ANDREA
Thank you Operator, and thank you all for joining us on today's conference call to discuss Tenable's fourth quarter and full year 2018 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 fourth quarter and full year 2018 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 first quarter and full year 2019; 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; 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 filed with the SEC on November 8th, 2018 and subsequent reports that we file with the SEC, which are available on the SEC website at sec.gov.

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

Our earnings release that we issued today includes GAAP to non-GAAP reconciliations for these measures and is also available on the Investor Relations section of our website.

And now, let me turn the call over to Amit.

AMIT
Thank you, Andrea, and thank you for joining us on the call today. I'm pleased to share that Tenable delivered another strong performance as we closed out 2018 on a high note. Revenue in Q4 grew 39% year over year to $75M, and calculated current billings grew 36% year over year to $97M. Our strong momentum highlights the rising importance of and growing investments in Cyber Exposure. As we talk to customers in the field, we consistently hear that Vulnerability Management remains a top priority for 2019. Understanding and reducing cyber

risk remains a strategic C-suite and Board level issue. Tenable is increasingly recognized as a strategic and foundational component of these efforts.

With a successful Q4 and 2018 behind us, we would like to highlight why we believe Tenable is a category leading security company.

1. We continue to believe the Vulnerability Management market is much larger than anticipated by traditional market research given the rapid proliferation of connected devices
2. We are marching to the enterprise adding hundreds of new logos every quarter and consistently increasing our six-figure customer base
3. We are re-invigorating VM and pioneering enterprise understanding of Cyber Exposure including the broader attack surface and corresponding business impact

The discovery and disclosure of vulnerabilities only continues to grow in volume and pace. While there are a considerable amount of legacy and end-of-life applications still posing residual risk, the proliferation of connected devices has increased the surface of attack and created more and more vulnerabilities. One of the biggest drivers of our success continues to be this digital transformation. According to Gartner's Feb 2018 Forecast: IoT Security WorldWide, 2018, "IoT endpoints will grow at a 32% CAGR reaching an install base of 25B units" by 2021. As such, a growing number of our customers are expanding their deployments to include these modern asset types, such as Cloud, Web App, Container, Operational Technologies and IoT. The rapid growth we are seeing in cloud, IoT and other non-traditional devices validates our view that the VM market is much bigger than the forecasts developed by traditional market research.

We expanded our IoT asset coverage across both Tenable.IO and Tenable.SC last year. Our coverage of embedded devices, POS systems, teleconference & surveillance devices, and other IoT assets, grew over 50% in the second half of 2018 vs the first half.

Cloud asset coverage grew over 3x in the 2nd half of 2018 compared to the 1st half. The momentum of **cloud** deployments is robust and driving strong adoption of our Cyber Exposure solutions.

On the **Operational Technology** front we continue to make meaningful progress. Originally only available on Tenable.IO, we have added OT capabilities to Tenable.SC in Q4. In Q4 we also sold our first six figure Tenable.SC/Industrial "ICS" bundle - an exciting win with a super major oil & gas joint venture. This example is more evidence of the increasing IT/OT convergence within organizations. We are seeing more OT security purchasing power shift to include input from the CISO suite. This plays to Tenable's strengths in the market and creates a broader opportunity for us to assess both the IT and OT environments.

When I talk to customers, they are at various stages of their digital transformation and trying to get visibility into all the new connected devices. They recognize that VM is the foundation of a solid cyber strategy. That's why they're looking to do VM holistically -- with **breadth** across all asset types, many of which they currently lack visibility into. They want to do it better and more efficiently - with greater **depth** of analytics. They want a Cyber Exposure solution. With that, I'd now like to highlight a few noteworthy new six-figure customer wins in the quarter.

A large European insurer purchased Tenable.IO with WAS, PCI and Container to overhaul their VM strategy and start maturing their Cyber Exposure understanding. This company needed a solution that would align to their transformative global digital plan and deliver a solution in a complex environment, across traditional and modern assets. This example highlights a typical customer journey from VM to Cyber Exposure.

Another new customer win is a multi-platform purchase (both SC & IO together) by a National Healthcare company. This company had a very manual and unsustainable VM effort. They quickly realized the need for an "Enterprise wide solution" to manage their growth and reduce the risk of vulnerabilities. They ultimately purchased SC and also IO for external scanning processes. They chose Tenable due to our our hybrid offering and our scalable, enterprise-wide Cyber Exposure vision. While this was a modest competitive displacement, it was also largely greenfield as the incumbent was only used for external scanning.

We would also like to share a couple of six figure Nessus Upsell wins in the quarter.

A global e-commerce company purchased Nessus last year and was looking for a more strategic VM solution, in addition to considering cloud and container security as separate project efforts. This customer recognized the value in Tenable.IO's unified strategy that included **cloud and container** scanning all in one platform and purchased T.IO plus container coverage.

Another six figure Nessus upsell win is an SC win for a National Healthcare company. This company was also looking for a scalable, strategic on-prem Cyber Exposure solution. They chose Tenable for our scalable architecture, our hybrid offering and our reliable brand.

We also continue to expand our leadership in the Public Sector. Maintaining a clear leadership position in the Public Sector is a priority and we strengthened that lead during the fourth quarter. Tenable was awarded an expanded, seven figure contract with the Department of Defense to provide Assured Compliance Assessment Solution, called ACAS. For over 5 years, DISA, the Defense Information Systems Agency and the defense community, have relied on Tenable and ACAS as the de-facto enterprise-wide solution for VM. We look forward to continuing to provide DISA and DoD with a fast, accurate, cost-effective and highly-scalable VM platform to detect and counter known cyber-threats to DoD enterprise assets in real time.

And lastly, we had another large scale expansion at a Fortune 100 retailer. This retailer expanded from 500k assets in early 2018 to 1M this summer and then to 2M in the fourth quarter. And, there continues to be growth opportunity here. This customer is a great example of the expanding needs of Enterprises to assess cyber exposure across traditional and modern assets covering everything from web properties through POS devices.

To build upon our market leadership, we made a decision earlier in 2018 to increase our investment in research - both to help our customers accelerate their Cyber Exposure transformations and to help us focus our efforts on the rising issues that matter most to our customers. Our 2018 Vulnerability Intelligence Report found that enterprises identify an average of 870 new vulnerabilities daily, with over 100 rated as critical on the common vulnerability scoring system, CVSS, an industry standard measurement. The current lack of rigorous prioritization suggests that organizations are struggling to remediate these increasing vulnerabilities and consequently, are unable to make strategic technology decisions.

In the fourth quarter Tenable announced **predictive prioritization** capabilities for both of our enterprise platforms, SC and IO. Predictive Prioritization combines Tenable-collected vulnerability data with third party vulnerability and threat data and analyzes them together with the advanced data science algorithms developed by Tenable Research. The data science algorithms analyze vulnerabilities using machine learning to anticipate the probability of a vulnerability being leveraged by threat actors. This innovative capability enables organizations to focus on the approximately 7% of vulnerabilities with reliable public exploits and focuses resources on an even smaller portion of those most likely to be exploited by threat actors - down to just 3%. Predictive Prioritization will be made available over the next few weeks and months as a core capability for our enterprise customers. This is yet another example of Tenable extending our technology leadership and differentiating ourselves with our Cyber Exposure vision.

Looking ahead, we continue to advance the development of our Cyber Exposure scoring, benchmarking and peer comparison product, **Lumin**. During our beta customer discussions, we received valuable feedback that prioritization of vulnerabilities (originally contemplated as part of Lumin) was viewed as something that should be a core component of the base VM use case and platform. Given the enthusiastic feedback, we accelerated development to build predictive prioritization into SC & IO to make sure all of our enterprise platform customers had access to this critical functionality.

Lumin will build upon and greatly expand the value of predictive prioritization by providing a deeper layer of insight based on asset criticality data. Criticality data enriches vulnerability information with the asset's business context to strengthen the overall cyber exposure score. Lumin will also help customers measure and benchmark their Cyber Exposure both over time and against their peers. We remain very excited about the market opportunity for Lumin in 2019.

Before I move off product innovation, I wanted to note a new addition to our product organization. Ofer Ben-David is joining as our new Chief Product Officer. Ofer will lead Tenable's global product organization into the next phase of Cyber Exposure solutions for managing and measuring cybersecurity risk in the digital era. He is one of the most respected and innovative engineering leaders in enterprise software, having built large scale cloud-based and on-premises solutions for some of tech's most iconic companies.

As we continue to push the pace of innovation in the market, we also remain focused on strengthening our reach through strategic partners and integrations. In the fourth quarter, we announced an integration with the AWS Security Hub that is designed to provide users with a comprehensive view of their high-priority security alerts and compliance status. We also announced that Tenable.io is now available for purchase on the AWS Marketplace. This allows customers to seamlessly build VM, including the automated discovery and assessment of cloud infrastructure assets, to manage, measure and reduce cyber risk across cloud environments.

Now let me turn the call over to our Chief Financial Officer, Steve Vintz, and then I'll come back to summarize at the end.

STEVE
Thanks, Amit. The fourth quarter marked a strong finish to a very successful year for Tenable. Let me dive deeper into the quarterly results as well as highlight the full year 2018 financial results and our business outlook for the year ahead.

I'll begin by reminding you that, except for revenue, all financial results we will discuss today are non-GAAP financial measures, unless stated otherwise. As Andrea mentioned at the start of this call, GAAP to non-GAAP reconciliations may be found in our earnings press release issued earlier today and on our website.

Now onto the results for the fourth quarter.

Revenue for the quarter was $75.2 million, representing 39% growth over the same quarter last year.

It's worth noting that 90% of our revenue in Q4 was recurring which is a benefit of our subscription model. As you may recall, we include revenue from subscription and maintenance contracts in recurring revenue, but exclude professional service and perpetual license revenue, as such amounts are not available for future renewal. Since we are on the topic of perpetual licenses, as a reminder, in 2017 we began recognizing revenue from perpetual licenses ratably over 5 years in accordance with ASC 606.

With that as a backdrop, I want to walk you through our calculated current billings. We believe calculated CURRENT billings is a good proxy of the underlying momentum of our business as it generally correlates to annual contract value, which is how we manage the business.

Calculated current billings, defined as the change in current deferred revenue plus total revenue recognized in a period, grew 36% year-over-year to $97.3 million in the fourth quarter of 2018. This growth and scale is a testament to the rising importance of VM and the broader Cyber Exposure opportunity that we are addressing.

Let's discuss customer momentum which is an important driver of growth for us.

In the fourth quarter, we added 337 new enterprise platform customers with an increasing mix toward larger deals. In terms of large deals, we added 66 net new 6-figure customers in the quarter. These are customers who spend in excess of one hundred thousand dollars annually on a LTM basis. This represents the largest number of net new 6 figure customers in our company's history. This brings the total number of customers spending in excess of six-figures to 453. The takeaway here is that we are seeing strong demand in enterprise, both domestically and abroad, and are experiencing continued momentum adding new customers and expanding the value of the relationship with existing customers.

I'll now turn to expenses and profitability.

Gross margin was 85% in the quarter which is the same as last year and up from 84% in Q3 of this year. As reminder, we are making investments in our public cloud infrastructure in connection with delivery of our Tenable.IO platform. These investments are scaling better than expected and having less of an impact on gross margins short-term. However, we continue to add new functionality and add points of presence globally and, long term, expect gross margins to settle in the low 80s to high 70 percent range over time.

Now turning to operating expenses, we are focused on improving operating leverage in our business over the long-term, but in the near-term, we are investing in growth.

Sales and marketing expense in Q4 was $44.5 million compared to $32.2 million in the fourth quarter last year. This represents 59% of total revenue for the quarter, down from the mid-sixty percent range in the first half of the year. As a reminder, sales and marketing spend as a percentage of revenue is typically higher the first half of the year due to a large number of industry and other events as well as incremental investment in sales capacity the first half of the year which produces leverage over time.

R&D expense in Q4 was $19.0 million compared to $15.2 million in Q4 last year. As a percentage of revenue, R&D was 25% vs 28% in Q4 of last year. Innovation remains a top priority for us, across all of our products, but especially around data science, analytics and coverage of new paradigm assets (including OT, IoT, cloud and containers).

G&A expense was $11.2 million for the quarter, compared to $7.8 million last year. As a percentage of revenue, G&A was 15% versus 14% in Q4 2017. The increase largely reflects new costs associated with being a public company.

Our non-GAAP loss from operations in the quarter was $10.8 million. This compares to a loss of $9.2 million in the fourth quarter last year. Non-GAAP operating margin was negative 14%, compared to negative 17% for the fourth quarter last year.

Pro forma non-GAAP net loss per share was $0.12, which was better than our guidance of a loss of 15 to 14 cents per share.

Focusing on the balance sheet, we finished the fourth quarter with $283.2 million in cash and cash equivalents and ST investments.

It's also worth noting, we early adopted the new lease guidance in Q4 as of January 1, 2018. The new guidance does not change how we record rent expense but required us to de-recognize the previously recorded construction-in-progress asset and related financing obligation with building our new headquarters. For existing leases, the guidance also requires a balance sheet gross up of a liability for the present value of the remaining lease payments and a corresponding right-of-use asset that is combined with lease incentives. As such, we have $10.3 million of operating lease liabilities and $8.5 million of right-of-use assets at December 31, 2018.

In terms of cash flows, our free cash flow burn was $3.1 million for the quarter, compared to a burn of $6.6M for the fourth quarter 2017.

As a reminder, we started our ESPP program in August, which contributed $4.0 million to our free cash flow in the fourth quarter. The first stock issuance will be on March 1st, and our free cash flow in Q1 is expected to be negatively impacted by $5 to 6 million from the contributions previously received as they are reclassed to a financing activity. On an annual basis, however, the ESPP is not expected to have a significant impact on FCF.

Overall, we are pleased with the efficiency and cash flow of the business. As a reminder, in 2019, we expect to incur approximately $10M of non-recurring capex related to the buildout of our new headquarters, which will primarily impact free cash flow for the second half of the year, although we continue to target turning free cash flow positive as we exit 2020.

Quickly touching on the financial highlights for the full year. Revenue was $267.4 million, an increase of 42% over 2017. Calculated current billings was $326.1 million, an increase of 38% year-over-year. Gross margin was 85%, compared to 87% in fiscal 2017. Non-GAAP loss from operations was $49.1 million or 18% of revenue compared to $32.4 million or 17% of revenue last year. And finally, free cash flow burn was $8.3 million, inclusive of $6.3M of ESPP contributions, which represents a burn of 3% of revenue in 2018.

Now let's turn to guidance.

For first quarter of 2019, we currently expect:

- Revenue to be in the range of $77.5 to $78.5 million
- Non-GAAP loss from operations to be in the range of $17.0 to $16.0 million
- Non-GAAP net loss in the range of $18.0 to $17.0 million and
- Pro forma non-GAAP net loss per share in the range of $0.19 to $0.18, assuming weighted average common shares outstanding of 93.2 million

For the full year 2019, we currently expect:

- Revenue of $338.0 to $343.0 million
- Calculated current billings of $410.0 to $415.0 million
- Non- GAAP loss from operations in the range of $60.0 to $55.0 million
- Non-GAAP net loss in the range of $59.0 to $54.0 million
- Pro forma non-GAAP net loss per share in the range of $0.62 to $0.57 assuming weighted average common shares outstanding of 95.1 million

As it relates to guidance, our outlook contemplates lower contribution from the US Federal government in Q1 due to the uncertainties surrounding federal procurements which we believe will have little impact on the year overall.

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

AMIT

In summary, we continue to be excited about the opportunity in Vulnerability Management and pioneering Cyber Exposure. We are partnering more and more with customers interested in a strategic approach to understanding their cyber risk. We believe the combination of our differentiated technology, even stronger now with predictive prioritization, and our strategic approach to the VM position Tenable to successfully aid our customers in this journey.

We'd now like to open the call for any questions.

TO COME BACK AFTER Q&A

Thank you all for joining the call today. We look forward to seeing many of you during our events coming up in February. We will be participating in KeyBanc's Annual Emerging Technology Conference on Feb 26th and the Morgan Stanley TMT Conference Feb 27th, both in San Francisco. We will also be at RSA the following week, and, we will be in Boston March 13th for the William Blair 1x1 conference, so we hope to see many of you in person. We appreciate your interest in Tenable.