

UBS Investment Research
Radware Ltd

Israel

Software

Rating
Buy 2
Unchanged
Price target

US\$30.00

Prior:US\$23.00
Price

US\$23.00

RIC: RDWR.O BBG: RDWR US

11 October 2004

Raising Price Target and Estimates

■ Updating estimates

On September 27th RDWR raised its Q3 guidance to revenues of \$17.6m (q/q +8%) and EPS of 19c from \$17m and 17c. This guidance was slightly better than our previous estimates of \$17.6m and 18c in revenue and EPS. RDWR has scheduled its Q3 release for October 25th.

■ Expect seasonally strong Q4

We estimate that Q4 will benefit from both a seasonally strong quarter and from an acceleration in its security product sales. Accordingly, we are revising our Q4 q/q growth estimate to 10% from 6%. In line with the above, we are raising our Q4 revenue estimate to \$19.3m from \$18.4m and our EPS estimate to 23c from 19c. For '04 we are increasing our EPS estimate by 4c to 71c.

■ Only tweaking 2005 estimates

At this stage we are only tweaking our '05 estimates, raising our revenue forecast by \$0.8m to \$85.4m (y/y 24%) and our EPS estimate by 4c to \$1.00. We are currently modeling for a sequentially flat Q1, which leaves room for potential upside revisions in particular if the DefensePro products continues to accelerate.

■ Valuation: Increasing target PE of 30x from 24x

We are increasing our price target to \$30 from \$23 based on a '05e PE of 30x compared with our previous target PE multiple of 24x. We believe RDWR's expected growth rate, driven by a more diversified product offering, justifies the higher multiple.

Trading data

52-wk. range	US\$32.69-14.90
Market cap.	US\$0.45bn
Shares o/s	19.6m
Free float	71%
Avg. daily volume ('000)	171
Avg. daily value (US\$m)	3.3

Balance sheet data 12/04E

Shareholders' equity	US\$0.15bn
P/BV (UBS)	>100
Net cash (debt)	US\$0.14bn

Forecast returns

Forecast price appreciation	+30.4%
Forecast dividend yield	0.0%
Forecast stock return	+30.4%
Market return assumption	7.6%
Forecast excess return	+22.8%

EPS (UBS, US\$)

	12/04E			12/03
	From	To	Cons.	Actual
Q1	-	0.14	0.14	0.05
Q2	-	0.16	0.16	0.07
Q3E	-	0.19	0.19	0.10
Q4E	-	0.23	0.21	0.13
12/04E	-	0.71	0.68	-
12/05E	-	1.00	0.92	-

Highlights (US\$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	44	55	69	85	-
EBIT	(6)	3	10	18	-
Net income (UBS)	(2)	6	14	21	-
EPS (UBS, US\$)	(0.13)	0.34	0.71	1.00	-
Net DPS (UBS, US\$)	0.00	0.00	0.00	0.00	-

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
EBIT margin %	-11.3	4.8	15.1	21.2	-
ROIC (EBIT) %	-	-	232.6	240.2	-
EV/EBITDA x	-	36.9	25.3	15.1	-
PE (UBS) x	-	48.3	32.4	23.0	-
Net dividend yield %	-	0.0	0.0	0.0	-

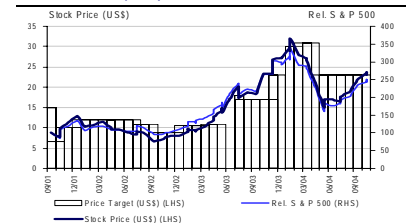
Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E); based on a share price of US\$23.00 on 08 Oct 2004

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Performance (US\$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3

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RDWR's positive pre-announcement this quarter stands out in a relatively challenging quarter. We believe RDWR has begun Q4 with an improved pipeline in what is seasonally a strong quarter anyway. In addition, the company's new defence product appears to be exceeding management's initial expectations. We view the success of DefensePro as a key factor in our Buy recommendation as we believe it will enable the company to accelerate its growth and lowers business risk overall. In addition, based on our conversations with management, we conclude that the difficulties the company faced within its US organization have been addressed, which should result in sales to that country improving gradually as a percentage of revenues.

Given the Q3 pre-announcement and our estimate for a strong Q4, we are raising our Q4 EPS estimate to 23c from 19c and note that our new estimate is the highest among those published in IBES. We further note that we expect management will guide for a lower EPS figure, as they tend to lean towards being conservative.

Table 1: Peer Valuation Comparison (US\$ accept per share)

	Price	Mkt Cap	YTD	EPS		PE		EV/Sales	
				2004E	2005E	2004E	2005E	2004E	2005E
F5	31.02	1,072	24%	0.70	0.82	44.3	37.8	5.3	nm
Packeteer	10.29	339	-39%	0.37	0.53	28.1	19.6	2.9	2.4
Akamai	15.13	1,902	41%	0.31	0.53	49.6	28.8	10.2	8.1
Foundry	10.64	1,443	-61%	0.49	0.53	21.8	20.1	2.5	2.3
Average						36.0	22.8	5.2	4.3
Radware	23.00	450	-16%	0.71	1.00	32.4	23.0	4.5	3.6

Source: IBES and UBS estimates *arithmetic average excludes RDWR.

Given its better than expected Q3 and our estimate for a stronger than expected Q4, we are comfortable increasing our price target PE to 30x from 24x. We note that even at 30x RDWR would be trading at a significant discount to its closest competitor F5. Accordingly we are increasing our price target to \$30 from \$23 and reiterating a Buy 2 rating.

■ Radware Ltd

Radware develops Internet Traffic Management products that streamline e-business operation. Offering a comprehensive product suite coupled with a successful business model of indirect sales, Radware continues to grow fuelled by Internet traffic growth.

■ Statement of Risk

We expect RDWR's growth in 2005-06 will be driven mainly by its new major product offering in the network security sector. A failure of this product to gain acceptance in the market place will have a negative impact on RDWR's results.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	41%	33%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	50%	33%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	9%	27%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

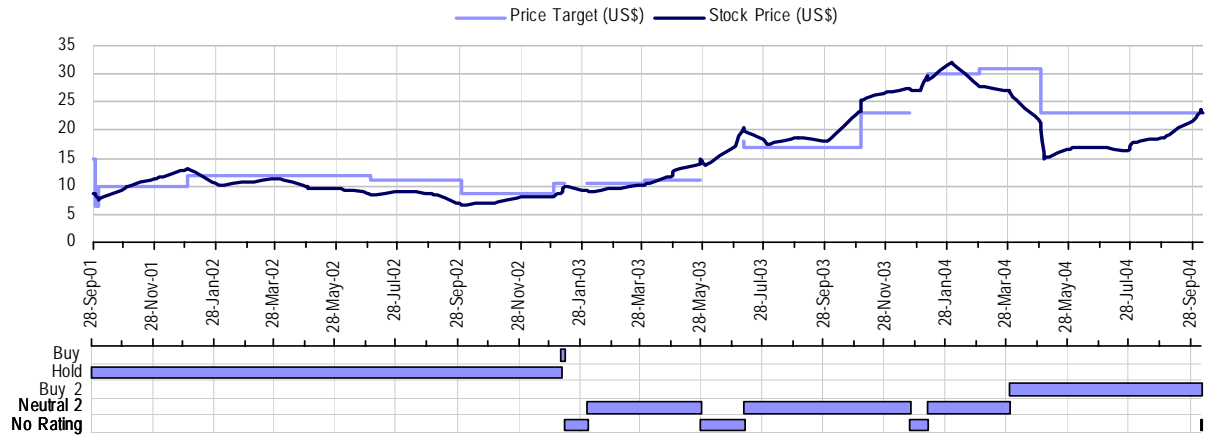
Company Name	Reuters	Rating	Price
Radware Ltd ¹⁶	RDWR.O	Buy 2	US\$23.00

Price(s) as of 8 October 2004. Source: UBS.

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Radware Ltd (US\$)



Source: UBS; as of 8 October 2004.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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