



# Q3 2016 Financial Results

October 27, 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 Q4 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](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 2016 Non-GAAP Results

	Q3 16	Q3 15	Y/Y % Change
<b>Billings <sup>(1)</sup></b>	<b>\$347M</b>	<b>\$300M</b>	<b>16%</b>
<b>Revenue</b>	<b>\$317M</b>	<b>\$260M</b>	<b>22%</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>\$46M</b>	<b>\$36M</b>	<b>26%</b>
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>15%</b>	<b>14%</b>	<b>+1 pt</b>
<b>Net Income <sup>(2)(3)</sup></b>	<b>\$32M</b>	<b>\$24M</b>	<b>34%</b>
<b>Earnings per Share <sup>(2)(3)</sup></b>	<b>\$0.18</b>	<b>\$0.14</b>	<b>29%</b>
<b>Deferred Revenue</b>	<b>\$935M</b>	<b>\$707M</b>	<b>32%</b>
<b>Cash Flow from Operations</b>	<b>\$76M</b>	<b>\$65M</b>	<b>17%</b>
<b>Free Cash Flow <sup>(4)</sup></b>	<b>\$70M</b>	<b>\$52M</b>	<b>36%</b>

#### Notes

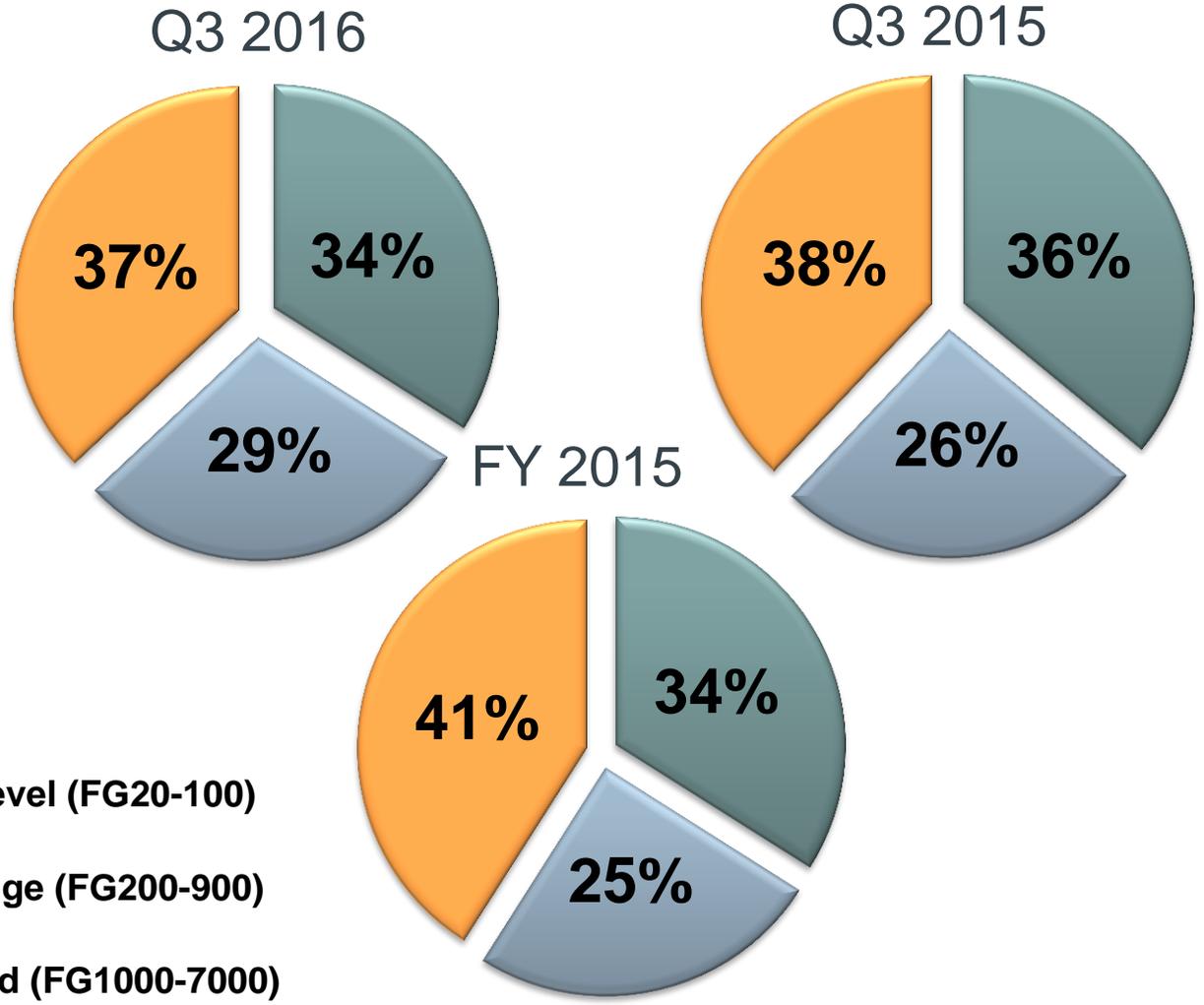
- (1) Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock-based 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, and expenses associated with the implementation of a new ERP system.
- (3) Assumes annual effective tax rate of 33% and 35% for Q3 2016 and Q3 2015, 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 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 (FG1000-7000)**

**Note**

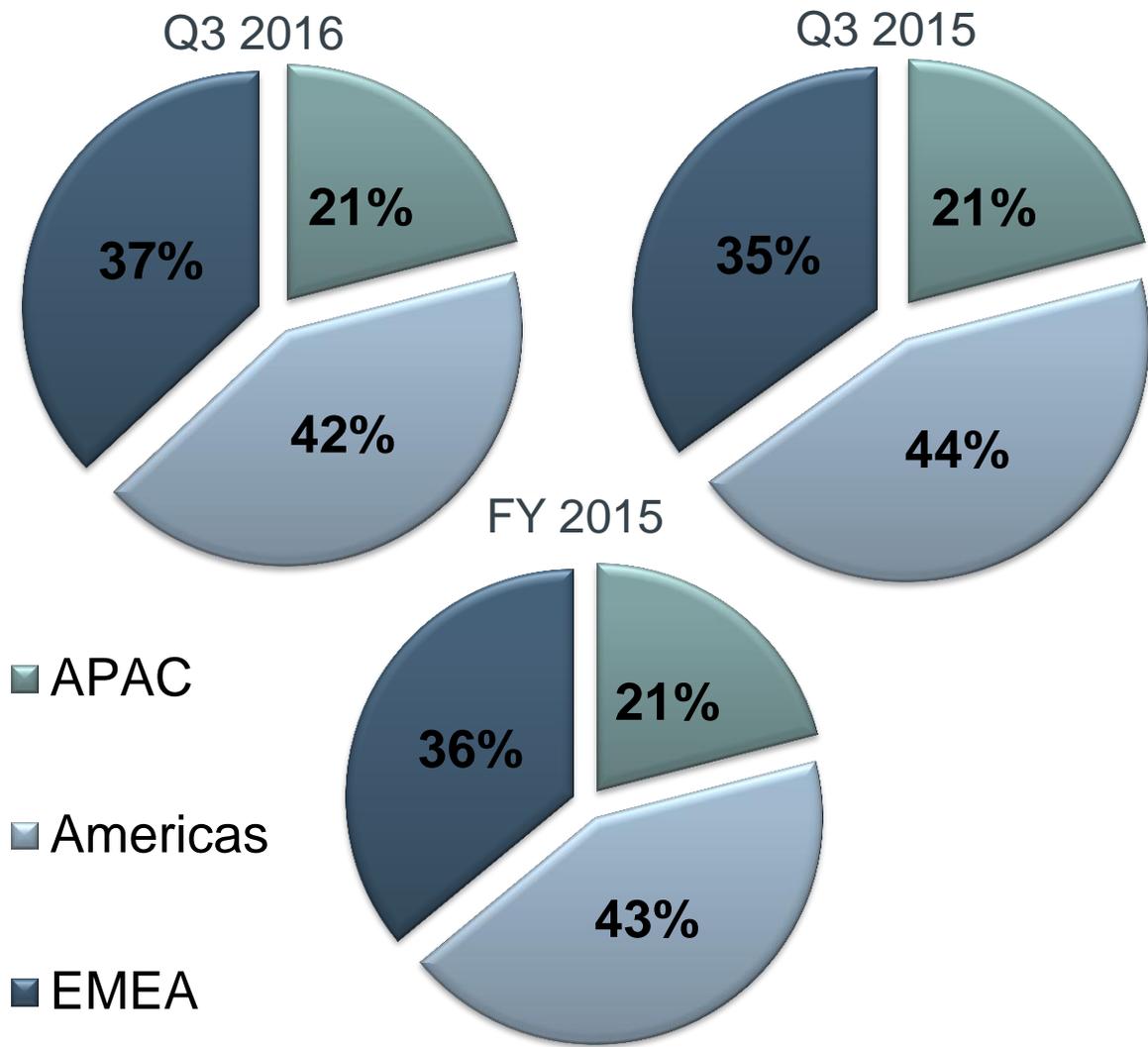
(1) Represents FortiGate billings by Product Category. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s)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

# Diversified Global Revenue

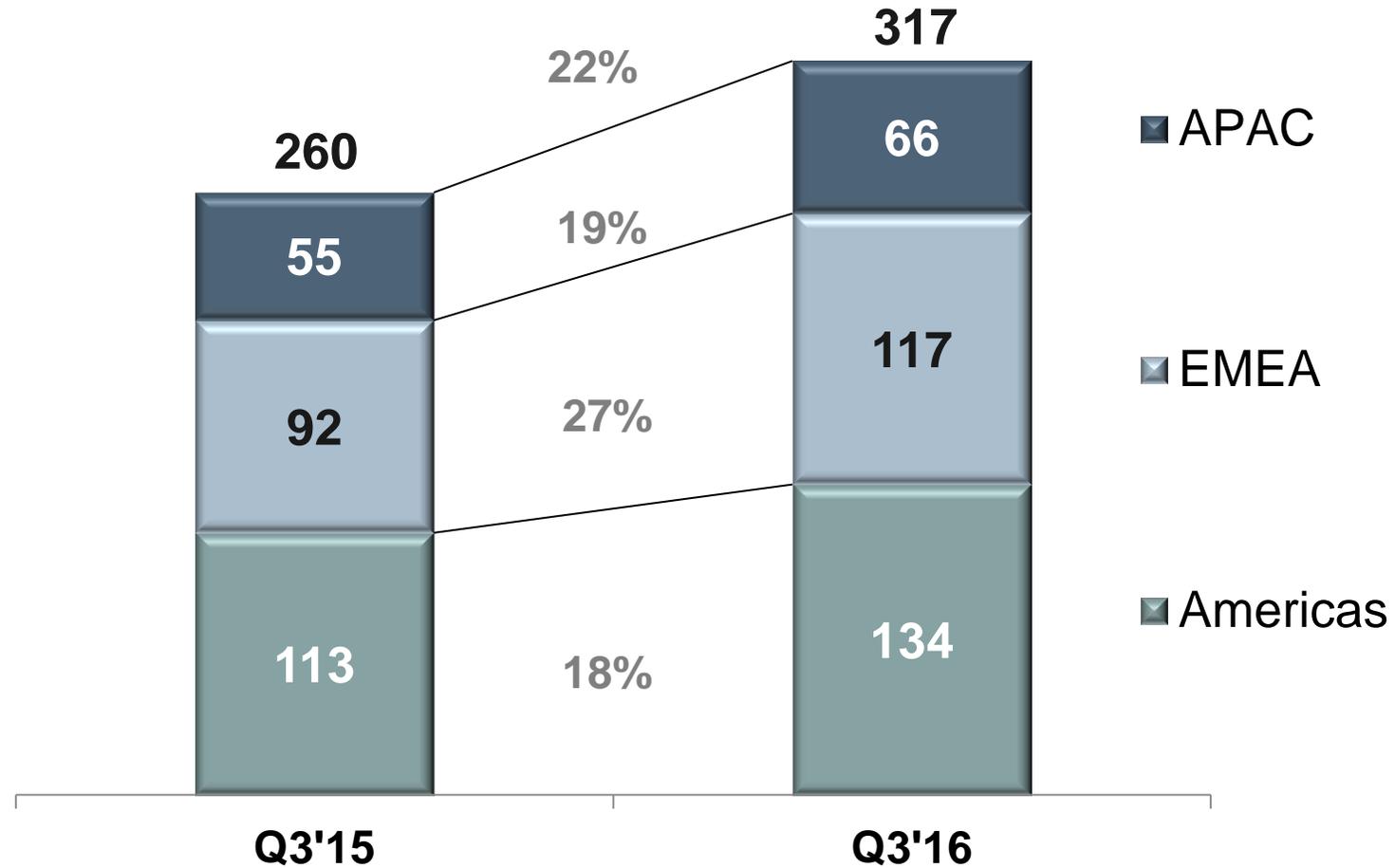


## Revenue by Geography

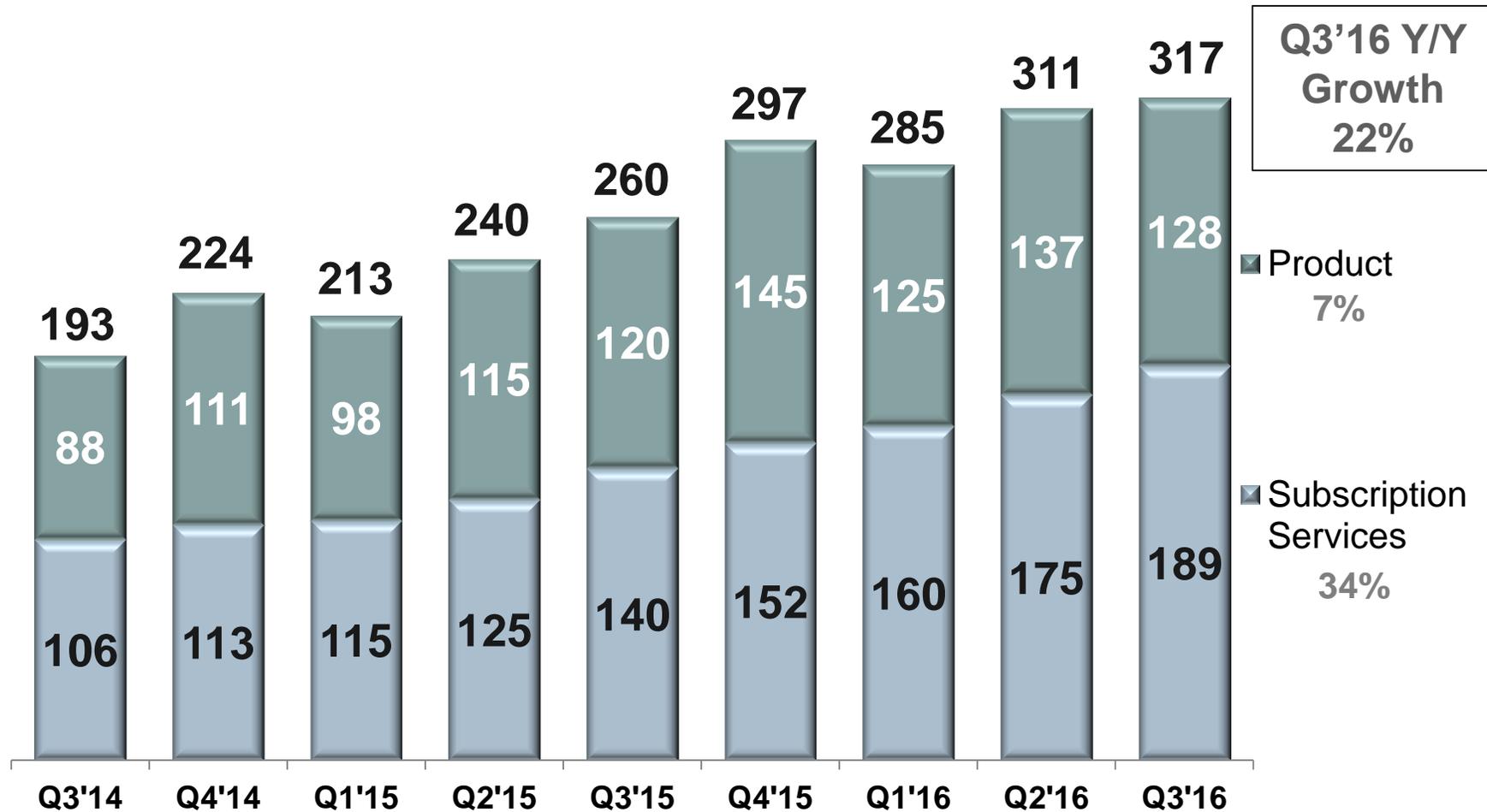
- Globally-diverse revenue stream



# Revenue Growth by Geography



# Quarterly Revenue Mix & Q3'16 Y/Y Growth



# Q3 2016 Select Financial Statistics



	Q3 16	Q2 16	Q3 15
Cash and Investments <sup>(1)</sup>	\$1.27B	\$1.22B	\$1.17B
Deferred Revenue	\$935M	\$904M	\$707M
Free Cash Flow	\$70M	\$53M	\$52M
DSO	68	74	60
Inventory Turns	1.7	2.3	2.1
Revenue per Employee (Annualized)	\$276K	\$283K	\$288K
No. of Deals >\$100K	559	546	440
No. of Deals >\$250K	165	183	147
No. of Deals >\$500K	58	68	50

## Notes

(1) Excludes \$10.3M of investments in privately-held companies which are recorded in other assets for all Q3 2016, Q2 2016 and Q3 2015.

# Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q3 16	Q3 15	YTD 16	YTD 15
<b>GAAP Net Income (Loss)</b>	6	8	7	11
Depreciation and Stock-Based Compensation	44	35	125	89
Accounts Receivable	11	11	13	21
Inventory	(17)	(4)	(25)	(12)
Accounts Payable / Accrued Expenses / Other	-	(24)	(18)	(31)
Deferred Revenue	32	39	143	136
<b>GAAP Cash Flow from Operations</b>	76	65	245	214
Purchase of Property and Equipment	(6)	(13)	(51)	(29)
<b>Free Cash Flow</b>	70	52	194	185
Stock Option and RSU Exercises / ESPP	7	9	12	41
Stock Repurchases	(25)	-	(75)	-
Acquisition	(1)	(38)	(22)	(38)
Other	(2)	(2)	(3)	(10)
<b>Net Cash Flow</b>	49	21	106	178
<i>Footnote: Cash Paid for Taxes</i>	7	5	21	15

# Q4 and 2016 Guidance<sup>(1)</sup> (Non-GAAP)



	Q4 16	Y/Y % Mid-Pt Growth	2016	Y/Y % Mid-Pt Growth
Billings <sup>(2)</sup>	\$424 - 432M	12%	\$1.476 - 1.484B	20%
Revenue (GAAP)	\$341 - 347M	16%	\$1.254 - 1.260B	25%
Gross Margin (%) <sup>(3)</sup>	~74%		~74%	
Operating Margin (%) <sup>(3)</sup>	15 - 16%		13 - 13.5%	
Earnings per Share <sup>(3) (4)</sup>	\$0.20 - 0.21		\$0.64 - 0.65	
Weighted Diluted Shares used in EPS	178 - 180M		176 - 177M	

## Notes

- (1) With respect to Fortinet's guidance for Q4 2016 and full year 2016, 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, restructuring charges, and ERP-related expenses 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, restructuring charges, and expenses associated with the implementation of a new ERP system.
- (4) Assumes effective tax rate of 33% for 2016.

# GAAP to Non-GAAP – Operating Results (Q3'16 vs. Q2'16 vs. Q3'15)



(Unaudited, in thousands, except per share amounts)

	Q3'16	Adjustment	Non-GAAP Q3'16	Q2'16	Adjustment	Non-GAAP Q2'16	Q3'15	Adjustment	Non-GAAP Q3'15
<b>Revenue:</b>									
Product	\$ 127,972	\$ -	\$ 127,972	\$ 136,641	\$ -	\$ 136,641	\$ 119,737	\$ -	\$ 119,737
Service	188,674	-	188,674	174,750	-	174,750	140,331	-	140,331
<b>Total revenue</b>	<b>316,646</b>	<b>-</b>	<b>316,646</b>	<b>311,391</b>	<b>-</b>	<b>311,391</b>	<b>260,068</b>	<b>-</b>	<b>260,068</b>
<b>Cost of revenue:</b>									
Product	50,267	(1,049)	49,218	52,788	(1,396)	51,392	46,167	(2,202)	43,965
Service	34,532	(3,053)	31,479	31,715	(2,123)	29,592	25,534	(1,849)	23,685
<b>Total cost of revenue</b>	<b>84,799</b>	<b>(4,102)</b>	<b>80,697</b>	<b>84,503</b>	<b>(3,519)</b>	<b>80,984</b>	<b>71,701</b>	<b>(4,051)</b>	<b>67,650</b>
<b>Gross profit:</b>									
Product	77,705	1,049	78,754	83,853	1,396	85,249	73,570	2,202	75,772
Service	154,142	3,053	157,195	143,035	2,123	145,158	114,797	1,849	116,646
<b>Total gross profit</b>	<b>231,847</b>	<b>4,102</b>	<b>235,949</b>	<b>226,888</b>	<b>3,519</b>	<b>230,407</b>	<b>188,367</b>	<b>4,051</b>	<b>192,418</b>
<b>Operating expenses:</b>									
Research and development	47,239	(7,627)	39,612	45,502	(7,479)	38,023	42,110	(6,663)	35,447
Sales and marketing	154,831	(18,855)	135,976	162,694	(18,417)	144,277	120,994	(14,614)	106,380
General and administrative	22,006	(7,580)	14,426	22,184	(10,048)	12,136	21,220	(7,019)	14,201
Restructuring charges	2,283	(2,283)	-	553	(553)	-	5,883	(5,883)	-
<b>Total operating expenses</b>	<b>226,359</b>	<b>(36,345)</b>	<b>190,014</b>	<b>230,933</b>	<b>(36,497)</b>	<b>194,436</b>	<b>190,207</b>	<b>(34,179)</b>	<b>156,028</b>
<b>Operating income (loss)</b>	<b>5,488</b>	<b>40,447</b>	<b>45,935</b>	<b>(4,045)</b>	<b>40,016</b>	<b>35,971</b>	<b>(1,840)</b>	<b>38,230</b>	<b>36,390</b>
Interest income	1,888	-	1,888	1,705	-	1,705	1,333	-	1,333
Other expense—net	(787)	-	(787)	(1,350)	-	(1,350)	(653)	-	(653)
<b>Income (Loss) before income taxes</b>	<b>6,589</b>	<b>40,447</b>	<b>47,036</b>	<b>(3,690)</b>	<b>40,016</b>	<b>36,326</b>	<b>(1,160)</b>	<b>38,230</b>	<b>37,070</b>
Provision for (Benefit from) income taxes	298	14,555	14,853	(2,302)	14,653	12,351	(9,329)	22,304	12,975
<b>Net income (loss)</b>	<b>\$ 6,291</b>	<b>\$ 25,892</b>	<b>\$ 32,183</b>	<b>\$ (1,388)</b>	<b>\$ 25,363</b>	<b>\$ 23,975</b>	<b>\$ 8,169</b>	<b>\$ 15,926</b>	<b>\$ 24,095</b>
<b>Basic net income (loss) per share</b>	<b>\$ 0.04</b>		<b>\$ 0.19</b>	<b>\$ (0.01)</b>		<b>\$ 0.14</b>	<b>\$ 0.05</b>		<b>\$ 0.14</b>
<b>Diluted net income (loss) per share</b>	<b>\$ 0.04</b>		<b>\$ 0.18</b>	<b>\$ (0.01)</b>		<b>\$ 0.14</b>	<b>\$ 0.05</b>		<b>\$ 0.14</b>
<b>Shares used in computing net income (loss) per share</b>									
Basic	173,335		173,335	172,075		172,075	171,648		171,648
Diluted	177,938		177,938	172,075		176,298	177,897		177,897

# GAAP to Non-GAAP – Operating Results (% of Rev) (Q3'16 vs. Q2'16 vs. Q3'15)

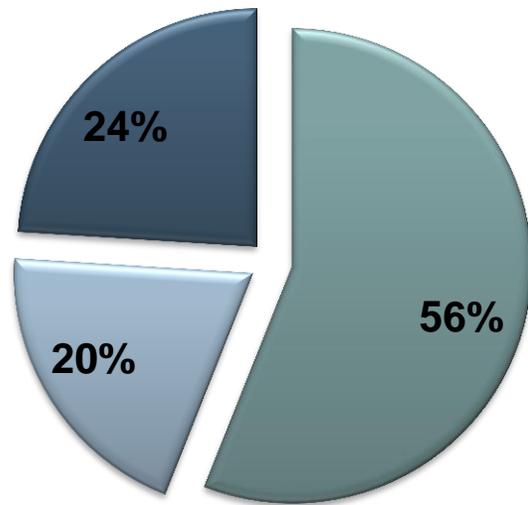


% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q3'16	Adjustment	Q3'16	Q2'16	Adjustment	Q2'16	Q3'15	Adjustment	Q3'15
<b>Revenue:</b>									
Product	40%	-	40%	44%	-	44%	46%	-	46%
Service	60%	-	60%	56%	-	56%	54%	-	54%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
<b>Cost of revenue:</b>									
Product	16%	-	16%	17%	-	17%	18%	( 1% )	17%
Service	11%	( 1% )	10%	10%	( 1% )	10%	10%	( 1% )	9%
Total cost of revenue	27%	( 1% )	25%	27%	( 1% )	26%	28%	( 2% )	26%
<b>Gross profit:</b>									
Product	61%	1%	62%	61%	1%	62%	61%	2%	63%
Service	82%	2%	83%	82%	1%	83%	82%	1%	83%
Total gross margin	73%	1%	75%	73%	1%	74%	72%	2%	74%
<b>Operating expenses:</b>									
Research and development	15%	( 2% )	13%	15%	( 2% )	12%	16%	( 3% )	14%
Sales and marketing	49%	( 6% )	43%	52%	( 6% )	46%	47%	( 6% )	41%
General and administrative	7%	( 2% )	5%	7%	( 3% )	4%	8%	( 3% )	5%
Restructuring charges	1%	( 1% )	-	-	-	-	2%	( 2% )	-
Total operating expenses	71%	( 11% )	60%	74%	( 12% )	62%	73%	( 13% )	60%
Operating margin	2%	13%	15%	( 1% )	13%	12%	( 1% )	15%	14%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other expense—net	-	-	-	-	-	-	-	-	-
Income (Loss) before income taxes	2%	13%	15%	( 1% )	13%	12%	( 0.4% )	15%	14%
Provision for (Benefit from) income taxes	-	5%	5%	( 1% )	5%	4%	( 4% )	9%	5%
Net income (loss)	2%	8%	10%	( 0.4% )	8%	8%	3%	6%	9%

# Global Employee Footprint

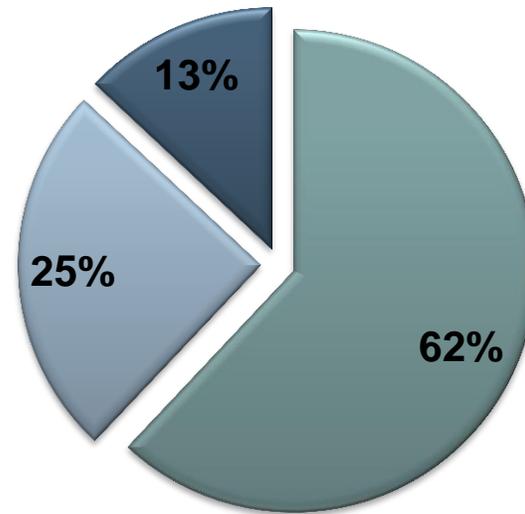


Location



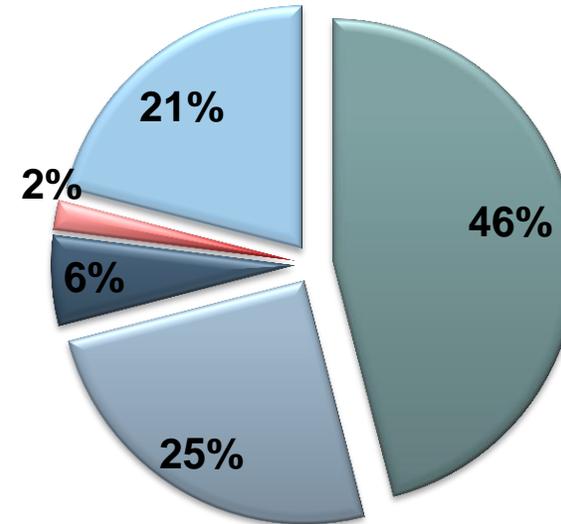
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q3'16 Headcount: 4,619

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