



Qualys Q3 FY2024 Earnings Prepared Remarks

Foster City, Calif., – Nov 5, 2024 – Qualys, Inc. (NASDAQ: QLYS), a leading provider of disruptive cloud-based IT, security, and compliance solutions, today announced financial results for the third quarter ended September 30, 2024.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' third quarter 2024 earnings call.

Joining me today to discuss our results are Sumedh Thakar, our president and CEO, and Joo Mi Kim, our CFO. Before we get started, I would like to remind you that our remarks today will include forward-looking statements that generally relate to future events or our future financial or operating performance. Actual results may differ materially from these statements. Factors that could cause results to differ materially are set forth in today's press release and our filings with the SEC, including our latest Form 10-Q and 10-K. Any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. As a reminder, the press release, prepared remarks, and investor presentation are available on the Investor Relations section of our website. With that, I'd like to turn the call over to Sumedh.

Sumedh Thakar, president and CEO

Thanks, Blair, and welcome to our third-quarter earnings call.

Q3 was another quarter of rapid innovation for Qualys, reflecting our ongoing commitment to technology leadership, cybersecurity transformation, and successful outcomes for customers.

Over the last year, I have personally spoken to many CISOs who are struggling with way too many risk tools from shift left to run-time, creating way too many findings that are overwhelming the IT and Dev teams, leading to multiple siloed top 10 dashboards and an inability to articulate the true risk to their business. They are feeling the pressure to articulate the ROI of their security spend and rationalize the security spend in context of the risk to the organization to their CFO, CEO, and board members. Risk can only be mitigated if remediation is performed in a timely manner. There is an immediate desire to stop playing the risk whack-a-mole and establish a properly operationalized Risk Management process by implementing a modern Risk Operations Center (ROC).

Platform Innovation:

At our recent QSC event in San Diego, we ushered in the next era of cybersecurity innovation by

announcing GA of Enterprise TruRisk Management (ETM) solution, which is world's first cloud-based ROC. ETM transforms siloed data into a cohesive, real-time risk management solution by consolidating Qualys and non-Qualys data from several technology design partners including Wiz, AWS, Microsoft Defender, Oracle, Okta and Forescout. The result is a single, comprehensive, AI powered platform that aggregates security findings, unifies threat intelligence, and provides organizations with actionable, enterprise-wide insights to prioritize and remediate cyber risk with unique business context and financial impact via cyber risk quantification (CRQ). Unlike some exposure management platforms in the market that only expose the exposure based on data their sensors collect and provide no remediation, Qualys ETM comprehensively provides a single risk view that goes beyond vulnerabilities, across code repositories, on-prem, cloud, container, remote endpoint, identity, OT and IOT findings from multiple existing security tools in customer environments along with patching and remediation.

With ETM, Qualys has set a new gold standard in the industry for proactive cybersecurity risk management: cyber risk orchestration is coordinated, quantification is comprehensive, remediation is transformed, and the enterprise-wide ROC at scale is a reality. We see many parallels between this new market opportunity and the early days of VMDR®, including a significant greenfield opportunity and being early to market. I encourage all of you to watch the video describing our ETM powered ROC in more detail at qualys.com. We also announced the mROC, which will enable many MSSPs to deliver services on Qualys ETM as a managed Risk Operations Center. Lastly we announced a cyber insurance company is going to provide Qualys ETM customers with additional discounts on their premium for lower TruRisk scores shared directly from ETM, allowing customers to transfer residual risk.

With a ROC delivered by Qualys ETM, we are now empowering C-level executives and security teams with out-of-the-box, instant, and actionable insights into trending risks specific to their vertical and mapped to their own data to preemptively identify prevailing threats well in advance of a potential security incident. With this new app we call TruLens™ soon going GA, CISOs and security teams are immediately notified of potentially impacted IT and OT assets within their environments, the materiality of those assets in their business, the associated impact to their overall risk score, and are equipped with the ability to make remediation frictionless and immediate with a simple click of a button.

Alongside several other exciting new announcements at QSC San Diego, we were pleased to commence GA on both our TruRisk™ Eliminate and Qualys TotalAI capabilities, marking another milestone in Qualys' 25 year history of cybersecurity innovation. We are pioneering these categories, and both are key differentiators in our platform.

These new approaches to cybersecurity risk management, along with several others on our roadmap in the coming quarters, arm our customers with the tools necessary to navigate an increasingly complex threat and regulatory environment, streamline security operations, and reduce cost.

Q3 Business Update:

Moving to our business update. With many of our customers already embracing Qualys to help rearchitect and consolidate their stack, Qualys' Vulnerability Management, Detection, and Response (VMDR®) solution has translated into an enviable customer base, broad adoption, and notable industry recognition. As recently announced, Qualys' VMDR with TruRisk was recognized by GigaOm as a comprehensive risk-based approach to vulnerability management and a leader in

the category for the fourth consecutive year. We believe Qualys' placement as a leading vulnerability management solution further validates our investments in the platform and continues to represent the high-water mark for securing customer environments today, and in the future.

Given Qualys' demonstrated track record for delivering greater value to customers, our VMDR solution with TruRisk is not only fueling new logo lands, but also helping to increase platform adoption, especially in the areas of Cybersecurity Asset Management with External Attack Surface Management (EASM), Patch Management, and Cloud Security. Let me share a couple of recent wins, which illustrate why companies turn to Qualys to help consolidate their security tools and fortify their security operations.

In Q3, one of my favorite wins was a large federal government agency becoming a Qualys customer. This new customer was previously using multiple legacy and next-gen solutions to manage a variety of risk management use cases across their security, IT, and DevOps teams. In addition to the complexity of using multiple point products, this government agency was frustrated with increasing costs associated with on-prem deployments, the inefficiencies of operating siloed systems, and elongated remediation efforts. Looking to migrate to a natively integrated, cloud-based, FedRAMP High Impact level Ready solution that meets the Cybersecurity and Infrastructure Security Agency (CISA) Binding Operational Directives (BOD), we displaced five of their existing vendors in a seven-figure bookings deployment using multiple Qualys modules right out of the gate. These initial deployments included Cybersecurity Asset Management with EASM, VMDR with TruRisk, Patch Management, Policy Compliance, and Multi-Vector Endpoint Detection and Response (EDR). Through this highly strategic and competitive win, this customer is now able to leverage unified dashboards that provide them with greater insights and automation than any of the competitive products they evaluated, while taking full advantage of a natively integrated platform. This win, alongside a separate seven-figure upsell with an existing large government agency customer, and a significant state win, are a testament to our ongoing investments to expand our federal, state, and local government business in the U.S..

Continuing our global platform expansion, I'm pleased to announce the Infosec Registered Assessors Program (IRAP) in Australia has recently assessed Qualys at the Protected level. This achievement opens the door for Australian government agencies and commercial organizations looking to comply with the Australian Cyber Security Centers (ACSC) Essential Eight strategies as well as their Protective Security Policy Framework (PSPF) requirements to meet their country's most stringent security and compliance standards. Our successful assessment follows Qualys' approval as a cybersecurity service provider to the Victorian state government for vulnerability management services. Qualys was selected through a highly competitive and extensive vetting process, and is being bundled into a managed service delivered by Ernst & Young.

Turning to the momentum we're seeing with our TotalCloud CNAPP solution is a mid six-figure bookings upsell with a financial services company in the global 200. This existing VMDR and CSAM customer selected TotalCloud to scale their container deployments to over 70 thousand hosts, monitoring millions of Kubernetes container images daily. Through its evaluation of competing cloud security providers, this customer determined that alternative point solutions added complexity to their operations, lacked integration, and missed detections, which hindered their ability to assess risk and consolidate their security tools. Today, through a highly scalable, natively integrated CNAPP solution, this customer is leveraging the Qualys Enterprise TruRisk Platform to combine runtime insights with proactive risk management while actively detecting

anomalies, preventing zero-day attacks, closing compliance gaps, and remediating risk with ITSM integration through a single dashboard from code to cluster. These capabilities provide the visibility, automation, and cloud hygiene necessary to defend against today's adversaries and represent a significant long-term growth opportunity for Qualys. Our growing leadership in the cloud market was also recently recognized by Gartner in its July 2024 Marketguide for Cloud Native Application Protection Platforms.

With seamlessly integrated solutions delivered natively on our platform to solve modern security challenges, more and more Qualys customers are beginning to understand how cybersecurity transformation drives better security outcomes, saves time, and costs less. As a result, customers spending \$500,000 or more with us in Q3 grew 15% from a year ago to 200.

Consolidation isn't just happening with customers, it's also embraced and prioritized by our partners where we continue to see an increase in new customer deal registrations, and cross-sells. We believe the expansion of our partner program continues to reflect our strengthening brand awareness and strategic position in the market.

In summary, we believe our natively integrated platform that comprehensively measures, communicates, and remediates cyber risk brings a highly differentiated value proposition to our customers as they get more security using fewer resources with the Qualys Enterprise TruRisk Platform. With a unique opportunity in this environment to further strengthen our strategic position as the partner of choice for customers looking to rearchitect and consolidate their security tools to solve modern security challenges, we believe we can continue to grow long-term, maintain best-in-class profitability, and invest in key initiatives aimed at further extending the gap between Qualys and the competition.

With that, I'll turn the call over to Joo Mi to further discuss our third-quarter results and outlook for the fourth quarter and full year 2024.

Joo Mi Kim, Chief Financial Officer

Thanks, Sumedh, and good afternoon. Before I start, I'd like to note that, except for revenues, all financial figures are non-GAAP, and growth rates are based on comparisons to the prior year period, unless stated otherwise.

Turning to third quarter results, revenues grew 8% to \$153.9 million with channel continuing to increase its contribution, making up 47% of total revenues compared to 43% a year ago. As a result of our continued commitment to leverage our partner ecosystem to drive growth, we were able to grow revenues from channel partners by 17%, outpacing direct, which grew 1%. By geo, 14% growth outside the US was ahead of our domestic business, which grew 5%. US and international revenue mix was 58% and 42%, respectively.

In Q3, we saw some stabilization in the selling environment but believe ongoing budget scrutiny will persist for the foreseeable future. Reflecting this sentiment, our gross retention rate remained largely unchanged at approximately 90%, but with stronger upsell performance our net dollar expansion rate came in higher at 103%, up from 102% last quarter. We continued to see a positive growth trend in new business, achieving a double-digit growth rate for the fifth consecutive quarter.

In terms of product contribution to bookings, Patch Management and Cybersecurity Asset

Management combined made up 15% of LTM bookings and 24% of LTM new bookings in Q3. Cloud Security solution, TotalCloud CNAPP, made up 4% of LTM bookings. The foundational theme underpinning these results is the power of our Enterprise TruRisk Platform to help customers consolidate cybersecurity at scale.

Turning to profitability, reflecting our scalable and sustainable business model, adjusted EBITDA for the third quarter of 2024 was \$69.7 million, representing a 45% margin, compared to a 48% margin a year ago. Operating expenses in Q3 increased by 12% to \$61.8 million, primarily driven by a 18% increase in Sales and Marketing investments aimed at capturing the market opportunities in front of us. As we continue to increase our investment intensity and focus on Sales & Marketing enablement, customer success, and productivity, we believe we will be able to drive wallet share and long-term returns.

EPS for the third quarter of 2024 was \$1.56, and our free cash flow was \$57.6 million, representing a 37% margin, compared to 64% in the prior year. In Q3, we continued to invest the cash we generated from operations back into Qualys, including \$3.4 million on capital expenditures and \$44.9 million to repurchase 344 thousand of our outstanding shares. As of the end of the quarter, we had \$185.7 million remaining in our share repurchase program.

With that, let us turn to guidance, starting with revenues: For the full year 2024, we are now expecting our revenues to be in the range of \$602.9 to \$605.9 million, which represents a growth rate of 9%. This compares to revenue guidance of \$597.5 to \$601.5 million last quarter. For the fourth quarter of 2024, we expect revenues to be in the range of \$154.5 to \$157.5 million, representing a growth rate of 7% to 9%. This guidance assumes lighter new business this quarter based on current pipeline and continued deal scrutiny from existing customers with no meaningful change in our net dollar expansion rate in Q4.

Shifting to profitability guidance. Factoring in the better-than-expected profitability to date, we expect full year 2024 EBITDA margin in the mid 40s and free cash flow margin in the mid-to-high 30s. We expect full year EPS to be in the range of \$5.81 to \$5.91, up from the prior range of \$5.46 to \$5.62. For the fourth quarter of 2024, we expect EPS to be in the range of \$1.28 to \$1.38. Our planned capital expenditures in 2024 are expected to be in the range of \$12 to \$16 million; and, for the fourth quarter of 2024, in the range of \$5.5 to \$9.5 million.

Adding additional context, we are currently making certain investments in some of our data centers to achieve greater operational efficiencies and reduce medium-to-long term marginal costs. These investments pressured gross margin in Q3 by approximately 1%, and we anticipate a similar contraction in Q4. With respect to operating expenses, in Q4 we expect to continue to prioritize an increase in investments in Sales & Marketing aimed at driving more pipeline, supporting sales, enhancing our partner program, and expanding our federal vertical with more modest increases in engineering and G&A.

With that, Sumedh and I would be happy to answer any of your questions.