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PRESENTATION

Operator

Welcome to the Cellebrite second 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 very much, Todd, and welcome, everybody, to Cellebrite’s second quarter 2024 financial results call. I'm joined at our offices just outside of Washington DC, are Yossi Carmil, Cellebrite's CEO; and Dana Gerner, Cellebrite's CFO. 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. 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 transcript of the event.

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

Also, unless stated otherwise, our discussion of our second 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 second 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 the actual results to differ materially from historical results and or from forecasts. Some of these forward-looking statements are discussed under the heading “Risk Factors” and elsewhere in the company's annual report on Form 20-F filed with the SEC on March 21, 2024, and as amended on April 12, 2024. The company does not undertake to update any forward looking statements to reflect future events or circumstances.

Slide number 3 provides the agenda of the topics we'll cover on today's call. And with that said, I'd like to now turn the call over to Yossi Carmil, Cellebrite's CEO.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Thank you, Andy, and thank you all for joining us today. We are pleased this morning to share our progress on continued execution across all key metrics, including ARR, revenue and EBITDA, which are highlighted on slide 4. Our strong second quarter performance further validates the appeal of our case to closure platform, the resolve of our nearly 1,100 colleagues and relentless tailwinds in a healthy growing market.

Now Dana will review the details of our Q2 results, our outlook for the third quarter and our increased expectation for the full year 2024. In the meantime, what I plan to do is to focus my commentary on the long-term opportunity for our company and the important steps we are taking to further enhance Cellebrite’s position as the leading platform for accelerating justice around the world.

Turning to slide 5, let me begin by highlighting the recent formation of Celebrate Federal Solutions as part of our effort to expand our business with the US federal government. While Cellebrite had already established pervasive, growing relationships across a wide range of US federal defense and civilian agencies, our ability to maximize our impact had been constrained by our status as a foreign owned organization.

So in order to unlock our contribution to the US federal government and further expand our commercial opportunity, we worked diligently over the past six months to better position Cellebrite work directly with our US federal customers and support a broader range of projects and programs.

Last month, we established Cellebrite Federal Solutions as a separate dedicated company with independent board governance, and we acquired CyTech, which brings immediate expertise, experience and authorizes participation in key federal programs. Now these actions will enable Cellebrite to significantly increase its impact and participation in critical federal law enforcement and intelligence initiatives over the long term.

This new company is led by Erik Sachwitz who had directed our federal sales for the past several years, and it is overseen by a newly appointed Board of four independent directors. These directors are highly accomplished in their respective fields, bringing unique and extremely relevant skills and experiences. By the way, the results from this business will be fully consolidated in our corporate financial reports.

These actions closely follow our Q1 launch to gain FedRAMP authorization for our SaaS offerings. We continue to make incremental progress with this initiative as we drive toward a full authorization by the end of the first half of 2025. We anticipate that FedRAMP authorization will accelerate deployment of Cellebrite’s relevant cloud based offerings by our federal customers.

And by meeting the US government's demanding security and technical requirements, we believe that this authorization will serve as a proxy for addressing certain standards outside of the US as well as with other US state and local government customers.

So in summary, these actions reflect our commitment to expand our business in the US Federal marketplace over the coming years. And we've been encouraged by the enthusiasm from the marketplace in recent weeks and share their optimism about the impact this will have on both public safety and on Cellebrite. We believe that the initial financial benefits associated with Cellebrite Federal Solutions will begin to accrue in 2025 and build from there in subsequent years.

Turning to our C2C platform. Our customers continue to realize substantial value from Cellebrite build in artificial intelligence capabilities, which enable them to work smarter and faster. AI has been an integral part of our innovation DNA for nearly a decade, and it is now embedded within each of our flagship solutions. At our first Investor Day earlier this year, we showcased a wide range of AI powered capabilities that enable our customers to accelerate their investigations.

Now, while our historic use case has delivered material value, the rapid evolution of generative AI is opening exciting new frontiers for Justice Accelerated, which we have enthusiastically embraced. Our customers report that leveraging our AI powered capabilities enable them to achieve step-function increases in investigative speed, efficiency, and effectiveness.

For example, a law enforcement agency can leverage the AI driven analytics with Pathfinder to substantially reduce the time it takes to complete a large-scale investigation from months to weeks. And in the process lower overtime costs, decreased the involvement of supporting agencies, help the victims loved ones move toward closure and reassure the community that justice has been served.

And for these reasons, we are aligning key product technology and go-to-market resources to maximize value creation and monetization associated with our AI technology, what we currently refer to as Cellebrite Investigative Intelligence. In tandem with this work in keeping with the Cellebrite's effort to ensure this technology will serve exclusively an agent for good and for the protecting public safety, we will continue to evolve a range of controls for internal assessments, customer feedback and our external independent ethics and integrity advisory board. Responsible innovation in AI will supercharge our ability to advance our mission to make the world a better and a safer place. You can expect to hear more over the coming quarters and years as we make further progress with our work in this area.

I want to switch gears now to briefly cover recent capital market activity associated with our ongoing efforts to drive value creation for Cellebrite shareholders. First, we're very pleased to announce today a broad warrant redemption program covering 20 million public and 9.7 million private warrants. Now, Dana will share more details around this action, but I want to briefly highlight the significance of this milestone, while a substantial majority of SPAC originated companies have struggled to create shareholder value over the past two years, Cellebrite's exceptional performance has enabled us to take this actions.

Second, Cellebrite's stock price performance over the past 30 days through yesterday has triggered the issuance of one-third of the price adjustment shares and the vesting of 40% of our restricted sponsor shares as outlined in our business combination agreement. The combination of these events is an important milestone that we believe will help optimize our capital structure, support healthy trading liquidity, and simplify our financial reporting and they complement and augment the steps we've already taken to enhance our investors communication.

Turning to slide 6. We are making really good progress executing against our top four strategic priorities. This slide highlights a variety of Q2 deals that delivered meaningful ARR expansion and demonstrated our progress with each priority. So I'd like to share a few quick observations related to these priorities.

Our first priority is to extend our leadership in the digital forensics units of our customers. To that end, our ongoing investment to enhance our lawful access capabilities for the most modern smartphones on the market is paying dividends. Over the past year usage data reflects that more customers are turning to celebrate to lawfully access and extract data from both Android and Apple iOS devices. Related to this, we are also making good progress with upgrading our customers to Inseyets. As noted on our Q1 call, our goal in 2024 is to convert 10% of our installed base to Inseyets. I'm glad to share that market reception has been extremely favorable, and we are currently on the pace to exceed these targets.

Our second priority is to accelerate our growth within the investigative and intelligence units, what we call the "IUs" of our law enforcement customers. We continued to grow our Pathfinder footprint with IUs during the second quarter. And I can say that we are excited about our potential to accelerate penetration into the IUs as Pathfinder becomes fully cloud-enabled over the coming quarters.

Our third priority is to expand our business in the private sector with enterprises and service providers who primarily rely on Cellebrite's data collection solutions to advance corporate investigation and e-discovery use cases.

Related to this, we recently announced an exclusive technology and go-to-market partnership with Relativity that is intended to help our mutual customers collect and manage mobile evidence as a key part of their digital investigations with the utmost efficiency. We are collaborating with Relativity to create a streamlined RelativityOne and Cellebrite Remote Mobile Collections and Conversion integrations in which relativity is the only e-discovery provider to have direct integration with Cellebrite Endpoint Inspector and with Cellebrite Endpoint Mobile Now. We are optimistic that this partnership will deliver compelling value to our mutual customers and help accelerate our growth with enterprise customers and service providers.

Our fourth strategic priority is to help our customers harness the power of the cloud. Our overall ARR from cloud and SaaS-based solutions is nearly doubled over the past year and is now generating low teens as a percentage of our ARR, up from the high single-digits. We are pleased to see increasing traction for Guardian, our SaaS-based case and evidence management solution. The number of Guardian customers has continued to grow, along with the number of users in terms of both examiners and investigators, and data storage volumes has doubled in the past five months alone to over to petabytes.

I would like to conclude my prepared remarks on slide 7. So we view our C2C platform is unique in today's marketplace, enabling us to deliver an end-to-end set of integrated software solutions that support our customer’s needs throughout the digital investigation lifecycle. We continue to move swiftly and decisively to deliver high-value solutions and responsive support to address the time-sensitive needs of our customers around the globe, fortifying the trust they place in our solutions.

In turn, Cellebrite has successfully extended its market and technology leadership, expanded its customer relationships, and delivered strong results. We've also further enhanced our leadership team and Board earlier this month, we appointed Sigalit Shavit as our first ever, Chief Information Officer, CIO. We look forward to her contributions as we scale our ability to innovate and support customers around the world.

I'm also thrilled that Troy Richardson, an accomplished technology executive was recently appointed to our Board of Directors. And as we look ahead, our updated 2024 expectations for ARR growth and adjusted EBITDA indicate that we are well positioned to exceed our performance baseline for Rule of 45 for the second straight year.

It is really rewarding to see how our customers are leveraging their investment in Cellebrite technology to accelerate justice. Every quarter, our technology makes an outsized impact on hundreds of thousands of cases, enabling our customers to protect and save lives, stop bad actors and keep our community safer. Overall, our team has done a great job in the first half of 2024, and I would like to use the opportunity to thank my colleagues for their ongoing commitment and contributions to our continued success.

And with that said, I now turn the call over to Dana.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

Thank you, Yossi. The combination of solid top-line expansion and sound management of our cost structure produced another quarter of excellent results and helped underpin our updated 2024 guidance.

So let's begin with a review of our Q2 results by starting with our ARR growth on slide 9. Our ARR grew 26% year-on-year to $346 million at the end of June 2024. The building block for our ARR growth began with gross retention, which was 91% for the period. The lion's share of ARR growth was once again driven by expansion within our installed customer base.

Looking at the product level contribution, Inseyets adoption continues to fuel our ARR growth. At the same time, we continue to make progress extending our reach into new buying centers or sub logos within our installed base through both Guardian and Pathfinder. Geographically, the ARR mix for the 12 months ended June 30th, 2024 was consistent with prior quarters. The Americas represented our largest geography at 53% of total, followed by EMEA at 35% and Asia Pacific at 12%. And all major geographical regions continued to enjoy ARR growth rate above 20%. We see America increasing 28%, EMEA growing 23%, and Asia Pacific up 27%.

Now turning to revenue on slide 10, we reported a 25% year-on-year increase in second quarter revenue to $95.7 million. This increase was primarily driven by subscription software revenue growth of 27%. Our top line performance benefited modestly from multiyear agreements and favorable product mix, and we expect this to continue into the second half of the year.

In terms of non-recurring revenue, the increase in hardware sales within our other non-recurring revenue was largely offset by a modest decline in our professional services revenue. Subscription revenue represented 89% of total revenue, and we expect that it will continue to trend within the mid to high 80% range over the coming quarters.

Slide 11 details the historical trends for our non-GAAP gross margins and non-GAAP operating expenses, which excludes share-based compensation, amortization of intangible assets and acquisition related expenses. Our Q2 gross margin was 83.7% and was generally consistent with our expectation and up slightly from the prior year.

In terms of operating expenses, Q2 operating costs increased by 10% to $60.3 million. Higher sales and marketing and research and development costs reflected increased headcount and personnel related costs in these areas. We ended Q2 with 5,077 employees, up 25 from the first quarter and 111 from the same quarter last year. We continue to invest in recruiting new talents with ambitions to increase our headcount to roughly 1,150 employees by the end of this year.

Now turning to slide 12. The combination of strong revenue growth, healthy gross margins performance and a moderate increase in our operating costs resulted in profitability that exceeded our plans entering the quarter. We reported Q2 adjusted EBITDA of $21.6 million or 23% on a margin basis versus 15% one year ago.

Our Q2 non-GAAP operating income was $19.8 million, with non-GAAP net income of $22.9 million or $0.10 on a fully diluted basis. We closed the second quarter with $366 million in cash, cash equivalents and investment up $18.7 million on a sequential basis and $121 million higher than the same quarter last year. The sequential increase for the quarter primarily reflected the strong cash flow from operations. Free cash flow for the second quarter which we defined as net cash provided by operating activities, less capital expenditure and purchase of intangible assets was $12.2 million.

In terms of our July acquisition of CyTech, you'll see the cash outflow of a little more than $3 million related to this transaction in our third quarter cash flow statement, which approximately $1 million anticipated to be paid in 2025.

Before I move to the financial forecast, I'd like to quickly add to Yossi's comments regarding recent capital markets developments. And more specifically, Cellebrite announced earlier today that it is redeeming all of the outstanding warrants, which consist of 20 million public warrants in 9.7 million private warrants. We anticipate that the vast majority of warrants will be exercised on a cashless basis.

At recent price, this would convert nearly 30 million public and private warrants into 8 million to 9 million common shares. This is approximately 70% less dilutive than if all of the warrants were exercised for cash. We plan to issue an announcement outlining the results from the redemption soon after the redemption date next month.

The warrant redemption, which will ultimately result in fully retiring these securities and the previously mentioned upcoming issuance of 5 million price adjustment shares and the recent vesting of 3 million restricted sponsor shares supports our long-standing objective of improving the company's trading liquidity, optimizing our capital structure and simplifying our financial reporting. Since it will eliminate the quarterly revaluation of our warrants and reduce the noncash impact associated with the quarterly revaluation of the remaining unvested price adjustment and restricted sponsorship.

Now let's move to slide 13, which details our 2024 third quarter and full year fiscal financial expectations. Based on our results to date and our assessment of the opportunities that lie ahead over the coming two quarters, we have increased our outlook for the year. While we strive to provide ambitious yet realistic targets at the start of any given year, this update marks the second straight year we have delivered a “beat and raise” second quarter. More specifically, we have raised our revenue outlook for 2024 and increased the midpoint of our ARR expectations. Our increased revenue range reflects the impact associated with more customers making long-term commitments to Cellebrite in the form of multiyear agreements and product mix that results in more revenue recognized upfront at the start of the subscription.

As we move into the seasonally stronger second half of the year, we anticipate improving contribution from the investments we made during the first half of the year to expand our quota-carrying sales force. Our updated 2024 outlook for adjusted EBITDA reflects a strong first half performance and several other factors.

First, we expect our solid revenue trajectory to continue with 53% to 55% of our full year revenue anticipated in the second half of the year.

Second, we now expect our full year gross margins will range from 84% to 86%, which is higher than originally anticipated due to the timing of investment in our post-sale customer success organization and improvements in our hardware margins.

Finally, we anticipate low single digit to mid-single digit expense growth in the second half of the year versus the first half level.

In terms of the CyTech acquisition, we anticipate a de minimus topline contribution to our services revenue and adjusted EBITDA during the second half of 2024. The CyTech resources have been integrated into Cellebrite Federal Solutions and our updated outlook factors, the incremental governance, and operational costs associated with this new business.

In terms of the third quarter expectations, we currently anticipate ARR in the range of $366 million to $374 million or 24% to 27% growth over the prior 12 month period. We expect Q3 revenue growth of 19% to 24% to support the range of $100 million to $104 million. Our Q3 ARR and revenue outlooks reflects our expectation for healthy spending by our US federal agency customers in conjunction with the end of their fiscal year in September.

We expect our Q3 gross margins to fall between the updated full year 2024 gross margin target range of 84% to 86%. We anticipate our Q3 operating costs will increase by low single digits on a percentage basis over Q2 levels. As we continue to fully absorb the run rate cost of the new hires and further expand of our team. As a result, we anticipate Q3 adjusted EBITDA in the range of $25 million to $29 million or 25% to 88% on a margin basis.

In terms of modeling our share count, we expect a modest increase in our weighted average diluted share count due primarily to the previously mentioned warrants, redemption and triggering events. In comparison with the 2024 second quarter average weighted diluted share count, we anticipate that our third quarter fully diluted share count will increase by approximately 2% and a full year will increase by approximately 0.5 percentage-point as a result of the previously mentioned events.

Now, in summary, as Yossi has already outlined. We are very pleased with the overall strategic direction of the business. We are making important progress on multiple fronts, the combination of which is enabling us to enhance our value proposition, broaden our customer relationships and fortify our trading liquidity. As a result, we are in a great position to deliver a strong 2024 with our ARR growth rate in adjusted EBITDA margins above our baseline goal of 45 target.

That concludes my prepared remarks, and now I'll turn the call back to our operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operations Instructions)

Brad Zelnick, Deutsche Bank.

Brad Zelnick - *Deutsche Bank - Analyst*

Great. Thanks so much for taking my questions. Yossi it's great to hear you're on track to migrate roughly 10% of the installed base to Inseyets this year. Two questions about that. Number one, can you just confirm for us if that's a dollar based goal or a number of customer goal? And just secondly, are you seeing the 20% to 25% price uplift as you expected?

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

So thanks for the question. I would like maybe first start with a state that there is in terms of the conversion of the Inseyets, it was a really solid Q2. As we said, we are currently in a pace to exceed the 2024 upgrade targets by 50% because we planned on about 10% and now we expect 15% of our installed base that will be upgraded to Inseyets during 2024. It's in dollars and also in number of licenses.

Okay. And by the way, I can say that also the interest is very high and it's very simple the Inseyets offer is a significant improvement of productivity and efficiency to our customers. Also said that we stated that the long-term goal is to operate the vast majority of our installed base over the next three years and I'm very pleased to say that we are pretty much confident about our ability to do so.

In terms of pricing, again, the Inseyets deliver more value than our legacy offering so far, and it does stuff that our separated models didn't do. Now we are combining them and it’s faster and it offers advance extraction and cloud extraction and other capabilities and higher-value commands, obviously, higher price tag, we spoke about 20% to 25% higher than the comparable legacy solutions. And I can say that we are successfully holding these price points when customers upgrade, which is obviously great validation of the value proposition of the Inseyets.

Brad Zelnick - *Deutsche Bank - Analyst*

It's great to hear. Thanks for the color and just to follow up for Dana. Dana, NRR ticked down slightly. Hoping you can unpack the drivers of that and how to think about it going forward? I think from the presentation it seems like it's just lower export expansion rates with existing customers. I want to make sure that's correct. And just curious, why should it not increase given all that Yossi just said you know about the great things and the uptake of Inseyets. Thank you so much.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

Thank you. Well, you know, first, we are very pleased with the business trajectory and the performance in Q2 of this year. And we are seeing a great pipeline to support our growth for the second half of the year. As I've been sharing, we have raised the midpoint of the ARR and our net retention rate is actually usually 2 points below the ARR growth basically represents around 2% contribution of new customers and new logos joining the Cellebrite, as we are already serving the vast majority of the largest law enforcement agencies globally. The NRR of 124% supports our long-term growth, and we are very pleased. We feel we have added meaningfully to our quota carriers in the first half of the year. We expect it to contribute further, especially in the Americas and EMEA in the second half going into 2025.

Brad Zelnick - *Deutsche Bank - Analyst*

Great. Thanks so much to keep up the great work.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Thank you.

Operator

Mike Cikos, Needham & Company.

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

You have Mike Cikos on the line here and thank you very much for taking the questions. I wanted to circle back to some of Dana's commentary on the multiyear commitments, but can you help us think about where does contract duration stand today. And the fact that these customers are making multiyear commitments. I think it's a great validation of their commitment to Cellebrite, right. But curious is this a newer phenomenon? Or is it part of a broader trend? Maybe it's something that we should actually expect to persist as customers migrate to Inseyets? Anything there would be helpful on that contract duration.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

So thank you, Mike. In the past, and we share these with the market, we had around 25% to 30% of the contracts with multi-year, agreements mainly actually outside of the Americas. We are seeing certain trends going both within the Americas and also with other customers. And as part of the transition with Inseyets, the customers are ready to commit for more longer periods than they've been before. We are seeing this motion, as I said, in all regions of where we are selling - Americas EMEA and APAC, and we see a slight uptick in the percentage of multiyear deals.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Maybe to add some, especially when it comes to our strategic accounts, our large accounts and our large federal accounts. Clearly, we are embracing the element of multiyear deals. It secures basically our stickiness and the commitment from both sides. And on top of that one can also contribute it to the C2C platform.

And to the fact that today I am obviously I am – we, Cellebrite, are sticky in the daily investigative work, thanks to our Collect and Review or our Inseyets suite of solutions. However, when you add into the equation, the end to end effect and the ability to get from a vendor more than just Collect and Review, but you know, covering the entire life cycle of investigation. The ability to commit long term and the interest to work long term would Cellebrite is increasing.

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

Understood. And thank you for that. And again, just coming back to the prepared remarks, I think Dana maybe you had said that part of this guidance raise anticipates some improving contribution from investments made earlier this year, specifically to the quota carrying sales force. So it's a bit of a two-parter here. The first are you guys actually trending better than expected as far as how the hiring of reps was expected to play out this year? And then secondly, are you potentially seeing sales reps scale or ramp at a faster rate than what we've seen historically? I'm just trying to tease out some, I guess, the contribution from those earlier hires this year.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

So at the earliest in the course of the year, we spoke about double investment in our EMEA and our Americas sales organization led by our new CRO, and we are actually following the plans that we have set at the beginning of the year. We have a major investment in those two regions. And we are taking into consideration that the full contribution of new sales quota carriers takes time. And so whoever joined us in Q1 will be much more fully contributing in Q3 so forth. So the heavy investment that we've done in Q1 and Q2, we do expect to start bringing fruits in Q3 and Q4 and mainly when we step into 2025.

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

Okay. So everything really does sound like, okay, thank you.

Operator

Eric Martinuzzi, Lake Street.

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

Yeah, just a point of clarification on the CyTech deal. Is there any part of that acquisition that's impacting the Q3 Q4 outlook here revenue or earnings wise?

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

So as I said, the impact is de minimus and it's many introduced in our services forecast, the total contribution to EBITDA is almost now as we have introduced some investment in governance and compliance to support the introduction of this business as part of the Cellebrite Federal Solutions organization.

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

Okay. And then the traction with the federal government, is there, will we be getting a maybe a breakout there? It sounds like it's going to be incorporated into the total company reporting. But how are we measuring that from a from our perspective, the success of that the Cellebrite Federal Solutions investment.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

So maybe I'll take it, what you need to understand is that we created or upgraded basically an already very successful and significant sized part of the company, the federal sector in Cellebrite, it was 19% of our ARR in 2023 and the growth was 21%. And the acquisition of CyTech and the creation of Cellebrite Federal Solution, what we call the "CFS", basically enables us to directly engage with federal agencies, customers and also the relevant system integrators much earlier in the project planning and in the process. And that should drive new meaningful deployments. And obviously, the sense of it is initial financial benefits which are associated with it. I would say that if I look in a long-term perspective, I do expect that this successful growing segment will get even a boost and we might even think about doubling the size of that activity in a frame of, I would say three to five years from now.

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

Thank you.

Operator

Shaul Eyal, TD Cowen.

Shaul Eyal - *TD Cowen - Analyst*

Good afternoon, Yossi, Dana, Andy, congrats on the ongoing strong performance. Dana, I want to go back to your Analyst Day and some of the metrics you provided at the time. For example, you mentioned that the public sector customer spend an average, I think it was about $190 of ARR per case. While I don't have the number of cases to run the calculation, you probably have it. Can I assume this 190 metric is actually coming a bit higher than indicated about five months ago? Maybe just a housekeeping, what was the cloud revenue mix this quarter? I might have missed that.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

I can you repeat your last question? It was very broken here.

Shaul Eyal - *TD Cowen - Analyst*

Just the cloud -- just the cloud revenue mix, I might have missed that. If you disclose that this quarter.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

Okay. So, Shaul, what we have tried to allude to in our Investors Day is the very small spend of law enforcement agency on Cellebrite solution in comparison to their total spending investigation. And we yes, we did base it on number of investigation that we are seeing being processed with Cellebrite solution.

We are measuring debate on an annual basis, not on a quarterly basis, but I do see that our ARR growth expansion, it actually alluded to the fact that more investigations are being done using Cellebrite solution and our further expansion and growth from Guardian and Pathfinder in Investigative Units actually supports that result will be measured as we end the year again. With regards to the cloud, Yossi?

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

First of all, thank you for the question. The cloud in general, is pretty much related to our ability to offer something I would say something compelling and differentiated with the C2C platform, which is, by the way, cloud-driven and AI-driven. And I'm glad to say that customers are showing really appetite for cloud-based solution of Cellebrite, cloud revenue and ARR continue to grow.

It's representing low double-digits as percentage of this Q in 2024 revenue and ARR. And I would say that we see, based on what I said in the trends, tremendous opportunities in that respect and we expect cloud solution, I would say to represent a larger percentage of revenue and ARR over the coming quarters and years. And that's that.

Shaul Eyal - *TD Cowen - Analyst*

And Yossi if I may, how should we be thinking about competitive landscape and you know, specifically what you're seeing out of Magnet Forensics? Thank you.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Question was about competitive? We have some quality issues here. So it was about the competitive landscape?

Shaul Eyal - *TD Cowen - Analyst*

Exactly, about the competitive landscape, Magnet Forensics, specifically. Thank you.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Look, I'm giving you an answer basically as an industry leader here and industry leader, which is placing itself in the market with an end-to-end portfolio. And there is while we are talking about a multi-vendor environment, as we all know, there is only a limited number of competitors who can deliver credible end to end solution.

And that's the first statement. I would say that side-by-side with the Collect and Review piece, this is our major relative competitive advantage today and into the future. In the DFU we have clear leadership in Android and iOS, and that comes on top of the end to end. To the competitors, specifically, we've seen I would say no material changes to the competitive landscape in this quarter.

I have to say, and this is not by playing arrogant. We are, if we continue to produce this growth we can and we are more confident today about our strategic direction and our market position. By the way we spoke about it last quarter. And if you're talking about that specific competitor, certain competitors literally emulate our platform orientation and also our marketing messaging, which makes me happy because as a leader, I'm leading the context in the industry.

And so that's to that. I would say that we are more focusing about what we do and what we have seen from competitors, and maybe as an add-on, there was a moderate price increase. And that was shown by not only by us, but also by Magnet and some others. And this is generally consistent, I would say, with a historical mid-single digit level of price increase that the market sees.

Shaul Eyal - *TD Cowen - Analyst*

Thank you so much and good luck.

Operator

Jeff Van Rhee, Craig Hallum.

Jeff Van Rhee - *Craig Hallum - Anayst*

Great thanks. I'll add my congrats, really nice numbers here. On the Inseyets rollout, I'm curious what progress you've made in terms of penetration of Premium into the base and the impacts that the new platform has had in terms of potentially accelerating the adoption of those Premium capabilities.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Look, I call it, let's put it this way, let's call it the Premium and all the suite of solutions that Cellebrite offers regarding what we call lawful access. And we continue to make good progress with advanced lawful access solutions in general. And I can say that we are very satisfied that the rate of Premium and other parts of the Collect and Review of the lawful access modules within the Inseyets family increased several percentage points from the mid-20s level, which we had in Q1, to the high 20s level at the end of Q 2024.

And maybe to add to that, I can say that we are very optimistic and confident that the advanced local access modules will continue to see strong adoption across the focus of our customers in the coming years.

Jeff Van Rhee - *Craig Hallum - Anayst*

Yeah, that's great. Great progress. And then on the AI, obviously, I think the demo that you did at the Analyst Day is one of the most compelling I've seen in terms of value add of conversational AI. You talked about the road map of AI and you're integrating it throughout the platform. I'm wondering, though, if it's if there are instances where that's going to be less than gradual, namely you have meaningful new product introductions that have meaningful ARPU impact. How does this play through of AI show itself in terms of product introductions, and more importantly, revenue uplift over the next year or two.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

So first of all, we need to understand that specifically in our area customers place, I would say, high-value on AI capabilities that we brought into the market in the past. As we said, we've been there since 2016 with home made, grown AI capabilities. Customers by the way, when we talk to them the report that leveraging AI makes them achieve really step-function increases.

And we're talking here about speed, efficiency, and effectiveness. We are planning to align I would say, key product and technologies and also go to market, which is related to that, and to advance the AI innovation further, there will be a focus on the entire C2C platform because if you think about it and maybe a little bit more concrete, if you think about our activity and about investigative activity, there is many analysis where unlocking, I would say Inseyets on visual and audio content is critical and can be massively upgraded with AI. There is the element of text analytics., so the coding and looking at text and text based evidence. And then there is also the element of cybercrime and maybe specifically in our case crypto currency and the ability to bypass traditional elements and accelerate by identifying a persona, and I would say misuse when it comes to crime cases. So basically, if you think about what I just said, it's across our portfolio. Okay. And we have clear attention to invest and to expand in that area throughout the entire C2C platform.

Operator

Brian Essex, JPMorgan.

Brian Essex - *JPMorgan - Analyst*

Hi, good morning and thank you for taking the questions. I want to follow-up to question on Inseyets from Brad, Jeff. Can you maybe give us an insight around what percentage of your customers come up for renewal in the back half of the year and what the conversion rate tends to be to convert customers to Inseyets on renewal, what does that decision process look like for them? And can they -- how difficult is it for them to migrate budget toward technology for to address better efficiency the platform offers.

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

Thank you for the question. Well, as I mentioned before, around 53% to 55% of our business is actually generated in the second half of the year, powered by the fact that Q3 is the end of the fiscal year and Q4 is the end of the annual financial year for most for a very large number of customers. I would not count necessarily the customers because the federal customer is a large one.

You know, it varies on to the installed base of licenses that are holding, they have much larger installed base than the smaller customers. So I think it's really about how much of the installed base is up to be renewed from a percentage perspective and customer. And I would say that due to the fact that we are looking at our larger customers towards the second half of the year, the renewal actually follow up the seasonality of the business itself. So it's 53% to 55% of the renewal business is also generated in the second half of the year. We are seeing great interest in Inseyets by all of these customers that we are approaching. The issue is really around can they make plays to the Inseyets upgrade and budgets required and whether they are now being preparing those for next year.

As Yossi said, we upgraded or increased our expectation from 10% conversion to 15% conversion of our installed base. And this is actually supported by the opportunities that we are seeing for the second half.

Brian Essex - *JPMorgan - Analyst*

Great. That's helpful. And maybe on Relativity, can you talk about the economics for that partnership? What are the incentives look like across the partnership? And do you significant overlap with them?

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Was it about Relativity, the questions?

Brian Essex - *JPMorgan - Analyst*

Yes, correct. Just looking for an understanding of the economics with the Relativity partnership, what incentives look like and how much customer overlap you might have with them?

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

So Relativity partnerships has, I would say, a substantial potential in terms of business increase. I'm talking about, we are talking here about a product introduction between two leading players. Basically we are coming from the mobile and Relativity is the leading e-discovery platform. And obviously, the combination of that, the e-discovery platform, of RelativityOne with our remote collection to mobile and to computer a really improved customer standards of workflows.

For us, it means that we can leverage and reach a much larger installed base with the Enterprise Solutions segment. And clearly we have joint marketing activities, market education and thought leadership. We can basically improve our position there. We are at the beginning of this partnership at the moment, just like any other partnership that we need to make sure that there is alignment on the quota carrier side and to execute those programs but it's something really meaningful and solid that can take us to a different level when it comes to the private sector. Let's put it this way, it gives us in any case, the confidence, well, giving us the confidence that we can meet our targets when it comes to the private sector in '24 and beyond.

Brian Essex - *JPMorgan - Analyst*

Great. That's helpful color. Thank you very much.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair - Analyst*

Yossi, Dana and Andy, good morning. What has been the early feedback for C2C? I know it was only released in January, but is C2C driving Pathfinder adoption?

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Let's -- I would like to say maybe the following. First of all, I'm glad to say that the perception of the C2C and the end to end in general resonates very well when it comes to our customer base. This is one item, as you know, Louie we are in a very early days of the C2C platform and we brought that because the perception of an end-to-end is pretty much consistent with a broader digital transformation trend and the need to modernize the mode of operation of our customers, especially in the public sector.

So since we're in the early days, the percentage of customers that implement today, the C2C end-to-end is still quite small. But on the other end, since we spoke a lot about the trends and about the need to transform the digital life cycle of investigations. We are very optimistic that more customers will deploy, I would say, multiple Cellebrite solutions within the C2C platform.

And especially as we integrate them more it will enable a great ingestion of data flowing, let's say, from the forensic side into the investigative side. On top of that, maybe worth mentioning, as I said, we are investing a lot in cloud enablement. And let's not forget that the cloud is such that it will make it even easier for our customers to adopt more solutions of the C2C into the future. And we expect, obviously, as we said, further progress as part of our roadmap, which will bring value to more C2C interest by our customers.

Louie DiPalma - *William Blair - Analyst*

Great. That makes sense. And for Dana, you raised your full year EBITDA guidance by 23%. With the strong operating leverage thus far this year, it seems that your long term margin outlook that you provided at the Analyst Day could be conservative? Are there any major margin headwinds on the horizon that we should be aware of? Are there any large acquisitions with lower margin profiles that you are considering or products with dilutive margins? How should we think about the long term margin profile relative to your recent strength?

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

Well, first, we are very happy with what we've delivered thus far and the fact that we could exceed expectations, even though. I would say that at this stage, we are not changing our long-term model. We are now modeling our 2025, which will be shared with the market early next year. When we look at our EBITDA margins, the nice performance, on revenue, and the figure that we are gradually and consistently growing our OpEx to support this top-line efforts actually is the one that supported most of the growth in our EBITDA with a favorable gross margin. As I said, no changes to the models at this stage, we will revisit and update if necessary, early next week -- next year.

Louie DiPalma - *William Blair - Analyst*

Thanks a lot.

Operator

Tomer Zilberman, Bank of America.

Tomer Zilberman - *BofA Global Research - Analyst*

Hey, guys. I wanted to ask maybe a more broader picture about revenue and ARR trends. You raised your revenue guidance pretty solidly above expectations, whereas the ARR guidance raise was a little bit more modest. So I wanted to ask the difference, what's driving the difference in the magnitude between the revenue guidance raise and the ARR guidance rate?

Dana Gerner - *Cellebrite DI Ltd - Chief Financial Officer*

And we'll first, you know, we are very pleased with our ARR performance. It is in line with what we planned and it is in line with what we communicated is our expectations for the market. The improved revenue performance is really associated with the product mix of how much of the product is actually on prem compared to the journey to the cloud and how much of the deal is a one year deals compared to multi-year deals, and we usually look at multiyear deals more towards the second half of the year.

We enjoyed some multiyear deals also in the first half of the year, which we didn't plan and generated a slightly higher revenue than we have actually forecasted. So I do believe that the ARR growth and the fact that we are continuously meeting our target is a great sign of the company's progress and ability to continue in a tenanted offering and broadening solutions within its customer base. I think that --

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

I think the key here. And when you think about Cellebrite, is Cellebrite well positioned for, I would say, durable growth and profitable growth. And the answer is clearly yes, as Dana said, great quarter. We raised the midpoint of the ARR for 2024. And if we look and going back to the Investors Day, which was mentioned here the midpoint, is even higher than our 24% long-term target as we listed. So I think that we are in a great place.

Tomer Zilberman - *BofA Global Research - Analyst*

Got it. And maybe just as a follow-up going back on the previous question on the Relativity partnership, does that expand your expectations for private sector contribution, which I think is still around 10% of the business?

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

As I said, it's more at this stage, gives us the confidence to say that it will help us to meet the targets that we anticipated that we will do. So combining forces with a review leader. While we are coming from a remote collection leader, it will enable us to meet the targets. Just like any other partnership we are in a start phase. We need to see that were executing properly on both sides. It's also a cultural element of companies are working together. And then if we will be able to update and accelerate, we will be glad to update about new targets.

Tomer Zilberman - *BofA Global Research - Analyst*

Thank you.

Operator

Thank you. This will conclude today's question and answer session. I will now turn the call back to CEO, Yossi Carmil.

Yossi Carmil - *Cellebrite DI Ltd - Chief Executive Officer, Director*

Thank you very much. So look, first of all, thank you, everybody, for joining, and thank you for the trust and the interest. I want to emphasize that we are in the middle of the road for 2024. But based on what we had executed so far, we are pretty much sure about our ability to meet the upgraded targets that we just gave and updated you all about. You can expect really great things from us. I would like to use the opportunity and thank again to the all the Cellebrite employees about a very strong quarter. And thank you all for participating.

Operator

Thank you. This concludes the Cellebrite second quarter 2024 financial results conference call. You may disconnect your line at this time and have a wonderful day.