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PRESENTATION

Operator

Good morning. My name is Emily, and I will be your conference operator today. At this time, I would like to welcome everyone to the CyberArk Q1 2019 Conference Call. (Operator Instructions) Thank you.

Erica Smith, VP Investor Relations, you may begin your conference.

Erica E. Smith - *CyberArk Software Ltd. - VP of Investors Relations*

Thank you, Emily. Good morning. Thank you for joining us today to review CyberArk's First Quarter 2019 Financial Results.

With me on the call today are Udi Mokady, Chairman and Chief Executive Officer; and Josh Siegel, Chief Financial Officer. After prepared remarks, we will open up the call to a question-and-answer session.

Before we begin, let me remind you that certain statements made on the call today may be considered forward-looking statements, which reflect management's best judgment based on currently available information. I refer specifically to the discussion of our expectations and beliefs regarding our projected results of operations for the second quarter and the full year 2019. Our actual results might differ materially from those projected in these forward-looking statements. I direct your attention to the risk factors contained in the company's annual report on Form 20-F filed with the U.S. Securities and Exchange Commission and those referenced in today's press release. CyberArk expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements made herein.

Additionally, non-GAAP financial measures will be discussed on this conference call. Reconciliations to the most directly comparable GAAP financial measures are also available in today's press release or in our supplemental and historical information, both of which can be found at www.cyberark.com in the Investor Relations section.

Also, a webcast of today's call will be available in the Investor Relations section of our website.

With that, I'd like to turn the call over to our Chairman and Chief Executive Officer, Udi Mokady. Udi?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Thanks, Erica, and thank you, everyone, for joining our first quarter earnings call. We were pleased to start the year with strong results, exceeding guidance across all metrics. Revenue accelerated year-over-year to 34%, reaching $96 million. Operating income was $25 million, and our powerful business model generated a record $46 million in cash flow from operations.

Before we dive into the details of the quarter, I'd like to discuss the broader market. Since we founded CyberArk, security solutions have evolved to keep pace with the expanding attack surface and hacker innovation. Over the last few years, we have reached a level of unprecedented change. Digital transformation strategies, the migration to cloud, hybrid and modern architectures and the increasing connectivity among enterprise systems are accelerating business and at the same time, creating massive security challenges. These trends have been driving progressive shift in our business. In our major markets, we no longer educate enterprise customers and prospects about the importance of privileged access. Today, we are recognized as a mission-critical solution that empowers and protects business operations by reducing risk across on-premise, cloud and hybrid environments and enabling organizations to move faster, more efficiently and most importantly, securely as they execute digital transformation strategies.

All of these trends have contributed to our results over the last few quarters, including record revenue in the Americas and APJ in Q1. While we believe EMEA revenue, which grew 16% in the first quarter, was impacted by our strong Q4 2018, the pipeline across the region and globally continues to be robust.

In addition, the business was well-diversified across industries: banking, health care, insurance, media and IT software and services grew faster than 50%, while banking, health care and global government each represented more than 10% of the business in the first quarter.

I had the pleasure of meeting with chief information security officers from a number of customers and partners at the RSA Conference in March. These discussions were focused on expanding our solution to drive Privileged Access Security programs enterprise-wide. Existing customers continue to represent more than 60% of our revenue as they expanded deployments with CyberArk in the first quarter.

A few examples include: a large mutual fund is migrating all of its data centers to AWS and will be expanding its core Privileged Access Security deployment to secure this new environment as well as an increasing number of SaaS administrators; a leading European manufacturing company is rolling out CyberArk to secure a major Robotic Process Automation, or RPA project, as part of its digital transformation strategy; and a financial services firm is standardizing on CyberArk enterprise-wide and will be leveraging our Application Access Manager to protect and share mission-critical data to leverage other key security investments.

We also won nearly 150 new logos in the first quarter, bringing our total customer count to about 4,600. Notable additions include: A large U.S. retailer will be protecting UNIX and Windows systems with core Privileged Access Security and will be securing Jenkins, Pivotal Cloud Foundry and other DevOps tools as part of its application development running in Google Cloud Platform; in a 7-figure deal with a Fortune 100 financial services firm, we were chosen for our scalability in AWS and Azure environments and because we are the only vendor who could protect its extensive RPA project with UiPath; an entertainment company will secure access between more than 40 physical locations and gain visibility into privileged activity enterprise-wide with CyberArk. This was a rip and replace of a niche vendor who could not scale to meet the long-term needs of this entertainment powerhouse.

We are also pleased with our progress to drive adoption of newer solutions. In Q1, we introduced Application Access Manager, which unifies Conjur and Application Identity Manager into a single solution for both dynamic and static application environments. In fact, the solution was included in 8 of our top 10 largest license deals in the first quarter. Software applications are the lifeblood of every organization today, and we still see ourselves in the early innings of the opportunity for our application solution.

In addition, Endpoint Privilege Manager continues to gain traction within customers of all sizes and across industries as an important component of security hygiene. We also took our first steps in formalizing the midmarket sales motion. The team is in place, we are establishing our channel relationships, and the pipeline is building with both new and existing customers. We are just getting started in the midmarket and are excited about the early progress.

As we analyze our first quarter results, I am confident that we have a significant runway for growth across both new and existing enterprise customers, and our competitive advantage continues to be our unwavering commitment to strengthening customer security fabric through ongoing innovation across on-premise, hybrid and cloud environments.

With the innovation we delivered in the first quarter, we are the only solution that automatically identifies and protects privileged accounts in AWS such as unmanaged users, including shadow administrators and instances. We also strengthened our response capabilities and our rotating credentials based on risk scores for potentially compromised sessions in the cloud. Our advisory, value-added reseller and technology partner ecosystem contributed to our results with more than 65% of revenue coming from indirect channel in the first quarter. Momentum continues to build within our C^3 Alliance program as we become more tightly integrated across the business operations of our customers. With C^3, we make it easier for customers to strengthen their overall security posture across technology investments, including RPA vendors like Automation Anywhere, UiPath and Blue Prism in addition to partners like SailPoint, Ping, OKTA, Proofpoint and Tenable. As we position the company for long-term growth and scale, we strengthened the team, adding Rich Wenning as VP of North American Sales and Clarence Hinton as SVP of Strategy and Corporate Development. Rich brings deep domain expertise, having run enterprise sales most recently at Palo Alto Networks and previously at Cisco, where he helped scale the organization to more than $2 billion in enterprise sales. Clarence is leveraging his extensive experience from BMC Software and Nuance to help drive the long-term growth and scale of the organization. We are thrilled to have them join the CyberArk team. We are pleased again to deliver strong results in the first quarter. The market for Privileged Access Security is rapidly growing. And as we look ahead, we are well positioned to capitalize on that opportunity.

With that, let me turn it over to Josh to discuss our strong financial results. Josh?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Thank you, Udi. As you just heard from Udi, we were pleased to exceed our outlook across all guiding metrics, including revenue, operating income and EPS. Total revenue increased by 34% year-on-year to $95.9 million. License revenue was $51.3 million, increasing 33% over the first quarter last year and representing 53% of total revenue. Both new and add-on business contributed to our results in the first quarter. On the product side, Application Access Manager represented about 10% of license revenue and Endpoint Privilege Manager represented about 7%.

As we look more closely at the EPM, we were pleased to see the percentage of EPM bookings derived from SaaS deals increased in the first quarter compared to the year ago period.

Maintenance and Professional services revenue was $44.7 million, increasing 34% over the prior year period and representing 47% of revenue. The Professional Services revenue associated with this line was $8.2 million or 8.6% of total revenue.

Geographically, as Udi mentioned, the Americas reached a record $62.1 million in revenue, increasing 41% year-on-year and representing 65% of total revenue. APJ also reached a record $8.5 million in revenue, increasing 45% compared to the first quarter 2018 and representing a 9% total of revenue.

EMEA revenue grew by 16% year-on-year to $25.3 million or 26% of total revenue. When we analyzed our first quarter EMEA business, we believe the year-end budget flush, which helped to drive our Q4 2018 record results, impacted our first quarter business. This was reflected in the higher dollar amount of deals over $500,000 in EMEA we saw in the fourth quarter compared to the first quarter this year. Overall, demand trends remain healthy across all geographies with a growing pipeline of activity.

As I move through the P&L, all line items will be discussed on a non-GAAP basis. Please see the full GAAP to non-GAAP reconciliation in the tables of our press release.

Our first quarter gross profit was $84.8 million or an 88% gross margin compared to 87% gross margin in the same period last year. Our top priorities for this year continue to be in investing in innovation, growth and scaling the operations.

R&D expense grew by 22% year-on-year to $14 million or 15% of total revenue as we continued to deliver innovation.

Sales and marketing increased 18% to $37.7 million or 39% of total revenue as we expanded our sales organization across all geographies to support direct and indirect sales.

G&A expense increased 21% year-on-year to $7.6 million or 8% of total revenue to scale the business to support our growth.

In total, operating expenses for the first quarter increased 19% to $59.3 million compared with $49.7 million for the first quarter last year.

Our revenue outperformance and disciplined investments drove strong leverage again in the first quarter. We posted operating income ahead of our guidance at $25.5 million or a 27% operating margin, more than doubling from $12.6 million, representing an 18% operating margin in the year ago period. Our overall expense growth is primarily related to headcount, and we ended the first quarter with 1,204 employees worldwide, up from 1,053 at the end of the first quarter last year, and we ended the quarter with 567 employees in sales and marketing compared to 502 at the end of the first quarter last year.

Net income was $25.5 million or $0.56 per diluted share for the first quarter of 2019 and increasing from $11.8 million or $0.32 per diluted share for the first quarter of 2018. In the first quarter, we were pleased to generate record cash flow from operations of $45.9 million or a 48% cash flow margin. The strong cash flow was driven by our record results in the fourth quarter as well as better-than-anticipated collections from our maintenance renewals which seasonally -- which is seasonally high in the first and fourth quarters of the year.

We ended the quarter with $510 million in cash, deposits and marketable securities, and this compares to $451 million at year-end.

Deferred revenue increased 43% year-on-year to $171 million at March 31. On January 1, 2019, we implemented accounting standard ASC 842 related to long-term operating leases in the financial statements. As a result of the new standard, we capitalized these leases and recorded assets of $24.8 million and liabilities of $26.1 million as of March 31, reflecting the value of the leases. The P&L-related impact of the adoption was not material.

Turning to our guidance. As a reminder, our guidance does not consider any potential impact with foreign exchange gains or losses as we do not try to estimate future movements in foreign currency rates.

For the second quarter of 2019, we expect total revenue of $96 million to $98 million or 25% growth year-on-year at the midpoint. We expect non-GAAP operating income to range between $22 million to $23.5 million and non-GAAP net income per diluted share of $0.45 to $0.48. This assumes a 39.1 million weighted average diluted shares at an effective tax rate of 21% for the second quarter.

For the full year 2019, we are increasing our guidance for total revenue to be in the range of $415 million to $419 million, a growth of approximately 22% at the midpoint. We are also increasing our guidance for non-GAAP operating income to be in the range of $100.5 million to $103.5 million and non-GAAP net income per diluted share of $2.10 to $2.16.

This assumes 38.9 million weighted average diluted shares.

Our guidance for the full year assumes an effective tax rate of approximately 21% for 2019.

For modeling purpose -- purposes, as you see in our guidance, we plan to continue to invest in the business in the second quarter. Please note that we also expect to see a larger step-up in expenses between the second and third quarters related to marketing programs and seasonal employee expenses.

While we delivered the exceptional cash flow from operations in the first quarter, we still expect our cash flow margin for the first half of 2019 to be at the midpoint of the range of 5 to 10 percentage points above the non-GAAP net income margin. And for the full year, we continue to expect our cash flow margin to run between 5 to 10 percentage points higher than our non-GAAP net income margin. We recommend analysts evaluate our cash flow on an annual basis, given that our cash flow from operations can vary quarterly based on seasonality of the business and taxes. We do not plan to provide quarterly updates on guidance for cash flow from operations.

We were pleased with our strong results in the first quarter. Our priority for the remainder of 2019 is to invest in the business to deliver profitable growth over the long term.

I will now turn the call over to the operator for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Shaul Eyal with Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Congrats on solid set of results as well as the guidance. Udi, I want to start actually big picture. You mentioned in your opening remarks cloud, digital transformation, as driving or even accelerating from our perspective, the business. Can you specifically touch on the digital transformation trends you're seeing out there? And I have a follow-up.

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Sure. Thanks, Shaul. So definitely -- first and foremost, we're seeing Privileged Access Security be a top priority for security and Chief Information Security officers, but we're continuously excited to see that we are an enabler and a big part of organization's adoption of digital transformation strategy, whether it's moving their application, workloads into the cloud, and therefore, the need to manage application secrets with our AAM or previously we called it Conjur. Supporting digitization like Robotic Process Automation more and more. Those robots are actually mega super administrators and users, and we weave in and enable the use of RPA for these projects. And then increasingly also to bridge that gap of trust with cloud providers and moving servers and the administration of workloads in the cloud, we provide that layer that enables trust for adopting this move.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Got it, got it. And maybe a follow-up either for you, Udi, or even for Josh, and it could be a little bit of a tricky one. When you look, for example, at, I don't know your top 10, even top 20 customers, especially those that have been with you for the past, let's say, 10 years, 15 years. Do you have some sort of an LTV analysis or even maybe some sort of a magic number, meaning to say those that started with you 10 years ago investing, what would that number be now? Is it 3x? Is it 4x? Is it 10x? Anything along these lines that can assist us a little bit?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes. Shaul, I think when we look at the analysis, and we've done a lot of cohort analysis going back 7, 8, 9, 10 and plus years, and I would say that if we look at cohorts that are 8, 9 years old, we're looking at 7x their first year purchase. That would include obviously, some -- in some component, maintenance obviously is part of it. But we see that probably 2/3 of it coming from license and then 1/3 coming from maintenance.

Operator

Our next question comes from the line of Melissa Franchi with Morgan Stanley.

Melissa A. Franchi - *Morgan Stanley, Research Division - VP and Research Analyst*

Congrats on the quarter. So it seems like it was sort of business as usual for CyberArk in Q1, but if I look across the security space, it was a little bit of mixed results kind of across the board with your peers. So I'm just wondering from your perspective, Udi, did you see any change in the overall kind of spending environment for security? And is there any reason to believe that 2019 may be a little bit softer than what we saw in 2018, just from a high-level perspective?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. Thanks, Melissa. I think if we would look from our prism, not I would say we started the year really being bullish on the opportunity in our space. Privileged Access Security has actually risen to the top in priority and hence the results and hence our confidence in the pipeline. I also -- I wouldn't say that I've heard anecdotal comments from customers about other partners of ours or other security initiatives. I think, in general, our security spend is moving towards the assumption of 0 trust. And therefore, you really have to strengthen your core and put in layers that are hacker-resistant, so a little bit beyond perimeter. And -- but other than that, I would say the same trends that we saw last year are continuing.

Melissa A. Franchi - *Morgan Stanley, Research Division - VP and Research Analyst*

Okay. Great. And then just a follow-up for Josh. You noted better-than-expected SaaS adoption in EMP, and we did note that there was really good growth in your deferred revenues. So I'm just wondering if you're seeing higher kind of term license adoption across-the-board in the portfolio? And how we should expect that for the rest of the year?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes. Absolutely, we saw on EPM, we actually did see, certainly in the first quarter some -- a nice compared to first quarter last year an uptick in SaaS bookings relative to the perpetual bookings on EPM last year. But I would say still that on the deferred revenues, we're still kind of in the same category of the same percentage points. So the deferred is still the majority of our support contracts. But the SaaS and the term-based license is creeping up, but I would not say that's yet materially changed.

Operator

Our next question comes from the line of Saket Kalia with Barclays.

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

Josh, maybe just to start with you. Can you just talk a little bit about the average deal size in the quarter? It seemed like it had gone up. And so the question is, is that coming from really larger lands with customers that starting with more product than you initially have in the past? Or is CyberArk perhaps finding just maybe a little bit more pricing power given the competitive environment?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

No. I think when we look at overall -- if you look at the entire license business, we would say that the -- it's pretty -- staying pretty stable. But if we were to break it down, we would see an increase on the new business deals on an average deal order, and we would see even -- maybe some slight decline on the add-on business. And I think the new business increase is attributed to what you were commenting on is that we actually -- because of the simpler pricing and so forth, we're seeing customers coming in and taking bigger chunks on day 1 because it's a much easier acquisition for them. And -- but overall, on a consolidated basis, we're seeing it about the same.

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

Got it, got it. Udi, so my follow-up maybe for you. Clearly, the competitive environment remains favorable based on these results and guidance. But I'm just kind of curious what you've seen out there from your competitors, whether there's any sign of them trying to get back on track with any sort of success or any signs of incremental improvement from maybe some of those ankle biters in the past? Anything that you would add.

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes, sure. Saket, first of all, I would say that we're stronger than ever. I think the competitor landscape has changed I think positively across, and there's even the additional external third-party validation that we didn't have in previous years from the Gartner and Forrester reports that came in end of last year about our clear leadership. I would say that enterprises when they buy, they invite competitors, especially if it's -- especially in new deals. And when one is disrupted then others make way. So I would say that the niche competitors are probably invited more often in place of companies like CA and Dell, where they were in the past. The disrupted-type organizations like what we talked about disruption from PE acquisition, we have not seen them regain foothold. Our working assumption is that we have to work hard to always retain our leadership and break forward with innovation. So we assume that even if they have not regrouped, let's work as if they have regrouped and push further on all fronts, execution but also innovation.

Operator

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

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

Wanted to go back just to the demand environment and ask it this way, how was the linearity in the quarter? And what have you seen -- obviously, you've given the guidance for the quarter and for the full year both, what have you seen in terms of the start to the second quarter?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Sterling, it's Josh. I'll start with the -- on the linearity, we actually -- after coming out of the strong Q4 of last year, we were a bit more backloaded in the first quarter of 2018 (sic) [2019]. And -- but overall though, we didn't see any other -- nothing that was different and -- within the marketplace. What was the second question?

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

The beginning of Q2.

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes. I think the beginning of Q2 is based -- that's where our guidance is based off of where we saw the pipeline going into Q2 and how it started, and we feel very good about the Q2 growth guidance as well as the full year growth guidance.

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

Okay. And then in terms of -- you mentioned, I think the push from existing customers. How much of the demand you're seeing from existing customers is just same solutions and more use cases versus adding on more of the portfolio?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Sterling, Udi here. I'll take that. I think it's really the continuous progression on moving from project to program, and I mentioned the RSA. So I just had the ability to meet so many of our customers at once and of course since then -- and they're just taking this layer much more seriously. So with our simplified pricing, some of it really goes into Core PAS. But it more -- like you said, like more use cases across more pieces of their infrastructure, not just to areas that were -- failed compliance in the past but actually thinking risk and taking it across. And then more advanced customers are taking also some of our growth engines and our earlier -- our newer products again for -- starting with their most critical use cases as we walk them through the program.

Operator

Our next question comes from the line of Fatima Boolani with UBS.

Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

I had a couple. Udi, I'll start with you. You've got a year under your belt now with respect to the bundled sales motion around PAS. So I'm wondering if you can share a couple of fact patterns in terms of how customers are buying and deploying you and to the extent there's a change in how pervasively they're deploying it because it's a bundled package? That's the first question. And then I have a couple of others for Josh.

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Sure. So yes, we're definitely -- Fatima, we're definitely on a full year of the new pricing. And it really enabled the Core PAS to continue to be the major driving force in our acceleration here of revenue and license, where it's easier for customers to scope what they need and decide how they want to start with CyberArk. As you alluded, it's also leading to the right way to start an implementation. Because of this bundle, it's not just a simplified pricing, they're also getting all of the necessary components from day 1 that used to be broken down into smaller -- into modules, they get it from day 1. And then they start off right in the right way to deploy CyberArk and then can expand easily down the road. So it's kind of -- as we alluded to, this bundling and the pricing, along with the simplification of products, is a win-win because customers are putting this layer at the right way from the get-go.

Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Understood. And actually just sticking with Udi, on the midmarket efforts. In your prepared remarks, you did talk about taking the first steps on building out that go-to-market motion, if you will. I'm curious if you can give us more details on what exactly is in play and in place? And how we should see yield off of the investment that you're now putting into the midmarkets?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Sure. I think the beauty is that one of the reasons we began working on the midmarket muscle is that we wanted to optimize productivity for the enterprise team, where we still see the biggest opportunity but wanted to start seeding the midmarket opportunity for the future. And so our marketing focus continues to be on the enterprise. And hence, I talk about it as a newer muscle, the midmarket. What we've done is actually created a dedicated team that can focus on the midmarket, invested in channel enablement because we really expect that most, if not all, of this business, will be driven through channels. And it's -- we're early into it but we're seeing progress, and it's really an investment for the long-term. And of course, all of that goes along with the continuous simplification of products that we think the midmarket expects.

Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Got it. And Josh, 2 quick ones if I can sneak them in for you. Long-term deferred revenue growth continues to kind of surpass how we thought about it. So I wanted to understand if there's any dynamics around maintenance contracts extending? If there's an incentive that you've put in place to maybe incent that type of behavior? And then as it relates to sales hiring, how we should think about the linearity of sales capacity additions over the course of the year? And then I'll jump back into the queue from there.

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Great, thank you. So with regard to long-term deferred, it's really a reflection of our long-term support maintenance contracts for most of it. And we've always had some kind of a pricing incentive for customers in terms of a discounted rate but nothing has changed for that -- with that regard. We still see the overwhelming majority of our contracts be 1-year contracts but we are seeing, in terms of dollar amounts, some trend tick-up to -- on the 3-year contract dollar size. So it's -- there's nothing, I think, remarkable going on. There's nothing inside the company that's trying to motivate that change. But I do believe it's just a reflection of our customers seeing the importance of our product for the long-term. And coming in early on and particularly new customers frequently making a claim for 3 years. But it's not remarkably different than what we've seen in years past but the -- other than the slight trend up. With regard to hiring, I think we'll be seeing hiring every quarter on the sales and marketing side, and we increased -- you saw the growth in our sales and marketing year-on-year specifically, and I expect it to be every quarter, hiring.

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*

Congratulations on the strong results. I just wanted to start with a question on the competitive environment. With all the disruption that's taking place, can you maybe give us a sense of what your win rate looks like now maybe in comparison to before some of the disruption took place?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. I would say -- Jonathan, Udi here. I would say the win rates are the same and because they've been increasingly strong as we talked about in 2018 because of past investments in simplification of product and of pricing. So I think we're at a very strong rate, especially when we talk on the enterprise side, which is our major focus.

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

Got it. And then just in terms of the Application Access Manager, can you talk a little bit about why combining the 2 products maybe makes a little bit more of a difference here? And maybe talk about how much of an upsell opportunity there is with the Application Access Manager?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. Absolutely. Because the customers are going through this journey of a combination of on-prem applications and the migration of workloads into modern environments like containers, whether they're keeping them on-premise or migrating to the cloud, we found that the -- the hard line of separation between static application and dynamic is actually -- it makes it harder for the customer to scope and also in the sales motion. So this was an optimization that we did for both the customers and for our selling motion, where we're actually showing up as the trusted partner to solve this problem that exists both in static applications and dynamic applications. And actually in the same breath, show the customers that okay, this is what we're going to with these applications that you have here running your critical applications, your trading floor and your subdeveloped applications that are static, and this is what we would be helping you with your CI/CD pipeline as you take on DevOps workflows. And so we combined it into one solution case. And we also integrated the 2 products, as you recall, where -- from the acquisition to Conjur, really integrating to the same platform. So it's a positive for the customer but also helps simplify the sales motion. And as we look at it, it's one of our biggest opportunities because, on top of everything, everybody is so aware of human Privileged Access and the importance in every major attack. But the same thing happens with applications, where they're served a credential or given a pathway to strong access. And therefore, it's kind of a -- the new frontier for upsell for us. It takes a slower pace than Core PAS but the -- we view it as a big part of our add-on business opportunity.

Operator

(Operator Instructions) Our next question comes from the line of Gary Powell (sic) [Gray Powell] with Deutsche Bank.

Gray Wilson Powell - *Deutsche Bank AG, Research Division - Research Analyst*

So I don't think I've ever heard you mention the adoption of RPA as a growth driver before. Can you maybe talk about that dynamic and the impact on demand for your Application Access Manager products?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. Absolutely. I give it as an example of digital transformation driver. So it would be on the list of types of programs that customers would do that elevate the need to secure Privileged Access. So I wouldn't put it as the one, but it's a growing one. And through the C^3 Alliance, we've partnered with the major players there. And as they get scoped out and in their sales motion, one of the biggest things that highlights is, hey, we're giving this robotic process administrative or very strong access to replace some human manual work. But to do that, they get very strong access. So CyberArk has an integration that's very simple for our customers where we actually intercept the need for privileged access and broker and give the applications the access they need, while not giving -- while not leaving any exposure for somebody to take that over and get to the data as a privileged user. And so a smooth integration, and it's a hot topic now for many enterprises. It's also interestingly another way for chief security officers to bridge and bring value to the organization in digital transformation and be an enabler. And so it's a hot topic.

Operator

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

Christopher Caleb Speros - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

This is actually Chris Speros on for Gur. Congrats on another impressive [bring], guys. Can you speak to the degree to which the partnership with both OKTA and SailPoint have contributed to growth in Q1? And how we can expect or how we should think about that as a growth driver through the rest of the year?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes, sure. Thanks, Chris. I would say it's on a continuum. I think we are -- we see a lot of field partnership on -- probably every couple of weeks, you can see us also in joint field events with SailPoint and Opta team on the identity side. And so I wouldn't say it's an accelerated driver but I would say it's an ongoing strong driver in addition to other partnerships that we have on the -- in the C^3 Alliance that are in other spaces of security, like vulnerability management and RPA that we talked a lot about and others.

Operator

Your next question comes from the line of Catharine Trebnick with Dougherty.

Catharine Anne Trebnick - *Dougherty & Company LLC, Research Division - VP and Senior Research Analyst of Data & Internet Protocol Networking*

My quick question is you talked about the vertical markets, they look pretty consistent. Are there any programs you're putting in place in 2019 to facilitate more growth, work with the channel to drive across 10 or 15 of them?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. I think really part of our strength is that diversity, that we can sell the same software to whether you're a manufacturing company in the Philippines or a top-notch financial services firm in New York. And so it's really about the sales motion, and we continuously train our team to be able to go in the -- about this horizontally. And as we strengthen our channel and rep reach, we can also go after the different verticals. The one vertical that takes on special attention is, of course, the federal vertical where we have a dedicated team. And we continuously invest both in the team itself but also in the simplifications that helped the adoption in the federal market and through working with a lot of strong partners in that vertical.

Operator

Your next question comes from the line of Howard Smith with First Analysis.

Howard Shepard Smith - *First Analysis Securities Corporation, Research Division - MD*

You've talked about how the simplified pricing and product enhancements has allowed customers to kind of scope and get easier implementations. And I'm curious how it has affected, if you have enough data yet, the follow-on purchases in terms of either timing of when they come back or scale -- larger, smaller bite sizes, et cetera? Any commentary around that.

THOMSON REUTERS

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Howard, this is Josh. Thanks for the question. It is a bit early for real data because we just introduced this pricing last year. And so the real follow-on, I think one of the earlier callers asked how many times do they come back? And it's 7x their initial order. But it's -- we look at it over 7, 8, 9 years. So I think it's still a bit early. I think in the next year or 2, we'll be able to see better. Overall, with regard to average deal sizes, though, and that some reflection of it, we're seeing on the new business an uptake. And on the ad-on, we're seeing more volume in deals but slightly down on the average size.

Howard Shepard Smith - *First Analysis Securities Corporation, Research Division - MD*

Okay. And a follow-up. You mentioned a rip and replace on one of your new logos. I know that historically, it's been the exception. But are you seeing, as this industry matures, more displacements for your new logos? Or is it still primarily almost all greenfield?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Howard, I would say it's primarily all greenfield. And as we look in the pipe, we continue to see that being the majority. But also some -- seasoned with some rip and replace, especially the enterprises that do have something and are looking now at it -- as a security layer. So I think we expect more displacement over time. It's still the minority of the deal.

Operator

Your next question comes from the line of Andrew Nowinski with Piper Jaffray.

Andrew James Nowinski - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Just one question and then one follow-up. So your guidance for 2019 implies a fairly material slowdown in license growth in the back half of the year. I'm just wondering whether that is conservatism? Or if there are any other factors that we should consider?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. First of all, we haven't changed our guidance methodology. We've been public almost now 5 years, and we continue to use our same guidance methodology. We have to reckon with our pipeline growth and -- but also at the same time, with being an enterprise software company. So I think we're very happy with the strong growth we saw in the first quarter, with being able to raise the full year guidance on the revenue and the growth that we see there. And I think we're continuing to guide in the same manner we have in the past, giving the strongest number that we feel comfortable of achieving.

Andrew James Nowinski - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. Got it. And then at your Analyst Day back in 2018, you talked about medium-term growth of 20%. Given the current demand trends and how underpenetrated both midmarket and enterprise is, would you consider fiscal '20 as within the medium term?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes. I mean, I think we haven't -- we certainly -- we've guided for this year, and I still think that we haven't refreshed the last year's Investor Day. But I think we look at -- overall, the trends in the market that we look at the analyst reports and so forth, and we haven't changed any of our outlook for that.

Operator

Your next question comes from the line of Ken Talanian with Evercore.

Kenneth Richard Talanian - *Evercore ISI Institutional Equities, Research Division - Analyst*

I was curious, are you seeing 7-figure deals representing a higher percentage of your pipeline versus this time last year?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

I think it's -- there is not a dramatic change in -- we've always seen a very large amount and percentage of deals that are 7-figure. If we look at it year-on-year basis, we continue to see it trending up on the number of deals, larger deals, whether it's over $100,000 or over $500,000 deals each quarter on a year-on-year basis. And in order to do that, we're seeing more of them in the pipeline as well.

Kenneth Richard Talanian - *Evercore ISI Institutional Equities, Research Division - Analyst*

Okay. And as a follow-up, you have a nicely growing cash balance. Can you give us an -- your updated thoughts on use of cash and the M&A environment?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Absolutely. I think we've been very prudent in past M&As and to really look at how we horizontally secure Privileged Access for both humans and applications and made some strong moves in the past. We -- I alluded in the prepared remarks, We hired a very experienced head of CorpDev but his mandate is very much to take his time and figure out long-term opportunities for us. So I think the robust cash balance is very important. It's important to our customers to see that we have the financial strength, and we'll be very prudent on how we use it. Definitely, we feel that we've done well with past M&A.

Operator

Your next question comes from the line of Gregg Moskowitz with Mizuho.

Gregg Steven Moskowitz - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

I'll add my congratulations on a good Q1 as well. Udi, you briefly alluded to Gartner and Forrester paying more attention to this space. And with respect to Gartner anyway, it's been a few months since the first Magic Quadrant report was published. Have you seen any change in the rate of inbound activity or closure rates or anything along those lines? Or is it simply just too early to tell?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

I think we actually look at that, and I would say that it's more or less the same level of increased awareness but the -- over the last couple of years. So I think it helps in new educating markets, in our expansion to some of the emerging geographies. It clearly enables us to get more attention and to sign up the leading channel partners, especially in a new region. But I wouldn't say it affects pipeline pace. It's really good for decision-makers in competitive situations. And so it's overall a -- another supportive tailwind but not a mega tailwind.

Operator

Your next question comes from the line of Erik Suppiger with JMP Securities.

Erik Loren Suppiger - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

A couple of questions. First off, on the EPM front, you talked about the contribution from cloud driving it. Can you discuss what the split is within EPM between the cloud and the on-premise version? And as the cloud component becomes larger, do you think EPM would become a larger driver of revenue? And then I have a follow-up.

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes. Thanks, Erik. This is Josh. Yes, in fact -- I mean, we saw for the first quarter, we did see our bookings on the EPM gravitate towards the SaaS. I think it was about 2/3 SaaS dollars versus 1/3 perpetual dollars or maybe 70% SaaS dollars. Just -- yes.

Erik Loren Suppiger - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Okay. And then what you're seeing as growth rate compared to last year?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Second question? That was -- compared to first quarter last year, it was significant growth on the SaaS dollars.

Erik Loren Suppiger - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Okay. And then clearly it was a strong quarter. To the extent that there was surprise upside in the quarter, can you discuss whether you think that is a function of general demand? Or do you think that's more of a function of a more favorable competitive environment?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Udi here. I would attribute it to the general demand. I think we've been gradually -- and we pioneered this space. So I think we start off with really a strong position in the market and through continuous innovation and some smart M&A moves, we evolved in that leadership. But the biggest shift has been the rise in this being a layer-in priority. In the past, we showed how it's been in the top 10, top 5 priorities for organizations. Similarly, in our channel partners, it rises up. And I can't say enough about the importance of the value-added resellers and our advisory partners giving attention to this space. So the rise in priority and executioning of that demand is the explanation for the results and then we relentlessly continue to innovate to make sure we extend that leadership.

Operator

Your next question comes from the line of Dan Ives with Wedbush Securities.

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

Just one question. With Rich obviously joining, a very experienced background, what are some things that he has brought to the sales team in North America, maybe any changes or just maybe strategically, how he's really changing the organization?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. I think -- thanks for that. I think we've been very -- we took our time and we were very selective in hiring a leader in the Americas that would come in and fit the culture and actually embrace a lot of things that were working so well for us but bring us the experience of scale and somebody who's seen that scale before. So I think it's -- first of all, he hit the ground running and is well integrated to the team. But the -- probably the first impression I would put out there is the importance of consistency of execution, like really looking at the things that are working and replicating them and driving them across the regions down to the last rep in -- anywhere in the region. He also comes with a strong channel background, which is super strategic for us and just continuously integrating our work with the channel. So it's a consistency of execution, the continuous partnering with channels. And I could probably add like putting systems in place that support scale because that will -- that's the mandate like we want to grow bigger and we want that scale experience.

Operator

Your next question comes from the line of Alex Henderson with Needham.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

I was hoping you could talk through the issues around the sales force staffing levels. You've got expectations out there of 25% plus top line growth. But your staffing is increasing at a 12% clip. Can you help us bridge between the rate of growth in staffing and increased productivity, increased deal sizes, other metrics that give us some confidence that the rate of increase in sales and marketing capacity is keeping up with your targeted growth rate?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Alex, thanks. This is Josh. First of all, with regard to our sales organizations, we're growing them pretty much every quarter. So a lot of what you see in this quarter is not necessarily reflective of -- doesn't necessarily translate to exactly growth rate for this quarter and for next quarter because we groom them over time, and productivity increases dramatically when they get over 6 months to 9 months in-house. And so really -- we look at it over the course of last 4 and 8 quarters in terms of the real strength for how much productivity we need for each current period. And for -- I think we're happy with the increase that we have for the first quarter. We anticipate to continue growing that sales organization during the year. We see sales and marketing growing to be 40% of revenue this year, and we are kind of farming, so to speak, to ensure that we have the right productivity levels at the right tenure levels in order to achieve our guided growth rates.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

If I could follow up with a second question. You identified EMEA as negatively impacted by the strong fourth quarter but obviously, its growth rate was considerably less than the rest of the other 2 geographies. Can you give us anything forward-looking in terms of understanding the scale of what you have in your pipeline or other variables data that would suit -- give us confidence that, that should reaccelerate to corporate average growth rates or better?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes, yes. If we look at it from a pipeline perspective, then we're totally on track for the type of growing with the business. We've looked at our -- we look at our diversification of our business over the last many years on an annual basis, and you see EMEA growing with the business year in and year out. The percentage of the pie has been very stable over the last many years, and the pipeline today substantiates that as well. And that's actually one of the strengths that we have within our diversified model, both geographically and vertically, is that we're able to kind of flow through the fluctuations from the quarter-to-quarter behavior. So from a pipeline perspective, which I think -- which you raise, it's a key trigger for us to really determine and give us the confidence that we see EMEA in a good place to grow with the business this year.

Operator

Your next question comes from the line of Shebly Seyrafi with FBM Securities.

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

Can you talk about your expense growth expectations in the second half? In my model, I'm getting over 30% year-to-year. You were in the last several quarters in the 20s. Why are you picking it up so much?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Well, we do see a step up -- as we talked about in the call, step up in expenses in the back half of the year compared to the first half. It's seasonal, whether related to our marketing events and also to employee expense step ups that we typically see in the second half. I think also we're -- we see multiple year growth opportunity for CyberArk with -- we want to ensure that we have still the ability today within our guidance to allow for us to continue investing for that growth in the second half of the year, and both on the sales and marketing organization and also on the innovation side as it relates to our R&D investment.

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

Okay. And then second one for me is related to Andrew's question. The embedded revenue growth in the second half of this year is something like 16% to 18%, which is below the medium-term target of 20%. And so if you're sticking to the -- that target in '20, it would imply an acceleration in the growth rate next year. Is that something you're thinking about?

Joshua Siegel - *CyberArk Software Ltd. - CFO*

I'm not sure I understood the second part -- the second part of that question about the next year.

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

Well, the medium-term target is 20% growth. If that's what you're thinking about for next year, that would imply an acceleration from the 16% to 18% growth rate in the second half of this year.

Joshua Siegel - *CyberArk Software Ltd. - CFO*

Yes. I think I'd prefer we stick to the guidance that we gave for 2019 on this call, which is the subject of this call. And we're pleased with and feel confident about the guidance that we gave. And I think on another occasion, we may choose to discuss medium-term again in a formal basis.

Operator

Your next question comes from the line of Taz Koujalgi with Guggenheim Partners.

Imtiaz Ahmed Koujalgi - *Guggenheim Securities, LLC, Research Division - Director of Technology, Media & Telecom and Analyst*

Can you comment a little bit on the customer growth this quarter and what you expect playing forward for the rest of the year? Because you had a good inflection in customer adds in 2018. Looks like the customer growth in this quarter was flat year-over-year.

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. I think we saw basically, kind of a similar pace in the new customer base. We still view it as a greenfield opportunity. So based on looking into the pipe and especially as we continue the motion downstream, we'll continue to add new logos in a good pace.

Imtiaz Ahmed Koujalgi - *Guggenheim Securities, LLC, Research Division - Director of Technology, Media & Telecom and Analyst*

And then on summing up on Europe again, you said that you had budget flush in Q4 in Europe, which helped Q4 but then impacted Q1 numbers. What was Europe different than U.S.? I mean, you -- I would assume that you had budget flush both in U.S. and EMEA. Why do you think the impact was higher in EMEA for Q4, which pulled down your Q1 EMEA revenues?

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Yes. I think, in general, EMEA is more back-end loaded and very much channel-oriented as well. And we're running a global operation, and you see sometimes the region behave a little differently in that respect. So Q4 was just phenomenal, and then we saw softer spend in Q1. But when we look at it, we actually said, okay, this is a natural cadence of spend. Let's look at the pipeline, pipeline is healthy. And we're benefiting from this diversification we have on a global perspective because even with a slower EMEA, total revenue accelerated to 34% and license accelerated to 33% growth, so pleased with that. And like I said, the pipe is healthy in EMEA and in the rest of the world.

Operator

That concludes our question-and-answer session today. I would now like to turn the call back to Udi Mokady.

Ehud Mokady - *CyberArk Software Ltd. - Founder, Chairman of the Board & CEO*

Thank you. I want to thank our customers, partners and employees who contributed to CyberArk's strong results in the first quarter. And thank you, everyone, for joining us on the call today. Thank you.

Operator

That concludes today's conference call. You may now disconnect.
