



# Q4 2011 Financial Results

*January 31, 2012*



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# 2011 Non-GAAP Results

	2011	2010	Y/Y % Growth
<b>Billings <sup>(1)</sup></b>	<b>\$476M</b>	<b>\$375M</b>	<b>27%</b>
<b>Revenue</b>	<b>\$434M</b>	<b>\$325M</b>	<b>34%</b>
<b>Gross Margin (%) <sup>(2)</sup></b>	<b>74%</b>	<b>74%</b>	<b>--</b>
<b>Operating Income <sup>(2)</sup></b>	<b>\$106M</b>	<b>\$65M</b>	<b>64%</b>
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>24%</b>	<b>20%</b>	<b>+4%</b>
<b>Net Income <sup>(2) (3)</sup></b>	<b>\$73M</b>	<b>\$45M</b>	<b>64%</b>
<b>Earnings per Share <sup>(2) (3)</sup></b>	<b>\$0.45</b>	<b>\$0.29</b>	<b>55%</b>
<b>Weighted Diluted Shares used in EPS</b>	<b>164M</b>	<b>156M</b>	<b>5%</b>
<b>Deferred Revenue</b>	<b>\$295M</b>	<b>\$253M</b>	<b>17%</b>
<b>Free Cash Flow <sup>(4)</sup></b>	<b>\$135M</b>	<b>\$100M</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 of that period to the end of that period
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for 2011 and 32% for 2010 and removes tax benefit of stock based compensation and write-off of acquisition expense
- (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 and patent settlement.

# Q4 2011 Non-GAAP Results

	Q4 11	Q4 10	Y/Y % Growth	Q3 11
<b>Billings</b> <sup>(1)</sup>	\$141M	\$111M	27%	\$118M
<b>Revenue</b>	\$121M	\$94M	29%	\$116M
<b>Gross Margin (%)</b> <sup>(2)</sup>	74%	74%	--	74%
<b>Operating Income</b> <sup>(2)</sup>	\$32M	\$23M	40%	\$31M
<b>Operating Margin (%)</b> <sup>(2)</sup>	27%	25%	+2%	27%
<b>Net Income</b> <sup>(2) (3)</sup>	\$22M	\$17M	29%	\$22M
<b>Earnings per Share</b> <sup>(2) (3)</sup>	\$0.14	\$0.11	27%	\$0.13
<b>Weighted Diluted Shares used in EPS</b>	165M	161M	2%	164M
<b>Deferred Revenue</b>	\$295M	\$253M	17%	\$275M
<b>Free Cash Flow</b> <sup>(4)</sup>	\$31M	\$31M	1%	\$35M

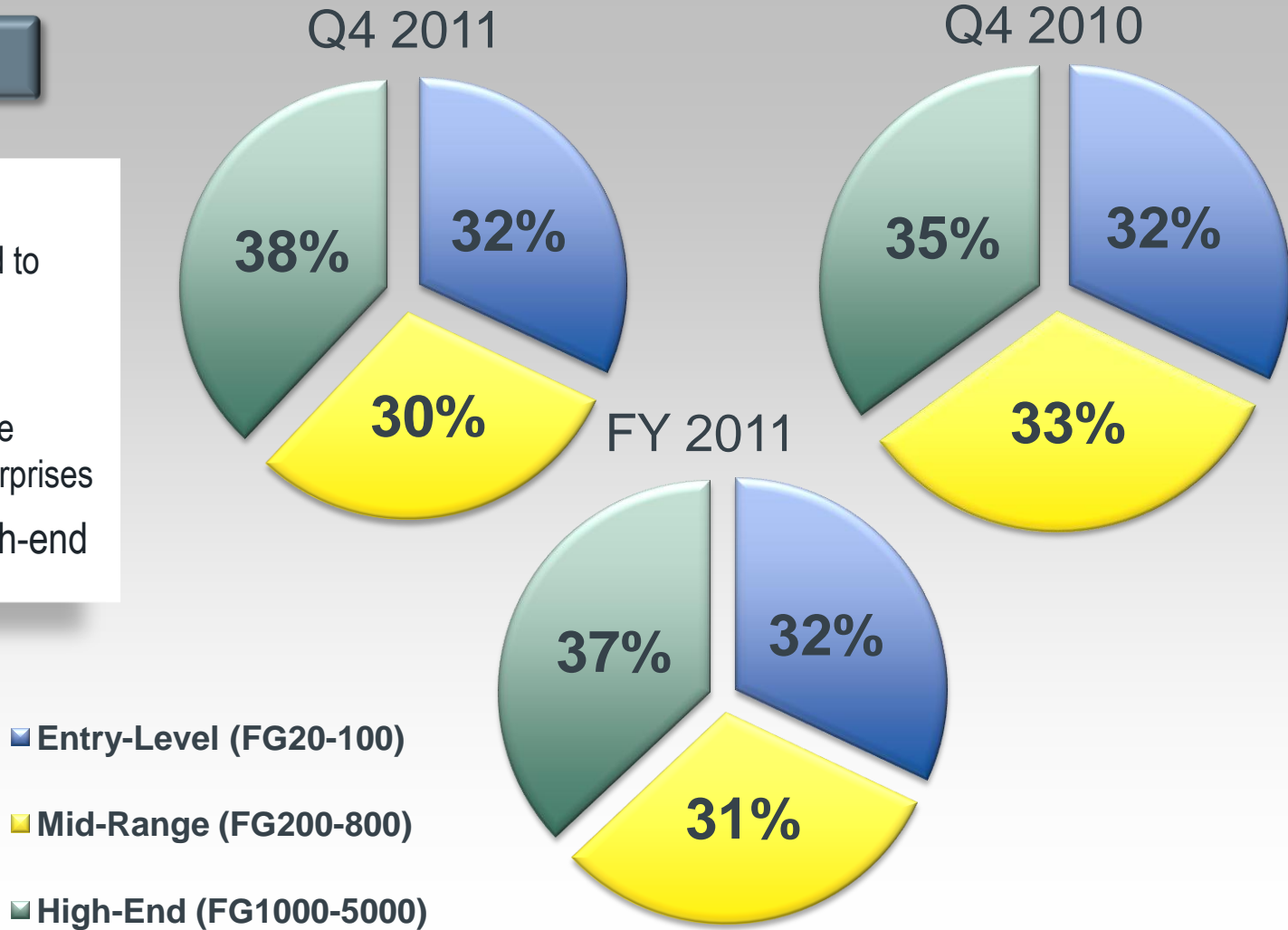
## Notes

- (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 of that period to the end of that period
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for Q4 2011, 27% for Q4 2010 and 33% for Q3 2011 and removes tax benefit of stock based compensation and write-off of acquisition expense
- (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 and patent settlement.

# 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
- **Growing enterprise & high-end**



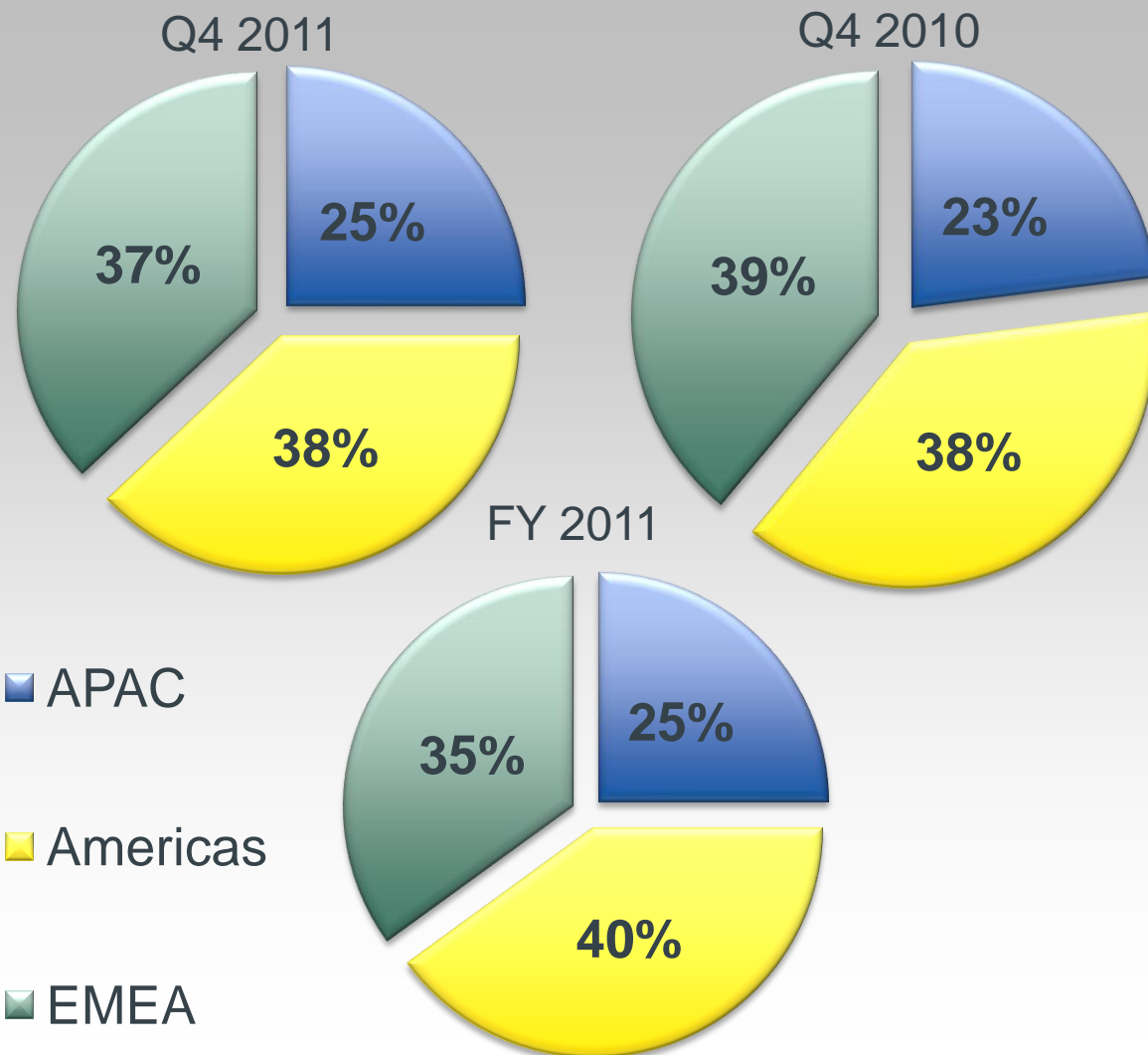
### Note

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

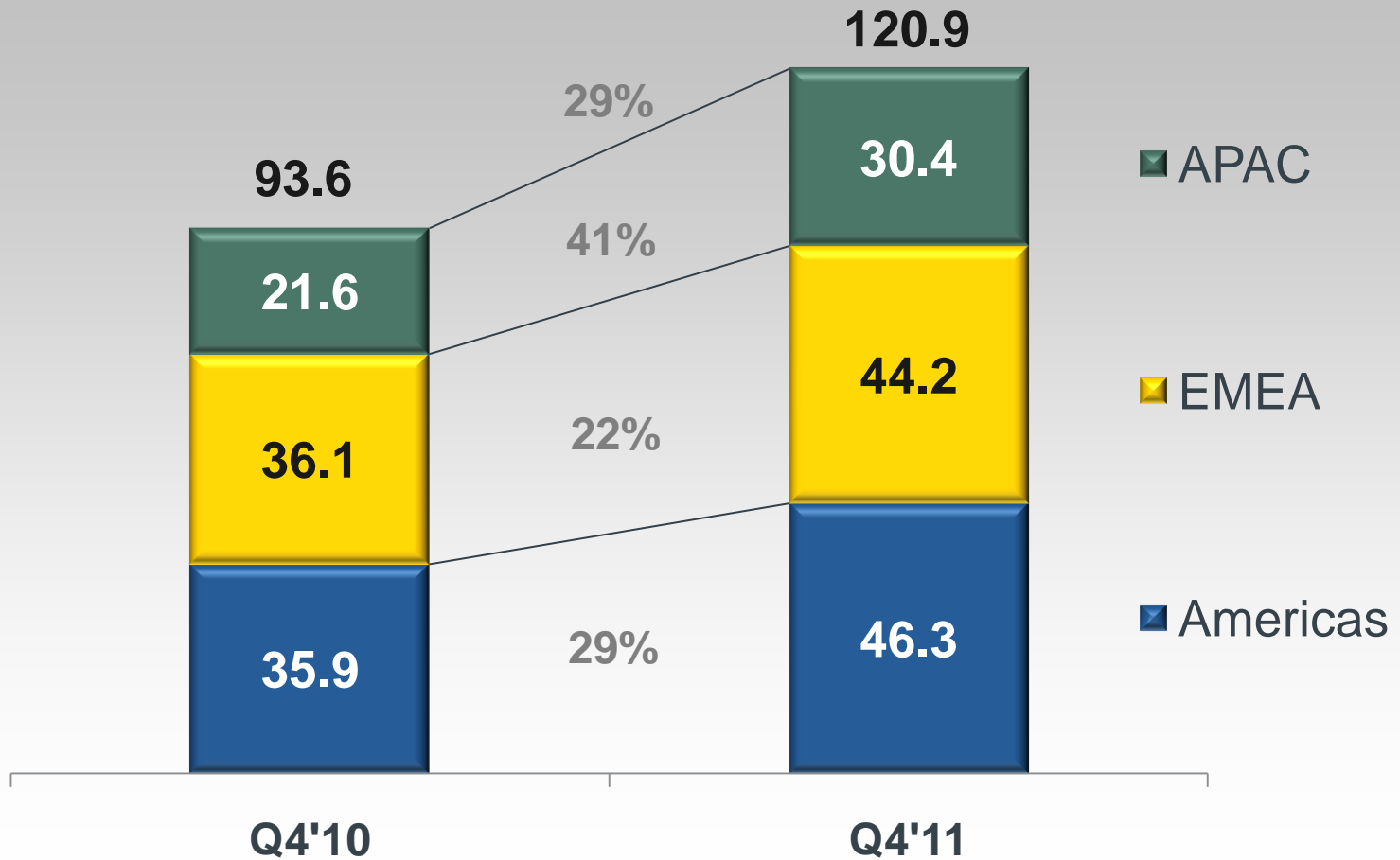
# Diversified Global Revenue

## Revenue by Geography

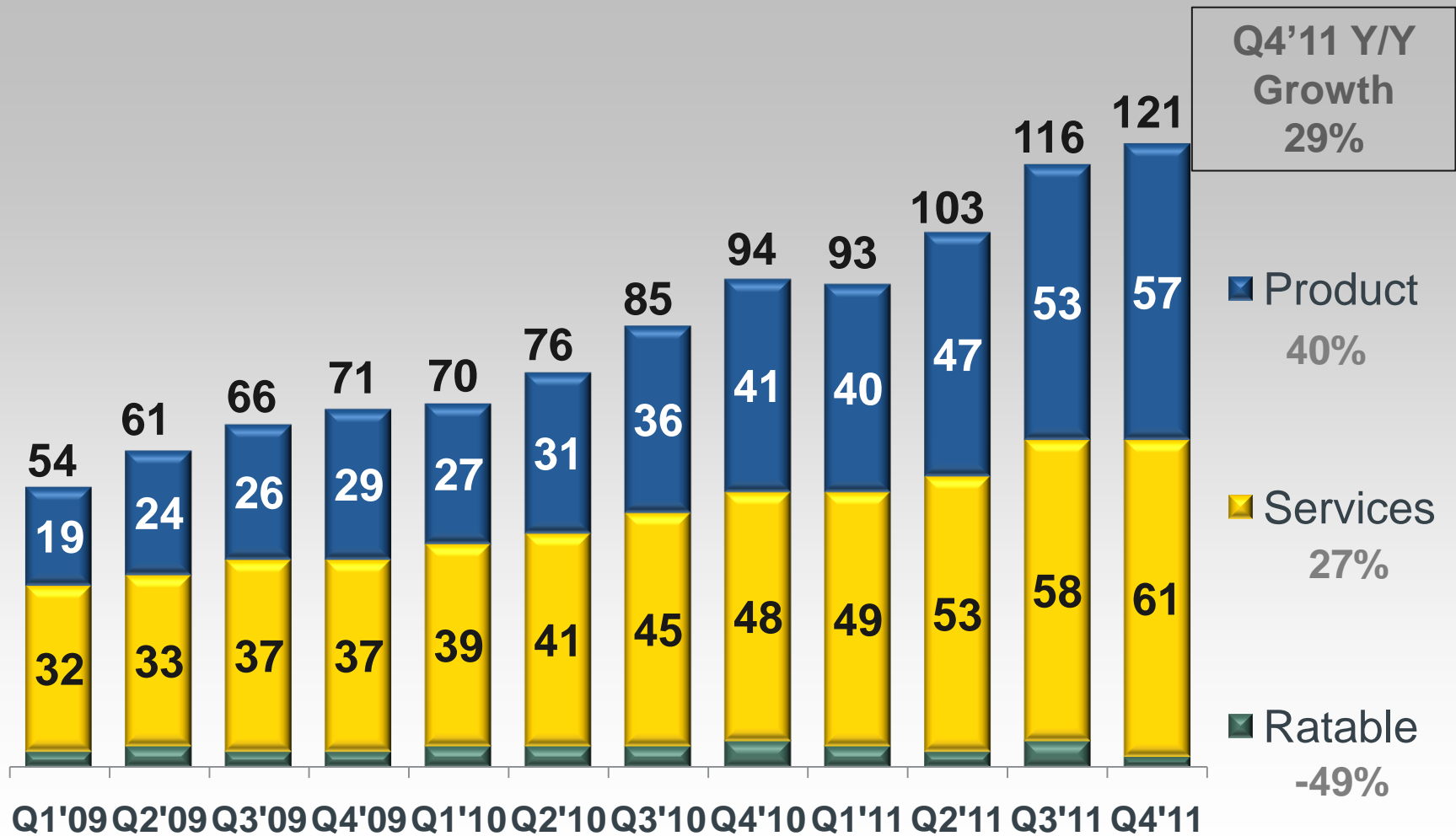
- Globally-diverse revenue stream
- AMER fastest-growing region in 2011
- Investing for growth globally



# Revenue Growth by Geography



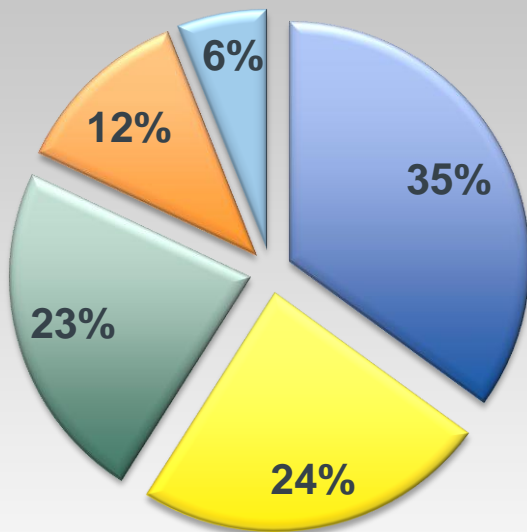
# Quarterly Revenue Mix & Q4'11 Y/Y Growth





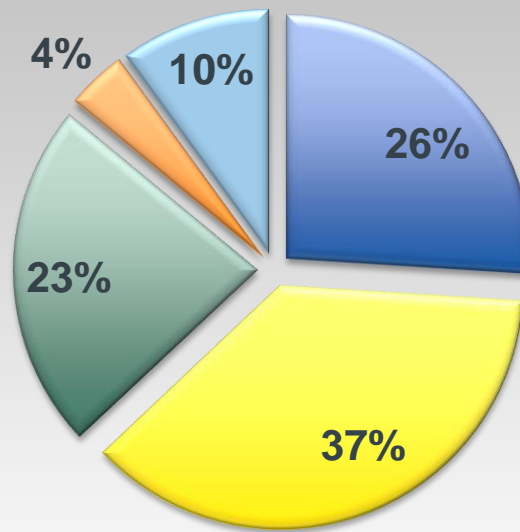
# Global Employee Footprint

Location



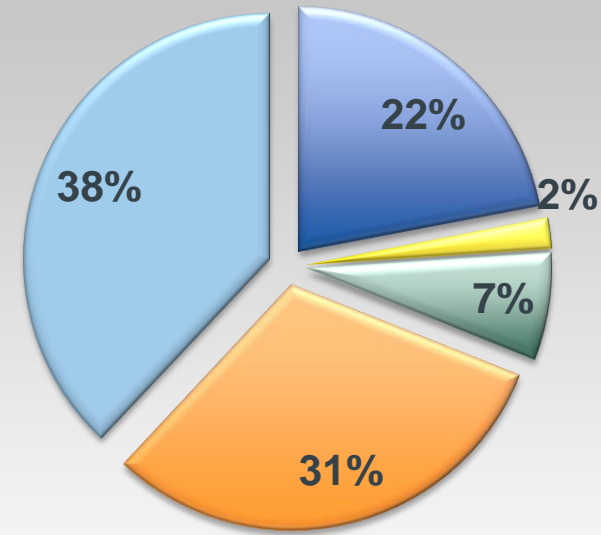
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function

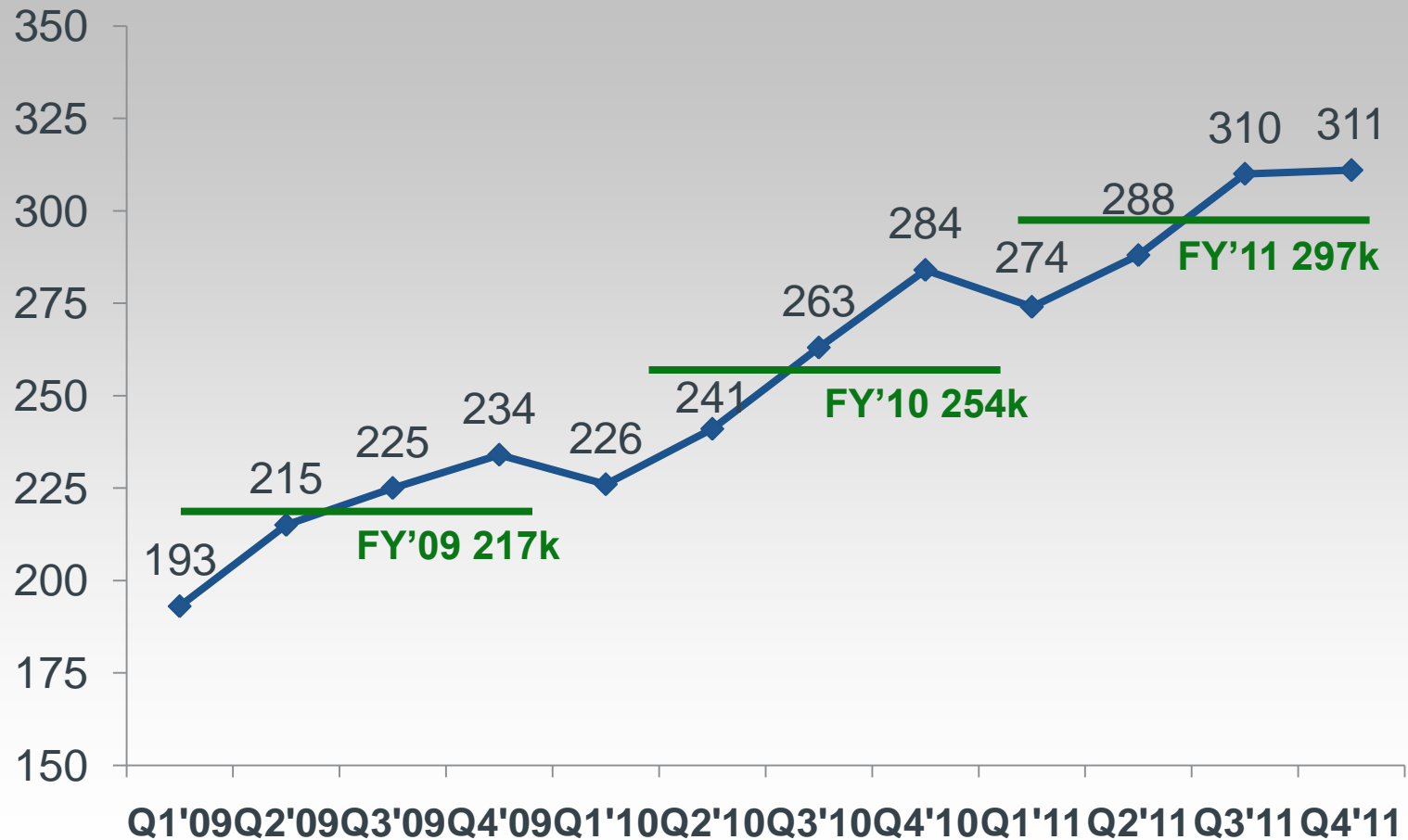


- Service & Support
- Operations
- G&A
- R&D
- Sales & Marketing

Q4'11 Headcount: 1,583

# Revenue per Employee

(\$ in Thousands, Annualized)



# Q4 2011 Select Financial Statistics

	Q4 11	Q3 11	Q4 10
Cash and Investments	\$539M	\$503M	\$387M
Deferred Revenue	\$295M	\$275M	\$253M
Free Cash Flow	\$31M	\$35M	\$31M
Working Capital	\$257M	\$252M	\$202M
Accounts Receivable	\$96M	\$76M	\$72M
DSO	71	59	70
Net Inventory	\$16M	\$13M	\$14M
Inventory Turns	4.4	5.2	3.9
Revenue per Employee (Annualized)	\$311K	\$310K	\$284K
No. of Deals >\$100K	192	130	142
No. of Deals >\$250K	57	39	45
No. of Deals >\$500K	15	13	13

# Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q4 11	Q3 11	Q4 10
<b>Assets</b>			
Cash and Investments	539	503	387
Accounts Receivable	96	76	60
Inventory	16	13	11
Property and Equipment	8	7	7
Deferred Tax Assets	54	52	48
Other Assets	22	20	17
<b>Total Assets</b>	<b>735</b>	<b>671</b>	<b>545</b>
<b>Liabilities and Shareholders' Equity</b>			
Accounts Payable	20	15	13
Accrued Expenses	62	64	47
Deferred Revenue	295	275	253
Common Stock/Paid in Capital	314	290	249
Retained Earnings	44	27	(17)
<b>Total Liabilities and Shareholders' Equity</b>	<b>735</b>	<b>671</b>	<b>545</b>

# Statement of Cash Flows (Non-GAAP)

<i>(\$ in Millions)</i>	Q4 11	Q4 10	2011	2010
<b>GAAP Net Income</b>	16	16	62	41
Depreciation, Amortization and Intangibles	8	4	26	15
Amortization of Investment Premium	3	2	13	7
Excess Tax Benefit	(11)	(2)	(20)	(6)
Accounts Receivable	(20)	(13)	(23)	(18)
Inventory	(4)	(3)	(6)	(6)
Accounts Payable / Accrued Expenses / Other	11	10	39	19
Deferred Revenue	20	17	42	51
<b>GAAP Cash Flow from Operations</b>	<b>23</b>	<b>31</b>	<b>133</b>	<b>103</b>
Purchase of Property and Equipment	(1)	(1)	(4)	(3)
Removal of Patent Settlements	9	-	6	-
<b>Free Cash Flow</b>	<b>31</b>	<b>31</b>	<b>135</b>	<b>100</b>
Investing: Amort. of Investment Premium	(3)	(2)	(13)	(7)
Financing: Excess Tax Benefit	11	2	20	6
<b>Adjusted Free Cash Flow</b>	<b>38</b>	<b>30</b>	<b>143</b>	<b>98</b>
Stock Option Exercises	6	5	20	29
Patent Settlements	(9)	-	(6)	-
Effect of Exchange Rates on Cash / Acquisition	1	-	(5)	-
<b>Net Cash Flow</b>	<b>36</b>	<b>35</b>	<b>152</b>	<b>127</b>

# Q1 and 2012 Guidance

	Q1 12	Y/Y % Mid-Pt Growth	2012	Y/Y % Mid-Pt Growth
<b>Billings <sup>(1)</sup></b>	<b>\$122 - 127M</b>	<b>17%</b>	<b>\$565 - 575M</b>	<b>20%</b>
<b>Revenue</b>	<b>\$112 - 115M</b>	<b>22%</b>	<b>\$505 - 520M</b>	<b>18%</b>
<b>Gross Margin (%) <sup>(2)</sup></b>	<b>~74%</b>		<b>~74%</b>	
<b>Operating Margin (%) <sup>(2)</sup></b>	<b>21 - 22%</b>		<b>~24%</b>	
<b>Earnings per Share <sup>(2) (3)</sup></b>	<b>\$0.11</b>		<b>\$0.48 - 0.52</b>	
<b>Weighted Diluted Shares used in EPS</b>	<b>165 - 167M</b>		<b>167 - 170M</b>	
<b>Adjusted Free Cash Flow <sup>(4)</sup></b>	<b>\$35 - 40M</b>		<b>\$160 - 170M</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 of that period to the end of that period
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for Q1 and 2012 and removes tax benefit of stock based compensation and write-off of acquisition expense
- (4) Adjusted Free Cash Flow is a non-GAAP measure that we define as Cash Flow from Operations less the purchase of property, plant and equipment and patent settlements adjusted for excess tax benefit and amortization of investment premiums.

# GAAP to Non-GAAP – Operating Results

## (Q4'11 vs. Q4'10 vs. Q3'11)

(in thousands, except per share amounts)

	Q4'11	Adj	Non-GAAP Q4'11	Q4'10	Adj	Non-GAAP Q4'10	Q3'11	Adj	Non-GAAP Q3'11
<b>Revenue:</b>									
<b>Product</b>	\$ 57,463	\$ -	\$ 57,463	\$ 41,080	\$ -	\$ 41,080	\$ 53,093	\$ -	\$ 53,093
<b>Services</b>	61,076	-	61,076	47,930	-	47,930	57,835	-	57,835
<b>Ratable product and services</b>	2,322	-	2,322	4,589	-	4,589	5,498	-	5,498
<b>Total Revenue</b>	120,861	-	120,861	93,599	-	93,599	116,426	-	116,426
<b>Cost of revenue:</b>									
<b>Cost of product revenue</b>	21,929	(54)	21,875	15,545	(25)	15,520	20,606	(64)	20,542
<b>Cost of services revenue</b>	9,671	(666)	9,005	7,116	(245)	6,871	9,438	(564)	8,874
<b>Cost of ratable product and services</b>	886	-	886	1,562	-	1,562	1,095	-	1,095
<b>Total cost of revenue</b>	32,486	(720)	31,766	24,223	(270)	23,953	31,139	(628)	30,511
<b>Gross Profit:</b>									
<b>Product</b>	35,534	54	35,588	25,535	25	25,560	32,487	64	32,551
<b>Services</b>	51,405	666	52,071	40,814	245	41,059	48,397	564	48,961
<b>Ratable product and services</b>	1,436	-	1,436	3,027	-	3,027	4,403	-	4,403
<b>Total gross profit</b>	88,375	720	89,095	69,376	270	69,646	85,287	628	85,915
<b>Operating Expenses:</b>									
<b>Research and development</b>	16,379	(1,737)	14,642	12,802	(598)	12,204	16,834	(1,516)	15,318
<b>Sales and marketing</b>	39,984	(3,036)	36,948	30,481	(1,030)	29,451	36,934	(2,708)	34,226
<b>General and administrative</b>	5,492	(370)	5,122	5,395	(571)	4,824	5,359	(404)	4,955
<b>Total operating expenses</b>	61,855	(5,143)	56,712	48,678	(2,199)	46,479	59,127	(4,628)	54,499
<b>Operating income</b>	26,520	5,863	32,383	20,698	2,469	23,167	26,160	5,256	31,416
<b>Interest income</b>	963	-	963	634	-	634	904	-	904
<b>Other income (expense), net</b>	(112)	-	(112)	(250)	-	(250)	60	-	60
<b>Net income before income taxes</b>	27,371	5,863	33,234	21,082	2,469	23,551	27,124	5,256	32,380
<b>Provision for income taxes</b>	10,877	90	10,967	4,941	1,332	6,273	9,207	1,478	10,685
<b>Net income</b>	\$ 16,494	\$ 5,773	\$ 22,267	\$ 16,141	\$ 1,137	\$ 17,278	\$ 17,917	\$ 3,778	\$ 21,695
<b>Basic net income per share</b>	\$ 0.11		\$ 0.14	\$ 0.11		\$ 0.12	\$ 0.12		\$ 0.14
<b>Diluted net income per share</b>	\$ 0.10		\$ 0.14	\$ 0.10		\$ 0.11	\$ 0.11		\$ 0.13
<b>Shares used in computing net income per share</b>									
<b>Basic</b>	154,429		154,429	147,698		147,698	153,265		153,265
<b>Diluted</b>	164,505		164,505	160,668		160,668	163,869		163,869

# GAAP to Non-GAAP – Operating Results (% of Rev)

## (Q4'11 vs. Q4'10 vs. Q3'11)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'11	Adj	Q4'11	Q4'10	Adj	Q4'10	Q3'11	Adj	Q3'11
<b>Revenue:</b>									
<b>Product</b>	48%	-	48%	44%	-	44%	46%	-	46%
<b>Services</b>	50%	-	50%	51%	-	51%	49%	-	49%
<b>Ratable product and services</b>	2%	-	2%	5%	-	5%	5%	-	5%
<b>Total Revenue</b>	100%	-	100%	100%	-	100%	100%	-	100%
<b>Cost of revenue:</b>									
<b>Cost of product revenue</b>	18%	-	18%	17%	-	17%	18%	-	18%
<b>Cost of services revenue</b>	8%	( 1% )	7%	8%	-	8%	8%	( 1% )	7%
<b>Cost of ratable product and services</b>	1%	-	1%	1%	-	1%	1%	-	1%
<b>Total cost of revenue</b>	27%	( 1% )	26%	26%	-	26%	27%	( 1% )	26%
<b>Gross Profit:</b>									
<b>Product</b>	62%	-	62%	62%	-	62%	61%	-	61%
<b>Services</b>	84%	1%	85%	85%	1%	86%	84%	1%	85%
<b>Ratable product and services</b>	62%	-	62%	66%	-	66%	80%	-	80%
<b>Total gross profit</b>	73%	1%	74%	74%	-	74%	73%	1%	74%
<b>Operating Expenses:</b>									
<b>Research and development</b>	14%	( 2% )	12%	14%	( 1% )	13%	14%	( 1% )	13%
<b>Sales and marketing</b>	33%	( 2% )	31%	33%	( 2% )	31%	32%	( 2% )	30%
<b>General and administrative</b>	4%	-	4%	5%	-	5%	5%	( 1% )	4%
<b>Total operating expenses</b>	51%	( 4% )	47%	52%	( 3% )	49%	51%	( 4% )	47%
<b>Operating income</b>	22%	5%	27%	22%	3%	25%	22%	5%	27%
<b>Interest income</b>	1%	-	1%	1%	-	1%	1%	-	1%
<b>Net income before income taxes</b>	23%	5%	28%	23%	3%	26%	23%	5%	28%
<b>Provision for income taxes</b>	9%	-	9%	6%	2%	8%	8%	1%	9%
<b>Net income</b>	14%	5%	19%	17%	1%	18%	15%	4%	19%



# GAAP to Non-GAAP – Operating Results

## (FY'11 vs. FY'10)

(in thousands, except per share amounts)

	Fiscal 2011	Adj	Non-GAAP Fiscal 2011	Fiscal 2010	Adj	Non-GAAP Fiscal 2010
<b>Revenue:</b>						
<b>Product</b>	\$ 197,408	\$ -	\$ 197,408	135,140	\$ -	\$ 135,140
<b>Services</b>	220,268	-	220,268	172,046	-	172,046
<b>Ratable product and services</b>	15,900	-	15,900	17,510	-	17,510
<b>Total Revenue</b>	433,576		433,576	324,696		\$ 324,696
<b>Cost of revenue:</b>						
<b>Cost of product revenue</b>	73,201	(183)	73,018	51,944	(101)	51,843
<b>Cost of services revenue</b>	35,486	(1,790)	33,696	26,967	(929)	26,038
<b>Cost of ratable product and services</b>	4,911	-	4,911	6,295	-	6,295
<b>Total cost of revenue</b>	113,598	(1,973)	111,625	85,206		84,176
<b>Gross Profit:</b>						
<b>Product</b>	124,207	183	124,390	83,196	101	83,297
<b>Services</b>	184,782	1,790	186,572	145,079	929	146,008
<b>Ratable product and services</b>	10,989	-	10,989	11,215	-	11,215
<b>Total gross profit</b>	319,978	1,973	321,951	239,490	1,030	240,520
<b>Operating Expenses:</b>						
<b>Research and development</b>	63,577	(4,691)	58,886	49,801	(2,339)	47,462
<b>Sales and marketing</b>	145,532	(9,325)	136,207	111,968	(3,810)	108,158
<b>General and administrative</b>	21,965	(1,115)	20,850	22,380	(2,136)	20,244
<b>Total operating expenses</b>	231,074	(15,131)	215,943	184,149	(8,285)	175,864
<b>Operating income</b>	88,904	17,104	106,008	55,341	9,315	64,656
<b>Interest income</b>	3,523	-	3,523	1,815	-	1,815
<b>Other income (expense), net</b>	(354)	-	(354)	(815)	-	(815)
<b>Net income before income taxes</b>	92,073	17,104	109,177	56,341	9,315	65,656
<b>Provision for income taxes</b>	29,581	6,447	36,028	15,096	5,914	21,010
<b>Net income</b>	\$ 62,492	\$ 10,657	\$ 73,149	\$ 41,245	\$ 3,401	\$ 44,646
<b>Basic net income per share</b>	\$ 0.41		\$ 0.48	\$ 0.29		\$ 0.32
<b>Diluted net income per share</b>	\$ 0.38		\$ 0.45	\$ 0.26		\$ 0.29
<b>Shares used in computing net income per share</b>						
<b>Basic</b>	152,581		152,581	140,726		140,726
<b>Diluted</b>	163,781		163,781	156,406		156,406

# GAAP to Non-GAAP – Operating Results (% of Rev) (FY'11 vs. FY'10)

% of revenue	Fiscal 2011			Fiscal 2010		
	Fiscal 2011	Adj	Non-GAAP Fiscal 2011	Fiscal 2010	Adj	Non-GAAP Fiscal 2010
<b>Revenue:</b>						
<b>Product</b>	46%	-	46%	42%	-	42%
<b>Services</b>	51%	-	51%	53%	-	53%
<b>Ratable product and services</b>	3%	-	3%	5%	-	5%
<b>Total Revenue</b>	100%	-	100%	100%	-	100%
<b>Cost of revenue:</b>						
<b>Cost of product revenue</b>	17%	-	17%	16%	-	16%
<b>Cost of services revenue</b>	8%	-	8%	8%	-	8%
<b>Cost of ratable product and services</b>	1%	-	1%	2%	-	2%
<b>Total cost of revenue</b>	26%	-	26%	26%	-	26%
<b>Gross Profit:</b>						
<b>Product</b>	63%	-	63%	62%	-	62%
<b>Services</b>	84%	-	84%	84%	-	84%
<b>Ratable product and services</b>	69%	-	69%	64%	-	64%
<b>Total gross profit</b>	74%	-	74%	74%	-	74%
<b>Operating Expenses:</b>						
<b>Research and development</b>	15%	( 1% )	14%	15%	( 1% )	14%
<b>Sales and marketing</b>	34%	( 3% )	31%	34%	( 1% )	33%
<b>General and administrative</b>	4%	1%	5%	8%	( 1% )	7%
<b>Total operating expenses</b>	53%	( 3% )	50%	57%	( 3% )	54%
<b>Operating income</b>	21%	3%	24%	17%	3%	20%
<b>Interest income</b>	1%	-	1%	1%	-	1%
<b>Net income before income taxes</b>	22%	3%	25%	18%	3%	21%
<b>Provision for income taxes</b>	7%	1%	8%	5%	2%	7%
<b>Net income</b>	15%	2%	17%	13%	1%	14%