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CORPORATE PARTICIPANTS

Anat Earon-Heilborn *Radware Ltd. - VP of IR*

Doron Abramovitch *Radware Ltd. - CFO*

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

CONFERENCE CALL PARTICIPANTS

Alexander Frankiewicz *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

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

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

Ittai Kidron *Oppenheimer & Co. Inc., Research Division - MD*

Joseph Eric Wolf *Barclays Bank PLC, Research Division - MD & Head of Equity Research*

Mark Daniel Kelleher *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Zack Turcotte *Dougherty & Company LLC, Research Division - Anlayst*

PRESENTATION

Operator

Good morning, my name is Sharon, and I will your conference operator today. At this time, I would like to welcome everyone to the Radware Q3 2018 Earnings Conference Call. (Operator Instructions)

Anat Earon-Heilborn, VP, IR for Radware, you may begin your conference.

Anat Earon-Heilborn - *Radware Ltd. - VP of IR*

Thank you, Sharon. Good morning, everyone, and welcome to Radware's Third Quarter 2018 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 third 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. 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 the macro product, 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 as filed on March 28, 2018.

Please note that in November, management will participate in the Needham Networking, Communications and Security Conference in New York and the Credit Suisse Technology, Media & Telecom Conference in Arizona. In December, management will principate in the Barclays TMT Conference in San Francisco.

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

Doron Abramovitch - *Radware Ltd. - CFO*

Thank you, Anat, and good morning, everyone. We reported today another solid quarter with continued revenue growth and a marked increase in profitability. We are on track to achieve our target and have strong confidence in our ability to deliver increased operating leverage as reflected in Q3 results.

Revenues for the third quarter were $58.8 million at the high end of our expectations and up 11% year-over-year. Revenues from the Americas were at the same level as last year and accounted for 45% of total revenues. Revenues from EMEA were up 28% year-over-year and represented 30% of total revenues and revenues from Asia Pacific were up 14% and represented 25% of the total.

Once again, the quarterly fluctuations in revenue recognition affected the geographic trends, and we, therefore, believe that the 9 months revenue growth gives a better indication of the regional trends. For the first 3 quarters of 2018, revenues from the Americas were up 8% year-over-year, revenues from EMEA were up 27%, revenues from Asia Pacific were up 2% year-over-year. Revenues from the enterprise vertical represented 68% of total revenues and increased 26% from Q3 last year. And revenues from the service providers vertical decreased 12% from last year.

Cloud subscriptions continued to be the fastest growing type of revenues. Recurring revenues that include subscription and support represented over 60% of total Q3 and 9 months revenues, up from approximately 56% in full year 2017.

I will discuss now expenses and profit all in non-GAAP terms. Non-GAAP gross margin for the third quarter was 83% compared with 82.1% last year, exceeding our guidance thanks to a favorable mix -- product mix. Our non-GAAP operating expenses were $42.4 million at the same level they were in Q3 2017 and below our guidance. Moderate increase in salaries and related expenses and in marketing expenses were offset by a moderate benefit from a stronger U.S. dollar compared to last year. Headcount at the end of September was 970, almost at the same level in the last 3 years.

Our non-GAAP operating profit in Q3 2018 was approximately $6.3 million represented a 10.7% margin and up from a 2.1% in Q3 2017. Non-GAAP tax rate for this quarter was approximately 14%. Non-GAAP net income was $7.1 million or $0.15 per share diluted, well above our guidance for the $0.10 to $0.11 per share and up from net income of $1.8 million or $0.04 per share diluted in Q3 2017. The strong non-GAAP EPS was driven largely by strength in revenue and gross margin, expenses discipline and stable headcount.

Turning to cash balance sheet. We ended the third quarter with approximately $382 million in cash and financial investments, up from $367 million last quarter. We generated close to $9 million of operating cash flow in Q3. We ended the quarter with total deferred revenue balance of approximately $151 million, up 8% from September 2017 and below our expectations mostly because of timing of booking and invoicing. October bookings were very strong and as a result, we believe we are back to our normal business model for Q4 and for the full year.

And now to outlook for the fourth quarter of 2018. We expect Q4 '18 revenues to be between $62 million and $64 million. Non-GAAP gross margin to be approximately 82% to 82.5% and non-GAAP operating expenses to be between $44 million and $45 million. We expect tax rate to be approximately 14%. Non-GAAP EPS for Q4 is, therefore, expected to be between $0.16 and $0.18.

I will now turn the call over to Roy.

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

Thank you, Doron. Today we are pleased to report double-digit revenue growth, increased profitably and solid cash generation. Market conditions are favorable; however, we did experience delays of the few cloud and subscription deals that we expected to close in the third quarter and then -- and ended up closing in October. As a result, we had exceptionally strong bookings in October, and we, therefore, expect a strong fourth quarter.

Our focus on availability and security solutions for the private, hybrid and public cloud addresses our customer needs. And we are well positioned to be able to address their concerns, as they embrace in utilizing cloud services. Our offering not only provides broad protection, alongside full solution management services, but also excels in adaptability to various deployment environments and provides flexibility that is particularly critical in periods of transition and expansion. For example, one of our customers, the global SD-WAN provider, who has been experiencing rapid growth was looking to expand its attack mitigation architecture quickly. As a result, they have decided to evolve from on-network DDoS protection in multiple nodes to a global cloud DDoS protection across tens of locations. This was one of our largest deals the third quarter in total and a very significant addition to our subscription booking. Another aspect of the cloud transition is the strength we're seeing in Infrastructure-as-a-Service, Platform-as-a-Service and Software-as-a-Service providers. It is vital for such customers to protect the shared infrastructure they are using. In order to provide cloud services to thousands of customers, they must ensure that an attack on one customer will not affect all the others. Just to give you some perspective on the scope and scale of these security challenges, one of our customers, a leading Infrastructure-as-a-Service company, shared with us recently that our appliances blocked more than half a million DDoS attacks over a 2 months period, which is 6 attacks per minute.

We have seen much success with this profile of customers over the past couple of years and some of the leading players in this vertical increasing their reliance on our solutions. In the third quarter, we received 7-digit expansion orders from 3 such customers, including the win we announced a few weeks ago. We continue to invest in our portfolio of cloud and security solutions. And just last month, we announced the new capability for our cloud WAF, named application analytics. Expanding our management and visibility plane in our 4-layer solution strategy, this capability enables fast and effective response to security events. It does so by applying advanced machine learning and big data algorithms to detect recurring patterns within the log data and converting them into actionable user activities, providing visibility, precision and control over security events.

The cloud environment creates new security challenges. We will continue to leverage our advanced algorithms and machine learning cloud native analytics to introduce more solutions for this environment and expect to expand our offering in the coming quarter with new cloud security solutions.

Increasing our market footprint is a top priority, and we strongly believe that third-party relationships are key to delivering growth that is beyond the reach and bandwidth of our direct sales force and traditional channels. Specifically, our relationship with Cisco continue to develop, and we see growth in booking and increase pipeline as well as stronger engagement, which is more geographically diverse than it was a quarter or 2 ago. This is partially thanks to our deeper involvement in activities such as account mapping, customer meeting, pipeline follow-up and so on.

Just recently, Cisco was named the leader in 2018 Gartner Magic Quadrant for enterprise network firewalls. Gartner lists that the DDoS mitigation capabilities provided by Radware as one of Cisco firewall strengths and a competitive differentiator. This was incremental in getting Cisco very excited about the Radware partnership.

Let me remind you that as of the second quarter Cisco added our cloud solutions to its reselling portfolio, and indeed, the current pipeline reflects the diversity of the Radware offerings. We continue to be very optimistic about the prospects of this partnership in the long run.

In summary, we are pleased with the solid top line performance and strong improvement in profitability. We are on track to close 2018 on a very positive note. Our unique and evolving solution portfolio strongly position us to benefit from the key long-term trends such as continued shift of applications to the cloud, and the ever-evolving security sets. We're making consistent progress on all aspects of our strategy to ensure our success in the long term.

And with that, I will now open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

[Operator instruction] Your first question comes from Ittai Kidron with Oppenheimer.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

Roy, maybe you can just drill down on the delay in the cloud deals. Is there any common denominator here? Is this something of concern? Or it's just -- negotiations just took a little bit longer than planned?

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

I think we're now engaged in larger deals on the cloud front and also in the subscription front, on multiyear, multimillion subscription deals. And in these deals, we are seeing a more prolonged, I would say, negotiation not only around the contract but across the SLA of the cloud and so on. In addition as we go deeper into the security and becoming more strategic to our customers, we've seen couple of deals when they did a cyber-risk assessment on us as a company and so on. But I don't think there's something out of the ordinary, we will sharpen our execution on that front. We've added, for example, lawyers in Radware. And as I said, we have closed all the majority of these deals already in October, and we feel very good on that angle.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

Got it. Well I guess, maybe, reflecting on this, as I look at your OpEx, I mean clearly you guys have done a fantastic job in keeping OpEx in check, but your R&D expenses have really been flat for almost 2 years now, no improvement or increase there. Your sales and marketing also -- pretty much almost no year-over-year growth in it. You think you're running too light from an operating structure? You think you've got the bodies that you need to keep up with the innovation, to keep up with increased opportunities? Is this not a time to -- as you think about into the '19 period to start hiring again and kind of beefing up your organization?

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

We -- at the high level, we agree. We are increasing now in sales and marketing in select regions, select verticals, select strategic partners. We definitely have a lot now -- more customers and potentially large deals to work on. And we -- I'm expecting some addition to R&D. We feel very good about the innovation track record and getting that part of our business more efficient, and in G&A, we feel all in all good about our level of spend. So we are increasing sales and marketing along with revenues and making sure that there is leverage in the business like I think, we have shown this year. But I agree with you, it's time to add more and grow more.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

Got it. And then lastly for me on the service provider side. I guess, third quarter on a row for year-over-year declines there. I know this business could be lumpy, but is there anything in there that gives you concern? And can help us, kind of, better understand the patterns that are in that business?

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

I think it's lumpy. I don't think we are losing share. I believe some of the large deals also have some revenue recognition clauses attached to it. And in general, if you look on the company, all the cloud services and the subscription as we've discussed several -- in the last several quarters are targeting the enterprise market. Initially, everyone was concerned with the enterprise growth, and we said, "Just wait, you will see that through the subscription." The carriers are more CapEx deals, lumpy. I don't -- we don't read any much to it, and our focus is really growing the cloud and security business, which is predominantly enterprise. And as I've mentioned, SaaS providers, and Infrastructure-as-a-Service provider and so on.

Operator

Next question comes from Joseph Wolf with Barclays.

Joseph Eric Wolf - *Barclays Bank PLC, Research Division - MD & Head of Equity Research*

I had a question about the comment you made about the deferred revenue growth and then closing that number. Are you implying that the deferred revenue would have been around 15% growth in the quarter, if the deals had closed? And we can think about what the 3Q revenue beat would have been had those deals closed, or should we not think about it that way?

Doron Abramovitch - *Radware Ltd. - CFO*

Joseph. So as you know, we review the trends year-over-year. This is what you're doing, and this is what they're reflect in their business. Overall this quarter, we had an 8% year-over-year growth, which is a bit lower than what we expected because of the trends. But Roy mentioned that there were a couple of nice deals that we already won in October that obviously would have changed the trend and go to our -- what we plan to see. So overall, as I said, October booking was very strong, and we'll see in the end of the year, if things will be as we expect that the growth base of the deferred revenue will be higher than the revenues.

Joseph Eric Wolf - *Barclays Bank PLC, Research Division - MD & Head of Equity Research*

And I guess just as a follow-on, Roy mentioned in his answer to some of that pushout as you referring to larger deals with some of your customers, and they take longer to close. Does that mean that the deals that were closed are on average larger than the deals you closed earlier in the year?

Doron Abramovitch - *Radware Ltd. - CFO*

No, not necessarily. I think that Roy implied the 2 nice deals that we won, but it's not something special, it's a common deal that we have. It's not something very unique.

Joseph Eric Wolf - *Barclays Bank PLC, Research Division - MD & Head of Equity Research*

And then just finally as a follow-up to the prior question or one of your answers with the split of enterprise versus services. So if I understand this now are most of your solutions that are going to the cloud customer-driven? Or do you also have cloud providers that are using your solutions across their customer base? Can you describe some of the -- whether there are instances of both? And when we -- if you sell directly to the cloud provider, who offers it across his customer base, would that be a service provider sale? Or would that be an enterprise sale?

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

Okay. So in general, we do sell both, meaning we have customers that are Infrastructure-as-a-Service customers that deploy our systems, and we'll provide the service. Those will be still classified under carrier and service provider. However, Software-as-a-Service are being classified under enterprise for us. And even if they use that as part of protecting their application because they are not selling the security service per se, unlike the Infrastructure-as-a-Service player. And then as I've mentioned in my previous answer, the vast majority of our cloud service business, meaning when we're selling a cloud service by ourselves, that goes to enterprise through regular resellers or OEM partners and so on.

Joseph Eric Wolf - *Barclays Bank PLC, Research Division - MD & Head of Equity Research*

Okay. So would your mix of 68% enterprise then be higher in the cloud?

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

Of course. Cloud -- when we sell cloud services, right? Absolutely, the majority goes to enterprise. 90% plus.

Operator

Next question comes from George Notter with Jefferies.

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

I guess I wanted to ask about the gross margin performance this quarter. I mean you guys have been really locked in, historically, at this sort of low 82% range, and it's not a massive jump-up, I get it. But I guess I'm just curious about the favorable product mix that drove that improvement. Was that more Cisco-OEM revenue? Was that an increased mix of SSL-based DefensePro hardware? Can you just tell us what's going on there?

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

Yes. It's a high level -- I think those 3 main drivers: the one, the more we recognize from Cisco, yes, gross margins are going up; second is, the more we sell cloud services on top of the same size of infrastructure, our gross margin is going up; and the third is, the more subscriptions we sell, product subscriptions, fees, et cetera, those tend to be obviously very, very high gross margin for us. So when Doron mentioned the favorable mix, those are the parameters.

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

Got it. Is it fair to say that those trends should likely continue going forward, and that gross margin line just continues to drift up. Is that a possibility?

Doron Abramovitch - *Radware Ltd. - CFO*

George. As Roy said, if we will continue with the trend of these 3-strong element then yes. But for the next few quarters, we are a bit more cautious because there are other aspects such as the region aspect and other just in terms of the cloud infrastructure. So I would keep the 82% to 83% in the next few quarters.

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

Got it, okay. And then I also wanted to ask about, you guys have talked in the past about a new OEM relationship that you are up to announce this year. I just -- curious about where you are in terms of developing that relationship, and when you might announce it?

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

Yes. So we've executed it, and it's already in execution. We rely on the public announcement on our partner, and hopefully, they will do it this quarter. It should be aligned with their product introductions. But we've done our part, and we started to recognize some revenues from that deal.

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

Got it, superb. Okay. And then last thing, if I go back about a year, you guys announced a new DefensePro hardware that supported SSL, and I know that new hardware came in at significantly higher price points. I guess, I was just trying to understand what kind of mix shifts you're seeing from the older DefensePro platform to the newer DefensePro platform. Is that mix shift really happening?

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

Yes. So the new -- you're absolutely right, the new DefensePro hardware is 2 flavors. One with the integrated SSL capability in it and one without. We are seeing especially in enterprise, online, SaaS providers, strong take out of this platform for obvious reasons. Their traffic is encrypted, and they need to protect it. In the carrier market, other segments where they're unable in any case to open the encrypted traffic of their customers, they're sticking to the regular flavors. Obviously, when they take the SSL-based platforms, our revenues are higher, and our gross margin is improving. But there is a split, depends on the customer vertical, on the appetite to take it or not.

Operator

Your next question comes from Alex Henderson with Needham & Company.

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

So there's been a lot of movement in the WAF and DDoS space, particularly with Imperva going private. And it looks like several of the Cloudflare, Fastly of the world, are poised to come out into the sunshine. So given that environment, how is that impacting your business? Is it causing any acceleration in the business as a result of some of these transactions? Are you benefiting from it? And second, along the same lines, we've been hearing Arbor's continuing to struggle. Are you seeing clear share gains against them? If you could give us some background on those 2, I'd be appreciated?

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

Yes. So I think on the -- on some of the deals Imperva going private and so on, I think time will tell how much it disrupts their business if at all. But in the cloud WAF, we feel very comfortable with our solutions. Doron mentioned, our cloud services are growing very, very strong, new customer take out -- all the business parameters, I think, are at record high in this business. I mentioned the analytics, and I think it's a great addition, very differentiated, really taking thousands of events that you get protecting your web application and really provides you with a clear view of the top 10, 20 attack campaigns you need to watch. So those capabilities are highly disruptive to the way customers today use, and they consume WAF capabilities. And we think we just need to continue to execute. We have now a Cisco and Check Point carrying it as well. We just need to continue with our plan, and I think we will do very well.

Regarding the -- what I would say, the DDoS enterprise and the DDoS carrier space, we do believe and that trend continues that we are taking share from Arbor. And my parameter for that is our entrance into accounts that Arbor was the incumbent, and we've never been there at the carrier space, and that trend continues. Every quarter there are several wins -- new wins for us that we're penetrating these customers. And once we're in, obviously we're looking to become -- if we are not the prime, to become the prime and definitely take the capacity additions. So across the security business, we feel very well positioned.

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

You're making a split between SaaS customers that are not providing WAF-as-a-Service, but using it as a technology for them, where DDoS is protection for their own application that they're delivering as a service to the customer. And the cloud service players that are using WAF and DDoS services and reselling that as a service, if you were to take the 2 of those and aggregate them. Are we in solid double-digits portion of your revenues from those 2 categories as a single unit?

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

Yes. I don't want to break that, but if you look at my remarks, I mentioned we had 3 7-digit deals in this segment. Maybe those are not the only deals we've done. So I think you can get into the magnitude of the numbers we're doing there.

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

And then one more question. Back on the Cisco situation, you sound like you're considerably more optimistic and less frustrated with the long timeline. Have we seen any meaningful revenues yet? And can you talk about whether it's bigger than a bread box at some point down the line. How should we be think about actually getting some revenue in and some profitability in and some gross margin impact in?

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

Yes. I don't want to speak about the exact numbers, but we are more optimistic. I think the -- they're starting to be much more vocal and visible in the firewall market. I think they started hitting their new fiscal year in July. And we definitely see more field activity of their sales force around firepower and refresh campaign for the firewalls. And as a result, much more engagement there with us. So we are optimistic. The business trends are good from booking to pipeline to meetings and so on. And my -- our forecast is for that business to grow significantly.

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

One last question, if I could. So it seems pretty clear to me that there is an interest in confluence coming down the pipe with 5G really driving significant improvements in edge capacities. And simultaneously, with the Internet of Things coming on strong, can you talk a little bit about how that impacts Edge Compute? And how that then impacts demand for DDoS, demand for WAF services and the like?

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

Yes. So I think around 5G and the new-use cases it enables, there are many, many security opportunities. They are opportunities to protect the network itself from the EPC to the edge cloud and so on so that, I would say, around the provider itself. The magnitude of the security problem is significantly higher given the amount of these new type of data centers that are being -- that are popping up across the networks. So you're talking of hundreds or thousands of small data centers that need security. Then across the use case of IoT, there are whole set of new security issues from DDoS to Web Security to Anti-Bot and so on, and those can be towards the provider as well as to the end customer. So we're seeing a magnitude -- it's early on, we're seeing a magnitude of opportunities. We think we are well positioned given our Nokia relationship and our Cisco relationship and other relationships that we are investing in. And we think that would be a growth opportunity. I don't think it's a 2019, but it's definitely very strong on our radar in R&D.

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

So one last question if I could. Looking at the Akamai results, they talk a lot about the top 5 customers in the CDN space pushing out into the edge, and they actually breakout the decline in that business, which I think there is down to 6% of the revenue from double -- high double digits over the last couple of years and then there is strong growth in the rest of the market, which is growing 15%, 20% clip for them. Clearly as Google and Amazon and people like that start pushing out to doing CDN at the edge, they need a lot of these services. Can you talk about whether they're using their traditional more white-label-oriented approach to it? Or whether they're -- or these customers that become opportunities for you guys? And have you had any luck cracking them? They seem to be coming a more important piece of the CDN space.

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

So I normally go into the specifics of these specific customers, and CDN by itself is not also our prime focus; however, some of those mega players, I think, are starting to see security problems that require a more specialized approach. And I think they're becoming much more open to partner with specialized vendors than I would say before. So I think there's opportunities around the whole spectrum. It's being driven by the complexity of the attacks, by the frequency, by the evolution of the hackers, by the fact the motivation ---that the sponsors are starting from government bodies to financial crime to activists, and it's hard even for the strongest company out there to do it alone against these forces. So I think there's many opportunities, especially, as we develop more advanced algorithms, more machine learning, more analytics, the value that we bring is becoming very, very differentiated.

Operator

Next question comes from Mark Kelleher with D.A. Davidson.

Mark Daniel Kelleher - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Just to go back a little bit to the OEM questions. I know you don't want to get specific on Cisco, but if we had Cisco and Check Point and your new OEM that you are recognizing revenue. If we put that together as a bucket, is OEM revenue over 10% of revenue?

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

We're not breaking this number, unfortunately.

Mark Daniel Kelleher - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Okay. How about deferred -- sorry, how about last quarter you told us that 60% of revenue was coming from annuity-based offerings? What's your view now as to your percent of revenue that you have that type of visibility on?

Doron Abramovitch - *Radware Ltd. - CFO*

Mark. So we have mentioned, it's above 60% and growing. Last year it was 56% before that 48%, so I believe that the 60% is something that you can rely on in the next few quarters.

Mark Daniel Kelleher - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Okay. And is there any 10% customers in the quarter?

Doron Abramovitch - *Radware Ltd. - CFO*

We don't break it as well. The answer is no, but we don't break the customers like this.

Mark Daniel Kelleher - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

No 10%, okay. And you're generating some good cash. Any thoughts on uses of cash?

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

Yes, we continue to look for acquisitions in the market to broaden our portfolio. We are working very actively on that, and we will, obviously, advise you when we come to a conclusion.

Operator

Your next question comes from Alex Frankiewicz with Berenberg.

Alexander Frankiewicz - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

I was just -- I had a question on accelerating growth rates. So 11% top line growth on the back of a tough comp is pretty impressive. As security, which I believe is growing faster than legacy business, becomes a larger part of the business. Do you see any potential for revenue acceleration? Do you see any upside to the 9% long-term target?

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

At this point, I think we will keep the target as this. Well we see of course, strong growth in booking. In security a lot of those revenue recognition is being deferred over the time of the contract. But overall, we feel comfortable with the current guidance we've provided. And probably after the end of 2018, we will address you with any updated guidance we might have.

Alexander Frankiewicz - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

Okay. And then do you give any rough split or estimation between legacy business versus security business in terms of revenues?

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

We don't.

Alexander Frankiewicz - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

Okay. And then just in terms of gross margin expansion, over the next few quarters and years, how much of the that do you expect to come from capacity utilization in the cloud in terms of scrubbing capacity?

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

We continue to build fast our cloud infrastructure. Some of our very large customers require data centers in their country. Some we -- as the contracts are growing and capacity is growing, we're adding capacity across the world. So we are not yet at the point that I can tell you buildout has finished and now it's just the utilization. However, as I mentioned in the gross margin point, when we sell more and more services on the same node, obviously -- even if we need to add capacity, obviously, our gross margins there are improving. So we're definitely in buildout still. We're bringing, as I've mentioned in my notes, the new cloud security services to market, and we're building new infrastructure for them as well. And so we're very active still on that end.

Alexander Frankiewicz - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

Okay, perfect. And then last question for me. In terms of your OEM partnerships with the likes of Check Point, Cisco and Nokia and the new one you announced, how would you rank those in terms of order of importance? How material do you expect those to be over the next couple of quarters and years as they're 1 or 2 that will stand out?

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

I would say all my sons. Right? So we love them all, we feel each one of them have a unique capability to substantially grow with us. And we are working with each partner on that -- on these opportunities. I think Nokia is a great partner for the carrier market, very unique in the capabilities to deliver complicated solutions. Cisco obviously, with a broad presence from small medium enterprise to government to carriers. And Check Point, very strong in the channel, mid and large enterprises, so very security focused. I don't want to specifically name the fourth one and its uniqueness or specialization, but you should assume it's also giving us another set of coverage that complements our go-to-market. So we feel strongly about these partnerships. All are continuing to develop, and we believe there is high potential there.

Operator

You next question comes from Zack Turcotte with Dougherty.

Zack Turcotte - *Dougherty & Company LLC, Research Division - Anlayst*

Zack on for Catharine Trebnick. So first, just want to drive into the growth in EMEA real quickly. I know it fluctuates quarterly, but the 27% year-to-date is pretty significant. So with recent, there is a wider weakness probably dragging down the Americas growth rate a bit. Is the EMEA region a particular focus for you, or are there specific go-to-market strategies that have been driving that growth?

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

I think they're -- all our regions are executing basically the same playbooks across the world. We've done recently very good success in EMEA, especially in broadening our security and cloud offerings. And we look for that to continue, while we think the other regions can accelerate. And I think the potential is there and that's our goal.

Zack Turcotte - *Dougherty & Company LLC, Research Division - Anlayst*

Got it. And then I know you talked a quite bit about the OEM relationships, but I wonder if you have any sort of update on Nokia in the last quarter? Or if you feel this could sort of help rejuvenate the service provider business going forward over the next few quarters?

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

We continue to be active with them on specific carrier RFPs across the world and there is continued wins and I think broadening the customers we're serving. They are one of our key ways to penetrate new carrier accounts, following on the question about Arbor and so on. They are very effective in helping us penetrating these customers because Arbor is the incumbent, but we come with very trusted partners, like Cisco or like Nokia, to the account. And that allows us more easily to focus the discussion on the technology benefits we bring. So I think very important for our carrier strategy, for DDoS market share, we're happy with this partnership.

Operator

At this time, I will turn the call over to the presenters.

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

Okay. Thank you very much for the call and have a great day.

Operator

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