



Qualys Q4 FY2023 Earnings Prepared Remarks

Foster City, Calif., – February 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 fourth quarter ended December 31, 2023.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' fourth quarter 2023 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 fourth quarter earnings call.

Platform Innovation:

2023 was another strong year for Qualys in terms of product innovation as we expanded our platform capabilities, strategic relevance in the industry, and market opportunity. We introduced Software Composition Analysis in on-prem and cloud environments to identify open-source software across the production environment of virtual images for our customers. We advanced our Custom Assessment and Remediation capabilities into our agent-based VMDR® (Vulnerability Management, Detection and Response) and Policy Compliance solutions, and launched a groundbreaking First Party Software Risk Management solution. We deployed GovCloud, a FedRAMP High Impact level Ready vulnerability and patch management cloud platform that meets president Biden's Executive Orders and National Institute of Standards and Technology (NIST) compliance. We harnessed technology from our acquisition of Blue Hexagon and extended our cloud-scale deep learning Artificial Intelligence (AI) to discover and identify relationships and patterns within our own highly integrated data lake that are invisible and undetectable in traditional signature-based solutions. We unified Cloud Workload Protection (CWP), Cloud Security Posture Management (CSPM), Cloud Detection and Response (CDR), Infrastructure as Code (IaC), and

Container Security and brought an organically integrated agent and agentless Cloud Native Application Protection Platform (CNAPP) to market. And, at QSC in November, we announced our Enterprise TruRisk platform with which we are now embarking on the most innovative advancements to the platform in Qualys' history. A comprehensive, enterprise-wide initiative aimed at holistically measuring, communicating, and eliminating cyber risk.

The role of CISOs and security leaders is increasingly shifting way from just buying and deploying security point solutions, towards being able to measure and articulate the amount of risk being posed to the business. C-level executives and boards are increasingly looking to monitor cyber risk and the risk reduction ROI from the cyber security spend. The Qualys Enterprise TruRisk Platform is focused on helping security leaders measure, communicate and eliminate cyber risk and become a partner in de-risking their business. The platform aggregates and orchestrates data from over 25 threat intelligence feeds as well as third-party risk signals from non-Qualys products to provide organizations with comprehensive AI-powered insights that translate risk signals into measurable scores and provide optimized remediation actions based on business impact. This single source of truth within a unified workflow and powerfully integrated dashboard empowers customers to effectively measure and communicate risk, secure cyber spend, add value, prioritize and eradicate threats across on-prem, cloud, and multi-cloud environments and sets a new gold standard in the industry for risk management solutions.

Continuing this pace of disruptive innovation on the platform, we're also extending our remediation capabilities to include AI-powered patch management and several other mitigation solutions, including virtual patching, configuration updates and compensating controls guided by TruRisk quantification functionality. This new combination of capabilities, which we call TruRisk Eliminate, uniquely softens organizational boundaries and enables security teams to apply flexible, automated, and intelligent risk-based response solutions to address cyber risk based on their organization's own unique operational characteristics, remediation timelines, and business objectives. Early customer feedback is quite encouraging, and with over 54 million patches deployed on Qualys agents in the last year alone, we believe this new approach to eliminating cyber risk will not only help our customers transform their security operations, but further magnify our competitive differentiation in the market.

Today, we announced a major new upgrade to our TotalCloud CNAPP solution to provide comprehensive vulnerability, posture, and threat management from development to runtime across multi-cloud and SaaS environments. Inclusive in this upgrade is the introduction of TruRisk Insights, which integrates data from our CWP, CSPM, CDR, and external asset management solutions to provide organizations with a unified and prioritized view of risk. Combined with additional newly introduced capabilities such as SaaS Security Posture Management, open-source software vulnerability detection, and multi-cloud ITSM (IT Service Management) integration with ServiceNow 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 prioritization and remediation. The net benefit: faster results, better security outcomes, and lower overall costs for our customers.

Additionally, I'm pleased to announce that we are enhancing the Qualys Cloud Agent with passive sensor capabilities to help new and existing customers obtain real-time, continuous visibility of unknown, unauthorized, or rogue assets communicating inside their information and operational technology (IT/OT) environments. This unique approach to internal asset management enables millions of cloud agents to detect many more unmanaged devices with one click and eliminates the complexities associated with network appliance-based passive sensing while enabling

organizations to rapidly turn previously unknown assets into security-managed assets with seamless Cybersecurity Asset Management and VMDR enablement for comprehensive risk assessment, prioritization, and remediation across their attack surface.

These innovative new approaches to cybersecurity risk management, along with several others on our roadmap for 2024, allow our customers to reduce complexity as they standardize on a trusted platform that delivers an immediate ROI and lower total cost of ownership relative to siloed and detection-only technologies.

Q4 Business Update:

Turning now to our go-to-market motion, in Q4, we experienced another quarter of steady VMDR adoption, which is now deployed by 56% of our customers worldwide. Key competitive VMDR wins include a leading healthcare provider, several global financial services, technology, and manufacturing companies and multiple new and other existing customers, both down market and in the Global 2000.

Adding to these wins, I'll take a moment to share a couple of examples of how our customers and partners are expanding their use of Qualys' capabilities to further consolidate their security stacks. On the customer front, one of my favorite new logo wins in Q4 was with a Fortune 300 media company. This organization was frustrated by the high volume of alerts being generated by its legacy security tools and the inability to uniformly contextualize and manage risk across disperse agencies and environments, which hampered its security team's efficiency and obscured critical incidents. Recognizing the increased value they could gain by modernizing their security stack and consolidating on Qualys, this customer replaced several existing vendors and adopted four Qualys modules, including VMDR, CyberSecurity Asset Management with External Attack Surface Management, Web Application Scanning, and our TotalCloud CNAPP solution in a highly competitive seven-figure new customer bookings win.

In another highly strategic and high six-figure bookings upsell, an existing Fortune 200 healthcare provider expanded its existing relationship with Qualys to standardize on our Enterprise TruRisk Platform. This customer had struggled to communicate their cyber risk posture, and list of prioritized risk remediation recommendations to their management as well as their different IT teams. The TruRisk platform helps them consolidate risk factors from different Qualys modules into a single score with business context, which led them to purchasing multiple Qualys modules as part of their platform consolidation.

On the partner front, we continued to advance our evolving ecosystem with two leading global Managed Service Providers, Orange Cyber Defense, and Kudelski. Both expanded their offerings beyond VMDR to include our Patch Management capabilities. These partners have indicated they chose Qualys over competing solutions due to our ease of orchestration, natively integrated platform, and single-agent approach to simplify their operations and significantly reduce remediation times for their customers. In addition, we expanded our relationship with Oracle Cloud Infrastructure (OCI), which is now making the Qualys Enterprise TruRisk Platform available in its marketplace. We also evolved our partnership with Microsoft Azure by sunsetting our vulnerability assessment only integration to provide Azure customers with the full capabilities of VMDR in its marketplace and will start ingesting Defender data into the VMDR TruRisk platform. Further continuing our partnership with Microsoft, we were also selected to participate in its Security Copilot leveraging an AI-powered security. Finally, on the partner front, we expanded our relationship with Ingram Micro, which is now offering a full suite of our Cyber Security Asset

Management, VMDR, and prioritized remediation workflows to its customers in the APAC region.

As evidenced through these wins and several others like them, Qualys is much more than just a vulnerability management vendor with more and more companies beginning to turn to Qualys to reduce agents, security gaps, complexity, and cost, enabling them to transform and consolidate their security stack on the Qualys platform. Largely, as a result, customers spending \$500,000 or more with us in Q4 grew 14% from a year ago to 183.

In summary, we believe our natively integrated platform that measures, communicates, and eliminates cyber risk brings a highly differentiated value proposition to our customers as they get more security using fewer resources with the Qualys Enterprise TruRisk Platform. Looking ahead to 2024, we'll continue our disruptive innovation, advance our go-to-market investments, and execute our strategic vision with a proven approach to balanced growth and profitability.

With that, I'll turn the call over to Joo Mi to further discuss our fourth quarter results and outlook for the first 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.

We're pleased to report a strong finish to the year with Q4 revenues in line with expectations and strong earnings beat, delivering 13% revenue growth and 47% adjusted EBITDA margin in 2023. The leverage we generated this year demonstrates the efficiency in our model and enables us to step up investments in new technologies, sales motions, targeted marketing programs, and people to accelerate long-term growth and further enhance our position in the market as a trusted security partner of choice.

Now, let's turn to fourth quarter results. Revenues grew 10% to \$144.6 million at the midpoint of our guidance. Growth from channel partners outpaced direct at 16% versus 6% growth from direct. With continued investment in our channel, our revenue contribution mix has shifted slightly over the past year, with the channel making up 44% of revenues in Q4 vs. 42% a year ago. We expect a similar trend to continue in 2024. By geo, 13% growth outside the US was ahead of our domestic business, which grew 9%. Looking ahead to 2024, we expect our US and international revenue mix to remain roughly at 60% and 40%, respectively.

As for calculated current billings, although we don't focus on or manage to this metric, anticipating questions related to bridging this LTM calculated current billings growth to revenue growth guidance, we would like to note that our Q4 calculated current billings was positively impacted by the timing of invoicing of multi-year prepaid subscriptions and large early renewals. Normalized for this, LTM calculated current billings growth would have been approximately 12%.

Turning to land-and-expand results, with customers confirming their prioritization of security within IT budgets, we anticipate the selling environment in 2024 to remain stable with ongoing budget scrutiny being the new normal for many organizations. In Q4, we were pleased to see improvements in the new business although the upsell environment remained challenging with our net dollar expansion on a constant currency basis at 105%, down from 106% last quarter. While there continues to remain room for improvement from smaller customers, LTM revenues from

customers spending \$25,000 or more with us increased by 12%.

In terms of product contribution to bookings, Patch Management and Cybersecurity Asset Management combined made up 12% of total bookings and 22% of new bookings in 2023. In 2023, the increased adoption of these products resulted in over 50% growth on a combined basis. Our Cloud Security solutions made up 5% of 2023 bookings, led by our natively integrated TotalCloud CNAPP offering.

Turning to profitability, adjusted EBITDA for the fourth quarter of 2023 was \$65.8 million, representing a 46% margin, compared to a 42% margin a year ago. Although operating expenses in Q4 were largely unchanged, up only 2% to \$59.5 million, Sales and Marketing expenses increased by 12% with us closing out the year with 438 Sales and Marketing headcount, up 16% from last year.

EPS for the fourth quarter of 2023 was \$1.40, and our free cash flow was \$32.3 million. Free cash flow for the full year 2023 was \$235.8 million, representing a 43% margin, compared to 37% in the prior year. In Q4, we continued to invest the cash we generated from operations back into Qualys, including \$1.5 million on capital expenditures and \$23.1 million to repurchase 140 thousand of our outstanding shares. As of the end of the quarter, we had \$83.7 million remaining in our share repurchase program. We are pleased to announce that our Board has authorized an additional \$200 million share repurchase program, bringing the total available amount for share repurchases to \$283.7 million.

With that, let us turn to guidance, starting with revenues: For the full year 2024, our revenue guidance is \$600 million to \$610 million, which represents a growth rate of 8% to 10%. For the first quarter of 2024, we expect revenues to be in the range of \$144.5 million to \$146.5 million, representing a growth rate of 11% to 12%. This guidance includes an estimated 1% reduction to revenue growth in 2024 from sunseting our embedded solution for Microsoft Defender, effective May 1st. Earlier this year, Microsoft Defender for Cloud users using Qualys solutions were notified that we will be retiring our integration on Microsoft Defender and transitioning to BYOL model. With this change, these customers will be able to leverage Qualys TotalCloud CNAPP to effectively manage their security risk for cloud and container workloads. Although this strategic shift is estimated to result in a short-term negative impact to revenues, we believe it will be key to delivering long-term value to customers. Normalized for this change, our revenue guidance for the full year 2024 would have been 9% to 11%.

Shifting to profitability guidance, for the full year 2024, we expect EBITDA margin to be in the low 40s, implying approximately 20% to 25% increase in operating expenses, similar to increase in investments in 2022, and free cash flow margin in the mid 30s. We expect full year EPS to be in the range of \$4.95 to \$5.27. For the first 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 \$15 to \$20 million; and, for the first quarter of 2024, in the range of \$3 to \$5 million.

In 2024, we plan 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. As we increase our focus on Sales & Marketing enablement, customer success and productivity in response to a more stable selling environment, we believe we will be able to drive

wallet share and long-term returns while balancing growth and profitability.

In conclusion, in 2023, we delivered a healthy top-line growth and industry-leading profitability in the wake of a challenging macroeconomic environment. We continued to lead with product innovation and announced an exciting new roadmap for the Qualys Enterprise TruRisk Platform. And, 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.