

Forescout Technologies, Inc.
Supplemental Financial Information and Non-GAAP Financial Measures

Non-GAAP Financial Measures

This supplemental financial information contains financial statements that have not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). We use these non-GAAP financial measures internally in analyzing our financial results and believe that the use of these non-GAAP financial measures is useful to investors as an additional tool to evaluate ongoing operating results and trends and in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures.

Non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. A reconciliation of our non-GAAP financial measures to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations.

Forescout Technologies, Inc.

Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except per share data)

(Unaudited)

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue:								
License	\$ 34,994	\$ 29,780	\$ 34,323	\$ 51,082	\$ 47,482	\$ 37,680	\$ 38,831	\$ 50,203
Subscription	25,017	26,359	28,986	30,339	32,888	33,799	34,822	36,570
Professional services	2,896	3,558	4,285	4,207	4,362	4,089	4,627	4,849
Total revenue	62,907	59,697	67,594	85,628	84,732	75,568	78,280	91,622
Cost of revenue:								
License	6,964	7,136	4,919	8,947	6,852	7,607	5,622	9,892
Subscription	3,946	3,801	3,732	4,069	4,613	5,207	5,599	5,376
Professional services	5,163	5,549	6,062	6,181	6,021	6,186	6,235	6,429
Total cost of revenue	16,073	16,486	14,713	19,197	17,486	19,000	17,456	21,697
Total gross profit	46,834	43,211	52,881	66,431	67,246	56,568	60,824	69,925
Operating expenses:								
Research and development	14,801	14,687	14,803	15,062	17,161	18,497	19,440	20,556
Sales and marketing	41,769	42,279	45,039	46,098	50,464	55,923	56,173	51,035
General and administrative	23,941	13,732	13,260	13,880	16,849	16,213	15,838	15,318
Total operating expenses	80,511	70,698	73,102	75,040	84,474	90,633	91,451	86,909
Loss from operations	(33,677)	(27,487)	(20,221)	(8,609)	(17,228)	(34,065)	(30,627)	(16,984)
Interest expense	(270)	(243)	(225)	(208)	(237)	(93)	(142)	(156)
Other income, net	382	662	513	865	527	617	505	374
Revaluation of warrant liabilities	(385)	—	—	—	—	—	—	—
Loss before income taxes	(33,950)	(27,068)	(19,933)	(7,952)	(16,938)	(33,541)	(30,264)	(16,766)
Income tax provision	618	1,128	473	334	1,010	711	496	16,747
Net loss	\$ (34,568)	\$ (28,196)	\$ (20,406)	\$ (8,286)	\$ (17,948)	\$ (34,252)	\$ (30,760)	\$ (33,513)
Deemed dividend on the conversion of Series G redeemable convertible preferred stock	12,810	—	—	—	—	—	—	—
Net loss attributable to common stockholders	\$ (47,378)	\$ (28,196)	\$ (20,406)	\$ (8,286)	\$ (17,948)	\$ (34,252)	\$ (30,760)	\$ (33,513)
Net loss per share attributable to common stockholders, basic and diluted	\$ (1.73)	\$ (0.74)	\$ (0.50)	\$ (0.20)	\$ (0.42)	\$ (0.78)	\$ (0.68)	\$ (0.72)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	27,349	38,313	40,457	42,064	43,016	44,196	45,494	46,584

Forescout Technologies, Inc.

Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except per share data)

(Unaudited)

	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>	<u>Q1FY19</u>	<u>Q2FY19</u>	<u>Q3FY19</u>
Revenue:								
License	\$ 34,994	\$ 29,780	\$ 34,323	\$ 51,082	\$ 47,482	\$ 37,680	\$ 38,831	\$ 50,203
Subscription	25,017	26,359	28,986	30,339	32,888	33,799	34,822	36,570
Professional services	2,896	3,558	4,285	4,207	4,362	4,089	4,627	4,849
Total revenue	<u>62,907</u>	<u>59,697</u>	<u>67,594</u>	<u>85,628</u>	<u>84,732</u>	<u>75,568</u>	<u>78,280</u>	<u>91,622</u>
Cost of revenue:								
License	6,921	7,083	4,865	8,880	6,486	7,057	5,066	9,347
Subscription	3,270	3,422	3,361	3,720	4,186	4,750	5,114	4,907
Professional services	4,478	5,155	5,710	5,815	5,635	5,785	5,814	6,014
Total cost of revenue	<u>14,669</u>	<u>15,660</u>	<u>13,936</u>	<u>18,415</u>	<u>16,307</u>	<u>17,592</u>	<u>15,994</u>	<u>20,268</u>
Total gross profit	<u>48,238</u>	<u>44,037</u>	<u>53,658</u>	<u>67,213</u>	<u>68,425</u>	<u>57,976</u>	<u>62,286</u>	<u>71,354</u>
Operating expenses:								
Research and development	10,631	12,340	12,290	12,449	14,398	15,397	16,704	17,471
Sales and marketing	32,186	36,099	39,189	39,933	43,258	48,899	48,532	44,250
General and administrative	8,562	9,495	9,464	9,941	10,565	11,508	11,783	11,004
Total operating expenses	<u>51,379</u>	<u>57,934</u>	<u>60,943</u>	<u>62,323</u>	<u>68,221</u>	<u>75,804</u>	<u>77,019</u>	<u>72,725</u>
Income (loss) from operations	<u>(3,141)</u>	<u>(13,897)</u>	<u>(7,285)</u>	<u>4,890</u>	<u>204</u>	<u>(17,828)</u>	<u>(14,733)</u>	<u>(1,371)</u>
Interest expense	(270)	(243)	(225)	(208)	(237)	(93)	(142)	(156)
Other income, net	382	662	513	865	527	617	505	374
Income (loss) before income taxes	<u>(3,029)</u>	<u>(13,478)</u>	<u>(6,997)</u>	<u>5,547</u>	<u>494</u>	<u>(17,304)</u>	<u>(14,370)</u>	<u>(1,153)</u>
Income tax provision	618	1,128	473	465	906	856	707	(359)
Net income (loss)	<u>\$ (3,647)</u>	<u>\$ (14,606)</u>	<u>\$ (7,470)</u>	<u>\$ 5,082</u>	<u>\$ (412)</u>	<u>\$ (18,160)</u>	<u>\$ (15,077)</u>	<u>\$ (794)</u>
Net income (loss) per share attributable to common stockholders, diluted	<u>\$ (0.13)</u>	<u>\$ (0.38)</u>	<u>\$ (0.18)</u>	<u>\$ 0.10</u>	<u>\$ (0.01)</u>	<u>\$ (0.41)</u>	<u>\$ (0.33)</u>	<u>\$ (0.02)</u>
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, diluted	<u>27,349</u>	<u>38,313</u>	<u>40,457</u>	<u>48,507</u>	<u>43,016</u>	<u>44,196</u>	<u>45,494</u>	<u>46,584</u>

Forescout Technologies, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

(In thousands, except percentages and per share data)

(Unaudited)

	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>	<u>Q1FY19</u>	<u>Q2FY19</u>	<u>Q3FY19</u>
GAAP license gross profit	\$ 28,030	\$ 22,644	\$ 29,404	\$ 42,135	\$ 40,630	\$ 30,073	\$ 33,209	\$ 40,311
Stock-based compensation	43	53	54	67	79	83	89	75
Acquisition-related expenses	—	—	—	—	7	—	—	—
Amortization of acquired intangible assets	—	—	—	—	280	467	467	470
Non-GAAP license gross profit	<u>\$ 28,073</u>	<u>\$ 22,697</u>	<u>\$ 29,458</u>	<u>\$ 42,202</u>	<u>\$ 40,996</u>	<u>\$ 30,623</u>	<u>\$ 33,765</u>	<u>\$ 40,856</u>
<i>Non-GAAP margin on license revenue</i>	80 %	76 %	86 %	83 %	86 %	81 %	87 %	81 %
GAAP subscription gross profit	\$ 21,071	\$ 22,558	\$ 25,254	\$ 26,270	\$ 28,275	\$ 28,592	\$ 29,223	\$ 31,194
Stock-based compensation	676	379	371	349	418	443	470	454
Acquisition-related expenses	—	—	—	—	9	14	15	15
Non-GAAP subscription gross profit	<u>\$ 21,747</u>	<u>\$ 22,937</u>	<u>\$ 25,625</u>	<u>\$ 26,619</u>	<u>\$ 28,702</u>	<u>\$ 29,049</u>	<u>\$ 29,708</u>	<u>\$ 31,663</u>
<i>Non-GAAP margin on subscription revenue</i>	87 %	87 %	88 %	88 %	87 %	86 %	85 %	87 %
GAAP professional services gross profit	\$ (2,267)	\$ (1,991)	\$ (1,777)	\$ (1,974)	\$ (1,659)	\$ (2,097)	\$ (1,608)	\$ (1,580)
Stock-based compensation	685	394	352	366	386	401	421	415
Non-GAAP professional services gross profit	<u>\$ (1,582)</u>	<u>\$ (1,597)</u>	<u>\$ (1,425)</u>	<u>\$ (1,608)</u>	<u>\$ (1,273)</u>	<u>\$ (1,696)</u>	<u>\$ (1,187)</u>	<u>\$ (1,165)</u>
<i>Non-GAAP margin on professional services revenue</i>	(55)%	(45)%	(33)%	(38)%	(29)%	(41)%	(26)%	(24)%
GAAP total gross profit	\$ 46,834	\$ 43,211	\$ 52,881	\$ 66,431	\$ 67,246	\$ 56,568	\$ 60,824	\$ 69,925
Stock-based compensation	1,404	826	777	782	883	927	980	944
Acquisition-related expenses	—	—	—	—	16	14	15	15
Amortization of acquired intangible assets	—	—	—	—	280	467	467	470
Non-GAAP total gross profit	<u>\$ 48,238</u>	<u>\$ 44,037</u>	<u>\$ 53,658</u>	<u>\$ 67,213</u>	<u>\$ 68,425</u>	<u>\$ 57,976</u>	<u>\$ 62,286</u>	<u>\$ 71,354</u>
<i>Non-GAAP total gross margin</i>	77 %	74 %	79 %	78 %	81 %	77 %	80 %	78 %
GAAP research and development expense	\$ 14,801	\$ 14,687	\$ 14,803	\$ 15,062	\$ 17,161	\$ 18,497	\$ 19,440	\$ 20,556
Stock-based compensation	4,170	2,347	2,513	2,613	2,688	3,078	2,691	3,040
Acquisition-related expenses	—	—	—	—	75	22	45	45

Non-GAAP research and development expense	\$ 10,631	\$ 12,340	\$ 12,290	\$ 12,449	\$ 14,398	\$ 15,397	\$ 16,704	\$ 17,471
<i>Non-GAAP research and development expense as a percentage of total revenue</i>	17 %	21 %	18 %	15 %	17 %	20 %	21 %	19 %
GAAP sales and marketing expense	\$ 41,769	\$ 42,279	\$ 45,039	\$ 46,098	\$ 50,464	\$ 55,923	\$ 56,173	\$ 51,035
Stock-based compensation	9,583	6,180	5,850	6,165	6,804	6,486	7,198	6,330
Acquisition-related expenses	—	—	—	—	219	234	139	148
Amortization of acquired intangible assets	—	—	—	—	183	304	304	307
Non-GAAP sales and marketing expense	\$ 32,186	\$ 36,099	\$ 39,189	\$ 39,933	\$ 43,258	\$ 48,899	\$ 48,532	\$ 44,250
<i>Non-GAAP sales and marketing expense as a percentage of total revenue</i>	51 %	60 %	58 %	47 %	51 %	65 %	62 %	48 %
GAAP general and administrative expense	\$ 23,941	\$ 13,732	\$ 13,260	\$ 13,880	\$ 16,849	\$ 16,213	\$ 15,838	\$ 15,318
Stock-based compensation	15,379	4,237	3,796	3,458	3,578	3,337	3,196	3,508
Acquisition-related expenses	—	—	—	481	2,706	1,368	859	806
Non-GAAP general and administrative expense	\$ 8,562	\$ 9,495	\$ 9,464	\$ 9,941	\$ 10,565	\$ 11,508	\$ 11,783	\$ 11,004
<i>Non-GAAP general and administrative expense as a percentage of total revenue</i>	14 %	16 %	14 %	12 %	12 %	15 %	15 %	12 %
GAAP total operating expenses	\$ 80,511	\$ 70,698	\$ 73,102	\$ 75,040	\$ 84,474	\$ 90,633	\$ 91,451	\$ 86,909
Stock-based compensation	29,132	12,764	12,159	12,236	13,070	12,901	13,085	12,878
Acquisition-related expenses	—	—	—	481	3,000	1,624	1,043	999
Amortization of acquired intangible assets	—	—	—	—	183	304	304	307
Non-GAAP total operating expenses	\$ 51,379	\$ 57,934	\$ 60,943	\$ 62,323	\$ 68,221	\$ 75,804	\$ 77,019	\$ 72,725
<i>Non-GAAP total operating expenses as a percentage of total revenue</i>	82 %	97 %	90 %	73 %	81 %	100 %	98 %	79 %
GAAP operating loss	\$ (33,677)	\$ (27,487)	\$ (20,221)	\$ (8,609)	\$ (17,228)	\$ (34,065)	\$ (30,627)	\$ (16,984)
Stock-based compensation	30,536	13,590	12,936	13,018	13,953	13,828	14,065	13,822
Acquisition-related expenses	—	—	—	481	3,016	1,638	1,058	1,014
Amortization of acquired intangible assets	—	—	—	—	463	771	771	777
Non-GAAP operating income (loss)	\$ (3,141)	\$ (13,897)	\$ (7,285)	\$ 4,890	\$ 204	\$ (17,828)	\$ (14,733)	\$ (1,371)
<i>Non-GAAP operating margin</i>	(5)%	(23)%	(11)%	6 %	— %	(24)%	(19)%	(1)%

GAAP net loss	\$ (34,568)	\$ (28,196)	\$ (20,406)	\$ (8,286)	\$ (17,948)	\$ (34,252)	\$ (30,760)	\$ (33,513)
Stock-based compensation	30,536	13,590	12,936	13,018	13,953	13,828	14,065	13,822
Acquisition-related expenses	—	—	—	481	3,016	1,638	1,058	1,014
Amortization of acquired intangible assets	—	—	—	—	463	771	771	777
Change in revaluation of warrant liabilities	385	—	—	—	—	—	—	—
Tax effect of non-GAAP adjustments	—	—	—	(131)	104	(145)	(211)	17,106
Non-GAAP net income (loss)	<u>\$ (3,647)</u>	<u>\$ (14,606)</u>	<u>\$ (7,470)</u>	<u>\$ 5,082</u>	<u>\$ (412)</u>	<u>\$ (18,160)</u>	<u>\$ (15,077)</u>	<u>\$ (794)</u>
Non-GAAP net income (loss) per share, diluted	<u>\$ (0.13)</u>	<u>\$ (0.38)</u>	<u>\$ (0.18)</u>	<u>\$ 0.10</u>	<u>\$ (0.01)</u>	<u>\$ (0.41)</u>	<u>\$ (0.33)</u>	<u>\$ (0.02)</u>
GAAP weighted-average shares used to compute net income (loss) per share, diluted	27,349	38,313	40,457	42,064	43,016	44,196	45,494	46,584
Weighted-average effect of potentially dilutive securities	—	—	—	6,442	—	—	—	—
Non-GAAP weighted-average shares used to compute net income (loss) per share, diluted	<u>27,349</u>	<u>38,313</u>	<u>40,457</u>	<u>48,507</u>	<u>43,016</u>	<u>44,196</u>	<u>45,494</u>	<u>46,584</u>

Forescout Technologies, Inc.
Condensed Consolidated Balance Sheets - Fiscal Quarters
(In thousands)
(Unaudited)

	<u>Q3FY18</u>	<u>Q4FY18</u>	<u>Q1FY19</u>	<u>Q2FY19</u>	<u>Q3FY19</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 129,035	\$ 66,895	\$ 70,663	\$ 46,872	\$ 55,436
Marketable securities	81,289	47,632	56,266	58,065	38,235
Accounts receivable	67,967	79,255	56,734	66,903	84,539
Inventory	322	1,501	1,248	2,093	782
Deferred commissions - current	10,667	12,543	11,707	11,716	12,231
Prepaid expenses and other current assets	11,786	13,353	13,477	13,180	13,564
Total current assets	<u>301,066</u>	<u>221,179</u>	<u>210,095</u>	<u>198,829</u>	<u>204,787</u>
Deferred commissions - non-current	20,942	22,831	22,143	21,848	22,584
Property and equipment, net	24,376	24,349	23,900	23,701	24,022
Operating lease right-of-use assets	—	—	20,704	22,271	30,404
Restricted cash - non-current	1,189	1,266	1,283	1,293	1,257
Intangible assets, net	—	19,002	17,873	17,369	16,591
Goodwill	—	92,482	90,641	92,045	92,045
Other assets	4,358	7,369	7,034	6,889	7,306
Total assets	<u>\$ 351,931</u>	<u>\$ 388,478</u>	<u>\$ 393,673</u>	<u>\$ 384,245</u>	<u>\$ 398,996</u>
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	\$ 902	\$ 12,118	\$ 9,500	\$ 9,563	\$ 10,654
Accrued compensation	23,819	32,649	28,121	31,739	29,562
Accrued expenses	11,741	14,558	13,988	14,087	15,268
Deferred revenue - current	95,448	101,900	106,087	103,365	104,739
Notes payable - current	7,309	7,331	7,352	7,375	7,397
Operating lease liabilities - current	—	—	4,718	5,240	5,217
Total current liabilities	<u>139,219</u>	<u>168,556</u>	<u>169,766</u>	<u>171,369</u>	<u>172,837</u>
Deferred revenue - non-current	66,633	69,618	72,023	69,779	71,948
Notes payable - non-current	10,089	8,248	6,402	4,550	2,692
Operating lease liabilities - non-current	—	—	23,535	24,376	33,342
Other liabilities	10,747	14,335	7,018	7,056	24,336
Total liabilities	<u>226,688</u>	<u>260,757</u>	<u>278,744</u>	<u>277,130</u>	<u>305,155</u>
Stockholders' equity:					
Common stock	43	43	45	46	47
Additional paid-in capital	618,656	639,237	662,674	683,957	704,192
Accumulated other comprehensive loss	(147)	(302)	(2,281)	(619)	(616)
Accumulated deficit	(493,309)	(511,257)	(545,509)	(576,269)	(609,782)
Total stockholders' equity	<u>125,243</u>	<u>127,721</u>	<u>114,929</u>	<u>107,115</u>	<u>93,841</u>
Total liabilities and stockholders' equity	<u>\$ 351,931</u>	<u>\$ 388,478</u>	<u>\$ 393,673</u>	<u>\$ 384,245</u>	<u>\$ 398,996</u>

Forescout Technologies, Inc.

Condensed Consolidated Statements of Cash Flows - Fiscal Quarters

(In thousands)

(Unaudited)

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Cash flows from operating activities					
Net loss	\$ (8,286)	\$ (17,948)	\$ (34,252)	\$ (30,760)	\$ (33,513)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities					
Stock-based compensation	13,018	13,953	13,828	14,065	13,822
Depreciation and amortization	1,961	2,513	2,845	2,945	2,987
Other	85	348	(15)	7	(130)
Changes in operating assets and liabilities, net of business acquisition					
Accounts receivable	(33,856)	(7,485)	22,227	(10,050)	(17,636)
Inventory	1,461	(1,180)	253	(846)	1,306
Deferred commissions	637	(3,764)	1,520	289	(1,250)
Prepaid expenses and other current assets	284	(1,160)	(203)	521	(535)
Other assets	(113)	(3,389)	385	166	(484)
Accounts payable	(104)	10,742	(2,705)	196	1,061
Accrued compensation	(1,682)	8,596	(4,512)	3,607	(2,170)
Accrued expenses	1,712	1,640	549	(142)	1,886
Deferred revenue	14,941	3,144	6,559	(5,064)	3,533
Other liabilities	(1,702)	87	(40)	(120)	17,182
Net cash (used in) provided by operating activities	(11,644)	6,097	6,439	(25,186)	(13,941)
Cash flows from investing activities					
Purchases of property and equipment	(1,934)	(862)	(1,589)	(1,813)	(2,209)
Purchases of marketable securities	(8,409)	—	(37,651)	(25,918)	—
Proceeds from maturities of marketable securities	47,650	33,583	29,123	24,231	19,991
Business acquisition, net of cash acquired	—	(105,425)	—	—	—
Net cash provided by (used in) investing activities	37,307	(72,704)	(10,117)	(3,500)	17,782
Cash flows from financing activities					
Repayments of notes payable	(1,875)	(1,875)	(1,875)	(1,874)	(1,876)
Proceeds from sales of shares through employee equity incentive plans	6,825	7,142	12,173	8,553	6,650
Payments related to shares withheld for taxes on vesting of restricted stock units	(1,135)	(716)	(2,764)	(1,538)	(236)
Net cash provided by financing activities	3,815	4,551	7,534	5,141	4,538
Effect of exchange rate changes on cash and cash equivalents	—	(7)	(70)	66	—
Net change in cash, cash equivalents, and restricted cash for period	29,478	(62,063)	3,786	(23,479)	8,379
Cash, cash equivalents, and restricted cash at beginning of period	101,597	131,075	69,012	72,798	49,319
Cash, cash equivalents, and restricted cash at end of period	\$ 131,075	\$ 69,012	\$ 72,798	\$ 49,319	\$ 57,698