



Blue Line Capital

GDP pre-Fed & Corporations

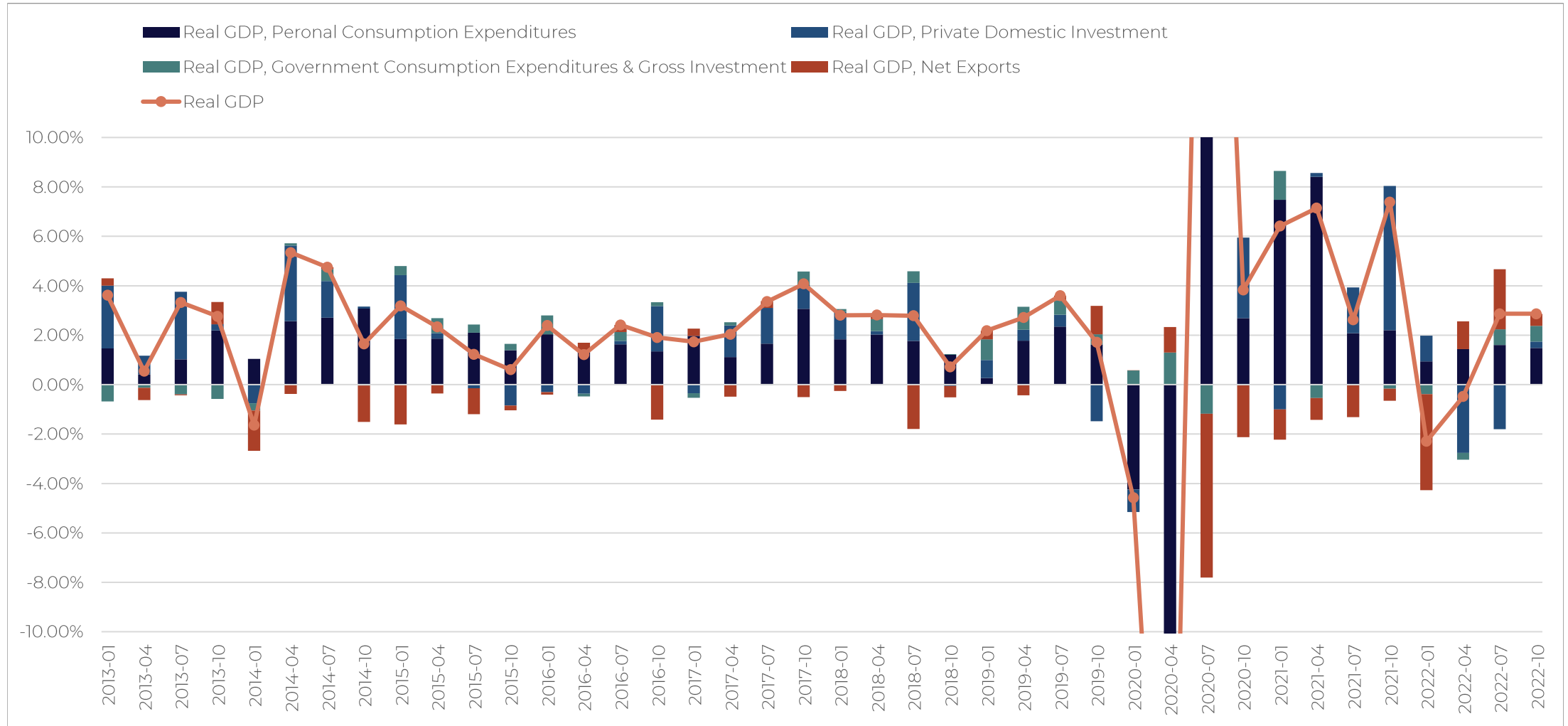
Understanding The Direction Of Travel For The
Economy & Businesses



GDP & Fed Policy

The Blue Line GDP Rundown Pre-Fed

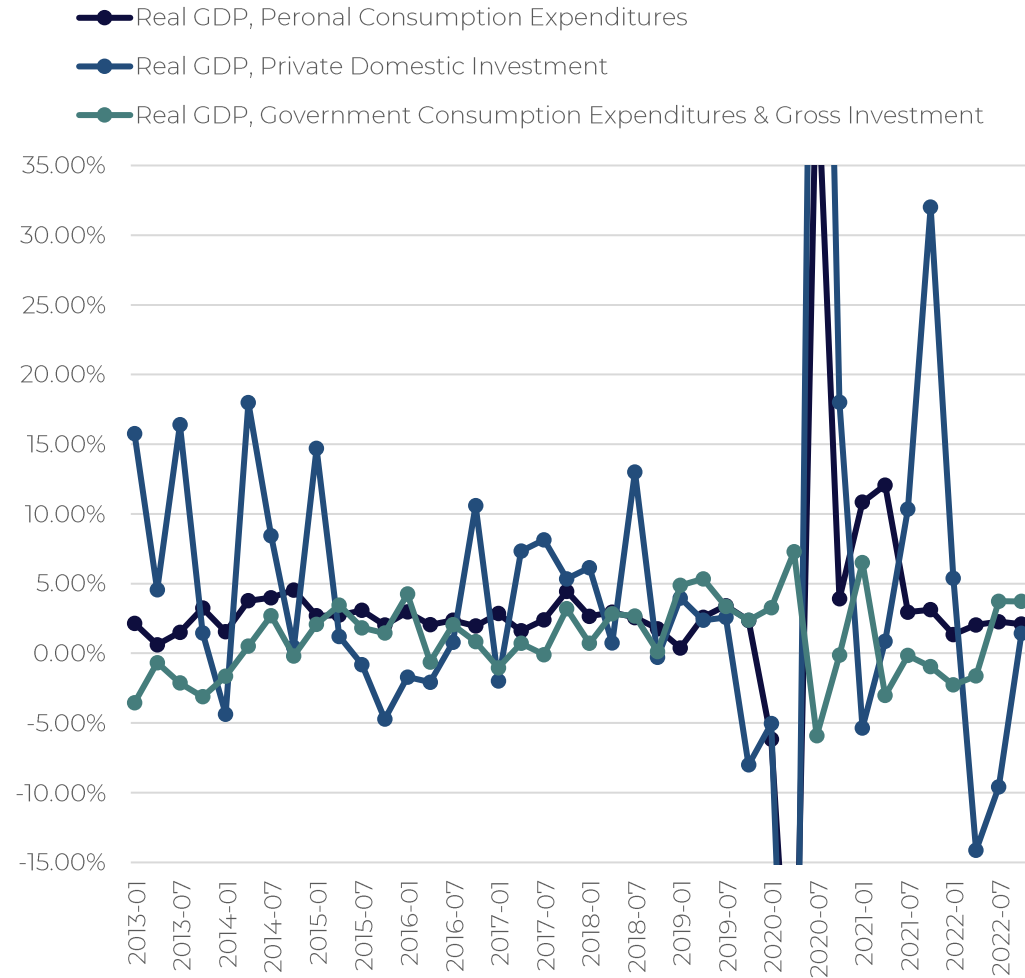
Real GDP Composition



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

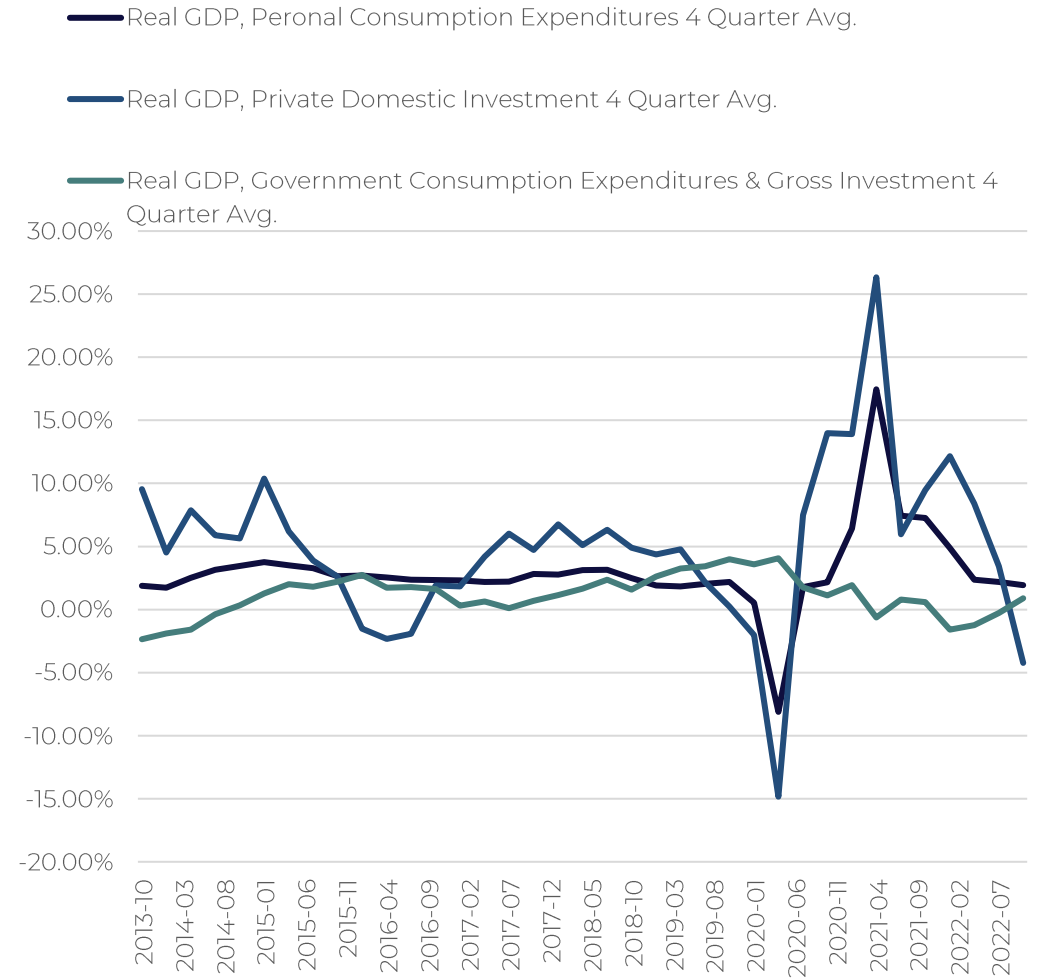
GDP Consumption, Investment, Gov. Spending

Consumption, Investment & Government Spending



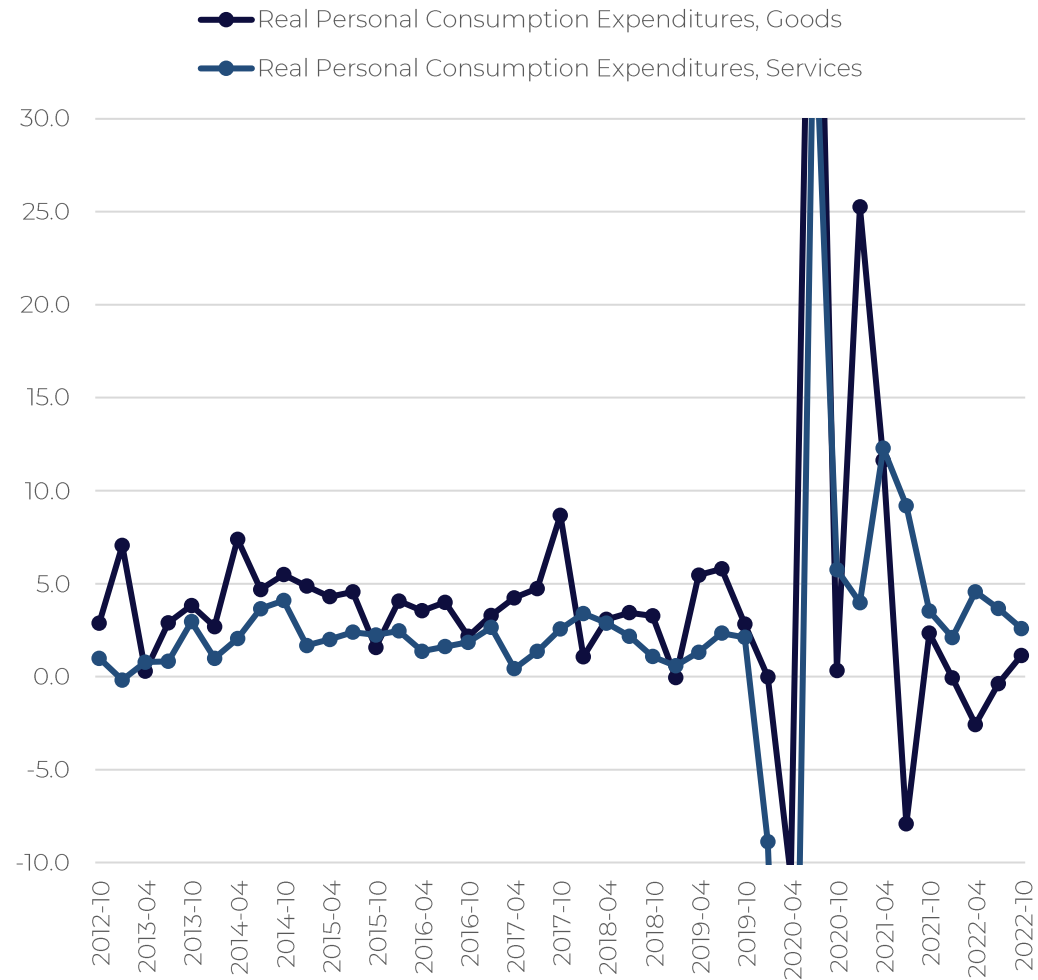
Sources: BEA, FRED, Blue Line Capital, Blue Line Futures

4 Quarter Average of Consumption, Investment & Gov. Spending

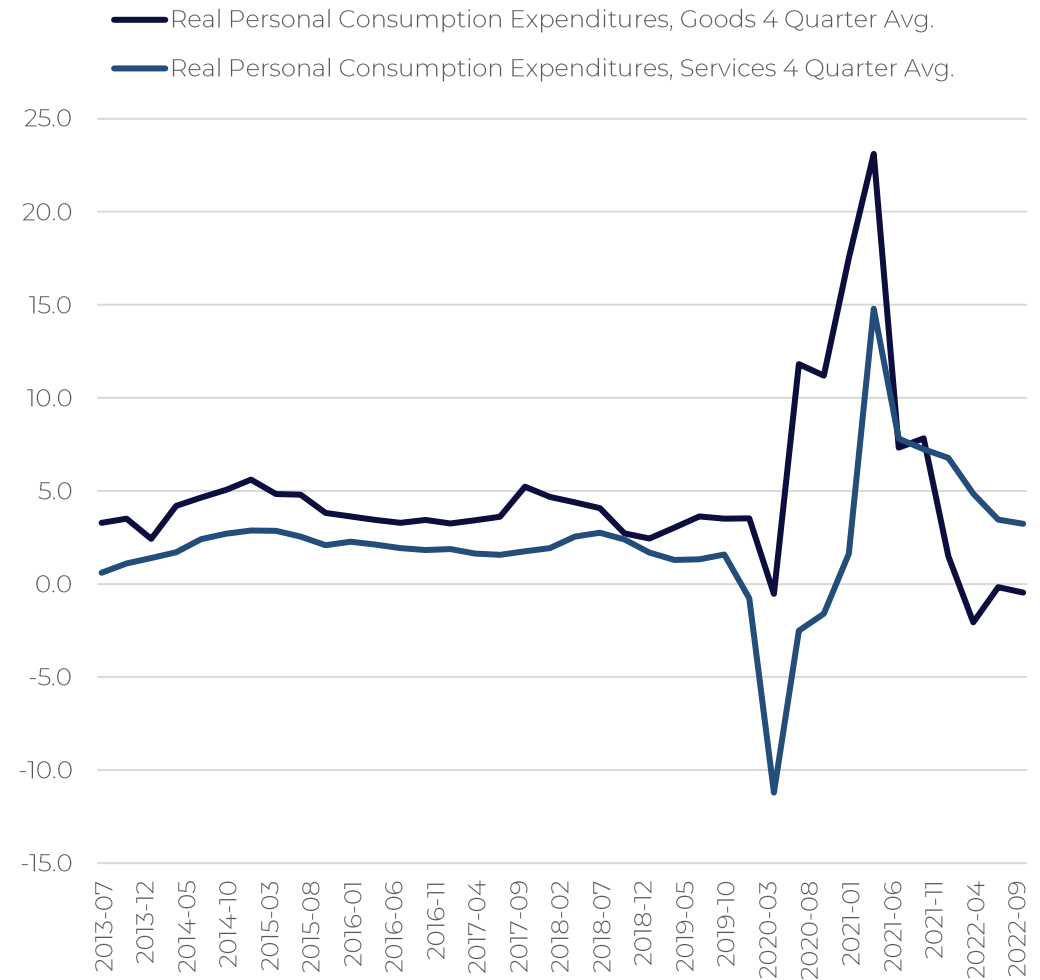


GDP Consumption Component

Goods & Services Consumption Annualized



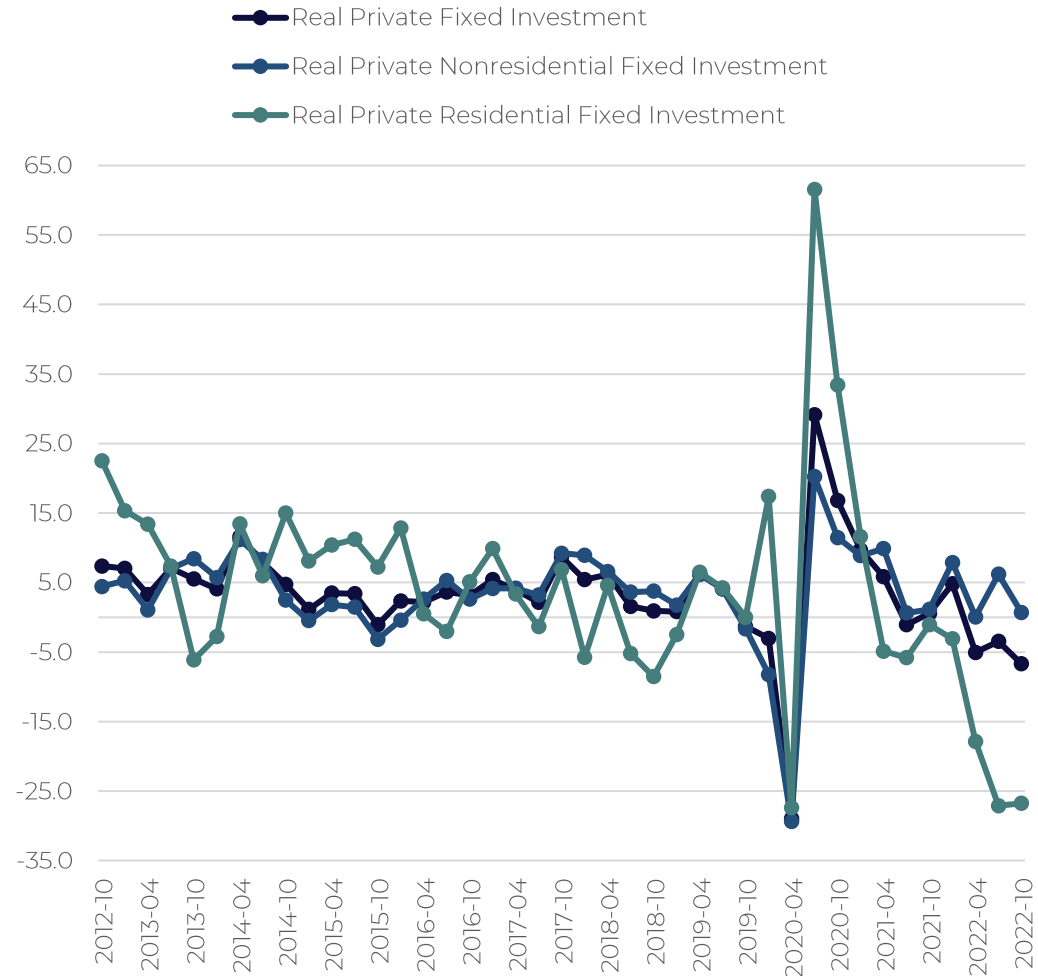
4 Quarter Average of Goods & Services Consumption Annualized



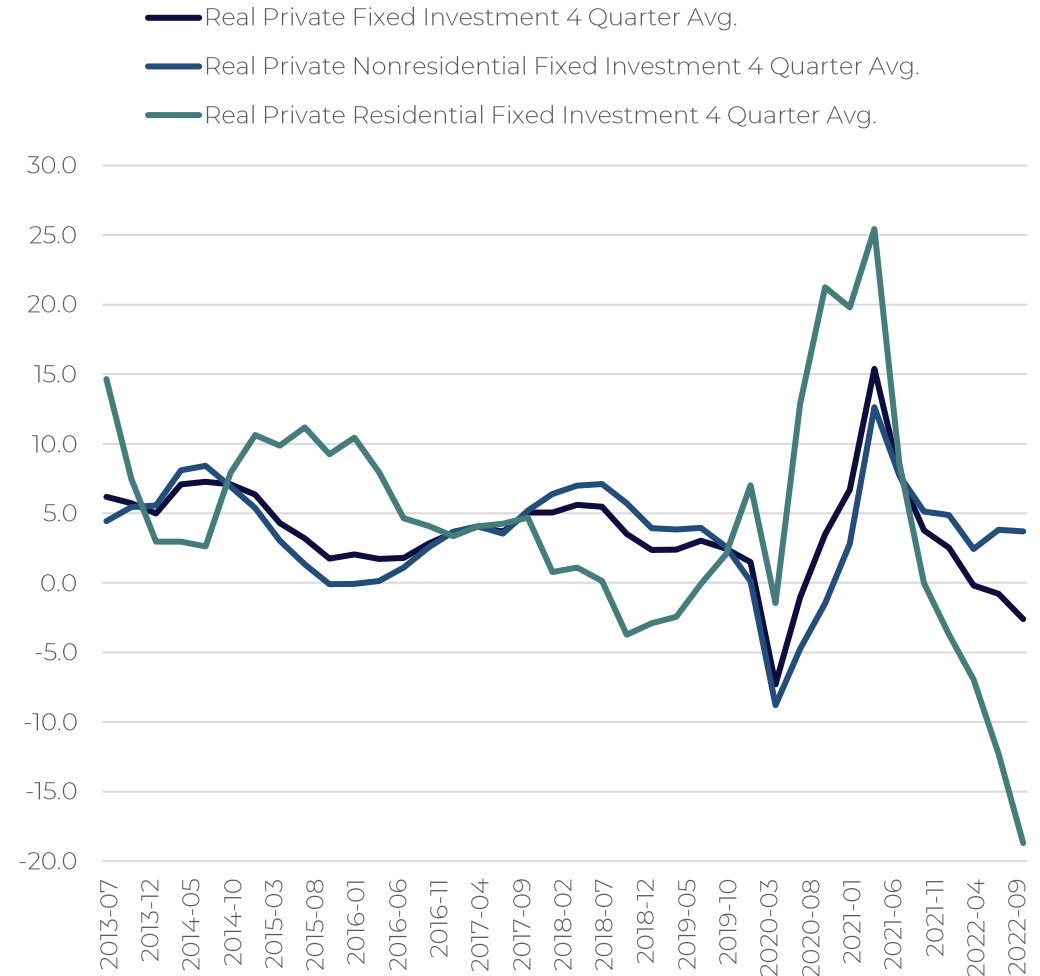
Sources: BEA, FRED, Blue Line Capital, Blue Line Futures

GDP Investment Component

Fixed Investment Trends Annualized



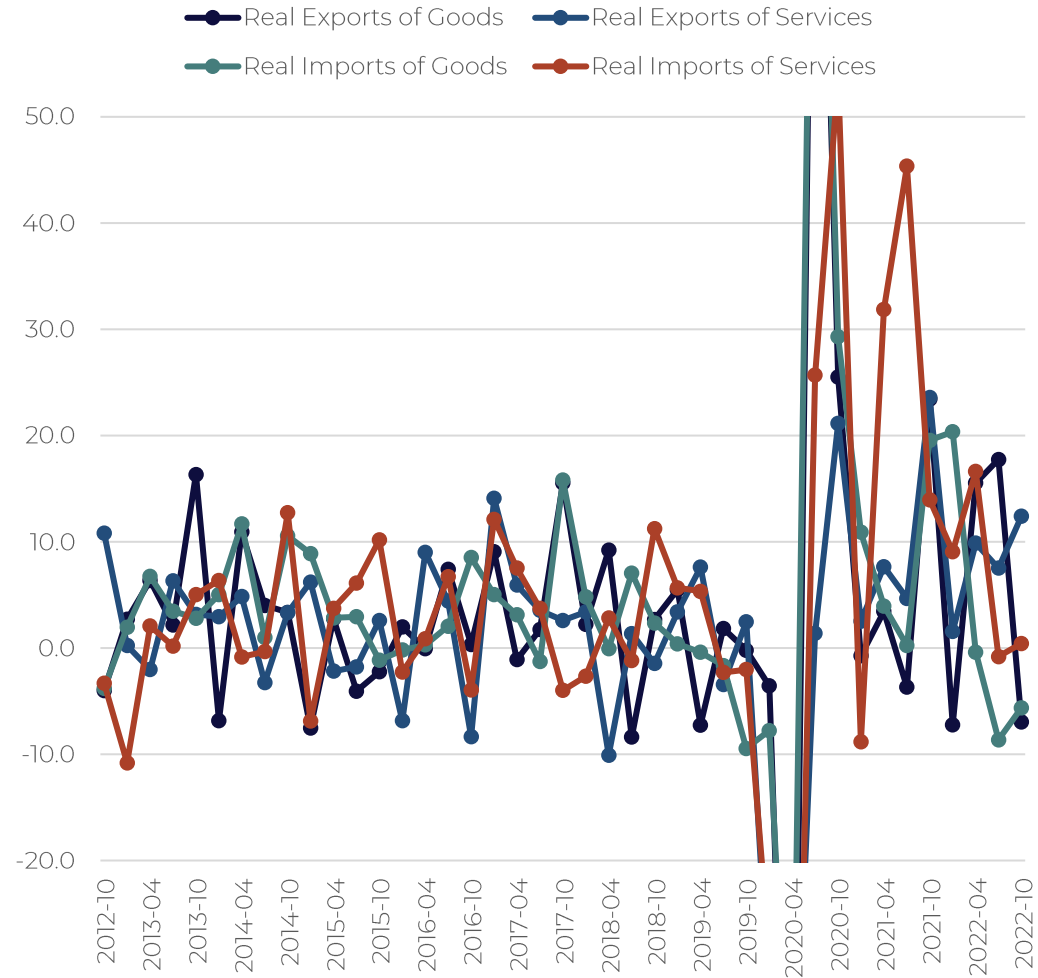
4 Quarter Average of Fixed Investment Annualized



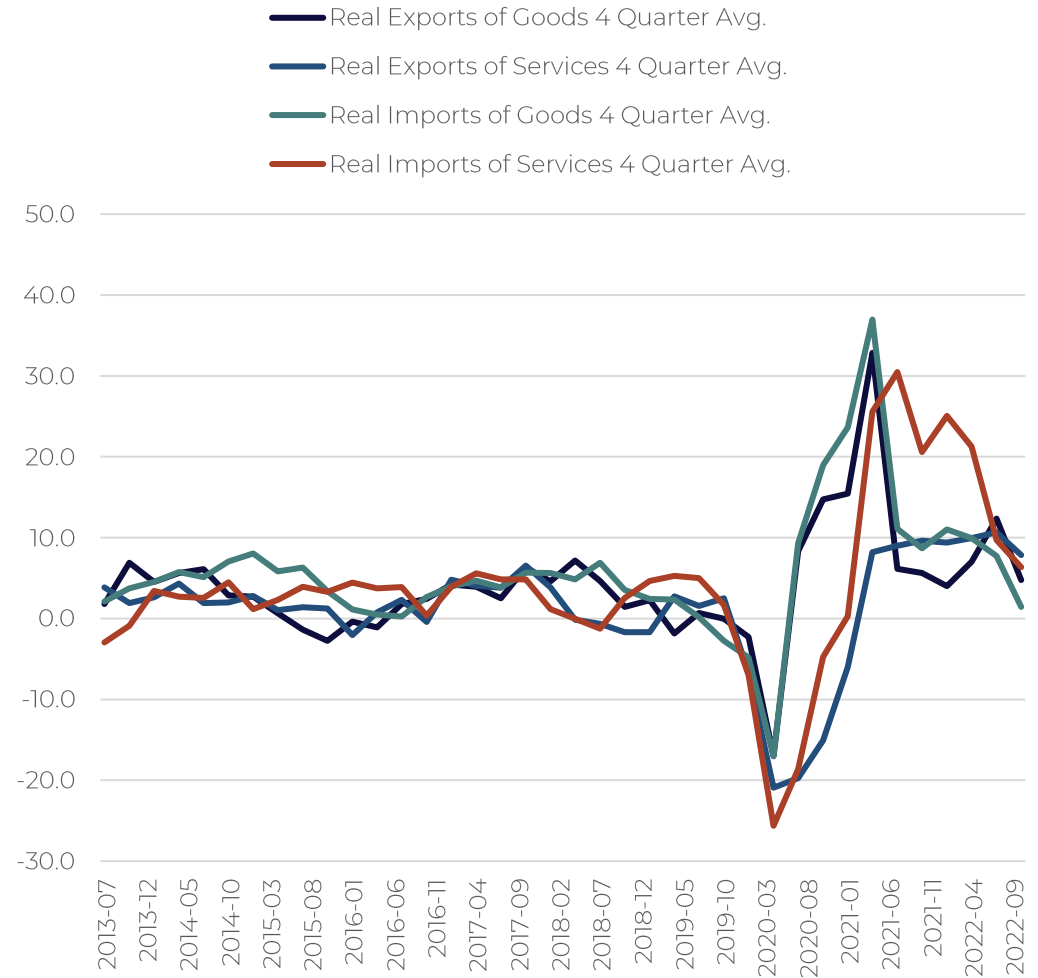
Sources: BEA, FRED, Blue Line Capital, Blue Line Futures

GDP Net-Export Component

Net-Export Trends Annualized



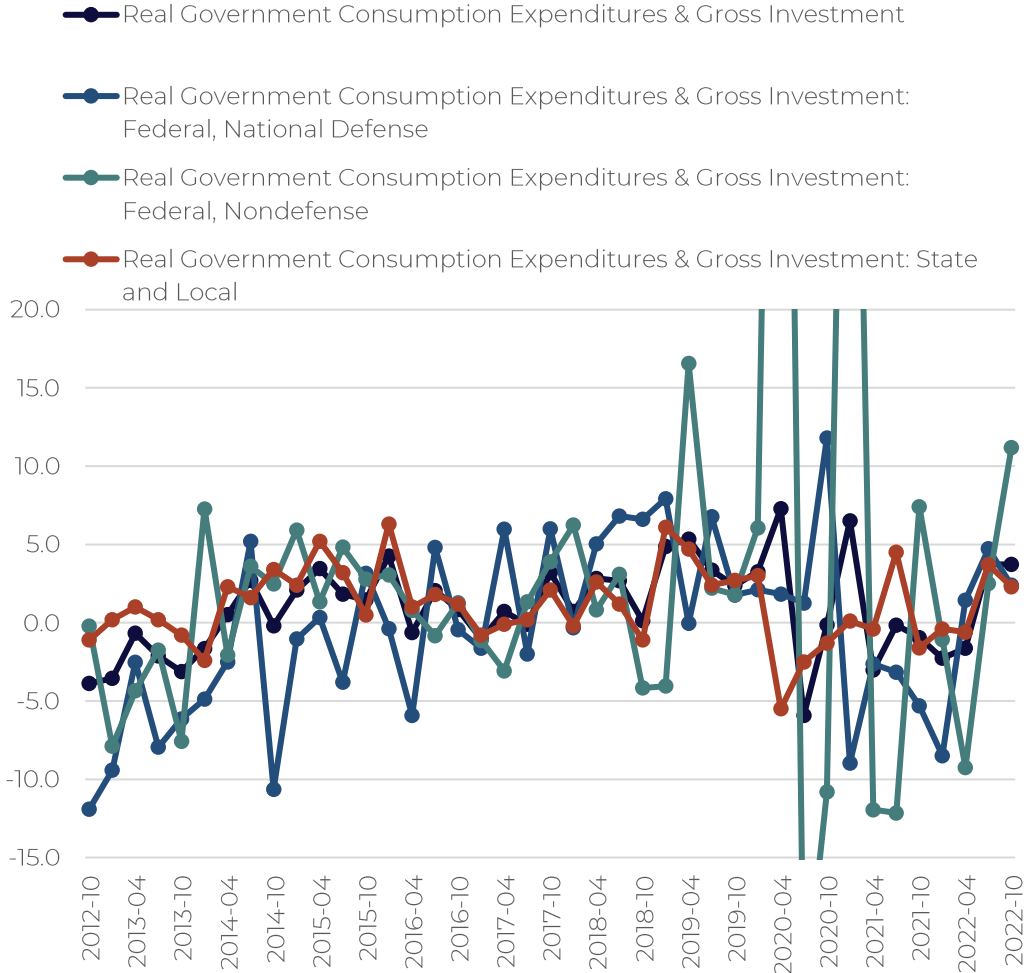
4 Quarter Average of Net-Exports Annualized



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

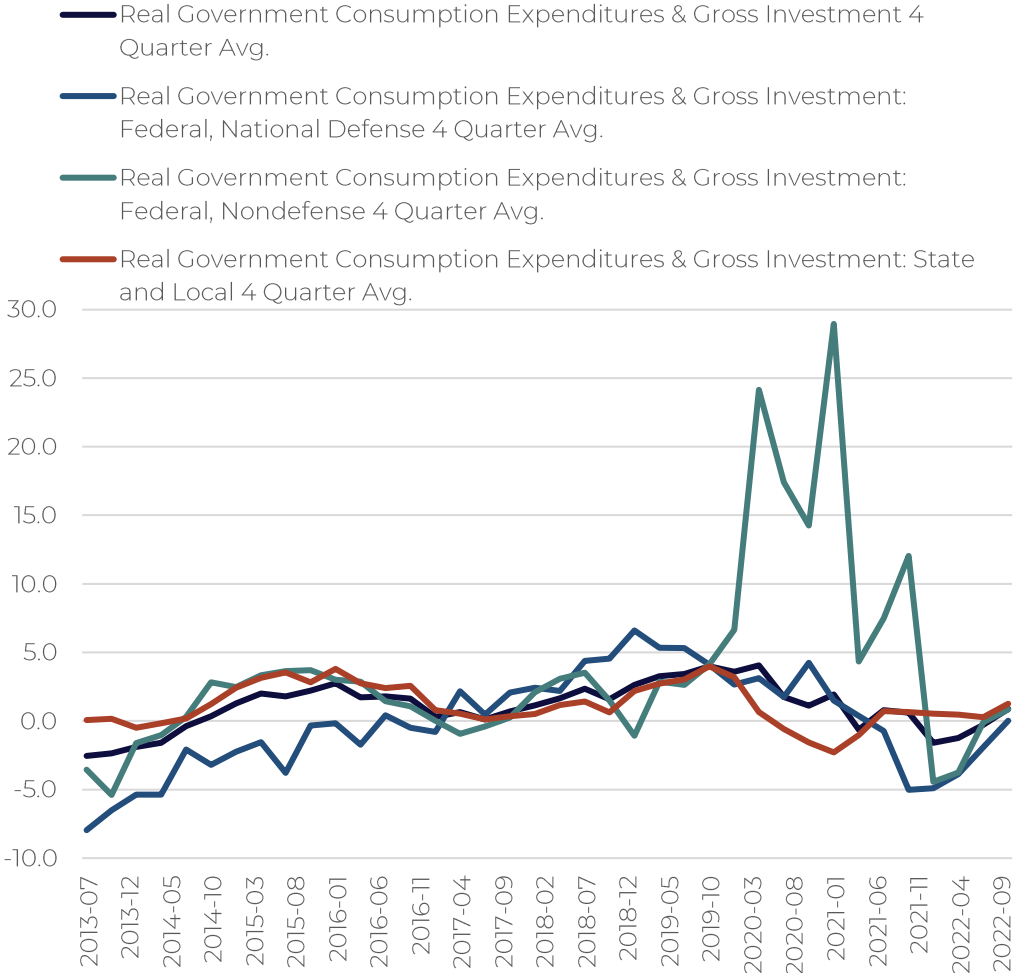
GDP Government Spending Component

GDP Government Spending Trends Annualized



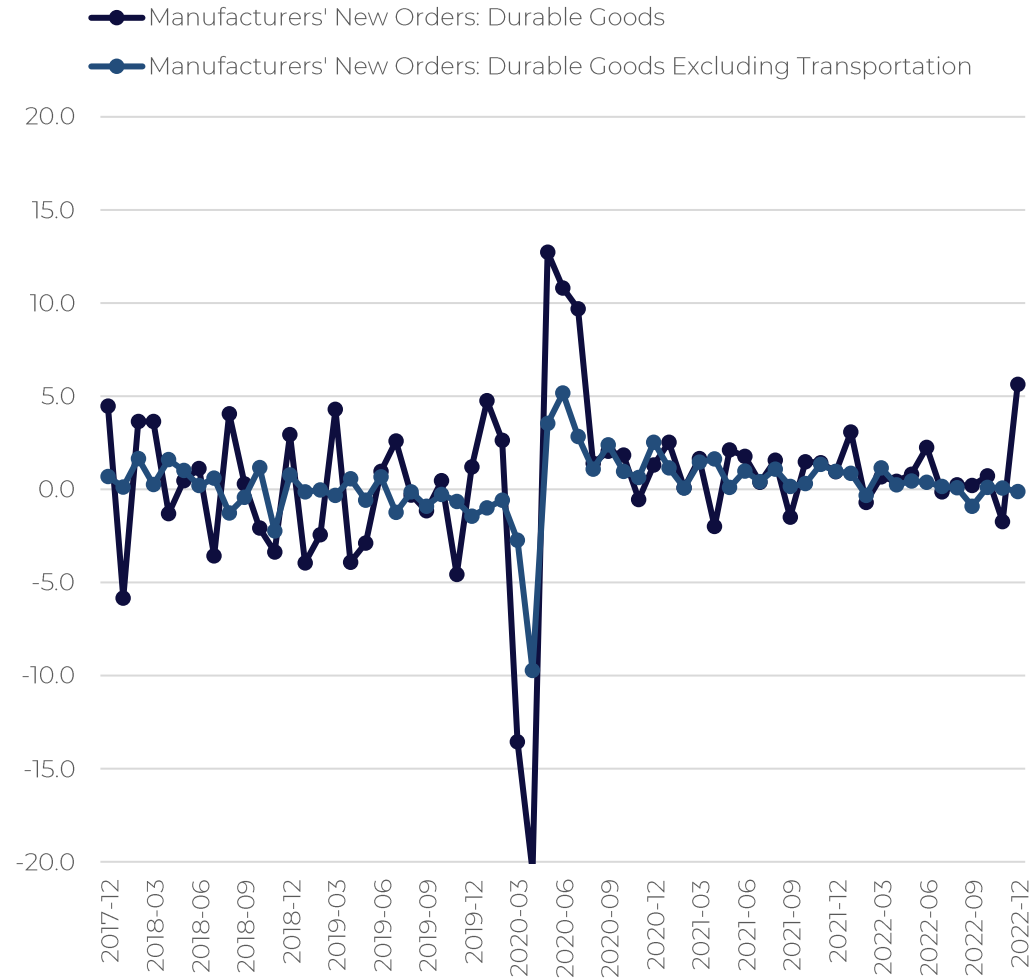
Sources: BEA, FRED, Blue Line Capital, Blue Line Futures

4 Quarter Average of Government Spending Annualized



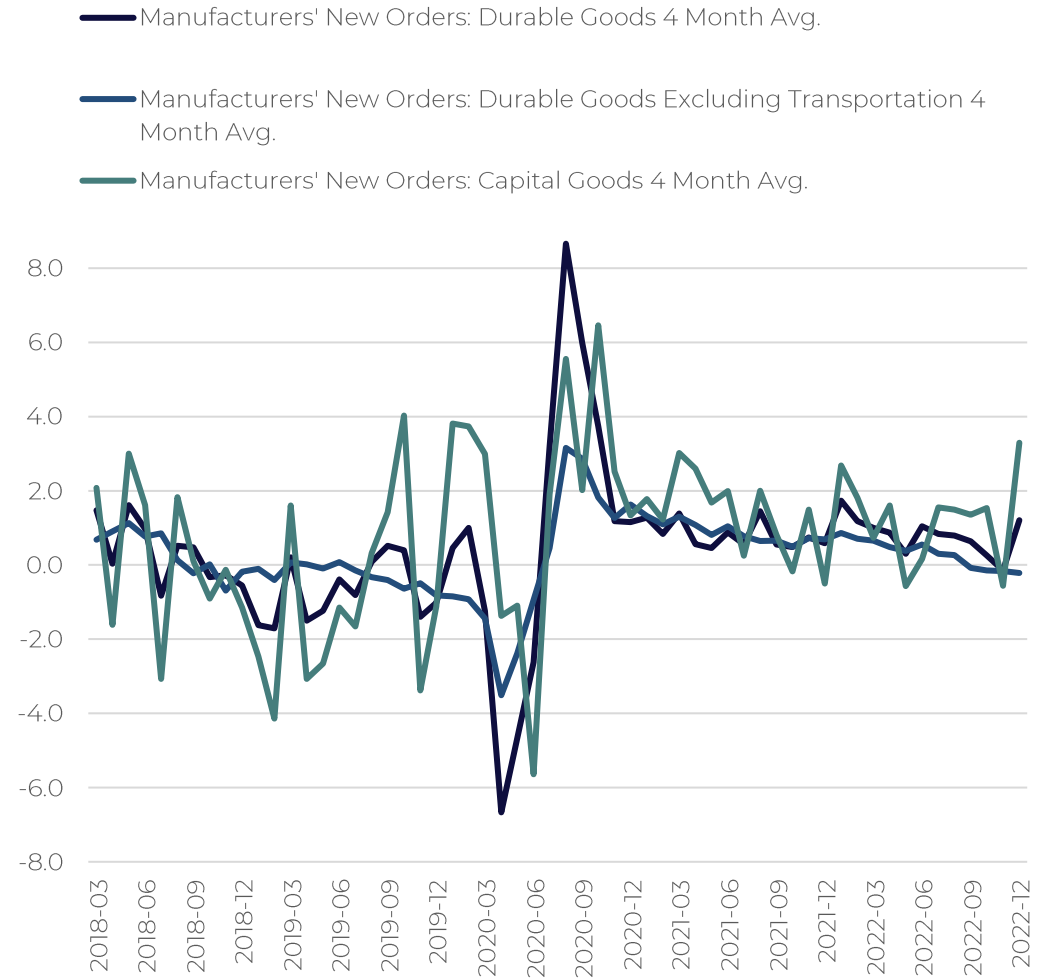
Durable Goods – New Orders

Durable Goods – New Orders



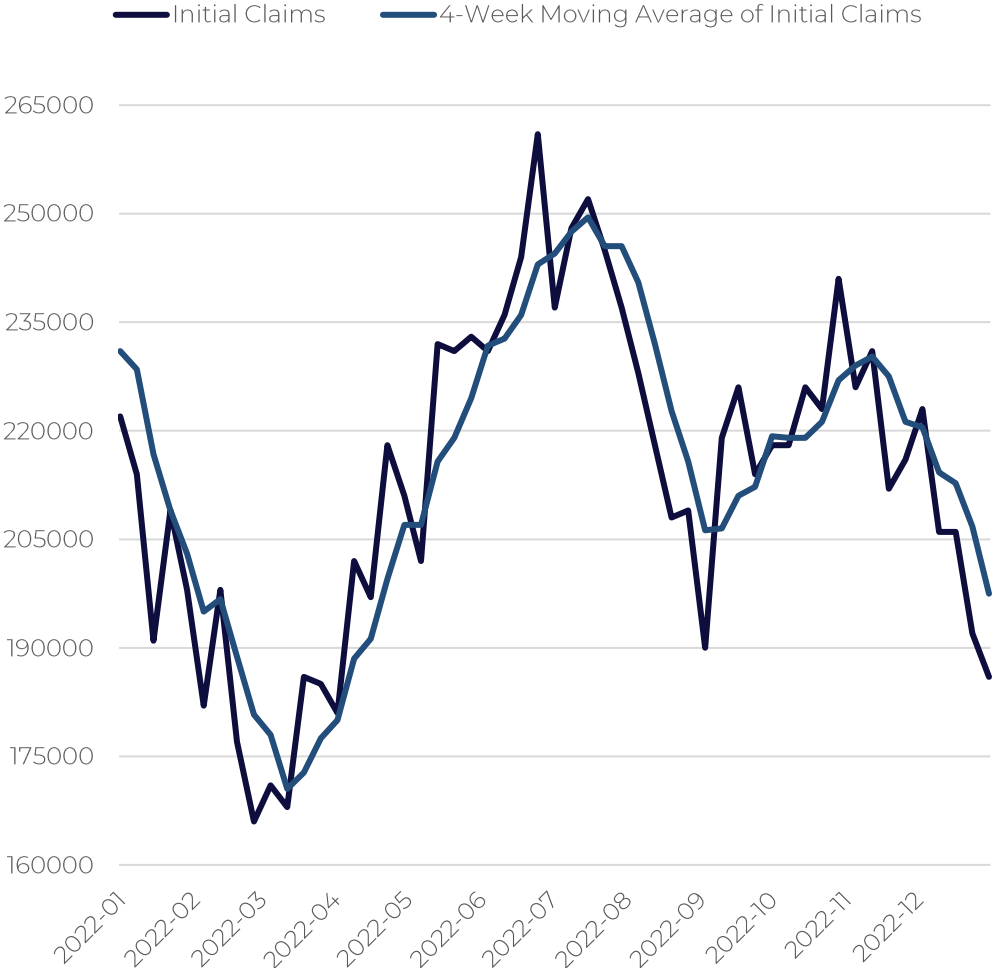
Sources: Census Bureau, FRED, Blue Line Capital, Blue Line Futures

4 Quarter Average of Durable Goods Trends



Solid Job Markets Combined With Easier Financial Conditions

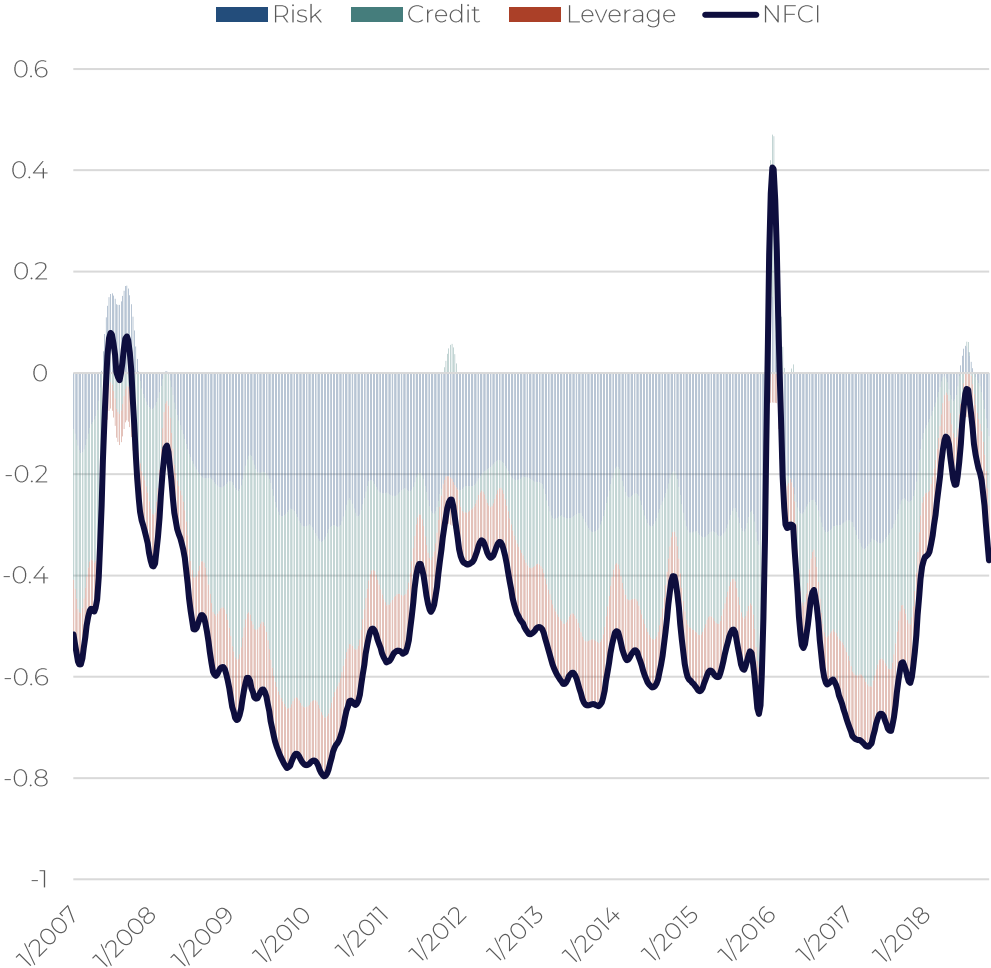
Initial Jobless Claims Trending Down



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

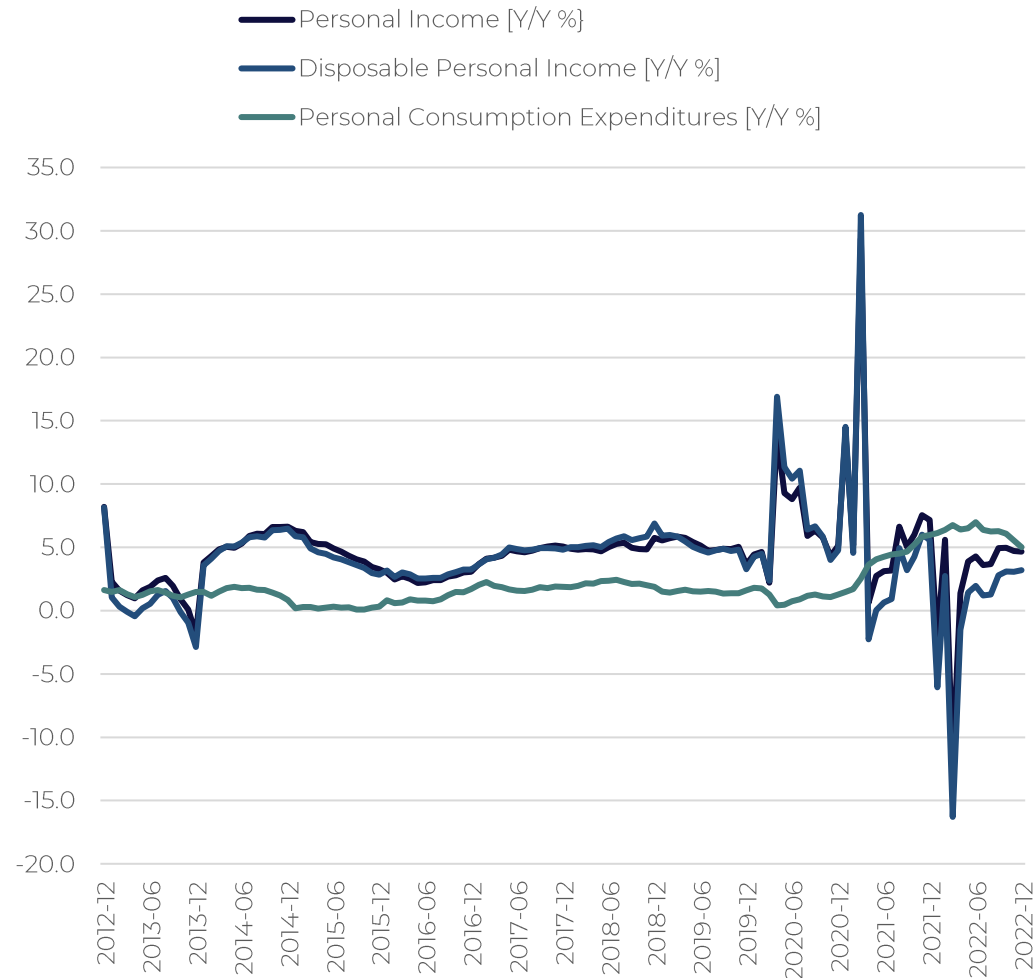
1/31/2023

As The Dollar Sold Off And Risk Assets Rallied, Financial Conditions Eased



Personal Consumption

PCE Index & Personal Income



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

PCE Monthly Detail

Personal income:	
Current dollars	0.4
Disposable personal income:	
Current dollars	0.4
Chained (2012) dollars	0.1
Personal consumption expenditures (PCE):	
Current dollars	0.7
Chained (2012) dollars	0.5
Price indexes:	
PCE	0.3
PCE, excluding food and energy	0.6
Price indexes:	
PCE	6.3
PCE, excluding food and energy	4.9

2022				
Aug.	Sept.	Oct.	Nov.	Dec.
Percent change from preceding month				
0.4	0.4	0.8	0.3	0.2
Personal income:				
0.4	0.4	0.9	0.3	0.3
Disposable personal income:				
0.1	0.0	0.5	0.2	0.2
Personal consumption expenditures (PCE):				
0.7	0.6	0.8	-0.1	-0.2
0.5	0.3	0.4	-0.2	-0.3
Price indexes:				
0.3	0.3	0.4	0.1	0.1
0.6	0.5	0.3	0.2	0.3
Price indexes:				
Percent change from month one year ago				
6.3	6.3	6.1	5.5	5.0
4.9	5.2	5.1	4.7	4.4

- If personal income trends continue on an upward trajectory while inflation keeps slowing, consumers will face positive real wage growth, thereby underpinning consumption trends.
- Wages may suppress profit margins, however, which would put downward pressure on the fixed investment piece of GDP.



Earnings Data & Corporate Trends

McDonald's, Deckers Outdoor, ServiceNow



ServiceNow

Enterprise SaaS Trends

Share	
TELEMASTERS	
RBA	
WG V	
1.64	
1.87	
0.00	
0.00	
1.48	

ServiceNow Earnings Highlights & Stock Performance

Management Commentary From Q4 2022 Earnings Call

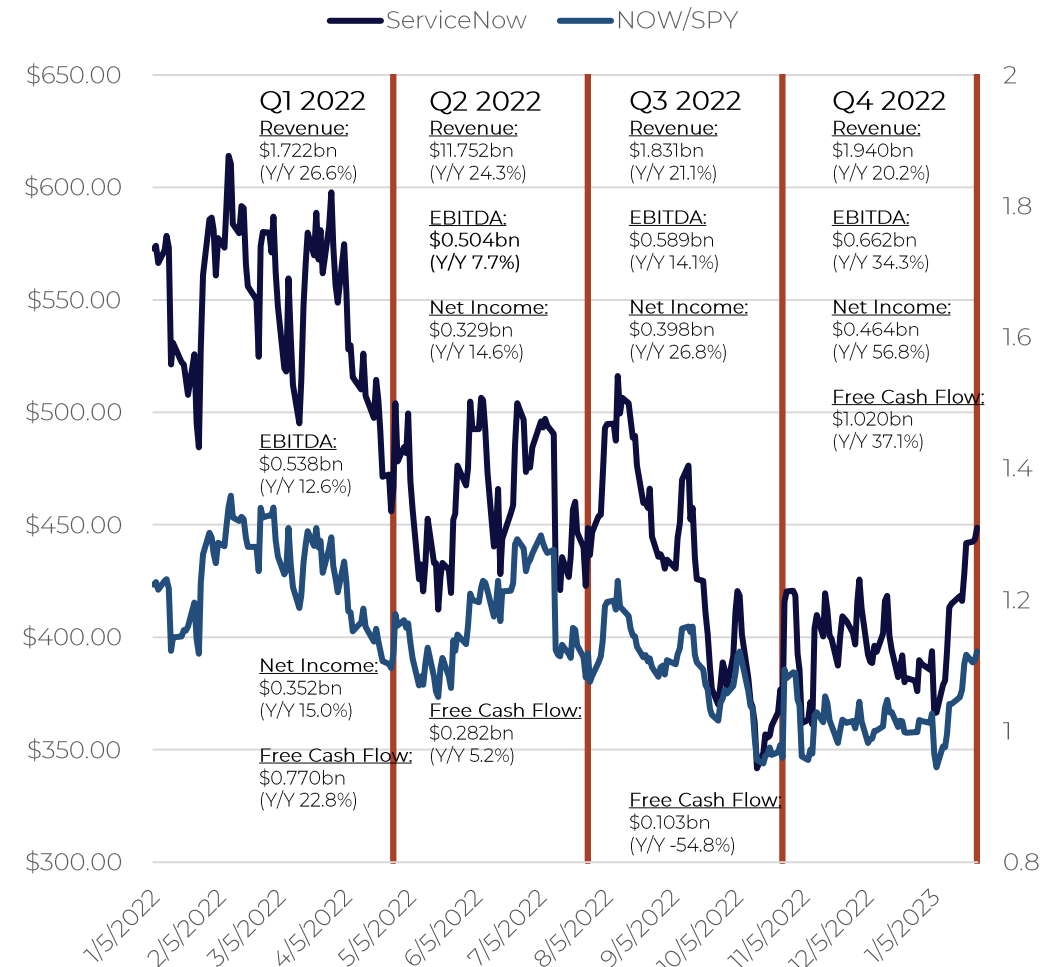
- **Renewal Rate:** Our 98% renewal rate remains the industry benchmark.
- **Growth:** IDC's research makes it clear that technology budgets are growing. They forecast IT spend will grow 5% in 2023, software spend at 8% and Software-as-a-Service spend at 15%.
- **Public Contracts:** The United States Army expanded its ServiceNow road map to go well beyond IT. ServiceNow will improve the Army's ability to consolidate service management for its over 1 million active military contractor and civilian population.
- **Private Contracts:** From Banco do Brasil, to AT&T, to Sumitomo, we have countless stories that span ServiceNow's workflows, Lightstep, geographic regions and industries the board, we're winning.
- **Customer Count:** We ended the quarter with 1,637 customers paying us over \$1 million in ACV, up 22% year-over-year.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	49.88	10.44	34.53	31.58	NA
TTM	286.79	12.77	36.45	111.41	18.51

*Levered FCF

Sources: ServiceNow IR, TIKR, Blue Line Capital

Quarterly Data



Enterprise Resource Planning



Sources: Oracle, Blue Line Capital

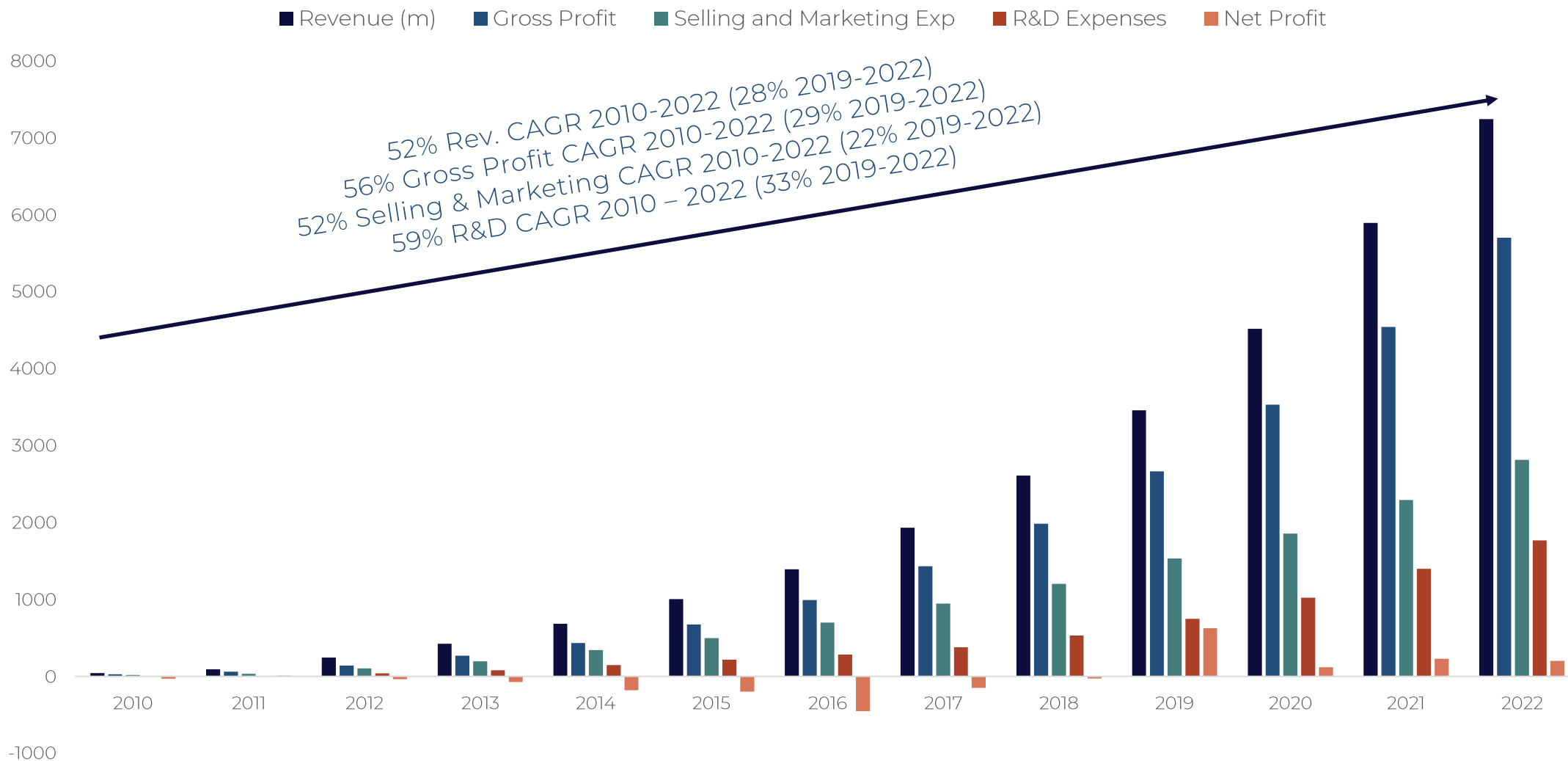
1/31/2023

Blue Line Capital maintains no position in ServiceNow.

14

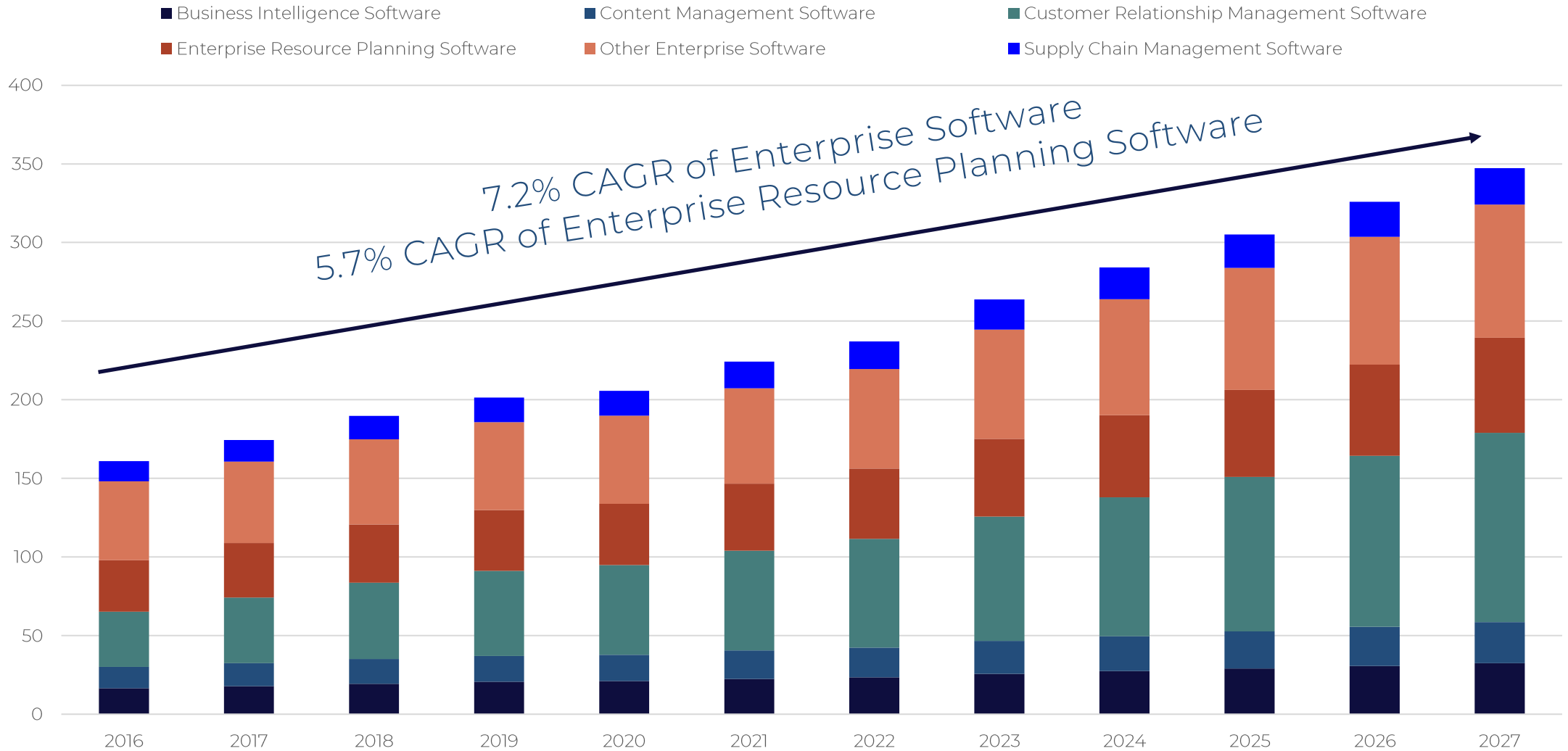
BLUE LINE CAPITAL

Enterprise Software Trends



Sources: ServiceNow IR, Blue Line Capital

Enterprise Software Trends



Sources: Statista, Blue Line Capital

Southwest System Failure & ERP

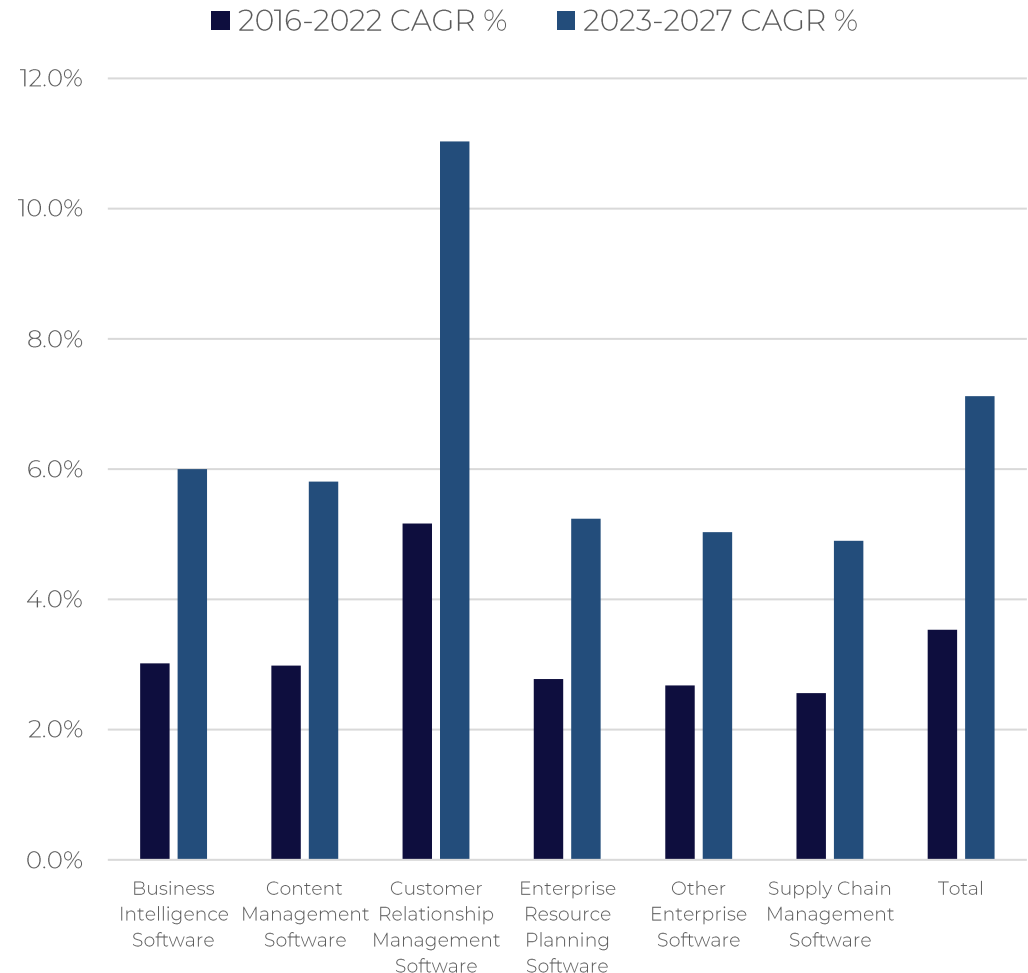


Patrick McKenzie on Southwest's System Outage, Bloomberg's [Odd Lots](#):

It costs money, in the short term, to do maintenance. We can cram down engineering cost and relying more on external vendors. When stuff hits the oscillating blade, the right people have not done the years of work that are required to quickly recover from failures. Folks in operation trying to contact thousands of employees by phone and passing around their information by spreadsheets to allow people to get up in the air. It's a result of cultural factors, business decisions made over the course of decades.

Sources: Odd Lots, Statista, Blue Line Capital

Revenue by Geographic



FAA Outage & Software Development Life Cycle



Patrick McKenzie on FAA's System Outage, Bloomberg's [Odd Lots](#):

The underlying cause that a problem happened during an upgrade is extremely well understood in the software-engineering field. It is often the case that the people trying to make an incremental change do not have the full context how the system came to be; a change they thought would have a limited area of impact ends up having a larger impact. You hope to quantify the blast radius. How does one get to the point where it is difficult to understand the implications? Was this system adequately document? Frequently, the answer is no. Often how systems were put together survives as oral lore. The original architects are literally no longer with us. You have to write down what you do and that concept was not new to government and bureaucracies; often software will interface various systems together and problems will happen at the boundaries.

Sources: Odd Lots, CrustLab, Blue Line Capital

1/31/2023

Blue Line Capital maintains no position in ServiceNow.

Revenue by Geographic



ServiceNow Expectations & Returns

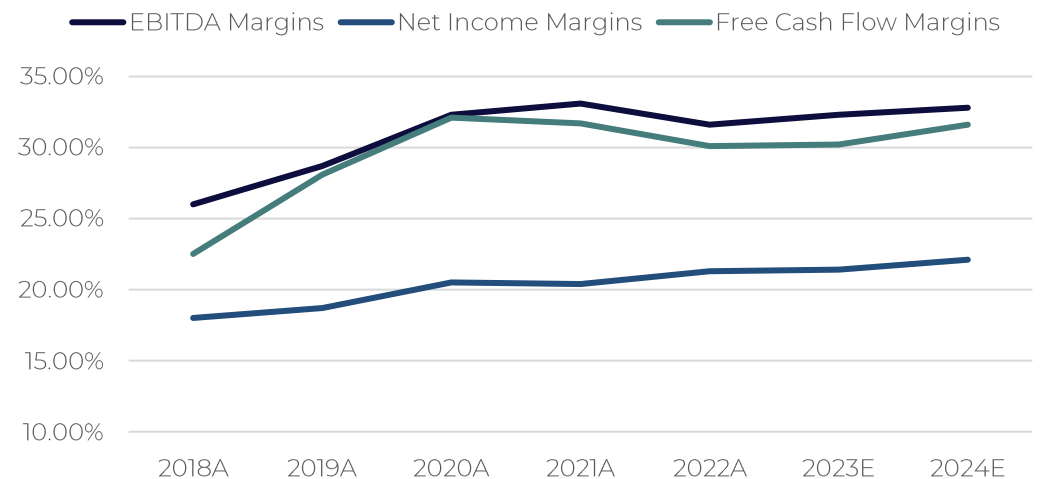
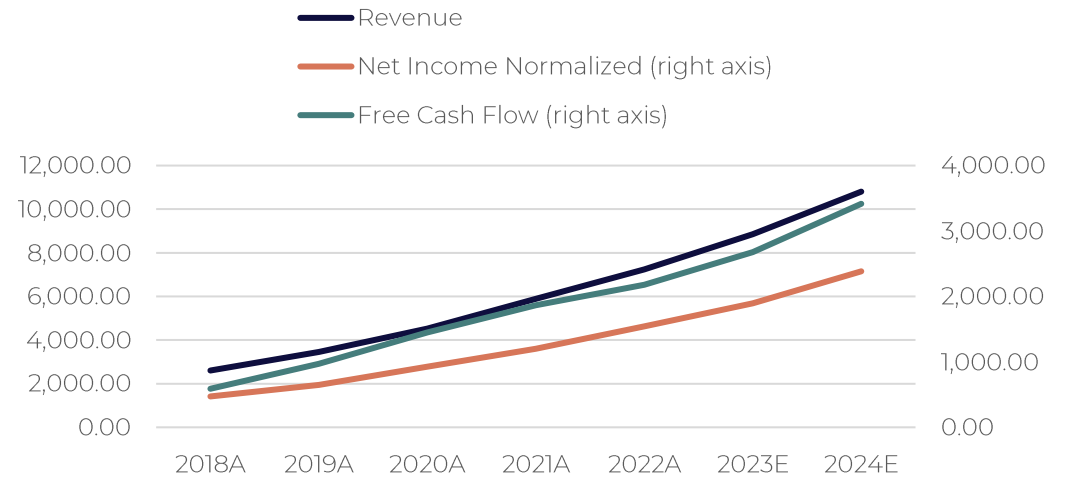
Return Ratios Compared To 2019

Margin trends continue to be strong despite spending in SG&A as well as R&D.

		LTM	2019
Return Ratios	RoA	2.00%	0.50%
	RoC	5.20%	1.30%
	RoE	7.40%	38.70%
Margins	Gross Profit Margin	78.30%	77.00%
	EBITDA Margin	11.20%	8.50%
	Net Income Margin	4.50%	18.10%
	Levered Free Cash Flow Margin	35.00%	34.10%
Asset Turnover	Asset Turnover	0.54	0.57
	Fixed Asset Turnover	4.69	5.68
	Receivables Turnover	4.65	4.91
	Working Capital Turnover	11.16	46.68
Solvency	Total Debt/Equity	44.40%	53.10%
	Total Debt/Capital	30.70%	34.70%
	EBITDA/Interest Expense	34.22	10.85
	(EBITDA/Capex)/Interest Expense	13.85	2.82

Sources: ServiceNow IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



ServiceNow Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
ServiceNow (NOW)	31.58	49.88	7%	-1%	-7%
Microsoft (MSFT)	17.15	25.07	2%	-13%	-15%
Oracle (ORCL)	13.8	17.19	16%	16%	22%
Salesforce (CRM)	20.14	29.47	-4%	-15%	-12%
VMware (VMW)	11.96	17.64	11%	8%	15%
Workday (WDAY)	24.27	41.05	11%	12%	-13%
SAP (SAP)	11.98	19.26	19%	24%	16%
Median	17.15	25.07	11%	8%	-7%
Mean	18.70	28.51	9%	4%	1%

Sources: TIKR, Google Finance, Blue Line Capital

ServiceNow Chart



Sources: Trading View, Blue Line Capital

1/31/2023

Blue Line Capital maintains no position in ServiceNow.

21

BLUE LINE CAPITAL

The background is a dark, semi-transparent collage. On the left, there's a financial table with columns for 'Share' and 'TELEMASTERS'. In the center, a stack of coins is visible. On the right, a compass rose is shown with degree markings (180, 200, 220, 240, 260). A large, stylized red arrow with a white outline points upwards and to the right, passing through the text.

Deckers Outdoor

Capturing The Affluent Consumer

Deckers Earnings Highlights & Stock Performance

Management Commentary From Q2 2023 Earnings Call

- **HOKA & UGG:** Our two largest brands, UGG and HOKA drove compelling revenue growth. HOKA revenue growth of 57% versus last year, with the brand representing 44% of consolidated revenue, up from 35% last year and 28% two years ago; UGG revenue growth of 3% vs. last year, and international driving growth aligned with our strategy despite currency headwinds and a 63% increase in DTC acquisition vs. last year for HOKA.
- **Press & Social Coverage of UGG:** UGG has quite literally elevated core Classics through the introduction of fashion forward platform versions of the brand's most iconic styles, generating tremendous press coverage from being spotted on top models and going viral on TikTok. Platform Classics are already trending in the top 10 amongst new consumers in 18 to 34-year olds.
- **HOKA Globally:** HOKA has driven exceptional increases in DTC retention and acquisition, increasing 70% and 63%, respectively, across global markets. Outside the US, awareness is much lower, with most regions sitting in the low teens percentage.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	21.74	3.05	25.38	15.51	NA
TTM	25.9	3.31	129.99	18.21	7.46

*Levered FCF

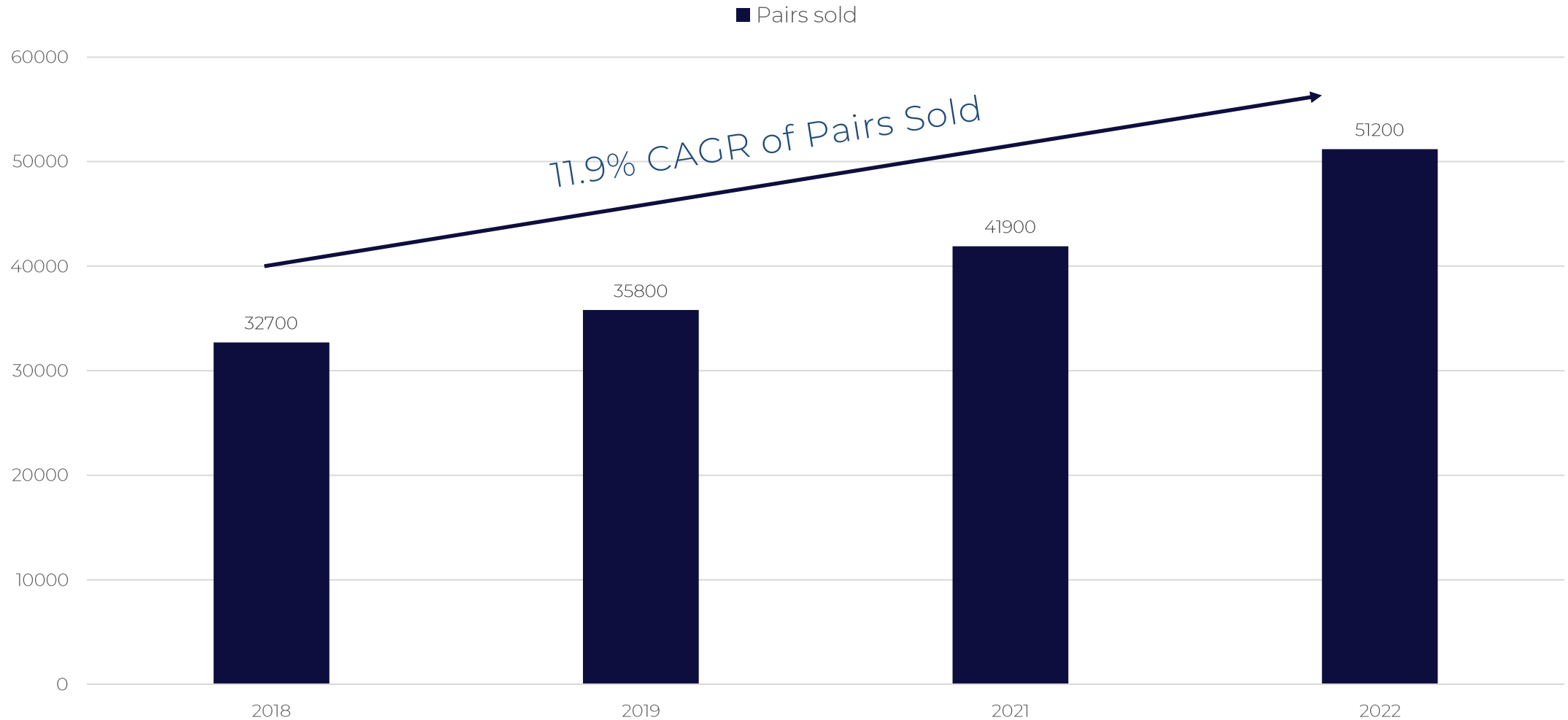
Sources: Deckers IR, TIKR, Blue Line Capital

Quarterly Data



Deckers Pairs Sold Trend

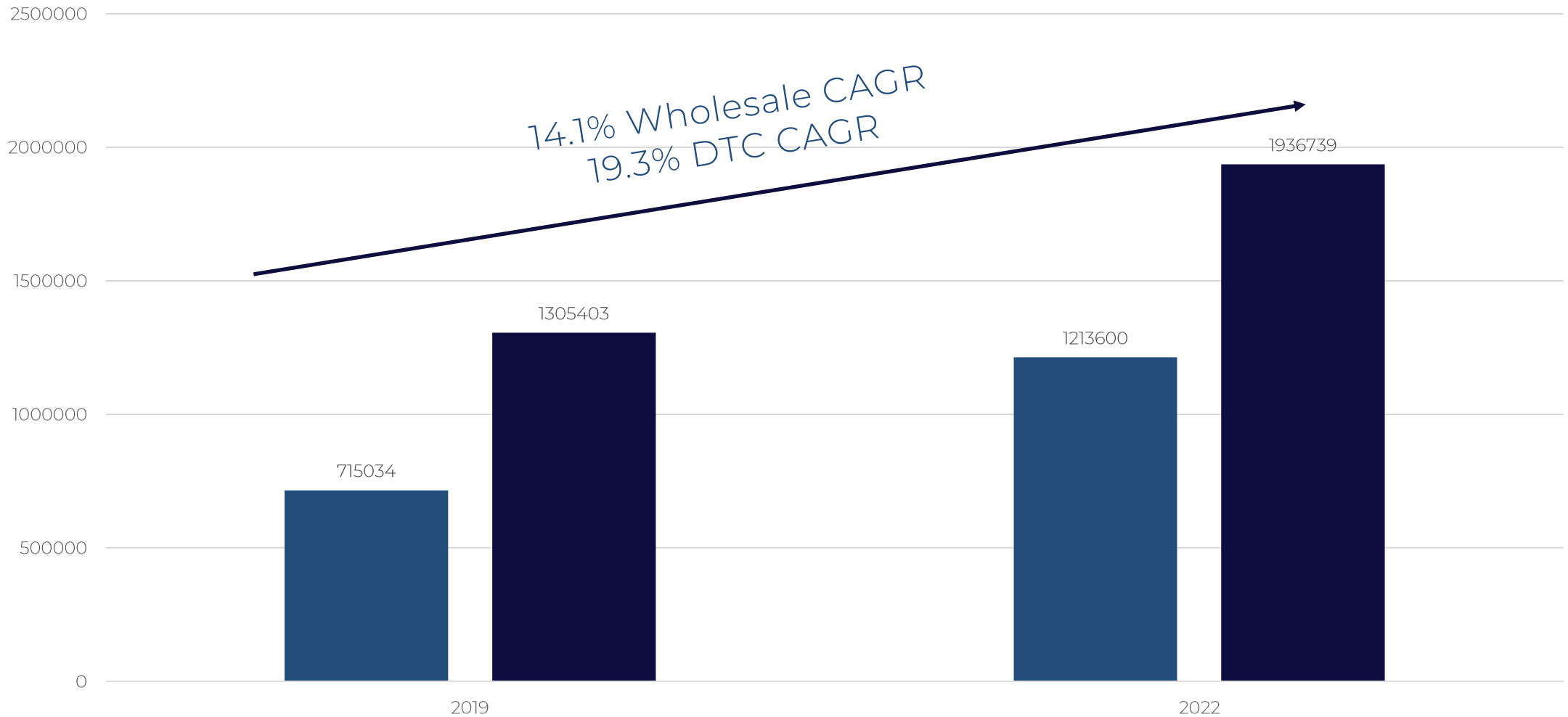
Volume Trend



Sources: Deckers IR, Blue Line Capital

Deckers Revenue By Channel

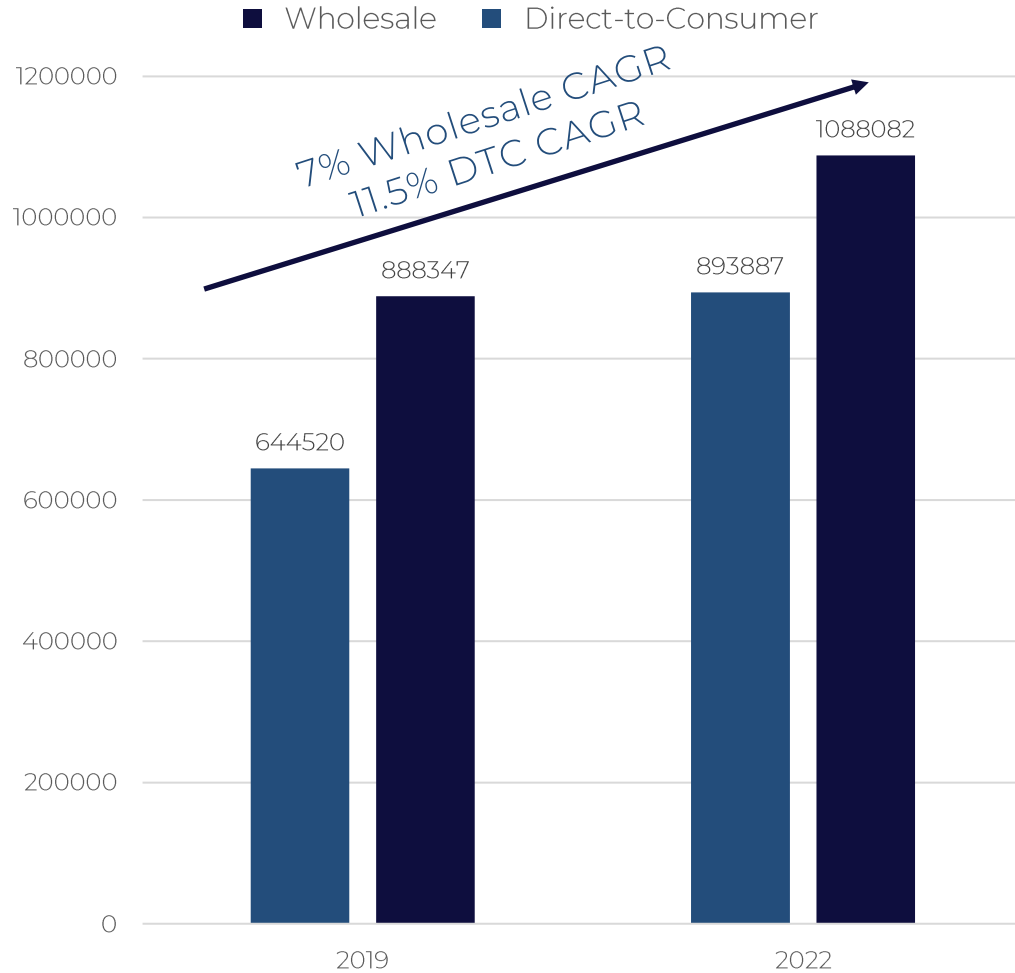
Wholesale vs. DTC Revenue Trend



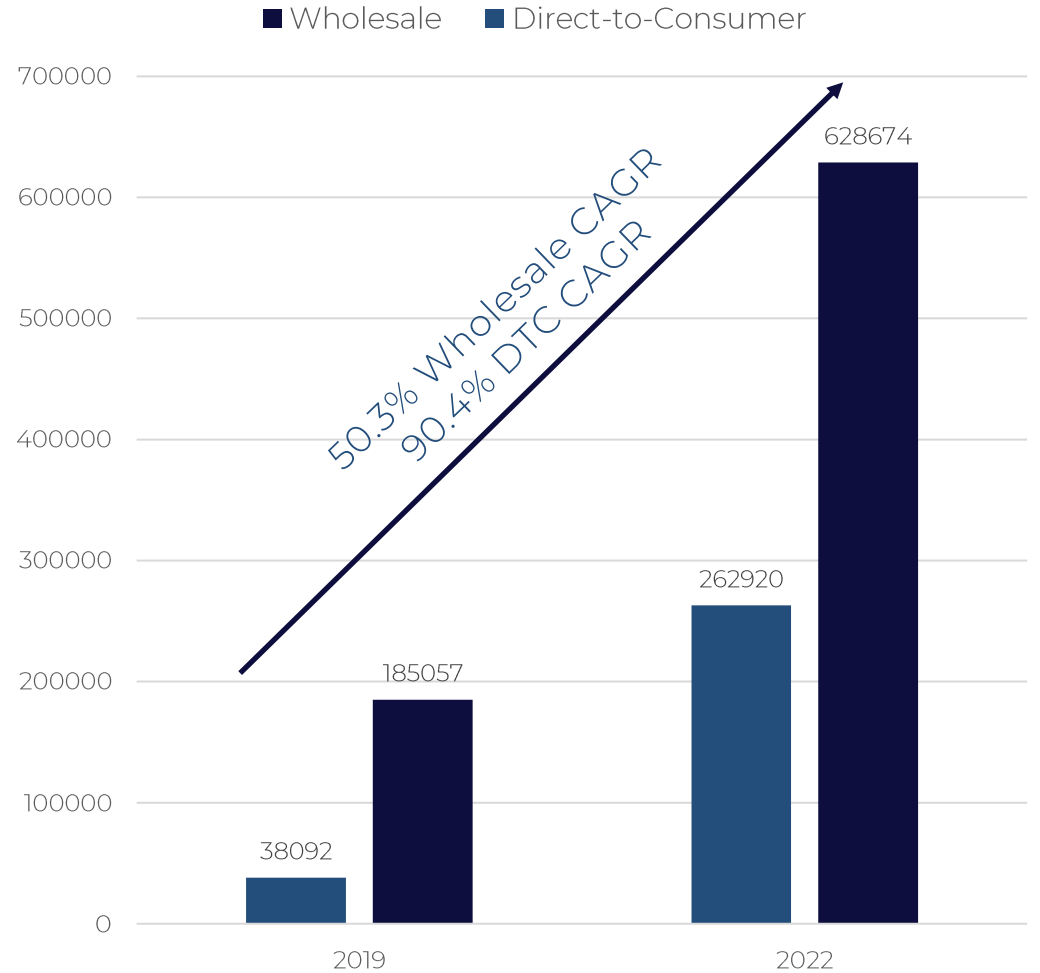
Sources: Deckers IR, Blue Line Capital

Revenue Growth By Brand

UGG Brand Sales By Channel



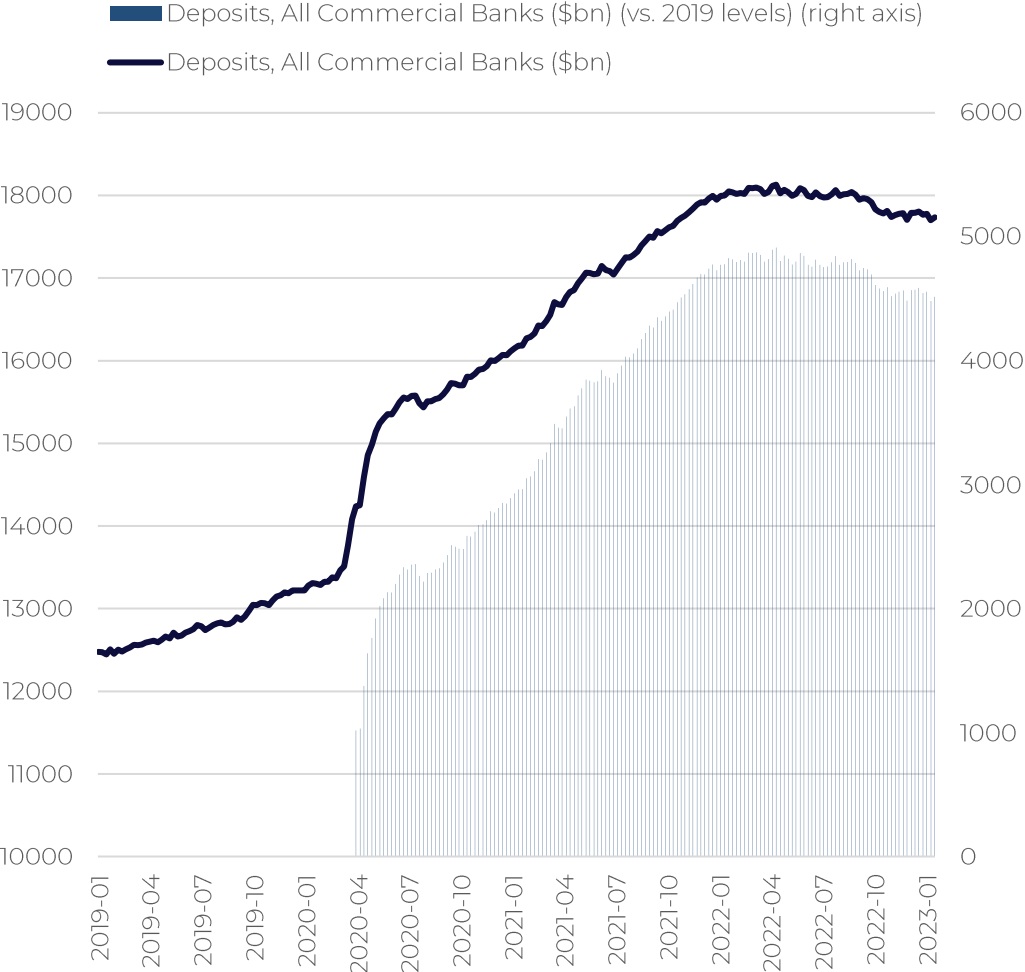
HOKA Brand Sales By Channel



Sources: Deckers IR, Blue Line Capital

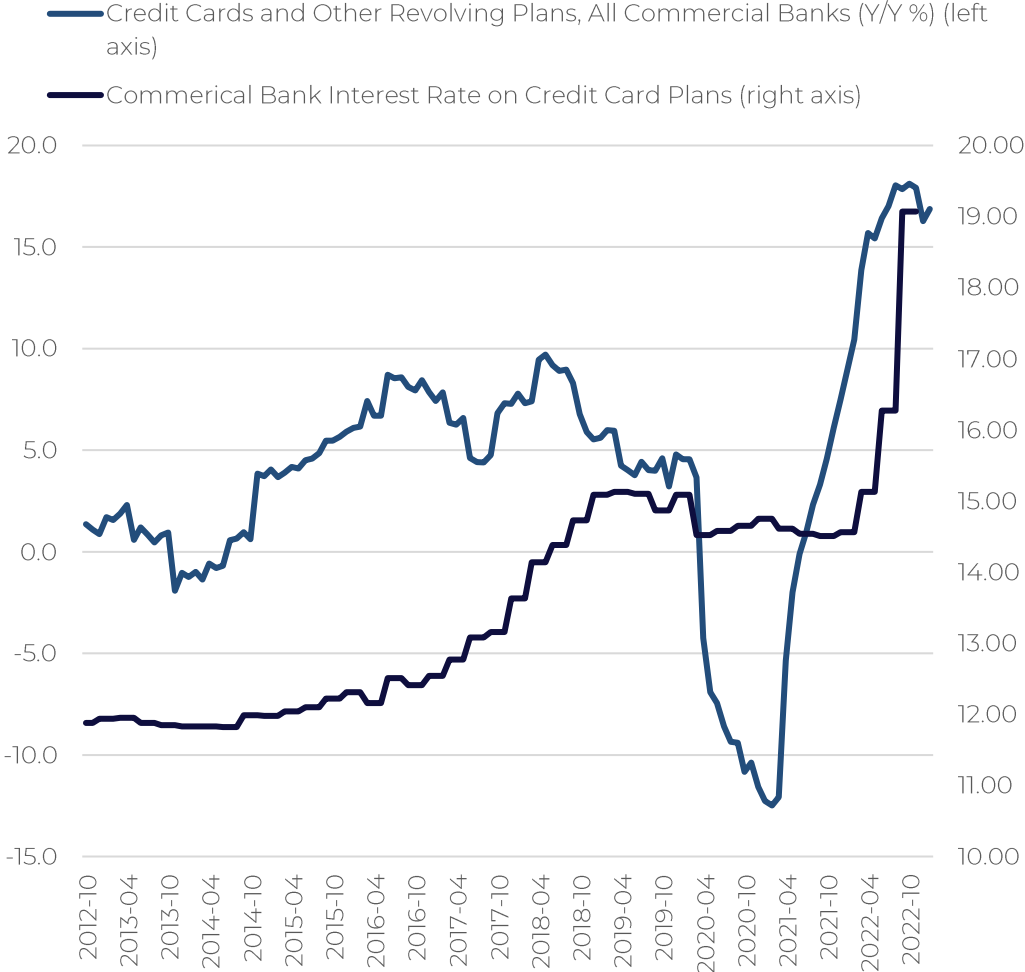
The Consumer Credit Picture

Deposit Base At Commercial Banks



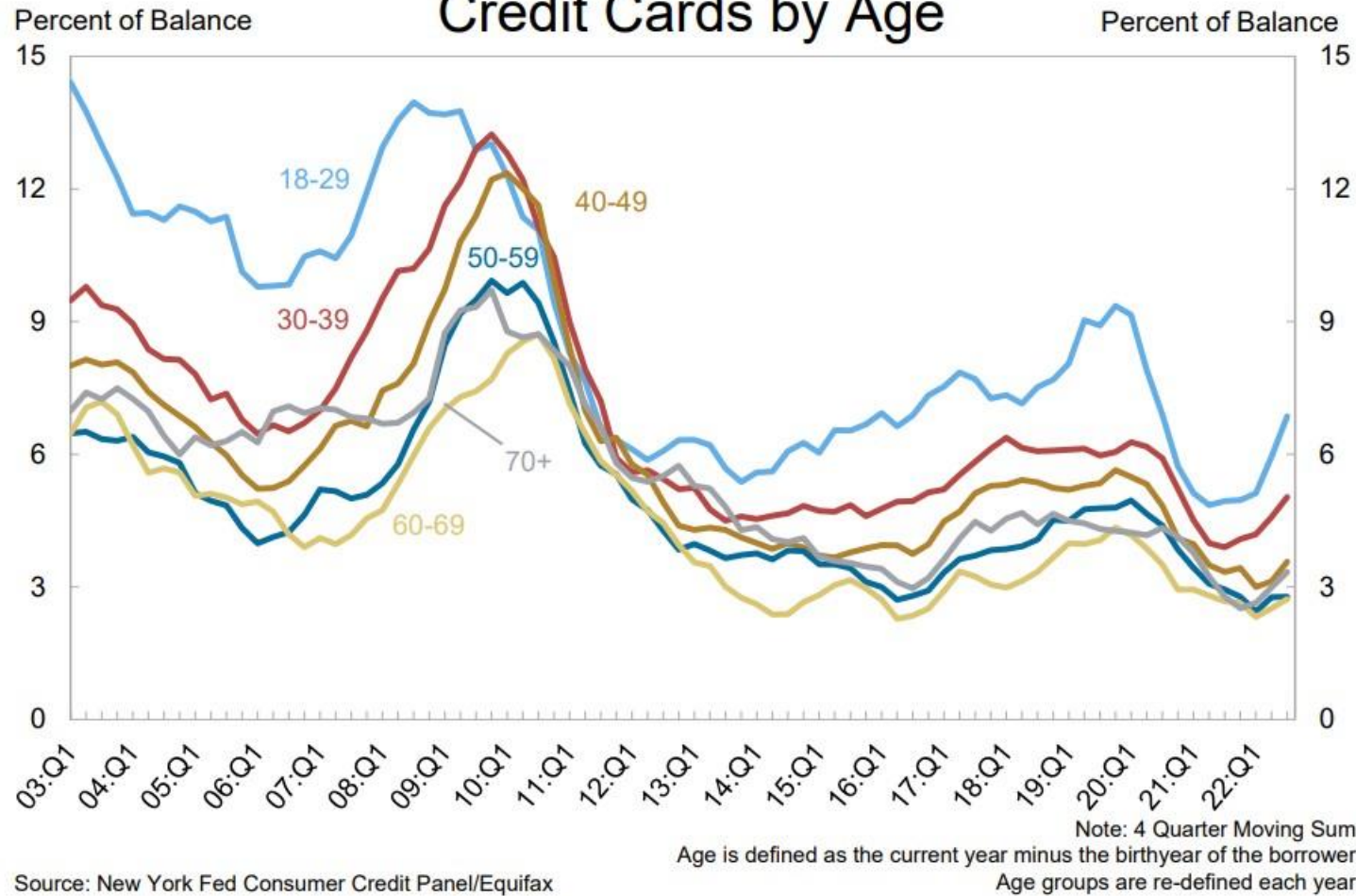
Sources: Federal Reserve, FRED, Blue Line Capital

Credit Card Debt Accelerating Despite Higher Rates



Credit Card Delinquency Rates

Transition into Serious Delinquency (90+) for Credit Cards by Age



Sources: New York Fed

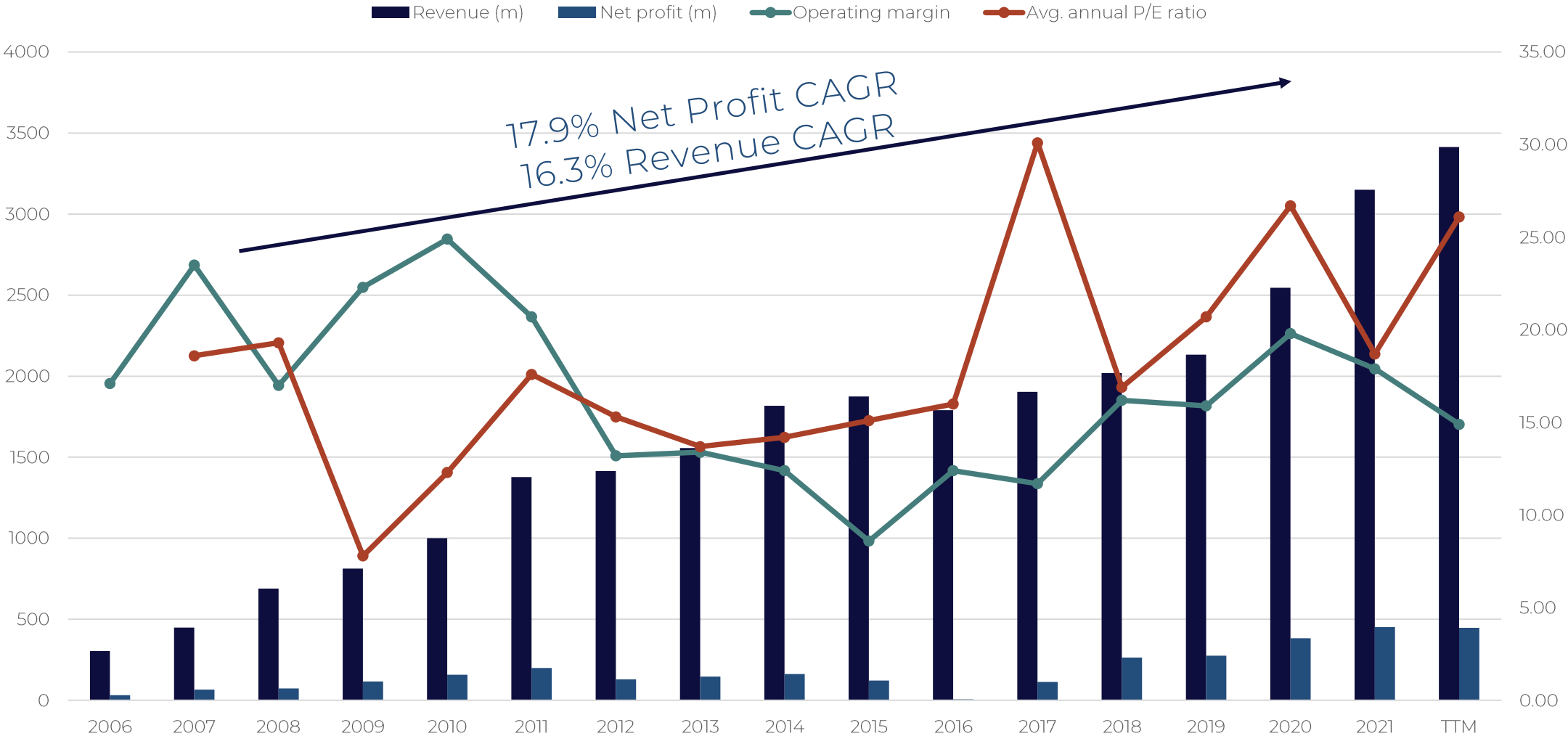
1/31/2023

Blue Line Capital maintains no position in Deckers.

28

BLUE LINE CAPITAL

Deckers Growth, Margin & Multiple



Sources: Deckers IR, ROIC AI, Blue Line Capital

Deckers Expectations & Returns

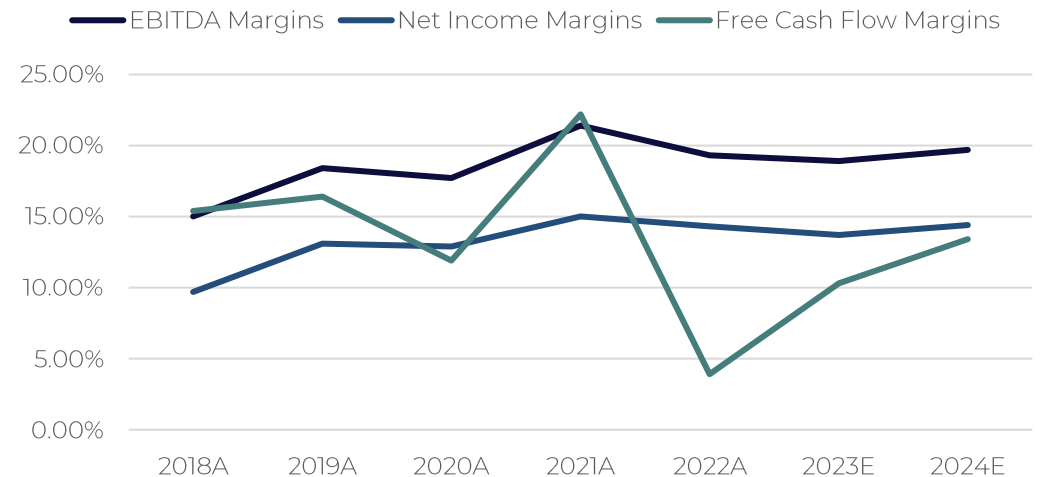
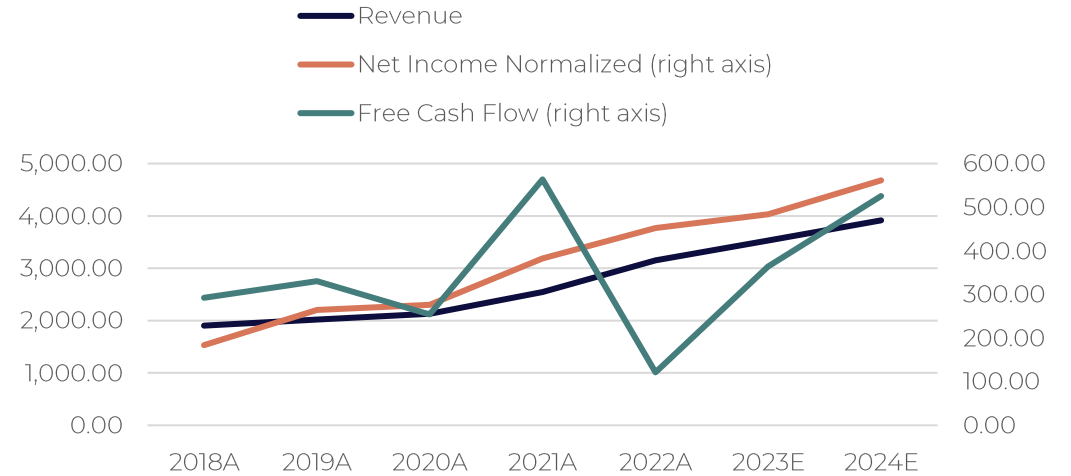
Return Ratios Compared To 2019

Despite the increase in DTC sales, margins have remained rather stable. It is yet to be seen whether more DTC translates into higher margins.

		LTM	2019
Return Ratios	RoA	14.40%	15.10%
	RoC	32.80%	30.30%
	RoE	30.10%	26.60%
Margins	Gross Profit Margin	49.70%	51.50%
	EBITDA Margin	17.80%	18.40%
	Net Income Margin	13.10%	13.10%
	Levered Free Cash Flow Margin	0.70%	13.30%
Asset Turnover	Asset Turnover	1.38	1.42
	Fixed Asset Turnover	8.53	9.31
	Receivables Turnover	8.48	12.14
	Inventory Turnover	2.2	3.39
Solvency	Total Debt/Equity	13.00%	3.00%
	Total Debt/Capital	11.50%	2.90%
	EBITDA/Interest Expense	290.01	79.61
	(EBITDA/Capex)/Interest Expense	269.47	73.37

Sources: Deckers IR, TIKR, Blue Line Capital

Revenue and Net Income Estimates



Deckers Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Deckers Outdoor (DECK)	15.51	21.74	22%	34%	55%
Nike (NKE)	27.25	35.94	35%	11%	3%
Lululemon (LULU)	18.01	28.81	-6%	0%	-13%
Under Armour (UAA)	11.5	21.43	60%	26%	-24%
Crocs (CROX)	9.68	11.27	72%	70%	75%
Sketchers (SKX)	10.72	16.5	44%	26%	23%
LVMH (MC)	14.68	24.96	26%	26%	33%
Median	14.68	21.74	35%	26%	23%
Mean	15.34	22.95	36%	27%	22%

Sources: TIKR, Google Finance, Blue Line Capital

1/31/2023

Blue Line Capital maintains no position in Deckers.

31

BLUE LINE CAPITAL

Deckers Outdoor Chart



Sources: Trading View, Blue Line Capital

1/31/2023

Blue Line Capital maintains no position in ServiceNow.

32

BLUE LINE CAPITAL



McDonald's
The Restaurant Franchise Model

McDonald's Earnings Highlights & Stock Performance

Management Commentary From Q4 2022 Earnings Call

- **Guest Count:** We achieved full year comp sales growth of 10.9%, delivered strong comp – guest count performance with 5% growth globally.
- **FIFA World Cup:** Our aim was to support fans that were watching the FIFA World Cup at home through relevant and meaningful McDelivery promotions regardless of the time zone that their team was playing in. During this campaign, we saw double-digit increases in delivery sales across our top 10 markets.
- **Digital Presence:** In the fourth quarter, digital represented over 35% of system-wide sales in our top 6 markets. In 2022, the McDonald's app was downloaded over 40 million times in the U.S., greater than the total downloads of the second, third and fourth brands combined.
- **Loyalty Program:** As we closed the year, we had almost 50 million active loyalty users in our top 6 markets.
- **The Franchise Model:** Franchise restaurants, which now represent 95% of our global portfolio, contributed nearly 90% of our total restaurant margins, reflecting the stability of our business model.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	26.41	8.51	27.8	19.07	NA
TTM	34.35	8.58	48.28	20.25	-30.39

*Levered FCF

Sources: McDonald's IR, TIKR, Blue Line Capital; *prior quarters were normalized, not Q4 2022; **internal calculation

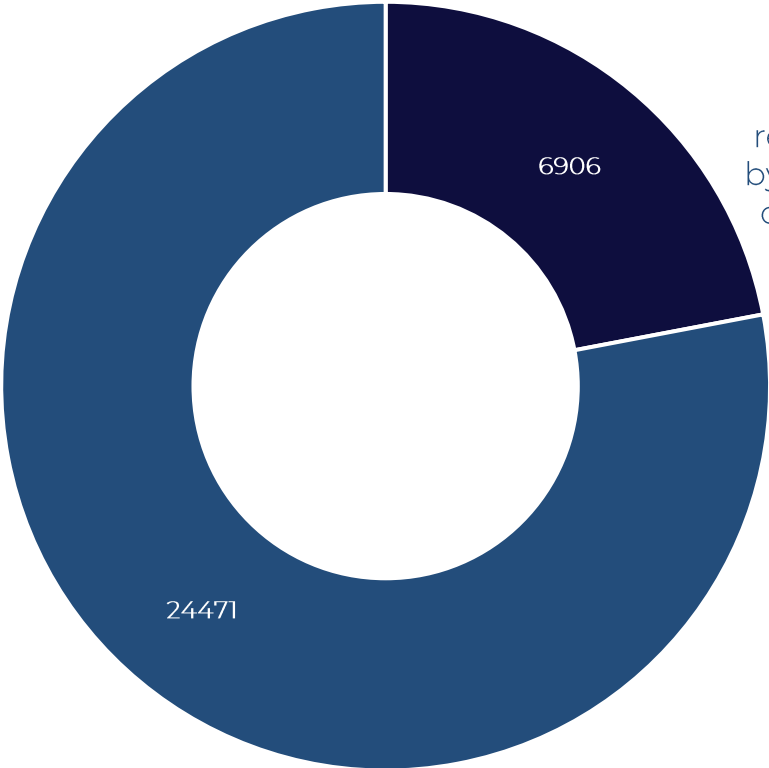
Quarterly Data



The Shift To Franchise

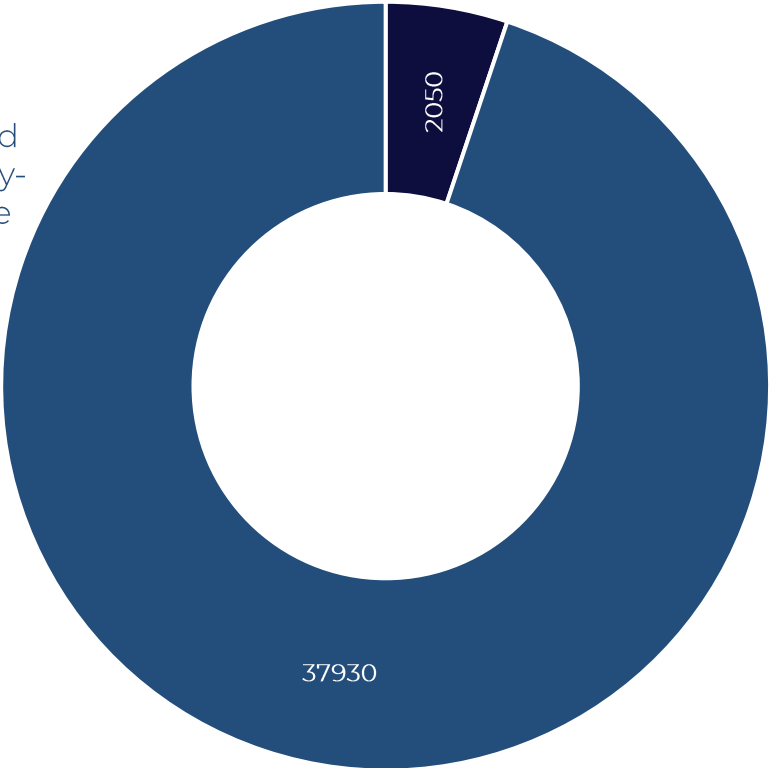
2017 Restaurant Composition

■ Company-operated restaurants ■ Total Franchised



2021 Restaurant Composition

■ Company-operated ■ Total Franchised



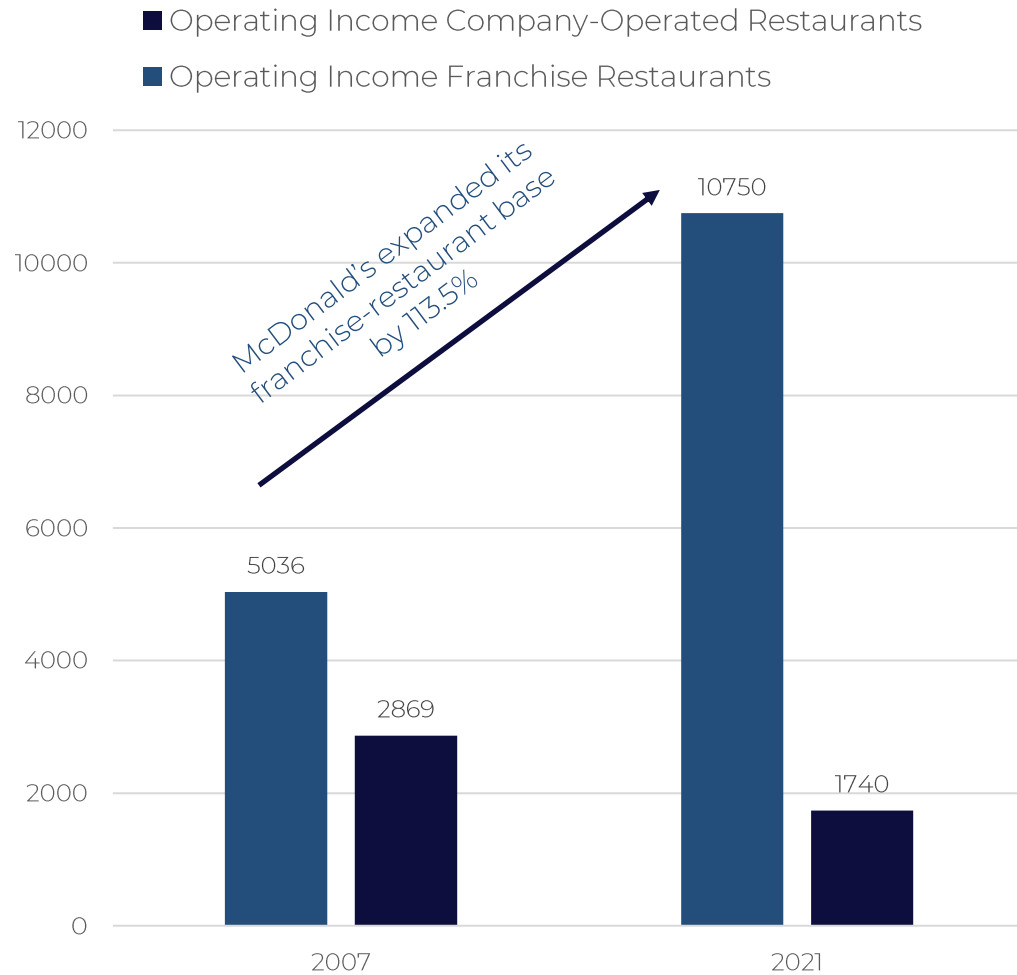
McDonald's franchise restaurant base expanded by 55% while the company-operated restaurant base shrunk by 70%.



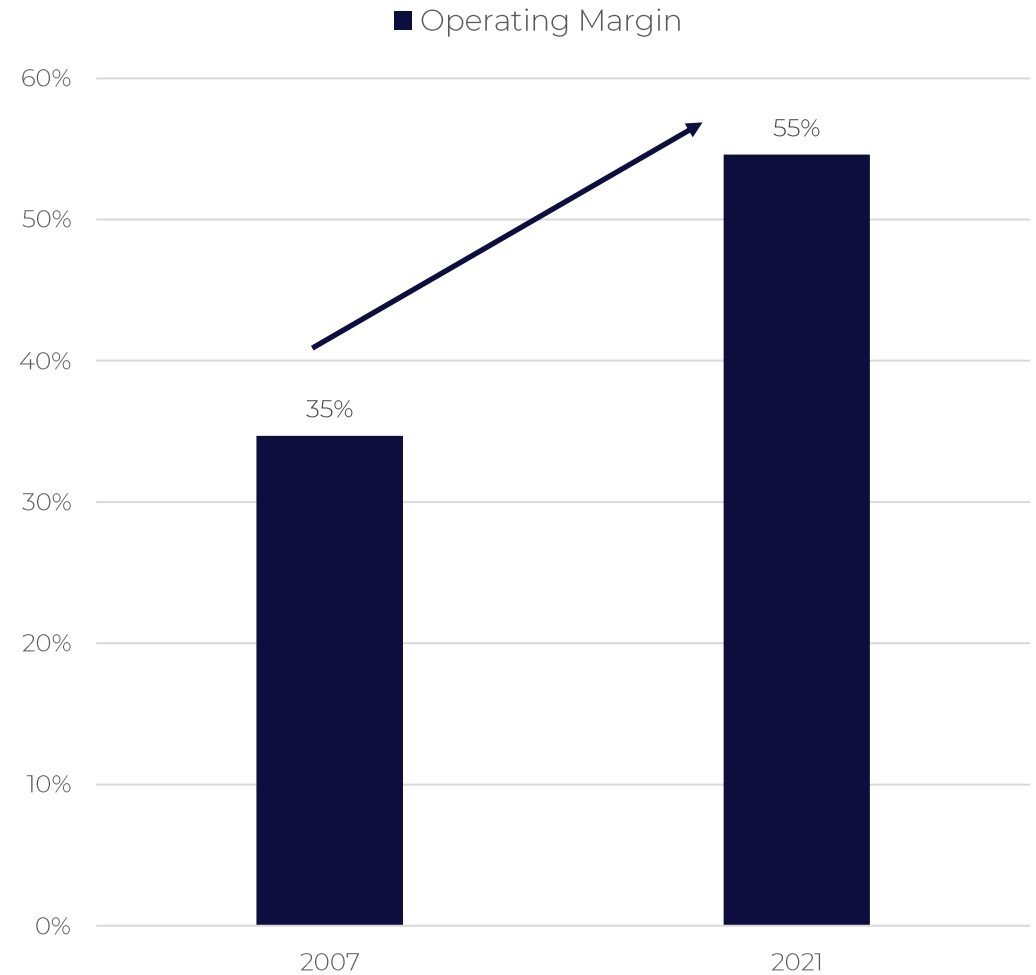
Sources: McDonald's IR, Blue Line Capital

Operating Margin Expansion

Operating Income By Restaurant Type



Operating Margin Expansion



Sources: McDonald's IR, Blue Line Capital

Royalty & Rent Payments From Franchisees

<i>In millions</i>	2021	2020	2019
Rents	\$ 8,381.1	\$ 6,844.7	\$ 7,500.2
Royalties	4,645.1	3,831.5	4,107.1
Initial fees	59.2	49.9	48.4
Revenues from franchised restaurants	\$ 13,085.4	\$ 10,726.1	\$ 11,655.7

As rent and royalties are based upon a percent of sales, government restrictions as a result of COVID-19 had a negative impact on revenues in 2020. The Company granted the deferrals of cash collection for certain rent and royalties earned from franchisees in substantially all markets primarily in the first half of 2020. In total, the Company deferred collection of approximately \$1 billion and has collected substantially all of these deferrals as of December 31, 2021.

Future gross minimum rent payments due to the Company under existing conventional franchise arrangements are:

<i>In millions</i>	Owned sites	Leased sites	Total
2022	\$ 1,577.0	\$ 1,485.6	\$ 3,062.6
2023	1,523.5	1,426.6	2,950.1
2024	1,484.0	1,372.0	2,856.0
2025	1,439.3	1,311.0	2,750.3
2026	1,390.9	1,255.5	2,646.4
Thereafter	10,441.4	9,076.4	19,517.8
Total minimum payments	\$ 17,856.1	\$ 15,927.1	\$ 33,783.2

Sources: McDonald's IR, Blue Line Capital

1/31/2023

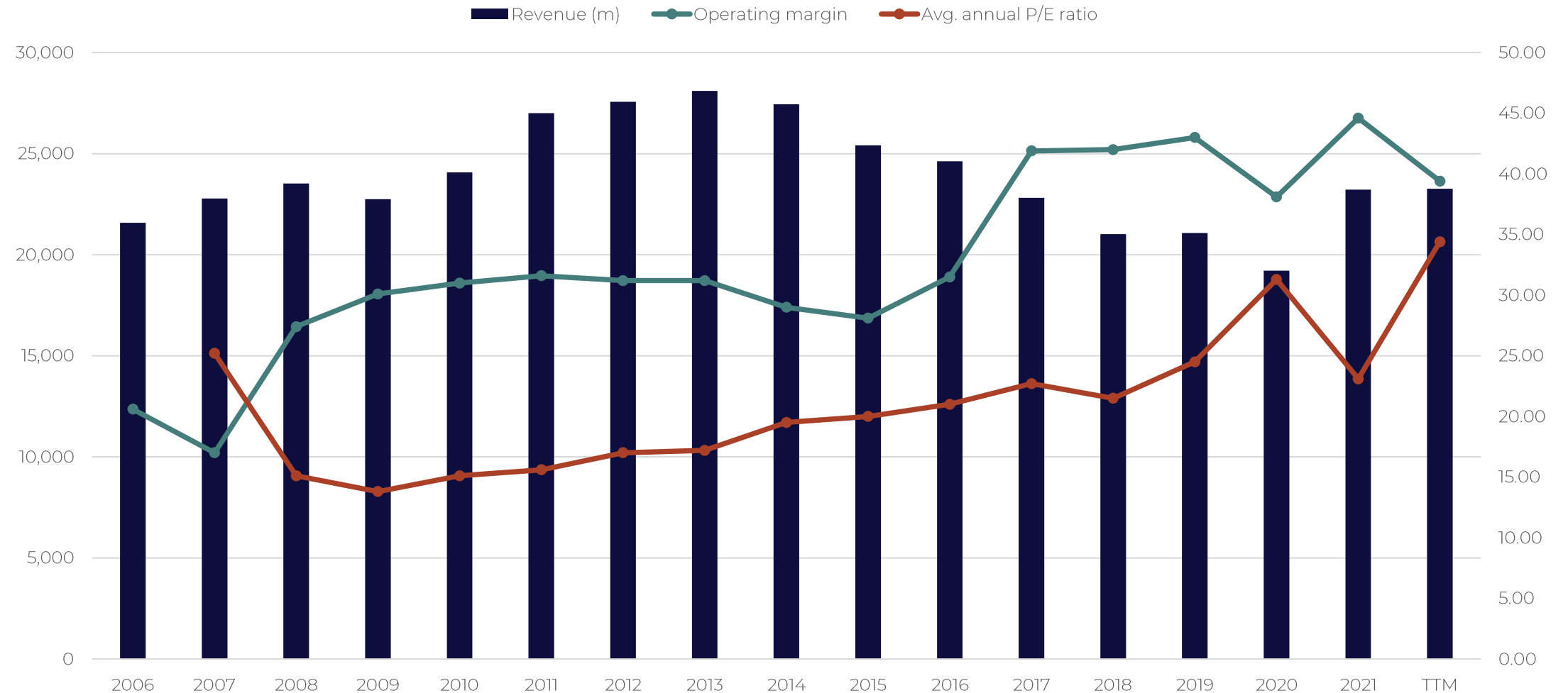
Blue Line Capital maintains no position in McDonald's.

37

BLUE LINE CAPITAL

P/E & Operating Margin Expansion

P/E Expansion Despite Revenue Compression As Operating Margins Expanded With The Shift To Franchise



Sources: McDonald's IR, ROIC AI, Blue Line Capital

McDonald's Expectations & Returns

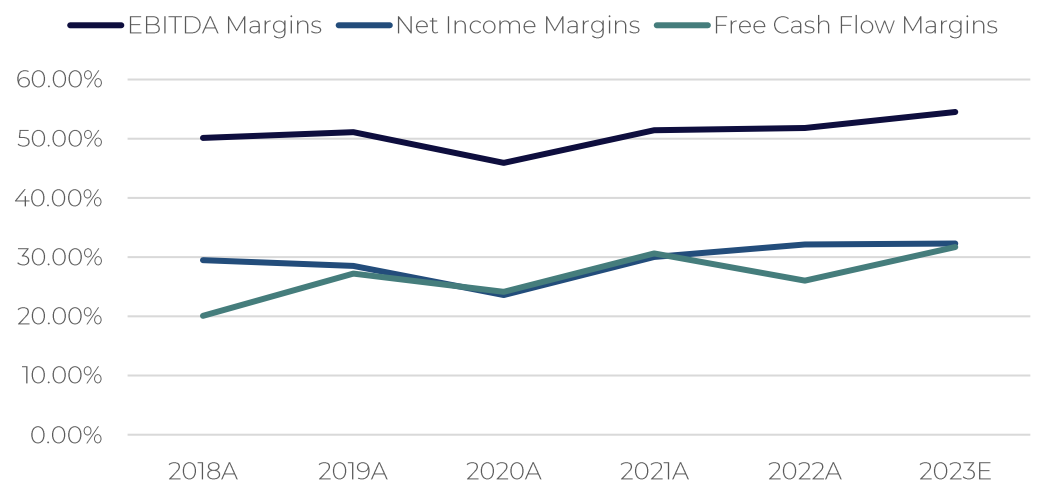
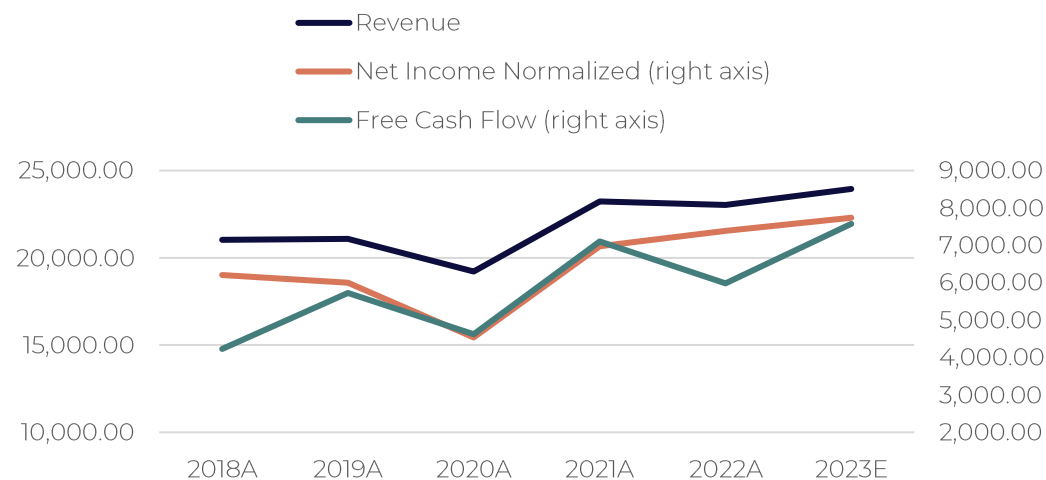
Return Ratios Compared To 2019

Margins have continued to expand as McDonald's franchise model supports more income per dollar of revenue.

		LTM	2019
Return Ratios	RoA	12.60%	13.90%
	RoC	23.70%	22.00%
	RoE	-96.60%	-83.30%
Margins	Gross Profit Margin	56.10%	52.30%
	EBITDA Margin	51.80%	49.50%
	Net Income Margin	25.40%	28.20%
	Levered Free Cash Flow Margin	17.80%	22.10%
Asset Turnover	Asset Turnover	0.48	0.45
	Fixed Asset Turnover	0.64	0.71
	Receivables Turnover	12.33	9.03
	Inventory Turnover	218.31	201.09
Solvency	Total Debt/Equity	-721.60%	-579.20%
	Total Debt/Capital	110.30%	116.90%
	EBITDA/Interest Expense	11.56	10.86
	(EBITDA/Capex)/Interest Expense	9.81	8.72

Sources: McDonald's IR, TIKR, Blue Line Capital

Revenue, Net Income, and FCF Estimates



McDonald's Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
McDonald's (MCD)	19.07	26.41	-1%	3%	11%
Starbucks (SBUX)	20.67	31.78	23%	26%	44%
Chipotle (CMG)	26.41	39.52	4%	0%	8%
Restaurant Brands Int. (QSR)	14.56	22.55	14%	25%	23%
Yum Brands (YUM)	19.43	26	10%	5%	12%
Yum China (YUMC)	14.33	36.86	47%	29%	49%
Wendy's (WEN)	15.62	22.81	5%	4%	15%
Median	19.07	26.41	10%	5%	15%
Mean	18.58	29.42	15%	13%	23%

Sources: TIKR, Google Finance, Blue Line Capital

1/31/2023

Blue Line Capital maintains no position in McDonald's.

40

BLUE LINE CAPITAL

McDonald's Chart



Sources: Trading View, Blue Line Capital

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.