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RDWR - Q4 2016 Radware Ltd Earnings Call

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PRESENTATION

Operator

Good morning. My name is Melissa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Radware Q4 2016 earnings conference call. (Operator Instructions). Thank you. Ms. Anat Earon-Heilborn, VP IR, you may begin your conference.

Anat Earon-Heilborn - *Radware Ltd - VP, IR*

Thank you, Melissa. Good morning, everyone, and welcome to Radware's fourth quarter and full-year 2016 earnings conference call. Joining me today are Roy Zisapel, President and Chief Executive Officer; and Doron Abramovitch, Chief Financial Officer.

A copy of today's press release and financial statements, as well as the investor kit for the fourth quarter, are available on 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. We wish to caution you that these statements are just predictions, and we undertake no obligation to update these predictions.

Actual events or results may differ materially, including but are not limited to 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 from time to time with the SEC, specifically the Company's last Form 20-F filed on April 21st, 2016.

Please note that, in February, management will participate in the JMP Technology Conference in San Francisco.

With that, I will turn the call to Doron Abramovitch.

Doron Abramovitch - *Radware Ltd - CFO*

Thank you, Anat. Good morning, everyone, and thank you for joining us on the call today. We reported solid results for the fourth quarter of 2016, and we are pleased with underlying momentum in our business in the second half of the year, which positions us well for 2017.

Bookings for the fourth quarter were strong, reaching a record level, reflecting solid performance across product lines and primarily a strong performance of our subscription business. Book-to-bill ratio was significantly larger than one for the fourth quarter and for the full year. The metric that best reflects bookings growth is the total deferred revenues balance. This balance grew 20% from $101 million at the end of December 2015 to $121 million at the end of December 2016.

Let me remind you that total deferred revenues takes into account the deferred revenues on the balance sheet and, in addition, bookings that we invoiced but didn't collect and are therefore not on the balance sheet. This figure can be found in the investor kit which is posted on our Website.

The average duration of the total deferred revenues balance as of December 2016 was 1.79 years compared to 1.74 years for December 2015. The growth in total deferred revenues had a meaningful impact on our visibility as we start the year.

As of December 2016, approximately $76 million out of the total balance of $121 million, or 63%, are scheduled for revenue recognition during 2017. This compares with $67 million out of the December 2015 balance of $101 million which were scheduled for revenue recognition during 2016.

Let's now discuss our income statement. Q4 revenues were $51.7 million, down 6% from Q4 last year. Looking at the geographic breakdown, revenues from the Americas were $22.7 million, representing 44% of total revenues. Revenues from EMEA were $14.9 million, or 29% of the total. And revenues from APAC were $14.1 million, accounting for the remaining 27%.

Full-year revenues were $196.6 million, down 9% from 2015. Revenues from the Americas were $84.7 million, representing 43% of total revenues. Revenues from EMEA were $53.7 million, or 27% of the total. And revenues from APAC were $58.1 million, accounting for the remaining 30%.

I would like to discuss briefly our profitability. And I will do so in the non-GAAP figures. For a detailed GAAP to non-GAAP reconciliation, please refer to the financial table accompanying our press release.

Non-GAAP gross margin was 82% in Q4 2016 compared to 82.6% in Q4 last year. For the full year, non-GAAP gross margin was 82.4% compared to 82.9% in 2015. Our operating expenses were $40.6 million compared with $39 million in Q4 2015. Looking at the full year, operating expenses were $158 million compared with $148 million in 2015.

Non-GAAP net income in Q4 2016 was $2.5 million, or $0.06 per share diluted, compared with net income of $7.6 million, or $0.17 per share diluted, in Q4 2015. Full-year earnings were $0.20 per share diluted in 2016 compared with $0.72 in 2015.

Moving on to our cash flow highlights, our cash generation was strong in Q4. Cash generated from operations was $23.3 million compared with $15.6 million in Q4 2015. For the full-year 2016, cash flow from operations was $38.6 million, essentially at the same level as in 2015.

In terms of our shares repurchase activity in the past quarter, we repurchased approximately 800,000 of our own shares in the amount of $10.3 million, leaving $24.8 million remaining on our stock repurchase plan. As of December 31st, 2016, we had approximately $320 million in cash and financial investments.

Last week, we acquired Seculert, a startup that has very strong big data analytics capabilities and machine learning technology. Roy will elaborate on the business rationale shortly. We paid for this acquisition a total cash consideration of approximately $10 million. Assuming the solution we intend to add to our portfolio based on the Seculert technology meets certain performance targets, we will pay an additional amount of up to $10 million also in cash.

We expect the acquisition to be immaterial to our 2017 revenues and slightly dilutive to our fully diluted 2017 non-GAAP EPS, primarily because of product development costs. In 2018, we expect the acquisition to be accretive to fully diluted non-GAAP EPS.

The acquisition of Seculert added about 20 employees to our headcount, which was 979 employees at the end of December 2016.

Moving on to our outlook for the first quarter 2017, we expect revenues to be between $47 million and $49 million. Non-GAAP gross margin is expected to be approximately 82%. Non-GAAP operating expenses are expected to be between $39.5 million and $40.5 million.

We expect non-GAAP effective tax rate to be 16%, and non-GAAP EPS excluding Seculert expenses to be between $0.02 and $0.04 per share. For Q1, Seculert impact will be a loss of $0.02 per share. And hence, the guidance for Q1 including the impact of Seculert is for non-GAAP EPS between $0.00 to $0.02.

I will now turn the call over to Roy.

Roy Zisapel - *Radware Ltd - President & CEO*

Thank you, Doron. And good morning, everyone. The fourth quarter was a strong quarter for Radware, with robust business activity reflected in both record bookings and a solid progress in our strategic initiatives.

Our business model continues its desired strategic transition towards more subscription sales. We believe this meets our customer needs and, at the same time, creates a consistent and profitable revenue stream for Radware.

In the full-year 2016, the number of our Cloud customers grew more than 70% compared to 2015. New Cloud customers include service providers, financial institutions, and top brands in the consumer goods, automotive, and hospitality industries. The vast majority of these are completely new customers to Radware.

The growth in Cloud and overall subscription sales as well as in service sales drove our deferred revenues balance to increase 20% year over year and reach $121 million, as Doron noted.

Our customer needs are becoming increasingly complex in today's technology environment. Digital transformation is everywhere affecting businesses fundamentally. On the one hand, applications have become the center of any business, and users expect a flawless experience. On the other hand, the delivery environment has become more complex as it spans across private datacenters, global networks, and the Cloud.

At Radware, our goal is to secure the digital user experience of all applications at all times. Therefore, our focus is to continue to enhance our unified infrastructure offering for delivery and security of applications. And we believe we already have a very strong and market-leading solution offering.

In this context, I would like to share with you a recent example. One of our customers, a North American service provider that deploys Radware across roughly 50% of its datacenters, experienced an attack that took one of its datacenters down.

This datacenter is protected by a competitor as a legacy from a recent acquisition they did. For several days, the customer together with the other vendor struggled to overcome the attack and were not even able to activate the Cloud scrubbing service the customer subscribed to. The customer then diverted the traffic to a datacenter with Radware devices and successfully detected and mitigated the attack within seconds of diversion. The next day, when the attack became highly volumetric, we diverted the traffic to our Cloud scrubbing centers. This event demonstrates the superiority of both our product and Cloud service standards compared to other vendors in the market.

Another part of our strategy is to enhance our capabilities through acquisitions. Last week, we announced the acquisition of Seculert, a startup that has a robust technology for malware detection and analytics. It combines a big data platform, machine learning based analytics, security as a service platform, and threat intelligence to automatically detect cyberattacks inside the enterprise network.

We believe this acquisition will allow us to broaden our capabilities in the cybersecurity space. It will expand our real-time and near-real-time detection capabilities with big data analytics that allow detection and forensics of anomalies over time. Once we complete the development and integration, we will be able to detect and mitigate threats that currently go unnoticed, sometimes for months, during which data is severely compromised.

We continue our efforts to increase our footprint in the market. We are pleased with the inroads we made during 2016 with our OEM relationships. We are proud to be the choice of both Check Point and Cisco, the leading vendors of firewalls and network security, respectively, and view this as a testament to our leading technology.

With Cisco, having invested during 2016 in training and other sales and marketing activities related to this partnership, we now look forward to the upcoming release of the Cisco next-generation FirePOWER. This major release includes the Radware DDoS module on both the 9K and 4K FirePOWER product lines.

As I mentioned on our last call, we were seeing initial sales from the early availability models. But, these are too preliminary to enable us to form an opinion about the expected attach rate and future revenues. We believe it will take us a few more quarters to see an impact on revenues and hope to be able to provide more clarity on our next call.

I would like to share with you the highlights of our execution plan for 2017. First, we plan to focus on our strong growth areas, namely datacenter security and Cloud security services. We intend to expand our subscription business strongly. This plan relies on our main existing subscription offerings, namely the Alteon NG subscriptions, the ERT premium managed services, Cloud WAF, and Cloud DDoS protection. We also plan to add additional Cloud services during the year.

Second, we will continue to support the momentum we are seeing in the Americas and ensure we capture the opportunities there across the enterprise and carrier verticals. We will also implement additional measures to strengthen our reach and success in selected countries in EMEA and APAC.

Third, we continue to seek opportunities to put our cash into use and expand our business through acquisition. On our radar are either tuck-in technology acquisitions, like Seculert, or larger more mature targets with solutions that are complementary to ours.

In summary, 2016 was a transformative year for Radware during which we experienced a clear transition in our business towards an increased proportion of service and subscription sales which we expect to continue into 2017.

We are very pleased with the success of our subscription and Cloud solutions and with the underlying health of the business, as reflected in bookings and in cash generation. With almost $40 million of operating cash flow, 2016 was another year of consistent performance in that respect.

Taking into account our strong offering, the dynamic market in which we operate, our unique status as a technology partner to industry leaders, and our devoted team, I'm confident in Radware long-term goals prospects.

I will now open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Kelleher, DA Davidson & Co.

Mark Kelleher - *DA Davidson & Co - Analyst*

Great. Thanks for taking the question. Could you just talk about where we are in the transition to subscription? Is that still a headwind? Have you migrated enough over there so that it's not so much of a headwind? What -- where are we in that process?

Roy Zisapel - *Radware Ltd - President & CEO*

So, I think this transition continues. I would not call it a headwind because, as you can see, the revenues recognized from the total deferred revenue coming into this year is reflecting a nice growth.

But, as you've seen in 2016 as well as in the last quarter, we are deferring a significant amount of bookings due to that growth. We believe that's a very positive trend, and we're seeing this subscription business accumulating very nicely.

Mark Kelleher - *DA Davidson & Co - Analyst*

Okay. And then just as another question, can you just talk about the Cisco ramp? That's -- I know you announced that OEM relationship I think in the summer of 2015. So, we're coming up on a couple years now since that's been announced. Is that getting any traction? Do we expect the investment to pay off there?

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, so you're right. It was a long cycle, as it was a co-development of the next-generation firewall of Cisco. The release and the go-to-market obviously is not dependent on us. It's on Cisco readiness. But, I believe that will clear in the next couple of weeks. We're going now into RSA and Cisco Live Berlin. I believe those are major opportunities for major security announcements on Cisco's behalf.

And as I mentioned, we are part of this next-generation firewall initiative by them. And as a result, we believe that the impact or the focus of the Cisco sales team and channel team will start once those products are released to market.

Mark Kelleher - *DA Davidson & Co - Analyst*

Okay. Thanks.

Operator

Jess Lubert, Wells Fargo Securities.

Jess Lubert - *Wells Fargo Securities - Analyst*

Hi, guys. Couple questions. First, you mentioned that you were fairly optimistic regarding 2017. It seems like a lot of the demand metrics you're highlighting on the call are fairly positive. So, maybe just first, I was hoping you could help us understand to what degree you would expect the business to grow this year and how you're thinking about seasonality beyond Q1. Is there any reason to think, as we get into the back half of the year, we should see better-than-typical seasonality?

Roy Zisapel - *Radware Ltd - President & CEO*

So, I would not want the call to go into guidance and forecasting the full year. We are seeing, as you said, improved metrics around the business. And the prime metrics that were focused beyond bookings and the revenues are obviously the total deferred that shows the accumulation of

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subscription and the power of the model, on one hand, and the cash flow, the cash from operations, that I think showed the power of the booking and the quality of the booking.

So, our metrics in the last two, three quarters are showing very positive signs there. And we are forecasting 2017 at a high level to continue these trends. But, I would not want to go into specifics beyond the guidance of Q1 we've provided.

Jess Lubert - *Wells Fargo Securities - Analyst*

And then, Roy, can you maybe just touch base on the telco business? It's a fairly nice sequential uptick. Can you help us understand what drove that? Was that a handful of big deals? Was it something more sustainable? And to what extent would you expect to see further improvement in the telco business next year?

Roy Zisapel - *Radware Ltd - President & CEO*

So, in general, we see the service provider and carriers is behaving well and are starting to invest more in security. Obviously, in our side, there's a meaning to several large deals that are landing in a certain quarter. But, overall, we are seeing progress in the amount of tier one service providers we're able to penetrate with our security offerings, on one hand. And we're seeing the carriers starting to invest more strategically in security.

They're building business units for that. It's becoming part of the offering. It's becoming very important for them to launch new service that will protect the customers. So, we're seeing beyond just deals I would say in IT buying or infrastructure buying. I think there's a longer-term trend that carriers view security more and more strategically.

And as a result, I believe they will be ramping their investments in 2017 and beyond. And if that takes place as we see it, I believe Radware will be a prime beneficiary of this trend, given our leadership in technology and scale in the market of DDoS and attack mitigation.

Jess Lubert - *Wells Fargo Securities - Analyst*

And then just last one for me, you mentioned on the call M&A would be a focus for the business. Would love to get a sense of how M&A stacks up from a use of cash perspective. Will that be prioritized versus buybacks or deals likely to be dilutive? How are you thinking about M&A this year?

Roy Zisapel - *Radware Ltd - President & CEO*

So, I gave a general comment on M&A. It's not different than the strategy we had before. But, we wanted also to set the stage following the Seculert acquisition. There's two types of acquisition targets we're looking, technology ones, generally dilutive, but not much, and complementing the solution we have, and business acquisitions that we are planning that might be bigger in size with some customer base and revenues coming to it. And there, we are planning to be either breakeven or accretive.

In terms of prioritizing cash or buybacks versus M&A, we're not prioritizing one over the other as long as the business continues to generate well and in the level of $40 million. And given the -- especially the technology acquisition sizes that we are seeing, I think there might be room for both. But, obviously, that's for the Board to take based on the situation.

Jess Lubert - *Wells Fargo Securities - Analyst*

Thanks, guys.

Operator

Joseph Wolf, Barclays.

Joseph Wolf - *Barclays - Analyst*

Thank you. Just on the housekeeping side, and then I have a technology question, gross margin is I guess still in the range, and it's obviously still in the -- at a high level. But, are there any trends where it's down a little bit versus last year? And should the current level be something that we continue, or it's just there's some kind of mix issue going on?

And then just connected to that and without giving any guidance for 2017, just any comments on overall seasonality in terms of your customers' purchasing right now.

Doron Abramovitch - *Radware Ltd - CFO*

Okay. Hi, Joseph. I will take the first part of the question. You mentioned it's a mix issue. And these levels, we do see sometimes between countries, between specific deals, and of course, between the product lines that we have some difference. But, the 82% that we gave as the Q1 guidance is reflecting the overall trend for margins.

Roy Zisapel - *Radware Ltd - President & CEO*

Regarding the seasonality of the customers, we don't foresee in 2017, so far at least, different seasonality than we've seen in previous years. So, that's our planning assumption.

Joseph Wolf - *Barclays - Analyst*

Okay. And then, Roy, thank you for the example with that North America carrier. And I had two questions as a follow up on that. One is, when you have a situation like that, you said you had 50% market share over there already, and they had a legacy. Did that deal turn into a situation where you replaced and now you're at 100% or 75% of that customer's datacenters?

And second, when you come in for that sort of I guess emergency response, what kind of premium pricing are you able to extract as you -- when you get called in for that kind of specialization?

And then as sort of the follow on, can you in the context of this acquisition of Seculert, which I admit to not fully appreciating what they do yet, could you give an example of what Seculert would have added to your capability in that scrubbing situation or another example you could provide?

Roy Zisapel - *Radware Ltd - President & CEO*

Okay. So, first, regarding the situation at the carrier, so as I said, we were protecting 50% of the datacenters and with both on-prem high-end mitigators as well as Cloud service. The attack was on another datacenter that was protected by legacy equipment.

Now, what happens in -- after that situation is that they diverted, as I said, the traffic. I didn't say specifically, but because of the problem that there were several days up and down, they actually diverted the traffic, almost the whole United States, to get to a datacenter with free capacity for Radware mitigators. So, the diversion was not done over 50 miles or 100 miles. They took a major networking and latency decision because they didn't have any other way out.

Now, following such an incident where you're proving dramatic superiority and really a knock-out in attack mitigation, the customer decided that he will replace, of course, the other vendor with us over 2017 in all the datacenters.

It doesn't happen overnight, but he dramatically accelerated his plans with Radware to cover datacenters that he had some equipment for, but now he understands he's completely exposed. And the sense of urgency is there. The business impact is there. And as a financial justification it's there. And now, he built it into the -- into his budget.

Regarding the Seculert acquisition, I'll give you an example of what they can detect now. Some of the attack campaigns that someone takes over a computer in the enterprise network can take months.

If you're just trying for an incident that happens right now to decide whether it's attack or not attack, not always you have the complete picture and information. Sometimes started -- something started nine months ago. Then there's another step of penetration after several months. The final step just happened now.

Without the ability to understand the complete attack campaign, it's very hard to take a decision to block in real time. Now, datacenter appliances have limited storage, and they need to act it in very high capacity. We're talking hundreds of gigs.

It's impossible for them to store and to process such a long-time historical information to detect this very targeted attack campaign on a certain server, user, tenant in a Cloud datacenter, and so on.

The Seculert platform, being it big data in the Cloud, very strong ability to collect information, store it, and move in time with a big focus on security algorithms -- I mentioned the machine learning, supervised and nonsupervised one. They are able to capture these attack campaigns and connect the dots over a very long period of time.

So, those attacks that today in general are very, very hard to find, I will go on and say that, based on the statistics we've seen, 50% of enterprise networks at any given point of time are open to the recent malwares that are happening in the world within the last 30 days. So, 50% you can break in. It's not even that you need to do any magic.

We think with this capability to detect attack over time, to connect the dots, is a very, very strong complementary capability to what we have in our attack mitigation system. And that's what we plan to get to the market.

Joseph Wolf - *Barclays - Analyst*

Okay. So, this is effectively -- to use the movie terms, this is protecting against the long con.

Roy Zisapel - *Radware Ltd - President & CEO*

Yes.

Joseph Wolf - *Barclays - Analyst*

Okay. All right. That was very helpful. And just in terms of management -- final question on this, guys -- did the founders stay with the company? You said you have 20 employees. Is everybody part of the team? And is the earn-out based on management sticking around and really integrating with Radware?

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, it's -- the founders were not there, the initial founders, when we acquired, but management, the key management people, are staying. And when we've designed the earn-out, you would assume, based on multiple parameters, some you've mentioned, some are performance based.

Joseph Wolf - *Barclays - Analyst*

Perfect. Thank you.

Operator

Catharine Trebnick, Dougherty & Co.

Catharine Trebnick - *Dougherty & Co - Analyst*

Thanks for taking my question. Nice to see a solid print. One activity I wanted to give -- if you could give us more background on, are you seeing the acceleration in your opportunities of the tier one and two carriers and the Cloud providers following the Dyn DOS attacks last fall? Would you say that's one of the trends driving -- ?

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, I would say the Dyn attack -- and I'll take it even broader, the Mirai bot that was the vehicle by which Dyn was attacked, but also other targets around the world, like TalkTalk in the UK, Deutsche Telekom, Kreb's blog on security, and so on, I think the evolution of the attack tools, the attack vectors towards IoT, and the damage that those platforms, those attack platforms, can create made many people rethink their strategies, absolutely, especially in the carrier market.

So, that happened only -- Mirai botnet is -- was September, October, and so on. It's relatively recent. But, people took notice, and some of them are filling it last month, this month in their networks. So, definitely, that causes acceleration.

Catharine Trebnick - *Dougherty & Co - Analyst*

Okay. And then the follow on is, Roy, competitive landscape. A10 has a DDoS. NetScout has Arbor. F5's talking about their DDoS. Can you just give us some opportunities? Seems like -- where are you guys? Are you seeing any of these folks in some of the networks? I know the network you just mentioned on 50%, there's another competitor, that second source in that particular network from what I'm aware of. But, can you give us more background on the bakeoffs and why they're selecting you over maybe A10 or an F5 or NetScout?

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, so, the competition you've mentioned is with us for -- is not new. Those are the competitors for several years. One of them, by the way, was the product I mentioned as being in the other datacenter that failed.

I think there's a very, very big difference in our capabilities and our approach, which is unique. When you come to security, many of the systems around the world in the past until today are based on certain type of rules that are preset, so what's good and what's bad. You can look at an antivirus, IDS, IPS, and so on, so signatures, databases of things that are bad, and then you compare the traffic to what's bad. And if you have a match, you say that's bad traffic.

And the other major technology people are using is very basic threshold. If you have more traffic than X, it's bad. If you have less, it's normal.

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We have all these capabilities, but those are basic. We think they are incapable of dealing with the threat landscape and with the hacker sophistication. We believe, in security, it's going to be only about algorithms and math and ability to detect anomalies based on math, algorithms, behavioral, machine learning, fuzzy logic. This is what we were doing since 2006. This is our advantage. And every time a new attack tool comes out or any hacker that changes a beat, the attack program, everyone else is failing.

And they're failing because they're using those old models, very static, not dynamic, not learning, not algorithmic. So, it's very easy to fool them, fool them multiple ways. Either they don't detect, or they block legit users.

And we think our investment in behavioral security, in the fuzzy logic algorithms that we've built, has proven day in, day out that that's the only way to combat those attacks. I think you can see the evidence to the success, not only from the way I explained the technology.

Take Cisco. Take Check Point. They've done their homework. Take the largest CDNs in the world, the top tier carriers now. Everyone I think is understanding the difference and some of them taking very, very significant steps in adopting us over others.

Catharine Trebnick - *Dougherty & Co - Analyst*

All right. Thank you very much for the explanations, Roy.

Operator

Alex Henderson, Needham & Co.

Alex Henderson - *Needham & Co - Analyst*

Hi. A couple of questions. The first one, just mechanically, a little confused by the guidance. So, you gave guidance, and then you said you got to an EPS. Then you said: We'll adjust that by $0.02 relating to the acquisition. So, shouldn't we be adjusting the -- I assume that there's costs coming in. I assume that that's not in the $39 million to $40.5 million OpEx number and not in the cost of goods sold number. That's an adjustment to all of those lines?

Doron Abramovitch - *Radware Ltd - CFO*

No, the lines are already adjusted. The $39.5 million to $40.5 million OpEx are already including the acquisition. We just wanted to emphasize that there is -- in the beginning of the year, there will be some loss due to the development. And we will be able to fully implement this business. So, there is an impact. Without this one, our performance or EPS should be a bit higher, like I said, by approximately $0.02.

Alex Henderson - *Needham & Co - Analyst*

I see. So, the math that you gave us gives us the $0.00 to $0.02, and then you're pointing out that there's a $0.02 impact, which is why it's not $0.02 to $0.04.

Doron Abramovitch - *Radware Ltd - CFO*

Yes.

Alex Henderson - *Needham & Co - Analyst*

Okay. Thanks. That clarifies that. One more question, and I think this is just me being dumb. But, if I take your revenues from 2016 and your revenues from 2015 and subtract the two and take your deferred revenue and the increase of $20 million in deferred, your total deferred number, I'm coming up with a flat number. And can you help me explain, for stupid people like me, why that's not flat?

Obviously, you delivered much better than that, given the dollar per share and in cash generation. So, I'm still missing something here in my logic of why that's not a lesser revenue growth rate than what you're implying.

Roy Zisapel - *Radware Ltd - President & CEO*

Okay, Alex. Thanks a lot for the question. I think it's a key point you're raising. When we're talking about subscription, some of the contracts we're getting is a five-year contract, but invoiced quarterly or invoiced yearly.

When it's invoiced quarterly, yearly, monthly, you're not seeing at all, even in the total deferred, the stuff we did not invoice. So, if I have a five-year contract or one-year contract invoiced monthly and that we've booked in December, in the total deferred, you're going to see only one month, the first month. You're not going to see, because it was not invoiced at all, all the rest, although we have a committed contract, no cancellation, no exit, etc. So, there's another layer of those future invoices.

Alex Henderson - *Needham & Co - Analyst*

All right. So, if I were to use an ARR calculation as opposed to the total deferred calculation, I would be seeing what kind of growth rate in ARR?

Roy Zisapel - *Radware Ltd - President & CEO*

Only on the Cloud subscriptions, yes, correct.

Alex Henderson - *Needham & Co - Analyst*

But, I would see a significant growth rate in ARR, reported ARR.

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, yes, yes.

Alex Henderson - *Needham & Co - Analyst*

All right. Thanks.

Operator

Michael Kim, Imperial Capital.

Michael Kim - *Imperial Capital - Analyst*

Hi, guys. With regards to the Seculert acquisition, beyond the technology integration, do you see an opportunity to develop sort of additional Cloud services SKUs, provide an add-on sale opportunity, or for the AMS, just enhancing the value proposition and driving maybe a little bit better pricing?

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, we see that opportunity, but let us update you when we are releasing or when time comes.

Michael Kim - *Imperial Capital - Analyst*

Okay. And then just on the sales organization, can you talk a little about some of the investments that you're working on in EMEA and APAC, how you see kind of the sales organization developing, both from a leadership perspective and then down to the second level beyond that?

Roy Zisapel - *Radware Ltd - President & CEO*

So, as I mentioned in my remarks, we are adding resources where we see the focus of us going forward. So, I've mentioned security. I've mentioned Cloud services. In both areas, we're raising field resources, security architects, Cloud architects, Cloud services salespeople, and so on.

In addition, I've mentioned Check Point and Cisco and the OEM in general. We are adding field resources also around that because we believe that would be a growth area for us. So, we are adding resources very aligned with my prepared comments. We are targeting some of the key markets in APAC and EMEA.

Apart from that, we are obviously dealing with regional execution issues, like the normal course of the business that we are addressing.

Michael Kim - *Imperial Capital - Analyst*

Great. And then lastly, the ramp in the number of new -- net new Cloud customers, how should we think about the opportunity to expand into those customers over time? Does it look similar to what we've seen historically with the on-premise datacenters and traditional deployments?

Roy Zisapel - *Radware Ltd - President & CEO*

So, we think, when we are serving a customer as a Cloud operator, sometimes we're becoming not only the security provider, sometimes also the networking provider for that datacenter or for that application. We think those relationships are quite strategic and are taking place quite often.

We believe this trusted adviser position we can get to through those relationships is very strategic in order to leverage the rest of our portfolio, both the on-prem devices as well as the ADC product line, etc. So, we are -- we see this trend of adding net new customers in so many through the Cloud initiative as a very positive one for the overall business.

Michael Kim - *Imperial Capital - Analyst*

Great. Thank you very much.

Operator

George Notter, Jefferies.

George Notter - *Jefferies - Analyst*

Hi, guys. Thanks very much. I guess I wanted to go back to the Cisco FirePOWER relationship. And earlier in the call, I think you guys mentioned that there's a particular release that you're looking for out of Cisco. I'm a little bit confused because I know there's a couple iterations of FirePOWER that have been shipping already. There's a service provider product. There's an enterprise-based version as well. I guess I want to be really precise on what you're looking for there and how it translates into OEM sales. Thanks.

Roy Zisapel - *Radware Ltd - President & CEO*

Yes, so, as I mentioned, some of those models are in early availability. The current platforms that are available are mainly available in the firewall version, in the regular ASA type firewall.

Our core target for the OEM is the next-gen firewall of Cisco. And I think there's a major release that is -- should take place quite soon, after several delays. And that's the prime I think focus of the Cisco security sales organization and of the Radware OEM.

George Notter - *Jefferies - Analyst*

Got it. Thank you.

Operator

There are no further questions at this time. I'll turn the call back over to the presenters.

Roy Zisapel - *Radware Ltd - President & CEO*

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

Operator

This concludes today's conference call. You may now disconnect.