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CLBT.OQ - Q3 2021 Cellebrite DI Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 10, 2021 / 1:30PM GMT

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PRESENTATION

Anat Earon-Heilborn - *Cellebrite DI Ltd. - VP of IR*

Welcome to Cellebrite's third-quarter 2021 financial results earnings call. Joining me today are Yossi Carmil, Cellebrite's Chief Executive Officer; and Dana Gerner, Cellebrite's Chief Financial Officer. This call is being recorded, and a replay of this recording, as well as a copy of the presentation that accompanies this call, will be made available on our website shortly after the call. A copy of today's press release and financial statement, including GAAP to non-GAAP reconciliations as well as supplemental financial information for the third quarter, are available on the investor relations website at investors.cellebrite.com.

Statements made during this call that are not statements of historical fact constitute forward-looking statements. All forward-looking statements are subject to risks, uncertainties, and other factors that could cause matters expressed or implied by those forward-looking statements not to occur. They could also cause the actual results to differ materially from historical results and/or from forecasts. Some of these forward-looking statements are discussed under the heading Risk Factors and elsewhere in the company's registration statement on Form S-1 declared effective by the SEC on October 6, 2021. The company does not undertake to update any forward-looking statements with respect to future events or circumstances.

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

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

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Thank you, Anat, and thank you for joining our call today. This is our first earnings call as a public company, but many of you have been following our progress since the beginning of the going-public process back in April, and I would -- firstly, would like to thank you for your interest and support. We are thrilled to start our journey as a public company by delivering progress on our strategy, and all that together with the strong financial results. Just to refresh, our strategy is to lead the digital transformation of our customers' investigative units, and becoming a one-stop shop digital intelligence leading vendor.

In Q3, we continued to see a momentum with large and multi-solution deals which we had highlighted earlier in the year. We are pleased to report, this quarter, 25 deals larger than $0.5 million compared with 15 such deals in Q3 last year, including our largest deal ever of approximately $10 million with a US federal account. In the first nine months of this year, we had 58 such deals, reflecting a growth of 76% compared to the same period last year. The large deals reflect the successful upsell of additional licenses or new solutions to existing customers, as well as the increasing multiyear term-based deals.

This momentum is a reflection of the success we have had within the public safety sector as part of the digital transformation process of strategic accounts, and the success in transitioning these customers to the term-based model from their prior preference for one-time perpetual license, given their budgetary structure.

We are excited to see upsell driven this year by Premium, our high-end, collect-and-review solution, with new license sales in Q3 to customers such as two federal agencies and one state police force in the United States, a European ministry of interior affairs, and a municipal police force in the Near East. We are also -- we successfully launched a Premium Enterprise solution and began deployments of the orders made even before solution availability while receiving new orders from customers such as a county police force in the UK, two county sheriff's offices in the USA, a customs authority, and others.

As a reminder, Premium is our advanced collect and review solution, providing unlock-and-extract capabilities for leading iOS and Android devices. It is typically installed in a central location that can meet our strict security requirements. Now the new solution, the Premium Enterprise, is designed to decentralize our advanced capabilities while maintaining the strict security requirements found in Premium. The Premium Enterprise allows us remote connectivity to UFED, the most widely adopted prime collect-and-review solution. And this enables our special capabilities on every UFED, and improving significantly customers' investigative mode of operation.

Let me share with you two win stories which provide some color on demand drivers for our solutions.

So a typical demand factor and growth driver for Cellebrite is backlog of devices that needs to be investigated. For example, one of the large wins in the quarter was with a national correction facilities network in one of our large markets. Historically, this customer spent between $100,000 to $200,000 with us annually. While the network includes multiple correction facilities, the customer was -- or the facilities were all working with one lab and a small team. Now this lab was unable to keep up with the numbers of mobile devices that were smuggled into prisons. Now, engaging with a senior government officer and conducting an extensive proof-of-concept, we secured a seven-digit order which includes distributing Responder, our simplified field solution, in the correction facilities, and also using Commander, our license management solution, in order to automate the generating of data on their usage.

In addition, the deal includes services to bolster the customer's lab capabilities, train the teams, and implement best practices. Despite the fact that the customer booked, this quarter, approximately 10 times its previous year spend with us, we believe there's additional upsell potential within this customer in the future.

A second example is a European country national police force that purchased multiple solutions including UFED and Physical Analyzer, Pathfinder Premium, UFED Cloud, Seeker, Inspector, and Digital Collector, as well as training, in a multimillion three-years deal. This police force will now be able to collect and review data from mobile, from computer, video and the cloud, and analyze their findings across numerous investigation units throughout the country, and not only as so far in central police stations. This customer is adopting a highly progressive approach to investigations, aspiring to expand the adoption of digital intelligence in the police force to overcome bottlenecks and increase efficiency.

We expect this approach to become more widespread as part of a global trend to digitize multiple aspects of the police force. This swing was achieved through close engagement with senior level at the agency and a flexible approach that enables tailoring the deployment to the agency strategy and specific needs.

Now these two examples I've shared help explain how we constantly and successfully generate best-in-class net retention rate, which was 139% for the 12 months ending September 30, 2021. Furthermore, we believe the spending potential of our existing customer base is significant, and we are very focused on capturing this additional opportunity. Now our vision of a comprehensive digital intelligence platform that allows users in agency to collect, review, analyze, and manage digital data is a significant step forward from today's siloed manual and backlog process. The discussions of such a step forward are held at the agency's executive level. And in Q3, for example, we engaged with the most senior officers of the police forces at three of the largest 20 cities in the United States to discuss our end-to-end digital intelligence platform.

Now having such discussions is, first and foremost, a testament to the quality of our sales force. We invested in high-caliber account executives, and, by that, upgraded our ability to manage strategic accounts. And, second, we view such discussions as a positive sign in the continued interest of major law enforcement organizations to educate themselves and adopt leading digital intelligence tools.

Now, of course, such a step forward will also take time. The processes involved in digital transformation are complex, because it requires not only our solutions, but also investments in infrastructure and personnel on the agency side. This complexity is one of the reasons we expanded our service offering, as I elaborated on our previous call. The consulting services and training we offer assist customer in this transition.

Now in the past few months, we continued to enhance and expand our digital intelligence platform to make the investigative process smarter, faster, and efficient, and pursue our vision of digitizing the entire investigative lifecycle. Starting with organic development, in Q3, we introduced a new version of Guardian, our digital evidence management solution, and the industry's first remote mobile collection.

Let me start with Guardian. We view the Guardian solution we introduced as an important and strategic component in our digital intelligence platform. The world of digital evidence management is evolving quickly as public safety agencies are very challenged by the need to manage an increasing amount of digital evidence, while at the same time maintaining the chain of evidence, ensuring compliance, protecting privacy, and meeting an increasing number of accountability requirements.

Now most agencies today are still managing data manually. And most of the alternatives to that manual process are digital evidence management solutions that specializes in operational data which is generated by agencies themselves -- for example, from in-car, body-worn cameras or CAD/RMS systems. While such solutions are transforming agencies' operational ecosystem, Cellebrite Guardian is a digital evidence management solution that specializes in the investigative ecosystem. It is linked to actual investigative data generation through our collect and review offering. This enables a holistic approach towards data, evidence workflow, and case management, including elements of storing, sharing, and review through the investigation process in order to make investigations faster and more efficient.

Now all this now is offered in a SaaS solution, further enhancing efficiency and cost-effectiveness. And this is our first SaaS solution which is another dimension of strategic importance. We believe that readiness of the public safety sector for SaaS solutions is on the rise, and we are committed to enhance and expand our offering in this space.

Regarding remote mobile collection, the remote mobile collection is an important capability for the private sector where corporate investigations, e-discovery, and incident response often require collecting information from a distributed workforce. Now with content-based, automated remote collection from both computer and mobile devices, the disruption to the workforce is minimized. Cellebrite is the first to market with this capability due to our domain expertise on the mobile collection.

Let's discuss the inorganic portfolio expansion. We recently announced the acquisition of Digital Clues. We are obviously excited about this acquisition as we see open-source intelligence as an expansion of our digital intelligence offering, upgrading Cellebrite's competitive differentiation as an end-to-end digital intelligence platform provider. Open-source intelligence is the collection and analysis of data from many publicly available sources, including the surface web, deep web, and dark web. Agencies are all engaged in such activities in a simple and manual manner. This can be as basic as checking a suspect's Facebook profile, but few use an automated solution as their part of their investigative workflow.

The addition of this OSINT capability to our digital intelligence platform is a natural expansion. It enables quick information gathering in early stages of the investigation, and, as such, fits our value proposition of making investigations smarter, faster, and more efficient. Our extensive footprint and strong customer base provide a significant cross-selling opportunity here, and, as such, adds almost another $1 billion to our TAM.

Now reaching this scale will require delivering the strong Digital Clues cloud-based technology as an integrated solution so that open sourcing intelligence is fused into Pathfinder, our analytics solution, as another layer of data that enriches Pathfinder's analytics capabilities. This will require some investment in R&D, and it will require time. We are excited about this new offering that expands our addressable market, and we welcome the Digital Clues team which will join us in the coming days after the upcoming closing of the acquisition.

So in summary, we are very pleased with our performance in the third quarter, and with continued success we have had in executing on our strategy. We are excited also that our top customers remain committed to leveraging our suite of solutions to improve their efficiency and outcomes. We continue to innovate our portfolio by increasing the scope of our offerings as we focus on helping our customers apply their digital transformation initiatives in their investigative workflow.

Now combined with a healthy spending environment and budget availability of law enforcement organizations, we have a tremendous market opportunity, and we are confident in our ability to execute as more organizations recognize the vast potential of our digital intelligence platform. And, above all, we remain committed to our mission to accelerate justice, protect and save lives, and preserve privacy. And I'm proud of our team's success in this quarter.

Now with that, I will turn the call over to Dana to discuss the financials.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Thank you, Yossi. Hi. I'm very pleased to present the analysis of our results for the third quarter of 2021. From a corporate perspective, going public made this a milestone quarter for the company. And from a business perspective, we continue to deliver strong financial results that exceeded our expectations in many parameters, demonstrating strong execution on our go-to-market strategy, delivering growth primarily through expansion within our existing customer base.

Let's start with revenue, where we enjoyed a very strong performance in Q3, a clear trend since the beginning of 2021 which we expect to continue in Q4. Total revenue in Q3 was $65.9 million, up 24% from Q3 last year. Revenue for the historic nine months of the year was $178 million, up 29% from the first nine months of 2020, well ahead of our expected growth rates for the full year, which was 21%.

We are also pleased with our ability to deliver the outperformance despite a global supply chain challenge. As you know, electronic components are required for the accessories that accompany some of our software licenses, and our operations team resourcefully secured our needs for Q3 as well as Q4.

Looking at the different revenue streams, we are meeting our target to increase the proportion of subscriptions in our overall revenue mix, and subscription revenue was the main growth driver in Q3, at 46% year-over-year. We are particularly pleased with the year-over-year growth in terms of license revenue, which was 131% for Q3 and 135% for the first nine months of the year. As Yossi mentioned, we are seeing an increase in multiyear deals. Such deals have an upfront revenue recognition component; and the longer the deal, the higher it is. Therefore, the shift to multiyear contributed to the revenue growth of term licenses revenue and strengthened the predictability of future revenue and ARR.

As I mentioned in our previous call, in May this year we introduced UFED and Pathfinder also in term-based model. Therefore, it was expected to result a steeper year-on-year declines of perpetual licenses in Q3 compared to previous quarters. And, indeed, perpetual licenses and other revenue of $6.7 million decreased 44% from Q3 last year. Much of our service revenue comes from instructor-led training classes which were negatively affected last year by social distancing and travel limitations relating to COVID-19. With the opening of the main markets in which we sell professional services revenue of $8 million grew 25% from Q3 last year.

Moving to ARR -- ARR grew 42% year-on-year, reaching $171 million by the end of September 2021. The main drivers for ARR growth were the up-sell and cross-sell of additional modules and solutions to an existing customers, which ties in with our high net retention rate of 139%. Out of the 42% total ARR growth, 37% came from upsell and cross sell, and 5% from new logos. The majority of the upsell and cross sell was generated by our Premium solution, similar to what we experienced in the first half of the year.

As mentioned in our previous call, we introduced a term license model for Premium in late 2019, and enjoy strong acceptance within our customer base. The fundamental demand for Premium advanced capabilities is strong for the reasons Yossi described. And we also believe the term license model increased the attractiveness of this solution due to the simplified pricing structure it offers .

The dynamics for UFED are somewhat different. UFED's perpetual license model has achieved significant market penetration, and customers need time to transition to a term-based model. Although, conceptually, customers are accepting the new model, the administrative and budgetary processes for a new model can be lengthy. The introduction of the Premium Enterprise solution, described by Yossi, which is designed to decentralize the advantaged capabilities by allowing remote connectivity to UFED, will, in our opinion, support the willingness to such transition to a term-based model.

The transition to term licenses was always expected to be gradual over the coming 2 to 3 years, given budget structure in the public sector. Now that we have gained more insight into customer internal processes, we expect a transition pattern that is less linear and more weighted towards 2022 and 2023 customer budget years, allowing us to meet our ARR target.

Moving to operating expenses, which I will discuss on a non-GAAP basis so that share-based compensation, amortization of intangible assets, acquisition-related expenses and one-time expenses are all excluded. One-time expenses were particularly large this quarter, given the cost related to the completion of the business combination and going public. The revaluation of the financial instruments related to our de-SPACing process, as detailed on our balance sheet, resulted in net finance income. These financial instruments will be reevaluated on a quarterly basis to the market fair value of our shares and warrants and this revaluation will be presented in the financial income or expense line.

Let's go back to non-GAAP OpEx. Non-GAAP operating expenses of $40.5 million increased 30% from Q3 last year, primarily due to headcount increase and travel and marketing-related expenses resulting from the market opening to face-to-face meetings. We increase headcount by 23 employees during the quarter, ending September with 843 employees. We continue to recruit mainly in the areas of R&D and sales, and are aiming to reach 900 employees by the end of March 2022.

Non-GAAP operating income and margin in Q3 2021 were $13.5 million and 20.4%, respectively. Adjusted EBITDA and margin were $15 million and 22.8%, respectively. Adjusted EBITDA exceeded our expectation for 15% margin on an annual basis, reflecting the operating leverage that is a result of exceeding our revenue expectations for the third quarter as well as the nine-month period.

Our 15% margin expectation was also based on the exclusion of costs associated with becoming a public company, mainly Board expenses and directors' and officers' insurance. We started incurring these costs in September, and are pleased to have nevertheless delivered higher-than-expected profitability. Q4 will be the first quarter that will reflect those expenses in full.

Q3 net income was $8.1 million, and fully diluted earnings per share was $0.05. Non-GAAP net income was $13.3 million, and non-GAAP fully diluted earnings per share was $0.08. However, please note these are not representative figures going forward, as they are based on a share count that is a weighted average between the two months of our historic ownership structure and one month of the new post-going-public ownership structure. For modeling purposes, we recommend taking into account the fully diluted shares outstanding as it was at the end of Q3, which we estimate to be approximately 198.5 million shares (technical difficulty) 10 million shares would be added. Operating cash outflow in the third quarter of 2021 was $8 million, impacted mainly by the going-public-related expenses.

In the 12 months ending September 30, 2021, there was an operating cash flow of approximately $38 million, and free cash flow of $30 million. We ended September with approximately $172 million of cash, cash equivalents and short-term investments. In the coming days, we expect to spend approximately $20 million on Digital Clues acquisition.

As the acquisition will close in Q4, it will not have a significant impact on our 2021 financial results other than the cash spend. In 2022, we expect Digital Clues to have a small positive impact on our ARR and subscription revenue, and to incur higher R&D expenses as we integrate open-source intelligence into our DI platform. We will provide an update on our 2022 outlook with our Q4 2021 results.

And, with that, I would turn to our updated 2021 outlook. We are very pleased with our results for the third quarter and the first nine months of the year, which have exceeded our expectations in most parameters. We now increase our 2021 guidance so that revenue is now expected to be between $241.5 million and $243.5 million, reflecting growth of 24% at the midpoint, up from our previous expectation of $236 million and 21% growth.

We expect adjusted EBITDA to be between $45 million and $46.5 million, reflecting a margin of approximately 19% at the midpoint, up from our previous expectation of $36 million and 15% margin.

As for ARR, we now expect to end the year with ARR growth of approximately 34%. This guidance reflects the mix between term licenses and perpetual revenues so far in 2021, as well as the longer administrative and budgetary processes acquired by our customers in transitioning their large UFED installed base to term licenses, and to adopt an end-to-end digital intelligence platform, as Yossi mentioned. At the same time, we see the quality of our ARR improving more than we originally expected, given the higher proportions of multiyear deals it comprises.

We are constantly evaluating additional avenues for investment in our topline growth. Our expectation is to end 2021 with higher earnings compared to the initial term enables us to make such investments, and we are glad to be in this position. We will provide more color on this on our next call.

And with that, I will turn the call to the operator to open the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Shaul Eyal, Cowen.

Shaul Eyal - *Cowen Inc. - Analyst*

Thank you. Good morning, or good afternoon, guys. Congrats on the results and guidance. Yossi, as we think about the overall healthy trends you're seeing and expressing, when we apply that into your product offering, your end-to-end platform, is there one product which is standing out, rather than the entire portfolio? Or the strength you're seeing is pretty broad-based right now?

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Shaul, thank you, first of all, for the congratulations. Highly appreciated. And to your question, I would say we are, let's say, performing very well in all fronts, but particularly in the collection and review piece, and over there with Premium and with Premium Enterprise -- the new launch -- Premium, and Premium Enterprise. We are about to launch the management solution, so that's basically not yet in action. We have got Commander, the license management fleet. And the investigative analytics we are growing, but nothing is compared at this stage to the success we had with Premium, and Premium Enterprise. I would say that that has a specific reason because we have to remember that in the field, out there, we've got approximately 28,000 UFEDs well entrenched as the primary tool for collection and review.

The Premium contains specific capabilities which are related to the highest models of Android and iOS. And, obviously, there is a wish to get those special capabilities, but under -- as I mentioned before -- pretty much strict security environments. The Premium, therefore -- and based on the fact that I think that on one year ago, we have changed the model in an unlimited -- was basically well embraced, and enabled the much larger distribution of the Premium. And this was before we just, as mentioned, came with a Premium Enterprise which has a tremendous impact on the ability of every UFED to get a distributed special unlock capabilities to each UFED in the field. And that also improves dramatically not only the ability of the UFEDs to get those special capabilities, but also enables the forces to improve their mode of operation rather from a slow manual work. Sometimes entities have hundreds of UFEDs but only a few Premiums. So real as it is, they sometimes have to move evidence manually between one location to another. The fact that we bring right now a distributed capability and decentralized with Premium Enterprise basically solved that issue, cost -- save expenses and improve the mode of operation. So those are the main reasons that the Premium is overachieving. And we anticipate that it will continue this way, the sweet spot of this potential opportunity with Premium and Premium Enterprise is enormous.

Shaul Eyal - *Cowen Inc. - Analyst*

Understood, understood. Thank you for that. In my follow-up, one of the main discussion points within the technology and nontechnology sectors over the course of the past few months had been obviously supply chain constraint. It would appear from your performance and guidance that you're not supposed to be seeing, but I want to hear how you guys are thinking about it internally.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Dana, would you like to take it?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes, so thank you, Shaul. Actually, we've seen those trends more than a year ago. And we started adjusting our supply chain methodologies to be able to purchase up front for a much longer lead time component. And, as such, we have happily succeeded to conclude Q3, and we will be able to conclude Q4 with full ability to provide all of our sales needs. We actually also stepping into 2022 with a very strong position. And, of course, nobody knows what's going on to be there. But we have a good contingency plan, and we hope we'll be able to continue to perform accordingly.

Shaul Eyal - *Cowen Inc. - Analyst*

Understood. Thank you so much. Congrats.

Operator

Jonathan Ho, William Blair.

Jonathan Ho - *William Blair & Company - Analyst*

Hi, good morning. And let me echo my congratulations, as well. Just wanted to start out with -- I guess can you give us a sense of the customer spending environment, maybe how budgets are these days? And help us understand how to think about potential stimulus from the Biden administration.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Would you like to start?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Yes, maybe I will start. Especially in the US market -- and you referred to the stimulus funds -- we are seeing actually the opposite of what we were afraid of, which were budgetary cuts. We see enough budgets of our customers. What we see is mainly the challenge of our customer to be able to obtain those funds for digital intelligence, although, in some cases, many of those stimulus funds were appropriated for crime fighting due to the increased crime that is experienced in the US now. So our salesforce are actually working with those customers on ways to allocate those funds to their digital intelligence needs. And we don't see any budgetary constraints substantially on our customers.

Yossi, if you would (multiple speakers)

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

I would like to add that we see the contrary -- and, by the way, thank you for the congrats. One year ago, maybe two or three quarters ago, there were lots of concerns about police de-fund. Now we hear more and more about police re-fund, and especially in the segment of the state and local in the United States. I'm referring, in US language, 50% of our strategic accounts are North American accounts. So in that context, state and local governments are basically showing a positive context of re-funding. And, indeed, the US Fed gov has basically created this rescue fund to be used at the state level.

But it's funny; I've been in the US last week as part of our QBR and plans for next year, and those that -- it's unclear, the usage of many of those funds are -- it's not necessarily for technologies. It is all over the place. And there is a little bit unclarity on that respect. One thing and one trend is clear: we are -- if we had concerns 3 to 4 quarters ago -- as I said, right now, it's more in the de-funding and pro-funding, and we are pretty much optimistic about that. Also for the future, it will relate to the fact that the PDs -- local, state -- will be the major, I would say, investment segment of Cellebrite into the future.

Jonathan Ho - *William Blair & Company - Analyst*

Got it. And then just as a follow up, can you give us some additional color on some of the large deal activity that you are seeing? I mean, this has picked up pretty significantly. Can you help us understand how much is coming from upsell to Premium versus how much is coming from new product areas? And how sustainable is your ability to capture more wallet share from existing customers? Thank you.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

I would say the following: first of all, one needs to understand that the Premium Enterprise is in upsell. It is a new solution. The Premium Enterprise is not just a feature or a capability which is just a new version of the Premium. It is a complete new solution with a completely different distribution system, a dedicated hardware which is completely different, a very smart adopter protected. And to come also very soon in -- or to come later on also in a SaaS flavor, which by the way, enabled not only strategic accounts, but also small longtail and midsized prime account to get that capability.

So first of all, Premium Enterprise is a classic upsell. As to the wider item, as we said from the beginning as we did the journey, and already now we are pretty much confident and stable with our growth plan. And the growth plan is based on the fact that we are sitting the public safety. We are sitting by 5,000 agencies, out of which roundabout 250 -- by the way, going to be a higher number in the beginning of 2022 of strategic accounts. And as we analyzed our penetration level within those accounts, in comparison to the potential we analyzed mid-2020, was around 20%.

So our potential growth within our, I would say, a few hundred of strategic accounts and midsized prime accounts is tremendous. And this is why we stand with our forecast or our estimation that on every dollar we have seen so far in the lab and in the field, based mainly on collection and review and slowly but surely. And obviously, with services like training academy and the start of the investigative analytics, we plan to see an additional $4 from those customers in the coming three years. So it is a 1 to 4 ratio. And I have to say in all the places where we really implement, if you remember my example during the opening ,we don't see a ratio of 1 to 4 when they do DI investigative or digitized investigative decision or digital transformation. It is actually more 1 to 10, 1 to 15, 1 to 18 ratio. So we are very confident about it.

We have a great position in the lab and outside of the lab with collection and review and with the great ability to expand with more collection and review, selling more to new buying centers, new labs, new fusion centers, and also grow within the investigative flow with investigative analytics and the Guardian, the management, which is a key element. So I hope that answers, but that's in a nutshell.

Operator

Mike Cikos, Needham & Company.

Mike Cikos - *Needham & Company - Analyst*

Thanks for getting me on here, guys, and I appreciate the questions. I have two. But the first thing I did want to come back to -- just so you are aware, but there was a lot of, I guess, scratching of papers. And then at one point, the earnings call actually went quiet for maybe a couple minutes. Just so you know, it was during Dana's comments when you were talking to the -- the last thing I heard, really, was the fully diluted share count at the end of Q3 was around 198.5 million shares out. And then it kind of tuned back in right before you provided the updated guidance on calendar 2021. I did just want to call that out. Because I know that you're trying to provide all these new disclosures since this is your first quarter, and I just wanted to bring that to your attention. If you wanted to hash that out again, because the call was quiet earlier -- that I just wanted to make you aware of.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I think this is very -- thank you very much for that. I think it was just because we know the count share is a very important analysis, so we will just say a few words about that so we are all clear. So in principle, as you could also see in the presentation, our current count of shares on a fully diluted basis is 198.5 million shares, which is comprised of [180 million] (corrected by company after the call) shares and 18.5 million shares underlying the granted employees' option.

What I discussed further was the fact that on top of that, we have 7.5 million earn-out shares owned by True Wind Capital, the sponsor, and 15 million seller earn-out shares, which are both conditions reaching certain thresholds of share price and as such not included in the count. On top of that, there are 20 million public warrants and 9.7 million private warrants that can be added to that.

We do believe that maybe for calculation basis, those should actually be looked at on a cashless basis, which brings them down to approximately 10 million shares. So that's what I have to say with regards to the share count, and I hope it is a little bit more clear now. (multiple speakers)

Anat Earon-Heilborn - *Cellebrite DI Ltd. - VP of IR*

The explanation about the guidance, did you hear that? Were we back by then?

Mike Cikos - *Needham & Company - Analyst*

You were. Yes, we had gotten back right around the time that Dana had started to talk about the raise to revenue, with the new midpoint being plus-24% year on year, and then the adjusted EBITDA -- the updated range with the 19% margin at the midpoint.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

I think the main issue that was missed there is the fact that I mentioned that our cash balances are around $172 million that we are about to spend in the coming few days, upon closing the Digital Clues acquisition, $20 million. And that we do not expect Digital Clues, taking the fact the close of the deal will be late in Q4, will contribute significantly to the financial results of this year.

Nevertheless, I did mention that in 2022 we expect Digital Clues to have a small positive impact on our ARR and subscription revenue, and incur a higher R&D expense while we are integrating the open source intelligence into our DI platform, as Yossi mentioned in his discussion of the matter. But I believe, then, I went to the guidance, so we are now caught up on the entire missing part. Thank you.

Mike Cikos - *Needham & Company - Analyst*

Yes, thank you. And thank you very much for the clarification. I was hoping to get just a couple questions since I know we were just clarifying some of the prepared remarks. And the first question I have is actually about this Digital Clues acquisition. I was curious to hear, can you walk us through the criteria that Cellebrite went through when going about its process on a build-versus-buy in this acquisition?

And then the other thing I wanted to ask you is, I know the acquisition hasn't closed just yet, but what has initial feedback been like from some of your customers as an example? I'm curious if customers have been pulling you into OSINT, or this is somewhere where you had been planning on evolving the DI platform even before the acquisition was announced?

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

So first of all, to the process regarding -- I call it make-or-buy -- we basically the OSINT, the open-source intelligence, is a discipline which is emerging. We anticipate it will emerge with law enforcement as part of, I would say, standard investigations was always on our radar -- not always, but in the last one, 1.5 years, on our radar. And it was always an element of make -- of buy, sorry -- an element of buy, never an element of make. It is a dedicated discipline. So in terms of when I look at our nonorganic growth major criteria which are mainly basically increasing the spend of the digital intelligence, or even the TAM by enlarging the ability of Cellebrite to be in a wider spread to move investigation, one criteria. Second, technical capabilities that we either can do by ourselves that will take a long time, or cannot. And, third, customers. It definitely ticked the box in the first two: The open source intelligence was, for us, a clear expansion of the digital intelligence offering. I would say, the relevance of Cellebrite earlier in the investigation, because every investigation starts with this open source searches before one goes into seizing of any digital device or any digital source. And, second, obviously, bringing a technology that we do not have.

So that ticks the box about these two. I started basically already answering the second question. But I will emphasize, first and foremost, OSINT is a natural expansion of the DI, enabling quick information gathering in early stage of investigation. And it's basically adding another source of investigative and intelligence data to the DI offering. Now the fit is obviously clear, because when we think about the three main value creation objectives, as I mentioned, then we are ticking those boxes. And I would say that in terms of the digital intelligence offering, it's definitely something that I would say as a standalone it has a value. But when we integrate it -- and that's what we are planning basically over time -- there will be a roadmap to integration which will include, among other things, the ability to ingest open source intelligence data into other Cellebrite solutions -- such as the investigative analytics, the Pathfinder -- and enreaching data for other Cellebrite collection tools with OSINT data. So I will stop here. I hope that was clear.

Mike Cikos - *Needham & Company - Analyst*

Yes, it was. Thank you for that. And definitely sounds like it checks the boxes, especially when you're talking about the TAM expansion provided by that acquisition as well.

The other question I had for you -- and I know that we touched on it earlier. But the upsell opportunity really comes into focus, given the number of different agencies you're touching into already, and the fact that we are talking about these very low penetration rates. And I'm curious: from a go-to-market perspective, can you remind us how you're talking to these customers and continuing to help that get that cross sell or upsell across the finish line? Is it just a matter of having subject matter experts that are constantly working with these customers? Or what's the process there?

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Maybe to refresh, and, as you said remind, we are -- I am talking public sector now. And within the public sector, we have two targeted groups of accounts or customers: what we call the strategic accounts -- those, let's say, 250 to 300 accounts. And they are strategic because we identified, first of all, a potential growth. And there is a threshold of 750,000 average customer lifetime value in revenue in three years. That marks them above; the rest are below. And there are some hundreds -- a few hundreds of midsized prime accounts which are about to become strategic the way we anticipated.

And then there is the long tail of the prime account, the few thousand prime accounts of Cellebrite, which are less relevant for the entire digital intelligence platform. The strategic accounts are those accounts where either already decided or about to decide, or we anticipate they decide to do a digital or digitization of the investigative flow end-to-end, that the decision-maker will implement that part. And those accounts are being managed by us with a direct or a dedicated account executive, and dedicated, in most of the cases, technical account manager which is there. So basically that is, so to say, four-eyes principle in the account management. And on top of that, a group of customer success which are nurturing the implementation of solutions within these accounts.

We intend basically to invest the majority in those strategic accounts, make over there all possibilities or make the available budget and the relevant processes in order to create upsell and cross sell, and nurturing more of digital intelligence solutions and more of each digital intelligence solution within these accounts in existing and within new buying centers within those accounts. So it's a dedicated sales force, account management, technical account management, dedicated account-based marketing, budgeted for those accounts.

Unlike the long tail of prime accounts which are being managed by a group of inside sales in techniques of one-to-few or one-to-many. I will stop here.

Mike Cikos - *Needham & Company - Analyst*

Thank you very much. I really do appreciate the comments there, Yossi.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair - Analyst*

Greetings, Yossi, Dana, and Anat. Good afternoon, and congrats on closing the True Wind merger.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Thank you.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Thank you.

Louie DiPalma - *William Blair - Analyst*

Upselling to UFED Premium appears to be one of your main near-term revenue growth drivers. It seems we are very early in the cycle. Can you provide an estimate for what percent of your UFED base is on UFED Premium? Is it less than 20%? And how many years do you estimate that it will take for most of your UFED base to be on UFED Premium?

Dana Gerner - *Cellebrite DI Ltd. - CFO*

In principle, we have signed around 20 Premium Enterprise deals, and immediately before the end of the quarter we installed, I believe, only two. So that still comprise of a very small number of UFEDs to be connected to the Premium. We see customers that start not with their fully installed base, but gradually. So I would say that, out of my memory, now we have around 7% to 10% of the UFEDs being contracted under UFED Premium, to be connected to the UFED Premium. Some of them are still in their installment phase. But this is at the very early stage of introducing UFED Premium. UFED -- sorry, Premium Enterprise.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

We have to make order in house in that respect. First of all, positioning. There is no UFED Premium. There is UFED, the 28,000 entrenched. And there is a Premium, a solution that we are selling to vetted agencies for several years by now, but only a few hundred in not more than 40 countries. The Premium Enterprise is a new solution. And within that solution, that's the opportunity to connect the UFEDs into the Premium. And that one is, as Dana said, in an early stage. As you can understand, I talk about the mode of operation. So far, agencies took few Premiums and sometimes dozens and hundreds of UFED without the ability to connect them. So the Premium Enterprise, which is just at the start right now -- I agree with Dana, very early stage -- that's the upgrade. But our few Premiums, hundreds of Premiums out there and they are not connected to any UFED because that is the nature of the Premium. There are the 28,000 UFED. And the Premium Enterprise, which is coming now as a new solution, is the one with the ability to connect all the UFED into the special capabilities.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

And what I tried to say is with those deals that we have now in and the pipeline, we are talking about 5% to 8% of the UFED. When all those deals will be implemented and will be already connected to the Premium, to the Premium Enterprise.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

Very strong potential of growth.

Dana Gerner - *Cellebrite DI Ltd. - CFO*

Very strong start also.

Operator

And I am showing that is our last question. I would now like to turn the call back to Yossi Carmil for any further remarks.

Yossi Carmil - *Cellebrite DI Ltd. - CEO*

First of all, no further remarks from my end besides. But before we conclude today's call, I would like to thank you all for joining us. And thank you for listening and for your support, and wishing you all a nice day.
