

OUR EVALUATION OF FTNT

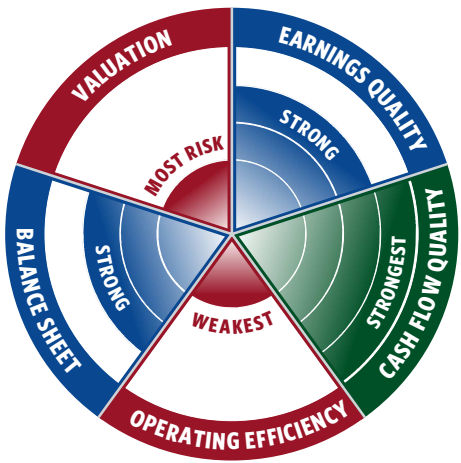
Fortinet Inc. is showing strong Cash Flow Quality, Earnings Quality and Balance Sheet Quality, but Valuation suggests a higher amount of price risk, and Operating Efficiency is weak. When combined, FTNT deserves a SELL rating.

The Operating Efficiency rating was the only dimension that showed a decrease during the last quarter by weakening on declining turnover ratios, which led to a lower overall rating. All other dimensions were unchanged from the previous quarter.

HISTORICAL RATINGS

	Q2 2024	Q3 2024	Q4 2024	Q1 2025
OVERALL RATING	BUY	HOLD	HOLD	SELL
EARNINGS QUALITY	STRONGEST	STRONG	STRONG	STRONG
CASH FLOW QUALITY	STRONGEST	STRONGEST	STRONGEST	STRONGEST
OPERATING EFFICIENCY	STRONG	STRONG	STRONG	WEAKEST
BALANCE SHEET	STRONGEST	STRONGEST	STRONG	STRONG
VALUATION	MOST RISK	MOST RISK	MOST RISK	MOST RISK

FINANCIAL SONAR™ FOR FTNT  
1ST QUARTER 2025



PRICE TRENDS AND VALUATION

Price (USD, AS OF 05/29/25)	102.50	MARKET CAP.	80.0 BILLION	PRICE/SALES	12.4
PRICE/EARNINGS	42.6	PRICE/EARNINGS GROWTH	0.7	PRICE/CASH FLOW	40.0
PRICE/ADJUSTED EARNINGS	46.3	PRICE/ADJUSTED EARNINGS GROWTH	0.8	PRICE/ADJUSTED CASH FLOW	38.1



NASDAQGS **FTNT**

**FORTINET INC.**

REGION **NORTH AMERICA**

OVERALL RATING FOR 1ST QUARTER 2025 **SELL**

INDUSTRY **SOFTWARE**

## EARNINGS QUALITY: STRONG

Earnings quality has long been analyzed and used by investors as a measure of the fundamental quality of the company and its future prospects. Companies may be including certain items that increase reported earnings and often the amount of cash flow supporting the earnings may be weak. Jefferson adjusts for these kinds of items and other anomalies to produce an adjusted earnings number that more accurately reflects ongoing business fundamentals at Fortinet Inc.. Reported earnings are compared to the Jefferson adjusted earnings as a means to gauge earnings quality. Also measured is the amount of cash flow that underpins earnings.

The earnings quality for FTNT remains STRONG.

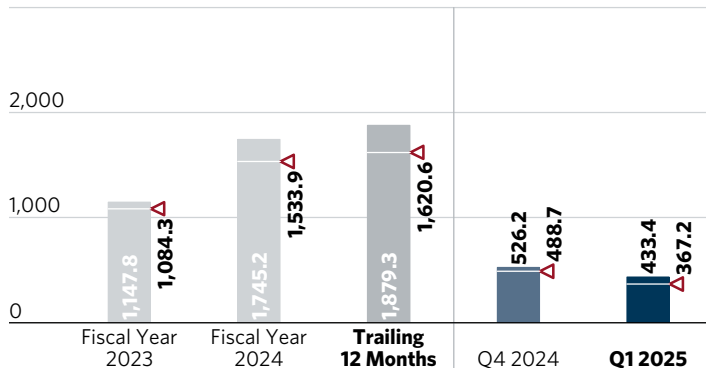
The reported net income dropped to 433.4M from 526.2M in the previous quarter, and the quality of that reported net income also declined. However, operating cash flow increased during the last quarter to 863.3M from 477.6M, and the ratio of operating cash flow to earnings has also improved.

### NET INCOME VS. ADJUSTED NET INCOME IN MILLIONS

▲ Adjusted Net Income

Adjusted Net Income as a Percentage of Net Income

94.5%    87.9%    86.2%    92.9%    84.7%

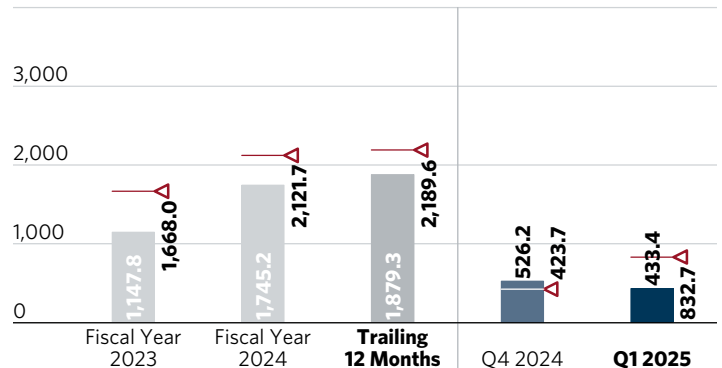


### EARNINGS VS. OPERATING CASH FLOW IN MILLIONS

▲ Reported Operating Cash Flow

Operating Cash Flow as a Percentage of Earnings

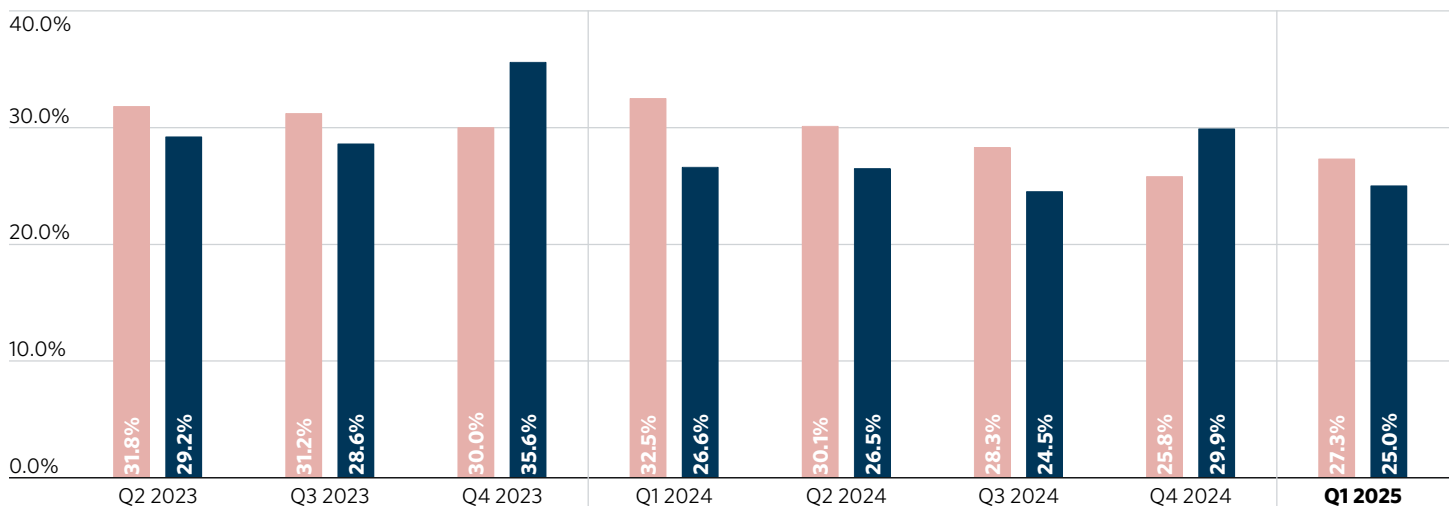
168.6%    129.4%    121.9%    90.8%    199.2%



### ACCRUALS

% OF SALES

■ Actual Accruals    ■ Forcasted Accruals



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## CASH FLOW QUALITY: STRONGEST

Cash flow is considered by many investors to be the ultimate measure of company performance and more reliable than reported earnings. The Jefferson measurement eliminates items that are not part of recurring cash flow or the result of actual operations for Fortinet Inc.. These adjustments to cash flow provide a truer measure of cash flow and the resultant cash flow quality rating.

The cash flow quality rating for FTNT remains STRONGEST. The operating cash flow quality improved this fiscal year with reported number of 2,258M and an adjusted number that was 94.0% of reported. Though this was a positive change the overall cash flow quality rating is already STRONGEST, the best rating available.

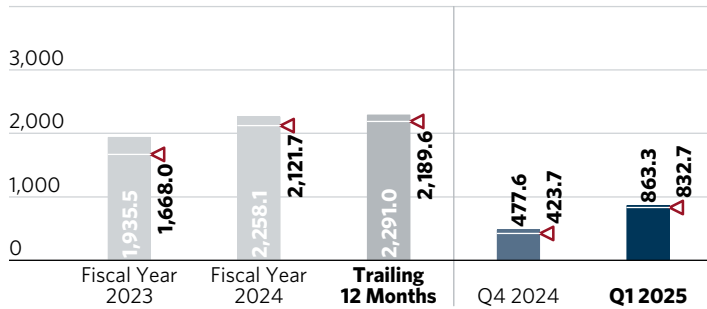
### OPERATING CASH FLOW

IN MILLIONS

△ Adjusted Operating Cash Flow

Adjusted Operating Cash Flow as a Percentage of Operating Cash Flow

86.2% 94.0% 95.6% 88.7% 96.5%



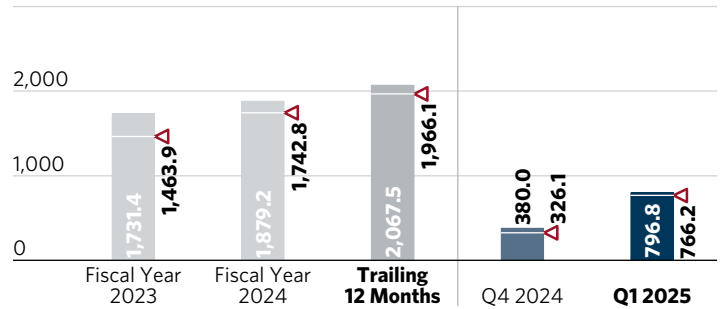
### FREE CASH FLOW

IN MILLIONS

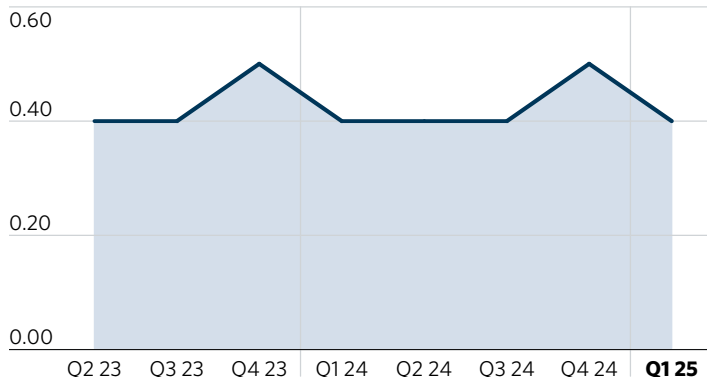
△ Adjusted Free Cash Flow

Adjusted Free Cash Flow as a Percentage of Free Cash Flow

84.6% 92.7% 95.1% 147.7% 96.2%

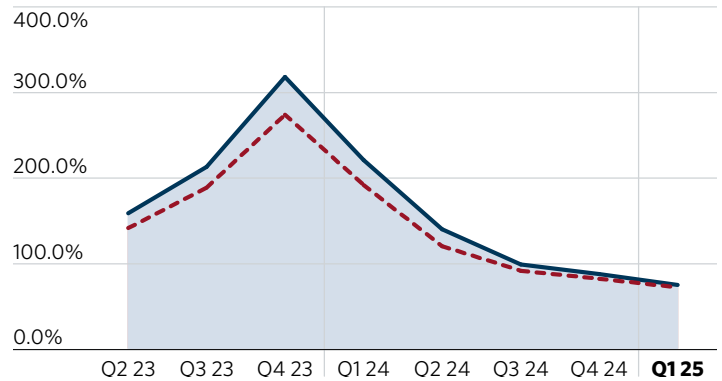


### FLOW RATIO



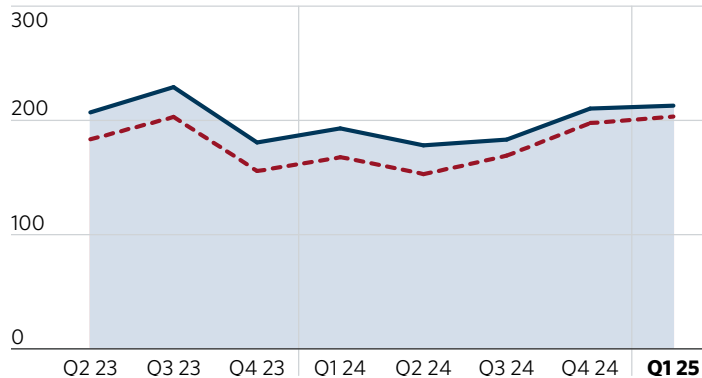
### CASH FLOW ROI

Adjusted Cash Flow ROI



### DEBT COVERAGE

Adjusted Debt Coverage



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## OPERATING EFFICIENCY: **WEAKEST**

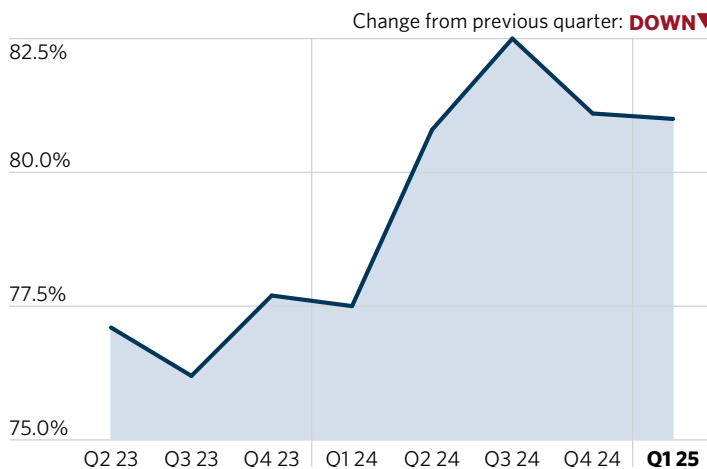
The ability of Fortinet Inc. to earn a profit is in part the result of how rapidly it converts its collection of assets into revenues and the resulting earnings and cash flow margins available. Operating Efficiency is measured by a combination of factors including: return on invested capital (ROIC), gross margin, EBIT margin, asset turnover, equity turnover, and lastly Staff, General, and Administrative costs as a percentage of sales (SGA).

The operating efficiency rating for FTNT declined from STRONG to WEAKEST

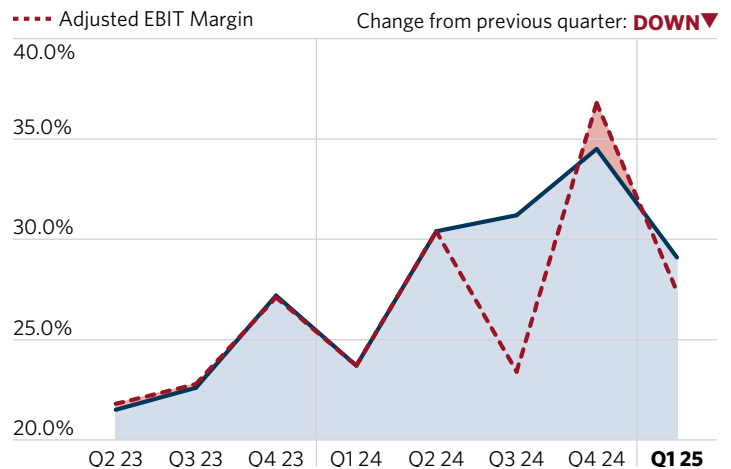
Equity turnover declined from 9.3X to 5.3X, the largest percentage decrease of the operating efficiency measures. The lower equity turnover indicates that FTNT is generating less revenues per dollar of equity.

In addition, return on invested capital deteriorated from 101.7% to 83.9%. The lower ROIC indicates that FTNT is producing less profit per dollar of capital invested in the business.

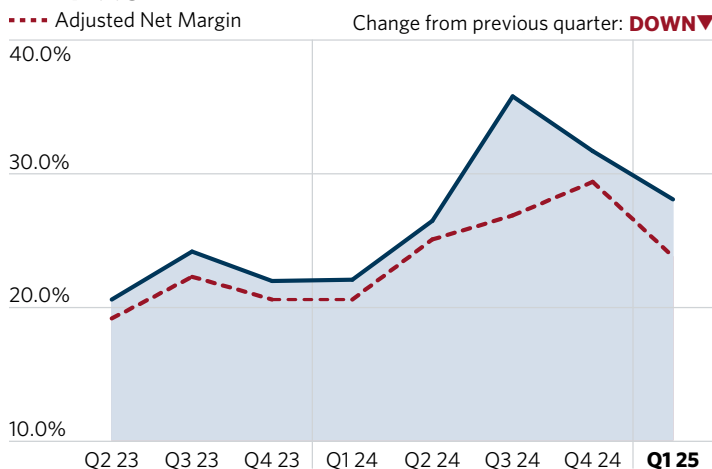
### GROSS MARGIN



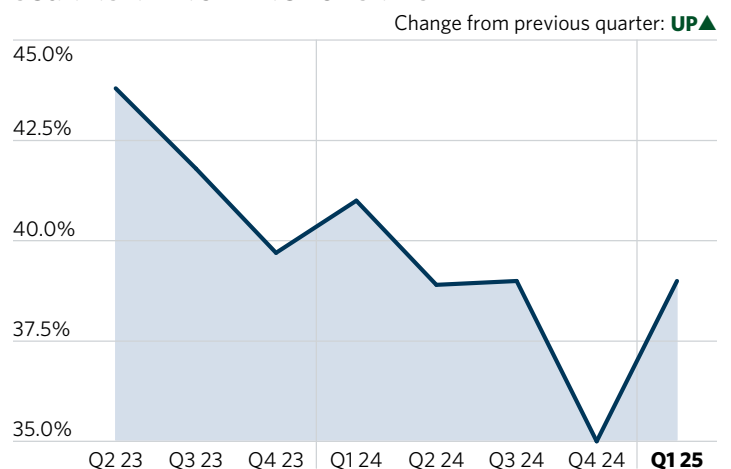
### EBIT MARGIN



### NET MARGIN



### SG&A AS A PERCENTAGE OF SALES



NASDAQGS **FTNT**

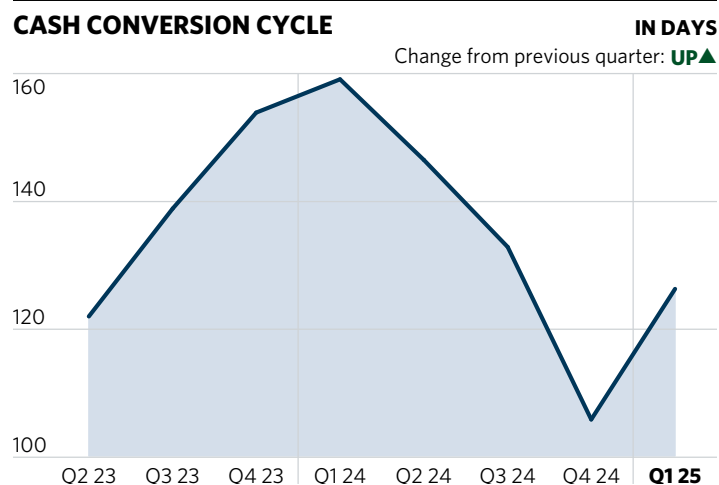
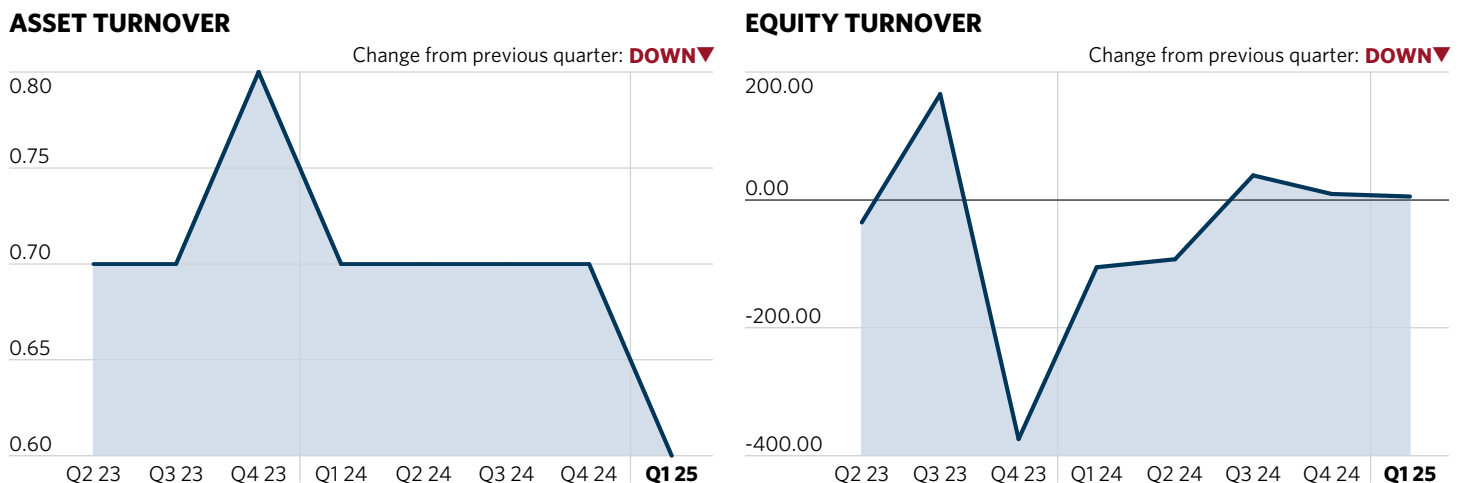
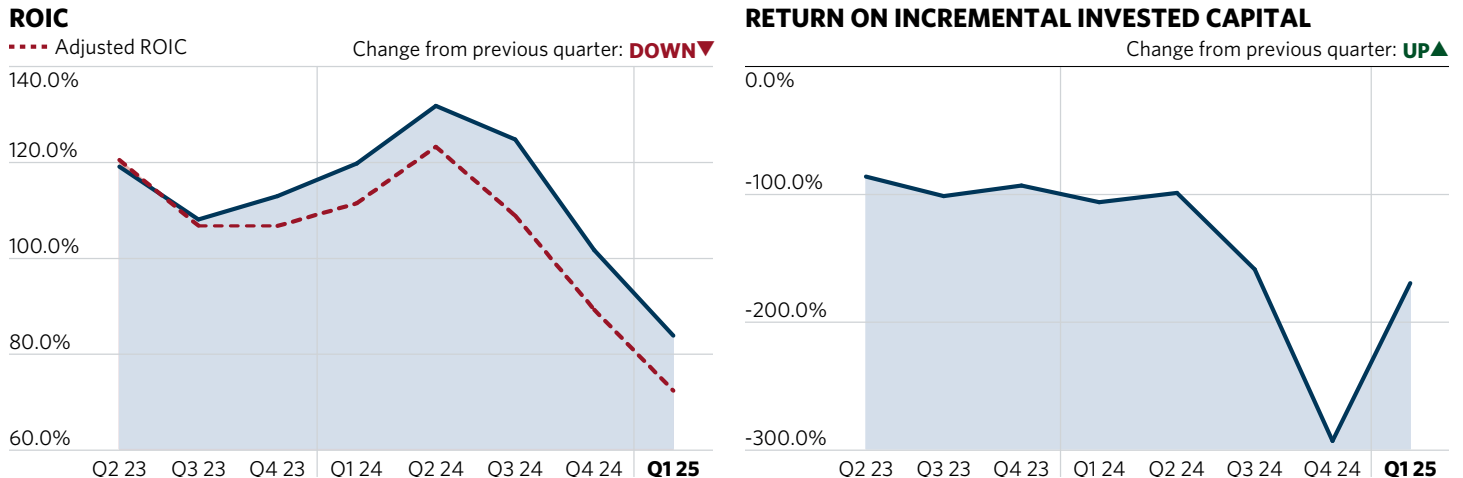
**FORTINET INC.**

REGION **NORTH AMERICA**

OVERALL RATING FOR 1ST QUARTER 2025 **SELL**

INDUSTRY **SOFTWARE**

## OPERATING EFFICIENCY: **WEAKEST**



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OVERALL RATING FOR 1ST QUARTER 2025 **SELL**

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## BALANCE SHEET QUALITY: **STRONG**

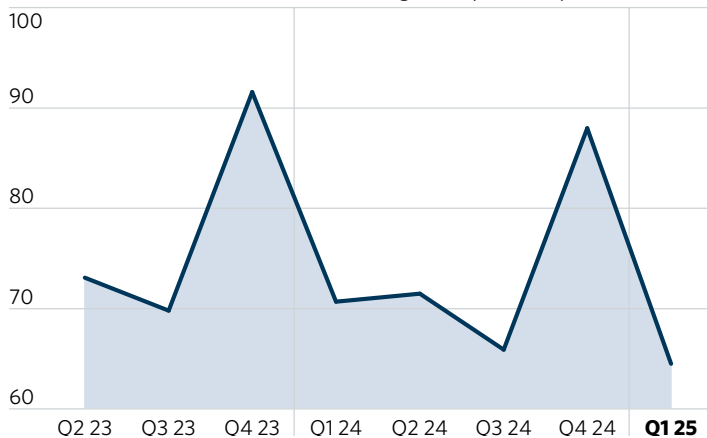
The balance sheet shows the ability of Fortinet Inc. to pay its bills and fund future growth. It also provides clues to aggressive accounting since reported earnings that do not generate cash flow generally end up somewhere on the balance sheet. The following are analyzed in determining balance sheet quality: quick ratio, current ratio, cash position, accounts receivable days sales outstanding (AR DSOs), and number of days inventory is held prior to sale to customers (Inv Days).

The balance sheet rating for FTNT remains **STRONG** as the AR DSOs, debt/equity, cash position, and debt/assets strengthened over the last quarter while the quick ratio, current ratio and Inv Days weakened.

Even though AR DSOs improved from 88 to 64 days, the decline in the quick ratio offset this by deteriorating from 1.4X to 1.3X. The lower quick ratio indicates that FTNT has decreased the amount of liquid assets relative to current liabilities.

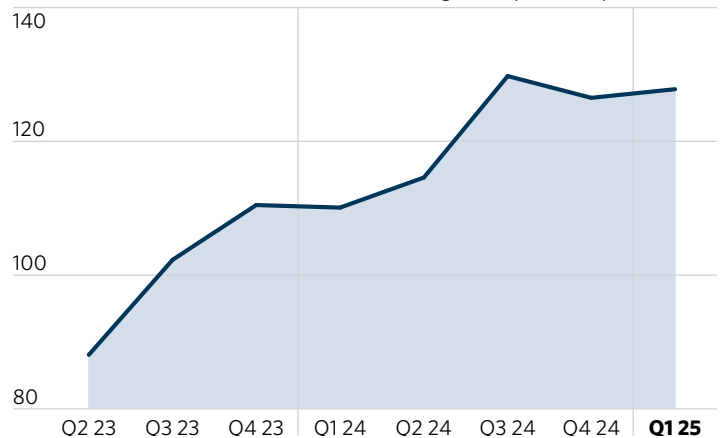
### RECEIVABLES DAYS OUT

Change from previous quarter: **DOWN ▼**



### INVENTORY DAYS OUT

Change from previous quarter: **UP ▲**



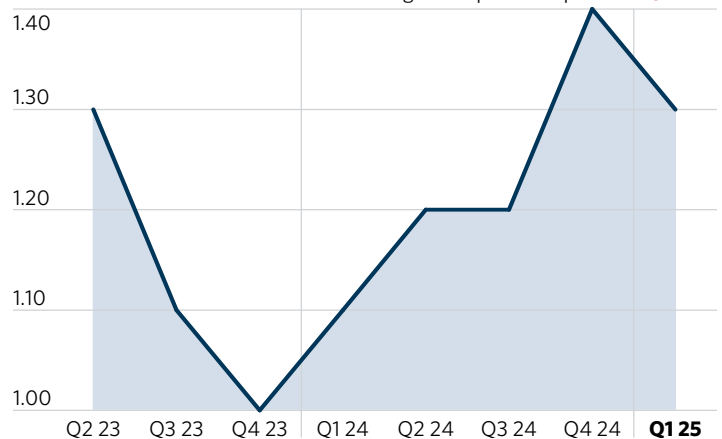
### CURRENT RATIO

Change from previous quarter: **DOWN ▼**



### QUICK RATIO

Change from previous quarter: **DOWN ▼**



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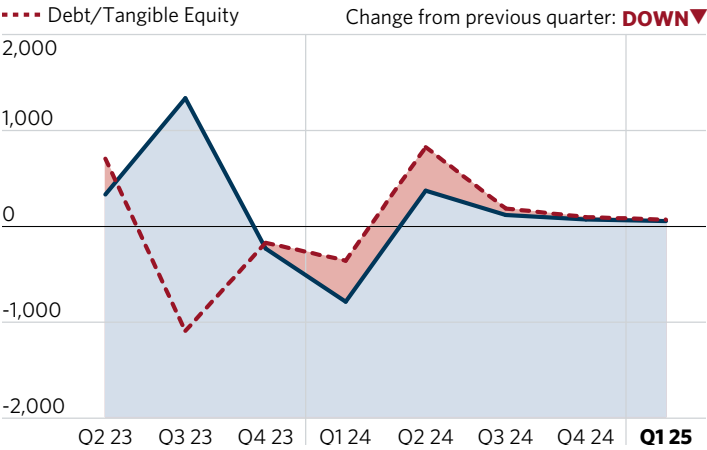
**FORTINET INC.**

REGION **NORTH AMERICA**  
INDUSTRY **SOFTWARE**

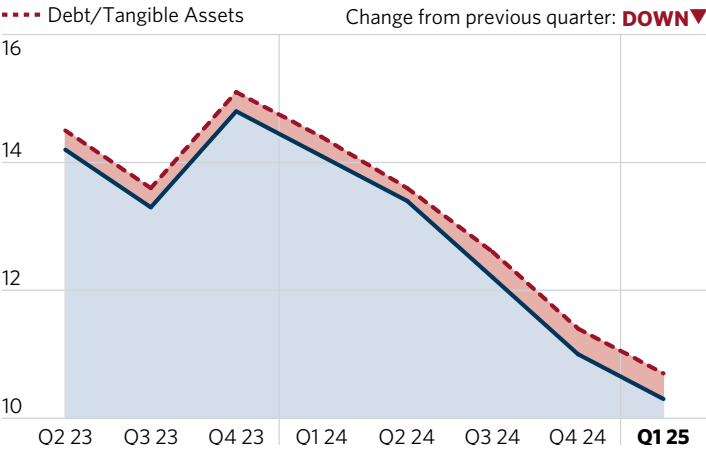
OVERALL RATING FOR 1ST QUARTER 2025 **SELL**

**BALANCE SHEET QUALITY: STRONG**

**DEBT/EQUITY**

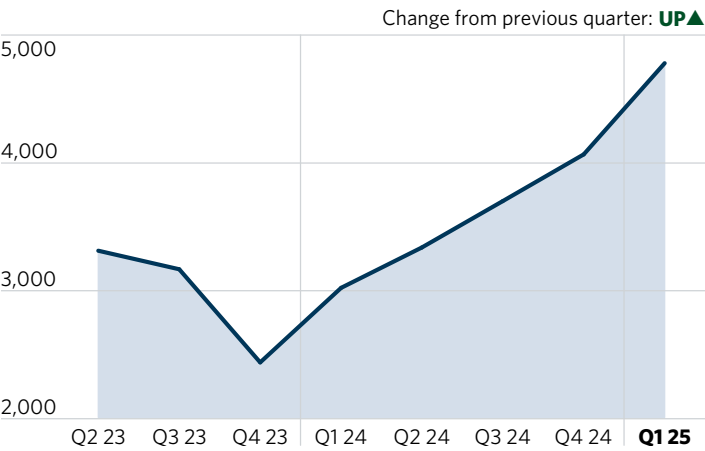


**DEBT/ASSETS**



**CASH**

**IN MILLIONS**



NASDAQGS **FTNT**

**FORTINET INC.**

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OVERALL RATING FOR 1ST QUARTER 2025 **SELL**

INDUSTRY **SOFTWARE**

## VALUATION: MOST RISK

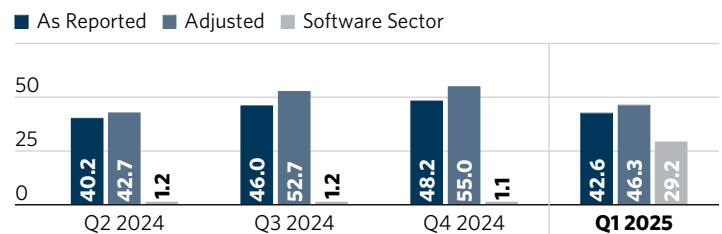
An unfavorable valuation (a MEDIUM RISK or MOST RISK rating) implies higher potential downward price risk that is evidenced by a company price multiple that is higher than the corresponding sector average. The valuation rating is based on both absolute and relative levels at Fortinet Inc. compared to its peers within its sector based on price to earnings (PE), price to earnings growth (PEG), price to sales (PS), and price to cash flow (PCF).

The valuation rating for FTNT remains a MOST RISK as all four relative valuation ratios became more attractive over the last quarter.

While all four relative valuation measures improved, FTNT's PCF ratio relative to the sector average PCF improved the most changing from 2.72X to 2.48X during the last quarter. In spite of this change and the other positive changes it was not sufficient to raise the overall Valuation rating.

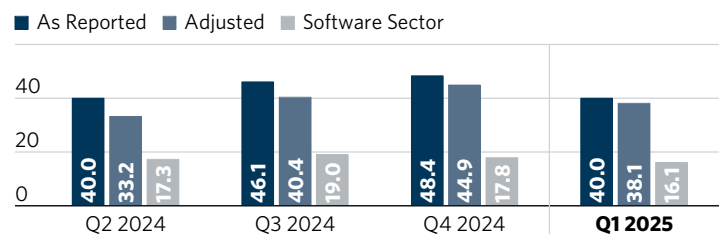
### PRICE/EARNINGS

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Earnings	<b>33.70</b>	<b>48.20</b>	<b>42.21</b>
Adjusted Price/Earnings	<b>34.00</b>	<b>55.00</b>	<b>45.16</b>
Sector Price/Earnings	<b>26.80</b>	<b>30.20</b>	<b>28.84</b>



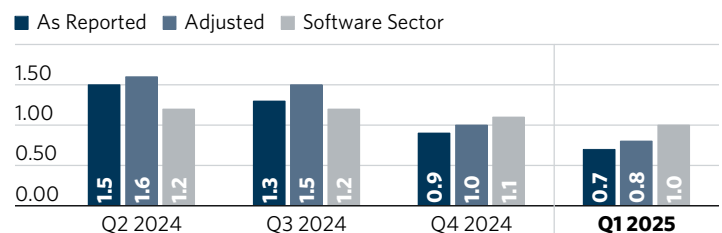
### PRICE/CASH FLOW

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Cash Flow	<b>33.40</b>	<b>48.40</b>	<b>41.68</b>
Adjusted Price/Cash Flow	<b>27.90</b>	<b>44.90</b>	<b>36.09</b>
Sector Price/Cash Flow	<b>13.80</b>	<b>19.00</b>	<b>16.26</b>



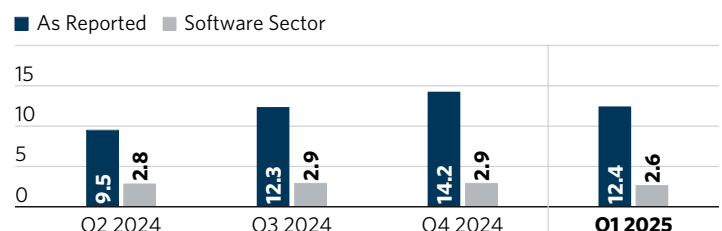
### PRICE/EARNINGS GROWTH

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Earnings Growth	<b>0.60</b>	<b>1.50</b>	<b>1.05</b>
Adjusted Price/Earnings Growth	<b>0.60</b>	<b>1.60</b>	<b>1.13</b>
Sector Price/Earnings Growth	<b>0.90</b>	<b>1.20</b>	<b>1.08</b>



### PRICE/SALES

LAST 2 YEARS	RANGE		AVERAGE
	LOW	HIGH	
Reported Price/Sales	<b>7.50</b>	<b>14.20</b>	<b>10.40</b>
Sector Price/Sales	<b>2.40</b>	<b>2.90</b>	<b>2.71</b>





PEER VALUATION COMPARISON

TICKER	COMPANY	MARKET CAP.	PRICE ON 05/29/25	PRICE/ EARNINGS	PRICE/ SALES	PRICE/ CASH FLOW	PRICE/ EARNINGS GROWTH	VALUATION RATING
CSU	Constellation Software Inc.	103.2 B	4,869.40	91.9	6.7	117.5	3.2	<b>MOST RISK</b>
MSTR	MicroStrategy Incorporated	99.6 B	366.10	NA	162.0	-19.3	NA	<b>LOW RISK</b>
<b>FTNT</b>	<b>Fortinet Inc.</b>	<b>80.0 B</b>	<b>102.50</b>	<b>42.6</b>	<b>12.4</b>	<b>40.0</b>	<b>0.7</b>	<b>MOST RISK</b>
CDNS	Cadence Design Systems Inc.	78.8 B	288.70	66.1	15.0	75.2	27.8	<b>MOST RISK</b>
SNPS	Synopsys Inc.	71.5 B	469.60	55.2	11.7	33.7	NA	<b>MOST RISK</b>
WDAY	Workday Inc.	64.1 B	240.10	125.4	7.8	132.9	NA	<b>MOST RISK</b>
ADSK	Autodesk Inc.	64.0 B	297.60	53.6	9.5	55.1	46.6	<b>MOST RISK</b>
<b>SOFTWARE SECTOR</b>		<b>22.3 B</b>	<b>—</b>	<b>29.2</b>	<b>2.6</b>	<b>16.1</b>	<b>1.0</b>	<b>—</b>

PEER OPERATING COMPARISON

TICKER	COMPANY	MARKET CAP.	GROSS MARGIN (%)	EBIT MARGIN (%)	NET MARGIN (%)	ROIC (%)	CASH CONVERSION CYCLE (DAYS)	OPERATING EFFICIENCY RATING
CSU	Constellation Software Inc.	103.2 B	35.7	14.7	4.3	9.5	-18.0	<b>MEDIUM RISK</b>
MSTR	MicroStrategy Incorporated	99.6 B	69.4	NA	NA	-26.1	NA	<b>MOST RISK</b>
<b>FTNT</b>	<b>Fortinet Inc.</b>	<b>80.0 B</b>	<b>81.0</b>	<b>29.1</b>	<b>28.1</b>	<b>83.9</b>	<b>126.0</b>	<b>MOST RISK</b>
CDNS	Cadence Design Systems Inc.	78.8 B	86.5	29.1	22.0	15.7	-13.0	<b>MEDIUM RISK</b>
SNPS	Synopsys Inc.	71.5 B	80.6	23.5	21.5	11.1	37.0	<b>MOST RISK</b>
WDAY	Workday Inc.	64.1 B	76.0	9.2	3.0	4.0	NA	<b>LOW RISK</b>
ADSK	Autodesk Inc.	64.0 B	91.7	20.7	9.3	19.6	NA	<b>LOW RISK</b>

NASDAQGS **FTNT**

**FORTINET INC.**

REGION **NORTH AMERICA**

OVERALL RATING FOR 1ST QUARTER 2025 **SELL**

INDUSTRY **SOFTWARE**

## DEFINITIONS

**Adjusted Net Income:** Adjusted Net Income is a company's reported net income less adjustments for one-time and non-operating items yielding a more realistic picture of a company's ongoing earnings.

**Accruals – Forecasted and Actual:** The comparison of forecasted and actual accruals identifies a discretionary build not attributable to a company's sales growth, and could be a sign of poor earnings quality. For our purposes, the forecasted accrual component is an aggregate measurement of total accruals (short-term balance sheet accounts) that distinguishes between "normalized" and "extraordinary" accruals. The normalized accruals are based on historical relationships between sales and accruals and are dynamically adjusted over time to account for changes in the ratio between these two variables. Normally, short term accruals will grow as sales grow – i.e., the "normalized" measure. Discretionary accruals are the portion of accruals that are in excess of the base factor and therefore exceed the normal and are "extraordinary".

**Adjusted Operating Cash Flow:** Adjusted Operating Cash Flow is reported operating cash flow less adjustments for one-time and non-operating items yielding a more realistic picture of a company's ongoing cash flow from operations.

**Adjusted Free Cash Flow:** Adjusted Free Cash Flow is reported operating cash flow less adjustments for one-time, non-operating items and capital expenditures. This provides a more realistic picture of a company's ongoing cash generation from operations after capital investments.

**Flow Ratio:** The Flow Ratio is a measurement of management's effectiveness in managing its working capital to maximize the company's cash flows. The measure is a ratio of a company's non-cash current assets to its non-interest bearing short-term liabilities.– These non-cash assets include items such as accounts receivable (which are essentially interest-free loans to customers) and inventory (which is subject to obsolescence or spoilage). The non-interest bearing liabilities are essentially interest-free loans to the company. A lower ratio implies tighter cash management for a company as it has less cash tied up in non-cash current assets and is able to utilize interest free loans from suppliers.

**Cash Flow Return on Investment:** Cash Flow ROI is a measure of a company's ability to generate operating cash flow from its invested capital. Many analysts consider this measure preferable to an earnings return measure such as ROE since cash flow is considered a more reliable measure.

**Adjusted Cash Flow Return on Investment:** Adjusted Cash Flow ROI is a measure of the ability to generate operating cash flow from its investment in capital calculated using a company's adjusted cash flow.

**Debt Coverage:** Debt Coverage is a measure of a company's ability to cover its debt obligations with cash flow it generated

from continuing operations.

**Adjusted Debt Coverage:** Adjusted Debt Coverage is a measure of a company's ability to cover its debt obligations with cash flow it generated from continuing operations, calculated using a company's adjusted cash flow.

**Adjusted Return on Invested Capital:** Adjusted ROIC assesses a company's efficiency at allocating the capital to profitable investments using a company's adjusted net income (see above) yielding a measure of how well a company is using its capital to generate returns.

**Adjusted EBIT Margin:** Adjusted EBIT Margin is a measure of a company's earnings before interest and income taxes less adjustments for one-time and non-operating items divided by a company's sales.

**Adjusted Net Margin:** Adjusted Net Margin is a measure of a company's net income less adjustments for one-time and non-operating items divided by a company's sales.

**Return on Incremental Invested Capital:** ROIIC measures the relationship between incremental investment and incremental net operating profit after tax. This provides a measure of the returns a company is earning on recent investments rather than all investments as measured by ROIC.

**Cash Conversion Cycle:** The Cash Conversion Cycle measures the number of days working capital is tied up from the date of purchase of raw materials until the collection of cash from the sale of the product.

**Debt to Tangible Equity:** Debt to Tangible Equity is a ratio of a company's debt to equity less adjustments for goodwill and other intangible assets yielding tangible equity.

**Debt to Tangible Assets:** Debt to Tangible Assets is a ratio of a company's debt to total assets less adjustments for goodwill and other intangible assets.

**Price/Adjusted Earnings:** Adjusted Price/Earnings is a relative valuation measure comparing a company's share price to its adjusted net income.

**Price/Adjusted Cash Flow:** Adjusted Price/Cash Flow is a relative valuation measure comparing a company's share price to its adjusted cash flow.

**Price/Adjusted Earnings Growth:** Adjusted Price/Earnings Growth is a relative valuation measure comparing a company's share price to its growth in adjusted earnings.

NASDAQGS **FTNT****FORTINET INC.**REGION **NORTH AMERICA**OVERALL RATING FOR 1ST QUARTER 2025 **SELL**INDUSTRY **SOFTWARE**

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Jefferson Research & Management has developed the Financial Sonar™ Rating System which is based upon five analytical criteria: Earnings Quality, Cash Flow, Operating Efficiency, Balance Sheet, and Valuation. The first four criteria are rated in one of four categories (best to worst): Strongest, Strong, Weak, Weakest. Valuation is also rated in one of four categories (best to worst): Least Risk, Low Risk, Medium Risk, Most Risk.

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