



Qualys Q4 FY2019 Earnings Prepared Remarks

Foster City, Calif., – February 12, 2020 – [Qualys, Inc.](#) (NASDAQ: QLYS), a pioneer and leading provider of cloud-based security and compliance solutions, today announced financial results for the fourth quarter ended December 31, 2019.

Vinayak Rao, Investor Relations

Good afternoon and welcome to Qualys' fourth quarter 2019 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, investor presentation, and supplemental historical financial spreadsheet 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 Q4 earnings call.

Melissa and I are pleased to report another good quarter in terms of revenue growth and profitability. We are also very pleased to report continued acceleration in our paid Cloud Agent subscriptions, with almost 31 million now, 90% growth from the prior year quarter. We continue to see good adoption of our free Global IT Asset Discovery and Inventory App with almost 6,000 new companies signed up and over 600 using the service. We now also have over 300 existing customers using it. We saw strong growth this quarter from our paid IT Asset Discovery and Inventory solutions; in fact, a leading aerospace company procured the solution this quarter in order to gain visibility of all their known and unknown assets across multiple environments as well as the end of life of their installed software. In terms of our other newer solutions, we also saw robust growth again from Container Security and FIM. A large software company customer

selected Qualys' FIM as well as Policy Compliance this quarter in order to build these capabilities into their DevOps and cloud environments, which they could not do with competitive products and deployment was simple as they utilized existing Vulnerability Management agents. Additionally, it's worth noting that Patch Management has seen the highest customer ramp among our newest applications, with particular strength in the mid-market segment.

Product Innovation

In Q4, we continued to make strong progress on our goal of achieving ubiquity for our Cloud Agents. Our Cloud Agent is the technology platform for seven security, compliance and IT solutions – namely Vulnerability Management, Policy Compliance, File Integrity Monitoring, Indication of Compromise, Patch Management, Asset Inventory and the upcoming Certificate Management – with more to come. Our key accomplishments this quarter to drive Cloud Agent adoption included:

- unveiling Vulnerability Management, Detection and Response (VMDR) at our user conference QSC. VMDR takes vulnerability management to the next level by providing the power to continuously detect vulnerability and misconfigurations across the entire global hybrid IT environment and respond in real-time to remediate assets that are vulnerable or already compromised from a single platform with built-in orchestration. VMDR bundles Asset Discovery and Inventory with Vulnerability Assessment and Patch Detection as a single app. It is effortless to deploy on a global scale, and priced as a fully bundled solution, drastically saving deployment, administration and software subscription costs with real-time, light-weight Cloud Agents and Virtual Scanners that are self-updating and easy to deploy;
- announcing a partnership with Microsoft embedding Qualys Vulnerability Management and Qualys Container Security into Microsoft Azure's Security Center, providing real-time visibility to secure cloud workload provisioning and DevOps orchestration; and
- partnering with Google Cloud to provide its customers with one-click vulnerability assessment through a seamless integration of the Qualys Cloud Agent with the Google Cloud Platform (GCP), bringing built-in security to Google Cloud customers with essentially no software to install or maintain. Additionally, Google Cloud customers will have access to Qualys VMDR to build a streamlined workflow to create their global IT asset inventory, continuously identify vulnerabilities across their entire environment, prioritize and remediate those vulnerabilities at a click of a mouse, drastically reducing their threat exposure.

This builds on our other product releases earlier in 2019 including:

- the Patch Management app, enabling IT and SecOps teams to quickly target critical common vulnerabilities and exposures, then deploy the patches across endpoints, on-premises or cloud assets and verify remediation - all from one console;
- the IOC 2.0 app, which provides a quantum leap in IOC detection with new detection, investigation and response capabilities that identify in nearly real-time not only known IOCs but also suspicious devices;
- the FIM 2.0 app, where we have now added incident reporting, API integration, rule-based alerting and event correlation capabilities. We have also created a light version of

FIM for customers that require compliance only with PCI requirements; and

- the Cloud Agent Gateway Service app, an important extension of our Cloud Agent platform enabling customers to securely connect Qualys Cloud Agents from sensitive environments like DMZs, while also drastically reducing the bandwidth demands of large-scale deployments.

Go-to-Market Initiatives

Given the increased breadth of our product suite and the launch of VMDR during RSA, 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 2019 included:

- Leveraging our cloud platform for lead generation. We launched our Global IT Asset Discovery and Inventory App as a free service from our platform to generate meaningful demand of our paid apps. With a single agent, subscribing to additional apps is frictionless. This drives multi-product adoption, which naturally increases the stickiness of our platform and helps make us impenetrable to our competition, who do not offer the same breadth of solutions;
- Launching new targeted campaigns, which enable prospective customers to easily click and create their own trial accounts;
- Creating a new team of technical account representatives, “TARs”, who onboard and support customers utilizing our free applications;
- Building the Qualys Canadian Cloud, which expands Qualys’ global operations to eight locations on three continents; and
- Expanding partnerships:
 - Coalfire Systems selected Qualys’ vulnerability management and continuous monitoring capabilities to integrate into their Secure Cloud Automation Services;
 - Proficio, an award-winning global managed security services provider, chose to fully integrate the Qualys suite of cloud-based solutions with Proficio’s Managed Detection and Response capabilities; and
 - the Center for Internet Security (CIS) selected Qualys to provide its members with built-in visibility of their externally-facing websites, certificates and SSL/TLS configurations.

Additionally with VMDR, we are increasing our focus on the Small and Medium enterprise market segment and are delighted to announce the promotion of Michael Solomon to VP, Small and Medium Enterprises for the Americas and EMEA; Michael has been at Qualys since 2016 and was previously running our new business sales team for the mid-market. I am also happy to welcome back Dan Barahona as our Chief Marketing Officer.

Looking forward to 2020, we plan to meaningfully expand our sales & marketing efforts given our increased number of solutions, including our game-changing VMDR which was recently highlighted in a report by Ovum, a market-leading data, research and consulting firm. Please see report [here](#).

In essence, VMDR uniquely provides customers with full visibility across their entire global IT environment and combines this with a state-of-the-art prioritization engine that also takes into account misconfigurations and digital certificate security exposures. Thus, VMDR provides the real foundation for a comprehensive risk-based vulnerability management program that does not solely rely on CVE-based vulnerabilities and arbitrary risk scores, which can give a false sense of security.

You can learn more about VMDR as well as other planned innovative solutions at our user conference during RSA at the Four Seasons, San Francisco on February 25th. Click [here](#) to see agenda. At the conference, we will also provide an update on our transformational Data Lake and EDR solutions that will leverage our robust scalable backend and its array of sensors, which already collect, enrich, normalize and correlate trillions of data points across on-premise, cloud, and soon mobile, OT and IOT environments. This is an important new opportunity for our company and our industry as current incident response solutions are quite complex and costly, requiring organizations to use multiple vendors to collect the data needed and bring it into their SIEMs with full contextual information.

Additionally, we will host an analyst and investor luncheon on February 26th. This event will include a demonstration of our newest applications and a discussion on our 2020 product roadmap by our President and Chief Product Officer Sumedh Thakar and a financial update by our Chief Financial Officer Melissa Fisher. You can register [here](#).

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 and growth rates are based on comparisons to the prior year period, unless stated otherwise. We're delighted with our increasing Cloud Agent subscriptions and multi-product adoption, 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 2019 grew 14% to \$84.7 million;
- Platform adoption continued to increase as the percentage of enterprise customers with three or more Qualys solutions rose to 48% from 41% and the percentage of enterprise customers with four or more Qualys solutions increased to 28% from 21%;
- Paid Cloud Agent subscriptions accelerated to 30.7 million over the last twelve months, up from 27.9 million for the 12 months ended in Q3 2019;
- New products released since 2015 contributed approximately 35% of total annual bookings in the quarter, up from 26%; and
- Our average deal size continues to increase, growing 9%.

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

- Adjusted EBITDA for the fourth quarter of 2019 was \$37.6 million, representing a 44% margin versus 39%;

- Q4 EPS grew 25%; and
- Our free cash flow for the fourth quarter of 2019 was \$25.1 million, up 9%. Excluding one-time capex related to the buildout of our Pune HQ and M&A-related payments, our free cash flow grew 32%.

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

- \$5.3 million on capital expenditures for operations, including principal payments under capital lease obligations, as well as \$3.2 million on capital expenditures for the buildout of our Pune headquarters; and
- \$12.5 million to repurchase 145,000 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 2019:

- We released several new products, features and enhancements;
- The number of customers spending \$500,000 or more accelerated;
- Cloud Agent adoption grew almost 90%, from 16.2 million Cloud Agents subscriptions to 30.7 million;
- New products released since 2015 sharply increased to approximately 30% of 2019 bookings, up from approximately 20%;
- We achieved record EBITDA margins of 44% and grew free cash flow 30% even as we continued to invest for growth. Excluding one-time capex related to the buildout of our Pune HQ and M&A-related payments, our free cash flow increased 35%; and
- We utilized \$86.4 million of our cash to repurchase 1 million of our outstanding shares offsetting dilution to our shareholders from equity grants.

Looking to 2020, we are excited about the revenue growth opportunities from our new solutions, including the upcoming VMDR. Because our VMDR solution packages the ability to detect vulnerabilities with response in a single App, we see an opportunity to further drive Cloud Agent deployment as well as increase our strong renewal rates. Adoption of our Cloud Agents is important because it is the technology platform for seven of our security, compliance and IT solutions and lays the foundation for future revenue growth. We expect full year revenue in 2020 to be in the range of \$364 million to \$369 million, which represents a growth rate of 13% to 15%. Our Q4 2019 calculated current billings benefited from a few large deals that were invoiced in Q4 this year, rather than at their anniversary in Q1 2020.

In terms of 2020 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 GAAP EPS in 2020 to be in the range of \$1.60 to \$1.65 and we expect full year non-GAAP EPS in 2020 to be in the range of \$2.57 to \$2.62. We expect capital expenditures from operations in 2020 to be in a range of \$25 million to \$30 million and we expect to spend an additional \$5 million in the first half of 2020 for the buildout of our Pune headquarters. For the first quarter of 2020, we expect capital expenditures to be in the range of

\$8 million to \$10 million, which includes \$3 million for our Pune headquarters.

As Philippe mentioned, we look forward to seeing many of you at the analyst and investor luncheon during RSA in San Francisco.

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

Closing Remarks

Thanks for attending our earnings call and for your questions.

As we discussed, we believe that VMDR is a real game changer and we are looking forward to reporting on its adoption by existing and new customers during our next earnings call.

Thanks again,
Philippe