

Cellebrite

# Solid 4Q23 results and improved business momentum in 2024; upgrade to Buy

Rating Change: BUY | PO: 12.00 USD | Price: 10.74 USD

## Stability of trends and better momentum prompts upgrade

We upgrade Cellebrite from Neutral to Buy and raise our PO from \$9 to \$12. The company sees improved business momentum, driven by healthy market demand, platformization of the portfolio, and growth acceleration of new product initiatives. While prior concerns around the stability of trends, namely around the transition to a subscription model and previous deal slippage, kept us at Neutral, we believe these headwinds have abated, and we remain positive on the opportunities ahead, prompting our upgrade. We increase our estimates (see Financial Highlights) and increase our valuation multiple to 5x CY25E EV/Sales vs. 4x prior, reflecting the improved trends.

## Subscription transition complete, abating prior headwinds

Management noted the company has largely completed its transition of customers away from perpetual licenses towards subscription services and term-based models, as 4Q23 marks the first quarter to lap 85% subscription revenue contribution. The contribution of perpetual license and other non-recurring revenue declined to only 4.8% of total revenue, vs. historical 10%, and perpetual licenses are under ~2% of total licensing, limiting additional downside risk. We also note that previous deal slippage has stabilized. As such, we believe the risk of uncertainty around timing of deals and revenue fluctuations from the migration to a software model are now largely abated. Additionally, the company has lapped last year's increased costs of being a public company and FX headwinds, and we believe 2024 should reflect more normalized trends.

## Margins trending well, driving improved profitability

Management implicitly guided 2024 OM of ~17.6% at the mid-point, up 110bps YoY. OM improvement is supported by higher revenue and Opex efficiencies, offset by GM pressures from further scaling the company's SaaS offering and an expected 14.1% YoY growth in headcount. 2024 adjusted EBITDA margin guidance of 20% was above Street's 17%, reflecting the improved OM, driving our 2024 EPS forecast of \$0.29, which is 8c above our prior estimates. Looking to 2024 and beyond, management aspires towards a sustained Rule of 45, calculated by the combination of ARR growth and adjusted EBITDA margin, and we increase our 2024 ARR growth estimate from 20.9% to 23.5% accordingly. **Discussion continues on Page 3.**

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.10	0.31	0.29	0.41	0.54
GAAP EPS	0.62	(0.41)	0.16	0.29	0.43
EPS Change (YoY)	-60.0%	210.0%	-6.5%	41.4%	31.7%
Consensus EPS (Bloomberg)			0.24	0.34	0.43
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	107.4x	34.6x	37.0x	26.2x	19.9x
GAAP P/E	17.3x	NM	67.1x	37.0x	25.0x
EV / EBITDA*	70.0x	30.9x	25.3x	20.9x	16.2x
Free Cash Flow Yield*	0.6%	4.6%	0.3%	4.2%	5.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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12660170

Timestamp: 16 February 2024 06:00AM EST

16 February 2024

Equity

### Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-2-9	C-1-9
Inv. Rating	NEUTRAL	BUY
Price Obj.	9.00	12.00

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### Stock Data

Price	10.74 USD
Price Objective	12.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	5.22 USD - 10.75 USD
Mkt Val (mn) / Shares Out (mn)	2,120 USD / 197.4
Free Float	25.4%
Average Daily Value (mn)	7.21 USD
BofA Ticker / Exchange	CLBT / NAS
Bloomberg / Reuters	CLBT US / CLBT.OQ
ROE (2024E)	92.6%
Net Dbt to Eqty (Dec-2023A)	-553.9%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Cellebrite

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	240.1%	43.7%	49.1%	40.2%	35.0%
Return on Equity	7,629.5%	112.7%	92.6%	65.4%	51.1%
Operating Margin	9.0%	18.0%	17.7%	18.4%	21.1%
Free Cash Flow	14	97	6	88	115

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.7x	0.2x	1.2x	1.1x
Asset Replacement Ratio	0.8x	0.6x	0.5x	0.7x	1.0x
Tax Rate	NM	NM	9.0%	6.3%	4.4%
Net Debt-to-Equity Ratio	-118.7%	-553.9%	-226.5%	-172.1%	-146.2%
Interest Cover	NA	0.5x	8.9x	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	271	325	375	457	540
% Change	9.9%	20.1%	15.4%	22.0%	18.0%
Gross Profit	221	274	313	383	452
% Change	8.4%	23.7%	14.5%	22.2%	18.1%
EBITDA	28	64	78	95	123
% Change	-43.2%	126.3%	22.3%	21.1%	29.2%
Net Interest & Other Income	120	(109)	(7)	2	2
<b>Net Income (Adjusted)</b>	<b>20</b>	<b>61</b>	<b>56</b>	<b>82</b>	<b>112</b>
<b>% Change</b>	<b>-48.2%</b>	<b>209.5%</b>	<b>-8.4%</b>	<b>47.0%</b>	<b>36.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	121	(81)	32	58	88
Depreciation & Amortization	9	9	12	11	9
Change in Working Capital	(2)	38	(52)	6	7
Deferred Taxation Charge	(2)	5	0	0	0
Other Adjustments, Net	(105)	131	20	20	20
Capital Expenditure	(7)	(5)	(7)	(8)	(9)
<b>Free Cash Flow</b>	<b>14</b>	<b>97</b>	<b>6</b>	<b>88</b>	<b>115</b>
<b>% Change</b>	<b>-55.8%</b>	<b>607.8%</b>	<b>-93.7%</b>	<b>NM</b>	<b>31.0%</b>
Share / Issue Repurchase	14	22	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	88	190	196	284	399
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	208	233	249	290	337
Property, Plant & Equipment	17	16	10	7	7
Other Non-Current Assets	90	95	90	96	103
<b>Total Assets</b>	<b>403</b>	<b>533</b>	<b>545</b>	<b>677</b>	<b>847</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	272	437	397	440	487
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	58	62	61	72	86
<b>Total Liabilities</b>	<b>329</b>	<b>499</b>	<b>458</b>	<b>512</b>	<b>574</b>
<b>Total Equity</b>	<b>74</b>	<b>34</b>	<b>86</b>	<b>165</b>	<b>273</b>
<b>Total Equity &amp; Liabilities</b>	<b>403</b>	<b>533</b>	<b>545</b>	<b>677</b>	<b>847</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Cyber Security

## Company Description

Cellebrite provides Investigative Digital Intelligence solutions, for the public and private sector, to accelerate and automate the investigation process and increase clearance rates. The company benefits from an ongoing shift from perpetual licenses to term-based licenses, and is in early innings for its SaaS transition. CLBT is a leader in the public sector with over 28,000 UFEDs, and is strongly positioned to compete in the Enterprise business, with its Collection & Processing capabilities.

## Investment Rationale

We believe Cellebrite is well-positioned to gain share in the Investigative Digital Intelligence market, for both public and private sector use cases, and expand into other areas of digital intelligence over time. We favor Cellebrite's strong ARR growth and net retention rates, and expect the company's upsell potential combined with cross-sell opportunities to deliver sustainable growth as the company invests to grow its Subscription and SaaS business.

## Stock Data

Average Daily Volume 671,578

## Quarterly Earnings Estimates

	2023	2024
Q1	0.03A	0.05E
Q2	0.05A	0.06E
Q3	0.10A	0.08E
Q4	0.11A	0.10E

## Growth in customer expansion reflects healthy demand

Slowdown in existing customer spending remains a key risk to the stock. As the company already sells to ~90% of relevant public safety agencies, growth in new logos has remained timid over the last few quarters at only 2%. However, ARR is supported by more buying centers within existing customers, with consistent 30% growth in existing customer expansion over the last several quarters, reflecting a healthy demand environment. As such, 4Q ARR of 26.8% was above Street's 25.7%. Anecdotally, we also see continued demand across public safety for Motorola Solutions ([see link to latest quarter note here](#)), suggesting that the spending environment for government agencies continues to remain strong.

## Subscription continues to support overall growth

Management expects subscriptions to continue to account for 85% of total revenue, yet we note that new product initiatives, such as Inseyets, could drive longer-term acceleration as contribution become more material, with an inherent 20%-25% higher pricing. 2024 revenue growth guidance of 15.3% was below Street's 16.7%, mostly attributed to the 2023 outperformance, yet we believe guidance may prove conservative as the company looks to build a unified platform approach. We model total subscription growth of 20.6% YoY in 2024, which we believe is achievable vs. the 29.8% recorded growth in 2023.

## Financial Highlights

### Exhibit 1: Actual versus Estimated Results

Actual ARR and revenue of \$315.7mn and \$93.0mn, respectively, were above BofA estimates for \$313.0mn and \$85.4mn

\$k, except ARR & EPS	4Q22	1Q23	2Q23	3Q23	4Q23	Estimated	QoQ	YoY	Delta
<b>ARR (\$mn)</b>	<b>249</b>	<b>261</b>	<b>274</b>	<b>295</b>	<b>316</b>	<b>313</b>	7%	27%	3
QoQ	7.3%	4.8%	5.0%	7.7%	6.9%	5.9%			
YoY	33.2%	29.9%	28.0%	27.2%	26.8%	25.5%			
<b>Total Revenue</b>	<b>74,018</b>	<b>71,234</b>	<b>76,684</b>	<b>84,179</b>	<b>93,013</b>	<b>85,418</b>	10.5%	25.7%	7,595
QoQ	3.3%	-3.8%	7.7%	9.8%	10.5%	1.5%			
YoY	9.0%	14.2%	22.6%	17.4%	25.7%	15.4%			
<b>Total Cost of Revenue</b>	<b>11,786</b>	<b>12,007</b>	<b>12,603</b>	<b>12,431</b>	<b>14,405</b>	<b>14,062</b>	15.9%	22.2%	343
<b>Gross Profit</b>	<b>62,232</b>	<b>59,227</b>	<b>64,081</b>	<b>71,748</b>	<b>78,608</b>	<b>71,356</b>	9.6%	26.3%	7,252
Research and Development (non-GAAP)	18,174	19,698	19,204	19,203	19,761	20,608	2.9%	8.7%	(847)
Sales and Marketing (non-GAAP)	22,122	25,368	25,249	24,470	27,755	28,694	13.4%	25.5%	(939)
General and Administrative (non-GAAP)	7,508	8,508	10,233	8,823	10,110	9,516	14.6%	34.7%	594
<b>Total Operating Expenses</b>	<b>47,804</b>	<b>53,574</b>	<b>54,686</b>	<b>52,496</b>	<b>57,626</b>	<b>58,818</b>	9.8%	20.5%	(1,192)
<b>Operating Income</b>	<b>14,428</b>	<b>5,653</b>	<b>9,395</b>	<b>19,252</b>	<b>20,982</b>	<b>13,430</b>	9.0%	45.4%	7,552
YoY	86.1%	114.6%	-1103.7%	464.2%	45.4%	-6.9%			
Financial Income	(572)	(38,775)	(36,051)	(6,630)	(27,344)	(5,241)	312.4%	4680.4%	(22,103)
<b>Pretax Income</b>	<b>13,856</b>	<b>(33,122)</b>	<b>(26,656)</b>	<b>12,622</b>	<b>(6,362)</b>	<b>8,189</b>	-150.4%	-145.9%	(14,551)
Income Tax Expense	(1,459)	(40,021)	(37,371)	(8,691)	(28,361)	(1,685)	226.3%	1843.9%	(26,676)
<b>Net Income</b>	<b>15,315</b>	<b>6,899</b>	<b>10,715</b>	<b>21,313</b>	<b>21,999</b>	<b>9,874</b>	3.2%	43.6%	12,125
<b>Non-GAAP EPS</b>	<b>0.08</b>	<b>0.03</b>	<b>0.05</b>	<b>0.10</b>	<b>0.11</b>	<b>0.05</b>	8.5%	42.4%	0
YoY	204.5%	380.8%	-41335.0%	577.4%	42.4%	-39.2%			
Diluted Share Count	192,787	198,184	199,705	204,394	194,441	204,599	-4.9%	0.9%	(10,158)
Gross Margin	84.1%	83.1%	83.6%	85.2%	84.5%	83.5%	-71 bps	43 bps	97 bps
Operating Margin	19.5%	7.9%	12.3%	22.9%	22.6%	15.7%	-31 bps	306 bps	683 bps
Net Margin	20.7%	9.7%	14.0%	25.3%	23.7%	11.6%	-166 bps	296 bps	1209 bps

Source: BofA Global Research estimates, company report

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**Exhibit 2: Summary of Model Changes**

We increase our 2024 estimates to reflect the improved business momentum

	Revenue (\$k)			Gross Margin			Operating Margin			EPS			ARR (\$mn)		
	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta
<b>FY23</b>															
1Q23	\$ 71,234	\$ 71,234	\$ -	83.1%	83.1%	0 bps	7.9%	7.9%	0 bps	\$ 0.03	\$ 0.03	\$ -	\$ 261	\$ 261	\$ -
2Q23	\$ 76,684	\$ 76,684	\$ -	83.6%	83.6%	0 bps	12.3%	12.3%	0 bps	\$ 0.05	\$ 0.05	\$ -	\$ 274	\$ 274	\$ -
3Q23	\$ 84,179	\$ 84,179	\$ -	85.2%	85.2%	0 bps	22.9%	22.9%	0 bps	\$ 0.10	\$ 0.10	\$ -	\$ 295	\$ 295	\$ -
4Q23	\$ 85,418	\$ 93,013	\$ 7,595	83.5%	84.5%	97 bps	15.7%	22.6%	683 bps	\$ 0.05	\$ 0.11	\$ 0.06	\$ 313	\$ 316	\$ 3
<b>Total</b>	<b>\$ 317,515</b>	<b>\$ 325,110</b>	<b>\$ 7,595</b>	<b>83.9%</b>	<b>84.2%</b>	<b>27 bps</b>	<b>15.0%</b>	<b>17.0%</b>	<b>197 bps</b>	<b>\$ 0.24</b>	<b>\$ 0.31</b>	<b>\$ 0.06</b>	<b>\$ 313</b>	<b>\$ 316</b>	<b>\$ 3</b>
<b>FY24E</b>															
1Q24E	\$ 83,572	\$ 84,020	\$ 448	83.2%	84.0%	79 bps	10.9%	13.4%	247 bps	\$ 0.04	\$ 0.05	\$ 0.01	\$ 319	\$ 330	\$ 11
2Q24E	\$ 89,375	\$ 89,105	\$ (269)	82.9%	83.3%	43 bps	11.5%	16.9%	537 bps	\$ 0.04	\$ 0.06	\$ 0.02	\$ 333	\$ 345	\$ 12
3Q24E	\$ 97,222	\$ 96,164	\$ (1,057)	82.8%	83.7%	87 bps	14.3%	19.3%	502 bps	\$ 0.06	\$ 0.08	\$ 0.02	\$ 357	\$ 369	\$ 12
4Q24E	\$ 101,525	\$ 105,735	\$ 4,209	83.0%	83.4%	37 bps	14.3%	20.4%	606 bps	\$ 0.07	\$ 0.10	\$ 0.03	\$ 378	\$ 390	\$ 12
<b>Total</b>	<b>\$ 371,693</b>	<b>\$ 375,024</b>	<b>\$ 3,331</b>	<b>83.0%</b>	<b>83.6%</b>	<b>61 bps</b>	<b>12.9%</b>	<b>17.7%</b>	<b>484 bps</b>	<b>\$ 0.21</b>	<b>\$ 0.29</b>	<b>\$ 0.08</b>	<b>\$ 378</b>	<b>\$ 390</b>	<b>\$ 12</b>
<b>FY25E</b>															
1Q25E	\$ 105,566	\$ 103,215	\$ (2,351)	83.5%	83.7%	17 bps	10.9%	16.2%	529 bps	\$ 0.06	\$ 0.08	\$ 0.02	\$ 385	\$ 402	\$ 16
2Q25E	\$ 113,830	\$ 109,610	\$ (4,221)	83.3%	83.7%	39 bps	12.3%	16.6%	427 bps	\$ 0.07	\$ 0.09	\$ 0.02	\$ 405	\$ 422	\$ 17
3Q25E	\$ 125,236	\$ 116,674	\$ (8,561)	82.6%	84.0%	140 bps	12.9%	20.3%	732 bps	\$ 0.08	\$ 0.12	\$ 0.03	\$ 429	\$ 446	\$ 17
4Q25E	\$ 131,738	\$ 127,994	\$ (3,745)	83.0%	83.6%	57 bps	15.2%	19.9%	472 bps	\$ 0.10	\$ 0.12	\$ 0.02	\$ 468	\$ 478	\$ 10
<b>Total</b>	<b>\$ 476,370</b>	<b>\$ 457,492</b>	<b>\$ (18,878)</b>	<b>83.1%</b>	<b>83.7%</b>	<b>65 bps</b>	<b>13.0%</b>	<b>18.4%</b>	<b>540 bps</b>	<b>\$ 0.32</b>	<b>\$ 0.41</b>	<b>\$ 0.09</b>	<b>\$ 468</b>	<b>\$ 478</b>	<b>\$ 10</b>

Source: BofA Global Research estimates, company report

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**Exhibit 3: Income Statement**

Updated summary of financials; we increase our FY24 revenue and EPS estimate to \$375.0mn and \$0.29, respectively

Income statement in thousand's	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	FY22	FY23	FY24E	FY25E	FY26E
Annual recurring revenue (ARR) (in \$mn)	201	214	232	249	261	274	295	316	330	345	369	390	402	422	446	478	249	316	390	478	577
YoY%Chg	34.0%	34.6%	35.7%	33.2%	29.9%	28.0%	27.2%	26.8%	26.4%	25.8%	25.0%	23.5%	21.8%	22.3%	20.9%	22.6%	33.2%	26.8%	23.5%	22.6%	20.7%
Total Subscription	48,199	49,841	55,594	62,323	61,282	67,206	73,280	78,646	75,763	80,863	87,379	94,065	95,842	101,892	109,230	117,274	215,957	280,414	338,069	424,238	506,965
Subscription services and technical support	33,941	36,446	39,385	43,698	47,367	50,512	54,150	57,722	60,488	63,140	66,875	71,114	76,819	80,188	84,062	90,030	153,470	209,751	261,616	331,099	383,119
Term-license	14,258	13,395	16,209	18,625	13,915	16,694	19,130	20,924	15,275	17,723	20,503	22,951	19,023	21,704	25,168	27,245	62,487	70,663	76,453	93,139	123,846
Perpetual license and other	6,100	4,200	7,407	3,666	2,918	1,972	4,185	4,486	1,647	1,113	2,313	2,596	688	508	967	1,549	21,373	13,561	7,669	3,712	2,148
Professional services	8,086	8,532	8,674	8,029	7,034	7,506	6,714	9,881	6,610	7,130	6,472	9,074	6,685	7,210	6,478	9,170	33,321	31,135	29,285	29,542	30,911
Total revenue	62,385	62,573	71,675	74,018	71,234	76,684	84,179	93,013	84,020	89,105	96,164	105,735	103,215	109,610	116,674	127,994	270,651	325,110	375,024	457,492	540,025
YoY%Chg	17.1%	5.8%	8.8%	9.0%	14.2%	22.6%	17.4%	25.7%	17.9%	16.2%	14.2%	13.7%	22.8%	23.0%	21.3%	21.1%	9.9%	20.1%	15.4%	22.0%	18.0%
Gross profit (non-GAAP)	51,650	49,814	57,495	62,232	59,227	64,081	71,748	78,608	70,571	74,226	80,507	88,161	86,371	91,775	97,968	106,948	221,191	273,664	313,465	383,063	452,439
Gross margin (non-GAAP)	82.8%	79.6%	80.2%	84.1%	83.1%	83.6%	85.2%	84.5%	84.0%	83.3%	83.7%	83.4%	83.7%	83.7%	84.0%	83.6%	81.7%	84.2%	83.6%	83.7%	83.8%
Research and development	17,779	18,154	19,964	18,174	19,698	19,204	19,203	19,761	21,505	21,505	22,187	24,060	24,060	25,577	25,577	28,257	74,071	77,866	89,258	103,472	125,662
Sales and marketing	21,890	23,234	24,106	22,122	25,368	25,249	24,470	27,755	28,369	28,369	29,849	32,024	34,186	35,956	35,956	39,674	91,352	102,842	118,612	145,772	158,696
General and administrative	9,347	9,362	10,013	7,508	8,508	10,233	8,823	10,110	10,367	10,226	10,806	11,416	12,312	12,997	13,716	14,471	36,230	37,674	42,814	53,496	57,884
Operating income (loss)	2,634	(936)	3,412	14,428	5,653	9,395	19,252	20,982	11,253	15,049	18,588	21,584	16,737	18,168	23,642	25,469	19,538	55,282	66,473	84,016	113,888
Operating margin (non-GAAP)	4.2%	-1.5%	4.8%	19.5%	7.9%	12.3%	22.9%	22.6%	13.4%	16.9%	19.3%	20.4%	16.2%	16.6%	20.3%	19.9%	7.2%	17.0%	17.7%	18.4%	21.1%
Financial income, net	56,400	38,466	25,422	(572)	(38,775)	(36,051)	(6,630)	(27,344)	(3,000)	(1,380)	(1,520)	(1,580)	500	500	500	500	119,716	#####	(7,480)	2,000	2,000
Income tax expense and other net income adjustments	57,614	37,555	25,860	(1,459)	(40,021)	(37,371)	(8,691)	(28,361)	(616)	1,739	944	1,092	790	1,141	992	1,004	119,570	#####	3,159	3,926	4,016
Non-GAAP net income (loss)	1,420	(25)	2,974	15,315	6,899	10,715	21,313	21,999	8,868	11,930	16,124	18,912	16,447	17,527	23,151	24,965	19,684	60,926	55,834	82,090	111,872
Net margin (non-GAAP)	2.3%	0.0%	4.1%	20.7%	9.7%	14.0%	25.3%	23.7%	10.6%	13.4%	16.8%	17.9%	15.9%	16.0%	19.8%	19.5%	7.3%	18.7%	14.9%	17.9%	20.7%
Earnings per share (non-GAAP)	0.01	(0.00)	0.02	0.08	0.03	0.05	0.10	0.11	0.05	0.06	0.08	0.10	0.08	0.09	0.12	0.12	0.10	0.31	0.29	0.41	0.54
Diluted Earnings per share (GAAP)	0.28	0.17	0.13	0.04	(0.20)	(0.16)	0.03	(0.08)	0.01	0.03	0.05	0.07	0.05	0.06	0.09	0.09	0.62	(0.41)	0.16	0.29	0.43
Weighted average shares outstanding, diluted	196,143	192,133	193,188	192,787	198,184	199,705	204,394	194,441	194,635	194,830	196,013	197,124	198,143	199,167	200,196	201,231	193,563	199,181	195,650	199,684	205,571
Margin Analysis																					
Gross margin (non-GAAP)	82.8%	79.6%	80.2%	84.1%	83.1%	83.6%	85.2%	84.5%	84.0%	83.3%	83.7%	83.4%	83.7%	83.7%	84.0%	83.6%	81.7%	84.2%	83.6%	83.7%	83.8%
Research and development	28.5%	29.0%	27.9%	24.6%	27.7%	25.0%	22.8%	21.2%	25.6%	24.1%	23.1%	22.8%	23.3%	23.3%	21.9%	22.1%	27.4%	24.0%	23.8%	22.6%	23.3%
Sales and marketing	35.1%	37.1%	33.6%	29.9%	35.6%	32.9%	29.1%	29.8%	33.8%	31.8%	31.0%	30.3%	33.1%	32.8%	30.8%	31.0%	33.8%	31.6%	31.6%	31.9%	29.4%
General and administrative	15.0%	15.0%	14.0%	10.1%	11.9%	13.3%	10.5%	10.9%	12.3%	11.5%	11.2%	10.8%	11.9%	11.9%	11.8%	11.3%	13.4%	11.6%	11.4%	11.7%	10.7%
Operating margin (non-GAAP)	4.2%	-1.5%	4.8%	19.5%	7.9%	12.3%	22.9%	22.6%	13.4%	16.9%	19.3%	20.4%	16.2%	16.6%	20.3%	19.9%	7.2%	17.0%	17.7%	18.4%	21.1%
Tax rate (non-GAAP)	97.6%	100.1%	89.7%	-10.5%	120.8%	140.2%	-68.9%	445.8%	-7.5%	12.7%	5.5%	5.5%	4.6%	6.1%	4.1%	3.9%	85.9%	213.8%	5.4%	4.6%	3.5%
Net margin (non-GAAP)	2.3%	0.0%	4.1%	20.7%	9.7%	14.0%	25.3%	23.7%	10.6%	13.4%	16.8%	17.9%	15.9%	16.0%	19.8%	19.5%	7.3%	18.7%	14.9%	17.9%	20.7%
YoY Growth																					
Total revenue	17.1%	5.8%	8.8%	9.0%	14.2%	22.6%	17.4%	25.7%	17.9%	16.2%	14.2%	13.7%	22.8%	23.0%	21.3%	21.1%	9.9%	20.1%	15.4%	22.0%	18.0%
Total operating expenses (non-GAAP)	40.2%	34.6%	33.1%	-0.2%	9.3%	7.8%	-2.9%	20.5%	12.4%	9.9%	19.7%	17.1%	17.1%	24.0%	19.7%	22.1%	25.1%	8.3%	14.8%	20.8%	13.0%
Operating income (non-GAAP)	-74.2%	-108.2%	-74.7%	86.1%	114.6%	-1103.7%	464.2%	45.4%	99.1%	60.2%	-3.5%	2.9%	48.7%	20.7%	27.2%	18.0%	-54.4%	182.9%	20.2%	26.4%	35.6%
Net income (non-GAAP)	-83.5%	-100.2%	-77.6%	194.9%	385.8%	-42960.0%	616.6%	43.6%	28.5%	11.3%	-24.3%	-14.0%	85.5%	46.9%	43.6%	32.0%	-48.2%	209.5%	-8.4%	47.0%	36.3%
QoQ Growth																					
Total revenue	-8.1%	0.3%	14.5%	3.3%	-3.8%	7.7%	9.8%	10.5%	-9.7%	6.1%	7.9%	10.0%	-2.4%	6.2%	6.4%	9.7%					
Total operating expenses (non-GAAP)	2.3%	3.5%	6.6%	-11.6%	12.1%	2.1%	-4.0%	9.8%	4.5%	-0.2%	4.6%	7.4%	4.5%	5.6%	1.0%	9.5%					
Operating income (non-GAAP)	-66.0%	-135.5%	-464.5%	322.9%	-60.8%	66.2%	104.9%	9.0%	-46.4%	33.7%	23.5%	16.1%	-22.5%	8.5%	30.1%	7.7%					
Net income (non-GAAP)	-72.7%	-101.8%	-11996.0%	415.0%	-55.0%	55.3%	98.9%	3.2%	-59.7%	34.5%	35.2%	17.3%	-13.0%	6.6%	32.1%	7.8%					

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Cellebrite (CLBT)

Our PO of \$12.00 is based on roughly 5x our CY25E EV/Sales. The multiple is at a discount versus SaaS-based vendors (7-12x average) and cybersecurity peers (10x average). We believe a discounted valuation is justified given Cellebrite's addressable market is lower than that of an open-ended cyber security company. The positives of Cellebrite's growth and long-term opportunities are also supported by solid margins.

Upside risks to our PO are 1) faster-than-expected Subscription and SaaS revenue growth, 2) faster-than-expected Analyze and Manage solution growth, 3) higher Private Sector revenue contribution, and 4) growth into adjacent markets.

Downside risks to our PO are 1) lower attach rates with new products, 2) regulatory and legal issues, 3) a decrease or shift in government budgeting, 4) risk of inability to keep up with evolving security strategies, and 5) slowdown in new customer adoption and expansion deals.

## Analyst Certification

I, Tomer Zilberman, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Cellebrite	CLBT	CLBT US	Tomer Zilberman
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
<b>NEUTRAL</b>				
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
<b>UNDERPERFORM</b>				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks

## US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SecureWorks	SCWX	SCWX US	Tal Liani

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

*iQmethod<sup>SM</sup>* is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

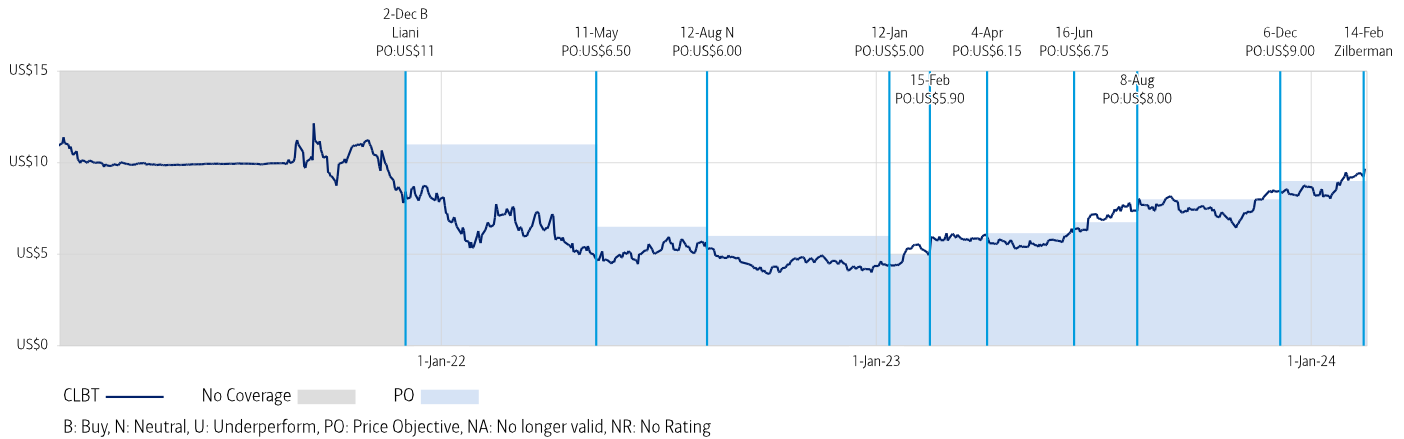
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## Important Disclosures

### Cellebrite (CLBT) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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