NUS INVESTMENT SOCIETY

Fortinet Inc, (NASDAQ: FTNT)

BUY: US$57.00 (+24.1%)

Equity Research Department - TMT

Date: 3rd November 2022

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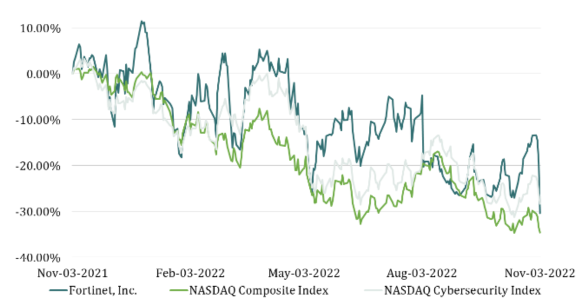
Basic Information

Last Closed Price	US$45.93
12M Target Price	US$57.00
+/- Potential	+24.1%
Bloomberg Ticker	FTNT: US
GICS Sector	Technology
GICS Sub-Industry	Software & Tech Services

1Y Price v Relative Indexes



Company Description

Fortinet, Inc. provides a full suite of integrated cybersecurity solutions (from firewalls to endpoint protection) globally. It sells its security solutions directly and to channels and is well-diversified with customers in various industries.

Key Financials

Market Cap	US$36.22b
Basic Shares O/S	US$788.52m
Free Float	84.5%
52-Wk High-Low	US$45.93 - US$73.53
Fiscal Year End	31-Dec-2022

(US$ m)	FY20A	FY21A	FY22E	FY23E
Revenue	4,403.2	5,770.5	7,575.5	9,952.2
Gr Rate (%)	31.7	31.1	31.3	31.4
NPI	488.5	606.8	542.0	799.4
Margin (%)	18.8	18.2	12.3	13.9
ROE *(%)*	12.3	12.2	8.5	10.7
ROA *(%)*	44.4	73.4	44.7	36.2
D/E	-	1.2	0.6	0.4

Key Executives

Ken Xie	Chief Executive Officer

We are initiating coverage of **Fortinet Inc, ("Fortinet" or "Company")** with a **BUY** rating and a **US$57.00** 12M price target.

Forti-fied position amidst global macro-economic headwind

- Increasing interest rates and recession fears have led to market-wide selloffs, with technology stocks receiving the brunt of it.
- Fortinet has been down 30.4% over the past 1Y, fairly in line with the overall market. We believe that this is an overreaction and unwarranted due to Fortinet's strong fundamentals and value proposition that sets it apart from competitors in the sector.

FY22 Q3 Earnings Highlights

- Total revenue of US$1.15b, up 33% YoY
- GAAP operating margin of 23.1%, 3.9% higher YoY of 19.2%
- Operating cash flow was US$359.2m, 19.8% higher YoY
- Repurchased US$500.0m of shares with cash

Investment Thesis

- **Optimal cybersecurity choice amidst global macroeconomic headwinds,** via leading products in terms of performance and benchmarks at lower prices.
- **Well poised to capture further market share,** through its strong diversification and sticky ecosystem.
- **Favourable margins allow Fortinet to further widen its moat,** allowing it to enjoy sustainable growth via various strategies.

Catalysts

- Increased geopolitical tensions with greater malware and cybersecurity threats from countries and independent actors.
- Accelerated expansion plans through the acquisition of specialised companies, with past M&As boosting stock prices.
- Earnings beat, particularly in a market with lowered earnings guidance and estimates.

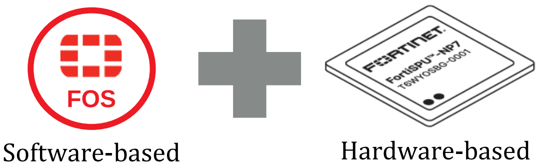
Valuations

Our 12M price target at the date of coverage is **US$57.00**. The target price was derived from a blended average of share values calculated from Discounted Cash Flow Analysis (Exit Multiple & Gordon Growth) and Relative Valuation based on FY23 EV/Revenue multiples.

Investment Risks

- **Supply chain disruptions:** Semiconductor chip shortages are mitigated by a diversified supply chain.
- **Recessionary risk:** Mitigated by the recession-proof nature of cybersecurity services and the stickiness of Fortinet's offerings
- **Risk of competition:** Underappreciated war chest presents strong acquisition abilities

Figure 1: Security Anywhere in Any Form



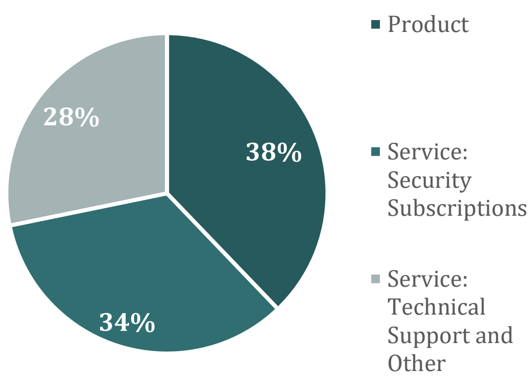
Source: Fortinet

Figure 2: Fortinet's Category Descriptions

Security Driven Networking	Tightly integrates an organization's network infrastructure and security architecture.
Zero Trust Access	Continually verifies who and what is using your resources, ensuring secure access everywhere.
Cloud Security	Empowers organizations to achieve digital acceleration by securing any application on any cloud.
Security Operations	Provides advanced threat detection and response capabilities, alongside centralized security monitoring.
FortiGuard	Counters threats in real time with AI-powered, coordinated protection.

Source: Fortinet

Figure 3: Fortinet's revenue mix



Source: Fortinet

Company Overview

Founded in 2000 and headquartered in Sunnyvale, California, Fortinet is a pure play cybersecurity company offering cybersecurity solutions globally. The company provides both software-based and hardware-based solutions, operating in two main segments - Products and Services (Figure 1).

As a one stop shop, Fortinet provides a variety of products and services targeting many areas of cybersecurity. Its offerings all fall under its cybersecurity mesh platform, Fortinet Security Fabric, powered by its in-house FortiOS.

Fortinet's hardware and software products can be separated into its core platform (FortiGate) and enhanced platform technology (Non-FortiGate). FortiGate consists of the company's Network Security category, with products such as Firewall and Secure SD-WAN. All other categories, Secure Networking, Zero Trust Access, Cloud Security and Security Operations fall under its Non-FortiGate and spans a wide set of cybersecurity features. Fortinet also offers subscription services, including FortiGuard Security Services and FortiCare Technical Support Services (Figure 2).

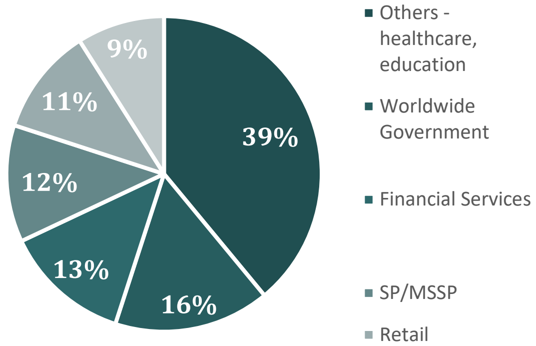
<u>Revenue Mix</u>

At 38% of its FY21 total revenues, Fortinet's product offerings act as the company's main revenue driver, followed by its security subscriptions and its technical support services (Figure 3). Nevertheless, Fortinet remains a highly diversified corporation, diversifying across customer types, geographies, and industries (Figure 4).

3Q22 Earnings Review

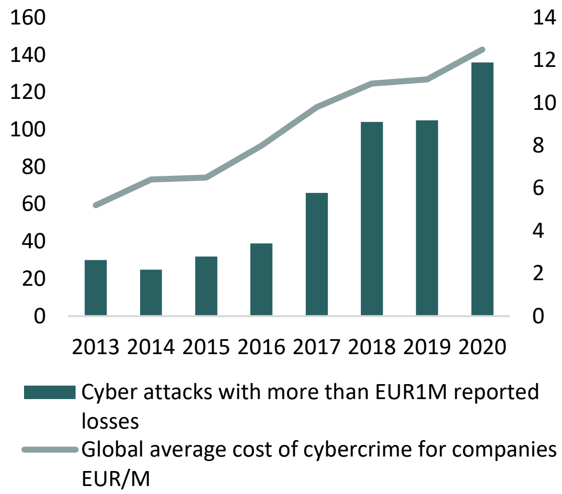
- Revenue: Total revenue was US$1.15b for the third quarter of 2022, an increase of 32.6% compared to US$867.2m for the same quarter of 2021.
- Product Revenue: Product revenue was US$468.7m for the third quarter of 2022, an increase of 39.0% compared to US$337.1m for the same quarter of 2021.
- Service Revenue: Service revenue was US$680.8m for the third quarter of 2022, an increase of 28.4% compared to US$530.1m for the same quarter of 2021.
- Cash Flow: Cash flow from operations was US$483.0m for the third quarter of 2022, compared to US$398.8m for the same quarter of 2021.
- Share Repurchase Program: During the three and nine months ended September 30, 2022, Fortinet repurchased 10.2m and 36.0m shares of its common stock, respectively, at an average price of US$49.15 and US$55.37 per share, respectively, and for an aggregate purchase price of US$500.0m and US$1.99b, respectively.

Figure 4: Fortinet's revenue mix by industries



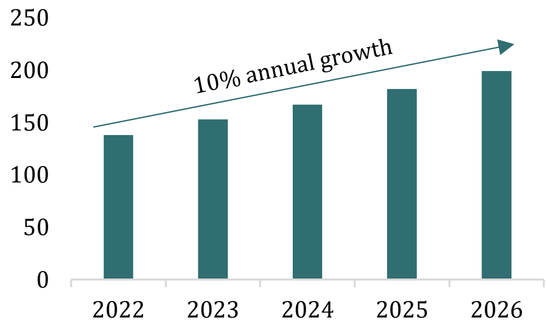
Source: Fortinet

Figure 5: Increasing frequency and intensity of cyberattacks globally



Source: KPMG

Figure 6: TAM for Cybersecurity



Source: Fortinet

Industry Outlook

The rise of cloud services and the rapid increase in global connectivity have resulted in a shift towards the way business and people store data. Data is now increasingly stored online, no longer restricted to being stored in a company's internal database. The emergence of the pandemic has also accelerated this shift, as hybrid work slowly becomes a norm.

Increasing awareness and need for cybersecurity

The shift towards online storage of data came alongside the increase in cyberattacks, which threatened the viability of storing data online. Nevertheless, this shift is expected to be permanent, even as frequency and intensity of cyberattacks are increasing and which pace is expected to accelerate going forward. This has led to an increasing awareness for cybersecurity, intended to manage and protect businesses from cyberattacks such as ransomware.

However, such cyberattacks continue to increase in frequency. Ransomware cost the world US$20b in 2021, and that number is expected to rise to US$265b by 2031. Recent high-profile hacks such as Robinhood are also becoming increasingly common, showing that no business is fully protected from cyberattacks. In addition, cyberattacks are also becoming more sophisticated, with their tactics more resilient to conventional cyber defences such as out-of-the-box cybersecurity solutions like antivirus software and firewalls. As a result, the cost of cybercrimes is also increasing in tandem with its regularity (Figure 5).

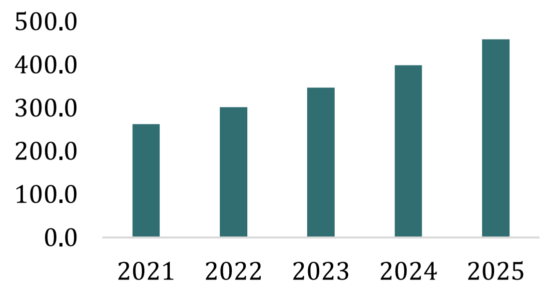
This dictates the need for stronger, safer solutions offered by cybersecurity firms as it is no longer as viable for businesses to develop their own internal cybersecurity. The Total Addressable Market (TAM) for cybersecurity is expected to grow from US$138b in 2022 to US$199b by 2026, with a CAGR of 10% (Figure 6). While North America is the largest market with a 45% market share, emerging markets are also starting to place emphasis in cybersecurity in recent years, particularly in the EMEA and APAC regions.

A shift towards vendor consolidation

The current cybersecurity industry is largely fragmented, with thousands of providers offering seemingly similar, highly technical services. Traditional cybersecurity solutions used to entail companies managing multiple point-products or vendors in their cybersecurity products. However, such methods are increasingly going under criticism. In today's cybercrime scene with the increased intensity and frequency of attacks, such methods only serve to provide businesses with more challenges than protection.

With multiple solutions from different vendors, this has led to poor visibility and gaps between the products and thus gaps in protection. Furthermore, there is increased complexity and inefficiencies in learning each new product while blending the different systems together to suit the client's need. As a result, businesses are increasingly demanding vendor consolidation, seeking a cybersecurity platform approach. This approach entails consolidation of solutions from one single vendor instead, where tighter integration between solutions are expected to lead to more effective responses to threats. Thus, cybersecurity companies able to offer a suite of services stand to gain from this shift in vendor consolidation.

Figure 7: Investments into Cybersecurity



Source: Fortinet

Figure 8: Regulation further propels the need for cybersecurity

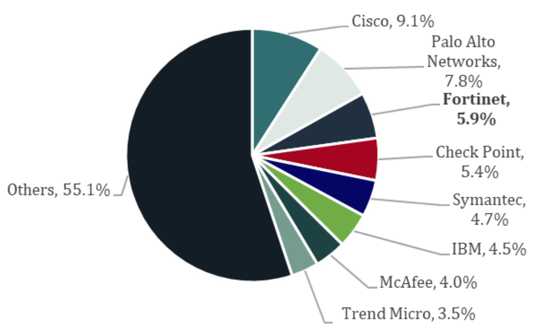
Regulation	Description
New York SHIELD Act	Requires all organizations operating in N.Y. to implement "reasonable" technical, physical, and administrative safeguards
E.U. Cybersecurity Act	Stronger cybersecurity mandates required, alongside stronger enforcement of higher cybersecurity standards

Source: Appsealing

Figure 9: Fortinet's competitors within the industry

Source: Company websites, Wikipedia Commons

Figure 10: Cybersecurity company market share



Source: Statista

Figure 11: Customer reviews in key product segments (weighed by users)

Regulation and increasing investments further propel the demand for cybersecurity

Investments into cybersecurity have also seen an increase as awareness and the need for cybersecurity increases. Governments and businesses are increasing spending into cybersecurity companies (Figure 7), as more and more cybersecurity start-ups emerge in view of this emerging industry. Regulation is also playing an important part in propelling businesses to seek for third party cybersecurity solutions, amidst establishments of minimum cyber hygiene standards and more (Figure 8).

As the cybersecurity industry continues to add new markets such as Zero Trust and Cloud Security, and as new geographic markets enter the industry amidst increasing need and awareness for cybersecurity, TAM of cybersecurity will only continue to grow and remain relevant in years to come.

Competitive Positioning

The cybersecurity space is incredibly competitive and packed (Figure 9), but Fortinet has carved out its own share and is a significant player with the 3rd most market share (Figure 10). However, they are incredibly well-received by product users and have some of the most active users of their products in the market space, ahead of key competitors such as Cisco, Check Point, Palo Alto Networks and Sophos (Figure 11).

With great macroeconomic headwinds ahead, cybersecurity companies will inadvertently be affected, but we believe that Fortinet stands to benefit the most.

While a greater focus on earnings in such an environment hinders Fortinet due to its hefty valuation (P/E ~60), it commands a premium as one of the few companies that generate both positive earnings and cash flows within the industry. In addition, due to our thesis, we believe it can compress ratios through fundamental earnings growth. Below are some of the key concerns of the market, and our thesis cover Fortinet's position concerning it.

1. Increased cost-cutting across the board by companies to weather potential recession ahead.

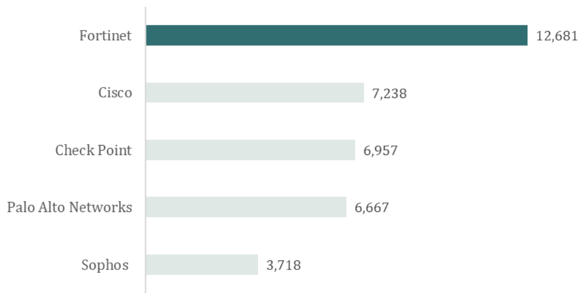
Thesis 1: Cybersecurity spending is still vital, and even as companies cut costs, Fortinet stands to benefit from those switching to lower-cost alternatives, as they offer an unmatched value proposition for its services.

2. Slowing growth in key markets of America poses a concern to growth targets.

Thesis 2: Diversification is key, and Fortinet has a strong overseas presence and first-mover advantage in EMEA and APAC markets to mitigate it. Overall growth remains strong due to rapidly growing cybersecurity scene in other continents too.

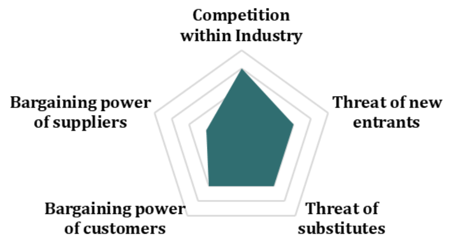
3. Rising interest rates to curb high inflation and potential recessionary risks impact a company's ability to innovate and grow

Thesis 3: Fortinet has an underappreciated war chest and zero debt that enables consistent R&D and opens M&A opportunities for growth. This enables them to rely on revenue from operations, and with little



Source: Gartner

Figure 12: Cybersecurity company market share



Source: Statista

debt, rising interest rates do not greatly affect debt payments, while providing ample space for additional gearing.

Porter's Five Forces

Illustrating the points below using Porter's Five Forces diagram (Figure 12), we observe that despite macroeconomic headwinds, the growing ever-present demand for cybersecurity services is one that Fortinet can capitalise on with its unique characteristics.

Competition within industry – High

The cybersecurity industry is incredibly fragmented with no dominant players, as the top 8 firms in the scene do not even occupy more than 50% of the overall market share. However, there are also not many large-scale companies like Fortinet, with the industry consisting of many small start-ups and software companies catering to a niche segment. Key competitors include Palo Alto Networks, Checkpoint, and Cisco, with the latter (along with other firms in the sector) being the cybersecurity arm of large technology conglomerates. However, a key trait of Fortinet is that it is one of the few companies in the industry that is both profitable and generates free cash flow, with main rival Palo Alto Networks not being able to achieve the former.

Threat of new entrants - Moderate

Due to there not being significant barriers to entry, there is high market saturation, with many start-ups and smaller companies within the industry. Said start-ups also focus on the software side (in contrast to hardware) due to the lower capital requirements. However, this threat is largely mitigated by the ever-dominant need for hardware solutions in the security space, one which is dominated by the larger players. Similarly, companies like Fortinet are well-positioned to acquire smaller companies for them to gain expertise in a certain domain. Such frequent consolidation has allowed the larger players to remain unshaken at the top.

Threat of substitutes – Moderate

Despite the inherent nature of the business and the closeness of substitutes in offerings, it is mitigated through Fortinet's customer mix and its ecosystem. Firstly, Fortinet's customers are predominantly large enterprises with some small businesses, and such customers do not normally switch their enterprise solutions quickly. Secondly, Fortinet's integrated system of products and services that cover a large variety of needs makes it stickier, and the contracts formed normally span >5 years, locking in their customers and providing a "guaranteed" recurring source of revenue.

Bargaining power of customers - Moderate

Due to Fortinet's services being catered to businesses, their customers have a certain degree of bargaining power, especially due to the scale in which they operate. That said, their revenue mix is diversified enough across the various sectors from government to financial services and education, providing some buffer against companies looking to bargain.

Bargaining power of suppliers - Low

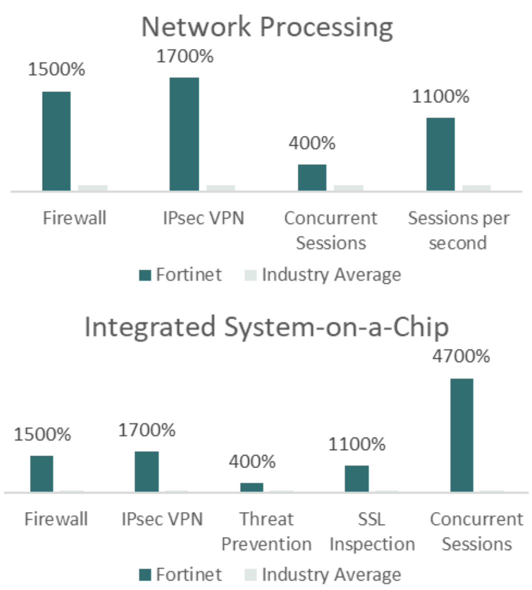
The company's services and technology are proprietary and self-developed, with their office spaces and buildings being self-built and owned on land which they have bought. They mainly source for

Figure 13: Comparison of industry certifications and benchmark tests

	FORTINET	paloalto	CHECK POINT	CISCO
CSfC	✓	✓	✓	✓
DoD Approved	✓	✓	✓	✓
Common Criteria	✓	✓	✓	✓
FIPS Validated	✓	✓	✓	✓
SOC2	✓	✓	✓	
ISO 27001	✓	✓	✓	
ICSA Labs	✓	✓	✓	
NSS Labs	✓	✓		
AV-Comparatives	✓			
SE Labs	✓			
MEF 3.0	✓			
Virus Bulletin	✓			
MITRE Engenuity	✓			

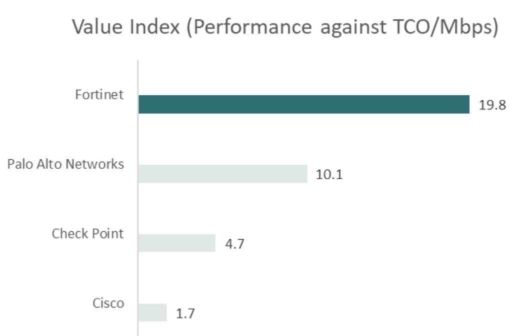
Source: Company websites, team analysis

Figure 14: Outperformance via self-developed specialty SPUs



Source: Company reports

Figure 15: Greater value proposition for clients



Source: CyberRatings.org, team analysis

materials from a wide range of suppliers only for their hardware products, making them rarely susceptible to the whims of suppliers.

Investment Thesis

1. Fortinet's great value proposition through lower prices and better outperformance via its technology moat poises it to benefit from macroeconomic headwinds.

Fortinet's key strength largely stems from its solid range of products that it caters to its customers. While services and products offered by cybersecurity companies remain largely the same, Fortinet stands out through its lead in terms of industry certifications and benchmarks.

Its key competitors such as Palo Alto Networks, Check Point and Cisco all have the standard range of US government certifications such as Commercial Solutions for Classified Program (CSfC) and Federal Information Processing Standards (FIPS) for their products, as well as international IT security evaluation such as Common Criteria. However, a key thing that is missed out is Fortinet's focus on intrinsic performance, something that can be seen from its participation in a wide range of benchmark tests and 3rd party certifications (Figure 13). Such certifications and tests (beginning at "ICSA Labs") focus on products' ability to prevent cybersecurity threats, such as preventing exploits from targeting vulnerabilities, ability to detect malicious URLs and URLs, and defense against attack scenarios. Not only are they a testament to the quality of Fortinet's products, they also provide assurance to customers that they are well able to meet their security needs amidst an enviroment of "smarter" cybersecurity threats.

Similarly, its usage of its own security processing units (SPUs) that it developed in-house has enabled significant outperformance over its peers (Figure 14). Said outperformance applies to both their "Network Processing" and "Integrated-System-on-a-Chip" line, which targets large/medium enterprises (starting at over ~US$30,000) and smaller businesses (starting at over ~US$600) respectively. This stems from competitors using general-purpose central processing units (CPUs) as compared to Fortinet's tailored proprietary chips.

This technology moat is also not one its competitors can address easily, for Fortinet has a fundamentally different approach regarding product development and manufacturing. As quoted by the CEO, Fortinet does them in-house and has invested billions in long-term projects spanning 5-10 years, compared to competitors relying more on outsourcing, as well as expanding their product offerings and expertise through acquisitions. The SPUs are a key example of such investments, and Fortinet appears to be the only company within the cybersecurity space to do so. The upfront significant investments have paid dividends for Fortinet—through reaping economies of scale in addition to better performance—garnering 36.8% of the market share for combined firewall, unified threat management (UTM) and virtual private network (VPN) services. This is about 3 times more than Cisco and 12 times more than Palo Alto Networks, regarded by CEO Ken Xie as their closest competitors.

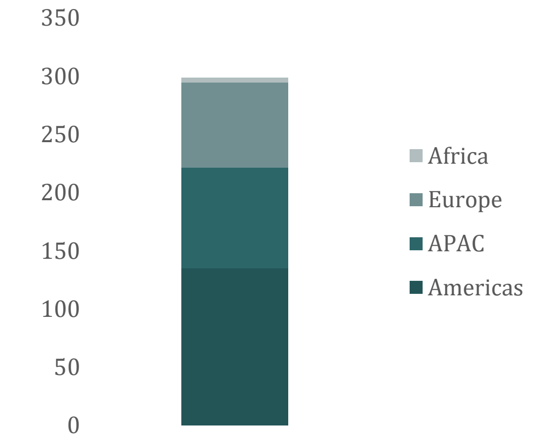
As such, they provide an unmatched value proposition for cybersecurity offerings. Using a value index utilising performance over price (Total Cost of Ownership/Megabits per second), Fortinet is the clear leader and runs circles around its competitors (Figure 15). This positions the company to also benefit from the high-inflationary

Figure 16: Fortinet's geographic diversification amongst peers

	Americas	EMEA	APAC
FORTINET	**41%**	**38%**	**21%**
paloalto NETWORKS	69%	19%	12%
CROWDSTRIKE	72%	14%	10%
CISCO	61%	23%	16%

Source: Company Filings

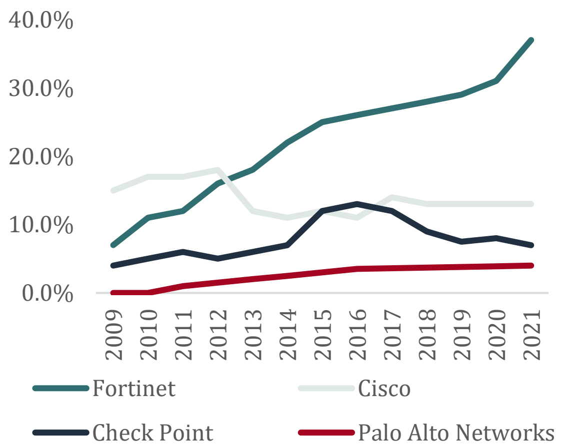
Figure 17: 2027 Market Value and CAGR



Country	CAGR
Africa	15.79%
Europe	12.54%
APAC	15.72%
Americas	12.55%

Source: Statista

Figure 18: Fortinet's global firewall shipments



Source: Fortinet

Figure 19: Cybersecurity maturity levels globally

environment and recession fears, with companies (regardless of size and sector) already cutting costs across the board as of today. While cybersecurity spending may not be impacted too greatly due to the importance amidst global threats, businesses opting for cybersecurity choices will have cost at the top of their minds, something that will greatly benefit Fortinet. Due to the closeness in substitutes of products, companies looking to trim down on cybersecurity spending can also switch to Fortinet, as competitors do not have as entrenched of an ecosystem to retain consumers.

2. Fortinet's strong diversification and ecosystem allow it to capture further market share

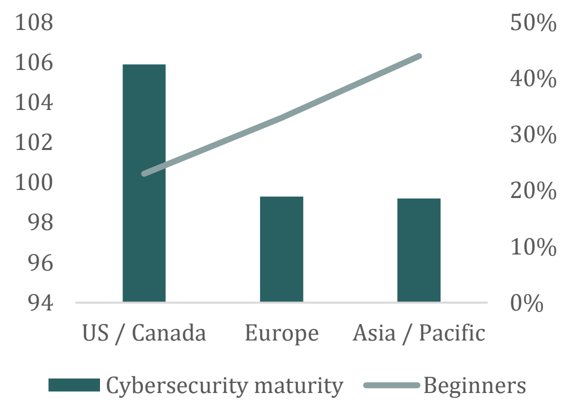
One of Fortinet's key differentiating factor lay in its strong diversification compared to peers. In particular, Fortinet is well diversified in its geographies, as well as in its customer industries and types (Figure 16). While this would lower the risks faced by the company and prevent reliance on a certain market or customer, more importantly, this would provide Fortinet a first mover advantage over peers in capturing new markets.

Currently, Americas is the largest cybersecurity market and will continue to be so even in 2027. Nevertheless, regions outside of Americas such as Asia, Europe and Africa are also showing promising signs, and make up for their market volume with steep growth exceeding that of the Americas (Figure 17). As APAC and EMEA regions become more popular targets for cyberattacks amidst rapid digitalisation in such countries, our group believes that those regions will drive the demand for cybersecurity solutions in the next few years. In times where the Americas market is charting slower growth and seeing increasing saturation, Fortinet's management shines through in their deliberate diversification strategy to differentiate themselves via-a-vis peers and to lay the steps for future sustained growth.

With the groundwork already laid for the company, evidenced by its huge international presence in global APAC and EMEA markets compared to peers (Figure 18), our groups notes that management's strategy will poise Fortinet to reap the most benefits from the international cybersecurity market in years to come.

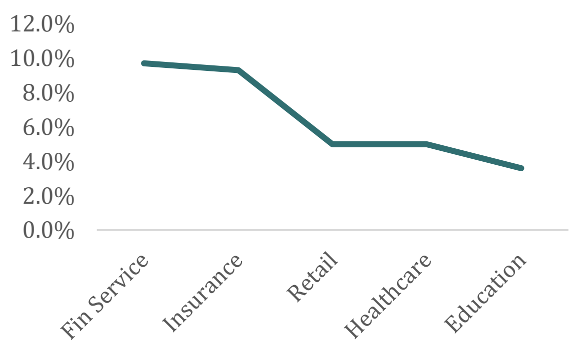
Fortinet's diversification strategy works in tandem with the company's ecosystem to capture further market share. In particular, Fortinet's value proposition to its customers, (1) Affordability in pricing, (2) Strong protection from cybersecurity threats and (3) A one stop shop for cybersecurity services allows Fortinet to not only be able to aggressively capture market share, but also defend its share in the international markets by catering to its customer's needs.

While Fortinet's strong value proposition would allow the company to benefit from macroeconomic pressures as aforementioned, there is also another added layer for its value proposition to be particularly attractive to customers in emerging global markets. This goes in line with its diversification strategy, where cybersecurity maturity of countries outside of the US are lower and most companies in such countries are often beginners in embracing cybersecurity solutions (Figure 19). Industry wise, over 50% of Fortinet's consumer base tend to spend lesser on cybersecurity, who are inclined towards cheaper solutions (Figure 20). Hence, Fortinet's solutions offer a sweet point for customers in international markets where its solutions are more



Source: WSJ Pro

Figure 20: Percentage of IT spending by industry



Source: Deloitte

Figure 21: Fortinet's free cash flow growth vis-à-vis peers

Source: Company filings & presentations

Figure 22: Fortinet's Margins vis-à-vis peers

	EBITDA Margin	Net Margin
FORTINET	22.6%	18.12%
paloalto NETWORKS	0.6%	-4.85%
CHECK POINT	39.3%	34.35%

Source: Company filings & presentations

Figure 23: Fortinet's Projected R&D Expense (US$ms)

affordable yet as strong or stronger than its peer's cybersecurity solutions. Its enhanced presence in such markets also allows the company to capture the most out of such growing markets, as it leads the value index measuring performance over price over peers.

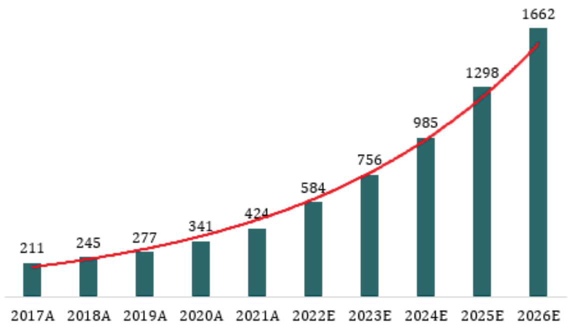
Over time, Fortinet would still be able to defend its market share even if its competitors expand internationally given its strong ecosystem. Following the industry trend of companies demanding vendor consolidation, Fortinet's diverse offerings create strong incentives for its customers to continue using its comprehensive cybersecurity solutions. High exit barriers also exist in usage of its unique Fortinet Security Fabric platform and penalties for breaking its long-term contracts. In essence, Fortinet's strategic diversification strategy and ecosystem would well position the company in capturing greater growth in the cybersecurity industry now and in the future.

3. Fortinet's favourable margins allow it to continue widening its moat via various sustainable growth strategies

Through its value-for-money offerings, strong diversification and cohesive cybersecurity ecosystem, Fortinet currently enjoys healthy margins and strong free cash flow growth vis-à-vis its peers in the cybersecurity industry. Over a span of 5 years from 2017-2021, Fortinet's free cash flow growth has enjoyed, on average, a 31.3% growth YoY. This growth rate has placed it above many of its competitors like Check Point and Palo Alto, both of which have only enjoyed growth of about 4.3% and 27.7% respectively over the same time period (Figure 21). In addition, Fortinet also possesses healthy EBITDA and Net Income margins (22.6% and 18.12% respectively) relative to its peers (Figure 22). Crucially, we note that the fundamental drivers behind such margins lay in its strong value proposition to customers, rather than in its revenue split, as observed in peers like Check Point who enjoy greater margins due to a heavier focus on services over products.

Fortinet's strong cash position and favourable margins thus function as safety nets in the current macroeconomic environment that is plagued by high interest rates and increasing recessionary risk. Unlike its competitors, Fortinet's margins allow it to sustain its normal business operations even without the use of leverage, thus preventing it from being susceptible to high levels of interest rates that are otherwise being incurred by its peers.

Notably, we recognise that this places Fortinet in a more competitive position to pursue growth in the form of strategies like Research & Development. From the years 2017 to 2021, Fortinet's R&D expenses increased from US\$211m to US\$424m, a CAGR of 14.98%, which was largely proportionate with its FCF growth. Moving forward, we expect this trend to be sustained, with R&D expenditure reaching US\$1,662m in 2026 (Figure 23). In addition, Fortinet's margins and strong cash positions also allow them to utilise acquisitions as a means to improve their product offerings. To date, Fortinet has acquired more than 16 companies in a bid to improve various product features, with its latest acquisition having taken place more than a year ago on 31st August 2021 (Alaxala Networks, a networking hardware company). Historically, the markets have also reacted well to such acquisitions, recognising their merits (Figure 24). Hence, considering Fortinet's dormancy in its acquisition activity and its healthy margins, we believe that it currently displays high potential to undertake acquisitions of



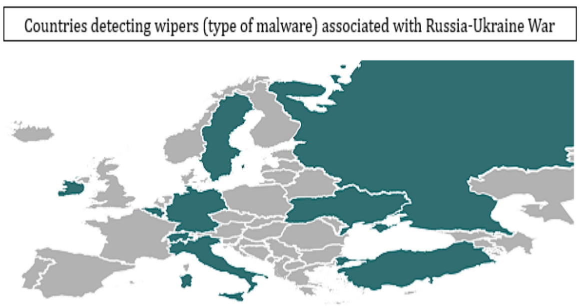
Source: Team Analysis

Figure 24: Past reactions to Fortinet's Acquisitions

Acquisition Target	Stock Price Movement
sken.ai	+3.5%
ShieldX™	+12.4%

Source: S&P Capital IQ, Company filings & presentations

Figure 25: Wiper Malware attacks on European Countries



Source: Fortinet

Figure 26: Fortinet's Stock Price Movement on Earnings Surprise

Source: S&P Capital IQ

smaller competitors which in turn enhance its product offerings and hence further widen its competitive moat.

Catalysts

- **Fortinet stands to benefit from current and potential geopolitical tensions:** Since the onset of the Russian-Ukraine war, Fortinet has stated that cyberattacks on governments & corporations alike have been more rampant, pointing specifically to the rise in the use of wiper malware (Figure 25). Notably, Fortinet detected at least 7 major new wiper variants in the first six months of 2022 and discovered that the number of new variants were equivalent to the sum of all variants that were detected between 2012 and 2021. Understandably, this poses a significant threat to governments and private corporations alike due to the destructive nature of malware. Specifically, we believe that Fortinet is better positioned to capture the increase in demand for cybersecurity products due to its affordable pricing and value proposition as a one stop shop.

- **Earnings surprise for 4Q22 and FY22:** Currently, Fortinet's management expects revenue for 4Q22 to be in the range of US$1.275b to US$1.315b. We believe that a positive earnings report for 4Q22 will thus serve as a catalyst to drive Fortinet's share price even higher similar to past earnings surprises (Figure 26).

- **Accelerated expansion plans contingent on cash reserves accumulated during the post-Covid-19 pandemic boom:** Considering Fortinet's strong cash position alongside the fact that its last acquisition took place over a year ago on 31st August 2021, we believe that Fortinet is well-positioned to embark on further strategic acquisitions to solidify its position as a leader in the cybersecurity industry. Notably, the streets have also reacted positively in the past to Fortinet's acquisitions, and we believe that such a trend would persist under the assumption that Fortinet is able to relay the merits of its acquisitions.

Financial Analysis

Overview

The chart (Figure 27) reveals Fortinet's financial condition prospects for the next five years, highlighting our assumptions. Most indicators yield positive and favourable trends that are supportive of the overall BUY recommendation.

Strong top-line growth

Through leading products and extensive geographical diversification, we project Fortinet to capture a greater slice of the rapidly growing cybersecurity market available within the next few years. Specifically, we expect revenue to increase from US$4.4b to US$12.7b from 2022 to 2026, registering a CAGR of 30.7%. We expect this growth in revenue to be contingent on Fortinet's value proposition to its customers compared to peers, as well as its increasing market share across geographies & industries as highlighted in our earlier theses. However, we adopted a conservative approach with regards to margins, in part of its high R&D expenditure to maintain its leading technology edge, in

Figure 27: Financial Analysis Table

	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Growth (US$m)							
Total Revenue	4,403.2	5,770.5	7,575.5	9,952.2	12,762.9	9,952.2	12,762.9
% growth	*31.7%*	*31.1%*	*31.3%*	*31.4%*	*28.2%*	*31.37%*	*28.24%*
Profitability							
Net Income	488.5	606.8	542.0	799.4	1,105.3	1,473.5	1,869.8
% margin	*18.8%*	*18.2%*	*12.3%*	*13.9%*	*14.6%*	*14.8%*	*14.7%*
Efficiency							
ROA (%)	12.3%	12.2%	8.5%	10.7%	12.1%	13.1%	13.6%
ROE (%)	44.4%	73.4%	44.7%	36.2%	30.8%	27.2%	23.9%
Liquidity							
Cash Ratio	0.58	0.57	0.72	1.08	1.29	1.47	1.85
Current Ratio	1.50	1.55	1.89	2.31	2.66	2.72	3.41
Leverage							
D/E	0	1.24	0.61	0.35	0.23	0.15	0.05
Debt/EBITDA	0	0.97	0.73	0.55	0.43	0.59	0.23

Source: Company Filings, Team Estimates

addition to greater sales and marketing efforts in a bid to capitalise on the need for affordable cybersecurity solutions amidst macroeconomic downturns.

Efficiency

Within the cybersecurity industry, Fortinet is one of the few profitable companies, and generates an impressive return on its assets/equity. However, we have adopted a more conservative approach to its short term outlook due to the overall impact of a potential recession.

Fort-ress of financial stability

Through high liquidity ratios the lack of debt on their balance sheet, in addition to a growing cash balance, Fortinet is well positioned to weather through an environment with rising interest rates. They have no difficulties in meeting both their short and long-term obligations, with it being in a great financial position to undergo acquisitions and capital raising if the need arises. Further illustrating our point on Fortinet's financial stability and freedom from debt, Fortinet currently enjoys a 43.6x times interest earned (TIE) ratio and stands in a strong position to service its 2026 and 2031 Senior Notes with principal amounts of US$500m and interest rates of 1.30% & 2.30% respectively due to its strong value proposition to customers stemming from its broad, integrated solutions offered by its Security Fabric.

Valuation

Valuation Price Target: **US$57.00**

Our target price was derived from a blended average of share values calculated from Discounted Cash Flow Analysis and Comparable Companies Analysis based on FY23 EV/Revenue multiples.

Intrinsic Valuation

A Discounted Cash Flow (DCF) analysis was used to derive the intrinsic value of Fortinet, using both the Exit Multiple and Gordon Growth method. Revenue was discounted using weighted average cost of capital (WACC) over a five-year period from FY22 to FY26.

<u>Revenue Build</u>

Fortinet currently enjoys 2 main streams of revenue from both its products and services. We utilised a top-down approach to estimate revenue, projecting a 2.46% increase in Fortinet's market share (2.40% to 4.86%) from 2021 – 2026. Tying this increase in market share alongside the increase in the total addressable market for the cybersecurity industry, we thus projected Fortinet's revenue to increase from US$3.3b to US$12.7b from 2021 – 2026 due to its increasing diversification across industries & geographies.

<u>Cost of Revenue</u>

Cost of revenue as a % of revenue was derived using a 5Y historical average as we expect these costs to remain relatively constant. While near-term macroecnomic trends such as global supply chain disruptions threaten increases in cost of revenue, we believe that Fortinet's efforts in reducing its vulnerabilities to global supply chain disruptions through R&D and diversification efforts largely mitigate this risk.

<u>Operating Expenses</u>

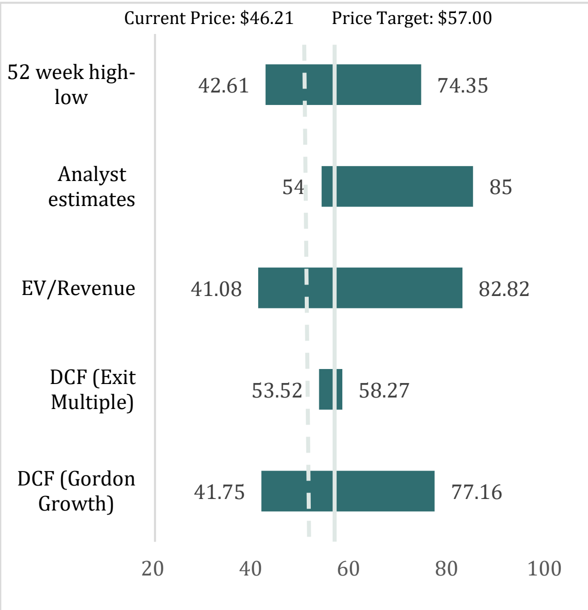
Fortinet's operating expenses as a % of revenues were projected to increase firstly by 3.88% in 2022, before sustaining a gradual decline

Figure 28: WACC Parameters

WACC Variables		
Input	**Rate (%)**	**Source**
Debt Ratio	2.5	Fortinet's Capital Structure
Cost of Debt	1.82	Interest Expense/ Total Debt
Tax Rate	27	Historical Data
After Tax Cost of Debt	1.33	-
Equity Ratio	97.5	Fortinet's Capital Structure
Risk Free Rate	4.14	U.S. 10-Year Treasury Bonds
Beta	1.16	Capital IQ
Market Risk Premium	4.24	Damodaran
Cost of Equity	9.06	CAPM

Source: Team Estimates

Figure 29: Football Field



Source: Team Estimates

from 2023 – 2026 to pre-Covid levels. These projections took into account Fortinet's recent expansionary efforts into new markets & industries, as well as increased R&D expenses stemming from the company's efforts to reduce its vulnerability to supply chain disruptions, (See Market Risk 1 below).

WACC

Using the Capital Asset Pricing Model (CAPM) to calculate the cost of equity and Interest Expense/Debt to calculate the cost of debt for Fortinet, a WACC of 8.86% was obtained.

The risk-free rate was taken to be the US 10-year treasury rate at 4.14%; beta was taken from CapIQ at 1.16 and the market risk premium was taken to be at 4.24% according to Professor Damodaran's estimations. Tax rate was taken to be 27%, an average of Fortinet's historical tax rates.

Terminal Value

Both the perpetuity growth method and exit multiple method was utilised to calculate the implied shared price. A terminal growth rate of 3.5% was used in the perpetuity growth method, while the median EV/Revenue terminal multiple was used for the exit multiple method. Present value of terminal value using both methods were found to be similar at US$33,321m and US$34,460m respectively, confirming our estimates.

Sensitivity Analysis

A sensitivity analysis flexing on important variables such as WACC, terminal growth rate and exit multiple. The Exit Multiple method yielded a range of implied share value from US$53.52 – US$58.27, while the Gordon Growth method yielded a range of values from US$41.75 – US$77.16. Our price target of US$57.00 lies between the range of values for both methods.

Relative valuation

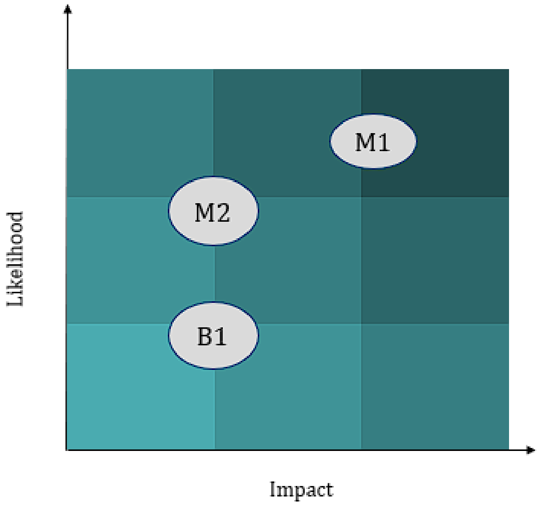
A screening criterion was used to select comparable companies, using the main criteria of similar business models and product offerings to Fortinet. A total of eight companies, including Palo Alto Networks, Check Point and others were used in our comparable companies. The main multiple used in valuation was EV/Revenue, which resulted in a range of values from US$41.08 – US$82.82.

Investment Risks

Market Risk 1(M1)

Supply Chain Disruptions: 37.6% of Fortinet's revenue is currently generated from its line of products. Due to the nature of their products, Fortinet is vulnerable to supply chain disruptions, particularly in the semiconductor chip industry. Although China appears to be easing its Covid-Zero policy, suggesting that supply chain disruptions stemming from China's policies may finally be coming to an end, we still expect near-term disruptions especially when accounting for the Russia-Ukraine conflict. However, Fortinet appears to recognise the ramifications brought about by such disruptions, as they have actively moved to diversify supply chains and redesign products to increase resilience against such disruptions. For example, Fortinet's CEO has 1) indicated the company's desire to redesign the 600F series chip, 2) is working with a manufacturer to custom make ASIC chips to secure the supply chain and 3) contracted manufacturers in both Taiwan (TSMC) and in Japan (Renesas) to produce its proprietary SPUs, again indicating its diversification of supply chain especially in light of potential China-Taiwan tensions.

Figure 30: Investment Risk Matrix



Source: Team Estimates

Market Risk 2 (M2)

Recessionary Risk: The current macroeconomic environment is characterised by rising interest rates and tapering consumer demand as a result of ballooning inflationary pressures. As a result, Fortinet as well as its customers are seeing significant headwinds in relation to growth prospects. However, given that Fortinet's products are value-for-money and hence indicative of their recession-proof nature, we believe that even if the recessionary risk materialises, Fortinet's strong value proposition could potentially allow it to gain further market share from its competitors. In addition, Fortinet's services are offered on a contractual basis ranging from 1 to 5 years and hence, these contracts are sticky in nature and likely to be recession-proof.

Business Risk 1 (B1)

Potential entry of new competitors: The cybersecurity industry has traditionally low barriers to entry due to low capital expenditures. However, as mentioned previously, Fortinet's underappreciated cash war chest presents strong acquisition capabilities, placing it in a dominant position to acquire new competitors, even potentially bringing about synergies in the process.

Disclaimer

Appendix:

Fortinet, Inc.
Fiscal Year Ended 25 Feb

Currency: USD Millions
Target Price:

		FY17A	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
							Forecast Years				
Balance Sheet	*units*										
ASSETS											
Current Assets											
Cash and cash equivalents		811	1,112.40	1,222.50	1,061.80	1,319.10	1768.1	2724.7	3707.9	5271.3	6678.9
Short-term investments	x	440.3	537.2	843.1	775.5	1,194.00	1,194.00	1,194.00	1,194.00	1,194.00	1,194.00
Marketable equity securities	x	0	0	0	0	38.6	38.6	38.6	38.6	38.6	38.6
Accounts receivable—Net of allow	x	348.2	444.5	544.3	720	807.7	1,218.7	1,436.9	2,049.3	2,530.7	3,342.8
Inventory	x	77.3	90	117.9	139.8	175.8	339.6	325.3	537.0	594.4	872.1
Prepaid expenses and other curre	x	40	36.8	41.2	43.3	65.4	68.5	90.2	118.2	155.2	203.9
Total current assets		1,716.80	2,220.90	2,769.00	2,740.40	3,600.60	4,627.4	5,809.8	7,645.1	9,784.3	12,330.4
Non-Current Assets											
Long-term Investments	x	98	67	144.3	118.3	440.8	440.8	440.8	440.8	440.8	440.8
Property & Equipment - Net	x	245.4	271.4	344.3	448	687.6	741.5	785.3	867.6	1,021.4	1,132.8
Deferred Contract Costs	x	0	182.6	237	304.8	423.3	423.3	423.3	423.3	423.3	423.3
Deferred Tax Assets	x	146.9	255	226.3	245.2	342.3	342.3	342.3	342.3	342.3	342.3
Goodwill	x	16.3	22.1	67.2	93	125.1	125.1	125.1	125.1	125.1	125.1
Other Intangible Assets	x	14.6	38.2	31.1	31.6	63.6	63.6	63.6	63.6	63.6	63.6
Other Assets	x	19.9	20.8	60	63.2	235.8	98.6	129.9	170.2	223.5	293.6
Total non-current assets		541.1	857.1	1110.2	1304.1	2318.5	2,235.2	2,310.3	2,432.9	2,639.9	2,821.5
TOTAL ASSETS		2,257.90	3,078.00	3,879.20	4,044.50	5,919.10	6,862.67	8,120.02	10,078.01	12,424.23	15,151.87
LIABILITIES AND EQUITY											
CURRENT LIABILITIES:											
Accounts payable	x	70	86.4	96.4	141.6	148.4	322.9	285.1	503.3	531.1	809.7
Accrued liabilities	x	50	77.5	101.8	149.2	197.3	160.4	211.4	277.0	363.6	477.7
Accrued payroll and compensation	x	92	98.4	101.8	145.9	195	185.6	244.6	320.5	420.8	552.8
Income taxes payable	x	21.4	28.2	0	0	0	0	0	0	0	0
Deferred revenue	x	793.8	965.9	1,155.80	1,392.80	1,777.40	1,777.4	1,777.4	1,777.4	1,777.4	1,777.4
Current portion of long term debt	x	0	0	0	0	0	0.0	0.0	0.0	500.0	0.0
Total current liabilities		1027.2	1256.4	1455.8	1829.5	2318.1	2,446.3	2,518.4	2,878.2	3,592.9	3,617.6
Non-Current Liabilities											
Deferred Revenue	x	542.5	720.9	953.3	1,212.50	1,675.50	1,675.5	1,675.5	1,675.5	1,675.5	1,675.5
Income Tax Liabilities	x	90.2	77.5	82.8	90.3	79.5	79.5	79.5	79.5	79.5	79.5
Long-Term Debt	x	0	0	0	0	988.4	988.4	988.4	988.4	488.4	488.4
Other Liabilities	x	8.6	13	44.9	56.2	59.2	48.9	64.4	84.4	110.7	145.5
Total liabilities		1,668.50	2,067.80	2,536.80	3,188.50	5,120.70	5,238.6	5,326.2	5,706.0	5,947.1	6,006.5
Shareholder's Equity											
Common Stock	x	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Additional paid-in capital	x	909.6	1,068.30	1,180.30	1,207.20	1,254.20	1,554.6	1,925.0	2,397.8	3,029.5	3,827.9
Accumulated other comprehensiv	x	-0.8	-0.8	1.1	0.7	-4.8	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)
Accumulated deficit	x	-319.6	-57.5	160.8	-352.1	-467.9	74.1	873.5	1,978.8	3,452.3	5,322.1
Total Fortinet, Inc. stockholders' equity		589.4	1,010.20	1,342.40	856	781.7	1,624.1	2,793.9	4,372.0	6,477.1	9,145.4
Non-controlling interests		0	0	0	0	16.7	-	-	-	-	-
Total equity		589.4	1010.2	1342.4	856	798.4	1,624.1	2,793.9	4,372.0	6,477.1	9,145.4
TOTAL LIABILITIES AND EQUITY		2,257.90	3,078.00	3,879.20	4,044.50	5,919.10	6,862.7	8,120.02	10,078.01	12,424.23	15,151.87
Balance Check		TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Income Statement	*units*										
Revenue											
Product		577.2	674.4	788.5	916.4	1,255.00					
Service		917.7	1,130.20	1,374.50	1,678.00	2,087.20					
Total revenue		1,494.90	1,804.60	2,163.00	2,594.40	3,342.20	4,403.2	5,770.5	7,575.5	9,952.2	12,762.9
COGS											
Product		243.8	291	324.6	352.4	487.7					
Service		141.5	159.4	181.3	217.6	295.3					
Total COGS		385.3	450.4	505.9	570	783	1053	1358	1761	2310	2995
Gross Profit											
Product		333.4	383.4	463.9	564	767.3					
Service		776.2	970.8	1,193.20	1,460.40	1,791.90					
Total Gross Profit		1,109.6	1,354.2	1,657.1	2,024.4	2,559.2	3,350.6	4,412.7	5,814.6	7,641.8	9,768.2
Operating Expenses											
Research and development		210.6	244.5	277.1	341.4	424.2	583.8	755.6	985.1	1,297.9	1,661.5
Sales and marketing		701	782.3	926.9	1,071.90	1,345.70	1,890.5	2,431.9	3,174.3	4,151.3	5,333.8
Depreciation and amortization		-	-	-	-	-	32.0	42.6	58.2	82.7	97.3
General and administrative		87.9	93	102.1	119.5	143.5	217.1	273.6	352.9	462.4	594.0
Gain on intellectual property matter		0.3	0	0	-40.2	-4.6	-	-	-	-	-
Total operating expenses		999.8	1,119.80	1,306.10	1,492.60	1,908.80	2,723.5	3,503.6	4,570.4	5,994.3	7,686.6
Operating Income		109.8	234.4	351	531.8	650.4	627.1	909.1	1,244.2	1,647.5	2,081.6
Interest Income		13.5	26.5	42.5	17.7	4.5	4.5	4.5	4.5	4.5	4.5
Interest Expense		0	0	0	0	-14.9	(18.0)	(18.0)	(18.0)	(18.0)	(18.0)
OTHER EXPENSE—NET		-0.7	-6.6	-7.5	-7.8	-11.6	-11.6	-11.6	-11.6	-11.6	-11.6
INCOME BEFORE INCOME TAXES AND LOSS FROM EQUITY METHOD INVESTMENT		124	254.3	386	541.7	628.4	602.0	884.0	1,219.1	1,622.4	2,056.5
PROVISION FOR INCOME TAXES		92.6	-80.6	54.3	53.2	14.1	52.4	77.0	106.2	141.3	179.1
LOSS FROM EQUITY METHOD INVESTMENT		0	0	0	0	7.6	7.6	7.6	7.6	7.6	7.6
NET INCOME INCLUDING NON-CONTROLLING INTERESTS		31.4	334.9	331.7	488.5	606.7	542.0	799.4	1,105.3	1,473.5	1,869.8
LESS: NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS, NET OF TAX		0	0	0	0	-0.1	-	-	-	-	-
NET INCOME ATTRIBUTABLE TO FORTINET, INC.		31.4	334.9	331.7	488.5	606.8	542.0	799.4	1,105.3	1,473.5	1,869.8

Cash Flow Statement *units*										
CASH FLOWS FROM OPERATING ACTIVITIES:										
Net income including non-controlling interests	31.4	334.9	331.7	488.5	606.7	542.0	799.4	1,105.3	1,473.5	1,869.8
Adjustments to reconcile net income to net cash provided by operating activities:										
Stock-based compensation	137.2	162.9	174.1	191.7	207.9	351.0	446.1	566.1	732.2	938.2
Amortization of deferred contract costs	0	90.9	107.9	137.4	175.9	-	-	-	-	-
Depreciation and amortization	55.5	55.7	61.6	68.8	84.4	32.0	42.6	58.2	82.7	97.3
Amortization of investment premiums (discounts)	2.5	-0.6	-6	1.3	6.9	-	-	-	-	-
Loss from equity method investment	0	0	0	0	7.6	-	-	-	-	-
Other	3.8	-0.9	5.7	6	7.9	-	-	-	-	-
Changes in operating assets and liabilities, net of impact of business combinations:										
Accounts receivable—net	-38.4	-82	-96.7	-176.4	-72.5	(411.0)	(218.3)	(612.4)	(481.4)	(812.1)
Inventory	9.4	-33.4	-48.5	-42.2	-19.4	(163.8)	14.4	(211.7)	(57.4)	(277.7)
Prepaid expenses and other current assets	-6.7	4.2	-2.1	-2.8	-17.7	(3.1)	(21.7)	(28.0)	(37.0)	(48.7)
Deferred contract costs	—	-136.4	-162.3	-205.1	-294.5	-	-	-	-	-
Deferred tax assets	35.8	-127.1	19.4	-10.5	-94	-	-	-	-	-
Other assets	-1	-3.8	-1.3	-4.6	-19	137.2	(31.3)	(40.3)	(53.2)	(70.1)
Accounts payable	13.1	14.6	7.7	37.4	-13.1	174.5	(37.8)	218.3	27.8	278.6
Accrued liabilities	14.4	8.5	-20.2	45.8	49.9	(36.9)	50.9	65.6	86.6	114.1
Accrued payroll and compensation	12.6	3.5	-2.7	43.1	44	(9.4)	58.9	75.9	100.3	132.0
Other liabilities	-5.5	-0.8	-0.2	9.7	-0.7	(10.3)	15.5	20.0	26.4	34.7
Deferred revenue	300.8	348.7	439.9	495.6	839.4	-	-	-	-	-
Income taxes payable	29.5	0	0	0	0	-	-	-	-	-
Net cash provided by operating activities	594.4	638.9	808	1,083.70	1,499.70	602.3	1118.7	1216.9	1900.5	2256.1

CASH FLOWS FROM OPERATING ACTIVITIES:										
Net income including non-controlling interests	31.4	334.9	331.7	488.5	606.7	542.0	799.4	1,105.3	1,473.5	1,869.8
Adjustments to reconcile net income to net cash provided by operating activities:										
Stock-based compensation	137.2	162.9	174.1	191.7	207.9	351.0	446.1	566.1	732.2	938.2
Amortization of deferred contract costs	0	90.9	107.9	137.4	175.9	-	-	-	-	-
Depreciation and amortization	55.5	55.7	61.6	68.8	84.4	32.0	42.6	58.2	82.7	97.3
Amortization of investment premiums (discounts)	2.5	-0.6	-6	1.3	6.9	-	-	-	-	-
Loss from equity method investment	0	0	0	0	7.6	-	-	-	-	-
Other	3.8	-0.9	5.7	6	7.9	-	-	-	-	-
Changes in operating assets and liabilities, net of impact of business combinations:										
Accounts receivable—net	-38.4	-82	-96.7	-176.4	-72.5	(411.0)	(218.3)	(612.4)	(481.4)	(812.1)
Inventory	9.4	-33.4	-48.5	-42.2	-19.4	(163.8)	14.4	(211.7)	(57.4)	(277.7)
Prepaid expenses and other current assets	-6.7	4.2	-2.1	-2.8	-17.7	(3.1)	(21.7)	(28.0)	(37.0)	(48.7)
Deferred contract costs	—	-136.4	-162.3	-205.1	-294.5	-	-	-	-	-
Deferred tax assets	35.8	-127.1	19.4	-10.5	-94	-	-	-	-	-
Other assets	-1	-3.8	-1.3	-4.6	-19	137.2	(31.3)	(40.3)	(53.2)	(70.1)
Accounts payable	13.1	14.6	7.7	37.4	-13.1	174.5	(37.8)	218.3	27.8	278.6
Accrued liabilities	14.4	8.5	-20.2	45.8	49.9	(36.9)	50.9	65.6	86.6	114.1
Accrued payroll and compensation	12.6	3.5	-2.7	43.1	44	(9.4)	58.9	75.9	100.3	132.0
Other liabilities	-5.5	-0.8	-0.2	9.7	-0.7	(10.3)	15.5	20.0	26.4	34.7
Deferred revenue	300.8	348.7	439.9	495.6	839.4	-	-	-	-	-
Income taxes payable	29.5	0	0	0	0	-	-	-	-	-
Net cash provided by operating activities	594.4	638.9	808	1,083.70	1,499.70	602.3	1118.7	1216.9	1900.5	2256.1

CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchases of investments	-669.2	-681.8	-1,332.30	-1,079.00	-2308	-	-	-	-	-
Sales of investments	300.3	42.8	31.3	152.2	85.50	-	-	-	-	-
Maturities of investments	427.4	578.8	925.5	1,018.80	1470.3	-	-	-	-	-
Purchases of property and equipment	-135.3	-53	-92.2	-125.9	-295.9	(153.3)	(162.0)	(233.7)	(337.1)	(348.5)
Purchases of investment in privately held company	0	0	0	0	-160.00	-	-	-	-	-
Payments made in connection with business combinations, net of cash acquired	0	-21.7	-34.6	-40.2	-74.9	-	-	-	-	-
Purchases of marketable equity securities	0	0	0	0	-42.5	-	-	-	-	-
Other	0	0	0	1.3	0.4	-	-	-	-	-
Net cash used in investing activities	-76.8	-134.9	-502.3	-72.8	-1325.1	(153.3)	(162.0)	(233.7)	(337.1)	(348.5)

CASH FLOWS FROM FINANCING ACTIVITIES:										
Proceeds from long-term borrowings, net of discount and underwriting fees	0	0	0	0.00	989.4	0.0	0.0	0.0	0.0	0.0
Payments for debt issuance costs	0	0	0	0	-2.4	-	-	-	-	-
Payments of debt assumed in connection with business combination	0	-10.1	-3.7	-4.1	-19.5	0.0	0.0	0.0	0.0	(500.0)
Repurchase and retirement of common stock	-446.3	-211.8	-145.1	-1,080.10	-741.8	-	-	-	-	-
Proceeds from issuance of common stock	75.8	86.5	49.5	22.1	26	-	-	-	-	-
Taxes paid related to net share settlement of equity awards	-45.1	-67.2	-96	-108.2	-167.9	-	-	-	-	-
Other	0	0	-0.3	-1.3	-1	-	-	-	-	-
Net cash provided by (used in) financing activities	-415.6	-202.6	-195.6	-1,171.60	82.8	0	0	0	0	-500

Debt Schedule			units										
Current portion of debt				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	500.0	0.0
Non-current portion of debt				0.0	0.0	0.0	0.0	988.4	988.4	988.4	988.4	488.4	488.4
Total debt				0.0	0.0	0.0	0.0	988.4	988.4	988.4	988.4	988.4	488.4
Cash BoP					811.0	1,112.4	1,222.5	1,061.8	1,319.1	1,768.1	2,724.7	3,707.9	5,271.3
Cash flow from operations/investing									449.0	956.6	983.2	1,563.4	1,907.6
(-) Mandatory debt amortization									0.0	0.0	0.0	0.0	(500.0)
(-) Minimum cash balance			30.00%						(1,161.8)	(1,526.0)	(2,001.9)	(2,629.2)	(3,407.3)
Cash surplus/shortfall									0.0	0.0	0.0	0.0	0.0
Revenue					1,649.8	1,983.8	2,378.7	2,968.3	3,872.7	5,086.8	6,673.0	8,763.9	11,357.6
% revenue					49%	56%	51%	36%	34%				
Required fundraise		debt ratio	100.00%						-	-	-	-	-
Debt fundraise									-	-	-	-	-
Equity fundraise									-	-	-	-	-
Total debt beginning balance					0.0	0.0	0.0	0.0	988.4	988.4	988.4	988.4	988.4
(+) Borrowings									0.0	0.0	0.0	0.0	0.0
(-) Repayments									0.0	0.0	0.0	0.0	-500.0
Ending balance				0.0	0.0	0.0	0.0	988.4	988.4	988.4	988.4	988.4	488.4
Repayments	Principal	Interest Rate	Maturity										
2026 Senior Notes	500.0	1.30%	FY26E						0.0	0.0	0.0	0.0	500.0
2031 Senior Notes	500.0	2.30%	FY31E						0.0	0.0	0.0	0.0	0.0
Total repayments									0.0	0.0	0.0	0.0	500.0
Interests													
FY21	500.0	1.30%	FY26E						(6.5)	(6.5)	(6.5)	(6.5)	(6.5)
FY21	500.0	2.30%	FY31E						(11.5)	(11.5)	(11.5)	(11.5)	(11.5)
Total interests									(18.0)	(18.0)	(18.0)	(18.0)	(18.0)

Equity schedule	units										
Beginning retained earnings			(319.6)	(57.5)	160.8	(352.1)	(467.9)	74.1	873.5	1,978.8	3,452.3
(+) Net income		31.4	334.9	331.7	488.5	606.7	542	799	1105	1473	1870
(-) Dividends							0.0	0.0	0.0	0.0	0.0
Ending retained earnings		(319.6)	(57.5)	160.8	(352.1)	(467.9)	74.1	873.5	1,978.8	3,452.3	5,322.1
			15.3								
Weighted Average Common Stock Outstanding (in millions)											
Basic		174.3	169.1	171.0	164.2	163.2					
Diluted		174.2	178.1	175.0	167.7	167.1					
Dividends Declared per Common Share Outstanding		0.0	0.0	0.0	0.0	0.0					
Beginning APIC			909.6	1,068.3	1,180.3	1,207.2	1,254.2	1,605.2	2,051.4	2,617.5	3,349.7
(+) Share-based compensation expense							351.0	446.1	566.1	732.2	938.2
(+) New Equity Financing							0.0	0.0	0.0	0.0	0.0
(+) Reissuance							-	-	-	-	-
(-) Treasury Buybacks							-	-	-	-	-
Ending APIC		909.6	1,068.3	1,180.3	1,207.2	1,254.2	1,605.2	2,051.4	2,617.5	3,349.7	4,287.9

Income Projection	units										
Revenue		1,494.9	1,804.6	2,163.0	2,594.4	3,342.2	4,403.2	5,770.5	7,575.5	9,952.2	12,762.9
% yoy			20.72%	19.86%	19.94%	28.82%	31.74%	31.05%	31.28%	31.37%	28.24%
Revenue Build											
Cybersecurity TAM		89,860	102,900	115,200	121,800	139,100	159,800	181,000	204,700	231,800	262,800
Market Share		1.66%	1.75%	1.88%	2.13%	2.40%	2.76%	3.19%	3.70%	4.29%	4.86%
Market Share growth			0.09%	0.12%	0.25%	0.27%	0.35%	0.43%	0.51%	0.59%	0.56%
Bull							0.40%	0.48%	0.56%	0.64%	0.61%
Base							0.35%	0.43%	0.51%	0.59%	0.56%
Bear							0.30%	0.38%	0.46%	0.54%	0.51%
Cost of Revenue		385.3	450.4	505.9	570	783	1,052.5	1,357.8	1,760.9	2,310.4	2,994.7
%sales		25.8%	25.0%	23.4%	22.0%	23.4%	23.9%	23.5%	23.2%	23.2%	23.5%
Bull Case							21.5%	21.2%	20.9%	20.9%	21.1%
Base Case							23.9%	23.5%	23.2%	23.2%	23.5%
Bear Case							26.3%	25.9%	25.6%	25.5%	25.8%
Sales & Marketing		701	782.3	926.9	1071.9	1345.7	1,890.5	2,431.9	3,174.3	4,151.3	5,333.8
%sales		46.9%	43.4%	42.9%	41.3%	40.3%	42.9%	42.1%	41.9%	41.7%	41.8%
Bull Case							38.6%	37.9%	37.7%	37.5%	37.6%
Base Case							42.9%	42.1%	41.9%	41.7%	41.8%
Bear Case							47.2%	46.4%	46.1%	45.9%	46.0%
General & Administrative		87.9	93	102.1	119.5	143.5	217.1	273.6	352.9	462.4	594.0
%sales		5.9%	5.2%	4.7%	4.6%	4.3%	4.9%	4.7%	4.7%	4.6%	4.7%
Bull Case							4.4%	4.3%	4.2%	4.2%	4.2%
Base Case							4.9%	4.7%	4.7%	4.6%	4.7%
Bear Case							5.4%	5.2%	5.1%	5.1%	5.1%
R&D		210.6	244.5	277.1	341.4	424.2	583.8	755.6	985.1	1,297.9	1,661.5
%sales		14.1%	13.5%	12.8%	13.2%	12.7%	13.3%	13.1%	13.0%	13.0%	13.0%
Bull Case							11.9%	11.8%	11.7%	11.7%	11.7%
Base Case							13.3%	13.1%	13.0%	13.0%	13.0%
Bear Case							14.6%	14.4%	14.3%	14.3%	14.3%

EBT	124	254.3	386	541.7	628.4	602.0	884.0	1,219.1	1,622.4	2,056.5
Income Tax Expense	92.6	-80.6	54.3	53.2	14.1	52.4	77.0	106.2	141.3	179.1
Tax Rate	74.7%	-31.7%	14.1%	9.8%	2.2%	8.7%	8.7%	8.7%	8.7%	8.7%
Bull Case						7.0%	7.0%	7.0%	7.0%	7.0%
Base Case						8.7%	8.7%	8.7%	8.7%	8.7%
Bear Case						10.5%	10.5%	10.5%	10.5%	10.5%
Notes* Tax Rates for FY17 and FY18 are disregarded										
SBC	137.2	162.9	174.1	191.7	207.9	351.0	446.1	566.1	732.2	938.2
%sales	9.2%	9.0%	8.0%	7.4%	6.2%	8.0%	7.7%	7.5%	7.4%	7.4%
Bull Case						6.4%	6.2%	6.0%	5.9%	5.9%
Base Case						8.0%	7.7%	7.5%	7.4%	7.4%
Bear Case						9.6%	9.3%	9.0%	8.8%	8.8%
Working Capital Assumptions *units*										
Inventories	77.3	90	117.9	139.8	175.8	339.64	325.29	537.04	594.42	872.14
Inventory Turnover		4.6	4.3	3.9	3.6	4.08	4.08	4.08	4.08	4.08
Days Inventory Outstanding		79.2	84.2	93.0	101.0	89.37	89.37	89.37	89.37	89.37
Bull Case						71.50	71.50	71.50	71.50	71.50
Base Case						89.37	89.37	89.37	89.37	89.37
Bear Case						107.25	107.25	107.25	107.25	107.25
Accounts Payable	70	86.4	96.4	141.6	148.4	322.87	285.08	503.35	531.15	809.73
Inventory Turnover		4.9	4.9	4.3	3.9	4.47	4.47	4.47	4.47	4.47
Days Payable Outstanding		74.08	74.07	85.86	92.85	81.71	81.71	81.71	81.71	81.71
Bull Case						65.37	65.37	65.37	65.37	65.37
Base Case						81.71	81.71	81.71	81.71	81.71
Bear Case						98.06	98.06	98.06	98.06	98.06
Accounts Receivables	348.2	444.5	544.3	720	807.7	1218.66	1436.94	2049.34	2530.73	3342.83
Accounts Receivable Days		80.17	83.43	88.94	83.42	83.99	83.99	83.99	83.99	83.99
Bull Case						67.19	100.79	100.79	100.79	100.79
Base Case						83.99	83.99	83.99	83.99	83.99
Bear Case						100.79	67.19	67.19	67.19	67.19
Working Capital	-121.40	-147.90	90.70	-150.90	-36.60	413.05	566.66	1,058.99	1,420.05	2,033.88
Change in Net Working Capital		-26.50	238.60	-241.60	114.30	449.65	153.61	492.32	361.06	613.83

Other asset/liabilities *units*										
Prepaid expenses and other current assets	40	36.8	41.2	43.3	65.4	68.5	90.2	118.2	155.2	203.9
% sales	2.7%	2.0%	1.9%	1.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Assets	19.9	20.8	60	63.2	235.8	98.6	129.9	170.2	223.5	293.6
%sales	1.3%	1.2%	2.8%	2.4%	7.1%	2.9%	2.9%	2.9%	2.9%	2.9%
Accrued Liabilities	50	77.5	101.8	149.2	197.3	160.4	211.4	277.0	363.6	477.7
%sales	3.3%	4.3%	4.7%	5.8%	5.9%	4.8%	4.8%	4.8%	4.8%	4.8%
Accrued Payroll & Compensation	92	98.4	101.8	145.9	195	185.6	244.6	320.5	420.8	552.8
%sales	6.2%	5.5%	4.7%	5.6%	5.8%	5.6%	5.6%	5.6%	5.6%	5.6%
Other Liabilities	8.6	13	44.9	56.2	59.2	48.9	64.4	84.4	110.7	145.5
%sales	0.6%	0.7%	2.1%	2.2%	1.8%	1.5%	1.5%	1.5%	1.5%	1.5%

PPE Summary	*millions*										
Revenue		1,494.9	1,804.6	2,163.0	2,594.4	3,342.2	4,403.2	5,770.5	7,575.5	9,952.2	12,762.9
PPE, net		245.4	271.4	344.3	448.0	687.6	741.5	785.3	867.6	1,021.4	1,132.8
Cost Allocation	Assumed Useful Life (Years)										
Land		65.6	75.7	93.3	93.3	204.5	204.5	204.5	204.5	204.5	204.5
Building and Building Improvements	21	133.2	144.2	147.4	150.6	416.2	465.0	518.7	613.7	782.9	918.7
Computer Equipment and Software	4	79.9	95.9	116.7	137.2	176.1	209.9	238.9	279.0	338.9	404.2
Leasehold Improvements	Shorter of useful life or lease term	20.8	17.9	25.5	31.9	40.1	40.1	40.1	40.1	40.1	40.1
Evaluation Units	1	20.1	20.5	19.9	19.8	15.6	15.6	15.6	15.6	15.6	15.6
Furniture and Fixtures	5	14.7	15.7	17.3	21.3	26.9	30.3	33.8	39.3	46.6	54.4
Construction in Progress		6.3	12.3	61.2	166.4	19.9	19.9	19.9	19.9	19.9	19.9
PPE, at cost		340.6	382.2	481.3	620.5	899.3	985.3	1071.6	1212.1	1448.6	1657.3
Beginning D&A							(211.7)	(243.7)	(286.3)	(344.5)	(427.2)
D&A Expense							(32.0)	(42.6)	(58.2)	(82.7)	(97.3)
Ending D&A		(95.2)	(110.8)	(137.0)	(172.5)	(211.7)	(243.7)	(286.3)	(344.5)	(427.2)	(524.5)
% Growth			116.4%	123.6%	125.9%	122.7%	115.1%	117.5%	120.3%	124.0%	122.8%
Capex		(135.3)	(53.0)	(92.2)	(125.9)	(295.9)	(153.3)	(162.0)	(233.7)	(337.1)	(348.5)
% of Revenue		-9.1%	-2.9%	-4.3%	-4.9%	-8.9%	-3.5%	-2.8%	-3.1%	-3.4%	-2.7%
Additions											
Land			10.1	17.6	0.0	111.2	-	-	-	-	-
Building and Building Improvements			11.0	3.2	3.2	265.6	48.8	53.7	95.0	169.3	135.8
Computer Equipment and Software			16.0	20.8	20.5	38.9	33.8	29.0	40.1	59.9	65.2
Leasehold Improvements			(2.9)	7.6	6.4	8.2	-	-	-	-	-
Evaluation Units			0.4	(0.6)	(0.1)	(4.2)	-	-	-	-	-
Furniture and Fixtures			1.0	1.6	4.0	5.6	3.4	3.5	5.4	7.4	7.8
Construction in Progress			6.0	48.9	105.2	(146.5)	-	-	-	-	-
Total Net Additions			41.6	99.1	139.2	278.8	86.0	86.3	140.5	236.5	208.8

% of total addition

Land	24.3%	17.8%	-	39.9%	-	-	-	-	-
Building and Building Improvements	26.4%	3.2%	2.3%	95.3%	31.8%	33.2%	40.6%	50.2%	39.0%
Computer Equipment and Software	38.5%	21.0%	14.7%	14.0%	22.0%	17.9%	17.2%	17.8%	18.7%
Leasehold Improvements	-7.0%	7.7%	4.6%	2.9%	2.1%	4.3%	3.5%	3.2%	3.3%
Evaluation Units	1.0%	-0.6%	-0.1%	-1.5%	-	-	-	-	-
Furniture and Fixtures	2.4%	1.6%	2.9%	2.0%	2.2%	2.2%	2.3%	2.2%	2.2%
Construction in Progress	14.4%	49.3%	75.6%	-52.5%	-	-	-	-	-
Check	100.0%	100.0%	100.0%	100.0%	58.1%	57.6%	63.6%	73.4%	63.2%
			Rebasing to 100%		172%	174%	157%	136%	158%

Building and Building Improvements			*millions*						
Useful Life		21							
Opening Balance					204.5	241.2	280.3	356.1	498.2
Additions					48.8	53.7	95.0	169.3	135.8
Depreciation					- 12.1	- 14.6	- 19.1	- 27.2	- 33.7
Net balance					241.2	280.3	356.1	498.2	600.3
			Final Year						
FY21A	204.5	21	FY42E	-9.7	- 9.7	- 9.7	- 9.7	- 9.7	- 9.7
FY22E	48.8	21	FY43E	-2.3	- 2.3	- 2.3	- 2.3	- 2.3	- 2.3
FY23E	53.7	21	FY44E	-2.6	-	- 2.6	- 2.6	- 2.6	- 2.6
FY24E	95.0	21	FY45E	-4.5	-	-	- 4.5	- 4.5	- 4.5
FY25E	169.3	21	FY46E	-8.1	-	-	-	- 8.1	- 8.1
FY26E	135.8	21	FY47E	-6.5	-	-	-	-	- 6.5
Depreciation for B&BI					- 12.1	- 14.6	- 19.1	- 27.2	- 33.7

Computer Equipment and Software			*millions*						
Useful Life		4							
Opening Balance					38.9	54.5	58.1	62.8	72.2
Additions					33.8	29.0	40.1	59.9	65.2
Depreciation					- 18.2	- 25.4	- 35.5	- 50.4	- 57.0
Net balance					54.5	58.1	62.8	72.2	80.5
			Final Year						
FY21A	38.9	4	FY25E	-9.7	- 9.7	- 9.7	- 9.7	- 9.7	-
FY22E	33.8	4	FY26E	-8.4	- 8.4	- 8.4	- 8.4	- 8.4	- 8.4
FY23E	29.0	4	FY27E	-7.3	-	- 7.3	- 7.3	- 7.3	- 7.3
FY24E	40.1	4	FY28E	-10.0	-	-	- 10.0	- 10.0	- 10.0
FY25E	59.9	4	FY29E	-15.0	-	-	-	- 15.0	- 15.0
FY26E	65.2	4	FY30E	-16.3	-	-	-	-	- 16.3
Depreciation for CE&S					- 18.2	- 25.4	- 35.5	- 50.4	- 57.0

Furniture and fixtures			*millions*						
Useful Life		5							
Opening Balance					5.6	7.2	8.2	10.1	12.4
Additions					3.4	3.5	5.4	7.4	7.8
Depreciation					- 1.8	- 2.5	- 3.6	- 5.1	- 6.6
Net balance					7.2	8.2	10.1	12.4	13.5
			Final Year						
FY21A	5.6	5	FY26E	-1.1	- 1.1	- 1.1	- 1.1	- 1.1	- 1.1
FY22E	3.4	5	FY27E	-0.7	- 0.7	- 0.7	- 0.7	- 0.7	- 0.7
FY23E	3.5	5	FY28E	-0.7	-	- 0.7	- 0.7	- 0.7	- 0.7
FY24E	5.4	5	FY29E	-1.1	-	-	- 1.1	- 1.1	- 1.1
FY25E	7.4	5	FY30E	-1.5	-	-	-	- 1.5	- 1.5
FY26E	7.8	5	FY31E	-1.6	-	-	-	-	- 1.6
Depreciation for F&F					- 1.8	- 2.5	- 3.6	- 5.1	- 6.6