

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>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>
Revenue:								
Product	\$ 33,566	\$ 29,183	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780	\$ 34,323
Maintenance and professional services	18,290	19,968	21,868	23,139	26,136	27,913	29,917	33,271
Total revenue	<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>	<u>67,594</u>
Cost of revenue:								
Product	6,533	7,982	4,092	5,545	7,240	6,964	7,136	4,919
Maintenance and professional services	6,945	7,267	8,431	8,543	8,688	9,109	9,350	9,794
Total cost of revenue	<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>	<u>14,713</u>
Total gross profit	<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>	<u>52,881</u>
Operating expenses:								
Research and development	8,509	9,138	10,947	10,702	10,985	14,801	14,687	14,803
Sales and marketing	30,777	31,263	35,045	33,556	34,028	41,769	42,279	45,039
General and administrative	7,967	7,650	9,215	8,902	9,148	23,941	13,732	13,260
Total operating expenses	<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>	<u>73,102</u>
Loss from operations	(8,875)	(14,149)	(25,554)	(17,267)	(749)	(33,677)	(27,487)	(20,221)
Interest expense	(702)	(505)	(345)	(318)	(290)	(270)	(243)	(225)
Other (expense) income, net	(226)	(253)	(144)	(82)	160	382	662	513
Revaluation of warrant liabilities	(224)	725	(392)	50	—	(385)	—	—
Loss before income taxes	(10,027)	(14,182)	(26,435)	(17,617)	(879)	(33,950)	(27,068)	(19,933)
Income tax provision	157	733	635	174	412	618	1,128	473
Net loss	<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>	<u>\$ (20,406)</u>
Deemed dividend on the conversion of Series G redeemable convertible preferred stock	—	—	—	—	—	12,810	—	—
Net loss attributable to common stockholders	<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>	<u>\$ (20,406)</u>
Net loss per share attributable to common stockholders, basic and diluted	\$ (1.77)	\$ (2.56)	\$ (4.57)	\$ (2.95)	\$ (0.21)	\$ (1.73)	\$ (0.74)	\$ (0.50)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<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>	<u>40,456,993</u>

ForeScout Technologies, Inc.

Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(In thousands, except share and per share data)

(Unaudited)

	<u>Q3FY16</u>	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>
Revenue:								
Product	\$ 33,566	\$ 29,183	\$ 20,308	\$ 26,842	\$ 43,204	\$ 34,994	\$ 29,780	\$ 34,323
Maintenance and professional services	18,290	19,968	21,868	23,139	26,136	27,913	29,917	33,271
Total revenue	<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>	<u>67,594</u>
Cost of revenue:								
Product	6,527	7,968	4,071	5,525	7,221	6,921	7,083	4,865
Maintenance and professional services	6,628	6,953	8,106	8,224	8,402	7,748	8,577	9,071
Total cost of revenue	<u>13,155</u>	<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>
Total gross profit	<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>	<u>53,658</u>
Operating expenses:								
Research and development	7,896	8,472	10,147	10,089	10,355	10,631	12,340	12,290
Sales and marketing	29,234	29,648	33,388	31,947	32,426	32,186	36,099	39,189
General and administrative	6,628	6,287	7,800	7,530	7,776	8,562	9,495	9,464
Total operating expenses	<u>43,758</u>	<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>
(Loss) income from operations	<u>(5,057)</u>	<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>
Interest expense	(702)	(505)	(345)	(318)	(290)	(270)	(243)	(225)
Other (expense) income, net	<u>(226)</u>	<u>(253)</u>	<u>(144)</u>	<u>(82)</u>	<u>160</u>	<u>382</u>	<u>662</u>	<u>513</u>
(Loss) income before income taxes	<u>(5,985)</u>	<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>
Income tax provision	157	733	635	174	412	618	1,128	473
Net (loss) income	<u>\$ (6,142)</u>	<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>
Net (loss) income per share attributable to common stockholders, basic and diluted	<u>\$ (1.07)</u>	<u>\$ (2.01)</u>	<u>\$ (3.79)</u>	<u>\$ (2.31)</u>	<u>\$ 0.43</u>	<u>\$ (0.13)</u>	<u>\$ (0.38)</u>	<u>\$ (0.18)</u>
Weighted-average shares used to compute net (loss) income per share attributable to common stockholders, basic and diluted	<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>	<u>40,456,993</u>

ForeScout Technologies, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

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

(Unaudited)

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
GAAP product gross profit	\$ 27,033	\$ 21,201	\$ 16,216	\$ 21,297	\$ 35,964	\$ 28,030	\$ 22,644	\$ 29,404
Stock-based compensation	6	14	21	20	19	43	53	54
Non-GAAP product gross profit	\$ 27,039	\$ 21,215	\$ 16,237	\$ 21,317	\$ 35,983	\$ 28,073	\$ 22,697	\$ 29,458
<i>Non-GAAP product gross margin</i>	81 %	73 %	80 %	79 %	83%	80 %	76 %	86 %
GAAP maintenance and professional services gross profit	\$ 11,345	\$ 12,701	\$ 13,437	\$ 14,596	\$ 17,448	\$ 18,804	\$ 20,567	\$ 23,477
Stock-based compensation	317	314	325	319	286	1,361	773	723
Non-GAAP maintenance and professional services gross profit	\$ 11,662	\$ 13,015	\$ 13,762	\$ 14,915	\$ 17,734	\$ 20,165	\$ 21,340	\$ 24,200
<i>Non-GAAP maintenance and professional services gross margin</i>	64 %	65 %	63 %	64 %	68%	72 %	71 %	73 %
GAAP total gross profit	\$ 38,378	\$ 33,902	\$ 29,653	\$ 35,893	\$ 53,412	\$ 46,834	\$ 43,211	\$ 52,881
Stock-based compensation	323	328	346	339	305	1,404	826	777
Non-GAAP total gross profit	\$ 38,701	\$ 34,230	\$ 29,999	\$ 36,232	\$ 53,717	\$ 48,238	\$ 44,037	\$ 53,658
<i>Non-GAAP total gross margin</i>	75 %	70 %	71 %	72 %	77%	77 %	74 %	79 %
GAAP research and development expense	8,509	9,138	10,947	10,702	10,985	14,801	14,687	14,803
Stock-based compensation	613	666	800	613	630	4,170	2,347	2,513
Non-GAAP research and development expense	\$ 7,896	\$ 8,472	\$ 10,147	\$ 10,089	\$ 10,355	\$ 10,631	\$ 12,340	\$ 12,290
<i>Non-GAAP research and development expense as a percentage of total revenue</i>	15 %	17 %	24 %	20 %	15%	17 %	21 %	18 %
GAAP sales and marketing expense	30,777	31,263	35,045	33,556	34,028	41,769	42,279	45,039
Stock-based compensation	1,543	1,615	1,657	1,609	1,602	9,583	6,180	5,850
Non-GAAP sales and marketing expense	\$ 29,234	\$ 29,648	\$ 33,388	\$ 31,947	\$ 32,426	\$ 32,186	\$ 36,099	\$ 39,189

<i>Non-GAAP sales and marketing expense as a percentage of total revenue</i>	56 %	60 %	79 %	64 %	47%	51 %	60 %	58 %
GAAP general and administrative expense	\$ 7,967	\$ 7,650	\$ 9,215	\$ 8,902	\$ 9,148	\$ 23,941	\$ 13,732	\$ 13,260
Stock-based compensation	1,339	1,363	1,415	1,372	1,372	15,379	4,237	3,796
Non-GAAP general and administrative expense	\$ 6,628	\$ 6,287	\$ 7,800	\$ 7,530	\$ 7,776	\$ 8,562	\$ 9,495	\$ 9,464
<i>Non-GAAP general and administrative expense as a percentage of total revenue</i>	13 %	13 %	18 %	15 %	11%	14 %	16 %	14 %
GAAP total operating expenses	\$ 47,253	\$ 48,051	\$ 55,207	\$ 53,160	\$ 54,161	\$ 80,511	\$ 70,698	\$ 73,102
Stock-based compensation	3,495	3,644	3,872	3,594	3,604	29,132	12,764	12,159
Non-GAAP total operating expenses	\$ 43,758	\$ 44,407	\$ 51,335	\$ 49,566	\$ 50,557	\$ 51,379	\$ 57,934	\$ 60,943
<i>Non-GAAP total operating expenses as a percentage of total revenue</i>	84 %	90 %	122 %	99 %	73%	82 %	97 %	90 %
GAAP operating loss	\$ (8,875)	\$ (14,149)	\$ (25,554)	\$ (17,267)	\$ (749)	\$ (33,677)	\$ (27,487)	\$ (20,221)
Stock-based compensation	3,818	3,972	4,218	3,933	3,909	30,536	13,590	12,936
Non-GAAP operating (loss) income	\$ (5,057)	\$ (10,177)	\$ (21,336)	\$ (13,334)	\$ 3,160	\$ (3,141)	\$ (13,897)	\$ (7,285)
<i>Non-GAAP operating margin</i>	(10)%	(21)%	(51)%	(27)%	5%	(5)%	(23)%	(11)%
GAAP net loss	\$ (10,184)	\$ (14,915)	\$ (27,070)	\$ (17,791)	\$ (1,291)	\$ (34,568)	\$ (28,196)	\$ (20,406)
Stock-based compensation	3,818	3,972	4,218	3,933	3,909	30,536	13,590	12,936
Change in revaluation of warrant liabilities	224	(725)	392	(50)	—	385	—	—
Non-GAAP net (loss) income	\$ (6,142)	\$ (11,668)	\$ (22,460)	\$ (13,908)	\$ 2,618	\$ (3,647)	\$ (14,606)	\$ (7,470)
GAAP net loss per share	\$ (1.77)	\$ (2.56)	\$ (4.57)	\$ (2.95)	\$ (0.21)	\$ (1.73)	\$ (0.74)	\$ (0.50)
Stock-based compensation	0.66	0.68	0.71	0.65	0.64	1.12	0.36	0.32
Change in revaluation of warrant liabilities	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	\$ (1.07)	\$ (2.01)	\$ (3.79)	\$ (2.31)	\$ 0.43	\$ (0.13)	\$ (0.38)	\$ (0.18)

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

5,749,930

5,818,185

5,923,858

6,031,346

6,139,876

27,348,937

38,312,835

40,456,993

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

	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 72,535	\$ 72,344	\$ 63,009	\$ 82,356	\$ 99,560
Marketable securities	—	—	123,384	140,663	120,322
Accounts receivable	25,315	48,980	64,686	54,780	34,106
Inventory	224	132	3,660	136	1,783
Deferred commissions - current	8,086	8,428	10,957	10,928	11,072
Prepaid expenses and other current assets	8,870	9,022	9,213	10,992	11,570
Total current assets	<u>115,030</u>	<u>138,906</u>	<u>274,909</u>	<u>299,855</u>	<u>278,413</u>
Deferred commissions - non-current	18,559	19,338	21,795	21,413	21,174
Property and equipment, net	23,993	23,264	23,260	23,918	24,592
Severance pay deposits	1,965	1,987	2,118	2,158	2,106
Restricted cash - non-current	4,143	4,137	4,146	4,144	1,686
Other assets	5,065	5,566	2,490	2,135	2,212
Total assets	<u>\$ 168,755</u>	<u>\$ 193,198</u>	<u>\$ 328,718</u>	<u>\$ 353,623</u>	<u>\$ 330,183</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)					
Current liabilities:					
Accounts payable	\$ 607	\$ 1,889	\$ 7,348	\$ 1,744	\$ 1,070
Accrued compensation	20,554	21,106	25,358	21,814	25,501
Accrued expenses	10,157	11,002	10,023	9,057	9,783
Customer deposits	11,220	6,506	1,008	974	399
Deferred revenue - current	56,803	69,573	79,631	102,273	83,986
Notes payable - current	7,203	7,224	7,245	7,266	7,287
Total current liabilities	<u>106,544</u>	<u>117,300</u>	<u>130,613</u>	<u>143,128</u>	<u>128,026</u>
Warrant liabilities	5,216	5,216	—	—	—
Deferred revenue - non-current	35,502	48,050	55,228	66,918	63,154
Notes payable - non-current	19,211	17,398	15,579	13,754	11,924
Accrued severance pay liability	2,506	2,524	2,617	2,780	2,718
Other liabilities	9,578	9,340	9,190	9,991	9,885
Total liabilities	<u>178,557</u>	<u>199,828</u>	<u>213,227</u>	<u>236,571</u>	<u>215,707</u>
Redeemable convertible preferred stock	<u>283,854</u>	<u>283,854</u>	<u>—</u>	<u>—</u>	<u>—</u>
Stockholders' (deficit) equity:					
Common stock	6	6	38	39	42
Additional paid-in capital	94,090	98,553	551,986	581,988	599,740
Accumulated other comprehensive loss	—	—	(112)	(358)	(282)
Accumulated deficit	(387,752)	(389,043)	(436,421)	(464,617)	(485,024)
Total stockholders' (deficit) equity	<u>(293,656)</u>	<u>(290,484)</u>	<u>115,491</u>	<u>117,052</u>	<u>114,476</u>
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	<u>\$ 168,755</u>	<u>\$ 193,198</u>	<u>\$ 328,718</u>	<u>\$ 353,623</u>	<u>\$ 330,183</u>

ForeScout Technologies, Inc.

Condensed Consolidated Statements of Cash Flows - Fiscal Quarters

(In thousands)

(Unaudited)

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Cash flows from operating activities					
Net loss	\$ (17,791)	\$ (1,291)	\$ (34,568)	\$ (28,196)	\$ (20,406)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities					
Stock-based compensation	3,933	3,909	30,536	13,590	12,936
Depreciation	1,641	1,429	1,617	1,607	1,922
Revaluation of warrant liabilities	(50)	—	385	—	—
Other	87	82	(385)	125	(97)
Changes in operating assets and liabilities					
Accounts receivable	(8,582)	(23,665)	(15,706)	9,768	20,674
Inventory	171	169	(3,554)	3,534	(1,647)
Deferred commissions	(1,744)	(1,121)	(4,986)	411	95
Prepaid expenses and other current assets	2,116	(259)	(207)	(1,779)	(429)
Other assets	107	(3)	(277)	108	(149)
Accounts payable	(612)	1,465	5,053	(5,355)	(651)
Accrued compensation	5,302	552	4,252	(3,544)	3,687
Accrued expenses	420	425	(322)	(1,255)	1,179
Customer deposits	(1,022)	(4,714)	(5,498)	(34)	(575)
Deferred revenue	4,514	25,318	17,236	34,332	(22,051)
Severance pay, net	33	(4)	(38)	123	(10)
Other liabilities	(42)	21	164	1,019	104
Net cash provided by (used in) operating activities	(11,519)	2,313	(6,298)	24,454	(5,418)
Cash flows from investing activities					
Purchases of property and equipment	(1,557)	(592)	(1,131)	(2,313)	(2,519)
Purchases of marketable securities	—	—	(123,032)	(26,304)	(19,817)
Proceeds from maturities of marketable securities	—	—	—	9,000	40,400
Net cash used in investing activities	(1,557)	(592)	(124,163)	(19,617)	18,064
Cash flows from financing activities					
Repayments of notes payable	(1,876)	(1,874)	(1,876)	(1,875)	(1,875)
Payment of accrued success fees	—	—	(350)	—	—
Proceeds from exercise of stock options	542	296	666	3,627	10,400
Repurchase of unvested common stock	—	—	—	(5)	—
Payments of deferred offering costs	(889)	(340)	(1,537)	(1,057)	(485)
Proceeds from public offerings, net	—	—	124,233	13,818	—
Net cash (used in) provided by financing activities	(2,223)	(1,918)	121,136	14,508	2,249
Net change in cash, cash equivalents, and restricted cash for period	(15,299)	(197)	(9,325)	19,345	14,895
Cash, cash equivalents, and restricted cash at beginning of period	92,178	76,879	76,682	67,357	86,702
Cash, cash equivalents, and restricted cash at end of period	\$ 76,879	\$ 76,682	\$ 67,357	\$ 86,702	\$ 101,597