



Qualys Q1 FY2019 Earnings Prepared Remarks

Foster City, Calif., – May 1, 2019 – 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, 2019.

Vinayak Rao, Investor Relations

Good afternoon and welcome to Qualys' first 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, 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.

Melissa and I are pleased to report another good quarter in terms of revenue growth and profitability. We are also pleased to report that we continue to make great progress on our product roadmap and on our go-to-market activities, which will help us grow our solid foundation of recurring revenues and profitability.

We are also very pleased to report the continuing progression of our Cloud Agents with nearly 18 million subscriptions now, more than double the subscriptions of a year ago. Furthermore, with the

release this month of our new Cloud Agent Gateway Service, our customers can now deploy our Cloud Agents effortlessly and cost effectively at a huge scale. This solution eliminates the need to deploy costly proxies to secure and capture the data the Cloud Agents continuously beam up to our Cloud Platform, which now indexes over 3 trillion data points. With such new capabilities, it is now our strategy to make our Cloud Agents ubiquitous because we enable our customers to consolidate a plethora of traditional enterprise agents, such as Vulnerability Management, Policy Compliance, IOC, FIM, Asset Inventory and now Patch Management, that are extremely difficult and costly to deploy as well as to manage.

As an example, a large credit monitoring service expanded this quarter its deployment of our FIM solution by over 4 times, effortlessly leveraging the agents they had already deployed for Vulnerability Management. Significantly, they achieved this at a fraction of the cost it would have been to deploy a traditional enterprise FIM solution. We also see early momentum in container security driven by the greenfield nature of the market as well as the unique capabilities of our Cloud Platform. For example, a large financial institution deployed our Container Security solution this quarter, selecting it against competing point solutions, because it is natively built into our platform and therefore provides them with full visibility across their entire hybrid environment in a single pane view. In addition, we are also happy to announce that Microsoft Azure selected our Container Security solution for their own development teams to help with early identification and protection against vulnerabilities at scale.

These examples illustrate how we are well positioned to expand revenues from our growing user base as well as to gain new customers while allowing our customers to buy at their own pace, thus minimizing churn which is a key element behind our highly sustainable and profitable model.

Product Innovation

As we have previously shared, we are delivering on our product roadmap and have recently released for general availability:

- The Global IT Asset Inventory Cloud App, which provides security and IT teams a single source of truth for IT assets spread across their complex and interconnected hybrid IT environments with synchronization capabilities to Configuration Management Databases (CMDBs) to keep asset data up-to-date;
- 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; and
- As mentioned earlier, the Cloud Agent Gateway Service App, a major 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.

We also continue to make good progress on other innovative solutions including:

- the Passive Network Analysis solution, based on technology from the Nevis acquisition, which will enhance our global IT Asset Management offering by adding visibility of unknown assets to the existing capabilities and which is expected to go GA

early in Q3;

- the IOC 2.0 App, which will include a unique activity-based malware scoring to bring prioritization to malware remediation and is also expected to go GA by the end of Q2. It will bring additional threat feeds directly integrated into the platform for more comprehensive coverage of malware IOCs and enhanced orchestration capabilities with customized alerting and integration into Splunk;
- the Secure Enterprise Mobility App, which extends our platform's 2-second visibility to mobile devices by leveraging the acquired technology from 1Mobility and is planned to go into beta during Q2;
- the Run-time Container Security App, coming from the Layered Insight acquisition, which we expect to go beta in Q3; and
- the CloudView App 2.0, which will include threat analysis and direct remediation capabilities, which we expect to release in Q3.

As we shared at our investor event during RSA, we are currently developing a data lake solution that we expect to have in early beta in the beginning of 2020. This is an important new milestone and new opportunity for our company as current incident response solutions have become 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. Qualys' unique advantage is that we can 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.

Let me add that our product innovation has been bolstered by the successful acquisitions we have made in the last two years. We expect to continue acquiring small companies with innovative technology that can help accelerate our time to market of new solutions our Cloud Platform can deliver to our customers.

Go-to-Market Initiatives

Given the increased breadth of our product suite, we have now embarked on a comprehensive go-to-market initiative leveraging the efficiency and effectiveness of our Cloud Platform, which allows us to deliver all of our solutions over the Internet. Our go-to-market activities include:

- New targeted campaigns, which enable prospective customers to easily click and create their own trial accounts;
- Building a new team of technical account representatives, "TARs", who onboard and support customers utilizing our applications;
- Developing a multi-city conference whereby organizations will speak about their digital transformation and the best practices they have learned on their journey; and
- Expanding partnerships. We recently announced a partnership with the Center for Internet Security (CIS) whereby CIS will integrate Qualys CertView into its Multi-State Information Sharing and Analysis Center to provide its members with built-in visibility of their externally-facing websites, certificates and SSL/TLS configurations.

We remain very optimistic about the opportunity to increase growth in the future because our solutions offer greater visibility, accuracy, and scalability across hybrid environments while ultimately enabling customers to reduce their overall spend. We also believe that security is at a crossroads and the market will rapidly evolve into four segments which will all require a broad security and compliance cloud-based platform serving the different use cases:

- **The Large Enterprise Segment:**

Only the largest enterprises have the resources to drive their own digital transformation and they will do so by consolidating their stack and migrating applications to clouds to more effectively protect their assets while achieving greater business flexibility.

- **The Cloud Provider Segment:**

Cloud providers have all now developed a security center framework offering customers an environment in which security and compliance is already built in. Companies moving fully to the cloud via cloud providers will primarily need to worry about only their endpoints.

- **The Next Generation Managed Security Service Providers:**

The remaining companies will have hybrid environments and, due to a lack of in-house resources, will outsource their security to the next generation of managed security service providers. While existing MSSPs will have to retool their existing SOCs, a new generation of MSSP is emerging to fully address the security needs of small and mid-sized customers with hybrid environments.

- **The OT and IoT environment:**

This is an emerging market where security must be built-in and it requires a combination of agents and passive analysis. Qualys will be providing an SDK for OT and IoT suppliers to build their own agents and Qualys will also provide the required highly scalable Cloud Platform to analyze the data in real time leveraging our forthcoming and fully integrated passive sensors.

We believe that because of our cloud-based architecture and the priority we made to invest in the extensibility and capabilities of our platform, Qualys is one of the few companies well-positioned in this security market evolution. Our highly scalable cloud-based platform enables us to address all four new market segments providing a single-pane-of-glass view across on-premise assets, endpoints, clouds, and soon, mobile, OT and IOT environments.

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 pleased with our solid Q1 results, which we believe reflect the unique value proposition of our Cloud Platform and its orchestrated applications. This is evidenced in the following financial and operational highlights:

- Revenues for the first quarter of 2019 grew 16% to \$75.3 million;
- Platform adoption continued to increase as the percentage of enterprise customers with three or more Qualys solutions rose to 42% from 34% and the percentage of enterprise customers with four or more Qualys solutions increased to 22% from 16%;
- Cloud agent adoption increased to 17.9 million Cloud Agents purchased over the last twelve months, up from 16.2 million for the 12 months ended in Q4 2018;
- New products released since 2015 contributed approximately 23% of total bookings in the quarter, up from 15%; and
- Average deal size continued to increase, growing 15%.

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

- Adjusted EBITDA for the first quarter of 2019 was \$30.6 million, representing a 41% margin versus 38%; normalized for software capitalization for comparability purposes, Q1 Adjusted EBITDA margin would have been 40%;
- Q1 EPS grew 37%; and
- We generated strong operating cash flow for the first quarter of 2019 of \$44.3 million.

In Q1, we continued to invest the cash we generate from operations back into Qualys including:

- \$9 million on capital expenditures, including principal payments under capital lease obligations;
- \$850,000 on the acquisition of Adya; and
- \$7.9 million to repurchase 94,090 of our outstanding shares.

We remain confident in our model driven by our foundation of recurring revenues and expanding suite of applications:

- Current billings in Q1 were \$85.2 million or 23% greater. Our current billings growth rate benefited from large deals that were invoiced in Q1 this year, rather than at their anniversary in Q418. As we have consistently communicated, we do not manage to quarterly billings and are focused on the long-term growth of our business;
- We're raising the low end of our FY2019 revenue guidance and therefore our midpoint; our current FY 2019 revenue guidance is now a range of \$320.5 million to \$323 million;
- We are raising FY2019 non-GAAP EPS guidance from a range of \$1.84 to \$1.89 to a range of \$1.89 to \$1.94; and
- For the second quarter, we expect capital expenditures to be in the range of \$5.5 to \$6.5 million.

As Philippe mentioned earlier, we believe we are well-positioned in our markets given the unique nature of our integrated Cloud Platform and our strong suite of IT, security and compliance applications as well as new ones to come in 2019. Our new solutions provide us the opportunity to

accelerate revenue growth as well as expand margins in the future driven by our highly scalable model.

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