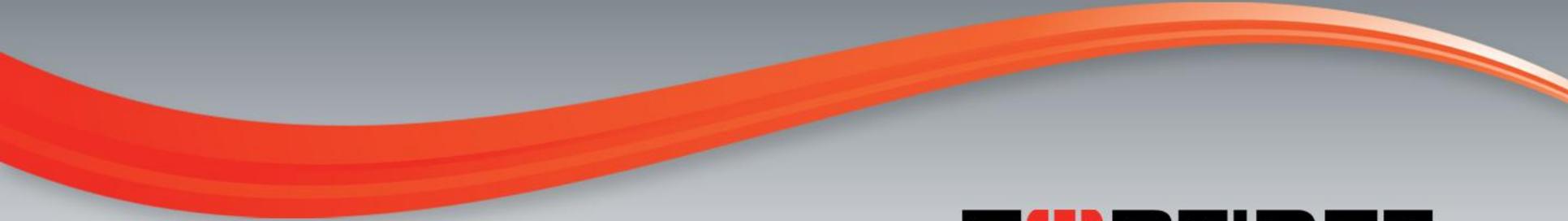




# Q3 2014 Financial Results

*October 22, 2014*



**FORTINET**<sup>®</sup>

*High Performance Network Security*

# Safe Harbor Statement



Information, statements and projections contained in these presentation slides and related conference call concerning Fortinet's business outlook and momentum, the Q4 and 2014 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; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; 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; 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.

# Q3 2014 Non-GAAP Results



	Q3 14	Q3 13	Y/Y % Change
<b>Billings <sup>(1)</sup></b>	<b>\$213M</b>	<b>\$165M</b>	<b>29%</b>
<b>Revenue</b>	<b>\$193M</b>	<b>\$155M</b>	<b>25%</b>
<b>Gross Margin (%) <sup>(2)</sup></b>	<b>72%</b>	<b>73%</b>	<b>-1% pt</b>
<b>Operating Income <sup>(2)</sup></b>	<b>\$30M</b>	<b>\$30M</b>	<b>-</b>
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>16%</b>	<b>20%</b>	<b>-4% pts</b>
<b>Net Income <sup>(2)(3)</sup></b>	<b>\$20M</b>	<b>\$21M</b>	<b>-3%</b>
<b>Earnings per Share <sup>(2)(3)</sup></b>	<b>\$0.12</b>	<b>\$0.12</b>	<b>-</b>
<b>Deferred Revenue</b>	<b>\$500M</b>	<b>\$400M</b>	<b>25%</b>
<b>Cash Flow from Operations</b>	<b>\$57M</b>	<b>\$25M</b>	<b>123%</b>
<b>Free Cash Flow <sup>(4)</sup></b>	<b>\$51M</b>	<b>\$22M</b>	<b>128%</b>

**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 that period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock based compensation or acquisition related charges, such as amortization and impairments of intangibles.
- (3) Assumes annual effective tax rate of 35% for 2014 and 33% for 2013.
- (4) Free Cash Flow is a non-GAAP measure that we define as Cash Flow from Operations less the purchase of property, plant and equipment.

# Balanced Product Segmentation

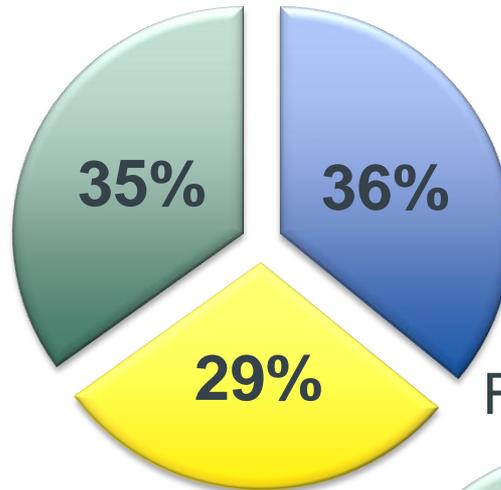


## FortiGate Billings

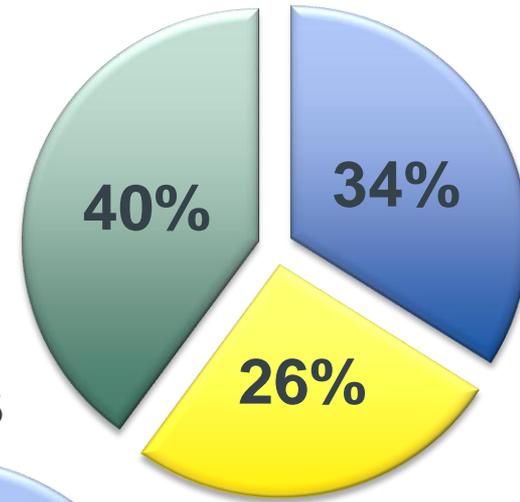
- **Balanced Product Sales**
  - Entry-level typically sold to SMBs/branch offices
  - Mid-range = enterprises
  - High-end = large enterprises and telcos/service providers

- **Entry-Level (FG20-100)**
- **Mid-Range (FG200-800)**
- **High-End (FG1000-5000)**

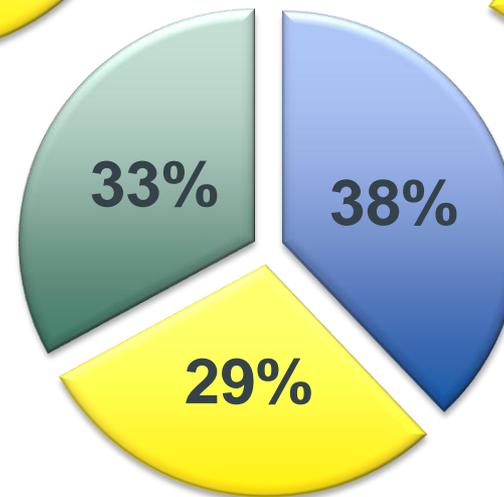
Q3 2014



Q3 2013



FY 2013



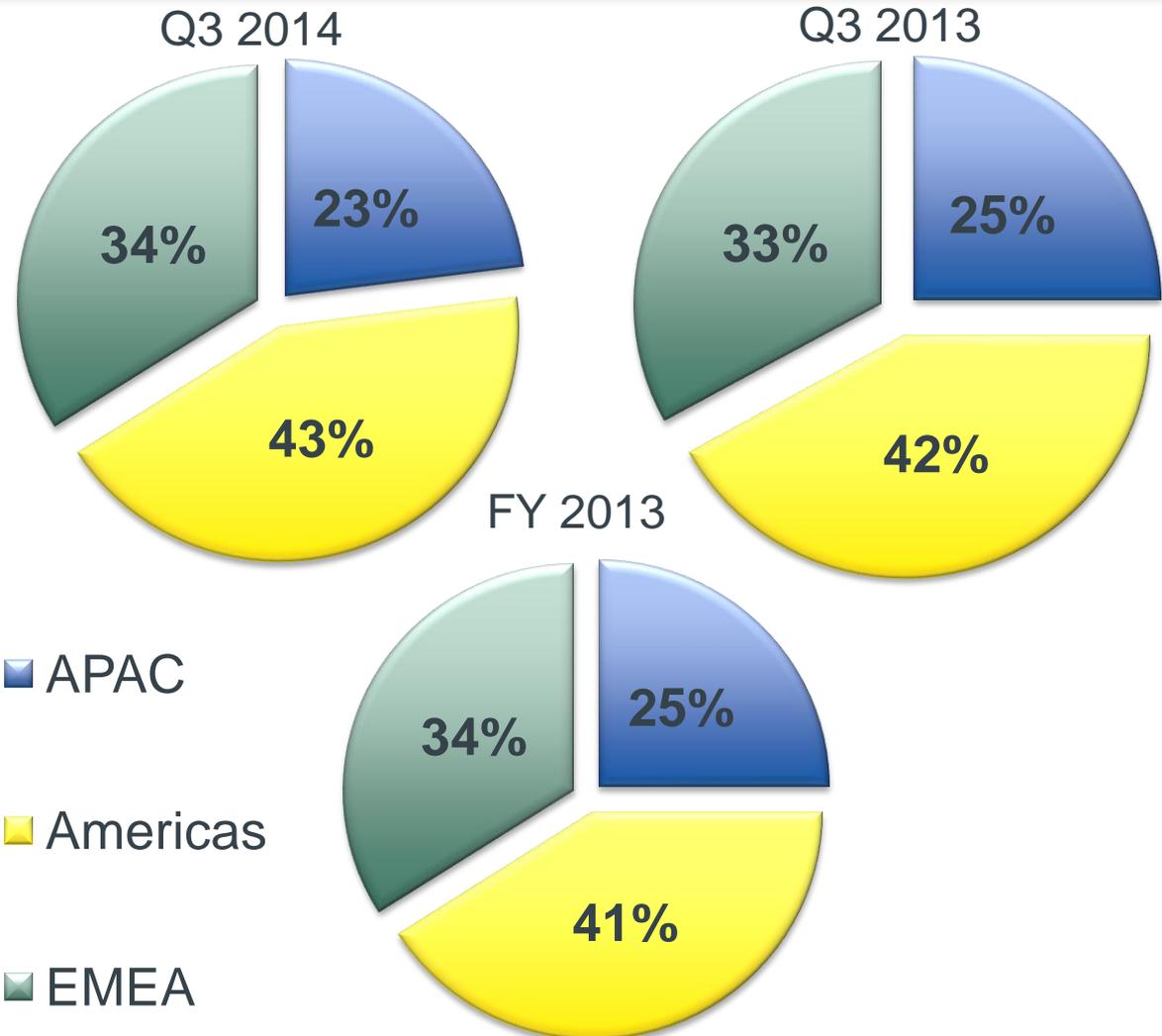
**Note**

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 of that period to the end of that period

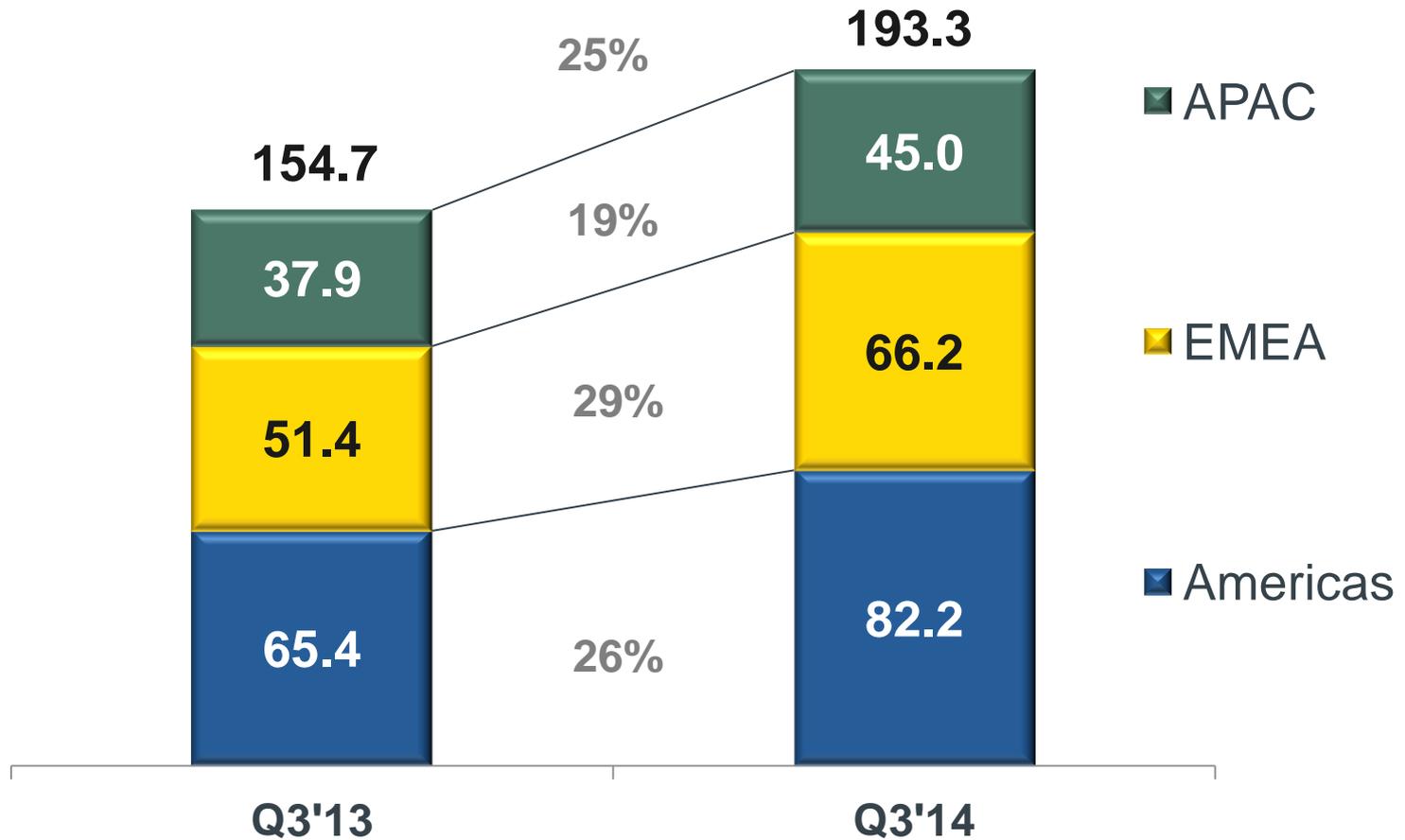
# Diversified Global Revenue

## Revenue by Geography

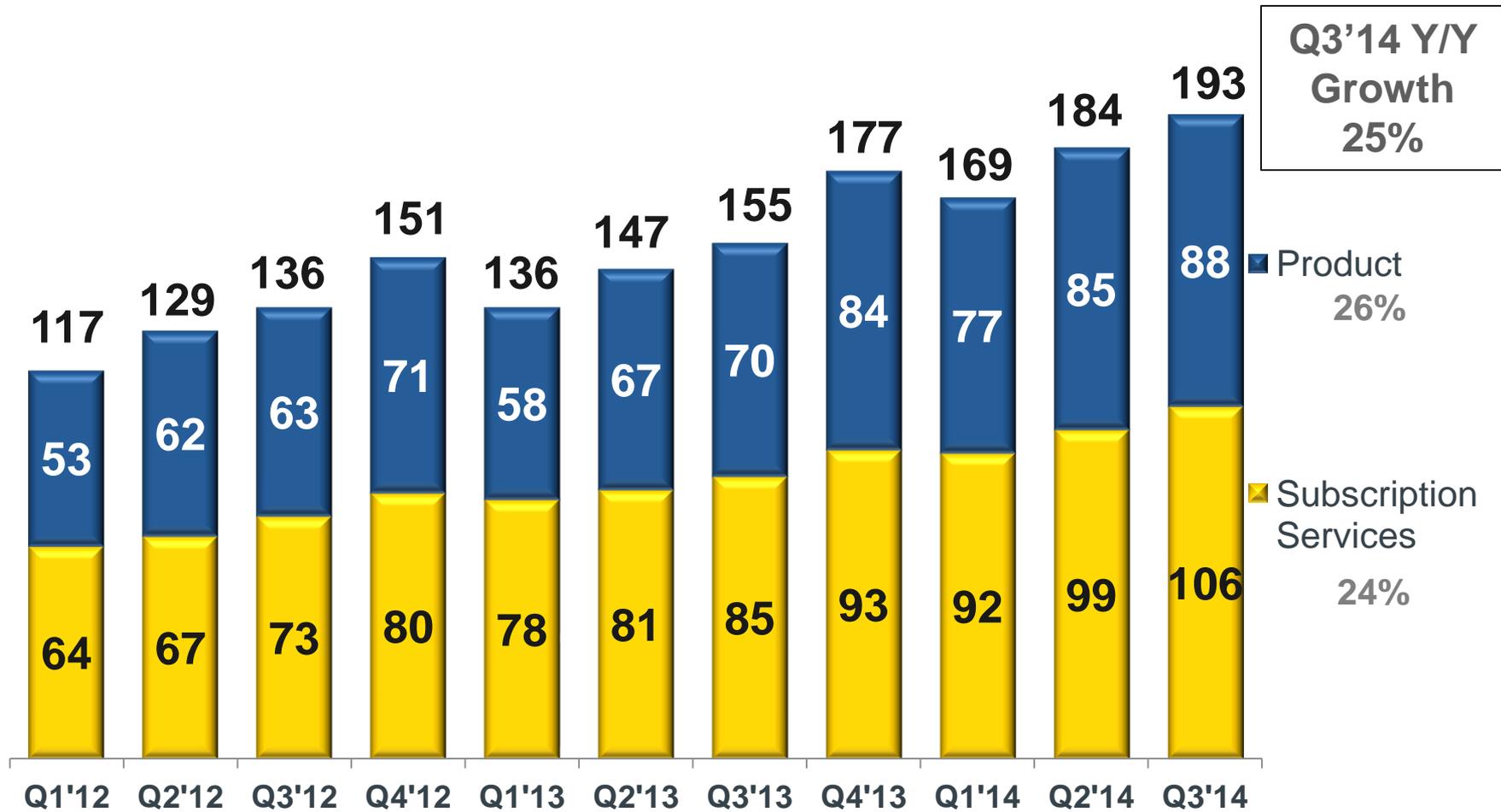
- Globally-diverse revenue stream
- Investing for growth globally



# Revenue Growth by Geography



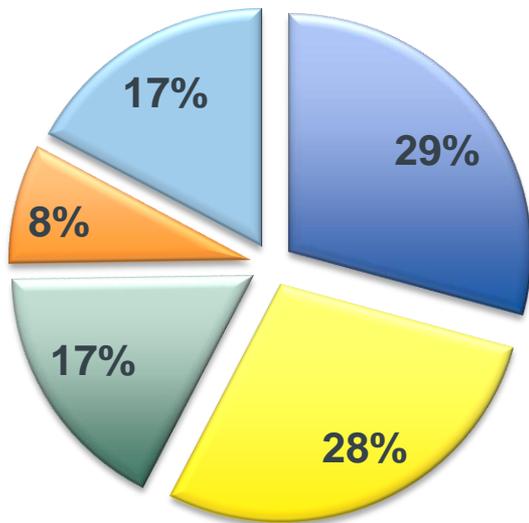
# Quarterly Revenue Mix & Q3'14 Y/Y Growth



# Global Employee Footprint

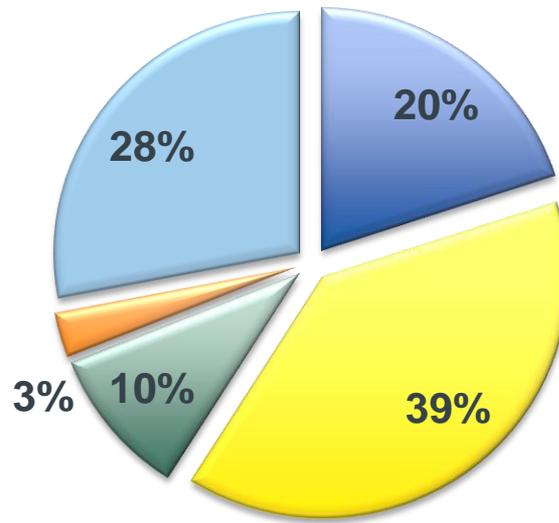


Location



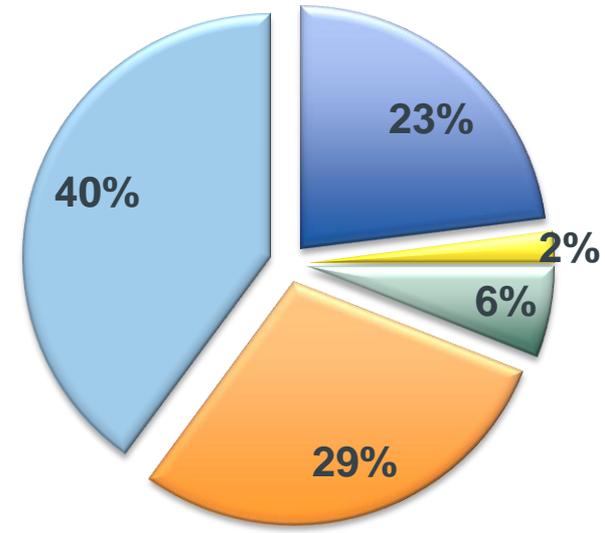
- Canada
- USA
- RoW
- China
- EMEA

Cost



- Canada
- USA
- RoW
- China
- EMEA

Function



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

Q3'14 Headcount: 2,721

# Q3 2014 Select Financial Statistics



	Q3 14	Q2 14	Q3 13
Cash and Investments <sup>(1)</sup>	\$964M	\$911M	\$841M
Deferred Revenue	\$500M	\$480M	\$400M
Free Cash Flow	\$51M	\$34M	\$22M
Working Capital	\$462M	\$387M	\$339M
Accounts Receivable	\$116M	\$128M	\$108M
DSO	54	62	63
Net Inventory	\$51M	\$47M	\$47M
Inventory Turns	2.3	2.4	1.8
Revenue per Employee (Annualized)	\$294K	\$299K	\$280K
No. of Deals >\$100K	276	263	187
No. of Deals >\$250K	90	97	61
No. of Deals >\$500K	35	39	19

Notes  
 (1) Excludes \$5.0M investment in privately-held companies which is recorded in other assets.

# Maintaining Strong Balance Sheet



(\$ in Millions)	Q3 14	Q2 14	Q3 13
<b>Assets</b>			
Cash and Investments <sup>(1)</sup>	964	911	841
Accounts Receivable	116	128	108
Inventory	51	47	47
Property and Equipment	57	55	28
Deferred Tax Assets	94	88	77
Other Assets	31	36	27
<b>Total Assets</b>	<b>1,313</b>	<b>1,265</b>	<b>1,128</b>
<b>Liabilities and Shareholders' Equity</b>			
Accounts Payable	37	36	33
Accrued Expenses and Others	124	124	95
Deferred Revenue	500	480	400
Common Stock/Paid in Capital	538	507	457
Retained Earnings	114	118	143
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,313</b>	<b>1,265</b>	<b>1,128</b>

Notes  
 (1) Excludes \$5.0M investment in privately-held companies recorded in other assets.

# Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q3 14	Q3 13	YTD 14	YTD 13
<b>GAAP Net Income</b>	4	11	19	32
Depreciation and Stock-Based Compensation	20	16	59	43
Accounts Receivable	11	1	13	1
Inventory	(8)	(15)	(11)	(31)
Accounts Payable / Accrued Expenses / Other	10	2	13	20
Deferred Revenue	20	10	68	36
<b>GAAP Cash Flow from Operations</b>	<b>57</b>	<b>25</b>	<b>161</b>	<b>101</b>
Purchase of Property and Equipment	(6)	(3)	(27)	(7)
<b>Free Cash Flow</b>	<b>51</b>	<b>22</b>	<b>134</b>	<b>94</b>
Stock Option and RSU Exercises / ESPP	15	8	32	24
Stock Repurchases	(11)	-	(38)	-
Acquisition	-	(2)	-	(8)
Other	(2)	(1)	(5)	(9)
<b>Net Cash Flow</b>	<b>53</b>	<b>27</b>	<b>123</b>	<b>101</b>
<i>Footnote: Cash Paid for Taxes</i>	3	8	34	20
<i>Footnote: Shares Repurchased Not Yet Settled</i>	-	-	-	-

# NSS Labs NGFW Secure Value Map 2014

## NSS Labs Next Generation Firewall (NGFW) Security Value Map™

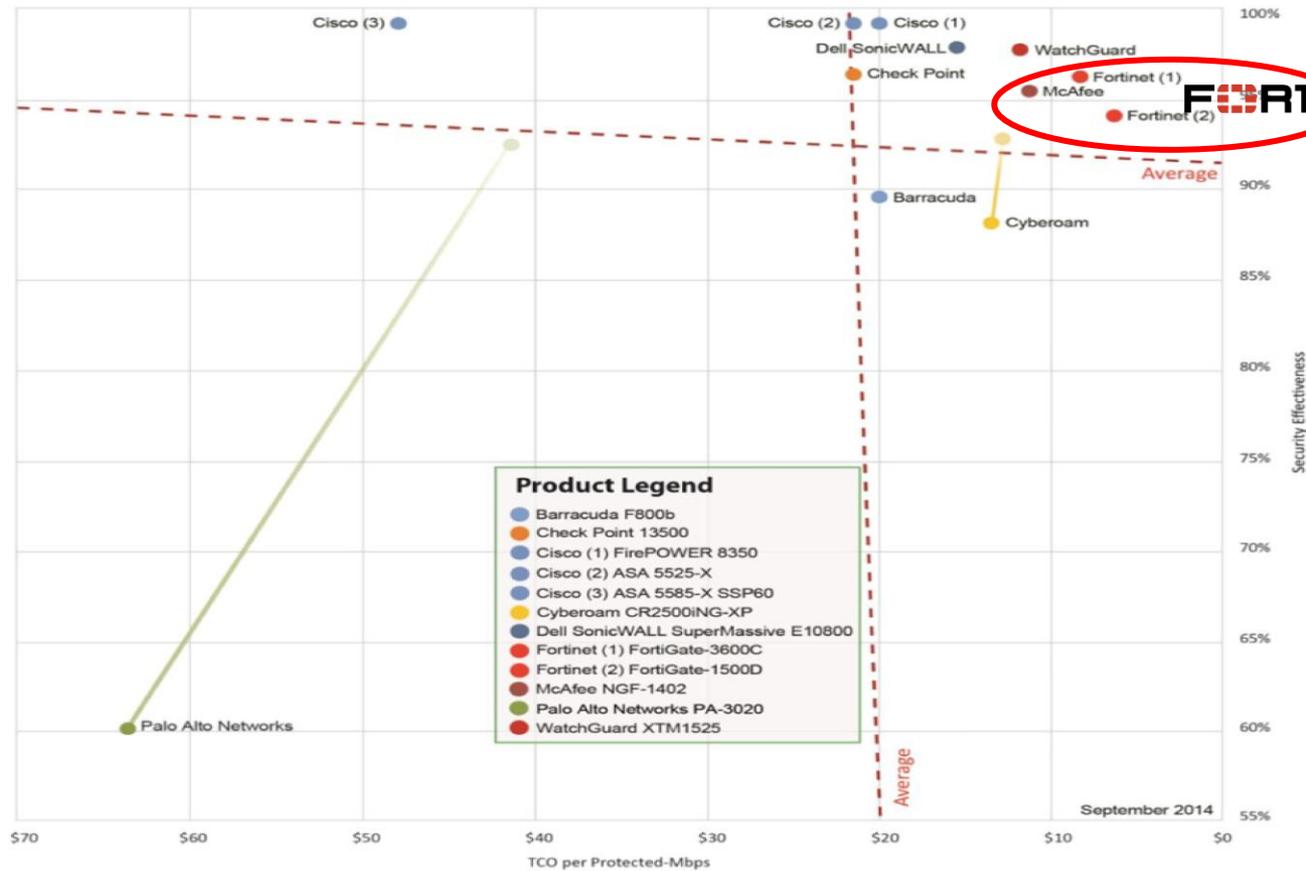


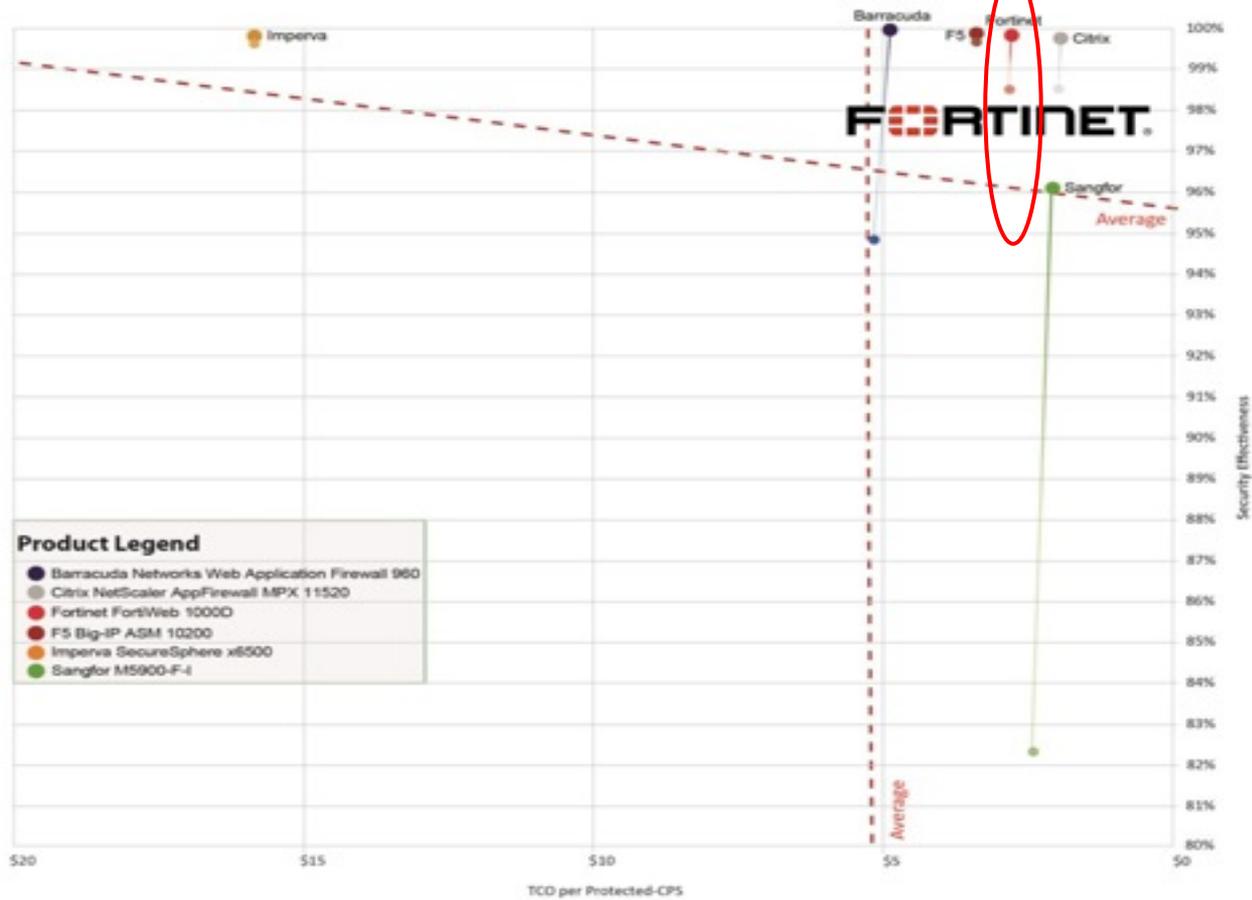
Figure 1 – NSS Labs Security Value Map (SVM) for Next Generation Firewall (NGFW)



# NSS Labs Web Application Firewall Secure Value Map 2014



## NSS Labs Web Application Firewall (WAF) Security Value Map™



# Q4 and 2014 Guidance (Non-GAAP)



	Q4 14	Y/Y % Mid-Pt Growth	2014	Y/Y % Mid-Pt Growth
<b>Billings <sup>(1)</sup></b>	<b>\$245 - 250M</b>	<b>18%</b>	<b>\$859 - 864M</b>	<b>26%</b>
<b>Revenue</b>	<b>\$206 - 211M</b>	<b>18%</b>	<b>\$752 - 757M</b>	<b>23%</b>
<b>Gross Margin (%) <sup>(2)</sup></b>	<b>70 - 71%</b>		<b>~71%</b>	
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>~16%</b>		<b>~16%</b>	
<b>Earnings per Share <sup>(2) (3)</sup></b>	<b>\$0.13 - 0.14</b>		<b>\$0.47 - 0.48</b>	
<b>Weighted Diluted Shares used in EPS</b>	<b>170 - 172M</b>		<b>169 - 170M</b>	

## 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 that period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock based compensation or acquisition related charges, such as amortization and impairments of intangibles.
- (3) Assumes effective tax rate of 35% for 2014.

# GAAP to Non-GAAP – Operating Results (Q3'14 vs. Q2'14 vs. Q3'13)

(in thousands, except per share amounts)

	Q3'14	Adjustment	Non-GAAP Q3'14	Q2'14	Adjustment	Non-GAAP Q2'14	Q3'13	Adjustment	Non-GAAP Q3'13
<b>Revenue:</b>									
Product	\$ 87,731	\$ -	\$ 87,731	\$ 85,384	\$ -	\$ 85,384	\$ 69,687	\$ -	\$ 69,687
Services and other	105,617	-	105,617	98,714	-	98,714	85,012	-	85,012
<b>Total revenue</b>	<b>193,348</b>	<b>-</b>	<b>193,348</b>	<b>184,098</b>	<b>-</b>	<b>184,098</b>	<b>154,699</b>	<b>-</b>	<b>154,699</b>
<b>Cost of revenue:</b>									
Product	35,636	(304)	35,332	37,455	(2,990)	34,465	27,126	(514)	26,612
Services and other	21,249	(1,522)	19,727	20,302	(1,363)	18,939	16,804	(1,297)	15,507
<b>Total cost of revenue</b>	<b>56,885</b>	<b>(1,826)</b>	<b>55,059</b>	<b>57,757</b>	<b>(4,353)</b>	<b>53,404</b>	<b>43,930</b>	<b>(1,811)</b>	<b>42,119</b>
<b>Gross profit:</b>									
Product	52,095	304	52,399	47,929	2,990	50,919	42,561	514	43,075
Services and other	84,368	1,522	85,890	78,412	1,363	79,775	68,208	1,297	69,505
<b>Total gross profit</b>	<b>136,463</b>	<b>1,826</b>	<b>138,289</b>	<b>126,341</b>	<b>4,353</b>	<b>130,694</b>	<b>110,769</b>	<b>1,811</b>	<b>112,580</b>
<b>Operating Expenses:</b>									
Research and development	30,790	(4,505)	26,285	29,938	(4,171)	25,767	26,421	(3,548)	22,873
Sales and marketing	80,433	(7,397)	73,036	74,817	(5,747)	69,070	56,687	(5,215)	51,472
General and administrative	9,789	(1,183)	8,606	10,444	(3,257)	7,187	9,382	(1,627)	7,755
<b>Total operating expenses</b>	<b>121,012</b>	<b>(13,085)</b>	<b>107,927</b>	<b>115,199</b>	<b>(13,175)</b>	<b>102,024</b>	<b>92,490</b>	<b>(10,390)</b>	<b>82,100</b>
<b>Operating income</b>	<b>15,451</b>	<b>14,911</b>	<b>30,362</b>	<b>11,142</b>	<b>17,528</b>	<b>28,670</b>	<b>18,279</b>	<b>12,201</b>	<b>30,480</b>
<b>Interest income</b>	<b>1,339</b>	<b>-</b>	<b>1,339</b>	<b>1,319</b>	<b>-</b>	<b>1,319</b>	<b>1,282</b>	<b>-</b>	<b>1,282</b>
<b>Other expense—net</b>	<b>(1,005)</b>	<b>-</b>	<b>(1,005)</b>	<b>(574)</b>	<b>-</b>	<b>(574)</b>	<b>(1,151)</b>	<b>-</b>	<b>(1,151)</b>
<b>Income before income taxes</b>	<b>15,785</b>	<b>14,911</b>	<b>30,696</b>	<b>11,887</b>	<b>17,528</b>	<b>29,415</b>	<b>18,410</b>	<b>12,201</b>	<b>30,611</b>
<b>Provision for income taxes</b>	<b>11,729</b>	<b>(985)</b>	<b>10,744</b>	<b>5,806</b>	<b>5,033</b>	<b>10,839</b>	<b>7,381</b>	<b>2,721</b>	<b>10,102</b>
<b>Net income</b>	<b>\$ 4,056</b>	<b>\$ 15,896</b>	<b>\$ 19,952</b>	<b>\$ 6,081</b>	<b>\$ 12,495</b>	<b>\$ 18,576</b>	<b>\$ 11,029</b>	<b>\$ 9,480</b>	<b>\$ 20,509</b>
<b>Basic net income per share</b>	<b>\$ 0.02</b>		<b>\$ 0.12</b>	<b>\$ 0.04</b>		<b>\$ 0.11</b>	<b>\$ 0.07</b>		<b>\$ 0.13</b>
<b>Diluted net income per share</b>	<b>\$ 0.02</b>		<b>\$ 0.12</b>	<b>\$ 0.04</b>		<b>\$ 0.11</b>	<b>\$ 0.07</b>		<b>\$ 0.12</b>
<b>Shares used in computing net income per share</b>									
Basic	164,294		164,294	163,161		163,161	162,906		162,906
Diluted	169,727		169,727	168,345		168,345	168,666		168,666

# GAAP to Non-GAAP – Operating Results (% of Rev) (Q3'14 vs. Q2'14 vs. Q3'13)



% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q3'14	Adjustment	Q3'14	Q2'14	Adjustment	Q2'14	Q3'13	Adjustment	Q3'13
<b>Revenue:</b>									
<b>Product</b>	45%	-	45%	46%	-	46%	45%	-	45%
<b>Services and other</b>	55%	-	55%	54%	-	54%	55%	-	55%
<b>Total revenue</b>	100%	-	100%	100%	-	100%	100%	-	100%
<b>Cost of revenue:</b>									
<b>Product</b>	18%	-	18%	20%	( 2% )	19%	18%	( 1% )	17%
<b>Services and other</b>	11%	( 1% )	10%	11%	( 1% )	10%	11%	( 1% )	10%
<b>Total cost of revenue</b>	29%	( 1% )	28%	31%	( 2% )	29%	28%	( 1% )	27%
<b>Gross profit:</b>									
<b>Product</b>	59%	1%	60%	56%	4%	60%	61%	1%	62%
<b>Services and other</b>	80%	1%	81%	79%	1%	81%	80%	2%	82%
<b>Total gross profit</b>	71%	1%	72%	69%	2%	71%	72%	1%	73%
<b>Operating Expenses:</b>									
<b>Research and development</b>	16%	( 2% )	14%	16%	( 2% )	14%	17%	( 2% )	15%
<b>Sales and marketing</b>	42%	( 4% )	38%	41%	( 3% )	38%	37%	( 3% )	33%
<b>General and administrative</b>	5%	( 1% )	4%	6%	( 2% )	4%	6%	( 1% )	5%
<b>Total operating expenses</b>	63%	( 7% )	56%	63%	( 7% )	55%	60%	( 7% )	53%
<b>Operating income</b>	8%	8%	16%	6%	10%	16%	12%	8%	20%
<b>Interest income</b>	1%	-	1%	1%	-	1%	1%	-	1%
<b>Other expense—net</b>	( 1% )	-	( 1% )	-	-	-	( 1% )	-	( 1% )
<b>Income before income taxes</b>	8%	8%	16%	6%	10%	16%	12%	8%	20%
<b>Provision for income taxes</b>	6%	-	6%	3%	3%	6%	5%	2%	7%
<b>Net income</b>	2%	8%	10%	3%	7%	10%	7%	6%	13%