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PRESENTATION

Operator

Welcome to the Cellebrite second-quarter 2026 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 very much, operator, and good morning, everybody. Welcome to Cellebrite's second-quarter 2026 financial results call. I'm joined this morning by our primary speakers, Adam Clammer, Cellebrite's Chairman of the Board. Shiven Ramji, Cellebrite's new CEO; and David Barter, Cellebrite's CFO. Shiv, Dave and Marcus Jewell, our CRO, will participate in our Q&A session. This call is being recorded, and a replay of the recording will be made available on our website shortly after the call along with a copy of the transcript.

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

I'd like to remind everybody who's listening on the webcast that the slide in your webcast viewer is a placeholder only. There are no actual slides to accompany the prepared remarks. We also published our historical financial information and supplemental data for the first two quarters of 2026, each quarter of 2025, along with the full year of 2024 and 2023 on our Investor Relations website.

Additionally, unless stated otherwise, our discussion of our second quarter 2026 financial metrics as well as the financial metrics provided in our outlook will be done on a non-GAAP basis only and all historical comparisons over the comparable periods of 2025. I'd like to remind you that today's discussion will contain forward-looking statements, including, but not limited to, the company's business operations and financial performance.

All forward-looking statements are subject to risks and uncertainties and other factors that could cause matters expressed or implied by those forward-looking statements not to occur. Actual results could also 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 3, 2026. The company does not undertake to update any forward-looking statements to reflect future events or circumstances.

And with all that being said, I'd now like to turn the call over to Adam Clammer.

Adam Clammer - *Cellebrite DI Ltd - Chairman of the Board*

Thank you, Andy, and good morning, everyone. As you saw in this morning's release, our Board has appointed Shiven Ramji as Chief Executive Officer effective today. Before I go further, I want to take a moment on behalf of the entire Board to thank Tom Hogan. Tom joined Cellebrite three years ago, as Executive Chairman, and we're incredibly appreciative of his impact.

Since taking the reins as CEO last year, we further accelerated our platform strategy, expanded into new markets and adjacencies through both organic development and acquisition and build a stronger foundation that positions this company well for the next chapter. Very grateful for everything he's contributed and pleased that he'll continue to support Shiv and the Board as an adviser.

I know many of you will ask why Shiv and why now? And this is something the Board has thought about carefully over time. Even after Tom became CEO, the Board recognized that his tenure would likely be limited and Tom candidly acknowledged that himself. A key priority has been to make sure the right talent was in place around him to carry this company forward and Tom played an integral role in recruiting much of the current leadership team.

When we brought Shiv on Board, it was with the clear understanding that he was for all intents and purposes positioned to be Tom's successor. Shiv ramped much faster than we initially expected, the pace at which we need to build and compete is accelerating. And we believe that's best driven by a product-centric leader who is rooted in architecting scalable, cloud-native platforms that can maximize the impact of AI which continuing to rapidly scale.

We are seeing tangible signs that this represents an enormous opportunity for Cellebrite. And the team was emphatic on the last quarter's call about that. Given this backdrop, we felt it was important to make the change now.

Looking ahead, my optimism about Cellebrite's future has not wavered. We have a large and growing healthy market. Trusted relationships with virtually every major public sector agency in the democratized world, a differentiated platform and a world-class team that is squarely focused on turning our domain expertise and technology into durable profitable growth.

And although this year will be choppier than we would otherwise have anticipated, the platform strategy is working. Growth is increasingly coming from our new products outside of extractions and unlocks. We are well positioned to build on our progress, given these new initiatives and customer adoption.

And with that said, I'll turn it over to Shiv.

Shiven Ramji - *Cellebrite DI Ltd - Chief Executive Officer*

Thank you, Adam, and good morning, everyone. Echoing Adam's comments, Tom's partnership over the past several months has meant a great deal to me, and I'm grateful for the foundation he's helped build. Cellebrite continues to make a real consequential impact on public safety around the world, and I see a genuine opportunity to build on that. Because regardless of customer segment, the fundamental challenge is the same. How do you compress the investigative life cycle and rapidly obtain trusted insights and actionable intelligence.

Given our core competencies in digital forensics and our intimacy with customers' workflows, and our accelerating investments in on-premise capabilities, edge, cloud and AI, Cellebrite is uniquely positioned to turn digital data from any device, any source or environment into actionable, court approved and mission-ready intelligence.

All of us here are committed to the hard work and disciplined execution required to enhance our platform and expand our business around the globe. I am excited about the opportunity ahead, but today I want to start with where we are.

We did not deliver the ARR and revenue performance we expected in the second quarter. On our last call, we expected a meaningful acceleration in Q2. That acceleration did not materialize at the level we anticipated and we own that. The media shortfall was concentrated in a limited number of large transactions that we expected to close in the quarter, but ultimately moved beyond our anticipated time lines.

It's worth noting that for some of these transactions, particularly with US federal and European government customers, we encountered new and additional administrative and procurement requirements related to our current foreign entity status. Additionally, we are also competing for increasingly large and strategic opportunities that now incorporate cloud and AI.

These deals involve more stakeholders and, in some cases, longer procurement cycle. But I want to be clear, timing is not an excuse. We need to execute these opportunities better, identify risks earlier and forecasted business with greater precision. Another factor impacting performance involves our Inseyets digital forensic solution.

To be clear, we continue to make good progress converting customers to Inseyets, reaching nearly 65% of the installed base by the end of Q2. However, the ARR uplift from pricing and footprint expansion has been lower than we expected, particularly in the US state and local government sector. So taken together and considering the timing of several product introductions in the second half, we believe the responsible action is to lower our full year ARR and revenue outlook.

At the same time, we are raising our full year adjusted EBITDA target, reflecting continued discipline in how we manage the business and prioritize investments. Dave will walk you through the outlook in more detail shortly. The question I want to address next is straightforward. What do we need to do differently?

And our two immediate priorities. First, we are raising the standard for sales execution. We have completed a bottoms-up review of our pipeline and our largest opportunity. We're putting greater rigor around qualifying opportunity, customer commitments, procurement milestones, executive sponsorship and cross-functional ownership.

Second, we are tightening our forecasting discipline. Pipeline is not performance. Going forward, we will place greater weight on observable customer actions based on the current environment. And within that construct, we will also more explicitly account for the timing and magnitude of prospective large transactions with major government agencies.

None of the disappointment around the quarter or the year changes my conviction in the opportunity in front of Cellebrite. There are a number of positive signs that our strategy to broaden our platform and extend our reach beyond our technical digital forensic user base is, in fact, working. Our US federal business had a solid second quarter, and the Defense and Intelligence ARR grew 25%. Our platform is compelling for these customers, and we are now pursuing some of the largest opportunities in the company's history.

Our newer offerings are also increasingly contributing to our ARR growth. We saw important adoption of new solutions like Guardian Investigate, Advanced Unlocks and Drone Forensics in Q2, all of which occurred in their first full quarter of availability. Earlier this week, we secured our first major FedRAMP deal for Guardian with one of our long-standing US federal customers as part of a multiproduct multimillion dollar deal.

This customer placed an initial seven-figure order for Guardian alone that is nearly 35 times higher than the average annual spend of roughly $50,000 by SLG agency on Guardian. Genesis, which launched on June 10, generated more than half a dozen customer wins before the end of the second quarter, and that progress has continued into the third quarter.

We are pleased to see local police departments, major metropolitan agencies, district attorneys and correctional organizations among the early adopters. Just as important, trials have continued to expand into Q3, and we are extending availability beyond the US into the UK, Australia and Europe. These are all encouraging signals.

But I also want to put them in the appropriate context. Innovation, customer interest, pipeline and product adoption only matter if we consistently convert them into ARR revenue, profitability and ultimately cash flow. That is the operating discipline we will prioritize moving forward.

At the strategic level, the opportunity in front of us is much larger than any specific individual products. Every customer we serve is trying to solve essentially the same problem. Compress the investigative life cycle and move from digital evidence to trusted, actionable intelligence faster.

Cellebrite has a unique foundation from which to solve that problem. Deep expertise in digital forensic, extraordinary access, investigative workflows and data and growing capabilities across cloud and AI. Our ambition is to connect those capabilities into a broader investigative intelligence platform that can securely turn digital data from devices, cloud sources and other environments into trusted Inseyets customers can act on.

And AI will be an important part of that. We are building a shared Cellebrite AI layer designed specifically for digital investigation. Combining forensic context, models and agents with evidence grade controls around provenance, verification, auditability and human oversight.

The outcome we care about is not AI for its own sake. The payoff is measured in time, quicker time to evidence, accelerated time to insight and ultimately, faster time to action and justice. In the second half, our priorities include enhancing and expanding Genesis. This includes bringing this capability into high security and on-premise environments, and we have already secured an agreement with an anchor customer for an airgap offering.

We also plan to extend Corellium into additional law enforcement and enterprise vertical use cases and continue advancing our drone forensics capability. We will invest aggressively where we see the potential for durable growth, but we will do so with discipline.

I'll close with a couple of personal comments and observations. First, I want to thank all of our Cellebriteors who take our mission very seriously and are working hard to deliver on another important quarter. Your energy and efforts are truly appreciated by the leadership team, our customers, and our shareholders.

In terms of our product and technology organization, Iftach Smith, a seasoned Cellebrite product and engineering executive, will assume leadership on an interim basis until we complete our search for a new leader. Throughout my career, I've been fortunate to build successful technology platforms or businesses that created access opportunity and better outcomes for people. What drew me to Cellebrite is that the impact here is unusually tangible.

Inside every device and within every piece of digital evidence is a human story, a family waiting for answers, a victim seeking justice, an investigator trying to stop the next crime and a nation working to protect its citizens.

For the better part of 20 years, Cellebrite has earned the trust of its customers when the states are the highest and involve some of their most consequential missions. That trust is something I take very seriously. This was not the quarter we expected and we have work to do. As CEO, I accept that responsibility.

My commitment to our shareholders is straightforward. We will confront issues early, communicate clearly, allocate resources with discipline and continue earning your confidence by setting realistic yet ambitious goals and achieving them through relentless consistent execution and results. I am confident in the opportunity ahead, and I'm energized by the work required to realize it.

With that, I will turn it over to Dave, our CFO.

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

Thank you, Shiv. Q2 represented a quarter with some puts and takes. ARR increased 21% to $508 million, but we missed the bottom end of our guidance range. We are committed to executing better, and I believe we will.

As I look beyond the execution, it's important to keep in mind that business model transitions are nonlinear. We have made great strides converting our customers to Inseyets. Equally, we are making great strides with regard to cloud and AI. Our business will become stronger and more durable as customers adopt more solutions across our platform. We are also encouraged that our growth products contributed 25% of the $15 million of sequential ARR increase versus 18% last quarter.

Drilling down, our investment in new products continues to reinforce the value of our platform strategy. This was the first full quarter of availability of our advanced unlocks and Guardian investigate solutions, each contributed meaningful levels of net new ARR and opened up higher levels of spending.

For example, given the volume of evidence stored on Guardian Investigate combined with its AI capabilities, it's a product that commands increased price versus Guardian forensics. Another highlight was Genesis, which we launched late in the quarter. The early signs of product market fit are strong. We secured about $400,000 in ARR in the final weeks of June.

This product was launched as a consumption product, which provides customers with the flexibility to use as many tokens as they need to compress the investigative life cycle. The initial deals indicate this product will be accretive to our gross profit and P&L.

Let's take a look at ARR by geography. The Americas represented 53% of total ARR, EMEA represented 34% and APAC represented 13%. In terms of growth rates, the Americas grew 19%, EMEA grew 23% and APAC was a standout performer with 29% growth. Looking a bit closer into the Americas, growth in US Federal accelerated into the mid-teens after being flat at the end of 2025.

As Shiv noted, the changing dynamic with Inseyets where customers continue to adopt but we are not capturing as much price and expansion at the time of conversion was most evident in our US state and local government sales group. Last year, this group delivered growth in the mid-20% range. The growth is now just below 20%. Fortunately, we are starting to see the benefits of new product introductions. Without those new offerings, state and local government growth would have been in the mid-teens.

Turning to revenue. We reported $131 million, up 16% year-over-year. Subscription revenue was $119.5 million, also up 16% and represented 91% of our total revenue. Our Q2 gross profit increased 16% to $112 million, which represents a gross margin of 86%.

Second quarter adjusted EBITDA was $31.8 million, a 24% margin. Our profitability continues to be impacted by a challenging FX environment. Headcount was 1,287 employees at the end of June, which is basically flat with the end of fiscal 2025. We reported second quarter operating income of $29.8 million and net income of $29.7 million or $0.11 on a fully diluted basis.

Looking at the balance sheet, we ended the second quarter with $546 million in cash, cash equivalents and investments. For the trailing 12 months, free cash flow was $144.2 million or a 28% margin. Our free cash flow performance reflects the impact of deal structures as well as collections that came in late during the first week of July.

As a reminder, our free cash flow last year benefited from a onetime tax refund of approximately $9 million. Overall, we feel good about the underlying free cash flow dynamics and anticipate a stronger overall trend line in the second half of this calendar year.

Let's turn to our outlook. We've lowered our full year 2026 ARR guidance range to $550 million to $560 million, a reduction of $15 million at the midpoint. The change to our second half now assumes net new ARR for the second half of the year that is essentially in line with fiscal 2025.

There are several primary factors for this change. The outlook reflects moderation in Inseyets conversions, specifically the incremental price and expansion at the time of conversion. There is greater prudence in regards to deal timing due to the administrative requirements we discussed earlier that are elongating deal cycles.

And finally, we've removed potential upside from larger, more complicated deals where sales cycles are longer and less predictable in the current environment. Our recent FedRAMP win was a great example of this. It required multiple waivers, security reviews and other administrative approval that in the end, made it difficult to forecast when exactly this deal would close.

I'd like to take a moment to bridge our updated outlook for 14% to 16% ARR growth with the growth framework we've previously shared. First, we still expect winning new logos and capturing incremental price will generate several percentage points of growth.

Second, we now anticipate that Inseyets will contribute mid-single digits. The third growth driver, Guardian, Pathfinder and Genesis, the cornerstones of our digital investigation and analytics offerings will grow at the lower end of our original expectations in the mid-single digits.

We also moderated our expectation for Corellium's contribution to 1 to 2 percentage points. And finally, we remain comfortable about finishing this year with at least 1 point of improvement in our gross revenue retention rate given our performance in the first half.

Given the lower ARR range, we've reduced our full year revenue range to $555 million to $561 million, which represents growth of 17% to 18%. We've raised our adjusted EBITDA targets to $153 million to $159 million, which represents a 28% margin. It's important to highlight this outlook contemplates the business absorbing nearly 3 points of FX headwinds from the ILS. We plan to manage our capital allocation thoughtfully while we continue to fund investments critical to durable long-term growth.

We remain well positioned to deliver 30% free cash flow margins in 2026 as we move into the seasonally stronger second half of the year. We are increasingly optimistic about our potential to deliver the next step-up in our profitability and free cash flow in 2027 as we demonstrate that we can operate the business without material expansion of the headcount, the FX headwind subside, and new products continue to scale.

Our third quarter expectations are as follows. We anticipate ARR in the range of $524 million to $528 million representing net new ARR of $16 million to $20 million. We expect third quarter revenue in the range of $145 million to $148 million, and adjusted EBITDA in the range of $42 million to $45 million or a margin of 29% to 30%.

I'd like to close our prepared remarks by reiterating that reducing our growth expectations is prudent in light of the transitory headwinds we've encountered. We don't take that change to our guide lately. There is a lot of good happening beneath the headline numbers. Federal is reaccelerating. Defense and Intelligence is outgrowing the rest of the company and AI and our Genesis product is off to the strongest start of any product we've ever launched.

We remain confident in the long-term opportunity in front of us. and we're focused on executing through the back half of the year to deliver on our updated outlook of setting ourselves up for long-term success.

Operator, that concludes our prepared remarks.

QUESTIONS AND ANSWERS

Operator

Thank you. The floor is now open for questions. (Operator Instructions)

Shaul Eyal, TD Cowen.

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

Thank you. Good morning, everybody. Shiv or David, listening to the call, I wanted to ask what gives you the confidence about the growth potential of the business? And I have a follow-up.

Shiven Ramji - *Cellebrite DI Ltd - Chief Executive Officer*

Yes, I'll start. So I think of this year as more of execution reset, not a reset of our long-term growth potential. Like I said, we are seeing good early signals from the work that we're doing in product and also the deal sizes that we are now entertaining. So over the long term, obviously, we are optimistic about the potential of the business, but being prudent about what -- how we execute and over the next two quarters. David?

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

Let me offer a little bit of perspective. I mean when you put the quarter in context, we signed and took down orders probably well north of 1,000. In the end, it kind of came down to four, and it was four that across the line, and it was four that involve cloud. It was one in particular in Volta platform. You might recall, one of these deals, we alluded to last time where they actually called us before we had FedRAMP approval.

And even they were a little bit surprised about the changing procurement requirements when you get into cloud and AI and the approvals that we had to secure. And so to be in that spot where a platform order came in, we sold five products.

Originally, they were just renewing one product, and they bolted on 4 more to it, and sort to have a solution like that with a leading agency that's on the vanguard of cloud adoption. I think that's what gives us confidence. I think we've seen cloud transitions and cloud adoption work well in every other part of the economy.

There's no reason why it doesn't work well here. The fact that they're adopting cloud, they're adopting AI. And even as Shiv alluded to, we have now customers that are kind of going into on-prem AI which is a pretty quality -- contemporary and quality business model gives us the encouragement and the confidence.

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

Understood. As my follow-up, I'm curious with respect to some of the slippage you've seen in EMEA, maybe like in EU countries, and some of the administrative requirements you've mentioned in your prepared remarks. Can you maybe provide us with more color maybe slightly elaborate on that? Thank you.

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

Sure. It's Marcus. Yes, I'll answer that. So in EMEA, we faced a slightly different challenge, which was based around freedom of information. The growth that we have in EMEA that we wanted in Q2 comes from transitioning major European customers, both in Germany and the UK to cloud. That required an extra level of vigor that was not made apparent to us at the start is that as information moves into the cloud from investigations that a new EU law is applied for Freedom of information, which meant there was an audit to make sure that any information that we store and process is kept out not only in a sovereign location, but equally as a vendor that we are normalized, we do not get to see that.

That was a surprise to both our customers and us, and we had quite a difficult process with legal review to get through that. The good news is we secured four of those slip deals already in the quarter, actually all four for the cloud. And we now feel confident that we know how to deal with and respond to the CIO's requirements for freedom of information. So that was the explanation for EMEA.

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

Thank you so much. This is very helpful.

Operator

Mike Cikos, Needham.

Mike Cikos - *Needham & Company LLC - Equity Analyst*

Hey, thanks guys. On the Defense and Intelligence growth, can you help us by maybe quantifying the magnitude of these elongated sales cycles that you're seeing as well as the conviction you have in the growth from where we sit today over the remainder of the year? And then I just have a quick follow-up.

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

Sure. So it's Marcus again. Thanks for the question. Great question. So in defense and intelligence actually delays are less. We actually feel confident about our ability and the nature of those deals, particularly in defense and intelligence continues. The delay that we'll call out was more in the civilian side of the federal business, and that was down to two things.

The first one was I have to be honest, that the agencies as they move to cloud and AI do not necessarily have the correct procurement tools to understand exactly how to do that, and you're going to see that message for trade, I think, across a number of vendors. We have a particular additional requirement, which is as a foreign filer, we found that we needed to find other permits, which was new.

Our sponsor is a very high-level CIO in the departmental level, was not even aware of something called an FEP, which is a foreign entity permit requirement, which is applied to cloud technology. Since learning that and learning that process, which created a four- to five-week delay we managed to secure a master FEP, which means that at a departmental level now, we'll be much more expedited in the processing of our orders. So I want to clarify the D&I is not a slowdown as federal agencies, which are using this cloud transition.

Mike Cikos - *Needham & Company LLC - Equity Analyst*

Thank you, Marcus. And maybe a question here for Adam. I just prefer to ask you -- if I rewind the clock a year ago, it's when we were saying that Tom was going to be named the CEO, he was the preferred choice. But we're now appointing Shiv here effective immediately, which is part of this planned transition you guys are citing. But admittedly, at least from the external side, we didn't have insight to that. So first, can you can you walk us through like that planned transition?

And then secondly, how is the team internally handling that level of change management if I'm thinking about retaining personnel and just the turnover we're seeing in the CEO seat. Thank you.

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

Mike, it's Andy. I'll just preface that the Q&A, it was pretty explicit that Shiv, Dave and Marcus would leave the Q&A. I don't even know that, that I was connected at this point in time. So I understand -- we understand the question and we'll endeavor to connect to.

But I'll just ask Shiv to provide a little bit of color and perspective there.

Shiven Ramji - *Cellebrite DI Ltd - Chief Executive Officer*

Yes. So as Adam had mentioned, this was a planned transition, and both Tom and I have been working on this. And we just accelerated the transition given the opportunity we see with the products in the markets we're operating under. So it just got pushed up much earlier than initially.

Adam Clammer - *Cellebrite DI Ltd - Chairman of the Board*

Well, Adam is here, and I'm happy to just echo what Shiv said. This was something that when Tom when in his CEO, which we were excited about, and he was excited about he and we and the Board understood that we would start looking for a product-centric CEO and it might take some time to find that person and it might take some time to ramp that person so they could assume disposition. It happened sooner than we all expected. And it really happened with the full support of the entire management team. So we're delighted that all of the direct reports are excited and supportive about Shiv going forward.

Rudy Kessinger - *D.A. Davidson & Co. - Analyst*

Thank you.

Operator

Rudy Kessinger, DA Davidson.

Rudy Kessinger - *D.A. Davidson & Co. - Analyst*

Hey, guys. Thanks for taking my question. It sounds like in the quarter, there was a number of maybe procurement and permitting and just things of that nature that caught us by surprise. As you look ahead, I guess, have you done a thorough review, I guess, across regions and agencies, the governments, et cetera, to ensure that there aren't more surprises potentially that you'll uncover in future quarters? And just any color on why in hindsight you guys didn't have your arms wrapped around all of these procurement requirements going into the quarter?

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

Sure. Great question. This is Markus again. Look, you don't want to be a CRO in a public company with a miss. The first thing, we own that. And of course, if I had known these things upfront, myself and my team, which I believe is an excellent team, would have doubled them. I would say we were in an unprecedented situation as we transition to cloud and AI, where we're having unforeseen things thrown at us.

Why we feel confident going forward is we have taken a different approach to the rubric that was faced to us and make sure we've applied that logic to our deals going forward, and being incredibly rigorous in making sure that the procurement process and understanding the full entity of the procurement process is now completely understood not only the US government, but also in EMEA and APAC level.

We believe with the highest level of working with some of our lobbyists that we now fully understand the mapping of how USG and EMEA is going to apply to us as a foreign filer and we are now confident that we won't repeat the same issues going forward.

And we now have precedent, which is the best thing that we can show evidence to other agencies and other buying entities of how we've been able to transact and met all the requirements of a thrown at us. So what I'm saying is, I think we've learned our lesson, but we're also being prudent in our own to take in consideration that there could be delays.

Operator

Jeff Van Rhee, Craig Hallum.

Unidentified Participant

This is Daniel, on for Jeff. Maybe we could just open Shiv, I'd love to hear a little bit more in terms of your background. And just if you could speak to what attracted you to Cellebrite opportunities you see? What's brought to you here?

Shiven Ramji - *Cellebrite DI Ltd - Chief Executive Officer*

Yeah, thanks, Daniel. Sure. So I mean, for me, this starts with the mission that Cellebrite is focused on. I think what the company has built, the assets that we have is truly impressive, and the mission is really, really important. We play a very, very important consequential role for our customers and in their investigation. So I think first was just like the mission is very attractive and very impactful.

And I think of Cellebrite has like really amazing assets. I mean, this company is -- we have a hardware component to our business, we have a cloud component now that we've just talked about. AI is now helping us deliver outcomes and capabilities into initial early adopters, and you can see the customer feedback that we're getting from them.

And then what we can do in D&I is really, really unique and special with obviously our hardware offerings and offerings at the edge. So for me it was just really exciting to see that we have this amazing technology and assets. And if we can weave all of those together to essentially build an autonomous investigative platform that we can continue to grow this company at a pretty significant pace.

So I firmly believe in the long-term growth and opportunity. And we're making steady progress towards those, and as we continue to deliver those outcomes and continue to deliver those results, continue to deliver performance from the vision that we have. I think all of you will also come to appreciate what attracted me to this company.

Operator

Brian Essex, JPMorgan.

Brian Essex - *JPMorgan Chase & Co - Analyst*

Great. Thank you. Good morning. Thanks for taking my questions. I have two. One is, I'd love to know a little bit more about the challenges that you saw with Inseyetsconversions and the pricing coming in lower. What percentage of the business does that account for? And if you could just help me understand how those transactions materialized during the quarter?

And then the second would be, it seems like things are falling nicely in place for the federal business. You guys acquired Cellebrite Federal a while ago, you got FedRAMP certification. It seems as though the people and the processes are in place for which should be, I think, a pretty good federal quarter. Dave, I'd just let you know how your assumption -- what are your assumptions for business and contribution in 3Q? And what can we expect near term for the federal business? That's it for me. Thanks.

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

Thanks, Brian. Great question. As you -- I mean, you're a pro and you're an expert on the business. We're driving right now. And I think we've kind of indicated that overall between extractions and unlock by the end of the year, that would be about 80%, 81% of total ARR. And I think as you probably recall, in any given quarter when we run the Inseyets, we get a price uplift that can be $1 million to $2 million of incremental ARR, maybe even in some courses, a splash more or a splash less.

And so what we're really seeing, Brian, as people progress through is, ultimately, we got less of that price increase. And then ultimately, we were just buying in terms of quantity, they just at the time of migration, which the migration or conversion we're about from a magnitude perspective, almost exactly where we were last year, we were just capturing ultimately a little bit less.

And so that really just started to weigh on our view. And I guess I looked at it through the lens of almost every business model transition or migration where at a certain point in time, it just the expansion rates start to shift, and we certainly started to see that shift. So that's kind of really what unfolded there if that's helpful.

Brian, do you want me to double-click a little bit more? Is that helpful context, if not all kind of.

Brian Essex - *JPMorgan Chase & Co - Analyst*

It's super helpful. I appreciate it. Yes.

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

And by the way, I mean, one of the other dimensions, maybe that's worthwhile is just overall, we did see gross revenue retention continue to climb in the first half, actually on Inseyets, it was up several points. And so I'd say I feel really good about those who have converted and the stickiness of those relationships. I'd say on the federal side, is Marcus and I have looked at the business, I think one of the areas that we did was actually spend more time handicapping and I'll use that recent FedRAMP win as an example where ended up being a nice step-up in terms of net new ARR.

But I think we've really handicapped I'd say some of the larger transactions knowing the time frame. And so I'd say we kind of looked at -- this is why I expanded the range as we thought about the outlook to be able to say fundamentally, we're going to start to contemplate a smaller contribution from any given deal, knowing that these have the ability to be larger cloud and AI deals.

And so we just wanted to be a little bit more humble. And so I think when you look at it, and this is why we kind of looked at things through the lens of last year, with net new ARR being roughly flat year-over-year is that we're kind of counting on the contributions being roughly about the same, a little bit more probably in the D&I world than we saw in the SLG world given some of the dynamics that we described, but in aggregate, about flat with what we saw last year. And we think that's a prudent way to look at the business. particularly when we handicap transactions.

Marcus, is there anything else you.

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

Again, we have to take a prudent view of where we are, but we believe that our federal business as noted, is set up incredibly well. We remain three things I want to remind, we remain with the only FedRAMP high solution for digital forensics available. And the process to get that is a very long and tortuous process. So even though people are announcing they are going for that, they will take an extended amount of time.

The second thing is, as you probably know, if you follow the public record markets, the grants are starting to flow. There is the OBB, it's also known as the Biden money, which affects both state and local and federal, and we are confident that we'll see some motion of that business.

We also have submitted and actually been short list before our first ever nine-figure program, and that is in the public market as well. So the leadership team there under Phil and Alan are exceptional, and I feel that they will deliver very good results for us going forward.

Operator

Bhavin Shah, Deutsche Bank.

Bhavin Shah - *Deutsche Bank AG - Analyst*

Great. Thanks for taking my question. David, I just wanted to double quick on Brian's question there just in terms of the uplift you're seeing on the Inseyetsmigration. Like why is it coming in lower than what you might have seen a year ago? Is it just like the most needy customers maybe were migrating earlier? And now we're at a point where, hey, it's people that might not need as much as a platform?

Is it something competitively that might be changing? Are they using less unlocks? I just wanted to really understand and appreciate kind of what's happening with this this customer cohort? And how do you ensure this doesn't happen to the remaining 37% of customers as we kind of go down the staff.

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

Totally. It's a great question. I think you've certainly seen with this cohort, you're seeing a little bit more of a conservative posture in terms of how they approached it. And so I think fundamentally, there's a couple of dynamics.

One, you're getting to the maturity of the cohorts. And so some of these customers have been buying some of the legacy products over time. And so if you go back in time, the legacy premium or the legacy UFED and so some of them are just, quite frankly, better deployed. And so that's kind of one dimension that's certainly going on.

I think there's another dimension where certainly as we see the adoption of more products, whether it be the adoption of Guardian or as we saw Genesis starting to go into the base, we are seeing people have the ability to choose more to buy.

So there's a few different dynamics that are playing. Again, I'll kind of reinforce GRR is up, GRR for Inseyetsis up several points. And so I think we are when you're starting to climb towards mid-90s on a product level, particularly when people are buying on an annual basis, I think we feel like we have very positive momentum there.

Operator

Eric Martinuzzi, Lake Street.

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

Yes, I wanted to dive in on the initial deals that you had with Genesis. If you could walk us through the types of customers, obviously, the early adopters representing that of $400,000 worth of ARR that you did book in Q2. Who are those, is there anything you can kind of categorize those early adopters into? Because I imagine for a lot of your customers is an annual budgeting process. And if it wasn't in there at the start of the year, it's going to be hard to sign up for it now.

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

Great question. So I'll take this one. So it's a broad church. So the good news that we're seeing there is we have secured business international level for leasing. We have secured business at a state level AG. We have actually secured business in the enterprise. And so what we're seeing is a very broad church and the momentum of conversion is accelerating, and the number of trials is accelerating to a great level.

We don't see any common use case, which is dominating in a minute. We're actually seeing it because of the very nature of an open-ended model with LLM integration allows us to cover pretty much all the markets. So as this develops, we will clearly inform you any patents we see forming. But at the moment, we see spreading across all of the markets that we exist in.

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

Eric, I might offer just in terms of how you think about the business. We have had some customers go from the pilot, and they might start off with, I think the smallest order might be 6,000 or 10,000, and then we've had some customers up towards 200,000. And so now that the business has as I shared, it wrapped up at about $400,000 and now it's pushing $1 million of ARR.

We're starting to see some maturation around how people are adopting, particularly as they've been using the free trial, consuming at pretty heavy levels, and as they open up budget and create opportunity, they're inviting in some interesting quantities.

So again, I think it's overall, it was nice to see how it monetized over the course of a couple of weeks. And five or six weeks since we closed the quarter, the monetization has continued. And again, we see good activity both in the free trial, but also at the paid level.

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

I think it's worth adding is our leading consumption product. It gives us the chance to upgrade in cycle extensively. So whereas in state and local and federal, you'll normally stock to your one year or your three-year bid value here, what we're seeing the ability to actually do product-led growth as well and upgrade within cycle. So the monetization is much more dynamic than products we've had previously.

Operator

Jonathan Ho, William Blair.

Jonathan Ho - *William Blair Capital Partners - Analyst*

Hi, good morning. Can you quantify the size of the pipeline deals lost? And how much is maybe subsequently closed already, and also, I guess, one thing I wanted to better understand is how to quantify how much these complicated deals have actually elongated the sales cycle? Like are we talking about multiple quarters here? Just want to understand some of the dynamics there. Thank you.

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

I can give you three very good answers here, I think. So the first thing is the easy one is, no deals or loss. We didn't lose any business throughout this process of the business which slipped as we sit here today, $4 million of that has now closed and booked, which has obviously made our Q2 very different. The elongation is approximately six weeks to the sales cycle is what we've seen. So hopefully, that's (inaudible).

Jonathan Ho - *William Blair Capital Partners - Analyst*

Thank you.

Operator

(Operator Instructions)

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

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

Great. Thank you very much. I'd like to thank everybody for joining on today's call. We look forward to speaking with you in the weeks that follow, We will be at a couple of investor conferences over the next couple of months. Look forward to seeing you there as well. Thank you very much and until we speak again. Have a good day.

Operator

Thank you. This concludes today's Cellebrite second -quarter 2026 financial results conference call. Please disconnect your line at this time, and have a wonderful day.
