NYSE:ATEN Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Good afternoon, everyone, and welcome to the A10 Network's second quarter 2026 financial results. At this time, all participants have been placed on a listen-only mode, and we will open the floor for questions following the presentation. It is now my pleasure to turn the floor over to your host, Tom Baumann of FNK Investor Relations. Tom, the floor is yours.

Tom Baumann | FNK Investor Relations:

Thank you. Thank you all for joining us today. This call is being recorded in webcast live and may be accessed for at least 90 days via the ATEN Networks website at atennetworks.com. Hosting the call today are Dhrupad Trivedi, ATEN's President and CEO, and CFO, Michelle Caron. Before we begin, I would like to remind you that shortly after the market closed today, ATEN Networks issued a press release Announcing its second quarter 2026 financial results. Additionally, ATEN published a presentation, Complemental Trend 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, or Capital Allocation Strategy, Profitability, Expenses and Investments, Positioning, and or Dividend Program. These statements are based on current expectations and beliefs as of today, August 5, 2026. 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 that with the exception of revenue, financial measures discussed today for running non-GAAP bases, unless otherwise noted, and may 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 Dhrupad Trivedi, President and CEO of A10 Networks.

Dhrupad Trivedi | President and CEO:

Thank you, Tom, and thank you all for joining us today. A10 continues to deliver top and bottom line growth driven by the increasing relevance of our platform to the demands of next generation networking. From our foundation in advanced traffic management solutions to our more recent focus on integrating security in all our offerings, we have built exactly the platform that today's customers need to address the host of challenges impacting their operations. AI is creating new challenges for customers across the industry. Greater traffic volume, expanding security threat, and the need for lower latency. Our focus on next generation networking, which combines advanced application management with integrated security represents the future of ATEN and increasingly the standard our industry is being held to. Subsequent to the quarter, we announced a significant expansion of our relationship with Microsoft. This agreement reflects a shared commitment to a long-term partnership with mutual performance commitments on both sides. As a result, we are more firmly aligned with the long-term roadmap of this industry leader. It also serves as powerful validation of ATEN's relevance to the customer and market and speaks to the depth of the relationship we have built over multiple years. We also continue to advance our product roadmap. In June, we acquired Trojai, an AI security company that helps organizations secure, test, and govern AI applications and agentic workflows. This acquisition adds two layers to our platform. Red teaming, which uses AI to probe models and agents for vulnerabilities at build time, as well as real-time protection at runtime. We generated 15.5% revenue growth in the second quarter on a year-over-year basis and 14.5% growth year-to-date. This marked our fourth quarter of double-digit growth in the last five and as a result, we have increased our full-year outlook to 12 to 14% for the full year versus previous guidance of 10 to 12% reflecting continued confidence in the demand environment ahead. AI continues to erase the distinction between how enterprises and service providers build their networks. Today, enterprises and service providers face the same workloads, performance demands, and security requirements. We have built our platform for exactly this world. One architecture, one operating model, One Security Framework across both segments. Through this period of improving demand, our operating discipline has remained constant. We balanced targeted investment with EPS expansion and we delivered on both goals in the second quarter. Our goal is to convert growth into profitability and cash while continuing to invest in the technical capabilities Thank you Dhrupad. As a reminder, with the exception of revenue,

Michelle Caron | Chief Financial Officer:

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. Let me now turn to the results. As Dhrupad noted, Q2 results were aligned with our business model goals. We delivered revenue growth of 15.5% to $80.1 million. Year to date, Our revenue was $155.1 million, an increase of 14.5%. Turning to mix, product revenue in the second quarter was $49 million, or 61% of total revenue, while service revenue was $31.1 million, or 39% of total revenue. From a product mix perspective, Security-led revenue continues to drive product revenue growth and meet our long-term goals as a percentage of total revenue. From a vertical perspective, enterprise customers represented 60% of Q2 revenues. On a trailing 12-month basis, enterprise represents approximately half of total revenue, in line with our previously stated corporate goals of driving balanced growth. Service provider spend in the Americas has begun to normalize. EMEA service provider demand was impacted by the geopolitical environment, while Japan, within our APJ region, continues to experience macroeconomic pressures that are impacting spending cycles. We remain confident that our service provider relationships around the world remain a strong foundation for continued growth within international markets Both verticals align with our strategy and reflect the strength of our offerings supporting AI infrastructure build-outs. From a geographic perspective, our Americas region represented 68% of global revenue. This reflects our deliberate focus on the Americas as a growth region driven by AI infrastructure build-outs and strengths in the enterprise market. Non-GAAP gross margin was 80.3%, in line with our stated goals. Operating expenses were $43.9 million, as we continued to prioritize investments in AI-facing innovation, next-gen networking, and security. Operating margin was 25.5%, resulting in net income of 18.7 million or 26 cents per basic and 25 cents per diluted share compared to 21 cents in the year-ago period. Q2 diluted weighted share count was 75.7 million shares. We generated 26.9 million in free cash flow in the quarter as the Q1 timing items we noted recovered as expected. On a year-to-date basis, free cash flow was 26.2 million. We continue to expect full-year free cash flow to grow year-over-year from approximately 65 million in 2025. Adjusted EBITDA was 25.4 million 30.5% of revenue consistent with our business model goals. Turning to the balance sheet, cash and marketable securities were $357.3 million as of June 30th and deferred revenue was $154.8 million. We continue to return meaningful capital to shareholders. During the quarter, we paid $4.3 million in cash dividends and repurchased $2.4 million worth of shares, returning a total of $6.7 million to shareholders. The Board has approved a quarterly cash dividend of $0.06 per share to be paid on September 1, 2026 to shareholders of record on August 15, 2026. The company has $53 million remaining on its $75 million share repurchase authorization. Consistent with the industry, we continue to navigate cost and delivery challenges related to the supply chain. Customer satisfaction and on-time delivery remain our top priorities, and the strength of our business model gives us the confidence to raise our ETS outlook even as we navigate near-term cost dynamics. I'll now turn the call back to Dhrupad for an update on our 2026 outlook and closing comments.

Dhrupad Trivedi | President and CEO:

Thank you, Michelle. ATEN continues to strengthen its position as a partner of choice for next-generation networks, and we are positioned to benefit from multiple durable secular catalysts. We continue to invest to enhance our position across our portfolio while preserving profitability and shareholder returns. Based on the results through six months and our visibility ahead, we are increasing our full-year 2026 outlook. We now expect 2026 full-year revenue to increase by 12 to 14% on a year-over-year basis, up from 10 to 12%, and EPS growth of 14 to 16% up from 12 to 14% previously. Operator, you can now open the call up for questions.

Operator | Conference Operator:

Thank you very much. We're now opening the floor for questions. If you have any questions, you can press star one on your phone keypad now to join the key. We ask that while you're posing your question, you please pick up your handset. If you are listening on the speakerphone, to provide optimum sound quality. So, star one if you would like to ask a question. Please wait a moment whilst we poll for questions. Thank you. Our first question is coming from Gray Powell of BTIG. Gray, your line is live.

Gray Powell | Analyst at BTIG:

All right, great. Thanks for taking the question and congratulations on the really strong set of results. Thank you.

Dhrupad Trivedi | President and CEO:

Thank you.

Gray Powell | Analyst at BTIG:

Yeah, okay. So on product revenue growth, it's consistently been strong the last 18 months. 25% growth in Q2 versus a tough comp last year. I thought that was particularly impressive. Can you maybe talk about how the drivers of growth on the product side have been changing this year versus last year? And then just how should we think about the duration difference? of this spending cycle that you're currently benefiting from?

Dhrupad Trivedi | President and CEO:

Yeah, no, great question. And I think, you know, as we have said before, when we get new customer or new business, product revenue is the lead indicator. And relative to your question, Gray, two things, right? So, A, over the last several quarters, we have spoken about things that we are strengthening on the commercial side and the product side to be able to better address and win opportunities including in the enterprise segment, right? So that's one aspect of where as we get new business, the product growth is the lead driver and grows faster than service at that point. Second, I would say is as we have continued to engage customers with longer term roadmap and solutions related to what they can do with AI when they actually deploy it in the next two, three years. That has also naturally led to broader conversations with other products that they could be engaging with us today while they do that. So I think those two dimensions have helped us kind of drive that product growth a little bit more substantially. And our goal is obviously to continue to maintain that as much as we can.

Gray Powell | Analyst at BTIG:

Okay, that's really helpful. And then just, I guess it's a related question, but the last quarter you called out some pull-forward dynamics with your largest customer. So I guess I was a little bit surprised to see product growth accelerate in Q2. Can you maybe just talk about what surprised you the most in the quarter? And was there any similar pull-forward dynamics in Q2 to what you saw last quarter?

Dhrupad Trivedi | President and CEO:

Yeah, no, fair point. And I think maybe a minor concern So the pull-forward dynamic was not sort of a relocation of demand. It had more to do with supporting a significant project that had a timeline that needed to be completed. So when I look at Q2, similarly, I would say we continue to balance the customer needs and deployment needs, but there's no concern that this is Demand from Outer Quarters that's coming into the period, if that's helpful.

Gray Powell | Analyst at BTIG:

That's really helpful. Thank you very much.

Dhrupad Trivedi | President and CEO:

Thank you.

Operator | Conference Operator:

Thank you very much. And our next question is coming from Christian Schwab of Craig Hallam Group. Christian, your line is live.

Christian Schwab | Analyst at Craig-Hallum Capital Group:

Great. Thanks for taking my question, Craig Quarter, and Outlook. Can you just give a better description and discussion on the growth drivers, which appear to be, you know, a large degree of increased traffic that is going through the network, in particular through enterprises as AI adoption is accelerating. Is that also part of the expansion of the Microsoft relationship and In addition to that, as more and more traffic becomes localized on the enterprise, and as enterprise deploy specific AI applications that they'll run dedicated on their networks versus going to the cloud, should we think of that as a meaningful growth driver for you over time?

Dhrupad Trivedi | President and CEO:

Yeah, great question, Christian. So I think I'll maybe talk about that in three So first, as you mentioned, our approach is around the notion of helping whatever type of company uses the product, that when there is more traffic, more complicated traffic, and people are worried about latency, that's a good fit for our solutions, independent of what exact application maybe. So certainly the growth in traffic driven in some part due to AI, which is much more burst traffic, high volume traffic, and different than what we used to see. It results in two parts. One is just managing that traffic efficiently and with low latency. And second is dealing with the new kinds of threats that arise because of and many more. Second, I think you talked about Microsoft and obviously we have been partnered with them and it's been a great customer for us for a long period of time. The expansion is that over the next couple of years time frame again, we are more and more aligned on the roadmap that as they build out their own architecture and infrastructure, that we are continuing to be embedded with them in broader areas than we used to before. So it's continuing to expand that. At the same time, obviously, we are very focused on ensuring we do our part to help them continue to be successful. So that's simply kind of a reflection and joint commitment from both sides that we want to make it work for an extended period of time and this is just a reflection of that and ultimately has to be that we have to deliver the right technology they need and we are obviously focused on that from a technical point of view. The last point you mentioned actually is an interesting one. So I would say this is not a big demand driver immediately but certainly in the next two to three years as You see in the news, large enterprise particularly chooses to do sometimes their own models or because of sovereign AI reasons outside of US as well, they choose to do actually more things on-prem than even in the cloud. Our solution can go across all of that. So as we see uptake in the next two, three years with enterprise doing more AI, like inference AI and generally The large ones preferring to do their own. We see that obviously as a strength for us, again, based on the nature of our solution and the ability that we have maintained how we deliver these capabilities in any kind of form factor.

Christian Schwab | Analyst at Craig-Hallum Capital Group:

Great, thank you for that. I just have one more question. Regarding your first sustainable growth driver, as more complicated traffic and latency and security threats are a huge issue, your success there, can you just remind us who your first or second biggest competitor for those products are?

Dhrupad Trivedi | President and CEO:

I think there's two class of people that we would compete with, right? So one is traditional companies that deliver infrastructure products obviously are also trying to add similar capabilities. So that would be one category of that, right? And I would say, though, the way we are approaching it, we try to do it based on our differentiation. So we believe we can be competitive The second part of that is, which is an evolving market, is because of the nature of funding, there is a lot of small and startup companies that is trying to compete in those slots. But ultimately, I think one of the factors that plays into it is, would you trust, you know, if you're a large bank, would you trust your data to an AI with a 6% team, right? So I think... and if you do, then the technology has to be really, really good. So I think the balance for us is we overlap with both the direct competition I would say though would be with companies that do networking and infrastructure, trying to add on AI products and capabilities.

Christian Schwab | Analyst at Craig-Hallum Capital Group:

Great, thank you, no other questions, thank you.

Dhrupad Trivedi | President and CEO:

Thank you, Prish.

Operator | Conference Operator:

Thank you very much. and our next question is coming from Hamed Korsand of BWS Financial. Hamed, your line is live.

Hamed Korsand | Analyst at BWS Financial:

Hi, so first off, were there any pre-buy requirements on the part of Microsoft for the expanded relationship and how are you going to manage the business given that Microsoft is so large of a percentage of revenue at this point?

Dhrupad Trivedi | President and CEO:

Yeah, so I think the You know, so I think the agreement that we have is linked to more their demand and us working jointly with them in a much more longer timeframe. So there's no pre-buys or anything like that. It's very much aligned with their business needs, rollout, forecast, and us being much more operationally intertwined than before, as well as the product side. The second part of your question, Hamid, I would say is, you know, if you put aside that and maybe where one or two countries where there's macro issues, our overall business excluding those factors is also growing close to double digits, right? So it's not that this is the only place that is growing. So our objective continues to be to increase our relevance more and more in enterprise, obviously including cloud and AI, as well as maintain durability where We should also benefit when service provider CapEx rebounds and does better, right? So we are not losing those slots. We are maintaining those positions, but obviously we are taking advantage of the current spending profile of customers by quarter.

Hamed Korsand | Analyst at BWS Financial:

Okay, and then is there a higher drag on earnings because of where memory prices is, or are you... have been able to stabilize that?

Dhrupad Trivedi | President and CEO:

Great question. So I think we have been able to maintain it in the last couple of quarters. As people talk about that memory constraint, whether it's supply or pricing or combined, is expected to last for a while. So we are continuing to navigate that, but our bias is customer satisfaction and delivery. So if we were forced to make that choice, we would figure out what to do and still deliver EPS. But so far, we have been able to manage that, but it's unknown, right? Everybody's expecting it to last for many more quarters, so we are just staying focused on the customer delivery.

Hamed Korsand | Analyst at BWS Financial:

Okay. Thank you.

Dhrupad Trivedi | President and CEO:

Thank you, Amit.

Operator | Conference Operator:

Thank you very much. Our next question is coming from Michael Romanelli of Mizuho Securities. Michael, your line is live.

Michael Romanelli | Analyst at Mizuho Securities:

Great. Hey, guys, thanks for taking the questions here. Maybe to start off, you know, obviously the New Microsoft Agreement, you know, provides, you know, some validation around demand and deployment activity. So, you know, congrats on that. I guess just looking beyond that relationship, can you talk a little bit about the broader pipeline today, how that compares to You know, perhaps 90 days ago, whether that be size, quality and visibility, you know, particularly for just the larger enterprise and, you know, any AI related opportunities that you can comment on, you know, just trying to, you know, understand, you know, how demand looks for, you know, outside of the Microsoft agreement. And then I have a follow up.

Dhrupad Trivedi | President and CEO:

Sure. Yeah, no. Good question, and I'll maybe answer it in two ways. So first is, when we look at our overall pipeline, compared to 90 days ago, and let's say enterprise SP separately, I would say on the service provider side, we certainly see slight improvement in the North America market. And some of it is, right, the products we sell help them run networks better, cheaper, faster. whether they replace the network or not. So we certainly see that as a trend where that pipeline is improving and so we expect that to be a contributor more in the future. On the enterprise side, obviously we have put a lot of effort and I think because our focus is typically on large enterprise, the sales cycles tend to be six to nine months and are pretty complex. So I would say the pipeline is good We see kind of the trend being pretty positive as well. But I think we should start seeing the results, you know, later this year, early next year, more so than before, based on that, right? So the pipeline compared to 90 days is definitely better. And I would say the quality of deals is better. So it's obviously the last part is the most important, which is we have to execute. So And the second thing, Michael, you asked, on the AI side, like many companies, we are engaged with a lot of customers, proof of concept kind of things right now as they are themselves figuring out what to do with AI. So there I would say our measure of success is more around how many customers are we engaged with and are we deeply involved with their business problems and how we can solve them.

Michael Romanelli | Analyst at Mizuho Securities:

Got it. Okay. Thanks, Dhrupad. That's helpful. And then, you know, maybe as, you know, for my follow-up, you know, congrats on the recent acquisition of Troj AI. I guess what made this the right asset for A10? And, you know, where do you see the strongest fit within the portfolio? And I guess just more broadly, you know, could AI security become a more meaningful growth vector for A10 over time? Or should we think of it more as an important capability that enhances the relevance of the existing portfolio? Thanks.

Dhrupad Trivedi | President and CEO:

Yeah, great question. So I think, first of all, I think one of the most important things for us in going with Troj was the team there had developed a very strong technical solution, which was very much in line with kind of the roadmap we were driving towards and somewhat complementary to some other things we were doing. So in a way, it was adding that capability to strengthen a portfolio that we can sell standalone, but also as part of broader bundles in the future. I would say the near term, of course, it adds capability to the overall solution for sure. But at the same time, the roadmap that we are driving has more to do with kind of native AI solutions that we can bring to market in the next one or two years that are not even predicated on people using all of our other products, right? So it's more of the first thing today, but it could be both in the future as the market matures.

Tom Baumann | FNK Investor Relations:

Great, thank you.

Operator | Conference Operator:

Thank you very much. And our next question. is coming from Simon Leopold. Raymond James. Apologies, Simon. Your line is live.

Simon Leopold | Analyst at Raymond James:

That's okay. I wanted to check. Historically, you've included Microsoft within your service provider vertical, I believe. I want to confirm that and just verify that That's still how you categorize it. Just to make sure that essentially the sort of shift in mix isn't reflective of recategorization of a customer.

Dhrupad Trivedi | President and CEO:

Good question and clarification. So, Simon, you are correct. Historically, we characterize it as service provider. We have not recategorized that portion of the business. But as I mentioned before, we are also doing different and new business with Microsoft as well as others. And that's where it's sometimes difficult for us to kind of split in that enterprise SP mix because many of our customers, including in Europe, do both. And so you are correct. There is no historical revenue that has been recategorized. And so what is sold to them as a service provider is still counted in the service provider segment.

Simon Leopold | Analyst at Raymond James:

So then in the most recent quarter, is there Microsoft business showing up that you do categorize as enterprise? Yes, correct. Based on a completely different product set.

Dhrupad Trivedi | President and CEO:

Yeah, based on a completely different product set. Correct, yeah.

Simon Leopold | Analyst at Raymond James:

Okay, that like totally now things make so much more sense to me. so helpful. So then stepping back, last quarter you did disclose in the queue that you did have a 37% end customer. Can you give us a similar metric for the June quarter?

Dhrupad Trivedi | President and CEO:

I think obviously we will come out in the queue but it will be a similar number and we'll publish the queue next day or two. But it will be a similar number and It's linked to kind of completing the rollout, right? So it will change probably in the future, but as of now for Q2, it will be a similar number just for those exact reasons.

Simon Leopold | Analyst at Raymond James:

Okay, and so I guess kind of trying to just put a button on this line of questioning. It looks like service provider excluding Microsoft declined in 2025, and I think you're talking about it stabilizing. So if we're trying to think about service provider excluding Microsoft in 2026, we should be thinking about that as similar to the 2025 level. Is that what you mean by normalizing? I just want to make sure I'm interpreting that commentary correctly.

Dhrupad Trivedi | President and CEO:

Yeah, so I think a very good question. I think so I would say expecting it to be slightly better than 2025 level and the puts and takes are the North America segment we see as improving. Japan is equal or slightly worse and Europe is neutral, right? So between those factors overall, we expect it to be slightly better versus 2025. Great.

Simon Leopold | Analyst at Raymond James:

Thank you. I appreciate the clarification.

Dhrupad Trivedi | President and CEO:

Appreciate it. No problem. Thank you. Thanks, Anand.

Operator | Conference Operator:

Thank you very much. Well, we appear to have reached the end of our question and answer session, so I'll now hand back over to the management team for any closing comments.

Dhrupad Trivedi | President and CEO:

Thank you. And thank you to all of our employees, customers, and shareholders for joining us today and for your continued support. I am increasingly confident in our strategic orientation with security and next-generation networking spending patterns. Thank you for your time and attention.