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RDWR.OQ - Q1 2025 Radware Ltd Earnings Call

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CORPORATE PARTICIPANTS

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Guy Avidan *Radware Ltd - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Joseph Gallo *Jefferies - Analyst*

PRESENTATION

Operator

Welcome to the Radware, conference call discussing first quarter 2025 results. (Operator Instructions)

As a reminder, this conference is being recorded on May 7, 2025. 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 Investor Relations*

Thank you, operator. Good morning, everyone, and welcome to Radware's first quarter, 2025 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 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.

The forward-looking statements are subject to various risks and uncertainties, and actual results could differ materially from what'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, 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 differ from time to time in [Worth's] filing.

We refer you to the documents that the company files and furnishes from time to time with the SEC, specifically the company's last annual report on form 20 as filed on March 28, 2025. We undertake no commitments 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 - President, Chief Executive Officer, Co-Founder, Director*

Thank you, Yisca, and thank you all for joining us today. I'm pleased to report a strong start to 2025 exceeding our guidance. Our first quarter revenue increased 11% of the $0 to $72 million. This is the third quarter in a row of double-digit revenue growth. Our non-gap earning per share rose 69% to $0.27, demonstrating the high leverage in our business model. And finally, cash flow from operations of $22 million. A major driver of

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our success is attributed to our cloud security business, which continues to grow in scale and potential. Cloud security ARR increased by 19% of the year-over-year to $80 million.

We also achieved double digit growth in our total number of cloud customers driven primarily by a rapid increase in new cloud application security bookings. Given these strong metrics, we continue to believe that focus on an investment in this business will position us to exceed a 20% ARR growth rate and achieve close to $100 million in cloud security ARR by the end of this year.

Our results also highlight the solid progress we've made against our strategy to lead us the best of great providers in application and data center security. Our growth strategy continues to be centered around three pillars: win significant market share ing cloud security, leads through AI innovation and automation and enhance our go-to-market footprint. As we highlighted last quarter, we are expanding our cloud security infrastructure in order to further scale our business. Recently, we opened new cloud service centers in Peru, India and Kenya, and have plans to expand in other regions in the near future. Today, we support a network of over 50 cloud security service centers worldwide with a mitigation capacity of up to 15 terabytes. This network enables customers to keep applications and data within their borders to meet strict data privacy regulations and provide excellent performance for local users. Our hybrid cloud security offering is another important business enabler for our customers. This offering has become a major competitive differentiator for us translated into continued strong ARR growth. While some customers may favor cloud-only models which we offer, many larger enterprises clearly have a requirement for hybrid security across all their assets - those that are located in the cloud and those that are located in the private data centers, and our pipeline proves it. We continue to see steady, healthy demand that includes our Defense Pro X refresh. With the push towards vendor consolidation, Radware's hybrid approach for DDoS and application security, which offers both cloud services and on-prem solutions with integrated and consistent security capabilities, is giving us a clear edge.

I'm pleased to report that our AI innovation efforts are also proving to be a competitive advantage. Our advanced AI-based algorithms, and algorithms first approach to security, are delivering market leading detection and mitigation results for our customers, making our solutions the preferred choice for many. We're seeing this first hand as we continue to replace the competition in bigger ticket deals. Between the fourth quarter of 2024 and first quarter of this year, the total contract value of our competitive takeout doubled. For example, we took out two competitors with our DDoS protection and web application firewall to close a 7-digit deal with the government IT company in Asia Pacific. The win provides another proof point of the strength of our security offering and web application security and DDoS mitigation under a unified SecOps platform.

Last quarter we won our largest cloud security agreement to date. The multi-year 8-digit deal broadened our relationship with the US Fortune 500 financial services and payments company. They are significantly expanding with our full suite of cloud DDoS and application protection services to safeguard thousands of applications and billions of digital transactions. Our OEM channel also produced some major wins and continues to play an important role in our growth strategy.

During the first quarter, our partnership with Cisco and Checkpoint once again generated strong results, both growing more than 20% year-over-year. Together with Cisco, we won a million dollars five-year cloud deal with a UK retailer. At the end of 2024, the retailer was the target of a series of cyberattacks that disrupted its primary data centers and operations. Following emergency onboarding onto our cloud DDoS protection service, we successfully mitigated the attacks. With successful cross-selling, we expanded the deal to include our Threat Intelligence services, as well as our web application and API protection. So really a great platform.

In another part we worked with Checkpoint to close a DDoS protection and application protection deal with a central bank in Latin America. Our win was based on our superior need of technology, strong SLAs, and solid relationships. Given our double-digit growth over the past three quarters, strong demand for our security offerings and market opportunities ahead, particularly in cloud security, we plan to increase investments in sales, marketing, and R&D. These efforts will focus on scaling our cloud security business, accelerating AI-driven innovation, and strengthening our presence in North America. This morning, we announced plans to accelerate our expansion in the US market, led by new leadership team with deep experience in driving a ARR for SaaS companies. We are confident this team has the expertise to deliver meaningful results for our cloud business.

In summary, in the first quarter of 2025, we demonstrated steady execution with progress across all financial parameters. In addition, we continue to scale our cloud security business, win marquee accounts, and drive cloud ARR which is now at $80 million.

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Looking forward, we intend to accelerate our cloud ARR growth by securing new logos, collaborating with our OEMs and channel partners, and driving AI innovation and automation. Additionally, by strengthening our presence in the U.S .market, we believe we will be well positioned to gain additional market share and accelerate our overall growth and consequently, our profitability.

With that, I will turn the call over to Guy.

Guy Avidan - *Radware Ltd - Chief Financial Officer*

Thank you, Roy, and good day everyone. I'll provide an overview of our financial results and business performance for the first quarter, as well as our outlook for the second quarter of 2025.

Before beginning with 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 the GAAP to non-GAAP basis is available in the earning press release issued earlier today and in the investor section of our website.

Revenue for the first quarter of 2025 grew 11% year-over-year to $72 million driven mainly by another solid performance of our cloud security business and good contribution from our OEM partnerships. Total ARR increased 9% year-over-year to $230 million with cloud ARR growing 19% to $80 million. Furthermore, recurring revenues grew to 82% of total revenue in the first quarter of 2025 compared to 79% and 78% in Q1 2024 and Q4 2024 respectively. In the first quarter of 2025, our regional performance showed growth across all regions. The Americas increased by 1% year-over-year to $27.4 million accounting for 38% of total revenue. For the 12 trailing months, America's revenue grew 14% year-over-year.

EMEA revenue in Q1 2025 increased 25% year-over-year to $28.4 million and accounted for 39% of total revenue. For the 12 trailing months, EMEA revenue grew 11% year-over-year.

And APAC revenue increased 7% year-over-year to $16.3 million contributing 23% of dollar revenue. And for the 12th trailing month, APAC revenue was flat year-over-year.

I'll now discuss profits and expenses. Gross margin in Q1 2025 was 82.1%, a slight increase from 82% gross margin that was recorded in Q1 2024. Operating income doubled in the first quarter of 2025 to $8.6 million compared to $4.3 million in the same period of last year.

As Roy highlighted in his preferred remarks, in response to a strong demand for our security offering and the market opportunities ahead, mainly in cloud security. We plan to increase investment in sales, marketing, and R&D. This investment will focus on branding and expanding our cloud security business, accelerating AI-driven innovation, and strengthening our presence in North America.

Our strong leverage in our business model allows us to increase investment that will support our ability to further drive topline growth in the future while improving profitability. Radware's adjusted EBITDA for the first quarter of 2025, increased by 72% to $10.8 million compared to $6.8 million in the same period of last year.

Radware's adjusted EBITDA excluding the Hawks Business for the first quarter of 2025 was $13.4 million and 18.6% margin. Compared to $8.9 million and 13.7% margin in the same period of last year. Financial income was $5.4 million in the first quarter of 2025 compared to $3.8 million in the first quarter of 2024. The tax rate for the first quarter of 2025 was 15.5% compared to 15.3% in the same period of last year. We expect the tax rate to remain approximately the same in the next quarter.

Net income in the first quarter of 2025 increased 73% year-over-year to $11.8 million compared to $6.8 million in the same period last year. Diluted earning per share for Q1 2025 increased 69% year-over-year to $0.27 compared to the $0.16 we had in Q1 2024.

Turning to the cash flow statement and the balance sheet. Cash flow from operations in Q1 2025 reached $22.4 million compared to $21.1 million in the same period last year. We ended the first quarter with approximately $448 million in cash, cash equivalent, bank deposit and marketable securities.

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Before we move to guidance, I would like to address the recently announced tariffs and the potential impact on Radware. We expect the effect on our business to be minimal. We are proactively adjusting our supply chain to further reduce any potential cost pressure, and currently, we do not anticipate any material impact on our operation or financial performance. And now for the guidance. We expect total revenue for the second quarter of 2025 to be in the range of $73 million to $74 million. We expect Q2 2025 non-GAAP operating expenses to be between $51 million to $52 million.

We expect Q2 2025, non-GAAP net earning per share to be between $0.26 and $0.27.

I'll now turn the call over to the operators, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Joseph Gallo from Jefferies.

Joseph Gallo - *Jefferies - Analyst*

Hey guys, thanks for the question. Nice job on the quarter. I appreciate the tariff color just regarding macro. Did you see any changes in buying behavior from your customers? How was April and what's embedded in your Q2 guidance?

Roy Zisapel - *Radware Ltd - President, Chief Executive Officer, Co-Founder, Director*

Okay. Hi. We didn't see a noticeable change, in the last several months and also starting Q2 things are relatively the same, meaning not accelerating, not decelerating. And we didn't see anything specific to tariffs in the beginning, we saw many questions. Some distributors were asking actually to accelerate shipments, but this has calmed down and after a week or so when the tariffs or the majority of them were put on hold. So we didn't see anything specific. And as I mentioned, as we focus more and more on the cloud business in North America, that is a bit isolated from the old hardware portion of our business.

Joseph Gallo - *Jefferies - Analyst*

That makes sense. Thank you for that. And then just as a follow up, can you double click on some of those US market changes, a lot of new senior leadership, which is great, but that can also result in a couple quarters of disruption. So, is there any major change in process needed in the US market and is that accounted for in the Q2 guide? Thank you.

Roy Zisapel - *Radware Ltd - President, Chief Executive Officer, Co-Founder, Director*

Yeah, so great question. Actually, our announcement is after all those, all this infrastructure is already in place. So Randy, the head lead, I think, is now going into his third quarter, like nine months into the company. A lot of the individual sales heads, were joining us between three to six months ago, so we're actually now expecting more and more productivity ramp up from them. And I think the newest addition, Connie, our Chief Growth Officer, she's like a month now into the company.

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So, a lot of the major changes were already done actually last quarter, I think, and a quarter before we already started to see. The fruits of that and we are a very strong believers that the future is brighter and we can grow forward from here and add and that's what we announced that we're going to add even more resources as we go forward.

So, and we think we have a strong leadership team in place that's already, executed several quarters and gets more and more productive as time passes now. We don't see any disruption. We are after that, so to Speak.

Joseph Gallo - *Jefferies - Analyst*

Great to hear. Thank you.

Operator

There are no further questions at this time. I would like to turn the floor back over to Roy Zisapel for closing comments.

Roy Zisapel - *Radware Ltd - President, Chief Executive Officer, Co-Founder, Director*

Okay, thank you very much and have a great day.

Operator

This concludes today's teleconference. You may disconnect your lines at this time.

Thank you for your participation.

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