



# Q3 2020 Financial Results

October 29, 2020

# Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference call concerning Fortinet's business outlook, the Q4 2020 guidance, and future prospects and expectations are forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding demand for our products and services, guidance and expectations around future financial results, including guidance and expectations for the fourth quarter 2020, statements regarding market share gains and innovation and investment areas, statements regarding the acceleration of digital transformation and cloud migration efforts as a result of the COVID-19, and statements regarding the momentum in our business and future growth expectations and objectives. Although we attempt to be accurate in making forward-looking statements, it is possible that future circumstances might differ from the assumptions on which such statements are based such that actual results are materially different from our forward-looking statements in these presentation slides. Important factors that could cause results to differ materially from the statements herein include the following: general economic risks, including those caused by the COVID-19 pandemic; negative impacts from the COVID-19 pandemic on sales, billings, revenue, demand and buying patterns, component supply and ability to manufacture products to meet demand in a timely fashion, and costs such as possible increased costs for shipping and components; global economic conditions, country-specific economic conditions, and foreign currency risks; competitiveness in the security market; the dynamic nature of the security market and its products and services; specific economic risks worldwide and in different geographies, and among different customer segments; uncertainty regarding demand and increased business and renewals from existing customers; uncertainties around continued success in sales growth and market share gains; actual or perceived vulnerabilities in our supply chain, products or services, and any actual or perceived breach of our network or our customers' networks; longer sales cycles, particularly for larger enterprise, service providers, government and other large organization customers; the effectiveness of our salesforce and failure to convert sales pipeline into final sales; risks associated with successful implementation of multiple integrated software products and other product functionality risks; risks associated with integrating acquisitions and changes in circumstances and plans associated therewith, including, among other risks, changes in plans related to product and services integrations, product and services plans and sales strategies; sales and marketing execution risks; execution risks around new product development and introductions and innovation; litigation and disputes and the potential cost, distraction and damage to sales and reputation caused thereby or by other factors; cybersecurity threats, breaches and other disruptions; market acceptance of new products and services; the ability to attract and retain personnel; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; technological changes that make our products and services less competitive; risks associated with the adoption of, and demand for, our products and services in general and by specific customer segments, including those caused by the COVID-19 pandemic; competition and pricing pressure; product inventory shortages for any reason, including those caused by the COVID-19 pandemic; risks associated with business disruption caused by natural disasters and health emergencies such as earthquakes, fires, power outages, typhoons, floods, health epidemics and viruses such as the COVID-19 pandemic, and by manmade events such as civil unrest, labor disruption, international trade disputes, international conflicts, terrorism, wars, and critical infrastructure attacks; tariffs, trade disputes and other trade barriers, and negative impact on sales based on geo-political dynamics and disputes and protectionist policies; any political and government disruption around the world, including the impact of any future shutdowns of the U.S. government; and the other risk factors set forth from time to time in our most recent Annual Report on Form 10-K, our most recent Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission (SEC), copies of which are available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) or upon request from our investor relations department. All forward-looking statements herein reflect our opinions only as of the date of these presentation slides, and we undertake no obligation, and expressly disclaim any obligation, to update forward-looking statements herein in light of new information or future events.

# Q3 2020 Non-GAAP Results<sup>(1)</sup>

	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
<b>Billings<sup>(2)</sup></b>	\$551.6M	\$622.4M	\$626.6M	\$802.3M	\$667.8M	\$711.5M	\$749.8M
<i>Y/Y % Change</i>	19.1%	21.2%	18.8%	23.6%	21.1%	14.3%	19.7%
<b>Revenue</b>	\$473.0M	\$523.8M	\$548.1M	\$618.1M	\$577.7M	\$617.6M	\$651.1M
<i>Y/Y % Change</i>	18.5%	18.4%	20.9%	21.3%	22.1%	17.9%	18.8%
<b>Product Revenue</b>	\$162.7M	\$189.9M	\$197.1M	\$238.8M	\$192.3M	\$211.9M	\$223.8M
<i>Y/Y % Change</i>	13.9%	14.2%	19.8%	18.9%	18.2%	11.6%	13.5%
<b>Service Revenue</b>	\$310.3M	\$333.9M	\$351.0M	\$379.3M	\$385.4M	\$405.7M	\$427.3M
<i>Y/Y % Change</i>	21.1%	20.9%	21.5%	22.9%	24.2%	21.5%	21.7%

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.
- (2) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP 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.

# Q3 2020 Non-GAAP Results (Continued)<sup>(1)</sup>

	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
Gross Margin <sup>(2)</sup>	77.2%	76.5%	78.2%	78.1%	78.8%	79.1%	79.5%
Operating Income <sup>(2)(3)</sup>	\$97.0M	\$125.2M	\$145.2M	\$168.6M	\$129.2M	\$170.3M	\$178.6M
Operating Margin <sup>(2)(3)</sup>	20.5%	23.9%	26.5%	27.3%	22.4%	27.6%	27.4%
Net Income <sup>(2)(3)(4)(5)</sup>	\$81.1M	\$103.2M	\$117.3M	\$135.2M	\$105.1M	\$136.6M	\$145.4M
Diluted Net Income Per Share <sup>(2)(3)(4)(5)</sup>	\$0.46	\$0.59	\$0.67	\$0.77	\$0.60	\$0.83	\$0.88
Weighted Diluted Shares Outstanding	174.8M	175.1M	174.8M	175.2M	174.2M	165.4M	165.6M
Deferred Revenue	\$1.75B	\$1.84B	\$1.92B	\$2.11B	\$2.20B	\$2.29B	\$2.39B
Cash and Investments <sup>(4)</sup>	\$1.85B	\$1.98B	\$2.14B	\$2.21B	\$1.57B	\$1.63B	\$1.77B
Cash Paid for Stock Repurchases	\$60.4M	\$33.8M	\$23.4M	\$27.5M	\$889.9M	\$156.1M	—
Days Sales Outstanding	72	69	63	79	74	73	76
Inventory Turns	2.6	3.5	2.8	2.8	2.5	2.2	2.1
Headcount	6,015	6,293	6,590	7,082	7,448	7,756	8,075

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.
- (2) Excludes stock-based compensation and amortization of acquired intangible assets.
- (3) Excludes gain on intellectual property ("IP") and litigation-related matters.
- (4) Excludes gains/losses on investments in privately-held companies.
- (5) Assumes a quarterly effective tax rate of 24% for all periods in 2019. Assumes a quarterly effective tax rate of 22% for Q1'20 and Q2'20, and a quarterly effective tax rate of 19% for Q3'20.
- (6) Excludes investments in privately held companies, which are recorded in other assets.

# Revenue by Geography<sup>(1)</sup>

	Q1'19		Q2'19		Q3'19		Q4'19		Q1'20		Q2'20		Q3'20	
(\$ in millions)	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change
Americas	\$200.6	14.0%	\$226.4	19.3%	\$241.0	24.3%	\$252.2	23.1%	\$242.5	20.9%	\$261.0	15.3%	\$272.4	13.0%
EMEA	\$177.4	22.7%	\$192.8	17.0%	\$200.9	21.6%	\$245.4	19.8%	\$221.1	24.6%	\$229.2	18.9%	\$243.3	21.1%
APAC	\$95.0	20.6%	\$104.6	18.9%	\$106.2	12.4%	\$120.5	20.8%	\$114.1	20.1%	\$127.4	21.8%	\$135.4	27.5%
Total	\$473.0	18.5%	\$523.8	18.4%	\$548.1	20.9%	\$618.1	21.3%	\$577.7	22.1%	\$617.6	17.9%	\$651.1	18.8%

	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue
Americas	42.4%	43.2%	44.0%	40.8%	42.0%	42.3%	41.8%
EMEA	37.5%	36.8%	36.7%	39.7%	38.3%	37.1%	37.4%
APAC	20.1%	20.0%	19.3%	19.5%	19.7%	20.6%	20.8%
Total	100%	100%	100%	100%	100%	100%	100%

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.

# Number of Deals & FortiGate Sales

Number of Deals <sup>(1)</sup>	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
No. of Deals >\$50K	1,683	1,906	1,908	2,565	2,121	2,111	2,267
No. of Deals >\$250K	266	346	333	469	323	369	398
No. of Deals >\$500K	108	147	130	197	120	146	168
No. of Deals >\$1M	35	46	53	64	38	59	48

% of FortiGate <sup>(2)</sup>	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
Entry Level (FG20-90)	23.6%	20.7%	21.6%	22.5%	24.7%	20.4%	21.3%
Mid - Range (FG100-900)	44.3%	46.0%	45.1%	43.9%	44.3%	44.4%	42.2%
High - End (FG1000-7000)	32.1%	33.3%	33.3%	33.6%	31.0%	35.2%	36.5%

## Notes

- (1) Deals are defined as combined sales in the period to a customer account.
- (2) Represents the percentage of invoiced amounts from FortiGate sales during the period by range of product and product bundles.

# Statement of Cash Flows (Non-GAAP)<sup>(1)</sup>

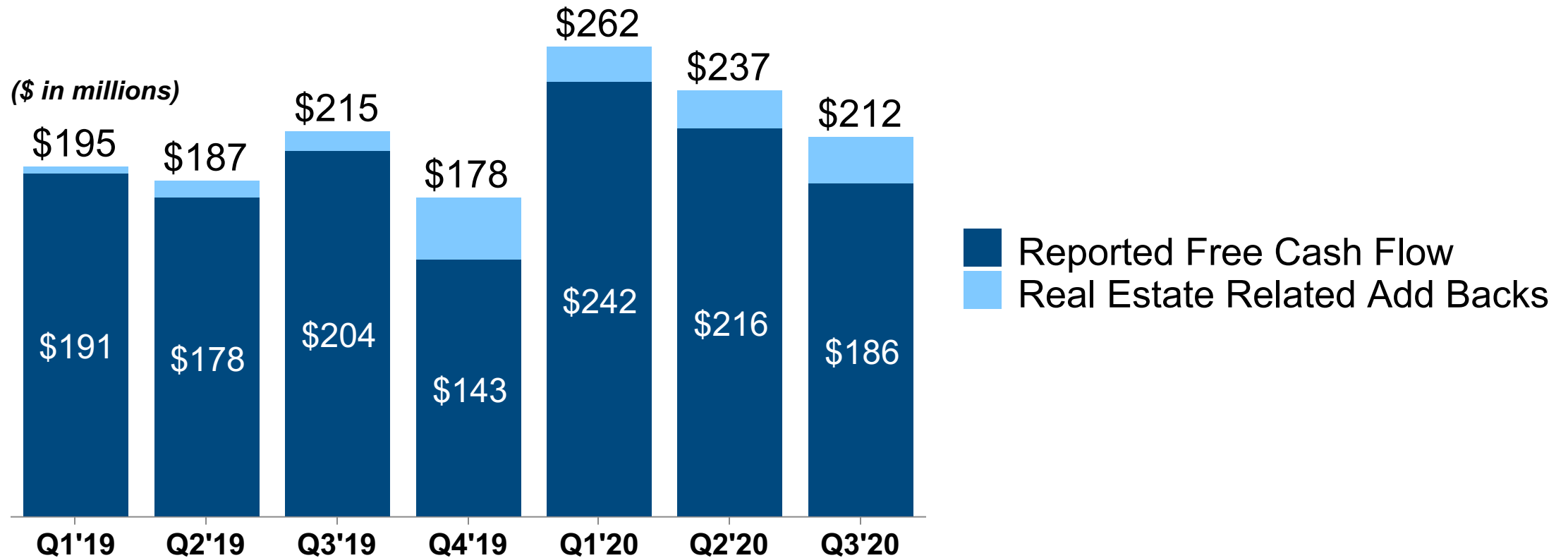
(\$ in millions)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
<b>GAAP Net Income</b>	<b>\$59.1</b>	<b>\$74.2</b>	<b>\$80.2</b>	<b>\$118.3</b>	<b>\$104.6</b>	<b>\$113.8</b>	<b>\$123.4</b>
Depreciation and Stock-Based Compensation	58.7	60.2	57.4	59.4	62.4	66.7	66.0
Accounts Receivable	63.6	(22.1)	19.0	(157.2)	69.6	(25.1)	(47.6)
Inventory	(2.6)	(2.9)	(19.7)	(23.3)	6.7	(24.6)	(13.1)
Deferred Revenue	78.6	98.6	78.5	184.2	90.1	93.9	98.6
Other	(56.1)	(12.9)	5.8	9.0	(14.0)	22.3	(6.5)
<b>GAAP Cash Flow from Operations</b>	<b>\$201.3</b>	<b>\$195.1</b>	<b>\$221.2</b>	<b>\$190.4</b>	<b>\$319.4</b>	<b>\$247.0</b>	<b>\$220.8</b>
Less: Purchase of Property and Equipment	(10.2)	(17.3)	(17.5)	(47.2)	(27.6)	(30.9)	(35.1)
Less: Proceeds from IP matter	—	—	—	—	(50.0)	—	—
<b>Free Cash Flow</b>	<b>\$191.1</b>	<b>\$177.8</b>	<b>\$203.7</b>	<b>\$143.2</b>	<b>\$241.8</b>	<b>\$216.1</b>	<b>\$185.7</b>
Issuance of Common Stock, Net of Taxes	2.6	(19.5)	(17.3)	(12.3)	(30.4)	(12.8)	(25.1)
Stock Repurchases	(60.4)	(33.8)	(23.4)	(27.5)	(889.9)	(156.1)	—
Acquisition	—	—	—	(34.6)	—	—	(6.1)
Proceeds from IP matter	—	—	—	—	50.0	—	—
Other	2.1	3.2	1.8	(3.4)	(8.1)	6.8	(7.2)
<b>Change in Cash and Investments<sup>(2)</sup></b>	<b>\$135.4</b>	<b>\$127.7</b>	<b>\$164.8</b>	<b>\$65.4</b>	<b>\$(636.6)</b>	<b>\$54.0</b>	<b>\$147.3</b>
<b>Footnote: Cash Paid for Taxes, Net of Refunds</b>	<b>\$11.5</b>	<b>\$16.8</b>	<b>\$14.8</b>	<b>\$15.6</b>	<b>\$8.8</b>	<b>\$9.5</b>	<b>\$9.3</b>

## Note

(1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.

(2) Change in Cash, Cash Equivalents and Short-Term and Long-Term Investments, excluding activity related to investments in privately held companies which are recorded in other assets.

# Free Cash Flow and Adjusted Free Cash Flow Growth (Non-GAAP)



- Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus purchases of property and equipment and excluding any significant non-recurring items, such as proceeds from intellectual property matter.
- Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus real estate purchases and cash payments related to the new Sunnyvale campus building.



# Q4 2020 Guidance (Non-GAAP)<sup>(1)</sup>

	Actual Q4'19	Q4'20
Billings <sup>(2)</sup>	\$802.3M	\$890 - 920M
<i>Y/Y Mid-Pt Growth</i>		<i>12.8%</i>
Revenue (GAAP)	\$618.1M	\$710 - 730M
<i>Y/Y Mid-Pt Growth</i>		<i>16.5%</i>
Gross Margin (%) <sup>(3)</sup>	78.1%	78.0 - 80.0%
Operating Margin (%) <sup>(3) (4)</sup>	27.3%	27.0 - 29.0%
Net Income per Share <sup>(3) (4) (5) (6)</sup>	\$0.77	\$0.95 - 0.97
Weighted Diluted Shares Outstanding	175.2M	167 - 169M

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.
- (2) Guidance for non-GAAP financial measures excludes stock-based compensation, amortization of acquired intangible assets, gain on IP and litigation-related matters, and gains/losses on investments in privately held companies. 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.
- (3) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP 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.
- (4) Excludes stock-based compensation and amortization of acquired intangible assets.
- (5) Excludes gain on IP and litigation-related matters.
- (6) Excludes gains/losses on investments in privately held companies.
- (7) Assumes an effective tax rate of 24% and 21% for 2019 and 2020, respectively. For 2020, we expect cash paid for taxes to be approximately \$40.0 million.

# GAAP to Non-GAAP Reconciliations<sup>(1)</sup>

(\$ in millions)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
GAAP product gross profit	\$92.5	\$107.2	\$118.1	\$146.1	\$116.0	\$127.5	\$139.5
Stock-based compensation	0.4	0.4	0.4	0.3	0.4	0.4	0.4
Amortization of acquired intangible assets	2.1	1.7	1.2	1.5	1.6	1.4	0.8
Non-GAAP product gross profit	\$95.0	\$109.3	\$119.7	\$147.9	\$118.0	\$129.3	\$140.7
<i>Non-GAAP product gross margin</i>	<i>58.4%</i>	<i>57.6%</i>	<i>60.7%</i>	<i>61.9%</i>	<i>61.4%</i>	<i>61.0%</i>	<i>62.9%</i>
GAAP service gross profit	\$267.5	\$288.3	\$305.9	\$331.5	\$333.0	\$355.0	\$372.4
Stock-based compensation	2.8	2.9	2.7	2.9	3.0	3.2	3.3
Amortization of acquired intangible assets	—	0.4	0.4	0.4	1.0	0.9	1.2
Non-GAAP service gross profit	\$270.3	\$291.6	\$309.0	\$334.8	\$337.0	\$359.1	\$376.9
<i>Non-GAAP service gross margin</i>	<i>87.1%</i>	<i>87.3%</i>	<i>88.0%</i>	<i>88.3%</i>	<i>87.4%</i>	<i>88.5%</i>	<i>88.2%</i>
GAAP total gross profit	\$360.0	\$395.5	\$424.0	\$477.6	\$449.0	\$482.5	\$511.9
Stock-based compensation	3.2	3.3	3.1	3.2	3.4	3.6	3.7
Amortization of acquired intangible assets	2.1	2.1	1.6	1.9	2.6	2.3	2.0
Non-GAAP total gross profit	\$365.3	\$400.9	\$428.7	\$482.7	\$455.0	\$488.4	\$517.6
<i>Non-GAAP gross margin</i>	<i>77.2%</i>	<i>76.5%</i>	<i>78.2%</i>	<i>78.1%</i>	<i>78.8%</i>	<i>79.1%</i>	<i>79.5%</i>
GAAP research and development expense	\$68.6	\$67.4	\$69.9	\$71.2	\$80.3	\$82.1	\$90.0
Stock-based compensation	(9.4)	(10.0)	(9.3)	(10.0)	(10.9)	(12.0)	(12.7)
Non-GAAP research and development expense	\$59.2	\$57.4	\$60.6	\$61.2	\$69.4	\$70.1	\$77.3
<i>Non-GAAP research and development expense as a percentage of revenue</i>	<i>12.5%</i>	<i>11.0%</i>	<i>11.1%</i>	<i>10.0%</i>	<i>12.0%</i>	<i>11.4%</i>	<i>11.9%</i>
GAAP sales and marketing expense	\$215.9	\$226.5	\$227.4	\$257.1	\$260.0	\$253.8	\$266.7
Stock-based compensation	(25.4)	(26.3)	(24.9)	(25.1)	(25.7)	(27.9)	(27.7)
Amortization of acquired intangible assets	(0.9)	(0.8)	(0.6)	(0.9)	(1.4)	(1.4)	(0.8)
Non-GAAP sales and marketing expense	\$189.6	\$199.4	\$201.9	\$231.1	\$232.9	\$224.5	\$238.2
<i>Non-GAAP sales and marketing expense as a percentage of revenue</i>	<i>40.1%</i>	<i>38.1%</i>	<i>36.8%</i>	<i>37.4%</i>	<i>40.3%</i>	<i>36.4%</i>	<i>36.6%</i>

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.

# GAAP to Non-GAAP Reconciliations (Continued)<sup>(1)</sup>

(\$ in millions)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
GAAP general and administrative expense	\$24.5	\$24.3	\$26.1	\$27.2	\$28.8	\$28.9	\$29.4
Stock-based compensation	(5.0)	(5.4)	(5.1)	(5.4)	(5.3)	(6.1)	(5.9)
Litigation-related matter	—	—	—	—	—	0.7	—
Non-GAAP general and administrative expense	\$19.5	\$18.9	\$21.0	\$21.8	\$23.5	\$23.5	\$23.5
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	<i>4.1%</i>	<i>3.6%</i>	<i>3.8%</i>	<i>3.5%</i>	<i>4.1%</i>	<i>3.8%</i>	<i>3.6%</i>
GAAP gain on IP matter	\$—	\$—	\$—	\$—	\$(36.8)	\$(1.1)	\$(1.1)
Gain on IP matter	—	—	—	—	36.8	1.1	1.1
Non-GAAP gain on IP matter	\$—	\$—	\$—	\$—	\$—	\$—	\$—
<i>Non-GAAP gain on IP matter as a percentage of revenue</i>	<i>—%</i>	<i>—%</i>	<i>—%</i>	<i>—%</i>	<i>—%</i>	<i>—%</i>	<i>—%</i>
GAAP total operating expense	\$309.0	\$318.2	\$323.4	\$355.5	\$332.3	\$363.7	\$385.0
Stock-based compensation	(39.8)	(41.7)	(39.3)	(40.5)	(41.9)	(46.0)	(46.3)
Amortization of acquired intangible assets	(0.9)	(0.8)	(0.6)	(0.9)	(1.4)	(1.4)	(0.8)
Gain on IP matter	—	—	—	—	36.8	1.1	1.1
Litigation-related matter	—	—	—	—	—	0.7	—
Non-GAAP total operating expense	\$268.3	\$275.7	\$283.5	\$314.1	\$325.8	\$318.1	\$339.0
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<i>56.7%</i>	<i>52.6%</i>	<i>51.7%</i>	<i>50.8%</i>	<i>56.4%</i>	<i>51.5%</i>	<i>52.1%</i>
GAAP operating income	\$51.0	\$77.3	\$100.6	\$122.1	\$116.7	\$118.8	\$126.9
Stock-based compensation	43.0	45.0	42.4	43.7	45.3	49.6	50.0
Amortization of acquired intangible assets	3.0	2.9	2.2	2.8	4.0	3.7	2.8
Gain on IP matter	—	—	—	—	(36.8)	(1.1)	(1.1)
Litigation-related matter	—	—	—	—	—	(0.7)	—
Non-GAAP operating income	\$97.0	\$125.2	\$145.2	\$168.6	\$129.2	\$170.3	\$178.6
<i>Non-GAAP operating margin</i>	<i>20.5%</i>	<i>23.9%</i>	<i>26.5%</i>	<i>27.3%</i>	<i>22.4%</i>	<i>27.6%</i>	<i>27.4%</i>

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.

# GAAP to Non-GAAP Reconciliations (Continued)<sup>(1)</sup>

<i>(\$ in millions)</i>	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
GAAP other income (expense), net	\$(0.5)	\$(0.4)	\$(6.0)	\$(0.6)	\$(8.0)	\$0.9	\$(1.0)
(Gain) loss on investments in privately held companies	—	—	3.8	—	4.3	—	—
Non-GAAP other income (expense), net	\$(0.5)	\$(0.4)	\$(2.2)	\$(0.6)	\$(3.7)	\$0.9	\$(1.0)
<i>Non-GAAP other income (expense), net as a percentage of revenue</i>	<i>(0.1)%</i>	<i>(0.1)%</i>	<i>(0.4)%</i>	<i>(0.1)%</i>	<i>(0.6)%</i>	<i>0.1%</i>	<i>(0.2)%</i>
GAAP income before income taxes	\$60.7	\$87.9	\$106.0	\$131.4	\$117.9	\$123.7	\$128.4
Stock-based compensation	43.0	45.0	42.4	43.7	45.3	49.6	50.0
Amortization of acquired intangible assets	3.0	2.9	2.2	2.8	4.0	3.7	2.8
Gain on IP matter	—	—	—	—	(36.8)	(1.1)	(1.1)
Litigation-related matter	—	—	—	—	—	(0.7)	—
(Gain) loss on investments in privately held companies	—	—	3.8	—	4.3	—	—
Non-GAAP income before income taxes	\$106.7	\$135.8	\$154.4	\$177.9	\$134.7	\$175.2	\$180.1
GAAP provision for (benefit from) income taxes	\$1.6	\$13.7	\$25.8	\$13.1	\$13.3	\$9.9	\$5.0
Tax adjustments related to the above	24.0	18.9	11.3	29.6	16.3	28.7	29.7
Non-GAAP provision for income taxes	\$25.6	\$32.6	\$37.1	\$42.7	\$29.6	\$38.6	\$34.7
<i>Non-GAAP effective tax rate</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>22%</i>	<i>22%</i>	<i>19%</i>

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.

# GAAP to Non-GAAP Reconciliations (Continued)<sup>(1)</sup>

(\$ in millions)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
GAAP net income	\$59.1	\$74.2	\$80.2	\$118.3	\$104.6	\$113.8	\$123.4
Stock-based compensation	43.0	45.0	42.4	43.7	45.3	49.6	50.0
Amortization of acquired intangible assets	3.0	2.9	2.2	2.8	4.0	3.7	2.8
Gain on IP matter	—	—	—	—	(36.8)	(1.1)	(1.1)
Litigation-related matter	—	—	—	—	—	(0.7)	—
(Gain) loss on investments in privately held companies	—	—	3.8	—	4.3	—	—
Tax adjustments	(24.0)	(18.9)	(11.3)	(29.6)	(16.3)	(28.7)	(29.7)
Non-GAAP net income	\$81.1	\$103.2	\$117.3	\$135.2	\$105.1	\$136.6	\$145.4
GAAP net income per share, diluted	\$0.34	\$0.42	\$0.46	\$0.68	\$0.60	\$0.69	\$0.75
Stock-based compensation	0.24	0.25	0.24	0.25	0.26	0.30	0.30
Amortization of acquired intangible assets	0.02	0.02	0.01	0.02	0.02	0.02	0.02
Gain on IP matter	—	—	—	—	(0.21)	(0.01)	(0.01)
Litigation-related matter	—	—	—	—	—	—	—
(Gain) loss on investments in privately held companies	—	—	0.02	—	0.02	—	—
Tax adjustments	(0.14)	(0.10)	(0.06)	(0.18)	(0.09)	(0.17)	(0.18)
Non-GAAP net income per share, diluted	\$0.46	\$0.59	\$0.67	\$0.77	\$0.60	\$0.83	\$0.88
Shares used in diluted net income per share calculations	174.8	175.1	174.8	175.2	174.2	165.4	165.6

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.

# Revenue to Billings Reconciliation<sup>(1)</sup>

<i>As Adjusted (\$ in millions)</i>	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
Revenue	\$473.0	\$523.8	\$548.1	\$618.1	\$577.7	\$617.6	\$651.1
Add: Ending Deferred Revenue	1,745.4	1,844.0	1,922.5	2,109.1	2,199.2	2,293.1	2,392.0
Less: Beginning Deferred Revenue	(1,666.8)	(1,745.4)	(1,844.0)	(1,922.5)	(2,109.1)	(2,199.2)	(2,293.1)
Less: Deferred revenue acquired in business combinations	—	—	—	(2.4)	—	—	(0.2)
Billings <sup>(2)</sup>	\$551.6	\$622.4	\$626.6	\$802.3	\$667.8	\$711.5	\$749.8

<i>Originally Reported (\$ in millions)</i>	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Revenue	\$472.6	\$521.7	\$547.5	\$614.4	\$576.9	\$615.5
Add: Ending Deferred Revenue	1,765.8	1,866.5	1,945.6	2,135.9	2,226.8	2,322.8
Less: Beginning Deferred Revenue	(1,686.8)	(1,765.8)	(1,866.5)	(1,945.6)	(2,135.9)	(2,226.8)
Less: Deferred revenue acquired in business combinations	—	—	—	(2.4)	—	—
Billings <sup>(2)</sup>	\$551.6	\$622.4	\$626.6	\$802.3	\$667.8	\$711.5

<i>(\$ in millions)</i>	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Adjustment to Billings	\$—	\$—	\$—	\$—	\$—	\$—

<i>Opening Balance Deferred Revenue (\$ in millions)</i>	Q1'19
Originally Reported	\$ 1,686.8
Adjustment <sup>(3)</sup>	(20.0)
As Adjusted	\$ 1,666.8

## Notes

- (1) During the third quarter, Fortinet identified and made an immaterial correction to the recognition of revenue related to certain service contracts, increasing previously reported amounts. The financial results presented for 2019 and 2020 reflect the effects of the correction.
- (2) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP 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.
- (3) Beginning deferred revenue for Q1'19 includes the cumulative effect of \$20.0 million for revenue that should have been recognized prior to 2019.

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