (AMAT)	15.67	19.67	11%	16%	29%
AMD (AMD)	24.15	34.27	37%	42%	22%
Intel (INTC)	11.33	40.08	19%	-1%	-10%
Median	18.55	34.05	19%	16%	29%
Mean	25.70	34.24	18%	27%	30%

Sources: TIKR, Google Finance, Blue Line Capital

5/25/2023

Blue Line Capital maintains no position in ASML.

ASML Chart

bill_blue_line published on TradingView.com, May 25, 2023 13:54 UTC-5

ASML Holding N.V. - New York Registry Shares, 1W, NASDAQ O690.86 H709.83 L661.18 C706.61 +12.61 (+1.82%)
MA (30, close, 0, SMA, 5) 624.07



TradingView

Sources: Trading View, Blue Line Capital

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Blue Line Capital maintains no position in ASML.

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BLUE LINE CAPITAL

Siemens

Digital Industries

Smart Infrastructure

Mobility

Health



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Siemens Earnings Highlights & Stock Performance

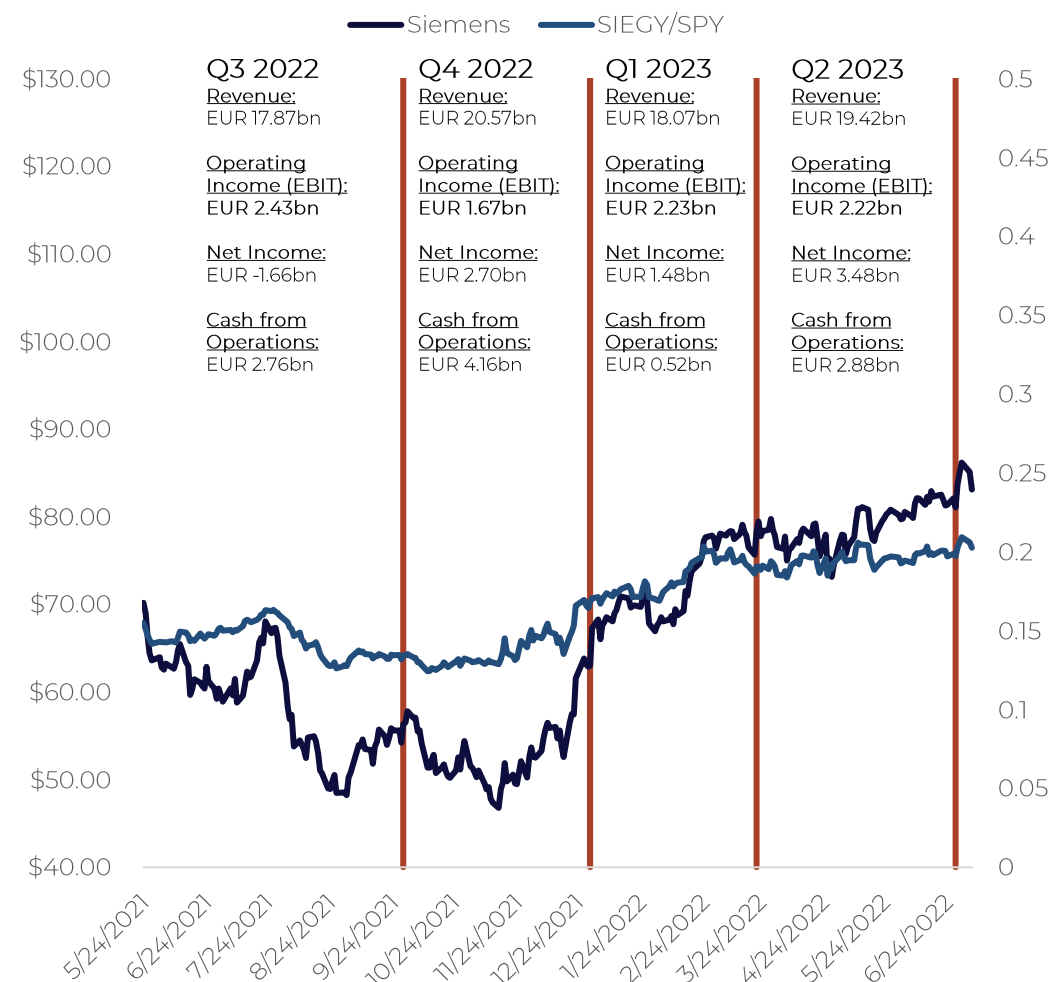
Management Commentary From Q2 2023 Earnings Call

- **Orders:** Orders at EUR 24.6bn grew 15%, driven by the highest quarterly order intake for Mobility as well as a very robust demand at Smart Infrastructure, up 9%. Book-to-bill reached an excellent level of 1.22, pushing order backlog higher again to a record level of EUR 105 billion.
- **Backlog:** Our strong order backlog stands at a record level of EUR 105 billion, further fueled by strong demand for our systems, solutions and service businesses.
- **Growth Prospects:** We expect average annual market growth of around 7% until 2027 from today's base of close to EUR 500 billion.
- **Growth & Geographies:** Over the next 5 years, the incremental growth opportunity for DI, SI and Mobility is around EUR 175 billion. From a regional perspective, around 60% is expected to come from U.S., the European Union, China and India.
- **Revenue Growth:** Outstanding revenue growth in automation was broad-based across the regions. China delivered 9% revenue growth on increasingly tougher comps. Germany up by 37% and Italy up by 35% showed strength across the board, while in the U.S., both discrete and process automation increased double digit.

	P/E	EV/Sales	EV/EBIT	EV/EBITDA	P/B
NTM	14.94	2.09	14.71	11.89	NA
TTM	20.76	2.23	22.34	15.27	2.72
*Levered FCF					

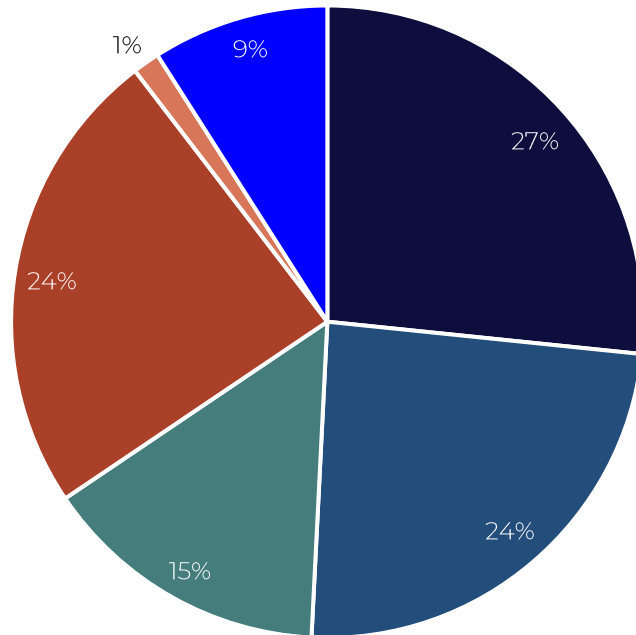
Sources: Siemens IR, TIKR, Blue Line Capital

Quarterly Data

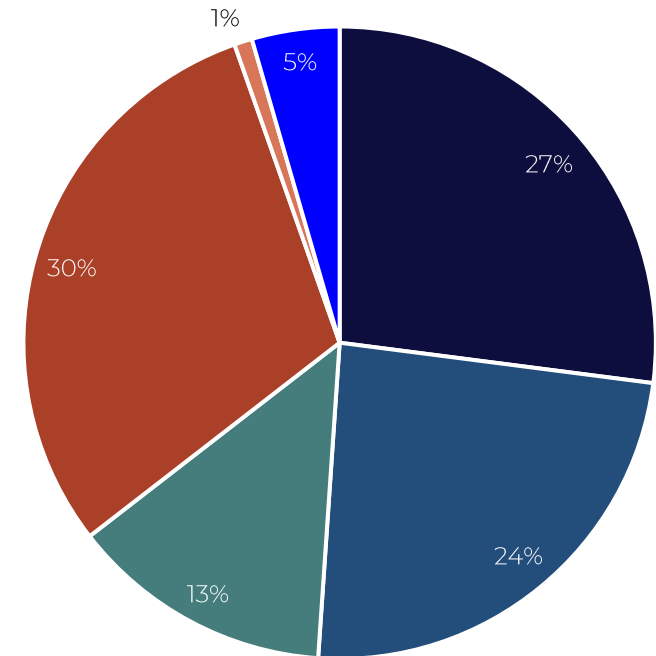


Siemens Revenue By Segment

- Industrial Businesses (IB) - Digital Industries
- Industrial Businesses (IB) - Smart Infrastructure
- Industrial Businesses (IB) - Mobility
- Industrial Businesses (IB) - Siemens Healthineers
- Financial Services (SFS)
- Portfolio Companies (POC)



- Industrial Businesses (IB) - Digital Industries
- Industrial Businesses (IB) - Smart Infrastructure
- Industrial Businesses (IB) - Mobility
- Industrial Businesses (IB) - Siemens Healthineers
- Financial Services (SFS)
- Portfolio Companies (POC)



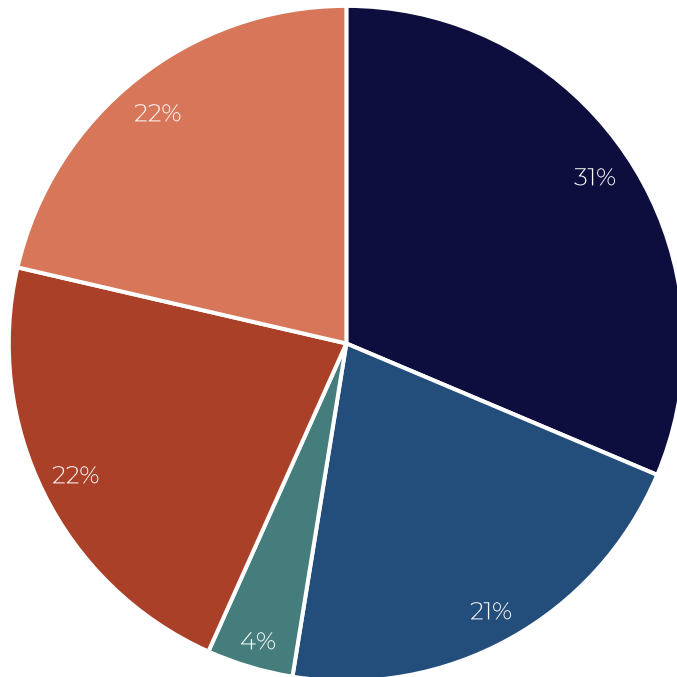
Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

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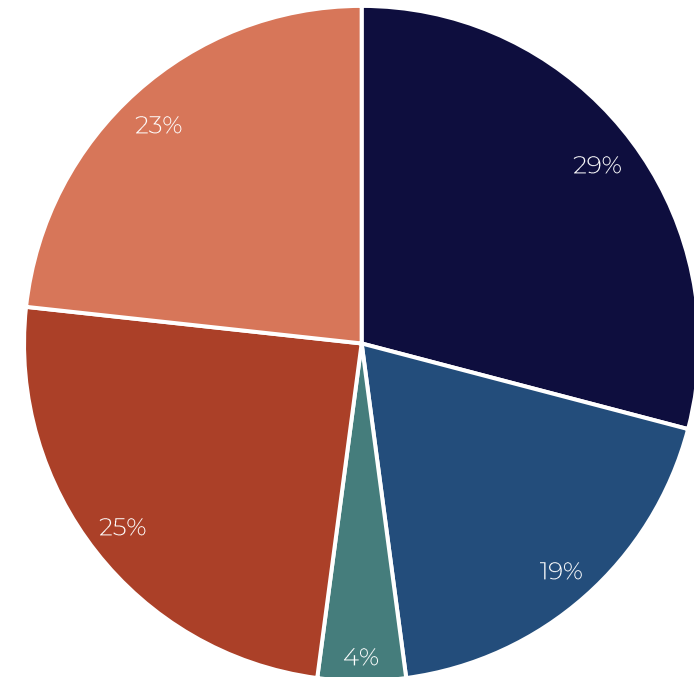
Blue Line Capital no position in Siemens.

Siemens Revenue By Geography

- Europe, C.I.S., Africa, Middle East (Excluding Germany)
- Germany
- Americas (Excluding U.S.)
- United States
- Asia & Australia



- Europe, C.I.S., Africa, Middle East (Excluding Germany)
- Germany
- Americas (Excluding U.S.)
- United States
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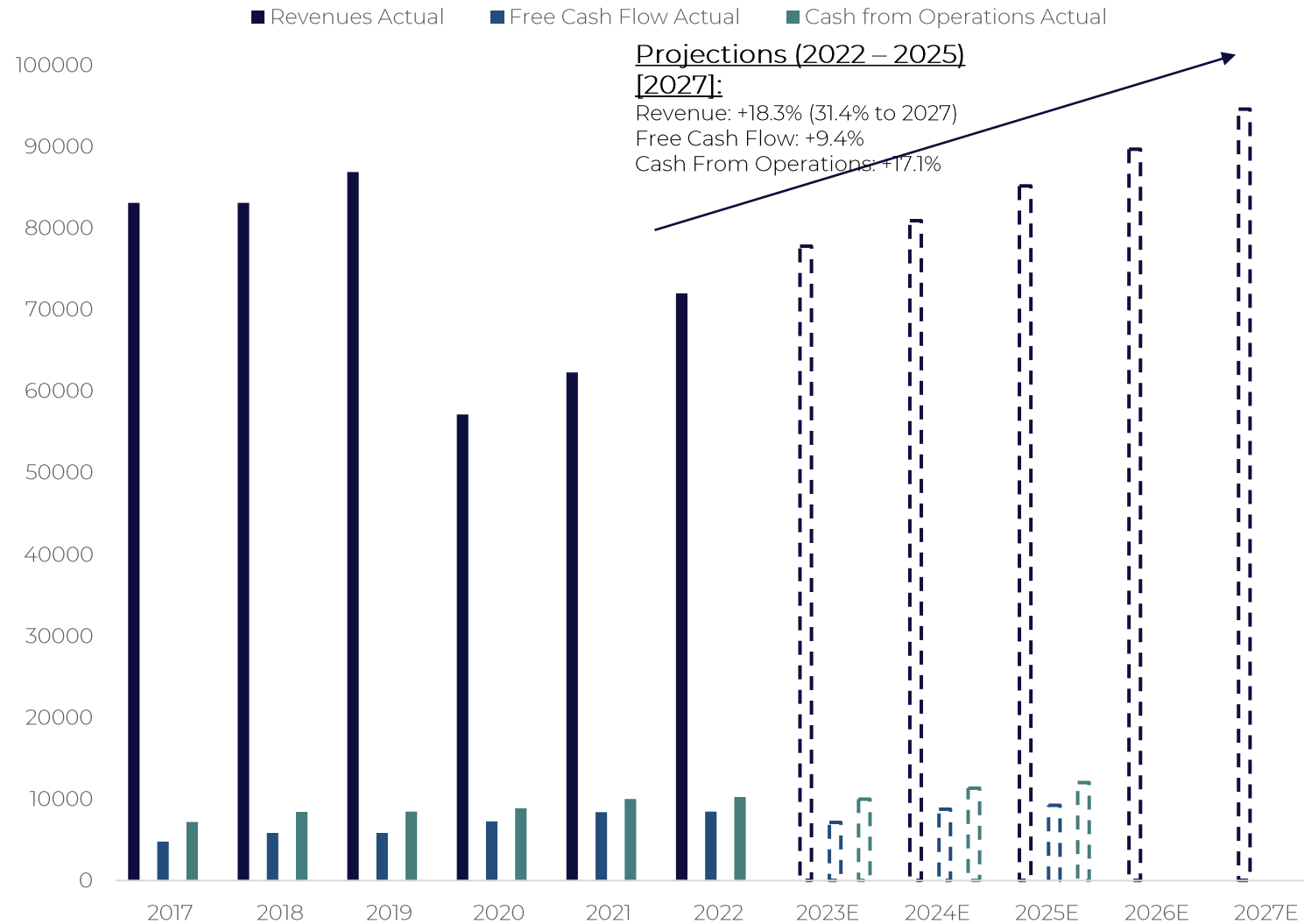


Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

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Blue Line Capital no position in Siemens.

Siemens Projections



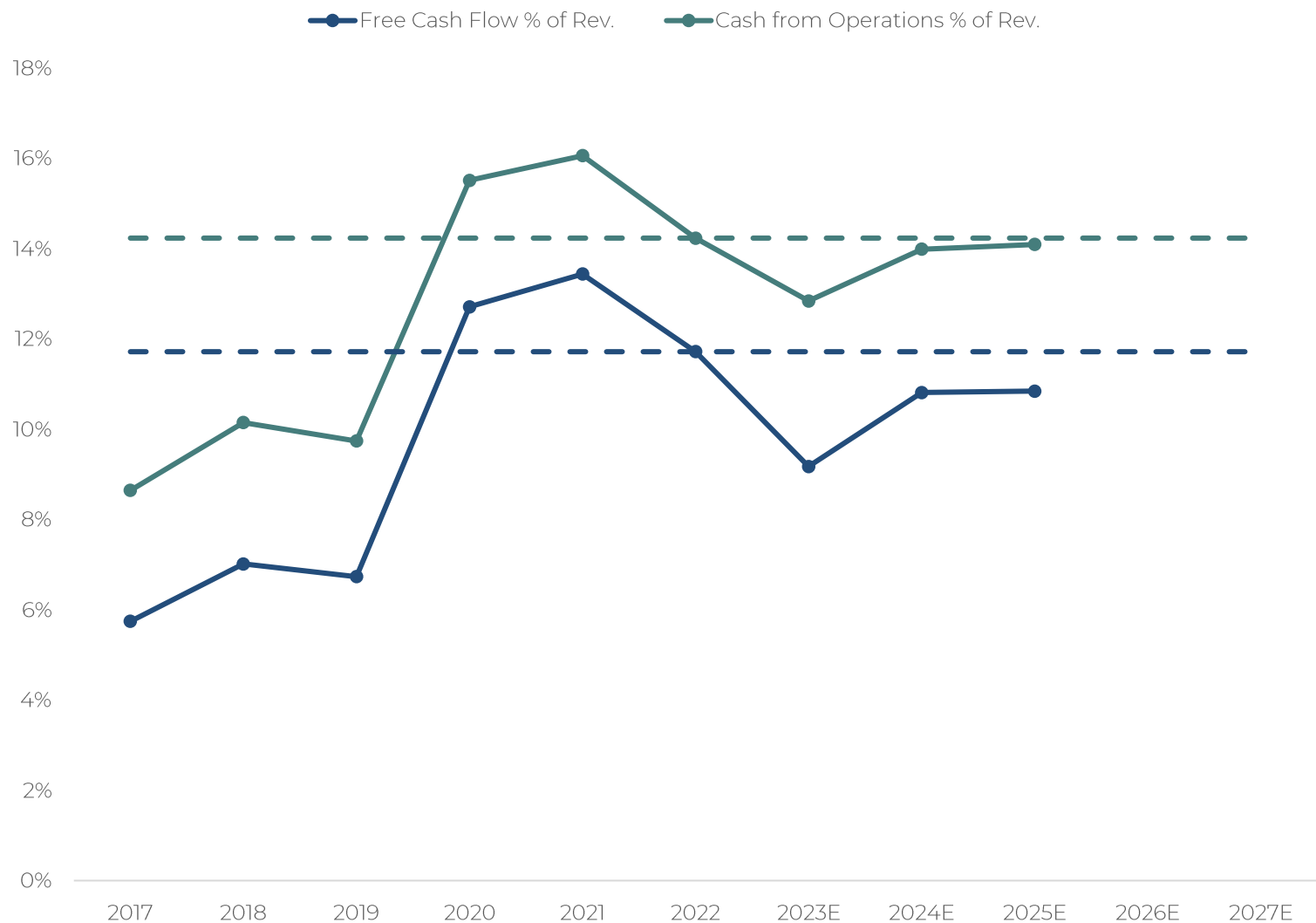
- Revenue
 - Projected to increase from ~EUR 72bn in 2022 to EUR 77.7bn in 2023 and rise to EUR 80.9bn in 2024 (EUR 94.6bn in 2027)
- Free Cash Flow
 - Projected to decline from ~EUR 8.4bn in 2022 to EUR 7.13bn in 2023 and rise to EUR 8.74bn in 2024 (EUR 9.23bn in 2025)
- Cash from Operations
 - Projected to decline from ~EUR 10.24bn in 2022 to EUR 9.98bn in 2023 and rise to EUR 11.31bn in 2024 (EUR 12.0bn in 2025)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

Blue Line Capital no position in Siemens.

Siemens Cash Flow Margin Projections



- Free Cash Flow as % of Revenue projected to decline from 12% in 2022 to 11% in 2025.
- Cash from Operations as % of Revenue projected to stay stable at 14% through 2025.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

Blue Line Capital no position in Siemens.

Siemens Expectations & Returns

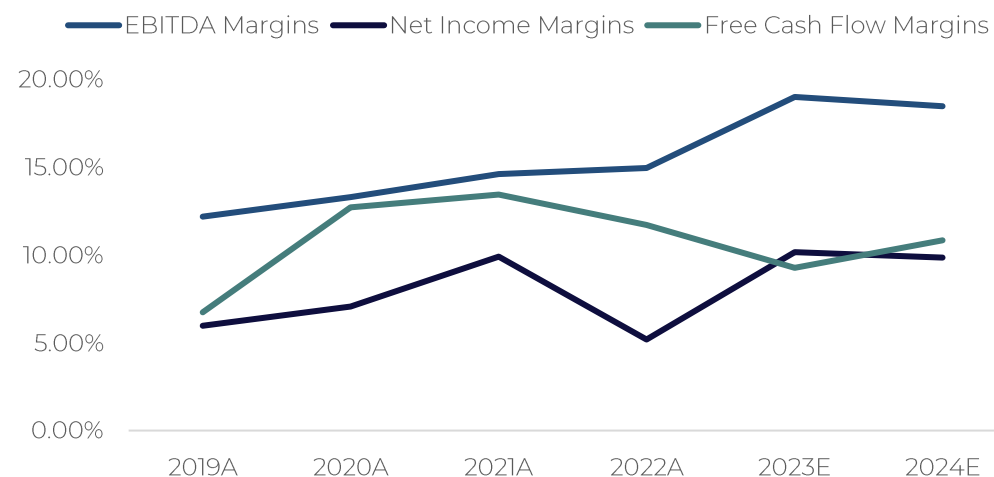
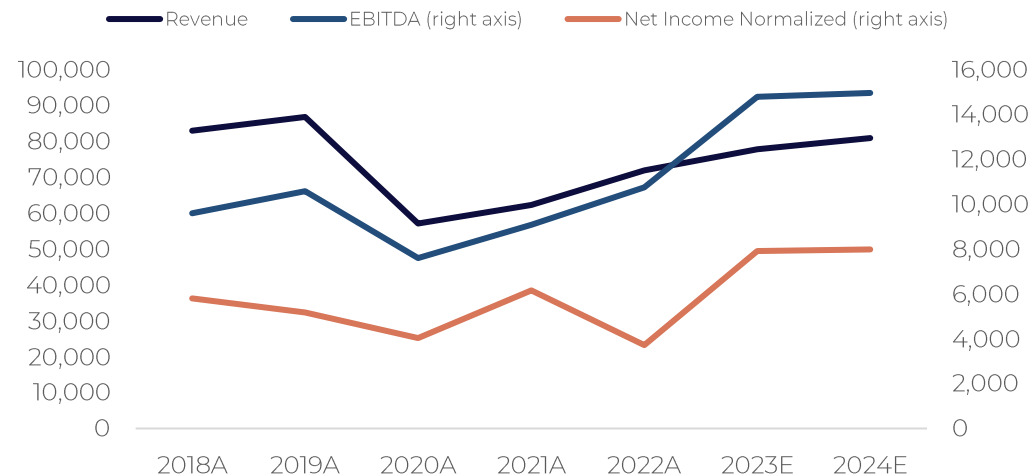
Return Ratios Compared To 2019

Return and margins have been mixed compared to 2019 levels.

		LTM	2019
Return Ratios	RoA	3.70%	2.60%
	RoC	5.20%	4.60%
	RoE	13.00%	10.40%
Margins	Gross Profit Margin	37.00%	37.00%
	EBITDA Margin	14.70%	14.00%
	Net Income Margin	7.90%	8.80%
	Levered Free Cash Flow Margin	6.40%	2.10%
Asset Turnover	Asset Turnover	0.5	0.4
	Fixed Asset Turnover	6.7	5
	Inventory Turnover	4.4	2.6
	Working Capital Turnover	NA	NA
Solvency	Total Debt/Equity	99.30%	71.50%
	Total Debt/Capital	49.80%	41.70%
	EBITDA/Interest Expense	5.4	5.9
	(EBITDA-Capex)/Interest Expense	4.4	4.6

Sources: Siemens IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Siemens Valuation Vs. Peers

	NTM EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Siemens (SIEGY)	11.89	14.94	6%	18%	62%
General Electric (GE)	15.01	41.19	21%	48%	71%
Rockwell Automation (ROK)	17.63	22.13	-5%	4%	17%
Westinghouse Airbrake (WAB)	13.35	17.43	-7%	-3%	7%
Schneider Electric (ENXTPA: SU)	14.05	20.42	7%	20%	43%
Smiths Group (LSE: SMIN)	10.57	16.8	-5%	6%	15%
Hitachi (TSE: 6501)	7.48	14.77	11%	9%	17%
Median	13.35	17.43	6%	9%	17%
Mean	12.85	21.10	4%	15%	33%

Sources: TIKR, Google Finance, Blue Line Capital

5/25/2023

Blue Line Capital no position in Siemens.

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BLUE LINE CAPITAL

Siemens Chart

bill_blue_line published on TradingView.com, May 25, 2023 13:49 UTC-5



TradingView

Sources: Trading View, Blue Line Capital

5/25/2023

Blue Line Capital no position in Siemens.

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BLUE LINE CAPITAL

Infineon

Semiconductors In Automotive,
Green Industrials, And More

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Infineon Highlights & Stock Performance

Management Commentary From Q2 2023 Earnings Call

- **Automotive:** The current strength of the automotive business reflects the fact that the automotive division achieved half the total revenue of Infineon in the second quarter.
- **Industry Trends:** The two structural megatrends, electromobility and automated driving are supporting the resilience of business in a time when the delivery bottlenecks in standard automated components is gradually being overcome and the delivery times have become more normal.
- **Renewable energy:** Electro-vehicle became widespread and secondly, there's increasing demand in the field of renewable energies. In most product categories, the market will gradually transition from allocation to a more normal, stable supply and demand situation, where we see that higher inventory reaches especially in the field of microcontrollers and single-chip systems, reflecting the wish of industry to move beyond the just-in-time concept instead to have a more resilient value-added chain.

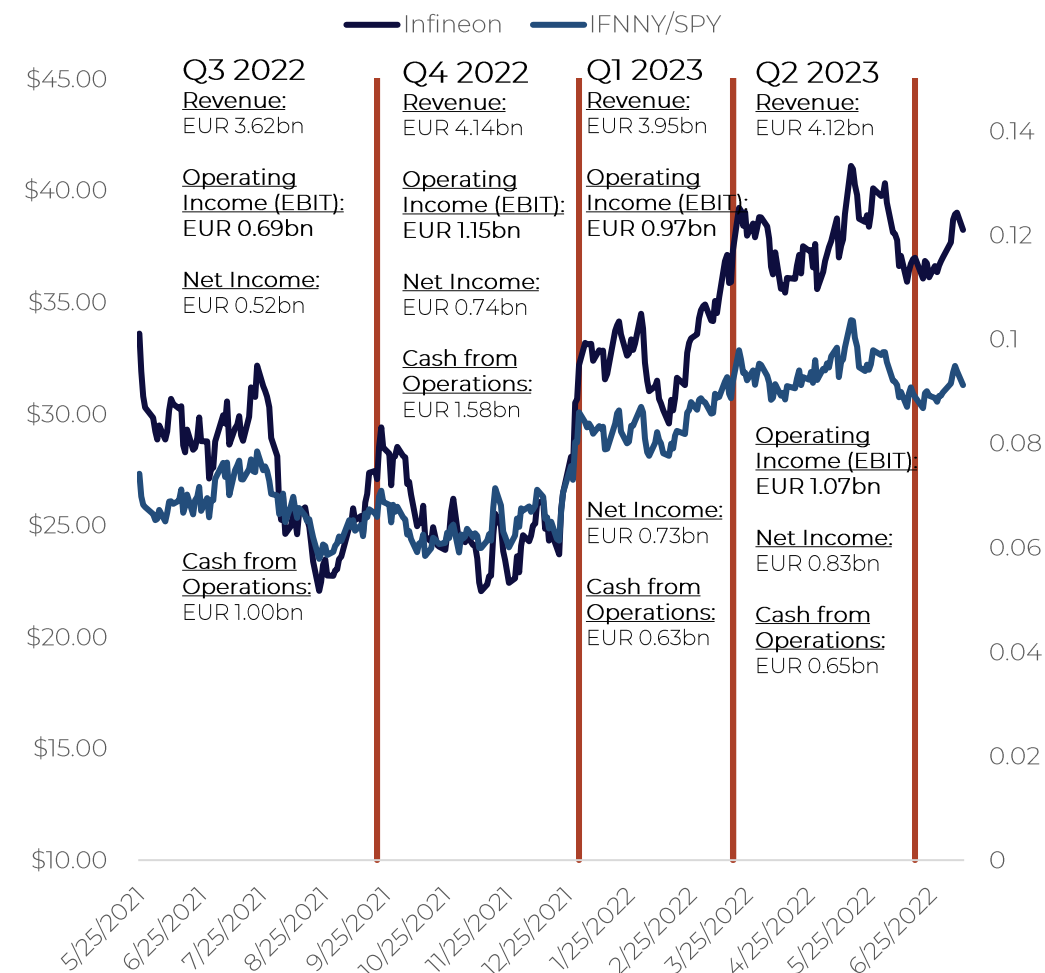
	P/E	EV/Sales	EV/EBIT	EV/EBITDA	P/B
NTM	14.1	2.96	12.79	8	NA
TTM	16.74	3.08	12.49	8.81	3.06
*Levered FCF					

Sources: Infineon IR, TIKR, Blue Line Capital

5/25/2023

Blue Line Capital maintains no position in Infineon.

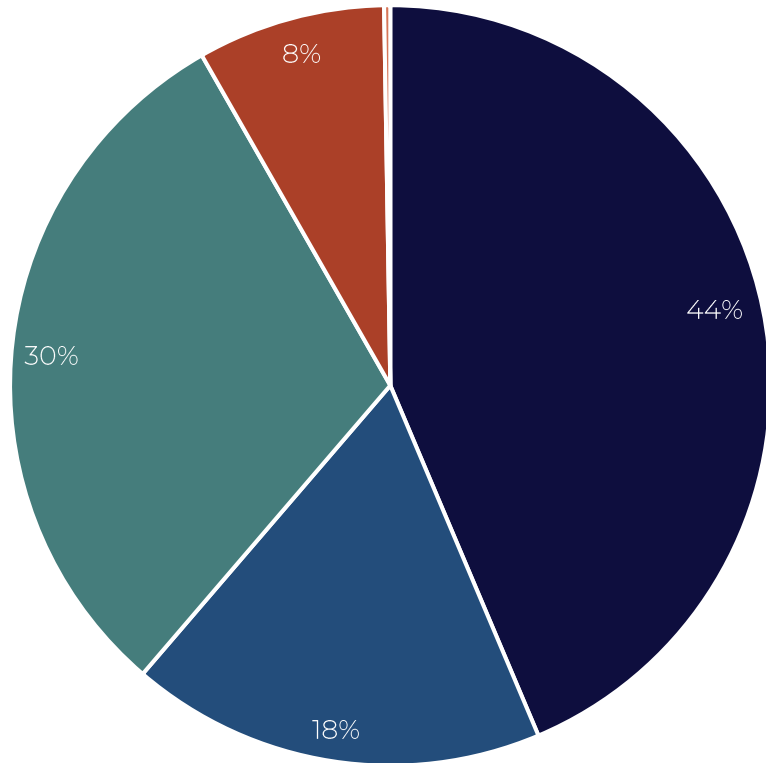
Quarterly Data



BLUE LINE CAPITAL

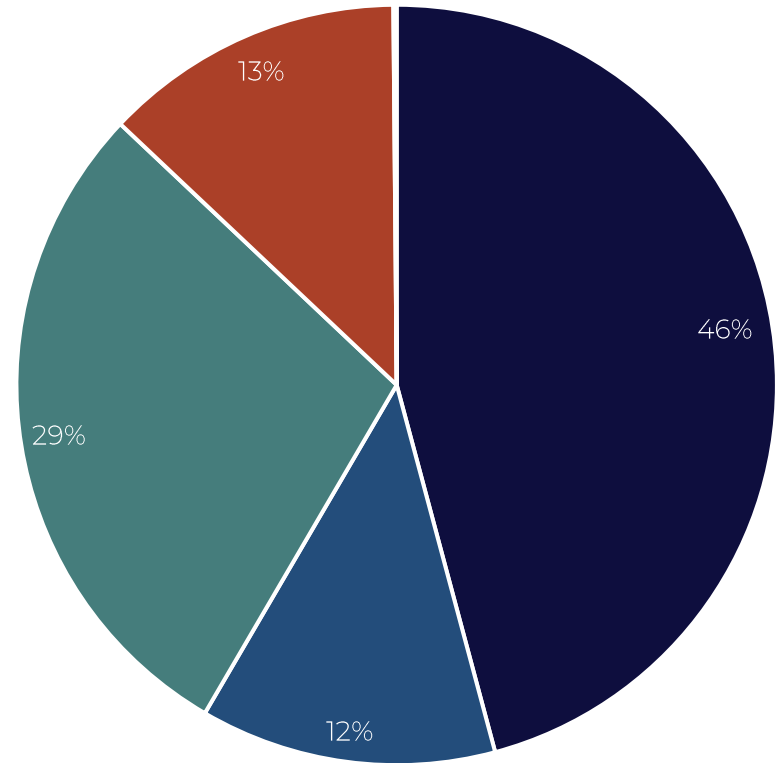
Infineon Revenue By Segment

■ Automotive
■ Green Industrial Power
■ Power & Sensor Systems
■ Connected Secure Systems
■ Other Operating Segments



2019 → 2022

■ Automotive
■ Green Industrial Power
■ Power & Sensor Systems
■ Connected Secure Systems
■ Other Operating Segments



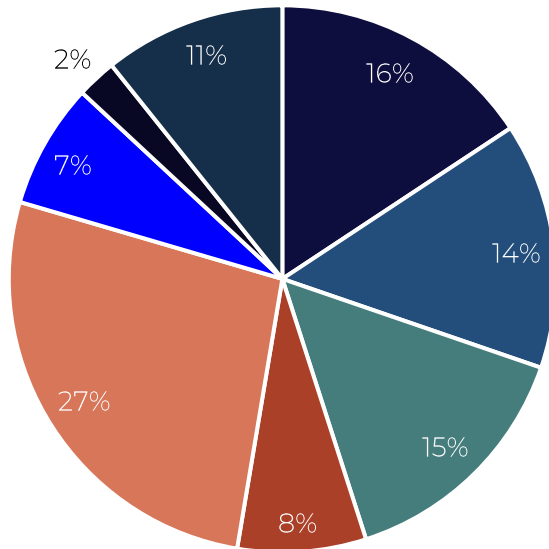
Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

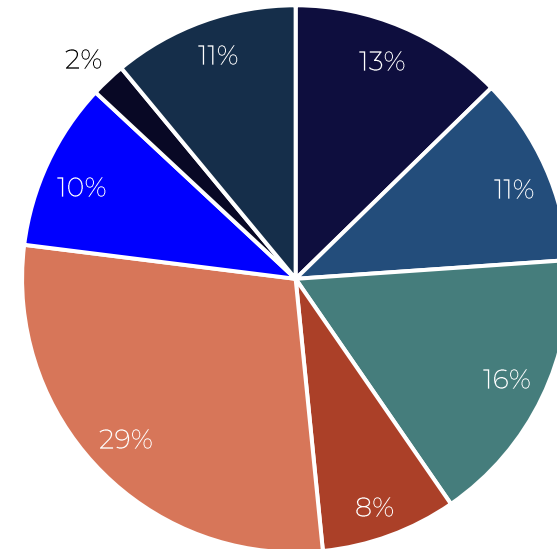
Blue Line Capital maintains no position in Infineon.

Infineon Revenue By Geography

- Europe, Middle East and Africa (Excluding Germany)
- Germany
- Asia-Pacific (Excluding Japan, Greater China)
- Greater China (Excluding Mainland China, Hong Kong)
- Mainland China, Hong Kong
- Japan
- Americas (Excl. United States of America)
- United States of America (USA)



- Europe, Middle East and Africa (Excluding Germany)
- Germany
- Asia-Pacific (Excluding Japan, Greater China)
- Greater China (Excluding Mainland China, Hong Kong)
- Mainland China, Hong Kong
- Japan
- Americas (Excl. United States of America)
- United States of America (USA)

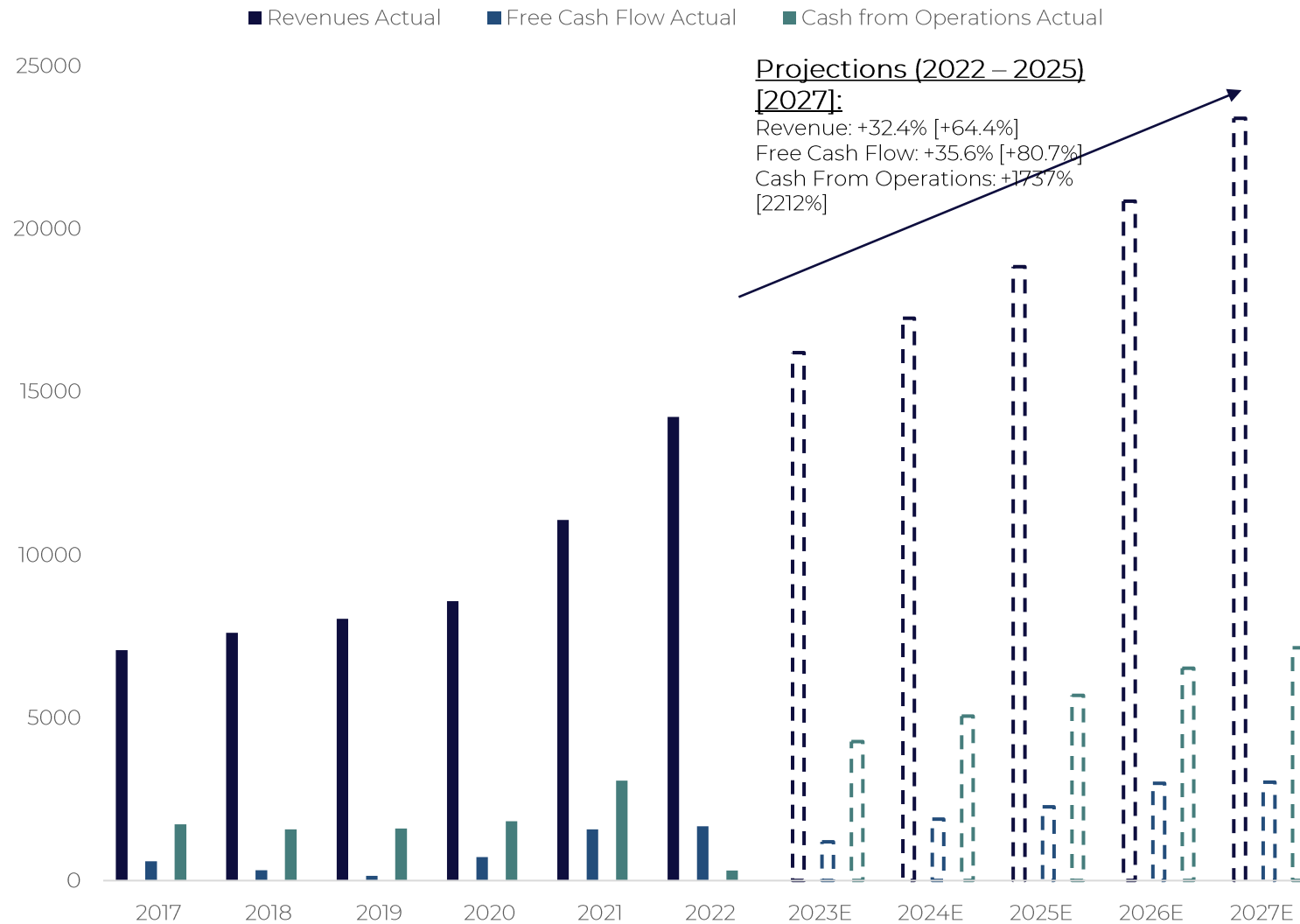


Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

Blue Line Capital maintains no position in Infineon.

Infineon Projections



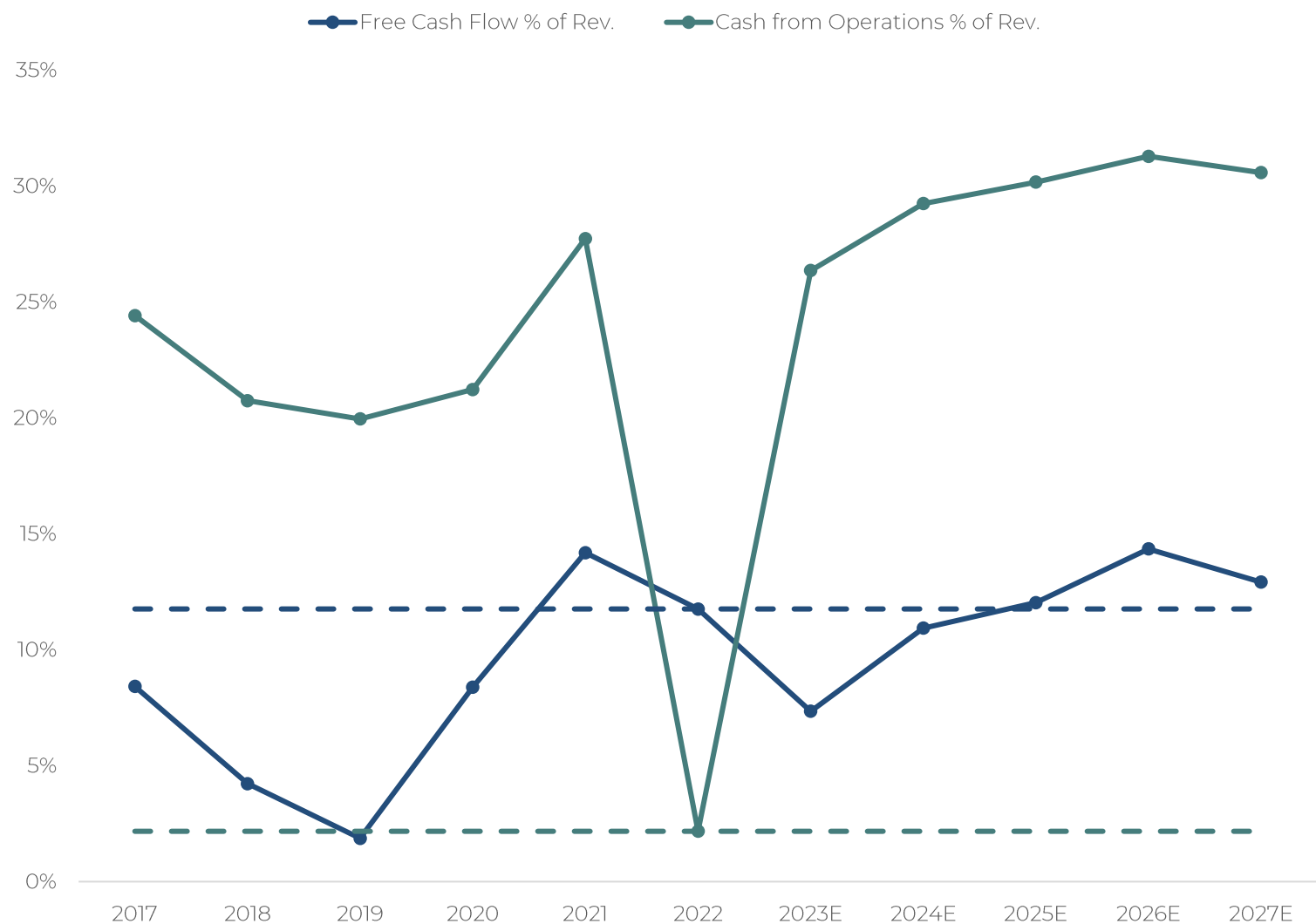
- Revenue
 - Projected to increase from ~EUR 14.2bn in 2022 to EUR 16.2bn in 2023 and rise to EUR 17.2bn in 2024 (EUR 23.4bn in 2027)
- Free Cash Flow
 - Projected to decline from ~EUR 1.67bn in 2022 to EUR 1.19bn in 2023 and rise to EUR 1.88bn in 2024 (EUR 2.26bn in 2025)
- Cash from Operations
 - Projected to increase from ~EUR 0.31bn in 2022 to EUR 4.27bn in 2023 and rise to EUR 5.04bn in 2024 (EUR 5.68bn in 2025)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

Blue Line Capital maintains no position in Infineon.

Infineon Cash Flow Margin Projections



- Free Cash Flow as % of Revenue projected to decline from 12% in 2022 to decline in the coming years but set to recover to 12% by 2025.
- Cash from Operations as % of Revenue projected to increase from 2% in 2022 to 26% in 2023 before increasing further to 29% in 2024.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

5/25/2023

Blue Line Capital maintains no position in Infineon.

Infineon Expectations & Returns

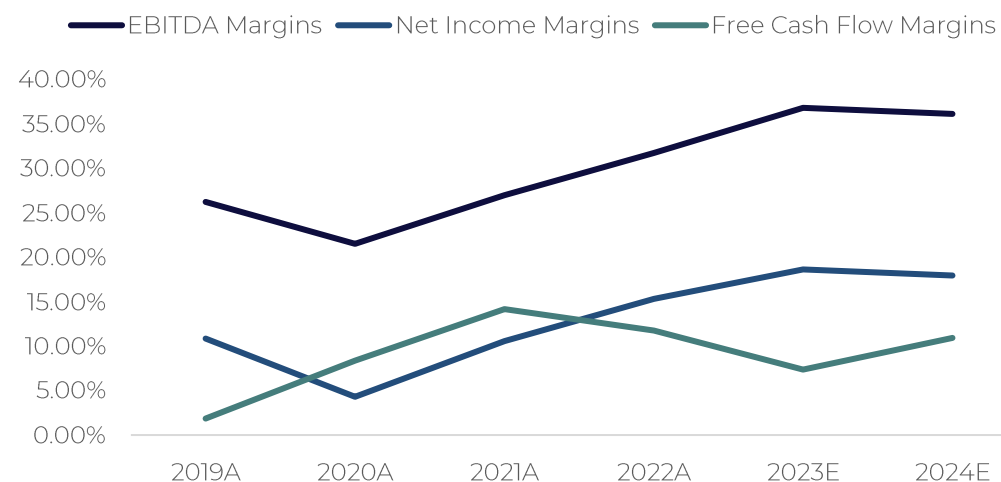
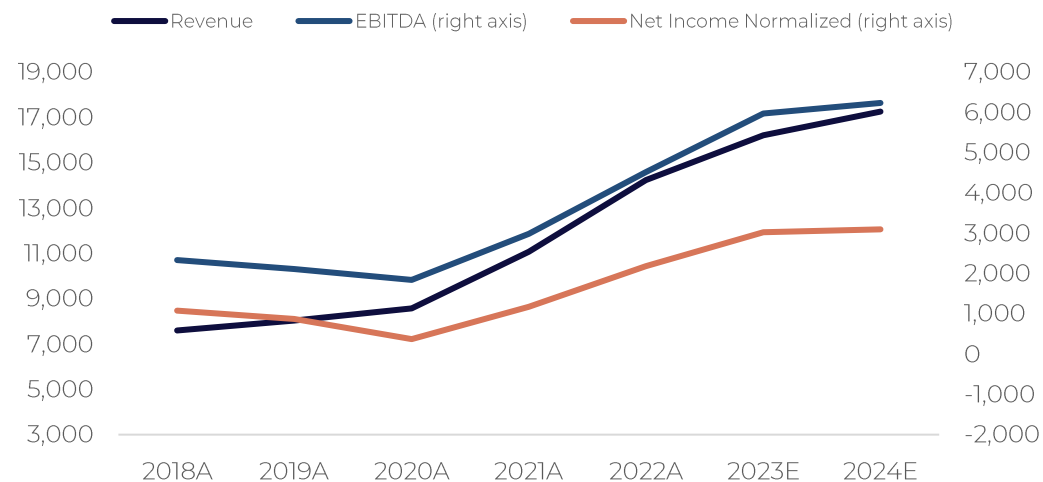
Return Ratios Compared To 2019

Returns and margins have improved across the board from 2019 levels.

		LTM	2019
Return Ratios	RoA	9.70%	6.70%
	RoC	12.20%	9.00%
	RoE	20.40%	11.80%
Margins	Gross Profit Margin	45.50%	38.00%
	EBITDA Margin	34.30%	27.40%
	Net Income Margin	17.70%	10.80%
	Levered Free Cash Flow Margin	4.70%	-6.40%
Asset Turnover	Asset Turnover	0.6	0.7
	Fixed Asset Turnover	2.8	2.8
	Receivables Turnover	8.4	7.6
	Working Capital Turnover	NA	NA
Solvency	Total Debt/Equity	38.30%	18.00%
	Total Debt/Capital	27.70%	15.30%
	EBITDA/Interest Expense	41.8	35.5
	(EBITDA-Capex)/Interest Expense	24.3	14.6

Sources: Infineon IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Infineon Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Infineon (XTRA: IFX)	8	14.1	6%	21%	58%
ASML (ASML)	26.82	34.01	8%	13%	36%
Texas Instruments (TXN)	16.63	22.40	-1%	-5%	1%
Lam Research (LRCX)	18.19	24.44	19%	24%	29%
Nvidia (NVDA)	73.41	67.17	31%	86%	94%
Western Digital (WDC)	39.50	NA	-2%	2%	-16%
Micron (MU)	13.07	NA	14%	12%	16%
Median	18.19	24.44	8%	13%	29%
Mean	27.95	32.42	11%	22%	31%

Sources: TIKR, Google Finance, Blue Line Capital

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Blue Line Capital maintains no position in Infineon.

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BLUE LINE CAPITAL

Infineon Chart



TradingView

Sources: Trading View, Blue Line Capital



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Blue Line Capital maintains no position in Infineon.