



Q1 2016 Financial Results

April 26, 2016

Safe Harbor Statement

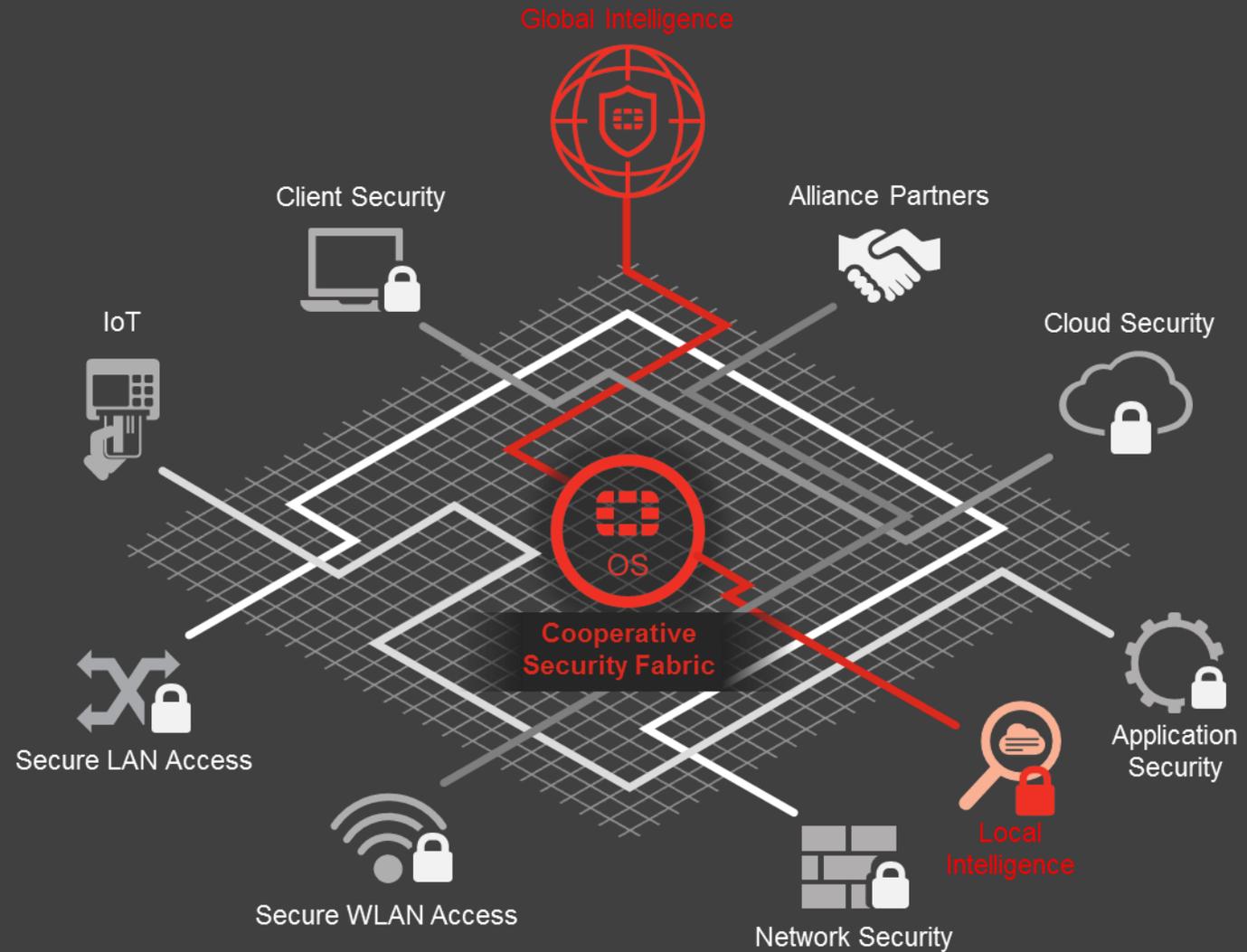


Information, statements and projections contained in these presentation slides and related conference calls concerning Fortinet's business outlook and momentum, the Q2 and 2016 guidance, and future prospects and expectations are forward-looking statements that involve a number of uncertainties and risks. 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; 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 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.

Fortinet's Security Fabric – *From IoT to Cloud*



- Scalability
- Awareness
- Security
- Actionable
- Open



Q1 2016 Non-GAAP Results

	Q1 16	Q1 15	Y/Y % Change
Billings ⁽¹⁾	\$330M	\$254M	30%
Revenue	\$285M	\$213M	34%
Gross Margin (%) ⁽²⁾	74%	71%	+3% pts
Operating Income ⁽²⁾	\$30M	\$20M	50%
Operating Margin (%) ⁽²⁾	11%	9%	+2% pts
Net Income ⁽²⁾⁽³⁾	\$20M	\$14M	49%
Earnings per Share ⁽²⁾⁽³⁾	\$0.12	\$0.08	50%
Deferred Revenue	\$837M	\$600M	39%
Cash Flow from Operations	\$101M	\$65M	56%
Free Cash Flow ⁽⁴⁾	\$71M	\$60M	18%

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 Q1 2016 and Q1 2015, respectively.
- (4) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.

Fortinet's Cloud Strategy



Infrastructure

Security FOR the Cloud

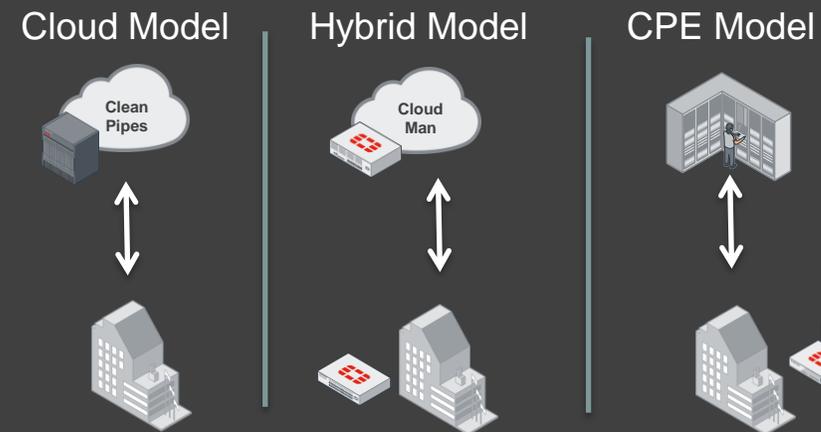


SaaS



MSSP /Telco Enabled

Security FROM the Cloud



Fortinet

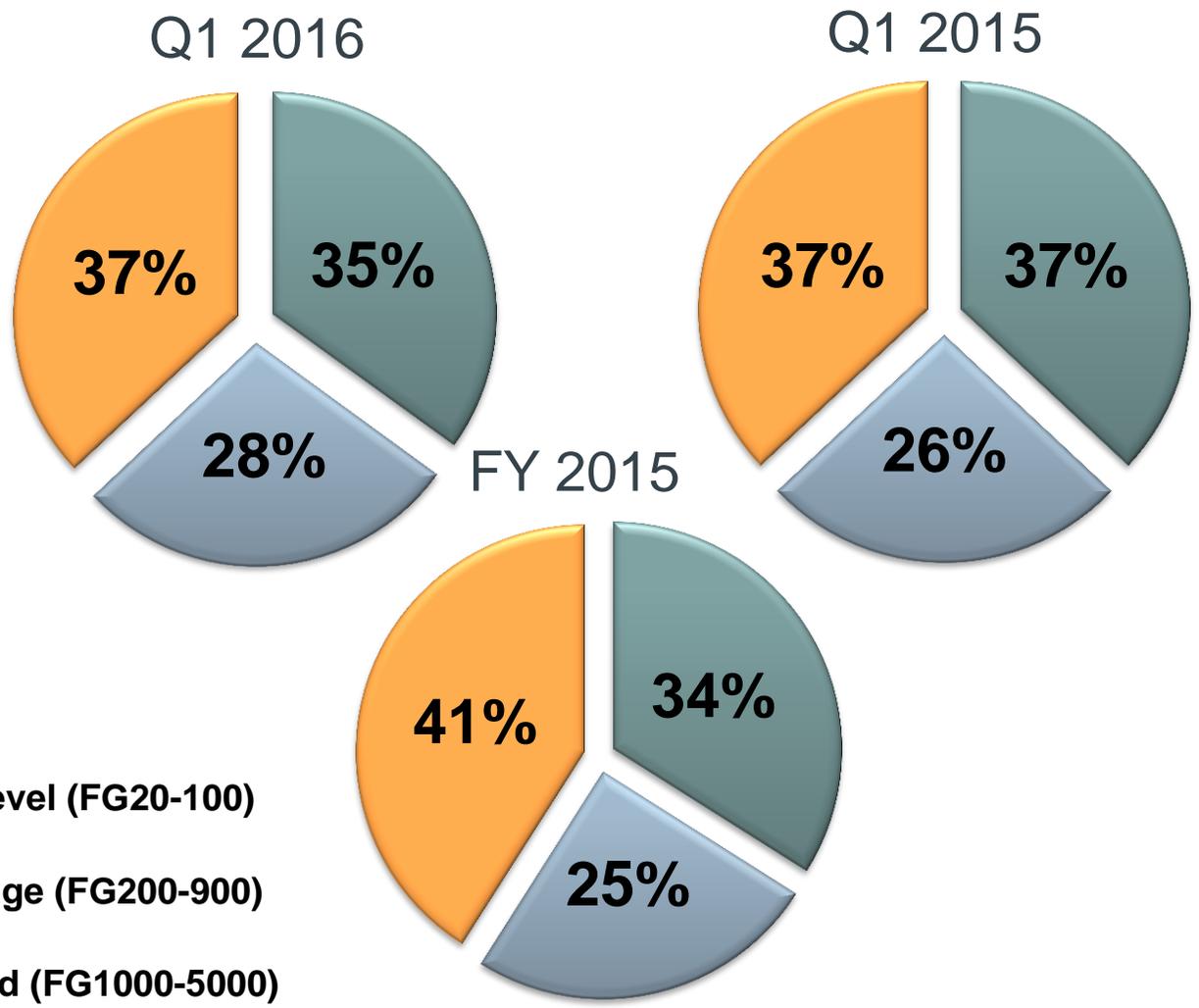


Balanced Product Segmentation



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



- **Entry-Level (FG20-100)**
- **Mid-Range (FG200-900)**
- **High-End (FG1000-5000)**

Note

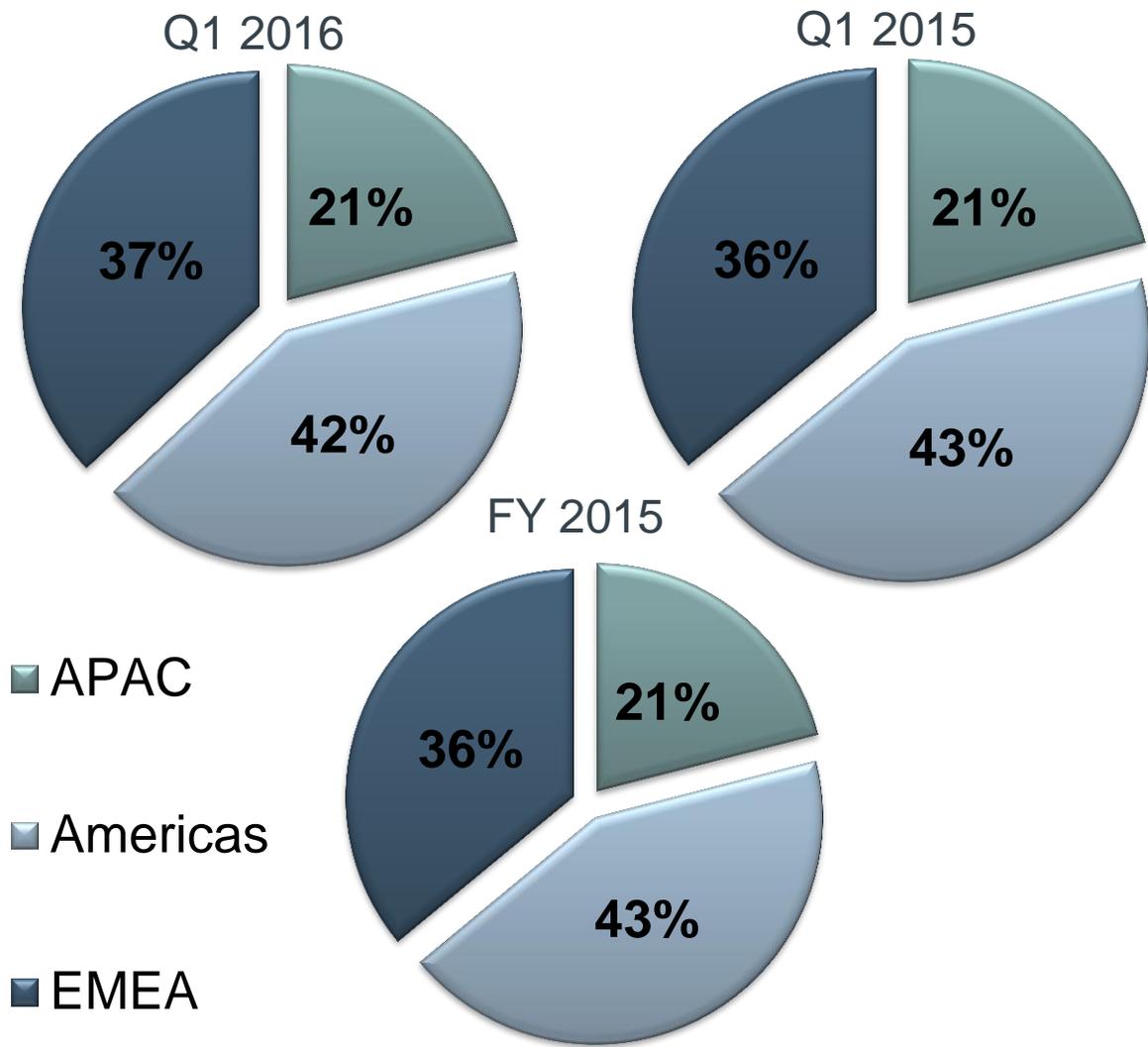
(1) Represents FortiGate billings by Product Category. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.

Diversified Global Revenue



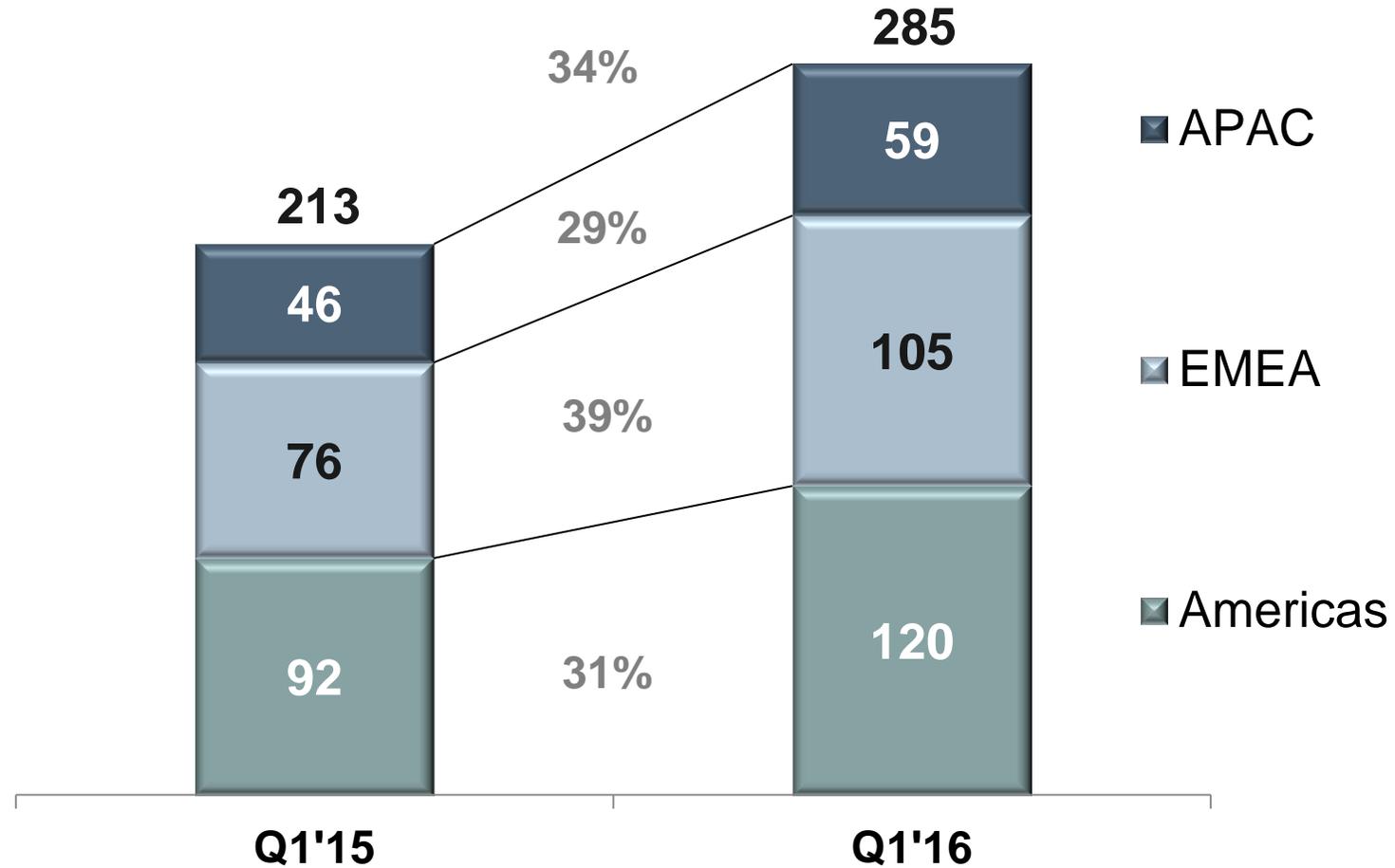
Revenue by Geography

- Globally-diverse revenue stream

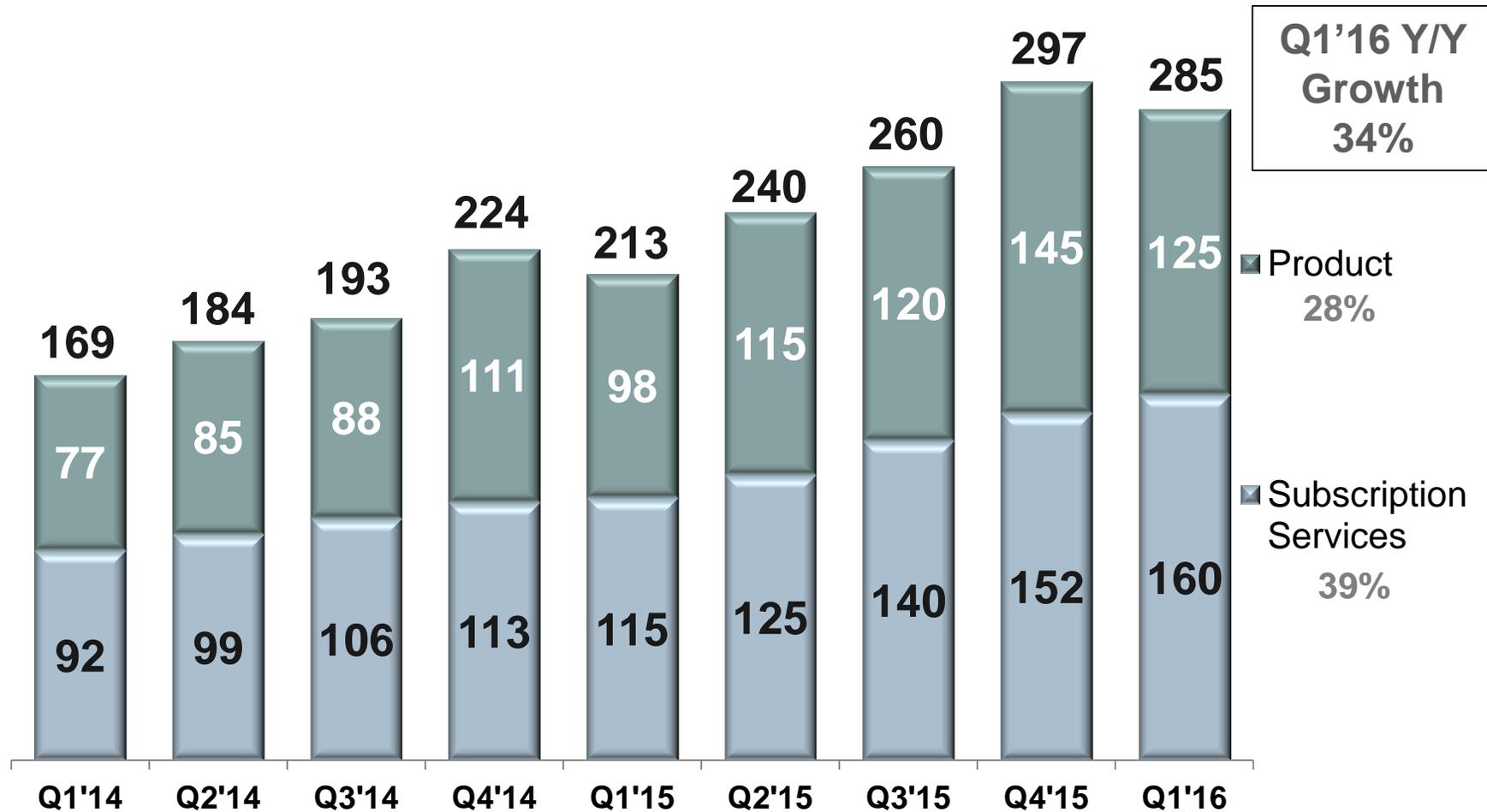


- APAC
- Americas
- EMEA

Revenue Growth by Geography



Quarterly Revenue Mix & Q1'16 Y/Y Growth



Q1 2016 Select Financial Statistics



	Q1 16	Q4 15	Q1 15
Cash and Investments ⁽¹⁾	\$1.194B	\$1.164B	\$1.073B
Deferred Revenue	\$837M	\$791M	\$600M
Free Cash Flow	\$71M	\$60M	\$60M
DSO	70	79	68
Inventory Turns	2.1	2.3	1.9
Revenue per Employee (Annualized)	\$276K	\$300K	\$287K
No. of Deals >\$100K	478	577	335
No. of Deals >\$250K	151	193	118
No. of Deals >\$500K	58	74	41

Notes

(1) Excludes \$10.3M, \$10.3M and \$6.4M of investments in privately-held companies which are recorded in other assets for Q1 2016, Q4 2015 and Q1 2015, respectively.

Statement of Cash Flows (Non-GAAP)

<i>(\$ in Millions)</i>	Q1 16	Q1 15
GAAP Net Income (Loss)	(3)	2
Depreciation and Stock-Based Compensation	41	25
Accounts Receivable	39	24
Inventory	-	(6)
Accounts Payable / Accrued Expenses / Other	(22)	(21)
Deferred Revenue	46	41
GAAP Cash Flow from Operations	101	65
Purchase of Property and Equipment	(30)	(5)
Free Cash Flow	71	60
Stock Option and RSU Exercises / ESPP	8	22
Stock Repurchases	(50)	-
Acquisition	-	-
Other	1	(1)
Net Cash Flow	30	81
<i>Footnote: Cash Paid for Taxes</i>	6	6

Q2 and 2016 Guidance (Non-GAAP)

	Q2 16	Y/Y % Mid-Pt Growth	2016	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$365 - 370M	24%	\$1.520 - 1.530B	24%
Revenue	\$301 - 306M	27%	\$1.262 - 1.272B	26%
Gross Margin (%) ⁽²⁾	~73%		~73%	
Operating Margin (%) ⁽²⁾	~12%		~15%	
Earnings per Share ^{(2) (3)}	\$0.14		\$0.69 - 0.71	
Weighted Diluted Shares used in EPS	176 - 178M		180 - 182M	

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 effective tax rate of 34% for 2016.

GAAP to Non-GAAP – Operating Results (Q1'16 vs. Q4'15 vs. Q1'15)



(Unaudited, in thousands, except per share amounts)

	Q1'16	Adjustment	Non-GAAP Q1'16	Q4'15	Adjustment	Non-GAAP Q4'15	Q1'15	Adjustment	Non-GAAP Q1'15
Revenue:									
Product	\$ 124,572	\$ -	\$ 124,572	\$ 144,759	\$ -	\$ 144,759	\$ 97,509	\$ -	\$ 97,509
Service	160,004	-	160,004	151,770	-	151,770	115,377	-	115,377
Total revenue	284,576	-	284,576	296,529	-	296,529	212,886	-	212,886
Cost of revenue:									
Product	49,359	(1,287)	48,072	55,466	(2,521)	52,945	41,368	(384)	40,984
Service	28,390	(2,193)	26,197	26,510	(1,980)	24,530	22,234	(1,632)	20,602
Total cost of revenue	77,749	(3,480)	74,269	81,976	(4,501)	77,475	63,602	(2,016)	61,586
Gross profit:									
Product	75,213	1,287	76,500	89,293	2,521	91,814	56,141	384	56,525
Service	131,614	2,193	133,807	125,260	1,980	127,240	93,143	1,632	94,775
Total gross profit	206,827	3,480	210,307	214,553	4,501	219,054	149,284	2,016	151,300
Operating expenses:									
Research and development	44,966	(7,355)	37,611	42,814	(7,194)	35,620	35,816	(5,157)	30,659
Sales and marketing	147,403	(17,724)	129,679	136,840	(15,664)	121,176	100,609	(9,307)	91,302
General and administrative	19,802	(6,879)	12,923	20,315	(5,636)	14,679	11,961	(2,686)	9,275
Restructuring charges	328	(328)	-	1,717	(1,717)	-	-	-	-
Total operating expenses	212,499	(32,286)	180,213	201,686	(30,211)	171,475	148,386	(17,150)	131,236
Operating income (loss)	(5,672)	35,766	30,094	12,867	34,712	47,579	898	19,166	20,064
Interest income	1,746	-	1,746	1,176	-	1,176	1,422	-	1,422
Other expense—net	(1,312)	-	(1,312)	(1,007)	-	(1,007)	(677)	-	(677)
Income (Loss) before income taxes	(5,238)	35,766	30,528	13,036	34,712	47,748	1,643	19,166	20,809
Provision for (Benefit from) income taxes	(1,809)	12,189	10,380	15,570	(213)	15,357	83	7,200	7,283
Net income (loss)	\$ (3,429)	\$ 23,577	\$ 20,148	\$ (2,534)	\$ 34,925	\$ 32,391	\$ 1,560	\$ 11,966	\$ 13,526
Basic net income (loss) per share	\$ (0.02)		\$ 0.12	\$ (0.01)		\$ 0.19	\$ 0.01		\$ 0.08
Diluted net income (loss) per share	\$ (0.02)		\$ 0.12	\$ (0.01)		\$ 0.18	\$ 0.01		\$ 0.08
Shares used in computing net income (loss) per share									
Basic	171,745		171,745	171,831		171,831	168,077		168,077
Diluted	171,745		174,263	171,831		176,657	173,720		173,720

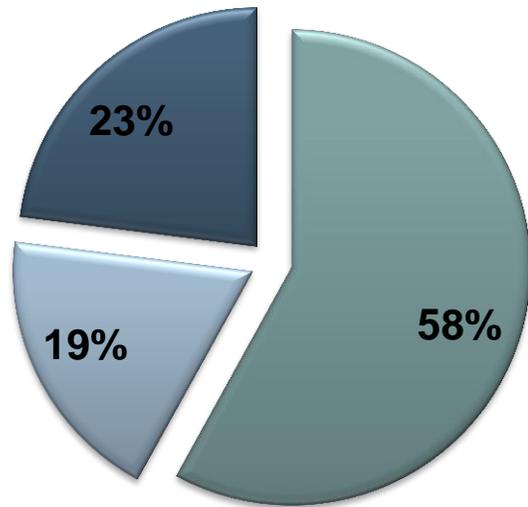
GAAP to Non-GAAP – Operating Results (% of Rev) (Q1'16 vs. Q4'15 vs. Q1'15)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q1'16	Adjustment	Q1'16	Q4'15	Adjustment	Q4'15	Q1'15	Adjustment	Q1'15
Revenue:									
Product	44%	-	44%	49%	-	49%	46%	-	46%
Service	56%	-	56%	51%	-	51%	54%	-	54%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	17%	-	17%	19%	(1%)	18%	19%	-	19%
Service	10%	(1%)	9%	9%	(1%)	8%	10%	(1%)	10%
Total cost of revenue	27%	(1%)	26%	28%	(2%)	26%	30%	(1%)	29%
Gross profit:									
Product	60%	1%	61%	62%	2%	63%	58%	-	58%
Service	82%	1%	84%	83%	1%	84%	81%	1%	82%
Total gross margin	73%	1%	74%	72%	2%	74%	70%	1%	71%
Operating expenses:									
Research and development	16%	(3%)	13%	14%	(2%)	12%	17%	(2%)	14%
Sales and marketing	52%	(6%)	46%	46%	(5%)	41%	47%	(4%)	43%
General and administrative	7%	(2%)	5%	7%	(2%)	5%	6%	(1%)	4%
Restructuring charges	-	-	-	1%	(1%)	-	-	-	-
Total operating expenses	75%	(11%)	63%	68%	(10%)	58%	70%	(8%)	62%
Operating margin	(2%)	13%	11%	4%	12%	16%	0.4%	9%	9%
Interest income	1%	-	1%	-	-	-	1%	-	1%
Other expense—net	-	-	-	-	-	-	-	-	-
Income (Loss) before income taxes	(2%)	13%	11%	4%	12%	16%	1%	9%	10%
Provision for (Benefit from) income taxes	(1%)	4%	4%	5%	-	5%	-	3%	3%
Net income (loss)	(1%)	8%	7%	(1%)	12%	11%	1%	6%	6%

Global Employee Footprint

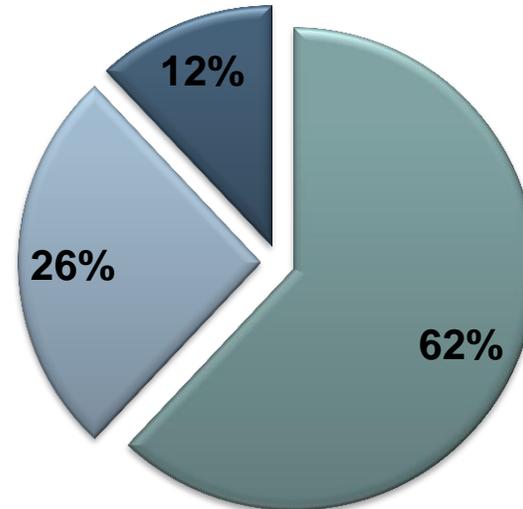


Location



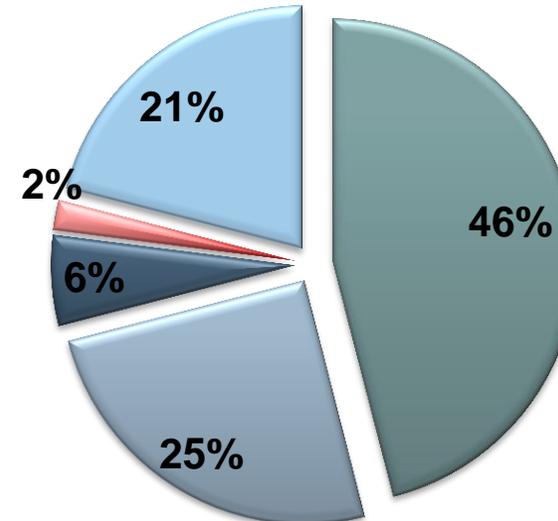
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q1'16 Headcount: 4,239

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