

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>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>
Revenue:								
Product	\$ 29,183	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780	\$ 34,323	\$ 51,082
Maintenance and professional services	19,968	21,868	23,139	26,136	27,913	29,917	33,271	34,546
Total revenue	<u>49,151</u>	<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>
Cost of revenue:								
Product	7,982	4,092	5,545	7,240	6,964	7,136	4,919	8,947
Maintenance and professional services	7,267	8,431	8,543	8,688	9,109	9,350	9,794	10,250
Total cost of revenue	<u>15,249</u>	<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>
Total gross profit	<u>33,902</u>	<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>
Operating expenses:								
Research and development	9,138	10,947	10,702	10,985	14,801	14,687	14,803	15,062
Sales and marketing	31,263	35,045	33,556	34,028	41,769	42,279	45,039	46,098
General and administrative	7,650	9,215	8,902	9,148	23,941	13,732	13,260	13,880
Total operating expenses	<u>48,051</u>	<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>
Loss from operations	<u>(14,149)</u>	<u>(25,554)</u>	<u>(17,267)</u>	<u>(749)</u>	<u>(33,677)</u>	<u>(27,487)</u>	<u>(20,221)</u>	<u>(8,609)</u>
Interest expense	(505)	(345)	(318)	(290)	(270)	(243)	(225)	(208)
Other (expense) income, net	(253)	(144)	(82)	160	382	662	513	865
Revaluation of warrant liabilities	725	(392)	50	—	(385)	—	—	—
Loss before income taxes	<u>(14,182)</u>	<u>(26,435)</u>	<u>(17,617)</u>	<u>(879)</u>	<u>(33,950)</u>	<u>(27,068)</u>	<u>(19,933)</u>	<u>(7,952)</u>
Income tax provision	733	635	174	412	618	1,128	473	334
Net loss	<u>\$ (14,915)</u>	<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>
Deemed dividend on the conversion of Series G redeemable convertible preferred stock	—	—	—	—	12,810	—	—	—
Net loss attributable to common stockholders	<u>\$ (14,915)</u>	<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>
Net loss per share attributable to common stockholders, basic and diluted	\$ (2.56)	\$ (4.57)	\$ (2.95)	\$ (0.21)	\$ (1.73)	\$ (0.74)	\$ (0.50)	\$ (0.20)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<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>	<u>40,456,993</u>	<u>42,064,356</u>

ForeScout Technologies, Inc.

Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except share and per share data)

(Unaudited)

	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>
Revenue:								
Product	\$ 29,183	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780	\$ 34,323	\$ 51,082
Maintenance and professional services	19,968	21,868	23,139	26,136	27,913	29,917	33,271	34,546
Total revenue	<u>49,151</u>	<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>
Cost of revenue:								
Product	7,968	4,071	5,525	7,221	6,921	7,083	4,865	8,880
Maintenance and professional services	6,953	8,106	8,224	8,402	7,748	8,577	9,071	9,535
Total cost of revenue	<u>14,921</u>	<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>
Total gross profit	<u>34,230</u>	<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>
Operating expenses:								
Research and development	8,472	10,147	10,089	10,355	10,631	12,340	12,290	12,449
Sales and marketing	29,648	33,388	31,947	32,426	32,186	36,099	39,189	39,933
General and administrative	6,287	7,800	7,530	7,776	8,562	9,495	9,464	9,941
Total operating expenses	<u>44,407</u>	<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>
(Loss) income from operations	<u>(10,177)</u>	<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>
Interest expense	(505)	(345)	(318)	(290)	(270)	(243)	(225)	(208)
Other (expense) income, net	(253)	(144)	(82)	160	382	662	513	865
(Loss) income before income taxes	<u>(10,935)</u>	<u>(21,825)</u>	<u>(13,734)</u>	<u>3,030</u>	<u>(3,029)</u>	<u>(13,478)</u>	<u>(6,997)</u>	<u>5,547</u>
Income tax provision	733	635	174	412	618	1,128	473	465
Net (loss) income	<u>\$ (11,668)</u>	<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>
Net (loss) income per share attributable to common stockholders, diluted	<u>\$ (2.01)</u>	<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>
Weighted-average shares used to compute net (loss) income per share attributable to common stockholders, diluted	<u>5,818,185</u>	<u>5,923,858</u>	<u>6,031,346</u>	<u>34,734,844</u>	<u>27,348,937</u>	<u>38,312,835</u>	<u>40,456,993</u>	<u>48,506,692</u>

ForeScout Technologies, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

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

(Unaudited)

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
GAAP product gross profit	\$ 21,201	\$ 16,216	\$ 21,297	\$ 35,964	\$ 28,030	\$ 22,644	\$ 29,404	\$ 42,135
Stock-based compensation	14	21	20	19	43	53	54	67
Non-GAAP product gross profit	<u>\$ 21,215</u>	<u>\$ 16,237</u>	<u>\$ 21,317</u>	<u>\$ 35,983</u>	<u>\$ 28,073</u>	<u>\$ 22,697</u>	<u>\$ 29,458</u>	<u>\$ 42,202</u>
<i>Non-GAAP product gross margin</i>	73 %	80 %	79 %	83%	80 %	76 %	86 %	83%
GAAP maintenance and professional services gross profit	\$ 12,701	\$ 13,437	\$ 14,596	\$ 17,448	\$ 18,804	\$ 20,567	\$ 23,477	\$ 24,296
Stock-based compensation	314	325	319	286	1,361	773	723	715
Non-GAAP maintenance and professional services gross profit	<u>\$ 13,015</u>	<u>\$ 13,762</u>	<u>\$ 14,915</u>	<u>\$ 17,734</u>	<u>\$ 20,165</u>	<u>\$ 21,340</u>	<u>\$ 24,200</u>	<u>\$ 25,011</u>
<i>Non-GAAP maintenance and professional services gross margin</i>	65 %	63 %	64 %	68%	72 %	71 %	73 %	72%
GAAP total gross profit	\$ 33,902	\$ 29,653	\$ 35,893	\$ 53,412	\$ 46,834	\$ 43,211	\$ 52,881	\$ 66,431
Stock-based compensation	328	346	339	305	1,404	826	777	782
Non-GAAP total gross profit	<u>\$ 34,230</u>	<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>
<i>Non-GAAP total gross margin</i>	70 %	71 %	72 %	77%	77 %	74 %	79 %	78%
GAAP research and development expense	9,138	10,947	10,702	10,985	14,801	14,687	14,803	15,062
Stock-based compensation	666	800	613	630	4,170	2,347	2,513	2,613
Non-GAAP research and development expense	<u>\$ 8,472</u>	<u>\$ 10,147</u>	<u>\$ 10,089</u>	<u>\$ 10,355</u>	<u>\$ 10,631</u>	<u>\$ 12,340</u>	<u>\$ 12,290</u>	<u>\$ 12,449</u>
<i>Non-GAAP research and development expense as a percentage of total revenue</i>	17 %	24 %	20 %	15%	17 %	21 %	18 %	15%
GAAP sales and marketing expense	31,263	35,045	33,556	34,028	41,769	42,279	45,039	46,098
Stock-based compensation	1,615	1,657	1,609	1,602	9,583	6,180	5,850	6,165
Non-GAAP sales and marketing expense	<u>\$ 29,648</u>	<u>\$ 33,388</u>	<u>\$ 31,947</u>	<u>\$ 32,426</u>	<u>\$ 32,186</u>	<u>\$ 36,099</u>	<u>\$ 39,189</u>	<u>\$ 39,933</u>
<i>Non-GAAP sales and marketing expense as a percentage of total revenue</i>	60 %	79 %	64 %	47%	51 %	60 %	58 %	47%
GAAP general and administrative expense	\$ 7,650	\$ 9,215	\$ 8,902	\$ 9,148	\$ 23,941	\$ 13,732	\$ 13,260	\$ 13,880
Stock-based compensation	1,363	1,415	1,372	1,372	15,379	4,237	3,796	3,458

Acquisition-related expenses	—	—	—	—	—	—	—	481
Non-GAAP general and administrative expense	\$ 6,287	\$ 7,800	\$ 7,530	\$ 7,776	\$ 8,562	\$ 9,495	\$ 9,464	\$ 9,941
<i>Non-GAAP general and administrative expense as a percentage of total revenue</i>	13 %	18 %	15 %	11%	14 %	16 %	14 %	12%
GAAP total operating expenses	\$ 48,051	\$ 55,207	\$ 53,160	\$ 54,161	\$ 80,511	\$ 70,698	\$ 73,102	\$ 75,040
Stock-based compensation	3,644	3,872	3,594	3,604	29,132	12,764	12,159	12,236
Acquisition-related expenses	—	—	—	—	—	—	—	481
Non-GAAP total operating expenses	\$ 44,407	\$ 51,335	\$ 49,566	\$ 50,557	\$ 51,379	\$ 57,934	\$ 60,943	\$ 62,323
<i>Non-GAAP total operating expenses as a percentage of total revenue</i>	90 %	122 %	99 %	73%	82 %	97 %	90 %	73%
GAAP operating loss	\$ (14,149)	\$ (25,554)	\$ (17,267)	\$ (749)	\$ (33,677)	\$ (27,487)	\$ (20,221)	\$ (8,609)
Stock-based compensation	3,972	4,218	3,933	3,909	30,536	13,590	12,936	13,018
Acquisition-related expenses	—	—	—	—	—	—	—	481
Non-GAAP operating (loss) income	\$ (10,177)	\$ (21,336)	\$ (13,334)	\$ 3,160	\$ (3,141)	\$ (13,897)	\$ (7,285)	\$ 4,890
<i>Non-GAAP operating margin</i>	(21)%	(51)%	(27)%	5%	(5)%	(23)%	(11)%	6%
GAAP net loss	\$ (14,915)	\$ (27,070)	\$ (17,791)	\$ (1,291)	\$ (34,568)	\$ (28,196)	\$ (20,406)	\$ (8,286)
Stock-based compensation	3,972	4,218	3,933	3,909	30,536	13,590	12,936	13,018
Acquisition-related expenses	—	—	—	—	—	—	—	481
Change in revaluation of warrant liabilities	(725)	392	(50)	—	385	—	—	—
Tax effect of non-GAAP adjustments	—	—	—	—	—	—	—	(131)
Non-GAAP net (loss) income	\$ (11,668)	\$ (22,460)	\$ (13,908)	\$ 2,618	\$ (3,647)	\$ (14,606)	\$ (7,470)	\$ 5,082
Non-GAAP net (loss) income per share, diluted	\$ (2.01)	\$ (3.79)	\$ (2.31)	\$ 0.08	\$ (0.13)	\$ (0.38)	\$ (0.18)	\$ 0.10
GAAP weighted-average shares used to compute net (loss) income per share, diluted	5,818,185	5,923,858	6,031,346	6,139,876	27,348,937	38,312,835	40,456,993	42,064,356
Weighted-average effect of potentially dilutive securities	—	—	—	28,594,968	—	—	—	6,442,336
Non-GAAP weighted-average shares used to compute net (loss) income per share, diluted	5,818,185	5,923,858	6,031,346	34,734,844	27,348,937	38,312,835	40,456,993	48,506,692

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

	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 72,344	\$ 63,009	\$ 82,356	\$ 99,560	\$ 129,035
Marketable securities	—	123,384	140,663	120,322	81,289
Accounts receivable	48,980	64,686	54,780	34,106	67,967
Inventory	132	3,660	136	1,783	322
Deferred commissions - current	8,428	10,957	10,928	11,072	10,667
Prepaid expenses and other current assets	9,022	9,213	10,992	11,570	11,786
Total current assets	<u>138,906</u>	<u>274,909</u>	<u>299,855</u>	<u>278,413</u>	<u>301,066</u>
Deferred commissions - non-current	19,338	21,795	21,413	21,174	20,942
Property and equipment, net	23,264	23,260	23,918	24,592	24,376
Severance pay deposits	1,987	2,118	2,158	2,106	2,162
Restricted cash - non-current	4,137	4,146	4,144	1,686	1,189
Other assets	5,566	2,490	2,135	2,212	2,196
Total assets	<u>\$ 193,198</u>	<u>\$ 328,718</u>	<u>\$ 353,623</u>	<u>\$ 330,183</u>	<u>\$ 351,931</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)					
Current liabilities:					
Accounts payable	\$ 1,889	\$ 7,348	\$ 1,744	\$ 1,070	\$ 902
Accrued compensation	21,106	25,358	21,814	25,501	23,819
Accrued expenses	11,002	10,023	9,057	9,783	11,410
Customer deposits	6,506	1,008	974	399	331
Deferred revenue - current	69,573	79,631	102,273	83,986	95,448
Notes payable - current	7,224	7,245	7,266	7,287	7,309
Total current liabilities	<u>117,300</u>	<u>130,613</u>	<u>143,128</u>	<u>128,026</u>	<u>139,219</u>
Warrant liabilities	5,216	—	—	—	—
Deferred revenue - non-current	48,050	55,228	66,918	63,154	66,633
Notes payable - non-current	17,398	15,579	13,754	11,924	10,089
Accrued severance pay liability	2,524	2,617	2,780	2,718	2,783
Other liabilities	9,340	9,190	9,991	9,885	7,964
Total liabilities	<u>199,828</u>	<u>213,227</u>	<u>236,571</u>	<u>215,707</u>	<u>226,688</u>
Redeemable convertible preferred stock	<u>283,854</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Stockholders' (deficit) equity:					
Common stock	6	38	39	42	43
Additional paid-in capital	98,553	551,986	581,988	599,740	618,656
Accumulated other comprehensive loss	—	(112)	(358)	(282)	(147)
Accumulated deficit	(389,043)	(436,421)	(464,617)	(485,024)	(493,309)
Total stockholders' (deficit) equity	<u>(290,484)</u>	<u>115,491</u>	<u>117,052</u>	<u>114,476</u>	<u>125,243</u>
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	<u>\$ 193,198</u>	<u>\$ 328,718</u>	<u>\$ 353,623</u>	<u>\$ 330,183</u>	<u>\$ 351,931</u>

ForeScout Technologies, Inc.

Condensed Consolidated Statements of Cash Flows - Fiscal Quarters

(In thousands)

(Unaudited)

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Cash flows from operating activities					
Net loss	\$ (1,291)	\$ (34,568)	\$ (28,196)	\$ (20,406)	\$ (8,286)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities					
Stock-based compensation	3,909	30,536	13,590	12,936	13,018
Depreciation	1,429	1,617	1,607	1,922	1,961
Revaluation of warrant liabilities	—	385	—	—	—
Other	82	(385)	125	(97)	85
Changes in operating assets and liabilities					
Accounts receivable	(23,665)	(15,706)	9,768	20,674	(33,856)
Inventory	169	(3,554)	3,534	(1,647)	1,461
Deferred commissions	(1,121)	(4,986)	411	95	637
Prepaid expenses and other current assets	(259)	(207)	(1,779)	(429)	284
Other assets	(3)	(277)	108	(149)	(113)
Accounts payable	1,465	5,053	(5,355)	(651)	(104)
Accrued compensation	552	4,252	(3,544)	3,687	(1,682)
Accrued expenses	425	(322)	(1,255)	1,179	1,780
Customer deposits	(4,714)	(5,498)	(34)	(575)	(68)
Deferred revenue	25,318	17,236	34,332	(22,051)	14,941
Severance pay, net	(4)	(38)	123	(10)	9
Other liabilities	21	164	1,019	104	(1,711)
Net cash provided by (used in) operating activities	2,313	(6,298)	24,454	(5,418)	(11,644)
Cash flows from investing activities					
Purchases of property and equipment	(592)	(1,131)	(2,313)	(2,519)	(1,934)
Purchases of marketable securities	—	(123,032)	(26,304)	(19,817)	(8,409)
Proceeds from maturities of marketable securities	—	—	9,000	40,400	47,650
Net cash (used in) provided by investing activities	(592)	(124,163)	(19,617)	18,064	37,307
Cash flows from financing activities					
Repayments of notes payable	(1,874)	(1,876)	(1,875)	(1,875)	(1,875)
Payment of accrued success fees	—	(350)	—	—	—
Proceeds from sales of shares through employee equity incentive plans	296	666	3,622	14,201	6,825
Payments related to shares withheld for taxes on vesting of restricted stock units	—	—	—	(9,592)	(1,135)
Payments of deferred offering costs	(340)	(1,537)	(1,057)	(485)	—
Proceeds from public offerings, net	—	124,233	13,818	—	—
Net cash (used in) provided by financing activities	(1,918)	121,136	14,508	2,249	3,815
Net change in cash, cash equivalents, and restricted cash for period	(197)	(9,325)	19,345	14,895	29,478
Cash, cash equivalents, and restricted cash at beginning of period	76,879	76,682	67,357	86,702	101,597
Cash, cash equivalents, and restricted cash at end of period	\$ 76,682	\$ 67,357	\$ 86,702	\$ 101,597	\$ 131,075