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RDWR.OQ - Q3 2026 Radware Ltd. Earnings Call

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CORPORATE PARTICIPANTS

Yisca Erez *Radware Ltd - Director of Investor Relations*

Roy Zisapel *Radware Ltd - President and Chief Executive Officer*

Guy Avidan *Radware Ltd - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Joseph Gallo *Jefferies LLC - Analyst*

George Notter *Wolfe Research LLC - Analyst*

Jeffrey Hopson *Needham & Company LLC - Equity Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Radware's third quarter 2026 earnings call. (Operator Instructions) I must advise you that this call is being recorded. I would now like to hand over the call to our first speaker, Yisca Erez, Head of Investor Relations. Yisca, please go ahead.

Yisca Erez - *Radware Ltd - Director of Investor Relations*

Thank you, operator. Good morning, everyone, and welcome to Radware's third quarter 2026 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 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. 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 the changing or severe global economic conditions, general business conditions, and our ability to address changes in our industry, changes in demand for products, the timing and the amount of orders, and other risks detailed from time to time in Radware's filing.

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 13, 2026. 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.

I will now turn the call to Roy Zisapel.

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

Thank you, Yisca, and thank you all for joining us today. We delivered a strong third quarter, achieving record revenue while accelerating our year-over-year growth. Revenue reached $84.4 million, up 12%, marking our eighth quarter of double-digit growth over the last nine quarters and reflecting solid execution across strategic priorities. Non-GAAP diluting EPS was $0.32 per share.

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Today, Radware is a leading cloud security platform company. Customers are increasingly looking for security solutions that can protect applications, APIs, infrastructure, and emerging AI environments through a unified platform, combining advanced security capabilities with fully managed services. This is exactly what we deliver.

Cloud ARR reached $107 million, increasing 21% year-over-year, driven mainly by continued adoption of our security platform. We see rapid growth in API security, and during the quarter we secured several meaningful API security wins, including a large deal with a leading payment infrastructure provider in the Americas. API security was an important part of this competitive replacement, where we consolidated WAF, API, and DDoS protection on the Radware platform, demonstrating the value of our integrated approach. The rapidly evolving threat landscape further amplifies the need for our broad application security platform approach. According to our first half 2026 global threat analysis report, web DDoS attacks increased 110% year-over-year, while malicious web and API activity more than doubled. At the same time, AI is accelerating vulnerability discovery, shortening the time between exposure and exploitation, and increasing attacker automation. These trends increase the need for automated behavioral-based protection that operates in real time, which is at the core of our cloud security platform.

Beyond accelerating cyber-attacks, AI is also changing how organizations operate. As autonomous AI agents become more integrated into applications and business processes, they introduce new security, governance, and trust challenges, creating new requirements for securing these interactions. To address these evolving requirements, we continue to expand our platform with new security modules focused specifically on securing new AI business environments.

Last quarter, we introduced Xploit Shield, which provides tailored runtime protection for new exploits discovered with traditional tools or by frontier models. It provides immediate runtime protection to customers while they assess and remediate newly discovered vulnerabilities in their application code. Recently disclosed critical vulnerabilities such as PHP2Shell and Node2Shell bring this urgency to life, demonstrating how quickly the threat landscape can evolve and why proactive protection is critical.

We are seeing strong customer interest in these capabilities and have already secured our first large Xploit Shield deal with a leading telecom provider in Asia. The carrier selected Radware as its primary cloud application security platform following a competitive evaluation with Xploit Shield serving as a key differentiator. This win shows how our AI-driven innovation can address evolving customer requirements, strengthen our competitive position, and drive broader platform adoption. We continue to expand our agentic AI protection offering with two new capabilities. First, MCP Server Protection secures the emerging integration layer between AI agents and enterprise systems, and we already have production customers using this capability.

And second, Agent Trust Management, or Serve AI, enables organizations to safely interact with customers' AI agents by assessing their identity, intent, and trust, and controlling the actions they can perform. Together, these capabilities extend our AI security strategy across three important dimensions: defending against AI-powered attacks, protecting the AI infrastructure organizations are deploying, and securely enable AI agents to interact with our customers' enterprise applications and data.

We believe this greatly expands the total addressable market for our platform and further strengthen the breadth of our cloud security platform as AI becomes increasingly embedded in enterprise applications and workflows.

Our technology leadership also received external validation during the quarter. IDC named Radware a leader in its 2026 worldwide web application and API protection platform assessment. We also received recognition from QKS Group, which named Radware a leader in its 2026 SPARK Matrix for DDoS mitigation, and the most valuable pioneer in its AI Maturity Matrix for web application and API protection. We truly have technology leadership in the core markets we serve: WAF, API, DDoS, and AI security.

While our cloud security platform remains a primary growth driver, our on-prem security business also continued to perform well. DefensePro X continued to benefit from the ongoing infrastructure refresh cycle as customers upgrade aging DDoS environments. With less than one-third of the end-of-sale install base refreshed to date and a strong pipeline ahead, we see meaningful opportunity from this cycle over the next several quarters.

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A good example of this momentum is the agreement we announced yesterday with a major global cloud provider to modernize and expand its DDoS protection infrastructure. Following a competitive evaluation, Radware was selected to significantly increase the customer protection capacity and performance while providing greater flexibility to scale.

In summary, the third quarter was another strong quarter of execution. We accelerated growth, increased ARR, and continued to broaden our customer reach. At the same time, we accelerated the pace of innovation, expanding our cloud security platform into new AI security domains with new capabilities such as Xploit Shield, MCP protection, and Agent Trust Management.

Looking ahead, AI is rapidly reshaping the security landscape, creating new challenges for our customers and significant new opportunities for us. We believe our broader platform, strong innovation engine, and consistent execution position us well to capture this opportunity and deliver sustainable long-term growth.

With that, I'll turn the call over to Guy.

Guy Avidan - *Radware Ltd - Chief Financial Officer*

Thank you, Roy, and good day, everyone. I'll review our third quarter financial performance, discuss the main trend reflected in the result, and conclude with our outlook for the fourth quarter of 2026. As a reminder, unless stated otherwise, the financial metrics discussed today are presented on a non-GAAP basis.

Reconciliation between GAAP and non-GAAP results are included in the press release we issued earlier today and are also available in the investor section of our website. As discussed previously, SkyHawk is presented as a discontinued operating beginning the first quarter of 2026.

Accordingly, the result I'll review today relate to continuing operations. Third quarter revenue reached a record $84.4 million, increasing 12% year-over-year. This marked a further acceleration in our growth rate and reflects solid execution across the business. The quarter benefited from continued momentum in cloud security and demand for our DefensePro X in subscription and on-prem business models. Total ARR reached approximately $266 million, up 11% year-over-year, reflecting the continued expansion of our recurring revenue base.

Cloud ARR ended the quarter at approximately $107 million, up 21% from a year ago. Cloud continues to be a large portion of our recurring business, representing 41% of total ARR, compared with 37% in the third quarter of 2025. This shift in mix reflects the continued adoption of our cloud security platform and supports greater visibility into our revenue base.

Looking at regional performance. We delivered a strong performance across all geographies in the third quarter, with each region achieving double-digit year-over-year growth. Importantly, the growth was broad-based and reflects healthy demand across diverse verticals. In the Americas, revenue was $39.6 million, up 12% year-over-year, representing 47% of total revenue. On a trailing 12-month basis, revenue in the Americas grew 17% year-over-year. EMEA revenue was $25.6 million, up 12% year-over-year and represented 30% of total revenue. On a trailing 12-months basis, revenue in EMEA grew 8% year-over-year. APAC revenue was $19.2 million, up 12% year-over-year, representing 23% of total revenue. On a trailing 12 months basis, revenue in APAC grew 5% year-over-year.

Moving now to profitability. Gross profit in the third quarter was $68.7 million, increasing 11% year-over-year. Gross margin was 81.4%, compared with 82.4% in the third quarter of 2025. Gross margin was mainly impacted by the foreign exchange headwind, product mix, and supply chain cost pressure we discussed in previous quarters. Operating income was $11.9 million, compared to $12 million in the same period last year. The year-over-year comparison was primarily affected by the appreciation of the Israeli shekel against the US dollar. Excluding this currency impact, operating income would have been $16.5 million, representing 37% growth compared with the third quarter of 2025. At the same time, we continue to invest in technology and innovation to capture the opportunity emerging from the rapidly evolving AI market and support our future growth. Financial income was $4.5 million in the quarter, compared to $5.2 million in the same period last year, reflecting lower market interest rate and reduced cash balance following share repurchase executed over recent quarters. We expect

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these factors to remain a modest headwind to finance income throughout the end of the year. Our effective tax rate was 15% compared to 13.5% in the same period last year. We expect the effective tax rate to be between 14% to 15% in the coming quarter.

Net income from continuing operations was $13.9 million, down 6% year-over-year, and diluted earnings per share from continuing operations were $0.32, compared to $0.33 in Q3 2025. Excluding the $4.6 million unfavorable impact of the appreciation of the Israeli shekel against the US dollar in the third quarter of 2026, non-GAAP net income from continued operations and non-GAAP income diluted EPS from continuing operations would have been $17.8 million and $0.41 respectively. This compared with the reported $14.8 million and $0.33 per diluted share in the third quarter of 2025, representing year-over-year growth of 20% in non-GAAP net income and 24% in non-GAAP diluted EPS. Turning to cash flow and the balance sheet. Operating cash flow provided by continuing operations in Q3 2026 was $15.5 million, compared to a negative $2.1 million in the same quarter last year.

During the quarter, we continued to execute our capital allocation strategy and repurchased shares in approximately $13.7 million. This brings total share repurchase from the beginning of the year to approximately $62 million. We ended the quarter with $421.5 million in cash, cash equivalent, bank deposit, and marketable securities, maintaining a strong balance sheet and financial flexibility to continue support our strategic priorities.

And now to our guidance. For the fourth quarter of 2026, we expect total revenue to be in the range of $88 million to $90 million. We expect fourth quarter 2026 non-GAAP operating expenses to be between $57 million to $58 million. We expect fourth quarter 2026 non-GAAP diluted EPS to be between $0.34 and $0.35.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Joe Gallo, Jefferies.

Joseph Gallo - *Jefferies LLC - Analyst*

Hey, guys. Thanks for the question. Roy, I just wanted to start high level. Where are customers in this AI journey, and where are you seeing the benefit the most pronounced today? It seems like it is in WAF and API. And then just in terms of your recent AI security products you launched earlier this year, when should we expect that to start benefiting growth? Is that a 4Q phenomenon or more of a next year?

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

Okay. Thanks, Joe. So I would say on AI, there are many, many different dimensions. So first, we are seeing more and more use of AI, red teaming, AI frontier models to discover vulnerabilities in existing applications, meaning this has nothing to do with AI agents or AI infrastructure. This is about each and every application, and the PHP example is a great example from last week. In that regard, customers are under extreme stress to accelerate their ability to move from discovered vulnerability or exploit to protection mode. Here we see a lot of customers' high interest in adding WAF, API security in front of their apps, and in the new Xploit Shield that really creates a tailored shield for you, for your apps, given those scanning attempts. So this is one strong, I would say, driver for our cloud security platform, driven primarily with the significant increase in vulnerability discovery and attack tools powered by AI. So this is the first pillar.

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Second pillar is customers are looking today to understand or to see the AI applications running within their enterprise, which users are running which application. They want to make sure that there is no shadow AI. They want to make sure that proprietary information of the enterprise is not leaked. This is the center, together with protecting agentic AI, of our AI Protect, a product that we have announced beginning of the year, and we see a continuous rise and more and more pipeline creation. I do think it is a 2027 opportunity, but we are definitely seeing a rise there.

The third area of AI is using AI to actually automate the security operations, and here we are seeing very good take-up of our agentic SOC, which we call AI SOC Xpert across our [DDoS WAF, BOT, and soon also API. So AI] is today embedded in multiple dimensions of our offering (corrected by company after the call). Some as they relate to the existing infrastructure, like protecting applications or automating the SOC. We are already seeing a strong uptick, and that drives more revenues for us in WAF, API, and DDoS. And some as it relates to the newly AI environments, we are seeing a build-out of the pipeline and initial customers. We already have, of course, customers in every quarter, more and more, but I do think the real scale is next year.

Joseph Gallo - *Jefferies LLC - Analyst*

That is really helpful. Maybe as a follow-up for Guy. Guy, you have done a great job accelerating the top line. Comps will now start to get a little bit more difficult, but Roy sounds super excited. When you look at cloud or short-term billings, the growth profile there is approximately 20%. Is it fair to expect that growth can continue to inflect next year, or is there anything that we should be aware of regarding the growth profile of on-premise in our models? Thank you.

Guy Avidan - *Radware Ltd - Chief Financial Officer*

So again, we are not guiding for next year, only for the coming quarter. We gave several data points, including our ARR, which is currently double digit. We have high hopes we discuss it, and we think that they will yield revenues and ARR coming from all the waves of the API and AI for next year. Roy started the call by saying eight out of the last nine quarters we were double digit, and there is no reason it will not continue to accelerate.

Joseph Gallo - *Jefferies LLC - Analyst*

Awesome. Thank you very much.

Operator

George Notter, Wolfe Research.

George Notter - *Wolfe Research LLC - Analyst*

Hi, guys. I wanted to ask about the investments in the sales and marketing organization. Obviously, that was a number of quarters ago. I am just curious on your perspective. Are you seeing the returns on those investments? What does that look like? Are you doing anything new in terms of the shape and organization of the selling and marketing organization going forward? Just bigger picture, how are you driving that organization? Thanks.

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

Hi, George. So first, I think we have seen very good return on the investments we have done. We were able to increase spend, but also to reduce, given the leverage in the model and the growth that we have seen actually, as percentage of revenues, our sales and marketing

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expenses have declined. So we like the efficiency, we like the growth. We are now ready to continue to deploy additional capabilities across the world. As I have mentioned, we are very optimistic on the future of the cloud security platform with all the additional modules.

So we do believe that more investment towards Xploit Shield and AI Protect, API security in the field will provide us with great results. In addition to that, I do want to mention that we are seeing good traction, both on the MSSP side of our business and the OEM side of the business. So there's definitely room for further investments to continue to grow our business, and we are doing it now continuously across the year.

George Notter - *Wolfe Research LLC - Analyst*

Got it. And then how about investments in scrubbing centers? I'm just curious where you are in terms of total mitigation capacity, AppSec PoPs, that sort of thing. Any update there would be great.

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

So like we say in the company -- we no longer open physical offices with people. We open more PoPs now than offices. I think we just announced Bangkok a couple of weeks ago, and we continue to build every quarter more centers. There's, I think the next one is coming up in Indonesia, for example.

Capacity wise, we shared a plan of doubling the mitigation capacity this year, which we executed and we continue to build now, extreme mega PoPs, extremely large PoPs for even bigger capacity, together with more and more AppSec local PoPs to serve sovereignty, PII, localized businesses across the world. So this is now ongoing in a continuous fashion, and you'll see it also in our numbers.

I think one thing to highlight is it's very capital efficient, what we're doing. So the fact that we're utilizing our own mitigators with the hardware and the ASICs allows us to, especially in these days, to purchase significantly lower amount of servers in order to do large scale mitigation. And as a result, our CapEx that is needed, which is for the most part in DDoS is our own devices, is very, very efficient and effective. So we believe that's also, from a business model, a competitive advantage.

Guy Avidan - *Radware Ltd - Chief Financial Officer*

Just to put it in numbers, if you take cash flow operation and free cash flow, so this quarter, free cash flow was $12.4 million. If you look at year-over-year, we did show some increase in CapEx from $1.9 million to $3.1 million year-over-year. Based on what Roy said, increased capacity, adding PoPs. But if you compare it to, let's say, other companies that build global networks, our free cash flow is very close to operating cash flow, and that's a big advantage.

George Notter - *Wolfe Research LLC - Analyst*

Super. Thank you very much.

Operator

Jeffrey Hopson, Needham.

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Jeffrey Hopson - *Needham & Company LLC - Equity Analyst*

Hi, thank you for the question. On the AI side, is this kind of a different sale for the sales force or is it just an additional conversation? And is it similar sets of competitors that you're seeing out there, or are there a bunch of new AI entrants that you're competing against?

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

Yeah. Very good question. I think it depends on the AI use case that I've mentioned. If I'm talking about shortening the time between vulnerability discovery to protection, so over there, I think it's very similar conversation to the conversation we already have with our AppSec customers around WAF and API and bot.. And it's a very advanced, innovative solution, but I do believe it goes within the same persona in the customer.

If we're talking on some of the agentic AI protection, and I've mentioned, for example, MCP protection or AI agent protection, this is a new field today in security. There's plenty of startups, I think over 20, and of course, some of the large players, so there's still a lot of noise.

I think the fact that it's fully integrated into our platform and really working hand in hand with some of the other modules and our expertise in data center and application protection is helping us a lot there, but definitely many more -- the field is very fragmented. As I've mentioned, many players are out there.

If I'm looking on the last piece of AI, the ability to automate and accelerate SOC work, this is really for our customers on top of the platform. So it's really an upsell. It's to the same personas we're already selling, and it provides them with much faster investigation, forensics, meantime to restore service. So this has a very high value, but it's clearly upsell to our incumbent customers. So different use cases have different answers there, but if you're looking on the agentic AI security itself, it's yet to be seen.

Jeffrey Hopson - *Needham & Company LLC - Equity Analyst*

Got it. That's helpful. And maybe just AI or agentic threats, there's been a lot of headlines and risks out there. I guess, is the environment today just maybe AI is ahead of some of the defenses, or is it more like customers out there aren't fully utilizing the existing tools that they already have?

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

No, with AI, you can, for example, the PHP vulnerability was suspected, but there was no exploit. But with AI, such exploit was possible to achieve, for example, in a very fast way. So AI is really on existing applications, existing code, finding more vulnerabilities, and actually make them actionable. Being able to develop exploit code to match them, it's a game changer, for sure.

And as a result, the risk for the enterprise customers is much higher, and they do need to shore up defenses. And those defenses must be also algorithmic, dynamic, runtime, basically also using AI for the defense. So I do think that this AI in the surface of the attacker will cause all the enterprise customers to double down on their application security to do things differently. It's technology, it's also process, but a lot should go to automation, prevention, so -- to save the whole event from the get-go.

Jeffrey Hopson - *Needham & Company LLC - Equity Analyst*

Makes sense. Thank you very much for the question.

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Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

Thank you.

Operator

There are no further questions. I would now like to hand the call back to Roy for closing statement.

Roy Zisapel - *Radware Ltd - President and Chief Executive Officer*

Okay. Thanks a lot, everyone, and have a great day.

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