



Fortinet, Inc. (FTNT:US)

HOLD: \$111.01 (+5.79%)

Equity Research Division

15th July 2025

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Market Cap	\$80,315 mn
Basic Shares O/S	764.4 mn
52-Wk High	\$114.82
52-Wk Low	\$54.57
Fiscal Year End	31 Dec. 2024

\$ million	FY21	FY22	FY23	FY24
Gross profit	2,559	3,333	4,068	4,722
EBITDA	730	1,069	1,350	1,922
EBIT	664	988	1,255	1,822
Net Income	638	961	1,318	1,626

Key Executives

Ken Xie	Founder, CEO
Michael Xie	Founder, CTO
Christiane Ohlgart	CFO

Investment Thesis

Fortinet is a global cybersecurity leader offering a broad, integrated platform across network, cloud, and endpoint security. Its proprietary FortiASIC hardware and Fortinet Security Fabric provide high-performance, cost-efficient solutions that appeal to both enterprises and mid-sized businesses. The company has demonstrated strong financial performance with consistent revenue growth, expanding margins, and robust free cash flow generation.

Fortinet is poised to benefit from industry tailwinds such as rising cyber threats, cloud adoption, and demand for platform consolidation. However, it faces risks from intense competition, delayed entry into the SASE segment, and supply chain exposure due to manufacturing concentration in Taiwan.

Given its solid market position, innovation pipeline, and operational efficiency, balanced against limited short-term upside in valuation, we assign a HOLD rating.

Valuation

We are valuing Fortinet using a 50/50 blend of intrinsic value (DCF) and relative valuation, arriving at a target price of \$111.01, a 5.79% increase from its last close price.

Key Risks

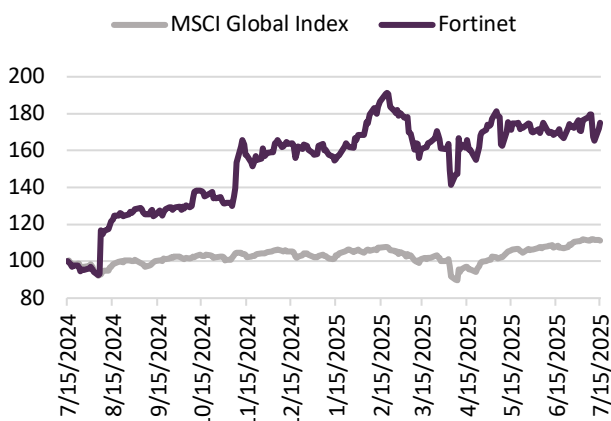
Downside risks: Fortinet faces macroeconomic headwinds, supply chain concentration, and strong competition, along with risks from product complexity, channel reliance, and evolving cloud and AI trends.

Upside risks: Fortinet could benefit from rising demand for integrated security, SASE and cloud growth, strong free cash flow, and expansion in emerging and midmarket segments.

Basic Information

Last Closing Price	\$104.93
Target Price	\$111.01
+/- Potential	+5.79%
Bloomberg Ticker	FTNT:US
GICS Sector	Technology
GICS Sub-Industry	Software-Infrastructure

1Y Cumulative Returns (re-based to 100)



Company Overview

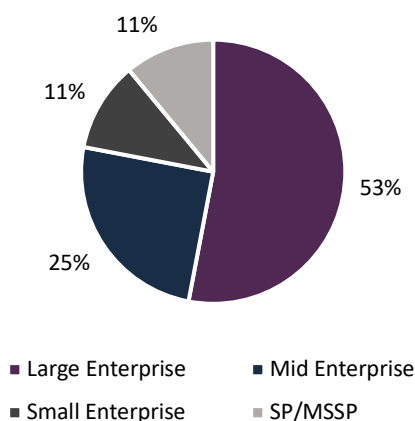
Fortinet, Inc. is a global leader in cybersecurity, headquartered in Sunnyvale, California, and publicly traded on the NASDAQ under the ticker FTNT. Founded in 2000 and listed since 2009, Fortinet has emerged as a cornerstone in the secure networking space, offering a broad, integrated, and automated cybersecurity portfolio. The company operates across more than 100 countries and serves a highly diversified customer base that includes 80% of Fortune 100 and 72% of the Global 2000, as well as governments and service providers worldwide.

Fortinet's core innovation lies in the Fortinet Security Fabric, a unified platform that converges networking and security, enabling real-time protection across the digital infrastructure. The platform is powered by FortiOS, a single operating system that integrates over 30 networking and security functions, and by FortiASIC, proprietary hardware accelerators that deliver industry-leading performance and energy efficiency. This architecture allows Fortinet to offer an all-in-one solution across next-generation firewalls (NGFW), secure SD-WAN, Zero Trust Network Access (ZTNA), Secure Access Service Edge (SASE), and advanced AI-driven Security Operations.

The company is the undisputed global leader in network firewall units shipped, with over 50% market share according to the 650 Group and is consistently recognized in 11 Gartner Magic Quadrants, including Network Firewalls, SD-WAN, and Security Service Edge. The Gartner Magic Quadrant is one of the most respected industry benchmarks for evaluating technology vendors, and Fortinet's presence across so many categories highlights its reputation for innovation, execution, and long-term leadership in cybersecurity.

Fortinet's solution set spans enterprise, cloud, OT, and endpoint security, and is highly scalable, supporting use cases from managed security service provider (MSSP, offers network security services to an organization) and small - mid businesses to large enterprises and governments.

Figure 1.1: Most revenues come from Large Enterprises (FY24)



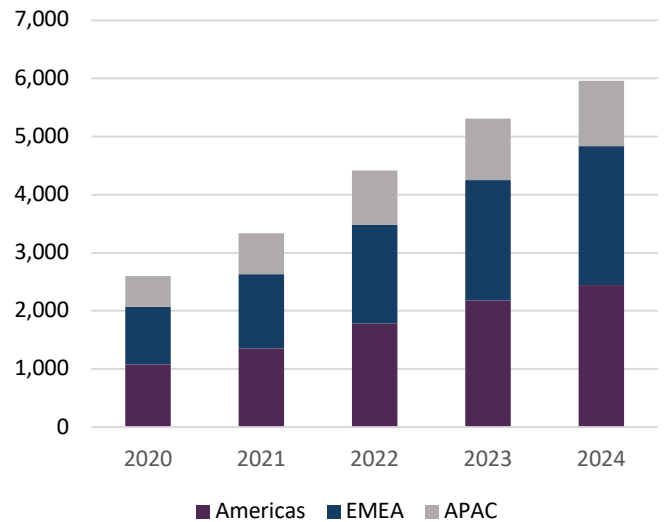
Business Breakdown

As of FY 2024, Fortinet reported \$5.96 billion in revenue, a \$6.53 billion billings figure, and maintains a strong financial

position with \$4.07 billion in cash and investments. The company employs over 14,100 people worldwide and continues to pursue organic innovation and targeted acquisitions to strengthen its market position. With over 1,378 global patents, Fortinet is one of the most innovative and trusted cybersecurity companies globally.

Figure 1.2: Revenue Breakdown by Geography (2020-2024)

\$ millions



Sustainability

In addition to its robust product offering, Fortinet places a strong emphasis on sustainability and social responsibility. It has pledged to reach net zero emissions by 2030 across scopes 1 and 2 and leads the industry in energy-efficient product design. Fortinet is also investing heavily in talent development through its NSE Certification Program, aiming to train 1 million professionals by 2026 to address global cybersecurity skills gap.

Industry Outlook

Cybersecurity Industry

The cybersecurity industry encompasses solutions and services designed to protect systems, networks and data from cyber threats. In the market size calculation, we considered both the sale of hardware and software and the services offered to customers.

The industry continues to expand rapidly, driven by a combination of emerging technologies and global developments. Innovations such as AI and machine learning, the adoption of zero-trust security models and the growing Internet of Things (IoT) ecosystem are reshaping the technological landscape each year. The COVID-19 pandemic exposed critical vulnerabilities as organizations shifted to remote work and virtualized IT environments including cloud infrastructures, data storage and networks, leading to a surge in cyberattacks. More recently, geopolitical tensions, particularly the Russia-Ukraine war, have further elevated cybersecurity as a strategic priority and accelerated spending across both the public and private sectors.

Driven by the increasing awareness of the consequences of cyber threats and the need for robust protection against them, the global cybersecurity market has witnessed robust growth over the past few years, growing at a CAGR of 9.6% from 2018 to 2024 (Grand View Research), and is expected to show a CAGR (2024 - 2030) of 12.9%, resulting in a market volume of \$500.70 billion by 2030.

Grand View Research estimates the market size to be \$245.62 billion in 2024, with the highest share being generated in the United States (\$65.83 billion). From a global perspective, Fortinet has an estimated market share of 2.43%.

PESTEL Analysis

Political: *Rising government investments and regulatory mandates are boosting cybersecurity demand, yet Fortinet is still greatly exposed to geopolitical risk.* Governments worldwide are allocating substantial budgets to cybersecurity. The U.S. federal government's 2025 cybersecurity budget is expected to be \$13 billion while the EU aims to invest €1.9 billion in cybersecurity initiatives by 2030 (in 2024, Fortinet generated 41% of its revenue in Americas and 29% in EMEA). New directives, like the EU's NIS2, impose stricter breach reporting and minimum cybersecurity measures for critical sectors, influencing product design and compliance frameworks. Additionally, some markets such as Singapore, where Fortinet has a strong presence through various Exclusive Networks' Affiliates, benefit from government-led cybersecurity strategies, ensuring long-term demand. From a company-specific perspective, with 88% of Fortinet's hardware manufactured in Taiwan, the company faces significant exposure to the region's geopolitical risks.

Economic: *Strong cybersecurity spending outpaces GDP growth, though talent shortages and innovation competition shape the market landscape.* Despite uncertainties over the world GDP growth estimates in the following years, global cybersecurity spending is set to outpace economic growth, driven by digital transformation and rising adoption of digital services in developing economies. The labor market is another factor that should be monitored wisely given the competitive talent acquisition that characterizes the industry and the huge number of job vacancies. Moreover, venture capital funding in cybersecurity startups topped \$21 billion in 2022 (CB Insights), fostering rapid innovation and enabling established firms to form strategic partnerships for integrating solutions. For Fortinet, this fosters opportunities to form strategic partnerships or acquire niche players to enhance its technology stack and stay ahead in the innovation race.

Social: *Increasing consumer focus on data privacy is pressuring companies to strengthen security measures.* Data privacy is becoming a priority. Over 80% of consumers surveyed in developed markets (Cisco Consumer Privacy Survey, 2022) consider data protection a key purchasing factor and this pushes companies to strengthen security. This growing demand for privacy-centric solutions pushes businesses to invest in trusted

cybersecurity platforms, giving Fortinet an edge as a well-established provider with a reputation for comprehensive, high-performance security offerings.

Technological: *Rapid advances in AI and quantum-safe cryptography are driving innovation in cybersecurity.* AI-driven cybersecurity solutions, predicted to grow at a CAGR of 20 - 25% (Gartner), help detect advanced persistent threats faster and post-quantum cryptography (the development of cryptographic algorithms thought to be secure against an attack by a quantum computer) research is accelerating. The growing number of patent filings in cybersecurity (growth of 15% year-over-year globally) (WIPO) signals healthy innovation rates. Fortinet's large and growing IP portfolio helps protect its competitive advantage as a technology leader.

Environmental: *Data center energy use and new sustainability regulations are pushing companies toward greener operations, of which Fortinet is well-prepared thanks to its strong sustainability commitments.* Data centers consume 1 - 1.5% of global electricity (IEA) and hyperscale operators are targeting carbon neutrality by 2030. New environmental legal requirements and sustainability certifications (e.g. ISO 50001) that could potentially influence vendor selection might increase costs for the industry players.

Legal: *Expanding data protection laws and rising IP litigation are raising compliance costs but emerging frameworks can create new opportunities.* General Data Protection Regulation (GDPR) fines topped €1.6 billion to date (CMS Law), while California's California Privacy Rights Act (CPRA) and China's Data Security Law (DSL) add complexity to the picture. Financial services firms spend 10 - 15% of their IT budgets on cybersecurity compliance (Deloitte). IP litigation in cybersecurity patents remains moderate but is rising 5 - 7% annually, protecting early movers who invest in proprietary threat detection technologies. As international cyber norms mature, Fortinet's global presence and compliance readiness position it to lead in enabling secure cross-border operations and intelligence sharing.

Porter's 5 Forces

Threat of Entrants: **Moderate.** While the cybersecurity market is growing at a fast pace, barriers to entry are not zero. Even if the initial capital requirement in the industry is not as high as in others, established players benefit from economies of scale, high R&D expenditures and brand loyalty, making it tough for new entrants to compete. The sector continues to attract innovative startups due to the increasing demand, but these companies need very good marketing and differentiation strategies to break through and there are also switching costs that customers might consider.

Fortinet, given the scale and multiple strategic partnerships, is expected to maintain its established market position.

Bargaining Power of Suppliers: **Low.** Suppliers, including specialized talent and technology vendors, play a crucial role in the industry. However, firms can choose from various hardware

and software services suppliers, negotiating better terms and reducing dependency on any single supplier. Moreover, in the cybersecurity industry, the inputs (software components, cloud infrastructure, and threat intelligence data) are not highly unique and can often be sourced from multiple suppliers.

Fortinet needs to pay close attention to supply chain diversification, both in terms of individual suppliers and geographical relevance, given the uncertainty of the markets.

Bargaining Power of Buyers: **Low to Moderate.** Cost sensitivity and access to competing solutions allow buyers to negotiate but switching costs, that in cases such as integrated solutions can be very high, limit their influence. In addition, some industries are required by law to establish cybersecurity protections.

The integrated solutions Fortinet provides play a significant role in retaining customers; however, pricing power in the market remains moderate.

Threat of Substitutes: **Low.** Substitutes like in-house cybersecurity teams, generic tools, or alternative protection strategies exist, but often lack the sophistication and expertise of dedicated providers, and they are not a possible solution for smaller organizations.

Fortinet's solutions incorporate networking and security into a single cloud-based service, making the company stand out as a strong player in the field.

Rivalry among Existing Competitors: **High.** The market is characterized by intense competition among many players, including established technology giants, specialized cybersecurity firms, and startups continually entering the market. Companies like Palo Alto Networks, Symantec and McAfee compete directly on price, customer service and technological advancements. This race for innovation keeps the competition particularly fierce as companies strive to offer the most effective and advanced solutions.

In such a fast-paced environment of SASE and SecOps, especially when Fortinet is the late-comer to the former, it must sharpen its competitive edge to rival established players.

Tailwinds	Headwinds
Favorable Regulatory Push	Talent Shortage
Accelerating Cyber Threat Landscape	ESG & Sustainability Pressures
Enterprise Cloud Migration	Macroeconomic Uncertainty
Technological Advancements	Complexity of IT Environments

SWOT Analysis

Strengths

Global Market Leadership. Fortinet is the global leader in network firewall unit shipments, holding over 50% market share according to the 650 Group. Its wide customer base includes 80% of the Fortune 100 and 72% of Global 2000, underlining its credibility among large enterprises. The company's scale, reputation, and channel relationships support strong brand recognition across enterprise, government, and service provider sectors.

Integrated Platform Advantage. The Fortinet Security Fabric combines over 30 networking and security functions into a unified platform powered by FortiOS and proprietary FortiASIC hardware. This architecture enables high performance, energy efficiency, and cost savings, providing a differentiated edge over vendors offering fragmented point solutions.

Financial Strength and Innovation. Fortinet maintains a robust balance sheet, with \$4.07 billion in cash and investments and strong free cash flow. Its innovation capability is backed by over 1,378 global patents and consistent investment in R&D, allowing it to adapt quickly to emerging threats and market demands.

Sustainability and Skills Development Leadership. Fortinet is an industry leader in sustainability, targeting net-zero emissions by 2030 and promoting energy-efficient hardware design. Its NSE Certification Program aims to train 1 million cybersecurity professionals by 2026, addressing the global skills gap while building brand loyalty and ecosystem strength.

Weaknesses

Late Entry into SASE Market. While Fortinet is expanding rapidly in cloud security and SASE, it entered later than some peers like Palo Alto Networks and Zscaler. This delayed entry poses a challenge in capturing market share in an increasingly cloud-native world, where first-mover advantage is significant.

Geopolitical Supply Chain Risk. With 88% of its hardware manufactured in Taiwan, Fortinet faces substantial exposure to geopolitical tensions in the region. Any disruption could affect production capacity, lead times, or component availability, potentially impacting revenue and margins.

Hardware-Centric Revenue Exposure. A significant portion of Fortinet's revenue is tied to hardware, which are more sensitive to procurement cycles, macroeconomic conditions, and supply constraints compared to subscription-based models. This can bring volatility to revenue recognition and margin performance.

Talent Acquisition Challenges. Like many in the cybersecurity space, Fortinet faces hiring challenges due to a global shortage of skilled professionals. Sustaining innovation, customer support, and deployment services depends on Fortinet's ability to attract and retain top talent in a competitive labor market.

Opportunities

Expansion in SASE and Zero Trust Architectures. Rising demand for cloud-native security models provides Fortinet with significant room to grow in the SASE and Zero Trust markets. As enterprises accelerate cloud adoption and hybrid work becomes permanent, integrated and identity-driven security solutions are becoming mission-critical.

Growth in OT, IoT, and Edge Security. Fortinet is well-positioned to serve industrial sectors such as manufacturing and energy, where the need for operational technology (OT) and IoT security is increasing. Its ruggedized hardware and scalable platform offer strong appeal for edge deployments.

Emerging Markets and SMB Penetration. Fortinet's cost-effective and scalable solutions are ideally suited to meet the growing security needs of small and mid-sized businesses, especially in developing economies. Expansion into high-growth markets across Asia, Latin America, and Africa can diversify revenue and increase global share.

AI-Powered Cybersecurity and Automation. Investments in AI/ML for real-time threat detection and autonomous response create opportunities to reduce customer operating costs and enhance Fortinet's product differentiation. This aligns with the industry's trend toward security automation and efficiency.

Threats

Intense Industry Competition. Fortinet faces fierce competition from players like Palo Alto Networks, Cisco, and a wave of innovative startups. These companies aggressively compete in pricing, features, and threat detection capabilities, pressuring Fortinet to continually innovate and protect its margins.

Economic and Budgetary Uncertainty. Macroeconomic headwinds such as inflation, interest rate volatility, and slowing IT budgets may delay cybersecurity investments, particularly in hardware. Budget constraints across government and enterprise customers could hinder short-term growth.

Increasing Regulatory Complexity. A growing web of international data protection laws (GDPR, CPRA, China's DSL) increases compliance costs and operational complexity. Regulatory fragmentation may also limit Fortinet's ability to scale solutions uniformly across geographies.

Supply Chain Disruption Risk. Ongoing global supply chain challenges, such as semiconductor shortages or logistical delays, could affect Fortinet's ability to deliver hardware products on time. This risk is magnified by its concentrated manufacturing base and reliance on Taiwan.

Exhibit 2: Fortinet SWOT Analysis

S STRENGTHS	Global Market Leadership Integrated Platform Advantage Financial Strength and Innovation Sustainability Leadership
W WEAKNESSES	Late Entry into SASE Market Geopolitical Supply Chain Risk Hardware-Centric Revenue Exposure Talent Acquisition Challenges
O OPPORTUNITIES	Expansion in SASE & Zero Trust Growth in OT, IoT, and Edge Security Emerging Markets & SMB Penetration AI-Powered Cybersecurity
T THREATS	Intense Industry Competition Economic and Budgetary Uncertainty Increasing Regulatory Complexity Supply Chain Disruption Risk

Source: Minerva Investment Management Society

Financial Analysis

Over the past few years, Fortinet has delivered strong top-line growth and expanding profitability. Consistent improvements in gross margin, return metrics, and net profit highlight the company's ability to scale efficiently while maintaining cost discipline. Despite modest liquidity ratios, Fortinet's solid cash reserves, low debt, and sustained free cash flow generation underscore its strong financial resilience.

Profitability

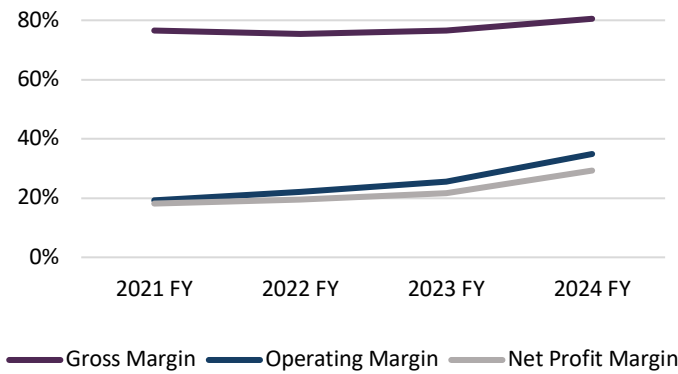
Fortinet has shown consistent and robust profitability improvements over the past years, underpinned by strong top-line expansion and operational leverage. In FY2024, the company posted \$5.96 billion in revenue, marking an increase of 12.3% YoY and nearly 78% since FY2021. This reflects rising demand across all cybersecurity product lines, particularly Secure Networking and AI-driven Security Operations.

The company's gross profit reached \$4.80 billion in 2024, yielding a gross margin of 80.6%, up from 76.7% in 2023. This improvement highlights Fortinet's product mix shift toward high-margin services and the operational efficiency gained from its proprietary FortiASIC architecture. Operating margin expanded significantly to 34.9%, compared to 25.5% in FY2023, benefiting from revenue growth outpacing increases in operating expenses. Net profit margin also climbed to 29.3%, the highest in the period under review, reflecting controlled SG&A costs and minimal interest expenses.

Return metrics reinforce Fortinet's capital efficiency. ROA improved to 17.9% in FY2024, while ROE reached 70.1%, reflecting a rebound in equity levels and continued profitability. Notably, Fortinet has maintained GAAP profitability and positive free cash flow every year since IPO.

Figure 3.1: Fortinet maintains robust profitability ratios

Fortinet gross, operating, and net margins (FY2021 - FY2024)



Source: Minerva Investment Management Society

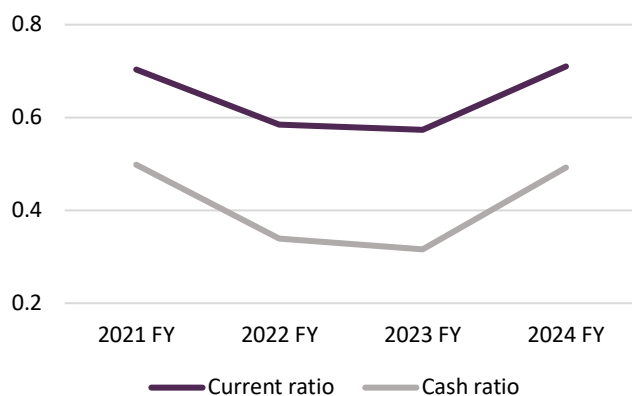
Liquidity

Fortinet's liquidity position has remained stable despite its aggressive growth and reinvestment strategy. The current ratio recovered to 0.71x in 2024, up from 0.57x in 2023, following a substantial increase in current assets (+33%). Similarly, the cash ratio rose to 0.49x, supported by a 67% YoY increase in cash and cash equivalents to \$4.07 billion.

While these ratios are below the ideal 1.0 threshold, Fortinet's strong free cash flow generation, large cash reserves, and minimal debt obligations significantly reduce short-term liquidity risk. The company's business model, based on recurring revenues, deferred billings, and service contracts further strengthens liquidity predictability.

Figure 3.2: Fortinet liquidity ratios

Fortinet current and cash ratios (FY2021 - FY2024)



Source: Minerva Investment Management Society

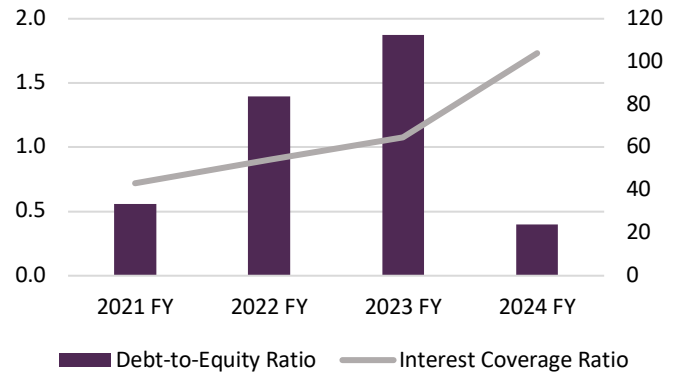
Capital Structure

Fortinet maintains a conservative and well-managed capital structure. Total debt has remained stable over the period, at approximately \$994 million in 2024, while total equity more than quadrupled to \$2.49 billion, following strong retained earnings and net income growth. This resulted in a sharp drop in the debt-to-equity ratio, from 1.88x in 2023 to 0.40x in 2024.

The company's ability to cover interest obligations is extremely strong, with the interest coverage ratio rising to 103.9x, reflecting Fortinet's low leverage and high EBIT (\$2.08 billion in 2024). This implies negligible solvency risk, a critical asset in a volatile macroeconomic environment.

Figure 3.3: Fortinet solvency progression in the past years

Fortinet D/E ratio (left) and Interest Coverage Ratio (right)



Source: Minerva Investment Management Society

Valuation: Discounted Cash Flow

Cost of Equity: Assumptions

The Capital Asset Pricing Model (CAPM) was used to estimate the cost of equity. The risk-free rate was assumed to be the current 10-year US government bond yield (4.491%).

USA yields were chosen due to Fortinet headquarters location and projected yield curve movements. For the equity risk premium (ERP), a geographically weighted average based on Fortinet revenue distribution was calculated, resulting in a premium of 4.33%. This number has then been used to obtain the expected market return by adding it to the risk-free rate.

Beta

A bottom-up approach was employed to determine Fortinet's beta. Given that the revenue originates from the cybersecurity industry, the unlevered beta calculated was an average of the adjusted betas of comparable companies in the industry.

Subsequently, the raw betas were adjusted using the Blume's Adjustment:

$$\beta_{adj} = \beta_{raw} \times \frac{2}{3} + \frac{1}{3}$$

By applying a capital structure re-leverage, considering Fortinet's debt-to-equity ratio and effective tax rate (19%), the resulting beta is 1.28, which is in line with analyst's estimates.

The cost of equity was then calculated as follows:

$$Cost\ of\ Equity = R_f + \beta \times (R_m - R_f)$$

Arriving at a value of the Cost of Equity of 10.0%.

Cost of Debt

The actual Cost of Debt was calculated by applying rating risk spreads to the risk-free rate, considering Fortinet's credit rating of BBB+ given by S&P Global Ratings. Using ICE BofA OAS, we conclude a spread of 1.03%, resulting in a Cost of Debt of 5.5%.

Weighted Average Cost of Capital (WACC)

Finally, the WACC was calculated by applying weights to the cost of equity and cost of debt:

$$WACC = \frac{E}{D + E} \times k_e + \frac{D}{D + E} \times k_d \times (1 - t)$$

Based on the chosen assumptions outlined above, the WACC for Fortinet is estimated to be 9.96%. This estimate is strongly dependent on beta adjustments. Sensitivity analysis should be relied upon to make the results more accurate and reliable.

Figure 4.1: The discount rate (WACC) calculation

WACC	
Cost of Equity - CAPM	
Risk-Free Rate (10Y)	4.491%
Beta	1.280
ERP	4.330%
WACC Calculations	
Cost of Equity	10.0%
Net Debt	1,073,400
Total Equity	80,315,000
E/(D+E)	99%
Cost of Debt	5.5%
D/(D+E)	1%
Tax Rate	19.0%
WACC	9.96%

Source: Minerva Investment Management Society

Sales Forecast

Forecasting net sales is a fundamental step in any DCF valuation. Our approach combines management guidance, analyst consensus, and macro trends shaping the cybersecurity industry. Historical figures are only partially informative due to the structural changes and accelerated digitalization triggered by the post-Covid shift to remote work and cloud services.

To improve forecast accuracy, we split Fortinet's revenue into Product (FortiGate hardware) and Service (subscriptions like FortiGuard, SASE, and cloud security), with the latter now the dominant component. This segmentation reflects not only different growth trajectories but also distinct cost structures and margin profiles between the two streams.

Incorporating industry-wide cybersecurity spending projections (Statista), Fortinet's innovation focus, and its scalable subscription model, we estimate net sales will grow from

\$5.956 billion in 2024 to \$15.773 billion in 2034, implying a CAGR of 10.16% over the period.

Profitability

The projected profitability of Fortinet was determined by individually forecasting key cost drivers, including Selling, General & Administrative expenses (SG&A) and Research & Development (R&D). Given Fortinet's strategic commitment to innovation and growing demand for cybersecurity solutions, both cost categories are expected to rise significantly. SG&A expenses are projected to grow from \$2.18 billion in 2024 to \$5.21 billion in 2034, while R&D spending increases from \$717 million to \$2.15 billion over the same period. Despite these increases, EBIT margins are expected to improve from 31% in 2024 to 37% by 2034, driven by operating leverage and enhanced cost efficiency as the company scales its operations.

Financial Assumptions

Our financial assumptions are rooted in a bottom-up approach, supported by historical performance, management guidance, and industry dynamics.

Capital Expenditures (CapEx) are expected to increase in absolute terms from \$481 million in 2024 to \$986 million in 2034 but decline as a percentage of sales from 8.1% to 6.3%, reflecting improved capital efficiency and a gradual pivot away from hardware-heavy expansion. A large portion of CapEx is allocated to data center capacity and infrastructure, consistent with Fortinet's long-term platform strategy.

Depreciation and Amortization (D&A) scales steadily in line with ongoing investments and a relatively stable asset base. The increase is modest due to a growing share of intangible and software-driven assets with longer useful lives and lower depreciation intensity.

Net Working Capital (NWC) assumptions are modeled by projecting individual components. Days receivable and payable remain stable, while deferred revenue days hold at 371, reflecting continued strength in long-term subscription contracts. Combined, these assumptions yield a structurally negative cash conversion cycle (-210 days) and growing positive cash flows from working capital, from \$561 million in 2025 to \$1.66 billion in 2034, enhancing Fortinet's free cash flow generation capacity throughout the forecast period and effectively funding growth and R&D reinvestment without requiring external capital.

Free Cash Flow and Intrinsic Price

By summing up the FCFF for all the projected years calculated with the formula:

$$FCFF = EBIT \times (1 - t) + D\&A - CAPEX - \Delta NWC$$

We can discount the free cash flow of the firm to the present using the WACC calculated in the previous section, add the terminal value discounted in a similar way, and arrive at the Enterprise Value of \$54.698 billion. Subsequently, by adjusting

the value using the equity bridge and dividing by the share count, we arrive at our implied share price of \$75.37 per share, implying a downside of 28.2% over the last closing price.

Also, we have applied a sensitivity analysis for our DCF valuation, to have a better understanding of how the implied price would change considering a variation in the calculated discount rate or the terminal growth rate.

Figure 4.2: Price Sensitivity Analysis of the price

Variations in WACC (horizontal) or TGR (vertical)

	9.8%	9.8%	10.0%	10.2%	10.4%
2.6%	\$75.17	\$75.17	\$73.01	\$70.96	\$69.02
2.8%	\$76.41	\$76.41	\$74.16	\$72.03	\$70.02
3.0%	\$77.72	\$77.72	\$75.37	\$73.16	\$71.07
3.2%	\$79.12	\$79.12	\$76.66	\$74.36	\$72.18
3.4%	\$80.60	\$80.60	\$78.03	\$75.62	\$73.36

Source: Minerva Investment Management Society

Valuation: Multiples

To complement our assessment, we approached Fortinet's valuation through the market multiples method, incorporating a set of comparable international companies.

These firms were selected based on their comparable market capitalization, global footprint, and alignment in business model with Fortinet. The peer group primarily includes leading cybersecurity companies such as Palo Alto Networks, CrowdStrike, and Zscaler, which, like Fortinet, operate in the network security and threat detection space. Cisco Systems was included to provide a broader industry context, given its diversified portfolio and substantial security division, despite a wider overall business scope. Datadog was selected due to its strong presence in cloud-based infrastructure monitoring, which intersects with Fortinet's cloud security solutions. Lastly, Check Point Software Technologies adds further relevance through its comparable product suite and geographic exposure. This selection ensures a well-rounded and meaningful basis for relative valuation.

Figure 4.3: Comparable companies analysis

Company	Region	EV/Sales F	EV/EBITDA F	EV/EBIT F	P/E F
Palo Alto Networks	US	15.60x	48.31x	55.04x	61.64x
CrowdStrike Holdings A	US	27.28x	106.78x	130.93x	146.07x
Zscaler	US	19.42x	76.46x	89.96x	98.63x
Cisco Systems	US	5.03x	12.62x	14.66x	18.31x
Datadog A	US	16.71x	74.85x	83.40x	91.08x
Check Point Software Tech	US	8.27x	19.20x	19.69x	22.57x
Average		14.68x	56.37x	65.61x	73.05x
Median		15.60x	61.58x	69.22x	76.36x

Source: Minerva Investment Management Society

In assessing Fortinet's value, we analyzed key industry ratios, including both actual and forward EV/Sales, EV/EBITDA, EV/EBIT, and P/E multiples. However, we placed greater emphasis on forward multiples, as they align with our blended valuation approach (50/50 with the DCF) and better capture Fortinet's future performance, particularly important given the company's presence in a fast-evolving and volatile industry.

When considering the EV/Sales multiple, Fortinet's revenue is being valued fairly relative to its cybersecurity peers, indicating a comparable perception of its revenue quality and scalability. The EV/EBITDA multiple for Fortinet is 31.50x, which is lower than both the peer average (56.37x) and median (61.58x). This may point to a more conservative market valuation of Fortinet's operating profitability relative to peers or reflect a more efficient cost structure with lower expectations for margin expansion. In terms of EV/EBIT, Fortinet reports a multiple of 37.50x, well below the average of 65.61x and median of 69.22x. This again indicates a modest valuation by the market, potentially tied to expectations of stable but not outsized EBIT growth compared to higher-growth names like CrowdStrike or Datadog that significantly skew the average. Lastly, Fortinet's P/E stands at 41.44x, a notable discount compared to the peer average of 73.05x and median of 76.36x. This suggests that Fortinet trades at a lower multiple of earnings than its peer group, potentially due to more stable cash flow or a lower perceived risk profile.

Final Valuation Methodology

In valuing Fortinet, we anchored our assessment on the company's most recent reported figures, applying the industry average EV/EBITDA Forward and EV/EBIT Forward multiples. This choice ensures that our valuation leverages a financial metric that incorporates both Fortinet's revenue generation ability and its operational efficiency, yielding a valuation that reflects the company's profitability more holistically. By multiplying the EV/EBITDA multiple by Fortinet's reported EBITDA, we obtained the enterprise value of the company. We then subtracted the net debt to arrive at the equity value. Finally, by dividing this equity value by the total number of diluted shares outstanding, we determined an intrinsic share price of \$140.30. Repeating the process using the EV/EBIT multiple, we arrived at an intrinsic share price of \$153.00. Taking the average of these two estimates, we obtained a fair value of \$146.65 per share, providing a market-based perspective of Fortinet's valuation grounded in earnings.

We then combined this share price with our DCF valuation, giving equal weight to both the intrinsic value calculated from the company's cash flows and the market-based value indicated by the multiples analysis. This synthesized valuation method captures the nuances of both Fortinet's present financial standing and its expected future performance.

The equal weighting of DCF and multiples valuation in our final computation allows us to capture a comprehensive view of Fortinet's worth, both from an intrinsic standpoint and relative to its peers. This methodologically robust approach led us to a target price that, when contrasted with the closing price of Fortinet on July 15th reveals a modest discrepancy, suggesting the potential for a slight undervaluation in the market.

Figure 4.4: Final Valuation

DCF Valuation	\$75.37	50%
Multiples Valuation	\$146.65	50%
Final Valuation	\$111.01	

Source: Minerva Investment Management Society

Investment Risks

Fortinet operates in a market where a range of internal and external risks could impact its financial performance and long-term prospects. The most critical risk factors investors should consider are listed below.

Downside Risk Factors

Macroeconomic and industry-specific risks

Economic uncertainty: Potential downturns, inflation, rising interest rates and government spending cuts could reduce IT security budgets, affecting Fortinet's growth (a portion of Fortinet's revenue is generated by governments).

Foreign exchange and geopolitical risks: A large part of Fortinet's revenue comes from international markets, making Fortinet vulnerable to currency fluctuations, trade restrictions and geopolitical instability.

Business and operational risks

Channel partner dependence: Most sales come through third-party distributors, meaning Fortinet has less direct control over customer relationships.

Supply chain disruption: 88% of Fortinet's hardware is manufactured in Taiwan, making the company exposed to the country's geopolitical tensions.

Competition: The cybersecurity space is intensely competitive, with players like Palo Alto Networks, Cisco and Check Point posing significant threats to market share. Fortinet's FortiGate appliances are known for their superior performance, efficiently handling high traffic volumes while maintaining low latency, however, some users have noted that deployment and management of Fortinet solutions can be complex and with significant implementation costs.

Product and technology risks

Security vulnerabilities: Any critical flaws in Fortinet's products could lead to reputational damage, legal liabilities, and customer loss.

Cloud & AI disruption: Rapid industry shifts toward cloud security and AI-driven solutions may require Fortinet to continually adapt its product offerings (also considering that Fortinet is somewhat behind in AI-solutions development with respect to its main competitors, such as Palo Alto Networks).

Regulatory and compliance risks

Government contracts & compliance: Sales to government agencies come with stringent regulatory requirements and potential procurement delays.

ESG and investor scrutiny: Growing expectations around ESG factors could increase compliance costs and risk exposure.

Upside Risk Factors

Strong demand for Integrated Security Solutions

Fortinet Security Fabric integrates networking and security (e.g., firewall + SD-WAN), which resonates well with customers seeking consolidation. As enterprises reduce vendor sprawl, Fortinet's platform approach may win more share from point-solution competitors.

Growth in SASE and Cloud Security

Fortinet is investing in Secure Access Service Edge (SASE), Zero Trust, and cloud-native security, tapping into high-growth segments. Strong partnerships with hyperscalers (AWS, Azure, Google Cloud) could accelerate cloud product adoption.

Hardware refresh cycle

Fortinet's strength in network security appliances (e.g., FortiGate firewalls) positions it well for hardware refresh cycles, especially as organizations upgrade for higher throughput, 5G, or secure SD-WAN. Upside could come if customers accelerate refreshes post-pandemic or in response to new threats.

Expansion in OT/IoT and Edge Security

Fortinet is well-positioned to benefit from increased cybersecurity demand in operational technology (OT) and IoT-heavy verticals like manufacturing and energy.

International and SMB market penetration

Continued expansion into emerging markets (e.g., Latin America, Southeast Asia) and small/mid-sized business segments can fuel incremental growth. Its cost-effective and integrated offerings appeal to midmarket buyers who can't afford sprawling toolsets.

Strong free cash flow and profitability

Fortinet boasts industry-leading operating margins and free cash flow, enabling continued R&D and shareholder returns (e.g., buybacks). Any upside surprises in margin expansion or cash flow conversion could buoy the stock.

Appendix

Exhibit 1: Restated Balance Sheet

Balance sheet (\$ million)	2021	2022	2023	2024
Cash and Short-Term Investments	2,552	2,211	2,440	4,067
Receivables	808	1,262	1,402	1,463
Inventory	176	265	485	316
Other Current Assets	65	73	101	126
Total Current Assets	3,601	3,811	4,428	5,972
Property, Plant & Equipment	752	994	1,120	1,422
Long-Term Investments	442	47	42	13
Intangibles	189	184	162	350
Deferred Tax Assets	342	569	869	1,335
Other Long-Term Assets	593	623	638	671
Total Non-Current Assets	2,318	2,417	2,831	3,791
Total Assets	5,919	6,228	7,259	9,763
ST Debt & Curr. Portion LT Debt	26	33	33	33
Accounts Payable	148	243	204	191
Other Current Liabilities	2,143	2,802	3,481	3,837
Total Current Liabilities	2,318	3,078	3,719	4,061
Long-Term Debt	1,029	1,053	1,038	1,041
Other Non-Current Liabilities	1,774	2,378	2,965	3,168
Total Non-Current Liabilities	2,803	3,432	4,003	4,208
Common Equity	782	(282)	(463)	1,494
Other	16	0	0	0
Total Equity	798	(282)	(463)	1,494
Total Equity and Liabilities	5,919	6,228	7,259	9,763

Exhibit 2: Restated Income Statement

Income Statement (\$ million)	2021	2022	2023	2024
Revenue	3,342	4,417	5,305	5,956
Cost of Goods Sold	(717)	(1,004)	(1,143)	(1,135)
Selling, General & Administrative	(1,471)	(1,832)	(2,198)	(2,183)
Depreciation and Amortization	(66)	(81)	(95)	(100)
Research and development	(424)	(512)	(614)	(717)
Acquisition termination cost	N/A	N/A	N/A	(1,353)
Operating Profit	664	988	1,255	1,822
Interest Expenses	(15)	(18)	(21)	(20)
Interest Income	5	17	120	155
Other Income (Expense), Net Excluding Interest Expense	(2)	4	107	(48)
Pre-tax Income	652	992	1,461	1,909
Taxes	(14)	(31)	(144)	(284)
Net Income	638	961	1,318	1,626

Exhibit 3: DCF Model - Summary

\$ million	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Sales	6,678	7,828	8,866	10,032	11,122	12,164	13,164	14,089	14,979	15,773
% growth	12.1%	17.2%	13.3%	13.2%	10.9%	9.4%	8.2%	7.0%	6.3%	5.3%
COGS&Opex	4,589	5,298	5,921	6,611	7,239	7,818	8,418	8,967	9,485	9,942
EBIT	2,089	2,530	2,945	3,422	3,883	4,346	4,746	5,123	5,494	5,831
EBIT Margin	31.3%	32.3%	33.2%	34.1%	34.9%	35.7%	36.1%	36.4%	36.7%	37.0%
EBIT*(1-Taxes)	1,809	2,185	2,535	2,941	3,335	3,734	4,084	4,418	4,752	5,062
D&A	(120)	(132)	(146)	(161)	(178)	(196)	(214)	(232)	(250)	(267)
CapEx	(425)	(489)	(550)	(619)	(685)	(750)	(814)	(875)	(933)	(986)
Change in NWC	561	512	619	739	940	1,079	1,225	1,376	1,511	1,657
FCFF	2,065	2,340	2,749	3,223	3,767	4,257	4,708	5,151	5,580	6,000

Exhibit 4: Multiple Analysis (Actual)

Company	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fortinet	12.55x	36.18x	38.75xx	44.12x
Palo Alto Networks	14.87x	69.56x	127.69x	115.49x
CrowdStrike Holdings A	30.07x	1,638.19x	N/A	N/A
Zscaler	18.55x	N/A	N/A	N/A
Cisco Systems	5.18x	19.09x	23.82x	28.43x
Datadog A	18.00x	454.62x	1,707.82x	336.11x
Check Point Software Tech	8.75x	23.60x	25.95x	29.53x
High	30.07x	1,638.19x	1,707.82x	336.11x
Average	15.90x	441.01x	471.32x	127.39x
Median	16.44x	69.56x	76.82x	72.51x
Low	5.18x	19.09x	23.82x	28.43x

Exhibit 5: Multiple Analysis (Forward)

Company	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fortinet	10.40x	31.50x	37.50x	41.36x
Palo Alto Networks	15.60x	48.31x	55.04x	61.64x
CrowdStrike Holdings A	27.28x	106.78x	130.93x	146.07x
Zscaler	19.42x	76.46x	89.96x	98.63x
Cisco Systems	5.03x	12.62x	14.66x	18.31x
Datadog A	16.71x	74.85x	83.40x	91.08x
Check Point Software Tech	8.27x	19.20x	19.69x	22.57x
High	27.28x	106.78x	130.93x	146.07x
Average	14.68x	56.37x	65.61x	73.05x
Median	15.60x	61.58x	69.22x	76.36x
Low	5.03x	12.62x	14.66x	18.31x

Exhibit 6: Multiple Valuation (Forward)

Fortinet (Average)	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Implied Enterprise Value	86,824	108,321	118,025	-
Net Debt	1,073.4	1,073.4	1,073.4	-
Implied Market Value	85,750	107,247	116,952	127,478
Shares Outstanding (000)	764.4	764.4	764.4	764.4
Implied Value Per Share	112.18	140.30	153.00	166.78

Fortinet (Median)	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Implied Enterprise Value	92,910	118.332	124,513	-
Net Debt	1,073.4	1,073.4	1,073.4	-
Implied Market Value	91,837	117,259	123,440	133,263
Shares Outstanding (000)	764.4	764.4	764.4	764.4
Implied Value Per Share	120.14	153.40	161.49	174.34

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