Fortinet Q3 2026 Earnings Prepared Remarks

Anthony Luscri, VP, Investor Relations

Thank you. Good afternoon and thank you for joining us on today's conference call to discuss Fortinet's third quarter 2026 financial results.

Joining me on today's call are Ken Xie, Fortinet's Founder, Chairman, and CEO, Christiane Ohlgart, our CFO, and John Whittle, our COO.

Ken will begin our call today by providing a high-level perspective on our business. Christiane will then review our financial results for the third quarter of 2026 before providing guidance for the fourth quarter and updating the full year. We will then open the call for questions.

During the Q&A session, we ask that you please limit yourself to one question and one follow up question to allow others to participate.

Before we begin, I'd like to remind everyone that on today's call we will be making forward-looking statements and these forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those projected.

Please refer to our SEC filings, in particular the risk factors in our most recent Form 10-K and Form 10-Q, for more information.

All forward-looking statements reflect our opinions only as of the date of this presentation and we undertake no obligation, and specifically disclaim any obligation, to update forward-looking statements.

Also, all references to financial metrics that we make on today's call are non-GAAP, unless stated otherwise. Our GAAP results and GAAP to non-GAAP reconciliations are located in our earnings press release and in the presentation that accompany today's remarks, both of which are posted on our investor relations website.

As a reminder, this is a live call that will be available for replay via webcast on our investor relations website. The prepared remarks will also be posted on the Quarterly Earnings section of our investor relations website following today's call.

Lastly, all references to growth are on a year-over-year basis, unless noted otherwise.

I will now turn the call over to Ken.

Ken Xie, Founder, Chairman and CEO

Thank you, Anthony, and thank you everyone for joining our call. We are pleased with our excellent third quarter results, driven by strong execution and broad-based demand. Billings grew 29%, while total revenue increased 20%, led by 37% growth in product revenue. Based on our continued strong momentum, we have raised our 2026 billings guidance for the third time this year.

With the rapid evolution of the AI landscape, Fortinet is leading the next frontier of cybersecurity by securing AI workflows and protecting against AI-discovered vulnerabilities in real time through our core strength in network security. We believe that Network Security is the most critical foundation of AI Security, with the firewall serving as the centralized point of inline enforcement across enterprise, operational technology, and hybrid cloud environments. Fortinet's leadership in this space is driven by over 20 years of innovation, integration, and improvement as shown on slide 7, while continually expanding our AI capabilities and functions in FortiOS and our FortiGuard services. Fortinet secures four critical areas of infrastructure in AI security, as shown on slide 9.

First, at the network level, our SASE Firewall natively protects against vulnerabilities and stops intrusions, supports Shadow AI monitoring and access control to data and applications. To address growing demand, the newly launched FortiGuard Inline AI Security Service this week transforms every FortiGate into a real-time AI enforcement point. Second, in data centers and AI factories, we offer FortiAIGate to secure GPU clusters and LLM infrastructure, securing the massive

growth in AI traffic that requires high-performance protection across data centers and hybrid clouds. Third, we extend AI security together with SASE to the endpoint, defining, controlling, and integrating agent identities directly into the access and incident response lifecycle. And fourth, our SOC FortiAgent delivers a highly automated solution to solve the industry's acute skills shortage and tool sprawl by enabling autonomous incident detection and response.

Our SASE Firewall pillar billings grew 31%, and we are the fastest-growing SASE Firewall vendor at scale, growing at nearly double the market growth rate, as shown on slide 5. Our leadership stems from a fundamental architectural advantage as we are the only vendor in the industry to build all the key SASE, firewall, and AI security components into a single and unified operating system, FortiOS. This new SASE Firewall pillar represents a large, high growth area, driving long-term growth. Combined with our differentiated FortiASIC technology and owned global infrastructure, this allows Fortinet to deliver better performance and significantly lower total cost of ownership, as shown on slide 14. We are also the only vendor offering an easily deployable on-premises Sovereign SASE solution alongside cloud SASE, which we believe gives us an addressable market 2 to 3 times larger than cloud-only competitors. To further capitalize on our large installed base, we recently launched FortiLink SASE services. This positions our Forti-AP and Forti-Switches as SASE hardware agents, allowing customers to easily overlay FortiSASE on top of their existing hardware, driving recurring services revenue.

As we look ahead, Fortinet's strong momentum is a result of our vision for the AI era, our platform integration, and a highly disciplined operating model. This combination positions Fortinet exceptionally well to drive strong cash generation, high recurring revenue, and consistent GAAP profitability while executing our shareholder-focused capital allocation strategy.

I would like to thank our employees, customers, partners, and suppliers worldwide for their continued support and hard work. I'll now turn the call over to Christiane.

Christiane Ohlgart, CFO

Thank you, Ken, and good afternoon, everyone. We delivered another exceptional quarter, exceeding the midpoint of our guidance across our key growth and profitability metrics including billings, revenue, operating margin, and earnings per share. Based on our strong momentum, we have raised our 2026 billings and revenue guidance.

Total billings grew 29% to $2.34 billion, reflecting broad-based demand and strong execution across customer segments, industry verticals, geographies, and our integrated and innovative portfolio of solutions, further validating the strength of our platform strategy. AI, SASE and network upgrades and expansions are key growth drivers, as customers prepare for new threat environments. We saw strong demand in large enterprises, with the total value of deals greater than $1 million growing 51%, driven by an outsized contribution from our U.S. large enterprise business. SASE Firewall billings grew 31%, as sustained FortiGate demand was driven by enterprise customers turning to our network security solutions to upgrade their infrastructure for the era of AI, and expand their Fortinet security footprint into operational technology and AI data centers use cases. Our OT billings grew nearly 40%, validating our leadership in protecting mission-critical infrastructure. These achievements highlight our focus on leading growth and innovation and the durable demand drivers as we capture long-term expansion opportunities across emerging, high-value use cases.

Billings from AI-driven Security Operations grew 15%, driven by strong upsell momentum as our installed base increasingly consolidates point solutions onto our broader platform.

Turning to revenue, total revenue grew 20% to $2.08 billion, with product revenue increasing 37% to $765 million, even though we saw increasing lead times for certain components. Strong product demand persisted throughout the quarter. As in the prior quarter our product revenue benefitted from customers shifting towards higher-performing models lifting ASPs.

Service revenue grew 13% to $1.31 billion and faced some headwinds from winning new large enterprise customers with ramped service activations, and large new expansion deals that also consolidated various existing service arrangements into Enterprise Agreements. We continue to believe the first quarter of 2026 marked the trough for our services revenue growth rate. As shown on slide 19, we have key leading indicators supporting a continued positive trajectory, specifically:

- Robust 26% service billings growth,
- 19% total deferred revenue growth, and
- a 14.5% increase in short-term deferred revenue, which represents our highest growth rate in five quarters.

In addition, we continue to roll out new AI security services including the FortiGuard Inline AI Security Service announced this week.

To put our overall performance in perspective, our sustained growth is being propelled by several fundamental shifts in how enterprises approach cybersecurity. We are witnessing a transformed threat landscape where bad actors aggressively use artificial intelligence to orchestrate rapid, highly targeted attacks. This shift has elevated security from a back-office IT concern to a board-level enterprise risk management priority, accelerating investments.

Our third quarter results highlight our continued momentum and how our portfolio evolves with accelerated market shifts. Specifically, we are winning because of the convergence of networking and security, the urgent push to safeguard AI use and get ahead of increased threats enabled by AI, the merging of IT and OT domains, and the rising global demand for sovereign, compliant architectures. Sovereignty is especially prominent throughout European enterprises, and the global public sector, matching our long-standing market leadership in those markets.

In this environment, as enterprises scale their AI projects and experience the increased threat environment, they face the massive challenge of safeguarding proprietary datasets. This transition requires high capacity security architectures

that can inspect vast amounts of data accelerating traffic flows without degrading performance. Rather than deploying disconnected point products that add friction, IT and security teams are actively looking for integrated platforms that offer centralized visibility and accelerated automated responses. Fortinet is strongly positioned to capture this demand by securing the physical AI data center, protecting distributed AI applications, and embedding AI directly into our security operations.

For example, an AI company developing frontier models selected Fortinet for a 7-figure expansion to secure its rapidly growing AI workloads. This strategic win builds on the successful deployment of the customer's first AI data center last year. Driven by that initial success, a deep trusted relationship, and the strength of our technology, the customer has standardized on Fortinet, deploying our high-end data center firewalls across five additional data centers. Our solution addresses the challenge of protecting high-value AI workloads while maintaining maximum performance, availability, and scalability as their infrastructure expands. This deal exemplifies the leading throughput and resilience of our platform, positioning Fortinet as a foundational security partner for the world's most demanding, next-generation AI environments.

This fast-changing threat environment has turned high-performance security into a structural necessity. Because enterprises and governments are highly aware of AI-powered attack vectors and expanding regulatory oversight, they are directing investments toward SASE Firewalls that can defend complex, decentralized environments.

To address these distinct operational and regulatory environments, Fortinet provides significant flexibility. By natively converging firewall, SASE, and hybrid mesh capabilities into a single OS, we deliver a seamless way to protect people, customers, applications, and sensitive assets across physical sites, cloud environments, and remote teams. This flexible deployment model is a significant competitive advantage, allowing customers to build a SASE posture that matches their specific enterprise risks and regulatory requirements.

Turning to operational technology, safeguarding the edge and industrial networks has become one of the most urgent issues discussed at board levels of our customers today. Security boundaries have blurred, exposing critical supply chains, utility grids, and manufacturing systems to unprecedented risk. Manufacturing has been the single most targeted sector for five consecutive years. Combined with escalating attacks on regional critical infrastructure, it is clear that historically underfunded OT environments are highly vulnerable. To mitigate this, organizations are rushing to segment their networks, shield unpatchable legacy machinery, and establish secure remote access. With AI now arming attackers, these security decisions are being fast-tracked directly by corporate boards and leaders.

Fortinet's FortiOS platform enhanced by FortiGuard security subscriptions gives enterprises complete, unified visibility over both their corporate IT and OT domains and a way to control the new attack surfaces AI creates. This architectural advantage is driving sustained demand across our specialized industrial portfolio.

To illustrate, a large transportation company selected Fortinet in an 8-figure competitive win to secure its mission-critical OT infrastructure. The win was driven by the customer's need to modernize and secure its distributed environments through Fortinet's converged networking and security capabilities. By consolidating firewall, secure routing, 5G connectivity, and deep OT inspection into a single platform on one unified appliance, the customer is simplifying its overall network design while significantly improving operational resilience. This significant deployment highlights our leading ability to protect highly specialized, demanding OT environments while delivering an optimized total cost of ownership and streamlined operational efficiency.

Further proving our architectural advantage at the edge, a large U.S. retailer selected Fortinet in an 8-figure deal to standardize and secure its footprint for 1,500 store locations. The strategic win was driven by the customer's need to enhance network performance and digital resilience, while wanting to offer an improved in-store customer experience. To support its distributed operations, the

retailer required a simplified network design and architectural standardization that allowed them to scale seamlessly while dramatically reducing overall costs. Fortinet's ability to deliver a comprehensive, unified security fabric managed centrally via FortiManager proved to be a key differentiator. The successful competitive win of this large roll-out demonstrates the invaluable role of Fortinet's highly trained and specialized partner network, whose deep technical expertise is essential in deploying complex, enterprise-grade solutions.

Our exceptional quarter highlights our relentless focus on the dynamic market themes shaping the cybersecurity industry. We believe Fortinet's integrated platform approach positions us well to capture share, deliver sustained growth, and maximize long-term shareholder value.

Turning to margins and cash flow.

Non-GAAP and GAAP gross margins were 79.6%, and 79.0%, respectively, and were impacted by the continuously high contribution of product demand.

Non-GAAP operating margin of 38.2% was a third quarter record, up 130 basis points. This performance exceeded the high-end of our guidance, driven by stronger than expected revenue growth and disciplined cost management. Moreover, our GAAP operating margin of 33.9% continues to be one of the highest in the industry.

This strong operating performance translated to the bottom line. Non-GAAP earnings per share increased 23% to $0.91, while GAAP earnings per share grew 39% to $0.86, outpacing our top-line growth, reflecting high quality earnings, supported by our long-term focus on total shareholder returns.

Free cash flow grew 52% to $865 million in the third quarter and 74% year-to-date to $2.84 billion, driven by higher billings, and operating margin strength. Adjusted Free Cash Flow was $912 million, representing an exceptional margin of 44%.

Our excellent execution and consistent cash generation continue to support our strong financial position. Reflecting the strength of our balance sheet and our

ongoing commitment to delivering long-term shareholder value, our board of directors approved an approximately $1.2 billion increase to our authorized stock repurchase program. This brings our remaining share repurchase authorization to $2.0 billion, giving us flexibility to continue returning capital to our shareholders while investing in our key growth pillars.

Now moving on to guidance.

As a reminder, our fourth quarter and full year outlooks, which are summarized on slides 24 and 25, are subject to the disclaimers regarding forward-looking information that was provided at the beginning of the call.

Consistent with our disciplined and prudent approach to guidance, our strong performance through the first nine months supports a higher full year outlook. We are raising our full year guidance for billings and revenue as well as operating margin and earnings per share.

For the fourth quarter, we expect the following:

- Billings in the range of $2.775 billion to $2.925 billion, which at the midpoint represents growth of 20%,
- Revenue in the range of $2.155 billion to $2.245 billion, which at the midpoint represents growth of 15%,
- Non-GAAP gross margin of 78% to 80%,
- Non-GAAP operating margin of 35.5% to 37.5%,
- Non-GAAP earnings per share of $0.93 to $0.95, which assumes a share count between 741 and 745 million,
- Infrastructure investments of $180 to $210 million,
- A non-GAAP tax rate of 18%, and
- Cash taxes of $80 to $130 million.

For the full year, we expect:

- Billings in the range of $9.568 billion to $9.718 billion, which at the midpoint represents growth of 28%,
- Revenue in the range of $8.125 billion to $8.215 billion, which at the midpoint represents growth of 20%.
- Service revenue in the range of $5.15 billion to $5.17 billion, which at the midpoint represents growth of 13%.
- Non-GAAP gross margin of 79.7% to 80.3%,
- Non-GAAP operating margin of 36.5% to 37.5%,
- Non-GAAP earnings per share of $3.54 to $3.58, which assumes a share count of between 741 and 743 million,
- Infrastructure investments of $390 to $420 million,
- Non-GAAP tax rate of 18%, and
- Cash taxes of $400 million to $450 million.

Our current 2026 fiscal year guidance represents an increase for billings and revenue guidance by $1.14 billion and $570 million, respectively, compared to our initial 2026 guide in February.

As we look ahead to 2027, we expect our total billings and revenue growth to outpace the growth of our overall addressable market. Our 2027 services revenue is expected to grow at a higher rate compared to 2026 as we consider short term deferred revenue growth as a good indicator for future service revenue growth. In addition, we see continued pipeline building for SASE Firewall use cases and expect that the new FortiGuard services will be highly relevant for existing and new customers.

I’ll now hand the call back over to Anthony to begin the Q&A session.

Closing Remarks: Anthony Luscri, VP, Investor Relations

Thank you. I'd like to thank everyone for joining today's call.

We will be attending investor conferences hosted by BMO, UBS, and Barclays during the fourth quarter. The fireside chat webcast links will be posted on the Events and Presentations section of our investor relations website.

If you have any follow-up questions, please feel free to contact me.

Have a great rest of your day!