



Q2 2013 Financial Results

July 30, 2013



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Q2 2013 Non-GAAP Results

	Q2 13	Q2 12	Y/Y % Growth	Q1 13
Billings ⁽¹⁾	\$161M	\$146M	10%	\$148M
Revenue	\$147M	\$129M	14%	\$136M
Gross Margin (%) ⁽²⁾	71%	72%	-1%	72%
Operating Income ⁽²⁾	\$24M	\$29M	-15%	\$24M
Operating Margin (%) ⁽²⁾	17%	22%	-5%	18%
Net Income ^{(2) (3)}	\$17M	\$20M	-13%	\$17M
Earnings per Share ^{(2) (3)}	\$0.10	\$0.12	-14%	\$0.10
Deferred Revenue	\$390M	\$331M	18%	\$376M
Cash Flow from Operations	\$37M	\$44M	-16%	\$38M
Free Cash Flow ⁽⁴⁾	\$35M	\$42M	-16%	\$37M

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.
- (2) Does not include stock based compensation or amortization of intangibles.
- (3) Assumes effective tax rate of 33% for Q1 and Q2 2013 and 34% for Q2 2012 and removes tax benefit of stock based compensation and amortization of intangibles.
- (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

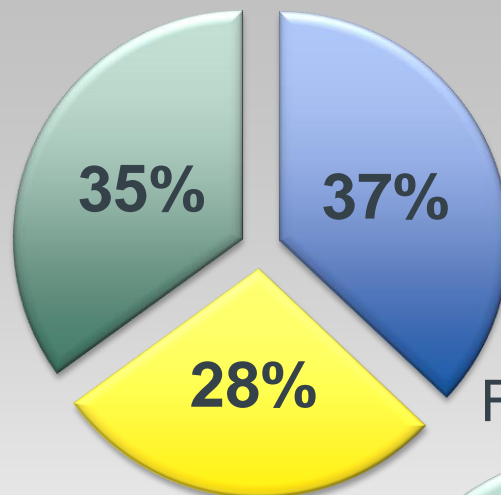
FortiGate Billings

- **Balanced Product Sales**

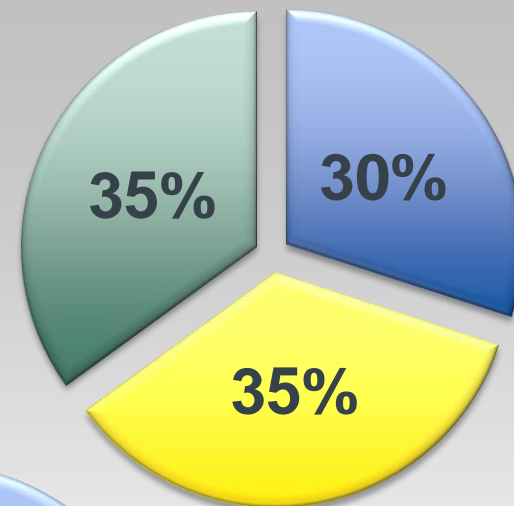
- Entry-level typically sold to SMBs/branch offices
- Mid-range = enterprises
- High-end = telcos/service providers and large enterprises

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

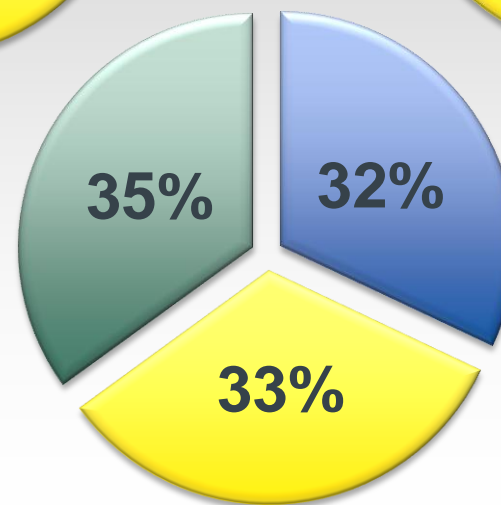
Q2 2013



Q2 2012



FY 2012



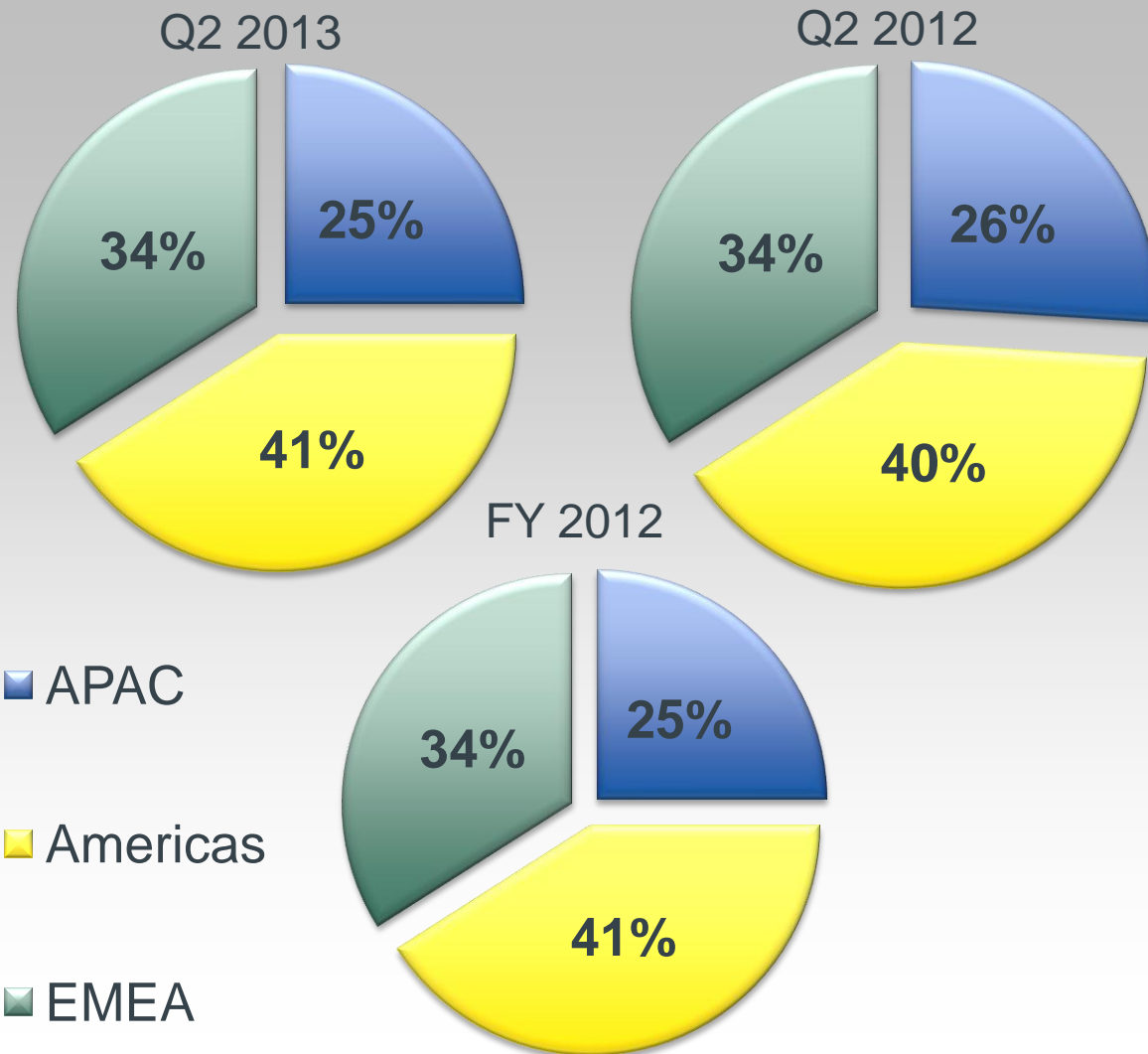
Note

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

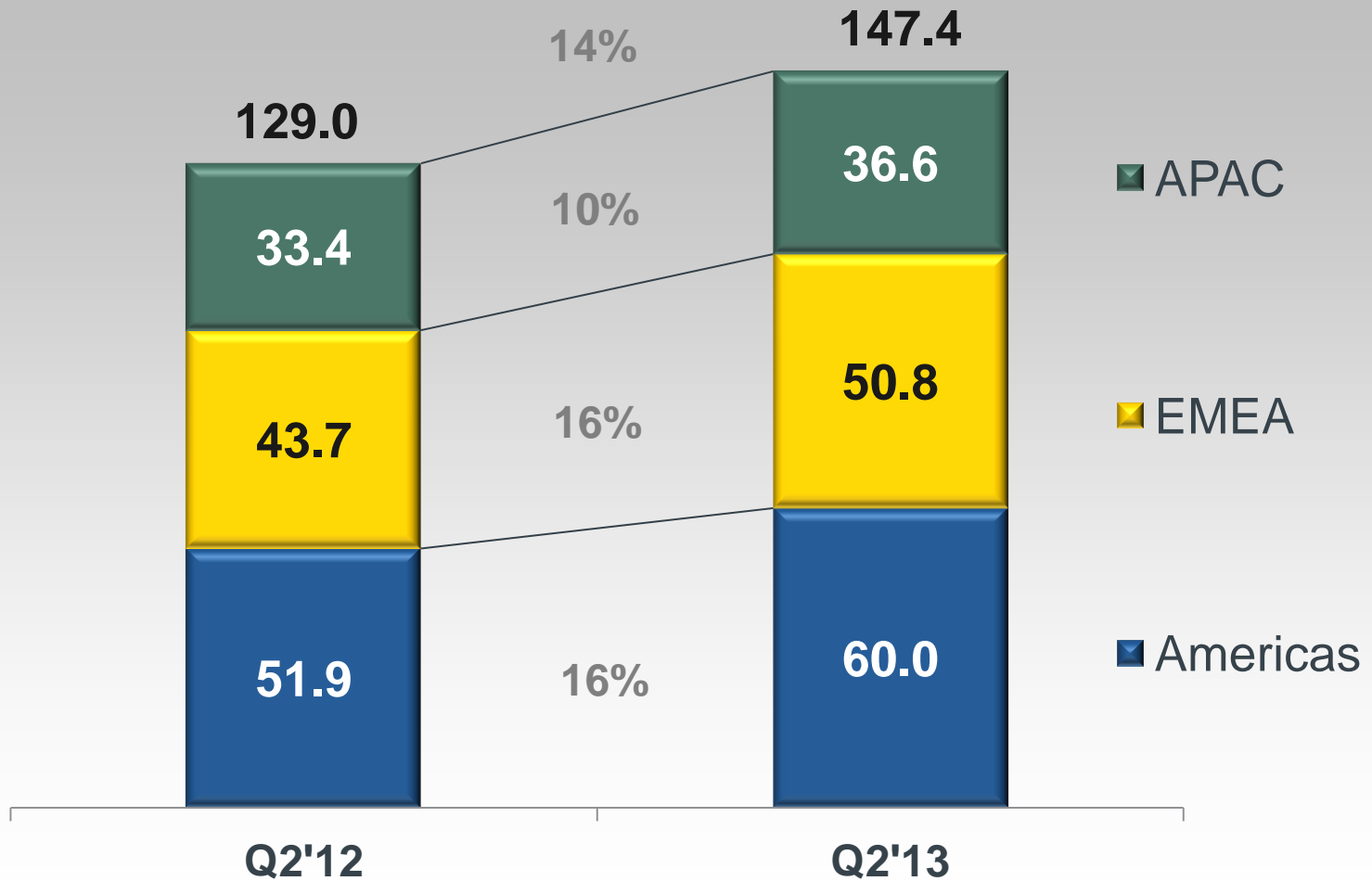
Diversified Global Revenue

Revenue by Geography

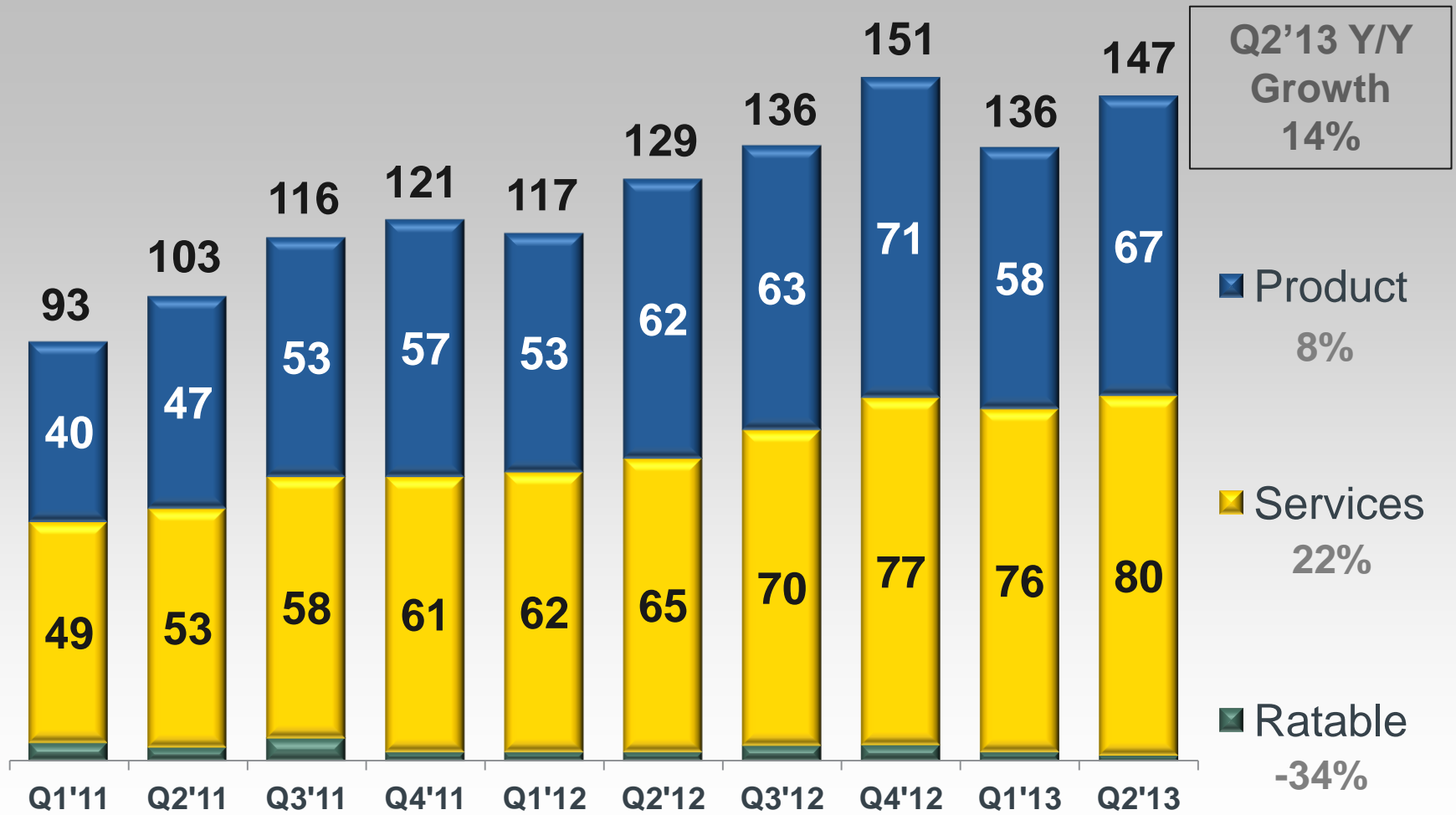
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography



Quarterly Revenue Mix & Q2'13 Y/Y Growth



Q2 2013 Select Financial Statistics

	Q2 13	Q1 13	Q2 12
Cash and Investments	\$814M	\$783M	\$644M
Deferred Revenue	\$390M	\$376M	\$331M
Free Cash Flow	\$35M	\$36M	\$41M
Working Capital	\$312M	\$282M	\$250M
Accounts Receivable	\$109M	\$102M	\$95M
DSO	66	68	67
Net Inventory	\$33M	\$24M	\$21M
Inventory Turns	2.6	3.2	4.1
Revenue per Employee (Annualized)	\$277K	\$270K	\$302K
No. of Deals >\$100K	190	170	168
No. of Deals >\$250K	58	55	55
No. of Deals >\$500K	20	13	19

Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q2 13	Q1 13	Q2 12
Assets			
Cash and Investments	814	783	644
Accounts Receivable	109	102	95
Inventory	33	24	21
Property and Equipment	27	26	10
Deferred Tax Assets	76	71	53
Other Assets	27	27	28
Total Assets	1,086	1,033	851
Liabilities and Shareholders' Equity			
Accounts Payable	36	26	24
Accrued Expenses	93	83	69
Deferred Revenue	390	376	331
Common Stock/Paid in Capital	435	423	354
Retained Earnings	132	125	73
Total Liabilities and Shareholders' Equity	1,086	1,033	851

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q2 13	Q2 12	1H 13	1H 12
GAAP Net Income	9	14	21	28
Depreciation and Stock-Based Compensation	14	11	27	20
Amortization of Investment Premium	3	3	6	7
Excess Tax Benefit	-	(3)	(2)	(5)
Accounts Receivable	(7)	(11)	(1)	-
Inventory	(12)	(5)	(16)	(8)
Accounts Payable / Accrued Expenses / Other	17	18	14	15
Deferred Revenue	13	17	26	36
GAAP Cash Flow from Operations	37	44	75	93
Purchase of Property and Equipment	(2)	(2)	(3)	(4)
Free Cash Flow	35	42	72	89
Stock Option Exercises and ESPP	1	4	16	18
Acquisition	-	-	(6)	(1)
Effect of F/X Rate on Cash / Other	(3)	(2)	(7)	-
Net Cash Flow	32	44	75	106
<i>Footnote: Cash Paid for Taxes</i>	3	5	12	6

Q3 and 2013 Guidance

	Q3 13	Y/Y % Mid-Pt Growth	2013	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$158 - 162M	10%	\$660 - 670M	10%
Revenue	\$149 - 152M	10%	\$595 - 605M	12%
Gross Margin (%) ⁽²⁾	71 - 72%		71 - 72%	
Operating Margin (%) ⁽²⁾	17 - 18%		18 - 19%	
Earnings per Share ^{(2) (3)}	\$0.10 - 0.11		\$0.46 - 0.47	
Weighted Diluted Shares used in EPS	168 - 170M		168 - 170M	
Free Cash Flow ⁽⁴⁾			\$130 - 135M	

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 amortization of intangibles
- (3) Assumes effective tax rate of 33% for Q3 and 2013 and removes tax benefit of stock based compensation and amortization of intangibles.
- (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

(Q2'13 vs. Q2'12 vs. Q1'13)

(in thousands, except per share amounts)	Q2'13	Adj	Non GAAP Q2'13	Q2'12	Adj	Non GAAP Q2'12	Q1'13	Adj	Non GAAP Q1'13
Revenue:									
Product	66,525		66,525	61,692		61,692	57,950		57,950
Services	79,668		79,668	65,412		65,412	75,896		75,896
Ratable product and services	1,235		1,235	1,858		1,858	1,974		1,974
Total Revenue	147,428		147,428	128,962		128,962	135,820		135,820
Cost of revenue:									
Cost of product revenue	26,948	(450)	26,498	23,935	(314)	23,621	22,958	(354)	22,604
Cost of services revenue	16,259	(1,226)	15,033	12,467	(941)	11,526	15,574	(1,020)	14,554
Cost of ratable product and services	501		501	725		725	596		596
Total cost of revenue	43,708	(1,676)	42,032	37,127	(1,255)	35,872	39,128	(1,374)	37,754
Gross Profit:									
Product	39,577	450	40,027	37,757	314	38,071	34,992	354	35,346
Services	63,409	1,226	64,635	52,945	941	53,886	60,322	1,020	61,342
Ratable product and services	734		734	1,133		1,133	1,378		1,378
Total gross profit	103,720	1,676	105,396	91,835	1,255	93,090	96,692	1,374	98,066
Research and development	25,158	(3,291)	21,867	20,388	(2,292)	18,096	23,334	(2,766)	20,568
Sales and marketing	55,997	(4,594)	51,403	44,259	(3,475)	40,784	49,976	(4,118)	45,858
General and administrative	8,788	(1,022)	7,766	6,238	(578)	5,660	7,991	(827)	7,164
Total operating expenses	89,943	(8,907)	81,036	70,885	(6,345)	64,540	81,301	(7,711)	73,590
Operating income (loss)	13,777	10,583	24,360	20,950	7,600	28,550	15,391	9,085	24,476
Interest income	1,337		1,337	1,203		1,203	1,369		1,369
Other income (expense), net	(100)		(100)	73		73	215		215
Net income (loss) before income taxes	15,014	10,583	25,597	22,226	7,600	29,826	16,975	8,821	26,060
Provision/Benefit for income taxes	6,035	2,412	8,447	8,276	1,865	10,141	\$ 4,726	\$ 3,874	\$ 8,600
Net income (loss)	\$ 8,979	\$ 8,171	\$ 17,150	\$ 13,950	\$ 5,735	\$ 19,685	\$ 12,249.00	\$ 5,034	\$ 17,460
Basic net income (loss) per share	\$ 0.06		\$ 0.11	\$ 0.09		\$ 0.13	\$ 0.08		\$ 0.11
Diluted net income (loss) per share	\$ 0.05		\$ 0.10	\$ -		\$ 0.12	\$ 0.07		\$ 0.10
Shares used in computing basic and diluted net income (loss) per share									
Basic	162,247		162,247	157,474		157,474	161,282		161,282
Diluted	168,042		168,042	166,061		166,061	167,823		167,823

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

(Q2'13 vs. Q2'12 vs. Q1'13)

% of Revenue	Q2'13	Adj	Non GAAP Q2'13	Q2'12	Adj	Non GAAP Q2'12	Q1'13	Adj	Non GAAP Q1'13
	Revenue:								
Product	45%	0%	45%	48%	0%	48%	43%	0%	43%
Services	54%	0%	54%	51%	0%	51%	56%	0%	56%
Ratable product and services	1%	0%	1%	1%	0%	1%	1%	0%	1%
Total Revenue	100%	0%	100%	100%	0%	100%	100%	0%	100%
Cost of revenue:									
Cost of product revenue	18%	0%	18%	19%	-1%	18%	17%	0%	17%
Cost of services revenue	10%	-1%	9%	9%	-1%	8%	10%	0%	10%
Cost of ratable product and services	0%	0%	0%	1%	0%	1%	0%	0%	0%
Total Cost of revenue	28%	-1%	27%	29%	-2%	27%	27%	0%	27%
Gross Profit:									
Product	59%	1%	60%	61%	1%	62%	60%	1%	61%
Services	80%	1%	81%	81%	1%	82%	79%	2%	81%
Ratable product and services	59%	0%	59%	61%	0%	61%	70%	0%	70%
Total gross profit	70%	1%	71%	71%	1%	72%	71%	1%	72%
Research and development	17%	-2%	15%	16%	-2%	14%	17%	-2%	15%
Sales and marketing	38%	-3%	35%	34%	-2%	32%	37%	-3%	34%
General and administrative	6%	-1%	5%	5%	-1%	4%	6%	-1%	5%
Total operating expenses	61%	-6%	55%	55%	-5%	50%	60%	-6%	54%
Operating income (loss)	9%	7%	17%	16%	6%	22%	11%	7%	18%
Interest income	1%	0%	1%	1%	0%	1%	1%	0%	1%
Other income (expense), net	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net income (loss) before income taxes	10%	7%	17%	17%	6%	23%	12%	7%	19%
Provision for income taxes	4%	2%	6%	6%	2%	8%	3%	3%	6%
Net income (loss)	6%	5%	11%	11%	4%	15%	9%	4%	13%