NYSE:ATEN Q3 2026 Earnings Call Transcript

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Operator | Conference Call Operator:

Good afternoon and welcome to the A-10 Networks Third Quarter 2026 Financial Results Conference Call. At this time, all participants are in a listen-only mode, and we will open the floor for your questions after the presentation. If you wish to join the queue to ask a question at any time, you can press star 1. Should you wish to remove yourself from the queue, press star 2. It is now my pleasure to turn the floor over to your host, Tom Bauman. The floor is yours.

Tom Bauman | Investor Relations, A10 Networks:

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 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 third quarter 2026 financial results. Additionally, ATEN 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, November 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 containing 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 are a non-GAAP basis, unless otherwise noted. and you may have been 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 a10networks.com. Now I would like to turn the call over to Dhrupad Trivedi, President and CEO of ATEN Networks.

Dhrupad Trivedi | President and CEO, A10 Networks:

Dhrupad Trivedi Thank you, Tom, and thank you all for joining us today. The third quarter was another record quarter for ATEN, with revenue up 22.6% and profitability that enabled us to consistently exceed our stated performance goals. We continue to win business and gain market share in our key growth markets of advanced network security and next-generation networking. Strong year-to-date results and sustained demand for our solutions gives us the confidence to raise our guidance for the second time this year. ATAN is well positioned at the intersection of advanced networking and security. The growth of AI is increasing the volume and complexity of network traffic, making our portfolio increasingly relevant. Customers need to distribute application requests and connect employees to external AI services reliably. Our next generation

networking solutions help them meet those needs. They also need to defend against DDoS and other attacks that could disrupt access to AI and other shared enterprise applications. Our ATEN DEFEND portfolio helps protect the availability of these critical services with industry-leading performance. We are also seeing demand for solutions that secure the use and development of AI and help enterprises manage AI access, routing and costs. A Fortune 50 financial services company with over 40,000 employees is using ATAN's AI firewall both to help protect employees accessing public AI tools and to govern AI traffic in their internal and external facing applications. The deployment illustrates how leading enterprises are moving agentic AI into production at scale with approximately 800 enterprise agentic AI applications connected to our guardrail solution. These include internal and external facing applications with the largest application being external facing. Roughly 50,000 sessions are routed through the solutions each day under unified customized policies. In another example, a global information and analytics provider is using ATAN's AI red teaming capability to test AI models and applications for vulnerabilities. By probing systems for potential weaknesses before deployment, the company can better assess AI-related risks and strengthen its security practices as it expands its use of AI. These examples reflect how both ATAN's core portfolio and newer AI solutions can help customers meet mission critical needs in an increasingly complex environment. Our growth is not solely predicated upon build out of new data centers. It is in fact linked to growth in traffic, expansion of security, and responsible use of AI. Our deep partnership with our largest strategic customers continue to contribute to our growth. Through this relationship, ATEN's technology helps protect cloud infrastructure, supporting enterprises across industries and geographies. That infrastructure enables AI application alongside other mission-critical workloads, extending ATEN's role in helping keep the services businesses and consumers rely on availability. Demand across the rest of the business was broad-based and related to our core differentiation and increasing relevance to evolving needs for networking and security. AMIA and APGA revenue grew at double-digit levels on a year-over-year basis. Overall revenue excluding our largest customer grew at a double-digit rate in the quarter. At the same time, we are converting demand into greater profitability and cash generation. Our goal is to sustain growth while investing in the capabilities this demand environment requires. We remain on track for non-GAAP earnings per share growth to outpace revenue growth. I'd now like to turn the call over to Michelle Caron, our Chief Financial Officer, to discuss our financial results in greater detail.

Michelle Caron | Chief Financial Officer, A10 Networks:

Thank you Dhrupad. As a reminder, 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. Let me now turn to the results. As Dhrupad noted, Q3 results reflect encouraging demand globally and our continued ability to convert growth into significant cash generation. We delivered revenue growth of 22.6% to a quarterly record of $91.5 million. Year-to-date, our revenue was $246.7 million, an increase of 17.4%. Turning to Mix, product revenue in the third quarter was $58.5 million, or 64% of total revenue, while service revenue was $33 million, or 36% of total revenue. From a product mix perspective, security-led revenue continues to drive product revenue growth and meet our long-term goals at 65% of total revenue. From a vertical perspective, enterprise customers represented 58% of Q3 revenue and approximately half of total revenue on a trailing 12-month basis. Stronger enterprise growth reflects progress toward our goal of diversifying our revenue mix. Service provider spend in the Americas has begun to normalize, but remains below historical levels, representing an opportunity for incremental growth. We're confident that our service provider relationships around the world remain a strong foundation for continued growth, and we're not seeing our share of this market erode. From a geographic perspective, our Americas region represented 64% of global revenue. This reflects our deliberate focus on the Americas as a growth region, driven by AI infrastructure build-outs and strength in the enterprise markets. We're also seeing improving results from international markets this quarter. Customer satisfaction and on-time delivery remain our top priorities as we navigate input and cost and delivery challenges like everyone else in the industry. We delivered record non-GAAP gross profit of $73.3 million in Q3 and non-GAAP gross margin came in at 80% of revenue. Operating expenses were $47.8 million as we continue to prioritize

investments in AI-facing innovation, next-gen networking, and security. Operating margin was 27.8%, resulting in net income of 23.6 million, or 33 cents per basic and 31 cents per diluted share, compared to 23 cents in a year-ago period. Our Q3 diluted weighted share count was 75.7 million shares. We generated a quarterly record for free cash flow and on a year-to-date basis, free cash flow was $57.5 million, an increase of 18% year-on-year. We continue to expect full-year free cash flow to grow year-over-year in the range of $74 to $77 million from approximately $64 million a year ago. Adjusted EBITDA was $29.5 million, or 32% of revenue, consistent with our business model goals. Turning to our balance sheet, cash and marketable securities were $360.4 million as of September 30th, and deferred revenue was $157 million. During the quarter, we paid $4.4 million in cash dividends and repurchased $23 million worth of shares. returning a total of 27.4 million to shareholders. The board has approved a quarterly cash dividend of six cents per share to be paid on December 1st, 2026 to shareholders of record on November 16th, 2026. The company has 30.1 million remaining on its $75 million share repurchase authorization. I'll now turn the call back to Dhrupad for an update on our 2026 outlook and closing comments.

Dhrupad Trivedi | President and CEO, A10 Networks:

Thank you, Michelle. Our results reflect broad-based demand for ATEN's networking and security solutions as customers respond to rising traffic, expanding AI deployments, and increasingly complex security needs. We are focused on supporting that demand while investing in our portfolio Strengthening profitability and generating cash. Based on our year-to-date performance, demand visibility, and the current supply environment, we are updating our full-year 2026 outlook. We expect revenue growth of approximately 16% year-over-year compared with our prior outlook of 12% to 14%. Note that this is Roughly 400 to 500 basis points better than our largest competitor and our peer group. Demand from our largest customer remains healthy and stable. Our outlook also implies continued year-over-year growth in the fourth quarter across the rest of the business. We expect full-year non-GAAP adjusted EBITDA margin to exceed 30% and non-GAAP and many more. gives us confidence in setting long-term targets of $500 million in annual revenue through organic growth and $2 in annual non-GAAP EPS for fiscal year 29. We remain confident in our strategy and in our ability to capture customer demand while protecting the long-term earnings power of the business. With that, I'll turn the call back to the operator to open the line for questions.

Operator | Conference Call Operator:

Thank you. The floor is now open for questions. If you wish to join the queue to ask a question at this time, please press star 1. We do ask if listening on speakerphone today, please pick up your handset while asking your question to provide optimal sound quality. Once again, please press star 1 on your phone at this time to join the queue to ask a question. Please hold a moment while we pull for questions. First question from Greg Powell with US Bank. Please go ahead.

Greg Powell | Analyst, U.S. Bank:

Great. Thank you for taking the question and congratulations on the great results here. It was really nice to see.

Dhrupad Trivedi | President and CEO, A10 Networks:

Thank you, Greg.

Greg Powell | Analyst, U.S. Bank:

Yeah, absolutely. So I guess my main question is on product revenue. So growth has been excellent this year. In fact, I think it's the best product revenue growth you've seen in at least eight years, maybe longer. My model doesn't quite go back that far. How should we think about the sustainability of that growth over the next 12 months, particularly as you face tougher comps? And the 14% organic commentary, that was really helpful. I'm just trying to make sure that we have building blocks correct as we think about next year.

Dhrupad Trivedi | President and CEO, A10 Networks:

Yeah. So as we look at our product growth grade, I think that is really a good indicator of us being able to win new business as well as continue to replenish customers with new solutions. There is nothing unusual in the last two or three years where We draw some artificial refresh cycle or something like that, right? So it is a natural evolution of demand. As we look on a long-term trend, you are correct. The product growth percentage reflects vitality in the product and customer acceptance of new solutions as well as competitive wins. So we feel pretty good that that is not based on a trend that is going to come and go. It's more Broad-based, and if we can drive more of kind of a replacement cycle, that's great, but that is not we are counting upon to get the next two to three-year growth.

Greg Powell | Analyst, U.S. Bank:

Okay, great. And then my follow-up question would be, so you called out, I think, double-digit growth, excluding your largest customer. In ballpark terms, give or take, is that how we should think about that segment going forward?

Dhrupad Trivedi | President and CEO, A10 Networks:

So I would say that you should think of that as that segment can support that double-digit growth growing forward. In the next four quarters or six quarters, we probably will have to balance and optimize if there is supply constraints on what we choose or prioritize. But what that is meant to indicate is our growth is not a result of One company doing something, but it's more broad-based and that we will obviously continue to prioritize customers and high growth potential as we go through every quarter. But I think it's more meant to be an indicator that the demand is much more broad-based versus single customer-based.

Greg Powell | Analyst, U.S. Bank:

Understood. That's very helpful. Thank you.

Dhrupad Trivedi | President and CEO, A10 Networks:

Thanks, Ray.

Operator | Conference Call Operator:

Thank you. Next question comes from Hamed Korsant with BWS Financial. Please go ahead.

Hamed Khorsand | Analyst, BWS Financial:

Hi. Could you just talk about the return of your international customers? If this was pent-up demand as far as what was in the pipeline before, or if these are new projects that you're now being included in?

Dhrupad Trivedi | President and CEO, A10 Networks:

So I would say, Hamed, that there's two aspects to it. I would say one is you know obviously we are all living in a constrained environment in some ways and you know it's not a big revenue impact for us but obviously we prioritize customers as we need to so part of it was not pent-up demand I would say but sort of natural variation in demand because our historical customer base is service providers and there is a kind of capex cyclic variation in demand whether it in Asia or Europe and US. And so some of it was kind of being able to service that demand. And second was balancing that fulfillment right while keeping our largest customers satisfied as well.

Hamed Khorsand | Analyst, BWS Financial:

Okay. And then could you just talk about your accounts receivables declining in the quarter? It was great to see, but is that sustainable? and what's the good area for us to expect that balance to be?

Michelle Caron | Chief Financial Officer, A10 Networks:

So Hamed, our quarter benefited from the timing of cash receipts in that quarter. We're still on track to deliver the cash flow that I talked about a few minutes ago for the full year between $75 to $77 million or $74 to $77 million in cash flow. So It was a timing related to this quarter, bringing the DSO to 49 days.

Hamed Khorsand | Analyst, BWS Financial:

Okay, great. Thank you.

Operator | Conference Call Operator:

You're welcome.

Hamed Khorsand | Analyst, BWS Financial:

Thank you, Amit.

Operator | Conference Call Operator:

Thank you. Next question comes from John Conti with Deutsche Bank. Please go ahead.

John Conti | Analyst, Deutsche Bank:

Yeah, thank you for taking my questions. Congrats again on the quarter. Maybe just one on the guide. I'm not sure if you answered this, but what are the main drivers behind the 500 million revenue target? How much comes from your largest customer compared to the rest of the business? What depends on new wins? I'd love to really unpack that. And then maybe a few thoughts on how did the business grow this quarter if you

exclude your largest customer? Thanks.

Dhrupad Trivedi | President and CEO, A10 Networks:

Okay, yeah, so we said it in the script. So business grew more than 10% excluding our largest customer and our competitors and peers are growing 400 to 500 basis points lower than that. So that's first answer to your question. Second is obviously we expect this growth to be broadly based, which is why we are confident in that. If you look at our actuals and what we have done year to date, which is higher than 14%. We feel pretty confident that 14% is a good number for us. And yeah, I think obviously and we are highly aligned with a large customer who apparently is also the best position in terms of the backlog they have on AI receivables versus the cash they're generating and they are the only cash flow positive category in that World. So we feel pretty good about that. And if you look through the data, I think I probably, we have addressed all your questions quantitatively in the earnings release. Thank you. Okay. Thank you.

Operator | Conference Call Operator:

Thank you. That concludes our Q&A session. I will turn it back over to Dhrupad Trivedi for closing comments.

Dhrupad Trivedi | President and CEO, A10 Networks:

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

Operator | Conference Call Operator:

Ladies and gentlemen, this concludes your conference calls for today. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.