Tufin Announces Third Quarter 2019 Results

Third quarter revenue of $25.6 million increases 32% year-over-year

GAAP operating loss of $7.7 million and non-GAAP operating loss of $5.1 million

November 14, 2019 07:45 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 third quarter ended September 30, 2019.

“We had a strong quarter of growth and saw continued momentum with large enterprises” said Ruvi Kitov, co-founder and CEO. “Our automation capabilities, scalability, and integrations continue to resonate with customers looking to increase business agility and security at the same time.”

Financial Highlights for the Third Quarter Ended September 30, 2019

Revenue:

- Total revenue was $25.6 million, up 32% compared with the third quarter of 2018.
- Product revenue was $11.5 million, up 32% compared with the third quarter of 2018.
- Maintenance and professional services revenue was $14.1 million, up 33% compared with the third quarter of 2018.

Gross Profit:

- GAAP gross profit was $20.7 million, or 81% of total revenue, compared to $16 million in the third quarter of 2018, or 83% of total revenue.
- Non-GAAP gross profit was $21.0 million, or 82% of total revenue, compared to $16.2 million in the third quarter of 2018, or 84% of total revenue.

Operating Loss:

- GAAP operating loss was $7.7 million, compared to $2.7 million in the third quarter of 2018.
- Non-GAAP operating loss was $5.1 million, compared to $1.8 million in the third quarter of 2018.
Net Loss:

- GAAP net loss was $8.3 million, or a loss of $0.24 per share, compared to a GAAP net loss of $3.3 million, or a loss of $0.41 per share, in the third quarter of 2018.
- Non-GAAP net loss was $5.7 million, or a loss of $0.17 per share, compared to a loss of $2.4 million, or a loss of $0.29 per share, in the third quarter of 2018.

Balance Sheet and Cash Flow:

- Cash flow used for operating activities during the nine months ended September 30, 2019 was $3.0 million, compared to cash flow used for operating activities of $2.0 million during the nine months ended September 30, 2018.
- Total cash, cash equivalents and restricted cash as of September 30, 2019 were $125.9 million, compared to $17.6 million as of December 31, 2018. The Company raised net proceeds of $112.5 million in its initial public offering completed in April, 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 nine months ended September 30, 2019 and 2018. An explanation of these measures is also included under the heading “Non-GAAP Financial Measures.”

Recent Business Highlights

- We announced a partnership agreement in the U.S. federal market with Network Runners, Inc., a trusted and proven IT Systems Integrator, established to support its customers’ mission spaces in both the public and private sectors.
- We announced our support for Zero Touch Automation for VMware NSX-T. This is the next generation of VMware’s Software Defined Data Center and with this capability, we will help customers migrate their applications from VMware NSX-V to NSX-T environments and support end-to-end connectivity for applications across their hybrid cloud environment.

Fourth Quarter and Full Year 2019 Outlook

Based on information available as of November 14, 2019, Tufin is issuing guidance as indicated below:

Fourth Quarter 2019:

- Total revenue between $34 million and $38 million.
- Non-GAAP operating profit between $0.0 million and $3.0 million.

Full Year 2019:
• Total revenue between $107 million and $111 million.
• Non-GAAP operating loss between $10.3 million and $13.3 million.

Conference Call Information

To participate in Tufin’s third quarter earnings conference call, please dial (866) 211-3126 in the U.S. or (647) 689-6579 for international participants and enter Conference ID# 3367749. The call will also be webcast live on Tufin’s Investor Relations website at investors.tufin.com. Following the conference call, a replay will be available at (800) 585-8367 (domestic) or (416) 621-4642 (international). The replay passcode is 3367749. An archived webcast of this conference call will be available on the investor relations section of the company website.

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

Because of varying available valuation methodologies, subjective assumptions 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 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 profit (loss) as operating profit (loss) excluding share-based compensation expense.
• We define non-GAAP net income (loss) as net income (loss) excluding share-based compensation expense.

Other companies, including companies in our industry, may calculate non-GAAP gross profit, non-GAAP operating profit (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 profit (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. 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 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: 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 final prospectus for the Company’s initial public offering filed with the Securities and Exchange Commission on April 11, 2019. 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.
## Assets

### CURRENT ASSETS:
- Cash and cash equivalents
- Restricted bank deposits
- Accounts receivable (net of allowance for doubtful accounts of $97 and $128 at December 31, 2018 and September 30, 2019, respectively)
- Prepaid expenses and other current assets

### NON CURRENT ASSETS:
- Long-term restricted bank deposits
- Property and equipment, net
- Deferred costs
- Deferred tax assets
- Deferred offering costs
- Operating lease assets
- Other non-current assets

### Total non-current assets

### Total assets

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**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**U.S. dollars in thousands (except share data)**

(Unaudited)
**CURRENT LIABILITIES:**

- Current maturities of long-term loan
- 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**

**REDEEMABLE CONVERTIBLE PREFERRED SHARES:**

- Series A preferred shares of NIS 0.015 par value: 10,000,000 preferred shares authorized at December 31, 2018 and zero at September 30, 2019; 7,592,803 preferred shares issued and outstanding at December 31, 2018 and zero at September 30, 2019;
- Series B preferred shares of NIS 0.015 par value: 3,333,333 preferred shares authorized at December 31, 2018 and zero at September 30, 2019; 2,668,333 preferred shares issued and outstanding at December 31, 2018 and zero at September 30, 2019;
- Series C preferred shares of NIS 0.015 par value: 4,666,667 preferred shares authorized at December 31, 2018 and zero at September 30, 2019; 4,621,592 preferred shares issued and outstanding at December 31, 2018 and zero at September 30, 2019;
- Series D preferred shares of NIS 0.015 par value: 1,534,021 preferred shares authorized at December 31, 2018 and zero at September 30, 2019; 1,534,021 preferred shares issued and outstanding at December 31, 2018 and zero at September 30, 2019

**TOTAL REDEEMABLE CONVERTIBLE PREFERRED SHARES**

**SHAREHOLDERS’ EQUITY (DEFICIT):**

- Ordinary shares of NIS 0.015 par value; 52,666,712 and 150,000,000 shares authorized at December 31, 2018 and September 30, 2019, respectively; 8,265,988 and 34,295,394 shares issued and outstanding at December 31, 2018 and September 30, 2019;
- Additional paid-in capital
## Condensed Consolidated Statements of Operations

**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>September 30, 2018</td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>8,723</td>
</tr>
<tr>
<td>Maintenance and professional services</td>
<td>10,615</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>19,338</td>
</tr>
<tr>
<td><strong>Cost of revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>462</td>
</tr>
<tr>
<td>Maintenance and professional services</td>
<td>2,829</td>
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<tr>
<td><strong>Total cost of revenues</strong></td>
<td>3,291</td>
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<tr>
<td><strong>Gross profit</strong></td>
<td>16,047</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>5,284</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>12,035</td>
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<tr>
<td>General and administrative</td>
<td>1,432</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td>18,751</td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(2,704)</td>
</tr>
<tr>
<td>Financial loss, net</td>
<td>(231)</td>
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<tr>
<td>---------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Loss before taxes on income</td>
<td>(2,935)</td>
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<tr>
<td>Taxes on income</td>
<td>(343)</td>
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<tr>
<td>Net loss</td>
<td>(3,278)</td>
</tr>
<tr>
<td>Basic and diluted net loss per ordinary share</td>
<td>(0.41)</td>
</tr>
<tr>
<td>Weighted average number of shares used in computing net loss per ordinary share, basic and diluted</td>
<td>8,078</td>
</tr>
</tbody>
</table>

### Share-based Compensation Expense:

<p>| | Three Months Ended |</p>
<table>
<thead>
<tr>
<th></th>
<th>September 30, 2018</th>
<th>September 30, 2019</th>
<th>September 29, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenues</td>
<td>144</td>
<td>341</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>193</td>
<td>505</td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>456</td>
<td>1,083</td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>113</td>
<td>671</td>
<td></td>
</tr>
<tr>
<td>Total share-based compensation expense</td>
<td>906</td>
<td>2,600</td>
<td></td>
</tr>
</tbody>
</table>

TUFIN SOFTWARE TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands
(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:
## Net loss

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

- Depreciation
- Bad debt expense
- Share-based compensation
- Other

### Change in operating assets and liabilities items:

- Accounts receivable
- 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
- Operating lease
- Deferred revenues

Net cash used in operating activities

### CASH FLOWS FROM INVESTING ACTIVITIES:

- Purchase of fixed assets
- 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 share options
Payment of long-term loan

Net cash provided by (used in) financing activities

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

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Property and equipment purchased but not yet paid

Unpaid offering costs

**TUFIN SOFTWARE TECHNOLOGIES LTD.**

**RECONCILIATION OF GAAP MEASURES TO NON-GAAP MEASURES**

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

(Unaudited)

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>September 30, 2018</td>
<td>September 30, 2019</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>16,047</td>
<td>20,675</td>
<td></td>
</tr>
<tr>
<td>Plus:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>144</td>
<td>341</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP gross profit</td>
<td>16,191</td>
<td>21,016</td>
<td></td>
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</tbody>
</table>

Reconciliation of Operating loss to Non-GAAP Operating loss:
<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
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<tbody>
<tr>
<td></td>
<td>September</td>
<td>September</td>
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<tr>
<td></td>
<td>30,</td>
<td>30,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>2019</td>
<td></td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(2,704)</td>
<td>(7,661)</td>
<td></td>
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<tr>
<td><strong>Plus:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>906</td>
<td>2,600</td>
<td></td>
</tr>
<tr>
<td><strong>Non-GAAP Operating loss</strong></td>
<td>(1,798)</td>
<td>(5,061)</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td><strong>Reconciliation of Net loss to Non-GAAP Net loss:</strong></td>
<td></td>
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<tr>
<td><strong>Three Months Ended</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net loss</strong></td>
<td>(3,278)</td>
<td>(8,282)</td>
<td></td>
</tr>
<tr>
<td><strong>Plus:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Share-based compensation</td>
<td>906</td>
<td>2,600</td>
<td></td>
</tr>
<tr>
<td><strong>Non-GAAP Net loss</strong></td>
<td>(2,372)</td>
<td>(5,682)</td>
<td></td>
</tr>
</tbody>
</table>

Non-GAAP net income per share

|                                |                 |                 |
|                                | Basic and       | Diluted         |
|                                | Weighted        |                 |
|                                | average number  |                 |
|                                | of shares       |                 |
|                                | (0.29)          | (0.17)          |
|                                | 8,078           | 34,145           |

### About Tufin

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Find out more at: www.tufin.com

Follow Tufin on Twitter: @TufinTech

Read more on Tufin’s blog: Suite Talk

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