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TENB.OQ - Q1 2020 Tenable Holdings Inc Earnings Call

EVENT DATE/TIME: APRIL 28, 2020 / 8:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Greetings, and welcome to the Tenable First Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Andrea DiMarco, Vice President, Investor Relations and Strategy. 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 first quarter 2020 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 first quarter financial results. 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 second quarter, growth in 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, Tenable's expectations regarding long-term profitability, the impact of COVID-19 on our business and on the global economy and planned innovation in 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 our management's beliefs and assumptions only as of today and should not be considered representative of our views as 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 annual report Form 10-K filed with the SEC, February 28, 2020, and in subsequent reports that we file with the SEC, which are available on the SEC's website at sec.gov.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial matters are in addition to and not a substitute for or superior to measures of financial performance prepared in accordance with GAAP. There's a number of limitations related to the use of these non-GAAP financial measures versus their closest GAAP equivalent. 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. - President, CEO & Chairman*

Thank you, Andrea, and thank you all for joining us today. Our thoughts are with those who have been affected by the COVID-19 pandemic, and we hope everyone is staying safe. Our top priority is ensuring the health and safety of our employees, partners and customers around the world.

We have a lot of ground to cover today, but I'd like to take a moment to share what I've seen at Tenable over the past 5 to 6 weeks. In this unprecedented time, Tenable has had an incredibly resilient team. Many employees were already working remotely. So as a team, we were able to adapt quickly and continued to deliver on our mission. We have an amazing company, and I'd like to personally thank all the employees of Tenable for their unwavering dedication to helping our customers manage and measure their cyber risk through this environment. We're proud of what we have accomplished. Our multifaceted go-to-market approach helps us maintain dialogue with customers.

With the quick shift to work from home, enterprises must now manage a more distributed network and a broader attack surface. Our customer engagement has remained very high as they attempt to understand risk in this new operating paradigm. Our customers have to automate and prioritize how they assess and secure remote laptops while the entire workforce is distributed. And when employees begin to return remote systems to the office, reassessing risk will be an ongoing activity. We continue to see customers focus on robust Vulnerability Management programs with an increased attention on web applications, storefront websites and cloud environments.

To further assist our customers with their remote workforce transition, we immediately extended Tenable.io licenses for additional coverage of assets through June 15. For Tenable.sc and Nessus Professional customers, we offered a Tenable.io license with our agent-based capabilities. We're also excited to announce a new major release of our web application assessment platform.

We've already seen some of the benefits from our team's agility and commitment to customers during the quarter. In one instance, a large food processing company augmented their on-premise Tenable.sc deployment by using agents deployed and work-from-home computers reporting directly to Tenable.io. In another example, a domestic children's hospital worked with surge licenses to secure their mobile workforce. As cybersecurity remains a foundational part of our customers' business continuity planning, we continue to deploy our solutions and serve our customers.

For the first quarter, calculated current billings grew 22% year-over-year and revenue grew 28%. It was a solid quarter given the environment. I also want to note that we significantly improved our operating margin and became free cash flow positive in Q1. We will continue our balanced approach, thoughtfully navigating between improved profitability and investing in growth initiatives. Overall, we remain confident in our ability to achieve positive free cash flow for the year 2020 and believe that free cash flow characteristics for the business long-term are very attractive.

Steve will cover the results in greater detail, but I'd like to talk about how we're managing the business through the challenging times. We continue to see positive improvements in pipeline size and maturity. However, the timing of one new business and, to some extent, renewal transaction will close is very difficult to gauge right now due to the uncertainty created by COVID-19. We expect that the current dynamics will impact our growth rate for the year.

As a result, we're proactively taking measures to ensure we realize our intended operating leverage. Specifically, we are reducing discretionary spend until we have better clarity on the macro environment. In doing so, we will be careful not to impact key areas of our business such as sales capacity and the levels of resourcing around innovation and other strategic areas that contribute to our long-term growth.

The steps we take today will enable Tenable to become a significantly larger and more profitable company over time. We continue to believe that our best-of-breed focus will continue to fuel attractive growth and profitability. The dynamics that have been propelling our business still remain and, we believe, will continue to strengthen over time.

No doubt, the next few quarters will be a challenging period for many organizations. We believe our unique business model can help to moderate the impact to us. There are 4 key attributes to our model: one, our recurring revenue model provides a level of top line visibility. Two, we have a diversified land-and-expand model with a focus on large enterprise customers with high retention rates. Three, we have a scalable and efficient business model with high gross margins capable of great operating leverage. And lastly, four, with our disciplined cash management approach, we remain on track to achieve positive free cash flow for fiscal year 2020. We also have over $225 million in cash and investments and no debt. These characteristics provide us significant financial and operational strength. We see a path to manage through the near-term challenges presented by COVID-19 and maintain focus on our long-term opportunity, which we believe remains compelling.

We've heard from many customers that measuring and managing cyber risk remains a key priority. Vulnerability Management, assessments, automation, prioritization, data integration through Lumin, web application scanning, and OT all remain critical to their efforts. Let me share a few 6-figure customer examples that demonstrate our strategic value and our commitment to our customers as they navigate these unprecedented times.

The first customer, a Nessus upsell, was also a competitive enterprise platform displacement with a large international automotive manufacturer. This customer was looking for a scalable Vulnerability Management solution to deploy across almost 1 million assets globally. The customer indicated they chose Tenable because of the accuracy of our products and our trusted brand. While the Q1 purchase is intended to cover their IT systems, our IT/OT integration provides a longer-term OT opportunity for us and to expand into their manufacturing facilities.

The next one is an IT/OT convergence example, a large financial institution, an existing Tenable.sc and I/O customer. This customer was seeking to reduce cyber risk across their data centers, including not just the servers but also the monitoring of their HVAC systems and other parts of the infrastructure. The customer told us that they chose Tenable.ot to ensure proper security of operations and the integration of OT and IT risk with an opportunity to expand to more sites over time.

And lastly, I'd like to share an exciting cross-sell expansion customer, a domestic software company. This customer was a heavy cloud user and migrated from SC to I/O and also web -- and also adding web application assessment and Lumin. This customer win is a great example of how we can help our customers as they transition to cloud. It also highlights what we can accomplish with customers remotely as we conducted the eval and pitched Lumin all remotely.

We believe there's a lot of evidence that our best-of-breed strategy in enterprise Vulnerability Management continues to generate momentum in the market. Strategic opportunities around VM continue to present themselves as the attack surface continues to widen and customers demand more automation and prioritization. Understanding cyber risk is becoming increasingly important to C-level executives, boards and audit committees. This gives me exceptional confidence in our future.

And now I'll turn it over to Steve.

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

Thanks, Amit. As Amit mentioned, we are pleased with our results for the first quarter and remain excited about our long-term opportunity for Cyber Exposure. However, we are currently cautious around the near-term environment and macro uncertainty created by the COVID-19 pandemic.

Let's talk about our results for the quarter, then turn our attention to guidance. First, please note that with the exception of 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.

Now on to our results for the quarter. Revenue for the quarter was $102.6 million, which represents 28% growth over the same period last year. Revenue in the quarter exceeded the midpoint of our guided range by approximately $2 million. Revenue was aided by strong execution across the globe, notably in EMEA and some large deals in APAC. As a reminder, Tenable has a very sizable international footprint with operations in over 30 countries and customers in over 160. This gives us a very broad go-to-market capability that is not dependent upon closing a few large individual transactions in the quarter to achieve growth. Over time, we've been able to achieve growth on our customer base to over 30,000 by selling annual prepaid subscriptions, which has resulted in 93% recurring revenue.

Calculated current billings, defined as the change in current deferred revenue plus total revenue recognized in the quarter, grew 22% year-over-year to $99.2 million. We added 319 new enterprise platform customers this quarter and 24 net new 6-figure customers. This brings the total number of customers spending in excess of $100,000 annually to 665. The takeaway here is we achieved solid growth in new enterprise platform customers, but less of the new logo deals were large 6-figure deals. Activity levels remained healthy in the quarter, and there was a good customer engagement. But the uncertain economic environment did impact our ability to close some deals in the quarter. However, we were pleased to see the conversion on many new opportunities that were advanced in our pipeline and across various industries and geographies.

I'll now turn to expenses and profitability, where we have seen significant reduction in non-GAAP op loss. Gross margin was 83% this quarter, down from 85% in Q1 last year and up from 82% last quarter. Our gross margin reflects increased demand for our cloud-based Tenable.io platform, which we are delivering more efficiently as we scale.

Let's turn to operating expenses. Sales and marketing was $55.4 million this quarter compared to $49.3 million in the first quarter last year and $57.7 million last quarter. This represents 54% of revenue for the quarter, which was down from 61% in Q1 of 2019 and 59% in Q4 of 2019. It's worth noting that the first quarter reflects continued investment in sales, primarily related to hiring more quota-carrying sales reps as well as costs for a worldwide sales kickoff and industry events such as RSA. This was offset by lower noncapitalizable sales commissions relative to seasonally strong fourth quarter sales and, to a lesser degree, lower spend on travel. Further, and perhaps more importantly, we realized leverage in the quarter from the optimization of sales overhead in our target markets, which we expect to be a source of leverage in the future.

R&D was $23.9 million compared to $19.9 million in the first quarter last year and $20.4 million last quarter. As a percent of revenue, R&D was 23% compared to 25% in the same period last year and 21% last quarter. The sequentially higher spend reflects the full quarter impact of our investment in our operational technology offering via the acquisition of Indegy as well as further development activities to enhance Lumin and other cloud-native products. G&A was $13.8 million compared to $11.9 million in the first quarter last year and $12.6 million in Q4 2019. As a percent of revenue, G&A was 13% this quarter and last quarter and down from 15% last year.

Non-GAAP loss from operations was $7.7 million compared to a loss of $13.2 million in Q1 last year and $11.1 million last quarter. Non-GAAP operating margin was negative 8% compared to negative 16% for the first quarter last year and negative 11% last quarter. Overall, we are very pleased with the significant progress we've made in our operating margin, which reflects our ability to efficiently scale our business and, we believe, positions us well for continued improvement for the remainder of the year.

All of this translated to significant EPS upside, as our non-GAAP net loss per share for the first quarter was $0.09, which was $0.09 to $0.10 better than expected. To summarize, $0.02 to $0.03 in the beat was attributed to better-than-expected revenue, while approximately $0.07 resulted from better operational efficiency and lower costs.

Now let's turn to the balance sheet. We finished the quarter with $226.7 million in cash, cash equivalents and short-term investments.

Turning to cash flow. We achieved $3.9 million of positive free cash flow, which is our first quarter of positive cash flow as a public company. This compares favorably to a free cash flow burn of $3.2 million in Q1 of last year. As a side note, the construction of our new headquarters is progressing and nearing completion, with an estimated $5 million of net CapEx remaining across Q2 and Q3.

With the results of the quarter behind us, I'd like to discuss our outlook for Q2 and the rest of the year. I'll start by echoing Amit's comments. With over 90% recurring revenue, 80% gross margin, high renewal rates and strong unit economics, we are confident in our progress towards becoming a Rule of 40 company. A leading indicator of this strategy is that we turned free cash flow positive this quarter and expect to generate positive cash flow for the whole year and beyond. Given the fluidity of the current environment, we will continue to manage the business in a disciplined way and will make changes as necessary.

With that as a backdrop, let's turn to guidance. For the second quarter, we currently expect revenue to be in the range of $101 million to $103 million; non-GAAP loss from operations to be in the range of $5.5 million to $3.5 million; non-GAAP net loss to be in the range of $6 million to $4 million; non-GAAP net loss per share to be in the range of $0.06 to $0.04, assuming 99.8 million weighted average common shares outstanding. While we're able to provide this outlook for Q2, we have noticeably less visibility for the full year, especially for calculated current billings. CCB is not only a reflection of new ACV bookings in the quarter but also early renewals and multiyear prepaid deals. Since the crisis began, we have been stress-testing our model and running a number of scenarios based on various assumptions. Given the level of uncertainty around the duration of the health crisis and the rate and pace of economic recovery and the extent to which all of these factors will affect our customers and the industries in which they operate, there's a wide range of outcomes for the full year, which we are confident we are prepared for. However, assigning a guided range for the full year just does not feel appropriate.

Our expectation for our business in the current environment is as follows: growth in new logos will likely be lower. Upsells into our installed base is also expected to be slower but feel less of an impact. Renewal rates are expected to remain healthy but will likely experience a modest decrease from our high historical levels. While there is uncertainty created by the current environment, what we do know is that we will remain nimble and deploy our go-to-market resources where we see opportunity as the global recovery unfolds. We will also continue to revisit the efficacy of our cost base to ensure we strike the right balance between investment and our desired operating leverage.

Before turning back to Amit, I want to provide some perspective on what we're seeing so far in the second quarter. Overall, we are pleased with the size and maturity of our pipeline and activity levels. But keep in mind, like many software companies, we are back-end loaded, and our performance will depend on how we yield against those opportunities.

In summary, Tenable remains well positioned to deliver strong growth and profitability over the long term. We've developed a comprehensive, foundational cyber exposure platform that provides significant value to our customers. We are appropriately managing the business through the current challenging macroeconomic environment while continuing to execute on our long-term strategy. We believe our ability to remain on track to generate positive cash flow for the full year is a sign of the strength in our business.

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

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

Thanks, Steve. It was a tough decision to withdraw guidance, but we believe it's appropriate given the circumstances. There's a difference between the ability to accurately predict CCB, annual revenue or earnings per share and the confidence that we have in our business over the longer term. I continue to have great confidence in our business. We believe our cyber exposure platform will become even more critical as enterprises consider the cyber risk, in combination with business context, as a critical piece of their business risk management.

Regardless of the macro environment, we believe the combination of our differentiated technology, strengthening product portfolio, data integration capabilities and best-of-breed strategy position us for long-term success. We hope to see many of you virtually at the JPMorgan conference on May 14 and the William Blair Growth Stock Conference on June 10.

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 JPMorgan.

Sahil Sharma - *JP Morgan Chase & Co, Research Division - Research Analyst*

This is Sahil on for Sterling. So given that the margins were so much better in the current quarter and even in the outlook, what has changed in the capital structure? Are you seeing a change in pace of hiring? Or is there any other factor behind that?

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

This is Steve. Thanks for your question. We -- and this is something we mentioned on the call and specifically in areas such as sales and marketing, we added quota-carrying reps in the quarter. It's something that we plan to continue to do throughout the year. But I also think it's fair to say the pace in which we hire those reps will probably be more moderate than initially expected. We're going to wait and see how the global crisis unfolds. We'll remain nimble and quick and reevaluate, but continuing to hire is really important to us. I think the other side of that is while we plan to make investments, I think we want to do so in a very efficient way. And so we're going to continue to evaluate non-quota-related investments and costs and evaluate what we call tooth-to-tail ratios and with emphasis on more tooth, which are quota-carrying sales reps and driving greater efficiency in the rest of the areas of the sales and marketing organization.

Sahil Sharma - *JP Morgan Chase & Co, Research Division - Research Analyst*

That's helpful. And one follow-up. So what are you hearing from the customers in terms of prioritization of VM in this environment? Are you seeing any pull-forward of demand in this scenario?

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

I think it's premature to say there's a pull-forward of demand. We're actually very pleased with the quarter. Hopefully, that is apparent. We added a good number of new enterprise customers as well as a number of new -- net new 6-figure customers. So overall, we're pleased with what we saw in Q1. But the global crisis really started the last 3 weeks of the quarter. They happened to be the busiest times for a software company. The last 3 weeks of the quarter are always very busy. We're dealing with this for a full quarter in Q2. So for us, I don't -- I wouldn't characterize us saying that we saw a pull-forward of demand. We were busy at the end of the quarter, busy closing deals. We're pleased with the rate in which we did so. But we obviously have a cautious outlook for the rest of the year just given some of the uncertainty surrounding it.

Operator

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

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

I understand why you would pull the guidance for the full year just given the uncertainty, which is not unique to Tenable. But I mean you have a lot of conversations, I'm sure, with customers. And so I'm wondering if you can maybe just provide a little bit more color around what you're hearing from those customer conversations, particularly how CISOs are viewing vulnerability management and they're spending incrementally on VM for the rest of the year, just recognizing there still is a lot of uncertainty. But what are the conversations today suggesting?

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

Yes. Great question, Melissa. Thank you. I think we have not seen a significant shift from a security prioritization standpoint. So security remains I won't say sacrosanct, but it remains a high priority for enterprises. And we see that within the security budget, within security spend, that VM, understanding risk and how to more efficiently manage risk, remains a key high priority for the CISOs that we talk to. I think what is reflected in our decision to pull guidance is an increased sort of uncertainty, if you will, in the process for close. We know that budgets are going to be shifting. Budgets are going to be changing. They're going to be more closely scrutinized in the process to close transactions. They'll be more closely scrutinized, and that may cause for some delays and, in certain segments of the market, uncertainty around what those budgets will look like and how they'll shift. So I think with that, what we're trying to just say, look, the pipeline is healthy. It continues to grow at a healthy clip. We just want to -- we just don't have the type of -- the precise visibility into the close process that we've had, I think, in previous quarters.

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

Okay. That makes a lot of sense. And Steve, you talked about upsell activity. You're anticipating upsell activity to be healthy but maybe not as robust. When we spoke to you all a quarter ago, you were very enthusiastic and bullish, I guess, on the Lumin early adoption. Just wondering what you saw in Q1 and whether this current environment maybe puts a little bit of a pause on the momentum that you were seeing in the early days.

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

Yes. I think with regard to momentum overall, I think it's -- we're happy with how the quarter played out. I think we acknowledge that we would like to close a few more deals and specifically a few more larger deals than maybe what we've seen in quarters past. But adding over 300 new enterprise platform customers, 24 net new 6-figure customers and to be able to continue to do that, especially in a market like this, I think it's certainly notable. We launched Lumin in Q4 of last year. And Lumin is our product, and we sell product really to enterprise customers. So given enterprise sales cycles, our expectation is that Lumin will be more of a contributor to the second half of the year than the first half. But we're very pleased with the pipeline for Lumin and very pleased with the pipeline just more broadly. I think fair to say that the size and the maturity of the pipeline are very strong. And there's really good customer engagement, and we're continuing to move deals -- new deals throughout the pipeline. The big question mark is the yield against those opportunities in a market like this. But overall, we're pleased with what we see, but we're obviously taking a more cautious outlook. And we think the value prop of VM and Cyber Exposure more broadly and Lumin, in particular, remains strong, even in a market like this.

Operator

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

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

Amit, outside of core VM, you mentioned a handful of pretty interesting OT and Lumin wins. Can you talk about the view on appetite for these solutions, recognizing near-term uncertainty and looking well beyond that, just the nature of the conversations you're having and how you think about just the build maybe looking into '21?

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

Yes, Gur, great to hear from you. We continue to see very healthy pipeline build in OT and Lumin. I think in addition to the comments that Steve was making about sort of Lumin's relevance, the more complex the environment, the more distributed and complex the attack surface, the more of an opportunity exists for Lumin to come in and help CISOs and enterprises really understand risk and understand the prioritization of how they can most efficiently reduce risks. So I think as we've seen the changes in attack surface morph and CISOs are trying to figure out, "Okay. Well, what does this mean to me now that I got a bunch of remote workstations, and I have some changes in compute behaviors? What does that mean from a risk perspective?" I think Lumin can help them get their arms around that. And really, the fundamental requirement to understand cyber risk in core business processes, whether it's sort of manufacturing, critical infrastructure, retail inventory management, all of these things remain absolutely critical. And so the timing of deals is certainly challenging to understand in this environment, but we've seen no change, no notable change in our ability to add pipeline -- add opportunities to the pipeline. And I think the sales team's enthusiasm that these are the types of transactions that they can close. We just need to get our arms around what the macro environment means from a transaction timing perspective.

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

That's helpful. And maybe one for you, Steve. You've made it a point to stress that you're going to be FCF positive for the year. Is there anything here that could happen over the next few quarters that could ultimately delay your pretty stressed decision here to say that you're going to be FCF positive despite of the uncertainty?

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

No. Not that we anticipate, Gur. As a matter of fact, we made a point to call that out. We talked about becoming cash flow positive on our last call, even with some of the uncertainty surrounding it. We remain committed to becoming cash flow positive. There's a lot of natural leverage in our business. And I think you're starting to see that given the EPS beat, given the fact that we are turning cash flow positive almost 3 to 4 quarters earlier than expected when we talked about -- when we went public. We said our intention was to become free cash flow positive by the time we exit 2020, and here we are doing it really in the first quarter. So we're pleased to see it. We think there's a lot of leverage in the business. We're excited about the long-term opportunity, and we're going to continue to invest but balance those investments in a way that also creates operational efficiency for us as a whole.

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*

Can you maybe quantify for us some of the benefits that you saw, I guess, from organizations that maybe accelerated some of their buying activity and were maybe addressing things like work-from-home technologies, buying new laptops and outfitting them? And how do you think about that opportunity, particularly with regard to how recurring it is? Are you seeing that persist into April? And could this be a new normal that adds to your opportunity set?

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

I don't know that I would characterize it as sort of an acceleration of business. I think that there is -- the change in compute environment and the way enterprises are supporting their employees has evolved, and I think that, to some extent, plays to our strengths, right? We've always touted the -- that we bring the sort of greatest flexibility of how to assess for risk. And so in this environment where there's more work from home, I think there's various methods and techniques including agent to cloud-based deployments that we've seen customers adopt, and we've made some more flexible licensing schemes available to them so that they can leverage this part of our technology base. So it's really -- we've seen a little bit of a morphing of the business more so than an acceleration.

In terms of how, whether or not we anticipate this to sort of sustain itself going forward, I think the macro environment will largely dictate that. And we've seen all sorts of different approaches from different states and, in fact, around globe to the return to work from home. And we think that will sort of create another wave of security requirements for enterprises, as these remote systems now come back into enterprise environments with all the applications and the downloads and the potential malware and everything else. So we think it is going to mean that assessing vulnerability, assessing risk, assessing exposure to the enterprise, it's just going to have to be done in a more mature fashion than it has historically. And we think that could be -- that could bode well for business. That said, the macro environment is going to also dictate the pace of business as well.

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

Got it. And can you talk a little bit about your exposure based on industry vertical? I mean, clearly, you guys have large U.S. government business, and we would assume that's less impacted. But there's other industry that -- potentially or more. Can you maybe give us a little bit of color around maybe what you're seeing and assuming around the industry piece of this?

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

Jonathan, this is Steve. Yes, the good news here is that we're fairly diversified. We have over 30,000 customers. I think we have one of the largest customer bases of any public security company, and we transact sales in 160 different countries with offices in over 30. So we have a sizable and very diverse customer base. If you look at areas such as retail, hospitality, transportation/travel, in aggregate, it's less than 10% of our total sales. So the good news is we don't have significant vertical concentrations, with the exception of the U.S. government. We talked about how it's -- it's on average about 15% of our total sales, and we think that's actually a good place to be in a market like this. So overall, we feel like we're pretty broad and pretty diversified and with no significant concentrations, and we think that's good in a market like this.

Operator

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

Strecker Backe - *Wedbush Securities Inc., Research Division - Associate of Equity Research*

This is Strecker on for Dan. Can you guys talk about what you're seeing on the federal spending front? And then what are your views kind of with the deal environment now during this pandemic? And then from here, what are the opportunities as well as challenges that this may present for Tenable?

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

We haven't seen any notable change in the federal environment. I'd say it's largely consistent with what we've seen in terms of buying behaviors from years past. As you know, we have a very strong position in the federal government and believe that, that will continue to be the case. We're servicing those customers and helping them make the adjustment to work from home capability.

In terms of how this is impacting or changing the broader market or deal flow, as I said earlier, I think security remains high, top of the priority list for folks. And within that, I think Vulnerability Management, to understand your level of exposure in cyber risk, remains fairly high. So while we have some uncertainty around the process to deal close and what -- how customer buying behaviors are going to change, we continue to have a high level of engagement with our customers, both federal and in the private sector. And we're seeing good customer engagement and continued pipeline creation. There seems to be a lot of demand out there, just trying to understand what closes will look like relative to the macro environment and how company purchasing practices will evolve.

Operator

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

Nicholas Andrew Yako - *Cowen and Company, LLC, Research Division - Director of TMT for Software & Senior Analyst*

Just wanted to ask about the decision to extend the licenses to cover additional assets coming online in June. Is the plan to go back to those customers in June and convert those into upsells? And then just how confident do you -- are you feeling in the ability to do that?

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

I think the initial outreach here was to make sure that we're engaging with our customers, and we're assisting them in whatever fashion we can during something that's ultimately a crisis for them to manage through. They're dealing with massive shifts in how they operate in work-from-home environments. This is one of those things where we could draw a line and restrict how our customers use our technology. But we wanted to make sure that they feel like we've got a great partnership with them, like we're strategic partners helping them with technology when they're in a jam and helping them strategically assess and understand the data that's coming out of those technologies and what it means for their business from a risk perspective.

So ultimately, will we extend that beyond June? I think it depends on a number of factors. Will we be able to convert some of those extended licenses into sales. I think it will depend on a number of factors. And I think this is one of those times in life where you want to show what you're made of as a company and as a partner. And our intent is not to jam people up but make sure that we provide them capability and believe also that they'll be with us for the long term. And they'll expand their deployment with us, as they see us as a strategic and good company to do business with.

Nicholas Andrew Yako - *Cowen and Company, LLC, Research Division - Director of TMT for Software & Senior Analyst*

Right. Okay. Helpful. And then maybe just a follow-up around Lumin. Any color around the contribution from Lumin in the quarter? And then just looking forward, does this environment change how you guys are thinking about the opportunity for Lumin going forward?

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

Nick, this is Steve. No. We don't provide sales by product, but what we did say is that we're pleased with the strong start for Lumin not only in Q4 but also into Q1. So out of the gate, we think we're coming out really strong. Pipeline activities are very healthy and are continuing to build. And in a market like this, the value prop for VM and Cyber Exposure and Lumin, in particular, we think, is strong. So we'll continue to keep you updated throughout the year. And keep in mind, we're an enterprise software company. So the expectation is that you see more contribution from some of these newer products in the second half of the year versus really the first half.

Operator

Our next question comes from the line of Brian Essex with Goldman Sachs.

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

Amit, I just wanted to follow up on some of the commentary that you had with regard to -- it sounds like things in the demand environment still are, I guess, relatively reasonably healthy. Is there anything that -- I guess, when is that -- is that a fair assessment to make? And it seems as though the conservatism is mostly around the demand environment. And then are there anything -- is there anything that we need to consider from a business process perspective, so internally, inside your company, how you're managing the situation? Or has anything materially changed over the course of the past few months with the remote workforce and how you need to remain engaged with your customers? Maybe a little bit of color there could be helpful.

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

Yes. Thanks, Brian. So I think I would -- I like the way you differentiate those. I think the demand environment remains healthy. We continue to see opportunities, new opportunities be identified, pipeline created, things under the forecast and feel like there's absolutely no indication at this point that vulnerability management is lessening from a priority perspective, from a budget perspective, from any number of different fronts.

What we have seen, and I think what we're trying to call out on the call, is that there's just more uncertainty. We don't have, I guess, the visibility, the certainty and visibility into the path in what's required to close transactions within the customer base that we've had historically and that we have come to rely on from a guidance perspective. So many -- in many engagements, we're having active conversations with our customers. And even our customers don't exactly know what's required to move purchases forward with the degree of certainty they've had in previous quarters in a more normal operating environment. So I think it's important to differentiate those two, and it does cause me to remain extremely confident in the long-term business opportunity in front of us and the fundamentals of Tenable as a business while there might be a little bit of turbulence here, until we understand exactly what the buying behaviors look like in the COVID time.

In terms of how we're engaging with our customers, we have a largely remote workforce already. About 2/3 of our staff were working from home prior to recent times. And so it's certainly embedded into the culture. Many of our sales reps are reporting that they have just as high a level of engagement, less in-person engagement. But in many cases, it's easier to get customers to agree to a 15- or 30-minute Zoom than it is to take an hour or 90-minute type of meeting. So we do see continued healthy engagement from the sales force. We continue to see new opportunities identified from marketing and turned into sales opportunities as sales-qualified leads and the sales force to enter the pipeline. And so we feel good about the overall business, again, recognizing that there's this uncertainty on what's required to close transactions as customer budgets continue to evolve and procurement processes evolve.

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

Got it. That's really helpful. And maybe just a follow-up for Steve. Steve, on the cash flow, do you have levers at your disposal, where you could -- you think you can remain sustainably cash flow positive? Or should we anticipate a little bit of movement around cash flow breakeven until you go through maybe the stronger back end of the year?

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

Yes, Nick. So yes, we're delighted that we we're cash flow positive this quarter. And of course, we expect to be so for the full year. The cash flow characteristics of the business are very strong. So we see real leverage in the business. Cash flow quarter-to-quarter is always a tricky thing because specifically, if you look at our -- we continue to work on the construction of our new headquarters. That will be completed in Q3. So we are actively paying contractors and getting reimbursed. And so notwithstanding that, we feel really good about cash flow on a yearly basis and how it moves throughout the year on a quarter-to-quarter basis may vary. But we'll keep you posted. But overall, we're very pleased with the cash flow characteristics of the business, pleased with the significant leverage that we're demonstrating here not only in the first quarter, but we're also showing in our Q2 guide as well.

Operator

Thank you. We have reached the end of our question-and-answer session and the conclusion of today's call. Thank you for your participation. You may now disconnect your lines, and have a wonderful day.
