

## Portfolio Intelligence Report (PIR): 12.31.2022

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

Happy Saturday and Happy New Year's Eve!

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

**Our Strategic Basket ...** We highlight CLPT's December company newsletter and the latest medical publications to feature CLPT products. Then, we summarize an interview with SQ CFO Amrita Ahuja. Finally, we discuss LLY's sentiment and technicals.

**Our Thematic Basket ...** We discuss new ideas in the offshore drilling space. Then, we unpack PANR's latest Alkaid #2 results and a potential equity raise. Finally, we highlight three new VIST-like ideas in the Argentinian energy and oil industry.

Let's get after it.

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

Total Basket Highlights (including non-updated positions):

- Current Average Return: 0%
- Current Notional Exposure: 0%
- Note: Exited all equity positions on 12/30/2022

### **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 [December monthly eNewsletter](#) last week. There are a ton of nuggets inside, and I recommend you read the whole thing.

My favorite part of the newsletter is the Medical Publication section, where CLPT highlights any new medical journals that use CLPT products in their studies. You can read the two latest publications below.

- [Targeting Accuracy and Clinical Outcomes of Awake versus Asleep Interventional Magnetic Resonance Imaging-Guided Deep Brain Stimulation for Parkinson's Disease: The University of California. San Francisco Experience](#)
- [Eladocagene Exuparvovec: First Approval](#)

We still hold a 1% starter position while we wait for technicals to firm up.

## 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](#).

This week, I read a [great article](#) about SQ’s CFO, Amrita Ahuja. Here are some of my favorite Amrita quotes from the piece (emphasis added):

### On How She Explains Block (SQ) ...

*“We are an **ecosystem of ecosystems**. What that means is that we have a number of different businesses that serve multiple customers. And within those businesses, we have multiple products that try to deliver value to those customers in multiple ways. We’re not just doing one thing. **We have Square, an app that handles payments for small businesses. In the U.S., we also have Cash App, which services about 45 million customers worldwide.**”*

### On Not Laying Off Employees ...

*“We’ve got a tremendous opportunity. We have a total addressable market of \$190 billion. We believe our market penetration is three per cent or less, across both Square and Cash App ...*

*I, as a CFO, think about balancing growth with our margins. We want to make sure we’re building with discipline and we’re measuring the investments we’re deploying in real time. **This is a time where discipline is much more important. We’ve pulled back on our spending throughout the year around areas that have less certainty of return — things like brand campaigns. And while we have slowed the pace of our hiring, we are still hiring.**”*

### On Cash App’s Resilience Through A Recession ...

*“For Cash App, we were encouraged by healthy trends. One of its key metrics is inflows, the amount of money that people bring to the app. We believe it is a factor that is determined by the spending power of our customer and their engagement on our app.*

***We’ve seen general stability on the amount of money people are putting into Cash App. We saw that in the third quarter, which was stable on a quarter-over-quarter and year-over-year basis. That’s despite rolling off periods of pandemic stimulus and tax refunds in the U.S.**”*

## 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.

Here's another LLY Sentiment Check this week ...

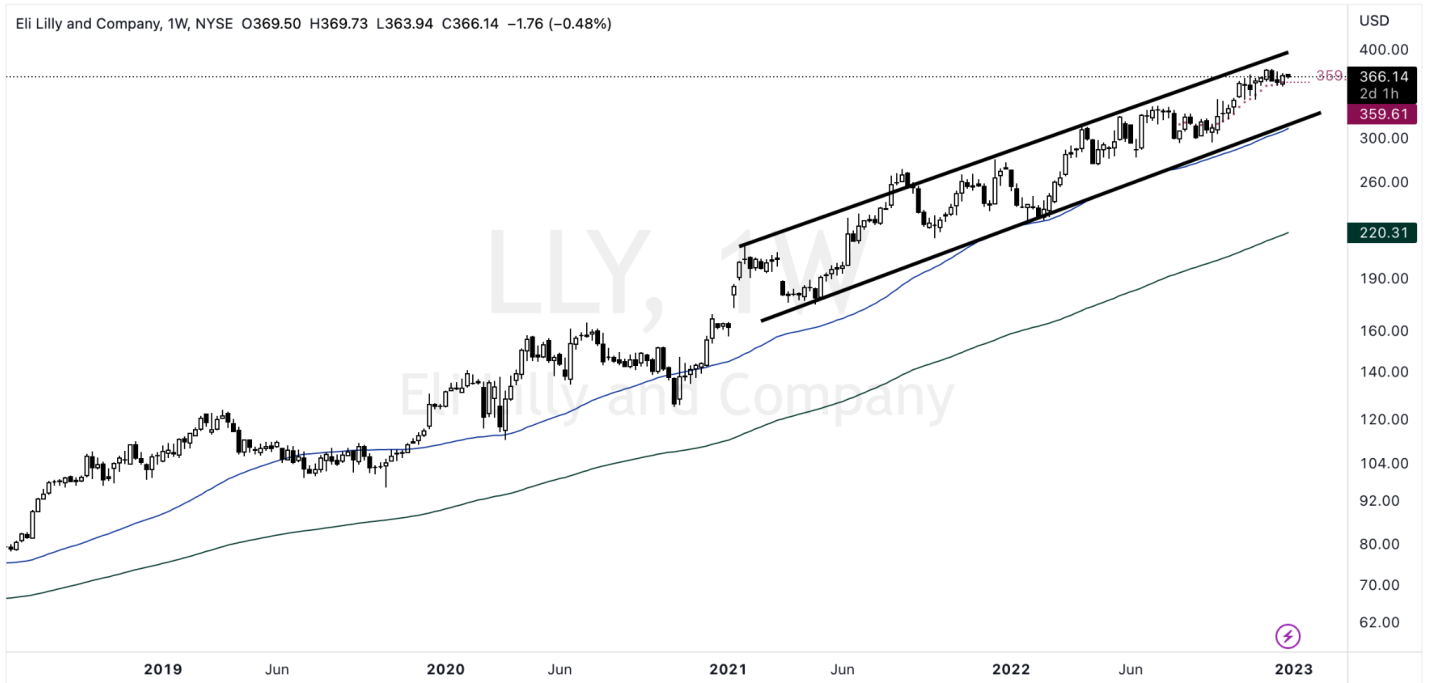
# Eli Lilly: Right Industry, Wrong Price

Dec. 27, 2022 2:15 PM ET | **Eli Lilly and Company (LLY), XPH** | 5 Comments | 1 Like

Strong bull trends ride the wave of “this thing is too expensive.” The problem, of course, is that LLY has looked expensive the entire year. Yet it's one of the strongest stocks in the market. It's how you get long bull channels like this ...

MacroOps published on TradingView.com, Dec 28, 2022 15:00 UTC-5

Eli Lilly and Company, 1W, NYSE O369.50 H369.73 L363.94 C366.14 -1.76 (-0.48%)



TradingView

Anyone complaining about LLY's current valuation misses the forest through the trees. The company is likely a one *trillion-dollar* enterprise if Mounjaro hits it big. You can hear our friend Peter Mantas argue for LLY's trillion-dollar status [here](#).

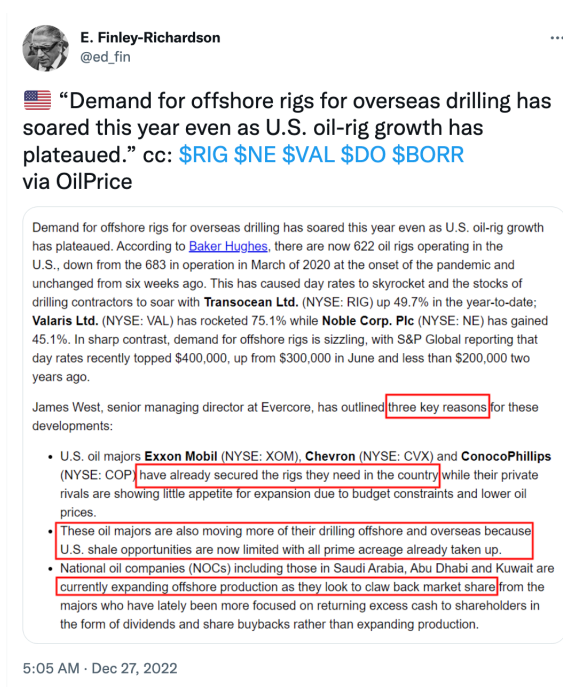
LLY is first on the list of positions we'll get back in 2023. We'll look for pullbacks to the lower end of the channel (~\$315/share).

## Thematic Basket Update: PANR.LSE, VIST

Total Basket Highlights (including non-updated positions):

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Here's a [great tweet highlighting the supply/demand imbalance](#) between energy companies that *need* rigs and companies that *supply* rigs (see below).



We're diving into the offshore drilling space this month and will report what we find. TDW has been a monster for us this year, ending 2022 up 293%.

One name that caught our attention is ProFrac Holdings (ACDC). The company trades at <2x free cash flow, is a recent IPO (so off the radar of most investors) and looks like it wants to break out from its IPO base.

Shoot us a DM if you think there's one company we should study in particular.

## 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.

PANR released more results from its Alkaid #2 well yesterday, and the market hated it. At one point, the stock dropped 48% intraday before somewhat recovering. Collective member @Karan posted the results summary in #ideas-equities (see below):

- "at a rate of over 500 b/d of hydrocarbon liquids which includes oil, condensate and NGLs, as well as significant natural gas, from an estimated 4,000 ft of lateral"
- = 1,300 feet of the lateral is still blocked, and not flowing.
- = If 5,300 feet, the flow rate would be 663 b/d; if gas is added, the original expectation (750 boe/d) is satisfied.
- "the well is still less than 40% of the way through the cleanup phase, so potential exists for these rates to further improve" [as flowback continues].
- 200 bo/d + 300 bc/d + 2.5 MMcfg/d = 917 boe/d, from 4,000-feet of horizontal section. Sold 7,000 bo in ~30 days, so 7,000/30 = 233 bo/d, about right.
- If the entire 5,300 feet of lateral section is flowing, the total rate would be 1,215 boe/d. Crude is 38-41 degree API oil. The reservoir seems to be gassier than expected but since gas will be re-injected back into the reservoir in future production no that's not a problem. Didn't mention water rate but flowback is only 40% after ~60 days.
- "A rig is available in [mid-]January to clean out the entire well bore and is expected to open the entirety of the lateral allowing the full potential of the well to be revealed and at the same time accelerating the clean up phase." A new flow rate from the entire lateral will likely be available by Feb 2023.

PANR is producing oil from Alkaid #2 but not as much as expected. And they're running into issues like sand blockages that prevent the company from producing more oil.

One potential issue now is share dilution. PANR, like most oil exploration companies, burns a ton of cash to find and extract the commodity. Any delays or backups (like sand blocking) could result in additional financing requirements.

However, @Karan posted a snippet from a geologist/O&G industry analyst discussing PANR's Alkaid #2 well (see below, emphasis added):

*"Another key question is if PANR will run into cash liquidity problems following such results. **Alkaid-2 is fully funded, and PANR doesn't need to raise emergency equity money to fund bringing in the rig to resolve the sand issue.** By the time Alkaid-3 is decided to go, additional funding is needed but that's after Alkaid-2 has been assessed favorably, by when funding should be less expensive than today. Recall PANR can bring in a farm-in partner too.*

*So, all in all, I don't see a cash liquidity squeeze in the next few months as some shorts suggest."*

We will wait and see.

## 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.

VIST ended the year up 193%, one of our portfolio's largest winners. I found a tweet highlighting Argentinian companies like VIST (see below).



The companies mentioned are:

- Pampa Energia (PAMP)
- VPF (YPFD)
- Transportadora de Gas del Sur (TGSU2)

Might be worth digging into a few of these Argentinian names for next year.

## Portfolio Performance Update

- December (month-end): -5.90%
- Q4 2022: -5.29%
- YTD (as of 12/31): +10.21%
- Trailing 3YR Cumulative Return: +83%