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CORPORATE PARTICIPANTS

Andrew Kramer *Cellebrite DI Ltd. - VP of IR*
Dana Gerner *Cellebrite DI Ltd. - CFO*
Yossi Carmil *Cellebrite DI Ltd. - Founder, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Douglas Jonathan Bruehl *JPMorgan Chase & Co, Research Division - Research Analyst*
Hugh Devon Cunningham *TD Cowen, Research Division - Research Analyst*
Jamie Shelton *Deutsche Bank AG, Research Division - Research Associate*
Jeffrey Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst*
Jonathan Frank Ho *William Blair & Company L.L.C., Research Division - Partner & Technology Analyst*
Michael Joseph Cikos *Needham & Company, LLC, Research Division - Senior Analyst*
Tal Liani *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*

PRESENTATION

Operator

Welcome to the Cellebrite Third Quarter 2023 Financial Results Conference Call. (Operator Instruction.)

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 of IR*

Thank you very much, Todd. Welcome to Cellebrite's third quarter 2023 financial results conference call.

Joining me today from just outside of Washington, D.C. are Yossi Carmil, Cellebrite's CEO and Dana Gerner, Cellebrite's CFO. There's 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 are 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.

Let's start on Slide #2, a copy of today's press release and financial statements, including the GAAP to non-GAAP reconciliations, the slide presentation and the quarterly financial tables and supplemental financial information for the third quarter '23 and each quarter of 2022 and 2021 are available on the investor relations website at investors.cellebrite.com.

Also unless stated otherwise, our discussion of our third quarter 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 third quarter of 2022, unless otherwise noted.

In addition, please note that the 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 the 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 to update any forward-looking statements to reflect future events or circumstances.

Slide #3 provides the agenda for today's call. As you will hear, we delivered excellent quarterly results and made meaningful strategic progress. As a result of our accomplishments to date and the near-term opportunities we see, we have updated our full year 2023 financial expectations.

And with that being said, I'd like to turn the call over to Yossi Carmil, Cellebrite's CEO.

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

Thank you, Andy and thank you all for joining us today. So first of all, I'm very proud of our third quarter 2023 performance, which demonstrates continued business momentum and meaningful strategic progress.

During the quarter we strengthened and expanded the scope of our customer relationships, delivered powerful innovation, and advanced our go-to-market activities. The role that Cellebrite solution play in protecting our communities and accelerating justice is tangible and growing.

Our technology is trusted by law enforcement around the world to advance cases in ways that put criminals behind bars, prevent future tragedies, help exonerate the innocent and protect privacy.

Against the backdrop of a healthy market, we move forward into the final quarter of the year with a compelling value proposition that is resonating with customers worldwide.

Now as detailed in Slide 4, we reported record Q3 results, and more specifically, ARR was \$295.2 million, up 27%. Total revenue of \$84.2 million grew 17%, driven by a 32% increase in subscription software revenue.

Geographically, our revenue performance was led by 23% growth in EMEA, 16% in Americas, and 13% in Asia Pacific. The dollar-based NRR was 125%. This was our 19th straight quarter above 120%.

We closed 25 large deals, each valued at greater than USD 0.5 million. We delivered the adjusted EBITDA of \$20.8 million or 25% on a margin basis and non-GAAP EPS of \$0.09. And lastly, we ended Q3 with cash deposits and investments totalling nearly \$283 million, up \$39 million from Q2.

Now with 3 solid quarters behind us and a robust set of near-term opportunities in front of us, we have updated our 2023 outlook. We'll cover that in more detail shortly.

Let's move to Slide #5 for additional insights into Cellebrite growth drivers, which help put our current results into context, while also addressing 2 topics that are top of mind with investors, namely, our growth drivers and the durability of our growth.

First, our consistently strong ARR and revenue growth during 2023 reflects a healthy market that is benefiting from a powerful macro tailwind. The wide gap in public safety caused by unacceptable high crime rates, increasingly sophisticated criminals, the proliferation of digital evidence across a wide range of increasingly complex smartphones and other devices, limited and increasingly strained police manpower, and heightened interest in police operation and priorities.

In turn, these trends are creating 3 major challenges for our public sector customers in the form of: First, managing increased data volume and data complexity, reducing operational inefficiency and embedding high level of ethics and accountability in police protocols and actions. Cellebrite Digital Intelligence solution help our customers address all of these challenges.

The findings from our recently published 2023 industry trends survey for the public sector validate these issues, highlighting notable struggles around device backlog, smartphone security and encryption, old fashioned approaches to reviewing digital evidence, weak chains of custody and lack of proper training.

Our customers' budgets continue to grow each year as both digital forensic units and investigative units allocate more resources to disruptive technologies like ours that can help them address these issues.

But Cellebrite's ARR and revenue growth is about more than just a healthy market. We are succeeding with the land and expand go-to-market model that supports multiple growth vectors. Upselling and cross-selling into our installed base of more than 5,000 public sector customers, expanding our public sector footprint by winning new logos, implementing annual price increases and continuing to

expand our business in the private sector.

Now I'd like to briefly elaborate further. Gaining more wallet share with existing customers is the single biggest driver of our growth, and we expect this trend to continue well in the future. Part of this existing customer growth comes simply from capacity growth in the digital forensic units as they add more licenses for our traditional collect and review solutions to support operational expansion.

However, most of our growth is the result of upselling and cross-selling. More specifically, more existing customers are turning to Cellebrite for advanced collect and review solutions to help them lawfully access and extract digital data from a broader range of more sophisticated smartphones and digital devices.

Now, we are still in early stage of what we expect that will be a multiyear upgrade and upsell cycle for our collect and review portfolio. Not only is the adoption of Premium building more momentum, but we plan to command sales of our new UFED Ultra in early 2024. We're also capitalizing on cross-selling opportunities as we tap into new buying centers to address emerging areas, such as case management and evidence management within the digital forensic units, and investigative units within that space.

Now, these dynamics are helping us close more deals that involve multiple products. For example, our Premium suites was involved in almost every large deal in Q3, while Pathfinder or Guardian were part of nearly 1/3 of our large deals.

We continually refuel our ability to drive existing customers' growth in the public sector by winning new logos. Now, although these customers are often small in size, and contribute modestly to our ARR growth at the start of the relationship, our experience is that the spending from new customers grows meaningfully over time.

We are also optimistic about our growth potential in the private sector. We are making good progress in winning new logos and in expanding business with existing customers, both enterprises and the service providers who support them.

Sales in the private sector has continued to trend favorably this year with low 20% revenue growth in the third quarter. Our recent success reflects positively on the way our sales team has intensified their focus on large accounts as well on investments we've made to broaden our offering.

Over the past 2 years, we have augmented our traditional on-prem solutions with new SaaS offering that allow for the remote collection of data from phones, computers and cloud applications.

Turning to Slide 6. I would like to share some thoughts on our top 4 strategic priorities going forward. More, specifically, these priorities include: One, increasing our leadership in the digital forensic units; Two, accelerating our growth within investigative units; Three, building our business in the private sector; and Four, harnessing the power of the cloud.

I'd like to expand briefly on each priority and will highlight some important third quarter customer wins in the process. Addressing the needs of digital forensic units has long been a major strength for Cellebrite. Not only is our collect and review offering pervasive within the digital forensic units, but our end-to-end capabilities further embed Cellebrite in the workflows from the intake of digital device through to sharing the digital evidence with investigators and prosecutors.

Our Q3 revenue reflects strong demand for our premium software suite, which provides lawful access to the most advanced smartphones in ways that our competition is unable to match.

For example, due to the differentiated capabilities of Premium, a large U.S. federal agency significantly increased its Premium footprint to over 100 sites. As a result, our ARR in this account grew by over 80% to USD 6.5 million.

Now as we move forward, we are excited about our potential to help these customers reducing backlog, increase efficiency and accelerate justice. To that end, we plan to further evolve how we pack our collect and review capabilities to optimize value, add more automation and new AI capabilities, provide greater deployment flexibility through the cloud and enhance the user experience to achieve

their objectives.

The second priority is to accelerate our growth within the investigative units of our law enforcement customers. We recently expanded our offering for the investigators to deliver an end-to-end set of offerings with the introduction of our SaaS-based Smart Search solution.

Smart Search solution leverage the open source intelligence technology we've gained by acquiring digital clues in late 2021 to securely automate the collection and review of public available online data, including social media platforms.

In addition to Smart Search, we are seeing ongoing traction with our AI-powered Pathfinder investigative analytics, which is used by investigators to advance cases faster by surfacing relevant leads and discovering valuable connections within the vast volume of digital data that resides on a wide range of devices.

For example, during the third quarter, we expanded our relationship with a major U.S. state police department, which licensed Pathfinder and Premium as a service to help it expedite cases involving digital evidence.

Now this deal increased our ARR in the account by factor of USD 500,000 to USD 900,000. In addition to leveraging AI to support digital forensic units, we continue to enhance the AI capabilities for data analysis and visualization in Pathfinder to help streamline and accelerate investigations involving digital evidence.

We are also focused on the opportunity we see to build our business in the private sector, where our solutions are currently used by enterprises and service providers in the area of corporate investigations and eDiscovery.

Now as noted earlier, we are seeing that offering, an integrated portfolio with the deployment flexibility to optimize data collection for hybrid work environment, is resonating strongly with customers. During the third quarter, we continued to close new Endpoint Inspector Mobile deals, which is helping to establish this offering as a leading internal investigation solution for content-based mobile data collection involving employees outside of the office.

We also expanded our relationship with a leading nationwide eDiscovery company for our on-premise offering, increasing our ARR in this account by 20% to approximately USD 600,000.

The fourth strategic priority is to help our customers harness the power of the cloud to cost effectively and securely address their pain points and drive operational efficiencies without taxing limited IT resources. Over the past 18 months, we have taken major steps forward to introduce cloud-based alternatives to our traditional on-prem software offerings as well as launch powerful new SaaS-based solution.

For example, we have continued to make good progress with Guardian, our SaaS-based solution for end-to-end case management and evidence management. We won double-digit Guardian deals in Q3, and the number of users in this platform continues to grow.

In terms of SaaS offering, as I mentioned a moment ago, we see promising potential for Smart Search within investigative units. We are excited that one of the Smart Search early adopters is among the largest police departments in the United States.

This customer went live with Smart Search in third quarter as part of a deal that increased our ARR by over 30% to more than USD 650,000. And going forward, we plan to accelerate the full cloud enablement of our portfolio, including achieving important public sector certification such as FedRAMP later next year.

So I would like to move to Slide 7, which covers our outlook. We moved into the final quarter of 2023 with 3 strong quarters behind us. Our pipeline in all regions continues to expand as both digital forensic units and investigative units allocate more resources to modernize their investigative workflow.

Based on our results to date and the near-term opportunities we see, we have updated our 2023 expectations. As Dana will detail in a few minutes, we have increased the midpoint of our 2023 revenue outlook.

Given the strength in our near-term sales pipeline, we have also raised our 2023 ARR range. We also increased our 2023 adjusted EBITDA target range above our prior expectations to primarily reflect the combination of solid revenue growth, meaningful gross margin expansion and prudent spending.

Now as we work hard to bring 2023 to a successful conclusion, we are also advancing our planning process for 2024. We expect that our business will continue to benefit from healthy budgets in which more money will be directed towards Digital Intelligence solutions.

We see meaningful opportunities across each of our customer segments to drive continued growth in 2024, and we are investing accordingly, including advancing our go-to-market approach in the United States federal markets.

We do believe it is an exciting time to be part of Cellebrite. And to help us take our business to the next level, we also announced today that Marcus Jewell, a technology sales veteran with an impressive track record, will join Cellebrite in the newly created role of Global CRO.

Marcus brings a unique blend of sales and operational excellence as a proven CRO at fast-growing successful companies like Juniper Networks, Brocade Communications and others. We look forward to his contributions as we build our momentum and accelerate our top line growth over the long-term.

And on a final note, final but important, before I turn the call to Dana. So I would like to thank our customers, our partners, our friends in the industry and those of you in the investment community who reached out to us, expressing your concern about the situation in Israel. It means a lot to me and it means a lot to my colleagues at Cellebrite.

We are fortunate that the ongoing conflict has not meaningfully impacted our business so far. Nevertheless, we have taken steps to prioritize the safety and the well-being of our employees in Israel while striving to maintain a business-as-usual mentality, business-as-usual DNA to the greatest extent possible.

To that end, our offices in Israel remain open with an ongoing collaboration with our teams in the United States, Europe, Middle East, Africa and Asia Pacific.

Our focus on addressing the needs of our customers has never been sharper. And although these are challenging times, morale remains at a very high level. So I'm grateful to my colleagues at Cellebrite around the world for their support of one another as well for their courage, hard work, resiliency, commitment to the Cellebrite mission of protecting and saving lives, accelerating justice and preserving privacy around the world.

And with that said, I'll ask Dana to start her review of our financial results. Thank you.

Dana Gerner Cellebrite DI Ltd. - CFO

Thank you, Yossi. The financial review begins on Slide 9. Third quarter revenue of \$84.2 million grew 17%. Our top line growth was fueled by a 32% increase in subscription revenue, partially offset by a 43% decline in other non-recurring revenue and a 22% decrease in professional services revenue.

The decline in other non-recurring revenue reflected lower perpetual license revenue and decreased usage fee. The decrease in professional services revenue primarily reflects lower Advanced Services revenue as small customers adopt our Premium solution and reduce their outsourcing.

In terms of our Q3 geographic mix, the Americas remain our single largest geography at 57% of total revenue, followed by EMEA at 31% and Asia Pacific at 12%. Cellebrite has essentially completed its transition to subscription with 87% of our total quarterly revenue coming from software subscription, up from 78% 1 year ago.

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 \$295 million at the end of Q3.

Diving deeper into this metric. The majority of our existing customer growth continues to be fueled by expanding awarded share within the digital forensics units of our customers, driven primarily by ongoing adoption of our Premium offering.

In the investigative units of our public sector customers, we continue to enjoy very strong growth of Pathfinder and are optimistic that our newly launched Smart Search offering will augment our momentum in this area over the coming quarters.

Slide 11 details the historical trends for our non-GAAP gross margins and non-GAAP operating expenses, which excludes share-based compensation, amortization of intangible assets and acquisition-related expenses.

We reported a third quarter gross margin of 85.2%, up 500 basis points from 80.2% 1 year ago, due primarily to the growth in our higher-margin subscription software offering and to a lesser extent a decline in lower margin professional services.

In terms of operating expenses, third quarter operating expenses were \$52.5 million, a 3% decrease from the prior year, primarily due to the timing and phasing of hiring activity, the timing of certain marketing programs and favorable changes in foreign exchange rates tied to the Israeli Shekel.

In terms of the sequential change in our operating costs, our third quarter expenses declined by a little more than \$2 million from the second quarter due largely to the contribution of certain onetime strategic projects in the second quarter.

We ended September with 989 employees, down slightly from the start of the year, but up slightly from 966 at the end of Q2. We believe that we are on track to end '23 with our total headcount above 1,000 people.

Turning to Slide 12. The combination of higher revenue, strong gross margins and disciplined spending produced excellent third quarter adjusted EBITDA performance of \$20.8 million or 25% on a margin basis.

This type of performance is consistent with the historical trends in our business as our profitability in the second half of the year benefits from the seasonal uplift in revenue and more limited expansion growth against the first half levels. Our Q3 non-GAAP operating income was \$19.3 million with non-GAAP net income of \$21.3 million or \$0.09 on a fully diluted basis.

We finished the third quarter with \$283.2 million in cash, cash equivalents and investments, up \$38.7 million from the end of the second quarter. The increase primarily reflects another very good quarter of cash generation with \$29.9 million in cash provided by operations.

Let's move to Slide 13. As detailed in our press release and as Yossi highlighted, we've updated our financial 2023 targets. Cellebrite's prior and updated guidance is displayed on this slide.

In terms of full year 2023 revenue, our current trajectory has increased the low end of our prior revenue range by \$5 million to \$350 million, which in turn modestly raises the midpoint of our prior guidance range.

This implies Q4 revenue in the range of \$83 million to \$88 million, anchored by a strong subscription revenue growth. We have raised our ARR target for '23 based primarily on our ongoing strategic progress in increasing our leadership in the digital forensics unit and expanding our business with investigative units.

We anticipate a strong close for 2023 with a healthy pipeline of opportunities, including those involving our investigative analytics and case and evidence management. However, since many of the deals involved in increasing our ARR range are expected to close later in the quarter with limited initial revenue recognition and fairly muted professional services revenue, we have left at the high end of the financial year '23 revenue range unchanged.

We expect Q4 gross margins to remain in the 83% to 84% range. We anticipate that our Q4 operating costs will increase sequentially to the high \$50 million range primarily as a result of the fourth quarter marketing activities, higher incentive compensation and expediting hiring to support our 2024 objectives.

Accordingly, we anticipate another quarter of strong profitability, and we have raised our full year 2023 adjusted EBITDA and adjusted EBITDA margins target above our prior expectations.

While we are still advancing the planning activities required to complete our '24 budget, we believe that a strong finish to 2023 will help move Cellebrite's business forward and achieve the ambitions that Yossi outlined earlier, even as we fund the investments necessary to advance our strategic priorities.

In summary, Cellebrite delivered an outstanding performance in the third quarter, and our teams around the globe remain focused on finishing '23 on a strong note.

While we have taken important steps this year to execute our strategy, accelerate our revenue growth and improve our profitability, we are not content to rest on our laurels. We are focused on taking necessary actions that will help fulfill Cellebrite's mission and realize our full potential as a market and technology leader.

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

QUESTIONS AND ANSWERS

Operator

[Operator Instruction.] Our first question will come from Mike Cikos with Needham.

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

Mike Cikos from Needham. Yossi, good to hear. Thank you for the update on Israel as well. I guess my first question would be for Yossi. And it's really with respect to this newly created global chief revenue officer position.

Can you help us think about with Marcus' appointment and him stepping in tomorrow, what are some of the strategic conversations that you guys have had in the lead up? And what is it that's expected of him that maybe Cellebrite either didn't have previously or that he's looking to accelerate? Can you talk to the new position and what Marcus is expected to bring?

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

Absolutely. And Mike, first of all, thank you very much, what you said is highly appreciated. There is actually nothing better than making yourselves better in peace times, in good times, as I tend to say. As you can see, we are delivering great results in 2023. Actually, 3 consecutive quarters in a row, twice beat-and-raise. So really great results.

And I would say that actually this is to bring a person like Marcus in just the timing is a clear sign for our wish based on our belief that we can accelerate and grow as a company. So making that acceleration possible means that we need to bring experienced people who have the track record with a ability to accelerate, okay?

And Marcus bring exactly -- among others, brings that exactly to the table as a Global CRO. As a Global CRO, Marcus is going to oversee the entire top line business of the public sector, the private sector, the customer experience and bring all the right elements to the table, all the right experience that will help us to scale. And that's it.

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

Got it. And if I could just ask, maybe to Dana. I think the first question, this is really just trying to get my arms around the updated ARR guidance that we have. And I know we don't have -- I think we have 3 or 4 years of historical information. But historically, net new ARR that's generated in Q3 versus the net new ARR generated in Q4 -- 4Q tends to be either the same as Q3, if not more.

And I'm looking at today's guidance that we have, and it looks like Q4 is actually expected to be down from what we generated in Q3. And I just wanted to see, were there -- is this related to the timing of deals or is there anything else there? Again, just because we only have, I think, 3 or 4 years of information here. So I wanted to see if I could get more familiar with maybe seasonal trends that you would call out.

Dana Gerner Cellebrite DI Ltd. - CFO

Thanks, Mike, for the question. In principle, in the last 2 years, once it was almost the same. And in '21, it's even -- the NRR was even reduced 1 or 2 points between Q3 and Q4. This is part of the seasonality of these 2 quarters. We are basing it based on our current opportunity analysis, which we still believe this will create a great NRR for the year-end.

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

And I guess, the last question here for you. But I know that you had called out the expected OpEx in Q4, I think you had cited maybe the high \$50 million range. And there's some marketing, there's some incentives, there's hiring there.

Can you help us think about maybe which of those components are -- if any, are more onetime in nature? And I know that it's probably too early we start talking about calendar '24 for guidance. I just want to get a better sense of how the OpEx base kind of flows through when we think about turning to '24, if any of those expenses in Q4 seem to be more onetime, especially maybe those marketing events.

Dana Gerner Cellebrite DI Ltd. - CFO

Yes. So for sure, you're right on the point. The marketing activities in Q4 is heavily launched -- is heavily focused on the launching of the new UFED Ultra that we expect to do in Q1 so had some onetime aspect of it. Same goes with the incentive-based compensation, having such a great year-end, we do expect it to be higher than the ongoing expense on a regular basis.

Operator

Our next question comes from Jonathan Ho with William Blair.

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

I also wanted to echo our support and thoughts and prayers for everyone impacted by the recent conflict. Just with regard to your margin outperformance this quarter, can you help us understand where you saw more opportunity to realize cost savings? And do you need to drive more headcount increases in order to sustain growth for future periods?

Dana Gerner Cellebrite DI Ltd. - CFO

So it's not really about saving, it's growing our OpEx sequentially in a very controlled manner. And as I mentioned, we are heading into the 1,000 people club towards the end of the year, because we will need to get more headcount to secure our performance for 2024.

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

Got it. And with the release of Ultra in 2024, how should we think about the uplift in pricing relative to Premium and your basic solution as well as the potential benefit to ARR?

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

First of all, this is been a mix because, first of all, the mobile -- the Ultra, which is going to be launched is bringing more value to customers. We are talking something which is, as we stated in the past, an all-in-one solution and end-to-end for the digital forensic unit environment. And it's about basically using cloud capabilities and other capabilities which were in the Premium like full file system. I'm emphasizing that, because that brings tremendous value to the customers. And as a result, it will bring an opportunity for price increase in order to sell more value and offer more value.

Dana Gerner Cellebrite DI Ltd. - CFO

Yes. I would just say that the packaging of the UFED Ultra with additional benefits is beyond a price increase. It's a repackaging, rebranding our capabilities with the right and attractive pricing structure to our customer.

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

Just one last one. In terms of the FedRAMP opportunity, once you become FedRAMP certified, can you talk a little bit about how much opportunity that opens up in the U.S. Federal Government and maybe other agencies when you approve -- receive that approval?

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

Absolutely. First of all, in -- maybe in one sentence, an amazing huge opportunity. We are a very strong positioned on the federal space already. We have all the right customers, and we have all the entries. With bringing FedRAMP and with, I would say, even an upgraded structure that we will build within that team later on, it will bring us basically possibilities to expand the already existing business everything -- basically in each one of our product portfolio parts, both in collect and review, especially in investigative analytics. And when it comes to the cloud solution, so Guardian, investigative analytics and all the SaaS offering, which is related to collect and review, so a huge opportunity.

Operator

Our next question will come from Jeff Van Rhee with Craig-Hallum.

Jeffrey Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst*

Congrats to the team and we're really impressed with execution in light of the Hamas attack you guys really, just outstanding quarter, particularly on the ARR sequentially here. So congrats to you and the team.

Yossi, on the cloud enablement of the product suite, maybe just a little longer-term thinking. How do you think about the product evolution and the point at which we might be all cloud or very close to all cloud? How do you think about that from a product evolution standpoint?

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

Look, first of all, we are -- I think we stated several times, so I will repeat. We are in a continuous effort on the on-prem, on the one hand, which is something which within our customers is there to stay, especially due to sensitivities, which are related to investigative evidence on the cloud.

Nevertheless, we spoke several times about the stronger trend of our customers moving to the cloud and more acceptance over there. We are fully committed side-by-side with the on-prem to bring value to the customers by delivering the cloud offering in full scale, improving their ability to, I would say, collaborate, their ability to create more efficiencies. There is tremendous opportunities, but we see the cloud not only as a business opportunity, it's really a way to improve the efficiencies and the productivity and the way investigations can be modernized.

So as a result, we are aiming to, I would say, start on the collect and review level in our cloud efforts. But as we look further along the road, it's relevant for our entire offering as a cloud, I would say, infrastructure that will be offered to the customers.

Jeffrey Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst*

And then on the Global CRO, Marcus Jewell. I'm sure you looked at lot of candidates. What in particular did you go looking for and find in Marcus?

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

I think I said it, but I'll repeat it again. First of all, acceleration, the ability to accelerate, a good mix of a person that has basically been there, done that in the move from on-prem plus cloud environment. Ability to scale, and allow me to say so, a killer application in terms of sales DNA, okay?

On top of that, we are -- and I think I said that in several calls, our efforts in the business -- we are very strong in the United States, and we are going to scale and grow here along the road. But the recent element of double down our efforts in Europe and our ability to scale

in Asia Pacific and what Marcus brings to the table is a very strong mix between American experience and the international part of what we need and will upgrade. So that sums up the most important thing that we searched and we've seen in Marcus as a selected candidate.

Jeffrey Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst*

You've talked over time about strategic M&A. Just curious what you're seeing in the market and the probabilities of seeing something land here in the next several quarters?

And then one last question. Pricing with respect -- specifically to Magnet and GrayShift, what you've observed over the last year?

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

So first of all, regarding M&A, it's -- look, we said several times, M&A is part or the inorganic element is part of our strategy. By the way, if you look at our balance sheet and if you look at our cash, you can see that we have enough firepower in order to make, I would say, smart moves in that area. And we continue to search -- actively search, we do that all the time, regarding possibilities, which are around, I would say, time expansion, achieving more customer base and accelerate time to market in elements which are part of our organic growth, but we might do them quicker when it comes to via acquisition. So, so far to M&A.

And regarding competitors and especially regarding pricing, I'm glad to say that our market and our customers appreciate value, and they are ready to pay for that. In that context, we have seen price increases in our market this year, and we will continue to see them both from our competitors and also from our side.

Operator

Our next question comes from Tal Liani with Bank of America.

Tal Liani *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*

I know you don't provide '24 guidance, but I have a question about margins -- EBITDA margins. The average for the year is 16.5%, and that's because 3Q was so strong. The fourth quarter guidance is 15.5%. So that means there is about 100 basis points of headwind if you look at the ongoing rate. And the question is for next year.

What can you tell us about the puts and takes -- I'm not looking for specific guidance, but what can you tell us about the puts and takes for EBITDA margin for next year? If you start from 16.5% because of a strong 3Q, does it give you kind of a tough comp for the year or can -- do you think you can still work it up throughout the year?

Dana Gerner *Cellebrite DI Ltd. - CFO*

I think -- also Q4, if you look at the numbers, is providing a very nice EBITDA performance following a very, very strong Q3. As we -- as I mentioned, we do see stepping into 2024, and we are still working on our plans there. So I'm putting a very large disclaimer here, a continuous improvement in our overall EBITDA margins into our long-term targets that we have provided when we went public of 20% growth in revenue and 20% EBITDA margins.

I will emphasize what I also said during the call that we do need to take into consideration the seasonality of the revenue that impacts also the seasonality of the EBITDA between half 1 and half 2. And we do -- through efficient OpEx spending will provide modest improvement in our EBITDA margins.

Operator

Our next question will come from Jamie Shelton with Deutsche Bank.

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

Brilliant execution and it's glad to hear you're all doing okay. Just a quick question from me to start with. Can you provide us what percent of the usage base is now connected to Premium enterprise? And then I've got a couple of follow-ups.

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

So I would say that the -- related to the Premium penetration, first of all, I would say that the Premium is -- all the Premium suites of solutions is picking up very nicely. There is a permanent consistent progress here. And currently, at this stage that I would say from -- in Q2, we've been in mid-teens. Now we go end of Q3 to the high-teens. And basically, there is a permanent increase.

And let's not forget that when it comes to the Premium, we are bringing in here capabilities and in a mix of offering that competition basically cannot match with. Goes a little bit to what we are emphasizing all the time regarding the end-to-end offering within the DSU, which is a very critical part of our value proposition.

Premium strengths end-to-end within the digital forensic units. What we do with Guardian strengths back our ability to influence on collection activities connected to our review capabilities. So we anticipate that we are one in a good faith. Second, far away from fulfilling a great potential, which is still ahead of us. Hope I answered your question.

Jamie Shelton Deutsche Bank AG, Research Division - Research Associate

Yes, very clear. And just a similar question. What percent of your business from analyze and investigate portfolio? And where do you think this could go over the next few years? And I've got one final question.

Dana Gerner Cellebrite DI Ltd. - CFO

So our business, which is not the collect and review business is around 10% of -- and structure business is around 10%. Most of it is actually the investigative analytics. We see great potential with this offering. So...

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

Yes. I would like to say, first of all, nothing to add regarding what Dana said regarding these components. But Pathfinder is a key element of the investigative activity for the investigative unit and Guardian is a key element of case and evidence management, are pretty much strategic solutions and clear, I would say, element in the growth and in improving efficiency of both digital forensic unit and investigative units.

We've got, at this stage, a very good positioning regarding both of them. And as I stated, I think, yes, I did in my previous speech, the pipeline was growing nicely in terms of Guardian. In Pathfinder, we are penetrating very well. And I would say that we should expect a very meaningful growth from this solution along the road, both in digital forensic units and investigative units in the years to come.

I would like also to emphasize that the investigative unit part of the company side-by-side with the digital forensic unit is a very meaningful growth engine as part of our long-term strategy.

Jamie Shelton Deutsche Bank AG, Research Division - Research Associate

And then last one for me. I mean, price has been touched on a couple of times, but -- and it's highlighted as the growth drivers in the deck, obviously. But outside of natural ASP uplifts from Premium products, how much leverage do you have to just in kind of core price increases? And what is the methodology you adopt internally?

Dana Gerner Cellebrite DI Ltd. - CFO

I think, as we said, we see the biggest driver of growth in the coming 2 years in the -- is the launch of the UFED Ultra. It's really not about price increase, it's about new packaging of capabilities with the right value attached to this new offering.

We believe that each and every customer of us, each and every installed base holder is entitled to these benefits that we are bringing to the product, and this will, with the Premium and the new offering of Guardian and investigative analytics together will drive the growth in the coming 2 years.

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

I would like really to reiterate and maybe join here and emphasize, because, again, we are talking here permanently about price increase. Price increase related to what we deliver in terms of Pathfinder and in terms of Guardian and the model which is related on more usage,

more data, that's basically -- that's going to happen.

The UFED Ultra, which is about to be launched, is not a matter of price increase. It's a new price tag for a revolutionizing solution that basically will change in many aspects the way collect and review is done today in the digital forensic units.

By the way, I'm saying that with a lot of confidence, because as you know, not only that there is a healthy market that we are talking about all the time and available budget, we are -- we get that from customers.

We did that journey of bringing that solution by knowing very well our customers. We are perceived as a strong adviser. We've got strong relationship. And I'm convinced that there will be a well-perceived -- a well-accepting environment for that value added with a new price tag.

Operator

Our next question comes from Hugh Cunningham with TD Cowen.

Hugh Devon Cunningham TD Cowen, Research Division - Research Analyst

We go with our colleagues in offering our thoughts and prayers for -- to all of you and your families and friends. A couple of questions.

One, to the question Yossi just answered about Pathfinder and Guardian, and I'm trying to think through what both of those solutions would be displacing. My first -- my initial thought that you probably will be displacing some sort of process on the Guardian side and maybe there's nothing on the Pathfinder side at a lot of your customers.

Can you just talk about the ease of penetration or what the difficulty to displace what your customers already have in place performing the functions of Guardian and performing functions of Pathfinder?

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

So we are talking a lot about the drivers for the growth. And I was talking about it earlier, and one of them is about inefficiencies and the need to bring more digital intelligent solutions into our customer space, because as much as people are sometimes surprised, there is not much to displace. It's more about creation and about improvement of processes with disruptive technologies like ours that come and basically make things more smarter, faster, efficient and by that, enable productivity.

The Pathfinder, according to very thorough market studies, and as I said, we know our customers, investigative analytics, so analytics BI for investigation is in the, I would say, single-digit penetration at this stage of our strategic and mid-high prime accounts. That gives us a place to grow. It's not about replacing.

The onboarding of those solutions, such as Pathfinder is indeed longer. There is a need to educate the customers. There is a need basically to invest in customer success in order to make it operational. But we are not displacing. We are coming and solving a pain with solutions, which doesn't exist.

Same goes to Guardian in terms of evidence and case management. I would say that if I need to display something is actually help our customers to stop manual and saving of evidence on USB drives and stuff like that. It's more about creating a better or bringing technology that will create more efficient, more efficiency, save manual work and by that, increase the chain of custody. And that's in a nutshell. So we are in the upgrade and displacing manual work and inefficiencies with lots of efficiency, smart, fast and more productive.

Hugh Devon Cunningham TD Cowen, Research Division - Research Analyst

On the federal side, does FedRAMP -- in addition to moving you forward on the federal side, does it help you with local and state and maybe even private customers who are using maybe FedRAMP as a sort of shortcut or due diligence or validation, will that help you with them also? And then related to that, do you expect any impact from the potential shutdown of the U.S. Federal Government?

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

First of all, to the first question, yes, absolutely, benefit from that. As for the shutdown, there is no concerns on our end related to Q4 2023. And we analyze that pretty deep. And when it comes -- if there will be a shutdown, it depends, and I'm thinking right now about 2024. On a shutdowns, and we have done this and that we have seen that in the past, the shorter it is, the less impactful it is. The longer it is, then we'll need to consider. We are assessing, but for Q4 2023, we see no impact on our results.

Hugh Devon Cunningham TD Cowen, Research Division - Research Analyst

And then for the Endpoint Mobile Now, it's great to see that announcement. Can you talk about the differences in your approach as you target the public sector versus private sector? I know Endpoint Mobile Now targets the private sector. Can you talk about the differences there?

And then just to wrap up on FX, could you remind us about your hedging policy? I know, I think Dana mentioned, part of the OpEx improvement was related to FX moves. Can you talk about your hedging policy there?

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

I'll take the Mobile Now, and I'll take the public -- the private sector, sorry. For a -- as a company, we see lots of potential when it comes to the private sector and especially from the background of a very strong public sector business.

In general, good progress that we have done in Q3. And indeed, as part of our innovative steps and the product portfolio, we brought basically the Mobile Now into the market. The Mobile Now is a -- it's a first SaaS offering, by the way, which is targeted as the first step for, I would say, our small to midsized customers in the private sector.

It's -- as we said in our press release, it's a one step before bringing an endpoint complete on the SaaS, which is -- which will come in Q4. And that will be focused for more, I would say, large paying accounts that we have as part of our customer base.

Dana, would you like to...

Dana Gerner Cellebrite DI Ltd. - CFO

Yes, for sure. So our hedging policy is mainly aimed to protect the expense in Israeli shekel, which is mostly payroll paid in Israel. We have a 4 quarter rolling policy. But usually the coming quarter is covered 80% to 100%. Then next quarter, we'll go to 70% and so on and so forth, and we are on a monthly basis based on the currencies updating the hedging that we are executing.

Operator

Our next question comes from Douglas Bruehl with JPMorgan.

Douglas Jonathan Bruehl JPMorgan Chase & Co, Research Division - Research Analyst

We'd also like to extend my thoughts and support to you guys and all the Cellebrite employees. Maybe we could continue a bit with U.S. Federal. Did you see any budget flush coinciding with the end of the fiscal year? And then how did federal spending trends in Q3 compare to prior years?

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

In general, we didn't see any challenge whatsoever during this year and in comparison to, I would say, Q3 versus Q2 regarding federal budgets. We see pretty much healthy environment. There are some discussions, obviously, regarding '24 and '25. They are in the public about limiting the cap related to the Fed budget. But as I look at our, I would say, performance, which is related to the budget, we also saw a good growth if we compare Q3 2023 in previous or in previous -- in comparison to previous year.

Douglas Jonathan Bruehl JPMorgan Chase & Co, Research Division - Research Analyst

And then maybe one more. Given that the new SaaS offering for enterprises that you released in the quarter, any commentary on private sector traction or trends that you're seeing lately?

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

First of all, as I said, private sector is becoming more and more important for us and is on our -- so to say, on our radar. The trends in the private sector when it comes to us, the areas of, I would say, eDiscovery, and incident response, one, there are more budgets. Second, there is an ongoing trend, which started by the way already in 2019, 2020 for the need for remote collection, especially when it comes to large and midsized organization. And there is a clear need for a unified platform as we look ahead, I would say, towards 2025, 2026. Those are the major trends, and we intend to operate accordingly.

Operator

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

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

First of all, again, thank you all for joining. And I would like to end by, thank you for the interest, thank you for the support.

And again, I would like to give a big thank you for the Cellebrite employees and emphasizing the fact that especially during such times, so macroeconomic conditions, plus what we are experiencing the conflict in the Middle East, we succeed to continue with our strategic plans and deliver above and beyond and beat our targets. So a big well done and a big thank you from my team. And thank you for joining us today.

Operator

This does conclude today's Cellebrite third quarter 2023 financial results conference call. Please disconnect your line at this time, and have a wonderful day.

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