



## Qualys Q4 FY2024 Earnings Prepared Remarks

**Foster City, Calif., – February 6, 2025 – Qualys, Inc.** (NASDAQ: QLYS), a leading provider of disruptive cloud-based IT, security, and compliance solutions, today announced financial results for the fourth quarter ended December 31, 2024.

### **Blair King, Investor Relations**

Good afternoon and welcome to Qualys' fourth quarter 2024 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 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**

Thanks, Blair, and welcome to our fourth-quarter earnings call.

Looking back to last year, I can truly say that 2024 was a year of incredible product innovation and re-branding of Qualys as we celebrated our 25<sup>th</sup> year anniversary. As one of the first SaaS security companies in the world, we have continuously strived to exceed market expectations and serve as the leader when it comes to disruptive technology in cybersecurity. The message is clear, today's CISOs want to anchor cyber security conversations around business risk reduction as the impact of their cyber security spend. The market wants a platform that enables them to speak unified language of risk to their boards and business partners, while letting their teams pick the underlying platforms and best-of-breed solutions for specific areas in security rather than an aspirational goal of consolidating 50 different cybersecurity vendors into one. Recognizing the difficulty and complexity of implementing and utilizing multiple security solutions from numerous security vendors, we've evolved our platform, previously focused on vulnerability scanning and telemetry collection, to become a full-featured risk analytics, and quantification platform, bringing data analytics and insights with embedded AI models to customers while giving them the flexibility to continue to leverage their existing security tools. The net result for customers is a vendor neutral orchestration layer that provides full visibility and risk scoring of an organization's entire attack surface, aggregates and correlates all security findings leveraging over 25 threat feeds, and

powers a single AI-driven workflow that centralizes, quantifies, articulates, prioritizes, and remediates cyber risk while delivering the efficiencies of consolidation.

### **Platform Innovation:**

This re-branding and continuous enhancement of our platform is a result of our unwavering focus on prioritizing our customers' needs and addressing their challenges with innovative new solutions. In 2024, this collaboration led to significant platform enhancements that bolstered our strategic relevance and further expanded our market opportunities. We introduced TruRisk Eliminate to extend our remediation capabilities beyond patching. We enhanced our Cybersecurity Asset Management capabilities with patent pending technologies to turn previously unknown internal and external facing assets into security-managed assets in real-time. We brought the MITRE ATT&CK Matrix Prioritization into the Qualys Enterprise TruRisk Platform to uniquely predict, identify, and respond to critical risks with an attacker centric view. With Qualys TotalAI™, we delivered groundbreaking new capabilities to find and secure generative AI applications and Large Language Models (LLMs). We organically unified Cloud Infrastructure Entitlement Management (CIEM), container runtime protection, Kubernetes Posture Management, SaaS Security Posture Management (SSPM), and our AI-powered TruRisk Insight capabilities into our TotalCloud Cloud Native Application Protection Platform (CNAPP) with multi-cloud IT Service Management (ITSM) integration, strengthening our market position. And, further flexing the power of our platform, we went GA with our Enterprise TruRisk Management (ETM) solution, setting a new gold standard in the industry for proactive cybersecurity risk management and planted the flag for organizations to operationalize a modern Risk Operations Center (ROC) at scale. In less than a quarter since going GA with ETM, we have seen strong interest with currently over 50 active prospects for POC. Our ETM solution goes beyond current Continuous Threat Exposure Management (CTEM) platforms with ability to speak business language, effect remediation actions and partner with cyber insurance underwriter. We believe these innovations will allow our customers to standardize on a trusted platform like Qualys, layering on top of their other existing cybersecurity solutions.

With a long track record of solving the most challenging cybersecurity use cases for customers, Qualys pioneered the patching category, seamlessly integrating it into our platform, and bridging the gap between IT and security teams. Last year, we successfully deployed over 100 million patches with Qualys agents and, in turn, eliminated over 100 million potential incidents in customer environments. Despite this achievement, our journey has shown that patching alone is simply not enough. That's why we introduced TruRisk Eliminate, which revolutionizes patching by empowering organizations to isolate critical assets or implement compensating controls, protecting against zero-day vulnerabilities and misconfigurations when patches aren't available or feasible to deploy. This is a major competitive advantage, and our innovation doesn't stop there. We've recently introduced TruRisk Uninstall as a fourth component to our TruRisk Eliminate package. TruRisk Uninstall allows organizations to hunt for, detect, and uninstall end-of-life software, misused or unused applications, and other forms of tech debt while removing one of the most highly exploited attack paths available to adversaries with a simple click of a button.

In Cloud, our innovation engine continues to execute at a high level. We believe we're increasingly well positioned to expand our share of the evolving Cloud market as CISOs look to evolve risk based approach into their multi-cloud environments. Advancing our competitive differentiation, we've recently brought many new capabilities into our agent and agentless TotalCloud CNAPP solution, including comprehensive attack path analysis, enhanced risk quantification leveraging our TruRisk Insight capabilities, and automated no-code low-code cloud workflow remediation. This latest release, which we call TotalCloud 3.0, unleashes an organization's ability to easily visualize

the entire blast radius of an asset's attack path and systematically identify, prioritize, and resolve critical threats for pre-runtime and runtime protection. As a result, TotalCloud 3.0 is streamlining operations with an unparalleled outside-in and inside-out perspective of an organization's security posture for secure cloud consumption. In our view, TotalCloud 3.0 is one of the most comprehensive CNAPP solutions available in the market today, and its growing momentum is a strong testament to the assurance customers place in Qualys every day.

Finally, with the introduction of Qualys' TotalAppSec, we are now providing customers with ability to expand their appsec assessments into the expanding attack surface with use of API for B2B and mobile apps. Qualys TotalAppSec includes comprehensive inventory and threat assessment of their web applications and APIs with unified malware detection and automated response.

### **Q4 Business Update:**

Moving to our business update. Over the past several months, I personally met with many customers, prospects, and partners. These conversations all centered on the same topic. Customers require a holistic view of their cyber risk, one that is quantified and prioritized, articulated in terms of risk to their businesses, and remediated to an acceptable level in a single, integrated workflow on top of their existing solutions.

Given Qualys' blueprint for delivering these requirements with greater value to customers, our technologies are not only fueling new logo lands, but also helping to increase broader platform adoption, especially in the areas of Vulnerability Management, Detection and Response (VM<sup>DR</sup>®), Cybersecurity Asset Management, Patch Management, Cloud Security and now the Risk Operations Center (ROC) delivered by Qualys' Enterprise TruRisk Management (ETM) solution. With thousands of customers consolidating on the Qualys Enterprise TruRisk Platform, let me again share a couple of recent wins, which illustrate why these companies are turning to Qualys to help unify their security tools, quantify cyber risk in their environments, and fortify their security operations.

First, an existing global 100 multinational insurance customer's security team with multiple tools in their environments faced increasing personnel costs and struggled with limited visibility into its overall risk profile. Through a highly competitive RFP process, this customer chose Qualys and launched an initiative to collapse their security stack, ingest data from other cyber security tools into the Qualys platform, enrich asset context with business information brought by CMDB integration, and centralize remediation. This included purchasing eight Qualys modules and deploying ETM to begin operationalizing their ROC, resulting in a seven-figure annual bookings deal. We are now quickly migrating numerous data sources to the Qualys platform and delivering the outcome of consolidation with quantifiable risk and automated response aligned with business priorities.

Turning to the momentum we see with our TotalCloud CNAPP solution is a mid-six-figure booking upsell with a Global 50 conglomerate. This existing VM<sup>DR</sup>, Cybersecurity Asset Management, Patch Management, Web Application Scanning (WAS), and Custom Assessment and Remediation (CAR) customer launched an initiative to further unify its security stack and replaced its incumbent cloud-only security vendor. Through its evaluation, this customer determined that alternative point solutions added complexity to their operations, lacked integration, and missed detections, which hindered their ability to assess risk and consolidate their security tools. Today, through a highly scalable, natively integrated CNAPP solution, this customer is leveraging the Qualys Enterprise TruRisk Platform to combine insights from build through runtime with proactive risk management

while actively detecting anomalies, preventing zero-day attacks, closing security gaps, and remediating risk with ITSM integration through a single dashboard across its on-prem, hybrid and multi-cloud assets. These capabilities provide the visibility and automation necessary to defend against today's adversaries and represent a significant long-term growth opportunity for Qualys.

With seamlessly integrated solutions delivered natively on our platform to solve modern security challenges, more and more Qualys customers are beginning to understand how cybersecurity transformation drives better security outcomes, saves time, and costs less. As a result, customers spending \$500,000 or more with us in Q4 grew 13% from a year ago to 207.

Consolidating workflows isn't just happening with customers, it's also embraced and prioritized by our partners, underscored by an increasingly strong mix of new business and significant growth. As we continued to endorse a partner-first sales motion partner-led deal registration and win rates increased in Q4. In addition, with the launch of ETM, many of our Managed Security Service Providers (MSSP) are now deeply engaged for the first time in delivering new Managed Risk Operations Center (mROC) services encompassing risk quantification, security tool integration, risk monitoring, and patching. Similar to how MSSPs monetize the Security Operations Center (SOC) for post-breach response, the mROC is now the new frontier for MSSPs to capitalize on a centralized and automated approach to pre-breach risk management. Partners are actively spearheading these new initiatives with Qualys as their mROC platform of choice.

Turning to our executive team update, I would like to congratulate Dino DiMarino, our Chief Revenue Officer, who has decided to accept a CEO role at another company. I wish Dino well and thank him for his contributions during his tenure at Qualys. As we continue to focus on executing our product-led growth vision and partner-first strategy, I plan to oversee the sales organization while continuing to grow and scale the sales organization. We're fortunate to have a talented next-level team of regional sales leaders who are energized by our competitive position in the market, and ready to drive our business forward.

With our FedRAMP high ready platform, anticipating FedRAMP high certification in 2025 and our continued investment in Federal GTM we remain excited about the massive opportunity as the Federal government looks to change ways things have been done in past with clunky and costly on-prem solutions and move to cloud based modern, effective and cost efficient solutions for cyber security risk management.

In summary, I couldn't be more confident in our market position and opportunities for growth over time. Our leadership as a trusted security platform is a clear reflection of Qualys' dedication to continuous innovation, delivering value to customers, and transforming cybersecurity risk management. Looking ahead to 2025, we'll continue our disruptive innovation, further advance our go-to-market investments, and execute our strategic vision with a balanced approach to long-term growth and profitability.

With that, I'll turn the call over to Joo Mi to further discuss our fourth-quarter results and outlook for the first quarter and full year 2025.

### **Joo Mi Kim, Chief Financial Officer**

Thanks, Sumedh, and good afternoon. Before I start, I'd like to note that, except for revenues, 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 a healthy finish to the year, highlighting our continued execution, financial discipline, and scalable business model. For the full year, we grew revenues by 10% to \$607.6 million and achieved adjusted EBITDA margin of 47% even with continued 14% growth in investments in Sales and Marketing. Net Income and EPS grew 16% to \$229.0 million and \$6.13 per diluted share, respectively. And, Free Cash Flow reached \$231.8 million, or 38% of revenues, all of which exceeded our expectations for the year.

Turning to fourth quarter results, revenues grew 10% to \$159.2 million. The channel continued to increase its contribution, making up 48% of total revenues compared to 44% a year ago. As a result of our continued commitment to leverage our partner ecosystem to drive growth, we were able to grow revenues from channel partners by 18%, outpacing direct, which grew 3%. By geo, 15% growth outside the US was ahead of our domestic business, which grew 7%. US and international revenue mix was 58% and 42%, respectively.

With customers confirming their prioritization of security within IT budgets, we anticipate the selling environment in 2025 to remain stable with ongoing budget scrutiny persisting for the foreseeable future. Reflecting this sentiment, in Q4 our gross retention rate remained approximately at 90%, and our net dollar expansion rate came in at 103%, unchanged from last quarter.

In terms of product contribution to bookings, Patch Management and Cybersecurity Asset Management combined made up 15% of total bookings and 24% of new bookings in 2024. Our Cloud Security solutions, TotalCloud CNAPP, made up 4% of 2024 bookings. We attribute this success to our customers' need for broader contextualized awareness of their attack surface with natively integrated risk management and remediation workflows across all environments on a single platform.

Turning to profitability, adjusted EBITDA for the fourth quarter of 2024 was \$74.2 million, representing a 47% margin, compared to a 46% margin a year ago and 45% last quarter. This stronger-than-expected performance resulted from our targeted optimization efforts, which was part of our 2025 planning process. Consequently, operating expenses in Q4 remained relatively flat to last quarter while Sales and Marketing investments grew moderately by 5% from last quarter.

EPS for the fourth quarter of 2024 was \$1.60, and our free cash flow was \$41.9 million, representing a 26% margin, compared to 22% in the prior year. In Q4, we continued to invest the cash we generated from operations back into Qualys, including \$5.8 million on capital expenditures and \$42.3 million to repurchase 312 thousand of our outstanding shares. As of the end of the quarter, we had \$143.4 million remaining in our share repurchase program. We are pleased to announce that our Board has authorized another increase of \$200 million to the share repurchase program, bringing the total available amount for share repurchases to \$343.4 million.

With that, let us turn to guidance, starting with revenues: For the full year 2025, we expect revenues to be in the range of \$645.0 to \$657.0 million, which represents a growth rate of 6% to 8%. For the first quarter of 2025, we expect revenues to be in the range of \$155.5 to \$158.5 million, representing a growth rate of 7% to 9%. This guidance assumes no material change in our net dollar expansion rate with moderate growth contribution from new business in 2025. We also realize that there may be some near-term adjustments to the plan given the upcoming CRO departure, and will be sharing updates as we make progress throughout the year.

Shifting to profitability guidance, for the full year 2025, we expect EBITDA margin to be in the low 40s, implying 18% to 20% increase in operating expenses, and free cash flow margin in the low-to-mid 30s. We expect full year EPS to be in the range of \$5.50 to \$5.90. For the first quarter of 2025, we expect EPS to be in the range of \$1.40 to \$1.50. Our planned capital expenditures in 2025 are expected to be in the range of \$8.0 to \$13.0 million; and, for the first quarter of 2025, in the range of \$2.0 to \$4.0 million.

In 2025, we anticipate gross margin to contract by approximately 1% given certain investments we are currently making in some of our data centers to achieve greater operational efficiencies and reduce medium-to-long term marginal costs. With respect to operating expenses, we plan to align our product and marketing investments to focus on specific initiatives aimed at driving more pipeline, accelerating our partner program, and expanding our federal vertical. As a percentage of revenues, we expect to prioritize an increase in investments in Sales & Marketing and engineering with a more modest increase in G&A.

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