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PRESENTATION

Operator

Welcome to Cellebrite third-quarter 2025 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 - Vice President, Investor Relations*

Thank you so much, operator. Welcome, everybody, to Cellebrite's third-quarter 2025 financial results call. I'm joined today by Tom Hogan, Cellebrite's CEO; David Barter, Cellebrite's CFO; and Marcus Jewell, our CRO. This call is being recorded, and a replay of recording will be made available on our website shortly after the call along with a copy of our prepared remarks.

Please note a copy of today's press release and financial statements, including GAAP to non-GAAP reconciliations, is available on the Investor Relations website at investors.cellebrite.com. In addition to the press release, we posted a separate investor presentation that provides an overview of our business and our recent financial performance.

I'd like to also remind everybody that the slides in your webcast viewer is a placeholder only. There are no actual slides to accompany our prepared remarks. We also published supplemental historical financial information for each quarter of 2025 and for the past two years on our Investor Relations website. Additionally, unless stated otherwise, our discussions of the third quarter 2025 financial metrics as well as the financial metrics provided in our outlook will be done on a non-GAAP basis only and all historical comparisons over the third quarter of 2024.

In addition, I'd like to remind you that today's discussion will contain forward-looking statements, including, but not limited to the company's business operations and financial performance. 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 18, 2025. The company does not undertake to update any forward-looking statements to reflect future events or circumstances.

And with that being said, I'll now turn the call over to Tom.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Thanks, Andy, and thanks to all of you for joining us this afternoon. I'll be a bit briefer this quarter than I was last quarter, but I want to start by thanking the many of you that reached out with kindness and support after our last quarter's call. I'm pleased to share that not only do I remain cancer-free, I've resumed my mountaineering passion and climbed a significant peak last month. And the doctors tell me that I should plan to die of a heart attack in my late 80s, which I guess is a good thing, but gives me lots of runway to help propel this important company.

So let's go. First, I'm proud of the job the team at Cellebrite delivered in the third quarter. Our results were both solid and balanced. ARR grew 19% for the 12-month period. Subscription revenue grew 21%, led by strong performance in our US State and Local segment and our Latin America region. Adjusted EBITDA exceeded expectations growing 20% year-on-year with margin expansion of 60 basis points. We continue to tune our business to optimize top line growth while driving increased scale and operating efficiency to deliver meaningful levels of profitability and a very healthy free cash flow. Good companies grow, good companies expand margins, great companies do both, which is exactly what we did.

We were also pleased with our third quarter performance in the US Federal segment. As we foreshadowed in our last call, we do not expect a full return to normalized growth until calendar 2026, but we did deliver year-to-year growth in the quarter, which included the expansion of several marquee clients and confirmation of our view that growth in this sector will resume as budgets are fully distributed. I think it's fair to say the flywheel in US Federal has begun to move.

I want to highlight some important metrics and milestones that contributed to the quarter and position Cellebrite for continued growth and leadership. First, we finished Q3 with approximately 47% of our installed digital forensics license base converted to our Inseyets offering. As a refresh for everyone, we set a target at beginning of 2025 of 50% conversions from a 2024 baseline of 20%. Our year-to-date progress clearly positions us to meet or exceed that target. And importantly, it's a strong proxy for the value of the industry's most complete suite of digital forensics.

Second, we continue to see more customers turn to Cellebrite's cloud and SaaS offerings to efficiently and securely manage their digital forensics and investigative workflows. ARR for our SaaS and cloud-based solutions grew 3 times faster than total ARR. Guardian is rapidly emerging as the industry standard for the storage and collaboration of sensitive evidential artifacts. The number of Cellebrite customers using Guardian more than doubled year-over-year, while ARR grew triple digits and 100%-plus for the fifth consecutive quarter, and this is all before we launch Guardian Investigate in the first quarter of next year.

Third, our strategic focus on the global defense and intelligence sector is starting to pay dividends. In the third quarter, we continued to expand our business in the D&I sector as multiple global intelligence and military agencies increased their Cellebrite investment to support high priority use cases across antiterrorism, border control, and overall military responsiveness and readiness.

In particular, I'd highlight our D&I expansion in Europe over the past several quarters, as an early proof point validating our intensified go-to-market focus. As we look ahead, we're centered on four core growth vectors.

First, we're focused on asserting our leadership and breadth in providing unlock and access solutions across the wide range of OEM phone providers and operating systems. Our unlike offerings are now attached to more than 45% of the Inseyets and legacy Forensics installed base, reflecting healthy quarterly expansion and sustained demand for this critical capability. Last quarter, we highlighted our clear leadership on Android phones. We extended that leadership this quarter with the addition of industry-first capabilities, and even broader coverage across the Android universe. As we finished 2025, we are equally excited about our leadership opportunity in iOS with pending and added enhancements. We believe the choice will be clear for any customer looking for unlock strength across multiple platforms, combined with industry-leading capabilities for extraction, decryption and decoding.

Second, we are accelerating innovation in AI and digital investigations with the upcoming launch of Guardian Investigate. This new SaaS AI-powered solution is designed to transform the entire investigation life cycle, enabling investigative teams to build stronger case narratives, collaborate seamlessly in a secure, unified workspace and drive AI-enabled insights and analytics and workflow across a diverse set of data sources, including smartphones, computers, call detail records, opensource intelligence and case files.

Guardian Investigate will launch in early 2026, and we couldn't be more excited. Guardian Investigate is the logical extension of our 20-year history of leadership in forensics. We are well positioned to empower hundreds of thousands of investigators, detectives, analysts and prosecutors in their mission of prevention, exoneration and prosecution.

Third, we expect a resurgence of growth in calendar 2026 across the US Federal sector. After navigating spending headwinds and leadership changes throughout the first half, this segment returned to growth in the third quarter. We remain cautious on the federal fourth quarter given normal government seasonality, combined with the shutdown in the past six weeks, but we view both as transitory and believe the strategic spending we enjoyed in our third quarter are harbingers of a strong rebound in 2026.

Our conviction in this segment is grounded in three areas: first, the release of targeted funding combined with pent-up 2025 demand, should elevate investments in our unlock and Inseyets solutions; second, achieving FedRAMP authorization to operate with DOJ sponsorship in early 2026, and should unlock a large opportunity for us to leverage our Guardian offerings across US Federal agencies; and third, assuming Corellium is closed by year-end, this asset has tremendous product fit across the US federal space.

Our final growth vector is the pending close of Corellium, which we believe will expand both our TAM and our value proposition, particularly across global defense and intelligence agencies and the private sector. Corellium's ARM-based virtualization software, is already enabling some of the world's most sophisticated D&I agencies to harden their cyber defenses by more efficiently and effectively identifying vulnerabilities across a broad range of digital devices. What has us super excited is the consistent surfacing of new and powerful use cases across both the private and the public sector. We're addressing CFIUS requirements real time and expect to complete our purchase of Corellium later this quarter. And as a reminder, our current results and guidance do not contemplate Corellium results or performance. As we step back and consider the big picture, the macros remain strong. Crime and geopolitical risk is not going away, unfortunately. The application and sophistication of technology in the pursuit of crime grows weekly and budgets for labor to protect public safety remain constrained at best. The deployment of advanced technologies like Cellebrite remain the best path to make our nations, our communities and our businesses safer.

We're focused on sprinting through the tape over the next six weeks, but we couldn't be more enthusiastic about 2026 with the confluence of the release of several new value-generating assets between the fourth quarter of this year and the first quarter of 2026.

We'll reserve 2026 guidance for our February call and plan to remain prudent when it comes to setting expectations. Nevertheless, our confidence in the reacceleration of our top line growth in 2026 builds every week, along with our commitment to continued stewardship with respect to spending, margins and free cash flow. That ongoing discipline not only delivered a third quarter beat on the bottom line but also triggered a raise on our full year 2025 adjusted EBITDA target. And Dave will talk more about this in just a minute.

Finally, I want to sincerely thank the roughly 1,250 strong Cellebrite operatives, which are our people, and our customers who place huge trust in us every day. It's an honor and a privilege to serve all of you. I was excited about the prospects and the mission of this company when I joined as Executive Chairman in 2023. I can tell you with absolute conviction, I am more enthused about our future today than when I joined 2.5 years ago.

I believe the best is yet to come as we continue to innovate internally and tap much further and deeper into the enormous power and potential of AI complemented by disciplined and targeted acquisitions and strategic partnerships. We're confident the combination of strong execution with a growing and mission-critical TAM will drive material value creation for our customers, our employees and our shareholders.

With that, I'll turn it over to Dave.

David Barter - *Cellebrite DI Ltd - Chief Financial Officer*

Thank you, Tom. I'd like to briefly share highlights from the third quarter. ARR grew 19% to $440 million. Sequentially, ARR increased 5%, which is a healthy improvement from our sequential ARR growth rates in Q1 and Q2. The year-over-year increase reflects increased spending by our existing customers. The Americas represented 55% of total ARR, while EMEA represented 33%, and Asia Pacific represented 12%. In terms of growth rates by geography, the Americas grew 21% with our US state and local government and Latin America teams leading the way.

Turning to revenue. We generated third quarter revenue of $126 million, which increased 18% from the prior year due to primarily subscription revenue growth of 21%. Approximately 89% of total revenue was associated with our subscription-based software solutions. Our gross profit increased to $106.5 million, which represents a gross margin of 84.5%. This reflects ongoing investment in our cloud infrastructure as we continue to roll out Guardian and invest in the federal ATO process.

Third quarter adjusted EBITDA of $37.7 million increased 20% over the prior year, and the margin expanded to 29.9%. Our third quarter operating leverage reflects thoughtful capital allocation across our organization, including disciplined hiring activity in the quarter. We ended the third quarter with 1,236 employees. We reported third quarter net income of $36.9 million or $0.14 on a fully diluted basis.

Overall, our weighted average diluted shares outstanding increased by a little more than 1% from the second quarter levels. We continue to thoughtfully manage our equity incentive programs in ways that we believe will be minimally dilutive on a go-forward basis.

Turning to the balance sheet. We ended September with $595 million of cash, cash equivalents and investments. Free cash flow for the third quarter was $30 million. For the trailing 12 months, free cash flow was $140 million or 31% on a margin basis compared with $102 million or 27% margin in the prior 12-month period.

Let's shift gears and take a look at our expectations for Q4 and the full year, which, to be clear, do not include any contribution associated with the Corellium acquisition, which has not yet closed. We anticipate our fourth quarter ARR will grow sequentially in the mid-single digits. We've left our full year outlook unchanged with a range of $460 million to $475 million. This reflects the traditional seasonality of our business in the second half of any year given the volume of expiring agreements, the overall strength of our pipeline and the uncertain timing of the near-term spending by US federal agencies. We expect fourth quarter revenue in the range of $123 million to $128 million. We expect our Q4 adjusted EBITDA in the range of $35 million to $38 million or approximately 28% to 30% on a margin basis.

Looking to our full year results, we 've increased the midpoint of our revenue outlook and now anticipate 2025 revenue in the range of $470 million to $475 million, which represents growth of 17% to 18%. We have increased our full year 2025 adjusted EBITDA range and now expect $124 million to $127 million or approximately 26% to 27% on a margin basis.

And finally, I'd like to reiterate our view that 2025 will be an excellent year for free cash flow. Given the strong cash flow from operations year-to-date and relatively minimal capital intensity, we expect the company's free cash flow margin will be approximately 30%.

Before we move to Q&A, I wanted to share some perspective on our 2026 planning. As Tom noted, we have multiple growth vectors. We are also mindful of the challenges we experienced this year in regard to the timing and magnitude of spending in the US Federal customer segment. Thus, the initial 2026 outlook we will share in February will be prudent with the foundation grounded in the historic seasonality of our business, our RPO, our contractual backlog up for renewal, the expansion opportunity on those renewals and the near-term opportunities to expand with existing customers on multiyear contracts.

We will also apply the same methodology that delivered a high level of forecast accuracy last quarter. It's important to note we have multiple ways to grow free cash flow by approximately 20% with 2% dilution. This will allow us to be very thoughtful in terms of how we set our initial outlook. We are optimistic that we will be able to increase our outlook over the subsequent quarters as our team executes and captures the market opportunity in front of us.

Let's take a quick look at the primary growth drivers across our platform that can serve as a foundation for an initial baseline target for healthy ARR growth. First, winning new logos and increasing price or mix on existing offers is expected to generate several percentage points of growth. Second, we see solid expansion ahead for Inseyets as we move into the home stretch for upgrades, drive broader adoption by extending our reach into new user groups and upsell advanced unlock solutions and automation offerings. We believe these dynamics should support growth of at least high single digits on a percentage basis in 2026.

Our third growth driver involves Guardian and Pathfinder, the cornerstones of our digital investigation and analytics offerings. We anticipate healthy Guardian demand within our existing core markets, expansion into the US federal sector, Australia and other select international markets and sales of Guardian into the enterprise. In addition, we see further new business expansion combined with stronger renewal rate for Pathfinder. Success on these fronts is expected to contribute mid-single-digit percentage points of ARR growth.

In addition, we are excited about the growth prospects for selling Corellium solutions into our customer base across defense, intelligence and enterprise verticals. Beyond the initial ARR gained from Corellium once the transaction closes, we anticipate an incremental contribution of at least a couple of percentage points to our ARR growth rate. And finally, we remain optimistic about the steps we're taking to drive improved retention rates by minimizing churn as we evolve our pricing and packaging centered on AI and cloud capabilities and attractive multiyear terms.

In terms of 2026 revenue growth, we believe our revenue growth rate will slightly trail our ARR growth rate. This reflects the continued growth of our cloud-based solutions and assumptions for relatively flat nonrecurring hardware and professional services revenue. In terms of revenue seasonality, we have historically generated approximately 55% of our revenue in the second half of the year. From a profitability perspective, we plan to thoughtfully allocate capital to support Cellebrite's ongoing expansion in 2026 and beyond.

As a reminder, our EBITDA margin is lower in Q1 and steps up over the course of the year. We also expect our AI investments across go-to-market, product and the G&A functions will lead to new levels of automation and scale, and yielding moderate head count expansion. This will produce operating leverage to drive incremental improvement in our adjusted EBITDA margin and enabling us to maintain a 30% or greater free cash flow margin.

In terms of our guidance philosophy going forward, we plan to set our 2026 outlook using tighter ranges supported by bottoms-up forecasting while continually assessing the full year targets based on the most recent quarter's results and near-term visibility. We're excited about our prospects to drive durable and profitable growth and strong free cash flow next year.

Finally, since joining Cellebrite, I've been very fortunate to spend a good deal of time with current and prospective shareholders. A frequent topic in recent engagements relates to the overhang associated with the Sun Corporation, our largest shareholder who owns 40% of the company's shares. I've had an opportunity to spend time with some members of Sun's management as well as some of their investors.

Overall, I view these relationships as very positive. With that said, we are increasingly optimistic about opportunities that could emerge over the coming quarters and years for Sun to reduce its stake in an organized, structured and thoughtful way that we believe will deliver value for shareholders of both Sun and Cellebrite.

I'd like to close by reiterating our view that Cellebrite remains well positioned to deliver another year of healthy growth, strong profitability and excellent free cash flow with a minimal amount of dilution to shareholders. Our team is focused on closing out the year on a strong note while also putting the plans in place that we believe will enable us to expand customer relationships and increase shareholder value in 2026.

Operator, that concludes our prepared remarks. We're ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Van Rhee, Craig Hallum.

Jeff Van Rhee - *Craig-Hallum Holdings LLC - Senior Research Analyst*

Great, thanks guys. Congrats on a good quarter, and thank you for the color on the outlook. Two or three quick ones here if I could. Just, Tom, in terms of the path forward to cloud adoption over time as a percent of ARR, are there any internal goals or any thoughts you can give us on how you see that percentage of ARR that's going to be cloud evolving over the next, say, two, three years?

David Barter - *Cellebrite DI Ltd - Chief Financial Officer*

Jeff, it's Dave. Thanks for the question. Jeff, we're continuing to work with our customers as they make their transition. We actually have customers that are 100% cloud. We have many that are in the hybrid stage, and then we certainly still have some making the transition. Right now, we just have a very proactive bent of working with our customers. Many of our products, as you know, are already in the cloud, and everything new that we're doing is in the cloud. And so from that standpoint, it's just an ongoing partnership as we support them and keep pressing forward with adoption.

Jeff Van Rhee - *Craig-Hallum Holdings LLC - Senior Research Analyst*

Yeah. And on Corellium, you called it out as one of the three or four key growth drivers. I know you signed that new reseller relationship. Just any color in terms of what you saw, both things you were able to get across the finish line and maybe more so what's building in the pipeline there?

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yes, sure. It's Marcus. Yes, look, we've got -- we've had some good initial momentum. We now have a significant pipeline, which we built, like an 8-figure pipeline, and that is spread equally across the cohorts that we said, which will be defense, intelligence and into the Global 2000. To date, we have processed two orders, and Q4, we expect to transact some more.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yes, I'd say, Jeff, to underscore color -- this is Tom. I keep reminding people this business was roughly a $15 million ARR, Corellium's core business. And I don't love lots of numbers. Shouldn't be lost on people that the pipe we already see, as Marcus mentioned, is double-digit millions of achievable pipe and so -- and that's before we've even closed the transaction.

So again, we just keep building more enthusiasm. And I also referenced, we've uncovered use cases that we didn't necessarily anticipate or plan 9 to 12 months ago when we started this conversation with Corellium, and so the -- and I guess the positive is the -- was there a modest contribution from reseller in the quarter? Yes, but it's -- you could argue it's almost immaterial. So we didn't hit these numbers on the back end of Corellium backdoor reseller stuff. So it was largely a core Cellebrite production, but the active and real sort of TAM and pipeline is very encouraging.

Jeff Van Rhee - *Craig-Hallum Holdings LLC - Senior Research Analyst*

Yeah, got it. And then just lastly, as it relates to the 2026 plan, thanks for the insights on those 4 primary growth drivers. Sort of just looking at the swag of the range you gave there. It sort of looks like roughly 20%-ish ARR. But just curious if you'd be willing to provide any bounce around that or any expanded insights just in terms of what you think about growth prospects for next year. Thanks.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yeah. I know it's tempting to answer that, Jeff. And we'd love to help you out and throw you a number and a bone and -- but we just -- we really want to reserve that until we close the year and put a bow around the opportunity. But what we are doing, which I think is atypical at this stage, at least historically for us, is we are sort of going public with a level of confidence that you will see an -- whatever the growth is this year, we do have confidence that growth rate will accelerate in 2026.

We're just not prepared today to put a number on it. That's what you'll get in February. But growth is going up, and that's against -- by the way, it also gets overlooked. The law of big numbers, the denominator in the baseline has gone up this year. So we're going to accelerate our growth against a bigger baseline, and -- but that's all we really are ready to share at this point.

Operator

Brian Essex, JP Morgan.

Brian Essex - *JPMorgan Chase & Co - Analyst*

Hi, good afternoon. Thank you for taking the question and congrats from me as well on the solid results. Maybe to follow up to Jeff's question to start, and then I have a follow-up. On Corellium, Tom, I think you noted that you're addressing CFIUS issues in real time. How significant are those issues? And are there any contingency plans for a case where you might hit a roadblock there in terms of maybe tucking that into the Cellebrite Federal business? Just wondering what that process looks like and what the risk is to close at this point.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yeah. Nothing is 100%, so I can't write a check that I can't cash on that front. But I would tell you, if you put a gun to my head, I'd say it's 98% odds that we'll get this done. And I think that will -- similar odds that we'll get it done this quarter. We're in the final stages. I would say there was more inspection than we anticipated, combined with all the chaos and government and the shutdown didn't help some of the case managers and people involved in just coordinating input across DOJ and DOD and all the people that care, was a little bit tougher given what's been happening in the last 6 weeks.

The other positive, if you're a [glass half full] person is if this stuff wasn't powerful and if it wasn't relevant to these agencies, they wouldn't care so much about making sure the IP was protected. So the bad news is they ran us through the ringer a little bit more than we expected, but it's because this stuff really does matter to agencies that you care about that keep us safe. But we're -- I hate using sports metaphors, but we're on the 1 yard line, and we have high confidence that we'll push it over the line here in the next four to six weeks.

Brian Essex - *JPMorgan Chase & Co - Analyst*

Got it. That's super helpful. And then maybe just a follow-up on Cellebrite Federal. Any sense of what the contribution was there in the quarter and progress there with regard to like building that out to better penetrate the federal vertical? I understand that shutdown to headwind but would love a little bit of color around where the efforts are focused there and how they're positioned as you kind of like head into fiscal '26.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yeah. The good news -- and just to -- I know it's a lot of babble when we go through these scripts. But the first half was tough. We sort of held the line. It certainly didn't deliver the growth that we had historically, which was the headwind for our full year. The good news is we got back in growth mode in Q3 and even better. It wasn't just growth. We nailed a couple of very strategic clients, and I'll let Marcus add some color because I think it's fair to use those wins as sort of a proxy for product fit and momentum and trust in the US federal space. But Marcus, why don't you add some color?

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yeah, sure. So it was actually a very strong quarter for Federal. The team executed particularly well. I'll draw attention to a couple of deals, and you guys know these are all in the public domain. You don't have to search too hard to find the names. But I won't do them an injustice and talk about them specifically, but I'll talk about a large agency, which does our protection services, placed a -- in excess of an $11 million order with us, which was a big expansion on previous years, including some new products. And we're very confident that, that was also a share-taking opportunity for us.

And then another agency following up very -- which is very well known in the market and protects a lot of us, we had our largest expansion year with them than we've ever had, so between 30% and 35% expansion on the base and then investigating new products and interestingly, taken us for the first time into the cloud. So we talked about this cloud journey. We're now seeing federal customers be a lot more aggressive in the movement to the cloud, which bodes exceptionally well for our ATO process with FedRAMP where we'll be taking advantage with the only cloud-enabled solution high in the market in the forensics segment. So good execution and we feel a lot more to come.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

The other -- Brian, the other thing I would add before somebody asks is we've talked -- I think we talked in the last call about a very large client that we expected to renew in the first half of '26, and we expected that renewal rate to go up significantly. The numbers and performance in the US Fed in the third quarter did not include any of that. So that is still in the hopper and still something that we expect to win and close in the first half of '26, which is material.

Operator

Tomer Zilberman, Bank of America.

Tomer Zilberman - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Hey guys. I wanted to ask about Federal and your thoughts around the performance this quarter, mostly wanting to ask how do you differentiate the growth this quarter from potential budget flush as it was their fiscal year-end versus maybe the more secular underlying recovery that you're talking about. And then I have a follow-up.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yes. I mean budget flush is a thing. But I mean, remember, we're on the mission side, so this -- the products we have to be used. And so were not like -- we're not selling licenses for work processes. So we don't really unfortunately see budget flush because we're mission critical and we're program-driven. So I would like to think it's down to solid execution and a good product market fit has driven all of our gains in that sector. We didn't really see, because of the shutdowns or slowdowns, that normal, what we call, UFRs, which I'm sure you're familiar with, the unidentified funding requests. They were not a part of it. They were just solid execution into three or four of our key clients.

Tomer Zilberman - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Got it. Got it. As a follow-up for Dave, I appreciate your commentary around your discussions with Sun Corp. It's been an ongoing conversation in the last few years. Just wanted to ask, as you speak with the other side, have you gauged any sense of urgency in terms of where that goes? Or do you foresee this being a long-term kind of trend?

David Barter - *Cellebrite DI Ltd - Chief Financial Officer*

I don't see urgency. I think going back to my prepared remarks, I see them being very organized, structured, thoughtful. Obviously, Sun Corporation owned 100%. It's come down over 55%. And so I think it is -- you'll find them, again, measured and thoughtful and rational. And I think that's what we're hoping to communicate to everybody.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yes. I mean, obviously, that's stuff that we don't have full control or, you could argue, even limited control over, but the devil's in the details of your question. When you say long term, is your expectation -- your question about a sell-down over five years or over five months or -- but I think to Dave's point, they've been pecking away for years. Our guess is they'll continue to peck away and I don't -- since I don't have control or insight to the specifics, but I would expect to see -- my guess is you'll see some more sell-down over the more -- the nearer future than, say, a five-year horizon.

Operator

Louis DiPalma, William Blair.

Louie DiPalma - *William Blair Capital Partners - Analyst*

Tom, David, Marcus and Andrew, congrats on the EBITDA guidance raise.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Thank you.

Louie DiPalma - *William Blair Capital Partners - Analyst*

How should investors view the positioning of Guardian Investigate relative to Pathfinder? And are you still working on a SaaS version of Pathfinder?

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Great question. It's really a good question because it's really important to our value prop and our strategy as we go forward. Pathfinder will persist. Think of Pathfinder as either on-prem or VPC-based analytic engine that is optimized for processing correlations and analytics and insights when you have multiple followings and the data sources we control.

Now fast forward to Guardian Investigate, which is an evolution from a lot of capability around the examiner and forensics into the world of the detective and the investigator to provide very -- not only robust case management capability but also the ingestion and the ability to drive work streams and collaboration across a broad range of different data sources, some of which we control and we create and some of which are created by other vendors in the ecosystem and then complement that Guardian Investigate with a cloud-based that's contrasted with Pathfinder as a VPC product, a cloud-based, very intensely AI-enabled analytic engine that can now prosecute and interrogate all the data that we surface that sits in

Guardian Investigate and the data that we're able to pull in and combine with to drive what we think will be the most insightful analytic engine in the world of investigations.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yeah. And I can -- I'll follow on from Tom there and add the way -- the simple way to think about it is Pathfinder is from multiple extractions of multiple phones into the -- in teams in the hundreds, whereas when you look at Investigate, that is a multiple data source. So you actually need the horsepower and the number of our customers answering the question on cloud or on-prem, the nature of what they do with multiple phone extractions in the hundreds or dozens or even thousands, they need that on-prem power and they want to be off the cloud to do it. So there is going to be 2 variants. One is going to be cloud-based, and one is going to be on-prem. And the 2 actually interwork with each other and that they are not duplicative or replace each other at all.

Louie DiPalma - *William Blair Capital Partners - Analyst*

That makes sense. So there likely will be customers that subscribe to both Pathfinder and Guardian Investigate, right?

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

100%. I mean Guardian Investigate is actually one of industry's first forays into multi-data source. For instance, being able to ingest CDR records with and then cross reference those to the cell phone is very powerful. And so that will be a functionality that would be pervasive within Investigate and will be additive to the deep work that we do in the cell phone extraction on Pathfinder. They're completely compatible.

Operator

Bhavin Shah, Deutsche Bank.

Bhavin Shah - *Deutsche Bank AG - Analyst*

Great, congrats from me as well. I guess, first, just maybe a little bit on the defense and intelligence kind of vertical. Can you just talk about the pipeline there and how -- maybe how the go-to-market strategy and the sales cycles for this vertical compare to your core kind of buying centers?

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yeah. So great, great question. Obviously, defense and intelligence has been strong for a number of years in the US. The US previous -- in previous regimes was kind of policing the world in a number of areas. What we've now seen is some threats coming in from all over the world, particularly in Eastern Europe, as you know. We're seeing the NATO spend increase to the 2% commitment, and that is driving -- warfare is now not only physical. It's predominantly digital.

So what we're now seeing is, in Europe, I take this pipeline in Q4, my top four largest deals will actually all be defense and intelligence out of Europe. What we've now done is we are collaborating across all of my regions. We have a new single leader that we'll be appointing for D&I to actually drive that strategy forward. And we're very happy with where we are and where we're being brought into it.

Our accreditations in that space are second to none. The fact that we have ATO and heading to FedRAMP High puts us in a completely different level to the competition. We have a number of people that are ex -- I won't say that they're ex, but let's say they did things in the militaries, which kept us safe. And they are very well connected, and we are exceptionally grateful to the customers giving us a shot there, and we're very excited about the potential that we have on a global basis.

Bhavin Shah - *Deutsche Bank AG - Analyst*

That's very helpful there. And maybe just as a follow-up for David. You talked about the EBITDA strength, and in your prepared remarks, you kind of noted disciplined hiring. How much of that maybe lower-than-expected hiring is a function of volatility in the Federal business versus kind of efficiencies you might be getting from GenAI or other areas? And then as you talk about targeting accelerating ARR growth next year, how does hiring play a role there?

David Barter - *Cellebrite DI Ltd - Chief Financial Officer*

That's a great question. Right now, I think we are -- the disciplined hiring, I think, from a capital allocation, really, we think about what's going into product. So you heard about Investigate. You've heard about just the other AI initiatives that are going across all products, and those are prioritized. And that's what we're going after. We have, I think, a very detailed go-to-market model with Marcus that we run. And so I'd say our -- we have our hiring model.

I think we have our AI initiatives that are driving efficiency across our business. And I guess that is the disciplined framework that we use to guide how we're doing. And so I think we have a long-term orientation around our business, around how to capture and fulfill our long-range model, and that kind of works its way back into our hiring decisions.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yeah. I mean I would add that our ramp of head count growth has been on a steady decline the last 3 years because of improved efficiencies and much of which is AI-enabled, and that will continue in 2026. And I would tell you that of the modest growth, roughly half of it is going into our go-to-market organization so that Marcus can respond to interest levels and opportunities across both the public and private sector around the world. So -- but it's a healthy story.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

We're able to express in sales an increase in quota carrier ratios to the back-office functionality that you see in the go-to-market line. So we're always increasing that ratio of actual people to deal with customers away from back office, and we see that they continue for a sustainable amount of time.

Operator

Shaul Eyal, TD Cowen.

Shaul Eyal - *Cowen and Company LLC - Equity Analyst*

Thank you, good afternoon, and congrats on the strong set of results and outperformance. My question is on the competitive landscape. So Cellebrite operates in the market, I think, characterized by high barriers of entry. What can you tell us on the current competitive landscape? And are you seeing -- have you seen any newcomers into new adjacencies in the current market? Thank you.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yeah, I'll take that one. First, to get to the end of your question, there's no -- to your point, about barriers to entry, that's a very real observation. And as a result, we would not be able to call out or point to any -- there's always start-ups and pop-ups in every industry, but there's no material new entrants from a competitive perspective. So we continue to see the same people.

We have good competition. We respect our competitors. They're good companies. But I got to tell you, we sort of like our hand and how we stack up right now. And as some of the things I alluded to sort of hit the shores over the next 90 days, our view is that our competitive positioning is going to increase very quickly, so same competitors, good companies but like where we sit.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yeah, I'll add, we feel very comfortable. Again, we have some strong competitors. We respect them a lot. But as I said, I think with Tom, we agree we have a winning hand here. I would say that what we do have is the ability to manage and control the workflows and the data puts us in prime position. There are a number of AI entrants. If anyone went to IACP, you would see them. But for me, they open up not only potentially a partnership but M&A opportunities for us. But again, we back our own AI ability to understand … it's a difficult industry to break into from just customer intimacy and also from understanding the sensitivity to data. It's not -- it's very hard to trust people that are coming in with a new AI algorithm written in vibe code that you think is going to take it apart. That's not what our customer base is going to do, and so we're comfortable with our position to expand there.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yeah. And not to double pile on, but given the sensitivity of what we do, who we help and what their mission is, they have the brand and the track record and the proven capability of the limited vendors in this space are a big deal. This isn't some back-office trivial thing that people are willing to take flyers on. It's important to them that they deal with people they have dealt with for 20 years that have delivered, that are focused and committed to the space and that they trust.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

It's hard to outsell when it's called the Cellebrite report when they go to court and they say, I've Cellebrited a phone. That's very hard to undo. That's become in the mindset of our customers over a number of years.

Operator

Mike Cikos, Needham.

Mike Cikos - *Needham & Company LLC - Analyst*

Great. Thanks for taking the questions here, guys. I'll echo my congratulations on the strong results, the reiterated ARR guide and then the confidence that you guys are executing as far as that top line reacceleration for next year. So congrats on that. I just wanted to unpack a couple of items here, but great to see that US Federal returned to this growth dynamic. I don't want to be dismissive.

I believe you guys called it out a couple of times in the prepared remarks, but the strength that you saw out of US state and local as well as Latin America, can you kind of unpack that a bit more as far as what you saw from those two segments, the durability of that growth from where we stand here and maybe potentially size up what the contribution was if we're trying to stack rank drivers of outperformance? Sorry, I know a lot to unpack, but again, it was a solid quarter for execution. And I just wanted to highlight that.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yeah. Sure. Great question. And my SLG leader will be -- she'll be very thankful that you're giving us some props because they continue to execute consistently and to a certain extent, is a gift that keeps giving. So what are the drivers? The crime type in the US continues to be digitally driven. So what I mean by that is there are a number of cases and investigations that require the unpacking phones. Most agencies we sell to still have a backlog of cases and a backlog of phones, and that means that our driver is not limited by that. Now unfortunately, that's crime. But that is what we need -- that is what we see. There is no end in sight.

We also saw, even through the shutdown, grant budgets were available. So the government was actually working hard to get the grants out because these grants matter, because they know that a number of people rely on them to meet their objectives in case reduction and solving crime. So that was the driver there, and there's no end in sight.

We're very comfortable with our competitive position there. We've got a good team, and Nicole and team continue to execute exceptionally well. So thank you to her and Zach, for what they do. Lat Am is great. I mean, Lat Am is an example of, again, high crime units, very well connected at a national level, a solid team, which works very well with partners and sell the end-to-end solution.

So if you look at the perfect way to execute, then my goal as a CRO is to get everyone to be in the same boat as Lat Am with our end-to-end solutions. They truly believe in the C2C and deliver the C2C, the case to closure, and execute incredibly well. We are also very well collected politically with a number of senior sellers that have been in that region for a number of years, which is actually very hard to compete against. So 2 great teams. And thank you for reflecting that, but we don't see their growth rates slowing.

Operator

Eric Martinuzzi, Lake Street.

Eric Martinuzzi - *Lake Street Capital Markets LLC - Analyst*

My question has to do with the use of cash. You finished the quarter real strong, the cash balance at -- close to $600 million. Now I know you've got a check to write when Corellium closes. That's $170 million but still will leave you with a substantial balance here. Just curious to know your priorities as far as internally focused, maybe more M&A. What's the use of cash post Corellium?

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

I'll let Dave take the first pass at this, and then I might jump in and add color. But Dave, why don't you take it?

David Barter - *Cellebrite DI Ltd - Chief Financial Officer*

Yeah, let me maybe just round out one data point. So Corellium, you're right, that will be a significant piece of cash when that closes, which we're so incredibly excited about, but that's $150 million, not $170 million. And so I think when we look at it, again, looking forward to getting them onboard. Obviously, we'll continue to invest.

And so you're right, over, call it, two quarters of the normal OpEx cash that we would keep, so call it, $150 million to $160 million, we are maintaining a little bit of surplus cash. We do look at this as a pretty interesting opportunity, both in terms of companies like Corellium that are rapidly scaling. We also see some other adjacencies. And so I think we're going to continue to maintain some flexibility, so we can continue to grow the business.

Operator

Jonathan Ho, William Blair.

Jonathan Ho - *William Blair Capital Partners - Analyst*

Hi, let me echo my congratulations as well. With your Inseyets conversions ahead of schedule, what does that mean for you from a future ARR and upsell perspective, particularly as these customers fully utilize the suite and maybe start to renew?

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

Yeah, it's a great question. I mean it means that we are expanding our cross-sell opportunity. The important thing for Inseyets, Inseyets was the first position to allow us to get to our case to closure, which then means storing and then analyzing and workflowing the data. So most of our customers wanted to get the initial work done to get on to a much more modernized extraction and review technology, which they now have. So we now see the expansion potential going across into our Guardian platform and our Pathfinder platform.

But it does also open up in the D&I and this is why D&I is such a key part for us, where Inseyets is fully -- not fully tapped. We do see with our triage functionality, working in the field in different use cases, a TAM expansion for Inseyets into the D&I on a global basis. So we got a nice vector to continue.

We're not through the base yet. We still have work to do in 2026, and then we'll be moving in. And we already have thoughts about our next version of Inseyets, clearly, which is going to be moving decoding into a different format to enable our customers to do even more, even quicker and increase their productivity again. So Inseyets isn’t the end, it's a part of the journey, and there will be a son of Inseyets coming along at some point.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Yes. And the other thing I would add to that is not very sexy but unit growth. I mean those macros I talked about, almost any agency you go talk to today, they've got huge case backlogs. And crime, unfortunately, for all of us, as I said, isn't going away, and the use of digital is -- was in the 90% range. It's eventually going to be pushing 100%.

And so there's unit growth opportunity in -- even where we've migrated people to Inseyets, you have pricing power. You have unit growth plus all the cross-sell, plus the acquisitions, plus, plus, plus. So they're -- and not all fuels and contribute to the optimism. I think you're hearing about our opportunity to maintain our growth into -- accelerated actually into 2026.

Marcus Jewell - *Cellebrite DI Ltd - Global Chief Revenue Officer*

There's also one thing if I could pile in on this. We're breaking the link between the number of operators and the number of licenses. I mean previously, there was -- it was an operator could only extract so many phones. Our automation and workflow tools allow that process to be automated. And so the actual number of licenses per user can increase pretty dramatically and start eating into those backlogs as we get into '26.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer, Director*

And I know we're at the end here, but the other thing that it creates an opportunity that we don't talk a lot about is the cloud and storage economics around Guardian. We collect more and more petabytes of information. Assuming that we thoughtfully price and package that offering, that becomes another ramp of growth -- of profitable growth for the company that did not exist a few years ago.

Operator

This concludes the Q&A portion of today's call. I would now like to turn the floor over to Andrew Kramer for additional or closing remarks.

Andrew Kramer - *Cellebrite DI Ltd - Vice President, Investor Relations*

Thank you very much, Angela, and thank you very much to our analysts and our shareholders, prospective shareholders for their participation today. If you do have questions, feel free to reach out to Investor Relations. There are a number of virtual and in-person engagements that we have scheduled over the coming weeks, and we look forward to speaking with you at that time. Thank you very much.

Operator

Thank you. This concludes today's Cellebrite third quarter 2025 financial results conference call. Please disconnect your line at this time, and have a wonderful day.