



## Qualys Q3 FY2020 Earnings Prepared Remarks

**Foster City, Calif., – November 4, 2020** – [Qualys, Inc.](#) (NASDAQ: QLYS), a pioneer and leading provider of disruptive cloud-based IT, security and compliance solutions, today announced financial results for the third quarter ended September 30, 2020.

### **Vinayak Rao, Investor Relations**

Good afternoon and welcome to Qualys' third quarter 2020 earnings call.

Joining me today to discuss our results are Philippe Courtot, our chairman 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 in 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 our website. With that, I'd like to turn the call over to Philippe.

### **Philippe Courtot, Chairman and CEO**

Thank you and welcome everyone to our Q3 earnings call. Let me begin by saying that we hope you and your families are healthy and safe. With the ongoing COVID-19 pandemic, our workforce continues to operate remotely, and our top priority remains providing support for our employees, partners and customers. We are fortunate that the nature of our business allows us to successfully operate in this dynamic work environment. We have been able to adapt to the current challenges and deliver the results we had set out to accomplish last quarter.

Joo Mi and I are pleased to report another good quarter in terms of revenue growth and profitability. We have also had strong growth in our paid cloud agent subscriptions, with 50 million now, representing nearly 80% growth from the prior year's quarter. This multi-function, light-weight Qualys Cloud Agent provides visibility across the entire hybrid environment and is the underlying technology for seven of the security, compliance and IT solutions that are natively integrated on our platform: VMDR® (Vulnerability Management, Detection and Response), Multi-

Vector EDR (Endpoint Detection and Response), Policy Compliance, File Integrity Monitoring, Patch Management, Global IT Asset Inventory and the upcoming Certificate Management – with more to come.

Qualys VMDR has taken vulnerability management to the next level by providing the power to continuously detect vulnerabilities and misconfigurations across the entire global hybrid IT environment and respond in real-time to remediate assets that are vulnerable or already compromised from a single platform with built-in orchestration. Currently, approximately 1,250 customers have adopted VMDR, which includes over 350 new customers. Qualys VMDR has not only been a huge success with customers but also is driving further penetration of our cloud agent. Since VMDR helps proliferate cloud agents, it in turn sets a foundation for further upsell of our other paid applications.

This quarter, we announced the general availability of our Multi-Vector EDR solution. This multi-vector solution unifies different context vectors like asset discovery, vulnerabilities and exploits, misconfigurations, in-depth endpoint telemetry, and network reachability with our powerful backend for accurate assessment, detection and response – all in a single, cloud-based app. As an app built natively on the Qualys Cloud Platform, our Multi-Vector EDR leverages its power, scale and accuracy to correlate billions of global events with threat intelligence, analytics and machine learning, to provide unprecedented context and real-time insight into the endpoint to carry out rapid threat hunting and response. Qualys Multi-Vector EDR goes beyond traditional EDR solutions by providing comprehensive response capabilities such as killing processes and quarantining files or endpoints, while also uniquely preventing future attacks by orchestrating responses such as patching vulnerabilities, removing exploits, fixing misconfigurations or uninstalling software before endpoints are compromised. Since our Multi-Vector EDR solution encompasses the entire attack lifecycle, it makes it easier to automate the response and dramatically reduces the number of false positives. The combination of Qualys VMDR and Multi-Vector EDR allows us to provide a single end-to-end workflow that helps companies greatly reduce the time to respond and allows for the consolidation of their security stack.

Also, we are now providing a comprehensive inventory sync with ServiceNow Service Graph CMDB as part of the new Service Graph Connector Program. This new integration helps customers to quickly, easily and reliably load their complete and contextualized asset information into ServiceNow, enabling a consistent and consolidated data set across hybrid IT environments, thus providing them with an always up-to-date “source of truth” across their hybrid environment. In addition, we continue to see good adoption of our cloud-based Remote Endpoint Protection solution, which leverages the Qualys Cloud Agent and its cloud-based architecture to deliver instant and continuous visibility of remote computers as well their installed applications, obtain a real-time view of all critical vulnerabilities and misconfigurations, and remotely deploy missing patches for critical vulnerabilities. We currently have approximately 700 companies, including over 300 customer prospects, actively using this free offering.

In terms of our newer paid solutions, we saw solid growth this quarter from our paid Global IT Asset Discovery and Inventory application. In fact, a large managed health care organization added our Global IT Asset Discovery and Inventory paid module this quarter in order to gain visibility of all their known and unknown assets across multiple environments, identify the end of life of their installed software and synchronize with their ServiceNow CMDB. Patch Management continues to see strong customer adoption both in the mid-market segment as well as at large

customers. In Q3, a leading financial services firm selected our patch management application over several competing solutions given its ability to easily and effectively patch remote endpoints without using the limited bandwidth available on VPN gateways. Finally, we also saw robust growth again for our Container Security application with adoption from a respected regional financial institution that has already deployed VMDR and Policy Compliance.

On the go-to-market front, we are expanding our relationships with the next generation of managed security service providers (MSSPs). Given increased breadth of our product suite with the addition of VMDR and Multi-Vector EDR, these MSSPs can leverage the Qualys Cloud Platform to fully address the security needs of small and mid-sized customers that lack in-house resources to secure their hybrid IT environments. We were pleased to announce that Infosys, a global leader in next-generation digital services and consulting, is integrating both Qualys VMDR and Multi-Vector EDR into its Cyber Next Platform, a managed security service offering. Powered by the Qualys Cloud Platform, Qualys VMDR and Multi-Vector EDR will collect vast amounts of telemetry from the Qualys Cloud Agent and multiple sensors, to combine with network information, for a broad view of the environment, going beyond just the endpoint. This will significantly reduce lateral movements of security breaches to spread further from the initial point of compromise. Infosys customers can also extend their use of the Qualys Cloud Agent to Patch Management, File Integrity Monitoring and other functionalities.

In addition, Deloitte Canada is now offering Qualys VMDR via its Cyber Risk Services offering. Deloitte Canada clients now have access to the Qualys VMDR app as part of a holistic solution to meet their Vulnerability Threat Management (VTM) requirements and provide visibility across their entire hybrid IT environment. Qualys Cloud Agents are embedded and fully integrated with the Deloitte Cyber Intelligence Center via APIs to deliver asset discovery and inventory, vulnerability assessment including configuration controls, threat prioritization and patch detection to Deloitte's customers. Finally, last week we announced an expanded integration of Qualys Vulnerability Management with Microsoft Azure Arc, allowing customers to perform vulnerability scanning on servers outside of the Azure platform, including on-premises and multi-cloud servers. This capability is available to all customers of Azure Defender for servers at no additional cost.

We continue to invest in expanding the capabilities of our cloud platform and aggressively developing additional solutions. Looking ahead, we are enthused about the additional solutions that we plan to introduce soon:

- Container Runtime Security, which provides runtime defense and protection capabilities for containerized applications;
- Additional Detection and Response offerings (DRs) such as SaaS DR, Cloud DR and Mobile DR;
- Granular Access Control module, an extension to our Global IT Asset Inventory application;
- Multi-Vector EDR will be available for Linux environments. In addition, an Endpoint Protection Platform (EPP) extension to our Multi-Vector EDR solution will be available in Q1 2021;
- Major update to our passive scanning capabilities that will significantly expand our coverage of Industrial Control Systems (ICS) / Operational Technology (OT) as well as IoT (Internet of Things) devices; and

- Data Lake / Analytics / SIEM, or what is now called XDR platform, seamlessly integrates all our current and forthcoming detection and response solutions or DRs, has now entered beta with 10 design partners, and we are planning for it to go live by the end of Q1 2021.

The development of these solutions is possible because of the massive investment we made in our cloud platform and our strong engineering talent base in Pune with over 900 employees located there. These new initiatives open significant incremental market opportunities for us and allow our customers to easily and cost effectively consolidate their stack of traditional enterprise security and compliance solutions, while providing them a single-pane-of-glass view on all assets across on-premises, endpoints, cloud and mobile environments. Similar to our efforts on the cloud platform front, we are also building a marketing platform that, combined with increased investment in sales management and capacity, will drive incremental future profitable growth.

We will showcase these new solutions at our upcoming QSC user conference. I would like to personally invite you to attend this conference, which will be a 12-day virtual event from November 9<sup>th</sup> to 24<sup>th</sup>. We currently have more than 5,000 people registered. You can access the agenda and register for the conference at [www.qualys.com/qsc/2020/virtual/](http://www.qualys.com/qsc/2020/virtual/). Replays of the sessions will be available on-demand at the end of the day.

At the conference:

- Our President and Chief Product Officer, Sumedh Thakar, will discuss the evolution of our cloud platform as well as our recently launched Multi-Vector EDR solution and forthcoming Data Lake / SIEM initiative;
- Our attendees will have the opportunity to listen to customers such as the Head of Product Security at Zoom, Manager of Information Security Operations at Jabil and Senior Security Engineer at Informatica; and
- We will also present our risk-based approach to vulnerability management, provide forthcoming updates to our cloud and container security solutions, share our views on risk management and compliance, and discuss our next-gen Web Application and API Security solutions.

Our focus continues to remain on balancing growth with profitability. The Qualys Cloud Platform serves as a distribution channel, enabling us to grow while maintaining industry leading margins. Incremental future growth will be driven by our strong partnerships with MSSPs as well as further investment in sales and marketing with the addition of highly qualified and technical individuals. On the hiring front, we are pleased to welcome back David French as EVP, Americas Field Operations. David has extensive experience in sales and business development and will play an important role in driving continued growth for the company.

Finally, M&A continues to be a part of our growth strategy as we seek to accelerate our product development and expand into adjacent markets. Our acquisitions over the past couple of years have complemented our organic product innovation, expanding our cloud platform to provide more comprehensive security and compliance coverage as well as visibility across all global IT assets across on-premises, endpoints, mobile, cloud, containers, OT and IoT environments. Our cloud platform has now reached a level of maturity whereby we can potentially explore acquisitions to expand our customer base in a disciplined manner as well as continue to acquire small companies

with innovative technology.

In conclusion, increasing the adoption of our cloud agent and the breadth of our solutions across environments enables us to offer customers greater visibility, accuracy, and scalability, while ultimately enabling them to consolidate their security, IT and compliance stacks and drastically reduce their overall spend.

With that, I'll turn the call over to Joo Mi to discuss our financial results and guidance for the fourth quarter and full-year fiscal 2020.

### **Joo Mi Kim, Chief Financial Officer**

Thanks, Philippe 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. We're delighted with our increasing cloud agent subscriptions and multi-product penetration as well as the strong adoption of VMDR, which lays the foundation for future revenue growth and industry-leading profitability. Our Q3 financial and operational highlights include:

- Revenues for the third quarter of 2020 grew 13% to \$93.1 million. Please note our Q3 2020 calculated current billings was negatively impacted by the timing and amount of prepaid multi-year subscriptions as well as requests for shorter duration invoicing;
- Our average deal size increased 7%;
- Paid cloud agent subscriptions increased to 50 million over the last twelve months, up from 43 million for the 12 months ended in Q2 2020. 3 million cloud agents were purchased this quarter by a single customer; and
- 34% of VM customers up for renewal in the quarter renewed into a VMDR subscription, up from 19% in Q2 and 4% in Q1.

Our scalable platform model continues to drive superior margins and generate significant cash flow:

- Adjusted EBITDA for the third quarter of 2020 was \$45.1 million, representing a 48% margin versus 47%;
- Q3 EPS grew 19%; and
- Our free cash flow for the third quarter of 2020 was \$48.4 million, representing a 52% margin and up 21%.

In Q3, we continued to invest the cash we generated from operations back into Qualys including:

- \$11.2 million on capital expenditures for operations, including principal payments under capital lease obligations; and
- \$37.7 million to repurchase 352,000 of our outstanding shares.

We remain confident in our business model, driven by our foundation of nearly 100% recurring revenues and expanding suite of applications. We are delighted to be raising our full year 2020 guidance for both revenues and earnings:

- We are raising the bottom and top end of our revenue guidance for the full year to now be in the range of \$362.4 to \$363.0 million from the prior range of \$359 to \$360.5 million;
- We are raising our full year non-GAAP EPS guidance to now be in the range of \$2.85 to \$2.87 from the prior range of \$2.60 to \$2.65. We expect to maintain industry-leading margins in 2020 and continue to produce strong cash flow; and
- Our Q4 guidance for revenue is \$94.2 to \$94.8 million and for non-GAAP EPS is \$0.69 to \$0.71. For the fourth quarter, we expect capital expenditures to be in the range of \$7 to \$8 million, which includes approximately \$1 million for the buildout of our Pune headquarters.

As Philippe mentioned, we are very excited by the robust adoption of VMDR and the launch of our Multi-Vector EDR solution and we remain optimistic about the company's future. We feel very well-positioned during this period of uncertainty due to the value provided by our cloud platform and our 20 apps as well as our underlying highly scalable and profitable operational model. With that, Philippe and I are happy to answer any of your questions.

### **Closing Remarks**

Thanks for attending our earnings call and for your questions.

Despite the challenging environment, we feel fortunate to be very well-positioned with our cloud platform and apps and are pleased with our progress this quarter. Our broad suite of IT, security and compliance applications, including our game-changing VMDR, Multi-Vector EDR and the forthcoming Data Lake / SIEM solutions help customers better manage their IT and security budgets by further consolidating their spend with us. I hope all of you remain safe and healthy.

Thanks again,  
Philippe