

Fortinet, Inc.

US CORE HOLDING*

Recommended since 29.11.23

09.04.2024

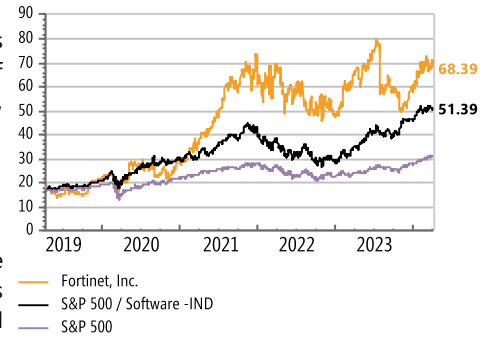


Country	US	Market capitalization (bn)	USD	53.2	Perf. since reco. (%)	
Sector	Technology	Free float		82.5%	Fortinet, Inc.	27.6
Factset	FTNT-US	Closing price	USD	68.39	Secteur	10.3
ISIN	US34959E1091	ESG Risk score*	18.8	Low risk		

*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 2000 by Ken Xie, Fortinet provides cybersecurity and networking solutions worldwide. It offers FortiGate/SASE hardware and software licenses that provide a variety of security and networking functions, including firewall, intrusion prevention, anti-malware, virtual private network, application control, web filtering, anti-spam and WAN acceleration.



Source: Factset

Market - competition - positions - barriers to entry

The cybersecurity market is competitive and fragmented. The sector demands cutting-edge technology and solid threat intelligence, creating significant barriers to entry. Fortinet's strategic advantage lies in its integrated Security Fabric, encompassing hardware and software, which positions it as a leader in providing unified, advanced solutions to evolving digital threats.

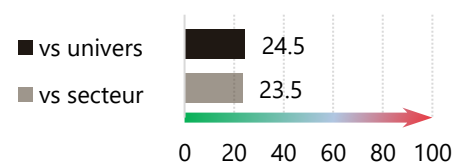
Investment case

- The cybersecurity industry is experiencing strong growth against a backdrop of escalating cyberthreats. With a CAGR of 12% for 2023-2027, the potential global market for Fortinet is expected to reach \$200 billion by 2027. Increasing digitization, cloud adoption and the proliferation of IoT and AI are driving demand for robust security solutions. As cyberattacks become increasingly sophisticated, heightened regulatory requirements are forcing organizations to prioritize cybersecurity spending, creating a favorable landscape for sustained industry growth.
- Fortinet stands out for its commitment to providing customers with a comprehensive "platform offering" that addresses the growing need for simplicity, budget and adaptability in a dynamic cybersecurity landscape. Fortinet's strategic focus on the Security Fabric, underpinned by proprietary ASIC chips and extensive in-house development, aligns with market demand for integrated solutions. This approach positions Fortinet as a key player in meeting the evolving needs of customers for unified, efficient and scalable cybersecurity solutions, driving the company's growth in the context of a competitive business environment.
- In addition, the management is prioritizing high-growth areas such as operations security (SecOps) and secure access in the cloud (Universal SASE) to adapt to market trends. While this involves adjustments to the go-to-market strategy, including revised compensation plans and enhanced training, it aligns with industry demands for comprehensive cybersecurity solutions. This strategy enables Fortinet to seize emerging opportunities, with sales teams promoting a diversified product portfolio in order to sign larger contracts.
- Taking into account a cyclical slowdown reported by the management, we now expect sales growth of +12% in 2024 and EPS growth of +7.7% for the same year, followed by a resumption of growth for 2025-2026. In 2022, the group was targeting sales of \$8 billion and an EBIT margin of 25% for 2025 (these targets will be adjusted in 2024). We remain conservative and are aiming for \$6.85 billion and an EBIT margin of 23%.
- Fortinet has a healthy balance sheet and generates a FCF margin of over 32%.

ESG - risks and key points

- Fortinet's ESG risk is low. Good management of ESG issues and strong corporate governance performance. Reputational risk in the event of a security breach (no major scandal reported).
- Macroeconomic slowdown may affect contracting.
- Competition risks are high between Big Techs and suppliers of specific solutions.

Risque ESG vs univers & secteur (percentile)



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
68	80

Our scenario assumes a US risk-free rate of 3.50%; sales growth averaging 15% p.a. over the period; EBIT margin growth to 27% in 2028 and then stability over the remainder of the period.

** La valeur scenario Bordier intègre le modèle économique de l'entreprise, notre scénario central de croissance et de profits et les données de marché, externes à l'entreprise (taux sans risque et prime de risque du marché actions). Elle ne constitue pas, en soi, un objectif de cours.

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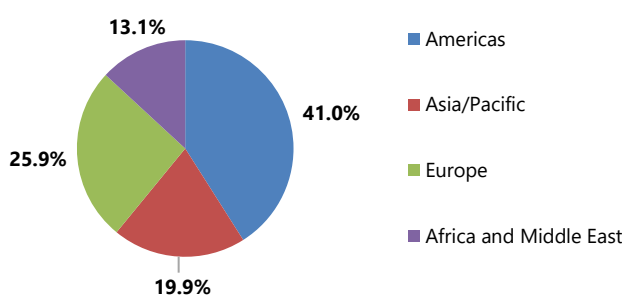
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"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	4 417	5 305	5 782	6 592	7 646
Sales growth %	32.2%	20.0%	9.0%	14.0%	16.0%
<i>o/w organic</i>	30.0%	20.0%	9.0%	14.0%	16.0%
EBIT adjusted	970	1 241	1 340	1 582	1 898
% of sales	21.9%	23.4%	23.2%	24.0%	24.8%
Net income	857	1 148	1 232	1 427	1 696
Adjusted EPS	1.06	1.46	1.56	1.81	2.15
Adjusted EPS growth	46.6%	36.8%	7.4%	15.8%	18.9%
Capex/Sales	6.4%	6.7%	4.8%	4.9%	4.6%
Free cash-flow	1 449	1 731	1 575	1 847	2 070
FCF/Sales	32.8%	32.6%	27.2%	28.0%	27.1%
Dividend per share	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE - WACC	13.4%	17.5%	13.3%	11.9%	11.2%
ROE (%)	-304.4%	-247.7%	160.3%	65.0%	43.6%
Net debt/Ebitda	-66.9%	-31.5%	-136.8%	-223.5%	-287.3%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

	Fortinet, Inc.	S&P 500 Sector	Market
PE (x)***		Software	SP 500
2023	40.2	37.6	23.4
2024e	43.7	32.9	21.5
2025e	37.8	28.5	18.9
P/B (x)***			
2023	-96.4	12.4	4.7
2024e	67.9	10.1	4.4
2025e	23.8	8.1	3.9
Bêta (2 ans, journalier) vs marché: 1.04			

***) Les ratios de valorisation présentés sont donnés à titre d'information. Ils ne constituent pas le critère de sélection des Core Holdings et peuvent présenter des primes significatives, représentatives de la qualité du modèle économique de l'entreprise.

Governance and ownership structure

Since 2000 - CEO Ken Xie

Key shareholders (if any):

83% float

Agenda

02.05.2024 : Earnings Q1 FY2024 - 01.08.2024 : Earnings Q2 FY2024

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

None

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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