



Q1 2020 Financial Results

May 6, 2020

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Q1 2020 Non-GAAP Results

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
Billings ⁽¹⁾	\$463.2M	\$513.4M	\$527.5M	\$649.2M	\$551.6M	\$622.4M	\$626.6M	\$802.3M	\$667.8M
<i>Y/Y % Change</i>	14.9%	20.3%	22.2%	21.6%	19.1%	21.2%	18.8%	23.6%	21.1%
Revenue	\$399.0M	\$441.3M	\$453.9M	\$507.0M	\$472.6M	\$521.7M	\$547.5M	\$614.4M	\$576.9M
<i>Y/Y % Change</i>	17.1%	21.4%	21.3%	21.7%	18.4%	18.2%	20.6%	21.2%	22.1%
Product Revenue	\$142.8M	\$166.3M	\$164.5M	\$200.8M	\$162.7M	\$189.9M	\$197.1M	\$238.8M	\$192.3M
<i>Y/Y % Change</i>	5.5%	16.5%	20.0%	23.9%	13.9%	14.2%	19.8%	18.9%	18.2%
Service Revenue	\$256.2M	\$275.0M	\$289.4M	\$306.2M	\$309.9M	\$331.8M	\$350.4M	\$375.6M	\$384.6M
<i>Y/Y % Change</i>	24.8%	24.5%	22.1%	20.3%	21.0%	20.7%	21.1%	22.7%	24.1%

Notes

- (1) 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 and adjustments 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 2020 Non-GAAP Results (Continued)

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
Gross Margin ⁽¹⁾	76.7%	75.4%	76.5%	75.7%	77.2%	76.4%	78.2%	78.0%	78.7%
Operating Income ⁽¹⁾⁽²⁾	\$70.7M	\$93.1M	\$108.5M	\$130.6M	\$96.6M	\$123.1M	\$144.6M	\$164.9M	\$128.4M
Operating Margin ⁽¹⁾⁽²⁾	17.7%	21.1%	23.9%	25.8%	20.4%	23.6%	26.4%	26.8%	22.3%
Net Income ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$57.0M	\$71.4M	\$86.7M	\$104.6M	\$80.8M	\$101.6M	\$116.9M	\$132.4M	\$104.4M
Diluted Net Income Per Share ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58	\$0.67	\$0.76	\$0.60
Weighted Diluted Shares Outstanding	171.8M	173.5M	175.7M	175.8M	174.8M	175.1M	174.8M	175.2M	174.2M
Deferred Revenue	\$1.40B	\$1.47B	\$1.54B	\$1.69B	\$1.77B	\$1.87B	\$1.95B	\$2.14B	\$2.23B
Cash and Investments ⁽⁵⁾	\$1.39B	\$1.50B	\$1.67B	\$1.72B	\$1.85B	\$1.98B	\$2.14B	\$2.21B	\$1.57B
Cash Paid for Stock Repurchases	\$115.5M	\$1.6M	—	\$94.7M	\$60.4M	\$33.8M	\$23.4M	\$27.5M	\$889.9M
Days Sales Outstanding	71	68	64	79	73	70	63	80	74
Inventory Turns	2.4	3.3	3.0	3.4	2.6	3.5	2.8	2.8	2.5
Headcount	5,275	5,462	5,639	5,845	6,015	6,293	6,590	7,082	7,448

Notes

- (1) Excludes stock-based compensation and amortization of acquired intangible assets.
- (2) Excludes gain on intellectual property (“IP”) matter.
- (3) Excludes gains/losses on investments in privately-held companies.
- (4) Assumes annual effective tax rate of 24%, 24% and 22% for 2018, 2019 and 2020, respectively.
- (5) Excludes investments in privately held companies, which are recorded in other assets.

Revenue by Geography

	Q1'18		Q2'18		Q3'18		Q4'18		Q1'19		Q2'19		Q3'19		Q4'19		Q1'20	
(\$ in millions)	\$	Y/Y % Change																
Americas	\$175.8	20.1%	\$189.3	17.8%	\$194.0	20.3%	\$203.8	17.1%	\$200.5	14.1%	\$225.5	19.1%	\$240.7	24.1%	\$250.6	23.0%	\$242.2	20.8%
EMEA	\$144.5	14.6%	\$164.4	26.7%	\$165.4	19.6%	\$203.7	27.0%	\$177.2	22.6%	\$192.0	16.8%	\$200.7	21.3%	\$244.0	19.8%	\$220.7	24.5%
APAC	\$78.7	15.6%	\$87.6	20.0%	\$94.5	26.5%	\$99.5	21.0%	\$94.9	20.6%	\$104.2	18.9%	\$106.1	12.3%	\$119.8	20.4%	\$114.0	20.1%
Total	\$399.0	17.1%	\$441.3	21.4%	\$453.9	21.3%	\$507.0	21.7%	\$472.6	18.4%	\$521.7	18.2%	\$547.5	20.6%	\$614.4	21.2%	\$576.9	22.1%

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
	% of revenue								
Americas	44.1%	42.9%	42.7%	40.2%	42.4%	43.2%	44.0%	40.8%	42.0%
EMEA	36.2%	37.3%	36.4%	40.2%	37.5%	36.8%	36.7%	39.7%	38.2%
APAC	19.7%	19.8%	20.9%	19.6%	20.1%	20.0%	19.3%	19.5%	19.8%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Number of Deals & FortiGate Sales

Number of Deals ⁽¹⁾	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
No. of Deals >\$50K	1,446	1,669	1,710	2,154	1,683	1,906	1,908	2,565	2,121
No. of Deals >\$250K	233	261	264	363	266	346	333	469	323
No. of Deals >\$500K	80	113	103	129	108	147	130	197	120
No. of Deals >\$1M	34	36	30	47	35	46	53	64	38

% of FortiGate ⁽²⁾	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
Entry Level (FG20-90)	24.2%	23.0%	19.6%	20.9%	23.6%	20.7%	21.6%	22.5%	24.7%
Mid - Range (FG100-900)	43.2%	42.4%	44.5%	42.2%	44.3%	46.0%	45.1%	43.9%	44.3%
High - End (FG1000-7000)	32.6%	34.6%	35.9%	36.9%	32.1%	33.3%	33.3%	33.6%	31.0%

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.

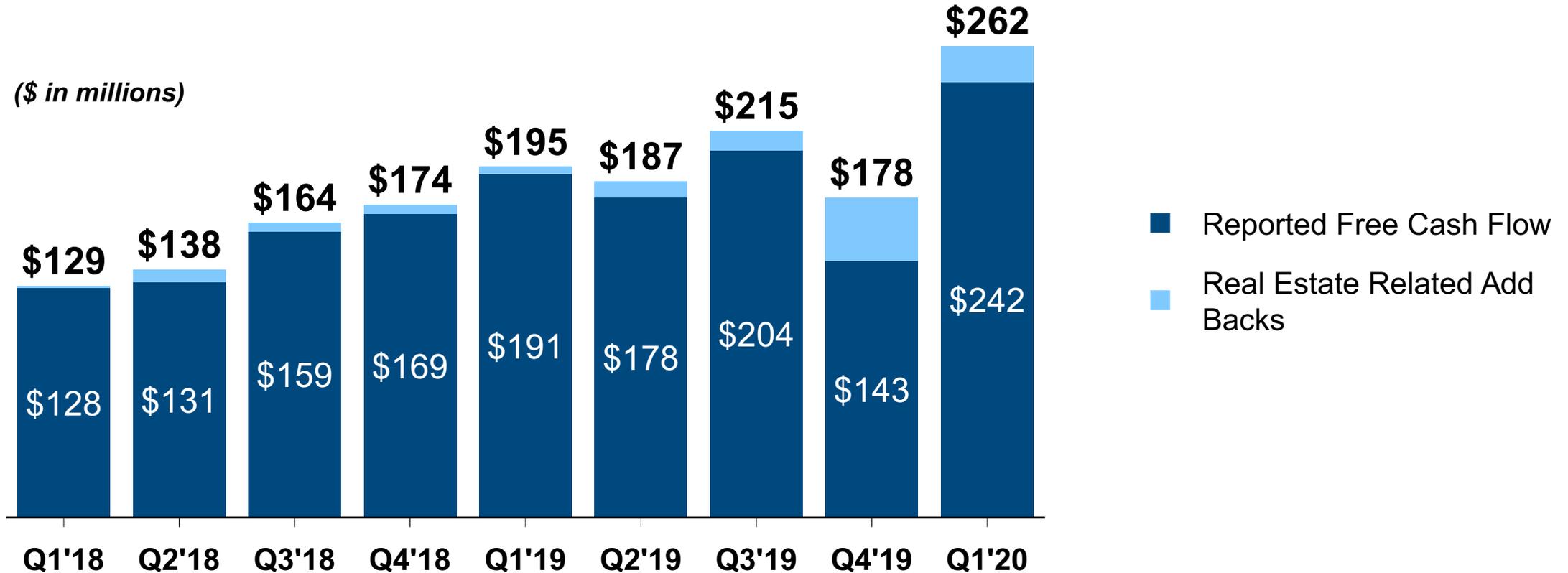
Statement of Cash Flows (Non-GAAP)

(\$ in millions)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
GAAP Net Income	\$41.6	\$49.3	\$58.7	\$182.6	\$58.8	\$72.7	\$79.8	\$115.2	\$104.0
Depreciation and Stock-Based Compensation	49.7	54.2	57.4	57.3	58.7	60.2	57.4	59.4	62.4
Accounts Receivable	48.9	(20.0)	9.1	(120.0)	63.6	(22.1)	19.0	(157.2)	69.6
Inventory	(7.3)	(3.5)	(8.2)	(14.4)	(2.6)	(2.9)	(19.7)	(23.3)	6.7
Deferred Revenue	64.1	72.2	73.6	142.2	79.0	100.7	79.1	187.9	90.9
Other	(57.3)	(9.9)	(13.9)	(67.5)	(56.2)	(13.5)	5.6	8.4	(14.2)
GAAP Cash Flow from Operations	\$139.7	\$142.3	\$176.7	\$180.2	\$201.3	\$195.1	\$221.2	\$190.4	\$319.4
Less: Purchase of Property and Equipment	(11.6)	(11.6)	(18.2)	(11.6)	(10.2)	(17.3)	(17.5)	(47.2)	(27.6)
Less: Proceeds from IP matter	—	—	—	—	—	—	—	—	(50.0)
Free Cash Flow	\$128.1	\$130.7	\$158.5	\$168.6	\$191.1	\$177.8	\$203.7	\$143.2	\$241.8
Stock Option and RSU Exercises / ESPP	25.8	(1.6)	9.4	(14.3)	2.6	(19.5)	(17.3)	(12.3)	(30.4)
Stock Repurchases	(115.5)	(1.6)	—	(94.7)	(60.4)	(33.8)	(23.4)	(27.5)	(889.9)
Acquisition	—	(6.0)	—	(15.7)	—	—	—	(34.6)	—
Proceeds from IP matter	—	—	—	—	—	—	—	—	50.0
Other	(1.3)	(8.9)	5.9	(0.1)	2.1	3.2	1.8	(3.4)	(8.1)
Change in Cash and Investments⁽¹⁾	\$37.1	\$112.6	\$173.8	\$43.8	\$135.4	\$127.7	\$164.8	\$65.4	\$(636.6)
Footnote: Cash Paid for Taxes, Net of Refunds	\$9.4	\$8.8	\$12.6	\$10.6	\$11.5	\$16.8	\$14.8	\$15.6	\$8.8

Note

(1) 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 proceeds from IP 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.

Q2 2020 Guidance⁽¹⁾ (Non-GAAP)

	Actual Q2'19	Q2'20
Billings ⁽²⁾	\$622.4M	\$700 - 725M
<i>Y/Y Mid-Pt Growth</i>		14.5%
Revenue (GAAP)	\$521.7M	\$590 - 605M
<i>Y/Y Mid-Pt Growth</i>		14.5%
Gross Margin (%) ⁽³⁾	76.4%	77.5 - 78.5%
Operating Margin (%) ^{(3) (4)}	23.6%	23.0 - 24.0%
Net Income per Share ^{(3) (4) (5) (6)}	\$0.58	\$0.64 - 0.66
Weighted Diluted Shares Outstanding	175.1M	165 - 167M

Notes

- (1) Guidance for non-GAAP financial measures excludes stock-based compensation, amortization of acquired intangible assets, gain on IP matter, 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.
- (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 and adjustments 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) Excludes stock-based compensation and amortization of acquired intangible assets.
- (4) Excludes gain on IP matter.
- (5) Excludes gains/losses on investments in privately held companies.
- (6) Assumes an effective tax rate of 24% and 22% for 2019 and 2020, respectively. For 2020, we expect cash paid for taxes to be approximately \$40.0 million.

GAAP to Non-GAAP Reconciliations

(\$ in millions)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
GAAP product gross profit	\$84.6	\$92.4	\$92.5	\$113.9	\$92.5	\$107.2	\$118.1	\$146.1	\$116.0
Stock-based compensation	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.3	0.4
Amortization of acquired intangible assets	1.1	1.2	1.7	2.0	2.1	1.7	1.2	1.5	1.6
Non-GAAP product gross profit	\$86.1	\$94.0	\$94.5	\$116.3	\$95.0	\$109.3	\$119.7	\$147.9	\$118.0
Non-GAAP product gross margin	60.3%	56.5%	57.4%	57.9%	58.4%	57.6%	60.7%	61.9%	61.4%
GAAP service gross profit	\$217.2	\$235.8	\$249.8	\$264.6	\$267.1	\$286.2	\$305.3	\$327.8	\$332.2
Stock-based compensation	2.5	2.7	2.8	2.8	2.8	2.9	2.7	2.9	3.0
Amortization of acquired intangible assets	0.1	0.1	—	—	—	0.4	0.4	0.4	1.0
Non-GAAP service gross profit	\$219.8	\$238.6	\$252.6	\$267.4	\$269.9	\$289.5	\$308.4	\$331.1	\$336.2
Non-GAAP service gross margin	85.8%	86.8%	87.3%	87.3%	87.1%	87.3%	88.0%	88.2%	87.4%
GAAP total gross profit	\$301.8	\$328.2	\$342.3	\$378.5	\$359.6	\$393.4	\$423.4	\$473.9	\$448.2
Stock-based compensation	2.9	3.1	3.1	3.2	3.2	3.3	3.1	3.2	3.4
Amortization of acquired intangible assets	1.2	1.3	1.7	2.0	2.1	2.1	1.6	1.9	2.6
Non-GAAP total gross profit	\$305.9	\$332.6	\$347.1	\$383.7	\$364.9	\$398.8	\$428.1	\$479.0	\$454.2
Non-GAAP gross margin	76.7%	75.4%	76.5%	75.7%	77.2%	76.4%	78.2%	78.0%	78.7%
GAAP research and development expense	\$59.1	\$61.2	\$58.7	\$65.5	\$68.6	\$67.4	\$69.9	\$71.2	\$80.3
Stock-based compensation	(8.4)	(9.2)	(9.3)	(9.5)	(9.4)	(10.0)	(9.3)	(10.0)	(10.9)
Non-GAAP research and development expense	\$50.7	\$52.0	\$49.4	\$56.0	\$59.2	\$57.4	\$60.6	\$61.2	\$69.4
Non-GAAP research and development expense as a percentage of revenue	12.7%	11.8%	10.9%	11.0%	12.5%	11.0%	11.1%	10.0%	12.0%
GAAP sales and marketing expense	\$185.3	\$192.8	\$198.3	\$205.9	\$215.9	\$226.5	\$227.4	\$257.1	\$260.0
Stock-based compensation	(20.9)	(23.6)	(26.0)	(25.1)	(25.4)	(26.3)	(24.9)	(25.1)	(25.7)
Amortization of acquired intangible assets	(0.6)	(0.5)	(0.8)	(0.9)	(0.9)	(0.8)	(0.6)	(0.9)	(1.4)
Non-GAAP sales and marketing expense	\$163.8	\$168.7	\$171.5	\$179.9	\$189.6	\$199.4	\$201.9	\$231.1	\$232.9
Non-GAAP sales and marketing expense as a percentage of revenue	41.1%	38.2%	37.8%	35.5%	40.1%	38.2%	36.9%	37.6%	40.4%

GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
GAAP general and administrative expense	\$25.0	\$23.5	\$22.5	\$22.0	\$24.5	\$24.3	\$26.1	\$27.2	\$28.8
Stock-based compensation	(4.3)	(4.7)	(4.8)	(4.8)	(5.0)	(5.4)	(5.1)	(5.4)	(5.3)
Non-GAAP general and administrative expense	\$20.7	\$18.8	\$17.7	\$17.2	\$19.5	\$18.9	\$21.0	\$21.8	\$23.5
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	5.2%	4.3%	3.9%	3.4%	4.1%	3.6%	3.8%	3.5%	4.1%
GAAP gain on IP matter	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$(36.8)
Gain on IP matter	—	—	—	—	—	—	—	—	36.8
Non-GAAP gain on IP matter	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
<i>Non-GAAP gain on IP matter as a percentage of revenue</i>	—%	—%	—%	—%	—%	—%	—%	—%	—%
GAAP total operating expense	\$269.4	\$277.5	\$279.5	\$293.4	\$309.0	\$318.2	\$323.4	\$355.5	\$332.3
Stock-based compensation	(33.6)	(37.5)	(40.1)	(39.4)	(39.8)	(41.7)	(39.3)	(40.5)	(41.9)
Amortization of acquired intangible assets	(0.6)	(0.5)	(0.8)	(0.9)	(0.9)	(0.8)	(0.6)	(0.9)	(1.4)
Gain on IP matter	—	—	—	—	—	—	—	—	36.8
Non-GAAP total operating expense	\$235.2	\$239.5	\$238.6	\$253.1	\$268.3	\$275.7	\$283.5	\$314.1	\$325.8
<i>Non-GAAP total operating expense as a percentage of revenue</i>	58.9%	54.3%	52.6%	49.9%	56.8%	52.8%	51.8%	51.1%	56.5%
GAAP operating income	\$32.4	\$50.7	\$62.8	\$85.1	\$50.6	\$75.2	\$100.0	\$118.4	\$115.9
Stock-based compensation	36.5	40.6	43.2	42.6	43.0	45.0	42.4	43.7	45.3
Amortization of acquired intangible assets	1.8	1.8	2.5	2.9	3.0	2.9	2.2	2.8	4.0
Gain on IP matter	—	—	—	—	—	—	—	—	(36.8)
Non-GAAP operating income	\$70.7	\$93.1	\$108.5	\$130.6	\$96.6	\$123.1	\$144.6	\$164.9	\$128.4
<i>Non-GAAP operating margin</i>	17.7%	21.1%	23.9%	25.8%	20.4%	23.6%	26.4%	26.8%	22.3%

GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
GAAP other income (expense), net	\$ (0.2)	\$ (5.0)	\$ 0.9	\$ (2.3)	\$ (0.5)	\$ (0.4)	\$ (6.0)	\$ (0.6)	\$ (8.0)
(Gain) loss on investments in privately held companies	—	—	(2.2)	—	—	—	3.8	—	4.3
Non-GAAP other expense, net	\$ (0.2)	\$ (5.0)	\$ (1.3)	\$ (2.3)	\$ (0.5)	\$ (0.4)	\$ (2.2)	\$ (0.6)	\$ (3.7)
<i>Non-GAAP other expense, net as a percentage of revenue</i>	<i>(0.1)%</i>	<i>(1.1)%</i>	<i>(0.3)%</i>	<i>(0.5)%</i>	<i>(0.1)%</i>	<i>(0.1)%</i>	<i>(0.4)%</i>	<i>(0.1)%</i>	<i>(0.6)%</i>
GAAP income before income taxes	\$36.7	\$51.5	\$70.6	\$92.1	\$60.3	\$85.8	\$105.4	\$127.7	\$117.1
Stock-based compensation	36.5	40.6	43.2	42.6	43.0	45.0	42.4	43.7	45.3
Amortization of acquired intangible assets	1.8	1.8	2.5	2.9	3.0	2.9	2.2	2.8	4.0
Gain on IP matter	—	—	—	—	—	—	—	—	(36.8)
(Gain) loss on investments in privately held companies	—	—	(2.2)	—	—	—	3.8	—	4.3
Non-GAAP income before income taxes	\$75.0	\$93.9	\$114.1	\$137.6	\$106.3	\$133.7	\$153.8	\$174.2	\$133.9
GAAP provision for (benefit from) income taxes	\$ (4.9)	\$ 2.2	\$ 11.9	\$ (90.5)	\$ 1.5	\$ 13.1	\$ 25.6	\$ 12.5	\$ 13.1
Tax adjustments related to the above	22.9	20.3	15.5	123.5	24.0	19.0	11.3	29.3	16.4
Non-GAAP provision for income taxes	\$18.0	\$22.5	\$27.4	\$33.0	\$25.5	\$32.1	\$36.9	\$41.8	\$29.5
<i>Non-GAAP effective tax rate</i>	<i>24%</i>	<i>22%</i>							

GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
GAAP net income	\$41.6	\$49.3	\$58.7	\$182.6	\$58.8	\$72.7	\$79.8	\$115.2	\$104.0
Stock-based compensation	36.5	40.6	43.2	42.6	43.0	45.0	42.4	43.7	45.3
Amortization of acquired intangible assets	1.8	1.8	2.5	2.9	3.0	2.9	2.2	2.8	4.0
Gain on IP matter	—	—	—	—	—	—	—	—	(36.8)
(Gain) loss on investments in privately held companies	—	—	(2.2)	—	—	—	3.8	—	4.3
Tax adjustments	(22.9)	(20.3)	(15.5)	(123.5)	(24.0)	(19.0)	(11.3)	(29.3)	(16.4)
Non-GAAP net income	\$57.0	\$71.4	\$86.7	\$104.6	\$80.8	\$101.6	\$116.9	\$132.4	\$104.4
GAAP net income per share, diluted	\$0.24	\$0.28	\$0.33	\$1.04	\$0.34	\$0.42	\$0.46	\$0.66	\$0.60
Stock-based compensation	0.21	0.24	0.25	0.24	0.24	0.25	0.24	0.25	0.26
Amortization of acquired intangible assets	0.01	0.01	0.01	0.02	0.02	0.02	0.01	0.02	0.02
Gain on IP matter	—	—	—	—	—	—	—	—	(0.21)
(Gain) loss on investments in privately held companies	—	—	(0.01)	—	—	—	0.02	—	0.02
Tax adjustments	(0.13)	(0.12)	(0.09)	(0.71)	(0.14)	(0.11)	(0.06)	(0.17)	(0.09)
Non-GAAP net income per share, diluted	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58	\$0.67	\$0.76	\$0.60
Shares used in diluted net income per share calculations	171.8	173.5	175.7	175.8	174.8	175.1	174.8	175.2	174.2

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