Investors,

For the third quarter of 2024, Deep Sail Capital Partners (the "Fund") returned 13.8% net of fees while averaging 87% net long exposure. The fund returned 23.5% net of fees year to date through the third quarter. Please consult your individual capital account statements for your individual net returns.

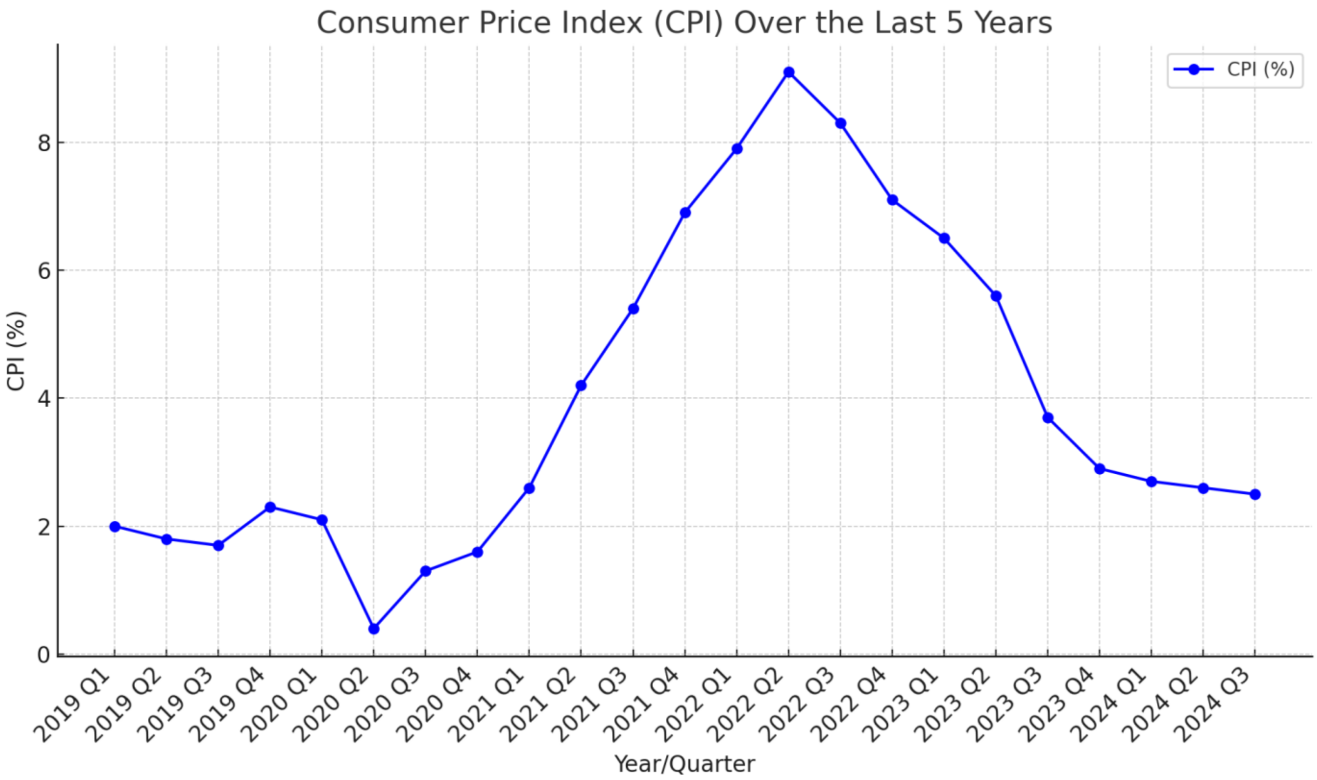
Performance Summary	Net Returns			Deep Sail Capital Vs Benchmark		
	Q3	YTD 2024	Strategy Since Inception - Annualized	Q3	YTD 2024	Strategy Since Inception - Annualized
Deep Sail Capital Partners LP	13.8%	23.5%	9.4%			
Russell 2000	9.3%	11.2%	9.4%	4.5%	12.3%	0.0%
Russell Mid Cap Growth Index	6.5%	18.4%	12.4%	7.2%	5.1%	-3.1%

In the third quarter, the fund outperformed our benchmarks, the Russell 2000 index and the Russell Mid-Cap Growth index. For the full year 2024, the fund continues to outperform our benchmarks. The long portfolio drove the results for the quarter with two microcap positions (Clearpoint Neuro and Kraken Robotics) contributing over 10% of the gross return in the quarter. The short portfolio generated a negative return for the fund in Q3 and is currently flat for the year.

Market Commentary

The first rate cut is in! On Wednesday, September 18th, the Fed lowered its benchmark rate by 0.50 percentage points. This is the first rate cut since the pandemic. This is a historic rate cut because it occurred at a time of historically low unemployment, a situation that is relatively unusual in U.S. economic history. The cut follows 14 months of keeping rates at a 23-year high. The Fed's decision to ease rates now comes in response to signs of economic slowing and concerns about the job market showing more weakness than previously thought, with unemployment ticking up from 3.7% in January 2024 to 4.2%. But the real driver of the rate cut was the fact that inflation has come down to a more reasonable rate of just 2.5% in August's CPI reading.

Since the global economy is in relatively good shape, and more specifically, the US economy and job landscape are very strong, the only logical conclusion is that this rate cut will spur more investment and increase capital flows that will eventually lead to a renewed bull market.



In my opinion, there is a high likelihood that once the 2024 Presidential Election is behind us (assuming we get an outcome in November and not a prolonged legal battle), there will be little to stop the stock market from continuing to make new all-time highs into the rest of the year.

With that renewed bull market and continued excitement around AI infrastructure we could find ourselves in an outright **AI bubble** come the middle of next year.

Long Portfolio Summary

	Q3
Average Long Exposure	125.4%
Contribution (gross)	18.4%

Best Performing	Q3 Contribution	Worst Performing	Q3 Contribution
Clearpoint Neuro	5.8%	Moberg Pharma	-3.9%
Kraken Robotics	5.6%	Elastic	-2.4%
Cellebrite	2.8%	Five Below	-0.8%

In the third quarter, the long portfolio outperformed both of our benchmarks, the Russell 2000 Index and the Russell Midcap Growth Index by a significant margin. Year to date, the long portfolio continues to outperform all of the benchmarks are both a net and gross basis. The best-performing position in the quarter was Kraken Robotics, which I highlighted in our Q2 investor letter. Our analysis as well as the growing understanding of the broader investment community around the outstanding position that Kraken sits has contributed to a 72% rise in the share price in Q3. We believe Kraken is just beginning a long phase of significant growth that will propel the stock into well over a billion dollar market capitalization in the next few years. Kraken is now the fund's largest position (14.3%), and I have no plans to reduce the size of our investment in the near term.

In Q3, the fund closed six positions and opened one new position, increasing our concentration in many of our existing positions. The new position in Q2 was TSS Inc. (OTC: TSSI), which we believe is a burgeoning data center integrator with a bright future supporting the next leg of AI data center growth, specifically around liquid-cooled data centers.

Current Position: Cellebrite

Cellebrite offers a scalable and critical software solution to law enforcement agencies, focused on digital intelligence and forensic tools for extracting data from devices. The company operates as a Vertical Market Software (VMS) company, in which their core product is a Universal Forensics Extraction Device (UFED) for extracting data from mobile devices for law enforcement. The key example of their technology is highlighted by the recent news around the Trump assignment attempt in July. Cellebrite was used to quickly break into the shooter's phone in just 40 minutes, gaining significant media exposure.

Cellebrite got into Trump shooter's Samsung device in just 40 minutes

Source: https://www.theregister.com/2024/07/22/infosec_in_brief/

On top of the core UFED software, the company offers software to law enforcement that helps them analyze, investigate, and store digital evidence. A key strategy for the company over the near future will be to cross-sell their other software products (Pathfinder and Guardian) into their existing customer base that uses their UFED software.

High Quality of Business Model

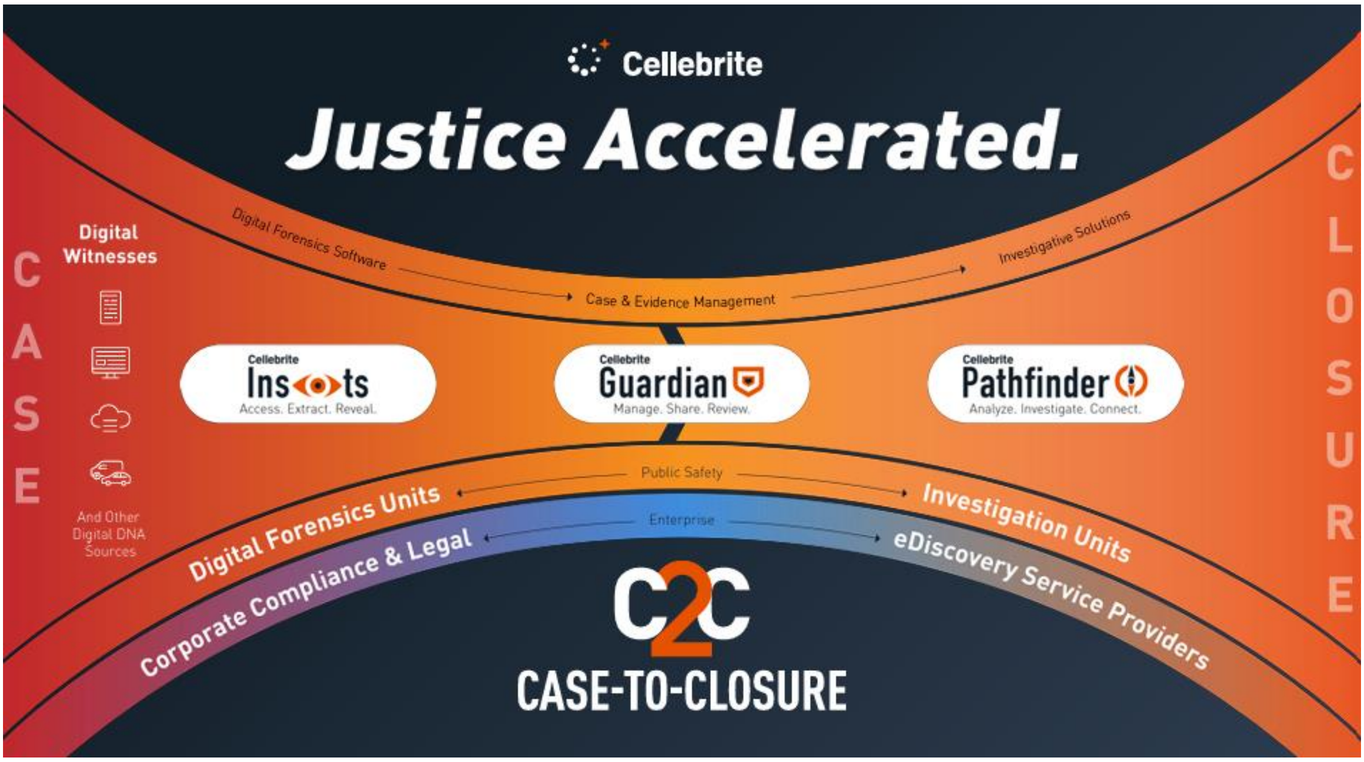
Cellebrite's software is essential for managing complex digital evidence from a wide variety of devices, creating a high barrier to entry. The company's ability to provide broad solutions and ongoing product innovation ensures high customer retention, with a net revenue retention rate exceeding 125%, demonstrating its efficient land-and-expand model. The high net retention rate can be broken into the following: 3-5% price inflation, 5-10% more seats at existing customers, and 10-15% cross-selling/upselling. The business has extremely low churn, usually only related to federal programs winding down rather than losses of law enforcement agencies.

Cellebrite offers a suite of software solutions focused on digital intelligence (DI), empowering organizations to conduct legally sanctioned investigations by streamlining data collection, analysis, and management. Here are summaries of their three key products:

1. **UFED (Universal Forensic Extraction Device):** This is Cellebrite's flagship product, allowing investigators to extract data from a wide range of mobile devices, including smartphones, computers, and GPS systems. It is renowned for its ability to bypass encryption and access locked devices, which is crucial for law enforcement. The software supports evidence recovery across all device types and systems, making it a core tool for digital forensics in both the public and private sectors. UFED has a near 100% adoption rate in their customer base, with high penetration in US law enforcement agencies. UEFD and its associated data review products, including cloud data storage, are known as the "Collect & Review" vertical. Collect & Review is ~80% of the total revenue of the company.

2. **Pathfinder:** Pathfinder leverages AI and machine learning to automate the data analysis process. It sifts through massive amounts of digital data from devices like mobile phones, computers, and cloud services to uncover relevant insights. Its enhanced filtering and categorization tools allow investigators to connect key evidence across different cases, improving workflow efficiency. Pathfinder also provides intuitive dashboards and link analysis tools to visualize connections, making investigations more collaborative and data-driven. Estimate to be low teens adoption rate in their customer base. Pathfinder, along with a few other niche analytical software tools, is known as the "Analyze and Inspect" vertical.

3. **Guardian:** Guardian is a cloud-based solution for managing digital evidence. It simplifies the process of collecting, storing, and sharing digital data securely, providing a full chain of custody for evidence. The platform is particularly useful for law enforcement agencies to streamline investigations, reduce backlogs, and improve compliance with regulations. Guardian helps users ensure that all evidence handling meets strict legal and regulatory standards while also allowing for real-time collaboration between departments. Estimate to be a low single-digit adoption rate in their customer base. Guardian sits in the "Manage & Safeguard" vertical as the first product in which the company plans on adding additional tools to that vertical over time.



These products together form a robust ecosystem that enables law enforcement agencies and private investigators to conduct more efficient and comprehensive investigations in an increasingly digital world. The platform offers all the needed tools to take any investigation from "Case-to-closure".

Outstanding Management

Cellebrite is an Israeli-based company run by CEO Yossi Carmil. Carmil has over two decades at Cellebrite. Carmil has led the company through key phases of growth and transformation, including its SPAC merger that took the company public in 2021. While I do not generally view SPACs positively in this situation, it does seem like a logical decision by management. The move to go public via a SPAC was a way to unlock further value and fund acquisitions while maintaining control and growth flexibility. The main drivers of the decision to go public via space were: 1) Cellebrite has a majority owner, Sun Corporation (6736: Tokyo Exchange), which owns 50.5% of the company. 2) Cellebrite has been EBITDA positive since 2020, thus having no need to raise funds via an IPO; and 3) Listing the company on a US exchange gave them liquidity for future M&A as well as the potential to garner a higher valuation. Given all these reasons, a SPAC is not a terrible choice relative to an IPO (although I would have preferred a direct listing in this situation).

Outside of the SPAC decision, Cellebrite's CEO, Carmil, has a good track record of execution and has overseen strategic initiatives to expand Cellebrite's product offerings and market reach while maintaining a focus on innovation. Carmil's leadership is marked by a focus on scaling the business efficiently, investing heavily in R&D, and ensuring that the company stays ahead in an increasingly complex digital landscape. His commitment to building a strong, sustainable business is evident in Cellebrite’s continuous development of cutting-edge forensic and investigative solutions that address the evolving needs of law enforcement and government agencies worldwide.

Management has made strategic choices that significantly improved that TAM. Management used the stickiness of the UFED software as a tactic to land, expand, and cross-sell additional software. They have focused on increasing R&D and marketing expenditure to increase long-term product development and market penetration. By leveraging their core UFED software as a sales entry point into law enforcement agencies, management either built or acquired additional software that they can sell to their core customers. Their M&A strategy has been to buy adjacent software companies that are additive to their core software, but they have made very few acquisitions in the last 5 years, with only one small acquisition of Digital Clues in 2021. Rather than M&A, they have built software successfully inside the company. Additionally, they have been a patient and valued partner to their customers. By not aggressively raising prices and concentrating on expanding within strategic law enforcement accounts, management has built a solid, recurring revenue stream.

Long-Term Growth Prospects

The company's future growth is bolstered by expanding markets in both the public and private sectors. With increasing digitalization across industries, the demand for Cellebrite's tools to analyze complex, encrypted data from various devices is only set to rise. A majority of legal cases are now majority supported by digital evidence either data, video, or voice, and that trend will continue to rise as we are in an increasingly digital world. Additional opportunities include expanding module usage per customer and entering new markets like private enterprises. The consistent investment in innovation positions them to benefit from technological trends like IoT, wearables, and data security needs.

Cellebrite has a significant opportunity to expand its business beyond digital forensics into broader software verticals with products like Pathfinder and Guardian. Due to the company’s very low churn and high net expansion ratio (125% in the last quarter), we see cross-selling as the key pathway to growth in the near term. With the low current penetration rates of both Pathfinder (low teens penetration) and Guardian (high single digits), the company has a huge opportunity to expand within its current customer base.

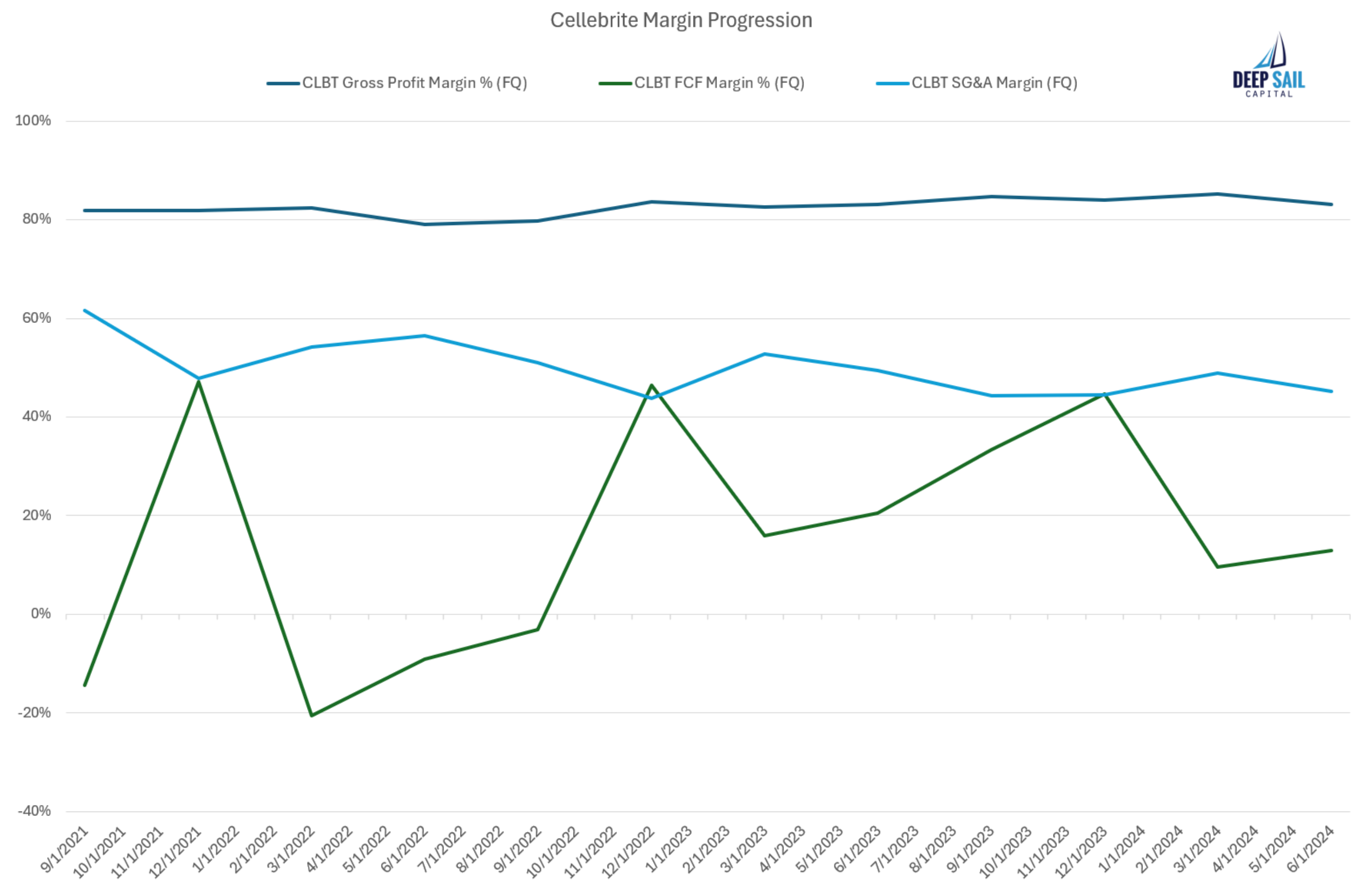
On top of cross-selling to law enforcement Pathfinder, their AI-powered analytics platform, can be leveraged across numerous adjacent sectors, such as corporate security and fraud detection, by providing advanced capabilities like automated data processing and link analysis, useful for more than just law enforcement.

Meanwhile, Guardian, a cloud-based evidence management system, offers the potential to move beyond public safety into sectors like legal, healthcare, and finance, where secure data collection, management, and compliance are essential. Guardian's ability to store and share digital evidence securely with a full chain of custody also makes it attractive for corporate investigations, regulatory compliance, and internal audits.

Together, these products position Cellebrite to broaden its customer base into private industries, expanding its addressable market while continuing to capitalize on its strong law enforcement client base.

Reasonable Valuation:

Cellebrite's current valuation is stretched compared to earlier this year when we first invested in the company, but it is still in a reasonable valuation range. With gross margins above 80%, a limited need for reinvestment of cash, and a largely government-based client base providing recession resistance, the company offers both stability and growth potential. The company has $350 million of net cash on its balance sheet, which offers it plenty of flexibility for future M&A. EBITDA and net income margins continue to expand over the last few years as SG&A margins have dropped, showing operational leverage in the business.



As the company continues to grow at 20-30% rates, we expect that the FCF and EBITDA margins will continue to expand as the SG&A margins will decline. We believe EBITDA can grow at a much faster rate than revenue from here and expect them to reach $160 million in EBITDA by FY 2026 vs. a consensus forecast of $137 million. On an EV/EBITDA ratio that would put the company at 21x FY 2026. While not as cheap as our initial purchase at about 14x FY 2026 EV/EBITDA, this is still a reasonable valuation in light of the huge runway to cross-sell their software still ahead of them.

Short Portfolio Summary

	Q3
Average Short Exposure	38.7%
Contribution (gross)	-4.6%

Best Performing	Q3 Contribution	Worst Performing	Q3 Contribution
Fenbo Holdings	1.6%	Aurora Innovation	-1.2%
Robinhood Markets	0.4%	Clear Secure	-1.1%
Symbotic	0.4%	Cava Group	-0.8%

During Q3 the short portfolio performance was largely mixed. This is to be expected when the overall market was up over 10% in Q3. 48% of our shorts generated a positive contribution in Q3. At the end of Q3, the opportunity set for shorts increased significantly as several companies with high short interest got caught in a short squeeze driven in part by interest rate changes and in general some risk-taking behavior that has arisen with the overall positive momentum of the market. This has created a solid opportunity for the short portfolio in Q4 and beyond.

Top Holdings & Current Exposure

Top Holdings

Long Portfolio	Industry/Segment	% of NAV	Short Portfolio	Industry/Segment	% of NAV
Kraken Robotics	Defense Technology	14.3%	Cava Group	Restaruants	-3.1%
Mercado Libre	Ecommerce	12.5%	Aurora Innovation	Automotive	-2.9%
Clearpoint Neuro	Medical Devices	9.5%	Arbor Reality Trust	REIT	-2.8%
Cellebrite	Software	9.2%	Clear Secure	Software	-2.6%
Shelly Group	Electronic Equipment	9.1%	Sweetgreen	Restaruants	-2.2%

At the end of the first quarter the fund held 18 long positions and 30 short positions. The fund ended the quarter with an exposure of 126% long and 43% short or an 83% net long exposure.

Sincerely,

Sean
info@deepsailcapital.com

Disclaimer Deep Sail Capital LLC ("Deep Sail Capital") is an investment adviser to funds that are in the business of buying and selling securities and other financial instruments. This information is provided for informational purposes only and does not constitute investment advice or an offer or solicitation to buy or sell an interest in a private fund or any other security. An offer or solicitation of an investment in a private fund will only be made to accredited investors pursuant to a private placement memorandum and associate subscription documents. Past performance is no guarantee of future results.

"Deep Sail Capital Partners" returns in this document are shown as net returns or gross returns where stated. Historical net returns assume a 1.5% and 15% management and performance fee, respectively. For Net Returns of fees and expenditures figures please reach out to the fund manager at the email info@deepsailcapital.com.

"Deep Sail Capital LLC" name was changed on April 7th 2022 from the previous name "Organon Capital LLC".
"Deep Sail Capital Partners LP" name was changed on April 6th 2022 from the previous name "Westropp Funds LP".

* - "Strategy Since Inception" refers to the Strategy inception date of July 2016. Deep Sail Capital Partners LP's predecessor incubator fund, "Westropp Funds LP" pivoted from a Value Investment style to a Growth at a Reasonable Price (GARP) style fund on that date. For more details on this transition or the calculation behind the "Strategy Since Inception" returns please reach out to the fund manager at info@deepsailcapital.com.