

# Q2 2017 Financial Results

July 26, 2017

# Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference calls concerning Fortinet's business outlook, the Q3 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](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.

# Q2 2017 Non-GAAP Results

|   | Q2 17          | Q2 16         | Y/Y %<br>Change |
|---|----------------|---------------|-----------------|
| <b>Billings <sup>(1)</sup></b>              | <b>\$427M</b>  | <b>\$374M</b> | <b>14%</b>      |
| <b>Revenue</b>                              | <b>\$363M</b>  | <b>\$311M</b> | <b>17%</b>      |
| <b>Gross Margin (%) <sup>(2)</sup></b>      | <b>75%</b>     | <b>74%</b>    | <b>+1 pt</b>    |
| <b>Operating Income <sup>(2)</sup></b>      | <b>\$66M</b>   | <b>\$36M</b>  | <b>83%</b>      |
| <b>Operating Margin (%) <sup>(2)</sup></b>  | <b>18%</b>     | <b>12%</b>    | <b>+6 pts</b>   |
| <b>Net Income <sup>(2)(3)</sup></b>         | <b>\$48M</b>   | <b>\$24M</b>  | <b>99%</b>      |
| <b>Earnings per Share <sup>(2)(3)</sup></b> | <b>\$0.27</b>  | <b>\$0.14</b> | <b>93%</b>      |
| <b>Deferred Revenue</b>                     | <b>\$1.16B</b> | <b>\$904M</b> | <b>28%</b>      |
| <b>Cash Flow from Operations</b>            | <b>\$145M</b>  | <b>\$68M</b>  | <b>113%</b>     |
| <b>Free Cash Flow <sup>(4)</sup></b>        | <b>\$58M</b>   | <b>\$53M</b>  | <b>9%</b>       |

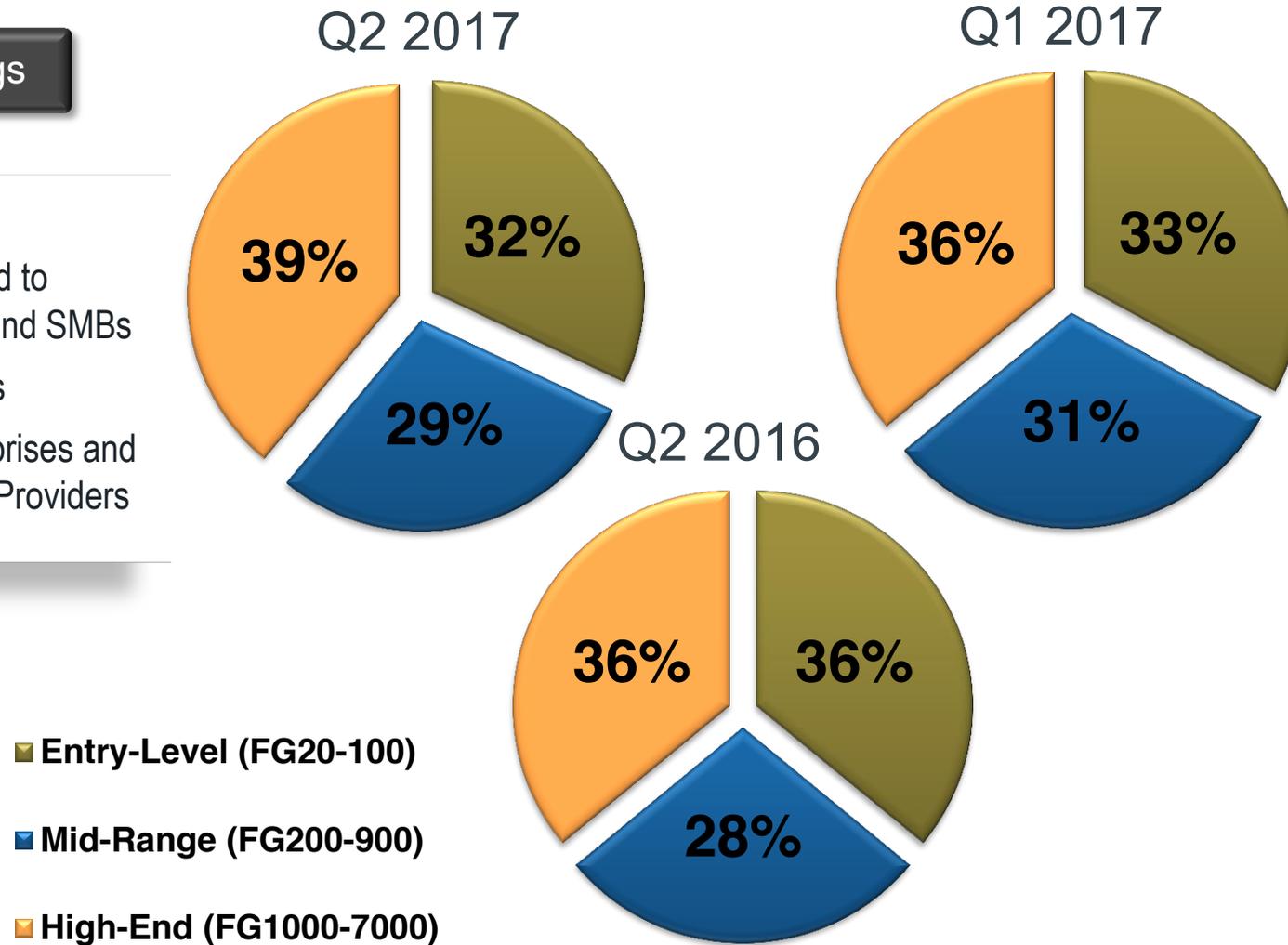
## Notes

- (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 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 Q2 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

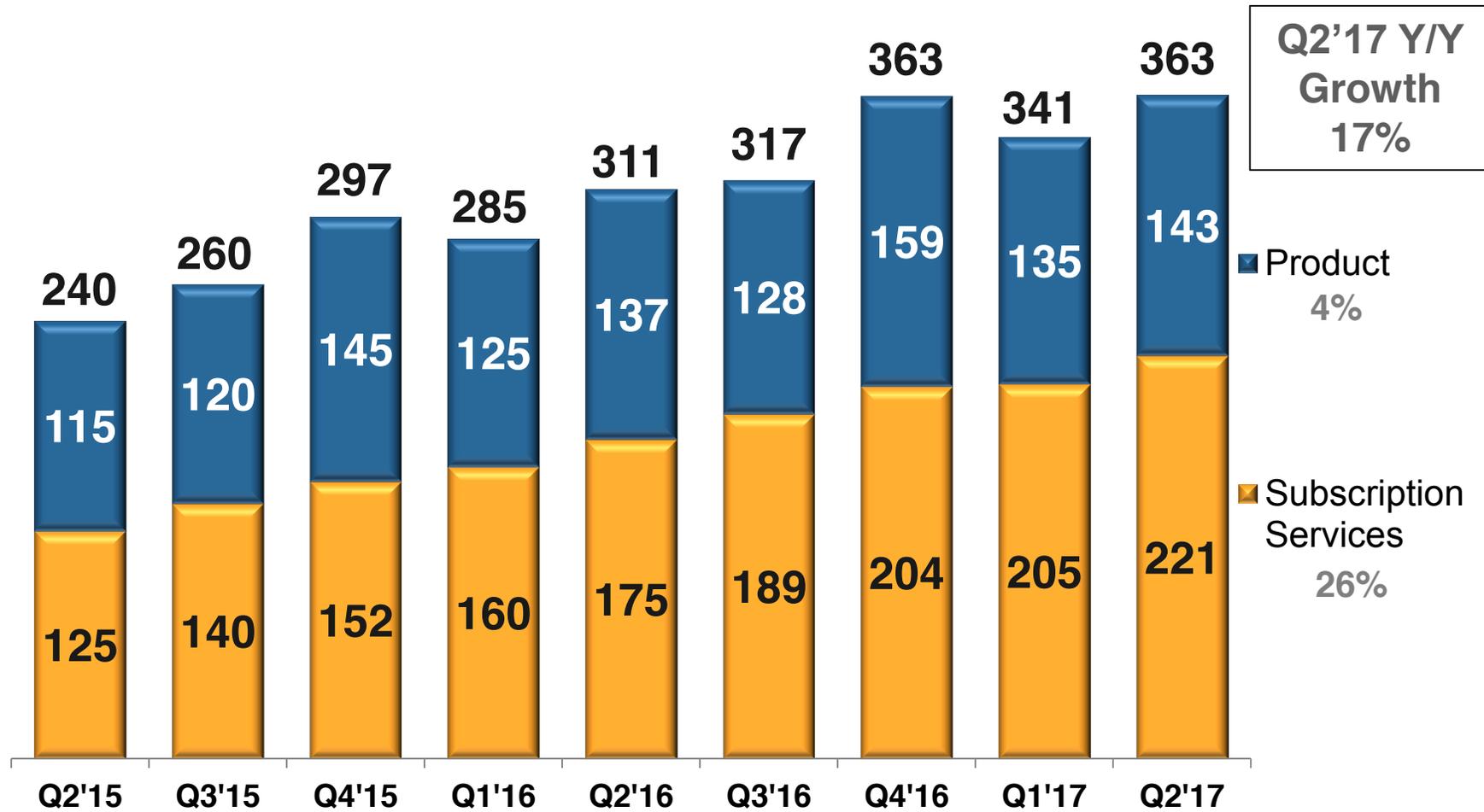
- **Balanced Product Sales**
  - Entry-Level typically sold to Distributed Enterprises and SMBs
  - Mid-Range = Enterprises
  - High-End = Large Enterprises and Telcos/Carriers/Service Providers



**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.

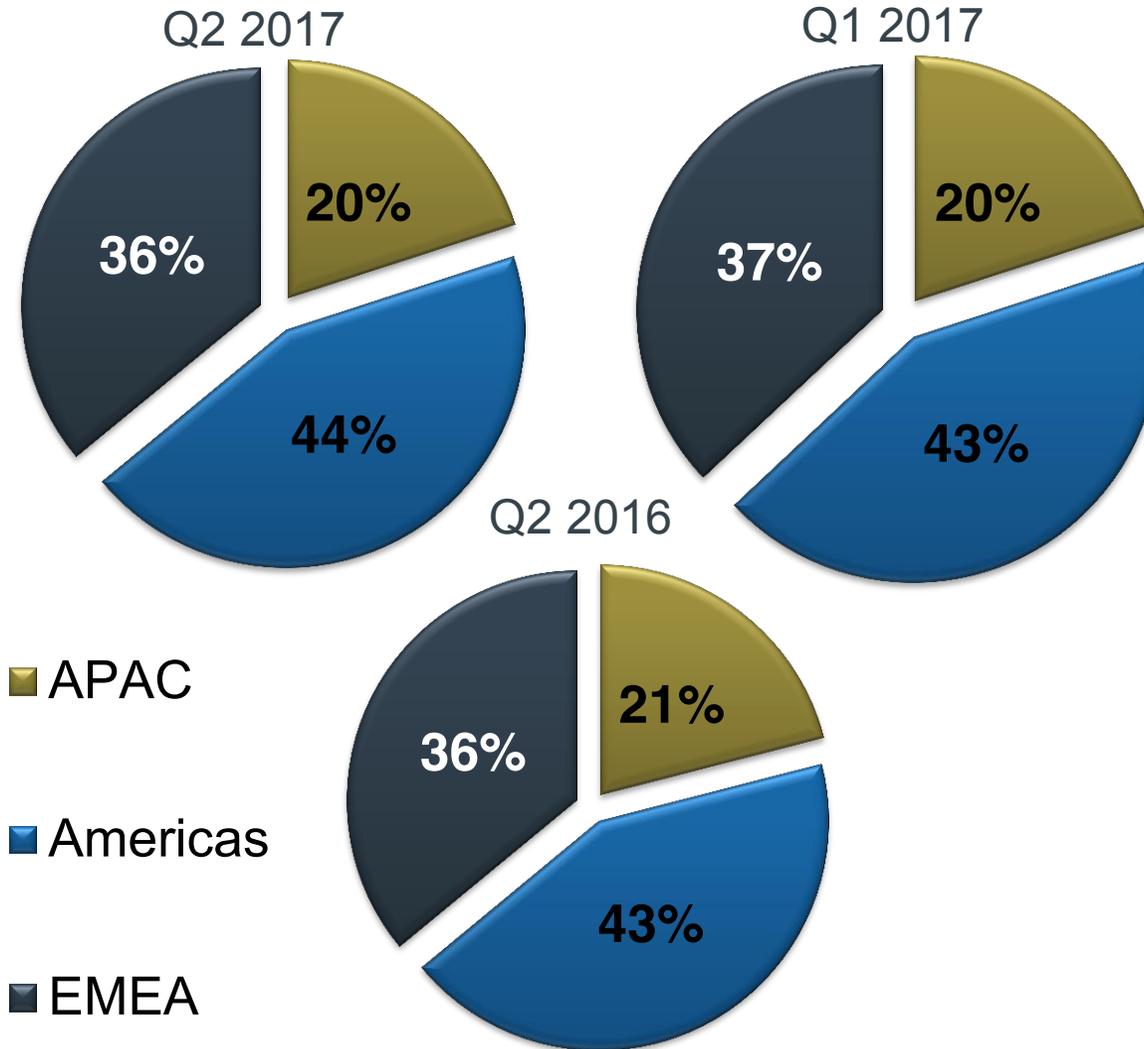
# Quarterly Revenue Mix & Q2'17 Y/Y Growth



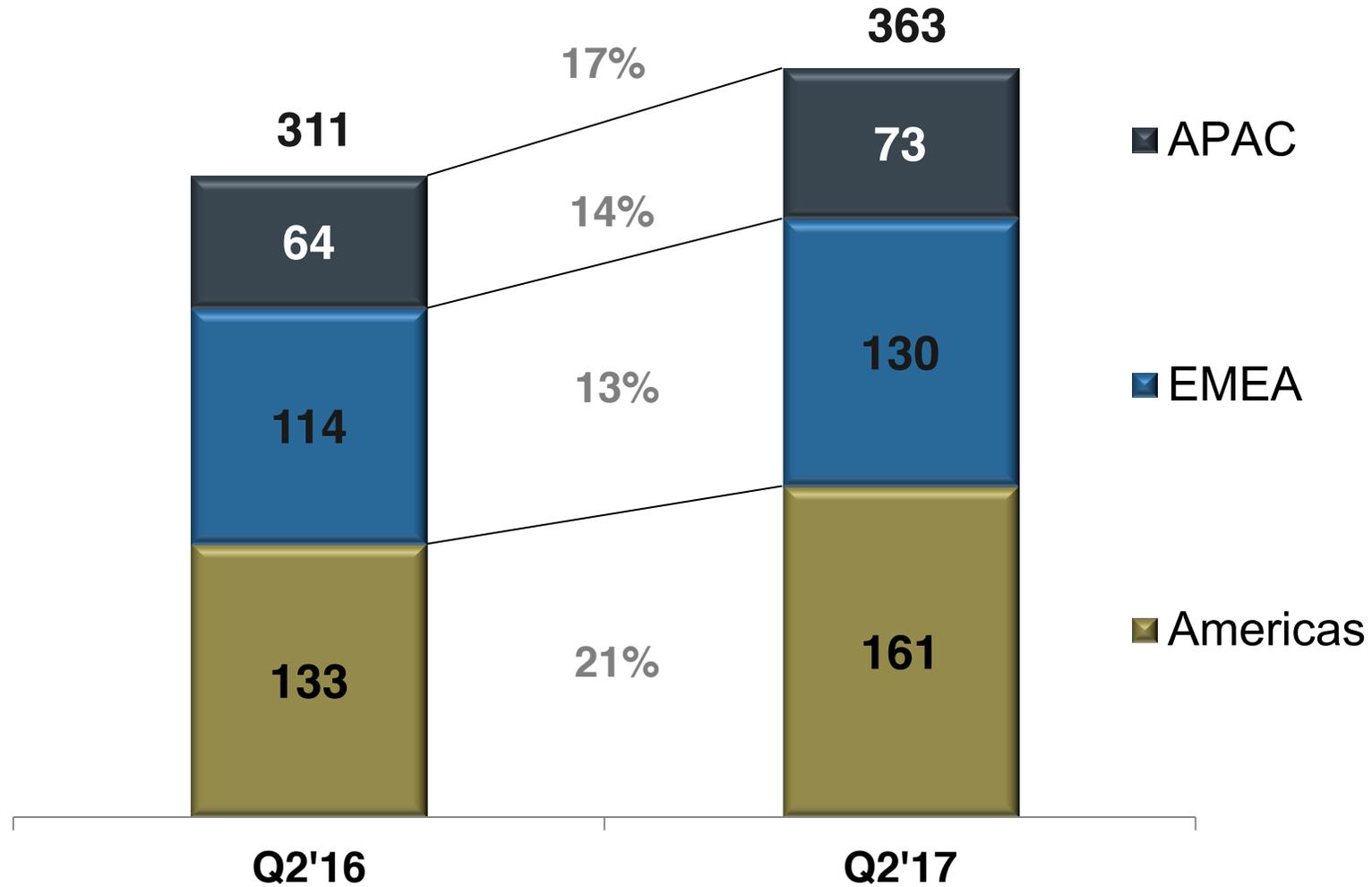
# Diversified Global Revenue

## Revenue by Geography

- Globally-diverse revenue stream



# Revenue Growth by Geography



# Q2 2017 Select Financial Statistics

|                                     | Q2 17   | Q1 17   | Q2 16   |
|-------------------------------------|---------|---------|---------|
| Cash and Investments <sup>(1)</sup> | \$1.46B | \$1.44B | \$1.22B |
| Deferred Revenue                    | \$1.16B | \$1.10B | \$904M  |
| Free Cash Flow                      | \$58M   | \$116M  | \$53M   |
| DSO                                 | 68      | 71      | 74      |
| Inventory Turns                     | 2.2     | 1.6     | 2.3     |
| Revenue per Employee (Annualized)   | \$306K  | \$291K  | \$283K  |
| No. of Deals >\$100K <sup>(2)</sup> | 658     | 573     | 546     |
| No. of Deals >\$250K                | 193     | 174     | 183     |
| No. of Deals >\$500K                | 75      | 76      | 68      |

## Notes

(1) Excludes \$12.1M of investments in privately-held companies which are recorded in other assets for Q2 2017 and \$11.3M for Q1 2017 and \$10.3M for Q2 2016.

(2) Deals are defined as combined sales in the period to a customer account.

# Statement of Cash Flows (Non-GAAP)

| (\$ in Millions)                                     | Q2 17      | Q2 16      | 1H 17      | 1H 16      |
|--|------------|------------|------------|------------|
| <b>GAAP Net Income (Loss)</b>                        | <b>23</b>  | <b>(1)</b> | <b>34</b>  | <b>1</b>   |
| Depreciation and Stock-Based Compensation            | 49         | 42         | 96         | 81         |
| Accounts Receivable                                  | (5)        | (37)       | 38         | 2          |
| Inventory  | 13         | (7)        | 10         | (8)        |
| Accounts Payable / Accrued Expenses / Other          | 1          | 6          | (28)       | (18)       |
| Deferred Revenue                                     | 64         | 65         | 125        | 111        |
| <b>GAAP Cash Flow from Operations</b>                | <b>145</b> | <b>68</b>  | <b>275</b> | <b>169</b> |
| Purchase of Property and Equipment                   | (87)       | (15)       | (100)      | (45)       |
| <b>Free Cash Flow</b>                                | <b>58</b>  | <b>53</b>  | <b>175</b> | <b>124</b> |
| Stock Option and RSU Exercises / ESPP                | -          | (3)        | 16         | 6          |
| Stock Repurchases                                    | (33)       | -          | (33)       | (50)       |
| Acquisition  | -          | (21)       | -          | (21)       |
| Other  | (1)        | (1)        | (4)        | (1)        |
| <b>Net Cash Flow</b>                                 | <b>24</b>  | <b>28</b>  | <b>154</b> | <b>58</b>  |
| <i>Footnote: Cash Paid for Taxes, Net of Refunds</i> | <b>9</b>   | <b>8</b>   | <b>18</b>  | <b>14</b>  |

# Q3 and 2017 Guidance<sup>(1)</sup> (Non-GAAP)

|                                       | Q3 17         | Y/Y %<br>Mid-Pt<br>Growth | 2017             | Y/Y %<br>Mid-Pt<br>Growth |
|---------------------------------------|---------------|---------------------------|------------------|---------------------------|
| Billings <sup>(2)</sup>               | \$417 - 427M  | 21%                       | \$1.775 - 1.795B | 18%                       |
| Revenue (GAAP)                        | \$367 - 373M  | 17%                       | \$1.487 - 1.495B | 17%                       |
| Gross Margin (%) <sup>(3)</sup>       | 75%           |                           | 74.5 - 75%       |                           |
| Operating Margin (%) <sup>(3)</sup>   | 16 - 17%      |                           | 16.2%            |                           |
| Earnings per Share <sup>(3) (4)</sup> | \$0.22 - 0.23 |                           | \$0.94 - 0.96    |                           |
| Weighted Diluted Shares used in EPS   | 180 - 182M    |                           | 180 - 182M       |                           |

## Notes

- (1) With respect to Fortinet's guidance for Q3 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

## (Q2'17 vs. Q1'17 vs. Q2'16)

(Unaudited, in thousands, except per share amounts)

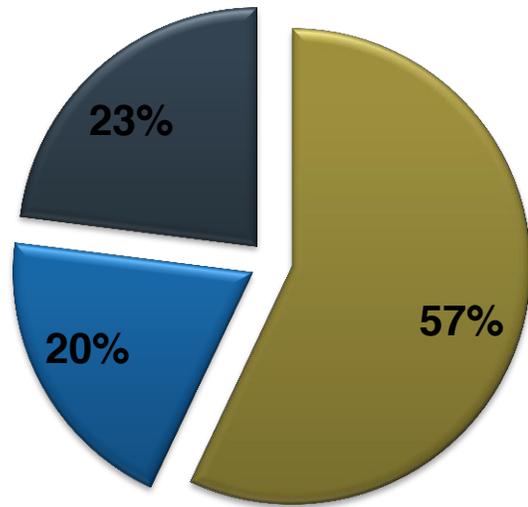
|   | Q2'17      | Adjustment | Non-GAAP<br>Q2'17 | Q1'17      | Adjustment | Non-GAAP<br>Q1'17 | Q2'16      | Adjustment | Non-GAAP<br>Q2'16 |
|---|------------|------------|-------------------|------------|------------|-------------------|------------|------------|-------------------|
| <b>Revenue:</b>   |            |            |                   |            |            |                   |            |            |                   |
| <b>Product</b>  | \$ 142,705 | \$ -       | \$ 142,705        | \$ 135,253 | \$ -       | \$ 135,253        | \$ 136,641 | \$ -       | \$ 136,641        |
| <b>Service</b>  | 220,764    | -          | 220,764           | 205,323    | -          | 205,323           | 174,750    | -          | 174,750           |
| <b>Total revenue</b>  | 363,469    | -          | 363,469           | 340,576    | -          | 340,576           | 311,391    | -          | 311,391           |
| <b>Cost of revenue:</b>                                     |            |            |                   |            |            |                   |            |            |                   |
| <b>Product</b>  | 60,787     | (1,388)    | 59,399            | 55,297     | (1,012)    | 54,285            | 52,788     | (1,396)    | 51,392            |
| <b>Service</b>  | 34,865     | (2,718)    | 32,147            | 35,267     | (2,890)    | 32,377            | 31,715     | (2,123)    | 29,592            |
| <b>Total cost of revenue</b>                                | 95,652     | (4,106)    | 91,546            | 90,564     | (3,902)    | 86,662            | 84,503     | (3,519)    | 80,984            |
| <b>Gross profit:</b>  |            |            |                   |            |            |                   |            |            |                   |
| <b>Product</b>  | 81,918     | 1,388      | 83,306            | 79,956     | 1,012      | 80,968            | 83,853     | 1,396      | 85,249            |
| <b>Service</b>  | 185,899    | 2,718      | 188,617           | 170,056    | 2,890      | 172,946           | 143,035    | 2,123      | 145,158           |
| <b>Total gross profit</b>                                   | 267,817    | 4,106      | 271,923           | 250,012    | 3,902      | 253,914           | 226,888    | 3,519      | 230,407           |
| <b>Operating expenses:</b>                                  |            |            |                   |            |            |                   |            |            |                   |
| <b>Research and development</b>                             | 51,159     | (8,253)    | 42,906            | 51,195     | (7,898)    | 43,297            | 45,502     | (7,479)    | 38,023            |
| <b>Sales and marketing</b>                                  | 166,337    | (20,702)   | 145,635           | 170,400    | (20,068)   | 150,332           | 162,694    | (18,417)   | 144,277           |
| <b>General and administrative</b>                           | 21,911     | (4,237)    | 17,674            | 22,577     | (5,255)    | 17,322            | 22,184     | (10,048)   | 12,136            |
| <b>Restructuring charges</b>                                | (90)       | 90         | -                 | 430        | (430)      | -                 | 553        | (553)      | -                 |
| <b>Total operating expenses</b>                             | 239,317    | (33,102)   | 206,215           | 244,602    | (33,651)   | 210,951           | 230,933    | (36,497)   | 194,436           |
| <b>Operating income (loss)</b>                              | 28,500     | 37,208     | 65,708            | 5,410      | 37,553     | 42,963            | (4,045)    | 40,016     | 35,971            |
| <b>Interest income</b>                                      | 3,163      | -          | 3,163             | 2,392      | -          | 2,392             | 1,705      | -          | 1,705             |
| <b>Other income (expense)—net</b>                           | 1,243      | -          | 1,243             | 302        | -          | 302               | (1,350)    | -          | (1,350)           |
| <b>Income (loss) before income taxes</b>                    | 32,906     | 37,208     | 70,114            | 8,104      | 37,553     | 45,657            | (3,690)    | 40,016     | 36,326            |
| <b>Provision for (benefit from) income taxes</b>            | 9,873      | 12,563     | 22,436            | (2,613)    | 17,223     | 14,610            | (2,302)    | 14,653     | 12,351            |
| <b>Net income (loss)</b>                                    | \$ 23,033  | \$ 24,645  | \$ 47,678         | \$ 10,717  | \$ 20,330  | \$ 31,047         | \$ (1,388) | \$ 25,363  | \$ 23,975         |
| <b>Basic net income (loss) per share</b>                    | \$ 0.13    |            | \$ 0.27           | \$ 0.06    |            | \$ 0.18           | \$ (0.01)  |            | \$ 0.14           |
| <b>Diluted net income (loss) per share</b>                  | \$ 0.13    |            | \$ 0.27           | \$ 0.06    |            | \$ 0.17           | \$ (0.01)  |            | \$ 0.14           |
| <b>Shares used in computing net income (loss) per share</b> |            |            |                   |            |            |                   |            |            |                   |
| <b>Basic</b>  | 175,741    |            | 175,741           | 174,489    |            | 174,489           | 172,075    |            | 172,075           |
| <b>Diluted</b>  | 179,701    |            | 179,701           | 178,278    |            | 178,278           | 172,075    |            | 176,298           |

# GAAP to Non-GAAP – Operating Results (% of Revenue) (Q2'17 vs. Q1'17 vs. Q2'16)

| % of revenue                                     | Non-GAAP |            |       | Non-GAAP |            |       | Non-GAAP |            |       |
|--|----------|------------|-------|----------|------------|-------|----------|------------|-------|
|  | Q2'17    | Adjustment | Q2'17 | Q1'17    | Adjustment | Q1'17 | Q2'16    | Adjustment | Q2'16 |
| <b>Revenue:</b>                                  |          |            |       |          |            |       |          |            |       |
| Product  | 39%      | -          | 39%   | 40%      | -          | 40%   | 44%      | -          | 44%   |
| Service  | 61%      | -          | 61%   | 60%      | -          | 60%   | 56%      | -          | 56%   |
| <b>Total revenue</b>                             | 100%     | -          | 100%  | 100%     | -          | 100%  | 100%     | -          | 100%  |
| <b>Cost of revenue:</b>                          |          |            |       |          |            |       |          |            |       |
| Product  | 17%      | -          | 16%   | 16%      | -          | 16%   | 17%      | -          | 17%   |
| Service  | 10%      | ( 1% )     | 9%    | 10%      | ( 1% )     | 10%   | 10%      | ( 1% )     | 10%   |
| <b>Total cost of revenue</b>                     | 26%      | ( 1% )     | 25%   | 27%      | ( 1% )     | 25%   | 27%      | ( 1% )     | 26%   |
| <b>Gross profit:</b>                             |          |            |       |          |            |       |          |            |       |
| Product  | 57%      | 1%         | 58%   | 59%      | 1%         | 60%   | 61%      | 1%         | 62%   |
| Service  | 84%      | 1%         | 85%   | 83%      | 1%         | 84%   | 82%      | 1%         | 83%   |
| <b>Total gross margin</b>                        | 74%      | 1%         | 75%   | 73%      | 1%         | 75%   | 73%      | 1%         | 74%   |
| <b>Operating expenses:</b>                       |          |            |       |          |            |       |          |            |       |
| Research and development                         | 14%      | ( 2% )     | 12%   | 15%      | ( 2% )     | 13%   | 15%      | ( 2% )     | 12%   |
| Sales and marketing                              | 46%      | ( 6% )     | 40%   | 50%      | ( 6% )     | 44%   | 52%      | ( 6% )     | 46%   |
| General and administrative                       | 6%       | ( 1% )     | 5%    | 7%       | ( 2% )     | 5%    | 7%       | ( 3% )     | 4%    |
| Restructuring charges                            | -        | -          | -     | -        | -          | -     | -        | -          | -     |
| <b>Total operating expenses</b>                  | 66%      | ( 9% )     | 57%   | 72%      | ( 10% )    | 62%   | 74%      | ( 12% )    | 62%   |
| <b>Operating margin</b>                          | 8%       | 10%        | 18%   | 2%       | 11%        | 13%   | ( 1% )   | 13%        | 12%   |
| <b>Interest income</b>                           | 1%       | -          | 1%    | 1%       | -          | 1%    | 1%       | -          | 1%    |
| <b>Other income (expense)—net</b>                | -        | -          | -     | -        | -          | -     | -        | -          | -     |
| <b>Income (loss) before income taxes</b>         | 9%       | 10%        | 19%   | 2%       | 11%        | 13%   | ( 1% )   | 13%        | 12%   |
| <b>Provision for (benefit from) income taxes</b> | 3%       | 3%         | 6%    | ( 1% )   | 5%         | 4%    | ( 1% )   | 5%         | 4%    |
| <b>Net income (loss)</b>                         | 6%       | 7%         | 13%   | 3%       | 6%         | 9%    | ( 0.4% ) | 8%         | 8%    |

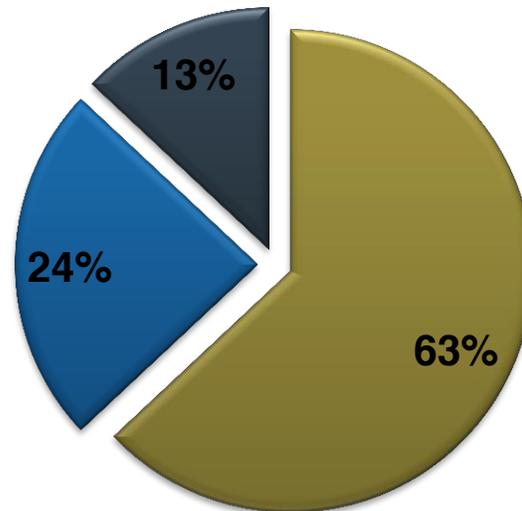
# Global Employee Footprint

Location



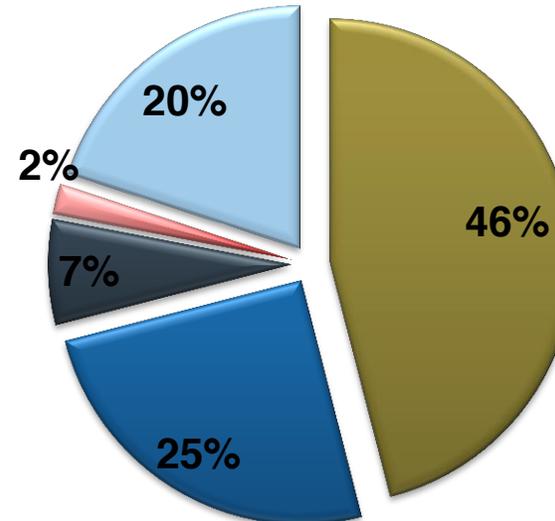
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q2'17 Headcount: 4,792

The image features a solid red background with a complex, light-colored geometric pattern. This pattern consists of numerous overlapping hexagons of varying sizes and orientations, some of which are nested or concentric. The overall effect is a dense, crystalline or molecular structure. In the center of the image, the word "FERTINET" is written in a bold, white, sans-serif font. The letter "F" is stylized with three vertical bars. A registered trademark symbol (®) is located at the end of the word.

**FERTINET®**