Fortinet Q3 2025 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 2025 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 2025 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 to everyone for joining our call.

We are pleased with our excellent third quarter performance driven by strong execution and broad-based demand across organizations of all sizes as we grew faster than the market in all three pillars of our business, as shown on slide 4.

Billings and revenue both grew by 14%, with a record third quarter operating margin of 37%.

Unified SASE billings grew 19%, driven by FortiSASE billings growth of over 100%, making us one of the fastest-growing SASE leaders at scale. Our strong growth is driven by our key differentiated advantages. Fortinet is the only vendor to natively integrate Next-Gen Firewall, SD-WAN, and SASE on a single operating system, FortiOS, with the flexibility to run both on-premises or in the cloud. This single OS integration allows customers to expand from our leading Next-Gen Firewall and SD-WAN to SASE in minutes, providing a significant upsell opportunity within our large customer base. Our solutions also enable Sovereign SASE for service providers and large enterprises to deploy FortiSASE within their own data center for data privacy. Plus, Fortinet's investment in its owned global cloud infrastructure, FortiCloud, delivers long-term security, performance and cost benefits, reducing total cost of ownership to roughly one-third that of our peers.

These key advantages have led to our recognition as a Leader in the 2025 Gartner Magic Quadrant for SASE Platforms, as shown on slide 6. Our strong leadership position is reflected in customer adoption with 15% of our large enterprise customers now using FortiSASE, representing over 55% growth, as shown on slide 10. Based on this momentum, we are confident in our ability to become the #1 SASE market leader in the next few years..

In Secure Networking, billings grew 10%, outperforming the overall secure networking market as we continue to gain market share. Fortinet is the #1 leader in firewall with a unit market share of over 50%, and has the highest product revenue amongst our cybersecurity peers.

Fortinet's leadership in firewalls is enabled by FortiOS that unifies networking and security, and is accelerated by our FortiASIC with huge secure computing power, which enable more functions and delivers 5x to 10x better performance than our competitors, while lowering total cost of ownership and energy consumption. This security and performance advantage was further validated by Gartner as Fortinet was recognized as a leader in the inaugural Magic Quadrant for Hybrid Mesh Firewall, where we ranked highest in ability to execute.

Building on this foundation, we recently launched the Secure AI Data Center solution, specifically designed for AI workloads, where we leverage our ASIC advantage, helping Fortinet capture a massive growth opportunity as customers scale AI globally.

AI-driven SecureOps was the fastest growing pillar in the third quarter with billings growth of 33%. Fortinet's industry leading AI patent portfolio of more than 500 issued and pending AI patents, powering over 20 AI-driven solutions, as shown on slide 12, offers the broadest and most integrated AI-driven security operations portfolio in the industry.

Fortinet's security leadership also extends to operational technology and cyber-physical systems security, where our solutions provide deep visibility, advanced threat protection, and secure connectivity. Operational technology and critical infrastructure solutions are another significant growth driver for Fortinet with over 30% billings growth.

Lastly, as a result of our strong growth opportunities that lie ahead, we remain confident that we will continue to meet the 'Rule of 45' and continue to gain market share and outperform the overall market growth in 2025, 2026, and beyond, consistent with our mid-term targets provided at last year's Analyst Day.

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.

As Ken mentioned, Fortinet's growth and momentum remain strong, and we are very pleased with our third-quarter performance, solid operational execution and healthy, broad-based demand for our solutions.

Total billings grew by 14% to $1.81 billion, driven by:

- 19% growth in Unified SASE,
- 33% growth in SecOps,
- continued growth in sales to large enterprises, and
- robust performance in OT and critical infrastructure.

Unified SASE and SecOps now account for 26% and 11% of total billings, respectively, up a combined 3 points. And FortiSASE delivered exceptional results with billings growth of over 100%, which positions Fortinet as a leader in the SASE space.

Furthermore, SASE adoption momentum has remained strong as 15% of our large enterprise customers have purchased FortiSASE, an increase of over 55%, highlighting our continued expansion of FortiSASE in our customer base.

As I mentioned earlier, continued momentum in large enterprise contributed to growth in the third quarter, as the number of deals greater than $1 million increased by 26%, while their total dollar value grew by over 30%. As in prior quarters operational technology use cases contributed to our success with billings growth of over 30% and broad-based demand for both our hardware and software solutions.

In addition, we continued to expand our customer base – approximately 6,600 new organizations chose our unified, single FortiOS platform to power their cybersecurity strategy, which exemplifies our continued strong position in all segments of the market.

With regards to ARR, Unified SASE increased by 13% to $1.22 billion and SecOps increased by 25% to $472 million.

Total revenue grew by 14% to $1.72 billion, led by EMEA, followed by APAC and the Americas.

Product revenue increased by 18% to $559 million, benefiting from strong performance in multi-product deals across a variety of use cases and OT security, as we continue to gain market share.

FortiGate firewalls, networking equipment, and software all delivered strong double-digit growth, with software license revenue up 20% and representing a mid-to-high-teens percentage of total product revenue.

Hardware revenue growth was broad-based, which included growth from ongoing technology upgrades, expansion across products along our various customer journeys, and expansion into new use cases.

The 2026 end-of-support cohort was not a significant driver of product revenue growth in the third quarter.

Service revenue grew by 13% to $1.17 billion. We see our improved product revenue growth and customer expansions in 2025 as leading indicators for improving service growth expected for the second half of 2026.

Now, I'd like to highlight some key deals that demonstrate our market leadership and variety of use cases that our products are supporting…

In a competitive win, a global Fortune 150 e-commerce company operating a worldwide logistics and fulfillment network expanded its investment in Fortinet with a new AI data center project. Already leveraging Fortinet firewalls across their data centers and hundreds of warehouses, the customer selected Fortinet to secure and optimize their new AI workloads requiring extreme throughput and reliability. They chose Fortinet for our ASIC-based FortiGate architecture, which delivers high performance, low latency, and lower power consumption, as well as advanced security that protects AI data flows and models without compromising speed. The customer is achieving improved workload control, lower operating costs, and is now looking to further expand their data center footprint with Fortinet. This customer win highlights the energy consumption advantages of our proprietary ASIC, which has become even more important to our customers in a new era of AI data centers.

Next, in an 8-figure deal, a large city police force purchased Fortinet SD-WAN, SD-Branch, and Sovereign SASE, displacing multiple vendors including their previous SASE provider. The customer's Sovereign SASE deployment ensures compliance with local data governance requirements, gives full control of critical assets, and resolves performance issues experienced with their prior provider. The police force chose Fortinet for its flexible and consistent security enforcement and single operating system. This enables secure access to both on-premises and cloud applications while supporting a network transformation project that will enhance public safety and trust.

In a competitive new customer win, an operational technology organization purchased more than 10 Fortinet solutions across all three pillars, consolidating multiple security functions onto our single FortiOS operating system. The customer selected Fortinet for our unified Security Fabric platform, which simplifies operations due to a significant reduction of required integrations, improves visibility, and lowers total cost of ownership. With centralized management and streamlined operations, they now have the agility and scalability to grow securely and enable their digital transformation.

Lastly, a retail organization who has been a long-time Fortinet customer, upgraded their FortiGates across more than 10,000 retail locations. They continue to choose Fortinet for our stable performance, consolidated FortiOS operating system, and highly automated operations, building on a trusted relationship strengthened by their use of several other Fortinet solutions and our price and performance advantages. The customer is now expanding their Fortinet footprint by exploring adoption of our ZTNA solution to further enhance security and operational efficiency.

Turning to margins and cash flow….

Total gross margin of 81.6% was better than expected, driven by strong execution and cost control.

Operating margin of 36.9% reached a third quarter *record* and was up 80 basis points. The increase was primarily due to operational efficiencies and strong cost management.

Free cash flow was very strong at $568 million and Adjusted Free Cash Flow was $646 million, up $41 million, and represented a margin of 37%.

On a year-to-date basis, Free Cash Flow reached $1.63 billion, up $135 million, notwithstanding continued investments in data center infrastructure and increased inventory purchases to meet customer demand.

Infrastructure investments were $88 million, up $51 million, as we continue to build out our infrastructure footprint.

We repurchased 23.3 million shares of our common stock for an aggregate purchase price of $1.83 billion in the third quarter, which reduced our total share count by approximately 3%. In August, our board of directors approved a $1.0 billion increase in the authorized stock repurchase amount and the remaining share buyback authorization as of today is $796 million.

Now moving onto guidance…

As a reminder, our fourth quarter and full year outlooks, which are summarized on slides 20 and 21, are subject to the disclaimers regarding forward-looking information that Anthony provided at the beginning of the call.

For the fourth quarter, we expect:

- Billings in the range of $2.185 billion to $2.285 billion, which at the midpoint represents growth of 12%,
- Revenue in the range of $1.825 billion to $1.885 billion, which at the midpoint represents growth of 12%,
- Non-GAAP gross margin of 79.0% to 80.0%,
- Non-GAAP operating margin of 34.5% to 35.5%,
- Non-GAAP earnings per share of $0.73 to $0.75, which assumes a share count between 751 and 755 million,
- Infrastructure investments of $60 to $110 million,
- A non-GAAP tax rate of 18%, and
- Cash taxes of $66 to $116 million.

For the full year, we continue to remain on track to achieve the 'Rule of 45' for the 6th consecutive year, and expect:

- Billings in the range of $7.37 billion to $7.47 billion, which at the midpoint represents growth of 14%,
- Revenue in the range of $6.72 billion to $6.78 billion, which at the midpoint represents growth of 13%,
- Service revenue in the range of $4.575 billion to $4.595 billion, which at the midpoint represents growth of 13%,
- Non-GAAP gross margin of 80.25% to 80.75%,

- Non-GAAP operating margin of 34.5% to 35.0%,
- Non-GAAP earnings per share of $2.66 to $2.70, which assumes a share count of between 764 and 768 million,
- Infrastructure investments of $380 to $430 million,
- Non-GAAP tax rate of 18%, and
- Cash taxes of between $400 million and $450 million.

Looking ahead to the next few years, consistent with the framework that we provided at our Analyst Day last year, we remain confident that we will continue to meet the 'Rule of 45' and expect to grow faster than the market in all three of our pillars.

Our confidence is supported by both secular and company specific tailwinds. We expect continued strong growth in the demand for our products, driven by increased investments in cybersecurity spend from our customers, the convergence of networking and security, and vendor consolidation. We expect to continue to outperform the overall market growth due to continued organic innovation and leadership in price performance, which drives a lower total cost of ownership in Network Security including operational technology, as well as Unified SASE and SecOps.

We plan to continue to invest in our go-to-market, including our cloud delivery infrastructure, strategic partner relationships, and increased sales capacity.

Finally, the rise of AI is expected to further increase demand for our solutions due to the need to secure LLMs and data movement, and we remain committed to continued investments in innovation and the ongoing development of our product portfolio.

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 Wells Fargo, UBS, Nasdaq, 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!