



Qualys Q2 FY2021 Earnings Prepared Remarks

Foster City, Calif., – August 9, 2021 – [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, 2021.

Blair King, Investor Relations

Good afternoon and welcome to Qualys' second quarter 2021 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 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 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

Thank you, Blair, and welcome everyone to our second quarter earnings call.

Q2 was another solid quarter with more customers upgrading to VMDR (Vulnerability Management, Detection and Response) and increasing the deployment of our cloud agents on endpoints. We are delighted to share that we've continued to grow and operate effectively through the pandemic and management changes in the company.

Faced with the latest increase in malware and ransomware cyberattacks paired with heightened government scrutiny, our customers are turning to us to fortify their security posture, respond faster with integrated patching and reduce legacy IT costs. Our highly scalable cloud-based platform allows enterprises to deploy multiple applications using a single agent, which differentiates us in the industry. Furthermore, our scalable platform enables us to handle more than 20 petabytes of data, currently indexing over 9 trillion data points on our ElasticSearch clusters, moving more than 28 billion messages a day on our Kafka bus, and pumping over one million writes per second in our Cassandra clusters. As a result, our solutions don't need to rely on collecting data from disparate point products to detect, remediate and respond to security threats. This single agent approach provides better security and user experiences; and, in-turn, underpins the continued acceleration of our Cloud Agent subscriptions, which grew 51% year-over-year to 64

million. We continue to expand the ubiquity of our agent with our VMDR solution, which continues to gain traction in the market with 28% customer penetration as of Q2.

Additionally, validating our solution consolidation approach, our top new customers in Q2 not only purchased VMDR but also started with a number of additional Qualys solutions out of the gate, such as Asset Management, Patch Management, Multi-Vector EDR (Endpoint Detection and Response), File Integrity Monitoring, Policy Compliance, Web Application Scanning, and Container Security. We expect to further drive the VMDR adoption in the SMB segment with the new pricing and packaging we recently introduced and given the desire of these smaller, resource-strapped customers to have a single, risk-based vulnerability management tool with built-in remediation.

We recently announced the launch of a very strategic initiative, which is our CyberSecurity Asset Management (CSAM) application. Accurate and up-to-date asset management in the continuously changing hybrid environment remains a major challenge for large and small businesses. Despite this being a fundamental building block and compliance requirement, organizations struggle with asset management that is focused on cybersecurity. We believe the Qualys Cloud Platform with our multiple sensors and scalable backend that collects, correlates, enriches and categorizes large amounts of data provides the ideal and robust solution to this challenge. By combining agent-based and agentless data collection, active and passive scanning and APIs, the Qualys Cloud Platform now provides comprehensive asset discovery across the entire infrastructure, including on-premises, cloud, container, OT and IoT to add context for security-centric visibility with detection of security gaps, CMDB integration, alerting and response capabilities. It was particularly encouraging to see a top-tier financial institution select our CSAM application just days after its introduction in pursuit of agent consolidation, simplified operational workflows and a comprehensive view of the financial institution's IT asset infrastructure as it re-builds its security architecture for the modern hybrid work environment. Exhibited virtually at Black Hat, we were pleased to see an overwhelming reception for this application by large enterprise customers worldwide.

We continue to see customer interest in reducing agent sprawl with a single solution for risk management and threat response. As an example, in Q2, a new Fortune 100 customer purchased VMDR, Policy Compliance, Patch Management, Cloud Security, Web Application Scanning and Container Security together to standardize its security hygiene on a single agent solution over multiple best of breed point solutions.

In terms of other newer paid solutions, we saw continued customer interest in our Container Security solution as well as Patch Management application. In the quarter, several large new and existing enterprise customers selected our Patch Management application over competing solutions given its ability to quickly patch remote endpoints easily and effectively without using the limited bandwidth available on VPN gateways. And finally, we are receiving positive customer feedback and support for our EDR solution. This application is a natural extension to our highly scalable cloud-based platform and strategically aligned with our vision of a single agent.

Looking into the remainder of 2021, we plan to introduce XDR (Extended Detection and Response), a next-generation Security Analytics and Incident Response solution, which natively integrates and correlates security telemetry across the security stack for an end-to-end platform; and, like EDR, another natural extension to our platform. This solution is currently in private beta with several select design partner customers, and the feedback we are getting has been encouraging.

As the adoption of cloud applications continues to proliferate in the industry, we continue to focus on enhancing our cloud native security solutions. We are rapidly expanding the power of our platform through organic innovation and targeted acquisitions in this area. The TotalCloud acquisition we announced today will soon be integrated into several of our Qualys Cloud Platform modules including our CloudView application and upcoming XDR solution to strengthen our Cloud Security Posture Management capabilities and enable users to easily create automated cloud workflows for rapid remediation.

In addition, as I outlined on our last earnings call, another key area of focus for me is on our go-to-market strategy and sales execution. Here, we continue to make appropriate investments in our business, and I'm pleased to say Allan Peters, who recently joined Qualys as our new CRO, is off to a great start. It's great to have him on the team, and we're looking forward to continuing our growth momentum under his leadership.

In summary, we believe Qualys has a superior competitive position that provides a runway for long-term revenue growth and profitability while supporting industry-leading performance, ease of adoption for our customers, and speed of innovation for our R&D efforts. Paired with the investments we're making in our go-to-market and sales enablement activities; we view these advantages as a major contributor to an already favorable competitive environment that the company has benefited from in replacing legacy point product deployments.

With that, I'll turn the call over to Joo Mi to discuss our second quarter financial results and guidance for the third quarter and full year 2021.

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 another quarter of consistent growth and profitability reflected in the following financial and operational highlights:

- Revenues for the second quarter of 2021 grew 12% to \$99.7 million. As a reminder, last quarter, our calculated current billings were negatively impacted, and this was expected to reverse this quarter to have a positive impact on Q2 2021 calculated current billings. As of Q2, LTM calculated current billings growth was 13%;
- Paid Cloud Agent subscriptions increased to 64 million over the last twelve months, up from 61 million for the 12 months ended in Q1 2021; and
- 47% of non-strategic alliance customers with our vulnerability management solution up for renewal in the quarter purchased VMDR, up from 34% last quarter. We're excited by the continued adoption of VMDR with the total customer penetration now at 28%.

Our scalable platform model continues to drive superior margins and generate significant cash flow:

- Adjusted EBITDA for the second quarter of 2021 was \$46.7 million, representing a 47% margin versus 48% last year;
- Non-GAAP EPS for the second quarter of 2021 was \$0.79, up from \$0.74 last year; and

- Our free cash flow for the second quarter of 2021 was \$47.7 million, representing a 48% margin versus 28% last year; YTD free cash flow margin was 51% versus 40% for the same period last year.

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

- \$6.7 million on capital expenditures; and
- \$32.2 million to repurchase 316,000 of our outstanding shares. The weighted average diluted shares outstanding in Q2 was 40.1 million, down from 40.9 million last year.

We remain confident in our business model and feel that we're well-positioned to drive growth given the traction we're seeing in newer solutions and the overall business momentum. We are delighted to be raising our full year 2021 guidance for both revenues and earnings:

- We are raising the bottom and top end of our revenue guidance for the full year to now be in the range of \$406.0 to \$407.5 million from the prior range of \$402.5 to \$404.5 million;
- We are raising our full year non-GAAP EPS guidance to now be in the range of \$3.02 to \$3.07 from the prior range of \$2.67 to \$2.72; and
- For the third quarter, we expect revenue to be in the range of \$103.8 million to \$104.4 million, which represents a growth rate of 12%. We expect non-GAAP EPS to be in the range of \$0.78 to \$0.80. Q3 capital expenditures are expected to be in the range of \$6 million to \$7 million.

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

Closing Remarks

Thanks for attending our earnings call and your questions.

We believe our integrated platform is very well-positioned to respond to customers' increasing need to detect and remediate issues at an increasingly rapid pace. Looking ahead, we're focused on executing our growth strategy, encompassing continued innovation and advancing our go-to-market motion to re-accelerate growth while driving increased value for our customers and shareholders.

Thanks again,
Sumedh