

Strong operationally, but less convincing on the durability and composition of future growth

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$2.0784 billion	\$2.07 billion	+0.4%
Diluted EPS (adjusted)	\$0.91	\$0.86	+5.8%

2 GUIDANCE AND OUTLOOK	
2026 revenue rises to \$8.125 billion to \$8.215 billion from \$8.020 billion to \$8.180 billion; billings rises to \$9.568 billion to \$9.718 billion from \$9.350 billion to \$9.550 billion; adjusted EPS rises to \$3.54 to \$3.58 from \$3.41 to \$3.47. Services guidance falls to \$5.150 billion to \$5.170 billion from \$5.180 billion to \$5.220 billion. Adjusted operating margin rises to 36.5% to 37.5% from 35% to 37%. Q4 adjusted gross-margin guidance is 78% to 80%, with its midpoint 60 basis points below Q3. Operating-margin midpoint falls 170 basis points sequentially.	

3 EARNINGS ANALYSIS	
PRODUCT STRENGTH OFFSET SERVICES WEAKNESS. Revenue grew 20.5%, but exceeded event-specific consensus by only approximately 0.4%. Product revenue beat by 4.3%, while services missed by 1.2%; product generated approximately 58% of incremental revenue. The earnings surprise depended substantially more on operating efficiency than broad-based revenue outperformance. Services billings growth of 26% supports delayed recognition, but lower attachment in networking and sovereign deployments, discounting, and subscriptions sold after installation also change the economics. The shortfall is not exclusively a temporary accounting delay. REAL LEVERAGE, WITH IMPORTANT QUALIFICATIONS. Adjusted operating income rose 24.7% to \$793.8 million as operating expenses grew approximately 11.7%, below revenue growth. GAAP operating margin was 33.9%, demonstrating substantial profitability before compensation exclusions. Stock-based compensation of \$82.0 million remains an economic cost. GAAP EPS growth also benefited from a lower tax rate, fewer shares, and a \$17.0 million escrow-settlement gain excluded from adjusted earnings. The adjusted tax rate remained 18%, making adjusted earnings growth principally operational rather than a tax-rate reset. INVENTORY MARGIN BENEFIT IS FADING. GAAP product gross margin fell to approximately 64.4% from 69.8% in Q2 as higher-cost inventory replaced earlier low-cost cohorts. Higher ASPs did not protect margins; customer budgets limit further price increases and can encourage service discounting. Services generated approximately 70% of consolidated GAAP gross profit on approximately 63% of revenue. The outlook combines further gross-profitability pressure with confidence in expense control. If component costs decline, management intends to lower prices, potentially improving margins while reducing nominal product and billings growth. STRONG CASH, WITH FUNDING BENEFITS. Reported free cash flow was \$864.8 million, with a 41.6% margin, but working capital contributed meaningfully. Cash and investments were approximately \$5.318 billion against \$497 million of debt. Q4 infrastructure investment of \$180 million to \$210 million creates a near-term cash-flow headwind. Year-to-date deferred revenue provided \$817.8 million of operating cash flow, compared with \$288.1 million previously. PRICING BOOSTS NOMINAL BILLINGS GROWTH. Pricing contributed around 10 percentage points to year-over-year billings growth, not revenue. Contract duration had not increased significantly, but price-adjusted services billings and renewal-cohort composition were undisclosed. RECURRING CONVERSION IS THE TEST. Contracted services awaiting activation and subscriptions not yet sold carry different risks. Deferred revenue cannot validate the entire prospective upsell opportunity. At approximately 48.9 times guided 2026 adjusted EPS, timely conversion into recurring gross profit remains the unresolved valuation question. Services-growth improvement in 2027 remains unquantified. The formal 2027 outlook is the next decisive catalyst; qualitative reassurance cannot substitute for measurable conversion evidence.	

4 KEY READ-THROUGHS	
MEMORY PRICING REMAINS SUPPORTED AFTER EQUIPMENT VENDORS EXHAUST LOW-COST INVENTORY <i>Micron Technology (MU) Positive Moderate incremental confirmation of pricing durability</i> Elevated memory costs persist beyond AI servers as equipment vendors exhaust cheaper inventory. Fortinet's billings growth included approximately 10 percentage points from pricing, yet procurement costs were still increasing slowly. Sustained purchasing at elevated prices supports Micron's selling prices and gross profit. This corroborates already-reported results, not accelerating memory inflation; no direct Micron allocation or HBM demand was identified. Potential earnings significance depends on persistence across the broader customer base; Fortinet-specific demand is unquantifiable. STRONG NETWORKING SALES CAN COEXIST WITH WEAKER PRODUCT MARGINS <i>Cisco Systems (CSCO) Negative for product-margin recovery Moderate at the product-gross-profit level</i> Fortinet's adjusted gross margin was 79.6% as higher-cost inventory entered cost of revenue. Customer budgets constrain further price increases, so healthy equipment sales need not produce equivalent gross-profit growth. Cisco already reported a 270-basis-point annual decline in adjusted product gross margin. Fortinet reinforces cost persistence, not an unanticipated Cisco miss; services, productivity, and expense control can offset pressure. Higher selling prices can boost revenue before corresponding inventory costs reach the income statement. SECURITY-LED CONSOLIDATION IS COMPETING FOR THE ENTIRE BRANCH-NETWORK BUDGET <i>Cisco Systems (CSCO), Hewlett Packard Enterprise (HPE) Negative competitive pressure Moderate over multiple replacement cycles</i> An 8-figure transportation win combined firewall, routing, connectivity, and OT inspection; another 8-figure retail win covered 1,500 stores. Consolidation can redirect separate networking and security budgets into one platform, pressuring Cisco and HPE's hardware content, software attachment, and renewals. The displaced vendors were unnamed: these contracts demonstrate competitive architecture, not identified losses for either company. Both incumbents have integrated offerings. HPE's approximately \$1.4 billion quarterly campus-and-branch revenue illustrates exposure, although only a portion overlaps. AI EXPANDS HIGH-PERFORMANCE FIREWALL DEMAND RATHER THAN MAKING NETWORK ENFORCEMENT OBSOLETE <i>Palo Alto Networks (PANW) Positive Moderate fundamental confirmation for its Network & AI Security business</i> Fortinet's product revenue grew 37%, and a frontier-model customer expanded across 5 additional data centers. More AI infrastructure creates network boundaries, sensitive data flows, and segmentation needs, supporting Palo Alto Networks' hardware, software firewalls, and security subscriptions. Its own reported sovereign and frontier-laboratory demand corroborates a cross-vendor pattern. Strong hardware demand nevertheless does not guarantee immediate recurring-revenue conversion.	