



Fortinet Q2 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 second 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 second quarter of 2026 before providing guidance for the third 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 second quarter results, driven by our differentiated strategy and innovation, strong execution and broad-based demand. Billings grew 33%, while total revenue increased 26%, propelled by a 52% growth in product revenue. Free Cash Flow more than tripled year-over-year to nearly \$1 billion. Based on this strong momentum, we have raised our 2026 guidance.

With AI quickly reshaping the security landscape, I would like to offer another angle on the network security space and its trends by combining our Secure Networking and Unified SASE pillars, which both run on the same FortiOS, to create what we are calling the 'SASE Firewall.' Similar to how UTM and Next-Gen Firewall replaced traditional NAT-based firewalls 20 years ago, I believe the new SASE Firewall, which addresses the fast-growing areas of SASE, AI, and quantum, represents another massive opportunity for accelerated growth with a much larger total addressable market, as shown on slides 4 – 6 of the investor presentation.

In the second quarter, Fortinet's SASE Firewall business grew 34% to over \$2 billion, cementing our position as a top player in this space. What makes Fortinet's SASE Firewall unique compared to other competitors' SASE and firewall solutions is that we are the only vendor to develop all key components of the SASE firewall in-house and integrated into a single operating system, FortiOS. Furthermore, we have developed our FortiASIC technology and invested in our own global

infrastructure to accelerate performance and lower costs, making adoption and migration seamless for our large, global customer base, as shown on slides 10 and 11.

Another key advantage of Fortinet's SASE Firewall is that we are the only vendor offering an easily deployable on-premises Sovereign SASE solution together with cloud SASE. As we announced yesterday, the new FortiGate 1200G, the next generation of SASE Firewalls that combines local enforcement with cloud-delivered security to meet evolving customer demands for data privacy, performance, and AI infrastructure management. We believe this has driven our strong product growth recently and has an addressable market that is approximately 2 to 3 times larger than the cloud-only SASE our competitors offer, and we continue to win SASE deals versus all of the top SASE competitors.

We also saw strong demand across our other strategic pillar, AI-driven SecOps, which had billings growth of 25%, supported by over 20 AI-enabled solutions on our platform, as customers consolidate vendors and simplify operations. We recently launched FortiSOC, a new cloud-delivered AI SOC platform, and expanded FortiEndpoint with new capabilities.

As organizations deploy and use AI tools throughout their operations, they realize they must modernize their security to handle the complex, high-speed threats of the AI era, and Fortinet is uniquely positioned here as our FortiOS platform and FortiASIC technology allows enterprises to securely scale their next-generation AI environments with faster and better protection and simplified operations.

Looking ahead, we believe the combination of AI-driven security demand, our integrated and accelerated SASE firewall platform solution, and our strong operating model positions Fortinet well for long-term balanced growth with strong cash generation, recurring revenues, and a shareholder-focused, long-term growth capital allocation strategy, while consistently delivering GAAP profitability.

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 a strong second quarter, exceeding the high-end of our guidance across billings, total revenue, operating margin, and earnings per share. Our continued momentum reflects 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.

Total billings grew 33% to \$2.37 billion, driven by robust demand for physical infrastructure and related attached services across Secure Networking and Unified SASE. We delivered exceptional billings growth across each of our three pillars in the first quarter, followed by an even stronger, accelerating growth rate in each pillar in the second quarter.

Secure Networking billings grew 34%. We saw persistent high FortiGate demand as customers expanded their network security including operational technology environments, LAN edge and AI data centers. OT billings increased over 55%, reflecting continued adoption of our solutions in industrial environments with high contribution to growth.

We also saw outstanding strength in Unified SASE, where momentum built throughout the quarter resulting in 35% billings growth. Adoption of FortiSASE within our installed base increased to 19% of large enterprises. Our success is highlighted by FortiSASE billings growing over 100%, benefiting from expansion sales across our installed base, competitive replacements, and new wins with large enterprises. This momentum was driven by customers recognizing us for our continued investments into flexible deployment strategies for SASE including our new 'SASE Firewall' strategy. The 'SASE Firewall' natively converges firewall, SASE, and hybrid mesh capabilities to protect users, applications, and data across the data center, cloud, and remote workforce. Instead of juggling high-volume, east-west traffic up to a cloud PoP and back, it inspects and enforces security locally while seamlessly leveraging SASE for outbound traffic.

Billings from AI-driven Security Operations grew 25%, driven by strong upsell momentum as our installed base increasingly consolidates point solutions onto our broader platform.

Turning to revenue, total revenue grew 26% to \$2.05 billion, with product revenue increasing 52% to \$773 million. Accelerating product revenue benefitted from strong FortiGate unit growth and an increase in ASPs as customers shifted towards higher-performing models. Customer investments to secure AI workloads and mitigate AI-related risks drove both new business and upgrade activity across our installed base, supporting growth across hardware, software and attached services.

Service revenue grew 14% to \$1.27 billion, with growth improving from the prior quarter. Service billings growth increased 26%, and total deferred revenue increased 17%. This quarter's improved services revenue, alongside robust product momentum and operational improvements driving revenue conversion, reinforces our confidence in the long-term durability of our services business. We believe the first quarter of 2026 marked the trough for our services revenue growth rate and we anticipate a positive trajectory in our growth rates going forward.

Taking a step back, our results reflect strong ongoing momentum from the durable market themes shaping customer priorities. Today, bad actors are leveraging AI to automate and scale sophisticated attacks, increasing the speed and complexity of threats facing organizations. Consequently, cybersecurity has become an urgent business priority, with high visibility at the executive and board levels driving faster investment decisions. In addition, regulatory activity requires companies to act. In response, enterprises are increasingly upgrading their network security infrastructure to support the demands of AI-driven workloads and growing data volumes, more complex distributed environments, and the need for stronger network segmentation.

Our strong second quarter results and outlook continue to reflect several important market dynamics, including the ongoing convergence of networking and security; increased investment to secure AI infrastructure; accelerating IT and OT

convergence; and growing demand for high-performance security solutions that address evolving compliance and sovereignty requirements. This sovereignty theme is especially concentrated in EMEA and across public sector customers globally, playing directly into our strong market position in the region and that customer segment.

As we look ahead, we continue to see these market dynamics gaining momentum, supported by ongoing technology upgrades, vendor consolidation, and the continued expansion of enterprise attack surfaces across cloud, AI, OT, and critical infrastructure environments.

AI is becoming a dominant driver of security infrastructure modernization. As organizations move from AI experimentation and early adoption toward broader deployment, they require security platforms capable of protecting AI models and datasets while securing large volumes of east-west traffic and enforcing zero trust segmentation across distributed AI workloads. To navigate this growing complexity, customers are progressively looking for integrated platforms that provide shared telemetry, improved visibility, and reduced operational overhead. Fortinet addresses these evolving needs with a comprehensive strategy centered on three core areas: securing AI data centers, protecting AI-driven applications, and delivering AI-native security operations.

For example, a neocloud provider offering hosted infrastructure for generative AI workloads selected Fortinet to secure AI data centers in an 8-figure win. This builds on a 7-figure deal we secured in the first quarter, further enabling the customer's rapid expansion. They chose Fortinet for our strong price-for-performance advantage and our ability to deliver scalable, high-throughput security. This enables the customer to accelerate deployment of new capacity while maintaining consistent security and operational efficiency as demand for accelerated computing continues to grow. This expansion reflects a broader theme we saw in the quarter, with many AI data center wins from customers scaling their AI infrastructure.

AI is creating demand for high-performance security solutions that serve as the foundation for secure, compliant infrastructure. As organizations gain greater awareness of AI-enabled attack technologies, security teams are accelerating investments to ensure their infrastructure can deliver the performance and protection required for the next generation of threats, which requires SASE technologies.

To meet this critical need for high performance security, Fortinet supports complex customer requirements through cloud-based, hybrid, on-premises, and Sovereign SASE offerings, enabling organizations to deploy SASE in the environments that best meet their operational and regulatory needs. Customer demand continues to grow with our flexible deployment approach representing a meaningful differentiator.

In a competitive displacement win, a global pharmaceutical company signed a 7-figure FortiSASE deal to secure over 45,000 users, replacing its incumbent SSE-only provider. The customer chose Fortinet for our unified architecture and integrated platform approach across SD-WAN, next-generation firewall, and switching, which reduces complexity and delivers significant cost savings versus managing multiple point solutions. A key differentiator in this SASE win was our ability to extend security processing to the edge through our on-premises appliances, providing greater control, improved performance, and deeper visibility compared to a cloud-only architecture. This deal validates our strategic rollout of FortiSASE Outpost, which is specifically engineered to bring local SASE enforcement closer to users and applications. This win also highlights our platform advantage, as we were the only vendor able to meet the customer's full set of technical requirements while enabling centralized management, simplified operations, and enhanced end-user experience.

Beyond AI and SASE, OT security remains a critical business and board-level risk priority. The threat landscape has expanded beyond traditional OT environments into critical infrastructure, supply chains, and manufacturing operations. With Fortinet's integrated platform approach, customers gain visibility across both their

OT and IT networks. Consequently, we continue to see strong demand across our OT portfolio and related services, driven by the combination of increasing cyber threats, AI adoption, and geopolitical uncertainty.

In a 7-figure deal, a major utility organization selected Fortinet to support a large-scale communications modernization OT initiative spanning thousands of distributed field locations. The deployment leverages our integrated FortiOS platform to enable reliable, secure connectivity for operational environments while simplifying management and reducing infrastructure complexity. This engagement demonstrates Fortinet's ability to support mission-critical infrastructure initiatives.

Our strong results highlight our continued execution against the durable market themes shaping the cybersecurity industry. This is reflected in our services acceleration in the second quarter and our improved services outlook for the year, reinforcing the compounding strength and high-margin predictability of our recurring revenue model. As organizations navigate AI adoption, expanding attack surfaces, evolving regulatory requirements, and complex infrastructure environments, we believe Fortinet's integrated platform approach positions us well to capture share, deliver sustained growth, and create long-term shareholder value.

Turning to margins and cash flow.

Non-GAAP gross margin of 80.9% exceeded the high-end of guidance, while GAAP gross margin was also strong at 80.2%.

Non-GAAP operating margin of 38.0% was a second quarter record, up 490 basis points. This performance exceeded the high-end of our guidance, driven by stronger than expected revenue growth, disciplined cost management, and growing efficiencies from our AI initiatives. Moreover, our GAAP operating margin of 33.7% 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 41% to \$0.90, while GAAP earnings per share grew 44% to \$0.82, significantly outpacing our top-line growth, reflecting high quality

earnings, supported by disciplined stock-based compensation and continued capital return over the past year.

Free cash flow more than tripled year over year to \$966 million, benefitting from improved linearity, higher billings, and strong working capital discipline. Adjusted Free Cash Flow was \$996 million, representing an exceptional margin of 49%.

We repurchased 1.9 million shares of common stock for \$146 million during the second quarter and 12.5 million shares for \$973 million year to date, which represents an average price for repurchases this year of around \$78 per share. The remaining share repurchase authorization as of today is approximately \$766 million.

Now moving on to guidance.

As a reminder, our third quarter and full year outlooks, which are summarized on slides 23 and 24, 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 first half of the year supports a higher full year outlook. We are raising our guidance across all top-line metrics, including billings, revenue, and service revenue, as well as operating margin and earnings per share while managing the remainder of the year on a quarter by quarter basis. This quarter's improved services revenue growth along with a strong outlook, allows us to raise our service revenue guidance reflecting a positive trajectory in our service revenue growth rates.

For the third quarter, we expect:

- Billings in the range of \$2.25 billion to \$2.35 billion, which at the midpoint represents growth of 27%,
- Revenue in the range of \$2.01 billion to \$2.1 billion, which at the midpoint represents growth of 19%,
- Non-GAAP gross margin of 79% to 81%,

- Non-GAAP operating margin of 35% to 37%,
- Non-GAAP earnings per share of \$0.83 to \$0.87, which assumes a share count between 741 and 745 million,
- Infrastructure investments of \$100 to \$150 million,
- A non-GAAP tax rate of 18%, and
- Cash taxes of \$100 to \$130 million.

For the full year, we expect:

- Billings in the range of \$9.35 billion to \$9.55 billion, which at the midpoint represents growth of 25%,
- Revenue in the range of \$8.02 billion to \$8.18 billion, which at the midpoint represents growth of 19%.
- Service revenue in the range of \$5.18 billion to \$5.22 billion, which at the midpoint represents growth of 14%. 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% to 81%,
- Non-GAAP operating margin of 35% to 37%,
- Non-GAAP earnings per share of \$3.41 to \$3.47, which assumes a share count of between 741 and 745 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 Rosenblatt, Stifel, Deutsche Bank, Goldman Sachs, and Kepler Cheuvreux during the third 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!