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PRESENTATION

Patrick Edwin Ronald Colville - *Arete Research Services LLP - Former Analyst*

Hello, everyone. I appreciate you joining us today for this session with Radware. I am Patrick Colville, a senior analyst at DB covering the cybersecurity and the infrastructure software space. The format of this session will be a presentation followed by Q&A. There's a chat box where you can ask questions. The questions you asked are going to be anonymous, so I will not mention your company name or your name. So fully anonymous.

So I guess let's kick this off with introductions. We have the Radware CFO, Doron Abramovitch, with us. Radware, as you all know, is a pioneer in cybersecurity and application delivery solutions for physical data centers and now cloud environments. Doron, thank you so much for joining us. The floor is yours.

Doron Abramovitch - *Radware Ltd. - CFO*

Thank you, Patrick. Good morning, everyone, and thank you for joining us today for the Radware presentation here at the Deutsche Bank's virtual conference. I'm very happy to be with you, cover some of our current status and strategy. And I will guide you with our slides when needed. Next slide, please. Please take a moment, read our safe harbor statement, then I will review our agenda for today. I will start with some key investment highlights of our strong position in the data center cybersecurity, review our business environment and then review our 2020 financials.

Next slide, please. So what are the investment highlights that we have, I will cover the 4 aspects, where we see nice progress in the last few years. The first one, we are a leader in cybersecurity and protect critical applications around the globe. We have fast-growing subscription business. The fact that we already managed to successfully shift our business model to subscription, is another strength point, I will cover it later, mainly in my financials. We see real valid opportunity for growing our business. We are focused on the right markets, together with the fact that we have a leading product portfolio to the data center and cybersecurity and our expanded market footprint, we already see the benefit, and we are confident with our future growth. And again, I will refer to it later. And the fourth element, we have a very, very strong customer base, is another strength that we managed to build in the last few years.

So these business fundamentals are why we believe that our position, although the COVID-19 uncertainty is very strong. Well, in the short term, there might be visibility challenges, and we see it across the financials and others -- and other uncertainties that we see. And I will refer to them in my financial overview as well, we continue to pursue our long-term goals and the 4 points I just mentioned reflect them well.

Next slide, please. Let's focus on the data center cybersecurity offering that we have. We consider ourselves to have a superior technology. We built over the last several years, a comprehensive stack that ensures the application availability, you can see it in the left side. So the systems in our enterprise and at our customers' will not fall down. We keep the data confidential. On the right side, you can see the recent AntiBot acquisition, supported the transition from private to public cloud and protect those organizations. So if in the past, we were focused on the enterprise data center now in our target customers, we see new environment, they are building in their data center using the new cloud technologies.

Next slide, please. In order to provide these services, we deployed a global cloud network that provides our solutions as a cloud services. So our cloud solutions are not just consumption model of software. It's real managed services. And there is a quite significant operations that underlines it. And as you can see here, some CapEx investment is needed as well. There's the physical infrastructure, and this map in this slide, you can see some of our scrubbing centers that serve the cloud DDoS solutions and the point-of-presence that serve the cloud WAF solutions. A very strong SLA is needed on metrics such as time to detect, divert downtime, et cetera. So we need to invest once in a while in order for us to be very...in

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operational excellence, let's say. We invested in these operations only recently in the last couple of months. We added 3 scrubbing centers in India, Brazil and Israel. We had some PR on this one, brings us to a total of 13 scrubbing centers and approximately 40 POPs.

The additions that we had in the scrubbing centers are mostly to address specific local needs of customers, sometimes regulations, sometimes from a business point of view, but also to make sure that the current centers can support our growth. There is some divert from -- once in a while from each of these scrubbing centers. So whenever we add a scrubbing center, it means that we anticipate growth. We keep adding capacity, we keep adding nodes, all to add the capabilities to our cloud network.

Next slide. The transition to the cloud services, together with our customer need for this subscription product offering, push our subscription business growth, and as you can see here, very strong. We're adding new cloud offering. Most of them are being sold the subscription. At the bottom of this slide, you can find some of our subscription offerings. We have obviously much more than this, we recently launched the API security, the KWAF, all complete solutions which are annuity based. This is what we are doing. Every product that we deliver or the develop in the last couple of years is designated to support the subscription. The fact that we accelerate our business is based on the strong and growing focus on subscription from our side, but also from our customers' needs.

On the left side, you can see the percentage of bookings coming from subscription until end of 2019. In 2019, we accelerated greatly, even beyond our internal plans that were set to be approximately 25%, and we reached more than 30%. And for 2020, we set the target of 35% when we launched this model at the beginning of the year, all before the pandemic, of course.

On the right side, you can find that our subscription revenues grew by approximately 44% CAGR in the last few years and reached $55 million. And again, at the beginning of the year, before the pandemic, we forecast it to be $75 million and more. So same level of growth, approximately 40%. We do have better visibility with this model, much bigger lifetime value. And we plan for the acceleration of the subscription business to continue. I mentioned it, we set $75 million for this year. And I will not repeat the long-term model that we set because we pulled it back. But obviously, this is a major key for our plans, and we will share it later.

Next slide. With the new environment, we see a major market opportunity. There's a lot to say on this slide. Expanding the traditional portfolio from on-prem devices to the cloud security services is the major change that we see and we implemented in the last few years. But beyond enabling our solutions in the format of services that I mentioned in the previous slides, we also focus on expanding the portfolio for the new environment, where there is a change in the way of application are built and change where they are built. And you can see in this slide a couple of examples.

On the left side, the shift to public cloud creates opportunities from various reasons. We're going in this environment with many entry points, which is hard to secure, very hard to rely on. Workload move in different directions creating attack opportunities, a public cloud environment make navigation easy for hackers. And the coronavirus amplified this trend where the limited access to the physical devices call for increased use in the cloud solutions, and by that, of course, increased the risks.

On the right side, the change in application infrastructure creates also opportunities, mainly due to the multiple elements with no real physical location to place the security infrastructure. In other words, we relate to the current environment, the coronavirus, et cetera, work-from-home call for deployments now done in the cloud directly. So all call for more exposure or more entry points and as written in the slide, the attack surface is increasing. Simple example I can give you from here in Radware, 3-4 years ago, we had no real cloud activity. In our financials we had 0 in this line, in our OpEx we paid nothing to cloud providers. Now it's a huge line item for us and growing, growing significantly all over - in our IT, our development, service we get, service we provide. So the change is here. And from our point of view, it's a call for a major market opportunity.

Next slide, please. So a look at the detailed market that we are playing. The main 4 product offering are expected to grow at attractive rates, all are great markets for us to operate in. DDoS continue to be very good, approximately 18% growth. ADC was approximately $2 billion market, also attractive for us in the areas that we play in. Remember that we are relatively small. So from our point of view, it's a blue ocean in a way. The web application firewall grew by 10% and even the AntiBot, which is relatively small, but the growth is very fast. And we are a new player where I remind you that we acquired a company 1.5 years ago. So we are very excited with this opportunity as well.

All in all, the underlying markets we target are growing in low double-digit percent. And this is something that support our plans to grow in the coming years.

Next slide. We have a very, very strong customer base, and it is a high priority to strengthen the ties and maintain strategic position with some of these top organizations. Our customer base comes from the leading segments and they are growing, the approximately 30% to 35% in technology, e-commerce and banking, up to 30% in banking, finance and government. And the rest is 25% to 30%. We also see significant growth in the cloud and new logos, where you see here 30% in 2019 cloud business came from new logos, which is very important for us. And it's very fast growing, more than 50% in number of customers in our cloud business.

Next slide. So we had in 2019, 32 deals of more than $1 million booking. You see here a list of some 7 of our 8 deals in the second quarter that were above $1 million. All of them came from North America, U.S. and Canada. As you can see, really diversified the industries. And from our point of view, it's more important that it's a strong evidence to our partners and to our customers in these difficult times. We had a few deals that the COVID-19 delayed in the last few months. But on the other hand, there are a few that signed on emergency mode and to protect the organization with the work-from-home extra capacity or just the need to protect due to the risk that I mentioned in my previous slide.

Next slide. So in the past 3-4 quarters, we see better performance on so many fronts. We have an increased pipeline. I believe that we have a record pipeline right now in our internal review, sales productivity KPIs, they were quite okay, especially U.S. bookings in H1, the Americas revenues grew significantly - things that we mentioned in the last couple of calls. So in addition to our activity with our own sales force and channels, we have very, very strong strategic partners. You can see here in this slide, Cisco, Check Point and Nokia, sell our products under their names, which is quite encouraging. Cisco is a dominant player in security, so is Check Point. If it's a carrier, it's probably Cisco or Nokia, think about so many carriers around the world, if they do any business with either Cisco or Nokia, we should be able to present our great security solution when they are discussing their security needs. So from our point of view, it's something very significant. We had a very good result from both Check Point and Cisco in the first half of 2020. We see continued traction with them. Check Point had a record first half. The second quarter was a record quarter as well. Cisco continues to be on track to double 2019 bookings. You see it on the left side of this slide that we are on track for the plans that we set at the beginning of the year. Two examples for the great cooperation that we have with Cisco, we've been invited by Cisco to collaborate with their global strategic business continuity plan. We help them to protect their customers' VPN link, something very unique for us. Another example, you see here is the quote of one of the senior VPs. It's an internal mail that they sent. "Don't miss the opportunity to win big and deliver best-in-class security offerings to your customers. " This is something that they say. So I believe that now we see some of the fruits that we invested years ago, but -- and we are very optimistic for the coming quarters.

Next slide, please, I want to refer to the COVID-19 challenges. So I mentioned that we entered the COVID-19 situation strong with a very resilient business. Following the crisis, we believe that the transition to the cloud, particularly to the public cloud, will accelerate some of the need companies saw the benefit of remote access, work from home and other issues that I mentioned. And we see a lot of activity in last few weeks. We see a lot of ransom attacks, you can find it all over. And many examples for this trend derived from the COVID-19 situation where most of us right now need to get this remote access. We also believe that in the short term, from a budget perspective, cloud and subscription projects will get priority over the on-prem CapEx project. And you see the 4 elements that this is our view for the challenge. Number one is we have the critical cybersecurity offering. A lot goes online, as said. So you have to protect your activity, you have to protect your organization, you must get the right protection where the exposure is increased, and this is something that we can offer. Second, we have high end customers, software as a service, carrier, banks, technology, I mentioned in the previous slides, third one is that we have a very strong business model. I will cover a bit more in my financials, but we have solid financials that allow us to continue to invest and to operate very smooth.

And the last item is something that we are very proactive in with campaigns to push the work-from-home challenges created in the organizations and how we, in Radware, can secure the business and enable this a remote access and work from home. So overall, for us, the COVID-19 create a lot of call -- create a lot of challenges, but also we see a lot of opportunities.

Next slide, please. So to summarize the business part, we have the broadest and deepest security for private hybrid and public cloud. We operate in a strategic and growing market that will support our needs for the coming years. And we believe that we benefit from strong, growing customer base with very large strategic partners that will enable our growth. With these strategic partners that I've mentioned and the activity, we believe we have an access to almost any of the Global 2000s, which we think that with each one of them, we can generate approximately $1 million of business. And definitely, we see the potential of doing business with them from our point of view, as just a matter of time.

Next slide, please. Let's cover some financials for the first half. Next slide, Slide #15. So we ended the quarter -- second quarter with $58 million in revenues, a record high 71% in recurring revenues and record free cash, up 40% from H1 last year. We sell more subscriptions. So the percentage of both recurring revenues - and also it support our free cash flow - is very high. We had another strong quarter in North America, which I mentioned that we'll benefit from it in the coming quarters in terms of revenues. I remind you that there is some mix between the booking and the revenues from revenues -- revenue recognition point of view. I shared with you the 8 deals in North America showing the strategic value for our solution and also the H1 performance of our parts is mainly Check Point and Cisco. And in terms of our cash flow, we had another great quarter in terms of collection, we will see later on slide on this one. And we feel very comfortable with our financial after the second quarter. So overall, H1 performance are in line with our long-term strategy.

Next slide, please. So let me spend a couple of minutes on our recurring revenues and subscription. So first, subscriptions growth drives high recurring revenue. You can find here the numbers, we've been executing on our strategy, pushing the cloud and security solutions and the transition to the subscription call for this model, Q1, we got 65% recurring revenues versus last year, it was 61% in the second quarter, we had 71% recurring revenues. And overall, which is a record, as I mentioned. And overall, in the first half, we are at 68% recurring revenue compared to last year, 64%. And just to remind you that we targeted all 2020 to be in the neighborhood of 65%. So if we will continue like this, we will be a bit better than last year.

Next slide. On this slide, I want to refer, you see the numbers. I want to refer mainly to the operating expenses. We continue to invest. All is aligned with our plans. We are a bit below what we planned due to the travels that are, of course, in the first half are below any expectation. We continued with our plans, and we recruited approximately 60 people more than last year, in line with our players. We have a plan to get to 1,140, 1,150 headcount by the end of the year, and we are -- I believe that we will reach it. It's mainly in the U.S., and most of these additions are in the field. So we are much more focused on the sales and marketing invest rather than R&D and definitely not in the G&A. And this is for this slide.

Next slide, please. So we have a very, very strong balance sheet and a cash-generative business model, as you can assume, even in these market conditions, we generated more than $20 million in this quarter alone. We were in the 40s a few years ago, as you can see on the left side. But with the transition to the subscription and the annuity, we also benefit in our cash share position. Our free cash flow right now is 40% more than last year for the first half, and this is something very significant for us.

So this resilience means that we can afford to continue to invest in our business for the long term. I mentioned in the previous slide that we continue with our hiring plan, and it's very important for us. We were also more aggressive in buying our shares in the first half and plan to continue to do so. So in the past 5 years, we returned approximately 50% of our operating cash flow to the shareholders and invested approximately 30% in CapEx, which is mainly the scrubbing center that I mentioned and a couple of acquisitions that we did.

Next slide, please. So the total deferred revenues balance was approximately $173 million at the end of June. Our visibility is very strong out of the total balance, 62% or approximately $108 million. You can see our deal for recognition in the next 12 months. We have a very strong model. So the total deferred revenues experienced only modest increase year-over-year, mostly because some deals that were not yet invoiced, it's the timing, but we expect solid growth for total deferred revenues for the September quarter as well. So when we move faster to the subscription, there's a headwind to revenues over the short term. And of course, sometimes there are some fluctuations that due to the revenue recognition. But the total deferred revenue is going up, and I believe that we will continue to see it. But yet, we still need to get certain bucket of orders to fill any quarter number.

So my last slide, some of our strategy and our financials. So we have a first business powered by fast cloud growth, strong cash generation and a very strong balance sheet with approximately $440 million in cash, which allows us to seek for acquisitions. We did the AntiBot acquisition in 2019. And the CWP, a couple of years before, we continue to be very active and looking for some opportunities. Some of them are technology, but we are much more focused on the business side right now. But as always, it needs to be in line with our DNA, our strategy and definitely our business sense.

We have a broadest and deepest data center and application security offering. We have the strategic and growing market. And we already have some strong and growing customer base, which I mentioned earlier. So this is what we are. Thank you for this one, and I will be happy to take some questions.

QUESTIONS AND ANSWERS

Patrick Edwin Ronald Colville - *Arete Research Services LLP - Former Analyst*

Doron, Thank you so much for that presentation. And talking to Radware's partnerships, your financials, the impact from COVID, outstanding stuff. Yes, the audience, we want to make this interactive as possible. So please post any questions to the chat box or e-mail me on patrick.colville, that's C-O-L-V-I-L-L-E @db.com, so patrick.colville@db.com or the chat box for any questions.

Doron, we got a question come in from an audience member around the competitive environment. Specifically, do you compete with equipment providers like A10.

Doron Abramovitch - *Radware Ltd. - CFO*

Yes. So our competition, I mentioned that we have 4 areas that we work. And so it depends on the solution. You asked about the A10. So we started, I will remind you, as an ADC vendor, we compete with F5, a bit A10 and to some extent, Citrix. As I presented, we continue to see and refer to the ADC business as a really significant one, an important one for us to invest not only in R&D, but also, of course, in other areas, F5 are also involved in DDoS and WAF appliances, but they don't have the strong position that -- there as they have in the ADC, as we see that. Indeed, of the main appliance competitor is a Netscout through Arbor. We believe that we have taken share in the past couple of years from them due to technology advantages, in web application firewall, it will be Imperva. But having said that, the most -- the biggest competitor that we see in the cloud security services, as you can imagine from my presentation, in this space, the most significant competitor is Akamai. And some less extent is Imperva and few others. Akamai is our main cloud DDoS competitor, is using our technology based on its subsidiary Prolexic that they are using our technology. We have quicker access to the updated technology. So this is one of the advantages. However, it's -- they have a very, very good operational and service capabilities, bundled with the CDN. So they're a very strong competitor. So by this, I think I covered most of the competitive landscape?

Patrick Edwin Ronald Colville - *Arete Research Services LLP - Former Analyst*

Yes. And I guess, one, you didn't mention it was Cloudflare because they, you could see it on -- in our conversations with the company, Cloudflare, talking increasingly about WAF and DDoS protection. So do you see Cloudflare for at all?

Doron Abramovitch - *Radware Ltd. - CFO*

We do see them sometimes, Cloudflare. We try to analyze on frequently what are their strategy. But to be honest, right now, from our point of view, we see Akamai as the real main, but Cloudflare are there, for sure, but it's more for a small business. We target, as you can see, the mid to big from our point of view. So Cloudflare is there, but we see them less.

Patrick Edwin Ronald Colville - *Arete Research Services LLP - Former Analyst*

And I guess my next question would be about the public cloud service providers. So just help me understand and you wanted to understand why a customer would choose Radware rather than the native solutions provided by the likes of AWS and Azure?

Doron Abramovitch - *Radware Ltd. - CFO*

Yes. So you need to understand that AWS and Azure solutions are only relevant for the application that are part of this environment. Companies of this type are not our typical customer base. So from our side, it's not a direct competition. Most of our customers use the public cloud environment in addition to other environments. So it's not really head-to-head, deploying different solutions in each environment is very complex and also affect the quality of the solution because you have silos instead of a company-wide solutions. Customers with this complex environment seeks flexibility, so to move applications from one place to another without bothering with too many accompanying changes seek simplicity, a smaller vendor set and they seek higher quality of security. So a holistic view on all other assets. So in a way, some -- it's not a direct competition. But obviously, they take market share. But if one customer choose the AWS or Azure solution, you cannot approach Radware or other competitor.

Patrick Edwin Ronald Colville - *Arete Research Services LLP - Former Analyst*

Okay. That's very clear. Unfortunately, we are just out of time. So Radware, CFO, Doron Abramovitch, thank you so much for joining us today at the DB Tech Conference. Really appreciate your time.

Doron Abramovitch - *Radware Ltd. - CFO*

Thank you very much for the time. Thank you.

Patrick Edwin Ronald Colville - *Arete Research Services LLP - Former Analyst*

Great. Have a good -- have a nice rest of the day. Bye.

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