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PRESENTATION

Operator

Welcome to the Radware conference call discussing fourth quarter and full-year 2024 results. (Operator Instructions)

As a reminder, this is being recorded, February 12, 2025. I would now like to turn the call over to Yisca Erez, Director, Investor Relations at Radware. Please go ahead.

Yisca Erez - *Radware Ltd - Director Investor Relations*

Thank you, operator. Good morning, everyone, and welcome to Radware's fourth quarter and full-year 2024 earnings conference call. Joining me today are Roy Zisapel, President and Chief Executive Officer; and Guy Avidan, Chief Financial Officer. A copy of today's press release and financial statements as well as the investor kit for the fourth quarter are available in the Investor Relations sector of our website.

During today's call, we may make projections or other forward-looking statements regarding future events or the future financial performance of the company. These forward-looking statements are subject to various risks and uncertainties, and actual results could differ materially from Radware's current forecast and estimates.

Factors that could cause or contribute to such differences include, but are not limited to, impact from changing or severe global economic conditions, general business conditions and our ability to address changes in our industry, changes in demand for products, the timing in the amount of orders and other risks detailed from time to time in our filings.

We refer you to the documents the company files and furnishes from time to time with the SEC, specifically the company's last annual report on Form 20-F as filed on March 18, 2024. 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 a strong finish to 2024 with both our top and bottom line exceeding our fourth-quarter guidance. During the first quarter, we achieved 12% year-over-year revenue growth and more than doubled our non-GAAP earnings per share, a strong testament to the high leverage in our business model.

A key driver of our growth in the quarter was our cloud security business. I'm pleased to report our focus here continues to pay off. In the fourth quarter, we accelerated cloud ARR growth to 19%, up from 15% in the third quarter of 2024. We also achieved double-digit growth in cloud bookings and customer acquisition and surpassed 1,000 production customers in the cloud.

In 2025, we will increase our investment in our cloud security business on multiple fronts. First, we plan to open a record number of new cloud security centers to expand our presence. Second, we intend to invest more in cloud R&D to continue to lead the market by the strength of our security capabilities. And finally, we plan to continue to grow our OEM and MSSP partnerships to accelerate our market share gains in cloud security. Through these combined efforts, we believe we can exceed a 20% ARR growth rate and establish close to \$100 million ARR cloud security business by the end of 2025.

Our growth last year was achieved amid a rapidly evolving cybersecurity landscape. 2024 was marked by a sharp escalation in both the frequency and sophistication of cyber attacks. This was driven primarily by major geopolitical tensions and rapid adoption of GenAI by threat actors. Countries like the US, Israel, and Ukraine were among the most targeted nations with attackers leveraging AI-powered tools to automate and enhance the precision of their attacks. AI-powered tools effectively lowered the barrier to entry for attackers while simultaneously raising the urgency for organizations to strengthen the cyber defenses.

In parallel, throughout 2024, we made significant strides infusing AI across our security offering with our EPIC-AI framework, giving us a distinct advantage in an evolving threat landscape. We are literally fighting AI with AI. The recent release of our AI SOC Xpert is the latest addition to EPIC-AI. The new cloud service offers SOC teams precisely tailored automated remediation plans for data center security incidents. It has already been well received by customers, cutting mean time to resolution by up to 95%. We have a comprehensive set of AI-driven capabilities in our release pipeline for 2025, ensuring our customers stay ahead of emerging threats with the most advanced protection available.

Moving to DefensePro X, our DDoS protection solution. I'm happy to report a continuous steady uptake in adoption of DefensePro X by our customers, driven by its exceptional detection and blocking of sophisticated attacks. We recently expanded our DefensePro X portfolio with new platforms complementing the full lineup. We are still in the early stages of DefensePro X refreshes for our existing installed base and see significant growth opportunities in the coming two years.

A good example is a seven-digit win in a European Internet service provider. Initially planned for late 2025, this DefensePro X refresh was expedited after a massive cyber attack disrupted access to several of the services and critical customers.

Similarly, we closed a seven-digit deal with a US service provider for a hybrid cloud DDoS deal combining DefensePro X and cloud DDoS protection and completely displacing the incumbent cloud DDoS provider. This win is a great example of the significant competitive advantage we have with hybrid DDoS, which enhances both the customer security posture and network latency.

Collaboration with our OEM partners further amplified our success in 2024. Cisco and Check Point sustained double-digit growth in the fourth quarter, setting a new annual record for total OEM bookings. As we move forward, our recently expanded offering included in Cisco Enterprise agreement will unlock even more new growth opportunities and further streamline purchasing and license management for Cisco-Radware customer.

These important partnerships produced some notable deals during the fourth quarter. For example, in partnership with Check Point, we closed a seven-digit deal with one of the largest banks in the world. As a long-standing Radware customer, the bank relies on our DDoS solution as a critical line of defense against attacks.

In partnership with Cisco, we secured new logo win with a US IoT solution provider. After a DDoS attack in October 2024 and dissatisfaction with their incumbent cloud DDoS provider response, the customer sought alternatives. We won the deal by offering the most comprehensive and automated cloud DDoS solution in the market.

In addition to customers, industry analysts continue to reinforce our position as a trusted innovator in the cybersecurity space. In the fourth quarter, Radware was named a leader and fast mover in the GigaOm Radar for application and API security. The report highlights our strength in vulnerability detection, account takeover protection, and bot management.

In summary, I'm pleased to report a strong fourth quarter and a solid 2024. Last year, we made a significant progress advancing our cloud security business and OEM partnerships, both key drivers of our success. We accelerated our transition to subscription and cloud business model, achieving high levels in bookings, and cash flow from operations.

Looking ahead to 2025, our focus is on accelerating growth with total ARR growth remaining the leading indicator of our revenue trajectory. We are committed to investing in the expansion of our security business, particularly in cloud security. Additionally, our AI-driven capabilities will fuel innovation and strengthen our security offerings. We are confident in our strategy to deliver strong near-term performance and long-term success, and I'm excited about the opportunities that lie ahead.

Before I close, I want to take this opportunity to thank our employees for their dedication and commitment in making our achievements in 2024 possible.

With that, I will turn the call over to Guy.

Guy Avidan - Radware Ltd - Chief Financial Officer

Thank you, Roy, and good day, everyone. I'm pleased to provide the analysis of our financial results and business performance for the fourth quarter and the full year of 2024 as well as our outlook for the first quarter of 2025.

Before beginning the financial overview, I would like to remind you that unless otherwise indicated, all financial results are non-GAAP. Full reconciliation of our results on a GAAP to non-GAAP basis is available in the earnings press release issued earlier today and on the Investors section of our website.

Revenue for the fourth quarter of 2024 grew 12% year-over-year to \$73 million, while full-year 2024 revenue increased by 5% to \$275 million. This growth was fueled by the strong momentum in our cloud security business, the successful DefensePro X refresh, and increased contribution from our OEM partnerships.

Total ARR grew 8% year over year to \$227 million with cloud ARR rising 19% to \$77.3 million, accelerating from 15% growth in Q3 2024. This ARR growth propelled cloud and subscription revenue to 48% of total revenue in Q4 and 47% for the full year compared to 44% in both period last year. Additionally, the increase is reflected in our recurring revenue which accounted for 78% for the total revenue in the fourth quarter and 80% for the full year of 2024.

In the fourth quarter of 2024, our original performance highlighted strong growth in the Americas, where revenue increased 33% year-over-year to \$32.8 million, accounting for 45% of total revenue. Throughout 2024, the Americas demonstrated steady progress, achieving a 14% year-over-year growth to \$117.7 million.

In EMEA, Q4 revenue came in at \$23.3 million, a 6% year-over-year decline contributing 32% of total revenue. Full-year revenue for EMEA was \$94.1 million, down 2% from previous year. In APAC, Q4 revenue increased 8% year-over-year to \$16.9 million, contributing 23% of total revenue, and for the full year, APAC revenue grew 3% to \$63.1 million.

I'll now discuss profit and expenses. Gross margin in Q4 2024 was 82.4%, an expansion of 40 basis points compared to Q4 2023. For the full year of 2024, gross margin was 82.2% compared to 81.9% in 2023. Operating income nearly tripled in the fourth quarter of 2024 to \$9 million compared to \$3.4 million in the same period of last year. For the full year of 2024, operating income also nearly tripled to \$26.8 million compared to \$9.3 million for 2023, a testament to our operational efficiency and cost discipline.

Throughout 2024, we maintained a disciplined approach to managing expenses, focusing on reducing operating costs while driving revenue growth. This strategy has enabled us to leverage existing resources efficiency, fueling top-line growth, and enhancing profitability. Looking ahead, we remain committed to this disciplined approach with targeted investment to support continued growth, especially in cloud security. Radware's adjusted EBITDA for the fourth quarter of 2024 doubled to \$11 million compared to \$5.4 million in the same period of last year. Radware's adjusted EBITDA excluding the Hawks business for the fourth quarter of 2024 was \$13.7 million compared to \$8.2 million in the same period of last year. Radware's adjusted EBITDA for the full year of 2024 nearly doubled to \$34.7 million compared to \$17.6 million in 2023. Radware's adjusted EBITDA for the full year of 2024 excluding the Hawks business, was \$45.6 million compared to \$28.4 million in 2023. Radware's core adjusted EBITDA margin, excluding the Hawks business were 18.8% and 16.6% and for the fourth quarter and the full year of 2024, respectively.

Financial income was \$5 million and \$17.8 million in the fourth quarter and full year of 2024, respectively, compared to \$3.8 million and \$13.7 million in the fourth quarter and full year of 2023, respectively. The tax rate for the fourth quarter of 2024 was 15.4% compared to 24.3% in the same period of last year. For the full year of 2024, tax rate was also 15.4% compared to 17.7% in the same period of last year. We expect the tax rate to remain approximately the same next quarter.

Net income in the fourth quarter more than doubled to \$11.9 million compared to \$5.5 million in the same period last year. For the full year, net income for 2024 doubled to \$37.7 million compared to \$18.9 million in 2023. Diluted earnings per share for Q4 2024 increased to \$0.27 compared to the \$0.13 we had in Q4 2023. For the full year, diluted earnings per share doubled to \$0.87 from \$0.43 in 2023.

Turning to the cash flow statement and the balance sheet. Cash flow from operation in Q4 2024 reached \$12.7 million compared to \$2.7 million in the same period last year. Cash flow from operation for 2024 was \$71.6 million compared to the negative cash flow from operations of \$3.5 million in 2023. We ended the fourth quarter with approximately \$420 million in cash, cash equivalents, bank deposits and marketable securities.

Before concluding with our guidance, I would like to highlight that we are entering 2025 with a strong RPO of \$350 million representing 13% year-over-year growth and underscoring our solid future revenue commitment. Our focus remains on driving top line growth through strategic investments that support long-term expansion, predominantly in high potential areas like cloud security and AI-driven solutions.

While prioritizing revenue growth, we remain disciplined with our expenses ensuring OpEx align with top line performance, all while maintaining our strong commitment to profitability and operational excellence.

And now I'll move to guidance. We expect total revenue for the first quarter of 2025 to be in the range of \$70 million to \$71 million. We expect Q1 2025 non-GAAP operating expenses to be between \$50.5 million to \$51.5 million. And we expect Q1 2025 non-GAAP diluted net earnings per share to be between \$0.22 and \$0.23.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Reimer, Barclays.

Chris Reimer - Barclays - Analyst

Congratulations on a solid quarter. I was wondering if you could describe the environment in the different regions. Just, for example, looking at the Americas, you've had some strong growth there over the last three quarters. I was wondering if you could describe maybe some of the customer behavior and how we should be looking at different regions going forward, what's impacting them, how are they making the decisions, especially versus maybe some of the behaviors you were seeing, let's say, two years ago.

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

Okay. Thanks a lot, Chris. So first, I think what we're seeing across the world was still some cautious spending by the large enterprise customers. With that, the cyber activity and the cyber attacks are consistently rising in sophistication and in the critical impact on these enterprises.

So we are seeing those enterprise moving on -- in cloud security and cybersecurity purchases. And I want to remind, we are protecting the mission-critical applications and data centers, so we are really protecting the crown jewels of our customers.

We are seeing them moving because of design necessity. So sometimes they need to allocate immediate budget if there's incidence or threats. And sometimes, they simply need to make sure they are ahead of the threat landscape. So I think this is really driving the behavior of our markets, sometimes even not correlated to IT budgets or even security budgets, to some extent, as we are dealing with the real-time protection all the time.

Now we've seen strong market potential in North America, and we continue to invest in that market. We think there's huge opportunity for us for growth. At the same time, in the international market, we do believe as we are leveraging the OEM partners, the MSSP, some of the points I've mentioned in my remarks, we can translate that to revenue growth.

In the booking side, we saw some good performance, I would say, in the international market in second half and specifically in Q4. It would flow into revenues. As Guy mentioned, the RPO are high, et cetera. It would flow in the coming year also into the revenue recognition.

Chris Reimer - Barclays - Analyst

Great. That's good color. Just referring to your comments about your intention to increase investment, especially in R&D and new centers. Should we be looking at increased R&D from the levels of this year? Or would that be kind of offset by other OpEx savings?

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

Yeah. So I think in general, we will look for investments above the current levels. Other investments we would make across the business, we would do through reallocation of resources and expenses internally. But for cloud specifically and given that we're seeing accelerated growth and higher potential for growth, we want to invest a bit more in R&D and also in centers as well as in the go-to market. I think some of the -- we can do more with our OEM partners, we can do more with MSSPs. So cloud security specifically, we're going to put more investment, and we believe it would also match revenue growth as well.

Operator

Ryan Koontz, Needham & Company.

Ryan Koontz - Needham & Company - Analyst

Very nice quarter. Nice to see the cloud ARR reaccelerating here. Is this specifically related to some of the changes you made to go to market in the Americas? And -- or is this more maybe related to channels and efforts you've had underway for some time?

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

Yeah. Thank you. So I think it was broad-based. Some of that came from North America, obviously, some of it came from international. I mentioned some of the wins we had with Check Point and Cisco. I highlighted only a couple of large ones, but we had very strong activity with the OEMs and our channel partners in cloud.

In general, we're seeing more and more of our channels and more of our sales teams and geographies embedded in cloud security and not only appliances. So we're definitely seeing quarter over quarter more and more pipeline growth, more -- I mentioned double-digit bookings, double-digit customer growth.

So a lot of the indicators in cloud were actually pointing in the right direction. I think we still have runway both with our channels and our internal organization with the current capacity to have everyone even more engaged in cloud security sales. And that's obviously our plan for 2025.

Ryan Koontz - *Needham & Company - Analyst*

That's really great, and it sounds very logical. On the competitive front then, are you seeing kind of any further differentiation? What's the competitive environment like now compared to, say, a year ago for you?

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

So I think in cloud security for the applications and data centers, our position, and you see it also from the analyst ratings -- industry analyst ratings and so on is that we are really excelling in the security, in the level of security, the automation, the algorithms, et cetera. In that respect, I think we had a very good year in 2024.

We released many new algorithms, next-generation algorithms. Some of them are AI and gen AI based on LLMs for APIs and for DDoS and this AI SOC expert I mentioned. Some are other mathematical algorithms. So I think in that respect, we really strengthened our competitive advantage leading with security or best security this market.

We have very good competitors, Cloudflare and Akamai. But I think as you can see, we're doing well. I've mentioned we are putting our eye towards close to \$100 million ARR by end of this year. So we feel very good about our competitive positioning.

Ryan Koontz - *Needham & Company - Analyst*

That's great commentary. Thank you. And in terms of your broader ecosystem that you're selling into with your customers, are there any integrations you're delivering to market that are maybe helping you in terms of partners or [Northbound] interfaces at all that you're working on?

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

Yeah. So first, with our existing set of partners, we are constantly enhancing the integration. I've mentioned some stuff on Cisco, but same with Check Point. We're constantly enhancing the use cases with Cisco into the routing platforms and so on and so forth. And then we have a whole set of, for example, integration to SIEM systems. So we released integration from our cloud security both for AWS and Azure and SIEM to Splunk and so on.

So we are constantly integrating our systems into the broader security ecosystem. A lot of it is, by the way, through specific requests by our customers. It's very -- our large customers are telling us, what you're doing is really great and we really need your threat intelligence or your application protection as part of our complete system.

And obviously, we welcome that. It makes us more strategic. It makes us more sticky. And we do see our large customers also pointing and enjoying these capabilities. So definitely, that's something we continue to work on.

Operator

(Operator Instructions) Tim Horan, Oppenheimer.

Timothy Horan - *Oppenheimer & Co. Inc. - Analyst*

With Cloudflare and Akamai being -- to your primary competitors. They're very focused on bundling with CDN and other networking and compute. Do you think that's a trend that customers are looking for? Or do they want more best-in-class kind of a la carte at a high level? And then could you elaborate on specifically what you did with the go-to-market on direct sales or how well you can improve it from here?

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

So definitely, we see the trend of platformization or integrated solution in the broader security market. And we are delivering the same in what we believe is the niche that we should target, which is the application and data center protection. So it's the web application firewall, the DDoS, the API, and bot. And we've integrated into our cloud appsec CDN capabilities, load balancing as a service, DNS, network analytics. So everything you need in order to deliver the application, it's already bundled in our solution.

And we actually have a field approach. It's not a la carte, what we sell. It's really a standard, advanced and complete packages of this platform. And then based on the number of applications and the scale of capacity that you need, that's how pricing is being set.

So we're definitely there. And since we've added each and every quarter in the last, I think, six quarters, those additional capabilities, we're actually seeing customers purchasing the firewall as a service, the network analytics and using it as part of these packages.

What we don't do, we don't cross the line to compute. We feel compute is still or should rely with the public cloud providers or on the same side with large enterprises in the private cloud or regular data centers. So everything about delivering and mainly securing the application with the core being security, that's what we do in the platform.

And we are targeting very large enterprises and service provider where security is key. It's not nice to have. In our customers, good enough is not good at all in security. And that's where we are excelling -- and over there, we don't see the need to bundle compute. They're all set in that regard. So that's for the first question.

Regarding the go-to-market approach, we are a channel organization. We do have direct touch, a sales motion across the world. We did strengthen that especially in North America on both hunting and farming go-to-market approaches. And together with that, we are putting more and more efforts into OEMs, into MSSPs to scale channels in general, to scale the business.

And I think at least in the OEMs and MSSPs, some channels, we are seeing that scale, as mentioned, OEM being a record year, by the way, record for all and records for each one separately as well. So we are seeing that start of the scale through channels, MSSPs and OEMs taking effect.

Operator

There are no further questions in queue at this time. I would like to turn the call back to management for closing comments.

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

Thank you, everyone, for attending, and have a great day.

Operator

This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.

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