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Reason for Report:
Company Update; Quarterly Preview

Changes	From (Previous)	To (Current)
Rating	—	Outperform
Price Tgt	—	\$12
FY02E EPS	\$0.03	(\$0.07)
FY03E EPS	—	\$0.35
FY02E Rev (mil)	\$46.5	\$47.1
FY03E Rev (mil)	—	\$0.35

Price: \$9.95
52-Wk Range: \$20.30-\$6.56
Price Target: \$12
(30x FY03E Op. Inc. plus Cash)
Shares Out (mil): 16.5
Market Cap (mil): \$164
Avg Daily Vol (000): 107
Book Value/Share: \$7.7
Cash Per Share: \$7.5
Debt to Total Capital: 0%
Div (ann) – Yield: NA
Est LT EPS Growth 25%-30%
P/E to LT Growth (2002): NM
Est Next Rep Date: Late July 2002
FY End: Dec. 2002

Rev (mil)	2001	2002E	2003E
Mar	\$12.8	\$10.1A	--
Jun	\$13.0	\$10.7	--
Sep	\$8.1	\$12.3	--
Dec	\$9.4	\$14.0	--
FY	\$43.3	\$47.1	\$62.0
CY	\$43.3	\$47.1	\$62.0

FY RM 3.8x 3.5x 2.6x
CY RM 3.8x 3.5x 2.6x

EPS	2001	2002E	2003E
Mar	\$0.12	(\$0.08)A	--
Jun	\$0.11	(\$0.07)	--
Sep	\$(0.18)	\$0.00	--
Dec	\$(0.12)	\$0.07	--
FY	\$(0.07)	(\$0.07)	\$0.35
CY	\$(0.07)	(\$0.07)	\$0.35

FY P/E NM NM 28.4x
CY P/E NM NM 28.4x

Note: EPS are fully diluted.

Disclosures (see last page for details):

- (#) Market Maker
- (^) Beneficial Interest
- (>) Beneficial Interest/Pre-IPO
- (@) Underwriter
- (-) Employee/Director

RADWARE Ltd. (RDWR– \$9.95) Outperform

Volatility: High

Reiterate Outperform After Better Than Expected 1Q02 Numbers And Favorable Outlook

KEY POINTS:

- **RADWARE beat USBPJ and Street 1Q02 forecasts as sales were driven by enterprise spending and expanded marketing channels.** Revenue was up 7% sequentially to \$10.1 million, ahead of our \$9.5 million estimate. EPS (\$0.08) was a penny better than our projection, bested Street consensus of (\$0.10), and improved by four cents over 4Q01.
- **We believe that despite the rough markets, the Company is increasing its momentum,** as evidenced by the good 1Q02 numbers, rising deal size and ASPs, continued expansion of technological edge, product offering, partners, channels and overall market presence.
- **Fine tuning our estimates for FY02E.** We are raising our revenue FY02 estimates to \$47.1 million from \$46.5 million and slightly lowering our EPS from \$0.03 to (\$0.07) to account for higher operating expenses going forward. For FY03 we are looking for revenue of \$62 million and EPS of \$0.35.
- **We are reiterating our Outperform rating on RDWR shares with a \$12 objective,** based on 30x FY03E operating income plus cash at hand.

INVESTMENT RECOMMENDATION:

Despite continued softness in IT spending and telecom capex, and low visibility, RADWARE's outlook seems to be brightening. As evidenced by the follow-on order from Continental, RADWARE's high ROI products allow enterprises and service-providers to better leverage their existing communications networks, through increased performance, efficiency, availability, and productivity. With consistently strong gross margins, unique positioning, and a varied product offering, backed by additional partners, OEMs and an expanded worldwide presence, we believe that the Company is well positioned to benefit from a rebound in spending later this year as enterprises open up their wallets.

In our view, RDWR's shares remain attractive on a price/sales and price/cash basis and we reiterate our Outperform rating.

COMPANY DESCRIPTION:

RADWARE Ltd. (#@), is a leading supplier of Internet Traffic Management (ITM) products and solutions that enable continuous access to Websites and other services, applications and content based on Internet protocol. The Company offers a complete line of load-balancing products that improve the performance, availability, productivity and manageability of Web sites by distributing traffic within a network to optimize the use of available network resources. The offering includes the *Web Server Director*, *Cache Server Director*, *FireProof*, *Link Proof* and *CertainT*, targeted at service providers, e-commerce businesses and corporate enterprises.

RADWARE Delivers Good 1Q02

RADWARE maintains momentum: Yesterday, April 29, before the market open, RADWARE reported good 1Q02 thanks to solid management execution despite continued softness in IT spending and tight telecom capex. Given the good momentum in RADWARE's business and some weakness in Nortel's and F5's performance, we believe that the Company expanded its 15%-20% market share incrementally during the quarter, as it did in the December quarter.

Good 1Q02 numbers: Revenue was up 7% sequentially to \$10.1million, ahead of our \$9.5 million estimate. Loss per share of (\$0.08) was a penny better than our projection and bested Street consensus of (\$0.10), and was down from (\$0.12) from the previous quarter. The upside was driven by the good top-line growth, and stable margins of 81.6%, with both items besting our estimates, along with slightly lower operating expenses Q/Q, that were a tad higher than our forecasts.

Enterprise business rising: Revenue growth was driven by a healthy low to mid-teen sequential rise in enterprise business, as this segment accounted for 55%-60% of business versus the traditional 55%, while sales to service providers was essentially flat. We believe that this momentum is due to good management execution of its plans to expand its market reach through additional partners and offices, especially in the enterprise segment.

Global expansion bears fruit: While it is too early to call a trend, it appears that the Company's efforts in expanding its worldwide presence are also bearing fruit. Europe grew 20% Q/Q and accounted for 28% of the mix, while the Asia Pacific region grew 7% sequentially and maintained its 25% share of revenue. We note that the Company strengthened its regional ranks, with the latest addition of a former Alteon/ Nortel manager in China and a former Lucent sales director in its newly opened Japanese offices. The North American market, on the other hand, was flat and its share dropped to 47% from 50% in the previous quarter.

RADWARE's repeat business rises: Repeat business during the quarter rose, and accounted for 45% of sales, up from 40% in 4Q01. Repeat customers included Continental Airlines, Sony, Lockheed Martin and C&W. Notable new customers added during the period included Akai and The U.S. State Department. We note that 80% of RADWARE's customer-base is utilizing only one of the Company's six product offerings, which leads to believe that a large opportunity exists to further penetrate these accounts.

Balance sheet metrics edged higher, with DSO at 76 days, down from 77 days while inventory continued to rise to 1.7x from 1.5x in the previous quarter thanks to lower inventory levels and rising turnover. The Company managed to generate a nominal operating cash flow of \$280,000 that was offset by investment and capex, bringing cash levels down by \$1 million to just under \$125 million, or \$7.5 a share, with no debt.

Reiterate Outperform As Outlook Is Favorable

During the conference call, management indicated that deal size increased during the quarter and that ASPs rose from \$40,000-\$45,000 to closer to the \$50,000 bar. In addition, the Company worked diligently on expanding its market presence and partner list, adding Westcon and Computer Link as resellers, and signing various market and technology partnerships. We point out that RADWARE recently announced partnership with Quest Software, a leading IT performance management vendor, and as well as other key partnerships in the security arena, like Pyramid Computer and Check Point to ensure high availability of Gigabit VPN (Virtual Private Network) security, Authentor, Aladdin, SurfControl and others. While it is too early to tell the effect of these partnerships on business, management did indicate that its push in the security arena has helped in increasing business for its recently introduced FireProof application switch, a key driver for continue top-line growth, in our opinion.

Despite continued softness in IT spending and telecom capex, combined with low visibility, RADWARE's outlook seems to be brightening and the Company is maintaining its good momentum. As noted in previous notes, RADWARE's high ROI products allow enterprises and service-providers to better leverage their existing communications networks, through increased performance, efficiency, availability, productivity and manageability, and fit well to the current environment.

Management guided for 2Q02 revenue of \$10.5-\$11.0 million and loss per share of (\$0.07). We are fine tuning our estimates for the balance of the year to \$47.1 million from \$46.5 million and slightly lowering our EPS from \$0.03 to (\$0.07) to better account for higher operating expenses going forward. For FY03 we project revenue of \$62 million and EPS of \$0.35.

With strong gross margins, unique positioning, and a varied product offering, backed by additional partners, OEMs and an expanded worldwide presence, we believe that the Company's is well positioned to benefit from a rebound in spending as later this year as enterprises open up their wallets. **In our view, RDWR's shares remain attractive on a price/sales and price/cash basis and we reiterate our Outperform rating.** Our target price is \$12 based on 30x FY03 operating income plus cash at hand.

INCOME STATEMENT	Fiscal 2001				Fiscal 2001A	Fiscal 2002				Fiscal 2002E	Fiscal 2003E
	Mar	Jun	Sep	Dec		Mar(A)	Jun(E)	Sep(E)	Dec(E)		
Sales	12,810	13,010	8,104	9,403	43,327	10,101	10,700	12,300	14,000	47,101	62,000
<u>Cost Of Goods</u>	<u>2,106</u>	<u>2,378</u>	<u>1,491</u>	<u>1,734</u>	<u>7,709</u>	<u>1,857</u>	<u>2,030</u>	<u>2,400</u>	<u>2,800</u>	<u>9,087</u>	<u>14,260</u>
Gross Profit	10,704	10,632	6,613	7,669	35,618	8,244	8,670	9,900	11,200	38,014	47,740
R&D , Net	1,978	2,048	2,127	2,140	8,362	2,012	2,050	2,050	2,100	8,212	8,750
Sales and Marketing	7,520	7,459	7,506	7,501	29,986	7,425	7,460	7,570	7,680	30,135	32,000
G&A	<u>1,005</u>	<u>919</u>	<u>1,635</u>	<u>984</u>	<u>4,543</u>	<u>1,034</u>	<u>1,100</u>	<u>1,100</u>	<u>1,100</u>	<u>4,334</u>	<u>4,600</u>
Total Op. Exp.	10,503	10,426	11,268	10,625	42,891	10,471	10,610	10,720	10,880	42,681	45,350
Operating Income	201	206	-4,655	-2,956	-7,273	-2,227	-1,940	-820	320	-4,667	2,390
Interest Income	<u>2,043</u>	<u>1,873</u>	<u>1,459</u>	<u>936</u>	<u>6,311</u>	<u>858</u>	<u>850</u>	<u>850</u>	<u>900</u>	<u>3,458</u>	<u>3,700</u>
Pretax Income	2,244	2,079	-3,196	-2,020	-962	-1,369	-1,090	30	1,220	-1,209	6,090
Taxes	202	187	0	0	389	0	0	0	0	0	0
Minority interest	22	6	-42	-51	-65	-27	0	0	0	-27	
Net Income	2,064	1,898	-3,238	-1,969	-1,351	-1,342	-1,090	30	1,220	-1,209	6,090
EPS	\$0.12	\$0.11	(\$0.18)	(\$0.12)	(\$0.07)	(\$0.08)	(\$0.07)	\$0.00	\$0.07	(\$0.07)	\$0.35
Shares (Diluted)	17,024	17,720	17,554	16,557	17,669	16,540	16,600	16,650	16,700	16,623	17,200
Percent Of Sales											
Gross Margin	83.6%	81.7%	81.6%	80.0%	82.2%	81.6%	81.0%	80.5%	80.0%	80.7%	77.0%
R&D, Net	15.4%	15.7%	26.2%	23.5%	19.3%	19.9%	19.2%	16.7%	15.0%	17.4%	14.1%
Sales & Marketing	58.7%	57.3%	92.6%	82.5%	69.2%	73.5%	69.7%	61.5%	54.9%	64.0%	51.6%
General Expenses	7.8%	7.1%	20.2%	9.5%	10.5%	10.2%	10.3%	8.9%	7.9%	9.2%	7.4%
Total Op. Expenses	82.0%	80.1%	139 %	115%	99.0%	104%	99.2%	87.2%	77.7%	90.6%	73.1%
Operating Profit	1.6%	1.6%	-57.4%	-31.4%	-16.8%	-22.0%	-18.1%	-6.7%	2.3%	-9.9%	3.9%
Net Income	16.1%	14.6%	-40.0%	-20.9%	-2.9%	-13.3%	-10.2%	0.2%	8.7%	9.8%	9.8%

Rating Definitions

Investment Opinion: investment opinions are based on each stock's return potential relative to the overall market*, not an absolute return.

- **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6 to 12 months. An identifiable catalyst is present to drive appreciation.
- **Outperform:** Expected to outperform the relevant broader market index over the next 12 to 18 months.
- **Market Perform:** Expected to perform in line with the relevant broader market index over the next 6 to 12 months.
- **Underperform:** Expected to underperform the relevant broader market index over the next 6 to 12 months.

* Broader market indices = Russell 2000 and S&P 500

Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, we are identifying the volatility of a particular stock.

- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this risk rating for the first 12 months of trading.

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