



Qualys Q3 FY2023 Earnings Prepared Remarks

Foster City, Calif., – November 2, 2023 – Qualys, Inc. (NASDAQ: QLYS), a pioneer and leading provider of disruptive cloud-based IT, security, and compliance solutions, today announced financial results for the third quarter ended September 30, 2023.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' third 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 third quarter earnings call.

Q3 Business Update:

In Q3, we continued to deliver strong financial results reflecting our ongoing commitment to rapid innovation and customer success. We experienced another quarter of steady VMDR® (Vulnerability Management, Detection and Response) adoption, which is now deployed by 54% of our customers worldwide. Key competitive VMDR wins in Q3 include a leading multinational conglomerate, several global financial services, technology and manufacturing companies, a large government agency 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, a Fortune 100 biotech company was overwhelmed by the number of security tools it deployed and needed a solution to not only provide better security outcomes, but also consume fewer point products, agents and resources through a unified dashboard. In a mid six-figure bookings upsell, this customer, who already deployed Cybersecurity Asset Management

with External Attack Surface Management and VMDR expanded its use of VMDR with TruRisk to over 290 thousand assets while adding our Web Application Scanning, Patch Management and TotalCloud CNAPP solutions. In doing so, this customer consolidated three competing vendors across on-prem, cloud and multi-cloud environments through an organically integrated platform. With our innovative technologies, unmatched platform effect and focus on reducing risk and friction, this win underscores Qualys' ability to eclipse siloed solutions and advance our leadership in the industry.

Specifically highlighting the momentum we're seeing with our TotalCloud CNAPP solution, in a highly strategic and competitive mid six-figure bookings cross-sell, a Forbes 200 existing VMDR and Patch Management customer selected TotalCloud to scale their container deployments to over 50 thousand hosts, monitoring millions of container images daily. Through its evaluation of competing cloud security providers, this customer determined that alternative point solutions added complexity to their operations, lacked integration and missed detections, which hindered their ability to assess risk and consolidate their security tools. Today, through a highly scalable, natively integrated CNAPP solution, the Qualys Cloud Platform provides complete visibility of this customer's attack surface with advanced Artificial Intelligence and Machine Learning (AI/ML) technologies to uniquely detect zero-day malware while prioritizing and remediating risk at scale in real-time.

Our early wins in cloud and container environments are a testament to the extensibility of the Qualys Cloud Platform, its unified dashboard and our adaptive subscription model. Today, with over 31 million agents already supporting workloads in the cloud, Qualys is well armed with an organically integrated TotalCloud CNAPP solution that unifies Cloud Workload Protection (CWP), Cloud Security Posture Management (CSPM), Cloud Detection and Response (CDR), Infrastructure as Code (IaC) and Container Security. Powered by AI threat detection and insights, TotalCloud was recently recognized by Kupplinger Cole as a strong technology leader in cloud security, ahead of several competing modern cloud point solutions and next gen platforms. I'm quite pleased by the early momentum we're experiencing in the market with our TotalCloud and increasingly encouraging customer feedback.

Additionally, new customers continue to adopt Cybersecurity Asset Management with External Attack Surface Management and Patch Management alongside VMDR right out of the gate. We believe this further highlights Qualys' ability to help customers not only detect, but also quantify, prioritize and remediate risk across all environments much faster than alternative siloed solutions.

On the partner front, in Q3, we continued to advance our evolving ecosystem with two leading global Managed Service Providers, which also expanded their offerings beyond VMDR to include our Cybersecurity Asset Management and 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 another leading cloud provider, which is now making the Qualys Cloud Platform available in its marketplace.

With wins such as the ones I've shared here today, customers spending \$500,000 or more with us in Q3 grew 15% from a year ago to 174. With more and more customers beginning to perceive Qualys as a leading risk management platform that consolidates multiple security point solutions across all environments, we remain confident in our ability to drive long-term growth and gain market share - especially in light of a recent IDC study highlighting a 403% ROI for customers

choosing to partner with Qualys

Platform Innovation:

As I've said before, a cornerstone of our strategy is engineering innovation, and with a customer first, product led growth focus we challenge ourselves every day to lead the industry.

Executing against this agenda we will unveil our new platform approach at our upcoming Qualys Security Conference in Orlando from November 6th to 9th. This new approach will seamlessly integrate any number of third-party security tools into the Qualys Cloud Platform. Regardless of the variety of vendors utilized within an organization's infrastructure, Qualys will soon harness automated insights into critical areas of risk spanning on-prem, cloud and multi-cloud assets to uniquely enable comprehensive, enterprise-wide cyber risk posture assessment with new groundbreaking remediation capabilities.

At this conference, our product and engineering teams will further showcase additional innovations on the Qualys Cloud Platform, including our advancements in delivering AI and ML based predictive insights, 1st party vulnerability and misconfiguration detection and response, the integration of software supply chain security into Continuous Integration and Delivery (CI/CD) pipelines and more. Additionally, you can hear our customers speak first-hand about how our continuous innovation on the platform enables organizations to simultaneously reduce complexity and risk in their environments as they standardize on a trusted platform that delivers an immediate ROI and lower total cost of ownership relative to siloed and traditional detection only technologies. We have over 900 people registered to attend and look forward to seeing many of you there.

In summary, we are delivering strong profitability and cash flow while building business momentum in both on core and cloud expansion markets as companies uniformly recognize security transformation is fundamental in combating today's heightened threat and regulatory environment. As a result, customers are increasingly looking to reduce their risk exposure through the adoption of a natively integrated risk management platform spanning all environments instead of deploying a collection of disparate point solutions and hiring more people. We believe that with our organically integrated, cloud native platform built to solve modern security challenges, Qualys is laying a foundation for future growth and well positioned to drive long-term shareholder value with a balanced approach to growth and profitability.

With that, I'll turn the call over to Joo Mi to further discuss our third quarter results and outlook for the fourth quarter and full year 2023.

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 third quarter results, revenues grew 13% to \$142.0 million with growth from channel partners outpacing direct at 17% versus 10% growth from direct. Channel revenue contribution remained the same as last quarter at 43%. By geo, growth in the US of 14% was ahead of our international business, which grew 11%. US and international revenue mix remained the same as last quarter at 60% and 40%, respectively.

In Q3, we started to see some indication of stabilization in the selling environment with customers confirming their prioritization of security within IT budgets but believe ongoing budget scrutiny will linger for the foreseeable future. Reflecting this sentiment, our gross retention rate has remained largely unchanged at approximately 90% but our net dollar expansion rate came in lower at 106%, down from 108% last quarter. While there continues to remain room for improvement from smaller customers, larger customers spending \$25,000 or more with us grew 15%.

In terms of new product contribution to bookings, Patch Management and Cybersecurity Asset Management combined made up 11% of LTM bookings and 19% of LTM new bookings in Q3. In addition, we're pleased to share that we're seeing an increase in interest in our Cloud Security solution, TotalCloud CNAPP. Cloud Security solution made up 5% of LTM bookings in Q3, showing return on the acquisition of TotalCloud and Blue Hexagon. Since 2021, we acquired TotalCloud, a cloud workflow management and no-code automation platform, and Blue Hexagon, AI/ML innovator of cloud threat detection and response solutions, to augment our Cloud Security solution. It's exciting to see that our continued innovation and investment in our platform is driving adoption and starting to change the market perception of Qualys as a risk management platform that can help customers consolidate multiple security point solutions. We look forward to serving as a strategic partner to our customers as they evaluate their security vendor consolidation strategy.

Now turning to profitability, reflecting our scalable and sustainable business model, Adjusted EBITDA for the third quarter of 2023 was \$68.8 million, representing a 48% margin, compared to a 44% margin a year ago. We roughly maintained our operating expenses in Q3, only up by 2% to \$55.1 million. Sales and marketing was up by 9%, same growth as we saw in Q2. While we delayed some investments in response to the business climate and the arrival of our new CRO in July, we achieved greater operational efficiency through focused efforts on optimizing investments. This led to EBITDA margin exceeding our expectations in Q3 and further demonstrates our ability to maintain high operating leverage and remain capital efficient while continuing to innovate and invest in our long-term growth initiatives.

With this strong performance, EPS for the third quarter of 2023 was \$1.51, which came in higher-than-expected partly due to the change in our tax estimates. In Q3, we recorded 16% tax rate but if the tax rate had remained unchanged at 24%, EPS would have been \$1.37. Our tax rate guidance for both Q4 and full year 2023 is 21%.

Our free cash flow for the third quarter of 2023 was \$90.6 million, representing a 64% margin in the quarter and 50% year-to-date. In Q3, we continued to invest the cash we generated from operations back into Qualys, including \$1.8 million on capital expenditures and \$38.9 million to repurchase 273 thousand of our outstanding shares. As of the end of the quarter, we had \$106.8 million remaining in our share repurchase program.

With that, let's turn to guidance, starting with revenues: For the full year 2023 we expect revenues to be in the range of \$554 million to \$555 million, representing a growth rate of 13%. For the fourth quarter of 2023, we expect revenues to be in the range of \$144.1 million to \$145.1 million, representing a growth rate of 10% to 11%.

With respect to margins, factoring in the better-than-expected profitability to-date, we expect full year 2023 EBITDA margin in the mid 40%*s* and free cash flow margin in the mid 30%*s* with full year EPS in the range of \$5.04 to \$5.14, up from the prior range of \$4.50 to \$4.65. For the fourth quarter of 2023, we expect EPS in the range of \$1.18 to \$1.28. In Q4, we expect to spend \$2 to \$3

million in capital expenditures, implying approximately \$9 to \$10 million total for the full year.

We remain confident in our differentiated technology and ability to deliver on our growth opportunity long-term, while investing to maximize shareholder value.

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