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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Cellebrite Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions)

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

Anat Earon-Heilborn

Thank you, Victor. Welcome to Cellebrite's Fourth Quarter and Full Year 2021 Financial Results Earnings Call. Joining me today are Yossi Carmil, Cellebrite's CEO; and Dana Gerner, Cellebrite's CFO.

This call is being recorded, and a replay of this recording as well as of 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.

Statements made during this call that are not statements of historical fact constitute forward-looking statements. All forward-looking statements are subject to risks, 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 registration statement on Form F-1 declared effective by the SEC on October 6, 2021. The company does not undertake to update any forward-looking statements to reflect future events or circumstances.

Please note that in the coming weeks, management will participate in a number of investor conferences, as detailed in today's press release. Please visit the Events section of the Investors website to access webcast of our presentations at these conferences, where applicable.

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

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

Thank you, Anat, and thank you all for joining our call. We are pleased to report that we closed the year with excellent fourth quarter results, and we are happy to share our outlook for 2022.

We finished the year with strong Q4 results, delivering record revenue of USD 68 million, and ARR of USD 187 million. And we ended the year with record bookings, record revenue and record adjusted EBITDA. The healthy market environment, coupled with our strong business fundamentals, enabled us to increase our revenue forecast for 2022. Furthermore, these factors reinforce our confidence in the long-term growth model, which we shared with you during our going public process in 2021.

Now since this is our second call as a public company, I would like to use the opportunity and provide a brief overview of Cellebrite before diving into the results.

Cellebrite customers are mostly law enforcement agencies, whether federal, state or local as well as private sector corporations. Our largest market is in the U.S.A., followed by Europe.

Our growth strategy is based on continued product innovation in the digital intelligence space and based on building a world-class go-to-market-focused organization.

The context is as follows: for many years, we have been driving and leading the digital Collect and Review business. Our solutions allow tens of thousands of police experts globally to quickly provide digital evidence collected mainly from mobile devices, computers and the cloud as well as other digital sources. Now through our significant R&D investment in this space, we will continue to lead this subsegment of the digital intelligence market.

But Cellebrite is also building a suite of solutions that address the needs of hundreds of thousands of investigators, prosecutors and decision-makers in law enforcement agencies. This digital intelligence suite, which includes Collect and Review, investigative analytics, digital evidence management systems, what we call DEMS, case management and services. The DI suite opens vast opportunities in a various market, and we believe that we are at a very early stage of realizing this potential.

We also continue to invest in a world-class enterprise sales organization, which enables us to dramatically increase our wallet share within our customers as we become increasingly strategic to their operations.

The demand for our solutions is driven by a few key factors: first, growing crime rates in categories such as violent crime and organized crimes as well as homeland security threats. This increase in crime is coupled with an increase in the quantity, variety and complexity of digital evidence in investigations.

Now on top of that, currently prevailing investigation practices are manual, siloed and inefficient and as such, are just unsustainable. And in addition, there is a growing pressure on governments to increase police funding to fight crime more effectively and therefore, to deal with a massive growth in digital evidence.

Just as an example, in the U.S.A., pandemic-related federal funding became widely available to law enforcement agencies. And in the U.K., the upcoming budget year will see an increase of over GBP 1 billion or 7% in policing funding. And in this context, let's view our Q4 business results.

Now we are pleased to report strong net retention rate of 137% for the end of December, which demonstrates our wallet share expansion. And let me share with you a few examples.

The first is a USD 1.5 million deal, a 3-year subscription deal with large West European National Police Agency. The deal includes advanced Collect and Review capabilities in an Enterprise solution that connects dozens of endpoints and is expected to deliver nationwide benefits. This is an example of growth through the upsell of higher grade solutions as well as an expected higher lifetime value through the adoption of subscriptions.

The second deal is a multimillion U.S. dollar expansion with an Asia Pacific-based government entity that includes Collect and Review solutions, investigative analytics solutions and extensive professional services. The value of this deal was over USD 11 million. And to date, the largest deal in Cellebrite history. In this case, we play a key role in planning and designing the investigative flow, and it is an example of the value becoming a customer's trusted adviser.

The third is a large U.S. state agency that formed a new narcotics unit, following a sharp 20% increase in overdose death cases. Now in order to accelerate criminal investigation and reduce the flow of illegal narcotics, the units implemented advanced Collect and Review solutions. We continue to work with this Police force to further enhance their digital intelligence capabilities. And this is an example of growth through selling to additional buying centers within an existing customer.

Last, regarding wallet share, our success in wallet share expansion is also reflected in the fact that through 2021, we booked 83 deals larger than US 0.5 million compared with 63 such deals in 2020.

Now moving to our offering. We believe that our digital intelligence end-to-end investigative platform is the best solution to address current and future public safety challenges. And in Q4, we continue to enhance the platform. First, we launched our cloud-based digital evidence management system, designed to transform the investigative workflow. And second, we added open source intelligence via the acquisition of Digital Clues to help jump start investigation and extend our platform's reach to earlier stage of the case.

Now these additions conclude a very active year from an innovation perspective for Cellebrite. Just to remind you, earlier in 2021, we also achieved the following: we enabled mobile data collection on an agency-wide network-based solution. We also boosted our analytics solution with data ingestion from a broader range of sources, and we added remote computer and mobile collection to the private sector.

Now let's look at our plans for 2022. We will continue to invest in our go-to-market in order to develop close and direct relationships with an even larger number of customers. We will focus our investment in our offerings on several key areas: first, bringing access capabilities to the broader customer base, specifically for smaller law enforcement agencies as well as the private sector; second, broadening our cloud offering to allow public safety customers to enjoy scalability and efficiency; and third, further streamlining the investigative flows, allowing closer collaboration between examiners, analysts, investigators, agency managers, prosecutors and defense teams.

But before I conclude, I would also like to highlight our Ethics & Integrity Advisory Committee, which we formalized in Q3 2021 with an amazing group of outside experts in the social, legal, academic and regulatory communities. Their Bios are, by the way, can be found on our website.

We are acutely aware that our solutions are powerful and powerful enablers of digital intelligence, and we are committed to working only with customers who use our solutions in a legal and in an ethical manner. Our Board will work closely with this group on ethics and corporate integrity issues on an ongoing basis.

So in summary, our results for 2021 show that we have a strong growing business. We started 2022 excited, excited about the opportunity in front of us, and we are confident in our ability to drive forward our position as a strategic partner to our customers. We intend to continue to be an undisputed leader of digital transformation in investigations and with that, to lead the growth of our market in the coming years.

As a one-stop shop digital intelligence vendor, Cellebrite modernizes the investigative process, and we look forward to continue to help law enforcement and the justice system while delivering growth and profitability to our shareholders.

Before I turn the call to Dana Gerner, our CFO, I would like to thank the entire Cellebrite team for the dedication and for the excellence throughout this exceptional year. Dana, please go ahead.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Thank you, Yossi. I'm very pleased to present an analysis of our financial results for the fourth quarter of 2021, which once again exceeded our expectations in revenue and profitability and helped us close a very strong year for Cellebrite.

We delivered best-in-class NRR of 137% and continue to grow our ARR. The strong performance in these 2 metrics reflects the successful execution of our growth strategy.

Revenue in Q4 was up 19% from Q4 2020, and full year revenue was up 26% from 2020. Total subscription revenue increased 32% in Q4 '21 from Q4 '20, and full year total subscription revenue was up 41% from 2020. Total subscription represented 74% of the total 2021 revenue, up from 67% in 2020 and in line with our goal of increasing the recurring component of our business.

In 2021, 84% of our revenue came from Collect and Review solutions, 5% from manage and analyze solutions and 11% from services. We expect strong growth across our entire portfolio. This means that while the manage and analyze solutions are more nascent and expected to grow at faster rates than the Collect and Review solutions, the revenue mix is expected to shift gradually over time.

ARR grew 37% year-on-year, reaching $187 million by the end of December '21. The main drivers for ARR growth continue to be the upsell and cross-sell of additional modules and solutions to existing customers. Customers are increasing their spending with us, driven by the need to derive the increasing complexity of accessing data and delivering insights that help those cases.

The American customers, that Yossi described earlier, is an example of that. The Q4 wins increased the number of licenses used by this customer by 25% and the ARR from this customer by more than 3x, reflecting upsell in addition to expansion. Please refer to the slides that accompany this call for a more granular breakdown of the total ARR growth from the end of 2020 to the end of 2021.

Now moving to operating expenses, I will discuss on a non-GAAP basis. So the share-based compensation, amortization of intangible assets, acquisition-related expenses and onetime expenses are all excluded.

Non-GAAP operating expenses of $47.9 million in the quarter increased 29% from Q4 in the previous year. We ended 2021 with 898 employees, up 18% from the end of 2020. And so the major driver for the operating expenses increase was headcount growth and recruitment costs.

In addition, we incurred full quarterly public company costs and experienced an increase in travel and marketing events costs due to the higher in-person interaction. We continue to recruit in a very targeted manner to support our future growth and scale.

In Q4 '21, adjusted EBITDA and margins were $8.9 million and 13.1%, respectively. For the full year, adjusted EBITDA and margins were $47.9 million and 19.5%, reflecting the higher profitability rates before we began incurring public company costs.

Non-GAAP net income was $5.2 million for the quarter and $38 million for the full year, and non-GAAP fully diluted EPS was $0.03 for the quarter and $0.24 for the full year. Operating cash inflow in the fourth quarter of '21 was $29.8 million and in the full year, it was $36.1 million. After a cash spend of $20 million on the Digital Clues acquisition, we ended the year with approximately $181 million of cash, cash equivalents and short-term investments.

Now moving to 2022 outlook. We expect December '22 ARR of $250 million to $265 million. This range represents between 34% and 42% growth from December '21. We expect the vast majority of the ARR growth to come from selling additional new licenses to existing customers, as was the case in '21.

We expect full year revenue for '22 to range between $285 million and $300 million. Please note that typically our revenue is weighted towards the second half, driven by the September ending of the U.S. federal fiscal year and the December ending of the fiscal year for most of our other customers. We expect gross margin of between 80% to 82%.

The full year expected adjusted EBITDA is $39 million to $44 million. We expect profitability to be significantly higher in the second half of the year compared to the first one due to the operating leverage of the higher expected revenue in the second half.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Jonathan Ho from William Blair.

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

Congratulations on the very strong results and guidance. I just wanted to maybe start out with some of your comments around pandemic funding and maybe seeing some of that flow through to your law enforcement customers. Can you maybe help us reconcile how you're seeing that impact the pipeline and your thoughts around maybe the U.S. government strength in your guide for 2022?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

So in principle, what we are saying, Jonathan, and thank you for the question, is the increase in interest from our U.S. government customers in our enterprise solutions and the ability to look at long-term pipe for a longer period of engagement with us, which usually used to be a 1-year engagement. Taking into consideration that those funds are looking at a period of more than 1 year, allows us to discuss multiyear deals with them and longer engagements.

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

Got it. And then just in terms of sort of the adjusted EBITDA guidance for 2021, there is some sort of drop off on the implied margin relative to what you're doing -- sorry, for 2022 relative to 2021. I think you've said that some of this is the public company costs and then expectations for investment. Can you give us maybe a waterfall or a breakdown of where you see additional investments that you're making just whether there's additional impact beyond sort of the public company costs?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes. I would like to refresh your memory that we have acquired Digital Clues in November '21, and we also share that there will be some additional costs related to the operation of this business acquired in '22 as a full year impact, and that will impact somewhat on our profitability. Furthermore, we did budgeted into our '22 budget, the getting out of the pandemic restrictions and more face-to-face activity going to more normal life throughout the year compared to '21 and 2020.

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

Jonathan, I would like to add a little bit to the former question, [Yossi] regarding our comments to the pandemic. Is that okay? Maybe tie it a little bit to the current business climate and business environment that we see, which is very positive. The environment today is, I would say, healthy and pretty much across the board. In late 2020, when the 2021 budgets were planned, the funding trends were pretty much mixed in some of the geographies or the geographical areas, budget increase. But in others, they were still under the, I would say, COVID impact.

In late 2021 and ahead of 2022, what we see and what we saw is a stronger budget environment. And one of the most important factors and by the way, especially in the U.S., is that pandemic-related federal funding became widely available to agencies. So basically providing a significant source of income, especially pushed by the Biden administration.

We can also see that or other examples of budgets related to pandemic in other areas such as in the U.K., as I mentioned, in, Australia, where, for example, Queensland Police has received 7% budget increase in 2021-2022 compared to previous year; also in Scandinavia. So maybe in that context, there is -- and a positive business climate I would say, supported by such pandemic-related fundings.

Operator

Our next question will come from the line of Mike Cikos from Needham.

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

Maybe to start with Yossi. The number of large deals that you guys are doing has climbed substantially on a year-on-year basis. And I'm trying to figure out what would you say is driving that success? Is it having more products, having this broader platform? Anything you could talk to there would be incremental.

And then for Dana, just to put a finer point on my -- the previous questioner, but I wanted to make sure, you guys are looking at I guess, increased cost as we move post-pandemic towards this more normalized environment. And I guess I've heard from other companies that these costs could be in the way of maybe 2% to 3% drag on EBITDA or operating margins. Is that a fair characterization as we think about the impact that Cellebrite is seeing in its own assumptions as we look to calendar '22?

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

Thank you for the question. So as you suggested, I will take the first one regarding those large deals. And the large deals are obviously not mentioned by us and not happening just like that. It has a meaning because we continue to see a momentum with large deals, and I would say also multi-solution deals, which we were, by the way, highlighting not only in this release, but also in formal releases. And it basically shows our ability to grow and nurture and get more wallet share by the same accounts or as we said -- originally said in our plan, grow within the accounts, selling to existing MU, buying centers within the same account and basically see more DI relevant budgets as we climb up the food chain from the labs where we used to be to the rather head of investigation and the entire agency end-to-end investigate flow.

For example, the large deal that we have done, the 5-year deal, which is basically by a customer who is a relatively long customer of Cellebrite is -- shows, by the way, situation of a customer who reached a very advanced situation, already purchased in the past many of our solutions, and here, there is a focus on expansion of the sources of digital evidence from which is, let's say, collection alongside with analytics and extensive professional services and it goes basically to the same thing, large deal, more expansion, more nurturing within the large accounts as reflected or as we promised basically as part of our go-to-market and growth strategy.

Dana?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes. And I would like to confirm that indeed the opening of the market would have an impact of around 3% additional expenses on profitability.

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

That's very helpful. And I know it didn't come up in the prepared remarks, but I just want to make sure I'm doing my due diligence here. But if I think about some of the companies that across the market have spoken about global supply chain shortages and inability to get product, it sounds like that really isn't effecting you guys. I know on the last quarter, specifically, you guys said that your team has done a great job as far as building inventory to kind of get ahead of any component shortages. But curious, is that still the case as we stand today?

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

Yes, it's still the case. We are basically in a situation that we planned ahead very well in all relevant components. And we can say for sure that there is no impact or definitely not any negative impact or only positive impact on our business. We are on track, well equipped and based pretty much and based on the good planning and based on a good sourcing, there is no negative impact on us, basically positive, and we continue with our plan, as originally stated.

Operator

Our next question will come from the line of Shaul Eyal from Cowen.

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

Guys, congrats on the fourth quarter performance and outlook for 2022. Yossi, or Dana, I wanted to ask about the great progress you're seeing with large deals, maybe from a different direction. Are there any initial investments needed on your end at the early phase of these contracts? Or are they similar in cost structure and profitability, let's say, to a typical 6-figure transaction?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I will take it. So in principle, Shaul, there are no different than other size deal, which are not very transactional. So most of the deals are coming from our large customers. And as we've discussed before, we have a very experienced account executives coupled by experienced, tech -- sales tech people. So in most cases, it's just a very good sales motion, but Yossi, please elaborate.

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

Obviously, thanks to what Dana said. Shaul, we are still in the mode of, I would say, plug-and-play as much as possible, selling basically simple fast-adopted solutions to a fast well, I hope, fast-adopting environment. We are not going that much to tailored projects. It's still our product, our solution, in most of the cases. There is no need for extra preparation. There will be, in the future, as we basically go deeper into what we called strategic mega accounts. There will be situations that we will need to do some customized stuff, integrate our solutions with others. But in the majority of the strategic accounts penetration and even in those large deals, there is not that much prep, and it's pretty much in the course and in the standard of our offering.

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

And Dana, will you all see -- did you guys meet your 2021 hiring plans or targets? And what are those for fiscal '22, maybe just from a qualitative perspective?

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

Let's put it this way. Basically, we're -- I would say, we're pretty much in a good shape. We're glad to meet, I would say, the headcount targets for this year, as we did. And basically due to relatively low attrition rates on comparison to the market and the successful recruitment efforts, we met the headcount target for 2021. We have all that needs and takes, I would say, to meet the 2022 financial targets. And like everyone else, we are -- we see in some of the areas or in some of the professional or the professions, that the market is in a very, I would say, more competitive environment.

And I would say that sums it up. We have a very strong value proposition as a company, and we don't see any special difficulties.

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Operator

Our next question will come from the line of Jamie Shelton from Deutsche Bank.

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

Can you hear me okay?

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

Yes, we can.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes.

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

Congrats on the quarter. Just a quick 1 for me. Premium Enterprise is a compelling value proposition. And as of last disclosure, I believe it's 28,000 UFED, only a few hundred Premium units. I mean going forward, is the innovation going to be the kind of product innovation going to be focused on those advanced extraction capabilities? I guess is it a carrot and a stick type scenario trying to connect more of those uses to Premium? Just trying to frame how your approach in trying to connect that large existing base to advanced extraction capabilities via Enterprise.

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

You're welcome, and thank you for that. I would -- first of all, you described it, and it's great that you are -- let's say, remember that because indeed, we spoke about it, and we spoke about it because in the area of Collect and Review, our plan, plus our ability - to use the Premium Enterprise to connect to UFED to a central Premium and deploys and then deploy special capabilities to all well-entrenched UFEDs in the field - is a key element. So there is only positive in that.

Because, again, for the case that -- I go back to the last time we spoke about it. One, it enables the UFED to consume remotely the advanced capabilities of the Premium licenses, including the support in collection of all the unique operating systems around Android, around iOS and so on and so forth. And for the large customers with significant case of, I would say, first of all, large amount of Cellebrite licenses in the stations and in the field. And those who are having this device backlog, if you remember, one of the pains we are talking about in investigation is the backlog due to the huge amounts of digital sources. Here, we are improving the mode of operation because these advanced capabilities are going very efficiently into the field without the need to move physically, thumb drives and all that stuff.

We intend to invest -- to sum it up or to add and finish - we intend, obviously, to invest a lot, as I mentioned in our previous presentation, in special capabilities around research, around access, I mentioned obviously small customers, but obviously to the large agencies. And the Premium Enterprise is the vehicle, the major vehicle to bring all those capabilities into the field.

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

Brilliant. Very clear. So just last question. I guess, like as you move -- as you try and connect more of those UFED to Premium via the kind of client server architecture that Enterprise provides, is it so much as we assume that as security hardening, encryption changes increase, then the need for

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Premium will increase, and therefore, the demand for Enterprise will increase. I'm just trying to kind of how are you going to change that ratio between 28,000 UFED to only a couple of hundred Premiums?

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

A couple of hundreds of Premiums can serve thousands and dozens of thousands of UFED because imagine an agency who has a Premium in central place today or a certain location, and without connectivity to the UFED, you need basically today to move evidence in a physical way from one place to the other, from one location to the other.

The entire principle here, either in placing a Premium Enterprise in 1 location and serving well connected hundreds of them, okay, or basically to place it in a SaaS mode or on a private cloud will enable basically an easier distribution quicker, faster. And it's basically, again, less Premium Enterprise, but more than we are placing today in comparison to the regular Premium will serve thousands, and I would say, dozens of thousands of UFED.

And one needs to remember that within that move, the number of UFEDs will increase. Because it is basically the rationale to acquire more licenses of Collect and Review and place them in end stations, which are very well connected, either in a Premium which is placed on-prem and is well connected or on the cloud.

Definitely, when it comes to security demands and all that stuff, we are ready, we will meet all the local needs. As we do in other parts of our products which are cloud-based and placed in the customer environment, for example, in a private cloud.

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

Brilliant, thank you very much and congrats again on the quarter.

Operator

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

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

Last October, you launched the Remote Endpoint Inspector for commercial customers. And in the past, you have discussed how your solutions are used by accounting firms, law firms and many financial services organizations. However, commercial today is still a small percentage of revenue. So I was wondering, can you talk about your -- how your commercial vertical is faring relative to law enforcement and your federal customer verticals?

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

Yes. I'll take it at least for the beginning. First of all, I think that we continue very successful with our plans regarding the private sector. As you mentioned, indeed, we launched the Endpoint Inspector. And from an offering perspective, the endpoint, which represents remote mobile collection combined with computer that we offered is, I would say, the first step in bringing a disruptive offering to this market. And we are very pleased with that and for the fact that we have this part of the offering.

I can also just refresh that we said that at this stage, we are building our go-to-market on bringing a disruptive offering combined with winning more logos. And in fact, in 2021, we acquired additional, I'd say approximately 300 new logos for the private sector. And basically, there is a long-term target here because we are focusing on the collection piece we intend within collection and especially with the remote collection to acquire more customers and by that coming basically with a solution, more solution approach to customers.

With that using the trend of that remote collection is one of the, I would say, the trends which are pushing budgets within the private sector, and we see those budgets, which are getting bigger in the commercial and the private enterprise market. And that's in a nutshell. So we are very pleased with what we have today. Endpoint is out there, ready for 2022, I would say, disruptive enough in order to increase our share within this market.

Operator

Our next question will come from the line of Tal Liani from Bank of America.

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

I have a question on the ARR guidance. You previously lowered the ARR guidance from 44% to 34%, that's the growth. But then you closed the year at 37%, and you guided the growth guidance for 2022 is up from 32% to 38% or at least that's what I had. So you lowered it, but now you are increasing it versus what we had before. And the question is, can you talk about your confidence with the higher ARR numbers? What are the trends? And can you explain the decline? And then once again, we are seeing very good numbers coming out. So what are the trends -- the underlying trends to these changes?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I'll take it. Thank you. I believe that when you look at our ARR growth plan for 2022, these are very healthy ones, as you mentioned, 34% to 42%. When we have provided the guidance for '21, we said that we will meet our long-term ARR targets and catch up with the little bit of delay that we had in '21.

As you know, we used to sell only perpetual. We are moving very, very strongly into subscriptions. The ARR is pending on the pace of the adoption of the subscription model. We have seen a very nice adoption in '21. We are seeing even a nicer adoption into '22. The strategy of selling more to the customers more licenses to upsell and cross-sell actually fortify our confidence in our ability to bring the ARR growth for '22.

Operator

(Operator Instructions) Our next follow-up will be from the line of Shaul Eyal from Cowen.

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

Maybe just a quick housekeeping question for Dana. Dana, can you remind us the source of the $49 million of net financial income for this quarter?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes, of course. For the de-SPACing, we've introduced 3 financial instruments. One is the warrants that we -- that came from the SPAC, the public warrants and the private warrants. The earn out shares and the price adjustment shares, all of them are in our long-term liabilities in our balance sheet. All 3 instruments are being evaluated on a quarterly basis to their fair value and the difference in their fair value flows into the financial income or expenses.

Operator

And I'm not showing any further questions in the queue at this time. I'd like to turn the call back over to Yossi Carmil for any closing remarks.

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

Thank you very much. So before we conclude today's call, I would like to thank you all for joining us, and wish you all a nice day, and thank you.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.
