

Q3 2017 Financial Results

October 26, 2017

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Q3 2017 Non-GAAP Results

	Q3 17	Q3 16	Y/Y % Change
Billings ⁽¹⁾	\$432M	\$347M	24%
Revenue	\$374M	\$316M	18%
Gross Margin (%) ⁽²⁾	76%	75%	+1 pt
Operating Income ⁽²⁾	\$70M	\$46M	52%
Operating Margin (%) ⁽²⁾	19%	15%	+4 pts
Net Income ⁽²⁾⁽³⁾	\$50M	\$32M	57%
Earnings per Share ⁽²⁾⁽³⁾	\$0.28	\$0.18	56%
Deferred Revenue	\$1.22B	\$935M	30%
Cash Flow from Operations	\$162M	\$76M	113%
Free Cash Flow ⁽⁴⁾	\$141M	\$70M	100%

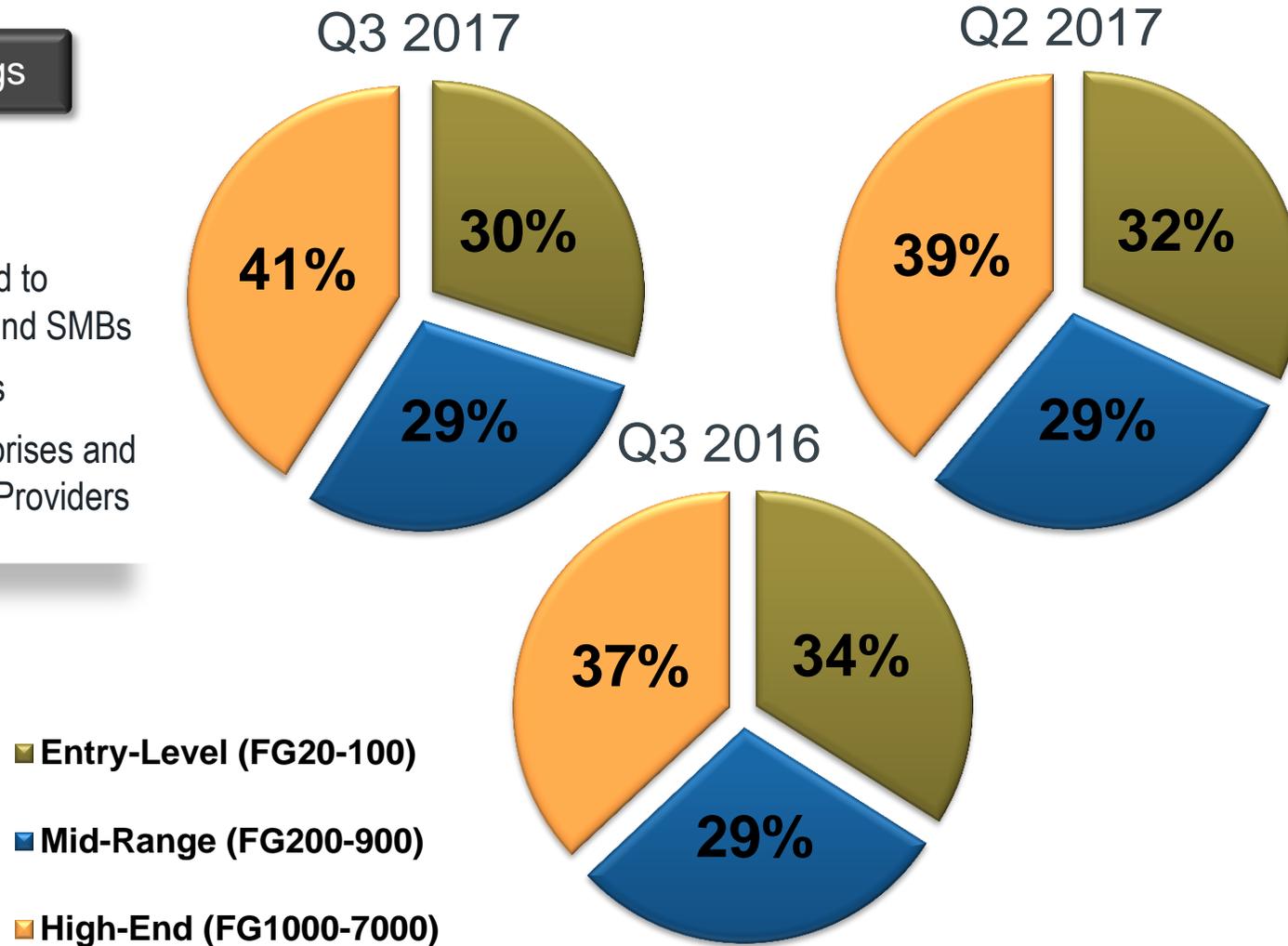
Notes

- (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. In Q3 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

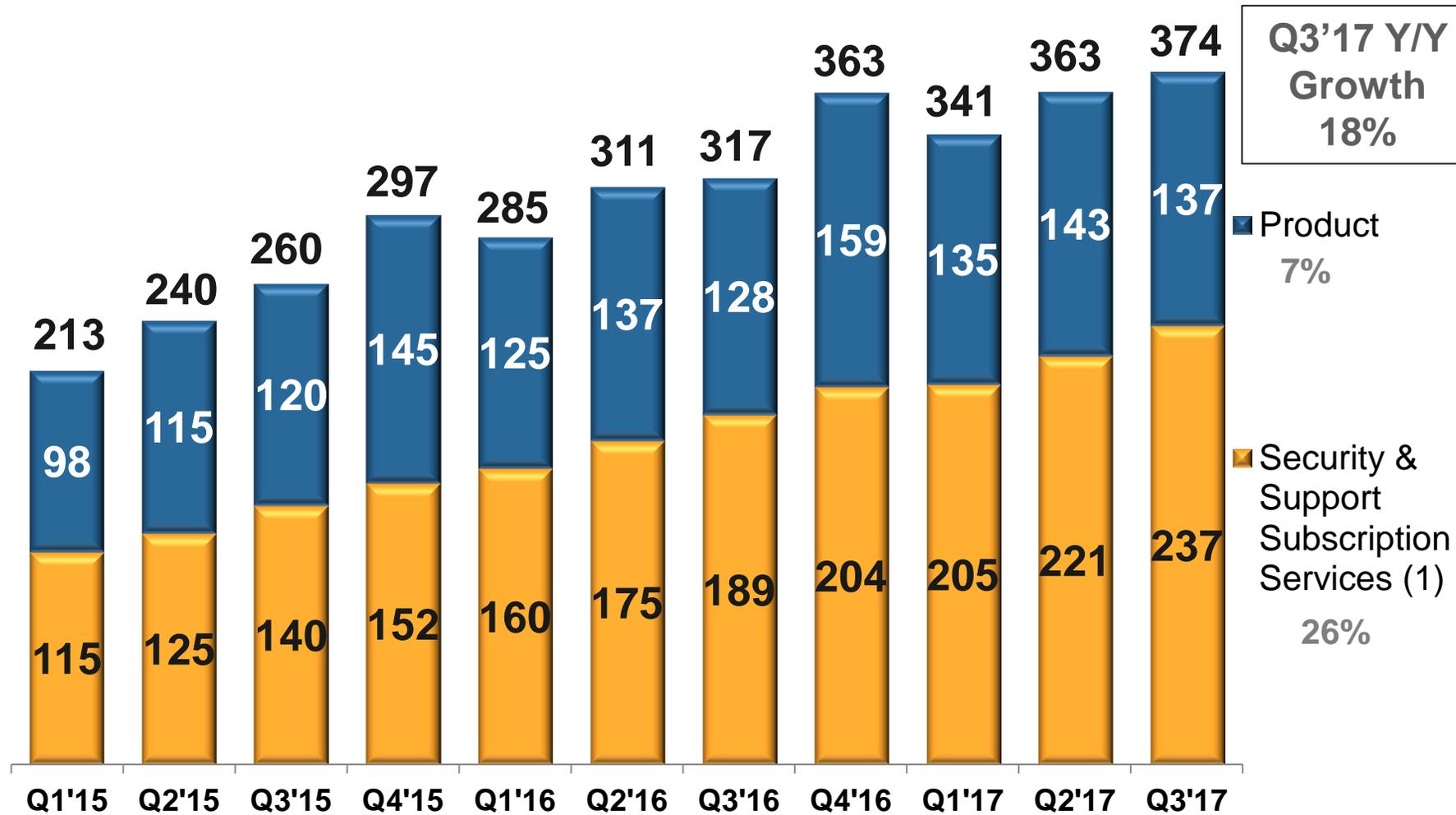
- **Balanced Product Sales**
 - Entry-Level typically sold to Distributed Enterprises and SMBs
 - Mid-Range = Enterprises
 - High-End = Large Enterprises and Telcos/Carriers/Service Providers



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 & Q3'17 Y/Y Growth



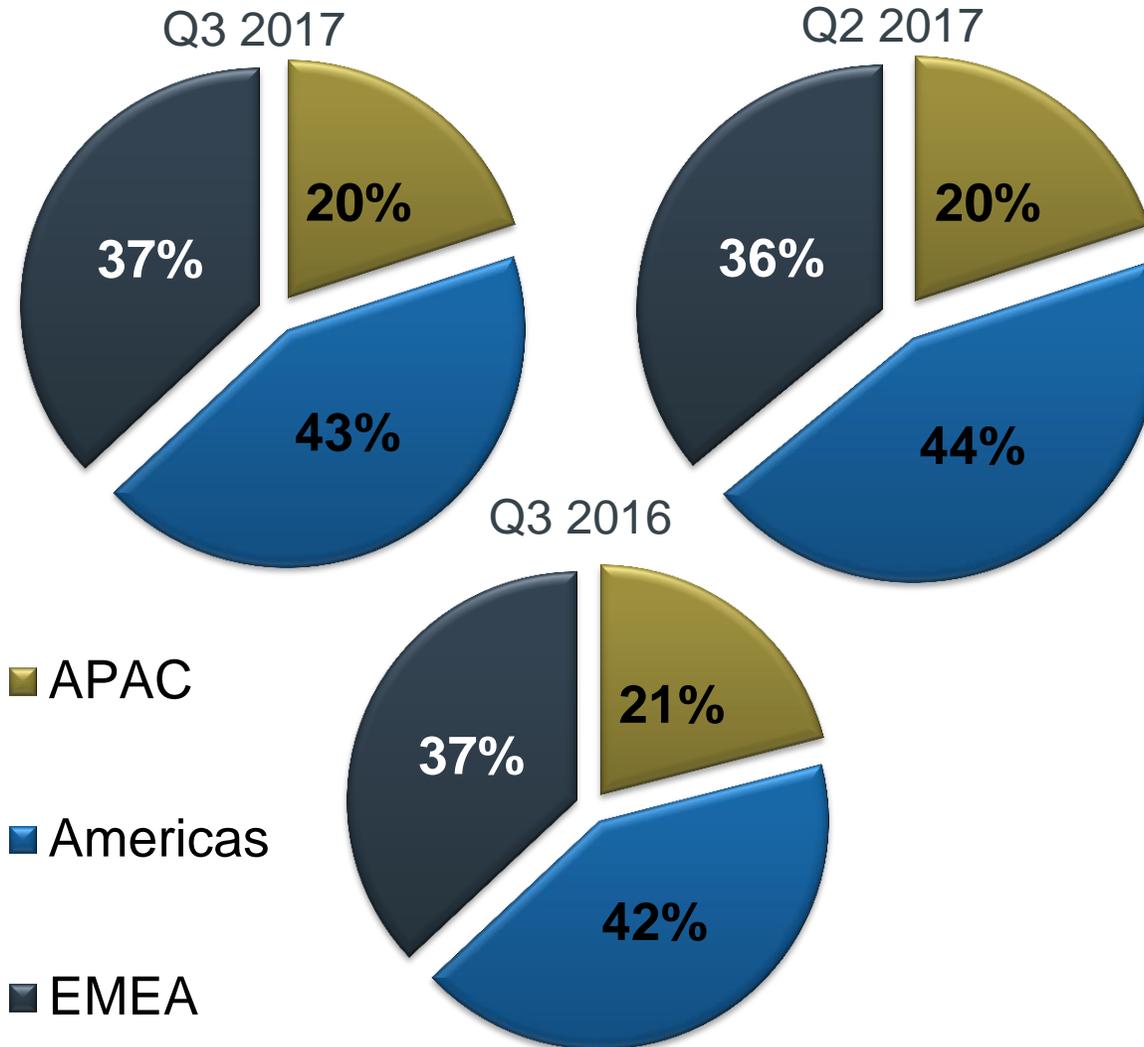
Note

(1) Includes Professional Services, Training and Other Revenue

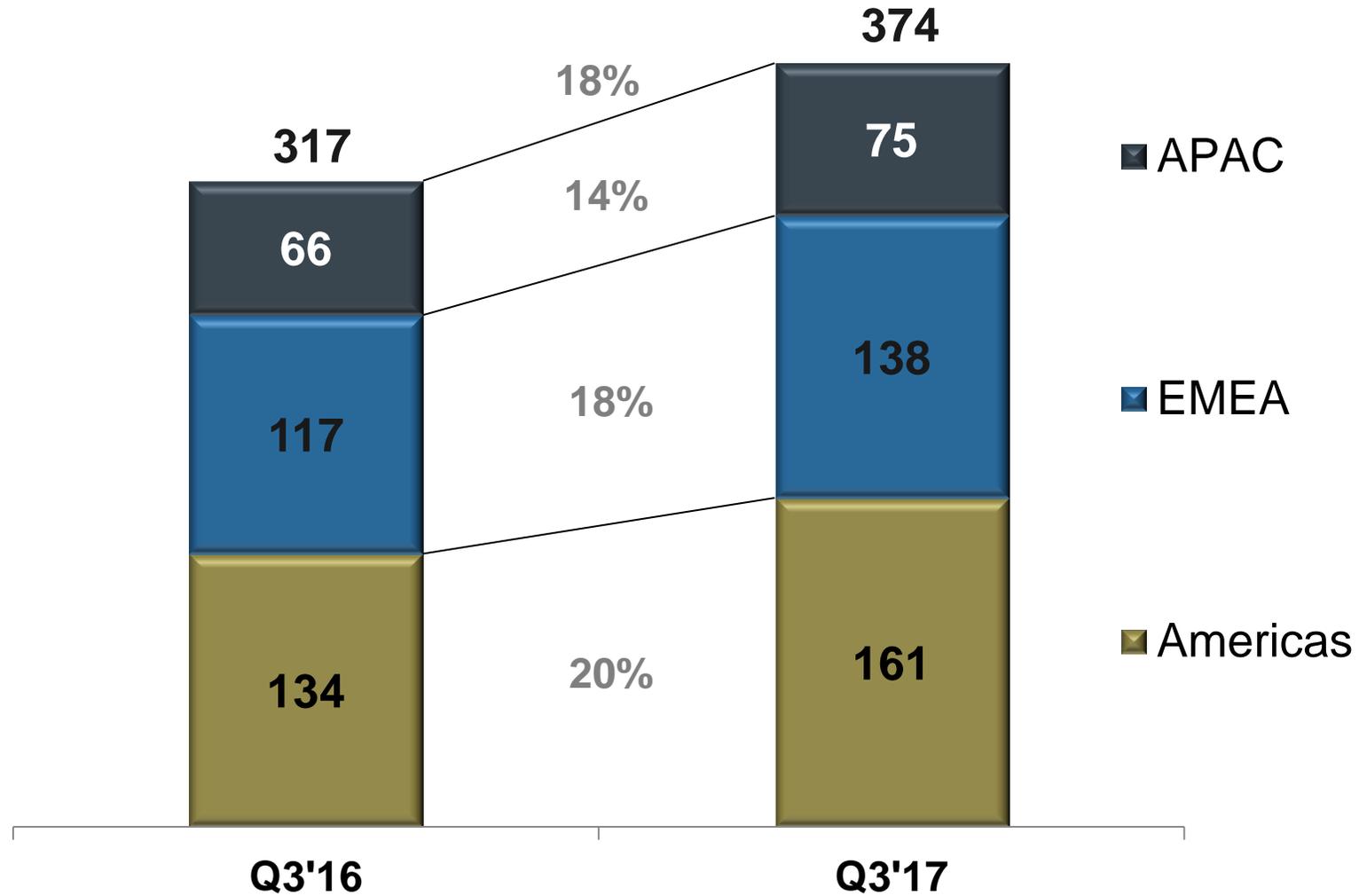
Diversified Global Revenue

Revenue by Geography

- Globally-diverse revenue stream



Revenue Growth by Geography



Q3 2017 Select Financial Statistics

	Q3 17	Q2 17	Q3 16
Cash and Investments ⁽¹⁾	\$1.52B	\$1.46B	\$1.27B
Deferred Revenue	\$1.22B	\$1.16B	\$935M
Free Cash Flow	\$141M	\$58M	\$70M
DSO	62	68	68
Inventory Turns	2.6	2.2	1.7
Revenue per Employee (Annualized)	\$309K	\$306K	\$276K
No. of Deals >\$100K ⁽²⁾	659	658	559
No. of Deals >\$250K ⁽²⁾	208	193	165
No. of Deals >\$500K ⁽²⁾	87	75	58

Notes

- (1) Excludes \$12.1M of investments in privately-held companies which are recorded in other assets for Q3 2017 and Q2 2017 and \$10.3M for Q3 2016.
- (2) Deals are defined as combined sales in the period to a customer account.

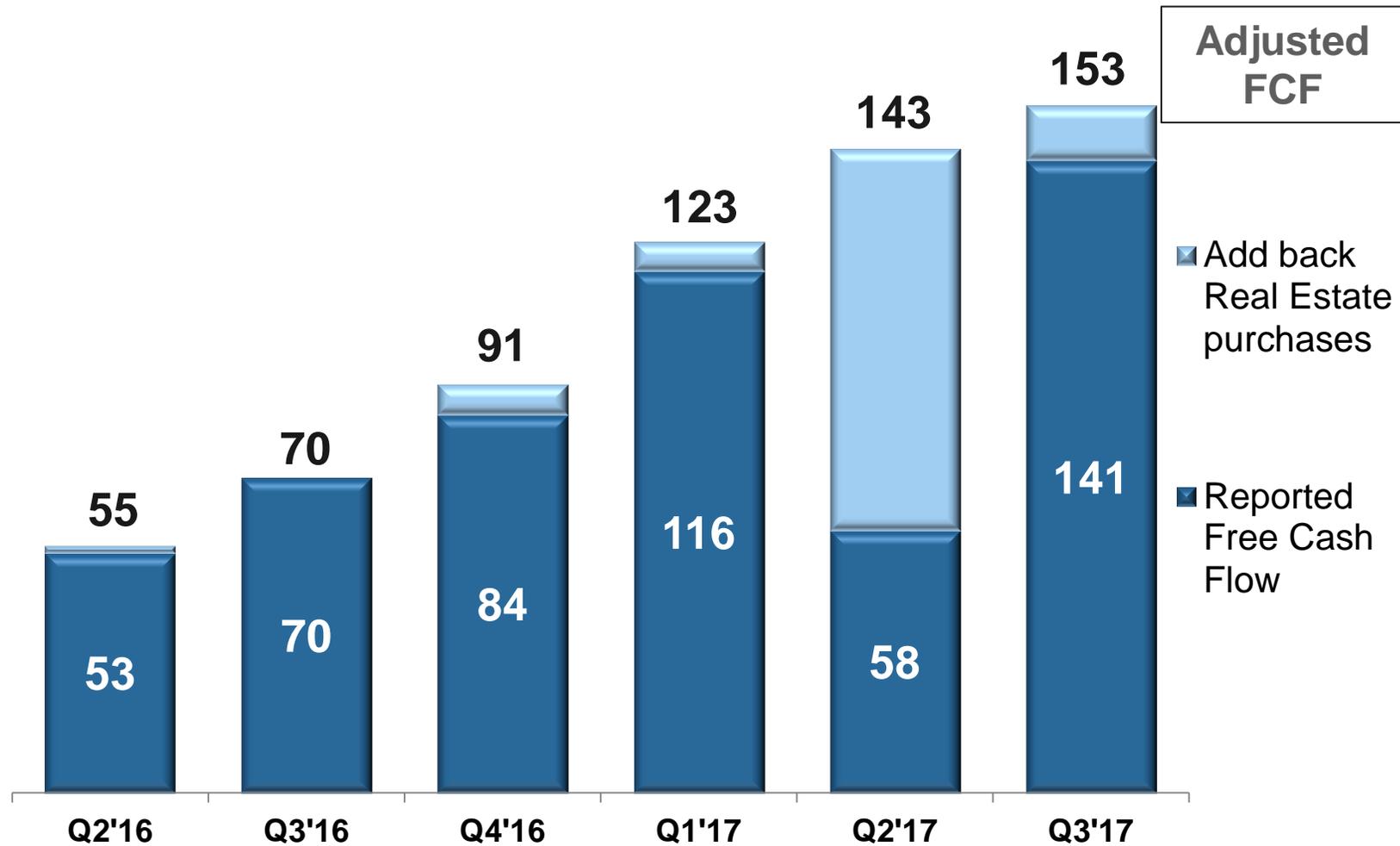
Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q3 17	Q3 16	YTD 17	YTD 16
GAAP Net Income	27	6	60	7
Depreciation and Stock-Based Compensation	48	44	144	125
Accounts Receivable	14	11	51	13
Inventory	8	(17)	18	(25)
Accounts Payable / Accrued Expenses / Other	6	-	(20)	(18)
Deferred Revenue	59	32	184	143
GAAP Cash Flow from Operations	162	76	437	245
Purchase of Property and Equipment	(21)	(6)	(122)	(51)
Free Cash Flow	141	70	315	194
Stock Option and RSU Exercises / ESPP	10	7	26	12
Stock Repurchases	(91)	(25)	(124)	(75)
Acquisition	-	(1)	-	(22)
Other	(1)	(2)	(4)	(3)
Net Cash Flow⁽¹⁾	59	49	213	106
<i>Footnote: Cash Paid for Taxes, Net of Refunds</i>	7	7	25	21

Notes

(1) Includes Cash, Cash Equivalents and Short and Long-Term Investments.

Free Cash Flow and Adjusted Free Cash Flow Growth



Notes

- (1) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.
- (2) Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus Real Estate purchases.

Q4 and 2017 Guidance⁽¹⁾ (Non-GAAP)

	Q4 17	Y/Y % Mid-Pt Growth	2017	Y/Y % Mid-Pt Growth
Billings ⁽²⁾	\$510 - 525M	12%	\$1.772 - 1.787B	17%
Revenue (GAAP)	\$404 - 412M	12%	\$1.482 - 1.490B	17%
Gross Margin (%) ⁽³⁾	75 - 76%		75%	
Operating Margin (%) ⁽³⁾	18 - 19%		17%	
Earnings per Share ^{(3) (4)}	\$0.28 - 0.30		\$1.00 - 1.02	
Weighted Diluted Shares used in EPS	178 - 180M		178 - 180M	

Notes

- (1) Guidance for non-GAAP financial measures excludes stock-based compensation and amortization of acquired intangible assets. We have not reconciled non-GAAP metrics to GAAP metrics because certain items that impact these measures are uncertain, out of our control and/or cannot be reasonably predicted. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures 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 (Q3'17 vs. Q2'17 vs. Q3'16)

(Unaudited, in thousands, except per share amounts)

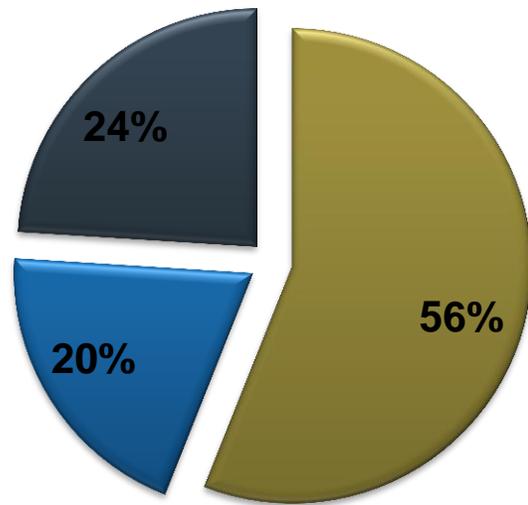
	Q3'17	Adjustment	Non-GAAP Q3'17	Q2'17	Adjustment	Non-GAAP Q2'17	Q3'16	Adjustment	Non-GAAP Q3'16
Revenue:									
Product	\$ 137,095	\$ -	\$ 137,095	\$ 142,705	\$ -	\$ 142,705	\$ 127,972	\$ -	\$ 127,972
Service	237,122	-	237,122	220,764	-	220,764	188,674	-	188,674
Total revenue	374,217	-	374,217	363,469	-	363,469	316,646	-	316,646
Cost of revenue:									
Product	58,106	(1,352)	56,754	60,787	(1,388)	59,399	50,267	(1,049)	49,218
Service	35,543	(2,583)	32,960	34,865	(2,718)	32,147	34,532	(3,053)	31,479
Total cost of revenue	93,649	(3,935)	89,714	95,652	(4,106)	91,546	84,799	(4,102)	80,697
Gross profit:									
Product	78,989	1,352	80,341	81,918	1,388	83,306	77,705	1,049	78,754
Service	201,579	2,583	204,162	185,899	2,718	188,617	154,142	3,053	157,195
Total gross profit	280,568	3,935	284,503	267,817	4,106	271,923	231,847	4,102	235,949
Operating expenses:									
Research and development	53,486	(7,976)	45,510	51,159	(8,253)	42,906	47,239	(7,627)	39,612
Sales and marketing	172,361	(20,396)	151,965	166,337	(20,702)	145,635	154,831	(18,855)	135,976
General and administrative	21,025	(4,037)	16,988	21,911	(4,237)	17,674	22,006	(7,580)	14,426
Restructuring charges	-	-	-	(90)	90	-	2,283	(2,283)	-
Total operating expenses	246,872	(32,409)	214,463	239,317	(33,102)	206,215	226,359	(36,345)	190,014
Operating income	33,696	36,344	70,040	28,500	37,208	65,708	5,488	40,447	45,935
Interest income	3,866	-	3,866	3,163	-	3,163	1,888	-	1,888
Other income (expense)—net	344	-	344	1,243	-	1,243	(787)	-	(787)
Income before income taxes	37,906	36,344	74,250	32,906	37,208	70,114	6,589	40,447	47,036
Provision for income taxes	11,296	12,464	23,760	9,873	12,563	22,436	298	14,555	14,853
Net income	\$ 26,610	\$ 23,880	\$ 50,490	\$ 23,033	\$ 24,645	\$ 47,678	\$ 6,291	\$ 25,892	\$ 32,183
Basic net income per share	\$ 0.15		\$ 0.29	\$ 0.13		\$ 0.27	\$ 0.04		\$ 0.19
Diluted net income per share	\$ 0.15		\$ 0.28	\$ 0.13		\$ 0.27	\$ 0.04		\$ 0.18
Shares used in computing net income per share									
Basic	175,519		175,519	175,741		175,741	173,335		173,335
Diluted	178,973		178,973	179,701		179,701	177,938		177,938

GAAP to Non-GAAP – Operating Results (% of Revenue) (Q3'17 vs. Q2'17 vs. Q3'16)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q3'17	Adjustment	Q3'17	Q2'17	Adjustment	Q2'17	Q3'16	Adjustment	Q3'16
Revenue:									
Product	37%	-	37%	39%	-	39%	40%	-	40%
Service	63%	-	63%	61%	-	61%	60%	-	60%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	16%	-	15%	17%	-	16%	16%	-	16%
Service	9%	(1%)	9%	10%	(1%)	9%	11%	(1%)	10%
Total cost of revenue	25%	(1%)	24%	26%	(1%)	25%	27%	(1%)	25%
Gross margin:									
Product	58%	1%	59%	57%	1%	58%	61%	1%	62%
Service	85%	1%	86%	84%	1%	85%	82%	2%	83%
Total gross margin	75%	1%	76%	74%	1%	75%	73%	1%	75%
Operating expenses:									
Research and development	14%	(2%)	12%	14%	(2%)	12%	15%	(2%)	13%
Sales and marketing	46%	(5%)	41%	46%	(6%)	40%	49%	(6%)	43%
General and administrative	6%	(1%)	5%	6%	(1%)	5%	7%	(2%)	5%
Restructuring charges	-	-	-	-	-	-	1%	(1%)	-
Total operating expenses	66%	(9%)	57%	66%	(9%)	57%	71%	(11%)	60%
Operating margin	9%	10%	19%	8%	10%	18%	2%	13%	15%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other income (expense)—net	-	-	-	-	-	-	-	-	-
Income before income taxes	10%	10%	20%	9%	10%	19%	2%	13%	15%
Provision for income taxes	3%	3%	6%	3%	3%	6%	-	5%	5%
Net income	7%	6%	13%	6%	7%	13%	2%	8%	10%

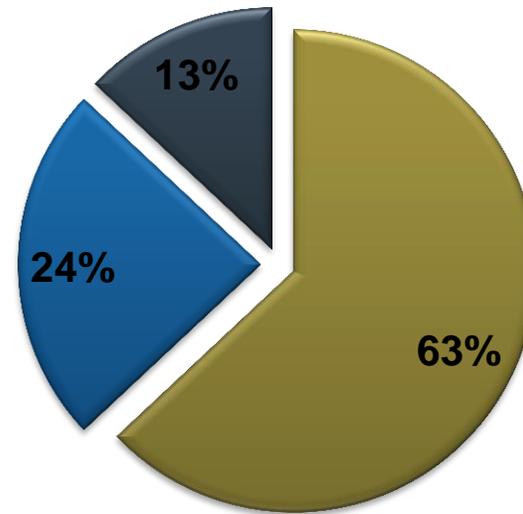
Global Employee Footprint

Location



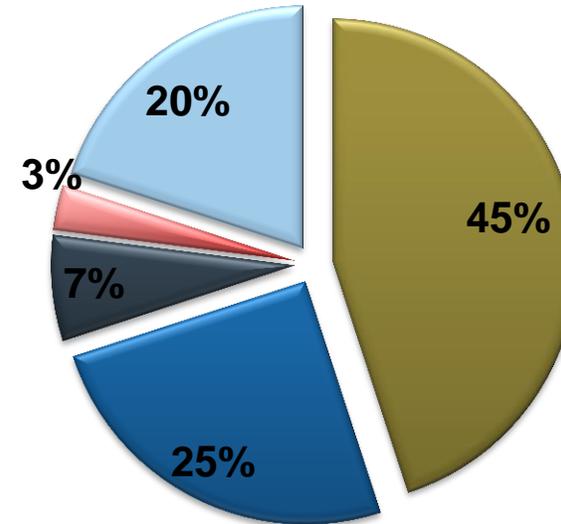
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q3'17 Headcount: 4,903

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.

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