REFINITIV STREETEVENTS

EDITED TRANSCRIPT

TENB.OQ - Q4 2021 Tenable Holdings Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 01, 2022 / 9:30PM GMT

CORPORATE PARTICIPANTS

Amit Yoran *Tenable Holdings, Inc. - CEO*

Erin Karney *Tenable Holdings, Inc. - Senior Director of IR*

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

CONFERENCE CALL PARTICIPANTS

Andrew Blake Smith *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

Andrew James Nowinski *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Brad Robert Reback *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Brian Lee Essex *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Daniel Harlan Ives *Wedbush Securities Inc., Research Division - MD of Equity Research*

Gray Wilson Powell *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*

Hamza Fodderwala *Morgan Stanley, Research Division - Equity Analyst*

Jonathan Frank Ho *William Blair & Company L.L.C., Research Division - Technology Analyst*

Justin Taylor Roach *Piper Sandler & Co., Research Division - Research Analyst*

Michael Joseph Cikos *Needham & Company, LLC, Research Division - Associate*

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

Sterling Auty *JPMorgan Chase & Co, Research Division - Senior Analyst*

PRESENTATION

Operator

Greetings. Welcome to the Tenable Q4 2021 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to your host, Erin Karney, Head of Investor Relations. Thank you. You may begin.

Erin Karney - *Tenable Holdings, Inc. - Senior Director of IR*

Thank you, operator, and thank you all for joining us on today's conference call to discuss Tenable's fourth quarter and full year 2021 financial results. With me on the call today are Amit Yoran, Tenable's Chief Executive Officer; and Steve Vintz, Chief Financial Officer. Prior to this call, we issued a press release announcing our financial results for the quarter. You can find the press release on the IR website at tenable.com.

Before we begin, let me remind you that we will make forward-looking statements during the course of this call, including statements relating to Tenable's guidance and expectations for the first quarter and full year 2022; growth and drivers in Tenable's business; changes in the threat landscape in the security industry and our competitive position in the market; growth in our customer demand for and adoption of our solutions; the potential benefits of our acquisitions, planned innovation and new products and services; Tenable's expectations regarding long-term profitability and the impact of COVID-19 on our business and on the global economy.

These forward-looking statements involve risks and uncertainties, some of which are beyond our control, which could cause actual results to differ materially from those anticipated by these statements. You should not rely upon forward-looking statements as a prediction of future events. Forward-looking statements represent our management's beliefs and assumptions only as of today and should not be considered representative of our views as of any subsequent date. We disclaim any obligation to update any forward-looking statements or outlook. For a further discussion of the material risks and other important factors that could affect our actual results, please refer to those contained in our most recent quarterly report on Form 10-Q and subsequent reports that we file with the SEC, which are available on the SEC website at sec.gov.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for or superior to measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their closest GAAP equivalents. Our earnings release that we issued today includes GAAP to non-GAAP reconciliations for these measures and is also available on the Investor Relations section of our website.

I'll now turn the call over to Amit.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Thank you, Erin, and thank you for joining us today.

Today, I'll discuss our financial performance in Q4, strength in core VM, our traction with our individual exposure solutions and the expansion and differentiation of our unified platform. With that, let me first touch on our Q4 results.

We saw tremendous strength in the fourth quarter driven by contributions from all products and theaters. Our CCB growth for the quarter was 29%, capping a year where we saw accelerated growth at scale balanced with profitability, including strong unlevered free cash flow. During Q4, we added 562 new enterprise platform customers and added 100 net new 6-figure customers. Both are record adds for us in a single quarter.

As the leader in VM, our expertise is finding assets, identifying how those assets are configured and how and where they're vulnerable and prioritizing those vulnerabilities and exposures, guiding our customers on how best to manage risk. Nessus has been and continues to be the standard for assessing system security and vulnerabilities. Over the last few years, we have seen an acceleration of downloads of Nessus. And in Q4, we saw continued strength with Nessus customers on-ramping to our enterprise platforms.

Our drive to lead the market in terms of vulnerability coverage, accuracy of our assessments, time to market for developing new checks as critical new vulnerabilities emerge are highly appreciated and recognized by our customers. In Q4, Log4j highlighted and continues to highlight the strategic importance of discovering and managing vulnerabilities. Regardless of marketing claims, no WAF, no next-gen firewall, no EDR, no XDR, nor any other product is able to assess, identify and prevent the growing breadth of Log4j. Tenable already covers over 100 Log4j vulnerability detections, including direct checks and checks over HTTP, HTTPS, SMTP, POP3, IMAP, Telnet, SSH, SNMP, NTP, FTP, NetBIOS and other protocols. And we've only begun to pull on the long tail of Log4j-related issues. If it's your mission within the enterprise to answer the question, how secure am I? How at risk am I? Then Tenable has differentiated itself as the market leader and platform to use.

Enterprise attack surfaces keep expanding, creating opportunities for Tenable's exposure solutions. We saw another quarter of tremendous traction in our solutions for operational technology and active directory as we bring our expertise to these underserved markets. We believe we're the only vendor that provides complete understanding of IT and OT converged environments, coupled with a deep understanding of exposure and risk. This unique understanding of both of these environments enables us to provide a differentiated and compelling solution in the market. We also see strong traction in Tenable.ad, our active directory security product and expect that to continue to be very attractive market for us. 86% of enterprises are expecting to increase their spending on active directory security in 2022. We believe we're solving a great pain point in this largely greenfield market where we have the leading technology.

In addition to our traction in these markets, we're seeing strength in our cloud products and excitement around cloud expansion. We've long focused on helping our customers secure their cloud environments. Cloud-based capabilities require assessing the security web applications and a deep understanding of containers. We've had cloud-native connectors for years. And more recently, we've introduced frictionless assessment. With continued demand from our customers to help them secure their cloud environments, we've extended our investment into Infrastructure as Code, into Kubernetes and into cloud security posture management with the acquisition of Accurics.

As we continue to build out and integrate our full portfolio of cloud capabilities, our reach expands all the way from the far left, from building and assessing vulnerabilities in code and fixing them preproduction, all the way to the far right, where we're discovering assets, evaluating drift and exposures in runtime. We identify misconfigurations and fix assets across their entire life cycle. Tenable becomes the definitive place to go to for assessing and understanding risk across the entire cloud deployment, not just the development piece, and not just the cloud and Kubernetes infrastructure configuration, and not just the containers or the virtual machines themselves.

If it's your job to assess cyber risk for the Audit and Risk Committee, for the CSO, for the CEO, for the Boards of Directors, Tenable.ep, our exposure platform, can help you understand cyber risk in the broader context of your business. Our market leadership in VM, in assessing and addressing cyber risk put us in position of strength to evolve naturally with our customers into new environments. Security teams cannot properly assess risk in their IT environment without understanding and integrating risk from their AD environment, their cloud environment and others. They demand this unified integrated approach.

And we're seeing this play out in the market. Tenable.ep had another strong quarter, and we expect that traction to continue as we're now expanding Tenable.ep to incorporate more of our exposure solution, including Tenable.ad and Tenable.cs, which includes Infrastructure as Code, Kubernetes, CSPM, container and other cloud security capabilities. With these integrations, Tenable.cs as part of EP will deliver a cloud-native application security platform as an integrated end-to-end security solution and a complete picture of cyber risk across the modern attack surface with unified visibility into code, configurations, assets and workloads.

Earlier today, we announced that we've reached an agreement on a tuck-in acquisition of an attack path analysis company in Israel called Cymptom, which we expect to close this quarter. Cymptom's technology maps vulnerabilities and exposures across asset types into attack paths and prioritizes how to address likely paths of exploitation.

After the closing, this technology, when integrated into EP, will run alongside enhancements to Lumin and other market-leading analytics, enabling security teams to preemptively focus response efforts ahead of and during breaches. Serving our customer's need to understand their cyber risk is what drives our vision and our expansion across VM, active directory, public clouds and OT environments into an integrated unified workspace. We believe augmenting EP's unified data sets and analytics with attack path analysis will enable Tenable to continue to extend our leadership in cyber risk management.

The world of the CISO is managing many risks across many interconnected and interdependent system. Assessing risk means understanding discrete elements of exposure but also their interdependency. Weaknesses in identity and IT can affect OT and shut down a pipeline. Ransomware and nation-state breaches breach IT and target active directory. At Tenable, we're not only focused on delivering best-of-breed technologies in exciting markets. We're pursuing a platform vision for understanding and managing cyber risk that we believe is unlike anything else available.

And this brings me to the key conclusion I want to leave you with. Yes, we see strong performance in VM. Yes, we see strong growth and potential in our individual exposure solutions across active directory and operational technologies and cloud security. But if there's one single thought, one sole conclusion it's this: that it's nearly impossible to accurately assess the risk associated with any one piece of technology in isolation. Our unified platform not only brings together market recognized leading exposure solutions, we're bringing more of these data sets together in a unique cyber exposure platform with differentiated and compelling analytics.

I'd like to turn the call over to Steve now.

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

Thanks, Amit.

As Amit mentioned earlier, we are delighted with the results for the fourth quarter, highlighted by significant acceleration in CCB growth, a notable beat in earnings per share and attractive levels of unlevered free cash flow. I will provide more commentary on each of these points momentarily. But first, please note that all financial results we discuss today are non-GAAP financial measures, with the exception of revenue. As Erin mentioned at the start of this call, GAAP to non-GAAP reconciliations may be found in our earnings release issued earlier today, which is posted on our website.

Now on to our results for the quarter. Revenue for the quarter was $149 million, which represents 26% year-over-year growth. Revenue in the quarter exceeded the midpoint of our guided range by $5 million. Visibility remains high as our percentage of recurring revenue was 95%, which is primarily a result of our annual prepaid subscription model. Revenue for the full year was $541.1 million, which represents 23% growth year-over-year.

The outperformance in revenue is a result of accelerating growth in calculated current billings. CCB, defined as the change in current deferred revenue plus revenue recognized in the quarter, grew 29% year-over-year to $194 million. Q4 capped a very successful year for us, in which we saw CCB growth accelerate throughout the year from 20% in Q1, to 23% in Q2, to 25% in Q3, and now to 29% in Q4. We attribute this inflection in growth to our differentiated VM capabilities, expanding product portfolio and increased investment in sales capacity and go-to-market activities.

During Q4, we saw strength across the board in both new and renewal business and in all geographies. It's important to note that we experienced very good linearity entering December, and we're on our way to one of our best growth quarters of the year. However, after the discovery of Log4j in December, we saw a significant uptick in our expansion rates as customers increased coverage of both assets and applications. Our expansion rates also benefited from exceptional renewals, including win backs and limited customer churn, all of which lifted our net dollar expansion rate.

Likewise, we also saw outperformance in new logos, particularly in the mid-market through our inside sales efforts and from no-touch Nessus sales channels given the relatively short sales cycles. New logo sales from large market customers with longer sales cycles also saw strong close rates for opportunities that were already advanced in the Q4 pipeline. New pipeline build in the quarter for the large market was also very healthy.

Now in terms of metrics underpinning our strong financial performance, we added 562 new enterprise platform customers in the quarter, which is a record for us and up from the 460 we added in Q4 last year. We also had success with large deals as we added 100 net new 6-figure customers in the quarter, which is up from 66 in the same period last year. Similar to new enterprise platform customers, the number of net new 6-figure customers we added in Q4 is our largest ever in a single quarter and brings the total number of new enterprise platform customers spending over $100,000 per annum to almost 1,100.

From a product mix perspective, our exposure solutions, which includes Tenable.io, Tenable.ep and its modules, active directory security and operational technology security, continue to gain traction and saw outsized growth. We attribute the strong demand to our customer's need to assess risk holistically across IT assets, identities and OT assets.

While we saw strength in cloud use cases, it should be noted that Accurics' contribution to CCB in the quarter was nominal since the acquisition closed in Q4 and Accurics' Infrastructure as Code capabilities were not integrated into our go-to-market motion in the quarter. We believe Accurics' ability to assess and secure critical cloud infrastructure prior to deployment will significantly enhance our existing cloud capabilities and augment our strength in runtime environments.

Accordingly, we plan to soon announce the availability of our more expansive cloud security offering and the integration of these capabilities with EP shortly. And given sales cycles, we expect CCB to begin to benefit in the second half of the year. In summary, we are delighted with the trend in the top line this year.

Now I'll turn to expenses, which include incremental investments in growth and the operating expenses related to Accurics. I'll start with gross margin, which was 82% this quarter, down 70 basis points from last quarter. Gross margin for the full year was also 82%. Cost of sales increased sequentially due to higher public cloud and related costs associated with the increased customer usage of our products and costs related to scaling the Accurics infrastructure in support of a more expansive cloud security offering.

We are also investing in a broader set of advanced analytics across the attack surface to help customers better predict attack paths and assess risk holistically. Looking ahead, we expect these investments to continue into 2022, which could modestly impact gross margin. Long term, we still expect gross margins to be in the high 70% to low 80% range.

Sales and marketing expense for the quarter was $69.5 million, which is up from $60.7 million last quarter. Sales and marketing expense reflects higher wages and benefits related to hiring more sales reps and other headcount as well as accrued payroll taxes. Further, it reflects higher commissions and variable compensation attributed to our strong sales performance in the quarter and increased investment in marketing for demand gen and brand building activities for our exposure solutions. Adding sales capacity and investing in our go-to-market efforts will continue to be an area of focus for us given the acceleration in growth in 2021, our expanded product portfolio and the high level of sales productivity as well as our ability to generate an attractive ROI on new dollars invested.

Sales and marketing expense as a percentage of revenue was 47% in Q4 compared to 44% last quarter. For the full year, sales and marketing expense as a percent of revenue was 44% and is expected to remain at or near this percentage in 2022, which will give us ample investment dollars to keep pace with the strong demand.

R&D expense for the quarter was $24.9 million, which was consistent with $25.1 million last quarter. Although there was little change in R&D expense during the quarter, it should be noted that we added a sizable team of engineers in cloud security attributed to Accurics and made other hires, which was more than offset by the amount of capitalized software development costs related to expanding our exposure platform and an R&D tax credit we received.

R&D expense as a percentage of revenue was 17% in Q4 compared to 18% last quarter. For the full year, R&D expense as a percentage of revenue was 18% and is expected to increase modestly in 2022 given the increased investment in cloud security, attack path analysis attributed to the Cymptom acquisition, and a broader set of predictive analytics and platform capabilities.

G&A expense was $15.8 million compared to $15 million last quarter. As a percentage of revenue, G&A expense was 11% this quarter and last quarter as well as for the full year. We continue to make investments in G&A to support growth and scale of our business. We expect G&A expense as a percentage of revenue to remain flat in 2022.

Income from operations was $11.9 million compared to $13.7 million last quarter, which reflects the items I just highlighted. For the full year, non-GAAP income from operations was $51 million compared to $25.8 million in 2020, which was a $25 million improvement despite the additional operating expenses attributed to the Alsid and Accurics acquisitions.

Operating margin was 8% for Q4 compared to 10% last quarter. Operating margin was 9% for the full year compared to 6% for the full year 2020. EPS in the fourth quarter was $0.05, which was $0.02 better than the high end of our guided range. For the full year, we generated $0.34 of earnings per share versus $0.19 last year.

Now let's turn to the balance sheet. We finished the quarter with $512 million in cash and short-term investments. Given our strong Q4 results, we saw notable sequential increase in both accounts receivable and total deferred revenue. At year-end, accounts receivable was $137 million and total deferred revenue was $531 million, including $407 million of current deferred revenue, which gives us a lot of visibility headed into 2022.

Now I would like to discuss cash flow. We used $160 million of cash to acquire Accurics and paid $3.2 million of interest on our credit facility in October. In Q4, we generated $22.4 million of unlevered free cash flow. And for the year, we generated $95.2 million, which is a $50.9 million increase over 2020 levels. With 95% recurring revenue, high gross margins and high renewal rates, we feel confident that we can continue to generate attractive levels of cash flow while continuing to invest in the business.

Striking the right balance between growth and profitability has always been an area of focus for us. A good indication of this is our achievement of Rule of 40 for the fourth quarter and full year. Achieving this was years in the making and a long-term goal since our IPO in 2018. So we're very pleased to have achieved this important milestone. As a reminder, we define Rule of 40 as revenue growth plus unlevered free cash flow margin.

With the results of the quarter behind us, I'd like to discuss our outlook for the first quarter and full year 2022. For the first quarter, we currently expect revenue to be in the range of $152 million to $154 million; non-GAAP income from operations to be in the range of $10 million to $11 million; non-GAAP net income to be in the range of $5.2 million to $6.2 million, assuming interest expense of $3.5 million and our provision for income tax of $1.3 million; non-GAAP diluted earnings per share to be in the range of $0.04 to $0.05, assuming 117.5 million fully diluted weighted average shares outstanding.

And for the full year, we currently expect calculated current billings to be in the range of $750 million to $760 million; revenue to be in the range of $662 million to $670 million; non-GAAP income from operations to be in the range of $40 million to $45 million; non-GAAP net income to be in the range of $18.2 million to $23.2 million, assuming interest expense of $14 million and a provision for income taxes of $8 million; non-GAAP diluted earnings per share to be in the range of $0.15 to $0.19, assuming 119.5 million fully diluted weighted average shares outstanding.

Our strong performance in Q4 and the full year 2021 give us a lot of confidence in the business and our outlook for 2022. In that regard, there are a few comments I want to make that will provide important context to our guidance today. Our CCB guidance for the full year reflects 22% to 23% growth, which include some continued tailwinds from Log4j in Q1 with more modest contributions expected throughout the remainder of the year. Overall, we're very pleased to be providing CCB and revenue guidance today that is notably above the 20% bar we discussed during our Investor Day in December.

In terms of profitability, we exit the year with an 8% operating margin in Q4 and are guiding to 6% to 7% for the full year 2022, which includes $4 million to $5 million per quarter of operating expenses related to Accurics and to a lesser degree, Cymptom.

The incremental investments in R&D attributed to recent acquisitions expand our product suite to strategically important markets and strengthen our ability to deliver our cyber exposure vision. In terms of the quarterly flow of these investments, we expect to follow our historical seasonal patterns with higher weighting in the first half of the year, resulting in higher operating margins in the second half of the year.

As discussed earlier, we achieved Rule of 40 in Q4 and the full year 2021. So we believe making investments in the face of strong demand will position us well for continued growth and success. Long term, we are confident in our ability to continue to balance growth with profitability and become a Rule of 50 company. In summary, we're delighted with the results of the quarter and feel really good about the outlook we are providing today.

I'll now turn the call back to Amit for some closing comments.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Thanks, Steve.

We continue to see increasing levels of differentiation in our core VM capabilities. This is particularly exciting given the strategic goal that many organizations are increasingly placing on VM. Our exposure solutions in OT and AD are seeing great traction. We're thrilled about the momentum we have in our cloud business, augmented by Accurics, forming an integrated comprehensive cloud offering. And we believe that bringing these solutions and data sets into a unified cyber risk management platform with differentiated analytics such as Lumin and attack path analysis and others positions us incredibly well for the long term. We delivered strong results in Q4 and are excited about the road ahead.

We now like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Hamza Fodderwala of Morgan Stanley.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

A strong finish to the year here. Steve, maybe just first question for you. You mentioned the tailwind from Log4j. I was wondering if you could help us quantify what that actual tailwind was in Q4 and what the expectation is for 2022 from a growth contribution standpoint. You mentioned NRR was up. So what was the net retention rate in Q4 relative to what you saw in the quarter prior?

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

Thanks for your question and good question. As we've commented earlier, we saw some upside in the quarter related to Log4j. I think it's, the timing is important to note here. Log4j didn't surface until December. And we were well on our way to having our best growth quarter of the year, which is notable given the acceleration in the business we've demonstrated throughout the year.

So as a result, the impact of Log4j in the quarter was more apparent in areas that had shorter sales cycles, such as renewals, expansion sales and in terms of new business, more specifically in the mid-market and our no-touch Nessus sales channels. But we are also very pleased to see pipeline and activity levels for larger deals inflect higher in the quarter. So we don't just see this as a pull forward of demand.

I think the important point to note here is that Q4 capped a very successful year for us in which we saw accelerating CCB growth. That benefited from our expanded product portfolio and the investments really we're making in go-to-market that we started making in the first half of the year. And as Amit commented earlier, what's really different about Log4j versus perhaps other vulnerabilities or even high-profile data breaches is the pervasiveness and the complexity of it, which is really a testament to our leadership in the market and the strategic nature of our products.

And with regard to 2022, our CCB guidance for the full year, which is 22% to 23% growth, does reflect some continued tailwinds from Log4j in Q1 given our level of visibility as well as some contributions, more modest contributions throughout the year. But overall, we feel really good about the momentum in our business and our outlook for the year.

We talked about the net dollar expansion rates. It was strong in-quarter and it lifted our net dollar expansion rate on an LTM basis back to close to pre-pandemic level. So overall, really solid quarter for us, capped a very successful year and gives us a lot of confidence heading into 2022.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Steve, if I could just follow up on that, just on the net retention. So like you mentioned it was back to pre-pandemic levels. I think over the last few quarters, the net retention, if I'm not mistaken, was trending between like 112%, 113%. Is it fair to say, in Q4, it was back to that, let's say, 115% to like 118% level even?

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

Yes. So the distinction I'll make is LTM. What we talk about is on an LTM basis, last 12 months. So if you have a really strong in-quarter renewal rate and expansion rates, it's going to drive a meaningful uplift on our LTM number. And we saw a meaningful uplift in our LTM number because of the strength in the quarter. So absolutely delighted with the result in the quarter. Obviously, expansion rate did benefit from Log4j. But notwithstanding that, as I commented earlier, we are on our way to having a good quarter. Linearity was really strong in the last few weeks of the quarter because of Log4j was particularly strong and renewals and expansions benefited.

Operator

Our next question is from Sterling Auty of JPMorgan.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So first one is, you gave us the impact in operating expenses from Accurics and from Cymptom, but can you give us a sense of what impact that had on the revenue line for guidance for '22?

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

For Accurics, Accurics closed in the fourth quarter. And as I commented, we have full year expenses, obviously, we're flowing through the guide and it also reflects some additional operating expenses related to the Cymptom acquisition, which we just announced. And I think it's important to note that Cymptom is not going to be a separate SKU. It's going to be integrated with EP and in other areas of our product to provide a deeper and richer insight on our analytics. Amit can speak more directly to that.

And with regard to Accurics, we've announced the expansion of our cloud security offering today and that's a more expansive product that we'll begin to be selling. And given sales cycles, we would expect greater contribution in the second half of the year in CCB. And that is reflected in our guidance today as well.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And then maybe just one follow-up on the gross margin side, just to clarify a comment that you made. You mentioned the continued investments could have a modest impact on gross margins. Is that relative to the gross margin level in the fourth quarter, so we could see some additional pressure from that level or from the level for full year 2021?

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

It would be from Q4, based off of what we experienced in the fourth quarter.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Okay. And just modest impact and kind of stable through the year or is there kind of a pattern where it kind of bottoms and starts to improve at some point?

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

I think for now what we commented earlier was directionally, obviously, we expect strong sales in cloud. We're really pleased with the expansion of the product and cloud will continue to represent a larger percentage of our sales. So as a result, what we're expecting is gross margins to track in line or trend modestly lower to the tune of about 100 bps. I think the safe assumption is that's something that we'll experience earlier in the year. And you should assume that going forward for the full year. And to the extent we do better than what our top line guide calls for today, then obviously, margins could continue to benefit from that because some of these costs are semi-fixed and upfront costs that we're making at least this year and will potentially drive margin leverage going forward.

Operator

Our next question is from Saket Kalia of Barclays.

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

Okay. Great. Amit, maybe first for you. A lot of talk about EP in the call. I was just wondering, can you just expand a little bit on the success of the overall bundling strategy and how you're kind of thinking about that strategy in 2022 with bundling.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Yes. When we first launched EP toward the middle of last year, we saw a lot of both the sales team and customers immediately gravitating toward it. Just the inclusion of web app scanning capabilities and the container security products and other things just make a lot of sense. And obviously, the inclusion of Lumin sort of driving analytics on top of it. So we saw very rapid adoption by both the sales team and customer base and gravitating toward EP.

There are 2, I think, key points to make here. One is, there's a very natural progression for EP to include active directory capability, the full suite of cloud capability in it. So that again, when customers want to assess their risk, they're now going to one place where there's just a very natural unified reporting, dashboarding, a more holistic assessment of risk.

And then the second point is that it's not just a bundling exercise the way kind of the EP packaging started out. It's not just a packaging or bundling exercise. There's real analytics that are now able to move across asset types, driving multiple asset types into Lumin. And again, the inclusion of new analytic methods like attack path analysis, we think, make an absolutely compelling platform.

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

Got it. Got it. That makes a lot of sense. Steve, maybe for you for my follow-up. Nice start to the year with the CCB guide. I know the question was just asked just on inorganic contribution to revenue. But just to make sure it's asked, is there any sense that you could give us on CCB guide for 2022? I think you've got Alsid, you've got Accurics and you've got Cymptom in there. Any just rough sense for kind of how that 22% to 23% growth kind of looks from an organic perspective?

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

Sure. Well, as a reminder, the companies we have acquired are all very early-stage companies with minimum sales or go-to-market capability. So our sales to date primarily reflect the success of our go-to-market efforts and our ability to create and close pipeline opportunities post-sale. The timing is also worth noting on some of the acquisitions. We closed Alsid in 2019. So we've had an OT offering now in the market for 2 years. So we don't consider that inorganic growth.

And then Accurics just recently closed in the fourth quarter, and that's resulting in a more expansive cloud offering for us. It's going to be a newer motion. And we said earlier that we do expect contribution and is reflected in our guide to some degree, but we'd expect it more the second half of the year. That really leaves Accurics, which closed or should I say, that really leaves Alsid, our active directory product, which closed in April.

And both AD and even, say, OT did very well for us for the quarter and for the full year. We discussed the contribution of these products on a full year basis in our Investor Day. I think it's fair to say, we did even a little better than the $20 million we referenced in December. And we would expect continued growth in contribution from those products as well as more broadly, our exposure solutions.

But the one thing that I want to note here that's really important is really with regard to our go-to-market strategy, which is to increasingly integrate new capabilities and features into EP, our unified exposure platform. Amit commented earlier, but it's worth repeating. It's nearly impossible to accurately assess risk associated with any one piece of technology or asset type in isolation. Our products really reinforce each other in the broader value prop of helping customers assess risk holistically. And that is across the attack surface. So breaking out sales of individual products going forward whose capabilities are included in EP or will be included in EP will become less meaningful given how we price and package our solutions and really helping our customers focus on the bigger problem.

Operator

Our next question is from Andrew Nowinski of Wells Fargo.

Andrew James Nowinski - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Congrats on a great quarter. I just want to start with a question on EP again. You've added a lot of components, as you mentioned, AD, and now it sounds like CS will be added to it as well. Can you just give us any color in terms of how much that would be increasing the price? And should we expect maybe accelerating growth in your $100,000 customers in 2022 because of that?

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Yes. And I'll turn that question over to Steve in just a minute. But the way EP is designed is it's a premium solution. It's a premium capability. It's a platform offering that delivers enhanced analytics on top of individual solutions. So if you use VM, you might want to purchase too EP because it would give you all the capabilities, the Lumin, WAS, all the other functionality. The same is true if you're using the cloud security product and the same is true if you're using active directory. So the way we will monetize the new capabilities in these new products as they're added to EP is that it's a premium pricing, but you still have to pay the asset price for AD or for your cloud workloads and your assets in the cloud. So it's monetized both through an increased asset count as well as a higher price per asset because we're delivering some compelling value-added analytics on top of those assets.

Andrew James Nowinski - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Got it. That makes sense. And then I just want to do a question on, maybe a clarification on your Log4j expectations. I think you said they'll be certainly impacting Q1, but then it moderates after that. If you kind of go back to some commentary from the CISA and the White House, they're claiming that this is going to create problems and potential issues for the next 2-plus years. So I'm wondering why do you think it's going to taper off after Q1 and not really be a driver, a strong driver, maybe even getting worse throughout the year?

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

Well, I think it's really, what's reflected in our guide, as I mentioned earlier, is certainly more tailwinds in Q1. To what degree we benefit beyond that above and beyond the guidance we're providing today really remains to be determined. So the guidance we're offering today reflects continued contribution in the first quarter, reflects the strength really of the overall business, not just for the quarter but for the full year. So we think we're set up for success in 2022, gives us confidence to provide the guide that we're providing today. We certainly have more visibility headed into Q1 than we do really the remainder of the year. But to what extent it continues to benefit us to the level which we expect in the first quarter really remains to be seen. So we'll look forward to providing an update on our call in April.

Operator

Our next question is from Gray Powell of BTIG.

Gray Wilson Powell - *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*

All right. Congratulations on a great quarter. So yes, you highlighted that billings growth accelerated in each of the last 4 quarters. You just exited the year at 29% growth. And Steve, I know you want to keep people conservative, but do you see a scenario where things could further improve and maybe start growing in excess of 30%? And then if so, I'd just be curious, like what do you think are the most likely levers or things that could go right to get you there?

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

Well, look, the guidance we're providing today is 22% to 23%. But that aside, we're chasing a massive market opportunity. We've expanded the product portfolio. We've gone into new markets, in markets that are large and growing rapidly. We're making investments, too. I think that's one of the important things to note is that we started making investments more aggressively really in the first half of the year, and it's making a difference really on the top line. Adding sales capacity, we're also achieving higher levels of productivity. We're continuing to evolve the product suite. And I think all that really makes a difference with the backdrop of not just high-profile data breaches, but threats that are very relevant to the problems that we're solving today.

So I think it gives us a lot of confidence in our outlook in 2022. We're certainly not going to cap our growth rate, not by any means. This is a big opportunity. We're pleased to see the acceleration. And obviously, we'll learn more as we work our way throughout the year.

Gray Wilson Powell - *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*

Okay. That's really helpful. And then just one more quick one. So you all mentioned that a number of customers came back and expanded their coverage of assets in December following Log4j. Could you maybe just talk about what that looks like? Like specifically like what percentage of assets were those customers covering before Log4j? And then like what did coverage look like afterwards? Like are we talking a doubling in coverage or just trying to get a sense as to how that looks.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Yes. I would say each customer situation is obviously different. I think in many instances, especially on the enterprise side, they would have some substantive coverage of their environment, but they would also recognize, hey, we haven't been covering these other assets. I mean, don't forget, Log4j is a great example of an exploit which is completely portable over any system that runs Java. So they were, even if you had pervasive coverage of your desktop servers and workstations, there's still lots of other compute devices in the environment that might be able to run Java and might be susceptible or cause problems with respect to Log4j. So I think it's really customer by customer dependent. But I would not sort of assume it's a natural doubling or anything of that nature.

Gray Wilson Powell - *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*

Got it. Yes. I was just making that up. I was just trying to figure out a rough ballpark increase.

Operator

Our next question is from Brian Essex of Goldman Sachs.

Brian Lee Essex - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Yes. Great. Congrats on a nice set of results for the quarter. Yes, just I guess maybe, Amit, I think over the past few quarters or last quarter, we talked about penetration of MSSP channel. How is contribution from the managed service providers in the quarter? And how, particularly given the landscape and the threat environment, how is that traction progressing into 2022?

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Yes. I think I'll start with the second question. The progression on the threat environment, I think, becomes a sort of natural tailwind for us in that it increases visibility, it increases sort of executive awareness and it increases concern about the people making the, in the business leadership or leadership of the business to say, hey, are we exercising a good standard of care with the data, the systems and the data that are entrusted to us? And so a very natural progression when you read about a high-profile breach, a threat actor or a vulnerability is always susceptible to this, are we vulnerable, how secure are we, how at risk are we? And that naturally gravitates people toward the VM program, which is really the center for ground truth around answering those questions.

In terms of MSSP, it's an area where we've made some investment. We continue to see very strong traction. We've got, I think we put out a momentum kind of press release around our MSSP partners maybe 6 months or longer ago that there's 300-plus MSSP partners that we operate with. But more specifically, seeing very meaningful traction in sort of the 20 largest MSSP providers where we believe our capability can really differentiate itself and marries up with enterprise expectations and requirements. So we think it's an area where the investment is beginning to bear fruit and I think more opportunity exists.

Brian Lee Essex - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. That's helpful. And then maybe if I could touch on competitively how you're seeing the current environment for Tenable relative to either greenfield opportunities or competitive displacement. Is that shifting at all on the back of the elevated threat environment, particularly with Log4j, where your kind of best-of-breed status is causing a shift over to Tenable or is kind of the enterprises without a formal vulnerability management platform being driven there because of the vulnerability environment? Maybe if we can get any kind of shift in color there would be helpful.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Yes. Steve, I'll let you comment if there's any notable change on the greenfield. But typically, we go out of our way to call this out on a quarter-on-quarter basis, it's been very consistently about 1/3 of our new enterprise, larger new enterprise lands. I will say that there's notable differentiation, especially in high-profile vulnerabilities and breaches like Log4j where immediately it's a known issue, the CISO or the CSO or in many cases, even further up in the food chain are asking questions about it.

We're first to market in terms of detections for these capabilities, in terms of accurate detection for these capabilities, in terms of the flexibility and breadth of coverage that we have for these issues. So we had CISOs coming back or VM program managers coming back and saying, this technology or that technology is telling me fine or they found 12 instances of this thing. And we've got over 100 different checks. At this point, we're adding multiple new checks per day because there's an incredibly long tail on this looking at -- we're able to identify it over dozens of protocols and multiple applications where it's embedded.

So this is, again, one of those issues where the breadth and complexity really allow enterprises to see the differentiation that we bring to the table in terms of coverage and accuracy. And I think that bodes well at least in the early periods for us competitively. We've always enjoyed a strong competitive differentiation and competitive win rates with awareness and the high-profile nature of newer breaches that Log4j will continue to highlight that for us.

Brian Lee Essex - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. That's helpful. And Steve, is this still the same split?

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

It is in terms of greenfield opportunities, percent of greenfield opportunities, it did not change meaningfully in the quarter. So yes, sizable greenfield opportunity and obviously, our best-of-breed status in VM certainly is helping.

Operator

Our next question is from Rob Owens of Piper Sandler.

Justin Taylor Roach - *Piper Sandler & Co., Research Division - Research Analyst*

This is Justin Roach on for Rob. Just was wondering if you could give some more color on the demand environment in the federal vertical in 4Q given the strength you saw last quarter and how we should think about it as we move into '22. Should we see any differences in seasonality just given the spending intentions here seem to be pretty high?

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Yes. We're very pleased with the approach the federal government is taking to cyber. It's much more aggressive lean in than previous administrations have shown. We see continued strength and health in our overall federal business. We see a lot of both large funded and unfunded opportunities. And I think we'll continue to focus on that market. And we don't, I will also say, we don't see any unanticipated change in seasonality from previous years and previous behaviors. Steve, I don't know if you have additional color to add on that.

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

No. Well said.

Operator

Our next question is from Jonathan Ho of William Blair.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

I just wanted to start out with some of your commentary around the active directory security opportunity. Can you maybe give us a sense of whether or not this could be another tip of the spear to maybe go with new customers that are maybe using an alternative platform? And does that maybe open up the opportunity to dislodge those competitors, I guess, longer term?

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Absolutely, it is. And I think especially in large enterprises where competitors have been entrenched for years or they've been locked in with multiyear contract engagements or integrated the VM product into other processes that they have and displacing them has been more challenging.

In those instances, as soon as we mention VM or some of the cloud security capabilities that we're now bringing to market, there's definitely a very strong openness to engaging with us. And so we find that in those types of entrenched accounts, active directory becomes a clear differentiator and a door opener. And then once we're engaged, the natural movement to try and broaden the relationship.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

Got it. And then just a quick housekeeping question. Can you give us a sense of the percentage of customers that are maybe starting with EP at this point or maybe some color on those that are trading up to EP as well.

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

Jonathan, this is Steve. It's notable. I think one of the things we called out was we added 562 net new or new platform customers in the quarter, which is a record for us, our best ever as a public company. That's up from 460 last year, and we're also seeing larger deals.

So keep in mind, EP was a product that we launched in Q1. And it's gaining major traction here for us. And our mandate was always really about cyber exposure, really holistic risk assessment more so than VM. So we're absolutely pleased with the results in EP and the early response, just be mindful of sales cycles. That 562 new enterprise platform customers, a good portion of those or some sizable portion of those is attributed to EP, right?

This is a product that we plan to lead with really in the mid-market and the enterprise market. You're seeing the impact first really in areas where we have shorter sales cycles, such with mid-market type deals. And the pipeline we'll be able to associate with that is also very significant, which I commented on earlier. So I think it's going to pave the way for teams acceleration in new business, more larger deals as we cover more areas of the attack surface.

Operator

(Operator Instructions) Our next question is from Brad Reback of Stifel.

Brad Robert Reback - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Lucky, I only have one. Quick question, Steve. As you think about headcount growth for calendar '22, should that be in line with revenue growth?

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

We don't guide to headcount growth, but I think it's fair to say that given the investments that we're making that we're going to see certainly acceleration in the headcount growth. And I think more so than what we saw in 2021. And the 2 big areas are going to be R&D and sales and marketing. So R&D, especially just given the product road map and the innovation that's planned for the upcoming year as well as the acquisitions, specifically related to Accurics and more recently, Cymptom here. So certainly continued investments in R&D.

And then on the sales and marketing side. We know when we make investments in sales and marketing in that quota capacity that there's a clear return. We have a lot of momentum in the business. I think our execution and performance this year certainly demonstrates that. So we're certainly putting more wood behind both sales and marketing and R&D. And with the backdrop of a really strong threat environment, on the heels of a good quarter and a strong year, it gives us a lot of confidence to do so. So certainly more growth in total headcount the upcoming year than what we experienced last year and specifically in those areas.

Brad Robert Reback - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

And what was '21 growth? Can you remind us?

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

Again, we don't disclose growth in headcount but was probably more directionally in line with overall growth in revenue.

Operator

Our next question is from Dan Ives of Wedbush.

Daniel Harlan Ives - *Wedbush Securities Inc., Research Division - MD of Equity Research*

Just one question. So with EP, I mean, how much of a door opener is that even to larger enterprises? And is there a potential that, that accelerates almost some of the sales cycles?

Amit Yoran - *Tenable Holdings, Inc. - CEO*

I think it's absolutely, it's a door opener in 2 forms. One is, it forces a more strategic conversation with large enterprises, right? I mean, large enterprises are struggling with, okay, I'm going to use this technology from a cloud-native infrastructure perspective. I've got nothing really helping me with AD, I'm going to use that technology for VM. This other thing for my building automation and by my OT infrastructure, and it just becomes very complex when you're looking for, whether it's a Log4j or whether you're trying to assess overall cyber risk or you're trying to figure out, okay, well, what's my state and how do I reduce that risk?

So it helps in 2 key areas. One is a more strategic conversation with those large enterprises and opening doors that way. And the second is, when you're talking about EP, you're also having a conversation about all of those asset types which can be problematic, which the CISOs are very concerned about and helping them understand, okay, well, how big of an issue is this versus other things I have in my environment? And how do I compare the state of readiness from one business unit to another and from one asset type to another and what should I prioritize fixing? So helping them with that higher order analytics. And so we think it's a great engagement at a more strategic level.

Operator

Our next question is from Mike Cikos of Needham & Company.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Associate*

And good to see that 22% to 23% growth bogey out there to start the year. My question really circles back to some of the commentary on the quota-carrying reps. Tenable has discussed it's ramping investments in these reps. And I think the average rep takes about 10 months to ramp. So for 4Q, the hires that we saw that quarter, was that the highest hiring of quota-carrying reps of any quarter in calendar '21? And then on that go-to-market, is there the need for a separate overlay for specific products or the sales reps selling the entire portfolio?

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

Mike, this is Steve. So I think your first question was quota-carrying reps and just directionally was Q4 higher than at any other point in the year? The answer to that is yes. We invested in the first half of the year. But given the acceleration of the business that we saw throughout the year, it gave us more confidence to do more investment in sales and marketing. I think looking back on the year and then looking out in 2022, we expect to have more quota capacity in 2022 than in 2021. So yes is the answer to your first question. I guess with regard to your second question, I want to make sure I understand that. Could you repeat it, please?

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Associate*

Absolutely. So the question is really around these, the new products that you're bringing on. If we think about, I know Cymptom is going to be integrated into EP, and you're talking about expanding EP with AD, CS, but is there a need to have a separate overlay for the sales team to sell any of these products or is the overall sales team is able to go out there and sell the portfolio in its entirety at this point?

Amit Yoran - *Tenable Holdings, Inc. - CEO*

There's definitely the ability for our core sales reps to sell the portfolio. We're not acquiring and launching a series of very disparate, very distinct technologies, which are kind of loosely coupled. As the core team goes out, it talks about EP and the fact that EP does not only include IO and VM and web app scanning, but it also includes AD and cloud security, which includes container and Kubernetes and CSPM and Infrastructure as Code and all of these things. So they're more strategic message.

Now obviously, as you start unpacking that, conversations can very quickly get to a level of depth where a core rep or a core engineer might not yet have the requisite expertise. And so for some period of time, we'll continue to have specialists which can really do an incredibly deep dive with the team that manages domain controllers in the enterprise or that want to talk about specific control systems and/or other parts of the cloud environment.

Operator

Our next question is from Andrew Smith of Berenberg Capital Markets.

Andrew Blake Smith - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

Could you just compare demand across the different solutions of core VM, AD and OT? I know there had been several high-profile attacks in the last 12 to 18 months that had been linked to operational technology and the compromised active directory, which I believe is driving awareness for those products. But just curious if you could compare demand across the different solutions of the core VM, AD and OT, that would be great.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Super high, super higher and super high risk. We're operating in a high threat environment. I think, as you called out, there had been some very high profile breaches, specifically Colonial Pipeline, JBS and include those operational technologies. You saw CISA calling out some concerns about attacks against U.S. critical infrastructure and operational technology environment. So that it's incredibly high profile. Log4j profiling obviously sort of core VM at just the beginning, but obviously with web app scanning and other capabilities closely on the heels as well as some of the cloud security capabilities that we bring to the table.

But the exciting part, the sort of very natural observation is that when you look at something like Colonial Pipeline, it wasn't just that OT systems went out or were shut down. At the root of it was a compromise of IT systems and active directory. And so all of these things are completely intertwined. You cannot assess OT security today without also being able to assess IT and active directory and these other aspects which are completely meshed in operating environment, and the same is true of identity and cloud and IT.

So we think all of these things, whether it's a high-profile OT breach, a Log4j vulnerability, which, oh, by the way, exists and manifests itself in OT environments as well. All of these things provide the type of visibility for in our individual solutions, but also for the strength of our platform.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back over to Amit Yoran for closing remarks.

Amit Yoran - *Tenable Holdings, Inc. - CEO*

Great. I'd like to just thank everybody for joining us for the call. We're super excited about the results we're able to deliver in the fourth quarter and in 2021. And I'm very excited, obviously, about the acquisition that we announced today and very excited about the opportunity in front of us. We look forward to future engagement.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great evening.