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TENB.OQ - Q3 2021 Tenable Holdings Inc Earnings Call

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PRESENTATION

Operator

Greetings. Welcome to the Tenable 3Q 2021 Earnings Conference Call. (Operator Instructions) Please note, this conference is being recorded. I will now turn the conference over to your host, Erin Karney, Senior Director of Investor Relations. Thank you. You may begin.

Erin Karney - *Tenable Holdings, Inc. - Senior Director of IR*

Thank you, operator, and thank you all for joining us on today's conference call to discuss Tenable's third quarter 2021 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 financial results for the quarter. 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 2021; 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; the potential benefits of our acquisitions, including our recent acquisition of Accurics; planned innovation and new products and services; Tenable's expectations regarding long-term profitability; and the impact of COVID-19 on our business and on the global economy.

These forward-looking statements involve risks and uncertainties, some of which are beyond our control, which could cause actual results to differ materially from those anticipated by these statements. You should not rely upon forward-looking statements as a prediction of future events. Forward-looking statements represent our management's beliefs and assumptions only as of today and should not be considered representative of our views as of any subsequent date.

We disclaim any obligation to update any forward-looking statements or outlook. For a further discussion of the material risks and other important factors that could affect our actual results, please refer to those contained in our most recent quarterly report on Form 10-Q and subsequent reports that we file with the SEC, which are available on the SEC website at sec.gov.

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

Thank you, Erin, and thank you all for joining us today. Today, I'll discuss our financial performance in Q3, our strong execution on our newer products, including OT, AD and cloud and how our security solutions combine to create a differentiated platform and capabilities.

With that, let me first touch on our Q3 results. We are incredibly pleased with our performance in the third quarter. We delivered accelerated growth at scale, highlighted by 25% CCB growth this quarter, which is up from the 23% CCB growth we reported last quarter. Our impressive results on the top line are also accompanied by a sizable beat in EPS and free cash flow. This growth is being driven by traction across all of our products during the quarter, validating our platform approach. That said, there are a few areas of particular strength that are important to call out.

In the third quarter, we saw notable interest and traction with Tenable.ad. Securing identities is quickly becoming one of the most critical initiatives with respect to zero trust customer implementations. Identities are also known areas of weakness and are highly targeted by ransomware. Customers have grappled with how to secure their Active Directory environments and Tenable.ad is playing out exactly as we had hoped. It has opened the door to more opportunities for us.

Tenable.ad is a unique solution that combines the security audit of identities and ongoing attack detection in a lightweight platform. As mentioned, Tenable.ad outperformed in its first quarter of availability. We believe the traction in the short time since acquisition will continue as we see strong pipeline and great opportunity for Tenable in the identity market.

We also saw customers increasing focus on securing their operational technologies. The convergence between OT and IT is accelerating. And understanding these complex environments has become a priority, given all the recent examples of converged, high-visibility breaches and corresponding outages. Tenable's native OT capabilities works seamlessly with our deep understanding of IT, creating dramatically differentiated results. Customer OT and IT systems are increasingly interdependent, resulting in expanded business opportunities to deploy our security solutions in a more programmatic fashion across their global facilities.

While starting from a small base, Tenable.ot is one of the fastest-growing areas of our portfolio. A recent 7-figure win and massive cross-sell with a forestry company helps validate these key investments. They've been using Tenable.sc and IO. And as we're looking to secure both their AD and OT environments, Tenable became the very obvious choice as a unified way of managing cyber risk.

To further serve our customers, we're also expanding our AD and OT ecosystems. During the quarter, we announced a global strategic partnership with Splunk to secure Active Directory and converged OT environments. The clear takeaway is that we're executing well on our strategic investments in AD and OT in an era where securing these technologies is of great importance and in high demand.

We see tremendous traction with our existing cloud capabilities, and our acquisition of Accurics augments and extends these capabilities in dramatic ways. Cloud usage has greatly accelerated and matured from a lift-and-shift, virtualization of on-prem infrastructures to one that is cloud-native, where infrastructures are defined in code and deployed as needed. Infrastructure as Code allows operations at cloud scale with just-in-time operational efficiency.

Accurics' technology integrates into customers' public and private cloud deployments and integrates with their development and built pipelines. As code is checked in, it's assessed to assure that the infrastructure and systems defined comply with the organization's security policies, compliance requirements and best practices. Flaws are identified before cloud infrastructure and applications are deployed into production.

Together, Tenable and Accurics' Infrastructure as Code platform can not only identify these flaws in advance, but can automatically remediate them before launching them into production. Once applications and systems are stood up at runtime, Tenable's Container Security and Frictionless Assessment capabilities deliver market-leading assessment of drift and security exposure.

Accurics also provides CSPM functionality. Our capability to secure cloud environment spans the entire need spectrum from the left in development, preproduction phase through to the right in runtime in deployment and operational phase. We believe this is among the most holistic approaches to modern cloud security available in the market.

Tenable continues to aggressively differentiate our core VM capabilities, and we have also started bringing new products to market in some of the most exciting segments of the security space: risk analytics, OT, identity and cloud security. While these products are demonstrating their compelling value propositions, we're most excited about our ability to integrate these technologies on to our unified platform. Doing so will deliver increasingly unique capabilities.

We lead the market in our ability to deliver a unified understanding of converged IT/OT environments. We're the only company which can provide an understanding of AD security implications in OT environments. With the addition of Accurics, our Infrastructure as Code offering leaps to the leading edge of cloud-native capabilities. Integrating this shift-left predeployment technology with our deep understanding of security at runtime through containers, Frictionless Assessment and CSPM, will allow Tenable to deliver a complete code-to-cloud experience to the market, one that I believe no other company matches.

The strategic nature of our platform approach to our products should not be underestimated. It comes as no surprise that we continue to see strong demand for Tenable.ep, our unified platform. EP combines Tenable.io, container, web application and Lumin into one platform, enabling customers to understand risk, prioritize actions and get the benchmark you may require so that they can focus on what's really important. We identify key risks and automate the process for what to do about it.

A great example of this is a 6-figure Nessus Pro upsell and competitive displacement. They purchased Tenable.ep to consolidate risk analytics for multiple programs into a common platform for a holistic visibility and prioritization. We are seeing strong and we believe sustainable momentum in expanding use cases as we bolster our platform of products. And in the coming periods, we intend to create greater leverage and unique and differentiated capabilities by bringing these products closer together.

Finally, before I turn the call over to Steve, I'm excited to invite all of you to a Virtual Investor Day we will be holding on December 15. We'll be sending out more detailed information in the coming weeks and hope you can attend.

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

Thanks, Amit. As Amit mentioned earlier, we are delighted with our results for the third quarter, highlighted by accelerating top line growth due to strength in cloud, strong momentum from acquired products and a sizable contribution from our public sector business. On the bottom line, we are very pleased with the substantial beat in EPS and the strong cash flow in the quarter.

I will provide more commentary on each of these points momentarily, but first, please note that all financial results we will discuss today are non-GAAP financial measures, with the exception of revenue. As Erin mentioned at the start of this call, GAAP to non-GAAP reconciliations may be found in our earnings release issued earlier today, which is posted on our website.

Now on to our results for the quarter. Revenue for the quarter was $138.7 million, which represents 23% year-over-year growth. Revenue in the quarter exceeded the midpoint of our guided range by $4.7 million. Visibility remains high as our percent of recurring revenue is 95%, which is primarily a result of our annual prepaid subscription model. The outperformance in revenue is a result of accelerating growth in calculated current billings.

CCB, defined as the change in current deferred revenue plus revenue recognized in the quarter, grew 25% year-over-year to $166.9 million, which is up from the 23% growth we reported last quarter and 20% growth we reported in Q1. Calculated current billings in the quarter was aided by strong demand in both new and renewal business.

In terms of new business, we added 499 new enterprise platform customers, which is a record for us in any single quarter and up from the 335 we added in Q3 last year. We also had success with large deals as we added 62 net new 6-figure customers in the quarter, which is up from 56 in the same period last year. We attribute this demand and the better-than-expected CCB growth to a number of factors, some of which Amit touched upon earlier, but certainly worthy of additional commentary.

First, our cloud products such as Tenable.io and Tenable.ep continue to gain traction across both the large and mid-market. In aggregate, our cloud products now represent over 50% of total new sales. And the growth rate for these products as a percentage of total sales is much higher than the overall growth rate of the company.

As prospects and customers continue to move critical workloads to the cloud to support work from anywhere and other digital transformation initiatives, they are increasingly looking to Tenable to secure their hosted environments. Our recent acquisition of Accurics in October furthers our cloud capabilities and augments our existing strength in runtime environments by adding the ability to assess and secure critical cloud infrastructure prior to deployment into production.

Second, our Active Directory and operational technology offerings are starting to make a difference and collectively contributed several points of growth in the quarter. These newly acquired products have expanded our addressable market by extending our exposure platform to assess new areas of the attack surface that have been exploited recently in highly publicized attacks.

This traction is notable as these are newly acquired products with Alsid closing in April and sales of Indegy's OT offering commencing just last year during the pandemic. Given the compelling market opportunity for AD and OT and strong demand from a heightened threat environment, we've been able to build sizable pipe for these products throughout the year.

While the conversion of pipeline for new products was not apparent in the first half of the year, given limited history, we executed well in Q3, which contributed to the outperformance in the quarter and provides us with improved visibility heading into the fourth quarter.

Finally, our public sector business is benefiting from a better spending environment, driven by executive orders and legislative proposals, which helped lift Q3 sales in this theater to 17% of our total company sales. Looking ahead, we remain very encouraged with the myriad of large funded and unfunded opportunities potentially available to us, including the impact of receiving FedRAMP certification to deliver our cloud products to U.S. federal government agencies.

In summary, we're very pleased with the trend on the top line this year, which is benefiting from new products and momentum in the cloud. We look forward to providing more insight on product momentum during our Investor Day in December.

I'll now turn to expenses, which included incremental investments in growth, interest expense related to our recently completed debt raise and a full quarter of OpEx from the Alsid acquisition.

I'll start with gross margin, which was 83% this quarter, up 1 point from last quarter. I do want to note that even with our success in cloud and investments in our broader set of predictive analytics, our gross margin has held relatively steady due to the scalability of our architecture. We have managed this closely and have been very pleased with this trend. Looking ahead, we expect gross margin to remain at current levels in the fourth quarter despite incremental cloud investments and the impact from the Accurics acquisition.

Sales and marketing expense for the quarter was $60.7 million, which is up from $58.1 million last quarter. Sales and marketing increased sequentially, primarily due to higher travel and headcount-related costs, including an increased number of quota-carrying sales reps. Adding sales capacity and investing in our go-to-market efforts has been a major area of focus for us this year, given the strength in our core business, expanded TAM and a strong secular tailwind.

Sales and marketing expense as a percent of revenue was 44% compared to 45% last quarter. Given our better-than-expected performance to date and upward revised outlook for the year, we plan to increase our current level of investment in sales and marketing in the fourth quarter.

R&D expense for the quarter was $25.1 million, which is up from $23 million last quarter. The change reflects an increase in personnel costs and the inclusion of Alsid for a full quarter. As a percentage of revenue, R&D expense was consistent with last quarter at 18%. Given our best-of-breed approach, innovation remains a top priority, and we plan to continue to invest throughout the year.

G&A expense was $15 million compared to $13.8 million last quarter. As a percentage of revenue, G&A expense was 11% this quarter, which was flat compared to last quarter. As anticipated, G&A expense was sequentially higher in the third quarter due to increases of that and headcount-related costs.

Income from operations was $13.7 million compared to $11.5 million last quarter. Operating margin was 10% for Q3 compared to 9% last quarter. As a reminder, we closed our credit facility in early July. So net income in the quarter was reduced by approximately $3.5 million of interest expense, which does skew the comparisons to prior periods. EPS in the third quarter was $0.07, which was $0.05 better than the midpoint of our guided range.

Now let's turn to the balance sheet. We finished the quarter with $652 million in cash and short-term investments, which included $336 million of net proceeds from our credit facility. As a reminder, we used $160 million of cash in October to acquire Accurics. Current deferred revenue at September 30 was $362 million, giving us a lot of visibility heading into the fourth quarter.

Now I'd like to discuss cash flow. With cash interest payments relating to the term loan B commencing in October, we believe unlevered free cash flow is a useful metric to aid in the assessment of the underlying health of the business. As such, in the press release, we have provided a reconciliation of net cash provided by operating activities to unlevered free cash flow.

In the third quarter, we generated $20.1 million of unlevered free cash flow. And for the 9 months ended September 30, we generated $72.8 million of unlevered free cash flow. With high recurring revenue, high gross margins and high renewal rates, we feel confident that we can continue to generate attractive levels of cash flow while continuing to invest in the business.

Now with the results of the quarter behind us, I'd like to discuss our outlook for the fourth quarter and full year 2021. Our strong performance year-to-date continues to give us increased confidence in the business environment.

With that said, for the fourth quarter, we currently expect revenue to be in the range of $143 million to $145 million; non-GAAP income from operations to be in the range of $7 million to $8 million; non-GAAP net income to be in the range of $2 million to $3 million, assuming a provision for income taxes of $1.9 million; and non-GAAP diluted earnings per share to be in the range of $0.02 to $0.03, assuming 116.5 million fully diluted weighted average shares outstanding.

And for the full year, we currently expect calculated current billing to be in the range of $602 million to $605 million; revenue to be in the range of $535.1 million to $537.1 million; non-GAAP income from operations to be in the range of $46.1 million to $47.1 million; non-GAAP net income to be in the range of $35 million to $36 million, assuming a provision for income taxes of $3.1 million; non-GAAP diluted earnings per share to be in the range of $0.30 to $0.31, assuming 115 million fully diluted weighted average shares outstanding.

As a matter of clarity, the guidance we are providing today reflects our outperformance in Q3 as well as a notable raise for the year for both CCB and revenue. I would also like to highlight that our non-GAAP income from operations guide has been increased from the beginning of the year despite the incremental OpEx associated with 2 meaningful acquisitions. Lastly, our EPS guidance for the full year includes $7 million of interest expense equating to $0.06 per share associated with our new credit facility.

In summary, we are excited about the differentiated capabilities we are introducing to the market and pleased with the momentum we are seeing. The results of the quarter give us increasing confidence that we remain well positioned to deliver compelling growth and profitability over the long term.

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

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

Thanks, Steve. We're helping customers solve their most complex security challenges including identities, critical zero trust, mission-critical operational technologies, web applications and critical cloud infrastructure. We're especially excited about our platform-based approach to bring these capabilities together and the compelling differentiation that doing so represents. We hope to see many of you virtually at the Stifel and Wells Fargo conferences as well as our Virtual Investor Day in the coming weeks.

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 Hamza Fodderwala with Morgan Stanley.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Really good color on some of the traction you're seeing with the newer use cases, and that's something I want to dig into. So Amit, first question for you. You mentioned the 7-figure win that you had with the OT product. I'm curious, one, was that a 7-figure ACV win? What was the customer using beforehand? And could you give us a sense of what the uplift was when they adopted OT? I think you mentioned the AD product as well.

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

Yes. Thanks. It's great to hear from you. It was an existing VM customer, a great relationship, good account team. And they originally went out to bid for an OT security requirement. We came in, we provided them visibility to how the OT product works with our VM capabilities and give them holistic visibility they got really excited about, and then throughout that process, learned more about what we're doing with AD and ultimately decided to move forward with the EP suite as well as the AD and OT components.

So I won't call it a textbook, but a super exciting win and an indicator of the types of moves that we'd like to see going forward. And it was a several hundred thousand dollar ACV delta between where they were with VM and the added components.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Okay. That's super helpful. And then, Steve, just a follow-up for you. You mentioned cloud was over 50% of sales in Q3. I'm just curious if you could remind us what is like the general ACV uplift that you see with the Tenable.io product versus the on-prem SC version?

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

Great question. In terms of ASPs, actually Tenable.io, if it's a subscription, it generally commands relatively the same price points as [SA]. It comes with a slightly higher carrying cost. But what's exciting about Tenable.io is that it's a preposition to selling other products such as WAS and Container Security and Lumin. On average, Tenable.io, as I called out earlier, is one of the fastest-growing products for us.

We're seeing strength in cloud that's helped driving inflection in demand. It's over 50% of our new sales. And so I think we couldn't be more pleased with the demand pool that we're seeing move to embrace digital transformation as well as work from home or some of the underlying reasons why we're seeing heightened demand for our cloud-related products.

Operator

Our next question comes from the line of Sterling Auty with JPMorgan.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

So when you look at the strength of revenue in the quarter, can you give us a sense how much of that was coming from organic kind of Tenable products that you've had right along versus how much of that upside came from the recent acquisitions that you've done, especially relative to what you may or may not have put into the guidance for the quarter?

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

Yes, it's a combination of both. We're seeing strength in our core business, and we're also seeing upside from new products. And so if you look at the trend line over the past couple of quarters, 25% CCB growth this quarter, that's up from 23% growth last quarter, which is up from 20% growth in Q1. I think it was notable that some of the newer products works, which are expansionary TAM opportunities for us, is the fact that Active Directory is the -- this is the first full quarter in which we're going to market and selling that product. That's a deal that closed in the late April.

And even for OT operational technology, we were really going to market for the first time last year during the pandemic. So we feel like over the course of the year, we've been hard at work at building pipeline opportunities and having conversations with customers. And while the conversion rates for some of these newer products were less certain in the first half of the year, given the execution in Q3, has given us increasing confidence not only in this quarter but also our outlook for the full year. So in short, newer products are starting to make a difference, as I mentioned earlier, and have contributed several points of growth this quarter for us.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

And then one follow-up would be, how would you kind of characterize the ramping of the sales resources that you kind of layered in earlier in the year? And do you feel like the pace of hiring has been consistent, so maybe you don't get any kind of gaps in growth as you look into 2022?

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

Yes. We are -- that's an area of focus for us. And we continue to make investments in sales and marketing. You can see that play out in the P&L in terms of higher sequential quarterly spend. I think it's fair to say we're hiring more in the second half of the year than the first half, in part because we made investments to improve recruiting and outreach and other efforts. And in the third quarter, we saw our highest -- it was our largest increase in quota-carrying reps relative to any other quarter this year.

So -- and with planned expansion. So reps that we've hired the first half of the year is certainly contributing. They're selling not only our core products, but also newer products. The reps that we're hiring in the second half of the year will continue to ramp as well. And hopefully, that will pave the way for good growth not only in the rest of this year, but more so in 2022. Keep in mind that our average ramp time for full productivity is about 10 months for a new sales rep.

Operator

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

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

Just one from me today. You mentioned strength in the public sector, and thanks for the quantification there. How do you see this setting up moving forward? We've heard a lot from folks about probably better linearity and where pipelines are setting up for December and March quarters. And do you think this elevated federal spending levels or these elevated federal spending levels will last for some time?

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

I think we started out with a very strong Q1, Q2 in federal space and continue to perform. We're very pleased with our performance in the third quarter. We do have a large number of 6- and 7-figure deals in the federal space or deals in the pipeline in the federal space for the fourth quarter. And I think we have the opportunity, the ability to have a strong year in federal market.

We haven't seen candidly any tremendous windfall, if you will, directly as a result of any of the new programs. It's just an increased heightened awareness of cyber more broadly, including in the federal government, where Biden executive orders and the executive branch have just start paying a lot more attention to cyber security than previous years.

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

And just one thing to add. The demand environment has been strong this year, given the constant drumbeat of high-profile data breaches and public sector executive orders as well as other legislative proposals. We are the market leader in public sector and believe there's a compelling long-term opportunity for us and believe our FedRAMP-approved IO product and our hardened OT product will be instrumental in our ability to grow and achieve success in this market over the course of time.

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

And I guess just as a follow-up there, Steve, since you mentioned the FedRAMP, could you maybe articulate how much bigger the opportunity becomes as a result of that?

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

Well, it opens us up to new avenues of growth as more workloads move to the cloud, where we offer customers a choice, so we can help customers secure their on-premise environment. We can help secure now environments in the cloud, including public environments. And so this is another vector of growth. So Tenable.io, OT, these are all newer opportunities for us, newer products. And as a result, we think it will continue -- our hope is that it will continue to strengthen our foothold in the public sector.

Operator

Our next question comes from Andrew Nowinski with Wells Fargo.

Andrew James Nowinski - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Congrats on a great quarter. I just want to start off with, yesterday, (inaudible) Microsoft announced they detected a large-scale attack impacting about 600 of their customers. I think one element of the attack that stood out was highly compromised Active Directory. I know you said the conversion of your new products like Tenable.ad was not that apparent in the first half. So I guess, would you attribute that sort of better conversion rates you're seeing now in Q3 to some of these recent attacks? Or if not, what do you think is driving that better conversion?

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

Yes. Active Directory has been an underserved segment of the security -- IT and the security market for years, and I will call it the -- kind of it has been the dirty little secret that Active Directory is incredibly difficult to deploy in scale in any secure fashion. It's very difficult to audit. And the monitoring mechanisms for detecting attacks against Active Directory have been inadequate. At the same time, given the critical role it plays, it's really the keys to the kingdom.

And so you see almost every modern attack or, I should say, a vast super majority of modern attacks going after Active Director. You saw it -- you see it in a majority of ransomware attacks. You saw it in Microsoft's recent disclosure and a whole swath of activities. Once you get in, you want to establish persistence, you want to expand the reach within the enterprise. All of those things lead adversaries to target AD specifically.

And I think security practitioners know it, and the headlines are sort of proving that out. So we see tremendous traction in the third quarter with our AD product. It was the first -- it's actually the first quarter that we've had -- first full quarter that we've had the AD product in market and very pleased with the results and very excited about the pipe that we continue to build going into the fourth quarter and beyond with Tenable.ad.

And I can notably also -- the most exciting part is that it can be and is being integrated with other parts of the portfolio. So AD's differentiation with OT is the type of insight that might have prevented a compromise like Colonial Pipeline or JBS in the food processing and the type of insight that could lead to better protection of cloud workloads and the whole slew of opportunities for leverage.

Andrew James Nowinski - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

That's great. That's great color. And then I just wanted to follow up, maybe a question on your record number of large deals and new enterprise customers you talked about. I'm wondering, is it just a function of you having more products to sell customers now on than initial purchase or perhaps Tenable.ep where you're bundling more of those together? If not, what do you think is driving just the bigger spend that you're capturing with some of these larger deals now than you were at this point last year?

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

I think it's -- Steve, I'll jump in. Feel free to chime. I think it's a combination of factors. One is understanding your cyber risk is more strategic than it's ever been that's playing itself out, the high-profile breaches, the executive orders, all of those things. And then understanding the attack surface is a lot more complex. If you had a VM program, you're probably expanding it, but you also recognize the need for protecting your OT environment, your AD environment and also all the analytics. So we're seeing tremendous traction with these -- with some of the newer products that we mentioned, including EP, which is a more platform-based approach to understanding exposure and risk.

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

And the -- well, one thing I would add there, too, is that we're also seeing continued strength in the mid-market, which is something we talked about at the beginning of the year, right, mid-market customers making investments in digital transformation, pairing those with kind of a security-first mindset. And so we're seeing strength in the mid-market.

Strength in the mid-market usually comes along with more deal volume and more deal flow. So the fact that we're able to add lots of new enterprise platform customers, have our best quarter ever in this quarter, along with larger deals that -- strength in new products in public sector. So we're pleased to see a good -- high volume of deals as well as our ability to continue to transact larger deals together has created outperformance in the quarter.

Operator

Our next question comes from Brian Essex of Goldman Sachs.

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

Nice to see the acceleration in revenue, CCB in enterprise platform customers. And I guess maybe on the back of that, Amit, it's clear that new customer growth is pretty robust and you're landing larger customers. But what is the experience with your installed base? Particularly as you're rolling out Accurics now in AD and OT, what is the adoption rate within the installed base? And how much of your growth is expand as opposed to new land?

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

Well, I guess 2 points. One is we're still early in the cycles with some of these newer products, products which have just been released largely this year have just gone through or have not even gone through a full quarter [sincerely]. So we're super excited about our ability to hit our expectations or even exceed our expectations. Our net dollar expansion rates continue to be within the range. I'd say, if anything, tend to -- appear to be trending in a northerly direction.

And so that leads to me to believe that it's just a matter of our relationships, continue to become more strategic with our customers. Customers continue to expand their deployments with us and starting to prove out our ability to sell some of these newer products in a platform-based approach to our existing customers. And so again, we're in the early innings, but the indicators are extremely positive.

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

Got it. And then maybe just a follow-up. How should we think about SC customers, given the traction that you have in IO and EP, percentage of new sales? Are you, I mean, anticipating that those customers to stay on those platforms? Is there any potential, maybe at some point to, I guess, increase the attach with those customers that have both IO and SC? How do you think they'll behave as you continue to expand your platform with more features, functionality and more cloud focus.

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

Well, SC is a product with high renewal rates and high -- and very good and high NPS scores. So it's -- the product that's been in the market for a long time, and it's a beloved product. We have a compelling glide path for our customers who currently use our SC offerings who want to use cloud and are increasingly choosing our cloud products. So that could come in the way of IO or EP.

The one thing that we're not doing is providing remuneration to the sales team, this one product versus the other. And the reason why that can have a tendency to create some bad behavior. When customers make a choice, we want to sell the right product to customers, given their needs. And the one thing that we see is that we see customers often buy both, looking for products to secure their on-prem environments, looking for cloud-based products as well. So -- I mean we're one of the few companies that can cover the attack surface in that regard. And so there's incentive for customers to move from SC to IO, but we're doing that in a way that makes sense for them as well as us.

Operator

Our next question comes from Saket Kalia with Barclays.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Okay. Great. Maybe first for you, Amit. I mean we've mentioned EP a little bit earlier. I was just wondering if you could zoom out a little bit. What do you hear from customers about bundles like EP? And maybe longer term, how do you think about bundling for Tenable over the next year or 2?

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

Yes. We've seen tremendous traction with EP. We're extremely excited about it. It's one of those things where we pulled it together based on a lot of feedback. Our desire, candidly, to show greater leverage, not only from a go-to-market perspective, but how some of these products can work together to create unique value propositions for our customers. But you never know how the sales team and how the market are going to gravitate to various offerings.

We were extremely pleased with how the sales team gravitated toward EP. And candidly, their ability to drive customers and walk customers through the value proposition and customer willingness to embrace EP, despite its significantly higher ASPs and price per asset. So extremely excited about what we've been able to do with EP in a short period of time. Again, it only came out earlier this year. And also excited about our ability to continue to add in and bundle new asset types and new analytic methods into EP.

So it's not a great leap of faith to look at some of the other technology assets in the portfolio where natural leverage can occur and to add those into the EP licensing so that customers can expand their asset base with -- much more smoothly and derive greater value in seeing the correlations between the various data asset types.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. Got it. That makes a ton of sense. Maybe for my follow-up for you, Steve, I think you talked about maybe just a couple or a few points of growth from inorganic in the quarter. Maybe just to ask the question this way, specifically for CCB, how much did organic contribute here in Q3? And how much are you assuming for CCB within that full year CCB guide?

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

So specifically in Q3 for CCB, what we said is inorganic opportunities, these are newly acquired products and specifically AD, and I'll put OT collectively, that's how we look at the business, collectively contributed several points of growth. And I think it's fair to say if you look at kind of performance in Q3 and compare to the first half of the year where you now have in Q3 the first full quarter of sales associated with AD. We all know that OT comes with higher selling prices, but also longer sales cycles.

And last year was our first year in the market selling that product. But given the backdrop of a heightened threat environment, we were seeing tailwinds and good growth really for that product line. Collectively, this product contributes several points of growth. These are quarters in the making for us. We think it's a good setup into the fourth quarter, which tends to be seasonally strong for us.

And for the full year, I think it's fair to say that, at least specifically OT, what we talked about for -- specifically AD, what we talked about was going to contribute roughly 1 point of growth, I think we're in a place to do a little better than that than the full year, specifically given the strength in the third quarter.

Operator

(Operator Instructions) Our next question comes from the line of Mike Cikos with Needham & Company.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Associate*

I wanted to ask you if you're seeing any changes here in win rates based on this hardened broader portfolio that you're now offering? And then, I guess, building on that, is it fair to think that EP and IO are the -- are primarily pulling through this cross-sell for AD and OT? Or are you seeing certain situations where maybe AD or OT are actually the primary lead, which get your tent under the nose and then you can start selling the EP and IO in addition to that?

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

The EP -- so I guess, historically, the company has led with VM and now increasingly with EP, showing a more holistic approach to understanding cyber risk. EP includes container, web application security, Lumin, the analytics and core VM capability. To date, Active Directory, OT, some of the newer cloud capabilities are not yet included in the EP licensing scheme. So there's, I think, a tremendous opportunity to make it much easier for customers to adopt us much more broadly.

We do have -- I think the easiest motion to generate the fastest traction is selling some of these newer products and bringing some of these newer products to our existing customer base, right? We have 35,000-plus customers on our core VM platforms as VM customers, and there's some natural motion, natural ability to upsell them to some of these newer product lines, which can add tremendous value.

We've also seen on numerous occasions, large enterprise customers, which already have a VM solution in place, it's tightly integrated, and they're not looking at near-term swap-outs or they're contractually obligated over a multiyear period. But they do have tremendous need for OT or AD or augmented cloud capability. And that's where we've seen some of the newer products become significant land opportunities for us and expect that those conversations will expand over time.

Michael Joseph Cikos - *Needham & Company, LLC, Research Division - Associate*

Very helpful. And if I could just ask one more question. On your go-to-market, I appreciate all the -- I guess, the accelerated sales capacity investments you guys expect to make in 2H versus 1H of this year. But wanted to touch more on your go-to-market investments in channel, specifically with the MSSPs. Can you talk to those investments and maybe help us better understand, is that benefiting you when I think about some of the mid-market strength that you guys spoke about earlier in the call? Anything that would be beneficial?

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

Well, MSSP remains an exciting long-term opportunity for us. And this year, it's -- in essence, it's a new route to market, which was preceded by changes in product because product is an important part of the MSSP market. You have to provide certain features and access rights and controls. But over the course of the last 12 months, we've added a number of new partners, channel partners in this market. And as a result, we're seeing good pull from customers.

Primarily in foreign markets -- we're having success here in the States, but in markets that rely heavily on an MSSP model, the fact that we're able to add new channel partners, along with changes in products, have really made a difference for us. We think long-term MSSP could generate as much as 10% or more of our total sales. I think that's not out of the question. We know that's going to take time. But that's a new route to market for us, one that we're going to continue to make investments in. Our partner model is important here. And our ability to invest is going to be critical.

So when we talk about investments in sales and marketing, we often spend more time talking about increases in quota capacity and specifically quota-carrying reps, but just as important the investments that we're making in channels. MSSP is one of them. But doubling down on the channel and generating more channeling business is something that worked well for us over the years, and it's one of the reasons why we were able to have the success in the market that we're having and be the best-of-breed provider.

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*

Just wanted to start out with the Accurics acquisition. Can you give us a sense of maybe how this acquisition can contribute to maybe the cloud and shift-left inside of your strategy?

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

Yes. I think the Accurics factor significantly in how we expand our cloud strategy. So Tenable has been leaning in on cloud for a number of years. We have cloud-native connectors to all the major public cloud infrastructure providers. We've deployed a Container Security capability. We've delivered frictionless, which allows us to assess assets in the cloud without deploying agents or conducting scans. So some real, what I characterize as, cloud-native capability that is much more focused on assessing [state] while in runtime after deployment in operations.

Accurics brings 2 additional capabilities to bear. One is an Infrastructure as Code kind of shift-left approach, as you've noted. So now looking at code at checking time and looking at violations of policy and security issues in a preproduction mode. So someone checks their code in, you look at it, you look at the infrastructure, which is being requested and produced, and you can identify where problems exist. And rather than just accepting the code checking, you can provide feedback and provide remediation this code back to the DevOps team, which really alleviates a lot of issues from ever making their way into production environment.

So a lot of cost savings, a lot of enhancements and improvements in security in doing that. The other capability that Accurics brings to the table is a more traditional CSPM functionality. So we believe, as we integrate our approach integrated across these capabilities in our approach to cloud, it's really quite a compelling from code infrastructures code through preventing issues in a preproduction mode all the way through runtime, assessment of drift, container, frictionless assessment of assets and cloud configuration issues, providing customers an entire cloud platform-based approach to protecting their cloud workloads.

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

Got it. Got it. And I guess when it comes to the OT space, this is a business that you guys have owned for a period of time. And it seems like things are really sort of picking up or accelerating here. Can you talk about any inflection points that you may be seeing in the business or product or pipeline that may be driving some of the stronger activity levels here?

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

Yes. It's a good question. I think some of it is just a matter of time and blocking and tackling in the early stages of the pandemic between supply chain, customers not being able to be on site to do proof of eval and deployments and things of that nature. That business went into a slower growth mode. We did see acceleration over the past year, predominantly through being able to deliver remote hands capability, being able to deliver software-only distribution.

And I think increased market appreciation for OT challenges between issues like Colonial Pipeline, JBS. We saw healthcare issues in the U.K. There's also been a number of executive orders and other high-profile activity really highlighting to those that operate critical infrastructures or OT environments that they've got to protect them and that there's mission-critical activity happening. And that our approach, combining OT visibility with IT is quite compelling.

So we're seeing some of those larger transactions occurring. And we're also seeing some of our early adopting customers now talking about larger-scale deployments, global deployments, moving from first handful, first dozen sites to significantly broader deployments, which shows that these things are moving into a more operational phase.

Operator

Our next question comes from Gray Powell with BTIG.

Gray Wilson Powell - *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*

Great. A couple on my end. The first one you've already kind of hit on, but I might ask it a little bit differently. Just at a high level, how would you categorize the demand environment in 2021 relative to prior years? And then, obviously, what I'm trying to get at is there were some obvious headwinds in 2020. So I guess part of my question is whether or not you're seeing sort of a catch-up in spending this year? And then just any insight on sort of the sustainability of demand going forward?

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

No, I don't think -- I wouldn't characterize it as a catch-up in spend. Last year was slowed down for a number of reasons. But I think we're returning to what I would characterize as still a more normal mode of operation. If you look at it still, we still feel like we're behind where we were from a demand environment perspective pre-pandemic in growth rates and feel like there's still lots of room for us to continue to improve and execute and draw on the backs of our core market and a bunch of new capabilities and new markets that we're now starting to tap into.

Gray Wilson Powell - *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*

Okay. That's really helpful. And then just as I look into Q4 and sort of the implied billings guidance for the quarter, does that include any material contribution from Accurics? And how should we just think about the run rate of that business, particularly as we try to think through things for next year?

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

Yes. So as we talked about earlier with Accurics, Accurics is going to be de minimis in terms of the top line. So it's not going to have a meaningful impact on the top line in the fourth quarter, not expected to. We'll assume about $4 million of OpEx. If you look at our guidance for the year -- full year CCB guide at $602 million to $605 million, which depending on where you are in the range, is a $10 million to $12 million increase, driven in part by the strong beat in Q3 as well as a raise for the full year. This represents about 22% growth for the full year and implies a 20% to 21% growth for Q4.

And look, overall, we're very pleased with our growth in Q3. It gives us a lot of confidence in our outlook for Q4. Given the seasonality of the business, strength in cloud, things that we've talked about today such as contributions we're seeing from new and expansionary TAM products, specifically AD and OT, as well as a favorable spending environment in public sector. So it's, I think, a confluence of all these things together that are delivering upside not only in this quarter, but give us more confidence in our outlook for the rest of the year.

Operator

Our next question comes from Daniel Ives with Wedbush.

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

Yes. So can you just hit -- in terms on federal with the executive order, it feels like more and more you're almost getting ratcheted up in a lot of these deals, given the nature of the threat environment as well as the actual executive order. I mean is that true? Are you seeing that, that you're starting, from a pecking order, given where you stand, the solution set that's changing?

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

We feel like we've got a solution that's a solution set that is well understood by the federal government and large enterprises in general. It's a core requirement from a security operations perspective in understanding cyber risk, with lots of room for continued expansion, a number of existing customers across federal, civilian especially, which don't have complete coverage of and nor understanding of their vulnerabilities and exposures.

We also have a number of our newer products and capabilities, things like Active Directory, which has been plaguing public sector as well as private sector, which I think can become tremendous opportunities for us. Operational technology is another example. So we're still early. I think the increased awareness in the federal spend starting to come together in terms of programs, but we're still in the early innings of seeing how this will play out.

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

Yes. I like the humble answer. So to that point, just in terms of like sales, distribute partners, and obviously, you've invested a ton, but can you just talk about, again, investment on the public sector within the beltway?

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

Dave. So a couple of things in that. Number one, in terms of investment, I think it's fair to say that we're continuing to invest in our go-to-market efforts, and that's really across all theaters. Domestically and abroad, whether it's public sector as well as state and local, we're seeing like strong demand in federal, but also state and local. And we know there's compelling opportunities there.

I think the success we're seeing this year reflects the conversion of some opportunities with shorter sales cycles, along with the combination of some longer-term projects, given our leadership position in federal. This is an important market for us. And our success closing recent opportunities in the current budget environment, we're encouraged by what we see ahead, a number of sizable opportunities that are in front of us.

And we think this is going to be potentially a catalyst -- a potential catalyst of growth for us. So we are best -- we're the market leader in this space, and we think this creates a long-term compelling opportunity for us. And public sector will be an important part of the story for us going forward.

Operator

Our next question comes from Shebly Seyrafi with FBN Securities.

Shebly Seyrafi - *FBN Securities, Inc., Research Division - MD*

So if you bundled AD and OT into EP, what would be your average deal size uplift? Because I think you said before that your EP uplift is about 50% now. But if you add AD and OT to EP, how much higher can that be?

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

Well, it's a great question. I'd love to throw some data out there. I'm sure Steve would not appreciate that. But the way I think about it is that there's 2 dimensions that would be at play. One would be an increased number of assets. As you include AD, as you include OT, you're simply covering more assets. And so there's a natural expansion of ASP, which would occur in that -- along that dimension.

There's also a higher ASP on a per asset basis when we're selling EP because EP is not simply just the inclusion of multiple products into a licensing scheme. It's a platform-based approach where the products can interact with one another, and the analytics that we can deliver on top of those products, things like Lumin and the like can deliver more value for our customers.

So they're willing to pay a premium pricing for getting those products to interact and the superior analytics we can deliver. So I think it's fair to assume that if customers expand asset -- their asset coverage significantly through the inclusion of OT and AD and they're paying a higher price per asset, purchasing them as part of the EP bundle as opposed to stand-alone products, that, that could have a significant impact on ASPs.

Shebly Seyrafi - *FBN Securities, Inc., Research Division - MD*

Okay. And my follow-on is, it looks like implicitly in your annual CCB guidance, your Q4 CCB growth decelerates, I don't know, about 4 to 5 points from Q3's growth rate. And I would say that the comparison is actually a little bit easier slightly. Is there a reason why CCB growth would decelerate by 4 to 5 points? Or are you being conservative?

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

We think our guidance is appropriate. We delivered a sizable beat in Q3, both on CCB and revenue. We're getting great traction with cloud, momentum with newer products. And obviously, we talked about strength in public sector. As we look out into the fourth quarter, we're encouraged with what we saw in Q3. We're raising our outlook for the full year. Keep in mind, we have a ton of opportunity in front of us with regard to these newer products.

So we talked about the exposure platform, which is a product we launched in the end of March, already contributing here notably to the top line. We talked about AD, which is an acquisition we closed in late April. We talked about hardening our OT product and how this is -- these are longer sales cycles and more opportunities for us. So we're absolutely delighted with the activities and the pipeline opportunities that are in front of us, notwithstanding public sector.

But these are conversions against newer products. We had success in Q3. Gives us confidence in Q4. And we believe they'll continue to serve as the catalyst of growth for us. So we believe the guidance is appropriate, and we're encouraged with what we see. So overall, good quarter. Beat and raise reflects the optimism for the fourth quarter. And we'll look forward to giving you an update in February on our fourth quarter.

Operator

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session, and this concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.