

Investors,

In the third quarter of 2026, Deep Sail Capital Partners LP (the "Fund") returned -15.8% net of fees while averaging 91% net long exposure, bringing year-to-date net returns to -1.6%. Please consult your capital account statement for your individual net returns.

Performance Summary	Net Returns				Deep Sail Capital Vs Benchmark			
	Q3 - 2026	YTD - 2026	3 Yr Annualized	Since Inception Annualized	Q3 - 2026	YTD - 2026	3 Yr Annualized	Since Inception Annualized
Deep Sail Capital Partners LP	-15.8%	-1.6%	36.8%	19.5%				
Russell 2000	-7.2%	13.7%	21.0%	14.2%	-8.6%	-15.4%	15.7%	5.3%
Russell Mid Cap Growth Index	-5.1%	-1.3%	19.1%	15.9%	-10.8%	-0.3%	17.7%	3.5%

In the third quarter, the Fund underperformed the Russell 2000 and the Russell Midcap Growth Index by 8.6% and 10.8%, respectively. All of the underperformance came from the long portfolio, where several emerging growth positions declined sharply. Some of these drawdowns were warranted, as with Sanuwave (driven by the proposed CMS reimbursement change), while others, such as Hydreight Technologies, were not.

I expect Q4 to be a quarter in which several of our long positions outperform the broader market, as I see multiple cases where Q3 results should come in better than the market anticipates. The short portfolio performed incredibly well in Q3, contributing 7.4% to the Fund, driven by a broad decline in long-duration, low-quality equities.

Market Commentary – The Two-Sided Market

On October 6th the S&P 500 closed at a new all-time high. If you watched only the headline index, you would conclude this was a healthy, broad-based bull market. Underneath the index, however, the picture was very different. We are in a two-sided market: a small group of mega-cap leaders continues to press to new highs while the average stock drifts toward its 52-week lows.

The gap shows up most clearly when you compare the cap-weighted S&P 500 with its equal-weighted twin. Both hold the same 500 companies. The only difference is how much each company counts toward the index's return. Year to date, the cap-weighted index (SPY) is up about 12.7%, against roughly 9.9% for equal weight (RSP). Over the past month, SPY is roughly flat while RSP is down nearly 5.5%.

Market breadth tells the same story of a two-sided market. The chart below tracks the McClellan Summation Index for S&P 500 members, a running tally of how many stocks in the index are rising versus falling. On October 12 it stood at -1,741, after bottoming near -1,880 earlier in the month. That is the deepest reading in the past two years. It is lower than the trough during the April 2025 tariff selloff, when SPY fell to roughly \$500. Today SPY sits near

\$780, at an all-time high. In April 2025 the index and the average stock fell together. This time the average S&P 500 stock has had a correction-sized breakdown while the headline index barely moved. That divergence is about as wide as we have seen it.

S&P 500 Members: McClellan Summation Index

The running total of the S&P 500 members' oscillator above. Its level carries the survivorship tilt described below.



Smaller companies have taken the brunt of the pain. Small and micro caps led the market early in 2026. They have since given back significant ground versus the broader market. The Russell 2000 is about 10% below its high and the Russell Microcap about 12%. Over the past month the Russell 2000 has fallen 4% and the Microcap 6%, while the S&P 500 rose about 1.5% and sits within 1–2% of its own high. Both small-cap indexes closed yesterday on October 15 at their lowest levels since the spring. Within that universe, a large number of individual small and microcap stocks are trading at or near 52-week lows, many with no change in their underlying fundamentals, only a change in sentiment and a market that seems not to care.

I think this gap is more likely to close than widen from here, most likely through a flat index and outperformance from small and microcap names as buyers look for opportunity. Concentration this extreme has historically been followed by a rotation. After the narrowest stretches on record, equal weight has beaten cap weight by a median of nearly 5 points a year over the following three years.

This is the environment our process is built for. Our small-cap skew and focus on under-covered names mean we are buying where the market is least crowded and most mispriced. Our multi-year holding period lets us use this kind of dislocation instead of being forced out by it. I would rather own quality growth businesses at discounted prices before the rotation than chase it after.

Long Portfolio Summary

	Q3
Average Long Exposure	131.6%
Contribution (gross)	-23.9%

Best Performing	Q3 Contribution	Worst Performing	Q3 Contribution
Arista Networks	1.3%	Sanuwave Health	-4.6%
Shelly Group	0.9%	Kraken Robotics	-3.1%
Nvidia	0.5%	Hydreight Technologies	-3.1%

In the third quarter, the long portfolio underperformed both of our benchmarks, the Russell 2000 Index and the Russell Midcap Growth Index. There were a few large detractors in the emerging growth portion of the portfolio that were down significantly, most notably Sanuwave Health. Sanuwave has been a poor performer since mid-2025, first due to changes in CMS reimbursement rates for skin substitutes and now due to a proposed reimbursement cut for UltraMist, Sanuwave's core product. CMS will publish its final ruling in November, and I believe the current stock price assumes the proposed cuts are finalized without adjustment. If, as I suspect, Sanuwave successfully argues that the proposed cut is too severe, the final cut could be meaningfully smaller.

In Q3, we closed three positions and opened three new positions. The new positions in Q3 were Innovative Aerosystems (thesis below), Mama's Creations, and Theon International.

Current Position: Innovative Aerosystems (IA) – Emerging Growth

Innovative Aerosystems (IA), formerly known as Innovative Solutions & Support (previous ticker: ISSC), is a small-cap aerospace company that I believe is in the middle of a significant transformation. Historically, IA was a niche avionics and cockpit display company with good technology but limited scale. Over the last several years, management has turned the company into something much more interesting: an aerospace systems platform that combines internally developed avionics with a growing portfolio of acquired, mission-critical aerospace products.

The core of the thesis is relatively simple. Large aerospace companies like Honeywell and Moog own hundreds of smaller product lines that may be attractive businesses but are simply not meaningful enough to move the needle for a company of their size. IA has become an increasingly active buyer of these product lines. IA acquires the intellectual property, tooling, customer relationships and manufacturing rights, moves much of the production and support into its existing infrastructure, and then earns high-margin revenue from an installed base of aircraft that may remain in service for decades. These deals often give IA an effective monopoly on specific avionics component for a given aircraft. At the same time, IA is investing in its own

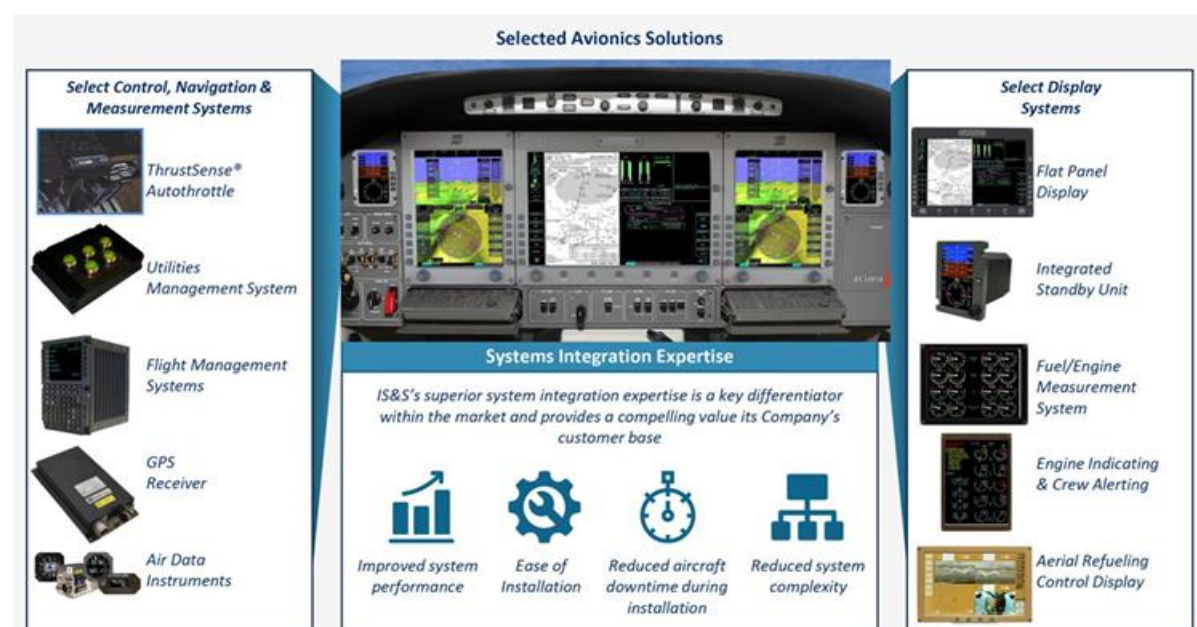
next-generation products, particularly the Liberty Flight Deck, with the goal of becoming a much broader supplier of integrated aircraft systems.

The strategy is still in its early innings, but it is already showing up in the numbers. Revenue grew from \$34.8 million in fiscal 2023 to \$84.3 million in fiscal 2025, while adjusted EBITDA rose from \$9.6 million to \$24.8 million, showing the company can grow while keeping margins high. During the first nine months of fiscal 2026, IA generated \$70.9 million of revenue, \$17.3 million of operating income and \$12.3 million of free cash flow despite a difficult comparison in its F-16 business (more on this below as I think it feeds into why the stock is cheap now).

I believe IA increasingly looks like the type of small-cap compounder we try to find early at Deep Sail. It has a good underlying business, a management team with a demonstrated capital-allocation track record, multiple paths to long-term growth, and a valuation that does not require perfection.

What IA Does and How the Business Model Works

IA designs, manufactures, integrates and services avionics and other aerospace systems for commercial aircraft, business aviation, and military customers. Its products include cockpit displays, flight-management equipment, communication and navigation radios, inertial reference units, air-data systems, autothrottles, autopilots, flight-control computers and mission systems. Customers include Boeing, Lockheed Martin, Pilatus, Textron, FedEx, American Airlines, Amazon-related operators, a Japanese eVTOL company, the U.S. government and numerous foreign military and commercial customers.



The company participates in both the OEM market, where IA equipment is installed on newly produced aircraft, and the aftermarket, where existing aircraft are upgraded or require

replacement parts, repairs and ongoing support. Through the first nine months of fiscal 2026, approximately 65% of revenue came from products and 35% from services.

The aftermarket portion is particularly attractive. Aircraft frequently remain in service for 20+ years. Once a component is certified on an aircraft, replacing it with a different product or supplier can require costly engineering work, testing and renewed FAA certification. As a result, airlines and military operators have a strong incentive to keep buying and repairing the existing certified equipment from IA rather than redesigning an aircraft around a different system that may or may not become certified.

This creates an interesting niche for IA. A product line that generates only \$5-\$15 million of annual revenue may be irrelevant to Honeywell, but it can be extremely meaningful to a company IA's size. IA can purchase the product, transfer manufacturing into its existing footprint, absorb engineering and overhead across a broader revenue base, and continue servicing the installed aircraft fleet for many years.

In many ways, I view IA as becoming a roll-up of orphaned aerospace product lines, but with an important difference from a traditional financial roll-up: the acquisitions also expand the company's technical capabilities and make IA more valuable as an integrated systems supplier. The more components IA controls, the more complete a solution it can offer to an OEM upgrading or developing an aircraft. In that sense, it resembles a smaller, more niche TransDigm Group.

High quality business model

IA's business model has several characteristics we look for in a high-quality emerging growth company. It has high barriers to entry, high switching costs, attractive margins, limited capital intensity and products that are mission critical to customers with very little churn.

The largest moat around the business is the certification and installed base advantage inherent in serving aerospace customers. IA held 171 U.S. and international patents at the end of fiscal 2025, supporting its many product lines. Once an avionics system has been engineered into and certified on a platform, there is significant friction involved in replacing it. Qualification, certification, software integration, pilot training and aircraft downtime all create switching costs.

The acquired Honeywell product lines make this model particularly attractive. IA has purchased rights to products already installed across aircraft including Boeing 737s, 747s, 757s and 767s, Airbus A300/A310 aircraft, Gulfstream and Citation aircraft, the F-16, F-15 and KC-46, among others. These are existing fleets that require replacement parts, repairs and lifecycle support regardless of whether significant numbers of new aircraft are being produced.

The economics are also becoming increasingly attractive. Gross margins were 52.4% during the first nine months of fiscal 2026, while operating margins reached 24.4%. Management

specifically noted that commercial aftermarket revenue carries higher gross margins than its military business.

IA is not a perfect business, largely due to revenue lumpiness. Individual programs can be significant, and Lockheed Martin represented 36% of fiscal 2025 revenue. The acquisition strategy also introduces integration risk, most notably with Aydin, IA's first whole-company acquisition, completed in July. Aydin was purchased for \$24.5 million and comes with 50 employees, a 40,000 sq. ft. U.S. manufacturing facility, and 20+ military product lines. Integrating Aydin is likely the biggest risk to the overall investment, as IA has not acquired an entire company before. That said, the strategic fit is excellent, and I believe the integration of the two businesses should go smoothly.

Aydin adds valuable manufacturing space to IA, which is important because IA has a large opportunity to add incremental revenue by layering additional products onto its existing engineering and manufacturing infrastructure. This should allow IA to continue improving fixed-cost absorption as it grows, creating attractive incremental returns on invested capital.

Outstanding management

CEO Shahram Askarpour is not a financial engineer who recently entered the aerospace industry. He joined IA in 2003 as Vice President of Engineering, became President in 2012 and eventually became CEO following the death of company founder Geoffrey Hedrick in 2022. He has more than 40 years of aerospace experience, holds a PhD in Automatic Control and is himself an inventor on multiple aerospace patents. He recently did a fireside chat with Jones Trading in which he discussed the business, his strategy, and the opportunity ahead for IA.

What has impressed me most about Askarpour has been the change in capital allocation since he took control of the company. IA previously relied primarily on internal product development for growth. The new IA NEXT strategy explicitly combines organic product development with targeted acquisitions, cross-selling, increased facility utilization and disciplined capital allocation.

Execution so far has been strong. IA has completed multiple transactions with Honeywell, acquired Moog's S-TEC 3100 autopilot product line, and most recently acquired Aydin Displays. The Honeywell transactions have allowed IA to acquire communications, navigation, inertial-reference, display-generator, flight-control, autopilot and electrical-generation products. Aydin adds ruggedized military displays and brings approximately \$16 million of expected 2026 revenue.

Importantly, management has largely financed this expansion with internally generated cash and reasonably priced debt rather than repeatedly issuing stock. Askarpour also beneficially owned approximately 4% of the company as of March 2026, giving him meaningful alignment with shareholders.

Overall, Askarpour gets very high marks from me, and I view him as one of the best CEOs of any sub-\$1 billion company.

Substantial Long-Term Growth Prospects

IA has several independent drivers that I believe could support 20%+ annual growth for a long period of time.

The first is the acquisition strategy itself. Aerospace is filled with small product lines sitting inside much larger corporations. These assets can be unattractive to a company generating tens of billions of dollars of revenue while being extremely attractive to IA. Honeywell has already sold several product families to IA, and management has indicated that the acquisition pipeline remains active.

The second driver is the aging global aircraft fleet. Older aircraft require increasing levels of maintenance while airlines and militaries frequently find it more economical to upgrade an existing aircraft than replace it. IA's historical strength in cockpit modernization positions it directly in this market. Its combination of displays, navigation equipment, flight controls, sensors and other systems increasingly allows the company to provide an integrated solution instead of a single component.

The third and potentially most important long-term driver is the Liberty Flight Deck. Liberty is IA's next-generation integrated avionics platform and is designed to be customizable across commercial, business and military aircraft. The long-term objective is increasing cockpit automation and reducing pilot workload, eventually enabling much higher levels of autonomous operation well suited to next-generation aircraft like eVTOLs.

Liberty Flight Deck



IA recently won the first production program for Liberty with a Japanese eVTOL developer. The company will provide the primary displays and supporting avionics architecture, with engineering work beginning in late 2026 and initial production targeted for the second half of

2027. Management has indicated that the customer's existing order book exceeds 400 aircraft and that the potential forward-fit value of the program could exceed \$50 million, before potential aftermarket and service revenue.

I view this win as more important as a validation of Liberty than for the near-term revenue itself. Aerospace products are difficult to get onto the first platform, but once a technology has been certified and proven, winning subsequent programs becomes easier. On a recent call with IR, I asked what their expectations are for Liberty program wins over the next few years, and they indicated they expect to win multiple other contracts over the next 2 years for Liberty Flight Deck. I don't believe any Liberty wins are currently priced into the stock.

Finally, IA's addressable market continues to expand through acquisitions. The Aydin acquisition moves the company beyond aircraft into naval and ground-defense applications, while the Honeywell generator products give IA exposure to aircraft electrical power. These businesses expand the number of products that can be sold through essentially the same engineering, manufacturing and customer-support infrastructure.

Management has established a long-term objective of reaching \$250 million of revenue while maintaining adjusted EBITDA margins of 25%-30%. That target is aspirational and will almost certainly require additional acquisitions, but the progression from \$35 million of revenue in 2023 toward approximately \$100 million today demonstrates that the strategy is already working.

Reasonable valuation

At approximately \$19 per share, the company's market capitalization is roughly \$340 million. IA had \$43.8 million of net debt at the end of June and subsequently borrowed approximately \$24.5 million to fund Aydin, putting the pro-forma enterprise value around \$400 million before accounting for subsequent cash generation.

Current consensus estimates call for approximately \$119 million of fiscal 2027 revenue and \$33 million of EBITDA. On those estimates, IA trades at roughly **12x forward EBITDA**. For a company with a track record of growing revenue above 20% per year since Askarpour took over, the valuation seems cheap.

On top of that, reported growth has been depressed by lapping elevated F-16 revenue from Q1 and Q2 of 2025, with year-over-year revenue growth of just 1% and 10% in the last two quarters. Management has stated that, excluding F-16 revenue, the underlying business grew roughly 40% over this period. Management has also confirmed the F-16 lumpiness is now fully behind the company, which should set up very solid revenue comparisons going forward.

Catalysts and Conclusion

- **Aydin integration and earnings accretion:** IA acquired Aydin Displays in July for \$24.5m, adding roughly \$16m of annual revenue plus new exposure to naval, ground-defense and military display markets. Successful integration, margin improvement and cross-selling into IA's broader avionics portfolio could provide a meaningful step-up in FY2027 revenue and EBITDA.
- **Liberty Flight Deck wins:** IA recently secured the first production award for Liberty Flight Deck with a Japanese eVTOL developer (likely SkyDrive). Additional Liberty customer wins would validate the platform and could materially expand IA's organic growth opportunity across new aircraft launches.
- **F-16 normalization + strong aftermarket growth:** IA has completed the F-16 manufacturing transition and certifications, positioning that business to normalize while commercial aftermarket and business aviation continue to grow strongly. At the same time, IA entered the back half of FY2026 with an \$82.9M backlog, giving it good visibility into continued growth and operating leverage.

IA fits the Deep Sail framework particularly well because there are multiple ways to win. The legacy and acquired aftermarket businesses provide profitable, recurring cash flow; additional orphaned product acquisitions can continue compounding the existing platform; and Liberty gives the company an organic growth opportunity that could eventually become larger than the legacy business.

Short Portfolio Summary

	Q3
Average Short Exposure	40.9%
Contribution (gross)	7.4%

Best Performing	Q3	Worst Performing	Q3
Falcons Beyond Global	1.6%	Arqit Quantum	-0.8%
RUM Group	0.7%	Cloudflare	-0.7%
IonQ	0.7%	Twilio	-0.2%

The short portfolio outperformed the Russell 2000 and the Russell Midcap Growth Index on a total-return basis, and even on a contribution basis. The core driver of performance was a massive decline across low-quality, long-duration equities, including the quantum computing names.

The short book was also heavily exposed to the "fake" neoclouds, which has already generated strong returns for the Fund in Q4 amid recent concerns about CoreWeave's ability to finance its ongoing AI data center buildout.

Regarding the overall short opportunity set, over the past month heavily shorted names declined more sharply relative to the broader market than at any point I have seen in several years. As a result, I have recently cut short exposure, as I view the short opportunity set as unattractive for the rest of the year.

Top Holdings & Current Exposure

Long Portfolio	Industry/Segment	% of NAV	Short Portfolio	Industry/Segment	% of NAV
Mercado Libre	Ecommerce	10.4%	Arqit Quantum	Quantum Computing	-4.3%
Celestica	Electrical Hardware	9.3%	ARK Next Generation Technology ETF	ETF	-3.2%
Supercom	Electronic Monitoring	8.9%	ARK Blockchain & Fintech Innovation ETF	ETF	-3.1%
Credo Technologies	Connectivity	8.9%	New Era Energy & Digital Inc	Neocloud	-2.9%
SK Hynix	Memory	8.8%	ProShares Ultra Bloomberg Crude Oil	ETF	-2.7%

At the end of the third quarter, the Fund held 21 long positions and 26 short positions. The Fund ended the quarter with exposure of 134% long and 43% short, or 91% net long.

Seed Capital or Strategic Partnership

Deep Sail Capital is actively seeking a seed capital partner and is also open to conversations with potential strategic partners. Our goal is to thoughtfully expand the fund's capital base and infrastructure in a way that best positions Deep Sail for many years of future growth. If you or someone in your network may be interested in learning more, I would welcome the opportunity to connect.

Please feel free to reach out to me directly at sean@deepsailcapital.com for more information or if you have interest in a seed capital investment.

Sincerely,



Sean Westropp
sean@deepsailcapital.com

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“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 gross-of-fees return figures, please reach out to the fund manager at the email sean@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”.

“Since Inception” refers to the date Deep Sail Capital launched to outside capital, which is July 1st 2022.