



Qualys Q1 FY2024 Earnings Prepared Remarks

Foster City, Calif., – May 7, 2024 – Qualys, Inc. (NASDAQ: QLYS), a pioneer and leading provider of disruptive cloud-based IT, security, and compliance solutions, today announced financial results for the first quarter ended March 31, 2024.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' first 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 first quarter earnings call. Qualys delivered another quarter of healthy revenue growth, strong profitability, and cash flow generation reflecting our ongoing commitment to rapid innovation and customer success.

Q1 Business Update:

Given the accelerated growth in scope and complexity of cyber threats alongside an intensifying regulatory environment, Boards and C-level executives are increasingly focused on the business outcome of cybersecurity. This requirement makes seamlessly integrated security solutions a necessity for customers to effectively measure, communicate, and fortify their security posture. We believe the Qualys Enterprise TruRisk Platform, designed to reduce friction, risk, and cost, provides organizations with a foundational risk management platform for the future and serves as a structural competitive advantage for both our customers and for Qualys.

As a result, our Vulnerability Management, Detection and Response (VMDR®) solution with TruRisk is not only fueling new logo lands, but also increases platform adoption, especially in the areas of Cybersecurity Asset Management with External Attack Surface Management (EASM), Patch Management, and Cloud Security. In Q1, Healthcare, technology, retail and financial

services verticals all demonstrated strong VMDR demand with large deal sizes.

Further underscoring the power of our platform, I'll take a moment to share a couple of examples of how our customers and partners continue to expand their use of Qualys' capabilities to consolidate their security stacks. On the customer front, a marquee high six-figure bookings enterprise customer win in Q1 was with a leading Business Services company in the Forbes 1000. This customer expanded its VMDR with TruRisk and Patch Management deployments while adopting Cybersecurity Asset Management with EASM as part of an initiative to detect end-of-life and end-of-service software, monitor sub domains of its infrastructure and transform its IT security architecture while replacing point solutions from three vendors with a single platform. The ability of this customer to significantly enhance its security program with comprehensive internal and external asset criticality, holistic risk scoring, ticketing and automated patching across its on-prem, cloud and container environments through a natively integrated platform and unified dashboard were all key differentiators compared to alternative next gen and legacy technologies.

The next win demonstrates how Qualys helped an existing Forbes 100 manufacturing company standardize on the Qualys Enterprise TruRisk Platform and consolidate risk factors from different Qualys modules into a single risk score with business context. This existing VMDR and TotalCloud customer was struggling with connecting disparate asset management tools and business processes across several subsidiaries and environments and needed to gain better visibility into its attack surface to uniformly contextualize, communicate and manage risk. Recognizing the increased value they could gain by further consolidating on Qualys, this customer replaced its existing asset management tools and adopted our Cybersecurity Asset Management with EASM solution in a six-figure bookings upsell. This customer is now leveraging multiple aspects of the Qualys Enterprise TruRisk Platform, spanning on-prem, cloud, and multi-cloud assets to quantify and prioritize risk reduction initiatives, increase organizational resilience, and give its CISO peace of mind.

Investing in our partner program continues to be a key pillar of our go-to-market agenda as it bolsters our capacity, harnesses transformative solution sales, and brings new business to Qualys. Through these investments, we continued to advance our evolving partner ecosystem with two leading Managed Security Providers (MSPs) in North America. One recently expanded its offerings beyond VMDR to include our Patch Management capabilities, and the other standardized on Qualys as its preferred partner for VMDR, Cybersecurity Asset Management with EASM, and Patch Management spanning both its federal and commercial verticals. The latter of these two wins is a testament to the investments we're making to expand our Federal business and we're looking forward to hosting our first public sector cyber risk conference later this month. And, with nearly 50 partners already on our recently announced new MSSP partner portal to simplify their operations, launch and manage Qualys' capabilities, and significantly reduce remediation times for their customers, we are increasingly well positioned to expand our reach to customers of all sizes. Additionally, we strengthened our alliance with a leading systems integrator, which is now actively bringing our TotalCloud CNAPP solution to customers. We believe the broad expansion of our partner program over the past several quarters continues to reflect our strengthening brand awareness, strategic position, and value proposition in the market.

With tightly integrated solutions delivered through a natively integrated 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 Q1 grew 19% from a year ago to 192.

Platform Innovation:

Since our inception, driving innovation is at the core of Qualys' mission. We are excited with our upcoming Enterprise TruRisk Management application which marks the next phase of expansion of our platform, building on top of the success we have seen with VMDR with TruRisk. The ETM capability will enable VMDR customers to upgrade to a more holistic cyber risk management platform that goes beyond vulnerability management. The Enterprise TruRisk Management solution holistically aggregates and normalizes trillions of first and third party data signals, correlates risk factors with asset, threat and business context; detects, visualizes, quantifies, and prioritizes risk, and makes remediation frictionless and immediate with a simple click of a button. With these newest capabilities all natively integrated on a single unified dashboard, Qualys is once again well armed with powerful new platform capabilities that broadly measure, communicate and remediate risk across the entire attack surface, including Information Technology (IT), Operational Technology (OT), applications, cloud and multi-cloud assets. Moreover, our comprehensive AI-powered insights are now converting detected risks into optimized remediation actions across our platform solutions with out-of-the-box, instant and actionable insights mapped to an organizations own data to preemptively reduce risk in their environments. The feedback from many of the CISOs I met with at our recent QSC EMEA event in London has been quite positive with respect to their deployment agendas, excitement about the rapid pace of new capabilities we're delivering, and their ability to monitor and measure risk reduction ROI from their cyber security spend.

Further advancing our TruRisk capabilities, I'm pleased to announce we recently brought MITRE ATT&CK Matrix Prioritization into The Qualys Enterprise TruRisk platform. By combining over 25 sources of threat intelligence with the MITRE ATT&CK framework, we are now further enabling organizations with a holistic attacker-centric view to predict and identify critical risks to their business based on ATT&CK tactics and techniques. With this advancement, we believe Qualys stands out as the only enterprise-scale solution to combine contextualized risk quantification and the MITRE ATT&CK framework to help organizations proactively prioritize, manage, and reduce cyber risk with enhanced detection, integrated risk quantification and automated response for a threat informed defense in a single platform.

Continuing this pace of disruptive innovation, we are now organically unifying Cloud Infrastructure Entitlement Management (CIEM) into our TotalCloud CNAPP solution. With this new capability, customers can manage cloud identities, entitlements, and enforce the principal of least-privileged access to cloud infrastructure and resources. Combined with additional newly introduced capabilities, such as Container Runtime Security and Kubernetes Posture Management, we've created what we believe is one of the most comprehensive cloud-native security solutions in the market with a unified, actionable dashboard for immediate threat prioritization and remediation from build through runtime with built in drift detection capabilities.

Finally, as we continue to extend our technology leadership across the entire platform, I am pleased to announce our Cybersecurity Asset Management 3.0 solution with highly differentiated new capabilities in External Attack Surface Management and third-party integration for comprehensive asset inventory. With these innovations, security teams can now leverage our patent-pending technology to reduce accuracy and detection gaps with immediate lightweight vulnerability scanning, seamlessly attribute previously unmanaged external assets to the organization with confidence, and evaluate asset-based business risk per subsidiary or acquired entity. Combining this unique approach to EASM with integrated TruRisk scoring capabilities and

actionable dashboards to proactively manage tech debt further strengthens our position in the market while enabling customers to de-risk the entire attack surface.

In summary, companies uniformly recognize security transformation is fundamental in combating today's heightened threat and regulatory environment. As a result, customers are increasingly looking to reduce their risk exposure through the adoption of a natively integrated risk management platform instead of deploying a collection of disparate point solutions stitched together through invoice. We believe that with our organically integrated, cloud native platform built to holistically measure, communicate and ultimately eliminate cyber risk, Qualys is laying a foundation for future growth and is well positioned to drive long-term shareholder value with a balanced approach to growth and profitability.

With that, I'll turn the call over to Joo Mi to further discuss our first quarter results and outlook for the second 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 revenue, all financial figures are non-GAAP, and growth rates are based on comparisons to the prior year period, unless stated otherwise.

Turning to first quarter results, revenues grew 12% to \$145.8 million with channel continuing to increase its contribution, making up 45% 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 18%, outpacing direct, which grew 7%. By geo, 13% growth outside the US was ahead of our domestic business, which grew 11%. Looking ahead, we expect our US and international revenue mix to remain roughly at 60% and 40%, respectively.

Turning to land-and-expand results, we continued to witness deal scrutiny persisting for many organizations with the upsell environment remaining challenging, resulting in 104% net dollar expansion rate, down from 105% last quarter. Offsetting this was a positive growth trend in new business, achieving double digit growth rate for the third consecutive quarter. As we continue to prioritize increasing market share in 2024, we plan to launch new customer acquisition campaigns and incentives in addition to streamlining sales cycle and operations with better use of technology and systems.

In terms of product contribution to bookings, Patch Management and Cybersecurity Asset Management combined made up 13% of LTM bookings and 23% of LTM new bookings in Q1. With the rapid pace of innovation associated with our TotalCloud CNAPP offering, our Cloud Security solutions made up 4% of LTM bookings. We attribute this success to an increasingly complex threat and regulatory environment that underscores the relevance of our Enterprise TruRisk Platform to holistically assess, manage and remediate risk.

Turning to profitability, adjusted EBITDA for the first quarter of 2024 was \$69.0 million, representing a 47% margin, compared to a 45% margin a year ago. Operating expenses in Q1 increased by 5% to \$56.8 million, primarily driven by an 11% increase in Sales and Marketing investments. 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 while balancing growth and profitability.

EPS for the first quarter of 2024 was \$1.45, and our free cash flow was \$83.5 million, representing a 57% margin, compared to 48% in the prior year. In Q1, we continued to invest the cash we generated from operations back into Qualys, including \$2.1 million on capital expenditures and \$18 million to repurchase 105 thousand of our outstanding shares. As of the end of the quarter, we had \$265.7 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 revenue to be in the range of \$601.5 million to \$608.5 million, which represents a growth rate of 8% to 10%. This compares to revenue guidance of \$600 million to \$610 million last quarter. For the second quarter of 2024, we expect revenues to be in the range of \$147.5 million to \$149.5 million, representing a growth rate of 8% to 9%. This guidance assumes continued deal scrutiny resulting in a tougher upsell environment partially offset by investments in the business to drive new customer growth.

Shifting to profitability guidance, for the full year 2024, we continue to expect EBITDA margin to be in the low 40s, and free cash flow margin in the mid 30s. We expect full year EPS to be in the range of \$5.06 to \$5.30, up from the prior range of \$4.95 to \$5.27. For the second quarter of 2024, we expect EPS to be in the range of \$1.27 to \$1.35. Our planned capital expenditures in 2024 are expected to be in the range of \$13 to \$18 million; and, for the second quarter of 2024, in the range of \$4 to \$6 million.

Consistent with prior guidance, for the remainder of 2024, we intend to align our product and marketing investments to focus on specific initiatives aimed at driving more pipeline, enhancing our partner program, expanding our federal vertical, and supporting sales while maintaining a disciplined approach to unit economics. As a percentage of revenues, we expect to prioritize an increase in investments in Sales & Marketing as well as related support functions, systems, and people with more modest increases in engineering and G&A.

In conclusion, in Q1, we delivered healthy top line growth and industry-leading profitability while making progress in executing our long-term strategic agenda. With our comprehensive risk management platform delivering immediate time to value for our customers, we are confident in our ability to deliver on our growth opportunity long-term and remain committed to maximizing shareholder value.

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