

An Equity Note

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- Green Thumb (GTII) Earnings Recap
- ClearPoint Neuro (CLPT) Bull Pitch

Equity Note: ClearPoint Neuro (CLPT) & GTII Earnings Recap

One of my favorite aphorisms is, “a smooth sea never made a skilled sailor.”

This quote has been on my mind lately. Between Omicron, the war in Ukraine, high inflation, and mooning commodities; this past quarter has felt like a never-ending series of large crashing waves bringing both challenge and opportunity to one’s portfolio.

Maybe I’m thinking more about waves because I’m on the beach (Hilton Head, SC) for my honeymoon.

Regardless, I couldn’t agree more with the above maxim ... *a smooth sea never made a skilled sailor.*

Soft markets don’t create skilled traders.

On the contrary, they foster bad habits and a lack of respect for proper risk management.

I’m pleased with how we handled the stormy seas of Q1 2022. We ended the month **up 7.60%** and generated a **16%+ return for the quarter** (quarter-end review coming soon!).

This week I’ve got a quick earnings recap and our bull pitch on ClearPoint Neuro (CLPT), one of our newest strategic bets.

Before we dive into the *Note*, I want to thank you for the congratulatory notes during my wedding last Friday. It truly means more to me than you know.

Let’s get after it.

Quick Earnings Recap on Green Thumb (GTII)

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- ### Companies Mentioned:
- Green Thumb Industries (GTII)
 - ClearPoint Neuro (CLPT)
 - West Pharmaceuticals (WST)

GTII is a leading cannabis Multi-State Operator (MSO) with licenses in 15 states selling six consumer brands (CPGs). You can read our original write-up [here](#).

The company crushed it during Q4. They grew revenues by 37% to \$243M and generated ~\$0.10/share in net income.

Cannabis is a future \$100B industry set to grow 20% annually for the next decade. GTII will benefit from this massive industry tailwind, but so will its competitors.

As we mentioned in our original write-up, our variant perception is that consumers will anchor to specific cannabis consumer brands like GTII (see below, emphasis mine):

*“Most investors view cannabis as a commodity product without pricing power and consumer preference. Through its six CPG brands, GTII is making the opposite bet. The company believes that brands will matter. **New consumers, afraid of the potential ramifications of ingesting cannabis, will anchor to the brand/product that makes them feel the best.** In turn, GTII’s industry-leading vertical integration allows the company to control product quality and distribution better than any other MSO.”*

Back to GTII’s growth rate. We see two main future growth engines: **increased consumption in states with existing licenses** and **expansion into new states**.

Declining social stigma around cannabis consumption will kickstart a viral network effect for consumers as they realize it’s *okay* to consume cannabis much like one does alcohol (and it’s safer, too!).

Plus, other states will eventually legalize recreational consumption as potential **tax revenue** and **job opportunities** become impossible to ignore.

These two growth engines should allow GTII to generate 25-35% revenue growth over the next five years.

However, our most considerable risk is consumers’ relationships with brands. GTII should enjoy pricing power and sticky customers if our variant perception proves correct. If we’re wrong, the future looks more like a conventional commodity race-to-the-bottom game.

Luckily, **Mr. Market has already tipped his cap on where he thinks consumer loyalty will stand.**

What’s Embedded In Today’s Price?

Today, GTII trades at a CAD 5.5B market cap. Let’s assume the company grows revenues by 30% annually (5% lower than estimates). That gets us \$3.3B in revenues by 2026.

What would EBITDA margins look like if our variant perception were incorrect? They certainly wouldn’t be at the 30%+ mark they’re at today. Let’s cut them in half to get to 15%.

That brings us ~\$500M in EBITDA by 2026. As a comparison, GTII should generate \$360M in EBITDA *this year*.

To get to today’s stock price, you would need to assume a buyer would pay 11x EBITDA for a business growing 30%+ top-line at 15% EBITDA margins, which sounds reasonable.

In other words, the current stock price already *assumes* our bear case scenario. **Therein lies our margin of safety!**

Here's where things get exciting.

GTII is a 3-5 bagger if we're even *remotely* correct on consumer choice preferences.

Assuming the company generates ~32% EBITDA margins over the next five years, we'd end 2026 with over \$1B in EBITDA. At a mere 20x EBITDA, GTII would become a \$20B+ business, **nearly 5x its current value.**

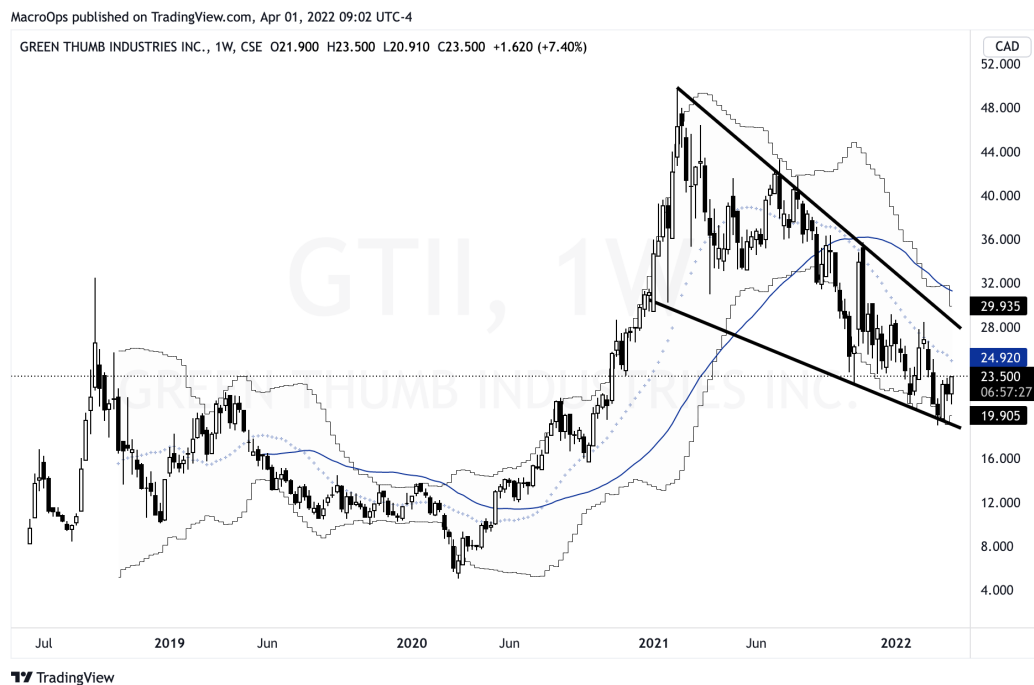
Moreover, GTII (and the entire cannabis space) should benefit from Federal Policy changes surrounding SAFE banking and the ability for cannabis stocks to list on the US. For example, US Bank, our fund's banking partner, *still* has an anti-cannabis stance in its protocol.

Fortunately, those are matters of "if" not "when."

Let's examine the technicals.

Taking GTII's Temperature

GTII is forming a potential bull wedge on the weekly chart (see below).



We'll remain on the sidelines until we see continued bullish price action and a future wedge breakout. We're okay with this position as our book is packed with 17%+ capital at-risk.

We're eyeing the \$28.40/share mark for an entry.

Alright, time to learn about our newest strategic bet, ClearPoint (CLPT).

ClearPoint Neuro (CLPT): The Best Neurosurgical Mousetrap

CLPT is a neurological platform company that enables neurosurgeons to perform minimally invasive procedures under real-time MRI guidance. The company provides these solutions through its ClearPoint Neuro Navigation System, or CNNS.

Neurosurgery is one of (if not *the*) most challenging surgical procedures in medicine. The brain is a complex organ filled with soft tissues. One wrong move and the surgeon risks permanently damaging a patient's motor and psychological functions.

90% of neurosurgeries happen in the Operating Room (or OR). Before CLPT, doctors relied on *static* MRI scans to perform these complex operations like delivering deep brain stimulation or therapies directly to the brain. In other words, the "work flow" looked like this: **take patient to the MRI room for a scan → bring the patient into OR → perform surgery using a static image as the roadmap.**

Static MRI scans present many issues for surgeons. Since we're not neurosurgeons, let's use an example from video games. Suppose you started playing Red Dead Redemption II. Red Dead has one of the most expansive maps in video game history.

Imagine being told at the start of the game, "Okay, you get 15 minutes to examine the game's map. No matter how far you advance in the game, no matter how many territories you unlock, you can only memorize *this* map."

How difficult would it be to play that game? It'd be impossible.

That's *kind of* like static MRIs for brain surgery.

CLPT allows doctors to see the entire "map" of the brain in real-time as they implant electrodes, perform biopsies, or trigger Deep Brain Stimulation (DBS). More importantly, **CLPT allows doctors to see MRI scans in real-time, whether in the MRI room or the OR.**

It's easy to get overwhelmed by the "science" behind CLPT and its hardware/software specifications. But we don't need to deeply understand the science behind CLPT to understand its *astronomical* business potential.

Breaking Down CLPT's Business Segments

There are two segments to CLPT's business: **Functional Neurosurgery Navigation (FNN)** and **Biologics & Drug Delivery**.

CLPT employs a razor/razor-blade business model to service both business segments.

The hardware includes the Head Fixation Frame, SmartGrid, and Drug Delivery Pump. Surgical centers buy these products once, with CLPT making little margin.

Then there's the razor-blade disposable segment. CLPT's disposables include its SmartFlow Cannula and SmartFrame Array.

The array helps doctors determine the exact areas of the brain to target for drug delivery or surgical procedures. The Cannula is the actual delivery mechanism that goes into the brain.

Finally, the software component of CLPT's offering is *Computer Workstation*. *Computer Workstation* enables doctors to plan, target, and deliver drugs or perform necessary surgeries/therapies to patients.

Both software and disposables generate 80%+ margin revenue and should represent most of CLPT's revenues over time.

Let's step back from the business and consider the tremendous scientific breakthroughs CLPT helps accomplish. Take Bill, the first quadriplegic in the world to [have his hand and arm movements resorted](#) ... Thanks to CLPT's technology.

Or how CLPT helped [change the life](#) of a Parkinson's patient.

There's something wildly exhilarating about investing in a company that's transforming the lives of millions of people.

Anyways, back to the business.

The most exciting thing about CLPT is its potential to become the toll road for all drug delivery into the brain, which would **turn CLPT into a multi-billion dollar company over the next decade**.

CLPT: The Toll Road For Brain Drug Delivery

When we think of drug delivery, we usually think of two mechanisms: oral or intravenous. The brain is different because of the "blood-brain barrier." Again, don't get confused by the scientific term.

Think of it as the Great Wall of China for the brain. It lets the good guys (nutrients, vitamins, etc.) in and keeps the bad guys (foreign/potentially toxic substances) out.

The Blood-Brain Barrier makes it difficult for neurological therapies to enter the brain and get to healin'! Peter Mantas of Logos LP explained this challenge better than I ever could in [our recent podcast](#).

Paraphrasing Peter, a therapy that can help the brain of a Parkinson's Patient, might also destroy a liver or a kidney. And if you deliver that Parkinson's treatment orally or through the bloodstream, you risk that therapy damaging other organs on its journey towards the brain.

CLPT's SmartFlow Cannula eliminates this problem.

Doctors can use the CLPT's technology with *exact accuracy* for drug delivery into the brain.

Drug delivery also happens to be one of the best businesses globally for one reason: **Regulatory Capture**.

Delivery mechanisms must meet *strict* FDA regulatory requirements for use on human patients. Take West Pharmaceuticals (WST), for example. Every time a needle touches a human, that's likely a WST needle and syringe.

The sauce is that doctors seldom change delivery mechanisms once one method becomes standardized. Why? Time and money. During our podcast, Mantas revealed that it would cost ~\$40M+ to change delivery mechanisms for drug approval.

If you're a drug company, you're not making that change. You have other things to worry about, like getting your drug to Phase 3 and beyond.

Such regulatory capture creates immense pricing power. Delivery mechanisms can theoretically charge whatever they want because they *know* customers won't switch. It's simply too costly.

We're already seeing confirmation of these regulatory barriers in the data. In a medical research paper titled, [Intrastriatal convection-enhanced delivery results in the widespread perivascular distribution in a pre-clinical model](#), the authors *specifically* indicate the importance of drug delivery mechanisms for therapeutic success (see below, emphasis mine):

*"It is now clear that **the ability to achieve widespread, predictable and reproducible CED** without reflux of infusate, **is fundamentally reliant on a range of factors including catheter design**, and the physicochemical properties and tissue affinity of the infused agent."*

It's impossible to overstate the importance of a study like this on CLPT's potential business value.

CLPT: Thinking About Future Valuations

CLPT generated \$5.2M in revenue from its biologics and drug delivery mechanism in 2020.

Additionally, it generated \$6.2M in revenue from its FNN segment (albeit during a COVID crisis when elective surgeries declined).

Management has already stated its goals for its FNN business: 100 cases a year from 100 clinical partners or 10,000 annual cases.

At ~\$10,000 per case, that gets us **\$100M in annual revenue from its FNN segment alone over the next five years.**

Then there's the Biologics and Drug Delivery segment. It's impossible to predict how much revenue this business segment will generate over the next few years. However, we can use WST as a proxy. WST generates billions of dollars in revenue from its disposables/delivery mechanism business.

It's not a stretch to think **CLPT could create hundreds of millions, if not billions, in revenue should the company become the delivery mechanism of choice for all neurological drug therapies.**

There are loads of risks like any other biotech/life sciences company. Larger competitors like Medtronic (MDT) may try and enter CLPT's niche.

Or CLPT's delivery mechanisms somehow become faulty, leading to a more significant increase in brain injuries. Management could also drop the ball and fail to bring more clinical partners on board.

Finally, *Collective* member @Kulok mentioned another short-term risk: capital raise. Here's his excerpt from Slack (emphasis mine):

*"I've been a fan of \$CLPT since that initial Value Hive pod with Mantas. And added materially when it cleared the 50 day SMA a few weeks ago ... quick word of caution ... looking at their financials, **they will likely need to do a cap raise in the back half of this year** ... if the stock begins to materially breakout they could theoretically push that forward ... I'm not saying that a raise is imminent ... **but if the stock gets within shouting distance of the 52 week high they could push the raise forward** ... I love this stock LT ... and ST technicals look strong ... just be sure to take some profits if we get a big push higher"*

Hopefully, the stock rises high enough that a short-term capital raise won't put our initial stop-loss at risk.

We bought our starter position at a \$246M market cap (\$10.37/share). If we're directionally right about CLPT's path as the go-to neurological drug delivery mechanism, **we'll 10x our investment in 5-10 years.**

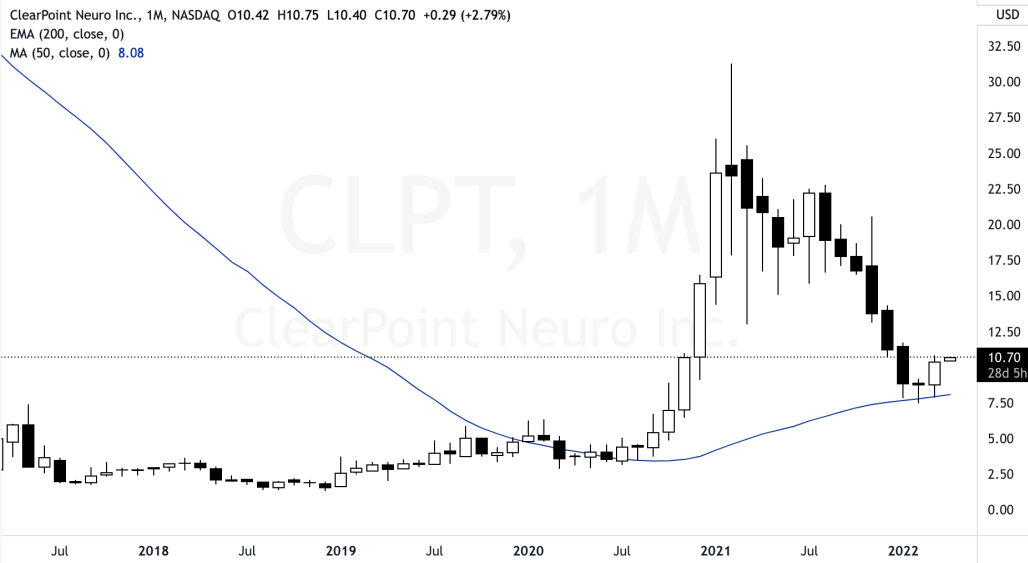
It also helps to receive confirmation from the stock's technicals. Check out CLPT's Stage 1 breakout on the daily chart and textbook support reset on the monthly chart (see below).

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TradingView

Portfolio Updates

Buys

- **BOUGHT** Starter Position in CLPT
- **ADDED** to Strategic Long in SQ

Sells

- **EXITED** DAX Short
- **EXITED** Soybean Oil Long