Tufin Announces Fourth Quarter and Full Year 2020 Results

Fourth quarter revenue of $31.0 million increases 3% year-over-year
Fourth quarter GAAP operating loss of $3.5 million and non-GAAP operating income of $0.4 million
Full year revenue of $100.8 million decreases 2% year-over-year
Full year GAAP operating loss of $33.9 million and non-GAAP operating loss of $18.5 million

February 12, 2021 07:30 AM Eastern Standard Time

BOSTON & TEL AVIV, Israel--(BUSINESS WIRE)--Tufin (NYSE: TUFN), a company pioneering a policy-centric approach to security and IT operations, today announced financial results for the fourth quarter and the year ended December 31, 2020.

“We finished the year on a strong note with a return to growth and record revenues in the fourth quarter. While 2020 began as a challenging year, I am pleased with our improved execution and recovery in the second half of the year along with the progress we made on SecureCloud which launched early in the year,” said Ruvi Kitov, CEO and Co-Founder. “I am excited to announce that we began a transition to a subscription revenue model this year, which we believe will dramatically improve the quality of our business over time. We will primarily focus on transitioning new logos initially. As I look forward to 2021, I am optimistic about our opportunities as we work to drive durable long-term growth and expand our leadership in the growing Security Policy Management market. As we achieve these goals, we will also create enhanced long-term value, for our shareholders as well as other stakeholders.”

Financial Highlights for the Fourth Quarter Ended December 31, 2020

Revenue:

- Total revenue was $31.0 million, up 3% compared with the fourth quarter of 2019.
- Product revenue was $15.0 million, up 5% compared with the fourth quarter of 2019.
- Maintenance and professional services revenue was $16.0 million, up 1% compared with the fourth quarter of 2019.

Gross Profit:

- GAAP gross profit was $25.6 million, or 83% of total revenue, compared to $24.1 million in the fourth quarter of 2019, or 80% of total revenue.
- Non-GAAP gross profit was $26.1 million, or 84% of total revenue, compared to $24.8 million in the fourth quarter of 2019, or 82% of total revenue.
Operating Income (Loss):

- GAAP operating loss was $3.5 million, compared to operating loss of $7.4 million in the fourth quarter of 2019.
- Non-GAAP operating income was $0.4 million, compared to non-GAAP operating loss of $1.9 million in the fourth quarter of 2019.

Net Income (Loss):

- GAAP net loss was $4.4 million, or a loss of $0.12 per diluted share, compared to a GAAP net loss of $7.2 million, or $0.21 per diluted share, in the fourth quarter of 2019.
- Non-GAAP net loss was $1.0 million, or a loss of $0.03 per diluted share, compared to non-GAAP net loss of $2.4 million, or $0.07 per diluted share, in the fourth quarter of 2019.

Financial Highlights for the Full Year Ended December 31, 2020

Revenue:

- Total revenue was $100.8 million, down 2% compared with 2019.
- Product revenue was $38.7 million, down 18% compared with 2019.
- Maintenance and professional services revenue was $62.1 million, up 11% compared with 2019.

Gross Profit:

- GAAP gross profit was $80.6 million, or 80% of total revenue, compared to $83.4 million in 2019, or 81% of total revenue.
- Non-GAAP gross profit was $82.6 million, or 82% of total revenue, compared to $84.9 million in 2019, or 82% of total revenue.

Operating Loss:

- GAAP operating loss was $33.9 million, compared to operating loss of $27.0 million in 2019.
- Non-GAAP operating loss was $18.5 million, compared to non-GAAP operating loss of $15.2 million in 2019.

Net Loss:

- GAAP net loss was $35.4 million, or a loss of $0.99 per diluted share, compared to GAAP net loss of $28.1 million, or $1.04 per diluted share, in 2019.
- Non-GAAP net loss was $20.6 million, or a loss of $0.58 per diluted share, compared to non-GAAP net loss of $17.1 million, or $0.63 per diluted share, in 2019.
Balance Sheet and Cash Flow:

- Cash flow used in operating activities during the twelve months ended December 31, 2020 was $17.4 million, compared to cash flow used in operating activities of $9.6 million during the twelve months ended December 31, 2019.
- Total cash, cash equivalents, restricted cash and marketable securities as of December 31, 2020 were $104.0 million, compared to $121.7 million as of December 31, 2019.

The tables at the end of this press release include a reconciliation of GAAP to non-GAAP gross profit, operating income and net income for the three and twelve months ended December 31, 2020 and 2019. An explanation of these measures is also included under the heading “Non-GAAP Financial Measures.”

Recent Business Highlights

- Appointed Raymond Brancato Chief Revenue Officer. Mr. Brancato brings to Tufin an accomplished 27-year sales management track record of delivering revenue growth, implementing strong sales strategies across global organizations, and successfully executing go-to-market transformation in software companies. He joins Tufin from AnyVision, a fast-growing private artificial intelligence company with a subscription-based revenue model, where he was Chief Revenue Officer.
- Announced Tufin SecureCloud™ integration with AWS Network Firewall to deliver security policy management across Amazon Virtual Private Clouds.
- Announced that Tufin SecureCloud™ supports the Google Cloud Platform, allowing customers to use SecureCloud to define and monitor compliance with security guardrails. Tufin customers can now operate secured applications across the three leading cloud providers – Amazon Web Services, Microsoft Azure, and Google Cloud Platform.

Business Outlook

Based on information available as of February 12, 2021, Tufin is issuing guidance as indicated below:

First Quarter 2021:

- Total revenue between $20.6 and $24.6 million.
- Non-GAAP Operating loss between $10.6 and $7.2 million.

Full Year 2021:

- Total revenue between $105.0 and $113.0 million.
- Non-GAAP Operating loss between $38.4 and $31.6 million.
Our guidance reflects an expectation that approximately one third of total new business bookings will come from subscription in 2021.

Video Webcast information

The company will host a video webcast at 8:00 a.m. Eastern Time on February 12, 2021 to discuss these results and provide a comprehensive discussion of its business and product strategy for 2021 and going forward. The live video webcast will be accessible on Tufin’s Investor Relations website at investors.tufin.com. A replay will be available three hours after the conclusion of the webcast.

About Tufin

Tufin (NYSE: TUFN) simplifies management of some of the largest, most complex networks in the world, consisting of thousands of firewall and network devices and emerging hybrid cloud infrastructures. Enterprises select the company’s Tufin Orchestration Suite™ to increase agility in the face of ever-changing business demands while maintaining a robust security posture. The Suite reduces the attack surface and meets the need for greater visibility into secure and reliable application connectivity. With over 2,000 customers since its inception, Tufin’s network security automation enables enterprises to implement changes in minutes instead of days, while improving their security posture and business agility.

Non-GAAP Financial Measures

We believe that providing non-GAAP financial measures that exclude, as applicable, share-based compensation expense and certain non-recurring costs, as well as, the tax effect of these non-GAAP adjustments, allows for more meaningful comparisons between our operating results from period to period. These non-GAAP financial measures are an important tool for financial and operational decision-making and for evaluating our operating results over different periods:

• We define non-GAAP gross profit as gross profit excluding share-based compensation expense.
• We define non-GAAP operating income (loss) as operating income (loss) excluding share-based compensation expense, shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries and secondary offering costs.
• We define non-GAAP net income (loss) as net income (loss) excluding share-based compensation expense, shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries, secondary offering costs and the tax effect of these non-GAAP adjustments.

Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company’s non-cash expense, we
believe that providing non-GAAP financial measures that exclude non-cash share-based compensation expense allow for more meaningful comparisons between our operating results from period to period. In addition, we believe that providing non-GAAP financial measures that exclude shelf registration costs, one-time expenses associated with the reorganization of one of our subsidiaries and secondary offering costs allows for more meaningful comparisons between our operating results from period to period since these non-recurring costs are not representative or indicative of our ongoing operations. We also believe that the tax effects related to the non-GAAP adjustments set forth above do not reflect the performance of our core business and would impact period-to-period comparability.

Other companies, including companies in our industry, may calculate non-GAAP gross profit, non-GAAP operating income (loss) and non-GAAP net income (loss) differently or not at all, which reduces the usefulness these non-GAAP financial measures for comparison. You should consider these non-GAAP financial measures along with other financial performance measures, including gross profit, operating income (loss) and net income (loss), and our financial results presented in accordance with U.S. GAAP. Tufin urges investors to review the reconciliation of its non-GAAP financial measures to the comparable U.S. GAAP financial measures included below, and not to rely on any single financial measure to evaluate its business.

Guidance for non-GAAP financial measures excludes, as applicable, share-based compensation expense and certain non-recurring costs, as applicable. A reconciliation of the non-GAAP financial measures guidance to the corresponding GAAP measures is not available on a forward-looking basis due to the uncertainty regarding, and the potential variability and significance of, the amounts of share-based compensation expense and certain non-recurring costs, as applicable, that are excluded from the guidance. Accordingly, a reconciliation of the non-GAAP financial measures guidance to the corresponding GAAP measures for future periods is not available without unreasonable effort.

Cautionary Language Concerning Forward-Looking Statements

This release contains forward-looking statements, which express the current beliefs and expectations of Tufin’s (the “Company”) management. In some cases, forward-looking statements may be identified by terminology such as “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “potential” or the negative of these terms or other similar expressions. Such statements involve a number of known and unknown risks and uncertainties that could cause the Company’s future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include risks relating to: the impact of COVID-19 on the budgets of our clients and on economic conditions generally; changes in the rapidly evolving enterprise network landscape; failure to effectively manage growth; potential near-term declines in our operating and
net profit margins and our revenue growth rate; real or perceived shortcomings, defects or vulnerabilities in the Company’s solutions or internal network system, or the failure of the Company’s customers or channel partners to correctly implement the Company’s solutions; fluctuations in quarterly results of operations; the inability to acquire new customers or sell additional products and services to existing customers; competition from a wide variety of competitive vendors; the Company’s ability to successfully integrate potential future acquisitions; and other factors discussed under the heading “Risk Factors” in the Company’s most recent annual report on Form 20-F filed with the Securities and Exchange Commission. Forward-looking statements in this release are made pursuant to the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

TUFIN SOFTWARE TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands
(UNAUDITED)
Property and equipment, net
Operating lease assets
Deferred costs
Deferred tax assets
Other non-current assets
Total non-current assets
Total assets

TUFIN SOFTWARE TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
U.S. dollars in thousands (except share data)
(Unaudited)

LIABILITIES AND SHAREHOLDERS’ EQUITY
CURRENT LIABILITIES:
Trade payables
Employee and payroll accrued expenses
Other accounts payables
Operating lease liabilities – current
Deferred revenues
Total current liabilities

NON-CURRENT LIABILITIES:
Long-term deferred revenues
Non-current operating lease liabilities
Other non-current liabilities
Total non-current liabilities
Total liabilities

COMMITMENTS AND CONTINGENCIES
**SHAREHOLDERS’ EQUITY:**

Ordinary shares of NIS 0.015 par value; 150,000,000 shares authorized at December 31, 2019 and December 31, 2020; 35,230,253 and 35,972,470 shares issued and outstanding at December 31, 2019 and December 31, 2020;

- Additional paid-in capital
- Accumulated other comprehensive income
- Accumulated deficit

**TOTAL SHAREHOLDERS’ EQUITY**

**TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY**

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**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands (except per share amounts)

(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
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<tbody>
<tr>
<td></td>
<td>December 31, 2019</td>
<td>December 31, 2020</td>
<td></td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>14,335</td>
<td>14,9</td>
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<tr>
<td>Maintenance and professional services</td>
<td>15,780</td>
<td>15,9</td>
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<tr>
<td><strong>Total revenues</strong></td>
<td>30,115</td>
<td>30,9</td>
<td></td>
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<tr>
<td><strong>Cost of revenues:</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Product</td>
<td>578</td>
<td>1,2</td>
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<tr>
<td>Maintenance and professional services</td>
<td>5,413</td>
<td>4,1</td>
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<tr>
<td><strong>Total cost of revenues</strong></td>
<td>5,991</td>
<td>5,3</td>
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<tr>
<td><strong>Gross profit</strong></td>
<td>24,124</td>
<td>25,5</td>
<td></td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Research and development</td>
<td>9,273</td>
<td>8,6</td>
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<tr>
<td>Sales and marketing</td>
<td>17,068</td>
<td>15,0</td>
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<tr>
<td>Description</td>
<td>2020</td>
<td>2019</td>
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<td>-------------------------------------------------</td>
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<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>5,163</td>
<td>5,3</td>
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<tr>
<td>Total operating expenses</td>
<td>31,504</td>
<td>29,0</td>
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<tr>
<td>Operating loss</td>
<td>(7,380)</td>
<td>(3,46)</td>
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<tr>
<td>Financial income (loss), net</td>
<td>494</td>
<td>(56)</td>
<td></td>
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<tr>
<td>Loss before taxes on income</td>
<td>(6,886)</td>
<td>(4,02)</td>
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<tr>
<td>Taxes on income</td>
<td>(289)</td>
<td>(37)</td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>(7,175)</td>
<td>(4,40)</td>
<td></td>
</tr>
<tr>
<td>Basic and diluted net loss per ordinary share</td>
<td>(0.21)</td>
<td>(0.1)</td>
<td></td>
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<tr>
<td>Weighted average number of shares used in computing net loss per ordinary share- basic and diluted</td>
<td>34,657</td>
<td>35,8</td>
<td></td>
</tr>
</tbody>
</table>

**Share-based Compensation Expense:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Three Months Ended</th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenues</td>
<td>627</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>1,250</td>
<td>1,0</td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>1,766</td>
<td>1,3</td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>949</td>
<td>1,0</td>
<td></td>
</tr>
<tr>
<td>Total share-based compensation expense</td>
<td>4,592</td>
<td>3,8</td>
<td></td>
</tr>
</tbody>
</table>
## CASH FLOWS FROM OPERATING ACTIVITIES:

- Net loss

### Adjustment to reconcile net loss to net cash used in operating activities:

- Depreciation
- Share-based compensation
- Amortization of premium and accretion of discount on marketable securities, net
- Exchange rate differences on cash, cash equivalents and restricted cash
- Other

### Change in operating assets and liabilities items:

- Accounts receivable, net
- Prepaid expenses and other current assets
- Deferred costs
- Deferred taxes and other non-current assets
- Trade payables
- Employee and payroll accrued expenses
- Other accounts payable and non-current liabilities
- Net change in operating lease accounts
- Deferred revenues

Net cash used in operating activities

## CASH FLOWS FROM INVESTING ACTIVITIES:

- Purchase of fixed assets
- Investment in marketable securities
- Proceeds from maturities of marketable securities
- Other investing activities

Net cash used in investing activities

## CASH FLOWS FROM FINANCING ACTIVITIES:

- Proceeds from initial public offering, net of underwriters' discounts
- Payments of offering costs related to initial public offering
- Proceeds from exercise of stock options
- Changes in withholding tax related to employee stock plans
Payment of long-term loan

Net cash provided by financing activities

Effect of exchange rate changes on cash, cash equivalents and restricted cash

INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH

CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR

CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Property and equipment purchased but not yet paid

Operating lease liabilities arising from obtaining operating right of use assets

Exercise of share options

Reconciliation of Gross Profit to Non-GAAP Gross Profit:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
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<tbody>
<tr>
<td></td>
<td>December 31, 2019</td>
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<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Gross profit</td>
<td>24,124</td>
</tr>
<tr>
<td>Plus:</td>
<td></td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>627</td>
</tr>
<tr>
<td>Non-GAAP gross profit</td>
<td>24,751</td>
</tr>
</tbody>
</table>

Reconciliation of Operating Loss to Non-GAAP Operating Income (Loss):

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
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<tr>
<td></td>
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<tr>
<td></td>
<td>December 31, 2019</td>
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<tr>
<td>--------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(7,380)</td>
</tr>
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Plus:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based compensation</td>
<td>4,592</td>
<td>3,841</td>
</tr>
<tr>
<td>Shelf registration costs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>One-time reorganization charges</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Secondary offering costs</td>
<td>862</td>
<td>-</td>
</tr>
<tr>
<td>Non-GAAP Operating income (loss)</td>
<td>(1,926)</td>
<td>380</td>
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</table>

Reconciliation of Net Loss to Non-GAAP Net Loss:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2019</th>
<th>December 31, 2020</th>
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</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>(7,175)</td>
<td>(4,402)</td>
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Plus:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
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<tbody>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Secondary offering costs</td>
<td>862</td>
<td>-</td>
</tr>
<tr>
<td>Taxes on income related to non-GAAP adjustments</td>
<td>(724)</td>
<td>(416)</td>
</tr>
<tr>
<td>Non-GAAP Net loss</td>
<td>(2,445)</td>
<td>(977)</td>
</tr>
</tbody>
</table>

Non-GAAP net loss per share - basic and diluted

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>(0.07)</td>
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Weighted average number of shares – basic and diluted

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>34,657</td>
<td></td>
<td>35,833</td>
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Find out more at: www.tufin.com

Follow Tufin on Twitter: @TufinTech

Read more on Tufin’s blog: Suite Talk

Contacts

Investor Relations Contact:
Ryan Burkart
investors@tufin.com

Media Contact:
Susan Rivera
Corporate Communications, Tufin