

Portfolio Intelligence Report (PIR): 10.01.2022

“Know what you own and why you own it.” - Peter Lynch

We’re introducing a new weekly series called *Portfolio Intelligence Report (PIR)*. The weekly series captures news and developments on our current MO Portfolio positions.

The length of each *PIR* will vary depending on the weekly news flow. Some weeks will be busy, others not so much.

Consider this your recurring intel feed on equities held within the MO port.

Growth Basket: CLPT, DSRT, NRDY, and SQ

Basket Highlights:

- Current Average Return: -30%
- Current Notional Exposure: ~7%

ClearPoint Neuro (CLPT)

CLPT received two **significant** FDA approvals last week for its [Navigation Software](#) and [Neuro Laser Therapy treatment](#).

According to the company, the Navigation Software (emphasis added) *“facilitates the **use and placement of instruments and devices** in neurosurgical procedures, can be utilized for biopsy procedures as well as **catheter and electrode insertion**, including lead placement for deep brain stimulation.”*

NS Medical Devices explains CLPT’s Neuro Laser Therapy as “authorized for necrotising or coagulating soft tissue using interstitial irradiation or heat therapy under 3.0T magnetic resonance imaging (MRI) guidance.”

Most importantly, the article notes that “ClearPoint Neuro has the global exclusive rights to market the CLS magnetic resonance (MR) guided laser interstitial thermal therapy (MRgLITT) system designed for neuro applications.”

In other words, CLPT is the *only company* that can market and sell this laser therapy globally.

These are big announcements for two reasons.

First, it moves CLPT closer to the standard picks-and-shovels for neurological drug delivery and deep brain stimulation. Second, it increases the probability that our bull thesis plays out, which raises the company’s intrinsic value estimates.

CLPT still trades at a \$250M market cap and, as we outlined in our [original write-up](#), is one of the few businesses that could 10x its market cap over the next five years (emphasis added):

“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.”

We hold a ~3% starter position and will add upon further confirmation of our bull thesis.

Desert Control (DSRT)

DSRT is our \$50M VC like bet in public markets. The company provides Liquid Nano Clay (or LNC). It turns deserts into fertile soil to grow food, trees, and other greenery.

You can read our original write-up [here](#).

Extreme volatility is expected in pre-revenue bets. And DSRT is no exception. This past week the stock traded violently, down 17%, up 12%, down another 15%, and so on.

We hold a small 1% position to account for such volatility and have internally marked our investment at \$0.

The company provided a Q2 2022 update in early July with promising results. DSRT generated ~NOK 500K in revenue (up from \$0 last year) and ended the quarter with NOK 122.9M in cash on the balance sheet.

More importantly, DSRT’s pilot programs are exceeding expectations. Check out the company’s water savings throughout its various test crops (below).

SOME OF OUR PILOT REFERENCES AND WATER SAVING ACHIEVEMENTS IN THE UAE

CROPS/VEGETATION	WATER SAVINGS	SEGMENT	LOCATION
Carrots, Cauliflower, Green Pepper and Lady Fingers	40%	Agriculture	Private farm in Al Ain, Abu Dhabi
Pearl Millet, Zucchini and Watermelon	40%	Agriculture	ICBA* in Dubai (Independent validation)
Cucumber, Basil, and Beetroot	50%	Agriculture	Research farm in Al Ain, Abu Dhabi
Sweet Corn	35%	Agriculture	Private farm in Dubai
Date Palms	50%	Agriculture	Private farm in Al Ain, Abu Dhabi
Salvadora, Ghaf, and Ziziphus (native forest trees)	40%	Forest/trees	Forest in Al Ain, Abu Dhabi
Palm Trees	50%	Landscaping	Luxury residential resort in Dubai
Paspalum Grass	45%	Landscaping	Investment and real-estate firm in Dubai
Paspalum Grass	40%	Landscaping	Luxury residential resort in Dubai
Lawn Area	35%	Landscaping	VIP area in Abu Dhabi
Bermuda Grass	47%	Landscaping	ICBA* in Dubai (Independent validation)
Turf Grass / Lawn Area	40%	Landscaping	Public park in Abu Dhabi

*ICBA - International Centre for Biosaline Agriculture

Next steps include expanding its pilot launch in the US with the help of University of Arizona.

Finally, DSRT's CEO bought another 1,000 shares, raising his stake to 803,500.

Nerdy, Inc. (NRDY)

NRDY is a digital learning marketplace that provides live online tutoring to students/professionals across 3,000 subjects.

You can read our original write-up [here](#) and our latest Earnings Update ([here](#)).

The company recently participated in Goldman Sachs's "Technology Communicopia" event. CEO/Founder Chuck Cohen gave a 37-minute fireside chat. Here are my highlights from the conversation (emphasis added).

Who is NRDY's Competition?

"So we've always considered ourselves historically, a consumer Internet platform that was a 2-sided marketplace where we vertically integrated in a differentiated way to provide value to consumers. Where there's an inherent discovery problem, there's inherent quality problem, and we are improving quality, we are decreasing costs, we are making it more convenient.

*And because it's a platform-based approach to growth, there's all these different things you can learn on the subject, we compete with, call it, **5,000 mom-and-pop tutoring companies, hundreds of test prep companies.** You have folks in the offline enrichment space and learning centers and then professional testing companies as well."*

Early Results of Membership Recurring Model

“And so the economics are very favorable and aligning towards that. It's also better for student outcomes because they're going to meet more consistently, which is what we've seen so far, higher engagement, higher retention, higher net promoter scores and then happier students because they're meeting more consistently, getting better results.”

LTV's Exceeding Historical Figures w/ Membership Model

*“So what you're seeing from a total contract value perspective there with the most common package today being 12 months and the average revenue per member being over \$300 per month is that **customers are actually committing to over \$3,600 over the course of the year, which on an LTV basis, after just 6 months, exceeds what were our historical LTVs over a 2-year period in the package space.** So definitely an improvement thereby focusing on those higher-value, higher-revenue learners.”*

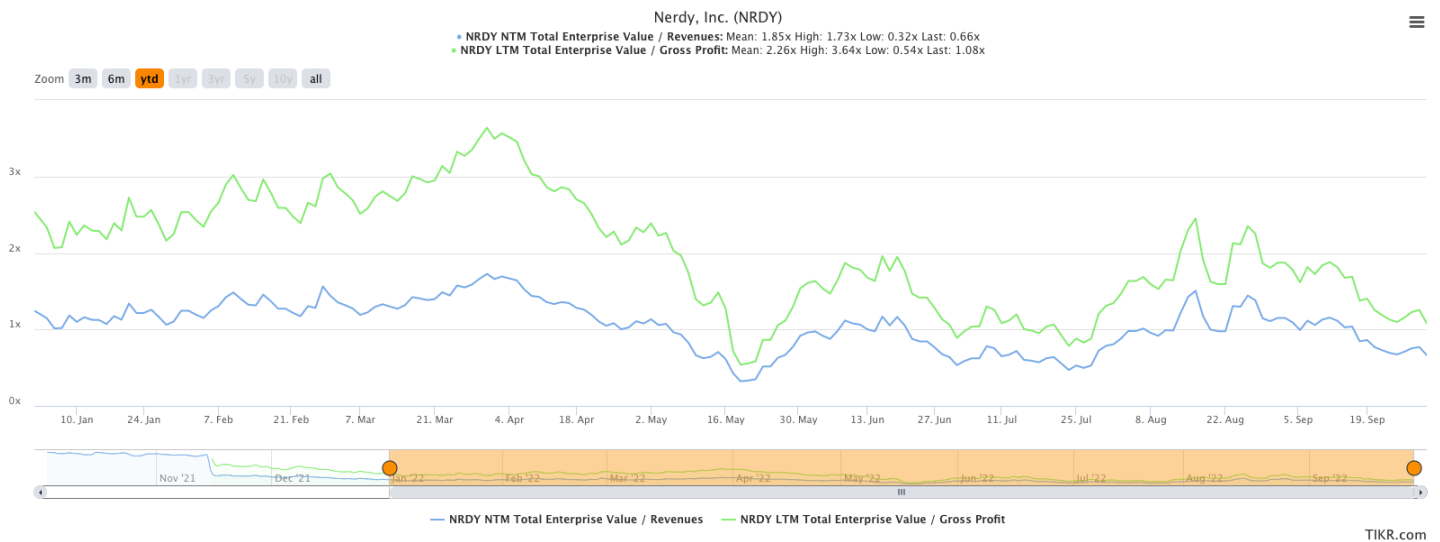
Positive Adjusted EBITDA by YE2023

“So over the course of the next 12 months, we've committed that by the end of 2023, we'll be adjusted EBITDA positive. We're actively working internally to pull that forward, and we feel good about where we sit today.”

Listen to the entire conversation [here](#).

NRDY is rapidly transforming its revenue model from a non-recurring, bulk-order model to a recurring subscription-based model. I'm expecting 1-2 soft quarters for revenue and earnings as the company moves through the trough of its revenue J-Curve.

The company trades at 0.66x NTM EV/Sales and ~1x NTM EV/Gross Profit, a cheap price for a business that should generate ~20% revenue growth with expanding gross margins (68% → 75%) over the next five years.



We hold a 1% starter position and will add in size on further derisking of the thesis.

Block, Inc. (SQ)

SQ is a leading provider of merchant point-of-sale hardware, software, and other services, along with its fast-growing financial services app, Cash App. The company supports over 2M merchants through Square POS and software, while Cash App sports 47M+ active monthly users.

You can read my original write-up [here](#), where I outlined SQ's plan to create an "Ecosystem Connection" between its Square Seller business and the Cash App consumer enterprise.

The company released a string of positive product developments this week, like:

- [Square Tap-to-pay on iPhone capabilities](#)
- [Expanding Square Messaging to social media like TikTok](#)
- [Launching Afterpay in Canada](#)

SQ also released its [Growth of Mobile and Conversational Commerce Report](#), which provides unique insights into consumer spending/communication habits.

For example, the report noted that "nearly 40% of businesses aren't utilizing mobile commerce technologies, despite vast benefits and increasing consumer usage." Check out these stats:

- 28% are unsure about how to integrate mobile communication tools into their existing operations
- 23% don't believe these tools are needed
- 23% report they're unsure of how it might impact customer relationships
- 22% cite not having enough time to use more technology
- 19% don't understand the benefits of mobile commerce

The great news is SQ makes mobile communication easy. For example, the company allows sellers to send SMS directly from the Seller Dashboard, which reduces user friction.

Additionally, the company recently launched an integration with TikTok and Google Analytics. Which again reduces user friction and allows Sellers to access all these tools in one place.

We also saw developments in SQ's consumer-facing finance app, Cash App. As of last week, payment processor Adyen (ADYEN) will [let consumers use Cash App to purchase goods](#) for its brick-and-mortar stores (ADYEN supports customers like Shein and Dicks Sporting Goods).

This is another example of Cash App Pay enabling more transactions within Cash App's borders.

Finally, the company participated in Goldman Sachs's Communicopia Conference. You can listen to the fireside chat [here](#). My favorite part of the conversation is when Amrita (SQ CFO) explains Cash App's "Inflows Framework" (emphasis added):

*"Gross profit for Cash App is driven by 3 variables. **Active, which we measure on a monthly basis. Inflows per active. This is the amount of money that our customers bring in to Cash App and then monetization rate.***

Second is retention. Making sure that we see that these customers continue to use Cash App over time.

*And then **third is win back customers** who maybe were lapsed or aren't using it as frequently and giving them reasons to find daily and weekly utility out of Cash App."*

Amrita also outlined Cash App's massive growth opportunity within its existing 47M+ active users (emphasis mine):

*"So again, as I mentioned, over \$1,000 in Q2 on an inflow per active basis is money our customers are transacting actives of bringing into Cash App. **If you annualize that, that's \$4,000 or so in a year, which is if you look at the U.S. median income at about \$40,000 is about 1/10 of the median U.S. income.***

*We believe we have an opportunity to **drive incremental share of wallet with our existing customers as well as to reach more customers over time.** which can drive inflows up. And again, **we see inflows being highly correlated to gross profit** as we've demonstrated more recently as we started sharing more about the inflows framework."*

Suppose Cash App annualized ~\$8,000 in inflows from its 47M actives. That gets us ~\$4.7B in Gross Profit or only 7x the current market cap (from CashApp alone). There is tremendous growth potential within Cash App, and SQ is just getting started in its monetization journey.

We'll add upon further confirmation of our bull thesis.

Energy Basket: PDN, U.UN, BTU, LEU, PANR, VIST, TDW

Basket Highlights:

- Current Average Return: -7.03%
- Current Notional Exposure: 22.66%

Peabody Energy (BTU)

BTU repurchased \$20.4M of its term loan nearly two weeks ago. The company also announced that it would buy back **all** its outstanding 10% Senior Secured Notes (due 2024). BTU certainly has the cash to do it.

The company generated nearly \$250M in FCF last quarter and a total of \$299M LTM. It has \$1.2B in cash on the balance sheet against \$846M in long-term debt.

Analysts expect BTU to print ~\$1B in FCF each year (see estimates below).

ACTUALS & FORWARD ESTIMATES MANAGEMENT GUIDANCE

Actuals & Forward Estimates TIKR.com	12/31/22 E	12/31/23 E	12/31/24 E	12/31/25 E	CAGR
Revenue	4,971.03	4,953.23	4,247.90	4,756.00	(1.5%)
% Change YoY ⓘ	49.8%	(0.4%)	(14.2%)	12.0%	
EBITDA ⓘ	1,913.23	1,615.25	1,211.93	1,355.00	(10.9%)
% Change YoY ⓘ	108.7%	(15.6%)	(25.0%)	11.8%	
% EBITDA Margins	38.5%	32.6%	28.5%	28.5%	(9.5%)
EBIT	1,132.65	832.25	300.00		
% Change YoY ⓘ	162.1%	(26.5%)	(64.0%)		
% EBIT Margins	22.8%	16.8%	7.1%		
EBT Normalized	1,032.40	723.50	48.00		
% Change YoY ⓘ	33.7%	(29.9%)	(93.4%)		
% EBT Margins	20.8%	14.6%	1.1%		
Net Income Normalized	984.00	657.20	161.80	619.00	(14.3%)
% Change YoY ⓘ		(33.2%)	(75.4%)	282.6%	
% Net Income Margins	19.8%	13.3%	3.8%	13.0%	(13.0%)
EPS Normalized	6.42	4.95	1.00		
% Change YoY ⓘ	(2.6%)	(22.8%)	(79.8%)		
EPS (GAAP)	6.35	5.79	3.16	4.39	(11.6%)
% Change YoY ⓘ	97.2%	(8.9%)	(45.4%)	38.9%	
Free Cash Flow ⓘ	1,403.87	954.67	330.15	288.00	(41.0%)
% Change YoY ⓘ	492.6%	(32.0%)	(65.4%)	(12.8%)	
% Free Cash Flow Margins	28.2%	19.3%	7.8%	6.1%	(40.1%)

The company trades at just 3x NTM FCF. In other words, BTU could generate its entire market cap in FCF over the next three years.

There are other ridiculously cheap companies in this space that we're digging into like MRO, TTE, and EQT, to name a few. However, we own a 5% position in BTU and will hold through volatility.

Centrus Energy (LEU)

LEU supplies nuclear fuel and services for the nuclear power industry in the United States, Japan, Belgium, and internationally.

The company announced a major \$320M sales contract/commitment two weeks ago. LEU will collect the sales between 2022-2030.

This is a big deal for a \$626M Enterprise Value business.

This company is also one of our proxy plays for our "Long Nuclear" Thematic. Current estimates indicate ~2% revenue CAGR over the next three years. However, further calls for increased nuclear energy should **dramatically** change LEU's demand function and thus future revenue.

Pantheon Resources (PANR.LSE)

PANR is an oil and gas exploration and production company with ~160,000 acres throughout Alaska and an estimated ~16-21 billion barrels of oil in place (or OIP).

The quick and dirty thesis is that at the current market cap, you're paying **~\$0.28 per barrel of oil (BO)** at the current market cap, assuming an estimated ~3B in recoverable resources.

However, in 2017, Oil Search bought "world-class oil assets" in Alaska for ~\$3.10/barrel. That's 10x more valuable than the market ascribes to PANR's oil assets.

Here's the crazy part. **PANR would be a \$9B enterprise** if the market valued PANR's assets at ~\$3/BO (like we've seen in prior deals).

Check out this company update from [ProactiveInvestors.co.uk](https://proactiveinvestors.co.uk), highlighting a completed stimulation of the Alkaid #2 Horizontal well.

Portfolio Performance Update

- September (month-end): +0.57%
- Q3 2022: -2.67%
- YTD (as of 09/30): +15.52%