

NYSE:ATEN Q2 2025 Earnings Call Transcript

Generated on 6/10/2026

Operator | Conference Operator:

questions and comments after the presentation. It is now my pleasure to turn the floor over to your host, Tom Bauman of FNKIR. Sir, the floor is yours.

Tom Bauman | IR Representative, FNKIR:

Thank you. And thank you all for joining us today. This call is being recorded and webcast live and may be accessed for at least 90 days via the ATEN Networks website, atennetworks.com. Hosting the call today are Drupal Trivedi, ATEN's President and CEO, and CFO Brian Becker. Before we begin, I would like to remind you that shortly after the market closed today, A10 Networks issued a press release announcing its second quarter 2025 financial results. Additionally, A10 published a presentation and supplemental trended financial statements. You may access the press release, presentation, and trended financial statements on the investor relations section of the company's website. During the course of today's call, management will make forward-looking statements, including statements regarding projections for future operating results, demand, industry and customer trends, macroeconomic factors, strategy, potential new products and solutions, our capital allocation strategy, profitability, expenses and investments, positioning, and our dividend program. These statements are based on current expectations and beliefs as of today, August 5th, 2025. These forward-looking statements involve a number of risks and uncertainties, some of which are beyond our control that could cause actual results to differ materially and you should not rely on them as predictions of future events. ATEN does not intend to update information contained in these forward-looking statements, whether as a result of new information, future events, or otherwise, unless required by law. For a more detailed description of these risks and uncertainties, please refer to our most recent 10-K and quarterly report on Form 10-Q. Please note, with the exception of revenue, financial measures discussed today are on a non-GAAP basis and have been adjusted to exclude certain charges. The non-GAAP financial measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP and may be different from non-GAAP financial measures presented by other companies. A reconciliation between GAAP and non-GAAP measures can be found in the press release issued today and on the trended quarterly financial statements posted on the company's website at www.a10networks.com. Now, I'd like to turn the call over to Drupal Trivedi, President and CEO of A10 Networks.

Drupad Trivedi | President and CEO, A10 Networks:

Thank you, Tom, and thank you all for joining us today. A10 continued to deliver growth, and profitability in the second quarter. This performance demonstrates the continued validation of our strategy. We have strategically aligned our technology roadmap and go-to-market focus with the evolving cybersecurity landscape where our customers are facing increasingly complex challenges. Our solutions emphasize high performance and advanced security, two areas that are increasingly central to both the service provider and enterprise customers. This strategic focus and delivery of innovation is resonating in the market. This concentration was further validated by our recent selection by a global cloud leader to help build their future AI infrastructure, indicating that ATEN's offering is well-positioned at the intersection of today's most urgent priorities for the world's most demanding customers. Increasingly, that alignment with the key drivers of technology investment is the most important point I want to share with investors today. ATEN is exceedingly well aligned with these two primary catalysts influencing IT and infrastructure spending, artificial intelligence, and cybersecurity. We believe we have the right technology, the right product roadmap, and increasingly the

right go-to-market execution to fully capitalize on these trends. Our intentional diversification enhances our resilience. In the second quarter, we saw an improvement in parts of global service provider spending driven by the factors I mentioned earlier. Our balanced exposure across verticals and geographies is a core strength of our business model, and it allows us to maintain momentum while we capitalize on secular tailwinds in AI and cybersecurity. Looking at performance on a trailing 12-month basis provides a view of our underlying momentum. Total revenue grew 11% year-over-year, with enterprise up 8% and service provider revenue increasing 14%. Even after adjusting for the favorable year-over-year comparison, we believe this reflects a sustainable growth trend aligned with our strategy, and we remain comfortable in our ability to deliver annual revenue growth in the high single-digit range. Our first half results are consistent with these expectations. We will continue to navigate choppy market conditions while focusing on execution and aligning investments with long-term growth expectations and business model goals. Our service provider revenue during the period benefited from improved demand from data center expansions and AI infrastructure investments. As I mentioned in the past, AI applications are power-hungry, making our solutions, which provide industry-leading efficiency in terms of throughput, low latency, and best-in-class security, more attractive as customers can achieve better ROI on those investments. We are actively leveraging this competitive advantage along with our networking expertise in opportunities for large data center projects around the world. Our EBITDA's percent of revenue grew year over year, even as we aggressively invest in new areas. As an indicator, we had two AI products win the top awards at the prestigious Interop event in Japan, competing against much larger players as well as startups. Our comprehensive ATA and DEFEND portfolio of solutions provide hybrid DDoS protection, threat intelligence, web application and bot protection, and now adds a fully featured WAP solution, all integrated into a single solution with end-to-end delivery and stronger security for mission-critical applications. Stepping back, I am increasingly confident in our strategic positioning. Our deliberate focus on aligning ATEN's growth and investment strategy with structural tailwinds of AI and cybersecurity continues to pay dividends. Our focus on systematically growing enterprise market adds another growth vector. We believe ATEN is well positioned to serve both enterprise and service provider customers employing an intentional diversification strategy that delivers resiliency in our results. We are also well diversified across regions. The business continues to effectively navigate short-term market volatility, delivering consistent profitability and returning capital to shareholders. As markets evolve, we are well positioned to outpace the market in terms of revenue growth while increasing our profitability in line with our business model. With that, I'd like to turn the call over to Brian for a detailed review of the quarter. Brian?

Brian Becker | CFO, A10 Networks:

Thank you, Drupad. Second quarter revenue was \$69.4 million, an increase of 15% year over year. The results benefited from a more normalized service provider quarter compared to last year, and the strategic investments we've made in enterprise and AI infrastructure. The overall trends are positive and we continue to maintain our focus on global diversification. Product revenue for the quarter was \$39.2 million, representing 56% of total revenue. Services revenue was \$30.2 million, or 44% of total revenue. Total deferred revenue increased to \$144.4 million. As expected, we see strong uptake of our cutting-edge portfolio, evidenced by continued product revenue growth, and renewal rates on eligible contracts remain above 90%. The high renewal rates are an indicator that we are not losing any customers or market share. With the exception of revenue, all of the metrics discussed on this call are on a non-GAAP basis unless otherwise stated. A full reconciliation of GAAP to non-GAAP results are provided in our press release and on our website. Gross margin in the second quarter was 80%, in line with our stated goals of 80% to 82%. Adjusted EBITDA was \$19.7 million for the quarter, reflecting 28.3% of revenue, in line with our stated long-term goals. Non-GAAP net income for the quarter was \$15.5 million, or \$0.21 per diluted share, compared to \$13.2 million or \$0.18 per diluted share in the year-ago quarter. Diluted weighted shares used for computing non-GAAP EPS for the second quarter were approximately 73.1 million shares, down 2.4 million shares year-over-year due to our continued share buyback. On a GAAP basis, net income for the quarter was \$10.5 million or \$0.14 per diluted share, compared to net income of \$9.5 million or \$0.13 per diluted share in the year-ago quarter. During the quarter, we generated \$22.2 million in cash from operations. Turning to the year to date results, revenue for

the first six months of 2025 was \$135.5 million compared to \$120.8 million, an increase of 12%. Non-GAAP gross margin was 80.4% year to date. We continue to navigate macro uncertainties and are aggressively supporting our key AI customers. Adjusted EBITDA was \$39.2 million year-to-date, reflecting 28.9% of revenue. Non-GAAP net income on a year-to-date basis was \$30.5 million or \$0.41 per diluted share, compared to \$26 million or \$0.35 per diluted share last year. On a GAAP basis, net income for the first six months was \$20.1 million or \$0.27 per diluted share, compared to net income of \$19.2 million, or \$0.26 per diluted share, in the first six months of last year. Turning to the balance sheet, as of June 30, 2025, we had \$367.4 million in cash, cash equivalents, and marketable securities, compared to \$195.6 million in the end of 2024. We ended the quarter with convertible debt of \$218.1 million as a result of our convertible debt offering completed in Q1. During the quarter, we paid \$4.3 million in cash dividends and repurchased \$3.9 million worth of shares. The Board has approved a quarterly cash dividend of \$0.06 per share to be paid on September 2, 2025, for shareholders of record on August 15, 2025. The company has 71.1 million remaining of its \$75 million share repurchase authorization. I'll now turn the call back over to Drupad for closing comments.

Drupad Trivedi | President and CEO, A10 Networks:

Thank you, Brian. We are encouraged by the continued business execution and remain confident that ATEN is strategically well positioned in the market. Technology spending is heavily influenced by increased demand for cybersecurity solutions and the accelerating adoption of AI-related spending. ATAN is positioned squarely in front of these two durable secular catalysts. We are investing to enhance our position in the enterprise space and remain aligned with key leaders in the service provider sector around the world. We believe our business model enables us to dynamically allocate resources to address changing market conditions while preserving profitability and shareholder returns. Operator, you can now open the call for questions.

Operator | Conference Operator:

Certainly. Everyone at this time will be conducting a question and answer session. If you have any questions or comments, please press star 1 on your phone at this time. We do ask that while posing your question, listening on speakerphone to provide optimum sound quality. Once again, if you have any questions or comments, please press star 1 on your phone. Your first question is coming from Gray Powell from BTIG. Your line is live.

Gray Powell | Analyst, BTIG:

Okay, great. Thanks for taking the question, and congratulations on the good results.

Drupad Trivedi | President and CEO, A10 Networks:

Thank you, Greg.

Gray Powell | Analyst, BTIG:

Yeah, absolutely. So, yeah, you posted the best product revenue growth in Q2 that we've seen in over five years. I realize that comps get tougher next quarter, but just how should we think about the potential to sustain your recent momentum and just the sustainability of the service provider segment? Do you think you've hit a turning point there?

Drupad Trivedi | President and CEO, A10 Networks:

Yeah, no, great question. So I'll probably address them. both separately. So you're right. I think, Gray, so obviously we are pleased with the progress and results on the product side because ultimately that builds a foundation for us, right, with a customer base and results in more sustained growth long-term. So that's one. The part of the driver for that, I would say two things. One is on the enterprise side as we are able to penetrate you know, larger enterprise customers. That's part of how we are able to grow that revenue profile and ultimately resulting in a stronger customer base. Second is related to your second point, I would say, when we look at our service provider performance, outside of North America, we continue to make good progress on service providers sustainability. Within North America, I think we saw a little bit mix where some of the customers are beginning to have a more normal spending pattern relative to last year. So that's a positive sign. And not all of them are there yet. We still see some of them sort of holding off on CapEx and decisions. So it could get better. But fundamentally, the product revenue growth should be seen as an indicator of customers choosing us to either refresh existing installations or selecting us over competitors to go to new ones. And it's a lead indicator of growth now as well as in the future.

Gray Powell | Analyst, BTIG:

Really helpful. And then just some of the other vendors we cover, they've highlighted like a more back-end loaded June quarter as well as strength in July. Can you provide any commentary on how linearity played out this quarter or just any insights on what you saw so far in July? Just any color at all?

Drupad Trivedi | President and CEO, A10 Networks:

Sure, yeah. So I think I would say we did not see linearity very different in Q2 than we would like to see and we drive towards. So we did not see sort of an unexpected burst of activity in month three relative to month one and month two. I would say entering the third quarter, we see sort of a phenomenon of customers on track versus what we expect to happen in Q3 and not a lot of noise between quarters around orders being pulled in or pushed out, right? So we don't see that as a major thing, but we certainly don't see any signs in July that make us think any better or worse on the outlook.

Gray Powell | Analyst, BTIG:

Understood. Thank you very much.

Operator | Conference Operator:

Thank you. Thank you. Your next question is coming from Simon Leopold from Raymond James. Your line is live.

Victor Chew | Analyst, Raymond James:

Hi, thank you. This is Victor Chew in for Simon Leopold. Can you tell us how we should think about the potential materiality and contributions and the potential Microsoft Award that you announced recently?

Drupad Trivedi | President and CEO, A10 Networks:

Absolutely. Yeah, no, good question, Victor. So I think, you know, I think obviously we don't disclose revenue by customer. And so I would say two things to probably reflect on. One is the objective was, you know, that's a very, very, very important customer for ATN for a long period of time with a deep relationship. And so the objective for us really was to highlight that, you know, we are partnering together long-term and continue to be a part of their thinking around not just their current infrastructure on cloud, but also how they think about AI and connectivity. And obviously, we appreciate the continued partnership there, right? So it's more reflective of the fact that our solution is highly relevant to a global leader in cloud networking who obviously expects and runs their network with very, very high expectations. So that's probably the right way to think of it. We did have other customers who are also buying our products that go into their AI infrastructure. The key point to note is maybe six to nine months ago, our customer interactions were around building data centers that now would support AI. What is evolving and changing is more and more customers in the U.S., but also outside the U.S., are thinking of building AI data centers almost as a higher priority than just making sure that their current trajectory is relevant for AI, right? So that's the importance and relevance of why we announced that, and we appreciate that partnership for a long time.

Victor Chew | Analyst, Raymond James:

Great. That's very helpful. And just one follow-up. Telcos have talked about raising CapEx somewhat following the big beautiful bill passage and the improved cash flow that they'll see from there. Does ATEN see this trend trickling down to them and seeing tailwinds from this over the longer term?

Drupad Trivedi | President and CEO, A10 Networks:

Good question, Victor. I would say you are correct. I think there's two factors that go into it. First, I would separate the notion of telcos in North America versus the rest of the world. So the rest of the world is kind of stable, not that different. North America, I think the two big factors that affect it are, one, these investments are typically based on what is the interest rate, what is the ROI, and is there consumer sentiment that's positive? And so based on that, I think if we see... you know, speculatively, a little bit of movement on interest rates, certainly it would probably encourage some of them to lean in a little harder. And so, of course, for us, intrinsically, what that means is a tailwind relative to them trying to make the business case work, right? So that would certainly be the case. The second element of it is, I would say, the Telco spending patterns, what we have done strategically is there is, think of it as maintenance capex that they have to do and build new networks and maintain networks. And we obviously participate and benefit when they increase that. But at the same time, what we are doing is continuing to work with them on other parts of their solutions, such as security, which are somewhat decoupled from the CapEx to just build out a new network, right? So as they spend more money on CapEx and build networks or upgrade, that's good. But our strategy is also to continue to improve share of wallet by selling them more security solutions. Great. Thank you.

Operator | Conference Operator:

Thank you. Thank you. And once again, everyone, if you have any questions or comments, please press star then one on your phone. Your next question is coming from Hamid Korsand from BWS Financial. Your line is live.

Hamid Korsand | Analyst, BWS Financial:

Hi, could you elaborate on the comment that was in your press release about the AI global leaders? Are these mainly North American companies? Are they international? I mean, you're using plural tense, so it sounds like you have multiple customers there.

Drupad Trivedi | President and CEO, A10 Networks:

No, no, that's right. Good question, Hamid. Thank you. So I would say two parts to it. I think certainly some of them are North American players and as obviously you can imagine, they are not all in the same type of company, but a lot of them are in the forefront of building new AI infrastructure, right? So that is correct. It's more than one. And the second part of it is, you know, obviously part of the reason and motivation for us to talk about some of the new AI products in like interop event in Japan as well is we have traction in EMEA as well as Japan with large global players who are evolving their plans around how do they take advantage of AI and not all of them want to depend on three American companies for AI, right? So we are partnered with those customers long-term in Asia as well as in Europe.

Hamid Korsand | Analyst, BWS Financial:

Okay. And then how much of a benefit did you see from foreign exchange this quarter?

Drupad Trivedi | President and CEO, A10 Networks:

So I think if you, you know, you, you know, this Hamid, but obviously for us, the only foreign exchange exposure is with Japanese yen. Everything else is conducted in U S dollars. And actually I think this quarter, uh, foreign exchange was a small, very small advantage, like not less than 100 basis points, a lot less.

Hamid Korsand | Analyst, BWS Financial:

Okay, great. Thank you.

Operator | Conference Operator:

No problem. Thank you, Ahmed. Thank you. Your next question is coming from Christian Swab from Craig Hallam. Your line is live.

Christian Swab | Analyst, Craig Hallam:

Hey, can you, great quarter, by the way, but Could you help us just, again, what percentage of revenue is AI-driven? And I'm kind of thinking maybe some of your firewall products to secure AI and large language model inference environments. Given the growth that we're seeing there, how long before that kind of drives double-digit plus type of year-over-year growth for you?

Drupad Trivedi | President and CEO, A10 Networks:

Yeah, no, great. Good question. Thank you, Christian. So maybe two points. One is the growth in our results that we are seeing because of AI relates more to our customers building new data centers that host and manage AI traffic more than anything else because that's today. Where we are engaged with customers on

things like AI firewall and predictive analytics, is in the early phase of where those customers are deciding how to take advantage of AI, what does this mean for them, etc. So that will translate into revenue probably in 26 and beyond. But it's really important to be engaged with them on that roadmap today. And it's a fair question, and we'll figure out how to maybe explicitly address that in the future. But The subtlety of that question is if a customer was planning to build four data centers, now they are saying we still are going to build four data centers, but change them to be able to accommodate more AI type traffic and AI related security than before. So it's a little bit subtle for us to try to judge what is the differential between if they build regular data centers versus AI data centers, right? But I understand your question, which is how much of our growth is exposed and driven by AI, and I think we'll figure out a way to quantitatively address that.

Christian Swab | Analyst, Craig Hallam:

Fantastic. No other questions. Thank you. Thank you, Prashant.

Operator | Conference Operator:

Appreciate it. Thank you. Your next question is coming from Michael Romanelli from Mizuho. Your line is live.

Michael Romanelli | Analyst, Mizuho:

Yeah. Hey, guys. Thanks for taking the questions, and congrats on strong results. um, maybe just to start, to start here. Um, you know, I believe on last quarter's earnings call, you know, you guys had mentioned that a 10 had sort of multiple customers that helped drive the good enterprise revenue growth in Q1. So just looking within the enterprise cohort, can you maybe double click on what you saw this quarter, whether that be from, you know, a customer vertical and or geo perspective?

Drupad Trivedi | President and CEO, A10 Networks:

Uh, sure. Yeah. So I think, you know, if you look at, uh, our results, uh, by geography, first thing you'll notice is if you look at even our enterprise growth on a TTM basis of 8%, which we think on a peer group basis is still stronger, our growth in enterprise in North America was significantly higher than 8%. So our investments have been aligned with growing with large enterprise segment not small and medium, but large enterprise segment in North America. And our growth reflects effectively that result, right? Where even if the global number is eight, North America, particularly the U.S. number is much higher. So that's one element of it. The second thing you asked around, you know, what types of customers? So, you know, we Obviously, for a company of our size, we need to be a lot more focused versus going after every enterprise customer. And as I think we have continued to say in the past, our focus is around large enterprise customers who operate very complex networks and are highly concerned about security. And what that means is segments like financials, gaming and technology companies, for example, where you have a lot of users, high risk of security and data breach and mission critical things such as latency of your network, which is very important, whether it's from a gaming experience perspective or from the perspective of being able to process trades on Wall Street. So that's our focus area. That's where we made investments around product, product roadmap, as well as commercially. And that's where we expect and hope we continue to execute well to build that foundation.

Michael Romanelli | Analyst, Mizuho:

Got it. Super helpful. And then I just wanted to touch on ThreadX. I appreciate it's still early days, but I was wondering how those conversations are going with both existing prospective customers, how it's been integrated, and if you guys think that it could help drive hire net new business for your cybersecurity portfolio,

particularly within the larger enterprise. Any color here would be helpful.

Drupad Trivedi | President and CEO, A10 Networks:

Thanks, guys. Yeah, Michael, thank you. Good question. So I think absolutely right. So I think for us, obviously with ThreadX, we were able to integrate into our portfolio a very, very strong product, which is particularly recognized in the industry as something that's very easy to download, set up, and run. And in cybersecurity, that's a big premium because typically people are just confused by 20 acronyms thrown at them. So I think the fact that they are easy to set up and run is actually a differentiator and one of the reasons we really like their solution. The second part is, as you said correctly, as we think of the evolution of network architecture and cybersecurity, what is important is when the world moves to more of a networking and AI and learning centers all distributed, it becomes more of an API and WAP security story. And with ThreadX now, we are able to integrate our strength in DDoS, bot, all those components already, alongside with a contemporary API and WAP solution that helps us not just be aligned today on a product side, but actually be aligned from a roadmap perspective long-term. So in terms of scale, it's hard to say how important ThreadX is, but in terms of importance to our customers, it is a very, very important part of us being seen as the relevant solution for them who provides the right mix of networking expertise and security expertise while being contemporary with their roadmap on AI as well. And sorry, Michael, the second part you asked was, you know, so you are correct. It's pretty early days to know one way or the other. But our goal is, of course, eventually, as we continue to learn more about the customers, the buyer behavior, and the market trend, that we are able to start taking it to more and more of our customers. And it's a process we have started already. And we think it's promising. relative to what we were expecting. But obviously, those cycles typically take six to nine months, so it's hard to declare victory or not. But certainly, our early indicators are it has clearly helped us access different types of buyers and expand kind of the aperture of what we discuss with customers.

Michael Romanelli | Analyst, Mizuho:

Perfect. Thanks for the call.

Drupad Trivedi | President and CEO, A10 Networks:

Thank you.

Operator | Conference Operator:

Thank you. That concludes our Q&A session. I'll now hand the conference back to Drupad Trivedi for closing remarks. Please go ahead.

Drupad Trivedi | President and CEO, A10 Networks:

Thank you. Thank you to all of our shareholders for joining us today and for your continued support. We greatly appreciate the deep customer relationships along with our dedicated employee base around the world for working to deliver consistent results. Thank you.

Operator | Conference Operator:

Thank you. Everyone, this concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.