# Summary & Transcript

**Ross Hendricks**

# 1. Strategic Actions and Decisions

- **Analyze Cellebrite (CLBT) as a recession-proof, value-oriented investment opportunity: Evaluate Cellebrite as an anti-bubble stock operating outside the AI hype cycle, possessing wide moats and high-quality software advantages.**
- **Leverage Cellebrite's two-pronged hardware and software ecosystem: Utilize specialized physical hardware to bypass security encryption on digital devices alongside software solutions that ensure evidentiary chain of custody.**
- **Capitalize on the law enforcement digital evidence processing backlog: Address the increasing burden on police agencies, where average cases contain multiple devices with massive data volumes requiring extensive manual review.**
- **Monetize high customer switching costs and ecosystem dominance: Expand existing account value using strong net dollar retention, driven by extensive global integration and localized training programs.**
- **Exploit regulatory barriers to entry and mispriced market sentiment: Position for potential market outperformance while leveraging deep regulatory authorizations that protect federal contract revenue from disruption.**

# Executive Summary

**The general software market faces significant volatility due to widespread AI disruption fears, creating a rare mispricing of high-quality software equities. Cellebrite (Ticker: CLBT) represents a recession-proof, anti-bubble investment option with strong competitive advantages in digital forensics and intelligence. Serving law enforcement and enterprise clients globally, Cellebrite extracts and processes encrypted data across thousands of device types while maintaining strict legal chain-of-custody protocols. With an 18x free cash flow multiple, 85% gross margins, and high switching costs reinforced by government certifications, the company provides steady 19% annual revenue growth and strong defensive market positioning.**

# Key Takeaways and Practical Lessons

1. **Focus on recession-proof software value over market hype cycles: Identify software businesses with wide moats that operate independently of speculative tech rallies and broader economic contractions.**
2. **Combine proprietary hardware with software platforms to secure market dominance: Pair specialized physical extraction tools with software management systems to prevent pure software-based disruption.**
3. **Address high-friction manual operational bottlenecks: Deploy automated analytical platforms into workflows severely delayed by legacy physical processes and data overloads.**

4. **Build deep ecosystem moats through industry-standard training and legal adoption: Embed platform workflows into educational, operational, and legal systems to raise switching costs and secure recurring revenue growth.**
5. **Use rigorous regulatory approvals as structural competitive barriers: Acquire difficult government authorizations to protect contract streams from prospective competitors and rapid technology shifts.**

### TRANSCRIPT

**04:23:58:16 - 04:24:18:01**
Ross, how are you, my friend? Hey, George. Some great, glad to be here. Thanks for the invite. I'm, honored to be part of such a great crew. You got assembled here today. Well, thank you for participating. You and I have been together on spaces. And this is something a little bit different. And I'm always. I love the way here.

**04:24:18:01 - 04:24:38:23**
You always got some idea which is a little bit off the beaten path. It's always interesting. And, Yeah, in a world where I think you and I have similar global views about, you know, AI and tech and all the other stuff, and you, you were very public and correct in calling in energy. So I think we kind of go to the same church or synagogue on this stuff.

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So, you know, a very challenging market, tech trades going one way and or just going another way. To paraphrase Alan Greenspan, if you're not confused, you're not paying close enough attention. There's a lot of cross carpets. So we try to help the folks. You know, I don't know if you want to talk about what's top of mind if you just generally first like something about the market, the market, the morning stocks, maybe there's some sectors really eight really like, but you know, but only to extent that it helps contextualize, what your ideas.

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So the floor is yours or else. How about it. Yeah. So as you mentioned, I think we're both part of the same school that just sees this market is kind of run amuck with speculation and risks and a number of different places. So what I've really been focused on is just finding individual stock ideas that are recession proof and away from this hype cycle that we're seeing with the whole AI mania.

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And, just trying to find for just trying to find value, basically. So one of the ideas that I think as a sector, I know that there's a lot of garbage in the software sector. So I'll make that is the caveat. A lot of these stocks were way over inflated, you know, especially during the whole Covid environment, you know, trading at 50 times sales in some cases.

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But I do think that now it's kind of come full circle where there are certain high quality software stocks that have real durable competitive advantages, wide moats around the business that have sort of just been thrown out, you know, baby, with the bathwater, with this whole idea that AI is going to disrupt every software business as we know it.

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So the the company that I found, I think is probably the best positioned, among this whole cohort is a, it's an Israeli based, software company that deals with intelligence and forensics data. So I don't know if you if we want to jump right into that. But that's kind of, you know, as of lately, you know, let's get into the idea, and then we can, we can we can we can circle back.

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Well, we'll generalize from the idea. Let's come out with the idea. I see you got your desktop open here, a lot of different files. So let's get the file open with, for the relevant stock. All right. Here we go. All right. Is that showing up? Just a little. It looks. It looks beautiful, darling. Go ahead and so just as a full disclosure, this is, part of the Puerto Rico trading Club that I manage, which is a real money portfolio.

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So we have a position in the stock currently. And I also have a personal position. So just want to get that out of the way. But

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the headline here is that this is I view this as a recession proof, anti bubble stock. So it's basically you can almost chart the, you know every day that semis are up, this gets sold off with every software stock.

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It's just perpetual at this point. So I think that this is it has a chance to really outperform once this whole AI mania unwinds. And so we'll get right into it here. Standard disclaimer nothing here is investment advice. This is just strictly educational informational purposes only. Move on from that. So the company is celebrate ticker club team.

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And the headline for this is basically the gold standard in digital forensics. So at a high level in today's modern crime fighting, everything revolves around digital devices and most notably, this, cell phone right here, you know, which we all carry around in our pockets every day. And, basically become the modern equivalent of, like, the Big Brother device that, Orwell probably couldn't have even imagined when he wrote, you know, his books back in the day.

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But it's, you know, these devices, whether it's phones, tablets, computers, they contain everything about our, you know, most intimate details of our lives, whether it's financial information or who we're communicating with or what apps we're using and all the data inside of those apps. So it's just a treasure trove of information for modern day, you know, law enforcement.

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So what Cellebrite does is they have sort of a two pronged business. The first component is hardware. And that's a really important, component of this business because that's basically, you know, disruption proof from an AI perspective is you have to have the actual hardware tools to be able to get into these devices and crack into them to retrieve all this data that's typically encrypted behind a password.

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So when criminals don't want to give up their passwords when they're brought in to the station or whatever, Cellebrite has the devices that can get in there and basically bypass all the security protocols, extract that data, and then process it for various investigative purposes. So Cellebrite, they've been doing this for a long time. They're basically they've evolved into the gold standard among law enforcement agencies, and they're widely entrenched into the legal system globally.

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So as a high level, they're keep they have sort of three main product offerings. So they have insights, which is hardware and software for extracting the raw data. They have a library of about 30 over 30,000 devices that they can crack into. And every year there's more new iterations coming to market, and they stay at the forefront of being able to crack in, whether it's every new iOS, security protocol or all the new devices coming to market every year.

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They're sort about the bleeding edge of staying on top of that. They also have something called Guardian. And this is important for when that data is extracted. There's something called a chain of custody, which basically just means that when law enforcement collects a piece of evidence, whether it's physical or digital, they have to be able to tag it and ensure that it's not been tampered with.

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And there's a whole from like the day you collect that data all the way till the day you end up in court, you have to have this physical, not a physical, but a chain of custody, which basically proves that this data is authentic and hasn't been mismanaged or corrupted or anything like that. The third thing is Pathfinder, and this is the exciting kind of, frontier of their business model, which is basically allowing, police agencies to extract all of the data from a phone and very quickly link people, places, times and draw insights and actionable leads from this massive trove of data the agencies extract over time.

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And just to kind of give you an idea, here's a case study of how effective this software is and how valuable a tool it is for law enforcement. So in January of 2024, there was a national championship college football game being held in Houston. And it turned out that there was this child ring that was basically operating inside of this event.

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Don't ask me how you know that happens, but whatever the background was, there was, you know, several suspects running this organized crime ring. And so the police were able to get one phone off of one suspect. It had hundreds of thousands of images, and they were able to plug it into, cellebrite software and immediately start linking this one suspect to the whole chain, this whole criminal network.

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And the kind of punch line is that they were able to crack this ring. They rescued seven girls and made 23 arrests. And, there is a quote in the paper talking about it the next day about this, forensic investigator who was part of this, takedown effort specifically calling out Cellebrite, which is like the key software that helped them quickly get in there and make all these connections and basically crack this, this crime ring within, you know, a very short period of time.

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So it's not just about, you know, taking data once a crime has already been kind of done. It's about actively investigating ongoing crimes and quickly analyzing, you know, all of this digital data in a way that they can make connections and basically, you know, attack crime as it's happening. So that's kind of the value that this platform brings.

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What makes it special is that you'll see a lot of different, one off solutions for getting into phones and cracking through encryption and things like that. What makes Cellebrite unique is that they have a full spectrum platform. So it's not just about getting into the phone and bringing information off of it, but it's about, integrating this platform throughout an entire law enforcement's workflow so that from the all the way from the gathering of raw intelligence from an individual device, analyzing that data, compiling it and sharing it with different agencies, and then all the way through, when you go to the court to actually prosecute the crime, you have, the ability

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to, you know, make court ready reports from the software platform. So it kind of covers the full spectrum. And if anything, it's it's it's not just about making law enforcement more effective in their job, but also saving man hours and time from having to manually process this data and do it much quicker, much quicker, quicker through this full spectrum platform.

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And so the big opportunity here is this secular growth in, you know, as as our worlds become more digital and we're constantly adding more devices and more data into our and our lives, that naturally causes this proliferation of data that law enforcement has to process just to, you know, perform routine investigations. So we're at a point now where the average criminal investigation contains anywhere from 2 to 5 devices, and that's about 60,000 messages, 32,000 images and a thousand videos.

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So you can kind of imagine, you know, law enforcement agencies are being inundated by all of this digital data, without cellebrite, if you're doing this manually, investigators can spend up to 45 hours

per case just analyzing this and trying to make sense of all this information. And over the last few years, the average time to process all this, data extraction generate reports has increased from six days to 14 days throughout, you know, the full investigation.

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So celebrates big value proposition is basically freeing up law enforcement from having to manually sift through thousands and thousands of different, whether it's photos, videos, text messages. It does this and it uses AI now to, you know, make connections and just massive accelerate this process away from, you know, one person clicking through thousands of images to doing it all through this, software platform.

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And there's a big opportunity ahead for them because, you know, the law enforcement world, they're sort of still stuck in the in the analog age where they do things like they manage digital evidence with physical USB devices that they're passing back and forth and so celebrates big opportunity is to bring all these law enforcement, agencies into the digital software age where you have, you know, this platform that can just massively speed up this this whole process of analyzing digital data.

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Another, you know, data point here is that you're just seeing massive backlogs in law enforcement agencies where there's thousands and thousands of devices waiting and evidence from is just to be examined. And so that just paints the picture of how big this opportunity is and how we're still, I think, in the very early innings of this trend.

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So the big advantage Cellebrite brings to the table is they're already the globally dominant industry leader. They've been in this for over a decade. And they've kind of we're here from the beginning of the sort of the digital age of crime fighting. And they're now the at a place where they have over 7000 global customers. North America's the biggest market, so they've got a total of 3000 customers in North America that covers all 50 US states.

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Every federal cabinet agency uses celebrate technology. And also in the EU, all 27 national police organizations run off this technology. And while it's mostly a government, you know, contracting type business, for about 90% of revenue flows through either, you know, federal, state or local police offices. You also have a private sector business where they're sold and 72 of the top, fortune 100 companies.

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So the competitive advantages here are they have several that are kind of reinforcing. The biggest is that they're just the largest player by scale. So that gives them the biggest R&D budget. And that in turn helps them stay at the leading edge of every new device that comes to market. There's hundreds every year, whether it's, every new iPhone device, every new iOS software patch that

comes through, they are basically at the leading edge of constantly figuring out how to get into these devices, bypass those security protocols, and extract the data from these devices.

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So they are now the, the incumbent as well. So they have the advantage of being integrated into law enforcement workflows. They, they have this thing called the Cellebrite Academy, where they train over 10,000 workers every year on how to actually use this technology, because as you can imagine, you know, being you when you just are handed this software, it there's a steep learning curve to understand exactly how to, you know, do all the bits and pieces of what goes on analyzing this data and being effective with pulling it from devices and sifting through it.

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And by setting up this academy, it's it's similar to what Adobe does, where they have a Adobe's big advantage before this whole AI disruption was that they're integrated into every major college across, you know, North America, where all the graphics design students are trained on Adobe software. And that in turn makes them, you know, it bleeds over into as they go into the workforce.

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All of the enterprises, you know, have Adobe software, so celebrates kind of following that same model where they're they're building this global workforce that's trained around cellebrite workflows. And that just makes them an incumbent where everyone is kind of standardizing around their processes. A third major advantage is that they are a trusted brand among the global legal system.

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So again, going back to that whole chain of custody argument we talked about earlier, where you have to be very, conscious about when you're presenting this digital data to a court system. The question is can we trust the process that you use? Can we trust the vendor that is responsible for producing this data and celebrates advantages that they have become sort of the de facto standard for presenting digital forensics data into the major court systems around the world.

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So if you're an upstart competitor trying to break into this market, you're going to face a very tough hurdle trying to sell yourself to a law enforcement agency where they have to question, well, if I bring, some data from, you know, Joe Blow competitor, is it going to be thrown out in court? How do I know it's trusted?

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It's going to be accepted. And that's a huge bar that any competitor would have to clear to display celebrate. And so they have through all these factors, they have, incredible network effects where you are integrated across multiple police agencies so you can share data across their platform, whether you're working with different state and local law enforcement agencies or coordinating with federal.

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So, if everyone has the software installed, they can easily, share and transmit, analyze data on the same platforms. So you get a network effect that way. The switching costs are very high. Once you have trained your workforce around how this technology works. And so you can kind of see how this creates a locked in customer base where they're not just sticking around, but they are integrated into a platform where you can upsell them to new features and new capabilities over time.

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And so you can see that in the fact that they have a net dollar retention rate that ranges from about 115% to 125%, meaning on average, their existing customers are spending anywhere from 15 to 25% more money with the platform over time, which is a really strong metric for any kind of subscription software business. So when you kind of put it all together, it's it's a recession proof business because you're selling, you know, mission critical software to law enforcement agencies.

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The demand for this stuff doesn't really go away because crime never is. You know, crime doesn't sleep. You're always going to be an in-demand part of what is an ongoing, you know, need for law enforcement agencies. And because they're able to generate that consistent revenue retention, whether they're retaining existing customers, they're upselling them over time, anywhere from 15 to 25%.

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You get this nice secular growth profile where they've been able to grow, on average, by about 19% per year. So it's, a nice, stable recurring revenue business that you can kind of you don't need a whole lot of mental gymnastics to be able to forecast the runway. It's just very steady, steady growth over time. So so you know I keep going Skerrit go ahead go ahead.

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You mean to stop it. Go ahead. Oh no worries. So you know keep going keep going. Yeah. So on valuation here just to kind of put things in perspective. You know you've got 252 million shares outstanding. Last I checked it was around $14 per share. So you've got a $3.5 billion market cap. You've got 500 million in cash on the balance sheet.

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So very clean, rock solid, balance sheet position that gets you to about a $3 billion enterprise value. And this year, they're on track to generate free cash flow over on 170 million. So that gets you an 18 times free cash flow multiple, which is, a steep discount to the S&P 500, which is right now trading at over 30 times so attractively valued.

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And I'd say, when people are looking at, you know, publicly traded comps for this business, I think the closest competitor that you can kind of mirror this business off of is Exxon Enterprise. They have a similar hardware software ecosystem where they Exxon sells the tasers and body cameras, and then they have a huge software business that goes along with processing all that data.

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Exxon has been one of the most, you know, high performing stocks in the market. It's on par with Apple over the last 25 years in terms of its returns compounding at about 30% a year. And when you compare these two businesses, you actually see Cellebrite as a little bit of a higher quality business than the industry leader for this type of, business model.

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So you've got gross margins for celebrate 85% versus 60 for axon, celebrates a very high cash generative business. So they generate 30% free cash flow margins. Exxon's at about 13%. And it's a slightly slower growth rate, you know, about 90% a year versus Exxon at 30. But you know, the valuation disparity here is pretty low. So you know, so so this sounds really compelling.

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Russ, is there a company specific bear case or is this just a general pall over the software sector that's causing the stock to not be more richly valued? Yeah. So there's kind of this brings me to my next slide here. There's there's been three main headwinds that have caused the share price. If you look at the trading history that it's kept this thing from I think appreciating to where it rightly should trade.

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The first big overhang is it came public via Spac, which was a big mistake. They kind of, caught right at the tail end of the Spac boom. They're Israeli based firm. And so I think that they they broke on to the US market when SPACs were big right at the end of 2021. They had a big overhang as that whole sector imploded.

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But then they had a nice recovery off that because, again, the business fundamentals just keep compounding. So you had this nice run up and then so 2025 was the first sort of big bear thesis when it was, you know, trading nicely at all time highs about $25 a share. And as you recall, there is a lot of, hullabaloo about how Elon Musk was going to take the Doge agency to Washington and cut $1 trillion off the budget.

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Which was supposed to just kill any anyone that's selling anything to the federal government, which includes Cellebrite as a major, federal contractor. But, of course, as we know, those fears were totally misplaced. Doge was basically a joke. Nothing got cut. And as the business continued. So if you look back at 2025, there was zero change.

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They grew 19% that year. So there was a lot of fears about cutting contracts. But their software is so sticky and so ingrained that they they didn't even have a haircut, really. So it was on its nice track to rebound coming into 2026. And then the latest fears is just this whole SaaS pocalypse, where every software business has just been, you know, thrown out, you know, with the bathwater.

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And so really, it's so we're sorry to interrupt. I just want to wrap it up. So whereas you and I both have agreed in the past year in spaces together, software is kind of like a minefield. You really got to know what you're doing is have the have nots. There'll be some disasters that are having to go out of business sale.

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For instance, I don't know, Adobe whatever. It's having its Kodak moment, but they're going to be strong winners here amongst the rubble. And you think this is one of them. Exactly. Yeah. That's the bull thesis in a nutshell. Got it. There's no real there's no bear cases there. I mean. No, I'm there's no company specific thing like like somebody is coming out with a competitor or something like that.

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I mean, no, I mean Spac overhang. Okay. So it's out, all right. Yeah. And that's the final thing that kind of insulates this business is there's this thing called the FedRAMP authorization, which is if you want to be a licensed seller to the federal government of a cloud based software platform, you have to go through, like this multi-year process to be authorized just to be able to be sold legally.

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So Cellebrite has that authorization. They recently brought, I think they they recently got approved in March of this year. So they that opens up a whole new market for them. And, you know, for anyone to come in and displace them, they have to not only replicate what is the leading platform and overcome all of the institutional inertia of being like the globally entrenched leader, whether it's in their court system or in law enforcement agents workflows.

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You also have to get approved from, you know, the regulators. And so even if you have the most sophisticated AI software coding and you can replicate their core software engine, there's just so many hurdles you have to overcome to ensure, you know, a competitive viable. So it sounds really interesting.

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Seriously. I've never heard of this company.

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I got to do some work on it. Ros. Anything else you want to say? Otherwise? This has been really a great rendition of the case. We will get together again for a podcast I see on the spaces, but thank you so much for doing this, for helping the folks. And, look forward to a up. Yeah, that sounds great.

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Look forward to it as well. Thanks for having me. Okay. Thank you.