

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 share and per share data)

(Unaudited)

	<u>Q2FY16</u>	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>
Revenue:								
Product	\$ 19,071	\$ 33,566	\$ 29,183	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780
Maintenance and professional services	15,979	18,290	19,968	21,868	23,139	26,136	27,913	29,917
Total revenue	<u>35,050</u>	<u>51,856</u>	<u>49,151</u>	<u>42,176</u>	<u>49,981</u>	<u>69,340</u>	<u>62,907</u>	<u>59,697</u>
Cost of revenue:								
Product	4,251	6,533	7,982	4,092	5,545	7,240	6,964	7,136
Maintenance and professional services	6,611	6,945	7,267	8,431	8,543	8,688	9,109	9,350
Total cost of revenue	<u>10,862</u>	<u>13,478</u>	<u>15,249</u>	<u>12,523</u>	<u>14,088</u>	<u>15,928</u>	<u>16,073</u>	<u>16,486</u>
Total gross profit	<u>24,188</u>	<u>38,378</u>	<u>33,902</u>	<u>29,653</u>	<u>35,893</u>	<u>53,412</u>	<u>46,834</u>	<u>43,211</u>
Operating expenses:								
Research and development	7,365	8,509	9,138	10,947	10,702	10,985	14,801	14,687
Sales and marketing	28,198	30,777	31,263	35,045	33,556	34,028	41,769	42,279
General and administrative	8,086	7,967	7,650	9,215	8,902	9,148	23,941	13,732
Total operating expenses	<u>43,649</u>	<u>47,253</u>	<u>48,051</u>	<u>55,207</u>	<u>53,160</u>	<u>54,161</u>	<u>80,511</u>	<u>70,698</u>
Loss from operations	<u>(19,461)</u>	<u>(8,875)</u>	<u>(14,149)</u>	<u>(25,554)</u>	<u>(17,267)</u>	<u>(749)</u>	<u>(33,677)</u>	<u>(27,487)</u>
Interest expense	(688)	(702)	(505)	(345)	(318)	(290)	(270)	(243)
Other (expense) income, net	(91)	(226)	(253)	(144)	(82)	160	382	662
Revaluation of warrant liabilities	(437)	(224)	725	(392)	50	—	(385)	—
Loss before income taxes	<u>(20,677)</u>	<u>(10,027)</u>	<u>(14,182)</u>	<u>(26,435)</u>	<u>(17,617)</u>	<u>(879)</u>	<u>(33,950)</u>	<u>(27,068)</u>
Income tax provision	223	157	733	635	174	412	618	1,128
Net loss	<u>\$ (20,900)</u>	<u>\$ (10,184)</u>	<u>\$ (14,915)</u>	<u>\$ (27,070)</u>	<u>\$ (17,791)</u>	<u>\$ (1,291)</u>	<u>\$ (34,568)</u>	<u>\$ (28,196)</u>
Deemed dividend on the conversion of Series G redeemable convertible preferred stock	—	—	—	—	—	—	12,810	—
Net loss attributable to common stockholders	<u>\$ (20,900)</u>	<u>\$ (10,184)</u>	<u>\$ (14,915)</u>	<u>\$ (27,070)</u>	<u>\$ (17,791)</u>	<u>\$ (1,291)</u>	<u>\$ (47,378)</u>	<u>\$ (28,196)</u>
Net loss per share attributable to common stockholders, basic and diluted	\$ (3.69)	\$ (1.77)	\$ (2.56)	\$ (4.57)	\$ (2.95)	\$ (0.21)	\$ (1.73)	\$ (0.74)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>5,657,396</u>	<u>5,749,930</u>	<u>5,818,185</u>	<u>5,923,858</u>	<u>6,031,346</u>	<u>6,139,876</u>	<u>27,348,937</u>	<u>38,312,835</u>

ForeScout Technologies, Inc.

Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except share and per share data)

(Unaudited)

	<u>Q2FY16</u>	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>
Revenue:								
Product	\$ 19,071	\$ 33,566	\$ 29,183	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780
Maintenance and professional services	15,979	18,290	19,968	21,868	23,139	26,136	27,913	29,917
Total revenue	35,050	51,856	49,151	42,176	49,981	69,340	62,907	59,697
Cost of revenue:								
Product	4,245	6,527	7,968	4,071	5,525	7,221	6,921	7,083
Maintenance and professional services	6,322	6,628	6,953	8,106	8,224	8,402	7,748	8,577
Total cost of revenue	10,567	13,155	14,921	12,177	13,749	15,623	14,669	15,660
Total gross profit	24,483	38,701	34,230	29,999	36,232	53,717	48,238	44,037
Operating expenses:								
Research and development	6,823	7,896	8,472	10,147	10,089	10,355	10,631	12,340
Sales and marketing	26,729	29,234	29,648	33,388	31,947	32,426	32,186	36,099
General and administrative	6,763	6,628	6,287	7,800	7,530	7,776	8,562	9,495
Total operating expenses	40,315	43,758	44,407	51,335	49,566	50,557	51,379	57,934
(Loss) income from operations	(15,832)	(5,057)	(10,177)	(21,336)	(13,334)	3,160	(3,141)	(13,897)
Interest expense	(688)	(702)	(505)	(345)	(318)	(290)	(270)	(243)
Other (expense) income, net	(91)	(226)	(253)	(144)	(82)	160	382	662
(Loss) income before income taxes	(16,611)	(5,985)	(10,935)	(21,825)	(13,734)	3,030	(3,029)	(13,478)
Income tax provision	223	157	733	635	174	412	618	1,128
Net (loss) income	\$ (16,834)	\$ (6,142)	\$ (11,668)	\$ (22,460)	\$ (13,908)	\$ 2,618	\$ (3,647)	\$ (14,606)
Net (loss) income per share attributable to common stockholders, basic and diluted	\$ (2.98)	\$ (1.07)	\$ (2.01)	\$ (3.79)	\$ (2.31)	\$ 0.43	\$ (0.13)	\$ (0.38)
Weighted-average shares used to compute net (loss) income per share attributable to common stockholders, basic and diluted	5,657,396	5,749,930	5,818,185	5,923,858	6,031,346	6,139,876	27,348,937	38,312,835

ForeScout Technologies, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

(In thousands, except percentages, share and per share data)

(Unaudited)

	<u>Q2FY16</u>	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>
GAAP product gross profit	\$ 14,820	\$ 27,033	\$ 21,201	\$ 16,216	\$ 21,297	\$ 35,964	\$ 28,030	\$ 22,644
Stock-based compensation	6	6	14	21	20	19	43	53
Non-GAAP product gross profit	<u>\$ 14,826</u>	<u>\$ 27,039</u>	<u>\$ 21,215</u>	<u>\$ 16,237</u>	<u>\$ 21,317</u>	<u>\$ 35,983</u>	<u>\$ 28,073</u>	<u>\$ 22,697</u>
<i>Non-GAAP product gross margin</i>	78 %	81 %	73 %	80 %	79 %	83%	80 %	76 %
GAAP maintenance and professional services gross profit	\$ 9,368	\$ 11,345	\$ 12,701	\$ 13,437	\$ 14,596	\$ 17,448	\$ 18,804	\$ 20,567
Stock-based compensation	289	317	314	325	319	286	1,361	773
Non-GAAP maintenance and professional services gross profit	<u>\$ 9,657</u>	<u>\$ 11,662</u>	<u>\$ 13,015</u>	<u>\$ 13,762</u>	<u>\$ 14,915</u>	<u>\$ 17,734</u>	<u>\$ 20,165</u>	<u>\$ 21,340</u>
<i>Non-GAAP maintenance and professional services gross margin</i>	60 %	64 %	65 %	63 %	64 %	68%	72 %	71 %
GAAP total gross profit	\$ 24,188	\$ 38,378	\$ 33,902	\$ 29,653	\$ 35,893	\$ 53,412	\$ 46,834	\$ 43,211
Stock-based compensation	295	323	328	346	339	305	1,404	826
Non-GAAP total gross profit	<u>\$ 24,483</u>	<u>\$ 38,701</u>	<u>\$ 34,230</u>	<u>\$ 29,999</u>	<u>\$ 36,232</u>	<u>\$ 53,717</u>	<u>\$ 48,238</u>	<u>\$ 44,037</u>
<i>Non-GAAP total gross margin</i>	70 %	75 %	70 %	71 %	72 %	77%	77 %	74 %
GAAP research and development expense	7,365	8,509	9,138	10,947	10,702	10,985	14,801	14,687
Stock-based compensation	542	613	666	800	613	630	4,170	2,347
Non-GAAP research and development expense	<u>\$ 6,823</u>	<u>\$ 7,896</u>	<u>\$ 8,472</u>	<u>\$ 10,147</u>	<u>\$ 10,089</u>	<u>\$ 10,355</u>	<u>\$ 10,631</u>	<u>\$ 12,340</u>
<i>Non-GAAP research and development expense as a percentage of total revenue</i>	19 %	15 %	17 %	24 %	20 %	15%	17 %	21 %
GAAP sales and marketing expense	28,198	30,777	31,263	35,045	33,556	34,028	41,769	42,279
Stock-based compensation	1,469	1,543	1,615	1,657	1,609	1,602	9,583	6,180
Non-GAAP sales and marketing expense	<u>\$ 26,729</u>	<u>\$ 29,234</u>	<u>\$ 29,648</u>	<u>\$ 33,388</u>	<u>\$ 31,947</u>	<u>\$ 32,426</u>	<u>\$ 32,186</u>	<u>\$ 36,099</u>

<i>Non-GAAP sales and marketing expense as a percentage of total revenue</i>	76 %	56 %	60 %	79 %	64 %	47%	51 %	60 %
GAAP general and administrative expense	\$ 8,086	\$ 7,967	\$ 7,650	\$ 9,215	\$ 8,902	\$ 9,148	\$ 23,941	\$ 13,732
Stock-based compensation	1,323	1,339	1,363	1,415	1,372	1,372	15,379	4,237
Non-GAAP general and administrative expense	\$ 6,763	\$ 6,628	\$ 6,287	\$ 7,800	\$ 7,530	\$ 7,776	\$ 8,562	\$ 9,495
<i>Non-GAAP general and administrative expense as a percentage of total revenue</i>	19 %	13 %	13 %	18 %	15 %	11%	14 %	16 %
GAAP total operating expenses	\$ 43,649	\$ 47,253	\$ 48,051	\$ 55,207	\$ 53,160	\$ 54,161	\$ 80,511	\$ 70,698
Stock-based compensation	3,334	3,495	3,644	3,872	3,594	3,604	29,132	12,764
Non-GAAP total operating expenses	\$ 40,315	\$ 43,758	\$ 44,407	\$ 51,335	\$ 49,566	\$ 50,557	\$ 51,379	\$ 57,934
<i>Non-GAAP total operating expenses as a percentage of total revenue</i>	115 %	84 %	90 %	122 %	99 %	73%	82 %	97 %
GAAP operating loss	\$ (19,461)	\$ (8,875)	\$ (14,149)	\$ (25,554)	\$ (17,267)	\$ (749)	\$ (33,677)	\$ (27,487)
Stock-based compensation	3,629	3,818	3,972	4,218	3,933	3,909	30,536	13,590
Non-GAAP operating (loss) income	\$ (15,832)	\$ (5,057)	\$ (10,177)	\$ (21,336)	\$ (13,334)	\$ 3,160	\$ (3,141)	\$ (13,897)
<i>Non-GAAP operating margin</i>	(45)%	(10)%	(21)%	(51)%	(27)%	5%	(5)%	(23)%
GAAP net loss	\$ (20,900)	\$ (10,184)	\$ (14,915)	\$ (27,070)	\$ (17,791)	\$ (1,291)	\$ (34,568)	\$ (28,196)
Stock-based compensation	3,629	3,818	3,972	4,218	3,933	3,909	30,536	13,590
Change in revaluation of warrant liabilities	437	224	(725)	392	(50)	—	385	—
Non-GAAP net (loss) income	\$ (16,834)	\$ (6,142)	\$ (11,668)	\$ (22,460)	\$ (13,908)	\$ 2,618	\$ (3,647)	\$ (14,606)
GAAP net loss per share	\$ (3.69)	\$ (1.77)	\$ (2.56)	\$ (4.57)	\$ (2.95)	\$ (0.21)	\$ (1.73)	\$ (0.74)
Stock-based compensation	0.64	0.66	0.68	0.71	0.65	0.64	1.12	0.36
Change in revaluation of warrant liabilities	0.07	0.04	(0.13)	0.07	(0.01)	—	0.01	—
Deemed dividend on the conversion of Series G redeemable convertible preferred stock	—	—	—	—	—	—	0.47	—
Non-GAAP net (loss) income per share	\$ (2.98)	\$ (1.07)	\$ (2.01)	\$ (3.79)	\$ (2.31)	\$ 0.43	\$ (0.13)	\$ (0.38)

Weighted-average
shares used to
compute net (loss)
income per share

5,657,396

5,749,930

5,818,185

5,923,858

6,031,346

6,139,876

27,348,937

38,312,835

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

	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 87,855	\$ 72,535	\$ 72,344	\$ 63,009	\$ 82,356
Marketable securities	—	—	—	123,384	140,663
Accounts receivable	16,733	25,315	48,980	64,686	54,780
Inventory	395	224	132	3,660	136
Deferred commission - current	7,493	8,086	8,428	10,957	10,928
Prepaid expenses and other current assets	10,863	8,870	9,022	9,213	10,992
Total current assets	<u>123,339</u>	<u>115,030</u>	<u>138,906</u>	<u>274,909</u>	<u>299,855</u>
Deferred commission - non-current	17,408	18,559	19,338	21,795	21,413
Property and equipment, net	24,138	23,993	23,264	23,260	23,918
Severance pay deposits	1,847	1,965	1,987	2,118	2,158
Restricted cash - non-current	4,122	4,143	4,137	4,146	4,144
Other assets	4,758	5,065	5,566	2,490	2,135
Total assets	<u>\$ 175,612</u>	<u>\$ 168,755</u>	<u>\$ 193,198</u>	<u>\$ 328,718</u>	<u>\$ 353,623</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)					
Current liabilities:					
Accounts payable	\$ 1,396	\$ 607	\$ 1,889	\$ 7,348	\$ 1,744
Accrued compensation	15,252	20,554	21,106	25,358	21,814
Accrued expenses	9,973	10,157	11,002	10,023	9,057
Customer deposits	12,242	11,220	6,506	1,008	974
Deferred revenue - current	54,360	56,803	69,573	79,631	102,273
Notes payable - current	7,183	7,203	7,224	7,245	7,266
Total current liabilities	<u>100,406</u>	<u>106,544</u>	<u>117,300</u>	<u>130,613</u>	<u>143,128</u>
Warrant liabilities	5,266	5,216	5,216	—	—
Deferred revenue - non-current	33,431	35,502	48,050	55,228	66,918
Notes payable - non-current	21,020	19,211	17,398	15,579	13,754
Accrued severance pay liability	2,355	2,506	2,524	2,617	2,780
Other liabilities	9,874	9,578	9,340	9,190	9,991
Total liabilities	<u>172,352</u>	<u>178,557</u>	<u>199,828</u>	<u>213,227</u>	<u>236,571</u>
Redeemable convertible preferred stock	<u>283,854</u>	<u>283,854</u>	<u>283,854</u>	<u>—</u>	<u>—</u>
Stockholders' (deficit) equity:					
Common stock	6	6	6	38	39
Additional paid-in capital	89,361	94,090	98,553	551,986	581,988
Accumulated other comprehensive loss	—	—	—	(112)	(358)
Accumulated deficit	(369,961)	(387,752)	(389,043)	(436,421)	(464,617)
Total stockholders' (deficit) equity	<u>(280,594)</u>	<u>(293,656)</u>	<u>(290,484)</u>	<u>115,491</u>	<u>117,052</u>
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	<u>\$ 175,612</u>	<u>\$ 168,755</u>	<u>\$ 193,198</u>	<u>\$ 328,718</u>	<u>\$ 353,623</u>

ForeScout Technologies, Inc.

Condensed Consolidated Statements of Cash Flows - Fiscal Quarters

(In thousands)

(Unaudited)

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Cash flows from operating activities					
Net loss	\$ (27,070)	\$ (17,791)	\$ (1,291)	\$ (34,568)	\$ (28,196)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities					
Stock-based compensation	4,218	3,933	3,909	30,536	13,590
Depreciation	1,381	1,641	1,429	1,617	1,607
Revaluation of warrant liabilities	392	(50)	—	385	—
Other	90	87	82	(385)	(148)
Changes in operating assets and liabilities					
Accounts receivable	27,961	(8,582)	(23,665)	(15,706)	9,906
Inventory	495	171	169	(3,554)	3,524
Deferred commission	382	(1,744)	(1,121)	(4,986)	411
Prepaid expenses and other current assets	(1,791)	2,116	(259)	(207)	(1,779)
Other assets	232	107	(3)	(277)	253
Accounts payable	(4,172)	(612)	1,465	5,053	(5,355)
Accrued compensation	(2,034)	5,302	552	4,252	(3,544)
Accrued expenses	(1,412)	420	425	(322)	(1,255)
Customer deposits	11,524	(1,022)	(4,714)	(5,498)	(34)
Deferred revenue	2,501	4,514	25,318	17,236	34,332
Severance pay, net	179	33	(4)	(38)	123
Other liabilities	(107)	(42)	21	164	1,019
Net cash provided by (used in) operating activities	12,769	(11,519)	2,313	(6,298)	24,454
Cash flows from investing activities					
Purchases of property and equipment	(1,237)	(1,557)	(592)	(1,131)	(2,313)
Purchases of marketable securities	—	—	—	(123,032)	(26,304)
Proceeds from maturities of marketable securities	—	—	—	—	9,000
Net cash used in investing activities	(1,237)	(1,557)	(592)	(124,163)	(19,617)
Cash flows from financing activities					
Repayments of notes payable	(1,874)	(1,876)	(1,874)	(1,876)	(1,875)
Payment of accrued success fees	—	—	—	(350)	—
Proceeds from exercise of stock options	122	542	296	666	3,627
Repurchase of unvested common stock	—	—	—	—	(5)
Payments of deferred offering costs	(1,479)	(889)	(340)	(1,537)	(1,057)
Proceeds from public offerings, net	—	—	—	124,233	13,818
Net cash (used in) provided by financing activities	(3,231)	(2,223)	(1,918)	121,136	14,508
Net change in cash, cash equivalents, and restricted cash for period	8,301	(15,299)	(197)	(9,325)	19,345
Cash, cash equivalents, and restricted cash at beginning of period	83,877	92,178	76,879	76,682	67,357
Cash, cash equivalents, and restricted cash at end of period	\$ 92,178	\$ 76,879	\$ 76,682	\$ 67,357	\$ 86,702