



Qualys Q4 FY2020 Earnings Prepared Remarks

Foster City, Calif., – February 10, 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 fourth quarter ended December 31, 2020.

Vinayak Rao, Investor Relations

Good afternoon and welcome to Qualys' fourth quarter 2020 earnings call.

Joining me today to discuss our results are Sumedh Thakar, our interim 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, interim CEO

Thank you and welcome everyone to our Q4 earnings call. Before we discuss our financial results, I wanted to say a few words about the separate announcement we issued this afternoon. As you have likely seen by now, we disclosed that Philippe Courtot is taking a leave of absence due to health issues unrelated to COVID-19. Please join me in wishing Philippe a speedy recovery.

In connection with this development, our Board of Directors has appointed me as the interim Chief Executive Officer. As those of you who have been following Qualys know, I've been with Qualys for nearly 20 years. I was appointed Chief Product Officer in June 2014 to lead our platform transformation and appointed President in October 2019. I have been working closely with Philippe for many years and we share the same vision of transforming the way our customers secure and protect their organization's IT infrastructure and applications with best-in-class cloud-based IT, security and compliance solutions.

I have deep appreciation for the tremendous platform we have built, and I am honored to serve as Qualys' interim CEO. I look forward to working closely with the Board and the rest of the Qualys team to continue building on our strong business momentum and driving the company forward while Philippe is out. Now for my first task in this role, I'll take you through our earnings

results for the fourth quarter and full year 2020.

We are pleased to report another quarter of solid revenue growth and profitability. We also saw strong growth of our paid cloud agent subscriptions, which grew more than 80% year-over-year to 56 million. Very uniquely, our multi-function, light-weight Cloud Agent provides visibility across the entire hybrid environment and is the underlying technology for a number of our IT, security and compliance solutions that are natively integrated on our platform.

As a result, Qualys customers can deploy VMDR® (Vulnerability Management, Detection and Response), Multi-Vector EDR (Endpoint Detection and Response), Policy Compliance, File Integrity Monitoring, Patch Management, Global IT Asset Inventory and the upcoming XDR offering through a single agent, which differentiates us in our industry. In addition, we continue to expand our platform's capabilities to take response actions, enabling our customers to respond quickly to security issues in their environment.

While the importance of vulnerability management for our customers remains high for them to be able to mitigate their risk, they are also looking for ways to quickly respond to these risks and threats. As these organizations continue to increase their focus on discovering all their hybrid IT assets, mitigating their risk and detecting and responding to ongoing attacks, Qualys platform, through single pane of glass, uniquely provides our customers ability to do a complete asset inventory and CMDB synchronization, mitigate their risk of breaches with capabilities like VMDR & Patch Management as well as detect and respond to attacks using our EDR and upcoming XDR solution. With the release of our container runtime protection solution and SaaS DR as well as our upcoming Cloud Response solution, we are now expanding similar capabilities in other infrastructure environments as well giving customers additional opportunities to consolidate their security tools on to the Qualys Cloud Platform.

In terms of our newer paid solutions, we continue to see strong growth from our Patch Management solution. In Q4, a leading pharmaceutical firm selected our patch management application over several competing solutions given its ability to easily and effectively patch remote endpoints without using the limited bandwidth available on VPN gateways. They chose Qualys because of our ability to deliver asset inventory, vulnerability management and patch management through a single agent. This quarter we saw strong traction for our paid Global IT Asset Discovery and Inventory application with a large media conglomerate adopting the application to gain visibility of all their known and unknown assets across multiple environments, identify the end of life of their installed software and synchronize with their ServiceNow CMDB. Finally, we again saw robust growth for our Container Security application with adoption from a large global IT services company that has already deployed our vulnerability management, Patch Management, Global Asset Inventory, File Integrity Monitoring and EDR solutions further consolidating their security stack with Qualys.

Product Innovation

We have continued to make strong progress on our product roadmap. Some key recent accomplishments include:

- Delivering a free 60-day integrated Vulnerability Management Detection and Response service to help our customers quickly assess devices impacted by SolarWinds Orion vulnerabilities, SUNBURST Trojan detections and stolen FireEye Red Team tools and use the patch management capability to immediately fix their exposure with a single click using the same agent.

- We also enhanced Qualys Container Security Response Solution with the addition of deep visibility, runtime defense capabilities and automated enforcement with delivery of Qualys Runtime Security.
- We recently introduced a brand new extension to our platform called SaaS Detection and Response (SaaS DR), which provides a single console for IT and security teams to gain continuous visibility, security, and compliance of critical SaaS applications like O365, G-Suite, Salesforce and Zoom. This solution enables our customers to monitor the posture of their users and applications that have access to critical data in their SaaS environment, helping bridge the gap between on-prem as well as SaaS assets on a single platform.
- Expanded Qualys VMDR (Vulnerability, Detection and Response) to enterprise mobile devices with the addition of Cloud Agent support for Android and iOS. As part of their digital transformation, organizations continue to leverage more and more handheld mobile devices to conduct business with access to critical data from these devices. This expansion allows our customers to track vulnerabilities and misconfigurations on these devices and take appropriate response actions.

This builds on our other product accomplishments from earlier in 2020 including:

- Shipping of Qualys Multi-Vector EDR, which leverages the Qualys Cloud Platform and Qualys Cloud Agent to detect ongoing threats on endpoints, conduct threat hunting and take appropriate response actions. It further correlates threats with vulnerabilities providing unique capabilities for proactive mitigation from additional breaches.
- Released a comprehensive inventory sync with ServiceNow Service Graph and Configuration Management Database (CMDB) as part of the new Service Graph Connector Program, a new designation within their Technology Partner Program.
- Strategic launch of Qualys VMDR, a unique all-in-one cloud-based app that automates the entire vulnerability management cycle across on-premises, endpoints and cloud environments, bringing vulnerability management, threat prioritization, and patching into a single end-to-end workflow.

Looking ahead, we are enthused about the additional solutions that we plan to introduce in 2021:

- The XDR platform expansion, which seamlessly integrates, and correlates data natively collected from all Qualys sensors with additional context from other 3rd party data sources. This powerful capability will let customers detect threats beyond endpoints. Qualys XDR will also orchestrate the various response actions and help our customers reduce cost and complexity of deploying and managing SIEM and SOAR solutions. This capability is currently in private beta with select design partner customers.
- We will expand support for Patch Management to Linux environments so customers with Cloud Agents on these environments can also add Qualys Patch Management to these additional devices.
- We will continue adding additional capabilities to our Multi-Vector EDR such as Endpoint protection (EPP) and expanding EDR support into Linux environments.
- We are working on a major update to our passive scanning capabilities that will significantly expand our coverage of Industrial Control Systems (ICS) / Operational

Technology (OT) as well as IoT (Internet of Things) devices.

We showcased these solutions at our very well attended QSC user conference, which was a 12-day virtual event held in November 2020. Over 5,000 people across our customer base, partners, prospects, analysts & investors, and the media attended the event and we received very positive feedback.

The development of these native solutions at such a rapid pace is possible because of the massive investment we made in our cloud platform and our strong engineering talent base with over 900 employees now in Pune, India. These new initiatives open significant incremental market opportunities for us. They also allow our customers to easily and cost-effectively consolidate their stack of traditional enterprise security and compliance solutions, while providing them with a single-pane-of-glass view on all assets across on-premises, endpoints, cloud, SaaS and mobile environments.

Go-to-Market Initiatives

On the go-to-market front, we are expanding relationships with our existing partners. Our comprehensive platform with detection and response is becoming increasingly strategic for MSSP partners as they can provide multiple services and easy upsell to their customers, instead of focusing large resources on building such a scalable platform themselves to integrate multiple other point solutions. Given the increased breadth of our product suite and the launch of VMDR and Multi-Vector EDR, we have now embarked on a few additional go-to-market initiatives that leverage the efficiency and effectiveness of our cloud platform. This is a key element of our profitable growth, driving value for both our customers and shareholders.

Our go-to-market activities in 2020 included:

- Leveraging our cloud platform for lead generation with free services. For example, we launched our free Remote Endpoint Protection solution to help enterprises secure remote workforces by providing instant security assessment, visibility and remote patching when it was difficult for them to do this using their enterprise solutions over VPN
- Expanding into China by establishing a Private Cloud Platform and a partnership with Digital China, the largest value-added provider of integrated IT products, solutions and support for enterprises in China.
- Launching the Qualys UAE Cloud Platform in Dubai, which further expanded Qualys' global operations across three continents.
- Extending partnerships:
 - Deloitte Advisory partnered with Qualys to integrate VMDR and Multi-Vector EDR into Deloitte Hong Kong Cyber's managed vulnerability services.
 - Armor, a global MSSP, embedded Qualys VMDR into Armor Anywhere, an industry-leading cloud security platform. Our partnership with Armor also includes Qualys CloudView solution for compliance and security posture management of public clouds.
 - Released Qualys Cloud Agent's general availability on Google Cloud, providing customers with one click workload security visibility in Google Cloud.

Additionally, we natively integrated our Container Security Solution with Google Cloud Artifact Registry.

- Expanded Vulnerability Management integration with Microsoft to include Microsoft Azure Arc to allow customers to perform vulnerability scanning on servers outside of the Azure platform.
- Partnered with Infosys, a global leader in next-generation digital services and consulting, to integrate Qualys VMDR and Multi-Vector EDR into its Cyber Next Platform, a managed security service offering.

Looking forward to 2021, we plan to meaningfully expand our sales and marketing efforts given our increased number of solutions, including our game-changing VMDR and Multi-Vector EDR as well as our upcoming XDR offering.

Similar to our efforts on the cloud platform, we are building a marketing platform. We have recently hired a CMO and are expanding our marketing awareness initiatives for the C-levels as well as our lead generation capabilities, leveraging our platform and increased virtual events.

On the sales front, we are expanding our quota carrying sales headcount or technical account managers as we call them and have recruited an EVP of Field Operations - Americas, a VP of New Business - US, VP of Strategic Alliances for System Integrators, and a VP & GM for our SME/SMB business. In addition, we are also planning to hire a CRO this year.

We will also continue to invest in R&D and operations as well as other support functions as we continue to scale the organization in anticipation for future growth. We believe these investments will set us up well for long term profitable growth.

We believe the world after COVID-19 is going to be different. Companies are going to be more focused on reducing costs while increasing business flexibility, which is going to significantly accelerate the transition to cloud-based solutions. Increasing adoption of our cloud agents and of our passive scanning technology, combined with the breadth of our solutions that span across the entire hybrid environment enables us to offer customers greater visibility, accuracy, and scalability. This positions Qualys well to enable customers to consolidate their security, IT and compliance stacks with us, provide risk mitigation and threat detection & response on single platform, while also drastically reducing their overall spend.

In conclusion, Qualys continues to clearly move well beyond vulnerability management and increase its competitive advantage. We are optimistic that the adoption of our newer solutions, including Patch Management, Multi-Vector EDR, Container Security and upcoming XDR, which solve meaningful problems for customers, will provide us the opportunity to increase bookings growth over the long term. In summary, we believe that we are now well-positioned to expand our revenues with existing customers as well as continuing to expand our customer base for the years to come.

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

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 delighted with our increasing cloud agent subscriptions, which lays the foundation for future revenue growth and industry-leading profitability. Our Q4 financial and operational highlights include:

- Revenues for the fourth quarter of 2020 grew 12% to \$94.8 million. Looking forward, we expect Q1 2021 calculated current billings growth to be negatively impacted by the timing and amount of prepaid multi-year subscriptions as well as shorter duration invoicing;
- Our average deal size decreased 3%. Excluding strategic alliance deals (normalizing for the impact of channel customers coming off an OEM relationship), deal size increased 6%;
- Paid cloud agent subscriptions increased to 56 million over the last twelve months, up from 50 million for the 12 months ended in Q3 2020; and
- 29% of VM customers up for renewal in the quarter renewed into a VMDR subscription. Excluding strategic alliance deals, VMDR adoption was 35%, similar to Q3.

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

- Adjusted EBITDA for the fourth quarter of 2020 was \$43.4 million, representing a 46% margin versus 44%;
- Q4 EPS grew 13%; and
- Our free cash flow for the fourth quarter of 2020 increased 27% to \$31.9 million, representing a 34% margin.

In Q4, we continued to invest the cash we generated from operations back into Qualys including:

- \$6.9 million on capital expenditures for operations, including principal payments under capital lease obligations; and
- \$34.8 million to repurchase 352,000 of our outstanding shares.

Looking back on the year, we are proud to have continued our product leadership while meaningfully growing earnings and cash flow for our shareholders. In 2020:

- We released several new products, features and enhancements;
- Cloud Agent adoption grew over 80%, from 31 million Cloud Agents subscriptions to 56 million;
- We grew EBITDA by 23% and achieved record EBITDA margins of 47%;
- We utilized \$126.7 million of our cash to repurchase approximately 1.3 million of our outstanding shares; and
- Finally, we grew EPS by 25%.

We remain confident in our business model, driven by our foundation of nearly 100% recurring revenues and an expanding suite of applications. Looking to 2021, we are excited about the revenue growth opportunities from our new solutions, including VMDR, Patch Management and Multi-Vector EDR. We expect full year revenue in 2021 to be in the range of \$399.0 million to \$402.0 million, which represents a growth rate of 10% to 11%. In terms of 2021 profitability, we expect to maintain industry-leading margins leveraging our highly profitable operational model while preserving the ability to further invest to drive future revenue growth. We expect full year non-GAAP EPS in 2021 to be in the range of \$2.60 to \$2.65.

For Q1, we expect revenue to be in the range of \$94.8 million to \$95.4 million, which represents a growth rate of 10% to 11%. We expect non-GAAP EPS in Q1 to be in the range of \$0.68 to \$0.70. We expect first quarter of 2021 capital expenditures from operations to be in the range of \$6 million to \$7 million and full year 2021 to be in a range of \$30 million to \$35 million.

As Sumedh mentioned, we are very excited by the robust adoption of VMDR and the launch of our Multi-Vector EDR solution, and we remain optimistic about the company's future. We feel very confident during this period of uncertainty due to the value provided by our Cloud Platform as well as our underlying highly scalable and profitable operational model. With that, Sumedh and I are happy to answer any of your questions.

Closing Remarks

Thanks for attending our earnings call and for your questions.

We feel fortunate to be very well-positioned with our Cloud Platform and apps and are excited about our game changing VMDR, Multi-Vector EDR, and forthcoming XDR offering. We continue to invest in expanding the capabilities of our Cloud Platform and aggressively developing new solutions. Additionally, we are also focused on growing our revenues and maintaining our industry leading profitability while creating long-term value for our shareholders. I hope all of you remain safe and healthy.

Thanks again,
Sumedh