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PRESENTATION

Operator

Welcome to the Radway conference discussing second-quarter 2025 results, and thank you all for holding.

(Operator Instructions) As a reminder, this conference is being recorded, July 30, 2025. I would now like to turn this call over to Yisca Erez, Director Investor Relations at Radway.

Please go ahead.

Yisca Erez - Radware Ltd - Director Investor Relations

Thank you, operator.

Good morning, everyone, and welcome to Radway's second quarter 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 the financial statements, as well as the investor kit for the second quarter, are available in the Investor Relations section of our website.

During today's call, we may make projections or other forward-looking statement regarding future events or the future financial performance of the company. These forward-looking statements are subject to various risks and uncertainties and actual result could differ materially from Radway's current forecasts 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 product, the timing in the amount of orders, and other risks deterred from time to time in Radway'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 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.

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 another strong quarter, marking our fourth consecutive quarter of double-digit revenue growth. In the second quarter, revenue increased 10% year over year to \$74 million. Non-GAAP earnings per share rose 39% year over year to \$0.28, highlighting the continued scalability and efficiency of our business model. We also generated \$14.5 million in cash flow from operations, further underscoring the strength and resilience of our operations.

These results reflect the successful and consistent execution of the strategy we've implemented over the past couple of years to become the best-of-breed provider in application and data center security. This strategy is driven by three pillars: gaining significant market share in cloud security, leading with algorithm and AI-driven innovation and automation, and expanding our go to market presence.

Cloud security continues to be our primary growth engine. In the second quarter, we accelerated cloud ARR growth from 19% to 21% year over year, reaching \$85 million. With that, we surpassed our short-term target of 20% year-over-year growth rate.

Total cloud booking and the number of cloud active customers also demonstrated impressive growth last quarter, further validating our strategy and execution. These achievements reflect our strength and competitive position, higher win rates, and increased participation globally.

One of the growth drivers for our cloud security business is the increased adoption of our cloud-based API protection solutions. The API security solution uses AI-driven capabilities to secure APIs and business logic in real time.

What differentiates Radware from our competition is our ability to automatically and continuously map business logic, generate and optimize protection rules, and enforce them in real time. Ultimately, we're helping customers automate protection and respond faster to threats. The market demand for securing API traffic is translating into meaningful wins, including deals with the European government, a major Asian bank, and a global sporting event. Our leadership in this space was recognized in the GigaOM radar for application and API security. In the report, we were named a leader and fast mover for our AI-driven capabilities in vulnerability detection, account takeover protection, and bot management.

With AI becoming deeply embedded in enterprise workflows, our leadership in agentic infrastructure security continues to position us as a trusted partner. Defending against AI-powered threats demands AI-powered defense, and that's exactly what we continue to build with our EPIC-AI framework. Our AI-powered SOC is a cornerstone of our AI defense strategy, purpose-built to detect and mitigate DDoS attacks in real-time. It continuously analyzes global traffic patterns using behavioral baselines, anomaly detection, and machine learning to identify with high accuracy attacks that escape the security controls. Once detected, SOC X automatically comes with the analysis and specific recommendations how to mitigate the attack in real time, dramatically reducing the mean time to resolve, thus, providing significantly better business outcomes for our customers.

This capability has earned us some major second-quarter wins. For instance, we secured a seven-digit deal with a major global event organization. Based on our proven ability to address current and emerging threats, the organization selected Radware full security stack, including our AI SOC Xpert, to protect their digital infrastructure and applications.

Our AI SOC Xpert was also part of another major cloud deal last quarter. A leading US financial technology company selected our solution as part of its data center consolidation and cloud migration strategy. This deal reflects the customer need to offload manual tasks from its network and security teams, allowing them to focus on driving efficiency and innovation across their broader technology stack. Our cloud platform ability to deliver better protection for core applications while enhancing operational agility was a key differentiator in securing this win.

In the second quarter, we continued to advance our go-to-market strategy by deepening and expanding our relationship across our partner and channel ecosystem. These efforts contributed to securing multiple major wins, including a seven-digit deal with one of Latin America's largest data center providers. To improve their security, resolve performance and support issues, the customer replaced its existing solution with our hybrid cloud DDoS solution. Our technical edge and strong execution alignment were key to the win.

We also closed another seven-digit deal with the European government, a partnership win that will strengthen our presence in the public sector in that country. The hybrid deal spanned multiple solutions and 250 applications. Our cloud platform's unified management, visibility and protection for both cloud and on-prem applications, and our strong partner alignment were key contributors to this competitive takeout.

In closing, our second-quarter results underscored the strength of our strategy and disciplined execution across the business. Cloud security remains our primary growth engines, marked by strong cloud ARR momentum and accelerating growth rates.

Our AI-driven innovation continues to enhance our platform capabilities and to drive meaningful differentiation in the market. At the same time, deeper engagement with our partners and channel ecosystems is enabling us to scale more efficiently and win new customers. With a growing pipeline, an expanding partner network, and rising global demand for AI-based security solutions, we believe our current momentum and strategic focus position us to pursue long-term growth opportunities and deliver long-term value.

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 provide an overview of our financial results and business performance for the second quarter, as well as our outlook for the third quarter of 2025. 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 earning press release issued earlier today and in the investor section of our website.

We delivered solid financial results in the second quarter of 2025, with revenue growing 10% year over year to \$74.2 million, driven primarily by continued strength in our cloud security business. Total ARR increased by 8% year over year to \$235 million, with cloud ARR growth accelerating from 19% to 21% year over year, reaching \$85 million. This momentum reflects the growing demand for our cloud solution and the increase in shifting towards recurring revenue, which now represents 84% of total revenue, up from 82% in Q2 of last year.

Looking at regional performance, the Americas revenue was stable year over year at \$30.1 million, representing 41% of total revenue. On a trailing 12-month basis, the region grew 11%. EMEA delivered strong growth, with Q2 revenue up 22% year over year to \$27.8 million, accounting for 37% of total revenue. Trailing 12-month growth was 17%. And APAC revenue increased 30% year over year to \$16.3 million, contributing 22% of total revenue. On a trailing 12-month basis, APAC grew 5%.

Turning to profitability, gross margin remained strong at 82.2% consistent with the prior year. Operating income grew more than 50% year over year, reaching \$9.5 million, up from \$6.3 million in Q2 2024.

As we noted last quarter, we are following our plan and increasing investment in sales, marketing, and R&D, particularly in cloud and AI innovation, to capitalize on the robust demand for our leading security offering and the long-term market opportunities. Our recurring business model continues to demonstrate strong leverage, enabling us to fund those growth initiatives.

Radware adjusted EBITDA for the second quarter of 2025 increased by 37% to \$11.4 million, compared to \$8.3 million in the same period last year. Excluding the Hawks business, adjusted EBITDA was \$14.1 million, representing a 19% EBITDA margin, up from \$11 million and 16.4% EBITDA margin in Q2 2024, reflecting improved operational efficiency and scale in our core business.

Financial income for the quarter was \$5.4 million, up from \$4.1 million in the same period last year. Our effective tax rate for the quarter was 15.4%, in line with Q2 2024. We expect the effective tax rate to remain approximately at this level in the coming quarter. Net income rose 43% year over year to \$12.6 million, compared to \$8.8 million in Q2 2024 and diluted earnings per share increased by 39% to \$0.28, up from \$0.20 in the same period last year.

Turning to the cash flow and balance sheet, cash flow from operations in Q2 2025 was \$14.5 million, compared to \$23 million in the same quarter last year. We ended the quarter with a strong balance sheet, holding approximately \$459 million in cash, cash equivalent, bank deposit, and marketable securities, providing us with the flexibility to continue to invest according to our plans in cloud security and AI innovation.

Looking ahead, we remain focused on growing our cloud ARR and gradually accelerating it beyond the current 21% year-over-year growth. This goal is supported by continued investment in cloud security innovation, the integration of AI-driven capabilities in our solution, and the expansion of our go-to-market strategy. These initiatives are designed to unlock new growth opportunities and support a longer-term trajectory in cloud ARR performance.

And now to the guidance, we expect total revenue for the third quarter of 2025 to be in the range of \$74.5 to \$75.5 million. We expect Q3 2025 non-GAAP operating expenses to be between \$51.5 million to \$52.5 million. And we expect Q3 2025 non-GAAP diluted net earnings per share to be between \$0.26 and \$0.27.

I'll now turn the call over to the operator for questions. Operator, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) George Notter, Wolfe Research.

George Notter - *Wolfe Research LLC - Analyst*

Hi, guys. Thanks very much.

I guess I was curious about sort of what you're seeing in terms of early returns from the sales and marketing investments. I think you added 30 people in the North American selling organization. I'm just wondering if you're seeing signs of progress, are you seeing improved pipeline? How are you feeling about your investment and sales another three months along?

Thanks.

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

Okay, hi, George, welcome back.

I think the investment we've done last year in North America is paying off for us. We're definitely seeing good traction in the market. We're starting to see stronger pipeline, better engagement with existing and new customers, nice wins starting to shape up. Our forecast for the coming quarters is becoming better. So overall, I think the first wave of investments that we've done and the alignment has shaped up pretty well.

As we noted last quarter, we are increasing investments. Across the business and specifically North America, we increased our executive bench there and we are planning to further increase. We started it last quarter and I think also some of what Guy mentioned in the OpEx is a result of that. We are going to further increase our investments in that market. We think it's a great opportunity for us.

George Notter - *Wolfe Research LLC - Analyst*

Got it, okay.

And then, I know there was also bifurcation of the selling organization. I think you moved folks from kind of overall model to a hunters and gatherers model. Are you seeing benefits there? What does that look like? Any insights would be great.

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

Yeah.

So when I said the alignment, I was actually referring to that. So that's played to more acquisition-oriented teams and more account management and farming teams.

I think played pretty well. I actually already seeing much better coverage of the existing customers. I think we're seeing that in more upgrades and cross-selling activity in the existing customers and very successful hunting motion in new accounts.

I'm actually excited about the pipeline we've built that -- the early wins we already saw in Q2, the first wins. But I think there's much better news ahead of us and I'm looking forward to that. I'm very excited of that organization.

George Notter - Wolfe Research LLC - Analyst

Great. That's terrific.

And then I also want to just ask about the DefensePro X progress. I'm just curious if you could give us a sense for how much of your sales mix on hardware is now DPX. And then, I know that business pulls along more subscription with it. I'm kind of wondering what that looks like as well.

And that's my last question, thank you.

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

Right.

So I think on the end, on-premise DDoS mitigation, everything now 100% is in Q3 will be a Defense Pro X. As a matter of fact, we just announced the end of sales for the last DefensePro 8 platform last quarter, which, by the way, brings us a whole additional layer of install base to refresh in the coming 24 months.

So all our new sales are now a Defense Pro X. We believe it's by far the strongest DDoS mitigator. We put all our latest and greatest algorithms there. Customer feedback is very good. I think also, this quarter, I was just told we won a large new SaaS provider competitive displacement with DPX, and based on the specific new attack mitigations, it can mitigate.

So I think here we have a strong refresh cycle. We're still early there, but both for existing customers and new customers. I think we have a very, very strong platform.

Very good.

Thank you very much.

Operator

Chris Reimer, Barclays.

Chris Reimer - Barclays Services Corp - Analyst

Hi. Thanks for taking my question and congratulations on the strong results.

I was wondering if you could comment maybe on the dynamics in the carrier segment, which showed an uptick this quarter. And can you give any color around the dynamics just in general in the US not related to your investment or expansion? I was thinking more around customer behavior and in any kind of increased spending environment, or could you characterize any behavior that's changed versus the last year?

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

Okay. Thanks, Chris.

So first on the carrier segment, we're seeing several major applications we're selling to. One is selling them equipment that they can use to protect their own network. Second is them using our solutions, sometimes clouds, sometimes appliances to build an MSSP business. And third is the more traditional ADC business.

I think in general, I'm not seeing carriers as increasing their investment significantly. However, I think we're seeing more and more opportunities. And I think that's actually a good opportunity for the future to partner with carriers on their MSSP business and actually leveraging our cloud solutions to protect their customers better. So we will track it in the coming quarters, our progress in that area, but that's a place that globally, I think, we're seeing good opportunities.

As it relates to North America specifically, I think on the enterprise market, we are still seeing, especially on the large enterprise, long sales cycles. More budget concerns, long cycles, more attention to spend, et cetera, I think we were able to, or we are able now and hopefully in the coming quarters, even to do better than that, to accommodate that simply by increasing our pipelines, and increasing our customer engagements, and the investments that we've done together with the critical nature of our cloud security platform.

So I don't think the market is in an excellent situation, but not in a bad either. So somewhere in the middle, not a lot of change versus last quarter, budget constraints, but still investments in critical security, in AI security continues.

Chris Reimer - Barclays Services Corp - Analyst

Got it.

Thanks. That's great color.

That's it for me.

Operator

Ryan Koontz, Needham and Company.

Ryan Koontz - Needham & Company LLC - Analyst

Great. Thanks for the question.

Question on -- you talk about AI as a tool for attackers, but I wondered if the implementation of agentic AI by your enterprise customers is changing their attack surface much on the APIs yet, or is it still too early to see that?

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

It's a great question.

I think it changes dramatically. The attack surface and the enablement of applications, I think we're starting to see early signs of that. I don't think it's yet a center to the enterprise applications, but we're definitely very focused on that. I think it's another possible wave of growth for our cloud security. We're highly investing in these directions, both for AI applications, for APIs, and so on. So early, but it's going to be very critical because the nature of attacks, the sophistication of attacks is very different.

Ryan Koontz - *Needham & Company LLC - Analyst*

That's great, really appreciate that.

Your comment around MSSPs, sounds like some increased activity there. Are you seeing any changes in MSSP business models in terms of their product portfolios and offerings, or is that a pretty static environment today?

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

I think it starts to change because there's a strong demand from customers, so I think the customer expectations from their providers are increasing, even from the basic need of compliance. We're seeing more and more compliance requirements that those customers must adhere to, and they are turning to their providers to fulfill them.

So I think the more applications they put online, whether it's in private cloud or public cloud, the more AI tools they're using, the more APIs they're using, the more compliance regulation is being developed by governments around the world, so the evolution of the MSSP portfolio must keep pace with.

And as a result, I think that, for example, cloud application security that in the past was not part, in large, of an MSSP portfolio, they were more focused on scene, manage scene, manage SOC, manage EDR, manage firewall, I would say the more fundamental network and end user-centric security with the rise of the criticality of the applications, I think there's a shift that starts. And we are definitely seeing that again as an opportunity to leverage our cloud platform. It's very easy to partner with us in that regard and follow that trend.

Ryan Koontz - *Needham & Company LLC - Analyst*

Super interesting.

Maybe one last one, if I could squeeze it in. Any commentary around the competitive environment globally?

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

I don't have a lot much to say about that. I don't see any big changes in the vendors.

I can tell you that we are seeing an increase in our win ratio in our cloud platform. So I think the innovation we're bringing, and I continue to report almost every call on another analyst firm that positioned us as a leader and -- this quarter I mentioned API security. I know a week ago we published another analyst that positioned us as a leader in DDoS.

So the continuous innovation on one hand and coupled that with more channel activity, and more partner activity, and OEM activity by Cisco and Check Point, I think all of that together is actually increasing our win probabilities. So we feel comfortable with the current competitive climate and we plan to continue to push forward our differentiation.

Ryan Koontz - *Needham & Company LLC - Analyst*

You're not seeing any new entrants on the competitive landscape?

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

New entrants -- can you repeat, please? I didn't hear you well.

Ryan Koontz - *Needham & Company LLC - Analyst*

Sorry about that.

Are you not -- you're not seeing any new entrants in your DDoS and your various partners?

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

No. No, we don't.

I think the market will devolve to AI applications, for example. I'm sure there will be a host of new startups there. I think our position with the comprehensive platform that really covers your web applications, your mobile applications, your APIs, and your AI-based applications and in each one of them not only delivering an integrated solution but really in each domain providing best-of-breed, yet, everything integrated and backed by AI fully managed service. I think this market position is a very strong one and I think we can compete very effectively. But I'm sure that on the AI front, there would be some new entrants dedicated to that segment.

Ryan Koontz - *Needham & Company LLC - Analyst*

Makes sense.

Thanks so much for the insights. Appreciate it.

Operator

Joseph Gallo, Jefferies.

Anjali Papadopoulos

Hi, this is Anjali Papadopoulos on for Joseph Gallo at Jefferies.

Thanks for taking the time and congrats on the strong results. It's really good to see your cloud ARR progressing along nicely. And so, I guess, speaking on that, how should we think about cloud ARR growth and its profile going forward?

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

Yeah, very good question.

So first, our short-term result was 20% and we plan to continue to stay above that. In our long-term model, we were targeting 25%. I think that would be the next goal we will put to ourselves. I'm not sure we'll hit it immediately, but we're definitely seeing the potential to continue not only to grow ARR, but accelerate ARR. We're very focused on this opportunity and that's what we are planning to achieve.

Anjali Papadopoulos

Sounds good, thanks for that.

And then -- so circling back to a prior question on your strength, and win rates, and competition, so with your new API security solution, what existing competitors, if any, did you come across in the marketplace? So who currently competes in the space? And can you talk more about what you see those vendors are lacking and how Radware continues to win that space?

Thanks.

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

Yeah, so I think in our prepared remarks this quarter and last quarter, I mentioned some areas that were using AI as part of our complete solution, what we call the EPIC-AI framework, and we're infusing AI to each and every layer of our solution. So already from the protection engines themselves, meaning the algorithms we use to detect and mitigate, I was talking about how we are detecting and mitigating business logic attacks.

We're leveraging the AI. Our competition over here is very manual. You need to define a lot of rules, your business logic, changes as application change while we can really build in real time an LLM dedicated to your application, dedicated to your traffic. It provides significantly different results in configuration, in onboarding, in detection, in mitigation. That's one example of how do we use AI in that protection engine to differentiate.

Then I mentioned in today's comments another layer, which is the SOCX AI. We've built on top of our platforms AI agents. And as far as I know, the competition does not have it today, especially not in GA.

And those AI agents are sitting on top of the platform and watching your traffic. If they detect a suspicion that an attack has passed the controls, we would automatically -- the AI agent would do an analysis of your traffic, would come to a conclusion whether it's really the case that the attack is leaked or maybe a flash crowd coming to your website. And if it's an attack, we'll automatically come with your recommendations: what to change in order to mitigate the attack.

In our competition, all these, and also until, I think, six months ago for Radware, all these activities were done by SOC people, by humans, and only collecting the information, analyzing that, getting into recommendations, testing them. This is a long cycle. It can take from, I don't know, half an hour to days.

We are shrinking that time frame to seconds and minutes, delivering significantly better meantime to resolve for our customers, which mean less downtime, less risk, less exposure, significantly better business outcomes. So this is, again, a big differentiator for us, and as I've mentioned, it won us several customers, both displacements and new.

And last but not least, there is the whole area of protecting AI applications, which we started to discuss in this call, which is another area that's early. I cannot talk yet about competitive advantages. Let's see in the coming months who comes with what solution, but we feel very strong based on our heritage in algorithms, based on our experience in AI security for years, that we will be very strong there as well. So that's in a nutshell how we use AI to differentiate in the market of application security and details.

Anjali Papadopoulos

Thank you. That was very helpful.

Operator

Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Roy Zisapel, the CEO, for the closing comments.

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

Thank you, everyone, and have a great day.

Operator

Ladies and gentlemen, the conference of Radware has now concluded.

Thank you for your participation. You may now disconnect your lines.

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