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RDWR.OQ - Q4 2025 Radware Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. and welcome to Radware's fourth quarter and full year 2025 earnings call. (Operator Instructions) I must advise you that this call is being recorded today.

I now like to hand over the call to our first speaker today, Yisca Erez, Head of Investor Relations. Yisca, please go ahead.

Yisca Erez - Radware Ltd - Director Investor Relations

Thank you, operator. Good morning, everyone, and welcome to Radware's fourth quarter and full year 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 fourth quarter and full year, 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 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 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 28, 2025. 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.

Before I turn it over to Roy, I'd like to remind you that we're hosting our Investor Day on February 17 in New York City. If you haven't received the registration email, please email us at ir@radware.com.

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 that we ended 2025 on a high note with all major financial metrics, revenues, EPS, total ARR, and cloud ARR, reaching record highs.

In Q4, revenue increased 10% year-over-year to \$80 million, and non-GAAP earnings per share grew 19% to \$0.32. For the full year, we also delivered 10% year-over-year growth in revenues, surpassing \$300 million, while growing our RPO to \$400 million.

Over the last year, we've executed a strategy to accelerate our revenue growth and strengthen our position as the best-of-breed provider in application and data center security. Our strategy is built on three core pillars: gaining meaningful market share in cloud security, leading through AI and algorithmic-driven innovation, and expanding our go-to-market footprint. Well, we did it, and our strategy proved itself.

The cloud security business continued to grow at a healthy pace and remained a key driver of our results, with cloud ARR rising 23% year-over-year and 7% sequentially to \$95 million in the fourth quarter. This shows accelerated growth from 19% in the beginning of 2025 and demonstrates strengthening momentum throughout the year.

We achieved our goal of reaching nearly \$100 million in cloud ARR by year-end, underscoring the confidence customers place in Radware to protect their mission-critical applications. One example among the many cloud deals we secured in Q4 is a seven-digit deal with a European financial group, a new logo which is undergoing a major data center buildout.

We were selected to provide a comprehensive cloud web and API solution, web DDoS protection, and more, all aligned with the stringent regulatory and operational demands. Our strong technological leadership and trust relationship enabled us to overtake the competition.

To support rising cloud demands, we continue to invest in our cloud infrastructure. We expanded our global footprint with a new cloud security center in Singapore, and we also continued scaling our cloud security network, advancing mitigation capacity towards 30 terabits to stay ahead of the increased attack volume and fortifying the foundation for continued cloud security growth.

This quarter, we expanded our cloud security offering with the launch of our new Radware API Security Service. We view API security as a new wave of growth, the third wave following DDoS and application security. As APIs become increasingly central to modern software architecture, customers need real-time visibility and protection against business logic attacks and coverage for shadow APIs.

To further expand our API security offering, we announced the acquisition of Pynt security, whose API testing technology identified vulnerabilities before the APIs reached production. With Pynt, we now offer a full-life cycle API security solution, spanning testing, discovery, posture management, and runtime protection, enhancing our value proposition, accelerating our roadmap, and strengthening our position to capture opportunities in this rapidly expanding market. This is truly exciting news and an enhancement to our cloud security platform.

But we did not stop here. We just released our new Agentic AI Protection solution, which marks yet another major expansion of the Radware security platform. As organizations use agentic AI agents, risks like intent manipulation, prompt-based attacks, and unauthorized data access increase. Our solution leverages a new set of behavioral algorithms and provides real-time AI agent discovery, intent detection, integration with top AI ecosystems, and ongoing security management.

These advancements help enterprises adopt AI securely and support Radware's continued platform growth. This new capability positions Radware at the forefront of securing the next era of AI. We look forward to sharing more about our AI vision and roadmap on our Investor Day.

Fueled by strong cloud ARR momentum, subscription revenues surged 21% year-over-year, a sharp acceleration from 12% growth in 2024. Importantly, this momentum was also driven by robust demand for product subscriptions. This demand was driven by very strong DefenseProX refresh cycles and major competitive displacements, resulting in exceptional double-digit year-over-year growth in DefenseProX in Q4 and for the full year of 2025. Looking ahead, our pipeline remains robust across both existing and new logos, and we plan to take full advantage of our technology leadership in this space.

We closed multiple large DefenseProX deals in the fourth quarter. One eight-digit win was a major strategic expansion with a government IT services agency in North America. Facing an upcoming end-of-life refresh, the customers selected our next-generation DefenseProX architecture, reinforcing our deep technical engagement and proven on-prem capabilities, as well as our long-term relationships.

Another important win is a multi-million-dollar agreement for a hybrid cloud DDoS with a new logo, top 10 global SaaS and IT services management leader. Facing repeated large-scale DDoS, the customer required fast, reliable mitigation at global scale, and its legacy solution could no longer meet performance and resilience needs. The customer replaced its on-prem vendor and cloud DDoS vendor with Radware DefenseProX and cloud DDoS protection. Our detection accuracy, automation capabilities, and proven ability to protect mission-critical applications were key differentiators that drove the wins and positioned us as a strategic partner for their continued expansion.

Overall, 2025 was a year of improved execution and meaningful progress across the business. We delivered record results driven by continued expansion in cloud security and increased momentum in our go-to-market engine. Additionally, we advanced our technology leadership with significant innovation in AI security and API security.

With a stronger foundation, a strengthening go-to-market approach and enhanced TAM, leading security platform, and rising demand for modern security solutions, we're carrying this momentum forward as we move into 2026.

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 will review the financial results and business performance for the fourth quarter and the full year of 2025, as well as our outlook for the first quarter of 2026.

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 to non-GAAP basis is available in the press release issued earlier today and in the Investor section of our website.

We closed the fourth quarter with a strong finish, delivering record revenue and record non-GAAP earnings per share for both the quarter and the full year. In Q4, revenue increased 10% year-over-year to \$80 million, driven primarily by continued momentum in our cloud security offering and the DefenseProX, both new logos and refresh. For the full year, we delivered 10% year-over-year growth in revenue to a record of \$302 million.

Cloud security offering continued to be a key contributor to our performance. Cloud ARR grew strongly in the fourth quarter, increasing 23% year-over-year, and we ended 2025 with \$95 million in cloud ARR. Cloud ARR was the primary catalyst behind the acceleration of total ARR from 8% in Q3 to 11% growth year-over-year, reaching \$251 million and becoming a larger share of our overall ARR mix. We will elaborate on this trend at our upcoming Investor Day next week.

As we indicated on our last call, Q4 delivered exceptional booking performance, delivering RPO to a record of \$400 million, up nearly \$50 million from 2025, and 13% year-over-year growth. This reflects solid demand and improving deal visibility as we look ahead to 2026 and beyond.

Looking at regional performance. In the fourth quarter, the Americas region declined 4% year-over-year to \$32 million, while in the full year of 2025, the Americas grew 6% year-over-year to \$125 million, representing 41% of total revenue. As highlighted earlier, we had an exceptional booking quarter led by the Americas, and we expect this strength to translate into revenues over the coming quarters.

EMEA delivered performance in Q4, revenue increased 38% year-over-year to \$32 million, accounting for 40% of total revenue. For the full year, in EMEA revenue grew 18% year-over-year to \$111 million, representing 37% of total revenue.

In APAC, fourth quarter revenue declined 3% year-over-year to \$16 million, accounting for 20% of total revenue. For the full year, APAC revenue grew 5% year-over-year to \$66 million, accounting for 22% of total revenue.

Turning to profitability. We delivered solid margin in the quarter, supported by a favorable mix model leverage and continued scalability in our cloud business. Gross margin was healthy at 82.2% in Q4 and in the full year of 2025, compared to 82.4% in Q4 2024 and 82.2% in 2024. Operating margin expanded by 240 basis points in the fourth quarter and by 330 basis points in the full year of 2025. Our operating expenses reflected targeted investment in innovation, cloud infrastructure, and go-to-market initiatives that support our future growth, and we plan to increase these investments in 2026.

Following February 2026 financial review, it was decided based on accounting principle to classify Skyhawk operation as a discontinued operation and exclude it from our non-GAAP reporting as of the first quarter of 2026. Importantly, we expect EdgeHawk to begin generating revenues in 2026. Therefore, we will no longer provide an EBITDA breakdown, as we expected the negative EBITDA contribution to be marginal.

Adjusted EBITDA for the fourth quarter of 2025 increased by 25% to \$13.7 million, compared to \$11 million in the same period of last year. Excluding the Hawks businesses, adjusted EBITDA for the fourth quarter was \$16.9 million, representing a 21.1% EBITDA margin, up from \$13.7 million and 18.8% EBITDA margin in Q4 2024.

Adjusted EBITDA for the full year of 2025 increased by 37% to \$47.4 million, compared to \$34.7 million in 2024. Excluding the Hawks businesses, adjusted EBITDA for 2025 was \$58.8 million, representing a 19.5% EBITDA margin, up from \$45.6 million and 16.6% EBITDA margin in 2024, a testament to the operational leverage in our core business.

Financial income for the fourth quarter and full year of 2025 was \$5.1 million and \$21.1 million, respectively, up from \$5 million and \$17.8 million in the same period of last year. Due to lower interest rate, share repurchase plan, and M&As, we expect lower financial income in 2026.

Our effective tax rate for the fourth quarter was 14.9%, compared to 15.4% in the same period of 2024. For the full year of 2025, effective tax rate was 15.3%, compared to 15.4% in 2024. We expect the effective tax rate to remain approximately at the same level in the coming quarter.

Net income rose 21% year-over-year to \$14.5 million, compared to \$11.9 million in Q4 2024, and diluted earnings per share increased by 19% to \$0.32, up from \$0.27 in the same period last year. For 2025, net income rose 37% year-over-year to \$51.5 million, compared to \$37.7 million in 2024, and diluted earnings per share increased by 32% to a record of \$1.15, up from \$0.87 in the same period last year.

Turning to cash and the balance sheet. Cash flow from operations in Q4 2025 was \$17.3 million compared to \$12.7 million in the same period last year. Cash flow from operations in 2025 was \$50.1 million compared to \$71.6 million in 2024.

During the fourth quarter, we repurchased shares in the amount of approximately \$10.5 million. We ended the quarter with a strong liquidity position holding approximately \$461 million in cash, cash equivalents, bank deposits, and marketable securities. This cash position provides us with flexibility to invest in organic growth, support cloud capacity expansion and product innovation, maintain a disciplined approach to capital allocation, and pursue acquisitions that enhance our cloud platform, such as the acquisition of Pynt, a technology tuck-in acquisition which strengthened our API security capabilities.

And now to the guidance. We expect total revenue for the first quarter of 2026 to be in the range of \$78 million to \$79 million. We expect Q1 2026 non-GAAP operating expenses to be between \$54 million to \$55 million.

The expected increase in Q1 2026 OpEx versus the fourth quarter 2025 reflects our continued investment in innovation and go-to-market, along with approximately \$1.5 million of exchange rate impact associated with the US dollar weakening. We expect Q1 2026 non-GAAP diluted net earnings per share to be between \$0.28 to \$0.29.

With that, I'll turn the call back to the operator, and we'll be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joseph Gallo, Jefferies.

Joseph Gallo - Jefferies LLC - Analyst

Hey, guys. Thanks for the question and nice job this quarter. Our RPO grew 14% in 2025, which I think was double what you were targeting. Can you just talk a little bit more about what drove that strength and what your expectations for RPO growth are in 2026?

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

Yeah. I think, as Guy mentioned and also in my comments, with very, very strong booking driven both in cloud and in product subscriptions. So definitely, we saw a lot of momentum there. And as those subscriptions are being recognized over the period of the contract, obviously, RPOs are growing nicely.

For next year, at this point, we expect RPO to grow in line with the revenue growth. Of course, there's opportunities to do more than that, but at this point, that would be our expectation.

Joseph Gallo - Jefferies LLC - Analyst

Okay. No, that's helpful. And then, listen, I know the EMEA was really strong. US declined a little bit. Part of that is just due to the tough 4Q '24 comparables. But could you just unpack a little bit more? I know you've invested heavily in go-to-market in the Americas. Just an update on if any changes are remaining there and when we can see a rebound in the growth profile of the Americas. Thank you.

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

Yeah. I think, from a booking perspective, North America had a very, very strong Q4 with very significant growth. Yes, you don't see it in the revenues, but from the numbers, we see the traction we see. We've done a lot of progress this year and in Q4 specifically.

And as part of our 2026 plan, we are actually increasing our investments in North America. We'll talk about it in the Investor Day, but we are adding more personnel, additional ways to market, and so on. So we think we're progressing well, and we're confident that we can continue to grow there significantly.

Joseph Gallo - Jefferies LLC - Analyst

Thank you.

Operator

Chris Reimer, Barclays.

Chris Reimer - Barclays Services Corp - Analyst

Hi. Congratulations on the strong quarter. Thanks for taking my questions. I was wondering if you could talk about the broader market environment where we've seen a lot of volatility in relation to potential AI disruption in cloud services? How do you think security in particular is positioned? Would you agree that it's a bit more defensive? And then if you could just explain maybe why?

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

Yeah. I think, to begin with, obviously, attacks continue to take place, and you need very strong security. And I think what's unique in security is that the hackers are also using AI. So not only that attacks continue, they're actually becoming more sophisticated, more volumetric, more frequent, and more dangerous.

And on top of that, the circle of possible attackers is being expanded because today, even someone who's not an expert using tools, and it's becoming more and more as time goes, they can become very, very professional by using prompts on open-source models, on malicious models, and so on. So even the gaps between the, I would say, a regular hacker and a very professional hacker is constantly eroding.

As a result of that, I think there's a fundamental shift and requirement on the different side to use way more algorithms than AI. And it actually plays to our strength for many, many years. As you follow us, we are constantly talking about algorithmic security, AI-based security, and so on. And it's becoming clear that that's the only way to protect. So that's item number one. You need AI-based defense because the attackers are using AI. And whether they displace the applications on the enterprise side or not, attacks continue, becoming more frequent, more malicious. You need better security. Radware is positioned extremely well here. That's item number one.

Item number two is, as you deploy those AI agents, you give them access to all of your tools, data, resources, enterprise applications. And suddenly, there's a huge risk. From a productivity perspective, it's clear why we do it. It's clear why enterprise are interested, and so on.

If you look from a security point of view, suddenly, those entities, those non-human entities have access to everything. And if I'm a hacker, I'm now targeting them instead of targeting the human, and I'm getting control over them, the damage is enormous. There's no limit even to the size of the damage, leaking personal information, changing files, deleting resources, you name it. It's a complete chaos.

We are targeting that market, protecting the agentic AI, those AI agents, with our new AI security offering. So we're seeing a completely new TAM, a huge opportunity in front of us to secure those agentic AI and a great growth opportunity. That's what we are targeting with the new solution.

So for us, this agentic AI is a significant TAM expansion that we are going after, and we believe that can be another growth area for the company beyond DDoS, beyond the continuation of the WAAP, but we're doing very well there. Beyond the new wave of API, we see agentic AI as yet another growth driver.

So I'm looking at AI on multiple ways, the attacker using AI, and then the need to protect by AI a lot of your applications. And then the second wave is protect the AI, agentic AI. And last but not least, as users will start to use those AI agents and AI browsers to approach applications, we will need to enable the service of those AI agents. And that's another layer.

We are going to cover it in the Investor Day. We call that Serve AI. We're seeing three distinct major opportunities with AI, and we're excited about the opportunity ahead.

Chris Reimer - Barclays Services Corp - Analyst

Great. Thanks. That's really helpful. Good color. Just one more on the revenues guide for Q1. And forgive me if I'm wrong, but to me, it seems like it's a little higher than the usual Q1 seasonality. Are there any differences going into Q1 or maybe something specific impacting?

Guy Avidan - Radware Ltd - Chief Financial Officer

Well, actually, you're right. It is different. Normally, we're seeing a sharp decline after Q4. But as we both mentioned in our script, we saw strong demand in Q4, and we are entering the year with very solid backlog that gave us confidence that Q1 revenue is going to be according to the guidance.

Chris Reimer - Barclays Services Corp - Analyst

Great. Got it. Thank you. That's it for me.

Operator

Ryan Koontz, Needham.

Jeff Hopson - Needham & Company - Analyst

Hi. This is Jeff Hopson on for Ryan Koontz. Congrats on the quarter, and thanks for the question. For the API and agentic AI security solutions, will any changes needed to be made to the sales motion to best sell these?

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

Yeah. Great question. So for the API security, we think it's squarely within the knowledge, capabilities, existing go-to-market of our Salesforce. And it's actually a great extension and expansion of our current cloud security motion with customers. It's the same buyer and so on.

AI is a completely new market. Even responsibilities for that within the organization of who will actually protect the agentic AI. Is it the CISO? Is it security operations? Is it the business? Are yet unclear. And for that, we've already assembled a dedicated agentic AI go-to-market overlay group that's actually working in tandem with our sellers and channels to advance our position in this market.

And as the year will evolve, we'll see how to completely integrate it into our Salesforce. But API completely integrated, already all our workforce is trained accessing customers. And for AI, it's this overlay effort that I've mentioned.

Jeff Hopson - Needham & Company - Analyst

Got it. Thank you. And you also noted a win for DefensePro X refresh that was facing end of life. I guess, how far along are we in that refresh cycle, or how many customers are out there still needing to refresh?

Guy Avidan - Radware Ltd - Chief Financial Officer

We're now at the end of sale, and we haven't crossed half of the way. So we still have a long runway here in terms of refresh.

Jeff Hopson - Needham & Company - Analyst

Got it. Thank you very much.

Operator

George Notter, Wolfe Research.

George Notter - Wolfe Research LLC - Analyst

Hi, there. Thanks very much, guys. A few questions. I was just curious about the agentic AI product. I'm trying to figure out how you guys are going to go to market with that in terms of just the commercial arrangement. How are you guys going to price it? I assume it's a subscription-based offering. Is it cloud-managed? Does it run on DPX? Is it a hybrid model? Anything you can share would be really helpful. I've got some follow-up questions too.

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

Okay. So at the high level, it's a hybrid model. It's subscription-based. It's cloud-managed. And there are multiple options. Some are per seat, and some are a certain yearly subscription per agent and usage-based on tokens, depends if it's enterprise AI agent or it's a co-pilot-like operation.

We will provide much more information and details on all these agentic AI options and go-to-market in our Investor Day. But that's the current go-to-market.

George Notter - Wolfe Research LLC - Analyst

Got it. And then is it sold à la carte, or is it bundled as part of a larger Radware offering around cloud and subscription?

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

It can be done both ways.

George Notter - Wolfe Research LLC - Analyst

Got it. Okay. Then I'm just curious, if you think about agentic AI and enterprises deploying agentic, I'm curious about how you see the intersection of the marketplace with your timing on product delivery. Certainly, it seems like many enterprises are struggling to roll out agentic and kind of move from proof of concept to commercial deployment.

I know there's a lot of pitfalls in that process. Many of them are sort of operational and concerns about data and security, and that kind of feeds into your business. But how do you think about the timing of your product relative to the development of the marketplace, and then how quickly could this product ramp? Thanks.

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

Yeah. I think we have great timing because now it's really when enterprises will start moving those POCs into production. So it's very early time, like you're saying.

And we're coming with a very, very strong offering there. It's not only guardrails or some rules based on model. It's complete behavioral algorithms, testing, and POCs with customers have proven very, very strong results. So we think we're in a great time to the market. I think there's a lot of possible alliances as this market is very early and shaping up.

FEBRUARY 11, 2026 / 1:30PM, RDWR.OQ - Q4 2025 Radware Ltd Earnings Call

And three, like you said, there's a major concern with those AI agents on compliance, on security, on data leak. And those are the problems we solve. So I think your security is even more critical, as much as I can say that, than in a regular application. Already there, it's obviously critical because it's fundamental to the use of agentic AI.

So I think the role is critical. I think it can drag with it a lot of our other offerings like API security, like web security for the same applications that the agentic AI is covering. So there's tremendous opportunity for us here.

George Notter - Wolfe Research LLC - Analyst

Great. Thank you very much.

Operator

There are no further questions. I'd like to hand over the call to Roy for a closing statement.

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

Thank you, everyone. And we look forward to meeting you next week in our Investor Day. Have a good day.

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