



# Q3 2023 Financial Results

November 2, 2023

# Safe Harbor Statement

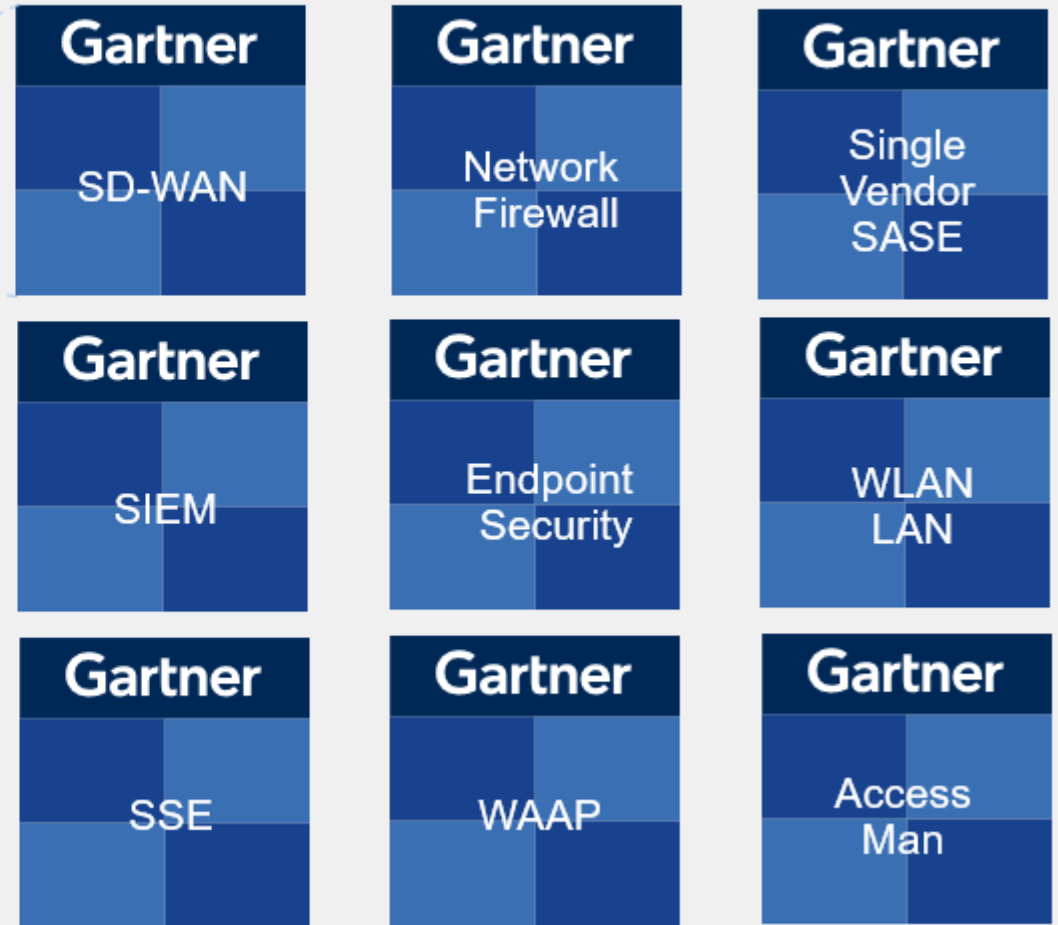
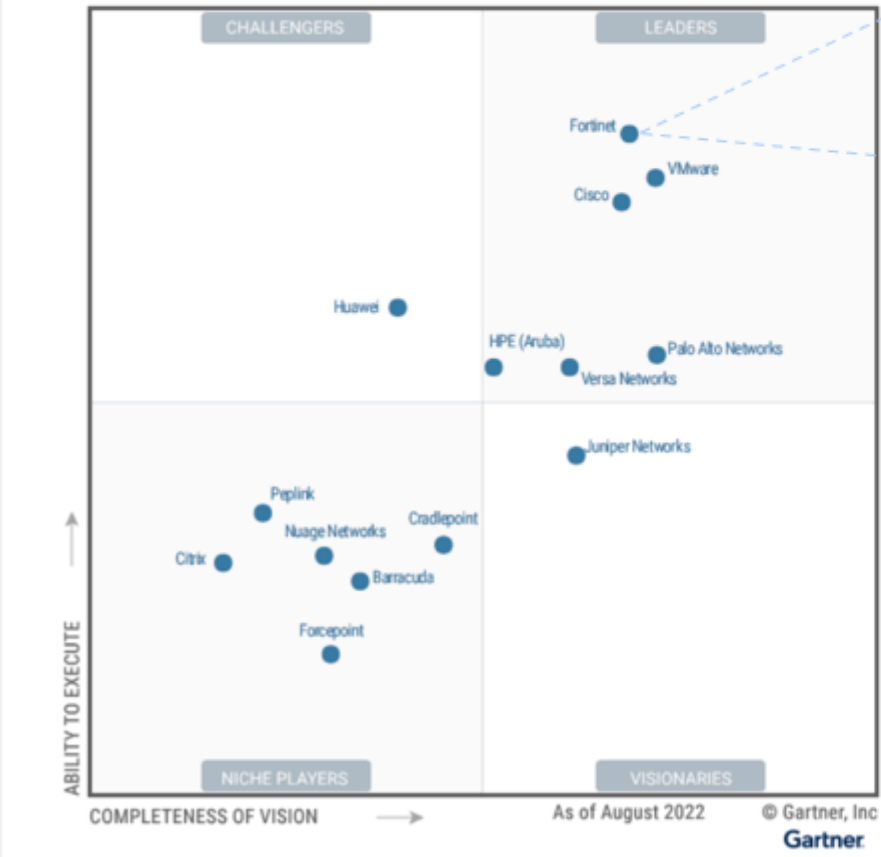
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# Fortinet Recognized in 9 Gartner Magic Quadrants

## Magic Quadrant

Figure 1: Magic Quadrant for SD-WAN




# Company Strategy







### INNOVATION

-  FortiOS
-  Security Processors
-  AI Driven Technologies
-  Global Cloud Network
-  Flexible Consumption





### PLATFORM

-  Secure Networking
-  Universal SASE
-  Security Operations
-  Ecosystem






### GO-TO-MARKET

-  Channel Investment
-  Marketing Segmentation
-  Sales Enablement



### CUSTOMERS

-  Strategic Partnerships
-  Managed Services
-  Training & Education



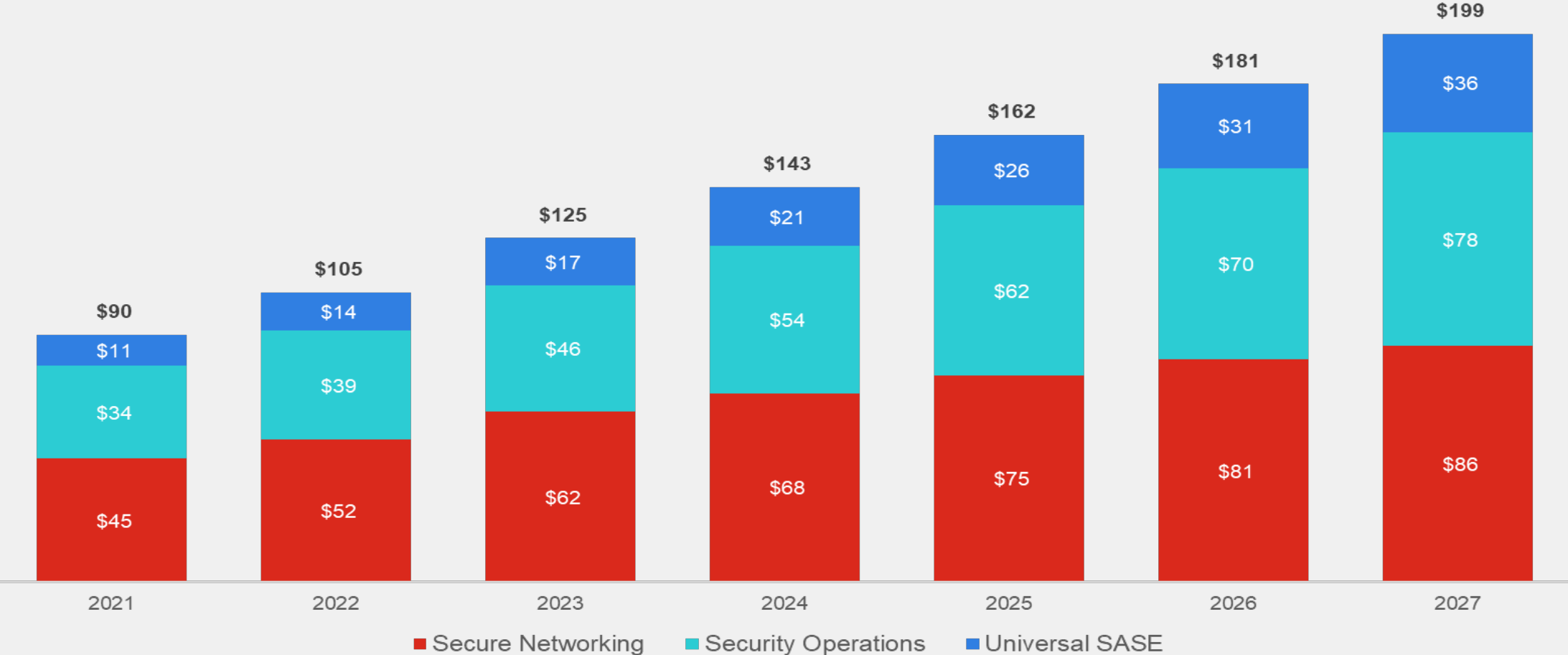
# A Large and Growing Total Addressable Market (TAM)



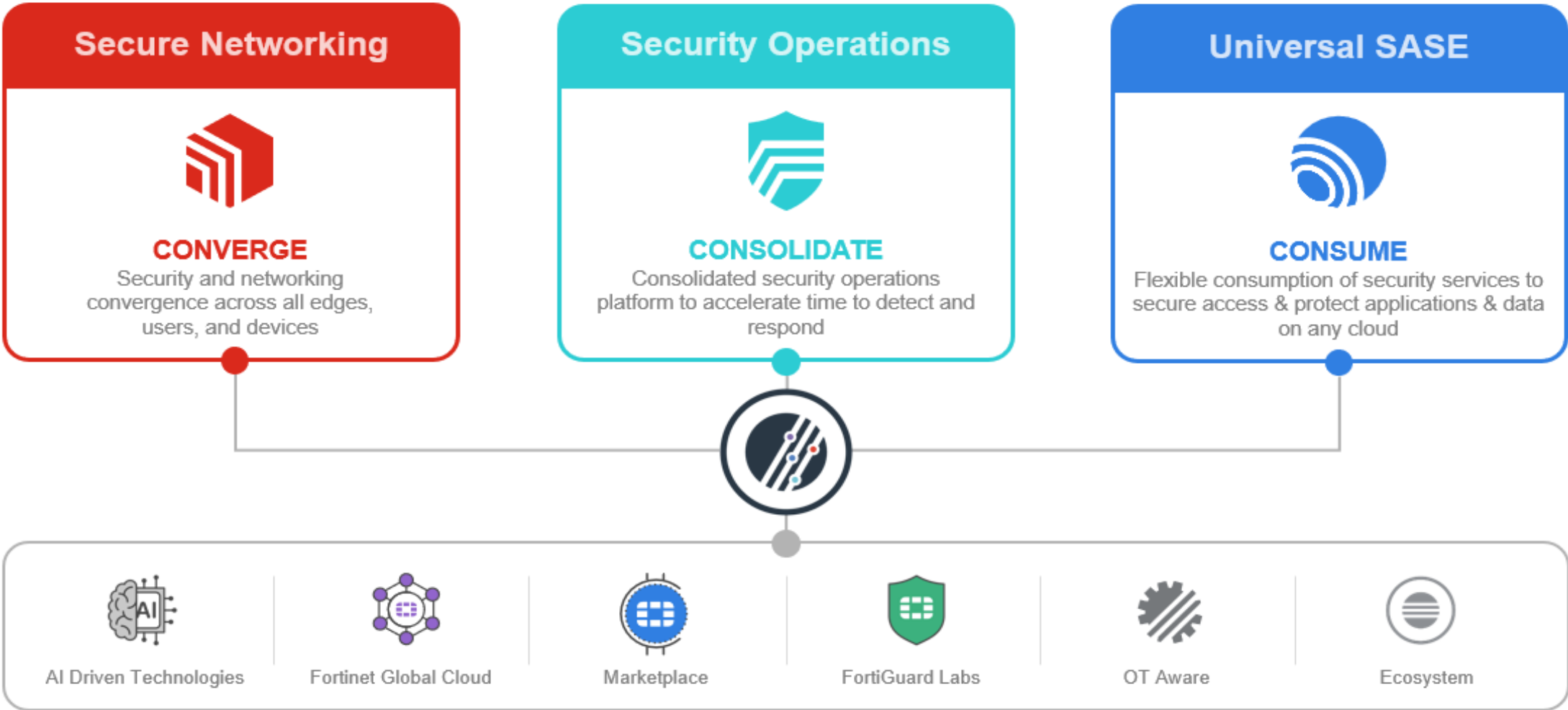
**Total TAM of \$125B in 2023 Growing to \$199B by 2027**



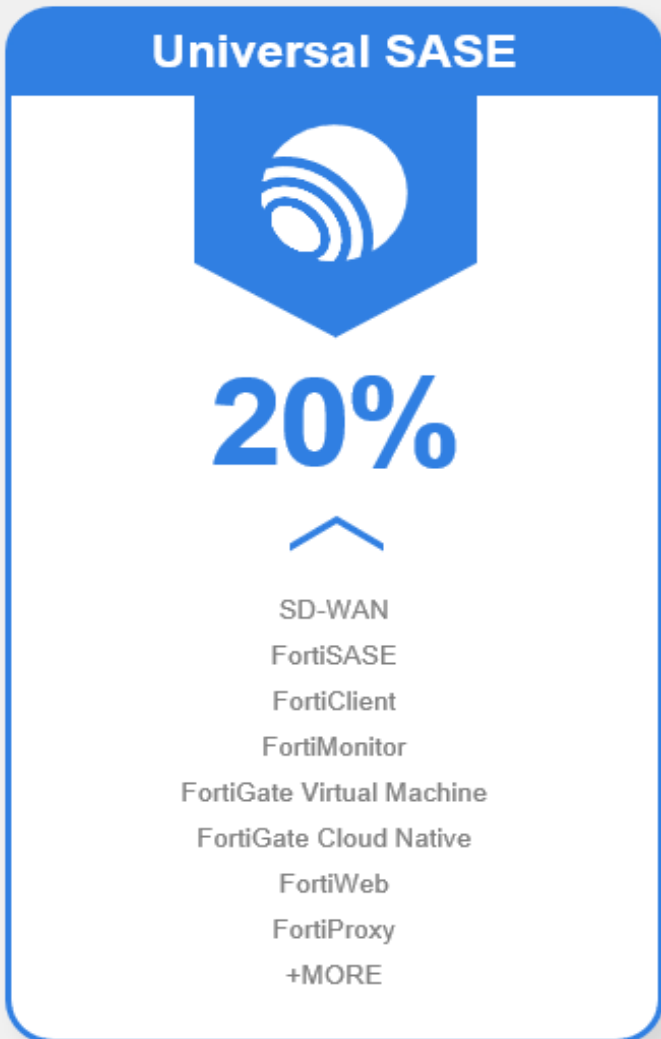
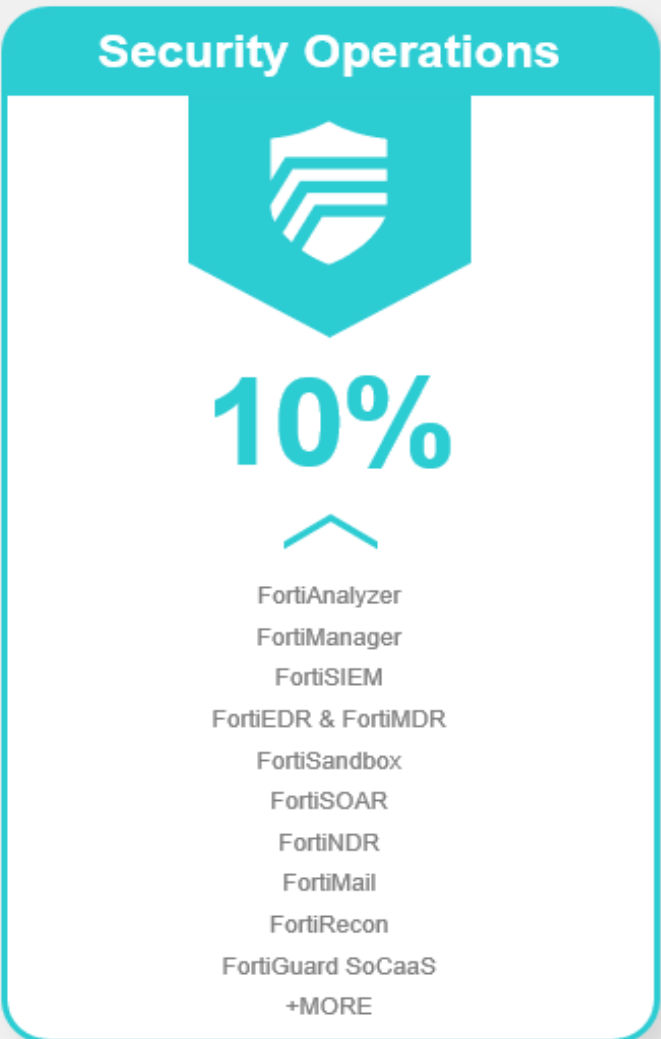
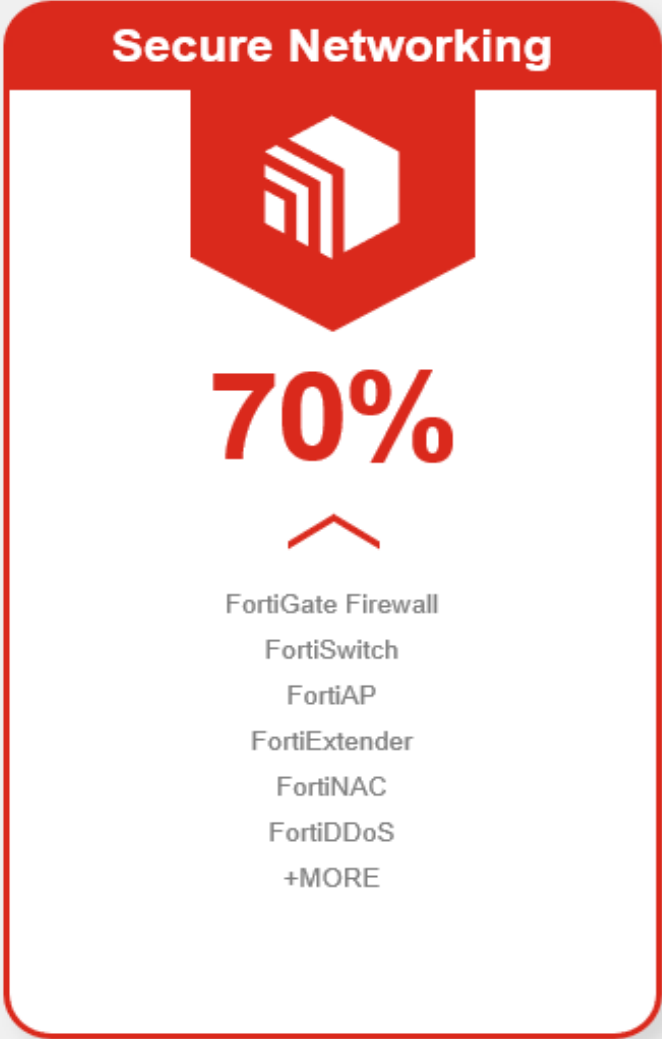
# Total Addressable Market: \$125B Growing to \$199B by 2027



# One Platform - The Fortinet Security Fabric



# Segment Breakdown Q3'23 Billings



Note 1 All Solutions include FortiGuard service sales  
Note 2 SD-WAN in Universal SASE is calculated from a % of FortiGate Entry Level sales



# Q3 2023 Non-GAAP Results

|                                | Q3'21           | Q4'21           | Q1'22           | Q2'22           | Q3'22           | Q4'22           | Q1'23           | Q2'23           | Q3'23           |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Billings <sup>(1)</sup></b> | <b>\$1.064B</b> | <b>\$1.306B</b> | <b>\$1.160B</b> | <b>\$1.304B</b> | <b>\$1.411B</b> | <b>\$1.719B</b> | <b>\$1.503B</b> | <b>\$1.541B</b> | <b>\$1.491B</b> |
| <i>Y/Y % Change</i>            | <i>41.9%</i>    | <i>35.9%</i>    | <i>36.4%</i>    | <i>35.7%</i>    | <i>32.6%</i>    | <i>31.6%</i>    | <i>29.6%</i>    | <i>18.1%</i>    | <i>5.7%</i>     |
| <b>Revenue</b>                 | <b>\$867.2M</b> | <b>\$963.6M</b> | <b>\$954.8M</b> | <b>\$1.030B</b> | <b>\$1.150B</b> | <b>\$1.283B</b> | <b>\$1.262B</b> | <b>\$1.293B</b> | <b>\$1.335B</b> |
| <i>Y/Y % Change</i>            | <i>33.2%</i>    | <i>28.8%</i>    | <i>34.4%</i>    | <i>28.6%</i>    | <i>32.6%</i>    | <i>33.1%</i>    | <i>32.2%</i>    | <i>25.5%</i>    | <i>16.1%</i>    |
| <b>Product Revenue</b>         | <b>\$337.1M</b> | <b>\$378.9M</b> | <b>\$371.0M</b> | <b>\$400.7M</b> | <b>\$468.7M</b> | <b>\$540.1M</b> | <b>\$500.7M</b> | <b>\$472.6M</b> | <b>\$465.9M</b> |
| <i>Y/Y % Change</i>            | <i>50.6%</i>    | <i>31.4%</i>    | <i>54.1%</i>    | <i>34.3%</i>    | <i>39.0%</i>    | <i>42.5%</i>    | <i>35.0%</i>    | <i>17.9%</i>    | <i>(0.6)%</i>   |
| <b>Service Revenue</b>         | <b>\$530.1M</b> | <b>\$584.7M</b> | <b>\$583.8M</b> | <b>\$629.4M</b> | <b>\$680.8M</b> | <b>\$742.9M</b> | <b>\$761.6M</b> | <b>\$820.2M</b> | <b>\$868.7M</b> |
| <i>Y/Y % Change</i>            | <i>24.1%</i>    | <i>27.2%</i>    | <i>24.3%</i>    | <i>25.2%</i>    | <i>28.4%</i>    | <i>27.1%</i>    | <i>30.5%</i>    | <i>30.3%</i>    | <i>27.6%</i>    |

**Note**

(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 less any deferred revenue balances acquired from business combination(s) and adjustment due to adoption of new accounting standard during the period.



# Q3 2023 Non-GAAP Results

|  | Q3'21    | Q4'21    | Q1'22    | Q2'22    | Q3'22    | Q4'22    | Q1'23    | Q2'23    | Q3'23    |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Gross Profit <sup>(1)</sup>  | \$663.8M | \$744.4M | \$710.2M | \$788.5M | \$875.5M | \$996.0M | \$963.6M | \$1.01B  | \$1.03B  |
| Gross Margin <sup>(1)</sup>  | 76.5%    | 77.3%    | 74.4%    | 76.5%    | 76.2%    | 77.6%    | 76.3%    | 77.9%    | 76.9%    |
| Operating Income <sup>(1)(2)</sup>   | \$223.6M | \$274.7M | \$210.2M | \$255.4M | \$324.9M | \$417.6M | \$334.0M | \$348.1M | \$371.4M |
| Operating Margin <sup>(1)(2)</sup>   | 25.8%    | 28.5%    | 22.0%    | 24.8%    | 28.3%    | 32.5%    | 26.5%    | 26.9%    | 27.8%    |
| Net Income attributable to Fortinet, Inc. <sup>(1)(2)(3)(4)(5)</sup>                                       | \$165.9M | \$205.8M | \$155.1M | \$194.1M | \$262.7M | \$349.7M | \$269.7M | \$300.4M | \$323.5M |
| Diluted Net Income per Share Attributable to Fortinet, Inc. <sup>(1)(2)(3)(4)(5)(6)</sup>                  | \$0.20   | \$0.25   | \$0.19   | \$0.24   | \$0.33   | \$0.44   | \$0.34   | \$0.38   | \$0.41   |
| Weighted Diluted Shares Used to Compute Net Income per Share Attributable to Fortinet, Inc. <sup>(6)</sup> | 838.6M   | 835.0M   | 820.8M   | 810.1M   | 798.6M   | 791.8M   | 793.4M   | 795.9M   | 791.2M   |
| Deferred Revenue   | \$3.11B  | \$3.45B  | \$3.66B  | \$3.93B  | \$4.19B  | \$4.64B  | \$4.88B  | \$5.13B  | \$5.29B  |
| Cash, Investments and Marketable Equity Securities <sup>(7)</sup>  | \$3.42B  | \$2.99B  | \$2.50B  | \$1.94B  | \$1.81B  | \$2.26B  | \$2.89B  | \$3.32B  | \$3.17B  |
| Cash Paid for Stock Repurchases  | \$78.4M  | \$571.8M | \$691.2M | \$800.0M | \$500.0M | —        | —        | —        | \$604.3M |
| Days Sales Outstanding   | 63       | 75       | 75       | 80       | 75       | 89       | 78       | 75       | 68       |
| Inventory Turns  | 2.9      | 2.7      | 3.5      | 3.1      | 3.4      | 2.8      | 2.3      | 1.6      | 1.2      |
| Headcount  | 9,663    | 10,195   | 10,860   | 11,508   | 12,091   | 12,595   | 13,202   | 13,677   | 13,618   |

## Notes

- (1) Excludes stock-based compensation and amortization of acquired intangible assets.
- (2) Excludes gain on intellectual property ("IP").
- (3) Assumes a quarterly effective tax rate of 21% for 2021 and 17% for 2022. Assumes a quarterly effective tax rate of 17% from Q1'23 to Q3'23.
- (4) Excludes a non-cash charge, primarily comprised of the impairment recognized on our equity method investment in Linksys Holdings Inc. ("Linksys") and other intervening events related to the establishment of a valuation allowance against Linksys deferred tax assets.
- (5) Excludes the adjustments attributable to non-controlling interests.
- (6) All share and per share amounts presented herein have been retroactively adjusted to reflect the five-for-one forward stock split which was effective June 22, 2022.
- (7) Excludes investments in privately held companies, which are recorded in other assets.



# Revenue by Geography

| (\$ in millions) | Q3'21   |              | Q4'21   |              | Q1'22   |              | Q2'22     |              | Q3'22     |              | Q4'22     |              | Q1'23     |              | Q2'23     |              | Q3'23     |              |
|------------------|---------|--------------|---------|--------------|---------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|
|                  | \$      | 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         | \$350.1 | 28.5%        | \$380.8 | 26.4%        | \$382.6 | 31.5%        | \$413.6   | 22.7%        | \$467.6   | 33.6%        | \$521.2   | 36.9%        | \$523.5   | 36.8%        | \$537.0   | 29.8%        | \$545.6   | 16.7%        |
| EMEA             | \$323.2 | 32.8%        | \$370.8 | 24.3%        | \$346.0 | 25.5%        | \$391.8   | 28.0%        | \$443.9   | 37.3%        | \$510.1   | 37.6%        | \$478.2   | 38.2%        | \$506.9   | 29.4%        | \$512.2   | 15.4%        |
| APAC             | \$193.9 | 43.2%        | \$212.0 | 42.9%        | \$226.2 | 57.4%        | \$224.7   | 42.3%        | \$238.0   | 22.7%        | \$251.7   | 18.7%        | \$260.6   | 15.2%        | \$248.9   | 10.8%        | \$276.8   | 16.3%        |
| Total            | \$867.2 | 33.2%        | \$963.6 | 28.8%        | \$954.8 | 34.4%        | \$1,030.1 | 28.6%        | \$1,149.5 | 32.6%        | \$1,283.0 | 33.1%        | \$1,262.3 | 32.2%        | \$1,292.8 | 25.5%        | \$1,334.6 | 16.1%        |

|          | Q3'21        | Q4'21        | Q1'22        | Q2'22        | Q3'22        | Q4'22        | Q1'23        | Q2'23        | Q3'23        |
|----------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|          | % of revenue | % of revenue | % of revenue | % of revenue | % of revenue | % of revenue | % of revenue | % of revenue | % of revenue |
| Americas | 40.4%        | 39.5%        | 40.1%        | 40.2%        | 40.7%        | 40.6%        | 41.5%        | 41.5%        | 40.9%        |
| EMEA     | 37.3%        | 38.5%        | 36.2%        | 38.0%        | 38.6%        | 39.8%        | 37.9%        | 39.2%        | 38.4%        |
| APAC     | 22.3%        | 22.0%        | 23.7%        | 21.8%        | 20.7%        | 19.6%        | 20.6%        | 19.3%        | 20.7%        |
| Total    | 100.0%       | 100.0%       | 100.0%       | 100.0%       | 100.0%       | 100.0%       | 100.0%       | 100.0%       | 100.0%       |



# Number of Deals & FortiGate Sales

| Number of Deals <sup>(1)</sup> | Q3'21 | Q4'21 | Q1'22 | Q2'22 | Q3'22 | Q4'22 | Q1'23 | Q2'23 | Q3'23 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| No. of Deals >\$50K            | 3,021 | 3,807 | 3,241 | 3,583 | 4,269 | 4,904 | 4,583 | 4,790 | 4,732 |
| No. of Deals >\$250K           | 548   | 758   | 598   | 699   | 830   | 1,008 | 838   | 836   | 835   |
| No. of Deals >\$500K           | 232   | 320   | 243   | 312   | 355   | 450   | 323   | 353   | 367   |
| No. of Deals >\$1M             | 83    | 122   | 90    | 122   | 153   | 181   | 124   | 134   | 145   |

| % of FortiGate <sup>(2)</sup> | Q3'21 | Q4'21 | Q1'22 | Q2'22 | Q3'22 | Q4'22 | Q1'23 | Q2'23 | Q3'23 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Entry Level (FG30-90)         | 23.9% | 22.1% | 26.9% | 25.4% | 40.0% | 24.6% | 30.6% | 24.9% | 27.7% |
| Mid - Range (FG100-900)       | 38.4% | 40.0% | 35.2% | 42.3% | 29.4% | 48.2% | 44.8% | 49.8% | 45.4% |
| High - End (FG1000-7000)      | 37.7% | 37.9% | 37.9% | 32.3% | 30.6% | 27.2% | 24.6% | 25.3% | 26.9% |

**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.

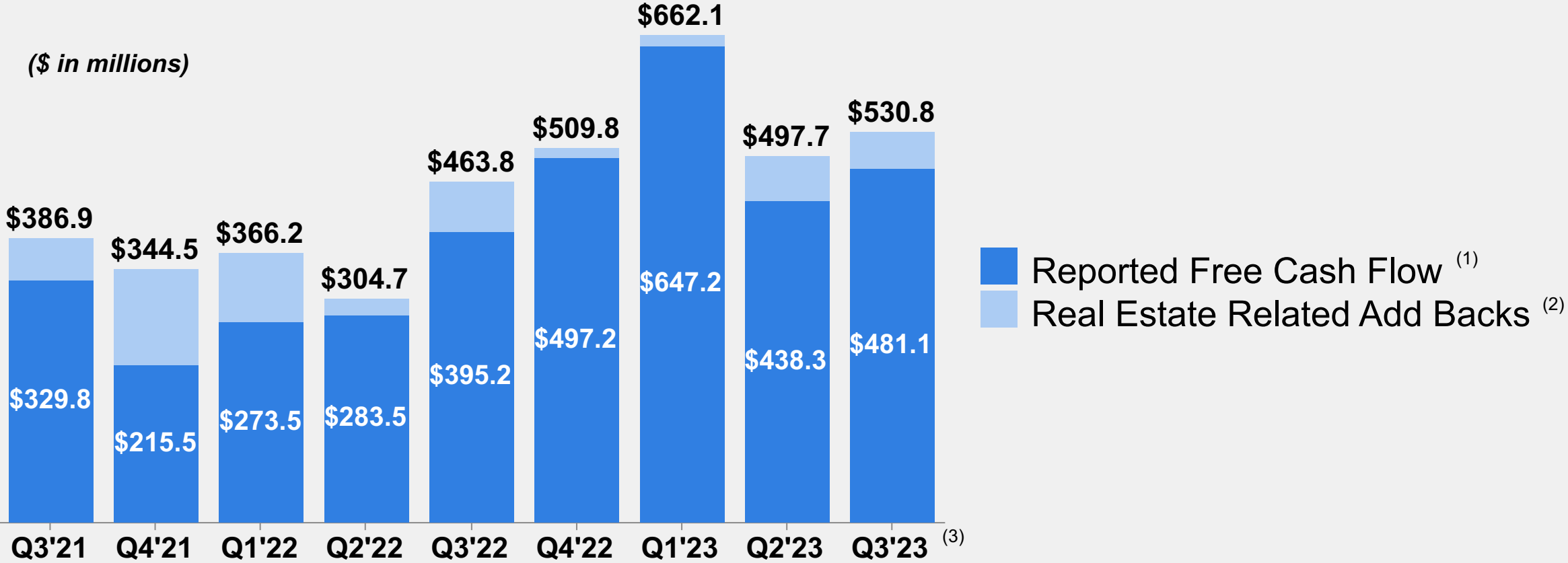


# Statement of Cash Flows (Non-GAAP)

| (\$ in millions)   | Q3'21   | Q4'21     | Q1'22     | Q2'22     | Q3'22     | Q4'22   | Q1'23   | Q2'23   | Q3'23     |
|--|---------|-----------|-----------|-----------|-----------|---------|---------|---------|-----------|
| GAAP Net Income Including Non-controlling Interests              | \$163.2 | \$198.8   | \$138.3   | \$173.4   | \$231.1   | \$313.8 | \$247.7 | \$266.3 | \$322.9   |
| Depreciation, Amortization and Stock-Based Compensation          | 75.6    | 78.4      | 78.7      | 79.8      | 81.1      | 82.0    | 83.8    | 92.4    | 92.6      |
| Accounts Receivable  | (5.0)   | (203.1)   | 15.4      | (134.7)   | (43.4)    | (294.0) | 171.1   | 7.9     | 64.4      |
| Inventory  | 0.6     | 0.1       | (13.5)    | (17.7)    | (28.5)    | (49.4)  | (45.3)  | (84.9)  | (100.8)   |
| Deferred Revenue   | 197.0   | 342.3     | 205.5     | 275.1     | 262.2     | 434.7   | 240.7   | 248.6   | 156.9     |
| Other  | (32.6)  | (49.7)    | (28.3)    | (52.5)    | (19.5)    | 41.0    | (20.5)  | (15.2)  | 15.2      |
| GAAP Cash Flow from Operations                                   | \$398.8 | \$366.8   | \$396.1   | \$323.4   | \$483.0   | \$528.1 | \$677.5 | \$515.1 | \$551.2   |
| Less: Purchase of Property and Equipment                         | (69.0)  | (151.3)   | (122.6)   | (39.9)    | (87.8)    | (30.9)  | (30.3)  | (76.8)  | (70.1)    |
| Free Cash Flow   | \$329.8 | \$215.5   | \$273.5   | \$283.5   | \$395.2   | \$497.2 | \$647.2 | \$438.3 | \$481.1   |
| Issuance of Common Stock, Net of Taxes                           | (38.0)  | (43.7)    | (53.8)    | (30.2)    | (26.4)    | (23.9)  | (13.3)  | (17.1)  | (24.4)    |
| Stock Repurchases  | (78.4)  | (571.8)   | (691.2)   | (800.0)   | (500.0)   | —       | —       | —       | (604.3)   |
| Acquisitions   | (63.1)  | (1.5)     | —         | —         | —         | (30.8)  | —       | —       | —         |
| Payments of debt assumed in connection with business combination | (2.2)   | (17.3)    | —         | —         | —         | —       | —       | —       | —         |
| Purchases of investments in privately held companies             | (85.0)  | —         | —         | —         | —         | —       | —       | —       | (8.5)     |
| Other  | (3.7)   | (7.9)     | (18.6)    | (12.3)    | 2.2       | (0.4)   | 4.3     | 1.8     | 8.7       |
| Change in Cash, Investments, and Marketable Equity Securities    | \$59.4  | \$(426.7) | \$(490.1) | \$(559.0) | \$(129.0) | \$442.1 | \$638.2 | \$423.0 | \$(147.4) |
| Footnote: Cash Paid for Taxes, Net of Refunds                    | \$21.6  | \$57.5    | \$18.8    | \$110.3   | \$68.5    | \$62.6  | \$20.7  | \$37.9  | \$26.3    |



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



**Notes**

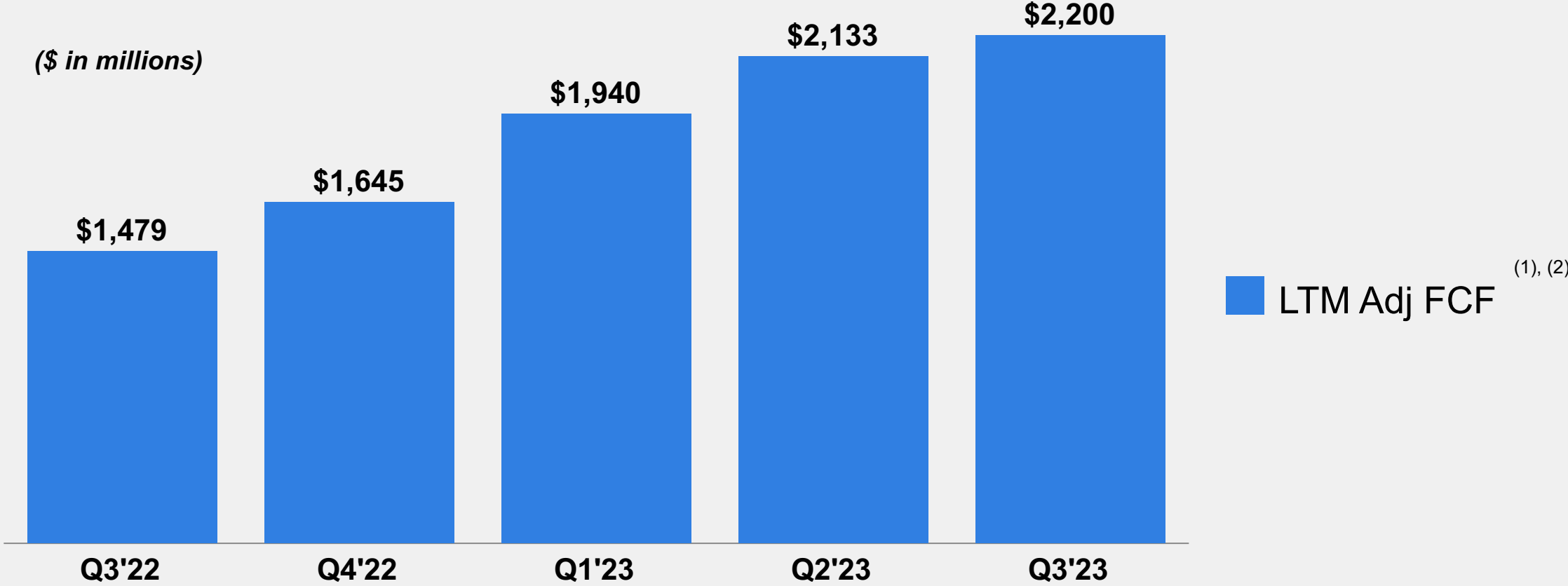
(1) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus purchases of property and equipment.

(2) Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus cash payments associated with real estate purchases and cash payments related to HQ Construction.

(3) Cash paid for taxes are expected to be \$345 million in Q4 2023, which will decrease free cash flow by this amount.



# LTM Adjusted Free Cash Flow

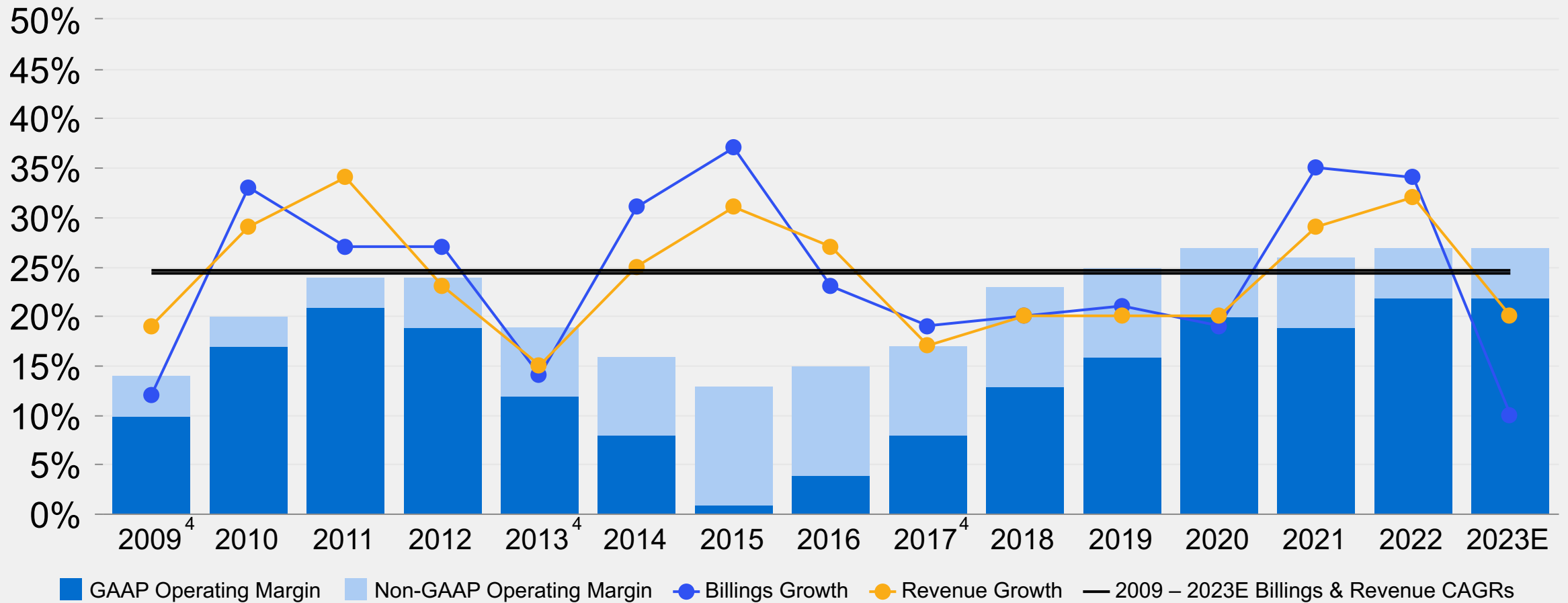


**Notes**

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- (2) Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus cash payments associated with real estate purchases and cash payments related to HQ Construction.



# Billings & Revenue Y/Y Growth Rates and Operating Margin: 2009 - 2023E

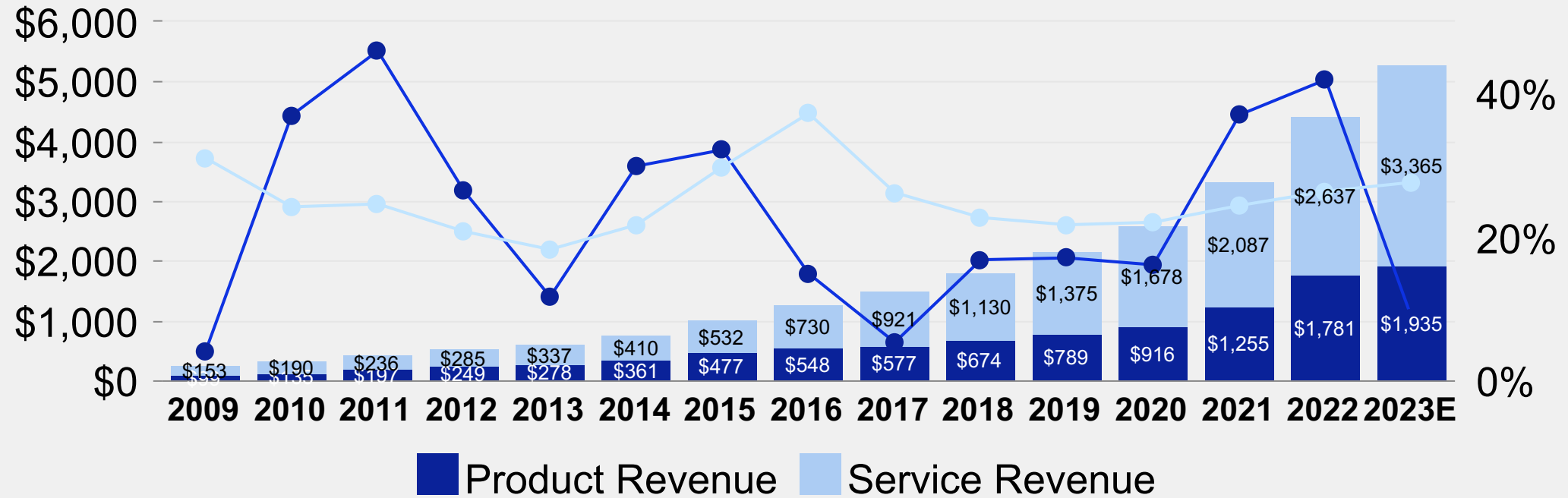


- Notes**
- (1) 2011-2015 have not been adjusted for an immaterial error related to the commencement of revenue recognition for certain FortiCare support service contracts.
  - (2) 2023E is based on the midpoint of guidance provided on November 2, 2023.
  - (3) Fortinet defines the Rule of 40 as GAAP revenue Y/Y growth plus Non-GAAP Operating Margin.
  - (4) Company did not achieve 'Rule of 40'





# Product and Services Revenue and Y/Y Growth: 2009 - 2023E



| CAGRs            | <u>3 &amp; 4 YR CAGRs</u> |             |             |              | <u>14 YR CAGR</u> |
|------------------|---------------------------|-------------|-------------|--------------|-------------------|
|                  | 2009 – 2013               | 2013 – 2017 | 2017 – 2020 | 2020 – 2023E | 2009 – 2023E      |
| Product Revenue  | 29.6%                     | 20.0%       | 16.7%       | 28.3%        | 23.7%             |
| Services Revenue | 21.8%                     | 28.6%       | 22.1%       | 26.1%        | 24.7%             |
| Total Revenue    | 25.0%                     | 24.9%       | 20.1%       | 26.9%        | 24.3%             |

Note: For 2009 - 2013, ratable and other revenue is included in services revenue. 2023E is based on the midpoint of guidance provided on November 2, 2023.



# Q4 and 2023 Guidance (Non-GAAP)<sup>(1)</sup>

|  | Actual<br>Q4'22 | Q4'23E                  | Actual 2022     | 2023E                   |
|--|-----------------|-------------------------|-----------------|-------------------------|
| <b>Billings <sup>(2)</sup></b>   | <b>\$1.719B</b> | <b>\$1.560 - 1.700B</b> | <b>\$5.594B</b> | <b>\$6.095 - 6.235B</b> |
| <b>Y/Y Mid-Pt Growth</b>   |                 | <b>(5.2)%</b>           |                 | <b>10.2%</b>            |
| <b>Revenue (GAAP)</b>  | <b>\$1.283B</b> | <b>\$1.380 - 1.440B</b> | <b>\$4.417B</b> | <b>\$5.270 - 5.330B</b> |
| <b>Y/Y Mid-Pt Growth</b>   |                 | <b>9.9%</b>             |                 | <b>20.0%</b>            |
| <b>Service Revenue (GAAP)</b>  | <b>\$742.9M</b> |                         | <b>\$2.637B</b> | <b>\$3.355 - 3.375B</b> |
| <b>Y/Y Mid-Pt Growth</b>   |                 |                         |                 | <b>27.6%</b>            |
| <b>Gross Margin (%) <sup>(3)</sup></b>   | <b>77.6%</b>    | <b>75.5 - 76.5%</b>     | <b>76.3%</b>    | <b>76.0 - 77.0%</b>     |
| <b>Operating Margin (%) <sup>(3)(4)</sup></b>  | <b>32.5%</b>    | <b>27.5 - 28.5%</b>     | <b>27.3%</b>    | <b>26.5 - 27.5%</b>     |
| <b>Net Income per Share attributable to Fortinet, Inc.<br/><sup>(3)(4)(5)(6)(7)</sup></b>              | <b>\$0.44</b>   | <b>\$0.42 - 0.44</b>    | <b>\$1.19</b>   | <b>\$1.54 - 1.56</b>    |
| <b>Weighted Diluted Shares used to Compute Net<br/>Income per Share attributable to Fortinet, Inc.</b> | <b>791.8M</b>   | <b>780 - 790M</b>       | <b>805.3M</b>   | <b>790 - 800M</b>       |

## Notes

- (1) Guidance for non-GAAP financial measures excludes stock-based compensation, amortization of acquired intangible assets and gain on IP and a non-cash charge on equity method investment. 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 less any deferred revenue balances acquired from business combination(s) and adjustment due to adoption of new accounting standard during the period.
- (3) Excludes stock-based compensation and amortization of acquired intangible assets.
- (4) Excludes gain on IP.
- (5) Assumes an effective tax rate of 17% for 2022 and 2023. For 2023, we expect cash paid for taxes to be approximately \$430 million.
- (6) Excludes a non-cash charge, primarily comprised of the impairment recognized on our equity method investment in Linksys and other intervening events related to the establishment of a valuation allowance against Linksys deferred tax assets.
- (7) Excludes the adjustments attributable to non-controlling interests.



# Additional Modeling Points

|                             | Actual Q1'23 | Actual Q2'23         | Actual Q3'23         | Q4'23E                | 2023E          |
|-----------------------------|--------------|----------------------|----------------------|-----------------------|----------------|
| <b>Cash Paid for Taxes</b>  | \$21M        | \$38M <sup>(1)</sup> | \$26M <sup>(1)</sup> | \$345M <sup>(1)</sup> | \$430M         |
| <b>Capital Expenditures</b> | \$30M        | \$77M                | \$70M                | \$40 - \$60M          | \$220 - \$240M |
| <b>Non-GAAP Tax Rate</b>    | 17%          | 17%                  | 17%                  | 17%                   | 17%            |

## Notes

- (1) Payment of 2023 estimated Federal tax and other tax payments typically paid prior to Q4 have been postponed to Q4 in accordance with IRS disaster area tax relief policies. Cash paid for taxes is expected to return to historical seasonality in 2024.



# GAAP to Non-GAAP Reconciliations

| (\$ in millions)   | Q3'21     | Q4'21     | Q1'22     | Q2'22     | Q3'22     | Q4'22     | Q1'23     | Q2'23     | Q3'23     |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total revenue  | \$867.2   | \$963.6   | \$954.8   | \$1,030.1 | \$1,149.5 | \$1,283.0 | \$1,262.3 | \$1,292.8 | \$1,334.6 |
| Add: Change in deferred revenue  | 201.0     | 346.5     | 205.0     | 274.1     | 261.5     | 446.8     | 240.6     | 247.7     | 156.7     |
| Less: Deferred revenue balance acquired in business combination            | (4.1)     | —         | —         | —         | —         | (10.8)    | —         | —         | —         |
| Less: ASC 606 transition amount related to deferred revenue <sup>(1)</sup> | —         | (4.3)     | —         | —         | —         | —         | —         | —         | —         |
| Total billings   | \$1,064.1 | \$1,305.8 | \$1,159.8 | \$1,304.2 | \$1,411.0 | \$1,719.0 | \$1,502.9 | \$1,540.5 | \$1,491.3 |
| GAAP Cash Flow from Operations   | \$398.8   | \$366.8   | \$396.1   | \$323.4   | \$483.0   | \$528.1   | \$677.5   | \$515.1   | \$551.2   |
| Less: Purchase of Property and Equipment                                   | (69.0)    | (151.3)   | (122.6)   | (39.9)    | (87.8)    | (30.9)    | (30.3)    | (76.8)    | (70.1)    |
| Free Cash Flow <sup>(2)</sup>  | 329.8     | 215.5     | 273.5     | 283.5     | 395.2     | 497.2     | 647.2     | 438.3     | 481.1     |
| Add: Real Estate Related Add Backs   | 57.1      | 129.0     | 92.7      | 21.2      | 68.6      | 12.6      | 14.9      | 59.4      | 49.7      |
| Adjusted Free Cash Flow <sup>(3)</sup>                                     | \$386.9   | \$344.5   | \$366.2   | \$304.7   | \$463.8   | \$509.8   | \$662.1   | \$497.7   | \$530.8   |

## Notes

- (1) We early adopted ASU 2021-08 on a retrospective basis and effective for us beginning on January 1, 2021. The adoption of ASU 2021-08 resulted in a \$4.3 million adjustment attributable to the acquisition of Alaxala in 2021, as a result of the revised measurement of deferred revenue for acquisition.
- (2) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus purchases of property and equipment.
- (3) Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus cash payments associated with real estate purchases and cash payments related to HQ Construction.



# GAAP to Non-GAAP Reconciliations (Continued)

| (\$ in millions)  | Q3'21        | Q4'21        | Q1'22        | Q2'22        | Q3'22        | Q4'22        | Q1'23        | Q2'23        | Q3'23        |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| GAAP product gross profit   | \$202.8      | \$232.4      | \$210.0      | \$245.5      | \$283.5      | \$350.2      | \$307.1      | \$298.1      | \$267.6      |
| Stock-based compensation  | 0.4          | 0.4          | 0.4          | 0.4          | 0.5          | 0.4          | 0.4          | 0.5          | 0.4          |
| Amortization of acquired intangible assets                                  | 1.5          | 2.4          | 2.4          | 2.1          | 1.7          | 1.6          | 1.8          | 1.7          | 1.6          |
| Non-GAAP product gross profit   | \$204.7      | \$235.2      | \$212.8      | \$248.0      | \$285.7      | \$352.2      | \$309.3      | \$300.3      | \$269.6      |
| <i>Non-GAAP product gross margin</i>  | <i>60.7%</i> | <i>62.1%</i> | <i>57.4%</i> | <i>61.9%</i> | <i>61.0%</i> | <i>65.2%</i> | <i>61.8%</i> | <i>63.5%</i> | <i>57.9%</i> |
| GAAP service gross profit   | \$453.2      | \$502.9      | \$491.0      | \$533.8      | \$583.0      | \$635.5      | \$647.4      | \$698.9      | \$749.3      |
| Stock-based compensation  | 4.1          | 4.3          | 4.5          | 4.7          | 4.8          | 4.8          | 5.1          | 6.0          | 6.1          |
| Amortization of acquired intangible assets                                  | 1.8          | 2.0          | 1.9          | 2.0          | 2.0          | 3.5          | 1.8          | 1.8          | 1.8          |
| Non-GAAP service gross profit   | \$459.1      | \$509.2      | \$497.4      | \$540.5      | \$589.8      | \$643.8      | \$654.3      | \$706.7      | \$757.2      |
| <i>Non-GAAP service gross margin</i>  | <i>86.6%</i> | <i>87.1%</i> | <i>85.2%</i> | <i>85.9%</i> | <i>86.6%</i> | <i>86.7%</i> | <i>85.9%</i> | <i>86.2%</i> | <i>87.2%</i> |
| GAAP total gross profit   | \$656.0      | \$735.3      | \$701.0      | \$779.3      | \$866.5      | \$985.7      | \$954.5      | \$997.0      | \$1,016.9    |
| Stock-based compensation  | 4.5          | 4.7          | 4.9          | 5.1          | 5.3          | 5.2          | 5.5          | 6.5          | 6.5          |
| Amortization of acquired intangible assets                                  | 3.3          | 4.4          | 4.3          | 4.1          | 3.7          | 5.1          | 3.6          | 3.5          | 3.4          |
| Non-GAAP total gross profit   | \$663.8      | \$744.4      | \$710.2      | \$788.5      | \$875.5      | \$996.0      | \$963.6      | \$1,007.0    | \$1,026.8    |
| <i>Non-GAAP gross margin</i>  | <i>76.5%</i> | <i>77.3%</i> | <i>74.4%</i> | <i>76.5%</i> | <i>76.2%</i> | <i>77.6%</i> | <i>76.3%</i> | <i>77.9%</i> | <i>76.9%</i> |
| GAAP research and development expense                                       | \$107.8      | \$112.6      | \$124.9      | \$124.3      | \$134.3      | \$128.9      | \$151.1      | \$153.3      | \$156.9      |
| Stock-based compensation  | (14.5)       | (14.7)       | (15.1)       | (16.1)       | (16.7)       | (16.3)       | (17.0)       | (20.0)       | (20.0)       |
| Non-GAAP research and development expense                                   | \$93.3       | \$97.9       | \$109.8      | \$108.2      | \$117.6      | \$112.6      | \$134.1      | \$133.3      | \$136.9      |
| <i>Non-GAAP research and development expense as a percentage of revenue</i> | <i>10.8%</i> | <i>10.2%</i> | <i>11.5%</i> | <i>10.5%</i> | <i>10.2%</i> | <i>8.8%</i>  | <i>10.6%</i> | <i>10.3%</i> | <i>10.3%</i> |
| GAAP sales and marketing expense  | \$347.1      | \$367.7      | \$387.6      | \$415.5      | \$427.1      | \$455.9      | \$478.3      | \$515.9      | \$504.4      |
| Stock-based compensation  | (27.6)       | (27.9)       | (26.7)       | (26.4)       | (25.9)       | (26.0)       | (26.3)       | (29.3)       | (28.5)       |
| Amortization of acquired intangible assets                                  | (1.5)        | (2.4)        | (2.1)        | (1.9)        | (1.5)        | (0.6)        | (1.1)        | (1.0)        | (1.0)        |
| Non-GAAP sales and marketing expense  | \$318.0      | \$337.4      | \$358.8      | \$387.2      | \$399.7      | \$429.3      | \$450.9      | \$485.6      | \$474.9      |
| <i>Non-GAAP sales and marketing expense as a percentage of revenue</i>      | <i>36.7%</i> | <i>35.0%</i> | <i>37.6%</i> | <i>37.6%</i> | <i>34.8%</i> | <i>33.5%</i> | <i>35.7%</i> | <i>37.6%</i> | <i>35.6%</i> |



# GAAP to Non-GAAP Reconciliations (Continued)

| (\$ in millions)  | Q3'21   | Q4'21   | Q1'22   | Q2'22   | Q3'22   | Q4'22   | Q1'23   | Q2'23   | Q3'23   |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| GAAP general and administrative expense                                       | \$35.8  | \$41.3  | \$38.6  | \$45.4  | \$40.7  | \$44.3  | \$52.8  | \$49.9  | \$53.5  |
| Stock-based compensation  | (6.9)   | (6.9)   | (7.2)   | (7.7)   | (7.4)   | (7.8)   | (8.2)   | (9.9)   | (9.9)   |
| Non-GAAP general and administrative expense                                   | \$28.9  | \$34.4  | \$31.4  | \$37.7  | \$33.3  | \$36.5  | \$44.6  | \$40.0  | \$43.6  |
| <i>Non-GAAP general and administrative expense as a percentage of revenue</i> | 3.3%    | 3.6%    | 3.3%    | 3.7%    | 2.9%    | 2.8%    | 3.5%    | 3.1%    | 3.3%    |
| GAAP gain on IP matter  | \$(1.1) | \$(1.2) | \$(1.1) | \$(1.2) | \$(1.1) | \$(1.2) | \$(1.2) | \$(1.1) | \$(1.1) |
| Gain on IP matter   | 1.1     | 1.2     | 1.1     | 1.2     | 1.1     | 1.2     | 1.2     | 1.1     | 1.1     |
| Non-GAAP gain on IP matter  | \$—     | \$—     | \$—     | \$—     | \$—     | \$—     | \$—     | \$—     | \$—     |
| <i>Non-GAAP gain on IP matter as a percentage of revenue</i>                  | —%      | —%      | —%      | —%      | —%      | —%      | —%      | —%      | —%      |
| GAAP total operating expense  | \$489.6 | \$520.4 | \$550.0 | \$584.0 | \$601.0 | \$627.9 | \$681.0 | \$718.0 | \$713.7 |
| Stock-based compensation  | (49.0)  | (49.5)  | (49.0)  | (50.2)  | (50.0)  | (50.1)  | (51.5)  | (59.2)  | (58.4)  |
| Amortization of acquired intangible assets                                    | (1.5)   | (2.4)   | (2.1)   | (1.9)   | (1.5)   | (0.6)   | (1.1)   | (1.0)   | (1.0)   |
| Gain on IP matter   | 1.1     | 1.2     | 1.1     | 1.2     | 1.1     | 1.2     | 1.2     | 1.1     | 1.1     |
| Non-GAAP total operating expense  | \$440.2 | \$469.7 | \$500.0 | \$533.1 | \$550.6 | \$578.4 | \$629.6 | \$658.9 | \$655.4 |
| <i>Non-GAAP total operating expense as a percentage of revenue</i>            | 50.8%   | 48.7%   | 52.4%   | 51.8%   | 47.9%   | 45.1%   | 49.9%   | 51.0%   | 49.1%   |
| GAAP operating income   | \$166.4 | \$214.9 | \$151.0 | \$195.3 | \$265.5 | \$357.8 | \$273.5 | \$279.0 | \$303.2 |
| Stock-based compensation  | 53.5    | 54.2    | 53.9    | 55.3    | 55.3    | 55.3    | 57.0    | 65.7    | 64.9    |
| Amortization of acquired intangible assets                                    | 4.8     | 6.8     | 6.4     | 6.0     | 5.2     | 5.7     | 4.7     | 4.5     | 4.4     |
| Gain on IP matter   | (1.1)   | (1.2)   | (1.1)   | (1.2)   | (1.1)   | (1.2)   | (1.2)   | (1.1)   | (1.1)   |
| Non-GAAP operating income   | \$223.6 | \$274.7 | \$210.2 | \$255.4 | \$324.9 | \$417.6 | \$334.0 | \$348.1 | \$371.4 |
| <i>Non-GAAP operating margin</i>  | 25.8%   | 28.5%   | 22.0%   | 24.8%   | 28.3%   | 32.5%   | 26.5%   | 26.9%   | 27.8%   |



# GAAP to Non-GAAP Reconciliations (Continued)

| (\$ in millions)   | Q3'21   | Q4'21   | Q1'22   | Q2'22   | Q3'22   | Q4'22   | Q1'23   | Q2'23   | Q3'23   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| GAAP provision for (benefit from) income taxes   | \$(9.3) | \$3.7   | \$(8.1) | \$2.4   | \$27.3  | \$9.2   | \$21.3  | \$27.6  | \$(0.3) |
| Tax adjustments related to the above   | 54.2    | 52.4    | 41.7    | 39.1    | 27.8    | 63.6    | 38.5    | 35.0    | 67.6    |
| Non-GAAP provision for income taxes  | \$44.9  | \$56.1  | \$33.6  | \$41.5  | \$55.1  | \$72.8  | \$59.8  | \$62.6  | \$67.3  |
| Non-GAAP effective tax rate  | 21%     | 21%     | 17%     | 17%     | 17%     | 17%     | 17%     | 17%     | 17%     |
| Net income attributable to Fortinet, Inc.  | \$163.1 | \$199.0 | \$138.4 | \$173.5 | \$231.6 | \$313.8 | \$247.7 | \$266.3 | \$322.9 |
| Stock-based compensation   | 53.5    | 54.2    | 53.9    | 55.3    | 55.3    | 55.3    | 57.0    | 65.7    | 64.9    |
| Amortization of acquired intangible assets   | 4.8     | 6.8     | 6.4     | 6.0     | 5.2     | 5.7     | 4.7     | 4.5     | 4.4     |
| Gain on IP matter  | (1.1)   | (1.2)   | (1.1)   | (1.2)   | (1.1)   | (1.2)   | (1.2)   | (1.1)   | (1.1)   |
| Tax adjustments  | (54.2)  | (52.4)  | (41.7)  | (39.1)  | (27.8)  | (63.6)  | (38.5)  | (35.0)  | (67.6)  |
| Non-cash charge on equity method investment  | —       | —       | —       | —       | —       | 39.7    | —       | —       | —       |
| Adjustments attributable to non-controlling interests  | (0.2)   | (0.6)   | (0.8)   | (0.4)   | (0.5)   | —       | —       | —       | —       |
| Non-GAAP net income attributable to Fortinet, Inc.   | \$165.9 | \$205.8 | \$155.1 | \$194.1 | \$262.7 | \$349.7 | \$269.7 | \$300.4 | \$323.5 |
| GAAP net income per share attributable to Fortinet, Inc., diluted <sup>(1)</sup>                       | \$0.19  | \$0.24  | \$0.17  | \$0.21  | \$0.29  | \$0.40  | \$0.31  | \$0.33  | \$0.41  |
| Stock-based compensation   | 0.06    | 0.06    | 0.06    | 0.07    | 0.07    | 0.07    | 0.07    | 0.08    | 0.08    |
| Amortization of acquired intangible assets   | 0.01    | 0.01    | 0.01    | 0.01    | 0.01    | —       | 0.01    | 0.01    | 0.01    |
| Gain on IP matter  | —       | —       | —       | —       | —       | —       | —       | —       | —       |
| Tax adjustments  | (0.06)  | (0.06)  | (0.05)  | (0.05)  | (0.04)  | (0.08)  | (0.05)  | (0.04)  | (0.09)  |
| Non-cash charge on equity method investment  | —       | —       | —       | —       | —       | 0.05    | —       | —       | —       |
| Adjustments attributable non-controlling interests   | —       | —       | —       | —       | —       | —       | —       | —       | —       |
| Non-GAAP net income per share attributable to Fortinet, Inc., diluted <sup>(1)</sup>                   | \$0.20  | \$0.25  | \$0.19  | \$0.24  | \$0.33  | \$0.44  | \$0.34  | \$0.38  | \$0.41  |
| Shares used in diluted net income per share attributable to Fortinet, Inc. calculations <sup>(1)</sup> | 838.6   | 835.0   | 820.8   | 810.1   | 798.6   | 791.8   | 793.4   | 795.9   | 791.2   |

## Note

(1) All share and per share amounts presented herein have been retroactively adjusted to reflect the five-for-one forward stock split which was effective June 22, 2022.





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