

Blue Line Capital

Debt Debate & Fed Rate Hike Expectations

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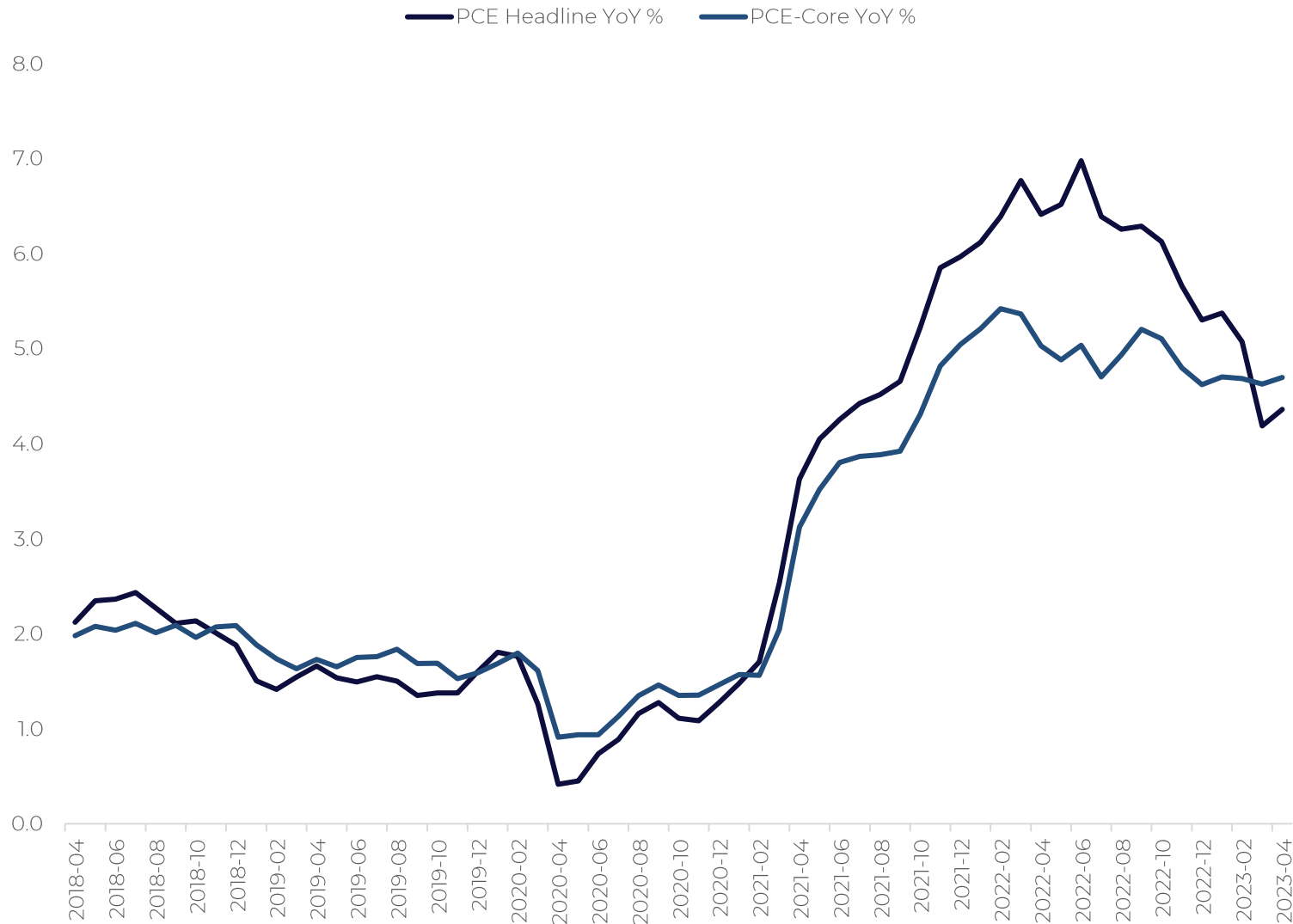
Macro Dynamics

Debt Ceiling

Fed & Financial Conditions

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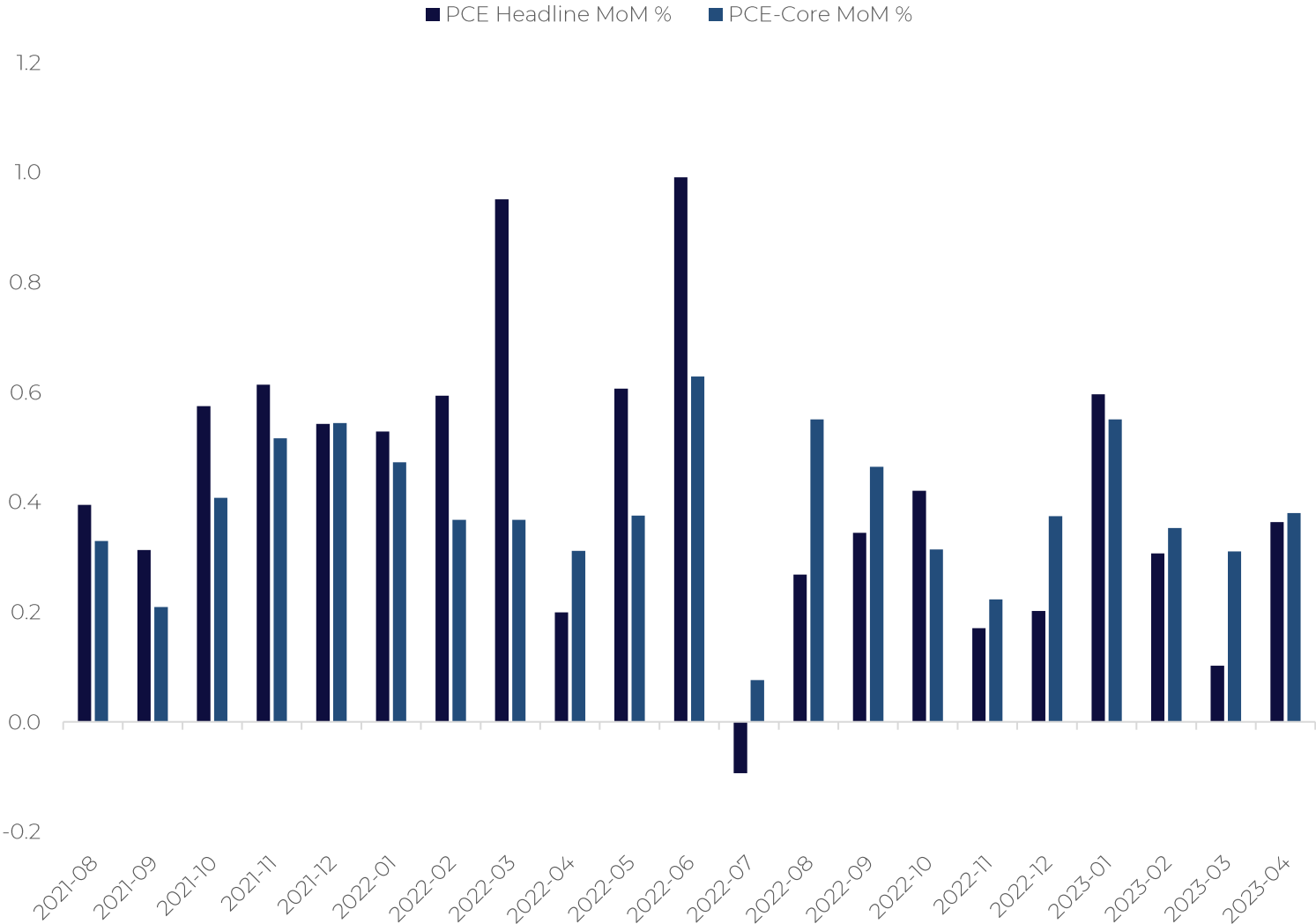
PCE Headline Accelerated To 4.4% With Core At 4.7% YoY



- YoY PCE Headline accelerated from 4.2% in March (after 5.1% in Feb.) to 4.4% in April.
- YoY PCE Core accelerated from 4.6% in March (after 4.7% in Feb.) to 4.7% in April.

Sources: FRED, Blue Line Capital, Blue Line Futures

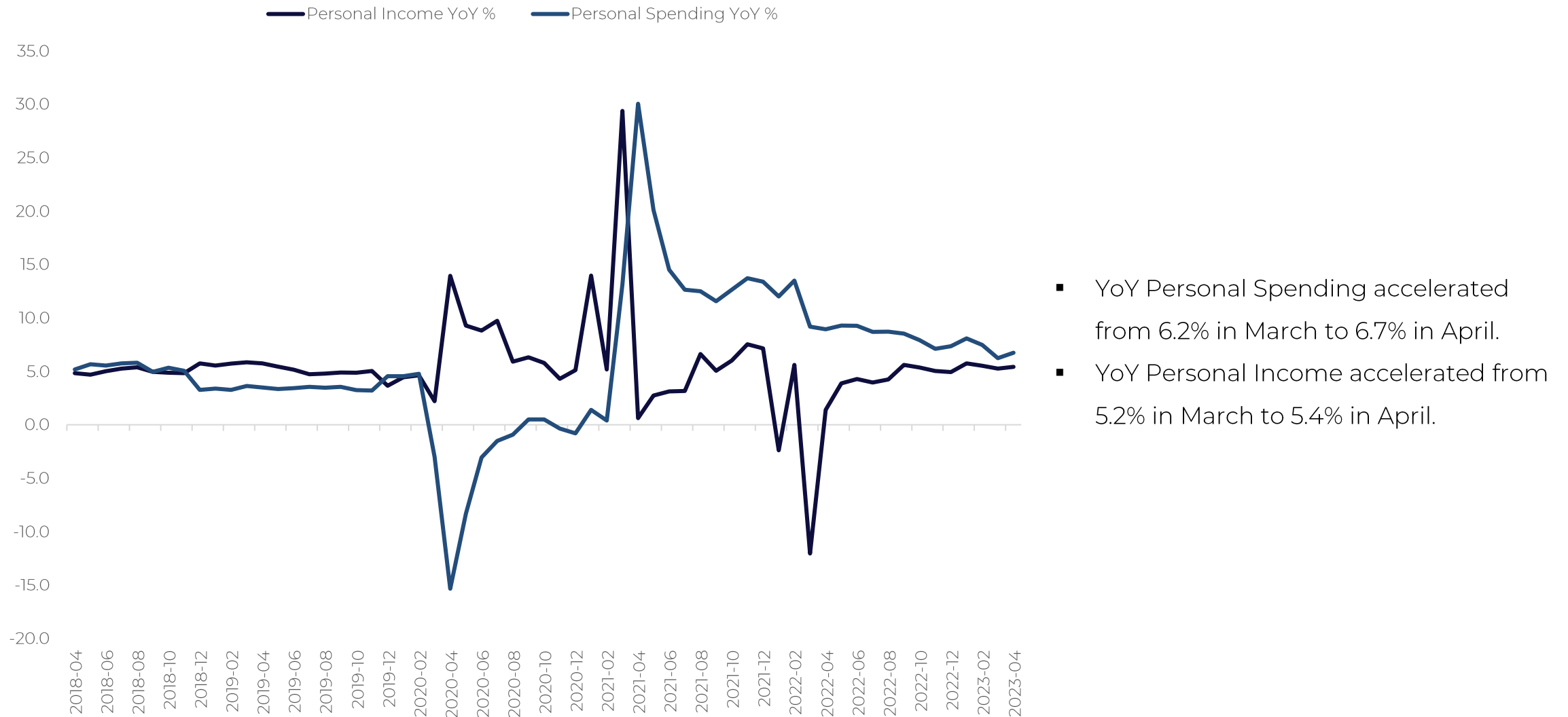
Headline & Core PCE Increased +0.4% MoM



- PCE headline increased by 0.4% MoM in April (prev. 0.1%)
- PCE core increased by 0.4% MoM in April (prev. 0.3%)

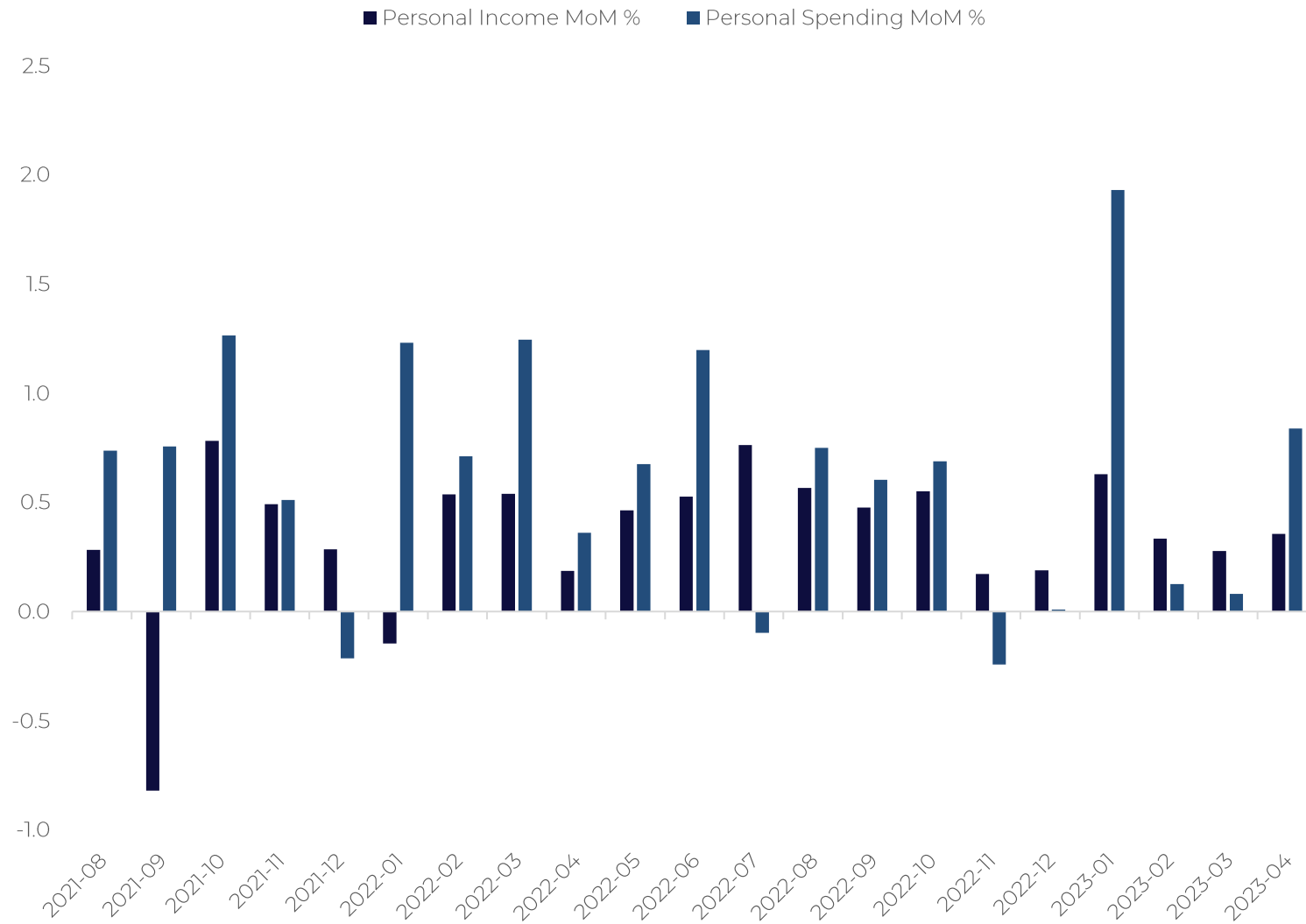
Sources: FRED, Blue Line Capital, Blue Line Futures

Yearly Income & Spending Trends Exceed PCE Inflation



Sources: FRED, Blue Line Capital, Blue Line Futures

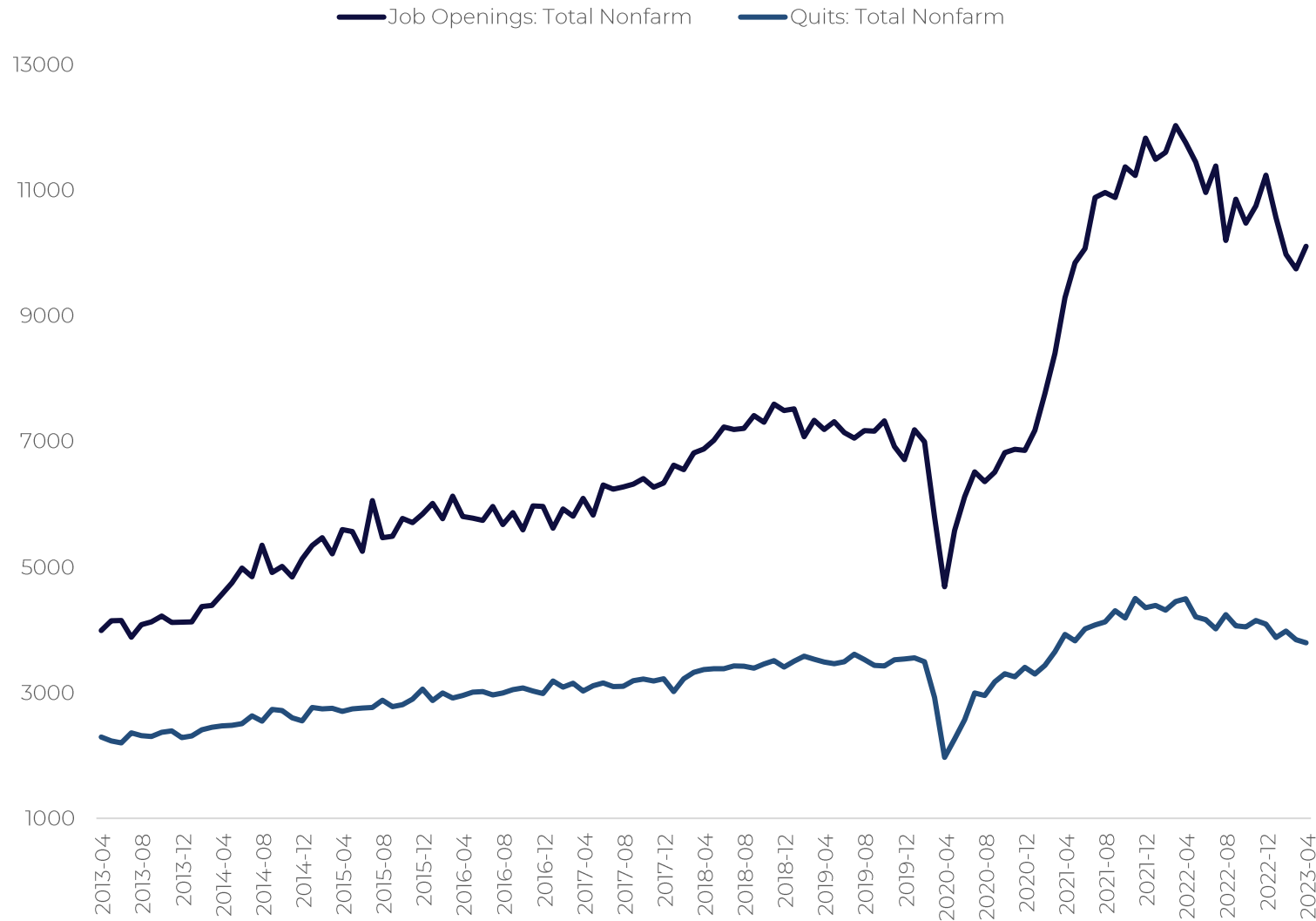
PCE Spending +0.8% & PCE Income +0.4% In April



- MoM Personal Spending accelerated from 0.1% in March and February to 0.8% in April.
- MoM Personal Income accelerated from 0.3% in March and February to 0.4% in April.

Sources: FRED, Blue Line Capital, Blue Line Futures

JOLTs Stay Elevated & Job Quits Decline

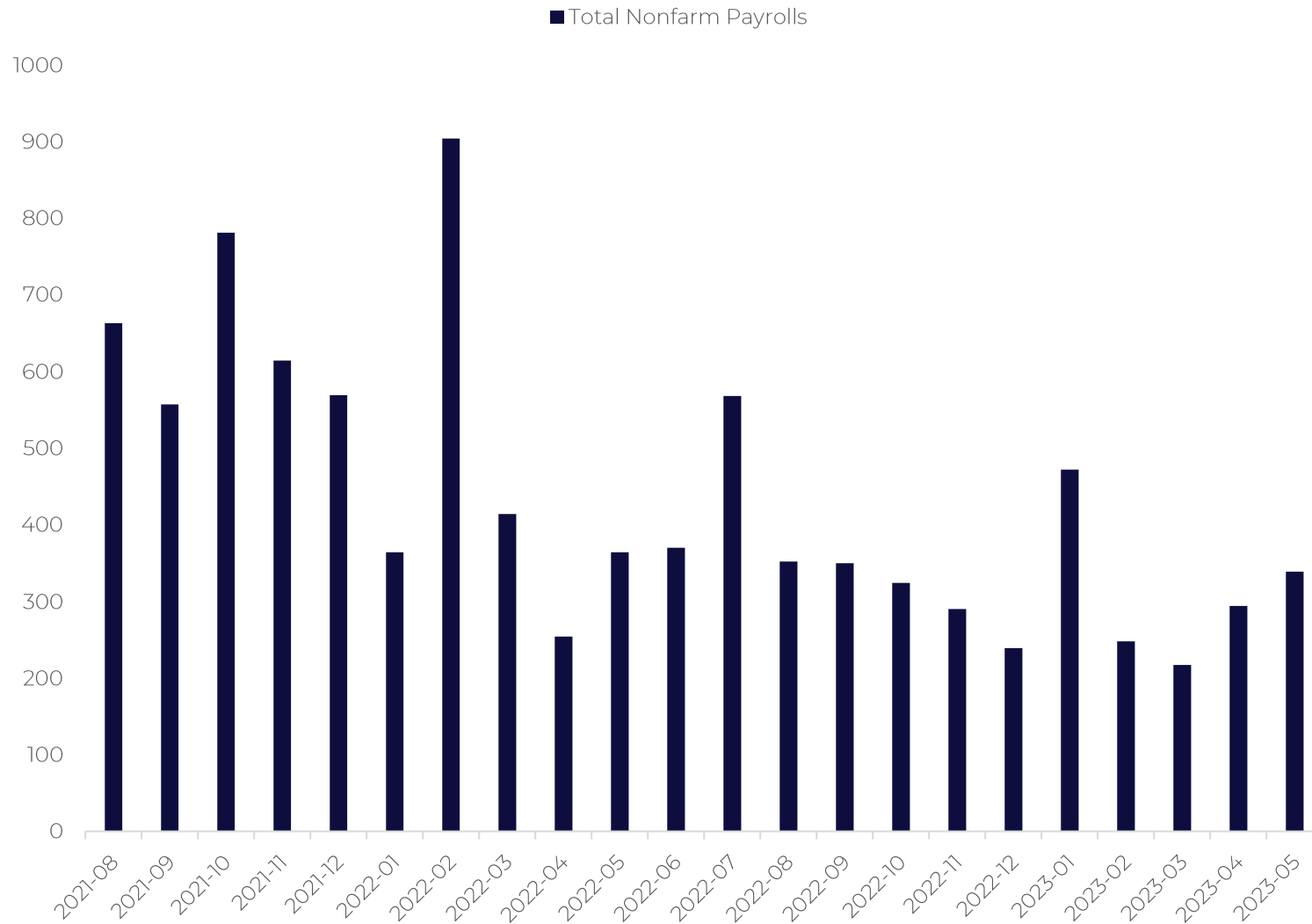


- JOLTs Job Openings increased from 9.745m in March to 10.103m in April
- JOLTs Job Quits declined from 3.842m in March to 3.793m in April

Sources: FRED, Blue Line Capital, Blue Line Futures

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339k Jobs Added In May; April Revised Higher To +294k (From +253k)

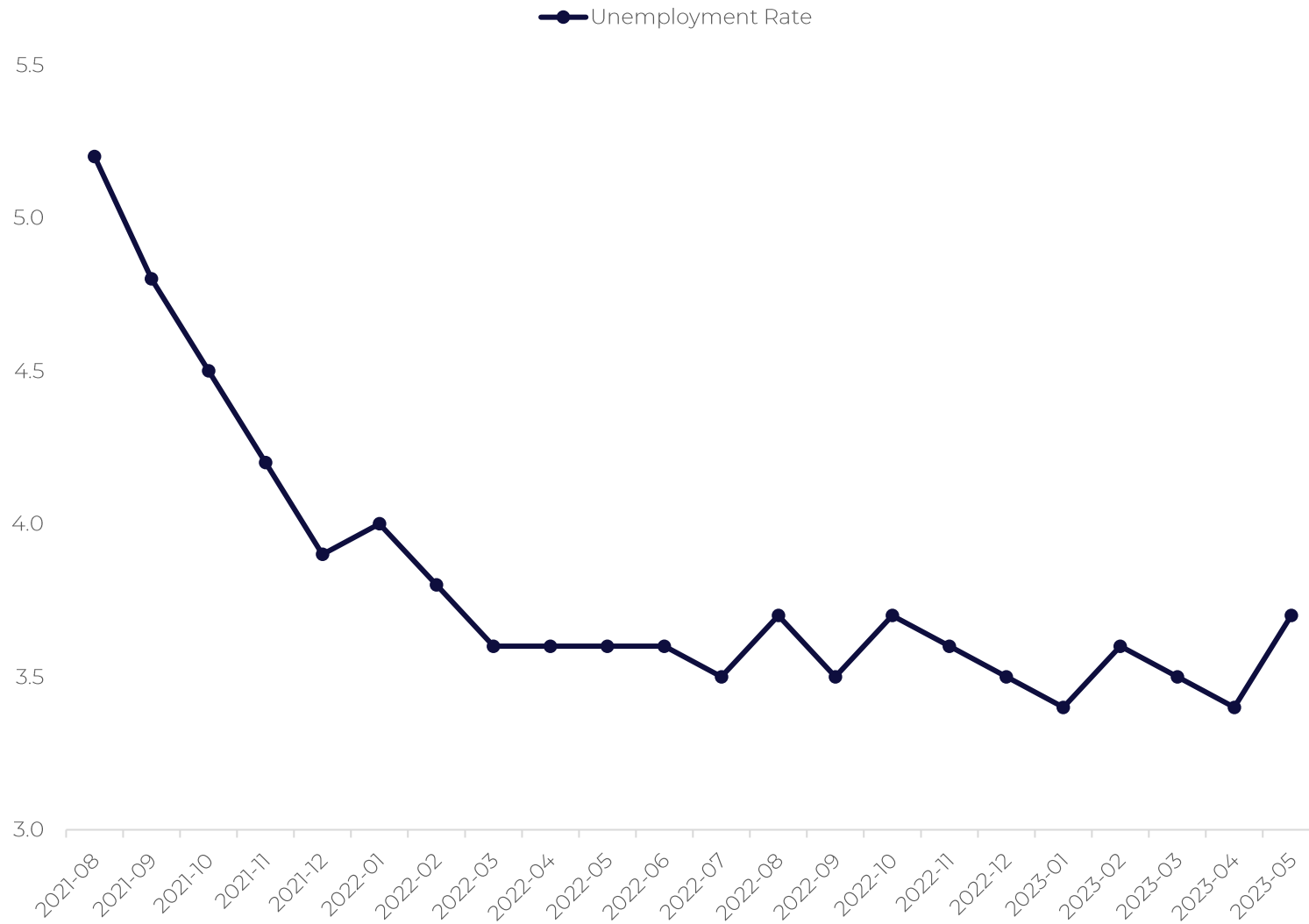


- May Nonfarm Payrolls showed 339k job additions in May with a +41k revision higher for April.

Sources: FRED, Blue Line Capital, Blue Line Futures

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Unemployment Rate Increases By 0.3% To 3.7% In May

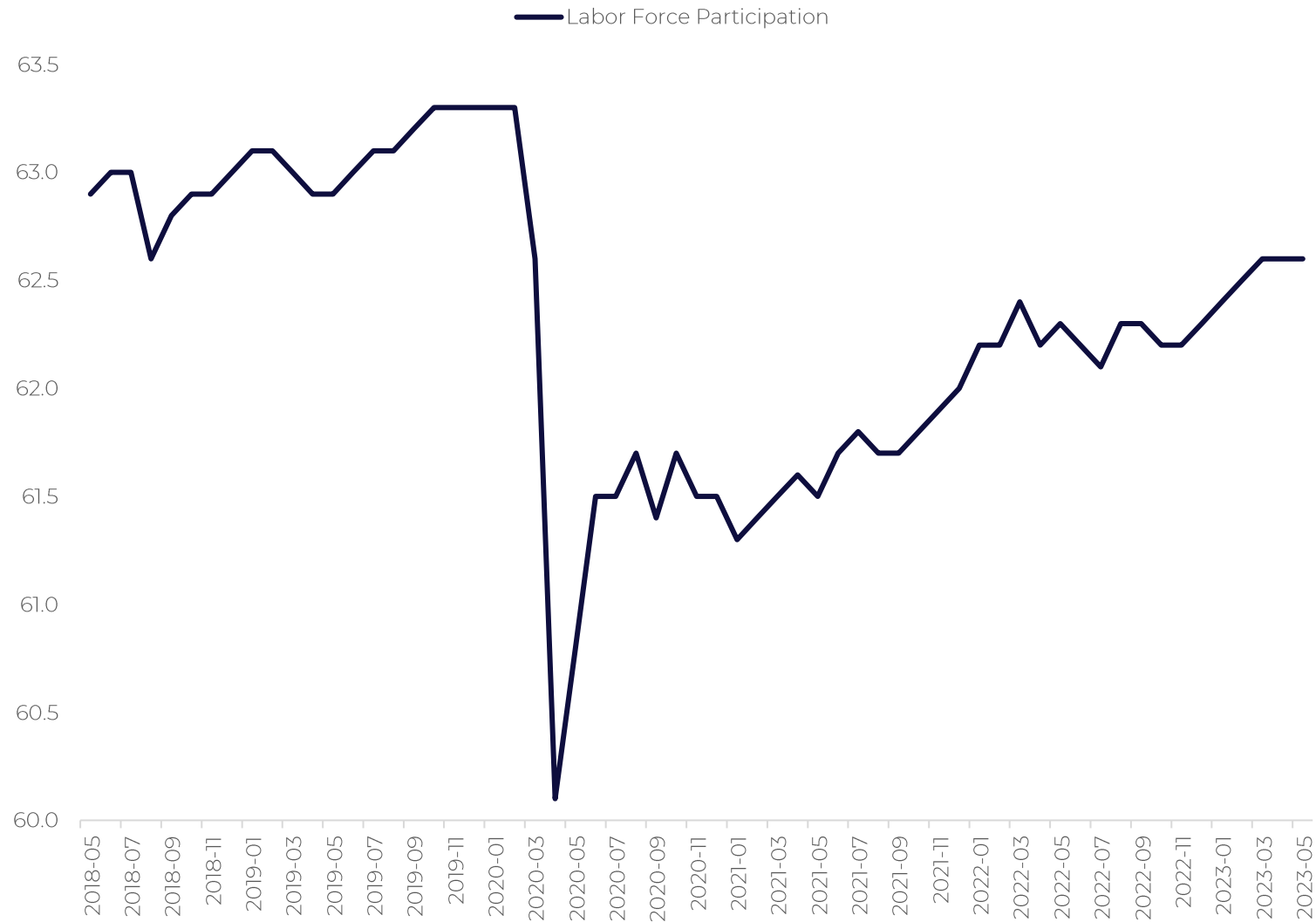


- The unemployment rate ticked higher to 3.7%, up from a multi-decade low.

Sources: FRED, Blue Line Capital, Blue Line Futures

6/2/2023

Labor Force Participation Flat At 62.6% In May



- Labor Force Participation flatlined in May at 62.6%.

Sources: FRED, Blue Line Capital, Blue Line Futures

New Record High For Prime-Age Labor Force Participation

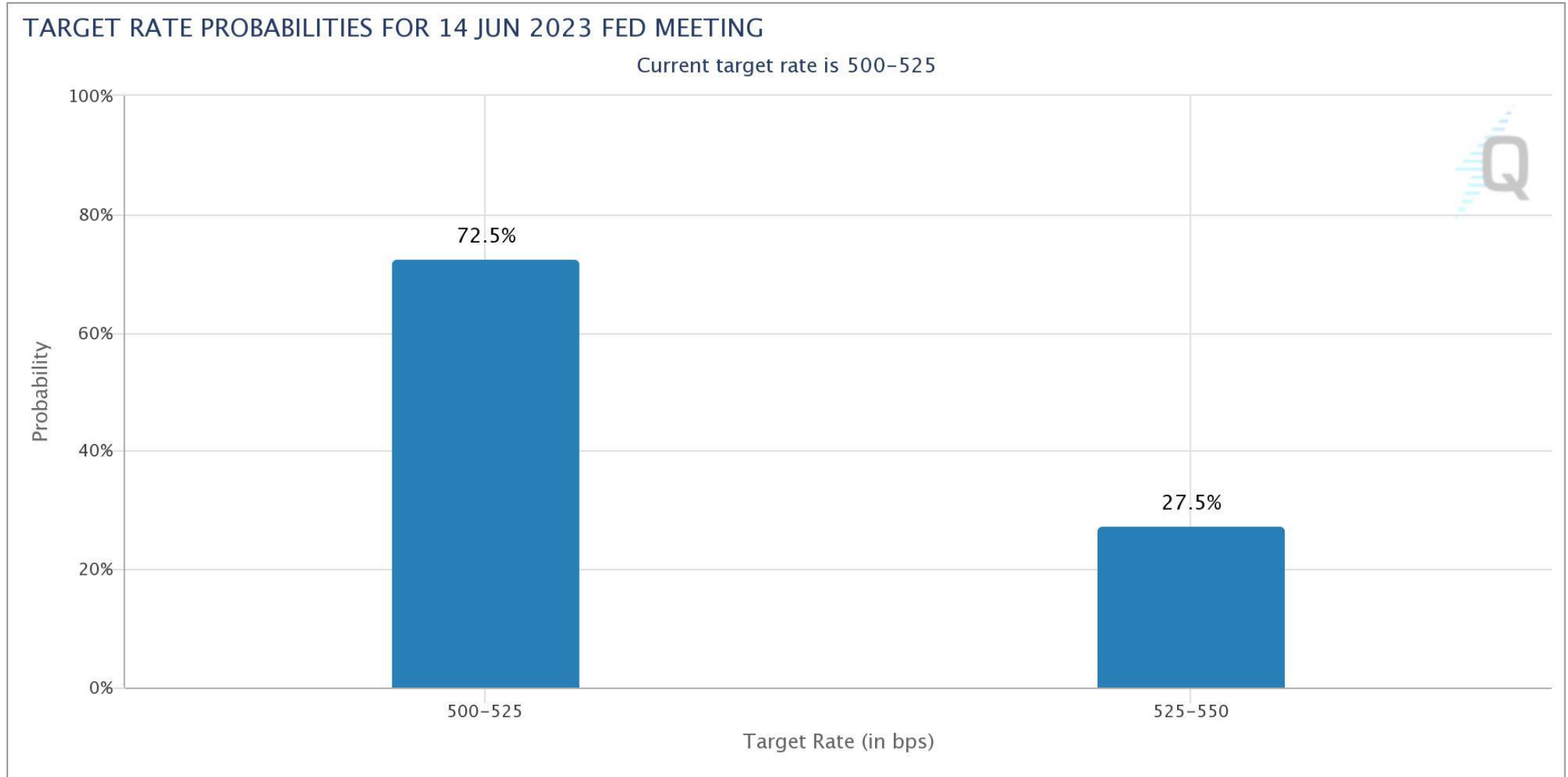


- Prime age labor-force participation (25 – 54 Yrs.) rose to a new all-time high of 83.4% in May.

Sources: FRED, Blue Line Capital, Blue Line Futures

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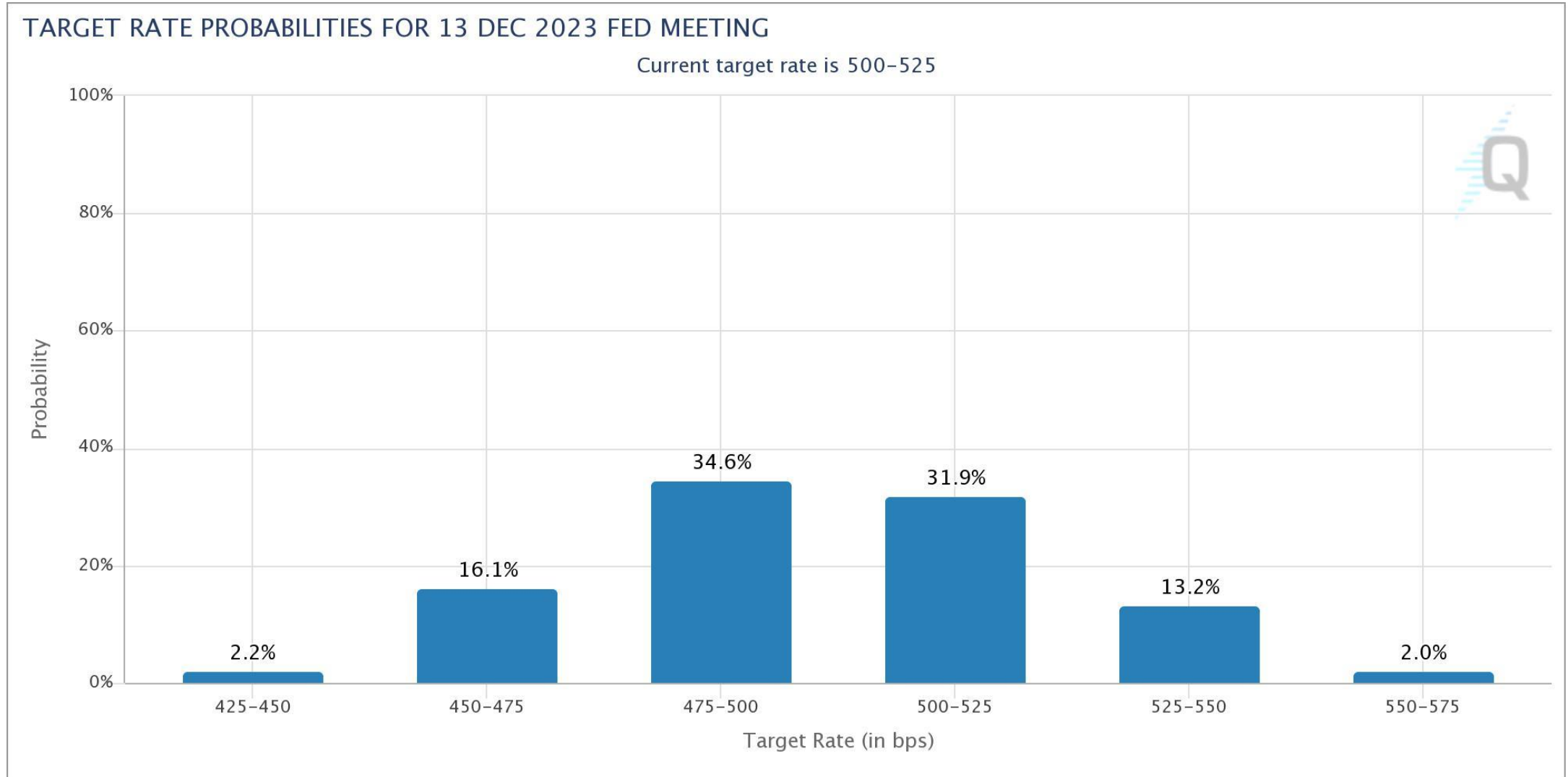
June 14th Rate Hike Expectations



Sources: CME, Blue Line Capital, Blue Line Futures

6/2/2023

December 13th Rate Hike Expectations



Sources: CME, Blue Line Capital, Blue Line Futures

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Equity Trends Research

Palo Alto Networks

CrowdStrike

Zscaler

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Palo Alto Networks

Playing The Entire Cybersecurity
Stack

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Palo Alto Networks Earnings Highlights & Stock Performance

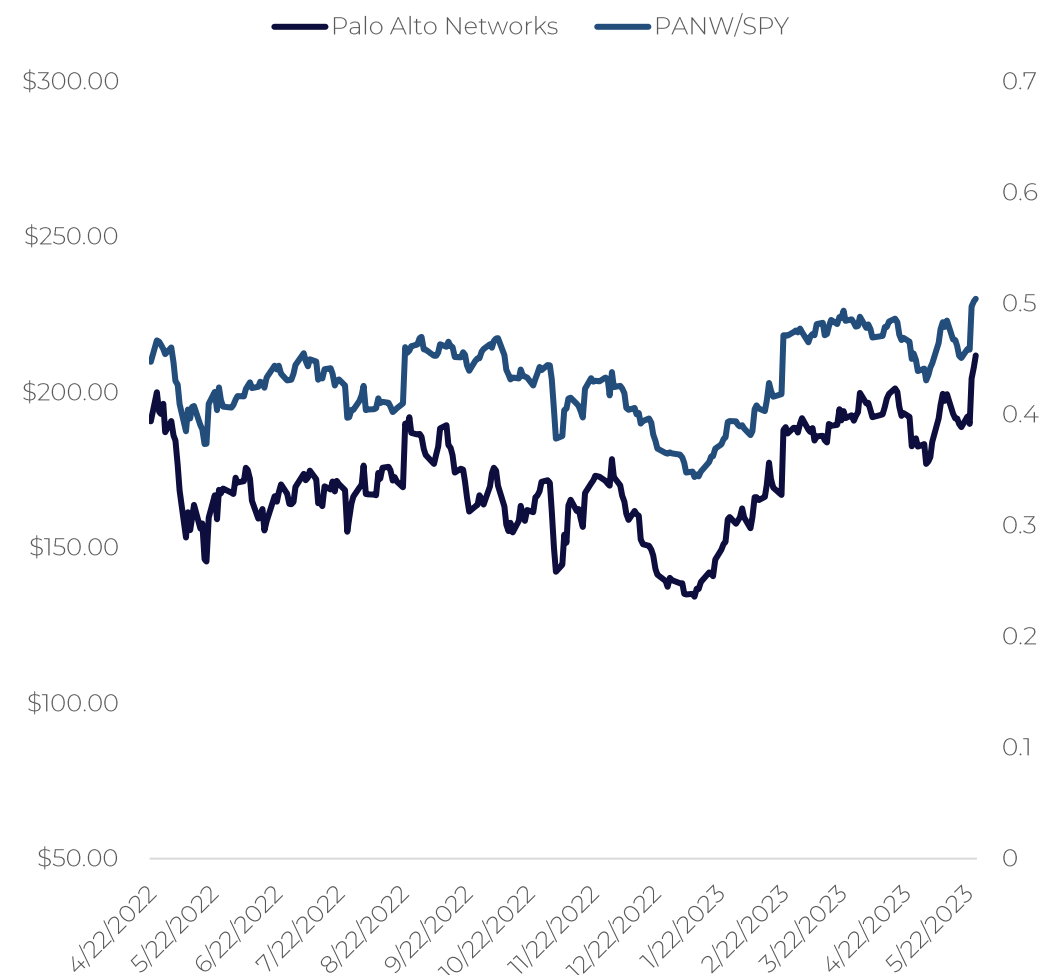
Management Commentary From Q3 2023 Earnings Call

- **Macro Trends:** The overall macro trends of cautious spending, deal scrutiny, and cost and value consciousness persist. Moreover, the behavior continues to be more widespread across a larger source of our customers.
- **Large Deals:** Across the board, the size of the transactions we are signing is increasing. This is evidently by booking from transactions valued over \$1 million, \$5 million and \$10 million in the third quarter, which are up YoY by 29%, 62%, 136%, respectively.
- **Customer CapEx:** Broader in SASE, the future of network security is clear to us. It is centered around software. And while we have led and expect to continue to lead the hardware appliance market for many years, software and cloud delivery form factors have been an increasing focus since I joined as CEO. There are multiple reasons why the shift to software is accelerating. In the changing macro environment, customers are more challenged in their CapEx budgets, which often fund appliance purchases. As a result, their interest in software and cloud delivery form factors remain high.
- **Competition:** Most of our competitors continue to provide only point products, while customer demand continues to shift towards the platform approach.

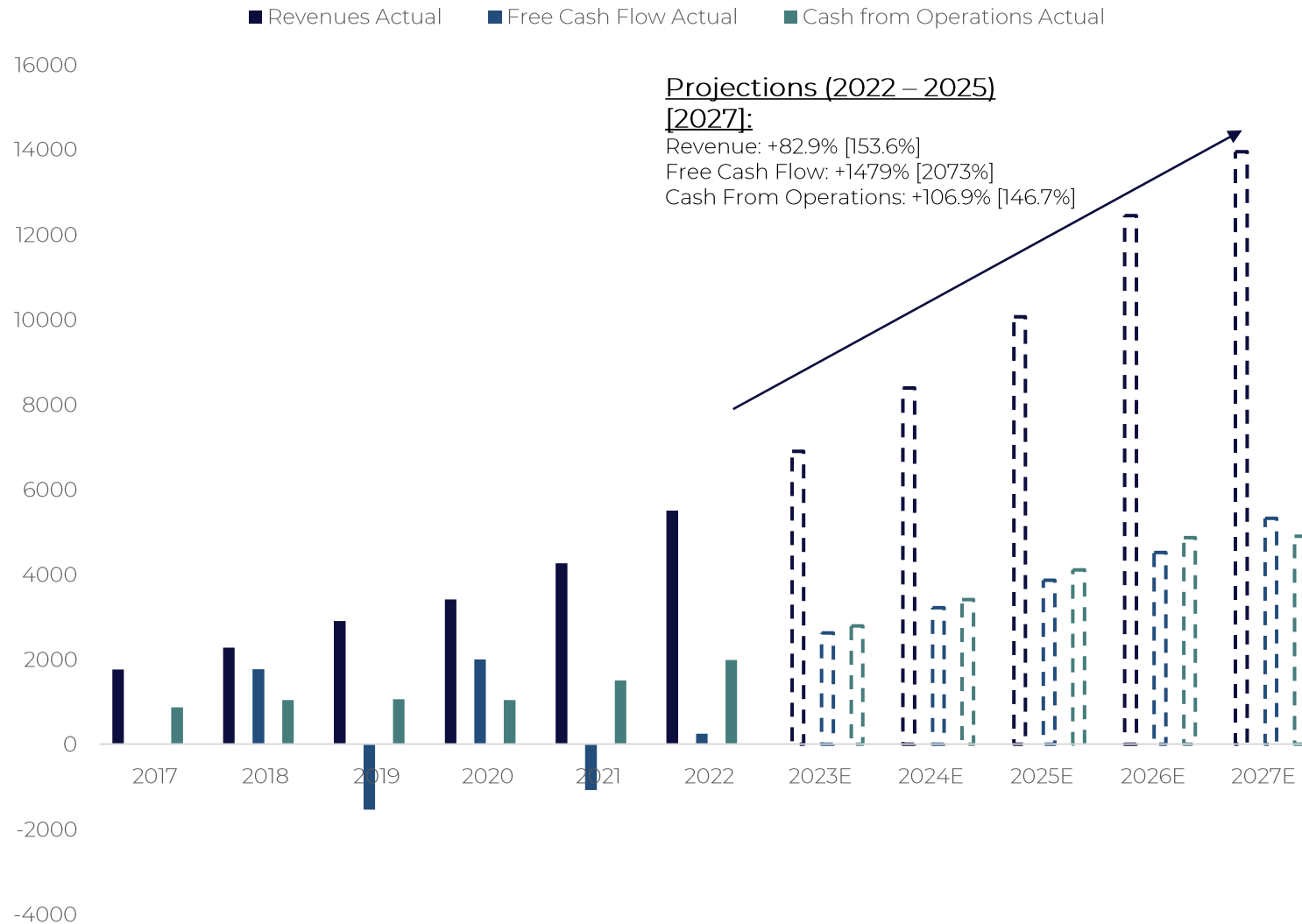
	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	44.52	8.13	22.16	28.59	NA
TTM	320.92	10.01	31.38	174.57	52.69
*Levered FCF					

Sources: Palo Alto Networks IR, CapIQ Blue Line Capital

Relative Performance



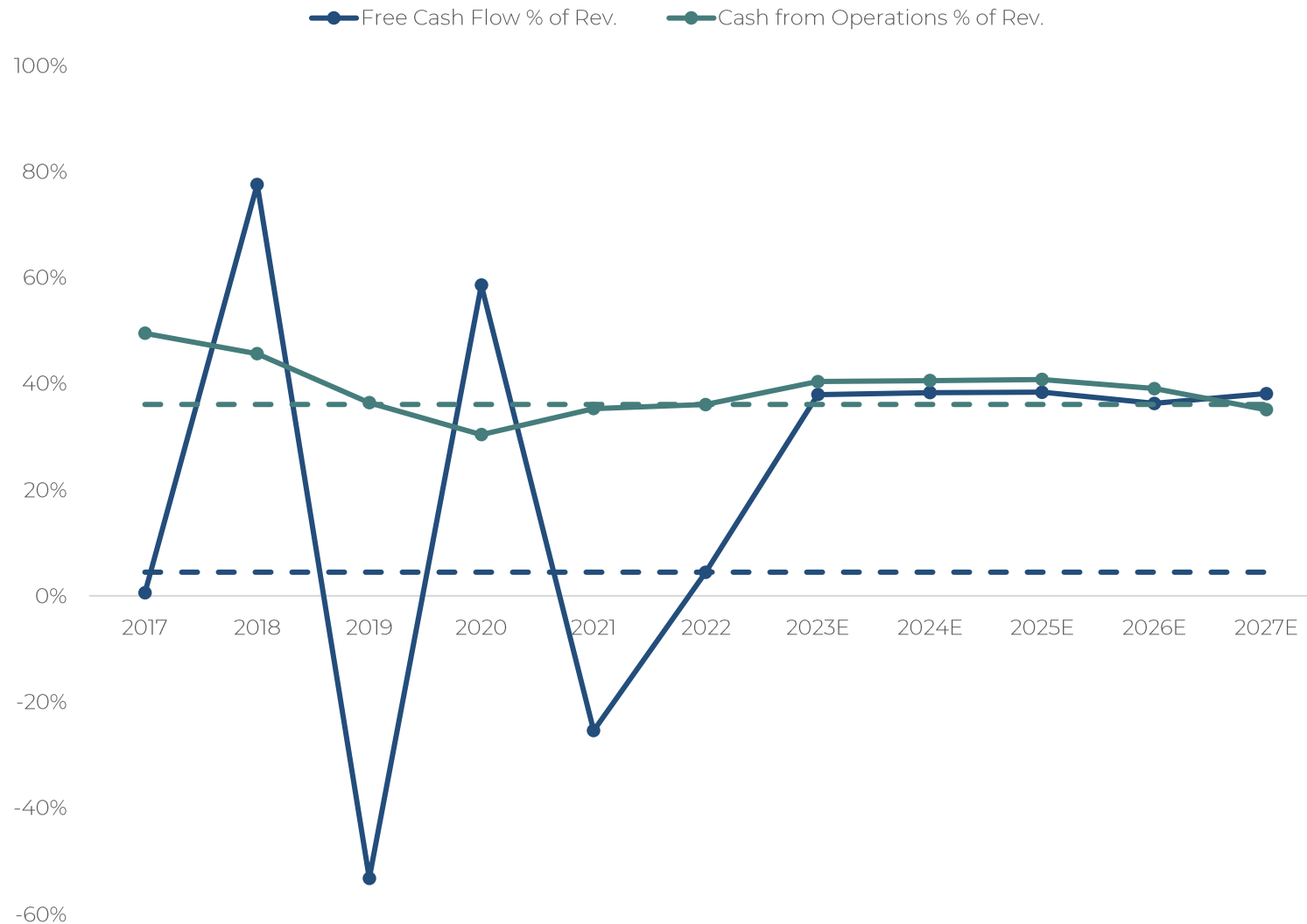
Palo Alto Networks Projections



- Revenue
 - Projected to increase from \$5.5bn in 2022 to \$6.9bn in 2023 and rise to \$8.4bn in 2024 (\$14bn in 2027)
- Free Cash Flow
 - Projected to increase from \$0.24bn in 2022 to \$2.6bn in 2023 and rise to \$3.2bn in 2024 (\$5.3bn in 2027)
- Cash from Operations
 - Projected to increase from \$2bn in 2022 to \$2.8bn in 2023 and rise to \$3.4bn in 2024 (\$4.9bn in 2027)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Palo Alto Networks Cash Flow Margin Projections



- Free Cash Flow as % of Revenue is projected to increase from 4% in 2022 to 38% in 2023.
- Cash from Operations as % of Revenue projected to increase from 36% in 2022 to 40% in 2023, before rising to 41% in 2024.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Palo Alto Networks Expectations & Returns

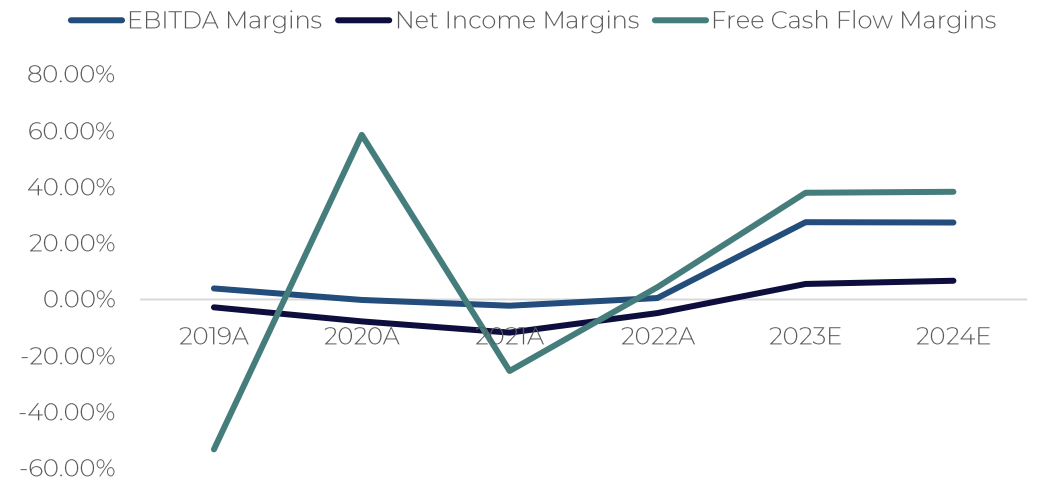
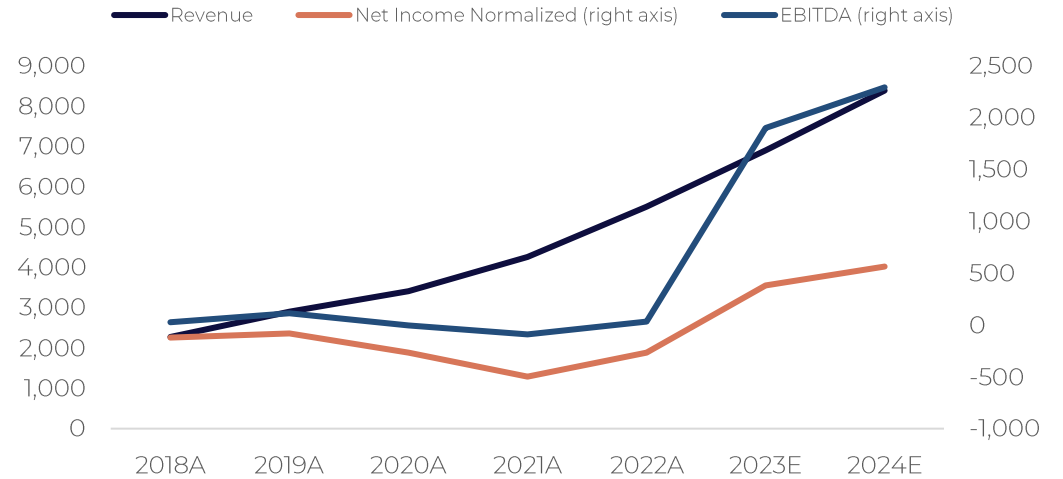
Return Ratios Compared To 2019

Return ratios have improved since 2019. Margins have been mixed since 2019.

		LTM	2019
Return Ratios	RoA	0.70%	-0.30%
	RoC	2.90%	-0.90%
	RoE	27.40%	-6.00%
Margins	Gross Profit Margin	70.80%	72.10%
	EBITDA Margin	5.70%	3.90%
	Net Income Margin	3.30%	-2.80%
	Levered Free Cash Flow Margin	31.90%	41.70%
Asset Turnover	Asset Turnover	0.46	0.44
	Fixed Asset Turnover	10.95	10.19
	Receivables Turnover	4.84	5.53
	Working Capital Turnover	-2.91	1.8
Solvency	Total Debt/Equity	320.20%	90.10%
	Total Debt/Capital	76.20%	47.40%
	EBITDA/Interest Expense	16.65	1.36
	(EBITDA - Capex)/Interest Expense	11.43	-0.21

Sources: Palo Alto Networks IR, TIKR, Blue Line Capital

Revenue and Net Income Estimates



Palo Alto Networks Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Palo Alto Networks (PANW)	28.59	44.52	13%	19%	20%
CrowdStrike (CRWD)	58.24	69.22	24%	28%	-7%
Zscaler (ZS)	57.46	74.87	12%	-7%	-7%
SentinelOne (S)	-38.3	-42.85	31%	41%	-16%
Cloudflare (NET)	102.39	190.83	10%	33%	13%
Juniper Networks (JNPR)	8.85	12.86	-2%	-7%	11%
Cisco (CSCO)	8.85	12.42	2%	0%	13%
Median	28.59	44.52	12%	19%	11%
Mean	32.30	51.70	13%	15%	4%

Sources: TIKR, Google Finance, Blue Line Capital

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Blue Line Capital maintains no position in Palo Alto Networks.

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Palo Alto Networks Chart

bill_blue_line published on TradingView.com, Jun 02, 2023 10:54 UTC-5



TradingView

Sources: Trading View, Blue Line Capital



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Blue Line Capital maintains no position in Palo Alto Networks.

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BLUE LINE CAPITAL

CrowdStrike

The Falcon Software Platform



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CrowdStrike Earnings Highlights & Stock Performance

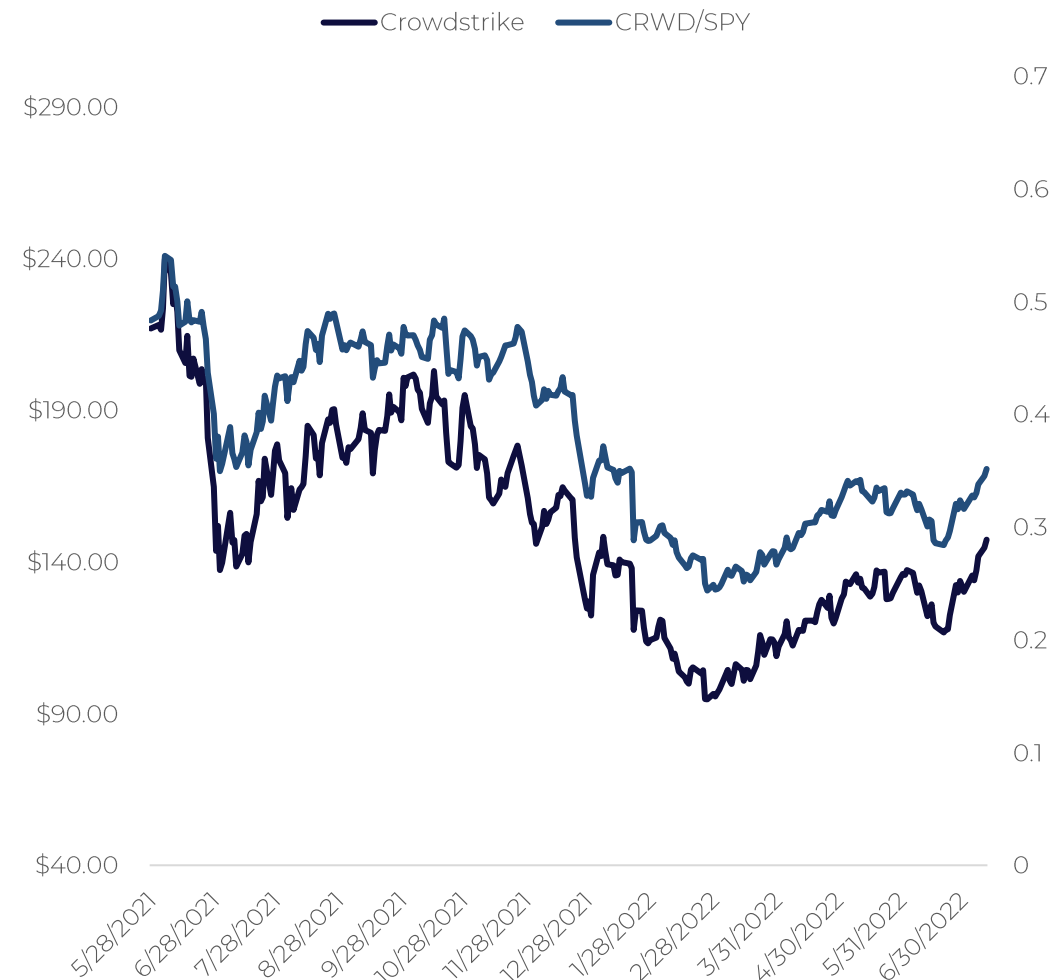
Management Commentary From Q1 2024 Earnings Call

- **Megatrends in Cybersecurity:** I will focus my comments on why we believe CrowdStrike has a clear a sustainable advantage as 3 megatrends continue to unfold: AI, consolidation, and cloud.
- **AI:** Since inception, CrowdStrike has been and will continue to be at the forefront of leveraging AI to drive better customer outcomes and efficiencies within our business. In addition to industry-leading detections and rapid remediation for customers, utilizing AI has benefited our business by lowering cost and yielding higher margins.
- **Data Advantage:** Driving better customer outcomes relies on having a data advantage and the context derived from that data. While expect that LLMs will become commoditized over time, the data on which they are trained will not.
- **Competition with Microsoft:** One enterprise customer with over 50,000 employees told us the upgrade cost of moving from Microsoft E3 to E5 would be at least \$2.3 million more than their CrowdStrike subscription, and that’s just for the upgrade. With Microsoft’s excessive annual cost increases, this would grow to \$4.7 million by year 5, excluding the additional cost required for support a solution or increased staff to manage the extra complexity.

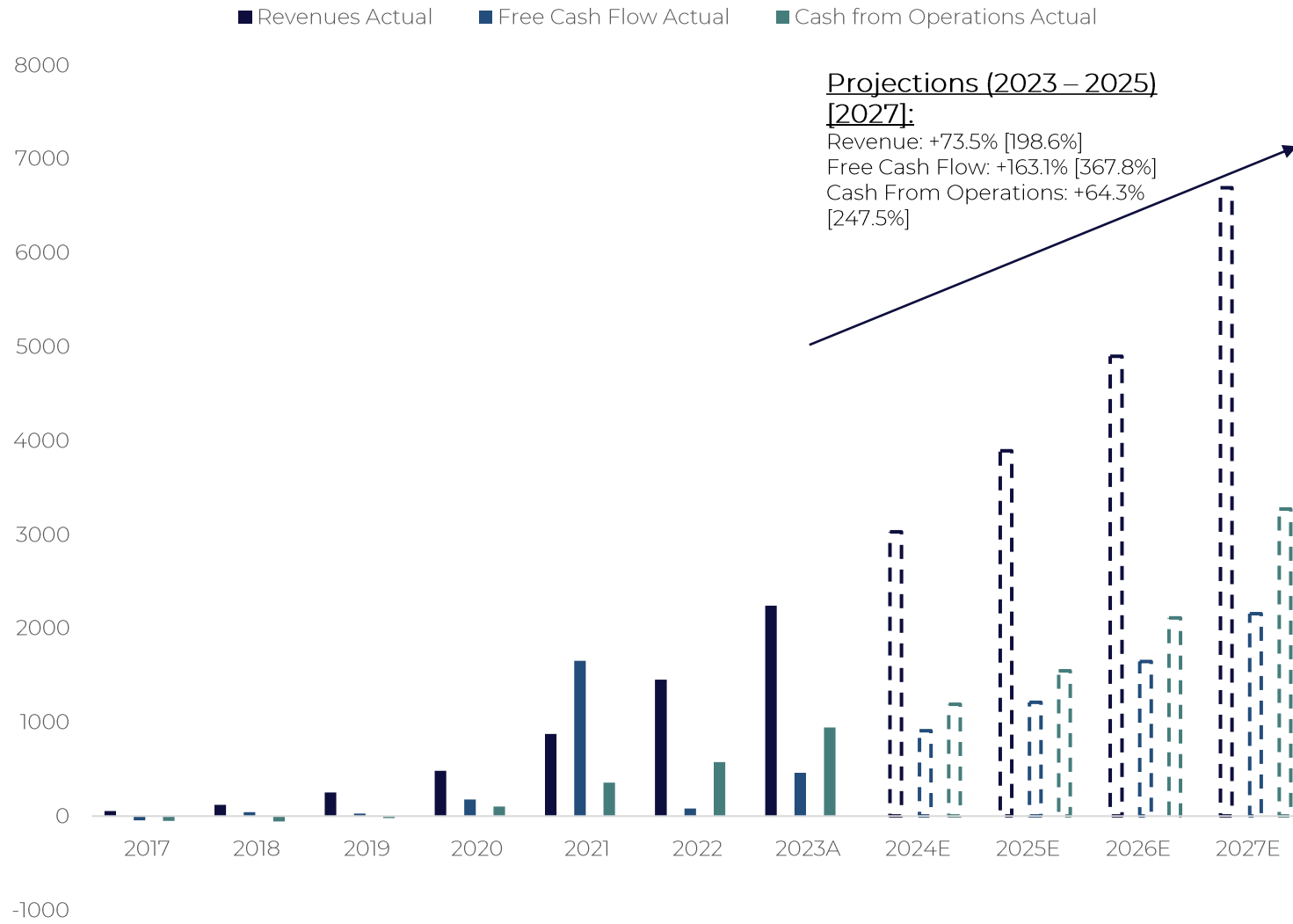
	P/E	EV/Sales	EV/EBIT	EV/EBITDA	P/B
NTM	68.52	11.91	70.34	58.27	NA
TTM	-201.77	15.93	-187.8	-303.8	25.55

Sources: CrowdStrike IR, TIKR, Blue Line Capital

Relative Performance



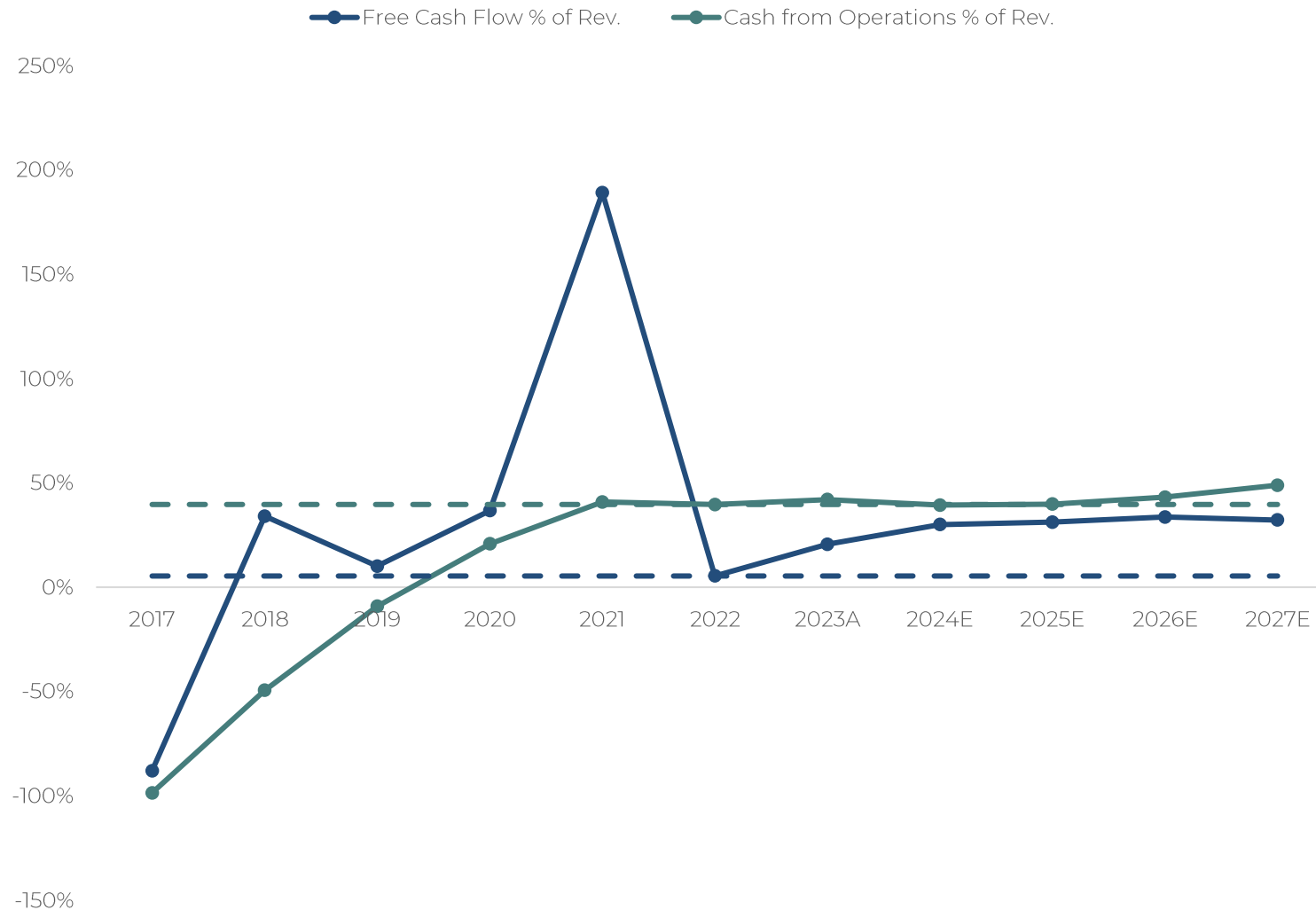
CrowdStrike Projections



- Revenue
 - Projected to increase from \$2.24bn in 2023 to \$3.03bn in 2024 and rise to \$3.90bn in 2024 (\$6.69bn in 2027)
- Free Cash Flow
 - Projected to increase from \$0.46bn in fiscal 2023 to \$0.91bn in 2024 (to \$2.15bn in 2027)
- Cash from Operations
 - Projected to increase from \$0.94bn in fiscal 2023 to \$1.19bn in fiscal 2024 (to \$3.27bn in 2027)

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

CrowdStrike Cash Flow Margin Projections



- Free Cash Flow as % of Revenue projected to increase from 21% in fiscal 2023 to 30% in fiscal 2024 before further increasing to 31% in fiscal 2025.
- Cash from Operations as % of Revenue projected to decline from 42% in fiscal 2023 to 39% in 2024 before increasing to 49% by 2027.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

CrowdStrike Expectations & Returns

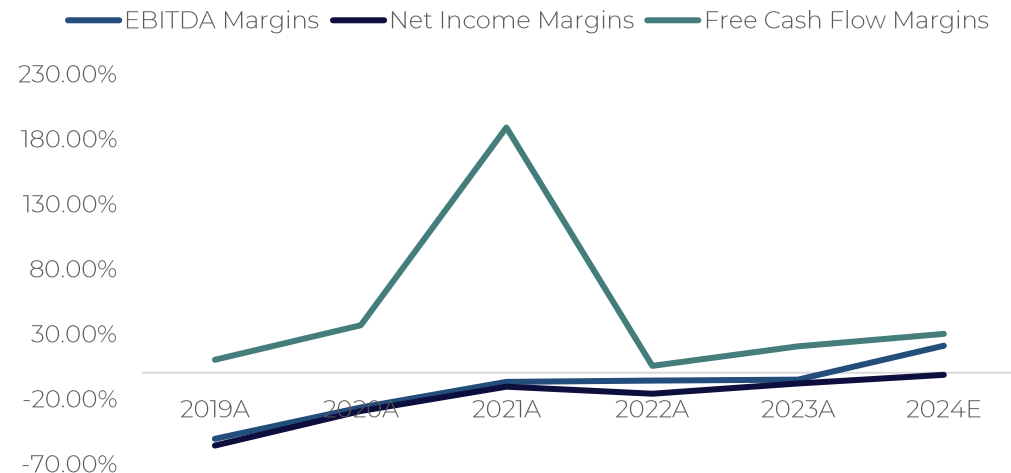
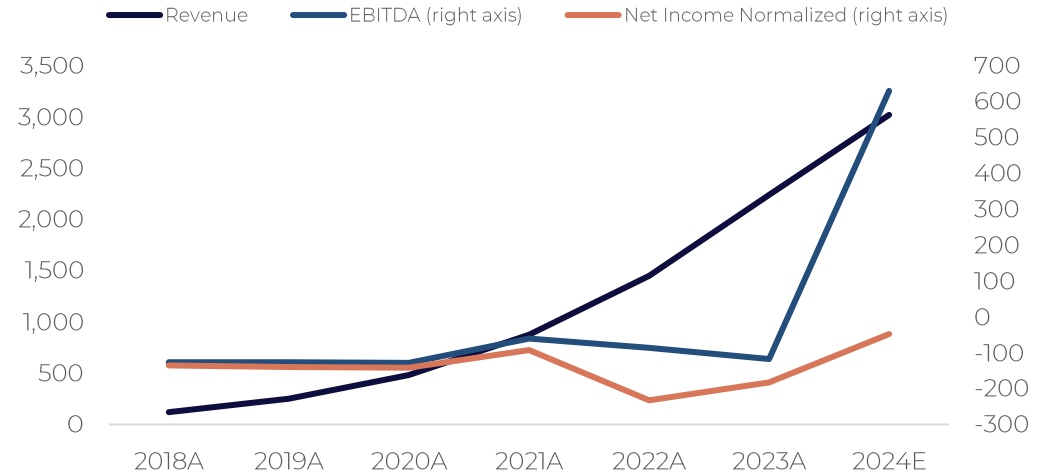
Return Ratios Compared To 2019

Return ratios and margins have improved significantly since 2019.

	LTM	2019	
Return Ratios	RoA	-2.70%	-26.30%
	RoC	-8.40%	-195.20%
	RoE	-14.40%	-542.30%
Margins	Gross Profit Margin	73.20%	65.10%
	EBITDA Margin	-5.30%	-50.70%
	Net Income Margin	-8.20%	-56.10%
	Levered Free Cash Flow Margin	32.50%	-0.10%
Asset Turnover	Asset Turnover	0.45	0.58
	Fixed Asset Turnover	6.23	5.37
	Inventory Turnover	NA	NA
	Working Capital Turnover	1.46	5
Solvency	Total Debt/Equity	52.70%	NA
	Total Debt/Capital	34.50%	NA
	EBITDA/Interest Expense	-3.8	-295.95
	(EBITDA-Capex)/Interest Expense	-13.08	-379.71

Sources: CrowdStrike IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



CrowdStrike Valuation Vs. Peers

	NTM EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
CrowdStrike (CRWD)	58.24	69.22	24%	28%	-7%
Palo Alto Networks (PANW)	28.59	44.52	13%	19%	20%
Zscaler (ZS)	57.46	74.87	12%	-7%	-7%
SentinelOne (S)	-38.3	-42.85	31%	41%	-16%
Cloudflare (NET)	102.39	190.83	10%	33%	13%
Juniper Networks (JNPR)	8.85	12.86	-2%	-7%	11%
Cisco (CSCO)	8.85	12.42	2%	0%	13%
Median	28.59	44.52	12%	19%	11%
Mean	32.30	51.70	13%	15%	4%

Sources: TIKR, Google Finance, Blue Line Capital

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Blue Line Capital no position in CrowdStrike.

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CrowdStrike Chart

bill_blue_line published on TradingView.com, Jun 02, 2023 10:53 UTC-5

CrowdStrike Holdings, Inc., 1W, NASDAQ O159.54 H161.79 L142.50 C156.63 +2.51 (+1.63%)
MA (10, close, 0, SMA, 5) 136.13
MA (30, close, 0, SMA, 5) 123.59



TradingView

Sources: Trading View, Blue Line Capital



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Blue Line Capital no position in CrowdStrike.

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BLUE LINE CAPITAL

Zscaler

Zero-Trust Network Security



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Zscaler Highlights & Stock Performance

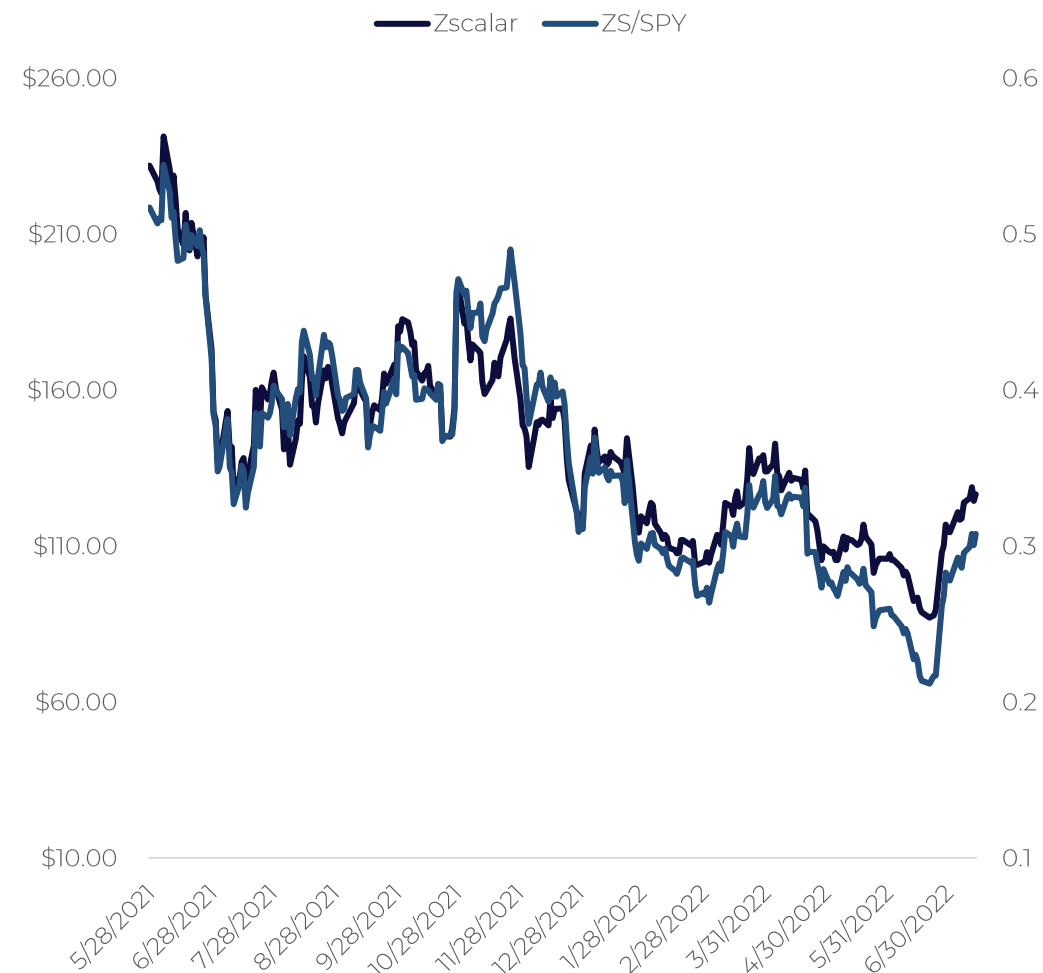
Management Commentary From Q2 2023 Earnings Call

- **Revenue & Billings:** For the quarter, our revenue grew 52% YoY and billings grew 34%. Billings were impacted by new customers being more deliberate about their large purchasing at the start of the calendar year. These deals have not gone away, and we have closed a few already in February.
- **ARR:** Thanks to new and existing customers purchasing these expanded bundles, we drove a 51% YoY growth in the number of customers with greater than \$1 million in ARR, ending with nearly 380 of these customers.
- **Large Customers:** We have a strong base of large enterprise customers, which provides us with significant opportunity to upsell our broader platform. At the end of Q2, we had 378 customers with greater than \$1 million in ARR, up 51% from 251 in the prior year.
- **Mid-Sized Customers:** We added 120 customers in the quarter with greater than \$100,000 in ARR in the quarter at 2,337 such customers. Turning to the rest of our Q2 financial performance.

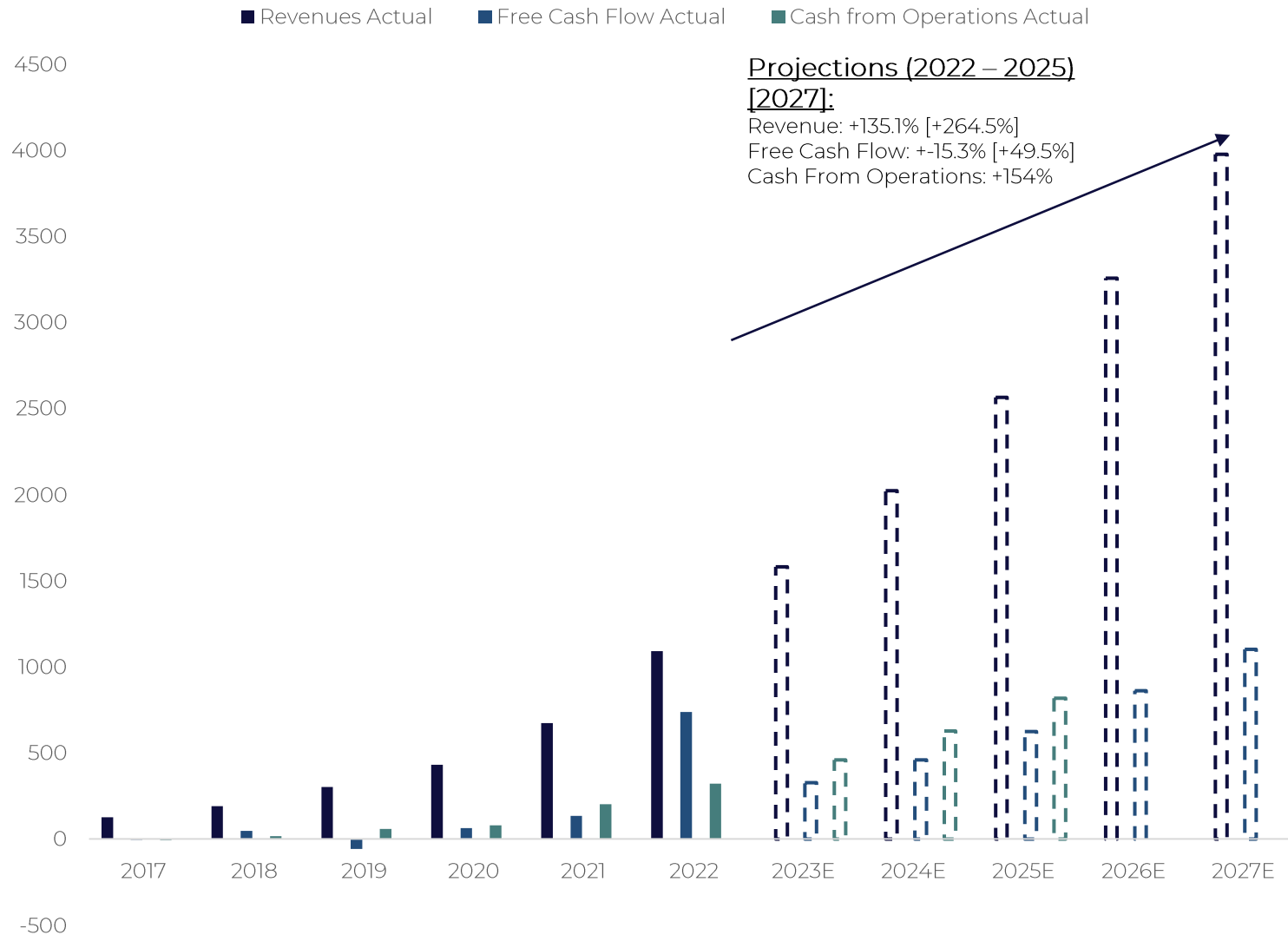
	P/E	EV/Sales	EV/EBIT	EV/EBITDA	P/B
NTM	74.87	10.52	70.76	57.46	NA
TTM	-59.31	13.99	-62.3	-69.23	36.97

Sources: Zscaler IR, TIKR, Blue Line Capital

Relative Performance



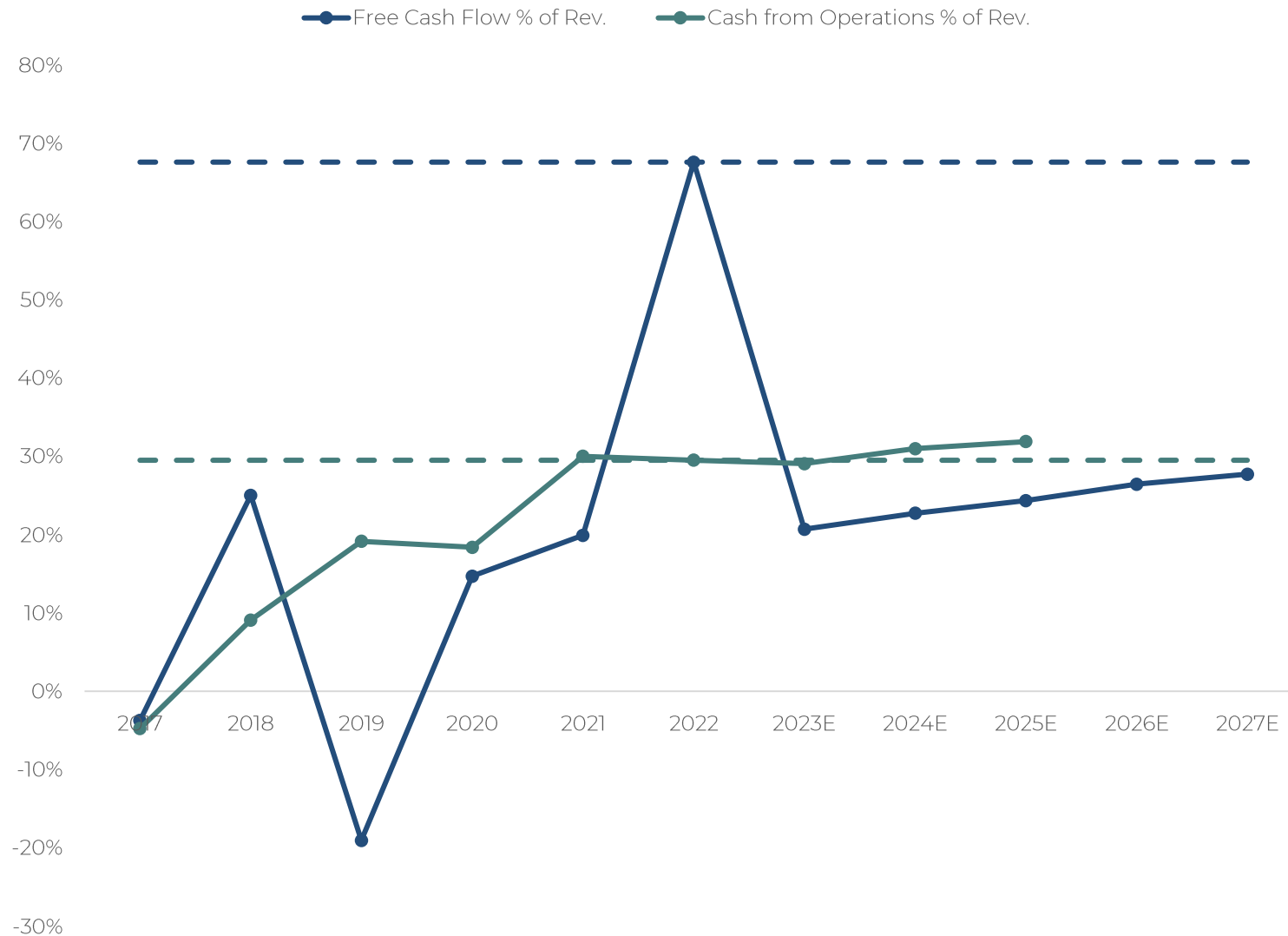
Zscaler Projections



- Revenue
 - Projected to increase from \$1.09bn in 2022 to \$1.58bn in fiscal 2023 before increasing further to \$2.02bn in 2024 (\$3.98 in 2027)
- Free Cash Flow
 - Projected to decline from \$0.74bn in 2022 to \$0.33bn in 2024 before increasing to \$0.46bn in 2024 and \$0.62bn in 2024
- Cash from Operations
 - Projected to increase from \$0.32bn in 2022 to \$0.46bn in 2023 before rising further to \$0.63bn in 2024.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Zscaler Cash Flow Margin Projections



- Free Cash Flow as % of Revenue projected to decline from 68% in 2022 to 21% in 2023 before rising to 23% in fiscal 2024.
- Cash from Operations as % of Rev. expected to decline from 30% in fiscal 2022 to 29% in 2023 before increasing to 31% in 2024.

Sources: CapitalIQ, Blue Line Capital, Blue Line Futures

Zscaler Expectations & Returns

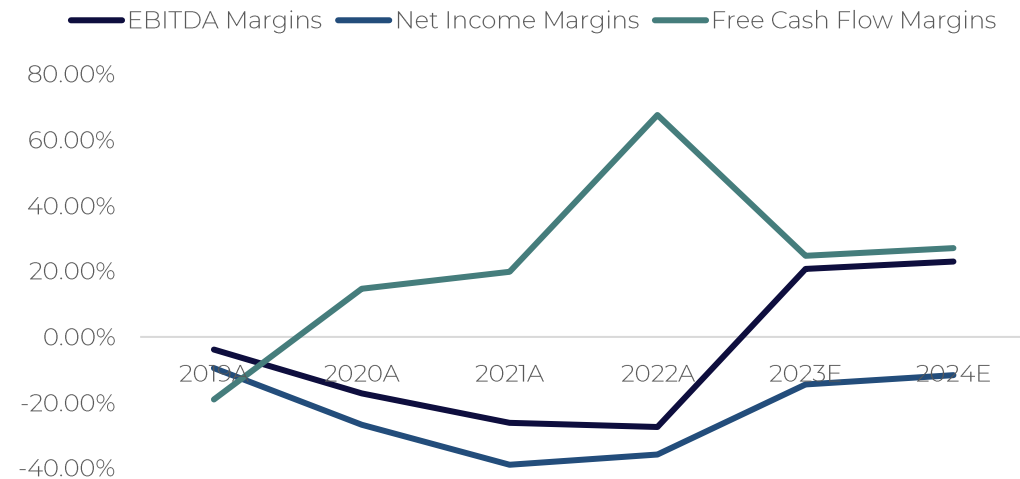
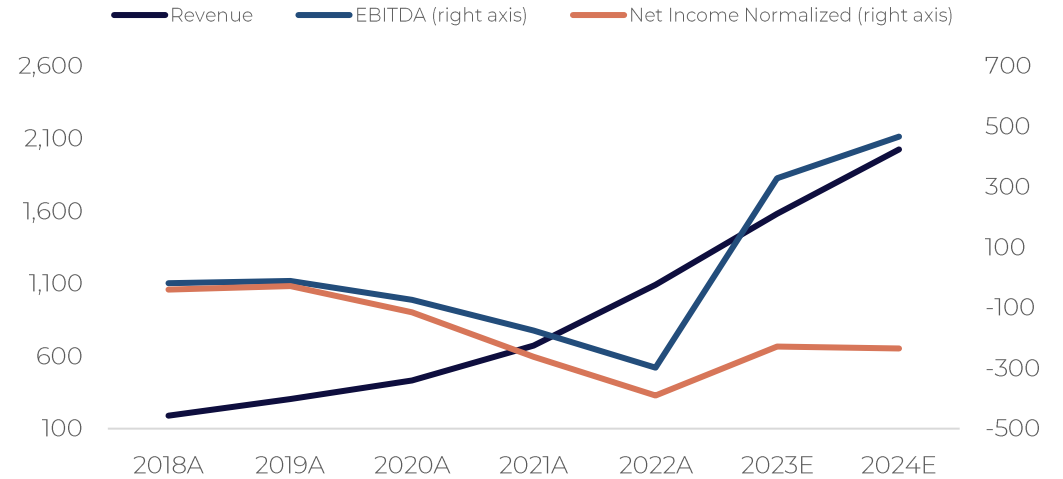
Return Ratios Compared To 2019

Returns and margins have worsened across the board for the most part since 2019.

		LTM	2019
Return Ratios	RoA	-6.90%	-2.60%
	RoC	-17.40%	-7.10%
	RoE	-60.80%	-10.40%
Margins	Gross Profit Margin	78.10%	80.50%
	EBITDA Margin	-20.20%	-3.80%
	Net Income Margin	-24.10%	-9.50%
	Levered Free Cash Flow Margin	36.40%	22.70%
Asset Turnover	Asset Turnover	0.44	0.5
	Fixed Asset Turnover	6.21	9.96
	Receivables Turnover	4.29	3.91
	Working Capital Turnover	1.11	1.29
Solvency	Total Debt/Equity	230.00%	NA
	Total Debt/Capital	69.70%	15.30%
	EBITDA/Interest Expense	-7.33	NA
	(EBITDA-Capex)/Interest Expense	-10.29	NA

Sources: Zscaler IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



Zscaler Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Zscaler (ZS)	57.46	74.87	12%	-7%	-7%
Palo Alto Networks (PANW)	28.59	44.52	13%	19%	20%
CrowdStrike (CRWD)	58.24	69.22	24%	28%	-7%
SentinelOne (S)	-38.3	-42.85	31%	41%	-16%
Cloudflare (NET)	102.39	190.83	10%	33%	13%
Juniper Networks (JNPR)	8.85	12.86	-2%	-7%	11%
Cisco (CSCO)	8.85	12.42	2%	0%	13%
Median	28.59	44.52	12%	19%	11%
Mean	32.30	51.70	13%	15%	4%

Sources: TIKR, Google Finance, Blue Line Capital

6/2/2023

Blue Line Capital maintains no position in Zscaler.

Zscaler Chart

bill_blue_line published on TradingView.com, Jun 02, 2023 10:52 UTC-5



TradingView

Sources: Trading View, Blue Line Capital

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Blue Line Capital maintains no position in Zscaler.

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