
Third Quarter 2017
Financial Results &
Commentary
October 26, 2017
A10
Your Secure Application Services Company

Thank you all for joining us today. I am pleased to welcome you to A10 Networks' third quarter 2017 financial results conference call. This call is being recorded and webcast live and may be accessed for one year via the A10 Networks website, www.a10networks.com.

Members of A10's management team joining me today are, Lee Chen, Founder & CEO; and Tom Constantino, CFO.

Before we begin, I would like to remind you that shortly after the market closed today, A10 Networks issued a press release announcing its third quarter 2017 financial results. Additionally, A10 published a presentation along with its prepared comments for this call and supplemental trended financial statements. You may access the press release, presentation with prepared comments, and trended financial statements on the investor relations section of the company's website www.a10networks.com.

Cautionary Statements and Disclosures

This presentation and the accompanying oral presentation contain "forward-looking" statements that are based on our management's beliefs and assumptions and on information currently available to management, including statements regarding our projections for our fourth quarter 2017 operating results, our expectations for future revenue growth and market opportunities, the performance of our products, profitability, operating margin and operating expenses, our ability to penetrate certain markets, anticipated customer needs, expected product launches and the general growth of our business.

We operate in very competitive and rapidly changing environments, and new risks may emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Forward-looking statements are subject to known and unknown risks, uncertainties, assumptions and other factors including, but not limited to, those related to execution risks related to closing key deals and improving our execution, the continued market adoption of our products, our ability to successfully anticipate market needs and opportunities, our timely development of new products and features, our ability to achieve or maintain profitability, any loss or delay of expected purchases by our largest end-customers, our ability to attract and retain new end-customers, our ability to maintain and enhance our brand and reputation, continued growth in markets relating to network security, management and analysis, the success of any future acquisitions or investments in complementary companies, products, services or technologies, the ability of our sales team to execute well, our ability to shorten our close cycles, the ability of our channel partners to sell our products, variations in product mix or geographic locations of our sales and risks associated with our presence in international markets.

These factors, together with those described in our quarterly reports on Form 10-Q, annual reports on Form 10-K and other filings made with the Securities and Exchange Commission ("SEC"), may cause our actual results, performance or achievements to differ materially and adversely from those anticipated or implied by our forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although our management believes that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances described in the forward-looking statements will be achieved or occur. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We disclaim any obligation to update information contained in these forward-looking statements whether as a result of new information, future events, or otherwise.

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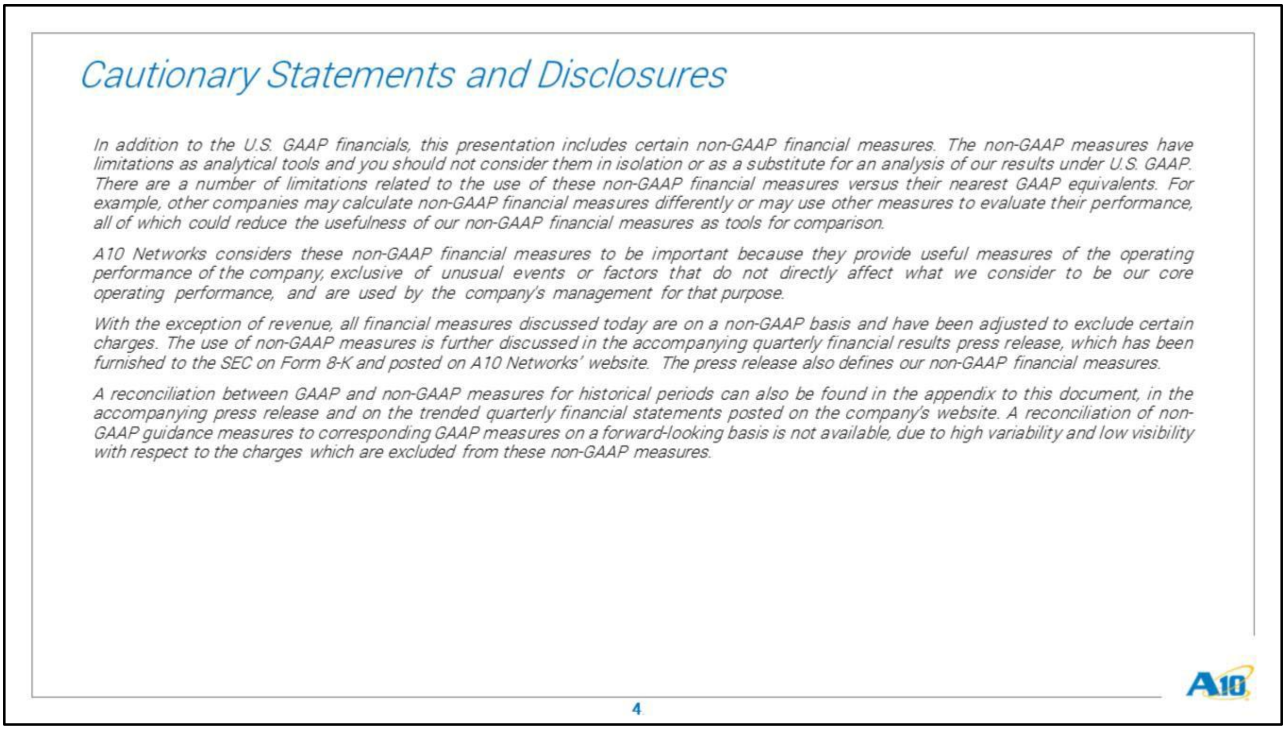
3

During the course of today's call, management will make forward-looking statements, including statements regarding our projections for our fourth quarter 2017 operating results, our expectations for future revenue growth and market opportunities, the performance of our products, profitability, operating margin and operating expenses, our ability to penetrate certain markets, anticipated customer needs, expected product launches and the general growth of our business. These statements are based on current expectations and beliefs as of today, October 26, 2017. 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. A10 disclaims any obligation to update information contained in these forward-looking statements whether as a result of new information, future events, or otherwise.

For a more detailed description of these risks and uncertainties, please refer to our most recent 10-Q and 10-K.

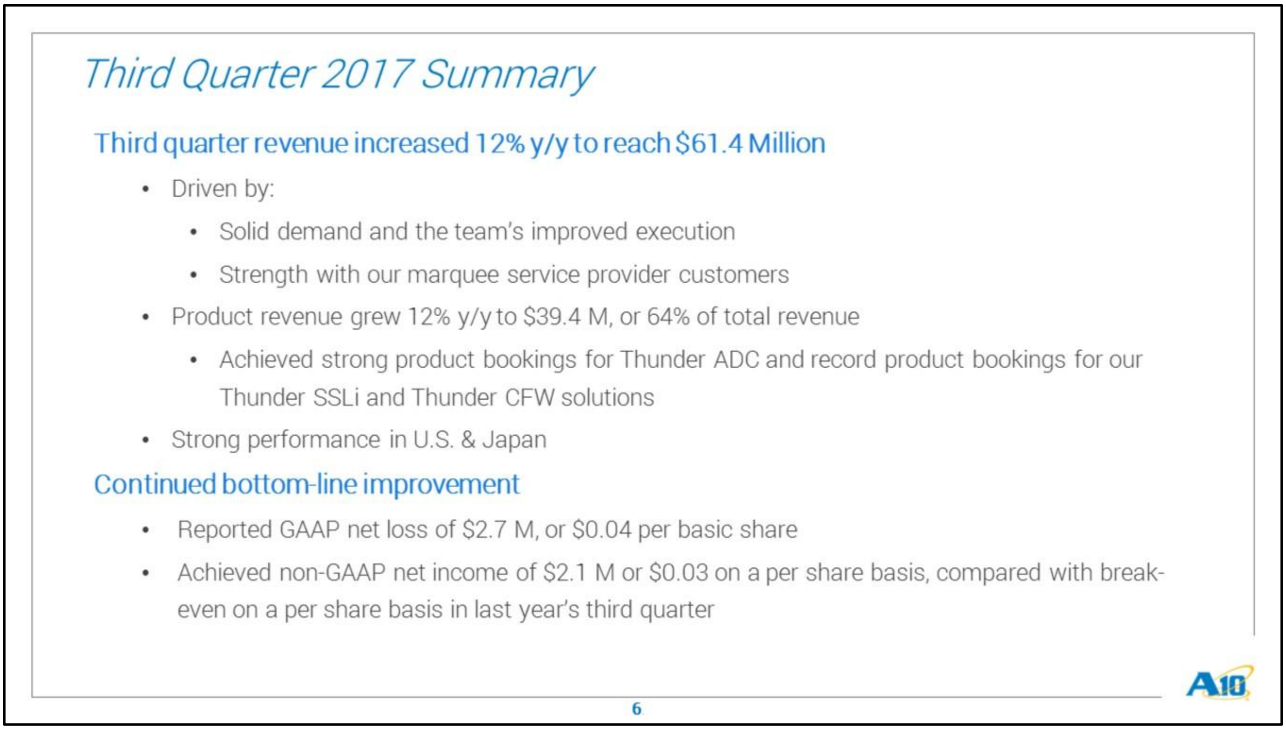


Please note that with the exception of revenue, financial measures discussed today are on a non-GAAP basis and have been adjusted to exclude certain charges. The non-GAAP financial measures are not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP, 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.

We will provide our current expectations for the fourth quarter of 2017 on a non-GAAP basis. However, we are unable to make available a reconciliation of non-GAAP guidance measures to corresponding GAAP measures on a forward-looking basis due to high variability and low visibility with respect to the charges, which are excluded from these non-GAAP measures.

Now I would like to turn the call over to Lee for opening remarks.


Lee Chen
CEO, President and Founder



We delivered a strong third quarter. Revenue grew 12 percent year-over-year to 61.4 million dollars, which exceeded our initial and revised guidance, and we achieved non-GAAP EPS of 3 cents.

Our top-line performance was driven by solid demand and the team's improved execution. Our sales team did a terrific job closing a number of large deals that contributed to our top-line results. We also continued to build traction with our security platform, which included strong sales for our Thunder convergent firewall or Thunder CFW solutions.

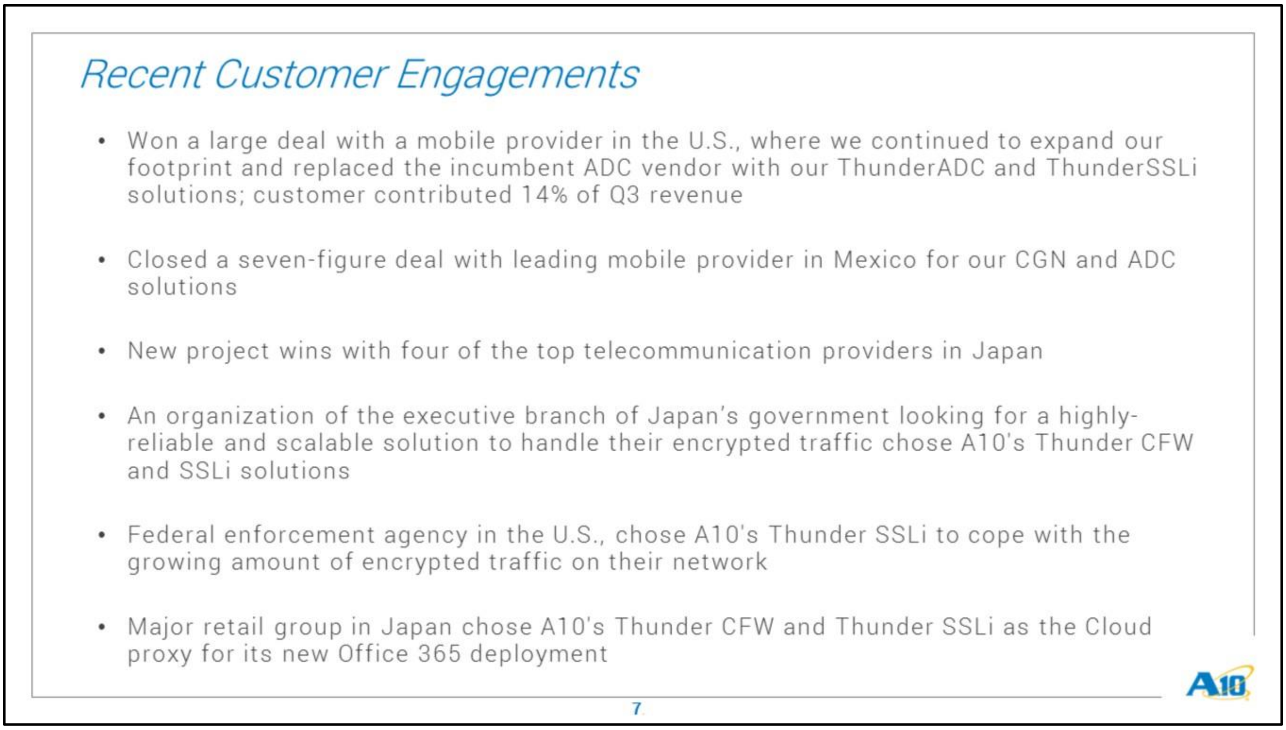
We saw strength with our marquee service provider customers, including:

- A large win with a mobile provider in the U.S., where we continued to expand our footprint and replaced the incumbent ADC vendor with our ThunderADC and ThunderSSLi solutions. In total, this customer contributed 14 percent of our Q3 revenue.

- Our first seven-figure win with a leading mobile provider in Mexico for our CGN and ADC solutions. We are excited to have won this competitive deal, which represents both a new customer logo and an opportunity to expand our relationship over time.

- And, new project wins with four of the top telecommunication providers in Japan.

Overall, in Japan we delivered outstanding performance that was partly driven by traction with our security solutions.

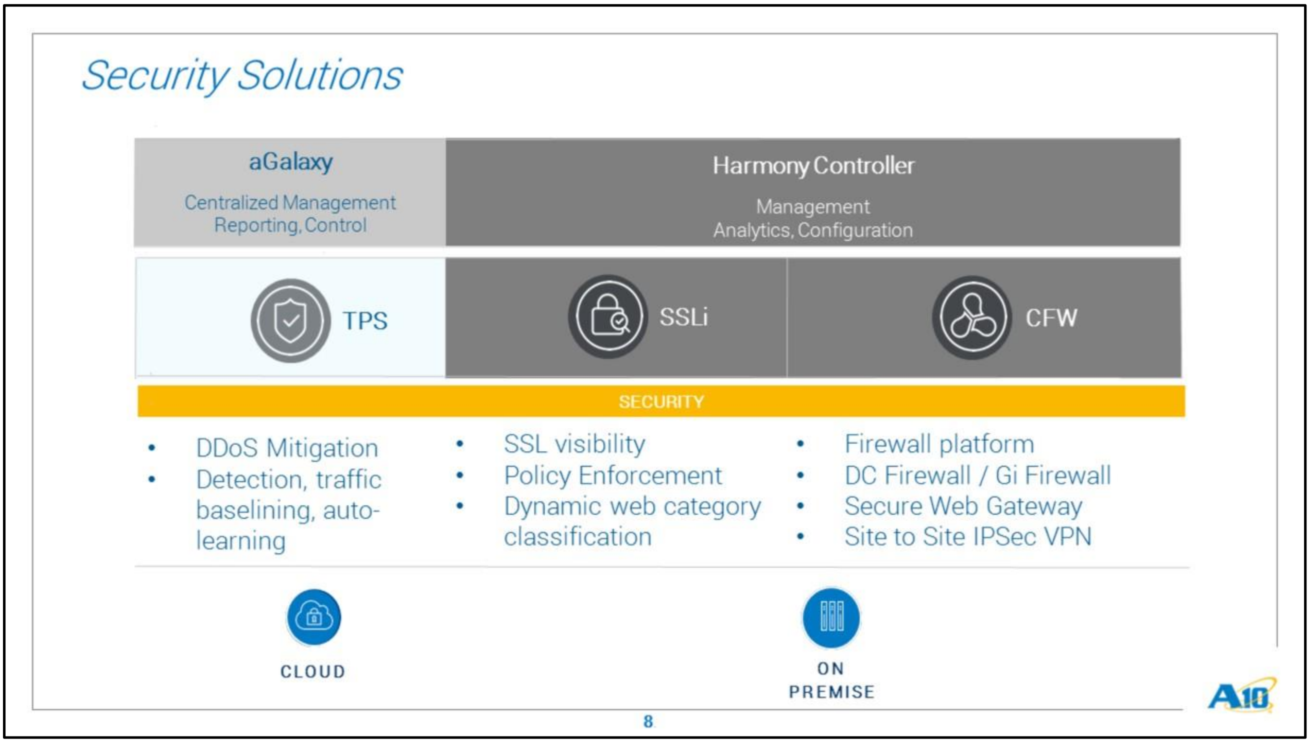


On the product front, we achieved strong product bookings for Thunder ADC, and record product bookings for our Thunder SSLi and Thunder CFW solutions. With the enhanced SSL capabilities we introduced earlier this year, our SSL processors now handle advanced ciphers and offload intensive SSL processing with greater performance, scalability and reliability. Our Thunder CFW platform provides a suite of integrated firewall solutions with a diverse range of security features, helping customers protect their security infrastructure and defend against web application attacks at scale. A few of our recent customer wins in security included:

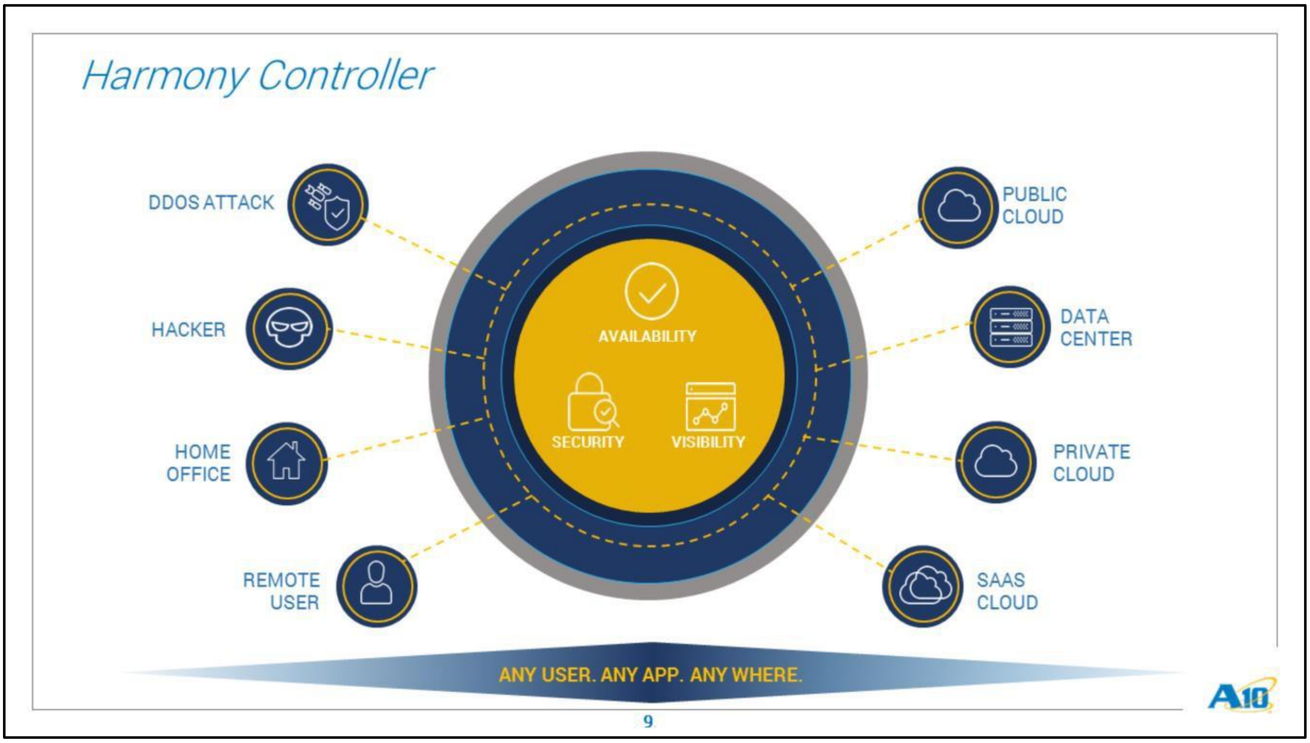
- An organization of the executive branch of Japan's government looking for a highly-scalable and reliable solution to protect their IT infrastructure chose A10's Thunder CFW and SSLi solutions for the high performance of ACOS and for our OpenAPI,

- A federal enforcement agency in the U.S., chose A10's Thunder SSLi to cope with the growing amount of encrypted traffic on their network. Our ability to easily integrate our solution into their existing security stack was a key decision factor in this competitive win,

- And a major retail group in Japan chose A10's Thunder CFW and Thunder SSLi as the Cloud proxy for its new Office 365 deployment.



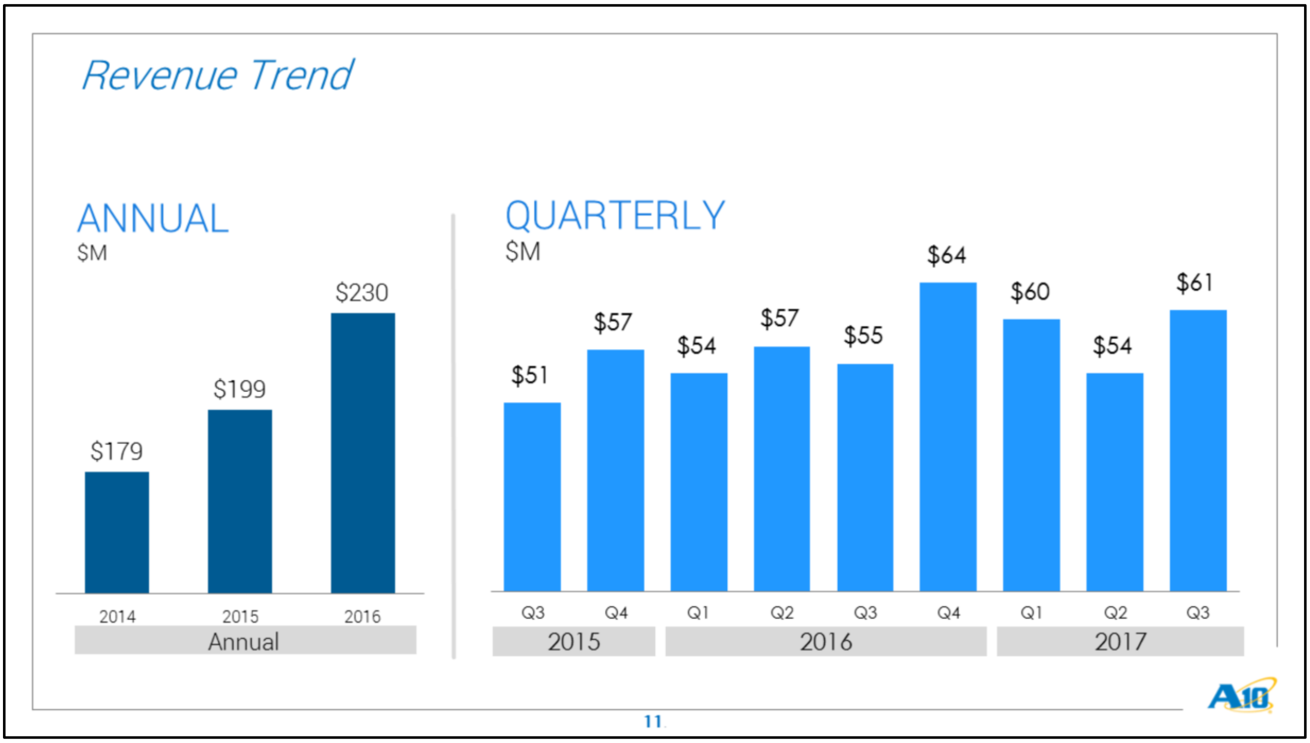
We believe security and cloud are powerful market opportunities for A10. We are focused on leveraging our strength as a trusted performance leader and our global marquee customer base, to capitalize on this opportunity. In the era of connected intelligence, traffic volumes and complexity continue to significantly increase. Customers will need automated capabilities to learn, predict, recommend and dynamically enforce policies. A10's mission is to provide customers with intelligent automation to comprehensively enforce policies for security and application delivery solutions to strengthen and simplify their security posture. The recent enhancements to our TPS platform demonstrate our continued progress toward this objective. A10's TPS platform is an industry leading DDoS protection solution with a TPS Detector that automatically orchestrates policies to detect sophisticated DDoS attacks. When an attack is detected, it notifies the TPS management system to automatically perform countermeasures to mitigate DDoS attacks in real-time. We are encouraged by the initial customer response for our expanded Thunder TPS capabilities. We are actively working to build our pipeline, which will take time. While it is still early days in establishing A10's brand and reach in the security market, we are pleased with the progress.



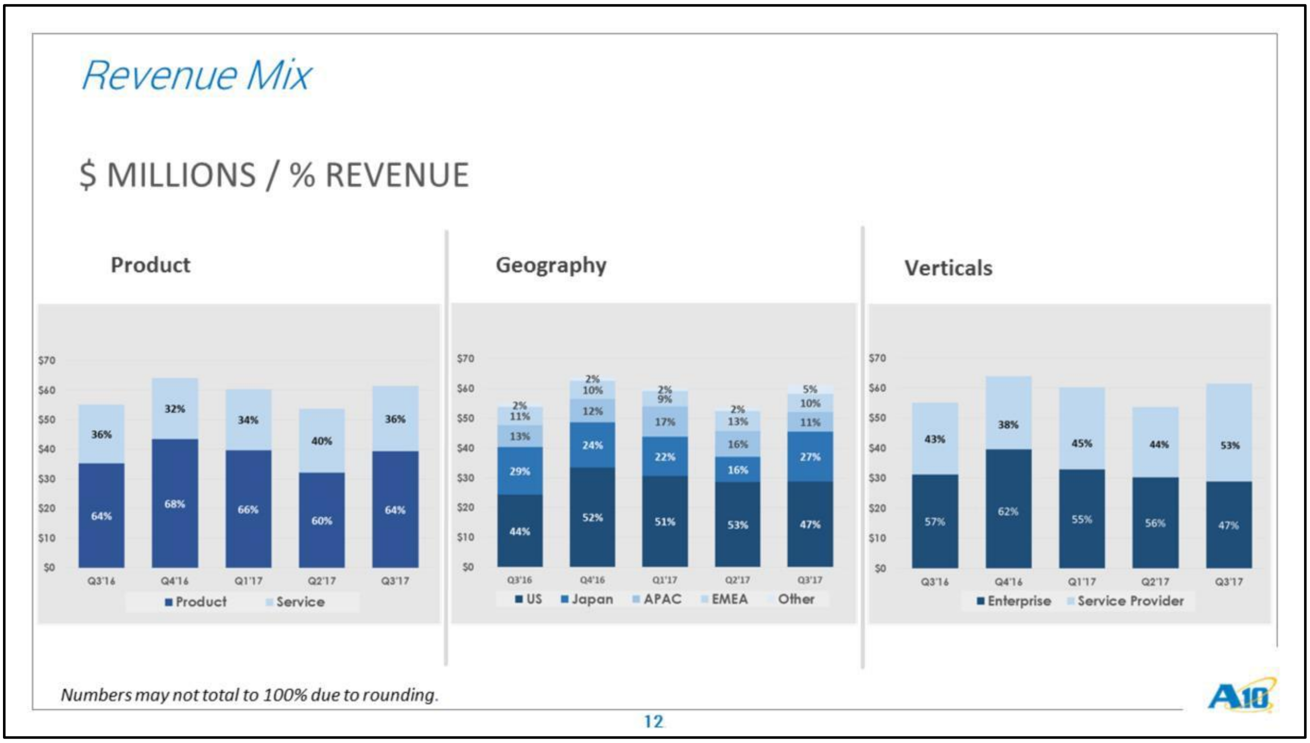
In summary, we delivered a strong third quarter and are pleased with the team's improved execution. With our innovations and strong customer support, we believe we are establishing a strong portfolio of solutions that help enterprises, service providers and cloud providers secure and improve the performance of their networks and mission critical applications. We are making solid progress but still have a lot of work ahead in order to continue to capitalize on the fast-growing areas of our market while delivering more consistent topline results and profitability. I am excited about our future opportunities and look forward to sharing our progress with you. We remain committed to enhancing shareholder value. As we announced in our press release today, the board of directors has authorized another 20 million dollar share repurchase program, which reflects our continued confidence in our market opportunities and business.

With that, I'd like to turn the call over to Tom to review the details of our third quarter financial performance and fourth quarter guidance.


Tom Constantino
CFO



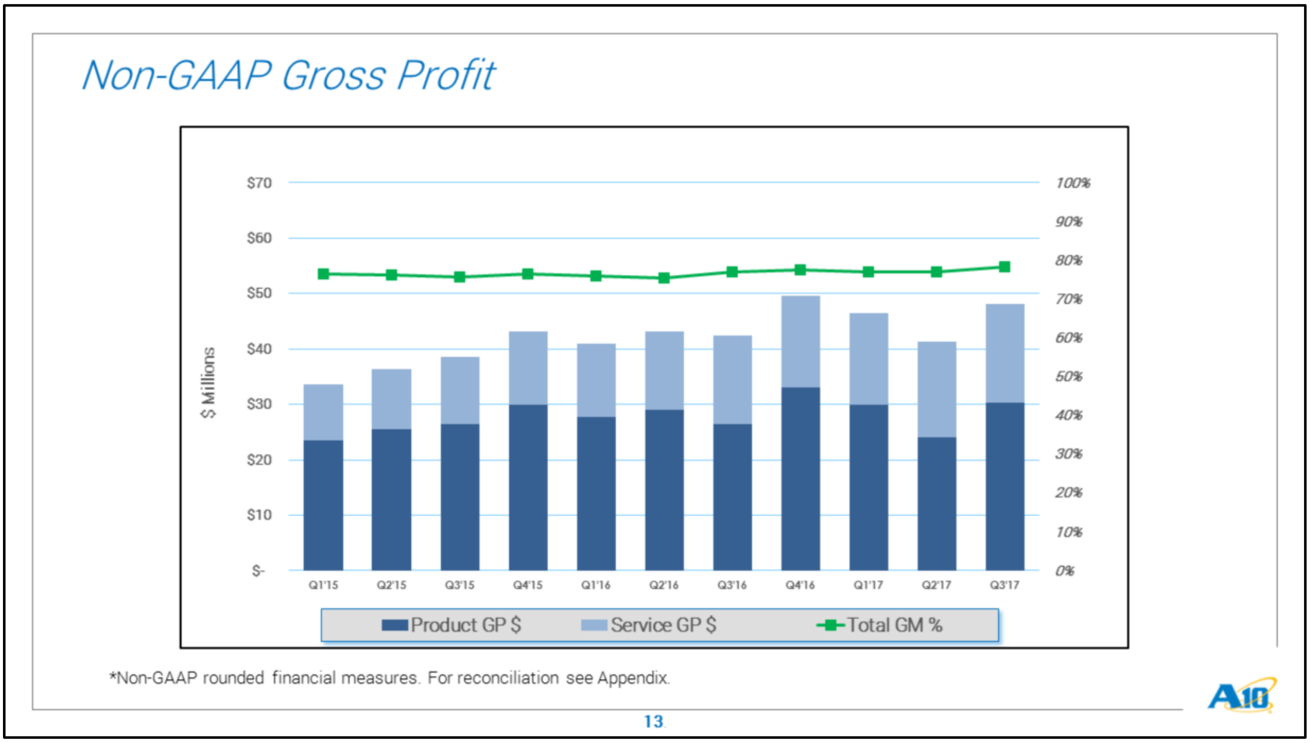
Third quarter revenue grew 12 percent year-over-year to 61.4 million dollars. We also grew deferred revenue 9 percent year-over-year, to reach 91.0 million dollars.



Third quarter product revenue grew 12 percent year-over-year to 39.4 million dollars, representing 64 percent of total revenue. Third quarter service revenue was 22.0 million dollars, or 36 percent of total revenue.

From a geographic standpoint, third quarter revenue from United States was 28.8 million dollars, up 19 percent on a year-over-year basis. Third quarter revenue from Japan was 16.6 million dollars, up 4 percent on a year-over-year basis. Third quarter revenue from APAC, excluding Japan, was 6.7 million dollars, compared with 7.4 million dollars in the same period last year. Third quarter revenue from EMEA was 6.1 million dollars, representing a 1 percent year-over-year increase.

Service provider revenue increased 36 percent year-over-year to reach a record 32.5 million dollars, or 53 percent of revenue. Enterprise was 47 percent of revenue, or 28.9 million dollars, compared with 31.2 million in Q3 of last year.



As we move beyond revenue, all further metrics discussed on this call are on a non-GAAP basis, unless stated otherwise.

We delivered third quarter total gross margin of 78.3 percent, an increase of 120 basis points from last quarter and Q3 of last year.

Third quarter product gross margin was 77.0 percent, an increase of 200 basis points from last quarter and up 180 basis points from Q3 of 2016. Our improvement in gross margin was driven by geographic and product mix. Services gross margin came in at 80.6 percent, increasing 40 basis points from last quarter and flat compared to Q3 of 2016.

Summary Financial Results

NON-GAAP* FINANCIAL MEASURES ($M)	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Sales & Marketing	$24.7	$25.0	$22.6	$25.1	$24.7	$23.7	$25.2
Research & Development	$13.3	$13.4	$14.0	$13.7	$15.1	$14.4	$14.2
General, Administrative & Litigation	$6.9	$6.6	$5.6	$6.1	$6.3	$6.1	$6.0
Income (Loss) from Operations	$(4.0)	$(1.9)	$0.3	$4.7	$0.2	$(2.8)	$2.7
Net income (loss) Per share	$(0.06)	$(0.02)	$0.00	$0.03	$0.01	$(0.04)	$0.03

*Non-GAAP rounded financial measures. For reconciliation see Appendix.

14

We ended the quarter with headcount of 877 compared with 892 at the end of last quarter.

Non-GAAP operating expenses came in at 45.4 million dollars, compared with 44.2 million dollars in the prior quarter.

Non-GAAP operating income was 2.7 million dollars, compared with 0.3 million dollars in the third quarter of last year.

Non-GAAP net income for the quarter was 2.1 million dollars, or 3 cents per diluted share, compared with 0.2 million dollars, or break-even on a fully diluted per share basis in Q3 of last year. Diluted and basic weighted shares used for computing non-GAAP EPS for the third quarter were approximately 73.6 million shares.

Balance Sheet & Cash Flow

SELECTED GAAP FINANCIAL MEASURES ($M)	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Cash and Marketable Securities	$107.5	$113.7	$116.8	$114.3	$116.2	$132.2	$123.9
Accounts Receivable	$41.9	$39.3	$48.9	$66.8	$61.8	$41.4	$49.9
Deferred Revenue (total)	$74.8	$75.8	$83.2	$92.9	$93.1	$92.5	$91.0
Cash Flow Provided by (Used in) Ops	$10.4	$8.8	$2.0	$(2.5)	$0.5	$13.2	$(3.8)

15

Moving to the balance sheet, average days sales outstanding were 68 days, down from 87 in the prior quarter. At September 30, 2017 we had 123.9 million dollars in total cash and marketable securities, compared with 132.2 million dollars at the end of June.

Under our existing share repurchase authorization, which expires this month, during the quarter we acquired 351,524 shares on the open market, at an average price of $6.42 for a total consideration of approximately $2.3 million. In total, over the past 12 months, we have repurchased approximately 678,000 shares in the open market.

As Lee mentioned, the board of directors has authorized another share repurchase program of up to 20 million dollars over the next 12 months. Under the authorization, shares may be repurchased on a discretionary basis through a variety of means including the open market. This repurchase authorization reflects our commitment to enhance shareholder value as well as expresses our confidence in our opportunities and long-term financial performance.

Overall, we delivered a strong third quarter and we are pleased with the initial progress we are seeing from the actions we took to improve our execution. More specifically, we improved our forecasting processes and sales performance analytics which led to improved sales execution. We also improved our focus on accountability and performance management. Similarly, we have taken steps to improve our cross-functional collaboration in support of sales in delivering the quarter. While we have more work to do as mentioned by Lee, we believe we are on the right track and that our efforts helped us deliver a strong finish to the quarter.

Q4 2017 Business Outlook

Management will host a conference call to discuss A10's financial results for its third quarter of 2017 and the current outlook for the fourth quarter of 2017 on **October 26, 2017 at 4:30 p.m. Eastern time / 1:30 p.m. Pacific time.**

Open to the public, investors may access the call by dialing **1-844-792-3728 or 1-412-317-5105.** A live audio webcast of the conference call will be accessible from the "Investors" section of A10 Networks website at investors.a10networks.com. The webcast will be archived for a period of one year. A telephonic replay of the conference call will be available one hour after the call and will run for five business days and may be accessed by dialing 1-412-317-0088 or 1-877-344-7529 and entering the passcode 10112610.

Please refer to page #3 for information regarding forward looking statements.

16

Questions & Answer Session

LEE CHEN
CEO, President
and Founder

TOM CONSTANTINO
CFO

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17

Non-GAAP Reconciliation – Gross Profit

QUARTERLY ($M)	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Gross Profit (GAAP)	$40.6	$42.9	$42.1	$49.5	$46.1	$41.0	$47.7
SBC* included in COGS	$0.3	$0.2	$0.3	$0.2	$0.3	$0.4	$0.4
Gross Profit (Non-GAAP)	$40.9	$43.1	$42.4	$49.7	$46.4	$41.4	$48.1

QUARTERLY	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Gross Profit Margin (GAAP)	75%	75%	76%	77%	77%	76%	78%
SBC* included in COGS	1%	1%	1%	—%	—%	1%	1%
Gross Profit Margin (Non-GAAP)	76%	76%	77%	78%	77%	77%	78%

* SBC stands for stock-based compensation.

18

Non-GAAP Reconciliation – Expense Items

$ Millions	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Sales & Marketing (GAAP)	$26.8	$26.8	$24.3	$26.5	$26.3	$25.6	$26.9
SBC included in Sales & Marketing	(2.1)	(1.7)	(1.7)	(1.4)	(1.5)	(1.9)	(1.7)
Sales & Marketing (Non-GAAP)	$24.7	$25.0	$22.6	$25.1	$24.7	$23.7	$25.2
R&D (GAAP)	$14.8	$14.5	$16.0	$15.5	$17.0	$16.5	$16.0
SBC included in R&D	(1.4)	(1.1)	(1.7)	(1.5)	(1.7)	(1.8)	(1.5)
Amortization expense related to acquisition	—	—	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
R&D (Non-GAAP)	$13.3	$13.4	$14.0	$13.7	$15.1	$14.4	$14.2
G&A (GAAP)	$6.7	$7.2	$6.3	$6.9	$7.2	$7.0	$6.9
SBC included in G&A	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)
G&A (Non-GAAP)	$5.9	$6.4	$5.5	$6.1	$6.3	$6.1	$6.0
Litigation (GAAP)	$1.8	$0.2	$0.1	$—	$—	$—	$—
Litigation and Settlement	(0.8)	—	—	—	—	—	—
Litigation (Non-GAAP)	$1.0	$0.2	$0.1	$—	$—	$—	$—
Total Op Exp (GAAP)	$50.0	$48.7	$46.7	$48.9	$50.5	$49.0	$49.8
SBC included in Total Op Exp	(4.3)	(3.6)	(4.3)	(3.7)	(4.0)	(4.6)	(4.1)
Amortization expense related to acquisition	—	—	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Litigation Settlement	(0.8)	—	—	—	—	—	—
Total Op Exp (Non-GAAP)	$44.9	$45.0	$42.2	$44.9	$46.2	$44.2	$45.4

19

Non-GAAP Reconciliation – Income (Loss) Items

$ Millions	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17
Income (Loss) from Operations (GAAP)	$(9.4)	$(5.8)	$(4.6)	$0.6	$(4.3)	$(8.0)	$(2.1)
Stock-Based Compensation	4.6	3.9	4.6	3.8	4.3	5.0	4.5
Amortization Expense Related to Acquisition	—	—	0.3	0.3	0.3	0.3	0.3
Litigation and Settlement	0.8	—	—	—	—	—	—
Income (Loss) from Operations (Non-GAAP)	$(4.0)	$(1.9)	$0.3	$4.7	$0.2	$(2.8)	$2.7
Net Loss (GAAP)	$(9.5)	$(4.9)	$(4.7)	$(1.8)	$(3.9)	$(8.3)	$(2.7)
Stock-Based Compensation	4.6	3.9	4.6	3.8	4.3	5.0	4.5
Amortization Expense Related to Acquisition	—	—	0.3	0.3	0.3	0.3	0.3
Litigation and Settlement	0.8	—	—	—	—	—	—
Net Income (Loss) (Non-GAAP)	$(4.1)	$(1.1)	$0.2	$2.3	$0.7	$(3.1)	$2.1
Weighted Average Shares used in per share calculations for non-GAAP net income (loss) per share:							
Basic	64.3	64.9	66.3	67.5	68.6	69.8	70.7
Diluted	64.3	64.9	72.8	73.1	74.3	69.8	73.6

20


THANK YOU