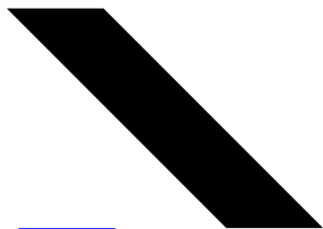


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Q3 2024 CELLEBRITE DI LTD EARNINGS CALL

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- **Yossi Carmil** *Cellebrite DI Ltd - Chief Executive Officer, Director*
- **Dana Gerner** *Cellebrite DI Ltd - Chief Financial Officer*
- **Tom Hogan** *Cellebrite DI LTD - Executive Chairman*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Shaul Eyal** *TD Cowen - Analyst*
- **Mike Cikos** *Needham & Company LLC - Analyst*
- **Jeff Van Rhee** *Craig-Hallum Capital Group - Analyst*
- **Brian Essex** *JPMorgan Chase & Co. - Analyst*
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- **Bhavin Shah** *Deutsche - Analyst*
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PRESENTATION

Operator

Welcome to the Cellebrite third Quarter 2024 financial results conference call. (Operator Instructions)

I would now like to turn the call over to your first speaker today, Mr. Andrew Kramer. Mr. Kramer, the floor is yours.

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

Thank you, Todd, and welcome, everybody, to Cellebrite's third quarter 2024 financial results call. I'm joined in New York City today by Yossi Carmil, Cellebrite's CEO; Dana Gerner, Cellebrite's CFO; and Tom Hogan, Cellebrite's Executive Chairman.

There's a slide presentation that accompanies our prepared remarks. Please advance the slides in the webcast viewer to follow our commentary. We will call out the slide number we are referring to in our remarks. The call is being recorded, and a replay of the call will be made available on our website shortly after the call along with the transcript of this event soon after.

Starting with slide 2, a copy of today's press release and financial statements, including GAAP to non-GAAP reconciliations, the slide presentation, and the quarterly financial tables and supplemental historical information for the first three quarters of 2024 and each quarter of 2023 and 2022 are available on the Investor Relations website at investors.cellebrite.com.

Unless stated otherwise, our discussion of our third quarter 2024 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 third quarter of 2023.

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 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 21, 2024, and as amended on April 12, 2024. Company does not undertake to update any forward-looking statements to reflect future events or circumstances. Slide 3 provides the agenda of topics we'll cover on today's call.

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

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

Thank you, Andy, and thank you all for joining us this morning. So we delivered a strong third-quarter performance that exceeded expectations, thanks to increasing traction with our case to closure platform, what we call the C2C platform, the impact of our ongoing investment in market-leading innovation and solid execution on all fronts.

As illustrated on slide 4, we produced notable ARR growth, surpassed \$100 million in quarterly revenue for the first time in company's history and generated outstanding profitability. We are proud that we have consistently delivered a healthy mix of ARR growth and profitability with recent results comfortably exceeding our baseline for Rule of 45 performance.

To put it simply, Cellebrite's business momentum remained strong in the third quarter, and we anticipate a positive finish to our year. Now Dana will cover this in a few minutes. Beyond the solid quarterly results, we took important strategic actions and accomplishments over the past several months, all of which are architected to drive long-term profitable growth and corresponding enterprise value.

Cellebrite is uniquely positioned as a differentiated end-to-end platform provider with software offerings, spanning the digital investigative life cycle. Our AI-driven C2C platform enables customers to close more cases faster by elevating their productivity and efficiency for collecting, reviewing, sharing, and analyzing digital evidence. We have taken deliberate steps to anchor our C2C platform around three increasingly integrated flagship software solutions tools. And I want to give here a brief overview.

So Inseyets is our family of digital forensic software that enables law enforcement to collect and review digital evidence from mobile phones, cloud applications, computers, and many other digital businesses.

Guardian is our set of SaaS-based case and evidence management offerings for managing the examination process, securely sharing evidence, and enabling interagency and cross-agency collaboration.

Our Pathfinder investigative suite includes AI-powered analytics and open-source intelligence tools for expediting investigations by surfacing leads, pinpointing connections, and identified valuable evidence varied within mountains of structured and unstructured data across multiple digital businesses.

So we are mobilizing to capitalize on the extensive opportunities we see to expand our customer spending with us while also winning new logos. To that end, Cellebrite Federal Solutions was launched earlier this summer to expand our relationship with the US federal government, and this unit is now fully operational, and I'm pleased to share that we delivered an excellent Q3 in the USA Federal sector.

In addition, we have continued to augment our quota carrying sales force in all major geographies to amplify our go-to-market motion for upgrades, upsells, and cross-sells. As we look forward towards 2025, this investment positions Cellebrite with the ramped sales capacity which is required for sustaining solid topline expansion and extending into new buying centers within our installed customer base.

Cellebrite's relationship with over 5,300 public sector customers typically begins by helping examiners and investigators to collect and review digital evidence across mobile phones, computers, cloud, and other digital witnesses. There is a long growth runway ahead for Cellebrite digital forensic solutions and part of this expansion is expected to come from upgrading customers from our legacy digital forensic software to our new Inseyets suites.

The value proposition for this upgrade is compelling. Inseyets leverages a modern tech stack along with both proven and new digital forensic capabilities that enable customers to complete an examination as much as twice as fast while accessing more devices, extracting more data, and revealing more important information.

In addition to the Inseyets upgrade, we believe our customers will want to extend the scope of their deployment, whether it is in traditional technical lab environment or by extending our technology into the field.

Just as important, we see substantial opportunity for customers to leverage our modular approach to Inseyets by having high-value capabilities around advanced local access or unlock and for automating and accelerating key examination processes. When we launched Inseyets earlier this year, our goal was to operate the vast majority of our installed base over the next three years with 10% adoption in 2024.

We increased last quarter our 2024 target to 15%, and we are on track to achieve these new targets. Another area of strategic progress in the cloud. We continue to increase our product of investment to cloudify existing capabilities, enhance existing cloud offerings, and develop new cloud-native solutions across our Inseyets, Guardian, and Pathfinder product suites.

And I'm happy to report that we are seeing some very positive returns on this investment. For example, during the past 12 months, Guardian grew more than 100% as more customers give this SaaS-based solution to transform how they manage and share digital evidence with investigators and prosecutors.

Our investment in cloud infrastructure are also opening new doors for our Pathfinder analytics, which leverage AI technology to quickly surface leads and identified connection buried within mountains of structured and unstructured data across multiple digital devices. In September, we announced Pathfinder in the cloud with AWS, allowing customers to access Pathfinder through the secure Amazon virtual private cloud.

Just as notable, as we look to expand further into investigative and intelligence units, we are building our SaaS-based capabilities and leveraging our ongoing investments in AI through an expanded suite of tools and capabilities that can help analysts and investigators analyze an even broader range of digital data sources, coordinate and collaborate better and boost productivity by automating time-consuming, burdensome tasks.

I would also like to briefly cover the recent capital market milestones, which underscore our success in driving shareholder value. First, in mid-September, we completed our previously announced warrant redemption program, which reduced 10.1 million net new ordinary shares. Second, our strong stock price performance from mid-August through early November, resulted in multiple triggering events totaling 21 million shares that have further increased our public stock load.

At a high level, these milestones enable us to move forward with a significantly clearer capital table, healthy trading liquidity, and simplified financial reporting. Now Dana will provide more color about these developments in a few minutes.

So let's turn to slide 6 now, which highlight our four strategic priorities. I would like to illustrate how our success in each of these areas has enabled us to produce an NRR north of 120% for 23 consecutive quarters. Our first priority is to extend our leadership in the digital forensic units of our customers. Inseyets helps customers better address their case load growth and makes it easier and more affordable for them to not only access the newest smartphones on the market.

Now since Inseyets was launched during Q1 '24, we have seen healthy attachment rates for our unlock module when customers with no prior local access solutions, upgrade to Inseyets. That trend has helped us nearly double the penetration of our advanced local access solutions within the installed base to the low 30% range during the past 12 months. The win on this slide is a great example of how an Inseyets upgrade with an unlock upsell can generate meaningful ARR growth.

Our second priority is to accelerate our growth within the investigative and intelligence unit, what we call the I&I units, of our law enforcement customers. Now earlier this year, we added dedicated sales specialists within our quota carrying sales force targeting the investigative and intelligence units, and we are already seeing these initiatives help build a large pipeline of opportunities.

Our third priority is to extend our business in the private sector where Cellebrite's data collection solution help enterprises and service providers, advance corporate investigations and eDiscovery use cases. Our strategic partnership with Relativity, which we announced a few months ago, is off to a good start, highlighted by our participation at Relativity Fest last quarter.

We continue to see endpoint inspector maintain good momentum with both enterprises and service providers as the remote data collection solution of choice for mobile devices, computers and cloud workplace applications.

Our fourth strategic priority is to help our customers harness the power of cloud. Earlier on the call, I detailed the investments we are making to expand our range of cloud-based solutions and enhance the infrastructure that supports them.

Now while customers in the US has been the primary early adopters of Guardian, we are starting to make inroads in certain international markets, which is highlighted by our first Guardian bill as part of larger deployments of our full C2C portfolio by a regional police force in a key Western European country.

I would like to conclude my prepared remarks on slide 7. Cellebrite's market remains very healthy, with multiple tailwinds that are producing three major points.

First, today's crime involves more data and increasingly complex data.

Second, operational inefficiencies makes it harder for law enforcement to advance their investigations.

And third, the need to build public confidence and around the ethics and accountability of law enforcement.

So given the constrained law enforcement budgets, our customers cannot simply allocate more manpower to solve these challenges. As a result, Cellebrite customers are increasingly recognizing the need to invest in the type of disruptive technology that Cellebrite delivers. This is a major driver or one of the major drivers behind our plan to hold our first-ever case to closure, our C2C users Summit, at the leading event for digital investigation in late Q1 '25 in Washington, D.C.

Now as we look ahead, we are well positioned to close 2024 on a very positive note. Given our progress to date and the strength of our near-term pipeline, we have once again raised our 2024 target for revenue and adjusted EBITDA while also increasing the low end of our ARR guidance. We look forward to 2025 with confidence in our ability to consistently deliver a balanced mix between ARR, expansion with healthy profitability that will produce or exceed a baseline for Rule of 45.

The mission at Cellebrite is both inspirational and aspirational. It is focused on enabling our customers to deliver justice faster, smarter and more defensively to help close the public safety gap and create a safer world. The team at Cellebrite is making good on the company's brand promises Justice Accelerated by delivering an end-to-end set of digital investigative solutions for law enforcement agencies around the world.

Cellebrite's workforce has performed admirably so far in 2024. While the conflict in Israel escalated during the third quarter, our business has not experienced any disruption. This is attributed to the focus and resolve of our team, especially those based in Israel, and we appreciate their ongoing commitment and contributions.

So that concludes my comments on our quarterly performance and accomplishments. And I will now turn the call over to Dana. Dana, please.

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Thank you, Yossi. It was a fantastic quarter for Cellebrite. We have delivered the Rule of 54 performance for Q3. It reflects great fundamental execution alongside the expected seasonality. But guys, to be clear, where we are excited about the Rule of X performance of this quarter, our long-term plans are to deliver Rule of X range between 45 and 50.

Now let's start the review of the third quarter on slide 9. Our ARR grew 26% year on year to \$371 million at the end of September. As noted on this slide, our gross retention was approximately 91%, which is in line with the recent quarters. Consistent with our historical trends, much of ARR growth over the 12-month period came from higher spending basis in customers.

From a product perspective, our Inseyets suite drove the majority of our ARR growth which is complemented by the contribution from our Guardian and Pathfinder offerings. Geographically, the ARR mix for the 12 months ended September 30, 2024, was in line with the prior quarters and consistent with the year-to-date revenue mix. The Americas represented 54% of the total ARR with EMEA at 34% and Asia Pacific at 12%.

In terms of growth rates by geography, the Americas grew 26%, thanks to the solid demand in our US Federal and SLG customer segments. ARR in EMEA grew 24% and improved 31% in the Asia Pacific region.

Turning to Slide 10. We delivered third-quarter revenue of \$106.8 million, our first quarter in the company history for revenue above \$100 million. The 27% growth in the total revenue over the same period last year was primarily fueled by a 27% increase in subscription software.

Our topline performance benefited from some professional services revenue that was generated earlier than expected and the quarterly mix of an on-premise and cloud deployment. Subscription revenue represented approximately 87% of the total revenue, which is in line with recent quarters.

Now let's move to slide 11 for a review of our non-GAAP gross margins and non-GAAP operating expenses, which exclude share-based compensation, amortization of intangible assets, and acquisition-related expenses. Our Q3 gross margins of 86.1% was at the higher end of our full-year target.

In terms of our operating expenses, Q3 operating costs were \$62.5 million, a 19% year-over-year increase. This primarily reflects higher personnel costs between our sales and marketing and research and development organizations and higher onetime project expenses within R&D. We ended September with 1,109 employees, a 3% increase from the second quarter and a 12% increase from the same quarter one year ago.

Slide 12 covers our profitability and cash position. We delivered Q3 adjusted EBITDA of \$31.3 million or 29% on a margin basis versus 25% in last year's Q3. Our profit performance reflects positively on our success in driving strong revenue growth, maintaining excellent gross profit margins, and effectively managing our cost structure.

Our Q3 non-GAAP operating income was \$29.5 million, with non-GAAP net income of \$31.8 million or \$0.14 on a fully diluted basis. We ended September with \$413.6 million in cash, cash equivalents, and investments, an increase of \$47.6 million from the second quarter and an increase of \$130.4 million from the same quarter last year. The sequential increase for the quarter primarily reflects the strong cash flow from operations.

Free cash flow for the third quarter, which we define as net cash provided by operating activities less capital expenditure and the purchase of intangible assets, was \$39.8 million, up 42% from the same quarter last year due primarily to the strong fundamental operating performance.

I'd like now to move to slide 13 to briefly cover the capital markets events that occurred during the third quarter. On September 16, we successfully completed our Warrant Redemption with approximately 29.7 million public and private warrants being exercised and converted into 10.1 million net new ordinary shares.

In addition, Cellebrite's stock price performance from July through the middle of September hit two separate price triggers, one, a \$12.50 and one at \$15, and combined, they resulted in the commitment to issue a total of 10 million price adjustment shares and invest a total of 6 million restricted sponsor shares.

Our Q3 diluted weighted average share outstanding as of September 30, 2024, increased 7% from Q2 levels due primarily to the timing and magnitude of these events. Two days ago, we disclosed that our recent stock price performance hit the \$17.50 price trigger, which results in issuing another \$5 million price adjustment shares.

Overall, these milestones supports our long-standing goals of optimizing our capital structure, sustaining healthy trading liquidity and simplifying our financial reporting. In terms of our financial reporting, since we fully retired all of the outstanding warrants, and triggered 100% of our price adjustment shares and 80% of our restricted sponsor shares, the value of the remaining restricted sponsor shares and the remaining price adjustment shares as of September 30 are now represented on our balance sheet between shareholders' equity rather than as a liability, and we are no longer obligated to revalue them.

Let's move to slide 14 for our updated 2024 fourth quarter and full fiscal year financial expectations. Based on our results for the first three quarters of the year and our assessment of the near-term opportunities, we have again raised our outlook for the year.

In terms of annual revenue, with a strong Q3, we increased our 2024 revenue range to be between \$397 million and \$401 million which implies Q4 revenue between \$105 million and \$109 million. We also increased our 2024 adjusted EBITDA target range to be between \$96 million and \$100 million or 24% to 25% on a margin basis.

This implies fourth quarter adjusted EBITDA in the range of \$25 million to \$29 million or 24% to 27% on a margin basis. This assumes that fourth quarter gross margins in the mid-80% range and fourth quarter operating cost between \$64 million to \$66 million.

And finally, we increased the low end of our 2024 ARR target range to \$390 million. In terms of modeling our diluted share count and factoring in all of the previously discussed capital markets events from Q3 and Q4, we expect our fourth quarter weighted average diluted share count to be around 241 million shares and a full year weighted average diluted share count to be approximately 222 million. We expect to begin 2025 with approximately 255 million diluted shares outstanding, which is detailed on the table on slide 25 in the appendix to this presentation.

Overall, our third quarter was highlighted by robust financial results and meaningful tactical and strategic execution. As a result, we are well positioned to deliver a 2024 performance in excess of Rule of 45 for the second consecutive year, thanks to increased profitability that benefited a stronger-than-planned gross margins and disciplined spending even as we invested meaningfully in our

product house and go-to-market organizations.

As we look ahead, we believe we remain well positioned to deliver solid ARR expansion and profitability that will enable us to deliver or exceed our target baseline of Rule of 45 where finding initiatives critical to our long-term success such as enhancing customer success, accelerating our efforts around the cloud, fueling innovation and incrementally expanding our quota-carrying sales force and marketing teams.

That concludes my commentary. I'll ask you to go to slide 15, so that I can now turn the call back to Yossi.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

Thank you, Dana. The last 20 years, 19 as CEO, have been an amazing journey for me with many successes along the way. When I began as CEO, there were just 18 of us working out of a small office. And at the end of this year 2024, I will finish my tenure as CEO, having established Cellebrite as a market and technology leader with 1,100 employees and a global footprint that includes dozens of offices worldwide and 7,000 customers in over 100 countries. We are now -- Cellebrite is now a publicly traded company that is taking major strides over the past three years to earn the trust of shareholders and drive meaningful value creation.

This level of success would not have been possible without the support of our customers, partners and investors and the commitment and contribution of our talented employees. It has been very rewarding to have led Cellebrite over the past three decades, but I believe that it is now the right time for me to step aside the CEO, and pass the baton to a new leader who will take Cellebrite to the next level.

At some point down the road, I will focus on different types of roles that will enable me to contribute my knowledge and experience to the high-tech industry. But before that can happen, we plan to close out 2024 on a successful note as reflected in our updated outlook and complete all the work necessary to position the company to sustain its business momentum next year and beyond. Cellebrite moved forward with a strong leadership team, an exciting technological road map and compelling strategic plan that is aimed at driving value creation for all key stakeholders.

As the search for my successor progresses, I'd like to personally thank Tom Hogan for his support since he joined as Executive Chairman 15 months ago. In a very short time, we developed a strong partnership and he has made a major impact in many areas such as strategic planning, sales, marketing and investor communications, to name a few. His imprint on Cellebrite has been and will continue to be critical to our success.

I know Tom will help lead a very thoughtful and efficient search for a new CEO and provide our company with great leadership as interim CEO.

In closing, I'm confident in Cellebrite's strategic direction and in our company's ability to capitalize on the opportunities that lie ahead. As proud as I am about what we have achieved in the past 20 years, I know the best for Cellebrite is yet to come. And I remain a loyal and supportive shareholder, and I look forward to seeing all that Cellebrite will accomplish over the coming years.

And before we take questions, Tom Hogan would like to close out our prepared remarks. Tom, please.

Tom Hogan Cellebrite DI LTD - Executive Chairman

Thanks, Yossi. I'll be brief, but I want to start by sharing my heartfelt compliments to you.

As many of you know, I've been at this for a long time. I've seen leaders who excel at scale and there are others that excel as entrepreneurs, but it's the rare exception that the leader gracefully navigates the company from early-stage revenue up to and through the \$100 million-mark. The few that successfully crossed that chasm, even more rarely then succeed in guiding the company from \$100 million all the way to \$400 million.

In a world that's increasingly focused on short-term performance with equally shortened CEO tenure, Yossi stayed the course, as he shared, for over 19 years as CEO of Cellebrite and leaves a legacy should forever be proud of. So on behalf of all of our employees, our customers, our shareholders and the full Cellebrite Board, I want to express our gratitude for his service and wish him nothing but continued health and success.

Now as the Exec-Chair, Yossi's decision brings mixed emotions. On the one hand, I couldn't be more pleased for him personally. He's earned this break and the time to figure out what comes next, while reconnecting with all the personal priorities that are often

collateral damage as a CEO.

On the flip side, his passion and his history with this company certainly leaves some big shoes to fill. As for the future, our search efforts have already kicked into high gear. It's my belief that this company is a unique., the proverbial, "one in a million" company. I'm not sure where you find a company that's both AI-driven and cloud-centric, a company that's the undisputed platform leader in a large, growing and still highly fragmented market, while at the same time delivering high levels of ARR growth with outstanding customer loyalty and retention and strong free cash flow that Dana just talked about, all -- I underscore all - while truly making the world a better, safer place.

Based on that profile, we fully expect a rich list of qualified candidates to quickly surface and compete for this job. Cellebrite deserves nothing short of an exceptional new CEO, and this Board is completely committed to protecting that standard as we evaluate candidates.

It's obviously impossible to predict or to commit to a specific date or timeline, but we do not expect a protracted process. We will move with purpose and pace, and to the extent there is any gap between Yossi's departure at the end of 2024 and the arrival of a new world-class leader, I will step in as the interim CEO.

With that said, we'll now ask the operator to open the floor for comments and questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Shaul Eyal, TD Cowen.

Shaul Eyal TD Cowen - Analyst

Yossi, congrats on the quarter. Congrats on the past few decades, and congrats on the road ahead. Tom, Yossi as you think about the search process, will the new CEO be based in Israel or in the US? And also my follow-up question, Dana, any little CyTech acquisition contribution this quarter? Thank you.

Tom Hogan Cellebrite DI LTD - Executive Chairman

Why don't you take the easy one.

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Yes, I'll take the easy one. As we said when we acquired CyTech, the contribution is very minimal. This quarter was slightly below \$0.5 million to the total revenue.

Tom Hogan Cellebrite DI LTD - Executive Chairman

Yeah. And on your first point, look, we -- the answer is we're casting the widest net possible given the unique asset this company represents in our desire to secure the best CEO on the planet. And so we are not restricting that aperture search to any geography, whether it be Israel or the US. So that's -- it will be driven by finding the best leader.

Operator

Mike Cikos, Needham.

Mike Cikos Needham & Company LLC - Analyst

Yossi, it's been a pleasure working with you over the last couple of years. I'll echo Shaul's comments. The first question I have for you was relating to the CEO succession plan here. I just wanted to get a better sense of when Cellebrite retained the executive firm, I know we're talking about our expectations for surfacing new candidates quickly, but how have the candidates been that you guys have assessed so far?

And then the second piece, investors hear CEO succession plan sometimes their antenna starts to go up. I know that the firm just had its Investor Day, its first ever Investor Day in March of this year, with the announcement that Yossi will be departing the firm, is there any reason to think that the longer-term models through calendar '28 that we received in March of this year, are changing or no? Are you guys willing to reiterate that long-term target from where we sit today?

Tom Hogan Cellebrite DI LTD - Executive Chairman

Yeah. It's Tom, I'll take that. So first, there's no fundamental change with respect to the business plan or strategy, that's something that Yossi and I worked closely on starting last summer, establishing the framework, the narrative, the platform for an end-to-end solution in the industry, using that to guide us from an asset and an IP perspective that will fuel growth.

This is -- our focus is still -- we believe this is very much a growth company with a huge amount of headroom, but we continue to do it in a -- with balance and an eye on cash flow and profitability. So that positioning and framing we did in our inaugural Investor Day still holds.

On your question on the search, we started to have the conversation with Yossi actually just a few weeks ago. And so we then reached out to some of the Tier 1 search firms. They're now fast at work building that slate, and as I shared with you, they are very bullish about -- if you just think about this company, we continue to scale.

And in spite of that, we continue to deliver strong Rule of X performance, which any potential smart CEO who loves to see a growth company that's not trying to figure out how to generate cash or vice versa and a company that you go to bed at night and not only are you driving value creation, you literally can go to sleep at night knowing that you're playing a key role in making the world a better, safer place. So they are very bullish about that candidate pool. And as I said earlier, we're going to move with pace, but also maintain the highest standard to get the best person on the planet.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

And Mike, first of all, thank you for the kind words, just adding that -- especially at that point, after reflecting with the management, the strategy for the coming 3 to 5 years, which we have done recently and also reviewing the market trends and ingredients and all the market factors. I'm also glad to say that everything plays in Cellebrite's favor in terms of strategic growth, budgets and market conditions. So on top of that, also the market plays in our favor. And I'm obviously concurring what Tom said about no reason to change anything on the contrary to the growth path.

Mike Cikos Needham & Company LLC - Analyst

Great. I appreciate the thorough answer there, Tom, and Yossi.

Operator

Jeff Van Rhee, Craig Hallum.

Jeff Van Rhee Craig-Hallum Capital Group - Analyst

Great. My congrats, Yossi, just what an exceptional run and exceptional performance, has been great working with you. A couple of questions for me on the quarter and kind of the outlook. The C2C platform and the vision obviously seems to be playing out. Specific to Inseyets, any updates on adoption expectations for 2025, just an early look on what might be a target in terms of conversions?

And then secondarily, just curious in terms of the unlocks you gave an example or two in the prepared remarks and people upgrading and driving significant ARPU uplift. But just trends you're seeing in the unlocks, the pace of unlocks the magnitude of usage? Any color there would be great.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

So maybe I will start with basically -- I would say the C2C and the adoption. The good news, the case to closure platform resonates very well when it comes to the way law enforcement decision makers are looking at it.

And the better news is that we are still in a very early stage and very early days, meaning when one thinks about the 5,300 public sector customers, the percentage of customers who have deployed Inseyets and/or Guardian and Pathfinder or end-to-end, it's still quite small.

So the growth potential is tremendous and 300 customers by the way, which is even good news, if we think about part of it, have adopted so far two out of the three flagship products, so Inseyets and Pathfinder and/or Guardian.

So there is a significant growth potential and you and we should be very optimistic about the broader adoption. And obviously, what I would like to add here before handing over either to Tom or to Dana, that we believe that cloud enablement of the solutions, and I reiterated the investment that we are doing in the cloud. Basically, that should accelerate the adoption of the C2C sync cloud, sync AI, and you can anticipate further progress in terms of adoption based on a very successful installed road map. Dana would you like to add?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Yeah. I think we said from the very early beginning that this is a journey of three years. So while we are expecting to finish the year with around 15%, we still have a very healthy growth in the future for the coming two, three years ahead of us. I would mention what you said about the unlocks. We said in the script that around 30% of our customer base has adopted, that means that we have a potential first to penetrate the rest of the 70% and continue upselling additional unlock packages to the existing customer base. So it's not only the Inseyets based packaging, but it's also the add-ons that generates a great potential for the future.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

One add-on in terms of the Inseyets is the fact that we are extremely satisfied with the comments and the perception and the reaction of customers about the Inseyets in the market. Again, we brought here a revolutionary solution for the digital forensic unit, for examiners and investigators that completes the examination twice faster, access more devices and bring more abilities which were basically broken down in several separated models.

So based on that positive feedback, I can also say that there is high acceptance, higher receptiveness for higher price, appreciating the value and definitely a strong belief and confidence in our ability to meet the '25 and '26 conversion rates.

Jeff Van Rhee Craig-Hallum Capital Group - Analyst

Got it. Very helpful. And one last question for me then. With respect to Pathfinder, maybe just talk for a few minutes about Pathfinder, obviously, the AWS deployment, kind of curious what you expect that to do to Pathfinder adoption? And then also current adoption of Pathfinder, where -- what's the make in model, so to speak, of those that are choosing to buy and use it? Is this spending to fall within large agencies, just kind of the distribution of adoption and what we can learn from it so far?

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

So maybe I will start, and Dana will hand over to you and do it together. Basically, just a reminder, we are aiming two targeted major subsegments within the public sector, the digital forensics unit what we call the DFU, and IU, the investigative unit and also the intelligence unit.

And over there, Pathfinder as basically a suite of, I would say, powered, empowered by AI analytical capabilities and also open source intelligence tools that basically can help customers to surface the golden evidence very quickly out of the huge amount of either structured or unstructured data, which is being ingested from many, many sources, our sources and other sources.

So basically, the Pathfinder is -- and we said it several times, while the Inseyets or what we call the collect and review area is planned to grow 15% to 20% every year, the Pathfinder as investigative analytics is something that we expect it will continue to grow in a pace of, say, 35% to 50% year-over-year. And everything that we do right now in terms of cloudifying that part, while maintaining the on-prem, announcing the VPC implementation with AWS, building on existing SaaS-based capabilities with expanded AI-driven tools and all that, that should promise to Cellebrite a very solid growth. And I'm glad also to report that we are growing exactly in the pace that we originally planned with Pathfinder. Dana?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Yeah. And maybe double click on one note in your question. Yes, indeed currently because the Pathfinder whether it's on-prem or VPC department actually serves our larger customer base, the 1,200 large strategic customers. The journey to the cloud with the C2C platform, as we discussed before, is actually democratizing our solutions.

And we believe that the future would allow us also to bring a lot of the goodies that Pathfinder brings currently on trend into the case to closure platform and be available to a broadened customer base with fast capabilities. So again, we see great future to this offering in the coming years.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

Last but not least, and we've got no time here for an educational session. But at the end of the day, one in a C2C context cannot separate and should not separate the Pathfinder from the Guardian, which is a cloud SaaS-based solution, which basically creates the best connection between what is produced with examiners with the Inseyets and then analyze, ingested and analyzed.

So the Guardian as a bridge is critical component that I'm glad to report that actually we have seen since the beginning of the year, an amazing traction and also doubling the size and the achievements in terms of ARR related to Guardian, and that means that it works -- it works. It takes basically in the C2C concept, in a C2C perception, the combination of Inseyets, investigative analytics Pathfinder and the Guardian means that the company delivers on the promise to the customers and customers are adopting.

Operator

Brian Essex, JPMorgan.

Brian Essex JPMorgan Chase & Co. - Analyst

Yossi, congratulations. It's an amazing accomplishment that you've made with the Cellebrite, so hats off to you. Maybe first question I have is around the federal sector. Would love to get an understanding of what percentage of your business does federal within -- specifically within the public sector, what percentage does federal account for? And how are you managing the evolution of Cellebrite Federal Solutions, particularly as with respect to how it impacts your existing federal relationships?

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

I'll take it for a start. First of all, just to remind us all, we have a very strong position in the federal space as part of our public sector activity for years by now. End of 2023, the federal space was around 20% of the entire -- the total Cellebrite activity, meaning what is and obviously, should remain meaningful. And forming the Cellebrite federal solution business unit, or company, that we have declared last quarter basically enabled us to expand, and that's the logic of it.

The main logic of it is basically expanding the TAM in the federal space. That structure will help us to accelerate the growth in a very strong segment for us, as I said, and basically deployed, I would say, a broader range of solutions and be exposed to programs and

opportunities in the context of a growing sales opportunity that we will not be able to be exposed to in the former operation mode that we delivered so far.

I'm glad to report that now the CFS is running and ready. And we are pretty much very positive about that. As for the impact for the future, we -- I would say, still anticipate the initial financial benefits of the CFS, I would say that you will see -- the company will see an impact in '25, but a very meaningful impact when it comes to '26 and '27.

Brian Essex JPMorgan Chase & Co. - Analyst

Got it. That's helpful. And -- maybe for Tom, on the CEO transition, I think you noted that you're focused on bringing the best leader possible. Is there a set of criteria that you have I think Shaul mentioned, location is one point of question. But in terms of technological expertise, sales expertise, customer focus. What is your shopping list or wish list as you go to the search firms and look for the most suitable candidate possible?

Tom Hogan Cellebrite DI LTD - Executive Chairman

Well, as the search people shared with us when we talked about this, they just granted -- so. It's basically the god spec, right? And I said, yes, that's right. That's what this company deserves. We -- I know this maybe sounds like I'm dodging the question, but we don't -- we didn't want to get laser-focused as the question you raised in a lot of cases, it's a really good, fair question, which is, hey, given where the company is at, given the strength of the executive team, is the company in bigger need today of a go-to-market CEO or a product CEO and you can apply multiple vectors to that.

Public sector experience would be an example. The geography question. And so we by design didn't want to over-index on specifics, again, we're shooting high. So we -- our goal is to punch above our weight and announce a new CEO that the marketplace just kind of takes the breath away and says, "Wow" and that's the priority to help guide this to the \$1 billion-plus ARR mark and what we expect will be in an aggressive strategic agenda over the next 4 or 5 years. So I'm not trying to dodge your question, but we wanted to give them a shot first with a pretty wide open aperture and then we'll tune and prioritize from that list.

Operator

Jonathan Ho, William Blair.

Jonathan Ho William Blair & Company L.L.C. - Analyst

Congratulations, Yossi. It's been great to work with you as well. When we look at sort of the net retention, can you give us a little bit of additional detail just given how strong it's been, how much of this is driven maybe by new seat expansion versus upsell just want to get a sense of maybe the sustainability or durability of net retention?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Yeah. I think as I mentioned as part of the ARR growth, the vast majority of the contribution to the ARR growth and to the net retention is the expansion within the Inseyets offering both by upgrading the current offering, but also by selling more -- not necessarily seats, but more volume. So if you think about the unlocks growing it from there -- almost doubling in the last year, this is actually to the same seats that are sitting on an Inseyets-based solution, just giving them more capabilities.

And this is a combination of the two. And then some of it is really coming from the great performance of the Guardian. It is more than double the ARR in the past 12 months, growing very fast from a small base and continuous implementation of the Pathfinder. So that is in a way what we were trying to convey to our customers that they need to move to the next generation of the C2C platform, they need to enjoy the benefits of those new solutions, and we are seeing great adoption.

Jonathan Ho William Blair & Company L.L.C. - Analyst

Excellent. And then just in terms of your commentary around AI, can you give us a little bit of additional detail on how customers can leverage AI within your solutions? And how this could maybe expand your opportunity as well? Thank you.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

So first of all, ones need to understand and we said it several times, customers, and especially out customers, I'm talking about investigators and examiners in DFU and IU, they place a very high value on the AI capabilities that we brought to the market so far, again, in the context of AI and machine learning, Cellebrite's leading capabilities in the Inseyets suite of solutions in the collector review for a decade by now.

But then obviously, the question is about the future. Customers basically report that leveraging AI capabilities enable to achieve step function increase in investigative speed and efficiency and also in effectiveness. I would like also to add that we see significant opportunity going forward with advanced AI capabilities.

And let's not forget that we -- as we look at our C2C platform, then we need to remember that it's pretty much AI driven in the elements of Inseyets, and in the elements or in the, I would say, the flagship part of the Pathfinder and Guardian as well.

And concrete, when I look at what the companies are about to offer, we support our customers, we intend to support our customers with media analysis capabilities into the future and also text analysis, and I can say also a high usage when we look at investigations today is around crypto. And in the case of cryptocurrency analysis, AI-driven capabilities can be very meaningful as well. So very meaningful as part of the drive of the drive of the C2C platform. I'll stop there.

Operator

Bhavin Shah, Deutsche Bank.

Bhavin Shah Deutsche - Analyst

This is Bhavin on for Brad. Congrats on all the success. Just two on our end. First, just as you look at your historical performance and kind of have discussions with your customers, any high-level thoughts on how a change in US administration and what that could mean for Cellebrite both in US Federal and state level?

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

I'll take it. I'm glad to say and reiterate what we said in the past. There were -- we are in this business for 16 years, administrations change. There was never any impact whatsoever on our business. I think that the trends that we are talking about are -- which are coming mainly for our customers, law enforcement agencies are reflecting an increasing need in digital transformation, increasing need improve the mode of operation, and I'm glad to say that at any point of time in recent years and ever since we started 15 to 16 years ago, there was any impact whatsoever on that, neither administration, the elections or anything like that.

We crossed even -- ever as I would say, eras of crisis, the financial crisis in 2011 or even COVID with the wrong anticipation about defunding police which has proven to be wrong as well. So you can be very confident that -- or we are very confident that there will be no impact also this time about the way we go forward with our customers and the budgets.

Bhavin Shah Deutsche - Analyst

Super helpful and insightful. Just as a follow-up, you spoke about kind of continuing to add headcount, especially on the sales side. Any insight on where kind of you will be deploying salespeople, whether it's on Guardian, Pathfinder, specific geos, public sector, private sector, et cetera.

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

Absolutely. First of all, I'm glad to say that we have a rich's people's problem. Again, we are -- as we look at the opportunity pipeline, we actually need more quota carriers in order basically to serve the needs of the customer. And this is rich people's problem and a good place to be as a company. If we think about our focus, we mentioned several times, while expanding our growth in the DFU is a clear proven growth engine, we need to expand in the IU investigative units and interview.

And as I mentioned in my opening, you will see more investment from our side in quota carriers, which are specialists to the elements and the need of customers and personas in the investigative unit. And side by side to that, customer success and the ability basically to enable cross-sell and upsell while understanding the mode of operation of the customer and tie it to a value leads to the fact that you will see from Cellebrite also side-by-side with classic quota carriers, and additional investment in customer success. And these are good news for us and for the customers.

Operator

Tomer Zilberman, Bank of America.

Tomer Zilberman BofA Securities - Analyst

Yossi, congratulations on the 20-year mark, and I hope you get to enjoy your much deserved time off. So maybe looking at this quarter, I just wanted to talk more higher level about the performance of government budgets in relation to your outperformance versus your expectations and the Street. Maybe can you talk about how the federal budget ended, especially as this was the closing budget for them as well as when you look at the state and local level, how that performed this quarter?

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

First of all, I want to say -- you mentioned the Fed and I mentioned that in my opening. The federal year came to an end at the end of Q3 in the US. That's what makes basically the third quarter from Cellebrite's very meaningful in the context and in the impact of the -- our ability to deliver on the Fed side. And it was a very strong performing quarter in terms of Fed.

That reflects basically the fact that our anticipation regarding budget and about the ability for our customers to finance the deals, including C2C and growth and everything which is related to digital transformation met expectations. So that was a good one.

And as I said, we do not see any anticipation of change in that respect. So much to Fed, but the good news is that also on the state and local government, we see the same trend. We always said, especially as we started the year that we intend to do a double down with a very strong focus on the state and local government. And over there, we also see no change, meaning no news, good news. I always emphasize the fact and by that, I will finish that part that we have a huge advantage.

One, our -- as much as the highs are never too high, the lows are never too low in law enforcement. The reason is, there are predictable budgets. And as a company with pretty much sticky and tied to the deep conversations with our customers about plan related to C2C, and we are having a strong and close conversation with them, we have pretty much visibility about the budgets and about what is expected.

So confidence on both sides, basically no change. And these are good news as we look and anticipate what's going to happen in '25 and beyond.

Operator

Max Michaelis, Lake Street Capital.

Max Michaelis Lake Street Capital Markets, LLC - Analyst

Just one for me, and congratulations, Yossi. Just looking forward to 2025 on a high level, I know you mentioned in your script, you're talking about your consistent or meaningful era expansion and then healthy profitability supports the baseline for Rule of 45. When we think about that, I mean, are you anticipating any meaningful expansion in adjusted EBITDA? Or should we think pretty stable

from what you're performing in 2024 on a margin basis?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

Maybe I'll start. So our long-term model that we provided earlier this year talked about CAGR around 24% on the ARR and a very healthy EBITDA range of 20% to 25%. When we -- we are finishing the year and performing better than that, we do not have yet provided formal guidance for 2025, but I do think that looking at the constant performance also towards the coming years within the range that I spoke about is the right way to look at our business growth.

Max Michaelis Lake Street Capital Markets, LLC - Analyst

And then I don't know if I missed it on the call or not, but what was the reason for the \$3 million tick up quarter-over-quarter increase in pro services? Was that related to Federal or help me out with that?

Dana Gerner Cellebrite DI Ltd - Chief Financial Officer

That was an APAC customer that we have contracted special -- specific services. A year ago, we completed it. Earlier in the year, it was supposed to be next quarter, a onetime event.

Operator

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

Yossi Carmil Cellebrite DI Ltd - Chief Executive Officer, Director

So first of all, I would like to thank you all for participating in this call. But I would like to use the opportunity also to -- in a wider sense to thank you probably for the last time in this uniform for the trust in Cellebrite, the long-term trust so far, and I'm also sure into the future.

Above all, I would like to use the opportunity and thank the Cellebrite employees. As always, for an excellent Q3. And obviously, good luck, we still have a year to close. I wish all of us good luck by closing successfully this year.

And on a personal note, I would like to use the opportunity and thank all Cellebrite employees, all those and the managers who has been part of my journey throughout these years, and who are part of my personal journey and personal success. Good luck to the company and good luck to all. Thank you.

Operator

Thank you. This does conclude the Cellebrite third quarter 2024 financial results conference call. Please disconnect your line at this time, and have a wonderful day.

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