Yale SCHOOL OF MANAGEMENT

Qualys (QLYS) Company Report

Qualys.

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Executive Summary	Valuation
• **Recommendation: Sell.** Strong margins and an efficient SaaS model are outweighed by weakening long-term growth and rising competitive risk. • **Growth Deceleration Is Structural.** ARR growth near 7.1%, but AI-native platforms reduce future new-subscriber growth toward ~3.9%. • **AI Creates Net Downside Risk.** AI boosts efficiency but threatens core Vulnerability Management, echoing the AV-to-EDR industry transition. • **Margins Remain Best-in-Class.** Lean partner-driven model supports top-tier EBITDA margins and low CapEx, but cannot offset slowing top-line outlook.	PV of FCFs 1,398.0 PV of Terminal Value 1,677.5 Enterprise Value 3,075.6 - Minus Net Debt (364.0) Equity Value 3,439.6 # of diluted shares (in millions) 36.3 Implied Share Price $94.78 vs Market Valuation $146.0 Upside/Downside -35.09% Recommendation: Sell

Business Description

Qualys, Inc. is a Delaware-incorporated company founded on December 30, 1999 and headquartered in Foster City, California, with wholly-owned subsidiaries around the world. Qualys provides cloud-based IT security and compliance solutions that help organizations identify vulnerabilities in their technology environments, defend their systems and applications against constantly evolving cyber threats, and meet both internal policy requirements and external regulatory standards.

Its cloud platform is designed to address the increasing complexity and risk created by hybrid IT infrastructures, widespread cloud adoption, and globally distributed assets. Through the Qualys Enterprise TruRisk Platform, customers can access an integrated suite of solutions that delivers a unified, cost-efficient view of security and compliance across worldwide IT environments.

The company operates on a SaaS model with annual subscription pricing. The company works with channel partners (+500) to expand the reach and adoption of its cloud platform, helping increase distribution and brand awareness, especially in regions where its direct sales force has limited presence. These partners manage customer relationships within their territories and provide services or third-party offerings that complement the company's solutions. As a result, they may bundle the company’s security and compliance products with their own offerings and serve as an entry point to new potential customers.

When a partner closes a sale, the company sells the subscription to the partner, typically at a discounted price, and the partner then resells it to the end customer. It does not control or have visibility into the pricing or terms the partners offer their customers.

Competitive Landscape

The cybersecurity market can be summarized as follows:

Category	What it includes	Leading Firms/Specialists
Vulnerability Management	Vulnerability scanning, risk-based prioritization, configuration assessment, remediation/patching	**Qualys,** Tenable, Rapid7
Endpoint Security	Endpoint protection (EPP), endpoint detection & response (EDR), extended detection & response	CrowdStrike, SentinelOne, Microsoft Defender, Palo Alto Networks, Trend Micro
Cloud Security	Cloud posture, workload protection, identity in cloud	Wiz, Palo Alto Prisma Cloud, Orca Security, Lacework, CrowdStrike
Security Operations / SOC	Threat Intelligence, SOC services	Splunk, Microsoft Sentinel, Rapid7, Palo Alto Cortex, Arctic Wolf
Network & Identity Security	Firewalls, identity access management	Palo Alto Networks, Fortinet, Cisco, Zscaler, Okta

As can be seen from the table above, while Qualys is present in cloud security and endpoint security, its major flagship products are in Vulnerability Management space, where it is

considered to be one of the market leaders. Put differently, even though the modules under the TruRisk platform might span multiple product categories, the company's differentiating product is VM (vulnerability management) and the reason for its success. The purpose of VM solutions is to find and fix vulnerabilities, whereas endpoint protection protocols protect end devices (laptops, servers, etc) from malware. As of 2025, Qualys is not present in Security Operations or Network & Identity Security markets.

When compared to peers, Qualys historically had lower but stable revenue growth:

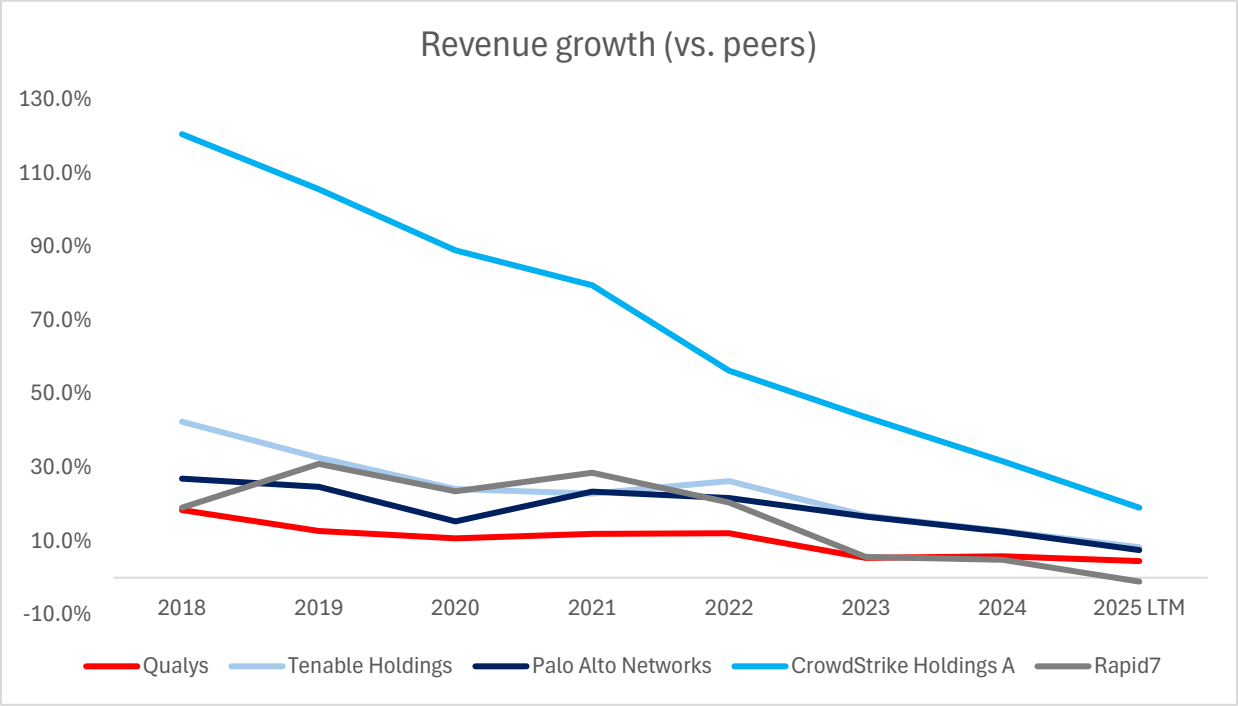

Figure 1: Revenue growth vs peers

One thing that stands out from the chart above is that since 2022 the revenue growth across peers is slowing down as the market enters into a mature stage. As these products/solutions are sold to large enterprises, a lot of the customers already have fundamental protection tools at their

disposal. Currently the companies are competing to sell additional modules/solutions to existing customers rather than trying to focus on onboarding new subscribers.

Despite having lower revenue growth than its peers, Qualys has industry leading margins, thanks to its extensive partnerships with third parties that allow it to maintain lower headcount for the sales force and directly reduce SG&A costs. While providing discounts to partners, likely in the 20% to 30% range, lowers revenue growth compared to peers, it also allows the company to operate on a leaner cost structure, increasing the bottom line.

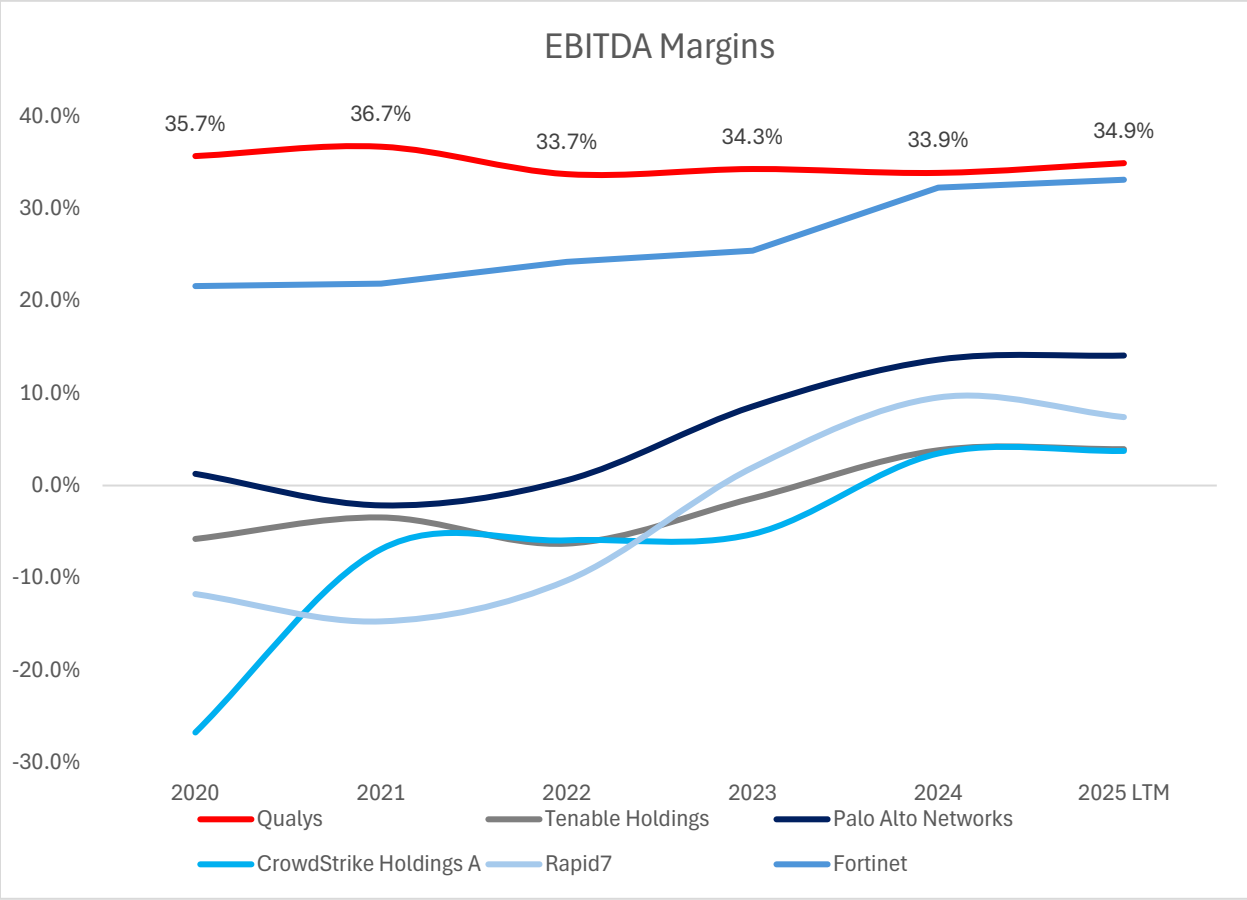

Figure 2: EBITDA margins

Revenue Projections

$$\mathrm{ARR}_{t+1} = \underbrace{\mathrm{ARR}_t \times (1 - \mathrm{GrossChurn})}_{\text{retained}} + \underbrace{\mathrm{ARR}_t \times \mathrm{Expansion}}_{\text{upsell}} + \underbrace{\mathrm{NewARR}}_{\text{new logos / new props}}$$

Annual Subscription Revenue Growth = (1 – Annual Churn Rate) * (1 + Upsell growth rate) * (1 + growth rate of new subscribers) – 1

In recent calls and earnings presentations during 2025, the management mentioned that the gross retention rate is around 90%, meaning periodically 10% of subscriber base is lost due to churn and/or downgrades. While not an industry leading figure, within SaaS context, 90% is above average. Qualys also reports a net dollar expansion rate of 104%, calculated as the ratio of ending recurring revenues from existing customers to beginning recurring revenues from existing customers, isolating the impacts of retention by excluding the new subscribers. This metric implies that among the existing customer base Qualys achieves gross revenue growth of 14% and net revenue growth of 4% (upsells).

We know that 100% revenues are SaaS, meaning they are recurring. Given historical total revenue growth figures and these run rates for churns and expansions/upsells, we can approximate (back out) the new subscriber revenue growth for 2024 and 2025 LTM to be 5.4% and 3.3%, respectively. Nowadays, Qualys is likely focusing more on upsells/expansions as the market for cybersecurity solutions matures and new subscriber growth slows down.

For the ARR projections, we have used current run rate for churn and upsells, as they are typically considered to be sticky within the software SaaS context. To model new subscriber growth, we have looked at multiple sources for approximation:

a. Precedence Research predicts security and vulnerability management market size to grow at CAGR of **6.85%** from 2025 to 2034.

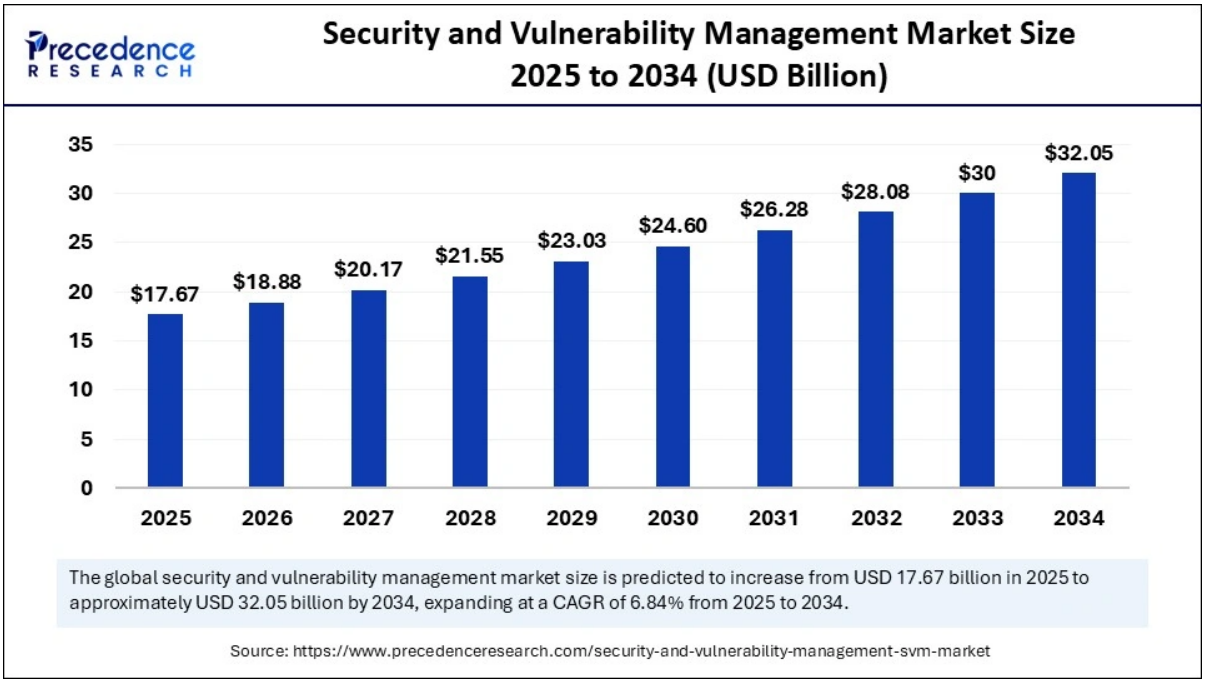

Figure 3: Precedence Research, 2025

b. Mordor Intelligence provides a more **optimistic growth forecast of 8%** for the vulnerability management solutions market based on proliferation of AI-enabled threats and rising demand for continuous risk visibility and remediation. (Mordor Intelligence, 2025).

c. Markets and Markets, another industry research provider, estimates 6.5% CAGR for the VMDR market.

When looking at track records of these market research providers, we were able to confirm correct directionality as Vulnerability Management segment continued to expand historically and these trends were captured in earlier forecasts, though deviations from actual results were common. Hence, we believe taking the average of these estimates, of which some are more optimistic than others, would provide a more grounded estimate, arriving at ~7.1% CAGR.

However, this figure represents overall growth of the segment, not just the new subscriber revenue growth. Given that we are keeping churn rates and upsell rates stable going forward, we can back out implied new subscriber revenue growth rate from 7.1% CAGR.

$$(1 + Projected\ CAGR) = (1 + Implied\ New\ Subscriber\ Revenue\ Growth\ Rate) \times (1 - Churn\ rate) \times (1 + Upsell\ Growth\ Rate)$$

Hence:

$$(1 + 0.071) = (1 + Implied\ New\ Subscriber\ Revenue\ Growth\ Rate) \times (1 - 0.1) \times (+0.14)$$

Implied New Subscriber Revenue Growth Rate ~ + **4.4%**

All in all, when plugging the variables into the ARR formula, we get **7.1%** overall revenue growth.

AI Impact:

As discussed in the competitive landscape section, Qualys' flagship product is vulnerability management. The impact on this segment can be better analyzed if we break down VM workflow into the following stages:

Vulnerability Management Workflow Stage	Predicted AI impact
Asset Discovery	Positive Impact – AI helps tag assets more accurately
Vulnerability Scanning	Neutral Impact – AI cannot dramatically improve raw detection capabilities as underlying mechanisms don't change

Prioritization and Risk Scoring	Positive Impact – Fewer false positives as AI will be able to analyze large datasets and predict exploit likelihood much faster
Remediation / Patching	Positive Impact – AI can generate patch instructions, remediation scripts and automated enforcement workflows, which is valuable to customers for fast deployment

While AI is likely to have overall positive impact on VM, the strategic threat of AI comes from the possibility that AI can enable cloud-first exposure management protocols, which reduces dependency on traditional vulnerability management tools. AI-native cloud security platforms, such as Wiz, Orca and Prisma, map cloud assets and identify threats without the need for agents or scanning, domains of VM services for the past 20 years. In essence, AI cloud platforms would allow for passive threat detection without software/agent presence in each virtual machine by directly connecting to cloud APIs of the likes of AWS, Azure, etc.

The next natural question is if AI has a positive on Vulnerability Management segment yet threats to it are expected to come from Cloud solutions, what is the net impact? The likely answer is while AI will lower revenue growth over time, meaning ultimately impacting new subscription rate, it is not expected to increase churn rate as it is very hard to rip and replace Qualys from a traditional bank or hospital given the arduous process of moving to another enterprise platform. Put another way, potential positive effects of AI on VMDR solutions is likely to prevent churn rate from increasing, rather than spurring growth of the firm.

To model this dynamic for our projections, we have discovered a relevant historical analogue in the cybersecurity space. The analogue is how Endpoint Detection & Response (EDR) protocols largely replaced traditional antivirus (AV) software services in 2010s to 2023 period. Similar to VMDR, AV relies on scanning and signature-based detection, both generating large volumes of alerts. The main difference between VMDR and AV lies in their purpose. AV is for detecting active malware/threats, while VMDR is built for finding and fixing vulnerabilities before exploitation. The market moved away from AV to EDR because the latter didn't require manual or scheduled scanning to detect active threats as EDR is a continuous process. AV scanning also generated a lot of noise and false positives. Proliferation of cloud use enabled EDR to incorporate cloud analytics to better detect and respond to viruses and malware, which traditional AV could not do.

Coming back to our current situation, AI-based cloud solutions don't require scanning or agents as opposed to VMDR. While VMDR works with cloud servers, it needs to be installed on each server, which can take time due to required permissions and needs to actively scan for threats. AI-native cloud security platforms detect vulnerabilities based on cloud metadata, snapshots, etc, eliminating the need for scanning or agents (virtual presence). That's why we feel historical analogue discussed above is relevant for quantifying AI's impact on the Qualys.

Because traditional AV competitors switched to EDR and other cybersecurity solutions over time, there is not clean and continuous AV-only global time series. Therefore, we looked at industry growth figures and projections from previous years to analyze growth trends of traditional antivirus software in the pre and post transition phases and how actual or forecast CAGRs changed as EDR started to dominate AV market. We observed that in the slowdown period antivirus market's CAGR projections declined from actual 4.55% CAGR to 1.6% CAGR (projection), implying a -

2.95% decline impact from the industry's transition to EDR solutions. In addition to Annual Recurring Revenue (ARR) projections discussed in the previous section, we have used -2.95% as the impact of AI on revenues for forecasting Qualys' revenues.

Phase	Years	Source	AV CAGR	vs pre-transition
Pre-slowdown	2014-2017	ABNewswire, 2018	4.55%	-
Slowdown	2018-Now	Data Bridge, 2021	1.6%	~ -2.95%

Net Revenue Projection (ARR projection + AI impact):

As discussed within the ARR section, we are assuming 7.1% growth rate for this company and this is in line with 20+ analysts' forecasts that cover this stock. However, we are making additional downward adjustment based on credible threat of AI-native solutions, which is quantified above to be -2.95%. Combining the two estimates, we arrive at revenue growth rate of 3.94%:

$$(1 + 0.071) \times (1 - 0.0295) - 1 = \mathbf{3.94}\%$$

This figure will be further adjusted towards 2% as we move toward the terminal value stage to reflect our expectation that the segment will lose market share to AI-native solutions that several startups are currently offering. We don't expect VMDR segment to completely go away as inertia of large enterprises and painful process of large-scale software migration should not be underestimated. It must be noted that while our projections are lower than recent years' mid-single digit growth numbers due additional AI impact, the meaningful deceleration in the overall growth rate is apparent from the historical financial data as well.

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
Total Revenue	**197.9**	**230.8**	**278.9**	**321.6**	**363.0**	**411.2**	**489.7**	**554.5**	**607.6**	**653.0**		**14.8%**
% nominal growth	*20.5%*	*16.6%*	*20.8%*	*15.3%*	*12.9%*	*13.3%*	*19.1%*	*13.2%*	*9.6%*	*7.5%*	**14.9%**	
US CPI	*0.4%*	*1.7%*	*2.0%*	*2.3%*	*1.9%*	*1.2%*	*6.2%*	*7.4%*	*3.5%*	*2.8%*		
% real growth	*20.0%*	*14.7%*	*18.4%*	*12.7%*	*10.7%*	*12.0%*	*12.1%*	*5.4%*	*5.9%*	*4.5%*	**11.6%**	

Figure 4: Historical Revenues

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Total Revenue	**678.8**	**705.5**	**733.3**	**762.2**	**792.2**	**820.9**	**848.0**	**873.3**	**896.5**	**917.5**
% nominal growth	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.6%*	*3.3%*	*3.0%*	*2.7%*	*2.3%*
US CPI										
% real growth										

Figure 5: Revenue Projections

Cost of Goods Sold

Qualys has operated for years with COGS hovering around **21–22% of revenue** in the last 10 years with decline to 17-18% in recent years due to greater reliance on partnership model. The management's commentary points to a stable level going forward.

A major influence is the role of **AI inside Qualys' own operations**. Management talked openly about efficiency gains. For example, engineers seeing 20–25% productivity improvements and a reduced need for QA hiring thanks to automation. They also mentioned broader use of AI in support and detection workflows. These kinds of internal improvements tend to reduce the marginal cost of delivering the service. Using midpoints of published AI productivity findings, McKinsey (32.5% engineering/support workload reduction), TSIA (30% support automation), and Flexera (32.5% IT operations automation), and applying these to the benchmark estimate that ~30% of COGS is labor-driven (OPEXEngine SaaS benchmarks), AI adoption implies a total COGS reduction potential of roughly 9.6%. Spread over a ten-year adoption period, this equates to approximately **~17 basis points of margin improvement per year**.

$$Average\ \ AI\ Productivity\ Gain \times Labor\ Portion\ of\ COGS$$

$$= Cumulative\ COGS\ Savings$$

$$0.32\ \times 0.3 = 9.6\%$$

$$0.096\ \times 0.176\ (\%\ COGS\ as\ \%\ of\ revenues) = 1.69\%$$

$$1.69\%\ /\ 10\ years = 0.17\%\ (annual\ COGS\ margin\ improvement)$$

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
Cost of Goods Sold	**43.1**	**51.6**	**66.2**	**69.5**	**79.2**	**89.4**	**102.8**	**107.5**	**111.5**	**114.6**		**12.8%**
% nominal growth	*25.6%*	*19.6%*	*28.3%*	*5.0%*	*14.0%*	*12.9%*	*14.9%*	*4.6%*	*3.7%*	*2.8%*	**13.1%**	
% real growth	*25.1%*	*17.6%*	*25.7%*	*2.7%*	*11.8%*	*11.6%*	*8.2%*	*-2.7%*	*0.2%*	*0.0%*	**10.0%**	
% of Revenues	*21.8%*	*22.3%*	*23.7%*	*21.6%*	*21.8%*	*21.8%*	*21.0%*	*19.4%*	*18.3%*	*17.6%*	**20.9%**	

Figure 6: Historical COGS figures

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Cost of Goods Sold	**118.0**	**121.5**	**125.0**	**128.6**	**132.3**	**135.7**	**138.8**	**141.4**	**143.7**	**145.5**
% nominal growth	*2.9%*	*2.9%*	*2.9%*	*2.9%*	*2.9%*	*2.6%*	*2.2%*	*1.9%*	*1.6%*	*1.3%*
% real growth										
% of Revenues	*17.4%*	*17.2%*	*17.0%*	*16.9%*	*16.7%*	*16.5%*	*16.4%*	*16.2%*	*16.0%*	*15.9%*

Figure 7: COGS projections

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
Gross Profit	**154.8**	**179.2**	**212.7**	**252.1**	**283.7**	**321.7**	**386.9**	**447.0**	**496.1**	**538.4**		**15.3%**
% nominal growth	*19.1%*	*15.8%*	*18.7%*	*18.5%*	*12.6%*	*13.4%*	*20.3%*	*15.5%*	*11.0%*	*8.5%*	**15.3%**	
% real growth	*18.6%*	*13.9%*	*16.3%*	*15.9%*	*10.4%*	*12.1%*	*13.2%*	*7.5%*	*7.2%*	*5.5%*	**12.1%**	
Total Gross Profit Margin	*78.2%*	*77.7%*	*76.3%*	*78.4%*	*78.2%*	*78.2%*	*79.0%*	*80.6%*	*81.7%*	*82.4%*	**79.1%**	

Figure 8: Historical Gross Profit Margins

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Gross Profit	**560.8**	**584.1**	**608.3**	**633.6**	**659.9**	**685.2**	**709.2**	**731.8**	**752.8**	**772.0**
% nominal growth	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*3.8%*	*3.5%*	*3.2%*	*2.9%*	*2.5%*
% real growth										
Total Gross Profit Margin	*82.6%*	*82.8%*	*83.0%*	*83.1%*	*83.3%*	*83.5%*	*83.6%*	*83.8%*	*84.0%*	*84.1%*

Figure 9: Gross Profit projections

SG&A

Qualys has steadily reduced SG&A as a percentage of revenue for more than a decade, moving from above 50% in the early 2010s to roughly 32% today. Several company-specific factors explain why this level is likely to be preserved.

First, Qualys has highlighted in recent quarterly updates that its sales model has become more efficient. The business relies less on a large, quota-heavy field sales force than many peers and more on inbound demand, digital marketing, and long-standing enterprise relationships. Management has emphasized that they are "disciplined" about sales hiring and that sales and marketing spend is growing in line with revenues. This supports the assumption that SG&A will not accelerate as a percentage of sales.

Secondly, Qualys has been investing in partner channels which allow the company to acquire smaller customers without building a much larger direct sales organization. These channels require some enablement expenses, but they do not require a proportional increase in SG&A headcount. Partner-driven expansion typically lifts revenue faster than operating expense, which reinforces SG&A leverage over time.

Putting these points together, it is reasonable to assume that SG&A will continue to hover around the average of last 5 years (31.6%), a time period we believe better captures Qualys's cost structure.

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
SG&A	**88.1**	**99.2**	**109.1**	**111.6**	**114.5**	**125.5**	**155.2**	**173.4**	**197.0**	**209.2**		**10.8%**
% nominal growth	*17.9%*	*12.6%*	*10.0%*	*2.3%*	*2.6%*	*9.5%*	*23.7%*	*11.7%*	*13.6%*	*6.2%*	**11.0%**	
% real growth	*17.5%*	*10.7%*	*7.8%*	*0.0%*	*0.7%*	*8.3%*	*16.5%*	*4.0%*	*9.7%*	*3.3%*	**7.8%**	
% of Revenues	*44.5%*	*43.0%*	*39.1%*	*34.7%*	*31.6%*	*30.5%*	*31.7%*	*31.3%*	*32.4%*	*32.0%*	**35.1%**	

Figure 10: Historical SG&A

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
SG&A	**214.4**	**222.9**	**231.7**	**240.8**	**250.3**	**259.3**	**267.9**	**275.9**	**283.2**	**289.8**
% nominal growth	*2.5%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.6%*	*3.3%*	*3.0%*	*2.7%*	*2.3%*
% real growth										
% of Revenues	*31.6%*	*31.6%*	*31.6%*	*31.6%*	*31.6%*	*31.6%*	*31.6%*	*31.6%*	*31.6%*	*31.6%*

Figure 11: SG&A projections

R&D

R&D at Qualys has grown steadily over time, rising from roughly $20–30 million in the mid-2010s to more than **$116 million** in the latest period. This reflects the company's ongoing investment in its cloud platform, vulnerability detection capabilities, and security analytics. Unlike SG&A, R&D does not scale down as a percentage of revenue as sharply, because Qualys competes in a sector where continuous product development is critical.

In recent years, R&D has hovered between **18% and 20% of revenue**, and management has repeatedly emphasized continued investment in the platform, new modules, threat intelligence, and AI-driven features. This suggests that Qualys is unlikely to drive R&D materially lower as a share of revenue; instead, the most realistic assumption is that R&D stays roughly stable, gradually moving toward the historical average of 19.4%

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
R&D	**36.6**	**42.8**	**53.3**	**68.2**	**72.5**	**81.3**	**101.2**	**110.5**	**111.9**	**116.6**		**14.4%**
% nominal growth	*20.2%*	*17.0%*	*24.4%*	*28.1%*	*6.3%*	*12.0%*	*24.5%*	*9.2%*	*1.2%*	*4.3%*	**14.7%**	
% real growth	*19.7%*	*15.1%*	*21.9%*	*25.3%*	*4.3%*	*10.7%*	*17.2%*	*1.6%*	*-2.2%*	*1.4%*	**11.5%**	
% of Revenues	*18.5%*	*18.5%*	*19.1%*	*21.2%*	*20.0%*	*19.8%*	*20.7%*	*19.9%*	*18.4%*	*17.9%*	**19.4%**	

Figure 12: Historical R&D

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
R&D	**123.3**	**130.2**	**137.6**	**145.3**	**153.4**	**158.9**	**164.2**	**169.1**	**173.6**	**177.6**
% nominal growth	*5.7%*	*5.7%*	*5.6%*	*5.6%*	*5.6%*	*3.6%*	*3.3%*	*3.0%*	*2.7%*	*2.3%*
% real growth										
% of Revenues	*18.2%*	*18.5%*	*18.8%*	*19.1%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*

Figure 13: R&D projections

D&A, EBIT and EBITDA

Qualys' D&A has been declining sharply in recent years, falling from the mid-$30M range in 2021–2022 to about **$15.5M** in the 2025 LTM period. This drop reflects the company's shift toward a more capital-efficient model. Management has been consistently reducing CapEx, and when a SaaS company invests less in capitalized software and infrastructure, its D&A naturally trends down as older assets roll off.

At the same time, Qualys is now a mature, cloud-native platform, meaning it no longer needs the heavy upfront build-out that drove high D&A in earlier years. Most SaaS businesses of similar size eventually see D&A settle around **2–3% of revenues**. Qualys is already near that level (about **2.4%**), so it makes sense to assume D&A stabilizes rather than continuing to fall indefinitely.

Using that logic, the forecast simply lets D&A drift toward a long-run level of **~2% of revenue** as the company grows. This produces a pattern where D&A stays relatively low in the near term, then gradually rises in dollar terms as revenue expands, without returning to the peak levels seen earlier in the company's life.

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
D&A	**17.0**	**20.6**	**28.9**	**31.2**	**32.8**	**35.9**	**34.6**	**27.0**	**18.5**	**15.5**		**0.7%**
% nominal growth	*18.3%*	*21.4%*	*40.1%*	*7.9%*	*5.3%*	*9.3%*	*-3.6%*	*-22.0%*	*-31.4%*	*-16.5%*	**2.9%**	
% real growth	*17.9%*	*19.4%*	*37.3%*	*5.5%*	*3.3%*	*8.0%*	*-9.2%*	*-27.4%*	*-33.7%*	*-18.8%*	**0.2%**	
% of Revenues	*8.6%*	*8.9%*	*10.4%*	*9.7%*	*9.0%*	*8.7%*	*7.1%*	*4.9%*	*3.0%*	*2.4%*	**7.3%**	
EBIT	**30.1**	**37.2**	**50.4**	**72.3**	**96.7**	**115.0**	**130.5**	**163.1**	**187.2**	**212.5**		**24.0%**
% nominal growth	*21.4%*	*23.7%*	*35.2%*	*43.5%*	*33.8%*	*19.0%*	*13.5%*	*24.9%*	*14.8%*	*13.5%*	**24.3%**	
% real growth	*20.9%*	*21.7%*	*32.5%*	*40.3%*	*31.2%*	*17.6%*	*6.9%*	*16.3%*	*10.9%*	*10.4%*	**20.9%**	
EBIT Margin	*15.2%*	*16.1%*	*18.1%*	*22.5%*	*26.6%*	*28.0%*	*26.7%*	*29.4%*	*30.8%*	*32.5%*	**24.6%**	
EBITDA	**47.1**	**57.9**	**79.3**	**103.5**	**129.5**	**150.9**	**165.2**	**190.1**	**205.7**	**228.0**		**19.3%**
% nominal growth	*20.3%*	*22.9%*	*36.9%*	*30.5%*	*25.2%*	*16.5%*	*9.5%*	*15.1%*	*8.2%*	*10.8%*	**19.6%**	
% real growth	*19.8%*	*20.9%*	*34.2%*	*27.6%*	*22.8%*	*15.1%*	*3.1%*	*7.1%*	*4.6%*	*7.8%*	**16.3%**	
EBITDA Margin	*23.8%*	*25.1%*	*28.4%*	*32.2%*	*35.7%*	*36.7%*	*33.7%*	*34.3%*	*33.9%*	*34.9%*	**31.9%**	

Figure 14: Historical D&A, EBIT and EBITDA

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
D&A	**15.5**	**15.6**	**15.6**	**15.6**	**15.6**	**16.1**	**16.7**	**17.2**	**17.6**	**18.0**
% nominal growth	*0.4%*	*0.3%*	*0.2%*	*0.0%*	*-0.1%*	*3.6%*	*3.3%*	*3.0%*	*2.7%*	*2.3%*
% real growth										
% of Revenues	*2.3%*	*2.2%*	*2.1%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
EBIT	**223.1**	**230.9**	**239.1**	**247.5**	**256.2**	**266.9**	**277.2**	**286.9**	**296.1**	**304.5**
% nominal growth	*5.0%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*4.2%*	*3.8%*	*3.5%*	*3.2%*	*2.9%*
% real growth										
EBIT Margin	*32.9%*	*32.7%*	*32.6%*	*32.5%*	*32.3%*	*32.5%*	*32.7%*	*32.9%*	*33.0%*	*33.2%*
EBITDA	**238.6**	**246.5**	**254.7**	**263.1**	**271.8**	**283.1**	**293.8**	**304.1**	**313.7**	**322.6**
% nominal growth	*4.7%*	*3.3%*	*3.3%*	*3.3%*	*3.3%*	*4.1%*	*3.8%*	*3.5%*	*3.2%*	*2.8%*
% real growth										
EBITDA Margin	*35.2%*	*34.9%*	*34.7%*	*34.5%*	*34.3%*	*34.5%*	*34.7%*	*34.8%*	*35.0%*	*35.2%*

Figure 15: D&A, EBIT and EBITDA projections

CAPEX

Qualys' CapEx history shows a very clear long-term trend: the company has steadily reduced its capital spending as it matured into a fully cloud-native, low-infrastructure SaaS business. CapEx fell from –$37.8M in 2017 to just **–$10.1M in 2025 LTM**, equal to only **~1.5% of revenue**. This shift is consistent with management's repeated emphasis on capital efficiency and the fact that Qualys no longer needs the heavy platform build-out investments it once did.

In practice, mature SaaS platforms settle at **1–2% of revenues** for ongoing CapEx, since most infrastructure and development spending flows through OpEx rather than capitalized assets. Qualys is already operating inside that range, so the most reasonable assumption is that CapEx stays low and grows slowly in absolute dollars only as the company scales.

Therefore, CapEx is held constant as a percentage of revenue at **~1.5%** over time, which aligns with both management commentary and industry norms.

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
Capital Expenditures	**(23.2)**	**(37.8)**	**(22.8)**	**(27.6)**	**(30.0)**	**(24.4)**	**(15.4)**	**(8.8)**	**(12.3)**	**(10.1)**		**-6.6%**
% nominal growth	*15.9%*	*62.7%*	*-39.8%*	*21.1%*	*8.9%*	*-18.7%*	*-37.1%*	*-42.8%*	*40.4%*	*-18.1%*	**-0.7%**	
% real growth	*15.5%*	*60.0%*	*-41.0%*	*18.4%*	*6.9%*	*-19.6%*	*-40.8%*	*-46.8%*	*35.6%*	*-20.3%*	**-3.2%**	
% of Revenues	*-11.7%*	*-16.4%*	*-8.2%*	*-8.6%*	*-8.3%*	*-5.9%*	*-3.1%*	*-1.6%*	*-2.0%*	*-1.5%*	**-6.7%**	

Figure 16: Historical Capex

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Capital Expenditures	**(10.5)**	**(10.9)**	**(11.3)**	**(11.8)**	**(12.3)**	**(12.7)**	**(13.1)**	**(13.5)**	**(13.9)**	**(14.2)**
% nominal growth	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.9%*	*3.6%*	*3.3%*	*3.0%*	*2.7%*	*2.3%*
% real growth										
% of Revenues	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*	*-1.5%*

Figure 17: Capex projections

Net Working Capital

Qualys has maintained **consistently negative working capital** for more than a decade, typically in the **–35% to –40% of revenue** range. This reflects the company's prepaid subscription model, where customers often pay annually or multi-year upfront and the resulting deferred revenue keeps NWC structurally negative.

Because this pattern has remained stable across business cycles and management has not indicated any change to billing practices, the most appropriate forecasting assumption is that NWC will continue to scale proportionally with revenue. Applying **~36% of revenue** aligns with both the long-term historical average and the most recent figures, while remaining conservative and consistent with SaaS industry norms.

in millions $	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 LTM	10-year average	10-year CAGR
Net Working Capital	**(73.5)**	**(84.8)**	**(107.1)**	**(119.0)**	**(124.7)**	**(150.6)**	**(187.1)**	**(202.9)**	**(214.4)**	**(236.8)**		**14.4%**
% nominal growth	*18.7%*	*15.4%*	*26.3%*	*11.1%*	*4.9%*	*20.7%*	*24.3%*	*8.4%*	*5.7%*	*10.4%*	**14.6%**	
% real growth	*18.3%*	*13.5%*	*23.7%*	*8.6%*	*2.9%*	*19.3%*	*17.0%*	*0.9%*	*2.1%*	*7.4%*	**11.4%**	
% of Revenues	*-37.1%*	*-36.8%*	*-38.4%*	*-37.0%*	*-34.4%*	*-36.6%*	*-38.2%*	*-36.6%*	*-35.3%*	*-36.3%*	**-36.7%**	

Figure 18: Historical Net Working Capital

in millions $	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Net Working Capital	**(246.6)**	**(256.9)**	**(267.6)**	**(278.8)**	**(290.4)**	**(300.9)**	**(310.9)**	**(320.1)**	**(328.6)**	**(336.3)**
% nominal growth	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*3.6%*	*3.3%*	*3.0%*	*2.7%*	*2.3%*
% real growth										
% of Revenues	*-36.3%*	*-36.4%*	*-36.5%*	*-36.6%*	*-36.7%*	*-36.7%*	*-36.7%*	*-36.7%*	*-36.7%*	*-36.7%*

Figure 19: Net Working Capital projections

Valuation

Beta calculations:

To calculate Qualys's beta, we estimated rolling 5-year beta against Wilshire 5000 index, which is a proxy for total equity market in the U.S. The resulting value is not stable.

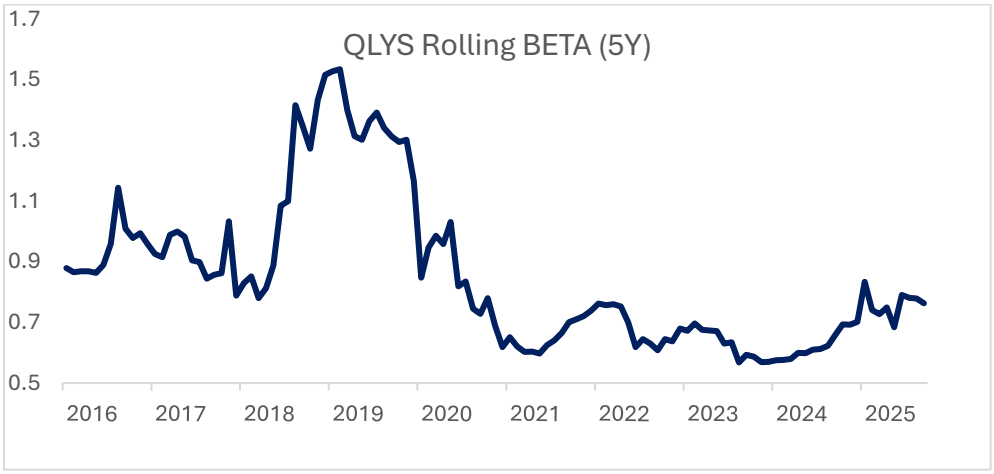

Figure 20: QLYS Rolling Beta

To get a more stable estimate, we have also tried to remove Covid data (2020 and 2021):

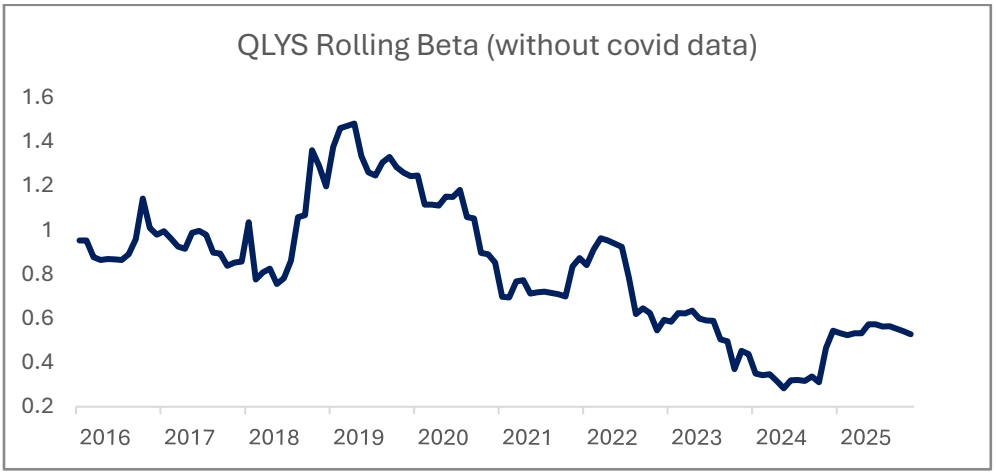

Figure 21: QLYS Rolling Beta (without Covid data)

As this beta estimate was not stable either, we decided to use the industry beta, calculating it based on rolling 5-year global prepackaged software industry returns and Wilshire 5000 Index returns, which captures total equity market cap in the U.S. As this output is more stable and recently traded within a narrower range (1 to 1.05) than previous beta estimates**, we have used latest beta (1.05) for our DCF model.**

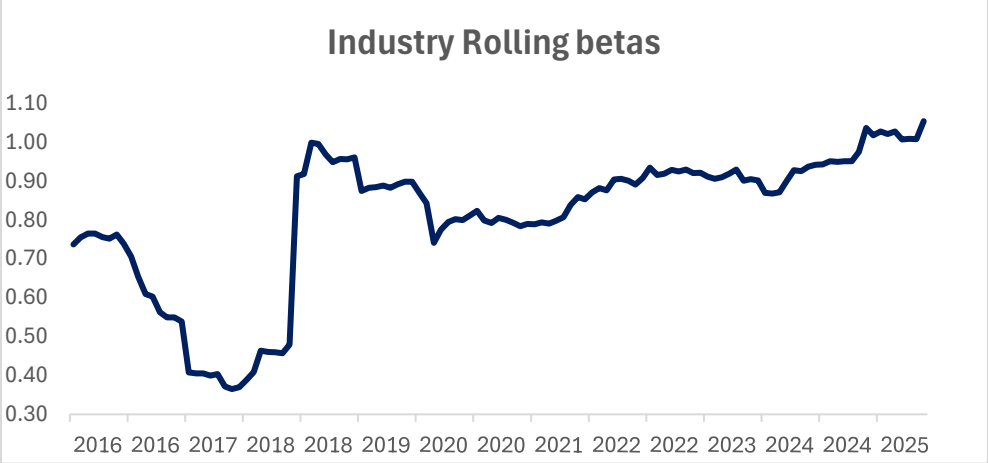

Figure 22: Prepackaged Software Industry Beta

Cost of Capital:

As Qualys's net debt is negative (-364M), cost of capital is equal to cost of equity. We have used 10-year Treasury yield as the risk-free rate and market risk premium of 4.33% is taken from Professor Aswath Damodaran's website, arriving at WACC of **9.35%.**

Risk-free rate	4.07%
Stock beta	1.05
Market Risk Premium	4.33%
Cost of Equity	8.62%
Cost of Debt	5.56%
We	100.00%
Wd	0.00%
Tax rate	25%
WACC	8.62%
Net Debt	(364.0)
Equity	5,228.5

Figure 23: WACC components

DCF model:

	Free Cashflows									
in millions $	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**	**2035E**
Revenues	$678.8	$705.5	$733.3	$762.2	$792.2	$820.9	$848.0	$873.3	$896.5	$917.5
EBIT	223.1	230.9	239.1	247.5	256.2	266.9	277.2	286.9	296.1	304.5
NOPAT	167.3	173.2	179.3	185.6	192.2	200.2	207.9	215.2	222.0	228.4
D&A	15.5	15.6	15.6	15.6	15.6	16.1	16.7	17.2	17.6	18.0
Capex	(10.5)	(10.9)	(11.3)	(11.8)	(12.3)	(12.7)	(13.1)	(13.5)	(13.9)	(14.2)
Change in NWC	(9.9)	(10.3)	(10.7)	(11.2)	(11.6)	(10.5)	(9.9)	(9.3)	(8.5)	(7.7)
FCFF	182.2	188.1	194.3	200.6	207.1	214.1	221.4	228.1	234.3	240.0
Discounted FCFF	173.9	165.4	157.2	149.4	142.0	135.2	128.6	122.0	115.4	108.8

Figure 24: Discounted FCF

Terminal Value Calculations	
Growth rate	2%
FCF in 2036	244.8
Terminal Value	3,699.1
PV of Terminal Value	1,677.5

Figure 25: Terminal Value calculations

Implied valuation:

PV of FCFs	1,398.0
PV of Terminal Value	1,677.5
Enterprise Value	3,075.6
- Minus Net Debt	(364.0)
Equity Value	3,439.6
# of diluted shares (in millions)	36.3
Implied Share Price	$94.78
vs	
Market Valuation	$146.0
Upside/Downside	-35.09%

Figure 26: Implied share price

		Beta		
	94.78	**0.99**	**1.06**	**1.2**
	2.0%	$84.2	$81.0	$75.3
	3.6%	$95.4	$91.5	$84.8
Revenue	**5.0%**	$106.9	$102.5	$94.7
Growth	**7.0%**	$125.6	$120.1	$110.6
	8.0%	$136.2	$130.2	$119.6
	9.0%	$147.8	$141.1	$129.3

Figure 27: Sensitivity Analysis

Market Valuation & Investment Recommendation

The discrepancy between our valuation and the market's is primarily due to differing revenue growth assumptions. The market is not factoring in the threat of AI-native solutions fully and is projecting approximately 8% revenue growth. According to FactSet, of the 26 analysts that cover the stock, average growth rate used for valuation is 7.9%, which is very close to 7.5% growth figure for 2025 LTM.

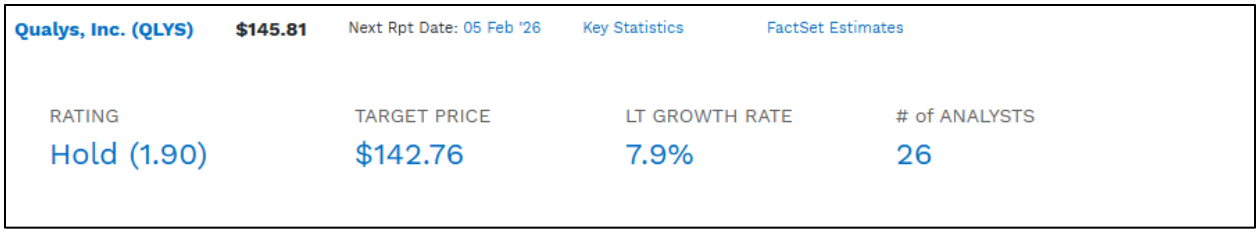

Figure 28: FactSet estimates for Qualys

While our annual recurring revenue growth projection is not too far off the market's, standing at 7.1%, we adjust it downward based on the historical analogue discussed in the previous sections and similarities we observe to recent past. Using constant 8% revenue growth until the terminal value stage and the latest available beta of 1, we would get a share price of $141, only deviating 3.3% from the current market price.

Free Cashflows										
in millions $	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**	**2035E**
Revenues	$705.3	$761.7	$822.6	$888.4	$959.5	$1,036.3	$1,119.2	$1,208.7	$1,305.4	$1,409.9
EBIT	231.8	249.3	268.2	288.5	310.3	336.9	365.8	397.1	431.1	468.0
NOPAT	173.8	187.0	201.2	216.4	232.8	252.7	274.3	297.8	323.3	351.0
D&A	16.1	16.8	17.5	18.2	18.9	20.4	22.0	23.8	25.7	27.7
Capex	(10.9)	(11.8)	(12.7)	(13.7)	(14.8)	(16.0)	(17.3)	(18.7)	(20.2)	(21.8)
Change in NWC	(19.5)	(21.1)	(22.8)	(24.7)	(26.8)	(28.1)	(30.4)	(32.8)	(35.4)	(38.3)
FCFF	198.6	213.1	228.8	245.6	263.6	285.2	309.4	335.7	364.3	395.2
Discounted FCFF	189.8	187.9	186.0	184.2	182.4	182.1	182.2	182.4	182.5	182.7

Figure 28: Market FCFs

Terminal Value Calculations	
Growth rate	2%
FCF in 2036	403.1
Terminal Value	6,298.4
PV of Terminal Value	2,911.4

Figure 29: Market Terminal Value calculation

PV of FCFs	1,842.1
PV of Terminal Value	2,911.4
Enterprise Value	4,753.5
- Minus Net Debt	(364.0)
Equity Value	5,117.5
# of diluted shares (in millions)	36.3
Implied Share Price	$141.02
vs	
Market Valuation	$145.8
Upside/Downside	-3.29%

Figure 30: Market Valuation

In conclusion, our view is that market is extrapolating current trends in revenue growth without quantifying threat of AI to Vulnerability Management segment. Therefore, while we are encouraged by the strong margins and cost structure of Qualys, our recommendation is to **sell the stock** at the current price.

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