

BUY

Price: \$63.06

Target: \$77

Upside: 22%

Fortinet Inc. (NASDAQ: FTNT)

Technology Sector






Sector Head: Ryan Levine

Lead Analyst: Nicholas Vines

F**ORTINET**®

Agenda



-  **Company Overview**
-  **Industry Overview**
-  **Investment Thesis**
-  **Catalysts**
-  **Valuation & Risks**

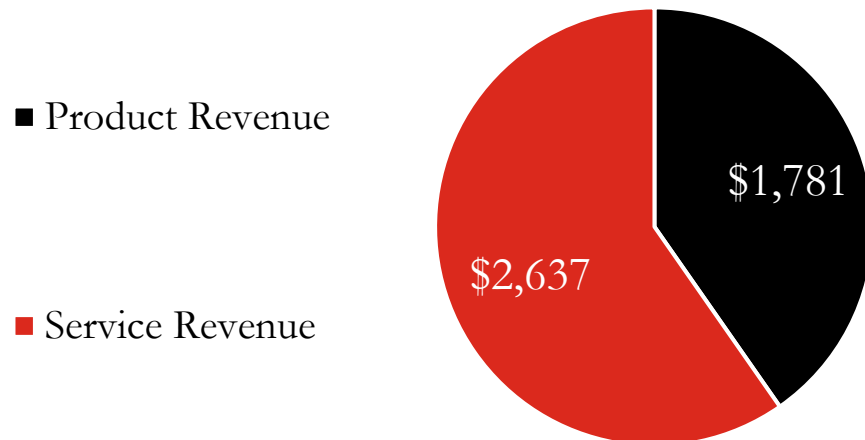
Company Overview



Overview

- Fortinet is a cybersecurity company that offers network security solutions to businesses, governments, and digital service providers
- Fortinet operates in over 100 countries, serving a wide range of industries including financial services, healthcare, retail, and telecommunications
- Fortinet provides its customers with physical and virtual firewalls, VPNs, and overall network security

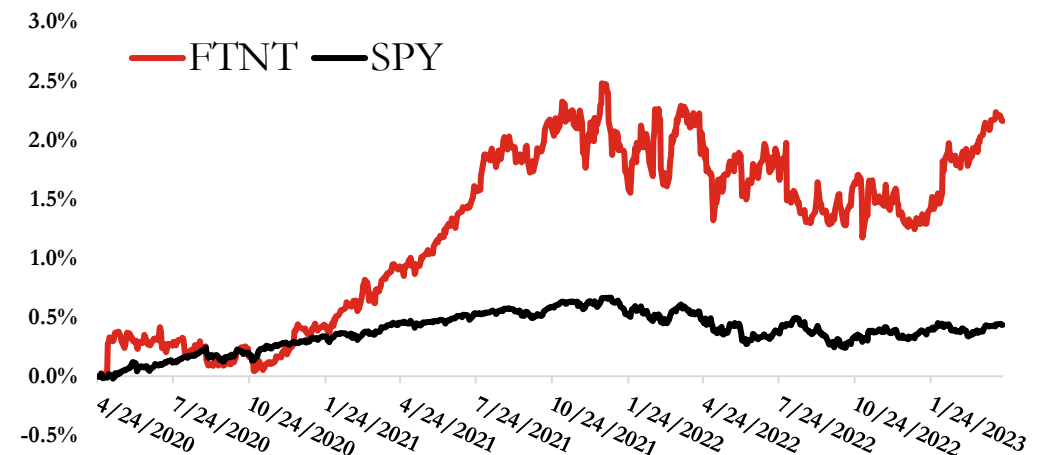
2022 Revenue Breakdown (\$USD Billions)



Key Statistics

Current Share Price	\$63.06
52 Week Range	\$42.61 - \$69.07
Market Capitalization	\$49.5 Billion
Beta (3Y Daily v. SPY)	1.42
EPS	1.06
EBIT	\$973 Million

Daily Relative Performance Chart



Industry Overview



Cybersecurity Industry

- The cybersecurity industry provides security solutions for digital systems and protects sensitive information from unauthorized access, theft, damage, or disruption
- The cybersecurity industry is rapidly growing due to the increasing number of cyberattacks and the rising importance of data privacy and security

Major Players



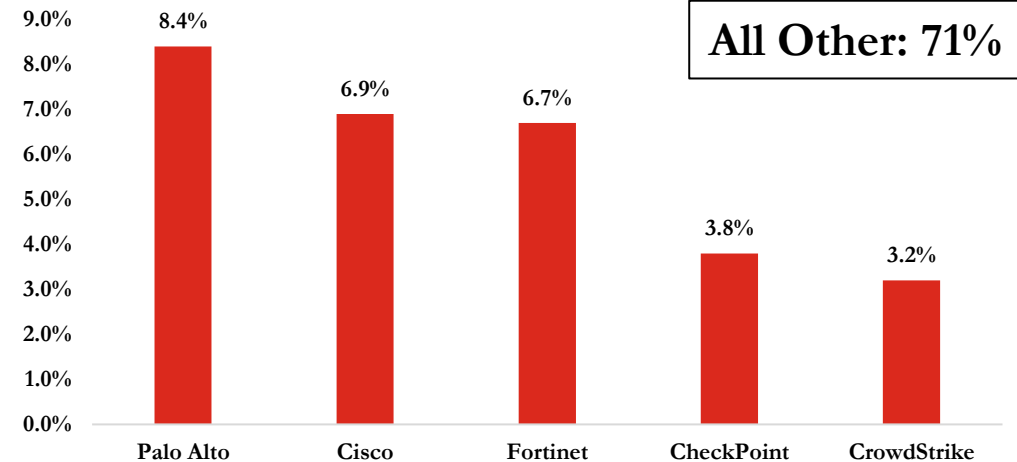
Industry Trends

Cybercrime **increased 38%** in 2022 causing **\$8.4T** in damages

AI and ML have seen **widespread** adoption in threat prevention

There are **14.4B** IoT connected devices in 2023, **up 18%** in 2022

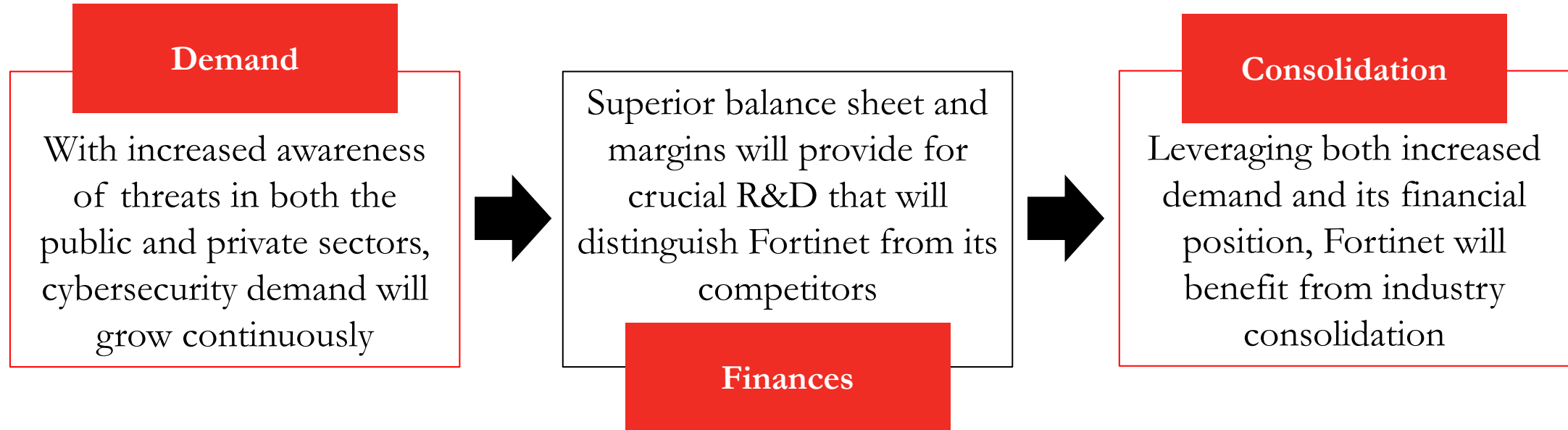
Cybersecurity Industry Market Share



Growth Drivers

- Increasing frequency and sophistication of cyber attacks, with a successful cyberattack occurring every 39 seconds
- Governments are modernizing legislation and mandating the security and privacy of personal information
- Advancements in AI, ML, and blockchain technologies have the potential to increase the efficacy of cybersecurity solutions and overcome new cyber threats

Investment Thesis



The cybersecurity industry will soon enter the consolidation phase of its industry life cycle, as organic growth opportunities are slowly diminishing in key markets



Cybersecurity Inelasticity & Growth

Growth Drivers

Governments worldwide are expanding **regulations** to ensure both **national** and private **security** from novel cyberthreats

With the overall global **cost** of cybercrime **rising**, insurance companies are beginning to **mandate** cybersecurity measures

Cyber threats are becoming increasingly more **sophisticated** and **frequent**, resulting in the need for **best-in-class** security

Capturing Demand

Fortinet operates in over 100 countries, with a suite of **security products** that **scale** to both small and large **enterprises**

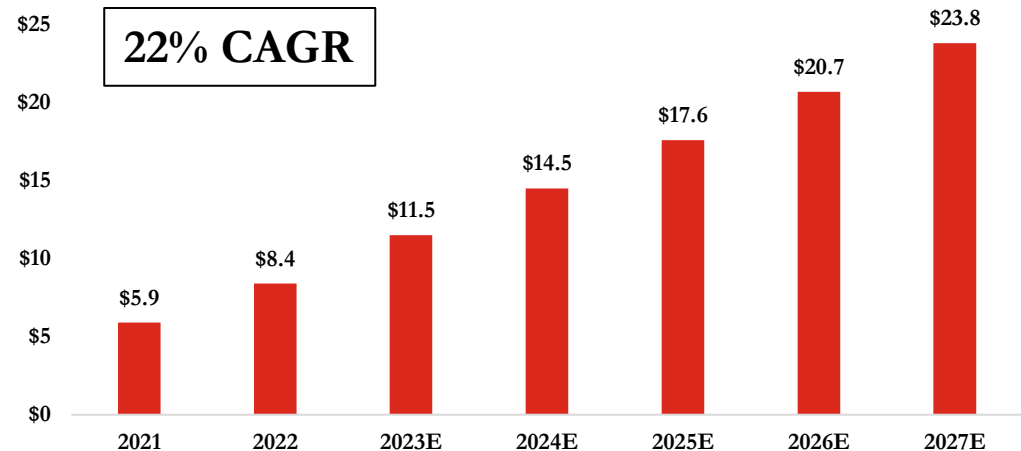
With shifts to **cloud computing** occurring globally, Fortinet is the **#1 ranked** network security firm and directly stands to **benefit**

Fortinet is at the forefront of cybersecurity **innovation** and has the **largest** portfolio of **network security** technologies in the world

General Data Protection Regulation (EU)

- The gold standard for data privacy, the GDPR is currently being emulated by many nations and political unions around the world
- Effectively makes enterprises forced buyers of cybersecurity services and cyber insurance
- Provides cybersecurity industry with significant sustained demand as cyber threats only continue to evolve and become more costly and harmful

Global Cost of Cybercrime (\$USD Trillions)



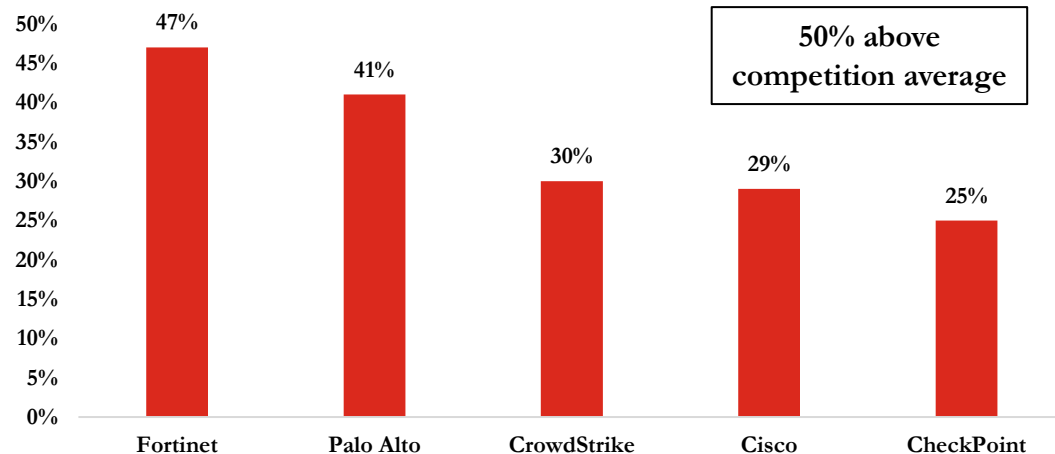


Financial Position

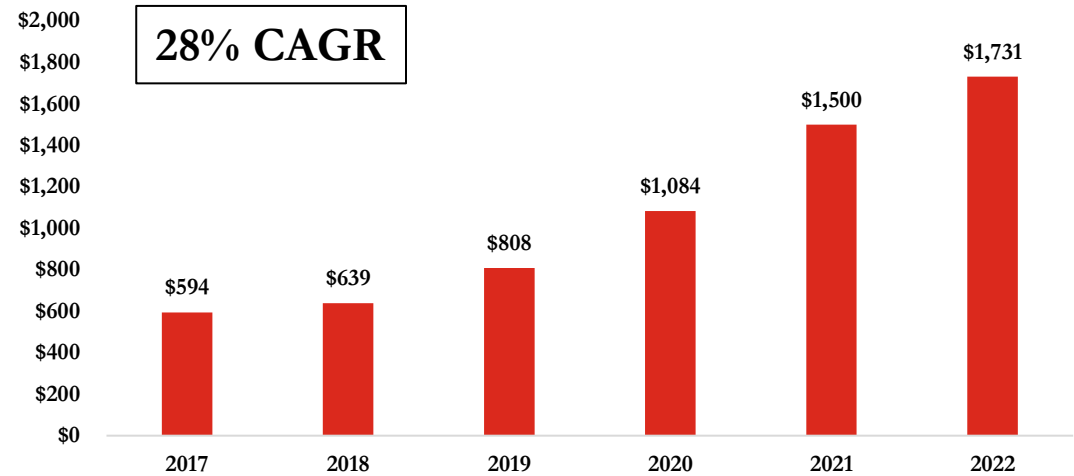
Reinvestment

- Fortinet's **fortress** balance sheet gives them a **competitive edge**, with \$1.7B in cash and securities and <\$1B in debt
- High cash balances will allow Fortinet to continue to **reinvest** in its **core service business** and to fund R&D
- Despite elevated **interest rates** forcing competitors to cut costs and **scale back** on growth, in 2022 Fortinet's revenue segments experienced **significant growth** with profits **up 41%** and over **33% growth** in EMEA and APAC

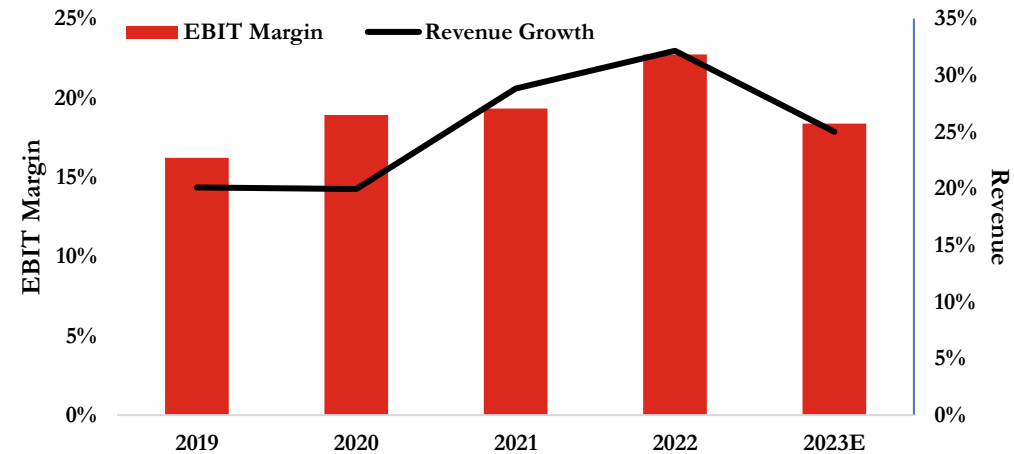
2022 FCF Margins



Operating Cash Flow Growth



Strong EBIT Margin and Revenue Growth



Acquisitions and Industry Consolidation



History of Effective Acquisitions



OPAQ Networks, gave Fortinet an industry edge in cloud security capabilities, resulting in best-in-class network security



EnSilo, bolstered Fortinet's ability to offer customers faster endpoint threat detection



ZoneFox, allowed Fortinet to develop its insider threat detection and threat prevention systems

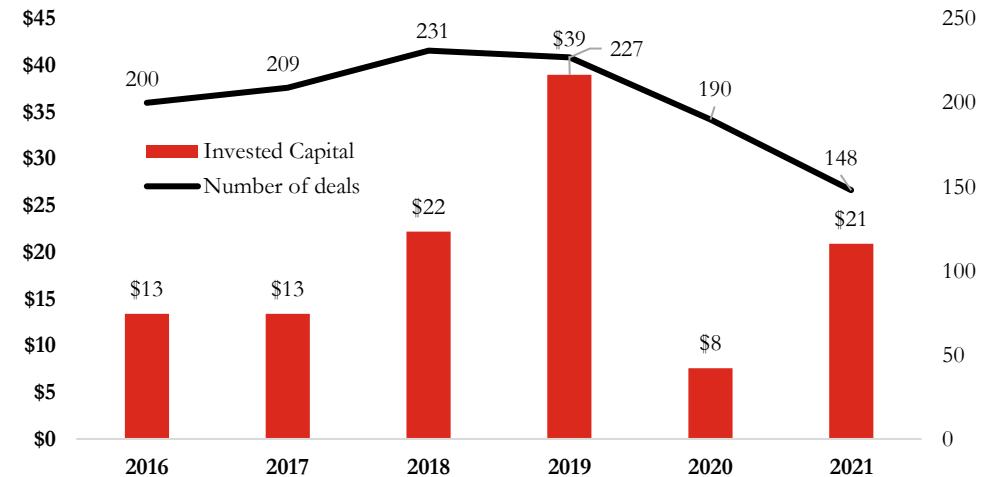
Consolidation Drivers

With the average data breach costing over **\$8 million**, all major companies already have cybersecurity systems

Despite substantial remaining global demand, significant amounts of addressable market are **restricted** due to national security regulations

With **organic** growth opportunities dwindling, Fortinet is primed to **gain market share** through industry consolidation

Global Cybersecurity M&A (\$USD Billions)



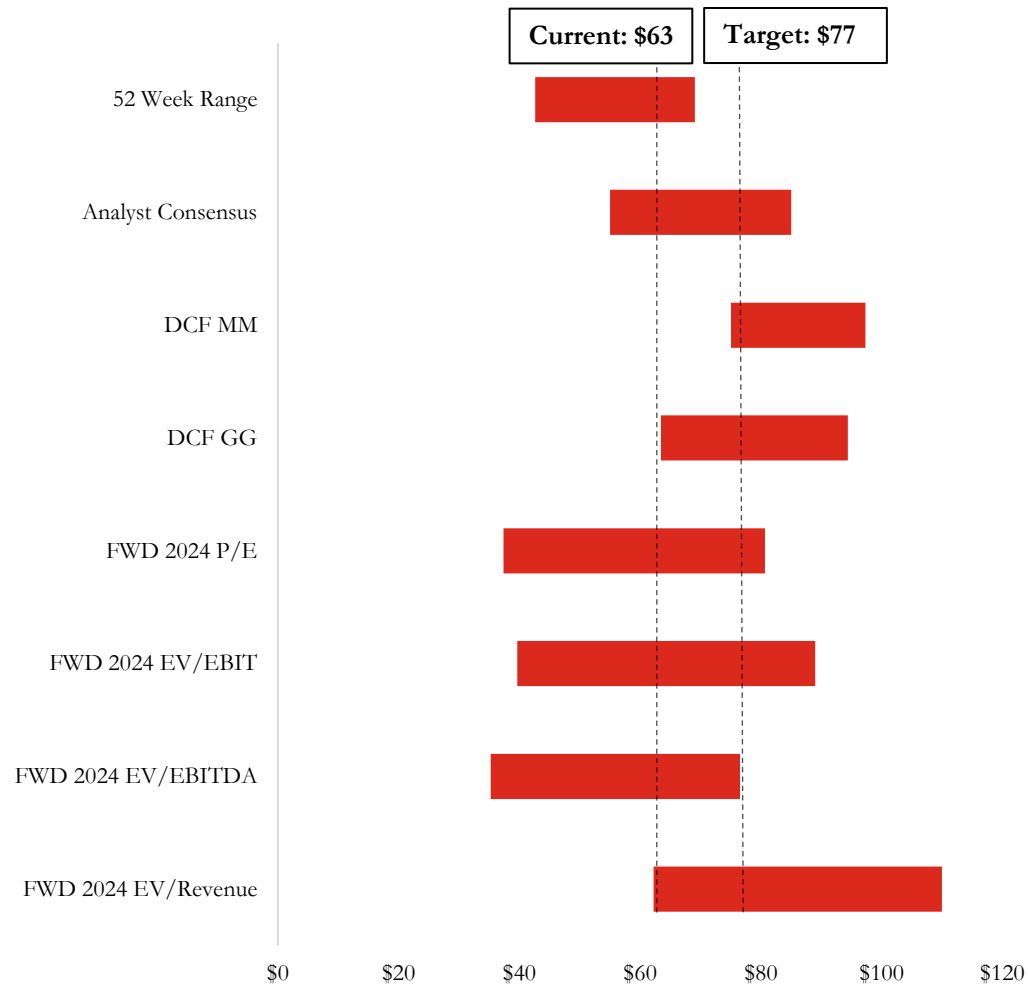
Fortinet's Superior Industry Position

- As the global shift to **cloud computing** persists, Fortinet's **expertise** in network security will allow it to win contracts
- Security is a **trust-based industry**, and Fortinet is consistently **ranked first** in network firewalls and security
- Large customers require global partners, with Fortinet being one of the **few firms** able to support global accounts, demonstrated by 3 years of **double-digit** revenue growth in both EMEA and APAC

Valuation & Risks



Football Field



Potential Risks

- Fierce **competition** within the cybersecurity industry drives market share to competing firms, hurting Fortinet's ability to win contracts
- Despite **635k+** customers, significant **revenue** comes from a small number of **large clients**, resulting in isolated risk
- A potential **cybersecurity breach** could permanently harm Fortinet's reputation as an **industry leader** in security

Bull/Base/Bear Case

Bull	Base	Bear
LTM EV/EBIT 16.87x	FWD EV/EBIT 14.85x	FWD EV/REV 6.6x
Decreases in interest rates drives capital back into tech stocks	Exploits increased demand, financial position, and consolidation	Outcompeted in the cybersecurity industry, losing market share
<u>\$92</u>	<u>\$77</u>	<u>\$49</u>

BUY

Price: \$63.06

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Thank you! Questions?

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Appendix A: IS



Fortinet, Inc Consolidated Income Statements (\$USD Millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Revenues										
Total revenue	\$ 2,163	\$ 2,594	\$ 3,342	\$ 4,417	\$ 5,522	\$ 6,726	\$ 8,044	\$ 9,442	\$ 10,651	\$ 11,397
% Growth		20%	29%	32%	25%	22%	20%	17%	13%	7%
Total cost of revenue	\$ 506	\$ 570	\$ 783	\$ 1,085	\$ 1,249	\$ 1,406	\$ 1,551	\$ 1,686	\$ 1,805	\$ 1,890
COGS Margin	23%	22%	23%	25%	23%	21%	19%	18%	17%	17%
Total gross profit	\$ 1,657	\$ 2,024	\$ 2,559	\$ 3,333	\$ 4,273	\$ 5,320	\$ 6,493	\$ 7,756	\$ 8,846	\$ 9,507
Expenses										
Research and development	277	341	424	512	1,104	1,009	1,046	1,133	1,278	1,368
% of Revenue	13%	13%	13%	12%	20%	15%	13%	12%	12%	12%
Sales and marketing	927	1,072	1,346	1,686	1,988	2,287	2,574	2,832	2,982	2,849
% of Revenue	43%	41%	40%	38%	36%	34%	32%	30%	28%	25%
General and administrative	102	120	144	169	166	202	161	189	107	114
% of Revenue	5%	5%	4%	4%	3%	3%	2%	2%	1%	1%
Total SG&A Expense	\$ 1,029	\$ 1,192	\$ 1,490	\$ 1,855	\$ 2,153	\$ 2,489	\$ 2,735	\$ 3,021	\$ 3,089	\$ 2,963
Total operating expenses	\$ 1,306	\$ 1,533	\$ 1,913	\$ 2,368	\$ 3,258	\$ 3,497	\$ 3,781	\$ 4,154	\$ 4,367	\$ 4,331
EBIT	\$ 351	\$ 492	\$ 646	\$ 965	\$ 1,015	\$ 1,823	\$ 2,712	\$ 3,601	\$ 4,479	\$ 5,176
EBIT Margin	16%	19%	19%	22%	18%	27%	34%	38%	42%	45%
Interest income	43	18	5	17						
Interest expense	0	0	(15)	(18)						
% of Revenue	0.00%	0.00%	-0.45%	-0.41%						
Other expense, net	(8)	(8)	(12)	(14)						
Income before income taxes and loss from equity method investment	386	542	628	956						
Provision for income taxes	54	53	14	31						
Loss from equity method investment	0	0	(8)	(68)						
Net income including non-controlling interests	332	489	607	857						
Less: Net loss attributable to non controlling interests, net of tax	0	0	(0)	(1)						
Net Income	\$ 332	\$ 489	\$ 607	\$ 856	\$ 1,015	\$ 1,823	\$ 2,712	\$ 3,601	\$ 4,479	\$ 5,176
% Growth		47%	24%	41%	19%	80%	49%	33%	24%	16%
Profit Margin	15%	19%	18%	19%	18%	27%	34%	38%	42%	45%
Net income per share attributable to Fortinet, Inc.										
Basic (in dollars per share)	1.9	3.0	3.7	1.1						
Diluted (in dollars per share)	1.9	2.9	3.6	1.1						
Weighted-average shares used to compute net income per share										
Basic (in shares)	171.0	164.2	163.2	791.4						
Diluted (in shares)	175.0	167.7	167.1	805.3						

Appendix B: BS



Fortinet, Inc Consolidated Balance Sheets (\$USD Millions)	FY 2019	FY 2020	FY 2021	FY 2022
Current Assets				
Cash and cash equivalents	1,222.5	1,061.8	1,319.1	1,682.9
Short-term investments	843.1	775.5	1,194.0	502.6
Marketable equity securities	0.0	0.0	38.6	25.5
Accounts receivable—Net of allowance	544.3	720.0	807.7	1,261.7
Inventory	117.9	139.8	175.8	264.6
Prepaid expenses and other current assets	41.2	43.3	65.4	73.1
Total current assets	\$ 2,769	\$ 2,740	\$ 3,601	\$ 3,810
Long Term Investments	144.3	118.3	440.8	45.5
Property and equipment, net	344.3	448.0	687.6	898.5
Deferred contract costs	237.0	304.8	423.3	518.2
Deferred tax assets	226.3	245.2	342.3	569.4
Goodwill	31.1	93.0	125.1	128.0
Other intangible assets, net	67.2	31.6	63.6	56.0
Other assets	60.0	63.2	235.8	202.0
Total Assets	\$ 3,879	\$ 4,045	\$ 5,919	\$ 6,228
Current Liabilities				
Accounts payable	96.4	141.6	148.4	243.4
Accrued liabilities	101.8	149.2	197.3	266.3
Accrued payroll and compensation	101.8	145.9	195.0	219.4
Deferred revenue	1,155.8	1,392.8	1,777.4	2,349.3
Total current liabilities	\$ 1,456	\$ 1,830	\$ 2,318	\$ 3,078
Deferred revenue	953.3	1,212.5	1,675.5	2,291.0
Income tax liabilities	82.8	90.3	79.5	67.8
Long-term debt	0.0	0.0	988.4	990.4
Other liabilities	44.9	56.2	59.2	82.0
Total liabilities	\$ 2,537	\$ 3,189	\$ 5,121	\$ 6,510
Stockholders' Equity				
Common stock	0.2	0.2	0.8	0.8
Additional paid-in capital	1,180.3	1,207.2	1,253.6	1,284.2
Accumulated other comprehensive loss	1.1	0.7	(4.8)	(20.2)
Accumulated deficit	160.8	(352.1)	(467.9)	(1,546.4)
Total Fortinet, Inc. stockholders' equity (deficit)	1,342.4	856.0	798.4	(281.6)
Non-controlling interests	0.0	0.0	16.7	0.0
Total Equity (deficit)	\$ 1,342	\$ 856	\$ 798	\$ (282)
Total Liabilities and Equity (deficit)	\$ 3,879	\$ 4,045	\$ 5,919	\$ 6,228

Appendix C: CFS



Fortinet, Inc Consolidated statements of cash flows (\$USD Millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Cash flows from operating activities										
Net income including non-controlling interests	\$ 331.7	\$ 488.5	\$ 606.6	\$ 855.9	\$ 1,015.2	\$ 1,822.7	\$ 2,712.1	\$ 3,601.2	\$ 4,479.1	\$ 5,176.2
Adjustments to reconcile net income to net cash provided by operating activities:										
Stock-based compensation	174.1	191.7	207.9	217.3						
Amortization of deferred contract costs	107.9	137.4	175.9	223.3						
Depreciation and amortization	61.6	68.8	84.4	104.3	157	191	229	269	303	324
% of CapEx	67%	55%	29%	37%	47%	47%	47%	47%	47%	47%
Amortization of investment premiums (discounts)	(6.0)	1.3	6.9	4.4						
Loss from equity method investment	0.0	0.0	7.6	68.1						
Other	5.7	6.0	7.9	23.6						
Changes in operating assets and liabilities, net of impact of business combinations:										
Accounts receivable—net	(96.7)	(176.4)	(72.5)	(456.7)						
Inventory	(48.5)	(42.2)	(19.4)	(109.1)						
Prepaid expenses and other current assets	(2.1)	(2.8)	(17.7)	(7.7)						
Deferred contract costs	(162.3)	(205.1)	(294.5)	(318.2)						
Deferred tax assets	19.4	(10.5)	(94.0)	(226.4)						
Other assets	(1.3)	(4.6)	(19.0)	(35.3)						
Accounts payable	7.7	37.4	(13.1)	105.2						
Accrued liabilities	(20.2)	45.8	49.9	55.2						
Accrued payroll and compensation	(2.7)	43.1	44.0	25.0						
Other liabilities	(0.2)	9.7	(0.7)	23.5						
Deferred revenue	439.9	495.6	839.4	1,177.5						
Net cash provided by operating activities	\$ 808	\$ 1,084	\$ 1,500	\$ 1,730						
Cash flows from investing activities										
Purchases of investments	(1,332.3)	(1,079.0)	(2,308.0)	(389.1)						
Sales of investments	31.3	152.2	85.5	3.0						
Maturities of investments	925.5	1,018.8	1,470.3	1,462.0						
Purchases of property and equipment	(92.2)	(125.9)	(295.9)	(281.2)	336	409	489	574	648	693
% of Sales	4%	5%	9%	6%	6%	6%	6%	6%	6%	6%
Purchases of investment in privately held company	0.0	0.0	(160.0)	0.0						
Payments made in connection with business combinations, net of cash acquired	(34.6)	(40.2)	(74.9)	(30.8)						
Purchases of marketable equity securities	0.0	0.0	(42.5)	0.0						
Purchases of marketable equity securities	0.0	1.3	0.4	0.0						
Net cash used in investing activities	\$ (502)	\$ (73)	\$ (1,325)	\$ 764						
Cash flows from financing activities										
Proceeds from long-term borrowings, net of discount and underwriting fees	0.0	0.0	989.4	0.0						
Payments for debt issuance costs	0.0	0.0	(2.4)	0.0						
Payments of debt assumed in connection with business combination	(3.7)	(4.1)	(19.5)	0.0						
Repurchase and retirement of common stock	(145.1)	(1,080.1)	(741.8)	(1,991.2)						
Proceeds from issuance of common stock	49.5	22.1	26.0	26.1						
Taxes paid related to net share settlement of equity awards	(96.0)	(108.2)	(167.9)	(160.4)						
Other	(0.3)	(1.3)	(1.0)	(4.8)						
Net cash provided by (used in) financing activities	\$ (196)	\$ (1,172)	\$ 83	\$ (2,130)						
Effect of exchange rate changes on cash and cash equivalents	0.0	0.0	(0.1)	(0.4)						
Net increase (decrease) in cash and cash equivalents	110.1	(160.7)	257.3	363.8						
Cash and cash equivalents - Beginning of year	1,112.4	1,222.5	1,061.8	1,319.1						
Cash and cash equivalents - End of year	1,222.5	1,061.8	1,319.1	1,682.9						
Supplemental disclosures of cash flow operations										
Cash paid for income taxes-net	58.7	39.7	127.4	260.2						
Operating lease liabilities arising from obtaining right-of-use assets	20.4	22.8	39.6	65.8						
Finance lease liabilities arising from obtaining right-of-use assets	3.6	0.0	0.1	0.7						
Cash paid to settle liability incurred for repurchase of common stock	4.2	0.0	0.0	0.0						
Non-cash investing and financing activities										
Transfers of evaluation units from inventory to property and equipment	21.1	20.9	15.9	17.1						
Liability for purchase of property and equipment	16.0	30.8	21.9	21.2						
Liability incurred in connection with business combination	3.0	0.4	0.9	0.8						

Appendix D: Revenue Build



Fortinet, Inc											
Revenue Build (\$USD Millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	
Product											
Total revenue	\$ 789	\$ 916	\$ 1,255	\$ 1,781	2,226	2,738	3,258	3,746	4,158	4,449	
% Growth		16%	37%	42%	25%	23%	19%	15%	11%	7%	
% of Annual Revenue	36%	35%	38%	40%	40%	41%	40%	40%	39%	39%	
Cost of Product revenue	325	352	488	691	816	938	1,051	1,156	1,248	1,311	
% Growth		9%	38%	42%	18%	15%	12%	10%	8%	5%	
% of Annual Revenue	15%	14%	15%	16%	15%	14%	13%	12%	12%	11%	
Product Gross Profit	\$ 464	\$ 564	\$ 767	\$ 1,089	\$ 1,410	\$ 1,799	\$ 2,207	\$ 2,591	\$ 2,910	\$ 3,139	
Service											
Total revenue	\$ 1,375	\$ 1,678	\$ 2,087	\$ 2,637	3,296	3,988	4,786	5,695	6,493	6,947	
% Growth		22%	24%	26%	25%	21%	20%	19%	14%	7%	
% of Annual Revenue	64%	65%	62%	60%	60%	59%	60%	60%	61%	61%	
Cost of Service revenue	181	218	295	394	433	468	500	530	557	579	
% Growth		20%	36%	33%	10%	8%	7%	6%	5%	4%	
% of Annual Revenue	8%	8%	9%	9%	8%	7%	6%	6%	5%	5%	
Service Gross Profit	\$ 1,193	\$ 1,460	\$ 1,792	\$ 2,243	\$ 2,863	\$ 3,521	\$ 4,286	\$ 5,165	\$ 5,936	\$ 6,368	
Total Revenues	\$ 2,163	\$ 2,594	\$ 3,342	\$ 4,417	5,522	6,726	8,044	9,442	10,651	11,397	
% Growth		20%	29%	32%	25%	22%	20%	17%	13%	7%	
Total Cost of revenue	\$ 506	\$ 570	\$ 783	\$ 1,085	1,249	1,406	1,551	1,686	1,805	1,890	
% Growth		13%	37%	39%	15%	13%	10%	9%	7%	5%	
Total Gross Profit	\$ 1,657	\$ 2,024	\$ 2,559	\$ 3,333	\$ 4,273	\$ 5,320	\$ 6,493	\$ 7,756	\$ 8,846	\$ 9,507	

Appendix E: Revenue by Geography



Revenue by geography (\$USD Millions)	FY 2019	FY 2020	FY 2021	FY 2022
Americas	920	1,077	1,359	1,785
<i>% Growth</i>		17%	26%	31%
<i>% of Annual Revenue</i>	43%	42%	41%	40%
EMEA	817	992	1,276	1,692
<i>% Growth</i>		21%	29%	33%
<i>% of Annual Revenue</i>	38%	38%	38%	38%
APAC	426	525	708	941
<i>% Growth</i>		23%	35%	33%
<i>% of Annual Revenue</i>	20%	20%	21%	21%
Total Revenues	\$ 2,163	\$ 2,594	\$ 3,342	\$ 4,417

Appendix F: WACC



Fortinet, Inc WACC	
Cost of Equity	
Beta	1.42
Risk-Free Rate	3.52%
Expected Market Return	8%
Cost of Equity	9.89%
Cost of Debt	
Pre-Tax Cost of Debt	1.80%
Effective Tax Rate	14.0%
Cost of Debt	1.55%
Current Share Price	\$63.06
Shares Outstanding	784,070,000
Market Capitalization	\$ 49,443,454,200
Debt Outstanding	\$ 990,400,000
Total Capitalization	\$ 50,433,854,200
Weight of Equity	98.04%
Weight of Debt	1.96%
WACC	9.72%

Appendix G: Cost Of Debt



Fortinet, Inc. Cost of Debt Calculation (\$USD Millions)					
	Maturity Year	Effective YTM	Weight		Value
	2026 Senior Notes	1.30%	50%	\$	500
	2031 Senior Notes	2.30%	50%	\$	500
Total Face Value				\$	1,000
Less: Unamortized discount and debt issuance costs				\$	9.60
Total Debt				\$	990.4
Pre-Tax Cost of Debt					1.80%

Appendix H: Comps



Fortinet, Inc							
Comparable Companies Analysis (\$USD in Millions, except per share data)							
	Ticker	Share Price	Market Cap	Sharecount	Cash	Total Debt	EV
Fortinet, Inc	FTNT	\$63.06	49,443	784	1,683	990	\$48,751
Ansys	ANSS	\$ 312.70	27,146	87	615	275	\$26,806
Tyler Technologies	TYL	\$ 364.01	15,250	42	211	835	\$15,874
SAP	SAP	\$ 133.43	155,729	1,229	9,862	4,509	\$150,376
Okta	OKTA	\$ 75.96	12,251	154	2,580	2,370	\$12,041
Checkpoint	CHKP	\$ 131.83	16,533	125	1,640	22	\$14,915
CrowdStrike	CRWD	\$ 132.25	31,193	222	2,710	783	\$29,266
Palo Alto Networks	PANW	\$ 193.25	58,479	302	3,350	3,950	\$59,079
Cisco Systems	CSCO	\$ 47.03	192,626	4,100	22,060	9,960	\$180,526

LTM							
Revenue	EBITDA	EBIT	EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
4,417	1,070	973	1.06	11.04	45.56	50.10	59.49
2,073	752	610	6.11	12.93	35.63	43.92	51.18
1,850	393	214	3.96	8.58	40.41	74.11	91.92
30,871	6,568	4,672	1.96	4.87	22.90	32.19	68.08
1,860	(662)	(790)	(5.06)	6.47	NM	NM	NM
2,330	908	884	6.26	6.40	16.43	16.87	21.06
2,240	(117)	(134)	(0.78)	13.07	NM	NM	NM
6,160	245	103	0.08	9.59	NM	NM	NM
53,160	15,810	14,497	2.73	3.40	11.42	12.45	17.23

Multiples				
Minimum	3.40	11.42	12.45	17.23
Quartile 1	6.02	16.43	16.87	21.06
Median	7.53	22.90	32.19	51.18
Quartile 3	10.43	35.63	43.92	68.08
Maximum	13.07	40.41	74.11	91.92
Valuation				
Minimum	20.02	16.47	16.34	18.26
Quartile 1	34.79	23.30	21.82	22.32
Median	43.29	32.13	40.83	54.25
Quartile 3	59.62	49.50	55.39	72.16
Maximum	74.49	56.03	92.85	97.44

FWD 2024 FY Forecast							
Revenue	EBITDA	EBIT	EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
6,726	1,816	1,823	1.68	7.25	26.85	26.75	37.54
2,284	1,036	950	8.64	11.74	25.87	28.20	36.19
1,955	486	443	7.58	8.12	32.67	35.85	48.02
31,361	9,633	8,532	5.17	4.80	15.61	17.62	25.81
2,166	189	141	0.76	5.56	NM	NM	NM
2,433	1,060	1,071	7.97	6.13	14.07	13.93	16.54
2,994	608	503	2.29	9.77	NM	NM	NM
8,367	2,170	1,858	4.63	7.06	27.23	31.80	41.74
58,993	21,585	19,896	4.03	3.06	8.36	9.07	11.67

Multiples				
Minimum	3.06	8.36	9.07	11.67
Quartile 1	5.37	14.46	14.85	18.86
Median	6.60	20.74	22.91	31.00
Quartile 3	8.53	26.89	30.90	40.35
Maximum	11.74	32.67	35.85	48.02
Valuation				
Minimum	27.13	20.25	21.98	19.61
Quartile 1	46.93	34.36	35.41	31.68
Median	57.46	48.93	54.15	52.08
Quartile 3	74.09	63.16	72.71	67.79
Maximum	101.55	76.55	84.22	80.68

Appendix I: NWC



Fortinet, Inc Net Working Capital (\$USD in Millions)	FY 2019	FY 2020	FY 2021	FY 2022	2023E	2024E	2025E	2026E	2027E	2028E
Current assets										
Accounts receivable, net	544	720	808	1,262	1,458	1,776	2,124	2,494	2,813	3,010
AR Days	92	101	88	104	96	96	96	96	96	96
Inventories	118	140	176	265	296	333	367	399	427	447
INV Days	85	90	82	89	86	86	86	86	86	86
Prepaid expenses and other current assets	41	43	65	73	99	121	161	189	213	228
% of revenue	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total current assets	\$ 703	\$ 903	\$ 1,049	\$ 1,599	\$ 1,853	\$ 2,230	\$ 2,652	\$ 3,082	\$ 3,453	\$ 3,685
Current liabilities										
Accounts payable	96	142	148	243	266	300	331	359	385	403
AP Days	70	91	69	82	78	78	78	78	78	78
Accrued Liabilities	102	149	197	266	258	274	273	302	309	296
% of SG&A	10%	13%	13%	14%	12%	11%	10%	10%	10%	10%
Accrued payroll and compensation	102	146	195	219	237	249	246	242	247	207
% of SG&A	10%	12%	13%	12%	11%	10%	9%	8%	8%	7%
Deferred revenue	1,156	1,393	1,777	2,349	2,871	3,430	4,022	4,626	5,112	5,356
% of revenue	53%	54%	53%	53%	52%	51%	50%	49%	48%	47%
Total current liabilities	\$ 1,456	\$ 1,830	\$ 2,318	\$ 3,078	\$ 3,633	\$ 4,252	\$ 4,872	\$ 5,530	\$ 6,053	\$ 6,263
NWC	\$ (752)	\$ (926)	\$ (1,269)	\$ (1,479)	\$ (1,780)	\$ (2,023)	\$ (2,220)	\$ (2,448)	\$ (2,600)	\$ (2,578)
ΔNWC	\$ (174)	\$ (343)	\$ (210)	\$ (301)	\$ (243)	\$ (197)	\$ (228)	\$ (152)	\$ (152)	\$ 22
Sales	\$ 2,163	\$ 2,594	\$ 3,342	\$ 4,417	\$ 5,522	\$ 6,726	\$ 8,044	\$ 9,442	\$ 10,651	\$ 11,397
COGS	\$ 506	\$ 570	\$ 783	\$ 1,085	\$ 1,249	\$ 1,406	\$ 1,551	\$ 1,686	\$ 1,805	\$ 1,890
AR Days	92	101	88	104	96	96	96	96	96	96
INV Days	85	90	82	89	86	86	86	86	86	86
AP Days	70	91	69	82	78	78	78	78	78	78

Appendix J: DCF



Fortinet, Inc										
Discounted Cash Flows (\$USD in Millions)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
EBIT	351	492	646	965	1,015	1,823	2,712	3,601	4,479	5,176
(1-T)	86%	86%	86%	86%	86%	86%	86%	86%	86%	86%
NOPAT	302	423	555	830	873	1,568	2,332	3,097	3,852	4,451
Add: D&A	62	69	84	104	157	191	229	269	303	324
Less: CapEx	(92)	(126)	(296)	(281)	336	409	489	574	648	693
Less: ΔNWC		(174)	(343)	(210)	(301)	(243)	(197)	(228)	(152)	22
FCFF	\$ 271	\$ 540	\$ 687	\$ 863	\$ 1,667	\$ 2,411	\$ 3,248	\$ 4,169	\$ 4,955	\$ 5,447
<i>FCFF (Ex-WC)</i>	271	366	344	653	1,366	2,168	3,051	3,940	4,803	5,469
Discount Factor					0.5	1.5	2.5	3.5	4.5	5.5
PV of Cash Flow					\$ 1,591	\$ 2,098	\$ 2,575	\$ 3,012	\$ 3,263	\$ 3,270

WACC	9.72%
Terminal Growth Rate	2.50%
Terminal Multiple EV/EBIT	14.85

Gordon Growth	
WACC	9.72%
Terminal Growth Rate	2.50%
Terminal Value	77,284
PV of Terminal Value	46,390.45
Enterprise Value	\$ 62,200
Less: Debt	990
Add: Cash	1,683
Equity Value	\$ 62,893
Diluted Shares Outstanding	784
Price Per Share	\$ 80.21

Multiples	
Terminal EBITDA	5,500
WACC	9.72%
EV/EBIT	14.85
Terminal Value	81,685
PV of Terminal Value	49,032
Enterprise Value	\$ 64,842
Less: Debt	990
Add: Cash	1,683
Equity Value	\$ 65,535
Diluted Shares Outstanding	784
Price Per Share	\$ 83.58

		Perpetuity Growth Rate				
		2.00%	2.25%	2.50%	2.75%	3.00%
WACC	8.77%	87.57	90.27	93.18	96.33	99.76
	9.27%	81.19	83.47	85.92	88.56	91.42
	9.77%	75.63	77.59	79.68	81.91	84.32
	10.27%	70.76	72.44	74.24	76.15	78.20
	10.77%	66.44	67.91	69.47	71.12	72.88

		Multiples Method				
		14.78	15.28	15.78	16.28	16.78
WACC	8.77%	86.96	89.16	91.37	93.58	95.79
	9.27%	85.01	87.16	89.31	91.47	93.62
	9.77%	83.11	85.21	87.31	89.41	91.52
	10.27%	81.27	83.32	85.37	87.42	89.47
	10.77%	79.48	81.48	83.48	85.48	87.48

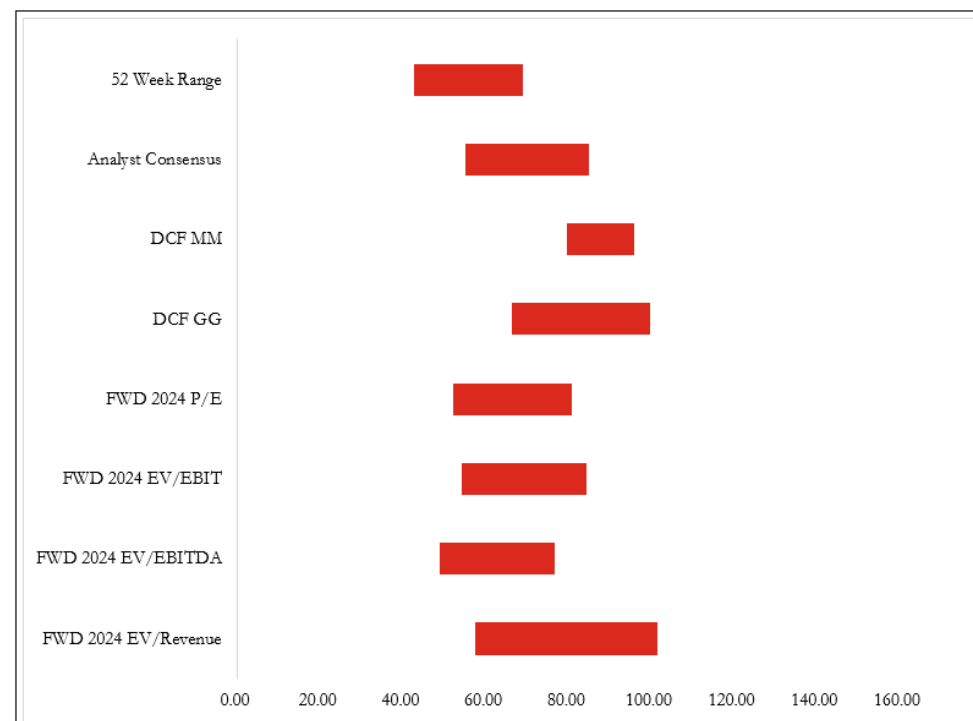
Appendix K: Football Field



Football Field			
Metric	Median (\$USD)	Spread (\$USD)	Max (\$USD)
LTM EV/Revenue	43.29	31.20	74.49
LTM EV/EBITDA	32.13	23.91	56.03
LTM EV/EBIT	40.83	52.03	92.85
LTM P/E	54.25	43.19	97.44
FWD 2024 EV/Revenue	57.46	44.09	101.55
FWD 2024 EV/EBITDA	48.93	27.63	76.55
FWD 2024 EV/EBIT	54.15	30.07	84.22
FWD 2024 P/E	52.08	28.60	80.68
DCF GG	66.44	33.31	99.76
DCF MM	79.48	16.31	95.79
Analyst Consensus	55.00	30.00	85.00
52 Week Range	42.61	26.46	69.07

Analyst Consensus	Target Price
Cowen	\$85
Truist Securities	\$82
Scotiabank	\$80
Jefferies	\$80
Morgan stanley	\$77
Barclays	\$75
Credit Suisse	\$73
Goldman Sachs	\$73
Argus Research	\$70
Deutsche Bank	\$63
Evercore ISI	\$60
JP Morgan	\$55

Target Price Calculation	Share Value	Weight	Weighted Value
FWD 2024 P/E	\$66.38	25.00%	16.59
FWD 2024 EV/EBITDA	\$62.74	25.00%	15.68
FWD 2024 EV/EBIT	\$69.19	25.00%	17.30
FWD 2024 EV/Revenue	\$79.51	25.00%	19.88
Comps Target Price			\$ 69.45
GG	\$ 80.21	33.00%	\$ 26.47
MM	\$ 83.58	33.00%	\$ 27.58
Comps	\$ 69.45	33.00%	\$ 22.92
Target Price			\$ 76.97
% Upside			22.06%



Appendix L: Bull Bear Base



Bull Case (Multiples Method)	
Terminal EBITDA	5,500
WACC	9.72%
EV/EBIT	22.91
Terminal Value	126,040
PV of Terminal Value	75656.63
Enterprise Value	\$ 91,466
Less: Debt	990
Add: Cash	1,683
Equity Value	\$ 92,159
Diluted Shares Outstanding	784
Price Per Share	\$ 117.54


Bear Case (Multiples Method)	
Terminal EBITDA	5,500
WACC	9.72%
EV/EBIT	9.07
Terminal Value	49,908
PV of Terminal Value	29,957.66
Enterprise Value	\$ 45,767
Less: Debt	990
Add: Cash	1,683
Equity Value	\$ 46,460
Diluted Shares Outstanding	784
Price Per Share	\$ 59.25


Base Case (Multiples Method)	
Terminal EBITDA	5,500
WACC	9.72%
EV/EBIT	14.85
Terminal Value	81,685
PV of Terminal Value	49,032.32
Enterprise Value	\$ 64,842
Less: Debt	990
Add: Cash	1,683
Equity Value	\$ 65,535
Diluted Shares Outstanding	784
Price Per Share	\$ 83.58


Appendix M: Fortinet Products (1)




 Application Delivery Controllers - FortiADC


 Network Authentication - FortiAuthenticator


 Cloud Access Security Broker


 FortiConverter Service for Firewall Migration


 FortiCNP Application Container Protection

 FortiDeceptor


 FortiDevSec


 Email Security


 FortiGate Cloud


 FortiGuard Security Subscriptions


 IPS


 FortiLAN Cloud


 FortiManager

 FortiAnalyzer


 Network Based Video Security - FortiCam/FortiRecorder


 FortiClient VPN & ZTNA Agent


 FortiCNP


 FortiDDoS – DDoS Protection Solution


 Fortinet Developer Network


 FortiEDR


 Ethernet Switching

 FortiGate Cloud-Native Firewall

 Identity and Access Management


 Fortisolator


 LTE/5G Wireless WAN


 FortiMonitor


Appendix N: Fortinet Products (2)





 NAC and IoT Security


 Mid-Range Next-Generation Firewalls


 Ultra High-End Next Generation Firewalls


 FortiGate Rugged Next-Generation Firewall (NGFW)


 FortiOS-Carrier


 FortiPAM


 FortiPortal


 FortiProxy


 Sandbox


 Secure Web Gateway (SWG) Solutions


 FortiSOAR: Accelerate SOC Operations


 FortiToken Cloud

 FortiTrust Identity


 Web Application Firewall - FortiWeb


 Entry Level Next Generation Firewalls


 High-End Next Generation Firewalls


 Chassis-Based Next-Generation Firewalls


 FortiOS


 Dynamic Application Security Testing (DAST)


 FortiPolicy


 Private Cloud Security


 Public Cloud Security


 SASE Solution - Secure Access Service Edge

 FortiSIEM

 Network Testing - FortiTester

 FortiToken Mobile

 FortiVoice Secure Unified Communications and Collaboration

 Wireless LAN (WLAN)

Appendix O: Cyber Industry Growth

