



Q3 2012 Financial Results

October 16, 2012



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Q3 2012 Non-GAAP Results

	Q3 12	Q3 11	Y/Y % Growth	Q2 12
Billings ⁽¹⁾	\$145M	\$118M	22%	\$146M
Revenue	\$136M	\$116M	17%	\$129M
Gross Margin (%) ⁽²⁾	73%	74%	-1%	72%
Operating Income ⁽²⁾	\$34M	\$31M	9%	\$28M
Operating Margin (%) ⁽²⁾	25%	27%	-2%	22%
Net Income ^{(2) (3)}	\$23M	\$22M	7%	\$20M
Earnings per Share ^{(2) (3)}	\$0.14	\$0.13	8%	\$0.12
Deferred Revenue	\$340M	\$275M	24%	\$331M
Cash Flow from Operations	\$41M	\$36M	13%	\$44M
Free Cash Flow ⁽⁴⁾	\$24M	\$35M	-30%	\$42M

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. Includes patent sales of \$1.8M in Q3 2012 and \$2.6M in Q3 2011.
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 34% for Q3 2012, 33% for Q3 2011 and 34% for Q2 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

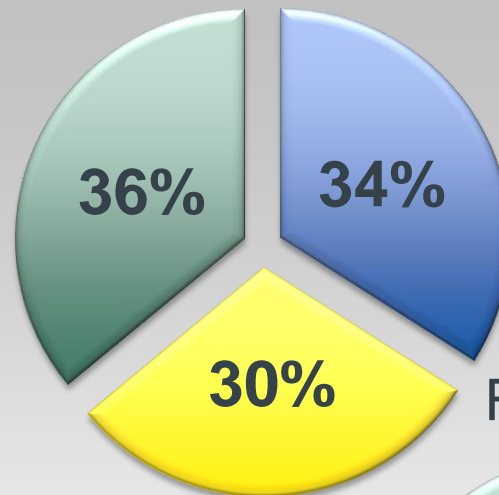
FortiGate Billings

- **Balanced Product Sales**

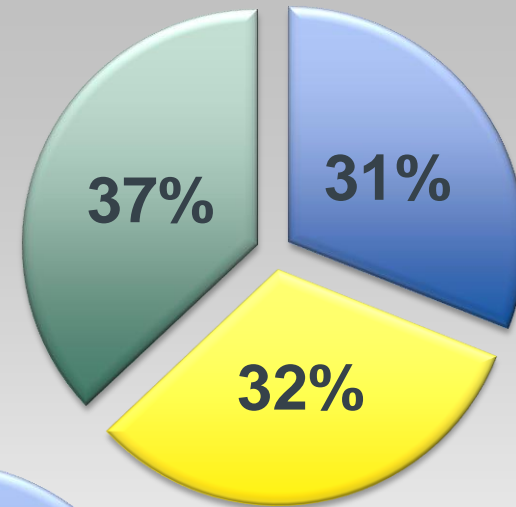
- Entry-level typically sold to SMBs/branch offices
- Mid-range = enterprises
- High-end = telcos/service providers and large enterprises

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

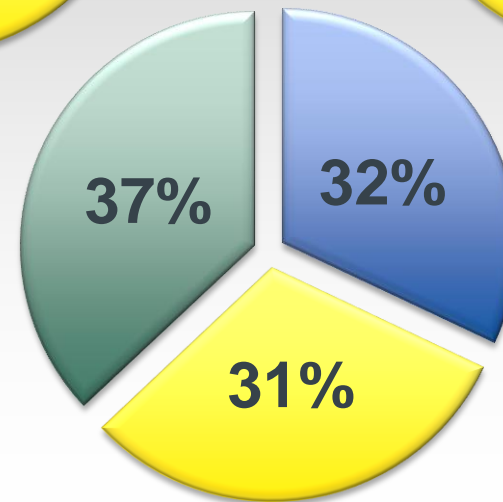
Q3 2012



Q3 2011



FY 2011



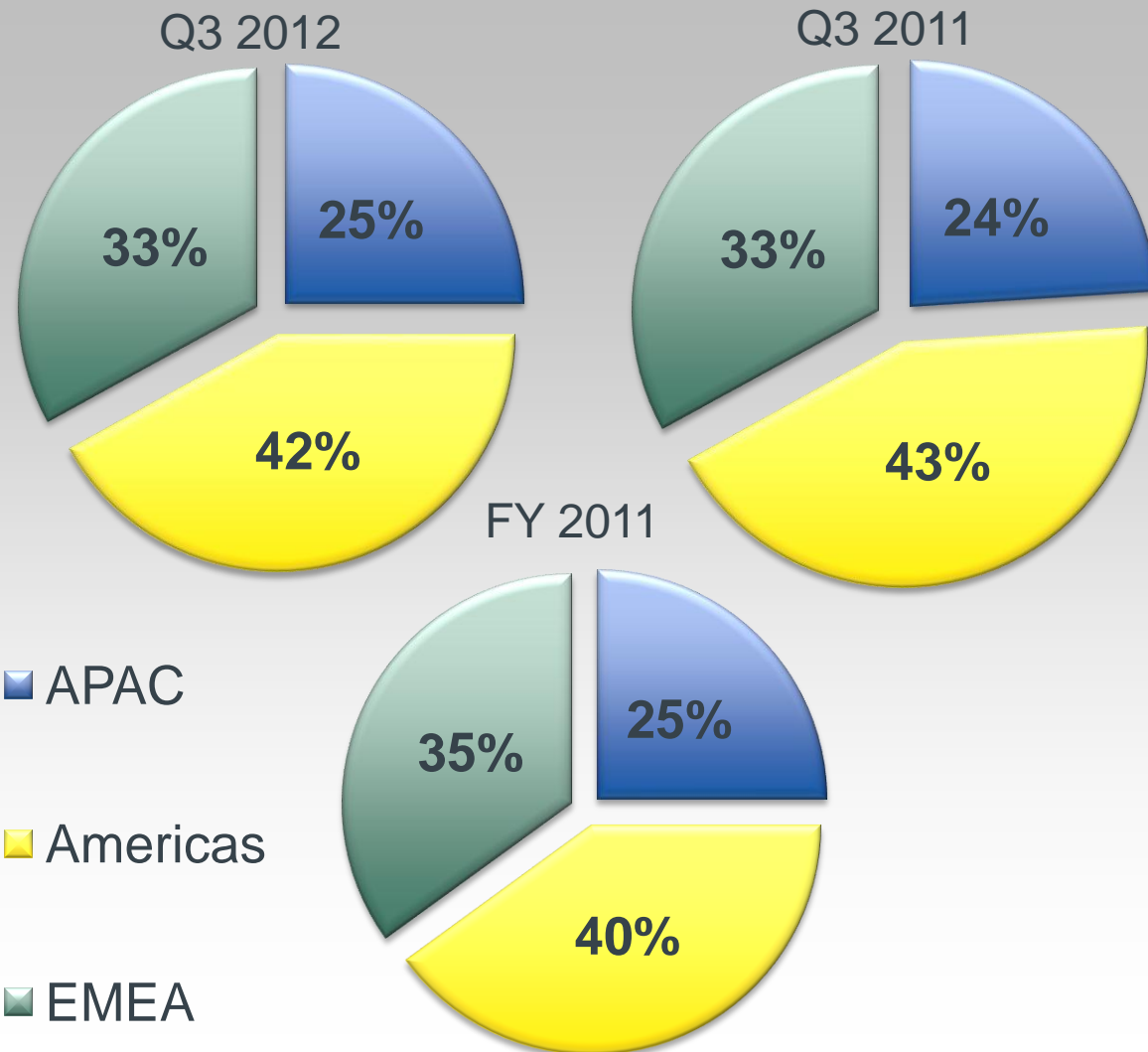
Note

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

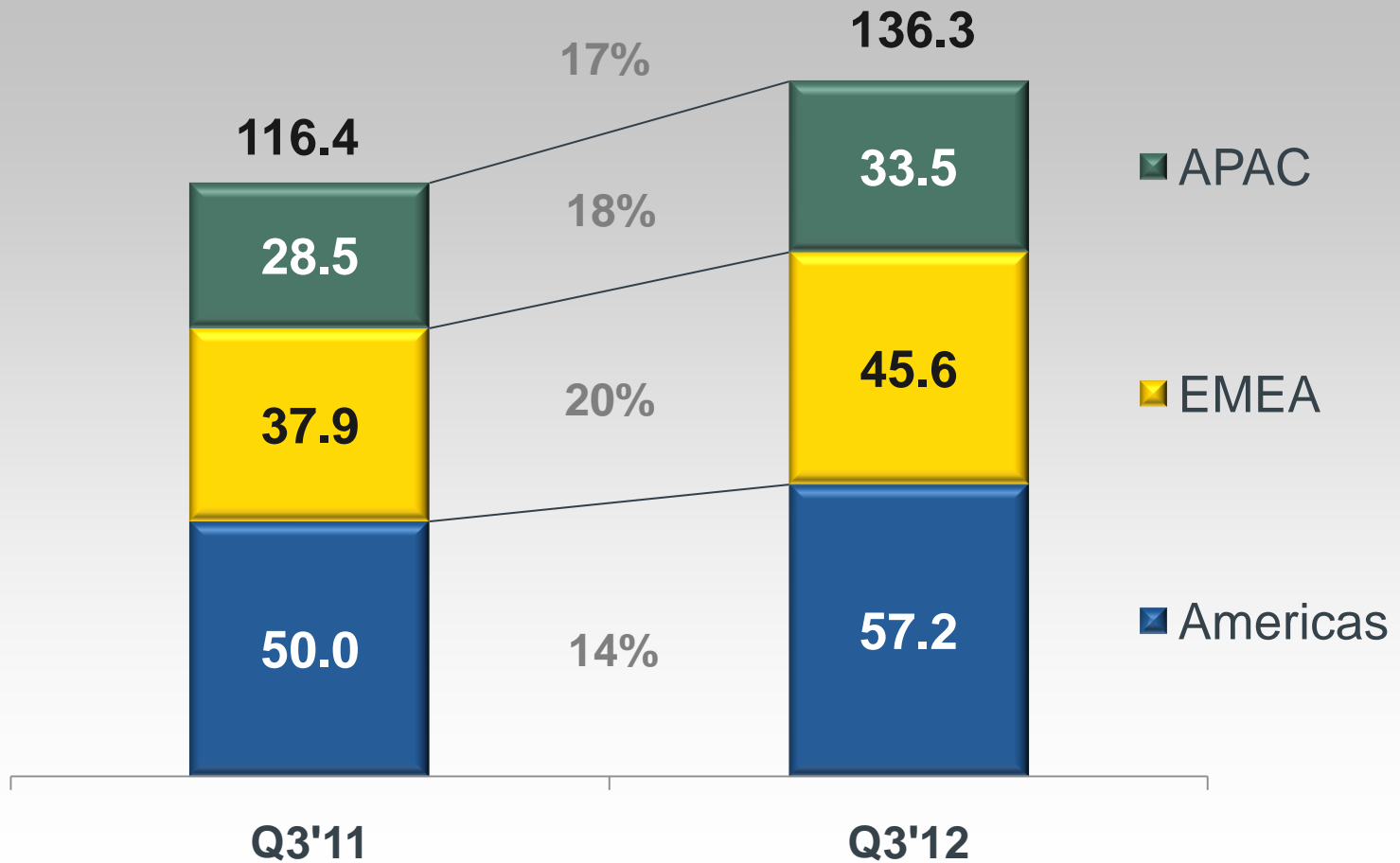
Diversified Global Revenue

Revenue by Geography

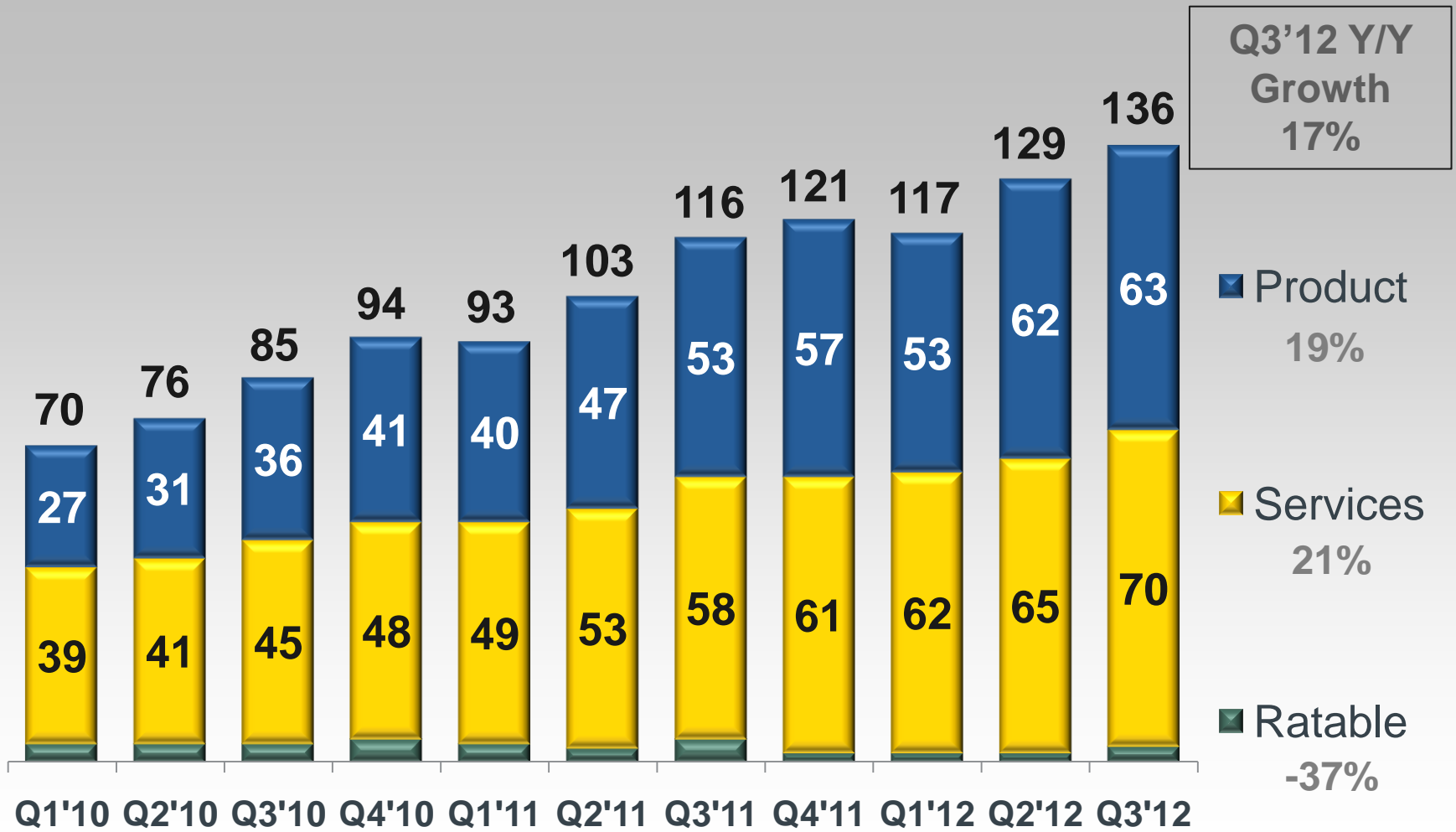
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography

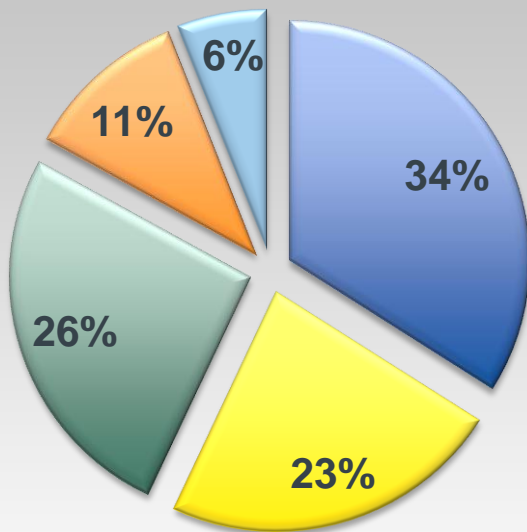


Quarterly Revenue Mix & Q3'12 Y/Y Growth



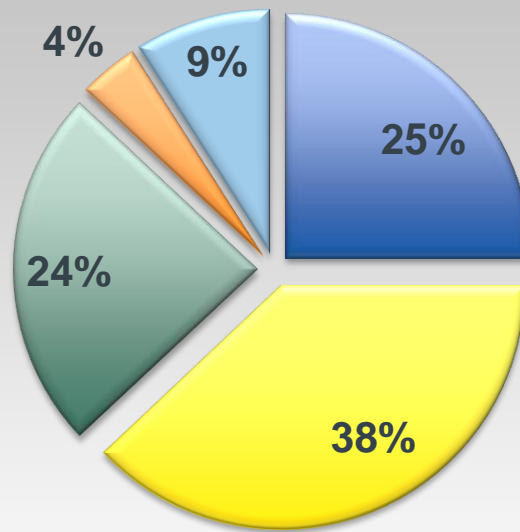
Global Employee Footprint

Location



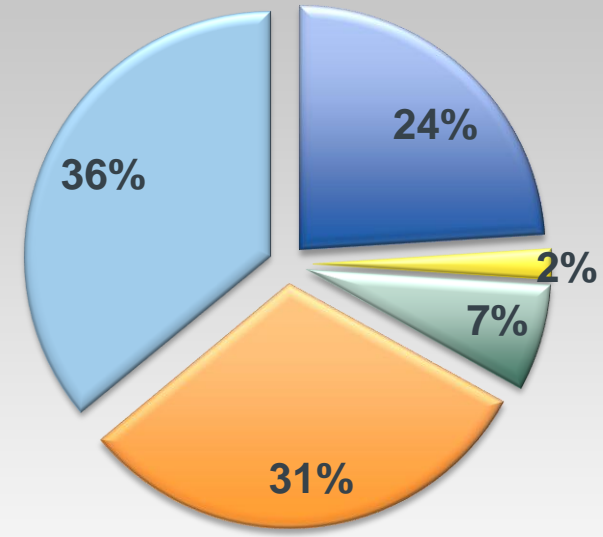
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function

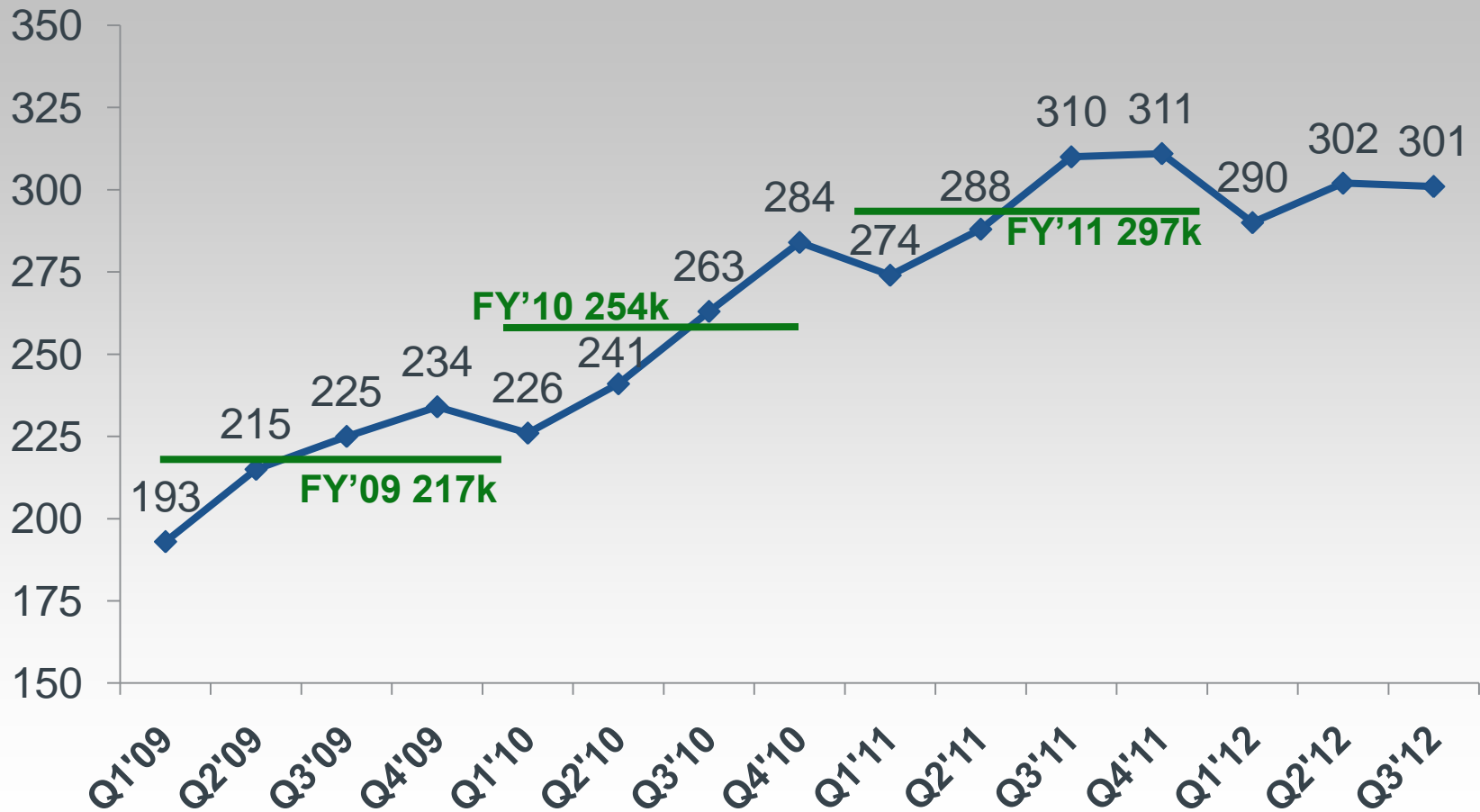


- Service & Support
- Operations
- G&A
- R&D
- Sales & Marketing

Q3'12 Headcount: 1,854

Revenue per Employee

(\$ in Thousands, Annualized)



Q3 2012 Select Financial Statistics

	Q3 12	Q2 12	Q3 11
Cash and Investments	\$690M	\$644M	\$503M
Deferred Revenue	\$340M	\$331M	\$275M
Free Cash Flow	\$24M	\$42M	\$35M
Working Capital	\$221M	\$245M	\$252M
Accounts Receivable	\$90M	\$95M	\$76M
DSO	59	67	59
Net Inventory	\$26M	\$21M	\$13M
Inventory Turns	3.1	4.1	5.2
Revenue per Employee (Annualized)	\$301K	\$302K	\$310K
No. of Deals >\$100K	168	168	130
No. of Deals >\$250K	61	55	39
No. of Deals >\$500K	16	19	13

Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q3 12	Q2 12	Q3 11
Assets			
Cash and Investments	690	644	503
Accounts Receivable	90	95	76
Inventory	26	21	13
Property and Equipment	26	10	7
Deferred Tax Assets	57	53	52
Other Assets	24	24	20
Total Assets	913	847	671
Liabilities and Shareholders' Equity			
Accounts Payable	23	24	15
Accrued Expenses	71	65	64
Deferred Revenue	340	331	275
Common Stock/Paid in Capital	386	354	290
Retained Earnings	93	73	27
Total Liabilities and Shareholders' Equity	913	847	671

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q3 12	Q3 11	YTD 12	YTD 11
GAAP Net Income	17	18	45	46
Depreciation and Stock-Based Compensation	12	8	32	18
Amortization of Investment Premium	3	3	10	9
Excess Tax Benefit	(4)	(5)	(10)	(9)
Accounts Receivable	6	(4)	6	(4)
Inventory	(7)	-	(15)	(1)
Accounts Payable / Accrued Expenses / Other	5	14	21	29
Deferred Revenue	9	2	45	22
GAAP Cash Flow from Operations	41	36	134	110
Purchase of Property and Equipment	(17)	(1)	(21)	(3)
Free Cash Flow	24	35	113	107
Stock Option Exercises and ESPP	18	3	36	14
Acquisition	-	-	(1)	(3)
Effect of F/X Rate on Cash / Other	4	(4)	4	(2)
Net Cash Flow	46	34	152	116
<i>Footnote: Cash Paid for Taxes</i>	4	-	10	-

Continued Market Growth

Worldwide Security Appliance Market Share Q2 2012 ⁽¹⁾



Rank	Company	Market Share (%)	Growth Y/Y
1	Cisco	17.6	(1%)
2	Check Point	13.0	16%
3	Juniper	7.3	0%
4	FORTINET	5.9	27%
5	McAfee	5.6	12%
6	Barracuda	2.7	15%
7	SonicWALL	2.7	17%
8	HP	2.5	0%
9	Others	42.7	
	Total	100%	
	Market Size	\$8 Bil.	



**Fortinet is the
fastest growing
vendor among
major vendors**

Notes

(1) IDC Worldwide Security Appliances Tracker, Sept 2012 (market share based on factory revenue)

Q4 and 2012 Guidance

	Q4 12	Y/Y % Mid-Pt Growth	2012	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$162 - 172M	19%	\$590 - 600M	25%
Revenue	\$142 - 146M	19%	\$524 - 528M	21%
Gross Margin (%) ⁽²⁾	~73%		~73%	
Operating Margin (%) ⁽²⁾	~25%		~24%	
Earnings per Share ^{(2) (3)}	~\$0.15		~\$0.51	
Weighted Diluted Shares used in EPS	168 - 170M		166 - 168M	
Cash Flow from Operations	\$39 - 44M		\$173 - 178M	
Free Cash Flow ⁽⁴⁾ (includes \$14.5M purchase of land/bldg in Q3)	\$37 - 42M		\$150 - 155M	

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 34% for Q4 and 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.

GAAP to Non-GAAP – Operating Results

(Q3'12 vs. Q3'11 vs. Q2'12)

(in thousands, except per share amounts)

	GAAP Q3'12	Adj	Non-GAAP Q3'12	GAAP Q3'11	Adj	Non-GAAP Q3'11	GAAP Q2'12	Adj	Non-GAAP Q2'12
Revenue:									
Product	\$ 63,027	\$ -	\$ 63,027	\$ 53,093	\$ -	\$ 53,093	\$ 61,692	\$ -	\$ 61,692
Services	69,782	-	69,782	57,835	-	57,835	65,412	-	65,412
Ratable and other revenue	3,459	-	3,459	5,498	-	5,498	1,858	-	1,858
Total Revenue	136,268	-	136,268	116,426	-	116,426	128,962	-	128,962
Cost of revenue:									
Product	23,995	(85)	23,910	20,606	(64)	20,542	23,935	(88)	23,847
Services	13,166	(1,018)	12,148	9,438	(564)	8,874	12,467	(941)	11,526
Ratable and other revenue	647	-	647	1,095	-	1,095	725	-	725
Total cost of revenue	37,808	(1,103)	36,705	31,139	(628)	30,511	37,127	(1,029)	36,098
Gross Profit:									
Product	39,032	85	39,117	32,487	64	32,551	37,757	88	37,845
Services	56,616	1,018	57,634	48,397	564	48,961	52,945	941	53,886
Ratable and other revenue	2,812	-	2,812	4,403	-	4,403	1,133	-	1,133
Total gross profit	98,460	1,103	99,563	85,287	628	85,915	91,835	1,029	92,864
Operating Expenses:									
Research and development	20,498	(2,525)	17,973	16,834	(1,516)	15,318	20,388	(2,292)	18,096
Sales and marketing	44,743	(3,879)	40,864	36,934	(2,708)	34,226	44,259	(3,475)	40,784
General and administrative	7,449	(845)	6,604	5,359	(339)	5,020	6,238	(578)	5,660
Total operating expenses	72,690	(7,249)	65,441	59,127	(4,563)	54,564	70,885	(6,345)	64,540
Operating income	25,770	8,352	34,122	26,160	5,191	31,351	20,950	7,374	28,324
Interest income	1,318	-	1,318	904	-	904	1,203	-	1,203
Other income (expense), net	(317)	-	(317)	60	-	60	73	-	73
Net income before income taxes	26,771	8,352	35,123	27,124	5,191	32,315	22,226	7,374	29,600
Provision for income taxes	9,565	2,377	11,942	9,207	1,457	10,664	8,276	1,788	10,064
Net income	\$ 17,206	\$ 5,975	\$ 23,181	\$ 17,917	\$ 3,734	\$ 21,651	\$ 13,950	\$ 5,586	\$ 19,536
Net income per share - Basic	\$ 0.11		\$ 0.15	\$ 0.12		\$ 0.14	\$ 0.09		\$ 0.12
Net income per share - Diluted	\$ 0.10		\$ 0.14	\$ 0.11		\$ 0.13	\$ 0.08		\$ 0.12
Shares used in computing net income per share									
Basic	158,751		158,751	153,265		153,265	157,474		157,474
Diluted	166,791		166,791	163,869		163,869	166,061		166,061

*Q2'12 G&A adjustment of (578) is stock comp expense of (1,056) offset by 478 quarterly amortization of patent litigation gain

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

(Q3'12 vs. Q3'11 vs. Q2'12)

% of revenue	GAAP		Non-GAAP	GAAP		Non-GAAP	GAAP		Non-GAAP
	Q3'12	Adj	Q3'12	Q3'11	Adj	Q3'11	Q2'12	Adj	Q2'12
Revenue:									
Product	46%	-	46%	46%	-	46%	48%	-	48%
Services	51%	-	51%	49%	-	49%	51%	-	51%
Ratable and other revenue	3%	-	3%	5%	-	5%	1%	-	1%
Total Revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	18%	-	18%	18%	-	18%	19%	(1%)	18%
Services	10%	(1%)	9%	8%	(1%)	7%	9%	-	9%
Ratable and other revenue	-	-	-	1%	-	1%	1%	-	1%
Total cost of revenue	28%	(1%)	27%	27%	(1%)	26%	29%	(1%)	28%
Gross Profit:									
Product	62%	-	62%	61%	-	61%	61%	-	61%
Services	81%	2%	83%	84%	1%	85%	81%	1%	82%
Ratable and other revenue	81%	-	81%	80%	-	80%	61%	-	61%
Total gross profit	72%	1%	73%	73%	1%	74%	71%	1%	72%
Operating Expenses:									
Research and development	15%	(2%)	13%	14%	(1%)	13%	16%	(2%)	14%
Sales and marketing	33%	(3%)	30%	32%	(2%)	30%	34%	(2%)	32%
General and administrative	5%	-	5%	5%	(1%)	4%	5%	(1%)	4%
Total operating expenses	53%	(5%)	48%	51%	(4%)	47%	55%	(5%)	50%
Operating income	19%	6%	25%	22%	5%	27%	16%	6%	22%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Net income before income taxes	20%	6%	26%	23%	5%	28%	17%	6%	23%
Provision for income taxes	7%	2%	9%	8%	1%	9%	6%	2%	8%
Net income	13%	4%	17%	15%	4%	19%	11%	4%	15%