



## Qualys Q1 FY2025 Earnings Prepared Remarks

**Foster City, Calif., – May 6, 2025 – Qualys, Inc.** (NASDAQ: QLYS), a leading provider of disruptive cloud-based IT, security, and compliance solutions, today announced financial results for the first quarter ended March 31, 2025.

### **Blair King, Investor Relations**

Good afternoon and welcome to Qualys' first quarter 2025 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.

We're entering a new era for cybersecurity risk management powered by real-time data, automation, and AI. Against this backdrop, we executed well in the quarter, resulting in better-than-expected revenue growth, strong profitability, and solid cash flow generation.

### **Platform Innovation:**

Fueled by customer insights, Qualys' mission is to bring innovative new security solutions to market. With over 25 years of evolving our platform to meet the next generation of modern security challenges, we have established a strong track record of converting operational challenges into secular competitive advantages while maximizing lifetime value, ensuring frictionless outcomes at scale, and driving immediate ROI on security spend.

In doing so, we believe we've built a new security industry paradigm, which today leverages our powerful real-time data processing capabilities across more than 18 trillion data points on a natively integrated platform to help organizations streamline their cyber risk management program with a Risk Operations center (ROC). While a Security Operations Center (SOC) is used for

detection of threat actors after a breach, the ROC is needed by organizations for proactive risk management to reduce the chance of breaches by deploying their cyber budgets where the highest risk of loss is. Unlike other Continuous Threat Exposure Management (CTEM) solutions that only reveal exposures without providing effective remediation, Qualys' cloud-native Enterprise TruRisk Management (ETM) solution is purpose-built to deliver a single, comprehensive, AI-powered orchestration layer unifying security findings from multiple Qualys and non-Qualys sources to implement an effective ROC. By unleashing the scale of the Qualys platform, we ingest data from multiple sources including Tenable, CrowdStrike, and Wiz; normalize risk signals enriched with threat intelligence, analyze adversary behavior, and provide organizations with actionable, enterprise-wide insights to prioritize and remediate cyber risk through a common language of business context and financial impact. This holistic approach uniquely ensures organizations not only understand their cyber risk in quantifiable terms but can take immediate action to reduce the risk that matters most. With prospects for Proof of Concept (POCs) more than doubling from last quarter, and over 25 active POCs already underway since announcing GA just a short time ago, we continue to see many parallels between this new market opportunity and the early days of our Vulnerability Management, Detection, and Response (VMDR®) launch, including a significant greenfield opportunity, and growing demand.

Embracing this momentum in the market, we're further evolving our ETM solution through an expanding ecosystem of remediation solutions. In doing so, we have advanced our TruRisk Eliminate agenda by enabling organizations to amplify third-party remediation tools with security insights from Qualys to prioritize patching, or activate other compensating controls available through the Qualys platform. With this latest innovation, organizations can soon leverage a unified Qualys workflow with end-to-end automation, Configuration Management Database (CMDB) sync, and Information Technology Service Management (ITSM) integration to prioritize rapid remediation across all environments from their patching vendors of choice. This is another strong competitive differentiator for Qualys, further neutralizes IT and SecOps procurement friction, and significantly expands our market opportunity by going beyond patch management.

Continuing this rapid pace of innovation, we're expanding our Qualys TotalAI with TruRisk capabilities to help organizations address the evolving threats associated with Large Language Models (LLMs). With this latest release, TotalAI brings full visibility across ML supply chains, data, applications, and pipelines to detect malicious code, policy violations, and advanced multimodal exploits hidden within images, audio, or video files. By enhancing our AI Security Posture Management (AI-SPM) with native internal LLM scanning, expanded jailbreak detection, and seamless integration into MLOps pipelines, we're equipping security teams with the agility and insight needed to protect modern, AI-driven workloads from development through runtime while building what we believe is the most advanced AI security solution available in the market.

In addition, with the launch of Policy Audit and Audit Fix It, we are also now providing organizations of all sizes with the ability to streamline audit operations by providing audit-readiness reporting and automated evidence collection across 450+ technologies and over 1,000 out of the box audit processes for frameworks like PCI, NIST, DORA, and HIPAA. This solution addresses a growing area of focus and cyber spend for CISOs as they are under pressure to ensure the organizations don't fail audits and at the same time reducing their spend in audit readiness with automation in not only detecting gaps, but also fixing them.

## **Q1 Business Update:**

Moving to our business update. We've hosted several risk quantification workshops attended by

many of the most forward thinking CISOs around the world in recent quarters, and the message is clear: Organizations are increasingly anchoring pre-breach cyber spend to quantifiable risk reduction in their business, which is easily articulated to boards and business partners. CISOs want a platform that speaks a unified language of risk, while letting their teams choose their own tools within various components of the stack rather than trying to consolidate multiple vendors into one. This requirement necessitates a centralized risk fabric that seamlessly unifies the underlying tools of choice to effectively measure, communicate, and fortify an organization's security posture while reducing complexity, operating costs, and time to remediation.

As a result, our technologies are not only fueling new logo lands, but also helping to increase broader platform adoption, especially in the areas of VMDR, Cybersecurity Asset Management, Patch Management, Cloud Security, and increasingly the ROC delivered through Qualys' ETM solution. With thousands of customers consolidating on the Qualys Enterprise TruRisk Platform, let me share a couple of recent wins, which illustrate why these companies are turning to Qualys to help unify their security tools, quantify and remediate cyber risk in their environments, and achieve better security outcomes.

First, an existing global 100 multinational media company with a rapidly growing multi-cloud and container environment determined that managing siloed tools added complexity to their operations, lacked integration, and missed detections, which hindered their ability to assess risk and centralize remediation. This customer chose Qualys to transform siloed risk factors spanning code repositories, endpoints, identity, cloud, container, IT, IoT, and network assets into a cohesive, real-time risk management solution by consolidating Qualys and non-Qualys data. This included purchasing 8 Qualys modules and deploying ETM to begin operationalizing their ROC and consolidating ingested data from Wiz, resulting in a seven-figure annual bookings deal, including a mid-six-figure TotalCloud CNAPP upsell. We are now quickly migrating numerous data sources to the Qualys platform and delivering a vendor agnostic orchestration layer with full visibility of the attack surface, centralized risk assessment, quantification, prioritization, and remediation while unleashing the operational efficiencies of security stack consolidation. Looking ahead, this customer is now in the process of planning to power its ROC with ETM across 30 separate entities worldwide.

Further advancing our TotalCloud CNAPP momentum is another marquee seven-figure annual bookings win with a Global 50 financial services company. This existing customer launched an initiative to strengthen its cloud and container security against advanced threats, close security gaps, and remediate risk with ITSM integration through a single dashboard. It also needed to meet increasingly stringent global regulatory requirements, and extend its on-prem visibility to multi-cloud and container environments. Through its evaluation, this customer chose our TotalCloud CNAPP solution and is now leveraging the Qualys Enterprise TruRisk Platform for complete visibility across its entire attack surface to quantify and prioritize risk reduction initiatives, and increase operational resilience and compliance. Our growing leadership in the cloud market was further evidenced in Gigaom's radar report, ranking Qualys as a leading outperformer in Cloud Workload Security.

With customers beginning to perceive Qualys as a leading risk management platform that consolidates and orchestrates multiple security solutions and workflows, we are growing increasingly confident in our ability to drive long-term growth and gain market share. This confidence was again bolstered in Q1 as customers spending \$500,000 or more with us grew 6% from a year ago to 203.

Consolidating workflows isn't just happening with customers, it's also embraced and prioritized by our partners, underscored by an increasingly strong mix of new business and significant growth. As we continue to endorse a partner-first sales motion, partner-led deal registration increased again in Q1. In addition, we have now certified six leading partners who are actively marketing the delivery of fresh new managed ROC services and just beginning their efforts to capitalize on a centralized and automated approach to pre-breach risk management on top of ETM. Further advancing our momentum toward a global ROC ecosystem, we look forward to certifying a few additional strategic partners in the months ahead who have already demonstrated a firm commitment to spearheading these new initiatives with Qualys as their mROC partner of choice.

And finally, as the Federal government seeks to show efficiency and replace outdated and costly on-prem deployments from years past with modern cloud-native risk management solutions, we're especially excited to host our second annual Federal conference in Washington DC toward the end of this month. We've recently made good progress advancing our FedRAMP High certification status, and we continue to believe we're on track to achieve the authorized milestone later this year, fueling a new leg of growth for the company.

In summary, Qualys is increasingly well armed with fresh new capabilities to further strengthen our strategic position as the partner of choice for customers ready to centralize their response to cyber risk, solve modern security challenges, and reduce costs. Looking ahead, we believe we'll continue to outpace our competitors, extend our leadership in the market, and build upon an already strong foundation to drive durable long-term growth in the business.

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 2025.

**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 first quarter results, revenues grew 10% to \$159.9 million. The channel continued to increase its contribution, making up 49% of total revenues compared to 45% 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 19%, outpacing direct, which grew 2%. By geo, 16% growth outside the US was ahead of our domestic business, which grew 6%. US and international revenue mix was 57% and 43%, respectively.

In Q1, we were pleased to see some improvement in our gross retention rate. However, growing macroeconomic uncertainty toward the end of the quarter presented an increasingly challenging upsell environment with our net dollar expansion rate at 103%, unchanged from last quarter.

In terms of product contribution to bookings, Patch Management and Cybersecurity Asset Management combined made up 15% of total bookings and 24% of new bookings on an LTM basis. Our Cloud Security solutions, TotalCloud CNAPP, made up 5% of LTM bookings. We credit this momentum to customer demand for a more comprehensive and contextual understanding of their expanding attack surface, supported by seamlessly integrated risk management and remediation workflows across all environments within a unified platform.

Turning to profitability, adjusted EBITDA for the first quarter of 2025 was \$74.8 million, representing a 47% margin, in line with last year. Operating expenses in Q1 increased by 10% to \$62.5 million, primarily driven by investments in sales and marketing, which grew 15%.

Demonstrating our ability to innovate and invest in our long-term growth initiatives while remaining capital efficient, EPS for the first quarter of 2025 was \$1.67, and our free cash flow was \$107.6 million, representing a 67% margin, compared to 57% in the prior year. In Q1, we continued to invest the cash we generated from operations back into Qualys, including \$2.0 million on capital expenditures and \$39.6 million to repurchase 292 thousand of our outstanding shares. Since commencing our share repurchase program in February of 2018, we've repurchased 9.6 million shares and returned nearly \$1.1 billion in cash to shareholders. As of the end of the quarter, we had \$303.8 million remaining in our share repurchase program.

With that, let us turn to guidance, starting with revenues: For the full year 2025, we expect revenues to be in the range of \$648 to \$657 million, which represents a growth rate of 7% to 8%. This compares to prior guidance of \$645 to \$657 million. For the second quarter of 2025, we expect revenues to be in the range of \$159.7 to \$162.7 million, representing a growth rate of 7% to 9%. While we believe our platform approach to cyber risk management provides some insulation amidst ongoing macro volatility, this guidance assumes increased budget scrutiny and a more challenging environment for new business growth in 2025.

Shifting to profitability guidance. Given our strong Q1 performance, for the full year 2025, we expect an EBITDA margin in the low-to-mid 40s, implying a 15% to 17% increase in operating expenses and a free cash flow margin in the mid 30s. We expect full year EPS to be in the range of \$6.00 to \$6.30, up from the prior range of \$5.50 to \$5.90. For the second quarter of 2025, we expect EPS to be in the range of \$1.40 to \$1.50. Our planned capital expenditures in 2025 are expected to be in the range of \$8.0 to \$11.0 million; and, for the second quarter of 2025, in the range of \$1.5 to \$3.0 million.

We continue to believe organizations will increasingly adopt cloud-native, full-stack security and compliance coverage to meet the demands of today's threat landscape and reduce costs. As the impact of the macro economy is still unfolding, we are closely monitoring the business environment and adjusting our priorities accordingly. That said, considering the long-term growth opportunities ahead of us and our industry leading margins implying further room for investment, we intend to continue to responsibly align our product and marketing investments to focus on high-impact initiatives aimed at driving more pipeline, accelerating our partner program, and expanding our federal vertical. As a percentage of revenues, we expect to prioritize increased investment in S&M and engineering, with a more modest increase in G&A, consistent with our commitment of balancing long-term growth and profitability.

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