

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.

We define the average deal size as the aggregate sales to end-customers during a calendar quarter divided by the number of end-customers purchasing in that quarter, excluding any end-customer for which the total value of their purchases in that quarter were less than five thousand dollars and excluding support and maintenance renewals, as we determined that the majority of this population was comprised of transactions not fundamental to our end-customer group and go-to-market strategy.

We calculate the net-recurring revenue retention rate on support and maintenance contracts as the annualized value of support and maintenance contracts renewed over the trailing 12 month period plus the trailing 12 month annualized value of support and maintenance contracts not subject to renewal because the scheduled expiration date of the multi-year support and maintenance contract falls outside of the 12 month period under measurement plus the trailing 12 month annualized value of new support and maintenance contracts from end-customers that have been end customers for more than one year, in the aggregate, divided by the aggregate of the trailing 12 month annualized value of support and maintenance contracts not subject to renewal because the scheduled expiration date of the multi-year support and maintenance contract falls outside of the 12 month period under measurement plus the 12 months annualized value of support and maintenance contracts scheduled to terminate or renew during the 12 month period under measurement.

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)

	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>
Revenue:								
Product	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780	\$ 34,323	\$ 51,082	\$ 47,482
Maintenance and professional services	21,868	23,139	26,136	27,913	29,917	33,271	34,546	37,250
Total revenue	<u>42,176</u>	<u>49,981</u>	<u>69,340</u>	<u>62,907</u>	<u>59,697</u>	<u>67,594</u>	<u>85,628</u>	<u>84,732</u>
Cost of revenue:								
Product	4,092	5,545	7,240	6,964	7,136	4,919	8,947	6,852
Maintenance and professional services	8,431	8,543	8,688	9,109	9,350	9,794	10,250	10,634
Total cost of revenue	<u>12,523</u>	<u>14,088</u>	<u>15,928</u>	<u>16,073</u>	<u>16,486</u>	<u>14,713</u>	<u>19,197</u>	<u>17,486</u>
Total gross profit	<u>29,653</u>	<u>35,893</u>	<u>53,412</u>	<u>46,834</u>	<u>43,211</u>	<u>52,881</u>	<u>66,431</u>	<u>67,246</u>
Operating expenses:								
Research and development	10,947	10,702	10,985	14,801	14,687	14,803	15,062	17,161
Sales and marketing	35,045	33,556	34,028	41,769	42,279	45,039	46,098	50,464
General and administrative	9,215	8,902	9,148	23,941	13,732	13,260	13,880	16,849
Total operating expenses	<u>55,207</u>	<u>53,160</u>	<u>54,161</u>	<u>80,511</u>	<u>70,698</u>	<u>73,102</u>	<u>75,040</u>	<u>84,474</u>
Loss from operations	(25,554)	(17,267)	(749)	(33,677)	(27,487)	(20,221)	(8,609)	(17,228)
Interest expense	(345)	(318)	(290)	(270)	(243)	(225)	(208)	(237)
Other (expense) income, net	(144)	(82)	160	382	662	513	865	527
Revaluation of warrant liabilities	(392)	50	—	(385)	—	—	—	—
Loss before income taxes	(26,435)	(17,617)	(879)	(33,950)	(27,068)	(19,933)	(7,952)	(16,938)
Income tax provision	635	174	412	618	1,128	473	334	1,010
Net loss	<u>\$ (27,070)</u>	<u>\$ (17,791)</u>	<u>\$ (1,291)</u>	<u>\$ (34,568)</u>	<u>\$ (28,196)</u>	<u>\$ (20,406)</u>	<u>\$ (8,286)</u>	<u>\$ (17,948)</u>
Deemed dividend on the conversion of Series G redeemable convertible preferred stock	—	—	—	12,810	—	—	—	—
Net loss attributable to common stockholders	<u>\$ (27,070)</u>	<u>\$ (17,791)</u>	<u>\$ (1,291)</u>	<u>\$ (47,378)</u>	<u>\$ (28,196)</u>	<u>\$ (20,406)</u>	<u>\$ (8,286)</u>	<u>\$ (17,948)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (4.57)</u>	<u>\$ (2.95)</u>	<u>\$ (0.21)</u>	<u>\$ (1.73)</u>	<u>\$ (0.74)</u>	<u>\$ (0.50)</u>	<u>\$ (0.20)</u>	<u>\$ (0.42)</u>
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>5,924</u>	<u>6,031</u>	<u>6,140</u>	<u>27,349</u>	<u>38,313</u>	<u>40,457</u>	<u>42,064</u>	<u>43,016</u>

ForeScout Technologies, Inc.

Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except per share data)

(Unaudited)

	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>
Revenue:								
Product	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780	\$ 34,323	\$ 51,082	\$ 47,482
Maintenance and professional services	21,868	23,139	26,136	27,913	29,917	33,271	34,546	37,250
Total revenue	<u>42,176</u>	<u>49,981</u>	<u>69,340</u>	<u>62,907</u>	<u>59,697</u>	<u>67,594</u>	<u>85,628</u>	<u>84,732</u>
Cost of revenue:								
Product	4,071	5,525	7,221	6,921	7,083	4,865	8,880	6,486
Maintenance and professional services	8,106	8,224	8,402	7,748	8,577	9,071	9,535	9,821
Total cost of revenue	<u>12,177</u>	<u>13,749</u>	<u>15,623</u>	<u>14,669</u>	<u>15,660</u>	<u>13,936</u>	<u>18,415</u>	<u>16,307</u>
Total gross profit	<u>29,999</u>	<u>36,232</u>	<u>53,717</u>	<u>48,238</u>	<u>44,037</u>	<u>53,658</u>	<u>67,213</u>	<u>68,425</u>
Operating expenses:								
Research and development	10,147	10,089	10,355	10,631	12,340	12,290	12,449	14,398
Sales and marketing	33,388	31,947	32,426	32,186	36,099	39,189	39,933	43,258
General and administrative	7,800	7,530	7,776	8,562	9,495	9,464	9,941	10,565
Total operating expenses	<u>51,335</u>	<u>49,566</u>	<u>50,557</u>	<u>51,379</u>	<u>57,934</u>	<u>60,943</u>	<u>62,323</u>	<u>68,221</u>
(Loss) income from operations	(21,336)	(13,334)	3,160	(3,141)	(13,897)	(7,285)	4,890	204
Interest expense	(345)	(318)	(290)	(270)	(243)	(225)	(208)	(237)
Other income (expense), net	(144)	(82)	160	382	662	513	865	527
(Loss) income before income taxes	(21,825)	(13,734)	3,030	(3,029)	(13,478)	(6,997)	5,547	494
Income tax provision	635	174	412	618	1,128	473	465	906
Net (loss) income	<u>\$ (22,460)</u>	<u>\$ (13,908)</u>	<u>\$ 2,618</u>	<u>\$ (3,647)</u>	<u>\$ (14,606)</u>	<u>\$ (7,470)</u>	<u>\$ 5,082</u>	<u>\$ (412)</u>
Net (loss) income per share attributable to common stockholders, diluted	<u>\$ (3.79)</u>	<u>\$ (2.31)</u>	<u>\$ 0.08</u>	<u>\$ (0.13)</u>	<u>\$ (0.38)</u>	<u>\$ (0.18)</u>	<u>\$ 0.10</u>	<u>\$ (0.01)</u>
Weighted-average shares used to compute net (loss) income per share attributable to common stockholders, diluted	<u>5,924</u>	<u>6,031</u>	<u>34,735</u>	<u>27,349</u>	<u>38,313</u>	<u>40,457</u>	<u>48,507</u>	<u>43,016</u>

Non-GAAP research and development expense	\$ 10,147	\$ 10,089	\$ 10,355	\$ 10,631	\$ 12,340	\$ 12,290	\$ 12,449	\$ 14,398
<i>Non-GAAP research and development expense as a percentage of total revenue</i>	24 %	20 %	15%	17 %	21 %	18 %	15%	17%
GAAP sales and marketing expense	35,045	33,556	34,028	41,769	42,279	45,039	46,098	50,464
Stock-based compensation	1,657	1,609	1,602	9,583	6,180	5,850	6,165	6,804
Acquisition-related expenses	—	—	—	—	—	—	—	219
Amortization of acquired intangible assets	—	—	—	—	—	—	—	183
Non-GAAP sales and marketing expense	\$ 33,388	\$ 31,947	\$ 32,426	\$ 32,186	\$ 36,099	\$ 39,189	\$ 39,933	\$ 43,258
<i>Non-GAAP sales and marketing expense as a percentage of total revenue</i>	79 %	64 %	47%	51 %	60 %	58 %	47%	51%
GAAP general and administrative expense	\$ 9,215	\$ 8,902	\$ 9,148	\$ 23,941	\$ 13,732	\$ 13,260	\$ 13,880	\$ 16,849
Stock-based compensation	1,415	1,372	1,372	15,379	4,237	3,796	3,458	3,578
Acquisition-related expenses	—	—	—	—	—	—	481	2,706
Non-GAAP general and administrative expense	\$ 7,800	\$ 7,530	\$ 7,776	\$ 8,562	\$ 9,495	\$ 9,464	\$ 9,941	\$ 10,565
<i>Non-GAAP general and administrative expense as a percentage of total revenue</i>	18 %	15 %	11%	14 %	16 %	14 %	12%	12%
GAAP total operating expenses	\$ 55,207	\$ 53,160	\$ 54,161	\$ 80,511	\$ 70,698	\$ 73,102	\$ 75,040	\$ 84,474
Stock-based compensation	3,872	3,594	3,604	29,132	12,764	12,159	12,236	13,070
Acquisition-related expenses	—	—	—	—	—	—	481	3,000
Amortization of acquired intangible assets	—	—	—	—	—	—	—	183
Non-GAAP total operating expenses	\$ 51,335	\$ 49,566	\$ 50,557	\$ 51,379	\$ 57,934	\$ 60,943	\$ 62,323	\$ 68,221
<i>Non-GAAP total operating expenses as a percentage of total revenue</i>	122 %	99 %	73%	82 %	97 %	90 %	73%	81%
GAAP operating loss	\$ (25,554)	\$ (17,267)	\$ (749)	\$ (33,677)	\$ (27,487)	\$ (20,221)	\$ (8,609)	\$ (17,228)
Stock-based compensation	4,218	3,933	3,909	30,536	13,590	12,936	13,018	13,953

Acquisition-related expenses	—	—	—	—	—	—	481	3,016
Amortization of acquired intangible assets	—	—	—	—	—	—	—	463
Non-GAAP operating (loss) income	<u>\$ (21,336)</u>	<u>\$ (13,334)</u>	<u>\$ 3,160</u>	<u>\$ (3,141)</u>	<u>\$ (13,897)</u>	<u>\$ (7,285)</u>	<u>\$ 4,890</u>	<u>\$ 204</u>
<i>Non-GAAP operating margin</i>	<i>(51)%</i>	<i>(27)%</i>	<i>5%</i>	<i>(5)%</i>	<i>(23)%</i>	<i>(11)%</i>	<i>6%</i>	<i>—%</i>
GAAP net loss	\$ (27,070)	\$ (17,791)	\$ (1,291)	\$ (34,568)	\$ (28,196)	\$ (20,406)	\$ (8,286)	\$ (17,948)
Stock-based compensation	4,218	3,933	3,909	30,536	13,590	12,936	13,018	13,953
Acquisition-related expenses	—	—	—	—	—	—	481	3,016
Amortization of acquired intangible assets	—	—	—	—	—	—	—	463
Change in fair value of warrant liabilities	392	(50)	—	385	—	—	—	—
Tax effect of non-GAAP adjustments	—	—	—	—	—	—	(131)	104
Non-GAAP net loss	<u>\$ (22,460)</u>	<u>\$ (13,908)</u>	<u>\$ 2,618</u>	<u>\$ (3,647)</u>	<u>\$ (14,606)</u>	<u>\$ (7,470)</u>	<u>\$ 5,082</u>	<u>\$ (412)</u>
Non-GAAP net (loss) income per share, diluted	\$ (3.79)	\$ (2.31)	\$ 0.08	\$ (0.13)	\$ (0.38)	\$ (0.18)	\$ 0.10	\$ (0.01)
GAAP weighted average shares used to compute net (loss) income per share, diluted	5,924	6,031	6,140	27,349	38,313	40,457	42,064	43,016
Weighted-average effect of potentially dilutive securities	—	—	28,595	—	—	—	6,442	—
Non-GAAP weighted average shares used to compute net (loss) income per share, diluted	<u>5,924</u>	<u>6,031</u>	<u>34,735</u>	<u>27,349</u>	<u>38,313</u>	<u>40,457</u>	<u>48,507</u>	<u>43,016</u>

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

	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 63,009	\$ 82,356	\$ 99,560	\$ 129,035	\$ 66,895
Short-term investments	123,384	140,663	120,322	81,289	47,632
Accounts receivable	64,686	54,780	34,106	67,967	79,255
Inventory	3,660	136	1,783	322	1,501
Deferred commissions - current	10,957	10,928	11,072	10,667	12,543
Prepaid expenses and other current assets	9,213	10,992	11,570	11,786	13,353
Total current assets	<u>274,909</u>	<u>299,855</u>	<u>278,413</u>	<u>301,066</u>	<u>221,179</u>
Deferred commissions - non-current	21,795	21,413	21,174	20,942	22,831
Property and equipment, net	23,260	23,918	24,592	24,376	24,349
Restricted cash	4,146	4,144	1,686	1,189	1,266
Intangible assets	—	—	—	—	19,002
Goodwill	—	—	—	—	92,482
Other assets	4,608	4,293	4,318	4,358	7,369
Total assets	<u>\$ 328,718</u>	<u>\$ 353,623</u>	<u>\$ 330,183</u>	<u>\$ 351,931</u>	<u>\$ 388,478</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity					
Current liabilities:					
Accounts payable	\$ 7,348	\$ 1,744	\$ 1,070	\$ 902	\$ 12,118
Accrued compensation	25,358	21,814	25,501	23,819	32,649
Accrued expenses	11,031	10,031	10,182	11,741	14,558
Deferred revenue - current	79,631	102,273	83,986	95,448	101,900
Notes payable - current	7,245	7,266	7,287	7,309	7,331
Total current liabilities	<u>130,613</u>	<u>143,128</u>	<u>128,026</u>	<u>139,219</u>	<u>168,556</u>
Deferred revenue - non-current	55,228	66,918	63,154	66,633	69,618
Notes payable - non-current	15,579	13,754	11,924	10,089	8,248
Other liabilities	11,807	12,771	12,603	10,747	14,335
Total liabilities	<u>213,227</u>	<u>236,571</u>	<u>215,707</u>	<u>226,688</u>	<u>260,757</u>
Stockholders' equity:					
Common stock	38	39	42	43	43
Additional paid-in capital	551,986	581,988	599,740	618,656	639,237
Accumulated other comprehensive loss	(112)	(358)	(282)	(147)	(302)
Accumulated deficit	(436,421)	(464,617)	(485,024)	(493,309)	(511,257)
Total stockholders' equity	<u>115,491</u>	<u>117,052</u>	<u>114,476</u>	<u>125,243</u>	<u>127,721</u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity	<u>\$ 328,718</u>	<u>\$ 353,623</u>	<u>\$ 330,183</u>	<u>\$ 351,931</u>	<u>\$ 388,478</u>

ForeScout Technologies, Inc.

Condensed Consolidated Statements of Cash Flows - Fiscal Quarters

(In thousands)

(Unaudited)

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Cash flows from operating activities					
Net loss	\$ (34,568)	\$ (28,196)	\$ (20,406)	\$ (8,286)	\$ (17,948)
Adjustments to reconcile net loss to net cash used in operating activities					
Stock-based compensation	30,536	13,590	12,936	13,018	13,953
Depreciation	1,617	1,607	1,922	1,961	2,513
Revaluation of warrant liabilities	385	—	—	—	—
Other	(385)	125	(97)	85	348
Changes in operating assets and liabilities					
Accounts receivable	(15,706)	9,768	20,674	(33,856)	(7,485)
Inventory	(3,554)	3,534	(1,647)	1,461	(1,180)
Deferred commissions	(4,986)	411	95	637	(3,764)
Prepaid expenses and other current assets	(207)	(1,779)	(429)	284	(1,160)
Other assets	(277)	108	(149)	(113)	(3,389)
Accounts payable	5,053	(5,355)	(651)	(104)	10,742
Accrued compensation	4,252	(3,544)	3,687	(1,682)	8,596
Accrued expenses	(5,820)	(1,289)	604	1,712	1,640
Deferred revenue	17,236	34,332	(22,051)	14,941	3,144
Other liabilities	126	1,142	94	(1,702)	87
Net cash (used in) provided by operating activities	(6,298)	24,454	(5,418)	(11,644)	6,097
Cash flows from investing activities					
Purchases of property and equipment	(1,131)	(2,313)	(2,519)	(1,934)	(862)
Purchases of marketable securities	(123,032)	(26,304)	(19,817)	(8,409)	—
Proceeds from maturities of marketable securities	—	9,000	40,400	47,650	33,583
Business acquisition, net of cash acquired	—	—	—	—	(105,425)
Net cash (used in) provided by investing activities	(124,163)	(19,617)	18,064	37,307	(72,704)
Cash flows from financing activities					
Repayments of notes payable	(1,876)	(1,875)	(1,875)	(1,875)	(1,875)
Payment of accrued success fees	(350)	—	—	—	—
Proceeds from sales of shares through employee equity incentive plans	666	3,622	14,201	6,825	7,142
Payments related to shares withheld for taxes on vesting of restricted stock units	—	—	(9,592)	(1,135)	(716)
Payments of deferred offering costs	(1,537)	(1,057)	(485)	—	—
Proceeds from public offerings, net of underwriting discounts and commissions	124,233	13,818	—	—	—
Net cash provided by financing activities	121,136	14,508	2,249	3,815	4,551
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	(7)
Net change in cash, cash equivalents, and restricted cash for period	(9,325)	19,345	14,895	29,478	(62,063)
Cash, cash equivalents, and restricted cash at beginning of period	76,682	67,357	86,702	101,597	131,075
Cash, cash equivalents, and restricted cash at end of period	\$ 67,357	\$ 86,702	\$ 101,597	\$ 131,075	\$ 69,012

ForeScout Technologies, Inc.**Free Cash Flow Reconciliations - Fiscal Quarters****(In thousands)****(Unaudited)**

	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>
Free cash flow (non-GAAP):					
Net cash (used in) provided by operating activities	\$ (6,298)	\$ 24,454	\$ (5,418)	\$ (11,644)	\$ 6,097
Less: purchases of property and equipment	(1,131)	(2,313)	(2,519)	(1,934)	(862)
Free cash flow (non-GAAP)	<u>\$ (7,429)</u>	<u>\$ 22,141</u>	<u>\$ (7,937)</u>	<u>\$ (13,578)</u>	<u>\$ 5,235</u>
Net cash (used in) provided by investing activities	<u>\$ (124,163)</u>	<u>\$ (19,617)</u>	<u>\$ 18,064</u>	<u>\$ 37,307</u>	<u>\$ (72,704)</u>
Net cash provided by financing activities	<u>\$ 121,136</u>	<u>\$ 14,508</u>	<u>\$ 2,249</u>	<u>\$ 3,815</u>	<u>\$ 4,551</u>

ForeScout Technologies, Inc.**Annual Metrics****(Unaudited)**

	FY17	FY18
Deal Metrics		
Number of annual end-customer deals >\$1M	48	49
Average annual deal size	\$217,000	\$202,000
Sales Force Tenure		
Percentage of sales representatives on board > 2 years	35%	50%
Percentage of sales representatives on board < 2 years	65%	50%
Other Metrics		
Percentage penetration into the Global 2000	18%	21%
Net recurring revenue retention rate on support and maintenance contracts	126%	117%