



Qualys Q1 FY2022 Earnings Prepared Remarks

Foster City, Calif., – May 4, 2022 – [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 2022.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' first quarter 2022 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, everyone, to our first quarter earnings call. Building on our momentum, we are very pleased to report a good start to the year reflecting another quarter of continued revenue growth acceleration and strong cash flow generation.

Q1 Market Dynamics

Beyond these headlines are several encouraging market trends and notable business highlights. Strong market dynamics and continued competitive differentiation are fueling our growth. We believe the continued increase in the attack surface coupled with the growing concerns over cyberattacks like ransomware and cyberwarfare are pushing organizations around the world to shed outdated, siloed, security and compliance systems and move to integrated security platforms to reduce their risk and response time as they future proof their security architecture.

Qualys researchers recently conducted a study on the widespread Log4shell vulnerability, which included analyzing millions of assets and trillions of datapoints indexed on our platform highlighting the complexity of the current threat-landscape. Not only did organizations have to immediately assess their asset inventory and get a real-time view of their own and third-party vulnerable software but also had to move at lightning speed to patch and mitigate the issue in matter of hours.

Our study showed that organizations took an average of 17 days to remediate this vulnerability leaving them vulnerable to attacks during that period. At the same time, they also had to monitor their assets for compromise attempts and respond without delay. Qualys Cloud Platform's unified approach of bringing asset inventory, vulnerability detection, patch management and EDR together into a single agent was greatly appreciated by customers in helping to reduce their exposure significantly compared to a siloed toolset approach with multiple point solutions. Additionally, as shown in the study encompassing more than 150 million scans globally, over 50% of vulnerable Log4shell software was also end-of-life, again highlighting the strategic visibility provided by Qualys' integrated Cybersecurity Asset Management capability that allowed our customers to understand their technology debt and its impact to their security for proactive risk reduction.

We believe we are uniquely positioned in this market with our ability to provide innovative, comprehensive and integrated products using a single agent approach for speedy detection and response. Given the opportunities ahead, we continue to prioritize investing in our business, especially building our go-to-market team, where we expect to see double-digit growth this year despite the challenging hiring environment given the tight labor market.

Q1 Business Update

In Q1, Cloud Agent subscriptions grew 26% year-over-year to 77 million purchased over the last twelve months. There was also a steady adoption of our Vulnerability Management, Detection and Response, or VMDR[®], solution, which is now deployed by 40% of customers worldwide. These results continue to validate our security consolidation approach and the power of a single agent as customers transition to VMDR.

Our growth this quarter speaks to the commitment customers are making to the Qualys Cloud Platform. The customer stories I will share with you today underscore our success with customers of all sizes in their respective journeys to uniquely unite asset inventory, threat detection and prevention onto a natively integrated cloud-based platform to remediate vulnerabilities much faster than alternative siloed solutions.

I'll start with an existing U.S. based Fortune 200 customer, who entered into a new agreement with us to expand their VMDR and Patch Management deployment while adding Cybersecurity Asset Management capabilities spanning on-prem, cloud and container environments. The ability to significantly enhance their security program with high quality asset context, CMDB integration, alerting and accurate response capabilities on a single integrated platform stood out among several competing solutions in the market today.

The next example is of a new customer that started with Cybersecurity Asset Management, VMDR, Patch Management and Multi-Vector End Point Detection and Response, or EDR, as part of a strategic initiative to transform its IT architecture. This customer chose Qualys because we offer the only security and compliance stack available in the market today that utilizes a single agent to enable full asset visibility and context aware mapping to prioritize vulnerabilities, proactively reduce technical debt, automate patching and continuously monitor endpoints to defend against future Malware and Ransomware events across multiple environments.

Finally, in another new logo win, a Fortune 1000 customer selected VMDR along with Patch Management. This customer consolidated two vendors to significantly reduce complexity and legacy IT costs while uniquely leveraging automation in its security and compliance operations.

The speed of vulnerability detection and remediation capabilities leveraging a single agent and unified dashboard were critical factors in its purchasing decision. This is also a good example of how we are benefiting from the investments we're making to on-board new channel partners to win new business opportunities.

We believe these new wins and expansions illustrate that our natively integrated cloud-based platform and single agent approach is increasingly resonating with customers ready to rearchitect and consolidate their security stack. Leveraging our technical leadership, we are also better partnering with our channel as part of our go-to-market initiative. In fact, we recently launched new partner programs designed to further drive our new business and logo wins worldwide.

Platform Innovation and Looking Ahead

As I've said before, our goal is to remove friction for customers by making product expansion simple and hassle free. A customer who may currently use only VMDR has the ability to trial and adopt our other applications at a click of the button.

Executing well against this agenda, we recently introduced our next major upgrade to our Multi-Vector EDR solution. This natively integrated solution on the Qualys Cloud Platform, further leverages our single agent approach for enhanced threat hunting and risk mitigation capabilities. Unlike traditional EDR products focused on detecting threat activity on the endpoint after the threat has already landed, Multi-Vector EDR 2.0 unifies multiple context vectors around asset criticality, vulnerabilities and system misconfigurations associated with threats, as well as patching to reduce mean-time-to-respond (MTTR). We are pleased to have completed the most recent MITRE ATT&CK evaluation for the first time, shoulder to shoulder with existing EDR players and more specifically achieving impressive results. We believe that for existing customers already utilizing our VMDR solution, the added capabilities of Multi-Vector EDR 2.0 will uniquely reduce the volume of incidents, extend prediction and prevention capabilities and further strengthen our customer's cyber resilience. I'm also very pleased by the early adoption of this product from a handful of customers since its introduction in early April, and excited by the positive feedback we're receiving for the new update.

Looking ahead, as a leader in security and compliance solutions we continue to invest in the Qualys Cloud Platform to further differentiate our automation, detection and response capabilities. More specifically, we'll expand on our robust capabilities in cloud, container and industrial control systems and operational technology (ICS/OT) security to further strengthen our competitive differentiation as customers increasingly move applications to cloud and container environments.

In summary, we are delivering solid financial results and building strong business momentum in the market as companies uniformly recognize security transformation is fundamental in combating today's heightened threat environment. As a result, customers are increasingly looking to reduce their risk exposure through the adoption of a natively integrated security platform instead of relying on a collection of disparate point solutions. We believe that with our organically integrated, cloud-native platform built to solve modern security challenges, Qualys is uniquely positioned to capitalize on this long-term, sustainable trend and drive shareholder value.

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 2022.

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 continued organic revenue growth acceleration and strong profitability as reflected in the following financial and operational highlights:

- Revenues for the first quarter of 2022 grew 17% to \$113.4 million, up from 12% growth in the year ago period.
 - We saw continued success in our land-to-expand engine with a healthy cross and upsell performance driving an increase in our year-over-year and sequential net dollar expansion rate, which was 110% in Q1, up from 108% last quarter and 103% a year ago.
 - Our LTM average deal size continued to increase for both new and existing customers with total average increasing by 17% in Q1, same as LTM growth in Q4 and up from 5% LTM growth a year ago.
 - With accelerating demand for security transformation solutions and our strengthening market position, our Q1 LTM calculated current billings grew 22%.
- We believe the investments we've made in platform innovation and our single agent approach have enhanced our value proposition with customers and helped drive bookings growth over the past several quarters. This quarter was no different, and we're excited by the continued adoption of VMDR with total customer penetration now at 40%, up from 36% last quarter and 24% a year ago; and
- Continued adoption of Qualys solutions increased large customer spend with 128 customers spending \$500,000 or more with us. This represents 17% growth from the year ago period. We attribute this success to our innovation strategy, having resulted in strong product differentiation and market position. Our investments in building a unified cloud-based platform are clearly resonating with customers. CIOs and CISOs are increasingly looking to phase out legacy point solutions in favor of a consolidated security and compliance platform due to increasing cybersecurity risks, the speed at which critical vulnerabilities are weaponized, and increasing importance and priority of digital transformation initiatives.

We remain focused on building a long-term business with durable growth and industry-leading margin. As a result, our scalable platform model continues to drive superior margins and significant cash flow:

- Adjusted EBITDA for the first quarter of 2022 was \$54.3 million, representing a 48% margin;
- EPS for the first quarter of 2022 was \$0.89; and
- Our free cash flow for the first quarter of 2022 was \$71.4 million, representing a 63% margin. We believe we can continue to generate attractive levels of free cash flow while continuing to invest in the business.

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

- \$7.6 million on capital expenditures; and
- \$46.6 million to repurchase 368 thousand of our outstanding shares. We're pleased to announce that our Board has authorized an additional \$200 million increase to our share repurchase program. The resilience of our sustainable and scalable business model has been proven over time as currently demonstrated by our continued strong earnings and cash flow generation at this time of uncertainty and volatility. Leveraging our excess cash to continue to return capital to shareholders will allow us to mitigate our share dilution and drive shareholder value. Including \$225 million remaining as of Q1, this provides approximately \$425 million in share repurchase capacity. The weighted average diluted shares outstanding in Q1 was 40.0 million, down from 40.4 million last year.

Shifting now to guidance for the second quarter and the rest of the year, our strong start to the year continues to bolster our confidence in both our strategic agenda and business environment. And, with current opportunities ahead, we continue to believe this remains the right time for us increase our spend with an emphasis on Sales and Marketing to support long-term growth in the business. As I've said before, this investment strategy is not just about adding headcount, we're equally focused on enhancing our channel, accelerating digital marketing initiatives, expanding product management capabilities and other sales support functions to further enhance both our value proposition with customers and mid-to-long term sales productivity.

- Building off our strong start to the year, we are raising the bottom and top end of our revenue guidance for the full year to now be in the range of \$484 million to \$486.5 million, representing 18% growth. This compares to prior full year revenue guidance of \$482 million to \$485 million.
- In terms of profitability, balancing a tight labor market with our anticipated investment for the year, we are raising our full year EPS guidance to now be in the range of \$3.13 to \$3.17 from the prior range of \$2.87 to \$2.92. This revised guidance implies EBITDA margin in the low 40s with the timing of our investments to be more back-half weighted.
- For the second quarter, we expect revenues to be in the range of \$117 million to \$117.8 million, which represents a range of 17% to 18% growth. We expect EPS to be in the range of \$0.78 to \$0.80.
- Our planned capital expenditures in Q2 is approximately \$5.5 million to \$6.5 million and for the full year 2022, we continue to expect investment in the range of \$25 million to \$30 million.

In conclusion, as we look ahead to the balance of this year, we remain excited about our opportunity to drive durable top-line growth on the back of a large and growing market opportunity while leveraging our highly scalable model to maintain industry-leading profitability.

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