



Think Technology: Enterprise IT Infrastructure

Disruptive Innovation: Interview With Lee Chen, Founder And CEO Of A10 Networks

THINK SUMMARY:

This republished version contains a revised date. We had a chance to interview Lee Chen, Founder and CEO of A10 Networks which is the fastest-growing, private Computer Hardware company in North America according to the recently released Inc. 500 survey. According to Lee, key to A10's competitive success has been its unique 64-bit platform which drives its performance and cost-per-connection/session advantage in its core Application Delivery and IPv6 Migration markets and provides customers the scalability, "headroom to grow" and future-proofing of data-center investments. We are impressed by the fact that A10 has been profitable since 2010. It is now poised to grow 80-100% y/y on 2010 revenue of \$55M, according to Lee.

KEY POINTS:

San Jose, CA headquartered A10 Networks is the fastest-growing, private Computer Hardware company in North America according to the recently released Inc. 500 survey. We had a chance to interview Lee Chen, Founder and CEO of A10 Networks. The detailed interview follows in this note.

According to Lee:

- A10 Networks has three key addressable markets: Application Delivery/Server Load Balancing, IPv6 Migration and Cloud Computing & Virtualization.
- Key secular trends driving demand for A10 include growth of Internet traffic, proliferation of mobile devices and data center consolidation.
- In its core Application Delivery market, A10 excels at providing the industry's highest performance, scalability, efficiency and flexibility at the lowest cost per connection in the industry.
- Similarly, in the rapidly-growing market for IPv6 Migrations, A10 is very well-positioned with its industry-leading performance at the lowest cost per session.
- A10 has traditionally excelled in large enterprise environments with mission critical applications and has also seen strong traction in Carrier/Service Provider environments where HA and IPv6 Migration/IPv4 Preservation are key initiatives.
- Key to A10's competitive success has been its unique 64-bit platform which drives its performance and cost-per-connection advantage and provides customers the scalability, "headroom to grow" and future-proofing of data-center investments.
- A simple pricing model where all software-based features are included in the base appliance license also makes A10 products easy to buy for customers.
- A10 has been profitable since 2010. It is now poised to grow 80-100% y/y on 2010 revenue of \$55M.

Reason for Report:

Industry Update

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The following are the excerpts of ThinkEquity's Senior Research Analyst for Data Center Infrastructure Rajesh Ghai's interview with Lee Chen, Founder and CEO of A10 Networks.

Rajesh Ghai (TE): Lee, can you explain the key problem you are trying to solve at A10?

Lee Chen(LC): A10 Networks has three key addressable markets: Application Delivery/Server Load Balancing, IPv6 Migration and Cloud Computing & Virtualization.

For Application Delivery/Server Load Balancing, our objective is to make the Internet faster and more secure. We've designed a new generation platform that delivers the industry's highest performance, scalability, efficiency and flexibility, with a significant technology lead ahead of market share leaders. We also deliver the lowest cost per connection versus any competing vendor in our market.

For IPv6 Migration, we develop solutions to ease the transition to IPv6, preserve existing IPv4 resources, and translate between the two protocols, which are key, as we believe IPv4/IPv6 will exist in tandem until at least 2020. Our products have been live in large deployments for over a year, and have the highest performing and most cost effective solutions on the market today. We deliver the lowest cost per session versus any competing vendor in this market.

For Cloud Computing & Virtualization, we enable public and private Cloud providers to scale up and scale down Application Delivery solutions on demand, in addition to flexible multi-tenancy for Cloud Computing. We deliver the widest choice of Virtualization options in our market so that customers can select which approach is best for them.

TE: Who is your target customer – any specific segments or verticals?

LC: Our key customers are any size organizations that leverage high performance networks and Internet applications to help their businesses keep pace. A10 has traditionally excelled in large enterprise environments with mission-critical applications, with customer examples ranging from the largest software company in the world to the largest Web portals. We also shine in Carrier and Service Provider environments where High Availability and IPv6 Migration/IPv4 Preservation are key initiatives.

TE: What are the key market and technology trends that you see influencing demand in your target market?

LC: The boom in smart mobile devices is creating high demand in our Application Delivery/Server Load Balancing and IPv6 Migration markets. In addition, data center consolidation and the rapid increase in Internet traffic continues to create demand for our highly scalable and efficient platforms, giving our customers a competitive advantage.

TE: Can you give some sense about the potential size of your addressable market?

LC: Our core Application Delivery market is a \$2 billion market. The IPv6 Migration market is emerging and we believe that in 3-5 years, it can be similar in size, or even larger than the Application Delivery market. The Cloud Computing & Virtualization market is also emerging, and we expect to see meaningful revenue from this market next year.

TE: Please share with us a couple of your key customer wins and how those were won.

LC: 90% of the time, when we are invited to do a bake-off where customers test performance, features and functionality, we win.

For example, we recently won an IPv6 Migration project for one of the four largest wireless carriers in North America, and it was a multi-million dollar deal. The reason we won is that the incumbent networking vendor does not currently offer the functionality, nor the scalability. The customer came to A10 for a Proof of Concept (POC), and it went exceedingly well. Our cost per session is about 5% of the incumbent vendor's competing solution. Meanwhile, A10 has live production deployments since last fall, giving the customer a high level of confidence.



For many large enterprises, A10 has been winning against the market share leader because we have our key 64-bit platform to provide our performance and cost per connection advantage. For example, all of the latest Microsoft 2010 applications are 64-bit applications (Exchange, SharePoint, Lync, etc.), so enterprises choose A10 for an 'end-to-end' 64-bit solution to achieve maximum scalability and headroom for growth. A10's AX Series also provides a rich feature set that impresses our customers.

TE: Who do you see as your nearest competitors and then more broadly how do you see competition evolving? Do you typically replace a solution from one of your competitors? How intense is the competition right now?

LC: We only see F5 consistently. Our AX Series has several advantages over BIG-IP including additional IPv6 features (which has been confirmed repeatedly by the largest carriers), 64-bit platforms, greater choice in virtualization solutions and energy efficiency with smaller form factors. This year, enterprise customers selected 64-bit AX Series over the latest BIG-IP platforms due to our value proposition of maximum headroom for growth, lower cost per connection, feature concurrency and future-proofing investments with larger addressable memory to "do more with less." The world's largest carriers selected AX Series over BIG-IP for our broader range of IPv6 Migration and IPv4 Preservation solutions.

TE: What are the key customer buying criteria at this point of time? What is your key differentiation? How do you plan to sustain your competitive advantage in the future?

LC: Key trends that our customers look for are 64-bit scalability with a flexible platform to address multiple problems; advanced features such as Application Acceleration, Layer 7 scripting, Layer 7 optimization, IPv6 Migration, Virtualization and more; energy efficiency, price/performance, data center consolidation by consolidating multiple boxes into one, and superior technical and engineering support. Customers also look at cost per connection and cost per session which is why we focus on delivering the lowest cost per connection and session.

TE: What is your revenue model?

LC: We have a simplified pricing model where we sell appliances and all features are included without licensing fees. We are the only vendor in our market to offer such a model and have received praise from customers and partners, in addition to competitors simplifying their offerings in response.

In the North America market we sell through the channel and internationally we sell through distributors and channel partners.

TE: At this point of time, how are demand trends and customer willingness to spend vs. a year ago?

LC: From 2009 to 2010, we experienced over 150% revenue growth, which is a testament to the big bets we placed on technologies such as 64-bit, IPv6 Migration and continuous price/performance improvements. With rapid adoption of our technology (we acquired over 100 new enterprise customers last quarter), we are only seeing demand increase.

TE: Who are your key technology partners and how exactly do you expect them to help you in your business?

LC: Microsoft is a key technology partner. We are certified as a recommended server load balancer solution for Microsoft Exchange, Lync and OCS, and have deployment guides for popular applications such as SharePoint. We won Best of Microsoft TechEd 2010 for our 64-bit innovation.

VMware is also a key partner and we achieved VMready certification.

Other vendors such as Arista, Imperva and Infoblox deliver innovations such that we partner in the field for best-of-breed solutions.

TE: What is your vision for the business say 5 years from now? From a product roadmap perspective, what new product offerings or features/functionality that you're working on that investors should be aware of?



LC: We will continue to deliver innovation with our AX Series platforms, including new models that continue our lead in connections per second, high throughput and efficiency in compact form factors. In keeping with our mantra, our new models will continue to be “faster, better and greener” than any competing solutions on the market. We will also continue to add key feature innovations to our platform as they address our three markets: Application Delivery, IPv6 Migration and Virtualization.

TE: Can you give us a sense of your size and historical growth rate? What are your revenue projections for the future?

LC: Our revenue grew from \$7M in 2008 to \$17.2M in 2009 and \$55M in 2010, and we’ve had 17 consecutive quarters of growth. This year, we expect 80-100% growth, and have achieved profitability since 2010. We doubled our employees to over 300 within the last 18 months. According to the latest Inc. 500 report for 2011, we are the fastest-growing, privately-held Computer Hardware company in North America with 3,786% revenue growth for the past three years.

TE: When you look out over the next couple years, what do you see as the biggest potential challenge for your company?

LC: At this stage, it is all about executing according to our plan. We’ve made key bets regards technology, staffing and infrastructure that are beginning to show positive results, so now we just need to continue our sharp focus and solid execution.



COMPANIES MENTIONED IN THIS REPORT:

Company	Exchange	Symbol	Price	Rating
F5 Networks Inc.	NASDAQ	FFIV	\$79.92	Buy
VMware, Inc.	NYSE	VMW	\$92.03	Buy

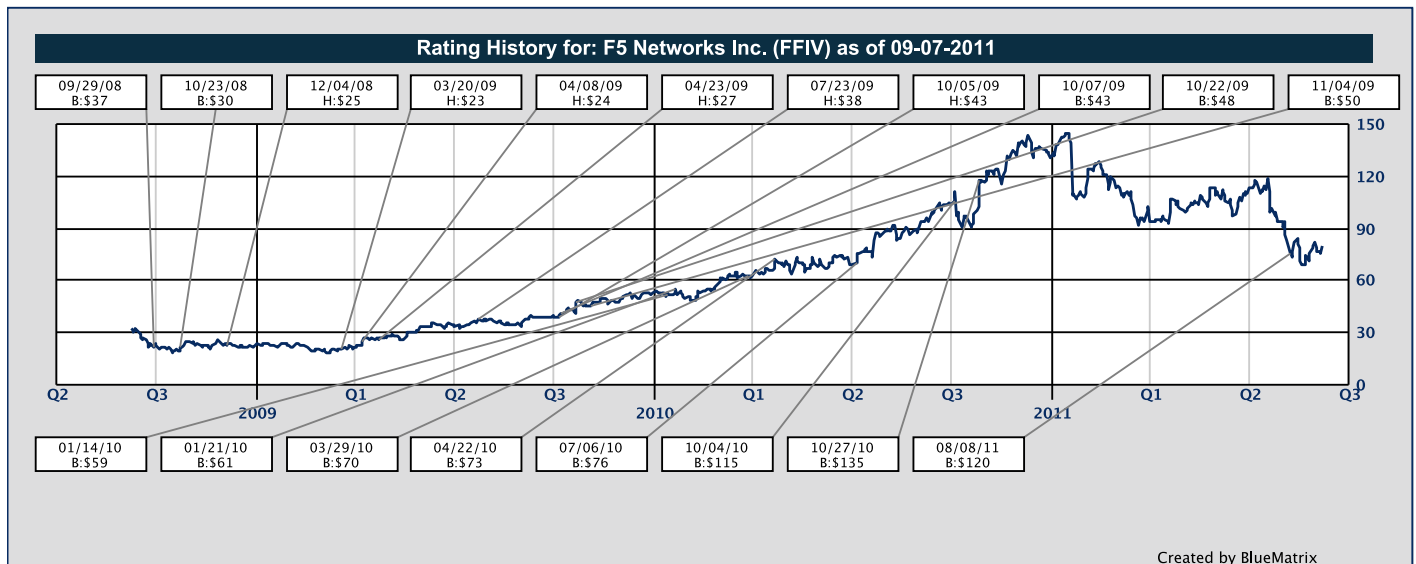
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