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TENB.OQ - Tenable Holdings Inc at Barclays Global Technology, Media and Telecommunications Conference

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CORPORATE PARTICIPANTS

Amit Yoran *Tenable Holdings, Inc. - President, CEO & Chairman*

Stephen A. Vintz *Tenable Holdings, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Saket Kalia *Barclays Bank PLC, Research Division - Senior Analyst*

PRESENTATION

Saket Kalia *- Barclays Bank PLC, Research Division - Senior Analyst*

Hey, good morning, Everyone. Again, welcome to Day 1 of Barclays TMT Conference. My name is Saket Kalia, I cover U.S. software here at Barclays. Very happy to have with us the team from Tenable. We've got Amit Yoran, CEO; Stephen Vintz, CFO as well. We've got Andrea DiMarco, Head of Investor Relations here in the audience. We've got about 25 minutes together. Let's take the first 15 or 20 minutes just to do some fireside chat. And then to the extent that there are any questions in the audience, so shoot up your hand and let's make it interactive. So with that first and foremost, Amit, Steve, thanks so much for being with us today.

Amit Yoran *- Tenable Holdings, Inc. - President, CEO & Chairman*

Thank you.

QUESTIONS AND ANSWERS

Saket Kalia *- Barclays Bank PLC, Research Division - Senior Analyst*

Yes. Now, Amit, you know this is Tenable's first time being at the Barclays' conference as a public company. Hopefully, the first of many, right? Maybe just to level set for all of us. Can you just spend a couple of minutes giving us a little bit of background on the company sort of strategically? And Steve, can you just add a little bit a financial perspective as well?

Amit Yoran *- Tenable Holdings, Inc. - President, CEO & Chairman*

Yes. So for those of you that aren't familiar with Tenable, we're a cybersecurity company. When you look at the broader cybersecurity market, there's companies that are focused on protection and preventing breaches from occurring by putting firewalls and perimeters around networks, around hosts or encrypting data. There's companies that are in the attack detection and incident response and helping you recover from incidents. Tenable is a company, and one of a very small group of companies, whose core focus is on helping answer the question how secure am I? How exposed am I? How at risk am I? And we believe that those are very fundamental questions, and questions that are increasing in value and importance as you're seeing more business executives get engaged in cyber issues. When you see an audit risk committee or a Board of Directors or a CEO ask cyber questions, they're not asking about how you're sandboxing certain types of malware and deducing how it behaves. They're asking that what is our level of risk? Are we exercising a reasonable standard of care with our systems? And Tenable is the leader in answering and addressing those questions.

Stephen A. Vintz - *Tenable Holdings, Inc. - CFO*

In terms of the financial profile of the company, Tenable has 27,000 customers. We have sales in over 30 countries with transact sales in 160. This year, we'll do approximately $350 million of revenue, over $400 million in calculated current billings. We have our subscription -- annual subscription-based model with over 90% recurring revenue and 85% gross margins.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Great. That's a good foundation. Amit, it seems like for over a year now, I mean, it feels like more over a year now, the 3 VM players, right? The 3 publicly traded VM players, of course, yourself, Qualys, Rapid7, they've all had really solid results with good growth. And oftentimes, I get the question from investors on wait a second, how much longer could that go because the view is that the VM market traditionally hasn't really been viewed as really a large one in the context of broader cybersecurity. And so maybe a 2-part question for you, Amit. Can you talk about what you think is driving, what I'll call, a rising tide in VM, and can you talk about that rising tide first? And maybe dig deeper in -- and just into the idea of maybe VM is a little bit more strategic in the overall cybersecurity budget, if you will? Makes sense?

Amit Yoran - *Tenable Holdings, Inc. - President, CEO & Chairman*

It does. And that's something that I think the security market has started to realize over the last 2 or 3 years, and now you're starting to see some of the results of the publicly traded VM providers. So historically, the VM market has been around for a long time. There's been a lot of assumptions around the size of the market. They're kind of steady, consistent low growth rate of the market. And over the last couple of years, you've seen a change in strategy and a lot of security programs going with what's called Back to Basics, making sure that you're doing the blocking and tackling well. When you look at all of the high-profile breaches so when you look at all of the activity in the security space, every single breach. And -- I'm going to always say this, I'm going to say every single breach that anyone in the room or anybody at the conference can name fundamentally boils down to one of two different problems. You either had a system that you didn't know about, that wasn't patched, or you knew it was vulnerable, you didn't bother doing something about it or you had a user that was spear phish. So for all of the -- they cost up their credentials, they authenticate themselves into some phony website and based on that, the bad guys got credentials and can do something. So for all of the sexy hype about zero-days, the Russians, the Chinese, the Iranians, the North Koreans, all of that boils down to those same two attack vectors. There's this myth in our minds and in the minds of many security practitioners over the years that we can't defend ourselves. And so you've had all these better mouse-trap types of security companies popping up on the radar screen with all of this marketing. And when I say you could name it, I'm pretty confident saying it as an investment bank, try out this question at Black Hat, and I asked this question in RSA conference, and I asked this question at security events and venues. And with the exception of Stuxnet, nobody can name a single breach which was the result of a Zero-Day exploit as opposed to the Equifax, the FedEx, the Merck, the WannaCry, the NotPetya, all of the high-profile breaches, which were the result of known vulnerabilities and known exploits.

So there's been this great trend in the security space of Back to Basics. Better authentication, better identity management, better Vulnerability Management. And the other trend is business executives getting involved in security. And those fundamental questions they ask, hey, that Apache Struts thing that Equifax got hit by, that looks painful, are we susceptible to that? Are we doing a good job with our security? How exposed are we? And when Boards ask those questions, the CIO turns to the CSO, who turns to the VM, the Vulnerability Management program managers asking what's our status? And so Vulnerability Management has gone through this great resurgence in the last couple of years. And what I would suggest that we're still in the early innings. When we look across our customer base, and we've got one of the best customer bases in the entire security industry. We've got over 53% of the Fortune 500, over 25% of the Global 2000 when I look across the direct customer base, we're about 25% penetrated in our accounts. So there's lots of growth ahead for Tenable and for the Vulnerability Market as we cover more assets, and as you get broader coverage in the enterprise.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

So great, great segue, Amit, just into sort of the drivers of growth here, Steve, right? When I think about VM and when I hear from some of your competitors in terms of what's driving growth in VM, it's -- hey, there's more greenfield opportunity, which you touched on, Amit, or there's more

assets being covered, which you also touched on. This may be a tough question to answer, Steve, but as you look at the nice growth that Tenable has seen so far, is there a way to -- whether it's in revenue or current book and you choose the metric, is there a way to think about how much of that is coming from sort of more assets from your existing customers versus greenfield? Even qualitative -- again, it's maybe we'll start to do quantitatively, but even qualitatively, how do you think about sort of that mix, if you will?

Stephen A. Vintz - *Tenable Holdings, Inc. - CFO*

Sure. And for the reasons that Amit mentioned, we think VM is a really good market, and there's a lot of tailwinds and catalyst for growth and we talked about a lot of those. In terms of the opportunity itself, if you look at the growth rates for VM, Gartner doubled the growth rates earlier this year, acknowledged that VM is pretty much faster than they initially anticipated growing 15% plus. Risk-based VM, which includes prioritization, we'll talk a little more about that today, is growing 40% plus.

Over 20 billion network connected devices, which is up from 15 million, which is up from 12 million previously according to prior estimates. One of the most important things that a company can do to reduce risk is mitigate vulnerabilities according to Gartner. So VM is taking a greater importance in the company's overall security program. And we disclosed the number of new customer logos each and every quarter, we're adding over 300-plus a quarter of new logos. And every quarter, we do a survey of our largest wins, and the question that we pose among others, is what were you using before Tenable? What was your VM program? And surprisingly enough, it can range anywhere -- but on average, over 30% of all of our new enterprise logos had no formal VM program. That means they were using either open source technology, they were outsourcing it to an SSI like PwC or Deloitte to do the occasional pen test. So there's a sizable greenfield opportunity in VM today with lots of tailwinds for growth. In terms of growth itself and where that comes from? Is it share gains versus more asset coverage? One of the other things we talked about is our net dollar expansion rate. It's a source of pride for the company. When customers -- when we land a customer, they spent historically more. Our net dollar expansion rates can approach 125% or more when you include upsell from perpetual licenses. And that's on the back of selling more assets. As more assets come online, customers look to secure more assets and that does not include new asset types, which are also gaining momentum for the company.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Interesting tidbit there. So we talked about risk-based VM, and I really want to talk about Lumin, right? But before we dig in there, I mean, let's just touch on the product portfolio a little bit, just to sort of level set for everybody, right? I think tools like Nessus are clearly industry standards in parts of the market, but there are, of course, other parts of sort of the cyber exposure portfolio, if you will. Can you just talk about how they're different, meaning Nessus versus Tenable.sc, right, versus Tenable.io? I think it's going to be that nomenclature, correct me if wrong. Yes, just tell us of how the how they differ? What they're targeting, et cetera.

Amit Yoran - *Tenable Holdings, Inc. - President, CEO & Chairman*

Yes, we have done a tremendous job over the last couple of years of rationalizing the portfolio. So you have a very, very elegant sort of unified portfolio approach. So we have piece of freeware, which is ubiquitous in the security community called Nessus -- Nessus Essentials. And just about everybody that is a security practitioner has used or uses Nessus Essentials to -- it's the gold standard for how you assess the system for vulnerability. We have a professional version of that sort of, think about it as sort of auditor or consultant use case, you want to jack into a network, you want to find out what's out there, you want to scan it for vulnerabilities. We have about 22,000 customers on that Nessus Professional scanner. That scanner is also a fundamental building block for our enterprise platforms, which are Tenable.io in the cloud and Tenable.sc on prem. And when you move on to those enterprise platforms, you have the ability to manage distributed scanners and sensors, hundreds of them all around the globe. You also have passive asset discovery and vulnerability profile, and you have the ability to leverage assets, a agent, you have the ability to assess cloud-based infrastructure with native connectors to all of the major cloud infrastructure providers, and you also have connectivity to our operational technologies, control systems, industrial security, infrastructure.

And so in those enterprise platforms, whether they're on-prem or in the cloud, you have the ability to control and assess a much broader set of assets and the ability to do aggregated reporting and much more sophisticated analytics. How do you translate from vulnerabilities and do

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prioritization on what should be fixed? How do you translate from vulnerabilities into enterprise risk? How do you benchmark your level of hygiene relative to your peer group and so a lot of much more sophisticated analytics.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Yes. Yes, sure. Steve, it's not necessarily just related to the product, but I also want to -- I do want to touch on Rev Rec a little bit. VM is, of course, something that requires constant updates. But as Amit mentioned, tools like Nessus and Tenable.sc are on on-premise, while Tenable.io is in the cloud. Can you just -- especially on a 606 world, can you just remind us about the Rev Rec policies around those different tools? Does that make sense?

Stephen A. Vintz - *Tenable Holdings, Inc. - CFO*

Sure. And it's pretty straightforward. We have an annual prepaid subscription model. So most of the sales -- most of our sales, whether it's on-prem or whether it's in the cloud, it's sold as a subscription. That term is generally 1 year. And so we recognize the revenue over the course of the term, and ratable revenue recognition will be at 90% -- over 90% recurring revenue. Years ago, by the way, 5 years ago, we had about 45% recurring revenue and it's mostly perpetual license model. Perpetual licenses is about 10% of our total sales. And under 606, we don't get upfront revenue recognition for perpetual licenses. That actually goes out over 5 years, which is on the life of the portfolio. So it gives you, at the end of the day, a very ratable and visible revenue recognition in model, high-quality of revenue.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Yes, sure. Absolutely. All right. I want to talk about Lumin because that's a really exciting thing we talked about. I mean, you talked about some of the risk-based prioritization that Lumin sort of brings to the table. Can you just remind us how Lumin works? How it brings some of that risk-based prioritization to the table ahead -- and sort of which of your customers, do you feel like are the most natural adopters of Lumin, early adopters, maybe we should say?

Amit Yoran - *Tenable Holdings, Inc. - President, CEO & Chairman*

Yes. I'll talk about that in sort of a 2-part answer. The first is, when you're assessing vulnerabilities, accuracy matters. There's sort of been in this impression going back 3 or 4 years that all VM solutions are created equal. And I think what we've demonstrated over the last 2 or 3 years is that couldn't be further from the truth. When you look at our capabilities, and now through third-party lab tests, seeing that we're covering 22 plus percent more enumerated vulnerabilities than our next closest competitor. There's a very quantitative difference in vulnerability providers both in terms of how complete the coverage is, in terms of the false positive, false negative rate, and when you're talking to enterprises, and to a vulnerability program manager and when they're testing these solutions, it makes a difference. Historically, a challenge in the VM market, and one of the reasons the market has not achieved its true potential, is because we've produced tremendous volumes of data. Here's a list of 1 million vulnerabilities, we'll fix them, have a nice day. It's not a formula for a successful enterprise relationship with your customers. So we've invested a lot over the last couple of years to provide much more compelling analytics to our customers. So in our core platforms, earlier this year, we introduced something called predictive prioritization. So we look at the vulnerability and the severity of that vulnerability, but we also look and have done a bunch of data science work around how exploitable that fall is whether or not exploit code exists out in the wild, whether or not threat actors are taking advantage of that exploiter. And so when you look at all these factors, we can really help you, and help a security team, hone in on the very small number, about 3% of vulnerabilities, that matter most to an enterprise. It's been very well received.

And then at the end of Q3, we released the product that we've been working on called Lumin, which does 3 other things, I think, that are very critical to the future of Tenable and the future of VM. One is, when we're assessing a system for vulnerabilities, we're also assessing the system for how critical of an asset it is. Not all systems are created equal, not all systems are equally valuable to the enterprise. What is the system? How is it being used? What's loaded on it? What services is it offering? What kind of volume, and a number of other factors. And we're helping our customers translate from vulnerabilities to risk because we're now developing this understanding of asset criticality. Second thing that we're doing in Lumin

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is benchmarking. So looking at the hygiene of an enterprise and saying, hey, from the time of what was discovered to the time you look forward to the time you figure out when you've got it to the time you remediated or putting compensated controls. What is your hygiene profile? What does it look like? And how does it compare relative to your peer group and the global population? And if you can stand up and tell in a class-action lawsuit or if you're talking to a regulator in a post-breach type of scenario, you can say, hey, yes, we've got reach, but we're in the top 12% of our peer group of financial institutions in North America, but that -- those are -- that's a compelling, that is the most affirmative defense you can have in a negligent suit or if you can say, you'll get a tap on the shoulder and say this business unit is falling to the bottom quartile before a breach occurs, we feel like that's compelling insight for an audit and risk committee or a CEO to have prior to a breach.

So we believe that benchmarking, and what we've heard it resoundingly from the customers we talked to, that benchmarking music is a critical analytic capability. The third thing that we've introduced with Lumin is an automated remediation workflow. So as you might imagine, these are very complex environments. And you've got millions of vulnerabilities. And in many cases, hundreds of thousands of systems. But to be able to look at the environment and say, if I apply this one patch, it will remediate 17 vulnerabilities across 23,000 systems. This one action is the way I can most efficiently reduce my overall enterprise risk. And that becomes compelling insight for customers to have when their assessment teams, when their risk teams, when their security teams, are having conversations with IT operations, with desktop and server configuration teams and business unit owners.

So we're innovating very aggressively in the VM space, what's traditionally been the VM space, what we call Cyber Exposure, both in terms of asset coverage, but also in terms of compelling analytics that we're delivering to our customers. And those 3 capabilities we've brought to Lumin and skewed separately and launched that at the end of Q3.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. Steve, maybe related to that, I think Lumin was just recently made generally available, if I'm not mistaken, right? And so the data points here may be limited, try to understand, but any preliminary observations you can share with us just in terms of how pricing here might work? And what trends you're seeing with customers attaching Lumin and new sales? If that terminology makes sense, do make sense?

Stephen A. Vintz - *Tenable Holdings, Inc. - CFO*

Sure. We released Lumin towards the end of Q3. And actually, on our Q3 earnings call, in October, we said we provided a little bit of commentary on it. First, just a little bit expectations. Most new products and SaaS, it takes several years to really get momentum, right? And we're excited about the possibilities of Lumin out of the gate, though the reception has been strong, the feedback from customers who were part of the evaluation phase. And even those who have bought it recently have been particularly positive on the call. We called out, even though it's early and it's only 1 data point, the fact we sold Lumin in a deal that had the impact of more than doubling our ASPs, Lumin also has, based on early data, pulled through other products.

So not just the core VM plus Lumin, it's also -- also, we think, it will have a positive impact on another products, such as web app scanning, now even inclusive of IT. So we're very encouraged with Lumin. We think the attach rates will grow over time, and we think the impact that Lumin will have, based on our asset-based pricing model, because we charge based on the number of assets, we think it could be anywhere from 30% to 50% plus of our core VM offering.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Sure. There's only 4 minutes left, and I've got so much more to ask, but maybe just not to be so greedy. Any questions here from the audience? I'd love to wrap up with just a couple of high-level questions. Maybe, Steve, just to go back to you because I think that just sort of the consistent improvement in profitability has really been a theme ever since the IPO, frankly. Can you just talk about how you think about getting to breakeven on an operating -- on an EBIT basis and free cash flow positive? And maybe perhaps longer term, maybe this is a question for both of you. Who's going to benchmark yourselves to in terms of what the long-term margin profile is in the business?

Stephen A. Vintz - *Tenable Holdings, Inc. - CFO*

Sure. Well, first, the cash flow characteristics of this business are very strong. And this is a company that's been around for 15-plus years, but undergone a lot of change over the last 5. Historically, the company had 20% plus operating margins on lower growth pile at a smaller base of business. As we look at our business, we have over 90% recurring revenue, almost 85% gross margins with net dollar expansion rates at 125%. We have complete confidence and conviction that the operating margins and the free cash flow margins will be 25% plus.

What we said at the time of the IPO, which is some quarters ago, that we expect it to be cash flow positive by the time we exit 2020 and we continue to reiterate that, that we will turn cash flow positive by the time we exit 2020. And from there, you would expect profitability at least on a pro forma basis to follow. So the cash flow characteristics of the business are very strong. We're also a business that has 2-tiered (inaudible) in terms of channel. So a significant percentage of all of our enterprise sales are inbound from the channel. I think at the time of the IPO, we may have said that was like over 20%, continues to be much higher today. We think directionally, it can be over 50%. So the channel is an important part of our go-to-market strategy. And then in terms of how we think about the overall profitability and cash flow maybe in comparison to others, look, there's a lot of talk about this concept of Rule of 40, and Rule of 40, whether it's top line growth, albeit CCB or revenue and then the free cash flow margins. We're a big belief -- directionally, we think that's a good guide post just for companies. And we look at long-term companies that are growing 20% plus or 20% plus cash flow margins. We think that's a very attractive business. And we think the profile of this company could potentially even -- be even better.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Great. Great. Amit, maybe just to wrap up with you because I know you spend a lot of time with customers. Just maybe just higher level. What do -- what is CISOs telling you in terms of their willingness to spend in 2020, especially with all the stuff that you do with the federal government? I mean, we're going to election year next year. What is -- how does that impact sort of their willingness to spend in 2020, if you will? High level.

Amit Yoran - *Tenable Holdings, Inc. - President, CEO & Chairman*

Yes. It's something we obviously keep a very close eye on looking at the macroeconomic environment and sort of potential impact of election cycles and things like that, but what we've seen very consistently is that security remains at the very top of CIO priority lists, much more so than it has in previous years, where it was all about cloud adoption, upgrades of infrastructure and things of that nature. And then very consistently, in CISO surveys, and when you look at just about every single one, and we look at the reports coming out from analysts, Gartners and others in the world, we -- consistently, we're actually #1 or #2 in terms of priority areas for CISOs going into 2019. And now, again, going into 2020. So those types of data points, consistent with our conversations with our customers and prospects lead us to sort of very healthy outlook for continued growth for the company despite election year cycles and what may happen in the macroeconomic environment.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. Well, great points to end it there. Again, wish we have more time for more questions, but Steve, Amit, thank you so much for the time, I really appreciate it.

Amit Yoran - *Tenable Holdings, Inc. - President, CEO & Chairman*

Great.

Stephen A. Vintz - *Tenable Holdings, Inc. - CFO*

Thanks for having us here.

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Amit Yoran - *Tenable Holdings, Inc. - President, CEO & Chairman*

Thank you.