4Q21 Earnings
CFO Script

Thank you, Ken and good afternoon, everyone.

I'll start with a summary of our very strong 2021 performance.

Customer demand was strong and broad-based -- across geographies, customer sizes, industries, use cases, and security solutions – reflecting the three key demand drivers that Ken mentioned.

1. Convergence of security and networking,
2. Vendor consolidation on our Security Fabric MESH platform, and
3. The elevated threat environment.

Convergence, or Security Driven Networking, requires integrated security solutions to be delivered at networking speeds across a company's entire threat landscape of edges including data centers, endpoints, work-from-anywhere, and clouds as well as across multiple use cases such as Secure SD-WAN, Wifi, Switching, 5G, and OT.

The networking speed and computing capabilities of our ASIC powered FortiGates can be 5 to 10 times more than competitor firewalls with their off-the-shelf silicon products.

Vendor Consolidation is driven by customer focus on security effectiveness, performance, and cost management. We deliver vendor consolidation through our Security Fabric Platform and its broad range of products, integrated with a single operating system, offering increased automation.

As we saw in 2021, we expect strong customer demand fueled by these key drivers to continue. Turning to our 2021 performance…

Billings growth accelerated to 35%, or $4.2 billion, representing our *highest annual billings growth rate in 6 years*.

Revenue growth also accelerated, coming in at 29%, representing the *fourth consecutive year of revenue growth of 20%* or more.

And, despite the supply chain environment, product revenue growth came in at 37%, our *highest annual product revenue growth rate in 10 years*.

Driven by strong demand for our Fabric and Cloud security solutions, Non-FortiGate billings and revenue each exceeded $1 billion for the first time in our history.

Non-FortiGate *billings* increased 46% to $1.25 billion and Non-FortiGate *revenue* increased 42% to $1.1 billion.

Gross margin was 77.5% and operating margin was 26.2%.

Our GAAP operating margin of 19.5% is one of the highest in the industry and we were GAAP profitable for the 13th consecutive year.

Free Cash Flow was a record $1.2 billion – exceeding $1 billion for the first time in our history. Free Cash Flow margin was 36% and, when adjusted for real estate investments, came in at 43%.

Total deferred revenue increased 33% to $3.5 billion. Short-term deferred revenue increased 28% to $1.8 billion.

We are experiencing *exceptionally* strong demand; demand that exceeds supply by more than historical norms. As a result, we are expanding our disclosures to include '*bookings'* and '*backlog*' to provide greater visibility into the strength of our business.

Bookings represent the value of all orders received from customers.

Backlog represents the value of all orders received, but not fulfilled.

When an order is fulfilled, we recognize both billings and *product* revenue.

Turning to Q4 results.

As noted on slide 4,

- *Bookings* were $1.4 billion, up 49%.
- On a sequential basis, backlog increased $122 million due to *very strong* demand.
- On a year-over-year basis, backlog increased $150 million to end the year at $162 million.
- Breaking down the backlog between product and services – approximately 75% relates to future product shipments, while the remaining 25% relates to various services.

While it's difficult to forecast if an order might be cancelled, several factors support our view that our backlog is strong and should provide a tailwind to growth later this year and into next year:

  - Existing customers account for approximately 90% of our backlog
  - No single end customer accounts for more than a low single digit percentage of backlog
  - Many *competitors* are also impacted by supply chain constraints
  - Our products, along with our integrated operating system, are not commodities readily exchanged with offerings from other vendors
  - We actively manage our own supply chain and, as the most deployed network security solution with over one-third of all firewall unit shipments, we are an attractive volume buyer for many suppliers, and lastly,
  - Our Price for Performance advantage can be difficult for our competition to match.

Moving to Q4 billings…

At $1.3 billion, billings were up 36%, which compares to the 49% bookings growth noted earlier.

Enterprises favored Fortinet's leading cost for performance and integrated platform. This was especially evident in the 5-point increase in the large enterprise billing mix. To add more color to this, we can share:

- Global *2000 billings were up over 90%, the 3rd consecutive quarter of accelerating* growth.
- The number of deals over $1 million increased 79% to *122 deals; breaking the 100- deal threshold for the first time in our history.*
- We saw a record of *four (low) 8-figure transactions -- all in the Americas*, and lastly
- Secure SD-WAN deals over $1 million *increased 63%* to 26 contributing to SD-WAN use case billings growth of 67% and putting SD-WAN at 16% of total billings.

FortiGate billings were up 33% and accounted for 69% of total billings. As shown on slide 11, high-end FortiGates posted very strong billings growth.

Non-FortiGate billings were up 43%, driving a point and a half mix shift to Non-FortiGate. Top 10 Non-FortiGate solutions with growth of over 40% included virtual firewalls, endpoints, and switches. At the same time several smaller solutions posted triple digit growth rates.

Consistent with the elevated threat environment and the breadth of ransomware and other attacks, OT use case billings were up 70% and accounted for 8% of total billings.

Average contract term was consistent year-over-year and quarter-over-quarter at 28 months.

For the third consecutive quarter, we added *approximately 6,000* new logos.

Worldwide government billings grabbed the largest share of the mix at 16%. Financial services accounted for 14% of billing on billings growth of 63%.

Billings in manufacturing, transportation, utilities, construction and other verticals that have *not* consistently been in our top 5, remained elevated with billings growth of 40%. We believe the growth of these verticals is an indication of the broadening nature and greater awareness of the threat landscape which is driving security investments in industries that historically may have had less affluent security budgets.

Moving over to the income statement…

Revenue growth was 29%.

Product revenue growth was 31%. Illustrating the impact of backlog on product revenue growth, if backlog had remained flat quarter-over-quarter, the product revenue growth percentage would have been as *high as the mid-sixties*.

Service revenue was up 27% to $585 million.

Support and related services revenue was up 31% to $275 million, while security subscriptions services revenue was up 24% to $309 million.

Non-FortiGate product and services revenue of $324 million grew 41% and accounted for approximately 34% of total revenue, *up 3 percentage points*.

FortiGate product and services revenue of $639 million grew 23% and accounted for 66% of total revenue.

Total gross margin of 77.3% was *180 basis points above the midpoint* of the guidance range and up 80 basis points quarter-over-quarter. A lower-than-expected drag from acquisitions and pricing actions taken to offset supplier cost increases contributed to the better-than-expected total gross margin and product gross margin.

Product gross margin of 62.1% increased 140 basis points sequentially.

Service gross margin of 87.1% increased 50 basis points sequentially.

Operating margin of 28.5%, improved 270 basis points sequentially and exceeded the midpoint of the guidance range by 100 basis points.

The better-than-expected gross margin performance and a slightly less than expected impact from acquisitions contributed to the better-than-expected operating margin.

Headcount increased 24% to 10,195.

Moving to the Statement of Cash Flows summarized on slides 12 thru 15 --

Capital expenditures were $151 million, including $129 million for real estate investments. Our capital expenditure strategy includes increasing our office and warehouse capacity to support our higher levels of growth.

We repurchased approximately 1.8 million shares of our common stock for a cost of $541 million. For the year, we repurchased approximately 2.6 million shares for a cost of $742 million.

At year end, the remaining share repurchase authorization was approximately $1.5 billion with the authorization set to expire in February 2023.

Inventory turns of 2.7 were flat year-over-year and on par with the 2.9 times in the prior quarter.

Overall, with what we believe was better than market growth for the fourth quarter and full year, we believe we again gained market share.

Supported by strong pipeline growth and the key growth drivers outlined earlier, we believe we are in the early innings of a sustained high-growth period for the cyber security industry and Fortinet driven by digital transformation, hybrid cloud, and the moving of data and security to the edge.

The products we've created, the channel and customer relationships we've developed, and the investments we've made to build a broad and integrated Security Fabric Platform powered by our proprietary ASIC FortiGates, are expected to drive our continued growth and market share gains.

Now, I'd like to review our outlook for the first quarter summarized on slide 16, which is subject to the disclaimers regarding forward-looking information that Peter provided at the beginning of the call.

For at least the first half of the year, we expect elevated demand to outpace supply chain capacity, increasing backlog. An increase in backlog is a headwind to billings and revenue growth and provides interim pressure on margins.

For the first quarter, assuming *bookings* in the range of $1 billion $100 million to $1 billion 150 million, which at the midpoint represents bookings growth of 32%, we expect:

- *Billings* in the range of $1 billion 50 million to $1 billion 90 million, which at the midpoint represents growth of 26%
- Revenue in the range of $865 million to $895 million
- Non-GAAP gross margin of 75.5% to 76.5%,
- Non-GAAP operating margin of 19.5% to 20.5%,
- Non-GAAP earnings per share of $0.75 to $0.80, which assumes a share count between 166 and 168 million.
- We estimate first quarter capital expenditures to be between $140 and $150 million.
- We expect a non-GAAP tax rate of 18%.

Before providing our full year 2022 guidance, I'd like to congratulate every member of the Fortinet team for the truly outstanding execution in 2021.

The effort and results have been outstanding. And, this is on top of now several years of consistent, predictable performance and improvements in key growth and profitability metrics.

In 2022, we expect a small shift in our seasonality towards the second half of the year by 2 to 3 points.

For the full year assuming *bookings* in the range of $5 billion 580 million to $5 billion 680 million, which at the midpoint represents growth of 30%; we expect:

- *Billings* in the range of $5 billion 400 million to $5 billion 480 million, which at the midpoint represents growth of 30%.
- Revenue in the range of $4 billion 275 million to $4 billion 325 million, which at the midpoint represents growth of 29%.
- Total service revenue in the range of $2 billion $685 million to $2 billion $715 million, which represents growth of approximately 29% and implies full-year product revenue growth of approximately 27%.
- Non-GAAP gross margin of 74% to 76%.
- Non-GAAP operating margin of 24% to 26%.
- Non-GAAP earnings per share of $4.85 to $5.00, which assumes a share count of between 169 and 171 million.
- We estimate full year capital expenditures to be between $270 and $300 million.
- We expect our Non-GAAP tax rate to be 18%.
- We expect cash taxes to be approximately $210 million.

Lastly, I want to inform everyone that we will be holding an Analyst Day on May 10th coinciding with Accelerate 2022 where we expect to update our medium-term financial model.

Along with Ken, I would like to thank our partners, customers, suppliers, and all members of the Fortinet team for all of their hard work, execution and outstanding success.

I'll now hand the call back over to Peter to begin the Q&A session.