



FORTINET[®]

Q4 2015 Financial Results

January 28, 2016

Safe Harbor Statement

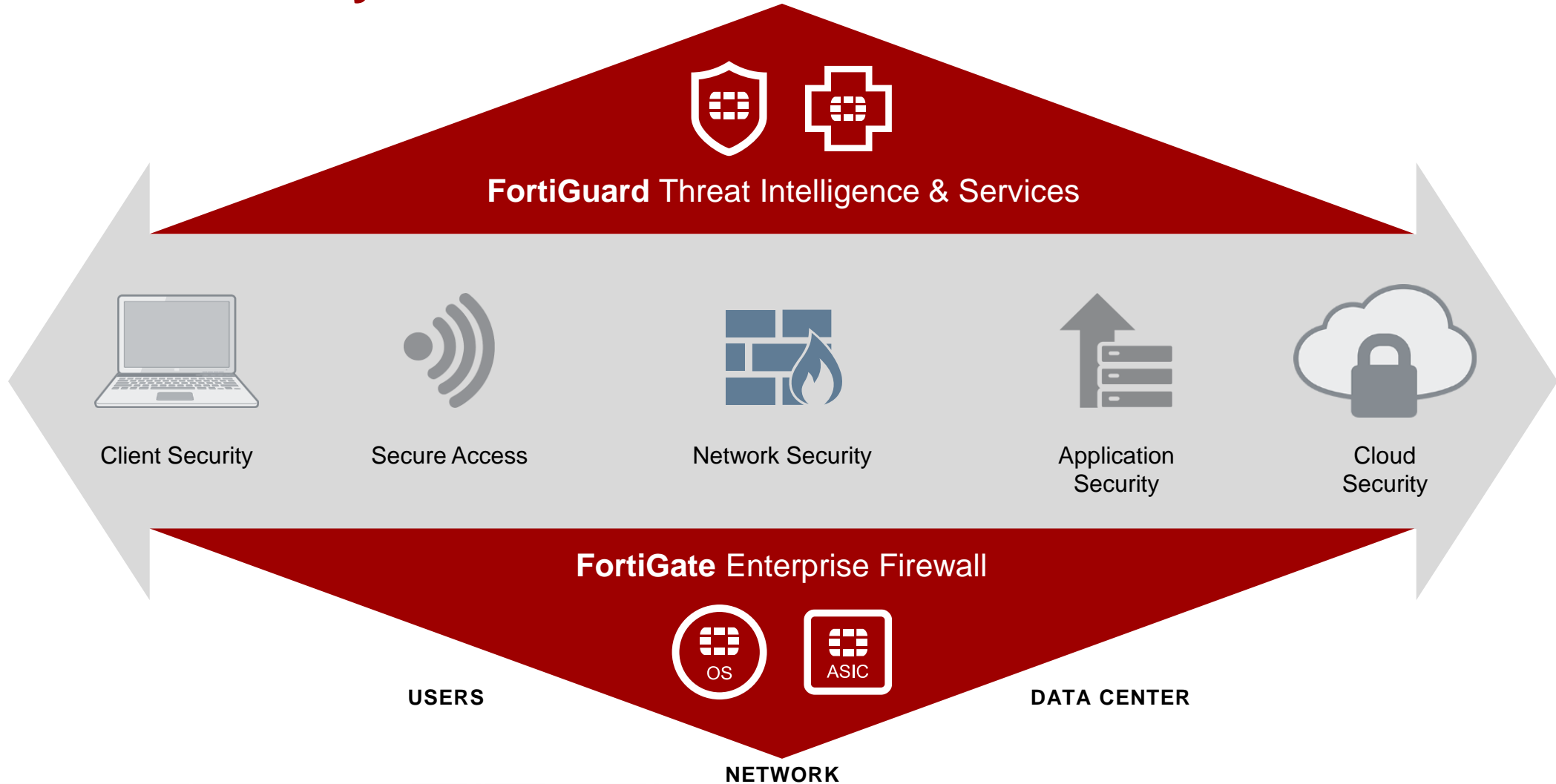


Information, statements and projections contained in these presentation slides and related conference calls concerning Fortinet's business outlook and momentum, the Q1 and 2016 guidance, and future prospects and expectations are forward-looking statements that involve a number of uncertainties and risks. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including, among others: general economic risks; specific economic risks in different geographies and among different customer segments; uncertainty regarding demand for our products and services; uncertainty regarding increased business and renewals from existing customers; changes in our relationships with distributors, resellers and other partners; changes in overall technology spending and in spending on network security; contractual terms and other factors that may result in the deferral of revenue; the timing of orders and their fulfillment; manufacturing, inventory and supply chain constraints and timing; uncertainties around continued success in sales growth and market share gains; delays in scheduled product availability; risks associated with successful implementation of multiple integrated software products and other product functionality risks; execution risks around new product introductions and innovation; product defects, returns and vulnerabilities; the ability to attract and retain personnel; possible turnover among personnel including key employees; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; risks associated with acquisitions, including integration risks businesses and assumption of unknown liabilities; delays or losses of, or changes in circumstances with regards to, sales deals expected to close during a certain time period; technological changes that make our products and services less competitive; risks associated with the adoption of, and demand for, Fortinet's model; mergers and acquisitions and the ability to successfully acquire, integrate and manage businesses and technologies; litigation and disputes and the potential cost, distraction and damage to sales and reputation caused thereby; risks posed by competitors and an increasingly competitive market; current laws, regulations and standards, and the adoption of new laws, regulations and standards that affect our product, services or business; risks associated with increased international sales, including the impact of foreign currency exchange rates; and the other risk factors set forth from time to time in our filings with the SEC. Please refer to our SEC filings, in particular, the risk factors described in our Forms 10-K and 10-Q for more information on these risks and uncertainties and on the limitations that apply to our forward-looking statements. Copies of our SEC reports can be obtained from the SEC, at the SEC's website located at www.sec.gov, or by visiting the investor relations section of our website. All forward-looking statements reflect our opinions only as of the date of the conference call related to this presentation, and we undertake no obligation, and specifically disclaim any obligation, to revise or publicly release the results of any revision of these forward-looking statements in light of new information or future events.

Fortinet Cybersecurity Platform



Seamless Security Across the Entire Attack Surface



Fortinet Cloud Products & Partnerships



CLOUD SECURITY



FortiGuard



FortiOS



Cloud



Virtual

FortiAnalyzer



Cloud



Virtual

FortiManager



FortiSandbox



FortiGate VMX



Cloud



Virtual

FortiGate



On Demand Security



Microsoft Azure



Cloud Services



IBM Cloud



amazon
web services



openstack™

Q4 2015 Non-GAAP Results

	Q4 15	Q4 14	Y/Y % Change
Billings ⁽¹⁾	\$381M	\$283M	35%
Revenue	\$297M	\$224M	32%
Gross Margin (%) ⁽²⁾	74%	72%	+2% pts
Operating Income ⁽²⁾	\$48M	\$37M	29%
Operating Margin (%) ⁽²⁾	16%	16%	-
Net Income ⁽²⁾⁽³⁾	\$32M	\$24M	35%
Earnings per Share ⁽²⁾⁽³⁾	\$0.18	\$0.14	29%
Deferred Revenue	\$791M	\$559M	42%
Cash Flow from Operations	\$69M	\$35M	94%
Free Cash Flow ⁽⁴⁾	\$60M	\$30M	101%

Notes

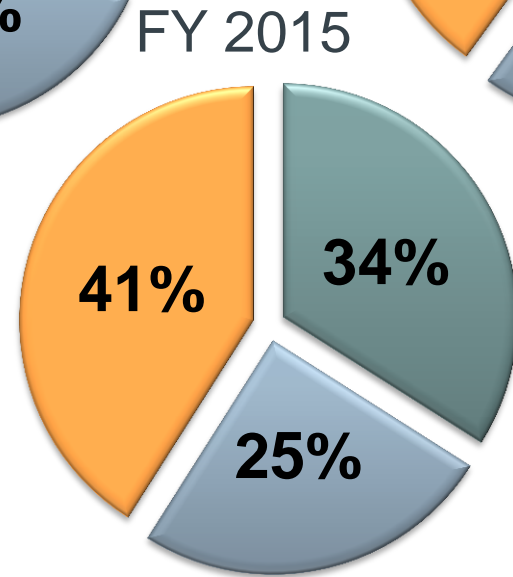
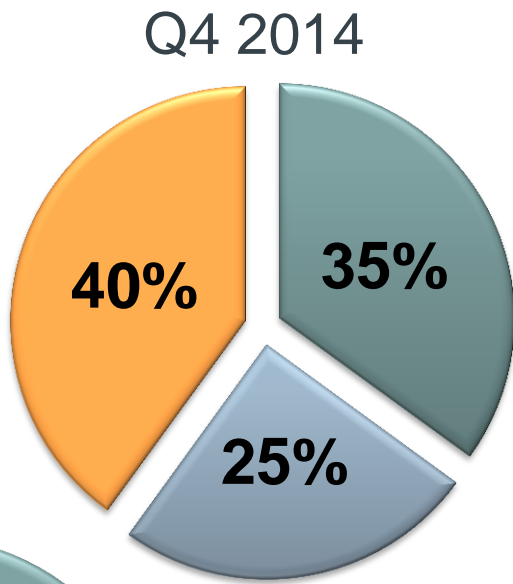
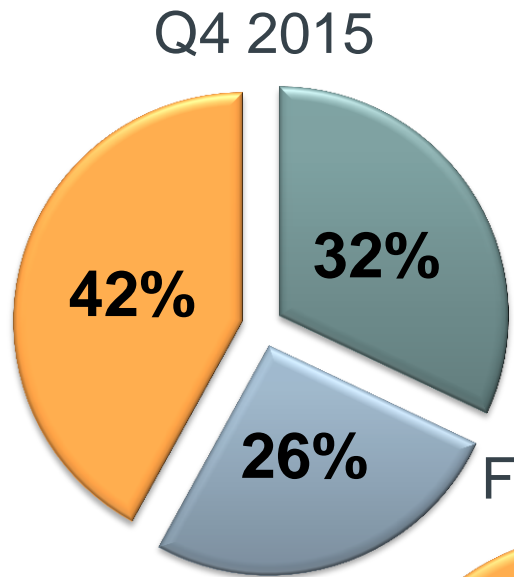
- (1) Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system.
- (3) Assumes annual effective tax rate of 34% and 35% for Q4 2015 and Q4 2014, respectively.
- (4) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.

Balanced Product Segmentation



FortiGate Billings

- **Balanced Product Sales**
 - Entry-Level typically sold to Distributed Enterprises and SMBs
 - Mid-Range = Enterprises
 - High-End = Large Enterprises and Telcos/Service Providers



- **Entry-Level (FG20-100)**
- **Mid-Range (FG200-900)**
- **High-End (FG1000-5000)**

Note

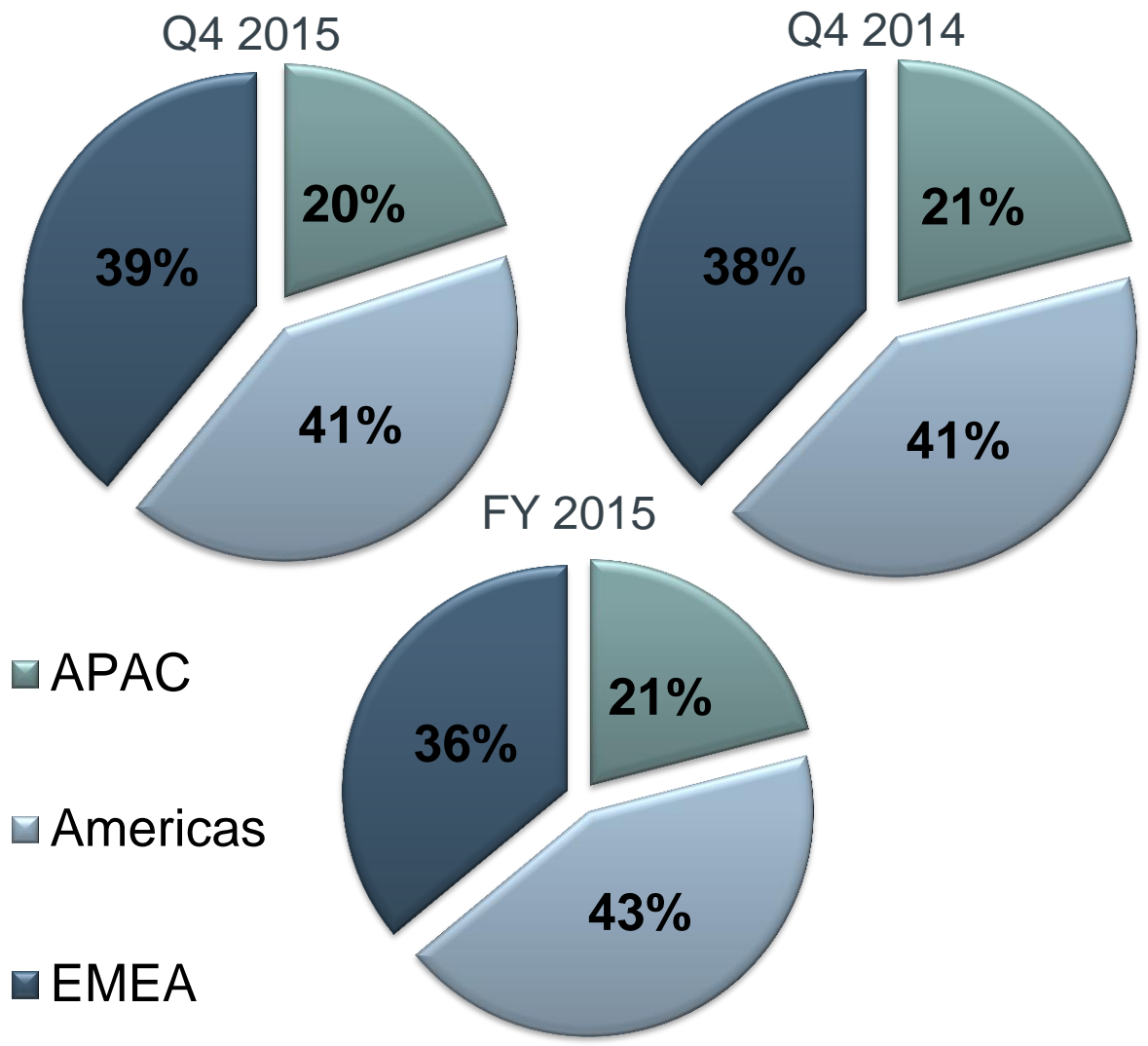
(1) Represents FortiGate billings by Product Category. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.

Diversified Global Revenue



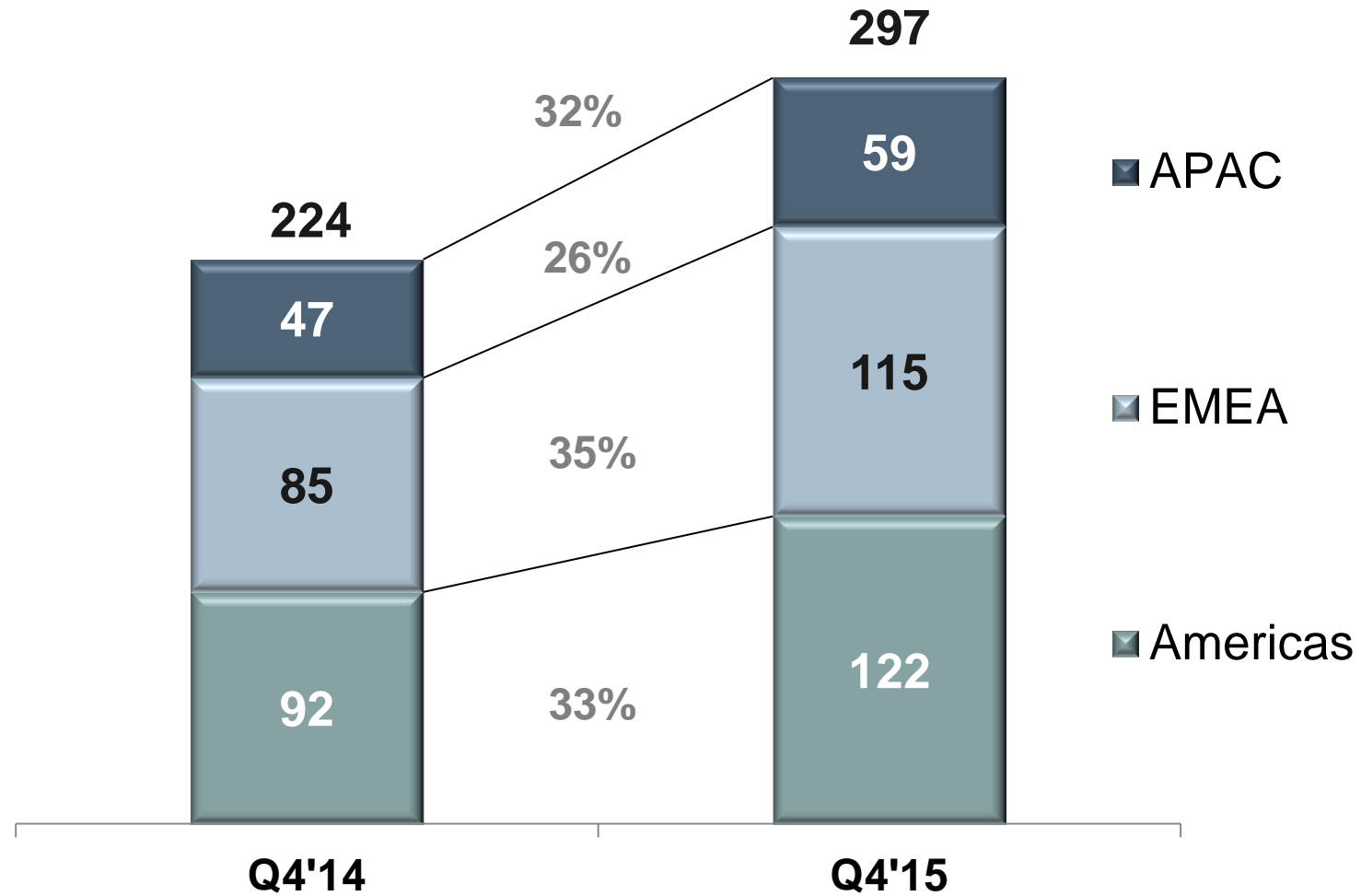
Revenue by Geography

- Globally-diverse revenue stream

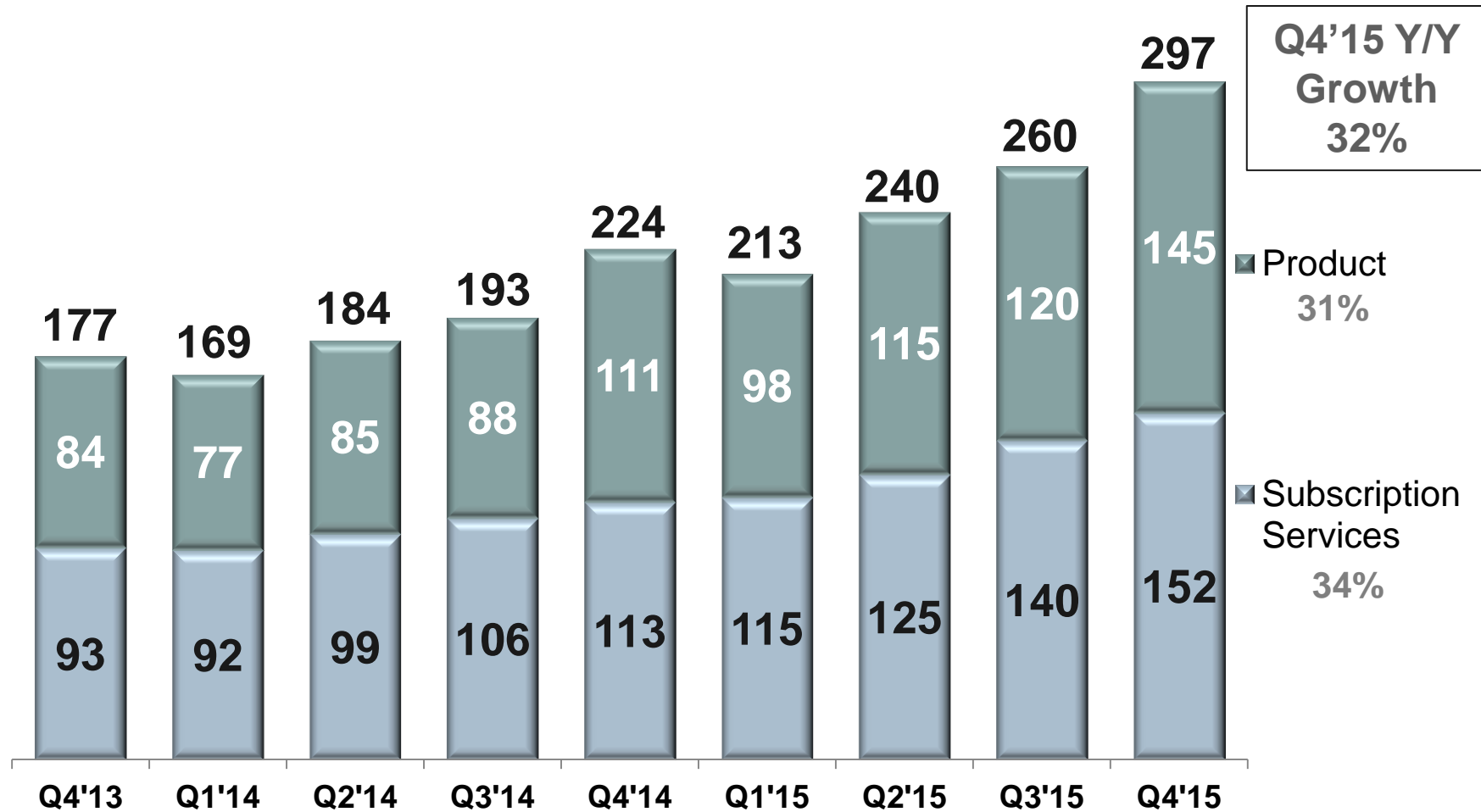


- APAC
- Americas
- EMEA

Revenue Growth by Geography



Quarterly Revenue Mix & Q4'15 Y/Y Growth



Q4 2015 Select Financial Statistics



	Q4 15	Q3 15	Q4 14
Cash and Investments ⁽¹⁾	\$1.164B	\$1.170B	\$992M
Deferred Revenue	\$791M	\$707M	\$559M
Free Cash Flow	\$60M	\$52M	\$30M
DSO	79	60	74
Inventory Turns	2.3	2.1	2.1
Revenue per Employee (Annualized)	\$300K	\$288K	\$321K
No. of Deals >\$100K	577	440	384
No. of Deals >\$250K	193	147	137
No. of Deals >\$500K	74	50	60

Notes

(1) Excludes \$10.2M, \$10.2M and \$5.0M of investments in privately-held companies which are recorded in other assets for Q4 2015, Q3 2015 and Q4 2014, respectively.

Statement of Cash Flows (Non-GAAP)



(\$ in Millions)	Q4 15	Q4 14	2015	2014
GAAP Net Income	(3)	7	8	25
Depreciation and Stock-Based Compensation	37	22	127	81
Accounts Receivable	(86)	(69)	(65)	(56)
Inventory	(7)	(21)	(19)	(32)
Accounts Payable / Accrued Expenses / Other	44	37	11	51
Deferred Revenue	84	59	221	127
GAAP Cash Flow from Operations	69	35	283	197
Purchase of Property and Equipment	(9)	(5)	(38)	(33)
Free Cash Flow	60	30	245	164
Stock Option and RSU Exercises / ESPP	(2)	13	38	45
Stock Repurchases	(60)	(6)	(60)	(44)
Acquisition	-	-	(38)	-
Other	(3)	(9)	(7)	(16)
Net Cash Flow	(5)	28	178	149
<i>Footnote: Cash Paid for Taxes</i>	5	4	20	43

2015 Non-GAAP Results



	2015	2014	Y/Y % Change
Billings ⁽¹⁾	\$1.232B	\$896M	37%
Revenue	\$1.009B	\$770M	31%
Gross Margin (%) ⁽²⁾	73%	71%	+2% pts
Operating Income ⁽²⁾	\$133M	\$122M	9%
Operating Margin (%) ⁽²⁾	13%	16%	-3 pts
Net Income ⁽²⁾⁽³⁾	\$89M	\$81M	11%
Earnings per Share ⁽²⁾⁽³⁾	\$0.51	\$0.48	6%
Deferred Revenue	\$791M	\$559M	42%
Cash Flow from Operations	\$283M	\$197M	44%
Free Cash Flow ⁽⁴⁾	\$245M	\$164M	49%

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 the period, less any deferred revenue balances acquired from business combination(s) during the period.
- (2) Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system.
- (3) Assumes annual effective tax rate of 34% and 35% for 2015 and 2014, respectively.
- (4) Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.

Q1 and 2016 Guidance (Non-GAAP)

	Q1 16	Y/Y % Mid-Pt Growth	2016	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$315 - 322M	25%	\$1.505 - 1.520B	23%
Revenue	\$270 - 275M	28%	\$1.250 - 1.260B	24%
Gross Margin (%) ⁽²⁾	72 - 73%		~73%	
Operating Margin (%) ⁽²⁾	8 - 9%		~15%	
Earnings per Share ^{(2) (3)}	\$0.08 - 0.09		\$0.67 - 0.69	
Weighted Diluted Shares used in EPS	179 - 181M		183 - 185M	

Notes

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- (2) Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system.
- (3) Assumes effective tax rate of 34% for 2016.

GAAP to Non-GAAP – Operating Results (Q4'15 vs. Q3'15 vs. Q4'14)



(Unaudited, in thousands, except per share amounts)

	Q4'15	Adjustment	Non-GAAP Q4'15	Q3'15	Adjustment	Non-GAAP Q3'15	Q4'14	Adjustment	Non-GAAP Q4'14
Revenue:									
Product	\$ 144,759	\$ -	\$ 144,759	\$ 119,737	\$ -	\$ 119,737	\$ 110,678	\$ -	\$ 110,678
Service	151,770	-	151,770	140,331	-	140,331	113,291	-	113,291
Total revenue	296,529	-	296,529	260,068	-	260,068	223,969	-	223,969
Cost of revenue:									
Product	55,466	(2,521)	52,945	46,167	(2,202)	43,965	46,070	(376)	45,694
Service	26,510	(1,980)	24,530	25,534	(1,849)	23,685	19,554	(1,612)	17,942
Total cost of revenue	81,976	(4,501)	77,475	71,701	(4,051)	67,650	65,624	(1,988)	63,636
Gross profit:									
Product	89,293	2,521	91,814	73,570	2,202	75,772	64,608	376	64,984
Service	125,260	1,980	127,240	114,797	1,849	116,646	93,737	1,612	95,349
Total gross profit	214,553	4,501	219,054	188,367	4,051	192,418	158,345	1,988	160,333
Operating expenses:									
Research and development	42,814	(7,194)	35,620	42,110	(6,663)	35,447	33,097	(4,706)	28,391
Sales and marketing	136,840	(15,664)	121,176	120,994	(14,614)	106,380	93,228	(7,854)	85,374
General and administrative	20,315	(5,636)	14,679	21,220	(7,019)	14,201	12,104	(2,377)	9,727
Restructuring charges	1,717	(1,717)	-	5,883	(5,883)	-	-	-	-
Total operating expenses	201,686	(30,211)	171,475	190,207	(34,179)	156,028	138,429	(14,937)	123,492
Operating income (loss)	12,867	34,712	47,579	(1,840)	38,230	36,390	19,916	16,925	36,841
Interest income	1,176	-	1,176	1,333	-	1,333	1,402	-	1,402
Other expense—net	(1,007)	-	(1,007)	(653)	-	(653)	(1,200)	-	(1,200)
Income (Loss) before income taxes	13,036	34,712	47,748	(1,160)	38,230	37,070	20,118	16,925	37,043
Provision for (Benefit from) income taxes	15,570	(213)	15,357	(9,329)	22,304	12,975	13,305	(340)	12,965
Net income (loss)	\$ (2,534)	\$ 34,925	\$ 32,391	\$ 8,169	\$ 15,926	\$ 24,095	\$ 6,813	\$ 17,265	\$ 24,078
Basic net income (loss) per share	\$ (0.01)		\$ 0.19	\$ 0.05		\$ 0.14	\$ 0.04		\$ 0.15
Diluted net income (loss) per share	\$ (0.01)		\$ 0.18	\$ 0.05		\$ 0.14	\$ 0.04		\$ 0.14
Shares used in computing net income per share									
Basic	171,831		171,831	171,648		171,648	165,439		165,439
Diluted	171,831		176,657	177,897		177,897	170,927		170,927

GAAP to Non-GAAP – Operating Results (% of Rev) (Q4'15 vs. Q3'15 vs. Q4'14)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'15	Adjustment	Q4'15	Q3'15	Adjustment	Q3'15	Q4'14	Adjustment	Q4'14
Revenue:									
Product	49%	-	49%	46%	-	46%	49%	-	49%
Service	51%	-	51%	54%	-	54%	51%	-	51%
Total revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	19%	(1%)	18%	18%	(1%)	17%	21%	-	20%
Service	9%	(1%)	8%	10%	(1%)	9%	9%	(1%)	8%
Total cost of revenue	28%	(2%)	26%	28%	(2%)	26%	29%	(1%)	28%
Gross profit:									
Product	62%	2%	63%	61%	2%	63%	58%	-	59%
Service	83%	1%	84%	82%	1%	83%	83%	1%	84%
Total gross profit	72%	2%	74%	72%	2%	74%	71%	1%	72%
Operating expenses:									
Research and development	14%	(2%)	12%	16%	(3%)	14%	15%	(2%)	13%
Sales and marketing	46%	(5%)	41%	47%	(6%)	41%	42%	(4%)	38%
General and administrative	7%	(2%)	5%	8%	(3%)	5%	5%	(1%)	4%
Restructuring charges	1%	(1%)	-	2%	(2%)	-	-	-	-
Total operating expenses	68%	(10%)	58%	73%	(13%)	60%	62%	(7%)	55%
Operating income (loss)	4%	12%	16%	(1%)	15%	14%	9%	8%	16%
Interest income	-	-	-	1%	-	1%	1%	-	1%
Other expense—net	-	-	-	-	-	-	(1%)	-	(1%)
Income (Loss) before income taxes	4%	12%	16%	(0.4%)	15%	14%	9%	8%	17%
Provision for (Benefit from) income taxes	5%	-	5%	(4%)	9%	5%	6%	-	6%
Net income (loss)	(1%)	12%	11%	3%	6%	9%	3%	8%	11%

GAAP to Non-GAAP – Operating Results (FY'15 vs. FY'14)



(Unaudited, in thousands, except per share amounts)

	Fiscal 2015	Adjustment	Non-GAAP Fiscal 2015	Fiscal 2014	Adjustment	Non-GAAP Fiscal 2014
Revenue:						
Product	\$ 476,782	\$ -	\$ 476,782	\$ 360,558	\$ -	\$ 360,558
Service	532,486	-	532,486	409,806	-	409,806
Total revenue	1,009,268	-	1,009,268	770,364	-	770,364
Cost of revenue:						
Product	190,398	(6,842)	183,556	151,300	(4,294)	147,006
Service	96,379	(7,121)	89,258	79,709	(5,826)	73,883
Total cost of revenue	286,777	(13,963)	272,814	231,009	(10,120)	220,889
Gross profit:						
Product	286,384	6,842	293,226	209,258	4,294	213,552
Service	436,107	7,121	443,228	330,097	5,826	335,923
Total gross profit	722,491	13,963	736,454	539,355	10,120	549,475
Operating expenses:						
Research and development	158,129	(24,555)	133,574	122,880	(17,264)	105,616
Sales and marketing	470,371	(51,168)	419,203	315,804	(26,744)	289,060
General and administrative	71,514	(21,161)	50,353	41,347	(8,677)	32,670
Restructuring charges	7,600	(7,600)	-	-	-	-
Total operating expenses	707,614	(104,484)	603,130	480,031	(52,685)	427,346
Operating income	14,877	118,447	133,324	59,324	62,805	122,129
Interest income	5,295	-	5,295	5,393	-	5,393
Other expense—net	(3,167)	-	(3,167)	(3,168)	-	(3,168)
Income before income taxes	17,005	118,447	135,452	61,549	62,805	124,354
Provision for income taxes	9,018	37,036	46,054	36,206	7,318	43,524
Net income	\$ 7,987	\$ 81,411	\$ 89,398	\$ 25,343	\$ 55,487	\$ 80,830
Basic net income per share	\$ 0.05		\$ 0.52	\$ 0.15		\$ 0.49
Diluted net income per share	\$ 0.05		\$ 0.51	\$ 0.15		\$ 0.48
Shares used in computing net income per share						
Basic	170,385		170,385	163,831		163,831
Diluted	176,141		176,141	169,289		169,289

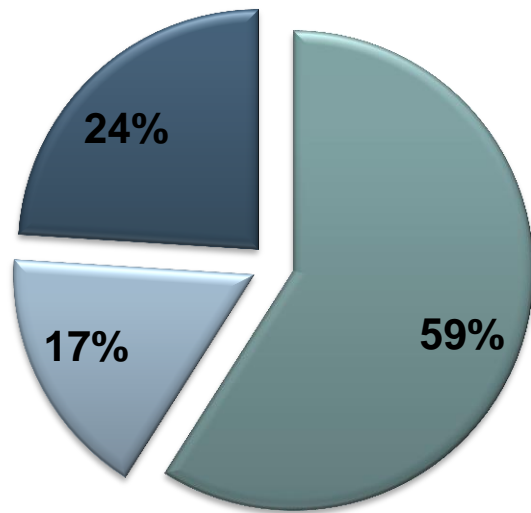
GAAP to Non-GAAP – Operating Results (% of Rev) (FY'15 vs. FY'14)

% of revenue	Non-GAAP			Non-GAAP		
	Fiscal 2015	Adjustment	Fiscal 2015	Fiscal 2014	Adjustment	Fiscal 2014
Revenue:						
Product	47%	-	47%	47%	-	47%
Service	53%	-	53%	53%	-	53%
Total revenue	100%	-	100%	100%	-	100%
Cost of revenue:						
Product	19%	(1%)	18%	20%	(1%)	19%
Service	10%	(1%)	9%	10%	(1%)	10%
Total cost of revenue	28%	(1%)	27%	30%	(1%)	29%
Gross profit:						
Product	60%	1%	62%	58%	1%	59%
Service	82%	1%	83%	81%	1%	82%
Total gross profit	72%	1%	73%	70%	1%	71%
Operating expenses:						
Research and development	16%	(2%)	13%	16%	(2%)	14%
Sales and marketing	47%	(5%)	42%	41%	(3%)	38%
General and administrative	7%	(2%)	5%	5%	(1%)	4%
Restructuring charges	1%	(1%)	-	-	-	-
Total operating expenses	70%	(10%)	60%	62%	(7%)	55%
Operating income	1%	12%	13%	8%	8%	16%
Interest income	1%	-	1%	1%	-	1%
Other expense—net	-	-	-	-	-	-
Income before income taxes	2%	12%	13%	8%	8%	16%
Provision for income taxes	1%	4%	5%	5%	1%	6%
Net income	1%	8%	9%	3%	7%	10%

Global Employee Footprint

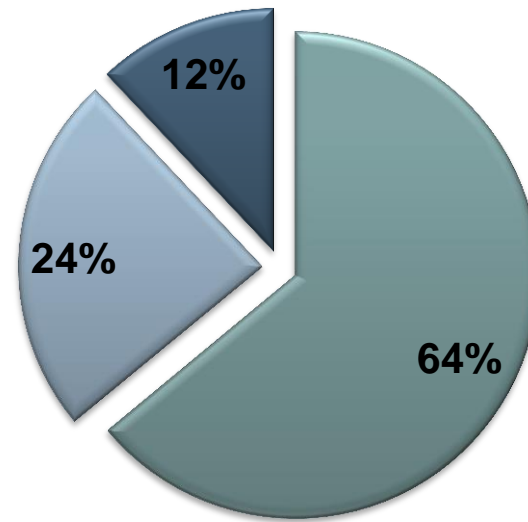


Location



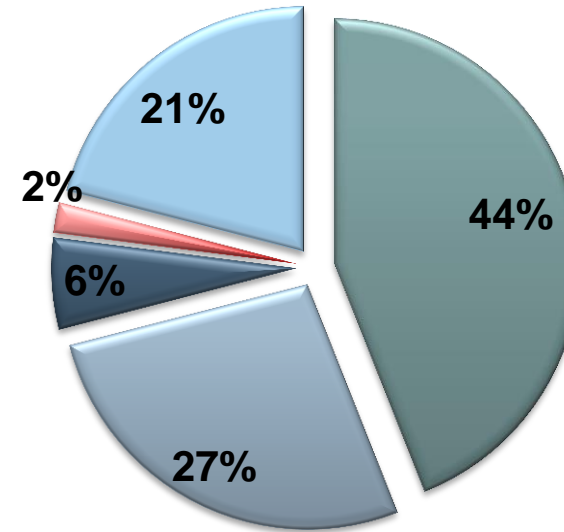
- Americas
- EMEA
- APAC

Cost



- Americas
- EMEA
- APAC

Function



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

Q4'15 Headcount: 4,018

FORTINET®