

QUALYS (QLYS)

(QLYS)

Key Statistics

Recommendation:

BUY

Price :

\$100.36

Target Price:

\$157 (57% Upsell)

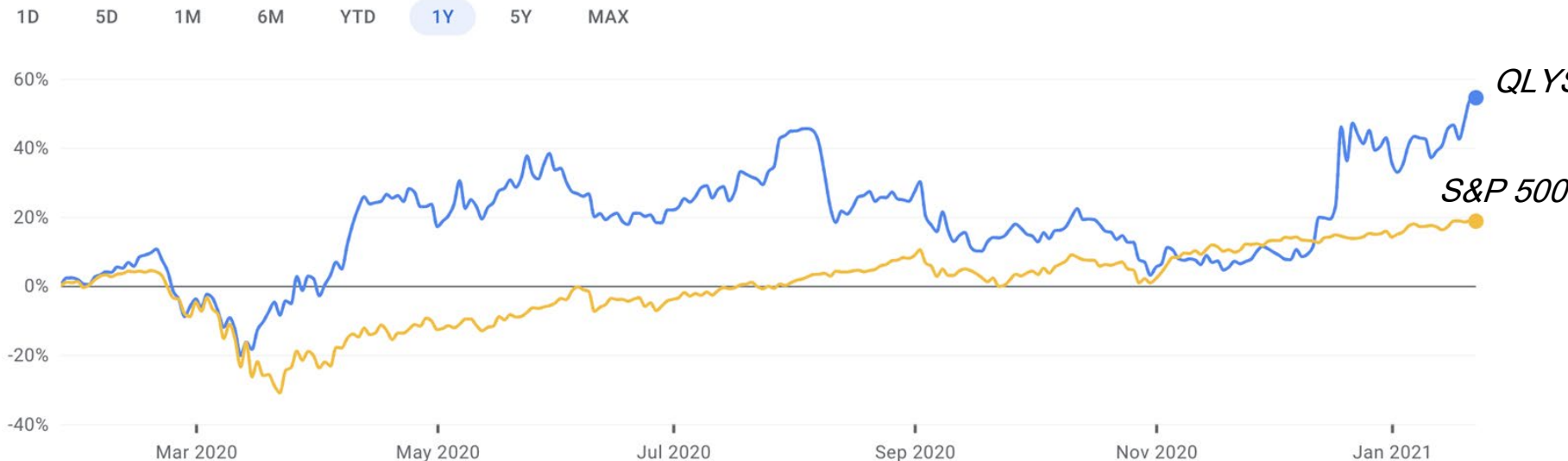
Market Cap:

\$5.14B

52 Week Range:

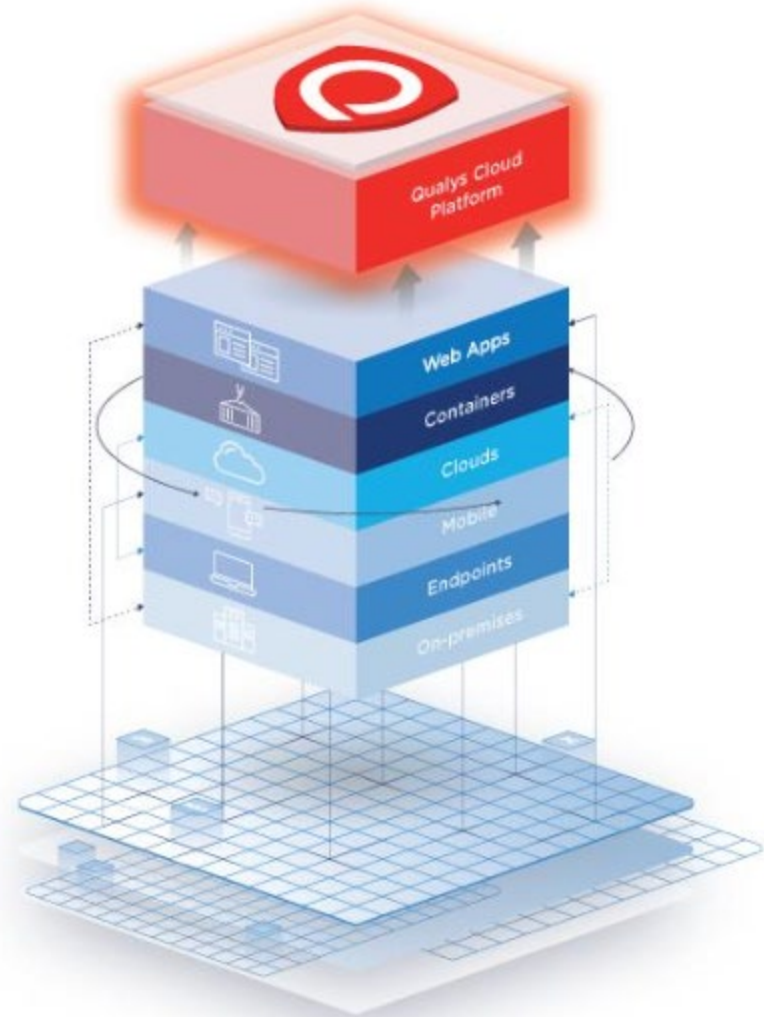
\$63.37 - \$135.44

52 Week Percentage Change vs. S&P 500



Investment Thesis

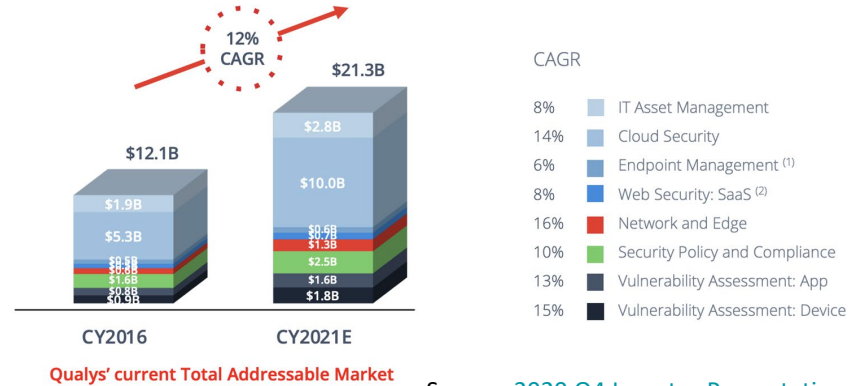
Qualys shares present an opportunity for a **57% appreciation** in the next 5 years driven by the company's **expanding market opportunity, technological value proposition, and evolving business model**, leading to revenue growth and increased profitability.



Investment Thesis

Expanding Market Opportunity for Security as a Service (SECaas), QLYS in Particular

- **COVID-19's acceleration of remote work** (a trend that has, if only partially, staying power) has [reinforced the need](#) for effective cybersecurity - especially for the now remote security operations centers (SOCs)
- [Recent major hacks](#) (e.g. SolarWinds in March 2020) have provided a **moment of reckoning for tech companies** to prioritize cybersecurity infrastructure
- Qualys' own growth is notable, and has seen a **12% increase** in its compound annual growth rate (CAGR) since 2016



Technological Value Proposition

- **Qualys Cloud Platform** (integrates **20+** enterprise security & compliance solutions into a **single platform**) is uniquely positioned to capitalize on the growing move to the cloud *and* vendor consolidation
- Ample opportunity for **cross-selling** and **up-selling**
- Qualys has completed the engineering of its **end-to-end solution** that is highly **scalable**, dramatically **reduces total costs of ownership** (TCO), and provides **on-demand transparency** into security & compliance data via the **Qualys Cloud Agent**

Runway for Growth via Evolving Business Model

- Rapid creation and **delivery of more solutions** provides opportunity to [further penetrate](#) its **blue chip customer base**
- Currently is providing beta version of extended detection & response (XDR) to 10 corporations, the **general release** of which in **Q1'2021** is [expected to catalyze growth](#)
- Reaching beyond its origins in vulnerability management and continuing to expand its scalable cloud platform will increasingly facilitate **sales to the C-Suite**



Business Model

Product Overview

- Qualys provides a **single app/platform** for discovery, assessment, detection and response to cybersecurity threats
- **Vendor and stack consolidation** across **5 areas**:
 - (1) **IT Security**
 - (2) **Compliance**
 - (3) **Web App Security**
 - (4) **Asset Management**
 - (5) **Cloud Security**
- **20+ integrated apps** including **XDR**, and Vulnerability Management, Detection, and Response (**VMDR**), **Multi-Vector EDR** (a new approach that shortens response times, reduces costs, and increases accuracy)

Commercial Strategy

- Qualys operates through **two verticals**:
 - (1) **Direct customers (58% of revenue)** from enterprise and mid-market companies, and
 - (2) **Indirect customers through partners (42% of revenue)** such as Accenture, Deloitte, IBM, and Verizon
- Qualys gives **discounts to partners**, who in turn bring multiple customers to Qualys, while offering customers a cheaper rate
- Qualys (1) sells **one-off** solutions to clients seeking a single solution to a single problem, and also (2) **bundles** multiple solutions together for a discounted rate
- **Various subscription options**: pricing depends on the number of apps, IP addresses, web apps and user licenses



Company Management



Philippe Courtot
(Former CEO)



Sumedh Thakar
(Interim CEO, President)



Joo Mi Kim
(CFO)



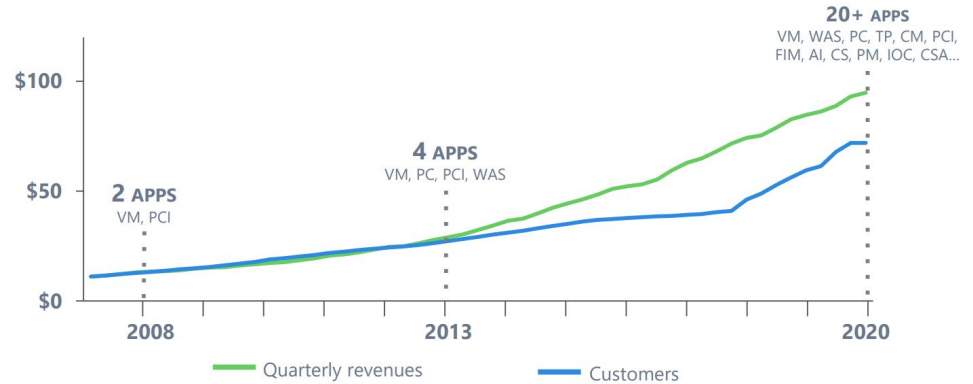
Andy Smith
(CMO)

- Longtime CEO **Philippe Courtot** is **stepping down temporarily** due to health issues
 - **Sumedh Thakar, Chief Product Officer** since 2014 and President since October 2019, has been **appointed interim CEO**
 - Thakar worked closely with Courtot, has nearly 20 years at Qualys under his belt, and is praised by the board of directors for his in-depth experience, consumer-oriented mindset, and expertise in product strategy
- Recently brought on new **chief marketing officer (CMO)**, **EVP of Field Operations** for Americas, **VP of New Business** for the U.S., **VP of Strategic Alliances** for System Integrators, and **VP and GM for our SME/SMB business**; and plans to hire a **Chief Revenue Officer** this year

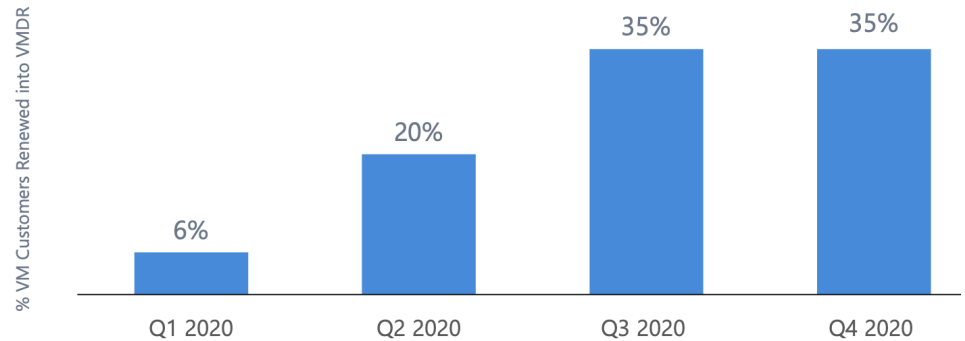


Revenue Drivers

- Generally, Qualys has a lot of **product velocity** - increasing product adoption per customer as well as an expanding customer base (see Quarterly Revenues vs. Customers on top right, [2021 Q1 Investor Presentation](#))
- **Top current revenue driver:** Vulnerability Management, Detection, and Response (**VMDR**)
- **Future revenue drivers:** Extended Detection and Release (**XDR**)



VMDR Adoption Increasing



Source: [2020 Q4 Investor Presentation](#)

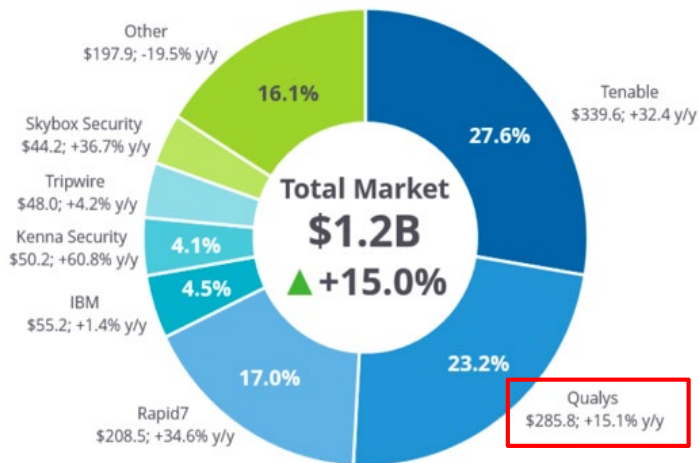


Competitors & Competitive Analysis

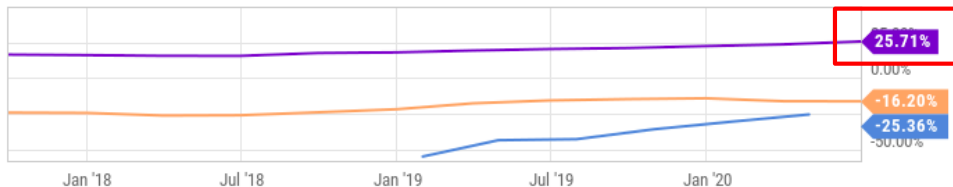
Top Competitors

- FireEye Inc.
- Rapid7
- IBM
- Tenable
- McAfee
- CrowdStrike

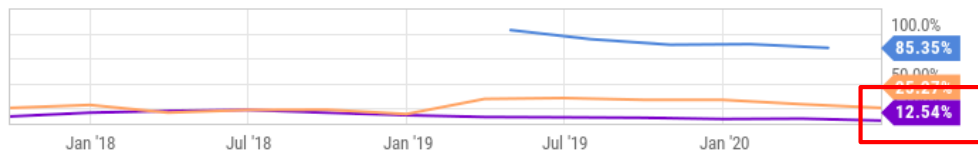
Worldwide Device Vulnerability Management 2019 Share Snapshot



- Qualys Inc Operating Margin (TTM)
- Rapid7 Inc Operating Margin (TTM)
- CrowdStrike Holdings Inc Operating Margin (TTM)



- Qualys Inc Revenue (Quarterly YoY Growth)
- Rapid7 Inc Revenue (Quarterly YoY Growth)
- CrowdStrike Holdings Inc Revenue (Quarterly YoY Growth)



Source: [Motley Fool, Herve Blandin, Aug 2020](#)

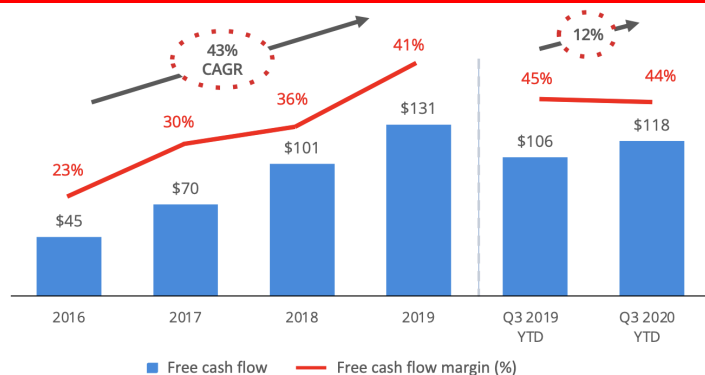
Qualys' Advantage Going Into 2021

- Unlike its competitors, Qualys' stable & lower growth rate positions the company for hyper-growth in the next year, due to new product offerings and a scalable business model.
- Despite its modest growth rate last year, Qualys remains highly profitable and boasts the highest operating margin of its peers.

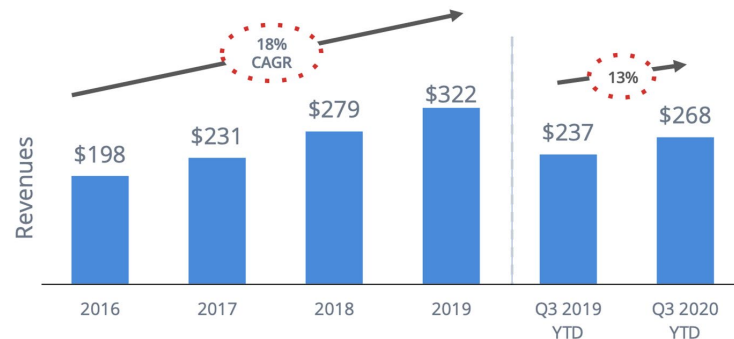


Key Performance Indicators

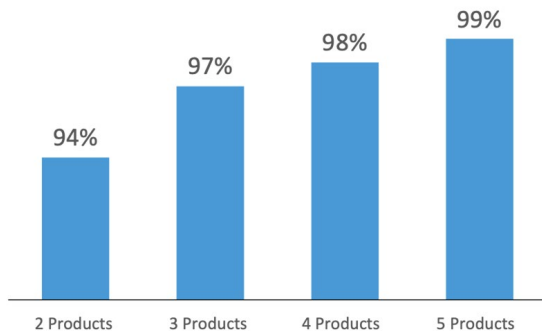
Free Cash Flow



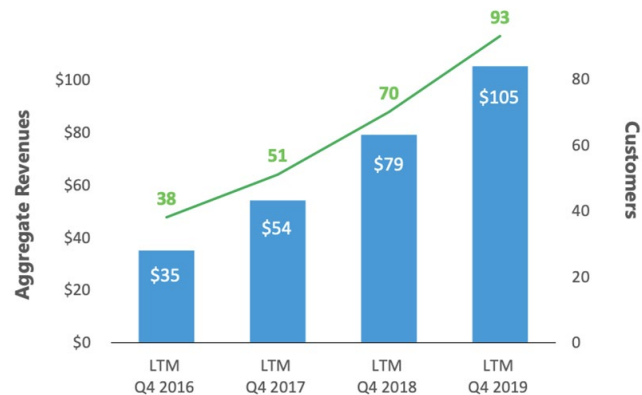
Revenue Growth



2019 Enterprise Gross Dollar Retention Rate



Number of Large Customers (> \$500k revenue contribution)



Sources: [2020 Q3 Earnings](#), [2019 Q4 Earnings](#)



DCF/Valuation

| Base Case | | | | | | | | | |
|---|-------|-------|-------|-------|--------|-------|-------|-------|----------------|
| | 2017A | 2018A | 2019A | 2020F | 2021F | 2022F | 2023F | 2024F | Terminal Value |
| Operating Assumptions: | | | | | | | | | |
| Sales Growth | 16.6% | 20.8% | 15.3% | 13.0% | 16.0% | 16.0% | 16.0% | 16.0% | 4.0% |
| Cost of Revenue (as % of Sales) | 13.4% | 13.4% | 11.9% | 14.0% | 13.0% | 12.0% | 11.0% | 12.0% | 11.0% |
| SG&A & Other Operating Expenses (as % of Sales) | 61.5% | 58.2% | 55.9% | 58.2% | 58.2% | 56.0% | 55.0% | 55.0% | 50.0% |
| Income Taxes (as % of EBIT) | 0.0% | -2.3% | 10.3% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Cash Flow Assumptions: | | | | | | | | | |
| Depreciation & Amortization (as % of Sales) | 8.9% | 10.4% | 9.7% | 10.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Working Capital (as % of Sales) | 88.2% | 65.3% | 53.5% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% |
| Capital Expenditures (as % of Sales) | 16.4% | 8.2% | 8.6% | 8.5% | 850.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Discounting Assumptions: | | | | | | | | | |
| Cost of Capital | | | | 6.50% | | | | | |

| Valuation Model | | | | | | | | | |
|---|--------------------|--------------------|--------------------|-----------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| | 2017A | 2018A | 2019A | 2020F | 2021F | 2022F | 2023F | 2024F | Terminal Value |
| Net Sales | \$230,828,000.00 | \$278,889,000.00 | \$321,607,000.00 | \$363,415,910 | \$421,562,456 | \$489,012,448 | \$567,254,440 | \$658,015,151 | \$684,335,757 |
| % Growth | 16.6% | 20.8% | 15.3% | 13.0% | 16.0% | 16.0% | 16.0% | 16.0% | 4.0% |
| Less COGS | (\$30,980,000.00) | (\$37,281,000.00) | (\$38,316,000.00) | (\$50,878,227) | (\$54,803,119) | (\$58,681,494) | (\$62,397,988) | (\$78,961,818) | (\$75,276,933) |
| as % of Sales | 13.4% | 13.4% | 11.9% | 14.0% | 13.0% | 12.0% | 11.0% | 12.0% | 11.0% |
| Less SG&A and Other Operating Expenses | (\$142,005,000.00) | (\$162,343,000.00) | (\$179,837,000.00) | (\$211,546,634) | (\$245,349,349) | (\$273,846,971) | (\$311,989,942) | (\$361,908,333) | (\$342,167,878) |
| as % of Sales | 39.12% | 39.12% | 39.12% | 58.2% | 58.2% | 56.0% | 55.0% | 55.0% | 50.0% |
| Earnings Before Interest and Taxes* | \$57,843,000 | \$79,265,000 | \$103,454,000 | \$100,991,049 | \$121,409,987 | \$156,483,984 | \$192,866,510 | \$217,145,000 | \$266,890,945 |
| as % of EBIT | 25.1% | 28.4% | 32.2% | 27.8% | 28.8% | 32.0% | 34.0% | 33.0% | 39.0% |
| Less Income Taxes | \$3,000 | \$1,836,000 | (\$10,647,000) | (\$8,079,284) | (\$9,712,799) | (\$12,518,719) | (\$15,429,321) | (\$17,371,600) | (\$21,351,276) |
| as % of EBIT | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| NOPAT | \$57,846,000 | \$81,101,000 | \$92,807,000 | \$92,911,765 | \$111,697,188 | \$143,965,265 | \$177,437,189 | \$199,773,400 | \$245,539,670 |
| Depreciation & Amortization | 20,636,000 | 28,904,000 | 31,201,000 | \$36,341,591 | \$46,371,870 | \$53,791,369 | \$62,397,988 | \$72,381,667 | \$75,276,933 |
| as % of Sales | 10.0% | 10.0% | 10.0% | 10.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Working Capital Requirements | \$203,576,000 | \$182,058,000 | \$172,149,000 | \$199,878,751 | \$231,859,351 | \$268,956,847 | \$311,989,942 | \$361,908,333 | \$376,384,666 |
| as % of Sales | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% | 55.0% |
| Δ in Working Capital | (\$21,518,000) | (\$9,909,000) | (\$9,909,000) | \$27,729,751 | \$31,980,600 | \$37,097,496 | \$43,033,095 | \$49,918,391 | \$14,476,333 |
| Capital Expenditures, Net of Asset Sales | (\$37,818,000) | (\$22,775,000) | (\$27,573,000) | (\$30,890,352) | (\$3,583,280,873) | (\$39,120,996) | (\$45,380,355) | (\$52,641,212) | (\$54,746,861) |
| as % of Sales | 8.5% | 8.5% | 8.5% | 8.5% | 850.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Free Cash Flows | \$40,664,000 | \$65,712,000 | \$86,526,000 | \$126,092,754 | (\$3,393,231,214) | \$195,733,134 | \$237,487,918 | \$269,432,245 | \$280,546,076 |

Terminal Value \$11,221,843,021

Total Free Cash Flows \$40,664,000 \$65,712,000 \$86,526,000 \$126,092,754 (\$3,393,231,214) \$195,733,134 \$237,487,918 \$11,491,275,266

Enterprise Value \$5,860,627,098

Less Debt incl. leases \$5,168,000

Plus Cash & Marketable Securities \$298,890,000

Equity value \$6,154,349,098

Shares Out 39,100,000

Implied Share Price \$157.40

Current share price \$100.53

% upside/downside 57%

←
\$157.40



Investment Risks

Investment Risks

- SECaaS industry and market for cybersecurity products is already quite crowded



- Not all of Qualys' product offerings are unique (*e.g.*, XDR) and thus their 2021 releases may not be poignant



- Compared to peers, Qualys has had slower revenue growth



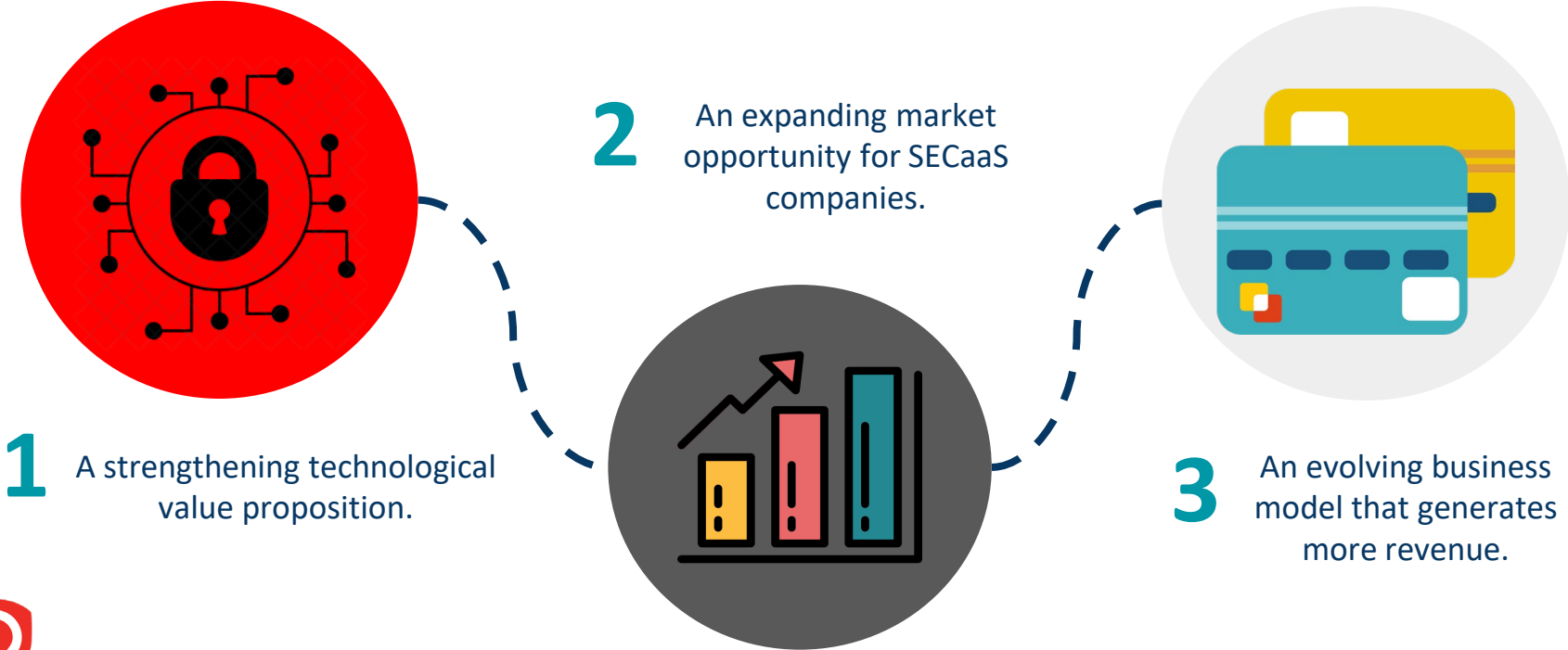
Opportunities for Risk Mitigation

- Qualys is protected by **competitive moats** such as:
 - Valuable intangible assets - patents, regulatory approvals, brand strength
 - High switching costs
 - Strong network effect - Qualys' brand loyalty and brand strength contribute to a positive feedback loop
 - Cost advantages
- Qualys differentiates itself by offering **multiple modules** that enable different facets of cloud security (including compliance, cloud workload protection, and vulnerability scanning)
- Investments to **expand product offerings**, a low cost model, capital efficiency, and scalability of their cloud platform bode well for future growth over the next 3-5 years



Conclusion

QLYS will experience sustainable growth over the next 5 years due to:



Appendix



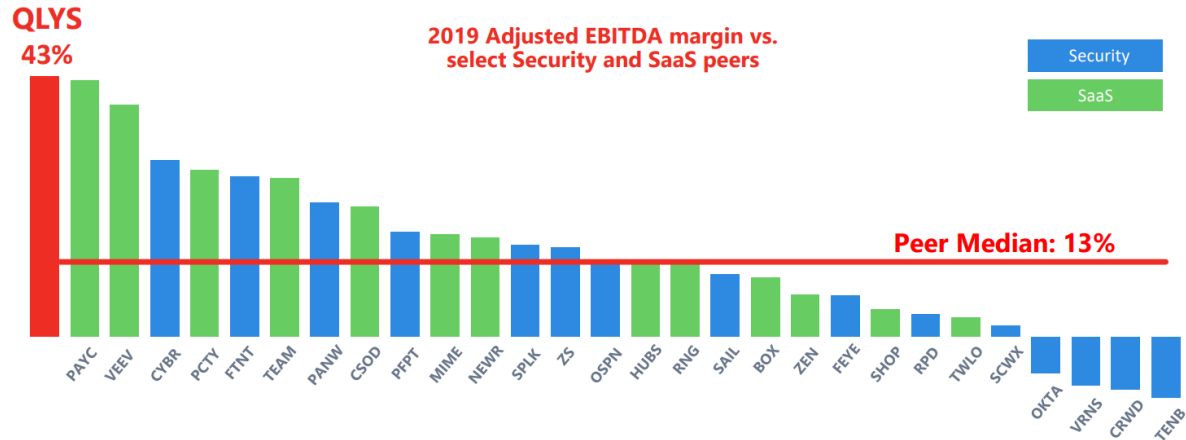
Revenue By Geographic Area

| | 2017 | 2018 | 2019 | 2020 |
|-----------------------|----------------|----------------|----------------|----------------|
| United States | 162.7 | 185.9 | 206.6 | 230.4 |
| | 70% | 67% | 64% | 63% |
| Foreign | 68.1 | 93.0 | 115.1 | 132.5 |
| | 30% | 33% | 36% | 37% |
| Total Revenues | \$230.8 | \$278.9 | \$321.6 | \$363.0 |



Competitive Advantages

- **Industry-leading margins:** 43% vs. peer median of 13% (see 2019 Adjusted EBITDA margins below)
- **19,000+ customer base:** 66% of the Forbes Global 50, 46% of Global 500, and 25% of Global 2000 standardized on Qualys
- **Corporate partnerships:** with Google Cloud to add container security support and with Armor for compliance monitoring of public clouds
- **Affordable subscriptions** for businesses of any size: starting at \$295/year for small businesses, compared to upwards of \$20,000/year + maintenance from [competitors](#)



Source: [2021 Q1 Investor Presentation](#)



How Qualys Will Make Money in the Future

- Qualys' Cloud Agent has increasing availability on Google Cloud, attracting customers who want visibility of their workloads & virtual machines without installing/ maintaining external software.
- Acquisition of software assets from other companies will enhance Qualys' security & threat research capabilities.
- Increased product offerings, such as XDR, provide opportunities for revenue growth.

Additional Apps to Come

Cloud Security Management

Remediation and management of cloud vulnerabilities

Secure Access Control

Respond to threats automatically by controlling access to critical resources

OT / ICS Security

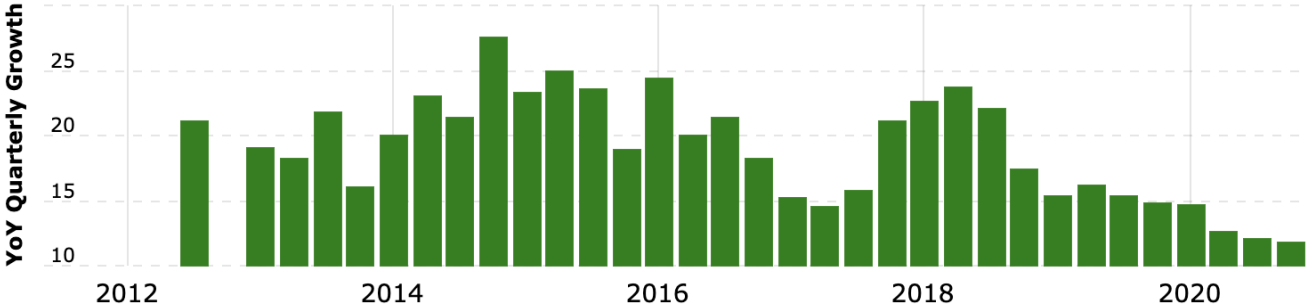
Monitor and secure operational technology environments and industrial control systems

XDR: Security Analytics & Response

Coalesce data into a centralized security data lake and provide advanced correlation & analytics to generate unique insights



Historical Revenue Growth Since IPO in 2012

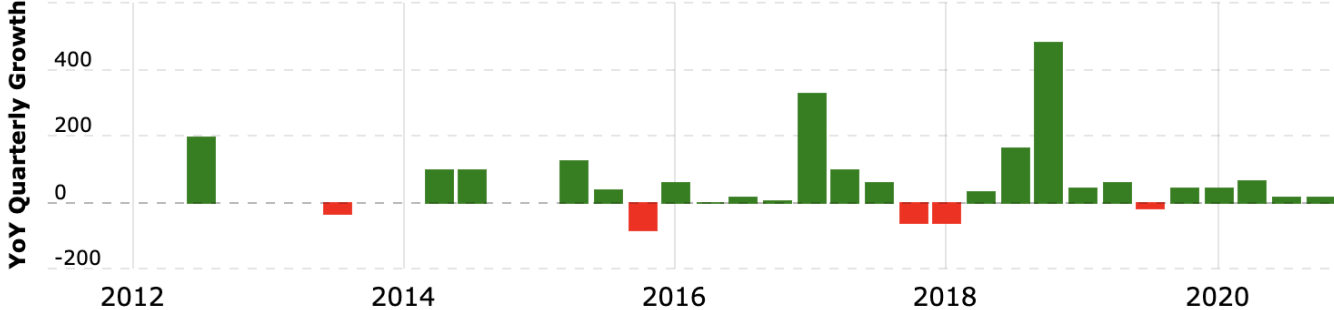


| Qualys Annual Revenue (Millions of US \$) | |
|--|-------|
| 2020 | \$363 |
| 2019 | \$322 |
| 2018 | \$279 |
| 2017 | \$231 |
| 2016 | \$198 |
| 2015 | \$164 |
| 2014 | \$134 |
| 2013 | \$108 |
| 2012 | \$91 |
| 2011 | \$76 |
| 2010 | \$65 |
| 2009 | \$57 |



Source: [“Qualys Revenue 2010-2020 | QLYS,”](#) Macrotrends

Historical EPS Growth Since IPO in 2012



| Qualys Annual EPS | |
|-------------------|--------|
| 2020 | \$2.24 |
| 2019 | \$1.68 |
| 2018 | \$1.37 |
| 2017 | \$1.01 |
| 2016 | \$0.50 |
| 2015 | \$0.42 |
| 2014 | \$0.81 |
| 2013 | \$0.04 |
| 2012 | \$0.08 |
| 2011 | \$0.08 |
| 2010 | \$0.04 |
| 2009 | \$0.01 |



Source: "[Qualys EPS - Earnings per Share 2010-2020 | QLYS](#)," Macrotrends

Women's Stock Pitch & Leadership Summit



Stanford University SWS Team: Carling Hank, Lauren McLaughlin, Sarah Guller, & Sophia Love

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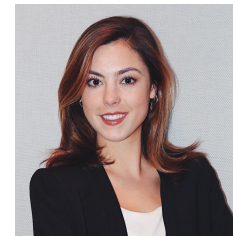
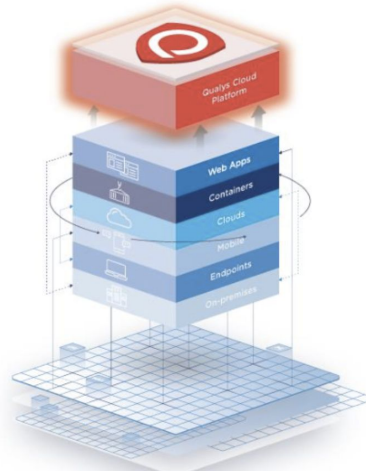
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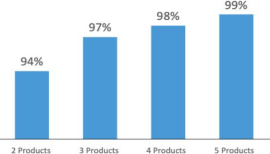
Free Cash Flow



Revenue Growth



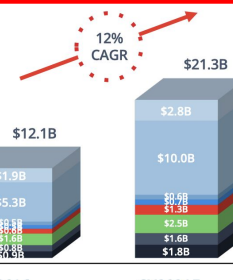
2019 Enterprise Gross Dollar Retention Rate



Number of Large Customers (> \$500k revenue contribution)



Sources: 2020 Q3 Earnings, 2019 Q4 Earnings



CAGR

- 8% IT Asset Management
- 14% Cloud Security
- 6% Endpoint Management (1)
- 8% Web Security: SaaS (2)
- 16% Network and Edge
- 10% Security Policy and Compliance
- 13% Vulnerability Assessment: App
- 15% Vulnerability Assessment: Device

Qualys' current Total Addressable Market



Company Management



Phillippe Courtot
(Former CEO)



Sumedh Thakar
(Interim CEO, President)

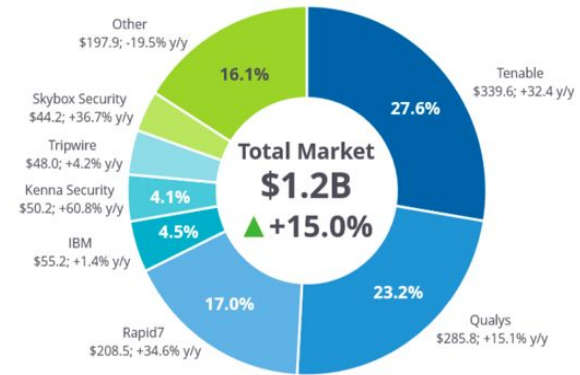


Joo Mi Kim
(CFO)



Andy Smith
(CMO)

Worldwide Device Vulnerability Management 2019 Share Snapshot



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