



Qualys Q2 FY2022 Earnings Prepared Remarks

Foster City, Calif., – August 8, 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 second quarter ended June 30, 2022.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' second 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 second quarter earnings call. We are pleased to report another quarter of continued revenue growth acceleration and cash flow generation as we drive a focused investment strategy for innovation and go-to-market scale.

Q2 Business Update

Despite global macro-economic challenges and geopolitical uncertainties, growing cyber threats are driving CIOs and CISOs within organizations of all sizes to modernize their security platforms to reduce agents, cyber risk, response times, operational complexity, and costs. Our continued strong growth reflects the commitment customers are making to the Qualys Cloud Platform to help drive these objectives.

In Q2, there was a steady adoption of our Vulnerability Management, Detection and Response, or VMDR®, solution, which is now deployed by 43% of customers worldwide. Key competitive VMDR wins in the quarter include a leading multinational chain of retail convenience stores, several global financial service companies, and public sector agencies along with multiple new and existing customers down market as well as in the Fortune 500.

Further exhibiting our broader platform approach and expanding market opportunity, I'll take a moment to share some of the successes we're seeing with our customers and partners. First, on the customer front, an existing Europe-based Forbes 500 customer entered into a seven-figure competitive upsell agreement with us to expand its asset count with VMDR, while adding Patch Management across their environment. Qualys was chosen over the competition given the platform's unified interface across public, hybrid, and multi-cloud assets, ease of use, superior performance, speed of detections, and automated patching capabilities without the need for a VPN.

Next, a leading financial institution in the Middle East selected Qualys' Cybersecurity Asset Management, VMDR, and Patch Management capabilities in a mid-six-figure new customer win. The ability to significantly enhance its security program with complete asset context, CMDB integration, alerting, and accurate response capabilities on a single integrated platform while consolidating agents were all key differentiators compared to vulnerability detection only solutions in the market.

We are executing our go-to-market agenda well, which includes our evolving partner ecosystem. Since launching our new partner program in May, we've already signed up two new large regional MSSP partners in Europe and North America to further expand their ability to deliver managed cybersecurity services. Additionally, we're seeing an increase in new customer deal registrations by our partners. As our market share and brand awareness continue to strengthen, we are anticipating an increase in partner integration with our platform, which will further strengthen our strategic position, expand our ecosystem, and broaden our reach.

Platform Innovation

This year has already been a strong year of innovation at Qualys. At our QSC event in San Francisco, attended by over 700 registrants, we showcased our thought leadership through the launch of VMDR 2.0 with TruRisk™ taking our differentiation in the market to the next level. With comprehensive risk scoring and ITSM integrations, customers can now focus on quickly identifying riskiest vulnerabilities on critical assets and help remediate with speed.

Vulnerability management continues to be a cornerstone of customers' security programs as they focus on improving their risk posture. Qualys' unified platform approach differentiates itself from other vulnerability reporting only solutions by rapidly reducing risk for the most exploitable vulnerabilities with integrated patch management with the same agent.

Our recent research shows that customers who scan and patch with Qualys, as opposed to patching with an alternative solution, can experience as much as a 60% reduction in their mean-time-to-remediate for the most exploitable vulnerabilities identified by the Cybersecurity and Infrastructure Security Agency (CISA). Qualys' agents have deployed over 130 million patches for our customers, validating our customers' desire to leverage vulnerability management platforms that help remediate vulnerabilities instead of just reporting on them.

At Blackhat this week, we're featuring an organic extension to our Cybersecurity Asset Management 2.0 application to include our recently announced External Attack Surface Management capability. This new capability provides security and IT operational teams with unprecedented insights into blind spots and risk posture with a complete 360-degree view of all their known and unknown Internet exposed assets. Natively integrated with VMDR, this capability adds the external asset visibility to the already comprehensive internal asset visibility we provide

on the platform instead of adding another point solution for this feature.

While many security software providers claim to offer a platform because they assembled an assortment of point products through acquisition that are difficult to integrate, we don't see anyone coming close to offering the tightly integrated capabilities of our cloud-based platform. Especially in the current macroeconomic environment, we believe our organically developed and natively-integrated platform, that is also remediating and reducing risk, can bring value to our customers as they get more security out of single Qualys platform.

In summary, given our market opportunity, extendable platform for cyber risk detection, remediation and prevention, and speed of innovation, we believe we can continue to grow at scale, generate cash and invest in key initiatives that will further extend the gap between Qualys and the competition.

With that, I'll turn the call over to Joo Mi to discuss in more detail our second-quarter results and outlook for the third 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 announce our continued consistent and strong financial performance with double-digit growth in both revenue and earnings per share:

- Revenues for the second quarter of 2022 grew 20% to \$119.9 million, up from 12% growth in the year-ago period. Similarly, LTM calculated current billings grew 20%.
 - In Q2, our Patch Management solution contributed to over 5% of bookings for the first time with over 50% growth from last year. In addition to strong adoption by existing Qualys customers, Patch Management contributed to 9% of bookings from new customers, demonstrating our ability to drive growth through distinct product differentiation.
 - Our LTM average deal size continued to increase for both new and existing customers as organizations turned to Qualys to secure a wider range of network-connected devices and associated applications spanning on-prem, cloud, container, and mobile environments. LTM average deal size increased by 17% from 7% a year ago.
- Through the seamless integration of workflows onto a single agent, Qualys is helping organizations efficiently respond to threats by enabling real-time visibility of their security posture. As such, customers are increasingly looking to Qualys to help solve their most pressing security needs as legacy point solutions are fragile, difficult to operationalize, significantly extend remediation times, and struggle to deliver value to the customer. This quarter was no different, and we're excited by the continued adoption of VMDR with total customer penetration now at 43%, up from 28% a year ago; and
- Continued adoption of Qualys solutions increased large customer spend with 139 customers spending \$500,000 or more with us. This represents a 23% growth from a

year ago period. Our platform and single agent approach is resonating with customers while strengthening our market position. With CIOs and CISOs looking to cloud platforms that are agile, easy to deploy, and easy to manage, organizations are increasingly phasing out legacy point solutions and adopting cloud-native, full-stack security and compliance coverage to meet the demands of today's threat landscape and reduce costs.

We remain focused on leveraging our scalable platform model to continue to drive superior margins and significant cash flow:

- Adjusted EBITDA for the second quarter of 2022 was \$54.4 million, representing a 45% margin;
- EPS for the second quarter of 2022 was \$0.89; and
- Our free cash flow for the second quarter of 2022 was \$30.3 million, representing a 25% margin. YTD margin was 44%.

In Q2, we continued to invest the cash we generated from operations back into Qualys including:

- \$3.5 million on capital expenditures; and
- \$71.2 million to repurchase 561 thousand of our outstanding shares.
 - The resilience of our sustainable and scalable business model has been proven over time as currently demonstrated by our strong profitable growth during this time of uncertainty and volatility. With over \$500 million invested to repurchase shares over the last four years and \$354 million remaining authorized for future repurchases, we plan to continue to leverage our excess cash to return capital to shareholders.

Shifting now to guidance for the third quarter and the rest of the year, our strong year-to-date performance continues to bolster our confidence in both our strategic agenda and business environment.

- We are raising the bottom and top end of our revenue guidance for the full year to now be in the range of \$488.0 million to \$489.5 million, representing a 19% growth. This compares to prior full-year revenue guidance of \$484.0 million to \$486.5 million.
- In terms of profitability, we are raising our full-year EPS guidance to now be in the range of \$3.50 to \$3.55 from the prior range of \$3.13 to \$3.17. This implies an EBITDA margin in the mid-40s.
 - This revised guidance reflects the planned increase in investments in the second half of this year. Partners remain strategic to our growth strategy so our current focus is on further investing in our partner programs and enhancing our relationships to leverage their large distribution networks to drive profitable growth in the business. Alongside this, we will continue to increase our investments in digital marketing initiatives and expand product management capabilities as well as sales capacity and support functions.
- For the third quarter, we expect revenues to be in the range of \$124.5 million to \$125.1 million, which represents a 19% growth. We expect EPS to be in the range of \$0.85 to \$0.87.
- Our planned capital expenditures in Q3 is approximately \$2.5 million to \$3.5 million

and for the full year 2022, we expect investment in the range of \$16.0 million to \$18.0 million.

In conclusion, we are pleased with our Q2 results and believe we are well positioned to drive durable top-line growth on the back of a large and growing market opportunity, while leveraging our highly scalable model to maintain strong cash flow and industry-leading profitability over the long term. We remain cautious of macro-economic and geopolitical situation, particularly in Europe, but believe that offsetting this is the upside from our product differentiation and with customers becoming more cost-conscious within their security budgets, we will continue to see higher levels of customer interest associated with the value proposition of consolidating vendors on a single agent and see that dynamic playing well for Qualys.

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