

Q1 2017 Financial Results

April 27, 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 Q2 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.

Q1 2017 Non-GAAP Results

	Q1 17	Q1 16	Y/Y % Change
Billings ⁽¹⁾	\$403M	\$330M	22%
Revenue	\$341M	\$285M	20%
Gross Margin (%) ⁽²⁾	75%	74%	+1 pt
Operating Income ⁽²⁾	\$43M	\$30M	43%
Operating Margin (%) ⁽²⁾	13%	11%	+2 pts
Net Income ⁽²⁾⁽³⁾	\$31M	\$20M	54%
Earnings per Share ⁽²⁾⁽³⁾	\$0.17	\$0.12	42%
Deferred Revenue	\$1.10B	\$837M	31%
Cash Flow from Operations	\$130M	\$101M	29%
Free Cash Flow ⁽⁴⁾	\$116M	\$71M	65%

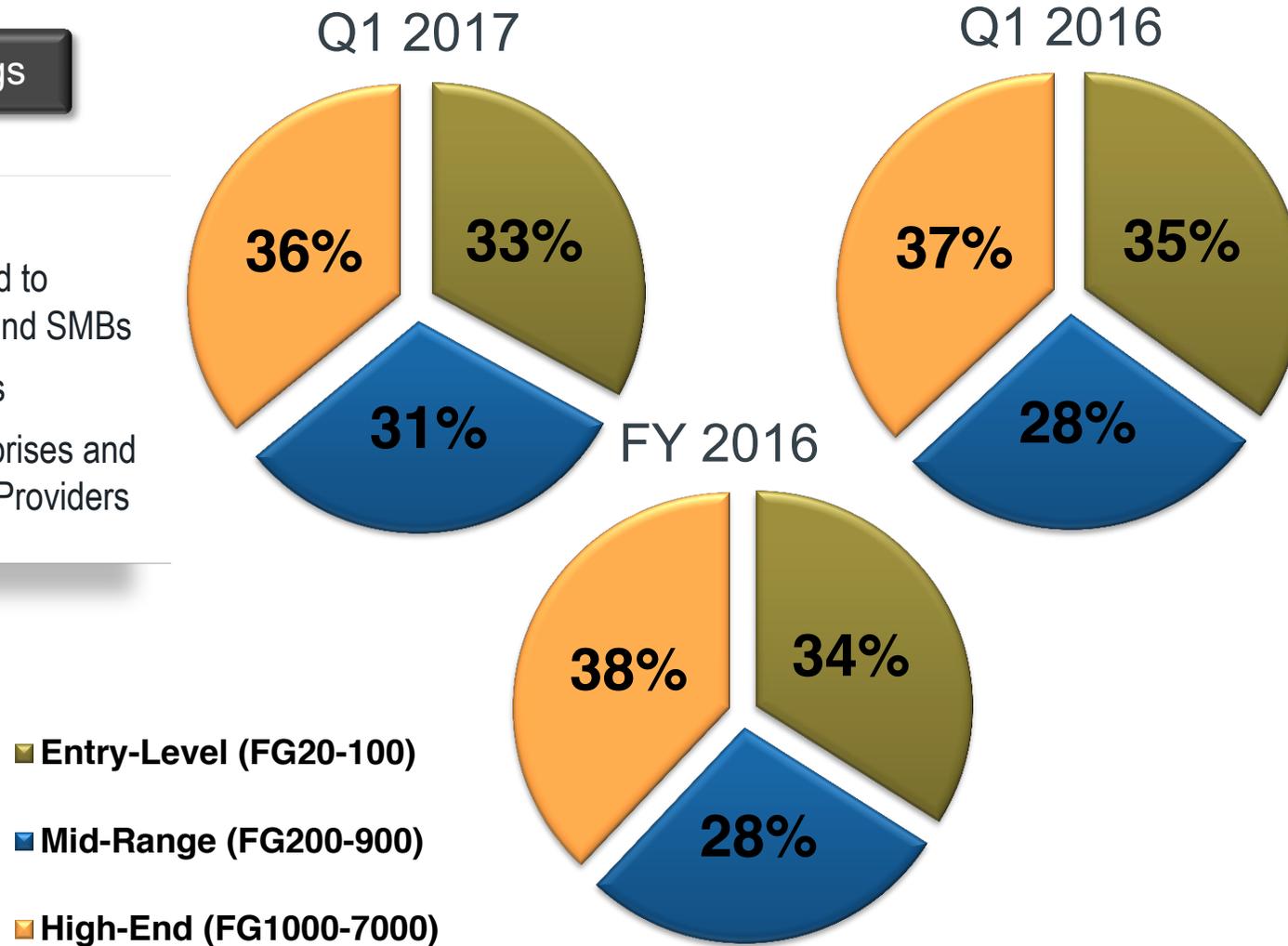
Notes

- (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, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, litigation settlement expenses. In Q1 2016, expenses associated with the implementation of a new Enterprise Resource Planning (ERP) system 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.

Balanced Product Sales

FortiGate Billings

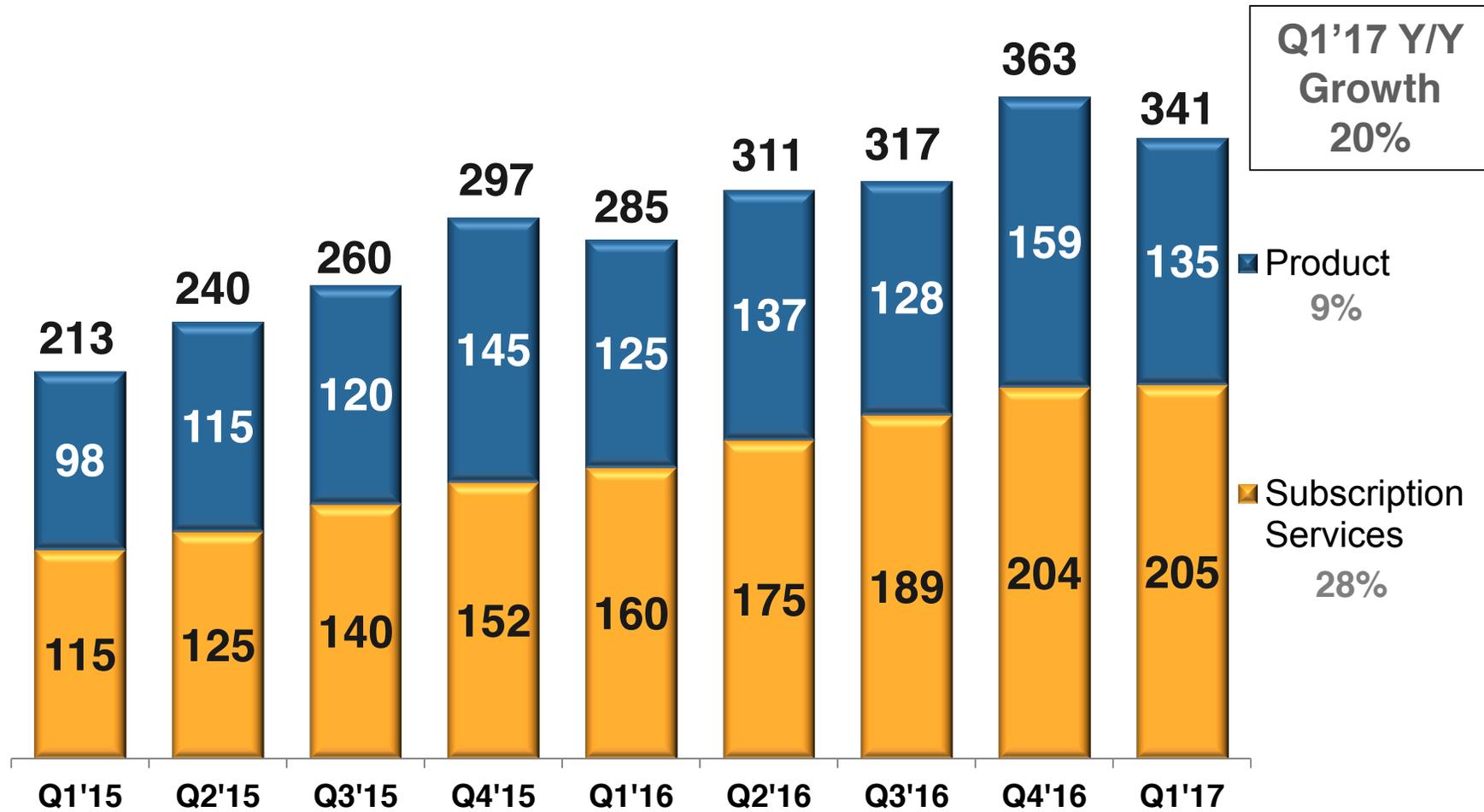
- **Balanced Product Sales**
 - Entry-Level typically sold to Distributed Enterprises and SMBs
 - Mid-Range = Enterprises
 - High-End = Large Enterprises and Telcos/Carriers/Service Providers



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

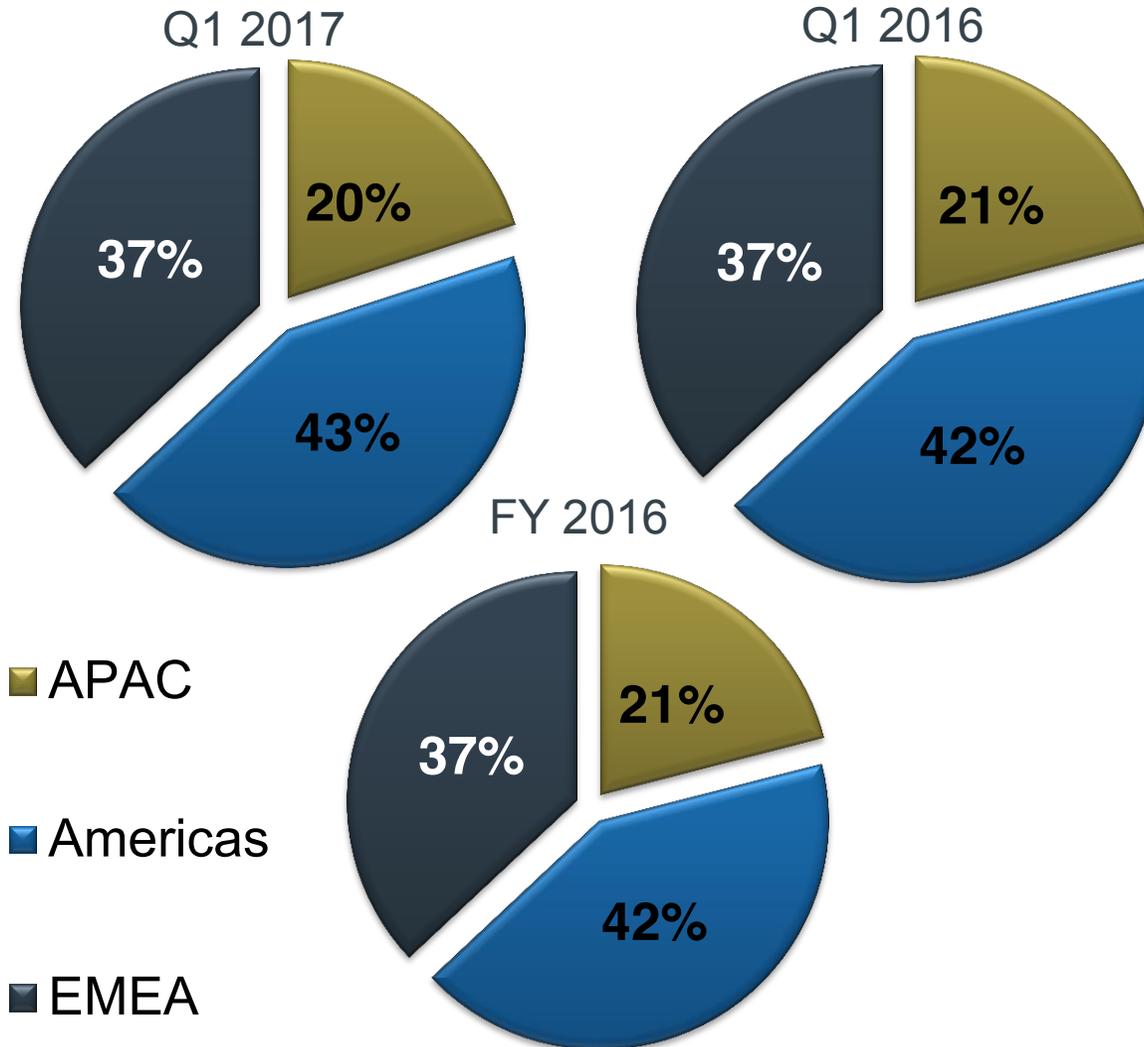
Quarterly Revenue Mix & Q1'17 Y/Y Growth



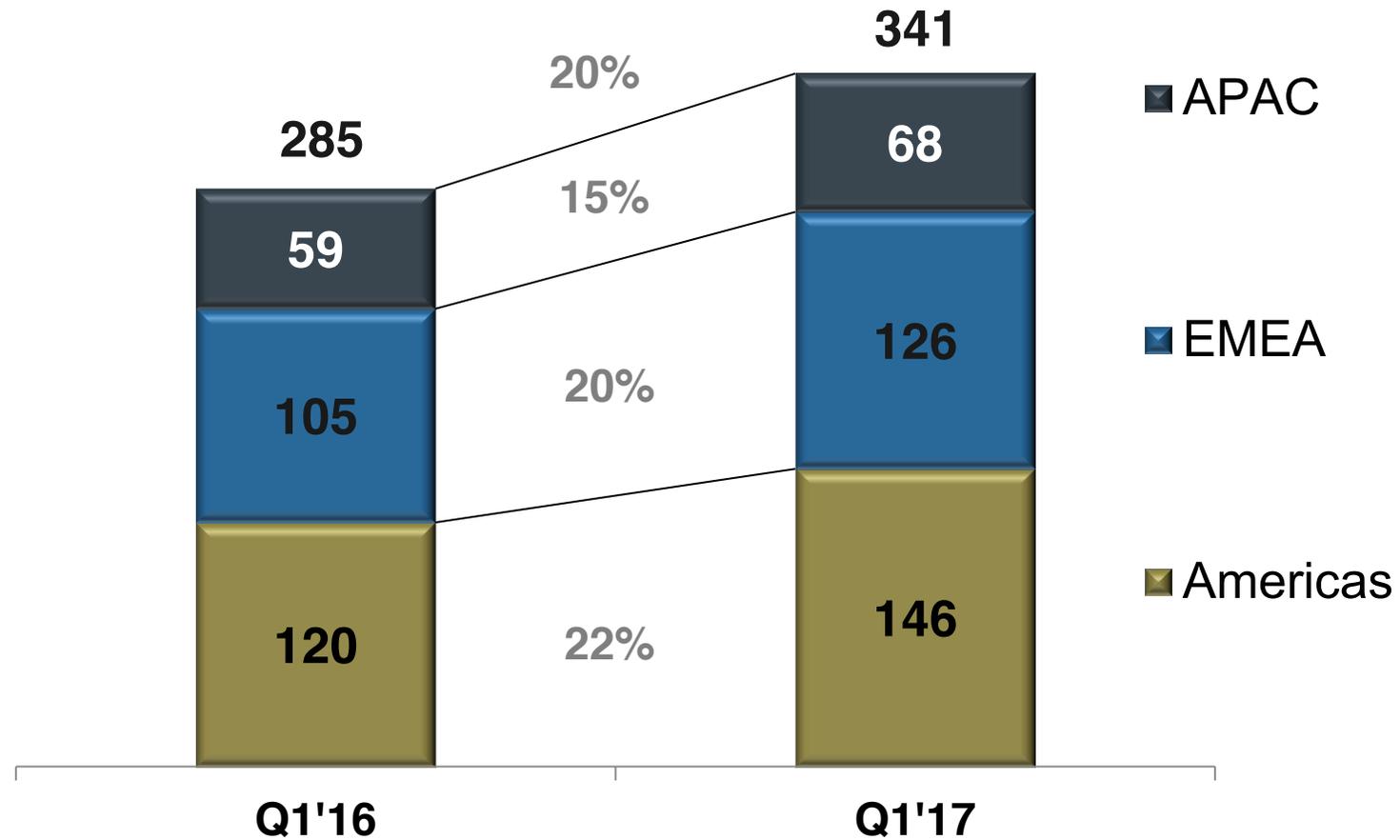
Diversified Global Revenue

Revenue by Geography

- Globally-diverse revenue stream



Revenue Growth by Geography



Q1 2017 Select Financial Statistics

	Q1 17	Q4 16	Q1 16
Cash and Investments ⁽¹⁾	\$1.44B	\$1.31B	\$1.19B
Deferred Revenue	\$1.10B	\$1.04B	\$837M
Free Cash Flow	\$116M	\$84M	\$71M
DSO	71	78	70
Inventory Turns	1.6	1.8	2.1
Revenue per Employee (Annualized)	\$291K	\$313K	\$276K
No. of Deals >\$100K	573	733	478
No. of Deals >\$250K	174	239	151
No. of Deals >\$500K	76	97	58

Notes

(1) Excludes \$11.3M of investments in privately-held companies which are recorded in other assets for Q1 2017 and \$10.3M for Q4 2016 and Q1 2016.

Statement of Cash Flows (Non-GAAP)

	(\$ in Millions)	
	Q1 17	Q1 16
GAAP Net Income (Loss)	11	2
Depreciation and Stock-Based Compensation	47	39
Accounts Receivable	42	39
Inventory	(4)	(1)
Accounts Payable / Accrued Expenses / Other	(28)	(24)
Deferred Revenue	62	46
GAAP Cash Flow from Operations	130	101
Purchase of Property and Equipment	(14)	(30)
Free Cash Flow	116	71
Stock Option and RSU Exercises / ESPP	16	8
Stock Repurchases	-	(50)
Acquisition	-	-
Other	(2)	1
Net Cash Flow	130	30
<i>Footnote: Cash Paid for Taxes, Net of Refunds</i>	<i>9</i>	<i>6</i>

Q2 and 2017 Guidance⁽¹⁾ (Non-GAAP)

	Q2 17	Y/Y % Mid-Pt Growth	2017	Y/Y % Mid-Pt Growth
Billings ⁽²⁾	\$425 - 432M	15%	\$1.770 - 1.792B	18%
Revenue (GAAP)	\$357 - 363M	16%	\$1.485 - 1.495B	17%
Gross Margin (%) ⁽³⁾	74 - 75%		74 - 75%	
Operating Margin (%) ⁽³⁾	14 - 15%		16%	
Earnings per Share ^{(3) (4)}	\$0.19 - 0.20		\$0.89 - 0.91	
Weighted Diluted Shares used in EPS	180 - 182M		181 - 183M	

Notes

- (1) With respect to Fortinet's guidance for Q2 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, litigation settlement expenses, 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, litigation settlement expenses, and restructuring charges.
- (4) Assumes effective tax rate of 32% for 2017.

GAAP to Non-GAAP – Operating Results

(Q1'17 vs. Q4'16 vs. Q1'16)

(Unaudited, in thousands, except per share amounts)

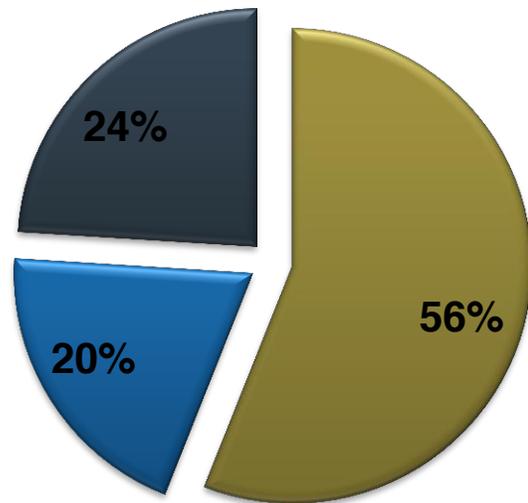
	Q1'17	Adjustment	Non-GAAP Q1'17	Q4'16	Adjustment	Non-GAAP Q4'16	Q1'16	Adjustment	Non-GAAP Q1'16
Revenue:									
Product	\$ 135,253	\$ -	\$ 135,253	\$ 158,925	\$ -	\$ 158,925	\$ 124,572	\$ -	\$ 124,572
Service	205,323	-	205,323	203,905	-	203,905	160,004	-	160,004
Total revenue	340,576	-	340,576	362,830	-	362,830	284,576	-	284,576
Cost of revenue:									
Product	55,297	(1,012)	54,285	56,616	(1,198)	55,418	49,313	(1,241)	48,072
Service	35,267	(2,890)	32,377	34,275	(2,641)	31,634	28,331	(2,134)	26,197
Total cost of revenue	90,564	(3,902)	86,662	90,891	(3,839)	87,052	77,644	(3,375)	74,269
Gross profit:									
Product	79,956	1,012	80,968	102,309	1,198	103,507	75,259	1,241	76,500
Service	170,056	2,890	172,946	169,630	2,641	172,271	131,673	2,134	133,807
Total gross profit	250,012	3,902	253,914	271,939	3,839	275,778	206,932	3,375	210,307
Operating expenses:									
Research and development	51,195	(7,898)	43,297	45,589	(7,871)	37,718	44,754	(7,143)	37,611
Sales and marketing	170,400	(20,068)	150,332	162,873	(19,702)	143,171	146,103	(16,425)	129,678
General and administrative	22,577	(5,255)	17,322	17,451	(3,691)	13,760	19,439	(6,516)	12,923
Restructuring charges	430	(430)	-	833	(833)	-	328	(328)	-
Total operating expenses	244,602	(33,651)	210,951	226,746	(32,097)	194,649	210,624	(30,412)	180,212
Operating income (loss)	5,410	37,553	42,963	45,193	35,936	81,129	(3,692)	33,787	30,095
Interest income	2,392	-	2,392	1,964	-	1,964	1,746	-	1,746
Other income (expense)—net	302	-	302	(3,650)	-	(3,650)	(1,312)	-	(1,312)
Income (loss) before income taxes	8,104	37,553	45,657	43,507	35,936	79,443	(3,258)	33,787	30,529
Provision for (Benefit from) income taxes	(2,613)	17,223	14,610	18,341	7,875	26,216	(5,376)	15,756	10,380
Net income	\$ 10,717	\$ 20,330	\$ 31,047	\$ 25,166	\$ 28,061	\$ 53,227	\$ 2,118	\$ 18,031	\$ 20,149
Basic net income per share	\$ 0.06		\$ 0.18	\$ 0.15		\$ 0.31	\$ 0.01		\$ 0.12
Diluted net income per share	\$ 0.06		\$ 0.17	\$ 0.14		\$ 0.30	\$ 0.01		\$ 0.12
Shares used in computing net income per share									
Basic	174,489		174,489	173,315		173,315	171,745		171,745
Diluted	178,278		178,278	176,679		176,679	174,421		174,421

GAAP to Non-GAAP – Operating Results (% of Revenue) (Q1'17 vs. Q4'16 vs. Q1'16)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q1'17	Adjustment	Q1'17	Q4'16	Adjustment	Q4'16	Q1'16	Adjustment	Q1'16
Revenue:									
Product	40%	-	40%	44%	-	44%	44%	-	44%
Service	60%	-	60%	56%	-	56%	56%	-	56%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	16%	-	16%	16%	-	15%	17%	-	17%
Service	10%	(1%)	10%	9%	(1%)	9%	10%	(1%)	9%
Total cost of revenue	27%	(1%)	25%	25%	(1%)	24%	27%	(1%)	26%
Gross profit:									
Product	59%	1%	60%	64%	1%	65%	60%	1%	61%
Service	83%	1%	84%	83%	1%	84%	82%	1%	84%
Total gross margin	73%	1%	75%	75%	1%	76%	73%	1%	74%
Operating expenses:									
Research and development	15%	(2%)	13%	13%	(2%)	10%	16%	(3%)	13%
Sales and marketing	50%	(6%)	44%	45%	(5%)	39%	51%	(6%)	46%
General and administrative	7%	(2%)	5%	5%	(1%)	4%	7%	(2%)	5%
Restructuring charges	-	-	-	-	-	-	-	-	-
Total operating expenses	72%	(10%)	62%	62%	(9%)	54%	74%	(11%)	63%
Operating margin	2%	11%	13%	12%	10%	22%	(1%)	12%	11%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other income (expense)—net	-	-	-	(1%)	-	(1%)	-	-	-
Income (loss) before income taxes	2%	11%	13%	12%	10%	22%	(1%)	12%	11%
Provision for (Benefit from) income taxes	(1%)	5%	4%	5%	2%	7%	(2%)	6%	4%
Net income	3%	6%	9%	7%	8%	15%	1%	6%	7%

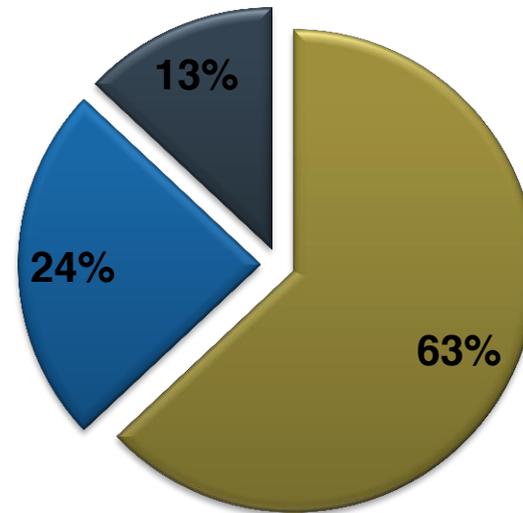
Global Employee Footprint

Location



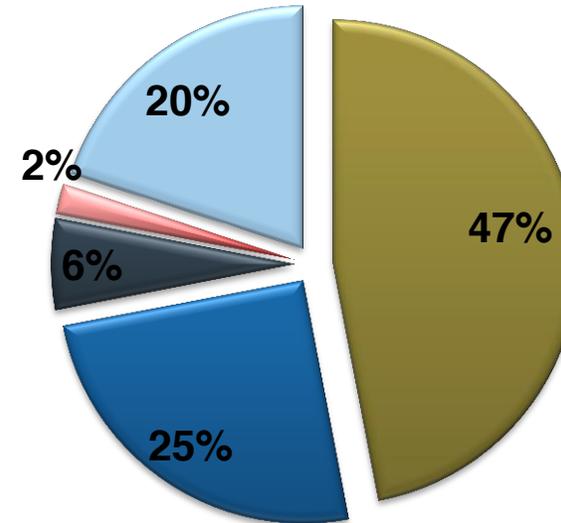
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q1'17 Headcount: 4,711

The image features a solid red background with a complex, light-colored geometric pattern. The pattern consists of numerous overlapping hexagons and lines, some of which are arranged in a grid-like fashion, while others are more scattered. The overall effect is a futuristic, technical, or molecular aesthetic. 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 inside it. A registered trademark symbol (®) is located at the end of the word.

FERTINET®