



NEWS RELEASE

# Varonis Announces Second Quarter 2024 Financial Results

7/29/2024

Annual recurring revenues grew 18% year-over-year

SaaS ARR as a percentage of total ARR was approximately 36%

Year-to-date cash from operations generated \$68.4 million vs. \$42.6 million last year

Year-to-date free cash flow generated \$67.3 million vs. \$40.0 million last year

NEW YORK, July 29, 2024 (GLOBE NEWSWIRE) -- **Varonis Systems, Inc.** (Nasdaq: VRNS), a leader in data security, today announced financial results for the second quarter ended June 30, 2024.

Yaki Faitelson, Varonis CEO, said, "Our second quarter results reflect the growing momentum of our SaaS platform and recently introduced Managed Data Detection and Response offering, which helps customers automatically prevent data breaches with very little effort."

Guy Melamed, Varonis CFO & COO, added, "The strong adoption of our SaaS platform resulted in 36% of total company ARR coming from SaaS at the end of the second quarter. Our performance, coupled with the many tailwinds in our business gives us confidence to raise our full-year ARR and free cash flow guidance and also to increase our SaaS ARR expectations to 48% for the full-year."

Financial Summary for the Second Quarter Ended June 30, 2024

- Total revenues were \$130.3 million, compared with \$115.4 million in the second quarter of 2023.
- SaaS revenues were \$44.8 million, compared with \$5.7 million in the second quarter of 2023.
- Term license subscription revenues were \$62.7 million, compared with \$85.4 million in the second quarter of 2023.

- Maintenance and services revenues were \$22.8 million, compared with \$24.3 million in the second quarter of 2023.
- GAAP operating loss was (\$28.8) million, compared to GAAP operating loss of (\$39.7) million in the second quarter of 2023.
- Non-GAAP operating income was \$2.1 million, compared to non-GAAP operating income of \$0.9 million in the second quarter of 2023.

The tables at the end of this press release include a reconciliation of GAAP operating income (loss) to non-GAAP operating income (loss) and GAAP net income (loss) to non-GAAP net income (loss) for the three and six months ended June 30, 2024 and 2023. An explanation of these measures is included below under the heading "Non-GAAP Financial Measures and Key Performance Indicators."

#### Key Performance Indicators and Recent Business Highlights

- Annual recurring revenues, or ARR, was \$584.2 million as of the end of the second quarter, up 18% year-over-year.
- As of June 30, 2024, the Company had \$790.3 million in cash and cash equivalents, short-term deposits and marketable securities.
- During the six months ended June 30, 2024, the Company generated \$68.4 million of cash from operations, compared to \$42.6 million generated in the prior year period.
- During the six months ended June 30, 2024, the Company generated \$67.3 million of free cash flow, compared to \$40.0 million generated in the prior year period.
- Secured the "In Process" designation with the Federal Risk and Authorization Management Program (FedRAMP).
- Announced industry-first automated remediation to strengthen data security posture and prevent data breaches in AWS.
- Expanded Microsoft 365 Copilot security offering to include AI prompt monitoring to prevent malicious Copilot activity.
- Recognized as a Customers' Choice in 2024 Gartner Peer Insights Voice of the Customer DSPM Report.

An explanation of ARR is included below under the heading "Non-GAAP Financial Measures and Key Performance Indicators." In addition, the tables at the end of this press release include a reconciliation of net cash provided by operating activities to non-GAAP free cash flow. An explanation of this measure is also included below under the heading "Non-GAAP Financial Measures and Key Performance Indicators."

#### Financial Outlook

For the third quarter of 2024, the Company expects:

- Revenues of \$140.0 million to \$143.0 million, or year-over-year growth of 14% to 17%.
- Non-GAAP operating income of \$7.0 million to \$8.0 million.
- Non-GAAP net income per diluted share in the range of \$0.07 to \$0.08, based on 128.2 million diluted shares outstanding.

For full year 2024, the Company now expects:

- ARR of \$629.0 million to \$635.0 million, or year-over-year growth of 16% to 17%.
- Free cash flow of \$80.0 million to \$85.0 million.
- Revenues of \$544.0 million to \$552.0 million, or year-over-year growth of 9% to 11%.
- Non-GAAP operating income of \$18.0 million to \$21.0 million.
- Non-GAAP net income per diluted share in the range of \$0.22 to \$0.24, based on 128.1 million diluted shares outstanding.

Actual results may differ materially from the Company's Financial Outlook as a result of, among other things, the factors described below under "Forward-Looking Statements".

#### Conference Call and Webcast

Varonis will host a conference call today, Monday, July 29, 2024, at 4:30 p.m. Eastern Time, to discuss the Company's second quarter 2024 financial results. To access this call, dial 877-425-9470 (domestic) or 201-389-0878 (international). The passcode is 13747734. A replay of this conference call will be available through August 5, 2024 at 844-512-2921 (domestic) or 412-317-6671 (international). The replay passcode is 13747734. A live webcast of this conference call will be available on the "Investors" page of the Company's website ([www.varonis.com](http://www.varonis.com)), and a replay will be archived on the website as well.

#### Non-GAAP Financial Measures and Key Performance Indicators

Varonis believes that the use of non-GAAP operating income (loss) and non-GAAP net income (loss) is helpful to our investors. These measures, which the Company refers to as our non-GAAP financial measures, are not prepared in accordance with GAAP.

Non-GAAP operating income (loss) is calculated as operating income (loss) excluding (i) stock-based compensation expense, (ii) payroll tax expense related to stock-based compensation, and (iii) amortization of acquired intangible assets and acquisition-related expenses.

Non-GAAP net income (loss) is calculated as net income (loss) excluding (i) stock-based compensation expense, (ii) payroll tax expense related to stock-based compensation, (iii) amortization of acquired intangible assets and acquisition-related expenses, (iv) foreign exchange gains (losses) which include exchange rate differences on lease

contracts as a result of the implementation of ASC 842 and (v) amortization of debt issuance costs.

The Company believes that the exclusion of these expenses provides a more meaningful comparison of our operational performance from period to period and offers investors and management greater visibility to the underlying performance of our business. Specifically:

- Stock-based compensation expenses utilize varying available valuation methodologies, subjective assumptions and a variety of equity instruments that can impact a company's non-cash expenses;
- Payroll taxes are tied to the exercise or vesting of underlying equity awards and the price of our common stock at the time of vesting or exercise, factors which may vary from period to period;
- Acquired intangible assets are valued at the time of acquisition and are amortized over an estimated useful life after the acquisition, and acquisition-related expenses are unrelated to current operations and neither are comparable to the prior period nor predictive of future results;
- The Company incurs foreign exchange gains or losses from the revaluation of its significant operating lease liabilities in foreign currencies as well as other assets and liabilities denominated in non-U.S. dollars, which may vary from period to period; and
- Amortization of debt issuance costs, which relate to the Company's convertible senior notes issued in 2020, is a non-cash item.

Free cash flow is calculated as net cash provided by or used in operating activities less purchases of property and equipment. We believe that free cash flow is a useful indicator of liquidity that provides information to management and investors about the amount of cash provided by or used in our operations that, after the investments in property and equipment, can be used for strategic initiatives.

Each of our non-GAAP financial measures is an important tool for financial and operational decision making and for evaluating our own operating results over different periods of time. The non-GAAP financial measures do not represent our financial performance under U.S. GAAP and should not be considered as alternatives to operating income (loss) or net income (loss) or any other performance measures derived in accordance with GAAP. Non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, and exclude expenses that may have a material impact on our reported financial results. Further, stock-based compensation expense and payroll tax expense related to stock-based compensation have been, and will continue to be for the foreseeable future, significant recurring expenses in our business and an important part of the compensation provided to our employees. Also, the amortization of intangible assets are expected recurring expenses over the estimated useful life of the underlying intangible asset and acquisition-related expenses will be incurred to the extent acquisitions

are made in the future. Additionally, foreign exchange rates may fluctuate from one period to another, and the Company does not estimate movements in foreign currencies. Finally, the amortization of debt issuance costs are expected recurring expenses until the maturity of the senior notes in 2025.

The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. Varonis urges investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measures to evaluate our business.

A reconciliation for non-GAAP operating income (loss) and non-GAAP net income (loss) referred to in our "Financial Outlook" is not provided because, as forward-looking statements, such reconciliation is not available without unreasonable effort due to the high variability, complexity, and difficulty of estimating certain items such as charges to stock-based compensation expense and currency fluctuations which could have an impact on our consolidated results. The Company believes the information provided is useful to investors because it can be considered in the context of the Company's historical disclosures of this measure.

ARR is a key performance indicator defined as the annualized value of active term-based subscription license contracts, SaaS contracts, and maintenance contracts in effect at the end of that period. Subscription license contracts, SaaS contracts, and maintenance contracts are annualized by dividing the total contract value by the number of days in the term and multiplying the result by 365. The annualized value of contracts is a legal and contractual determination made by assessing the contractual terms with our customers. The annualized value of maintenance contracts is not determined by reference to historical revenues, deferred revenues or any other GAAP financial measure over any period. ARR is not a forecast of future revenues, which can be impacted by contract start and end dates and renewal rates.

#### Forward-Looking Statements

This press release contains, and statements made during the above referenced conference call will contain, "forward-looking" statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including regarding the Company's growth rate and its expectations regarding future revenues, operating income or loss or earnings or loss per share. These statements are not guarantees of future performance but are based on management's expectations as of the date of this press release and assumptions that are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements. Important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements include the following: the impact of potential information technology, cybersecurity or

data security breaches; risks associated with anticipated growth in Varonis' addressable market; general economic and industry conditions, such as foreign currency exchange rate fluctuations and expenditure trends for data and cybersecurity solutions; Varonis' ability to predict the timing and rate of subscription renewals and their impact on the Company's future revenues and operating results; risks associated with international operations; the impact of global conflicts on the budgets of our clients and on economic conditions generally; competitive factors, including increased sales cycle time, changes in the competitive environment, pricing changes and increased competition; the risk that Varonis may not be able to attract or retain employees, including sales personnel and engineers; Varonis' ability to build and expand its direct sales efforts and reseller distribution channels; risks associated with the closing of large transactions, including Varonis' ability to close large transactions consistently on a quarterly basis; new product introductions and Varonis' ability to develop and deliver innovative products; Varonis' ability to provide high-quality service and support offerings; the expansion of cloud-delivered services; and risks associated with our convertible notes and capped-call transaction. These and other important risk factors are described more fully in Varonis' reports and other documents filed with the Securities and Exchange Commission and could cause actual results to vary from expectations. All information provided in this press release and in the conference call is as of the date hereof, and Varonis undertakes no duty to update or revise this information, whether as a result of new information, new developments or otherwise, except as required by law.

#### About Varonis

Varonis (Nasdaq: VRNS) is a leader in data security, fighting a different battle than conventional cybersecurity companies. Our cloud-native Data Security Platform continuously discovers and classifies critical data, removes exposures, and detects advanced threats with AI-powered automation.

Thousands of organizations worldwide trust Varonis to defend their data wherever it lives — across SaaS, IaaS, and hybrid cloud environments. Customers use Varonis to automate a wide range of security outcomes, including data security posture management (DSPM), data classification, data access governance (DAG), data detection and response (DDR), data loss prevention (DLP), and insider risk management.

Varonis protects data first, not last. Learn more at [www.varonis.com](http://www.varonis.com).

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Varonis Systems, Inc.  
Condensed Consolidated Statements of Operations  
(in thousands, except for share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	Unaudited		Unaudited	
Revenues:				
Term license subscriptions	\$ 62,729	\$ 85,437	\$ 118,709	\$ 166,343
SaaS	44,785	5,653	78,770	7,721
Maintenance and services	22,832	24,328	46,889	48,689
Total revenues	130,346	115,418	244,368	222,753
Cost of revenues	22,436	17,386	43,785	35,023
Gross profit	107,910	98,032	200,583	187,730
Operating expenses:				
Research and development	44,933	46,144	92,760	90,876
Sales and marketing	70,041	70,321	141,268	138,714
General and administrative	21,762	21,283	43,014	40,972
Total operating expenses	136,736	137,748	277,042	270,562
Operating loss	(28,826)	(39,716)	(76,459)	(82,832)
Financial income, net	8,249	8,465	16,794	16,238
Loss before income taxes	(20,577)	(31,251)	(59,665)	(66,594)
Income taxes	(3,371)	(7,446)	(4,773)	(10,407)
Net loss	\$ (23,948)	\$ (38,697)	\$ (64,438)	\$ (77,001)
Net loss per share of common stock, basic and diluted	\$ (0.21)	\$ (0.35)	\$ (0.58)	\$ (0.71)
Weighted average number of shares used in computing net loss per share of common stock, basic and diluted	111,885,305	109,740,289	110,934,149	109,063,722

Stock-based compensation expense for the three and six months ended June 30, 2024 and 2023 is included in the Condensed Consolidated Statements of Operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	Unaudited		Unaudited	
Cost of revenues	\$ 1,298	\$ 2,030	\$ 2,660	\$ 4,530
Research and development	8,856	13,634	20,615	26,157
Sales and marketing	10,655	13,898	21,125	26,660
General and administrative	9,280	9,822	17,782	17,848
	\$ 30,089	\$ 39,384	\$ 62,182	\$ 75,195

Payroll tax expense related to stock-based compensation for the three and six months ended June 30, 2024 and 2023 is included in the Condensed Consolidated Statements of Operations as follows (in thousands):

	Three Months Ended			Six Months Ended				
	June 30,			June 30,				
	2024	Unaudited	2023	2024	Unaudited	2023		
Cost of revenues	\$	9	\$	75	\$	616	\$	361
Research and development		66		50		379		157
Sales and marketing		46		277		2,900		1,698
General and administrative		303		51		1,116		468
	\$	424	\$	453	\$	5,011	\$	2,684

Amortization of acquired intangibles and acquisition-related expenses for the three and six months ended June 30, 2024 and 2023 is included in the Condensed Consolidated Statements of Operations as follows (in thousands):

	Three Months Ended			Six Months Ended				
	June 30,			June 30,				
	2024	Unaudited	2023	2024	Unaudited	2023		
Cost of revenues	\$	381	\$	381	\$	762	\$	762
Research and development		—		411		—		823
Sales and marketing		—		—		—		—
General and administrative		—		—		—		—
	\$	381	\$	792	\$	762	\$	1,585

Varonis Systems, Inc.  
Condensed Consolidated Balance Sheets  
(in thousands)

	June 30, 2024	December 31, 2023
	Unaudited	
Assets		
Current assets:		
Cash and cash equivalents	\$ 155,403	\$ 230,740
Marketable securities	427,065	253,175
Short-term deposits	44,846	49,800
Trade receivables, net	122,412	169,116
Prepaid expenses and other current assets	66,418	64,326
Total current assets	816,144	767,157
Long-term assets:		



Long-term marketable securities	162,972	211,063
Operating lease right-of-use assets	47,209	51,838
Property and equipment, net	30,075	33,964
Intangible assets, net	500	1,263
Goodwill	23,135	23,135
Other assets	14,780	15,490
Total long-term assets	<u>278,671</u>	<u>336,753</u>
Total assets	<u>\$ 1,094,815</u>	<u>\$ 1,103,910</u>
Liabilities and stockholders' equity		
Current liabilities:		
Trade payables	\$ 2,532	\$ 672
Accrued expenses and other short-term liabilities	123,014	125,057
Deferred revenues	<u>208,907</u>	<u>181,049</u>
Total current liabilities	<u>334,453</u>	<u>306,778</u>
Long-term liabilities:		
Convertible senior notes, net	251,239	250,477
Operating lease liabilities	45,414	51,313
Deferred revenues	22	886
Other liabilities	<u>5,081</u>	<u>4,808</u>
Total long-term liabilities	<u>301,756</u>	<u>307,484</u>
Stockholders' equity:		
Share capital		
Common stock	112	109
Accumulated other comprehensive loss	(10,625)	(8,649)
Additional paid-in capital	1,177,947	1,142,578
Accumulated deficit	<u>(708,828)</u>	<u>(644,390)</u>
Total stockholders' equity	<u>458,606</u>	<u>489,648</u>
Total liabilities and stockholders' equity	<u>\$ 1,094,815</u>	<u>\$ 1,103,910</u>

Varonis Systems, Inc.  
Condensed Consolidated Statements of Cash Flows  
(in thousands)

	Six Months Ended June 30,	
	2024	2023
	Unaudited	
Cash flows from operating activities:		
Net loss	\$ (64,438)	\$ (77,001)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,767	5,807
Stock-based compensation	62,182	75,196
Amortization of deferred commissions	14,498	12,524
Non-cash operating lease costs	4,722	4,731
Amortization of debt issuance costs	768	754
Amortization of premium and accretion of discount on marketable securities	(7,611)	(2,724)
Changes in assets and liabilities:		
Trade receivables	46,704	32,311
Prepaid expenses and other current assets	(3,399)	(10,065)
Deferred commissions	(15,297)	(12,423)
Other long-term assets	(58)	(447)
Trade payables	1,860	(2,282)
Accrued expenses and other short-term liabilities	(4,374)	(5,799)
Deferred revenues	26,995	19,322
Other long-term liabilities	<u>128</u>	<u>2,732</u>
Net cash provided by operating activities	<u>68,447</u>	<u>42,636</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	45,101	20,850
Investment in marketable securities	(166,099)	(59,698)
Proceeds from short-term and long-term deposits	14,338	162,012
Investment in short-term and long-term deposits	(9,192)	(110,652)
Purchases of property and equipment	<u>(1,116)</u>	<u>(2,603)</u>
Net cash provided by (used in) investing activities	<u>(116,968)</u>	<u>9,909</u>
Cash flows from financing activities:		
Proceeds from employee stock plans	9,792	5,889

Taxes paid related to net share settlement of equity awards	(36,608)	(19,439)
Repurchase of common stock	—	(7,599)
Net cash used in financing activities	<u>(26,816)</u>	<u>(21,149)</u>
Increase (decrease) in cash and cash equivalents	(75,337)	31,396
Cash and cash equivalents at beginning of period	230,740	367,800
Cash and cash equivalents at end of period	\$ 155,403	\$ 399,196

Varonis Systems, Inc.  
Reconciliation of GAAP Measures to non-GAAP  
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	Unaudited		Unaudited	
Reconciliation to non-GAAP operating income (loss):				
GAAP operating loss	\$ (28,826)	\$ (39,716)	\$ (76,459)	\$ (82,832)
Add back:				
Stock-based compensation expense	30,089	39,384	62,182	75,195
Payroll tax expenses related to stock-based compensation	424	453	5,011	2,684
Amortization of acquired intangible assets and acquisition-related expenses	381	792	762	1,585
Non-GAAP operating income (loss)	<u>\$ 2,068</u>	<u>\$ 913</u>	<u>\$ (8,504)</u>	<u>\$ (3,368)</u>
Reconciliation to non-GAAP net income:				
GAAP net loss	\$ (23,948)	\$ (38,697)	\$ (64,438)	\$ (77,001)
Add back:				
Stock-based compensation expense	30,089	39,384	62,182	75,195
Payroll tax expenses related to stock-based compensation	424	453	5,011	2,684
Amortization of acquired intangible assets and acquisition-related expenses	381	792	762	1,585
Foreign exchange rate differences, net	(569)	(1,220)	(1,250)	(2,204)
Amortization of debt issuance costs	385	378	768	754
Non-GAAP net income	<u>\$ 6,762</u>	<u>\$ 1,090</u>	<u>\$ 3,035</u>	<u>\$ 1,013</u>
GAAP weighted average number of shares used in computing net loss per share of common stock - basic and diluted	<u>111,885,305</u>	<u>109,740,289</u>	<u>110,934,149</u>	<u>109,063,722</u>
Non-GAAP weighted average number of shares used in computing net income per share of common stock - basic	<u>111,885,305</u>	<u>109,740,289</u>	<u>110,934,149</u>	<u>109,063,722</u>
Non-GAAP weighted average number of shares used in computing net income per share of common stock - diluted	<u>128,023,643</u>	<u>127,294,881</u>	<u>128,045,793</u>	<u>126,753,984</u>
GAAP net loss per share of common stock - basic and diluted	<u>\$ (0.21)</u>	<u>\$ (0.35)</u>	<u>\$ (0.58)</u>	<u>\$ (0.71)</u>
Non-GAAP net income per share of common stock - basic	<u>\$ 0.06</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.01</u>
Non-GAAP net income per share of common stock - diluted	<u>\$ 0.05</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>

Varonis Systems, Inc.  
Reconciliation of GAAP Measures to non-GAAP  
(in millions)

Reconciliation to non-GAAP free cash flow:  
 Net cash provided by operating activities  
 Purchases of property and equipment  
 Free cash flow

		Six Months Ended June 30,	
		2024	2023
		Unaudited	
\$		68.4	\$ 42.6
		(1.1)	(2.6)
\$		67.3	\$ 40.0

Varonis Systems, Inc.  
 Reconciliation of GAAP Measures to non-GAAP  
 (in millions)

Reconciliation to non-GAAP free cash flow:  
 Net cash provided by operating activities  
 Purchases of property and equipment  
 Free cash flow

		Twelve Months Ended December 31, 2024	
		Low	High
\$		85.0	\$ 92.0
		(5.0)	(7.0)
\$		80.0	\$ 85.0

Source: Varonis Systems, Inc.