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RDWR.OQ - Q1 2024 Radware Ltd Earnings Call

EVENT DATE/TIME: MAY 08, 2024 / 12:30PM GMT

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PRESENTATION

Operator

Welcome to the Radware Conference Call discussing First Quarter 2024 results, and thank you all for holding. (Operator Instructions) As a reminder, this conference is being recorded, May 8, 2024. I would now like to turn the call over to Yisca Erez, Director, Investor Relations at Radware. Please go ahead.

Yisca Erez - *Radware Ltd. - Director of IR*

Thank you, operator. Good morning, everyone, and welcome to Radware's First Quarter 2021 Earnings Conference Call. Joining me today are Roy Zisapel, President and Chief Executive Officer; and Guy Avidan, Chief Financial Officer. A copy of today's press release and the financial statements as well as the investor kit for the first quarter are available in the Investor Relations section of our website.

During today's call, we may make projections or other forward-looking statements regarding future events or the future financial performance of the company. These forward-looking statements are subject to various risks and uncertainties, and actual results could differ materially from Radware's current forecast and estimates. Factors that could cause or contribute to such differences include, but are not limited to, impact from the changing or severe global economic conditions, the COVID-19 pandemic, general business conditions and our ability to address changes in our industry, changes in demand for products, the timing and the amount of orders and other risks detailed from time to time in Radware's filings.

We refer you to the documents the company files and furnishes from time to time with the SEC, specifically the company's last annual report on Form 20-F as filed on March 25, 2024. We undertake no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date of such statement is made. I will now turn the call to Roy Zisapel.

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Thank you, Yisca, and thank you all for joining us today. We ended the first quarter of 2024 with revenues of $65 million. And non-GAAP earning per share of $0.16; both above the high-end of our guidance. We diligently managed expenses and improved our profitability.

Similar to previous quarter, we witnessed a favorable business environment marked by an uptick in large CapEx deals, more customer engagement and a healthier pipeline. In the first quarter, total adjusted ARR increased 8% year-over-year, driven by growth in our cloud and subscription business. Subscription revenues now account for 46% of total revenue compared to 41% in the first quarter of last year, demonstrating our ongoing shift to SaaS model.

Our cloud security business sustained robust growth with cloud ARR growing again 22% year-over-year. This performance is also underscored by a record number of new bookings and new logos. The momentum behind our cloud security business is driven by 4 key growth drivers that we believe are sustainable.

First, our product offering fueled strength consistently draws security-conscious customers. Our cloud security offering leads with a large battery of AI-powered security algorithms designed to detect and block attacks without disrupting legitimate traffic slots. Customers highly value these unique capabilities, driving numerous new logos and expansion deals.

Second, the ongoing expansion of our cloud security offering creates additional growth and upsell opportunities. During the first quarter, we announced the expansion of our cloud application and network security services to include a new Radware load balancer as a service and enhanced cloud network analytics services. These services assist organizations in optimizing application performance, ensuring availability and maximizing network monitoring and visibility during peacetime. They complement the value we provide, further strengthening our proposition to clients.

Third, the steady expansion of our geographical footprint, it creates new customer acquisition opportunities. During the first quarter, we expanded our global cloud service network and launched a new DDoS scrubbing center in Paris. We plan to introduce additional locations later in the year.

Fourth, a pivotal factor is the surge in application and network attacks, in particular, layer 7 web DDoS attacks, fueling customer demand for enhanced protection. This new wave of web DDoS attacks has been motivated by major geopolitical conflicts and hacktivist activities, a trend set during Russia invasion of Ukraine has led to an increased frequency and sophistication of web DDoS attacks. These attacks emerged last year and intensified in the previous quarter with expectations for further escalation in frequency, complexity and sophistication throughout 2024.

The growing demand for advanced real-time protection is evident in the success of our DefensePro X solution, which provides protection against web DDoS and advanced DNS attacks. DefensePro X has performed very well and been highly competitive.

The AI-powered offering is unmatched in its ability to automatically detect and surgically block web DDoS attacks. This result is improved security and faster time to resolution, crucial for maintaining customer business continuity. The strength of this value proposition is evident in some of our first quarter wins. For example, we signed 2 major 7-digit defense DefensePro X deals: one with a Tier-1 carrier in North America that upgraded their DDoS protection. The other win was with a major European financial institution that experienced a large layer 7 attack. The latter also replaced their incumbent cloud DDoS provider with our hybrid cloud DDoS solution for a complete protection.

Our partnership with Cisco and Check Point were another contributor to our performance in the first quarter. We kicked off 2024 with record Cisco bookings following a record year in 2023, while Check Point also demonstrated a strong start for the year.

To protect our customers, we're constantly innovating our offering. With AI at the fingertips of attackers, threats are becoming not only increasingly complex and adaptive, but also with reduced time to attack. In response, we're taking a "Fight AI with AI" approach to security.

A good example for our "Fight AI with AI" strategy is the enhancements we introduced to our bot manager. The newest addition of our bot manager is designed to automatically mitigate a new generation of aggressive AI-driven in human-like bots without blocking legitimate users. For our customers, this means better end-user experience and a reduction in costly business impacts like customer churn and lost revenues.

Another example is the AI-powered rule-free DNS DDoS protection solution. Using our patented algorithms, it automatically distinguishes between legitimate and attack traffic and instantly adapt DDoS defenses based on the specific attack.

According to our recent threat intelligence report, DNS Flood attacks increased nearly 400% between 2022 and 2023. And these new algorithms will significantly shorten time to resolution when countering even the most sophisticated DNS attacks.

Our offering continued to receive recognition by industry analysts. In Quadrant 2024 Spark metrics reports for DDoS mitigation, Radware was named the leader for the fourth consecutive year. Radware was also named as an overall leader as well as product, innovation and market leader in KuppingerCole's Leadership Compass report for web application firewalls.

In GigaOm 2024 report for application and API security, Radware earned recognition as a fast mover and leader. In addition, we were the only vendor to earn GigaOm's top scores for AI-enhanced vulnerability detection and key bot management features.

In one quarter, we were recognized as a leader in DDoS, in web application firewall and in API security. This is another evidence for our best of suite approach. We provide customers with an integrated suite to protect applications and data center attacks, while our capabilities in each of the core pillars of DDoS, WAF, API and bot security lead the market when evaluated as a standalone capability.

Our customers receive best-of-breed security alongside a fully integrated suite, hence best of suite.

In summary, we began 2024 with a solid performance. We delivered sustained growth in cloud ARR, improved profitability, expanded market presence and leverage momentum with our OEMs. These results were supported by improvements in the business environment, rebounding customer spending and heightened cyber-attacks. We believe Radware has the right offering to meet the market demand for best-in-class security and faster response and recovery times, and we intend to capitalize on that for ongoing growth and increased profitability. With that, I will turn the call over to Guy.

Guy Avidan - *Radware Ltd. - CFO*

Thank you, Roy, and good day, everyone. I'm pleased to provide the analysis of our financial results and business performance for the first quarter of 2024 as well as our outlook for the second quarter of 2024. Before beginning the financial overview, I would like to remind you that unless otherwise indicated, all financial results are non-GAAP. A full reconciliation of our results on a GAAP and non-GAAP basis is available in the earnings press release issued earlier today and on the Investors section of our website.

Revenue for the first quarter of 2024 was $65.1 million compared to $69 million in the same period of last year. Revenue was driven by cloud and subscription growth, offset by product decline. As Roy highlighted, we are encouraged by the recovery signs we see in customer demand and engagement even though customer spending is not completely back on track.

The cloud security business continued to demonstrate strength with 22% year-over-year growth in cloud ARR, similar to last year and reached $67 million in the first quarter of 2024. Cloud ARR now accounts for 32% of total ARR compared to 27% in Q1 2023.

On a regional breakdown, revenue in the Americas in the first quarter of 2024 was $27.1 million; similar to the same period last year and accounted for 42% of total revenue. On a 12-month basis, Americas revenue decreased 15% year-over-year.

EMEA revenue in the first quarter of 2024 decreased 24% year-over-year to $22.7 million and accounted for 35% of total revenue. The decrease is mainly attributed to a large deal recognized in Q1 2023. On a 12-month basis, EMEA revenue decreased 15% year-over-year.

APAC revenue in the first quarter of 2024 was $15.3 million, which represents an increase of 25% year-over-year and accounted for 23% of total revenue. On a 12-month basis, APAC revenue increased 5% year-over-year.

I'll now discuss profits and expenses. Gross margin in Q1 2024 was 82% compared to 82.3% in the same period in 2023.

Operating expenses decreased 6% year-over-year and totaled $49 million, which is at the lower end of our guidance. Operating income reached $4.3 million compared to $4.4 million in the same period of last year. And with this level of OpEx, we believe that the company is positioned to better profitability in the coming quarters. As we highlighted a couple of quarters ago, we are committed to drive efficiencies and keep our cost structure aligned with the level of company's operations.

We are confident in our ability to continue to improve our profitability and adjust expenses as necessary.

Radware's adjusted EBITDA for the first quarter was $6.2 million or $8.9 million, excluding The Hawk's business compared to $6.5 million or $9.2 million excluding The Hawk's business in the same period of last year.

Financial income was $3.8 million in the first quarter. This level of financial income is expected to continue throughout 2024.

The tax rate for the first quarter of 2024 was 15.3% compared to 14.8% in the same period of last year. We expect the tax rate to remain approximately the same next quarter.

Net income in the first quarter was $6.8 million as compared to $6.1 million in the same period last year. Diluted earnings per share for Q1 2024 was $0.16 compared to $0.14 in Q1 2023.

Turning to the cash flow statement and the balance sheet.

Cash flow from operations in Q1 2024 was $21.1 million compared to a negative cash flow from operation of $1.2 million in the same period of last year. The improvement in cash flow from operations is derived from strong billing performance in the first quarter of 2024 and in Q4 2023 and higher net income.

During the first quarter, we repurchased shares in the amount of approximately $840,000. As of March 31, 2024, approximately $66 million remain in our share repurchase plan. We ended the first quarter with approximately $383 million in cash, cash equivalents, bank deposits and marketable securities.

I'll conclude my remarks with guidance.

We expect total revenue for the second quarter of 2024 to be in the range of $65 million to $67 million. We expect Q2 2024 non-GAAP operating expenses to be between $49 million to $50 million. We expect Q2 2024 non-GAAP diluted net earnings per share to be between $0.15 and $0.17, representing an increase of approximately 60% year-over-year at the midpoint guidance. I'll now return the call over to the operator for questions. Operator, please?

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) And your first question comes from the line of Alex Henderson of Needham.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

So I was hoping you could talk a little bit about the pipeline and kind of what the book-to-bill looks like in the quarter where you're seeing -- you made comments of encouraging trajectory. Is that evident in the pipeline in the book-to-bill numbers in the quarter?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Alex. So definitely, as Guy mentioned and I mentioned in our remarks, we do see better customer activity, better market conditions. We want to be conservative. We say it's not yet back to previous levels, but there's definitely an improvement, improvement in the tempo of the customers. We see deals that were parking in the pipe for a long time starting to move. So overall, we are encouraged by the booking, by the pipeline. And hence, we are more optimistic for 2024.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

If you could go into some of the deal mechanics, did the close rates improved? Did the duration of contracts improve, deal size improve deal process time, it sounds like that has improved? Just clicking off key mechanics.

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So I think in 2023, we saw the large customer stalling, meaning the pipeline was there, but the deals were not advancing, not in the tempo we used to see. Starting in Q4, we already discussed that in our last conference call, we started the first sign of those opening up. It continued in Q1, and we have also expectations for the coming quarters.

With that, we're seeing the attacks forcing many customers to take a faster and broader decisions on their application security strategy. Here, we are very well positioned with our cloud application security with the unique capabilities in web DDoS, in the broad application protection. And in this market, we are seeing very fast cycles. So it's a combination of the large deals, I would say, more architecture CapEx deployment starting to move with continued strong growth in the cloud application security business.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. And is closure rates on deals improved as well? So it sounds like deal size has improved and deal process times improved? What about closure rates and duration of the deal durations?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

I think duration is shortened and I don't think closure rates have changed. As I said, last year, it was mainly the stall, so you did not lose, nor win the deal. It did not impact the rates. But now we are seeing faster deal cycles.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Could you talk a little bit about your traditional business? And to what extent you can bring down the inventory? What's going on in the traditional ADC market and what's going on in terms of your ability to bring the inventory down as a result of supply chain improvements?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So...

Guy Avidan - *Radware Ltd. - CFO*

Yes. So I'll answer the inventory question. So we came to a peak level at the end of 2023, reduced it a little bit in the first quarter of 2024, and we expect to continue to reduce inventory level. We talked about it last quarter, pushing DefensePro X and new versions for ADC put us in the place of a transition in terms of end of support, end of sale in the future. So we got extra inventory just to be on the safe side, but levels will go down throughout 2024.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Will it go down towards the $10 million level by the end of the year, do you think? So net improvement of $5.5 million.

Guy Avidan - *Radware Ltd. - CFO*

Closer to 12.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

12, okay. That's great. And so did you say you end of life some -- a portion of your product line?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. It's a common thing that when we refresh the platforms and we bring new generation of platforms, then the older line...

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

The older line. It's a new platform replacing the older line. That is very much typically you were saying. And any comment on the Cisco or other partners?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So as I said in my remarks, we had a record booking with revenues with Cisco in Q1. It's following a record year in 2023. Also Check Point is in a very strong level of performance currently. So all in all, we continue to enhance those relationships. We're putting more and more offerings on the Cisco enterprise agreements. We broadened also the Check Point agreement to the new line of DefensePro X. So we are seeing good up tick by our OEM partners of the new offerings and overall better cooperation in the market. So both those relationships at this level are at a high level of execution.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Great. I'll see the floor and get back in queue.

Operator

Your next question comes from the line of Chris Reimer of Barclays.

Chris Reimer - *Barclays Bank PLC, Research Division - Analyst*

Congratulations on the strong results. I was wondering if you could talk a little more about how -- you mentioned a lot about the fighting AI with AI. I was wondering if you could just give a little more color about how AI is changing the landscape and how products have to in turn repel that?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Okay. Thanks,. So I think there are several aspects to that. The first aspect is that AI allows hackers to automate and scale their attack way more quickly. The second aspect is that it allows them to morph the attack, to change the attack during the attack time more quickly, meaning we are going to -- we're seeing attacks that starts in one way. And then if we're doing better mitigation in 5, 10 minutes, the attack is changing, that requires also the difference to adjust and change. This means that it's very hard with people and static rules and signatures, which is how the industry is

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working for the most part to combat these attacks simply because they are changing quickly. So you need also the different side to be much more algorithmic based, much more adaptive, automated in order to block the attacks.

The third aspect is what we call the time to attack. In the past, when there was a vulnerability, you need experts to take that vulnerability that was discovered and write code, right programs that would take advantage of that vulnerability and creating the attack.

With GenAI that time and that expertise is becoming a non-issue. The time is shortened considerably, and you don't need to be an expert to do that. This is what we call time to attack. The time to attack is now going from months or days to minutes, which means again on the different side, we need to be way more adaptive, way ahead of the game. In order to do that, we continue to enhance our algorithms. And I've given several examples of what we've done in Q1. There's another set of algorithms going in Q2. This has been the core of our solutions in DDoS, WAF, API over the years. This is why we are getting all those leadership statements by analysts, but it's becoming now our live or die, [jumped in for] security solutions. And we believe we are very well positioned here.

I mentioned the web DDoS attacks. Those are an excellent example to how the attacks are morphing very quickly to the extent of every 5, 10 minutes. It's an excellent example to the scale that hackers are able to attack to the mission critical applications. And we are very strong in our ability with a completely automated algorithm set to mitigate those attacks within seconds with no human intervention and with no impact to our customer mission-critical applications.

If you look on many of our cloud app security wins in Q4, in Q1, especially as we move from competitors, whether it was an on-prem deployment of an ADC and WAF or a different cloud security offering, those moves from them to us. This was a very, very strong contributor to that.

So going forward, we believe those trends will actually accelerate. And as a result, on the different side, we are ramping up our investments in AI, in bringing those algorithms to be part of our cloud application, security and DDoS solutions, and we believe that will translate to meaningful benefits for our customers.

Chris Reimer - *Barclays Bank PLC, Research Division - Analyst*

Got it. Great. That's really great color. Just also, if you could touch a little bit about on the different characteristics you're seeing in some of the geographies, the Americas and EMEA. I know you also gave a number of about a 12-month growth number. If you could just talk about what you're seeing for customers in the different geographies?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So you know 2023 was a difficult year for us in the Americas and to some extent in EMEA but we are -- we've seen that now coming back. So at this point, our view for both Americas and EMEA for 2024 is for growth. So we're feeling much better on the business. There's a lot more potential. We're clearly in the very beginning, I would say, of the cycle, but we are definitely seeing improvement in the business in those 2 markets.

Chris Reimer - *Barclays Bank PLC, Research Division - Analyst*

Great. Thanks. That's it for me.

Operator

Your next question comes from the line of George Notter of Jefferies.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

I was just interested in your additional investments in scrubbing centers. I think you mentioned a Paris facility going in. I think it's been a while since you guys have added scrubbing centers. I'm just curious about what you're seeing in the marketplace that's pushing you to make the additional investment? And what do you see going forward in terms of new scrubbing centers that you turn up?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Thanks, George. So we do see geographical expansion as customers, especially in banking, government once local facilities for processing traffic. It's not so much from a global capacity, ability to mitigate the attackers more -- it's more from the localization, compliance in these areas.

We do have a very broad network today, 40 different areas that we're operating from. But at the same time, we do see these opportunities come up. We announced in recent quarters like opening in New Zealand and in Taiwan and so and so on. We do see, especially with our MSSP with our growing MSSP operation, they need to open additional data centers, and we do plans throughout 2024 to open additional locations around the world. It's definitely one of the drivers for the growth we're seeing in our cloud security, and we want to leverage that.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

Got it. I'm sorry. And the MSSP is your traditional security point of presence, correct?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

It's the MSSP is the managed security service providers around the world that want to enhance their offering into DDoS and application security. Now in the past, they were buying equipment from us or from our competitors and trying to stand up such a service. We're seeing more and more around the world, and I refer to our announcement about Spark in New Zealand, for example, or Viettel in Vietnam, Airtel in the past and so on, they want to utilize today our cloud solutions because it brings them a global network, a state-of-the-art solution with portal, analytics, AI algorithms in the back end, and it really allows them to capture more market share.

As we do that with them, there are certain markets, for example, I gave the example of Vietnam or of New Zealand that we are opening additional centers to serve those local partners for us. It's a great business opportunity as we are enjoying their power to the market, and we've seen good outcomes with that. We're planning to continue.

George Charles Notter - *Jefferies LLC, Research Division - MD & Equity Research Analyst*

Got it. Okay. That's very helpful. And then just a broader question. What are you seeing competitively in the marketplace, folks like Akamai or Cloudflare or F5, what's the picture?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So in our cloud security, it's really competing with Akamai and Cloudflare. And we feel very good about our competitive positioning as it relates to the products. You see all the feedback from the analysts, very strong large customer activity. But we also see the opportunity. The opportunity is very large. I think we are a very strong alternative, especially for the security-conscious buyers, those that put security on top. That's where we are excelling and the market opportunity is huge, and we actually like our competitive position there.

In the more traditional business of ADC, on-prem appliances, definitely, we continue to see F5 and Arbor there. I would not say there are much changes to the competitive landscape there. Again, in DDoS, with DefensePro X, we believe we have the best mitigator in the market. And as we said in Q4 and now in Q1, we started to see the large customers doing those refreshes towards the DefensePro X, and we are quite satisfied with the level of activity. That's one of the reasons for beyond the cloud security for our optimism of 2024.

Operator

We have a follow-up question from the line of Alex Henderson of Needham.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Great. Clearly, AI is getting a lot of attention. There seems to be an increase in the amount of spend going into it at most enterprises. Has there been an impact on their decision process as a result of the challenges that they have around the mechanics of the security and the mechanics of the AI deployment. If you think about last year, most of the concern was, gee, I don't know about this economy. But now it seems like there's a pretty big budget, but there's hesitation resulting from -- I know I want to spend, but I'm not exactly sure how to get my AI deployed or how to secure it. And so I guess the question is, are you seeing that? And when do you think that, that might loosen up? Is this going to be a bigger back half because of it? And how does the AI applications drive your offerings?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So thanks, Alex. So I think there's some discussions about it, but it's very early on. The large enterprises are just starting the journey. And obviously, AI applications will need security, especially given all the models and teaching the models and ensuring the data is correct and right and the criticality of the data and information, but it's very early on. I don't see that yet as a driver behind our cloud application security growth. Having said that, once they are deploying that, we have a very strong platform, end-to-end that encompasses DDoS, web application firewall, API security, which is going to be very important with AI applications, bot security, which, again, is going to be very important with AI application. And that platform is getting stronger and stronger.

So whether it's a mission-critical application or it's going to be an AI backed application, I think we are very well positioned. I don't think that wave has started. And also in our analysis and forecast for 2024, we are not building or counting on that to start. We think what we have with the current attack landscape, the customer need for better application security, our offering that can drive sustained growth in that area.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Over the last 2 to 3 years, you guys have signed a slew kind of loss counted over 20 partners on regional and basis across the globe. It does sound like some of that stalled because of the macro conditions and the supply chain issues. Is that -- are all those partnerships that you have -- and distribution expansion that you announced over those years coming back now, is that finally showing some traction and signs of life?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So like you said, some have stalled, and I would not say they are contributing, but some are definitely increasing the contribution and increasing their participation. We do see some of those partners scaling their ARR with us and the new logo wins. So that's definitely helping our cloud application security. And we see a mix of partners, carriers, MSSPs, regular VARs playing in that area. And we definitely are enjoying some of the growth in our cloud ARR. This consistent 20% plus in the last couple of years is driven by those partnerships. We do plan to enhance that. If you look at our announcements around our MSSP programs and so on, it's definitely targeting those partnerships.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Makes sense. Good. Congratulations. One more question. The Noname acquisition that Akamai just announced brings up the question about the API players that are in the private market. Are you seeing Noname in the salts? And does that acquisition change the dynamics at all in competing with Akamai, do you think?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Yes. So I think it's another proof point to the fact that you really need DDoS, WAF, API and bot security in your cloud application security program and the importance and the value that the players are putting into that. Definitely, we're seeing still a whole set of private companies in API security, but I believe that the winning solution will be an integrated platform for application security. And that's what we are working on and continue to develop.

As I've mentioned, we just won leadership by GigaOm in API security. We feel very good there. I think based on our integrated platform and the algorithms we've put in place, we are positioned well. But I think those are good signs for investors. So the value and the potential that different market players are seeing in API security. And definitely another proof point to our strategy, and we are focused as well on building and scaling our API security.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Great. Look, congratulations on the quarter and the signs of life reacceleration. It's nice to see, it's been a cold winter.

Operator

Your next question comes from the line of Tim Horan of Oppenheimer.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Some of your competitors are also bundling in networking in different forms and different forms of compute. Do you think that's the right kind of strategy or what's the benefits of that and/or not? And does that make the things more or kind of less competitive for what you're doing? And secondly, congratulations on the turnaround here. What's the cut, the key kind of 1 or 2 things that you think has really caused to turn around? I know there's a lot going on, but -- and how sustainable do you think it is?

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

So several points on the competitive landscape. There are offering in the market that are bundling, edge compute, networking, security and so on, we are focused on the security side. So best-of-breed security. And as we've mentioned, this best of suite, so taking everything in application and data center security and really providing the best integrated suite for that. We think that's the right definition for our security-conscious buyers in the large enterprises, that's the right definition.

We are not planning to go into edge compute. We have our partnerships with like AWS, GCP and others. And if needed, we can leverage that. But we are not going to step into that. We're going to put the complete focus on the security arena. We think it's critical. We think that what drives the buying decisions in our large enterprise segment.

Regarding the improvement in the business, I think it comes from 3 areas: one, the continuous growth of cloud. The cloud uptake, the ARR is becoming a bigger and bigger portion as we continue to grow it. And that's impacting the business. It drives a lot of new customer logo wins and so on. So that's the first item.

The second item that we've mentioned, we're starting to see the large CapEx deals and the movement in the large enterprises back to investment mode, especially with the DefensePro X. It's a combination of the attacks that they're seeing, all those web DDoS attacks, DNS attacks; they do need better protection on running and second, the overall improvement, they stalled for quite some time. They need to move forward in capacity in tools. So that is also assisting. And we believe we'll continue to contribute in 2024. We like the pipeline and the progress we're seeing there.

And the third thing is that we've aligned our expenses better. And that also, like Guy mentioned, drives improvement in profitability and efficiency. So those are the 3 major building blocks, we believe we will continue to grow in cloud. We believe the movement we're seeing in our overall security business in the large enterprises, driven by the attack landscape should continue. And as Guy mentioned, we are very prudent in managing the expenses though to ensure there is the profitability leverage.

Operator

There are no further questions at this time. I will now turn the conference back over to Roy for the closing remarks.

Roy Zisapel - *Radware Ltd. - Co-Founder, CEO, President & Director*

Okay. Thank you, everyone, for joining us today, and have a great day.

Operator

Thank you. That concludes today's conference call. Thank you all for joining. You may now disconnect.
