



# Q4 2014 Financial Results

January 28, 2015

# Safe Harbor Statement



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# Q4 2014 Non-GAAP Results

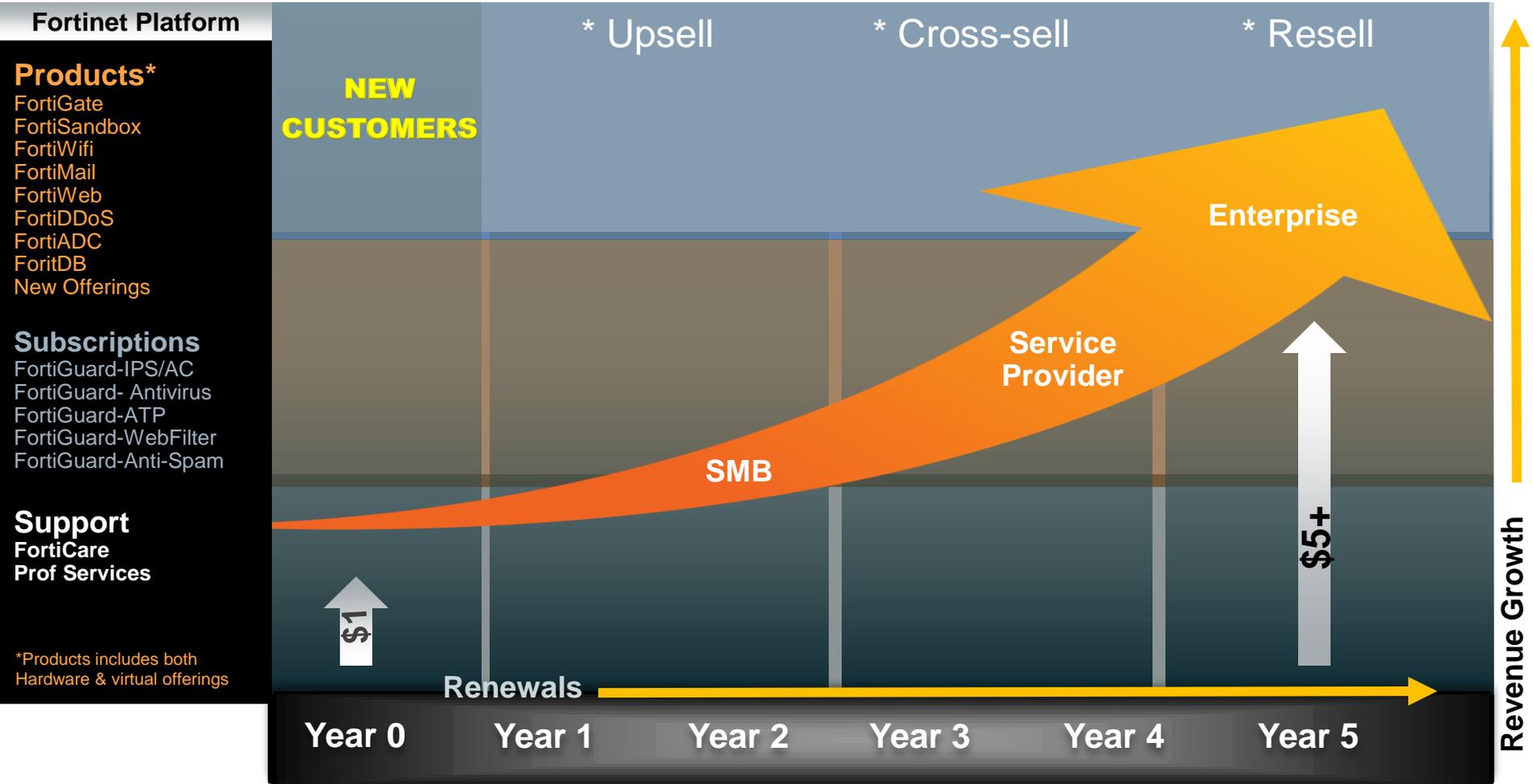


	Q4 14	Q4 13	Y/Y % Change
<b>Billings <sup>(1)</sup></b>	<b>\$283M</b>	<b>\$210M</b>	<b>35%</b>
<b>Revenue</b>	<b>\$224M</b>	<b>\$177M</b>	<b>26%</b>
<b>Gross Margin (%) <sup>(2)</sup></b>	<b>72%</b>	<b>71%</b>	<b>+1 pt</b>
<b>Operating Income <sup>(2)</sup></b>	<b>\$37M</b>	<b>\$38M</b>	<b>-4%</b>
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>16%</b>	<b>22%</b>	<b>-6% pts</b>
<b>Net Income <sup>(2)(3)</sup></b>	<b>\$24M</b>	<b>\$26M</b>	<b>-8%</b>
<b>Earnings per Share <sup>(2)(3)</sup></b>	<b>\$0.14</b>	<b>\$0.16</b>	<b>-13%</b>
<b>Deferred Revenue</b>	<b>\$559M</b>	<b>\$433M</b>	<b>29%</b>
<b>Cash Flow from Operations</b>	<b>\$35M</b>	<b>\$47M</b>	<b>-24%</b>
<b>Free Cash Flow <sup>(4)</sup></b>	<b>\$30M</b>	<b>\$40M</b>	<b>-24%</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.

# Long-term Benefits of Our Investment Strategy

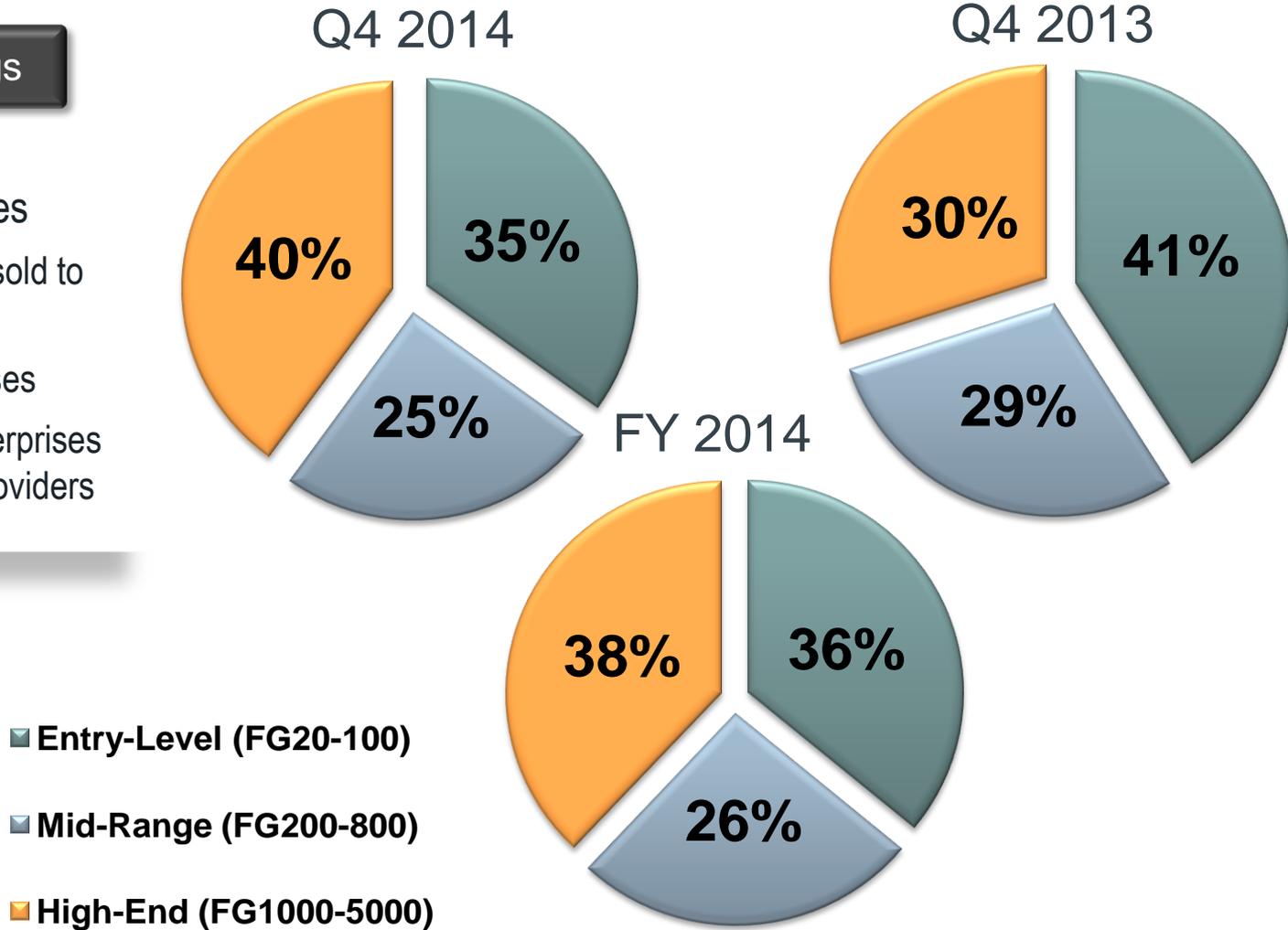


# Balanced Product Segmentation



## FortiGate Billings

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



### Note

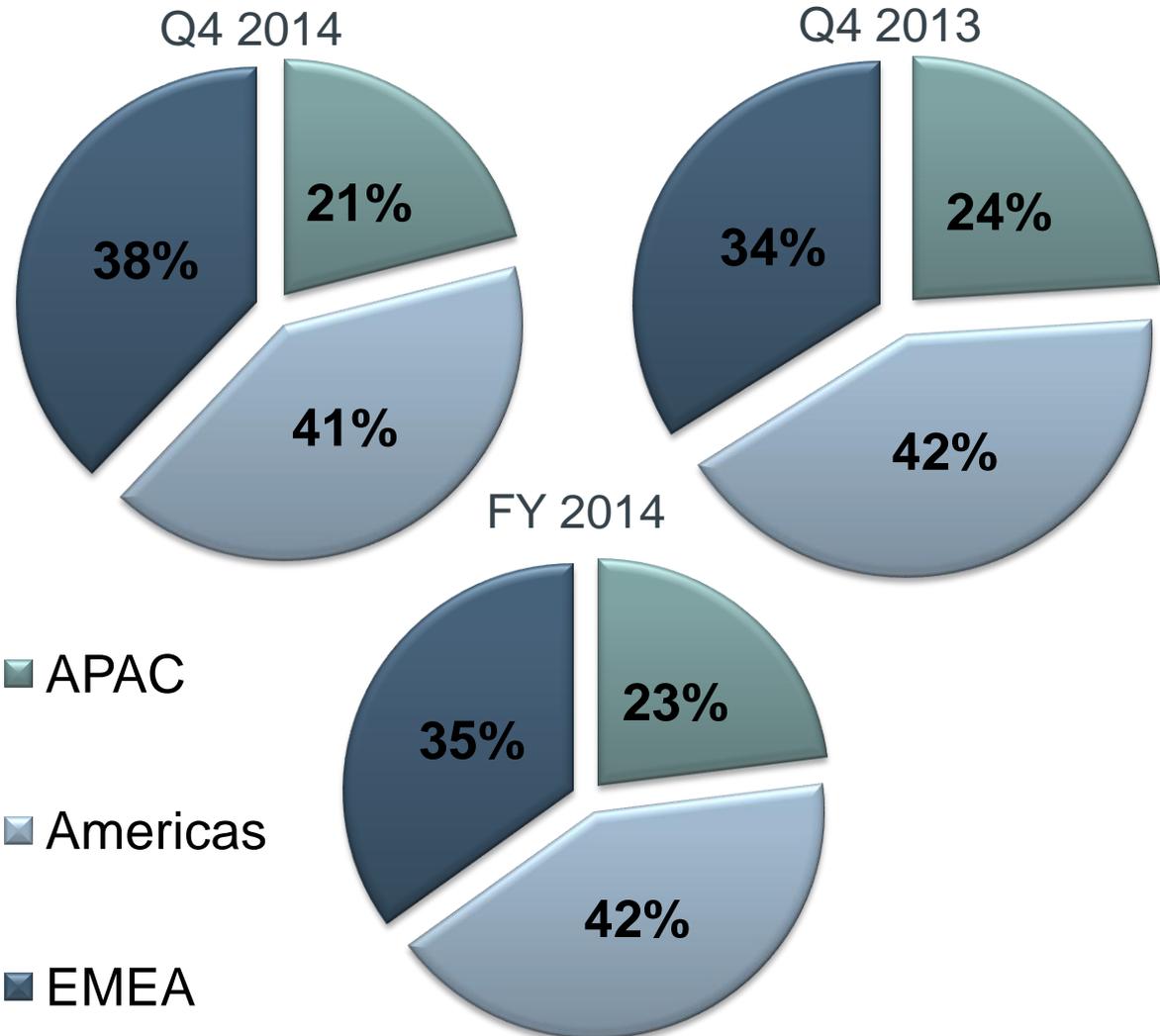
(1) Represents FortiGate billings by Product Category. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of that period, less any deferred revenue balances acquired from business combination(s)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

# Diversified Global Revenue

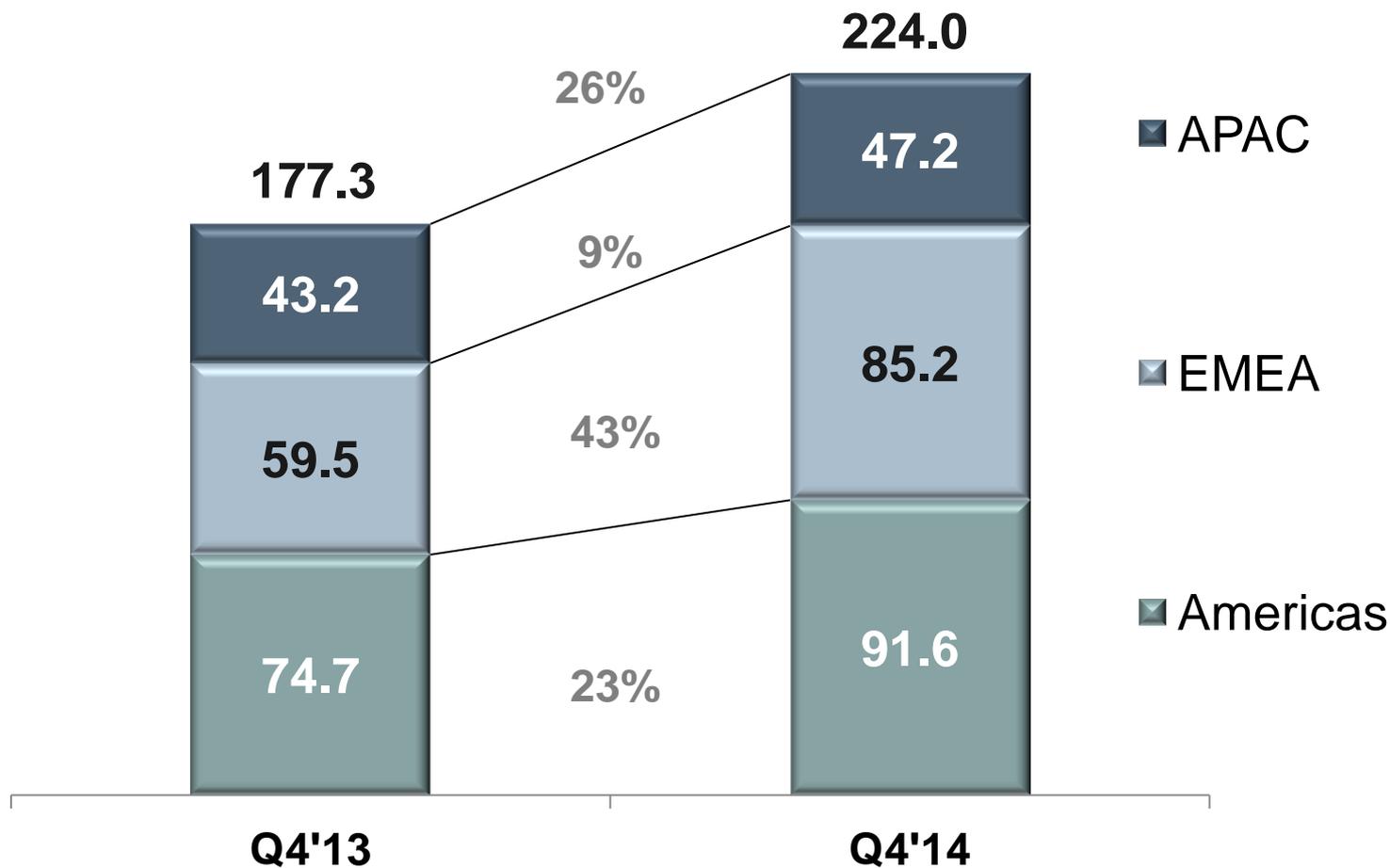


## Revenue by Geography

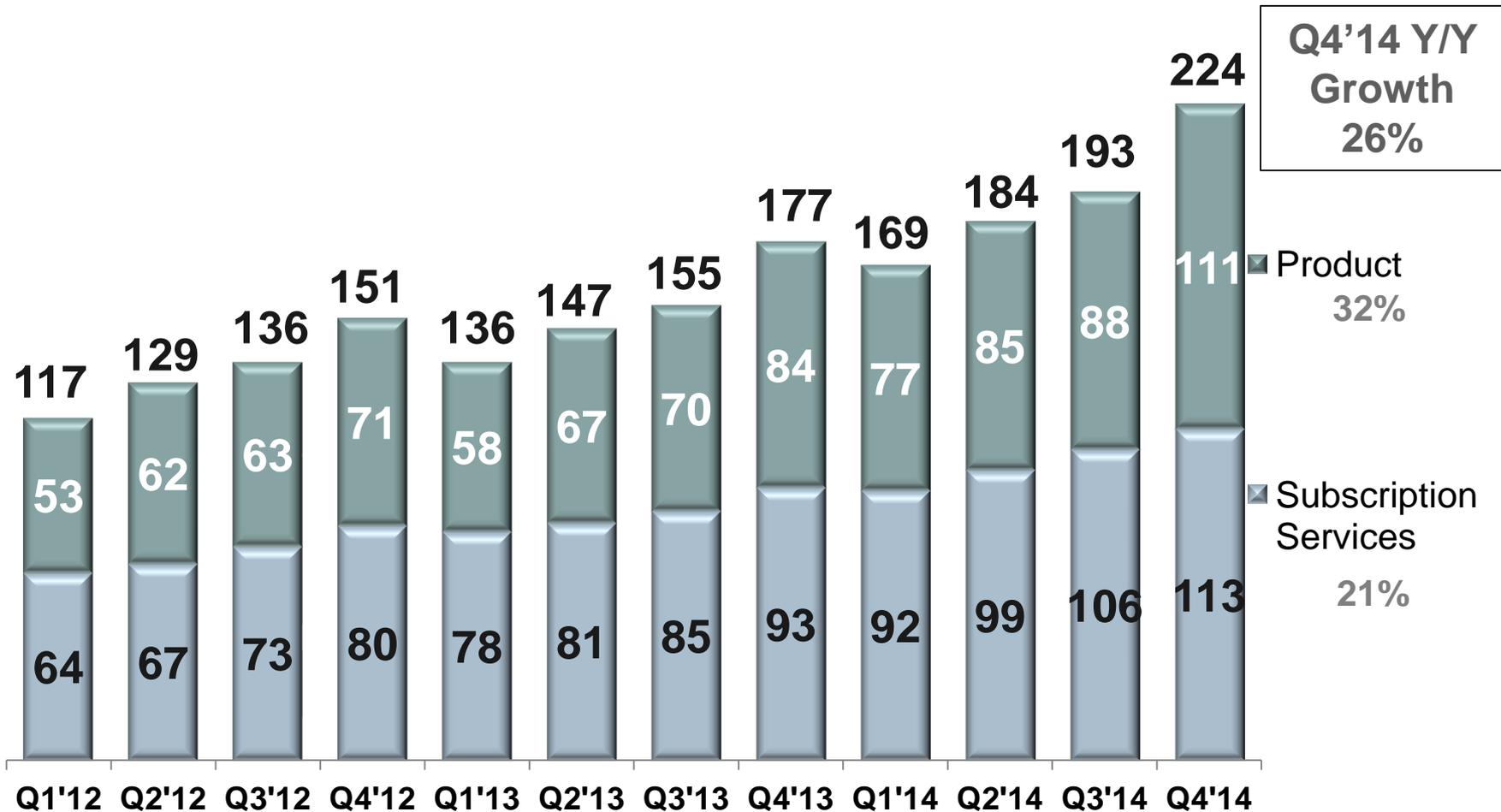
- Globally-diverse revenue stream
- Investing for growth globally



# Revenue Growth by Geography



# Quarterly Revenue Mix & Q4'14 Y/Y Growth



# Q4 2014 Select Financial Statistics



	Q4 14	Q3 14	Q4 13
Cash and Investments <sup>(1)</sup>	\$992M	\$964M	\$843M
Deferred Revenue	\$559M	\$500M	\$433M
Free Cash Flow	\$30M	\$51M	\$40M
Working Capital	\$550M	\$462M	\$322M
Accounts Receivable	\$185M	\$116M	\$130M
DSO	74	54	66
Net Inventory	\$69M	\$51M	\$49M
Inventory Turns	2.1	2.3	2.5
Revenue per Employee (Annualized)	\$321K	\$294K	\$312K
No. of Deals >\$100K	384	276	260
No. of Deals >\$250K	137	90	96
No. of Deals >\$500K	60	35	37

**Notes**  
 (1) Excludes \$6.4M investment in privately-held companies which is recorded in other assets.

# Maintaining Strong Balance Sheet



(\$ in Millions)	Q4 14	Q3 14	Q4 13
<b>Assets</b>			
Cash and Investments <sup>(1)</sup>	992	964	843
Accounts Receivable	185	116	130
Inventory	69	51	49
Property and Equipment	59	57	37
Deferred Tax Assets	73	94	81
Other Assets	47	31	28
<b>Total Assets</b>	<b>1,425</b>	<b>1,313</b>	<b>1,168</b>
<b>Liabilities and Shareholders' Equity</b>			
Accounts Payable	50	37	36
Accrued Expenses and Others	140	127	114
Deferred Revenue	559	500	433
Common Stock/Paid in Capital	562	538	463
Retained Earnings	114	111	122
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,425</b>	<b>1,313</b>	<b>1,168</b>

**Notes**

(1) Excludes \$6.4M investment in privately-held companies recorded in other assets.

# Statement of Cash Flows (Non-GAAP)



(\$ in Millions)	Q4 14	Q4 13	FY 14	FY 13
<b>GAAP Net Income</b>	7	12	25	44
Depreciation and Stock-Based Compensation	22	16	81	60
Accounts Receivable	(69)	(23)	(56)	(22)
Inventory	(21)	(4)	(32)	(35)
Accounts Payable / Accrued Expenses / Other	37	14	51	31
Deferred Revenue	59	32	127	69
<b>GAAP Cash Flow from Operations</b>	<b>35</b>	<b>47</b>	<b>197</b>	<b>147</b>
Purchase of Property and Equipment	(5)	(7)	(33)	(13)
<b>Free Cash Flow</b>	<b>30</b>	<b>40</b>	<b>164</b>	<b>134</b>
Stock Option and RSU Exercises / ESPP	13	1	45	24
Stock Repurchases	(6)	(34)	(44)	(34)
Acquisition	-	-	-	(8)
Other	(9)	(3)	(16)	(13)
<b>Net Cash Flow</b>	<b>28</b>	<b>4</b>	<b>149</b>	<b>103</b>
<i>Footnote: Cash Paid for Taxes</i>	4	6	43	25
<i>Footnote: Shares Repurchased Not Yet Settled</i>	-	5	-	5

# FY 2014 Non-GAAP Results



	FY 14	FY 13	Y/Y % Change
<b>Billings <sup>(1)</sup></b>	<b>\$896M</b>	<b>\$684M</b>	<b>31%</b>
<b>Revenue</b>	<b>\$770M</b>	<b>\$615M</b>	<b>25%</b>
<b>Gross Margin (%) <sup>(2)</sup></b>	<b>71%</b>	<b>72%</b>	<b>-1 pt</b>
<b>Operating Income <sup>(2)</sup></b>	<b>\$122M</b>	<b>\$119M</b>	<b>3%</b>
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>16%</b>	<b>19%</b>	<b>-3 pts</b>
<b>Net Income <sup>(2)(3)</sup></b>	<b>\$81M</b>	<b>\$82M</b>	<b>-1%</b>
<b>Earnings per Share <sup>(2)(3)</sup></b>	<b>\$0.48</b>	<b>\$0.49</b>	<b>-2%</b>
<b>Deferred Revenue</b>	<b>\$559M</b>	<b>\$433M</b>	<b>29%</b>
<b>Cash Flow from Operations</b>	<b>\$197M</b>	<b>\$147M</b>	<b>33%</b>
<b>Free Cash Flow <sup>(4)</sup></b>	<b>\$164M</b>	<b>\$134M</b>	<b>23%</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.

# Q1 and 2015 Guidance (Non-GAAP)



	Q1 15	Y/Y % Mid-Pt Growth	2015	Y/Y % Mid-Pt Growth
Billings <sup>(1)</sup>	\$226 - 230M	22%	\$1.065 – 1.080B	20%
Revenue	\$200 - 205M	20%	\$915 - 925M	20%
Gross Margin (%) <sup>(2)</sup>	70 - 71%		70 - 71%	
Operating Margin (%) <sup>(2)</sup>	~7%		~14%	
Earnings per Share <sup>(2) (3)</sup>	~\$0.06		\$0.49 - 0.50	
Weighted Diluted Shares used in EPS	171 - 173M		173 - 175M	

## 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 2015.

# GAAP to Non-GAAP – Operating Results (Q4'14 vs. Q3'14 vs. Q4'13)



(Unaudited, in thousands, except per share amounts)

	Q4'14	Adjustment	Non-GAAP Q4'14	Q3'14	Adjustment	Non-GAAP Q3'14	Q4'13	Adjustment	Non-GAAP Q4'13
<b>Revenue:</b>									
Product	\$ 110,678	\$ -	\$ 110,678	\$ 87,731	\$ -	\$ 87,731	\$ 83,884	\$ -	\$ 83,884
Services and other	113,291	-	113,291	105,617	-	105,617	93,466	-	93,466
<b>Total revenue</b>	<b>223,969</b>	<b>-</b>	<b>223,969</b>	<b>193,348</b>	<b>-</b>	<b>193,348</b>	<b>177,350</b>	<b>-</b>	<b>177,350</b>
<b>Cost of revenue:</b>									
Product	46,070	(376)	45,694	35,636	(304)	35,332	37,579	(1,083)	36,496
Services and other	19,554	(1,612)	17,942	21,249	(1,522)	19,727	16,298	(1,298)	15,000
<b>Total cost of revenue</b>	<b>65,624</b>	<b>(1,988)</b>	<b>63,636</b>	<b>56,885</b>	<b>(1,826)</b>	<b>55,059</b>	<b>53,877</b>	<b>(2,381)</b>	<b>51,496</b>
<b>Gross profit:</b>									
Product	64,608	376	64,984	52,095	304	52,399	46,305	1,083	47,388
Services and other	93,737	1,612	95,349	84,368	1,522	85,890	77,168	1,298	78,466
<b>Total gross profit</b>	<b>158,345</b>	<b>1,988</b>	<b>160,333</b>	<b>136,463</b>	<b>1,826</b>	<b>138,289</b>	<b>123,473</b>	<b>2,381</b>	<b>125,854</b>
<b>Operating expenses:</b>									
Research and development	33,097	(4,706)	28,391	30,790	(4,505)	26,285	27,747	(3,666)	24,081
Sales and marketing	93,228	(7,854)	85,374	80,433	(7,397)	73,036	62,331	(5,599)	56,732
General and administrative	12,104	(2,377)	9,727	9,789	(1,183)	8,606	8,752	(2,018)	6,734
<b>Total operating expenses</b>	<b>138,429</b>	<b>(14,937)</b>	<b>123,492</b>	<b>121,012</b>	<b>(13,085)</b>	<b>107,927</b>	<b>98,830</b>	<b>(11,283)</b>	<b>87,547</b>
<b>Operating income</b>	<b>19,916</b>	<b>16,925</b>	<b>36,841</b>	<b>15,451</b>	<b>14,911</b>	<b>30,362</b>	<b>24,643</b>	<b>13,664</b>	<b>38,307</b>
<b>Interest income</b>	<b>1,402</b>	<b>-</b>	<b>1,402</b>	<b>1,339</b>	<b>-</b>	<b>1,339</b>	<b>1,318</b>	<b>-</b>	<b>1,318</b>
<b>Other expense, net</b>	<b>(1,200)</b>	<b>-</b>	<b>(1,200)</b>	<b>(1,005)</b>	<b>-</b>	<b>(1,005)</b>	<b>(419)</b>	<b>-</b>	<b>(419)</b>
<b>Income before income taxes</b>	<b>20,118</b>	<b>16,925</b>	<b>37,043</b>	<b>15,785</b>	<b>14,911</b>	<b>30,696</b>	<b>25,542</b>	<b>13,664</b>	<b>39,206</b>
<b>Provision for income taxes</b>	<b>13,305</b>	<b>(340)</b>	<b>12,965</b>	<b>11,729</b>	<b>(985)</b>	<b>10,744</b>	<b>13,526</b>	<b>(588)</b>	<b>12,938</b>
<b>Net income</b>	<b>\$ 6,813</b>	<b>\$ 17,265</b>	<b>\$ 24,078</b>	<b>\$ 4,056</b>	<b>\$ 15,896</b>	<b>\$ 19,952</b>	<b>\$ 12,016</b>	<b>\$ 14,252</b>	<b>\$ 26,268</b>
<b>Basic net income per share</b>	<b>\$ 0.04</b>		<b>\$ 0.15</b>	<b>\$ 0.02</b>		<b>\$ 0.12</b>	<b>\$ 0.07</b>		<b>\$ 0.16</b>
<b>Diluted net income per share</b>	<b>\$ 0.04</b>		<b>\$ 0.14</b>	<b>\$ 0.02</b>		<b>\$ 0.12</b>	<b>\$ 0.07</b>		<b>\$ 0.16</b>
<b>Shares used in computing net income per share</b>									
Basic	165,439		165,439	164,294		164,294	163,281		163,281
Diluted	170,927		170,927	169,727		169,727	168,873		168,873

# GAAP to Non-GAAP – Operating Results (% of Rev)

## (Q4'14 vs. Q3'14 vs. Q4'13)



% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'14	Adjustment	Q4'14	Q3'14	Adjustment	Q3'14	Q4'13	Adjustment	Q4'13
<b>Revenue:</b>									
Product	49%	-	49%	45%	-	45%	47%	-	47%
Services and other	51%	-	51%	55%	-	55%	53%	-	53%
<b>Total revenue</b>	<b>100%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>-</b>	<b>100%</b>
<b>Cost of revenue:</b>									
Product	21%	-	20%	18%	-	18%	21%	( 1% )	21%
Services and other	9%	( 1% )	8%	11%	( 1% )	10%	9%	( 1% ]	8%
<b>Total cost of revenue</b>	<b>29%</b>	<b>( 1% )</b>	<b>28%</b>	<b>29%</b>	<b>( 1% )</b>	<b>28%</b>	<b>30%</b>	<b>( 1% )</b>	<b>29%</b>
<b>Gross profit:</b>									
Product	58%	-	59%	59%	-	60%	55%	1%	56%
Services and other	83%	1%	84%	80%	1%	81%	83%	1%	84%
<b>Total gross profit</b>	<b>71%</b>	<b>1%</b>	<b>72%</b>	<b>71%</b>	<b>1%</b>	<b>72%</b>	<b>70%</b>	<b>1%</b>	<b>71%</b>
<b>Operating expenses:</b>									
Research and development	15%	( 2% )	13%	16%	( 2% )	14%	16%	( 2% )	14%
Sales and marketing	42%	( 4% )	38%	42%	( 4% )	38%	35%	( 3% )	32%
General and administrative	5%	( 1% )	4%	5%	( 1% )	4%	5%	( 1% )	4%
<b>Total operating expenses</b>	<b>62%</b>	<b>( 7% )</b>	<b>55%</b>	<b>63%</b>	<b>( 7% )</b>	<b>56%</b>	<b>56%</b>	<b>( 6% )</b>	<b>49%</b>
<b>Operating income</b>	<b>9%</b>	<b>8%</b>	<b>16%</b>	<b>8%</b>	<b>8%</b>	<b>16%</b>	<b>14%</b>	<b>8%</b>	<b>22%</b>
<b>Interest income</b>	<b>1%</b>	<b>-</b>	<b>1%</b>	<b>1%</b>	<b>-</b>	<b>1%</b>	<b>1%</b>	<b>-</b>	<b>1%</b>
<b>Other expense, net</b>	<b>( 1% )</b>	<b>-</b>	<b>( 1% )</b>	<b>( 1% )</b>	<b>-</b>	<b>( 1% )</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income before income taxes</b>	<b>9%</b>	<b>8%</b>	<b>17%</b>	<b>8%</b>	<b>8%</b>	<b>16%</b>	<b>14%</b>	<b>8%</b>	<b>22%</b>
<b>Provision for income taxes</b>	<b>6%</b>	<b>-</b>	<b>6%</b>	<b>6%</b>	<b>( 1% )</b>	<b>6%</b>	<b>8%</b>	<b>-</b>	<b>7%</b>
<b>Net income</b>	<b>3%</b>	<b>8%</b>	<b>11%</b>	<b>2%</b>	<b>8%</b>	<b>10%</b>	<b>7%</b>	<b>8%</b>	<b>15%</b>

# GAAP to Non-GAAP – Operating Results (Fiscal 2014 vs. Fiscal 2013)



(Unaudited, in thousands, except per share amounts)

	Fiscal 2014	Adjustment	Non-GAAP Fiscal 2014	Fiscal 2013	Adjustment	Non-GAAP Fiscal 2013
<b>Revenue:</b>						
<b>Product</b>	\$ 360,558	\$ -	\$ 360,558	\$ 278,046	\$ -	\$ 278,046
<b>Services and other</b>	409,806	-	409,806	337,251	-	337,251
<b>Total revenue</b>	770,364	-	770,364	615,297	-	615,297
<b>Cost of revenue:</b>						
<b>Product</b>	151,300	(4,294)	147,006	114,611	(2,403)	112,208
<b>Services and other</b>	79,709	(5,826)	73,883	66,032	(4,841)	61,191
<b>Total cost of revenue</b>	231,009	(10,120)	220,889	180,643	(7,244)	173,399
<b>Gross profit:</b>						
<b>Product</b>	209,258	4,294	213,552	163,435	2,403	165,838
<b>Services and other</b>	330,097	5,826	335,923	271,219	4,841	276,060
<b>Total gross profit</b>	539,355	10,120	549,475	434,654	7,244	441,898
<b>Operating expenses:</b>						
<b>Research and development</b>	122,880	(17,264)	105,616	102,660	(13,271)	89,389
<b>Sales and marketing</b>	315,804	(26,744)	289,060	224,991	(19,526)	205,465
<b>General and administrative</b>	41,347	(8,677)	32,670	34,913	(6,450)	28,463
<b>Total operating expenses</b>	480,031	(52,685)	427,346	362,564	(39,247)	323,317
<b>Operating income</b>	59,324	62,805	122,129	72,090	46,491	118,581
<b>Interest income</b>	5,393	-	5,393	5,306	-	5,306
<b>Other expense, net</b>	(3,168)	-	(3,168)	(1,455)	-	(1,455)
<b>Income before income taxes</b>	61,549	62,805	124,354	75,941	46,491	122,432
<b>Provision for income taxes</b>	36,206	7,318	43,524	31,668	8,735	40,403
<b>Net income</b>	\$ 25,343	\$ 55,487	\$ 80,830	\$ 44,273	\$ 37,756	\$ 82,029
<b>Basic net income per share</b>	\$ 0.15		\$ 0.49	\$ 0.27		\$ 0.50
<b>Diluted net income per share</b>	\$ 0.15		\$ 0.48	\$ 0.26		\$ 0.49
<b>Shares used in computing net income per share</b>						
<b>Basic</b>	163,831		163,831	162,435		162,435
<b>Diluted</b>	169,289		169,289	168,183		168,183

# GAAP to Non-GAAP – Operating Results (% of Rev) (Fiscal 2014 vs. Fiscal 2013)

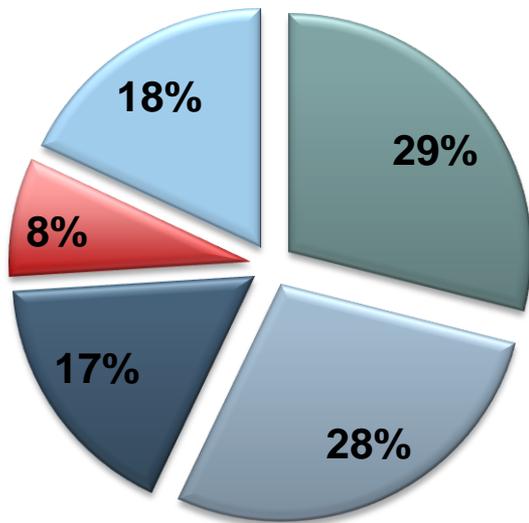


% of revenue	Fiscal 2014			Fiscal 2013		
	Fiscal 2014	Adjustment	Non-GAAP Fiscal 2014	Fiscal 2013	Adjustment	Non-GAAP Fiscal 2013
<b>Revenue:</b>						
Product	47%	-	47%	45%	-	45%
Services and other	53%	-	53%	55%	-	55%
<b>Total revenue</b>	<b>100%</b>	<b>-</b>	<b>100%</b>	<b>100%</b>	<b>-</b>	<b>100%</b>
<b>Cost of revenue:</b>						
Product	20%	( 1% )	19%	19%	-	18%
Services and other	10%	( 1% )	10%	11%	( 1% )	10%
<b>Total cost of revenue</b>	<b>30%</b>	<b>( 1% )</b>	<b>29%</b>	<b>29%</b>	<b>( 1% )</b>	<b>28%</b>
<b>Gross profit:</b>						
Product	58%	1%	59%	59%	-	60%
Services and other	81%	1%	82%	80%	1%	82%
<b>Total gross profit</b>	<b>70%</b>	<b>1%</b>	<b>71%</b>	<b>71%</b>	<b>1%</b>	<b>72%</b>
<b>Operating expenses:</b>						
Research and development	16%	( 2% )	14%	17%	( 2% )	15%
Sales and marketing	41%	( 3% )	38%	37%	( 3% )	33%
General and administrative	5%	( 1% )	4%	6%	( 1% )	5%
<b>Total operating expenses</b>	<b>62%</b>	<b>( 7% )</b>	<b>55%</b>	<b>59%</b>	<b>( 6% )</b>	<b>53%</b>
<b>Operating income</b>	<b>8%</b>	<b>8%</b>	<b>16%</b>	<b>12%</b>	<b>8%</b>	<b>19%</b>
<b>Interest income</b>	<b>1%</b>	<b>-</b>	<b>1%</b>	<b>1%</b>	<b>-</b>	<b>1%</b>
<b>Other expense, net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income before income taxes</b>	<b>8%</b>	<b>8%</b>	<b>16%</b>	<b>12%</b>	<b>8%</b>	<b>20%</b>
<b>Provision for income taxes</b>	<b>5%</b>	<b>1%</b>	<b>6%</b>	<b>5%</b>	<b>1%</b>	<b>7%</b>
<b>Net income</b>	<b>3%</b>	<b>7%</b>	<b>10%</b>	<b>7%</b>	<b>6%</b>	<b>13%</b>

# Global Employee Footprint

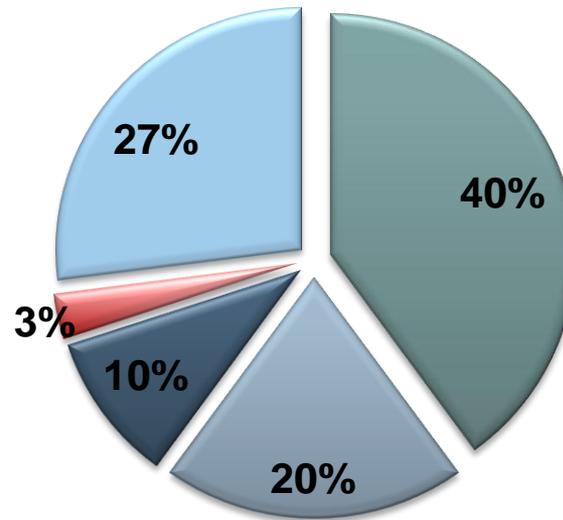


Location



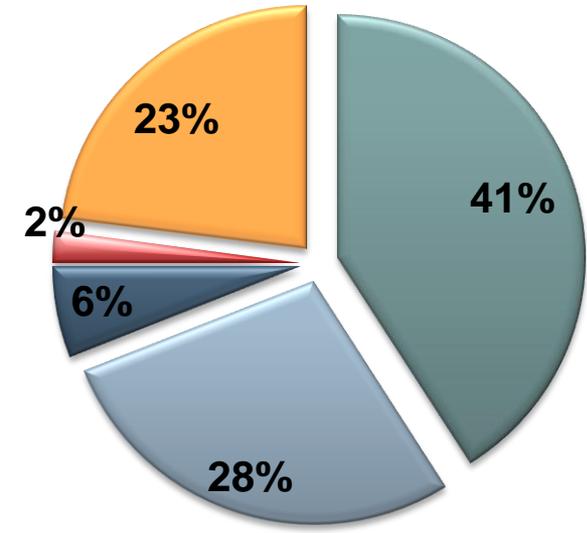
- USA
- Canada
- RoW
- China
- EMEA

Cost



- USA
- Canada
- RoW
- China
- EMEA

Function



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

Q4'14 Headcount: 2,854

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