

Portfolio Intelligence Report (PIR): 11.19.2022

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

Happy Saturday!

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

Our Strategic Basket ... We discuss futuristic technologies that could leverage CLPT’s drug delivery technology, SQ’s partnership with American Express and Cash App’s growing popularity, and NRDY’s latest earnings report.

Our Thematic Basket ... We discuss the Muddy Waters short attack on PANR and EGY’s EGY’s latest round of insider buying.

Let’s get after it.

Strategic Basket Update: CLPT, SQ, & NRDY

Total Basket Highlights (including non-updated positions):

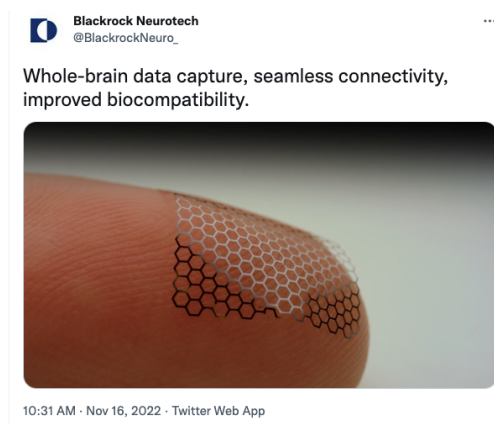
- Current Average Return: -16.90%
- Current Notional Exposure: 18.85%

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).

Blackrock Neuro [released an excellent video](#) showcasing its latest whole-brain data capture device. It looks like something out of The Matrix (see below).



And guess who's delivering that device into the brain? CLPT.

Our **Big Bet** is that CLPT will become the rails on which these technologies enter the brain. Think of it like a biological toll road. Toll roads are one of the most profitable business models out there. CLPT will print money at crazy high margins if we're right about this bet.

Don't hesitate to post any other technologies that will likely use CLPT's drug delivery technology in the #ideas-equities channel.

Also, I'm getting Peter Mantas on the podcast in the next few weeks for a Life Sciences Deep Dive Part 2! I always learn something new from Peter, and I know you will.

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.

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

Square and AMEX [partnered this week for a new Square Seller credit card](#). According to the press release (emphasis added):

*The new card will be the first credit card Square offers to its community of small business owners in the U.S. It will integrate directly with Square's broader ecosystem of solutions, empowering sellers to **organize their finances and manage their cash flow** from the same platform they use to run their business.*

Here's what it means for Square sellers (emphasis added):

"Millions of small merchants already welcome American Express Cards through Square, and we look forward to expanding our relationship to further support the Square seller community with this innovative product."

The Square Credit Card will be available to eligible Square sellers in the U.S., enhancing Square's robust suite of banking solutions."

Square sellers already accept payments through Square POS, run payroll on Square software, and save money in Square checking/savings accounts.

Adding a credit card to the Ecosystem brings SQ sellers closer to never needing another financial partner. One step closer to the Ecosystem of Control we discussed in our original write-up.

In other news, Tiger Global [bought more SQ](#) this week, along with Microsoft (MSFT) and Uber (UBER).

Finally, Cash App is [catching the attention](#) of The Wall Street Journal. The article highlights the importance of Cash App's *Direct Deposit* efforts to increase monetization. Here's my favorite part of the piece (emphasis added):

*“That last method of adding funds—direct deposit—might be the most significant of all. It represents a **regular flow comparable to how somebody would use a traditional bank account**. Direct deposits, together with deposits of paper money, made up 14% of inflows in the third quarter versus just 9% a year earlier.*

*A lot of inflows pass right through Cash App, such as by people doing peer-to-peer payments and moving that money back to a bank, or by people spending it. **But when Cash App has people mechanically, regularly putting money into their accounts, those customers can potentially be more frequently monetized** by doing things such as using a Cash App Card for purchases, paying for things at merchants via Cash App, trading stocks or buying crypto.”*

SQ remains in a downtrend. We'll wait for an uptrend to add to our position.

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.

The company is a win-win for both tutors and learners. Learners gain access to the world's best tutors to help them pass courses and tests or improve general knowledge. While tutors can teach from anywhere while earning a supplemental or full-time income.

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

NRDY reported earnings on Monday (11/14). Here are the highlights:

- Revenues increased by 1.5% to \$31.75M
- Gross Margins expanded by 8bps to 69%
- Net loss grew by \$5M to -\$28M

Check out founder/CEO [Chuck Cohn's Shareholder Letter](#) if you want to dive deeper.

The transition from pay-per-hour to its Learning Membership model is going better than expected, with Memberships run-rating \$50M in annual revenue.

It's going so well, in fact, that NRDY is shifting a greater portion of its customers to the Learning model than originally planned.

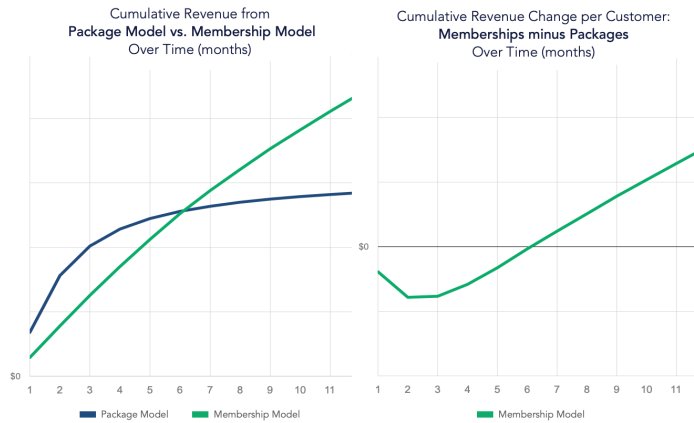
I want to quickly recap the revenue breakdown between the Package and Membership models.

In the Package Model, a customer would spend \$1,000 for specific hours. NRDY collects the \$1,000 upfront and amortizes its costs over time.

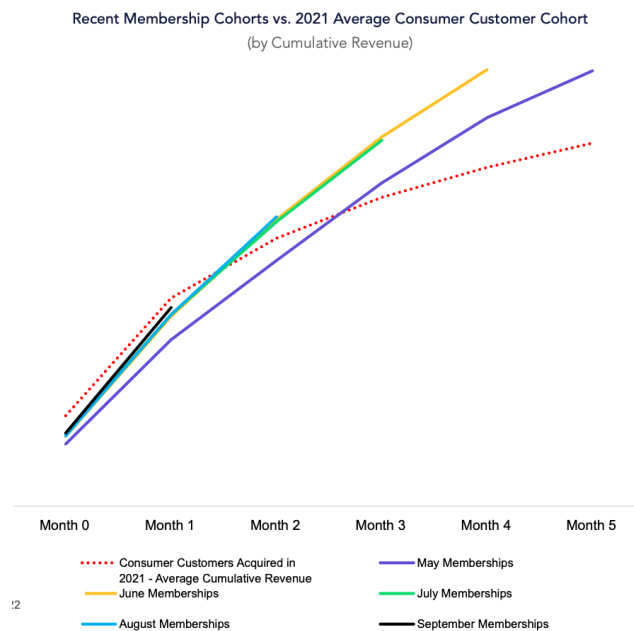
The membership model charges customers a monthly fee (\$300/month) for unlimited use of NRDY’s services. This makes things more predictable for both customers and NRDY.

NRDY generates predictable recurring revenue. And customers pay one fee for unlimited access to NRDY’s tools.

However, NRDY collects much less revenue upfront than its pay-per-hour model. You can see the differences visualized below.



Then there’s the cohort data. The black line shows NRDY’s Learning Membership Model cohort against its prior Package customers.



So far so good.

Another positive during the quarter was NRDY's 21 new Institutional School contracts signed for ~\$5.6M. Here's Cohn's commentary from the Shareholder Letter (emphasis added):

"The shift in focus to larger school district opportunities has also driven continued growth in our deal pipeline heading into the fourth quarter.

We are seeing high levels of interest in our new products that address entire district-wide student populations and target higher contract values.

These partnerships involve more complicated implementations and the involvement of more stakeholders, which is leading to longer contracting and implementation timelines."

It's worth reiterating how valuable NRDY is to schools and teachers. An Assistant Superintendent of Curriculum and Instruction at a County Board of Education put it this way (emphasis mine, via Tegus):

"So going to an online tutoring platform, it's the convenience of getting the same results in a much more convenient way.

So if you are an athlete and you have practice at 4:30 and school ends at 2:30 and you need tutoring help, and you have to take the bus home, but you need to stay after-school to get tutoring help, while you can go take the bus and then go home and sit in your house, and do tutoring virtually and then get ready and go to practice.

And that scenario I just gave you encompasses a lot of kids. So it's all about convenience, more than anything."

Institutional revenue comprises 7% of NRDY's total revenue. That percentage should increase over time and is an important KPI in our bull thesis.

Let's discuss liquidity. NRDY has \$106M in cash with no debt on the balance sheet. They're burning ~\$24M per quarter, giving them around five quarters of remaining cash. Which should be enough time to reach profitability by year-end 2023.

The stock trades at 1.4x NTM Gross Profits despite expanding gross margins from 63% to almost 70% over the last ten quarters.

We continue to hold our starter long position and will add as probabilities of profitability increase.

Thematic Basket Update: EGY & PANR.LSE

Total Basket Highlights (including non-updated positions):

- Current Average Return: -1.78%
- Total Notional Exposure: 42.54%

VAALCO Energy (EGY)

EGY is an independent energy company that acquires, explores for, develops, and produces crude oil and natural gas in West Africa. Specifically, EGY owns wells in Egypt, Canada, Gabon, and Equatorial Guinea.

CEO George Maxwell bought 20,000 shares on the open market on Tuesday (11/15). It brings his ownership to 128,840 shares.

The stock continues to form the right side of its inverse H&S pattern. A breakout above the neckline would coincide with a breakout above the 200MA. This should bring a fresh supply of technical/swing traders into the stock.

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.

Muddy Water released a short attack on Tuesday (11/15). Shares fell ~20% the following day and now hover around 80 pence.

My initial reaction to any short attack is, "Alright, let's see if this is a legit report." But when Muddy Water releases a report, my initial reaction is, "Shit, Muddy Waters is short. That ain't good."

Muddy Water has a good reputation. Any report they release should be taken seriously.

However, there are a couple interesting pieces of *this* short attack:

- 1) Muddy Waters hasn't publicly released a report or commentary besides "tipping" a newspaper of their short position.
- 2) PANR is an exploration company with binary outcomes/payoffs (i.e., oil there = print money)

Let's start with the first piece. PANR is an "easy" short target for Muddy Waters. It's an exploration company without proven reserves (i.e., oil bursting out of the ground).

Additionally, PANR's management team already has one failed project in TX under its belt. So the short bet is that management are bad actors and incapable of learning from past mistakes.

Then there's the binary nature of the PANR bet. As we've mentioned, PANR equity is more like a call option.

If there's oil in the ground and they can get it out, the stock will rocket. But if they find frac sand, the stock will fall closer to 0.

I like this [Twitter thread from @coldy10904](#) outlining the PANR short attack.



The stock reports earnings next week (around November 23), at which point we'll likely get an update on the Alkaid #2 well.

Finally, PANR [recently bought 40,000 acres](#) in Alaska's North Slope at ~\$28/acre. Here's PANR's CEO Jay Cheatham on the new purchase (emphasis added):

"Having watched the evolution of these plays as the combination of the 3D seismic and the petrophysical analysis developed, I am delighted that Pantheon was the successful bidder on this acreage. The geographic location both in terms of the geological plays in contiguous acres and in relation to the export infrastructure were important considerations.

Management believes this new acreage adds significant resource potential to our existing management estimates of 23 billion barrels of oil in place and over two billion barrels of recoverable resource, which we have continued to high grade.

'As to the operations at Alkaid #2, I reiterate my previous comments that the blockages are inconvenient and have caused us delays, but the potential of Alkaid #2 is unchanged. As is always the case, we cannot make a definitive assessment of the ultimate commerciality of the well until flow testing operations have concluded. However, we remain optimistic. I look forward to working with the State of Alaska on these leases and the development of our projects on the North Slope.'

We'll discuss PANR's earnings results in next weekend's PIR.

Portfolio Performance Update

- November (month-to-date): -3.64%
- Q4 2022 (to-date): -2.65%
- YTD (as of 11/18): +12.85%