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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Cellebrite's Q2 2022 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Anat Earon-Heilborn. Please go ahead.

Anat Earon-Heilborn - *Cellebrite DI Ltd. - VP of IR*

Thank you. Welcome to Cellebrite's Second Quarter 2022 Financial Results Earnings Call. Joining me today are Yossi Carmil, Cellebrite's CEO; and Dana Gerner, Cellebrite's CFO. This call is being recorded, and a replay of this recording as well as the presentation that accompanies this call will be made available on our website shortly after the call.

A copy of today's press release and financial statements, including GAAP to non-GAAP reconciliations as well as supplemental financial information for the second quarter are available on the Investor Relations website at investors.cellebrite.com. 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 March 29, 2022, as amended on April 14, 2022. The company does not undertake to update any forward-looking statements to reflect future events or circumstances.

With that, I'd like to turn the call over to Yossi Carmil, Cellebrite's CEO.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

Thank you, Anat, and thank you all for joining us today. I would like to start the call today by sharing that we continue to see healthy business environment for digital intelligence solutions across our core markets.

I'm pleased to share with you that in Q2, our ARR grew 35% year-on-year to reach USD 214 million. Total revenue in the second quarter was up 6% to reach USD 62.6 million. Our net retention rate for the quarter came in at 128%. This represents the 14th consecutive quarter that we've delivered NRR of greater than 120% as we continue to expand wallet share within our target accounts, mainly in the public sector.

Additionally, we closed 29 large deals in the quarter compared to 18 in the first quarter of this year.

I would like to spend some time today first, going through what we are seeing in our market and the go to market, then update some dynamics we saw in the second quarter; and lastly, outlining our expectations for the second half of the year.

So we'll start with perspective on the market environment and impact to Q2 results.

Now while we are operating in a healthy environment, there are several factors that impacted our results in Q2. First, in Q2, we saw some longer sales cycles for some of our strategic customers that impacted our ability to close some larger deals in the time frame anticipated. The positive aspect of it is that we've built a robust pipeline that is increasingly focused on large deals. This is part of our growth strategy, and it provides an exposure to large budgets within our accounts.

An important distinction here is that the vast majority of the delays we are seeing are not deals going away or lost pipeline. In fact, some deals have already closed with the majority expected to close in the third quarter.

In addition, we are moving successfully and faster than planned from perpetual to subscription new deals. However, as a result, our revenue for the quarter was lower than we planned. This had a short-term impact on the top and bottom line, but supports a healthy longer-term business.

And third, we also faced some hiring issues in our go-to-market organization, which have been properly addressed.

So a short update on macro business environment and on go-to-market strategy. In the U.S., that's our main and largest market. We continue to see federal funds going to law enforcement as well as state and local governments to support safety.

Additionally, we generally see similar budget environment in Europe and in Asia Pacific, where spend on safety remains a top priority.

Our primary market, the U.S.A. is a prime example of not only the willingness to spend but increasing pressure on governments to more effectively address and fight crime. Now these initiatives cannot be successful without addressing the massive growth in digital evidence by leveraging a solution like ours to modernize the investigative process.

Our technology enables law enforcement to solve more crime ranging from child trafficking to homicide by dramatically decreasing the time to evidence for investigators and analysts. And in addition, our domain expertise and scale of operations are critical to the effectiveness of our solutions.

As for our technology, we are pleased with our ability to innovate and expand our offering both within and outside Collect& Review. Premium-as-a-Service is an important recent offering as it enables a much larger customer base to benefit from our advanced capabilities by lowering the total cost of ownership for the agencies, and we are seeing strong traction since it was released to the market earlier this year.

We also recently released Physical Analyzer Ultra, the next generation of our review solution, which today represents the de facto industry standard for the digital data examination. Aside from its ability to process higher volume of data, the new release also advanced Physical Analyzer towards an enterprise architecture, a crucial milestone as investigative centers around the globe continue to accelerate their digital transformation journeys.

Shortly about our go-to-market strategy. Our focus remains on significantly increasing our wallet share within our existing customers. We continue to deliver strong growth and best-in-class NRR by selling more solution and expanding into more buying centers, or user groups, within our existing customers.

I would like to take you through a few examples. The first is an investigative analytics deal. We closed the sale of over $800,000 within an existing customer, a European state police force. This is the first expansion of this customer outside of our collection review offering. Key success factors for this win where our ability to address the customer's specific requirements with a tailored solution for their needs, including better results from extracting and analyzing mobile derived data, better performance in text and image analytics and fastest enablement to find the critical evidence quicker.

Another exciting wallet share increase through our broader offering is our largest Guardian contract to date. This win was part of a larger 7-figure deal. The Investigative Management portion included 500 Guardian licenses to be used across this major U.S. Metropolitan Police Department. This was a competitive situation in which Guardian stood out with a superior cloud functionality and its compatibility with our collect and review solutions.

Our solution fulfills the need for an evidence management solution that would meet reporting and chain of custody requirements as a cloud-based system that could scale for the organization needs.

The third and last example is our very early access with Premium as a Service, which only became available in late Q2 and immediately saw a 7-figure multiyear win with a U.S. State Police Force. Now this win will bring our advanced Collect and Review capabilities to approximately 20 field units and is a significant upsell from this customer's previous spending with us.

I would like to add that during the first half, we continue to transition our go-to-market organization to take the dual role of supporting larger strategic opportunities, in combination with our classical velocity business. We believe that this transition will be completed by the end of the year.

As for our 2022 plan and outlook. As you saw in the press release we issued today, we've made the strategic decision to recalibrate our expectations for the second half of the year to a level that reflects the internal initiatives we are undertaking to position Cellebrite for durable growth and continued innovation in the Digital Intelligence market.

We believe that the trends that we have seen in the first half will continue in the second half. We, therefore, expect a healthy growth of ARR exceeding 30% in the foreseeable future, while revenue and bottom line may be impacted for the short term.

So before I turn the call over to Dana, our CFO, I would like to emphasize the excitement I have for the opportunity that remains in front of Cellebrite. As we look at our broad product portfolio of industry-leading technology across our core markets, I think Cellebrite represents one of the best pure-play opportunities to invest in public safety and digital intelligence.

This, in turn, supports public safety and saves lives in communities worldwide. At the end of the day, we could not be more excited about our positioning due to our technology, customers and market penetration and look forward to updating you on our growth to come.

And with that, I will turn the call to Dana.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Thank you, Yossi. As Yossi mentioned earlier, ARR grew 35% year-on-year, reaching $214 million by the end of June 2022. As we continue to move customers to a subscription model from our traditional perpetual licensing model, we saw incremental ARR growth in the quarter, reflective of our transition efforts.

The variance between our revenue and ARR growth was driven by 2 factors. One, we experienced better-than-expected adoption of new business sales in a subscription model and made significant progress in this area during the quarter.

Two, because the quarter was very back-end loaded, a high proportion of the wins that are included in ARR has very small percentage of revenue recognized in the second quarter. Subscription licenses also continued to be an important growth driver for Cellebrite as it helps create a long-term incentive to increase customer spending with us.

Revenue for the second quarter was up 6% from the second quarter of last year, and reached $62.5 million, while subscription revenues were up 20% and continued to be a primary driver of total revenue. I would note that our transition from perpetual to subscription has been quite successful with more than 98% of our software revenue is now subscription.

Total subscription represents 80% of the quarter's total revenue in comparison to 70% in the second quarter of last year. We saw a strong performance in professional services revenue, which was up 16% compared to a strong Q2 last year, as in-person training activities resumed to pre-COVID levels in most countries.

Supporting growth in professional services remains important to us as it helps drive larger deals and retention.

Our GAAP gross margin was 79% in Q2 as compared to 83% from the second quarter of last year. That is mainly a result of introducing in the cost of goods sold expenses related to our SaaS and cloud solution infrastructure and hosting services, a business which is still in the early stages.

Moving to operating expenses. I will discuss these on a non-GAAP basis. So the share-based compensation, amortization of intangible assets, acquisition-related expenses and onetime expenses are all excluded. Non-GAAP operating expenses were $50.8 million in the quarter.

Similar to last quarter, although expenses increased significantly compared to last year, they only grew marginally on a sequential basis. The year-on-year growth reflects our cost structure as a public company, resumption of in-person activities, the operational costs associated with adding SaaS and OSINT offering to our development efforts and our ability to execute on hiring.

Adjusted EBITDA in the quarter was $0.7 million or 1% on a margin basis. Our Q2 adjusted EBITDA results are reflective of our continued investment in headcount to capture the large growth opportunity Cellebrite sits at the forefront of, as well as maintaining our technical leadership.

Looking at the remainder of the year, we are focused on optimizing our spend for efficiency. We're supporting our go-to-market efforts and ongoing commitment to product innovation. This includes prioritizing hiring key positions and investing in areas that will help us achieve our goals in the near and long term while responsibly managing to profitability.

We ended the month of June with 969 employees, up 18% from the end of June last year, and we expect to end the year with over 1,000 employees.

Non-GAAP net income in Q2 was $0.2 million and non-GAAP fully diluted EPS was breakeven. Operating cash outflow in the second quarter was $4.1 million. And in the last 12 months, we generated $7.1 million of cash inflow. We ended June with approximately $165 million of cash, cash equivalents and investments.

Turning to guidance. As Yossi mentioned, we have made the decision to update our fiscal year 2022 guidance. We now expect the December 2022 ARR will range between $245 million and $260 million. We expect full year 2022 revenue to range between $270 million and $285 million. We expect gross margins to be between 80% to 82%, and we now expect adjusted EBITDA in the range between $20 million to $27 million.

As we enter the second half of the year, which has traditionally been stronger than the first half, we remain confident in overall market demand and our ability to execute on these targets. Cellebrite remains well positioned to capture the demand for modern digital intelligence solutions and we see a long runway for growth within our business.

With that, I will turn the call to the operator to open the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Mike Cikos from Needham & Company.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Senior Analyst*

I did want to circle up on the commentary that you guys had about some of these longer sales cycles. And I just wanted to get some more color there. Can you help us think about when you started seeing those lengthening sales cycles?

And -- has there been any change even within 2Q as far as going from April to May to June, did the cycles extend or did you see that lengthening take place throughout the quarter?

And what is the customer behavior been like in July and now in the first couple of weeks of August?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

Thank you for the question. I'll start with saying that the fact that we are going into larger accounts, having a dedicated focus on strategic accounts and penetrating and entering more buying centers in collect and beyond collect and review, to the investigative area to the analyst area and to decision makers, enable us to grab opportunities for larger budgets based on the expanded offering.

So the nature is that within time, we see a larger amount of such larger deals, which are normally, I would say, characterized by -- if I call it are first of all large, I mean, high-end 6-, 7- and even 8-digits. They are typical to strategic accounts. They include extended Digital Intelligence solutions with an enterprise impact and are normally multiyear deals.

Now as such, basically those processes or involve decision maker, and it takes time and sometimes longer than anticipated in order to come to decisions. We had such deals already as updated in 2021. We had also such deals in Q1 and those deals that we spoke about that are, let's say, moving or not being closed in a timely manner, some of them are Q2, some of them started already in Q1.

And Dana, maybe you would like to add on top of that?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes. I think, Mike, thank you for asking this question is that with more large deals coming on board and with larger number or higher dollar value per deal, we are seeing a longer or high-level approval level of requirements by our customers.

That means that not always they are being closed in the timely manner that we used to have in the midsize, I would say, large deals. Saying that we have seen very large deals coming really at the end of the quarter.

And as I said, we are heavily backed up with deals coming at the last minute which not all of them had been signed within the quarter, and as such, has not been reported. We are very confident because we are seeing some of them already closed in the first 6 weeks of July.

We're still ramping up with new large deals on board in our pipeline.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Senior Analyst*

That's great. And if I could just build on that, right? So I want to be very specific to this question. When I think about longer sales cycles, we've heard about this from a number of different companies in our coverage universe. And so I'm trying to get a better sense, are these longer sales cycles because your deals are getting bigger as you work with some of these larger, more strategic accounts?

Or -- is there a higher level of requirements for some of these budgeting and programs because we're in a more difficult economic backdrop today?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

It's the first one. I will basically eliminate the second one because we do not see any impact of political climate whatsoever. I have, by the way, to mention that we had 2 deals, specific to drill in Q2, which were delayed or, let's say, influenced by political climate, one by the way, in North American federal area and one is one of the largest Western countries.

But in general, I don't think that there is -- I'm confident that there is not such a trend. It's basically more decision-making involved or more decision-makers, longer cycles, large budgets and then approval processes that create basically a longer cycle.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Senior Analyst*

And if I could just squeeze one more in. I know that you guys spoke about some of these go-to-market issues, which have now been rectified. Can you help me understand like what was it that needed to be corrected?

And what are the steps that have been in place to remove that whatever that issue or dynamic was?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

So Mike, I'll start and maybe Yossi will try to add then after. We have -- we spoke about the fact that we want to increase our go-to-market sales force in '22. We started working on it already late '21. We've seen a little bit higher-than-expected turnover, which does impact especially with larger customers, some delays in the execution of the deal, not the disappearing of the deals or disappearing of the budget, which is very natural, I would say, in such environment.

We are very well equipped already entering into Q3 with the headcount, especially on the strategic account level to execute that. So -- this is one thing which was -- we spoke about.

The other thing is really the dual effort of serving both strategic and what we call as you remember, long-tail prime accounts, making sure that we have the right people at the right -- in front of the right customer in this perspective. This is ongoing investment.

Again, we feel that we are in a very strong position towards the second half of the year.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

No maybe to add that, obviously, the employment market is challenging as a whole. And our sales force experience -- experienced, I would say, same behavior let's say, in average.

We had, in some of the group's situation or about 25% to 35% of new headcount, which are now parts. As Dana said, we are basically mostly beyond that phenomena. So we close the gaps.

And obviously, onboarding the full scalability and execution maturities in Cellebrite is 3 to 6 months, especially when it comes to managing strategic accounts.

So we have a well-structured onboarding process, and we believe that we have taken the necessary steps in this area to support the growth.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Senior Analyst*

And so I guess the implication is with some of that higher attrition that you guys saw in the second quarter that you're probably a little bit behind where you want it to be when thinking about the headcount?

And I guess the follow-up would be that when you say that you've taken necessary actions to rectify these issues, it's really a matter of you guys have taken steps to improve that retention or bring down that attrition that we saw in 2Q?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

First of all, yes. And I would say that it's mostly behind us, if I look at each one of the regions. And it's -- maybe to emphasize that it's a Q2 phenomena, but obviously, there is an impact in Q1, but in Q1, obviously, you are not in a situation that you see mostly the impact of that when you look at April about the effect of the ability to bring the new business that you plan to bring.

But to start again with the end, it's behind us, and we are well equipped.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Senior Analyst*

Thank you. I'll turn it over to my colleagues.

Operator

And your next question come from the line of Jonathan Ho from William Blair.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

I just wanted to maybe start out with trying to understand the magnitude of the deals that have subsequently closed on?

And just what was the impact from those delays? Like can you just quantify for us what the revenue impact was, what the impact to deferred was? And how to think about -- I guess I'll start there.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I think we spoke about 3 main drivers. And I would say each of them had the same portion on the delays, whether it's the fact that we have so much lesser perpetual deals, which, of course, comes with an immediate revenue recognition.

The other one was with the fact that we have sold some slippage of deals.

And the third one, as we mentioned as well was -- sorry, with the longer sales cycle. So all in all, I would say that each and every one of them contributed to 1/3 of our delay in the revenue impact compared to how we plan to finish the quarter.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

Got it. And then with the reduction in Guidance, like I guess I'm a little bit surprised to see the magnitude of the reduction, given that you subsequently closed these deals. Can you maybe again help us understand what the Guidance reduction how much is coming from each of these factors or other factors?

And just why the continued reduction if you've subsequently closed these deals?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

So I think an important part of it is actually the faster than the expected reduction in perpetual business. We planned a certain dollar amount of perpetual in this year's sales and revenue, which is currently at less than 50% of what we expected.

And as I said, this does not impact the ARR, but it has impact immediately the revenue portion. So we assume that the trend that we've seen in half 1 will also continue in half 2 compared to our original thought about the transition pace, I would say.

And then every deal, which is coming later in a subscription model, does impact the revenue for the entire year, right? So we assume that we will see with the increase in number of large deals, we'll see continuous delays in -- delays in closing to our original plans.

So may I say a little bit around half of it from the perpetual business and the rest from the sales cycle.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

Got it. And then just one last one for me. I'm just trying to understand also like -- was there a specific type of product that was more in these delays? Was it sort of the newer products that were there? Was it product bundling?

Can you just help us understand maybe the nature of some of the delays that took place and whether it was a specific product specific region of the world, just something that gives us a little bit more color on what happened there.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes, I think -- actually, the good thing about this slippage is the fact that these are deals which are large in nature, enterprise in nature, involve a more sophisticated DI solution so not only collect and review but may include also our Investigative Management solutions or our Investigative Analytics Solutions or OSINT solutions.

So the slippage may be that we have even closed the deal, but we didn't have in to -- we get into turn it into revenue by concluding the installation and operation of those systems. So some of the deals actually closed in the quarter and the fulfillment slipped into the next quarter.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

And Jonathan, to your question, we've seen it a little bit more in Europe than in the Americas.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Correct.

Operator

Your next question comes from the line of Shaul Eyal from Cowen.

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Shaul Eyal - *Cowen and Company, LLC, Research Division - MD of Communications, Security & Infrastructure Software and Senior Analyst*

So some business has driven predominantly by upsell expansion with your existing customer base. My question is actually, did you have any new logo this quarter? And I have a follow-up.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

So first of all, again, just to emphasize on the strategic part, those large customers, which are about to execute and expand and where we see more wallet share with the entire Digital Intelligence suite of solutions. We are not looking for new logos, but we definitely had a new buying centers within the same logo.

Like I mentioned in one of my examples that $800,000 deal that was executed with the European customer was beyond collective review towards investigative analytics that was a different department, different units. So one. And when it comes to the long-tail Prime, we have a dedicated target which is related or dedicated target, which is related to new logos and even net new logos. And we got basically an additional amount of net new logos.

Dana, can you?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Around 130, 150 new logos on the long-tail customers.

Shaul Eyal - *Cowen and Company, LLC, Research Division - MD of Communications, Security & Infrastructure Software and Senior Analyst*

Understood. Thank you for the color. And my follow-up, I know that you mentioned also in the prior response to Johnathan. On EMEA, EMEA was the only territory that declined from a year-on-year perspective, was there any specific country that might have stood out or was it pretty much broad-based because it is coming -- and again, I know that this is the DI business rather than a pure cyber play, but -- most other cases, many companies reporting that are actually reported solid performance in Europe.

So just want to find out if it was like a country specific or maybe kind of maybe more of a broad-based phenomenon?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

First of all, I will start with the fact that it's one - not country specific. Most of our business even in Europe is done in the let's call it, the Western side, okay? We are -- it's on some business with entities in Italy, in Spain, in the U.K., in Germany, in France, Scandinavia.

And we mentioned the fact that we had that fluctuation within existing employees in Q1 and the later hiring, which happened in Q2, by the way, especially over there, we are completely well equipped. So one phenomenon was over there in terms of the teams, which worked on the, let's say, the West European countries, and it is not one specific country.

Dana, would you like to add?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I think also the abortion, I would say, of the perpetual model in EMEA, which was very dominant in EMEArevenue. And in principle what we are seeing there also for the net leakage was in the EMEA region.

Operator

And your next question comes from the line of Jamie Shelton from Joyce Bank.

Jamie Shelton - *Deutsche Bank AG, Research Division - Research Associate*

Can you hear me, okay?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

Yes, so far so good.

Jamie Shelton - *Deutsche Bank AG, Research Division - Research Associate*

So apologies if I cut out my signals playing up a little bit. I just wanted to double click. You said 3 kind of factors that took place, the kind of transition away from perpetual slippage of deals and longer sales cycles.

Now the perpetual transition well understood the longer sales cycle -- well understood. I just wondered to look at slippage of deals, are you talking about because of the kind of distractions you've had in your headcount and go-to-market, the slippage of deals associated with that attrition. Am I correct in thinking that?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I would say that the slippage of deals, Jamie, is related really to what I mentioned before about the fact that we closed the deal. But from revenue recognition, we only recognize it in Q3. Because of installation and acceptance of systems because these are larger deals, more complex and the time from closing to recognizing the strategy longer the regular revolving business.

Jamie Shelton - *Deutsche Bank AG, Research Division - Research Associate*

Apologies if I'm being stupid. Isn't at the same point as long as sales cycles that these deals are taking longer to close when they do close there, there's that degree of slippage or they're still in the negotiation stage?

Specifically, the kind of revenue headwind from your headcount attrition. Can you quantify that?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Well, first, I cannot classify you stupid, Jamie, but I think the difference is that there are sales cycle is about actually signing off the deals to closing the deal in a way that is a committed deal from the customer to us.

And that actually attributes again to the large -- when you -- the larger the deals, the more approval processes is required we've seen the customers -- it's actually been longer. And as we said before, we did connect it a little bit to the go-to-market challenges we had, with having the right people at the right place to help drive it to closure.

Jamie Shelton - *Deutsche Bank AG, Research Division - Research Associate*

Understood. Just one more on this kind of guidance. And I mean your points are well understood. But if we just take a step back, what gives you guys confidence that in 90 days from now, you don't have to lower again?

Kind of appreciate everything that you're saying, and it's all well understood. But just from -- to give us and investors confidence like -- do you see this as -- the guidance has now kind of achieve is achievable or still risk to kind of further cuts?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

We did not try to build into the guidance an aggressive model. We took our regular seasonality model, which you can see over here in the past few years of how much of the business we are generating in half 1 and how much of the business is being generated in half 2 and looked and actually introduced it into our revised guidance because we believe this is the most confident way that we can have in the business.

We did not inspire to be more than that at this stage at least. So this gives us a lot of confidence in our ability to execute.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

Okay, maybe there is no need to add, but I just want to make it very clear that we have confidence in our new Guidance, and we believe we have set the level basically to execute it. Beyond what Dana said about first of all there is the pipeline coverage, if I look at the H2 is in line not only with our historicals, but also is very robust in order to meet that new updated guidance.

I also take into consideration that in Q2, we brought those 2, 3 new solutions, where Premium as a Service in collect and review. And the Physical Analyzer Ultra which is an upgrade of our PA. And with a range of premium offerings that we bring into the market, we have basically all what is needed in order to basically have that confidence. In our opportunities to keep the guidance.

Jamie Shelton - *Deutsche Bank AG, Research Division - Research Associate*

And just one last one, one for me. More on -- speaking on the premium enterprise, you guys have provided some really helpful color over the last couple of quarters of kind of momentum there. If it's not quantitative, just anecdotally, how is momentum getting your existing user base on to premium enterprise?

If you can provide kind of a percentage of that existing base or how you expect that to trend, that would be great.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

So we are very, very excited with the adoption of the premium enterprise. We see the number of endpoints, number of users that are actually enjoying the best-of-class capabilities with the premium enterprise are bringing and it is exceeded in a way what we expected for the first half of the year.

So we see this a very important driver of growth of the company. Of course, coupled with the Premium as a Service.

Operator

And your next question comes from the line of Louie DiPalma from William Blair.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Yossi, Dana and Anat, good afternoon. Yossi and Dana, you discussed revenue pressure from the shift from perpetual licenses to the subscription model. How much longer should this shift continue?

And when should like perpetual revenue hit a bottom and general stability?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

So I would say, Louie, and this is very high level because in the end, it really depends on how the customer had built their budget. We had a certain assumption of reducing our perpetual business at about 50% year-over-year, we see a faster decline.

We assume this will continue, and we always said that it will take us 2 years to get to a certain situation where the perpetual is only minor of our total business. It seems that it's happening faster than we expected.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Great. And for Yossi, you mentioned that you have robust pipeline coverage in the second half. And currently, the low end of your guidance implies from a pretty strong 17% increase in revenue in the second half of the year compared with the first half. And I was wondering, does the guidance assume further deal delays?

And does it take into account this new like timing in terms of closing the more complicated deals involving lots of products?

Or are you assuming that the close rate for your deals resembles like what took place in 2021 when conditions were more healthy?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

You know what I would like to start with the final word of your sentence where the condition is more healthy. I would like to emphasize that, again, look at our ARR -- and I would say that the conditions in the market are healthy as they were. And as we basically originally anticipated, one need to distinguish between that timing gap and the fact that we are not losing deals and we are and that the budgets are there.

Second, Louie. If I look at the trend and basically, we have seasonality in the way we look at our business. H1 is normally 42%, let's call it, 42% to 45%. And if I look at a ratio which is relatively modest of 45% in that in H1 and 55% normally will do little bit better.

When you look at the midpoint, basically, you see that it's pretty much in the range and it's reasonable. If you look at the revenue and you look at that or the ARR in the mid-range, we are -- yes, we are at the right spot, so to say.

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Sounds good. Thanks for the color. And I know you highlighted certain wins for Guardian and Dana just discussed how premium enterprise has gained a ton of traction in the market and potential. But can you provide any commentary on how like Pathfinder and your enterprise endpoint inspector have experienced in terms of adoption?

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

So in terms of the Pathfinder, I would say that let's say that the market is healthy. And we are -- I would say very pleased with the growing pipeline of the Investigative Analytics where the Pathfinder is the leading solution over there, with the results of customer satisfaction, which is coming from the value proposition, and also the product matureness that we've reached.

On the other hand, there is a long-tail like -- long sales cycle here, which is involved and customer education.

Would you like to add? You were asking that -- you were asking about Pathfinder and then you're asking about something else, Louie. What was it?

Michael Louie DiPalma - *William Blair & Company L.L.C., Research Division - Analyst*

Yes. The enterprise endpoint inspector.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

Okay. I would say that, first of all, in general, when it comes to the private sector. We -- let's put it this way, we are below our plan in general, okay? Over there, also, we're missing some headcounts, but there is, I would say, also here, a key capacity that we filled ever since.

And the portfolio is there. I would say that when it comes to the endpoint inspector and by the way, remote collection in general, the salese cycle is longer. And the opportunity is still there.

But we still basically would like and believe that we'll see the breakthrough, but it's not yet there.

Operator

And there are no further questions on the queue. I would now like to turn the conference back to Yossi Carmil.

Yossi Carmil - *Cellebrite DI Ltd. - Founder, CEO & Director*

Thank you very much. Thank you all for joining us and for the participation and for the very, very good questions. And have a great day. Goodbye. Thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.
