

A10 Networks - Where to Focus Commercial Attention?

Internal ID: S&F-STR-013

Topic: Customer Strategy, Competitive Strategy, Growth Strategy

Industry: Systems Software

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Decision date and information cutoff: 6 August 2026, end of day

Decision scope: Near-term commercial priorities across enterprise, service-provider and channel relationships

Case convention: This is an author-created decision exercise. The alternatives and assignment are hypothetical; company disclosures are historical. No private deliberations or management intent are represented.

The decision

A10 Networks entered the second half of 2026 with strong reported growth and a changing revenue mix. First-half revenue was \$155.1 million, up 14.5% year over year. Enterprise revenue rose \$35.3 million, while service-provider revenue fell \$15.7 million. At the same time, one unnamed customer represented 38% of both second-quarter and first-half revenue. A separate, unnamed distribution channel accounted for 39% of first-half sales. [C1, Note 1 p. 11; MD&A pp. 29, 32-33]

A newly disclosed Microsoft-linked commercial arrangement added another question. A warrant could vest based on purchase thresholds through June 2027 and June 2028. But the schedule and conditions were redacted, the thresholds could not be inspected, and the warrant did not disclose a minimum purchase commitment. [C3, Item 1.01 and Ex. 4.1, Exhibits E/F]

A10 also described a portfolio spanning application delivery, networking and security. It had acquired ThreatX Protect in 2025 and TrojAI in June 2026. Company materials positioned these products alongside an AI infrastructure opportunity, but did not disclose product-level revenue, integration returns or a verified cross-sell rate. [C4, Item 1 pp. 6-8 and Note 3; C5, pp. 14-18; C6]

Assignment: Prepare a recommendation for an author-created strategic review as of 6 August 2026. Identify the first commercial priority you would advance among: (1) developing the Microsoft-linked commercial lead within the appropriate customer and route context; (2) broadening enterprise accounts and routes to market; or (3) protecting and extending service-provider relationships. These priorities can coexist, and the Microsoft lead may overlap either of the other paths. The public record does not establish a fixed budget, staffing bottleneck or need to stop work in the other areas. State what you would learn first, which measurable gates should guide further commitment, and what evidence would cause you to change course. Do not assume Customer A is Microsoft.

A portfolio serving different buyers

A10 described its solutions as supporting application delivery, network infrastructure and security. The company's stated strategy joined legacy networking, next-generation networking and security, with AI infrastructure as an emerging use case. Its 2025 10-K named F5 and Citrix/NetScaler in application delivery; Cisco, HPE/Juniper and Fortinet in networking/security; and Radware and Arbor/NETSCOUT in DDoS, among other competitors. A10 described some competitors as larger or better resourced. Its filings did not provide comparable win rates, customer outcomes or market-share data, so the decision here concerns A10's internal priorities rather than relative market position. [C4, Item 1 pp. 6-8; Item 1A pp. 18-19]

A10 acquired ThreatX Protect in 2025, adding web-application and API security capabilities as described by the company. In June 2026 it acquired TrojAI, which management described as providing AI model and application testing, red-teaming and runtime protection. These additions may create opportunities to combine offers, but public disclosures do not establish customer adoption, paid usage, product contribution or integration success. [C4, Note 3 and Item 1; C5, pp. 14-18; C6]

The company served enterprise and service-provider customers through direct and indirect routes. Its product revenue was mainly hardware appliances with included perpetual software and a small subscription component. Service revenue included product support, professional services, training and SaaS. The labels "service provider" and "services revenue" describe different things: services revenue is not all recurring SaaS. [C1, MD&A pp. 29, 32-33]

A change in the revenue mix

Second-quarter revenue was \$80.1 million, up 15.5%. First-half revenue was \$155.1 million, up 14.5%. Enterprise customers represented 60% of second-quarter revenue and 58% of first-half revenue, compared with 40% and 41% in the prior-year periods. Service providers represented the balance. Management attributed much of enterprise product growth to demand in the Americas. [C1, MD&A pp. 29, 32-33]

Exhibit 1. Revenue changes and vertical mix

Revenue changes in USD millions; vertical mix as a share of reported revenue.

Period	Enterprise revenue change	Service-provider revenue change	Enterprise mix, 2026 (2025)	Service-provider mix, 2026 (2025)
Q2	+\$20.2	-\$9.5	60% (40%)	40% (60%)
H1	+\$35.3	-\$15.7	58% (41%)	42% (59%)

Source: A10 Q2 2026 Form 10-Q, Note 1 p. 11 and MD&A pp. 29, 32-33 [C1]. Management reports revenue changes; percentages are filing-reported mix. Vertical growth does not establish comparative profitability; A10 reports one operating segment and does not disclose margin or R&D returns by vertical.

The change creates competing interpretations. Enterprise momentum could justify more account and product attention. Service-provider declines could reflect a segment that deserves renewed retention and offer work-or-a-demand mix that makes recent enterprise growth more strategically attractive. A10 did not report vertical-specific gross profit, customer renewal, churn or acquisition cost to resolve the trade-off.

Concentration and the Microsoft arrangement

The 10-Q disclosed that “Customer A” represented 38% of both Q2 and H1 revenue, compared with 30% of Q2 and 23% of H1 revenue a year earlier. The ten largest end customers together represented 58% of Q2 and 55% of H1 revenue. Large customer orders can be irregular and involve long sales cycles, according to A10. Customer A was not identified. [C1, Note 1 p. 11; MD&A p. 29]

Sales through one unnamed distribution channel represented 40% of Q2 revenue and 39% of H1 revenue. At June 30, that channel accounted for 57% of gross accounts receivable. The disclosure does not reveal whether this route reflects end-customer aggregation, sell-through, or other channel arrangements. A10’s filings document customer and distribution-channel concentration, but do not establish Customer A’s bargaining leverage or identify it as Microsoft. The warrant disclosure does not state which customer vertical or route-to-market accounts for Microsoft purchases, or whether those purchases overlap Customer A or the concentrated channel. [C1, Note 1 p. 11; MD&A p. 29; C3, Item 1.01 and Ex. 4.1]

On 3 August, A10 issued Microsoft a warrant for up to 800,000 shares at an exercise price of \$0.01 per share. Vesting is tied to purchase thresholds over two periods ending June 30, 2027 and June 30, 2028. The warrant’s Vesting Schedule and Exercise Conditions Schedule (Exhibits E/F) were redacted [***]; the exact thresholds and conditions cannot be inspected. The disclosure is not a minimum purchase commitment, booked revenue, or proof of AI-specific demand. [C3, Item 1.01 and Ex. 4.1, Exhibits E/F]

The arrangement raises questions about what product and engineering support is appropriate, what commercial evidence would justify more, and how to manage account dependence. The public record does not answer them. The 10-Q does not identify Customer A as Microsoft, and the warrant does not supply a customer-level margin or order forecast.

Financial and operating context

At June 30, A10 reported \$54.7 million in cash and cash equivalents and \$302.7 million in marketable securities. The carrying amount of its 2030 Notes was classified as current after a conversion condition was met. Management said it believed resources would be sufficient for a cash settlement but warned that a significant cash conversion could reduce liquidity available for other uses. These disclosures make liquidity relevant to planning, but do not establish that A10 faces a funding shortage. [C1, balance sheet p. 4; Note 7 pp. 21-22; MD&A pp. 37-38; C2]

In the first half, operating cash flow was \$31.3 million versus \$39.4 million a year earlier. Changes in operating assets and liabilities reduced cash by \$13.9 million, including inventory and receivables outflows, partly offset by accounts payable and deferred revenue. This is a reminder that order timing and working capital matter alongside reported revenue; it is not a substitute for product or customer contribution economics. [C1, MD&A p. 38]

Exhibit 2. Selected reported and calculated measures

USD millions except margins; H1 ended 30 June 2026.

Measure	Q2 2026	H1 2026	Context
Revenue	\$80.1	\$155.1	+15.5% Q2 / +14.5% H1 year over year

Measure	Q2 2026	H1 2026	Context
Product revenue	\$49.0	-	Mainly hardware appliances with included perpetual software
Services revenue	\$31.1	-	Includes support, professional services, training and SaaS
Product gross margin	79.4%	-	Company-reported category margin
Services gross margin	78.5%	-	Company-reported category margin
Consolidated gross margin	79.1%	-	Not a vertical or customer contribution margin
Cash and marketable securities	-	\$54.7 cash; \$302.7 securities at 30 June	Separately reported balances; rounded figures may not sum to the exact combined balance

Sources: Q2 2026 Form 10-Q, balance sheet p. 4 and MD&A pp. 32-35 [C1]; Q2 release [C2]. Dashes indicate not shown in this exhibit, not zero. “Services” includes more than SaaS; category gross margins do not establish contribution by customer, vertical, channel or product.

The choices

The following are analyst-constructed paths for discussion, not a list of management-approved projects. They can be pursued in parallel, though students should identify which one deserves the next increment of attention and why. The Microsoft-linked lead is a commercial opportunity that may cut across an existing vertical and route; the filing does not classify it as a separate customer segment.

1. **Develop the Microsoft-linked commercial lead.** Determine the relevant customer vertical, route, offer scope and account coverage before defining product/engineering support and review gates. Seek inspectable terms, paid orders, deployment evidence, realized pricing, support burden, collections and repeat purchases before treating the warrant relationship as material volume.
2. **Broaden enterprise customers and routes to market.** Test opportunities beyond a small number of large accounts and assess the economics of different channel/offer combinations. Track qualified pipeline, conversion, repeat orders, sell-through, receivables, pricing and contribution. Diversification alone is not a return.
3. **Protect and extend service-provider relationships.** Investigate the causes of declining service-provider revenue; prioritize renewals, customer success or security attach only where validated demand and economics justify them. Track renewal, expansion, buying cycle and service workload. Do not preserve legacy offers solely to defend historical mix.

A10 reported \$219.5 million of 2030 Notes carrying value at June 30 and discussed potential liquidity effects of cash settlement. It did not report a fixed budget, binding engineering constraint or initiative-level returns. A recommendation therefore need not reduce one path to fund another. It should explain how to stage work and what would change the priority order.

Discussion questions

1. What does the shift in enterprise and service-provider revenue establish, and what does it leave unknown?
2. How should A10 treat the Microsoft-linked warrant when its purchase thresholds are redacted and Customer A is unnamed?
3. Which path should receive the next increment of management attention? What work can continue in the other areas, and what gates should control further investment?
4. What customer, product and channel data would make the decision materially better? Which data should be gathered first?
5. What evidence would cause you to change your recommendation?

Sources and conventions

All information is limited to what was available by 6 August 2026, end of day. Company claims and explanations are attributed; derived percentages and sums are identified as calculated. The information cutoff excludes later events.

- **C1.** A10 Networks, Q2 2026 Form 10-Q, quarter ended 30 June 2026, filed 6 August 2026, accession 0001580808-26-000045. [SEC filing](#).
- **C2.** A10 Networks, Q2 2026 results release, 5 August 2026, Exhibit 99.1 to 8-K accession 0001580808-26-000042. [SEC exhibit](#).
- **C3.** A10 Networks, warrant disclosure, Form 8-K filed 5 August 2026, accession 0001580808-26-000041; warrant dated 3 August. [SEC filing](#).
- **C4.** A10 Networks, 2025 Form 10-K, filed 25 February 2026, accession 0001580808-26-000014. [SEC filing](#).
- **C5.** A10 Networks, 2026 Investor Day presentation, 19 February 2026. [Company PDF](#).
- **C6.** A10 Networks, “A10 Networks Acquires TrojAI Inc., Expanding AI Roadmap,” 15 June 2026. [Company release](#).