



SECURITY
DATA &
ANALYTICS

Q4 and 2015 Financial Results

FEBRUARY 10, 2016

RAPID7 PROPRIETARY

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Q4 2015 | Financial Highlights

- 1 Strong **Revenue Growth** of 50% YoY
- 2 Strong continued **Deferred Revenue Growth** of 53% YoY
- 3 High-visibility **Recurring & Ratable Revenue** model with 82% of Q4 revenue on balance sheet as of October 1, 2015 and 62% subscription-based recurring revenue
- 4 Increased **Renewal Rate to 126%** reflecting successful customer land-and-expand and monetization of growing technology offerings
- 5 Delivered **Positive Operating Cash Flow** for second sequential quarter

See End Notes for additional information and definitions

Summary Selected Financial Results | Q4 and 2015

(amounts in millions, except per share data)

Q4 2015

Three Months Ended

<u>December 31,</u>		<u>Change</u>	
<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>

Revenue:

Products	\$ 18.9	\$ 12.9	\$ 6.0	46%
Maintenance & support	7.9	5.4	2.5	46%
Professional services	6.1	3.6	2.5	71%
Total Revenue	\$ 32.9	\$ 21.9	\$ 11.0	50%

Loss from operations (GAAP)	\$ (20.9)	\$ (8.1)	\$ (12.8)	(159%)
Loss from operations (non-GAAP)	\$ (12.1)	\$ (7.5)	\$ (4.6)	(62%)

Net loss (GAAP)	\$ (21.1)	\$ (9.0)	\$ (12.1)	(135%)
Net loss (non-GAAP)	\$ (12.4)	\$ (8.4)	\$ (4.0)	(47%)

Net loss per share (GAAP)	\$ (0.53)	\$ (3.60)	\$ 3.07	85%
Net loss per share (non-GAAP)	\$ (0.31)	\$ (0.66)	\$ 0.35	53%

Weighted-average common shares outstanding	40.2	12.8		
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Operating cash flow	\$ 0.1	\$ 2.0	\$ (1.9)	(96%)
Deferred revenue at period-end	\$ 130.3	\$ 85.1	\$ 45.2	53%

2015

Twelve Months Ended

<u>December 31,</u>		<u>Change</u>	
<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>

Products	\$ 63.4	\$ 47.0	\$ 16.4	35%
Maintenance & support	26.9	19.0	7.9	41%
Professional services	20.2	10.9	9.3	87%
Total Revenue	\$ 110.5	\$ 76.9	\$ 33.6	44%

Loss from operations (GAAP)	\$ (46.6)	\$ (29.1)	\$ (17.5)	(60%)
Loss from operations (non-GAAP)	\$ (32.8)	\$ (26.1)	\$ (6.7)	(25%)

Net loss (GAAP)	\$ (49.9)	\$ (32.6)	\$ (17.3)	(53%)
Net loss (non-GAAP)	\$ (36.1)	\$ (29.6)	\$ (6.5)	(22%)

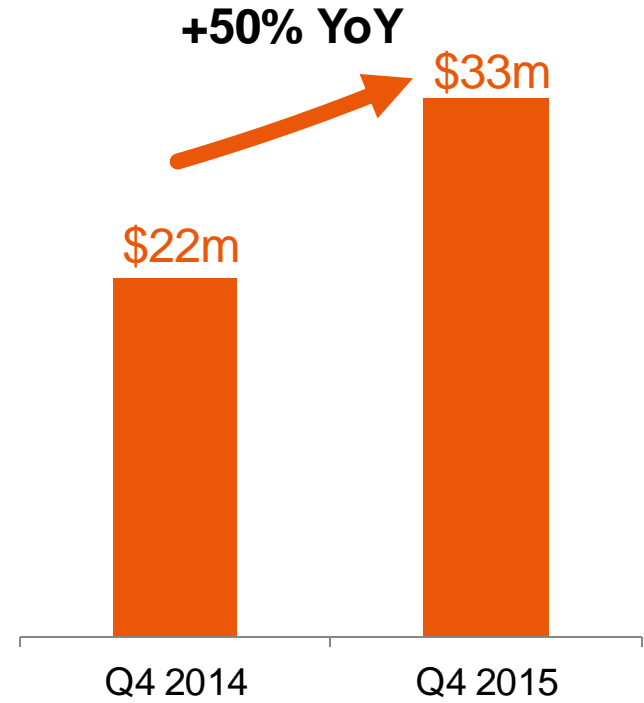
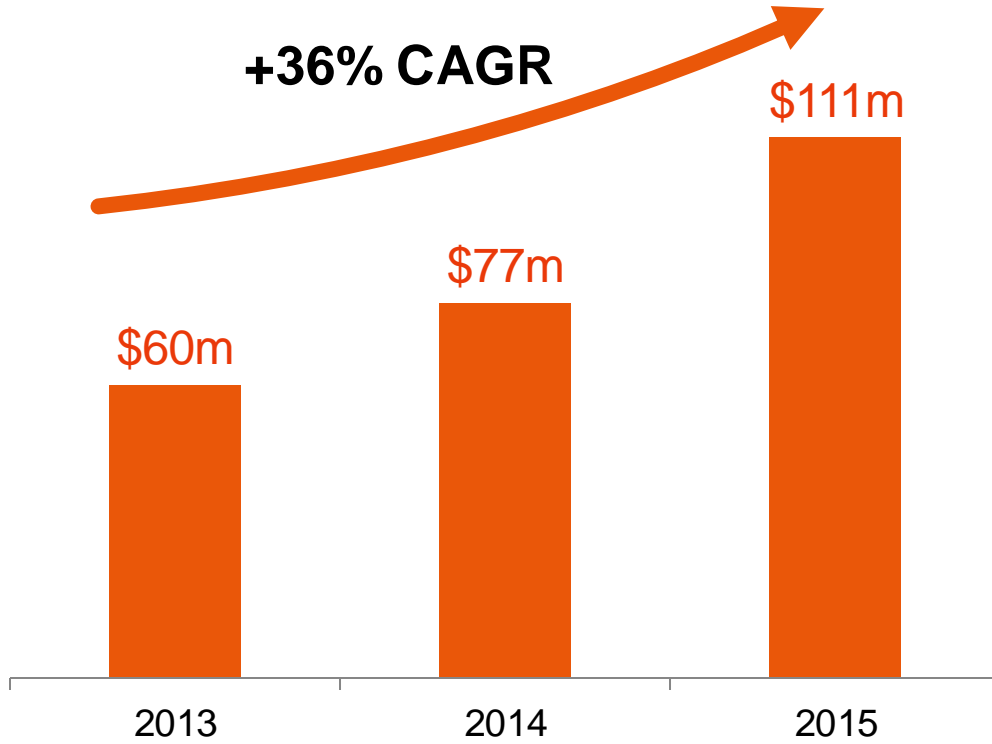
Net loss per share (GAAP)	\$ (4.00)	\$ (6.65)	\$ 2.65	40%
Net loss per share (non-GAAP)	\$ (1.46)	\$ (2.32)	\$ 0.86	37%

Weighted-average common shares outstanding	24.7	12.8		
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Operating cash flow	\$ (1.9)	\$ (3.4)	\$ 1.5	43%
Deferred revenue at period-end	\$ 130.3	\$ 85.1	\$ 45.2	53%

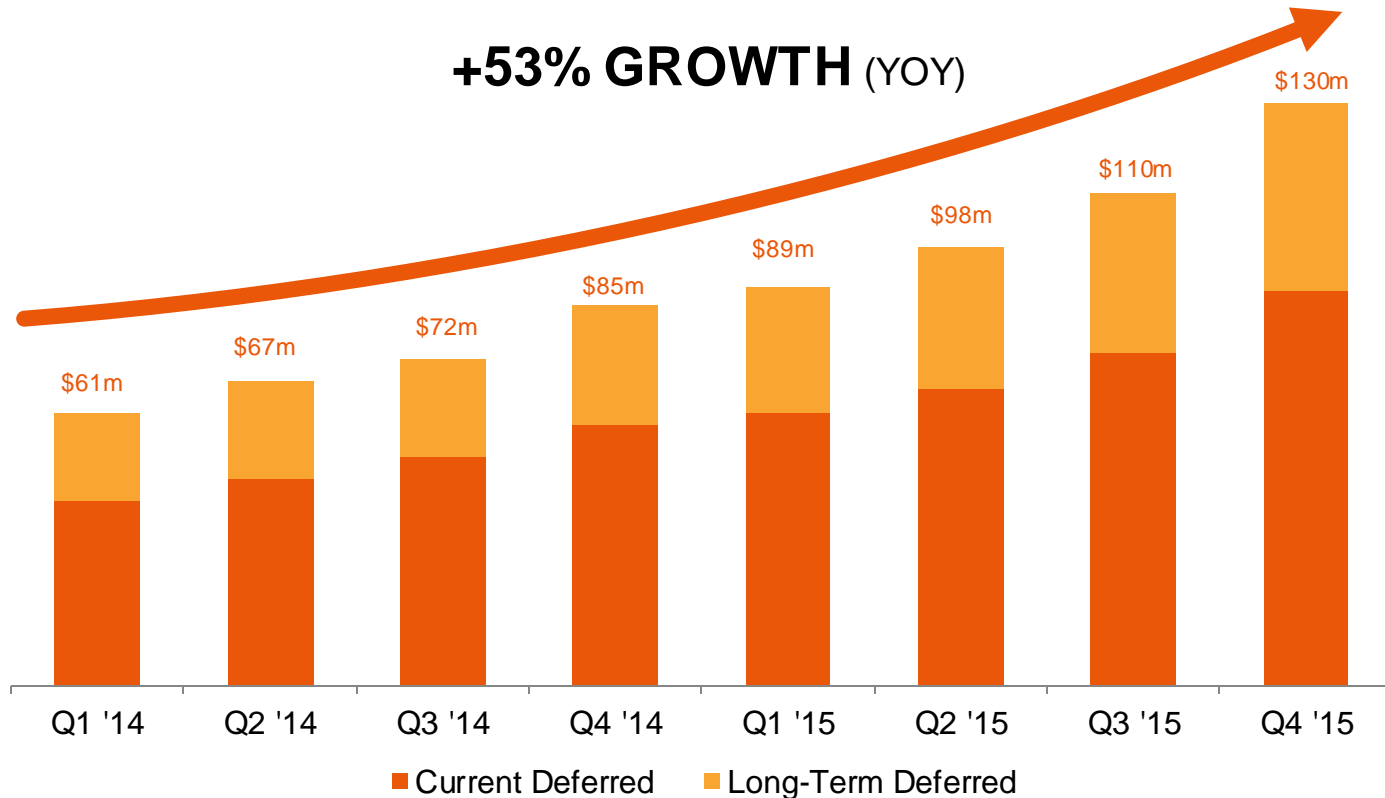
See End Notes for additional information and definitions

Total Revenue | Strong Growth



Deferred Revenue | Strong Continued Growth

+53% GROWTH (YOY)

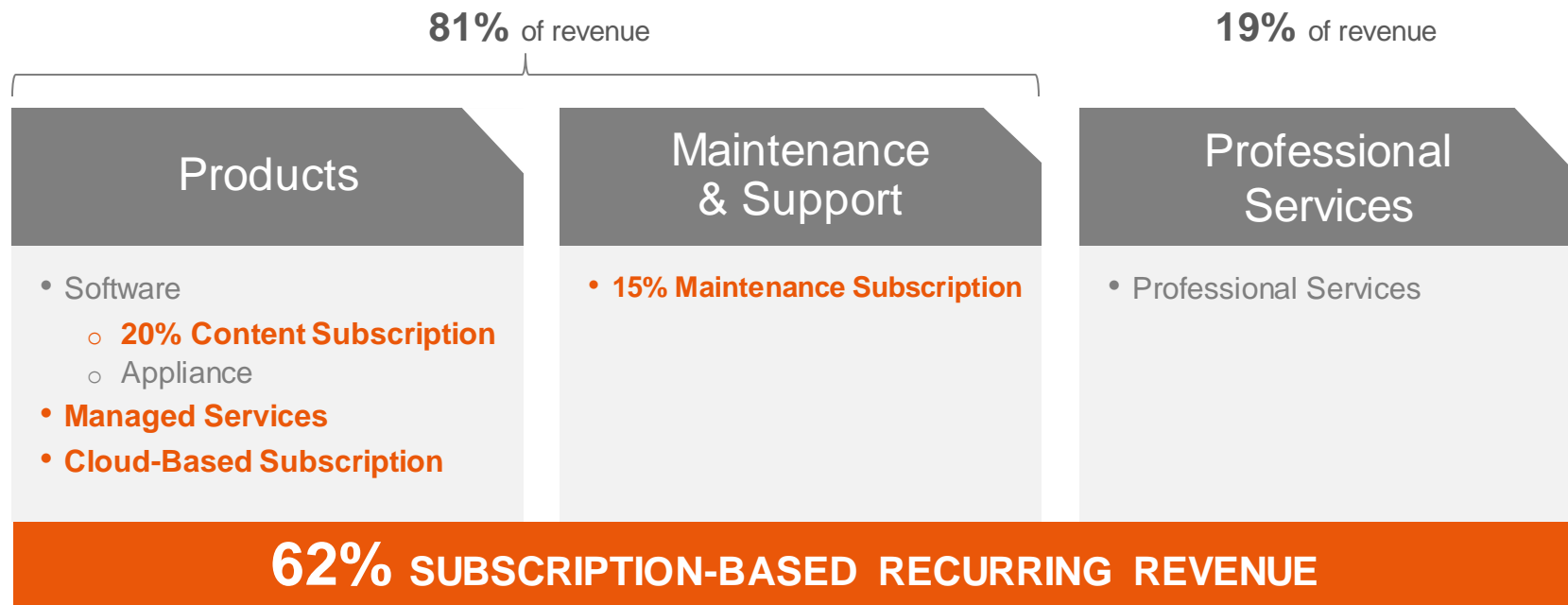


82%

of Q4 2015
revenue

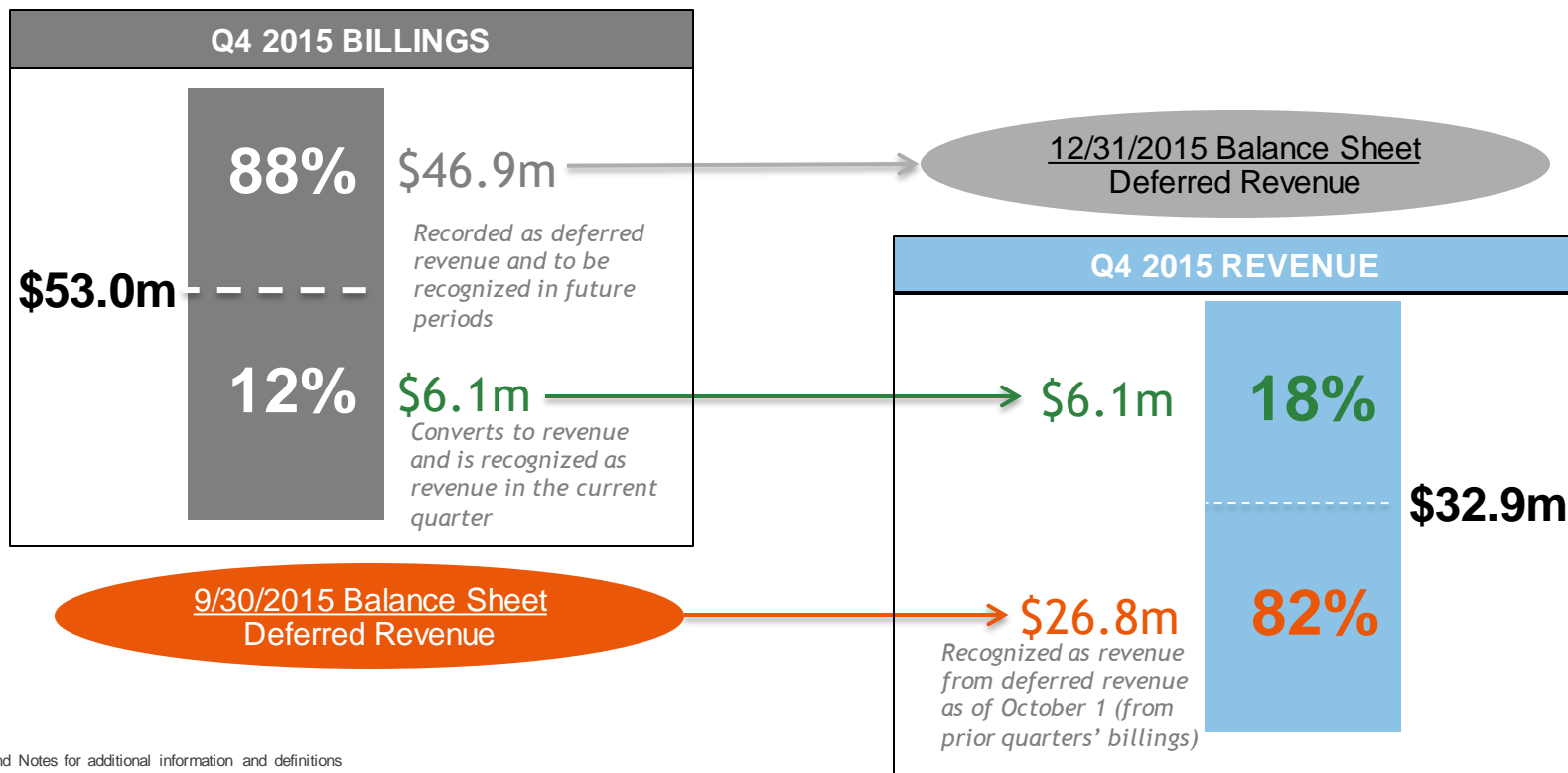
**already
booked**
entering
the quarter

Revenue Model | High Proportion of Recurring

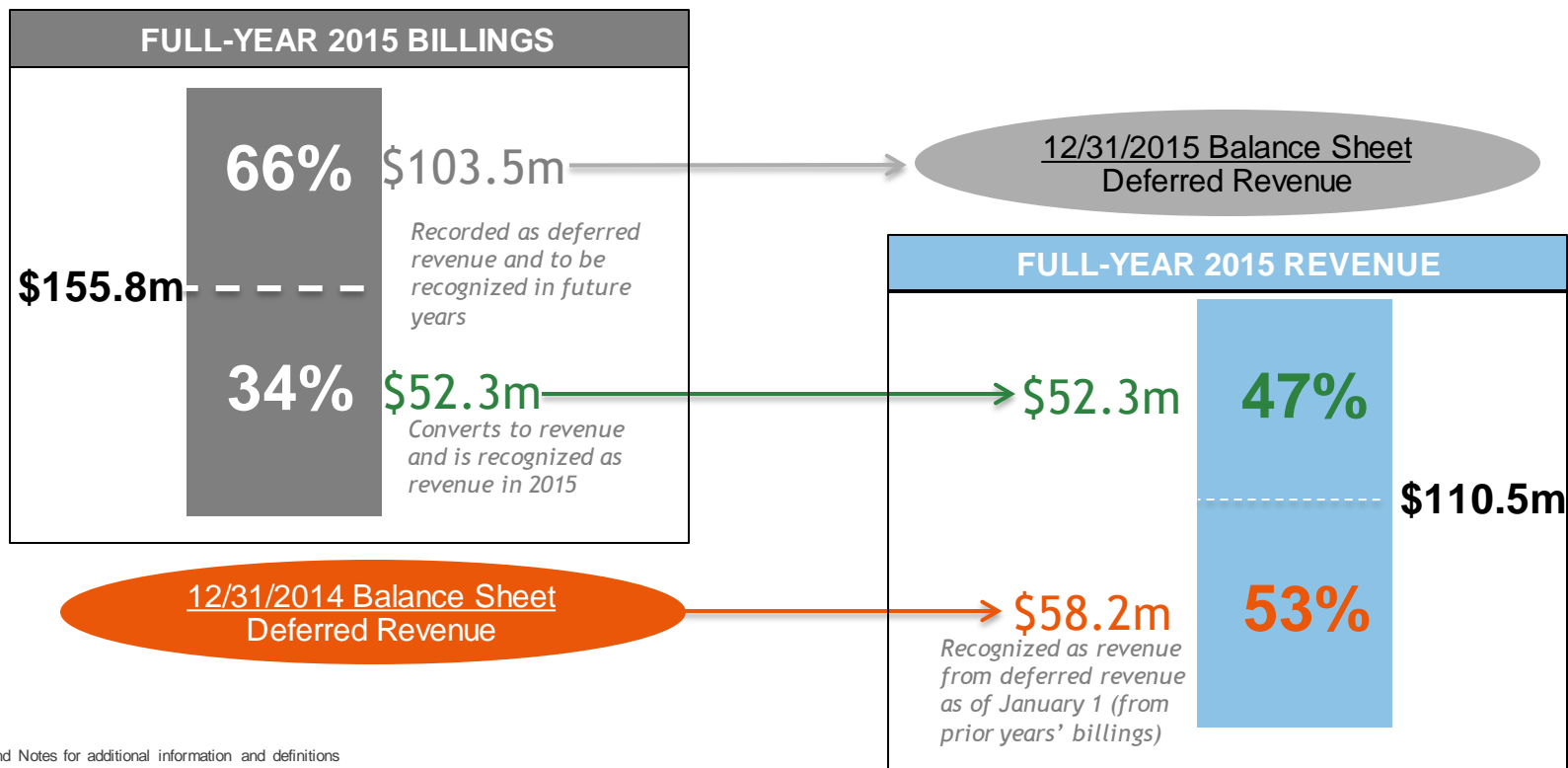


See End Notes for additional information and definitions

Revenue Flow | Strong Quarterly Visibility

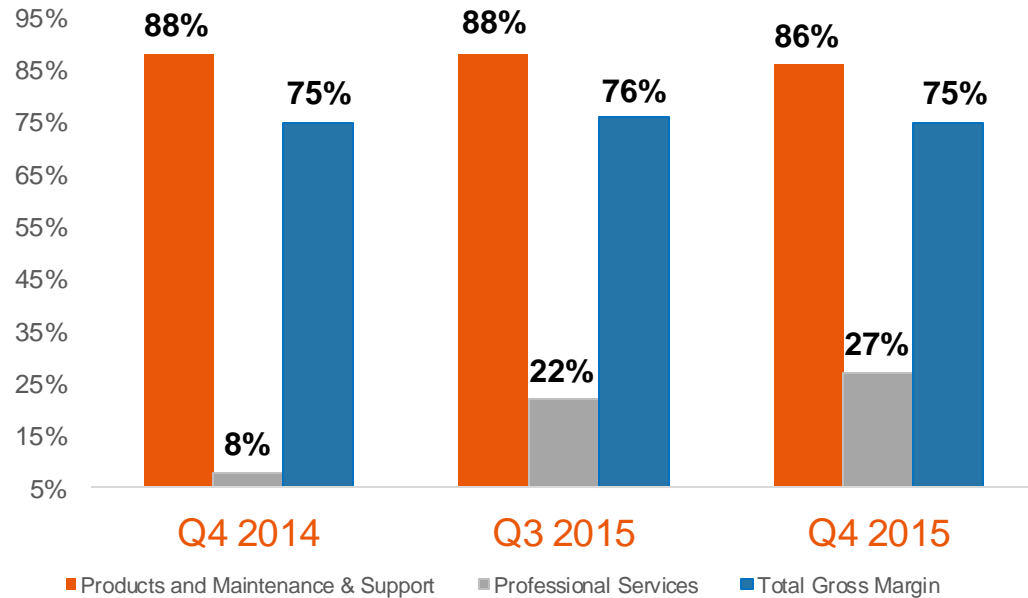


Revenue Flow | Solid Full-Year Visibility



See End Notes for additional information and definitions

Gross Margin | Continued Gains in Prof Services



solid & steady
Gross Margin % ...

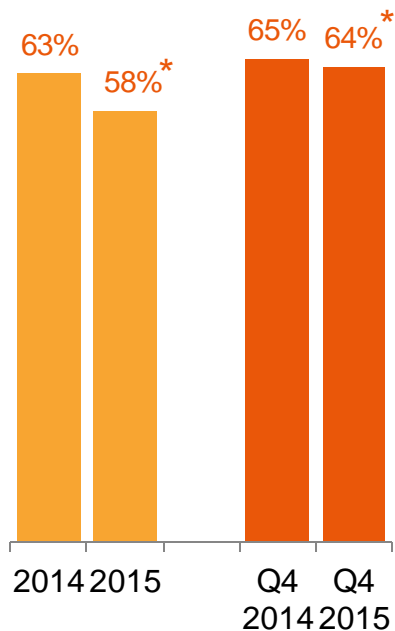
with improvements
in Q4 2015 non-GAAP
**Prof Services
Gross Margin**

driven by
investments
made in 2H 2014
and early 2015

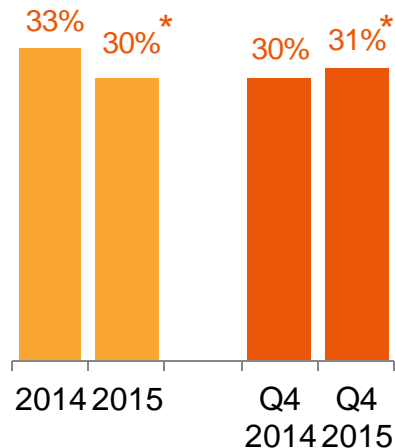
See End Notes for additional information and definitions

Operating Expenses as % of Revenue (Non-GAAP)

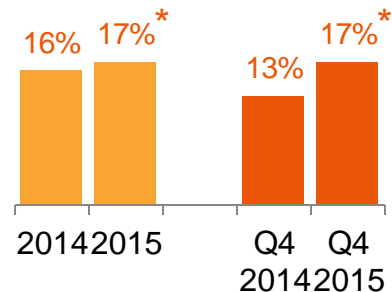
Sales & Marketing (non-GAAP)



Research & Development (non-GAAP)



General & Administrative (non-GAAP)



**Solid
improvements**

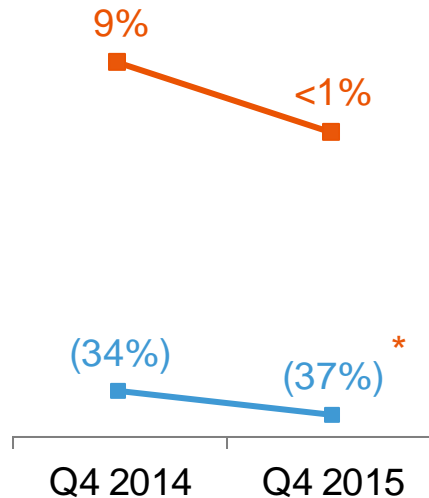
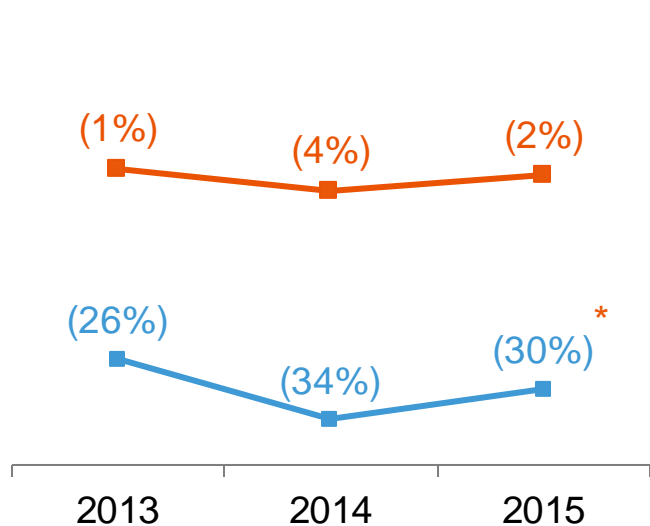
in Expense to
Revenue Ratios
across all Opex
lines ...

on an apples-to-apples
basis as we progress on
our path to profitability ...

** Note: Q4' 15 includes Logentrics
acquisition costs and costs of
operating as a public company*

See End Notes for additional information and definitions

Operating Cash Flow & Operating Income Margins



— Operating Cash Flow Margin

— Operating Income Margin (Non-GAAP)

* Q4 2015 includes acquisition of Logentrics

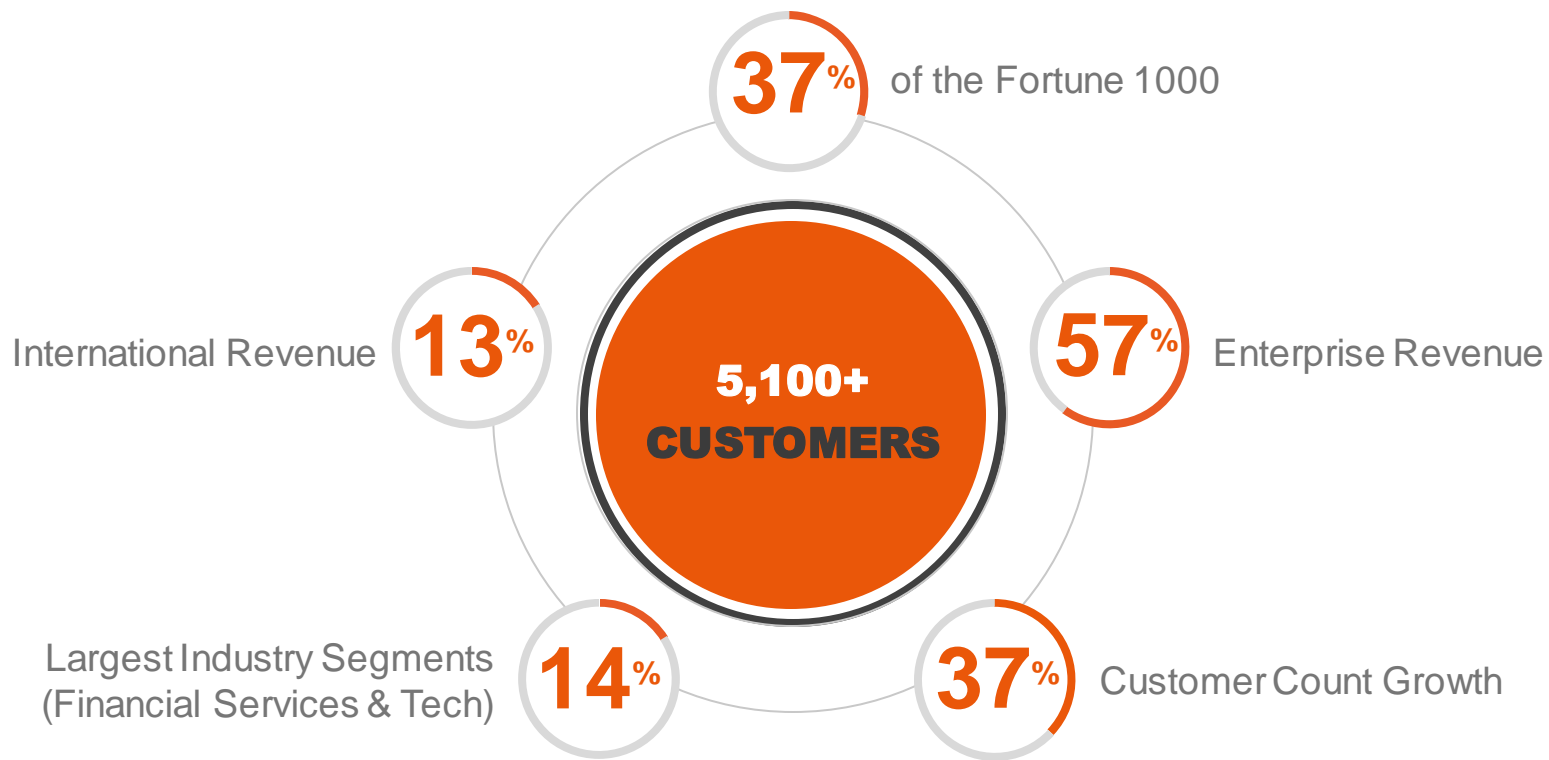
See End Notes for additional information and definitions

Operating Cash Flow

driven by
up-front customer payments

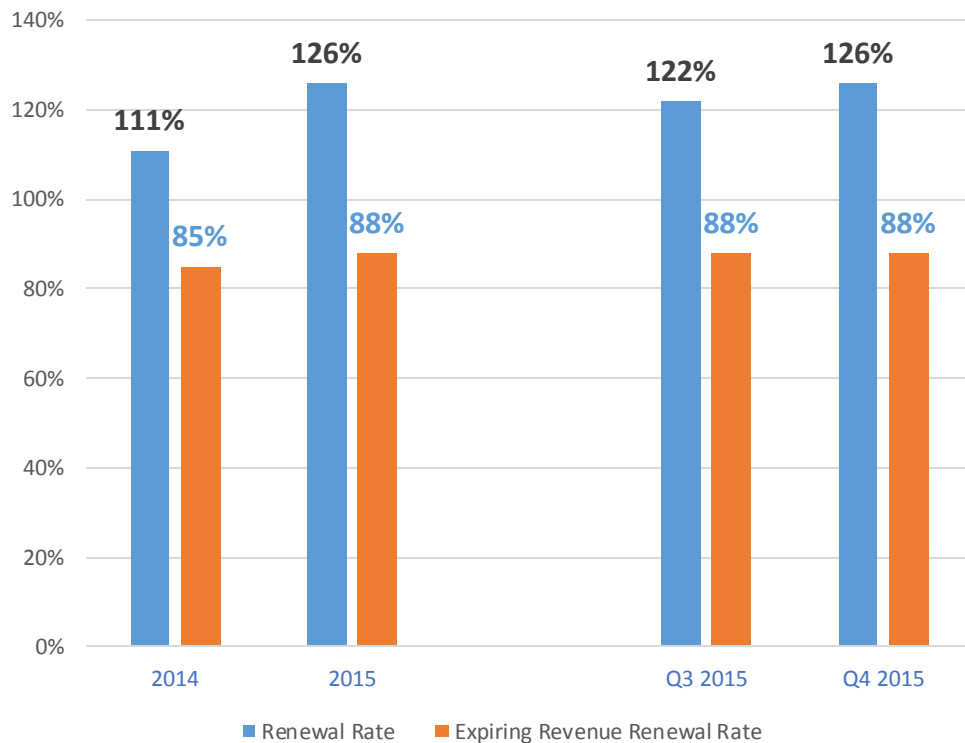
vs.
longer-term
ratable revenue recognition & subscription model

Customer Base | High-Quality & Rapidly Growing



See End Notes for additional information and definitions

Renewal Rates | Continued Growth & Expansion



See End Notes for additional information and definitions

Increase in Renewal Rate

driven from a combination of large **renewals**, **up-sells** and **cross-sells** driving better customer economics.

and

Increase in Expiring Revenue Renewal Rate

with core **Enterprise Customer Renewals** at **92%** in Q4 2015.

Summary Balance Sheet | December 31, 2015

<i>(\$ in millions)</i>	December 31, 2015
Assets	
Cash	\$ 86.6
Accounts Receivable, Net	44.2
Prepaid Expenses & Other Current Assets	6.1
Total Current Assets	\$ 136.9
Property & Equipment, Net	7.5
Goodwill & Intangible Assets, Net	86.0
Other Assets	0.2
Total Assets	<u>\$ 230.6</u>
Liabilities & Stockholders' Equity	
Current Liabilities	27.9
Total Deferred Revenue	130.3
Other Long-Term Liabilities	4.3
Total Liabilities	\$ 162.5
Total Stockholders' Equity	68.1
Total Liabilities & Stockholders' Equity	<u>\$ 230.6</u>

See End Notes for additional information and definitions

Guidance | Q1 2016 and Full-Year 2016

Rapid7 anticipates total revenue, non-GAAP loss from operations, and non-GAAP loss per share to be in the following ranges for Q1 2016 and the full-year 2016:

	Q1 2016	FULL-YEAR 2016
Total Revenue	\$32.9 to \$34.3 million	\$146.0 to \$151.0 million
Loss From Operations (non-GAAP)	\$(10.0) to \$(9.0) million	\$(40.0) to \$(36.0) million
Net Loss Per Share (non-GAAP)	\$(0.26) to \$(0.23)	\$(0.97) to \$(0.88)
<i>Weighted-average common shares outstanding</i>	<i>40.6 million</i>	<i>41.7 million</i>

See End Notes for additional information and definitions

End Notes

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- 62% Recurring Revenue defined as revenue from Content Subscription, Managed Services, Cloud-Based Subscriptions, and Maintenance & Support for Q4 2015.
- Renewal rate is calculated by dividing the dollar value of renewed customer agreements, including upsells and cross-sells of additional products, but excluding professional services, on a monthly basis in a trailing 12-month period by the dollar value of the corresponding expiring customer agreements, and then determining the average for the applicable period.

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- The Company defines non-GAAP loss from operations and non-GAAP net loss as GAAP loss from operations and GAAP net loss excluding stock-based compensation expense, amortization of intangible assets, acquisition related expenses and impairment of long-lived assets
- Net loss per share (GAAP) is calculated from using the net loss attributable to common shareholders, rather than net loss.

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- 20% Content Subscription and 15% Maintenance & Support arrangements represent the approximate percentage of software license list price per year.
- 81% Products and Maintenance & Support and 19% Professional Services metrics represents revenue from those two categories as a percentage of total revenue for Q4 2015.
- 62% Recurring Revenue defined as revenue from Content Subscription, Managed Services, Cloud-Based Subscription and Maintenance & Support for Q4 2015.

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- \$53.0m in billings is for Q4 2015 and derived from financial statements as Q4 2015 revenue of \$32.9m + Q4 2015 deferred revenue balance of \$130.3m – Q3 2015 deferred revenue balance of \$110.2m.

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- \$155.8m in billings is for full year 2015 and derived from financial statements as 2015 revenue of \$110.5m + Q4 2015 deferred revenue balance of \$130.3m – Q4 2014 deferred revenue balance of \$85.0m.

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- Non-GAAP gross margins represent the GAAP gross profit, excluding stock-based compensation expense and amortization of intangible assets calculated as a % of revenue. See GAAP to Non-GAAP reconciliation.

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- Operating expenses presented are on a non-GAAP basis and exclude stock-based compensation expense, amortization of intangible assets, acquisition related expenses and impairment of long-lived assets.

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- Operating cash flow margin represents operating cash flow as a percentage of total revenue.
- Non-GAAP operating margin represents GAAP loss from operations, excluding stock-based compensation expense, amortization of intangible assets, acquisition related expenses and impairment of long-lived assets as a percentage of total revenue.

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- All statistics are for Q4 2015 or as of December 31, 2015, as applicable.
- International Revenue is the percentage of global revenue, excluding North America.
- Enterprise customers represent customers with greater than \$1 billion in annual revenue or greater than 2,500 employees as a percentage of revenue.
- Customer count includes 300+ customers acquired through the Logentrics acquisition in October 2015.
- A customer is defined as any entity that either 1) has an active Rapid7 product that has either not expired or has expired within the last 90 days, 2) has purchased professional services within the last 12 months, OR 3) has a subscription to our IT Search product that is equivalent to or higher than \$2,400 per year.
- Financial services and Technology segments each represent 14% of our revenue in Q4 2015.

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- Renewal rate is calculated by dividing the dollar value of renewed customer agreements, including upsells and cross-sells of additional products, but excluding professional services, on a monthly basis in a trailing 12-month period by the dollar value of the corresponding expiring customer agreements, and then determining the average for the applicable period.
- Expiring revenue renewal rate is calculated similar to the renewal rate however does not take into account any upsells or cross-sells.

End Notes (cont'd)

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- Current liabilities represents accounts payable, accrued expense and other current liabilities.
- Total deferred revenue represents both current and non-current portions of deferred revenue.

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- Guidance for the fourth quarter and full-year 2015 does not include any potential impact of foreign exchange gains or losses.
- Non-GAAP guidance excludes estimates for stock-based compensation expense, amortization of intangible assets, acquisition related expenses, and impairments of long-lived assets. A reconciliation of non-GAAP guidance measures to the most comparable GAAP measures is not available on a forward-looking basis. Rapid7 has provided a reconciliation of historical non-GAAP financial measures to the most comparable GAAP measures in the financial statement tables included in these End Notes.

End Notes | GAAP to Non-GAAP Gross Profit & Operating Loss Reconciliations

(in thousands, except per share data)

	Three Months Ended		Twelve Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Total gross profit (GAAP)	\$ 23,891	\$ 16,187	\$ 81,282	\$ 58,408
Plus: Stock-based compensation expense ¹	329	39	532	167
Plus: Amortization of intangible assets ²	448	217	1,212	869
Total gross profit (non-GAAP)	\$ 24,668	\$ 16,443	\$ 83,026	\$ 59,444
Gross margin (non-GAAP)	75%	75%	75%	77%
Gross profit (GAAP) - Products and Maintenance and support	\$ 22,325	\$ 15,932	\$ 77,387	\$ 56,994
Plus: Stock-based compensation expense	247	3	281	13
Plus: Amortization of intangible assets	448	217	1,212	869
Total gross profit (non-GAAP) - Products and Maintenance and support	\$ 23,020	\$ 16,152	\$ 78,880	\$ 57,876
Gross margin (non-GAAP) - Products and Maintenance and support	86%	88%	87%	88%
Gross profit (GAAP) - Professional services	\$ 1,566	\$ 255	\$ 3,895	\$ 1,414
Plus: Stock-based compensation expense	82	36	251	154
Total gross profit (non-GAAP) - Professional services	\$ 1,648	\$ 291	\$ 4,146	\$ 1,568
Gross margin (non-GAAP) - Professional services	27%	8%	21%	14%
Loss from operations (GAAP)	\$ (20,871)	\$ (8,072)	\$ (46,560)	\$ (29,141)
Plus: Stock-based compensation expense ¹	7,852	368	10,685	2,159
Plus: Amortization of intangible assets ²	522	217	1,286	869
Plus: Acquisition related expenses ³	375	-	1,342	-
Plus: Impairment of long-lived assets ⁴	-	-	483	-
Loss from operations (non-GAAP)	\$ (12,122)	\$ (7,487)	\$ (32,764)	\$ (26,113)

End Notes | GAAP to Non-GAAP Net Loss & EPS Reconciliations

(in thousands, except per share data)

	Three Months Ended		Twelve Months Ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Net loss attributable to common stockholders (GAAP)	\$ (21,106)	\$ (46,125)	\$ (99,079)	\$ (84,963)
Plus: Accretion of preferred stock to redemption value	-	37,130	35,061	52,336
Plus: Beneficial conversion charge relating to IPO Participation Payment	-	-	14,161	-
Net loss (GAAP)	(21,106)	(8,995)	(49,857)	(32,627)
Plus: Stock-based compensation expense ¹	7,852	368	10,685	2,159
Plus: Amortization of intangible assets ²	522	217	1,286	869
Plus: Acquisition related expenses ³	375	-	1,342	-
Plus: Impairment of long-lived assets ⁴	-	-	483	-
Net loss (non-GAAP)	<u>\$ (12,357)</u>	<u>\$ (8,410)</u>	<u>\$ (36,061)</u>	<u>\$ (29,599)</u>
Net loss per share, basic and diluted (non-GAAP)	<u>\$ (0.31)</u>	<u>\$ (0.66)</u>	<u>\$ (1.46)</u>	<u>\$ (2.32)</u>
Weighted average shares used in non-GAAP net loss per share, basic and diluted	<u>40,158,219</u>	<u>12,812,173</u>	<u>24,740,480</u>	<u>12,770,916</u>

¹ Includes stock-based compensation expense as follows:

Cost of revenue	\$ 329	\$ 39	\$ 532	\$ 167
Research and development	4,093	131	5,010	499
Sales and marketing	2,411	(45)	3,139	496
General and administrative	1,019	243	2,004	997

² Includes amortization of intangible assets as follows:

Cost of revenue	\$ 448	\$ 217	\$ 1,212	\$ 869
Sales and marketing	27	-	27	-
General and administrative	47	-	47	-

³ Includes acquisition related expenses as follows:

General and administrative	\$ 375	\$ -	\$ 1,342	\$ -
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⁴ Includes impairment of long-lived assets as follows:

Research and development	\$ -	\$ -	\$ 483	\$ -
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