Krause Fund Research

Fall 2023

Fortinet Inc. (NASDAQ:FTNT)

Stock Rating **BUY**

November 13, 2023

Analysts:

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Current Price	$50.30
Price Target	$55.00 – $59.00

Company Description

Fortinet, Inc. provides cybersecurity solutions to a variety of businesses, such as enterprises, communication service providers and small businesses. It operates through the following segments: Network Security, Infrastructure Security, Cloud Security, and Endpoint Protection, Internet of Things and Operational Technology.

Valuation Summary

DCF	$55.51
DDM	$52.45
Relative PE	$59.64

Price Data

52-week Low - High	$44.12 - $81.24
Beta Value	1.39
WACC	11.05%

Share Highlights

Market Capitalization	$38.6 B
Shares Outstanding	767.9 M
EPS (FY22)	$1.08
P/S Ratio	7.3x

Revenue Outlook

($ millions)	2023E	2024E	2025E
Krause Fund Revenue	$5,299	$6,130	$7,082
Analyst Revenue	$5,301	$6,002	$6,899

Investment Thesis

We recommend a Buy rating on Fortinet with an upside of 10.0 – 18.0%. Fortinet is well-positioned to capture increased industry consolidation and high long-term growth in the cybersecurity TAM at a reasonable price.

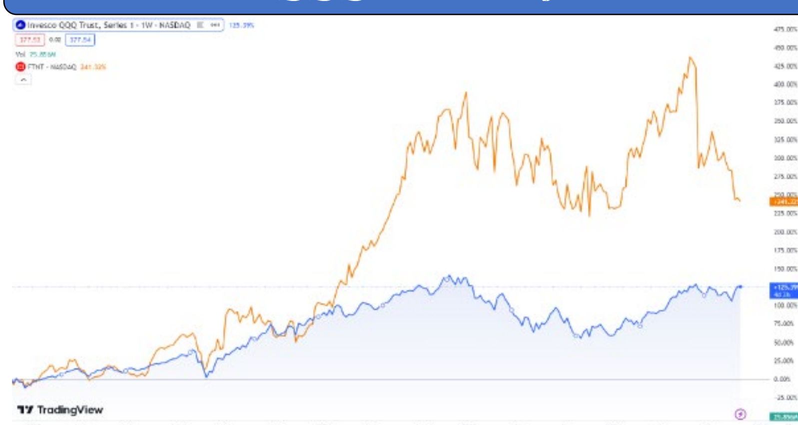
Drivers of Thesis:

- Expansion of ASIC chip products: These proprietary chips led Fortinet to become the leading firewall product company, and the expansion of these chips will lead to more product dominance.
- Favorable geographic revenue diversification: Fortinet's revenue mix is diversified to fast growing emerging markets which are quickly technologizing.
- Growing economies of scale generates value: As one of the largest cybersecurity firms in a fragmented industry, Fortinet can maximize their value by leveraging scale to outcompete small firms and capture market share.

Risk of Thesis:

- Large macroeconomic downturn: While we believe cybersecurity is less cyclical than other technology industries, large reductions in IT spending will have a moderate impact on near-term revenue growth.
- Product obsolescence: Constant technology changes and improvement may cause Fortinet to become obsolete if they cannot continually improve their products or adjust their product mix to capture the fastest growing products.
- Additional foreign conflict and regulation: Fortinet produces 88% of their hardware in Taiwan which is at risk of disruption, and foreign limits on US cyber companies will stunt growth

FTNT vs QQQ Stock Performance



Executive Summary

Fortinet presents a promising investment opportunity as the 2nd largest pure-play cybersecurity company and possesses one of the best network security programs led by their proprietary ASIC chips. The company is undervalued compared to its peers, even while being the most capital efficient company. Currently, they are trading at 7.3x 2023 P/S, which is a discount compared to Palo Alto Networks (PANW), ZScaler (ZS), and CrowdStrike (CRWD) who are trading at 9.3x, 12.3x and 15.0x, respectively. FTNT's long-term strategy is to take advantage of the large industry consolidation and position themselves to capture maximum market share. While many companies are following a similar strategy to capture industry tailwinds, we believe Fortinet is the most attractive investment opportunity pursuing this strategy as their efficiency, economies of scale, quality of product, and highly diversified revenue segments generate competitive advantages.

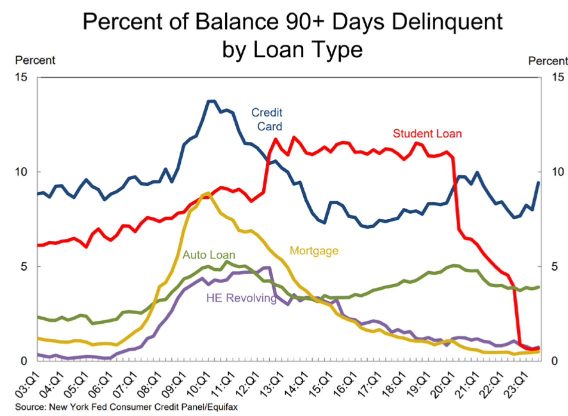
Positive industry tailwinds include increased cybersecurity requirements for companies, the proliferation of AI complicating security frameworks, increased labor shortages making it difficult for businesses to staff their own cybersecurity teams, and industry consolidation. These factors represent opportunities for long-term growth in the cybersecurity market. There are some short-term macroeconomic difficulties that may stagnate near-term growth; however, the long run dynamics of the industry remain largely favorable.

Fortinet is best positioned to capture additional revenue from this market growth as they can leverage economies of scale to outprice smaller competitors and use their larger R&D budget to quickly adapt to new industry product trends (SASE, SD-WAN, and cloud). Also, the geographic dispersion of Fortinet's revenue makes them more weighted towards foreign & emerging markets than competitors. These emerging markets are less saturated and have higher growth expectations than the US market. Finally, their ASIC chips make them leaders in many different cybersecurity products which will attract additional customers as the industry consolidates. Fortinet's combination of high efficiency and revenue growth makes their stock an attractive investment at current multiples.

Macroeconomic Analysis

Real Gross Domestic Product (rGDP)

We expect economic growth to slow next year with the potential to transition into a recession in 2H 2024. Our 2024 rGDP estimate is 1.0% and our long-term rGDP outlook is 2.1% per year. rGDP is an important metric for FTNT since the US accounts for 1/3 of the global IT market and accounts for approximately 10% of the US economy[1]. Though we believe cybersecurity spending is more resilient than overall IT spending to economic swings as cybercrimes are non-cyclical, we still believe lower IT spending will have some smaller effects on the cybersecurity industry. The strength of the 2023 US economy has shocked most investors. After many traders had forecasted a recession, current estimates now place the year's rGDP growth at 2.2%[2]. However, comprehensive analysis suggests that current levels of spending in the economy are unsustainable. Consumer spending has been surprisingly strong in 2023, but it's becoming clear that credit debt has been the raft of the economy. The NY Fed released Q3 data which showed that credit card debt is at an all-time high and rose 15% YoY[4]. In the same quarter, aggregate debt delinquency rates are at 3.0%, up 40 bps from Q2[3].

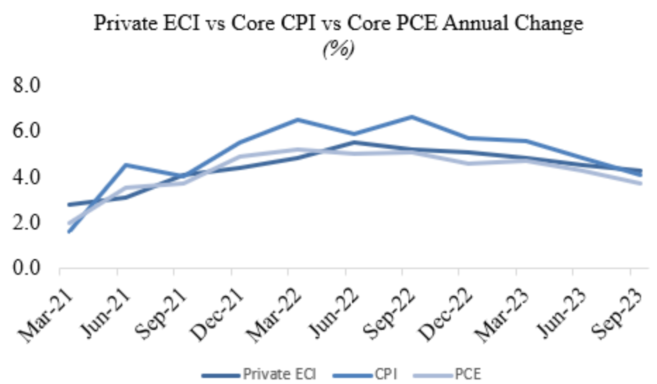


Source: NY Fed[3]

These metrics indicate that consumer spending will soften in 2024, especially in the 2H of the year when student loans begin going delinquent[3]. In the long-run, we expect US rGDP to be slightly higher than its 20-year average of 2.0% due to legislation in 2022 that has boomed construction on manufacturing plants. In 2022 and 2023, real manufacturing spending has reached 20-year highs as economic incentives have made onshore production feasible[5]. This increase in future US domestic production capabilities leads us to expect 2.1% long-run rGDP growth.

Employment Cost Index (ECI)

We expect that inflationary pressures will subside throughout 2024 due to slower economic growth. Our 2024 private-industry ECI estimate is 3.75% and our long run outlook is 3.00% starting in 2025. The employment cost index measures the yearly increase in labor costs across sectors. Most of FTNT's revenue comes from their service segment whose main cost is labor. Therefore, changes to labor costs that cannot be passed on to consumers will result in declining margins. September's private-industry ECI rose 1.0% monthly and 4.3% annually[6].

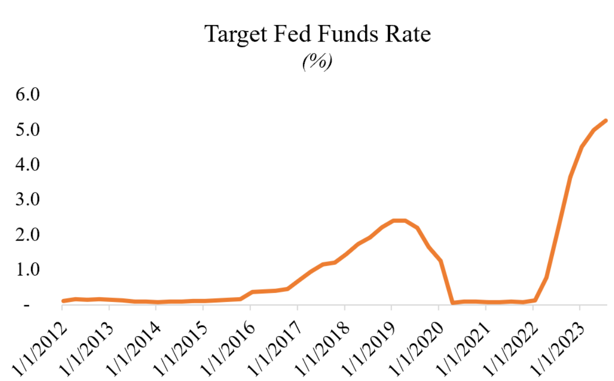


Source: BLS, BEA[6,7,8]

We believe this metric is highly correlated with core CPI and core PCE as employees require higher pay as prices increase. The average September inflation metrics for core CPI and core PCE rose 0.3% monthly and 4.1% annually[7,8]. The slowing rate of inflation leads us to predict ECI will fall in line with this trend and slow to approximately 3.75% in 2024. In the long run, historical private ECI has been 2.9% and we don't predict much deviation from that figure[9]. We do believe that long-run wage growth will be slightly higher due to the Inflation Reduction Act and CHIPS Act onshoring production. This increased demand for private sector workers should increase annual wage growth as US workers become more demanded. This might have slight pressures on technology margins, but not enough to be material.

Federal Funds Rate

We expect the Fed Funds rate to decrease 100 bps in 2024 before settling at a long run target rate of 2.50-2.75% starting in 2025-2026. Persistent inflation has forced the FOMC to increase the target federal funds rate to 5.25-5.50%.

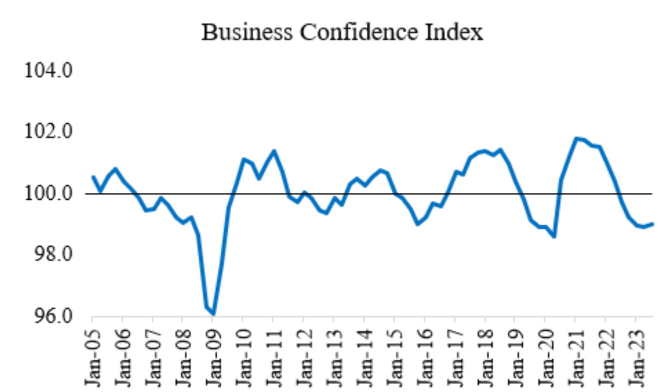


source: FRED[12]

Interest rates have a material impact on the overall economy, but they specifically have a greater effect on high growth companies like FTNT whose cash flows are weighed heavily in the future. Also, high interest rates have increased the cost of capital forcing companies to reduce expenditures to preserve their current cash. Even though companies normally use long-term interest rates for capital budgeting, the two rates are often correlated especially when short-term rates are expected to remain constant. This is evident from 10-year treasury notes who have seen their yields rise approximately 100 bps YTD due to the Fed indicating they were going to keep short-term rates higher for longer[10]. Our projected interest rate cuts are based upon the weakening economy discussed previously. The FOMC noted in their September 2023 meeting that they are likely to reduce the target rate in 2024[11]. The FOMC has raised their interest rate projections throughout the year indicating an increasing belief in economic strength (original est. in Dec. 2022 was 4.00-4.25%). However, we believe the FOMC will course correct after student-loan payments resume and consumers are no longer able to cover their debt obligations unless they reduce spending. Finally, our long-run projection is based on applying a premium to the historical 1.75% average target rate[12]. We believe the Fed will keep rates higher than their historical average to prevent another high inflationary period.

Business Confidence Index (BCI)

We expect the economic environment to continue suppressing the BCI on its downward trend below 100 in the next 6-9 months and recover back to 100 in the next 12-16 months. The business confidence index shows the short-term outlook businesses have regarding their economic prospects. An index level below 100 indicates negative sentiment towards the future. It is comparable to the consumer confidence index; however, since FTNT is a B2B business we believe the BCI is a better indicator of their customers' spending outlook.

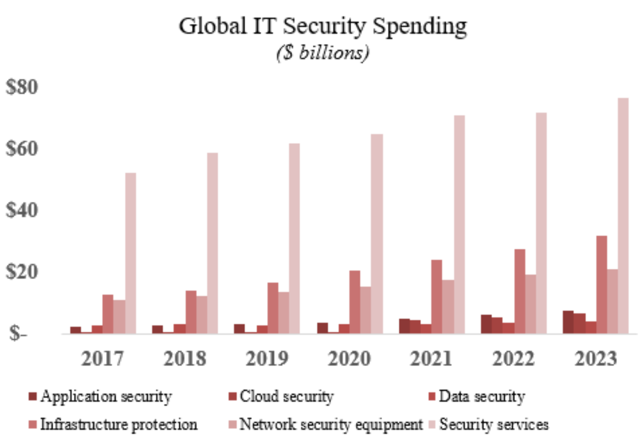


Source: OCED[13]

The current BCI has been declining since the start of 2022 with a slight uptick in recent months. The index is still below 100 indicating that businesses are not confident about future performance[13]. The risks to FTNT are that businesses may try to reduce excess spending if they feel that they need to conserve cash. Luckily, cybersecurity is a relatively defensive industry that isn't as prone to poor macro sentiment. Cybercrimes have risen even during times of economic distress[31]. We forecast that the BCI will continue slightly downwards and stay below 100 for the next 6-9 months based on the consumer debt levels displayed previously. We estimate a reprieve of high interest rates starting to occur in 2024 which will improve sentiment surrounding business investments. After companies begin to feel that they can raise capital at favorable valuations and have successful investment opportunities, then the BCI will increase to above 100 once more. Our belief is that this will not occur for another 12-16 months.

Security IT Spending

We expect global security IT spending to grow approximately 13.0% in 2024 which is slightly higher than 2023. In the long run, we expect global security IT spending to grow 5.0-6.0% as emerging markets develop quickly. Global security IT spending is a good measure of the growth of the TAM for cybersecurity companies. While different sectors within IT security are growing at different rates, the overall industry is still a viable projection for long-term potential. Expectations for 2023 global security IT spending are anywhere between 11.0-12.1%[19, 20].



Source: Gartner[29]

We predict that IT security spending will rise in 2024 as IT managers are more confident that their IT budgets will be raised in comparison to 2023[21]. The chance of a worsening economy in the 2H of 2024 reduces our optimism in high additional growth of IT security spending. However, it appears that businesses still recognize the growing threat of cybercrimes and are willing to spend to reduce that risk[21]. We believe this supports our thesis that cybersecurity spending is more resilient to macroeconomic trends than other technology industries. In the long run, we expect relatively high growth in global security IT spending as technology continues to change and emerging markets continue to grow. The ability for technology to change and improve rapidly has led to high long-term growth in the industry for the past 20 years. Emerging markets will only compound this beneficial growth as economies were forced to quickly improve their technology during the COVID-19 pandemic. This put them at risk of increased cybercrimes[22].

Cybersecurity Industry Analysis

Industry Overview

Cybersecurity is the mechanism that provides and maintains confidentiality, integrity, availability, and security of a company's data infrastructure. This includes protecting against all forms of cyber-crime. These crimes include intentional disruptions of networks, programs, computer systems and breaches of data. The cybersecurity industry involves the deployment of software or services to protect against cyberattacks. The target of these cyber-attacks are primarily high exposure, low defense, corporations. As of 2023, over 60% of corporate data is being stored in the cloud, increasing enterprise exposure to cybersecurity threats[36]. As the proliferation of cloud infrastructure, e-commerce, and smart devices grows, so does the need for security around these platforms.

Most cybersecurity companies support the outfitting of the appropriate cyber solutions to ensure the right fit for the consumer. The same companies that supply the cyber product will also provide support for it. This includes firmware updates and technical support. They keep all service and maintenance of the product in house. A full-service business model can mitigate the risk of a breach during downtime.

The industry can be segmented into two distinct markets:

Cyber Solutions: These technologies are on the passive-proactive side rather than active/reactive side of the industry. This can be defined by products such as firewalls, watchdogs, and alarm systems. This segment of the industry includes Application Security, Cloud Security, Data Security, and Network Security.

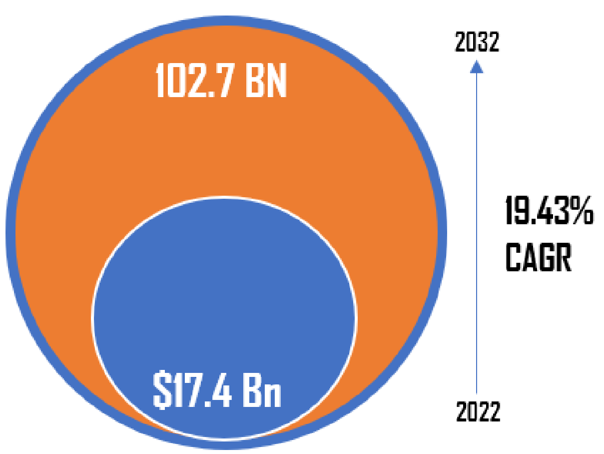
Security Solutions: These services are aimed at enhancing security strategies against cyber-crime. The most common cyber-crime these solutions prevent are phishing, ransomware, or malware. These threats are targeted at uninformed controllers and high-authorization admin – the low hanging fruit. The security services market products include consulting, professional training, and the implementation of cyber solutions. These are more on the design side and higher on the value chain relative to cyber solutions market. It is also a slightly smaller market compared to the SaaS component of the industry.

Recent Industry Trends

Artificial intelligence/Large Language Models (LLM)

The advent of artificial intelligence has complicated the cybersecurity industry for both cyberattacks and cyber defense. AI will add complications to the entire cybersecurity industry as it provides new tools that benefit both the cyber attackers and cyber defenders can in their battle. A recent research report estimated the global market for AI-based cybersecurity products was about $15 billion in 2021 and will surge to roughly $102 billion by 2032[36] per the figure below.

AI In Cybersecurity Market Size



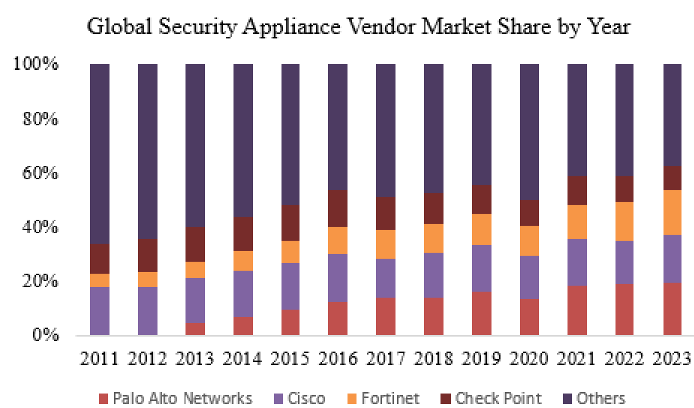
Source: Precedent[36]

In a positive light, cybersecurity organizations increasingly rely on AI in conjunction with more traditional tools such as antivirus protection, data-loss prevention, fraud detection, and other core security areas. By utilizing the capability for AI to analyze enormous sets of data and derive patterns from datasets, it allows cyber companies to identify, simulate, and analyze cyber-attacks at a rate and level of significance that would otherwise be unattainable.

Fortinet has taken advantage of these developments with their creation of SecOps, a seamlessly integrated behavior-based sensor that detects and disrupts threat actors across the attack surface. The Fortinet SecOps platform offers the broadest range of sensors that utilize AI and other advanced analytics to continuously assess device, user, file, network, email, application, and cloud to identify signs of cyberthreats. In a study conducted by TechTarget, the mean time to respond to cyberattacks was reduced by 49% after companies adopted Fortinet products[28]. This is attributable to fabric-native interoperability fundamentally changing the security operations paradigm from "detect and respond" to "detect and disrupt, then investigate and respond." It reduces cyber risk, enabling faster containment and providing more time for thorough investigation and issue remediation.

Industry Consolidation

The potential size and growth of the cybersecurity industry led to a flood of start-ups entering the industry. Therefore, the industry is very unconsolidated and has 3,600+ companies in operation[14]. The industry's high margins allow smaller cybersecurity companies to thrive off a relatively small client book. Until recently, there hadn't been any companies large enough to make meaningful acquisitions or leverage their size against the top players.

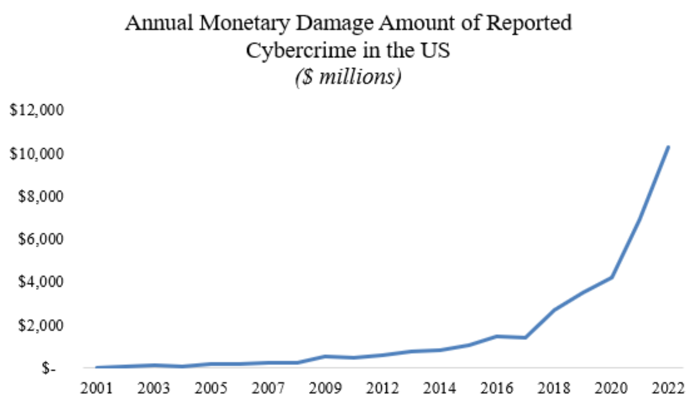


Source: IDC[30]

Economies of scale allow these larger companies to provide their software at cheaper prices and force out their smaller competitors[15]. Additionally, the amount of cybersecurity data that the largest companies receive due to their vast customer base exceeds smaller companies. This hampers small company's product improvement capabilities[15]. Finally, the R&D budget of these large companies can generate improved product offerings at a faster rate compared to the small cybersecurity companies. We view large companies that offer bundled group cybersecurity offerings as the largest beneficiaries of this consolidation. This includes CSCO, FTNT, PANW, CRWD, and ZS. Businesses over time will shift their spending towards the bundled product offerings that the large cybersecurity companies can offer at discounted rates. Smaller companies do not have the suite capabilities that large companies do and will gradually lose market share or be taken over in strategic M&A. Therefore, industry consolidation benefits the companies that now have the scale to flex their leverage capabilities and cash reserves.

Regulation

Cybersecurity laws and regulations have become more stringent in the post-pandemic world after an increase in cybercrimes. Before the COVID-19 pandemic, most "cybersecurity" regulations were just rules intended to protect consumer data if a breach were to occur[16]. However, it became increasingly clear from an uptick in high-profile cybercrimes that additional regulation was needed.



Source: FBI & IC3[31]

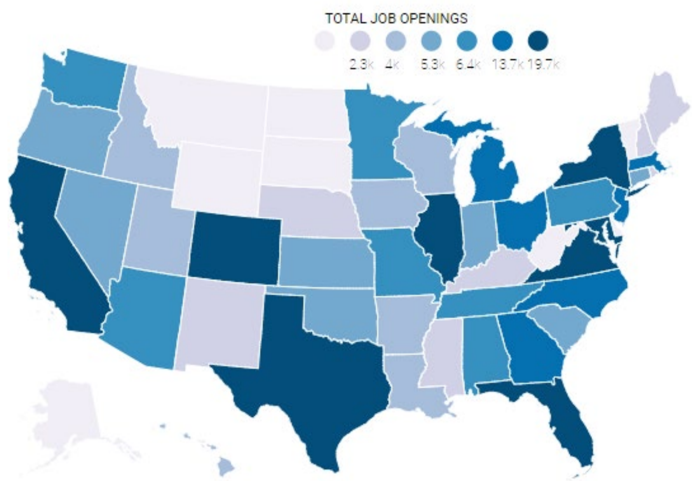
In March 2023, President Biden announced a national cybersecurity strategy to protect individuals and businesses from cybercrimes. Included in this strategy are increasing the minimum cybersecurity requirements for businesses in critical sectors, intent to shift additional cyberattack liability to software providers, and requiring companies procuring federal money to follow cybersecurity best practices[17]. Additionally, the SEC adopted a rule in July 2023 that requires the disclosure of any material cybercrime incidents and requires the release of annual information regarding cybersecurity management. This has become a worldwide trend as the EU has also introduced similar requirements[18].

These new regulations have increased the cost of having a poor cybersecurity infrastructure by imposing capital penalties and forcing companies to notify investors of any breach. We expect an increase in the growth rate of the TAM of cybersecurity as companies who might have otherwise delayed spending are now incentivized to implement cybersecurity today. Once again, we believe the large cybersecurity firms like FTNT, PANW, CRWD, CSCO, and ZS will be the winners of this regulation. The additional cost of cybersecurity failures will drive businesses to partner with the large cybersecurity firms who already have established brand names and the infrastructure in place to handle enterprise cybersecurity threats at scale. We also believe that the marketing teams of these large cyber security firms are better equipped to capture the corporate demand compared to companies with smaller marketing budgets.

Labor Shortage

The cybersecurity workforce has grown to over 1.2 million in the U.S., up over 5.5 percent from last year[25]. Despite these increases, demand for cybersecurity professionals continues to outstrip supply. As the advent of 'Big Crime' in cyber proliferates, companies are scrambling to shore up their security defenses. The lack of workers in cybersecurity introduces a multitude of challenges that primarily affect small-medium sized companies.

Total Open Cybersecurity Jobs in the US

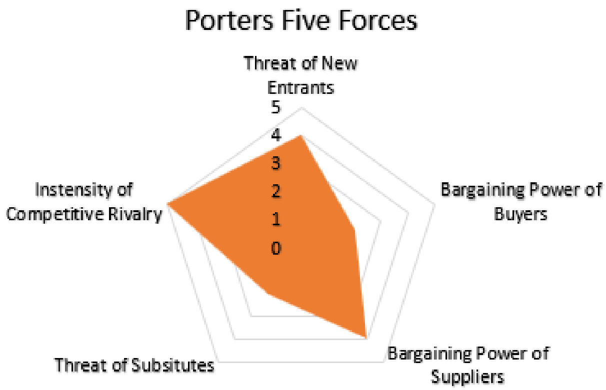


Source: CyberSeek[25]

With insufficient supply of security professionals and rising cybercrime, it creates problems for companies that are looking to build out their security infrastructure. There are not enough talented professionals for small-medium sized businesses to confidently address their own cybersecurity problems. Businesses essentially have two choices when addressing their security needs; hire employees to build an in-house security department or outsource those needs to a 3rd party provider such as FTNT, PANW, CRWD, and ZS.

The Asia/Pacific region, which constitutes for 21.3% of FTNT's revenue, could become an even stronger part of their business due to the labor shortage. A recent report from ICS2 has identified the fact that this region has been hit extraordinarily hard by the cybersecurity labor shortage, realizing a 52.4% increase in open cybersecurity roles[34]. As the demand for data security increases and supply for these professionals' lags, companies are expected to move towards 3rd party solutions, especially in the developing economies where FTNT positions itself.

Cybersecurity Porter's Five Forces

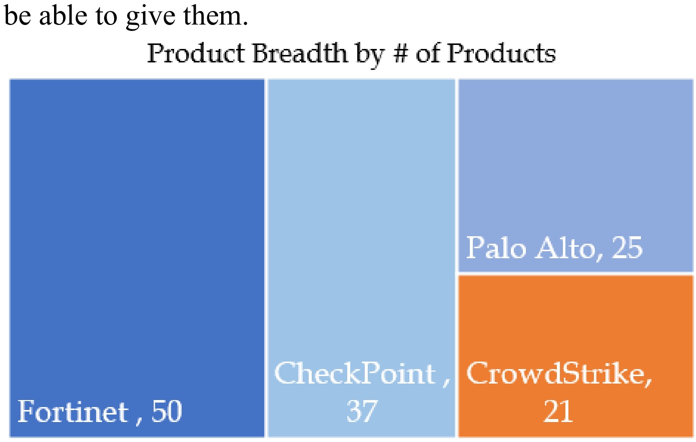


Threat of New Entrants: Moderate/High

The cybersecurity space has a relatively low barrier to entry. There are ample amounts of small to medium size firms that can be competitive with the larger players in the industry. This is attributable to the asset-lite model cybersecurity processes and favorable margin that allow smaller firms to succeed with lower top line growth relative to larger firms. Technological advancements are unbiased between large and small providers. This could be to FTNT's detriment, as a portion of consumers may be disposed to opt for local cybersecurity providers who can create bespoke solutions at the expense of the broad software suite a larger company like Fortinet provides.

Bargaining Power of Buyers: Moderate

The buyers bargaining power in cybersecurity lies in their ability to choose bespoke services over product breadth. These specific features that one consumer may need but another does not, are often proprietary to the provider. By expanding product breadth, Fortinet can appeal to more customers with niche needs. This specific demand for niche solutions favors smaller, more nimble companies that can fabricate tailored solutions that Fortinet may not be able to give them.



Source: Product Overview Page: FTNT, PANW, CHKP, CRWD

Additionally, cybersecurity solutions are critical for protecting intellectual property and preventing financial losses. This can reduce the bargaining power of buyers, as the cost of a security breach far exceeds the investment in cybersecurity solutions. Therefore, businesses may be forced to compromise on product offerings to get coverage. The complexity of the cyber threat landscape makes it especially difficult for companies to develop internal cybersecurity teams and the labor shortage only makes it harder.

Threat of Substitutes: Low/Moderate

Security solutions oftentimes entail complex fabrics of networks that lead to high switching costs for customers creating stickiness in the industry. Once a company has implemented a cybersecurity solution, switching to a different provider can be time-consuming and expensive. There is a risk that the advancement of cybersecurity technology will force out legacy players. We don't predict this as likely though as the legacy players have the talent and budgets to introduce copycat products. Finally, there are limited substitutes for comprehensive cybersecurity solutions as a lot of R&D spending is required. While some companies may opt for in-house security measures, the complexity and constantly evolving nature of cyber threats make specialized cybersecurity services essential.

Bargaining Power of Suppliers: High

As the severity of cyberattacks increases and businesses become limited in developing their own cybersecurity team, 3rd party cybersecurity solutions continue to become the only option for many corporations. High-profile cybercrimes also show the increased need for cybersecurity companies. In October 2023, the MGM Grand Casino in Las Vegas suffered a cyberattack that ended up costing the company $100MM in a single night[34].

This high-risk environment allows suppliers of cybersecurity products to increase prices as demand continues to grow. Industry consolidation has also increased the pricing power of large cybersecurity companies. In a fast-growing, high-demand market like cybersecurity, the discretion for pricing is given mostly to the suppliers. Their specialized technology allows these cybersecurity firms to continually raise prices on customers[33].

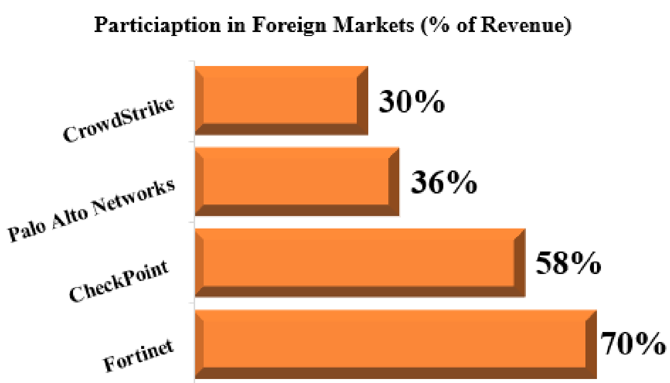
Intensity of Competitive Rivalry: High

The cybersecurity industry has intense competition among both established players and startups with over 35% of market share being taken up by companies outside of the four largest companies. Companies can differentiate themselves through patented technology; however, as technology constantly changes, the fight for entering consumers is fierce. We believe competition will slowly reduce in the industry as more small firms leave the industry; however, in the meantime high competition will remain as evident by large R&D budgets showing the need for constant product improvement in the industry.

<u>Growth Catalysts:</u>

Diversified into Foreign Markets

Due to their inherent vulnerability from lack of experience and data infrastructures, companies in emerging markets have become extremely susceptible to cybercrime[22]. Investments in the emerging markets space yields both opportunity and challenge. Primarily in developing solutions that not only make sense for a company's specific needs, but also doing so at a price point that is economical.



Source: Bloomberg

Fortinet has made the most investment into foreign markets compared to cybersecurity peers. This increases the risk and reward for Fortinet as they can capture much higher growth than peers, but they are more affected by international conflicts and economic cycles. This extends the runway for top-line growth in the future compared to companies more heavily weighted to the saturated US market[24]. However, in the long run, we see this international exposure as positive for Fortinet as the rapid increase of technology in unsaturated, developing markets is a key differentiator from peers[22].

ASIC Chips

Fortinet has key product differentiation with their FortiGate and FortiGate VM products in firewall due to a proprietary ASIC chip they have developed. The company claims that they are the only vendor to develop custom processors for their products[27]. Yet, they also claim that at the current costs it is no longer rational for other companies to develop proprietary processors as well. In February 2023, they announced the latest version of their processor, the FortiSP5. It was designed to increase firewall performance and encryption speeds, while also reducing power consumption.

Source: Gartner[32]

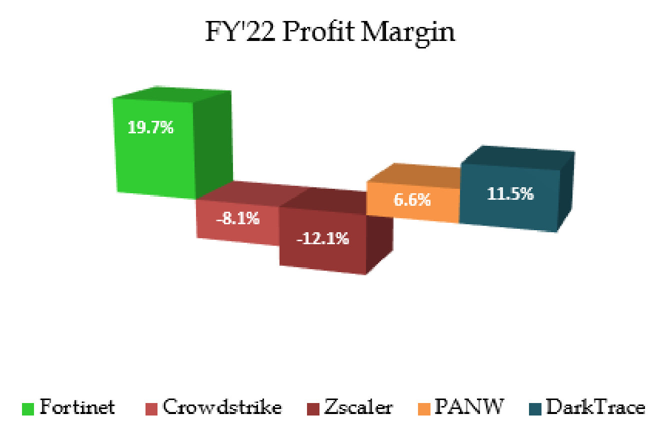
Fortinet has had different iterations of these ASIC chips for 20 years, and has already captured much of the firewall market share due to their success[27]. The key improvement Fortinet is making is applying these chips to other cybersecuity products such as zero trust security, SASE, 5G, and SD-Branch. The FortiSP5 is applicable to double the amount of cybersecurity products than in previous iterations[27]. If Fortinet can achieve a small amount of success in other products that they have received in firewalls, they will capture more market share in additional products than investors expect.

Economies of Scale

Being the third largest participant, and 2nd largest pure play, in a market that possesses rapid growth allows Fortinet to take advantage of their resources and ingrained brand recognition. As the cybersecurity market continues to boom, it is the large firms, like FTNT, that possess the resources needed to fully take advantage of the opportunities. Before 2020, there hadn't been any massive players in the pure-play cybersecurity market. However, as this changes we expect normal industry environment trends to favor large companies.

Fortinet has built a consistent model for achieving profitability at scale. Fortinet is better than peers at generating sales with less resources. PANW's R&D expenses are 23% of revenue. CRWD's R&D expenses are

26% of revenue. FTNT's R&D is less than peers by over 14% percent coming in at 12%. Despite allocating less cost to R&D Fortinet has seen top-line growth of 32%, while PANW, and CRWD seen growth of 29%, 54%, respectively. FTNT's ability to grow revenue more efficiently in relation to input costs have allowed them to be a standout leader in profit margin expansion as demonstrated below.



Source: Bloomberg

Increased Frequency of Cyber Attacks

As cybercrime becomes more common, the demand for services peripheral to these crimes rises. Cyberthreats have grown in both volume and complexity. Worldwide, over 110M accounts were leaked in the second quarter of 2023 — 2.6 times the number of breaches in the first quarter of the year (43.2M) [33]. As we see the scope of cyber threats grow, the demand for security services proliferates. For a sense of scale, the second quarter saw 855 accounts breached every minute versus 334 accounts per minute in the previous quarter. Fortinet's firewall segment is placed favorably to grow in lockstep with the frequency of security compromises. Out of the 110M attacks reported, the US accounted for 68% of them bolstering our domestic top-line revenue estimates[33]. We can assume that as more accounts are breached, entry-level products, such as Next-Gen firewalls, edge protection, FortiLan, and Zero-Trust applications will increase in popularity. As the threat landscape expands across industries so does the runway for volume growth and Fortinet's attractiveness from an investment perspective.

Fortinet Analysis

Strengths

Fortinet has a large range of cybersecurity products which possess suite capabilities with FortiOS. This allows them to cross-sell different products and to capture customers looking to consolidate into one vendor. Their premier product is their FortiGate firewall product which is consistently ranked as the best in the industry according to industry professionals. This firewall product is led by their properties ASIC processers which have ballooned the quality of their FortiGate line. Fortinet is expanding these processors to other units to boost competitiveness in SASE. Also, their SD-WAN products are among the best in the industry. SD-WAN will benefit from cloud application growth as it is a fast-developing improvement from traditional WAN.

Weaknesses

Fortinet's largest weakness is in their development of some rapidly expanding areas. Specifically, Fortinet is losing out to ZS in the zero-trust access market, and CRWD in cloud security. Unless Fortinet continues to develop products in this area, then they are at-risk of losing market share in the space.

Firewall products are projected to grow at a 9.0% CAGR for the next five years, which is below industry average[38]. Fortinet's heavy reliance on their firewall business might turn out to be a long-term weakness if it grows slower than other markets and Fortinet cannot adapt.

Opportunities

The biggest opportunities for Fortinet moving forward are the expanded use of ASIC processers, increased industry consolidation, and growth in foreign markets. Large cybersecurity providers can capture increasing market share as small firms get pushed out of the market. Fortinet's product quality and marketing resources can lead them to be one of the largest gainers from this trend.

Additional expansion in foreign markets also differentiates Fortinet from the oversaturated cybersecurity market in the US. While the US currently accounts for 1/3 of the global IT demand, Fortinet has seen better growth rates outside the US as foreign markets increasingly become victims of cybercrimes[1].

Threats

Fortinet's near-term threat is continued macroeconomic weakness slowing IT spending. While we predict IT spending to increase in 2024, Fortinet appears to be the most exposed company in the industry to macro fluctuations. This is likely due to their foreign customers being more affected by global macro issues. Also, any foreign cybersecurity regulations that would limit US cybersecurity companies from operating within their country would have a much larger effect on Fortinet compared to peers.

Finally, Fortinet produces 88% of their hardware in Taiwan who is in geopolitical tensions with China. If these tensions were to boil over into a war, Fortinet is at high risk of supply chain disruptions in their product business.

Revenue Overview

Fortinet only has one business operation, and that is cybersecurity. The company breaks down this segment into two different revenue types: Product and Service.

Product revenue consists of their network security products. This includes hardware and software licenses for cybersecurity applications. Included in this section of the business would be firewall protection (FortiGate), endpoint protection (FortiClient), cloud security, and any device that runs on their FortiOS which meshes Fortinet products together to work seamlessly. These products are not limited to just hardware applications as they can be delivered as software through the cloud. Many of these products incorporate Fortinet's ASIC custom chips, which gives the company a distinct performance advantage. So far in 2023, the product segment has greatly missed investor expectations and has been the largest driver in the fall of Fortinet stock. Fortinet reports that an uncertain macroeconomic environment is causing customers to reduce their average contract duration and delay deals to future quarters.

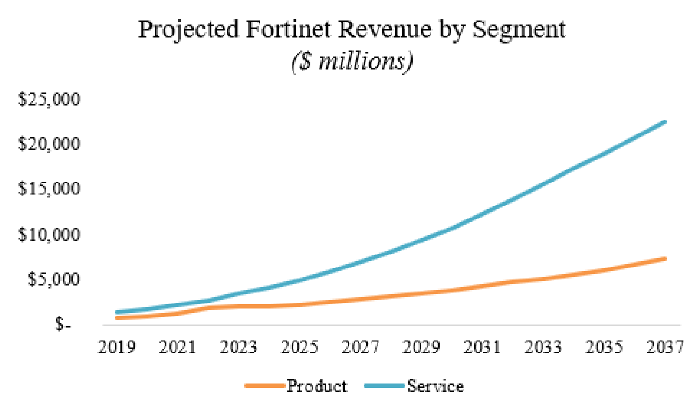
Fortinet's service revenue mainly consists of their FortiGuard security services. FortiGuard possesses threat detection and prevention capabilities using machine-learning and automation. This service monitors your security network to prevent intrusion, malware, web-filtering, and data loss. FortiGuard is delivered as software that is normally bundled or an add-on cost to Fortinet products. Service revenue has continued to exceed investor expectations in 2023. We believe that the service segment is not as affected by the macroeconomic environment because there are no expensive hardware components that might deter customers from making a purchase. We also believe that since FortiGuard and their technical support services provide upgrades to existing Fortinet products, it is cheaper for businesses to improve their current equipment rather than purchase entirely new units in uncertain times.

Fortinet does not list the sales for each product or service individually, but they do report the total sales for each segment. Their service revenue accounts for most of the business and is expected to continue to be a majority of sales. Their product revenue CAGR is estimated to be approximately 28% from 2020-2023E and reach $1.9 B in 2023. In comparison, their service revenue CAGR is estimated to be approximately 26% from 2020-2023E and reach $3.4 B in 2023.

Revenue Forecast

We forecast 2023 product sales of $1.935 B and 2023 service sales as $3.364 B. Our 2023 sales estimate is largely based on company guidance for Q4 2023. We expect product sales to come in soft which aligns with recent trends of enterprise IT spending being pushed back.

Our 2024 estimates also reflect a worsening macroenvironment by incorporating lower growth compared to historical averages for Fortinet. However, we have balanced this low growth with the expected increases in IT spending after a year of underinvestment. This separates our valuation from most sell-side analysts. Finally, we expect growth to catapult upwards in later years as the macroeconomy improves and business confidence increases. In the long-run, Fortinet expects their service business to create most of their value as it is a yearly expense compared to one-time product purchases.



Source: Revenue Decomposition

Gross Margin Overview & Forecast

Fortinet, as a mix between a hardware provider and SaaS company, has a large difference in gross margin between their segments. Their product segment has relatively lower margins due to the inventory and shipping component of many of their products. As mentioned previously, some products can be implemented via the cloud and software; however, some products such as their security switches (FortiSwitch) and secure LAN products (FortiAP) cannot. This has led their products segment to have approximately 61% gross margin from 2020-2023. In comparison, Fortinet's service segment, as a SaaS product, has high a gross margin upwards of 85% currently. The SaaS business model does not require any major product costs as the software can easily be scaled when the customer base increases. **We expect product margins to decline to**

59.0% in 2024 due to a weaker product demand environment, reducing the ability to shift costs onto consumers via pricing. Meanwhile, we expect an expansion of service margins as Fortinet generates increased scale. In the long run, we expect margins to decrease to more sustainable levels within the areas of similar companies such as CRM, CSCO, ORCL, and NOW.

Operating Expenses Overview & Forecast

Fortinet has historically been the cybersecurity company with the best control over their spending. Fortinet has beaten quarterly EPS estimates every quarter for the past five years. They also have the lowest S&M and G&A as % of revenue compared to their peers. Meanwhile, they have still been generating world-class growth. Management has mentioned that their cost cutting, and cost control procedures have exceeded expectations in previous earnings calls. **We expect Fortinet to continue managing spending and to improve efficiency as they increase their scale. This is included in our forecast by gradual declines in their operating expenses as a % of revenue until Fortinet reaches steady state. Improved efficiency magnitude changes were based on historical trends.**

WACC

Fortinet's WACC was calculated using the market weights and current capital structure of the company. This is an important assumption used in calculating the value of Fortinet as much of the company's value is being created 15+ years away. Therefore, changes to the discount rate have a large impact on the company's valuation. Fortinet's cost of equity is calculated using a 4.59% risk-free rate from the 10-year UST, a 1.39 2-year adjusted beta, and a 4.75% equity risk premium. This calculates to a **11.2% cost of equity.** Next, to calculate the cost of debt, we used Fortinet's 2031 outstanding debt trading 6.1% YTM and adjusted to an after-tax return using a 22% marginal tax rate. This calculates to a **4.8% cost of debt**. There was no guidance on Fortinet's target debt levels; therefore, we assume their current capital structure stays constant. The **weight of equity was 97.7% and the weight of debt was 2.3%.** This equates to a **WACC of 11.1%.**

FTNT Valuation Models

Discounted Cash Flow and Economic Profit Model

Estimated Share Price: **$55.50**

Our DCF and EP model is the best projection of Fortinet's value as it allows us to consider all the relevant metrics of its valuation (growth, profitability, and risk). The model is a 15-year projection before Fortinet reaches a steady-state. We believe this accurately represents the timeline to steady state as cybersecurity is still in its infancy as an industry and will constantly grow at high rates as technology changes.

We are confident that this model is the best way to value Fortinet and that our assumptions are based on the most up-to-date public information. It is difficult to forecast revenue as Fortinet does not have a detailed breakdown of its products; however, we believe our margins and balance sheet changes accurately reflect the working capital needs of the business as it matures.

Our DCF model is highly volatile to changes in the company's long-term growth rate of 5.0% and changes to the WACC. Therefore, any substantial changes to risk or long-term growth prospects will completely alter our valuation. We are confident that technology will be a high growth industry in perpetuity, which justifies our 5.0% CV growth rate, and we believe that our WACC accurately reflects the current cost of owning a cybersecurity company.

Relative Valuation to Peers

Estimated Share Price: **$59.00 - $60.00**

Model is based upon 2023 and 2024 P/S Multiples

Comparable companies: PANW, CRWD, ZS, CHKP, OKTA, ANET, and DOCU

Fortinet has many pure-play peers as the industry is still unconsolidated. PANW and CRWD are the two best peers as they also offer a wide range of cybersecurity products. While doing our analysis, we determined that PANW should be trading at higher multiples than Fortinet and used that as a baseline in selecting the best peers. PANW and FTNT are the two largest companies in pure-play cybersecurity, but PANW has been able to weather current macroeconomic uncertainty better than FTNT. We don't believe this should be a very large premium as Fortinet continues to be more efficient in generating earnings.

This is our second best valuation metric as it shows the market sentiment of cybersecurity companies. Price-to-Sales was the best metric as many cybersecurity companies are unprofitbale on a GAAP basis. There are some outlier peers (CRWD and ZS) that trade at extremley high multiples as they have large revenue growth, but we balanced it out with lower multiple peers such as OKTA and DOCU.

Dividend Discount Model

Estimated Share Price: **$52.50**

Our DDM is the least reliable valuation method as Fortinet does not currently pay a dividend and there is no timetable on when that might occur. Currently, Fortinet does return a lot of capital to shareholders via share repurchases. This does show that the company has a lot of excess cash to pay a dividend. However, with no additonal information we are pushing out a potential Fortinet dividend to the beginning of the steady-state period. A large portion high growth technology companies and peers do not pay dividends; therefore, we decided that there was no reason to project a dividend in the near future.

FTNT Sensitivity Analysis

WACC vs. Perpetuity Growth of NOPLAT

Rows: Perpetuity Growth of NOPLAT; Columns: WACC

$ 55.50	12.70%	12.20%	11.70%	11.20%	10.70%	10.20%	9.70%
4.25%	37.62	41.22	45.35	50.14	55.74	62.36	70.28
4.00%	37.05	40.54	44.52	49.12	54.47	60.76	68.24
4.50%	38.22	41.94	46.24	51.24	57.11	64.09	72.50
5.00%	39.53	43.55	48.22	53.70	60.21	68.06	77.67
5.50%	41.03	45.39	50.51	56.59	63.91	72.88	84.07
6.00%	42.74	47.53	53.21	60.04	68.40	78.84	92.19
6.50%	44.74	50.05	56.42	64.22	73.96	86.41	102.86

In this table we tested the effects of changing the WACC and the perpetuity growth of NOPLAT in relation to share price. Evidently, when the growth rate is manipulated, the valuation changes more significantly than when perpetuity growth rate of NOPLAT is changed. Some factors that could lead to these changes taking place are a change in debt rating, a capital structure change, or changes in the long-term market growth of cybersecurity.

Equity Risk Premium Vs. Marginal Tax Rate

Rows: Marginal Tax Rate; Columns: Equity Risk Premium

$ 55.50	3.00%	3.50%	4.00%	4.75%	5.50%	6.00%	7.00%
30%	91.68	74.33	61.81	48.50	39.21	34.45	27.21
28%	94.78	76.89	63.98	50.25	40.67	35.76	28.28
25%	99.41	80.73	67.23	52.88	42.85	37.71	29.89
22%	104.03	84.55	70.48	55.50	45.03	39.67	31.50
20%	107.10	87.09	72.64	57.24	46.48	40.97	32.57
19%	108.64	88.36	73.71	58.11	47.21	41.62	33.10
18%	110.17	89.63	74.79	58.99	47.93	42.27	33.64

In this table we tested the effects of changing the equity risk premium and FTNT's marginal tax rate in relation to share price. Manipulating the equity risk premium changes the share price much more than tax rate. This change is attributable to changing the discount rate used in the model. These changes could be caused by stock market performance, market outlook, or tax policy changes through political differences that may occur. With a primary election taking place in the next 12 months, these changes to tax policy or expected market performance are expected to change our valuation.

Beta vs Risk Free Rate

Rows: Risk Free Rate; Columns: Beta

$ 55.50	1.15	1.25	1.3	1.4	1.5	1.6	1.7
2.50%	138.17	115.99	107.09	92.41	80.83	71.48	63.78
3.20%	107.52	92.75	86.60	76.16	67.65	60.58	54.64
4.00%	84.50	74.46	70.15	62.67	56.40	51.08	46.51
4.60%	72.13	64.32	60.91	54.91	49.80	45.41	41.59
5.20%	62.48	56.24	53.48	48.58	44.34	40.66	37.42
6.20%	50.42	45.93	43.92	40.29	37.10	34.27	31.77
6.80%	44.85	41.10	39.40	36.32	33.58	31.15	28.96

In this table we tested the effects of changing FTNT's beta and the risk-free rate in relation to the stock price. Evidently, changing the risk free rate has a more significant impact on the share price. While both variables affect our WACC, the risk-free rate appears to have more of an impact. We expect these variables to change if interest rates are changed by the FOMC, and if macroeconomic uncertainty either increases or decreases.

2032-2037 Product Volume Growth Vs. 2032-2034 Service Volume Growth

Rows: 2032- 2034 Service Volume Growth; Columns: 2032-2037 Product Volume growth

$ 55.50	4.00%	5.00%	6.00%	7.00%	8.00%	10.00%	12.00%
5.0%	51.38	51.65	51.93	52.22	52.52	53.16	53.85
6.0%	52.38	52.65	52.93	53.22	53.52	54.16	54.85
7.0%	53.39	53.66	53.94	54.23	54.53	55.17	55.86
8.5%	54.95	55.22	55.50	55.79	56.09	56.73	57.42
10.0%	56.55	56.82	57.10	57.39	57.69	58.33	59.02
11.0%	57.64	57.91	58.19	58.48	58.78	59.42	60.11
13.0%	59.88	60.15	60.43	60.72	61.02	61.66	62.35

In this table we tested the impact of changing the components of FTNT's product mix in relation to the stock price. We chose different time frames for the volume growth as we expect more changes to service volume growth over time which makes it difficult to change growth rates with just one variable. Therefore, we chose a smaller window for service than product volume to account for the increased variability. Evidently, we see service volume growth has a more significant impact on share price due to it comprising 72-75% of revenue and having higher margins. These changes could occur with changes to variability in sales mix between service and product.

2033-2037 Product Gross Margin Vs. 2033-2037 Service Gross Margin

Rows: 2033-2037 Service Gross Margin; Columns: 2033-2037 Product Gross Margin

$ 55.50	50.00%	54.00%	58.00%	63.00%	66.00%	68.00%	72.00%
72.00%	40.77	42.21	43.64	45.44	46.52	47.23	48.67
75.00%	44.12	45.56	47.00	48.79	49.87	50.59	52.02
78.00%	47.48	48.91	50.35	52.15	53.22	53.94	55.38
81.00%	50.83	52.27	53.70	55.50	56.58	57.29	58.73
83.00%	53.07	54.50	55.94	57.73	58.81	59.53	60.97
88.00%	58.66	60.09	61.53	63.32	64.40	65.12	66.56
90.00%	60.89	62.33	63.76	65.56	66.64	67.36	68.79

In this table we tested the impact of product gross margin and service gross margin in relation to FTNT's share price. Evidently, changes to the service gross margin has a more significant impact on the share price. This is attributable to the fact that service comprises 75-80% of FTNT's overall sales mix. These changes are likely to occur in the event that FTNT puts more emphasis on cost cutting, or increases unit prices for each component of sales.

Important Disclaimer

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Fiscal Years Ending Dec. 31	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Product	577.2	674.4	788.5	916.4	1255.0	1780.5	1935.0	2032.9	2177.6	2434.1	2746.1	3084.4	3432.3	3819.5	4229.9	4640.6	5066.6	5531.7	6039.5	6593.9	7199.3
Growth rate		*16.8%*	*16.9%*	*16.2%*	*36.9%*	*41.9%*	*8.7%*	*5.1%*	*7.1%*	*11.8%*	*12.8%*	*12.3%*	*11.3%*	*11.3%*	*10.7%*	*9.7%*	*9.2%*	*9.2%*	*9.2%*	*9.2%*	*9.2%*
Service	917.7	1,126.8	1,367.7	1,678.0	2,087.2	2,636.9	3364.0	4097.4	4904.6	5819.3	6904.6	8083.5	9331.6	10675.4	12212.6	13780.7	15550.2	17378.1	18973.4	20715.1	22403.4
Growth rate		*22.8%*	*21.4%*	*22.7%*	*24.4%*	*26.3%*	27.6%	21.8%	19.7%	18.7%	18.7%	17.1%	15.4%	14.4%	14.4%	12.8%	12.8%	11.8%	9.2%	9.2%	8.1%
Total revenue	**$ 1,494.9**	**$ 1,801.2**	**$ 2,156.2**	**$ 2,594.4**	**$ 3,342.2**	**$ 4,417.4**	**$ 5,299.0**	**$ 6,130.2**	**$ 7,082.2**	**$ 8,253.4**	**$ 9,650.6**	**$ 11,167.9**	**$ 12,763.9**	**$ 14,494.8**	**$ 16,442.5**	**$ 18,421.3**	**$ 20,616.7**	**$ 22,909.8**	**$ 25,012.9**	**$ 27,309.1**	**$ 29,602.7**
Growth rate		*20.5%*	*19.7%*	*20.3%*	*28.8%*	*32.2%*	*20.0%*	*15.7%*	*15.5%*	*16.5%*	*16.9%*	*15.7%*	*14.3%*	*13.6%*	*13.4%*	*12.0%*	*11.9%*	*11.1%*	*9.2%*	*9.2%*	*8.4%*
Product volume growth							5.0%	2.0%	4.0%	8.0%	9.0%	8.0%	7.0%	7.0%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Product price growth							3.5%	3.0%	3.0%	3.5%	3.5%	4.0%	4.0%	4.0%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Service volume growth							21.5%	16.0%	14.0%	13.0%	13.0%	11.5%	11.0%	10.0%	10.0%	8.5%	8.5%	8.5%	6.0%	6.0%	5.0%
Service price growth							5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
REVENUE:																		
Product revenue	916.4	1,255.0	1,780.5	1,935.0	2,032.9	2,177.6	2,434.1	2,746.1	3,084.4	3,432.3	3,819.5	4,229.9	4,640.6	5,066.6	5,531.7	6,039.5	6,593.9	7,199.3
Service revenue	1,678.0	2,087.2	2,636.9	3,364.0	4,097.4	4,904.6	5,819.3	6,904.6	8,083.5	9,331.6	10,675.4	12,212.6	13,780.7	15,550.2	17,378.1	18,973.4	20,715.1	22,403.4
Total revenue	**$ 2,594.4**	**$ 3,342.2**	**$ 4,417.4**	**$ 5,299.0**	**$ 6,130.2**	**$ 7,082.2**	**$ 8,253.4**	**$ 9,650.6**	**$ 11,167.9**	**$ 12,763.9**	**$ 14,494.8**	**$ 16,442.5**	**$ 18,421.3**	**$ 20,616.7**	**$ 22,909.8**	**$ 25,012.9**	**$ 27,309.1**	**$ 29,602.7**
COST OF REVENUE:																		
Cost of revenue - product	352.4	487.7	691.3	764.3	833.5	849.3	925.0	1,016.0	1,141.2	1,269.9	1,413.2	1,565.0	1,717.0	1,874.6	2,046.7	2,234.6	2,439.8	2,663.7
Cost of revenue - service	217.6	295.3	393.6	487.8	594.1	686.6	814.7	966.6	1,131.7	1,399.7	1,708.1	2,076.1	2,480.5	2,954.5	3,301.8	3,604.9	3,935.9	4,256.7
Total cost of revenue	**$ 570.0**	**$ 783.0**	**$ 1,084.9**	**$ 1,252.1**	**$ 1,427.6**	**$ 1,535.9**	**$ 1,739.7**	**$ 1,982.7**	**$ 2,272.9**	**$ 2,669.7**	**$ 3,121.3**	**$ 3,641.2**	**$ 4,197.5**	**$ 4,829.2**	**$ 5,348.6**	**$ 5,839.6**	**$ 6,375.6**	**$ 6,920.4**
GROSS PROFIT																		
Gross profit - product	564.0	767.3	1,089.2	1,170.6	1,199.4	1,328.3	1,509.2	1,730.0	1,943.2	2,162.3	2,406.3	2,664.8	2,923.6	3,191.9	3,485.0	3,804.9	4,154.2	4,535.5
Gross profit - service	1,460.4	1,791.9	2,243.3	2,876.2	3,503.3	4,217.9	5,004.6	5,937.9	6,951.8	7,931.9	8,967.3	10,136.5	11,300.2	12,595.6	14,076.2	15,368.4	16,779.3	18,146.8
Total gross profit	**$ 2,024.4**	**$ 2,559.2**	**$ 3,332.5**	**$ 4,046.9**	**$ 4,702.7**	**$ 5,546.3**	**$ 6,513.7**	**$ 7,667.9**	**$ 8,895.0**	**$ 10,094.2**	**$ 11,373.6**	**$ 12,801.3**	**$ 14,223.8**	**$ 15,787.6**	**$ 17,561.2**	**$ 19,173.3**	**$ 20,933.4**	**$ 22,682.3**
OPERATING EXPENSES:																		
Research & development expenses	341.4	424.2	512.4	609.4	720.3	779.0	825.3	965.1	1,116.8	1,276.4	1,449.5	1,479.8	1,657.9	1,855.5	2,061.9	2,251.2	2,457.8	2,664.2
Sales & marketing expenses	1,071.9	1,345.7	1,686.1	2,013.6	2,329.5	2,620.4	2,971.2	3,377.7	3,908.8	4,339.7	4,928.2	5,426.0	6,079.0	6,597.4	7,331.1	7,754.0	8,465.8	9,176.8
General & administrative expenses	119.5	143.5	169.0	185.5	229.9	265.6	288.9	337.8	390.9	446.7	507.3	493.3	552.6	618.5	687.3	750.4	819.3	888.1
Loss (Gain) on intellectual property matter	(40.2)	(4.6)	(4.6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	**$ 1,492.6**	**$ 1,908.8**	**$ 2,362.9**	**$ 2,808.5**	**$ 3,279.7**	**$ 3,665.0**	**$ 4,085.4**	**$ 4,680.6**	**$ 5,416.4**	**$ 6,062.9**	**$ 6,885.0**	**$ 7,399.1**	**$ 8,289.6**	**$ 9,071.4**	**$ 10,080.3**	**$ 10,755.5**	**$ 11,742.9**	**$ 12,729.2**
Operating income (loss)	**$ 531.8**	**$ 650.4**	**$ 969.6**	**$ 1,238.4**	**$ 1,423.0**	**$ 1,881.2**	**$ 2,428.3**	**$ 2,987.4**	**$ 3,478.6**	**$ 4,031.4**	**$ 4,488.5**	**$ 5,402.2**	**$ 5,934.2**	**$ 6,716.2**	**$ 7,480.9**	**$ 8,417.8**	**$ 9,190.5**	**$ 9,953.2**
Interest income	17.7	4.5	17.4	12.9	13.2	13.5	13.8	14.1	14.4	14.7	15.0	15.4	15.7	16.1	16.4	16.8	17.2	17.6
Interest expense	-	(14.9)	(18.0)	(17.8)	(17.8)	(17.8)	(39.2)	(39.2)	(39.2)	(39.2)	(39.2)	(60.6)	(60.6)	(60.6)	(60.6)	(60.6)	(60.6)	(60.6)
Other income (expense) - net	(7.8)	(11.6)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)
Income before income taxes	**$ 541.7**	**$ 628.4**	**$ 955.5**	**$ 1,220.0**	**$ 1,404.8**	**$ 1,863.4**	**$ 2,389.3**	**$ 2,948.7**	**$ 3,440.2**	**$ 3,993.3**	**$ 4,450.8**	**$ 5,343.4**	**$ 5,875.8**	**$ 6,658.2**	**$ 7,423.2**	**$ 8,360.5**	**$ 9,133.6**	**$ 9,896.6**
Provision for income taxes	53.2	14.1	30.8	268.4	309.1	409.9	525.7	648.7	756.8	878.5	979.2	1,175.6	1,292.7	1,464.8	1,633.1	1,839.3	2,009.4	2,177.3
Loss from equity method investment		7.6	68.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income including NCI	488.5	606.7	856.6	951.6	1,095.7	1,453.4	1,863.7	2,300.0	2,683.4	3,114.8	3,471.7	4,167.9	4,583.1	5,193.4	5,790.1	6,521.2	7,124.2	7,719.4
Less: net income attributable to NCI	-	0.1	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to FTNT	**$ 488.5**	**$ 606.8**	**$ 857.3**	**$ 951.6**	**$ 1,095.7**	**$ 1,453.4**	**$ 1,863.7**	**$ 2,300.0**	**$ 2,683.4**	**$ 3,114.8**	**$ 3,471.7**	**$ 4,167.9**	**$ 4,583.1**	**$ 5,193.4**	**$ 5,790.1**	**$ 6,521.2**	**$ 7,124.2**	**$ 7,719.4**
Weighted basic shares	821.0	816.0	791.4	776.7	767.6	758.0	745.5	729.4	711.2	692.5	673.6	654.0	634.1	614.4	594.6	574.9	555.7	537.0
Year end shares outstanding	812.5	810.0	781.5	771.9	763.2	752.8	738.3	720.5	701.9	683.2	664.1	643.9	624.3	604.5	584.7	565.2	546.2	527.8
Net income (loss) per share - basic	$ 0.60	$ 0.74	$ 1.08	$ 1.23	$ 1.43	$ 1.92	$ 2.50	$ 3.15	$ 3.77	$ 4.50	$ 5.15	$ 6.37	$ 7.23	$ 8.45	$ 9.74	$ 11.34	$ 12.82	$ 14.38
Annual dividends per share	-	-	-															
Depreciation and Amortization	68.8	84.4	104.3	108.0	128.1	151.0	177.3	212.3	252.5	297.6	347.9	404.4	468.6	539.0	616.4	700.6	789.7	884.6
Revenue growth	20.3%	28.8%	32.2%	20.0%	15.7%	15.5%	16.5%	16.9%	15.7%	14.3%	13.6%	13.4%	12.0%	11.9%	11.1%	9.2%	9.2%	8.4%
Product gross margin	61.5%	61.1%	61.2%	60.5%	59.0%	61.0%	62.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%
Service gross margin	87.0%	85.9%	85.1%	85.5%	85.5%	86.0%	86.0%	86.0%	86.0%	85.0%	84.0%	83.0%	82.0%	81.0%	81.0%	81.0%	81.0%	81.0%
R&D as % of revenue	13.2%	12.7%	11.6%	11.5%	11.8%	11.0%	10.0%	10.0%	10.0%	10.0%	10.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
S&M as % of revenue	41.3%	40.3%	38.2%	38.0%	38.0%	37.0%	36.0%	35.0%	35.0%	34.0%	34.0%	33.0%	33.0%	32.0%	32.0%	31.0%	31.0%	31.0%
G&A as % of revenue	4.6%	4.3%	3.8%	3.5%	3.8%	3.8%	3.5%	3.5%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Loss (Gain) on intellectual property	(40.2)	(4.6)	(4.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring charges	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
ASSETS																		
CURRENT ASSETS:																		
Cash & cash equivalents	1061.8	1319.1	1682.9	2,340.1	3,028.2	3,895.6	5,016.8	6,366.8	7,946.6	9,712.5	11,714.9	14,077.4	16,619.8	19,485.2	22,672.8	26,164.3	29,948.4	34,005.7
Short-term investments	775.5	1194.0	502.6	513.9	525.4	537.2	549.3	561.6	574.2	587.1	600.3	613.7	627.5	641.6	656.0	670.7	685.8	701.2
Marketable equity securities	0.0	38.6	25.5	26.1	26.7	27.3	27.9	28.5	29.1	29.8	30.5	31.1	31.8	32.6	33.3	34.0	34.8	35.6
Accounts receivable - net	720.0	807.7	1261.7	1382.0	1598.8	1847.1	2152.5	2516.9	2912.6	3328.9	3780.3	4288.3	4804.4	5376.9	5975.0	6523.5	7122.3	7720.5
Inventory	139.8	175.8	264.6	280.3	294.4	315.4	352.6	384.4	431.8	480.5	534.7	592.2	649.7	709.3	719.1	785.1	857.2	935.9
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid expenses & other current a	43.3	65.4	73.1	88.6	103.4	115.6	128.9	147.6	170.8	191.2	217.2	233.4	261.5	286.1	318.0	339.3	370.4	401.5
Total current assets	**$ 2,740.4**	**$ 3,600.6**	**$ 3,810.4**	**$ 4,630.9**	**$ 5,577.0**	**$ 6,738.1**	**$ 8,227.9**	**$ 10,005.9**	**$ 12,065.2**	**$ 14,330.0**	**$ 16,877.9**	**$ 19,836.1**	**$ 22,994.7**	**$ 26,531.8**	**$ 30,374.1**	**$ 34,516.9**	**$ 39,018.9**	**$ 43,800.3**
Long-term investments	118.3	440.8	45.5	46.5	47.6	48.6	49.7	50.8	52.0	53.1	54.3	55.6	56.8	58.1	59.4	60.7	62.1	63.5
Property & equipment - net	448.0	687.6	898.5	1146.0	1421.6	1730.3	2082.6	2488.7	2950.8	3468.2	4044.1	4686.4	5390.4	6163.7	7005.7	7897.4	8846.1	9845.9
Deferred contract costs	304.8	423.3	518.2	616.5	750.9	898.8	1066.4	1265.3	1481.4	1710.1	1956.4	2238.1	2525.5	2849.7	3184.7	3477.1	3796.3	4105.7
Deferred tax assets	245.2	342.3	569.4	683.0	790.2	912.9	1063.9	1244.0	1439.5	1645.3	1868.4	2119.4	2374.5	2657.5	2953.1	3224.1	3520.1	3815.8
Goodwill	93.0	125.1	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0	128.0
Other intangible assets - net	31.6	63.6	56.0	37.9	24.4	15.6	11.3	7.3	3.7	1.1	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other assets	63.2	235.8	202.0	140.3	146.4	153.2	160.7	168.9	178.7	189.2	200.5	212.8	226.1	240.4	250.0	260.2	270.8	282.0
Total assets	**$ 4,044.5**	**$ 5,919.1**	**$ 6,228.0**	**$ 7,429.1**	**$ 8,886.0**	**$ 10,625.6**	**$ 12,790.5**	**$ 15,359.0**	**$ 18,299.2**	**$ 21,525.1**	**$ 25,129.6**	**$ 29,276.4**	**$ 33,695.9**	**$ 38,629.2**	**$ 43,955.1**	**$ 49,564.4**	**$ 55,642.3**	**$ 62,041.1**
LIABILITIES AND EQUITY																		
CURRENT LIABILITIES:																		
Accounts payable	141.6	148.4	243.4	250.4	285.5	307.2	347.9	396.5	454.6	533.9	624.3	728.2	839.5	965.8	1069.7	1167.9	1275.1	1384.1
Accrued liabilities	149.2	197.3	266.3	256.7	299.7	334.9	373.4	427.8	495.0	554.1	629.2	676.2	757.6	829.0	921.2	982.9	1073.2	1163.3
Accrued payroll & compensation	145.9	195.0	219.4	255.9	298.8	333.9	372.3	426.5	493.5	552.4	627.3	674.2	755.3	826.6	918.5	980.0	1070.0	1159.8
Income taxes payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	1392.8	1777.4	2349.3	2827.0	3263.6	3771.7	4456.8	5211.3	6086.5	6956.3	7899.7	9043.4	10131.7	11339.2	12600.4	13882.2	15156.5	16429.5
Total current liabilities	**$ 1,829.5**	**$ 2,318.1**	**$ 3,078.4**	**$ 3,590.0**	**$ 4,147.7**	**$ 4,747.8**	**$ 5,550.4**	**$ 6,462.1**	**$ 7,529.6**	**$ 8,596.8**	**$ 9,780.5**	**$ 11,122.0**	**$ 12,484.1**	**$ 13,960.6**	**$ 15,509.8**	**$ 17,013.0**	**$ 18,574.8**	**$ 20,136.7**
Deferred revenue	1212.5	1675.5	2291.0	2702.5	3126.4	3611.9	4209.2	4921.8	5695.6	6509.6	7464.8	8467.9	9487.0	10617.6	11798.5	12881.6	14064.2	15245.4
Income tax liabilities	90.3	79.5	67.8	50.9	33.9	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	0.0	988.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4	990.4
Other liabilities	56.2	59.2	82.0	4.0	10.2	17.0	24.5	32.7	42.4	52.9	64.3	76.6	89.8	104.1	113.8	123.9	134.6	145.7
Total liabilities	**$ 3,188.5**	**$ 5,120.7**	**$ 6,509.6**	**$ 7,337.7**	**$ 8,308.6**	**$ 9,384.0**	**$ 10,774.5**	**$ 12,407.0**	**$ 14,258.1**	**$ 16,149.7**	**$ 18,300.0**	**$ 20,656.8**	**$ 23,051.3**	**$ 25,672.8**	**$ 28,412.5**	**$ 31,009.0**	**$ 33,763.9**	**$ 36,518.2**
Equity																		
APIC+Common stock	1207.4	1254.4	1285.0	1376.5	1468.0	1559.6	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3	1605.3
AOCI	0.7	(4.8)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)	(20.2)
Retained earnings (accumulated deficit)	(352.1)	(467.9)	(1546.4)	(1264.9)	(870.4)	(297.8)	431.0	1366.9	2456.0	3790.2	5244.4	7034.5	9059.5	11371.3	13957.4	16970.3	20293.3	23937.8
Total FTNT stockholders' equity	856.0	781.7	(281.6)	91.4	577.5	1241.5	2016.1	2952.0	4041.2	5375.3	6829.6	8619.6	10644.6	12956.4	15542.6	18555.5	21878.4	25522.9
Non-controlling interests	0.0	16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total equity (deficit)	**$ 856.0**	**$ 798.4**	**$ (281.6)**	**$ 91.4**	**$ 577.5**	**$ 1,241.5**	**$ 2,016.1**	**$ 2,952.0**	**$ 4,041.2**	**$ 5,375.3**	**$ 6,829.6**	**$ 8,619.6**	**$ 10,644.6**	**$ 12,956.4**	**$ 15,542.6**	**$ 18,555.5**	**$ 21,878.4**	**$ 25,522.9**
TOTAL LIABILITIES AND EQUITY	**$ 4,044.5**	**$ 5,919.1**	**$ 6,228.0**	**$ 7,429.1**	**$ 8,886.0**	**$ 10,625.6**	**$ 12,790.5**	**$ 15,359.0**	**$ 18,299.2**	**$ 21,525.1**	**$ 25,129.6**	**$ 29,276.4**	**$ 33,695.9**	**$ 38,629.2**	**$ 43,955.1**	**$ 49,564.4**	**$ 55,642.3**	**$ 62,041.1**

	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2032E	2032E	2032E	2032E	2032E
A/R as % of revenue	27.8%	24.2%	28.6%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%
Inventory as a % of product revenue	15.3%	14.0%	14.9%	14.5%	14.5%	14.5%	14.5%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	13.0%	13.0%	13.0%	13.0%
Prepaid expenses as % of OpEx	2.8%	3.4%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Deferred contract costs as a % of service reve	18.2%	20.3%	19.7%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%	18.3%
Accounts payable as % of COGS	24.8%	19.0%	22.4%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Accrued liabilities as % of OpEx	9.7%	10.3%	11.2%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
Accrued payroll as % of OpEx	9.5%	10.2%	9.3%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
Current deferred revenue as % of revenue	53.7%	53.2%	53.2%	53.3%	53.2%	53.3%	54.0%	54.0%	54.5%	54.5%	54.5%	55.0%	55.0%	55.0%	55.0%	55.5%	55.5%	55.5%
Long-term deferred revenue as % of revenue	46.7%	50.1%	51.9%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%
Other liabilites as % of revenue	2.2%	1.8%	1.9%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%

Investments	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2032E	2032E	2032E	2032E	2032E
Total investments	893.8	1673.4	573.6	586.5	599.6	613.1	626.9	640.9	655.3	670.0	685.1	700.4	716.1	732.2	748.7	765.5	782.6	800.2
Interest income	17.7	4.5	17.4	12.9	13.2	13.5	13.8	14.1	14.4	14.7	15.0	15.4	15.7	16.1	16.4	16.8	17.2	17.6
Implied ROI	1.8%	0.5%	1.0%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%

Depreciation	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2032E	2032E	2032E	2032E	2032E
Net PPE	448.0	687.6	898.5	1146.0	1421.6	1730.3	2082.6	2488.7	2950.8	3468.2	4044.1	4686.4	5390.4	6163.7	7005.7	7897.4	8846.1	9845.9
Capital expenditures	125.9	295.9	281.2	337.3	390.2	450.8	525.4	614.3	710.9	812.5	922.7	1046.7	1172.7	1312.4	1458.4	1592.3	1738.4	1884.4
Depreciation expense	55.5	65.9	81.0	89.9	114.6	142.2	173.0	208.3	248.9	295.1	346.8	404.4	468.6	539.0	616.4	700.6	789.7	884.6
Depreciation expense as % of PPE	16.1%	14.7%	11.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Other intangible assets - net	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2032E	2032E	2032E	2032E	2032E
Other intangible assets	31.6	63.6	56.0	37.9	24.4	15.6	11.3	7.3	3.7	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gains on intangibles																		
Amortization expense	13.3	18.5	23.3	18.1	13.5	8.8	4.3	4.0	3.7	2.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization expense as % of intangibles	42.8%	58.5%	36.6%	32.3%	35.6%	36.1%	27.6%	35.4%	50.0%	70.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net income (loss) including non-controlling interests	44.3	25.3	8.0	32.2	31.4	332.2	326.5	488.5	606.7	856.6
Stock-based compensation	43.9	59.0	95.1	122.4	137.2	162.9	174.1	191.7	207.9	217.3
Amortization of deferred contract costs	-	-	-	-	-	90.9	107.9	137.4	175.9	223.3
Depreciation & amortization	15.6	22.0	31.6	48.5	55.5	55.7	61.6	68.8	84.4	104.3
Amortization of investment premiums (discounts)	11.6	8.7	7.5	4.8	2.5	(0.6)	(6.0)	1.3	6.9	4.4
Loss (gain) from equity method investment	-	-	-	-	-	-	-	-	7.6	68.1
Other adjustments	-	-	-	-	-	-	-	-	-	23.6
Excess tax benefit from employee stock option plans	(3.0)	-	-	-	-	-	-	-	-	-
Other non-cash items - net	1.0	4.1	3.4	2.6	3.8	(0.9)	5.7	6.0	7.9	-
Changes in working capital assets:										
Accounts receivable - net	(22.1)	(55.9)	(66.5)	(57.9)	(38.5)	(82.0)	(96.7)	(176.4)	(72.5)	(456.7)
Inventory	(35.1)	(32.5)	(19.1)	(43.0)	9.4	(33.4)	(48.5)	(42.2)	(19.4)	(109.1)
Prepaid expenses & other current assets	(0.9)	(16.0)	(2.6)	2.6	(6.7)	4.2	(2.1)	(2.8)	(17.7)	(7.7)
Deferred contract costs	-	-	-	-	-	(136.4)	(162.3)	(205.1)	(294.5)	(318.2)
Deferred tax assets	(18.8)	9.1	(29.9)	(27.8)	35.8	(127.8)	17.8	(10.5)	(94.0)	(226.4)
Other assets	1.2	(1.3)	0.7	(2.4)	(1.0)	(3.8)	(1.3)	(4.6)	(19.0)	(35.3)
Changes in working capital liabilities:										
Accounts payable	10.5	18.0	(2.5)	0.0	13.1	14.6	7.7	37.4	(13.1)	105.2
Accrued liabilities	1.7	7.1	0.9	(3.2)	14.4	14.5	(1.4)	45.8	49.9	55.2
Accrued payroll & compensation	6.0	10.8	11.3	15.7	12.6	3.5	(2.7)	43.1	44.0	25.0
Other liabilities	-	14.3	2.0	(5.0)	(5.5)	(0.8)	(0.2)	9.7	(0.7)	23.5
Deferred revenue	68.9	127.4	222.3	243.0	300.8	352.1	446.7	495.6	839.4	1177.5
Income taxes payable	22.5	(3.8)	20.4	13.1	29.5	(6.0)	(18.8)	-	-	-
Net Cash Flows From Operating Activities	**$ 147.4**	**$ 196.6**	**$ 282.5**	**$ 345.7**	**$ 594.4**	**$ 638.9**	**$ 808.0**	**$ 1,083.7**	**$ 1,499.7**	**$ 1,730.6**
Purchases of investments	(552.8)	(497.1)	(459.9)	(473.6)	(669.2)	(681.8)	(1332.3)	(1079.0)	(2308.0)	(389.1)
Sales of investments	57.9	41.8	47.9	28.3	300.3	42.8	31.3	152.2	85.5	3.0
Maturities of investments	369.7	458.2	486.4	460.4	427.4	578.8	925.5	1018.8	1470.3	1462.0
Purchases of property & equipment	(13.9)	(32.2)	(37.4)	(67.2)	(135.3)	(53.0)	(92.2)	(125.9)	(295.9)	(281.2)
Investment in privately held company	-	-	-	-	-	-	-	-	(160.0)	-
Payments made in connection with business combinations, net of cash acquired	-	-	(38.0)	(22.1)	-	(21.7)	(34.6)	(40.2)	(74.9)	(30.8)
Purchases of marketable equity securities	-	-	-	-	-	-	-	-	(42.5)	-
Payments made in connection with acquisitions	(7.6)	(0.0)	-							
Other cash flow from investing activities	-	-	-	-	-	-	-	1.3	0.4	-
Net Cash Flows From Investing Activities	**$ (146.7)**	**$ (29.4)**	**$ (1.0)**	**$ (74.1)**	**$ (76.8)**	**$ (134.9)**	**$ (502.3)**	**$ (72.8)**	**$ (1,325.1)**	**$ 763.9**
Proceeds from long-term borrowings, net of discount & underwriting fees	-	-	-	-	-	-	-	-	989.4	-
Payments for debt issuance costs	-	-	-	-	-	-	-	-	(2.4)	-
Payments of debt assumed in connection with business combination	-	-	-	(1.6)	-	(10.1)	(3.7)	(4.1)	(19.5)	-
Repurchase & retirement of common stock	(33.5)	(44.0)	(60.0)	(110.8)	(446.3)	(211.8)	(145.1)	(1080.1)	(741.8)	(1991.2)
Proceeds from issuance of common stock	25.6	55.3	67.3	44.9	75.9	86.5	49.5	22.1	26.0	26.1
Taxes paid related to net share settlement of equity awards	(1.5)	(10.6)	(28.9)	(38.3)	(45.1)	(67.2)	(96.0)	(108.2)	(167.9)	(160.4)
Excess tax benefit from employee stock option plans	3.0	-	-	-	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-	(0.3)	(1.3)	(1.0)	(4.8)
Net Cash Flows From Financing Activities	**$ (6.4)**	**$ 0.7**	**$ (21.6)**	**$ (105.9)**	**$ (415.6)**	**$ (202.6)**	**$ (195.6)**	**$ (1,171.6)**	**$ 82.8**	**$ (2,130.3)**
Effect of exchange rates on cash & cash equivalents	(1.3)	(0.6)	-	-	-	-	-	-	(0.1)	(0.4)
Net increase (decrease) in cash & cash equivalents	(7.1)	167.4	260.0	165.7	102.0	301.4	110.1	(160.7)	257.3	363.8
Cash & cash equivalents - beginning of year	123.0	115.9	283.3	543.3	709.0	811.0	1112.4	1222.5	1061.8	1319.1
Cash & cash equivalents - end of year	115.9	283.3	543.3	709.0	811.0	1112.4	1222.5	1061.8	1319.1	1682.9
Cash paid for income taxes - net	25.4	40.6	18.9	26.6	32.2	41.4	58.7	39.7	127.4	260.2

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Net income (loss) including non-controlling in	951.6	1095.7	1453.4	1863.7	2300.0	2683.4	3114.8	3471.7	4167.9	4583.1	5193.4	5790.1	6521.2	7124.2	7719.4
Stock-based compensation	91.5	91.5	91.5	45.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	108.0	128.1	151.0	177.3	212.3	252.5	297.6	347.9	404.4	468.6	539.0	616.4	700.6	789.7	884.6
Change in assets:															
Change in accounts receivable, net	(120.3)	(216.8)	(248.3)	(305.5)	(364.4)	(395.7)	(416.2)	(451.4)	(508.0)	(516.1)	(572.6)	(598.0)	(548.5)	(598.9)	(598.2)
Inventory	(15.7)	(14.2)	(21.0)	(37.2)	(31.9)	(47.4)	(48.7)	(54.2)	(57.5)	(57.5)	(59.6)	(9.8)	(66.0)	(72.1)	(78.7)
Deferred tax asset, combined LT & ST	(113.6)	(107.1)	(122.7)	(151.0)	(180.1)	(195.6)	(205.7)	(223.1)	(251.1)	(255.1)	(283.0)	(295.6)	(271.1)	(296.0)	(295.6)
Prepaid-expenses & other assets	(15.5)	(14.9)	(12.2)	(13.3)	(18.8)	(23.2)	(20.4)	(25.9)	(16.2)	(28.1)	(24.7)	(31.8)	(21.3)	(31.1)	(31.1)
Deferred contract costs	(98.3)	(134.4)	(147.9)	(167.6)	(198.9)	(216.1)	(228.7)	(246.3)	(281.7)	(287.4)	(324.3)	(335.0)	(292.4)	(319.2)	(309.4)
Other assets	61.8	(6.2)	(6.8)	(7.5)	(8.2)	(9.7)	(10.5)	(11.4)	(12.3)	(13.2)	(14.3)	(9.7)	(10.1)	(10.6)	(11.2)
Change in liabilities:															
Accounts payable	7.0	35.1	21.7	40.8	48.6	58.0	79.4	90.3	104.0	111.3	126.3	103.9	98.2	107.2	108.9
Accrued liabilities	(9.6)	43.1	35.2	38.4	54.4	67.3	59.1	75.1	47.0	81.4	71.4	92.2	61.7	90.2	90.1
Accrued payroll & compensation	36.5	42.9	35.1	38.3	54.2	67.1	58.9	74.9	46.8	81.1	71.2	91.9	61.5	90.0	89.9
Income taxes payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue, combined	889.2	860.6	993.6	1282.4	1467.1	1649.0	1683.8	1898.6	2146.7	2107.4	2338.2	2442.1	2364.9	2456.9	2454.2
Income tax liabilities	(17.0)	(17.0)	(17.0)	(17.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	(78.0)	6.2	6.8	7.5	8.2	9.7	10.5	11.4	12.3	13.2	14.3	9.7	10.1	10.6	11.2
Cash Flow from Operations	**$ 1,677.5**	**$ 1,792.7**	**$ 2,212.5**	**$ 2,795.3**	**$ 3,342.5**	**$ 3,899.3**	**$ 4,373.8**	**$ 4,957.6**	**$ 5,802.4**	**$ 6,288.9**	**$ 7,075.4**	**$ 7,866.4**	**$ 8,608.8**	**$ 9,341.0**	**$ 10,034.0**
Capital expenditures	(337.3)	(390.2)	(450.8)	(525.4)	(614.3)	(710.9)	(812.5)	(922.7)	(1046.7)	(1172.7)	(1312.4)	(1458.4)	(1592.3)	(1738.4)	(1884.4)
Change in total investments	(12.9)	(13.2)	(13.5)	(13.8)	(14.1)	(14.4)	(14.7)	(15.0)	(15.4)	(15.7)	(16.1)	(16.4)	(16.8)	(17.2)	(17.6)
Cash Flow from Investing	**$ (350.2)**	**$ (403.4)**	**$ (464.3)**	**$ (539.1)**	**$ (628.4)**	**$ (725.3)**	**$ (827.2)**	**$ (937.7)**	**$ (1,062.1)**	**$ (1,188.4)**	**$ (1,328.5)**	**$ (1,474.8)**	**$ (1,609.1)**	**$ (1,755.6)**	**$ (1,902.0)**
Proceeds (payments) of debt obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash paid on share repurchases	(670.1)	(701.2)	(880.9)	(1134.9)	(1364.1)	(1594.2)	(1780.6)	(2017.4)	(2377.9)	(2558.1)	(2881.5)	(3204.0)	(3508.3)	(3801.3)	(4074.8)
Cash paid on dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance of common stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow from Financing	**$ (670.1)**	**$ (701.2)**	**$ (880.9)**	**$ (1,134.9)**	**$ (1,364.1)**	**$ (1,594.2)**	**$ (1,780.6)**	**$ (2,017.4)**	**$ (2,377.9)**	**$ (2,558.1)**	**$ (2,881.5)**	**$ (3,204.0)**	**$ (3,508.3)**	**$ (3,801.3)**	**$ (4,074.8)**
Net change in cash position	657.2	688.1	867.4	1121.2	1350.0	1579.8	1765.9	2002.4	2362.5	2542.4	2865.4	3187.6	3491.5	3784.1	4057.2
Previous cash position	1682.9	2340.1	3028.2	3895.6	5016.8	6366.8	7946.6	9712.5	11714.9	14077.4	16619.8	19485.2	22672.8	26164.3	29948.4
Cash & cash equivalents - end of year	**$ 2,340.1**	**$ 3,028.2**	**$ 3,895.6**	**$ 5,016.8**	**$ 6,366.8**	**$ 7,946.6**	**$ 9,712.5**	**$ 11,714.9**	**$ 14,077.4**	**$ 16,619.8**	**$ 19,485.2**	**$ 22,672.8**	**$ 26,164.3**	**$ 29,948.4**	**$ 34,005.7**

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
REVENUE:																		
Product revenue	35.3%	37.6%	40.3%	36.5%	33.2%	30.7%	29.5%	28.5%	27.6%	26.9%	26.4%	25.7%	25.2%	24.6%	24.1%	24.1%	24.1%	24.3%
Service revenue	64.7%	62.4%	59.7%	63.5%	66.8%	69.3%	70.5%	71.5%	72.4%	73.1%	73.6%	74.3%	74.8%	75.4%	75.9%	75.9%	75.9%	75.7%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
COST OF REVENUE:																		
Cost of revenue - product	13.6%	14.6%	15.6%	14.4%	13.6%	12.0%	11.2%	10.5%	10.2%	9.9%	9.7%	9.5%	9.3%	9.1%	8.9%	8.9%	8.9%	9.0%
Cost of revenue - service	8.4%	8.8%	8.9%	9.2%	9.7%	9.7%	9.9%	10.0%	10.1%	11.0%	11.8%	12.6%	13.5%	14.3%	14.4%	14.4%	14.4%	14.4%
Total cost of revenue	**22.0%**	**23.4%**	**24.6%**	**23.6%**	**23.3%**	**21.7%**	**21.1%**	**20.5%**	**20.4%**	**20.9%**	**21.5%**	**22.1%**	**22.8%**	**23.4%**	**23.3%**	**23.3%**	**23.3%**	**23.4%**
GROSS PROFIT																		
Gross profit - product	21.7%	23.0%	24.7%	22.1%	19.6%	18.8%	18.3%	17.9%	17.4%	16.9%	16.6%	16.2%	15.9%	15.5%	15.2%	15.2%	15.2%	15.3%
Gross profit - service	56.3%	53.6%	50.8%	54.3%	57.1%	59.6%	60.6%	61.5%	62.2%	62.1%	61.9%	61.6%	61.3%	61.1%	61.4%	61.4%	61.4%	61.3%
Total gross profit	**78.0%**	**76.6%**	**75.4%**	**76.4%**	**76.7%**	**78.3%**	**78.9%**	**79.5%**	**79.6%**	**79.1%**	**78.5%**	**77.9%**	**77.2%**	**76.6%**	**76.7%**	**76.7%**	**76.7%**	**76.6%**
OPERATING EXPENSES																		
Research & development expenses	13.2%	12.7%	11.6%	11.5%	11.8%	11.0%	10.0%	10.0%	10.0%	10.0%	10.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Sales & marketing expenses	41.3%	40.3%	38.2%	38.0%	38.0%	37.0%	36.0%	35.0%	35.0%	34.0%	34.0%	33.0%	33.0%	32.0%	32.0%	31.0%	31.0%	31.0%
General & administrative expenses	4.6%	4.3%	3.8%	3.5%	3.8%	3.8%	3.5%	3.5%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Loss (Gain) on intellectual property mat	-1.5%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Restructuring charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total operating expenses	**57.5%**	**57.1%**	**53.5%**	**53.0%**	**53.5%**	**51.8%**	**49.5%**	**48.5%**	**48.5%**	**47.5%**	**47.5%**	**45.0%**	**45.0%**	**44.0%**	**44.0%**	**43.0%**	**43.0%**	**43.0%**
Operating income (loss)	**20.5%**	**19.5%**	**21.9%**	**23.4%**	**23.2%**	**26.6%**	**29.4%**	**31.0%**	**31.1%**	**31.6%**	**31.0%**	**32.9%**	**32.2%**	**32.6%**	**32.7%**	**33.7%**	**33.7%**	**33.6%**
Interest income	0.7%	0.1%	0.4%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Interest expense	0.0%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.5%	-0.4%	-0.4%	-0.3%	-0.3%	-0.4%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%
Other income (expense) - net	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%
Income before income taxes	**20.9%**	**18.8%**	**21.6%**	**23.0%**	**22.9%**	**26.3%**	**28.9%**	**30.6%**	**30.8%**	**31.3%**	**30.7%**	**32.5%**	**31.9%**	**32.3%**	**32.4%**	**33.4%**	**33.4%**	**33.4%**
Provision for income taxes	2.1%	0.4%	0.7%	5.1%	5.0%	5.8%	6.4%	6.7%	6.8%	6.9%	6.8%	7.1%	7.0%	7.1%	7.1%	7.4%	7.4%	7.4%
Loss from equity method investment	0.0%	0.2%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income including NCI	18.8%	18.2%	19.4%	18.0%	17.9%	20.5%	22.6%	23.8%	24.0%	24.4%	24.0%	25.3%	24.9%	25.2%	25.3%	26.1%	26.1%	26.1%
Less: net income attributable to NCI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income attributable to FTNT	**18.8%**	**18.2%**	**19.4%**	**18.0%**	**17.9%**	**20.5%**	**22.6%**	**23.8%**	**24.0%**	**24.4%**	**24.0%**	**25.3%**	**24.9%**	**25.2%**	**25.3%**	**26.1%**	**26.1%**	**26.1%**

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Total revenue	2594.4	3342.2	4417.4	5299.0	6130.2	7082.2	8253.4	9650.6	11167.9	12763.9	14494.8	16442.5	18421.3	20616.7	22909.8	25012.9	27309.1	29602.7
ASSETS																		
CURRENT ASSETS:																		
Cash & cash equivalents	40.9%	39.5%	38.1%	44.2%	49.4%	55.0%	60.8%	66.0%	71.2%	76.1%	80.8%	85.6%	90.2%	94.5%	99.0%	104.6%	109.7%	114.9%
Short-term investments	29.9%	35.7%	11.4%	9.7%	8.6%	7.6%	6.7%	5.8%	5.1%	4.6%	4.1%	3.7%	3.4%	3.1%	2.9%	2.7%	2.5%	2.4%
Marketable equity securities	0.0%	1.2%	0.6%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Accounts receivable - net	27.8%	24.2%	28.6%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%	26.1%
Inventory	5.4%	5.3%	6.0%	5.3%	4.8%	4.5%	4.3%	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.4%	3.1%	3.1%	3.1%	3.2%
Deferred tax asset	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Prepaid Expenses & Other Current	1.7%	2.0%	1.7%	1.7%	1.7%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Total current assets	**105.6%**	**107.7%**	**86.3%**	**87.4%**	**91.0%**	**95.1%**	**99.7%**	**103.7%**	**108.0%**	**112.3%**	**116.4%**	**120.6%**	**124.8%**	**128.7%**	**132.6%**	**138.0%**	**142.9%**	**148.0%**
Long-term investments	4.6%	13.2%	1.0%	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%
Property & equipment - net	17.3%	20.6%	20.3%	21.6%	23.2%	24.4%	25.2%	25.8%	26.4%	27.2%	27.9%	28.5%	29.3%	29.9%	30.6%	31.6%	32.4%	33.3%
Deferred contract costs	11.7%	12.7%	11.7%	11.6%	12.2%	12.7%	12.9%	13.1%	13.3%	13.4%	13.5%	13.6%	13.7%	13.8%	13.9%	13.9%	13.9%	13.9%
Deferred tax assets	9.5%	10.2%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%
Goodwill	3.6%	3.7%	2.9%	2.4%	2.1%	1.8%	1.6%	1.3%	1.1%	1.0%	0.9%	0.8%	0.7%	0.6%	0.6%	0.5%	0.5%	0.4%
Other intangible assets - net	1.2%	1.9%	1.3%	0.7%	0.4%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other assets	2.4%	7.1%	4.6%	2.6%	2.4%	2.2%	1.9%	1.8%	1.6%	1.5%	1.4%	1.3%	1.2%	1.2%	1.1%	1.0%	1.0%	1.0%
Total Assets	**155.9%**	**177.1%**	**141.0%**	**140.2%**	**145.0%**	**150.0%**	**155.0%**	**159.2%**	**163.9%**	**168.6%**	**173.4%**	**178.1%**	**182.9%**	**187.4%**	**191.9%**	**198.2%**	**203.8%**	**209.6%**
LIABILITIES AND EQUITY																		
CURRENT LIABILITIES:																		
Accounts payable	5.5%	4.4%	5.5%	4.7%	4.7%	4.3%	4.2%	4.1%	4.1%	4.2%	4.3%	4.4%	4.6%	4.7%	4.7%	4.7%	4.7%	4.7%
Accrued liabilities	5.8%	5.9%	6.0%	4.8%	4.9%	4.7%	4.5%	4.4%	4.4%	4.3%	4.3%	4.1%	4.1%	4.0%	4.0%	3.9%	3.9%	3.9%
Accrued payroll & compensation	5.6%	5.8%	5.0%	4.8%	4.9%	4.7%	4.5%	4.4%	4.4%	4.3%	4.3%	4.1%	4.1%	4.0%	4.0%	3.9%	3.9%	3.9%
Income taxes payable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred revenue	53.7%	53.2%	53.2%	53.3%	53.2%	53.3%	54.0%	54.0%	54.5%	54.5%	54.5%	55.0%	55.0%	55.0%	55.0%	55.5%	55.5%	55.5%
Total current liabilities	**70.5%**	**69.4%**	**69.7%**	**67.7%**	**67.7%**	**67.0%**	**67.2%**	**67.0%**	**67.4%**	**67.4%**	**67.5%**	**67.6%**	**67.8%**	**67.7%**	**67.7%**	**68.0%**	**68.0%**	**68.0%**
Deferred revenue	46.7%	50.1%	51.9%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%
Income tax liabilities	3.5%	2.4%	1.5%	1.0%	0.6%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long-term debt	0.0%	29.6%	22.4%	18.7%	16.2%	14.0%	12.0%	10.3%	8.9%	7.8%	6.8%	6.0%	5.4%	4.8%	4.3%	4.0%	3.6%	3.3%
Other liabilities	2.2%	1.8%	1.9%	0.1%	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total liabilities	**122.9%**	**153.2%**	**147.4%**	**138.5%**	**135.5%**	**132.5%**	**130.5%**	**128.6%**	**127.7%**	**126.5%**	**126.3%**	**125.6%**	**125.1%**	**124.5%**	**124.0%**	**124.0%**	**123.6%**	**123.4%**
Equity																		
Common equity	46.5%	37.5%	29.1%	26.0%	23.9%	22.0%	19.5%	16.6%	14.4%	12.6%	11.1%	9.8%	8.7%	7.8%	7.0%	6.4%	5.9%	5.4%
AOCI	0.0%	-0.1%	-0.5%	-0.4%	-0.3%	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Retained earnings (accumulated defic	-13.6%	-14.0%	-35.0%	-23.9%	-14.2%	-4.2%	5.2%	14.2%	22.0%	29.7%	36.2%	42.8%	49.2%	55.2%	60.9%	67.8%	74.3%	80.9%
Total FTNT stockholders' equity	33.0%	23.4%	-6.4%	1.7%	9.4%	17.5%	24.4%	30.6%	36.2%	42.1%	47.1%	52.4%	57.8%	62.8%	67.8%	74.2%	80.1%	86.2%
Non-controlling interests	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total equity (deficit)	**33.0%**	**23.9%**	**-6.4%**	**1.7%**	**9.4%**	**17.5%**	**24.4%**	**30.6%**	**36.2%**	**42.1%**	**47.1%**	**52.4%**	**57.8%**	**62.8%**	**67.8%**	**74.2%**	**80.1%**	**86.2%**
TOTAL LIABILITIES AND EQUITY	**155.9%**	**177.1%**	**141.0%**	**140.2%**	**145.0%**	**150.0%**	**155.0%**	**159.2%**	**163.9%**	**168.6%**	**173.4%**	**178.1%**	**182.9%**	**187.4%**	**191.9%**	**198.2%**	**203.8%**	**209.6%**

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
NOPLAT:																		
Revenue	2594	3342	4417	5299	6130	7082	8253	9651	11168	12764	14495	16442	18421	20617	22910	25013	27309	29603
Cost of revenue	(570.0)	(783.0)	(1084.9)	(1252.1)	(1427.6)	(1535.9)	(1739.7)	(1982.7)	(2272.9)	(2669.7)	(3121.3)	(3641.2)	(4197.5)	(4829.2)	(5348.6)	(5839.6)	(6375.6)	(6920.4)
Research & development expenses	(341.4)	(424.2)	(512.4)	(609.4)	(720.3)	(779.0)	(825.3)	(965.1)	(1,116.8)	(1,276.4)	(1,449.5)	(1,479.8)	(1,657.9)	(1,855.5)	(2,061.9)	(2,251.2)	(2,457.8)	(2,664.2)
Sales & marketing expenses	(1,071.9)	(1,345.7)	(1,686.1)	(2,013.6)	(2,329.5)	(2,620.4)	(2,971.2)	(3,377.7)	(3,908.8)	(4,339.7)	(4,928.2)	(5,426.0)	(6,079.0)	(6,597.4)	(7,331.1)	(7,754.0)	(8,465.8)	(9,176.8)
General & administrative expenses	(119.5)	(143.5)	(169.0)	(185.5)	(229.9)	(265.6)	(288.9)	(337.8)	(390.9)	(446.7)	(507.3)	(493.3)	(552.6)	(618.5)	(687.3)	(750.4)	(819.3)	(888.1)
Operating lease cost	2.9	3.7	5.2	5.7	6.1	6.5	6.9	7.4	8.0	8.7	9.4	10.1	10.9	11.8	12.4	13.0	13.7	14.4
EBITA	**494.5**	**649.5**	**970.2**	**1244.1**	**1429.0**	**1887.7**	**2435.2**	**2994.8**	**3486.6**	**4040.0**	**4497.9**	**5412.3**	**5945.1**	**6728.0**	**7493.3**	**8430.8**	**9204.2**	**9967.5**
Provision for income taxes	53.2	14.1	30.8	268.4	309.1	409.9	525.7	648.7	756.8	878.5	979.2	1175.6	1292.7	1464.8	1633.1	1839.3	2009.4	2177.3
Tax shield on interest expense	0.0	3.1	4.0	3.9	3.9	3.9	8.6	8.6	8.6	8.6	8.6	13.3	13.3	13.3	13.3	13.3	13.3	13.3
Tax shield on non-operating losses (income)	1.9	2.4	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Tax shield on restructing charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax shield on operating lease cost	0.7	0.8	1.2	1.3	1.3	1.4	1.5	1.6	1.8	1.9	2.1	2.2	2.4	2.6	2.7	2.9	3.0	3.2
Tax on gain on intellectual property matter	(10.0)	(1.0)	(1.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax on interest/investment Income	(4.4)	(0.9)	(3.9)	(2.8)	(2.9)	(3.0)	(3.0)	(3.1)	(3.2)	(3.2)	(3.3)	(3.4)	(3.5)	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)
Total Adjusted Taxes	**41.4**	**18.5**	**34.1**	**273.7**	**314.4**	**415.3**	**535.8**	**658.9**	**767.1**	**888.8**	**989.5**	**1190.7**	**1307.9**	**1480.2**	**1648.5**	**1854.8**	**2024.9**	**2192.9**
Change In Deferred Taxes	(10.5)	(94.0)	(226.4)	(113.6)	(107.1)	(122.7)	(151.0)	(180.1)	(195.6)	(205.7)	(223.1)	(251.1)	(255.1)	(283.0)	(295.6)	(271.1)	(296.0)	(295.6)
NOPLAT	**442.5**	**537.0**	**709.7**	**856.8**	**1007.5**	**1349.7**	**1748.5**	**2155.9**	**2524.0**	**2945.5**	**3285.3**	**3970.5**	**4382.1**	**4964.9**	**5549.2**	**6304.9**	**6883.3**	**7479.0**
Invested Capital (IC):																		
Normal cash	648.6	835.6	1,104.4	1,324.7	1,532.6	1,770.5	2,063.3	2,412.7	2,792.0	3,191.0	3,623.7	4,110.6	4,605.3	5,154.2	5,727.4	6,253.2	6,827.3	7,400.7
Accounts receivable - net	720.0	807.7	1,261.7	1,382.0	1,598.8	1,847.1	2,152.5	2,516.9	2,912.6	3,328.9	3,780.3	4,288.3	4,804.4	5,376.9	5,975.0	6,523.5	7,122.3	7,720.5
Inventory	139.8	175.8	264.6	280.3	294.4	315.4	352.6	384.4	431.8	480.5	534.7	592.2	649.7	709.3	719.1	785.1	857.2	935.9
Prepaid expenses & other current assets	43.3	65.4	73.1	88.6	103.4	115.6	128.9	147.6	170.8	191.2	217.2	233.4	261.5	286.1	318.0	339.3	370.4	401.5
Accounts payable	(141.6)	(148.4)	(243.4)	(250.4)	(285.5)	(307.2)	(347.9)	(396.5)	(454.6)	(533.9)	(624.3)	(728.2)	(839.5)	(965.8)	(1,069.7)	(1,167.9)	(1,275.1)	(1,384.1)
Accrued liabilities	(149.2)	(197.3)	(266.3)	(256.7)	(299.7)	(334.9)	(373.4)	(427.8)	(495.0)	(554.1)	(629.2)	(676.2)	(757.6)	(829.0)	(921.2)	(982.9)	(1,073.2)	(1,163.3)
Accrued payroll & compensation	(145.9)	(195.0)	(219.4)	(255.9)	(298.8)	(333.9)	(372.3)	(426.5)	(493.5)	(552.4)	(627.3)	(674.2)	(755.3)	(826.6)	(918.5)	(980.0)	(1,070.0)	(1,159.8)
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	(1,392.8)	(1,777.4)	(2,349.3)	(2,827.0)	(3,263.6)	(3,771.7)	(4,456.8)	(5,211.3)	(6,086.5)	(6,956.3)	(7,899.7)	(9,043.4)	(10,131.7)	(11,339.2)	(12,600.4)	(13,882.2)	(15,156.5)	(16,429.5)
Current working capital	**-277.8**	**-433.7**	**-374.7**	**-514.4**	**-618.4**	**-699.2**	**-853.1**	**-1000.4**	**-1222.3**	**-1405.2**	**-1624.6**	**-1897.5**	**-2163.3**	**-2434.0**	**-2770.3**	**-3111.9**	**-3397.6**	**-3678.1**
Property & equipment - net	448.0	687.6	898.5	1,146.0	1,421.6	1,730.3	2,082.6	2,488.7	2,950.8	3,468.2	4,044.1	4,686.4	5,390.4	6,163.7	7,005.7	7,897.4	8,846.1	9,845.9
Deferred contract costs	304.8	423.3	518.2	616.5	750.9	898.8	1,066.4	1,265.3	1,481.4	1,710.1	1,956.4	2,238.1	2,525.5	2,849.7	3,184.7	3,477.1	3,796.3	4,105.7
Other intangible assets - net	31.6	63.6	56.0	37.9	24.4	15.6	11.3	7.3	3.7	1.1	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Income tax liabilities	(90.3)	(79.5)	(67.8)	(50.9)	(33.9)	(17.0)	-	-	-	-	-	-	-	-	-	-	-	-
Total invested capital	**416.3**	**661.4**	**1,030.3**	**1,235.2**	**1,544.6**	**1,928.6**	**2,307.3**	**2,760.9**	**3,213.5**	**3,774.3**	**4,375.9**	**5,026.9**	**5,752.6**	**6,579.4**	**7,420.2**	**8,262.6**	**9,244.8**	**10,273.5**
Free Cash Flow (FCF):																		
NOPLAT	442.5	537.0	709.7	856.8	1007.5	1349.7	1748.5	2155.9	2524.0	2945.5	3285.3	3970.5	4382.1	4964.9	5549.2	6304.9	6883.3	7479.0
Change in IC	117.9	245.1	368.9	204.9	309.4	384.0	378.7	453.6	452.5	560.8	601.6	651.0	725.6	826.9	840.7	842.4	982.2	1028.7
Free Cash Flow	**324.7**	**291.9**	**340.8**	**651.9**	**698.1**	**965.7**	**1369.8**	**1702.3**	**2071.4**	**2384.7**	**2683.6**	**3319.5**	**3656.5**	**4138.0**	**4708.5**	**5462.5**	**5901.1**	**6450.3**
Return on Invested Capital (ROIC):																		
NOPLAT	442.5	537.0	709.7	856.8	1007.5	1349.7	1748.5	2155.9	2524.0	2945.5	3285.3	3970.5	4382.1	4964.9	5549.2	6304.9	6883.3	7479.0
Beginning IC	298.5	416.3	661.4	1,030.3	1,235.2	1,544.6	1,928.6	2,307.3	2,760.9	3,213.5	3,774.3	4,375.9	5,026.9	5,752.6	6,579.4	7,420.2	8,262.6	9,244.8
ROIC	**148.28%**	**128.99%**	**107.31%**	**83.16%**	**81.57%**	**87.38%**	**90.66%**	**93.44%**	**91.42%**	**91.66%**	**87.04%**	**90.74%**	**87.17%**	**86.31%**	**84.34%**	**84.97%**	**83.31%**	**80.90%**
Economic Profit (EP):																		
Beginning IC	298.5	416.3	661.4	1,030.3	1,235.2	1,544.6	1,928.6	2,307.3	2,760.9	3,213.5	3,774.3	4,375.9	5,026.9	5,752.6	6,579.4	7,420.2	8,262.6	9,244.8
x (ROIC - WACC)	137.22%	117.93%	96.26%	72.11%	70.51%	76.33%	79.61%	82.38%	80.36%	80.61%	75.99%	79.68%	76.12%	75.25%	73.29%	73.92%	72.25%	69.85%
Total EP	409.55	490.95	636.60	742.90	870.97	1178.99	1535.34	1900.83	2218.78	2590.30	2868.05	3486.84	3826.45	4328.99	4821.94	5484.74	5969.99	6457.12

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Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	5.00%
CV Year ROIC	80.90%
WACC	11.05%
Cost of Equity	11.20%

Fiscal Years Ending Dec. 31	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**	**2035E**	**2036E**	**2037E**
DCF Model:															
Free Cash Flow (FCF)	651.9	698.1	965.7	1369.8	1702.3	2071.4	2384.7	2683.6	3319.5	3656.5	4138.0	4708.5	5462.5	5901.1	6450.3
Continuing Value (CV)															115,906.58
PV of FCF	587.0	566.0	705.1	900.6	1007.8	1104.3	1144.7	1160.0	1292.0	1281.5	1305.9	1338.1	1397.8	1359.8	26707.8
Value of Operating Assets:	41,858.4														
Non-Operating Adjustments															
Excess cash	578.6														
Investments	573.6														
Other assets	202.0														
Debt	(834.9)														
Operating lease liabilities	(84.6)														
LT deferred revenue	(2,291.0)														
ESOP	(449.9)														
Value of Equity	39,552.3														
Shares Outstanding	781.5														
Intrinsic Value of Last FYE	$ 50.61														
Implied Price as of Today	$ 55.50														
EP Model:															
Economic Profit (EP)	742.90	870.97	1178.99	1535.34	1900.83	2218.78	2590.30	2868.05	3486.84	3826.45	4328.99	4821.94	5484.74	5969.99	6457.12
Continuing Value (CV)															106,661.79
PV of EP	669.0	706.2	860.8	1009.4	1125.3	1182.8	1243.4	1239.7	1357.2	1341.1	1366.2	1370.3	1403.5	1375.6	24577.6
Total PV of EP	40,828.2														
Invested Capital (last FYE)	1,030.3														
Value of Operating Assets:	41,858.4														
Non-Operating Adjustments															
Excess cash	578.6														
Investments	573.6														
Other assets	202.0														
Debt	(834.9)														
Operating lease liabilities	(84.6)														
LT deferred revenue	(2,291.0)														
ESOP	(449.9)														
Value of Equity	39552.3														
Shares Outstanding	781.5														
Intrinsic Value of Last FYE	$ 50.61														
Implied Price as of Today	$ 55.50														

: of Equity:		ASSUMPTIONS:
Risk-Free Rate	4.59%	10-Year US Treasury Bond
Beta	1.39	Two-year adjusted beta average
Equity Risk Premium	4.75%	
Cost of Equity	**11.20%**	

: of Debt:		
Risk-Free Rate	4.59%	10-Year US Treasury Bond
Implied Default Premium	1.53%	
Pre-Tax Cost of Debt	6.12%	8-year FTNT Bond Yield (as of 9/27/2023)
Marginal Tax Rate	22%	
After-Tax Cost of Debt	**4.77%**	

ket Value of Common Equity:			**MV Weights**
Total Shares Outstanding		785,336,937	
Current Stock Price		$50.30	
MV of Equity	**$**	**39,502,447,931**	97.73%
ket Value of Debt:			
Short-Term Debt		0	
Current Portion of LTD		0	
Long-Term Debt		834,870,000	Last trade price of debt (as of 9/27/2023)
PV of Operating Leases		84,559,326	
MV of Total Debt	**$**	**919,429,326**	2.27%
ket Value of the Firm	**$**	**40,421,877,257**	100.00%

Estimated WACC	**11.05%**

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
EPS	$ 1.23	$ 1.43	$ 1.92	$ 2.50	$ 3.15	$ 3.77	$ 4.50	$ 5.15	$ 6.37	$ 7.23	$ 8.45	$ 9.74	$ 11.34	$ 12.82	$ 14.38
Key Assumptions															
CV growth of EPS	5.00%														
CV Year ROE	135.31%														
Cost of Equity	11.20%														
Future Cash Flows															
P/E Multiple (CV Year)															15.53
EPS (CV Year)															$ 15.09
Future Stock Price															$ 234.45
Dividends Per Share	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Discounted Cash Flows	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 47.70
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Intrinsic Value as of Last FYE	$ 47.70														
Implied Price as of Today	**$ 52.30**														

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Relative Valuation Models

Ticker	Company	Market Cap	Sales 2023E	Sales 2024E	P/Sales 2023	P/Sales 2024
PANW	Palo Alto Networks	75,690.0	8,184.0	9,695.2	9.25	7.81
CRWD	Crowd Strike	45,620.0	3,038.9	3,909.6	15.01	11.67
ZS	Zscaler	25,310.0	2,060.6	2,581.5	12.28	9.80
CHKP	Checkpoint	16,250.0	2,413.2	2,531.6	6.73	6.42
OKTA	Okta Inc	10,490.0	2,213.1	2,574.2	4.74	4.08
ANET	Arista Networks	65,710.0	5,852.1	6,525.7	11.23	10.07
DOCU	Docusign	8,160.0	2,731.7	2,915.9	2.99	2.80
				Average	**8.89**	**7.52**
FTNT	Fortinet	38600.0	5301.0	6002.0	7.3	6.4
FTNT	Fortinet		5299.0	6130.2		

Implied Relative Value:

EV/Sales 23	**$**	**60.28**
EV/Sales 24	**$**	**58.99**

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Liquidity Ratios:																		
Current ratio	149.8%	155.3%	123.8%	129.0%	134.5%	141.9%	148.2%	154.8%	160.2%	166.7%	172.6%	178.4%	184.2%	190.0%	195.8%	202.9%	210.1%	217.5%
Quick ratio	139.8%	144.9%	112.8%	118.7%	124.9%	132.8%	139.6%	146.6%	152.2%	158.9%	164.9%	170.9%	176.9%	182.9%	189.2%	196.3%	203.5%	210.9%
Cash ratio	58.0%	56.9%	54.7%	65.2%	73.0%	82.1%	90.4%	98.5%	105.5%	113.0%	119.8%	126.6%	133.1%	139.6%	146.2%	153.8%	161.2%	168.9%
NWC as % of revenue	35.1%	38.4%	16.6%	19.6%	23.3%	28.1%	32.4%	36.7%	40.6%	44.9%	49.0%	53.0%	57.1%	61.0%	64.9%	70.0%	74.9%	79.9%
Asset-Management Ratios:																		
Recievables Turnover	3.6	4.1	3.5	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Average Collection Period (Days)	101.3	88.2	104.3	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2
Total Asset Turnover	0.6	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Financial Leverage Ratios:																		
D/E	0.0%	123.8%	-351.7%	1083.3%	171.5%	79.8%	49.1%	33.6%	24.5%	18.4%	14.5%	11.5%	9.3%	7.6%	6.4%	5.3%	4.5%	3.9%
Equity multiplier	4.7	7.4	-22.1	81.3	15.4	8.6	6.3	5.2	4.5	4.0	3.7	3.4	3.2	3.0	2.8	2.7	2.5	2.4
Debt/EBITDA	0.0%	134.5%	92.2%	73.6%	63.9%	48.7%	38.0%	31.0%	26.5%	22.9%	20.5%	17.1%	15.5%	13.7%	12.2%	10.9%	9.9%	9.1%
Profitability Ratios:																		
Return on Equity (NI/Beg TSE)	196.3%	390.4%	553.3%	-1881.7%	6705.5%	1226.4%	664.8%	478.7%	378.3%	315.8%	269.7%	240.8%	213.7%	193.7%	176.8%	160.9%	147.2%	135.3%
ROIC	148.3%	129.0%	107.3%	83.2%	81.6%	87.4%	90.7%	93.4%	91.4%	91.7%	87.0%	90.7%	87.2%	86.3%	84.3%	85.0%	83.3%	80.9%
Return on Assets	65.4%	67.1%	72.7%	77.6%	75.1%	72.6%	70.5%	68.6%	66.4%	64.1%	62.1%	60.4%	58.5%	57.0%	55.5%	53.5%	51.9%	50.3%
Operating cash flow margin	41.8%	44.9%	39.2%	31.7%	29.2%	31.2%	33.9%	34.6%	34.9%	34.3%	34.2%	35.3%	34.1%	34.3%	34.3%	34.4%	34.2%	33.9%
Payout Policy Ratios:																		
Dividend Payout Ratio (Dividend/EPS)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Payout Ratio ((Divs. + Repurchases)/NI)	221.1%	122.2%	232.3%	70.4%	64.0%	60.6%	60.9%	59.3%	59.4%	57.2%	58.1%	57.1%	55.8%	55.5%	55.3%	53.8%	53.4%	52.8%

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Valuation of Options Granted under ESOP

Current Stock Price	$50.30
Risk Free Rate	4.59%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	41.60%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	4	8.08	1.40	$ 42.72	$ 184
Range 2	3	16.91	3.20	$ 36.08	$ 90
Range 3	5	28.82	4.60	$ 30.07	$ 135
Range 4	2	59.79	6.10	$ 21.39	$ 41
Range 5					$ -
Range 6					$ -
Range 7					$ -
Range 8					$ -
Range 9					$ -
Total	13	$ 24.27	3.51	$ 31.15	**$ 450**

Fortinet
Sensitivity Tables

WACC

Perpetuity Growth of NOPLAT

$ 55.50	12.70%	12.20%	11.70%	11.20%	10.70%	10.20%	9.70%
4.25%	37.62	41.22	45.35	50.14	55.74	62.36	70.28
4.00%	37.05	40.54	44.52	49.12	54.47	60.76	68.24
4.50%	38.22	41.94	46.24	51.24	57.11	64.09	72.50
5.00%	39.53	43.55	48.22	53.70	60.21	68.06	77.67
5.50%	41.03	45.39	50.51	56.59	63.91	72.88	84.07
6.00%	42.74	47.53	53.21	60.04	68.40	78.84	92.19
6.50%	44.74	50.05	56.42	64.22	73.96	86.41	102.86

2032-2037 Product Volume growth

2032- 2034 Service Volume Growth

$ 55.50	4.00%	5.00%	6.00%	7.00%	8.00%	10.00%	12.00%
5.0%	51.38	51.65	51.93	52.22	52.52	53.16	53.85
6.0%	52.38	52.65	52.93	53.22	53.52	54.16	54.85
7.0%	53.39	53.66	53.94	54.23	54.53	55.17	55.86
8.5%	54.95	55.22	55.50	55.79	56.09	56.73	57.42
10.0%	56.55	56.82	57.10	57.39	57.69	58.33	59.02
11.0%	57.64	57.91	58.19	58.48	58.78	59.42	60.11
13.0%	59.88	60.15	60.43	60.72	61.02	61.66	62.35

Beta

Risk Free Rate

$ 55.50	1.15	1.25	1.3	1.4	1.5	1.6	1.7
2.50%	138.17	115.99	107.09	92.41	80.83	71.48	63.78
3.20%	107.52	92.75	86.60	76.16	67.65	60.58	54.64
4.00%	84.50	74.46	70.15	62.67	56.40	51.08	46.51
4.60%	72.13	64.32	60.91	54.91	49.80	45.41	41.59
5.20%	62.48	56.24	53.48	48.58	44.34	40.66	37.42
6.20%	50.42	45.93	43.92	40.29	37.10	34.27	31.77
6.80%	44.85	41.10	39.40	36.32	33.58	31.15	28.96

2033-2037 Product Gross Margin

2033-2037 Service Gross Margin

$ 55.50	50.00%	54.00%	58.00%	63.00%	66.00%	68.00%	72.00%
72.00%	40.77	42.21	43.64	45.44	46.52	47.23	48.67
75.00%	44.12	45.56	47.00	48.79	49.87	50.59	52.02
78.00%	47.48	48.91	50.35	52.15	53.22	53.94	55.38
81.00%	50.83	52.27	53.70	55.50	56.58	57.29	58.73
83.00%	53.07	54.50	55.94	57.73	58.81	59.53	60.97
88.00%	58.66	60.09	61.53	63.32	64.40	65.12	66.56
90.00%	60.89	62.33	63.76	65.56	66.64	67.36	68.79

Equity Risk Premium

Marginal Tax Rate

$ 55.50	3.00%	3.50%	4.00%	4.75%	5.50%	6.00%	7.00%
30%	91.68	74.33	61.81	48.50	39.21	34.45	27.21
28%	94.78	76.89	63.98	50.25	40.67	35.76	28.28
25%	99.41	80.73	67.23	52.88	42.85	37.71	29.89
22%	104.03	84.55	70.48	55.50	45.03	39.67	31.50
20%	107.10	87.09	72.64	57.24	46.48	40.97	32.57
19%	108.64	88.36	73.71	58.11	47.21	41.62	33.10
18%	110.17	89.63	74.79	58.99	47.93	42.27	33.64