



# Q4 2019 Financial Results

February 6, 2020

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# Q4 2019 Non-GAAP Results

	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
<b>Billings <sup>(1)</sup></b>	<b>\$534M</b>	<b>\$463M</b>	<b>\$513M</b>	<b>\$528M</b>	<b>\$649M</b>	<b>\$552M</b>	<b>\$622M</b>	<b>\$627M</b>	<b>\$802M</b>
<i>Y/Y % Change</i>	<i>15%</i>	<i>15%</i>	<i>20%</i>	<i>22%</i>	<i>22%</i>	<i>19%</i>	<i>21%</i>	<i>19%</i>	<i>24%</i>
<b>Revenue</b>	<b>\$417M</b>	<b>\$399M</b>	<b>\$441M</b>	<b>\$454M</b>	<b>\$507M</b>	<b>\$473M</b>	<b>\$522M</b>	<b>\$548M</b>	<b>\$614M</b>
<i>Y/Y % Change</i>	<i>15%</i>	<i>17%</i>	<i>21%</i>	<i>21%</i>	<i>22%</i>	<i>18%</i>	<i>18%</i>	<i>21%</i>	<i>21%</i>
<b>Product Revenue</b>	<b>\$162M</b>	<b>\$143M</b>	<b>\$166M</b>	<b>\$165M</b>	<b>\$201M</b>	<b>\$163M</b>	<b>\$190M</b>	<b>\$197M</b>	<b>\$239M</b>
<i>Y/Y % Change</i>	<i>2%</i>	<i>6%</i>	<i>17%</i>	<i>20%</i>	<i>24%</i>	<i>14%</i>	<i>14%</i>	<i>20%</i>	<i>19%</i>
<b>Service Revenue</b>	<b>\$255M</b>	<b>\$256M</b>	<b>\$275M</b>	<b>\$289M</b>	<b>\$306M</b>	<b>\$310M</b>	<b>\$332M</b>	<b>\$351M</b>	<b>\$376M</b>
<i>Y/Y % Change</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>22%</i>	<i>20%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i>23%</i>

## Notes

- (1) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments to the deferred revenue balance due to adoption of the new revenue recognition standard less any deferred revenue balances acquired from business combination(s) during the period.

# Q4 2019 Non-GAAP Results (Continued)

	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Gross Margin <sup>(1)</sup>	75.6%	76.7%	75.4%	76.5%	75.7%	77.2%	76.4%	78.2%	78.0%
Operating Income <sup>(1)</sup>	\$79M	\$71M	\$93M	\$109M	\$131M	\$97M	\$123M	\$145M	\$165M
Operating Margin <sup>(1)</sup>	18.9%	17.7%	21.1%	23.9%	25.8%	20.4%	23.6%	26.4%	26.8%
Net Income <sup>(1)(2)(3)</sup>	\$55M	\$57M	\$71M	\$87M	\$105M	\$81M	\$102M	\$117M	\$132M
Diluted Net Income Per Share <sup>(1)(2)(3)</sup>	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58	\$0.67	\$0.76
Weighted Diluted Shares Outstanding	175M	172M	174M	176M	176M	175M	175M	175M	175M
Deferred Revenue	\$1.34B	\$1.40B	\$1.47B	\$1.54B	\$1.69B	\$1.77B	\$1.87B	\$1.95B	\$2.14B
Cash and Investments <sup>(4)</sup>	\$1.35B	\$1.39B	\$1.50B	\$1.67B	\$1.72B	\$1.85B	\$1.98B	\$2.14B	\$2.21B
Days Sales Outstanding	75	71	68	64	79	73	70	63	80
Inventory Turns	3.2	2.4	3.3	3.0	3.4	2.6	3.5	2.8	2.8
Headcount	5,066	5,275	5,462	5,639	5,845	6,015	6,293	6,590	7,082

## Notes

- (1) Excludes stock-based compensation and amortization of acquired intangible assets.
- (2) Excludes gains/losses on investments in privately-held companies.
- (3) Assumes annual effective tax rate of 32%, 24% and 24% for 2017, 2018 and 2019, respectively.
- (4) Excludes investments in privately held companies, which are recorded in other assets.

# 2019 Non-GAAP Results

	2017	2018	2019
<b>Billings <sup>(1)</sup></b>	<b>\$1.796B</b>	<b>\$2.153B</b>	<b>\$2.603B</b>
<i>Y/Y % Change</i>	<i>19%</i>	<i>20%</i>	<i>21%</i>
<b>Revenue</b>	<b>\$1.495B</b>	<b>\$1.801B</b>	<b>\$2.156B</b>
<i>Y/Y % Change</i>	<i>17%</i>	<i>20%</i>	<i>20%</i>
<b>Product Revenue</b>	<b>\$577M</b>	<b>\$674M</b>	<b>\$789M</b>
<i>Y/Y % Change</i>	<i>5%</i>	<i>17%</i>	<i>17%</i>
<b>Service Revenue</b>	<b>\$918M</b>	<b>\$1.127B</b>	<b>\$1.368B</b>
<i>Y/Y % Change</i>	<i>26%</i>	<i>23%</i>	<i>21%</i>

## Notes

- (1) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments to the deferred revenue balance due to adoption of the new revenue recognition standard less any deferred revenue balances acquired from business combination(s) during the period.

# 2019 Non-GAAP Results (Continued)

	2017	2018	2019
<b>Gross Margin (%)</b> <sup>(1)</sup>	75.3%	76.0%	77.5%
<b>Operating Income</b> <sup>(1)(2)</sup>	\$257M	\$403M	\$529M
<b>Operating Margin (%)</b> <sup>(1)(2)</sup>	17.2%	22.4%	24.5%
<b>Net Income</b> <sup>(1)(2)(3)(4)</sup>	\$185M	\$320M	\$432M
<b>Diluted Earnings Per Share</b> <sup>(1)(2)(3)(4)</sup>	\$1.04	\$1.84	\$2.47
<b>Weighted Diluted Shares used in EPS</b>	178M	174M	175M

## Notes

- (1) Excludes stock-based compensation and amortization of acquired intangible assets.
- (2) Excludes restructuring charges and certain litigation settlement expenses.
- (3) Excludes gains/losses on investments in privately-held companies.
- (4) Assumes annual effective tax rate of 32%, 24% and 24% for 2017, 2018 and 2019, respectively.

# Revenue by Geography

	Q4'17		Q1'18		Q2'18		Q3'18		Q4'18		Q1'19		Q2'19		Q3'19		Q4'19	
(\$ in millions)	\$	Y/Y % Change																
Americas	\$174	16%	\$176	20%	\$189	18%	\$194	20%	\$204	17%	\$201	14%	\$226	19%	\$241	24%	\$250	23%
EMEA	\$161	14%	\$144	15%	\$164	27%	\$165	20%	\$205	27%	\$177	23%	\$192	17%	\$201	21%	\$244	19%
APAC	\$82	14%	\$79	16%	\$88	20%	\$95	27%	\$98	20%	\$95	21%	\$104	19%	\$106	12%	\$120	22%
Total	\$417	15%	\$399	17%	\$441	21%	\$454	21%	\$507	22%	\$473	18%	\$522	18%	\$548	21%	\$614	21%

	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
	% of revenue								
Americas	42%	44%	43%	43%	40%	42%	43%	44%	41%
EMEA	38%	36%	37%	36%	40%	38%	37%	37%	40%
APAC	20%	20%	20%	21%	20%	20%	20%	19%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

# Revenue by Geography (Continued)

	2017		2018		2019	
<i>(\$ in millions)</i>	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change
Americas	\$642	20%	\$763	19%	\$917	20%
EMEA	\$555	16%	\$678	22%	\$814	20%
APAC	\$298	14%	\$360	21%	\$425	18%
Total	\$1,495	17%	\$1,801	20%	\$2,156	20%

	2017	2018	2019
	% of revenue	% of revenue	% of revenue
Americas	43%	42%	42%
EMEA	37%	38%	38%
APAC	20%	20%	20%
Total	100%	100%	100%

# Number of Deals & FortiGate Sales

Number of Deals <sup>(1)</sup>	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
No. of Deals >\$50K	1,883	1,446	1,669	1,710	2,154	1,683	1,906	1,908	2,565
No. of Deals >\$250K	313	233	261	264	363	266	346	333	469
No. of Deals >\$500K	120	80	113	103	129	108	147	130	197
No. of Deals >\$1M	40	34	36	30	47	35	46	53	64

% of FortiGate <sup>(2)</sup>	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Entry Level (FG20-90)	20%	24%	23%	20%	21%	24%	21%	22%	22%
Mid - Range (FG100-900)	39%	43%	42%	44%	42%	44%	46%	45%	44%
High - End (FG1000-7000)	41%	33%	35%	36%	37%	32%	33%	33%	34%

## Notes

- (1) Deals are defined as combined sales in the period to a customer account.
- (2) Represents the percentage of invoiced amounts from FortiGate sales during the period by range of product and product bundles.

# Statement of Cash Flows (Non-GAAP)

<i>(\$ in millions)</i>	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
<b>GAAP Net Income (Loss)</b>	<b>\$(29)</b>	<b>\$42</b>	<b>\$49</b>	<b>\$59</b>	<b>\$183</b>	<b>\$59</b>	<b>\$73</b>	<b>\$80</b>	<b>\$115</b>
Depreciation and Stock-Based Compensation	49	50	54	57	57	59	60	57	59
Accounts Receivable	(90)	49	(20)	9	(120)	64	(22)	19	(157)
Inventory	(8)	(7)	(4)	(8)	(14)	(3)	(3)	(20)	(23)
Deferred Revenue	116	64	72	74	142	79	101	79	188
Other	120	(58)	(9)	(14)	(67)	(57)	(14)	6	8
<b>GAAP Cash Flow from Operations</b>	<b>\$158</b>	<b>\$140</b>	<b>\$142</b>	<b>\$177</b>	<b>\$181</b>	<b>\$201</b>	<b>\$195</b>	<b>\$221</b>	<b>\$190</b>
Purchase of Property and Equipment	(14)	(12)	(11)	(18)	(12)	(10)	(17)	(17)	(47)
<b>Free Cash Flow</b>	<b>\$144</b>	<b>\$128</b>	<b>\$131</b>	<b>\$159</b>	<b>\$169</b>	<b>\$191</b>	<b>\$178</b>	<b>\$204</b>	<b>\$143</b>
Stock Option and RSU Exercises / ESPP	5	26	(2)	9	(14)	3	(20)	(17)	(13)
Stock Repurchases	(322)	(116)	(1)	—	(95)	(60)	(34)	(23)	(28)
Acquisition	—	—	(6)	—	(16)	—	—	—	(35)
Other	(1)	(1)	(9)	6	—	1	4	1	(2)
<b>Change in Cash and Investments<sup>(1)</sup></b>	<b>\$(174)</b>	<b>\$37</b>	<b>\$113</b>	<b>\$174</b>	<b>\$44</b>	<b>\$135</b>	<b>\$128</b>	<b>\$165</b>	<b>\$65</b>
<b>Footnote: Cash Paid for Taxes, Net of Refunds</b>	<b>\$7</b>	<b>\$6</b>	<b>\$12</b>	<b>\$13</b>	<b>\$11</b>	<b>\$11</b>	<b>\$17</b>	<b>\$15</b>	<b>\$16</b>

**Note**

(1) Change in Cash, Cash Equivalents and Short-Term and Long-Term Investments, excluding activity related to investments in privately held companies which are recorded in other assets.

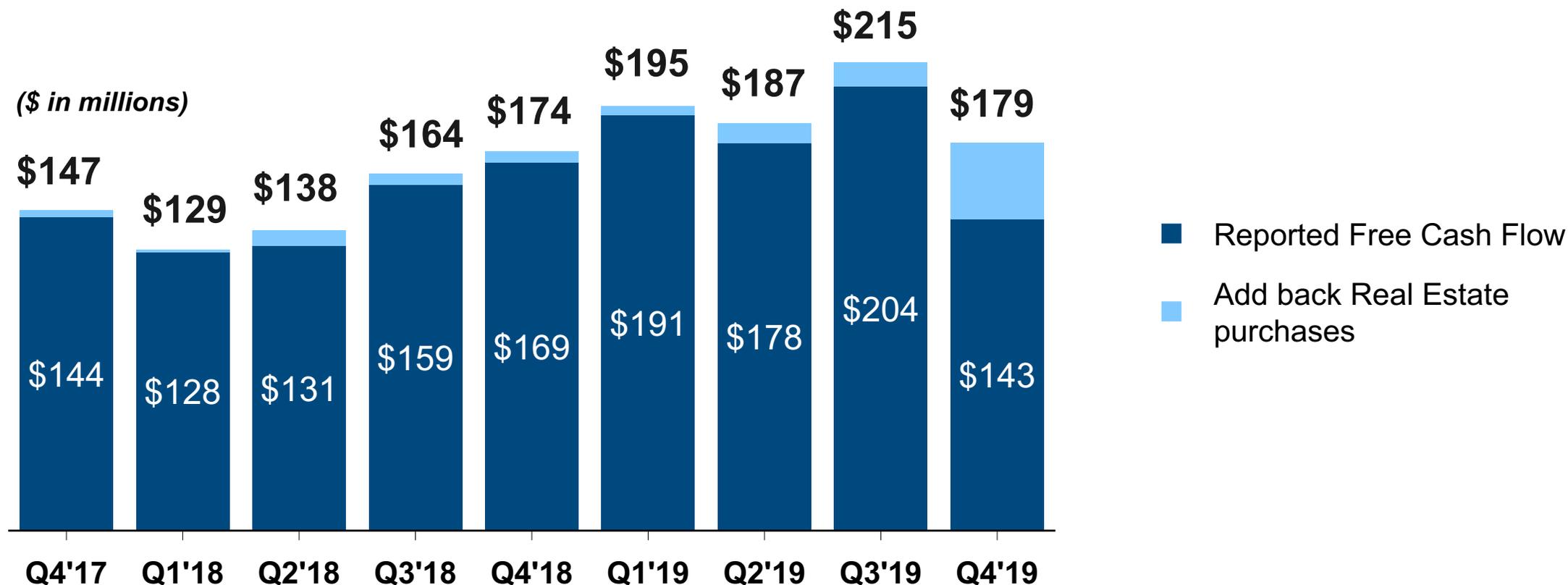
# Statement of Cash Flows (Non-GAAP) (Continued)

<i>(\$ in millions)</i>	2017	2018	2019
<b>GAAP Net Income</b>	<b>\$31</b>	<b>\$332</b>	<b>\$327</b>
Depreciation and Stock-Based Compensation	193	219	236
Accounts Receivable	(38)	(82)	(97)
Inventory	9	(33)	(49)
Deferred Revenue	301	352	447
Other	98	(149)	(56)
<b>GAAP Cash Flow from Operations</b>	<b>\$594</b>	<b>\$639</b>	<b>\$808</b>
Purchase of Property and Equipment	(135)	(53)	(92)
<b>Free Cash Flow</b>	<b>\$459</b>	<b>\$586</b>	<b>\$716</b>
Stock Option and RSU Exercises / ESPP	31	19	(47)
Stock Repurchases	(446)	(212)	(145)
Acquisition	—	(22)	(35)
Other	(5)	(4)	4
<b>Net Cash Flow<sup>(1)</sup></b>	<b>\$39</b>	<b>\$367</b>	<b>\$493</b>
<b>Footnote: Cash Paid for Taxes, Net of Refunds</b>	<b>\$32</b>	<b>\$41</b>	<b>\$59</b>

**Note**

(1) Change in Cash, Cash Equivalents and Short-Term and Long-Term Investments, excluding activity related to investments in privately-held companies which are recorded in other assets.

# Free Cash Flow and Adjusted Free Cash Flow Growth (Non-GAAP)



- Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus purchases of property and equipment.
- Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus real estate purchases and cash payments related to the new Sunnyvale campus building.

# Q1 and 2020 Guidance<sup>(1)</sup> (Non-GAAP)

	Actual Q1'19	Q1'20	Actual 2019	2020
<b>Billings</b> <sup>(2)</sup>	\$552M	\$635 - 655M	\$2.603B	\$3.025 - 3.075B
<i>Y/Y Mid-Pt Growth</i>		17%		17%
<b>Revenue (GAAP)</b>	\$473M	\$555 - 565M	\$2.156B	\$2.525 - 2.555B
<i>Y/Y Mid-Pt Growth</i>		18%		18%
<b>Service Revenue (GAAP)</b>			\$1.368B	\$1.635 - 1.655B
<i>Y/Y Mid-Pt Growth</i>				20%
<b>Gross Margin (%)</b> <sup>(3)</sup>	77.2%	77.5 - 78.5%	77.5%	77.5 - 78.5%
<b>Operating Margin (%)</b> <sup>(3)</sup>	20.4%	19.0 - 20.0%	24.5%	23.5 - 24.5%
<b>Net Income per Share</b> <sup>(3) (4) (5)</sup>	\$0.46	\$0.50 - 0.52	\$2.47	\$2.70 - 2.73
<b>Weighted Diluted Shares Outstanding</b>	175M	175 - 177M	175M	180 - 182M

## Notes

- (1) Guidance for non-GAAP financial measures excludes stock-based compensation and amortization of acquired intangible assets. We have not reconciled our guidance with respect to non-GAAP financial measures to the corresponding GAAP measures because certain items that impact these measures are uncertain or out of our control, or cannot be reasonably predicted. Accordingly, a reconciliation of these non-GAAP financial measures to the corresponding GAAP measures is not available without unreasonable effort.
- (2) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments to the deferred revenue balance due to adoption of the new revenue recognition standard less any deferred revenue balances acquired from business combination(s) during the period.
- (3) Excludes stock-based compensation and amortization of acquired intangible assets.
- (4) Excludes gains/losses on investments in privately held companies.
- (5) Assumes an effective tax rate of 24% for 2019 and 2020. For 2020, we expect cash paid for taxes to be approximately \$40.0 million.

# GAAP to Non-GAAP Reconciliations

(\$ in millions)	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
GAAP product gross profit	\$92.4	\$84.6	\$92.4	\$92.5	\$113.9	\$92.5	\$107.2	\$118.1	\$146.1
Stock-based compensation	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.3
Amortization of acquired intangible assets	1.2	1.1	1.2	1.7	2.0	2.1	1.7	1.2	1.5
Non-GAAP product gross profit	\$93.9	\$86.1	\$94.0	\$94.5	\$116.3	\$95.0	\$109.3	\$119.7	\$147.9
Non-GAAP product gross margin	58.0%	60.3%	56.5%	57.4%	57.9%	58.4%	57.6%	60.7%	61.9%
GAAP service gross profit	\$218.8	\$217.2	\$235.8	\$249.8	\$264.6	\$267.1	\$286.2	\$305.3	\$327.8
Stock-based compensation	2.4	2.5	2.7	2.8	2.8	2.8	2.9	2.7	2.9
Amortization of acquired intangible assets	0.1	0.1	0.1	—	—	—	0.4	0.4	0.4
Non-GAAP service gross profit	\$221.3	\$219.8	\$238.6	\$252.6	\$267.4	\$269.9	\$289.5	\$308.4	\$331.1
Non-GAAP service gross margin	86.9%	85.8%	86.8%	87.3%	87.3%	87.1%	87.3%	88.0%	88.2%
GAAP total gross profit	\$311.2	\$301.8	\$328.2	\$342.3	\$378.5	\$359.6	\$393.4	\$423.4	\$473.9
Stock-based compensation	2.7	2.9	3.1	3.1	3.2	3.2	3.3	3.1	3.2
Amortization of acquired intangible assets	1.3	1.2	1.3	1.7	2.0	2.1	2.1	1.6	1.9
Non-GAAP total gross profit	\$315.2	\$305.9	\$332.6	\$347.1	\$383.7	\$364.9	\$398.8	\$428.1	\$479.0
Non-GAAP gross margin	75.6%	76.7%	75.4%	76.5%	75.7%	77.2%	76.4%	78.2%	78.0%
GAAP research and development expense	\$54.8	\$59.1	\$61.2	\$58.7	\$65.5	\$68.6	\$67.4	\$69.9	\$71.2
Stock-based compensation	8.1	8.4	9.2	9.3	9.5	9.4	10.0	9.3	10.0
Non-GAAP research and development expense	\$46.7	\$50.7	\$52.0	\$49.4	\$56.0	\$59.2	\$57.4	\$60.6	\$61.2
Non-GAAP research and development expense as a percentage of revenue	11.2%	12.7%	11.8%	10.9%	11.0%	12.5%	11.0%	11.1%	10.0%
GAAP sales and marketing expense	\$191.9	\$185.3	\$192.8	\$198.3	\$205.9	\$215.9	\$226.5	\$227.4	\$257.1
Stock-based compensation	19.6	20.9	23.6	26.0	25.1	25.4	26.3	24.9	25.1
Amortization of acquired intangible assets	0.8	0.6	0.5	0.8	0.9	0.9	0.8	0.6	0.9
Non-GAAP sales and marketing expense	\$171.5	\$163.8	\$168.7	\$171.5	\$179.9	\$189.6	\$199.4	\$201.9	\$231.1
Non-GAAP sales and marketing expense as a percentage of revenue	41.2%	41.1%	38.2%	37.8%	35.5%	40.1%	38.2%	36.9%	37.6%

# GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
GAAP general and administrative expense	\$22.3	\$25.0	\$23.5	\$22.5	\$22.0	\$24.5	\$24.3	\$26.1	\$27.2
Stock-based compensation	4.0	4.3	4.7	4.8	4.8	5.0	5.4	5.1	5.4
Non-GAAP general and administrative expense	\$18.3	\$20.7	\$18.8	\$17.7	\$17.2	\$19.5	\$18.9	\$21.0	\$21.8
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	<i>4.4%</i>	<i>5.2%</i>	<i>4.3%</i>	<i>3.9%</i>	<i>3.4%</i>	<i>4.1%</i>	<i>3.6%</i>	<i>3.8%</i>	<i>3.5%</i>
GAAP total operating expense	\$269.0	\$269.4	\$277.5	\$279.5	\$293.4	\$309.0	\$318.2	\$323.4	\$355.5
Stock-based compensation	31.7	33.6	37.5	40.1	39.4	39.8	41.7	39.3	40.5
Amortization of acquired intangible assets	0.8	0.6	0.5	0.8	0.9	0.9	0.8	0.6	0.9
Non-GAAP total operating expense	\$236.5	\$235.2	\$239.5	\$238.6	\$253.1	\$268.3	\$275.7	\$283.5	\$314.1
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<i>56.8%</i>	<i>58.9%</i>	<i>54.3%</i>	<i>52.6%</i>	<i>49.9%</i>	<i>56.8%</i>	<i>52.8%</i>	<i>51.8%</i>	<i>51.1%</i>
GAAP operating income	\$42.2	\$32.4	\$50.7	\$62.8	\$85.1	\$50.6	\$75.2	\$100.0	\$118.4
Stock-based compensation	34.4	36.5	40.6	43.2	42.6	43.0	45.0	42.4	43.7
Amortization of acquired intangible assets	2.1	1.8	1.8	2.5	2.9	3.0	2.9	2.2	2.8
Non-GAAP operating income	\$78.7	\$70.7	\$93.1	\$108.5	\$130.6	\$96.6	\$123.1	\$144.6	\$164.9
<i>Non-GAAP operating margin</i>	<i>18.9%</i>	<i>17.7%</i>	<i>21.1%</i>	<i>23.9%</i>	<i>25.8%</i>	<i>20.4%</i>	<i>23.6%</i>	<i>26.4%</i>	<i>26.8%</i>

# GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
GAAP other income (expense), net	\$(1.2)	\$(0.2)	\$(5.0)	\$0.9	\$(2.3)	\$(0.5)	\$(0.4)	\$(6.0)	\$(0.6)
(Gain) loss on investments in privately held companies	—	—	—	(2.2)	—	—	—	3.8	—
Non-GAAP other income (expense), net	\$(1.2)	\$(0.2)	\$(5.0)	\$(1.3)	\$(2.3)	\$(0.5)	\$(0.4)	\$(2.2)	\$(0.6)
<i>Non-GAAP other income (expense), net as a percentage of revenue</i>	<i>(0.3)%</i>	<i>(0.1)%</i>	<i>(1.1)%</i>	<i>(0.3)%</i>	<i>(0.5)%</i>	<i>(0.1)%</i>	<i>(0.1)%</i>	<i>(0.4)%</i>	<i>(0.1)%</i>
GAAP income before income taxes	\$45.0	\$36.7	\$51.5	\$70.6	\$92.1	\$60.3	\$85.8	\$105.4	\$127.7
Stock-based compensation	34.4	36.5	40.6	43.2	42.6	43.0	45.0	42.4	43.7
Amortization of acquired intangible assets	2.1	1.8	1.8	2.5	2.9	3.0	2.9	2.2	2.8
(Gain) loss on investments in privately held companies	—	—	—	(2.2)	—	—	—	3.8	—
Non-GAAP income before income taxes	\$81.5	\$75.0	\$93.9	\$114.1	\$137.6	\$106.3	\$133.7	\$153.8	\$174.2
GAAP provision for (benefit from) income taxes	\$74.0	\$(4.9)	\$2.2	\$11.9	\$(90.5)	\$1.5	\$13.1	\$25.6	\$12.5
Tax adjustments related to the above	(48.0)	22.9	20.3	15.5	123.5	24.0	19.0	11.3	29.3
Non-GAAP provision for income taxes	\$26.0	\$18.0	\$22.5	\$27.4	\$33.0	\$25.5	\$32.1	\$36.9	\$41.8
<i>Non-GAAP effective tax rate</i>	<i>32%</i>	<i>24%</i>							

# GAAP to Non-GAAP Reconciliations (Continued)

(\$ in millions)	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
GAAP net income (loss)	\$(29.0)	\$41.6	\$49.3	\$58.7	\$182.6	\$58.8	\$72.7	\$79.8	\$115.2
Stock-based compensation	34.4	36.5	40.6	43.2	42.6	43.0	45.0	42.4	43.7
Amortization of acquired intangible assets	2.1	1.8	1.8	2.5	2.9	3.0	2.9	2.2	2.8
(Gain) loss on investments in privately held companies	—	—	—	(2.2)	—	—	—	3.8	—
Tax adjustments	48.0	(22.9)	(20.3)	(15.5)	(123.5)	(24.0)	(19.0)	(11.3)	(29.3)
Non-GAAP net income	\$55.5	\$57.0	\$71.4	\$86.7	\$104.6	\$80.8	\$101.6	\$116.9	\$132.4
GAAP net income (loss) per share, diluted	\$(0.17)	\$0.24	\$0.28	\$0.33	\$1.04	\$0.34	\$0.42	\$0.46	\$0.66
Stock-based compensation	0.20	0.21	0.24	0.25	0.24	0.24	0.25	0.24	0.25
Amortization of acquired intangible assets	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.01	0.02
(Gain) loss on investments in privately held companies	—	—	—	(0.01)	—	—	—	0.02	—
Tax adjustments	0.28	(0.13)	(0.12)	(0.09)	(0.71)	(0.14)	(0.11)	(0.06)	(0.17)
Non-GAAP net income per share, diluted	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58	\$0.67	\$0.76
Shares used in diluted net income (loss) per share calculations - GAAP	171.5	171.8	173.5	175.7	175.8	174.8	175.1	174.8	175.2
Adjustment for diluted weighted-average shares outstanding	3.9	—	—	—	—	—	—	—	—
Shares used in diluted net income per share calculations - Non-GAAP	175.4	171.8	173.5	175.7	175.8	174.8	175.1	174.8	175.2

# GAAP to Non-GAAP Reconciliations (Continued)

(\$ in millions)	2017	2018	2019
GAAP product gross profit	\$333.4	\$383.4	\$463.9
Stock-based compensation	1.4	1.5	1.5
Amortization of acquired intangible assets	3.8	6.0	6.5
Non-GAAP product gross profit	<u>\$338.6</u>	<u>\$390.9</u>	<u>\$471.9</u>
<i>Non-GAAP product gross margin</i>	<u>58.7%</u>	<u>58.0%</u>	<u>59.8%</u>
GAAP service gross profit	\$776.2	\$967.4	\$1,186.4
Stock-based compensation	9.5	10.8	11.3
Amortization of acquired intangible assets	1.2	0.2	1.2
Non-GAAP service gross profit	<u>\$786.9</u>	<u>\$978.4</u>	<u>\$1,198.9</u>
<i>Non-GAAP service gross margin</i>	<u>85.7%</u>	<u>86.8%</u>	<u>87.7%</u>
GAAP total gross profit	\$1,109.6	\$1,350.8	\$1,650.3
Stock-based compensation	10.9	12.3	12.8
Amortization of acquired intangible assets	5.0	6.2	7.7
Non-GAAP total gross profit	<u>\$1,125.5</u>	<u>\$1,369.3</u>	<u>\$1,670.8</u>
<i>Non-GAAP gross margin</i>	<u>75.3%</u>	<u>76.0%</u>	<u>77.5%</u>
GAAP research and development expense	\$210.6	\$244.5	\$277.1
Stock-based compensation	(32.2)	(36.4)	(38.7)
Non-GAAP research and development expense	<u>\$178.4</u>	<u>\$208.1</u>	<u>\$238.4</u>
<i>Non-GAAP research and development expense as a percentage of revenue</i>	<u>11.9%</u>	<u>11.6%</u>	<u>11.1%</u>
GAAP sales and marketing expense	\$701.0	\$782.3	\$926.9
Stock-based compensation	(78.0)	(95.6)	(101.7)
Amortization of acquired intangible assets	(3.6)	(2.8)	(3.2)
Non-GAAP sales and marketing expense	<u>\$619.4</u>	<u>\$683.9</u>	<u>\$822.0</u>
<i>Non-GAAP sales and marketing expense as a percentage of revenue</i>	<u>41.4%</u>	<u>38.0%</u>	<u>38.1%</u>

# GAAP to Non-GAAP Reconciliations (Continued)

(\$ in millions)	2017	2018	2019
GAAP general and administrative expense	\$87.9	\$93.0	\$102.1
Stock-based compensation	(16.1)	(18.6)	(20.9)
Litigation settlement expense	(1.5)	—	—
Non-GAAP general and administrative expense	\$70.3	\$74.4	\$81.2
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	<i>4.7%</i>	<i>4.1%</i>	<i>3.8%</i>
GAAP total operating expense	\$999.8	\$1,119.8	\$1,306.1
Stock-based compensation	(126.3)	(150.6)	(161.3)
Amortization of acquired intangible assets	(3.6)	(2.8)	(3.2)
Litigation settlement expense	(1.5)	—	—
Restructuring charges	(0.3)	—	—
Non-GAAP total operating expense	\$868.1	\$966.4	\$1,141.6
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<i>58.1%</i>	<i>53.7%</i>	<i>52.9%</i>
GAAP operating income	\$109.8	\$231.0	\$344.2
Stock-based compensation	137.2	162.9	174.1
Amortization of acquired intangible assets	8.6	9.0	10.9
Litigation settlement expense	1.5	—	—
Restructuring charges	0.3	—	—
Non-GAAP operating income	\$257.4	\$402.9	\$529.2
<i>Non-GAAP operating margin</i>	<i>17.2%</i>	<i>22.4%</i>	<i>24.5%</i>

# GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	2017	2018	2019
GAAP other income (expense), net	\$0.1	\$(6.6)	\$(7.5)
(Gain) loss on investments in privately held companies	—	(2.2)	3.8
Non-GAAP other income (expense), net	\$0.1	\$(8.8)	\$(3.7)
<i>Non-GAAP other income (expense), net as a percentage of revenue</i>	—%	(0.5)%	(0.2)%
GAAP income before income taxes	\$124.0	\$250.9	\$379.2
Stock-based compensation	137.2	162.9	174.1
Amortization of acquired intangible assets	8.6	9.0	10.9
Litigation settlement expense	1.5	—	—
Restructuring charges	0.3	—	—
(Gain) loss on investments in privately held companies	—	(2.2)	3.8
Non-GAAP income before income taxes	\$271.6	\$420.6	\$568.0
GAAP provision for (benefit from) income taxes	\$92.6	\$(81.3)	\$52.7
Tax adjustments related to the above	(5.7)	182.2	83.6
Non-GAAP provision for income taxes	\$86.9	\$100.9	\$136.3
<i>Non-GAAP effective tax rate</i>	32%	24%	24%

# GAAP to Non-GAAP Reconciliations (Continued)

<i>(\$ in millions)</i>	2017	2018	2019
GAAP net income	\$31.4	\$332.2	\$326.5
Stock-based compensation	137.2	162.9	174.1
Amortization of acquired intangible assets	8.6	9.0	10.9
Litigation settlement expense	1.5	—	—
Restructuring charges	0.3	—	—
(Gain) loss on investments in privately held companies	—	(2.2)	3.8
Tax adjustments	5.7	(182.2)	(83.6)
Non-GAAP net income	<u>\$184.7</u>	<u>\$319.7</u>	<u>\$431.7</u>
GAAP net income per share, diluted	\$0.18	\$1.91	\$1.87
Stock-based compensation	0.77	0.94	1.00
Amortization of acquired intangible assets	0.05	0.05	0.06
Litigation settlement expense	0.01	—	—
Restructuring charges	—	—	—
(Gain) loss on investments in privately held companies	—	(0.01)	0.02
Tax adjustments	0.03	(1.05)	(0.48)
Non-GAAP net income per share, diluted	<u>\$1.04</u>	<u>\$1.84</u>	<u>\$2.47</u>

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