



Q3 2013 Financial Results

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High Performance Network Security

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Q3 2013 Non-GAAP Results



	Q3 13	Q3 12	Y/Y % Growth	Q2 13
Billings ⁽¹⁾	\$165M	\$145M	14%	\$161M
Revenue	\$155M	\$136M	14%	\$147M
Gross Margin (%) ⁽²⁾	73%	73%	-	71%
Operating Income ⁽²⁾	\$30M	\$34M	-12%	\$24M
Operating Margin (%) ⁽²⁾	19%	25%	-6%	17%
Net Income ^{(2) (3)}	\$20M	\$23M	-13%	\$17M
Earnings per Share ^{(2) (3)}	\$0.12	\$0.14	-14%	\$0.10
Deferred Revenue	\$400M	\$340M	18%	\$390M
Cash Flow from Operations	\$25M	\$41M	-38%	\$37M
Free Cash Flow ⁽⁴⁾	\$22M	\$24M	-9%	\$35M

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. Includes patent revenue of \$1.8M in Q3 2012.
- (2) Does not include stock based compensation or amortization or write-off of intangibles.
- (3) Assumes effective tax rate of 33% for Q2 and Q3 2013 and 34% for Q3 2012 and removes tax benefit of stock based compensation and amortization or write-off of intangibles.
- (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.

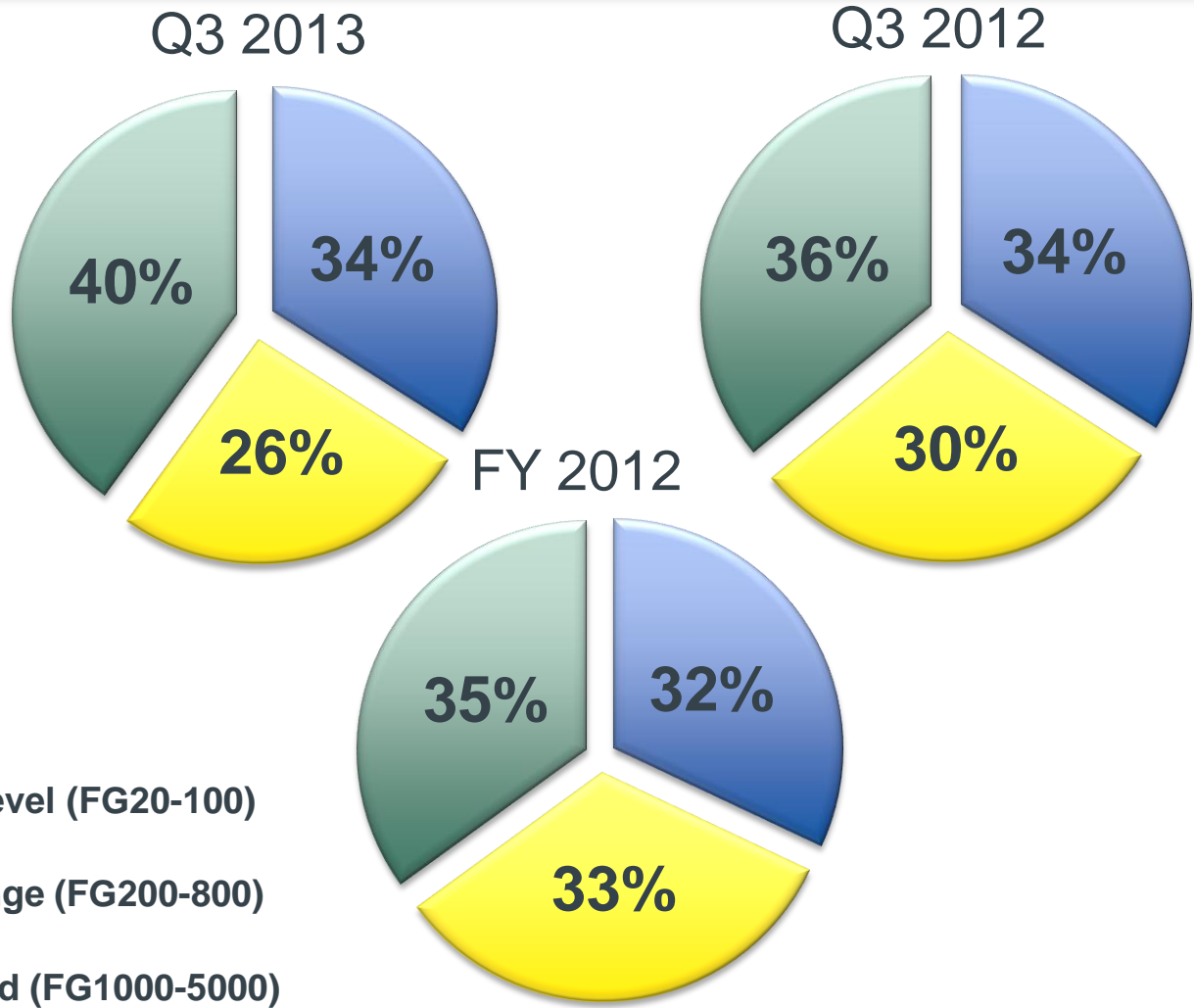
Balanced Product Segmentation



FortiGate Billings

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

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



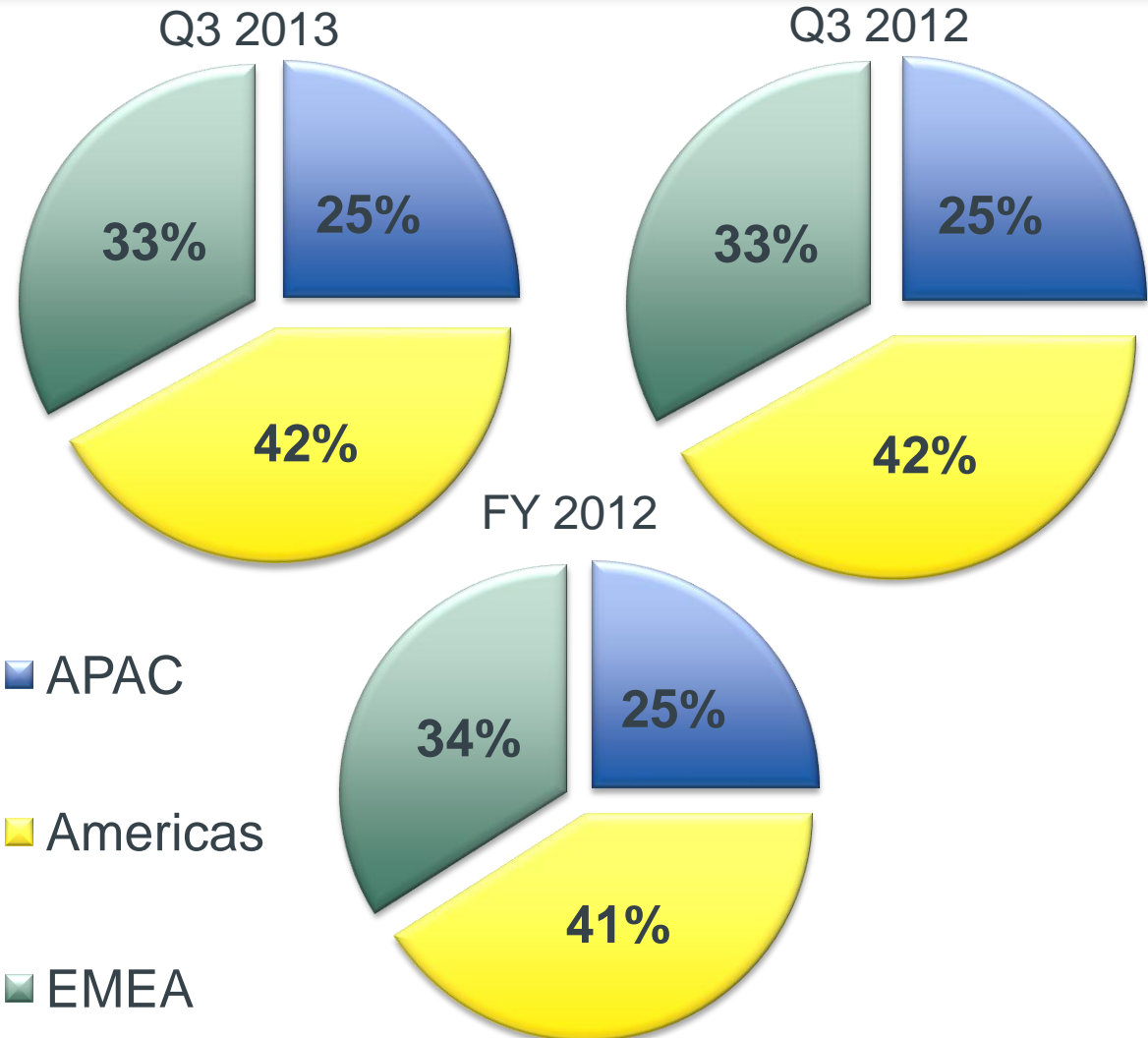
Note

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

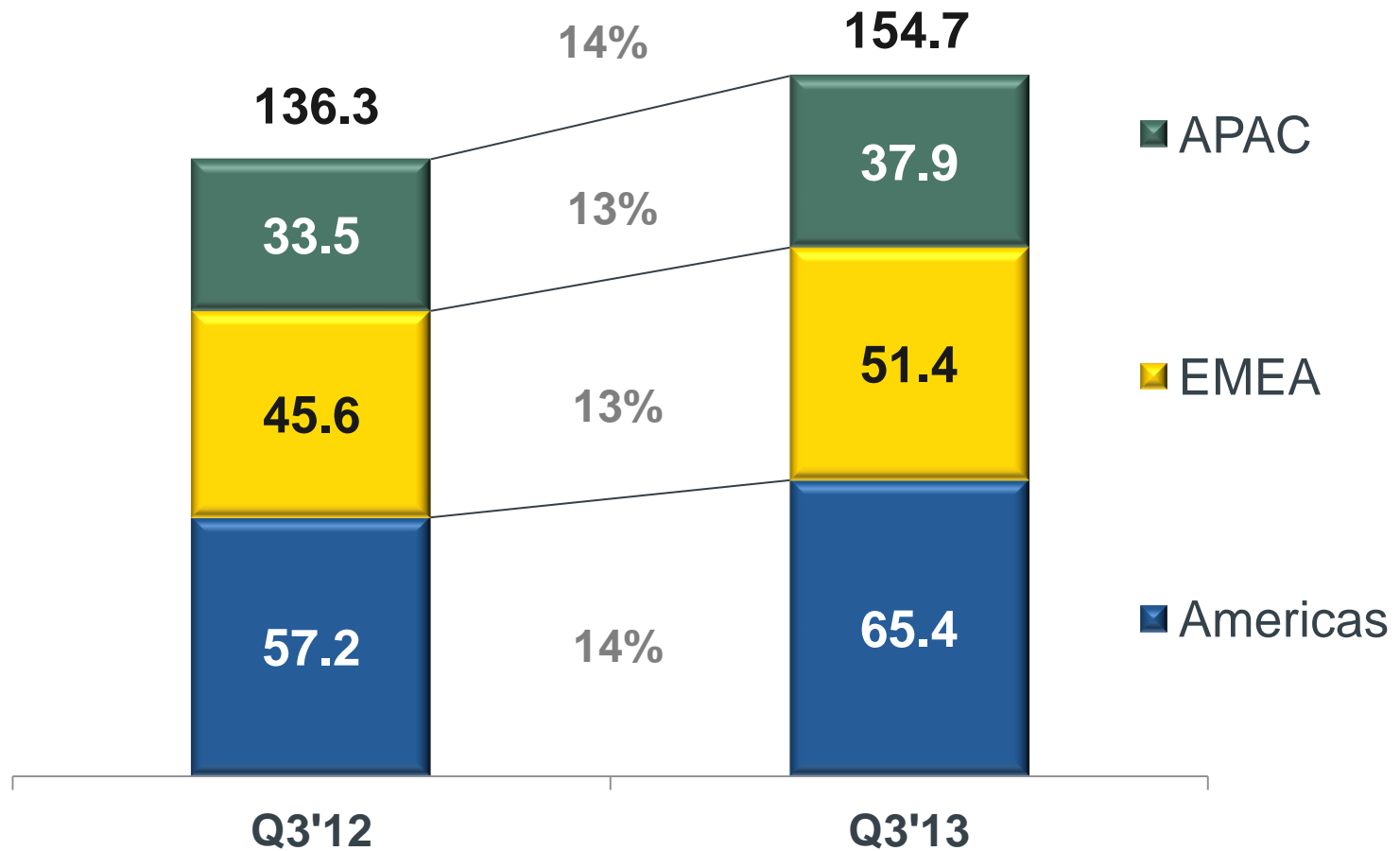
Diversified Global Revenue

Revenue by Geography

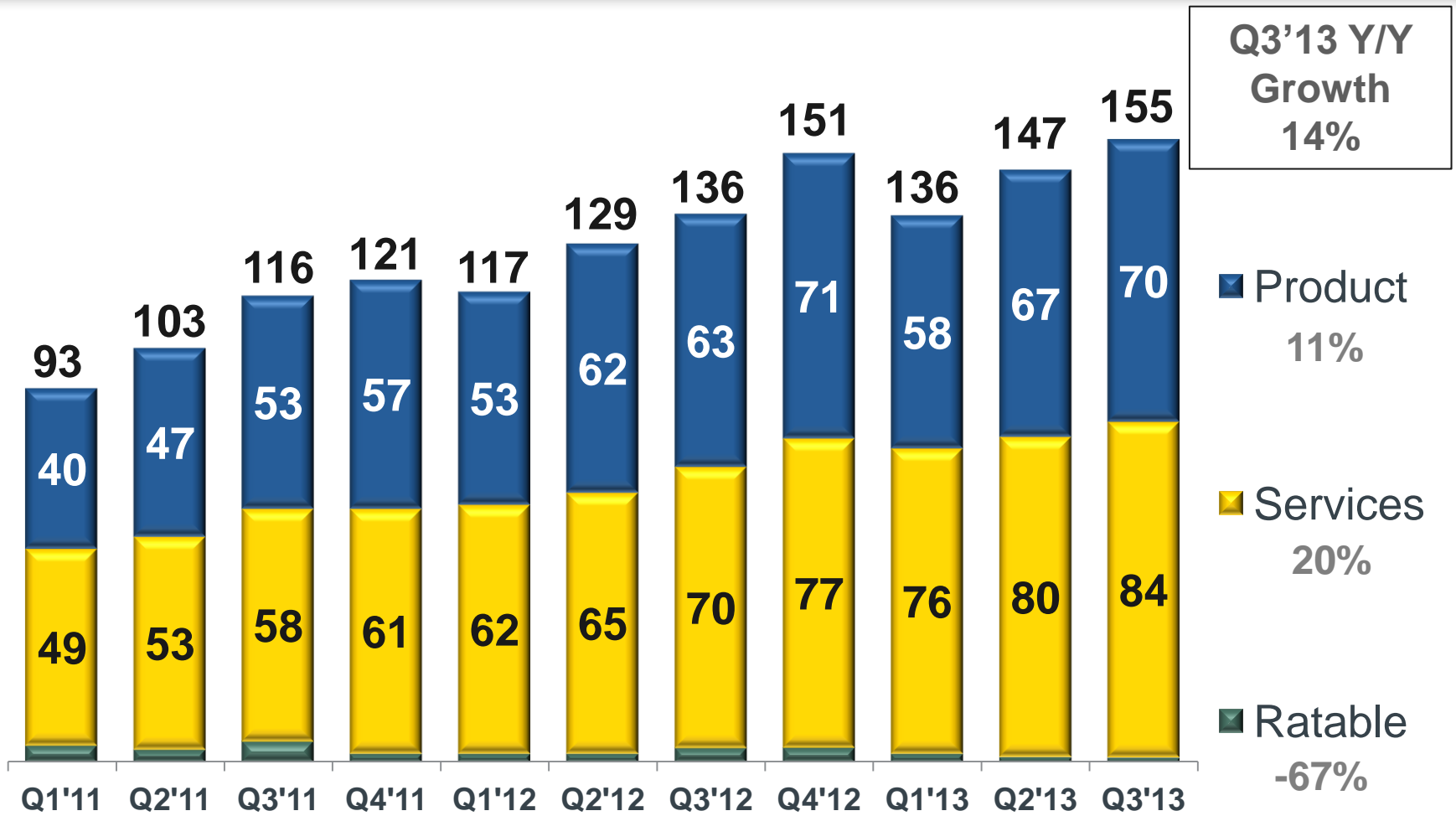
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography



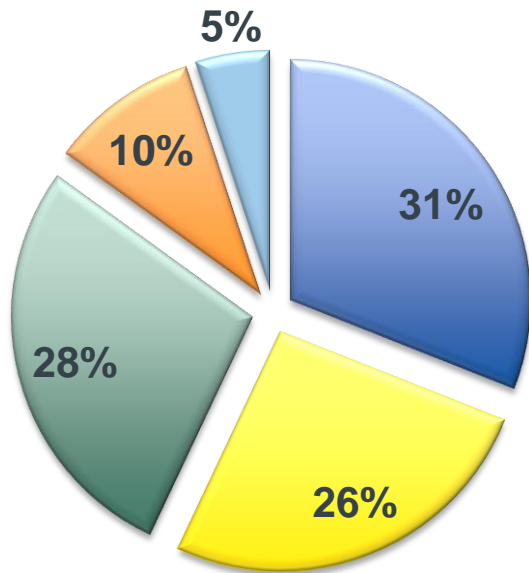
Quarterly Revenue Mix & Q3'13 Y/Y Growth



Global Employee Footprint

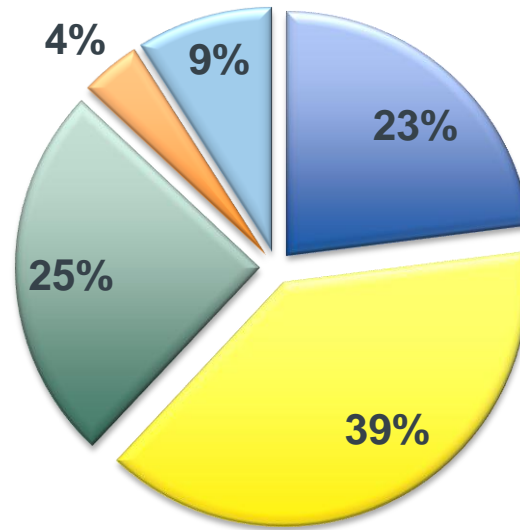


Location



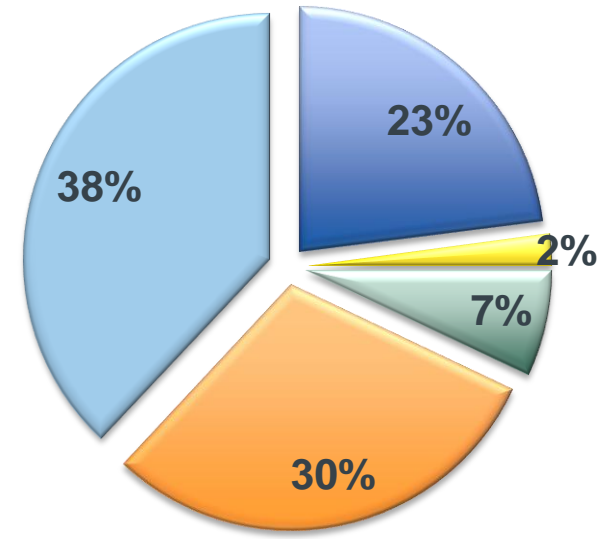
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function



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

Q3'13 Headcount: 2,238

Q3 2013 Select Financial Statistics



	Q3 13	Q2 13	Q3 12
Cash and Investments	\$841M	\$814M	\$690M
Deferred Revenue	\$400M	\$390M	\$340M
Free Cash Flow	\$22M	\$35M	\$24M
Working Capital	\$339M	\$312M	\$216M
Accounts Receivable	\$108M	\$109M	\$90M
DSO	63	66	59
Net Inventory	\$47M	\$33M	\$26M
Inventory Turns	1.8	2.6	3.1
Revenue per Employee (Annualized)	\$280K	\$277K	\$301K
No. of Deals >\$100K	187	190	168
No. of Deals >\$250K	61	58	61
No. of Deals >\$500K	19	20	16

Maintaining Strong Balance Sheet



<i>(\$ in Millions)</i>	Q3 13	Q2 13	Q3 12
Assets			
Cash and Investments	841	814	690
Accounts Receivable	108	109	90
Inventory	47	33	26
Property and Equipment	28	27	26
Deferred Tax Assets	77	76	57
Other Assets	27	27	24
Total Assets	1,128	1,086	913
Liabilities and Shareholders' Equity			
Accounts Payable	33	36	23
Accrued Expenses and Others	95	93	72
Deferred Revenue	400	390	340
Common Stock/Paid in Capital	457	435	389
Retained Earnings	143	132	89
Total Liabilities and Shareholders' Equity	1,128	1,086	913

Statement of Cash Flows (Non-GAAP)



(\$ in Millions)	Q3 13	Q3 12	YTD 13	YTD 12
GAAP Net Income	11	17	32	45
Depreciation and Stock-Based Compensation	16	12	43	32
Accounts Receivable	1	6	1	6
Inventory	(15)	(7)	(31)	(15)
Accounts Payable / Accrued Expenses / Other	2	4	20	21
Deferred Revenue	10	9	36	45
GAAP Cash Flow from Operations	25	41	101	134
Purchase of Property and Equipment	(3)	(17)	(7)	(21)
Free Cash Flow	22	24	94	113
Stock Option and RSU Exercises / ESPP	8	18	24	36
Acquisition	(2)	-	(8)	(1)
Effect of F/X Rate on Cash / Other	(1)	4	(9)	4
Net Cash Flow	27	46	101	152
<i>Footnote: Cash Paid for Taxes</i>	8	4	20	10

Q4 and 2013 Guidance



	Q4 13	Y/Y % Mid-Pt Growth	2013	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$186 - 196M	10%	\$660 - 670M	10%
Revenue	\$162 - 167M	9%	\$600 - 605M	13%
Gross Margin (%) ⁽²⁾	71 - 72%		71 - 72%	
Operating Margin (%) ⁽²⁾	~19%		18 - 19%	
Earnings per Share ^{(2) (3)}	\$0.13 - 0.14		\$0.46 - 0.47	
Weighted Diluted Shares used in EPS	169 - 171M		168 - 170M	
Free Cash Flow ⁽⁴⁾			\$125 - 135M	

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 amortization or write-off of intangibles
- (3) Assumes effective tax rate of 33% for Q4 and 2013 and removes tax benefit of stock based compensation and amortization of intangibles.
- (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.

GAAP to Non-GAAP – Operating Results (Q3'13 vs. Q3'12 vs. Q2'13)



(in thousands, except per share amounts)

	Q3'13	Adj	Non-GAAP Q3'13	Q3'12	Adj	Non-GAAP Q3'12	Q2'13	Adj	Non-GAAP Q2'13
Revenue:									
Product	\$ 69,687	-	\$ 69,687	\$ 63,027	-	\$ 63,027	\$ 66,525	-	\$ 66,525
Services	83,883	-	83,883	69,782	-	69,782	79,668	-	79,668
Ratable and other revenue	1,129	-	1,129	3,459	-	3,459	1,235	-	1,235
Total Revenue	154,699	-	154,699	136,268	-	136,268	147,428	-	147,428
Cost of revenue:									
Product	27,126	(514)	26,612	23,995	(311)	23,684	26,948	(450)	26,498
Services	16,374	(1,297)	15,077	13,166	(1,018)	12,148	16,259	(1,226)	15,033
Ratable and other revenue	430	-	430	647	-	647	501	-	501
Total cost of revenue	43,930	(1,811)	42,119	37,808	(1,329)	36,479	43,708	(1,676)	42,032
Gross Profit:									
Product	42,561	514	43,075	39,032	311	39,343	39,577	450	40,027
Services	67,509	1,297	68,806	56,616	1,018	57,634	63,409	1,226	64,635
Ratable and other revenue	699	-	699	2,812	-	2,812	734	-	734
Total gross profit	110,769	1,811	112,580	98,460	1,329	99,789	103,720	1,676	105,396
Operating Expenses:									
Research and development	26,421	(3,548)	22,873	20,498	(2,525)	17,973	25,158	(3,291)	21,867
Sales and marketing	56,687	(5,215)	51,472	44,743	(3,879)	40,864	55,997	(4,594)	51,403
General and administrative	9,382	(1,149)	8,233	7,449	(845)	6,604	8,788	(1,022)	7,766
Total operating expenses	92,490	(9,912)	82,578	72,690	(7,249)	65,441	89,943	(8,907)	81,036
Operating income	18,279	11,723	30,002	25,770	8,578	34,348	13,777	10,583	24,360
Interest income	1,282	-	1,282	1,318	-	1,318	1,337	-	1,337
Other expense, net	(1,151)	-	(1,151)	(317)	-	(317)	(100)	-	(100)
Income before income taxes	18,410	11,723	30,133	26,771	8,578	35,349	15,014	10,583	25,597
Provision for income taxes	7,381	2,563	9,944	9,565	2,454	12,019	6,035	2,412	8,447
Net income	\$ 11,029	\$ 9,160	\$ 20,189	\$ 17,206	\$ 6,124	\$ 23,330	\$ 8,979	\$ 8,171	\$ 17,150
Basic net income per share	\$ 0.07		\$ 0.12	\$ 0.11		\$ 0.15	\$ 0.06		\$ 0.11
Diluted net income per share	\$ 0.07		\$ 0.12	\$ 0.10		\$ 0.14	\$ 0.05		\$ 0.10
Shares used in computing net income per share									
Basic	162,906		162,906	158,751		158,751	162,247		162,247
Diluted	168,666		168,666	166,791		166,791	168,042		168,042

GAAP to Non-GAAP – Operating Results (% of Rev) (Q3'13 vs. Q3'12 vs. Q2'13)



% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q3'13	Adj	Q3'13	Q3'12	Adj	Q3'12	Q2'13	Adj	Q2'13
Revenue:									
Product	45%	-	45%	46%	-	46%	45%	-	45%
Services	54%	-	54%	51%	-	51%	54%	-	54%
Ratable and other revenue	1%	-	1%	3%	-	3%	1%	-	1%
Total Revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	17%	-	17%	18%	-	18%	18%	-	18%
Services	11%	(1%)	10%	10%	(1%)	9%	12%	(1%)	11%
Ratable and other revenue	-	-	-	-	-	-	-	-	-
Total cost of revenue	28%	(1%)	27%	28%	(1%)	27%	30%	(1%)	29%
Gross Profit:									
Product	61%	1%	62%	62%	-	62%	59%	1%	60%
Services	80%	2%	82%	81%	2%	83%	80%	1%	81%
Ratable and other revenue	62%	-	62%	81%	-	81%	59%	-	59%
Total gross profit	72%	1%	73%	72%	1%	73%	70%	1%	71%
Operating Expenses:									
Research and development	17%	(2%)	15%	15%	(1%)	14%	17%	(2%)	15%
Sales and marketing	37%	(3%)	34%	33%	(3%)	30%	38%	(3%)	35%
General and administrative	6%	(1%)	5%	5%	(1%)	4%	6%	(1%)	5%
Total operating expenses	60%	(6%)	54%	53%	(5%)	48%	61%	(6%)	55%
Operating income	12%	7%	19%	19%	6%	25%	9%	8%	17%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other expense, net	(1%)	-	(1%)	-	-	-	-	-	-
Income before income taxes	12%	7%	19%	20%	6%	26%	10%	8%	18%
Provision for income taxes	5%	1%	6%	7%	2%	9%	4%	2%	6%
Net income	7%	6%	13%	13%	4%	17%	6%	6%	12%