FROST & SULLIVAN

FERTINET®

2017 Global
Managed Security Services Platform
Company of the Year Award

Contents

Background and Company Performance

Industry Challenges

According to Frost & Sullivan research, the European Managed Security Services (MSS) market showed stable year-on-year growth rate of 13.5% in 2015 to reach US$3.63 billion. Since 2011, the European MSS market had averaged 13.6% year-on-year growth, and has witnessed a similar trend in terms of the number of active MSS providers (MSSPs). By 2015, the trend for number of suppliers remained on an upward path, while the combined market share of the top 3 players has fallen. Merger and acquisition activity has continued in 2016, with several similar sized companies pooling their expertise to compete with improved geographic scope, scale and product breadth.

At least 2 leading telecoms service providers (Vodafone and Deutsche Telekom) have relaunched their security services in 2016, and every other security vendor is also offering services to counter an expected decline in growth momentum for security hardware. All of these supply-side activities are reflective of a buoyant market; however, the key to longevity and success is an agile MSSP that is astute enough to stay ahead of the competition by demonstrating the following characteristics:

- Positioned to capture the next wave of higher value MSS: According to Frost & Sullivan's research, the 2 growth MSS segments in the next 5 years are threat intelligence, and research and detection services.

- Strong ability to retain security talent: Retaining security experts through not only competitive remuneration, but also with the nature of jobs by providing interesting, varied and collaborative work.

- Grow the midsized market segment with the right pricing strategy: Frost & Sullivan analysis reveals that the midsized market segment is relatively under-developed, largely ignored by many tier 1 MSSPs, and underserved by the niche, pure play vendors.

- A customer-centric approach: Retaining existing customers and attracting new clients by delivering solutions that meet evolving demands.

- Technology-led approach to service delivery: Unburden tedious tasks from security staff through automation and a collaborative solution approach.

Frost & Sullivan singles out Fortinet as the market leader in delivering the essential managed security services platform to MSSPs that provides them with the tools and best practices to establish a strong foundation for MSS market revenue growth.

Visionary Innovation & Performance and Business Impact

Fortinet is Well-positioned to Capitalize on the Growth Potential in MSS Market

Frost & Sullivan independent research maintains that the managed security services market is expected to remain in a growth phase in every region. In the North America and Europe, Middle East & Africa (EMEA) regions alone, the 2016 – 2021 compound annual growth rates (CAGR) are expected to be 17.4% and 14.1%, respectively. Fortinet's

platform is suited to support MSSPs in all 3 segments of managed security services - from the largest and most traditional in Security Asset Management and Monitoring (SAMM) to the remaining 2 growth segments of threat intelligence, incident remediation (TIIR) and risk and compliance management (RCM). More importantly, 2016 was an important year that witnessed 3 key triggers for MSSP transformation that Fortinet is well-positioned to support:

- New market entrants with a network based MSS proposition and/or threat intelligence MSS approach disrupt the landscape of MSSPs

- Greater awareness of risk and breaches among all enterprise sizes

- Maturity of technology such as cloud migration, enterprise mobility and always-on availability - plus the certainty of an Europe-wide General Data Protection Regulation (GDPR)

Fortinet Articulates Security Fabric as Part of a Blue Ocean Strategy

Frost & Sullivan recognizes Fortinet as 2017 Global Company of the Year due to its Security Fabric; introduced in 2016, this solution offers a newer way of thinking of and addressing security threats that is suitable for all size of enterprises. This latter point is crucial, as security breaches do not discriminate on the size of enterprises.

According to Fortinet's CTO, *"Small- and medium-sized enterprises can implement Fortinet's Security Fabric more quickly to achieve 100% network coverage. Larger-sized customers, for example university campuses, can scale up according to their pre-defined stages, based on business priorities or according to their network and security stacks. Throughout their journeys, Fortinet provides the guidance to support enterprises in their journey to expand security architecture to 100% of their networks."*

In articulating a proposition that addresses current and emerging threats, Fortinet uses its Security Fabric as a way to overcome the current challenges in the market:

- By ensuring that all elements in the network are security aware and to participate on a single, centralized security policy.

- By reflecting the reality of an enterprise's multi-vendor security landscape

- By providing a flexible approach that suits different sizes of enterprise customers

Fortinet Articulates a Simple-to-use Platform to Address Underserved Cloud-based Challenges

Frost & Sullivan witnessed how 2016 was a year of new market entrants launching network-based MSS propositions to leverage maturing digital transformation themes - such as cloud migration, software defined networks (SDN) and the Internet-of-things (IoT). Within the shift among enterprises towards the cloud, the associated security journey is also just beginning. Furthermore, IT and security teams face further additional pressures around compliance relating to various industry specific regulations, including PCI compliance or HIPAA or the General Data Protection Regulation (GDPR). Frost & Sullivan's MSS market research suggest that risk compliance and audit is a growth MSS

segment. Fortinet's Security Fabric can directly address the compliance burden on the end-user organization.

Fortinet Implements Best Practices to Support MSSPs' Profitability

Frost & Sullivan has recognized Fortinet in the past for its role in supporting the MSS market; in particular, due to the company's ongoing efforts to simplify market entry.

For example, Fortinet's proposition to its MSSP partners is driven by making sure that MSSPs are profitable in their MSS offering. Fortinet achieves this by offering expert consultative and service creation support - including monthly billing and return-on-investment models - to enable MSSPs to track their own profitability in using Fortinet's solutions. Fortinet also provides a Veterans employment and Security Academy programs to help MSSPs staff the defenses along with free training to MSSPs to support newer MSSP entry. The company also encourages continuous learning with scholarships and indirect incentives for certification and education.

Fortinet Excels in Customer Acquisition

According to Frost & Sullivan's recent Managed Security Services Platform study, Fortinet remained a market leader for the third consecutive year in its deployment of FortiGate, its next-generation firewall and unified threat management appliance. Overall, Fortinet supports more than 2.8million devices globally in 2016, compared to slightly more than 1million in 2012. Fortinet's market share among enterprises is quite important in determining the margin success of MSSPs, as the more platforms MSSPs support, the more multi-skilled MSSPs' engineers have to be or the more specialist engineers MSSPs must retain in-house. In a sector already suffering from a significant skills shortage, the cost of talent is one of the largest components that must be managed. Finally, as Fortinet also offers best practices to support MSSPs' profitability, the company's positive word of mouth reviews build a positive cycle of good will and customer retention.

Fortinet Continues to Enjoy Strong Double-digit Revenue Growth

Fortinet's revenue in 2016 reached US$1.28 billion, an almost 200% leap compared to 2011's US$433.6 million. In these 5 years alone (2011 – 2016), Fortinet's revenue CAGR reached 24.2%. This compares very strongly against a combined CAGR for MSS in North America and EMEA of 16.9% (per Frost & Sullivan independent analysis). Just as the MSS market itself is moving away from the more traditional SAMM service segments, the broader security market is equally keen to grow higher margin products. Fortinet's mix of devices in the field and its reach among MSSPs across the globe provide the foundation for sustainable revenue streams in coming years.

Conclusion

Frost & Sullivan recognizes Fortinet for a strong 2016 performance, including impressive financial results, new technology innovations that supported end-customers' IT and security needs, and continued customer retention efforts. Fortinet's progress in 2016 coincided with an expected change in the MSS market, as MSSPs attempt to carve out a foothold in the emerging MSS segments of risk compliance and threat intelligence.

Frost & Sullivan recognizes ongoing Fortinet's achievements with the 2017 Global Company of the Year Award.

Significance of Company of the Year

To receive the Frost & Sullivan Global Company of the Year Award requires a market participant to demonstrate excellence in growth, innovation, and leadership. This kind of excellence typically translates into superior performance in three key areas: demand generation, brand development, and competitive positioning. These areas serve as the foundation of a company's future success and prepare it to deliver on the two criteria that define the Company of the Year Award (Visionary Innovation & Performance and Business Impact).

Understanding Company of the Year

Demand, brand strength, and competitive differentiation all play a critical role in delivering unique value to customers. This three-fold focus, however, must ideally be complemented by an equally rigorous focus on Visionary Innovation & Performance to enhance Business Impact.

Key Benchmarking Criteria

For the Global Company of the Year Award, Frost & Sullivan analysts independently evaluated two key factors—Visionary Innovation & Performance and Business Impact—according to the criteria identified below.

Visionary Innovation & Performance

Criterion 1: Addressing Unmet Needs
Criterion 2: Visionary Scenarios through Mega Trends
Criterion 3: Implementation Best Practices
Criterion 4: Blue Ocean Strategy
Criterion 5: Financial Performance

Business Impact

Criterion 1: Financial Performance
Criterion 2: Customer Acquisition
Criterion 3: Operational Efficiency
Criterion 4: Growth Potential
Criterion 5: Human Capital

Best Practices Award Analysis for Fortinet

Decision Support Scorecard

To support its evaluation of best practices across multiple business performance categories, Frost & Sullivan employs a customized Decision Support Scorecard. This tool allows our research and consulting teams to objectively analyze performance, according to the key benchmarking criteria listed in the previous section, and to assign ratings on that basis. The tool follows a 10-point scale that allows for nuances in performance evaluation. Ratings guidelines are illustrated below.

RATINGS GUIDELINES
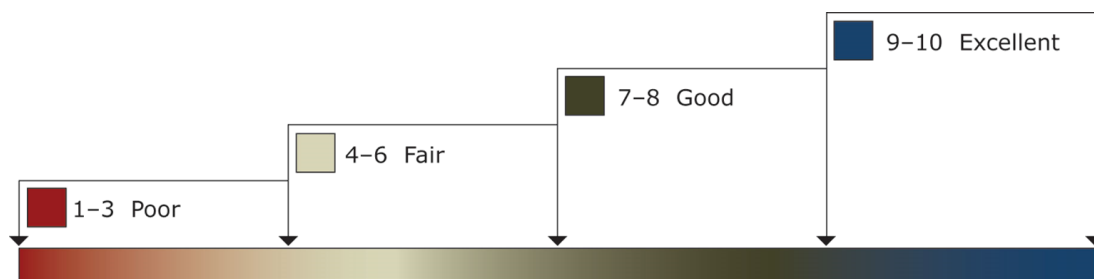
The Decision Support Scorecard is organized by Visionary Innovation & Performance and Business Impact (i.e., these are the overarching categories for all 10 benchmarking criteria; the definitions for each criterion are provided beneath the scorecard.). The research team confirms the veracity of this weighted scorecard through sensitivity analysis, which confirms that small changes to the ratings for a specific criterion do not lead to a significant change in the overall relative rankings of the companies.

The results of this analysis are shown below. To remain unbiased and to protect the interests of all organizations reviewed, we have chosen to refer to the other key participants as Competitor 2 and Competitor 3.

Measurement of 1–10 (1 = poor; 10 = excellent)			
Company of the Year	Visionary Innovation & Performance	Business Impact	**Average Rating**
Fortinet	**10.0**	**9.0**	**9.5**
Competitor 2	9.0	9.0	9.0
Competitor 3	8.5	8.5	8.5

Visionary Innovation & Performance

Criterion 1: Addressing Unmet Needs
Requirement: Implementing a robust process to continuously unearth customers' unmet or under-served needs, and creating the products or solutions to address them effectively

Criterion 2: Visionary Scenarios through Mega Trends
Requirement: Incorporating long-range, macro-level scenarios into the innovation strategy, thereby enabling "first-to-market" growth opportunity solutions

Criterion 3: Implementation of Best Practices
Requirement: Best-in-class strategy implementation characterized by processes, tools, or activities that generate a consistent and repeatable level of success.

Criterion 4: Blue Ocean Strategy
Requirement: Strategic focus on creating a leadership position in a potentially "uncontested" market space, manifested by stiff barriers to entry for competitors

Criterion 5: Financial Performance
Requirement: Strong overall business performance in terms of revenues, revenue growth, operating margin, and other key financial metrics

Business Impact

Criterion 1: Financial Performance
Requirement: Overall financial performance is strong in terms of revenues, revenue growth, operating margin, and other key financial metrics.

Criterion 2: Customer Acquisition
Requirement: Customer-facing processes support the efficient and consistent acquisition of new customers, even as it enhances retention of current customers.

Criterion 3: Operational Efficiency
Requirement: Staff is able to perform assigned tasks productively, quickly, and to a high quality standard.

Criterion 4: Growth Potential

Requirements: Customer focus strengthens brand, reinforces customer loyalty, and enhances growth potential.

Criterion 5: Human Capital

Requirement: Company culture is characterized by a strong commitment to quality and customers, which in turn enhances employee morale and retention.

Decision Support Matrix

Once all companies have been evaluated according to the Decision Support Scorecard, analysts then position the candidates on the matrix shown below, enabling them to visualize which companies are truly breakthrough and which ones are not yet operating at best-in-class levels.
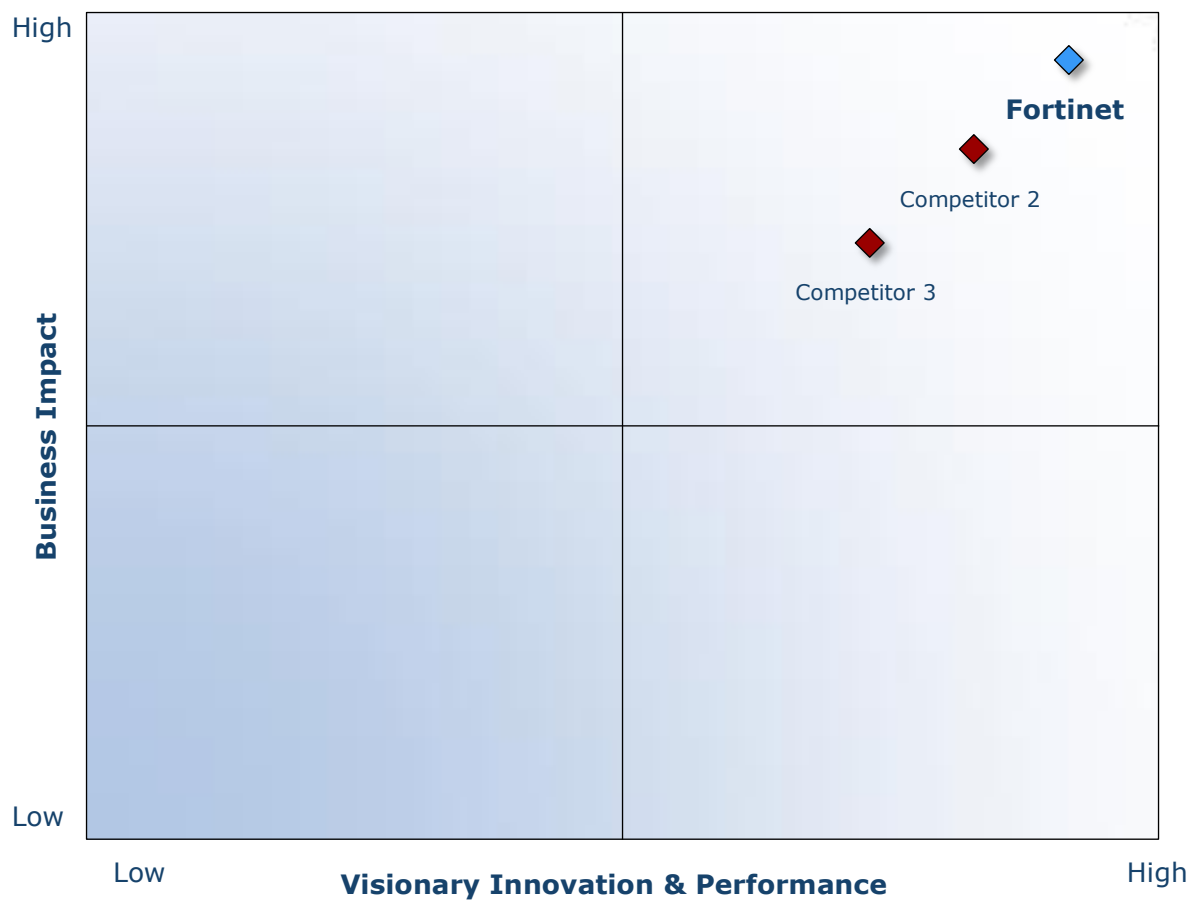
Best Practices Recognition: 10 Steps to Researching, Identifying, and Recognizing Best Practices

Frost & Sullivan analysts follow a 10-step process to evaluate Award candidates and assess their fit with select best practice criteria. The reputation and integrity of the Awards are based on close adherence to this process.

STEP	OBJECTIVE	KEY ACTIVITIES	OUTPUT
1 **Monitor, target, and screen**	Identify Award recipient candidates from around the globe	• Conduct in-depth industry research • Identify emerging sectors • Scan multiple geographies	Pipeline of candidates who potentially meet all best-practice criteria
2 **Perform 360-degree research**	Perform comprehensive, 360-degree research on all candidates in the pipeline	• Interview thought leaders and industry practitioners • Assess candidates' fit with best-practice criteria • Rank all candidates	Matrix positioning of all candidates' performance relative to one another
3 **Invite thought leadership in best practices**	Perform in-depth examination of all candidates	• Confirm best-practice criteria • Examine eligibility of all candidates • Identify any information gaps	Detailed profiles of all ranked candidates
4 **Initiate research director review**	Conduct an unbiased evaluation of all candidate profiles	• Brainstorm ranking options • Invite multiple perspectives on candidates' performance • Update candidate profiles	Final prioritization of all eligible candidates and companion best-practice positioning paper
5 **Assemble panel of industry experts**	Present findings to an expert panel of industry thought leaders	• Share findings • Strengthen cases for candidate eligibility • Prioritize candidates	Refined list of prioritized Award candidates
6 **Conduct global industry review**	Build consensus on Award candidates' eligibility	• Hold global team meeting to review all candidates • Pressure-test fit with criteria • Confirm inclusion of all eligible candidates	Final list of eligible Award candidates, representing success stories worldwide
7 **Perform quality check**	Develop official Award consideration materials	• Perform final performance benchmarking activities • Write nominations • Perform quality review	High-quality, accurate, and creative presentation of nominees' successes
8 **Reconnect with panel of industry experts**	Finalize the selection of the best-practice Award recipient	• Review analysis with panel • Build consensus • Select winner	Decision on which company performs best against all best-practice criteria
9 **Communicate recognition**	Inform Award recipient of Award recognition	• Present Award to the CEO • Inspire the organization for continued success • Celebrate the recipient's performance	Announcement of Award and plan for how recipient can use the Award to enhance the brand
10 **Take strategic action**	Upon licensing, company able to share Award news with stakeholders and customers	• Coordinate media outreach • Design a marketing plan • Assess Award's role in future strategic planning	Widespread awareness of recipient's Award status among investors, media personnel, and employees

The Intersection between 360-Degree Research and Best Practices Awards

Research Methodology

Frost & Sullivan's 360-degree research methodology represents the analytical rigor of our research process. It offers a 360-degree view of industry challenges, trends, and issues by integrating all 7 of Frost & Sullivan's research methodologies. Too often companies make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. The integration of these research disciplines into the 360-degree research methodology provides an evaluation platform for benchmarking industry participants and for identifying those performing at best-in-class levels.

360-DEGREE RESEARCH: SEEING ORDER IN THE CHAOS

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation, and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation, and implementation of powerful growth strategies. Frost & Sullivan leverages more than 50 years of experience in partnering with Global 1000 companies, emerging businesses, and the investment community from 45 offices on six continents. To join our Growth Partnership, please visit http://www.frost.com.