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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Radware Quarter Four 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Anat Earon-Heilborn, Vice President of Investor Relations. Thank you. Please go ahead, madam.

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

Thank you, Cindy. Good morning, everyone, and welcome to Radware's Fourth Quarter and Full Year 2020 Earnings Conference Call. Joining me today are Roy Zisapel, President and Chief Executive Officer; and Doron Abramovitch, Chief Financial Officer. A copy of today's press release and financial statements as well as the investor kit for the fourth 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 COVID-19 pandemic, 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 Radware's 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 April 2, 2020. 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.

Please note that in March, management will participate in the virtual Berenberg cybersecurity and DevOps conference. I will now turn the call to Roy Zisapel.

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

Thank you, Anat, and good morning, everyone. The fourth quarter was a record quarter for Radware in many areas. We enjoyed healthy business activity, including a significant number of large, high-quality wins with top logos across multiple verticals. This was reflected in record revenues and bookings and book-to-bill ratio significantly above 1. The list goes on. ARR reached a record of $174 million, up 12% from December last year.

We had record bookings in our cloud and subscription business, and cloud and subscription ARR growth accelerated from 30% in Q3 to 35% in Q4.

With roughly a year into the pandemic, it is clear that COVID-19 triggered acceleration in the digital transformation of leading enterprises that are rushing to serve their customers online. Physical lockdowns forced our customers to deploy more applications in the public cloud. This combination of remote working, more critical applications online and the hybrid cloud environment has significantly expanded the attack surface. Applications and services that were not previously exposed to external internet traffic are now at risk.

The impact on cyber activity is clear and it is significant, and we are fighting the cyberwar on behalf of our customers. And let me share some data points with you. The number of DDoS attacks mitigated at our scrubbing centers in the fourth quarter was more than 2.5x larger than in the first quarter, and approximately 20% higher than in the third quarter. The total number of web application attacks we blocked in the fourth quarter almost doubled from the first quarter. And the number of bad bot requests we detected increased almost 30% between the third and the fourth quarters.

The attack motivations vary and include activity from foreign governments, groups seeking financial gains and political activists. We saw continuous waves of ransomware attacks on key financial services companies and expansion of these attack waves to manufacturing and other larger enterprises. Our broad and deep attack mitigation solutions, spanning DDoS, web application firewall, bot management, API security and cloud posture security played a major role in our success.

One of our hybrid cloud DDoS customers, a leading stock exchange, experienced multiple waves of attacks followed by a ransom letter threatening to launch a much larger attack. In anticipation of these attacks, the customer diverted all of its traffic to our scrubbing centers. After a few weeks of benefiting from the advantages of an always-on hybrid cloud DDoS protection, they elected to upgrade their contract permanently. We see more and more customers in the face of these larger and more frequent attack waves upgrading their DDoS protection contracts to higher-end comprehensive DDoS plans.

The increased cyberattack intensity, coupled with greater complexity, brings into focus the strength and efficacy of our security algorithms and the importance of sophisticated and automated attack detection and mitigation. For example, we signed a new logo, a leading European airline, for our bot management solution after it was the subject of massive account takeover attacks. We onboarded the customer to our cloud bot service and immediately started to block the account takeover attacks. These attacks constitute up to 50% of the customer website login attempts.

We also saw a record quarter for our public cloud security product, the cloud-native protector. It extends our security portfolio from the data center application protection into public cloud workloads and broadens the reach of our complete security portfolio. It provides multi-layer protection to reduce risk by continuously verifying compliance and identifying publicly exposed assets. Cloud-native protect significantly fortifies our customers' cloud posture by hardening the environment and by providing advanced attack detection to stop data theft attempts.

Among our Q4 wins is an online video SaaS company. They added 1,200 cloud workloads to the 1,500 workloads they purchased only 2 months earlier as a result of significant growth in their business, which triggered an expansion of their Amazon Web Services environment. 2020 was an excellent year for us with our OEM partners, Check Point, Cisco and Nokia, and our investments really paid off. Booking from our strategic partners combined nearly doubled from 2019 to 2020. In a year that posed many challenges to new logo acquisition, we were able to continuously win major new logos through our OEM partners. Q4 continued this trend, and we won a Fortune 100 industrial company and a Fortune 100 aerospace company, among many others.

Our strong market position is acknowledged also by industry experts. In November, Gartner published its report about critical capabilities for cloud web application and API protection. It ranked our cloud WAF service with the highest score in 2 out of 4 use cases, the API security use case and the high-security use case. In December, Quadrant Knowledge Solutions announced that it has named Radware as a 2020 technology leader in the bot management market. The firm praised our Bot Manager for the comprehensive protection it provides through its intent-based deep behavioral analysis, collective bot intelligence and device fingerprinting.

Finally, I would like to share with you the highlights of our plans for 2021. We are strongly focused on growth. And more specifically, we plan to center our efforts to continue to grow our ARR of cloud and subscriptions. We intend to continue to strengthen our data center and application security solutions for the hybrid enterprise and benefit from our competitive advantage to grow our business. We will continue to leverage our strategic partnerships and ensure we capture the opportunities there. Taking into account our strong solution offering, the growth market we operate in, our strategic partnerships and our devoted team, I'm very confident in Radware's long-term growth prospects.

I will now turn over the call to Doron.

Doron Abramovitch - *Radware Ltd. - CFO*

Thank you, Roy, and thank you all for joining us for a view and analysis of our fourth quarter and full year results. Fourth quarter revenues were a record $69 million, at the high end of our guidance and up 2% year-over-year. For the full year, revenues of $250 million decreased 1% in 2019. From a regional perspective, we are very pleased with the performance in the Americas, where revenues grew 8% for the full year, and as a result, reached $114.4 million or 46% of total 2020 revenue. Revenues from EMEA increased 4% and reached $78.4 million in 2020. And revenues from Asia Pacific were $57.3 million, down 19% compared to 2019.

As Roy noted, the change in the attack surface has driven acceleration in the digital transformation of leading enterprises that's brought growth in our cloud and subscription business. Our cloud and product subscription revenues, together with maintenance revenues, comprised our recurring revenues that represented 66% of the total '20 compared to 63% in 2019. The ARR, which normalizes timing differences in bookings, invoicing and revenue recognition, reached a record $174 million for the end of December, up 12% from December 2019. Within the total ARR, cloud services and product subscription ARR grew 35% more than December 2019.

I will now discuss expenses and profit, all in non-GAAP terms. The differences between the GAAP and non-GAAP results for the quarter are detailed in our press release. Gross margin for the fourth quarter was 83.1%, similar to 83% in Q4 '19. For the full year, gross margin was 82.8% compared with 83.1% in 2019. Our gross margin in each period is affected by the specific product and geographic mix, by the proportion of the cloud and subscription in that period and by the cost of the cloud operations and the pace of opening new scrubbing centers. Overall, we have been successful in maintaining high gross margins over the past few years, and we expect to continue doing so.

Operating expenses in Q4 were $48.3 million compared with $46.4 million in Q4 '19. The continued impact of higher headcount costs, including commissions on strong bookings quarter, was partially offset by lower travel expenses in Q4. However, the significant U.S. dollar weakening the quarter caused a larger-than-expected FX impact of approximately $800,000 this quarter. We ended 2020 with 1,122 employees compared 1,094 at the end of the previous year. Operating expenses for the full year were $182 million compared to $176 million in 2019. The increase was a result of higher investment in headcount and higher commissions, partially offset by lower travel expenses.

Operating profit and margin in Q4 were $9 million and 13.1% compared with $9.5 million and 14.2%, respectively, in Q4 2019. For the full year, operating profit and margin were $25 million and 10% compared with $33.5 million and 13.3% in 2019. Q4 financial income of $2.2 million was lower than in the past 2 years due to the declining yield on marketable securities, an impact we had anticipated and discussed in our previous calls. We expect financial income to moderately decline further throughout 2021. For the full year, tax rate was 13.1%, up from 8% in 2019 due to tax the benefit we had in 2019. We expect 2021 tax rate to increase to 14% to 15%.

Net income for Q4 was $9.8 million or $0.21 per diluted share. If it wasn't for the FX impact on operating expenses, net income would have been $11.3 million or $0.24 per diluted share. Net income for the full year was $30.8 million or 64% -- $0.64 per diluted share compared with $40.6 million or $0.84 per diluted share for 2019.

Turning now to the balance sheet and cash flow items. We have a very strong balance sheet. We had another quarter of strong collections. It led net cash provided by operating activities to be $16.1 million for the fourth quarter and a record of $61.8 million for the full year, up 17% from 2019. During the quarter, we repurchased approximately 241,000 shares for a total of $5.8 million. During the full year, we spent approximately $45.3 million on share buybacks. We ended 2020 with approximately $449 million in cash, bank deposits and marketable securities.

Let me provide you with our guidance for the first quarter of 2021. We are well positioned to accelerate our growth given the healthy market in which we operate and our focus on cloud and subscription. We expect to continue with balanced investment in our growth initiatives, including the cloud business and our strategic partnerships. We expect Q1 revenues to be between $64 million and $65.5 million, reflecting year-over-year growth of approximately 8% at the midpoint, and gross margin to be approximately 82.5%.

We expect the strength of the Israeli shekel to cause year-on-year increase in our dollar operating expenses throughout 2021 and the magnitude of the impact to be higher than in 2020. We expect our operating expenses to be between $47.5 million and $49 million. This OpEx level reflects a $1.3 million negative impact from FX compared to Q2 2020 rates. With that, Q1 2021 EPS is expected to be between $0.13 and $0.15. If we kept exchange rate flat at Q1 2020 level, our focus for OpEx in Q1 '21 would have been approximately $46.2 million to $47.7 million and expected EPS would have been higher by approximately $0.03.

I will now open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from George Notter with Jefferies.

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

I guess I wanted to start out maybe by asking about investments you guys are making in the business. I think 2020 was a year of investing in people and selling and marketing resources, particularly in the United States region. Can you talk about your priorities as you look into 2021 and how you see investing in the business going forward?

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

Okay. So we continue to ramp investments. As Doron mentioned and also I reported in my remarks, we think we're well positioned but we will continue to hire in North America. Internationally, we will be more selective. And then we continue to put a lot of investment into our cloud platform, cloud service people, cloud delivery and so on. So there's this point where the FX played against us, but we continue to invest in the business given the opportunity we see.

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

Got it. Okay. And then like I know -- it sounded like the APAC region was softer for you guys this quarter, I think even for the year. But can you just talk about how you see APAC going forward? Is that an area where you can invest more aggressively and get that business growing again? Or is there something structural or fundamental about that market? Or that's just COVID that has you less enthusiastic about that area of the world?

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

Yes. So I think several factors played into our performance in APAC. One, we believe that, that was the region that will be hit harder from the pandemic economically. Second, what you're seeing in our revenues is a bit delayed view of our bookings, especially as we move more and more into subscription. So if you look on my comments from the first half of the year, I was talking about APAC weakness and so on. I think now you're seeing to the full extent in the revenue figures. However, on the good side, we've seen, in H2, improved performance in APAC. I think overall, our booking is solid for the second half there. And I think you're going to see it in the coming quarters in the P&L as well. Having said that, we do see today our major opportunity in North America, and that would be our prime focus of investment, while we expect the other regions to grow even in a bit modest numbers.

Operator

Your next question comes from Tavy Rosner with Barclays.

Peter A. Zdebski - *Barclays Bank PLC, Research Division - Research Analyst*

This is Peter Zdebski on for Tavy. I wanted to ask about the strong EMEA performance. Was this a direct result of some of the order strength you mentioned last quarter just kind of flowing through the revenue? Or was there anything unusual or unexpected there?

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

Yes. I think also in EMEA, we've seen second half improve the results. I think it starts to make a -- to make its way to the P&L. And again, think I we're performing well. The wins that we have there are significant. The cloud business and the subscription business are doing well. And so all in all, if you need me to rank our regions, North America is first, then second, EMEA and third is APAC. So definitely, we're currently satisfied with the trends we're seeing there.

Peter A. Zdebski - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Great. And then I wondered if you could comment on how you see the gross margin trajectory in 2021 after the nice recovery we saw in Q4. Is there an opportunity to keep driving sequential growth there based on mix from the cloud and subscription growth rate?

Doron Abramovitch - *Radware Ltd. - CFO*

Yes. So as I mentioned, our gross margin is affected by product and the geography mix in one hand. So this is something that we take into consideration. As Roy mentioned, the focus on North America will probably have an impact. On the other hand, with cloud and subscription, it's contradicting trends, while the noncloud subscriptions are software and carry very high gross margin, cloud services are accompanied with the hosting and investments, so margins over there are a bit below. So overall, taking all into consideration, and as mentioned, for the first quarter, we guided something like 82.5%, which is in line with what we achieved in the last few years. So the potential is there. But right now, seeing all the trends and all the revenue mix that we forecast, we believe that we are in the right 82%, 83%.

Operator

Your next question comes from Alex Henderson with Needham.

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

Good to see your numbers today. I was hoping you could talk a little bit about the split between enterprise and service provider. It's interesting to contrast that to what Cisco reported last night, where their service provider was up 5% and their enterprise was down 19%, yet your service provider is down 9% and enterprise is up 13%. So could you help us understand a little bit what's going on there? It doesn't look like the comp in service provider was particularly different, so consistent with the full year '19. So what's going on there? Is that a function of the shift to cloud being much more of an enterprise business and you would expect service provider to gradually decline as a percentage of sales or what?

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

Yes. So I believe this is a trend we're seeing already several quarters in our numbers overall. Given our focus on enterprise security and cloud security as a service, obviously that's much more of an enterprise play than a carrier play. So the more we do that, the more our focus is on the broader enterprise, can be traditional enterprise, cloud-native enterprise and so on, but that's where the growth is coming. On the carriers, I think there's overall a good market there, but currently, we are way more focused on the enterprise market and so are our strategic partnerships with the Cisco security group and Check Point, and that's where we're seeing the growth and the big opportunity.

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

So we should expect gradual decline as a percentage of sales but not necessarily a decline in the service provider business?

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

Exactly.

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

All right. And going back to the cloud, subscription, obviously a nice acceleration, 30% in 3Q, 35% in 4Q, great numbers. Can you help us out with the scaling of this relative to the base within the overall company subscription numbers and ARR numbers? Obviously, it can't be -- if you're up 12% in total, that would suggest that the rest of the business wasn't up very much and this cloud and subscription business is really the bulk of what's going on in driving overall ARR growth. Is that a fair statement? Is it becoming a large enough percent so that we could start to see an acceleration in ARR as a result of that mix shift?

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

Yes. So it is a growing number. And if you recall, in the second quarter, we had 10% total ARR growth. Now we're at 12%. And that movement is driven by cloud and subscription growth. So maybe let me recap what our total ARR is comprised of. The cloud subscriptions, of the product subscriptions. And together, we call those cloud and product subscription, and that's where the growth of 30%, 35% comes from. And the other large component is our service contracts, maintenance contracts on appliances, software or hardware, which is the more traditional business we had. The total was $174 million. If you look on cloud and product subscriptions, it range $75 million to $80 million. So it's becoming a very significant portion of the overall. It crossed 50% already. And we believe as we continue to grow that at the rate that you've mentioned, we hopefully will see acceleration in the total ARR.

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

That makes sense. So I mean inherently, a product subscription contract will encompass the service contract that you historically have gotten on perpetual products. So I mean that's a natural cannibalization. Does the declining opportunity to cannibalize existing business result in some deceleration as that becomes a less and less factor?

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

I think a lot of the products we sell as subscription are not existing cannibalizing existing products. So for example, all our management and analytics software, all our automation software, all of that is sold only in subscription. So there was no perpetual equivalent to cannibalize. There are some other capabilities. There's the product add-ons that we sell that are also subscription. But again, they're not cannibalizing any product perpetual. And there is some extent that you're right and there's cannibalization. So overall, we would love the service contract and so on to keep steady while we aggressively grow the product subscriptions and the cloud subscription.

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

That's very helpful. Just one more question, if I could. As we look at the rapid shift to cloud, to digital transformations, to Kubernetes adoption, obviously that's putting significant pressure on how do I secure workloads in the cloud. You've seen a lot of announcements from companies ranging from the Cloudflare to Zscaler targeting that number of acquisitions, whether it's VMware or whether it's Stackops over at IBM, DivvyCloud over at Rapid7. How do you see the security in the cloud for Kubernetes workloads relative to where you're positioned either across the predeploy, the runtime, inside the container or data in flight domain to domain portion of the market? What portion of that are you going after? And what portions are you not going after?

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

Okay. So I think there are 3 areas that we focus on. Specifically for Kubernetes workload, we're going after the web application firewall for the workload running in that Kubernetes framework, and that's inside the customer VPC. So that's the first. The second, like for any other application, Kubernetes perhaps not excluded, we provide cloud security as a service. It can be API security. It can be bot, it can be WAF and so on. And third, as they run on the public cloud, we protect the posture of the VPC of the customer. I had mentioned that we had a record quarter there as well. And that's, whether it's Kubernetes or not, leading all the APIs of the cloud platform, AWS, Azure and so on, and with that, providing better compliance, better hardening recommendations and detecting attacks they as go.

On the other hand, what we're not going after is we are not putting agents on the servers. So for example, what's called cloud workload protection, it's not CWPP. It's not a market we are going after. We are agentless. We are not going after the -- at this point, the Kubernetes security itself of the infrastructure. We are really keeping ourselves at the application and in the cloud workload level. And I think we're doing very well, and we're seeing very strong demand from our customers.

Operator

Your next question comes from Andrew King with Colliers Securities.

Andrew King

So obviously, over this last year, we've really seen Cisco, you have a partnership, really ramp well. But can you just give us a little bit more of a color into how the Check Point and Nokia OEM partnerships are ramping and going to be focusing your 2021 investments for those to ramp them?

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

Yes. so actually, all of them did very well this year and also this quarter. So Check Point is also -- grew. We over doubled the business with Check Point in 2020. Again, major wins in leading Global 1000, Fortune 500 customers, very, very strong new logos to hardware as well as expansions in banking, in manufacturing, in carriers and so on. So there's definitely good momentum there, and we actually, as part of our investment for 2021, we are ramping investments also on the Check Point side. And last but not least, Nokia is obviously focused on the carrier market, but also there, we had very nice wins in major telecom groups. They are helping us actually replace incumbents from competition given their complete architecture and complete solution.

And also in Nokia, we are adding more capabilities, more resources to the partnership. So all in all, I think the 3 OEMs, at this point, are executing well. I think the potential is still much bigger than where we are, and we need to execute together with them to leverage that. But if you think about it, with Check Point, with Cisco on the enterprise side, and Cisco and Nokia on the carrier side, we should have very good access to all the leading carriers and the Fortune 1000 and Global 2000 companies around the world, and we are working very hard to leverage that access.

Operator

Your next question comes from Joshua Tilton with Berenberg Capital Markets.

Joshua Alexander Tilton - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate Analyst*

I just wanted to touch on the growth for the full year. Do you kind of expect it to remain at the level that you guided to for Q1? Or is this going to maybe somehow accelerate through the remainder of the year? And then also, if you could just kind of give us how we should think about the mix of recurring versus nonrecurring revenue in 2021 versus 2020, that would be great.

Doron Abramovitch - *Radware Ltd. - CFO*

So we didn't guide 2021. It's too early for view, although we mentioned a lot of record and a lot of great start, and we are very optimistic. But Q1 with the midpoint of 8% right now, this is what we have. And I assume that next quarter, we'll have more visibility to talk about the following quarter. As for the recurring revenue, yes, this year, we achieved 66%, which was a bit higher than what we expected. And what we mentioned at the beginning of the year was the 65%. So we assume that next year, we will continue with our cloud and subscription, so the portion should grow. Same trend, we will continue and hope to grow a bit on this one. This is already very high level. And the target is to continue to do it.

Joshua Alexander Tilton - *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate Analyst*

And then just one more follow-up for me. Is there any chance you can kind of give us a sense of where the gross margin is on the cloud and subscription business versus the upfront software business?

Doron Abramovitch - *Radware Ltd. - CFO*

No. Unfortunately, no. No, too many assumptions that we need to do in order to convince you or to talk about this. It's...

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

And also, I want to explain. Each of the cloud services has different gross margins. And it's in different stages of scaling in. The cloud business, when we're opening new nodes, there can be big fluctuations in gross margin from one quarter to the other. And it's -- until we fully populate those nodes that it goes back to those levels. So it fluctuates a lot between services, between periods. And at this point, I think what Doron mentioned was 82.5% guide for the full year. This is what we would like to stand by.

Operator

Your next question comes from Yi Fu Lee with Oppenheimer.

Yi Fu Lee - *Oppenheimer & Co. Inc., Research Division - Associate*

And congrats on a strong set of results, gents. Maybe first question for Roy. Just want to comment -- just want to get your comments on the elevated fiber environment. You had mentioned earlier that DDoS is at its peak, bot attack was at its peak as well. And it corroborates with our external research that year-on-year growth is over 100%. And then in December, you've seen a slew of breaches, starting with some of the cybersecurity firm as well as some burst -- breach. I was wondering has this helped you into a pipeline, whether in the first half of 2021. Maybe some commentaries on that, guys.

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

Yes. Obviously, the increased cyber activity is driving more and more business. I think it's becoming clearer and clearer to each and every enterprise around the world that they must increase their defenses, that the threat is real, that it's critical to their business and that you need to really aim for a very, very secure high-end solution. And I think given our focus on really the high-end security, to provide the best security in the world to applications and data centers, we are enjoying that trend. We saw, as we've mentioned throughout the year and continuously into 2021, already, we know -- we're seeing very large enterprises that are taking us because of this strength in security because our ability to block attacks that others are more challenged with. So definitely, we're seeing the impact on pipeline and on bookings already.

Yi Fu Lee - *Oppenheimer & Co. Inc., Research Division - Associate*

Right. Right. And then just a quick follow-up with Doron. Doron, can you -- I know Roy mentioned earlier that the Check Point relationship is going well. Just want to get your comments on the other two. Like I know Nokia is newer. How about Cisco? Last year, I think guidance the was tens of millions of dollars. Doron, just want to get your color on what's your expectation for 2021 for those 3 vendors, Cisco, Check Point as well as Nokia. And that's it for me, guys.

Doron Abramovitch - *Radware Ltd. - CFO*

Yes. So I will let Roy take the strategic one. But we mentioned a few years ago that we expect it to be tens of million dollar. And I really -- we don't disclose the number, but as you can imagine, if we are about to be 2x versus last year, it was 2x versus the previous year, we are in a very good situation. We are very comfortable with this one. But again, we don't disclose, we don't break these revenues, yes.

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

And as I've mentioned, Check Point also did a very good year and so did Nokia. So at this point, all of them are growing rapidly with us. I've mentioned that as a group, they practically doubled. And we believe the potential is still there for more. Definitely, as I mentioned, our focus on the large enterprises with them and with Nokia and Cisco and the large carriers should deliver better and better results.

Operator

Your next question comes from Alex Henderson with Needham.

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

Yes, just a couple of housekeeping questions, if I could. The $800,000 in FX hit, is that all in the interest income expense line?

Doron Abramovitch - *Radware Ltd. - CFO*

No. The $800,000 that I mentioned is part of the -- when we guided last quarter, $46 million to $47 million. So one good thing is that we added some expenses on commission, a very good quarter in terms of booking and the $800,000 is the FX that impacted the OpEx due to the strong Israeli shekel. So it's not...

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

So there's so no translation in the interest income expense line at all then?

Doron Abramovitch - *Radware Ltd. - CFO*

No, it's not the interest. It's only the OpEx that the translation of Israeli shekel to U.S. dollar.

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

Perfect. And did you give guidance about a headcount number? I don't think I caught it.

Doron Abramovitch - *Radware Ltd. - CFO*

11 -- 1,122.

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

Okay. And just -- I know you don't want to forecast anything beyond the first quarter, but just -- can you talk a little bit about the magnitude of the impact you think in retrospect that the COVID event had in the first quarter versus the second quarter and how that trajected over the course of the year based on your best forensic analysis after the fact? Obviously, the second quarter should have much higher growth rate than any other quarter, given that was the quarter that had the biggest impact. But I think you also had some impact in 1Q. So can you talk a little bit about what we should be thinking about in terms of the magnitude of that impact over the course of the year?

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

Yes. It's really hard to tell. Initially in the year, there were project delays, and there were obviously several segments that were practically shut down in the world almost to date, like travel, hospitality and so on, although our exposure there is limited. On the other hand, initially, as people -- as enterprises has shifted to work-from-home, we've seen capacity increases. But I think as the year progressed, the main impact that we saw is not from COVID or maybe we got used to it. It's more from the heightened security activity and hacking activity around the world.

And to the extent it is directly related to COVID or not, I don't have a view on that. But that, I think, what's driving the main pipeline activity, the main business growth and so on. So we are way more linked to that, I think, today, than to the current impact on COVID. And it's, by the way, one of the reasons when we look into next year, it's a bit hard to tell, is the fact that countries are entering and exiting lockdowns that we are seeing continuous delays on budgets and so on. Where we are not seeing delays and we're actually seeing increased investments is in cybersecurity.

And hence, we are even more focused on that on the enterprise, and more focused on cloud as a delivery option that because does not require any physical access to location or to an application. So all in all, I think we're well positioned. We have a growing cloud service business, high-security capabilities that really fit extremely well with the heightened attack activity and the fact people need cloud services in this environment.

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

Roy, I understand the point but, on the other side of the coin, you were down 2.3% in the first quarter and 3.3% revenues in the second quarter last year. Obviously, it's improved substantially as security became a much bigger focus in the back half of the year. And I'm sure that's why your business is accelerating. I'm just trying to understand the mechanics around the 2Q compare a little bit so that we can have a better sense of whether that should be the highest growth quarter or whether you expect just the momentum of your business ends up being more important and therefore, we should look at those comps as relevant.

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

Yes. Well, we don't have guidance for the second quarter at this point. Generally, if you look on the last several years, also I think the last couple of years also before COVID, actually, Q2 was lower than Q1 in revenues for us. It's not to say that's what we're going to have now. We really don't have any thoughts on Q2 at this point beyond our growing ARR, growing visibility, et cetera. You already see that in Q1, we are growing, of course, 8%, 9% at the midpoint. We're expecting good year in front of us. But I cannot quantify for you the exact COVID impact. It's very hard.

Operator

I'm showing no further questions at this time. I would like to turn the conference back to Roy Zisapel.

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

Okay. Thank you, everyone, and have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
