

Portfolio Intelligence Report (PIR): 12.10.2022

“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 highlight a new CLPT YouTube video explaining the company's Self-Guided technology, SQ and Afterpay's record-breaking Thanksgiving/Black Friday spending data, NRDY's 17% layoff, and LLY's latest drug developments.

Our Thematic Basket ... We discuss FOM's latest earnings release and Investor Presentation, LEU's \$150M contract finalization with the US Government, and the latest updates from PANR's Schlumberger report and Twitter commentary.

Let's get after it.

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

Total Basket Highlights (including non-updated positions):

- Current Average Return: -25.87%
- Current Notional Exposure: 18.70%

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).

Nothing new to report on the company. However, I did find a fantastic video explaining CLPT's MRI-Guided systems for gene therapies. You can watch it [here](#).



Peter Mantas also discussed CLPT in our Life Sciences Crash Course Part 2 podcast, which you can listen to [here](#). We also have the [transcript if you're old school](#) and like to read podcasts like myself.

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](#).

I found DSRT's CEO Ole Sivertsen on Twitter. [Give him a follow](#) for the latest company updates.

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](#).

SQ and Afterpay saw [61M transactions on Black Friday/Cyber Monday](#) shopping weekend. Here's a quick excerpt from the article (emphasis added):

“Transactions of Buy Now, Pay Later (BNPL) methods through Afterpay grew 120% compared to pre-holiday across online and in-person. This is in line with findings from Square and Afterpay’s Festive Forecast report where one in six Americans reported that they planned to use BNPL during the gift-giving period.”

There are two ways to analyze Afterpay’s growth. One way is to shake your fist in the air and claim, “Them damn Zoomers! They’re taking on so much debt. Look, they’re buying sodas in installments!”

And I’ve seen plenty of that [on the Twitters](#).

Another equally fair interpretation, however, is that consumers are shifting more of their *routine* spending toward BNPL products like Afterpay. The increase also coincides with Afterpay’s seamless integration with Square merchants and Tap-To-Pay functions in-store.

The Netherlands released a [BNPL report this week](#). They estimate that BNPL will grow from a \$7.9B market to a \$44B market by 2028. The US is supposed to reach [\\$76B by the end of this year](#).

If you’re interested in going down the BNPL rabbit hole, check out this [Afterpay analysis from Business Model Analyst](#).

Fastest growing Afterpay item categories:

- Food and Beverage: 251%
- Hardware: 128%
- Travel and Experiences: 57%
- Automotive: 32%
- Footwear: 16%

Trending Afterpay search terms:

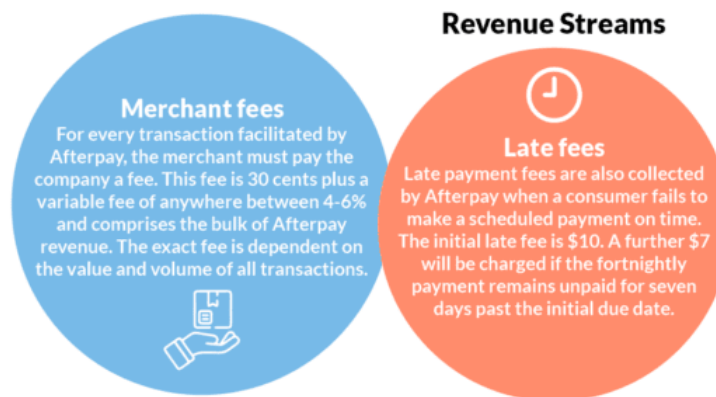
- PS5: 142%
- Gift cards: 30%
- Toys: 40%
- Nintendo Switch: 132%
- Xbox: 100%

Trending online products purchased with Afterpay:

- Beauty advent calendars
- Fluffy slides
- Perfume
- Sneakers
- Tracksuits

AFTERPAY BUSINESS MODEL IN A NUTSHELL

Afterpay is a FinTech company providing as a core service the “buy now pay later” solution. When a consumer purchases a product, Afterpay pays the seller and asks the consumer to pay 25%. The remaining 75% is paid in three, fortnightly installments that are also interest-free. Afterpay, in turn, makes money via merchant and late fees.



Finally, I spent all of last week using [OpenAI's ChatGPT tool](#). I asked it to name four ways Afterpay could lose market share. Check out the response below:

- **Strong competition from other BNPL services:** Afterpay's competitors could offer more attractive services or better deals, stealing market share.
- **Regulatory challenges:** Afterpay's regulatory challenges in Australia could impact its ability to grow and expand, conceding market share.
- **Limited international expansion:** Afterpay's limited international expansion could limit its ability to reach a global audience and give competitors an advantage.
- **Limited merchant partnerships:** Afterpay may have fewer partnerships than competitors, limiting the products available on its platform and potentially making it less attractive to consumers.

Not bad for generalized AI.

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 [slashed 17% of its workforce this week](#). The company has over \$100M in net cash on the balance sheet and no debt. NRDY should have plenty of cash until it reaches profitability, which management says will happen at year-end 2023.

CEO/founder Chuck Cohen hasn't sold a share and remains the company's second-largest shareholder.

Eli Lilly, Inc. (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 [this PIR](#), where I shared my notes from an interview with an LLY postdoctoral researcher in the company's Discovery Unit.

[LLY tightened access](#) to its newly approved diabetes and obesity drug, Tirzepatide (Mounjaro), while also increasing its price this week.

The company now requires that patients be on long-term diabetes or obesity treatment plan to use the drug. This restricts the drug's market to just Type-2 diabetes.

LLY's argument is that it ensures that Mounjaro is available to those who need it most while also managing its cost.

The article reveals just how powerful Mounjaro is for diabetes treatment (emphasis added):

“Megan Hoffman, a 47-year-old in Portland, Ore., has had obesity for over 20 years. She developed gestational diabetes when she was pregnant six years ago and now has pre-diabetes ...

*Aided by Lilly's coupon, she began taking Mounjaro in September, and **“it's a complete game changer,”** she said. She experienced feelings of satiety that she didn't have before, and she started to lose weight and see lower glucose levels ...*

[Describing another woman's experience with Mounjaro] After she started taking Mounjaro in October, she not only began to lose weight, but her joint aches also started subsiding.”

In other news, [Eli Lilly and Company negotiated with the Canadian Drug Accessibility Alliance \(CDAA\)](#) to make their migraine drug, Emgality, more accessible to Canadian patients. The agreement includes:

- Eli Lilly committing to lowering the price of Emgality for Canadian patients, in addition to providing additional patient support services for Canadians
- The CDAA agreeing to support Eli Lilly's efforts to have Emgality included on public drug formularies across Canada

This agreement will reduce the out-of-pocket costs for Canadian patients and make Emgality more widely available.

LLY also [completed its acquisition of Akouos](#) last week, expanding its efforts in genetic medicine with Akouos's portfolio of potential first-in-class gene therapies for inner ear conditions.

The addition brings top-tier talent and an essential pipeline to Lilly's Institute for Genetic Medicine.

Finally, LLY shows [promising results from its new Alzheimer's drug](#), Donanemab. Here's a quick summary of the press release:

1. Donanemab drug is a more effective treatment for Alzheimer's than Biogen's Aduhelm.
2. Donanemab slows the progression of the disease more significantly and with fewer side effects than Aduhelm.
3. The positive news for Donanemab could mean a breakthrough in Alzheimer's treatment.

You can read more about Donanemab below (emphasis added):

*“In the study, which assessed donanemab’s superiority over Aduhelm on amyloid plaque reduction, **donanemab met all primary and secondary endpoints for the six-month primary outcome analysis** ...*

*The data represented the **first active comparator data on amyloid plaque clearance in patients with early symptomatic Alzheimer's disease** treated with amyloid-targeting therapies ...*

***Donanemab reduced brain amyloid plaque levels versus baseline by 65.2% compared with 17.0% for Aduhelm at six months**, thereby meeting a key secondary outcome. In an exploratory outcome, donanemab treatment significantly reduced plasma P-tau217 at six months compared to baseline ...*

*The incidence of total amyloid-related imaging abnormalities (ARIA), a brain swelling side effect associated with anti-amyloid antibodies, was **26.1% in the Aduhelm arm compared to 25.4% in the donanemab arm.**”*

Here’s a sentiment check from Seeking Alpha ...



Eli Lilly: Don't Take This Medicine

Dividend Appreciator • Mon, Nov. 21 • 13 Comments



Eli Lilly: Too Expensive To Buy

Jonathan Weber • Wed, Nov. 09 • 19 Comments

LLY is our largest notional position and represents 11% of our portfolio. We continue to hold with a stop-loss at \$339.

Thematic Basket Update: FOM.TSXV, LEU, PANR.LSE

Total Basket Highlights (including non-updated positions):

- Current Average Return: -1.97%
- Total Notional Exposure: 38.88%

Foran Mining Company (FOM.TSXV)

FOM engages in the acquisition, exploration, and development of mineral properties. The company primarily explores for copper, zinc, gold, and silver deposits. Its flagship project is the McIlvenna Bay property comprising 38 claims that covers a total area of 20,907 hectares in east central Saskatchewan.

The company released its latest Investor Presentation, which you can read [here](#).

FOM has a straightforward thesis. As long as commodity prices don't fall below a certain level, the company should gush cash and trade at much higher prices.

According to FOM's Investor Presentation (emphasis added), "At April 2022 prices, McIlvenna Bay [one of the company's mines] has a **Pre-Tax NPV of CAD \$1.8B and an IRR of 54%**."

FOM then explains why the company deserves a multiple re-rating (emphasis mine):

*"Given Foran's **top global jurisdiction, access to infrastructure, and Net Positive targets, valuations at lower discount rates outline a significant re-rate opportunity.**"*

You can check out the most important slide from the Investor Presentation below, highlighting FOM's economics at various copper and zinc prices.

Robust Economics at Any Commodity Price

F O R A N

At April 2022 prices, McIlvenna Bay has a Pre-Tax NPV_{7%} of C\$1.8B and IRR of 54%. Given Foran's top global jurisdiction, access to infrastructure, and Net Positive targets, valuations at lower discount rates outline a significant re-rate opportunity.

Discount Rate & Copper Price Sensitivity Analysis

	Discount	Copper Price (US\$/lb)							
	Rate	\$3.00	\$3.50	\$4.00	Current ¹	\$5.00	\$6.00	\$7.00	\$8.00
Pre-Tax NPV (C\$M) ²	5%	\$629	\$869	\$1,110	\$2,150	\$1,592	\$2,073	\$2,554	\$3,036
	6%	\$547	\$768	\$989	\$1,948	\$1,430	\$1,872	\$2,314	\$2,755
	7%	\$475	\$678	\$881	\$1,768	\$1,287	\$1,694	\$2,100	\$2,506

Copper & Zinc Price Sensitivity Analysis

	Zinc Price	Copper Price (US\$/lb)							
	(US\$/lb)	\$3.00	\$3.50	\$4.00	Current ¹	\$5.00	\$6.00	\$7.00	\$8.00
Pre-Tax NPV _{7%} (C\$M) ³	\$1.00	\$347	\$550	\$753	\$1,118	\$1,159	\$1,565	\$1,972	\$2,378
	\$1.20	\$475	\$678	\$881	\$1,244	\$1,287	\$1,694	\$2,100	\$2,506
	\$1.40	\$603	\$806	\$1,010	\$1,371	\$1,416	\$1,822	\$2,228	\$2,634
	\$1.60	\$732	\$935	\$1,138	\$1,497	\$1,544	\$1,950	\$2,356	\$2,763
	\$1.80	\$860	\$1,063	\$1,266	\$1,623	\$1,672	\$2,079	\$2,485	\$2,891
	Current ¹	\$1,045	\$1,245	\$1,445	\$1,768	\$1,844	\$2,244	\$2,644	\$3,043

¹ Current prices and FX based on April 4, 2022 values. Copper and zinc prices are US\$4.81/lb copper and US\$2.03/lb zinc. Under these scenarios US\$1.929/oz gold, US\$24.67/oz silver, and 1.24 USD/CAD is used.

² Excluding current price scenarios, US\$1.600/oz gold, US\$22.50/oz silver, and 1.26 USD/CAD is used.

TSXV: FOM | US OTC: FMCXF | FORANMINING.COM

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The company also released an operational update on 2023 drilling and 2022 progress. You can read that [here](#). Here are the highlights:

- **Four Diamond Drill Rigs and up to 35,000m of Regional Drilling Planned for 2023**
- **Tesla Drilling Already Underway Ahead of Winter Drill Program**
- **Increased Drilling Capacity to Further Unlock Potential District Scale Opportunity**
- **Long Lead-Time Items Procured at Prices In-Line with Feasibility Study Estimates**

Companies like FOM benefit from a phenomenon called NIMBYism or **Not In My BackYard-ism**. In other words, it prevents competitors from building and/or drilling near an existing well, especially in today's world where governments bow to teenagers like Greta Thornberg. If Greta says don't drill, guess what? Nobody's drilling!

Here are a couple of photos to help you understand the size of FOM's operation, the capital intensity, and the competitive barriers it possesses.

Scoop Entering Portal



Decline Face Post Mucking



That doesn't look ESG-friendly (spoiler: that's another competitive advantage!).

We hold a nearly 6% notional position with a stop-loss at \$1.95.

Centrus Energy (LEU)

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

The company [finalized its \\$150M government contract this week](#). LEU won the award on November 10th. Here's a snippet from the article (emphasis added):

*“The initial phase of the new contract covers **final construction of the centrifuge cascade and production of 20 kg of HALEU**, in the form of uranium hexafluoride, **by the end of 2023**. DOE and Centrus will split the \$60 million cost. **A second phase, funded by DOE at \$90 million, calls for delivery of 900 kg by the end of 2024**. The contract includes multiple three-year options.”*

Unfortunately, the stock's in a downtrend. We'll likely cut it on Monday to preserve capital and will wait for a confirmed uptrend to re-enter.

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.

PANR is one of the most controversial stocks on FinTwit, and I don't know why. It's an exploration company trying to prove its reserves have oil. But it's heavily shorted like an outright fraud with no hope for provable oil.

We mentioned that Muddy Waters took a short position a few weeks ago. Yet we still haven't seen an “official” published report. Which is unlike Muddy Waters.

This week [PANR released a report by Schlumberger](#) that put PANR's potential reserves at 17.8 *billion*. Check out the results below.

The summary findings of reservoir modelling:

	Net Oil in Place (Billion barrels of oil)
Lease Area/Unit	P50
Alkaid Unit	1.67
Theta West Lease	10.9
Talitha Unit including SE SMD	5.26
Total	17.8 billion Bbls

Schlumberger also released its Base Case Forecast for PANR's daily production figures (see below):

Single Horizontal Well Oil EUR Production Forecast (1-mile lateral length)

Schlumberger Base Case Forecast:

- **Alkaid:** IP 30 days = 775 bopd; Oil Cum @ 30 years=1.1 MMBO
- **Theta West BFF:** IP 30 days = 1060 bopd; Oil Cum @ 30 years=1.5 MMBO
- **Talitha SMD:** IP 30 days = 791 bopd; Oil Cum @ 30 years=1.2 MMBO

The Schlumberger estimate of 775 IP 30 days is broadly in line with Pantheon's predictions of IP of 150 BOPD per 1000 feet of lateral. The Schlumberger estimate is actually a 30-day IP rate versus Pantheon's of an initial IP rate after clean up.

For illustrative purposes only, applying Pantheon's estimated 10% recovery factor to Schlumberger's estimated 17.8 billion barrels of oil in place would imply the Pantheon leasehold has the potential to contain 1.78 billion barrels of recoverable oil. The dynamic model is applicable toward predicting ultimate well and reservoir recoveries for differing development scenarios which is critical for ascertaining the commercial potential of the resource.

Let's assume that PANR is a fraud and that its wells are bone dry. What incentive would Schlumberger – a \$60B+ enterprise – have in joining PANR's charades? Why release a false report for such a small company?

Finally, Schlumberger is an *expert* in its field. It wouldn't risk tarnishing its reputation for a company as small as PANR.



Don't get me wrong. PANR could fail in other ways. They could fail to commercialize the oil, butcher the extraction process, or contaminate their reserves.

But the short bet doesn't make sense knowing what we do today. The outcome is too binary to justify shorting here.

The definitive voice on \$PANR on Twitter (@8750Capital) published an excellent thread on his latest findings. You can read it [here](#). Kudos to @DH for mentioning it in the Comms Center.



8750 Capital @8750Capital · Dec 8

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So yes, **\$PANR** is not a sure thing, but they have found a lot of oil and are moving to quickly demonstrate commerciality. And their game plan to then sell the acreage for a MASSIVE premium or bring in a partner. Does the equity price reflect this potential? Not in my view.

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Another reason **\$PANR** is appealing right now is simply the fact that so many shares are sold short relative to the ADTV and the float – it just doesn't take much for this to become a forest fire of a short squeeze, as we saw yesterday.

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Despite yesterday's rip, the squeeze could EASILY get much more intense given the technical characteristics.

It's rare you can be (1) be on the opposite side of a potentially massive short squeeze and (2) have solid underlying fundamentals.

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We continue to hold our small long position.

Portfolio Performance Update

- December (month-to-date): -7.05%
- Q4 2022 (to-date): -6.44%
- YTD (as of 12/09): +9.07%