

# Blue Line Capital

Corporate Trends Ahead Of CPI  
Pharma, Streaming & Semiconductors



# Economic Dynamics

Housing, Inflation & More

# Credit Spread

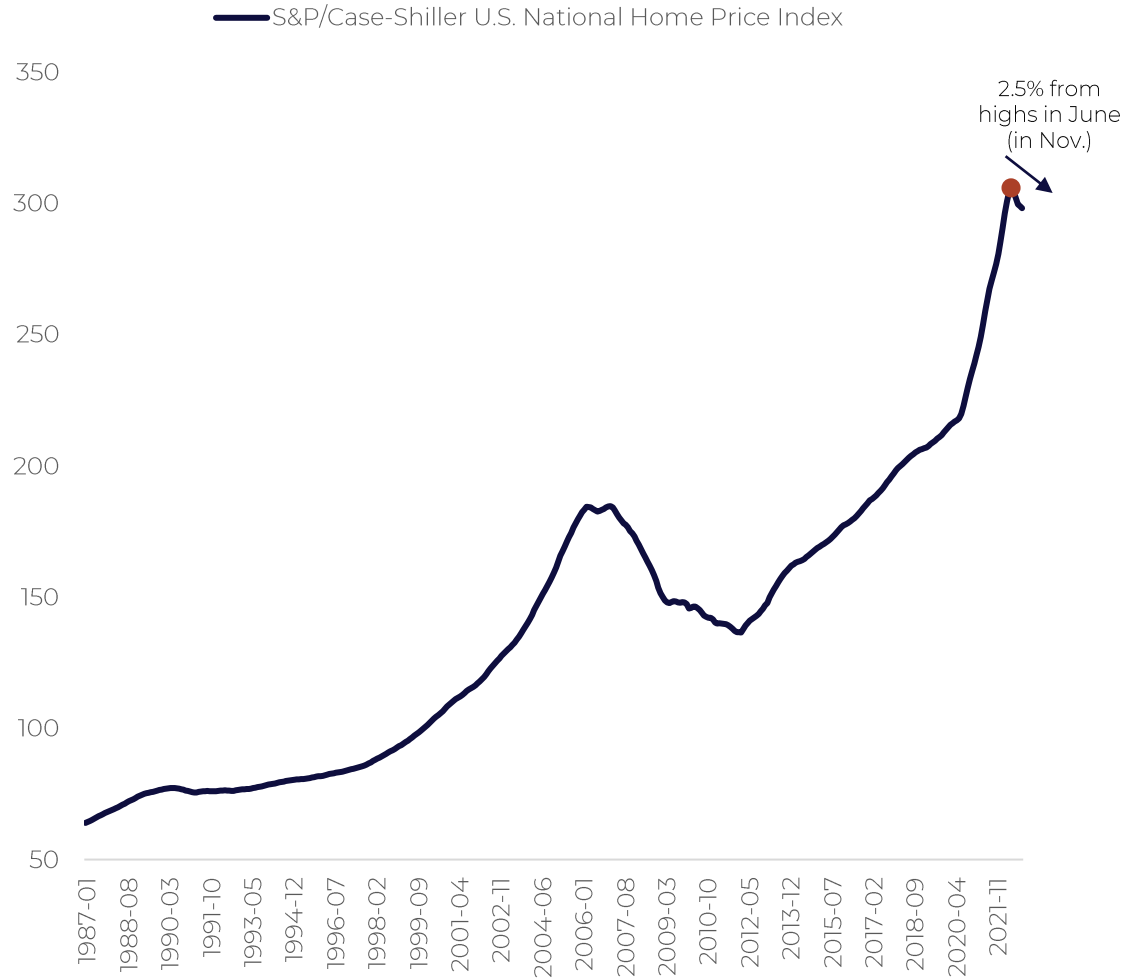
Investment grade one grade above junk (Baa) finds itself less than 100bps above Fed Funds, indicating a lack of stress in credit.



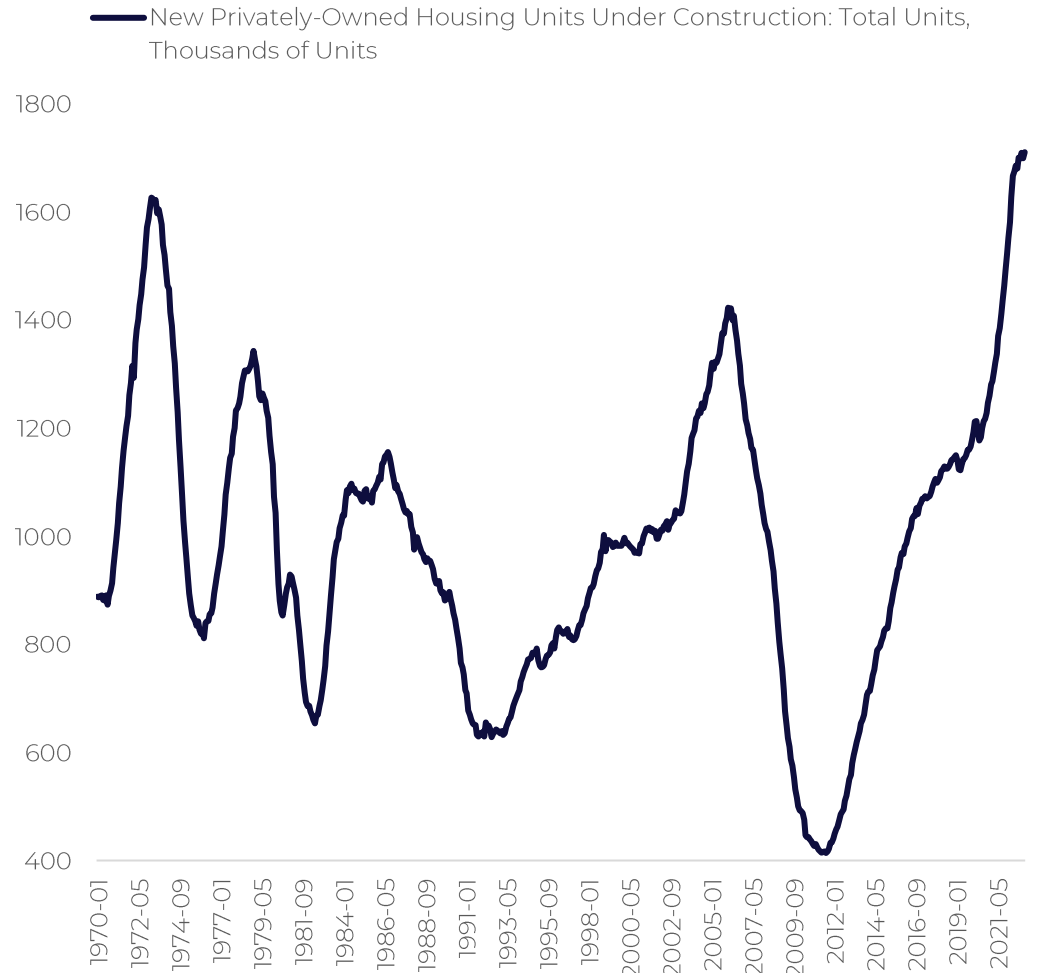
Sources: FRED, Blue Line Capital, Blue Line Futures

# House Prices & Construction Activity

House prices have been extremely resilient despite the 30-year fixed mortgage rate rising from ~2.6% in Jan. 2021 to a high of ~7% in Oct. 2022.



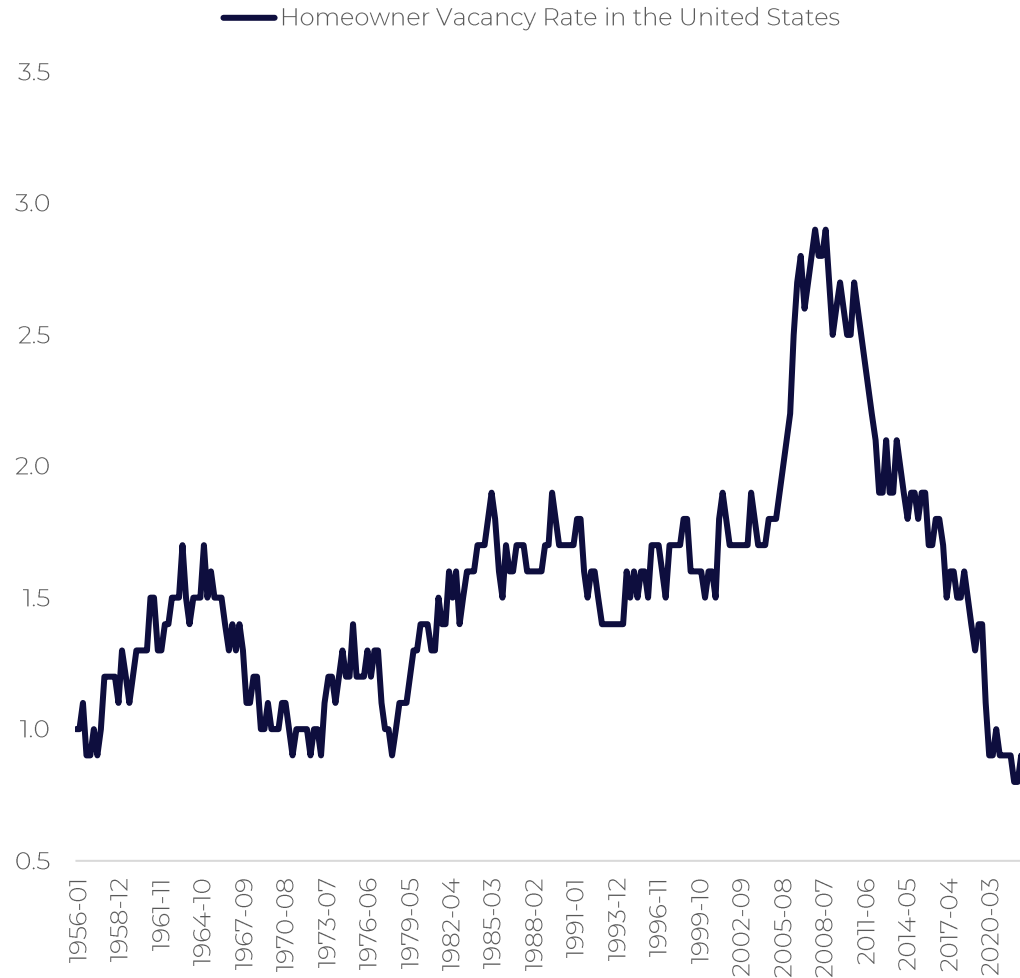
Housing construction activity strong after underbuilding post-GFC.



Sources: FRED, Blue Line Capital, Blue Line Futures

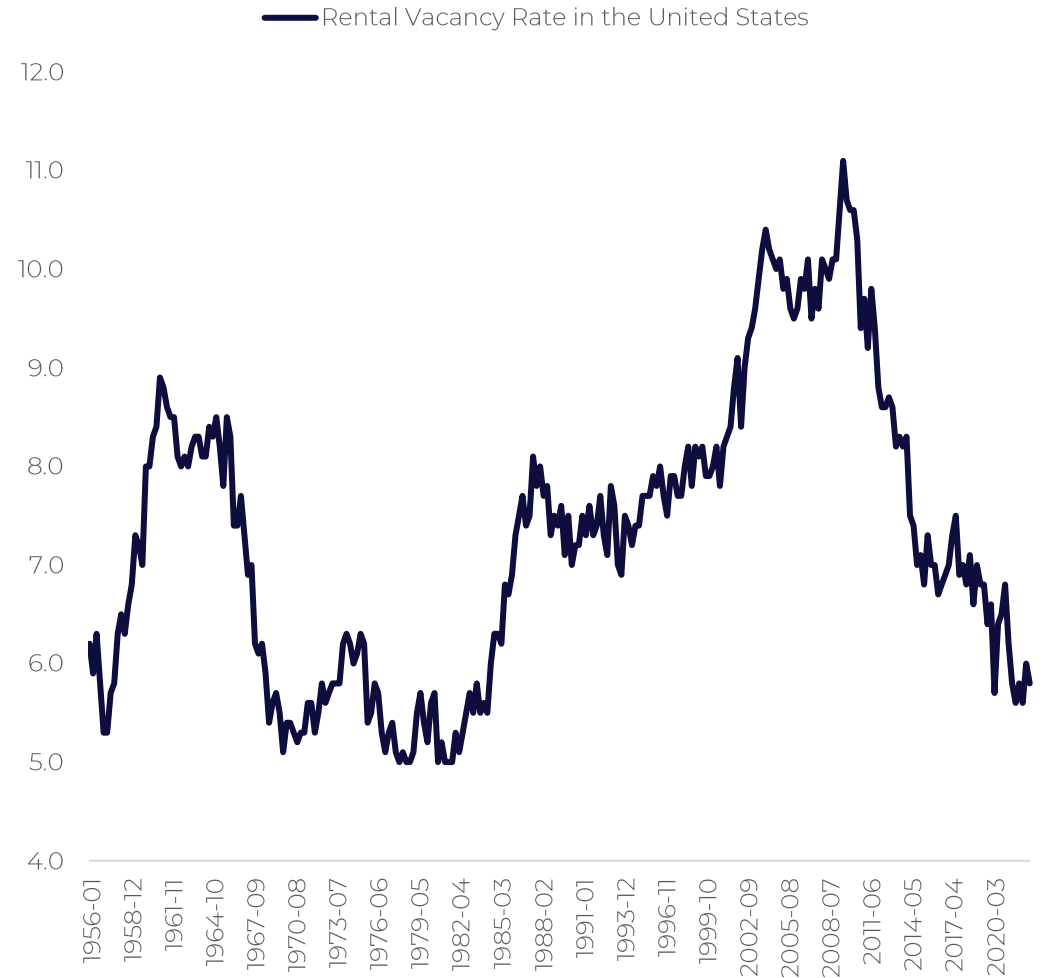
# Vacancy Rates

According to Moody's, today's vacancy rate indicates the U.S. is short 1.5 years of housing supply.



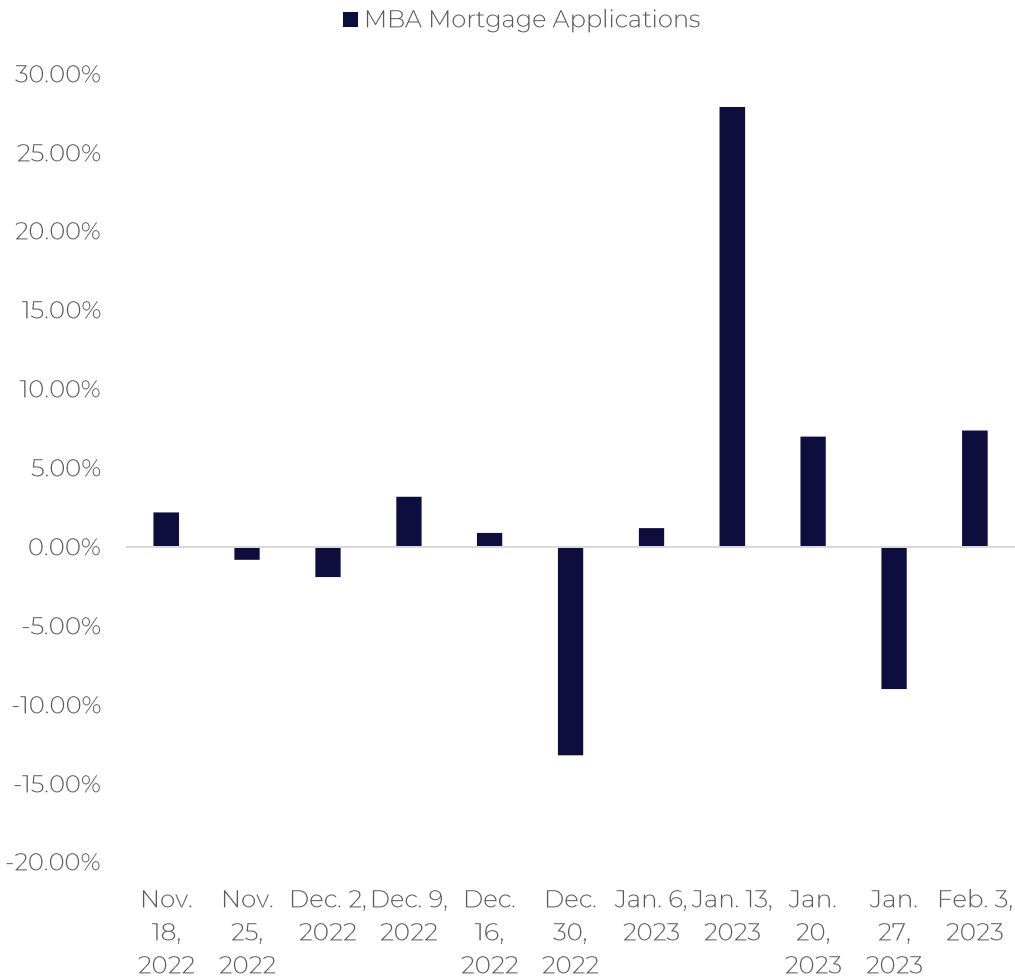
Sources: FRED, Blue Line Capital, Blue Line Futures

Rental vacancy as low as it's last been in the 1980s.



# Mortgage Applications & Buyer Sentiment

Despite higher mortgage rates, home buyers have been reluctant to retreat.



Sources: MBA, Fannie Mae, Blue Line Capital, Blue Line Futures

Buyer sentiment has come off significantly.

Only 17% of consumers say it's a good time to buy a home

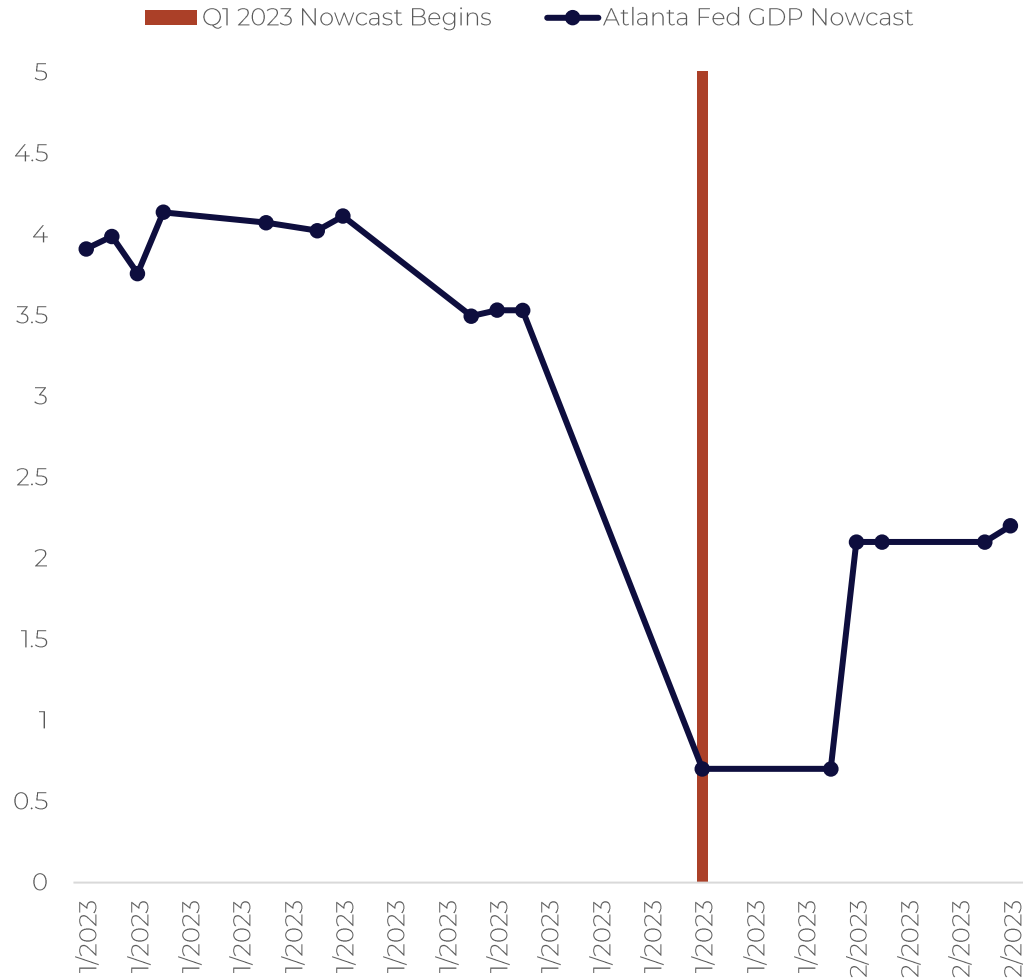


Source: Home Purchase Sentiment Index® (HPSI)



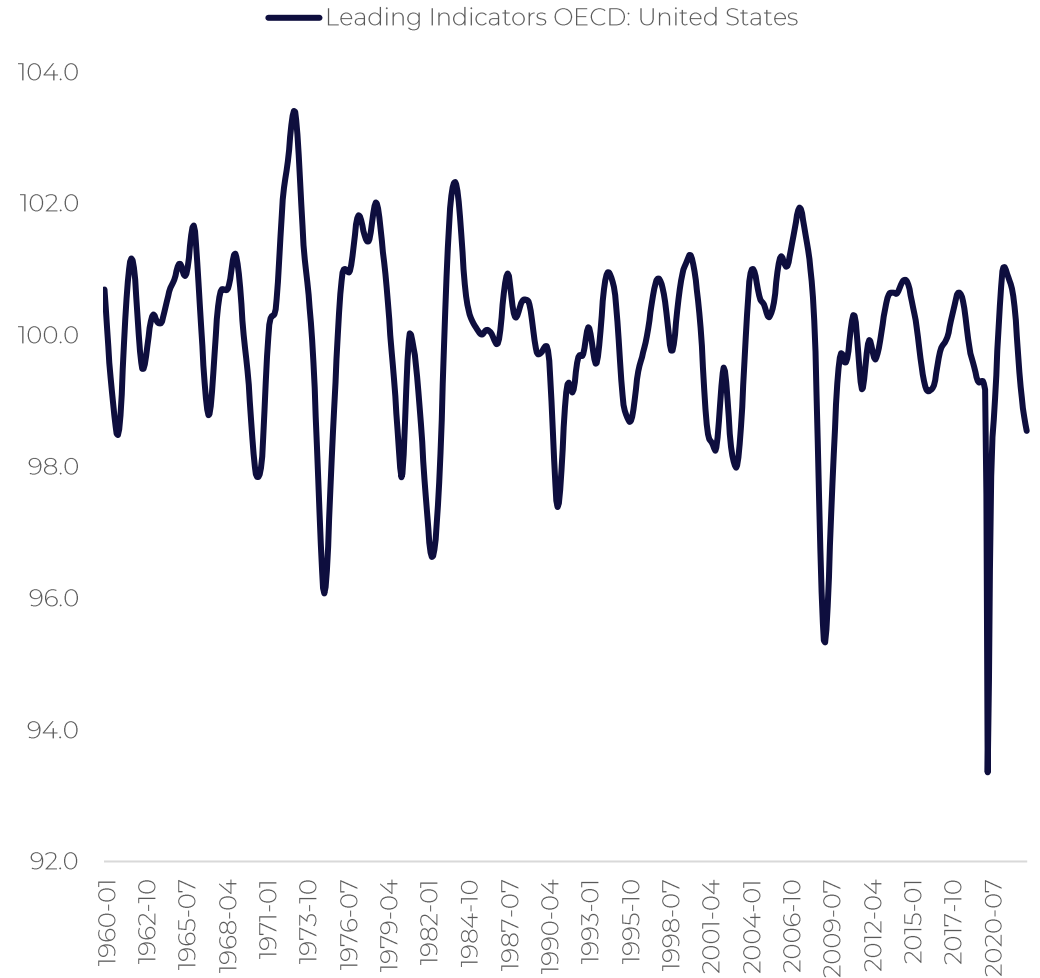
# GDP & Leading Economic Indicator

GDP growth has been extraordinarily resilient as consumers have kept spending, proving resilient in response to higher rates.



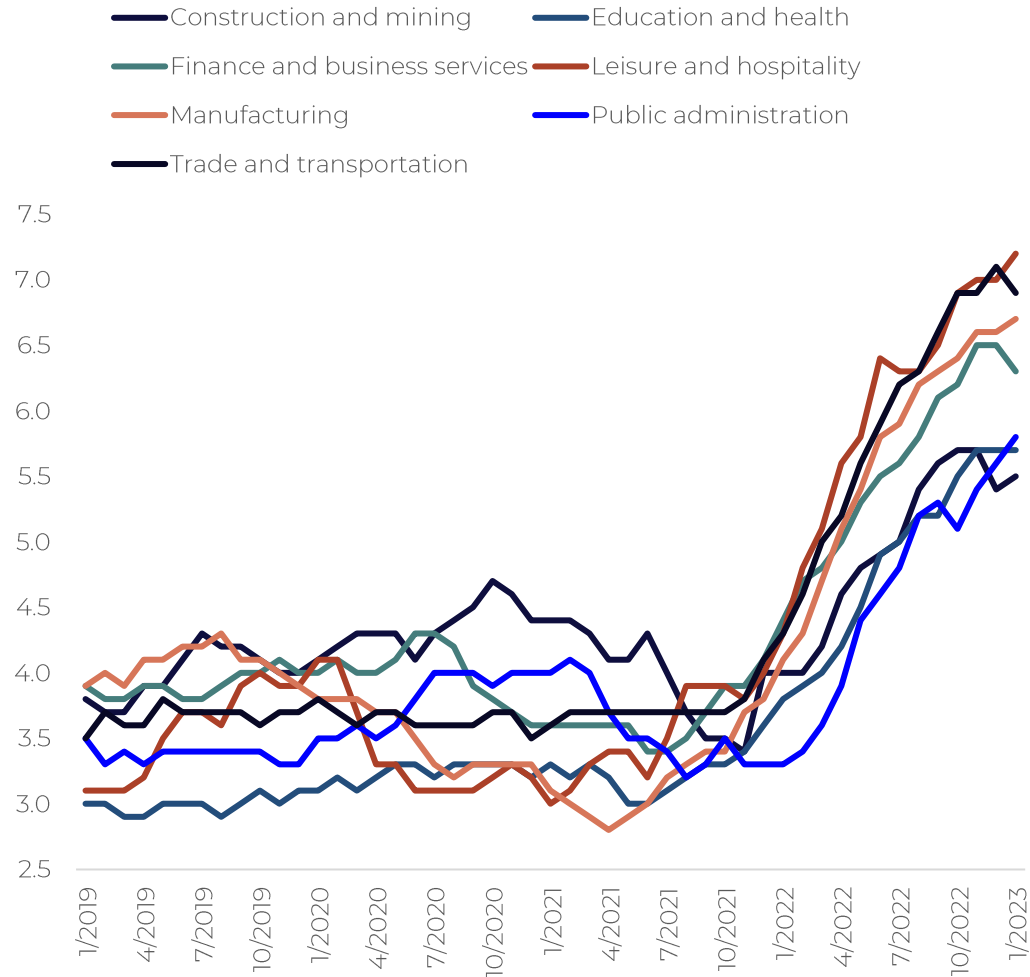
Sources: Atlanta Fed, FRED, Blue Line Capital, Blue Line Futures

Leading economic indicators have collapsed across the board (as of Dec.)



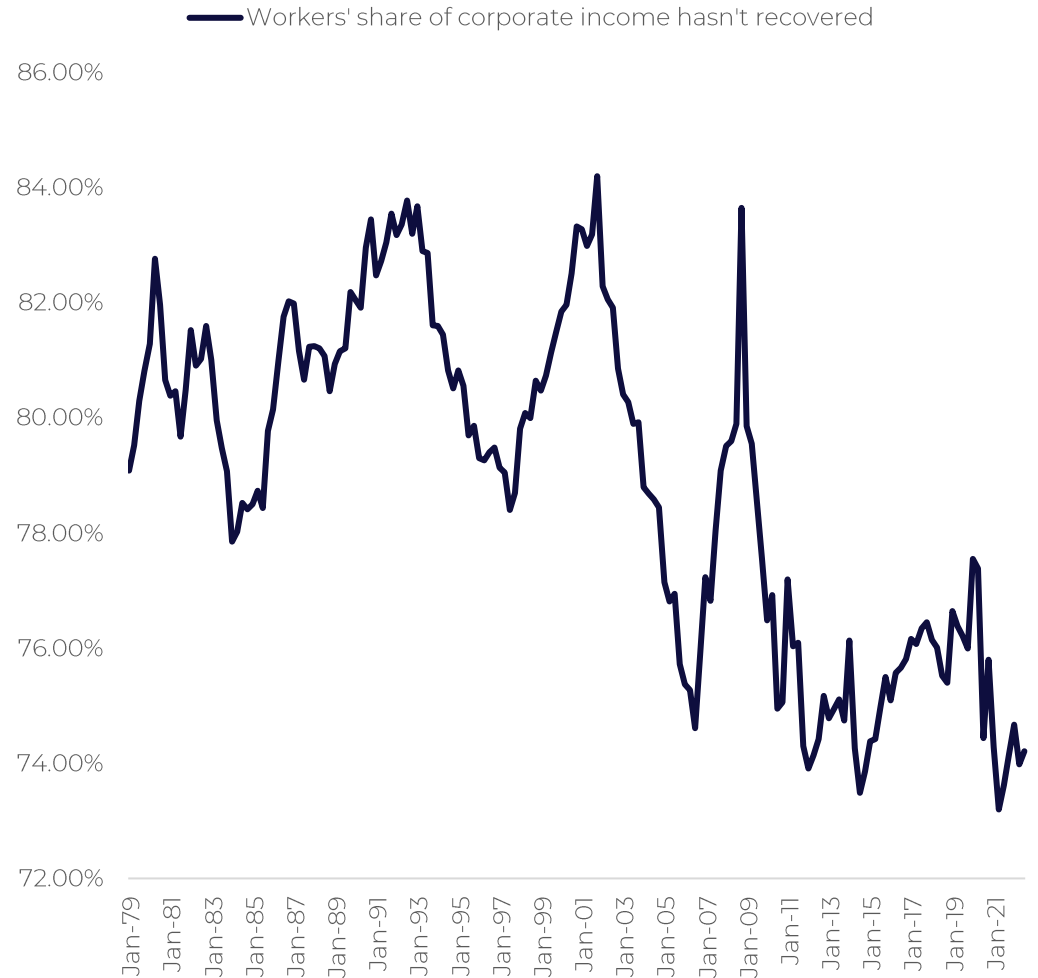
# Wage Trends

12-month moving average of average hourly earnings.



Sources: Atlanta Fed, Economic Policy Institute, Blue Line Capital, Blue Line Futures

Workers' share of corporate income





# Employee Count By Occupation

## Employee count by occupation 2019 - 2022

	2022	2021	2020	2019	$\Delta$ (2022-2019)	$\Delta/2019$
Management occupations	20199	18986	18564	18985	1214	6%
Business and financial operations occupations	9152	8878	8578	7996	1156	14%
Professional and related occupations	38749	36880	36502	37237	1512	4%
Architecture and engineering occupations	3464	3235	3169	3305	159	5%
Life, physical, and social science occupations	1840	1640	1627	1485	355	24%
Community and social service occupations	2945	2777	2717	2717	228	8%
Legal occupations	1861	1805	1882	1955	-94	-5%
Education, training, and library occupations	9220	8946	8902	9455	-235	-2%
Arts, design, entertainment, sports, and media occupations	3441	3151	3042	3285	156	5%
Healthcare practitioners and technical occupations	9808	9639	9559	9684	124	1%
Healthcare support occupations	4930	4887	4790	3758	1172	31%
Protective service occupations	3057	2987	3024	3128	-71	-2%
Food preparation and serving related occupations	7907	7370	6556	8378	-471	-6%
Supervisors of personal care and service workers	232	250	237	213	19	9%
Sales and related occupations	14316	14369	14168	15582	-1266	-8%
Office and administrative support occupations	16096	15797	15558	17789	-1693	-10%
Farming, fishing, and forestry occupations	980	1061	1045	1156	-176	-15%
Construction and extraction occupations	8427	8057	7710	8325	102	1%
Installation, maintenance, and repair occupations	4853	4840	4602	4862	-9	0%
Production occupations	8256	7950	7590	8565	-309	-4%
Transportation and material moving occupations	11826	11359	10625	10063	1763	18%

Sources: BLS, Blue Line Capital, Blue Line Futures



# Earnings Data & Corporate Trends

AbbVie, Disney, Intel



# AbbVie

Product Differentiation Post Humira

# AbbVie Earnings Highlights & Stock Performance

## Management Commentary From Q4 2022 Earnings Call

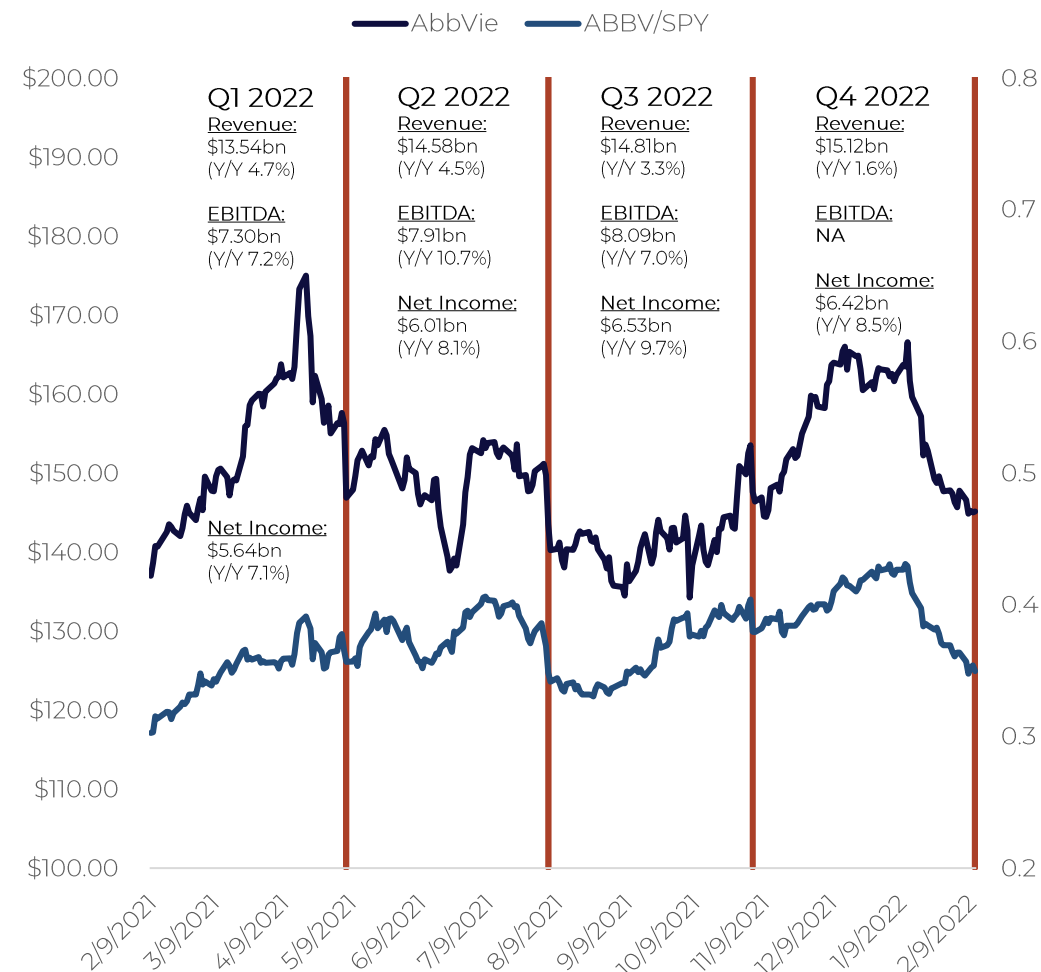
- **Skyrizi and Rinvoq:** We anticipate these two products will collectively exceed the peak revenues achieved by HUMIRA by 2027 with significant growth expected through the end of the decade.
- **R&D:** We are committed to pursuing new ways to address patients' most serious health issues and have more than doubled our annual R&D investment since our inception. The breadth and the depth of our pipeline, which now includes more than 80 programs across all development stages.
- **Humira:** We expected headwind from direct biosimilar competition with U.S. HUMIRA sales down approximately 37%, which is at lower end of our previous erosion projection of 35% to 55%.
- **Debt:** We expect to pay down \$4bn in maturities this year bringing our cumulative debt reduction to \$34bn.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	12.82	4.84	12.59	12.03	NA
TTM	22.43	4.53	13.06	10.33	16.44

\*Levered FCF

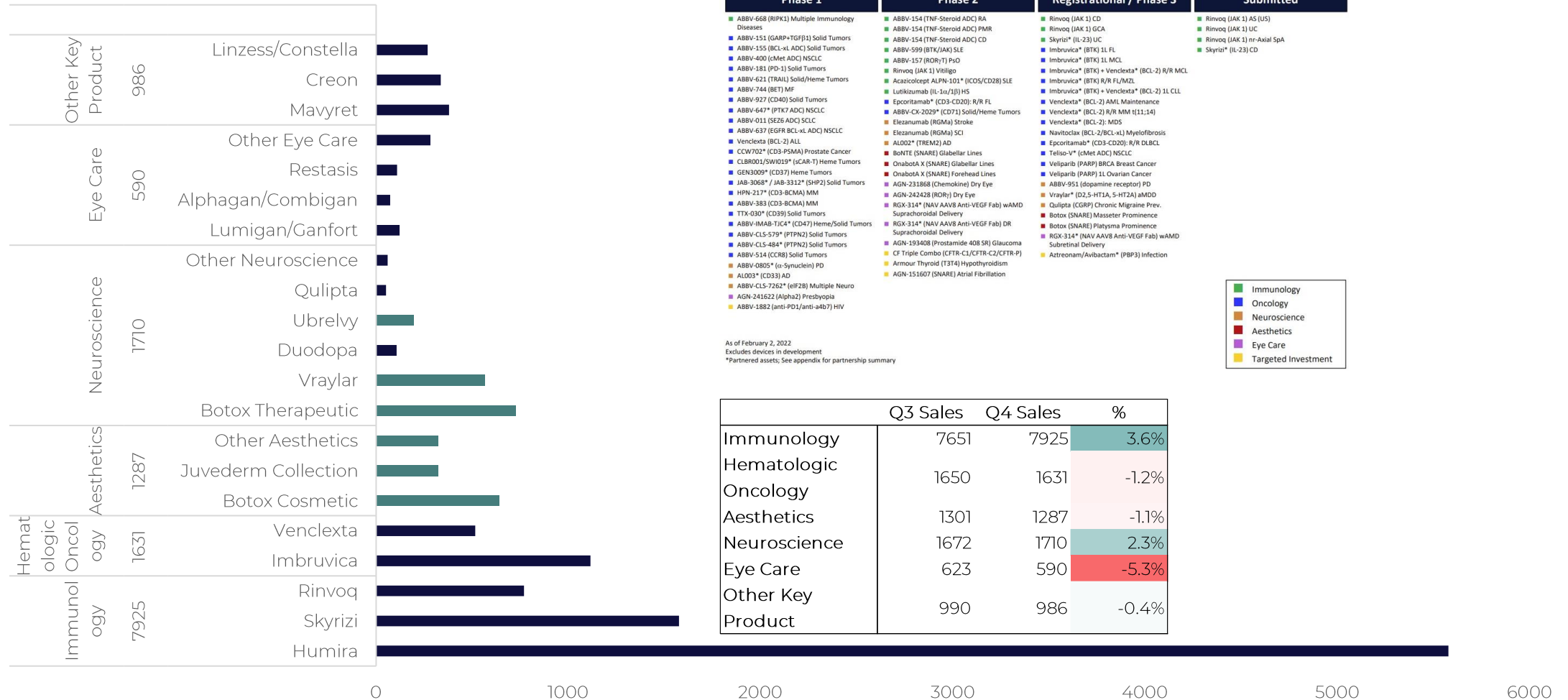
Sources: AbbVie IR, TIKR, Blue Line Capital

## Quarterly Data



# The AbbVie Portfolio & Pipeline

## The AbbVie Portfolio & Pipeline (From Allergan Acquisition)

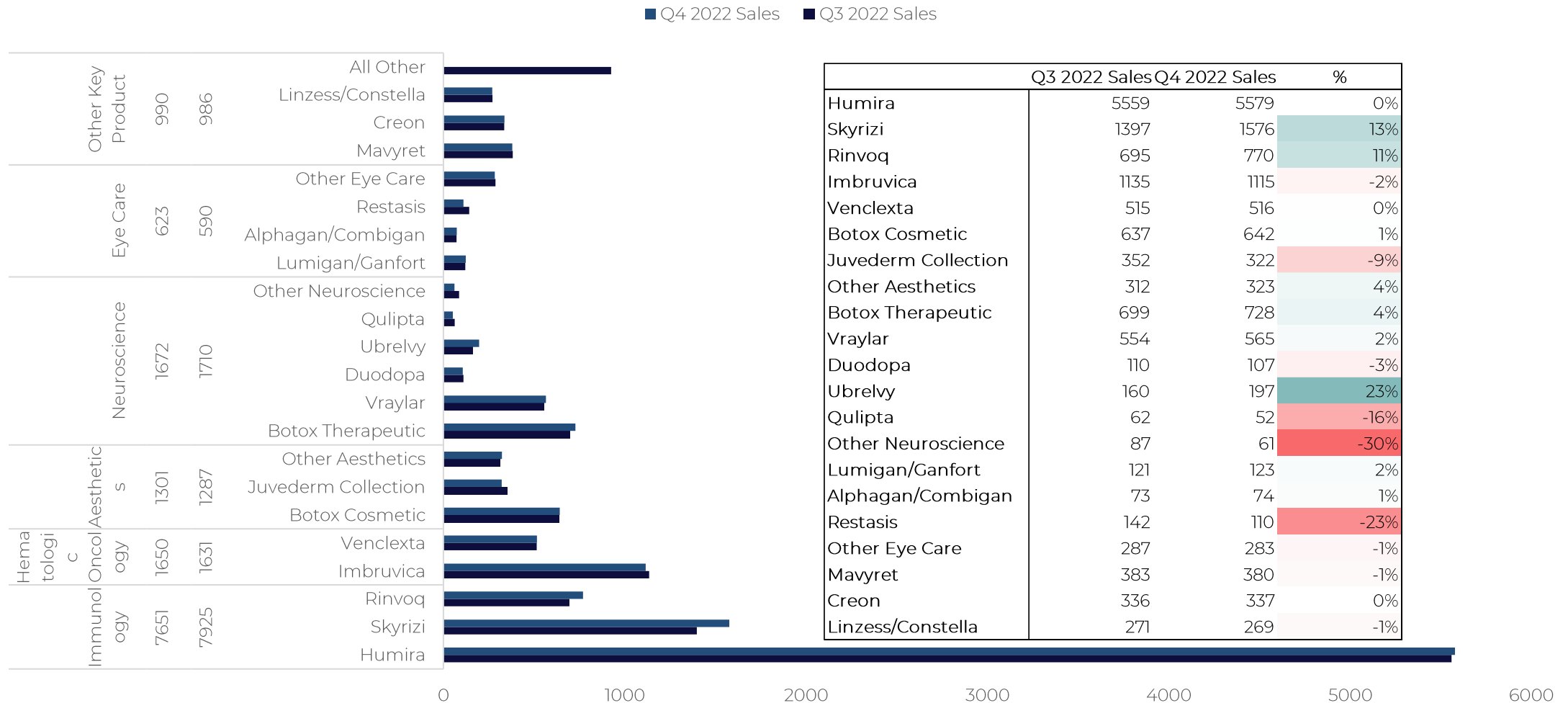


Sources: AbbVie IR, Blue Line Capital



# The AbbVie Portfolio | Q3 vs. Q4 Sales By Product

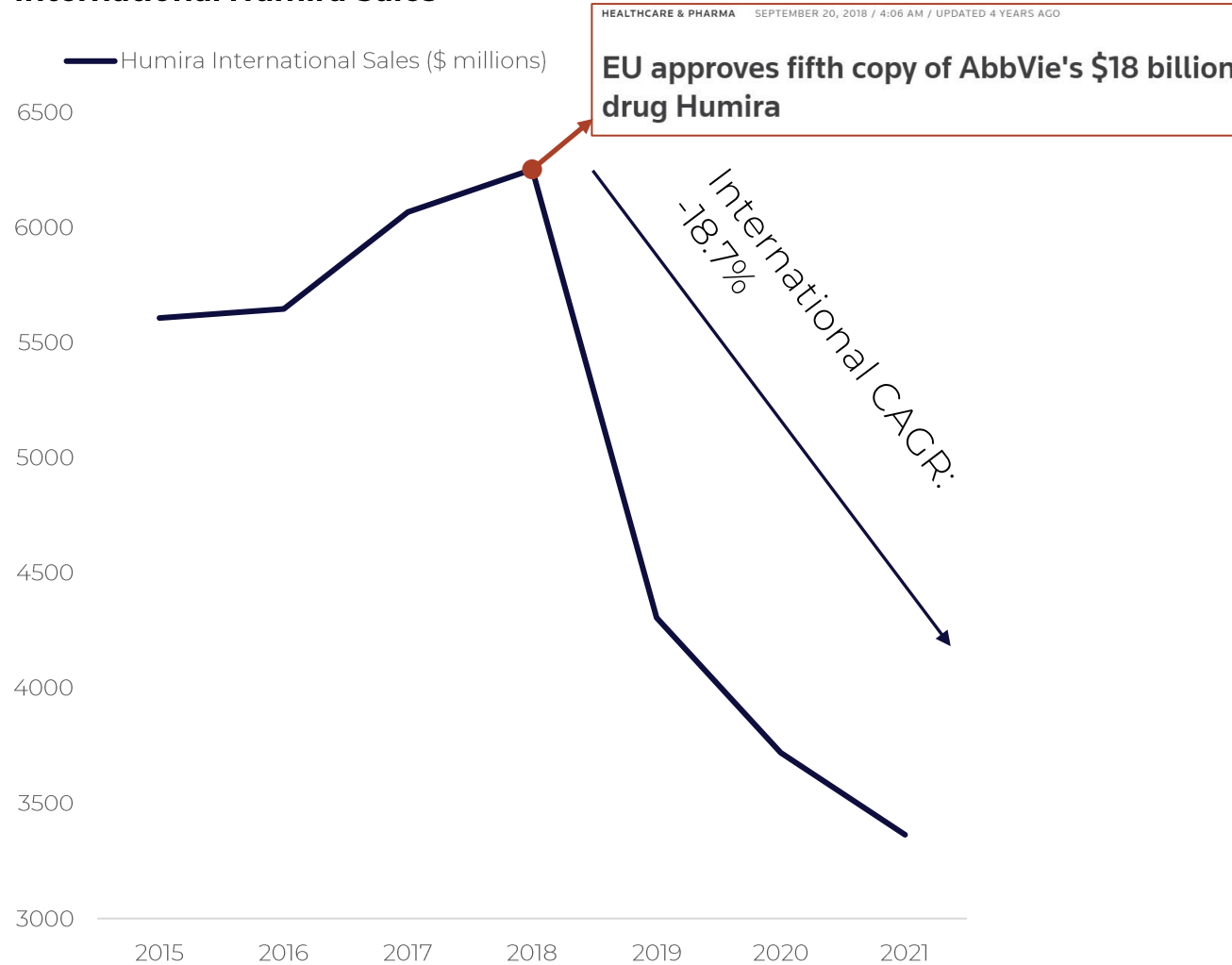
## The AbbVie Portfolio & Trends



Sources: AbbVie IR, Blue Line Capital

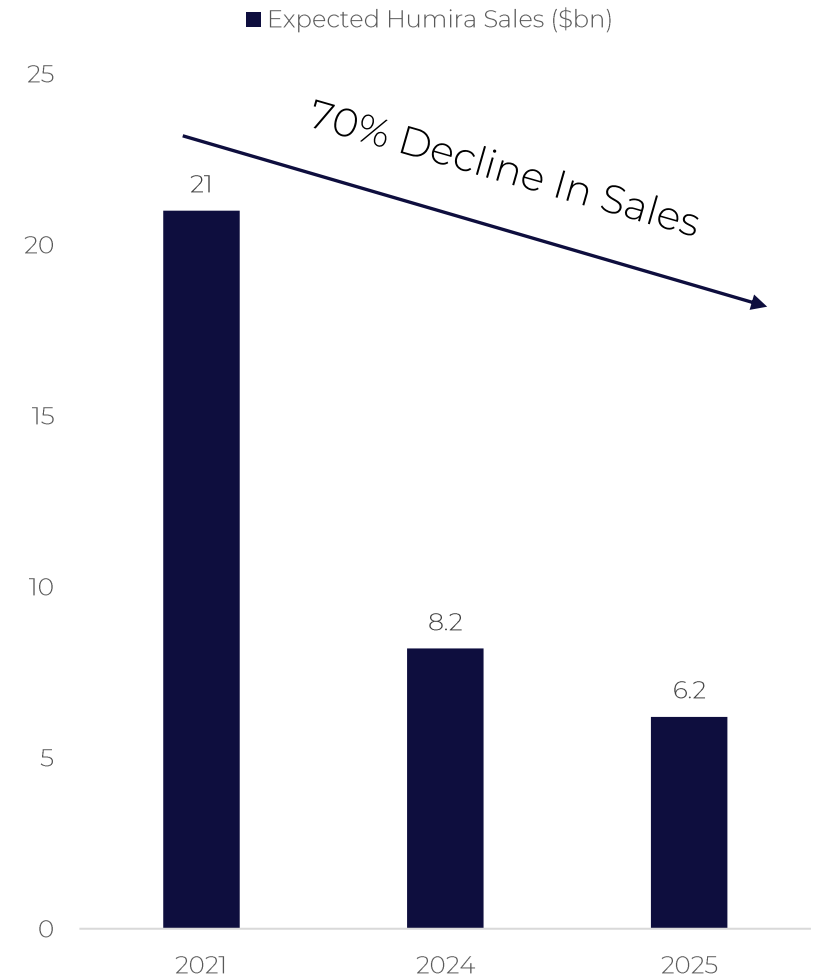
# Humira Patent Loss

International Humira Sales



Sources: AbbVie IR, Reuters, WSJ, FactSet, Blue Line Capital

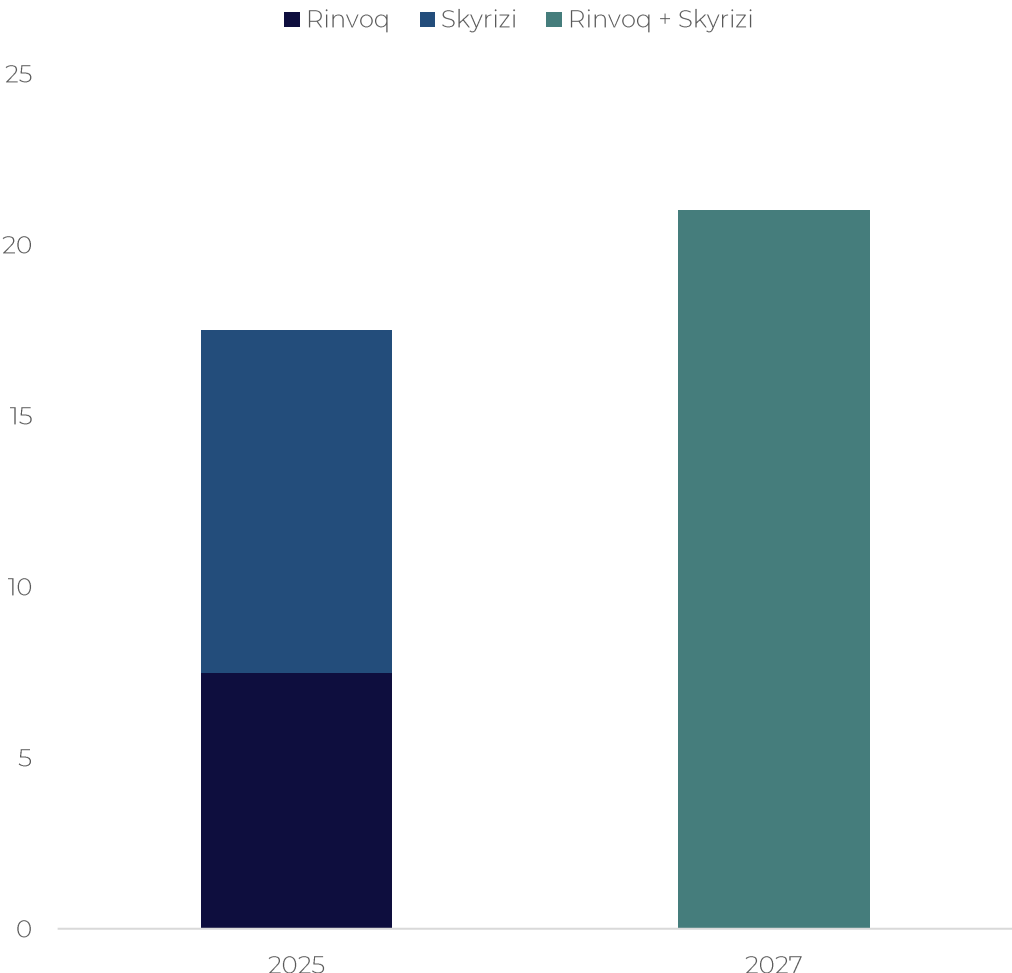
Humira Global Sales Projections (FactSet)





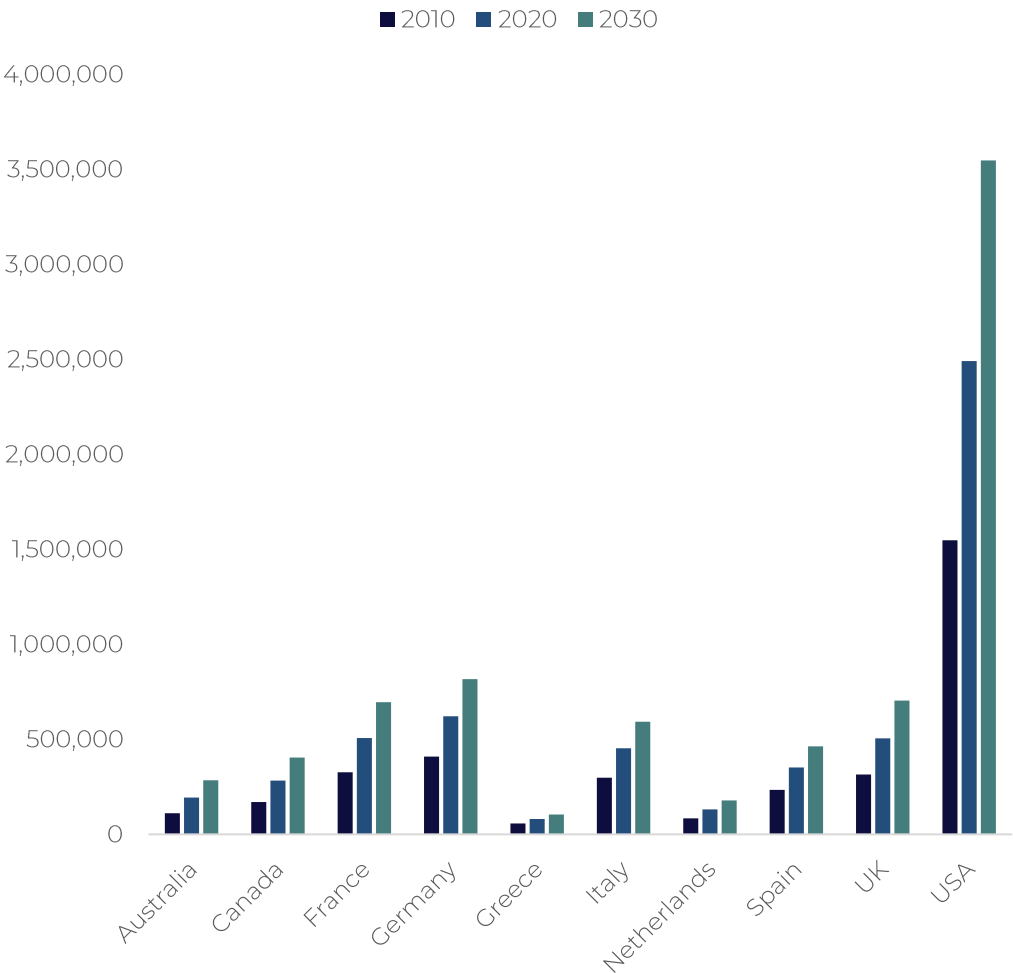
# Replacing Humira Sales

Revenue By Segment



Sources: AbbVie IR, Statista, Blue Line Capital

IBD Disease Projections (Includes Crohn's Diseases)



# AbbVie Expectations & Returns

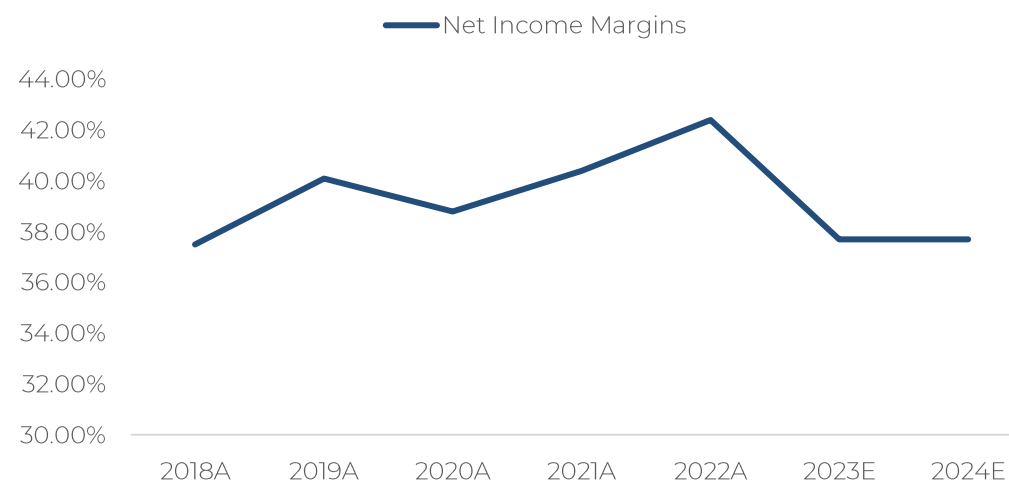
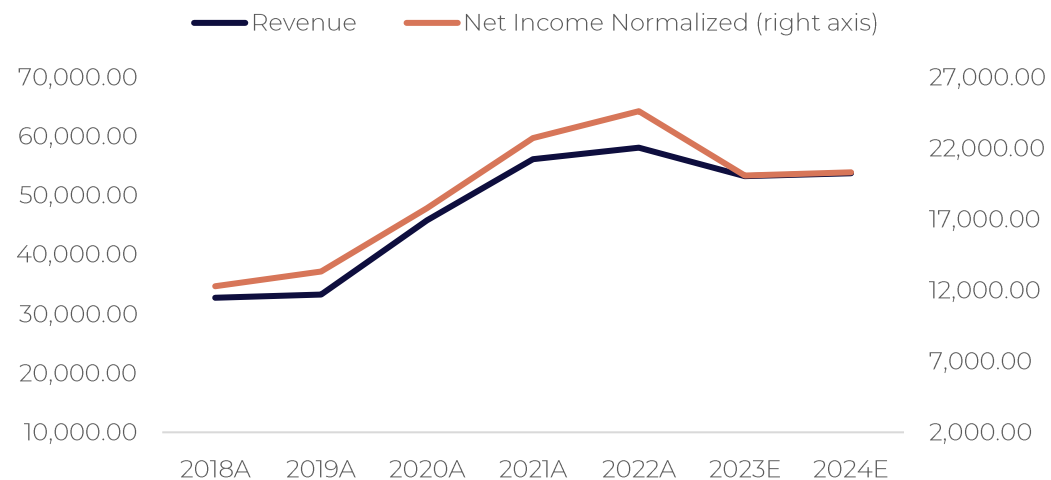
## Return Ratios Compared To 2019

Return and profit ratios have remained stable across the board.

		LTM	2019
Return Ratios	RoA	9.30%	12.00%
	RoC	26.40%	23.70%
	RoE	75.30%	-94.90%
Margins	Gross Profit Margin	71.50%	77.60%
	EBITDA Margin	53.50%	48.90%
	Net Income Margin	20.40%	23.70%
	Levered Free Cash Flow Margin	34.90%	26.30%
Asset Turnover	Asset Turnover	0.41	0.37
	Fixed Asset Turnover	11.54	10.75
	Receivables Turnover	5.77	61.5
	Inventory Turnover	5.57	4.35
Solvency	Total Debt/Equity	436.80%	-821.90%
	Total Debt/Capital	81.40%	111.70%
	EBITDA/Interest Expense	15.21	9.24
	(EBITDA/Capex)/Interest Expense	15.21	8.93

Sources: AbbVie IR, TIKR, Blue Line Capital

## Revenue and Net Income Estimates



# AbbVie Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
AbbVie (ABV)	12.69	13.59	-4%	2%	-7%
Amgen (AMGN)	10.01	13.58	-16%	-4%	-2%
Gilead (GILD)	7.51	12.66	6%	5%	3%
Regeneron (REGN)	11.6	18.26	2%	17%	12%
Merck (MRK)	11.96	15.13	9%	18%	15%
Johnson & Johnson (JNJ)	12.16	15.43	-3%	-1%	-9%
Bristol-Myers Squibb (BMY)	9.32	9.02	-3%	-1%	-6%
Median	11.60	13.59	-3%	2%	-2%
Mean	10.75	13.95	-1%	5%	1%

Sources: TIKR, Google Finance, Blue Line Capital

2/16/2023

Blue Line Capital maintains a long position in AbbVie.

17

**BLUE LINE CAPITAL**

# AbbVie Chart



Sources: Trading View, Blue Line Capital

2/16/2023

Blue Line Capital maintains a long position in AbbVie.

18

**BLUE LINE CAPITAL**



# Disney

## Telling The Streaming Story

CLAPPERBOARD

REEL	SCENE	TAKE
DIRECTOR		
CAMERA		
DATE		
Day-Night	Int	Ext
Filter		Mos
		Sync

# Disney Earnings Highlights & Stock Performance

## Management Commentary From Q1 2023 Earnings Call

- **Cost Savings:** Targeting \$5.5bn of cost savings across the company. We will be reducing our workforce by approximately 7,000 jobs.
- **Priorities:** Instead, our priority is the enduring growth and profitability of our streaming business. Our current forecasts indicate Disney+ will hit profitability by the end of fiscal 2024, and achieving that remains our goal.
- **Disney+:** The Disney+ domestic price increase has been playing out as expected, with only modestly higher churn, which may also negatively impact the fiscal second quarter given the timing of the December price increase.
- **Succession Planning:** And finally, on the topic of succession, the Board recently established a dedicated Succession Planning Committee.
- **Cash Content Spend:** We still expect cash content spend company-wide to remain in the low \$30bn range for fiscal 2023.

	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	24.38	2.2	46.9	15.89	NA
TTM	60.64	2.39	41.52	21.37	2.1

\*Levered FCF

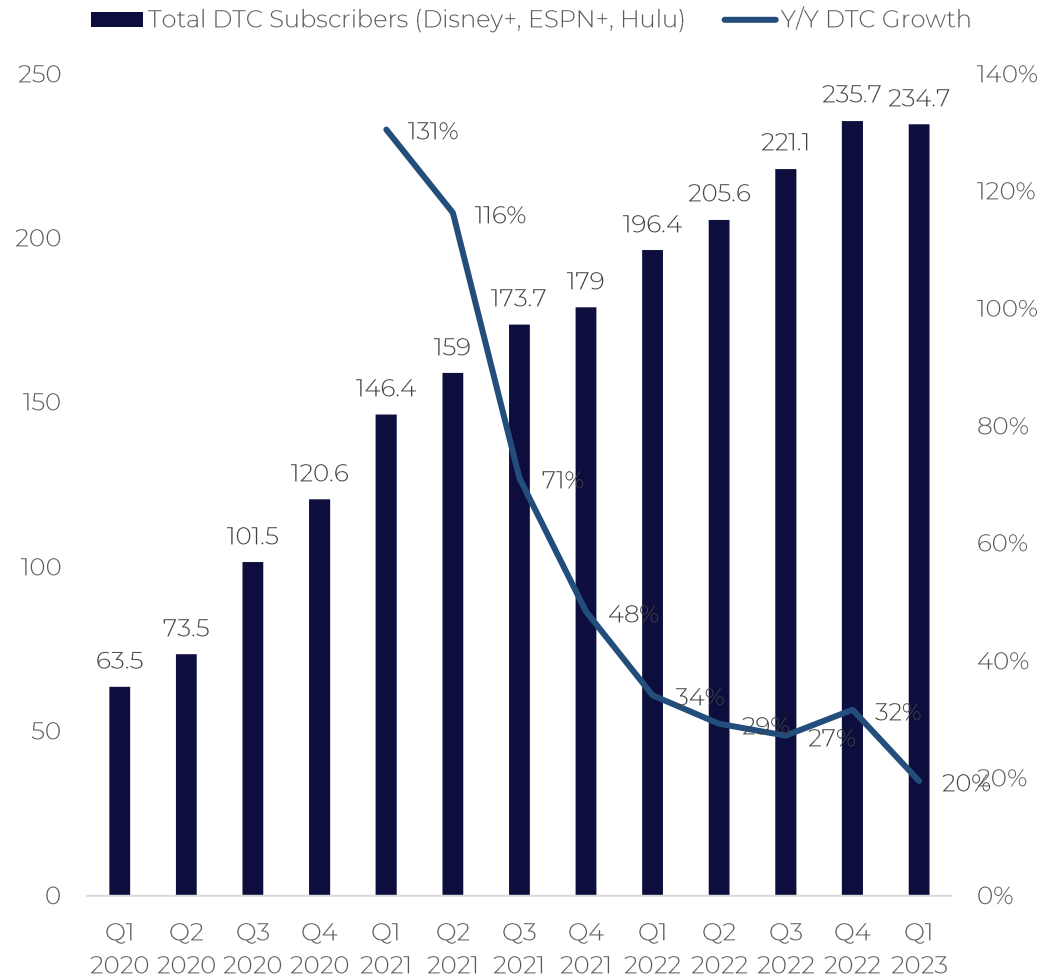
Sources: Disney IR, TIKR, Blue Line Capital

## Quarterly Data

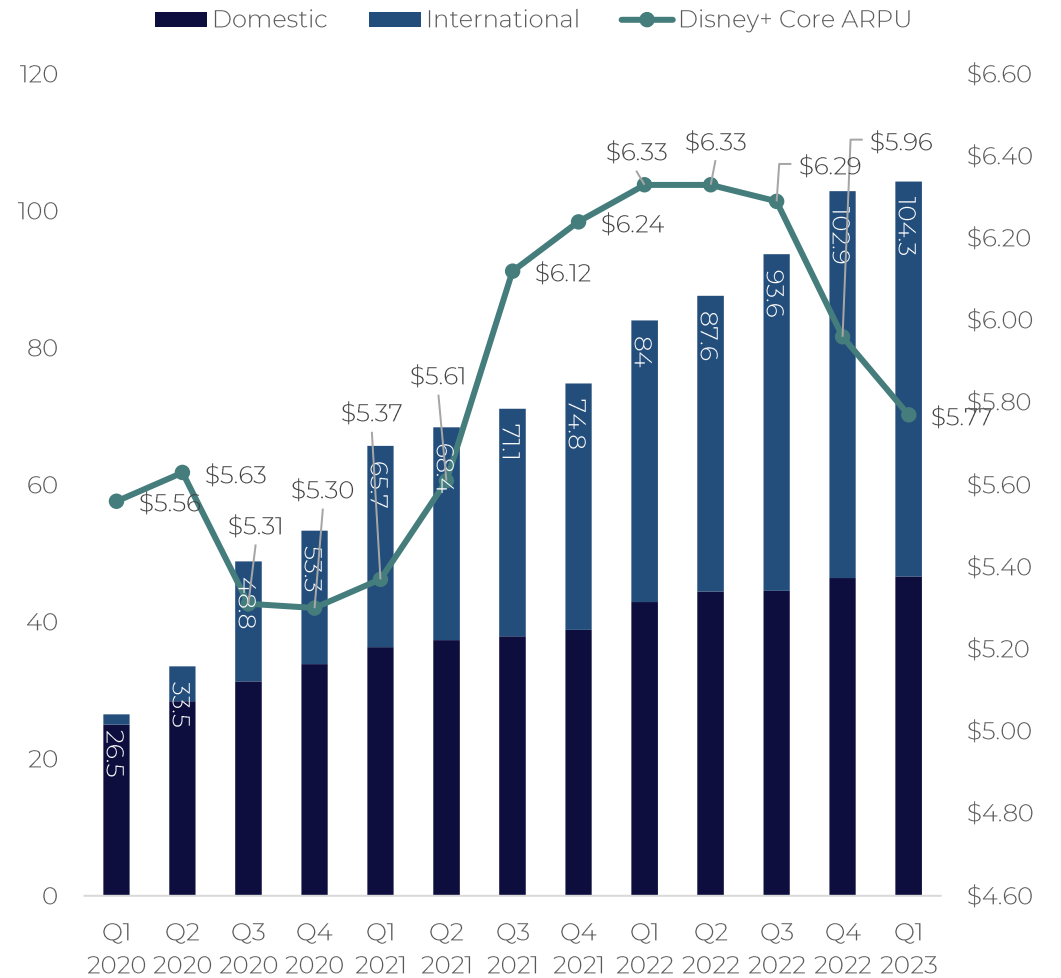


# Disney – DTC Subscribers & Disney+

## Total Disney Direct-to-Consumer Subscriber Count



## Disney+ Subscribers & ARPU

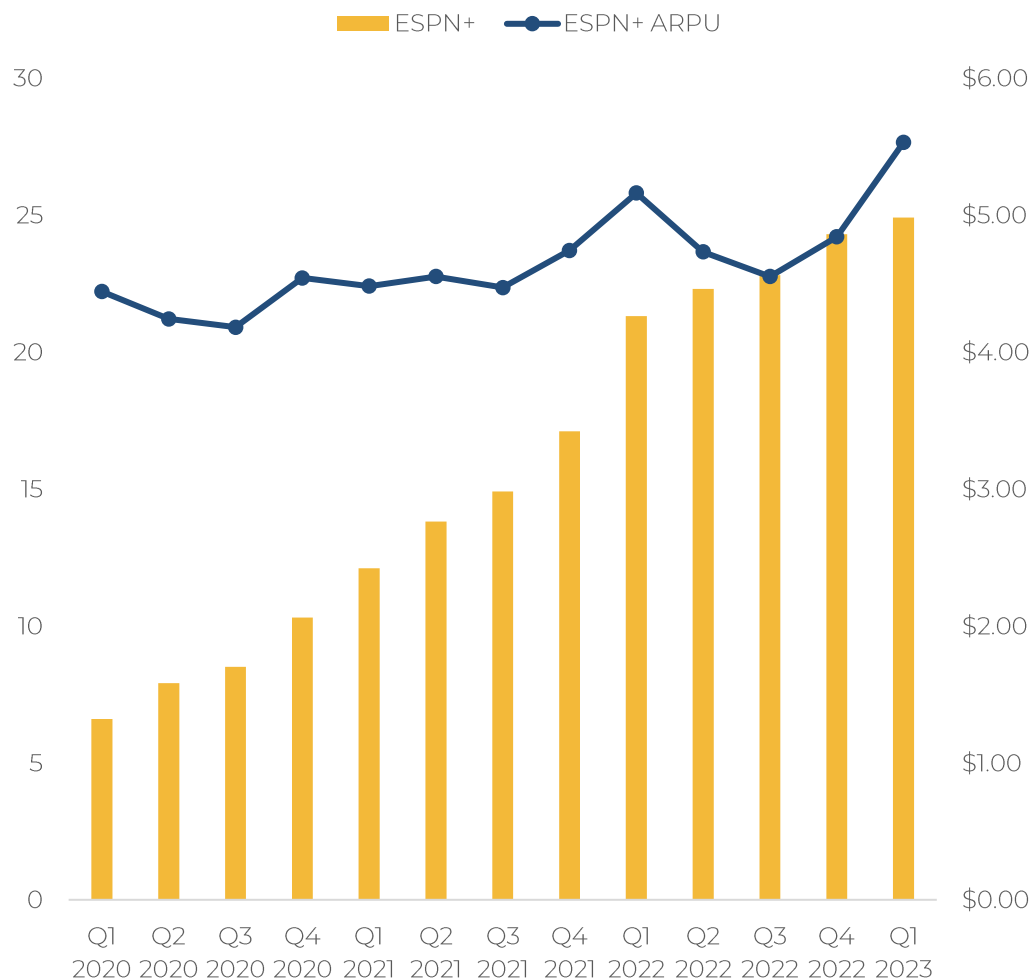


Sources: Disney IR, Blue Line Capital

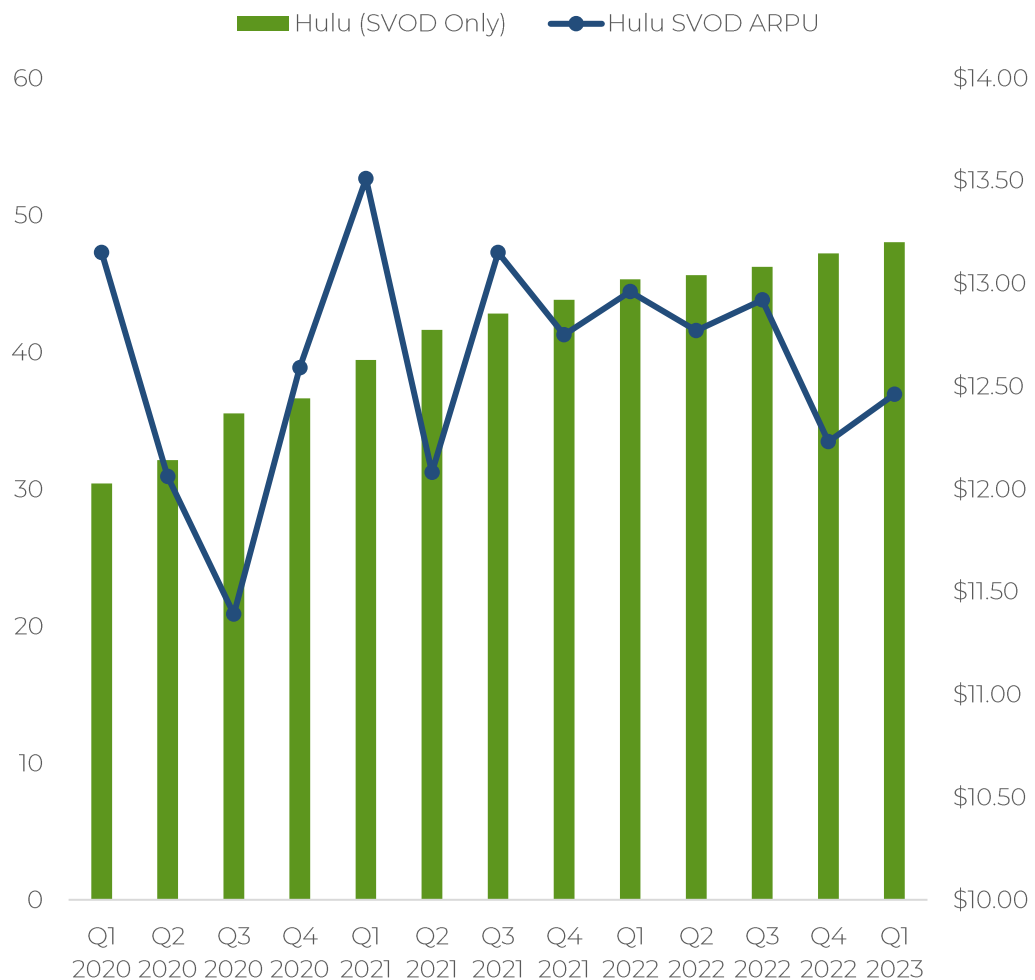


# Disney – ESPN+ & Hulu

## ESPN+ Subscriber Count & ARPU



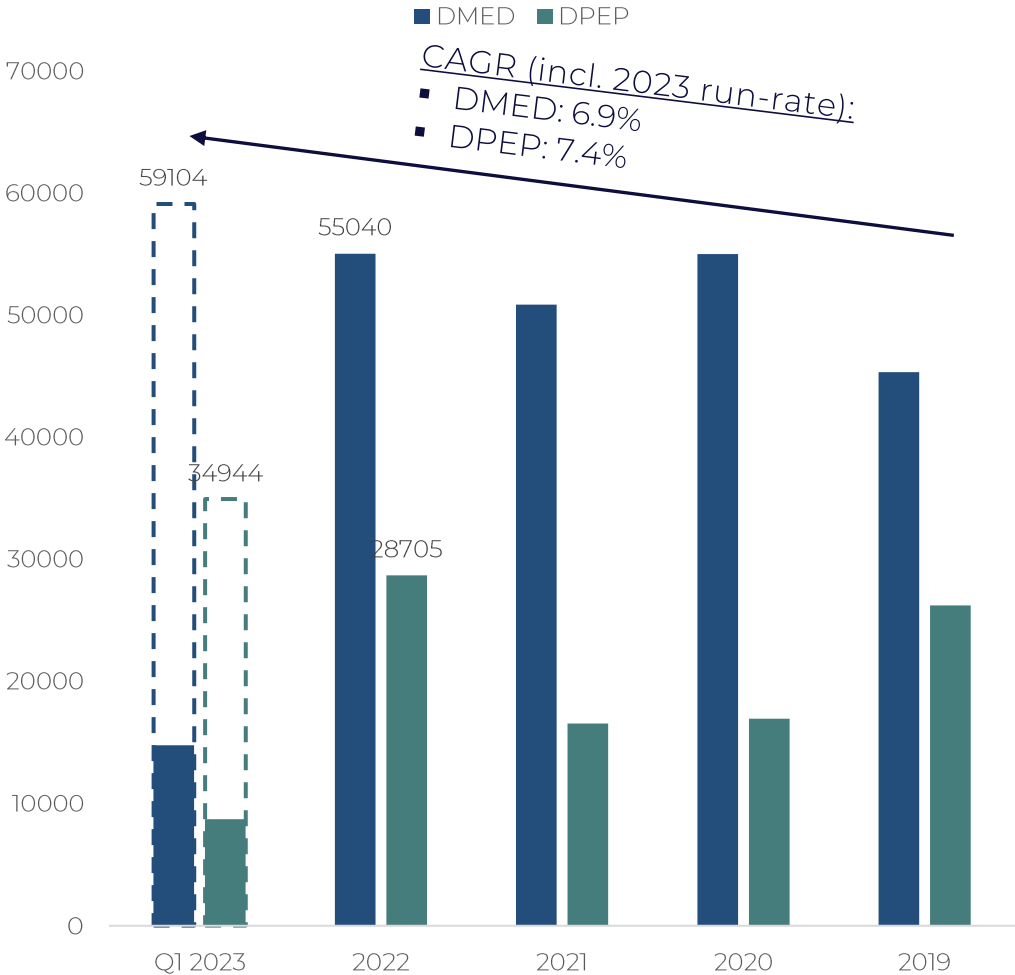
## Hulu Subscriber Count & ARPU



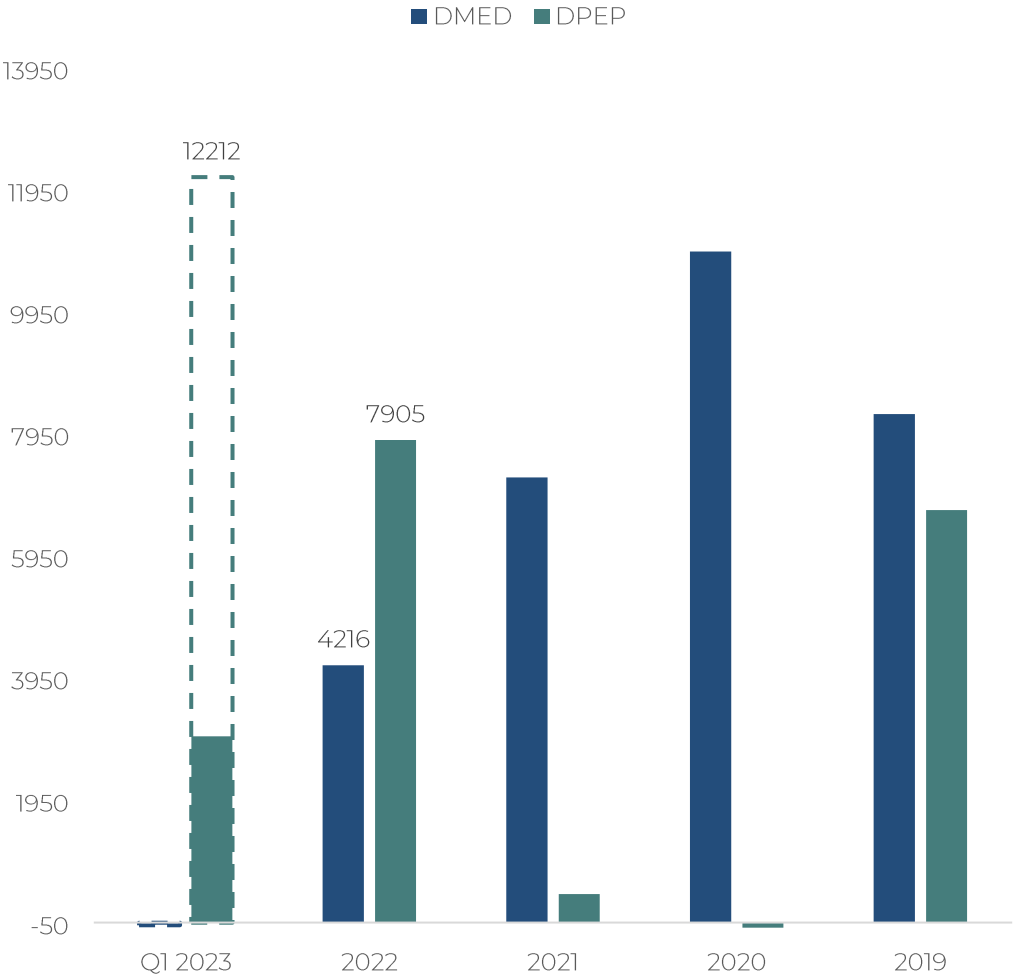
Sources: Disney IR, Blue Line Capital

# Parks & Others vs. Media | Sales & Operating Income

Media & Park Revenues (Including Q1 Run-Rate)



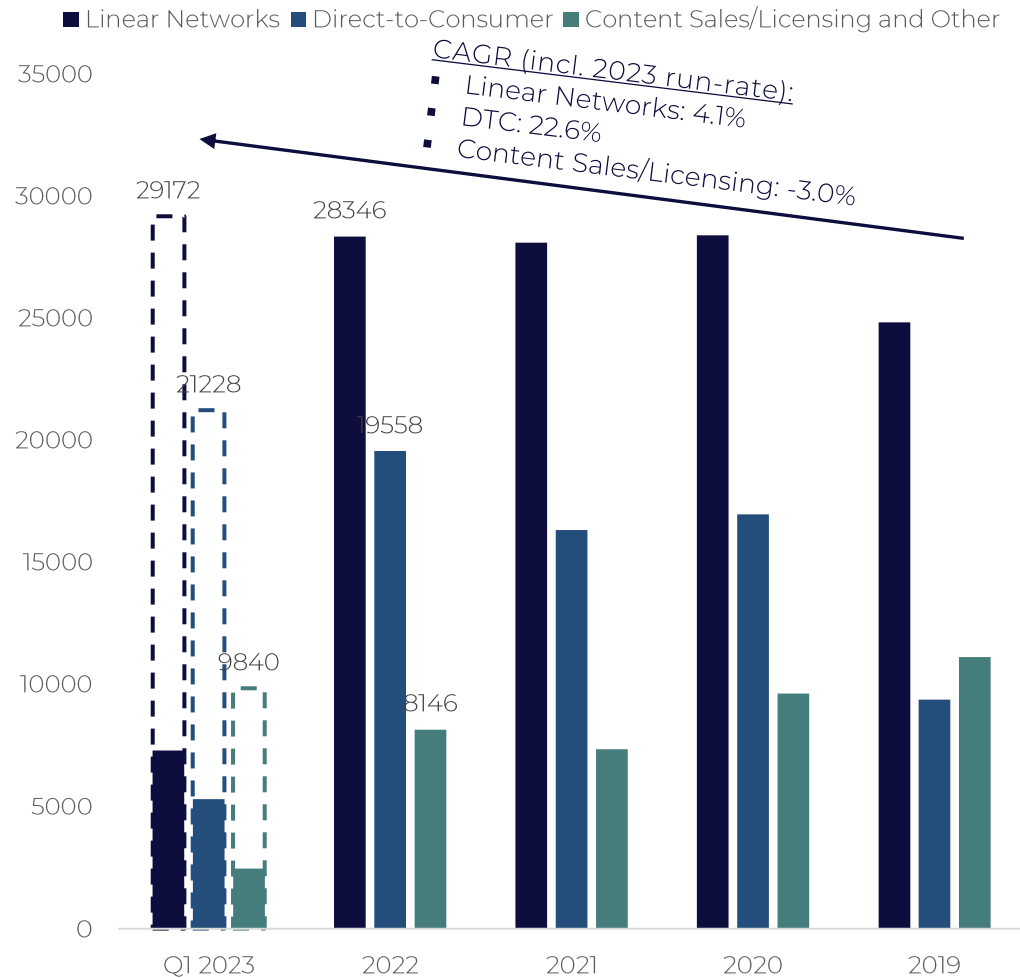
Media & Parks Operating Income (Including Q1 Run-Rate)



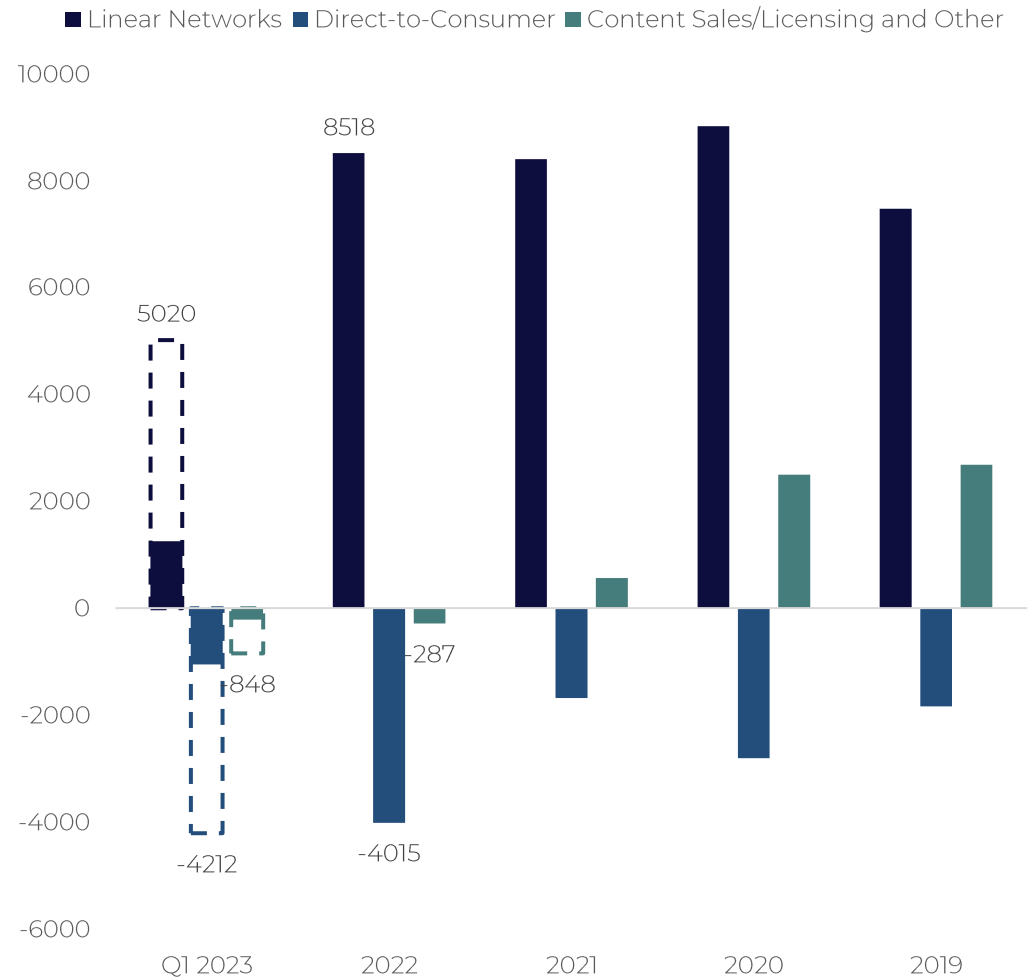
Sources: Disney IR, Blue Line Capital

# Disney - The Transition From Linear To Streaming

## Linear vs. Streaming Revenue



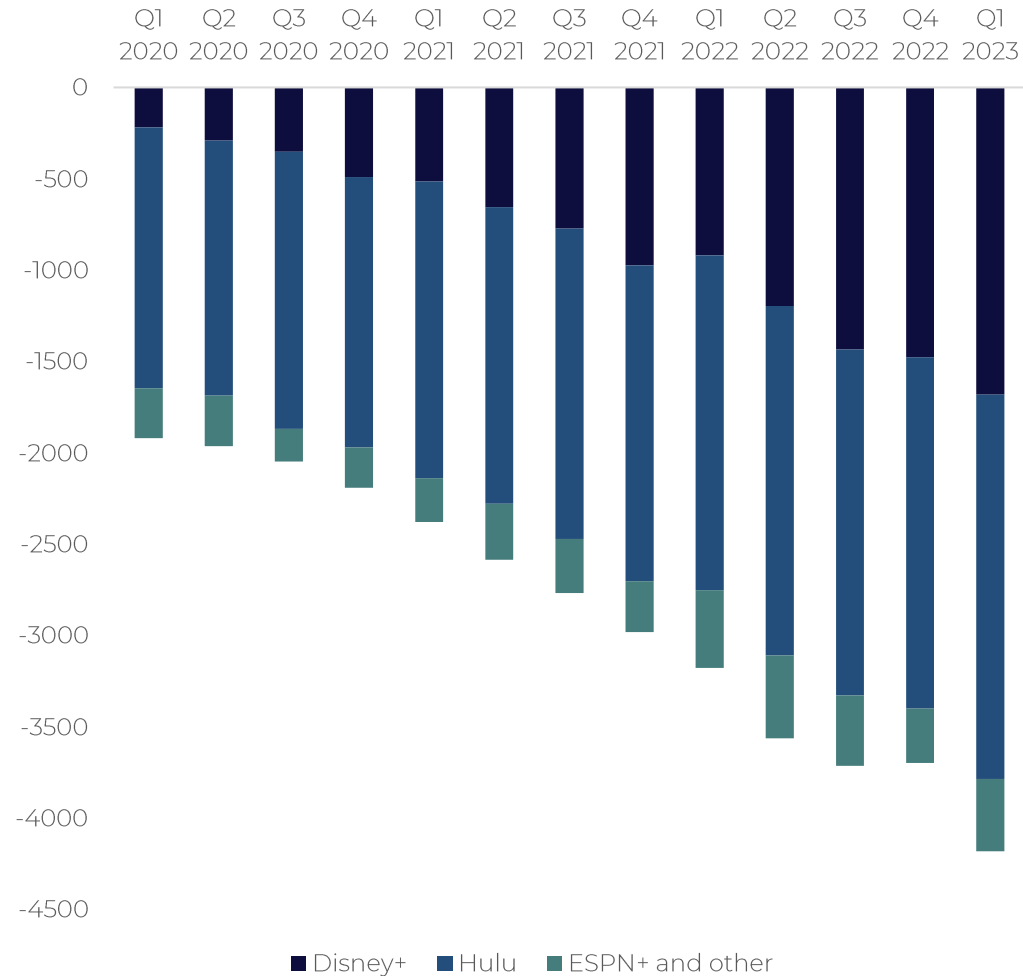
## Linear vs. Streaming Operating Income



Sources: Disney IR, Blue Line Capital

# Disney Content Spend Trends

## Disney Direct-To-Consumer Content Spend

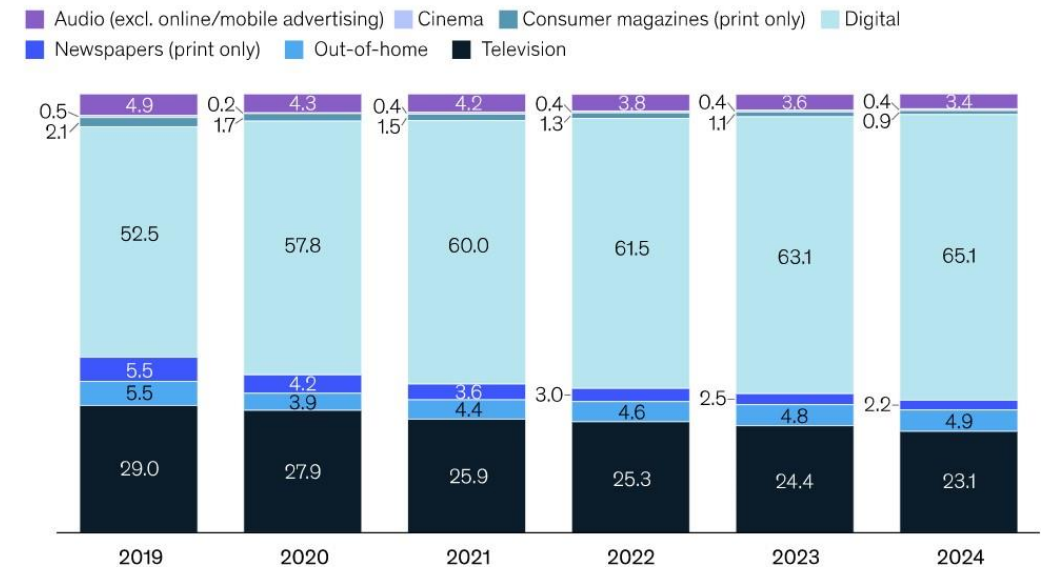


Sources: Disney IR, [McKinsey Marketing Charts](#), Blue Line Capital

## Streaming Spend & Shift From Linear Advertising

- In 2018, 60% of surveyed participants did stream or download TV while 73% of participants watched linear TV. In 2021, 77% of people indicated they streamed and 61% indicated they watched linear TV.
- A study by McKinsey indicates that television (linear TV) will only account for 23.1% of global ad spend in 2024 (down from 29% in 2019).

### Global advertising shares by category, %



Source: McKinsey & Company, Wilkofsky Gruen Associates

# Disney Expectations & Returns

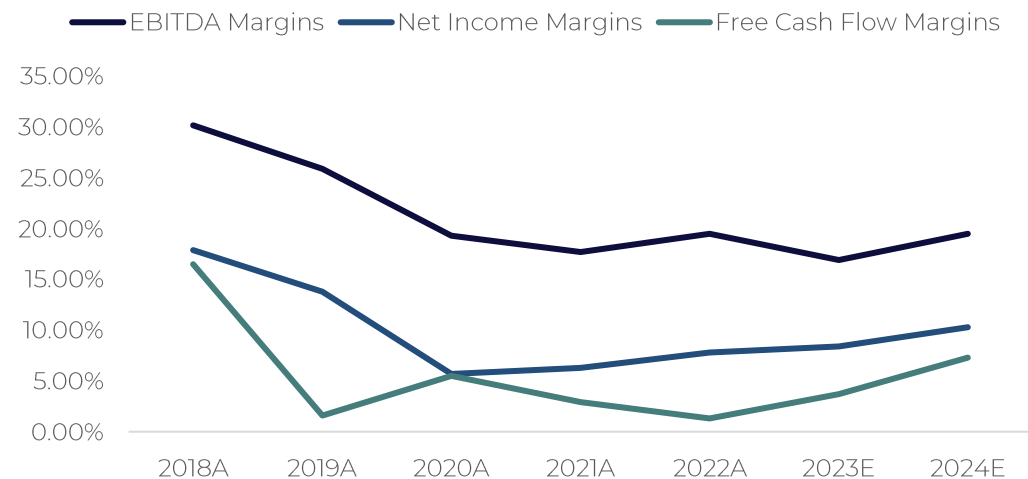
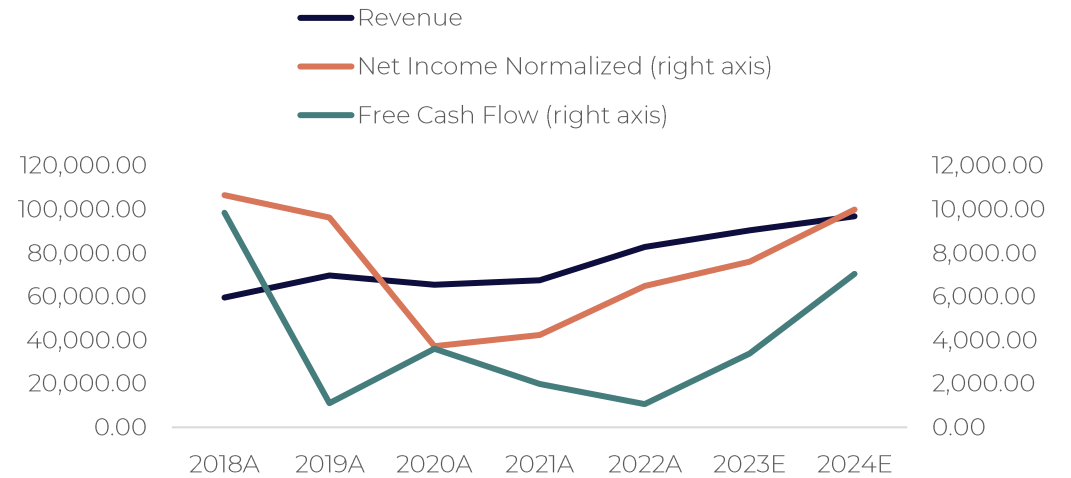
## Return Ratios Compared To 2019

In the transition to DTC, Disney's return metrics have suffered across the board.

		LTM	2019
Return Ratios	RoA	2.10%	5.10%
	RoC	4.00%	7.60%
	RoE	3.50%	13.90%
Margins	Gross Profit Margin	33.40%	39.60%
	EBITDA Margin	14.10%	23.30%
	Net Income Margin	3.90%	15.90%
	Levered Free Cash Flow Margin	5.80%	7.30%
Asset Turnover	Asset Turnover	0.42	0.36
	Fixed Asset Turnover	2.52	2.28
	Receivables Turnover	5.85	6.74
	Working Capital Turnover	-534.27	-21.64
Solvency	Total Debt/Equity	44.40%	45.80%
	Total Debt/Capital	29.20%	29.90%
	EBITDA/Interest Expense	7.9	13
	(EBITDA/Capex)/Interest Expense	4.79	9.09

Sources: Disney IR, TIKR, Blue Line Capital

## Revenue, Net Income, and FCF Estimates



# Disney Valuation Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Disney (DIS)	15.62	24.03	18%	-10%	3%
Netflix (NFLX)	21.9	30.44	26%	47%	93%
Warner Bros Discovery (WBD)	8.3	-61.13	23%	11%	-21%
Fox Corp (FOXA)	7.83	11.25	16%	-2%	2%
Charter Communications (CHTR)	7.36	11.56	2%	-16%	-15%
Comcast (CMCSA)	7.31	10.52	14%	-4%	-10%
Paramount (PARA)	10.8	16.71	19%	-16%	-31%
Median	8.30	11.56	18%	-4%	-10%
Mean	11.30	6.20	17%	1%	3%

Sources: TIKR, Google Finance, Blue Line Capital

2/16/2023

Blue Line Capital maintains a long position in Disney.

27

**BLUE LINE CAPITAL**

# Disney Chart



Sources: Trading View, Blue Line Capital

2/16/2023

Blue Line Capital maintains a long position in Disney.

28

**BLUE LINE CAPITAL**





# Intel

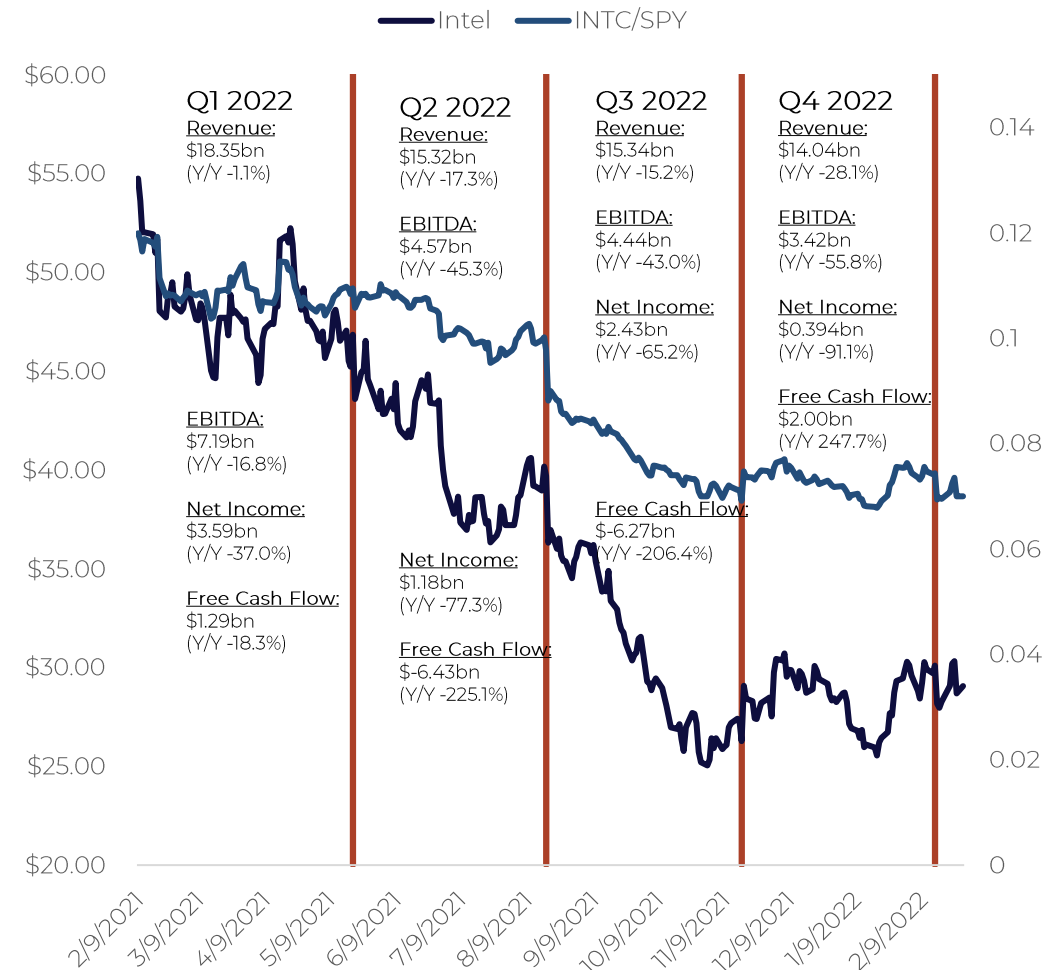
An Iconic Chip Brand's Difficulties

# Intel Earnings Highlights & Stock Performance

## Management Commentary From Q4 2022 Earnings Call

- PC:** In Q3, we provided an estimate for the calendar year '23 PC consumption TAM of 270 million to 295 million units. Given continued uncertainty and demand signals we see in Q1, we expect the lower end of that range is more likely outcome. Near term, the PC ecosystem continues to deplete inventory.
- Server:** We expect Q1 server consumption TAM to decline both sequentially and year-over-year at an accelerated rate with first half'23 server consumption TAM down year-on-year before returning to growth in the second half.
- Foundry Cost Cuts:** We expect additional efficiencies as we implement our internal foundry model, which is a key element to accomplish our \$8bn to \$10bn of cost savings exiting 2025.

## Quarterly Data



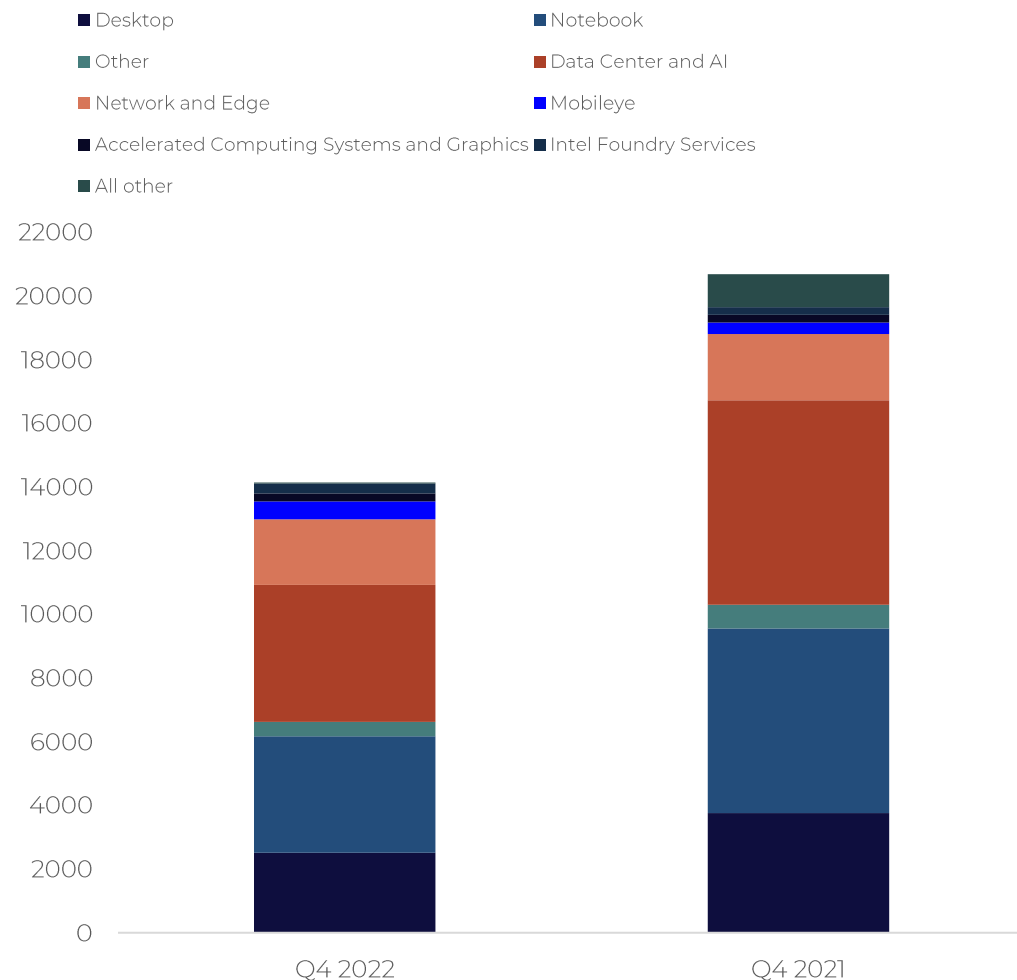
	P/E	P/S	Market Cap/FCF	EV/EBITDA	P/B
NTM	52.07	2.26	-14.13	12.67	NA
TTM	14.29	1.82	26.7	8.42	1.13

\*Levered FCF

Sources: Intel IR, TIKR, Blue Line Capital

# Intel Quarterly Revenues & Income Trends

## Revenue By Segment



Sources: Intel IR, Blue Line Capital

## Quarterly Revenue Trends

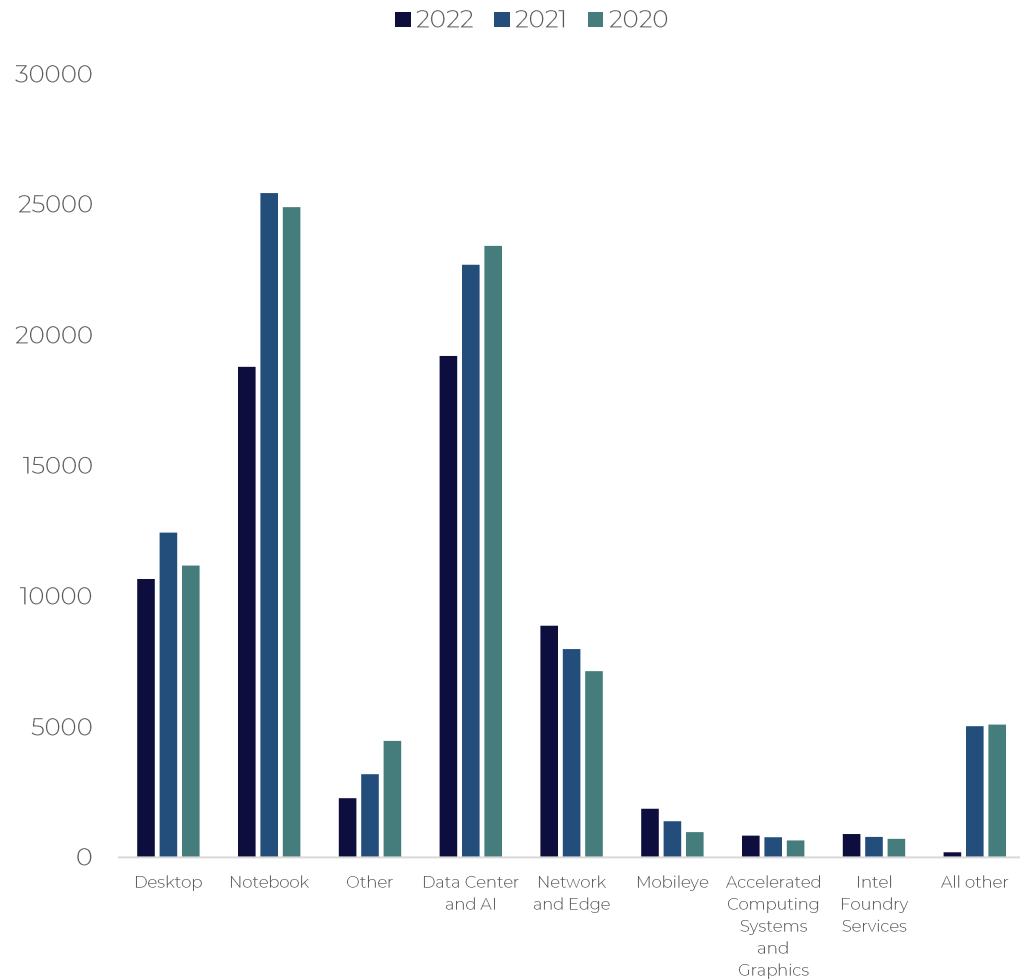
	Q4 2022	Q4 2021	%
Desktop	2509	3756	-33%
Notebook	3663	5809	-37%
Other	453	738	-39%
Data Center and AI	4304	6426	-33%
Network and Edge	2061	2086	-1%
Mobileye	565	356	59%
Accelerated Computing Systems and Graphics	247	245	1%
Intel Foundry Services	319	245	30%
All other	30	1033	-97%

## Quarterly Operating Income Trends

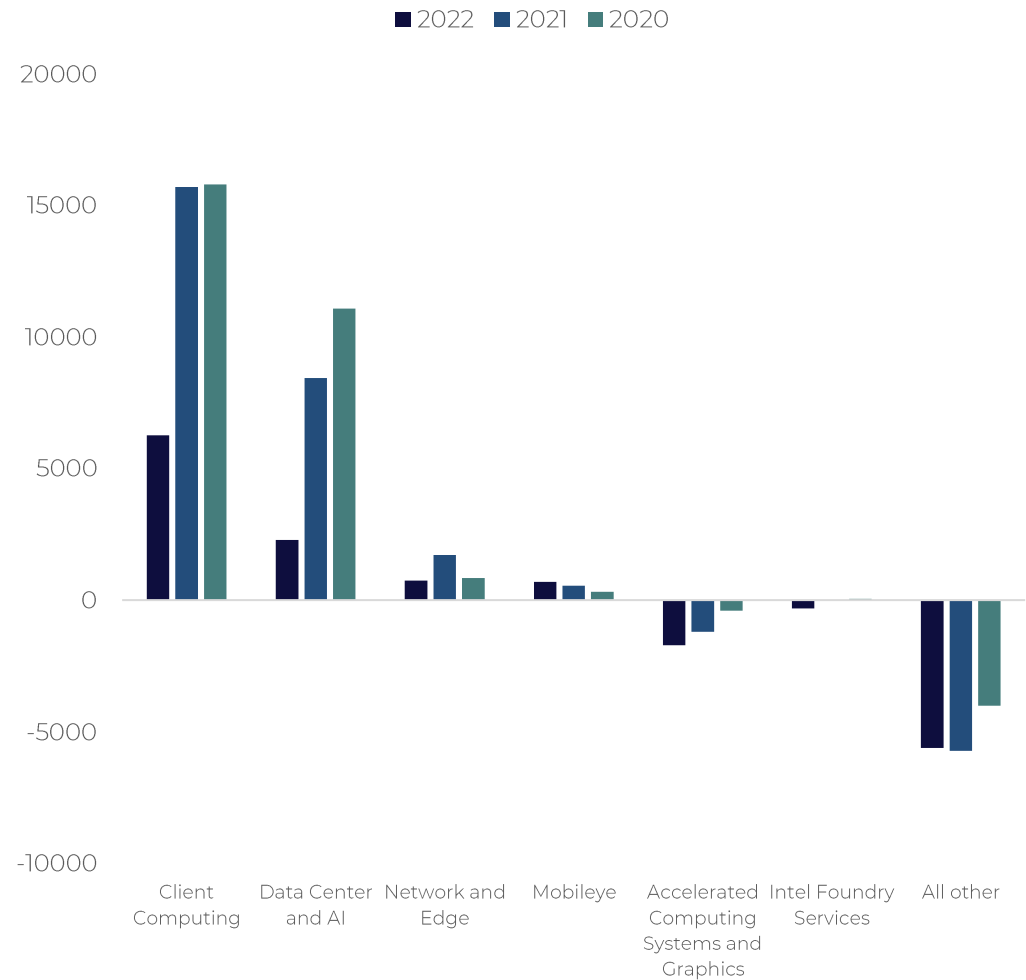
	Q4 2022	Q4 2021	%
Client Computing	699	3795	-82%
Data Center and AI	371	2350	-84%
Network and Edge	58	352	-84%
Mobileye	210	123	71%
Accelerated Computing Systems and Graphics	-441	-641	31%
Intel Foundry Services	-31	3	-1133%
All other	-1998	-993	-101%

# Intel Annual Revenue & Income Trends

## Revenue By Segment



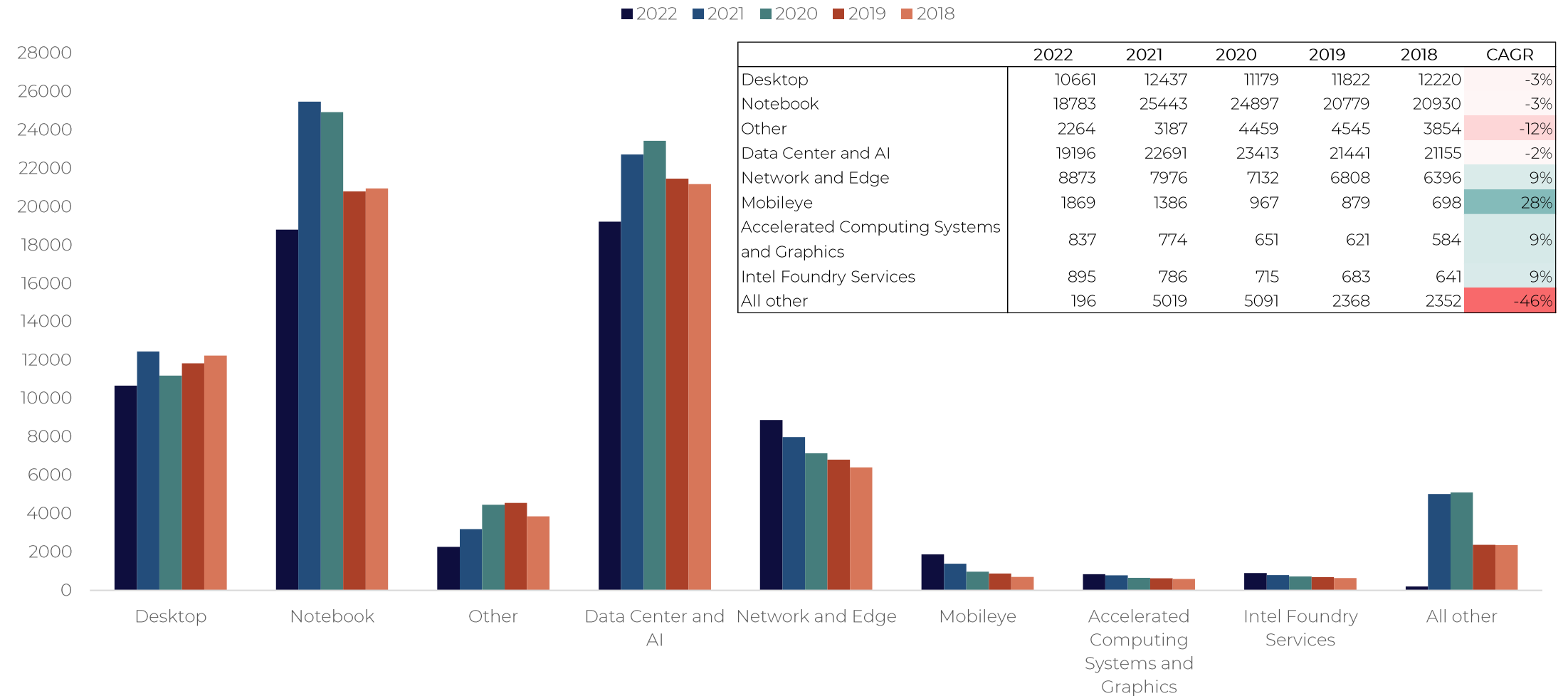
## Operating Income(Loss) By Segment



Sources: Intel IR, Blue Line Capital

# Intel Annual Revenue Trend

## Revenue By Segment

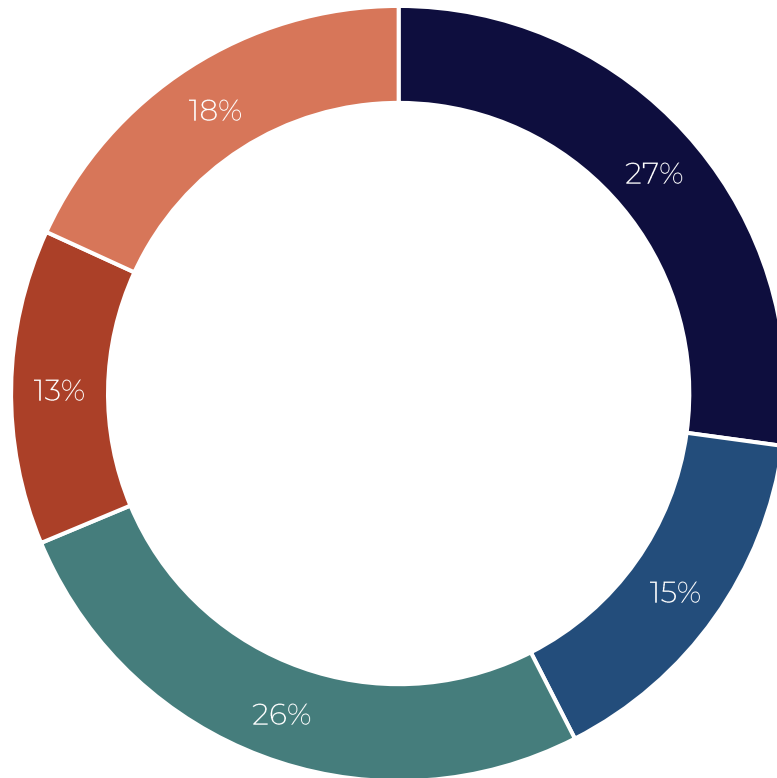


Sources: Intel IR, Blue Line Capital

# Intel – Geographic Exposure & Notebook, PC Trends

## Sales By Geography

■ China ■ Singapore ■ United States ■ Taiwan ■ Other Regions



## Intel In Too Many Places

- Given that Intel both competed with and manufactured for competitors, the company had to keep spending on foundry technology while falling behind TSMC and Samsung.



Sources: Intel IR, [Statista](#), Blue Line Capital

# Intel Expectations & Returns

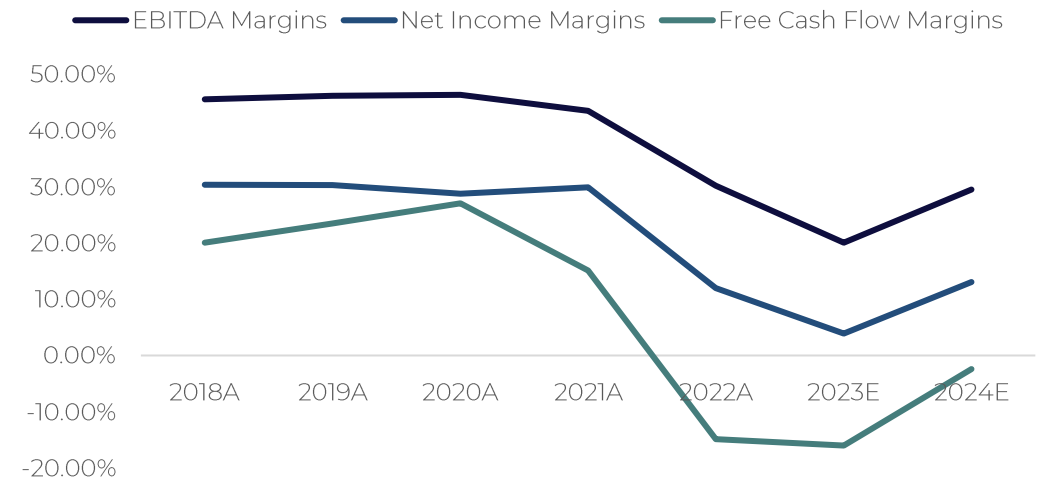
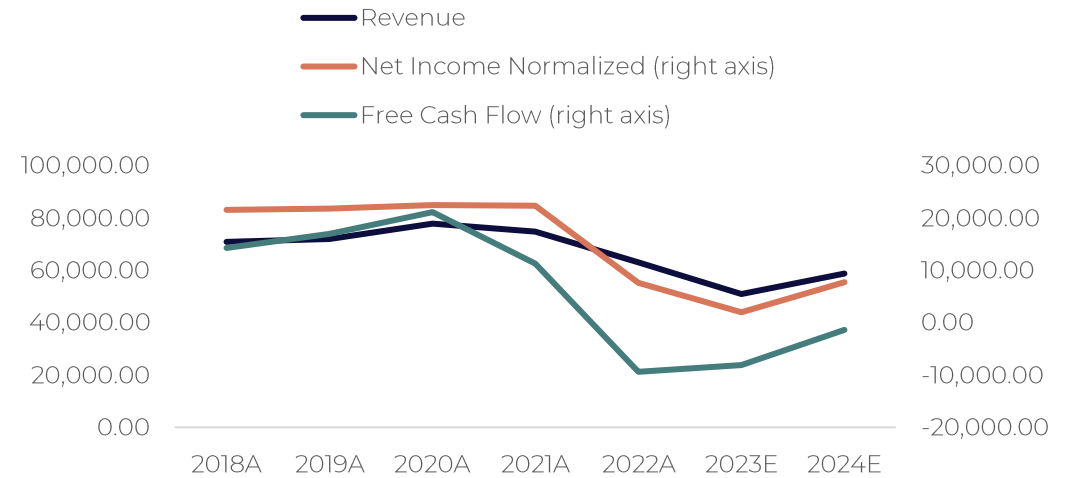
## Return Ratios Compared To 2019

Intel has disappointed across metrics.

		LTM	2019
Return Ratios	RoA	0.80%	10.60%
	RoC	1.60%	20.70%
	RoE	8.10%	27.70%
Margins	Gross Profit Margin	42.60%	58.60%
	EBITDA Margin	24.40%	46.20%
	Net Income Margin	12.70%	29.20%
	Levered Free Cash Flow Margin	6.80%	17.00%
Asset Turnover	Asset Turnover	0.35	0.53
	Fixed Asset Turnover	0.87	1.38
	Receivables Turnover	9.28	10.01
	Inventory Turnover	3.02	3.73
Solvency	Total Debt/Equity	41.40%	37.50%
	Total Debt/Capital	29.10%	26.80%
	EBITDA/Interest Expense	32.46	68
	(EBITDA-Capex)/Interest Expense	-18.04	34.85

Sources: Intel IR, TIKR, Blue Line Capital

## Revenue, Net Income, and FCF Estimates





# Intel Vs. Peers

	EV/EBITDA	NTM P/E	Past 3M Return	Past 6m Return	Past 12m Return
Intel (INTC)	12.69	51.39	-7%	-22%	-36%
NVIDIA (NVDA)	59.24	54.99	36%	17%	22%
Taiwan Semicond. (TSM)	8.58	16.16	28%	3%	1%
Broadcom (AVGO)	12.39	14.55	16%	8%	-1%
Qualcomm (QCOM)	10	12.81	9%	-13%	-5%
AMD (AMD)	16.42	26.74	17%	-16%	-17%
Micron (MU)	12	-30.15	-4%	-7%	-19%
Median	12.39	16.16	16%	-7%	-5%
Mean	18.76	20.93	14%	-4%	-8%

Sources: TIKR, Google Finance, Blue Line Capital

2/16/2023

Blue Line Capital maintains no position in Intel.

36

**BLUE LINE CAPITAL**

# Intel Chart



Sources: Trading View, Blue Line Capital

2/16/2023

Blue Line Capital maintains no position in Intel.

37

**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.