

# Company Update Report

## Fortinet Inc

Information Technology

### Analyst thesis

Our recommendation is based on:

- Fortinet's growth thesis remains supported by technology leadership (ASIC architecture, AI investments) and strong long-term secular tailwinds in cybersecurity (SASE and SecOps).
- The faster-than-expected progress in the 2026 firewall device refresh cycle (already 40%–50% complete) could limit near-term future product revenue growth, as much of the upgrade demand may have been pulled forward, reducing sales potential in upcoming quarters. Services revenue guidance was trimmed due to slower billing conversion and acquisition-related churn, while emerging legal risks, including class action lawsuits, and inconsistent management communication have heightened investor concerns about transparency and near-term growth.
- Despite these issues, Fortinet's long-term growth prospects remain strong, supported by innovation and ongoing demand for its network security solutions.
- The FTNT is trading at lower multiples than its historical average and is cheaper than its comparable peer, Palo Alto, despite historically demonstrating stronger growth and profitability.

As at: 17 October 2025

<b>Ticker</b>	FTNT-US
<b>Share price</b>	\$83
<b>Intrinsic value</b>	\$92
<b>Upside/(Downside)</b>	11%
<b>Recommendation</b>	Buy

### Latest company and market insights

#### Key highlights

In this report, we revisit 2Q25 results for FTNT, released in August 2025 and where this positions our view in context.

#### Financial results at a glance:

- Fortinet reported 2Q25 revenue growth of 14% year over year to \$1.63 billion, supported by robust service segment performance and recurring demand for cloud and security solutions, even as product sales remained pressured from device refresh cycles and a challenging macro environment.
- Billings grew 15% to \$1.78 billion, a notable acceleration from flat year-over-year billings in 2Q24. The growth was led by strong momentum in Unified SASE ARR (+22%) and Security Operations ARR (+35%), underlining the company's strategic pivot to integrated cloud and AI-driven security platforms and managed services.
- Profitability remained strong with non-GAAP operating margin at 33%, despite double-digit increases in R&D (+27%) and sales & marketing (+18%) investment. This margin strength reflects ongoing operating leverage, improved software mix, and disciplined cost management compared to the prior year's margin of 35.1%.
- Service revenue increased nearly 14% year over year, continuing to be a key driver of Fortinet's overall growth.
- Fortinet's ongoing shift to subscriptions has transformed its business model, with services and support now making up roughly 70% of total revenue in 2025, up from approximately 48%. This move toward recurring contracts and SASE solutions has strengthened earnings stability and visibility.

3Q25 results are expected to be released on 05 November 2025.

#### Management's outlook:

Fortinet's 3Q25 guidance forecasts revenue between \$1.67 billion and \$1.73 billion, representing 11%–15% year-over-year growth, signalling sustained demand despite a competitive cybersecurity market. Billings are expected to reach \$1.76 billion–\$1.84 billion, up 11%–17% YoY and in line with consensus, reflecting steady customer investment in Fortinet's solutions. Management revealed that the company is already 40%–50% through the 2026 firewall device refresh cycle, well ahead of previous expectations. However, this faster-than-expected progress has created uncertainty about the timing and scale of future revenue, raising investor concerns over the reliability of management's forecasts. Looking ahead, smaller refresh cycles in 2027 and devices purchased during the COVID-19 pandemic are expected to provide only modest, less impactful revenue boosts with unclear timing. As a result, confidence in the sustainability of refresh-driven growth has softened. In simple terms, the device refresh is when customers replace or upgrade their firewalls, creating temporary revenue spikes during the upgrade phase, but growth typically slows once that cycle winds down.

#### Sector outlook:

The cybersecurity sector outlook for 2025 remains strong, driven by rising cyberattacks, digital transformation, and stricter regulations. AI-powered threats and supply chain risks are expanding the global threat surface, making cybersecurity a core business priority. With AI serving as both a risk and defence tool, demand for adaptive, cloud-native security solutions is set to rise, supporting sustained growth and consolidation led by industry leaders.



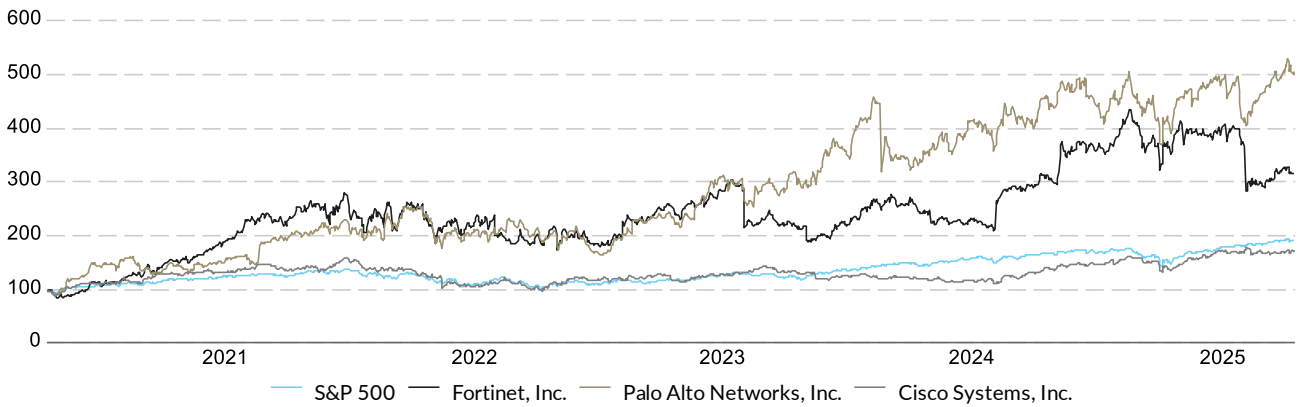
**Table 1: Qualitative summary**

Factor	Rating	Description
Growth	★★★★☆	<ul style="list-style-type: none"> <li>Expected three-year revenue CAGR is 11.9% and expected three-year EPS CAGR is 10.6%</li> <li>We expect earnings growth over the next three years to be driven by: <ul style="list-style-type: none"> <li>Rising demand for cloud-based and AI-driven security platforms, such as Unified SASE and Security Operations, is a key growth driver.</li> <li>Fortinet's strong shift toward subscription-based services, which now represent about 68%-70% of total revenue, enhances revenue stability and long-term growth potential.</li> <li>Strategic investments in research and development and sales capacity to capture emerging growth in cloud-native security and AI-driven cybersecurity markets.</li> <li>Large-scale product refresh cycles, notably with approximately 650 000 FortiGate units reaching end-of-support in 2026, creating a \$400 million to \$450 million upgrade opportunity over two years.</li> <li>Increased capital expenditure on property and in-house data centres is expected to enhance operational efficiency and long-term scalability, supporting future growth and improved leverage.</li> </ul> </li> </ul>
Valuation	★★★★☆	The share price has 11% upside to the IV. Current NTM P:E of 31.4x is trading at a -29% discount to the five-year average P:E of 44.5x. Peer company, Palo Alto Networks (PANW), with a current NTM P:E of 56.28x and a five-year average P:E of 52.97x, it is trading at a 6% premium to its average.
Dividend	★★★★☆	LTM dividend yield 0% NTM dividend yield 0%
Issuance	★★★★☆	Shares issued have decreased by 7% in the past five years.
Catalyst		<ul style="list-style-type: none"> <li>The strong billings growth in higher-margin, subscription-related areas remains a positive underpinning for durable growth.</li> <li>Expanding AI-driven security operations, including FortiGuard AI services, contributing significantly to recurring revenue growth.</li> <li>Large-scale firewall refresh cycles, offering an estimated \$400 million to \$450 million upgrade opportunity over the next two years.</li> <li>Rising global cyberattacks and tighter regulations to safeguard digital assets and data serve as demand for Fortinet's security solutions.</li> </ul>
Quality of earnings	★★★★☆	Five-year average ROE 200%. Five-year average ROA 15.23%. Five-year average operating margin 22.7%. Seven of the past 10 years had both positive earnings with growth. Supported by its recurring revenue model driven by high-margin subscriptions like Unified SASE and Security Operations.
Moat	★★★★☆	Fortinet (FTNT) moat is defined by high switching costs, demonstrated scale, substantial intellectual property, and real network effects, core factors reinforcing its durable competitive advantage in cybersecurity.
Management and governance	★★★★☆	Fortinet's founder, Ken Xie retains both CEO and chairman roles (which shareholders voted in favour for), which raises some governance concerns stemming from this power concentration, combined with high executive turnover, including three CFO changes in seven years and most leadership changes occurring in 2024-2025. Management's limited transparency on the 2026 device refresh and handling of legal risks has further dented investor confidence, with recent issues around communication and cybersecurity lawsuits raising questions about the near-term outlook and risk management.
Balance sheet	★★★★☆	Net debt/EBITDA ratio -1.6x, interest coverage ratio 89.9x. The Net debt/EBITDA reflects a net cash position (negative ratio), demonstrating strong financial flexibility and the company's ability to comfortably meet its debt obligations without leverage concern.
Risks		<ul style="list-style-type: none"> <li>Management highlighted uncertainties regarding the accelerated device refresh schedule, which is already 40%-50% complete, implying slower growth ahead.</li> <li>Heavy investments in research and development, particularly in AI-driven security, have yet to fully translate into consistent profitable growth as competition intensifies.</li> <li>Fortinet relies significantly on its FortiOS platform and custom ASIC technology; any major security vulnerabilities or service disruptions could damage reputation and client trust.</li> <li>Investors should also consider the emerging class action lawsuits alleging Fortinet overstated the size and duration of the firewall refresh cycle revenues. Coupled with inconsistent communication on refresh progress, these legal risks raise transparency and governance concerns that may impact investor sentiment and valuation.</li> </ul> <p>Regulation:</p> <ul style="list-style-type: none"> <li>Growing regulatory scrutiny around data privacy, cybersecurity standards, AI adoption, and export controls requires Fortinet to continuously strengthen its compliance and risk frameworks, which could affect product offerings and market access.</li> </ul>

Source: FactSet



**Graph 1: Five-year price (Indexed to 100)**



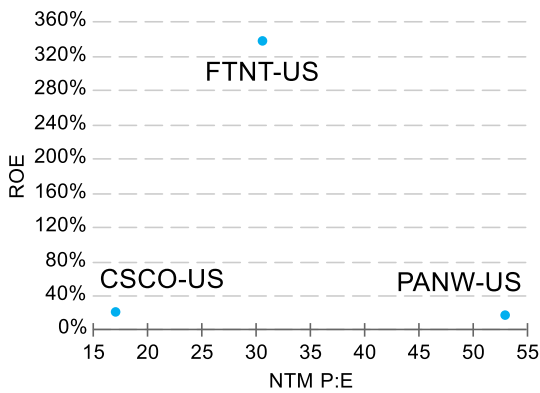
Source: FactSet

**Table 2: Price performance versus benchmark and peers**

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Fortinet Inc.	-11.7%	-0.8%	-20.5%	-13.2%	3.2%	42.3%	65.4%	217.2%	859.3%
Cisco Systems Inc.	18.5%	2.5%	2.7%	25.8%	24.3%	30.0%	69.8%	74.6%	148.2%
Palo Alto Networks Inc.	14.3%	2.1%	5.9%	24.0%	10.5%	58.9%	162.3%	406.3%	626.1%
MSCI world	13.3%	0.0%	5.8%	23.5%	13.8%	46.2%	71.4%	82.0%	161.5%

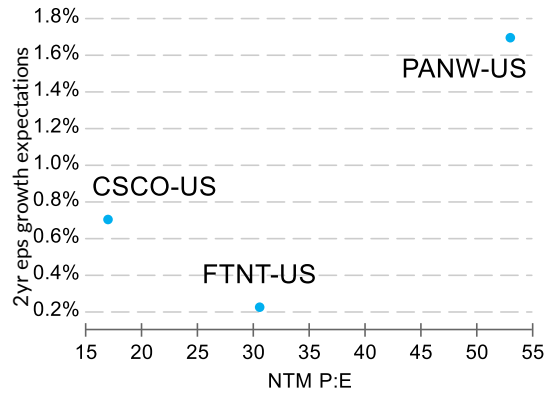
Source: FactSet

**Graph 2: P:E vs 2Y average ROE**



Source: FactSet

**Graph 3: P:E vs consensus EPS 2Y CAGR forecast**



Source: FactSet

## Valuation

Fortinet was valued using a (DCF) model with a weighted average cost of capital (WACC) of 9.7% and long-term growth rate (LTG) assumptions reflecting varying growth outlooks. The bear case applies a 4% LTG, representing slower post-2026 growth and potential margin compression due to pricing pressure and competition. The base case uses a 6.4% LTG, assumes growth continues at a healthy, sustainable clip, supported by the company's multi-year track record of consistent free cash flow increases and solid industry demand. The bull case assumes an 8% LTG, reflecting sustained double-digit ARR growth and premium valuation retention as recurring subscriptions drive operating leverage.

**Table 3: Valuation summary**

Valuation Probabilities			
	Bear	Base	Bull
LTG Rate	4.0%	6.4%	8.0%
Probability	10%	60%	30%
Share price	\$49.55	\$76.74	\$136.63
<b>Weighted intrinsic value</b>	<b>\$92</b>		
<b>Upside/(Downside)</b>	<b>11%</b>		

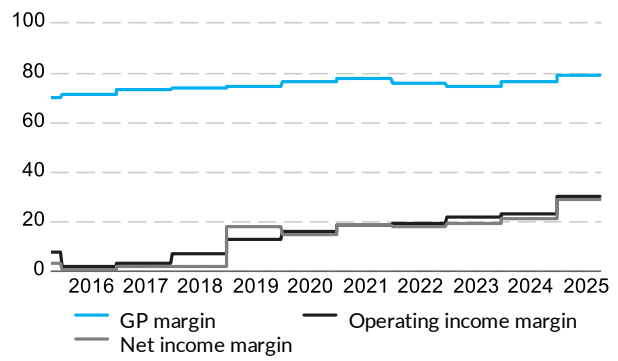


**Graph 4: NTM P:E relative to benchmark**



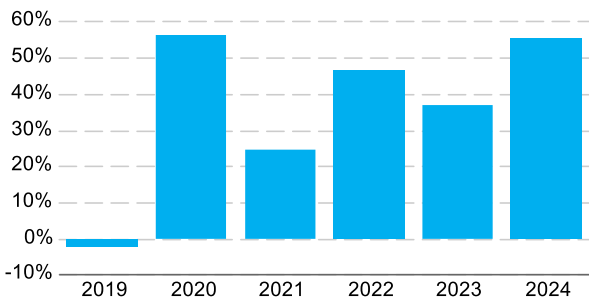
Source: FactSet

**Graph 5: Profit margins (%)**



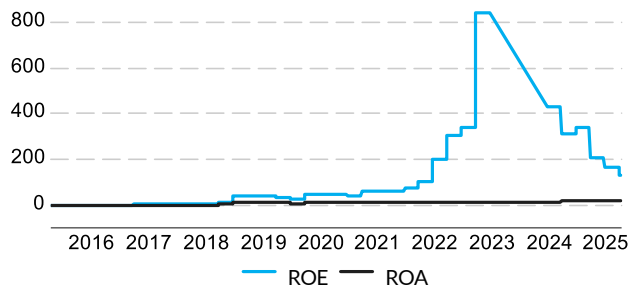
Source: FactSet

**Graph 6: 5Y EPS y/y Growth (USD)**



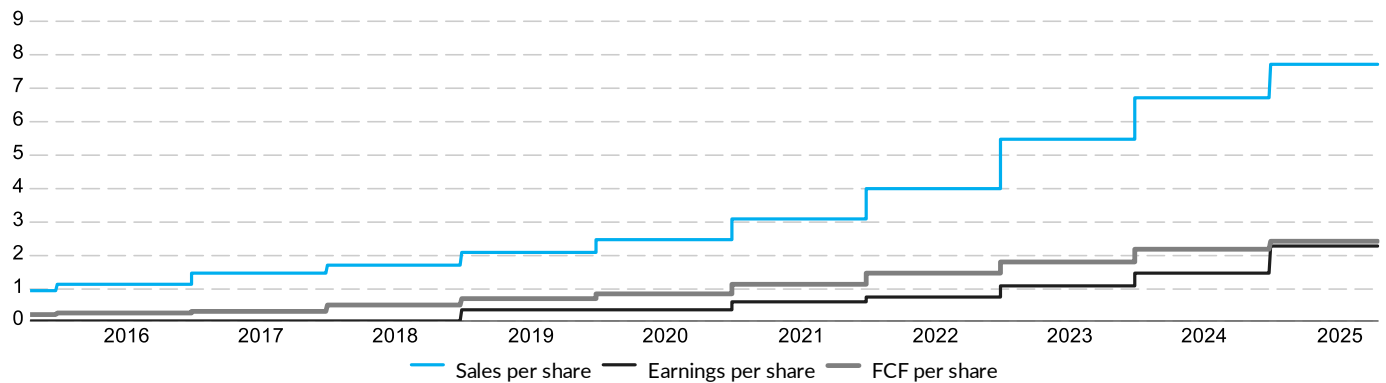
Source: FactSet

**Graph 7: ROE and ROA (%)**



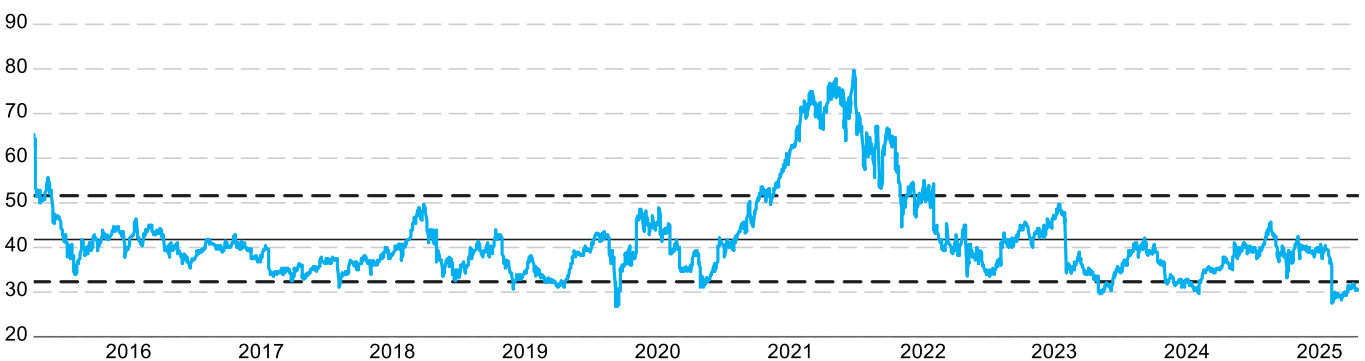
Source: FactSet

**Graph 8: Sales, earnings and FCF per share (USD)**



Source: FactSet

**Graph 9: NTM P:E**



Source: FactSet



**Table 4: Financials and ratios**

<b>Income statement (\$Mn)</b>	<b>Dec 20</b>	<b>Dec 21</b>	<b>Dec 22</b>	<b>Dec 23</b>	<b>Dec 24</b>	<b>1Y Growth</b>	<b>3Y CAGR</b>	<b>5Y CAGR</b>
Revenue	2 594	3 342	4 417	5 305	5 956	12%	21%	22%
Cost of sales	574	802	1 108	1 256	1 257	0%	16%	20%
Gross income	2 020	2 541	3 309	4 049	4 699	16%	23%	23%
EBIT	492	646	965	1 237	1 799	45%	41%	39%
EBITDA	560	730	1 069	1 350	1 922	42%	38%	36%
Net income	489	607	857	1 148	1 745	52%	42%	39%
EPS (USD)	0.6	0.7	1.1	1.5	2.3	55%	46%	43%
<b>Balance sheet (\$Mn)</b>	<b>Dec 20</b>	<b>Dec 21</b>	<b>Dec 22</b>	<b>Dec 23</b>	<b>Dec 24</b>	<b>1Y Growth</b>	<b>3Y CAGR</b>	<b>5Y CAGR</b>
Total assets	4 045	5 919	6 228	7 259	9 763	34%	18%	20%
Total shareholders equity	856	798	-282	-463	1 494	-422%	23%	2%
Total liabilities	3 189	5 121	6 510	7 722	8 269	7%	17%	27%
<b>Ratios</b>	<b>Dec 20</b>	<b>Dec 21</b>	<b>Dec 22</b>	<b>Dec 23</b>	<b>Dec 24</b>	<b>5Y Avg</b>		
Net debt/EBITDA	-3.3	-2.1	-1.1	-1.1	-1.6	-1.8		
Interest coverage	-	43.3	53.6	58.9	89.9	61.4		
Debt/assets (%)	1.3	17.8	17.4	14.8	11.0	12.5		

Source: FactSet



**Table 5: Standard finance and investment abbreviations**

<b>Abbreviation</b>	<b>Definition</b>
AI	Artificial Intelligence
ARR	Annual Recurring Revenue
ASIC	Application-Specific Integrated Circuit
CAGR	Compounded annual growth rate
DCF	Discounted Cash Flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FCF	Free cash flow
FTNT	Fortinet Inc
FY	Financial year
GP	Gross profit
LTM	Last twelve months (also known as trailing)
M	Month
MTD	Month to date
NTM	Next twelve months (also known as forward)
OT	Operational Technology
P:E	Price to earnings
R&D	Research & Development
ROA	Return on assets
ROE	Return on equity
SASE	Secure Access Service Edge
SecOps	Security Operations
USD	United States Dollar
Y/y	Year(s)
YTD	Year to date



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\*Share price as at closing.

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