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TENB.OQ - Q3 2020 Tenable Holdings Inc Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2020 / 8:30PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the Tenable Third 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. - VP, Investor Relations and Strategy*

Thank you, operator, and thank you all for joining us on today's conference call to discuss Tenable's third 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 third 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 be making forward-looking statements during the course of this call, including statements relating to Tenable's guidance and expectations for the fourth 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 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 of any subsequent date. We disclaim any obligation to update any forward-looking statements or outlook. For a further discussion of the material risks and other important factors that could affect our actual results, please refer to those contained in our most recent quarterly report on Form 10-Q and subsequent reports that we file with the SEC, which are available on the SEC website at sec.gov.

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

I'll now turn the call over to Amit.

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

Thank you, Andrea, and thank you for joining us today. I hope you and your families continue to be healthy and safe.

I remain incredibly pleased to see the Tenable team come together to support our customers in this unpredictable macro environment. We continue to remain laser-focused on our mission to help customers measure and manage cyber risk, especially in an environment of increased risk and accelerated digital transformation.

The current environment has forced so many organizations to rapidly shift to cloud to maintain productivity for remote employees, allowing them to securely connect and collaborate with colleagues. Additionally, as web and app traffic surge, organizations are looking to modernize and strengthen their cloud security posture. Digital transformation journeys and shifts to the cloud are accelerating across the globe. All this innovation is occurring in the midst of a threat environment that remains elevated.

We believe Tenable is well positioned to help customers navigate this environment and invest in the cloud confidently and securely. We empower our customers to take a risk-based approach to vulnerability management across all of their systems, whether on-premise or in the cloud. We believe our results help to underscore the mission criticality of innovative vulnerability management and its foundational importance in managing risk in the enterprise.

Today, I'll highlight our strong Q3 results, our cloud security strategy and the exciting innovations we announced at Tenable Edge and our continued leadership position in the public sector. I'm very pleased with our results for the third quarter, which include attractive top line growth and expanding operating and free cash flow margins. Our revenue grew 22% year-over-year in the third quarter, and our operating margin continued to expand. We also generated record free cash flow since our IPO again this quarter.

These results are evidence of the strong growth and profitability in our model. The vast majority of our business is generated from large enterprise companies. We saw a healthy number of new and 6-figure ads with an emphasis on 500,000-plus deals, partially aided by more cross-sells contributing to larger deals, including momentum with Lumin.

For second quarter in a row, we're seeing an increased demand for securing cloud workloads, which has resulted in an accelerated adoption of Tenable.io and cloud security modules, such as web application security, container security and Lumin. Tenable is helping companies around the world to identify and manage cyber risk as they accelerate their shift to the cloud.

A great example of this is a new 6-figure competitive displacement with one of the largest telecommunications companies in the APAC region. This customer purchased Tenable.io and Lumin to manage vulnerabilities for devices in their service cloud deployment. This is continued evidence of our cloud solution gaining traction globally. This customer wanted to increase the security of their infrastructure and help grow public trust after a cyber breach. They indicated they chose Tenable because of the quality and reliability of our data.

The acceleration of digital transformation has made cloud security more critical than ever in both the enterprise and the public sector. We saw strength across many industries, including technology, telecommunications, health care, financial services, and we continue to enjoy a very strong position in the federal sector and a growing presence in state and local government. The best example of this is a 6-figure win in one of the largest local government entities on the West Coast. This customer was a new enterprise platform win for us as they replaced an outdated VM solution with our full cloud offering, which includes Tenable.io, web app security, container security and Lumin.

Notably, in the quarter, in addition to seeing increased demand for securing cloud applications, we were pleased to achieve several large competitive takeaways that we attribute to our best-of-breed strategy. As you can see from our customer highlights this quarter, we continue to see a market increase in the customers who subscribe to our SaaS platform and use us to secure their cloud environments. Great security starts with a complete and continuous understanding of your attack surface, including the cloud infrastructure and growing remote workforce. Our customers expect holistic visibility of their entire attack surface, and that's why securing cloud assets has been a core part of our technology platform for years.

With that, I want to call out some of our cloud-centric security product announcements we recently highlighted at our user conference, Tenable Edge 2020. We unveiled a new cloud security capability called Frictionless Assessment that empowers customers to instantly and continuously evaluate their cloud assets without interruption. With Frictionless Assessment, customers can have complete visibility of their assets in the cloud and can quickly detect new vulnerabilities as their environment changes without having to schedule a scan or deploy an agent. Frictionless Assessment, which we'll expect to be available in the fourth quarter, creates an opportunity for customers to easily expand asset coverage in the cloud with no additional deployment, no scanning, no risk from downloading an agent, no performance impact. It's frictionless. Frictionless Assessment is a very cloud-centric and cloud-native way of operating and an important part of our growing cloud story. This is another in a series of ways in which Tenable is revolutionizing vulnerability management for modern assets to deliver on our cyber exposure vision.

During Edge, we also announced exciting enhancements to Tenable Lumin, including new capabilities to assess and benchmark organizations, remediation maturity and inventory of end point security controls and predictive scoring for more comprehensive insight into an organization's cyber exposure. We expect these enhancements will also be available in the fourth quarter.

In addition to our new Frictionless Assessment and Lumin enhancement announcements, Tenable has been integrated with each and every major public cloud vendor as many of our customers maintain a hybrid environment across multiple cloud providers. The combination of our cloud-native connectors, Frictionless Assessment, comprehensive web app scanning and DevOps integrated container security provides extensive visibility into the security of our customers' cloud deployments.

Increased adoption of cloud and hybrid IT, digital transformation and expanding attack surfaces have been driving our business for the past several years and will continue to drive our business well into the future. These trends resonate now more than ever, and we believe our leadership position going into this crisis will further enhance as we expand our presence and product offerings. We believe the cloud represents a huge business opportunity not just to build new business models, but to build them with a security-first strategy. Expect to hear a lot more about these and other cloud security capabilities in the coming months and quarters.

We're excited about our ability to advance our customers' cloud security as we continue to focus on exciting new product announcements. As the shift to cloud accelerates in the commercial sector, we're also seeing increased focus on cloud in the public sector. We remain very pleased with our strong market share in the public sector and highly value our partnerships across the federal government. We're excited about our FedRAMP in-process designation as the public sector increasingly shifts to cloud. We've seen success in the public sector domestically and abroad and have leveraged the success to grow our state and local business.

In the third quarter, we announced a new partnership with the Center for Internet Security that will bolster cyber hygiene for both public and private sector organizations. This partnership is an important step in making foundational cybersecurity more attainable for organizations of any size. Tenable solutions are now the only comprehensive risk-based vulnerability management offering available in the CIS cyber market.

Going forward, we believe that our best-of-breed VM strategy, strong presence securing cloud environments, our OT capabilities and advanced analytics through Lumin will continue to fuel attractive growth and profitability. With all the trends we outlined, the dynamics that have been propelling our business remain robust and we believe will continue to strengthen over time. While we're excited about our current and future prospects, we understand that we're in the midst of an uncertain economic environment and that millions of people and businesses around the world are facing difficult times. We remain focused on managing through the current situation as we benefit from the significant financial and operating strength of our recurring revenue and the natural leverage in our business.

I will now 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 third quarter, highlighted by attractive top line growth, continued momentum with large enterprise deals and strong profitability and free cash flow.

I'll discuss our results for the quarter momentarily. But first, please note that all financial results we will discuss today are non-GAAP financial measures with the exception of revenue. 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. Revenue for the quarter was $112.3 million, which represents 22% growth year-over-year. Revenue in the quarter exceeded the midpoint of our guided range by approximately $3 million. Our percentage of recurring revenue remained high at 94%, which is a result of our annual prepaid subscription model. Revenue was aided by better-than-expected demand not only in terms of flow and the number of new enterprise deals, but also the number of large 6-figure wins. Specifically, we added 335 new enterprise platform customers and 56 net new 6-figure customers in the quarter. This brings the total number of customer spending in excess of $100,000 annually to $771,000.

To provide some context here. 56 was one of our best quarters ever for net new 6-figure customers with particular strength in the 500,000-plus category, including another quarter of strong competitive takeaways. While we continue to see a healthy number of wins from greenfield opportunities, some of our largest deals in the quarter were displacements, which we believe is a testament to our cyber exposure value proposition and our best-of-breed strategy.

Another important highlight for the quarter is the growing demand for our solutions that help secure the cloud, which has resulted in an increased adoption of Tenable.io and other cloud security modules, such as Lumin, web application security and container security. This trend is an expansion beyond the traditional asset VM use case and TAM as customers are increasingly trying to manage the risk and complexity related to digital transformation and hybrid cloud deployments.

To summarize, we continue to add a healthy number of new customers and 6-figure customers in an uncertain macro, but with more favorable market and competitive dynamics on the backs of higher cloud adoption, which demonstrates the relevance of our offerings in the current environment. Calculated current billings defined as the change in current deferred revenue plus revenue recognized in the quarter grew 21% year-over-year to $133.7 million, which is up marketably from last quarter.

As a follow-up from last quarter, we want to briefly discuss our short-term related performance obligation. Short-term RPO, which we define as deferred revenue and backlog expected to be recognized as revenue over the next 12 months, also grew a little over 20% in the third quarter. As we discussed on our last call, there can be natural variation in growth between CCB and short-term RPO due to deal timing, early renewals and multiyear prepaid deals. Across both metrics, it is clear we had a strong sales quarter in Q3. Renewals were strong in the quarter and came in better than expected, which was reflected in our dollar-based net expansion rate of approximately 110%. As discussed last quarter, our dollar-based net expansion rate is also experiencing some impact from larger initial lands and a more moderate pace of asset expansion in the current environment.

I'll now turn to expenses where we continue to demonstrate leverage in our financial model, highlighted by record profitability and free cash flow. I'll start with gross margin, which was 84% and consistent with Q3 last year, but up slightly from 83% last quarter. Our gross margin continues to be very healthy and reflects increased investment in our public cloud infrastructure related to the growing demand for our cloud-based Tenable.io platform, partially offset by efficiencies in storage and compute as we continue to scale. Also, we continued to benefit from improved resource utilization and the delivery of professional services as a result of increased virtualization of training and implementation.

Let's turn to operating expenses. Sales and marketing was $48.2 million compared to $53.2 million in the third quarter last year and $50.1 million last quarter. Sales and marketing expense as a percent of revenue was 43%, which improved from 58% in Q3 of 2019 and 47% last quarter. We're very pleased with the significant leverage we've demonstrated in sales and marketing over the past year, which we attribute to the maturing investments we previously made in sales overhead in markets where we're critical mass.

We're also enjoying better-than-expected levels of productivity as a result of a more tenure sales organization that can sell an increasingly broader solution set to address cyber exposure. For example, we have more sellers today with a tenure of a year or more than any time since our IPO. Further, the current environment has resulted in some savings in sales and marketing spend, most notably in the areas of field marketing and travel, which we estimate to be approximately $2 million to $3 million again this quarter as well as a more moderate rate of hiring due to the uncertain macro environment. That said, our expectation for the fourth quarter is that sales and marketing spend will trend sequentially higher due in part to the early investment in expanding quota capacity for the upcoming year.

R&D was $21.2 million compared to $18.6 million in the third quarter last year and $21.4 million last quarter. As a percent of revenue, R&D expense was 19% compared to 20% in both Q3 2019 and last quarter. The increase in R&D expense over the prior year is due to incremental investments that support growth initiatives in cloud and OT as well as data science to maintain our leadership in vulnerability coverage and accuracy.

G&A expense was $12.5 million compared to $13.3 million in the third quarter of last year and $12.3 million in Q2 2020. As a percent of revenue, G&A expense was 11% this quarter, flat with last quarter and down notably from 14% in Q3 last year, which reflects our ability to more fully absorb public company costs and improve efficiency and automation in many of our back-office functions.

Non-GAAP income from operations was $12.4 million compared to a loss of $7.7 million in Q3 last year and a profit of $5.7 million last quarter. Non-GAAP operating margin was positive 11% compared to negative 8% for the third quarter of last year and positive 5% last quarter. We're very excited to continue to see operating leverage in the model play out as we expand our non-GAAP operating income. All of this translated to significant EPS upside as our non-GAAP earnings per share was $0.09 this quarter, which was $0.06 to $0.07 better than expected.

Now let's turn to the balance sheet. We finished the quarter with $269 million in cash and cash equivalents and short-term investments. Turning to cash flow. We achieved $16.7 million of positive free cash flow in the quarter, up from $6.6 million sequentially. This compares favorably to a free cash flow burn of $9.6 million in Q3 last year. As I commented earlier, we saw strong sales flow in the quarter, which aided collections and consequently free cash flow in the quarter. Looking ahead, while Q4 is seasonally our largest quarter, we expect free cash flow to be flat to modestly higher as a result of more normalized pace of collections and payment timing.

With the results of the quarter behind us, I'd like to discuss our outlook for the fourth quarter. We developed our fourth quarter guidance under the realization that certain geographies are starting to experience a second wave of the pandemic. Given the uncertainty and fluidity of the current environment, we will continue to manage the business closely and plan to make additional growth-related investments in areas such as go to market, including a head start on 2021 hiring levels, which is reflected in our guidance.

With that as a backdrop, for the fourth quarter, we currently expect revenue to be in the range of $113 million to $115 million, non-GAAP operating income to be in the range of $8 million to $9 million, non-GAAP net income to be in the range of $6 million to $7 million, non-GAAP diluted earnings per share to be in the range of $0.05 to $0.06 assuming 113 million fully diluted weighted average shares outstanding. And for the full year 2020, we currently expect revenue to be in the range of $435.1 million to $437.1 million, non-GAAP operating income to be in the range of $18.4 million to $19.4 million, non-GAAP net income to be in the range of $12.4 million to $13.4 million, non-GAAP diluted earnings per share to be in the range of $0.11 to $0.12 assuming 110.6 million fully diluted weighted average shares outstanding.

In summary, we're pleased with the results of the quarter, which gives us increasing confidence that we remain 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're actively managing throughout 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. - Chairman & CEO*

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 attack surface into cloud and OT deployments. Our strengthening product portfolio positions us for long-term success as our customers shift to the cloud and maintain hybrid environments. We hope to see many of you virtually at the Gartner Invest Virtual Conference, AWS re:Invent and at the Barclays, Stifel, UBS and Wells Fargo Tech conferences in the coming months.

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. I was wondering if you guys could give a little bit more color on the new customers. What was the average deal size for new customers? And how has that kind of changed from previous trends?

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

Well, first and foremost, we're very pleased with the velocity of new customers that we continue to add even during the pandemic. We added over 300 new enterprise platform customers in the quarter. Amit commented earlier, but we have particular traction on larger deals not just 100,000 opportunities, but we called out the 500,000-plus category. So not only ability to attract new logos during the pandemic, which is increasingly difficult in an uncertain macro, but also transacting and closing larger deals. And we also saw strength with competitive takeaway.

So overall, I think we're very, very pleased with the traction in new logos. And we think all of this really underscores the growing importance of VM, more specifically cyber exposure. And a good part of this is attributed to our ability to secure the cloud as well with a higher mix of IO sales and increasing adoption of our cloud-based applications such as web apps, container security, even Lumin. So very pleased overall with the rate of new business that we're closing.

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

Great. That's very helpful. And then one follow-up. You talked about some of the success you saw in the federal space this quarter. What's really been driving that -- those trends that you've been seeing?

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

This is Steve. Oh, on the fed -- sorry. Go ahead, Amit.

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

No. As you say, I think the federal market is an incredibly strategic sector for us. I think we've got a very sizable footprint, very strong market leadership and terrific relationships in and across the federal government. And we're seeing some of that demand performance and relationships translate directly into momentum building in state and local and some notable wins there. I think I mentioned one of them on the call earlier.

We saw seasonally strong sort of uptick in Q3. And this quarter was no different from kind of seasonally strong Q3s in previous years. And we continue to invest in the market. We're excited about our FedRAMP in process being -- in process with FedRAMP and see that there's additional -- believe that there's additional opportunity for us in the cloud and web-based opportunities in the federal space.

Operator

Our next question comes from the line of Hamza Fodderwala with Morgan Stanley.

Hamza Fodderwala - *Morgan Stanley, Research Division - Research Associate*

Amit, my first question is for you. So it seems like vulnerability management clearly growing in priority, especially as we remain in a more distributed work environment. I was wondering if you could expand on that a little bit because, obviously, you've talked about the prioritization of VM for quite some time.

And as you talk to your customers on their spending priorities into 2021, right, what are you seeing as far as vulnerability management and Tenable, in particular, becoming a more strategic focus for chief security officers? And are you seeing customers who perhaps saw VM as a nice to have and now it's becoming more of a must-have in this current environment?

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

Yes. I think there's really a great maturation happening in the security market. I think folks in years past may have looked at VM as a requirement for some compliance drivers, some compliance need that they have, some regulatory driver. I think people are starting to understand and the market is starting to appreciate the fact that vulnerability management and understanding your asset base, understanding your compute base, understanding your level of exposure and what that means to you from a risk perspective are just fundamental building blocks for security. And so over the last 3 years, we've seen vulnerability -- security spend remains strong, but we've seen vulnerability management in the last 2 or 3 years rise to the #1, 2 or 3 position in just about every single CISO survey, and in many instances, even rating extremely high in CIO surveys.

So I think that's a very strong trend. And candidly, I still think we're in the early innings. We look at the number of new customer lands that we're achieving on our enterprise platforms. We're looking at the greenfield accounts and analyzing our larger transactions which ones are coming just from greenfield. And we believe there's still great opportunity in the market, both from a greenfield perspective as well as an expansion in the existing customer base, there's just great opportunity. And even more broadly outside of VM or traditional VM, looking at new and modern parts of the attack surface, the cloud-based infrastructure, the web applications, the analytic opportunities to create additional value, the operational technology. So we believe strongly that we're still in the early innings of this market.

Operator

Our next question comes from the line of Rob Owens with Piper Sandler.

Robbie David Owens - *Piper Sandler & Co., Research Division - MD and Senior Research Analyst*

Amit, with the emphasis on cloud as we promote work in digital transformation and other cloud adoption, you mentioned DevOps integrated container security. And I think it begs the question, does this require any type of channel adjustment or changing go-to-market motion relative to how these technologies are adopted versus how security has traditionally been purchased and deployed?

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

Yes. As you unpack the security requirements in DevOps environments and in container environments, they're large and complex and changing quite rapidly as the way people develop changes and evolves, right? And we've seen this even in just the last 2 or 3 years.

What I would say about the opportunity for Tenable isn't trying to be all things to all people. What we're laser-focused on is helping our customer base and the security community understand what their asset base looks like, what that means and how that asset base is exposed and how they can efficiently manage, remediate or lower that risk level.

So when it comes to container security, we think it's an integral part of our cloud story. We're not going to try and do every aspect of container security. We're going to help our customers assess what exposures those containers on that DevOps environment is introducing to their deployments to their enterprise. And so we think we can do that very efficiently. We think we can do it without introducing a whole lot of a drag or friction into the DevOps process. And we can do it for existing security users, the enterprises that already trust us with their VM requirements and understanding the level of risk.

So if we can do it without impacting DevOps and do it in a frictionless type of way, we think that's the approach that works for our customer base and will fit nicely with our go-to-market motions. So we're not intending a radical change in who we'd be bringing that product to or how we'd be bringing it to market.

Robbie David Owens - *Piper Sandler & Co., Research Division - MD and Senior Research Analyst*

And then, Steve, you mentioned the 110% renewal rates due to size of land getting bigger than asset expansion in the current environment. As cloud continues to ramp as you broaden the portfolio, is there a potential inflection point in this metric moving forward?

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

Yes, we think so. And as previously noted, renewals were strong in the quarter and came in better than expected. But with larger initial lands, which we talked about earlier, and a more moderate pace of asset expansion in the current environment, we did see the dollar-based net expansion rate temper a bit, although it continues to be healthy. We don't manage the business to any one single metric. But as more workloads move to the cloud and with Frictionless Assessment, we believe customers may want to expand coverage of cloud deployed assets. This quarter, we're pleased with a number of new logos we added in the number of large deals we closed. The mix between new and upsell can vary from quarter-to-quarter. However, because we're adding a healthy number of new logos, we think this bodes for -- bodes well for expansion long term.

Operator

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

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

Amit, this is the second (inaudible) that has strengthened competitive takeaways. My question is this. Do you think the current environment has placed a greater emphasis on best-of-breed VM? And if so, why?

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

Well, it's -- I definitely think that we're growing as a result of our best-of-breed strategy. I think the enterprise always emphasizes best-of-breed or historically has emphasized best-of-breed in a pretty meaningful way. And our ability through native integration into a very rich ecosystem of strategic infrastructure investments that our customers have already made I think allows them to drive significantly more value from Tenable and, at the same time, have tremendous confidence in the results that they're seeing from our products.

So we -- I think that in these tough economic markets, there's a real flight to quality. And I think we're the quality provider in the space. And I feel like we're consistently proving that in the evals and proof of values and in the lab testing of the various products.

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

That's helpful. And Steve, maybe one for you. Last quarter, you noted some late period seasonality. Did you see anything noteworthy this quarter? Or would you classify it as more linear and more typical of Q3 here?

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

Not to the degree in which we saw it in Q2, and I'll specifically talk about CCB. As we mentioned earlier, CCB, during the pandemic, may not be a good leading indicator of future revenue because it's really predicated on a multitude of factors, including overall deal timing, multiyear prepaid deals and even our renewals, which can have more variability in an uncertain macro. In Q3, deal timing was a consideration, but moreover, we saw fewer multiyear prepaid deals, meaning less customers elect to pay their subscription 3-year in advance, which is something we knew could be a possibility headed into the pandemic, something we discussed on prior calls. We did not see it in Q2, but it certainly -- it surfaced in Q3.

And just to clarify here and connect the dots, with multiyear prepaid deals, the long-term portion of current deferred revenue automatically runs off into the current portion of deferred revenue each and every period, thereby positively impacting CCB. So that said, it's too early to tell. This is a persistent trend of CCB and something we'll certainly continue to monitor during the pandemic.

So again, CCB may not be a good leading indicator. That said, we are delighted with the performance in the quarter, CCB growth over 20%. And even CCB aside, short-term RPO growth was over 20%. So while CCB is a metric we continue to track closely, by any measure, I think it's clear we had a good result for the quarter, and we're very pleased.

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 just start out with some of the Lumin enhancements that you talked about and perhaps understand a little bit better what the I guess differentiators could mean and how that can potentially impact the pace of adoption of Lumin.

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

Amit, I think we're having trouble with the comms line.

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

Oh, sorry. Well, I guess I'd take myself off mute, that would help greatly. Lumin has a very long sort of vision of where we can go with that product. And I think we're still in the early innings showing great progress and showing tremendous value through analyzing the vulnerability, the asset criticality translate into risk, introduces benchmarking, some real innovative capability across a very large customer base.

When you start looking at how people and enterprises assess risk even beyond levels of exposure, there's all sorts of other controls in place. And so we've started inventorying and assessing those security controls, compensating controls, adding those capabilities and insights to Lumin. We've also added things like assessment maturity, which we think is really important because it's not just, hey, how exposed am I, how at risk am I, it's also a question of how confident am I in the answer to that.

So if I have large swaths of my environment where I don't have visibility, where I don't have understanding, where I'm not able to assess risk or when I assess risk, am I doing it in a real in-depth way or is it done in a real cursory type of way and how do all those compare to peers? Like we think that type of understanding of assessment maturity of compensating controls are like very strategic steps forward in what Lumin brings to the table, and there's just a long runway of other innovative capabilities that we're super excited to be adding to the product going forward.

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

Fantastic. And then just one for Steve. Given the COVID uncertainty, how are you thinking about balancing your investments in sales capacity expansion? Can you give us maybe a sense of how you're thinking about the puts and takes there just given the environment?

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

Sure. Well, that's important to us and something we've talked about for some quarters now. We -- the takeaway here is that we are actively balancing growth with profitability and cash flow. We announced almost $17 million of cash flow this quarter, $0.09 in EPS, which is an outsized beat for the quarter, all with attractive top line growth. We think during the pandemic, it's important to maintain that balance, but I will say this, that first, we also want to lean in and make sure we invest. Invest in go-to-market and innovation, specifically with regard to the latter. We talked about a number of new exciting enhancements to Lumin as well as Frictionless Assessment for our ability to go deeper and wider into the cloud. And then on the sales and marketing line where we're seeing a lot of leverage, that narrative there with leverage in sales and marketing started probably 3 or even 4 quarters ago. Last year, we're spending over 60% of our revenues in sales and marketing. This quarter, I think it was in the low 40% range.

One of the reasons why we're seeing leverage is because of the maturity of the sales organization. We have more reps who've been here a year more than ever. Also management, had a lot of depth to the management team, which we believe now is in the rearview mirror. So a deeper and wider bench in terms of sales leadership. We've also been able to optimize sales overhead in markets where we have critical mass, which is really important. So lean into quota carriers and last on some of the associated overhead that goes with those sales. So as a result, we've been able to drive a lot of leverage in sales and marketing.

We did acknowledge or do acknowledge that there are some COVID-related savings here in the way of field marketing and travel, which we estimate to be a little less than $3 million a quarter. But some of these savings, to be honest with you, probably will endure even post pandemic as we're demonstrating an ability to not only transact larger deals virtually here. This is not just 100,000, but 500,000-plus deals, all virtually, still requires a lot of intimacy, still requires a lot of touch with both customers and partners alike. We're also able to deploy them virtually here.

So we're really proud of the strength and the resiliency of the team here and how we've come together. It also speaks to the value of VM in a market like this. So that's -- we'll continue to balance growth with profitability. We're going to continue to invest. It's one of the reasons. We talked about that in the fourth quarter. It's reflected in our EPS guide as we get an early start in 2021. And we'll provide an update on 2021 in our February call. We look forward to closing the quarter on a good note and updating you on our results in February.

Operator

(Operator Instructions) 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*

So my question -- a little on the Lumin side. Are you getting the sense from talking to the team, Dave, and whether it's sales and partners. I mean is Lumin changing the conversation with customers for Tenable?

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

Absolutely. When we think about the future of VM or the direction of VM and how enterprises are maturing their VM programs, the vulnerability management programs, it's not just about scanning their systems or deploying agents or understanding all of these different vulnerabilities, it all is -- they're all data points trying to answer these foundational questions. How secure am I? How at risk am I? Am I exercising a reasonable standard of care with my systems and the data that's entrusted to me as an organization?

And so Lumin is able to really drive at those answers. What do you have? How is it exposed? What does it mean from a risk perspective? How are you rating relative to peers? How confident are you in your answers? And so it is allowing us to move from conversations with users about the efficiency of the -- of our products, about the accuracy and the differentiation there to having much more strategic conversations with enterprise leaders and enterprise decision-makers. So it's driving radically different conversations, and we couldn't be more pleased about that.

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

Great. And just in terms of federal or state, call it, government put together, are you sensing that the deals are just getting larger in terms of the pipeline as you look out the next 2, 3, 4 quarters just given some of the cloud shifts going on with many of these government agencies in a remote environment, which is never even on the table for many of these organizations, call it, more than 7 months ago?

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

Yes. We're definitely seeing new and more opportunities that are web-based, that are cloud-based and certainly excited to be in process with our FedRAMP designation to align with those requirements. But more broadly, federal government is continuing to mature their cybersecurity and risk management practices and go through the same digital transformation that we're seeing in the private sector and, to some extent, a heavy influencer and leading the way for a lot of these large enterprises.

So we think we have a position of great strength in our relationships and customer base in the federal space. And as those compute bases continue to expand and evolve, we think it's going to lead to greater and more opportunity for us.

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 wanted to follow up on the comments about profitability maybe from a different perspective. So if we look at the guidance, it implies an incremental non-GAAP operating margin of 75% for FY '20, and I believe this is up from 7% in 2019. So even if you back out the COVID savings that you mentioned, you're still around the 65% incremental margin. And I understand that there are COVID savings. And -- but should we expect this metric to meaningfully revert in '21 as you invest in more sales reps and maybe sales and marketing starts to grow again?

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

Well, as I mentioned earlier, we'll talk more about 2021 in February. But what I will say is this, that I believe the leverage that you're seeing today is really a natural reflection of the model. We have 94% recurring revenue. We have over 80% gross margins. We have high renewal rates. And so we have a lot of confidence in both the cash flow and the operating margins of this business long term. And over the course of -- over the past few years, we've been able to successfully trade points of margin for points of growth.

The company has been very profitable in the past. And we know we'll be very profitable in the future. We have confidence in that. We have confidence in our long-term margin for the business, 25% plus free cash flow margins. Our ability to become a Rule of 40 company. And our goal is to try to strike the right balance. There's lots of opportunities to invest here. We have a lot of confidence in the market. We talked about phasing in some early investment for 2021 in the fourth quarter and adding -- continuing to add capacity to sales. And obviously, you've seen some of the investments in innovation and on the product side today with some of the more recent announcements. So yes, our expectation is we're going to continue to try to walk this up, the margins in a very careful way, try to balance that with growth.

In terms of the macro, there's a lot of uncertainty. There's COVID cases resurging. Some parts of the economy shutting down, but we've demonstrated resilience there to close new business. I think that's the one major surprise for us is the success we're having in closing new logos. So we're just going to have to continue to watch this. We're heading into the fourth quarter, which is our largest quarter. And then on our February call, we'll talk about what this means potentially for 2021. But we're excited about our ability to do this, do this in a very balanced way and fully a reflection of the model itself.

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

That was helpful. And then just a follow-up. You guys highlighted some deals in the prepared remarks that included Lumin. Could you just possibly comment on the increase in the deal size that you saw from those customers buying Lumin? And then maybe just more broadly, would you say that the $500,000 deal that you saw, was that a function of more assets under coverage or more product purchases?

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

This is Steve. I'll talk a little bit about Lumin on the deal sizes. So yes, where Lumin is attached, we're seeing a notable uptick in ASPs. The impact on ASPs can range anywhere from 30% to 40% plus. So we're certainly having success there, raising the ASP where Lumin is attached. Obviously, our focus here given the fact that it's a new product is to drive the attach rate even more. And we think over the course of many years here, we think the attach rates can be 50% plus or more. That's not unusual. And with the SaaS companies were successful add-on modules.

And then I think your question is pertaining to the $500,000-plus category. That's a combination of both. It's cross-sell. We are delighted with cross-sell this quarter. It's up over last quarter, and we continue to have success selling more. And we think it's a compelling long-term opportunity. The ability to secure the cloud and not just sell Tenable.io, but sell it with web application security with Lumin, container security. We know our close rates go higher when we actually sell -- we have more add-on products.

So I think it's a function of both the cross-sell and the 500,000-plus category, but also more asset expansion. As companies undergo digital transformation, spend more money on technology, more assets are coming online, more heterogeneous types of devices and assets create complexity and compute. And we have an ability to be able to assess and discover all that. And as a result, it's having an impact on ASPs and larger deals.

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

Maybe if I could just sneak one more in. Any chance you guys could comment on how investors should think about the calculated current billings growth going into Q4 and what the puts and takes are there?

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

We don't give guidance, as you know, in CCB on a quarterly basis. And during our Q1 call this year, we suspended our full year CCB. For reasons I discussed, CCB is influenced by a lot of different factors and may not be like a leading indicator of the underlying performance. We talked about deal timing and multiyear prepaid deals for the quarter and early renewals. Given these factors and macro uncertainty surrounding the resurgence of COVID cases, there is the potential for a wider range of outcomes in CCB as we head into what is seasonally our largest quarter for sales. Despite the potential for variability, though, we feel good about the overall health and momentum of the business.

So the short answer here is that there's the potential for a wider range of outcomes. We feel good about the business, delighted with the print for the quarter, and we have a big quarter ahead.

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

Congrats on the quarter guys.

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*

Great. Maybe, Amit, a quick question for you. On the competitive displacements you mentioned, is there anything we could tease out there with regard to a little more detail, maybe trends that you're seeing? Were these usual suspects or legacy solutions? Maybe they are projects where you got to the stage of technical evaluations, so you were able to win on the merits of the technology a little bit more effectively. Or maybe they were driven -- perhaps they were driven by partnerships where they may have best of breeds in and patch management technology in those deals. Maybe just trying to get an understanding if there are any kind of trends that you can kind of point to for the strong competitive displacement activity in the quarter. And I have a quick follow-up.

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

Yes. It's definitely a trend and something that's been picking up in recent quarters. I think we called out competitive displacements last quarter as well, and I've certainly seen that continue to accelerate in the third quarter, believe very strongly in our best-of-breed strategy. And in the enterprise, the procurement decisions are being driven by the VM program or Program Officer or Vice President, Director, Senior, whatever the sort of level. And they have a mature understanding of what they're looking for in the program. They're testing the products, they're evaluating the capabilities. And to the extent that they're using our competitive product, and I would say it's predominantly the usual suspects, there's very sporadic use of other legacy solutions in the enterprise market. It's almost entirely the sort of primary competitors that are ourselves, Qualys, Rapid7.

And so in the enterprise, we're seeing folks using competitive products allowing us or doing evals with us and the ability to convert those into competitive displacements that we're really excited about. And we're also seeing, I'd say just sort of hand in glove with that, a continued very healthy level of greenfield adoption -- or greenfield accounts. We try and be transparent about this. We measure it quarter in, quarter out, is well north of 30% of our larger transactions coming to us -- the other larger enterprise transactions coming to us from greenfield accounts. They're not using us, Qualys, Rapid7 and they have no organic VM capability to speak of. So that's also very exciting.

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

Got it. Super helpful. And then maybe if I could circle back on another trend. I think we've been kind of eyeing the potential for this kind of second derivative spend on VM now that enterprises is spent to like -- spend on access and collaboration tools. Is there any insight you can offer in terms of the way that CIOs or CISOs are thinking about this as maybe like a reactionary spend after they've already expanded those platforms? Or is this maybe an enabler for digital transformation that they have to pursue? Just trying to understand their thought process strategically as they're trying to like manage their networks.

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

Yes. It's definitely a strategic enabler. I think what we're seeing in the business consistent in Q3, as we called it out in Q2, is a heavier shift from our SaaS-based platform from Tenable.io. And I think in the current quarter, an acceleration and continued adoption of our cloud-based capabilities and modules, the increased use of the cloud-native connectors for all the major cloud infrastructure providers, acceleration of adoption of the web app scanning capability, container security and Lumin as well. So we're definitely seeing that, and we attribute that in part to the digital transformation.

I would just stop short of or be a little bit hesitant to call it a second order uptick as a result of increased assets or remote assets than there have been deployed over the last couple of quarters. If you look at our business, I think we're still behind where our original plans were going into the year from a growth perspective. And so I don't look at the current market or environment and say, "Hey, there's some sort of COVID tailwind for us or we're expecting any meaningful tailwind."

Operator

Our next question comes from the line of Andrew Nowinski with D.A. Davidson.

Andrew James Nowinski - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

So just two quick ones. First, I want to start with a clarification. I think you said you saw a higher mix of cloud solutions in your large deals, but could you provide the actual mix of cloud versus on-prem revenue within those 56 large deals you mentioned?

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

Yes. We don't -- this is Steve. We don't disclose details by product. But clearly, Tenable.io has been a catalyst of growth for us and certainly is an enabler to large deals.

Andrew James Nowinski - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Okay. Very good. And then I know you said vulnerability management is a higher priority now and attributable to the work-from-home trend. But I was wondering if you're seeing that evidenced by growth in your pipeline relative to what it was last year. So just wondering if you could provide any more color as it relates to your pipeline on a year-over-year basis.

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

Pipeline is something we continue to track very closely during the pandemic, what we -- something that we've talked about previously is just to provide a level of transparency. We weren't sure headed into the pandemic what we were going to get in terms of close rates and even our ability to generate pipe. And I think it's fair to say that we've been pleased and we've exceeded what -- our expectations. We monitor pipe 2 ways, number one, not only the covers, but also the maturity of the pipe, and we also monitor the activity surrounding the pipeline.

So I think our ability here to demonstrate real momentum in closing new business is a reflection of that pipe. We're pleased with our close rates. We're pleased with the attach rates that we're seeing on the cross-sell products. Obviously, our ability to secure the cloud is one of the -- there's a tailwind behind a lot of this as well as the growing importance of VM. The pipeline is something we continue to track very closely. And it can move from quarter-to-quarter and from month-to-month. But our success here in new logos reflects our ability to not only drive, but leads an opportunity to the top of the funnel. So the ability to qualify it and pull it through where we're spending a lot of time having success.

Operator

That was our final question in queue. This does conclude today's teleconference. Thank you all for participating. You may disconnect your lines at this time and have a wonderful day. Thank you.
