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PRESENTATION

Operator

Welcome to the Cellebrite fourth-quarter and full-year 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, Jim, and, welcome, everybody to Cellebrite's fourth-quarter and full-year 2024 financial results call. I'm joined today at our headquarters just outside of Tel Aviv by our primary speakers: Tom Hogan, Cellebrite's Interim CEO; and Dana Gerner, Cellebrite's CFO. Ronnen Armon, our Chief Products and Technology Officer; and Marcus Jewell, our Chief Revenue Officer, will be available during the Q&A. 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're referring to in our remarks. The call is being recorded and a replay of the recording will be made available on our website shortly after the call along with the transcript of the event.

Now let's start 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 each quarter of the past three years are available on the investor relations website at investors.cellebrite.com. Also, unless stated otherwise, our discussion of our fourth-quarter and full-year 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 comparable periods in 2023. In addition, please note that statements made during this call that are not statements of historical fact constitute forward-looking statements.

All forward-looking statements are subject to risks and uncertainties and other factors that could cause matters expressed or implied by those forward-looking statements not to occur. They could also cause actual results to differ materially from historical results and/or from forecasts. Some

of these forward-looking statements are discussed under the heading Risk Factors and elsewhere in the company's annual report on Form 20F, 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 an agenda of the topics that we'll cover on today's call. And with that being said, I'll now turn the call over to Tom Hogan. Tom?

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer*

Andy, thanks, and thanks, everyone, for joining us today. As most of you know, I assumed the role of Interim CEO effective the start of January. I'm pleased to share that Cellebrite delivered a solid fourth quarter to cap a 2024, in which we exceeded our original revenue and adjusted EBITDA targets and delivered at the higher end of our ARR expectations. Dana will review our quarterly and annual financial performance in detail.

But at a high level, slide 4 helps illustrate our continued success in expanding share of wallet across our install base and converting that top-line growth into year-over-year improvements in our profitability and free cash flow. On a full-year basis, we delivered a Rule of 50 performance in 2024 with 25% ARR growth and 25% adjusted EBITDA margins, which is also at the high end of our committed Rule of X range of 45 to 50. Strong fundamental performance has once again resulted in another solid year of cash generation with \$122 million in free cashflow in 2024.

As a cloud-ready, AI-powered market leader with a true end-to-end platform for accelerating justice, the opportunity to help our customers make their community safer, while fueling further value creation at Cellebrite remains significant. With multiple macro tailwinds, we believe showed no signs of fading, we entered 2025 with a commitment to sustain top-line growth and to generate attractive profitability and free cash flow. Dana will share greater detail about our 2025 outlook in a few moments.

In the meantime, I'd like to focus the balance of my commentary on key developments to start this year as well as Cellebrite's top strategic priorities for 2025. Let's start on slide 5 with a topic that I'm guessing is top of mind for many of you, the status of our CEO search. As previously shared on our last quarterly call, we're working with a Tier 1 executive search firm that has the global remit to surface exceptional candidates.

Our priority remains a proven leader with SaaS, cloud, and AI software expertise, a global track record, prior exposure to the public sector, and preferably domain-specific expertise. Interest levels have been high, given the unique position of Cellebrite as a high-growth market leader with equally strong cash flows, and, I think perhaps most importantly, a clearly mission-driven organization. We remain highly selective as we seek an executive whose profile is commensurate with the growth, impact, and quality of this company and pleased with our progress thus far.

In the meantime, I jumped in as CEO on Jan 1, and I can promise you we're moving with continued pace and urgency. I've had the opportunity to lead three companies as the CEO and have held senior leadership positions at several other market-leading firms, but I can tell you with complete conviction there is no other organization I've been prouder or more pleased to lead. Every man and woman at Cellebrite, from the Board down to our newest hires, is committed to accelerating our journey. Cellebrite is executing, and is truly making the world a better, safer place. Simply said, while we're all looking forward to the appointment of a new world-class leader, we aren't waiting for that event and we're operating with the speed that our customers, employees, and stakeholders expect.

I want to briefly highlight a few other important milestones since our last call. First, we relaunched an expanded Customer Advisory Board. This forum brings together 12 to 14 senior-level decision makers and some of our largest and most innovative customers to discuss topical, forensic, and investigative challenges, review trends, policies, and best practices, and explore emerging technologies. We held our inaugural meeting in December in Washington, DC, and we'll host similar sessions this year in the EMEA and Asia PAC regions.

Second, in early January, we announced an important change to the structure of our Board. In keeping with the governance best practice of separating the Chairman and CEO duties, Adam Clammer, Managing Partner of True Wind Capital and Former Lead Independent Director, has assumed my former role as Board Chairman.

We also announced the appointment of Michael Capellas as a new Director assuming Adam's prior role as our Lead Independent. Most of you will know Michael's distinguished track record as a technology leader, having led organizations like Compaq and MCI as the CEO, as well as serving as a Director on multiple global leaders, including his current role as the Lead Independent director at Cisco. Aside from his general management experience, Michael brings two specific skill sets that I think will be invaluable to our next chapter. As a legacy CIO, Michael brings to the board unique technical depth and perspective.

And just as important, his history of driving corporate strategy will complement the strengths and skills of our current Board. To further leverage those skills, our Board this week launched a new technology and strategy committee, which Michael will chair with Adam Clammer and Troy Richardson as committee members.

Third, we hosted our annual sales kickoff event in Orlando in late January. Nearly 400 Cellebrite employees, including many of our most recently hired sales representatives attended this event, which included a keynote from one of our many important partners, Amazon Web Services. The energy and excitement, as you would expect, were palpable, and the event was a great start to our 2025. As we look forward to 2025, we'll maintain the majority of our priorities while complementing and augmenting them with new and important events and areas of focus.

On the event front, we're very excited about the launch of our inaugural Case to Closure Summit. This Cellebrite user conference will convene roughly 500 law enforcement, intelligence, and corporate clients from around the world. The event will take place in late March in Washington, DC, and will deliver hands-on training, educational workshops, and insights from industry experts covering best practices and emerging trends. We believe this event will be a seminal moment in Cellebrite's history and a harbinger of the trusted influence we bring to digital investigations.

Slide 6 outlines our 2025 priorities. We'll continue the migration of our digital forensics install base to the Inseyets product suite. 2024 exceeded our expectations from both a financial and client satisfaction perspective. We closed 2024 with roughly 20% of the install base migrated as compared to our initial goal of 10% and entered the new year with the objective of increasing this figure to roughly 50%-plus. More importantly, the early feedback from migrated clients has been exceptional, with most reporting significant improvements in the speed and efficiency of their investigative processes. Our Inseyets migration is also driving important growth with increased attach rates for our unlock capabilities. Our unlock penetration increased to the high 30% range at the end of 2024.

Second, as we mature the power of the C2C platform, we're focused on the growth of our Guardian and Pathfinder solutions. Guardian is a key offering within the Cellebrite cloud platform, which is rapidly gaining traction with investigators, analysts, and prosecutors. As part of the Cellebrite cloud platform, Guardian offers management, review, and analysis of digital evidence while protecting the chain of custody and meeting stringent data integrity requirements.

Our Guardian ARR generated triple-digit percentage growth year over year for the second half of the year, as the number of customers with both Inseyets and Guardian nearly tripled and the volume of stored data quintupled. Pathfinder, which is our AI-enabled analytics solution, also delivered strong results in the quarter, with year-on-year ARR expansion in line with expectations of growth in the 35% to 50% range. This asset is critical to investigators as they navigate the mountains of digital artifacts needed to identify high-value patterns, connections, and other evidential insights that are next to impossible to glean quickly through manual review.

On the technology front, we'll continue to leverage our investments in the cloud and AI, which we view as critical for driving broader adoption of our solutions. ARR from our cloud-based offerings nearly doubled to 17% of total ARR in 2024. Aggressive expansion of cloud-based ARR over the coming years will bring multiple benefits to both our clients and our shareholders. AI is an equally critical technology for investigations, enabling greater speed, efficiency, and efficacy. We've been at the forefront of AI for over a decade but see an enormous opportunity to advance our mission and our value as we further expand our capabilities. To that end, we announced, just last week, powerful new-gen AI features for our Guardian solution.

Next, we continue to invest in accelerating our growth within the US federal sector. This sector delivered strong results in 2024 with ARR growth in the mid-20% range. We expect that with our recently formed Cellebrite Federal Solutions Unit and its associated clearances, we'll continue to sustain solid growth through 2025 while expanding pipelines that will position us for acceleration in 2026 and beyond.

A great example of potential pipeline expansion involves our FedRAMP initiative, which enables the Cellebrite cloud platform to meet the US government's demanding security and technical requirements. We've made important progress on this front, having announced just yesterday that we achieved FedRAMP ready status at a high-level designation which is reserved for only the most secure and rigorous suppliers. We're focused on achieving the final milestone of full authorization within the next one to two quarters.

We'll also maintain our important footprint in the private sector where Cellebrite's data collection solutions help enterprises and service providers advance corporate investigations and e-discovery. We're encouraged by early progress in expanding our sales pipeline through our exclusive partnership with Relativity along with the broader adoption of our Endpoint Inspector offering.

In addition to these areas of focus, we've launched a company-wide initiative to elevate the customer experience and to modernize our processes throughout the customer lifecycle. We're advancing a range of programs, including investments in new systems, incentives, dedicated and focused resources, and new processes.

Over time, we believe this effort will drive improvement in multiple metrics like time to value, agility, contracting ease, post-sale support, and more, all things that should ultimately drive continuous improvement in our gross retention rates. To be clear, these metrics are already strong, but we're confident with added focus we'll have the opportunity to deliver further gains. I would add that all of these investments are fully contemplated in our 2025 outlook. Ultimately, we expect this initiative will enable the scale we aspire to while protecting the service levels and trust we have built over the past two decades.

Finally, underpinning these priorities is the ongoing commitment we make to support our most important asset, the passionate and committed men and women at Cellebrite. Our goal is to extend Cellebrite's reputation as the place to be in enterprise software.

Let's turn to slide 7 for the conclusion of my remarks. Cellebrite continues to execute. We remain positioned as the market leader in an important segment with sustained macro tailwinds. Crime persists and the use of digital technologies in the pursuit of crime and violence continues to escalate. Head counts and justice remain constrained while attrition rates and law enforcement remain high. There's only one solution to closing this chasm, which is the application of advanced technologies. Our outlook for the coming year reinforces our conviction that linking our technology with the brave professionals dedicated to justice is the clear path forward.

I want to thank our analysts and shareholders for their continued trust and support. I also want to thank my colleagues at Cellebrite for their hard work, commitment, and for their warm welcome as I transitioned from Chair to CEO. We're all inspired every day by the good we do. Democratized nations around the world depend on all of us to accelerate justice, and we're energized by that challenge.

With that, I'll ask Dana to take you through the details and outline our commitments for 2025. Dana?

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

Thank you, Tom. Well, I'm excited to walk you through the drivers that supported our Rule of 50 performance in 2024. This is a type of balanced mix between top-line growth and profitability that we envisioned when we went public in mid-'21. More importantly, I'm pleased that our outlook for 2025 is aligned with our long-term objectives of consistently delivering a Rule of X performance between 45 and 50.

Let's start our review on slide 9. In addition to reviewing our fourth-quarter results, I will highlight our full-year performance on the appropriate. Our ARR grew 25% year on year to \$396 million, largely driven by increased spending within our installed customer base. As noted on the slide, our growth retention was approximately 92%, which reflects a notable meaningful improvement over 2023 due to a lessening impact associated with our voluntary exits from certain markets in prior years and strong public sector renewal rates, most notable within our US federal customers.

Geographically, the 2024 ARR mix was in line with the prior quarters and mirrors the full-year revenue mix. The Americas represented 54% of total ARR, with EMEA at 34% and Asia Pacific at 12%. In terms of growth rate by geography, the Americas grew 29%, thanks to a strong finish with our federal, state, and local, and Latin America customer segments. ARR grew 31% in the Asia Pacific region, followed by 18% expansion in EMEA.

Let's turn to slide 10 to dive a little deeper into the ARR growth drivers from a product family perspective. This slide also highlights several specific deals that have contributed to our growth. As reflected in the chart, it's clear that Inseyets continues to be the single largest contributor to celebrate ARR growth in absolute dollars. As Tom noted, within Inseyets, we continue to experience very strong demand for our offering that examiners use to lawfully access the most advanced smartphones. All three of the deals on this slide involve customers who upgraded to Inseyets while leveraging our advanced unlock technology.

We're also pleased to see certain customers expanding their use of Inseyets beyond traditional lab environments out into the field. And just as important, we make good progress with cross-selling and upselling Guardian and Pathfinder into existing and new buying centers within our installed base. Two of those deals reflect the growing interest we see in our broader C2C portfolio. On a combined basis, ARR for Guardian and Pathfinder grew close to 50% in 2024, and the two areas are now approaching 10% of our ARR on a combined basis, up from the mid-single digits only just one year ago.

Turning to slide 11, we delivered fourth-quarter revenue of \$109 million, enabling us to finish '24 with full-year revenue of \$401.2 million. The 17% growth in total Q4 revenue over the same period last year was primarily fueled by a 28% increase in subscription services and a 21% increase in total subscription software. Cellebrite's 2024 full-year revenue growth of 23% was primarily driven by 26% increase in total subscription software, augmented by modest growth in nonrecurring hardware revenue, and partially offset by flat professional services revenue. Consistent with historical trends and our expectations at the start of last year, we generated 54% of our total '24 revenue in the second half of the year, and I will make sure to cover our business seasonality in the context of our '25 guidance.

Let's move to slide 12 for a review of our non-GAAP gross margins and non-GAAP operating expenses, which exclude share-based compensation, amortization of intangible assets, and acquisition-related expenses. Our Q4 gross margins of 84.4% reflect slightly higher increments of cost for hosting and the impact of increased hardware sales associated with Pathfinder deals and Inseyets adoption. Our full-year '24 gross margins were 85%, up from 84.2% in the prior year, due primarily to the growth in high-margin software as well as improvements within our professional services.

In terms of operating expenses, Q4 operating costs were \$65.1 million, a 13% year-over-year increase. This primarily reflects higher personnel costs across research and development and sales and marketing, and increased IT expenditure associated with scaling our business. For the year, operating costs increased 14% primarily due to increased personnel costs, higher spending on marketing activities, and a greater investment in modern research programs. We ended '24 with 1,167 employees, which was in line with our plans entering the year. We are currently planning to expand our workforce for approximately 15% in 2025.

Slide 13 reviews of profitability and cash position. We generated meaningful operating leverage for both the quarter and the year. We delivered Q4 adjusted EBITDA of \$28.8 million, or 26% on a margin basis. The year-over-year improvement of 2 full percentage points primarily reflects a solid growth margins and prudent spending across the board.

For the full year, our adjusted EBITDA of \$99.4 million grew 60% from the prior year, enabling us to produce a 24.8% margin, a significant improvement from the 19.1% in '23. Our Q4 non-GAAP operating income was \$26.9 million with non-GAAP net income of \$26.1 million or \$0.10 on a fully diluted basis. It's worth noting that our average weighted diluted shares outstanding for Q4 grew 21% due to the combination of the warrant redemption and the vesting and issuance of shares tied to various price triggers.

For 2024, we generated non-GAAP operating income of \$92.1 million, full year non-GAAP net income of \$97.8 million or \$0.42 per diluted share. We delivered a 50% increase in diluted EPS despite a 10% increase in the weighted average number of diluted shares outstanding, resulting from various capital markets milestones in the second half of last year. We ended 2024 with \$483.8 million in cash, cash equivalents and investments, an increase of \$70.2 million from a third quarter and an increase of \$152 million from year-end 2023.

Free cash flow for the fourth quarter, which we define as the net cash provided by operating activities, less capital expenditure and the purchase of the intangible assets, was \$61.7 million, a 59% increase from last year's Q4, due primarily to strong fundamental results and effective management of our working capital. For the full year, our free cash flow was \$121.5 million, a 29% increase over the prior year.

Now let's move to slide 14 for our outlook along with some insights on the factors and trends that we believe will shape this year. Just a reminder, we have historically generated the majority of our ARR revenue and adjusted EBITDA in the second half of any given year and we anticipate that this seasonality will continue to shape the complexion of Cellebrite's 2025 performance.

More specifically, our 2025 ARR expectations ranged from \$480 million to \$495 million, or a 21% to 25% increase over '24. This reflects our expectations for continued progress in several dimensions, such as upgrading customers who use our legacy digital forensic solutions to Inseyets' further growth for our cloud-based solutions, and increased penetration of Guardian and Pathfinder.

For the first quarter, we expect solid ARR growth despite a couple of transitory headwinds. First, as you know, we set a high bar for ethics and integrity in terms of where we conduct business. Our decisions to exit certain countries are expected to modestly impact our first-quarter result, and this has been factored into the Q1 guidance. Nevertheless, given the broader strength of our customer relationships, we see potential to drive modest continuous improvement in our retention rates in 2025 against the 92% level we reported in '24.

Second, although we review certain and ongoing geopolitical changes in the US and elsewhere, it's a potential net positive for Cellebrite over the next several years. The timing of these real-time regime changes is expected to modestly delay Q1 purchasing activity within certain industries. Again, this dynamic is fully contemplated within our Q1 outlook. Even with this short-term headwind, the normal seasonality, we still expect ARR to grow between 22% and 24% to \$406 million to \$411 million in the first quarter.

We expect full-year 2025 revenue to range from \$480 million to \$490 million, which represents 20% to 22% growth over '24. We anticipated growth from subscription software will be complemented by modest expansion of non-recurring professional services and hardware sales. We expect Q1 '25 revenue in the range of \$107 million and \$112 million, which is 19% to 25% higher than the first quarter of 2024.

In line with historical trends, we expect approximately 53% to 55% of full-year revenue to be generated in the second half of the year. These dynamics primarily reflects our expectations for product mix in conjunction with the timing of typical year-end spending activities associated with our US federal customers in December and most other accounts at the December year-end. We expect our 2025 gross margins to be in the 84% to 85% range as we increase the investment required to build out the hosting infrastructure to further scale our SaaS offering and expand our customer success organization. We anticipate 2025 non-GAAP operating costs in the range of \$295 million to \$310 million with a relatively moderate sequential increase from Q4 '24 to Q1 '25.

We are focused on maintaining a very attractive profit profile. We expect 2025 adjusted EBITDA in the range of \$113 million to \$123 million, or 24% to 25% of total revenue. We expect higher adjusted EBITDA and higher adjusted EBITDA margins during the second half of the year, which aligns with historical trends and our 2025 top-line outlook. We expect Q1 adjusted EBITDA ranging from \$22 million to \$24 million, which supports year-over-year margins improvement to approximately 21%. In terms of our weighted average diluted share count, we expect Q1 to be approximately 250 million to 255 million shares, with 255 million to 265 million outstanding for the full year.

In summary, we closed a very successful 2024 with a solid fourth-quarter performance. We made considerable strategic, operational, and financial progress in 2024, the combination of which leaves us well positioned to sustain our momentum into '25. We move forward focused on capitalizing on the opportunities we see to further expand our business in ways that we expect will drive long-term shareholders value.

That concludes our prepared remarks. Operator, we are now ready for Q&A. The floor is now open for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Shaul Eyal, TD Cowen.

Shaul Eyal - TD Cowen - Analyst

Congrats on the consistent execution, great 2024 and the initial 2025 guidance. Tom, thanks for the color on the CEO search. Maybe can you double click for us where do you guys stand in that respect? When we think about the interim nature of your current kind of tenure, have you met already with some candidates? Or where does it currently stand?

And maybe my follow on question, Tom. A number of US-based companies with a specific cyber focus have brought up, growing uncertainty as it relates to federal and government spending given the incoming administration. But it would appear this topic bears very little impact, if at all, when I'm listening to the commentary, kind of looking at that and guidance. So maybe can you share with us what your customers are relaying to you in that respect?

Thomas Hogan - Cellebrite DI Ltd - Chief Executive Officer

So I'll take them in order. As I said 90 days ago, first, having me join 18 months ago in the Exec Chair role and committed to kind of a 50% workload and engaging closely with Yossi and the rest of the executive team allowed us to be very deliberate and thoughtful and selective in this transition. And so we have not kind of blinked on that. And so the play that we're running here is we will continue to do that until we feel satisfied that we have a world-class person worthy of leading the men, women, and mission at Cellebrite.

A click down to your question, I'd say the search firm would probably tell you that the first net they cast contemplated probably north of 150 potential candidates that was then sort of down selected to 30 to 50. We've interviewed, I would say, probably at least a dozen. And all of these people -- or most of the people we've met with are qualified to do the job.

And so we are very optimistic that we will land the proverbial -- the joking proverbial God Spec in somebody that checks all those boxes. The only thing I can't tell you right now, which I'm sure everybody would like to know, is, well, what's the estimate for time. What timeline should we expect? And I don't want to make that commitment because it takes two to tango. And given our selective approach and the fact that there's two parties to that transaction, we will fill it as fast as we can with those criteria, but I can't and I won't commit right now to a specific timeframe. So hopefully that gives you a little bit of color.

The second question. Basically, what's happening, as Dana mentioned modest, and I would underscore modest headwinds. And it's not just in the US. There's been some regime changes and disruption in other countries, and Europe has delivered, again, a modest headwind.

And if I read between the lines, I think the question you're asking is, gosh, we just saw a print from Palantir with some blow-away numbers. Why do you have any headwinds? And I would emphasize two things. Number one, in Dana's comments, she also -- we are highly convinced that these changes are actually going to lead to upside and tailwinds for us once all the disruption in Washington settles down. And the reason is if you look at very topical issues like fentanyl traffic and deaths, or you look at issues around border control, these are areas where Cellebrite's assets can play an enormously helpful positive role.

So we think some of the themes from the administration changes will actually help us. But there's been -- as I think we all know if you follow the news, there's been a fair amount of disruption in leadership in a lot of these key agencies that's caused a -- and I guess, actually the last point I'd make is that short list of things are not things that are at risk. These are opportunities and transactions that we have very high confidence we'll still close. So that's it.

Shaul Eyal - TD Cowen - Analyst

Thank you so much. Good luck, appreciate it.

Operator

Bhavin Shaw, Deutsche Bank.

Bhavin Shaw - Deutsche Bank - Analyst

Tom, earlier in your remarks, you spoke about launching the Executive Advisory Board. Anything that is then, what were some of the biggest pain points your customers are kind of talking about dealing with? And how is Cellebrite helping solve some of them? How are these conversations impacting your thoughts on product roadmpa?

Thomas Hogan - Cellebrite DI Ltd - Chief Executive Officer

Yeah. I think Marcus is on the line, who's our Chief Revenue Officer. I was not at the first meeting because I was still in my Board role, but I believe Marcus participated and could probably give you -- I got the second, and he'd probably give you the first hand.

Marcus Jewell - Cellebrite DI Ltd - Global Chief Revenue Officer

Yeah, thank you. Thanks for the question. So look, there's three main drivers which our customers are seeing. One is, 90% or so of cases now require digital assets for proof in public safety. And so there is an explosion in the capacity of the phone. You all know phones are getting more powerful, apps are getting more powerful. And the funding of the DFUs in terms of people can increase dramatically. So what we're looking at is efficiency tools. That's really the drive of what we do. Time to prosecution is key.

And therefore the main drivers are not only the extraction of the phone, but then our analytical platform, which allows us to then make insights to lead to faster case to closure. That's really the overriding driver that we're seeing.

The second thing then is more lightweight product requirements for investigators in the field to be able to make Inseyets a lot quicker without necessarily having to do full extractions of the cell phone. So both platforms, Inseyets and Pathfinder, for our terminology are taking us to those areas.

Bhavin Shaw - Deutsche Bank - Analyst

Just as a follow up to Dana, just any way to quantify the decision to exit specific countries and what that impact is for 1Q? And as you think about that 30% unlock attached that you're seeing at Inseyets, what can you do that's maybe a little bit in your guys' control to drive that adoption higher?

Dana Gerner - Cellebrite DI Ltd - Chief Financial Officer

So I think stepping out of certain countries is still something that we look at very closely. It was less than 2% in 2024. We still have some coming and joining the list this year, but we are seeing lesser and lesser sizable countries from a business perspective. And as such, we believe that this will contribute to our gross retention rate. Anything, an improvement of 0.5% to a little bit less than 1% in '25 and '26.

Can you repeat the second question because I couldn't hear you well?

Bhavin Shaw - Deutsche Bank - Analyst

Sorry, just the 30% unlock attach that you talked about to your Inseyets customers. What can you do to drive the attach rate higher?

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

So we believe that each and every customer of ours in the public sector must have an unlock capability. And what we've done with the introduction of Inseyets, we have actually introduced a wider variety of packages of Inseyets to address the smallest of agencies to the largest. And we actually see that one of the drivers of growth in '24 was the fact that also the smallest agencies started onboarding themselves to these capabilities. We believe that these trends will continue with the continuous transition to Inseyets.

Operator

Eric Martinuzzi, Lake Street.

Eric Martinuzzi - *Lake Street Capital Markets - Analyst*

Yeah, you talked about the C2C penetration, the goal for 2025, taking that 15% up to 50%. And I was just curious if you've got any new initiatives, lessons learned from 2024 that you're rolling through to meet or exceed that goal in 2025.

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

So maybe I'll start and then Marcus will speak about a few things that he's doing in his go-to-market organization. I think what we've learned in '24 is the importance of the C2C platform, the connectivity between our offerings, which Inseyets actually brings very naturally connection between the Inseyets for collection and first analysis to Guardian, to the management of digital evidence and the collaboration between digital forensics unit and investigators and from there to the Pathfinder.

Marcus, would you like to speak about your go-to-market adjustments or changes?

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

Of course, yeah, so continuing to evolve from a very well established point solution into the platform, we are investing in specialist sales into the investigator persona. We are now changing our go-to-market approach as well. We used to be very heavily involved in industry events. We now run our own events. And I can only tell you that I've been shocked in my career to see the attendance. We are literally sold out at every event. And we believe that we will be heading to be sold out for our major customer event that we're holding in April in DC.

There is a lot of pent up demand, and so we're addressing those people with vertical experts in order that we can walk the walk and talk the talk of how an investigation works and take them through how the tools and demonstrate some of the AI personas that we have, which can speed those processes up. So in short, it's a combination of making our message a lot clearer by pushing it out directly ourselves and then using a very specialist sales force, which are very focused on the investigative flow and extending our presence outside of the lab where we're well known. They're the two factors.

Operator

Brian Essex, JPMorgan.

Charlotte Bedick - *JPMorgan - Analyst*

Hi, this is Charlotte Bedick on for Brian Essex. Congrats on a great quarter. Overall, it was great to see roughly 20% of the installed base migrate to Inseyets compared to your initial outlet for 10%. Overall, are you viewing the trajectory of the installed base converting to be a quicker timeline?

And how should we expect that over the next couple of years? I know you spoke briefly about next year, but is the overall timeline going to be quicker than expected?

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

Well, we still believe that the transition or most of the transition is a three-year journey, so we believe that we will transition most of our customers by the end of '26, early '27. We always have a, I would say, around 10% of a tail of multi-year deals and late laggards to adopt the new solutions. So we are still looking at -- intensify the conversion in 2025. I believe Tom mentioned reaching a 50% of the install base already on Inseyets by the end of '25.

Charlotte Bedick - *JPMorgan - Analyst*

Great. Thank you. And I know your gen AI, like you just announced it like a couple of days ago, if anything. But has there been initial feedback overall? What have you heard from your customers? Any detail would be great. Thank you.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer*

[Ask] Ronnen to jump in on that one.

Ronnen Armon - *Cellebrite DI Ltd - Chief Products & Technologies Officer*

Hey, yeah, great to take it. Hey, great to take it. So look, our customers are definitely excited about the leverage of AI, especially in the realm of boosting efficiency, efficacy, and really helping across the full value chain. Cellebrite has been delivering AI capabilities for a decade now. Obviously, there is a renewed interest with the advent of gen AI, and we are sharing with our customers an exciting vision for that and they're fully receptive of that.

Maybe I'll say the most important thing that they look for is not just that we're delivering great AI capabilities, but we can always ground our conclusions and influence back to the original evidence. That's the most important thing, that we keep utmost defensibility of what we have, and there is always an officer in the middle, as we call it, to make sure that what AI delivers is actually something that can hold in court in the utmost standards.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer*

The other thing I might add, and the team can make sure I get the numbers right, but we just published the results of some industry surveys that we conduct annually and we specifically asked that group about that question- how do you see AI? And the numbers were roughly a third of people said AI will be a contributing element of crime, so it will be used in a nefarious, not so good way. But they also said that we think -- I think the number was in the 60s, felt like AI would be a major enabler in the pursuit against crime and leveraging it both from an effectiveness, speed, efficiency perspective.

So the fact that that community is already raising their hand, and basically two out of three are saying we want and we need advanced AI to help combat the case volumes and the proliferation of technology and digital assets in the pursuit of crime. So I think that's a data-driven answer that I think is pretty positive.

Charlotte Bedick - *JPMorgan - Analyst*

Thanks, and congrats on the good results.

Operator

Jeff Van Rhee, Craig-Hallum.

Jeff Van Rhee - Craig-Hallum Capital Group - Analyst

So a couple for me. First, maybe, Tom, on the FedRAMP. Thanks for the update and the timeline. Talk for a minute, if you would, about the opportunity in federal. I get a lot of questions on it. Where you are now as a percent of revenues? You've clearly got some pretty impressive federal customers already. So what does FedRAMP gain you from where you are? Maybe fill in a few gaps there if you would.

Thomas Hogan - Cellebrite DI Ltd - Chief Executive Officer

Yeah, so your point is spot on. We have a very high profile across federal currently. But the change that I think this brings, number one, there are certain programs that require FedRAMP certification. And by the way, I want to make a point. For those that aren't familiar, there are various levels of FedRAMP certification. They're tied to the complexity and sophistication and security requirements.

And as you would expect, it's easier to get low than it is to get medium as it is to get high. And when we embarked on this journey, we said, look, if we're going to be a bear, we're going to be a grizzly. And we don't want to be locked out of anything where we can be helpful in the federal government. So we spent the money, spent the time, and pursued high. And the fact that we got FedRAMP ready means most of the heavy lift is done.

And now we have the ability to start talking to end customers or some of the big GSIs that are running these programs, and they now know that it's just a matter of time before we get the ATO to actually operate. So if you ask, gosh, what does that do to your TAM? Our estimate is it roughly doubles our TAM. Now we don't know that for fact, but it's our sense that just based on the tentacles and the relationships we have in federal, that once we get fully authorized to operate, it doubles the aperture of opportunity. As you know, given that federal is roughly -- Dana, what -- 20% of our current business, it gives us some nice opportunity and headroom for growth in federal.

Jeff Van Rhee - Craig-Hallum Capital Group - Analyst

That's very helpful. And then one last question. As it relates to the investigative unit, the migration there, obviously a massive new TAM there. You've got a dominant installed base and if you can break that open and directly connect into the investigative unit, obviously a lot of opportunity.

Maybe for Marcus, you commented we've got some data points. I mean, it's shown some good growth rates, albeit, from relatively small bases as a percent of mix, but I just want to dial in a little closer. Give us a sense of your satisfaction with how dialed in you have the methodologies that it takes to penetrate the IU. I think you said you're putting in some specialists, but just kind of where are we in the innings-wise in terms of sort of, hey, we've got it figured out, now we can really stomp on the gas versus we're still in the early innings of figuring it out. Just some color there would be great, thanks.

Marcus Jewell - Cellebrite DI Ltd - Global Chief Revenue Officer

Yeah, sure, so thanks for the question. It's a good catch. So I would say we're mid-innings. If you want to use a baseball analogy for a Brit, we'll give it a go. We basically have a thesis which is proven out now. We have enough of a sample size. The end number's big enough to know what the transaction type looks like, what the route to market is.

What I will say that we still need to discover is the investigative unit is interesting because each company has it set up slightly differently. So we're taking a multifaceted approach to that to make sure that we understand the learning. It's clear that we now have the momentum on our side, and

I think this year will be the final tuning. And as we enter into '26, we will have a very, very easily repeatable stream, a much easier repeatable stream that we can get more wood behind.

So I would say we've got a good thesis, we're proving that thesis, but it's still early in that market. As you know, the time is immense. And the final thing, I'm never satisfied with the growth rate because it's my job to grow as fast as possible. So we're always trying to find ways to grow that faster.

Operator

Mike Cikos, Needham.

Mike Cikos - Needham - Analyst

And just to continue on the theme on the go-to-market and the opportunity there with that investigative persona, just wanted to soundboard this. Where are we in building out that investigative persona sales motion? Like is that supposed to be a specialist sales overlay or is this a separate speedboat that's going alongside your existing team that's historically pursued those DFUs?

Marcus Jewell - Cellebrite DI Ltd - Global Chief Revenue Officer

Yeah, it's a great question. So when you look at the investigative unit, they can actually buy all of our technology because our specialists on is the higher level and the larger deals. So looking particularly at the expansion of Guardian and Pathfinder, if you're familiar with those products, would be what those people drive. But we can also -- Inseyets is also a (inaudible) and we're seeing that from investigative units.

There's some functions in there that you saw earlier in our customer announcements with QuickView and Triage and other bits, which allow investigators to use that technology as well. So the minute we have a combined motion where it's not an overlay team, it's a specialist team, they are calling directly on the heads of those units and demonstrating/ And all I can say is, the uptake of interest is huge.

I mean, every time we do an event, we are literally, with no bluster, sold out and we are quickly assigning budgets and getting budgets granted to us for that. In the US, we're also doing some very smart work on the grant side, linking into major crimes to make sure that investigators are aware with our grant writing team that there is money available from federal government to funds state and local. So we're approaching it from a demand creation and a budget creation and an awareness approach and we're satisfied with where we are.

Mike Cikos - Needham - Analyst

Awesome. And then if I could just cycle back to the US federal. Great to see that mid-20s ARR growth, putting you, call it, about in line with overall company growth. I know the company just set up Cellebrite Federal Solutions this past summer, and the beltway can take time, right? So is it fair to think that CFS and US Federal are still largely in pipeline building mode this year? Or does guidance in any way contemplate early green shoots following the launch when we think about calendar '25?

Thomas Hogan - Cellebrite DI Ltd - Chief Executive Officer

I think you've nailed it. So do we think we might benefit from these changes to some extent this year? Yes, but we really think the bulk of the benefit and the acceleration in the business starts to flow in '26. And again, this is all part of the modeling for our guidance for '25. And it's exactly for the reasons you described, the federal government and their budget cycles. We might be able to sneak in on some existing programs now that we have this proxy company and FedRAMP certification, but the real measure that we're driving this year is to sustain the growth we've enjoyed, but we want to see a big uptick in pipeline and deal size and opportunity for '26.

Operator

Tomer Zilberman, Bank of America.

Tomer Zilberman - *Bank of America - Analyst*

Hey guys, if I take a look at the numbers, the magnitude of your EBITDA beat is a little bit lower than it was in previous quarters. And when I look at guidance next quarter, it's more or less in line with the Street. I just wanted to get your puts and takes there.

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

Yeah, so I'll take it. Hi, Tomer. Thank you. Well, Q4 is in some cases a heavy-loaded quarter. We have had some higher expenses in comparison to previous quarters to close the year, especially around marketing activities and IT infrastructure and security activities, which will go with us into 2025 and will impact the following quarters.

I would say that Q1, as usual, from a seasonality perspective, provides lesser top line. And while the OpEx is growing subsequent from the previous quarter, so we traditionally see lower Q1 EBITDA than the rest of the year. And this is why was my comment around seasonality to make sure that when you look on the full year and you look at previous years' seasonality of EBITDA, it will be more accurately spread over the year.

Tomer Zilberman - *Bank of America - Analyst*

Got it, Dana. And you also mentioned earlier that you expect modest improvement against the 92% growth retention rate this year. And I think earlier in the Q&A, you mentioned that you expect half a percentage benefit from lesser-citable countries. Can you give us directionally how much, I guess, upside, or whatever you want to call it, to that 92% number? Is it only going to be this half a percent to a percent from this intentional churn or do you see other levers to grow that?

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

In our Investor Day, we spoke at the long-term target of 92%. We've reached it in 2024 through very hard work for sales organization and customer experience. We believe that most of the improvements will come from those abandoned customers, we call them, and I would like to leave it for this time being.

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer*

I'll add that there's guidance but also internal operating plans that then govern the spend for the company and we want to be good stewards of cash flow and profitability and so on. All that said, do we think there's an opportunity as we look out over the next one to three years to take that number up? The answer is absolutely yes. And one of the priorities I highlighted in my front end is a string of things we're doing that I think will fuel that. And depending on timing, it could help us sooner than planned, but we think it's prudent to plan at the numbers that Dana shared.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair - Analyst*

It seems, Tom, that the transition from chairman to CEO has gone smoothly. My main question is what is the main alternative to customers using Guardian today? It seems that the growth there has been pretty staggering. But are many of your existing install base using USB thumb drives, local storage, and online cloud storage? So is this low-hanging fruit for you guys to penetrate?

Thomas Hogan - *Cellebrite DI Ltd - Chief Executive Officer*

I'm going to let Ronnen jump in on this and then I'll add some color commentary and context because I have a couple of thoughts, but I'll let him take point. One thing I will tell you is from a packaged offering enterprise class software perspective, it's our view, and clearly we have a bias, that we are the best and arguably the only, call it, repository for collaboration and rigorous chain of custody that's tailored to true evidence in some of those requirements versus other repositories that I would argue are optimized for lower level storage, rich media, high volumes, which is a different question than what's the alternative today and maybe what are the obstacles, but we do think the observation that we have an enormous opportunity here given the unique strength of our IP and the purpose built nature of the product is a perfect fit for the market.

Ronnen Armon - *Cellebrite DI Ltd - Chief Products & Technologies Officer*

Yeah, thanks, Tom. Louis, thanks for the question. Look, tell you, we are meeting so many customers. And the one thing that you get again and again, they are looking at us as a digital investigation leader. In that respect, they are not looking for a storage solution. They don't look for a place to somehow shove the data. It's true that they want to process a lot of data, they want to understand it, they want to disseminate it to the right people.

And for that end, they need much more than another alternative to where to put the data. There are multiple solutions for that, but when you look for a solution that actually drives their needs, which is a digital investigation solution, that's where Cellebrite comes in, and they might have other solutions for other things. And what we deliver is not just the way to how to extract the data, manipulate it, understand it, store it, disseminate it, analyze it, that's the full thing that they look for and that's where we want to be.

Louie DiPalma - *William Blair - Analyst*

Great. And can I just have one follow up as the stock price appears to be down 7% on the comments of federal disruption. And so I was wondering what percentage of revenue generally comes from the US federal vertical? And generally speaking, is the revenue on a recurring nature subscription economic model such that most of the revenue impact would be new bookings rather than existing revenue being disrupted? Thanks.

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

I think what is clear, and Marcus, feel free to back me up, is that -- and we said before the federal government in the US is around 20% of our revenue. It is, almost entirely except for services, a subscription business. And most of the business usually come new business. I'm not speaking about renewal. It's coming mostly in Q3 of the year.

With this current situation in the US, what we see is a little bit lagging behind on signing -- on new business. We don't see any impact on our renewal business, which means that the federal government is continuing doing business with us on an ongoing basis. And we feel very comfortable to see that the moment things will stabilize a bit, we'll continue seeing a very healthy growth this year, as we've seen previously.

Operator

That concludes the Q&A portion of today's call. Mr. Kramer, I'm happy to turn the floor back to you and to the management team for any additional or closing remarks.

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

Thank you very much, Jim, and thank you very much to all of our analysts, shareholders, prospective shareholders, and others who tuned in this morning. We look forward to continued discussions, dialogue, and meetings with you over the coming weeks and months. Look forward to speaking with you then. Thank you.

Operator

Ladies and gentlemen, this does conclude today's Cellebrite's fourth-quarter and full-year 2024 financial results conference Call. Please disconnect your line at this time, and have a wonderful day.

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