



## Qualys Q1 FY2018 Earnings Prepared Remarks

**Foster City, Calif., – May 1, 2018** – Qualys, Inc. (NASDAQ: QLYS), a pioneer and leading provider of cloud-based security and compliance solutions, today announced financial results for the first quarter ended March 31, 2018.

### **Joo Mi Kim, VP of FP&A and Investor Relations**

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

Joining me today to discuss our results are Philippe Courtot, our chairman and CEO, and Melissa Fisher, 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 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 Q1 earnings call. As we previewed with many of you, we have shortened our prepared remarks to allow more time for questions and discussion.

Melissa and I are pleased to report another great 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 security and compliance cloud-based platform that is centrally managed and self-updating, and which provides for the 5 key tenets of security today: visibility, accuracy, scale, immediacy and transparent-orchestration™.

In Q1, our go-to-market capabilities expanded as follows:

- In partnership with the Cloud Security Alliance, we launched the Inaugural CIO/CISO Interchange to enable security experts to share best practices on securing the digital transformation;
- Expanded integration of the Qualys Cloud Platform, including Qualys Vulnerability Management (VM) and Policy Compliance (PC) Cloud Apps, within the DXC Threat and Vulnerability Management MSS portfolio;
- Fully integrated the Qualys Cloud Platform with EY cybersecurity innovation and operations center that EY opened in July 2017 to help joint clients stay ahead of emerging threats; and
- Released two free groundbreaking services, CloudView and CertView, providing companies of all sizes the instant ability to track and monitor digital certificates and cloud resources.

More recently, we announced the following product achievements:

- The acquisition of 1Mobility, which will enable us to uniquely provide enterprises discovery, inventory, security, compliance and response on both enterprise-owned as well as employee-owned endpoints, expanding our footprint within our customer base. Our ability to then provide global asset IT inventory, as well as cloud inventory, in 2 seconds will be unmatched by competitive offerings;
- Integration with Illumio to deliver the industry's first vulnerability-based micro-segmentation; and
- Integration also with the Cloud Security Command Center (Cloud SCC) for Google Cloud Platform (GCP).

RSA Conference 2018 was clearly a turning point for our company as our platform, which uniquely provides full visibility across on premise, endpoints, cloud environments and soon mobile, resonated extremely well with both customers and partners, including the release of new services and demonstration of new technologies to come.

- We showcased CertView and CloudView, two new free groundbreaking services to help organizations gain visibility of their digital certificates via CertView; and track and monitor public cloud assets and resources via CloudView;
- We released out-of-the-box Jenkins integration, Swagger support and new Chrome Browser Recorder extension for our Web Application Security app, enabling further automation and streamlining of REST APIs for DevOps teams; and
- We demonstrated live our forthcoming passive scanning technology that delivers near real-time network profiling and monitoring for continuous asset discovery of all devices that appear on the network, including mobile and IOT devices. The passive scanner monitors network traffic in a non-intrusive manner to discover and fingerprint devices to determine topology, services, and network threats.

At the RSA Conference, we also saw a greater interest in our platform from our partners as Cyber Security services is becoming a more strategic offering for them. They recognize that the Qualys Cloud platform helps customers regain visibility across their hybrid cloud environment, consolidate their security and compliance stack and enable their digital transformation by helping them build security in and not to bolt it on.

Our Qualys Cloud platform, used by over 10,300 customers, serves also as a natural distribution channel, making instantly available new solutions and improvements across the globe to customers, thus providing us and our partners with both operational and financial leverage.

With that, I'll turn the call over to Melissa to discuss our financial results.

### **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 driven by our strategic positioning as the leading cloud platform in our markets, reflected in the following financial and operational highlights:

- Revenues for the first quarter of 2018 were \$64.9 million, which represents 22% growth over the same quarter last year;
- The percentage of enterprise customers with three or more Qualys solutions rose to 34% this quarter, up from 27% a year ago; the percentage of enterprise customers with four or more Qualys solutions rose to 16% this quarter, up from 9% a year ago;
- Average deal size continued to increase in Q1, growing 17% year over year;
- 7.3 million Cloud Agents were purchased over the last twelve months, a 23% increase over the last quarter; and
- 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 8% in Q1 2017.

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

- Adjusted EBITDA for the first quarter of 2018 of \$24.6 million, representing a 38% margin as compared to 32% for the same quarter last year; for comparability purposes, Q1 Adjusted EBITDA margin would be 37%, adjusted for the impact of 606 (specifically, the amortization of commissions); and
- Operating cash flow for the first quarter of 2018 increased by 33% year over year, to \$43.0 million.

We continue to invest our cash in Qualys:

- Capital expenditures, including principal payments under capital lease obligations, were \$6.7 million in the first quarter of 2018; and
- In Q1, we repurchased 21,288 shares; we have \$98.5 million remaining in our share repurchase authorization.

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

- We're raising the low end of our FY2018 revenue guidance, and therefore our midpoint; our current FY2018 revenue guidance is now a range of \$276.8 million to \$278.5 million.
- We are raising our FY2018 non-GAAP EPS guidance from a range of \$1.39 to \$1.44 to a range of \$1.43 to \$1.48. We expect capital expenditures for the second quarter of 2018 to be in the range of \$6 to \$7 million; and
- We have a strong current deferred revenue balance of \$147.7 million as of March 31, 2018, 23% greater than our balance as of March 31, 2017.

We look forward to sharing with you our vision, strategy, product roadmap and financial outlook at our virtual QSC User and Analyst & Investor events June 13-14.

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