

Portfolio Intelligence Report (PIR): 10.15.2022

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

This weekend, we examine new developments/commentary within our portfolio companies.

First, we reveal a mega endorsement for CLPT’s software/services from Charles River (CRL). Then we dissect PayPal’s (PYPL) latest “own goal” and why SQ should benefit. Rounding out our Strategic Basket Update are my notes from my call with an LLY postdoctoral Discovery Unit scientist.

Finally, we examine a potential merger between BTU and an Australian coal miner, a finalized merger between EGY and TransGlobe, and updates on PANR’s Alkaid #2 well.

Let’s get after it.

Strategic Basket Update: CLPT, SQ, LLY

Total Basket Highlights (including non-updated positions):

- Current Average Return: -27.64%
- Current Notional Exposure: 16.60%

ClearPoint Neuro (CLPT)

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.

You can read our write-up on the company [here](#) (starts on page 4).

Charles River (CRL) now [endorses CLPT](#) software and drug delivery systems on the company’s Products & Services page.

This endorsement is a big deal.

CRL is a global leader in drug discovery, non-clinical development, and safety testing services. The approval also reduces the barrier to trying CLPT’s product as doctors/surgeons trust a company like CRL (since they probably already use CRL products/services).

You can check out a few screenshots from the webpage below.

Going Past the Blood-Brain-Barrier

Using the ClearPoint® System, we’re taking traditional stereotaxic surgical procedures coupled with modern neurosurgical techniques to bring real-time, iMRI-guided test item delivery to the brain. Real-time iMRI-guided targeting allows for precise, predictable, and reproducible delivery into brain structures with submillimetric (< 0.5 mm) accuracy. By coupling the test item with a contrast agent, visualized delivery allows us to adapt to ensure accuracy and on-target coverage, bringing your test item where it needs to be.

The ClearPoint® System

Real-time visualization of gene and cell therapy application by equipment such as the ClearPoint® System represents the next stage of CNS surgery and therapy. The ClearPoint® System combines specialized MRI-compatible hardware and software to plan trajectories and align and guide the infusion cannula to target. The cannulas and insertion approach are specifically designed to minimize backflow. Dose volume, infusion rates, and targeting can be optimized throughout this minimally invasive neurosurgery to improve tissue coverage and therapeutic efficacy.

Disease Indications

The ClearPoint® System is already in use in the clinical environment providing the translational functionality necessary to bridge preclinical safety pharmacology and toxicology with your future patients. The disease indications are countless, but already include brain tumors, epilepsy, Parkinson's, and other movement disorders.

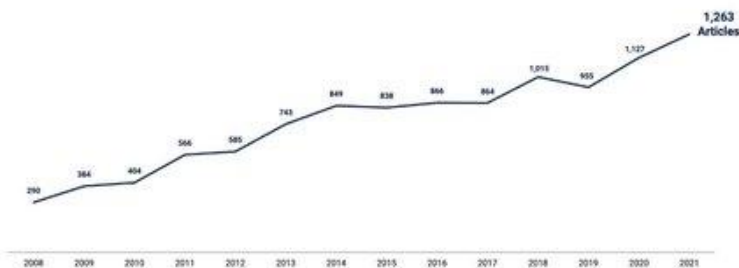
Also, CB Insights noticed an increase in Computer-Brain-Interface interest. This is yet another neurological delivery market within CLPT's right-to-win.

BCIs offer breakthrough medical benefits

As minimally invasive BCI solutions – intended for long-term use beyond the lab or hospital – take off, the technology could help address a wide variety of medical challenges.

Medical interest in brain-computer interfaces has climbed steadily

Number of medical and science articles on brain-computer interfaces, 2008 – 2021



CBINSIGHTS Source: PubMed

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Initial BCI applications have sought to help patients experiencing severe disabilities like paralysis to communicate.

Looking ahead, as **BCI technology advances**, it's poised to impact a range of medical applications – from more effectively **detecting tumors**, to **improving motor function** for surgeons, to **boosting cognitive performance** as a neurofeedback training tool, to **accelerating rehabilitation** for patients after a stroke.

Block, Inc. (SQ)

Block (SQ) provides merchant seller services through its “Square” product to over 2 million businesses. Popular products include Square Invoicing, Payroll, Square for Restaurants and Square Capital.

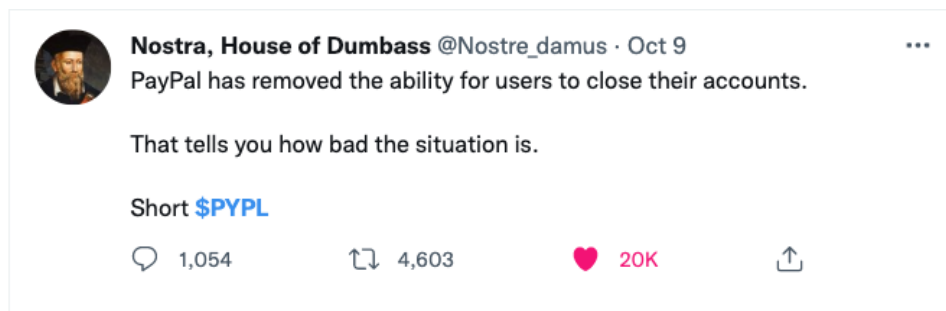
The company also serves 47 million consumers through CashApp. CashApp allows users to instantly send money to friends and family, invest in stocks and bitcoin, save money through CashApp Boost discounts at popular retailers, and receive direct deposit paychecks.

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

PYPL shot itself in the leg this week after a leaked “Misinformation” scandal. If you haven’t read the story, check it out [here](#).

In short, PYPL added a clause in its User Agreement that allowed the company to take \$2,500 from a user’s account if that user posted something (say on Twitter) that PYPL deemed as “Misinformation.”

George Orwell’s classic, *1984*, is an appropriate mental model here.



While the news has nothing to do with SQ, shareholders (like ourselves) should welcome PYPL’s self-sabotage.

Thousands of people deleted their PYPL and Venmo accounts in response. More importantly, PYPL lost its customers’ trust, something that takes forever to build and one leaked tweet to destroy.

That doesn’t mean everything’s peachy for SQ. Here’s one example of bearish sentiment surrounding the company.

stock news

5 Stocks to Delete From Your Watchlist in Q4

Oct 7, 2022 · 09:09

AMD +0.38% SQ +5.03%

One bear thesis is that Apple (AAPL) will [unleash its Wallet feature](#) within its user network to take share from Cash App and Venmo.

This is a real risk.

AAPL has a cult-like user base, so it wouldn't shock me to see high Wallet user adoption (especially with addition of [high-yielding savings accounts](#)).

That said, 75% of the world uses an Android phone. AAPL could snag 100% of its iOS Wallet share and we'd still have a huge TAM. We're monitoring AAPL's plans with its Wallet and Payment business and will update you as we hear new information

SQ trades at 6x LTM Gross Profits. We believe the stock can reach ~\$240/share within the next 3-5 years, representing **350%+ upside from current prices.**

Eli Lilly (LLY)

Below are my notes from my conversation with an LLY postdoctoral research scientist in the company's "Discovery Unit." I wasn't allowed to share the entire conversation for privacy reasons. But I hope you enjoy the most important parts of the chat.

How LLY views Drug Development ...

"We view drug development like building a rocket ship. You have the early units of the engine, where the idea starts, and then you develop the idea into a product. After the development team then, it goes to trials. Then at the end, you have the marketing and legal teams.

I'm on the earliest team, the engine of the rocket ship, the idea generation. We start with an idea, and then our job is to decide if this idea is feasible or if we should kill it (which we'll know in a year or two). To figure that out, we'll do in vitro experiments (non-human) like in cultures or mice."

What attracted you to LLY ...

"LLY was one of my top choices. It was a bigger company, and I knew its products within the insulin space. It's a very reputable company. I had a great time during my internship and enjoyed every bit.

My manager during my internship was all around a great person. A great scientist and very supportive. So when they offered me the job, it was a no-brainer to join this company that treated me so well."

Who are LLY's competitors, and how much do you focus on competition ...

"Our prior product is Trulicity, which makes \$68B per year. Novo Nordisk makes a similar drug. And then, with tirzepatide, it's multiple times better than Trulicity and Novo Nordisk's competitor.

We have an Alzheimer-type drug fast-tracked. We'll get clinical trial results soon and compete with Biogen there.

We don't think about competitors in the Discovery Unit. We don't really care about what other companies are doing at that point since we're trying to create new products and find what works. You only think about, 'is this idea feasible, and can we get a patent?'

How long does it take from idea generation to commercialization ...

"A long time ago, it took like 10 years. Recently, there has been so much innovation happening in the company. Our Chief Science Officer (CSO) has made many innovations in the discovery space, increasing our market speed. We used to cancel many projects, which made the entire cycle very long. Now we give those more time.

We have a "Portfolio Manager" looking at our entire drug and development pipeline portfolio. He then compares our drugs and their development stages to other pharmaceutical companies.

Recently he's said that our portfolio is one of the most innovative and fastest-to-market in the industry.

We average 5-6 years from idea generation to commercialization. The industry average is closer to 7 years. This advantage compounds over time.

We're probably getting 20 molecules out by the end of this year.

Domain Expertise ...

"We are a diabetes company with industry-leading domain expertise in this space. Trulicity is a perfect example of this advantage.

tirzepatide is a peptide, not a small molecule. It's targeting both GIT and GLP, which is where the innovation is. This is not our first effort to create something like this, either. It went through multiple rounds of effort before we hit it.

Sometimes scientists come up with new ideas for existing molecules, and that's how you get a tirzepatide, where we originally created it for diabetes, but now we see that it's highly successful in obesity.

But we also have other molecules and compounds that are just as promising as tirzepatide in the pipeline.

We don't go after large markets for the sake of large markets. We go after markets where we have domain expertise, which happens to be large markets."

Army of Lawyers ...

“LLY probably has the largest number of lawyers per capita in the entire pharmaceutical industry. So if there’s a patent out there that we can leverage, we’ll use it. And if there’s someone that’s using one of our patents, we’ll know too.”

Investing in Oncology ...

“Another area we’re investing in is oncology and neuroscience. The demand for Alzheimer’s treatments is huge and we are investing a ton of resources there.

Diabetes will always be the largest money-maker for us, 10-15 years out, which will fund investments into oncology, neurosciences, and immunology.”

What are the 2-4 things that matter most for LLY ...

“I think one of the most important things is innovation and if LLY can stay on top of innovation within their domain expertise markets. LLY has Lilly Ventures, which invests in cutting edge science. We also have incubator studios that allow companies to develop their own products or molecules.

We’re spending millions of dollars in these venture spaces to see if anything hits in those areas. We’re looking hard into Asia, places like Tokyo and China.

Second, LLY prides itself on its culture. And they have a fantastic culture. It’s great. They treat their employees very well. Employees have worked there 10, 20, even 30 years. People stay here because LLY has top-notch benefits, some pension, and leading product/science innovation.

Employees have a bit of loyalty towards the company, and the company uses employee stock options to give them that sense of ownership and incentive. And employees want to get these stock options because the stock has done so well historically.

Last thing I would say is that management is very approachable. I’m talking about all the way up to the C-Suite. For example, the CSO sat down with all of us, the ones in the training program trying to find our way around the building. He gave a lecture about his experience and then gave a 30 minute Q&A where we could ask him anything.

And he was very transparent and open with us about every question. He was very honest and blunt, which I appreciated. I feel like we have amazing management compared to the rest of the industry.”

Are you bullish on the company ...

“Yes, I am very bullish on LLY. Tirzepatide will be huge, and we have loads of molecules in the pipeline that could also be as big as Tirzepatide. I’m very bullish on the company.”

Thematic Basket Update: BTU, EGY, PANR.LSE, CRK, VIST

Total Basket Highlights (including non-updated positions):

- Current Average Return: -5.29%
- Total Notional Exposure: 36.23%

Peabody Energy (BTU)

BTU is involved in mining, preparation, and sale of thermal coal primarily to electric utilities; mining bituminous and sub-bituminous coal deposits; and mining metallurgical coal, such as hard coking coal, semi-hard coking coal, semi-soft coking coal, and pulverized coal injection coal.

This week the company confirmed rumors of [a potential merger](#) between BTU and Coronado Global Resources (CRN.ASX).

The merger would create the world's largest mining company (\$6B+ market cap) at peak coal prices. Check out the merger press release stat:

“Coal prices surge to record levels thanks to the global energy crunch set off by pandemic-related supply bottlenecks and Russia’s invasion of Ukraine. Prices in the US last week passed \$200 a ton for the first time.”

A merger is **terrible news** for BTU shareholders.

The main crux of our bull thesis is that **BTU will generate oodles of cash which it will return to shareholders** via buybacks and special dividends.

Instead, the company wants to use that cash to merge with another business, which isn't necessarily accretive to shareholders.

If anything, it's accretive to CRN's private equity backers that want an exit at peak coal prices (get out when the getting's good!).

BTU mega-bulls like @8750Capital believe the company would get taken out at ~\$35/share (or 35% higher than current prices) if the merger closed. Not bad, but much lower than the \$50+/share expected from capital returns.

We're pausing our potential addition to this name due to the potential merger.

VAALCO Energy (EGY)

EGY is an independent energy company that acquires, explores for, develops, and produces crude oil and natural gas in West Africa.

The company closed its merger with Transglobe and will buy back ~\$30M of stock post-merger. This is positive news and a step in the right direction for further shareholder returns. As we mentioned last week, EGY should pay a \$0.52/share special dividend in the coming weeks/months.

Buybacks + special dividends = happy shareholders :)

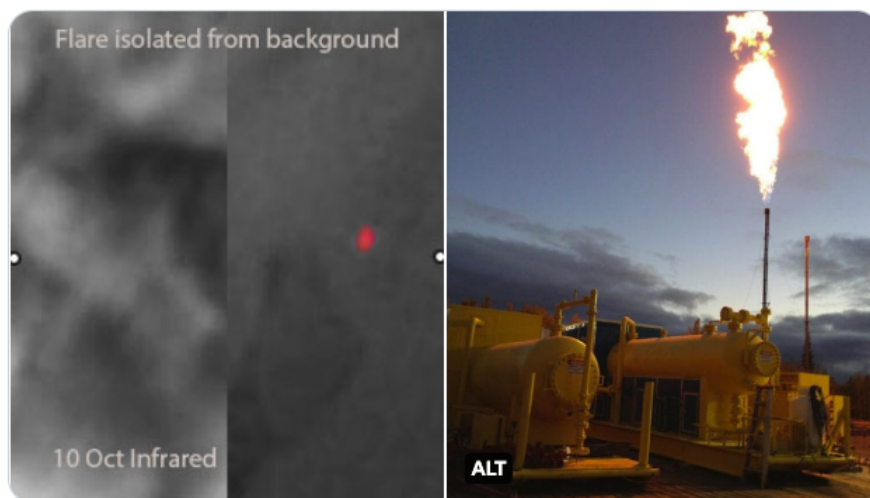
Pantheon Resources (PANR.LSE)

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 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.

The company [began flow testing](#) in its Alkaid #2 Well this week (see image below).



There's a great [Twitter thread from @Scot126126](#) on the implications of the Alkaid #2, if provable/successful.

Here are the bullet points:

- *"There's 23B+ barrels of Oil in Place just 20 miles south of Deadhorse, Alaska. Independent validation of this data has come from the State of Alaska's Dept of Natural Resources, eSeis, Lee Keeling & Assoc, AHS Baker Hughes and Schlumberger."*
- *"Not aware of one credible voice that refutes this claim (23B+ barrels of oil)."*
- *"*If PANR is successful and proves commerciality, it will have discovered the second or third largest conventional oilfield in US history."*
- *"If proves commerciality, PANR has enough oil to produce for 30 years."*
- *"*If* Alkaid-2 proves commerciality, the equity markets will be *forced* to reassess dramatically \$panr's equity value. For example, the Canaccord O&G analyst's unrisksed valuation is in excess of 1000p (US\$11.00 per share). Current share price is c.100p (US\$1.10)."*

Shares ended the week at ~\$1. PANR is one of our most asymmetric bets in the portfolio. We'll look to add in the coming weeks.

Comstock Resources (CRK)

No fundamental updates. Still, the price is forming a potential cup and handle pattern on the daily chart.

Momentum/swing traders should add this name to their watchlists over the weekend, which could put a floor/buying pressure in the name over the coming weeks.



Vista Energy (VIST)

VIST announced a [joint venture](#) with Trafigura en Vaca Muerta on Tuesday.

Here's the interesting part. The JV values VIST's land at ~\$59k/acre (discounted at 17% with oil at \$60/barrel). The stock currently trades at ~\$6/acre with oil at \$94/barrel. ([link](#))

There is a **massive** disconnect between the JV value and the current market price. I see two reasons why the mispricing exists. VIST files its reports in Spanish making it difficult to quickly translate documents. Second, the company recently IPO'd in July 2019.

We hold a 6% notional position between our core and tactical holdings.

Cameco Corporation (CCJ)

We hedged our long uranium exposure by buying October 2022 \$19 strike CCJ puts. This week the company announced that it would buy (in partnership with Brookfield Asset Management) Westinghouse Electric for ~\$4.5B.

CCJ will spend ~\$2.2B for the equity with BAM covering the additional \$2.3B. Westinghouse will keep its existing debt structure.

Shareholders aren't happy because that means less cash to them, which sent prices down to ~\$21 by Friday's close.

We've mark-to-marketed those puts at \$0 in the portfolio. Fingers crossed CCJ hits \$19 next week.

Portfolio Performance Update

- October (month-to-date): -1.81%
- Q4 2022 (to-date): -1.81%
- YTD (as of 10/14): +13.69%