



Fortinet Q1 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 first 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 first quarter of 2026 before providing guidance for the second 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 very pleased with our excellent first quarter results, exceeding our guidance through strong execution and broad-based demand. As a result, billings grew 31%, total revenue increased 20%, and product revenue grew 41%. Non-GAAP and GAAP operating margin were very strong at 36% and 31%, with GAAP operating margin and revenue growth together totaling 51%, one of the highest in the industry. We also generated a record \$1 billion of free cash flow, highlighting the strength and durability of our business model. GAAP EPS increased 29%, demonstrating our commitment to strong shareholder returns.

The convergence of networking and security, an approach Fortinet has led for 26 years, is accelerating in the AI era. Customers are adopting Fortinet's platform with Secure Networking, Unified SASE, and Secure Operations built on a single FortiOS operating system, enabling expansion across many use cases. By delivering all core SASE capabilities natively integrated in one operating system, our SASE Firewall significantly reduces complexity for customers. Innovations such as FortiOS 8.0, with its rich integrated functionality; our FortiASIC technology, which delivers higher secure computing performance at significantly lower cost; and our direct supply chain management continue to differentiate Fortinet and support market share gains, as AI drives strong demand for SASE firewalls.

Secure Networking billings grew 32%, outperforming the broader market. Today, we announced the FortiGate 3500G and 400G, delivering significant performance improvements over previous generations, further strengthening Fortinet's leadership. OT Security accelerated in the quarter with OT billings growth of over 70%, as customers prioritized protecting critical infrastructure amid heightened threats.

Unified SASE billings grew 31%. Our differentiation is powered by three key advantages: single operating system across Next-Gen firewall, SD-WAN, and SASE; our owned global cloud infrastructure delivering better security and performance at roughly one-third the total cost of ownership of peers; and our much larger total addressable market, especially in sovereign and private SASE which allows customers to deploy SASE in their own environments to meet data sovereignty and regulatory requirements.

Beyond secure networking and SASE, AI is rapidly expanding the opportunity in security operations, as AI-driven Security Operations billings grew 23%, supported by more than 20 AI-enabled solutions on our platform, as customers consolidate vendors and simplify operations.

Finally, given our strong results and confidence in the business, we are raising our 2026 guidance. We continue to expect balanced growth, strong cash generation, recurring revenues, and a shareholder-focused, long term growth capital allocation strategy, while consistently delivering GAAP profitability since IPO. As AI increases the demand for security, our platform approach continues to differentiate, supported by a strong direct operating model that enables us to turn supply chain challenges into opportunities to gain market share.

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 noted, we delivered a strong first quarter, exceeding the high-end of our guidance across billings, total revenue, operating margin, and earnings per share. The success reflects broad-based demand and strong execution across customer types, industry verticals, our geo's and all three pillars.

Total billings grew 31% to \$2.09 billion, driven by broad strength across Secure Networking and Unified SASE. Our large enterprise segment was particularly strong.

Secure Networking billings grew 32%, driven by robust FortiGate demand as customers expanded protection across operational technology environments, contributing to OT billings growth of over 70%.

Unified SASE adoption continued to build during the quarter, with billings growing 31%, driven by strength in SD-WAN and FortiSASE. FortiSASE expansion within our customer base also remained strong, with 18% of our large enterprise customers now having purchased FortiSASE, an increase of over 45%. AI-driven Security Operations billings grew 23%, highlighting our continued platform expansion within our installed base.

Turning to revenue, total revenue grew 20% to \$1.85 billion, with product revenue increasing 41% to \$645 million as customers shifted toward higher performance products. This included a number of AI-related deployments, where customers invested in FortiGates to support increased throughput, segmentation, and security requirements across AI infrastructure. Technology upgrades, upselling, and expansion into new use cases drove strong growth in both hardware and software. We again benefitted from our strong supply chain execution. Recent pricing changes had a low single digit impact on product revenue growth.

Service revenue grew 11% to \$1.21 billion, while service billings growth reaccelerated to 27% and deferred revenue increased 15%, driven in part by

SecOps ARR growth. We view service billings growth, deferred revenue, and SecOps ARR growth—together with accelerating product revenue—as leading indicators of future services revenue.

Stepping back, these results reflect both strong execution in the quarter and durable demand drivers that continue to shape customer priorities as customers invest in and upgrade their network security solutions to defend against sophisticated attacks that are growing in both speed and complexity due to the availability of AI tools. AI is expanding the attack surface and increasing performance requirements, which is driving higher and more durable security spend across networking, SASE, and security operations. Our strong product revenue and service billings trends, and outlook continue to be driven by key tailwinds, including: the ongoing convergence of security and networking; rising customer investments and demand to secure AI infrastructure as traffic, segmentation, and performance requirements increase; and accelerating IT and OT convergence as customers recognize growing exposure across critical infrastructure.

These drivers translated into strong demand this quarter, particularly in large enterprises, where both the number of deals greater than \$1 million and total deal value grew over 60%. We saw strong growth in both Europe and the U.S.

Looking ahead, we can see these dynamics reinforced by durable tailwinds that support continued platform adoption over time. Tailwinds include vendor consolidation, ongoing technology upgrade cycles, and the continued expansion of enterprise attack surfaces across cloud, OT, and AI environments. In OT specifically, we are seeing strong demand driven by heightened ransomware and nation-state activity alongside rapid digitalization, as organizations seek to deploy AI. These same dynamics are extending into SASE, where customers increasingly require flexibility to meet data privacy, sovereignty, and regulatory requirements. We support both cloud-based SASE and Sovereign SASE, enabling enterprises and service providers to deploy SASE within their own data centers when required. Demand for our Sovereign SASE continues to be strong, and no major SASE competitor currently offers a comparable solution.

Rising cyber risk, heightened regulatory scrutiny, growing data sovereignty requirements while dealing with economic pressures are further accelerating customers to adopt platform-based approaches. At the same time, rapid AI adoption and increased geopolitical uncertainty are expanding the cybersecurity TAM, as organizations prioritize resilience, sovereignty, and consistent protection across increasingly complex and distributed global infrastructures.

Importantly, these trends align with the reasons our platform approach continues to resonate. Fortinet's platform approach is differentiated because Secure Networking, Unified SASE, and AI-Driven Security Operations are all built on a single operating system, FortiOS. This unified architecture enables customers to deploy security consistently across private, public, and hybrid multi-cloud environments, as well as across hardware, software, and SaaS form factors, while supporting seamless expansion across use cases. As AI rapidly expands the attack surface, customers are prioritizing integrated platforms that share telemetry and reduce operational complexity, accelerating vendor consolidation. Against this backdrop, our strong network security foundation remains a core differentiator, driving adoption of SD-WAN, SASE, and Security Operations and supporting continued wallet share expansion as customers simplify architectures and consolidate vendors. This contributed to growth of 28% in Unified SASE and SecOps combined, with momentum continuing across our more services-rich pillars. We are also introducing a new SD-WAN and SASE services bundle designed to broaden adoption and further support services revenue over time.

We also benefit from durable competitive advantages, particularly as performance requirements increase. Our proprietary ASIC technology and integrated operating system deliver superior performance and lower total cost of ownership, which is increasingly important in high throughput environments and as customers scale AI-driven traffic inspection.

Finally, customer demand remained broad-based across segments, demonstrating the durability of our platform strategy, with over 6,600 new organizations selecting

our FortiOS platform during the quarter, reinforcing the breadth of demand across SMB, mid-market, and enterprise customers.

Overall, these results reflect consistent demand drivers and durable long term trends. As the market continues to evolve toward platform based security architectures, we believe Fortinet remains well positioned to take share and deliver sustained growth and long term shareholder value.

Now, I'd like to highlight some key 7-figure deals that demonstrate our market leadership and customer expansion.

First, a cloud infrastructure provider focused on GPU compute for AI workloads selected Fortinet to secure a new AI datacenter as part of its continued expansion. The customer chose our FortiGates to deliver high-performance perimeter protection, segmentation, and secure connectivity for a new production environment. The win was driven by Fortinet's ability to provide scalable, high-throughput security aligned with the customer's standardized architecture, enabling rapid deployment of new capacity as demand for accelerated compute continues to grow.

In another AI-related deal, Fortinet was selected for the initial phase of an AI data center project in the Middle East for a leading generative AI company. This win positions Fortinet as a key security partner for next-generation AI data center infrastructure, which demands significant scale, performance, and architectural flexibility. The customer selected Fortinet for the strength of our security architecture to address the complexity of securing high-performance AI environments. This deployment also reinforces the importance of standardizing Fortinet security solutions to enable consistent, scalable, and efficient protection as AI data center deployments continue to expand.

Next, a multinational energy company selected Fortinet to standardize and secure its network through the deployment of our full SD-Branch solution across more than 3,000 locations, alongside OT security for an additional 300 global sites. The win reflects strong customer confidence in our ability to support large-scale,

distributed infrastructure environments with a unified approach to networking and security. By consolidating networking and security onto a single platform, the customer simplified operations while improving resilience and highlights Fortinet's ability to scale securely within complex, mission-critical infrastructure environments. The customer is also exploring an expansion into FortiSASE, highlighting the opportunity to further extend secure access capabilities across the enterprise.

Lastly, a global manufacturer selected our FortiSASE solution to secure approximately 40,000 users as part of a strategic initiative to modernize its remote access environment. The win was driven by our lower total cost of ownership and commitment to ongoing feature development, positioning us ahead of the competition. The customer chose FortiSASE for its unified FortiOS platform, which provides a single security policy across FortiSASE and FortiGates with globally distributed PoPs for simpler, consistent protection across on-premises and cloud environments, enabling them to build a scalable security architecture.

Turning to margins and cash flow.

Non-GAAP gross margin of 81.0% was better than expected, which is impressive given the strong product revenue growth of 41% and the related mix shift towards product. Our GAAP gross margin was also strong at 80.3%.

Non-GAAP operating margin of 35.8% was a first quarter record, up 160 basis points, and exceeded the high-end of the guidance range mainly due to better than expected revenue growth and continued cost management. Our GAAP operating margin of 31.4% continues to be one of the highest in the industry.

Non-GAAP earnings per share increased 41% to \$0.82, while GAAP earnings per share grew 29% to \$0.72, significantly outpacing our top-line growth, reflecting high quality earnings, supported by disciplined stock-based compensation and continued return of capital over the past year.

Free cash flow was a record at \$1.01 billion, and Adjusted Free Cash Flow was \$1.07 billion, up 27%, and represented a margin of 58%.

We repurchased 10.6 million shares of common stock for \$827 million during the first quarter and an additional 1.9 million shares for \$146 million quarter to date. The remaining share repurchase authorization as of today is approximately \$766 million.

Now moving on to guidance.

As a reminder, our second quarter and full year outlooks, which are summarized on slides 30 and 31, are subject to the disclaimers regarding forward-looking information that Anthony provided at the beginning of the call.

Consistent with our disciplined and prudent approach to guidance, our strong first quarter execution supports a higher second quarter and full year outlook. We are raising our full year guidance across all top-line metrics, including billings, revenue, and service revenue, while managing the second half of the year on a quarter by quarter basis.

For the second quarter, we expect:

- Billings in the range of \$2.090 billion to \$2.190 billion, which at the midpoint represents growth of 20%,
- Revenue in the range of \$1.830 billion to \$1.930 billion, which at the midpoint represents growth of 15%,
- Non-GAAP gross margin of 79.5% to 80.5%,
- Non-GAAP operating margin of 33.0% to 35.0%,
- Non-GAAP earnings per share of \$0.72 to \$0.76, which assumes a share count between 736 and 740 million,
- Infrastructure investments of \$50 to \$100 million,
- A non-GAAP tax rate of 18%, and

- Cash taxes of \$160 to \$180 million.

For the full year, we expect:

- Billings in the range of \$8.800 billion to \$9.100 billion, which at the midpoint represents growth of 18%,
- Revenue in the range of \$7.710 billion to \$7.870 billion, which at the midpoint represents growth of 15%.
- Service revenue in the range of \$5.090 billion to \$5.150 billion, which at the midpoint represents growth of 12%. We continue to expect services revenue growth to pick up in the second half of the year, driven by accelerating product revenue growth, a key leading indicator.
- Non-GAAP gross margin of 79.0% to 81.0%,
- Non-GAAP operating margin of 33.0% to 36.0%,
- Non-GAAP earnings per share of \$3.10 to \$3.16, which assumes a share count of between 743 and 749 million,
- Infrastructure investments of \$350 to \$550 million,
- Non-GAAP tax rate of 18%, and
- Cash taxes of \$400 million to \$450 million.

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 J.P. Morgan and Bank of America during the second 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!