

## Fortinet

## Ending the year strong; but outperformance could slow recovery

Reiterate Rating: BUY | PO: 87.00 USD | Price: 67.48 USD

## Surprising 4Q beat; still expect FY24 to be a recovery year

Fortinet ended the year on a high note but the strong outperformance is both a positive and a negative. 4Q billings up +9% YoY versus Street's -5% decline, mostly driven by 6 large deals over \$10mn each. Revenues were inline, with software and services up +25% YoY while absorption of abnormally strong historical firewall orders pushed product revenues down -10%. FCF margin declined to 11% from 39% YoY but this was one-time in nature, driven by one-time tax payment. Looking at 2024, the environment remains challenged with product revenues expected to recover only in 2H24 and be down -6% for the year. However, we expect 1Q to be the trough and model sequential improvements throughout the year. The strong 4Q performance is creating tough comps for 2024 billings and we model billings to grow about 7% by 4Q24 vs. 10% previously. We reiterate our Buy and increase our PO from \$75 to \$87 based on 27x CY25 EV/FCF vs 25x previously, on strong underlying fundamentals.

## Capex increasing but FCF margin remains stable

Management guided Capex to grow substantially in 2024. The company plans to invest in Data Center and hosting capacity, and is also looking to buy its own real estate vs. lease. Nevertheless, we model gross and operating margins to improve by 100bps in 2024, and model 9% and 15% revenue growth in 2024 and 2025, respectively. All in, FCF margin expected to be flat in 2024 at about 32-33%, and reach management's 2025 target of 35-39%.

## What drives the stock from here?

The story of 2024 should be the story of new products and recovery of the legacy Firewall market. We expect the Firewall market to absorb the historical orders and show better trends in 2H24. We model product revenues to decline -8% in 1H24 and about -3% YoY in 2H24, which we believe might be overly conservative. Management believes non-Fortigate growth will exceed Firewall growth in 2024 and this quarter SecOps grew 44% YoY driven by mid-enterprise demand for EDR, SIEM and email security products. New products should contribute to the growth acceleration. Unified SASE grew 19% YoY in 4Q, accounting for 21% of 4Q billings, mostly related to strong SD-WAN demand within the SMB segment. We flag Fortinet's significant price advantage, with its SMB pricing being about one third of the pricing of competitive offerings.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.28	1.69	1.80	1.82	2.06
GAAP EPS	1.15	1.51	1.37	1.50	1.72
EPS Change (YoY)	58.0%	32.0%	6.5%	1.1%	13.2%
Consensus EPS (Bloomberg)			1.68	1.92	2.28
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	52.7x	39.9x	37.5x	37.1x	32.8x
GAAP P/E	58.7x	44.7x	49.3x	45.0x	39.2x
EV / EBITDA*	43.9x	35.6x	34.0x	29.7x	25.4x
Free Cash Flow Yield*	2.6%	3.1%	3.3%	4.3%	5.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	75.00	87.00

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## Stock Data

Price	67.48 USD
Price Objective	87.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-9
52-Week Range	44.12 USD - 81.24 USD
Mkt Val (mn) / Shares Out (mn)	56,572 USD / 838.4
Free Float	82.5%
Average Daily Value (mn)	435.34 USD
BoFA Ticker / Exchange	FTNT / NAS
Bloomberg / Reuters	FTNT US / FTNT.OQ
ROE (2024E)	686.6%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

EDR = endpoint detection and response

SIEM = security information and event management

SMB = small medium size business

SASE = secure access server edge

# iQprofile<sup>SM</sup> Fortinet

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	32.5%	43.1%	28.9%	23.3%	20.1%
Return on Equity	399.3%	NM	686.6%	89.0%	51.4%
Operating Margin	27.4%	28.4%	27.0%	27.0%	27.6%
Free Cash Flow	1,449	1,731	1,861	2,416	2,865

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.5x	1.6x	1.8x	1.8x
Asset Replacement Ratio	2.7x	1.8x	2.8x	0.9x	0.4x
Tax Rate	3.2%	10.8%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	NM	NM	-373.0%	-243.2%	-213.8%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,417	5,305	5,768	6,628	7,673
% Change	32.2%	20.1%	8.7%	14.9%	15.8%
Gross Profit	3,370	4,108	4,501	5,229	6,139
% Change	30.1%	21.9%	9.6%	16.2%	17.4%
EBITDA	1,314	1,620	1,696	1,939	2,265
% Change	36.8%	23.4%	4.7%	14.3%	16.8%
Net Interest & Other Income	26	93	141	65	(8)
<b>Net Income (Adjusted)</b>	<b>1,032</b>	<b>1,328</b>	<b>1,408</b>	<b>1,426</b>	<b>1,626</b>
<b>% Change</b>	<b>53.0%</b>	<b>28.7%</b>	<b>6.1%</b>	<b>1.3%</b>	<b>14.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	922	1,190	1,072	1,177	1,360
Depreciation & Amortization	104	113	141	152	145
Change in Working Capital	233	126	827	987	1,158
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	471	506	219	236	254
Capital Expenditure	(281)	(204)	(397)	(136)	(52)
<b>Free Cash Flow</b>	<b>1,449</b>	<b>1,731</b>	<b>1,861</b>	<b>2,416</b>	<b>2,865</b>
<b>% Change</b>	<b>20.4%</b>	<b>19.5%</b>	<b>7.5%</b>	<b>29.9%</b>	<b>18.6%</b>
Share / Issue Repurchase	(1,991)	(1,501)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,683	1,398	3,259	5,675	8,540
Trade Receivables	1,262	1,402	1,072	1,230	1,445
Other Current Assets	866	1,628	1,595	1,347	1,209
Property, Plant & Equipment	899	1,044	1,301	1,285	1,193
Other Non-Current Assets	1,519	1,786	2,237	2,371	2,690
<b>Total Assets</b>	<b>6,228</b>	<b>7,259</b>	<b>9,464</b>	<b>11,907</b>	<b>15,077</b>
Short-Term Debt	0	0	0	1	1
Other Current Liabilities	3,078	3,719	4,274	4,669	5,381
Long-Term Debt	0	0	0	1	1
Other Non-Current Liabilities	3,431	4,003	4,316	4,905	5,702
<b>Total Liabilities</b>	<b>6,510</b>	<b>7,722</b>	<b>8,590</b>	<b>9,576</b>	<b>11,085</b>
<b>Total Equity</b>	<b>(282)</b>	<b>(463)</b>	<b>874</b>	<b>2,333</b>	<b>3,994</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,228</b>	<b>7,259</b>	<b>9,464</b>	<b>11,909</b>	<b>15,079</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Data Networking

## Company Description

Fortinet is a pioneer in the Unified Threat Management (UTM) segment of network security solutions. Its security appliances offer the ability to run multiple security functions simultaneously, without a significant drop in throughput, enabled by Fortinet's unique custom-ASIC architecture.

## Investment Rationale

We view Fortinet as a strong competitor in the network security space. We believe the company will continue to demonstrate a strong price/performance value proposition due to its custom ASIC products. We see this, along with new product introductions, as driving replacement cycles and opening new opportunities in the high-end data center market given its competitive throughput. Lastly, we highlight Fortinet's strong financial position, a testament to its sustainable business model.

## Stock Data

Average Daily Volume 6,451,454

## Quarterly Earnings Estimates

	2023	2024
Q1	0.34A	0.40E
Q2	0.38A	0.40E
Q3	0.41A	0.46E
Q4	0.51A	0.55E

# Financial Highlights

## Exhibit 1: Actual versus estimated results

4Q billings beat BofA estimates

Fortinet Estimated vs. Actual Results	Q4	Q1	Q2	Q3	Q4	Q4E			
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23	delta	QoQ	YoY
Product	540,100	500,700	472,600	465,900	488,100	493,854	-5,754	4.8%	-9.6%
y/y	42.5%	35.0%	17.9%	-0.6%	-9.6%	-8.6%			
Services	742,900	761,600	820,200	868,700	927,000	916,479	10,522	6.7%	24.8%
y/y	27.1%	30.5%	30.3%	27.6%	24.8%	23.4%			
<b>Total Revenues</b>	<b>1,283,000</b>	<b>1,262,300</b>	<b>1,292,800</b>	<b>1,334,600</b>	<b>\$1,415,100</b>	<b>\$1,410,333</b>	<b>4,768</b>	<b>6.0%</b>	<b>10.3%</b>
y/y	33.1%	32.2%	25.5%	16.1%	10.3%	9.9%			
Gross Profit	996,000	963,600	1,007,000	1,026,900	1,110,200	1,072,418	37,782	8.1%	11.5%
R&D	112,600	134,100	133,300	136,900	132,700	145,799	-13,099	-3.1%	17.9%
S&M	429,300	450,900	484,500	473,000	478,800	485,298	-6,498	1.2%	11.5%
G&A	36,500	44,600	41,100	45,600	45,200	49,248	-4,048	-0.9%	23.8%
Total Opex	578,400	629,600	658,900	655,500	656,700	680,345	-23,645	0.2%	13.5%
<b>Operating Income</b>	<b>417,600</b>	<b>334,000</b>	<b>348,100</b>	<b>371,400</b>	<b>453,500</b>	<b>392,073</b>	<b>61,427</b>	<b>22.1%</b>	<b>8.6%</b>
<b>y/y</b>	<b>52.0%</b>	<b>58.9%</b>	<b>36.3%</b>	<b>13.9%</b>	<b>8.6%</b>	<b>-6.1%</b>			
Total Other Income	50,100	17,600	20,200	24,600	30,200	15,603	14,597	22.8%	-39.7%
Pretax Income	467,700	351,600	368,300	396,000	483,700	407,677	76,023	22.1%	3.4%
Net Income	349,700	269,700	300,400	323,500	392,000	338,372	53,628	21.2%	12.1%
Dil. Share Count	791,800	793,400	793,400	791,200	772,300	785,029	-12,729	-2.4%	-2.5%
<b>Non-GAAP EPS</b>	<b>\$0.44</b>	<b>\$0.34</b>	<b>\$0.38</b>	<b>\$0.41</b>	<b>\$0.51</b>	<b>\$0.43</b>	<b>\$0.08</b>	<b>24.1%</b>	<b>14.9%</b>
y/y	<b>79.2%</b>	<b>79.9%</b>	<b>58.0%</b>	<b>23.8%</b>	<b>14.9%</b>	<b>-2.4%</b>			
<b>Margin Analysis</b>								<b>bps</b>	<b>bps</b>
Product	65.2%	61.8%	63.5%	57.9%	60.1%	57.0%	311 bps	220 bps	-510 bps
Services	86.7%	85.9%	86.2%	87.2%	88.1%	86.3%	181 bps	96 bps	145 bps
<b>Total Gross Margin</b>	<b>77.6%</b>	<b>76.3%</b>	<b>77.9%</b>	<b>76.9%</b>	<b>78.5%</b>	<b>76.0%</b>	241 bps	151 bps	82 bps
<b>Operating Margin</b>	<b>32.5%</b>	<b>26.5%</b>	<b>26.9%</b>	<b>27.8%</b>	<b>32.0%</b>	<b>27.8%</b>	425 bps	422 bps	-50 bps
Non-GAAP Tax Rate	15.6%	17.0%	17.0%	17.0%	17.0%	17.0%	-1 bps	0 bps	143 bps
Non-GAAP Net Margin	27.3%	21.4%	23.2%	24.2%	27.7%	24.0%	371 bps	346 bps	44 bps
<b>Billings</b>	<b>1,719,000</b>	<b>1,503,000</b>	<b>1,541,000</b>	<b>1,491,300</b>	<b>1,865,000</b>	<b>1,630,201</b>	<b>234,799</b>	<b>25.1%</b>	<b>8.5%</b>
y/y	<b>31.6%</b>	<b>29.6%</b>	<b>18.2%</b>	<b>5.7%</b>	<b>8.5%</b>	<b>-5.2%</b>			

Source: BofA Global Research estimates, company report

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**Exhibit 2: Summary of Model Changes**

We tweak our estimates to reflect updated guidance from management

	Sales			EPS			Gross Margin			Operating Margin			Billings		
	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta
<b>FY23</b>															
Q1A	1,262,300	1,262,300	0	\$0.34	\$0.34	0.00	76.3%	76.3%	0.0 bps	26.5%	26.5%	0.0 bps	1,502,900	1,502,900	0
Q2A	1,292,800	1,292,800	0	\$0.38	\$0.38	0.00	77.9%	77.9%	0.0 bps	26.9%	26.9%	0.0 bps	1,540,500	1,540,500	0
Q3A	1,334,600	1,334,600	0	\$0.41	\$0.41	0.00	76.9%	76.9%	0.0 bps	27.8%	27.8%	0.0 bps	1,491,300	1,491,300	0
Q4E	1,410,333	1,415,100	4,768	\$0.02	\$0.02	0.00	76.0%	78.5%	241.4 bps	27.8%	32.0%	424.7 bps	1,630,201	1,864,800	234,599
<b>Total</b>	<b>5,300,033</b>	<b>5,304,800</b>	<b>4,768</b>	<b>\$1.60</b>	<b>\$1.69</b>	<b>0.09</b>	<b>76.8%</b>	<b>77.4%</b>	<b>64.3 bps</b>	<b>27.3%</b>	<b>28.4%</b>	<b>113.3 bps</b>	<b>6,164,901</b>	<b>6,399,500</b>	<b>234,599</b>
<b>FY24</b>															
Q1E	1,359,902	1,336,778	(23,125)	\$0.38	\$0.40	0.02	77.2%	77.3%	4.5 bps	25.6%	26.6%	98.8 bps	1,414,954	1,417,068	2,113
Q2E	1,375,810	1,365,328	(10,482)	\$0.36	\$0.40	0.04	77.4%	77.8%	44.1 bps	24.1%	26.0%	188.4 bps	1,570,418	1,499,080	(71,338)
Q3E	1,417,085	1,457,393	40,309	\$0.37	\$0.46	0.09	77.6%	78.4%	78.5 bps	22.7%	26.8%	413.8 bps	1,572,465	1,546,629	(25,836)
Q4E	1,601,150	1,608,137	6,987	\$0.48	\$0.55	0.07	77.5%	78.5%	101.7 bps	25.2%	28.2%	302.9 bps	1,784,366	2,061,007	276,641
<b>Total</b>	<b>5,753,947</b>	<b>5,767,635</b>	<b>13,688</b>	<b>\$1.58</b>	<b>\$1.80</b>	<b>0.22</b>	<b>77.4%</b>	<b>78.0%</b>	<b>59.9 bps</b>	<b>24.4%</b>	<b>27.0%</b>	<b>255.0 bps</b>	<b>6,342,203</b>	<b>6,523,783</b>	<b>181,580</b>
<b>FY25</b>															
Q1E	1,552,907	1,561,763	8,856	\$0.38	\$0.42	0.04	76.8%	77.8%	97.6 bps	22.8%	25.9%	309.8 bps	1,613,841	1,626,674	12,833
Q2E	1,586,533	1,595,248	8,715	\$0.40	\$0.44	0.04	77.6%	78.6%	104.2 bps	23.3%	26.5%	316.5 bps	1,771,164	1,791,930	20,766
Q3E	1,618,228	1,626,096	7,868	\$0.38	\$0.42	0.04	77.7%	78.7%	99.2 bps	22.1%	25.3%	312.6 bps	1,871,788	1,896,206	24,418
Q4E	1,828,297	1,844,515	16,218	\$0.49	\$0.54	0.05	79.4%	80.3%	88.5 bps	26.7%	29.8%	307.7 bps	2,026,074	2,055,201	29,127
<b>Total</b>	<b>6,585,965</b>	<b>6,627,622</b>	<b>41,657</b>	<b>\$1.65</b>	<b>\$1.82</b>	<b>0.17</b>	<b>77.9%</b>	<b>78.9%</b>	<b>97.2 bps</b>	<b>23.8%</b>	<b>27.0%</b>	<b>311.8 bps</b>	<b>7,282,867</b>	<b>7,370,011</b>	<b>87,144</b>
<b>FY26</b>															
Q1E	2,069,612	1,780,807	(288,805)	\$0.61	\$0.47	(0.14)	79.8%	79.7%	-13.7 bps	29.9%	26.9%	-296.4 bps	2,273,322	1,997,813	(275,508)
Q2E	2,347,122	1,826,828	(520,294)	\$0.76	\$0.46	(0.30)	80.2%	79.5%	-69.3 bps	33.0%	25.6%	-742.0 bps	2,556,943	2,050,344	(506,598)
Q3E	2,666,582	1,897,397	(769,186)	\$0.93	\$0.49	(0.44)	80.6%	80.0%	-59.2 bps	36.0%	26.6%	-938.9 bps	2,882,698	2,127,618	(755,080)
Q4E	3,034,685	2,168,106	(866,579)	\$1.14	\$0.65	(0.49)	81.0%	80.7%	-30.7 bps	38.9%	30.8%	-806.6 bps	3,257,284	2,405,235	(852,049)
<b>Total</b>	<b>10,118,001</b>	<b>7,673,138</b>	<b>(2,444,863)</b>	<b>\$3.43</b>	<b>\$2.06</b>	<b>(1.37)</b>	<b>80.5%</b>	<b>80.0%</b>	<b>-46.1 bps</b>	<b>34.9%</b>	<b>27.6%</b>	<b>-729.3 bps</b>	<b>10,970,246</b>	<b>8,581,010</b>	<b>(2,389,236)</b>

Source: BofA Global Research estimates, company report

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### Exhibit 3: Income statement

Updated summary of key financials



Fiscal Year Ends in December	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E	FY2023	FY2024E	FY2025E
(in \$thousands except EPS)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25			
<b>Total Billings</b>	<b>1,502,900</b>	<b>1,540,500</b>	<b>1,491,300</b>	<b>1,864,800</b>	<b>1,417,068</b>	<b>1,499,080</b>	<b>1,546,629</b>	<b>2,061,007</b>	<b>1,626,674</b>	<b>1,791,930</b>	<b>1,896,206</b>	<b>2,055,201</b>	<b>6,399,500</b>	<b>6,523,783</b>	<b>7,370,011</b>
YoY Growth	29.6%	18.1%	5.7%	7.8%	-5.7%	-2.7%	3.7%	10.5%	14.8%	19.5%	22.6%	-0.3%	14.2%	1.9%	13.0%
Product	500,700	472,600	465,900	488,100	451,493	440,205	449,009	473,705	450,020	461,270	475,108	503,615	1,927,300	1,814,412	1,890,012
Services	761,600	820,200	868,700	927,000	885,285	925,123	1,008,384	1,134,432	1,111,743	1,133,978	1,150,988	1,340,901	3,377,500	3,953,224	4,737,610
<b>Total Revenues</b>	<b>1,262,300</b>	<b>1,292,800</b>	<b>1,334,600</b>	<b>1,415,100</b>	<b>1,336,778</b>	<b>1,365,328</b>	<b>1,457,393</b>	<b>1,608,137</b>	<b>1,561,763</b>	<b>1,595,248</b>	<b>1,626,096</b>	<b>1,844,515</b>	<b>5,304,800</b>	<b>5,767,635</b>	<b>6,627,622</b>
YoY Growth	32.2%	25.5%	16.1%	10.3%	5.9%	5.6%	9.2%	13.6%	16.8%	16.8%	11.6%	14.7%	20.1%	8.7%	14.9%
Gross Profit	963,600	1,007,000	1,026,900	1,110,200	1,033,179	1,062,191	1,142,232	1,263,163	1,215,073	1,254,578	1,278,936	1,480,354	4,107,700	4,500,765	5,228,941
Total Operating Expenses	629,600	658,900	655,500	656,700	678,122	706,922	751,014	809,100	810,786	831,802	868,116	931,290	2,600,700	2,945,159	3,441,994
<b>Operating Income</b>	<b>334,000</b>	<b>348,100</b>	<b>371,400</b>	<b>453,500</b>	<b>355,057</b>	<b>355,269</b>	<b>391,218</b>	<b>454,062</b>	<b>404,287</b>	<b>422,776</b>	<b>410,820</b>	<b>549,064</b>	<b>1,507,000</b>	<b>1,555,606</b>	<b>1,786,947</b>
Total Other Income	17,600	20,200	24,600	30,200	20,990	18,236	39,574	62,163	25,390	22,174	18,843	(1,056)	92,600	140,962	65,351
Non-GAAP Income Tax Expense	59,800	62,600	67,300	82,200	63,928	63,496	73,235	87,758	98,826	102,338	98,822	126,042	271,900	288,417	426,029
<b>Non-GAAP Net Income</b>	<b>269,700</b>	<b>300,400</b>	<b>323,500</b>	<b>392,000</b>	<b>312,119</b>	<b>310,009</b>	<b>357,557</b>	<b>428,467</b>	<b>330,851</b>	<b>342,611</b>	<b>330,840</b>	<b>421,967</b>	<b>1,327,700</b>	<b>1,408,152</b>	<b>1,426,269</b>
<b>EPS (Non-GAAP)</b>	<b>\$0.34</b>	<b>\$0.38</b>	<b>\$0.41</b>	<b>\$0.51</b>	<b>\$0.40</b>	<b>\$0.40</b>	<b>\$0.46</b>	<b>\$0.55</b>	<b>\$0.42</b>	<b>\$0.44</b>	<b>\$0.42</b>	<b>\$0.54</b>	<b>\$1.69</b>	<b>\$1.80</b>	<b>\$1.82</b>
EPS (GAAP)	\$0.31	\$0.33	\$0.41	\$0.40	\$0.30	\$0.29	\$0.35	\$0.43	\$0.35	\$0.35	\$0.34	\$0.45	\$1.51	\$1.37	\$1.50
Weighted average diluted shares outstanding	793,400	793,400	791,200	772,300	780,000	780,500	781,500	782,500	783,500	784,000	785,000	786,000	787,575	781,125	784,625
Operating cash flow	677,500	515,100	551,200	191,700	665,494	326,551	438,048	827,939	496,898	616,075	872,219	567,322	1,935,500	2,258,032	2,552,514
OCF Margin	53.7%	39.8%	41.3%	13.5%	49.8%	23.9%	30.1%	51.5%	31.8%	38.6%	53.6%	30.8%	36.5%	39.2%	38.5%
Free Cash Flow	647,200	438,300	481,100	164,800	460,969	211,351	381,968	806,419	435,540	569,995	849,787	560,866	1,731,400	1,860,707	2,416,189
FCF margin	51.3%	33.9%	36.0%	11.6%	34.5%	15.5%	26.2%	50.1%	27.9%	35.7%	52.3%	30.4%	32.6%	32.3%	36.5%
Cash and cash equivalent	2,894,700	3,317,700	3,170,300	2,440,400	2,912,969	3,135,920	3,529,488	4,347,507	4,794,648	5,376,243	6,237,630	6,810,096	2,440,400	4,347,507	6,810,096
Net cash	2,894,700	3,317,700	3,170,300	2,440,400	2,912,969	3,135,920	3,529,488	4,347,507	4,794,648	5,376,243	6,237,630	6,810,096	2,440,400	4,347,507	6,810,096
<b>Margin Analysis</b>															
<b>Gross Profit Margin</b>	<b>76.3%</b>	<b>77.9%</b>	<b>76.9%</b>	<b>78.5%</b>	<b>77.3%</b>	<b>77.8%</b>	<b>78.4%</b>	<b>78.5%</b>	<b>77.8%</b>	<b>78.6%</b>	<b>78.7%</b>	<b>80.3%</b>	<b>77.4%</b>	<b>78.0%</b>	<b>78.9%</b>
R&D	10.6%	10.3%	10.3%	9.4%	10.5%	10.5%	10.4%	10.1%	10.2%	10.2%	10.4%	9.5%	10.1%	10.4%	10.1%
S&M	35.7%	37.5%	35.4%	33.8%	36.9%	37.9%	37.8%	37.0%	38.5%	38.7%	39.6%	37.9%	35.6%	37.4%	38.7%
G&A	3.5%	3.2%	3.4%	3.2%	3.3%	3.3%	3.3%	3.2%	3.2%	3.2%	3.4%	3.0%	3.3%	3.3%	3.2%
Total Operating Expenses	49.9%	51.0%	49.1%	46.4%	50.7%	51.8%	51.5%	50.3%	51.9%	52.1%	53.4%	50.5%	49.0%	51.1%	51.9%
<b>Operating Margin</b>	<b>26.5%</b>	<b>26.9%</b>	<b>27.8%</b>	<b>32.0%</b>	<b>26.6%</b>	<b>26.0%</b>	<b>26.8%</b>	<b>28.2%</b>	<b>25.9%</b>	<b>26.5%</b>	<b>25.3%</b>	<b>29.8%</b>	<b>28.4%</b>	<b>27.0%</b>	<b>27.0%</b>
Non-GAAP Tax Rate	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	23.0%	23.0%	23.0%	23.0%	17.0%	17.0%	23.0%
Non-GAAP Net Margin	21.4%	23.2%	24.2%	27.7%	23.3%	22.7%	24.5%	26.6%	21.2%	21.5%	20.3%	22.9%	25.0%	24.4%	21.5%
<b>YoY % growth</b>															
Product	35.0%	17.9%	-0.6%	-9.6%	-9.8%	-6.9%	-3.6%	-2.9%	-0.3%	4.8%	5.8%	6.3%	8.2%	-5.9%	4.2%
Services	30.5%	30.3%	27.6%	24.8%	16.2%	12.8%	16.1%	22.4%	25.6%	22.6%	14.1%	18.2%	28.1%	17.0%	19.8%
<b>Total Revenues</b>	<b>32.2%</b>	<b>25.5%</b>	<b>16.1%</b>	<b>10.3%</b>	<b>5.9%</b>	<b>5.6%</b>	<b>9.2%</b>	<b>13.6%</b>	<b>16.8%</b>	<b>16.8%</b>	<b>11.6%</b>	<b>14.7%</b>	<b>20.1%</b>	<b>8.7%</b>	<b>14.9%</b>
Total Operating Expenses	25.9%	23.6%	19.3%	13.5%	7.7%	7.3%	14.6%	23.2%	19.6%	17.7%	15.6%	15.1%	20.3%	13.2%	16.9%
Operating Income	58.9%	36.3%	13.9%	8.6%	6.3%	2.1%	5.3%	0.1%	13.9%	19.0%	5.0%	20.9%	24.6%	3.2%	14.9%
EPS (Non-GAAP)	79.9%	58.0%	23.8%	14.9%	17.7%	4.9%	11.9%	7.9%	5.5%	10.0%	-7.9%	-2.0%			
<b>QoQ % Growth</b>															
Product	-7.3%	-5.6%	-1.4%	4.8%	-7.5%	-2.5%	2.0%	5.5%	-5.0%	2.5%	3.0%	6.0%			
Services	2.5%	7.7%	5.9%	6.7%	-4.5%	4.5%	9.0%	12.5%	-2.0%	2.0%	1.5%	16.5%			
<b>Total Revenues</b>	<b>-1.6%</b>	<b>2.4%</b>	<b>3.2%</b>	<b>6.0%</b>	<b>-5.5%</b>	<b>2.1%</b>	<b>6.7%</b>	<b>5.0%</b>	<b>-2.9%</b>	<b>2.1%</b>	<b>1.9%</b>	<b>13.4%</b>			
Total Operating Expenses	8.9%	4.7%	-0.5%	0.2%	3.3%	4.2%	6.2%	7.7%	0.2%	2.6%	4.4%	7.3%			
Operating Income	-20.0%	4.2%	6.7%	22.1%	-21.7%	0.1%	10.1%	16.1%	-11.0%	4.6%	-2.8%	33.7%			
EPS (Non-GAAP)	-23.0%	11.4%	8.0%	24.1%	-21.2%	-0.7%	15.2%	19.7%	-22.9%	3.5%	-3.6%	27.4%			

Source: BofA Global Research estimates, company report

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## Price objective basis & risk

### Fortinet (FTNT)

Our \$87 PO is based on roughly 27x 2025E EV/FCF. Our multiple is slightly below the hardware peer group average multiple of 25-35x and a discount to software peers as well. We believe the slightly below multiple to the hardware peer group is appropriate at this stage given the current business environment despite some recent share gains, shift to more recurring software, and expansion into adjacent security markets. New market tailwinds, such as software defined wide area networking (SD-WAN) should drive further market share gains.

Upside risks to our price objective are growth of non-FortiGate products, which could support high growth and acceleration from current levels and could result in more SaaS-like multiples and drive up the valuation.

Downside risks to our price objective are 1) product convergence leading to a shrinking market with larger competitors, 2) exposure to public spending and EMEA, 3) reputation risk if major threats missed and 4) early ordering that occurred during CY21/CY22 creates tough comps heading in CY23

## Analyst Certification

I, Tal Liani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
<b>NEUTRAL</b>				
	Cellebrite	CLBT	CLBT US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani

## US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

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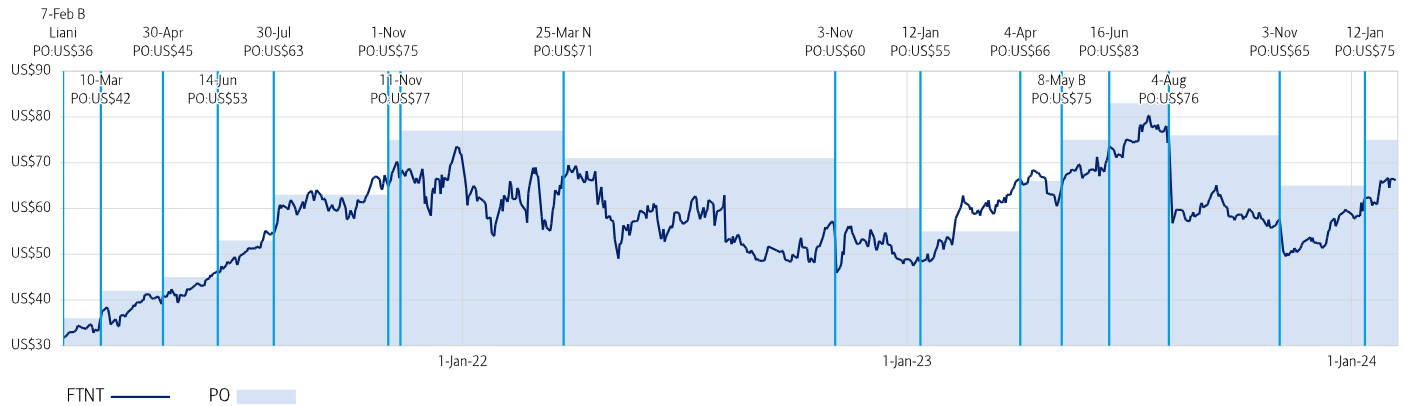
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# Disclosures

## Important Disclosures

### Fortinet (FTNT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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