REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2022 Cellebrite DI Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2023 / 1:30PM GMT

CORPORATE PARTICIPANTS

Dana Gerner *Cellebrite DI Ltd. - CFO*
Sabrina Mathews *The Blueshirt Group - Director*
Yossi Carmil *Cellebrite DI Ltd. - Founder, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Douglas Jonathan Bruehl *JPMorgan Chase & Co, Research Division - Research Analyst*
Jamie Shelton *Deutsche Bank AG, Research Division - Research Associate*
Jonathan Frank Ho *William Blair & Company L.L.C., Research Division - Technology Analyst & Partner*
Michael Joseph Cikos *Needham & Company, LLC, Research Division - Senior Analyst*
Michael Louie DiPalma *William Blair & Company L.L.C., Research Division - Analyst*
Tal Liani *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to Cellebrite's Fourth Quarter 2022 Financial Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Sabrina Mathews, with Investor Relations. Please go ahead, Sabrina.

Sabrina Mathews ***The Blueshirt Group - Director***

Thank you. Welcome to Cellebrite's fourth quarter and full year 2022 financial results earnings call. Joining me today are Yossi Carmil, Cellebrite CEO and Dana Gerner, Cellebrite CFO.

This call is being recorded, and a replay of this recording as well as the presentation that accompanies this call will be made available on our website shortly after the call.

A copy of today's press release and financial statements, including GAAP to non-GAAP reconciliations, as well as supplemental financial information for the fourth quarter are available on the Investor Relations website at investors.cellebrite.com.

Also, unless stated otherwise, our fourth quarter 2022 financial metrics as well as the financial metrics provided in our outlook that will be discussed on today's conference call will be on a non-GAAP basis only, and all historical comparisons are with the fourth quarter of 2021, unless otherwise noted.

In addition, please note that statements made during this call that are not statements of historical facts constitute forward-looking statements. All forward-looking statements are subject to risks and uncertainties and other factors that could cause matters expressed or implied by those forward-looking statements not to occur. They can also cause the actual results to differ materially from historical results and/or from forecast.

Some of these forward-looking statements are discussed under the heading Risk Factors and elsewhere in the company's annual report on Form 20-F filed with the SEC on March 29, 2022, as amended on April 14, 2022. The company does not undertake to update any forward-looking statements to reflect future events or circumstances.

Slide #3 provides the agenda for today's call.

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

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

Thank you, Sabrina, and thank you all for joining us today. So I'm pleased to report that in 2022, we've made significant progress advancing our mission to help our customers modernize investigations by digitizing their workflows.

Our results and achievements in the fourth quarter and throughout the past year reflect 4 important things. The first, the market for investigative Digital Intelligence solutions remains healthy. Second, our leadership position is strong. We have a long, broad runway for profitable growth in a market that remains highly underpenetrated. Third, we executed well on our development road map and go-to-market initiatives. And fourth, thanks to our progress in 2022, we are well positioned to deliver strong results in 2023.

And before I cover each of these areas in more detail, I'd like to quickly review our Q4 results and select KPIs that are critical to the health and success of our business. First, our ARR grew 33% year-on-year to reach USD 249 million. Our quarterly net retention rate was 130%. We closed 29 large deals, greater than $0.5 million in the quarter. We reported Q4 revenue growth of 9% to $74 million, largely attributed to subscription revenue growth of 24%.

We delivered Q4 adjusted EBITDA of $16.1 million, and we also further strengthened our financial foundation, ending the year with cash and investments totaling USD 206 million and no outstanding debt.

A little bit about the healthy market environment. So we continue to operate in a healthy market with significant growth opportunities in front of us, thanks in large part to Cellebrite's industry-leading technology. Against this backdrop, we continue to implement our growth strategy of expanding business with existing customers through upgrades, upselling and cross-selling, and by winning new logos in both public and private sectors.

Cellebrite solutions are increasingly attractive today with strong demand and positive feedback from customers and prospects.

Just as important, customer budgets for our type of Digital Intelligence solutions are expected to remain robust in 2023, as they are generally insulated from the broader macroeconomic pressures that are currently impacting a wide range of other technology sectors.

In the Americas, which, by the way, represents 52% of our fiscal year 2022 revenue, law enforcement budgets have historically grown over time. We anticipate that this trend will continue in 2023.

In the U.S., incremental U.S. federal funding for law enforcement agencies of all size will support increased staffing and additional resources to help them stay current with the latest evidence-based practices. And we expect overall investigative digital intelligence spending by law enforcement and intelligence agencies in other geographies will remain solid in 2023.

Now Cellebrite has built a reputation as a trusted digital intelligence market leader, which is best reflected by our success in increasing our wallet share within existing customers. Over the years, we have leveraged our traditional stronghold in collection review solutions to increase our footprint within digital forensics units by helping them make digital evidence more accessible, intelligent and actionable.

Now we believe that our newest Collection & Review premium enterprise and Premium as a Service solutions are true game changers for customers, and our Physical Analyzer continues to be the leading review tool in the investigative fields.

With ongoing investments in Collection & Review and the addition of new investigative analytics offering like Pathfinder, we are supporting the natural expansion of our customers' operations and continue unlocking new buying centers to address a growing range of use cases.

Now our success in upselling and cross-selling into our installed base is best reflected in Q4 in our net retention rate of 130%. This was the 16th consecutive quarter we reported NRR greater than 120%, and we are very proud of our best-in-class retention rates, which demonstrate the power and the value of our go-to-market strategy.

Furthermore, we closed 29 large deals in Q4, bringing our 2022 total to 101 large deals, and this is 22% higher than in 2021. We expect that winning more business with existing customers will continue to fuel Cellebrite's growth well into the future.

A little bit about the product development and go-to-market execution. During 2022, we took important steps to further advance our portfolio of solutions, while also investing in the cloud infrastructure necessary to scale our SaaS offering like our Guardian solution. We enhanced our offering by adding new features, capabilities and functionality that help our customers extract, filter, analyze and manage data and evidence efficiently and securely.

With Collection & Review, the newest version of our Premium as a Service offering, was rolled out earlier in the year, and we were pleased to see success in the U.S. state and local government agencies. It is development effort like this that have helped our -- us to address major pain points for customers and underpin our efforts to fortify our longstanding strengths in collection review and extend our reach into adjacent investigative analytics and case management solution.

Now this past year also marked meaningful investment to expand our global sales force with an emphasis on strategic account management to improve our effectiveness in the U.S. and in Europe, and we made solid progress. Our sales organization grew by 10%, as we put the right talent in the right roles to best serve our customers. This infusion of resources helped us to deliver on ARR, NRR and large deal targets.

And we delivered excellent results in the U.S. state and local law enforcement during Q4 and gained greater confidence in our ability to realize the growth potential we see in Europe. Guardian is gaining traction in the market, with hundreds of new users now benefiting from the simple, secure and scalable cloud-based solution for investigative and evidence management. And we see continued growth ahead for our SaaS solutions, which appeal to a broader range of customers who need to modernize their digital operation, but often lack the budgets, IT staff and infrastructure, which is associated with on-prem solutions.

Let's talk a little bit about customer success. So I'd like here to briefly highlight some of our Q4 deals, all of which demonstrates how Cellebrite technology is helping these customers modernize their operation, while expanding our wallet share.

So in the Asia Pacific region, we grew our longstanding relationship with a regional law enforcement agency, who is now deploying our Premium Enterprise solution more broadly into the field to help them accelerate their investigations. As a result, our ARR from this customer will grow by more than 50% to nearly USD 1 million and help set the stage for further expansion.

In the U.S., a large federal agency selected Premium Enterprise to augment use of our UFED solution at regional labs and leverage their AWS private cloud infrastructure to move more capability into the field and upgrade the mode of operation. This deal increases our ARR from this account by almost 60% to nearly USD 2 million.

Now I mentioned earlier that our investigative analytics solution, the Pathfinder, is enabling us to unlock new buying centers and support customers as they modernize their digital investigative workflows. So for example, we closed 2 large Pathfinder deals in Q4, one of which was a mid-6-figure deal with one of the largest state and local police agencies in the U.S. And the other, multiyear low 8-figure deal that triples our ARR with a national law enforcement agency in Western Europe to over USD 4.5 million per year.

Now both deals show Pathfinder unique value in helping law enforcement professionals accelerate investigations by sifting through mountains of digital data to surface the most relevant evidence, discover connections and collaborate more efficiently.

And finally, in the private sector, we closed 4 notable deals, 2 with service provider partners and 2 with Fortune 500 corporate customers. Now all of these customers purchased Endpoint Inspector to improve overall operational efficiency by remotely collecting data from mobile devices and computers, thereby substantially upgrading costly, time-consuming legacy approaches.

In closing, our solid execution over the past 12 months has enabled us to enter 2023 trying to further capitalize on the vast market opportunity. Digital transformation has clearly reached all industries, and it is here to stay. Our customers, regardless of whether they are national, regional or local public sector agencies or private sector businesses, are under increased pressure to modernize the investigative workflows in the face of rising volume of increasingly complex data, operational inefficiencies and greater scrutiny around the ethics and accountability of how digital evidence is handled throughout its life cycle.

And Cellebrite is playing an important role in enabling our customers to address those challenges. Now I'm confident that from where we stand today, we have the products, the programs and the people needed to execute and deliver on our 2023 financial targets.

We have established a scalable model that will support improved fundamental performance, even as we invest for the future. As we mobilize to capture demand in a healthy market and further fortify our market leadership, our priorities this year are clear.

First, we plan to deliver ongoing innovation through state-of-the-art SaaS solutions, paired with on-prem offerings that will help customers modernize their digital investigation workflow. This will require sustained investment in R&D across our entire portfolio and in the technology infrastructure that supports it.

Second, we will focus on extending our leadership in collection review by advancing our UFED and Premium solutions that are used extensively by digital forensics labs.

And third, we are broadening our reach beyond our stronghold in the labs by accelerating our progress with a high-value investigative analytics and case management solutions, which helps investigative units move faster and collaborate securely to resolve complex time-sensitive cases.

Now by executing against these high-level priorities, we expect to accelerate our revenue growth rate, deliver improved profitability and generate strong cash flow from operation in 2023.

I would like to use the opportunity and thank to my colleagues at Cellebrite for the hard work in 2022 and their continued commitment to make our world safer. I'm excited for what lies ahead. And more ever, we remain committed to helping our customers modernize investigation and close the public safety gap. And in short, I'm confident in our strategic direction and in our ability to capitalize on the attractive opportunities in front of our team.

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

Dana Gerner *Cellebrite DI Ltd. - CFO*

Thank you, Yossi.

As Yossi mentioned earlier, ARR grew 33% year-on-year, reaching $249 million for 2022. This growth reflects our success on a number of fronts, with the biggest driver being continued expansion with existing customers through subscription licensing. Over the past several years, we have made tangible incremental progress every quarter to convert customers to a subscription model from traditional perpetual licensing. As a result, this transition is now largely complete as we enter 2023.

Total revenue for the fourth quarter was up 9% from the fourth quarter of last year and reached $74 million. This was driven primarily by strong subscription services revenue growth of 24%. 84% of total quarterly revenue came from subscription services, up from 67% in the same quarter 2 years ago and 74% in the same period last year.

With software subscription services now generating a substantial majority of our revenue, we believe that 2023 will be a year in which the power of our subscription-based business model will become increasingly apparent.

Our gross margins rose 84% in Q4 as compared to 82% from the fourth quarter of last year, benefiting from the increased portion of subscription sales, which carry a lower cost of goods sold.

In terms of operating expenses, I will discuss these on a non-GAAP basis, excluding share-based compensation, amortization of intangible assets, acquisition-related expenses and onetime expenses.

Q4 '22 non-GAAP operating expenses were $47.8 million in the quarter. As you may recall, the fourth quarter of 2021 was the first quarter carrying full public company costs and was further impacted by the cost from the acquisition of Digital Clues. Our fourth quarter 2022 operating costs reflects prudent spending aligned with our commitment to deliver sustainable EBITDA improvement as well as lower-than-anticipated annual incentives and quarterly variable compensation costs totaling approximately $4 million.

We ended the month of December with 1,004 employees, up 12% from the end of December last year and consistent with wherever at the end of the third quarter. We believe we now have the appropriate team in place to address the opportunities and challenges to fly ahead in 2023.

Adjusted EBITDA in the quarter was $16.1 million or 22% on a margin basis. Our Q4 adjusted EBITDA result reflects the strong performance of subscription revenues in the quarter, which contributed to the higher gross margins supported by cost efficiencies, while continuing our investment in maintaining our technological and market strong position.

Moving forward, we expect to deliver EBITDA growth in 2023 at an accelerated revenue growth rate, coupled with prudent spending levels, is expected to produce operating leverage.

Non-GAAP net income in Q4 was $15.3 million, and non-GAAP fully diluted earnings per share was $0.08. I'm pleased to report that we ended the year in a strong cash position. We generated cash from operations in the fourth quarter of $36 million, a result of a strong quarterly operating performance.

For the full year, we reported $20.6 million of cash inflows from operations. We ended the month of December with approximately $206 million of cash, cash equivalents and investments versus $182 million at the end of 2021.

I will conclude my remarks by providing some additional context around our 2023 outlook. We expect our ARR to grow between 21% and 25% to $300 million to $310 million by the end of 2023. Consistent with prior years, we anticipate that expansions from existing customers will fuel the majority of our growth, with a higher contribution from newer logos -- from new logos than last year.

We expect full year 2023 revenue to range from $305 million to $315 million, which represents 13% to 16% growth over 2022. In other words, our 2022 ending ARR of $249 million represents 79% to 81% of our 2023 revenue target.

When combined with a healthy pipeline and reasonably assumptions around net dollar retention rate we believe that these top line targets are achievable.

In line with historical trends, we expect full year revenue will be weighted towards the second half, and quarterly revenue growth rates will be higher in the second half of the year versus the first half of the year. These dynamics primarily reflect the wind down of perpetual license deals and the typical year-end spending activities associated with our U.S. federal customers in September and most other accounts as at December year-end.

From a profitability perspective, we expect non-GAAP gross margins to be between 80% to 82%, with non-GAAP operating costs expected to grow in the range of 7% to 11% to between $217 million to $223 million.

We currently anticipate adjusted EBITDA in the range of $35 million to $40 million or 11% to 13% of total revenue. While we anticipate higher profitability in each quarter of '23, we believe the most significant gains will occur in the second half of the year when higher revenue will drive incremental operating leverage.

We believe that the investments we are making to advance our product development road maps and go-to-market initiatives will yield attractive returns that support further margins expansion in '24 and keep us on track to reach our original long-term EBITDA target of 20% or greater.

In closing, I would like to echo Yossi's excitement about Cellebrite and what the new year will bring. We are a market leader with innovative solutions targeting a large growing global addressable market. This translates into opportunities to increase penetration into our expansive customer installed base, complemented by ongoing efforts to win new accounts around the globe.

With much of the heavy lifting associated with converting our customers to subscription licenses behind us, we expect our top line growth rate to accelerate from 2022 levels.

Just as notable, thanks to the substantial investments we made last year to build out our organization, we are well positioned to convert solid revenue into improved profitability and stronger free cash flow.

We look forward to helping investors gain a better appreciation for everything that Cellebrite is doing to create value over the coming months, as we make tangible progress towards the long-term targets we shared when the company went public 1.5 years ago.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Jonathan Ho with William Blair.

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

Good morning and congratulations on the strong results. I just wanted to maybe start out with a couple of questions around guidance. Could you maybe unpack for us the 2023 guidance a little bit more and help us quantify how to think about the growth in revenue or ARR for the specific categories? I think it would be helpful to maybe understand how each of those is going to contribute to your current guidance.

Dana Gerner ***Cellebrite DI Ltd. - CFO***

Yes, for sure. I'll take it, Yossi. So if you remember, in 2022, we've seen a continuous reduction in our perpetual and onetime revenue from licenses, especially towards the second half of the year. We expect also in '23 to see a continuous weakness winding down of this business to a very marginal at a very low 1 percentage of revenue.

And as such, when we are talking about our growth expectation on our top line, if you take into consideration comparing our 2022 financials, they're around 20% or, I would say, 18% of the business came from onetime activity whether services or licenses. The part associated with the onetime perpetual will be very marginal. So most of the growth will come from subscription business in principle -- okay, sorry.

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

Got it. Yes. I think my question is more along the lines of what is the contribution from either the core premium products, Pathfinder, collection review? Like how should we think about the growth rates on a products basis as opposed to the revenue mix?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

So most of the revenue from subscription in '22 came from the collection review. So I would say around 90% plus of the revenue from subscription came from collection review. We expect collection review to grow and be very similar also from the subscription business in '23. This is because we are seeing a very good acceptance and a huge potential with our advanced collection capabilities that have been distributed in '22 through not only the standalone premium, but premium enterprise and in the second half with very good traction of the Premium as a Service.

We do expect the Investigative Analytics and Management solution to grow marginally as a percentage of the pie in '23 compared to '22.

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

Great. And then just as a follow-up. I guess, what is giving you the most confidence that the growth will accelerate in 2023? And can you maybe help us understand what's changed versus 2022 or what investments you've made in 2022 to make you more optimistic about that opportunity?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

Yes. I always said that comparing '22 to '21 was actually comparing apples-to-pears because '21 was so heavily weighted to onetime revenue recognition of perpetuals. And as such, it was very difficult to show the true growth through revenue, and the mainly true growth was presented itself through the ARR growth.

Moving into '23, and especially from Q2 of '23, where the business is expected to be from what we are standing, mainly comparing the right mix of revenue types, Q2 of '22 to Q2 of '23 and onwards, we will actually be able to see the growth rates also on the revenue side.

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

There was also the level of acceptance of the solutions that we brought in, I would say, Q2 and Q3 2022 into the market and how they resonate and how they grow.

As you know, we always have the mix of growing with, I would say, existing products within existing logos, but through additional buying centers that we clearly identify and then adding new logos, which will become something which is much stronger, especially if I look at the U.S. market and if I look at, what we call, the long tail sector of thousands of customers in the state and local government.

Adoption rates of the Premium as a Service were pretty strong in Q3 and Q4. The Premium Enterprise, well accepted, the number of end points UFED, which are equipped and connected to Premium Enterprise are growing.

I'm pretty confident also about the fact that we feel very comfortable right now when it comes to the investigative analytics with a much more focused, I would say, go-to-market and relying on the success of Q4. We see it as a very solid growing business engine in 2023.

So combine basically the targeted amounts of new logos that we are aiming, combine it with our well-identified buying centers within the existing, the adoption rate of the collection review so far in the second half of the year, we feel very confident, confident and comfortable with the target and the guidance that we gave.

Operator

And our next question comes from the line of Mike Cikos with Needham & Company.

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

The first question I had for you is really more macro in scope, and I believe it was in Yossi's opening remarks around how law enforcement agencies in Americas have historically demonstrated continued growth of budgets, and that helps give you the confidence that these law enforcement agencies in the Americas can continue to grow their budgets in calendar '23.

Can you, I guess, discuss that a little bit more? And really, what I'm curious is to hear how you've been communicating with your agencies and your various customers and how deep you've gone in your conversations with them to ensure that budgets are continuing to grow.

And then the second question, I think, is probably more for Dana, but it's with respect to the sales headcount growth. I know that you guys have said that the sales organization grew 10% year-to-year in calendar '22. I think that part of the reason why you guys are talking to these EBITDA margin improvement in '23 is based on a leverage you've spoken about.

But can you help us think about what more investment needs to take place in that sales organization, how you guys are thinking about growing headcount in that organization as we look to calendar '23?

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

Thank you for the question, and I hope that you can hear me well. The conversations we've got today only in the public sector alone more than 5,000 agencies, 5,000 agencies, 5,000 customers.

I think that the number of meetings that we have done, and I'm very glad post COVID here was something between 15,000 to 18,000 meetings that we had with customers. And I'm talking about only those accounts worldwide that we manage with a dedicated account executive, with a presale and, let's say, visit and engagement with customer success.

And I can also say that we are, in those few hundreds of accounts that we are managing directly with dedicated sales force and presale, there is a very good dialogue on different levels on a DFU, Digital Forensic Unit management level, on the INI, Investigative and Intelligence level and also on decision-makers even on conditional level.

And we are -- in all those dialogues, we hear the same thing, more funding. It's not overblown in terms of something that we haven't expected, but it pretty much correlates with the way we anticipated the allocation of budget to digital intelligence in that specific section because if you read our customer survey or our industry survey, you can see clearly that -- and we published that, by the way, that the meaning of digital data within investigations is the most critical analogue of investigations in general.

I'm also glad to say that the go-to tool is the mobile, but almost double in percentage than any other aim of digital source. So basically, it's clear that if the meaning of digital data grows by more than 80% in the last 3 years, when it comes to investigations, investigations are basically digital, we're pretty confident about that notion, and we also see the increase in the budget by ourselves.

So this is to that, and I hope that I helped.

As for the sales force, maybe I'll hand over to Dana, but before that, just saying we are well equipped. We shared with the market the fluctuation that we had in Q1 and especially during H1 last year. We said already in Q3 that we are recovered. And in that notion, we are -- we continue with the plan in a mix of sales force, which will manage multiple or a respectable number of accounts directly on the [SMG] side, on the federal side. And we have also sales force, which is making sure that we get, I would say, new business and recurring coming from, what we call the 1,000 long-tail climb.

Dana, would you like to add something on the sales force?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

I think we are very proud by the sales team members who joined in the second half of '22. And when we say that we are well equipped, that means that they are now fully boarded. And we expect them to be able to monetize their experience by bringing the right deals in place.

We do not expect to grow substantially or, in any manner, the team from a number perspective, it was really about getting the right people and the right quality to generate the revenue that we expect for this year.

Operator

And our next question comes from Tal Liani with Bank of America.

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

First, I never say it on calls, but I want to congratulate you on the much better tone this quarter versus 2 previous quarters.

And I would like to ask you about the change. Last quarter, so 2Q was weak. 3Q was mixed on foreign exchange, and you reduced the guidance for 4Q by $4 million. And now you're beating the numbers by around $3 million.

So what changed from the previous guidance that you gave that you're beating the numbers by $3 million versus the $4 million reduction before? How much of it was foreign exchange? I know it was a tailwind for Israeli companies. Can you just talk about basically the environment and the delta from last year -- last quarter?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

Sure, Tal. And first, thank you very much for the kind words. Well, we reduced our guidance during the Q2 earning call. And indeed, Q3 was very mixed with devaluation of the dollar to the European currencies, the Israeli currencies that had some impact on our forecast. And when we said that we'll be under or end, we assumed that this trend will continue. Luckily or unfortunately or whatever it was, the currency mix remained pretty much the same through -- until the end of the year.

And as such, we have been able to meet our targets and even exceed the lower end of the targets, as we said, we might be in the end of Q3.

So from a top line perspective, on our ARR, we've been slightly better than what we expected. This was a direct result of the very well acceptance of our Premium as a Service, which contributed mainly to the ARR, lesser to the revenue because of it being a SaaS solution.

And as I said on my script, we took a very hard look into our OpEx, and we have tried to execute a caution approach towards OpEx expenses, including some adjustments and the true-up of variable compensation to the actual results compared to our beginning of the year initial targets.

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

And how do I think about the difference in trends? Two things. First, can you repeat your targets -- your long-term targets that you gave it 1.5 years ago? Just repeat them, so we have it in front of us.

And second, how do I think about the difference between the trends in ARR and the trends in revenues? Revenues are accelerating. ARR, you grew in 2022, about 33%. You're guiding to about 1,000 basis points below that, so it's decelerating. What's the difference in the trends?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

So out of memory, our long-term ARR targets were 22% to 27%, while our revenue targets were 20% plus. What we have said is that during this transition from perpetual to subscription, we'll first see the growth coming in the ARR and later in the revenue.

And for the mid-long term, we'll see revenue and ARR trending the same. So for that reason, we are expecting our revenue growth to be on the 20% plus towards the end of next -- of the end of this year, '23. We would see ARR getting closer to the revenue target from a growth perspective is; it will reflect basically the growth in the revenue, which is mostly subscription.

Operator

And our next question comes from the line of Douglas Bruehl with JPMorgan Chase.

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

Since you had about 15 points of operating margin expansion quarter-over-quarter, can you talk about the biggest drivers and maybe some commentary on timing for those OpEx cuts?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

Can you repeat the question? I wasn't sure I heard you properly.

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

Yes. So you had about 15 points of operating margin expansion quarter-over-quarter. Can you talk about the biggest drivers behind that and maybe some commentary on the timing for those OpEx cuts?

Dana Gerner ***Cellebrite DI Ltd. - CFO***

So the biggest OpEx, there are 2 drivers of OpEx, I would say, controls in Q4, one of it was by the mere fact that as we said, we did not grow our head count between the end of Q3 to Q4. We've -- as we said also when we've done the Q3 earning call, we believe that we've reached the right number of people in the company to meet our targets to end the year of '22 and to start '23.

And the second was relating to our variable compensation costs, which, towards the end of the year and realize the final results of the company. We've aligned the variable compensation of bonuses and commissions with the actual top line and bottom-line results, generating some reduction -- onetime reduction of cost of $4 million in the quarter.

Operator

And our next question comes from Jamie Shelton with Deutsche Bank.

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

I wanted to get your view on the potential combination of Magnet Forensics and Grayshift by Thoma Bravo. What does this mean for Cellebrite from a competitive landscape perspective?

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

I would say the following. First of all, I would say that currently potential merge, I would say, should highlight actually the opportunity in the sector. I would say it is a clear statement that our market is attractive, first and foremost.

We probably, basically as a company, which is larger than the combination of these 2 businesses, again, and Thoma Bravo basically took 2 companies and I think collectively valued them in a $2 billion, that basically gives a sign or a clear mark of attractiveness to the market. So this is first.

In many ways, I would add, we are not surprised. The 2 companies have collaborated for several years by now. And I would say that from that context, or from that concept, this is for us a competition, which was good, remain good. But we have, let's say, our own way and our own path and our own road map.

We -- as we look, I would say, to the rationale, the way it was explained, it even strengthens basically our position because the rationale for the merger at least for one of them was about the fact that there is a mobile extraction capability, which is the reason, something that we have, shows basically how strong the mobile and how meaningful is the mobile. And they define it even as a rare strategic opportunity.

And I would like to say that if I look at us at this stage, we are, as a vendor, we combine in one house the offering that these 2 players bring right now together. We have in our house offering, which is extended to investigators and analyst, Investigative Analytics and OSINT. And as a clear solution provider, we continue just staying with our plan and continue to invest more in our solutions.

And maybe the last thing, also position and expansion in the market. We've built an international footprint to expand our business in the U.S. and also outside of the U.S. And I would say already matured, I'm talking about us in terms of the expenses which are relating to that, something that we can create, at least on our side, more efficiencies. So all in all, I embrace the move because it's good for our industry, but we stay tuned with our direction.

Operator

Our last question will come from the line of Louie DiPalma with William Blair.

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

Yossi, you announced 29 large deals in the fourth quarter, including that $14 million deal with the agency in Singapore. What does the pipeline look like for large deals in 2023?

And in general, are your deal sizes increasing as more customers adopt your premium enterprise and your other investigative analytics services?

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

I will take it, and maybe there is some kind of a data in the mix, Dana, that I think that you can add.

First of all, Louie, thank you for the question. It's -- the number of the larger sized deals is growing and will continue to grow, and this is basically a reflection of the size of the go-to-market of Cellebrite, which focuses on increasing wallet share within existing accounts.

This is mainly focused to the areas what we call the strategic accounts on the state and local governments and it is related to the federal side. And over there, it is expanding within the account, nurturing more, growing.

And as we offer more and as the solution, each one of them or the total Digital Intelligence suite of solution resonates, we see basically more budgets, larger deals.

Well again, stating again, it will grow. Nevertheless, there is a dual effort here that we're doing because there is also the element of expansion within new logos, more related, I would say, to what we call the 1,000 long tail. We have them well identified.

And over there, side-by-side, I would say, with the collection review, within the larger accounts, there is a rather transactional collection review business with rather shorter sales cycle. And we are still relying and facing a large amount of deals which are, I would say, small, reasonable and pretty much fits our go-to-markets on that dual effort, okay.

Large deals on on-site and expansion, and then basically having that transactional solid base. And this is good, by the way, because that spread the risks of Cellebrite. We are not dependent on few customers. We are not dependent on few large opportunities, and we have the ability to balance in that environment.

Dana, would you like to add something regarding...

Dana Gerner ***Cellebrite DI Ltd. - CFO***

Yes. In principle, yes, we do see in the last 2, 3 quarters that looking at the larger deals, those were above -- which are above $500,000, some increase in the average mix from a dollar perspective of those deals. So certainly, we do.

Operator

At this time, I would like to hand the conference back over to Mr. Yossi Carmil for closing comments.

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

So first of all, thank you all of you for participating, and thank you for the interest and for the questions.

Again, I would like to say we are committed both to the results and the creation of shareholder value and obviously to the industry we serve. I'd like to thank again the Cellebrite employees for all the efforts in 2022. And thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.
