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Q2 2023 Cellebrite DI Ltd Earnings Call

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CORPORATE PARTICIPANTS

Andrew Kramer *Cellebrite DI Ltd. - VP of IR*
Dana Gerner *Cellebrite DI Ltd. - CFO*
Yossi Carmil *Cellebrite DI Ltd. - Founder, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Jamie Shelton *Deutsche Bank AG, Research Division - Research Associate*
Jeffrey Van Rhee *Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst*
Michael Joseph Cikos *Needham & Company, LLC, Research Division - Senior Analyst*
Michael Louie D DiPalma *William Blair & Company L.L.C., Research Division - Analyst*
Tomer Zilberman *BofA Securities, Research Division - Analyst*

PRESENTATION

Operator

Welcome to the Cellebrite Second Quarter 2023 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. - VP of IR*

Thank you very much, Ashley, and welcome, everybody, to Cellebrite's second quarter 2023 financial results call. Joining me today 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.

So let's start with Slide #2, a copy of today's press release and financial statements including the GAAP to non-GAAP reconciliation, this slide presentation and the quarterly financial tables and supplemental financial information for the second quarter of 2023, the first quarter of 2023 and each quarter of 2022 and 2021 are available on the Investor Relations website at investors.cellebrite.com.

Also unless otherwise stated, our second quarter 2023 financial metrics as well as the financial metrics provided in our outlook that will be discussed on today's conference call will be on a non-GAAP basis only and all historical comparisons are with the second quarter of 2022 unless otherwise noted.

In addition, please note that the statements being 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 April 27, 2023. The company does not undertake to update any forward-looking statements to reflect future events or circumstances.

The Slide #3 provides the agenda for today's call. And as you will hear, we delivered very strong Q2 financial results, made important strategic progress and have increased our full year 2023 financial expectations.

With that as the background, I'd like to turn the call over now to Yossi Carmil, Cellebrite's CEO.

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

Thank you, Andy, and thank you all for joining us today. Look, I'm excited to discuss our second quarter results, which highlights our continued success in delivering the industry's leading digital intelligent software suite to public and private sector customers around the

globe.

As illustrated on Slide #4, we delivered an excellent second quarter performance on all fronts. We reported strong financial results while making strategic progress in several areas, which are critical to our long-term success.

Our Q2 financial performance was highlighted by the following KPIs. Total revenue of \$76.7 million, driven by subscription software revenue growth of 35%. ARR grew 28% to \$274 million. Dollar-based net revenue retention was 125%, which was our 18th straight quarter above 120%. We closed 25 large deals, each valued at greater than USD 0.5 million, adjusted EBITDA of \$11.1 million or 14.5% on a marginal basis and non-GAAP EPS of \$0.05.

And lastly, we ended Q2 with cash and investments totaling nearly \$245 million, up \$23 million from Q1. Now with a strong first half of '23 behind us, we now move into the seasonally stronger second half of the year and in a healthy market. And as a result, we have increased our financial outlook for the year.

Turning to Slide 5. Cellebrite's customer relationship remained strong in Q2. Our ongoing investment in powerful customer-driven innovation and go-to-market activities enable us to continue winning in the market. Our second quarter 2023 revenue growth demonstrates our ongoing success in expanding the scope of our relationship within the digital forensic units of our customers and our progress in extending our reach into their investigative units. In addition to strong public sector expansion, we delivered our second straight quarter of high teens revenue growth in the private sector.

Geographically, our Q2 revenue and ARR growth were powered by the Americas and EMEA. In terms of our large deals, the average size of our second quarter 2023 large deals grew 16% over last year, even though the number of the deals were slightly below the same period last year. Importantly, more than half of our large deals included premium and approximately 40% included either Pathfinder, our investigative analytics tool, or Guardian, our evidence management solution, or both.

So overall, the spending environment on digital intelligence solutions remains robust. Around the globe, public safety is challenged by rising crime rates, increasingly sophisticated criminals. The proliferation of digital evidence across a wide range of smartphones and other devices limited in increasingly strained police manpower and heightened interests around police operation and priorities.

And to close this gap in public safety, law enforcement agencies around the globe continue to invest in digital intelligence solutions that will help modernize their investigative workflow to successfully advance and close cases, keep the community safe and meet other important KPIs. And as a result, we continue to see favorable budget tailwinds in the U.S.A., Western Europe, Latin America and key parts of the Asia Pacific region with more customers in the public sector allocating more money for Cellebrite Solutions than they did last year.

In addition to our strong Q2 performance, Cellebrite made important strategic progress over the past several months. So in June we announced our plans to introduce UFED Ultra, a revolutionary next-generation Collect & Review solution that enables digital forensic units to lawfully access and extract digital evidence from the broadest range of mobile phones.

UFED Ultra is designed to deliver greater ease of use, simplified workflows and full file system extraction for even the most advanced smartphones, a capability that was previously only available in our premium solution. And just as important, we've continued to see great uptake on our premium suite of solutions, which provides lawful access to the most advanced smartphones on the market and still have significant room for adoption across our installed user license base.

Now leadership in this sector is anchored by differentiated technological capabilities that remains unmatched across both iPhone, iOS and on Android. And given these dynamics, we see substantial multiyear opportunity to upgrade and upsell our Collect & Review solutions.

We are also taking important steps to enhance Guardian, our case and evidence management workflow solution. We recently announced new features and functionality for Guardian that make it easier and more efficient for examiners to share digital evidence with their

investigators. I will highlight a couple of great second quarter Guardian wins in a moment.

Between Guardian and our Premium as a Service offering, we are just starting to scratch the surface of the revenue potential of cloud-based digital intelligence solutions. We are accelerating our plans to build out our technical infrastructure and support the delivery of more high-value cloud-based solution.

The second quarter was also marked by continued adoption of Pathfinder, our artificial intelligence powered investigative analytics solution. We are on track to significantly expand our Pathfinder customer base this year and drive faster ARR growth. We believe that the investigative units represent Cellebrite's second primary growth engine, augmenting on our growth in digital forensic units. Accordingly, we are mobilizing our R&D, sales and marketing resources to ensure that we effectively and efficiently capitalize on this opportunity.

On the R&D front, it is important to recognize that our investment in artificial intelligence benefits more than just our Pathfinder investigative analytics. In Collect & Review, we have continued to strengthen our market-leading physical analyzer platform with advanced machine learning capabilities, which makes it easier and faster for digital forensic units to identify relevant evidence within the vast volume of digital data across the broadest range of digital devices, applications and warrant returns.

In conjunction with reporting our results today, we also announced the appointment of Tom Hogan as Cellebrite's Executive Chairman, and we believe that this action enhances our corporate governance and supports Cellebrite as it moves into the next chapter of growth and market impact as a global digital intelligence leader.

Tom is an experienced software veteran with a proven track record of success, including his most recent work at Vista Equity. Now I look forward to his counsel and support as we work together with the Board and the broader Cellebrite team to help shape and drive our strategy forward, scale up our business in our largest markets and drive value creation for our stakeholders.

Now, Tom's appointment expands our Board of Directors to 10 members and we are also fortunate that the company's former Chairman, Haim Shani, of Israel Growth Partners, a long-standing Cellebrite shareholder, will continue serving as a Director on our Board.

Moving to Slide 6. I would like to review several second quarter deals, which help illustrate some of the key drivers of our success. As noted earlier, adoption of Premium by existing customers is steadily increasing. This quarter we closed a major expansion of our Premium footprint ahead of schedule with a large North American federal law enforcement agency, along with an initial Pathfinder engagement to accelerate time to resolution on critical cases. Cellebrite Digital Intelligence Solutions is expected to help this customer centralize its critical digital forensic capabilities at scale and supercharge its investigative capabilities. And as a result, our ARR in this account will nearly triple to approximately nearly USD 5 million.

In terms of new logos, we won a meaningful new customer in the Asia Pacific region that is expected to deliver nearly USD 250,000 in ARR. This regional correctional service agency is deploying UFED, Premium as a Service and Pathfinder as part of its efforts to build its own in-house digital forensic units to support strong investigative capabilities rather than outsource these activities to other agencies.

I would also like to briefly highlight 2 deals for Guardian that illustrate our success in leveraging our strengths in digital forensic units to extend our reach into new buying centers. Now in both wins, law enforcement agencies serving midsized U.S. cities selected Guardian to modernize their evidence management workflow to efficiently track sensitive digital evidence as they advance investigations.

In one deal, the combined purchase of Guardian and Premium as a Service is expected to increase Cellebrite's ARR at this police department by a factor of 10 to over \$200,000. In the other deal, ARR for the city's DA office will more than double to \$330,000. And last, in the private sector, our intensified sales focus on larger, more strategic accounts is yielding tangible results.

In Q2, a U.S. service provider expanded its use of endpoint inspector for a more digital data collection from mobile phones, computers and cloud applications as part of its forensic practice, and that supports its corporate clients' legal, regulatory and compliance activities. ARR from this service provider will nearly double into the low 6-figure range.

Let's move to Slide 7 and an update on our outlook. As we look ahead, we believe that we are well positioned to continue helping law enforcement agencies convert the following 3 major pain points into advantages. First, the complexity and volume of digital data involving today crimes is rapidly increasing; second, inefficient workflows are limiting the speeds of investigations and contributing to a growing backlog of devices; and third, there is a greater public scrutiny on the ethics and accountability of law enforcement operations.

Now based on our results to date, the trajectory of our business into the second half of this year and favorable market conditions, we have raised our annual 2023 guidance. Our updated revenue and ARR targets primarily reflect our ongoing success in gaining more wallet share with existing customers.

As I have discussed, demand for our Collect & Review solutions remains strong, and this is augmented by attractive prospects to drive adoption for our investigative analytics and evidence management offering. So we expect that the combination of our revenue growth and disciplined spending will enable us to deliver a major improvement in our adjusted EBITDA over the last year, along with strong cash generation in 2023. And Dana will share additional details on our updated guidance in short.

Now, while there is still a lot of hard work ahead, 2023 is shaping up to be a very good year for Cellebrite. It is a very exciting time for Cellebrite. The opportunities in front of us are substantial in size and global in scope. Our team is focused on fulfilling our mission to deliver powerful digital intelligence solutions that help our customers modernize their workflow in support of protecting and saving lives, accelerating justice and ensuring data privacy.

And by executing on our second half plans, we believe we'll stay on track to achieve our updated expectations for 2023, sustain our momentum in 2024 and keep Cellebrite well positioned for creating shareholder value over the long term.

And with that, I will turn the call over to Dana for her financial review.

Dana Gerner Cellebrite DI Ltd. - CFO

Thank you, Yossi. Let's begin our review on Slide 9. We reported second quarter revenue of \$76.7 million, an increase of 23% against a relatively muted second quarter of '22. Strong 35% growth in subscription revenue was offset by declines in both other nonrecurring revenue and professional services.

Geographically, our revenue growth was led by EMEA at 33%, followed by the Americas at 23%. As detailed on this slide, 88% of our total quarterly revenue came from software subscriptions versus 80% 1 year ago. We expect the subscription revenue represents 85% or more of our total revenue for the foreseeable future.

Slide 10 details our ARR growth, which is an important forward-looking KPI for Cellebrite sales momentum and the trajectory of future revenue. As Yossi noted, our ARR grew 28% year-on-year to \$274 million at the end of Q2. This was primarily due to the successful expansion of our existing customer relationships.

Within this category, more than 80% of the customer expansion growth came from our Collect & Review solutions. The contribution to existing customer ARR from our investigative analytics and evidence management solutions has more than doubled from 1 year ago. As you likely noticed, our subscriptions revenue growth of 35% outpaced our ARR growth, which is counter to the historical trend of subscription revenue, modestly lagging ARR growth.

This is primarily due to 2 factors. First, about 2/3 of the difference was tied to the linearity of Q2 sales. In 2022, approximately half of our Q2 sales were closed at the end of the quarter, while the majority of this year's Q2 deals were closed during the first 2 months of the quarter. The balance of the difference is associated with certain large customers who transitioned from maintenance agreements to subscription licenses during the second quarter of 2023.

Slide 11 details the historical trends for our non-GAAP gross margins and non-GAAP operating expenses, which exclude share-based compensation, amortization of intangible assets and acquisition-related expenses. Our second quarter '23 gross margins of 83.6% improved 400 basis points from 79.6% due primarily to the growth in our higher-margin software offerings.

In terms of operating expenses, second quarter operating expenses were \$54.7 million, an 8% increase from the prior year, primarily due to higher personnel costs and the impact of certain onetime projects on our G&A expenses.

With that said, our second quarter spending benefited from prudent expense management, the timing and pace of hiring activities and favorable changes in foreign exchange rates tied to the Israeli shekel. We ended June with 966 employees, which is unchanged from 1 year ago. As a reminder, our objective in '23 is to keep total headcount relatively flat with the year-end of 2022 levels.

Turning to Slide 12. The combination of higher revenue and prudent spending resulted in adjusted EBITDA in the quarter of \$11.1 million or 14.5% on a margin basis. This is a major improvement over the same quarter last year, and it exceeded our plans entering this quarter.

Our Q2 non-GAAP operating income was \$9.4 million with non-GAAP net income of \$10.7 million or \$0.05 on a fully diluted basis. We had a very good quarter of cash generation, producing \$16.6 million in cash from operations. We finished the first quarter with \$244.6 million in cash, cash equivalents and investments, up \$23.4 million from the end of the first quarter.

Now let's move to Slide 13. As detailed in our press release, and as Yossi highlighted, we've raised our financial '23 targets. Cellebrite's original and updated guidance is displayed on this slide. We have increased our revenue outlook for 2023. In doing so, we have raised the midpoint of our updated '23 revenue range by \$5 million. We anticipate strong subscription revenue growth in the second half of this year, partially offset by more muted professional services and other non-recurring revenue.

Historically, we generate the majority of our revenue in the second half of any given year, and we expect this trend to hold true in 2023 with 53% to 54% of full year revenue anticipated over the next 2 quarters. We have also increased our ARR target range for the year. Our current view in our anticipated ARR at year-end reflects a relatively consistent level of ARR expansion in absolute dollars from Q2 to Q3 and from Q3 to Q4. Geographically, the Americas and EMEA regions have been standout performers, and we expect that trend to continue.

As we look ahead, we expect that our December ARR growth will largely come from expansion within existing customers, which we anticipate will continue to be fueled by our Collect & Review solutions with growing contributions from both Guardian and Pathfinder in the second half of this year.

From a profitability standpoint, we have raised our range for adjusted EBITDA and adjusted EBITDA margin, even as we plan to continue fund important investments that will help us innovate, build strong customer relationships and further scale our organization.

We move into the second half of our year with a strong financial foundation that we expect will be further fortified with solid cash inflows from operations over the coming quarters. This provides us with sufficient fiscal flexibility to reinvest in our business and carefully evaluate opportunities such as potential M&A, partnerships and alliances that can help us accelerate innovation around our current product portfolio.

In closing, as Cellebrite approaches the second anniversary of becoming a public company later this month, we are hitting our stride. Our strong Q2 results and attractive prospects for profitable growth in the second half of this year have enabled us to increase our '23 guidance. We are excited about our strategic direction and opportunities we see to sustain our momentum, fortify our leadership and continue making a real difference in public safety.

Andrew Kramer Cellebrite DI Ltd. - VP of IR

Operator, that concludes our prepared remarks, and we're now ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question will come from Jeff Van Rhee with Craig-Hallum.

Jeffrey Van Rhee Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst

Congrats guys. Looks really good. A number of questions for me. First, maybe just start on Guardian and Pathfinder. You called out some pretty good momentum there. I wonder if you just spend a minute more talking about the sales motion and what you figured out with respect to the appropriate buyer, the process? Just how do you feel about that motion? What still needs to be improved?

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

I will take it for a start. First of all, Guardian is an important solution basically to help digital forensic units and investigative units basically to, I would say, modernize the flow and contribute to scalability, functionality, which is around case management and evidence management.

Now at this stage, Guardian was launched -- or the Guardian was launched last year in 202- practically 2022. And we are pretty much in starting phase. There are several dozens of Guardian customers and hundreds of users at the moment. We plan to take important steps, I would say, over the coming quarters to continue driving adoption of this platform into our installed base. And obviously, there is a need -- if I could say, for the Guardian and evidence management, a need for more education, efforts around customer success, and the same cycle here is a little bit longer.

When it comes to Pathfinder, actually, we are, I would say, very pleased at this stage with our position, definitely an important solution which appeals to -- not to the digital forensic unit, but for the investigative units. As I said, we believe that this is the second growth engine of Cellebrite side-by-side with the digital forensic unit. And we have closed dozens of Pathfinder deals over the last 12 months and cross-sell and upsell this offering, and we are pretty much satisfied with where we stand right now. We need just to continue to do the way we are doing right now.

Jeffrey Van Rhee Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst

And then if you -- maybe just an open-ended question on pipeline. As you look at what's playing out in the pipeline, what variance, pro and con, just maybe depth, geovariance, large, mid, small trends, product trends, competitive landscape? Any thoughts on what you're seeing in the pipe, maybe expand a bit?

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

Pipeline of the company is healthy, and I would say it's healthy across segments. If I look at the federal in the United States or Americas, on our state and local governments, both in America and in EMEA, I basically see a very good picture in terms of pipeline as we look ahead. One can also say that our sales ticks and especially our sales operation.

And not only that we have a healthy pipeline, but we were able in Q2 to bring deals quicker, manage very well the elements of the normal tendency of lumpiness in large deals, and we are very satisfied in that respect. Also, the sales cycle, if I look at it, remains the same in all geographies and in all segments. Again, when it comes to Collect & Review, short, few weeks to 1 quarter. We're pretty much sticking the box here and successfully.

And when it comes to the Pathfinder and Guardian, a good pipeline, but a longer sales cycle, which takes -- can take between 6 months to 18 months. But all in all, a good picture.

Jeffrey Van Rhee Craig-Hallum Capital Group LLC, Research Division - Partner of Institutional Research & Senior Research Analyst

And one last, if I could sneak in on the M&A front. I know there's a lot of incremental capabilities that would make sense within the suite. Can you just give a little sense on the urgency, depth and breadth of the pipeline, what we should expect over the next 3 to 6 months?

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

So regarding M&A, first of all, organically, we have a very clear plan, and I think we are clear about that. When it comes to M&A, we have, that's I would say part of our strategy. And we are looking for alternatives, and we are looking for options. There are some currently on the radar. It has to fit in terms of our needs. I can say that we are looking at opportunities which are in the mix of small technological bolt-on tuck-ins, which will be suitable for the current portfolio and enabling us to deal better with the fulfillment of our existing plan.

And side by side, we are also looking for options for some large opportunities, which will scale us up also in adjacent areas. Specifically in the private sector. I can also share that we are looking at several opportunities, which will give us options which are going beyond the Collection and eDiscovery where we are placed right now at the moment.

Operator

We'll take our next question from Jamie Shelton with Deutsche Bank.

Jamie Shelton Deutsche Bank AG, Research Division - Research Associate

Congrats on the solid execution. Just a couple of housekeeping questions for me. Can you provide us what percent of the UFED base is now connected to Premium as of fiscal 2Q? And then I've got 1 or 2 follow-ups.

Dana Gerner Cellebrite DI Ltd. - CFO

So Jamie, thank you for the kind words. We are expanding our Premium offering within our existing base. We've been at the low teens, close to mid-teens, last quarter we increased and passed the mid-teens this quarter, and it's an ongoing effort and continuous penetration.

Jamie Shelton Deutsche Bank AG, Research Division - Research Associate

And I'm probably nitpicking here, but I saw the net dollar retention tick down a few percentage points sequentially. Is there any additional color there you can provide? And I guess, any color on how we should expect that to trend from here?

Dana Gerner Cellebrite DI Ltd. - CFO

Well, the net dollar retention rate is actually following our ARR trend, which we said will converge in the midterm with the revenue. Our revenue case, our expectation is on the past 20%. So we expect ARR to get closer and net dollar retention slightly below as we also onboard new customers, yes.

Jamie Shelton Deutsche Bank AG, Research Division - Research Associate

And then last one, maybe for Yossi. I mean, many of your cybersecurity public peers are talking about the application of Generative AI within their product set. I was interested to get your view? And if you can -- if you see potential application of, I guess, security-centric large language models within your portfolio?

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

The question was related to AI? To artificial intelligence?

Jamie Shelton Deutsche Bank AG, Research Division - Research Associate

Specifically Generative AI and the use of large language models on your data set?

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

So look, first of all, we continue to invest in enhancing AI capabilities, and as I said, both in Physical Analyzer and in Pathfinder solutions. It is important for investigators the way we look at it, because it helps to automate time-consuming tasks and basically make investigations at least in our view and in the view of our customers more efficient. So we believe that AI will play an increasingly important role in digital investigations over the coming years. And we are investing in each one of our products, Physical Analyzer as part of the Collect & Review and Pathfinder in several areas.

So far, our investment has been primarily focused on developing our own machine learning models. And we will continue to explore with -- I would say, to open source based AI models, which we can implement on our own capabilities. I hope it is helpful.

Operator

We'll take our next question from Tal Liani with Bank of America.

Tomer Zilberman BofA Securities, Research Division - Analyst

This is Tomer Zilberman on for Tal. 2 questions for me. The first question, just wanted to close in on something you mentioned during your prepared remarks. So you said that the ARR growth this year was supported by customer expansion and more than 80% of that was Collect & Review. Then I think you also mentioned that you're seeing, or you're expecting to see significant expansion within Pathfinder and to grow ARR through that.

So my question is what you expect the impact of not in Collect & Review but analytics and management to be on ARR list growth? And also additionally, what you're expecting the revenue breakout to be within your different product lines?

Dana Gerner Cellebrite DI Ltd. - CFO

We currently do not provide detailed information for each and every of our product offering, we just provide general guidance. And as the base of both Pathfinder and Guardian is substantially smaller than the base of growth for Collect & Review, we expect it to contribute on a percentage growth more than the Collect & Review. But from a dollar perspective, still the majority will come from Collect & Review, both on the ARR and on the revenue growth.

Tomer Zilberman BofA Securities, Research Division - Analyst

And as a follow-up on regional trends. You saw growth accelerate in America and EMEA, but I think you actually saw some slowdown in APAC. So any color you're seeing across the 3 regions?

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

So first of all, I would say that we believe that the APAC region has a significant growth potential. And we also informed recently about the appointment of a new regional leader, and we plan to continue upgrading the regional sales leadership in that area.

I can also say that we continue to see pretty much favorable budget tailwinds when it comes to specific subregions over there, Australia and New Zealand, Japan and Singapore, and we believe we are only starting basically to scratch the surface over there.

Now while indeed in Q2, revenue grew just 2%. It trended favorably versus Q1 results. And ARR in APAC grew solidly 22% and was generally in line with our plan. So I would say that we are pleased with the market position. We are pleased with the pipeline in some of the larger markets. And while it will take us some time basically to make the relevant changes, we are positive and confident that it will look much better as we progress with the year.

Tomer Zilberman BofA Securities, Research Division - Analyst

If I can actually sneak in one last question. I appreciate the commentary on UFED Ultra. I know it's early days, but any initial customer conversations that give you confidence on the growth potential here? And what is your customer target versus just selling normal UFED along with Premium?

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

So the short answer is a little bit too early because in June we announced our plans to introduce the UFED Ultra. And obviously, we plan that the UFED Ultra will deliver a great ease of use, simplified workflow. We are adding here the full file system, which was part -- previously only part of the Premium. Current plan is to begin sales and marketing activities which support the UFED Ultra before the end of 2023 and specific timing and general availability will be obviously shared with our customers.

We believe that the future and functionality will be obviously substantially with greater value. On the fly I can say with the relevant -- and it would be priced accordingly. But it's too early because it's still not there out there in the market. The expectations are very high.

And last word, let's not forget that the UFED Ultra represents a significant upgrade opportunity for thousands of existing UFED customers, but they are over 30,000. So that's an amazing business opportunity and an amazing improvement from all the operation of the customers.

Operator

(Operator Instructions). We will take our next question from Louie DiPalma with William Blair.

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

When Premium customers add Pathfinder to their suite, on average, how much does ARR increase by?

Dana Gerner Cellebrite DI Ltd. - CFO

Well, it varies to the size of the Pathfinder that they will choose and the size of the customer. It can start with few tens thousands of dollars and ramp up to hundreds of thousands and even more.

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

And yes, that seems like it's a big catalyst for the increase in large deal sizes.

My next question, we are under the impression that there were price increases that were implemented following the Grayshift and Magnet merger. Have you seen those price increases in the market? And has this positively benefited Cellebrite?

Dana Gerner Cellebrite DI Ltd. - CFO

Well, we've heard from customers that they've been encountered with substantial price increase request requirements by Magnet and by Grayshift throughout the year until now. Yossi, do you want to add more color maybe?

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

No. In that respect, indeed, both Magnet and Grayshift implemented, I would say, fairly large price increase during the first half of the year. I can say that it was not well reviewed and perceived by the customers. We chose at this stage to do a rather modest one, which was well perceived by customers. Let's not forget that in the public sector customers are leaving with fixed budget and they need to do the relevant adoption. Nothing to add beyond that.

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

And are you still the only software provider that can unlock the iPhone 14? Or have competitors caught up on that front?

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

I would say that at the moment, when it comes to the latest and greatest -- So I'm talking about operating system 16-ish, we have the best capabilities today unmatched to anything else that exists in the market.

Operator

And we will take our next question from Mike Cikos with Needham & Company.

Michael Joseph Cikos Needham & Company, LLC, Research Division - Senior Analyst

And I appreciate the walked-up guidance that we're receiving today as well. I guess I wanted to ask you a little bit about hiring, and it's more of a philosophy or strategy question. But when I'm thinking about -- or when you're thinking about the hiring trends at Cellebrite, can you help us better understand the -- I guess, the trade-off you're making? Because obviously, we're seeing the growth move higher as well as those EBITDA margins.

And just what gives you the confidence when going through that hiring to ensure that you're appropriately adding talent to support the durable growth story here at Cellebrite?

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

If we are looking into the future in terms of our, I would say, exciting challenges which are around continuous of investing in that best of breed in collection in order to be ahead of the market. We've got today a clear path of retaining and maintaining, and based on our reputation, successfully hiring additional talents in that respect.

When it comes to the area of evidence management, and I would say also cloudifying and coming with the SaaS offering, which is related to what we do right now, Guardian, Premium as a Service. But at the end of the day, we would like to offer everything on cloud. We are building right now successfully the relevant team in the house, and it seems that over there we are pretty much successful by hiring and bringing the talents that will help us basically to combine successful needs, I would say, on-prem and cloud in the future to come. So also there, very successful.

And I would say that we -- if we look at our OpEx plan, we are capable to do it, and we are doing it. When it comes to the go-to-market organization, we clearly need to invest in the good mix between product sellers and solution and value-added sellers and in customer success, especially when it comes to the implementation and cross-sell and upsell of solutions such as Pathfinder and Guardian. And in that respect, we have a clear view about what we need to recruit, and we are also very successful in doing that.

I don't know if I answer the question, but that's what makes us busy at the moment in terms of variety of, I would say, future challenges and what we need to bring on board. And we're pretty much about -- we're pretty confident about what we're doing in that respect.

Michael Joseph Cikos Needham & Company, LLC, Research Division - Senior Analyst

You're actually starting to feed into where I wanted to take this. So specific to the hiring for the go-to-market as an example, right, can you help us think about the average tenure of the sales force? Are new reps ramping at a similar rate? Or is there a potential acceleration in the amount of time it takes for them to ramp just because -- I'm trying to judge to, I guess, some of the pieces under the hood and put that in the context of the execution that the sales force has obviously been demonstrating more recently in this environment.

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

Yes. First of all, I want to reemphasize the fact that our sales ticks -- our sales machine works. If you remember last year, we talked about lumpiness and people which left and fluctuation. We could see that in Q2 and in H1, we're actually capable to bring things even quicker than -- faster than we thought. And in that respect, as I said, we need to make sure that we have a good combination between the people who will deal with transactional business and the people that we deal with value-added selling and rather complex solutions.

But the onboarding, I think you mentioned that, well, here, nothing changed when we bring people for the product selling. It's a pretty much quick onboarding of what we call the sales machine. That's great. Collect & Review long tail prime customers, et cetera. When it comes to the onboarding, which is related to solution sellers, it goes more in the area of 2 quarters, but we are well positioned and well equipped with what we have right now. And we are putting a good eye on good people all the time. We are not waiting for challenges to happen. We are, so to say, operating in advance.

Operator

This concludes today's call. I would now like to turn the floor over to Cellebrite CEO, Yossi Carmil, for additional closing remarks.

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

Thank you. So first of all, thank you all for joining. As I said at the end of my pitch, we are in a very good momentum. A lot of hard work to do, but we increased the guidance. We are pretty much confident about our ability to grow and to continue the journey and execute our strategy. I thank you for joining us. Thank you for the trust and have a great day.

Operator

Thank you. This concludes today's Cellebrite Second Quarter 2023 Financial Results Conference Call. Please disconnect your lines at this time, and have a wonderful day.

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