Introduction[1]

Fortinet Inc. (NASDAQ: FTNT) was founded in 2000 and is headquartered in Sunnyvale, California. It provides cybersecurity solutions to a variety of businesses, such as enterprises, communication service providers, government organizations, and small to medium-sized businesses. Its product portfolio includes network security, secure access service edge, enterprise networking, security operations, application security, and operational technology. As of FY 2023, which ended in December 2023, the company generated 41.0% of its revenue from Americas (with 30.3% from the U.S.), 25.9% from Europe, 19.9% from Asia-Pacific (with 3.6% from China), and the rest, 13.1% from Africa and Middle East.

Management[2]

Ken Xie is Chief Executive Officer (CEO), Founder, and Chairman of the Board. Fortinet is the third cybersecurity company founded by him. His previous company, Netscreen, developed the industry's first ASIC (application-specific integrated circuit) and dedicated hardware systems for high-performance firewalls and VPNs; it was acquired by Juniper Networks for $4 billion in 2004. He holds an M.S. degree in electrical engineering from Stanford University and is a member of the board for the Cyber Threat Alliance and the Center for Cybersecurity for the World Economic Forum.

Michael Xie is Founder, President, and Chief Technology Officer (CTO) of the company. He has been heading up innovation for the company for more than two decades. He was honored with the 2009 Tech Innovator Awards by Everything Channel's CRN. Michael has an M.S. degree in electrical & computer engineering from the University of Manitoba.

Keith Jensen is the Chief Financial Officer (CFO) of the company. He has more than three decades of finance experience and has served as CFO of the company since May 2018. He has held various key financial roles in the company from May 2014 onwards. Prior to joining Fortinet, he worked at DataDirect Networks for two years in various roles including Chief Accounting Officer. Mr. Jensen holds a B.S. in Business from California State University, Sacramento.

Growth Drivers/Recent Highlights

Fortinet's global customer base numbers over 775,000 and it has over 50 enterprise-grade products, one of the largest integrated offerings available in the market.[3] As of the end of Q2 2024, the company holds 1,354 global patents and 1,015 U.S. patents, nearly three times more than comparable network security vendors, showcasing its innovation and R&D strength.[4] The vast majority of Fortinet's R&D is based in North America and has support and centers of excellence across the globe. In addition to the traditional services offered with its solutions, it offers services such as automated protection, detection, and response along with consolidated visibility across 500 third-party solutions.[5]

Fortinet is one of the most validated cybersecurity companies, with more than 100 industry analyst reports validating Fortinet's solutions across networking and security. Industry analyst firms such as Gartner, IDC and Forrester have validated its leadership position and innovations over a number of years.[6]

In August 2024, Fortinet completed its acquisition of Lacework, a cloud security and cloud-native application protection platform (CNAPP) trailblazer. According to Fortinet, "integrating Lacework's organically developed cloud-native platform with Fortinet Security Fabric will result in the most comprehensive, full-stack AI-driven cloud security platform available from a single vendor"[7]. Furthermore, Fortinet has gained a portfolio of 225 patents and applications, many related to cloud security and artificial intelligence, which will bring Fortinet's global patent and application count to over 1,800 post acquisition. This is estimated to be more than the nearest three pure-play security vendors combined.[8] This acquisition also brings an experienced sales team and a talented group of engineers whose expertise will be instrumental in delivering industry-leading solutions to Fortinet's customers.[9]

The company expects its total addressable market (TAM) to grow at a cumulative annual growth rate (CAGR) of 12% through 2024-2028 to reach a TAM of $284 billion in 2028 (vs $183 billion in 2024).[10] Currently, the company serves 73% of the Fortune 100 and 69% of Global 2000 companies.[11]

Products & Solutions

Fortinet's products and services can primarily be put into three categories: I. Secure Networking, II. Unified Secure Access Service Edge (SASE), and III. AI-driven security operations.[12]

- Secure Networking[13]: Secure Networking Solutions are focused on combining networking and security through network firewall and switches, access points and other secure connectivity solutions. FortiOS is their networking and security operating system that is consistent across Fortinet's firewalls and secure connectivity solutions. It supports over 30 functions that can be delivered via a physical, virtual, cloud or Software as a Service (SaaS) solution. The company uses proprietary Application Specific Integrated Circuits ("ASIC") technology to accelerate functionality and scalability of its products. The Network Firewall solution consists of FortiGate data centers, hyperscale and distributed firewalls, as well as encrypted applications inspection, Virtual Private Network and IPsec connectivity. The company's FortiSwitch and FortiLink products help ethernet to become an extension of a company's security infrastructure. FortiExtender secures 5G/LTE and remote ethernet extenders to connect and secure any branch environment. The Secure Connectivity solution includes FortiSwitch Secure Ethernet Switches, FortiAP Wireless Local Area Network Access Points and FortiExtender 5G Connectivity Gateways, and other products.

- Unified Secure Access Service Edge (SASE)[14]: Fortinet provides a single-vendor SASE solution that includes Firewall, SD-WAN, Secure Web Gateway, Cloud Access Services Broker, Data Loss Prevention, Zero Trust Network Access and cloud security, including Web Application Firewalls, Virtualized Firewalls and Cloud-Native Firewalls, among other products. These functions are delivered through FortiOS operating systems which can deploy the full SASE stack through the cloud or ASIC-driven appliances, and all functions can be managed through a unified management console.

- Security Operations (SecOps)[15]: The SecOps offering helps detect, investigate and respond to threats, and is delivered as a platform that automates detection and response to accelerate discovery and remediation. The solution includes FortiAI generative AI assistant, FortiSIEM Security Information and Event Management, FortiSOAR Security Orchestration, Automation and Response, FortiEDR Endpoint Detection and Response, FortiXDR Extended Detection and Response, FortiMDR Managed Detection and Response Service, FortiNDR Network Detection and Response, FortiRecon Digital Risk Protection, FortiDeceptor Deception technology, FortiGuard SoCaaS, FortiSandbox Sandboxing Services and FortiGuard Incident Response Services, among other products.

Financials[16]

Fortinet reported Q2 2024 revenue of $1.4 billion, up 11% y/y compared to $1.3 billion in Q2 2023. Revenue growth was primarily driven by growth in services revenue. In Q2 2024, product revenue declined by 4% y/y to $451.9 million while service revenue improved 20% y/y to $982.4 million.[17] Gross margin was 80.8% (vs 76.8% in Q2 2023). EBITDA margin improved about 880bps y/y to 32.4% mainly driven by a decrease in personnel-related costs in sales and marketing and a decrease in marketing expenses.[18] Net income for the period increased 43% y/y to $379.8 million (vs $266.3 million in Q2 2023).

In 2023, revenue grew 20% y/y to $5.3 billion (vs $4.4 billion in 2022), driven by accelerated growth in service revenue (increased 28% y/y to $3.4 billion) on the back of strength in subscription revenue[19]. However, product revenue grew at a slower pace of 8% y/y to $1.9 billion[20]. Gross margin was 76.3% (vs 74.9% in 2022) and EBITDA margin was 25.4% (vs 24.2% in 2022). Net income for 2023 increased 34% y/y to $1.1 billion (vs $857.3 million in 2022).

As per its most recent guidance update in Q2 2024, the company expects revenue for 2024 to grow to the range of $5.8-$5.9 billion, with an operating margin of 30.0-31.5%.[21] Additionally, the company expects EPS to be in the range of $2.00 to $2.04[22]. For Q3 2024, revenue is expected to be in the range of $1.4 to $1.5 billion with an operating margin of 30.5%-31.5% and EPS in the range of $0.50-0.52.[23]

Stock Performance[24]

Fortinet has been a part of the ISE Cyber Security UCITS™ Index (HUR™) from August 26, 2015 (the earliest date for which live data for HUR is available). Since then, the stock has been outperforming HUR and the S&P 500 by a substantial margin. Its price return from the date of inclusion to the index till September 13, 2024 was +782% (versus +159% for HUR and +190% for the S&P 500). On a year-to-date basis, as of September 13, 2024, its price return was 28%, outperforming HUR and the S&P 500, which have returned 3% and 18%, respectively.

Role in Cyber Security Theme

Fortinet generates 100% of its revenue from its cyber/network security portfolio of products and services. Its integrated platform, the Fortinet Security Fabric, spans secure networking, unified SASE and AI-driven security operations to deliver cybersecurity where customers need it. Fortinet's customer base consists of enterprises such as financial services providers, retail and operational technology market verticals, communication and security service providers, government organizations and small and medium-sized businesses.[25]

The company claims it's the only player in the market that has built all the SASE functions organically in a single operating system. Moreover, it has "converged the networking and security stack."[26] Recently, Fortinet has improved its position in the Gartner Magic Quadrant for Single Vendor SASE and is the only vendor to be included in all five of the major networks.[27]

For more than two decades, the company has been one of the most prominent players in providing network and security convergence. The industry projections indicate secure networking will surpass traditional networking by 2026.[28] Fortinet's ability to execute acquisitions combined with innovation in products/services and wide market recognition are expected to solidify the company as a strong contender in the cybersecurity market[29].

[1] FactSet-Company/Security platform
[2] https://www.fortinet.com/corporate/about-us/executive-management
[3] https://www.fortinet.com/corporate/about-us/about-us
[4] https://www.fortinet.com/corporate/about-us/about-us
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[26] https://investor.fortinet.com/static-files/0c402526-1bf6-459c-ad32-55f9f5309f18
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