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TENB.OQ - Q2 2020 Tenable Holdings Inc Earnings Call

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

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PRESENTATION

Operator

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

It is now my pleasure to introduce your host Andrea DiMarco, Vice President of 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 second 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 second 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 and full year 2020; 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; Tenable's expectations regarding long-term profitability, the impact of COVID-19 on our business and on the global economy; 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 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

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the use of these non-GAAP financial metrics 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 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. As we mentioned on our last call, Tenable is an incredibly resilient organization. I was very pleased to see how our team came together in the second quarter to support our customers in this virtual environment and deliver on our mission.

Steve will discuss our financial performance in greater detail, but there are a few broader comments I would like to make regarding our results for the quarter. Revenue grew 26% year-over-year in Q2. Overall, it was a strong quarter of top line growth in this uncertain macro environment. I'm also excited to note that we delivered our first quarter of positive non-GAAP operating income as a public company and continued to improve our free cash flow profile. Underpinning these strong financial results are a few key trends that I would like to highlight. First, enterprises continue to prioritize Vulnerability Management as the critical building block to understanding their cybersecurity risk. Second, Tenable's best-of-breed strategy continues to drive our success. Leading the VM market earns us the right to compete for cross-sell opportunities. And finally, cloud deployments are an accelerating expansion of the attack surface, where enterprises are looking to better assess and understand their cyber risk.

Let me walk you through each of these points. First, as digital initiatives accelerate, customers continue to prioritize Vulnerability Management. Vulnerability Management serves as a foundational building block for enterprises as they try to understand their cyber risk. This quarter, we saw high customer engagement levels, increased scanning and assessment frequency and even third-party CIO and Chief Security Officer surveys, highlighting VM as a top 3 security budget priority. As the attack surface widens with distributed workforces, new assets coming online and an accelerating shift to cloud, risk-based Vulnerability Management is becoming increasingly critical.

Second, our dedication to best-of-breed VM continues to drive significant differentiation and our results. In Q4 of '19, we were named a leader in vulnerability risk management according to the Forester Wave. And now we are #1 with respect to market share in Vulnerability Management according to IDC's market share analysis of 2019. To put it simply, coverage of significantly more vulnerabilities and doing so with greater accuracy really matters. Lab testing has shown that we cover 20% more common vulnerabilities and exposures than our next closest competitor, and that's an order different to any security professional using or testing our products. We also deliver a lower false positive rate with Six Sigma accuracy according to our own testing.

In doing more extensive work with vulnerabilities, our research team also leads the industry in zero-day discovery with more than 149 zero-days in 2019 and already more than 75 in 2020 to date, significantly more than our main competitors have announced. Tenable is the #1 platform in the market for vulnerability and security configuration coverage according to third-party testing. This investment in knowledge translates into helping our customers find and fix security problems faster and more accurately. Notably in the quarter, we were pleased to achieve several competitive takeaways that we attribute to our best-of-breed strategy. An example we wanted to highlight was a merger between 2 large financial technology companies. They were looking to consolidate to a single VM solution and vendor. This is a 6-figure multiyear deal that displaced an entrenched legacy vendor of the larger surviving entity for years. Tenable emerged as a vendor of choice as the new enterprise standard.

Our mission to help our customers manage and measure their cyber risk is especially relevant in these challenging times where risk is elevated by the acceleration of digital transformation and a more distributed workforce. We hear time and again that customers are having problems getting accurate data, struggling with false positives and spending inordinate amounts of time tracking down the data. Enterprises come to Tenable when understanding their cyber risk really matters. The combination of our best-of-breed strategy, along with the increasing surface of attack, has fueled more cross-sell opportunities in our business. We saw more momentum in cross-sell in Q2. Notably, customers are increasingly seeking to secure cloud applications using Tenable.io, web application scanner and container security to support digital transformation initiatives.

We're also seeing continued momentum in our OT business. One of the largest automotive manufacturers in the world was looking to minimize downtime. We showed this customer a future state of full visibility and control with a converged IT/OT platform. This customer told us they chose

Tenable.ot because of our configuration control, change management and active clear capabilities. This is a very exciting OT win for us with an opportunity to expand to more [solid] globally over time. With the expanding attack surfaces and rapidly growing vulnerabilities, accuracy matters even more. Building on this foundation in VM, enterprises also need advanced analytics for prioritization and better decision-making. Tenable offers unparalleled prioritization and benchmarking analytics based on our proprietary research and data science teams. When a leading healthcare diagnostics company needed to assess their entire environment, including cloud assets, they purchased Tenable.io, Tenable.sc and also added web application scanner and container security. In addition to improved advanced analytics for the executive team, they also added Lumin, and then ultimately, they also added Tenable.ot. This is an example of an exciting cross-sell opportunity that we see across our entire product portfolio.

In recent wins, we are seeing a market increase in customers purchasing Tenable.io, web application security and container security solution, which we attribute to more of our customer workloads moving to the cloud. Securing assets in the cloud has become a core part of our technology platform for the past few years. Cloud deployments are a natural extension of the attack surface and not a separate bolt-on tool. Everything we do builds upon our core foundation and leadership in VM. Helping our customers assess the security of their cloud environment in a native and integrated fashion is no different. We integrate with all the major public cloud vendors with native cloud connectors as many of our customers maintain hybrid environments across multiple cloud vendors. Our customers use these cloud connectors to assess the vulnerability of their assets deployed in the cloud. The combination of our native cloud connectors, comprehensive web app scanner and DevOps integrated container security provide extensive visibility into the security of our customers' cloud deployments. Expect to hear a lot more about these capabilities in the coming months and quarters.

To secure cloud operating environments, customers also need novel ways to identify misconfiguration and their compliance. We are excited about our ability to advance our cloud security platform and help our customers achieve this seamless level of visibility and integration while meeting their cloud-specific expectations in terms of scale and type of assessment. In addition to our product offering, our cloud data lake continues to grow, collecting data for the rapidly increasing number of assets we assess. Our data science team leverages this data to produce insights that are being used to benefit our customers. Some examples of this include prioritization, refinement of our scoring and new types of insights that we'll be leveraging going forward. Our platform unifies all this data across the attack surface, across pure and hybrid cloud environments, into one place to help our customers assess cyber risk. Going forward, we believe that our best-of-breed VM strategy, cloud security enhancements, OT capabilities and advanced analytics will continue to fuel attractive growth and profitability. The dynamics that have been propelling our business remain strong, and we believe will continue to strengthen over time. Our recurring revenue and the natural leverage in our business provide a significant financial and operational strength. We see a path to manage through the near-term challenges in the macro environment and maintain focus on our long-term opportunity, which we believe remains compelling. This gives me exceptional confidence that we are well positioned for the future.

Now I'll turn the call over to Steve.

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

Thanks, Amit. As Amit commented earlier, we are very pleased with our results for the second quarter and remain excited about the opportunity to extend our leadership in this market by helping customers measure and manage their cyber exposure.

Let's talk about our results for the second quarter and then turn to guidance. First, please note that with the exception of revenue, all financial results that we will discuss today are non-GAAP financial measures. 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 Q2 results. Revenue for the quarter was $107 million, which represents 26% year-over-year growth. Revenue in the quarter exceeded the midpoint of our guided range by approximately $5 million. Revenue was aided by better-than-expected demand in both new and renewal business, an overall healthy flow throughout the quarter. Our percentage of recurring revenue continues to remain high at 93%, which is a testament to our annual prepaid subscription model.

In terms of demand and despite the backdrop of the challenging macro environment, we saw strength in winning new logos that included some sizable competitive takeaways. We added 341 new enterprise platform customers and 50 net new 6-figure customers this quarter, which is over

2x higher than the number of net new 6-figure customers we added last quarter and it's one of our best ever. This brings the total number of customers spending in excess of $100,000 annually to 715.

It's also worth noting that we're seeing increased demand for securing cloud applications, which has resulted in accelerating the adoption of Tenable.io and cloud security modules, such as web application security and container security. This trend is contributing to an overall higher percentage mix of new enterprise platform customers choosing our cloud platform.

To summarize, we continue to add a healthy number of new customers and 6-figure customers in an uncertain macro environment on the back of higher cloud adoption that speaks to the growing importance of VM and our best-of-breed strategy. Calculated current billings, defined as the change in current deferred revenue plus total revenue recognized in the quarter, grew 13% year-over-year to $111 million. As I said on the last call, during the pandemic, CCB may not be a good leading indicator of future revenue growth as it's influenced by a number of factors such as deal timing, early renewals and multiyear prepaid deals. It's important to note that we are pleased with our overall level of sales in the quarter, although not all of this translated into calculated current billings for reasons I've just mentioned.

A good indication of this is our short-term remaining performance obligations, which we disclose in our quarterly filings, and grew a little over 20% year-over-year. I'll provide more commentary on CCB when I discuss our outlook for the year. As previously noted, renewals were strong in the quarter and came in better than expected. But with larger initial lands and a more moderate pace of asset expansion in the current environment, we saw our dollar-based net expansion rate temper a bit, although it continues to be healthy at over 110%.

I'll now turn to expenses and profitability, where we continue to demonstrate leverage in our financial model, highlighted by a major milestone this quarter, which is our first quarter of positive non-GAAP operating income. I'll provide more color on profitability later, but let's first turn to gross margin, which was 83%, down from 85% in Q2 last year, but consistent with 83% last quarter. Our gross margin continues to be very healthy and reflects increased demand for our cloud-based Tenable.io platform, partially offset by efficiencies in scaling our public cloud infrastructure.

Recently, we have also benefited from improved resource utilization as a result of increased virtualization of training, implementation and other professional services.

Let's turn to operating expenses. Sales and marketing was $50.1 million compared to $51.8 million in the second quarter last year and $55.4 million last quarter. Sales and marketing as a percent of revenue was 47%, which was down from 61% in Q2 last year and 54% last quarter. Sales and marketing decreased sequentially, primarily due to our worldwide sales kickoff and other industry events such as RSA that took place in the first quarter of this year. In addition, there were COVID-related savings, most notably in the areas of field marketing and travel, which we estimate to be approximately $2 million to $3 million this quarter. Some of these savings are expected to endure as they reflect the new reality of business today and the acceleration in digital transformation. That said, we attribute a lot of the leverage we're experiencing to date to improved productivity. Specifically, the maturity of the sales organization has increased, generally in terms of the percentage of reps that are fully ramped, but also in terms of management with the hiring of new sales leadership last year that is now in the rearview mirror.

We also continue to optimize spend on sales overhead in markets where we have critical mass. This is something we've discussed on prior calls.

R&D was $21.4 million compared to $19.3 million in the second quarter last year and $23.9 million last quarter. As a percent of revenue, R&D was 20% compared to 23% in both Q2 2019 and last quarter. R&D expense decreased sequentially, primarily due to our company-wide developers' conference held in the first quarter of this year. G&A was $12.3 million compared to $12 million in the second quarter of last year and $13.8 million in Q1 of 2020. As a percent of revenue, G&A was 11% this quarter, down from 13% last quarter and 14% in Q2 of 2019. Non-GAAP operating income from operations was $5.7 million compared to a loss of $10.7 million in Q2 last year and a loss of $7.7 million last quarter. Non-GAAP op margin was positive 5% compared to negative 13% for the second quarter last year and negative 8% last quarter. We are very excited to achieve this major milestone, which is our first quarter of non-GAAP operating income as a public company. And very pleased with the significant progress we've made in moderating our annual non-GAAP loss from operations over the years from $49 million in 2018 to $43 million in 2019 and now expect to be profitable on a non-GAAP basis for the full year 2020 as reflected in our guidance today. All this translated to significant EPS upside as our non-GAAP op earnings per share was $0.04, which was $0.08 to $0.10 better than expected. To summarize, $0.04 to $0.06 of the beat was attributed to better-than-expected revenue, while approximately $0.04 resulted from improved operational efficiencies and expense management.

Now let's turn to the balance sheet. We finished the quarter with $242 million in cash and cash equivalents and short-term investments. We also announced today that we entered into a new $45 million credit facility with potential to upsize it [1x]. It was done in connection with the maturity of our $25 million credit facility and will provide additional liquidity going forward.

Turning to cash flow. We achieved $6.6 million of positive free cash flow in the quarter. This compares favorably to a free cash flow burn of $5.2 million in Q2 last year. Net CapEx for our new headquarters was $3 million in the second quarter, and we estimate approximately $2 million for the remainder of the year.

With the results of the quarter behind us, I'd like to discuss our outlook for the second half of the year. We developed our guidance under the assumption there will be a slow and uneven reopening of the economy in the second half of the year. Given the uncertainty and fluidity of the current environment, we will continue to manage the business in a disciplined way, but also plan to make additional growth-related investments in areas such as go-to-market and product innovation beyond Q2 level, which is reflected in our guidance.

With that as a backdrop, in the third quarter, we currently expect revenue to be in the range of $108 million to $110 million; non-GAAP operating income to be in the range of $3 million to $4 million; non-GAAP net income to be in the range of $2 million to $3 million; and non-GAAP diluted earnings per share to be in the range of $0.02 to $0.03 a share, assuming 111 million fully diluted weighted average shares outstanding. Based on our outlook for the rest of the year of 2020, we currently expect revenue to be in the range of $428 million to $433 million; non-GAAP operating income to be in the range of $4 million to $7 million; non-GAAP net income to be in the range of $0 to $3 million and non-GAAP diluted earnings per share to be in the range of $0 to $0.03, assuming 110 million fully diluted weighted average shares outstanding.

Given our strong Q2 results and our annual prepaid subscription model, we believe we have the visibility today to reinstate annual revenue and EPS guidance. However, calculated current billings continues to be less visible given the current environment, and consequently, we believe, not a good leading indicator of future growth for reasons I mentioned earlier.

In summary, we're pleased with the results for the quarter, which gives us increasing confidence in our business. Tenable remains well-positioned to deliver compelling growth and profitability over the long term. We've developed a comprehensive foundational Cyber Exposure platform that provides significant value to customers, and we are actively managing through the current challenging macro environment while continuing to execute and invest in the long-term opportunity.

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

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

Thanks, Steve. Regardless of the macro environment, we believe Vulnerability Management will continue to grow in priority. For Tenable, our core strength in VM has driven our success and aided in our natural expansion across the surface of attack into cloud and OT deployments. Our strengthening product portfolio positions us for long-term success.

We hope to see many of you virtually at the Citi and D.A. Davidson tech conferences in September. 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.

Matthew Melotto Parron - *JPMorgan Chase & Co, Research Division - Analyst*

This is Matt on for Sterling. So I had one question and one follow-up. The first question is, what direct impact are you seeing for the business given the COVID environment on the positive and the negative side?

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

Yes. I guess I'll comment. Matt, thanks for the question. I'll comment briefly. I think there's both some positive and negative aspects to it. We certainly see an acceleration of activity around our SaaS solution, Tenable.io. We see acceleration of customers trying to assess cloud environments, so using our solution, most frequently, Tenable.io, web application scanning, container security to help them assess cloud environments. All as you might expect, given the acceleration of some of the digital transformation. And then on the headwinds that are created as part of the macro environment, just like every other company in the world, reviewing operating expenses, reviewing spending, changing procurement practices and processes. And so just more scrutiny over every purchase, I think does just create a little bit of a natural headwind for us and others.

Matthew Melotto Parron - *JPMorgan Chase & Co, Research Division - Analyst*

Great. That's very helpful. And then just a follow-up. I was wondering if you could give us an update on your channel strategy and any improvements that you may have seen given these programs that you've put into place in the last year.

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

This is Steve. We're the only VM company in our space that has made the commitment to the channel. We sell-through 2 tier disty, so we sell-through distributors, who in turn sell-through resellers. And we -- although we transact directly with the end-customer, we work closely with our vast network of partners to close new business. I think having a cohesive channel strategy is particularly important even in a market like this. We have over 30,000 customers spanning 160 countries, and we have sellers in over 30 -- in 30 countries. And it's important because the channel partners serve as a cost-effective way to help bring you business. I think we've talked about this on prior calls. Years ago, 4% of our business was inbound from the channel. I think years ago, there's a little over 20%. And today, it's much higher than that. We think long term, as much as 50% or even 60% of our total sales can come from the channel. So channel is an important part of our go-to-market strategy. And especially if we're selling to the enterprise customers, they have relationships and can take you in the markets that you otherwise don't have critical mass. So it's important. And we're continuing to build great intimacy with the channel and making sure that they're incentivized and remunerated for the good work they do for us.

Operator

Our next question comes from the line of Keith Weiss with Morgan Stanley.

Keith Weiss - *Morgan Stanley, Research Division - Equity Analyst*

So maybe one question for Steve and one question for Amit. The question for Steve is, one, congratulations on sort of -- you did a really good job of accelerating profitability and getting to that milestone of full year profitability. I guess how much of this is going to be durable, right? As we're thinking about heading into 2021 and beyond, how much of this is -- should we think about is the benefits of like nobody's traveling and then some of the conferences aren't taking place and it's going to come back, and we should temper our expectations for '21? Versus how much is the productivity gains that you've been talking about?

Andrea DiMarco - *Tenable Holdings, Inc. - Head of IR*

Well, I think it's a little bit of both, but it's a lot of the latter, which is operational efficiency. So we talked about the benefits of having a subscription model. But if you look at our business, in particular, we have over 90% recurring revenue, over 80% gross margins and very strong net dollar (inaudible). So it gives us a lot of confidence in the margin profile of the company. If you look at sales and marketing in particular, last year, this time, we were spending about 60% -- over 60% of our revenues in sales and marketing. And today, we're reporting something that has a 4 handle on it. And one of the big drivers of growth there is just greater maturity. You have more reps at goal, a greater percentage of reps that are fully ramped versus those that are not. And we also have had a lot of maturity in sales. We have also been able to stretch sales overhead and in markets where we have critical mass. So all told, there's a lot of leverage in the business and not just in sales and marketing, but also in R&D.

We were quick to call out some COVID-related savings, which we estimate to be $2 million to $3 million. Some of that came in the way of travel and field marketing. But I'll be honest with you. I'm not sure what's normal and what's not. Certainly over the next couple of quarters, we expect the current environment will remain the same, and we expect a slow and uneven reopening in the economy. And we know that we can transact larger deals without face-to-face contact with customers. So that also will yield some greater efficiencies for us. So look, the leverage in the business that you're seeing today is something we've talked about now for several quarters. It's playing out, and there's just a lot of natural leverage in the business, given the dynamics that are at play here.

Keith Weiss - *Morgan Stanley, Research Division - Equity Analyst*

Got it. That's super helpful. And it's great to see that flowing through. And then for Amit, you talked about kind of the higher priority for VM that you're seeing, and we're picking it up as well in recent surveys and channel conversations. A lot of the sort of moving to the public cloud, the threat environment has been around for a while. Do you think you could point to in terms of like the near-term environment that may be causing guys to ramp up the priority of VM in particular?

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

Listen, I think when the pandemic first hit, people shifted very quickly to a work-from-home environment and the top priority was very focused on productivity. How do we keep our employees active, how do we keep our employees able to sustain the level of proficiency that they have when they were working together in the office. As organizations make that shift, I think the next priority is understanding how these changes in compute and these changes in technology, whether it's work-from-home or the acceleration of cloud adoption, how do they change their risk profile. And so in that, the natural place that people gravitate to is their VM solution. When CEOs, Audit and Risk Committees, CIOs ask questions about risk, the foundational answer for many of those questions comes from the data that's provided in the VM solution. So I think it just becomes a very natural question, okay, well, I now have this environment, how do I gain insight and visibility into it. And in many cases, in thousands of cases, customers just use the cloud-native connectors that we've developed over the years and have continued to enhance, and they work with all the major cloud providers.

Operator

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

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

Amit, you talked about some large displacements this quarter. Can you talk about more broadly customer willingness here to embark on more complex projects in the current environment?

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

Yes. Thanks, Gur. It's a great question. And certainly, we have, as probably just about any other company, looked at some of the larger projects and customers and say -- and looking at their spend and scrutinizing their spend, their operating expenses and saying, okay, is this critical? Does this make sense? Do I want to prioritize it? In our case, understanding cyber risk and understanding the new attack surface and getting their arms around risk continues to be an absolute priority. You're seeing in the survey results for CIOs and CISOs, and you hear about it consistently in surveys of directors, NACD survey from earlier this year and others. So it's certainly a concern. And I think we -- like others, we've seen some deals adversely affected by that. But for the most part, look, people have a desire to understand their risk. They want to understand it in a more granular way. It matters more than it has before. And to the extent that we can help them understand that risk across different factors and different forms of their compute environment, whether it's desktop servers and workstations and cloud environments and web applications and DevOps environments and help them, I think that has boded well for us as well as just sort of a core differentiation in our VM capability, right? We have 20-plus percent more coverage of CDEs and lower false positive, false negative rate. Like for people whose job it is to understand risk, like those types of data points are incredibly meaningful.

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

That's helpful. And maybe one for you, Steve. You mentioned that current RPO growth may be a better proxy to gauge growth for the quarter. I was hoping you could elaborate a bit on that and maybe give some more color there.

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

Sure. And I'll talk about it in relation to CCB. So first and foremost, we're very pleased with our performance in the quarter and in particular, sales and our ability to close deals in this environment. We often discuss CCB as an indicator of that effort and as a proxy of annual contract value. In most quarters, CCB is a close proxy to the underlying performance of the business. However, as I mentioned on our last call, CCB, during a pandemic, may not be a good leading indicator of future revenue growth because it is, as I called it out on the call, influenced by many factors such as deal timing, multiyear prepaid deals, early renews, which can have more variability in a challenging market. So while CCB is most notably influenced by the annual contract value of deals invoiced in the quarter, short-term RPO captures all of that plus additional contractual customer commitments yet to invoice due to deal timing. In most quarters, CCB growth and short-term RPO growth are fairly tightly aligned. This quarter, there's a clear separation and short-term RPO growth was several points higher and more importantly, a closer approximation of underlying ACV growth of the business. So we just wanted to call this out.

I think in terms of whether or not that's the best indicator going forward, I think, look, we're in an uncertain market, and we'll just have to see whether or not that's a better indicator or if there's another one. But this quarter right now, we're just calling out RPO growth as a closer approximation of the underlying performance of the business.

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 out with the OT deal that you signed and maybe better understand why this potentially signals either a change in maturity of the environment or higher prioritization. I guess I wanted to understand why you thought it was so important and what implications we should be thinking about relative to that deal?

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

Yes. I think we have felt very strongly about the opportunity in front of us with OT. As you recall, we embarked on our journey with OT years ago. We saw good leverage between buyer use case and opportunity in our -- messaging resonated and our sales team is able to transact with our current buyers and users. So that give us a lot of confidence going in to make an acquisition late last year. We've integrated in -- many facets of that technology into our analytics platform for unified reporting, prioritization, things of that nature. And so it's nice to just sort of continued traction we're seeing with customers in those environments where it's not just OT, but where they want to converge reporting and prioritization and understanding of risk across these different types of operating environments. So we think it really plays to our strength, and we thought it was notable that a global auto manufacturer in the current environment was prioritized and saw enough value just to pull the trigger on a pretty sizable purchase in the middle of all the challenges that they're facing.

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

Got it. That's helpful. And then just relative to the net retention. Clearly, there was an impact this quarter, and you talked a little bit about the differences between CCB and RPO. Can you maybe help us understand, like, are you seeing your net retention maybe start to flip here? Or do you think this is just sort of a short-term effect, and we should expect it to normalize over time?

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

Jonathan, this is Steve. As I mentioned earlier, renewals were strong in the quarter, and so we wanted to call that out, and came in better than expected. But with larger initial lands and given the current environment, we are seeing a more moderate pace of asset expansion. And so our net dollar expansion rate tempered a bit, but it still continues to track above 110%. In this quarter, we're pleased with the number of new logo adds. And sometimes there can be some natural variability quarter-to-quarter between pipeline opportunities with new logos and up-sell deals. So we don't optimize the company of the -- we don't optimize the company to drive any single metric in any 1 quarter, there can be some natural variability from quarter-to-quarter. And this quarter, we were pleased with the pace of new enterprise logos that we added, over well over 300; and the number of 6-figure deals and some larger lands. And as a matter of fact, that was in our seasonally strong Q4. This was our best quarter for adding 6-figure customers, which is very notable, especially in the current environment where new logos are certainly harder to win. And for us to see a really strong number of new 6-figure deals and an acceleration of competitive takeaways, it's certainly worth calling out, and so we wanted to do that today.

Operator

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

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

Again, great job on the profitability. Can you just give some thoughts going into federal fiscal year in terms of 3Q? What are your thoughts in terms of what you're seeing, especially with many government workers going remote?

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

Yes. We continue to -- I think we continue to feel very bullish about our federal business. I think we have an exceptionally strong position in the federal marketplace. As we said earlier, you'd be hard-pressed to find a single department or agency that doesn't use Tenable as a core part or the core part of its VM program and understanding of cyber risk. And we maintain a very close finger on the pulse of that market, working with many of our federal customers on some of the analytic applications we're developing, also federal requirements around operational technologies. So I think there remains a strong desire to understand risk in this environment and feel like Tenable's a technology that has proven itself from a differentiation standpoint over the years and maintain close ties to that market.

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

Great. And just with Lumin, like how has that changed conversations with customers? And obviously, many customers are just kind of doing the transformation right now, especially moving to cloud, Lumin comes are great. But can you just talk about that just the intersect between...

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

Yes. Sure, Dan. And I think it's a great point, which is that as operating environments get more complex, you have the shift to work from home, you have people accelerating their cloud deployments, moving more things to cloud platforms to web applications. We see continued adoption of container environments and DevOps environments. And so as these trends continue and to a large extent, have accelerated in recent time, it becomes more difficult to truly understand risk and how to calculate and prioritize activities. And certainly in this environment where IT cycles are limited, right? Your IT staff is completely inundated trying to embrace these new technologies. The security team can really go back to them with far fewer asks. And so they need to make sure that they're prioritizing their requests and that the requests that they do make have the greatest impact to materially reducing risk for the enterprise. So products like Lumin, enhanced analytics, prioritization, understanding of risk play a much larger role and can be much more impactful for customers.

Operator

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 -- I wanted to touch on the IDC report that you called out in the prepared remarks. The data would suggest that the smaller players are continuing to give up share. So how do you guys see the mix of business these days? Has it shifted more towards these competitive replacements? Or do you continue to see a meaningful greenfield opportunity?

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

I think we continue to see meaningful greenfield opportunity. Quarter in, quarter out, sometimes a little bit higher sometimes a little bit lower, but quarter in, quarter out, we look at our larger enterprise transactions and more or less 30% of them consistently are coming from a greenfield account the customer has no in-house VM technology or capability. So we look at it at the market and we say, hey, we have tremendous growth potential within our existing customer base. We have the ability to sell new asset types into our existing customer base. We're consistently landing a lot of net new logos onto our enterprise platforms, 300-plus. And increasing the number of 6-figure transactions. And ultimately, there -- in addition to that, there's ample evidence that there's plenty of greenfield in the market. So we feel pretty bullish about it. We saw a lot of the -- I think Steve called out a number of our takeaways in the quarter were coming from some of our larger, more established competitors. So as we continue to differentiate ourselves, we think that trend will continue.

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

That was helpful. And then just a follow-up, if I could. How should we think about the gross margin going forward if customers continue to prioritize IO over sc?

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

I think we said long -- well, first all, we have really healthy gross margins, and it's been a source of pride for the company. We said long term, we expect gross margin to kind of settle in the high 70% range, low 80% range. But what I will say is that we were initially -- we were expecting the margins to moderate, maybe more quicker at the onset here, but they have. And we've been able to drive a lot of operational efficiency in our cost of goods sold with regard to public cloud costs. And so we believe that our gross margins will continue to remain healthy. We're also seeing some efficiencies, too, in this work-from-anywhere environment with our delivery of professional services, which we're now able to do virtually here and remotely, so the ability to do training implementations, other professional services. So that in concert with greater efficiency and public cloud costs, and just given our points of presence that we have today, we think that there's -- there'll be good margins going forward, and we'll settle into that high 70%, low 80% range long term.

Operator

(Operator Instructions) 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 was wondering if you could maybe touch on a little bit around the process that you went through thinking about your full year outlook as well as next quarter. What's primarily changed from last quarter? I know there's a lot of uncertainty around pipeline build and sales execution and pipeline conversion. Where was the uncertainty last quarter? And then what are you more comfortable with this quarter? If we could maybe understand where, I guess, the level of confidence you have in that guidance and where opportunities for upside might lie, where they're better attach rates with Tenable.io, web app security and container, for example?

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

Brian, this is Steve. I'll jump in here and Amit can add color, if necessary. I think on our call last quarter, we provided an outlook for Q2, but pulled the guidance for the full year, just given the uncertainty. And there's clear corollaries between GDP growth and IT spend. The good news is that security is considered, we believe, higher ground relative to other categories within IT. And I think VM in particular has remained an important part of customers' security programs. So we're seeing an increasing need for Vulnerability Management. Going into Q2, there's a lot of uncertainty. Quite frankly, we didn't know what to expect. So we provided guidance for the quarter, and that's on revenue and EPS. We have an annual prepaid subscription model. So a lot of our revenue comes through different sources, and they give us a lot of visibility. I think it's fair to say that there's more confidence in our business now than 90 days ago, and we're very pleased with the results here. And as a result, we're not only providing guidance for the third quarter in terms of revenue and EPS, but we're also able to provide this for -- and plus we've got the fourth quarter and the full year. So I think just we have more confidence today in our business than we did last quarter. But we also are quick to note that despite our success in Q2, we know that and we expect there will be a slow and uneven reopening of the economy and there will be -- there will continue to be uncertainty. And so our guidance takes all of that into consideration, and that's why we're providing it today.

I will say though that we are very pleased with activity levels and pipeline. That pipeline not only in terms of coverage but also maturity. We'll continue to have the pipeline at a healthy rate and continue to make good progress on those opportunities and have them progress. So we do know that -- we expect it to be more challenging in the pandemic than in more normal times, but we're delighted with our ability to execute against those opportunities and our ability to continue to win deals and take share here.

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

Great. That's super helpful. And maybe, could you touch on maybe the attach rates? You called out Tenable.io, web app security and containers kind of being sold together. But what do attach rates look like now relative to prior quarters? And is that something that's kind of implicit in your expectations going forward?

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

So Lumin is something -- so I think we called out more cross-sell in the quarter, and we talked about that earlier. And I think the work-from-anywhere environment has certainly been a catalyst and catalyst for Tenable.io as well as our other cloud-based applications, including web app security and we talked about container security. So we're seeing certainly more pull in that regard. With regard to Lumin here, we talked directionally -- like any successful SaaS product, our expectation is that attach rates will continue to grow over time. We think they could be eventually 50% plus, but that will take over the course of years. And this is a new way of thinking for a lot of our customers, and we believe it provides compelling value, especially in a market like this, where there's a lot of uncertainty, customers are stretched for resources and often have limited resources. The ability to quickly prioritize, focus on what's the most impactful in terms of risk, we think is really important. So overall, pleased with the progress on our add-on modules and specifically with Lumin, and it will continue to grow and build over time.

Operator

There are no further questions in the queue. This does conclude our call for today. Thank you all for your participation. You may disconnect your lines at this time, and have a wonderful day.