Q2 2016 Financial Results

July 28, 2016

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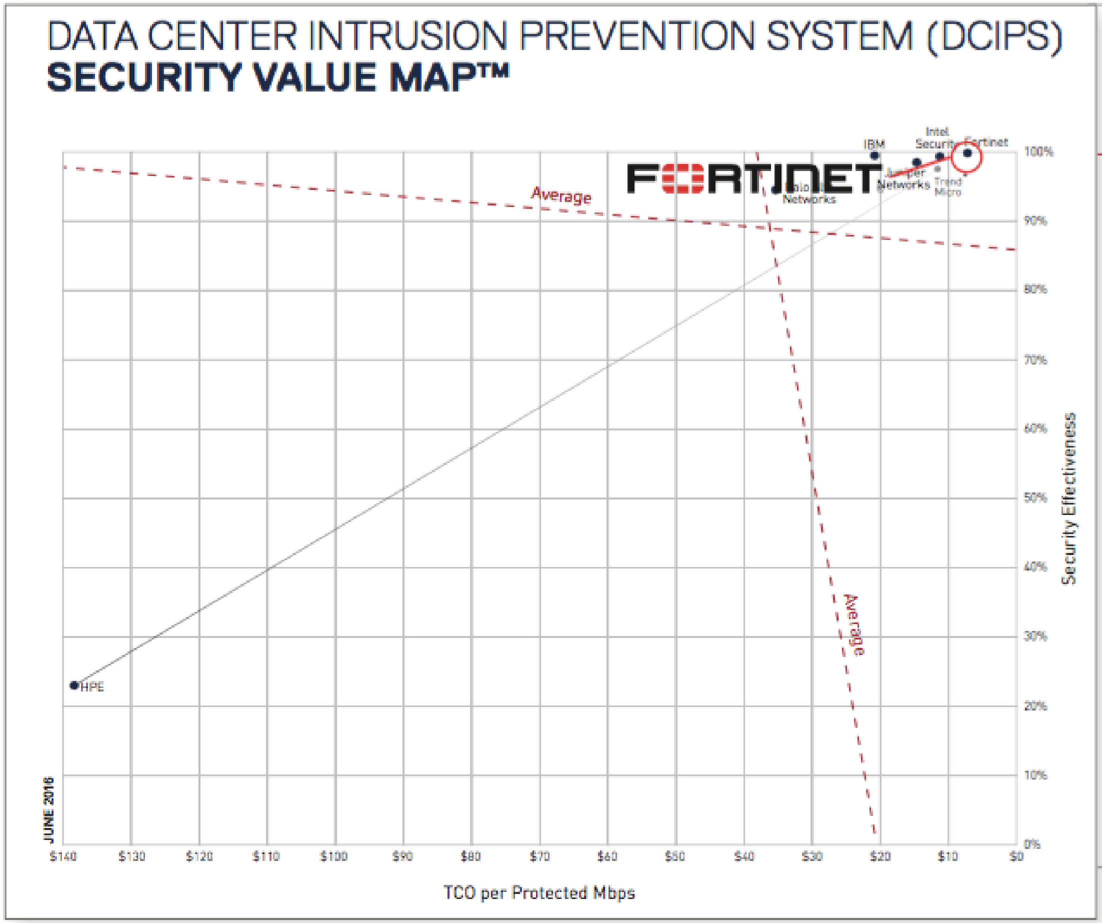
NSS Labs Testing- Data Center IPS



Data Center Intrusion Prevention Test (2016)

FortiGate 3000D

Capabilities Tested:

- Intrusion Prevention Systems (IPS)
- Heavy load, data center traffic (Virtual and Web Apps)
- Server focus

Results:

- ✓ “Recommended”
- ✓ Industry’s best value
- ✓ 99.9% exploit block rate, highest in test

Q2 2016 Non-GAAP Results

	Q2 16	Q2 15	Y/Y % Change
Billings (1)	$374M	$297M	26%
Revenue	$311M	$240M	30%
Gross Margin (%) (2)	74%	72%	+2% pts
Operating Income (2)	$36M	$29M	23%
Operating Margin (%) (2)	12%	12%	--
Net Income (2)(3)	$24M	$19M	24%
Earnings per Share (2)(3)	$0.14	$0.11	27%
Deferred Revenue	$904M	$658M	37%
Cash Flow from Operations	$68M	$84M	-19%
Free Cash Flow (4)	$53M	$74M	-27%

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.

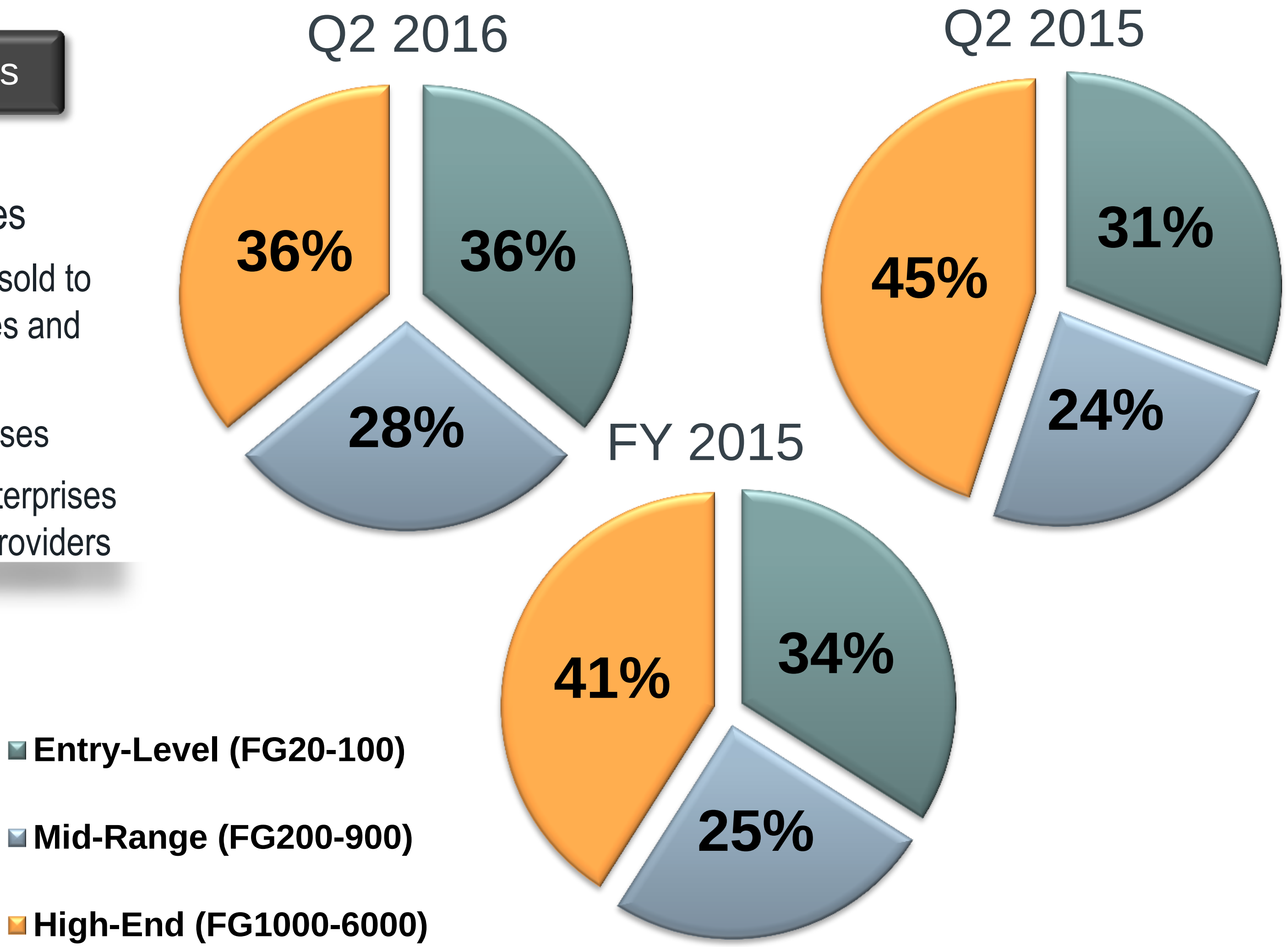
(3) Assumes annual effective tax rate of 34% and 35% for Q2 2016 and Q2 2015, respectively.

(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/Service Providers



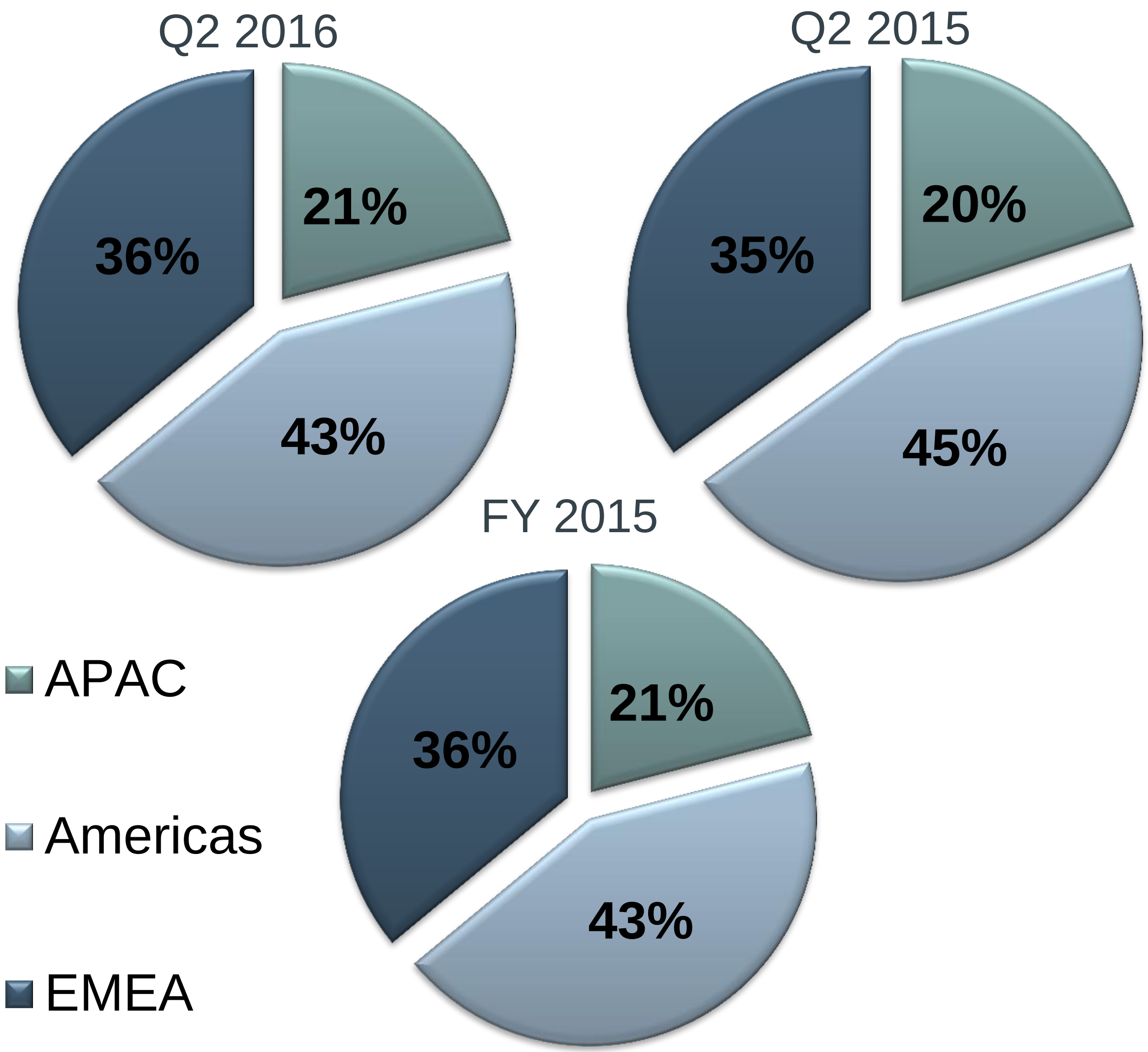
Note

(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, less any deferred revenue balances acquired from business combination(s) during the period.

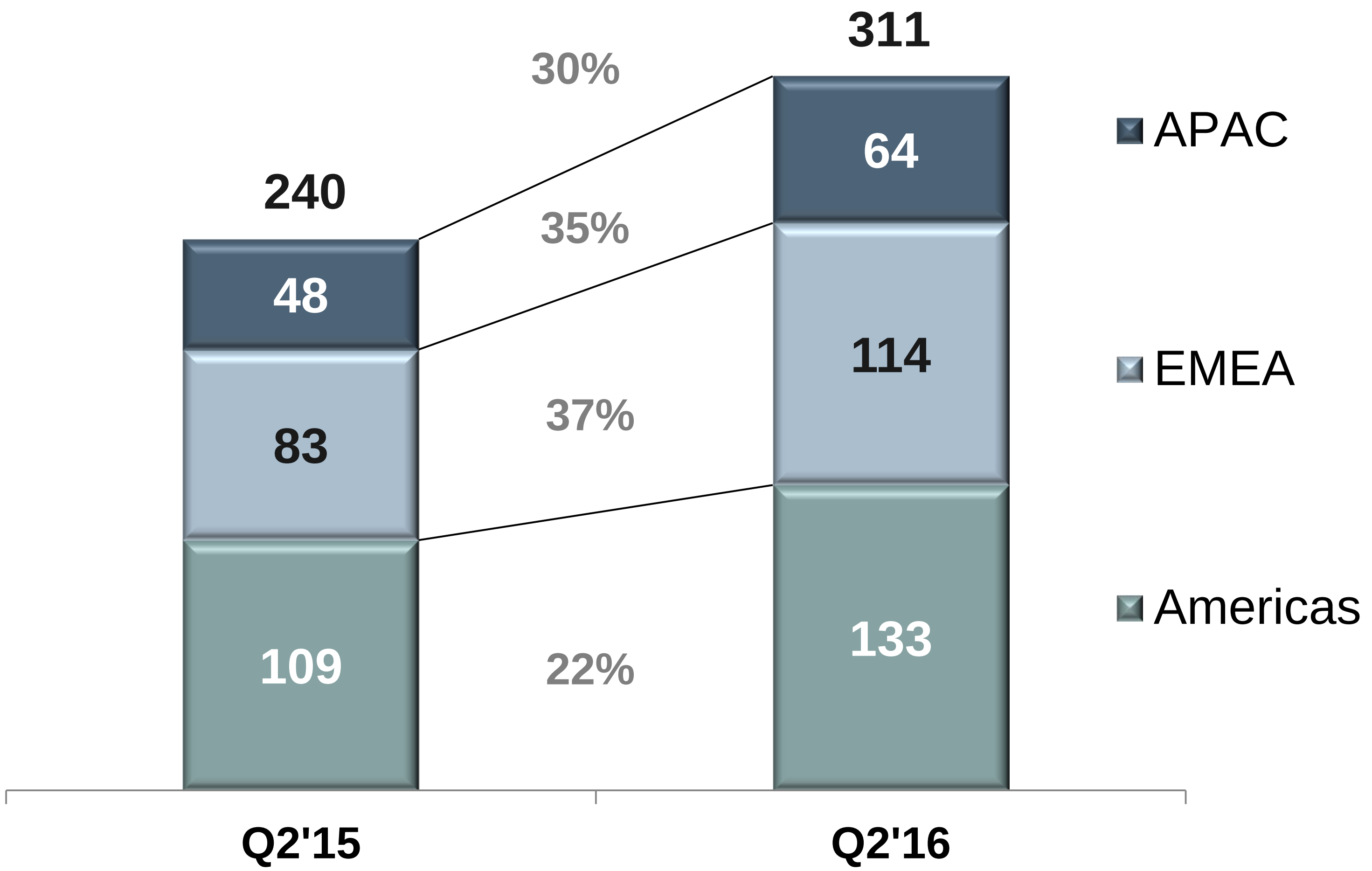
Diversified Global Revenue

Revenue by Geography

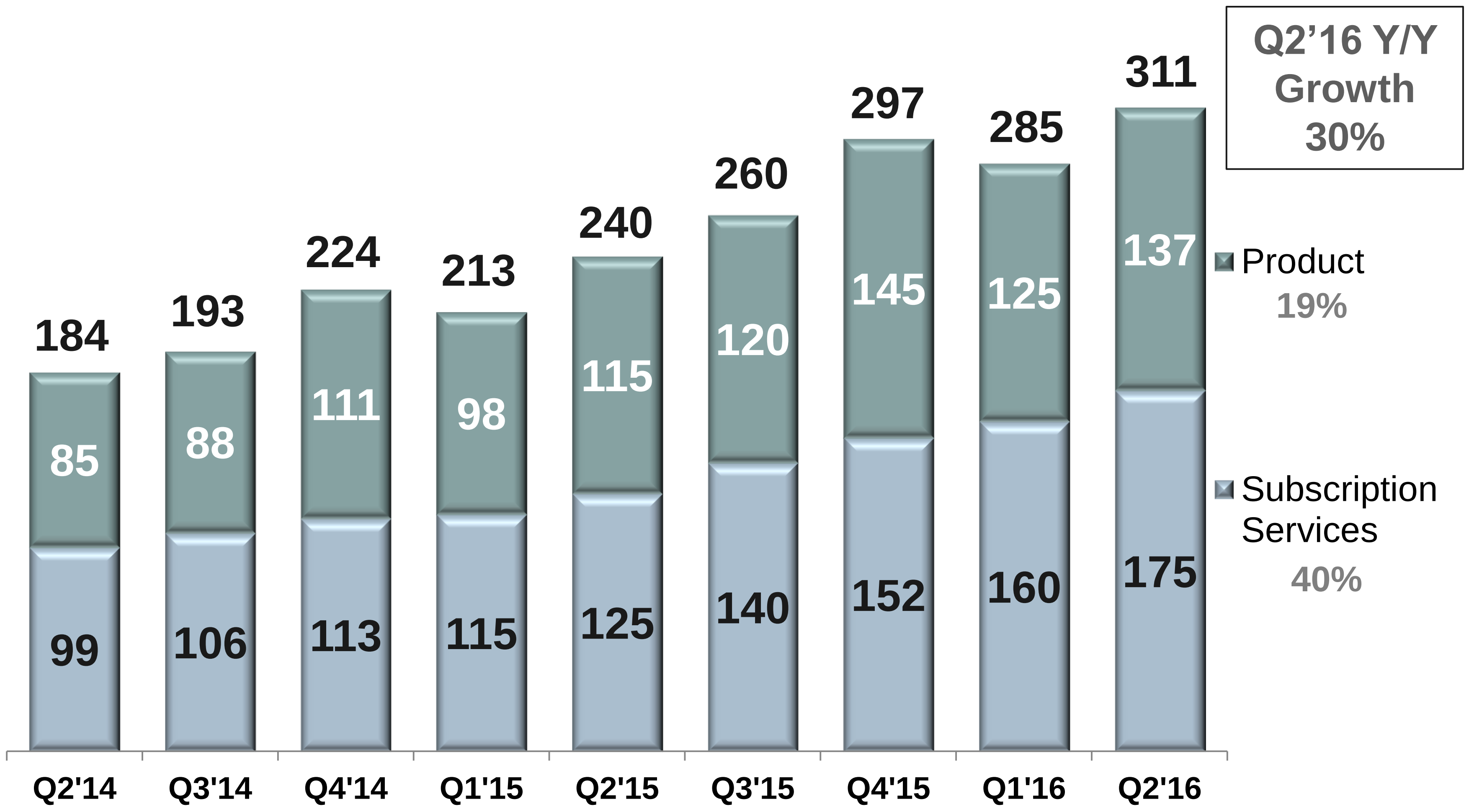
- Globally-diverse revenue stream



Revenue Growth by Geography



Quarterly Revenue Mix & Q2'16 Y/Y Growth



Q2 2016 Select Financial Statistics

	Q2 16	Q1 16	Q2 15
Cash and Investments[(1)]	$1.22B	$1.19B	$1.15B
Deferred Revenue	$904M	$837M	$658M
Free Cash Flow	$53M	$71M	$74M
DSO	74	70	66
Inventory Turns	2.3	2.1	2.2
Revenue per Employee (Annualized)	$283K	$276K	$299K
No. of Deals >$100K	546	478	402
No. of Deals >$250K	183	151	136
No. of Deals >$500K	68	58	57

Notes
(1) Excludes $10.3M of investments in privately-held companies which are recorded in other assets for all Q2 2016, Q1 2016 and Q2 2015.

Statement of Cash Flows (Non-GAAP)

($ in Millions)	Q2 16	Q2 15	1H 16	1H 15
GAAP Net Income (Loss)	**(1)**	**1**	**1**	**2**
Depreciation and Stock-Based Compensation	**42**	**29**	**81**	**54**
Accounts Receivable	**(37)**	**(14)**	**2**	**10**
Inventory	**(7)**	**(2)**	**(8)**	**(8)**
Accounts Payable / Accrued Expenses / Other	**6**	**14**	**(18)**	**(6)**
Deferred Revenue	**65**	**56**	**111**	**97**
GAAP Cash Flow from Operations	**68**	**84**	**169**	**149**
Purchase of Property and Equipment	**(14)**	**(10)**	**(44)**	**(16)**
Free Cash Flow	**53**	**74**	**125**	**133**
Stock Option and RSU Exercises / ESPP	**(3)**	**9**	**6**	**31**
Stock Repurchases	**-**	**-**	**(50)**	**-**
Acquisition	**(21)**	**-**	**(21)**	**-**
Other	**(1)**	**(7)**	**(2)**	**(7)**
Net Cash Flow	**28**	**76**	**58**	**157**
Footnote: Cash Paid for Taxes	***8***	***4***	***14***	***10***

Q3 and 2016 Guidance(1) (Non-GAAP)

	Q3 16	Y/Y % Mid-Pt Growth	2016	Y/Y % Mid-Pt Growth
Billings (2)	**$372 - 376M**	**25%**	**$1.530 - 1.540B**	**25%**
Revenue (GAAP)	**$319 - 324M**	**24%**	**$1.274 - 1.284B**	**27%**
Gross Margin (%) (3)	**73 - 74%**		**~74%**	
Operating Margin (%) (3)	**14 - 15%**		**~15%**	
Earnings per Share(3) (4)	**$0.17 - 0.18**		**$0.69 - 0.71**	
Weighted Diluted Shares used in EPS	**178 - 180M**		**176 - 178M**	

Notes

(1) With respect to Fortinet's guidance for Q3 2016 and full year 2016, 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, restructuring charges, and ERP-related expenses 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, restructuring charges, and expenses associated with the implementation of a new ERP system.

(4) Assumes effective tax rate of 34% for 2016.

GAAP to Non-GAAP – Operating Results (Q2'16 vs. Q1'16 vs. Q2'15)

(Unaudited, in thousands, except per share amounts)	Q2'16	Adjustment	Non-GAAP Q2'16	Q1'16 [1]	Adjustment	Non-GAAP Q1'16	Q2'15	Adjustment	Non-GAAP Q2'15
Revenue:									
Product	$ 136,641	$ -	$ 136,641	$ 124,572	$ -	$ 124,572	$ 114,777	$ -	$ 114,777
Service	174,750	-	174,750	160,004	-	160,004	125,008	-	125,008
Total revenue	311,391	-	311,391	284,576	-	284,576	239,785	-	239,785
Cost of revenue:									
Product	52,788	(1,396)	51,392	49,313	(1,241)	48,072	47,397	(1,735)	45,662
Service	31,715	(2,123)	29,592	28,331	(2,134)	26,197	22,101	(1,660)	20,441
Total cost of revenue	84,503	(3,519)	80,984	77,644	(3,375)	74,269	69,498	(3,395)	66,103
Gross profit:									
Product	83,853	1,396	85,249	75,259	1,241	76,500	67,380	1,735	69,115
Service	143,035	2,123	145,158	131,673	2,134	133,807	102,907	1,660	104,567
Total gross profit	226,888	3,519	230,407	206,932	3,375	210,307	170,287	3,395	173,682
Operating expenses:									
Research and development	45,502	(7,479)	38,023	44,754	(7,143)	37,611	37,389	(5,541)	31,848
Sales and marketing	162,694	(18,417)	144,277	146,103	(16,425)	129,678	111,928	(11,583)	100,345
General and administrative	22,184	(10,048)	12,136	19,439	(6,516)	12,923	18,018	(5,820)	12,198
Restructuring charges	553	(553)	-	328	(328)	-	-	-	-
Total operating expenses	230,933	(36,497)	194,436	210,624	(30,412)	180,212	167,335	(22,944)	144,391
Operating income (loss)	(4,045)	40,016	35,971	(3,692)	33,787	30,095	2,952	26,339	29,291
Interest income	1,705	-	1,705	1,746	-	1,746	1,364	-	1,364
Other expense—net	(1,350)	-	(1,350)	(1,312)	-	(1,312)	(830)	-	(830)
Income (Loss) before income taxes	(3,690)	40,016	36,326	(3,258)	33,787	30,529	3,486	26,339	29,825
Provision for (Benefit from) income taxes	(2,302)	14,653	12,351	(5,376)	15,756	10,380	2,694	7,745	10,439
Net income (loss)	$ (1,388)	$ 25,363	$ 23,975	$ 2,118	$ 18,031	$ 20,149	$ 792	$ 18,594	$ 19,386
Basic net income (loss) per share	$ (0.01)		$ 0.14	$ 0.01		$ 0.12	$ -		$ 0.11
Diluted net income (loss) per share	$ (0.01)		$ 0.14	$ 0.01		$ 0.12	$ -		$ 0.11
Shares used in computing net income (loss) per share									
Basic	172,075		172,075	171,745		171,745	169,930		169,930
Diluted	172,075		176,298	174,421		174,421	176,234		176,234

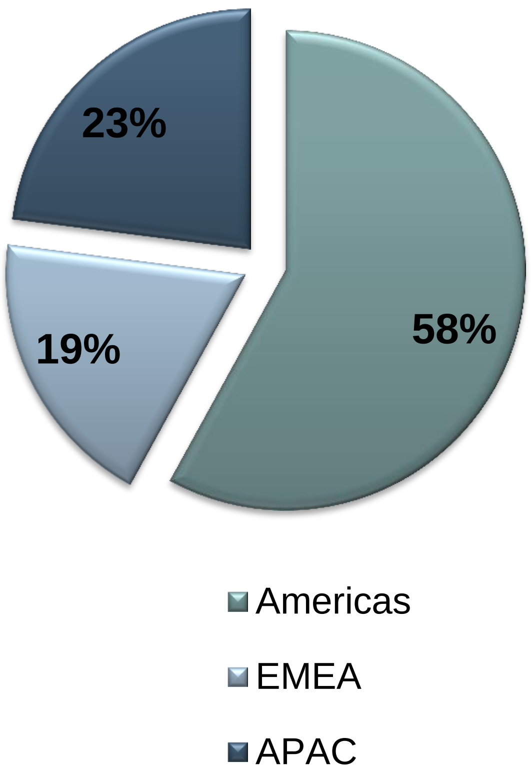
[1] In March 2016, the Financial Accounting Standards Board issued Accounting Standard Update ("ASU") No. 2016-09, which allows a company to make a policy election to account for forfeitures as they occur. We early adopted this standard and elected to account for forfeitures as they occur using the modified retrospective transition method. The adoption of this standard resulted in a decrease of $2.0 million in our share-based compensation and a decrease of $3.6 million in our provision for income taxes during the first quarter of 2016. Diluted shares outstanding was also adjusted accordingly.

GAAP to Non-GAAP – Operating Results (% of Rev) (Q2'16 vs. Q1'16 vs. Q2'15)

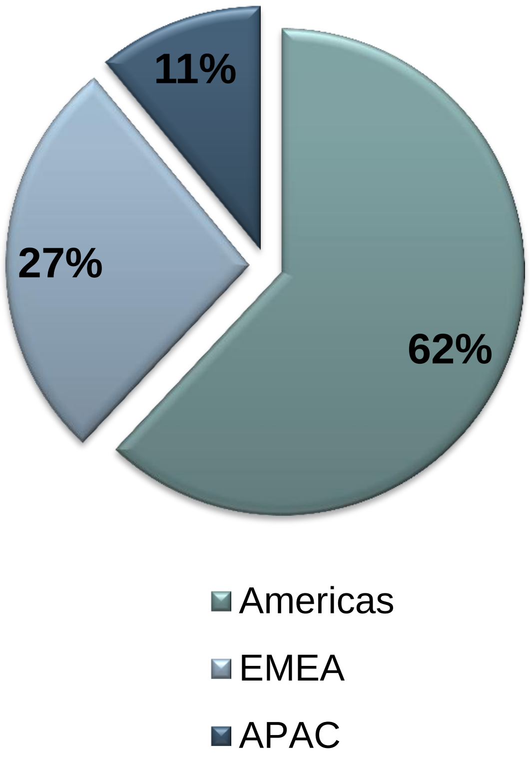
% of revenue	Q2'16	Adjustment	Non-GAAP Q2'16	Q1'16	Adjustment	Non-GAAP Q1'16	Q2'15	Adjustment	Non-GAAP Q2'15
Revenue:									
Product	44%	-	44%	44%	-	44%	48%	-	48%
Service	56%	-	56%	56%	-	56%	52%	-	52%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	17%	-	17%	17%	-	17%	20%	(1%)	19%
Service	10%	(1%)	10%	10%	(1%)	9%	9%	(1%)	9%
Total cost of revenue	27%	(1%)	26%	27%	(1%)	26%	29%	(1%)	28%
Gross profit:									
Product	61%	1%	62%	60%	1%	61%	59%	2%	60%
Service	82%	1%	83%	82%	1%	84%	82%	1%	84%
Total gross margin	73%	1%	74%	73%	1%	74%	71%	1%	72%
Operating expenses:									
Research and development	15%	(2%)	12%	16%	(3%)	13%	16%	(2%)	13%
Sales and marketing	52%	(6%)	46%	51%	(6%)	46%	47%	(5%)	42%
General and administrative	7%	(3%)	4%	7%	(2%)	5%	8%	(2%)	5%
Restructuring charges	-	-	-	-	-	-	-	-	-
Total operating expenses	74%	(12%)	62%	74%	(11%)	63%	70%	(10%)	60%
Operating margin	(1%)	13%	12%	(1%)	12%	11%	1%	11%	12%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other expense—net	-	-	-	-	-	-	-	-	-
Income (Loss) before income taxes	(1%)	13%	12%	(1%)	12%	11%	1%	11%	12%
Provision for (Benefit from) income taxes	(1%)	5%	4%	(2%)	6%	4%	1%	3%	4%
Net income (loss)	(0.4%)	8%	8%	1%	6%	7%	0.3%	8%	8%

Global Employee Footprint

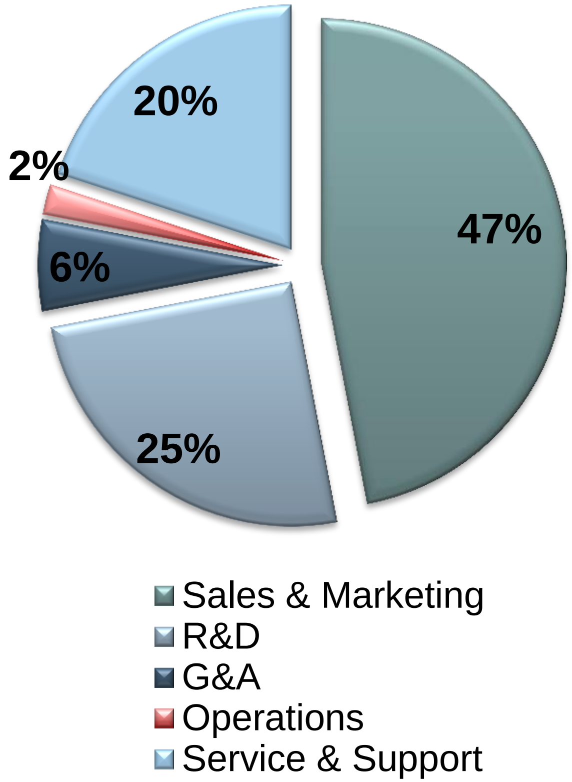
Location



Cost



Function



Q2’16 Headcount: 4,562

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