

# Fortinet Inc.

DATE  
TICKER  
EXCHANGE  
INDUSTRY  
SECTOR  
CURRENT PRICE  
TARGET PRICE  
UPSIDE  
RECOMMENDATION

Apr. 16, 2024  
FTNT  
NASDAQ  
Technology  
Information Technology  
\$66.45  
\$76.48 - 87.24  
15.09% - 31.29%  
HOLD

## SNAPSHOT

52 Week High:	\$44.12
52 Week Low:	\$81.24
Beta:	1.26
WACC:	9.74%
DCF/EP:	\$76.48
P/E ('24):	\$86.32
P/E ('25):	\$87.24
Market Cap:	\$49.45 B
Shares Outs.	763.0 MM
Revenue ('23):	\$5.304 B
EPS ('23):	\$1.47
Current Ratio ('23):	1.19
D/A ('23):	0.22
ROA ('23):	17.37%

## Company Overview

Fortinet Inc. is a global cybersecurity company providing network safety to businesses through Secure Networking, Unified SASE, and Security Operations areas. Over 730,000 worldwide customers trust Fortinet's portfolio of more than 50 unique products to ensure the security of sensitive data. The company is run and was founded by brothers Ken and Michael Xie in 2000. This pair has a combined experience of nearly 50 years in the development of cybersecurity solutions.<sup>1</sup>

## Investment Thesis

We recommend a **HOLD** rating for FTNT as of April 16<sup>th</sup>, 2024, because our model predicts a 21.5 - 32.4% increase in share value. Fortinet is positioned to claim an increased share of a growing cybersecurity industry. It is also integrating and defending against artificial intelligence as a part of its security to maximize its capitalization on the upcoming technology.<sup>1</sup>

### Thesis Drivers

**Artificial Intelligence:** The advancement of artificial intelligence creates a new area of opportunity for the technology sector. With this push into the future of technology comes serious upgrades to the abilities of people seeking lucrative information.<sup>21</sup> Fortinet's ability to use AI to its advantage as well as predict and protect against future artificial intelligence-based security issues positions the company for future success.<sup>1</sup>

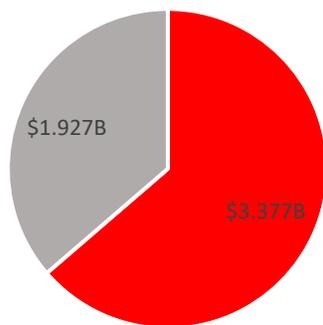
**Vendor Consolidation:** From 2020 to 2022, there was a 17% increase in the number of business looking to consolidate their cybersecurity needs to a single vendor.<sup>17</sup> Fortinet, armed with a wide variety of high-quality products in its catalog, is well positioned to capture more customers wanting to work exclusively with one provider.<sup>1</sup>

### Thesis Risks

**Geopolitical Conflict:** Emergence of conflicts worldwide brings more risk to a company that derives nearly 60% of its revenue outside the Americas. Fortinet derives 40% of its revenue from European countries where there are currently issues due to the Russia Ukraine conflict. If this conflict were to expand further to other regions of the continent, Fortinet could see drastic drops in revenue. Fortinet designs its own chips, but also uses third-party semiconductor manufacturers such as Taiwan Semiconductor.<sup>1</sup> Should China decide to take military actions on the island, Fortinet would have to expend large amounts of resources finding a new supplier.<sup>9</sup>

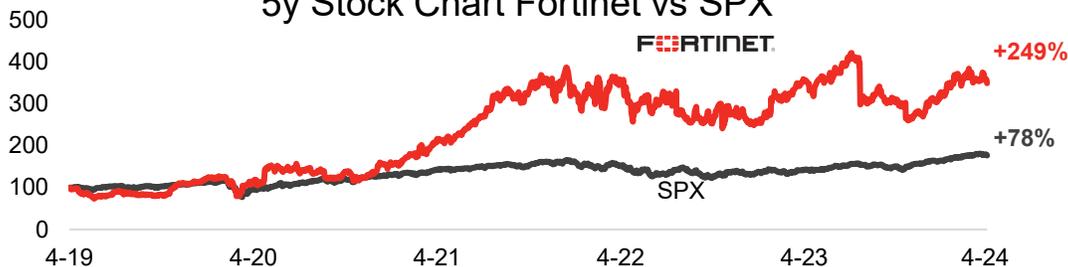
**Channel Partner Reliance:** Fortinet relies on its third-party channel distribution companies to continue to maintain performance. There are six distributors accounting for 70% of total net receivables in 2023 with one specific distributor accounting for 33%. Due to Fortinet's heavy reliance on these channel partners, if these companies face issues, Fortinet's ability to provide its products to customers will suffer.<sup>9</sup>

## 2023 Revenue by Segment<sup>9</sup>



■ Service Revenue ■ Product Revenue

## 5y Stock Chart Fortinet vs SPX<sup>10</sup>



# Executive Summary

We believe that Fortinet offers a very stable, high-upside investment opportunity for investors. The company is the second largest pure-play cybersecurity company and has the widest variety of product offerings, positioning them to take advantage of industry growth.<sup>1</sup> The company is undervalued compared to peers, as it is trading at 2024E 35.5x P/E and 2025E 30.1x P/E compared to the industry averages of 46.1x and 39.5x, respectively. We believe that based on wide margins, ability to capture market share, and a vast product offering, Fortinet is capable of trading not only closer to the industry averages but at a premium compared to some of its cybersecurity competitors. While competition is intense and other companies will also be striving to capture market share, we believe Fortinet's commitment to their corporate strategy sets them apart from their peers.

Tailwinds from the cybersecurity sector that will aid Fortinet's growth include an increased use of AI in the market, necessary market-wide investments into upgraded cybersecurity technology, and vendor consolidation in the industry. While in the short-term, there may be some economic issues that affect the value of the business, we believe that in the long-term Fortinet is positioned to weather choppy industry cycles and build its business to gain market share.

Fortinet is best positioned to capture the additional revenue from market growth than its other competitors, due to its wide variety of product offerings and its Presence within international markets. Fortinet holds 950 patents in the US and over 1,300 patents globally.<sup>9</sup> This advantage, paired with their already strong market share in international, developing markets, will allow them to take advantage of the rapid expected growth worldwide.<sup>9</sup>

## Economic Analysis

### IT Spending

Post-pandemic, companies have spent on IT at historic levels. In every industry where the metric is measured, IT spending increased as a percentage of revenue year over year from '22 - '23.<sup>24</sup> By the end of this year, **IT spending is projected to cross the 5 trillion-dollar mark for the first time.**<sup>25</sup>

The increase in IT budgets from these companies will flow through to a higher spending in the cybersecurity industry. Cybersecurity remains one of the most important segments of technology, as it protects these companies from potential data breaches. With an increase in IT spending, we believe companies will ensure they are protected with cybersecurity by spending on the continual-upgrades in technology.

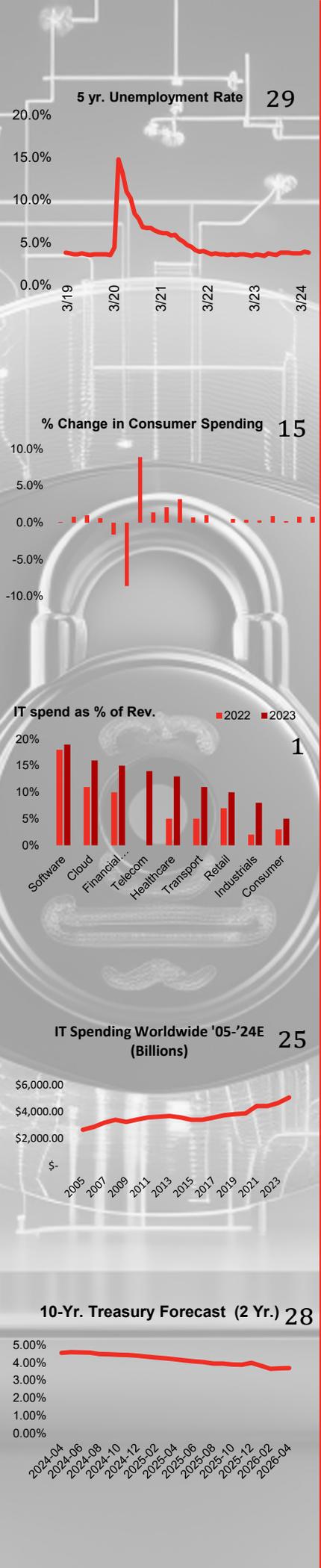
### 10-Year Treasury Yield

The 10-year treasury rate affects the amount of debt the market is willing to issue. An increase in this number decreases the amount of debt that companies can take out. Treasury rates also impact the decision-making process of projects. With increased interest rates businesses will instead focus on operationally important segments to survive. This is especially important in the technology sector, where companies rely on debt to fund new capital expenditures and research and development. When these costs rise, early-stage tech companies tend to struggle.

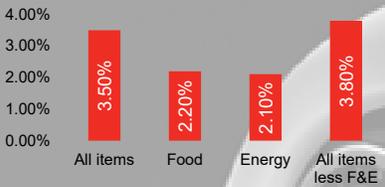
With signs that the market could potentially face recession again, with the CPI and Core CPI reading higher than expected, combined with the Federal Reserve expecting to push rate cuts further into the future, investor sentiment in the market is decreasing. **We expect the 10-year treasury to remain steady throughout the year, finishing in December around 4.25-4.50%** before slowly starting to decline.

### Inflation

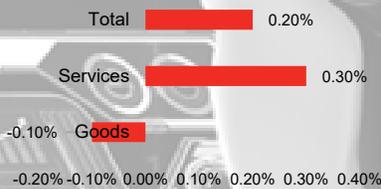
Inflation reflects the pricing of goods and services in the market and how much they change over a given period. For a company, when inflation rates increase, either its margins will decrease, or its products will increase in price. For the technology industry, these issues are similar with specific negative implications related to R&D. On top of normal cost increases, it would also become more expensive for the company to operate, decreasing a company's ability to fund research and development. Innovation in the technology industry is incredibly important and with increased costs of research and development it may be difficult for companies to be competitive.



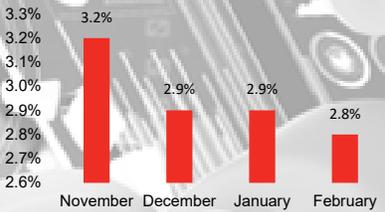
**CPI 12 month % Change by Category** 15



**PPI 1 Month % Change** 23



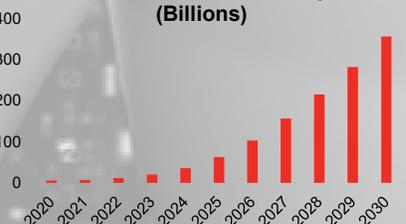
**Core CPI Monthly Change YOY** 23



**Nasdaq100 LTM** 11



**Generative AI Market Cap (Billions)** 13



We predict that we will see inflation decrease at a slight, steady rate throughout the year. **CPI rose 0.4% in the last month, PPE rose 0.2% in the last month and PCE rose 0.3%.**<sup>15</sup> In 2023, the CPI print was held down by food and energy. We also feel that although we have seen increased inflation over the past couple months, as the federal funds rate has remained high, we will begin to see a further decrease in inflation.<sup>15</sup> Fortinet, like any other company, could potentially see margin reduction in its product business if inflation continues, especially because it develops its own ASIC chips. However, its offerings on the service side of the business help to hedge against inflation, as these software-based products have less associated cost of goods.

**Real GDP**

Gross Domestic Product is a key indicator for overall market health, as consumer and business spending tend to fall in line with the way GDP moves. Real GDP adjusts a nation’s economic global output after inflation, to show how much the economy grows without inflation.

**We believe that GDP growth will taper off from last year, due to the higher rate environment the American economy will face further into 2024.** For a lot of companies, a potential decrease in the sentiment of U.S. consumers to buy products could see them taking steps down from where they were last year. For Fortinet however, this should not be as big of an issue, considering its geographic diversification in other parts of the world and that Fortinet’s products are likely classified as a necessity rather than discretionary purchase for the companies purchasing these cybersecurity solutions.

**Capital Markets Forecast**

Over the last year, the NASDAQ-100 technology sector index is up 47%.<sup>11</sup> 5 of the Magnificent 7 have seen double digit returns with only one having a negative return.<sup>10</sup> Tech companies tend to look forward into the future, and over the past 12 months, this has been apparent. Companies are focusing on repositioning themselves for the future and many companies have made artificial intelligence investing a priority. Both Microsoft and Alphabet spend over \$100 B per year on reinvesting, and both companies are pumping capital into their AI technologies.<sup>24</sup> Other firms, like Apple and Meta, are spending money on entertainment, trying to break into the world of virtual reality. On top of these market trends, the technology sector tends to be resistant to regulation because of their ability to cut costs for consumers as software-based technology costs less to produce.

We believe that artificial intelligence will be a driving force behind the technology sector’s growth going forward. Stocks like NVIDIA, which designs the chips to be used in artificial learning models, has returned over 80% in the last year, and others invested in AI are soon to follow. AI also has many different use cases. It can be used for knowledge storage, cybersecurity software and self-automated machines, just to name a few.

Firms that are spending a lot of money on R&D are very likely to succeed in the tech space in the longer term. Being at the forefront of the market, tech companies have the capability to develop broad, useful offerings before necessarily needing to become profitable, due to their potential to change the landscape for consumers down the road. Assuming there is no major recession looming in short-term, the technology sector will continue to grow.

**Industry Analysis**

Fortinet Inc. is classified under the information technology sector in the GICS classification system. The company operates specifically as a pure-play cybersecurity company. Major business activities in this sector include developing security hardware, providing network security and maintenance on goods and service offered, to ensure maximal data protection. Key players in the industry include Palo Alto Networks, Fortinet, Splunk, Gen Digital, Crowd Strike and Check Point. Key revenue streams of this sector include software-based recurring revenue, hardware installation, and maintenance on offerings. The catalysts behind keeping this company profitable are continual research and innovation against new cybersecurity threats. Fortinet differentiates itself within the sector through its regional dominance and wide variety of products. In Europe, where Fortinet operates nearly 40% of its business, it partners with some of the largest companies and government agencies in the world. Fortinet also offers a vast product offering, which gives them the ability meet many all cybersecurity needs of a company when protecting its data and its confidential network.



Vendor Consolidation	Cyber Cos. (% of market)
Pursuing in 2023:	75%
Pursuing in 2020:	29%
To improve posture:	65%
To improve capabilities:	59%

# Industry Developments & Trends

## Artificial Intelligence

Increased integration of artificial intelligence into the market has made both cyber attacks and cyber defense more difficult.<sup>4</sup> AI will bring new issues to the cyber security industry, considering the even greater arsenal of weapons for attackers and more robust defense mechanisms for data owners. Companies that are on the forefront of development for AI based tools will see an increase not only in the effectiveness of their products but also in the presentation to potential and current customers. Artificial intelligence is resulting in major changes across the technology sector as a whole and will provide an interesting element to the cybersecurity industry.

## Internet of Things and Cloud Security

With more and more devices connecting to the cloud each year, attackers now have more routes than ever to obtain the information they want. It has become more dire than ever for manufacturers to take more action in the process of securing the products they ship, as those connect to the other devices on individuals' home networks. As the IoT continues to expand, a market will emerge for cybersecurity to move further into the retail consumer space.

This trend also comes at a time when work from home has become commonplace for organizations after the Covid-19 pandemic. With more devices becoming connected to the company's sensitive network there will be an increased need in cybersecurity including IoT solutions for these specific devices. As more employees begin to and stay working from home, companies need to be able to ensure network security from employees' personal devices, creating even more demand for cybersecurity for people in their homes.

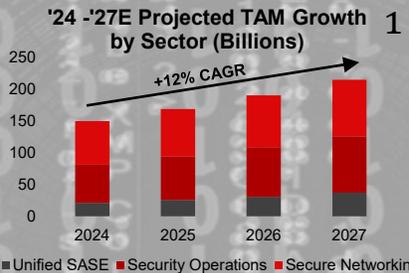
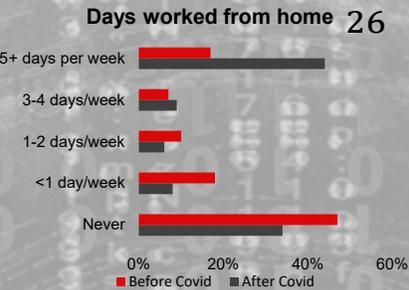
## Vendor Consolidation

Recently, the cybersecurity sector has seen consolidation as some of the larger firms in the industry have acquired smaller companies to acquire customers, key employees, and new technologies to broaden their portfolios. Some notable acquisitions include Palo Alto Networks acquiring Talon Cyber Security, Cisco acquiring Splunk, and CrowdStrike acquiring Bionic. Considering the implied total addressable market in the industry is expected to grow by 33%<sup>1</sup> in the next 5 years, it seems the trend will continue as the larger players try to outgun each other to offer the best all-in-one security platform.

## Porter's Five Forces<sup>3</sup>

### Threat of New Entrants: Moderate/High

Cybersecurity has a low barrier to entry. Companies of different size and industry all have differing needs in terms of protection, so it is difficult for one company to have all the solutions. On top of this, new cybersecurity threats are produced every year, ultimately allowing for smaller cybersecurity businesses to find areas of the market that are underserved. Because both large and small companies spend on R&D, any company can find reasonable solutions for new issues in the market. Although many companies can enter the market and provide specific solutions, it is difficult for these boutique companies to grow and actively compete with larger cybersecurity providers with more resources. As a large company, as new technologies are discovered by small companies, this could be a risk to Fortinet or other companies stealing customers away with niche, cutting-edge technologies.



## Recent Transactions

Buyer	Seller

## Young Cyber Cos.


## Key Customers



## Competition



### Bargaining Power of Buyers: Moderate/High

Buyers within cybersecurity have a moderate to high bargaining power. Although there is a diverse customer base including companies from small businesses to large enterprises and government agencies and these customers face high switching costs, these buyers have a high bargaining power as there are many substitutes available for these products. These customers can switch to other providers if they feel their needs are not met. Customers are price sensitive and due to the competition within this industry may have the ability to negotiate for better deals or discount. Lastly, because of the highly regulated nature of the cybersecurity industry, customers may demand that the products meet certain regulatory requirements.

### Threat of Substitutes: Moderate/High

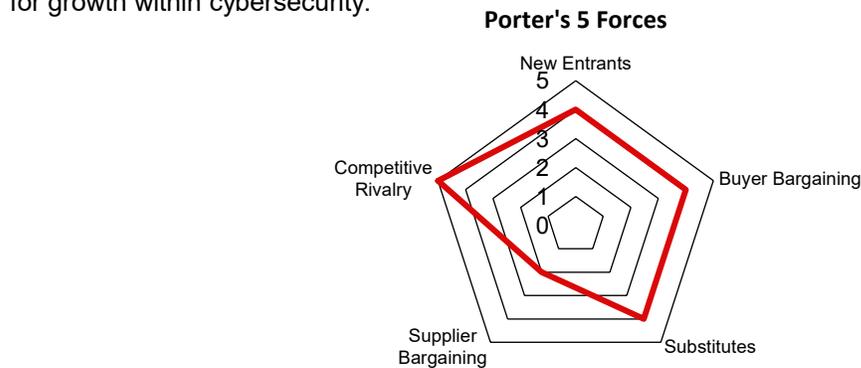
The industry operates with moderate to high threat of substitution. There are many options available including other large cybersecurity companies, open-source software, and privately developed systems. As the technology is constantly evolving, further increase this threat of substitution as competitors will strive to innovate and gain market share. The similarity of the products, multiple options, and the quickly growing nature leads to a moderate to high threat of substitution within cybersecurity.

### Bargaining Power of Suppliers: Low/Moderate

Within the cybersecurity industry, there are many suppliers that would be able to provide for needed materials and services for Fortinet to execute its operations. The current market share that Fortinet has in the cybersecurity market also negates some of this bargaining power from suppliers as they will be flexible to satisfy the large customer of Fortinet. The low product differentiation allows Fortinet to easily switch suppliers and thereby further decreases bargaining power of suppliers. Finally, Fortinet does not have to worry about forward integration as the products that they are providing for customers are highly specialized which makes it difficult for their suppliers to bypass Fortinet in the supply chain.

### Intensity of Competitive Rivalry: High

The competitive rivalry within cybersecurity is high. There are many established players that compete for customers including Palo Alto, Symantec, and Cisco. It remains difficult for these players to differentiate themselves due to the low product differentiation, high fixed costs, and necessity of innovation in the industry. There are high barriers to entry within this market, so the threat of new entrants is low, differentiation between existing players is a very important factor for growth within cybersecurity.



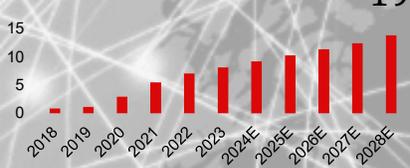
## Growth Catalysts

### Increased Threats of Cyber Attacks:

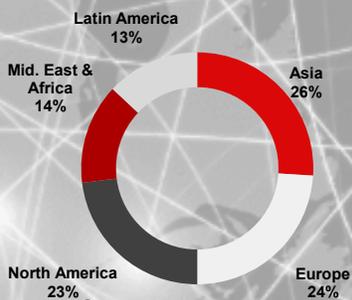
The landscape of digital threats has undergone a profound transformation over the past few years, driven by technological advancements and the digital interconnectedness of our world. As our society increasingly relies on technology for communication, commerce, and critical infrastructure, the threat landscape will continue to evolve in complexity and sophistication. One of the changes in threats comes from the enhancement of Artificial Intelligence. Through machine learning algorithms, AI has enabled the development of automated security systems capable of tasks like natural language processing, face detection, and threat detection. However, this same technology is also leveraged by malicious actors to devise sophisticated attacks aimed at circumventing cybersecurity protocols. Fortinet has focused resources on combatting the innovation with AI.



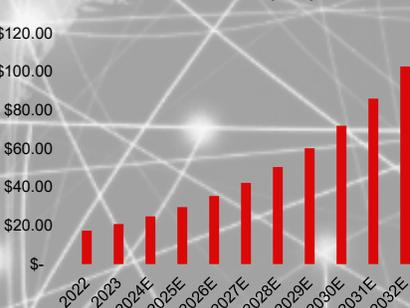
Total Cost of Cyber Crime (USD) Trillions



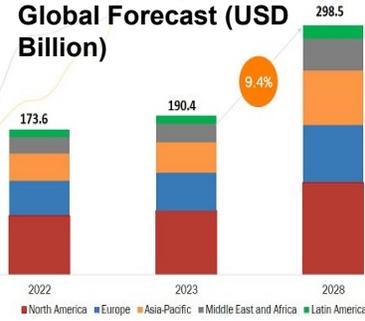
Worldwide Cyberattack Origination ('21)



AI Cybersecurity Market Size Growth (\$B)

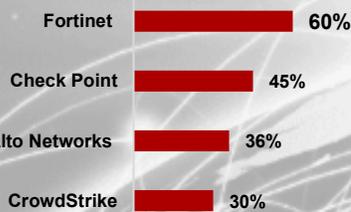


### Cybersecurity Market Global Forecast (USD Billion)



Source: "Artificial Intelligence in Cybersecurity Market Size, Share, Growth."

### % Revenue in Foreign Markets



17

Fortinet's Security Operations solutions utilize AI and advanced analytics to identify sophisticated threats early in the kill chain and automate response activity across the Fortinet Security Fabric to speed investigation and remediation. Fortinet's firewall segment is placed favorably to grow in step with the frequency of security compromises due to the growth of the Artificial Intelligence landscape.

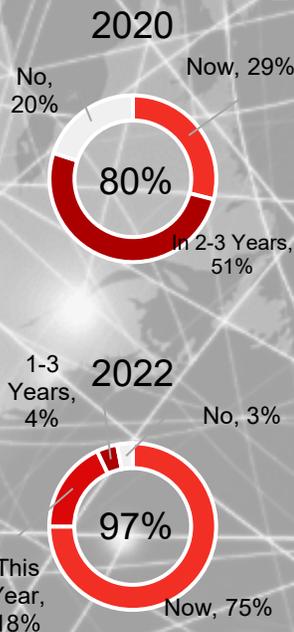
### Diversification Into Emerging Markets:

Cybersecurity presents a unique growth catalyst for foreign markets due to the heightened vulnerability faced by companies outside of America.<sup>1</sup> As globalization accelerates and technology becomes increasingly integral to business operations worldwide, the threat landscape expands accordingly. Many foreign markets, particularly in emerging economies, may lack the robust infrastructure and resources to adequately defend against cyber threats, making them more susceptible to cyberattacks. Consequently, there arises a pressing demand for cybersecurity solutions and services in these regions, creating opportunities for American cybersecurity firms to expand their reach and capitalize on the burgeoning market. Fortinet has made the most investment into foreign markets compared to competitors. Fortinet's significant revenue share of 60% from foreign markets positions the company uniquely for substantial growth opportunities internationally. With a strong foothold in regions facing escalating cybersecurity challenges, Fortinet can leverage its established presence and expertise to capture a larger market share and capitalize on the increasing demand for cybersecurity solutions worldwide.

### Industry Consolidation:

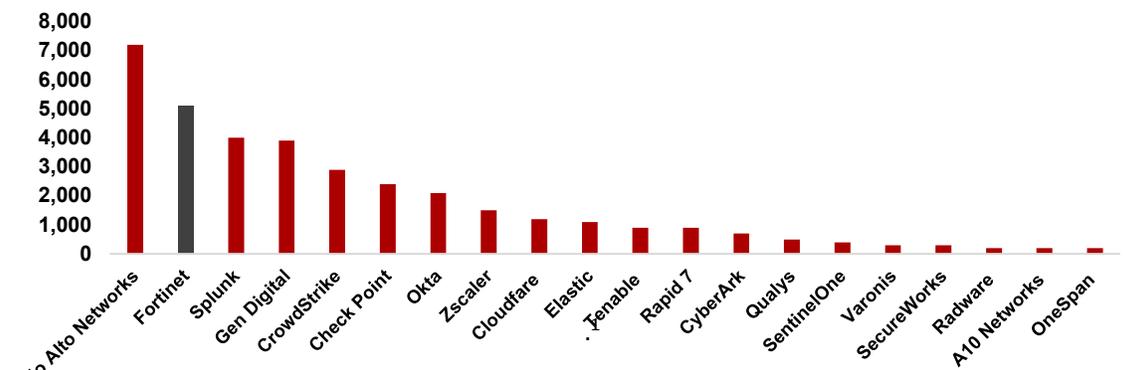
The cybersecurity industry has traditionally been segmented between network infrastructure providers and security services firms due to differing focuses and expertise. Network infrastructure companies primarily offer hardware and software solutions for data transmission and communication, while security services firms specialize in threat detection, incident response, and risk management. This division reflects the specialized nature of cybersecurity needs and the complexity of addressing evolving threats. Fortinet stands out with its FortiOS service, offering a competitive advantage for companies seeking to converge and consolidate their cybersecurity spending. FortiOS integrates comprehensive security functionalities into a single operating system, providing interoperability between network infrastructure and security services. This consolidation streamlines management, reduces complexity, and enhances efficiency for organizations, allowing them to optimize their cybersecurity posture while minimizing costs and administrative overhead. In an industry with a variety of competitors that offer a wide array of products. By offering a unified platform that connects network infrastructure with security services. Fortinet allows for companies to achieve consolidated protection against cyber threats while simplifying their cybersecurity operations and saving money in a harsh spending environment.

### Vendor Consolidation Sentiment



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### Highly Fragmented Industry Ready for Consolidation (\$Revenue in Millions)



**Product Mix**

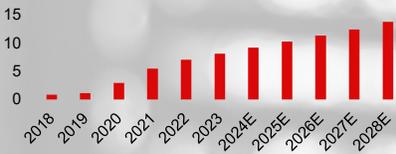


Fortinet offers a vast product mix, from AI solutions to chips to firewalls

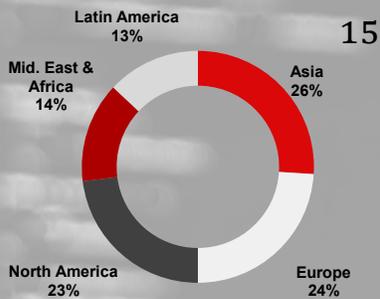
**Cyber Attacks by Country**



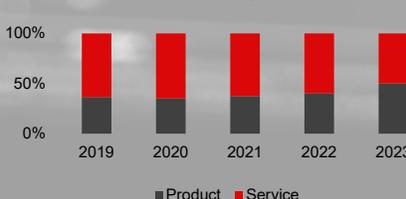
**Total Cost of Cyber Crime (USD) Trillions**



**Worldwide Cyberattack Origination ('21)**



**Revenue by Segment (% of Total)**



# Fortinet Analysis

## Strengths

FortiGate, Fortinet's firewall product line, is an industry leading firewall powered by AI and machine learning. Using application specific integrated circuits, Fortinet can provide faster security with quicker responses at a lower cost. This best-in-class firewall is a major differentiating factor for Fortinet as well as quality products across the rest of the cybersecurity industry. With over 30 specialized offerings Fortinet can market themselves as a one stop shop for all needs cybersecurity. Some of their other major offerings include network security, user and device security (including VPNs), enterprise networking, threat intel & response, and more. Within each of these categories Fortinet offers specialized solutions so that no matter the cybersecurity need, Fortinet can provide the solution.

## Weaknesses

One weakness of Fortinet is the complicated nature of this cybersecurity and the chips they make. Errors anywhere along the supply chain would be difficult to identify and would lead to substantial downfalls in investor sentiment and customer trust. Another weakness of the company is that they are dealing in an area that is constantly changing; there is always new methods of cyber attacks that demand constant evolution from Fortinet to keep their customers protected.

## Opportunities

One opportunity for Fortinet is based upon the ever-increasing prevalence and spending within the IT sector. With companies increasing this spending and their overall breadth of IT products, there will be a higher demand for cyber protection of these products. Another opportunity for the company is based upon the increasing cases of cyber-attacks that we have seen over the prior year. With increases in the technology industry, we are also seeing an increases in attempted security breaches of this technology. Fortinet's company goal is to product its consumer products from these types of breaches and therefore this increase in cyber-attacks correlates to a large opportunity for Fortinet's future.

## Threats

As mentioned in the weaknesses section above, there are many areas in which hackers attempt to breach the protective software produced by Fortinet, if there is an error in these technologies, Fortinet would be exposed to a potential liability that is not contractually limited. This risk of lawsuit is substantial and could come from a specific error or breach in the security, or possibly just a perceived underperformance of the software overall. Another threat is lawsuits via copyright infringement, in the past Fortinet has faced lawsuits due to alleged copyright infringement. This is an unexpected liability that negatively affected the company and should be considered when looking at the potential threats of Fortinet.

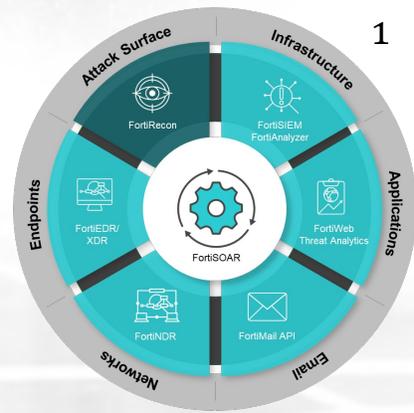
## Revenue Overview

Fortinet operates entirely within the cybersecurity industry. Within this industry their revenue is categorized between product revenue and service revenue.

Product revenue consists mainly of their secure networking products and unified Security Access Service Edge (SASE) and Security Operations (SecOps) technologies. Firewall protection (FortiGate), endpoint protection (FortiClient), cloud security, and any device that runs on FortiOS are all included within product revenue. 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. Product margins were impacted by overall macroeconomic conditions due to the higher associate cost of goods comparative to service revenues.

Fortinet's service revenue mainly consists of their FortiGuard security subscription services and FortiCare technical support services. This FortiGuard security subscription, one of Fortinet's more popular products, 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.





FortiGuard possesses threat detection and prevention capabilities using machine learning and automation while FortiCare is charged per device and provides customers with access to over 1,800 experts to provide customers assistance with maintenance and to help ensure the software is being used effectively.<sup>8</sup> Service revenue has continued to exceed investor expectations in 2023. Although we have seen substantial decreases in revenue growth rate within the product revenue sector, we expect service revenue to remain more resilient to these changes as the do not have to worry about changes in prices of these expensive hardware components.

Fortinet continually upgrades its product offerings for its customers. Because of the uncertainty in the market right now and the company's trend of upgrading its software, we believe that it costs less for the business to upgrade its current product line, rather than releasing new products.

### **Revenue Forecast**

Management expects 2024 product sales to grow 3.0% to \$1.985 billion and service sales to grow 16.8% to 3.944 billion.<sup>9</sup> Our sales estimates for the year fall in line with management forecasts, exemplifying our prediction that a bearish economy will yield a low product segment growth rate, increased costs associated costs.

Our 2025 revenue estimates reflect a better economic situation, assuming a lower rate environment and far less inflation, where companies should have a higher budget to spend on cyber security protections.

Going into the future, as the economy finds even more need for cybersecurity solutions, we believe Fortinet is in a unique position to capture a very large share of the market. Thanks to the vast number of products they offer, Fortinet will be able to better serve customers with greater variance in needs from a company, with the infrastructure already built to expand on its line of offerings faster than cybersecurity competitors. In the long-term, we think Fortinet will be able to grow revenue at a large rate, so our top-line growth projections reflect that confidence.

### **Gross Margin Overview & Forecast**

Fortinet has very different margins between its product and service segments. This is due mainly to the way that the products and services are delivered. Product margins tend to be tighter because of higher costs such as labor, whereas services delivered by Fortinet have high up-front costs to develop, but afterwards have very little associated costs. This difference is reflected in a product gross margin in 2023 of 60.4% and a service gross margin in 2023 of 89.3%.<sup>15</sup> The little amount of variability in the costs of the service revenue also helps to increase the margin, whereas the product segment has more variable costs tied to market health.

**Going into 2024, we expect these segment margins to stay roughly the same.** We believe this is accurate because as Fortinet continues to get bigger, they will reach economies of scale and it will cost them less to build physical products like chips, while the cost of servicing could increase due to higher costs of employment and needing more people to perform maintenance on products Fortinet offers. The service segment already operates at a very high margin, which has grown historically. However, we do not foresee this increasing drastically in the long term more than it would decrease in the long term. Fortinet is very efficient in delivering its products associated with service revenue, so we believe Fortinet will continue having high margins with these products.

### **Operating Expenses Forecast and Overview**

Fortinet excels at controlling its spending. Fortinet tends to beat quarterly earnings, and it seems to be a direct result of the company's ability to effectively manage cash outflows. Fortinet's margins have had an upward trend in growth for the last 10 years, and we do not expect them to decline soon. Management has made it a point in communications with shareholders and the media that it wants to focus on cost cutting initiatives, which makes us confident these initiatives will get implemented. **We expect that Fortinet will see an increase in its product operating margin.** Although we have forecasted an increase in operating expenses in 2024, long-term we believe Fortinet will continue these cost cutting initiatives and lower these expenses going forward

## WACC & Capital Structure

The WACC used in the valuation of Fortinet was found using the market values and weights of the capital structure of the company. WACC is important in the valuation of any company, considering helps to quantify the value of the company not addressed in the projection of the near to medium term. This “terminal” value can be 80% of the total value of a company, which means that the discounting of that value to today’s dollar sensitizes our valuation even further.

**Cost of equity is calculated using the 10-year treasury bond rate of 4.53%, a 5-year monthly raw beta of 1.26, and a market risk premium of 4.23% to give an implied cost of equity of 9.85 %.**

**Our calculation of cost of debt included the 10-year treasury rate of 4.53%, an implied default premium based on variance of Fortinet’s debt of 0.86%, and a marginal tax rate of 22%. This returned an implied cost of debt of 4.21%.**

We did not find guidance on Fortinet’s ideal debt levels, so we assume that the company’s debt levels will stay the same as they are now. An increase in debt seems unlikely due to the historical levels of debt, combined with management’s desire to continue to maintain high profit margins, which would decrease due to an increased interest payment. **The weight of debt is 2.02% and the weight of equity is 97.98%. This returned an implied WACC of 9.74%.**

## Capital Expenditures

Fortinet has historically been efficient in its capital expenditures, as a lot of their money gets spent on research and development for its product offerings. In 2024, management projects a CAPEX of between 370 and 420MM. These expenditures are primarily for research labs and data center infrastructure. **We projected CAPEX towards the center of this range, assuming management will be accurate in its assumptions.** Going into the future, because we grow revenue at such a high rate, we think that CAPEX will start to straight line, instead of decreasing consistently. **This eventually brings CAPEX to around 1.04 billion dollars by 2033.**

# Company Valuation

## Discounted Cash Flow and Economic Profit Models

Estimated Share Price: \$76.48

The DCF and EP models seemed to be the most reliable projection of Fortinet’s value, because it allowed for the consideration of the main factors of the company’s growth (consolidation, diversification, low margins). We used a 10-year projection period before Fortinet reaches steady-state growth. Because of the size of Fortinet, we believe they will be able to capitalize on their enhanced market cap and take advantage of the vast potential for consolidation in the cybersecurity sector. Cybersecurity is a very young sector with the ability to grow larger and expand into more areas as they become available.

We believe that this model is the best method of valuing Fortinet, because it is based on the most up-to-date information available. Fortinet’s revenue is difficult to forecast, due to the company’s ambiguity when reporting its revenue in two lump payments. This, however, does not change the ability to value the company, as there is ample information about the growth of those two segments and how they operate. Information about how operating expenses affect segment profit is also accessible to the public. We think our projections on cash flow and our updates to Fortinet’s balance sheet will accurately reflect the company’s working capital needs of a cybersecurity company moving forward.

## Relative Peer Valuation

Estimated Share Price: \$86.32

Model is based on forward looking P/E multiples.

Comparable Companies: MPWR, MCHP, SWKS, MRVL, QRVO, LSCC, ADI

We believe that the relative valuation model is the second most accurate model when looking at Fortinet. Fortinet is the second-largest company in the cybersecurity sector, so comparing the company to other companies in the sector does not take the relative size and product offering of the company into account.

However, companies in the cybersecurity industry seem to be focusing their strategy on consolidating the market. Fortinet has some peer-play peers due to this lack of consolidation, so we feel some good peers are Palo Alto Networks and Crowd Strike. While Palo Alto Networks was able to stand strong throughout the macroeconomic downturn of the last year and dominates the US market. Fortinet has a similar hold on European markets, where there is a similar amount of need, with far fewer companies operating heavily in the market. We think that because of Fortinet's ability to keep margin's low and turn in growth like its large peers.

### **Dividend Discount Model**

Estimated Share Price: \$61.24

The Dividend Discount Model is the least reliable valuation source of the three completed. Fortinet does not pay a dividend or give guidance as to when they will start or what it will look like. High growth tech companies like Fortinet tend not to pay dividends, so we did not feel it was necessary to project a dividend until after the projection period. Because there were no dividends involved with our valuation models, we feel that this method undervalues Fortinet and therefore should not be taken into consideration when deciding an implied share price.

## **Sensitivity Analysis**

### **WACC vs. Perpetuity Growth of NOPLAT**

		WACC							
		76.48	9.14%	9.34%	9.54%	9.74%	9.94%	10.14%	10.34%
Perpetuity Growth of NOPLAT	4.00%	68.51	65.73	63.16	60.77	58.55	56.47	54.52	
	4.50%	74.08	70.80	67.79	65.01	62.43	60.05	57.82	
	5.00%	81.00	77.04	73.43	70.14	67.11	64.32	61.74	
	5.50%	89.82	84.90	80.48	76.48	72.83	69.51	66.46	
	6.00%	101.45	95.12	89.51	84.51	80.01	75.96	72.28	
	6.50%	117.49	108.94	101.52	95.02	89.28	84.18	79.60	
	7.00%	141.02	128.67	118.26	109.38	101.71	95.02	89.13	

In our analysis, we examined the impact of varying the WACC and perpetuity growth rate of NOPLAT on share price. Notably, alterations in the growth rate result in more pronounced shifts in valuation compared to adjustments in the perpetuity growth rate of NOPLAT. These fluctuations could stem from shifts in debt rating, alterations in capital structure, or changes in the long-term market growth outlook for cybersecurity.

### **Beta vs. Risk Free Rate**

		Beta							
		76.48	1.11	1.16	1.21	1.26	1.31	1.36	1.41
Risk Free Rate	3.78%	114.21	106.29	99.37	93.28	87.86	83.03	78.68	
	4.03%	104.96	98.20	92.24	86.94	82.20	77.93	74.07	
	4.28%	97.06	91.23	86.04	81.39	77.20	73.40	69.95	
	4.53%	90.23	85.15	80.59	76.48	72.75	69.36	66.25	
	4.78%	84.28	79.80	75.77	72.10	68.77	65.71	62.91	
	5.03%	79.04	75.07	71.47	68.19	65.18	62.42	59.88	
	5.28%	74.39	70.85	67.62	64.66	61.94	59.43	57.11	

In our analysis, we examined the impact of varying FTNT's beta and the risk-free rate on stock price. Notably, adjustments to the risk-free rate exert a greater influence on the share price. While both variables influence our WACC, it is evident that changes in the risk-free rate have a more pronounced effect.

**Equity Risk Premium Vs. Marginal Tax Rate:**

		Equity Risk Premium							
		76.48	4.08%	4.13%	4.18%	4.23%	4.28%	4.33%	4.38%
Marginal Tax Rate	16%	79.49	78.25	77.05	75.88	74.74	73.64	72.57	
	18%	79.70	78.46	77.25	76.08	74.94	73.83	72.75	
	20%	79.91	78.66	77.45	76.28	75.13	74.02	72.94	
	22%	80.12	78.87	77.66	76.48	75.33	74.22	73.13	
	24%	80.34	79.08	77.86	76.67	75.53	74.41	73.32	
	26%	80.55	79.29	78.06	76.87	75.72	74.60	73.51	
	28%	80.76	79.49	78.27	77.07	75.92	74.79	73.70	

Changes in the equity risk premium have a more pronounced impact on share prices compared to alterations in tax rates. This disparity in influence stems from the adjustment in the discount rate applied within the valuation model. Such adjustments may be triggered by shifts in stock market dynamics, overall market sentiment, or modifications in tax policies resulting from political variations. With a primary election looming within the next year, the anticipation of alterations in tax policies or shifts in market expectations is poised to reshape our valuation outlook.

**2028-2033 Service Volume Growth Vs. 2028-2033 Product Volume Growth:**

		2028 - 2033 Service Revenue Growth Rates							
		76.48	10.70%	10.80%	10.90%	11.00%	11.10%	11.20%	11.30%
2028 - 2033 Product Revenue Growth	7.75%	75.18	75.51	75.84	76.17	76.51	76.85	77.18	
	8.00%	75.28	75.61	75.94	76.27	76.61	76.94	77.28	
	8.25%	75.38	75.71	76.04	76.37	76.71	77.04	77.38	
	8.50%	75.48	75.81	76.14	76.48	76.81	77.15	77.48	
	8.75%	75.58	75.91	76.24	76.58	76.91	77.25	77.59	
	9.00%	75.69	76.02	76.35	76.68	77.02	77.35	77.69	
	9.25%	75.79	76.12	76.45	76.79	77.12	77.46	77.79	

In our analysis, we examined the effects of altering the components of FTNT's product mix on the stock price. We utilized different time frames to assess volume growth, recognizing that changes in service volume are more frequent and challenging to predict accurately over time. Consequently, we applied a narrower time window for service volume compared to product volume to accommodate this heightened variability. Our findings reveal that service volume growth exerts a more substantial influence on share price, given its significant contribution of 72-75% to revenue and its higher profit margins. These fluctuations could manifest due to shifts in the sales mix between service and product offerings.

### **2024-2033 Cost of Revenue as % of Service Revenue Vs. COGS as % Product Revenue**

		2024 - 2033 Cost of Revenue as % of Service Revenue							
		76.48	8.6%	9.3%	10.0%	10.7%	11.4%	12.1%	12.8%
2024 - 2033 COGS as % of Product Revenue	37.8%	82.04	80.67	79.29	77.92	76.54	75.17	73.79	
	38.4%	81.56	80.19	78.81	77.44	76.06	74.69	73.31	
	39.0%	81.08	79.71	78.33	76.96	75.58	74.21	72.83	
	39.6%	80.60	79.23	77.85	76.48	75.10	73.72	72.35	
	40.2%	80.12	78.74	77.37	75.99	74.62	73.24	71.87	
	40.8%	79.64	78.26	76.89	75.51	74.14	72.76	71.39	
	41.4%	79.16	77.78	76.41	75.03	73.66	72.28	70.91	

In this analysis we looked at how the change in COGS for Fortinet's two revenue segments affect the implied share price. As is visible in the sensitivity table above, the change in COGS of product revenue affects the implied share price at a greater rate than that of service revenue. This is a result of service revenue consisting of more fixed costs than product revenue, which will drive margins further downward as COGS increases.

### **2024-2033 CapEx Growth as % of Revenue vs. 2024-2033 R&D Growth as % of Revenue**

		2024 - 2033 CapEx Growth as % of Revenue							
		76.48	5.8%	6.1%	6.4%	6.7%	7.0%	7.3%	7.6%
2024 - 2033 R&D Growth as % of Revenue	10.7%	80.41	79.80	79.19	78.58	77.97	77.35	76.74	
	11.0%	79.58	78.97	78.36	77.75	77.14	76.52	75.91	
	11.3%	78.76	78.14	77.53	76.92	76.31	75.69	75.08	
	11.6%	77.93	77.31	76.70	76.09	75.48	74.86	74.25	
	11.9%	77.10	76.48	75.87	75.26	74.65	74.03	73.42	
	12.2%	76.27	75.65	75.04	74.43	73.82	73.21	72.59	
	12.5%	75.44	74.82	74.21	73.60	72.99	72.38	71.76	

In this analysis, we examined changes in CapEx Growth versus changes in R&D growth to see how they affect the implied share price. As seen above a increase in R&D spending decreases share price at a higher rate than an increase in CapEx growth. This distinction occurs because R&D is important to the growth in number of product offerings which is Fortinet's competitive advantage in the industry.

## Important Disclaimer

This report was created by students enrolled in the Security Analysis (6F:112) class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Fortinet

Revenue Decomposition

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Product revenue	\$1,255,000	\$1,780,500	\$1,927,300	\$1,985,119	\$2,203,482	\$2,445,865	\$2,714,910	\$2,945,678	\$3,196,060	\$3,467,725	\$3,762,482	\$4,082,293	\$4,429,288
% growth	36.95%	41.87%	8.24%	3.00%	11.00%	11.00%	11.00%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
Service revenue	\$2,087,200	\$2,636,900	\$3,377,500	\$3,944,920	\$4,536,658	\$5,217,157	\$5,999,730	\$6,659,701	\$7,392,268	\$8,205,417	\$9,108,013	\$10,109,894	\$11,221,983
% growth	24.39%	26.34%	28.09%	16.80%	15.00%	15.00%	15.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
<b>Total revenue</b>	<b>\$3,342,200</b>	<b>\$4,417,400</b>	<b>\$5,304,800</b>	<b>\$5,930,039</b>	<b>\$6,740,140</b>	<b>\$7,663,022</b>	<b>\$8,714,640</b>	<b>\$9,605,378</b>	<b>\$10,588,328</b>	<b>\$11,673,142</b>	<b>\$12,870,495</b>	<b>\$14,192,187</b>	<b>\$15,651,271</b>
% growth	28.82%	32.17%	20.09%	11.79%	13.66%	13.69%	13.72%	10.22%	10.23%	10.25%	10.26%	10.27%	10.28%
United States	\$1,006,800	\$1,325,000	\$1,605,900	\$1,795,176	\$2,089,443	\$2,452,167	\$2,875,831	\$3,265,829	\$3,600,031	\$3,968,868	\$4,375,968	\$4,825,344	\$5,321,432
% growth	23.79%	31.61%	21.20%	11.79%	16.39%	17.36%	17.28%	13.56%	10.23%	10.25%	10.26%	10.27%	10.28%
% of revenue	30.12%	30.00%	30.27%	30.27%	31.00%	32.00%	33.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%
Other Americas	\$352,000	\$460,000	\$569,300	\$636,399	\$876,218	\$919,563	\$958,610	\$960,538	\$1,058,833	\$1,167,314	\$1,287,049	\$1,419,219	\$1,565,127
% growth	33.38%	30.68%	23.76%	11.79%	37.68%	4.95%	4.25%	0.20%	10.23%	10.25%	10.26%	10.27%	10.28%
% of revenue	10.53%	10.41%	10.73%	10.73%	13.00%	12.00%	11.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
<b>Total Americas</b>	<b>\$1,358,800</b>	<b>\$1,785,000</b>	<b>\$2,175,200</b>	<b>\$2,431,575</b>	<b>\$2,965,662</b>	<b>\$3,371,730</b>	<b>\$3,834,442</b>	<b>\$4,226,366</b>	<b>\$4,658,864</b>	<b>\$5,136,183</b>	<b>\$5,663,018</b>	<b>\$6,244,562</b>	<b>\$6,886,559</b>
% growth	26.14%	31.37%	21.86%	11.79%	21.96%	13.69%	13.72%	10.22%	10.23%	10.25%	10.26%	10.27%	10.28%
% of revenue	40.66%	40.41%	41.00%	41.00%	44.00%	44.00%	44.00%	44.00%	44.00%	44.00%	44.00%	44.00%	44.00%
Europe, Middle East, and Africa ("EMEA")	\$1,275,900	\$1,691,800	\$2,072,900	\$2,317,218	\$2,561,253	\$2,835,318	\$3,137,271	\$3,457,936	\$3,811,798	\$4,202,331	\$4,633,378	\$5,109,187	\$5,634,457
% growth	28.63%	32.60%	22.53%	11.79%	10.53%	10.70%	10.65%	10.22%	10.23%	10.25%	10.26%	10.27%	10.28%
% of revenue	38.18%	38.30%	39.08%	39.08%	38.00%	37.00%	36.00%	36.00%	36.00%	36.00%	36.00%	36.00%	36.00%
Asia Pacific ("APAC")	\$707,500	\$940,600	\$1,056,700	\$1,181,246	\$1,213,225	\$1,455,974	\$1,742,928	\$1,921,076	\$2,117,666	\$2,334,628	\$2,574,099	\$2,838,437	\$3,130,254
% growth	34.68%	32.95%	12.34%	11.79%	2.71%	20.01%	19.71%	10.22%	10.23%	10.25%	10.26%	10.27%	10.28%
% of revenue	21.17%	21.29%	19.92%	19.92%	18.00%	19.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
<b>Total revenue</b>	<b>\$3,342,200</b>	<b>\$4,417,400</b>	<b>\$5,304,800</b>	<b>\$5,930,039</b>	<b>\$6,740,140</b>	<b>\$7,663,022</b>	<b>\$8,714,640</b>	<b>\$9,605,378</b>	<b>\$10,588,328</b>	<b>\$11,673,142</b>	<b>\$12,870,495</b>	<b>\$14,192,187</b>	<b>\$15,651,271</b>
% growth	28.82%	32.17%	20.09%	11.79%	13.66%	13.69%	13.72%	10.22%	10.23%	10.25%	10.26%	10.27%	10.28%







Fortinet  
Balance Sheet

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>ASSETS</b>													
CURRENT ASSETS:													
Cash & cash equivalents	\$1,319,100	\$1,682,900	\$1,397,900	\$922,605	\$1,170,904	\$1,899,244	\$2,749,156	\$3,568,481	\$4,499,041	\$5,552,056	\$6,740,238	\$8,077,618	\$9,580,037
Short-term investments	\$1,194,000	\$502,600	\$1,021,500	\$1,757,990	\$1,998,148	\$2,271,741	\$2,583,499	\$2,847,562	\$3,138,963	\$3,460,562	\$3,815,523	\$4,207,345	\$4,639,898
Marketable equity securities	\$38,600	\$25,500	\$21,000	\$17,389	\$14,399	\$11,923	\$9,873	\$8,175	\$6,770	\$5,606	\$4,642	\$3,844	\$3,183
Accounts receivable - net	\$807,700	\$1,261,700	\$1,402,000	\$1,567,244	\$1,781,345	\$2,025,252	\$2,303,183	\$2,538,595	\$2,798,378	\$3,085,082	\$3,401,530	\$3,750,838	\$4,136,458
Inventory	\$175,800	\$264,600	\$484,800	\$541,940	\$615,974	\$700,315	\$796,422	\$877,825	\$967,656	\$1,066,796	\$1,176,221	\$1,297,009	\$1,430,353
Deferred tax asset	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Prepaid expenses & other current assets	\$65,400	\$73,100	\$101,100	\$113,016	\$128,455	\$146,043	\$166,085	\$183,061	\$201,795	\$222,469	\$245,289	\$270,478	\$298,285
<b>Total Current Assets</b>	<b>\$3,600,600</b>	<b>\$3,810,400</b>	<b>\$4,428,300</b>	<b>\$4,920,184</b>	<b>\$5,709,226</b>	<b>\$7,054,519</b>	<b>\$8,608,218</b>	<b>\$10,023,701</b>	<b>\$11,612,602</b>	<b>\$13,392,571</b>	<b>\$15,383,441</b>	<b>\$17,607,132</b>	<b>\$20,088,213</b>
NON-CURRENT ASSETS:													
Long-term investments	\$440,800	\$45,500	\$0	\$47,414	\$49,408	\$51,486	\$53,652	\$55,908	\$58,260	\$60,710	\$63,263	\$65,924	\$68,697
Property & equipment - net	\$687,600	\$898,500	\$1,044,400	\$1,307,586	\$1,591,516	\$1,901,084	\$2,241,630	\$2,598,527	\$2,975,855	\$3,377,820	\$3,808,808	\$4,273,439	\$4,776,618
Deferred contract costs	\$423,300	\$518,200	\$605,600	\$676,978	\$769,460	\$874,816	\$994,870	\$1,096,557	\$1,208,772	\$1,332,615	\$1,469,305	\$1,620,191	\$1,786,761
Deferred tax assets	\$342,300	\$569,400	\$868,800	\$994,873	\$1,253,864	\$1,550,796	\$1,891,244	\$2,281,605	\$2,715,313	\$3,197,070	\$3,732,101	\$4,326,211	\$4,985,848
Goodwill	\$125,100	\$128,000	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500	\$126,500
Other intangible assets - net	\$63,600	\$56,000	\$35,300	\$23,300	\$15,100	\$10,900	\$7,000	\$5,500	\$4,000	\$2,500	\$1,000	\$0	\$0
Other assets	\$235,800	\$202,000	\$150,000	\$167,679	\$190,586	\$216,682	\$246,418	\$271,604	\$299,399	\$330,073	\$363,930	\$401,302	\$442,560
<b>Total assets</b>	<b>\$5,919,100</b>	<b>\$6,228,000</b>	<b>\$7,258,900</b>	<b>\$8,264,514</b>	<b>\$9,705,658</b>	<b>\$11,786,783</b>	<b>\$14,169,531</b>	<b>\$16,459,903</b>	<b>\$19,000,700</b>	<b>\$21,819,859</b>	<b>\$24,948,349</b>	<b>\$28,420,699</b>	<b>\$32,275,197</b>
<b>LIABILITIES AND EQUITY</b>													
CURRENT LIABILITIES:													
Accounts payable	\$148,400	\$243,400	\$204,300	\$228,379	\$259,578	\$295,121	\$335,621	\$369,925	\$407,781	\$449,559	\$495,672	\$546,574	\$602,766
Accrued liabilities	\$197,300	\$266,300	\$423,700	\$473,639	\$538,342	\$612,054	\$696,048	\$767,192	\$845,701	\$932,346	\$1,027,980	\$1,133,545	\$1,250,084
Accrued payroll & compensation	\$195,000	\$219,400	\$242,300	\$270,858	\$307,860	\$350,013	\$398,047	\$438,732	\$483,628	\$533,178	\$587,868	\$648,237	\$714,881
Income taxes payable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deferred revenue	\$1,777,400	\$2,349,300	\$2,848,700	\$3,184,456	\$3,619,484	\$4,115,075	\$4,679,799	\$5,158,129	\$5,685,977	\$6,268,527	\$6,911,510	\$7,621,265	\$8,404,798
<b>Total current liabilities</b>	<b>\$2,318,100</b>	<b>\$3,078,400</b>	<b>\$3,719,000</b>	<b>\$4,157,332</b>	<b>\$4,725,264</b>	<b>\$5,372,263</b>	<b>\$6,109,514</b>	<b>\$6,733,977</b>	<b>\$7,423,087</b>	<b>\$8,183,610</b>	<b>\$9,023,030</b>	<b>\$9,949,620</b>	<b>\$10,972,530</b>
NON-CURRENT LIABILITIES:													
Deferred revenue	\$1,675,500	\$2,291,000	\$2,886,300	\$3,226,488	\$3,667,257	\$4,169,390	\$4,741,567	\$5,226,211	\$5,761,026	\$6,351,265	\$7,002,735	\$7,721,858	\$8,515,733
Long-term debt	\$988,400	\$990,400	\$992,300	\$1,172,394	\$1,400,996	\$1,658,951	\$1,949,583	\$2,256,286	\$2,589,984	\$2,954,285	\$3,353,091	\$3,790,823	\$4,272,290
Other liabilities	\$138,700	\$149,800	\$124,700	\$139,398	\$158,441	\$180,135	\$204,855	\$225,794	\$248,900	\$274,401	\$302,547	\$333,616	\$367,915
<b>Total liabilities</b>	<b>\$5,120,700</b>	<b>\$6,509,600</b>	<b>\$7,722,300</b>	<b>\$8,695,611</b>	<b>\$9,951,958</b>	<b>\$11,380,738</b>	<b>\$13,005,520</b>	<b>\$14,442,268</b>	<b>\$16,022,997</b>	<b>\$17,763,561</b>	<b>\$19,681,403</b>	<b>\$21,795,916</b>	<b>\$24,128,468</b>
<b>EQUITY</b>													
Common stock	\$200	\$800	\$800	\$956	\$1,133	\$1,333	\$1,561	\$1,812	\$2,088	\$2,392	\$2,726	\$3,094	\$3,498
Additional paid-in-capital	\$1,254,200	\$1,284,200	\$1,416,400	\$1,692,368	\$2,005,554	\$2,360,854	\$2,763,852	\$3,207,705	\$3,696,369	\$4,234,218	\$4,826,093	\$5,477,340	\$6,193,866
Accumulated other comprehensive income (loss)	(\$4,800)	(\$20,200)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)	(\$18,900)
Retained earnings (accumulated deficit)	(\$467,900)	(\$1,546,400)	(\$1,861,700)	(\$2,105,521)	(\$2,234,086)	(\$1,937,242)	(\$1,582,502)	(\$1,172,981)	(\$701,853)	(\$161,412)	\$457,027	\$1,163,248	\$1,968,265
Total Fortinet, Inc. stockholders' equity (deficit)	\$781,700	(\$281,600)	(\$463,400)	(\$431,098)	(\$246,300)	\$406,045	\$1,164,011	\$2,017,635	\$2,977,703	\$4,056,298	\$5,266,946	\$6,624,783	\$8,146,729
Non-controlling interests	\$16,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total equity (deficit)</b>	<b>\$798,400</b>	<b>(\$281,600)</b>	<b>(\$463,400)</b>	<b>(\$431,098)</b>	<b>(\$246,300)</b>	<b>\$406,045</b>	<b>\$1,164,011</b>	<b>\$2,017,635</b>	<b>\$2,977,703</b>	<b>\$4,056,298</b>	<b>\$5,266,946</b>	<b>\$6,624,783</b>	<b>\$8,146,729</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$5,919,100</b>	<b>\$6,228,000</b>	<b>\$7,258,900</b>	<b>\$8,264,514</b>	<b>\$9,705,658</b>	<b>\$11,786,783</b>	<b>\$14,169,531</b>	<b>\$16,459,903</b>	<b>\$19,000,700</b>	<b>\$21,819,859</b>	<b>\$24,948,349</b>	<b>\$28,420,699</b>	<b>\$32,275,197</b>

## Fortinet

## Historical Cash Flow Statement

In Thousands

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Net income (loss) including non-controlling interests</b>	<b>\$44,273</b>	<b>\$25,343</b>	<b>\$7,987</b>	<b>\$32,187</b>	<b>\$31,399</b>	<b>\$332,200</b>	<b>\$326,500</b>	<b>\$488,500</b>	<b>\$606,700</b>	<b>\$856,600</b>	<b>\$1,147,800</b>
Stock-based compensation	\$43,909	\$58,994	\$95,088	\$122,423	\$137,183	\$162,900	\$174,100	\$191,700	\$207,900	\$217,300	\$249,000
Amortization of deferred contract costs	-	-	-	-	-	\$90,900	\$107,900	\$137,400	\$175,900	\$223,300	\$266,300
Depreciation & amortization	\$15,623	\$22,028	\$31,589	\$48,520	\$55,476	\$55,700	\$61,600	\$68,800	\$84,400	\$104,300	\$113,400
Amortization of investment premiums (discounts)	\$11,634	\$8,703	\$7,457	\$4,780	\$2,542	(\$600)	(\$6,000)	\$1,300	\$6,900	\$4,400	(\$27,700)
Loss (gain) from equity method investment	-	-	-	-	-	-	-	-	\$7,600	\$68,100	\$42,100
Other adjustments	-	-	-	-	-	-	-	-	-	\$23,600	\$18,500
Excess tax benefit from employee stock option plans	(\$2,974)	-	-	-	-	-	-	-	-	-	-
Other non-cash items - net	\$961	\$4,140	\$3,391	\$2,644	\$3,780	(\$900)	\$5,700	\$6,000	\$7,900	-	-
Accounts receivable - net	(\$22,080)	(\$55,888)	(\$66,464)	(\$57,875)	(\$38,455)	(\$82,000)	(\$96,700)	(\$176,400)	(\$72,500)	(\$456,700)	(\$146,400)
Inventory	(\$35,093)	(\$32,459)	(\$19,088)	(\$43,023)	\$9,423	(\$33,400)	(\$48,500)	(\$42,200)	(\$19,400)	(\$109,100)	(\$253,500)
Prepaid expenses & other current assets	(\$907)	(\$16,000)	(\$2,630)	\$2,616	(\$6,726)	\$4,200	(\$2,100)	(\$2,800)	(\$17,700)	(\$7,700)	(\$27,600)
Deferred contract costs	-	-	-	-	-	(\$136,400)	(\$162,300)	(\$205,100)	(\$294,500)	(\$318,200)	(\$353,500)
Deferred tax assets	(\$18,750)	\$9,072	(\$29,851)	(\$27,822)	\$35,824	(\$127,800)	\$17,800	(\$10,500)	(\$94,000)	(\$226,400)	(\$301,900)
Other assets	\$1,243	(\$1,302)	\$667	(\$2,352)	(\$1,001)	(\$3,800)	(\$1,300)	(\$4,600)	(\$19,000)	(\$35,300)	\$17,700
Accounts payable	\$10,485	\$18,033	(\$2,517)	\$39	\$13,090	\$14,600	\$7,700	\$37,400	(\$13,100)	\$105,200	(\$43,100)
Accrued liabilities	\$1,654	\$7,120	\$883	(\$3,210)	\$14,445	\$14,500	(\$1,400)	\$45,800	\$49,900	\$55,200	\$137,400
Accrued payroll & compensation	\$6,013	\$10,835	\$11,301	\$15,696	\$12,567	\$3,500	(\$2,700)	\$43,100	\$44,000	\$25,000	\$23,400
Other liabilities	-	\$14,318	\$2,016	(\$5,013)	(\$5,489)	(\$800)	(\$200)	\$9,700	(\$700)	\$23,500	(\$21,700)
Deferred revenue	\$68,871	\$127,416	\$222,346	\$242,961	\$300,839	\$352,100	\$446,700	\$495,600	\$839,400	\$1,177,500	\$1,095,300
Income taxes payable	\$22,522	(\$3,771)	\$20,372	\$13,137	\$29,508	(\$6,000)	(\$18,800)	-	-	-	-
<b>Net cash flows from operating activities</b>	<b>\$147,384</b>	<b>\$196,582</b>	<b>\$282,547</b>	<b>\$345,708</b>	<b>\$594,405</b>	<b>\$638,900</b>	<b>\$808,000</b>	<b>\$1,083,700</b>	<b>\$1,499,700</b>	<b>\$1,730,600</b>	<b>\$1,935,500</b>
Purchases of investments	(\$552,778)	(\$497,084)	(\$459,903)	(\$473,608)	(\$669,171)	(\$681,800)	(\$1,332,300)	(\$1,079,000)	(\$2,308,000)	(\$389,100)	(\$1,855,800)
Sales of investments	\$7,897	\$41,755	\$47,900	\$28,311	\$300,317	\$42,800	\$31,300	\$152,200	\$85,500	\$3,000	\$4,000
Maturities of investments	\$369,659	\$458,193	\$486,419	\$460,443	\$427,363	\$578,800	\$925,500	\$1,018,800	\$1,470,300	\$1,462,000	\$1,414,800
Purchases of property & equipment	(\$13,877)	(\$32,197)	(\$37,358)	(\$67,182)	(\$135,312)	(\$53,000)	(\$92,200)	(\$125,900)	(\$295,900)	(\$281,200)	(\$204,100)
Investment in privately held company	-	-	-	-	-	-	-	-	(\$160,000)	-	(\$8,500)
Payments made in connection with business combinations, net of cash acquired	-	-	(\$38,025)	(\$22,087)	-	(\$21,700)	(\$34,600)	(\$40,200)	(\$74,900)	(\$30,800)	-
Purchases of marketable equity securities	-	-	-	-	-	-	-	-	(\$42,500)	-	-
Payments made in connection with acquisitions	(\$7,635)	(\$17)	-	-	-	-	-	-	-	-	-
Other cash flow from investing activities	-	-	-	-	-	-	-	\$1,300	\$400	-	(\$300)
<b>Net cash flows from investing activities</b>	<b>(\$146,734)</b>	<b>(\$29,350)</b>	<b>(\$967)</b>	<b>(\$74,123)</b>	<b>(\$76,803)</b>	<b>(\$134,900)</b>	<b>(\$502,300)</b>	<b>(\$72,800)</b>	<b>(\$1,325,100)</b>	<b>\$763,900</b>	<b>(\$649,900)</b>
Proceeds from long-term borrowings, net of discount & underwriting fees	-	-	-	-	-	-	-	-	\$989,400	-	-
Payments for debt issuance costs	-	-	-	-	-	-	-	-	(\$2,400)	-	-
Payments of debt assumed in connection with business combination	-	-	-	(\$1,626)	-	(\$10,100)	(\$3,700)	(\$4,100)	(\$19,500)	-	-
Repurchase & retirement of common stock	(\$33,529)	(\$43,977)	(\$60,000)	(\$110,828)	(\$446,333)	(\$211,800)	(\$145,100)	(\$1,080,100)	(\$741,800)	(\$1,991,200)	(\$1,500,500)
Proceeds from issuance of common stock	\$25,584	\$55,324	\$67,314	\$44,861	\$75,869	\$86,500	\$49,500	\$22,100	\$26,000	\$26,100	\$43,800
Taxes paid related to net share settlement of equity awards	(\$1,452)	(\$10,598)	(\$28,871)	(\$38,266)	(\$45,137)	(\$67,200)	(\$96,000)	(\$108,200)	(\$167,900)	(\$160,400)	(\$112,500)
Excess tax benefit from employee stock option plans	\$2,974	-	-	-	-	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-	(\$300)	(\$1,300)	(\$1,000)	(\$4,800)	(\$1,200)
<b>Net cash flows from financing activities</b>	<b>(\$6,423)</b>	<b>\$749</b>	<b>(\$21,557)</b>	<b>(\$105,859)</b>	<b>(\$415,601)</b>	<b>(\$202,600)</b>	<b>(\$195,600)</b>	<b>(\$1,171,600)</b>	<b>\$82,800</b>	<b>(\$2,130,300)</b>	<b>(\$1,570,400)</b>
Effect of exchange rates on cash & cash equivalents	(\$1,329)	(\$600)	\$0	\$0	\$0	\$0	\$0	\$0	(\$100)	(\$400)	(\$800)
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	<b>(\$7,102)</b>	<b>\$167,381</b>	<b>\$260,023</b>	<b>\$165,726</b>	<b>\$102,001</b>	<b>\$301,400</b>	<b>\$110,100</b>	<b>(\$160,700)</b>	<b>\$257,300</b>	<b>\$363,800</b>	<b>(\$285,600)</b>
Cash & cash equivalents - beginning of year	\$122,975	\$115,873	\$283,254	\$543,277	\$709,003	\$811,000	\$1,112,400	\$1,222,500	\$1,061,800	\$1,319,100	\$1,692,900
Cash & cash equivalents - end of year	\$115,873	\$283,254	\$543,277	\$709,003	\$811,004	\$1,112,400	\$1,222,500	\$1,061,800	\$1,319,100	\$1,682,900	\$1,397,900

**Fortinet**

*Forecasted Cash Flow Statement*

<b>Fiscal Years Ending Dec. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
<b>Net income (loss) including non-controlling interests</b>	<b>\$1,391,724</b>	<b>\$1,595,609</b>	<b>\$1,829,449</b>	<b>\$2,097,668</b>	<b>\$2,330,596</b>	<b>\$2,588,794</b>	<b>\$2,875,070</b>	<b>\$3,192,538</b>	<b>\$3,544,659</b>	<b>\$3,935,271</b>
Depreciation & amortization	\$131,814	\$165,031	\$200,866	\$239,936	\$282,917	\$327,961	\$375,584	\$426,316	\$480,711	\$539,352
Stock-based compensation	\$275,968	\$313,186	\$355,300	\$402,998	\$443,853	\$488,663	\$537,850	\$591,875	\$651,247	\$716,525
Change in accounts receivable	(\$165,244)	(\$214,101)	(\$243,907)	(\$277,931)	(\$235,412)	(\$259,783)	(\$286,704)	(\$316,447)	(\$349,309)	(\$385,620)
Change in inventory	(\$57,140)	(\$74,034)	(\$84,341)	(\$96,106)	(\$81,404)	(\$89,831)	(\$99,140)	(\$109,425)	(\$120,788)	(\$133,344)
Change in deferred tax asset	(\$126,073)	(\$258,990)	(\$296,932)	(\$340,448)	(\$390,362)	(\$433,708)	(\$481,757)	(\$535,031)	(\$594,110)	(\$659,637)
Change in prepaid & other expenses	(\$11,916)	(\$15,439)	(\$17,588)	(\$20,042)	(\$16,976)	(\$18,733)	(\$20,675)	(\$22,819)	(\$25,189)	(\$27,808)
Change in deferred contract costs	(\$71,378)	(\$92,482)	(\$105,357)	(\$120,054)	(\$101,687)	(\$112,214)	(\$123,843)	(\$136,691)	(\$150,885)	(\$166,570)
Change in other assets	(\$17,679)	(\$22,907)	(\$26,096)	(\$29,736)	(\$25,187)	(\$27,794)	(\$30,675)	(\$33,857)	(\$37,373)	(\$41,257)
Change in accounts payable	\$24,079	\$31,199	\$35,542	\$40,500	\$34,304	\$37,856	\$41,779	\$46,113	\$50,901	\$56,193
Change in accrued liabilities	\$49,939	\$64,704	\$73,712	\$83,994	\$71,144	\$78,509	\$86,645	\$95,634	\$105,565	\$116,539
Change in accrued payroll and compensation	\$28,558	\$37,002	\$42,153	\$48,033	\$40,685	\$44,897	\$49,550	\$54,690	\$60,369	\$66,645
Change in income taxes payable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Change in deferred revenue	\$675,944	\$875,797	\$997,724	\$1,136,901	\$962,973	\$1,062,663	\$1,172,789	\$1,294,453	\$1,428,877	\$1,577,410
Change in other liabilities	\$14,698	\$19,043	\$21,694	\$24,720	\$20,939	\$23,106	\$25,501	\$28,146	\$31,069	\$34,299
<b>Net cash flows from operating activities</b>	<b>\$2,143,293</b>	<b>\$2,423,617</b>	<b>\$2,782,218</b>	<b>\$3,190,435</b>	<b>\$3,336,384</b>	<b>\$3,710,386</b>	<b>\$4,121,973</b>	<b>\$4,575,495</b>	<b>\$5,075,745</b>	<b>\$5,627,997</b>
Capital expenditures	(\$395,000)	(\$448,961)	(\$510,434)	(\$580,482)	(\$639,814)	(\$705,289)	(\$777,548)	(\$857,304)	(\$945,342)	(\$1,042,531)
Change in short-term investments	(\$736,490)	(\$240,159)	(\$273,593)	(\$311,758)	(\$264,064)	(\$291,400)	(\$321,599)	(\$354,961)	(\$391,822)	(\$432,553)
Change in marketable securities	\$3,611	\$2,990	\$2,476	\$2,050	\$1,698	\$1,406	\$1,164	\$964	\$798	\$661
Change in long-term investments	(\$47,414)	(\$1,994)	(\$2,078)	(\$2,166)	(\$2,257)	(\$2,351)	(\$2,450)	(\$2,553)	(\$2,661)	(\$2,773)
Change in goodwill	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Change in other intangible assets	\$12,000	\$8,200	\$4,200	\$3,900	\$1,500	\$1,500	\$1,500	\$1,500	\$1,000	\$0
<b>Net cash flows from investing activities</b>	<b>(\$1,163,293)</b>	<b>(\$679,924)</b>	<b>(\$779,429)</b>	<b>(\$888,455)</b>	<b>(\$902,937)</b>	<b>(\$996,135)</b>	<b>(\$1,098,933)</b>	<b>(\$1,212,355)</b>	<b>(\$1,338,027)</b>	<b>(\$1,477,196)</b>
Change in debt	\$180,094	\$228,602	\$257,954	\$290,633	\$306,703	\$333,698	\$364,300	\$398,806	\$437,732	\$481,467
Share repurchases net of shares issued	(\$1,635,545)	(\$1,724,174)	(\$1,532,604)	(\$1,742,928)	(\$1,921,076)	(\$2,117,666)	(\$2,334,628)	(\$2,574,099)	(\$2,838,437)	(\$3,130,254)
Change in common stock	\$156	\$177	\$201	\$228	\$251	\$276	\$304	\$334	\$368	\$405
Change in other comprehensive income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net cash flows from financing activities</b>	<b>(\$1,455,295)</b>	<b>(\$1,495,395)</b>	<b>(\$1,274,450)</b>	<b>(\$1,452,068)</b>	<b>(\$1,614,122)</b>	<b>(\$1,783,691)</b>	<b>(\$1,970,025)</b>	<b>(\$2,174,959)</b>	<b>(\$2,400,337)</b>	<b>(\$2,648,382)</b>
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	<b>(\$475,295)</b>	<b>\$248,299</b>	<b>\$728,340</b>	<b>\$849,912</b>	<b>\$819,325</b>	<b>\$930,560</b>	<b>\$1,053,015</b>	<b>\$1,188,182</b>	<b>\$1,337,380</b>	<b>\$1,502,418</b>
Cash & cash equivalents - beginning of year	\$1,397,900	\$922,605	\$1,170,904	\$1,899,244	\$2,749,156	\$3,568,481	\$4,499,041	\$5,552,056	\$6,740,238	\$8,077,618
Cash & cash equivalents - end of year	\$922,605	\$1,170,904	\$1,899,244	\$2,749,156	\$3,568,481	\$4,499,041	\$5,552,056	\$6,740,238	\$8,077,618	\$9,580,037

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Fiscal Years Ending Dec. 31	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>REVENUE:</b>													
Product revenue	37.55%	40.31%	36.33%	33.48%	32.69%	31.92%	31.15%	30.67%	30.18%	29.71%	29.23%	28.76%	28.30%
Service revenue	62.45%	59.69%	63.67%	66.52%	67.31%	68.08%	68.85%	69.33%	69.82%	70.29%	70.77%	71.24%	71.70%
<b>Total revenue</b>	<b>100.00%</b>												
<b>COST OF REVENUE:</b>													
<b>COST OF REVENUE:</b>													
Cost of revenue - product	14.59%	15.65%	14.39%	13.26%	12.87%	12.49%	12.11%	11.84%	11.58%	11.32%	11.07%	10.82%	10.58%
Cost of revenue - service	6.31%	6.55%	6.79%	7.09%	7.14%	7.19%	7.24%	7.26%	7.27%	7.29%	7.30%	7.31%	7.32%
Depreciation and amortization	2.53%	2.36%	2.14%	2.22%	2.45%	2.62%	2.75%	2.95%	3.10%	3.22%	3.31%	3.39%	3.45%
<b>Total cost of revenue</b>	<b>23.43%</b>	<b>24.56%</b>	<b>23.32%</b>	<b>22.58%</b>	<b>22.46%</b>	<b>22.30%</b>	<b>22.10%</b>	<b>22.04%</b>	<b>21.95%</b>	<b>21.83%</b>	<b>21.68%</b>	<b>21.52%</b>	<b>21.35%</b>
<b>GROSS PROFIT:</b>													
Gross profit - product	22.96%	24.66%	21.94%	20.21%	19.82%	19.43%	19.04%	18.82%	18.60%	18.38%	18.16%	17.94%	17.72%
Gross profit - services	56.14%	53.14%	56.88%	59.43%	60.16%	60.89%	61.61%	62.08%	62.54%	63.01%	63.47%	63.92%	64.38%
<b>Total gross profit</b>	<b>79.10%</b>	<b>77.80%</b>	<b>78.82%</b>	<b>79.64%</b>	<b>79.98%</b>	<b>80.32%</b>	<b>80.65%</b>	<b>80.90%</b>	<b>81.15%</b>	<b>81.39%</b>	<b>81.63%</b>	<b>81.87%</b>	<b>82.10%</b>
<b>OPERATING EXPENSES:</b>													
Research & development expenses	12.69%	11.60%	11.57%	11.57%	11.57%	11.57%	11.57%	11.57%	11.57%	11.57%	11.57%	11.57%	11.57%
Sales & marketing expenses	40.26%	38.17%	37.81%	37.81%	37.81%	37.81%	37.81%	37.81%	37.81%	37.81%	37.81%	37.81%	37.81%
General & administrative expenses	4.29%	3.83%	3.98%	3.98%	3.98%	3.98%	3.98%	3.98%	3.98%	3.98%	3.98%	3.98%	3.98%
Gain on intellectual property matter	-0.14%	-0.10%	-0.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Restructuring charges	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total operating expenses</b>	<b>57.11%</b>	<b>53.49%</b>	<b>53.28%</b>	<b>53.37%</b>									
<b>Operating income (loss)</b>	<b>21.99%</b>	<b>24.31%</b>	<b>25.53%</b>	<b>26.27%</b>	<b>26.62%</b>	<b>26.95%</b>	<b>27.28%</b>	<b>27.53%</b>	<b>27.78%</b>	<b>28.02%</b>	<b>28.26%</b>	<b>28.50%</b>	<b>28.73%</b>
Interest income	0.13%	0.39%	2.26%	2.12%	1.96%	1.81%	1.67%	1.59%	1.52%	1.45%	1.38%	1.31%	1.25%
Interest expense	-0.45%	-0.41%	-0.40%	1.07%	1.12%	1.17%	1.21%	1.27%	1.32%	1.36%	1.41%	1.44%	1.47%
Other income (expense) - net	-0.35%	-0.31%	-0.11%	-0.16%	-0.14%	-0.12%	-0.11%	-0.10%	-0.09%	-0.08%	-0.07%	-0.07%	-0.06%
Income before income taxes & earnings (loss) from equity method investment	21.33%	23.99%	27.28%	29.30%	29.56%	29.81%	30.05%	30.29%	30.53%	30.75%	30.97%	31.18%	31.39%
Total deferred income tax expense (benefit)	20.98%	23.69%	27.16%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Provision for (benefit from) income taxes	0.42%	0.70%	2.71%	4.98%	5.02%	5.07%	5.11%	5.15%	5.19%	5.23%	5.27%	5.30%	5.34%
Earnings (loss) from equity method investment	-0.23%	-1.54%	-0.79%	-0.85%	-0.86%	-0.87%	-0.87%	-0.88%	-0.89%	-0.89%	-0.90%	-0.91%	-0.91%
<b>Net income (loss) including non-controlling interests</b>	<b>18.15%</b>	<b>19.39%</b>	<b>23.77%</b>	<b>23.47%</b>	<b>23.67%</b>	<b>23.87%</b>	<b>24.07%</b>	<b>24.26%</b>	<b>24.45%</b>	<b>24.63%</b>	<b>24.81%</b>	<b>24.98%</b>	<b>25.14%</b>
Less: net income (loss) attributable to non-controlling interests, net of tax	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Net income attributable to Fortinet, Inc.</b>	<b>18.16%</b>	<b>19.41%</b>	<b>23.77%</b>	<b>23.47%</b>	<b>23.67%</b>	<b>23.87%</b>	<b>24.07%</b>	<b>24.26%</b>	<b>24.45%</b>	<b>24.63%</b>	<b>24.81%</b>	<b>24.98%</b>	<b>25.14%</b>



Fortinet  
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Total revenue</b>	<b>\$3,342,200</b>	<b>\$4,417,400</b>	<b>\$5,304,800</b>	<b>\$5,930,039</b>	<b>\$6,740,140</b>	<b>\$7,663,022</b>	<b>\$8,714,640</b>	<b>\$9,605,378</b>	<b>\$10,588,328</b>	<b>\$11,673,142</b>	<b>\$12,870,495</b>	<b>\$14,192,187</b>	<b>\$15,651,271</b>
<b>ASSETS</b>													
<b>CURRENT ASSETS:</b>													
Cash & cash equivalents	39.47%	38.10%	26.35%	15.56%	17.37%	24.78%	31.55%	37.15%	42.49%	47.56%	52.37%	56.92%	61.21%
Short-term investments	35.72%	11.38%	19.26%	29.65%	29.65%	29.65%	29.65%	29.65%	29.65%	29.65%	29.65%	29.65%	29.65%
Marketable equity securities	1.15%	0.58%	0.40%	0.29%	0.21%	0.16%	0.11%	0.09%	0.06%	0.05%	0.04%	0.03%	0.02%
Accounts receivable - net	24.17%	28.56%	26.43%	26.43%	26.43%	26.43%	26.43%	26.43%	26.43%	26.43%	26.43%	26.43%	26.43%
Inventory	5.26%	5.99%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%	9.14%
Deferred tax asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid expenses & other current assets	1.96%	1.65%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%
<b>Total Current Assets</b>	<b>107.73%</b>	<b>86.26%</b>	<b>83.48%</b>	<b>82.97%</b>	<b>84.70%</b>	<b>92.06%</b>	<b>98.78%</b>	<b>104.36%</b>	<b>109.67%</b>	<b>114.73%</b>	<b>119.52%</b>	<b>124.06%</b>	<b>128.35%</b>
<b>NON-CURRENT ASSETS:</b>													
Long-term investments	13.19%	1.03%	0.00%	0.80%	0.73%	0.67%	0.62%	0.58%	0.55%	0.52%	0.49%	0.46%	0.44%
Property & equipment - net	20.57%	20.34%	19.69%	22.05%	23.61%	24.81%	25.72%	27.05%	28.11%	28.94%	29.59%	30.11%	30.52%
Deferred contract costs	12.67%	11.73%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%
Deferred tax assets	10.24%	12.89%	16.38%	16.78%	18.60%	20.24%	21.70%	23.75%	25.64%	27.39%	29.00%	30.48%	31.86%
Goodwill	3.74%	2.90%	2.38%	2.13%	1.88%	1.65%	1.45%	1.32%	1.19%	1.08%	0.98%	0.89%	0.81%
Other intangible assets - net	1.90%	1.27%	0.67%	0.39%	0.22%	0.14%	0.08%	0.06%	0.04%	0.02%	0.01%	0.00%	0.00%
Other assets	7.06%	4.57%	2.83%	2.83%	2.83%	2.83%	2.83%	2.83%	2.83%	2.83%	2.83%	2.83%	2.83%
<b>Total assets</b>	<b>177.10%</b>	<b>140.99%</b>	<b>136.84%</b>	<b>139.37%</b>	<b>144.00%</b>	<b>153.81%</b>	<b>162.59%</b>	<b>171.36%</b>	<b>179.45%</b>	<b>186.92%</b>	<b>193.84%</b>	<b>200.26%</b>	<b>206.21%</b>
<b>LIABILITIES AND EQUITY</b>													
<b>CURRENT LIABILITIES:</b>													
Accounts payable	4.44%	5.51%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%
Accrued liabilities	5.90%	6.03%	7.99%	7.99%	7.99%	7.99%	7.99%	7.99%	7.99%	7.99%	7.99%	7.99%	7.99%
Accrued payroll & compensation	5.83%	4.97%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%
Income taxes payable	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred revenue	53.18%	53.18%	53.70%	53.70%	53.70%	53.70%	53.70%	53.70%	53.70%	53.70%	53.70%	53.70%	53.70%
<b>Total current liabilities</b>	<b>69.36%</b>	<b>69.69%</b>	<b>70.11%</b>	<b>70.11%</b>	<b>70.11%</b>	<b>70.11%</b>	<b>70.11%</b>						
<b>NON-CURRENT LIABILITIES:</b>													
Deferred revenue	50.13%	51.86%	54.41%	54.41%	54.41%	54.41%	54.41%	54.41%	54.41%	54.41%	54.41%	54.41%	54.41%
Long-term debt	29.57%	22.42%	18.71%	19.77%	20.79%	21.65%	22.37%	23.49%	24.46%	25.31%	26.05%	26.71%	27.30%
Other liabilities	4.15%	3.39%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%	2.35%
<b>Total liabilities</b>	<b>153.21%</b>	<b>147.36%</b>	<b>145.57%</b>	<b>146.64%</b>	<b>147.65%</b>	<b>148.52%</b>	<b>149.24%</b>	<b>150.36%</b>	<b>151.33%</b>	<b>152.17%</b>	<b>152.92%</b>	<b>153.58%</b>	<b>154.16%</b>
<b>EQUITY</b>													
Common stock	0.01%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Additional paid-in-capital	37.53%	29.07%	26.70%	28.54%	29.76%	30.81%	31.72%	33.39%	34.91%	36.27%	37.50%	38.59%	39.57%
Accumulated other comprehensive income (loss)	-0.14%	-0.46%	-0.36%	-0.32%	-0.28%	-0.25%	-0.22%	-0.20%	-0.18%	-0.16%	-0.15%	-0.13%	-0.12%
Retained earnings (accumulated deficit)	-14.00%	-35.01%	-35.09%	-35.51%	-33.15%	-25.28%	-18.16%	-12.21%	-6.63%	-1.38%	3.55%	8.20%	12.58%
Total Fortinet, Inc. stockholders' equity (deficit)	23.39%	-6.37%	-8.74%	-7.27%	-3.65%	5.30%	13.36%	21.01%	28.12%	34.75%	40.92%	46.68%	52.05%
Non-controlling interests	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total equity (deficit)</b>	<b>23.89%</b>	<b>-6.37%</b>	<b>-8.74%</b>	<b>-7.27%</b>	<b>-3.65%</b>	<b>5.30%</b>	<b>13.36%</b>	<b>21.01%</b>	<b>28.12%</b>	<b>34.75%</b>	<b>40.92%</b>	<b>46.68%</b>	<b>52.05%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>177.10%</b>	<b>140.99%</b>	<b>136.84%</b>	<b>139.37%</b>	<b>144.00%</b>	<b>153.81%</b>	<b>162.59%</b>	<b>171.36%</b>	<b>179.45%</b>	<b>186.92%</b>	<b>193.84%</b>	<b>200.26%</b>	<b>206.21%</b>

Fortinet  
Value Driver Estimation

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>NOPLAT:</b>													
Revenue	3,342,200	4,417,400	5,304,800	5,930,039	6,740,140	7,663,022	8,714,640	9,605,378	10,588,328	11,673,142	12,870,495	14,192,187	15,651,271
(COGS)	(783,000)	(1,084,900)	(1,237,200)	(1,339,036)	(1,514,098)	(1,708,870)	(1,926,081)	(2,117,461)	(2,324,178)	(2,547,954)	(2,790,639)	(3,054,227)	(3,340,877)
(Research & Development)	(424,200)	(512,400)	(613,800)	(686,144)	(779,878)	(886,662)	(1,008,341)	(1,111,405)	(1,225,139)	(1,350,659)	(1,489,200)	(1,642,129)	(1,810,954)
(Sales and Marketing)	(1,345,700)	(1,686,100)	(2,006,000)	(2,242,433)	(2,548,771)	(2,897,757)	(3,295,425)	(3,632,255)	(4,003,956)	(4,414,177)	(4,866,953)	(5,366,749)	(5,918,498)
(General & Administrative)	(143,500)	(169,000)	(211,300)	(236,204)	(268,472)	(305,232)	(347,120)	(382,600)	(421,753)	(464,963)	(512,656)	(565,301)	(623,419)
Implied Lease Interest	2,686	3,342	4,899	4,111	4,575	5,244	5,873	6,734	7,586	0	0	0	0
<b>EBITA</b>	<b>648,486</b>	<b>968,342</b>	<b>1,241,399</b>	<b>1,430,333</b>	<b>1,633,495</b>	<b>1,869,745</b>	<b>2,143,547</b>	<b>2,368,391</b>	<b>2,620,888</b>	<b>2,895,391</b>	<b>3,211,047</b>	<b>3,563,782</b>	<b>3,957,522</b>
Provision for income taxes	14,100	30,800	143,800	295,406	338,683	388,318	445,249	494,691	549,496	610,260	677,646	752,387	835,298
Tax shield on interest expense	3,278	3,960	4,620	(13,910)	(16,622)	(19,683)	(23,131)	(26,770)	(30,729)	(35,051)	(39,783)	(44,977)	(50,689)
Tax Shield on non-operating losses(income)	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax shield on restructuring charges	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax shield on operating lease cost	591	735	1,078	905	1,006	1,154	1,292	1,482	1,669	0	0	0	0
Tax on gain on intellectual property matter	(1,012)	(1,012)	(1,012)	0	0	0	0	0	0	0	0	0	0
Tax on interest/investment income	(990)	(3,828)	(26,334)	(27,659)	(29,050)	(30,511)	(32,046)	(33,658)	(35,351)	(37,129)	(38,996)	(40,958)	(43,018)
<b>Total Adjusted Taxes</b>	<b>15,967</b>	<b>30,655</b>	<b>122,152</b>	<b>254,742</b>	<b>294,017</b>	<b>339,277</b>	<b>391,365</b>	<b>435,745</b>	<b>485,085</b>	<b>538,080</b>	<b>598,866</b>	<b>666,452</b>	<b>741,591</b>
Change in deferred taxes	102,300	347,000	387,300	126,073	258,990	296,932	340,448	390,362	433,708	481,757	535,031	594,110	659,637
<b>NOPLAT</b>	<b>734,819</b>	<b>1,284,687</b>	<b>1,506,547</b>	<b>1,301,664</b>	<b>1,598,468</b>	<b>1,827,400</b>	<b>2,092,630</b>	<b>2,323,009</b>	<b>2,569,512</b>	<b>2,839,068</b>	<b>3,147,212</b>	<b>3,491,439</b>	<b>3,875,569</b>
<b>Invested Capital (IC):</b>													
Normal cash	334,220	441,740	530,480	593,004	674,014	766,302	871,464	960,538	1,058,833	1,167,314	1,287,049	1,419,219	1,565,127
Account receivable - net	807,700	1,261,700	1,402,000	1,567,244	1,781,345	2,025,252	2,303,183	2,538,595	2,798,378	3,085,082	3,401,530	3,750,838	4,136,458
Inventory	175,800	264,600	484,800	541,940	615,974	700,315	796,422	877,825	967,656	1,066,796	1,176,221	1,297,009	1,430,353
Prepaid expenses & other current assets	65,400	73,100	101,100	113,016	128,455	146,043	166,085	183,061	201,795	222,469	245,289	270,478	298,285
Accounts payable	(148,400)	(243,400)	(204,300)	(228,379)	(259,578)	(295,121)	(335,621)	(369,925)	(407,781)	(449,559)	(495,672)	(546,574)	(602,766)
Accrued liabilities	(197,300)	(266,300)	(423,700)	(473,639)	(538,342)	(612,054)	(696,048)	(767,192)	(845,701)	(932,346)	(1,027,980)	(1,133,545)	(1,250,084)
Accrued payroll & compensation	(195,000)	(219,400)	(242,300)	(270,858)	(307,860)	(350,013)	(398,047)	(438,732)	(483,628)	(533,178)	(587,868)	(648,237)	(714,881)
Income taxes payable	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	(3,452,900)	(4,640,300)	(5,735,000)	(6,410,944)	(7,286,741)	(8,284,465)	(9,421,366)	(10,384,339)	(11,447,003)	(12,619,792)	(13,914,245)	(15,343,122)	(16,920,532)
<b>Current working capital</b>	<b>(2,610,480)</b>	<b>(3,328,260)</b>	<b>(4,086,920)</b>	<b>(4,568,616)</b>	<b>(5,192,734)</b>	<b>(5,903,739)</b>	<b>(6,713,927)</b>	<b>(7,400,168)</b>	<b>(8,157,452)</b>	<b>(8,993,214)</b>	<b>(9,915,677)</b>	<b>(10,933,934)</b>	<b>(12,058,040)</b>
Property & equipment - net	687,600	898,500	1,044,400	1,307,586	1,591,516	1,901,084	2,241,630	2,598,527	2,975,855	3,377,820	3,808,808	4,273,439	4,776,618
Deferred contract costs	423,300	518,200	605,600	676,978	769,460	874,816	994,870	1,096,557	1,208,772	1,332,615	1,469,305	1,620,191	1,786,761
Other intangible assest - net	63,600	56,000	35,300	23,300	15,100	10,900	7,000	5,500	4,000	2,500	1,000	0	0
<b>Total invested capital</b>	<b>(1,435,980)</b>	<b>(1,855,560)</b>	<b>(2,401,620)</b>	<b>(2,560,752)</b>	<b>(2,816,658)</b>	<b>(3,116,939)</b>	<b>(3,470,427)</b>	<b>(3,699,583)</b>	<b>(3,968,825)</b>	<b>(4,280,279)</b>	<b>(4,636,564)</b>	<b>(5,040,305)</b>	<b>(5,494,661)</b>
<b>Free Cash Flow (FCF):</b>													
NOPLAT	734,819	1,284,687	1,506,547	1,301,664	1,598,468	1,827,400	2,092,630	2,323,009	2,569,512	2,839,068	3,147,212	3,491,439	3,875,569
Change in IC	(340,920)	(419,580)	(546,060)	(159,132)	(255,906)	(300,281)	(353,488)	(229,157)	(269,241)	(311,454)	(356,285)	(403,741)	(454,357)
<b>FCF</b>	<b>1,075,739</b>	<b>1,704,267</b>	<b>2,052,607</b>	<b>1,460,797</b>	<b>1,854,374</b>	<b>2,127,681</b>	<b>2,446,118</b>	<b>2,552,165</b>	<b>2,838,753</b>	<b>3,150,522</b>	<b>3,503,497</b>	<b>3,895,180</b>	<b>4,329,925</b>
<b>Return on Invested Capital (ROIC):</b>													
NOPLAT	\$ 734,819	\$ 1,284,687	\$ 1,506,547	\$ 1,301,664	\$ 1,598,468	\$ 1,827,400	\$ 2,092,630	\$ 2,323,009	\$ 2,569,512	\$ 2,839,068	\$ 3,147,212	\$ 3,491,439	\$ 3,875,569
Beginning IC	\$ (1,095,060)	\$ (1,435,980)	\$ (1,855,560)	\$ (2,401,620)	\$ (2,560,752)	\$ (2,816,658)	\$ (3,116,939)	\$ (3,470,427)	\$ (3,699,583)	\$ (3,968,825)	\$ (4,280,279)	\$ (4,636,564)	\$ (5,040,305)
<b>ROIC</b>	<b>-67.10%</b>	<b>-89.46%</b>	<b>-81.19%</b>	<b>-54.20%</b>	<b>-62.42%</b>	<b>-64.88%</b>	<b>-67.14%</b>	<b>-66.94%</b>	<b>-69.45%</b>	<b>-71.53%</b>	<b>-73.53%</b>	<b>-75.30%</b>	<b>-76.89%</b>
<b>Economic Profit (EP):</b>													
Beginning IC	(1,095,060)	(1,435,980)	(1,855,560)	(2,401,620)	(2,560,752)	(2,816,658)	(3,116,939)	(3,470,427)	(3,699,583)	(3,968,825)	(4,280,279)	(4,636,564)	(5,040,305)
x (ROIC - WACC)	-76.84%	-99.20%	-90.93%	-63.94%	-72.16%	-74.62%	-76.88%	-76.68%	-79.19%	-81.27%	-83.27%	-85.04%	-86.63%
<b>EP</b>	<b>841,461</b>	<b>1,424,529</b>	<b>1,687,249</b>	<b>1,535,544</b>	<b>1,847,844</b>	<b>2,101,697</b>	<b>2,396,170</b>	<b>2,660,973</b>	<b>2,929,792</b>	<b>3,225,568</b>	<b>3,564,043</b>	<b>3,942,966</b>	<b>4,366,414</b>

**Fortinet**

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

Key Inputs:

CV Growth of NOPLAT	5.50%
CV Year ROIC	-76.89%
WACC	9.74%
Cost of Equity	9.85%

<b>Fiscal Years Ending Dec. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
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**DCF Model:**

Free Cash Flow (FCF)	\$ 1,460,797	\$1,854,374	\$2,127,681	\$2,446,118	\$2,552,165	\$2,838,753	\$3,150,522	\$3,503,497	\$3,895,180	\$ 4,329,925
Continuing Value (CV)										\$ 97,979,949
PV of FCF	\$ 1,331,163	\$1,539,856	\$1,610,017	\$1,686,720	\$1,603,672	\$1,625,458	\$1,643,887	\$1,665,837	\$1,687,718	\$ 42,453,106

Value of Operating Assets:	\$56,847,434
Non-Operating Adjustments	
Excess Cash	\$ 867,420
Investments	\$ 1,042,500
Other Assets	\$ 150,000
Long-term Debt	\$ (992,300)
PV of Operating Leases	\$ (76,236)
ESOP	\$ (1,133,536)
Other liabilities	\$124,700

Value of Equity	\$56,829,981
Shares Outstanding	\$ 763,031
Intrinsic Value of Last FYE	\$ 74.48
<b>Implied Price as of Today</b>	<b>\$ 76.48</b>

**EP Model:**

Economic Profit (EP)	\$ 1,535,544	\$1,847,844	\$2,101,697	\$2,396,170	\$2,660,973	\$2,929,792	\$3,225,568	\$3,564,043	\$3,942,966	\$ 4,366,414
Continuing Value (CV)										\$ 103,020,253
PV of EP	\$ 1,399,276	\$1,534,434	\$1,590,356	\$1,652,278	\$1,672,042	\$1,677,587	\$1,683,045	\$1,694,626	\$1,708,423	\$ 44,636,987

Total PV of EP	\$59,249,054
Invested Capital (last FYE)	\$ (2,401,620)
Value of Operating Assets:	\$56,847,434
Non-Operating Adjustments	
Excess Cash	\$ 867,420
Investments	\$ 1,042,500
Other Assets	\$ 150,000
Long-term Debt	\$ (992,300)
PV of Operating Leases	\$ (76,236)
ESOP	\$ (1,133,536)
Other liabilities	\$124,700

Value of Equity	\$56,829,981
Shares Outstanding	763030.9
Intrinsic Value of Last FYE	\$ 74.48
<b>Implied Price as of Today</b>	<b>\$ 76.48</b>

## Fortinet

### Weighted Average Cost of Capital (WACC) Estimation

#### Cost of Equity:

Risk-Free Rate	4.53%
Beta	1.26
Equity Risk Premium	4.23%
<b>Cost of Equity</b>	<b>9.85%</b>

#### ASSUMPTIONS:

*Risk-free rate assumption 10 year risk free rate*

*Beta assumption here 5y weekly*

*ERP assumption here Damodaran 12 month cash yield (April 1)*

#### Cost of Debt:

Risk-Free Rate	4.53%
Implied Default Premium	0.86%
Pre-Tax Cost of Debt	5.39%
Marginal Tax Rate	22%
<b>After-Tax Cost of Debt</b>	<b>4.21%</b>

*Risk-free rate assumption 10 year risk free rate*

*Cost of Debt assumption YTM on Bond Maturing 3/15/2031*

#### Market Value of Common Equity:

Total Shares Outstanding	791,400
Current Stock Price	\$66.45
<b>MV of Equity</b>	<b>52,588,530.00</b>

#### MV Weights

97.98%

#### Market Value of Debt:

Short-Term Debt	0
Current Portion of LTD	0
Long-Term Debt	\$992,300
PV of Operating Leases	\$90,835
<b>MV of Total Debt</b>	<b>1,083,135.22</b>

2.02%

#### Market Value of the Firm

53,671,665.22

100.00%

Estimated WACC

9.74%





**Fortinet**

*Relative Valuation Models*

Ticker	Company	Price	EPS		P/E 24	P/E 25	Est. 5yr			Market Cap	Sales		Price/S 24	Price/S 25
			2024E	2025E			EPS gr.	PEG 24	PEG 25		2024E	2025E		
PANW	Palo Alto Networks, Inc.	\$279.00	5.51	6.12	50.64	45.59	15.560	3.25	2.93	87,932	7,991	9,134	11.00	9.63
CHKP	Check Point Software Technologies	\$164.52	9.10	10.03	18.08	16.40	6.746	2.68	2.43	17,797	2,556	2,692	6.96	6.61
ZS	Zscaler, Inc.	\$190.76	2.77	3.29	68.87	57.98	28.494	2.42	2.03	26,203	2,122	2,663	12.35	9.84
CRWD	CrowdStrike Holdings, Inc	\$319.41	3.93	4.87	81.27	65.59	28.127	2.89	2.33	72,440	3,975	5,018	18.22	14.44
OKTA	Okta, Inc.	\$103.42	2.27	2.61	45.56	39.62	9.161	4.97	4.33	15,774	2,507	2,822	6.29	5.59
ANET	Arista Networks, Inc.	\$299.09	7.48	8.56	39.99	34.94	12.127	3.30	2.88	82,285	6,600	7,586	12.47	10.85
DOCU	DocuSign, Inc.	\$58.26	3.24	3.51	17.98	16.60	8.154	2.21	2.04	11,641	2,925	3,111	3.98	3.74
			Average		46.05	39.53		3.10	2.71		Sales 2024E	Sales 2025E	10.18	8.67
FTNT	Fortinet	\$66.45	\$1.87	\$2.21	35.5	30.1	18.6	1.9	1.6		5780	6568	778.5	

**Implied Relative Value:**

<b>P/E (EPS24)</b>	<b>\$ 86.32</b>
<b>P/E (EPS25)</b>	<b>\$ 87.24</b>
<b>PEG (EPS24)</b>	<b>\$ 107.95</b>
<b>PEG (EPS25)</b>	<b>\$ 111.03</b>
<b>P/S (2024E)</b>	<b>\$ 75.60</b>
<b>P/S (2025E)</b>	<b>\$ 73.15</b>

**Fortinet**  
Sensitivity Tables

		WACC							
		76.48	9.14%	9.34%	9.54%	9.74%	9.94%	10.14%	10.34%
Perpetuity Growth of NOPLAT	4.00%	68.51	65.73	63.16	60.77	58.55	56.47	54.52	
	4.50%	74.08	70.80	67.79	65.01	62.43	60.05	57.82	
	5.00%	81.00	77.04	73.43	70.14	67.11	64.32	61.74	
	5.50%	89.82	84.90	80.48	76.48	72.83	69.51	66.46	
	6.00%	101.45	95.12	89.51	84.51	80.01	75.96	72.28	
	6.50%	117.49	108.94	101.52	95.02	89.28	84.18	79.60	
	7.00%	141.02	128.67	118.26	109.38	101.71	95.02	89.13	

		Beta							
		76.48	1.11	1.16	1.21	1.26	1.31	1.36	1.41
Risk Free Rate	3.78%	114.21	106.29	99.37	93.28	87.86	83.03	78.68	
	4.03%	104.96	98.20	92.24	86.94	82.20	77.93	74.07	
	4.28%	97.06	91.23	86.04	81.39	77.20	73.40	69.95	
	4.53%	90.23	85.15	80.59	76.48	72.75	69.36	66.25	
	4.78%	84.28	79.80	75.77	72.10	68.77	65.71	62.91	
	5.03%	79.04	75.07	71.47	68.19	65.18	62.42	59.88	
	5.28%	74.39	70.85	67.62	64.66	61.94	59.43	57.11	

		Equity Risk Premium							
		76.48	4.08%	4.13%	4.18%	4.23%	4.28%	4.33%	4.38%
Marginal Tax Rate	16%	79.49	78.25	77.05	75.88	74.74	73.64	72.57	
	18%	79.70	78.46	77.25	76.08	74.94	73.83	72.75	
	20%	79.91	78.66	77.45	76.28	75.13	74.02	72.94	
	22%	80.12	78.87	77.66	76.48	75.33	74.22	73.13	
	24%	80.34	79.08	77.86	76.67	75.53	74.41	73.32	
	26%	80.55	79.29	78.06	76.87	75.72	74.60	73.51	
	28%	80.76	79.49	78.27	77.07	75.92	74.79	73.70	

		2028 - 2033 Service Revenue Growth Rates							
		76.48	10.70%	10.80%	10.90%	11.00%	11.10%	11.20%	11.30%
2028 - 2033 Product Revenue Growth	7.75%	75.18	75.51	75.84	76.17	76.51	76.85	77.18	
	8.00%	75.28	75.61	75.94	76.27	76.61	76.94	77.28	
	8.25%	75.38	75.71	76.04	76.37	76.71	77.04	77.38	
	8.50%	75.48	75.81	76.14	76.48	76.81	77.15	77.48	
	8.75%	75.58	75.91	76.24	76.58	76.91	77.25	77.59	
	9.00%	75.69	76.02	76.35	76.68	77.02	77.35	77.69	
	9.25%	75.79	76.12	76.45	76.79	77.12	77.46	77.79	

		2024 - 2033 Cost of Revenue as % of Service Revenue							
		76.48	8.6%	9.3%	10.0%	10.7%	11.4%	12.1%	12.8%
2024 - 2033 COGS as % of Product Revenue	37.8%	82.04	80.67	79.29	77.92	76.54	75.17	73.79	
	38.4%	81.56	80.19	78.81	77.44	76.06	74.69	73.31	
	39.0%	81.08	79.71	78.33	76.96	75.58	74.21	72.83	
	39.6%	80.60	79.23	77.85	76.48	75.10	73.72	72.35	
	40.2%	80.12	78.74	77.37	75.99	74.62	73.24	71.87	
	40.8%	79.64	78.26	76.89	75.51	74.14	72.76	71.39	
	41.4%	79.16	77.78	76.41	75.03	73.66	72.28	70.91	

		2024 - 2033 CapEx Growth as % of Revenue							
		76.48	5.8%	6.1%	6.4%	6.7%	7.0%	7.3%	7.6%
2024 - 2033 R&D Growth as % of Revenue	10.7%	80.80	80.19	79.58	78.96	78.35	77.74	77.13	
	11.0%	79.97	79.36	78.75	78.13	77.52	76.91	76.30	
	11.3%	79.14	78.53	77.92	77.30	76.69	76.08	75.47	
	11.6%	78.31	77.70	77.09	76.48	75.86	75.25	74.64	
	11.9%	77.48	76.87	76.26	75.65	75.03	74.42	73.81	
	12.2%	76.65	76.04	75.43	74.82	74.20	73.59	72.98	
	12.5%	75.82	75.21	74.60	73.99	73.37	72.76	72.15	

**Fortinet***Valuation of Options Granted under ESOP*

Current Stock Price	\$66.45
Risk Free Rate	4.53%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	40.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	2,600	9.66	5.00	\$ 58.80	\$ 152,874
Range 2	3,500	19.90	5.00	\$ 51.21	\$ 179,232
Range 3	3,600	44.24	5.00	\$ 36.95	\$ 133,005
Range 4	1,500	62.76	5.00	\$ 29.25	\$ 43,870
Range 5	9,100	0.01	5.00	\$ 66.44	\$ 604,622
Range 6	300	0.01	5.00	\$ 66.44	\$ 19,933
Total	20,600	\$ 16.91	5.00	\$ 53.34	<b>\$ 1,133,536</b>