

Q2 2018 Financial Results

August 1, 2018

Safe Harbor Statement

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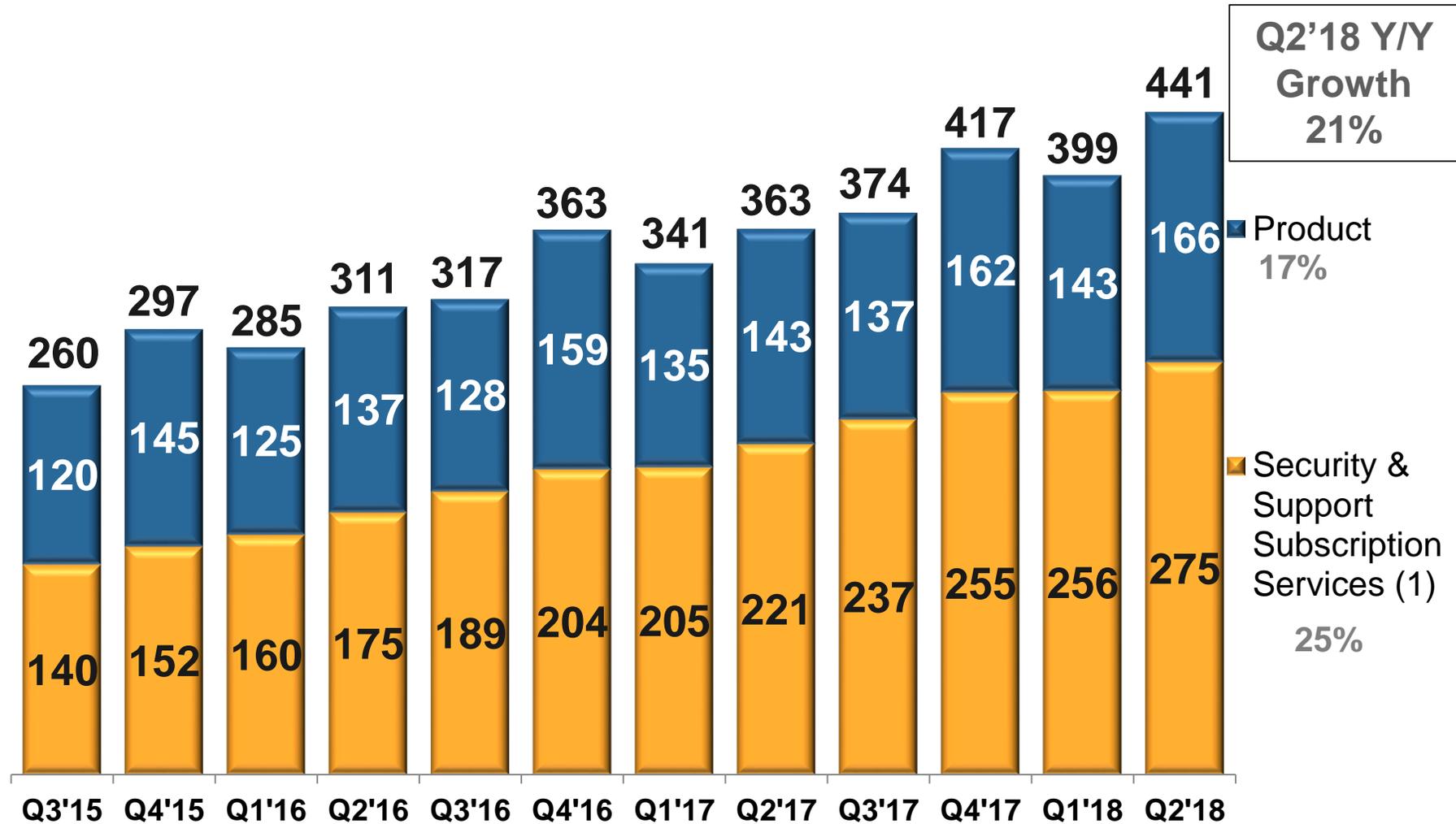
Q2 2018 Non-GAAP Results

	Q2 18	Q2 17	Y/Y % Change
Billings ⁽¹⁾	\$513M	\$427M	20%
Revenue	\$441M	\$363M	21%
Gross Margin (%) ⁽²⁾	75%	75%	--
Operating Income ⁽²⁾	\$93M	\$66M	42%
Operating Margin (%) ⁽²⁾	21%	18%	+3 pts
Net Income ⁽²⁾⁽³⁾	\$71M	\$48M	50%
Earnings per Share ⁽²⁾⁽³⁾	\$0.41	\$0.27	52%
Deferred Revenue	\$1.47B	\$1.16B	27%
Cash Flow from Operations	\$142M	\$145M	-2%
Free Cash Flow ⁽⁴⁾	\$131M	\$58M	124%

Notes

- (1) Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock-based compensation, impairment and amortization of intangible assets, and restructuring charges.
- (3) Assumes annual effective tax rate of 24% and 32% for 2018 and 2017, respectively.
- (4) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.

Quarterly Revenue Mix & Q2'18 Y/Y Growth



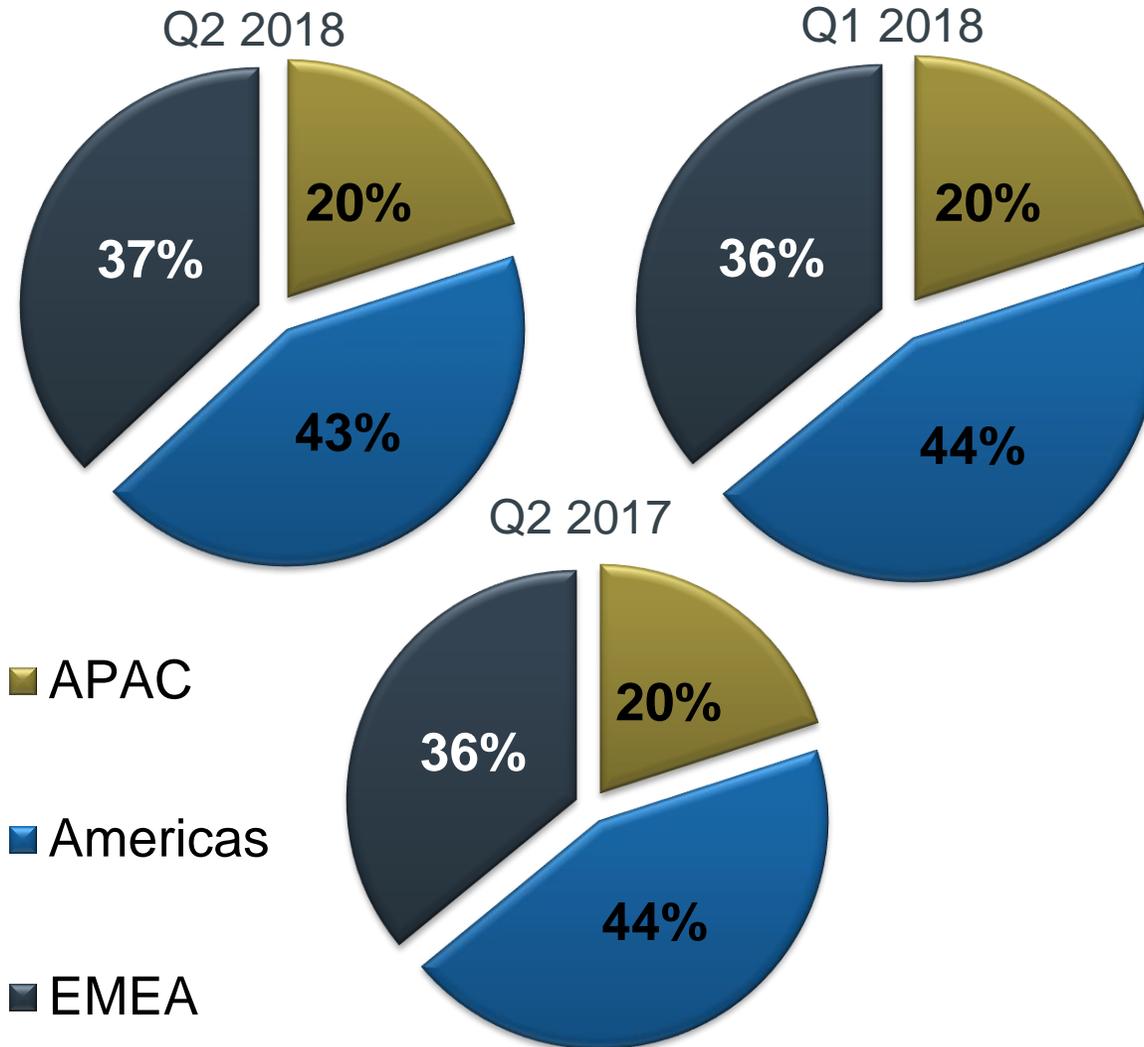
Note

(1) Includes Professional Services, Training and Other Revenue

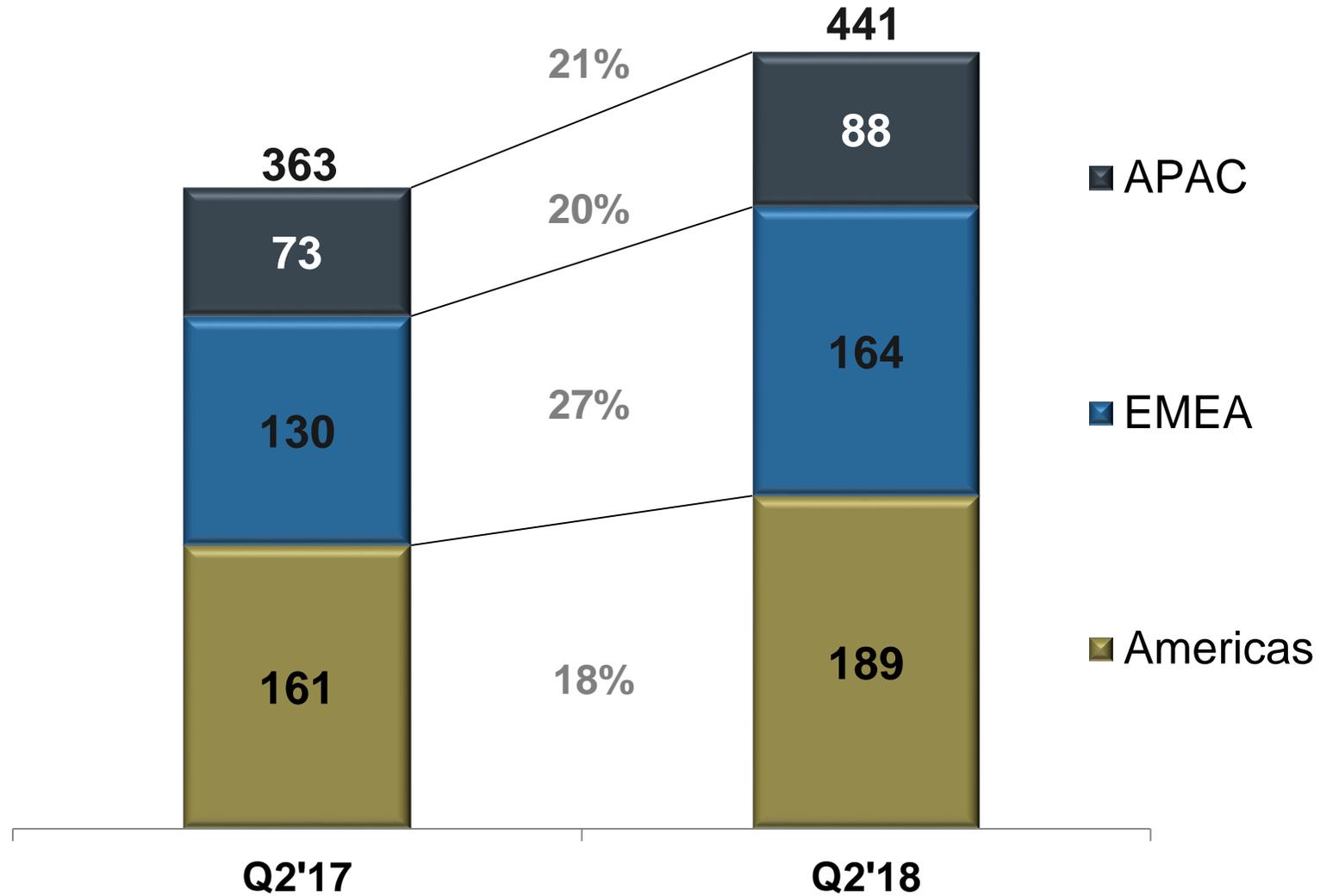
Diversified Global Revenue

Revenue by Geography

- Globally-diverse revenue stream



Revenue Growth by Geography

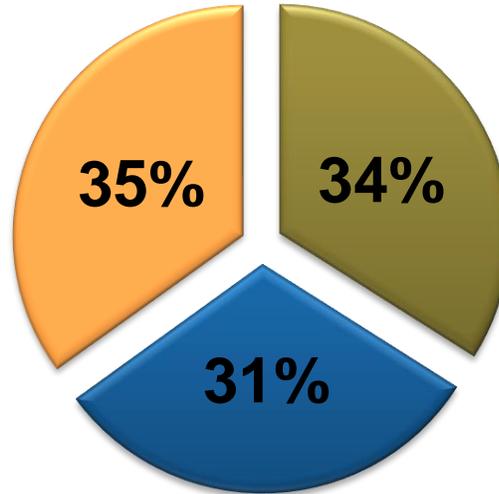


Balanced Product Billings

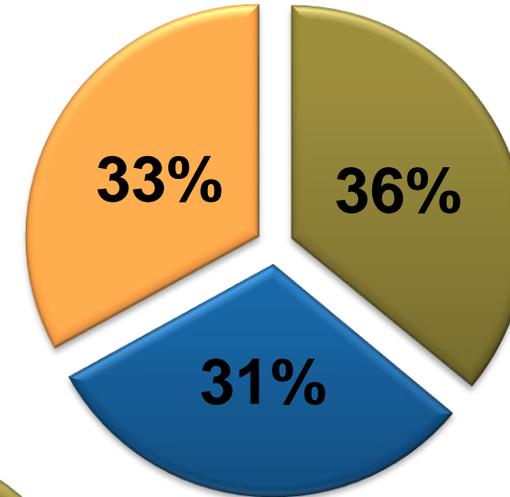
FortiGate Billings

- Balanced Product Billings
 - Entry-Level = SMB & Distributed Networks for Large Enterprises
 - Mid-Range = Enterprise
 - High-End = Large Enterprises, Education, Government, and Telcos/Carriers/ Service Providers

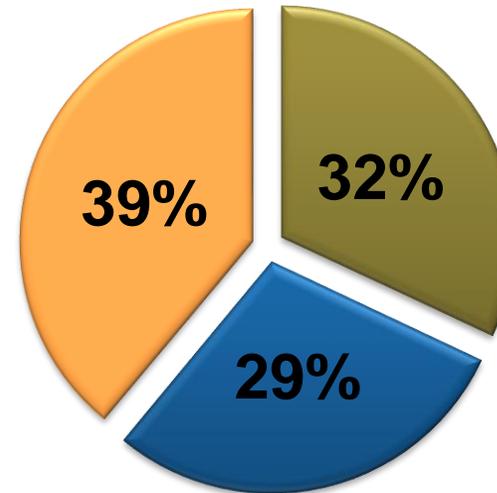
Q2 2018



Q1 2018



Q2 2017



- Entry-Level (FG20-100)
- Mid-Range (FG200-900)
- High-End (FG1000-7000)

Note (1)

Represents FortiGate billings by Product Category. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.

Q2 2018 Select Financial Statistics

	Q2 18	Q1 18	Q2 17
Cash and Investments ⁽¹⁾	\$1.50B	\$1.39B	\$1.46B
Deferred Revenue	\$1.47B	\$1.40B	\$1.16B
Free Cash Flow	\$131M	\$128M	\$58M
DSO ⁽²⁾	68	71	68
Inventory Turns	3.3	2.4	2.2
Revenue per Employee (Annualized)	\$329K	\$309K	\$306K
No. of Deals >\$50K ⁽³⁾	1,669	1,446	1,412
No. of Deals >\$250K ⁽³⁾	261	233	193
No. of Deals >\$500K ⁽³⁾	113	80	75
No. of Deals >\$1M ⁽³⁾	36	34	30

Notes

- (1) Excludes \$12.1M of investments in privately-held companies which are recorded in other assets for Q2 2018, Q1 2018 and Q2 2017.
(2) The adoption of ASC 606 resulted in a 2 day increase in DSO in Q2 2018 compared to Q2 2017, if applied under the same standard.
(3) Deals are defined as combined sales in the period to a customer account.

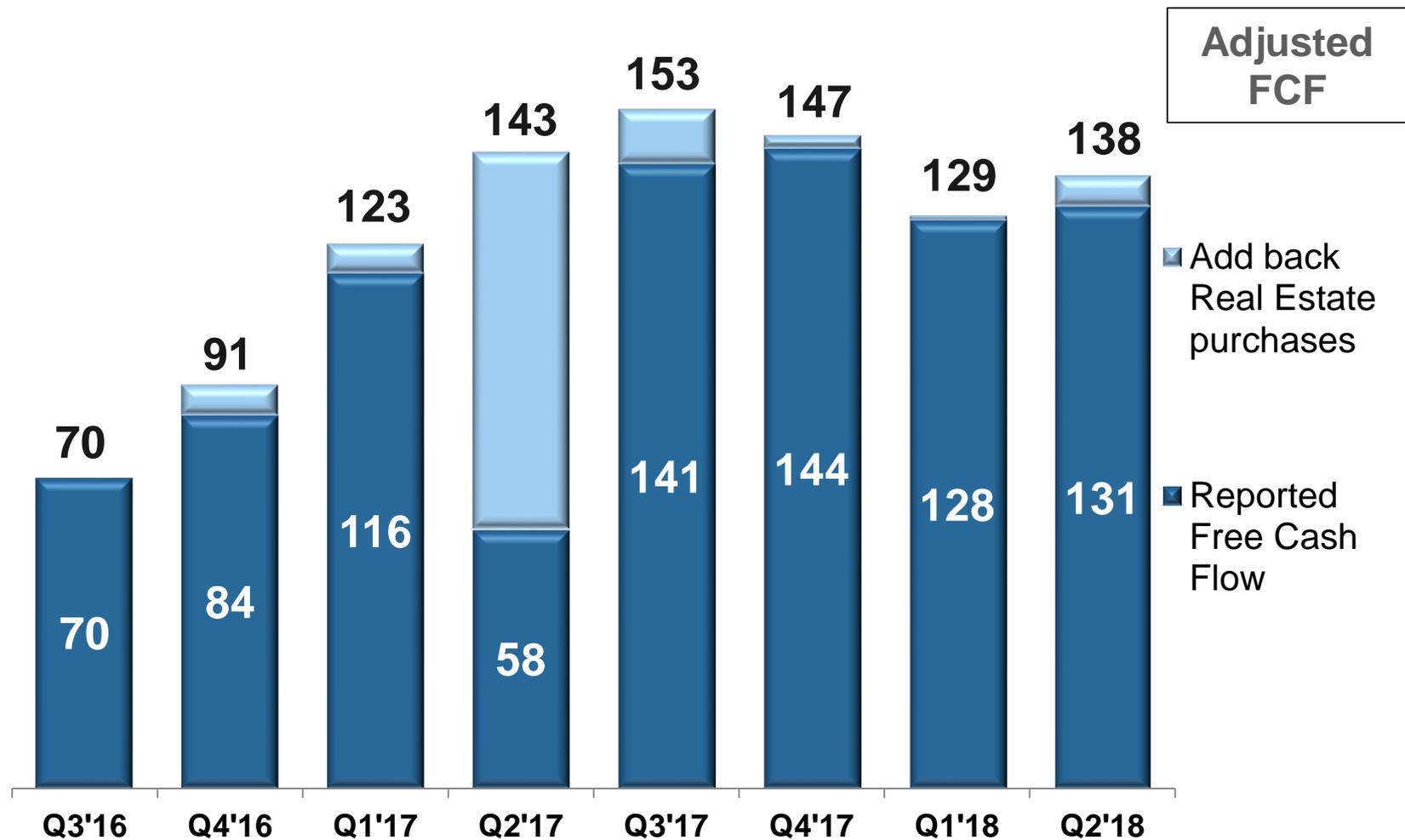
Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q2 18	Q2 17	1H 18	1H 17
GAAP Net Income (Loss)	49	23	91	34
Depreciation and Stock-Based Compensation	54	49	104	96
Accounts Receivable	(20)	(5)	29	38
Inventory	(4)	13	(11)	10
Accounts Payable / Accrued Expenses / Other	(9)	1	(67)	(28)
Deferred Revenue	72	64	136	125
GAAP Cash Flow from Operations	142	145	282	275
Purchase of Property and Equipment	(11)	(87)	(23)	(100)
Free Cash Flow	131	58	259	175
Stock Option and RSU Exercises / ESPP	(2)	-	24	16
Stock Repurchases	(1)	(33)	(117)	(33)
Acquisition	(6)	-	(6)	-
Other	(9)	(1)	(10)	(4)
Net Cash Flow⁽¹⁾	113	24	150	154
<i>Footnote: Cash Paid for Taxes, Net of Refunds</i>	<i>12</i>	<i>9</i>	<i>18</i>	<i>18</i>

Notes

(1) Change in Cash, Cash Equivalents and Short and Long-Term Investments.

Free Cash Flow and Adjusted Free Cash Flow Growth



Notes

- (1) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.
- (2) Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus Real Estate purchases and new Headquarters related cash payments.

Q3 and 2018 Guidance⁽¹⁾ (Non-GAAP)

	Actual Q3 17	ASC 606 Q3 18	Actual 2017	ASC 606 2018
Billings ⁽²⁾	\$432M	\$500 - 515M	\$1.796B	\$2.085 - 2.110B
<i>Y/Y Mid-Pt Growth</i>		18%		17%
Revenue (GAAP)	\$374M	\$445 - 455M	\$1.495B	\$1.770 - 1.790B
<i>Y/Y Mid-Pt Growth</i>		20%		19%
Gross Margin (%) ⁽³⁾	76.0%	75 - 76%	75.3%	75 - 76%
Operating Margin (%) ⁽³⁾	18.7%	21.5 - 22.0% ⁽⁵⁾	17.2%	21.2 - 21.7% ⁽⁵⁾
Earnings per Share ^{(3) (4)}	\$0.28	\$0.41 - 0.43	\$1.04	\$1.63 - 1.67
Weighted Diluted Shares used in EPS	179M	175 – 177M	178M	174 – 176M

Notes

- (1) Guidance for non-GAAP financial measures excludes stock-based compensation and amortization of acquired intangible assets. We have not reconciled our guidance with respect to non-GAAP financial measures to the corresponding GAAP measures because certain items that impact these measures are uncertain or out of our control, or cannot be reasonably predicted. Accordingly, a reconciliation of these non-GAAP financial measures to the corresponding GAAP measures is not available without unreasonable effort.
- (2) Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period and adjustment to the deferred revenue balance due to adoption of the new revenue recognition standard, less any deferred revenue balances acquired from business combination(s) during the period.
- (3) Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, litigation settlement expenses, and restructuring charges.
- (4) Assumes effective tax rate of 24% for 2018.
- (5) Non-GAAP Operating margin guidance includes a benefit associated with the adoption of ASC 606 of approximately 350 basis points for both Q3 and FY 2018.

GAAP to Non-GAAP – Operating Results (Q2'18 vs. Q1'18 vs. Q2'17)

(Unaudited, in millions, except per share amounts)

	Q2'18	Adjustments	Non-GAAP Q2'18	Q1'18	Adjustments	Non-GAAP Q1'18	Q2'17	Adjustment	Non-GAAP Q2'17
Revenue:									
Product	\$ 166.3	\$ -	\$ 166.3	\$ 142.8	\$ -	\$ 142.8	\$ 142.7	\$ -	\$ 142.7
Service	275.0	-	275.0	256.2	-	256.2	220.8	-	220.8
Total revenue	441.3	-	441.3	399.0	-	399.0	363.5	-	363.5
Cost of revenue:									
Product	73.9	(1.6)	72.3	58.2	(1.5)	56.7	60.8	(1.4)	59.4
Service	39.2	(2.8)	36.4	39.0	(2.6)	36.4	34.9	(2.7)	32.2
Total cost of revenue	113.1	(4.4)	108.7	97.2	(4.1)	93.1	95.7	(4.1)	91.6
Gross profit:									
Product	92.4	1.6	94.0	84.6	1.5	86.1	81.9	1.4	83.3
Service	235.8	2.8	238.6	217.2	2.6	219.8	185.9	2.7	188.6
Total gross profit	328.2	4.4	332.6	301.8	4.1	305.9	267.8	4.1	271.9
Operating expenses:									
Research and development	61.2	(9.2)	52.0	59.1	(8.4)	50.7	51.2	(8.3)	42.9
Sales and marketing	192.8	(24.1)	168.7	185.3	(21.5)	163.8	166.3	(20.7)	145.6
General and administrative	23.5	(4.7)	18.8	25.0	(4.3)	20.7	21.9	(4.2)	17.7
Restructuring charges	-	-	-	-	-	-	(0.1)	0.1	-
Total operating expenses	277.5	(38.0)	239.5	269.4	(34.2)	235.2	239.3	(33.1)	206.2
Operating income	50.7	42.4	93.1	32.4	38.3	70.7	28.5	37.2	65.7
Interest income	5.8	-	5.8	4.5	-	4.5	3.2	-	3.2
Other income (expense)—net	(5.0)	-	(5.0)	(0.2)	-	(0.2)	1.2	-	1.2
Income before income taxes	51.5	42.4	93.9	36.7	38.3	75.0	32.9	37.2	70.1
Provision for (Benefit from) income taxes	2.2	20.3	22.5	(4.9)	22.9	18.0	9.9	12.5	22.4
Net income	\$ 49.3	\$ 22.1	\$ 71.4	\$ 41.6	\$ 15.4	\$ 57.0	\$ 23.0	\$ 24.7	\$ 47.7
Basic net income per share	\$ 0.29		\$ 0.42	\$ 0.25		\$ 0.34	\$ 0.13		\$ 0.27
Diluted net income per share	\$ 0.28		\$ 0.41	\$ 0.24		\$ 0.33	\$ 0.13		\$ 0.27
Shares used in computing net income per share									
Basic	168.6		168.6	167.7		167.7	175.7		175.7
Diluted	173.5		173.5	171.8		171.8	179.7		179.7

GAAP to Non-GAAP – Operating Results (% of Revenue) (Q2'18 vs. Q1'18 vs. Q2'17)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q2'18	Adjustments	Q2'18	Q1'18	Adjustments	Q1'18	Q2'17	Adjustments	Q2'17
Revenue:									
Product	38%	-	38%	36%	-	36%	39%	-	39%
Service	62%	-	62%	64%	-	64%	61%	-	61%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	17%	-	16%	15%	-	14%	17%	-	16%
Service	9%	(1%)	8%	10%	(1%)	9%	10%	(1%)	9%
Total cost of revenue	26%	(1%)	25%	24%	(1%)	23%	26%	(1%)	25%
Gross margin:									
Product	55.6%	1.0%	56.5%	59.2%	1.1%	60.3%	57.4%	1.0%	58.4%
Service	85.7%	1.0%	86.8%	84.8%	1.0%	85.8%	84.2%	1.2%	85.4%
Total gross margin	74.4%	1.0%	75.4%	75.6%	1.0%	76.7%	73.7%	1.1%	74.8%
Operating expenses:									
Research and development	14%	(2%)	12%	15%	(2%)	13%	14%	(2%)	12%
Sales and marketing	44%	(5%)	38%	46%	(5%)	41%	46%	(6%)	40%
General and administrative	5%	(1%)	4%	6%	(1%)	5%	6%	(1%)	5%
Restructuring charges	-	-	-	-	-	-	-	-	-
Total operating expenses	63%	(9%)	54%	68%	(9%)	59%	66%	(9%)	57%
Operating margin	11.5%	9.6%	21.1%	8.1%	9.6%	17.7%	7.8%	10.2%	18.1%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other income (expense)—net	(1%)	-	(1%)	-	-	-	-	-	-
Income before income taxes	12%	10%	21%	9%	10%	19%	9%	10%	19%
Provision for (Benefit from) income taxes	1%	5%	5%	(1%)	6%	5%	3%	3%	6%
Net income	11%	5%	16%	10%	4%	14%	6%	7%	13%

Impact of ASC 606 on Non-GAAP Operating Results

(Unaudited, in millions, except per share and % amounts)

	Non-GAAP Q2'18	ASC 606 Impact	Non-GAAP Balances Without Adoption of ASC 606
Revenue:			
Product (*)	\$ 166.3	\$ (4.2)	\$ 162.1
Service	275.0	(1.0)	274.0
Total revenue	441.3	(5.2)	436.1
Cost of revenue:			
Product	72.3	0.2	72.5
Service	36.4		36.4
Total cost of revenue	108.7	0.2	108.9
Gross profit:			
Product	94.0	(4.4)	89.6
Service	238.6	(1.0)	237.6
Total gross profit	332.6	(5.4)	327.2
Gross margin	75.4%		75.0%
Operating expenses:			
Research and development	52.0		52.0
Sales and marketing	168.7	11.8	180.5
General and administrative	18.8		18.8
Total operating expenses	239.5	11.8	251.3
Operating income	93.1	(17.2)	75.9
Operating margin	21.1%		17.4%
Interest and other income (expense)—net	0.8		0.8
Provision for (Benefit from) income taxes	22.5	(4.0)	18.5
Net income	\$ 71.4	\$ (13.2)	\$ 58.2
Diluted net income per share	\$ 0.41	\$ (0.08)	\$ 0.34
Shares used in computing net income per share			
Diluted	173.5		173.5

(*) Product revenue includes software license revenue

The image features the Fortinet logo in white, bold, uppercase letters, centered on a red background. The logo consists of the word "FORTINET" followed by a registered trademark symbol (®). The background is decorated with a pattern of white, semi-transparent hexagons of various sizes and orientations, some of which are nested or overlapping, creating a sense of depth and a technical, network-like aesthetic.

FORTINET®