

# Q4 2018 Financial Results

February 6, 2019

# Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference call concerning Fortinet's business outlook, the Q1 and 2019 guidance, and future prospects and expectations are forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding our position for future growth, position to provide our customers the best network security, ability to continue to grow our market position and address our market opportunity, and guidance and future financial results. Although we attempt to be accurate in making forward-looking statements, it is possible that future circumstances might differ from the assumptions on which such statements are based such that actual results are materially different from our forward-looking statements in this release. Important factors that could cause results to differ materially from the statements herein include the following: general economic risks; global economic conditions, country-specific economic conditions, and foreign currency risks; competitiveness in the security market; the dynamic nature of the security market and its product and services; specific economic risks worldwide and in different geographies, and among different customer segments; uncertainty regarding increased business and renewals from existing customers; uncertainties around continued success in sales growth and market share gains; longer sales cycles, particularly for larger enterprise, service providers, government and other large organization customers; failure to convert sales pipeline into final sales; risks associated with successful implementation of multiple integrated software products and other product functionality risks; sales and marketing execution risks; execution risks around new product development and introductions and innovation; litigation and disputes and the potential cost, distraction and damage to sales and reputation caused thereby or by other factors; market acceptance of new products and services; the ability to attract and retain personnel; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; technological changes that make our products and services less competitive; risks associated with the adoption of, and demand for, our products and services in general and by specific customer segments; competition and pricing pressure; risks related to integrating acquisitions; and the other risk factors set forth from time to time in our most recent Annual Report on Form 10-K, our most recent Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission (SEC), copies of which are available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) or upon request from our investor relations department. All forward-looking statements herein reflect our opinions only as of the date of this release, and we undertake no obligation, and expressly disclaim any obligation, to update forward-looking statements herein in light of new information or future events.

# Q4 2018 Non-GAAP Results

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
<b>Billings <sup>(1)</sup></b>	<b>\$463M</b>	<b>\$403M</b>	<b>\$427M</b>	<b>\$432M</b>	<b>\$534M</b>	<b>\$463M</b>	<b>\$513M</b>	<b>\$528M</b>	<b>\$649M</b>
<i>Y/Y % Change</i>	<i>22%</i>	<i>22%</i>	<i>14%</i>	<i>24%</i>	<i>15%</i>	<i>15%</i>	<i>20%</i>	<i>22%</i>	<i>22%</i>
<b>Revenue</b>	<b>\$363M</b>	<b>\$341M</b>	<b>\$363M</b>	<b>\$374M</b>	<b>\$417M</b>	<b>\$399M</b>	<b>\$441M</b>	<b>\$454M</b>	<b>\$507M</b>
<i>Y/Y % Change (As Reported)</i>	<i>22%</i>	<i>20%</i>	<i>17%</i>	<i>18%</i>	<i>15%</i>	<i>17%</i>	<i>21%</i>	<i>21%</i>	<i>22%</i>
<i>Excluding 606 Impact</i>						<i>15%</i>	<i>20%</i>	<i>21%</i>	<i>20%</i>
<b>Product Revenue</b>	<b>\$159M</b>	<b>\$135M</b>	<b>\$143M</b>	<b>\$137M</b>	<b>\$162M</b>	<b>\$143M</b>	<b>\$166M</b>	<b>\$165M</b>	<b>\$201M</b>
<i>Y/Y % Change (As Reported)</i>	<i>10%</i>	<i>9%</i>	<i>4%</i>	<i>7%</i>	<i>2%</i>	<i>6%</i>	<i>17%</i>	<i>20%</i>	<i>24%</i>
<i>Excluding 606 Impact</i>						<i>1%</i>	<i>14%</i>	<i>18%</i>	<i>19%</i>
<b>Service Revenue</b>	<b>\$204M</b>	<b>\$205M</b>	<b>\$221M</b>	<b>\$237M</b>	<b>\$255M</b>	<b>\$256M</b>	<b>\$275M</b>	<b>\$289M</b>	<b>\$306M</b>
<i>Y/Y % Change (As Reported)</i>	<i>34%</i>	<i>28%</i>	<i>26%</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>22%</i>	<i>20%</i>
<i>Excluding 606 Impact</i>						<i>24%</i>	<i>24%</i>	<i>22%</i>	<i>21%</i>

## 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.

# 2018 Non-GAAP Results (Continued)

	2016	2017	2018
<b>Billings <sup>(1)</sup></b>	<b>\$1.515B</b>	<b>\$1.796B</b>	<b>\$2.153B</b>
<i>Y/Y % Change</i>	<i>23%</i>	<i>19%</i>	<i>20%</i>
<b>Revenue</b>	<b>\$1.275B</b>	<b>\$1.495B</b>	<b>\$1.801B</b>
<i>Y/Y % Change (As Reported)</i>	<i>26%</i>	<i>17%</i>	<i>20%</i>
<i>Excluding 606 Impact</i>			<i>19%</i>
<b>Product Revenue</b>	<b>\$548M</b>	<b>\$577M</b>	<b>\$674M</b>
<i>Y/Y % Change (As Reported)</i>	<i>15%</i>	<i>5%</i>	<i>17%</i>
<i>Excluding 606 Impact</i>			<i>13%</i>
<b>Service Revenue</b>	<b>\$727M</b>	<b>\$918M</b>	<b>\$1.127B</b>
<i>Y/Y % Change (As Reported)</i>	<i>37%</i>	<i>26%</i>	<i>23%</i>
<i>Excluding 606 Impact</i>			<i>23%</i>

## 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.

# Q4 2018 Non-GAAP Results (Continued)

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Gross Margin (%) <sup>(1)</sup>	76.0%	74.6%	74.8%	76.0%	75.6%	76.7%	75.4%	76.5%	75.7%
Operating Income <sup>(1)</sup>	\$81M	\$43M	\$66M	\$70M	\$79M	\$71M	\$93M	\$109M	\$131M
Operating Margin (%) (As Reported) <sup>(1)</sup>	22.4%	12.6%	18.1%	18.7%	18.9%	17.7%	21.1%	23.9%	25.8%
(Excluding 606 Impact) <sup>(1)</sup>						13.8%	17.4%	21.5%	22.4%
Net Income <sup>(1)(2)(3)</sup>	\$53M	\$31M	\$48M	\$50M	\$55M	\$57M	\$71M	\$87M	\$105M
Diluted Earnings Per Share <sup>(1)(2)(3)</sup>	\$0.30	\$0.17	\$0.27	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59
Weighted Diluted Shares used in EPS	177M	178M	180M	179M	175M	172M	174M	176M	176M
Deferred Revenue	\$1.04B	\$1.10B	\$1.16B	\$1.22B	\$1.34B	\$1.40B	\$1.47B	\$1.54B	\$1.69B
Cash and Investments <sup>(4)</sup>	\$1.31B	\$1.44B	\$1.46B	\$1.52B	\$1.35B	\$1.39B	\$1.50B	\$1.67B	\$1.72B
Days Sales Outstanding <sup>(5)</sup>	78	71	68	62	75	71	68	64	79
Inventory Turns	1.8	1.6	2.2	2.6	3.2	2.4	3.3	3.0	3.4
Headcount	4,665	4,711	4,792	4,903	5,066	5,275	5,462	5,639	5,845

## Notes

- (1) Excludes stock-based compensation, amortization of intangible assets, and restructuring charges.
- (2) Excludes the gain on sale of investment in a privately-held company.
- (3) Assumes annual effective tax rate of 33%, 32% and 24% for 2016, 2017 and 2018, respectively.
- (4) Excludes investments in privately-held companies which are recorded in other assets of \$10.3M for Q4'16, \$11.3M for Q1'17, \$12.1M from Q2'17 to Q2'18 and \$9.1M from Q3'18 to Q4'18.
- (5) Excluding the effects of adopting ASC 606, Days Sales Outstanding would have increased by 1 day from Q4 2017 to Q4 2018.

# 2018 Non-GAAP Results (Continued)

	2016	2017	2018
<b>Gross Margin (%) <sup>(1)</sup></b>	<b>74.7%</b>	<b>75.3%</b>	<b>76.0%</b>
<b>Operating Income <sup>(1)</sup></b>	<b>\$193M</b>	<b>\$257M</b>	<b>\$403M</b>
<b>Operating Margin (%) (As Reported) <sup>(1)</sup></b>	<b>15.1%</b>	<b>17.2%</b>	<b>22.4%</b>
<b>(Excluding 606 Impact) <sup>(1)</sup></b>			<b>19.0%</b>
<b>Net Income<sup>(1)(2)(3)</sup></b>	<b>\$130M</b>	<b>\$185M</b>	<b>\$320M</b>
<b>Diluted Earnings Per Share<sup>(1)(2)(3)</sup></b>	<b>\$0.73</b>	<b>\$1.04</b>	<b>\$1.84</b>
<b>Weighted Diluted Shares used in EPS</b>	<b>176M</b>	<b>178M</b>	<b>174M</b>

## Notes

- (1) Excludes stock-based compensation, amortization of intangible assets, and restructuring charges.
- (2) Excludes the gain on sale of investment in a privately-held company.
- (3) Assumes annual effective tax rate of 33%, 32% and 24% for 2016, 2017 and 2018, respectively.

# Revenue by Geography

	Q4'16		Q1'17		Q2'17		Q3'17		Q4'17		Q1'18		Q2'18		Q3'18		Q4'18	
(\$ in millions)	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change
Americas	\$150	23%	\$147	22%	\$160	21%	\$161	20%	\$174	16%	\$176	20%	\$189	18%	\$194	20%	\$204	17%
EMEA	\$141	22%	\$126	20%	\$130	13%	\$138	18%	\$161	14%	\$144	15%	\$164	27%	\$165	20%	\$205	27%
APAC	\$72	22%	\$68	15%	\$73	14%	\$75	14%	\$82	14%	\$79	16%	\$88	20%	\$95	27%	\$98	20%
Total	\$363	22%	\$341	20%	\$363	17%	\$374	18%	\$417	15%	\$399	17%	\$441	21%	\$454	21%	\$507	22%

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue	% of revenue
Americas	41%	43%	44%	43%	42%	44%	43%	43%	40%
EMEA	39%	37%	36%	37%	38%	36%	37%	36%	40%
APAC	20%	20%	20%	20%	20%	20%	20%	21%	20%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

# Revenue by Geography (Continued)

	2016		2017		2018	
<i>(\$ in millions)</i>	\$	Y/Y % Change	\$	Y/Y % Change	\$	Y/Y % Change
Americas	\$537	23%	\$642	20%	\$763	19%
EMEA	\$477	30%	\$555	16%	\$678	22%
APAC	\$261	26%	\$298	14%	\$360	21%
Total	\$1,275	26%	\$1,495	17%	\$1,801	20%

	2016	2017	2018
	% of revenue	% of revenue	% of revenue
Americas	42%	43%	42%
EMEA	37%	37%	38%
APAC	21%	20%	20%
Total	100%	100%	100%



# Number of Deals & FortiGate Product Billings

Number of Deals <sup>(1)</sup>	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
No. of Deals >\$50K	1,204	1,412	1,381	1,883	1,446	1,669	1,710	2,154
No. of Deals >\$250K	174	193	208	313	233	261	264	363
No. of Deals >\$500K	76	75	87	120	80	113	103	129
No. of Deals >\$1M	28	30	32	40	34	36	30	47

% of FortiGate Billings <sup>(2)</sup>	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Entry - Level (FG20-100)	33%	32%	30%	30%	36%	34%	31%	31%
Mid - Range (FG200-900)	31%	29%	29%	29%	31%	31%	33%	32%
High - End (FG1000-7000)	36%	39%	41%	41%	33%	35%	36%	37%

- Entry-Level = SMB & Distributed Networks for Large Enterprises
- Mid-Range = Enterprise
- High-End = Large Enterprises, Education, Government, and Telcos/Carriers/Service Providers

## Notes

(1) Deals are defined as combined sales in the period to a customer account.

(2) Represents the percentage of FortiGate sales by range for product and product bundles.

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.

# Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
<b>GAAP Net Income (Loss)</b>	<b>\$25</b>	<b>\$11</b>	<b>\$23</b>	<b>\$27</b>	<b>\$(29)</b>	<b>\$42</b>	<b>\$49</b>	<b>\$59</b>	<b>\$183</b>
Depreciation and Stock-Based Compensation	46	47	49	48	49	50	54	57	57
Accounts Receivable	(71)	42	(5)	14	(90)	49	(20)	9	(120)
Inventory	(18)	(4)	13	8	(8)	(7)	(4)	(8)	(14)
Deferred Revenue	100	62	64	59	116	64	72	74	142
Other	19	28	1	6	120	(58)	(9)	(14)	(67)
<b>GAAP Cash Flow from Operations</b>	<b>\$101</b>	<b>\$130</b>	<b>\$145</b>	<b>\$162</b>	<b>\$158</b>	<b>\$140</b>	<b>\$142</b>	<b>\$177</b>	<b>\$181</b>
Purchase of Property and Equipment	(17)	(14)	(87)	(21)	(14)	(12)	(11)	(18)	(12)
<b>Free Cash Flow</b>	<b>\$84</b>	<b>\$116</b>	<b>\$58</b>	<b>\$141</b>	<b>\$144</b>	<b>\$128</b>	<b>\$131</b>	<b>\$159</b>	<b>\$169</b>
Stock Option and RSU Exercises / ESPP	(6)	16	—	10	5	26	(2)	9	(14)
Stock Repurchases	(36)	—	(33)	(91)	(322)	(116)	(1)	—	(95)
Acquisition	—	—	—	—	—	—	(6)	—	(16)
Other	(2)	(2)	(1)	(1)	(1)	(1)	(9)	6	—
<b>Net Cash Flow<sup>(1)</sup></b>	<b>\$40</b>	<b>\$130</b>	<b>\$24</b>	<b>\$59</b>	<b>\$(174)</b>	<b>\$37</b>	<b>\$113</b>	<b>\$174</b>	<b>\$44</b>
<b>Footnote: Cash Paid for Taxes, Net of Refunds</b>	<b>\$6</b>	<b>\$9</b>	<b>\$9</b>	<b>\$7</b>	<b>\$7</b>	<b>\$6</b>	<b>\$12</b>	<b>\$13</b>	<b>\$11</b>

## Notes

(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)

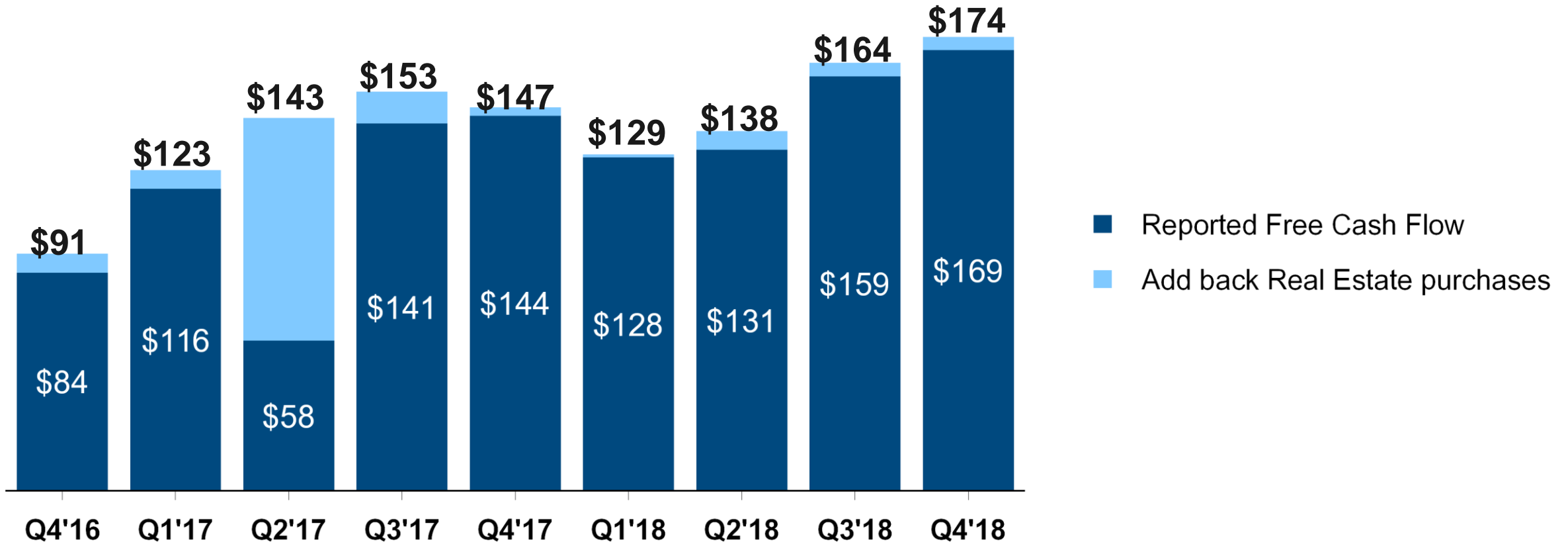
<i>(\$ in Millions)</i>	2016	2017	2018
<b>GAAP Net Income</b>	<b>\$32</b>	<b>\$31</b>	<b>\$332</b>
Depreciation and Stock-Based Compensation	171	193	219
Accounts Receivable	(58)	(38)	(82)
Inventory	(43)	9	(33)
Deferred Revenue	243	301	352
Other	1	98	(149)
<b>GAAP Cash Flow from Operations</b>	<b>\$346</b>	<b>\$594</b>	<b>\$639</b>
Purchase of Property and Equipment	(67)	(135)	(53)
<b>Free Cash Flow</b>	<b>\$279</b>	<b>\$459</b>	<b>\$586</b>
Stock Option and RSU Exercises / ESPP	7	31	19
Stock Repurchases	(111)	(446)	(212)
Acquisition	(22)	—	(22)
Other	(7)	(5)	(4)
<b>Net Cash Flow<sup>(1)</sup></b>	<b>\$146</b>	<b>\$39</b>	<b>\$367</b>
<b>Footnote: Cash Paid for Taxes, Net of Refunds</b>	<b>\$27</b>	<b>\$32</b>	<b>\$41</b>

## Notes

(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

(\$ in millions)



- Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.
- Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus Real Estate purchases and new Sunnyvale campus building related cash payments.

# Q1 and 2019 Guidance<sup>(1)</sup> (Non-GAAP)

	Actual Q1 18	Q1 19	Actual 2018	2019
<b>Billings</b> <sup>(2)</sup>	\$463M	\$515 - 535M	\$2.153B	\$2.450 - 2.500B
<i>Y/Y Mid-Pt Growth</i>		13%		15%
<b>Revenue (GAAP)</b>	\$399M	\$465 - 475M	\$1.801B	\$2.060 - 2.100B
<i>Y/Y Mid-Pt Growth</i>		18%		15%
<b>Service Revenue (GAAP)</b>			\$1.127B	\$1.330 - 1.360B
<i>Y/Y Mid-Pt Growth</i>				19%
<b>Gross Margin (%)</b> <sup>(3)</sup>	76.7%	75.5 - 76.5%	76.0%	75.5 - 76.5%
<b>Operating Margin (%)</b> <sup>(3)</sup>	17.7%	18.0 - 18.5%	22.4%	22.5 - 23.5%
<b>Earnings per Share</b> <sup>(3) (4)</sup>	\$0.33	\$0.37 - 0.39	\$1.84	\$2.05 - 2.10
<b>Weighted Diluted Shares used in EPS</b>	172M	176 - 178M	174M	181 - 183M

## 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 for the particular period plus the change in deferred revenue from the beginning to the end of the period and adjustment 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, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, litigation settlement expenses, gain on sale of investment in a privately held company and restructuring charges.
- (4) Assumes effective tax rate of 24% for 2018 and 2019

# Impact of ASC 606 on Non-GAAP Quarterly Operating Results

(In millions, except per share and % amounts)	Non-GAAP Q4'18	ASC 606 Impact	Non-GAAP Balances Without Adoption of ASC 606
Revenue:			
Product (*)	\$200.8	\$(7.4)	\$193.4
Service	306.2	1.6	307.8
Total revenue	507.0	(5.8)	501.2
Cost of revenue:			
Product	84.5	(0.4)	84.1
Service	38.8		38.8
Total cost of revenue	123.3	(0.4)	122.9
Gross profit:			
Product	116.3	(7.0)	109.3
Service	267.4	1.6	269.0
Total gross profit	383.7	(5.4)	378.3
<i>Gross margin</i>	75.7%	(0.2)%	75.5%
Operating expenses:			
Research and development	56.0		56.0
Sales and marketing	179.9	13.0	192.9
General and administrative	17.2		17.2
Total operating expenses	253.1	13.0	266.1
Operating income	130.6	(18.4)	112.2
<i>Operating margin</i>	25.8%	(3.4)%	22.4%
Interest and other income—net	7.0		7.0
Provision for income taxes	33.0	(1.0)	32.0
Net income	\$104.6	\$(17.4)	\$87.2
Diluted net income per share	\$0.59	\$0.10	\$0.50
Shares used in computing net income per share			
Diluted	175.8		175.8

(\*) Product revenue includes software license revenue.

# Impact of ASC 606 on Non-GAAP Yearly Operating Results

(In millions, except per share and % amounts)	Non-GAAP FY'18	ASC 606 Impact	Non-GAAP Balances Without Adoption of ASC 606
Revenue:			
Product (*)	\$674.4	\$(19.5)	\$654.9
Service	1,126.8	0.1	1,126.9
Total revenue	1,801.2	(19.4)	1,781.8
Cost of revenue:			
Product	283.5	(1.4)	282.1
Service	148.4		148.4
Total cost of revenue	431.9	(1.4)	430.5
Gross profit:			
Product	390.9	(18.1)	372.8
Service	978.4	0.1	978.5
Total gross profit	1,369.3	(18.0)	1,351.3
<i>Gross margin</i>	76.0%	(0.2)%	75.8%
Operating expenses:			
Research and development	208.1		208.1
Sales and marketing	683.9	45.5	729.4
General and administrative	74.4		74.4
Total operating expenses	966.4	45.5	1,011.9
Operating income	402.9	(63.5)	339.4
<i>Operating margin</i>	22.4%	(3.4)%	19.0%
Interest and other income—net	17.7		17.7
Provision for income taxes	100.9	(10.9)	90.0
Net income	\$319.7	\$(52.6)	\$267.1
Diluted net income per share	\$1.84	\$(0.31)	\$1.53
Shares used in computing net income per share			
Diluted	174.2		174.2

(\*) Product revenue includes software license revenue.

# GAAP to Non-GAAP Reconciliations

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
GAAP product gross profit	\$102.3	\$80.0	\$81.9	\$79.0	\$92.4	\$84.6	\$92.4	\$92.5	\$113.9
Stock-based compensation	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.3	0.4
Amortization of acquired intangible assets	0.9	0.7	1.0	1.0	1.2	1.1	1.2	1.7	2.0
Non-GAAP product gross profit	\$103.5	\$81.0	\$83.3	\$80.3	\$93.9	\$86.1	\$94.0	\$94.5	\$116.3
<i>Non-GAAP product gross margin</i>	<i>65.1%</i>	<i>59.9%</i>	<i>58.4%</i>	<i>58.6%</i>	<i>58.0%</i>	<i>60.3%</i>	<i>56.5%</i>	<i>57.4%</i>	<i>57.9%</i>
GAAP service gross profit	\$169.6	\$170.0	\$185.9	\$201.6	\$218.8	\$217.2	\$235.8	\$249.8	\$264.6
Stock-based compensation	2.3	2.3	2.5	2.4	2.4	2.5	2.7	2.8	2.8
Amortization of acquired intangible assets	0.4	0.6	0.2	0.2	0.1	0.1	0.1	—	—
Non-GAAP service gross profit	\$172.3	\$172.9	\$188.6	\$204.2	\$221.3	\$219.8	\$238.6	\$252.6	\$267.4
<i>Non-GAAP service gross margin</i>	<i>84.5%</i>	<i>84.2%</i>	<i>85.4%</i>	<i>86.1%</i>	<i>86.9%</i>	<i>85.8%</i>	<i>86.8%</i>	<i>87.3%</i>	<i>87.3%</i>
GAAP total gross profit	\$271.9	\$250.0	\$267.8	\$280.6	\$311.2	\$301.8	\$328.2	\$342.3	\$378.5
Stock-based compensation	2.6	2.6	2.9	2.7	2.7	2.9	3.1	3.1	3.2
Amortization of acquired intangible assets	1.3	1.3	1.2	1.2	1.3	1.2	1.3	1.7	2.0
Non-GAAP total gross profit	\$275.8	\$253.9	\$271.9	\$284.5	\$315.2	\$305.9	\$332.6	\$347.1	\$383.7
<i>Non-GAAP gross margin</i>	<i>76.0%</i>	<i>74.6%</i>	<i>74.8%</i>	<i>76.0%</i>	<i>75.6%</i>	<i>76.7%</i>	<i>75.4%</i>	<i>76.5%</i>	<i>75.7%</i>
GAAP research and development expense	\$45.6	\$51.2	\$51.2	\$53.5	\$54.8	\$59.1	\$61.2	\$58.7	\$65.5
Stock-based compensation	7.9	7.9	8.3	8.0	8.1	8.4	9.2	9.3	9.5
Non-GAAP research and development expense	\$37.7	\$43.3	\$42.9	\$45.5	\$46.7	\$50.7	\$52.0	\$49.4	\$56.0
<i>Non-GAAP research and development expense as a percentage of revenue</i>	<i>10.4%</i>	<i>12.7%</i>	<i>11.8%</i>	<i>12.2%</i>	<i>11.2%</i>	<i>12.7%</i>	<i>11.8%</i>	<i>10.9%</i>	<i>11.0%</i>
GAAP sales and marketing expense	\$162.9	\$170.4	\$166.3	\$172.4	\$191.9	\$185.3	\$192.8	\$198.3	\$205.9
Stock-based compensation	17.9	19.0	19.7	19.6	19.6	20.9	23.6	26.0	25.1
Amortization of acquired intangible assets	1.8	1.1	1.0	0.8	0.8	0.6	0.5	0.8	0.9
Non-GAAP sales and marketing expense	\$143.2	\$150.3	\$145.6	\$152.0	\$171.5	\$163.8	\$168.7	\$171.5	\$179.9
<i>Non-GAAP sales and marketing expense as a percentage of revenue</i>	<i>39.5%</i>	<i>44.1%</i>	<i>40.1%</i>	<i>40.6%</i>	<i>41.2%</i>	<i>41.1%</i>	<i>38.2%</i>	<i>37.8%</i>	<i>35.5%</i>



# GAAP to Non-GAAP Reconciliations (Continued)

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
GAAP general and administrative expense	\$17.4	\$22.6	\$21.9	\$21.0	\$22.3	\$25.0	\$23.5	\$22.5	\$22.0
Stock-based compensation	3.6	3.8	4.2	4.0	4.0	4.3	4.7	4.8	4.8
Litigation settlement expense	—	1.5	—	—	—	—	—	—	—
Non-GAAP general and administrative expense	\$13.8	\$17.3	\$17.7	\$17.0	\$18.3	\$20.7	\$18.8	\$17.7	\$17.2
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	<i>3.8%</i>	<i>5.1%</i>	<i>4.9%</i>	<i>4.5%</i>	<i>4.4%</i>	<i>5.2%</i>	<i>4.3%</i>	<i>3.9%</i>	<i>3.4%</i>
GAAP total operating expense	\$226.7	\$244.6	\$239.3	\$246.9	\$269.0	\$269.4	\$277.5	\$279.5	\$293.4
Stock-based compensation	29.4	30.7	32.2	31.6	31.7	33.6	37.5	40.1	39.4
Amortization of acquired intangible assets	1.8	1.1	1.0	0.8	0.8	0.6	0.5	0.8	0.9
Restructuring charges	0.8	0.4	(0.1)	—	—	—	—	—	—
Litigation settlement expense	—	1.5	—	—	—	—	—	—	—
Non-GAAP total operating expense	\$194.7	\$210.9	\$206.2	\$214.5	\$236.5	\$235.2	\$239.5	\$238.6	\$253.1
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<i>53.6%</i>	<i>61.9%</i>	<i>56.7%</i>	<i>57.3%</i>	<i>56.8%</i>	<i>58.9%</i>	<i>54.3%</i>	<i>52.6%</i>	<i>49.9%</i>
GAAP operating income	\$45.2	\$5.4	\$28.5	\$33.7	\$42.2	\$32.4	\$50.7	\$62.8	\$85.1
Stock-based compensation	32.0	33.3	35.1	34.3	34.4	36.5	40.6	43.2	42.6
Amortization of acquired intangible assets	3.1	2.4	2.2	2.0	2.1	1.8	1.8	2.5	2.9
Restructuring charges	0.8	0.4	(0.1)	—	—	—	—	—	—
Litigation settlement expense	—	1.5	—	—	—	—	—	—	—
Non-GAAP operating income	\$81.1	\$43.0	\$65.7	\$70.0	\$78.7	\$70.7	\$93.1	\$108.5	\$130.6
<i>Non-GAAP operating margin</i>	<i>22.4%</i>	<i>12.6%</i>	<i>18.1%</i>	<i>18.7%</i>	<i>18.9%</i>	<i>17.7%</i>	<i>21.1%</i>	<i>23.9%</i>	<i>25.8%</i>

# GAAP to Non-GAAP Reconciliations (Continued)

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
GAAP other income (expense), net	\$(3.7)	\$0.3	\$1.2	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$0.9	\$(2.3)
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	(2.2)	—
Non-GAAP other income (expense), net	\$(3.7)	\$0.3	\$1.2	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$(1.3)	\$(2.3)
<i>Non-GAAP other income (expense), net as a percentage of revenue</i>	<i>(1.0)%</i>	<i>0.1%</i>	<i>0.3%</i>	<i>0.1%</i>	<i>(0.3)%</i>	<i>(0.1)%</i>	<i>(1.1)%</i>	<i>(0.3)%</i>	<i>(0.5)%</i>
GAAP income before income taxes	\$43.5	\$8.1	\$32.9	\$37.9	\$45.0	\$36.7	\$51.5	\$70.6	\$92.1
Stock-based compensation	32.0	33.3	35.1	34.3	34.4	36.5	40.6	43.2	42.6
Amortization of acquired intangible assets	3.1	2.4	2.2	2.0	2.1	1.8	1.8	2.5	2.9
Restructuring charges	0.8	0.4	(0.1)	—	—	—	—	—	—
Litigation settlement expense	—	1.5	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	(2.2)	—
Non-GAAP income before income taxes	\$79.4	\$45.7	\$70.1	\$74.2	\$81.5	\$75.0	\$93.9	\$114.1	\$137.6
GAAP provision for (benefit from) income taxes	\$18.3	\$(2.6)	\$9.9	\$11.3	\$74.0	\$(4.9)	\$2.2	\$11.9	\$(90.5)
Tax adjustments related to the above	7.9	17.3	12.5	12.4	(48.0)	22.9	20.3	15.5	123.5
Non-GAAP provision for income taxes	\$26.2	\$14.7	\$22.4	\$23.7	\$26.0	\$18.0	\$22.5	\$27.4	\$33.0
<i>Non-GAAP effective tax rate</i>	<i>33%</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>

# GAAP to Non-GAAP Reconciliations (Continued)

	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
GAAP net income (loss)	\$25.2	\$10.7	\$23.0	\$26.6	\$(29.0)	\$41.6	\$49.3	\$58.7	\$182.6
Stock-based compensation	32.0	33.3	35.1	34.3	34.4	36.5	40.6	43.2	42.6
Amortization of acquired intangible assets	3.1	2.4	2.2	2.0	2.1	1.8	1.8	2.5	2.9
Restructuring charges	0.8	0.4	(0.1)	—	—	—	—	—	—
Litigation settlement expense	—	1.5	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	(2.2)	—
Tax adjustments	(7.9)	(17.3)	(12.5)	(12.4)	48.0	(22.9)	(20.3)	(15.5)	(123.5)
Non-GAAP net income	\$53.2	\$31.0	\$47.7	\$50.5	\$55.5	\$57.0	\$71.4	\$86.7	\$104.6
GAAP net income (loss) per share, diluted	\$0.14	\$0.06	\$0.13	\$0.15	\$(0.17)	\$0.24	\$0.28	\$0.33	\$1.04
Stock-based compensation	0.18	0.19	0.20	0.19	0.20	0.21	0.24	0.25	0.24
Amortization of acquired intangible assets	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02
Litigation settlement expense	—	0.01	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	(0.01)	—
Tax adjustments	(0.04)	(0.10)	(0.07)	(0.07)	0.28	(0.13)	(0.12)	(0.09)	(0.71)
Non-GAAP net income per share, diluted	\$0.30	\$0.17	\$0.27	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59
Shares used in diluted net income (loss) per share calculations - GAAP	176.7	178.3	179.7	179.0	171.5	171.8	173.5	175.7	175.8
Adjustment for diluted weighted-average shares outstanding	—	—	—	—	3.9	—	—	—	—
Shares used in diluted net income per share calculations - Non-GAAP	176.7	178.3	179.7	179.0	175.4	171.8	173.5	175.7	175.8

The image features the Fortinet logo in white, centered on a red background. The logo consists of the word "FORTINET" in a bold, sans-serif font, with a registered trademark symbol (®) to its right. The background is decorated with a pattern of white hexagons and lines, some of which are nested or overlapping, creating a technical or network-like aesthetic. The overall composition is clean and modern.

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