



Q4 2012 Financial Results

January 30, 2013



Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference call concerning Fortinet's business outlook and momentum, the Q1 and 2013 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; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; technological changes that make our products and services less competitive; risks associated with the adoption of, and demand for, the UTM 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; current laws, regulations and standards, and the adoption of new laws, regulations and standards that affect our product, services or business; 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.

Q4 2012 Non-GAAP Results

	Q4 12	Q4 11	Y/Y % Growth	Q3 12
Billings ⁽¹⁾	\$174M	\$141M	24%	\$145M
Revenue	\$151M	\$121M	25%	\$136M
Gross Margin (%) ⁽²⁾	73%	74%	-1%	73%
Operating Income ⁽²⁾	\$41M	\$32M	28%	\$34M
Operating Margin (%) ⁽²⁾	27%	27%	-	25%
Net Income ^{(2) (3)}	\$28M	\$22M	26%	\$23M
Earnings per Share ^{(2) (3)}	\$0.17	\$0.14	21%	\$0.14
Deferred Revenue	\$363M	\$295M	23%	\$340M
Cash Flow from Operations	\$50M	\$23M	123%	\$41M
Free Cash Flow ⁽⁴⁾	\$48M	\$22M	123%	\$24M

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 sale of \$1.9M in Q4 2012 and \$1.8M in Q3 2012.
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 34% for Q4 2012, 33% for Q4 2011 and 34% for Q3 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.

2012 Non-GAAP Results

	2012	2011	Y/Y % Growth
Billings ⁽¹⁾	\$602M	\$476M	27%
Revenue	\$534M	\$434M	23%
Gross Margin (%) ⁽²⁾	73%	74%	-1%
Operating Income ⁽²⁾	\$129M	\$106M	22%
Operating Margin (%) ⁽²⁾	24%	24%	-
Net Income ^{(2) (3)}	\$88M	\$73M	21%
Earnings per Share ^{(2) (3)}	\$0.53	\$0.45	18%
Deferred Revenue	\$363M	\$295M	23%
Cash Flow from Operations	\$184M	\$133M	38%
Free Cash Flow ⁽⁴⁾	\$162M	\$129M	25%

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 \$3.7M in 2012 and \$2.6M in 2011.
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 34% for 2012 and 33% for 2011 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

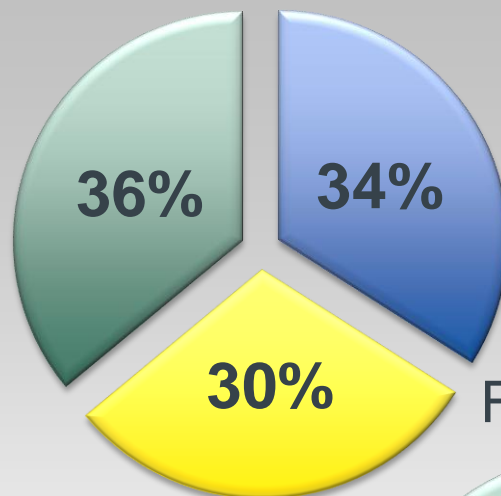
FortiGate Billings

- **Balanced Product Sales**

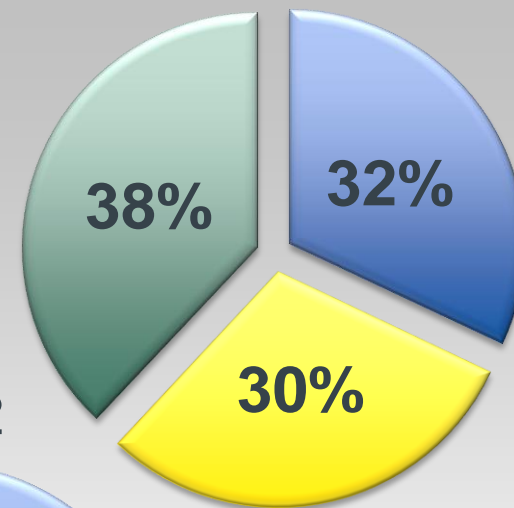
- Entry-level typically sold to SMBs/branch offices
- Mid-range = enterprises
- High-end = telcos/service providers and large enterprises

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

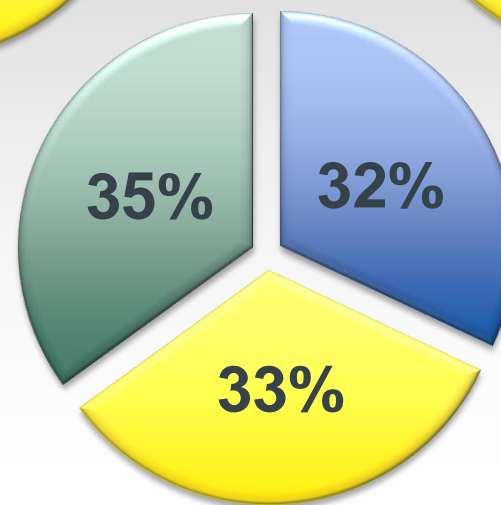
Q4 2012



Q4 2011



FY 2012



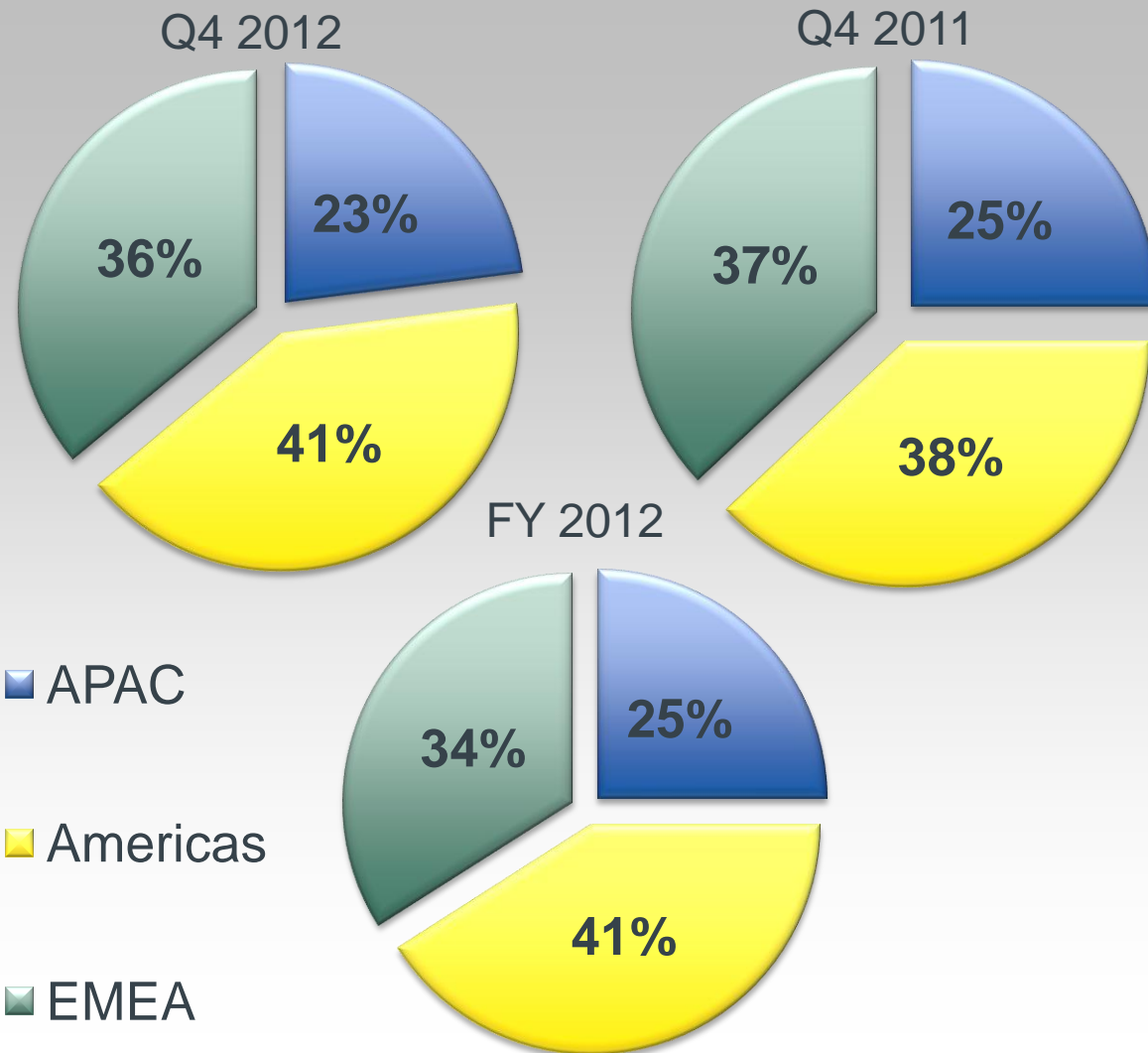
Note

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

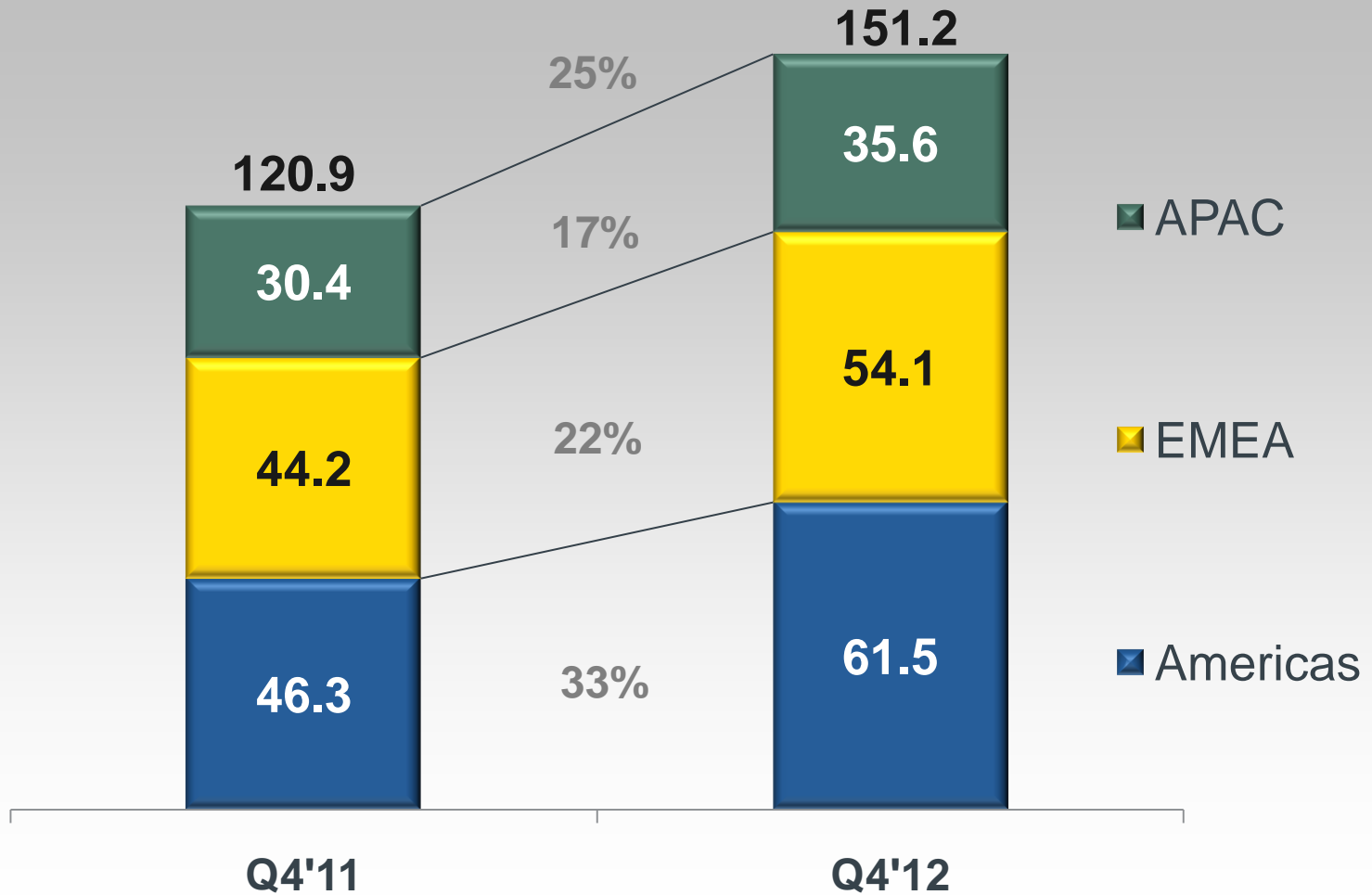
Diversified Global Revenue

Revenue by Geography

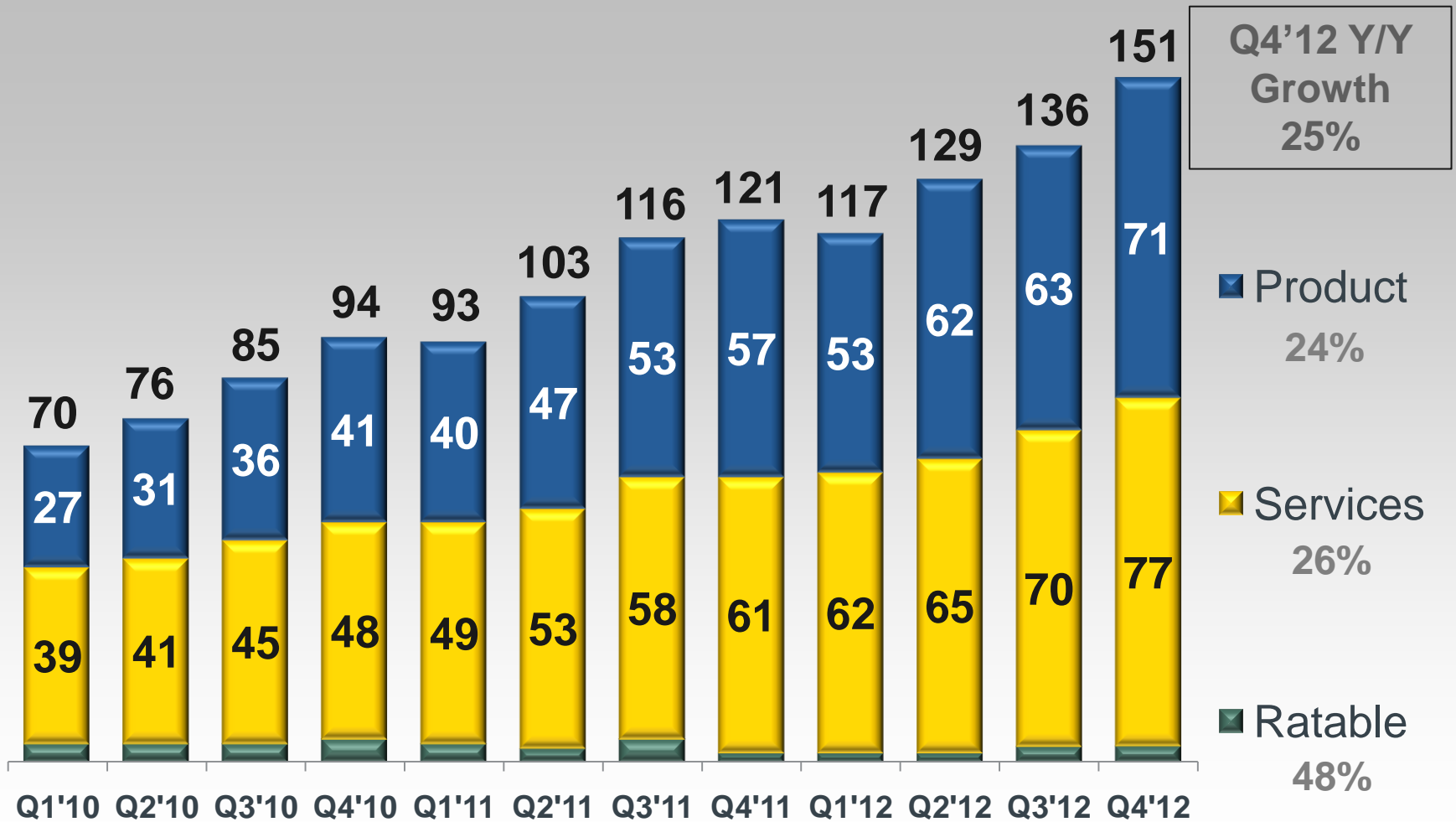
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography

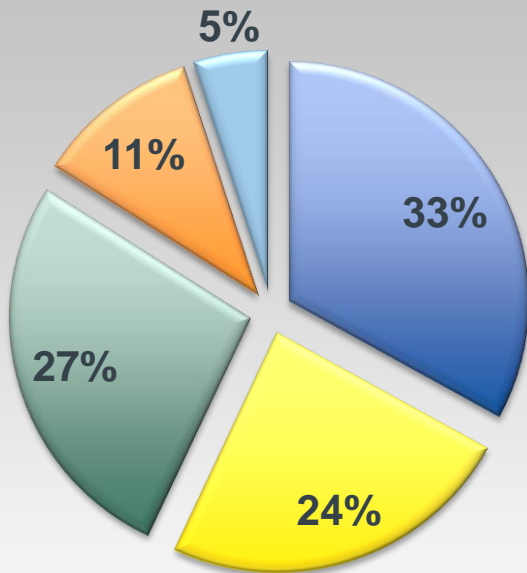


Quarterly Revenue Mix & Q4'12 Y/Y Growth



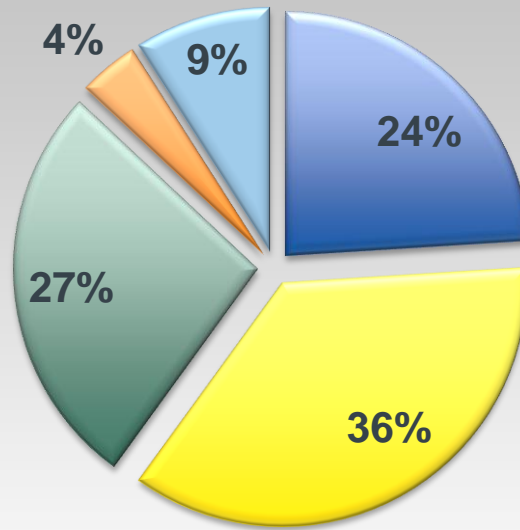
Global Employee Footprint

Location



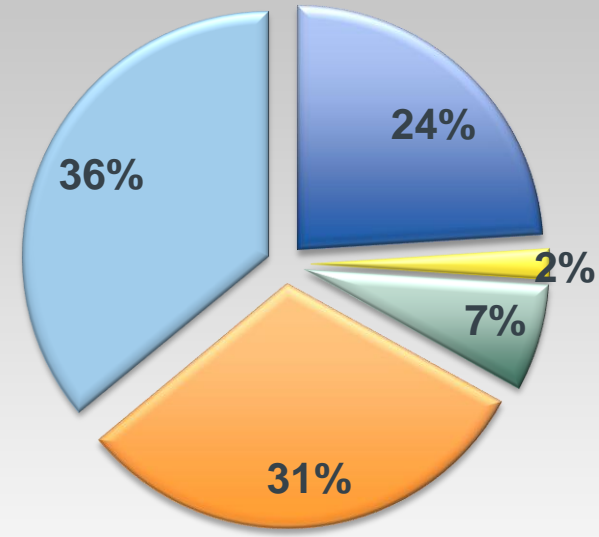
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function

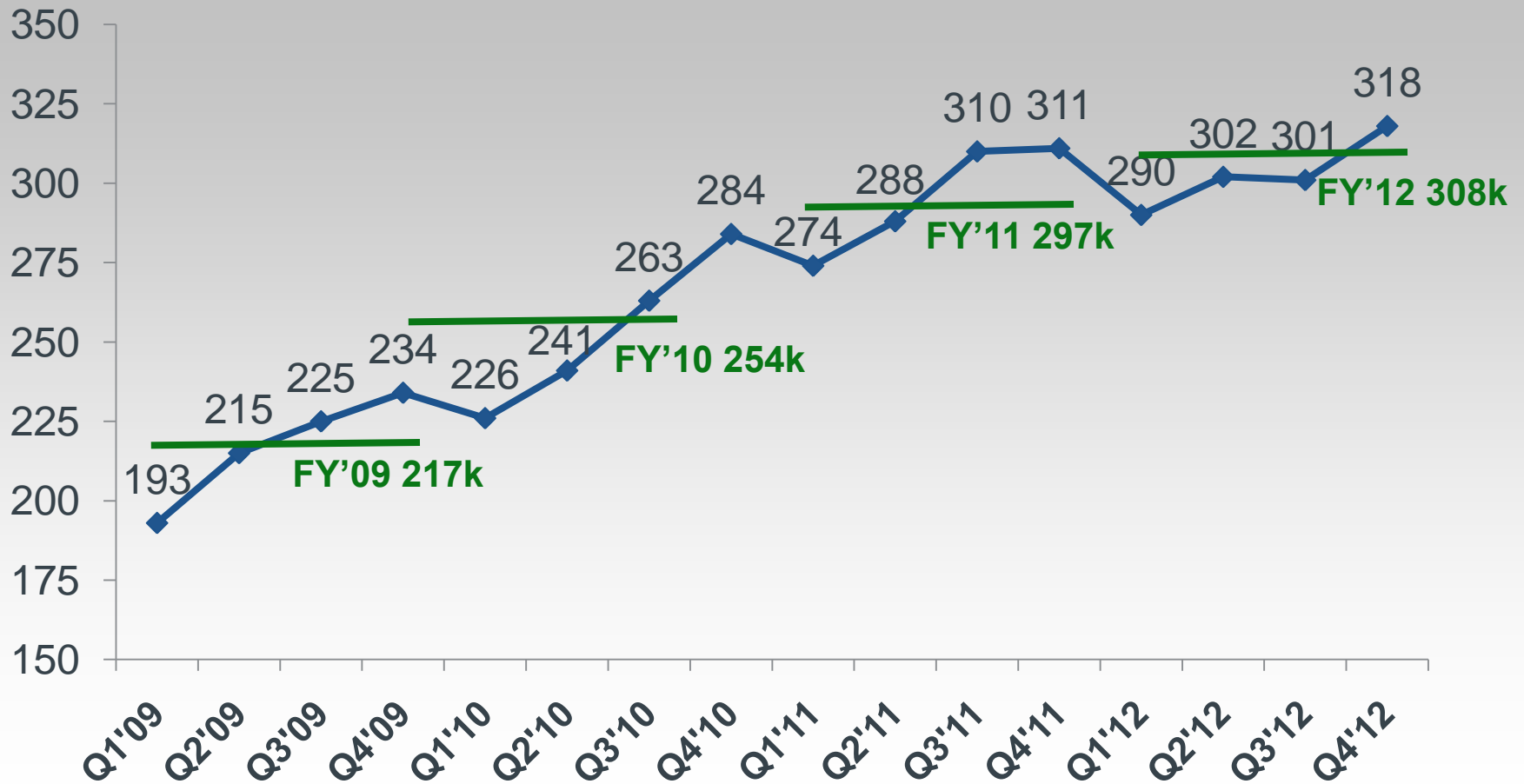


- Service & Support
- Operations
- G&A
- R&D
- Sales & Marketing

Q4'12 Headcount: 1,954

Revenue per Employee

(\$ in Thousands, Annualized)



Q4 2012 Select Financial Statistics

	Q4 12	Q3 12	Q4 11
Cash and Investments	\$740M	\$690M	\$539M
Deferred Revenue	\$363M	\$340M	\$295M
Free Cash Flow	\$48M	\$24M	\$22M
Working Capital	\$250M	\$216M	\$257M
Accounts Receivable	\$108M	\$90M	\$96M
DSO	64	59	71
Net Inventory	\$21M	\$26M	\$16M
Inventory Turns	4.4	3.1	4.4
Revenue per Employee (Annualized)	\$318K	\$301K	\$311K
No. of Deals >\$100K	229	168	192
No. of Deals >\$250K	78	61	57
No. of Deals >\$500K	27	16	15

Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q4 12	Q3 12	Q4 11
Assets			
Cash and Investments	740	690	539
Accounts Receivable	108	90	96
Inventory	21	26	16
Property and Equipment	26	26	8
Deferred Tax Assets	62	57	54
Other Assets	18	24	22
Total Assets	975	913	735
Liabilities and Shareholders' Equity			
Accounts Payable	21	23	20
Accrued Expenses	80	71	62
Deferred Revenue	363	340	295
Common Stock/Paid in Capital	397	386	314
Retained Earnings	114	93	44
Total Liabilities and Shareholders' Equity	975	913	735

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q4 12	Q4 11	2012	2011
GAAP Net Income	22	16	67	62
Depreciation and Stock-Based Compensation	10	8	42	26
Amortization of Investment Premium	3	3	13	13
Excess Tax Benefit	(2)	(11)	(12)	(20)
Accounts Receivable	(12)	(20)	(12)	(23)
Inventory	4	(4)	(11)	(6)
Accounts Payable / Accrued Expenses / Other	2	11	29	39
Deferred Revenue	23	20	68	42
GAAP Cash Flow from Operations	50	23	184	133
Purchase of Property and Equipment	(2)	(1)	(22)	(4)
Free Cash Flow	48	22	162	129
Stock Option Exercises and ESPP	2	6	38	20
Acquisition	(1)	-	(1)	(3)
Effect of F/X Rate on Cash / Other	-	8	2	6
Net Cash Flow	49	36	201	152
<i>Footnote: Cash Paid for Taxes</i>	7	-	17	-

Q1 and 2013 Guidance

	Q1 13	Y/Y % Mid-Pt Growth	2013	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$158 - 162M	17%	\$710 - 720M	19%
Revenue	\$138 - 141M	19%	\$625 - 635M	18%
Gross Margin (%) ⁽²⁾	72 - 73%		72 - 73%	
Operating Margin (%) ⁽²⁾	~20%		~24%	
Earnings per Share ^{(2) (3)}	\$0.11 – 0.12		\$0.60 – 0.61	
Weighted Diluted Shares used in EPS	168 - 170M		170 - 174M	
Free Cash Flow ⁽⁴⁾			\$180 - 190M	

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 33% for Q1 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

(Q4'12 vs. Q4'11 vs. Q3'12)

(in thousands, except per share amounts)

	Q4'12	Adj	Non-GAAP Q4'12	Q4'11	Adj	Non-GAAP Q4'11	Q3'12	Adj	Non-GAAP Q3'12
Revenue:									
Product	\$ 71,025	\$ -	\$ 71,025	\$ 57,463	\$ -	\$ 57,463	\$ 63,027	\$ -	\$ 63,027
Services	76,711	-	76,711	61,076	-	61,076	69,782	-	69,782
Ratable and other revenues	3,426	-	3,426	2,322	-	2,322	3,459	-	3,459
Total Revenue	151,162	-	151,162	120,861	-	120,861	136,268	-	136,268
Cost of revenue:									
Cost of product revenue	26,974	(96)	26,878	21,929	(54)	21,875	23,995	(85)	23,910
Cost of services revenue	13,836	(1,032)	12,804	9,671	(666)	9,005	13,166	(1,018)	12,148
Cost of ratable and other revenues	632	-	632	886	-	886	647	-	647
Total cost of revenue	41,442	(1,128)	40,314	32,486	(720)	31,766	37,808	(1,103)	36,705
Gross Profit:									
Product	44,051	96	44,147	35,534	54	35,588	39,032	85	39,117
Services	62,875	1,032	63,907	51,405	666	52,071	56,616	1,018	57,634
Ratable product and services	2,794	-	2,794	1,436	-	1,436	2,812	-	2,812
Total gross profit	109,720	1,128	110,848	88,375	720	89,095	98,460	1,103	99,563
Operating Expenses:									
Research and development	20,525	(2,452)	18,073	16,379	(1,737)	14,642	20,498	(2,525)	17,973
Sales and marketing	48,117	(1,996)	46,121	39,984	(3,036)	36,948	44,743	(3,879)	40,864
General and administrative	6,038	(708)	5,330	5,492	(370)	5,122	7,449	(845)	6,604
Total operating expenses	74,680	(5,156)	69,524	61,855	(5,143)	56,712	72,690	(7,249)	65,441
Operating income	35,040	6,284	41,324	26,520	5,863	32,383	25,770	8,352	34,122
Interest income	1,400	-	1,400	963	-	963	1,318	-	1,318
Other expense, net	(170)	-	(170)	(112)	-	(112)	(317)	-	(317)
Net income before income taxes	36,270	6,284	42,554	27,371	5,863	33,234	26,771	8,352	35,123
Provision for income taxes	14,763	(295)	14,468	10,877	90	10,967	9,565	2,377	11,942
Net income	\$ 21,507	\$ 6,579	\$ 28,086	\$ 16,494	\$ 5,773	\$ 22,267	\$ 17,206	\$ 5,975	\$ 23,181
Basic net income per share	\$ 0.13		\$ 0.18	\$ 0.11		\$ 0.14	\$ 0.11		\$ 0.15
Diluted net income per share	\$ 0.13		\$ 0.17	\$ 0.10		\$ 0.14	\$ 0.10		\$ 0.14
Shares used in computing net income per share									
Basic	160,034		160,034	154,429		154,429	158,751		158,751
Diluted	166,955		166,955	164,505		164,505	166,791		166,791

GAAP to Non-GAAP – Operating Results (% of Rev) (Q4'12 vs. Q4'11 vs. Q3'12)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'12	Adj	Q4'12	Q4'11	Adj	Q4'11	Q3'12	Adj	Q3'12
Revenue:									
Product	47%	-	47%	48%	-	48%	46%	-	46%
Services	51%	-	51%	50%	-	50%	51%	-	51%
Ratable product and services	2%	-	2%	2%	-	2%	3%	-	3%
Total Revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Cost of product revenue	18%	-	18%	18%	-	18%	18%	-	18%
Cost of services revenue	9%	-	9%	8%	(1%)	7%	10%	(1%)	9%
Cost of ratable product and services	-	-	-	1%	-	1%	-	-	-
Total cost of revenue	27%	-	27%	27%	(1%)	26%	28%	(1%)	27%
Gross Profit:									
Product	62%	-	62%	62%	-	62%	62%	-	62%
Services	82%	1%	83%	84%	1%	85%	81%	2%	83%
Ratable product and services	82%	-	82%	62%	-	62%	81%	-	81%
Total gross profit	73%	-	73%	73%	1%	74%	72%	1%	73%
Operating Expenses:									
Research and development	14%	(3%)	11%	14%	(2%)	12%	15%	(2%)	13%
Sales and marketing	32%	(1%)	31%	33%	(2%)	31%	33%	(3%)	30%
General and administrative	4%	-	4%	4%	-	4%	5%	-	5%
Total operating expenses	50%	(4%)	46%	51%	(4%)	47%	53%	(5%)	48%
Operating income	23%	4%	27%	22%	5%	27%	19%	6%	25%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Net income before income taxes	24%	4%	28%	23%	5%	28%	20%	6%	26%
Provision for income taxes	10%	-	10%	9%	-	9%	7%	2%	9%
Net income	14%	4%	18%	14%	5%	19%	13%	4%	17%

GAAP to Non-GAAP – Operating Results

(FY 2012 vs. FY 2011)

(in thousands, except per share amounts)

	Fiscal 2012	Adj	Non-GAAP Fiscal 2012	Fiscal 2011	Adj	Non-GAAP Fiscal 2011
Revenue:						
Product	\$ 248,948	\$ -	\$ 248,948	\$ 197,408	\$ -	\$ 197,408
Services	274,043	-	274,043	220,268	-	220,268
Ratable product and services	10,648	-	10,648	15,900	-	15,900
Total Revenue	533,639		533,639	433,576		433,576
Cost of revenue:						
Cost of product revenue	93,971	(333)	93,638	73,201	(183)	73,018
Cost of services revenue	50,682	(3,736)	46,946	35,486	(1,790)	33,696
Cost of ratable product and services	2,767	-	2,767	4,911	-	4,911
Total cost of revenue	147,420	(4,069)	143,351	113,598	(1,973)	111,625
Gross Profit:						
Product	154,977	333	155,310	124,207	183	124,390
Services	223,361	3,736	227,097	184,782	1,790	186,572
Ratable product and services	7,881	-	7,881	10,989	-	10,989
Total gross profit	386,219	4,069	390,288	319,978	1,973	321,951
Operating Expenses:						
Research and development	81,078	(9,226)	71,852	63,577	(4,691)	58,886
Sales and marketing	179,155	(12,793)	166,362	145,532	(9,325)	136,207
General and administrative	25,511	(2,690)	22,821	21,965	(1,115)	20,850
Total operating expenses	285,744	(24,709)	261,035	231,074	(15,131)	215,943
Operating income	100,475	28,778	129,253	88,904	17,104	106,008
Interest income	5,006	-	5,006	3,523	-	3,523
Other expense, net	(485)	-	(485)	(354)	-	(354)
Net income before income taxes	104,996	28,778	133,774	92,073	17,104	109,177
Provision for income taxes	38,160	7,323	45,483	29,581	6,447	36,028
Net income	\$ 66,836	\$ 21,455	\$ 88,291	\$ 62,492	\$ 10,657	\$ 73,149
Basic net income per share	\$ 0.42		\$ 0.56	\$ 0.41		\$ 0.48
Diluted net income per share	\$ 0.40		\$ 0.53	\$ 0.38		\$ 0.45
Shares used in computing net income per share						
Basic	158,074		158,074	152,581		152,581
Diluted	166,329		166,329	163,781		163,781

*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) (FY 2012 vs. FY 2011)

% of revenue	Fiscal 2012			Fiscal 2011		
	Fiscal 2012	Adj	Non-GAAP Fiscal 2012	Fiscal 2011	Adj	Non-GAAP Fiscal 2011
Revenue:						
Product	47%	-	47%	46%	-	46%
Services	51%	-	51%	51%	-	51%
Ratable product and services	2%	-	2%	3%	-	3%
Total Revenue	100%	-	100%	100%	-	100%
Cost of revenue:						
Cost of product revenue	18%	-	18%	17%	-	17%
Cost of services revenue	9%	(1%)	8%	8%	-	8%
Cost of ratable product and services	1%	-	1%	1%	-	1%
Total cost of revenue	28%	(1%)	27%	26%	-	26%
Gross Profit:						
Product	62%	-	62%	63%	-	63%
Services	82%	1%	83%	84%	-	84%
Ratable product and services	74%	-	74%	69%	-	69%
Total gross profit	72%	1%	73%	74%	-	74%
Operating Expenses:						
Research and development	15%	(1%)	14%	15%	(1%)	14%
Sales and marketing	33%	(2%)	31%	34%	(3%)	31%
General and administrative	5%	(1%)	4%	4%	1%	5%
Total operating expenses	53%	(4%)	49%	53%	(3%)	50%
Operating income	19%	5%	24%	21%	3%	24%
Interest income	1%	-	1%	1%	-	1%
Net income before income taxes	20%	5%	25%	22%	3%	25%
Provision for income taxes	7%	2%	9%	7%	1%	8%
Net income	13%	3%	16%	15%	2%	17%