

## SMART YIELD

Income Fund

Finding Efficient Frontiers

Broxton Capital Advisors manages wealth for Institutional Investors and Households. Smart Yield is an income and growth fund with a target return of 8% annually with low volatility

**INVEST/STAY CONNECTED**

INITIAL REPORT January 31, 2021

UPDATED January 31, 2021



U. S. Steel

**UNITED STATES STEEL** Common shares \$19.54 Recommendation: Buy / Price Target: 43

Recently several factors have improved in favor of [U.S. Steel \(X\) \(Steel\)](#). The medium and near-term outlook for steel pricing has stabilized and the company has vastly improved its balance sheet. Investors have been cautious due to pricing concerns and with the announcement of a planned \$3 billion capital investment in Steel's recent mini-mill acquisition, Big River Steel. This has led to lower pricing of the shares. However, Steel ended 2021 with a dramatically improved \$1.4 billion of net debt and \$3.3 billion of working capital. This is compared to a company reported adjusted EBITDA of \$5.6 billion for 2021 and a Broxton projected EBITDA of \$2.7 billion for 2023. We also see the generation of \$2.9 billion in free cash flow after maintenance capital spend of \$1.8 billion in 22 and 23 leading to a neutral effect on cash after the investment in Big River.

Although our base case includes a reduction in steel pricing through 2023, U.S. Steel Management sees improved pricing in 2022 versus 2021 for the majority of its business. 4<sup>th</sup> quarter conference call: "*We continue to expect, as we mentioned on an earlier call, our average selling prices in 2022 for North American flat-rolled to reset higher than 2021. Our Flat-Rolled segment is expected to report increased shipments and higher selling prices from [resetting] annual contracts versus the fourth quarter. We remain bullish on 2022 and the strong demand continues.*" X also expects to lower structural fixed costs with efficiency initiatives implemented in last year. Steel is also expecting currently announced strategic investments to deliver approximately \$850 million of incremental EBITDA beginning in 2024.

In 2020, total world crude steel production was 1,877.5 million tonnes (Mt). The biggest steel producing country is currently China, which accounted for 57% of world steel production. China has [pledged to limit](#) crude steel output, as the country vowed to curb expansion of high-polluting and high-energy intensity sectors, including steel, amid its climate targets. Over the next year, predicted stable imports to the U.S., reductions by China and the domestic auto and economic recovery are seen as positives for the industry.

U. S. Steel has annual raw steel production capability of 26.2 million (21.2 million tons in the United States and 5.0 million tons in Europe) and shipped 15,994 tons for 2021. X enjoys an advantage with its iron ore facilities that contain an estimated 766 million short tons of recoverable reserves. Our price target is based on 9 X our 2023 estimated earnings and an enterprise value of 5 X our 2023 EBITDA estimate.

**X Common Chart 2020 through January 2022**

### Recent Presentation

**U.S. Steel Company Description:** U. S. Steel supplies customers throughout the world primarily in the automotive, construction, consumer (packaging and appliance), electrical, industrial equipment, service center/distribution, structural tubing and energy (oil country tubular goods (OCTG) and line pipe) markets. According to the world steel Association's latest published statistics, in 2019 U. S. Steel was the third largest steel producer in the United States and the twenty-seventh largest steel producer in the world.



## BROXTON CAPITAL ADVISORS

Sunday, January 30, 2022

share price (X)

## U.S. Steel as of 12/31/2021

\$19.54

### PROJECTIONS IN MM

2021 2022 2023

#### Income Statement

Revenue	\$20,275	\$17,842	\$16,771
Gross Profit	\$5,742	\$3,568	\$3,019
Operating Income	\$4,946	\$2,442	\$1,851
Pre-Tax Income	\$4,344	\$2,192	\$1,601
Net Income	\$4,174	\$1,754	\$1,281
EPS	\$14.88	\$6.38	\$4.74

EBITDA	\$5,737	\$3,267	\$2,701
Interest	\$602	\$250	\$250
Capitalized Expense	\$863	\$900	\$900
Cash Flow	\$4,102	\$1,679	\$1,231
Equity Dividends	\$57	\$57	\$57
Cash Flow Dividend Coverage	7196%	2945%	2159%
Retained Cash Flow	\$4,045	\$1,622	\$1,174
Retained Cash Flow Sum	\$0	\$1,622	\$2,796
Revenue Growth	28%	-12%	-6%

#### Valuations

Cash Flow Yield Vs. Equity	74.9%	30.6%	22.5%
----------------------------	-------	-------	-------

EV/EBITDA	1.63	2.87	3.47
-----------	------	------	------

P.E Ratio	1.31	3.06	4.12
-----------	------	------	------

Enterprise Value	\$9,371		
------------------	---------	--	--

Total Debt	\$3,891		
------------	---------	--	--

Equity Market Cap	\$5,480	\$5,480	\$5,480
-------------------	---------	---------	---------

#### Debt Ratios

EBITDA/Interest Coverage			
--------------------------	--	--	--

ratio	9.53	13.07	10.80
-------	------	-------	-------

Debt/EBITDA	0.68	1.19	1.44
-------------	------	------	------

#### Liquidity

Cash	\$2,522		
------	---------	--	--

Borrowing Availability est.	\$2,500	+	
-----------------------------	---------	---	--

Current Assets	\$7,152		
----------------	---------	--	--

Current Liabilities	\$3,852		
---------------------	---------	--	--

Quick Ratio	1.86		
-------------	------	--	--

#### Debt

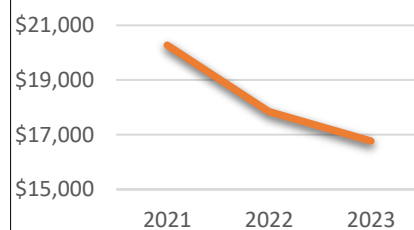
Borrowings	\$3,891		
------------	---------	--	--

Total	\$3,891		
-------	---------	--	--

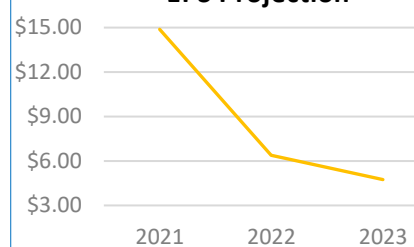
#### NOTES:

During the fourth quarter, X repurchased \$150 million of its common stock under the \$300 million authorization. In addition, the Board authorized a new \$500 million stock repurchase program to commence in the first quarter 2022.

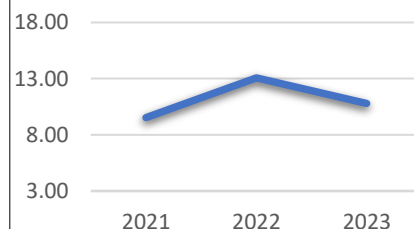
#### Revenue Projection



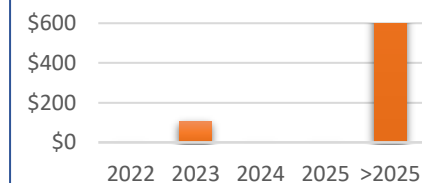
#### EPS Projection



#### EBITDA / Int. Coverage



#### Debt Amortization Schedule



### Disclosures

Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. Additional disclosures are included on [broxtoncapital.com](http://broxtoncapital.com) including in form ADV. SEC Rule 206(4)-1 disclosure: this report is approved by the CCO of Broxton Capital. Individuals should consider the inherent risks before investing and this report should not be construed as advice tailored to an individual's investment criteria or objectives. Important Disclosure: In the normal course of our communications or reports, we analyze, review and discuss current, past and possible future securities holdings. In the case of any security reviewed by us, it should not be assumed that recommendations made in the future will be profitable or will equal the performance of any profitable security that is reviewed or discussed. On request we provide a list of all investment recommendations made by the firm over the last twelve months. Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

Broxton Capital Advisors 151 Calle San Francisco  
San Juan PR, 00901 [broxtoncapital.com](http://broxtoncapital.com)  
310-208-2191

Allen Cooke Portfolio Manager 310-208-2151  
Cell 310-279-3338 [allen@broxtoncapital.com](mailto:allen@broxtoncapital.com)

Brian Stead Manager 310-208-2151  
Cell 310 775 1793 [byron@broxtoncapital.com](mailto:byron@broxtoncapital.com)

**BROXTON**  

---

**CAPITAL ADVISORS**  
CVBLLV VDAI2OK2