

Cellebrite Q1 2025 Earnings Call Script

Wednesday, May 14, 2025

Andy

Safe Harbor [Slide #2]

Thank you. Welcome to Cellebrite's First-Quarter 2025 Financial Results Call. I am joined today at our US Headquarters outside of Washington, DC by our primary speakers, Tom Hogan, Cellebrite's interim CEO and Dana Gerner, Cellebrite's CFO. Joining us in person is Marcus Jewell, our CRO, and Ronnen Armon, our chief products and technology officer, is participating remotely. Marcus and Ronnen will be available during Q&A. There is a slide presentation that accompanies our prepared remarks. Please advance the slides in the webcast viewer to follow our commentary. We will call out the slide number we are referring to in our remarks. This call is being recorded, and a replay of this recording will be made available on our website shortly after the call along with a copy of our prepared remarks.

Starting with slide #2, a copy of today's press release and financial statements, including GAAP to non-GAAP reconciliations, this slide presentation, and the quarterly financial tables and supplemental historical financial information for each quarter of the past three years are available on the Investor Relations website at investors.cellebrite.com. Also, unless stated otherwise, our discussion of our first-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 are with the first quarter of 2024.

In addition, please note that statements made during this call that are not statements of historical facts constitute forward-looking statements. All forward-looking statements are subject to risks and uncertainties and other factors that could cause matters expressed or implied by those forward-looking statements not to occur. They could also cause the actual results to differ materially from historical results and/or from forecasts. Some of these forward-looking statements are discussed under the heading Risk Factors and elsewhere in the Company's annual report on Form 20-F filed with the SEC on March 18, 2025. The Company does not undertake to update any forward-looking statements to reflect future events or circumstances.

Agenda [Slide #3]

Slide #3 provides the agenda of topics we'll cover on today's call. With that said, I'd like to turn the call over to Tom Hogan. Tom?

Tom

Opening Statement & Q125 Results Highlights [Slide #4]

Thank you Andy, and thank you all for joining us today. Let's jump right in.

Cellebrite delivered strong 23% year on year ARR growth in the first quarter. Consistent with our stewardship in managing both revenue and spend, we also delivered 34% year-on-year growth in our adjusted EBITDA, resulting in a 22% margin. The combination delivered a 45 Rule of X in the quarter and 48 for the trailing twelve months, both within our committed range of balanced performance. We remain committed to growth as our priority while dynamically tuning our spending to support our bottom-line objectives.

Overall, our value proposition continues to resonate in the market; interest in our platform remains healthy; uptake on our Inseyets solution continues to increase and customers are realizing the brand promise of "justice accelerated." Strength and over achievement in the US state and local, LatAM, and the Asia Pacific regions, were offset by modest shortfalls in the US Federal segment and our EMEA geography. The strength of our total performance was a byproduct of our global diversification and the range of our solutions across federal, state and local, defense, intelligence, and the private sector.

Before adding further context to our Federal business, I will highlight two important barometers that continue to signal strength. First, we remain on track with our overall Inseyets migration which is a direct reflection of the value delivered with our core digital forensics offering. We finished the first quarter with over 30% of our installed base converted and remain on track to hit our 2025 objective of a 50% conversion. And second, as we have shared, extending our value proposition to the critical cloud-based Guardian product as adoption of and interest in this purpose-built platform for collaboration and chain of custody continues to accelerate. We delivered our third consecutive quarter of year-over-year ARR growth of over 100%. The power of the Cellebrite platform is also reflected in our pipeline, where transactions that involve two or more of our flagship solutions carry a disproportionate increase in average deal size -- in many cases representing 10x the size of Inseyet standalone transactions.

Now, let me add some perspective around our Federal business. I first want to remind folks that this business has produced a 25% CAGR in ARR over the past three years and it represented roughly 17% of our 2024 revenue. Today, despite current volatility, our view is that the opportunities for future growth

not only remain attractive but have increased meaningfully over the past two quarters. This is a function of multiple current and emerging tailwinds, starting with the structural changes associated with the recent launch of our Cellebrite Federal Solutions unit and our ongoing investment to achieve FedRamp Authorization to Operate. These actions are amplified by the emerging macros around the increased sophistication of technology used in the pursuit of crime including AI, along with the increased alignment of our portfolio with the new administration's focus on securing our borders, mitigating the Fentanyl epidemic and overall drug trafficking, reducing the heinous human trafficking industry, and finally improving the overall productivity of government agencies. While the short-term Federal environment remains choppy, our full year 2025 pipeline continues to expand. Our solutions are simply mission critical to safety and security across all levels of government and the spend related to the Cellebrite solutions remains small relative to both our societal impact and overall departmental budgets.

Dana will cover our second-quarter guidance in detail, but I will share in advance that, while our outlook assumes that a continuation of the first-quarter Federal spending environment will persist into the second quarter, we see a clear opportunity to reaccelerate in the second half given the expanding pipeline and the traditionally strong seasonality of the third quarter in the US government.

In EMEA, we are equally bullish on our pipeline and interest, and expect our investments in our go-to-market teams will deliver an acceleration in this region in the second half of 2025. Within the past 30 days, our board and the executive team have spent two weeks in the UK and Germany to clearly demonstrate the Company's commitment to the region and both visits were well received by customers, prospects, and our team on the ground.

Finally, I wanted to call out one segment in particular across the globe that has witnessed a material increase in opportunities, which is the Intelligence and Defense sector, which tracks with what we are all seeing in global geo-politics. This is a segment we are doubling down on from a messaging, positioning, and coverage perspective to ensure we meet demand and the opportunity. Before moving forward, I would reiterate that our US state and local, Asia Pac, and Latin America units delivered strong growth and continued momentum in the quarter.

To summarize our first-quarter performance before doing a quick click down on a few strategic milestones, I would reiterate four things:

- First, Cellebrite continued to deliver robust year-over-year growth in ARR and Revenue to support a Rule of X performance in our target 45-50 range;
- Second, Intelligence and Defense needs, combined with digitally-enabled crime, continue to escalate in both size and sophistication, thus driving increased demand
- Third, our bottom line grew faster than the topline at 34%, highlighting the operating leverage inherent in our business model and reflecting positively on our ongoing commitment to drive profitable growth; and
- Fourth, traction with our Inseyets migration and the strategic penetration of our Guardian and Pathfinder products remain strong and on track.

Let's switch gears and talk about some important milestones that were core to our business

Q1 2025 & Recent Key Developments [Slide 5]:

Go-to-Market:

A major go-to-market highlight occurred last month when we held our first-ever user conference. This Washington DC event was sold-out, attracting roughly 700 attendees from approximately 350 agencies and enterprises spanning 27 different countries. The energy, feedback, and collaboration with our customers was both palpable and motivating. We also launched our inaugural Digital Justice Awards. The winners of the 2025 Justy's represented 10 categories including the "Case of the Year" and recognized law enforcement and intelligence officers for exceptional service in the pursuit of Justice. Our 2025 user conference represented meaningful progress toward our goal of establishing the Justy's and this summit, as the premier customer event in Digital Investigations. We look forward to next year's award ceremony along with a significant expansion in our 2026 Summit attendance.

Spring Release:

From a product and portfolio perspective, we announced our new Spring 2025 release on May 6 featuring our new cloud foundation and AI-powered innovations across the portfolio. The evolution of the Cellebrite Cloud enables us to deliver a purpose-built user experience that scales investigative capabilities and accelerates decision-making across public safety, intelligence and enterprise sectors. We continue to see strong adoption of our cloud-enabled offerings, which are rapidly approaching 20% of total ARR. At the same time, we delivered new AI-powered features and functionality aimed at elevating productivity and

efficiency across our flagship offerings while always keeping human expertise and engagement at its core. To better reflect the emerging importance of Cellebrite to both the Intelligence and Defense segments, as well as our ongoing value in the private sector, the Case-to-Closure Platform has been rebranded as the leading Digital Investigation Platform.

CEO Search:

Finally, let me update all of you on the status of our CEO search. Over the past four months, we have had the pleasure of meeting with a long list of eminently qualified candidates. We can't share those names for obvious reasons, and our interest in several of these candidates remains high. As we committed, we have been deliberate in this process to ensure we secure the best right leader. It's not just our shareholders, our employees, and our customers that deserve a world-class leader. Our belief is that the safety of our world also depends on it. I want to also assure all of you that this Company has not been in a "holding pattern" while this search has progressed. On the contrary, our board, our team of senior leaders, and I have moved with daily urgency, balancing the requisite focus on the present with an equally important eye on our future. As a result, we've elevated work on our strategic options including, as you would expect, inorganic opportunities to expand our TAM and help fuel our long-term growth.

As I've discussed in multiple forums over the past three months, I consider my current duties the professional privilege of my lifetime. While I have led organizations 100 times this size, I have never led a company that wakes up every morning dedicated to making our neighborhoods, cities, country, and institutions safer. I am honored every day to partner with the men and women at Cellebrite and the dedicated and courageous customers we serve. My commitment to our board and our shareholders is to optimize value creation, enable the important mission of our customers, grow and reward our people, and usher in the next generation of leadership.

Summary [Slide 6]

Let's turn to slide #6 to conclude my remarks. We delivered solid first-quarter topline growth while modestly expanding operating margins to outperform on the bottom line. We live in unusually turbulent times, and the world needs the mission-critical IP we uniquely deliver. The tailwinds in malfeasance, now exacerbated by the increased technological sophistication of bad operators, provide a firm foundation for healthy global demand over the coming years. As the market leader and technology innovator in this space, we are committed to extending our capabilities in AI, cloud-related agility, and investigative case and evidential management. Our mission and our impact remain in the early innings as we bring the

world's most advanced technologies to ensuring a better, safer world. The future remains incredibly bright for this Company.

With that I will turn the call over to Dana to provide further detail on our results and our outlook.

Dana

ARR Growth [Slide #8]

Thank you Tom. Despite market turbulence in the U.S. federal sector, Cellebrite delivered top-line results for the first quarter that were in line with our plans while the combination of our revenue growth and prudent spending enabled us to outperform our Q1 profitability targets. Just as important, we remain well positioned to continue expanding our business.

Let's start our review on Slide #8. Our ARR for the 12-month period grew 23% to \$408 million, largely driven by increased spending within our installed customer base. Consistent with Tom's earlier commentary, we enjoyed ARR results that were largely in line with our plans in most geographic and customer verticals although the spending headwinds within the U.S. Federal and EMEA sectors limited our upside for the quarter. As noted on the slide, our gross retention held relatively steady at 92% with standout retention levels in the U.S. and Asia-Pacific.

Geographically, the March 2025 ARR mix was in line with the prior year. The Americas represented 54% of total ARR with EMEA at 34% and Asia-Pacific at 12%. In terms of growth rates by geography, the Americas grew 27% with a vibrant performance in the SLG and Latin America segments. ARR grew 28% in the Asia-Pacific region, followed by 15% expansion in EMEA.

2024 ARR Expansion & Customer Wins [Slide #9]

Let's turn to slide #9 to dive a little deeper into the ARR growth drivers from a product family perspective as well as highlight a few deals that stood out in the quarter. As illustrated on the chart on the left-hand side of the slide, the majority of our net ARR expansion was driven by higher demand for our family of Inseyets offerings, including our legacy digital forensics solutions. Within the blue Inseyets contribution, we outlined the financial uplift associated with transitioning our installed base of legacy digital forensics licenses to Inseyets, which was a high-single digit percentage of the \$104 million net increase in ARR. To be clear, this is intended to represent only the increased spend by customers when they move to Inseyets.

The first win listed on this slide – a new logo win – is a great example of how customers are deploying our technology in the field in addition to conventional lab environments. We are seeing more opportunities to extend our technology out into the field as one of our competitors has become increasingly vulnerable in this area. The second deal in the middle reinforces our success in expanding adoption of our unlock

module when customers convert to Inseyets as well as the opportunity within the global defense & intelligence sector. The third win involving Guardian highlights how this solution is fortifying the chain of custody while enabling us to expand our wallet share within existing accounts. As we look ahead, we remain optimistic about the growth opportunity for both Guardian and Pathfinder, as each product family remains under 5% penetrated across our installed customer base. Guardian's ARR growth rate is accelerating, exceeding 100% for the third straight quarter as the number of customers using both Inseyets and Guardian nearly tripled from one year ago.

Revenue Growth by Subscription [Slide #10]

Turning to slide #10, we generated first-quarter revenue of \$107.5 million, which increased 20% from the prior year due primarily to subscription revenue growth of 21%. Approximately 89% of total revenue was associated with subscription-based software solutions. Our Q1 revenue was at lower end of our targeted range due primarily to the timing of orders within the U.S. Federal and EMEA theaters.

Gross Margin & Operating Costs [Slide #11]

Let's move to Slide #11 for a review of our non-GAAP gross margin and non-GAAP operating expenses, which exclude share-based compensation, amortization of intangible assets, and acquisition-related expenses. Our first-quarter 2025 gross margin of 84.4% was in line with our full-year 2025 target range. The 130-basis point decline from the prior year primarily reflects higher incremental costs for hosting and investments to build out our customer success organization.

In terms of operating expenses, first-quarter operating costs were \$68.8 million, a 13% year-over-year increase. This primarily reflects higher personnel costs associated with higher headcount and annual merit adjustments, increased event costs and higher consulting expenses. We ended the first quarter with 1,182 employees.

Adjusted EBITDA and Cash Position [Slide #12]

Turning to Slide #12, the combination of top-line growth, solid gross margins and prudent spending resulted in Q1 adjusted EBITDA of \$23.7 million, or 22.0% on a margin basis. The year-over-year improvement of 2.3 percentage points reflects solid operating leverage as our top-line growth continues to outpace operational spending.

We reported first-quarter non-GAAP operating income of \$22.0 million with non-GAAP net income of \$26.2 million, or 10 cents on a fully diluted basis. Our diluted non-GAAP EPS grew 25% despite a 20% increase in our average weighted diluted shares outstanding.

We ended the first quarter with \$509.8 million in cash, cash equivalents and investments, an increase of \$26.0 million from the fourth quarter of 2024 and an increase of \$162.5 million from the same period one year ago. Free cash flow for the first quarter, which we define as net cash provided by operating activities less capital expenditures and the purchase of intangible assets, was \$18.5 million, up strongly from one year ago due primarily to strong fundamental results.

Financial Forecast: Q125 and 2025 Outlook [Slide #13]

Let's move to slide #13 for our outlook along with some insight on the factors and trends that we believe will shape this year. As a reminder, we have historically generated the majority of our ARR, revenue and adjusted EBITDA in the second half of any given year and we believe that this trend will repeat itself in 2025.

Looking at the second quarter, we currently expect Q2 ARR in the range of \$416 million to \$426 million, which represents growth of 20% to 23%. While most geographies and customer verticals are anticipated to continue performing well during the first half of the year, we believe it is prudent to model a continuation of spending constraints in the U.S. Federal sector. Our pipeline does suggest a possible recovery in the second quarter, but until that manifests itself in closed transactions, we will remain justifiably cautious.

Our Q2 revenue outlook ranges from \$110 million to \$116 million, which translates into growth of 15% to 21%. This would result in our first-half revenue of approximately \$218 to \$224 million, or approximately 46% of what we expect for our full-year 2025 revenue, which is generally consistent with historical trends. The spending climate within the U.S. Federal market is also affecting those who provide consulting and other professional services. We are not immune to those headwinds and we see near-term pressure on one-time professional services revenue from U.S. Federal agencies.

Consistent with our cautious stance on the second quarter, we have marginally reduced the low end of our full-year 2025 revenue by \$10 million while also resetting the high end of this range. While we remain

optimistic that we will see stronger second-half spending by our customers, particularly in US Federal and EMEA, we believe that adjusting the revenue range in such a manner more accurately captures the top-line risks associated with an extension in spending constraints. The majority of the low-end revenue reduction is associated with the shifted timing of new business to the second half of our year combined with lower one-time professional services revenue. We are not adjusting our full year guidance on ARR and EBITDA.

We expect our Q2 gross margin to be within our full-year 2025 gross margin target range of 84% to 85%. We remain very focused on disciplined cost management while funding important investments that are critical to further expanding our business over the longer term. While U.S. tariff policies remain fluid and require careful assessment in the event of any meaningful changes, we do believe that the current tariffs on imports of our hardware to the U.S. will be de minimis to our overall cost of goods sold. We anticipate our Q2 operating costs will be in the range of \$69 to \$71 million, which is flat to slightly higher than Q1 levels and consistent with the historical cadence of our operating expense growth from the first quarter to the second. These expectations set the stage for Q2 adjusted EBITDA in the range of \$26 million to \$28 million, or approximately 24% on a margin basis – which keeps us on track with our full year target.

In terms of our weighted average diluted share count, we expect Q2 to be approximately in the mid-250 million share range.

In summary, we remain focused on growth while equally committed to the responsible management of our cost structure in order to achieve our adjusted EBITDA targets in absolute dollar terms under the different potential revenue outcomes. Since entering the public safety market in 2007, we have established a track record for durable, profitable growth, which is reflected in both our absolute ARR and in the strength of our balance sheet. That type of performance speaks volumes about the global need for our solutions and our ability to successfully navigate our business through an array of geopolitical, macroeconomic and technology shifts. We are executing well against our plans and remain enthusiastic about our prospects for achieving the ambitious targets we set for Cellebrite this year.

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