

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)

	<u>Q4FY15</u>	<u>Q1FY16</u>	<u>Q2FY16</u>	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>
Revenue:								
Product	\$ 29,314	\$ 18,305	\$ 19,757	\$ 30,799	\$ 29,794	\$ 22,105	\$ 22,592	\$ 39,192
Maintenance and professional services	21,046	15,209	15,400	17,941	19,636	22,248	23,614	25,164
Total revenue	<u>50,360</u>	<u>33,514</u>	<u>35,157</u>	<u>48,740</u>	<u>49,430</u>	<u>44,353</u>	<u>46,206</u>	<u>64,356</u>
Cost of revenue:								
Product	7,227	3,076	4,115	6,563	7,924	4,411	5,505	7,201
Maintenance and professional services	5,050	5,748	6,611	6,945	7,267	8,431	8,543	8,688
Total cost of revenue	<u>12,277</u>	<u>8,824</u>	<u>10,726</u>	<u>13,508</u>	<u>15,191</u>	<u>12,842</u>	<u>14,048</u>	<u>15,889</u>
Total gross profit	<u>38,083</u>	<u>24,690</u>	<u>24,431</u>	<u>35,232</u>	<u>34,239</u>	<u>31,511</u>	<u>32,158</u>	<u>48,467</u>
Operating expenses:								
Research and development	5,092	6,478	7,365	8,509	9,138	10,947	10,702	10,985
Sales and marketing	24,504	29,377	29,180	35,759	33,499	34,454	35,104	34,957
General and administrative	6,503	7,028	8,086	7,967	7,650	9,215	8,902	9,148
Total operating expenses	<u>36,099</u>	<u>42,883</u>	<u>44,631</u>	<u>52,235</u>	<u>50,287</u>	<u>54,616</u>	<u>54,708</u>	<u>55,090</u>
Income (loss) from operations	1,984	(18,193)	(20,200)	(17,003)	(16,048)	(23,105)	(22,550)	(6,623)
Interest expense	(694)	(682)	(688)	(702)	(505)	(345)	(318)	(290)
Other income (expense), net	(261)	(37)	(91)	(226)	(253)	(144)	(82)	160
Change in fair value of warrant liabilities	(696)	1,040	(437)	(224)	725	(392)	50	—
Gain on warrant exercise	2,618	—	—	—	—	—	—	—
Income (loss) before income taxes	2,951	(17,872)	(21,416)	(18,155)	(16,081)	(23,986)	(22,900)	(6,753)
Income tax provision	46	137	223	157	733	635	174	412
Net income (loss) and comprehensive income (loss)	<u>\$ 2,905</u>	<u>\$ (18,009)</u>	<u>\$ (21,639)</u>	<u>\$ (18,312)</u>	<u>\$ (16,814)</u>	<u>\$ (24,621)</u>	<u>\$ (23,074)</u>	<u>\$ (7,165)</u>
Net income (loss) per share attributable to common stockholders, basic and diluted	<u>\$ 0.58</u>	<u>\$ (3.46)</u>	<u>\$ (3.82)</u>	<u>\$ (3.18)</u>	<u>\$ (2.89)</u>	<u>\$ (4.16)</u>	<u>\$ (3.83)</u>	<u>\$ (1.17)</u>
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, basic and diluted	<u>4,997,194</u>	<u>5,207,391</u>	<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>

ForeScout Technologies, Inc.

Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except share and per share data)

	<u>Q4FY15</u>	<u>Q1FY16</u>	<u>Q2FY16</u>	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>
Revenue:.....								
Product	\$ 29,314	\$ 18,305	\$ 19,757	\$ 30,799	\$ 29,794	\$ 22,105	\$ 22,592	\$ 39,192
Maintenance and professional services.....	21,046	15,209	15,400	17,941	19,636	22,248	23,614	25,164
Total revenue.....	<u>50,360</u>	<u>33,514</u>	<u>35,157</u>	<u>48,740</u>	<u>49,430</u>	<u>44,353</u>	<u>46,206</u>	<u>64,356</u>
Cost of revenue:.....								
Product	7,222	3,072	4,109	6,557	7,910	4,390	5,485	7,182
Maintenance and professional services.....	4,873	5,545	6,322	6,628	6,953	8,106	8,224	8,402
Total cost of revenue.....	<u>12,095</u>	<u>8,617</u>	<u>10,431</u>	<u>13,185</u>	<u>14,863</u>	<u>12,496</u>	<u>13,709</u>	<u>15,584</u>
Total gross profit.....	<u>38,265</u>	<u>24,897</u>	<u>24,726</u>	<u>35,555</u>	<u>34,567</u>	<u>31,857</u>	<u>32,497</u>	<u>48,772</u>
Operating expenses:.....								
Research and development.....	4,654	5,988	6,823	7,896	8,472	10,147	10,089	10,355
Sales and marketing	23,453	25,920	27,711	34,216	31,884	32,797	33,495	33,355
General and administrative	5,248	5,767	6,763	6,628	6,287	7,800	7,530	7,776
Total operating expenses.....	<u>33,355</u>	<u>37,675</u>	<u>41,297</u>	<u>48,740</u>	<u>46,643</u>	<u>50,744</u>	<u>51,114</u>	<u>51,486</u>
Income (loss) from operations.....	4,910	(12,778)	(16,571)	(13,185)	(12,076)	(18,887)	(18,617)	(2,714)
Interest expense	(694)	(682)	(688)	(702)	(505)	(345)	(318)	(290)
Other expense, net	(261)	(37)	(91)	(226)	(253)	(144)	(82)	160
Income (loss) before income taxes	3,955	(13,497)	(17,350)	(14,113)	(12,834)	(19,376)	(19,017)	(2,844)
Income tax provision	46	137	223	157	733	635	174	412
Net income (loss).....	<u>\$ 3,909</u>	<u>\$ (13,634)</u>	<u>\$ (17,573)</u>	<u>\$ (14,270)</u>	<u>\$ (13,567)</u>	<u>\$ (20,011)</u>	<u>\$ (19,191)</u>	<u>\$ (3,256)</u>
Net income (loss) per share attributable to common stockholders, basic and diluted.....	<u>\$ 0.79</u>	<u>\$ (2.62)</u>	<u>\$ (3.11)</u>	<u>\$ (2.48)</u>	<u>\$ (2.33)</u>	<u>\$ (3.38)</u>	<u>\$ (3.19)</u>	<u>\$ (0.53)</u>
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, basic and diluted.....	<u>4,997,194</u>	<u>5,207,391</u>	<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>

ForeScout Technologies, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

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

	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
GAAP product gross profit	\$ 22,087	\$ 15,229	\$ 15,642	\$ 24,236	\$ 21,870	\$ 17,694	\$ 17,087	\$ 31,991
Stock-based compensation	5	4	6	6	14	21	20	19
Non-GAAP product gross profit	\$ 22,092	\$ 15,233	\$ 15,648	\$ 24,242	\$ 21,884	\$ 17,715	\$ 17,107	\$ 32,010
<i>Non-GAAP product gross margin</i>	75.4%	83.2 %	79.2 %	78.7 %	73.5 %	80.1 %	75.7 %	81.7 %
GAAP maintenance and professional services gross profit.....	\$ 15,996	\$ 9,461	\$ 8,789	\$ 10,996	\$ 12,369	\$ 13,817	\$ 15,071	\$ 16,476
Stock-based compensation	177	203	289	317	314	325	319	286
Non-GAAP maintenance and professional services gross profit.....	\$ 16,173	\$ 9,664	\$ 9,078	\$ 11,313	\$ 12,683	\$ 14,142	\$ 15,390	\$ 16,762
<i>Non-GAAP maintenance and professional services gross margin</i>	76.8%	63.5 %	58.9 %	63.1 %	64.6 %	63.6 %	65.2 %	66.6 %
GAAP total gross profit.....	\$ 38,083	\$ 24,690	\$ 24,431	\$ 35,232	\$ 34,239	\$ 31,511	\$ 32,158	\$ 48,467
Stock-based compensation	182	207	295	323	328	346	339	305
Non-GAAP total gross profit	\$ 38,265	\$ 24,897	\$ 24,726	\$ 35,555	\$ 34,567	\$ 31,857	\$ 32,497	\$ 48,772
<i>Non-GAAP total gross margin</i>	76.0%	74.3 %	70.3 %	72.9 %	69.9 %	71.8 %	70.3 %	75.8 %
GAAP research and development expense.....	5,092	6,478	7,365	8,509	9,138	10,947	10,702	10,985
Stock-based compensation	438	490	542	613	666	800	613	630
Non-GAAP research and development expense.....	\$ 4,654	\$ 5,988	\$ 6,823	\$ 7,896	\$ 8,472	\$ 10,147	\$ 10,089	\$ 10,355
<i>Non-GAAP research and development expense as a percentage of total revenue</i>	9.2%	17.9 %	19.4 %	16.2 %	17.1 %	22.9 %	21.8 %	16.1 %
GAAP sales and marketing expense .	24,504	29,377	29,180	35,759	33,499	34,454	35,104	34,957
Stock-based compensation	1,051	3,457	1,469	1,543	1,615	1,657	1,609	1,602
Non-GAAP sales and marketing expense.....	\$ 23,453	\$ 25,920	\$ 27,711	\$ 34,216	\$ 31,884	\$ 32,797	\$ 33,495	\$ 33,355
<i>Non-GAAP sales and marketing expense as a percentage of total revenue</i>	46.6%	77.3 %	78.8 %	70.2 %	64.5 %	73.9 %	72.5 %	51.8 %

GAAP general and administrative expense.....	\$ 6,503	\$ 7,028	\$ 8,086	\$ 7,967	\$ 7,650	\$ 9,215	\$ 8,902	\$ 9,148
Stock-based compensation	1,255	1,261	1,323	1,339	1,363	1,415	1,372	1,372
Non-GAAP general and administrative expense.....	\$ 5,248	\$ 5,767	\$ 6,763	\$ 6,628	\$ 6,287	\$ 7,800	\$ 7,530	\$ 7,776
<i>Non-GAAP general and administrative expense as a percentage of total revenue</i>	<i>10.4%</i>	<i>17.2 %</i>	<i>19.2 %</i>	<i>13.6 %</i>	<i>12.7 %</i>	<i>17.6 %</i>	<i>16.3 %</i>	<i>12.1 %</i>
GAAP total operating expenses..	\$ 36,099	\$ 42,883	\$ 44,631	\$ 52,235	\$ 50,287	\$ 54,616	\$ 54,708	\$ 55,090
Stock-based compensation	2,744	5,208	3,334	3,495	3,644	3,872	3,594	3,604
Non-GAAP total operating expenses..	\$ 33,355	\$ 37,675	\$ 41,297	\$ 48,740	\$ 46,643	\$ 50,744	\$ 51,114	\$ 51,486
<i>Non-GAAP total operating expenses as a percentage of total revenue.....</i>	<i>66.2%</i>	<i>112.4 %</i>	<i>117.5 %</i>	<i>100.0 %</i>	<i>94.4 %</i>	<i>114.4 %</i>	<i>110.6 %</i>	<i>80.0 %</i>
GAAP operating income (loss).....	\$ 1,984	\$ (18,193)	\$ (20,200)	\$ (17,003)	\$ (16,048)	\$ (23,105)	\$ (22,550)	\$ (6,623)
Stock-based compensation	2,926	5,415	3,629	3,818	3,972	4,218	3,933	3,909
Non-GAAP operating income (loss).....	\$ 4,910	\$ (12,778)	\$ (16,571)	\$ (13,185)	\$ (12,076)	\$ (18,887)	\$ (18,617)	\$ (2,714)
<i>Non-GAAP operating margin....</i>	<i>9.7%</i>	<i>(38.1)%</i>	<i>(47.1)%</i>	<i>(27.1)%</i>	<i>(24.4)%</i>	<i>(42.6)%</i>	<i>(40.3)%</i>	<i>(4.2)%</i>
GAAP net income (loss).....	\$ 2,905	\$ (18,009)	\$ (21,639)	\$ (18,312)	\$ (16,814)	\$ (24,621)	\$ (23,074)	\$ (7,165)
Stock-based compensation	2,926	5,415	3,629	3,818	3,972	4,218	3,933	3,909
Change in fair value of warrant liabilities.....	696	(1,040)	437	224	(725)	392	(50)	—
Gain on warrant exercise	(2,618)	—	—	—	—	—	—	—
Non-GAAP net income (loss).....	\$ 3,909	\$ (13,634)	\$ (17,573)	\$ (14,270)	\$ (13,567)	\$ (20,011)	\$ (19,191)	\$ (3,256)
GAAP net income (loss) per share	\$ 0.58	\$ (3.46)	\$ (3.82)	\$ (3.18)	\$ (2.89)	\$ (4.16)	\$ (3.83)	\$ (1.17)
Stock-based compensation	0.59	1.04	0.64	0.66	0.68	0.71	0.65	0.64
Change in fair value of warrant liabilities.....	0.14	(0.20)	0.07	0.04	(0.12)	0.07	(0.01)	—
Gain on warrant exercise	(0.52)	—	—	—	—	—	—	—
Non-GAAP net income (loss) per share	\$ 0.79	\$ (2.62)	\$ (3.11)	\$ (2.48)	\$ (2.33)	\$ (3.38)	\$ (3.19)	\$ (0.53)
Weighted-average shares used to compute net income (loss) per share	4,997,194	5,207,391	5,657,396	5,749,930	5,818,185	5,923,858	6,031,346	6,139,876

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

	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>
Assets					
Current assets:.....					
Cash and cash equivalents.....	\$ 79,595	\$ 79,665	\$ 87,855	\$ 72,535	\$ 72,344
Accounts receivable.....	31,787	44,694	16,733	25,315	49,080
Inventory.....	315	890	395	224	132
Prepaid expenses and other current assets.....	8,072	8,592	10,111	8,196	8,431
Total current assets.....	<u>119,769</u>	<u>133,841</u>	<u>115,094</u>	<u>106,270</u>	<u>129,987</u>
Property and equipment, net.....	24,202	24,536	24,138	23,993	23,264
Severance pay deposits.....	1,690	1,704	1,847	1,965	1,987
Restricted cash.....	4,021	4,011	4,122	4,143	4,137
Other assets.....	1,940	3,334	3,838	4,303	4,951
Total assets.....	<u>\$ 151,622</u>	<u>\$ 167,426</u>	<u>\$ 149,039</u>	<u>\$ 140,674</u>	<u>\$ 164,326</u>
Liabilities, redeemable convertible preferred stock and stockholders' deficit					
Current liabilities:.....					
Accounts payable.....	\$ 3,645	\$ 5,210	\$ 1,396	\$ 607	\$ 1,889
Accrued compensation.....	17,877	17,286	15,252	20,554	21,106
Accrued expenses.....	10,005	12,903	9,973	10,157	11,002
Customer deposits.....	1,109	718	12,242	11,220	6,506
Deferred revenue.....	58,821	68,844	69,494	76,971	91,216
Notes payable.....	20,000	7,163	7,183	7,203	7,224
Total current liabilities.....	<u>111,457</u>	<u>112,124</u>	<u>115,540</u>	<u>126,712</u>	<u>138,943</u>
Warrant liabilities.....	5,599	4,874	5,266	5,216	5,216
Deferred revenue - non-current.....	34,723	40,070	39,745	40,556	56,712
Notes payable - non-current.....	—	22,824	21,020	19,211	17,398
Accrued severance pay liability.....	2,006	2,033	2,355	2,506	2,524
Other liabilities.....	10,164	10,244	9,874	9,578	9,340
Total liabilities.....	<u>163,949</u>	<u>192,169</u>	<u>193,800</u>	<u>203,779</u>	<u>230,133</u>
Commitments and contingencies.....					
Redeemable convertible preferred stock.....	283,854	283,854	283,854	283,854	283,854
Stockholders' deficit:.....					
Common stock.....	6	6	6	6	6
Additional paid-in capital.....	80,394	84,792	89,361	94,091	98,555
Accumulated deficit.....	(376,581)	(393,395)	(417,982)	(441,056)	(448,222)
Total stockholders' deficit.....	<u>(296,181)</u>	<u>(308,597)</u>	<u>(328,615)</u>	<u>(346,959)</u>	<u>(349,661)</u>
Total liabilities, redeemable convertible preferred stock and stockholders' deficit.....	<u>\$ 151,622</u>	<u>\$ 167,426</u>	<u>\$ 149,039</u>	<u>\$ 140,674</u>	<u>\$ 164,326</u>

ForeScout Technologies, Inc.

Condensed Consolidated Statements of Cash Flows - Fiscal Quarters

(In thousands)

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Cash flows from operating activities					
Net income (loss)	\$ (18,312)	\$ (16,814)	\$ (24,621)	\$ (23,074)	\$ (7,165)
Adjustments to reconcile net loss to net cash used in operating activities					
Stock-based compensation	3,818	3,972	4,218	3,933	3,909
Depreciation	1,121	1,287	1,360	1,417	1,487
Loss on disposal of property and equipment	10	25	21	224	(58)
Amortization of discount on debt	195	140	90	87	82
Change in fair value of warrant liabilities	224	(725)	392	(50)	—
Allowance for doubtful accounts	—	—	—	—	—
Gain on warrant exercise	—	—	—	—	—
Issuance of redeemable convertible preferred stock warrants	—	—	—	—	—
Changes in operating assets and liabilities					
Accounts receivable	(7,718)	(12,907)	27,961	(8,582)	(23,765)
Inventory	732	(575)	495	171	169
Prepaid expenses and other current assets	(788)	(516)	(1,519)	2,038	(342)
Other assets	(693)	(44)	69	(50)	(150)
Accounts payable	(622)	2,226	(4,172)	(612)	1,465
Accrued compensation	4,506	(591)	(2,034)	5,302	552
Accrued expenses	416	1,290	(1,412)	420	425
Customer deposits	(12,747)	(391)	11,524	(1,022)	(4,714)
Deferred revenue	7,524	15,370	325	8,288	30,401
Severance pay, net	9	13	179	33	(4)
Other liabilities	1,914	344	(107)	(42)	21
Net cash provided by (used in) operating activities	(20,411)	(7,896)	12,769	(11,519)	2,313
Cash flows from investing activities					
Purchases of property and equipment	(5,855)	(2,047)	(1,237)	(1,557)	(592)
Proceeds from maturities of short-term investments	2,000	—	—	—	—
Change in restricted cash	(11)	10	(111)	(21)	6
Net cash used in investing activities	(3,866)	(2,037)	(1,348)	(1,578)	(586)
Cash flows from financing activities					
Net borrowings of notes payable	—	29,977	—	—	—
Repayments of notes payable	—	(20,130)	(1,874)	(1,876)	(1,874)
Net proceeds from issuance of redeemable convertible preferred stock	—	—	—	—	—
Proceeds from exercise of stock options	94	164	122	542	296
Payments of deferred offering costs	—	(8)	(1,479)	(889)	(340)
Net cash provided by (used in) financing activities	94	10,003	(3,231)	(2,223)	(1,918)
Net change in cash and cash equivalents for period	(24,183)	70	8,190	(15,320)	(191)
Cash and cash equivalents at beginning of period	103,778	79,595	79,665	87,855	72,535
Cash and cash equivalents at end of period	\$ 79,595	\$ 79,665	\$ 87,855	\$ 72,535	\$ 72,344