



Q2 2014 Financial Results

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High Performance Network Security

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Q2 2014 Non-GAAP Results

	Q2 14	Q2 13	Y/Y % Change	Q1 14
Billings ⁽¹⁾	\$213M	\$161M	33%	\$188M
Revenue	\$184M	\$147M	25%	\$169M
Gross Margin (%) ⁽²⁾	71%	71%	-	71%
Operating Income ⁽²⁾	\$29M	\$25M	15%	\$26M
Operating Margin (%) ⁽²⁾	16%	17%	-1% pt	16%
Net Income ⁽²⁾⁽³⁾	\$19M	\$17M	6%	\$18M
Earnings per Share ⁽²⁾⁽³⁾	\$0.11	\$0.10	10%	\$0.11
Deferred Revenue	\$480M	\$390M	23%	\$451M
Cash Flow from Operations	\$44M	\$37M	18%	\$61M
Free Cash Flow ⁽⁴⁾	\$34M	\$35M	-3%	\$50M

Notes

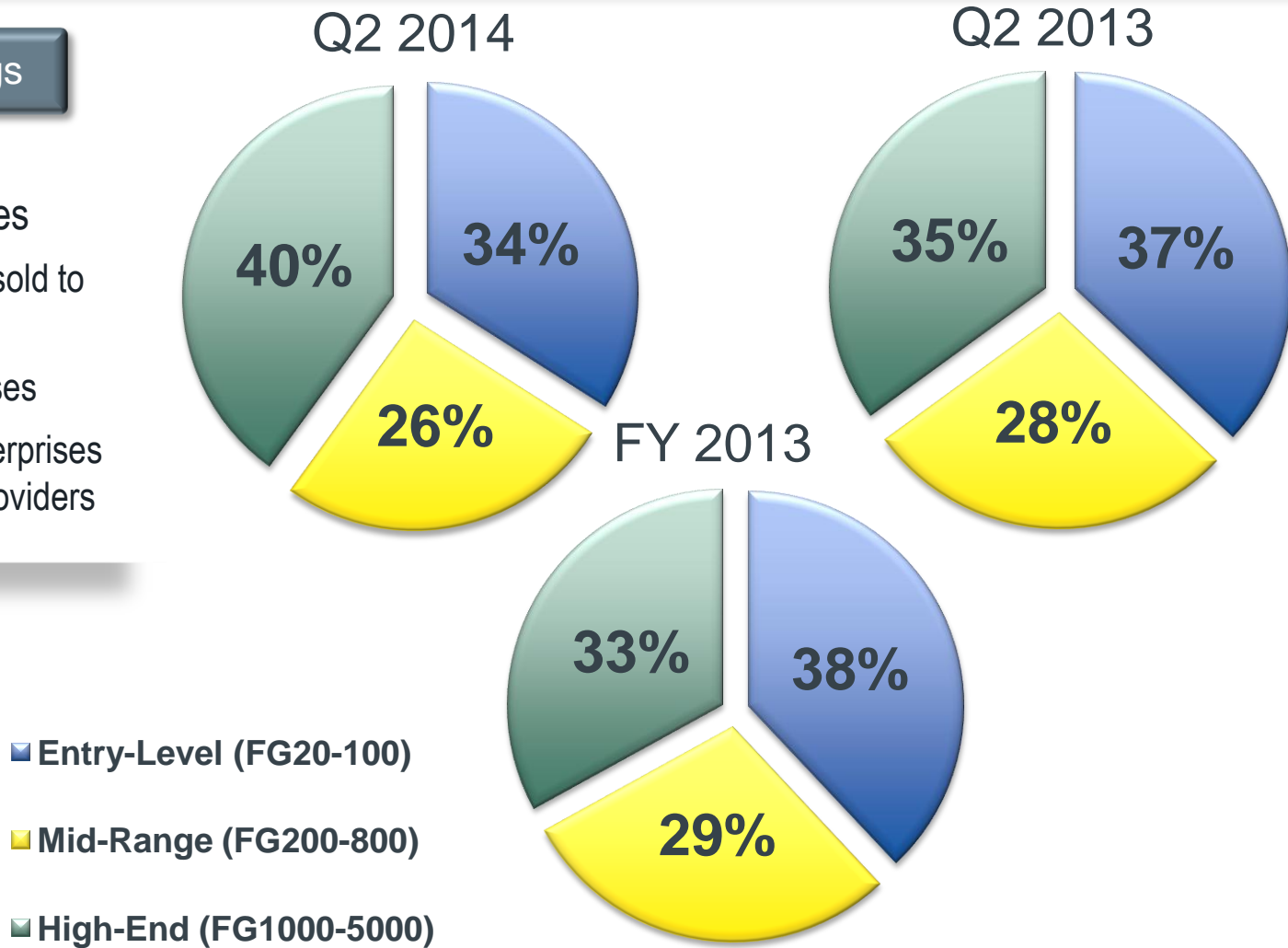
- (1) Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of that period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock 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.

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



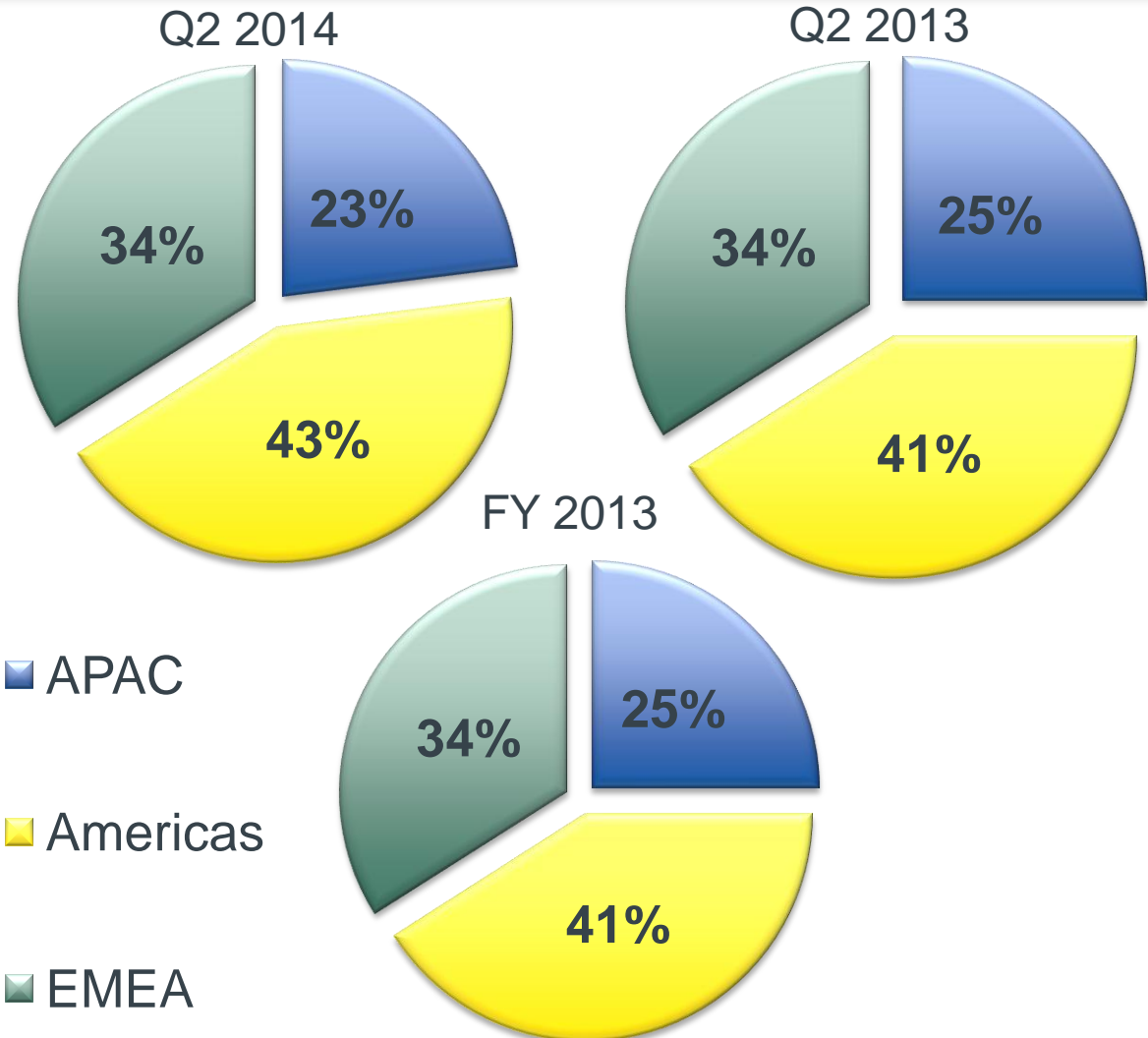
Note

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

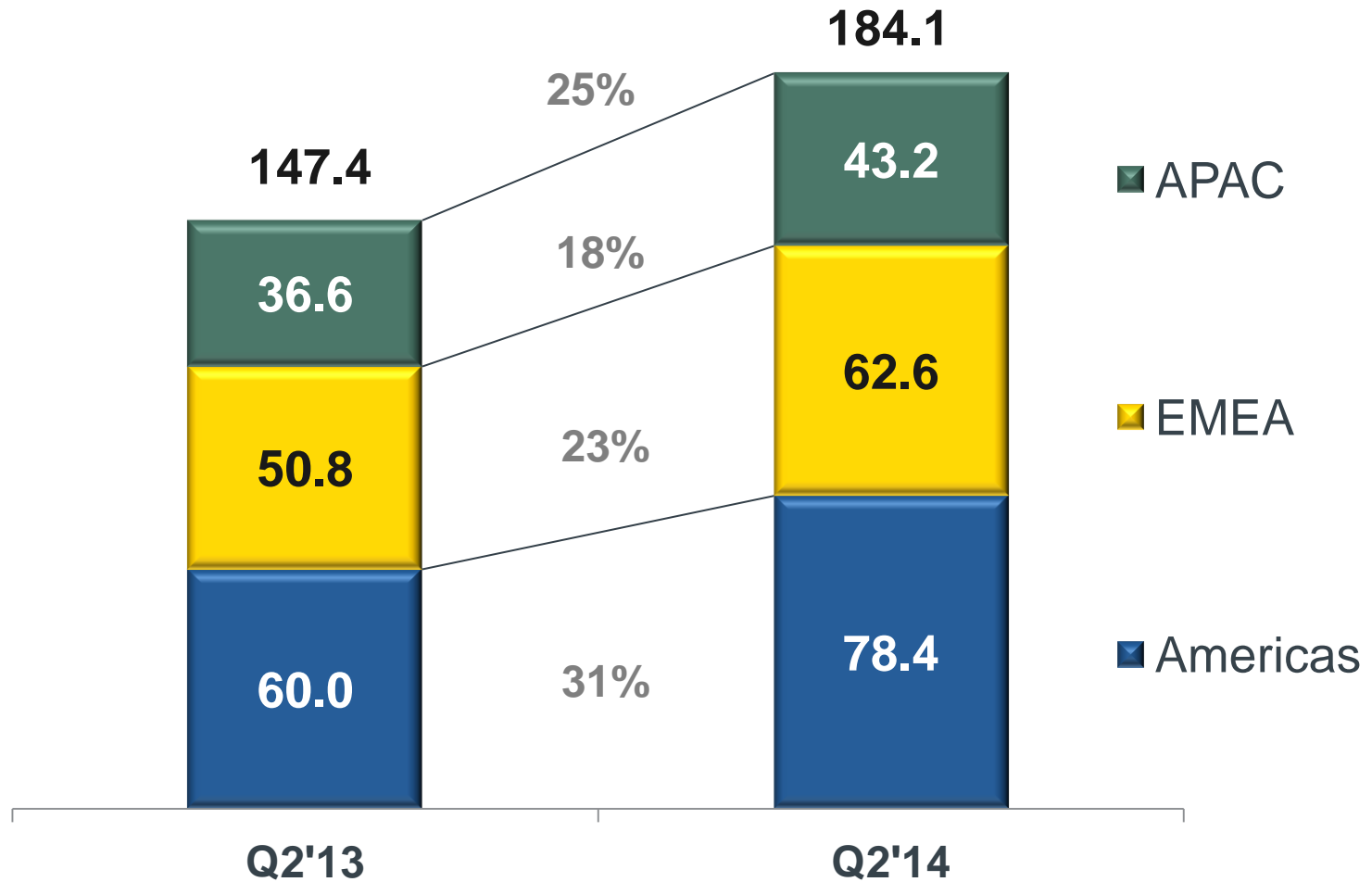
Diversified Global Revenue

Revenue by Geography

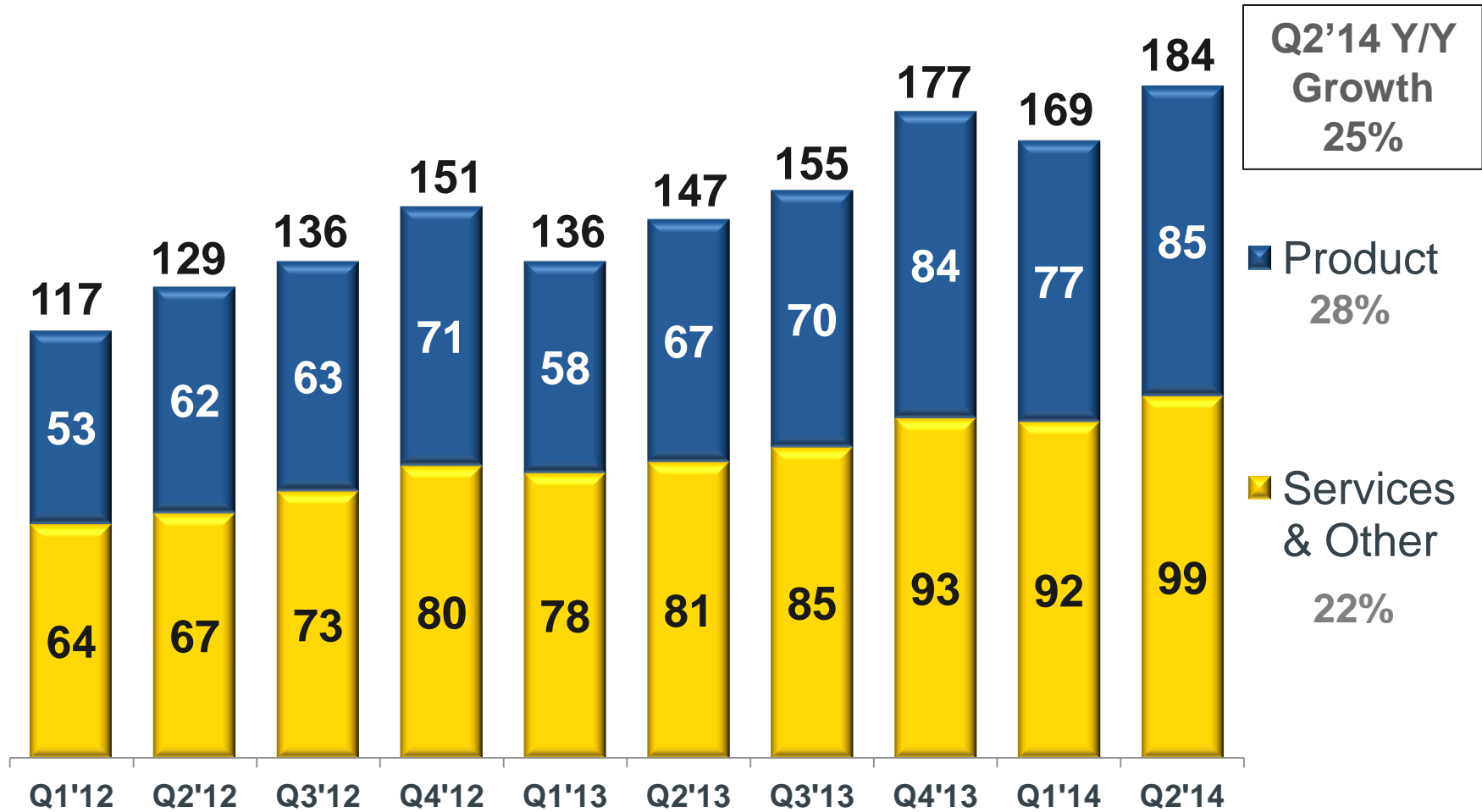
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography



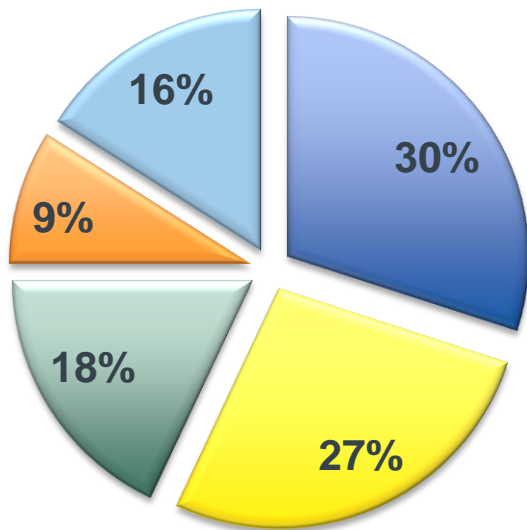
Quarterly Revenue Mix & Q2'14 Y/Y Growth



Global Employee Footprint

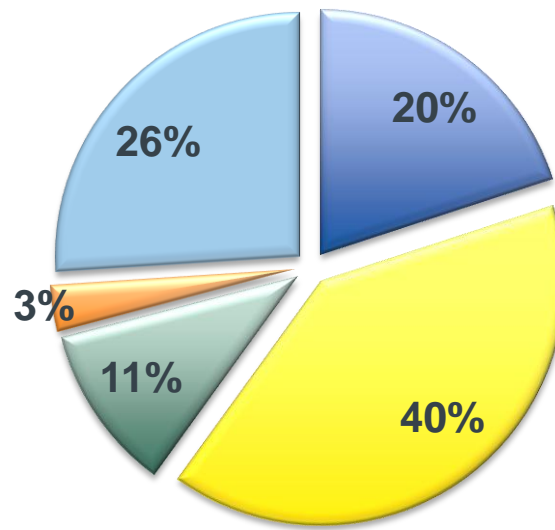


Location



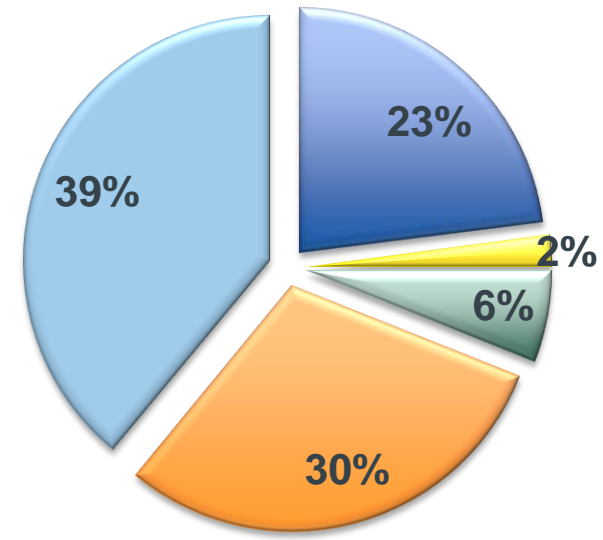
- Canada
- USA
- RoW
- China
- EMEA

Cost



- Canada
- USA
- RoW
- China
- EMEA

Function



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

Q2'14 Headcount: 2,532

Q2 2014 Select Financial Statistics



	Q2 14	Q1 14	Q2 13
Cash and Investments ⁽¹⁾	\$911M	\$888M	\$814M
Deferred Revenue	\$480M	\$451M	\$390M
Free Cash Flow	\$34M	\$50M	\$35M
Working Capital	\$387M	\$387M	\$312M
Accounts Receivable	\$128M	\$111M	\$109M
DSO	62	59	66
Net Inventory	\$47M	\$43M	\$33M
Inventory Turns	2.4	2.4	2.6
Revenue per Employee (Annualized)	\$299K	\$288K	\$277K
No. of Deals >\$100K	263	247	190
No. of Deals >\$250K	97	78	58
No. of Deals >\$500K	39	32	20

Notes
 (1) Excludes \$5.0M investment in privately-held companies which is recorded in other assets.

Maintaining Strong Balance Sheet



(\$ in Millions)	Q2 14	Q1 14	Q2 13
Assets			
Cash and Investments ⁽¹⁾	911	888	814
Accounts Receivable	128	111	109
Inventory	47	43	33
Property and Equipment	55	47	27
Deferred Tax Assets	88	81	76
Other Assets	36	30	27
Total Assets	1,265	1,200	1,086
Liabilities and Shareholders' Equity			
Accounts Payable	36	28	36
Accrued Expenses and Others	124	111	93
Deferred Revenue	480	451	390
Common Stock/Paid in Capital	507	486	435
Retained Earnings	118	124	132
Total Liabilities and Shareholders' Equity	1,265	1,200	1,086

Notes
 (1) Excludes \$5.0M investment in privately-held companies recorded in other assets.

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q2 14	Q2 13	1H 14	1H 13
GAAP Net Income	6	9	14	21
Depreciation and Stock-Based Compensation	21	14	39	27
Accounts Receivable	(17)	(7)	2	(1)
Inventory	(7)	(12)	(3)	(16)
Accounts Payable / Accrued Expenses / Other	12	20	5	18
Deferred Revenue	29	13	48	26
GAAP Cash Flow from Operations	44	37	105	75
Purchase of Property and Equipment	(10)	(2)	(21)	(3)
Free Cash Flow	34	35	84	72
Stock Option and RSU Exercises / ESPP	6	1	17	16
Stock Repurchases	(15)	-	(27)	-
Acquisition	-	-	-	(6)
Effect of F/X Rate on Cash / Other	(3)	(4)	(6)	(7)
Net Cash Flow	22	32	68	75
<i>Footnote: Cash Paid for Taxes</i>	9	3	31	12
<i>Footnote: Shares Repurchased Not Yet Settled</i>	1	-	1	-

Q3 and 2014 Guidance (Non-GAAP)



	Q3 14	Y/Y % Mid-Pt Growth	2014	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$195 - 200M	20%	\$835 - 840M	22%
Revenue	\$182 - 185M	19%	\$735 - 740M	20%
Gross Margin (%) ⁽²⁾	70 - 71%		70 - 71%	
Operating Margin (%) ⁽²⁾	14 - 15%		16 - 17%	
Earnings per Share ^{(2) (3)}	\$0.11		\$0.47 - 0.48	
Weighted Diluted Shares used in EPS	169 - 171M		168 - 170M	

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 2014.

GAAP to Non-GAAP – Operating Results (Q2'14 vs. Q1'14 vs. Q2'13)

(in thousands, except per share amounts)

	Q2'14	Adjustment	Non-GAAP Q2'14	Q1'14	Adjustment	Non-GAAP Q1'14	Q2'13	Adjustment	Non-GAAP Q2'13
Revenue:									
Product	\$ 85,384	\$ -	\$ 85,384	\$ 76,765	\$ -	\$ 76,765	\$ 66,525	\$ -	\$ 66,525
Services and other	98,714	-	98,714	92,184	-	92,184	80,903	-	80,903
Total revenue	184,098	-	184,098	168,949	-	168,949	147,428	-	147,428
Cost of revenue:									
Product	37,455	(2,990)	34,465	32,139	(624)	31,515	26,948	(450)	26,498
Services and other	20,302	(1,363)	18,939	18,604	(1,329)	17,275	16,760	(1,226)	15,534
Total cost of revenue	57,757	(4,353)	53,404	50,743	(1,953)	48,790	43,708	(1,676)	42,032
Gross profit:									
Product	47,929	2,990	50,919	44,626	624	45,250	39,577	450	40,027
Services and other	78,412	1,363	79,775	73,580	1,329	74,909	64,143	1,226	65,369
Total gross profit	126,341	4,353	130,694	118,206	1,953	120,159	103,720	1,676	105,396
Operating Expenses:									
Research and development	29,938	(4,171)	25,767	29,055	(3,882)	25,173	25,158	(3,291)	21,867
Sales and marketing	74,817	(5,747)	69,070	67,326	(5,746)	61,580	55,997	(4,594)	51,403
General and administrative	10,444	(3,257)	7,187	9,010	(1,860)	7,150	8,788	(1,500)	7,288
Total operating expenses	115,199	(13,175)	102,024	105,391	(11,488)	93,903	89,943	(9,385)	80,558
Operating income	11,142	17,528	28,670	12,815	13,441	26,256	13,777	11,061	24,838
Interest income	1,319	-	1,319	1,333	-	1,333	1,337	-	1,337
Other expense—net	(574)	-	(574)	(389)	-	(389)	(100)	-	(100)
Income before income taxes	11,887	17,528	29,415	13,759	13,441	27,200	15,014	11,061	26,075
Provision for income taxes	5,806	5,033	10,839	5,366	3,610	8,976	6,035	2,570	8,605
Net income	\$ 6,081	\$ 12,495	\$ 18,576	\$ 8,393	\$ 9,831	\$ 18,224	\$ 8,979	\$ 8,491	\$ 17,470
Basic net income per share	\$ 0.04		\$ 0.11	\$ 0.05		\$ 0.11	\$ 0.06		\$ 0.11
Diluted net income per share	\$ 0.04		\$ 0.11	\$ 0.05		\$ 0.11	\$ 0.05		\$ 0.10
Shares used in computing net income per share									
Basic	163,161		163,161	162,391		162,391	162,247		162,247
Diluted	168,345		168,345	168,114		168,114	168,042		168,042

GAAP to Non-GAAP – Operating Results (% of Rev) (Q2'14 vs. Q1'14 vs. Q2'13)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q2'14	Adjustment	Q2'14	Q1'14	Adjustment	Q1'14	Q2'13	Adjustment	Q2'13
Revenue:									
Product	46%	-	46%	45%	-	45%	45%	-	45%
Services and other	54%	-	54%	55%	-	55%	55%	-	55%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	20%	(2%)	19%	19%	-	19%	18%	-	18%
Services and other	11%	(1%)	10%	11%	(1%)	10%	11%	(1%)	11%
Total cost of revenue	31%	(2%)	29%	30%	(1%)	29%	30%	(1%)	29%
Gross profit:									
Product	56%	4%	60%	58%	1%	59%	59%	1%	60%
Services and other	79%	1%	81%	80%	1%	81%	79%	2%	81%
Total gross profit	69%	2%	71%	70%	1%	71%	70%	1%	71%
Operating Expenses:									
Research and development	16%	(2%)	14%	17%	(2%)	15%	17%	(2%)	15%
Sales and marketing	41%	(3%)	38%	40%	(3%)	36%	38%	(3%)	35%
General and administrative	6%	(2%)	4%	5%	(1%)	4%	6%	(1%)	5%
Total operating expenses	63%	(7%)	55%	62%	(7%)	56%	61%	(6%)	55%
Operating income	6%	10%	16%	8%	8%	16%	9%	8%	17%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Other expense—net	-	-	-	-	-	-	-	-	-
Income before income taxes	6%	10%	17%	8%	8%	16%	10%	8%	18%
Provision for income taxes	3%	3%	6%	3%	2%	5%	4%	2%	6%
Net income	3%	7%	11%	5%	6%	11%	6%	6%	12%