

Q4 2016 Financial Results

February 2, 2017

Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference calls concerning Fortinet's business outlook and momentum, the Q1 and 2017 guidance, and future prospects and expectations are forward-looking statements that involve a number of uncertainties and risks. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including, among others: general economic risks; specific economic risks in different geographies and among different customer segments; uncertainty regarding demand for our products and services; uncertainty regarding increased business and renewals from existing customers; changes in our relationships with distributors, resellers and other partners; changes in overall technology spending and in spending on network security; contractual terms and other factors that may result in the deferral of revenue; the timing of orders and their fulfillment; manufacturing, inventory and supply chain constraints and timing; risks of slowing demand in the security market in general; sales execution risks; uncertainties around continued success in sales growth and market share gains; delays in scheduled product availability; risks associated with successful implementation of multiple integrated software products and other product functionality risks; execution risks around new product introductions and innovation; product defects, returns and vulnerabilities; the ability to attract and retain personnel; possible turnover among personnel including key employees; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; risks associated with acquisitions, including integration risks businesses and assumption of unknown liabilities; delays or losses of, or changes in circumstances with regards to, sales deals expected to close during a certain time period; technological changes that make our products and services less competitive; risks associated with the adoption of, and demand for, Fortinet's model; mergers and acquisitions and the ability to successfully acquire, integrate and manage businesses and technologies; litigation, investigations, and disputes and the potential cost, distraction and damage to sales and reputation caused thereby; risks posed by competitors and an increasingly competitive market; current laws, regulations and standards, and the adoption of new laws, regulations and standards that affect our product, services or business; risks associated with increased international sales, including the impact of foreign currency exchange rates; and the other risk factors set forth from time to time in our filings with the SEC. Please refer to our SEC filings, in particular, the risk factors described in our Forms 10-K and 10-Q for more information on these risks and uncertainties and on the limitations that apply to our forward-looking statements. Copies of our SEC reports can be obtained from the SEC, at the SEC's website located at www.sec.gov, or by visiting the investor relations section of our website. All forward-looking statements reflect our opinions only as of the date of the conference call related to this presentation, and we undertake no obligation, and specifically disclaim any obligation, to revise or publicly release the results of any revision of these forward-looking statements in light of new information or future events.

Q4 2016 Non-GAAP Results

	Q4 16	Q4 15	Y/Y % Change
Billings ⁽¹⁾	\$463M	\$381M	22%
Revenue	\$363M	\$297M	22%
Gross Margin (%) ⁽²⁾	76%	74%	+2 pts
Operating Income ⁽²⁾	\$81M	\$48M	71%
Operating Margin (%) ⁽²⁾	22%	16%	+6 pts
Net Income ⁽²⁾⁽³⁾	\$53M	\$32M	64%
Earnings per Share ⁽²⁾⁽³⁾	\$0.30	\$0.18	67%
Deferred Revenue	\$1.04B	\$791M	31%
Cash Flow from Operations	\$101M	\$69M	47%
Free Cash Flow ⁽⁴⁾	\$84M	\$60M	40%

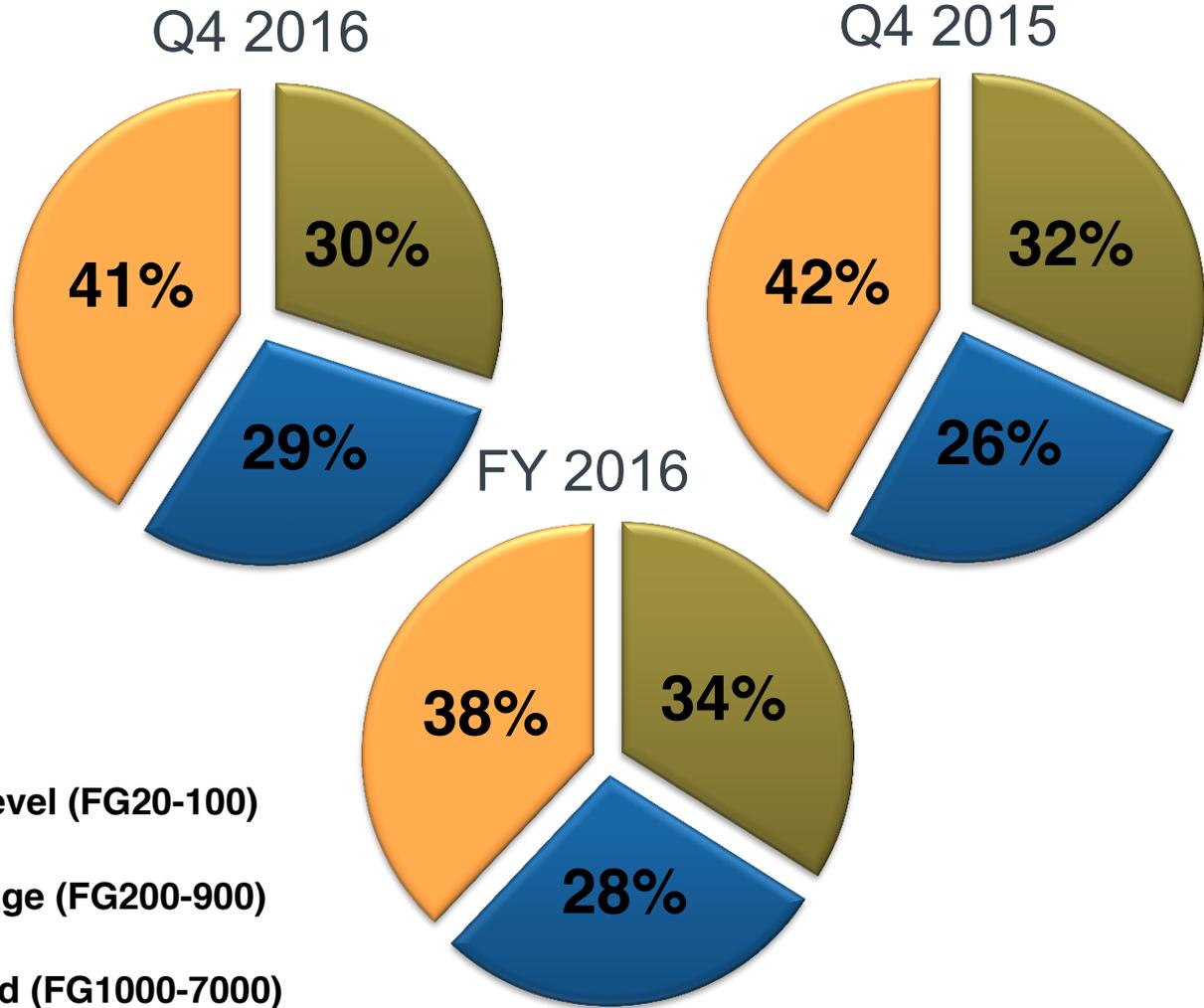
Notes

- (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, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system. Effective in the fourth quarter of 2016, we are substantially complete with the implementation of a new ERP, as such, we are no longer adjusting ERP-related expenses in our non-GAAP results.
- (3) Assumes annual effective tax rate of 33% and 34% for Q4 2016 and Q4 2015, respectively.
- (4) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.

Balanced Product Segmentation

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

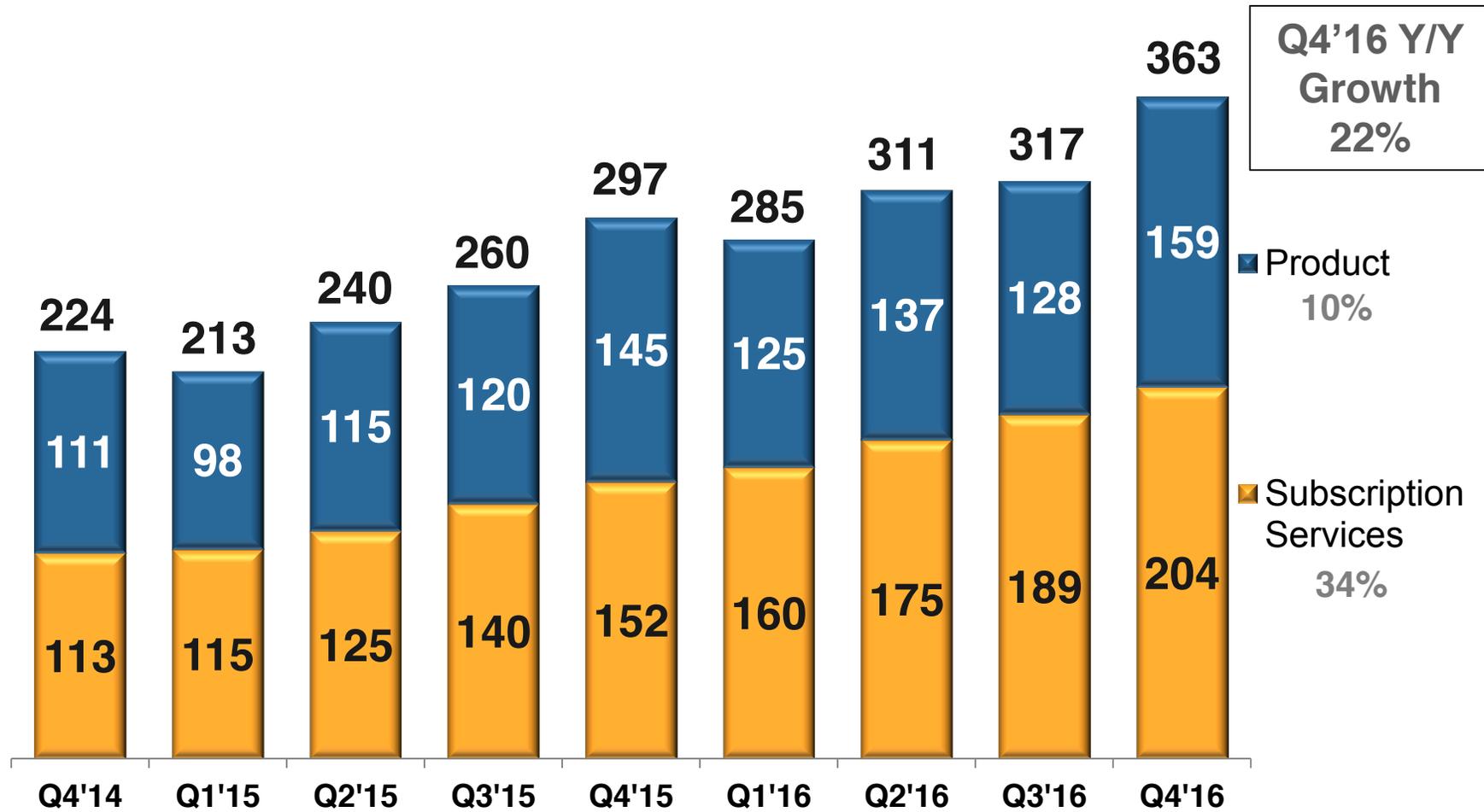


- **Entry-Level (FG20-100)**
- **Mid-Range (FG200-900)**
- **High-End (FG1000-7000)**

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.

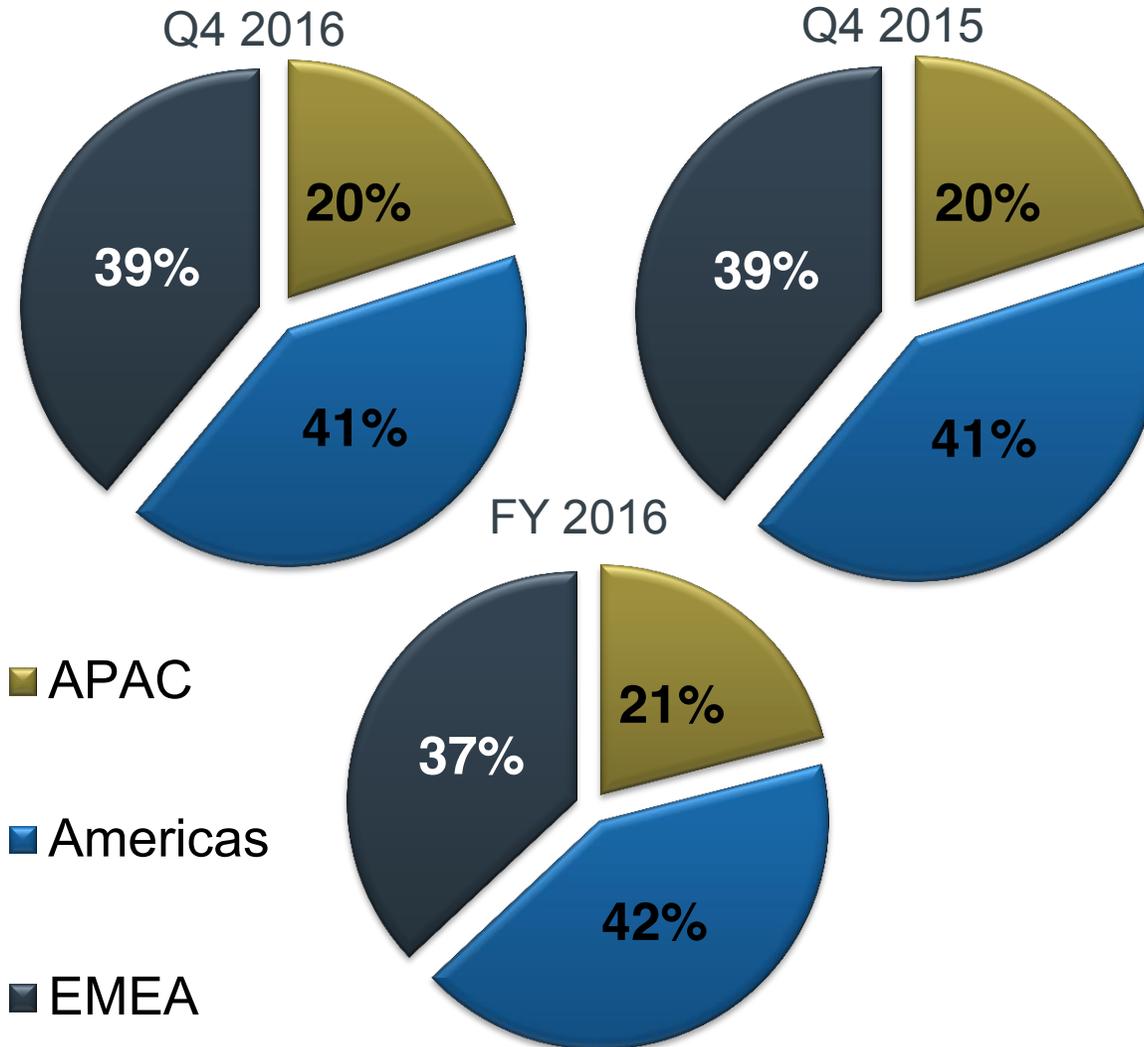
Quarterly Revenue Mix & Q4'16 Y/Y Growth



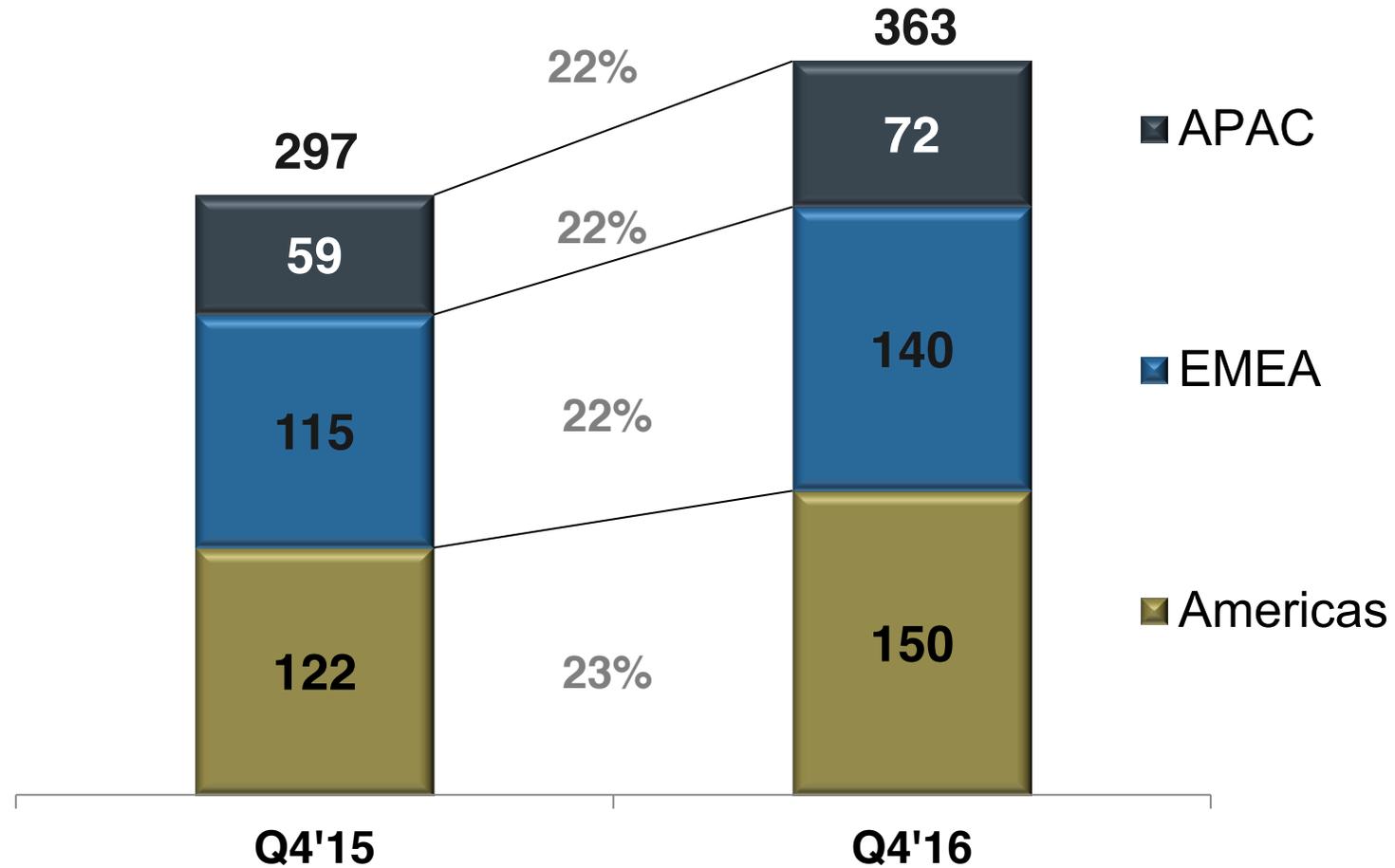
Diversified Global Revenue

Revenue by Geography

- Globally-diverse revenue stream



Revenue Growth by Geography



Q4 2016 Select Financial Statistics

	Q4 16	Q3 16	Q4 15
Cash and Investments ⁽¹⁾	\$1.31B	\$1.27B	\$1.16B
Deferred Revenue	\$1.04B	\$935M	\$791M
Free Cash Flow	\$84M	\$70M	\$60M
DSO	78	68	79
Inventory Turns	1.8	1.7	2.3
Revenue per Employee (Annualized)	\$313K	\$276K	\$300K
No. of Deals >\$100K	733	559	577
No. of Deals >\$250K	239	165	193
No. of Deals >\$500K	97	58	74

Notes

(1) Excludes \$10.3M of investments in privately-held companies which are recorded in other assets for all Q4 2016, Q3 2016 and Q4 2015.

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q4 16	Q4 15	FY 16	FY 15
GAAP Net Income (Loss)	25	(3)	32	8
Depreciation and Stock-Based Compensation	46	37	171	127
Accounts Receivable	(71)	(86)	(58)	(66)
Inventory	(18)	(7)	(43)	(19)
Accounts Payable / Accrued Expenses / Other	19	44	1	10
Deferred Revenue	100	84	243	222
GAAP Cash Flow from Operations	101	69	346	282
Purchase of Property and Equipment	(17)	(9)	(67)	(37)
Free Cash Flow	84	60	279	245
Stock Option and RSU Exercises / ESPP	(6)	(2)	7	38
Stock Repurchases	(36)	(60)	(111)	(60)
Acquisition	-	-	(22)	(38)
Other	(2)	(3)	(7)	(7)
Net Cash Flow	40	(5)	146	178
<i>Footnote: Cash Paid for Taxes, Net of Refunds</i>	6	5	27	20

2016 Non-GAAP Results

	2016	2015	Y/Y % Change
Billings ⁽¹⁾	\$1.515B	\$1.232B	23%
Revenue	\$1.275B	\$1.009B	26%
Gross Margin (%) ⁽²⁾	75%	73%	+2 pts
Operating Income ⁽²⁾	\$193M	\$133M	45%
Operating Margin (%) ⁽²⁾	15%	13%	+2 pts
Net Income ⁽²⁾⁽³⁾	\$130M	\$89M	45%
Earnings per Share ⁽²⁾⁽³⁾	\$0.73	\$0.51	43%
Deferred Revenue	\$1.04B	\$791M	31%
Cash Flow from Operations	\$346M	\$283M	22%
Free Cash Flow ⁽⁴⁾	\$279M	\$245M	14%

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, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system. Effective in the fourth quarter of 2016, we are substantially complete with the implementation of a new ERP, as such, we are no longer adjusting ERP-related expenses in our non-GAAP results.
- (3) Assumes annual effective tax rate of 33% and 34% for 2016 and 2015, respectively.
- (4) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.

Q1 and 2017 Guidance⁽¹⁾ (Non-GAAP)

	Q1 17	Y/Y % Mid-Pt Growth	2017	Y/Y % Mid-Pt Growth
Billings ⁽²⁾	\$380 - 388M	16%	\$1.750 - 1.770B	16%
Revenue (GAAP)	\$330 - 335M	17%	\$1.470 - 1.480B	16%
Gross Margin (%) ⁽³⁾	74 - 75%		74 - 75%	
Operating Margin (%) ⁽³⁾	11 - 12%		16%	
Earnings per Share ^{(3) (4)}	\$0.15 - 0.16		\$0.87 - 0.89	
Weighted Diluted Shares used in EPS	178 - 180M		181 - 183M	

Notes

- (1) With respect to Fortinet's guidance for Q1 2017 and full year 2017, Fortinet has not reconciled its guidance with respect to non-GAAP gross margin to GAAP gross margin, non-GAAP operating margin to GAAP operating margin, and non-GAAP earnings per share to GAAP earnings per share because certain items such as stock-based compensation, business acquisition-related charges, impairment and amortization of intangible assets, and restructuring charges are out of Fortinet's control or cannot be reasonably predicted. Accordingly, reconciliation 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, 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, and restructuring charges.
- (4) Assumes effective tax rate of 32% for 2017.

GAAP to Non-GAAP – Operating Results

(Q4'16 vs. Q3'16 vs. Q4'15)

(Unaudited, in thousands, except per share amounts)

	Q4'16	Adjustment	Non-GAAP Q4'16	Q3'16	Adjustment	Non-GAAP Q3'16	Q4'15	Adjustment	Non-GAAP Q4'15
Revenue:									
Product	\$ 158,925	\$ -	\$ 158,925	\$ 127,972	\$ -	\$ 127,972	\$ 144,759	\$ -	\$ 144,759
Service	203,905	-	203,905	188,674	-	188,674	151,770	-	151,770
Total revenue	362,830	-	362,830	316,646	-	316,646	296,529	-	296,529
Cost of revenue:									
Product	56,616	(1,198)	55,418	50,267	(1,049)	49,218	55,466	(2,521)	52,945
Service	34,275	(2,641)	31,634	34,532	(3,053)	31,479	26,510	(1,980)	24,530
Total cost of revenue	90,891	(3,839)	87,052	84,799	(4,102)	80,697	81,976	(4,501)	77,475
Gross profit:									
Product	102,309	1,198	103,507	77,705	1,049	78,754	89,293	2,521	91,814
Service	169,630	2,641	172,271	154,142	3,053	157,195	125,260	1,980	127,240
Total gross profit	271,939	3,839	275,778	231,847	4,102	235,949	214,553	4,501	219,054
Operating expenses:									
Research and development	45,589	(7,871)	37,718	47,239	(7,627)	39,612	42,814	(7,194)	35,620
Sales and marketing	162,873	(19,702)	143,171	154,831	(18,855)	135,976	136,840	(15,664)	121,176
General and administrative	17,451	(3,691)	13,760	22,006	(7,580)	14,426	20,315	(5,636)	14,679
Restructuring charges	833	(833)	-	2,283	(2,283)	-	1,717	(1,717)	-
Total operating expenses	226,746	(32,097)	194,649	226,359	(36,345)	190,014	201,686	(30,211)	171,475
Operating income	45,193	35,936	81,129	5,488	40,447	45,935	12,867	34,712	47,579
Interest income	1,964	-	1,964	1,888	-	1,888	1,176	-	1,176
Other expense—net	(3,650)	-	(3,650)	(787)	-	(787)	(1,007)	-	(1,007)
Income before income taxes	43,507	35,936	79,443	6,589	40,447	47,036	13,036	34,712	47,748
Provision for income taxes	18,341	7,875	26,216	298	14,555	14,853	15,570	(213)	15,357
Net income (loss)	\$ 25,166	\$ 28,061	\$ 53,227	\$ 6,291	\$ 25,892	\$ 32,183	\$ (2,534)	\$ 34,925	\$ 32,391
Basic net income (loss) per share	\$ 0.15		\$ 0.31	\$ 0.04		\$ 0.19	\$ (0.01)		\$ 0.19
Diluted net income (loss) per share	\$ 0.14		\$ 0.30	\$ 0.04		\$ 0.18	\$ (0.01)		\$ 0.18
Shares used in computing net income (loss) per share									
Basic	173,315		173,315	173,335		173,335	171,831		171,831
Diluted	176,679		176,679	177,938		177,938	171,831		176,657

GAAP to Non-GAAP – Operating Results (% of Rev)

(Q4'16 vs. Q3'16 vs. Q4'15)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'16	Adjustment	Q4'16	Q3'16	Adjustment	Q3'16	Q4'15	Adjustment	Q4'15
Revenue:									
Product	44%	-	44%	40%	-	40%	49%	-	49%
Service	56%	-	56%	60%	-	60%	51%	-	51%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	16%	-	15%	16%	-	16%	19%	(1%)	18%
Service	9%	(1%)	9%	11%	(1%)	10%	9%	(1%)	8%
Total cost of revenue	25%	(1%)	24%	27%	(1%)	25%	28%	(2%)	26%
Gross profit:									
Product	64%	1%	65%	61%	1%	62%	62%	2%	63%
Service	83%	1%	84%	82%	2%	83%	83%	1%	84%
Total gross margin	75%	1%	76%	73%	1%	75%	72%	2%	74%
Operating expenses:									
Research and development	13%	(2%)	10%	15%	(2%)	13%	14%	(2%)	12%
Sales and marketing	45%	(5%)	39%	49%	(6%)	43%	46%	(5%)	41%
General and administrative	5%	(1%)	4%	7%	(2%)	5%	7%	(2%)	5%
Restructuring charges	-	-	-	1%	(1%)	-	1%	(1%)	-
Total operating expenses	62%	(9%)	54%	71%	(11%)	60%	68%	(10%)	58%
Operating margin	12%	10%	22%	2%	13%	15%	4%	12%	16%
Interest income	1%	-	1%	1%	-	1%	-	-	-
Other expense—net	(1%)	-	(1%)	-	-	-	-	-	-
Income before income taxes	12%	10%	22%	2%	13%	15%	4%	12%	16%
Provision for income taxes	5%	2%	7%	-	5%	5%	5%	-	5%
Net income (loss)	7%	8%	15%	2%	8%	10%	(1%)	12%	11%

GAAP to Non-GAAP – Operating Results

(FY'16 vs. FY'15)

(Unaudited, in thousands, except per share amounts)

Revenue:

Product

Service

Total revenue

Cost of revenue:

Product

Service

Total cost of revenue

Gross profit:

Product

Service

Total gross profit

Operating expenses:

Research and development

Sales and marketing

General and administrative

Restructuring charges

Total operating expenses

Operating income

Interest income

Other expense—net

Income before income taxes

Provision for income taxes

Net income

Basic net income per share

Diluted net income per share

Shares used in computing net income per share

Basic

Diluted

	Fiscal 2016	Adjustment	Non-GAAP Fiscal 2016	Fiscal 2015	Adjustment	Non-GAAP Fiscal 2015
Revenue:						
Product	\$ 548,110	\$ -	\$ 548,110	\$ 476,782	\$ -	\$ 476,782
Service	727,333	-	727,333	532,486	-	532,486
Total revenue	1,275,443	-	1,275,443	1,009,268	-	1,009,268
Cost of revenue:						
Product	208,984	(4,884)	204,100	190,398	(6,842)	183,556
Service	128,853	(9,951)	118,902	96,379	(7,121)	89,258
Total cost of revenue	337,837	(14,835)	323,002	286,777	(13,963)	272,814
Gross profit:						
Product	339,126	4,884	344,010	286,384	6,842	293,226
Service	598,480	9,951	608,431	436,107	7,121	443,228
Total gross profit	937,606	14,835	952,441	722,491	13,963	736,454
Operating expenses:						
Research and development	183,084	(30,120)	152,964	158,129	(24,555)	133,574
Sales and marketing	626,501	(73,399)	553,102	470,371	(51,168)	419,203
General and administrative	81,080	(27,835)	53,245	71,514	(21,161)	50,353
Restructuring charges	3,997	(3,997)	-	7,600	(7,600)	-
Total operating expenses	894,662	(135,351)	759,311	707,614	(104,484)	603,130
Operating income	42,944	150,186	193,130	14,877	118,447	133,324
Interest income	7,303	-	7,303	5,295	-	5,295
Other expense—net	(7,099)	-	(7,099)	(3,167)	-	(3,167)
Income before income taxes	43,148	150,186	193,334	17,005	118,447	135,452
Provision for income taxes	10,961	52,839	63,800	9,018	37,036	46,054
Net income	\$ 32,187	\$ 97,347	\$ 129,534	\$ 7,987	\$ 81,411	\$ 89,398
Basic net income per share	\$ 0.19		\$ 0.75	\$ 0.05		\$ 0.52
Diluted net income per share	\$ 0.18		\$ 0.73	\$ 0.05		\$ 0.51
Shares used in computing net income per share						
Basic	172,621		172,621	170,385		170,385
Diluted	176,338		176,338	176,141		176,141

GAAP to Non-GAAP – Operating Results (% of Rev)

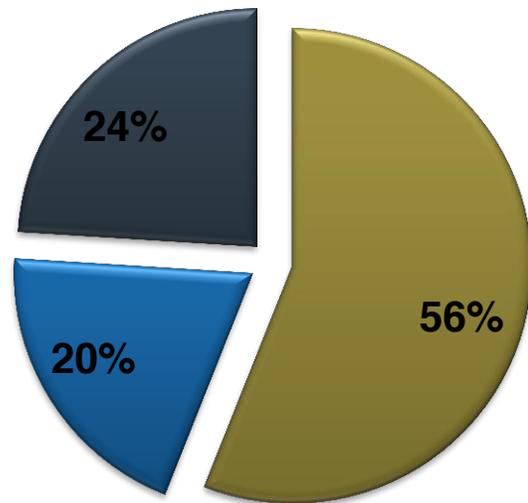
(FY'16 vs. FY'15)

% of revenue

	Fiscal 2016	Adjustment	Non-GAAP Fiscal 2016	Fiscal 2015	Adjustment	Non-GAAP Fiscal 2015
Revenue:						
Product	43%	-	43%	47%	-	47%
Service	57%	-	57%	53%	-	53%
Total revenue	100%	-	100%	100%	-	100%
Cost of revenue:						
Product	16%	-	16%	19%	(1%)	18%
Service	10%	(1%)	9%	10%	(1%)	9%
Total cost of revenue	26%	(1%)	25%	28%	(1%)	27%
Gross profit:						
Product	62%	1%	63%	60%	1%	62%
Service	82%	1%	84%	82%	1%	83%
Total gross margin	74%	1%	75%	72%	1%	73%
Operating expenses:						
Research and development	14%	(2%)	12%	16%	(2%)	13%
Sales and marketing	49%	(6%)	43%	47%	(5%)	42%
General and administrative	6%	(2%)	4%	7%	(2%)	5%
Restructuring charges	-	-	-	1%	(1%)	-
Total operating expenses	70%	(11%)	60%	70%	(10%)	60%
Operating margin	3%	12%	15%	1%	12%	13%
Interest income	1%	-	1%	1%	-	1%
Other expense—net	(1%)	-	(1%)	-	-	-
Income before income taxes	3%	12%	15%	2%	12%	13%
Provision for income taxes	1%	4%	5%	1%	4%	5%
Net income	3%	8%	10%	1%	8%	9%

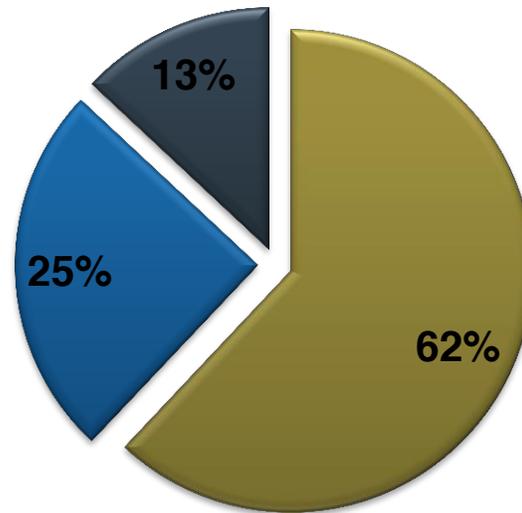
Global Employee Footprint

Location



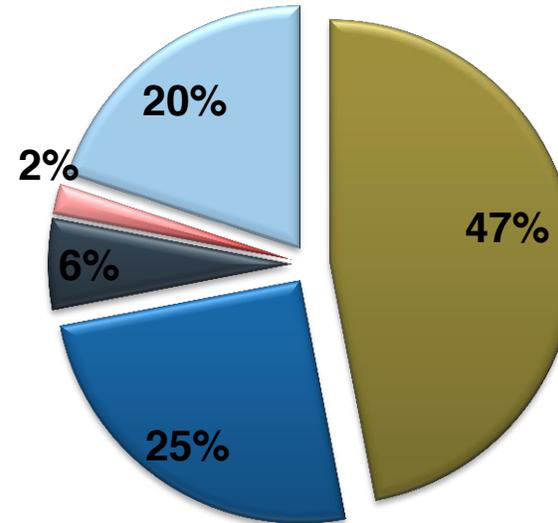
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q4'16 Headcount: 4,665

The image features a solid red background with a complex, light-colored geometric pattern. This pattern consists of numerous overlapping hexagons of varying sizes and orientations, some of which are nested or concentric. The overall effect is a dense, crystalline or molecular structure. In the center of the image, the word "FERTINET" is written in a bold, white, sans-serif font. The letter 'E' is stylized with three vertical bars. A registered trademark symbol (®) is located at the end of the word.

FERTINET®