

Q1 2018 Financial Results

May 3, 2018

Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference call concerning Fortinet's business outlook, the Q2 and 2018 guidance, and future prospects and expectations are forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding our position for future growth, position to provide our customers the best network security, ability to continue to grow our market position and address our market opportunity, and guidance and future financial results. 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 this release. Important factors that could cause results to differ materially from the statements herein include the following: general economic risks; 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 product and services; specific economic risks worldwide and in different geographies, and among different customer segments; uncertainty regarding increased business and renewals from existing customers; uncertainties around continued success in sales growth and market share gains; longer sales cycles, particularly for larger enterprise, service providers, government and other large organization customers; failure to convert sales pipeline into final sales; risks associated with successful implementation of multiple integrated software products and other product functionality risks; 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; 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; competition and pricing pressure; risks related to integrating acquisitions; 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 or upon request from our investor relations department. All forward-looking statements herein reflect our opinions only as of the date of this release, and we undertake no obligation, and expressly disclaim any obligation, to update forward-looking statements herein in light of new information or future events

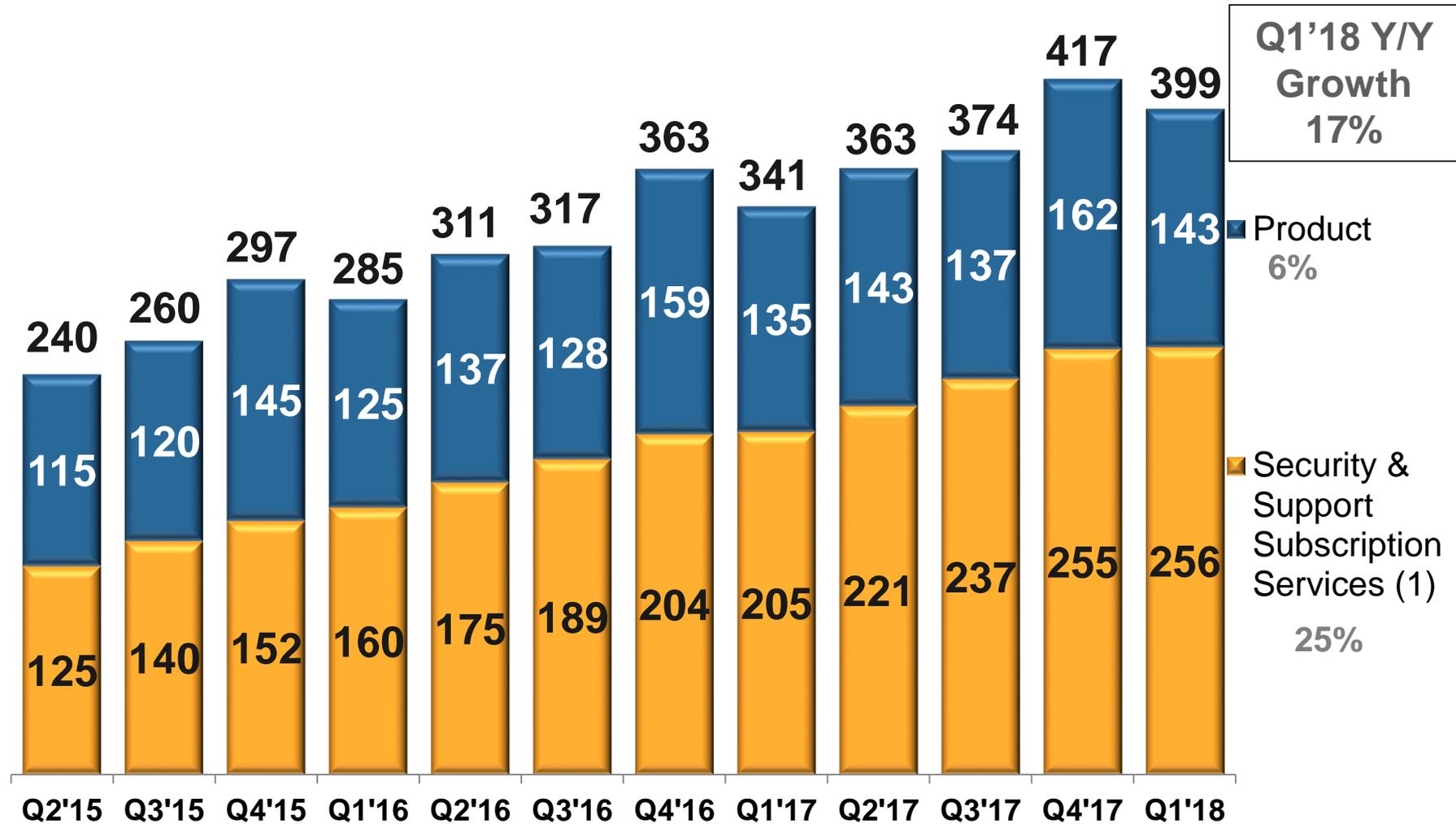
Q1 2018 Non-GAAP Results

	Q1 18	Q1 17	Y/Y % Change
Billings ⁽¹⁾	\$463M	\$403M	15%
Revenue	\$399M	\$341M	17%
Gross Margin (%) ⁽²⁾	77%	75%	+2 pts
Operating Income ⁽²⁾	\$71M	\$43M	64%
Operating Margin (%) ⁽²⁾	18%	13%	+5 pts
Net Income ⁽²⁾⁽³⁾	\$57M	\$31M	83%
Earnings per Share ⁽²⁾⁽³⁾	\$0.33	\$0.17	94%
Deferred Revenue	\$1.396B	\$1.098B	27%
Cash Flow from Operations	\$140M	\$130M	8%
Free Cash Flow ⁽⁴⁾	\$128M	\$116M	10%

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 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.
- (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 & Q1'18 Y/Y Growth



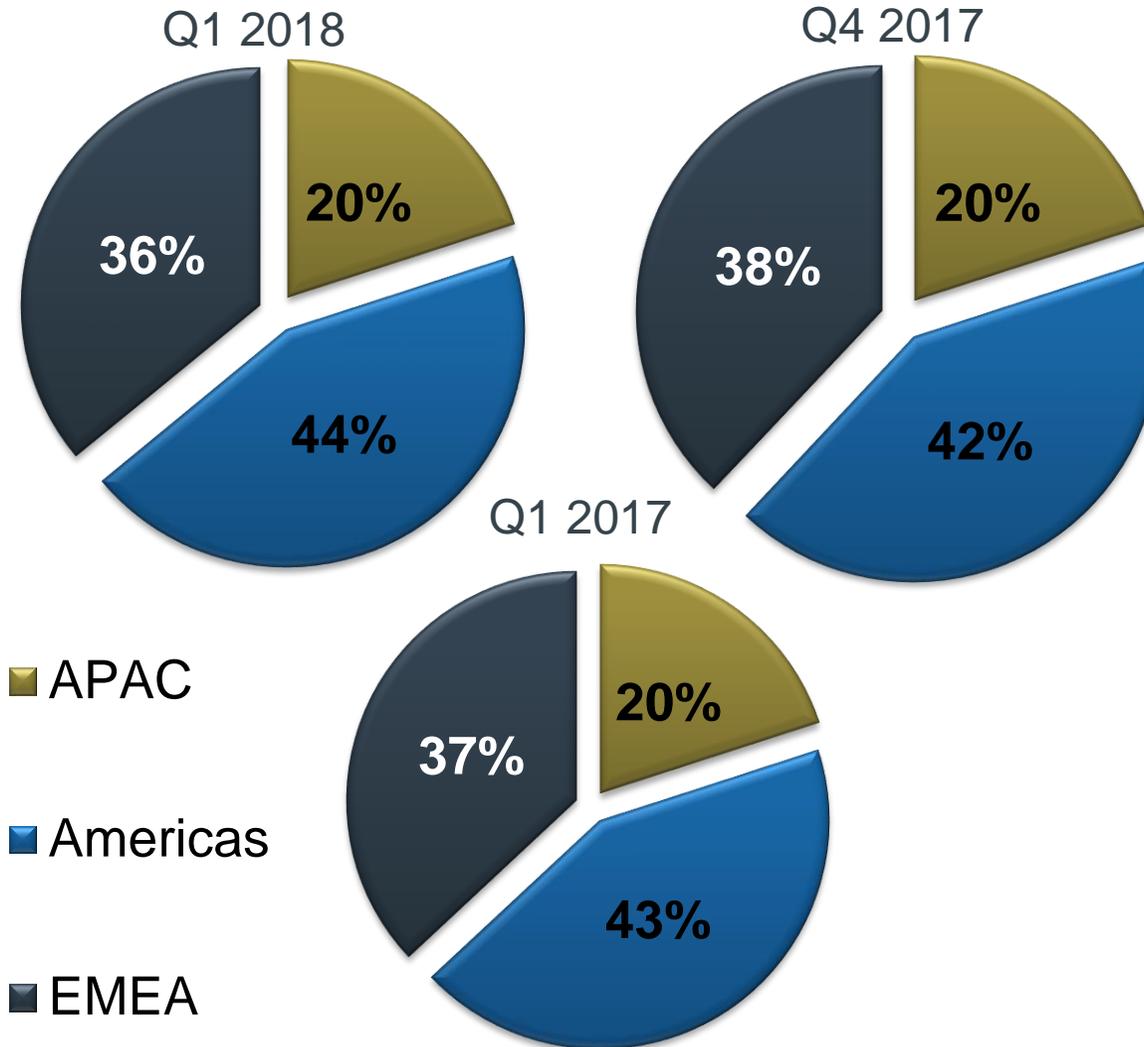
Note

(1) Includes Professional Services, Training and Other Revenue

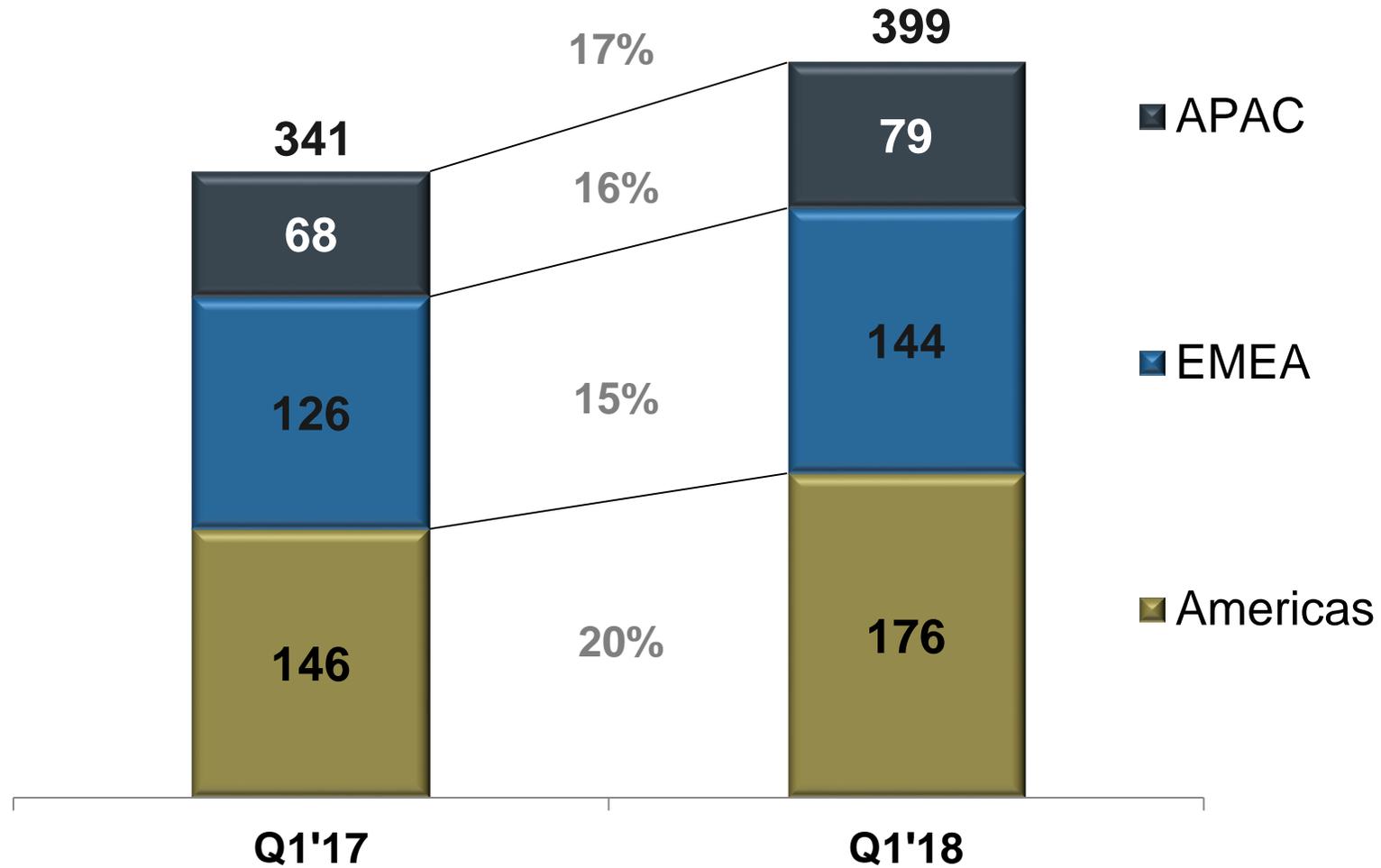
Diversified Global Revenue

Revenue by Geography

- Globally-diverse revenue stream



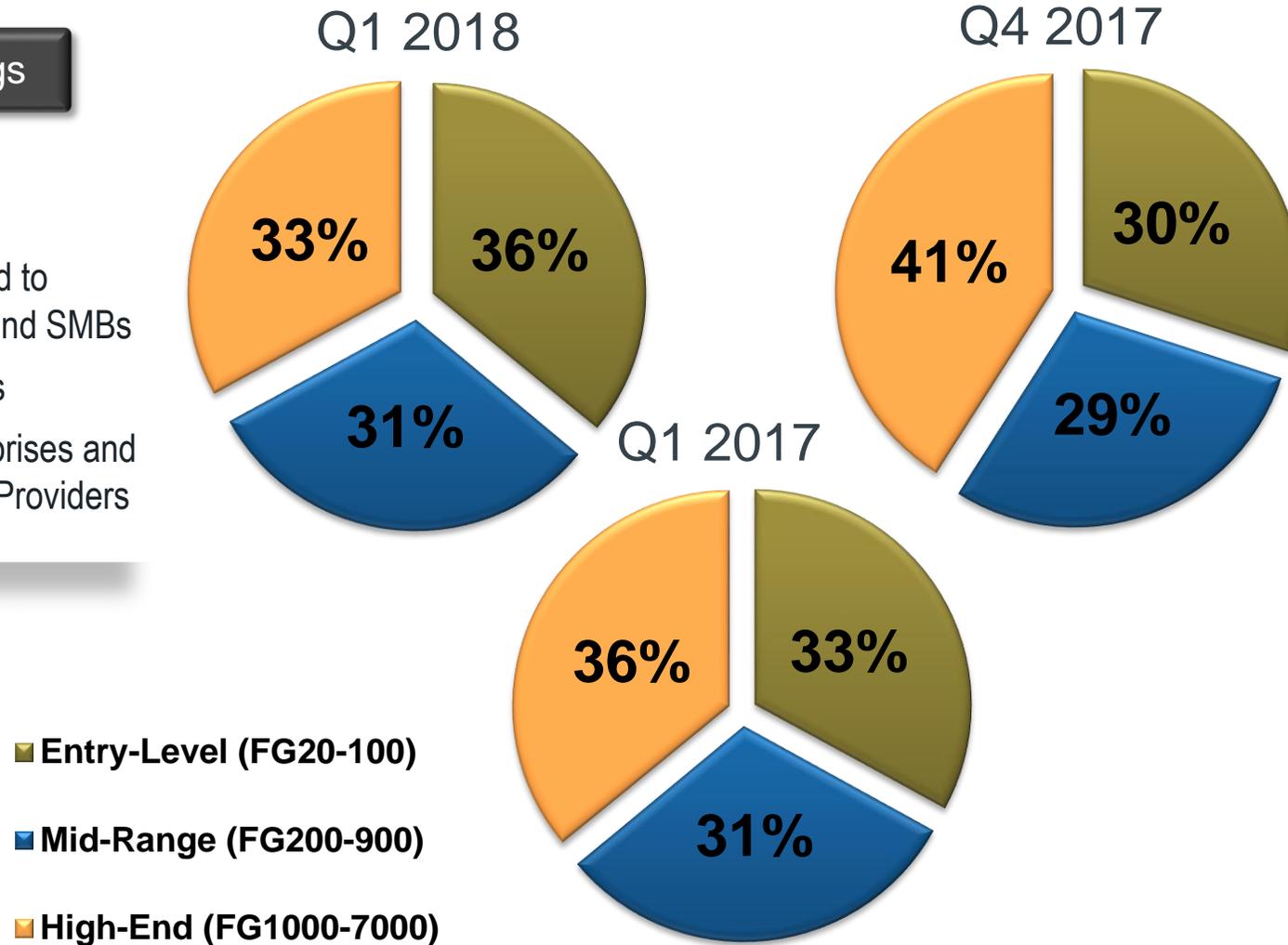
Revenue Growth by Geography



Balanced Product Sales

FortiGate Billings

- **Balanced Product Sales**
 - Entry-Level typically sold to Distributed Enterprises and SMBs
 - Mid-Range = Enterprises
 - High-End = Large Enterprises and Telcos/Carriers/Service Providers



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 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.

Q1 2018 Select Financial Statistics

	Q1 18	Q4 17	Q1 17
Cash and Investments ⁽¹⁾	\$1.39B	\$1.35B	\$1.44B
Deferred Revenue	\$1.40B	\$1.34B	\$1.10B
Free Cash Flow	\$128M	\$144M	\$116M
DSO ⁽²⁾	71	75	71
Inventory Turns	2.4	3.2	1.6
Revenue per Employee (Annualized)	\$309K	\$334K	\$291K
No. of Deals >\$50K ⁽³⁾	1,446	1,883	1,204
No. of Deals >\$250K ⁽³⁾	233	313	174
No. of Deals >\$500K ⁽³⁾	80	120	76
No. of Deals >\$1M ⁽³⁾	34	40	28

Notes

- (1) Excludes \$12.1M of investments in privately-held companies which are recorded in other assets for Q1 2018 and Q4 2017 and \$11.3M for Q1 2017.
- (2) The adoption of ASC 606 resulted in a 3 day increase in DSO compared to prior periods.
- (3) Deals are defined as combined sales in the period to a customer account.

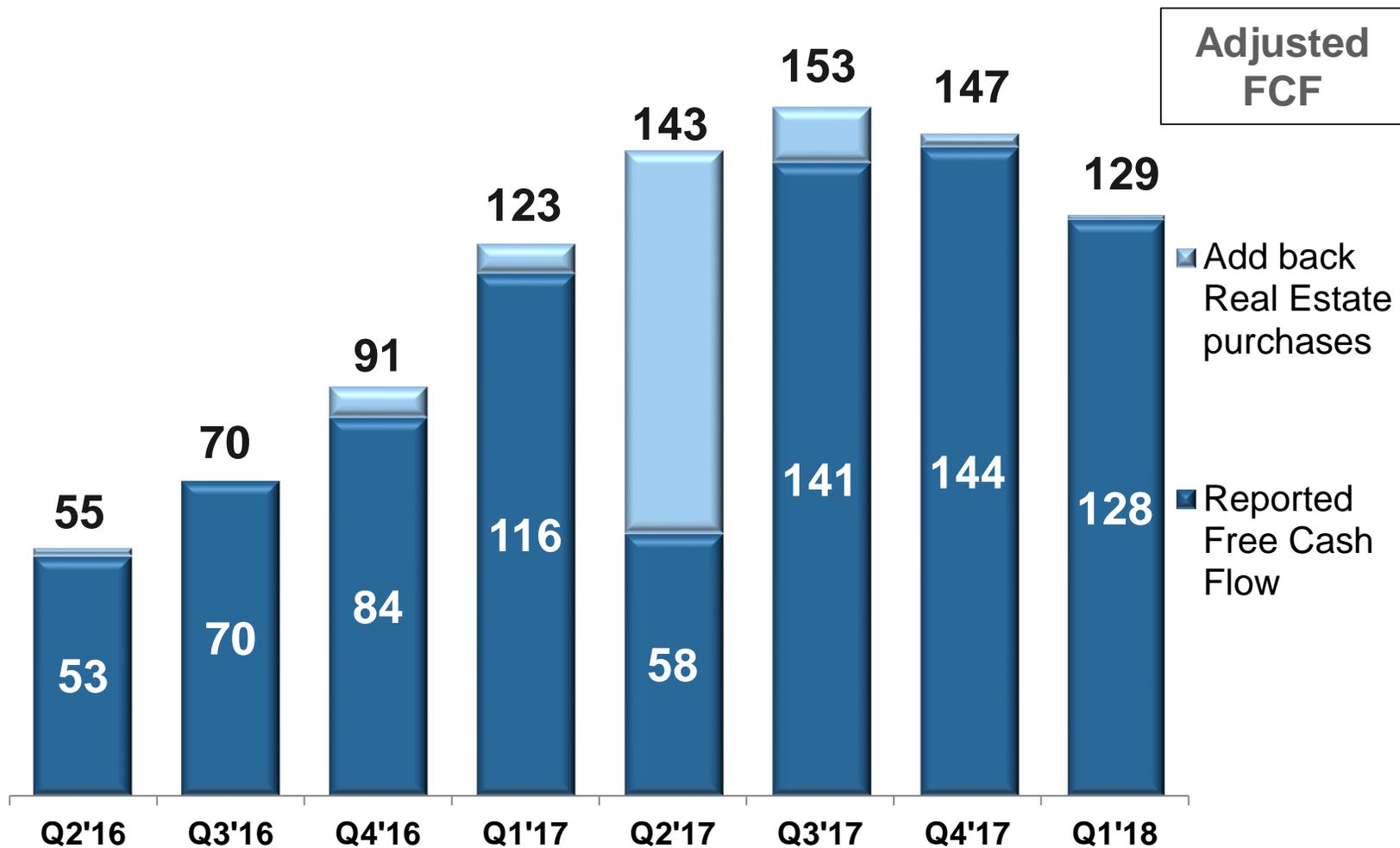
Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q1 18	Q1 17
GAAP Net Income (Loss)	42	11
Depreciation and Stock-Based Compensation	50	47
Accounts Receivable	49	42
Inventory	(7)	(4)
Accounts Payable / Accrued Expenses / Other	(58)	28
Deferred Revenue	64	62
GAAP Cash Flow from Operations	140	130
Purchase of Property and Equipment	(12)	(14)
Free Cash Flow	128	116
Stock Option and RSU Exercises / ESPP	26	16
Stock Repurchases	(116)	-
Acquisition	-	-
Other	(1)	(2)
Net Cash Flow⁽¹⁾	37	130
<i>Footnote: Cash Paid for Taxes, Net of Refunds</i>	6	9

Notes

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

Free Cash Flow and Adjusted Free Cash Flow Growth

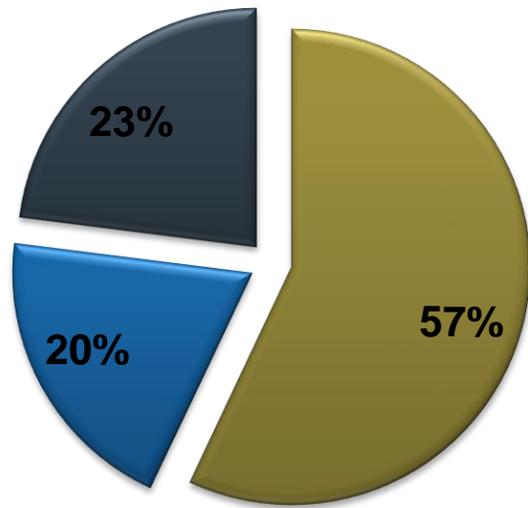


Notes

- (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.

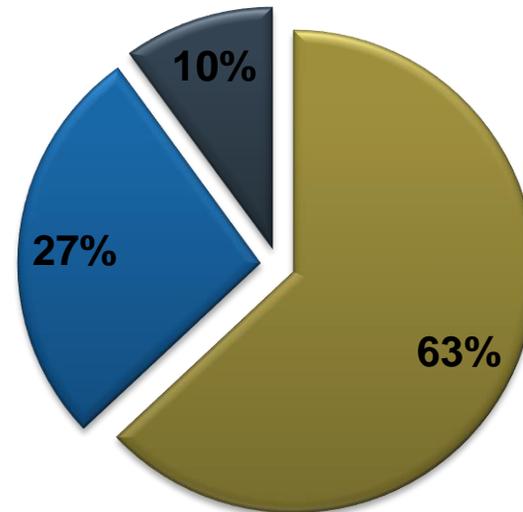
Global Employee Footprint

Location



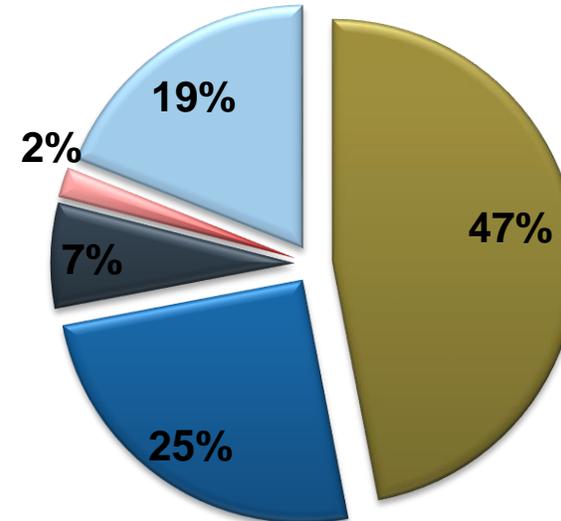
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



- Sales & Marketing
- R&D
- G&A
- Operations
- Service & Support

Q1'18 Headcount: 5,275

Q2 and 2018 Guidance⁽¹⁾ (Non-GAAP)

	Actual Q2 17	ASC 606 Q2 18	Actual 2017	ASC 606 2018
Billings ⁽²⁾	\$427M	\$485 - 495M	\$1.796B	\$2.040 - 2.065B
<i>Y/Y Mid-Pt Growth</i>		15%		14%
Revenue (GAAP)	\$363M	\$420 - 430M	\$1.495B	\$1.715 - 1.735B
<i>Y/Y Mid-Pt Growth</i>		17%		15%
Gross Margin (%) ⁽³⁾	74.8%	75 - 76%	75.3%	75 - 76%
Operating Margin (%) ⁽³⁾	18.1%	18.5 - 19.0% ⁽⁵⁾	17.2%	20.2 - 20.7% ⁽⁵⁾
Earnings per Share ^{(3) (4)}	\$0.27	\$0.34 - 0.36 ⁽⁶⁾	\$1.04	\$1.51 - 1.55 ⁽⁶⁾
Weighted Diluted Shares used in EPS	180M	173 - 175M	178M	175 - 177M

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 250 basis points for both Q2 and FY 2018.
- (6) Non-GAAP EPS guidance includes a benefit associated with the adoption of ASC 606 of approximately \$0.05 and \$0.19 for Q2 2018 and FY 2018, respectively.

GAAP to Non-GAAP – Operating Results (Q1'18 vs. Q4'17 vs. Q1'17)

(Unaudited, in millions, except per share amounts)

	Q1'18	Adjustments	Non-GAAP Q1'18	Q4'17	Adjustments	Non-GAAP Q4'17	Q1'17	Adjustment	Non-GAAP Q1'17
Revenue:									
Product	\$ 142.8	\$ -	\$ 142.8	\$ 162.1	\$ -	\$ 162.1	\$ 135.3	\$ -	\$ 135.3
Service	256.2	-	256.2	254.6	-	254.6	205.3	-	205.3
Total revenue	399.0	-	399.0	416.7	-	416.7	340.6	-	340.6
Cost of revenue:									
Product	58.2	(1.5)	56.7	69.7	(1.5)	68.2	55.3	(1.0)	54.3
Service	39.0	(2.6)	36.4	35.8	(2.5)	33.3	35.3	(2.9)	32.4
Total cost of revenue	97.2	(4.1)	93.1	105.5	(4.0)	101.5	90.6	(3.9)	86.7
Gross profit:									
Product	84.6	1.5	86.1	92.4	1.5	93.9	80.0	1.0	81.0
Service	217.2	2.6	219.8	218.8	2.5	221.3	170.0	2.9	172.9
Total gross profit	301.8	4.1	305.9	311.2	4.0	315.2	250.0	3.9	253.9
Operating expenses:									
Research and development	59.1	(8.4)	50.7	54.8	(8.1)	46.7	51.2	(7.9)	43.3
Sales and marketing	185.3	(21.5)	163.8	191.9	(20.4)	171.5	170.4	(20.1)	150.3
General and administrative	25.0	(4.3)	20.7	22.3	(4.0)	18.3	22.6	(5.3)	17.3
Restructuring charges	-	-	-	-	-	-	0.4	(0.4)	-
Total operating expenses	269.4	(34.2)	235.2	269.0	(32.5)	236.5	244.6	(33.7)	210.9
Operating income	32.4	38.3	70.7	42.2	36.5	78.7	5.4	37.6	43.0
Interest income	4.5	-	4.5	4.0	-	4.0	2.4	-	2.4
Other income (expense)—net	(0.2)	-	(0.2)	(1.2)	-	(1.2)	0.3	-	0.3
Income before income taxes	36.7	38.3	75.0	45.0	36.5	81.5	8.1	37.6	45.7
Provision for (Benefit from) income taxes	(4.9)	22.9	18.0	74.0	(48.0)	26.0	(2.6)	17.3	14.7
Net income (loss)	\$ 41.6	\$ 15.4	\$ 57.0	\$ (29.0)	\$ 84.5	\$ 55.5	\$ 10.7	\$ 20.3	\$ 31.0
Basic net income (loss) per share	\$ 0.25		\$ 0.34	\$ (0.17)		\$ 0.32	\$ 0.06		\$ 0.18
Diluted net income (loss) per share	\$ 0.24		\$ 0.33	\$ (0.17)		\$ 0.32	\$ 0.06		\$ 0.17
Shares used in computing net income (loss) per share									
Basic	167.7		167.7	171.5		171.5	174.5		174.5
Diluted	171.8		171.8	171.5		175.4	178.3		178.3

GAAP to Non-GAAP – Operating Results (% of Revenue) (Q1'18 vs. Q4'17 vs. Q1'17)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q1'18	Adjustments	Q1'18	Q4'17	Adjustments	Q4'17	Q1'17	Adjustments	Q1'17
Revenue:									
Product	36%	-	36%	39%	-	39%	40%	-	40%
Service	64%	-	64%	61%	-	61%	60%	-	60%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	15%	-	14%	17%	-	16%	16%	-	16%
Service	10%	(1%)	9%	9%	(1%)	8%	10%	(1%)	10%
Total cost of revenue	24%	(1%)	23%	25%	(1%)	24%	27%	(1%)	25%
Gross margin:									
Product	59.2%	1.1%	60.3%	57.0%	0.9%	58.0%	59.1%	0.7%	59.9%
Service	84.8%	1.0%	85.8%	85.9%	1.0%	86.9%	82.8%	1.4%	84.2%
Total gross margin	75.6%	1.0%	76.7%	74.7%	0.9%	75.6%	73.4%	1.1%	74.6%
Operating expenses:									
Research and development	15%	(2%)	13%	13%	(2%)	11%	15%	(2%)	13%
Sales and marketing	46%	(5%)	41%	46%	(5%)	41%	50%	(6%)	44%
General and administrative	6%	(1%)	5%	5%	(1%)	4%	7%	(2%)	5%
Restructuring charges	-	-	-	-	-	-	-	-	-
Total operating expenses	68%	(9%)	59%	65%	(8%)	57%	72%	(10%)	62%
Operating margin	8.1%	9.6%	17.7%	10.1%	8.8%	18.9%	1.6%	11.0%	12.6%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other income (expense)—net	-	-	-	-	-	-	-	-	-
Income before income taxes	9%	10%	19%	11%	9%	20%	2%	11%	13%
Provision for (Benefit from) income taxes	(1%)	6%	5%	18%	(12%)	6%	(1%)	5%	4%
Net income (loss)	10%	4%	14%	(7%)	20%	13%	3%	6%	9%

Impact of ASC 606 on Non-GAAP Operating Results

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

	Non-GAAP Q1'18	ASC 606 Impact	Balances Without Adoption of ASC 606	Guidance Without Adoption of ASC 606
Revenue:				
Product	\$ 142.8	\$ (5.7)	\$ 137.1	
Service	256.2	(0.7)	255.5	
Total revenue	399.0	(6.4)	392.6	\$387 - \$393
Cost of revenue:				
Product	56.7	(1.5)	55.2	
Service	36.4		36.4	
Total cost of revenue	93.1	(1.5)	91.6	
Gross profit:				
Product	86.1	(4.2)	81.9	
Service	219.8	(0.7)	219.1	
Total gross profit	305.9	(4.9)	301.0	
Gross margin	76.7%		76.7%	75% - 76%
Operating expenses:				
Research and development	50.7		50.7	
Sales and marketing	163.8	11.7	175.5	
General and administrative	20.7		20.7	
Total operating expenses	235.2	11.7	246.9	
Operating income	70.7	(16.6)	54.1	
Operating margin	17.7%		13.8%	12% - 13%
Interest and other income (expense)—net	4.3		4.3	
Provision for income taxes	18.0	(4.0)	14.0	
Net income	\$ 57.0	\$ (12.6)	\$ 44.4	
Diluted net income per share	\$ 0.33	\$ (0.07)	\$ 0.26	\$0.21 - \$0.22
Shares used in computing net income per share				
Diluted	171.8		171.8	174 - 176

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®