

Portfolio Intelligence Report (PIR): 10.29.2022

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

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

Let's start with the Strategic Book. First, CLPT has a new YouTube video highlighting its software/drug delivery system. Then we cover SQ's latest bitcoin transfer update. Finally, we unpack LLY's current valuation and why we're at the point in the LLY return cycle where investors create justifications for selling their shares.

Onto the Thematic Book. We break down EGY's developing inverse H&S pattern, analyze PANR's latest flow results from Alkaid #2, recap VIST's Q3 earnings report, and showcase TDW's latest Investor Presentation.

Let's get after it.

Strategic Basket Update: CLPT, SQ, LLY

Total Basket Highlights (including non-updated positions):

- Current Average Return: -20.07%
- Current Notional Exposure: 17.63%

ClearPoint Neuro (CLPT)

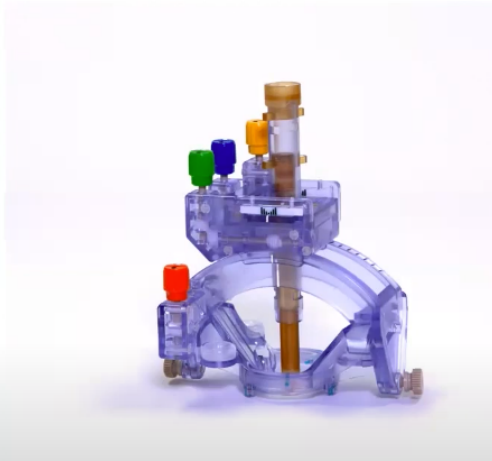
CLPT is a neurological platform company that enables neurosurgeons to perform minimally invasive procedures under real-time MRI guidance. The company provides these solutions through its ClearPoint Neuro Navigation System, or CNNS.

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

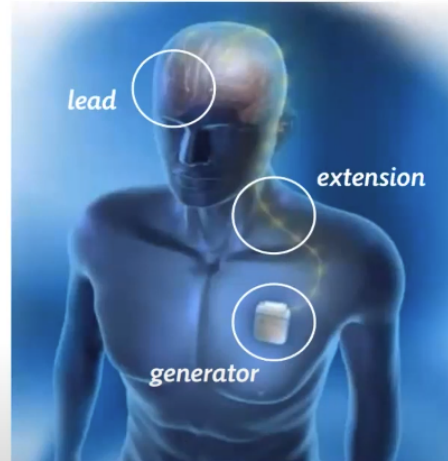
Dr. Jessica Wilden and CLPT posted a video on the Advances in Deep Brain Stimulation (DBS), which you can watch [here](#). Check out one of the screenshots below.

ClearPoint Neuro “Points the Way” for Brain Leads

Alaine Keebaugh



ClearPoint Smart Frame Points Leads to Brain Target



DBS System May Treat Parkinson's Symptoms



The video is one of the most informative in describing CLPT’s technology and why we’re excited about its potential. The company should report Q3 earnings around 11/08.

Despite strong outperformance from the broader healthcare industry (i.e., LLY), CLPT has generated -1.25% returns Month-To-Date (MTD) versus the S&P 500 of ~9%.

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.

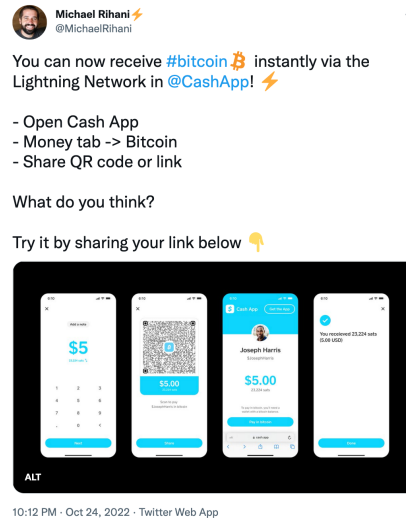
The company also serves 47M+ consumers through CashApp. CashApp allows users to instantly send money to friends and family, invest in stocks and bitcoin, save money through CashApp Boost discounts at popular retailers, and receive direct deposit paychecks.

You can read our write-up on SQ [here](#). Here’s what you should know this week.

PYPL reinstated its \$2,500 “Misinformation Charge” under what they probably thought was Harry Potter’s Cloak of Invisibility. And with it came the viral #DeletePayPal and #DeleteVenmo hashtags across Twitter.

We'll see if that contributes to incremental market share gains for Cash App in the coming quarters.

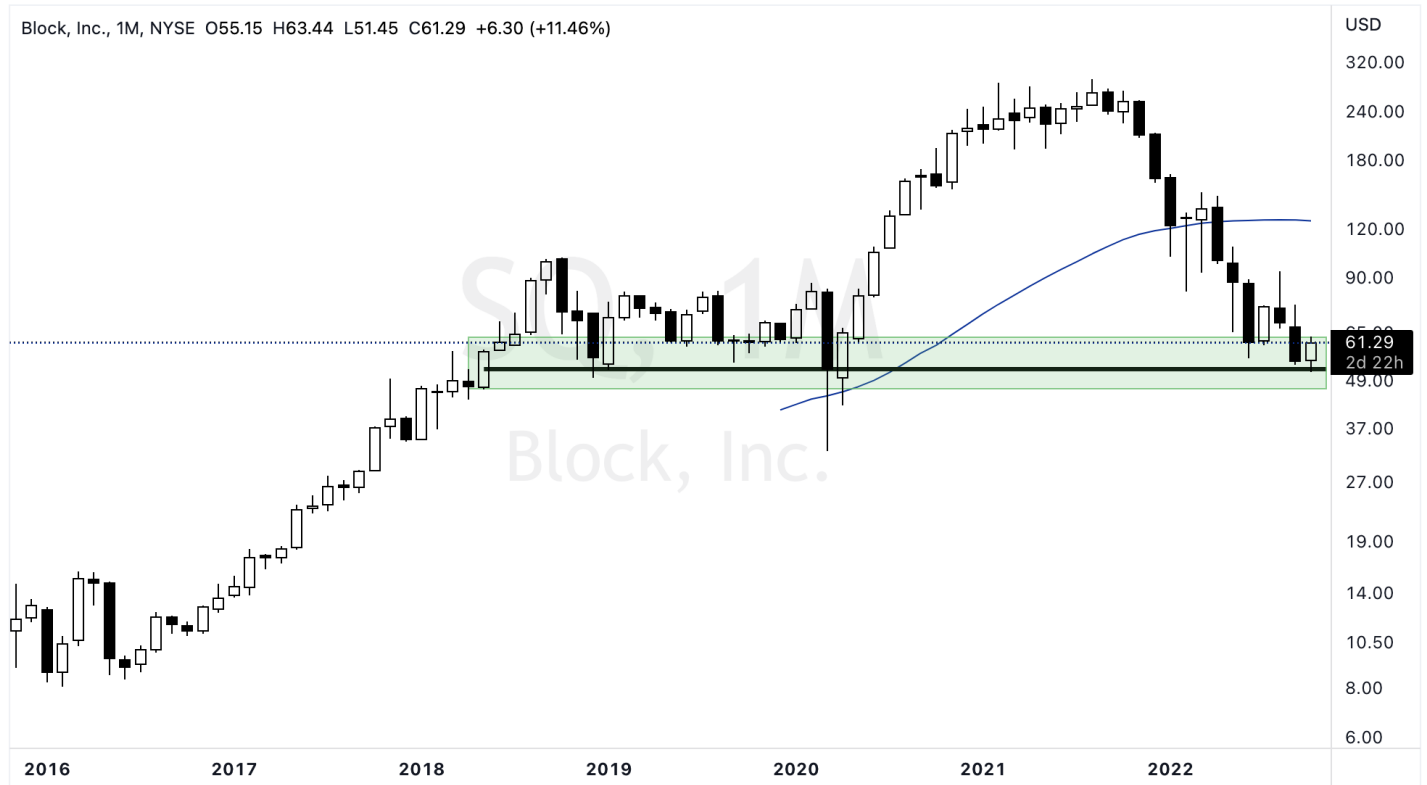
Speaking of Cash App, users can now [instantly receive and send Bitcoin](#) for free via the Lightning Network. Check out Michael Rihani's (SQ's Head of Bitcoin) tweet below.



It's important to note that we ascribe zero value to Cash App's Bitcoin business. However, the reduced friction increases customer stickiness, especially if BTC becomes the default cryptocurrency (COIN is still a \$17B business, after all).

The company will likely print its first bullish monthly candle this month since July.

MacroOps published on TradingView.com, Oct 28, 2022 18:39 UTC-4



TradingView

SQ has strong support around \$50/share and offers well-defined Risk/Reward with a clear technical exit (any weekly/monthly close below \$50).

The company reports earnings next week around 11/03.

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.

We're at the point in LLY's return cycle where former shareholders create excuses for prematurely selling their stock. LLY's [latest article on SeekingAlpha](#) is a great example. The title is my favorite part (see below).

Eli Lilly Is Now Worth More Than Nvidia, A Correction Seems Highly Likely

Oct. 28, 2022 12:33 PM ET | **Eli Lilly and Company (LLY)** | BIIB, NVO, NVDA | 10 Comments

I'm not saying that LLY is dirt cheap. It's not, and that's the point. You know the saying, "bull markets climb a wall of worry"? Sometimes Compounder stocks like LLY climb the wall of "this thing is too expensive I *have to sell*."

So sellers generate justifications like, "can you believe LLY's market cap is higher than NVDA?" It doesn't make sense.

The critical factor for selling LLY now is that its Tirzepatide drug is "too good to be true." I love this comment from the article addressing this factor.



Willow Street Investments

Today, 1:02 PM



Comments (15.25K) | + Follow

"The oversimplification and ongoing narrative that tirzepatide is a 'magic pill' solution that people can take in order to lose weight with no changes to diet or exercise is blatantly misleading. While the drug has been shown to cause weight loss, it is not a pill at all, but rather an injection, and one that many cannot afford without insurance. The assumption that hordes of people will be taking this drug solely for weight loss in the near future is sadly not the case, and could spell trouble for Eli Lilly's future revenue growth."

I spoke to my Doctor 2 days ago and his opinion is the exact opposite of you.

↩ Reply 👍 Like (2)

LLY reports Q3 earnings on 11/01. We remain incredibly bullish on LLY and will add to the position on pullbacks to the midline or lower Bollinger band (\$315 - \$336/share).

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

Total Basket Highlights (including non-updated positions):

- Current Average Return: -0.23%
- Total Notional Exposure: 31.82%

VAALCO Energy (EGY)

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

There's no fundamental news this week, but bullish price action is brewing on the charts. Check out the daily chart below.



As we mentioned last week, the completed merger should provide a floor for the stock price as the company executes its capital return program (special dividend and buyback).

We'll add on a breakout from the inverse H&S and cut if the price breaks below the right shoulder.

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.

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 announced [preliminary results](#) from its Alkaid #2 well test. You can read the summary below (emphasis added):

*"Production operations at Alkaid #2 have commenced with the well in the clean-up phase and **showing positive early indications of oil production from the reservoir**. During this clean-up phase, in addition to the fluid production, the **strong flow back has yielded frac sand production higher than expected**, which is not uncommon in similar completion procedures.*

The Alkaid #2 well is being shut in as part of the planned procedure to transition from temporary flow back facilities to larger permanent facilities, and a coiled tubing unit will be used to clean out the wellbore. Additionally, Pantheon will undertake a pressure build-up operation by placing a pressure "bomb" in the production packer and allowing formation pressure to increase for several days. This will allow for analysis of multiple reservoir parameters and is a standard reservoir engineering analytical tool ...

*Alkaid #2 has **produced initial fluid flow with rates in the thousands of barrels per day**, including a strong sand production response which the Company will address to ensure sand is not restricting the wellbore. Pantheon is awaiting delivery of a coiled tubing unit to clean out the well bore prior to recommencement of flow test operations."*

This is excellent news for PANR and increases our probability of our bull thesis working. We'll add to our position Monday.

Additionally, check out PANR's slide deck on [AOGCC Hearing Flaring of Associated Gas Alkaid-2 Well](#). It provides information on the new well, including a potential scenario where Alkaid-2 produces 3,000+ barrels of oil (BOE) per day.

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.

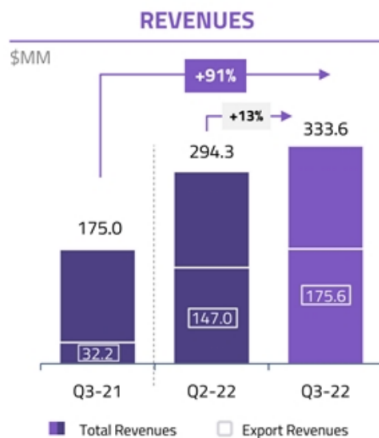
The company reported Q3 earnings Thursday (10/27) and crushed it. Check out the highlights below YoY):

- Revenue increased by 91% to \$333.6M
- Adjusted EBITDA increased by 127% to \$233.7M
- Adjusted Net Income expanded by 325% to \$79.4M

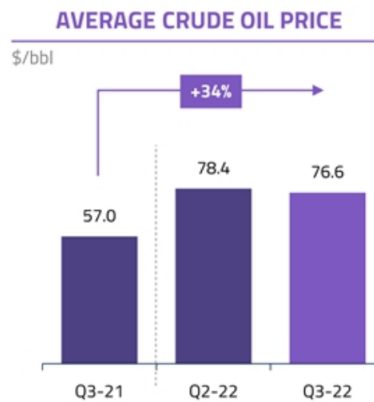
Oil production also increased by 35% to 41.9M BOE/day. And it helps when you sell each barrel for 34% higher than last year (see below).

07

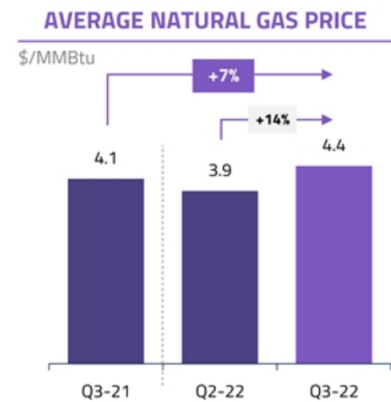
Strong y-o-y revenue growth, driven by higher oil production and prices



- Strong increase y-o-y, driven by 35% boost in oil production and 34% improvement in realized oil prices



- Realized oil prices of 64.2 \$/bbl in the domestic market and 90.2 \$/bbl in the export market ⁽¹⁾
- Exported 1.9 MMbbl of crude oil, representing 48% of total oil sales volumes and 56% of total oil revenues



- Interannual increase driven by sales to industrial customers at 4.9 \$/MMBtu
- Sequential increase driven by Plan Gas winter price of 4.1 \$/MMBtu applicable to ~65% of volumes

(1) Net of export tax. Export price before export tax was 97.4 \$/bbl in Q3-22



The average selling price increased VIST's EBITDA margins to 70%. Additionally, the company's already generated \$140M+ in FCF with three months left.

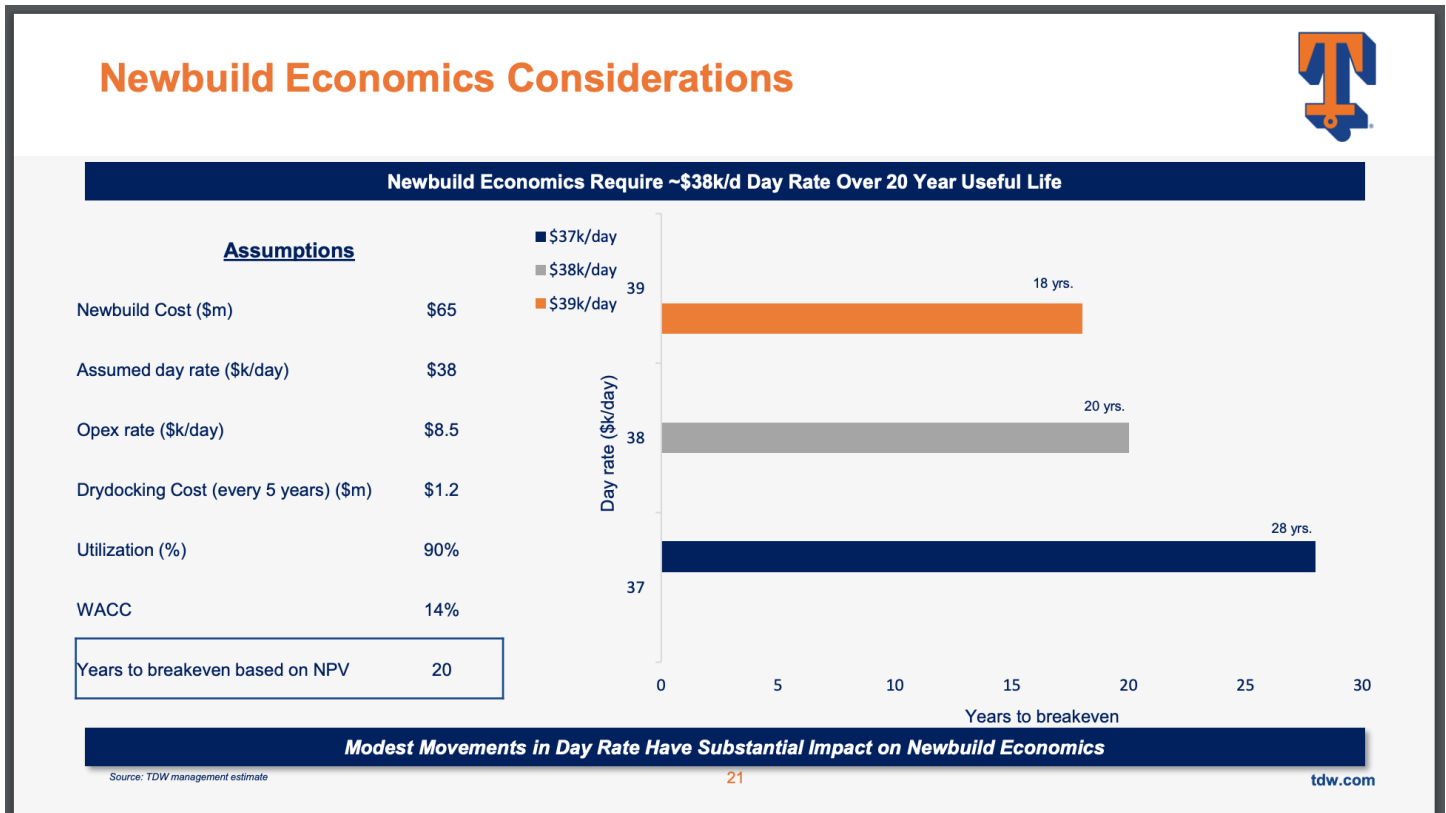
One thing to note on FCF. It's down 14% YoY to \$44M. But the reduction is due to VIST's decision to pre-pay income tax during the quarter.

Finally, the company will meet on December 7th to vote on a ~\$26M share buyback.

Tidewater (TDW)

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

The company released its latest Investor Presentation this morning, which you can find [here](#). There's one slide that makes my head spin (see below).



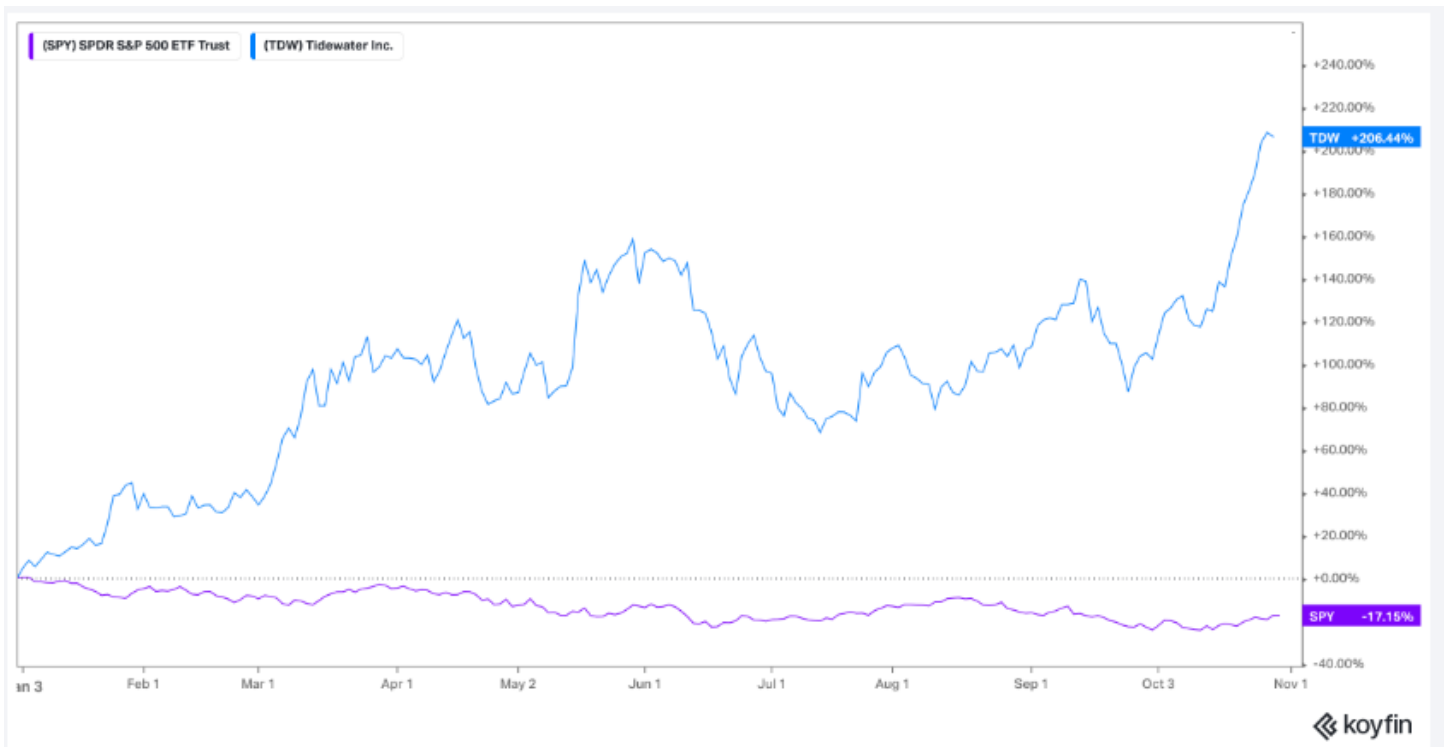
New Build economics do not justify adding new capacity, which increases day rates and TDW's profits. Here were Quintin Kneen's (TDW CEO) comments on newbuild economics in August (emphasis added):

*"There's not enough boats to reactivate. There's not enough people to crew the boats. There's not enough parts to reactivate the boats. **The new build economics still are not there to justify a new build.***

*So over the next 3 years, I see this to be a vessel-constrained market, **which will continue to push up day rates.** And then there's the inflation element. That's a little bit of on both the cost side and the revenue side. But the inflation element is real, and we have to push that through on pricing as well. So those are some ways to triangulate where I think it's going to go.*

*But at this point, we are continuing to watch the market, **continuing to push rate as aggressively as we can.** And we'll look forward to updating you in the next several quarters as to where it goes.”*

TDW has been a relative strength beast this year. It's up 200%+ while the S&P is down ~20%.



That's all we got this week. Next week we're adding a new starter position in Thorne HealthTech (THRN). You can read our write-up on the company [here](#).

Portfolio Performance Update

- October (month-to-date): +1.35%
- Q4 2022 (to-date): +1.35%
- YTD (as of 10/28): +16.86%