



Fortinet Q4 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 fourth quarter and full year 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 fourth quarter and full year of 2025 before providing guidance for the first quarter and full year of 2026. 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 fourth quarter growth, driven by broad-based demand across our platform as billings increased 18% and revenue grew 15%, driven by product revenue growth of 20%. Operating margins were strong at 37%, reflecting our continued focus on balancing growth and profitability.

Secure Networking billings grew 13%, outperforming the overall secure networking market as we continued to gain market share. Fortinet remains the #1 firewall leader, with 55% unit market share and the highest product revenue among our cybersecurity peers. Fortinet has led the convergence of networking and security for over 25 years, and secure networking is expected to surpass traditional networking by the end of this year.

Our firewall leadership is driven by FortiOS, which unifies networking and security, and our FortiASIC technology, delivering 5 to 10x better performance than competitors while lowering total cost of ownership and energy consumption, which provide a large advantage at securing AI data centers. We will introduce FortiOS 8.0 at Fortinet's annual customer and partner conference, Accelerate, in March, featuring significant new capabilities in security and networking, especially in AI security such as agentic AI security in the enterprise, plus a new bundled SD-WAN and SASE service. We also recently partnered with NVIDIA to leverage their BlueField-3 DPU to secure AI infrastructure.

Unified SASE billings grew 40%, representing 27% of total billings, supporting our belief that Fortinet is the fastest growing SASE leader at scale. Our momentum is powered by three key advantages. First, Fortinet uniquely integrates Next-Gen Firewall, SD-WAN, and SASE on a single OS, FortiOS, running on-premises or in the cloud, allowing customers to expand to SASE in minutes and driving upsell across our large customer base. Second, we support both Sovereign SASE and public SASE. Sovereign SASE enables enterprises and service providers to deploy SASE in their own data centers to meet data privacy, sovereignty, and compliance requirements. We are seeing strong demand in Sovereign SASE and none of our major SASE competitors offer a Sovereign SASE solution, making Fortinet's total Unified SASE addressable market significantly greater than our peers. Third, our owned and long-term invested global cloud infrastructure, FortiCloud, delivers high performance and security at roughly one-third the total cost of ownership of our peers. These differentiators position Fortinet as a Leader in the 2025 Gartner Magic Quadrant for SASE Platforms as we continue to be a leader in SD-WAN and believe we will be #1 in Unified SASE within the next few years.

AI-driven SecureOps billings grew 6% in the fourth quarter and 22% for the full year, while ARR was up 21%. Our strong performance was driven by more than 20 AI-powered solutions as customers consolidate multiple security vendors onto Fortinet's platform.

In addition, Fortinet's leadership in security also extends to operational technology and cyber-physical systems, offering enhanced visibility, robust threat protection, and secure connectivity. Demand for OT solutions is driving significant growth, with billings up more than 25%.

Finally, we reaffirm the mid-term targets shared at our Analyst Day, reinforcing our commitment to continue growing faster than the overall market, including delivering billings and revenue CAGR above the market growth of 12% and achieving the "Rule of 45". 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, we are very pleased with our strong fourth quarter performance, exceeding the high-end of guidance across billings, total revenue, and operating margins. This outperformance reflects solid global execution and broad-based demand for our solutions, with product revenue growth accelerating in the second half of the year.

We are well positioned to deliver durable, long-term growth as a leader in large and rapidly expanding cybersecurity markets, including Secure Networking, Unified SASE, and Security Operations. This opportunity is supported by strong secular tailwinds such as vendor consolidation, the convergence of security and networking, ongoing technology upgrades, and the expansion of enterprise attack surfaces across cloud, OT, and AI. Our strong network security foundation drives adoption of SD-WAN, SASE, and SecOps while creating significant opportunities to upsell integrated solutions across enterprise customers.

Building on these market dynamics, our leadership in secure networking, combined with our unified FortiOS operating system and broad platform, enables customers to deploy security anywhere across private, public, and hybrid multi-cloud environments, and in any form factor including hardware, software, and SaaS. As a result, our platform approach drives strong customer expansion, increases wallet share, and supports growth across both existing and new markets.

In addition, we benefit from durable competitive advantages through our proprietary ASIC technology and single integrated operating system, which deliver superior performance, lower total cost of ownership, and meaningful differentiation versus peers. At the same time, continued investment in R&D across custom silicon, OS convergence, AI-driven security, Quantum readiness, and Fortinet-owned cloud infrastructure supports rapid innovation and organic growth.

Finally, our highly diversified business across geographies, customer segments, and industry verticals reduces volatility and enhances resilience across economic cycles. Complementing this diversification, we operate a strong and balanced model with a 'Rule of 45+' profile, robust recurring revenues, strong free cash flow generation, a solid balance sheet, and a disciplined, shareholder-focused capital allocation strategy. This balanced model supports our confidence in our 2026 guidance and continued long-term shareholder value creation.

Now, moving to an overview of our strong fourth quarter results...

Total billings grew by 18% to \$2.37 billion, driven by strong growth in Unified SASE, OT security, and success in large enterprises in the U.S. and Europe.

Unified SASE billings grew 40%, driven by growth in cloud security solutions.

Furthermore, SASE adoption momentum has remained strong as 16% of our large enterprise customers have purchased FortiSASE, an increase of over 50%, highlighting our continued expansion of FortiSASE in our customer base.

Operational technology use cases continue to contribute strong growth to our success with billings growth of over 25% with broad-based demand for both our hardware and software solutions.

And our continued momentum in large enterprises drove growth in the fourth quarter, as the number of deals greater than \$1 million increased by over 30%, while the total deal value grew by over 40%. The U.S. and Europe were the largest contributors to growth in \$1 million-plus deals, each delivering more than 30% growth.

In addition, we continued to expand our customer base –7,200 new organizations selected our unified FortiOS platform, reinforcing our strong position across all market segments.

With regards to ARR, Unified SASE increased by 11% to \$1.28 billion, which included an increase of over 90% for FortiSASE ARR, while SecOps ARR increased by 21% to \$491 million.

Total revenue grew 15% to \$1.91 billion.

Product revenue increased by over 20% to \$691 million, reflecting broad-based growth driven by strong performance across our product portfolio as we continue to gain market share. Both hardware and software grew 20%, supported by technology upgrades, upselling, and expansion into new use cases.

Service revenue grew 12% to \$1.21 billion, reflecting lower product revenue in 2024, while service billings growth was strong at 18% in Q4. As a reminder, we view product revenue growth as a leading indicator of future service revenue growth, as shown on slide 20 of the earnings presentation.

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

In a competitive 7-figure upsell deal, a large consumer services company, an existing Fortinet SD-WAN customer, selected FortiSASE to secure more than 10,000 users as part of its next-generation access and security transformation. The win was driven by our single OS approach that tightly integrates SD-WAN and SASE, enabling rapid expansion to SASE and delivering strong performance at a meaningfully lower total cost of ownership. The customer chose Fortinet for our unified FortiOS operating system, which reduces complexity by enabling a single, consistent security policy across FortiSASE and FortiGate devices while leveraging our globally distributed PoPs. By integrating our PoPs into their existing SD-WAN fabric, the customer has simplified centralized policy management and enabled secure private access at scale, which highlights our platform model.

Next, a leading global data center provider supporting AI and cloud workloads signed an 8-figure deal with Fortinet to support its rapid global expansion. The customer selected Fortinet for a predictable, scalable investment model that aligns security growth with its accelerated data center build-out. As the company standardizes on our FortiGates, FortiSwitches, and FortiAPs, our solutions will streamline operations across IT and OT environments, including critical power,

cooling, and physical security systems. This strategic partnership enables the customer to scale securely and consistently, supporting its long-term global growth strategy.

In another key win, a major utility company expanded its partnership with us through a high 7-figure agreement to secure its Operational Technology (OT) environment. The deal includes a comprehensive set of solutions covering network segmentation, identity and access management, and zero-day threat detection across the utility's Advanced Distribution Management System (ADMS), along with the adoption of FortiAI. This competitive win was driven by our ability to automate critical security operations, our proven expertise in protecting critical national infrastructure, and a compelling price-for-performance advantage.

Lastly, in a competitive displacement win, a Fortune 100 company signed an 8-figure, multi-year agreement for Unified SASE, selecting our virtual firewall solution to secure approximately 1,800 store locations. The customer chose FortiGate VM through our FortiFlex points-based consumption program, which supports flexible hybrid firewall deployments and a broad set of security solutions. Fortinet was selected after a highly competitive evaluation due to the flexibility of the program and our ability to meet demanding technical requirements at scale, enabling the customer to consolidate security on a single architecture while gaining deployment flexibility, centralized management, and long-term cost efficiency to support future growth.

Turning to margins and cash flow....

Total gross margin of 80.3% was better than expected, which is especially impressive given the strong product revenue growth and related mix shift.

Operating margin of 37.3% exceeded the high-end of the guidance range mainly due to stronger than expected revenue growth and cost management.

Free cash flow was very strong at \$577 million, and Adjusted Free Cash Flow was \$589 million, up \$130 million, and represented a margin of 31%.

We repurchased approximately 730,000 shares of common stock for \$57 million during the fourth quarter and an additional 4.6 million shares for \$356 million quarter to date. In January, our board of directors approved a \$1.0 billion increase in the authorized stock repurchase amount and the remaining share repurchase authorization as of today is approximately \$1.4 billion.

Turning to our full year 2025 results, where we once again exceeded the ‘Rule of 45’ for the 6th consecutive year...

Billings grew 16% to \$7.55 billion. Our faster growing pillars of Unified SASE and SecOps grew a combined 24%, representing a 2 point mix shift year over year and 6 points over the past two years. The two pillars now make up 36% of total billings, reflecting the value of our integrated platform approach and the convergence of security and networking and success in cross selling our other solutions.

Total revenue grew 14% to \$6.80 billion, driven by strong product revenue growth of 16%.

Service revenue grew 13% to \$4.58 billion, representing 67% of total revenue.

Gross margin of 81.3% was flat despite a shift to product revenue and investments in the build-out of our data center infrastructure.

Operating margin increased 50 basis points to a record of 35.5% resulting in operating income of \$2.41 billion, which was up 16%.

Our GAAP operating margin of 30.7% continues to be one of the highest in the industry.

Earnings per share increased 16% to \$2.76.

Free cash flow was a record at \$2.21 billion, representing a margin of 33%, while Adjusted free cash Flow was \$2.50 billion, representing a margin of 37%. Our Adjusted free cash flow CAGR of greater than 20% over the past five years demonstrates the strength of our business model.

Now moving onto guidance...

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

For the first quarter, we expect:

- Billings in the range of \$1.770 billion to \$1.870 billion, which at the midpoint represents growth of 14%,
- Revenue in the range of \$1.700 billion to \$1.760 billion, which at the midpoint represents growth of 12%,
- Non-GAAP gross margin of 80.0% to 81.0%,
- Non-GAAP operating margin of 30.0% to 32.0%,
- Non-GAAP earnings per share of \$0.59 to \$0.63, which assumes a share count between 746 and 750 million,
- Infrastructure investments of \$80 to \$120 million,
- A non-GAAP tax rate of 18%, and
- Cash taxes of \$45 to \$50 million.

For the full year, we expect to achieve the ‘Rule of 45’ for the 7th consecutive year, and expect:

- Billings in the range of \$8.400 billion to \$8.600 billion, which at the midpoint represents growth of 13%,
- Revenue in the range of \$7.500 billion to \$7.700 billion, which at the midpoint represents growth of 12%.
- Service revenue in the range of \$5.050 billion to \$5.150 billion, which at the midpoint represents growth of 11%. We expect services revenue growth to

pick up in the second half of 2026, driven by accelerating product revenue growth in 2025, 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 \$2.94 to \$3.00, which assumes a share count of between 747 and 753 million,
- Infrastructure investments of \$350 to \$450 million,
- Non-GAAP tax rate of 18%, and
- Cash taxes of \$350 million to \$400 million.

Before we open it up for Q&A, I just wanted to share a few modeling considerations.

As a reminder, the majority of our service revenue is recognized ratably on a daily basis, and the first quarter this year has two fewer days than Q4.

From a margin perspective, our first quarter operating margin guidance reflects the timing of several marketing events. Additionally, the recent weakness of the U.S. dollar may create a modest headwind in the first quarter.

And finally, we plan to repay the first tranche in the amount of \$500 million of our senior debt at maturity at the end of the first quarter. This, alongside lower market interest rates will reduce net interest income for the year.

As we look to 2026 and beyond, we are confident in our growth strategy, driven by significant secular tailwinds such as rising cybersecurity spend, the convergence of security and networking, vendor consolidation, and the increasing need to secure AI and OT environments. We believe we can sustain product revenue growth of 10–15% over the mid-term on average and reaffirm the mid-term targets shared at our Analyst Day, including delivering billings and revenue CAGR above 12% and achieving the “Rule of 45,” reinforcing our commitment to continued growth

beyond that of the overall market. Our leadership in innovation and price for performance enables a lower total cost of ownership across Secure Networking, Unified SASE, and SecOps, positioning us to outperform the overall market. We are well positioned to deliver durable, long-term growth considering our highly diversified, cash-generative and profitable business.

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 Bernstein and Morgan Stanley during the first 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!