



Q1 2013 Financial Results

April 30, 2013



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Q1 2013 Non-GAAP Results

	Q1 13	Q1 12	Y/Y % Growth	Q4 12
Billings ⁽¹⁾	\$148M	\$137M	8%	\$174M
Revenue	\$136M	\$117M	16%	\$151M
Gross Margin (%) ⁽²⁾	72%	74%	-2%	73%
Operating Income ⁽²⁾	\$24M	\$25M	-5%	\$41M
Operating Margin (%) ⁽²⁾	18%	22%	-4%	27%
Net Income ^{(2) (3)}	\$17M	\$17M	-1%	\$28M
Earnings per Share ^{(2) (3)}	\$0.10	\$0.11	-9%	\$0.17
Deferred Revenue	\$376M	\$295M	20%	\$363M
Cash Flow from Operations	\$38M	\$49M	-22%	\$50M
Free Cash Flow ⁽⁴⁾	\$36M	\$47M	-23%	\$48M

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 \$0.6M in Q1 2013 and \$1.9M in Q4 2012.
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for Q1 2013 and 34% for Q1 2012 and Q4 2012 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.

Balanced Product Segmentation

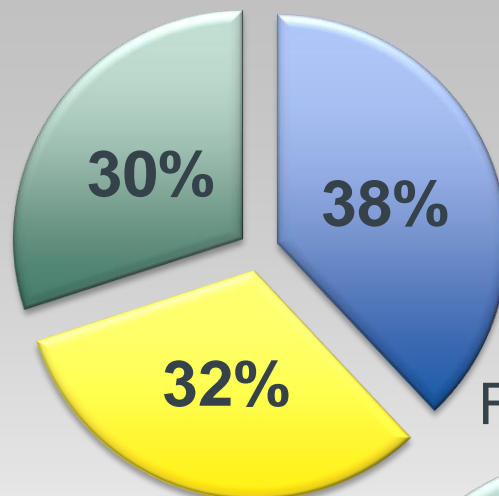
FortiGate Billings

- **Balanced Product Sales**

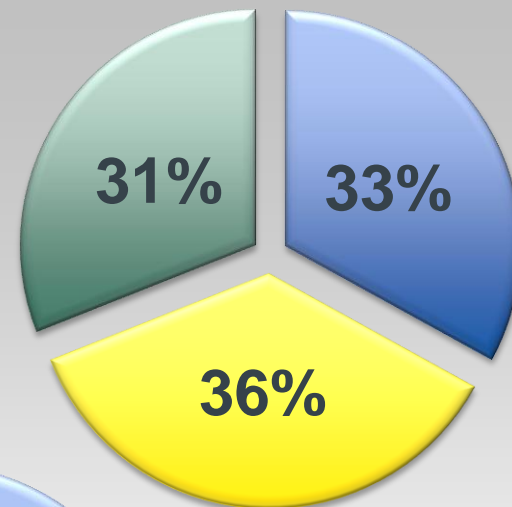
- Entry-level typically sold to SMBs/branch offices
- Mid-range = enterprises
- High-end = telcos/service providers and large enterprises

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

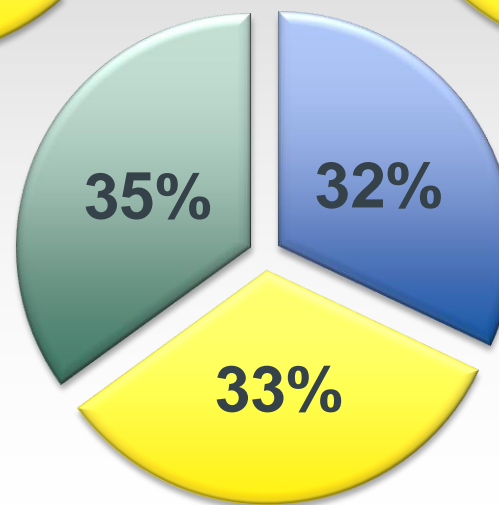
Q1 2013



Q1 2012



FY 2012



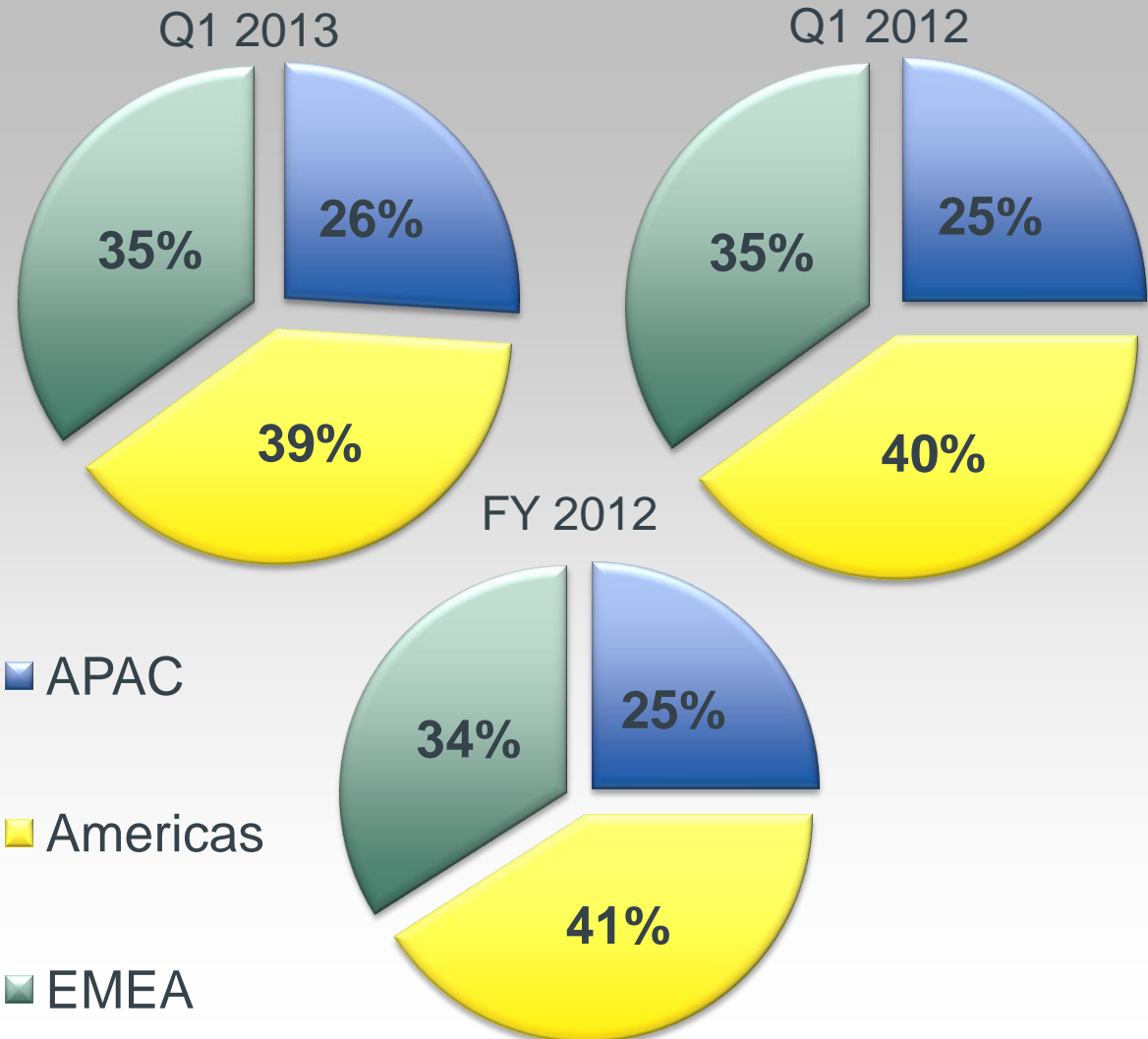
Note

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

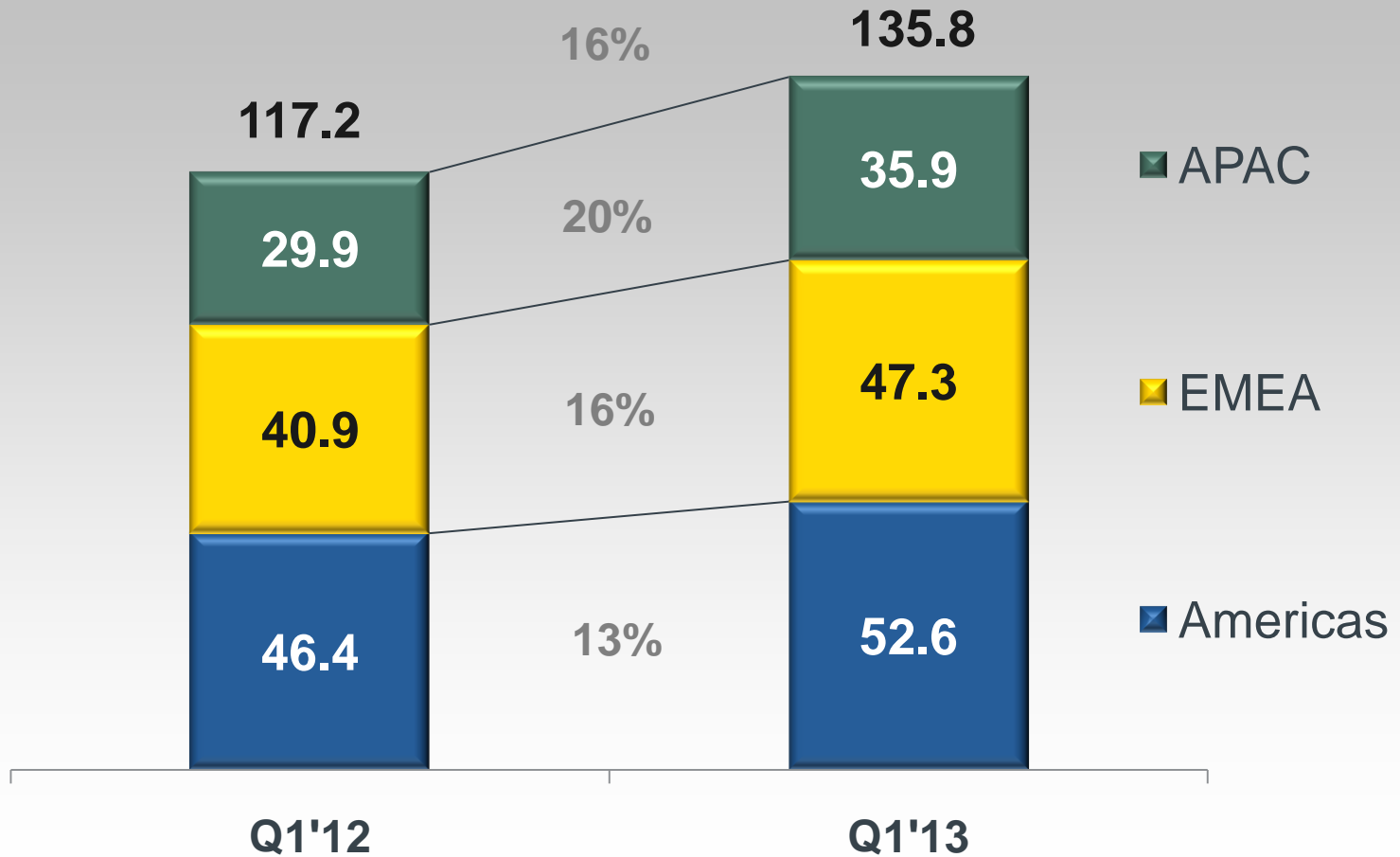
Diversified Global Revenue

Revenue by Geography

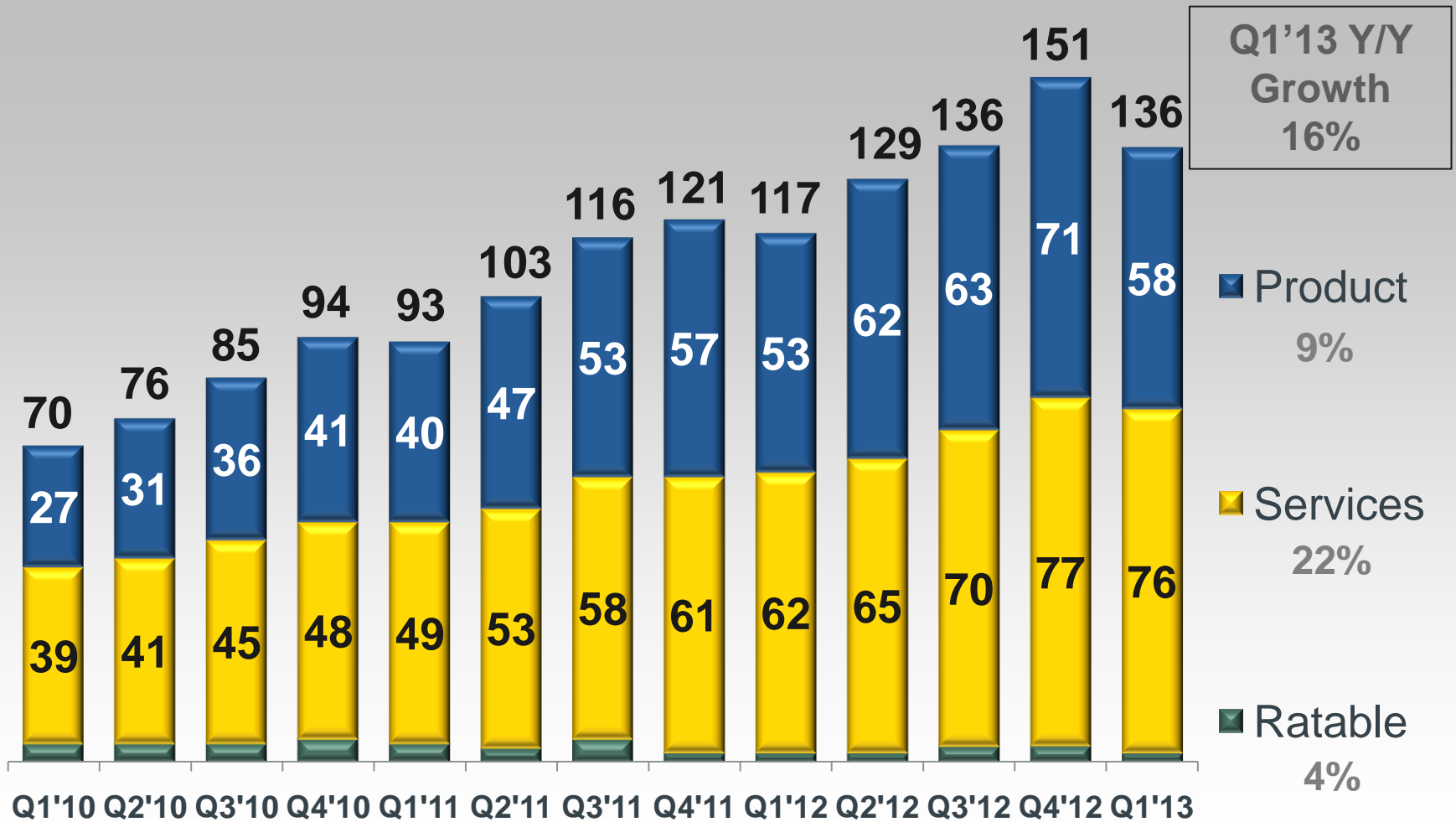
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography

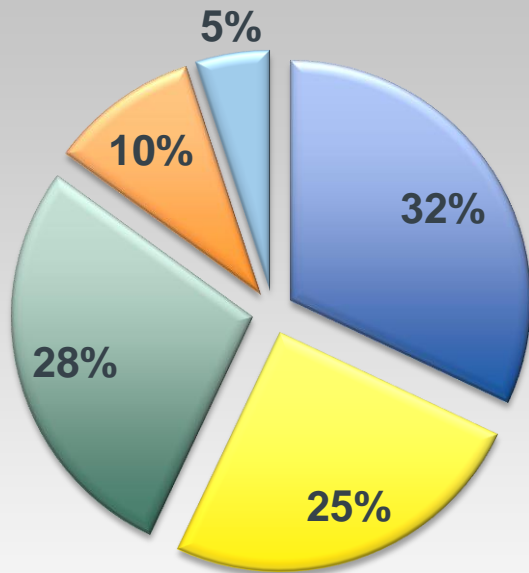


Quarterly Revenue Mix & Q1'13 Y/Y Growth



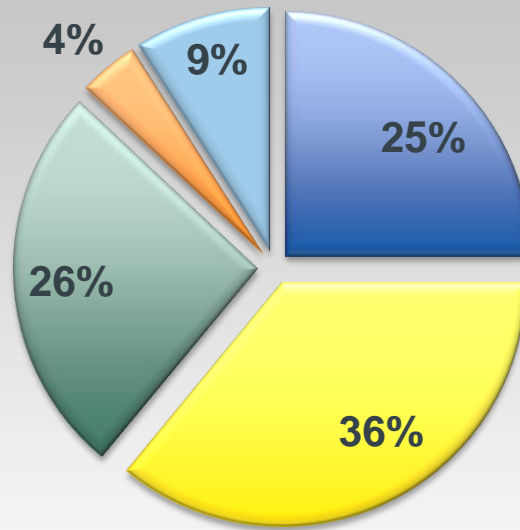
Global Employee Footprint

Location



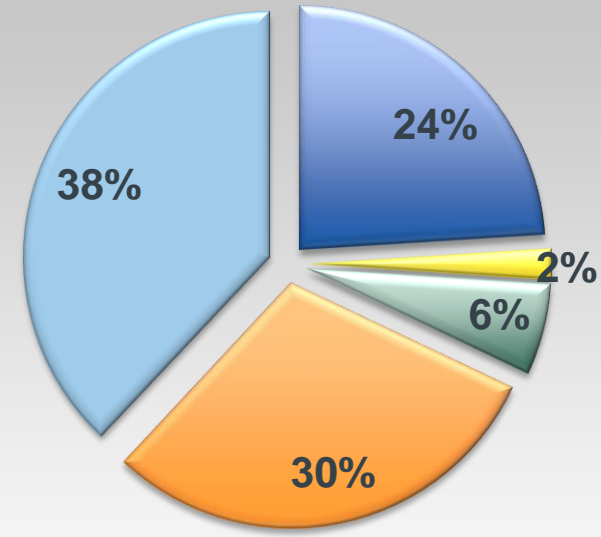
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function



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

Q1'13 Headcount: 2,077

Q1 2013 Select Financial Statistics

	Q1 13	Q4 12	Q1 12
Cash and Investments	\$783M	\$740M	\$600M
Deferred Revenue	\$376M	\$363M	\$315M
Free Cash Flow	\$36M	\$48M	\$47M
Working Capital	\$282M	\$250M	\$281M
Accounts Receivable	\$102M	\$108M	\$85M
DSO	68	64	65
Net Inventory	\$24M	\$21M	\$18M
Inventory Turns	3.2	4.4	3.9
Revenue per Employee (Annualized)	\$270K	\$318K	\$290K
No. of Deals >\$100K	170	229	153
No. of Deals >\$250K	55	78	47
No. of Deals >\$500K	13	27	19

Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q1 13	Q4 12	Q1 12
Assets			
Cash and Investments	783	740	600
Accounts Receivable	102	108	85
Inventory	24	21	18
Property and Equipment	26	26	10
Deferred Tax Assets	71	62	53
Other Assets	27	18	22
Total Assets	1,033	975	788
Liabilities and Shareholders' Equity			
Accounts Payable	26	21	14
Accrued Expenses	83	80	61
Deferred Revenue	376	363	315
Common Stock/Paid in Capital	423	397	338
Retained Earnings	125	114	60
Total Liabilities and Shareholders' Equity	1,033	975	788

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q1 13	Q1 12
GAAP Net Income	12	14
Depreciation and Stock-Based Compensation	12	9
Amortization of Investment Premium	3	3
Excess Tax Benefit	(1)	(2)
Accounts Receivable	6	11
Inventory	(5)	(3)
Accounts Payable / Accrued Expenses / Other	(2)	(3)
Deferred Revenue	13	20
GAAP Cash Flow from Operations	38	49
Purchase of Property and Equipment	(2)	(2)
Free Cash Flow	36	47
Stock Option Exercises and ESPP	14	14
Acquisition	(6)	(1)
Effect of F/X Rate on Cash / Other	(1)	1
Net Cash Flow	43	62
<i>Footnote: Cash Paid for Taxes</i>	9	1

Q2 and 2013 Guidance

	Q2 13	Y/Y % Mid-Pt Growth	2013	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$157 - 161M	9%	\$665 - 675M	11%
Revenue	\$141 - 144M	11%	\$595 - 605M	12%
Gross Margin (%) ⁽²⁾	~72%		~72%	
Operating Margin (%) ⁽²⁾	~17%		~20%	
Earnings per Share ^{(2) (3)}	~\$0.09		~\$0.49	
Weighted Diluted Shares used in EPS	169 - 171M		170 - 172M	
Free Cash Flow ⁽⁴⁾			\$140 - 150M	

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 write-offs
- (3) Assumes effective tax rate of 33% for Q2 and 2013 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.

GAAP to Non-GAAP – Operating Results

(Q1'13 vs. Q1'12 vs. Q4'12)

(in thousands, except per share amounts)

	Q1'13	Adj	Non-GAAP Q1'13	Q1'12	Adj	Non-GAAP Q1'12	Q4'12	Adj	Non-GAAP Q4'12
Revenue:									
Product	\$ 57,950	\$ -	\$ 57,950	\$ 53,204	\$ -	\$ 53,204	\$ 71,025	\$ -	\$ 71,025
Services	75,896	-	75,896	62,138	-	62,138	76,711	-	76,711
Ratable and other revenue	1,974	-	1,974	1,905	-	1,905	3,426	-	3,426
Total Revenue	135,820	-	135,820	117,247	-	117,247	151,162	-	151,162
Cost of revenue:									
Cost of product revenue	22,958	(90)	22,868	19,067	(64)	19,003	26,974	(96)	26,878
Cost of services revenue	15,574	(1,020)	14,554	11,213	(745)	10,468	13,836	(1,032)	12,804
Cost of ratable and other revenue	596	-	596	763	-	763	632	-	632
Total cost of revenue	39,128	(1,110)	38,018	31,043	(809)	30,234	41,442	(1,128)	40,314
Gross Profit:									
Product	34,992	90	35,082	34,137	64	34,201	44,051	96	44,147
Services	60,322	1,020	61,342	50,925	745	51,670	62,875	1,032	63,907
Ratable and other revenue	1,378	-	1,378	1,142	-	1,142	2,794	-	2,794
Total gross profit	96,692	1,110	97,802	86,204	809	87,013	109,720	1,128	110,848
Operating Expenses:									
Research and development	23,334	(2,766)	20,568	19,667	(1,957)	17,710	20,525	(2,452)	18,073
Sales and marketing	49,976	(4,118)	45,858	42,036	(3,443)	38,593	48,117	(1,996)	46,121
General and administrative	7,991	(827)	7,164	5,786	(559)	5,227	6,038	(708)	5,330
Total operating expenses	81,301	(7,711)	73,590	67,489	(5,959)	61,530	74,680	(5,156)	69,524
Operating income	15,391	8,821	24,212	18,715	6,768	25,483	35,040	6,284	41,324
Interest income	1,369	-	1,369	1,085	-	1,085	1,400	-	1,400
Other interest (expense), net	215	-	215	(71)	-	(71)	(170)	-	(170)
Net income before income taxes	16,975	8,821	25,796	19,729	6,768	26,497	36,270	6,284	42,554
Provision for income taxes	4,726	3,787	8,513	5,556	3,453	9,009	14,763	(295)	14,468
Net income	\$ 12,249	\$ 5,034	\$ 17,283	\$ 14,173	\$ 3,315	\$ 17,488	\$ 21,507	\$ 6,579	\$ 28,086
Basic net income per share	\$ 0.08		\$ 0.11	\$ 0.09		\$ 0.11	\$ 0.13		\$ 0.18
Diluted net income per share	\$ 0.07		\$ 0.10	\$ 0.09		\$ 0.11	\$ 0.13		\$ 0.17
Shares used in computing net income per share									
Basic	161,282		161,282	156,010		156,010	160,034		160,034
Diluted	167,823		167,823	165,751		165,751	166,955		166,955

GAAP to Non-GAAP – Operating Results (% of Rev) (Q1'13 vs. Q1'12 vs. Q4'12)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q1'13	Adj	Q1'13	Q1'12	Adj	Q1'12	Q4'12	Adj	Q4'12
Revenue:									
Product	43%	-	43%	45%	-	45%	47%	-	47%
Services	56%	-	56%	53%	-	53%	51%	-	51%
Ratable and other revenue	1%	-	1%	2%	-	2%	2%	-	2%
Total Revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Cost of product revenue	17%	-	17%	16%	-	16%	18%	-	18%
Cost of services revenue	12%	(1%)	11%	9%	-	9%	9%	-	9%
Cost of ratable and other revenue	-	-	-	1%	-	1%	-	-	-
Total cost of revenue	29%	(1%)	28%	26%	-	26%	27%	-	27%
Gross Profit:									
Product	60%	1%	61%	64%	-	64%	62%	-	62%
Services	79%	2%	81%	82%	1%	83%	82%	1%	83%
Ratable and other revenue	70%	-	70%	60%	-	60%	82%	-	82%
Total gross profit	71%	1%	72%	74%	-	74%	73%	-	73%
Operating Expenses:									
Research and development	17%	(2%)	15%	17%	(2%)	15%	14%	(3%)	11%
Sales and marketing	37%	(3%)	34%	36%	(3%)	33%	32%	(1%)	31%
General and administrative	6%	(1%)	5%	5%	(1%)	4%	4%	-	4%
Total operating expenses	60%	(6%)	54%	58%	(6%)	52%	50%	(4%)	46%
Operating income	11%	7%	18%	16%	6%	22%	23%	4%	27%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Net income before income taxes	12%	7%	19%	17%	6%	23%	24%	4%	28%
Provision for income taxes	3%	3%	6%	5%	3%	8%	10%	-	10%
Net income	9%	4%	13%	12%	3%	15%	14%	4%	18%