



Qualys Q2 FY2018 Earnings Prepared Remarks

Foster City, Calif., – July 31, 2018 – Qualys, Inc. (NASDAQ: QLYS), a pioneer and leading provider of cloud-based security and compliance solutions, today announced financial results for the second quarter ended June 30, 2018.

Melissa Fisher, Chief Financial Officer

Good afternoon and welcome to Qualys' second quarter 2018 earnings call.

Joining me today to discuss our results is Philippe Courtot, our chairman and CEO. 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 an accompanying investor presentation with supplemental information 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 Q2 earnings call.

Melissa and I are pleased to report a very good quarter that included both strong revenues and leading profitability. Melissa will go through those details in a moment. These results reflect our position as the leading cloud-based security and compliance platform for securing the digital transformation and helping to build a safer world – one app at a time.

We believe we are now uniquely positioned to enable customers to consolidate their security and compliance stack, drastically reducing their spend. In addition, our true platform approach allows them to have a single-pane-of-glass view across on-premises assets, endpoints, clouds, and early next year, mobile environments. As we continue delivering additional best-of-breed detection and response capabilities through our Qualys Cloud Platform, we believe that the

savings our customers enjoy will compound. Furthermore, we are now well on our way to providing CIOs a continuous and updated view of their global IT assets with two-way synchronization with their CMDBs. Such capability is in fact the cornerstone of security, as there is no security without visibility.

In Q2, we continued to innovate and deliver on our product roadmap:

- We released our Container Security app into GA. This new cloud app enables customers to build continuous security into their global container deployments and DevOps processes at any scale, and integrate the results into one unified view of their global hybrid IT security and compliance posture, breaking down silos and lowering ownership cost;
- We announced a new groundbreaking app for global IT Asset Inventory and CMDB Synchronization, The Asset Inventory Cloud App uniquely provides a single 'source of truth' for all IT assets within hybrid environments, including on-premises assets, endpoints, clouds, and early next year, mobile environments. We believe this solution is significant because it solves one of the most vexing issues for IT and is critical for security as you cannot secure what you do not know. This new service is now in Beta and we expect it will go GA before year-end;
- We added new out-of-the-box Security Assessment Questionnaire capabilities to streamline GDPR compliance; and
- We bought a minority stake in 42Crunch as our first venture investment, and signed a distribution agreement. 42Crunch has developed an API security platform enabling organizations to quickly deliver applications built on secure APIs. Similar to Qualys, their solution enables customers to build security in.

We also held our first online QSC customer event as well as an online analyst and investor event which were great successes. We showcased how the Qualys Cloud Platform is uniquely able to collect and analyze data from millions of different sensors enabling the five key tenets of security today: visibility, accuracy, scale, immediacy and transparent-orchestration™. We also provided in-depth technical sessions covering our latest solutions including Container Security, Digital Certificate Management and IT Asset Inventory and CMDB synchronization.

We see strong demand for our solutions from the Federal market and we increased our go-to-market capabilities this quarter in the Federal vertical as follows:

- We announced an expanded partnership with Carahsoft to market, sell and distribute the FedRAMP-authorized Qualys Gov Platform to federal agencies as well as state and local governments; and
- Appointed Anna Wheeler, formerly of Akamai, as VP, Public Sector solutions.

We are looking forward to our Federal CIO/CISO interchange in the fall as we believe we are uniquely positioned to meet the ever-growing security and compliance requirements of the federal government. With our expanded internal team, we have mutually agreed with Second Front Systems to maintain our business partnership rather than pursue an acquisition at this

time.

Additionally, we continue to leverage the Qualys Cloud platform to broaden market awareness and generate demand as we have done successfully with the launch of CertView and CloudView. We've seen great response to the release of CloudView and CertView, a successful lead-generation effort which serves to distribute our Qualys Cloud Platform to more users from which we can sell many additional solutions. We've had over 6,500 activations, out of which over 700 are active users already. Additionally, our Qualys Community Edition, a free version of our cloud platform to provide organizations including SMBs, consultants and MSPs with a unified view of IT, security and compliance, was released for general availability today.

We're very excited about our roadmap and we continue to find innovative companies which we can acquire to accelerate our time to market.

In summary, we remain enthused about our leadership position as our platform, which uniquely provides full visibility across on-premises assets, endpoints, clouds, and soon mobile environments, enables companies to consolidate their stacks, considerably reduce their spend and build security into their Digital Transformation initiatives.

Before I turn the call over to Melissa to discuss our financial results, I would like to welcome Jason Ream to our Board; Jason is the CFO of Miratech Holdings. Prior to that position, he was the CFO of Relativity and prior to that, the CFO of SolarWinds. As we continue to grow our SME/SMB business, we expect to leverage his experience at SolarWinds, which built a leadership position in the IT Management software market by using a cost-efficient go-to-market model, leveraging powerful, easy-to-use products, similar to those that Qualys provides in the security software market. I would also like to thank both Don Dixon and Amer Deeba who are departing Qualys after 17 years of service. Don joined the Qualys Board as lead independent director in 2001 because he shared our vision of a cloud-based platform for security. Around the same time, Amer joined Qualys and leveraged our platform strengths to build the Qualys brand, most recently serving as Chief Commercial Officer.

Melissa Fisher, 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, unless stated otherwise. As Philippe mentioned, we continue to see strong demand for our expanding set of applications, reflected in the following financial and operational highlights:

- Revenues for the second quarter of 2018 were \$68.2 million, which represents 23% growth over the same quarter last year;
- The percentage of enterprise customers with three or more Qualys solutions rose to 37% this quarter, up from 28% a year ago; the percentage of enterprise customers with four or more Qualys solutions rose to 19% this quarter, up from 11% a year ago;

- Average deal size continued to increase in Q2, growing 16% year over year;
- 8.1 million Cloud Agents were purchased over the last twelve months;
- We saw good growth from both Cloud Agent and Threat Protection bookings; new products released since 2015 contributed approximately 15% of total bookings in the quarter, up from 9% in Q2 2017; and
- We have a strong current deferred revenue balance of \$151.4 million as of June 30, 2018, 21% greater than our balance as of June 30, 2017.

Our scalable model continues to drive industry-leading margins and significant cash flow, as reflected in:

- Adjusted EBITDA for the second quarter of 2018 of \$26.7 million, representing a 39% margin as compared to 37% for the same quarter last year; for comparability purposes, Q2 Adjusted EBITDA margin would still be 39%, adjusted for the impact of 606 (specifically, the amortization of commissions);
- Operating cash flow for the second quarter of 2018 increased by 47% year over year, to \$24.2 million; and
- We now have over 1,000 employees, with over 500 of them based in India.

This quarter, we accelerated our investments in enhancing shareholder value by spending:

- \$7.3 million on capital expenditures, including principal payments under capital lease obligations;
- \$5.9 million in aggregate on 1Mobility and 42Crunch; and
- \$17.9 million on the repurchase of 235,539 shares; we have \$80.6 million remaining in our share repurchase authorization.

Driven by our great results, our momentum in the marketplace and our scalable operational model:

- We are raising FY2018 revenue guidance to a range of \$278.0 million to \$279.2 million;
- We are also raising FY2018 non-GAAP EPS guidance to a range of \$1.46 to \$1.50; and
- We expect capital expenditures in the second half of 2018 to be front-loaded. For the third quarter, we expect capital expenditures to be in the range of \$9.5 to \$10.5 million and for the full year, we expect to be around the high end of our prior guidance of \$28 million.

We were delighted to share with you our vision, strategy, product roadmap and financial outlook at our online Analyst & Investor event in June and we are looking forward to hosting you at our user conference November 14th and 15th.

In conclusion, we believe that with the continuous platform enhancement, its increased adoption and our scalable operational model, we can continue to grow our revenues and boast top-tier margins.

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