ANDREA
Thank you Operator, and thank you all for joining us on today's conference call to discuss Tenable's financial results for the third quarter of 2018. 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 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 fourth quarter and full year 2018; 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 September 7th, 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 press release that we issued today includes GAAP to non-GAAP reconciliations for these measures.

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

AMIT
Thank you Andrea, and thank everyone for joining us on the call today. I'm pleased to share that Tenable delivered another strong performance in our second quarter as a public company. Revenue grew 42% year over year to $69.4M, and calculated current billings grew 35% year over year to $86.7M. We continue to expand our leadership position as we define the cyber exposure market. As Steve will detail in a moment, we are raising our guidance for the full year based on our third quarter results and positive outlook for the remainder of the year.

Our third quarter saw continued strength in demand for both Nessus Professional and our enterprise platform offerings, Tenable SecurityCenter and Tenable.IO, which you'll hear me refer to as SC and IO for short. Enterprise demand was strong across a wide range of verticals, including strong performance in the seasonally strong Fed sector, as well as in each of our major geographic theaters of operation. The end result was continued strong volume with the addition of over 250 new enterprise platform customers in the third quarter. We also saw the continued adoption of Tenable as a strategic enterprise platform for cyber exposure, as evidenced by the addition of 47 new six figure customers. We also added to our seven figure customer base during the quarter.

Before we move on to customer highlights, we appreciate that many investors are still relatively new to the Tenable story, so I'd like to take a few minutes to reiterate what we do and why customers choose Tenable for their Cyber Exposure strategy. Cyber Exposure builds on our roots in vulnerability management and expands our value proposition in two key ways - the breadth of visibility across a wider set of asset types and the depth of analytics to better understand and communicate cyber exposure to the business - both of which are critical to accurately assessing cyber risk.

One of the biggest drivers of our market continues to be organizations moving to new technologies, such as web applications, cloud infrastructure, DevOps containers and microservices, IoT, and automation of operational technologies. These non-traditional IT assets are growing rapidly, and by nature, introduce more risk. They cannot be assessed for vulnerabilities and security issues with traditional methods such as active and agent-based scanning. Tenable is well positioned to capitalize on this long term shift since we are able to help organizations address their cyber exposure regardless of where they are on their digital transformation journey. We provide visibility into an organization's cyber exposure across the widest breadth of assets (spanning IT, Cloud, IoT and safety-critical OT), with a series of analytic capabilities that help customers prioritize and manage their cyber exposure and translate vulnerability data into business insights. Our platforms can be deployed either on-premises or in the cloud, depending on customers need.

Together, our platforms assess millions of assets for over 24k customers around the globe. As I noted upfront, we are seeing strong demand for both SC and IO. The momentum of IO is robust, as many customers have a cloud-first mentality. But we also continue to see strong demand for our on-prem SC offering. In fact, a growing number of customers are expanding their on prem deployments to include modern asset types. Tenable is well positioned to cover these expanding use cases with our wide range of deployment options.

With that, I'd now like to highlight a few noteworthy uses cases and new six figure customer wins in the quarter.

Our first new customer example is a multinational Fortune 500 engineering and manufacturing company. This company had deployed a legacy VM solution from a competitor, but over the years became increasingly concerned that they were not getting comprehensive scan results. The customer told us that Tenable.IO was selected to support their Cyber Exposure strategy due to our comprehensive vulnerability assessment capabilities, our seamless integration and our flexible reporting features, in addition to our ability to help them improve their assessment of cyber risk holistically across modern assets, such as containers and web applications.

In another example, a large not-for-profit organization purchased both SC and IO. This customer had been using a competitor with limited reporting capabilities to measure and communicate cyber risk. Organization-wide initiatives to migrate to the cloud proved challenging for their legacy solution with the reporting and scale limitations. Tenable's solution allows the customer flexibility between SC and IO as business requirements for moving to the cloud evolve over time. This satisfied the customer's immediate goals (better data, better reporting) and provided a path to the cloud on IO. IO also solved their AWS VM requirements.

We also continue to expand our leadership in the Public Sector. Over the years, we've worked hard to build a clear leadership position in the Public Sector and we continued to strengthen that lead during the third quarter. We closed several significant deals across the US Federal Government, including within DoD, Intelligence Community and Civilian Agencies, highlighted by a new six figure competitive displacement with a large civilian agency of the US Gov't. It was a very strong quarter with respect to both renewing and expanding our relationships with existing FED customers. We also continue to be the predominate solution under the DHS' Continuous Diagnostics & Mitigation program (or CDM for short). In addition, we sold our first Industrial Security deal within the federal government.

An expansion we'd like to highlight in the enterprise sector occurred with a large global payment processor. After cobbling together multiple VM solutions for years, this customer purchased both SC and IO last year. Less than 8 months later, they expanded coverage by almost 50% to cover a recently acquired data center. In Q3, they expanded coverage by another 250% to include their mission-critical production environment. This is a great example of a customer shifting from multiple tactical VM solutions to our strategic cyber exposure platform which encompasses a range of IT assets and modern compute platforms, such as cloud environments...this type of story is one we hear regularly.

We also closed an expansion deal with a European manufacturer, operating in 50 countries. This customer purchased IO last year (as an upsell from their use of Nessus Pro) to cover assets in their European and Asia-Pacific operations. This year, they expanded coverage by almost 2x to cover their US operations in an attempt to have a more holistic platform for visibility across their globally distributed assets. This is another typical expansion for Tenable.

We are also seeing increasing global interest in our platform for Operational Technologies with notable Industrial Security wins within the Federal and energy sectors, including one of the largest wind power producers in EMEA. While these initial control system deals do not represent a significant portion of our enterprise business, they are very important strategically and highlight a longer term growth opportunity.

Overall, the breadth of these customer examples reflect strong momentum across our major platforms, with new and existing customers, across diverse verticals as well as geographies.

In addition to our customer wins, we'd like to also highlight some of our product innovations and recognitions.

We are honored that Tenable recently received a growth excellence leadership award from **Frost & Sullivan** that underscores our continued leadership in the core vulnerability management market, and equally important recognizes the differentiated depth and breadth of our Cyber Exposure strategy. They highlighted our comprehensive visibility into traditional and modern IT and OT assets, and our product innovations, such as IO and Industrial Security.

Focus and innovation within the Cyber Exposure market are foundational to Tenable. We believe a core reason for our success, and differentiation from competitors, is that while others diversified into multiple security markets, Tenable has doubled down to drive innovation in vulnerability management.

During the third quarter, we upgraded our VM solutions with features that strengthen integration, enhance useability and increase coverage of assets.

- We released **Tenable Security Center 5.7,** adding integration capabilities for privileged access management, enhanced capabilities for mobile workforce at scale and updates in Nessus agent.

- We also released several highly innovative features for Nessus Professional. Nessus 8 adds "live results," real-time updates that virtually eliminate time to assess vulnerabilities through inferences based on existing scan metadata, even when disconnected from the network. Nessus 8 customers will also benefit from "grouped view", a feature designed to group issues into a single thread to help customers better manage workloads. Nessus has cemented its position as the industry's most widely used vulnerability assessment solution for applications, with nearly twice as many security teams using the solution as any other competitive offering. This provides Tenable with incredible market awareness and credibility with security professionals.

- We also significantly increased our coverage of OT devices. Our latest passive network monitoring release for Industrial Security extended our OT device coverage by several thousand, including devices from Siemens, Schneider, Rockwell, Honeywell, Mitsubishi and many other leading ICS/SCADA device manufacturers.

- During the quarter, we also enhanced our strategic security alliance with ServiceNow with new bi-directional integrations between both SC & IO.
    - Our new integration with their Vulnerability Response module provides customers with a closed-loop remediation process - from discovering machines to finding the vulnerabilities to orchestrating patching to verifying successful remediations.

    - Our new integration also includes bi-directional asset syncing from Tenable.IO directly to the ServiceNow CMDB, helping to ensure that security teams receive the same level of visibility as IT teams into assets across the modern enterprise.
    - And, our new integration gives customers the ability to directly import Tenable.IO vulnerability data into ServiceNow within its ITSM workflow for faster remediation.

- Lastly, we continue to advance the development of our cyber exposure scoring, benchmarking and peer comparison product, Lumin. We believe that Lumin will enhance our ability to help customers measure and benchmark their Cyber Exposure both over time and against their peers. Lumin is designed to provide our customers the strategic decision support they need to properly align security and IT business objectives.

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. Let me now dive deeper into Tenable's third-quarter 2018 financial results and our business outlook.

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

Revenue for the quarter was $69.4 million, representing 42% growth over the same quarter last year and above the high end of our guidance. Revenue was higher than expected due in part to better calculated current billings in the quarter as well as strong intra-quarter flow.

It's also worth noting that 89% of our revenue in Q3 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 in this definition as such amounts are not available for future renewal. Since we are on the topic of perpetual licenses, as a reminder, under ASC 606 we recognize revenue from perpetual licenses ratably over 5 years vs upfront revenue recognition previously.

I briefly mentioned our subscription model earlier but, once again, as a reminder, we sell our software primarily on an annual subscription basis with a term that is generally one year in length, although some customers prefer multi-year contracts. Substantially all of our contracts are paid upfront. The value of a contract can vary based on the number of IPs or assets purchased.

With that as a backdrop, I want to walk you through our calculated current billings. Since swings in the percentage of billings from multi-year prepaid contracts can meaningfully skew growth in

TOTAL billings higher or lower in a given period, we believe calculated <u>CURRENT</u> billings is a better proxy of the underlying momentum of the business and generally correlates to annual contract value (ACV), which is how we manage the business.

Calculated Current billings, defined as the change in current deferred revenue plus revenue recognized in a period, grew 35% year-over-year to $86.7 million in the third quarter of 2018. This growth and scale is a testament to the growing strategic importance of VM and the broader cyber exposure opportunity that we are addressing.

For Q3 in particular, which is the end of the US Government's fiscal year, we are very pleased that Federal contributed over 20% of our total billings in the quarter. This is consistent with our continued position of strength in this market. While Fed sales do seasonally trend higher in the third quarter, Fed typically represents less than 15% of our total annual billings. Amit highlighted our success in the Federal market earlier but, in short, we are very pleased with our growing presence in this important sector.

In addition to the Public sector, let's discuss some other growth drivers for the quarter. In simple terms, this comes down to winning new customers, retaining customers and growing the value of our relationship with customers.

In third quarter, we added 258 new enterprise platform customers, which is relatively consistent with last year. While we had a strong quarter with expansions in our customer base, we added a significant number of new enterprise logos in the quarter and we believe there is a long runway to continue to do so. Given our continuing focus to land (and expand) larger deals in the enterprise market, it is natural to expect some level of variability between volumes and deal sizes on a quarter to quarter basis.

As it relates to large deals, we had 387 customers spending in excess of $100K in ARR on an LTM basis at the end of the third quarter, which is up 79% over the same period last year. Within this category, we also added a higher number of five-hundred thousand to seven-figure customers, as compared to recent quarters. This resulted in an increase in ASPs for our **new** enterprise business in the quarter.

The takeaway here is that we are seeing strong demand in the market and are experiencing continued momentum from new customer acquisition, upsell and renewals.

I'll now turn to expenses and profitability.

Gross margin for the quarter was 84% down from 85% in Q2 but came-in better than expected. As previously discussed, we are making investments in our public cloud infrastructure in connection with our Tenable.IO cloud platform. These investments are currently scaling better than expected so gross margin has been contracting more gradually than anticipated, even as IO continues to grow as a percentage of sales. However, we do 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 expenses for Q3 were $41.8 million compared to $29.2 million in the third quarter last year. This represents 60% of total revenue for the quarter, consistent with Q3 last year and an improvement from Q2 levels. Our investments in building our global sales organization tend to be weighted towards the beginning of the year, which produces leverage over time as new members of our sales team ramp their productivity.

R&D expense in Q3 was $18.1 million compared to $15.4 million in Q3 last year. As a percentage of total revenue, R&D was 26% in the most recent quarter vs 31% in Q3 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, web app, cloud and containers). For Q3, we have also capitalized $600 thousand (or $1.5M YTD) related to the development of Lumin.

G&A expense was $10.3 million for the quarter, compared to $6.2 million last year. As a percentage of total revenue, G&A was 15% in Q3 versus 13% in Q3 2017. The increase largely reflects the occurrence of public company costs.

Our non-GAAP loss from operations in the quarter was $12.2 million, better than our guidance of a loss of $17.5 million to $16.5 million, and compared to a loss of $9.0 million in the third quarter last year. Non-GAAP operating margin was negative 18%, consistent with the third quarter last year.

Pro forma non-GAAP net loss per share was $0.14, also better than our guidance of a loss of 19 - 18 cents, and compared to a loss of $0.12 in the same period last year. The pro forma weighted average shares assume the preferred shares outstanding before our IPO were converted to common stock at the beginning of all periods presented. As a reminder, we are using pro forma shares for historical periods and guidance, solely for comparability purposes.

We finished the third quarter with $287 million in cash and cash equivalents and ST investments, having closed our IPO in July.

Our free cash flow burn was $2.9 million for the quarter, compared to a burn of $1.9M in the third quarter of 2017. We started our ESPP program in August, which contributed approximately $2.3 million to our free cash flow in the quarter. The first stock issuance under the ESPP program will be in March 2019, which will reduce our free cash flow by approximately $8 to $9 million in Q1 but we believe will have minimal impact on overall FCF for 2019 as the 2nd half of the year will reflect proceeds from a new offering period. In short we are pleased with the efficiency & cash flow of the business and we continue to target FCF+ as we exit 2020.

Now turning to guidance.

For Q4, 2018, we currently expect:

- Revenue to be in the range of $72.5M to $73M.
- Non-GAAP loss from operations to be in the range of $14.0 million to $13.0 million
- Non - GAAP Net loss in the range of $13.6 to $12.6 million
- and Pro Forma Non-GAAP Net loss per share in the range of $0.15 to $0.14, assuming weighted average shares outstanding of 92.2M

For the full year 2018, we currently expect:

- Revenue of $264.6 - $265.1 million, which is up from our prior guidance of $260-$261.
- We are also increasing our annual guidance on calculated current billings. For the full year 2018, we expect calculated current billings of $321-$322 million, which is up from our prior guidance of $314 - $316 and compares to $235.6 million for the full year 2017.
- We now expect non- GAAP loss from operations in the range of $52.3- $51.3 million
- Non - GAAP Net loss in the range of $53.0 to $52.0 million
- Pro Forma Non – GAAP Net loss per share in the range of $0.63 to $0.61 assuming weighted average shares outstanding of 84.8M

And now, let me turn the call back to Amit for some closing comments.

AMIT
In summary, we continue to be excited about pioneering Cyber Exposure. We are partnering more and more with customers interested in a strategic approach to vulnerability management. We believe the combination of our differentiated technology and strategic approach to the market position Tenable for success in this journey.

PLEASE USE THIS INITIAL VERSION FROM THE RECORDING:
Thank you all for joining the call today. We look forward to seeing many of you during our events coming up in November. We will be participating in the Stifel MidWest 1x1 conference, Nov 8th in Chicago and the BTIG Tech Conference Nov 14th in NYC. We also expect to be in NY/BOS and likely SF before the end of the year so we hope to see many of you in person. We appreciate your interest in Tenable.

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