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TENB.OQ - Q4 2019 Tenable Holdings Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Tenable Q4 2019 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I would now like to turn the conference over to your host, Andrea DiMarco, VP of Investor Relations. Thank you. You may begin.

Andrea DiMarco - *Tenable Holdings, Inc. - Head 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 2019 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. You could find the press release on the Investor Relations website at tenable.com.

Before we begin, let me remind you that we will be making 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 2020, growth drivers in Tenable's business; changes in the threat landscape and security industry and our competitive position in the market, growth in our customer demand for and adoption of our solutions; Tenable's expectations regarding long-term profitability and planned innovation and new products and services. 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 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 filed with the SEC on November 14, 2019 and subsequent reports that we've filed with the SEC, which are available on the SEC website, 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.

We look forward to seeing many of you at RSA later this month or at the Morgan Stanley and KeyBanc conferences in March. I will now turn the call over to Amit.

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

Thank you, Andrea. Thank you all for joining the call today. I'm pleased to report that we delivered strong financial results in the quarter and for the year and achieved a number of significant milestones that demonstrate our innovation and leadership in the market. For the fourth quarter, calculated current billings grew 28% year-over-year and revenue grew 29%. We are pleased with our growth and believe our scalable model allows us to attain attractive growth while also delivering free cash flow.

During the call, I'll provide commentary on our market momentum and ability to deliver a best-of-breed solution. I'll also talk about how we've broadened and enhanced our product portfolio as part of our cyber exposure strategy and our mandate to help our customers master and understand their cybersecurity risk. We operate in a sizable market with real momentum, the importance of what we do continues to increase. The adoption of a broader set of technologies has elevated cybersecurity to one of the top challenges facing business. And the CISO's role has elevated from one focused on technology to one focused on business risk.

In 2019, we believe we've elevated our leadership position in this market. Our investments in research and product development have earned us the #1 position in vulnerability coverage, lab testing found 20% more CVEs covered than our next closest competitor. In addition to broader coverage, we also benchmark ourselves to six-sigma accuracy with lower false positive and false negative rates. Better coverage and accuracy is fundamental to anyone interested in building a professional VM program.

Tenable also leads the industry in dealing with 0 days with more than 100 discovered in 2019, significantly more than our competitors have announced.

We added over 1,500 new platform customers in 2019, 461 in the fourth quarter alone, which we believe is attributable in part to our leadership in the market and best-of-breed offering. We also added 188 net new 6-figure deals, 52 in the fourth quarter, which we think demonstrates growing evidence of the increased importance of Vulnerability Management and our ability to transact larger deals. Beyond differentiating ourselves in VM, in 2019, we enhanced our product portfolio across the entire breadth of customer compute environments, cloud, web application scanning, container security and operational technologies.

We bolstered our cloud security capabilities with Microsoft Azure Security Center API integration and new integrated offering to secure cloud workloads with golden Amazon Machine Image pipeline. Both integrations represent a critical step in ensuring that organizations of all sizes can build cybersecurity best practices directly into their multi or hybrid cloud strategies.

We enhanced our web application scanner adding hundreds of new and improved detections, representing a fivefold increase in the capabilities for our customers. Our container security product is going further up the application level stack by detecting the vulnerabilities of commonly used open source components used by popular frameworks, such as node.js, Ruby and several others.

And lastly, we acquired Indegy to expand our OT capabilities. In integrating the pioneer of adaptive industrial security directly into our enterprise platforms, we now deliver a unified risk-based platform to the market. We've also made great progress in the depth of our analytic offerings with the introduction of predictive prioritization and the release of Lumin, aggressive steps forward in the execution of our broader Cyber Exposure strategy. With new assets coming online across web, DevOps, cloud and OT environments, prioritization of vulnerabilities has been a huge challenge, which Tenable now addresses head on. Predictive prioritization determines the issues most likely to be exploited by analyzing vulnerability severity, exploitability, exploit code availability and threat intelligence with vulnerability context.

In simple terms, our customers get a head; start addressing the issues that matter most. As an example, a large Telco carrier in South America with 1,000 buildings spread across the country, both internal and external clouds, and a huge amount of network assets and servers to protect was looking to mature their VM program. Within a large and complex environment that's constantly expanding, they found that it's not easy to identify what's most important or what's critical to mitigate first.

This customer purchased SC, and they indicated that they were really compelled by the power of predictive prioritization within SC to help them prioritize which vulnerabilities to address. The Tenable's Cyber Exposure vision extends well beyond prioritization of vulnerabilities. Lumin brings in a new era, a measurement of cyber risk as a new management discipline.

In addition to vulnerability data, all of the components of predictive prioritization, Lumin also assesses assets to determine their criticality. With Lumin, Tenable automates the translation from vulnerabilities to risk. We also delivered trending and benchmarks of cyber hygiene against industry peers and best practices. Finally, Lumin provides automated remediation workflow guidance to help our customers efficiently reduce their exposure. Lumin became available for sale at the end of Q3, and we are very pleased with what we've seen so far.

Already, our leadership position has been acknowledged in Forrester's Q4 release of their wave on vulnerability risk management. And in Q4, we further expanded Lumin's analytic capabilities with the first ever assessment maturity score. It's compelling to know your level of risk and that your program has granularity of visibility as well as the complete coverage of your environment. I'm also pleased to report that we've delivered on our commitment to make Lumin available for all platforms customers, including I/O and SC.

In short, our product team has been very busy, and let there be no doubt, we're pleased with the innovation and the results. I'd like to share some examples of Lumin at work within our customer base.

One of the largest Telcos in Europe and a long time SC customer was struggling to identify which vulnerabilities to target first. This customer began using predictive prioritization earlier in 2019 and wanted to extend more deeply into risk-based VM. Once they saw Lumin firsthand, they decided to elevate their VM management efforts to better prioritize, measure and articulate the state of their vulnerability program.

Another Lumin example, a new I/O customer in the financial services industry purchased Lumin and web application scanning to consolidate risk between web applications and on-prem infrastructure. This customer was looking to measure and track cyber risk, while at the same time, automate the manual assessment tasks.

They were specifically looking for prioritization features for their risk security program. With I/O, Lumin and web application scanner, this customer raised the VM program's maturity and was able to provide executive level information and benchmarking on their cyber exposure to the board.

As organizations continue to become more technology dependent, understanding cyber exposure has become more strategic and important. We believe that there's lots of evidence that our strategy to be best-of-breed in VM is generating strong momentum in the market and strategic opportunities continue to present themselves as the surface to be attacked continues to widen. We see a growing need for organizations to prioritize their exposure and understand what that means to enterprise risk. And we believe that the number of players able to compete in this new paradigm is quickly shrinking.

As an example of our leadership, BeyondTrust selected Tenable as the preferred Vulnerability Management platform for BeyondTrust enterprise customers as the company exits the VM market. We are excited about the opportunity to partner with them in this endeavor.

As we continue to increase our breadth of assets, we provide unifying data set for all the devices customers have across their operating environments. We capture how exposed those assets are and how valuable they are. Our customers are increasingly turning to us for definitive answers, giving us the mandate to become their system of record for cyber risk management. The compelling analytics we provide are just the first few transformative steps in our ambitious plans.

Now before I turn the call over to Steve, I would like to share that Mark Thurmond has joined our team as Chief Operating Officer. In this role, Mark will report to me and lead global field operations, including sales, professional services and technical support. Mark's appointment adds another layer of depth to an already powerful bench of executive talent. Mark is a highly respected go-to-market executive with a proven track record of driving revenue growth and operational excellence for notable cloud and cybersecurity companies. We're excited to have him join our team. With that, I'd like to highlight our enthusiasm with what we've accomplished in 2019 and our excitement about the opportunities still ahead of us. Now I'll turn it over to Steve.

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

Thanks, Amit. As Amit mentioned earlier, we are very pleased with our results for the quarter, and we are excited about our outlook for 2020, which calls for continued growth and significant operating margin leverage as we scale our business to address a major market opportunity in cyber exposure. I'll begin by reminding you that except for revenue, all financial results we will discuss today are non-GAAP financial measures, unless otherwise stated. As Andrea mentioned at the start of this call, GAAP to non-GAAP reconciliations may be found in our earnings release issued earlier today and posted on our website.

Before I discuss our fourth quarter results, I'd like to also remind you that our results of operations reflect one month of activity for the Indegy acquisition. Consequently, Indegy's revenue and calculated current billings or immaterial given the formative stages of their go-to-market activity. That said, our non-GAAP OpEx in the quarter reflects approximately $1.5 million from the impact of Indegy, primarily related to R&D expense and to a lesser extent, sales and marketing for headcount-related to SEs with specific OT experience.

From a GAAP perspective, we did incur costs related to the transfer of acquired intellectual property as well as professional fees and the amortization of acquired intangible assets, which are detailed in the press release we issued today as well.

Now on to our results for the quarter, which is highlighted by record revenue, CCB and new enterprise customers. Revenue for the quarter was $97 million, which represents 29% growth over the same quarter last year. Revenue in the quarter exceeded the midpoint of our guided range by $3 million, aided by strong execution both domestically and abroad. The upside in revenue is a result of solid sales and a healthy intra-quarter flow due to some larger deals closing earlier than anticipated in the quarter. It's also worth noting that the quality of revenue is very strong as 93% of revenue is recurring, which is a benefit of our subscription model. Calculated current billings defined that the change in current deferred revenue plus total revenue recognized in the quarter, grew 28% year-over-year to $125 million.

Overall, we're very pleased with the positive trend line of CCB growth throughout the year as growth increased from 25% in Q1 to 27% in Q2 to 28% in both Q3 and Q4. One of the drivers of CCB growth is the strength we are seeing in the enterprise market and our ability to transact larger deals. We added 461 new enterprise platform customers this quarter, which is a record and the first time we've added more than 400 in a single quarter. We attribute momentum here to the investments we've made in sales to grow our sales force globally and in R&D to deliver continued innovation and differentiation.

Not only are we seeing an acceleration of customers. We are also having success closing larger deals, as evidenced by the 52 net new 6-figure customers in Q4. This brings the total number of customers spending in excess of $100,000 annually to 461 and a notable increase over the 453 at the end of 2018.

I'll now turn to expenses and profitability. Gross margins were 82%, down from 84% in Q3 and 85% in Q4 of 2018 and is tracking in line with expectations. Our gross margin for the quarter reflects $1.6 million of additional costs related to the launch of Lumin, including predictive analytics and data science and the amortization of capitalized software costs. As a reminder, we expect our gross margin to be in the low 80s to the high 70% range long term.

Now let's turn to operating expenses. Sales and marketing expense was $57.7 million compared to $53.2 million last quarter and $44.5 million in the fourth quarter last year. This represents 59% of revenue for the quarter and 60% for the full year, which is down from 62% in 2018. It's also worth noting that the fourth quarter it seems to be our largest quarter in terms of sales, and this quarter was no different. As a result, we incurred higher sales incentive compensation and sequentially higher sales. Overall, we're very pleased with the leverage we've demonstrated to date, which we attribute to our healthy productivity levels and a maturing sales force and continued progress is expected in 2020.

R&D expense was $28.4 million compared to $18.6 million last quarter and $19 million in the fourth quarter last year. As a percent of revenue, R&D was 21% compared to 25% in the same period last year. The increase over Q3 is primarily related to not capitalizing internal development costs associated with Lumin as well as the incremental cost from Indegy.

G&A expense was $12.6 million compared to $13.3 million last quarter and $11.2 million in the fourth quarter last year. As a percent of revenue, G&A was 13% this quarter, which is down from 14% last quarter and 15% in the same period last year. Non-GAAP loss from operations was $11.1 million compared to a loss of $7.7 million last quarter and $10.8 million in Q4 last year. Non-GAAP operating margin was negative 11% compared to negative 8% last quarter and negative 14% of the fourth quarter last year. Again, to summarize, our non-GAAP op loss in the fourth quarter includes $1.5 million of additional OpEx related to Indegy and $1.6 million of incremental expense related to Lumin, as we are no longer capitalizing internal development costs related to this product. Overall, we're very pleased with the significant operating leverage we've achieved to date as our non-GAAP operating margin for the full year decreased from negative 18% last year to negative 12% this year.

Now all of this has translated positively to EPS. Our pro forma non-GAAP net loss per share for the fourth quarter was $0.11, which is $0.02 better than the low end of our guided range as adjusted for the Indegy acquisition.

Now on to the balance sheet. We finished the fourth quarter with $212 million in cash and cash equivalents and short-term investments. Our cash balance reflects the cash consideration paid for the acquisition of Indegy. As part of the purchase accounting, we recorded $15.5 million of intangible assets associated with acquired technology, which will be amortized over 7 years and $54 million of goodwill.

Turning to cash flow. There are a few discrete items impacting free cash flow this quarter, such as nonrecurring payments related to the Indegy acquisition, primarily from income taxes and other costs related to the IP transfer as well as CapEx for our new headquarters and the benefit from ESPP activity that we highlighted in our press release and on our prior conference calls. That said, our free cash flow burn was $13.5 million for the quarter. However, excluding these items, our cash flow would have been positive for the quarter.

With the results of the quarter behind us, I'd like to now discuss our 2020 outlook. I'll start by echoing I made comments on balance growth. With over 90% recurring revenue, 80% gross margins, increasing enterprise penetration and strong unit economics. We have confidence in our ability to sustain attractive long-term growth and are committed to becoming the Rule of 40 company. Accordingly, our 2020 guidance reflects progress towards achieving this. Recall, we previously stated that we intend to turn free cash flow positive by the time we exit 2020. Today, I'm pleased to add that we expect to generate positive free cash flow for the full year and expect our free cash flow margins to increase over time.

In terms of expense flow in 2020, we expect total operating expenses to increase sequentially in Q1 due to the timing of the industry and other events as well as the inclusion of Indegy for a full quarter.

For the remainder of the year, we expect operating expenses to grow more modestly than the years passed, which is contemplated in our annual guidance and reflects improved operating margins. Essentially, the Indegy acquisition allowed us to accelerate investments that we otherwise would have made throughout the year.

With that as a backdrop, let's turn to guidance. For the first quarter of 2020, we currently expect revenue to be in the range of $100 million to $101 million. Non-GAAP loss from operations to be in the range of $18 million to $17 million. Non-GAAP net loss in the range of $19 million to $18 million, and pro forma non-GAAP net loss per share in the range of $0.19 to $0.18, assuming weighted average common shares outstanding of 98.7 million. For the full year 2020, we currently expect revenue of $435 million to $440 million. Calculated current billings of $500 million to $510 million. Non-GAAP loss from operations in the range of $38 million to $33 million. Non-GAAP net loss in the range of $41 million to $36 million. Pro forma non-GAAP net loss per share in the range of $0.41 to $0.36, assuming weighted average common shares outstanding of 100.1 million. For the full year, our CCB guidance reflects strength in our core business with modest contribution from our newly launched Lumin product and OT offering. We're seeing good early momentum from our more expansive product portfolio, but we expect the contribution from newer products to build over time. The non-GAAP net loss for the full year assumes a provision for income taxes of approximately $6.5 million. This amount is highly dependent on the allocation of income by jurisdiction. As well as nonresident withholding taxes. In summary, we are pleased with our Q4 and 2019 full year results and believe we are positioned well for continued success. And now I'll turn the call back to Amit for some closing comments.

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

Thanks, Steve. We continue to be excited about the opportunity in front of us and to be recognized as a leader in this transformational and increasingly strategic market. We believe the combination of our differentiated technology even stronger now with Lumin and Indegy and our data analytic capabilities, position Tenable to become the cyber risk system of record. We'd now like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Sterling Auty with JP Morgan.

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

So I know it's early days, but just kind of curious what we should be thinking about in terms of the uplift that you get from a customer adding Lumin to either I/O or SC?

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

Yes. I think, obviously, it's very early in the life cycle for Lumin. But what we've seen is pretty consistent with the expectations that we've been talking about, and in line with the 30% to 50% higher ASPs for those customers, which are embracing Lumin in addition to their core VM work with SC or Tenable.io.

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

All right. Fantastic. And then, Steve, one for your side. Just looking at the gross margin in the quarter, coming in a little bit lower than I would have expected. Was that just the released Lumin and amortization of the capitalized R&D flowing through cost of revenue? Or was there anything else impacting it?

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

It was primarily that. Look, overall, gross margins came in line with our expectations and is trending in line with where we said we expect to be long term, which is low 80%, high 70% range. And so the increase in cost of revenue this quarter is a result of the launch of Lumin and specifically, data science and some additional public cloud costs. But also more specifically, it's the amortization of capital software, which is the internal development cost leading up to the launch of Lumin.

Now I would just say here that a lot of the costs are semi fixed, so we expect to absorb them over time. But overall, gross margins will track in line long-term for our direction.

Operator

Our next question comes from the line of Melissa Franchi with Morgan Stanley.

Melissa A. Franchi - *Morgan Stanley, Research Division - VP and Research Analyst*

Amit, I'm wondering if you could just talk about how the integration of Indegy has proceeded thus far? And I know it's early, but what are you seeing in terms of how this technology is changing the opportunity for you all around OT?

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

Thanks, Melissa. So we're really excited about the opportunity with Indegy and broader opportunity for tenable in the OT market. As you know, we've been a participant in the OT market with our industrial security product. And that's given us great insight into what customers are looking for, what their future requirements are, confidence that our existing buyers have great interest and requirements in the OT side of the market. And also confidence that our sales team and our go-to-market motions are very natural ways to acquire customers and pickup opportunities in that OT market. So we're early in the days of integration, but we announced on day 1 that we've integrated or released the integration of Indegy with our SC product, and a lot of these customers have on-prem solutions. So we think it's a very natural pairing, and we're committed to the near-term integration of our OT solution with -- and for our Tenable.io customers, and that integration really flows through. So it's not just, hey, we now give you the perspective of IT and OT. But it flows through all the analytic products and the analytic capabilities. So as you ingest the OT data alongside the IT VM data, things like predictive prioritization and other analytic components work naturally. We feel it's really compelling, and once you're down to -- here at our sales kickoff, and there's a lot of enthusiasm, a lot of excitement in the sales team for the new capabilities of our IT offering.

Melissa A. Franchi - *Morgan Stanley, Research Division - VP and Research Analyst*

Great. That's great to hear. One for Steve. Just a follow-up on your guide for 21% to 22% current billings growth next year. Can you just detail maybe what are some of your underlying assumptions around that growth, particularly around whether that's coming from expansion into your existing customer base through asset growth or even new use cases like Lumin versus the extent to which is coming from new customer adds?

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

Sure. Thanks, Melissa. Well, as Amit mentioned earlier, we're very excited about the new products we launched at the end of last year. There's certainly a major opportunity here and also excited about the newly acquired OT enterprise capability. Early indications are positive, but it's certainly in the year. And so our CCB guide largely reflects momentum in our core business and a modest contribution from Lumin and Indegy. And given the enterprise sales cycles, new products take time in the season. But we certainly expect this to be a growth driver for us going forward. And as a reminder, for OT, in particular, deal sizes tend to be somewhat larger and sales cycles tend to be slightly longer, so the OT sector is very early innings, and we anticipate it to grow over time. In terms of expansion, we do expect healthy expansion rates and expansion off the backs of continued asset growth. And to some extent, some contribution from newer products. Over time, though, we would expect more contribution from newer products in addition to healthy expansion with assets in our key customer accounts.

Operator

Our next question comes from the line of Gur Talpaz with Stifel.

Gur Yehudah Talpaz - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Sure. So Amit mean, you talked about being the best in terms of VM coverage. I guess, a broader question here. Do you think we're now in a best-of-breed market for VM within the enterprise. Do you think that customers, whether they're existing -- your own customers or other customers. You think they recognize the differentiation that you have in terms of your functionality relative to your peer set?

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

Gur, it's a great question and one that we feel, obviously, very certain of. If you rewind the clock back going 3 years ago, and you talk to Gartner and other industry analysts, they would have said, all VM products are basically created equal. Last year, we had Gartner analysts telling us that we've really distanced ourselves from the competition, and that we've got a better opportunity to take market share and convert customers over the next 2 years that we had over the trailing 3 to 5 years. So I think they're starting to see that differentiation. And that plays itself out in the market. In the -- in my comments earlier, I talked a little bit about BeyondTrust getting out of the enterprise VM market and BeyondTrust coming and selecting Tenable is the right landing platform for their enterprise customers with VM requirements. And so that isn't -- those types of selections are at random and the differentiation in growth rates, especially around VM, are not random. They're deliberate and I think, it's a direct result of a superior product and superior level of investment and we talk about the 20% greater coverage in CVEs, or our next closest competitiveness, that's 20%. It's not 2%. When you go into a network, and when you're testing an environment, and you're seeing a quantitative difference as well as higher accuracy rates with fewer false positive and false negatives, that really stems out to people in enterprises who are responsible for VM programs. And for them, coverage and accuracy and dependability of the product to do their job matters. So we're firm believers that secured -- the security market has spoken, time and again, looking for best-of-breed approaches. We think we bring that to the table with an open API and open integrations with other major infrastructure components. So we're firm believers, and we think the data is supporting our hypothesis.

Gur Yehudah Talpaz - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

That's really helpful. And actually, a pretty good lead into my next question, which is about BeyondTrust. So in security, we've seen similar arrangements in the past when others exited certain spaces, whether e-mail security or even VM. How do you think about the opportunity here with BeyondTrust exiting the space? And maybe just some context or some background on how did this relationship ultimately evolved?

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

Yes. The relationship evolved predominantly just from engagement with the BeyondTrust team and the BeyondTrust customer base out in the field and having relationships with folks at BeyondTrust over the course of many years. So I think really get together with them and understanding their corporate strategy, their corporate direction, where they're making investments, where they're seeing growth. And ultimately, the belief that they'll have a better customer outcome and better customer experience through integrating with Tenable as a best-of-breed provider for their VM requirements. So we're early in the relationship, but the go-to-market activities between the sales organizations are trying to come across in an organized fashion for a smooth and orderly transition of BeyondTrust's customers, especially in the enterprise segment to the timeline.

Operator

Our next question comes from the line of Jonathan Ho with William Blair.

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

I just wanted to maybe start with a little bit of additional color around enterprise sales cycles. I think you guys talked about some of the deals closing a little bit earlier. But can you give us a sense of maybe where we stand? Have all the issues been corrected at this point? And then maybe as a lead into that, why the decision to hire Mark, what does he sort of beef up in this entire process?

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

Jonathan, this is Steve. I'll take the first part of your question. First and foremost, we see a lot of momentum and traction in the enterprise market. We now tell you on this call, a record number of new enterprise customers over 400 for the first time we've done so in a single quarter. And then we also announced over 50 net new 6-figure customers. I think it's fair to say we couldn't be happier with the size of the land and the type of expands that we're seeing, and this certainly underscores the growing importance of VM, but it also coincides with the investment that we're making in sales too, to win share. We did talk about a couple of quarters ago that we are seeing more larger deals and sales cycles within certain categories are not necessarily extending. We're just doing more deals with larger price points that come with longer sales cycles and come with, frankly, more levels of complexity and review. I think we've navigated that very well. And you can see here in the quarter, the upside in revenue, which we attributed to strong intra-quarter flow. So in total, -- the takeaway here is that I think we're very pleased with our progress to date, and Mark is going to add another level of review and focus for us in an area where we need it, like the guidance today is that $0.5 billion instead -- over $500 million in sales, we think we're offering good growth. And we see a major market opportunity ahead, and we look forward to updating you on our progress throughout the year.

Operator

Our next question comes from the line of Dan Ives with Woodbush Securities.

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

Yes. So my question is just on the large deal front. I mean, obviously, you're seeing larger deals, more strategic, especially with the Lumin as well. I mean, just talk about going into next year in terms of like pipeline and just composition of deals. I mean, is that a trend that should just continue to, sort of, accelerate in terms of just the composition of deals when you just think about the product set?

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

I think so. I think what we -- I've said and continue to see is that we're -- there's a very steady volume of predictable business in the traditional deals that we've been doing, and I think we're seeing that trend continue. We're also seeing with our increased capabilities in OT in conversations with and about Lumin, and how customers move from vulnerabilities to prioritization, and how they move from prioritization to a real understanding of risk with Lumin and kind of benchmarking peers, and what and how you're tracking your hygiene, and how are you talking about it and presenting that risk to the Board, to the Audit and risk committee, to the CEO, to the executive staff.

We're seeing those play themselves out in more strategic conversations. And we announced Lumin, but we continue to enhance the product. In just the last 90 days, we've added assessment maturity to it. So you not only see how you're hygiene rates, you look at your programs, okay, how mature is that program? How much coverage do I have? Where are the gaps?

And so those conversations are really enterprise conversations. So we're seeing consistency in the volume of the deals that we've always done, but now an increasing volume of enterprise conversations and enterprise tractions, and obviously, we're excited with the trend.

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

Great. And should I just think -- I know it was asked before. But just when you think about just guidance for 2020 in terms of the year in terms of that Lumin is obviously factored in there, but it's not like from a composition, so it's still early days. It's going to take time. So if that sort of accelerates some penetration -- that sounds something that you've really factored into numbers? I'm just trying to understand that because I got a few questions on it?

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

Sure, Daniel. I think that's fair. We said that our guidance reflects strength in our core business, and we're pleased with the print in Q4 and our full year results. And I think it's fair to say that we have more confidence about 2020 now than we did 90 days ago. But our guidance also reflects contribution from newer products. Look, we're making sizable investments next year, and that should not be lost. We spent over $80 million in R&D last year and with continued investments. We have more products coming to market now than we ever had in our company's history with Lumin, with OT, with certainly a refresh of labs and container security, so I think it just gives us a lot of confidence heading into 2020.

Now that's said, it is early in the year. And we're pleased with the guidance that we're providing today. And we look forward to keeping you updated on our progress.

Operator

Our next question comes from the line of Nick Yako with Cowen.

Nicholas Andrew Yako - *Cowen and Company, LLC, Research Division - VP & Senior Analyst*

I just wanted to ask a quick follow-up on the BeyondTrust partnership. Just wondering if there's any contribution from that partnership factored into your outlook for 2020?

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

There's some, not a lot and look, I think it's fair to say, BT's focus is really in another market, you know PAM, Privileged Access Management, and so kind of competing VM offering for some time. But I think they recognize that we are the best partner for them and the best landing pad for their customers. And they still have -- they have hundreds of VM customers. They're virtually a perpetual license company, so there was a residual maintenance stream there. So our expectation is that we'll have some success working with them in concert or on combined go-to-market activities, and we'll be able to successfully migrate some customers over. But to what degree? We'll see. But it's an opportunity, but I just want to put it in context because it's a more modest opportunity.

Nicholas Andrew Yako - *Cowen and Company, LLC, Research Division - VP & Senior Analyst*

Okay, makes sense. And then on cash flow, you guys mentioned you now expect to generate positive free cash flow in 2020 versus prior expectations maybe getting there in 4Q. Any points of leverage in the model that you would highlight or anything that's changed?

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

Yes. Well, first, I would say -- so yes, we're very committed to becoming a Royal 40 company. But we think that is something that naturally occurs in our model. We have 90% recurring revenue, 80% plus gross margins. We have great unit economics and the ability to expand once we land with customers so you're seeing some natural leverage there. And so one of the things that we said is that we expect to be free cash flow positive for the full year, not just in Q4. Another point that I want to make is just the operating margin leverage, too. If you look at our guidance, for the full year, we're guiding a non-GAAP loss from operations of $38 million to $33 million. If you look at the non-GAAP loss from operations, the same guide just for the quarter is $18 million to $17 million.

So that would seem to suggest over the next 3 quarters that you'll see some fairly significant margin leverage. However, we are investing. I talked about the investment in R&D. And I also want to make the point that we are investing in sales and marketing, and we're investing aggressively, and we're adding sales capacity, and we're seeing great returns on the investments that we are making on sales. So you will certainly see leverage in sales and marketing this year, just given the fact that we see -- we have a more mature salesforce, more products to sell and our expectation is that we'll have more productive sales reps as a result.

Operator

(Operator Instructions) Our next question comes from the line of Joshua Tilton with Berenberg.

Joshua Alexander Tilton - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate Analyst*

I just wanted to touch on the BeyondTrust one more time. So I believe they go end-of-life at the end of 2020. So when would you expect to see meaningful amounts of customers looking to move over to Tenable? And do you think there'll be an education phase, getting them to pay subscription?

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

Just to put matters in context, this is -- we're not talking about a $10 million plus opportunity with BeyondTrust, it's something much less. And so we're -- there are 3 VM vendors in the market, all having some success converting BeyondTrust customers over. And so what we're talking about is a combined go-to-market activity here that we think will resolve in some success in moving BeyondTrust customers over to, we think, the leading VM and OT platform. But it's just a thing -- time that -- that time will tell.

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

Yes, I told (inaudible) look Tenable's got a proven track record of converting our historic security center and SC customers moving them to a subscription-based licensing model and has had great success. We see about 15% of sales as perpetual license. But otherwise, vast super majority of customers have already gone on that migration with us. And I'd also say the the excitement and enthusiasm for BeyondTrust relationship is look: Step 1, there's real opportunity in the existing customer base. And step 2 is, look, because they have a certain level of spend and a certain amount of account penetration with BeyondTrust doesn't mean that with our enhanced products and enhanced capabilities that we couldn't expect to see good growth in those accounts for more asset coverage and cross-sell of analytic products and other asset types. So we feel like it's a great relationship. We're excited about it.

Joshua Alexander Tilton - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate Analyst*

That's very helpful. And then just a quick follow-up. I believe you mentioned Lumin automated remediation guidance? Is this the first time that Tenable is offering remediation capabilities, I know that some of your competitors already offer it. So I was just curious as to, was this in response to some customer demand? Are you trying to get ahead of customer demand? If you comment on that, that would be great.

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

Sure, sure. And actually, thanks for asking it and the clarification. We are not getting into the remediation business. We're not in the patching business. We don't want to imply that we are. What we've chosen is to have a tight integration platform with configuration management tool and enterprise infrastructure products that our enterprise customers have deployed and selected as a best-of-breed solution and have deployed and are already leveraging in their workflow. So what we're doing is -- part of the analytics within Lumin is looking at the vulnerabilities that exist. And obviously, all the context around that in terms of exploitability and severity and all that sort of stuff. But also looking at the criticality of the asset. And then looking at things like patch supercedings to say, "Hey, if I apply in this patch, it's going to fix 7 vulnerabilities on this system." And when I look at the various combinations of patches or configuration changes, the various asset values and the number of instances across the environment what we can do is provide very specific remediation guidance that says, if you do these 3 things, you will reduce your cyber exposure by a score of y. And then through our APIs, integrating with those configuration management tools so that we can really automate that workflow, but we're not getting into the configuration patch management business. We haven't seen that request from our customers, and we like the sort of go-to-market ecosystem of partnerships that we do have.

Operator

Ladies and gentlemen, we have reached the end of our question-and-answer session as well as today's conference call. We thank you for your participation. You may now disconnect your lines at this time, and have a wonderful day.