

## Portfolio Intelligence Report (PIR): 10.22.2022

*"Know what you own and why you own it." - Peter Lynch*

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

First, we break down new developments in our Strategic Basket, including CLPT Software 2.1 updates, a new podcast featuring interesting Venmo/Cash App data, DSRT's first institutional analyst coverage, a new NRDY CEO interview, and LLY's latest acquisition.

Then we dive into the Thematic Basket and uncover news like PANR's Alkaid #2 well progress, our exit in BTU, EGY's latest Q3 production/sales data, and two new pro-VIST SeekingAlpha write-ups.

Let's get after it.

### **Strategic Basket Update: CLPT, DSRT, SQ, LLY, NRDY**

Total Basket Highlights (including non-updated positions):

- Current Average Return: -26.62%
- Current Notional Exposure: 17.43%

### **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).

CLPT released its Software 2.1 in a limited market release this week. Josh Aronson, MD, was the first to use the new software (see below).



In other news, Abbott Labs (ABT) reported Q3 earnings this week. It gave us clues into CLPT's end market growth. For instance, ABT saw growth in the following device end markets:

- Worldwide Neuromodulation: +4.1%
- US Neuromodulation: +4.7%

This is bullish for CLPT and should bode well for their Q3 earnings report (CLPT reports on 11/08).

We currently have a ~2.60% notional position as shares have declined 21% since we first bought.

### Desert Control (DSRT.AS)

Desert Control (DSRT) makes Liquid Nano Clay (or LNC) that enables one to turn desert sand into fertile soil. You can read our original write-up on the company [here](#).

DSRT received its first institutional coverage this week. Fearnley analyst Torkjel Refnin Jordbakke initiated coverage with a NOK 39 price target (>2x the current price).

You can read the article [here](#) (behind an email wall).

### 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 47M+ 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](#).

A new podcast from Power of Payments dropped this week and discussed digital wallets like Venmo and Cash App. Here's one part from the episode (emphasis added):

*The research finds that digital wallet apps such as PayPal's **Venmo and Square's Cash App are faring well despite an overall decline in spending**. Consumers continue to rely on and trust digital wallets and the brands that offer them, challenging traditional providers.*

*With less discretionary income due to sustained inflation, **consumers have fewer incentives to visit bank branches and ATMs, or to use a digital wallet**. Over the past year, consumers' use of bank branches, ATMs and digital wallets has gone down. However, out of these three activities, **digital wallets have been a consistent leader among US adults because of their growing acceptance by retailers and the convenience they offer to consumers**.*

*Brands like Venmo and Cash App had been growing consistently for years before the pandemic, but the Covid-induced growth in digital adoption further bolstered their usage. **The***

**research found that consumer awareness of Venmo and Cash App has grown from less than 40% in Q3 2018 to over 80% in Q3 of this year.**

You can check out SQ's "MO Equity Baseball Card" [here](#). Let us know if you find these cards helpful. We love getting feedback.

We won't add to our current position until the stock reverses its downtrend.

## Eli Lilly (LLY)

LLY discovers, develops, and markets human pharmaceuticals worldwide. If you've heard of Trulicity, you know LLY. The bull thesis is that LLY's tirzepatide drug could more than double its current revenue base over the next 5-10 years while expanding EBIT margins by 1,000bps.

Check out [our LLY thread](#) in Slack if you haven't already. It's a great way to get up to speed on the thesis. Additionally, read [last week's PIR](#), where I shared my notes from an interview with an LLY postdoctoral researcher in the company's Discovery Unit.

This week, [the company bought Akouos](#), a precision genetic medicine company developing gene therapies for inner ear conditions like sensorineural hearing loss.

LLY spent \$487M to buy the business, plus contingencies that could push the final sale price to \$610M.

Here are LLY CSO Daniel Skovronsky's thoughts on the acquisition (emphasis added):

*"Gene therapy offers tremendous opportunity to provide durable treatments for patients with genetically defined disease; this is our second acquisition in gene therapy, following the 2021 acquisition of Preval Therapeutics ...*

*With Akouos, we are optimistic that we can make a difference for people with hearing loss and other inner ear conditions."*

The bear market in biotech will provide more opportunities for larger companies (like LLY) to acquire interesting, niche businesses at cheap prices. I'm sure this won't be the last acquisition we hear from LLY before year-end.

It's also important to note how strong LLY's stock has performed this year. So far, it's up ~25% YTD, while the S&P 500 is down 20%+.

The stock broke out to new ATHs on Friday. We own a 10% notional position with a stop-loss at \$316.



## Nerdy, Inc. (NRDY)

NRDY is a digital learning marketplace that provides live online tutoring to students/professionals across 3,000 subjects. Learners choose from many tutoring options, including one-on-one, small groups, or large class formats.

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

Founder/CEO Chuck Cohn did an interview with the St. Louis Post-Dispatch on 10/10. You can read the interview [here](#). A couple of things I noted from the interview.

First, Cohn believes in NRDY and has invested \$30M of his own money in the company this year.

Second, Cohn thinks the company's move from bulk purchases to a monthly subscription will pay off, just not this year.

Cohn sees NRDY turning profitable by YE2023, while Q3 marks the trough in the company's J-Curve revenue model shift. Here's a snippet from the article (emphasis added) ...

*“Nerdy has described the transition as a J-shaped curve, causing revenue to fall initially and then rise to a higher level. **“We’re sacrificing tens of millions of dollars in revenue in the short term in exchange for a higher lifetime value offering, one that aligns the product with the customer’s needs,”** Cohn said.*

*Cohn recognizes, though, that he must deliver results to win over investors. “You don’t get credit in this market for what you say you are about to do,” he said. “You get credit when it’s in the rearview mirror.”*

NRDY used 2021 to change its business dramatically. They revamped their revenue model and overhauled their core Varsity Tutors product. As the article mentions (emphasis added), “*Teachers at participating schools can now assign tutoring to any student, in any subject, and students have access to experts through a chat feature.*”

The company sacrificed short-term revenue for long-term customer value while spending more money to make a better product. Revenues, margins, and earnings should improve by 2024 as the company laps during this heavy investment period.

NRDY remains one of the cheapest stocks in our portfolio, trading at 0.6x NTM Sales and <1x NTM Gross Profits.

We sold our tactical buy but still have our ~1% Strategic position. We’ll add on technical strength and/or improving fundamentals.

## Thematic Basket Update: BTU, EGY, PANR, VIST, TDW

Total Basket Highlights (including non-updated positions):

- Current Average Return: -1.42%
- Total Notional Exposure: 33.17%

### 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.

We exited our entire long position in BTU this week for a few reasons. First, management’s merger exploration clearly indicates that they do not prioritize shareholder returns. Second, the company issued a “head-fake” earnings release, which they later backtracked and called “false.”

Exhibit 99.1



#### News Release

PEABODY HAS NOT ISSUED EARNINGS FOR THE QUARTER ENDED SEPTEMBER 30, 2022

ST. LOUIS, October 20, 2022 /PRNewswire/ — Peabody (NYSE: BTU) today issued a statement stating that third party reports of earnings for the quarter ended September 30, 2022 are false as the company has not yet issued earnings for this period. The Company will report earnings in the coming weeks, consistent with past practice.

Peabody (NYSE: BTU) is a leading coal producer, providing essential products for the production of affordable, reliable energy and steel. Our commitment to sustainability underpins everything we do and shapes our strategy for the future. For further information, visit [PeabodyEnergy.com](https://www.PeabodyEnergy.com).

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Management can still change its mind, allowing us to change ours and get back long. But they would need a convincing statement denouncing any merger while *showing* purposeful capital returns to shareholders.



It's back on the watchlist until then. The Coal Trader on Twitter has [a great thread](#) on what a completed merger would mean for BTU shareholders.

Which reminds me. If anyone has good material on \$RIG, please shoot it my way. I've seen \$RIG mentioned a few times in the CoalTwit space as "the next BTU."

Thanks in advance for any source material.

## 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 announced the completion of the Floating Storage & Offloading vessel (FSO) installation and Field Reconfiguration Project at Etame on Wednesday.

EGY also disclosed Q3 production and sales volume data, which you can see below:

- **Sales volumes:** 731,000 net barrels of oil (BOI) or 7.952 net BOPD (8% above midpoint guidance)
- **Production:** ~9,150 net BOPD

**VAALCO ENERGY ANNOUNCES SUCCESSFUL COMPLETION OF THE FSO INSTALLATION AND FIELD RECONFIGURATION PROJECT AT ETAME AND STRONG PRODUCTION AND SALES VOLUMES FOR Q3 2022**

**HOUSTON – October 19, 2022** – VAALCO Energy Inc. (NYSE: EGY; LSE: EGY) (“**VAALCO**” or the “**Company**”) today announced successful completion of the Floating Storage and Offloading vessel (“FSO”) installation and field reconfiguration at Etame. Additionally, the Company disclosed strong third quarter 2022 production which was above the high-end of quarterly guidance and sales volumes that were above the midpoint of quarterly guidance.

**Highlights**

- Related to the FSO and field reconfiguration, VAALCO successfully completed:
  - All diving, subsea connections, subsea infrastructure and reconfigurations;
  - All pipeline tie-ins and pressure testing;
  - All the new riser connections to the Teli FSO;
- Disconnected all production lines from the Petroleo Nautipa Floating Production, Storage and Offloading unit (“FPSO”) and performed a lifting of export oil from the FPSO on September 26 of 300,510 barrels followed by a lifting from the FPSO on October 5 of 275,817 barrels;
- Delivered first oil from the Etame field to the Teli FSO on October 18;
- Completed the annual field-wide maintenance turnaround concurrently with the FSO and field reconfiguration;
- Disclosed preliminary third quarter 2022 production of approximately 9,150 net revenue interest (“NRI”) barrels of oil per day (“BOPD”), or 10,525 working interest (“WI”) BOPD, which was above the high-end of third quarter guidance;
- Announced third quarter 2022 sales volumes of 731,000 net barrels of oil or 7,952 net BOPD, which was 8% above the midpoint of guidance; and
- Provided update on third quarter financial impacts due to successful TransGlobe transaction.

EGY will recognize all TransGlobe Energy transaction costs in its Q3 2022 figures. However, the company will *not* recognize additional TransGlobe revenue/production during the same period.

In other words, these one-time expenses will negatively affect EGY’s margins and profits. Keep that in mind when analyzing EGY’s Q3 results.

As a reminder, EGY trades at <3x P/E. We hold a ~3.30% notional position.

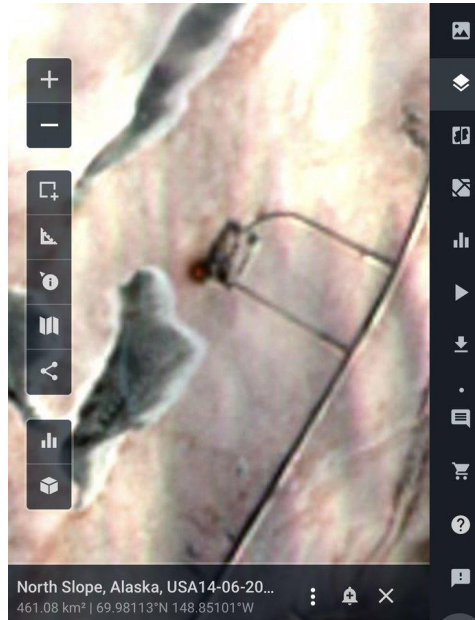
## **Pantheon Resources (PANR.LSE)**

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.

This week we saw more new flare developments from PANR’s Alkaid #2 well (see below [via Twitter](#)).



The stock is at the mercy of flow results. Expect shares to trade sideways/lower until then.

In fact, we hope shares trade to the lower bound of its *massive* rectangle pattern (see below). It would give us an ideal entry point to add to our position (or for new Collective members to establish a position).





## Vista Energy (VIST)

VIST is a Latin American oil and gas company with 183,100 acres in Vaca Muerta. It also owns oil-producing assets in Argentina and Mexico. As of December 2021, VIST had 181.6MMBOE in proved reserves.

SeekingAlpha published two new bullish articles on the company this week. First, Atlas Equity Research released their bullish report titled [Vista Energy: A Lucrative Growth Story](#).

VIST was then mentioned in Steven Cress's [Rally Hat: Top 2 Growth Stocks](#) piece.

The company is quickly becoming a *Trifecta Lens* trade. We have:

- Strengthening Fundamentals
- Strengthening Technicals
- Increasingly Bullish Sentiment

In other words, the stock attracts two types of market participants: momentum/swing traders and bottoms-up fundamental investors.

Despite returning 100%+ YTD, VIST remains cheap at <2x NTM EV/EBITDA and 3.5x NTM P/E.

There are three critical risks with our long VIST thesis: **Political, Commodity Prices, and Interest Rates**.

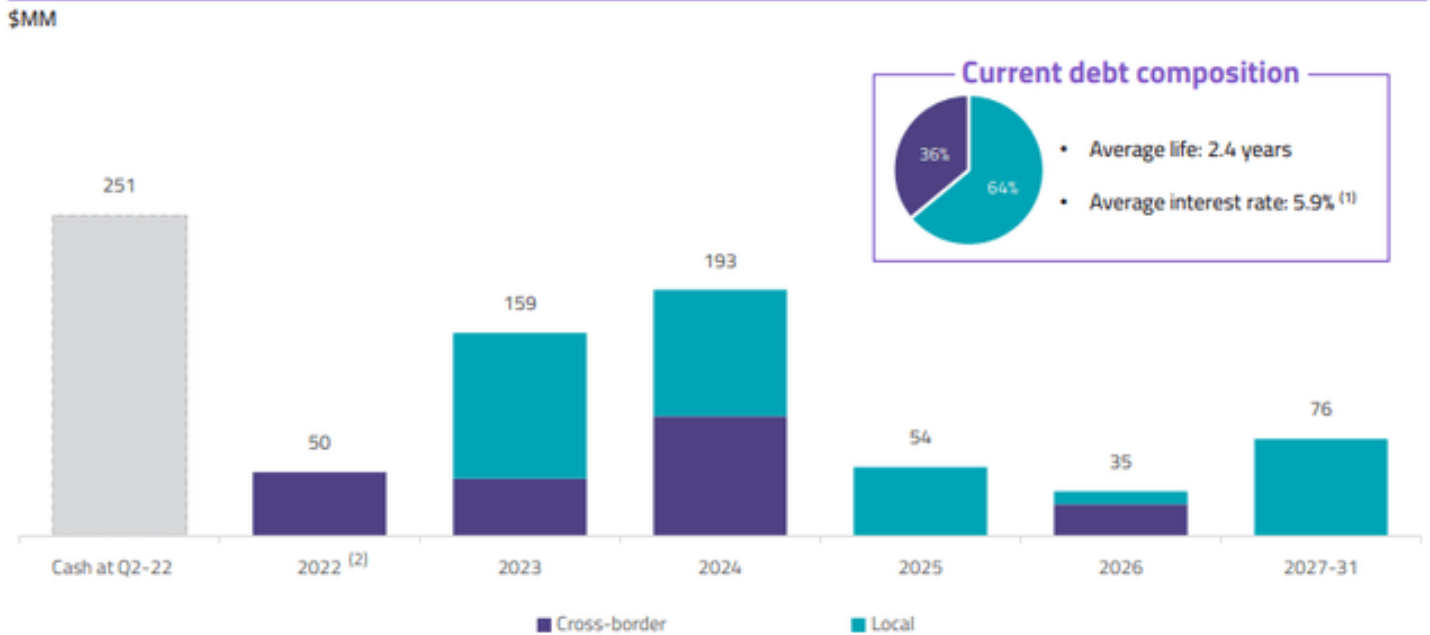
I like how Atlas Equity Research explains the Political Risk (emphasis added):

*“In the 2022 Economic Freedom Index ranking of the Heritage Foundation, Argentina takes the 144th place, with only 33 countries ranked below it. The property rights score is just 35.1, with 100 being the best possible mark and 0 the lowest. Regarding the Corruption Perceptions Index, the country is also ranked in the bottom half.*

*That being said, it appears that there’s an understanding within the government about the importance of Vaca Muerta. For example, in 2020, when international oil prices plunged, a price floor of US\$45/barrel was introduced in order to shield producers and to allow them to continue development activities in the shale formation. This year, a relaxed FX rules were introduced for energy firms in order to boost the development of Vaca Muerta.”*

Then there’s the interest rate risk. The company’s current debt stack has an average lifespan of 2.4 years with an average 5.9% interest rate.

## Debt maturity schedule

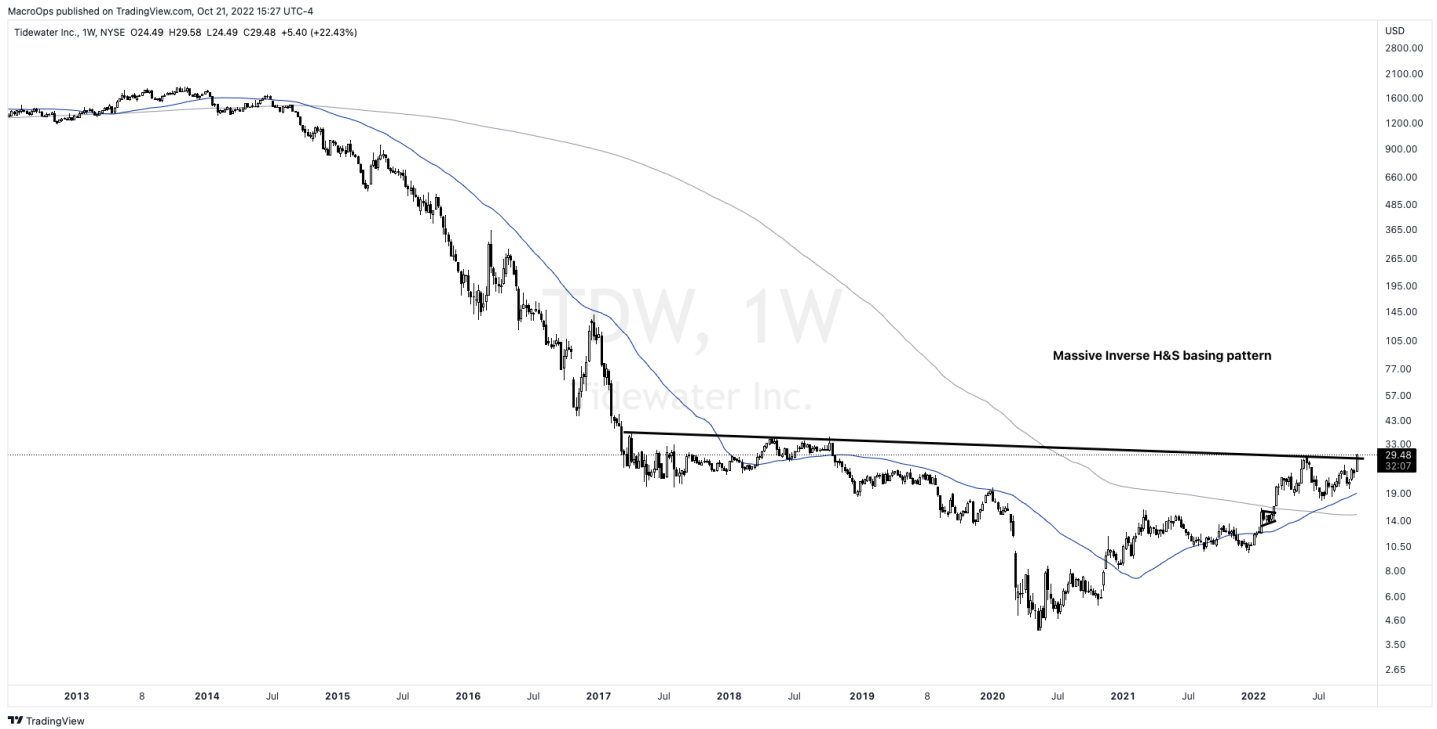


Future refinances will most likely happen at higher interest rates, thus increasing interest expense and lowering available FCF.

### Tidewater (TDW)

TDW provides offshore marine support and transportation services to the offshore energy industry by operating a fleet of marine service vessels worldwide.

No fundamental news this week, but TDW's chart looks poised for a sustained breakout. Check out the weekly chart below.



Like CRK last week, TDW's chart should bring momentum/swing traders into the mix to support the stock and send it higher.

Analysts currently estimate that TDW will generate \$300M+ in annual EBITDA and nearly \$200M in FCF (~17% yield) by 2024. We hold a ~4% notional position as of this report.

## Portfolio Performance Update

- October (month-to-date): -3.53%
- Q4 2022 (to-date): -3.53%
- YTD (as of 10/14): +11.98%