

# Q4 2017 Financial Results

February 5, 2018

# Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference calls concerning Fortinet's business outlook, the Q1 and 2018 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](http://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 2017 Non-GAAP Results

	Q4 17	Q4 16	Y/Y % Change
Billings <sup>(1)</sup>	\$534M	\$463M	15%
Revenue	\$417M	\$363M	15%
Gross Margin (%) <sup>(2)</sup>	76%	76%	--
Operating Income <sup>(2)</sup>	\$79M	\$81M	-3%
Operating Margin (%) <sup>(2)</sup>	19%	22%	-3 pts
Net Income <sup>(2)(3)</sup>	\$55M	\$53M	4%
Earnings per Share <sup>(2)(3)</sup>	\$0.32	\$0.30	7%
Deferred Revenue	\$1.336B	\$1.035B	29%
Cash Flow from Operations	\$158M	\$101M	56%
Free Cash Flow <sup>(4)</sup>	\$144M	\$84M	71%

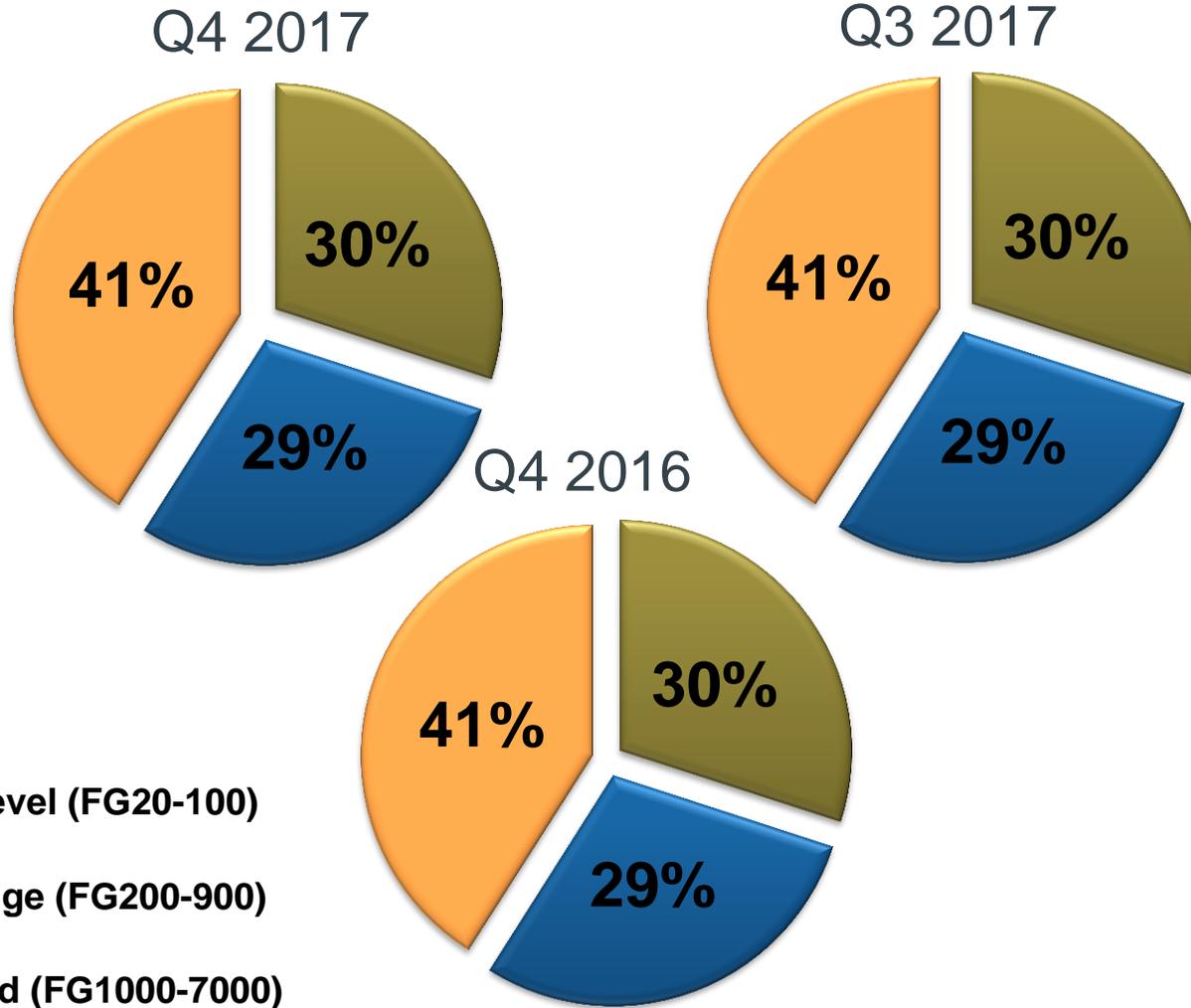
## Notes

- (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 32% and 33% for 2017 and 2016, 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 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

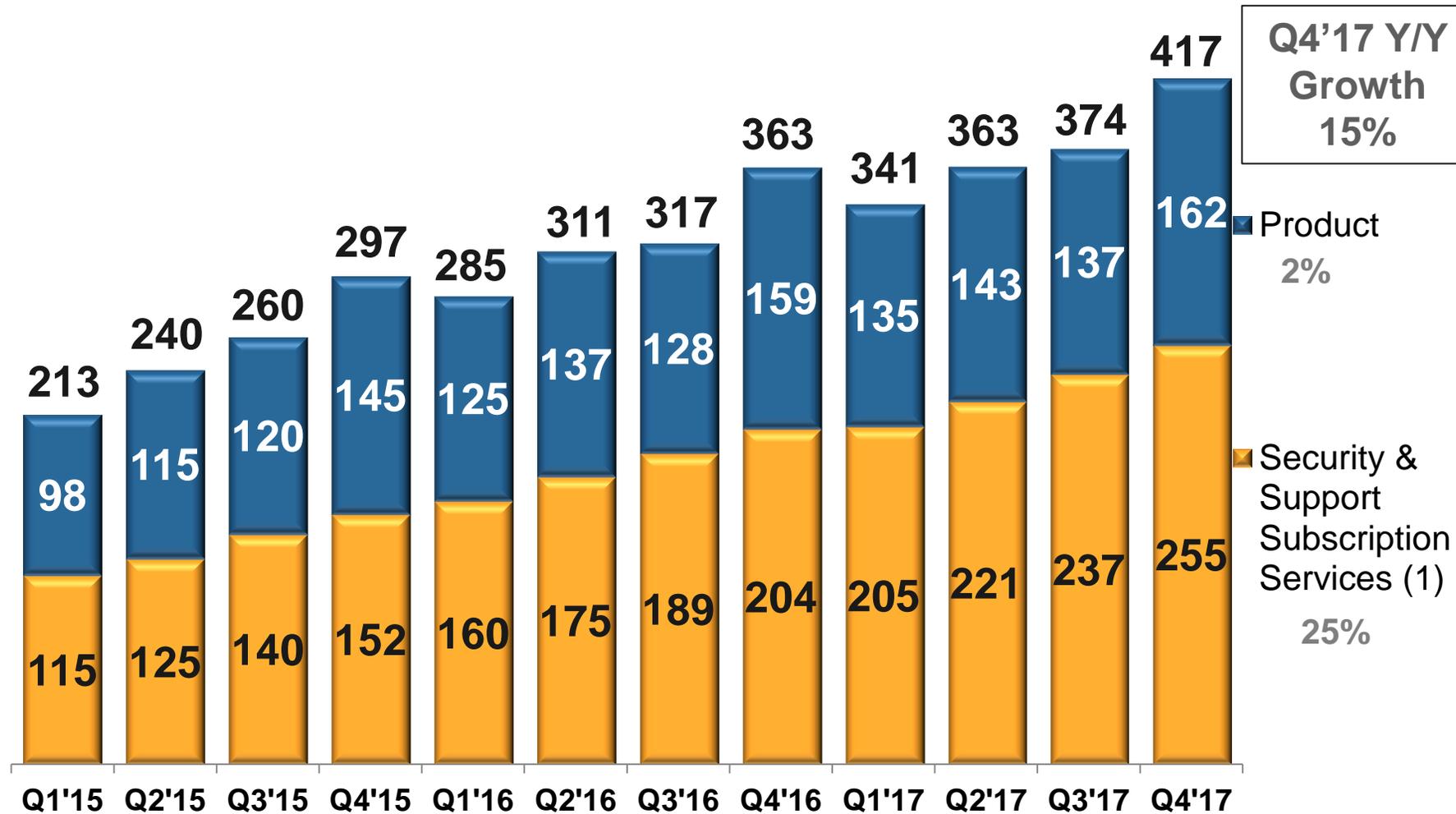


- **Entry-Level (FG20-100)**
- **Mid-Range (FG200-900)**
- **High-End (FG1000-7000)**

**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 & Q4'17 Y/Y Growth



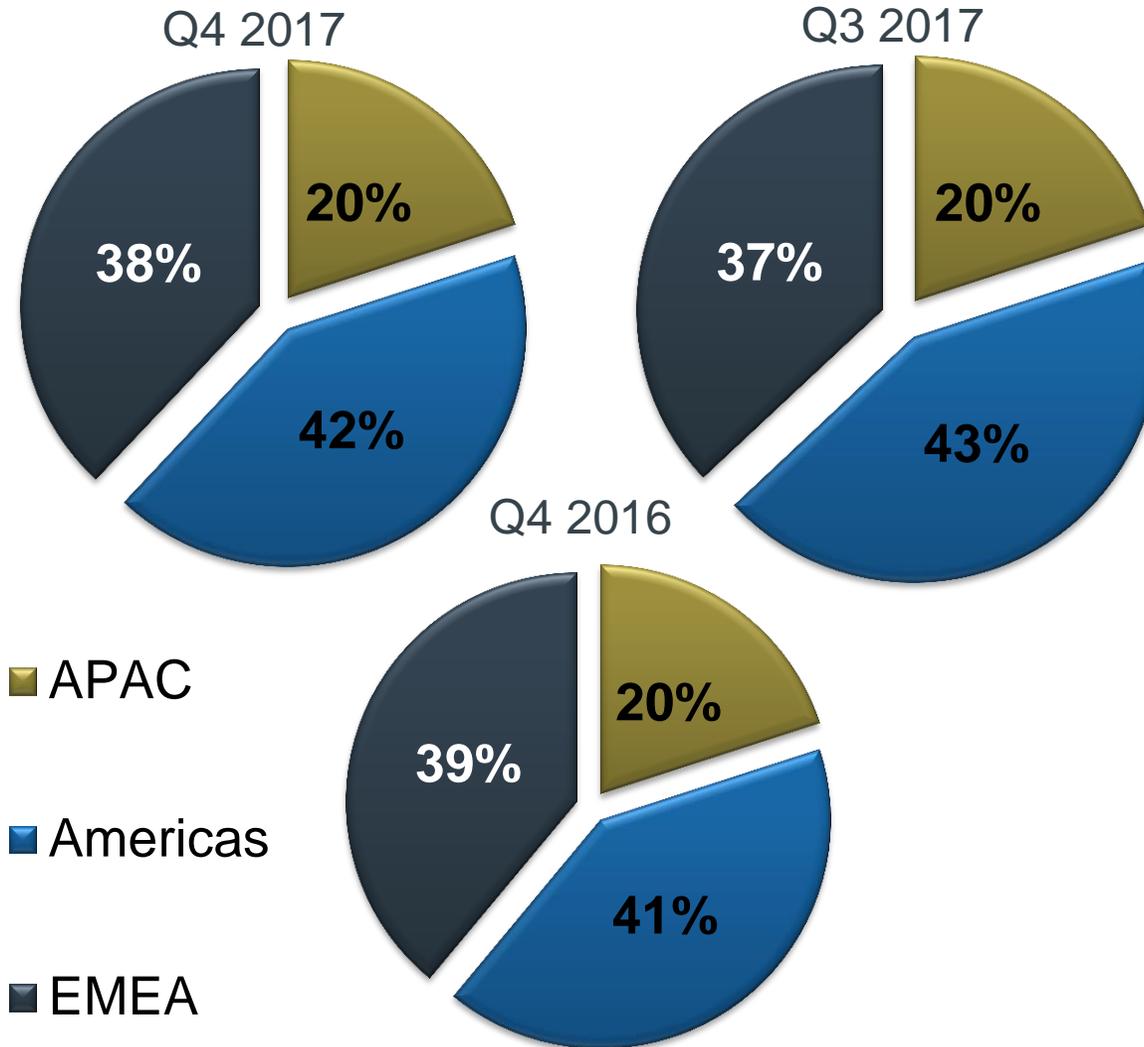
**Note**

(1) Includes Professional Services, Training and Other Revenue

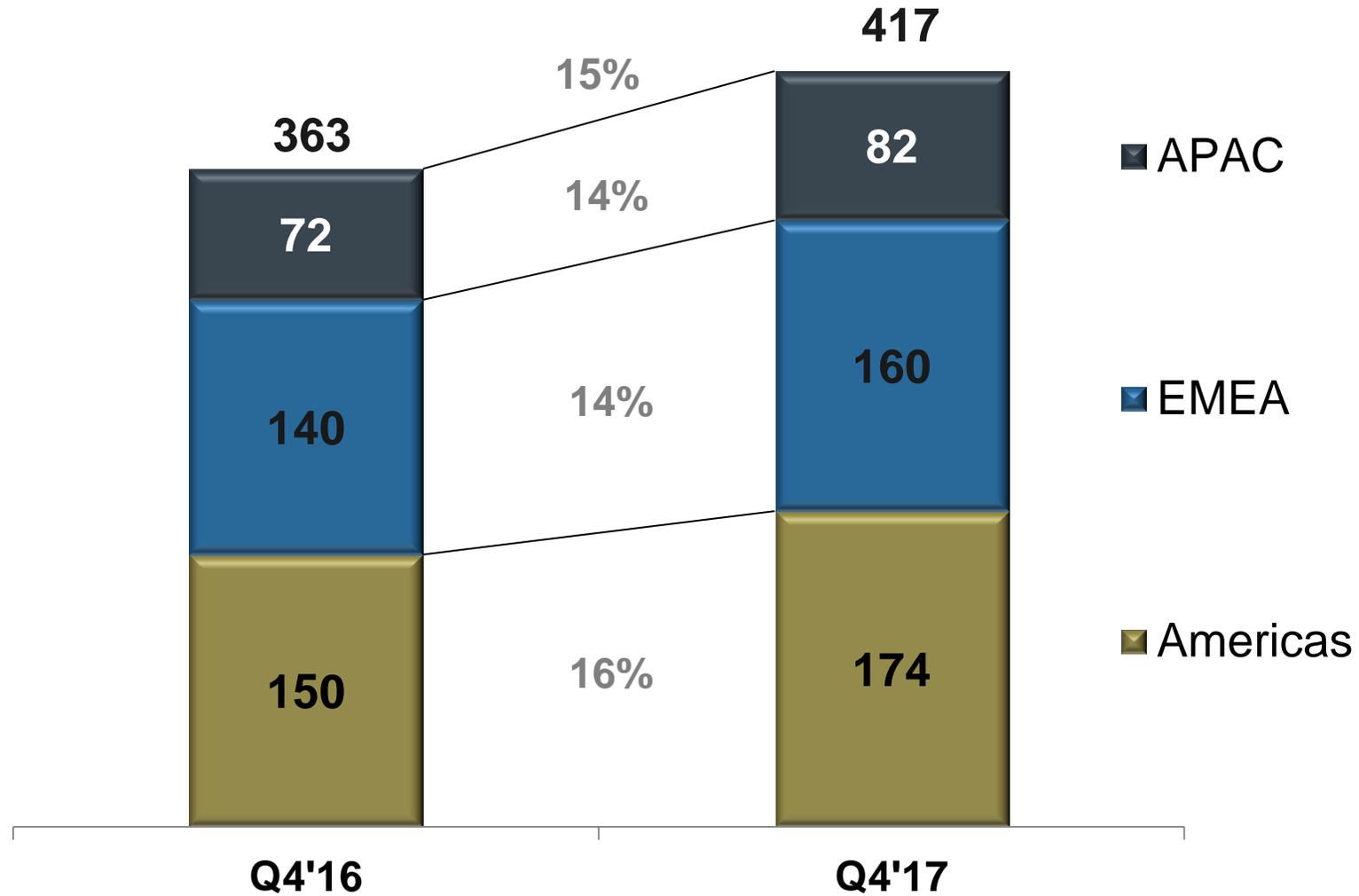
# Diversified Global Revenue

## Revenue by Geography

- Globally-diverse revenue stream



# Revenue Growth by Geography



# Q4 2017 Select Financial Statistics

	Q4 17	Q3 17	Q4 16
Cash and Investments <sup>(1)</sup>	\$1.35B	\$1.52B	\$1.31B
Deferred Revenue	\$1.34B	\$1.22B	\$1.04B
Free Cash Flow	\$144M	\$141M	\$84M
DSO	75	62	78
Inventory Turns	3.2	2.6	1.8
Revenue per Employee (Annualized)	\$334K	\$309K	\$313K
No. of Deals >\$100K <sup>(2)</sup>	887	659	733
No. of Deals >\$250K <sup>(2)</sup>	313	208	239
No. of Deals >\$500K <sup>(2)</sup>	120	87	97

**Notes**

- (1) Excludes \$12.1M of investments in privately-held companies which are recorded in other assets for Q4 2017 and Q3 2017 and \$10.3M for Q4 2016.  
 (2) Deals are defined as combined sales in the period to a customer account.

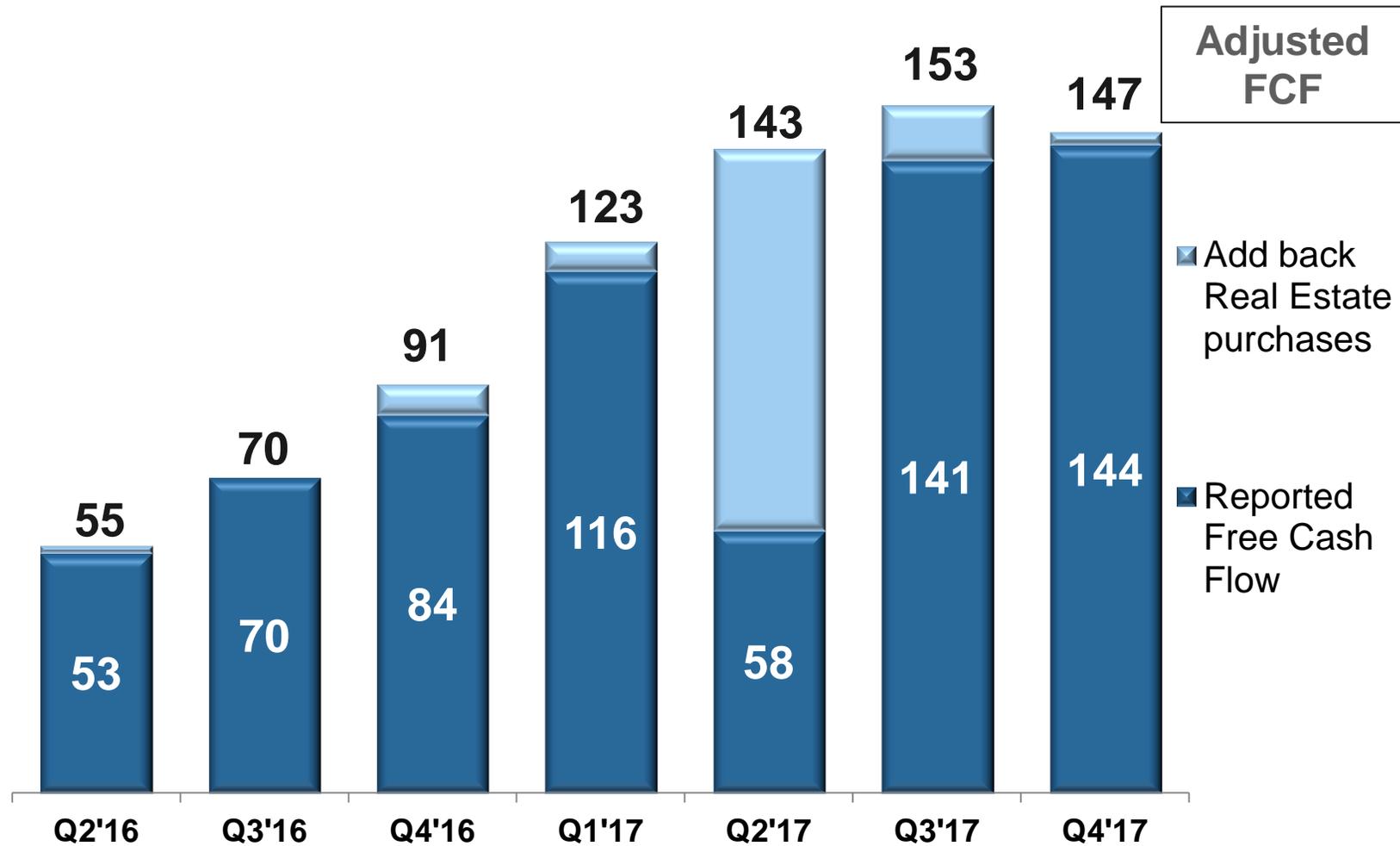
# Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q4 17	Q4 16	FY 17	FY 16
<b>GAAP Net Income (Loss)</b>	<b>(29)</b>	<b>25</b>	<b>31</b>	<b>32</b>
Depreciation and Stock-Based Compensation	49	46	193	171
Accounts Receivable	(90)	(71)	(38)	(58)
Inventory	(8)	(18)	9	(43)
Accounts Payable / Accrued Expenses / Other	120	19	98	1
Deferred Revenue	116	100	301	243
<b>GAAP Cash Flow from Operations</b>	<b>158</b>	<b>101</b>	<b>594</b>	<b>346</b>
Purchase of Property and Equipment	(14)	(17)	(135)	(67)
<b>Free Cash Flow</b>	<b>144</b>	<b>84</b>	<b>459</b>	<b>279</b>
Stock Option and RSU Exercises / ESPP	5	(6)	31	7
Stock Repurchases	(322)	(36)	(446)	(111)
Acquisition	-	-	-	(22)
Other	(1)	(2)	(5)	(7)
<b>Net Cash Flow<sup>(1)</sup></b>	<b>(174)</b>	<b>40</b>	<b>39</b>	<b>146</b>
<i>Footnote: Cash Paid for Taxes, Net of Refunds</i>	<i>7</i>	<i>6</i>	<i>32</i>	<i>27</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.

# 2017 Non-GAAP Results

	2017	2016	Y/Y % Change
Billings <sup>(1)</sup>	\$1.796B	\$1.515B	19%
Revenue	\$1.495B	\$1.275B	17%
Gross Margin (%) <sup>(2)</sup>	75%	75%	--
Operating Income <sup>(2)</sup>	\$257M	\$193M	33%
Operating Margin (%) <sup>(2)</sup>	17.2%	15.1%	+210 bps
Net Income <sup>(2)(3)</sup>	\$185M	\$130M	43%
Earnings per Share <sup>(2)(3)</sup>	\$1.04	\$0.73	42%
Deferred Revenue	\$1.336B	\$1.035B	29%
Cash Flow from Operations	\$594M	\$346M	72%
Free Cash Flow <sup>(4)</sup>	\$459M	\$279M	65%

#### 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, amortization of intangible assets, litigation settlement expenses and restructuring charges. In 2016, expenses associated with the implementation of a new Enterprise Resource Planning (ERP) system and business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments were also excluded.
- (3) Assumes annual effective tax rate of 32% and 33% for 2017 and 2016, 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 2018 Guidance<sup>(1)</sup> (Non-GAAP)

	ASC 605 Q1 18	ASC 606 Q1 18	ASC 605 2018	ASC 606 2018
Billings <sup>(2)</sup>	\$449 - 457M	\$449 - 457M	\$2.030 - 2.050B	\$2.030 - 2.050B
<i>Y/Y Mid-Pt Growth</i>	12%	12%	14%	14%
Revenue (GAAP)	\$387 - 393M	\$387 - 393M	\$1.695 - 1.715B	\$1.695 - 1.715B
<i>Y/Y Mid-Pt Growth</i>	15%	15%	14%	14%
Gross Margin (%) <sup>(3)</sup>	75 - 76%	75 - 76%	75 - 76%	75 - 76%
Operating Margin (%) <sup>(3)</sup>	12 - 13%	13.5 - 14.5%	17.7 - 18.0%	19.2 - 19.5%
Earnings per Share <sup>(3) (4)</sup>	\$0.21 - 0.22	\$0.23 - 0.25	\$1.30 - 1.32	\$1.42 - 1.44
Weighted Diluted Shares used in EPS	174 - 176M	174 - 176M	176 - 178M	176 - 178M

- (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, 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.

# GAAP to Non-GAAP – Operating Results (Q4'17 vs. Q3'17 vs. Q4'16)

(Unaudited, in thousands, except per share amounts)

	Q4'17	Adjustments	Non-GAAP Q4'17	Q3'17	Adjustments	Non-GAAP Q3'17	Q4'16	Adjustments	Non-GAAP Q4'16
<b>Revenue:</b>									
Product	\$ 162,118	\$ -	\$ 162,118	\$ 137,095	\$ -	\$ 137,095	\$ 158,925	\$ -	\$ 158,925
Service	254,550	-	254,550	237,122	-	237,122	203,905	-	203,905
<b>Total revenue</b>	<b>416,668</b>	<b>-</b>	<b>416,668</b>	<b>374,217</b>	<b>-</b>	<b>374,217</b>	<b>362,830</b>	<b>-</b>	<b>362,830</b>
<b>Cost of revenue:</b>									
Product	69,634	(1,477)	68,157	58,106	(1,352)	56,754	56,616	(1,198)	55,418
Service	35,785	(2,463)	33,322	35,543	(2,583)	32,960	34,275	(2,641)	31,634
<b>Total cost of revenue</b>	<b>105,419</b>	<b>(3,940)</b>	<b>101,479</b>	<b>93,649</b>	<b>(3,935)</b>	<b>89,714</b>	<b>90,891</b>	<b>(3,839)</b>	<b>87,052</b>
<b>Gross profit:</b>									
Product	92,484	1,477	93,961	78,989	1,352	80,341	102,309	1,198	103,507
Service	218,765	2,463	221,228	201,579	2,583	204,162	169,630	2,641	172,271
<b>Total gross profit</b>	<b>311,249</b>	<b>3,940</b>	<b>315,189</b>	<b>280,568</b>	<b>3,935</b>	<b>284,503</b>	<b>271,939</b>	<b>3,839</b>	<b>275,778</b>
<b>Operating expenses:</b>									
Research and development	54,774	(8,067)	46,707	53,486	(7,976)	45,510	45,589	(7,871)	37,718
Sales and marketing	191,928	(20,400)	171,528	172,361	(20,396)	151,965	162,873	(19,702)	143,171
General and administrative	22,349	(4,083)	18,266	21,025	(4,037)	16,988	17,451	(3,691)	13,760
Restructuring charges	-	-	-	-	-	-	833	(833)	-
<b>Total operating expenses</b>	<b>269,051</b>	<b>(32,550)</b>	<b>236,501</b>	<b>246,872</b>	<b>(32,409)</b>	<b>214,463</b>	<b>226,746</b>	<b>(32,097)</b>	<b>194,649</b>
<b>Operating income</b>	<b>42,198</b>	<b>36,490</b>	<b>78,688</b>	<b>33,696</b>	<b>36,344</b>	<b>70,040</b>	<b>45,193</b>	<b>35,936</b>	<b>81,129</b>
Interest income	4,061	-	4,061	3,866	-	3,866	1,964	-	1,964
Other income (expense)—net	(1,181)	-	(1,181)	344	-	344	(3,650)	-	(3,650)
<b>Income before income taxes</b>	<b>45,078</b>	<b>36,490</b>	<b>81,568</b>	<b>37,906</b>	<b>36,344</b>	<b>74,250</b>	<b>43,507</b>	<b>35,936</b>	<b>79,443</b>
Provision for income taxes	74,039	(47,937)	26,102	11,296	12,464	23,760	18,341	7,875	26,216
<b>Net income (loss)</b>	<b>\$ (28,961)</b>	<b>\$ 84,427</b>	<b>\$ 55,466</b>	<b>\$ 26,610</b>	<b>\$ 23,880</b>	<b>\$ 50,490</b>	<b>\$ 25,166</b>	<b>\$ 28,061</b>	<b>\$ 53,227</b>
<b>Basic net income (loss) per share</b>	<b>\$ (0.17)</b>		<b>\$ 0.32</b>	<b>\$ 0.15</b>		<b>\$ 0.29</b>	<b>\$ 0.15</b>		<b>\$ 0.31</b>
<b>Diluted net income (loss) per share</b>	<b>\$ (0.17)</b>		<b>\$ 0.32</b>	<b>\$ 0.15</b>		<b>\$ 0.28</b>	<b>\$ 0.14</b>		<b>\$ 0.30</b>
<b>Shares used in computing net income (loss) per share</b>									
Basic	171,530		171,530	175,519		175,519	173,315		173,315
Diluted	171,530		175,384	178,973		178,973	176,679		176,679

# GAAP to Non-GAAP – Operating Results (% of Revenue) (Q4'17 vs. Q3'17 vs. Q4'16)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'17	Adjustments	Q4'17	Q3'17	Adjustments	Q3'17	Q4'16	Adjustments	Q4'16
<b>Revenue:</b>									
Product	39%	-	39%	37%	-	37%	44%	-	44%
Service	61%	-	61%	63%	-	63%	56%	-	56%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
<b>Cost of revenue:</b>									
Product	17%	-	16%	16%	-	15%	16%	-	15%
Service	9%	( 1% )	8%	9%	( 1% )	9%	9%	( 1% )	9%
Total cost of revenue	25%	( 1% )	24%	25%	( 1% )	24%	25%	( 1% )	24%
<b>Gross margin:</b>									
Product	57%	1%	58%	58%	1%	59%	64%	1%	65%
Service	86%	1%	87%	85%	1%	86%	83%	1%	84%
Total gross margin	75%	1%	76%	75%	1%	76%	75%	1%	76%
<b>Operating expenses:</b>									
Research and development	13%	( 2% )	11%	14%	( 2% )	12%	13%	( 2% )	10%
Sales and marketing	46%	( 5% )	41%	46%	( 5% )	41%	45%	( 5% )	39%
General and administrative	5%	( 1% )	4%	6%	( 1% )	5%	5%	( 1% )	4%
Restructuring charges	-	-	-	-	-	-	-	-	-
Total operating expenses	65%	( 8% )	57%	66%	( 9% )	57%	62%	( 9% )	54%
Operating margin	10%	9%	19%	9%	10%	19%	12%	10%	22%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other income (expense)—net	-	-	-	-	-	-	( 1% )	-	( 1% )
Income before income taxes	11%	9%	20%	10%	10%	20%	12%	10%	22%
Provision for income taxes	18%	( 12% )	6%	3%	3%	6%	5%	2%	7%
Net income (loss)	( 7% )	20%	13%	7%	6%	13%	7%	8%	15%

# GAAP to Non-GAAP – Operating Results (FY'17 vs. FY'16)

(Unaudited, in thousands, except per share amounts)

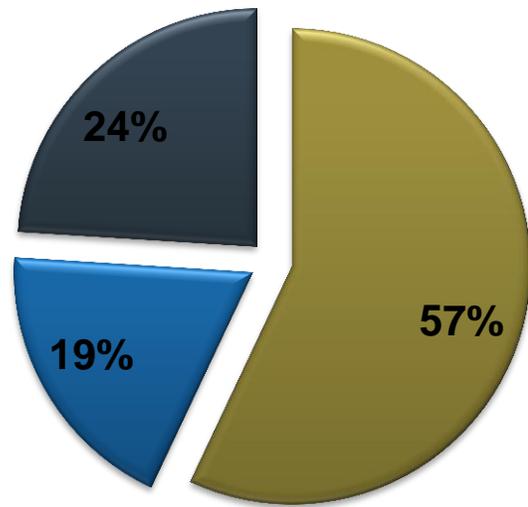
	Fiscal 2017	Adjustments	Non-GAAP Fiscal 2017	Fiscal 2016	Adjustments	Non-GAAP Fiscal 2016
<b>Revenue:</b>						
Product	\$ 577,171	\$ -	\$ 577,171	\$ 548,110	\$ -	\$ 548,110
Service	917,759	-	917,759	727,333	-	727,333
<b>Total revenue</b>	<b>1,494,930</b>	<b>-</b>	<b>1,494,930</b>	<b>1,275,443</b>	<b>-</b>	<b>1,275,443</b>
<b>Cost of revenue:</b>						
Product	243,824	(5,229)	238,595	208,984	(4,884)	204,100
Service	141,460	(10,654)	130,806	128,853	(9,951)	118,902
<b>Total cost of revenue</b>	<b>385,284</b>	<b>(15,883)</b>	<b>369,401</b>	<b>337,837</b>	<b>(14,835)</b>	<b>323,002</b>
<b>Gross profit:</b>						
Product	333,347	5,229	338,576	339,126	4,884	344,010
Service	776,299	10,654	786,953	598,480	9,951	608,431
<b>Total gross profit</b>	<b>1,109,646</b>	<b>15,883</b>	<b>1,125,529</b>	<b>937,606</b>	<b>14,835</b>	<b>952,441</b>
<b>Operating expenses:</b>						
Research and development	210,614	(32,194)	178,420	183,084	(30,120)	152,964
Sales and marketing	701,026	(81,566)	619,460	626,501	(73,399)	553,102
General and administrative	87,862	(17,612)	70,250	81,080	(27,835)	53,245
Restructuring charges	340	(340)	-	3,997	(3,997)	-
<b>Total operating expenses</b>	<b>999,842</b>	<b>(131,712)</b>	<b>868,130</b>	<b>894,662</b>	<b>(135,351)</b>	<b>759,311</b>
<b>Operating income</b>	<b>109,804</b>	<b>147,595</b>	<b>257,399</b>	<b>42,944</b>	<b>150,186</b>	<b>193,130</b>
Interest income	13,482	-	13,482	7,303	-	7,303
Other income (expense)—net	708	-	708	(7,099)	-	(7,099)
<b>Income before income taxes</b>	<b>123,994</b>	<b>147,595</b>	<b>271,589</b>	<b>43,148</b>	<b>150,186</b>	<b>193,334</b>
Provision for income taxes	92,595	(5,687)	86,908	10,961	52,839	63,800
<b>Net income</b>	<b>\$ 31,399</b>	<b>\$ 153,282</b>	<b>\$ 184,681</b>	<b>\$ 32,187</b>	<b>\$ 97,347</b>	<b>\$ 129,534</b>
<b>Basic net income per share</b>	<b>\$ 0.18</b>		<b>\$ 1.06</b>	<b>\$ 0.19</b>		<b>\$ 0.75</b>
<b>Diluted net income per share</b>	<b>\$ 0.18</b>		<b>\$ 1.04</b>	<b>\$ 0.18</b>		<b>\$ 0.73</b>
<b>Shares used in computing net income per share</b>						
Basic	174,315		174,315	172,621		172,621
Diluted	178,079		178,079	176,338		176,338

# GAAP to Non-GAAP – Operating Results (% of Revenue) (FY'17 vs. FY'16)

% of revenue	Fiscal 2017			Fiscal 2016		
	Fiscal 2017	Adjustments	Non-GAAP Fiscal 2017	Fiscal 2016	Adjustments	Non-GAAP Fiscal 2016
<b>Revenue:</b>						
Product	39%	-	39%	43%	-	43%
Service	61%	-	61%	57%	-	57%
Total revenue	100%	-	100%	100%	-	100%
<b>Cost of revenue:</b>						
Product	16%	-	16%	16%	-	16%
Service	9%	( 1% )	9%	10%	( 1% )	9%
Total cost of revenue	26%	( 1% )	25%	26%	( 1% )	25%
<b>Gross margin:</b>						
Product	58%	1%	59%	62%	1%	63%
Service	85%	1%	86%	82%	1%	84%
Total gross margin	74%	1%	75%	74%	1%	75%
<b>Operating expenses:</b>						
Research and development	14%	( 2% )	12%	14%	( 2% )	12%
Sales and marketing	47%	( 5% )	41%	49%	( 6% )	43%
General and administrative	6%	( 1% )	5%	6%	( 2% )	4%
Restructuring charges	-	-	-	-	-	-
Total operating expenses	67%	( 9% )	58%	70%	( 11% )	60%
Operating margin	7%	10%	17%	3%	12%	15%
Interest income	1%	-	1%	1%	-	1%
Other income (expense)—net	-	-	-	( 1% )	-	( 1% )
Income before income taxes	8%	10%	18%	3%	12%	15%
Provision for income taxes	6%	-	6%	1%	4%	5%
Net income	2%	10%	12%	3%	8%	10%

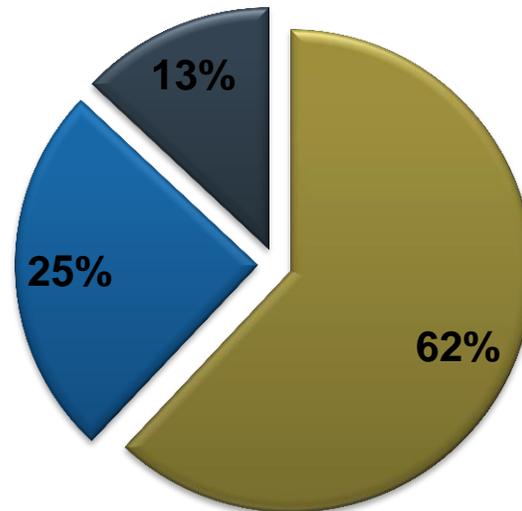
# Global Employee Footprint

Location



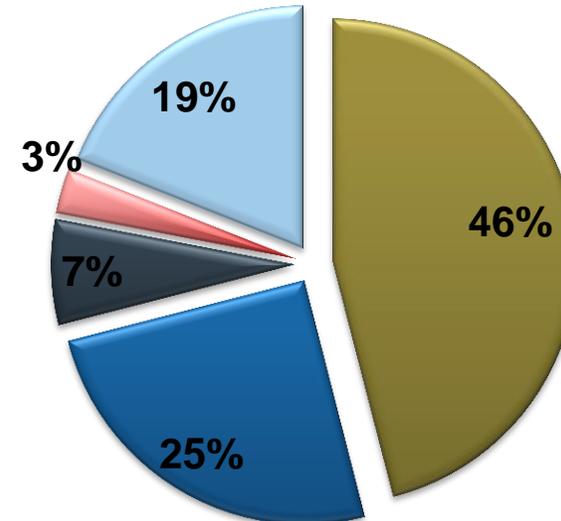
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q4'17 Headcount: 5,066

# ASC 606 Impact to Fortinet

			2017	2018 and Beyond
REVENUE	Hardware and Software	U.S. Sales	Sell Through	Sell in
		International Sales	Sell in	Sell in
	Services		Ratable	Ratable
COMMISSION EXPENSE	Hardware		Upfront	Upfront
	Support and Subscription		Upfront	Deferred and recognized over the expected benefit period

The image features a solid red background with a complex, light-colored geometric pattern. This pattern consists of numerous overlapping hexagons and lines, some of which are arranged in a way that suggests a molecular or crystalline structure. The lines are thin and white or light red, creating a subtle, technical aesthetic. In the center of the image, the word "FERTINET" is written in a bold, white, sans-serif font. The letter "F" is stylized with three vertical bars. A registered trademark symbol (®) is located at the end of the word.

**FERTINET®**