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Q4 2023 Cellebrite DI Ltd Earnings Call

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PRESENTATION

Operator

Welcome to the Cellebrite fourth quarter and full-year 2023 financial results conference call. (Operator Instructions)

I would now like to turn the call over to your first speaker today, Mr. Andrew Kramer. Mr. Kramer, the floor is yours.

Andrew Kramer *Cellebrite DI Ltd - VP, IR*

Thank you very much, Angela. And good morning, everybody. Joining me today from Washington, DC, are Yossi Carmil, Cellebrite's CEO; and Dana Gerner, Cellebrite's CFO. Tom Hogan, Cellebrite's Executive Chairman, is also with us today and will be available to participate in the Q&A portion of our call.

There is a slide presentation that accompanies our prepared remarks. Please advance the slides in the webcast viewer to follow our commentary. We will call out the slide number we're referring to in our remarks. This call is being recorded and a replay of this recording will be made available on our website shortly after the call.

Starting with slide number 2, a copy of today's press release and financial statements, including GAAP to non-GAAP reconciliations, this slide presentation, and the quarterly financial tables and supplemental historical financial information for each quarter of 2023 and 2022 as well as 2021 data are available on the Investor Relations website at investors.cellebrite.com. Also, unless otherwise stated, our discussion of our fourth quarter and full-year 2023 financial metrics as well as the financial metrics provided in our outlook on today's conference call will be done on a non-GAAP basis only, and all historical comparisons are with the fourth quarter of 2022 or the full-year 2022 unless otherwise noted.

In addition, please note that statements made during this call that are not statements of historical facts constitute forward-looking statements. All forward-looking statements are subject to risks and uncertainties and other factors that could cause matters expressed or implied by those forward-looking statements not to occur. They could also cause the actual results to differ materially from historical results and/or from forecasts. Some of these forward-looking statements are discussed under the heading Risk Factors and elsewhere in the company's annual report on Form 20-F filed with the SEC on April 27, 2023. The company does not undertake any obligation to update any forward-looking statements to reflect future events or circumstances.

Slide number 3 provides the agenda for today's call. As you will hear, we closed 2023 with another strong quarter. As a result of our accomplishments today and the near-term opportunities we see, we are excited about our prospects to build on our momentum in 2024, which is reflected in our financial expectations.

And with that said, I'll now turn the call over to Yossi Carmil, Cellebrite's CEO.

Yossi Carmil *Cellebrite DI Ltd - CEO, Director*

Thank you, Andrew; and thank you all for joining us today. So Cellebrite delivered an outstanding performance in 2023 and we closed the year with another strong quarter. Our team did a great job executing on our plans throughout the year. We delivered impactful,

customer-centric innovation, we expanded our customers' relationships, built our brand, and thoughtfully managed all aspects of our operation. Our accomplishments and strategic progress enabled us to exceed our original and upgraded 2023 financial targets. We also surpassed Rule of 45 status in 2023 with ARR growth of 27% and adjusted EBITDA margins of 19%. We move into 2024 as an even stronger market and technology leader.

Now, we began 2024 by announcing Cellebrite expanded Case-to-Closure, our C2C software platform. Our C2C platform is trusted by thousands of public and private sector customers in support of their efforts to close more cases faster. Now every day, our customers see that Cellebrite's solution deliver on our brand promise of Justice Accelerated throughout the entire digital investigation life cycle. Our solutions play an important role in helping our customers transform their investigative workflows and make digital evidence more accessible, more intelligent, and more actionable. And as a result, we have built a strong foundation for us to continue thriving as a market and technology leader going forward.

But before I dive into the details, I want to say that it is definitely an exciting time for Cellebrite and Cellebrite shareholders. And we want to share more about how exciting our development is. And over the past years, we've taken important steps to upgrade our investors' communication and we are building on this effort in two additional important ways. First, I'm happy to inform that we'll be holding our first-ever Investor Day next month, which will be a great opportunity for us to share more about our healthy growing market, about our value proposition that is resonating with customers, about our attractive opportunities for strong growth, and our very bright future. And second, as of this quarter, we are providing quarterly guidance as a complement to the annual outlook that we have always offered.

Now, while I plan to share more about the opportunities that lie ahead of Cellebrite in a moment, I would like to turn now to slide 4 to recap our Q4 performance and selected KPIs. And more specifically, ARR grew 27% to \$315.7 million. Total revenue of \$93 million increased 26% on the strength of a 26% increase in subscription software revenue. We delivered adjusted EBITDA of \$22.27 million, or 24% on a margin basis, and non-GAAP EPS of \$0.11. And lastly, we ended 2023 with cash deposits and investments totaling approximately \$332 million, an increase of 62% since the end of 2022.

Now, looking at our full-year performance, Cellebrite exceeded its targets and Rule of 45 status. We achieved record ARR and revenue, mainly due to our success in expanding existing customers' relationships and nearly doubled our adjusted EBITDA margins. We aim to build on these results going forward by delivering a balanced mix of strong ARR growth and healthy profitability in 2024.

Now there are a number of factors that reinforce our confidence about our prospects for continued success in 2024, so let's move to slide 5 to cover this. I'll begin with our market, and we continue to operate in a healthy market. Now while overall spending on public safety continues to grow at a steady, but I would say, moderate pace, we expect that customer spending on Cellebrite solutions will keep increasing at a much faster rate. That's because our customers remain resource constrained. They are perpetually understaffed, underequipped, and under pressure.

Now against this backdrop, our customers increasingly recognize that disruptive technology like ours, like Cellebrite, will help them work smarter, faster, and more effectively. Our Case-to-Closure platform, our C2C platform, is designed to enable our customers to close more cases faster by addressing major challenges; challenges around surging data volumes and increased complexity, operational inefficiencies, and building public confidence in law enforcement's ethics and accountability.

The second prospect is around customer relationships. We are fortunate to have built durable, expansive relationships with a wide range of government agencies at national level, regional level, and local levels. And as a result, most of our growth comes from upselling and cross-selling into our installed base. Now, digital forensic software solutions are both trusted and pervasive within the digital forensic units of our customers. This privileged position, in combination with our Case-to-Closure platform, is unlocking further expansion with digital forensic units and opening the door for accelerated growth within investigative units.

Now the fourth quarter saw healthy attachment rates of sales involving multiple flagship solutions within our Case-to-Closure platform. And there is also the platform factor. Cellebrite has evolved from offering cutting-edge point products into a true end-to-end platform provider with solutions used throughout the digital investigation life cycle, with deployment flexibility spanning on-prem virtual private cloud or in full SaaS mode.

Now, this is a major differentiator in the marketplace, which enables us to effectively address a broader range of our customers' pain points. Our Case-to-Closure platform is composed of three primary tools. First, within digital forensic units, Cellebrite is widely recognized for best-in-class digital forensic software that is used to access mobile phones, extract the data and reveal important digital evidence.

Now building on this rich experience, Cellebrite is moving our industry forward once again with last month's introduction of Cellebrite Inseyets. Now Cellebrite Inseyets is a game-changer, enabling customers of all sizes to complete an examination up to twice as fast as previously by leveraging proven Cellebrite technology and adding new capabilities that will allow our customers to access more devices, extract more data, and reveal more important information.

Inseyets represents a compelling upgrade for an installed base of more than 30,000 existing licenses for our legacy digital forensic software solutions. Now the strong and enthusiastic interest we've seen from customers, combined with our success in swiftly upgrading our installed base in prior product cycles, provide us with confidence about expected adoption rates over the next couple of years. Now while the higher value provided by Inseyets commands definitely a higher price tag that will certainly contribute to our growth over the next several years, we do expect that more of our growth will come from upselling high-value Inseyets modules, modules such as advanced lawful access, automation, extraction of complementary digital data sources, and sharing digital evidence reports.

The second major solution on our C2C platform is Guardian, our SaaS-based case evidence management offering that delivers tangible benefits to both digital forensic units and investigative units. The Guardian offers greater operational efficiencies for managing digital evidence workflows. Guardian also enables better collaboration between examiners and investigators. Now, we believe Guardian will be the go-to tool that investigators use as they advance cases involving digital evidence. And Guardian strengthens the overall chain of custody when it is used end-to-end. While we are still in an early stage of Guardian adoption, we are very pleased with our traction and confident that executing on our roadmap will make it even more attractive for more of our installed base to benefit from Guardian's features, functionality over the coming quarter.

And to the third solution, with digital evidence so integral to closing more cases faster, the investigative units is an emerging Cellebrite second growth engine as we establish Pathfinder as an essential analytics solution to help investigators expedite their cases. Now by applying powerful AI technology and machine learning models, Pathfinder quickly surfaces leads and identify connections buried within mountains of structured and unstructured data across multiple digital devices. Now we closed a record number of Pathfinder deals in the fourth quarter of 2023 to finish 2023 with approximately 200 agencies now using this solution. And looking ahead, we plan to bring Pathfinder on the cloud, which will make our investigative offering even more compelling and easier to deploy for our entire installed base.

And there is the element of technology, and I have to say that we are making really sizable technology investments that are elevating the value of our C2C platform. One important area of focused technology investment is the cloud. Now while we have historically delivered our software through on-prem deployments, our customers are increasingly interested in cloud-based offerings. Although our cloud-based revenue was less than 10% of our total 2023 revenue, I have to say it grew very rapidly in 2023 and we expect that growth to continue.

Now with the investments we are making to scale our SaaS infrastructure, our roadmaps for 2024 include cloud-enabling offerings previously only available on-prem, and developing cloud-native offerings that will further transform key elements of the investigative life cycle. Related to this, we are investing significant resources this year to achieve FedRAMP certification for our SaaS offerings; a milestone that we believe will open up more federal opportunities and support large deployments at scale.

A second fundamental technology building block is automation. By leveraging AI, cloud technology, and our unique Inseyets into the workflows of our customers, we are helping customers increase operational efficiency by automating time-consuming manual tasks, by streamlining complex processes, and by minimizing capital investment in compute-heavy systems that further tax limited IT resources.

AI is an important foundational technology that is already deeply embedded within both our Inseyets solution and our Pathfinder

Analytics. Now, by advancing and applying our proprietary machine learning models, while also exploring the potential of generative AI, our solutions can quickly capture powerful, timely insights into digital evidence that have been collected, can support automation. Our solutions can expedite investigations more efficiently, and this is important, can also limit the emotional toll that viewing certain images can have on examiners and investigators.

And the final area of our technology priorities lies in mobile research. On that front, as always, we plan to continue applying our expertise in smartphones' operating systems and security to ensure that Inseyets will keep pace ongoing changes in smartphones' hardware, operating systems, and applications.

And the last growth factor I want to talk about is our team. Now over the past year, we've added key leadership talents across our organization in many areas. More recently, we added Marcus Jewell as Chief Revenue Officer. Now under Marcus' direction, we recently took steps to intensify our customer-centric focus by establishing new global pre-sales organization and post-sale customer success organization, while also adding new sales leadership for EMEA and for the private sector. Our Board and senior Leadership are also benefiting from the counsel of Tom Hogan, who joined us as an Executive Chairman in the past summer. Now we move into 2024 with plans to add to our talented workforce, especially in areas focused on go-to-market and innovation initiatives.

I would like to move to slide 6 to cover strategic priorities in customer success. Now last quarter, we shared our top four strategic priorities for expanding our business over the coming year. The priorities are: one, increasing our leadership in the digital forensic units; second, accelerating our growth within investigative units; three, building our business in the private sector; and four, harnessing the power of cloud. Now we had a number of fourth quarter customer wins that illustrates our success with each priority, so let's talk about it for a second.

Addressing the needs of digital forensic units has long been a major strength of Cellebrite, and our strong fourth quarter revenue and ARR performance demonstrated our continued success in expanding within the digital forensic units of our customers. We've continued to see strong demand for our advanced unlock solutions that deliver lawful access to the most advanced iOS and Android smartphones. For example, we closed a large deal with the national police in a Western European country that will extend its use of our advanced solutions out into the field and thereby reducing time to evidence. Now this specific deal grew the account's ARR by more than 25%.

In terms of Inseyets, our new solution, we are already seeing strong interest from our installed base. Now we've closed a handful of Inseyets upgrades at a level which were above our expectations at such an early stage. A great example of this was a national police force in the Benelux region, who upgraded to Inseyets in order to support its examiners with richer data through full file system extractions and cloud-based content, and access to obviously more devices through an unlimited unlock package. The Inseyets deal produced a 65% ARR increase at this agency.

The second priority is to accelerate our growth within the investigative units of our law enforcement customers. One existing Q4 Pathfinder deal involves a state-based military agency in the United States. Now this agency is deploying Pathfinder and our software for advanced lawful access as part of its initiatives aimed at fighting against human trafficking. As a result, this agency's ARR is more than doubled.

The third priority is focused on building on our business in the private sector, where our solutions are currently used by enterprises and service providers in the areas of corporate investigations and eDiscovery. Now we delivered solid top-line expansion in the private sector during 2023, and we do expect to continue this progress over the coming year. Now with deployment flexibility ranging from SaaS to on-prem, our integrated suite of solutions shine bright when customers' requirements involve a range of data sources, different work environments, and diverse user considerations. For example, our secure remote access software continues to gain traction within enterprises as an important part of our Inseyets for Enterprise solutions.

During the fourth quarter, we closed multiple deals with new customers who selected this offering, including a leading US-based diversified media company that needed a defensible, repeatable process for collecting relevant, targeted data from geographically dispersed employees in order to upgrade its eDiscovery, and corporate investigation activities.

And the fourth and last strategic priority is to help our customers harness the power of cloud to address their challenges in a manner that is both cost-effective and secure. One of the largest US police departments is leveraging solutions across our C2C platform as they build their dedicated digital forensics center focused on standing up investigative capabilities at scale to close more cases. Now, in addition to our solution for advanced access and Pathfinder, this customer will use Guardian to manage judicial evidence and streamline how key findings and reports are securely shared with investigators. Now this deal produced a 12 times increase in ARR at this specific account.

Let's move to slide 7, now I would like to conclude my remarks by reiterating how proud we are of our accomplishments last year on behalf of our customers, our employees, and our shareholders. We reported outstanding financial results that exceeded our targets throughout the year, and we plan to build on this progress going forward. We move into 2024 with powerful tailwinds from a fundamentally healthy market, solid business momentum, and attractive prospects that support the continued expansion of our business around the world.

Our financial targets for 2024 demonstrate the durability of our growth as we expect another year of solid ARR and revenue expansion. Now we also see good potential for incremental improvement in our operating profitability as we drive toward 20%-plus adjusted EBITDA margins. Now, Dana will share additional details on our full-year 2024 financial expectations, along with our view into the first quarter of the year in just a moment.

As we further scale our global organization, we do believe that our ability to continue to enhance the flagship solutions within our C2C platform and execute on our go-to-market plans will enable us to more than double the size of our business over the next several years. At a high level, we do believe that our business should continue to deliver a combination of ARR growth and adjusted EBITDA at or around a baseline Rule of 45, with a focus on elevating our performance over the longer term.

Now I have to say, it is really gratifying to see Cellebrite recognized as an essential partner to those who've dedicated their lives to protecting our communities, stopping bad actors, and preserving privacy. We passionately believe in our mission and in the power of technology to make a profound difference. And perhaps nothing symbolizes our convictions more than Operation Find Them All, a collaboration between Cellebrite and three non-profit organizations under a collective goal to accelerate investigations of online crime against children. Now this project is dedicated to helping law enforcement find missing children, solve crimes involving exploited minors, remove harmful online images, and bring perpetrators to justice. I'm incredibly proud of the role that Cellebrite is playing with Operation Find Them All.

And on a final note, I would like to express my sincere gratitude to my colleagues in Cellebrite for their focus, resilience, hard work, and sacrifice. Now despite some very challenging circumstances, especially for our team in Israel, we persevered, and we delivered this year. We move into 2024 with confidence that we have great people, great products, great partners and programs, and we are excited about our prospects for making 2024 another successful year.

Now that concludes my remarks, and I'd like to turn the call over to Dana.

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Thank you, Yossi. Hi. At a high level, 2023, as Yossi said, was an excellent year. Cellebrite outperformed its original targets and exceeded the Rule of 45 milestone with strong ARR expansion and a significant increase in our adjusted EBITDA margin.

I will begin the financial review on slide 9. Fourth quarter revenue of \$93 million grew 26%. Our top-line growth was fueled by a 26% increase in subscription revenue, complemented by growth in other non-recurring and professional services revenue. We exceeded our top-line targets primarily due to the combination of strong overall demand, favorable product mix, and higher-than-expected demand for training.

For the full-year, revenue increased 20% to \$325.1 million, due to subscription revenue growth of 30%. The 30% growth in subscription revenue was partially offset by a 36% decline in other non-recurring revenue associated with lower perpetual license revenue and a 7% decrease in professional services revenue, which saw reduced demand for Cellebrite advanced services as more customers adopted our advanced lawful access solutions. With subscription revenue representing 85% of total full-year revenue, we move into 2024 with the

transition to subscription now in our rear view mirror.

Slide 10 details our ARR growth, which we believe helps investors better appreciate our prospects for the future revenue growth over the coming year. Our ARR grew 27% year-on-year to \$316 million at the end of '23. Looking closer at the bridge details provided on this slide, you can see that existing customers continue to fuel ARR expansion. This is largely attributable to ongoing success in cross-selling and upselling into the digital forensics units of our customers, complemented by our progress in driving adoption of our Pathfinder solution within investigative units.

In terms of our geographic mix, the Americas continue to be our single largest geography at 53% of total full-year '23 ARR, followed by EMEA at 36%, and Asia-Pacific at 11%. We were generally pleased with the full-year ARR expansion in each major region, with the Americas growing 30%, EMEA increasing 23%, and Asia-Pacific up 29%.

Slide 11 details the historical trends for our non-GAAP gross margin and non-GAAP operating expenses, which excluded share-based compensation, amortization of intangible assets, and acquisition-related expenses. We reported a fourth quarter gross margin of 84.5%, which was in line with our plans entering the quarter and up 400 basis points from the same quarter one year ago. The improvement is due to higher training revenue on a relatively similar cost base versus 2022.

In terms of operating expenses, fourth quarter operating expenses were \$57.6 million, a 21% increase from the prior year, primarily due to higher incentive compensation costs, the timing of certain marketing programs, and the timing and phasing of hiring activity. For the full-year, operating costs increased 8% as we carefully managed our cost structure while also realizing benefits from a favorable ForEx environment.

We ended the year with 1,008 employees, which was really consistent with our plans. In addition to our hiring activity, we're delighted to welcome back a good number of our colleagues in Israel, who had been activated into military service. These individuals have resumed their work for us in a full-time capacity, and we are immensely grateful for their military service, and that they have completed their assignment safely. As Yossi noted earlier, we move into '24 with a strong team and a plan to expand the workforce by approximately 15% over the course of the coming year.

Now turning to slide 12, the combination of higher revenue and disciplined spending resulted in outstanding fourth quarter profitability with adjusted EBITDA of \$22.7 million, or 24% on a margin basis. For the full-year, we ended '23 with adjusted EBITDA of \$61.9 million, or 19% on a margin basis, thanks primarily to our top-line growth, meaningful growth margin improvement, and a focus on prudently managing our cost structure.

Our Q4 non-GAAP operating income was \$21 million with non-GAAP net income of \$22 million, or \$0.11 on a fully diluted basis. On a full year basis, we delivered '23 non-GAAP operating income of \$55.3 million, non-GAAP net income of \$60.9 million, and a fully diluted EPS of \$0.28.

We finished '23 with \$331.8 million in cash, cash equivalents and investments, up \$48.5 million from the end of the third quarter, and \$126 million higher than our cash position at the end of 2022. The increase for the quarter and the year primarily reflected a sizable increase in the net cash provided by operations. Our free cash flow for 2023, defined as cash flow provided by operations less capital expenditures and the purchase of intangible assets, was \$94.1 million. As we reflect on our 2023 progress and performance, it has been gratifying to see interest in our company from the investment community grow.

As Yossi noted earlier, we are continuing to evolve and enhance our disclosures to help current and prospective analysts and investors better understand our business, with a focus on providing greater transparency into our prospects for driving sustainable, profitable growth over the long-term. To that end, we will host an Investor Day on Wednesday, March 27 in New York City. Information about the event has been posted on our Investor Relations section of our website, and invitations to attend the event in-person will be sent next week. Our commitment is also reflected in our guidance, which we've expanded to include our quarterly expectations for ARR revenue and adjusted EBITDA.

Slide 13 details our financial expectation for the first quarter of '24 and for the full year. More specifically, our 2024 ARR targets ranges from \$380 million to \$400 million, or 20% to 27% increase over '23. On a related note, we are optimistic about a potential for modest improvement on our churn level as the impact from our decision to withdraw from certain markets and cease selling to certain customers dissipates.

Our first quarter of '24 ARR targets ranges from \$325 million to \$335 million, which would equate to 24% to 28% growth over the first quarter of '23. We expect full year '24 revenue to range from \$370 million to \$385 million, which represents 14% to 18% growth over '23. As we look forward, our revenue and ARR expectations are further supported by a healthy pipeline, including opportunities to drive Inseyets upgrades and related add-on module upsells, cross-selling and upselling Pathfinder and Guardian into the installed base, and private sector expansion.

We expect Q1 of '24 revenue in the range of \$83 million to \$88 million, or 17% to 24% higher than the first quarter of '23. In line with these historical trends, we expect approximately 52% to 55% of full-year revenue to be generated in the second half, along with a higher quarterly revenue growth rate in the second half of the year. These dynamics primarily reflect our expectations for product mix in conjunction with the timing of typical year-end spending activities associated with our US federal customers in September and most other accounts at the December year-end.

We expect our '24 gross margins to be in the 82% to 84% range as we increase the investment required to build out the hosting infrastructure to further scale our SaaS offering. We expect Q1 gross margin to be in line with or slightly above the full-year targets. We anticipate 2024 non-GAAP operating costs in the range of \$240 million to \$250 million with a marginal sequential increase from Q4 '23 to Q1 '24.

We are optimistic about our potential to continue improving our profit profile and currently anticipate adjusted EBITDA in the range of \$70 million to \$80 million, or 19% to 21% of total revenue. Consistent with historical trends and in connection with our '24 top-line outlook, we expect higher adjusted EBITDA and higher adjusted EBITDA margins during the second half of the year. We expect Q1 adjusted EBITDA ranging from \$12 million to \$15 million, or 14.5% to 17% on a margin basis.

Strong cash flow from operation has been a hallmark of our company and we expect that to continue in '24. Our business has minimal capital intensity, and we expect capital expenditures between \$8 million to \$12 million in '24.

In summary, we are pleased with Cellebrite's performance and progress in '23. We are also excited about our prospects to expand our business around the globe and look forward to sharing the progress with you over the coming quarters.

Operator, that concludes our prepared remarks. We are now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brad Zelnick, Deutsche Bank.

Brad Zelnick Deutsche Bank - Analyst

Great. Thanks very much, and congrats on a strong finish to the year. I've got one for Yossi and then one for Dana. Yossi, the innovations that you talked about with Inseyets driving the speed of investigation sounds really powerful. And I picked up on your example of the agency that saw a 65% increase in what they were spending. But can you talk a little bit more in terms of how it's priced? And if we look forward a year from now, you know, what percentage of new and expansion coming from Inseyets will make you pleased? And maybe also as well, what's the risk that it makes investigators so much more productive that your customers actually need fewer units?

Yossi Carmil Cellebrite DI Ltd - CEO, Director

I would ask you to repeat the last part of your question. What was the add-on at the end? I didn't hear it properly.

Brad Zelnick Deutsche Bank - Analyst

If it makes investigators that much more productive that they're able to achieve what they're trying to do at, you know, at two times the speed, that the customer needs fewer units, because they have fewer people doing the same job.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Okay. So, first of all, you know, I have to say that, and in a bigger scheme, Inseyets is a part obviously of our value proposition and a really differentiated Case-to-Closure platform. And with the Inseyets, everything starts. All the attractive elements of collect and review with special capabilities in a way that we didn't offer before. The Cellebrite Inseyets is a leading collect and review piece, offers, first of all, more value than any other legacy software that we are providing in the past. It brings higher value because it combines capabilities that were pretty much spread in several, I would say, standalone solutions that were offering only part of the entire scheme, either a collection as standalone, or the review as standalone. It combines everything under one roof. This is one.

It's definitely the good news, by the way, it brings higher value to the customers, and a higher value can be translated to a higher price tag. And we anticipate, and you were asking about the price, that we can offer that part in a range of 20% to 25% higher than what we used to price the former solutions in the past. And obviously part of the scheme is that we are coming with additional modules as part of it. There are modules and capabilities, and I've mentioned a few of them in the past, like for example, automation, which can basically increase the value and justify basically value pricing. And on top of that, the element of the unlock.

I'm glad to say, by the way, you know, we launched it two months ago in the private sector, one month ago in the public sector, and there is a huge interest, okay? And we believe that right now, in a phase of, let's say, probably a three-year cycle, we can basically cover most if not all of our current installed base.

As for the need, the pain by our customers, and we talk about it a lot, is clearly about the huge amount of data quantity and the amount of data per digital source. But to your question specifically about the increasing need, there is an element of a backlog of, I would say, old way or inefficient way, the way investigations and data has been managed. And that's obviously increased the need for more licenses in that spectrum.

Brad Zelnick Deutsche Bank - Analyst

Very helpful. And I appreciate all the color you've shared. Maybe just for Dana, it's great to see the ARR guidance in excess of what we expected, reflecting the confidence that you have and all the good things happening in the business. Can you maybe just give us a little bit more insight into the key assumptions underlying the ARR guidance? And specifically, the assumption that you have for net retention, which I'm not sure we saw for Q4, but any insight there would be helpful. Thank you.

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Great. So, if we look at the ARR growth expected for '24, it actually follows exactly what Yossi discussed in his prepared comments about the three main offerings' contribution to the growth of the company. So, when looking at the market, and the market is healthy, we continue to see demand for our Inseyets offering to the digital forensics unit. We've been growing it substantially in '23. We'll continue to grow it by the introduction of Inseyets in '24.

Pathfinder and Guardian are getting increasing traction in the market. We believe that they would grow faster than our collection and review Inseyets offering will grow. And all three of them together will provide the ARR growth in '24. When we look at net retention rate, our increase of ARR related to new customers ranges from 2% to 3%. So, if you look at an ARR growth in '23 of 27%, the net retention rate is around 125%.

Brad Zelnick Deutsche Bank - Analyst

Okay, thank you.

Operator

Mike Cikos, Needham.

Mike Cikos Needham & Company Inc. - Analyst

Hey, thanks for taking the questions here. And I did just want to double-check on the revenues in this quarter as well. I know that Dana, I believe you opened up your remarks by calling out some of the strength seen in, let's say, perpetual or pro-serve, which were both stronger than we had modeled? And I'm just trying to get a better sense, like for the pro-serve and the training dynamic specifically, is this in any way underscoring the benefit of the learning management system that Cellebrite unveiled as part of its customer portal back in mid-October, or is there something else to think through, as far as the strength in training that we are seeing there?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

I think all together, Q4 was a very strong quarter. We grew our subscription business very highly, 26%. And we grew the entire rest of the offering, as well at the same rate. Training was outperforming. The LMS launched in October actually supported the ability to better deliver the training that is being required by the customer. And we believe that it attributed to some of this growth with a better platform. I hope this answers your question.

Mike Cikos Needham & Company Inc. - Analyst

It does. And I guess a bit of a two-parter, wanted to build off that last one with the training, but maybe you or Yossi could touch on this. It's more of an industry dynamic, but I'm trying to get a better sense. Is training considered a gating factor to broader adoption of the technology? And what I mean by that, like I don't expect -- let's say, the NYPD as an example. I don't know if they are an agency or not, but just because they are readily available.

So if the NYPD is going to make cuts to its budget somewhere, I imagine the budget cuts might be more in training, because that's considered a soft skill and may be a hang-up for having technical expertise to use Cellebrite, whereas I don't expect the NYPD to maybe making cuts around, let's say, patrol cars or bulletproof vests as an example. Can you talk about that training element as far as what it means for a feeder system into Cellebrite's demand? I hope that makes sense. I know it's a bit of a long-winded question.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

No, that's cool. That's fine. At least I'll try. And I'll take it, first of all, from the customer's point of view and the element of training in our customer's life. It is an essential element, especially in the United States, imperative. At the end of the day, our game in the quality of our C2C platform is to enable customers, we're talking about law enforcement and I'm talking about public sector, to go to court and stand behind the evidence. And as such, training is an essential element, was, is, and will continue to be. I'll touch in a minute what we are going to do with it.

When it comes to Cellebrite, I see the training as, I would say, something with two heads. One is a base to educate the customers in order to sell more software. And by the way, that dynamic and trend is something that exists, that was existing this year and throughout the years. And second, it's a revenue source. That's obvious.

As for the budgets, I am less concerned. First of all, in a generic statement, you mentioned NYPD or others, we do not see any change in a trend of healthy budgets related to what our customers are offering. I also want to say that while the budgets are growing and the part of budgets for digital investigations, Cellebrite, with what we do, it represents -- or what budgets which are related to us represent a fraction of the overall budget of police forces. So, I'm less concerned about any mega development. We are not going to be disturbed. And the budget factor is going to remain healthy.

Last word, we see training as part of a much bigger scheme of investment in post-sale customer experience and customer engagement in order to educate and push the C2C. By the way, customers are requesting for that. This is why I mentioned earlier that as part of the new structure under the new CRO, we are building or started to build a dedicated post-sale customer experience and the training is part of it. So, we see lots of value, customers see a lot of value. And I hope that I gave you a full perspective here.

Mike Cikos Needham & Company Inc. - Analyst

No, very clear, Yossi, very clear. And I appreciate you calling that out. And I know it's a small piece when I think about the revenue pie. I'm not trying to take away from that at all, but just wanted to highlight that as I'm trying to piece together this broader industry dynamic and what the training means to Cellebrite specifically. So, thank you for all that. I do appreciate it.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Thank you.

Operator

Tal Liani, Bank of America.

Tomer Zilberman BofA Global Research - Analyst

Hey, it's actually Tomer Zilberman on for Tal. Thank you for the questions. My first one, you know, you talked a little bit in your prepared remarks about the success you're seeing on Pathfinder and Guardian. Just wondering what the overall contributions are of your analyze and manage solution? I think at one point in time, we knew that analyze was, I think, roughly 5%, 6% of your revenue. Manage was close to 0%. So curious how that's trending now and, you know, where you expect that to go to in 2024 and beyond.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Okay, so first of all, I would like to say, you know, I go back to the Case-to-Closure platform. And one needs to understand that we went in this direction, and we went in the direction of streamlining our entire portfolio. Because today, you talk about one standalone without the others, doesn't make much sense from our perspective, but I'm glad to say also from our customers' perspective. The entire element of integrating or looking at one integrated platform which serves one integrated flow in the investigative world is critical for the success of our customers.

And obviously as a result, as we look into the future, the Pathfinder and Guardian both will have a much bigger room in our total top line and portfolio. I can say that we had for both Pathfinder, again, investigative analytics, and Guardian, our evidence management, pretty much strong growth in Q4 and throughout entire 2023. And as I said, we are serving an emerging need. At the moment, the volume of both solutions is around 10% of our entire result in 2023, and we expect basically, I would say, greater pipeline and potential to accelerate both solutions.

The Guardian, specifically, the meaning is not mostly in the volume of business. Clearly, it's something that it's about to grow 50% and even more year-over-year. But it's the fact that this is an integrative component that combines together the entire C2C on the digital forensic unit side and on the investigative unit side. And it has, I would say, a strategic meaning. So, I'll stop here and see if I answered your question properly.

Tomer Zilberman BofA Global Research - Analyst

Yes, absolutely. And then just as a follow-up, you know, you talked about subscription now being 85% of revenue and, you know, the transition to subscription being largely in the rear view mirror. But question, should we assume that 85%, give or take, is the benchmark for where subscription will sit? I mean, your perpetual grew much stronger than anticipated this quarter, and I assume that you will have some level of government customers that will still require perpetual. So, the question is really around where do you see the benchmark for subscription going forward?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

So maybe I'll take the answer, and I'll start -- this is Dana. First, we are very glad to see that customers all around the globe are actually accepting the subscription business, and our perpetual business in the last half year was almost null. So that means that even at the strongest part of our selling portion of the year, the half two, with federal government and with larger agencies, they all accepted our subscription offering and the advantages that are coming with it.

85% is a good point for our subscription business to be out of the total revenue. Considering what Yossi said before on training and the importance of training, professional services, which will be attributed also in the future to our enterprise solutions, and the fact that we still have some hardware components in our product mix.

Tomer Zilberman BofA Global Research - Analyst

That's great. Thank you.

Operator

Jeff Van Rhee, Craig Hallum.

Jeff Van Rhee Craig Hallum - Analyst

Great. I'd echo my congratulations. Obviously, with Hamas and the conflict, you are in the center of just really impressive performance by the team. Three questions from me. One, on the sales motion, Yossi, where would you grade yourself in terms of your efforts to get from the DFU to the IU? You know, how dialed in do you have that motion? Just maybe put that in a little context.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Let's put it this way. There is a clear growth engine for the company, and this is the leading growth engines for years by now, and that's the DFU. And the digital forensic units with the relevant portfolio, which is around our entire offering of Inseyets as a flagship solution, and the Guardian, that motion will continue to grow. We continue to invest in that direction. And with a, by the way, dedicated salesforce in each one of our subregions: America, EMEA, and Asia-Pacific. And by the way, not to mention the collection piece as part of the private sector.

The investigative units, the more we grow, we -- I'm glad to say that we see that and we take it very seriously as, I would say, another growth engine by itself. The KPIs over there for the end users are different. The budgets over there are impressive. And the pains and the needs of the customers force us basically to manage it in an upgraded way with a dedicated salesforce and, by the way, dedicated marketing and so on and so forth.

So on the one end, one needs to understand we are working with an agency. And as I said, there is a C2C platform. But when it comes to the investigative world, we will add more forces along the road in order to make sure that we are, I would say, fulfilling the potential. And just to remind, potential in that space only if I take the Pathfinder alone is a pace or anticipated growth pace of 35% to 50% year-over-year. I'll stop here just to see if my answer was in your direction.

Jeff Van Rhee Craig Hallum - Analyst

It was. Thank you. And Yossi, then just shifting gears, M&A. You know, obviously real nice cash generation. I think as you look at the digital tools that are relevant to law enforcement and federal agencies and incorporating them into your platform, seems like a lot of opportunity. How should we think about M&A and the role it's going to play maybe in '24?

Yossi Carmil Cellebrite DI Ltd - CEO, Director

It's a great item, let's put it this way. In a wider context, one need to look at Cellebrite, and as you said, right now it is a platform company. And the C2C platform enables us basically to map much better our decisions regarding make or buy. There is also, if you look at our market, an impressive TAM that we are dealing with and there is a big growth opportunity over there. And on top of that, clearly there is the element of the Cellebrite balance sheet. And we have a very strong balance sheet, as you mentioned, and that enable us to make smart moves, but in the right target and in the right timing.

I would like to say, clearly that inorganic growth is a clear part of our long-term strategy, by the way, both technological tuck-ins and maybe some larger opportunities, if that would make sense. And clearly, as I mentioned, the TAM, doing an inorganic move while we are investing a lot in innovation will help us to build the market presence. Just to emphasize, all the numbers that you see right now do not include or include only organic elements. But clearly, we have some targets that we are looking at and if something will be relevant, we'll update.

Jeff Van Rhee Craig Hallum - Analyst

Great. And if I could sneak in two last smaller questions then briefly. Dana, you touched on churn, I might have missed a little bit of it. I know you've had some intentional pruning of the customer base, but just give me a little more context. How do you see churn playing out during '24?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

So if you look at our churn, which is slightly above 9%, around 2% was associated with customers that we've decided to stop our business with. This will dissipate over the next year and a half, I would say. And so, we believe that our normalized churn should be anything between 7% to 8% on an ongoing basis. We work diligently to improve it on an ongoing rate.

Jeff Van Rhee Craig Hallum - Analyst

Okay. And then I guess just lastly, overall backdrop, you talked about budgets, but in particular, you know, been talk from time to time of peers getting fairly aggressive on price increases. Just any observations on what the peers are doing. I mean, obviously Inseyets puts you in a different value proposition. I get what you're doing, but I'm just kind of curious what the competitors have been doing.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Generally speaking, I'll take at least for a start, I'm glad to say that this is a value-based market. Budgets are there, this is clear, and there is a clear readiness to pay more for value. If we look, and based on what we know, our competitors are doing the same. Some are increasing prices on an annual basis as part of a systematic approach, sometimes per version. And some are increasing prices as part of a, I would say, long-term strategy. So one, we are no different. We are different in the fact that we bring a differentiated offering that basically justify higher pricing. But I would say that's applicable for the entire industry.

Jeff Van Rhee Craig Hallum - Analyst

Got it. Thank you.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Welcome.

Operator

Doug Bruehl, JPMorgan.

Doug Bruehl JPMorgan Econ & FI - Analyst

My question, maybe one around your FedRAMP authorization announcement. Any sense of how large of an incremental market you expect at eventual approval to unlock?

Yossi Carmil Cellebrite DI Ltd - CEO, Director

So, first of all, I would like to say that FedRAMP is a meaningful part as part of the expansion of our value proposition and making an even stronger differentiation in, I would say, our compelling C2C, Case-to-Closure platform. Specifically, that part of activity is more aimed to the area of the federal business in the United States. And clearly, we are investing in FedRAMP in order to open more doors in that space and practically increasing the total available market. By the way, I have to say that our federal business is very strong as it is right now, and that only strength that we have a very strong base in order to expand.

Specific to your question, we assume that this is something that can even double the size of what we do today. Because with FedRAMP, it will enable the company to access definitely additional buying centers within existing logos that we have already today. And if we will be quick enough, and we intend to be, in the middle of 2024, we believe that we'll be in a situation that we will pass certain processes in order to talk about it. So, in the second half of 2024. And with that we can guarantee or capture budgets of 2025.

I have to emphasize as final statement that FedRAMP is not specifically to one or other solution, it's applicable to the entire offering of our Case-to-Closure platform. So, both for Inseyets and Pathfinder and the Guardian, everything can be offered not only on-prem, but then also on the cloud. And FedRAMP will enable us, as a final role, to show a level of security which meets the hard demands of this specific segment.

Doug Bruehl JPMorgan Econ & FI - Analyst

Great. Thank you so much.

Operator

Jonathan Ho, William Blair.

Jonathan Ho William Blair & Company - Analyst

Hi, good morning and congratulations on the strong results. I wanted to start out with a little bit more detail into the Inseyets sort of a change here. Can you -- maybe help us understand what's changed with the product and how you're able to speed up investigations and sort of raise productivity with customers?

Yossi Carmil Cellebrite DI Ltd - CEO, Director

Sure. Inseyets is -- and I'll talk specifically about the Inseyets collection review. Basically, brings to the table capabilities, which were, well, stand-alone disconnected within few solutions. On the access part, it enables much quicker access, and it also enables to access via ways or in collection that used to be part of our high-end premium only. For example, full file system, and I remember we talked about that in the past.

Then it's about the processing and review elements. We are talking here about Factor IV or Factor VI in terms of speed. At the end of the day, if you think about the major KPI in a typical lab of our customers, it's how to reduce backlog and how to access more devices faster as part of a piling element of digital sources as part of piling investigative open cases.

So when we bring together methods, which were only on the premium, together with the higher speed, combine that with a much better UX/UI that's the result that you get. And that's basically the value that it's going to bring to our customers. As I said, by the way, since launch, we are getting really terrific feedback about how Inseyets improve mode of operation within labs and within investigative units.

Jonathan Ho William Blair & Company - Analyst

Excellent. And then with regards to the C2C platform, do customers today purchase these solutions as a bundle? And how do you think about the go-to-market motion and investments that you need to make to maybe shift this to be a bit more of a strategic discussion?

Yossi Carmil Cellebrite DI Ltd - CEO, Director

So I think it's important to understand that today, Cellebrite offers a real end-to-end platform. And not just, I would say, a pile of stand-alone because on the tactical level, clearly, a lab will continue to buy, collect, and review, will continue to buy Inseyets as such. But as I said in the beginning or as part of an answer to another question, for the Commissioner or for the Head of Investigation and Intelligence within police, it makes less sense today to talk about collection as stand-alone because the reason need to see the entire scheme of things, how do I collect.

But then with a streamlined platform like ours, how do I share and review as quick as possible? How do I improve speed and quality of eDiscovery? How do I deal with chain of custody, something that we do with our streamlined Guardian, which connects both collected data from Inseyets and analyze data from Pathfinder. So, this is not only something that we position, it reflects a thing, and the entire direction of our customers is going into a streamlined environment, which forces basically or enforces and makes a necessity for an end-to-end platform and not just, I would say, pile of stand-alone solutions.

Jonathan Ho William Blair & Company - Analyst

Great. Thank you.

Operator

This concludes the Q&A portion of today's call. I would now like to turn the floor over to Cellebrite CEO, Yossi Carmil, for additional or closing remarks.

Yossi Carmil Cellebrite DI Ltd - CEO, Director

All right. So, first of all, thank you all for joining us, and thank you for taking the time. I would like to emphasize it was a very successful year for the company, especially from background of several challenges, it was really a very good year. The future will be even better. And I have to say that we are excited about the opportunity and about what is expecting us as part of the future of Cellebrite.

I would like as a final word to thank again to all the Cellebrite employees for their professionalism, for their resiliency, and for the engagement and obviously, for the great results of 2023. Thank you all. Have a great day.

Operator

Thank you. This concludes today's Cellebrite's fourth quarter and full year 2023 financial results conference call. Please disconnect your line at this time and have a wonderful day.

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