



Qualys Q1 FY2021 Earnings Prepared Remarks

Foster City, Calif., – May 5, 2021 – [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, 2021.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' first quarter 2021 earnings call.

Joining me today to discuss our results are Sumedh Thakar, our 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 the Investor Relations section of our website. With that, I'd like to turn the call over to Sumedh.

Sumedh Thakar, Chief Executive Officer

Thank you, Blair, and welcome, everyone to our Q1 earnings call.

We are pleased to report another quarter of healthy revenue growth and profitability reflecting good progress on both our strategic and financial agendas. Since taking on the role of interim CEO in February, I have been working closely with the Qualys team, our customers, as well as our Board to ensure continued success of the Company. As the newly appointed CEO, I am excited to have the opportunity to lead Qualys on the next phase of its journey. I would like to thank Philippe for his leadership and for making Qualys a significant force in the cybersecurity space and I'm confident we will take the Company to the next level of growth. I am now squarely focused on platform innovation and enhancing our go-to-market motion.

We experienced another quarter of strong growth in our paid Cloud Agent subscriptions, which grew 58% year-over-year to 61 million as well as continued VMDR® (Vulnerability Management, Detection and Response) momentum with 34% of customers eligible for renewal in Q1 purchasing VMDR. Our multifunction, lightweight cloud agent is the core engine that helps customers consolidate multiple agents with a single Qualys solution.

One of my key priorities is to ensure we are providing innovative, comprehensive and integrated products to transform the way new and existing customers secure and protect their organizations' IT infrastructure and applications with cloud-based IT, security and compliance solutions. We believe Qualys' VMDR is setting the gold standard for vulnerability management with our single agent approach to speedy detection and response. Attackers' rapid exploitation of vulnerabilities for malware and ransomware attacks continues to grow as witnessed with the recent high-profile ProxyLogon vulnerabilities impacting Microsoft Exchange Servers. Threat actors raced to exploit a large number of unpatched servers in a matter of a few days and installed the China Chopper Webshell for further entry into the organization's environment. The DearCry ransomware hit soon after leveraging these vulnerabilities. Qualys quickly released a free 60-day VMDR service to help organizations to not only quickly detect vulnerabilities, but also patch them with a single click and further detect ransomware with Multi-Vector EDR and take response action, all using our single Qualys Cloud Agent.

This showcases the power of VMDR to not only report on vulnerabilities like other siloed point products, but also mitigate the risk immediately and was very well received by our customers who were able to patch high-profile vulnerabilities in a matter of hours with our tightly integrated Patch Management solution in a single app workflow to stay ahead of threat actors. While still a small portion of overall bookings, we continued to see strong customer interest in our Patch Management solution both in the mid-market as well as with large new and existing customers. In fact, in Q1, a leading large multinational 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. With our recent announcement of extension of Patch Management for Linux systems, where very few enterprise patching solutions are available, we are looking forward to expanding the opportunity of upsell to customers who already have Cloud Agents on these systems.

Further pressing our advantage with agent consolidation, we continue to see customer interest in adding our multi-vector EDR to their VMDR and Patch Management deployment to reduce agent sprawl on their endpoints with a single solution for risk mitigation and threat response. Our recent announcement of adding real-time anti-malware protection capability to our Multi-Vector EDR solution further solidifies our commitment to continuing to expand our addressable market opportunity. As an example, in Q1 a Fortune 500 company purchased our paid Asset Inventory Module, VMDR, Patch Management and EDR together to standardize their endpoint security on a single agent solution over multiple best of breed point solution agents.

In terms of our other newer paid solutions, we saw solid growth in the quarter with our Container Security solution led by Microsoft Azure for scanning container registries. In addition, we continue to see strong growth from our Global IT Asset Discovery and Inventory solution. In the quarter, two leading financial institutions selected our Asset Inventory paid module in order to gain visibility of all their known and unknown assets spanning multiple environments to identify the end-of-life of their installed software and synchronize with their ServiceNow CMDB.

Looking into the remainder of 2021, we have a strong roadmap to expand our Asset Inventory, EDR, ICS/OT, Cloud and Container Security solutions. We plan to introduce our Extended Detection and Response platform (XDR). XDR is a next generation Security Analytics and Incident Response solution, which natively integrates and correlates security telemetry across the security stack for an end-to-end platform. This solution is currently in private beta with a few select design partner customers. With these continued innovations and others on our platform we'll expand our addressable market, while opening exciting new growth opportunities for the business.

In addition, we continue to build strong strategic partnerships towards enhancing our go-to-market with building in Qualys security solutions with cloud providers like Microsoft Azure and GCP as well as displacing competing solutions with MSSP partners like HCL where Qualys VMDR is now their default Vulnerability Management offering.

Another key area of my focus is our go-to-market strategy and sales execution. Pairing industry leading innovation with an amplified investment in our go-to-market initiatives underpin our confidence in driving profitable growth and long-term value creation for our customers and shareholders. Armed with industry leading technology and substantive new platforms following the successful launch of VMDR and Multi-Vector EDR last year, as well as the upcoming release of our XDR solution, we're planning to make appropriate go-to-market investments in our business. We believe that we're well-positioned to maximize the return on incremental investments, so I've been spending the majority of my time with the sales and marketing team as well as product management to execute on this plan.

To that effect one of my top priorities as previously mentioned, was to look for the candidate as Chief Revenue Officer (CRO) to drive growth of our business. Today, I'm pleased to announce that Allan Peters will be joining us as our new CRO starting next week. He will be responsible for all aspects of revenue performance with a focus on delivering sustainable customer value and business outcomes, the leadership of the worldwide sales and partner organization, and continuing Qualys' growth momentum. Allan has more than 20 years of executive sales experience building and scaling global teams in cybersecurity and SaaS companies, including previously serving as the CRO of Trustwave. We also recently appointed Klaus Moser to assume the role of Executive Vice President, Field Operations for the Americas and General Manager of our SME and SMB businesses. At the same time, we're also enhancing Sales Operations, Digital Marketing and other sales enablement functions in the Company with a balanced approach to sustained future growth and profitability.

In conclusion, as I stated on our prior call, Qualys continues to move well beyond vulnerability management and increase its competitive advantage with the addition of our newer solutions, including our soon to be released XDR solution. Our strategic direction remains focused on leading with powerfully disruptive technologies. Paired with strong sales leadership and a focused and growing global go-to-market initiative, we believe we're well positioned to drive long-term value for both our customers and shareholders.

With that, I'll turn the call over to Joo Mi to discuss our first quarter financial results and guidance for the second quarter and full year fiscal 2021.

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. We're pleased to report another strong quarter reflected in the following financial and operational highlights:

- Revenues for the first quarter of 2021 grew 12% to \$96.8 million. Please note our Q1 2021 calculated current billings was negatively impacted by a large late renewal that closed after the end of the quarter as well as the timing and amount of prepaid multi-year subscriptions and shorter duration invoicing. In Q2, we expect this to reverse to have a positive impact on calculated current billings by a few percentage points;

- Our average deal size increased 9%;
- Paid cloud agent subscriptions increased to 61 million over the last twelve months, up from 56 million for the 12 months ended in Q4 2020; and
- 34% of non-strategic alliance customers with our vulnerability management solution up for renewal in the quarter purchased VMDR, similar to 35% in Q4. VMDR contributed approximately 34% of total bookings over the last twelve months.

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

- Adjusted EBITDA for the first quarter of 2021 was \$44.6 million, representing a 46% margin versus 44%;
- Non-GAAP EPS for the first quarter of 2021 was \$0.74, up from \$0.65 last year; and
- Our free cash flow for the first quarter of 2021 increased 14% to \$51.6 million, representing a 53% margin.

In Q1, we continued to invest the cash we generated from operations back into Qualys including:

- \$6.3 million on capital expenditures for operations; and
- \$31.0 million to repurchase 269,000 of our outstanding shares.

We remain confident in our business model, driven by our foundation of nearly 100% recurring revenues and an expanding suite of applications. We are delighted to be raising our full year 2021 guidance for both revenues and non-GAAP EPS:

- We are raising the bottom and top end of our revenue guidance for the full year to now be in the range of \$402.5 to \$404.5 million from the prior range of \$399 to \$402 million;
- We are raising our full year non-GAAP EPS guidance to now be in the range of \$2.67 to \$2.72 from the prior range of \$2.60 to \$2.65; and
- For the second quarter, we expect revenue to be in the range of \$98.6 million to \$99.2 million, which represents a growth rate of 11% to 12%. We expect non-GAAP EPS to be in the range of \$0.67 to \$0.69. Q2 capital expenditures are expected to be in the range of \$6 million to \$7 million.

We remain confident in our financial model due to our strong competitive position and leading cloud platform. With that, Sumedh and I are happy to answer any of your questions.

Closing Remarks

Thanks for attending our earnings call and for your questions.

I couldn't be more honored to be leading this great company. We're well-positioned in the marketplace with disruptive new applications on our Cloud Platform including VMDR, Multi-Vector EDR and the forthcoming XDR offering as well as other solutions that will further flex our competitive position in the industry and expand our addressable market. At the same time, we're

ramping our sales and marketing activities to capitalize on these developments while maintaining industry leading profitability and driving long-term value creation for our shareholders.

Lastly this pace of bringing new solutions to market would not be possible without the innovation and tireless efforts of our talented engineering team who continue to work hard despite the difficult situation faced by many, especially in our India operation given the current pandemic impact over there. I hope all of you and your families remain safe and healthy.

Thanks again,
Sumedh