Q3 2016 Financial Results

November 9, 2016

RAPID7

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Q3 2016 | Financial Highlights

1. Strong continued Revenue Growth of 42% YoY
2. Deferred Revenue Growth of 36% YoY
3. High-visibility Recurring & Ratable Revenue model with 87% of Q3 revenue on balance sheet as of July 1, 2016 and 62% recurring revenue
4. Overall Renewal Rate at 121%, reflecting successful customer land-and-expand and monetization of growing technology offerings
5. Second Consecutive Quarter of Positive Operating Cash Inflow of $1.8m

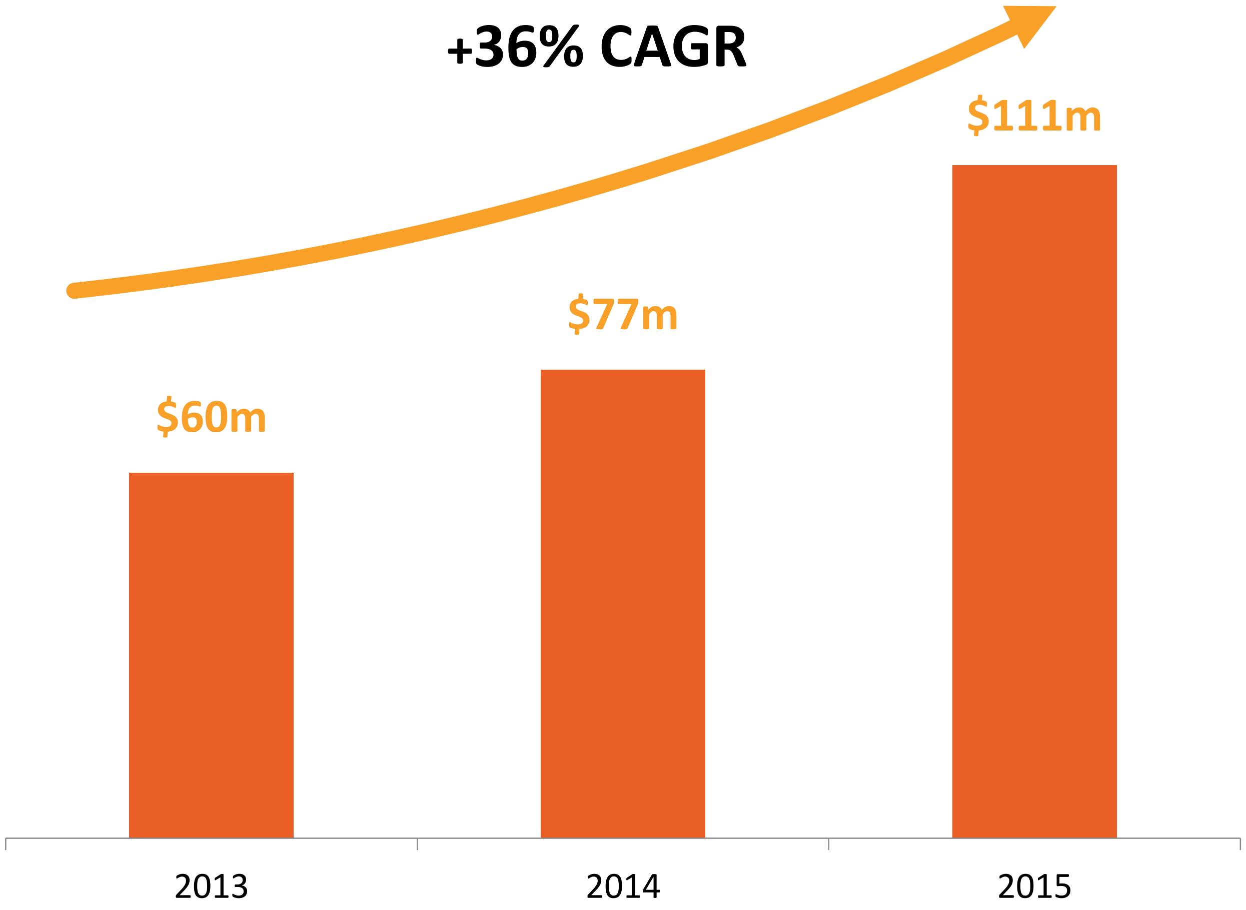
Summary Selected Financial Results | Q3 2016

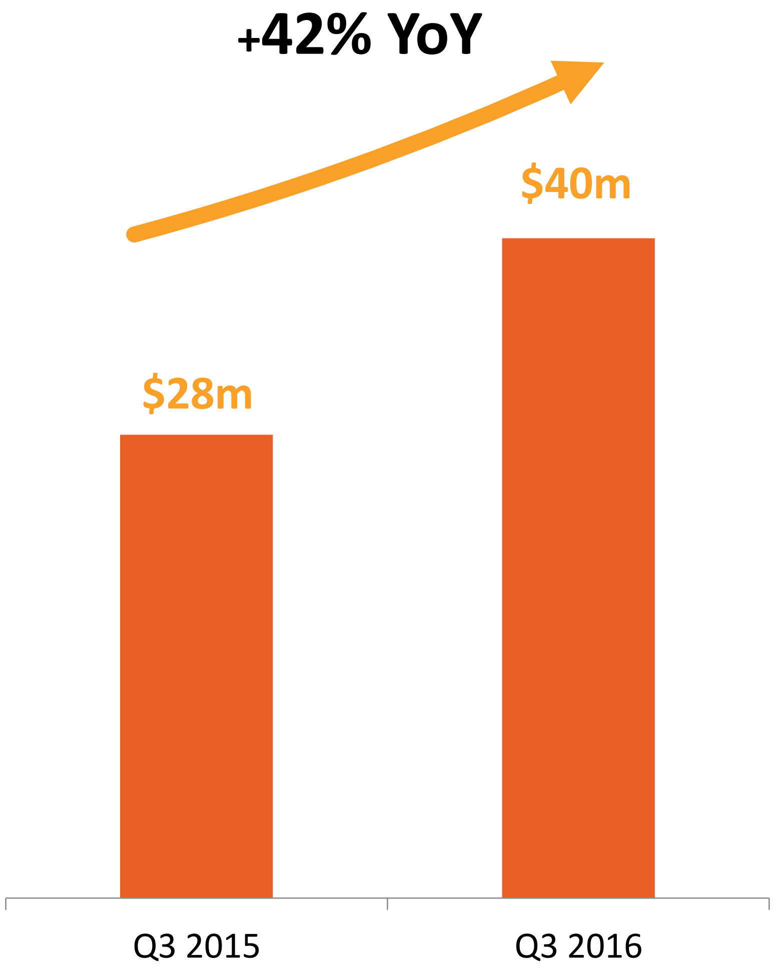
(amounts in millions, except per share data)

	Three Months Ended			
			Change	
	Q3 2016	Q3 2015	$	%
Revenue:				
Products	$ 23.1	$ 16.2	$ 6.9	42.3%
Maintenance and support	9.7	7.0	2.7	38.4%
Professional services	7.5	5.1	2.4	48.7%
Total Revenue	**$ 40.3**	**$ 28.3**	**$ 12.0**	**42.5%**
Loss from operations (GAAP)	$ (10.2)	$ (10.5)	$ 0.3	2.8%
Loss from operations (non-GAAP)	$ (5.3)	$ (7.8)	$ 2.5	32.2%
Net loss (GAAP)	$ (10.2)	$ (11.8)	$ 1.6	13.8%
Net loss (non-GAAP)	$ (5.2)	$ (9.1)	$ 3.9	42.2%
Net loss per share (GAAP)	$ (0.25)	$ (0.79)	$ 0.54	68.4%
Net loss per share (non-GAAP)	$ (0.13)	$ (0.27)	$ 0.14	51.9%
Weighted average common shares outstanding	41.5	32.0		
Operating cash flow	$ 1.8	$ 2.3	$ (0.5)	-21.2%
Deferred revenue at period-end	$ 149.3	$ 110.2	$ 39.1	35.5%

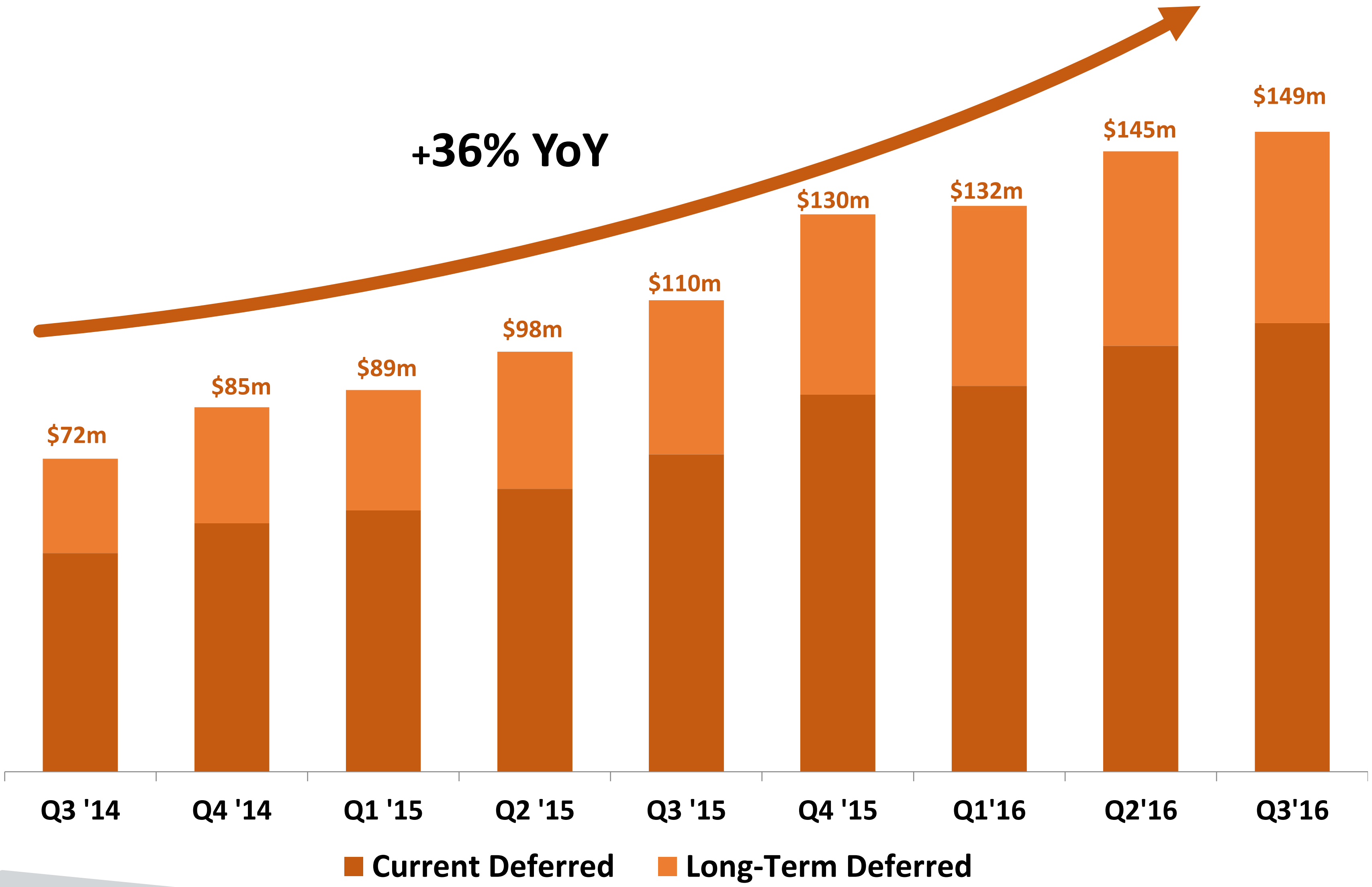
See End Notes for additional information and definitions

Total Revenue | Strong Growth





Deferred Revenue | Continued Growth



87%

of Q3 2016 revenue

already booked

entering the quarter

Revenue Model | High Proportion of Recurring

81% of revenue		19% of revenue
Products	**Maintenance & Support**	**Professional Services**
• Software ○ **20% Content Subscription** ○ Appliance • **Managed Services** • **Cloud-Based Subscription**	• **15% Maintenance Subscription**	• Professional Services

62% SUBSCRIPTION-BASED RECURRING REVENUE

Revenue Flow | Strong Quarterly Visibility

Q3 2016 BILLINGS

$44.9m

89%

$39.8m

Recorded as deferred revenue and to be recognized in future periods

→ 9/30/2016 Balance Sheet Deferred Revenue

11%

$5.1m

Converts to revenue and is recognized as revenue in the current quarter

7/1/2016 Balance Sheet Deferred Revenue

Q3 2016 REVENUE

$5.1m

13%

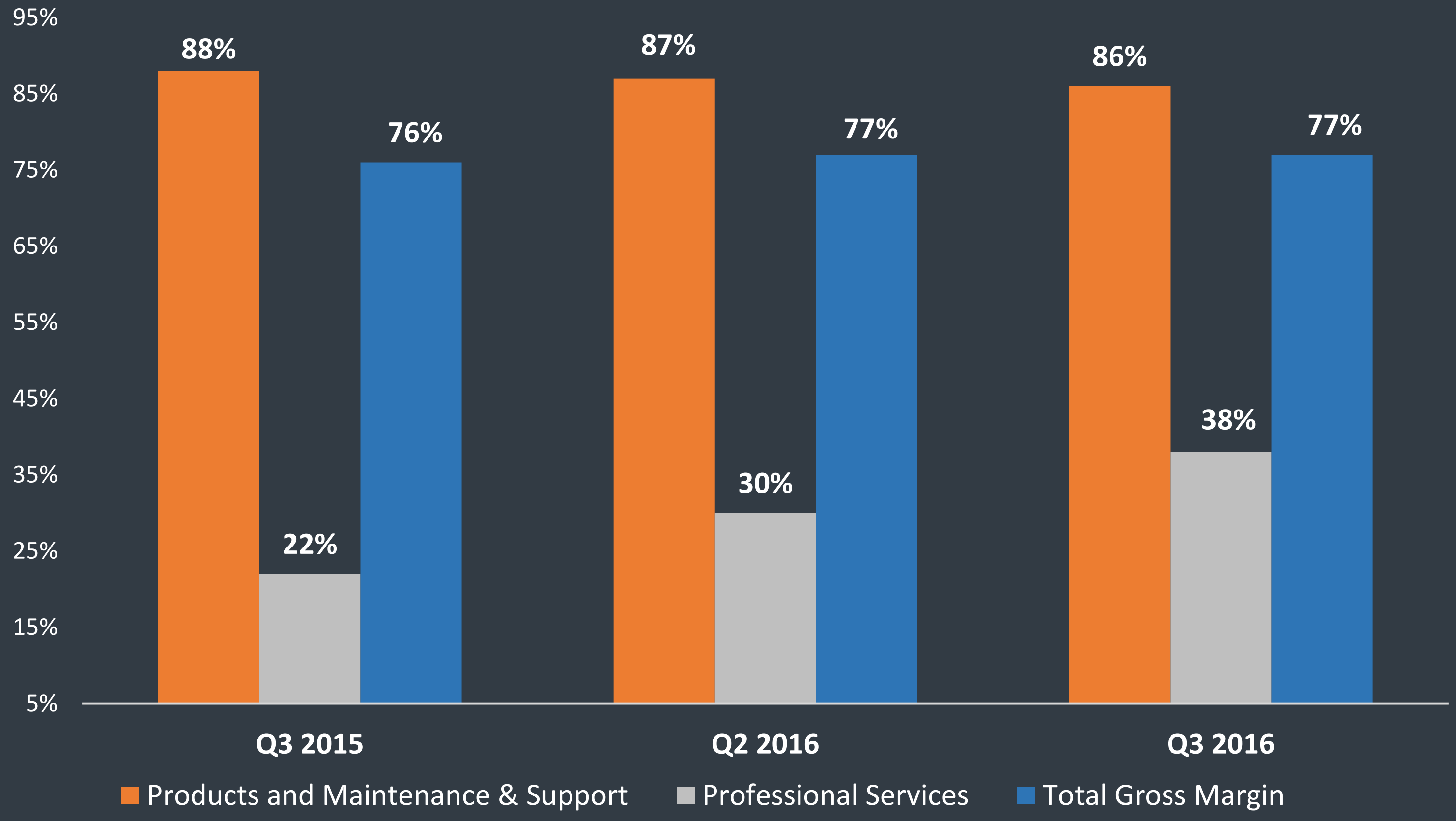
$35.2m

Recognized as revenue from deferred revenue as of July 1 (from prior quarters' billings)

87%

$40.3m

Non GAAP Gross Margin
Continued Gains Toward Profitability

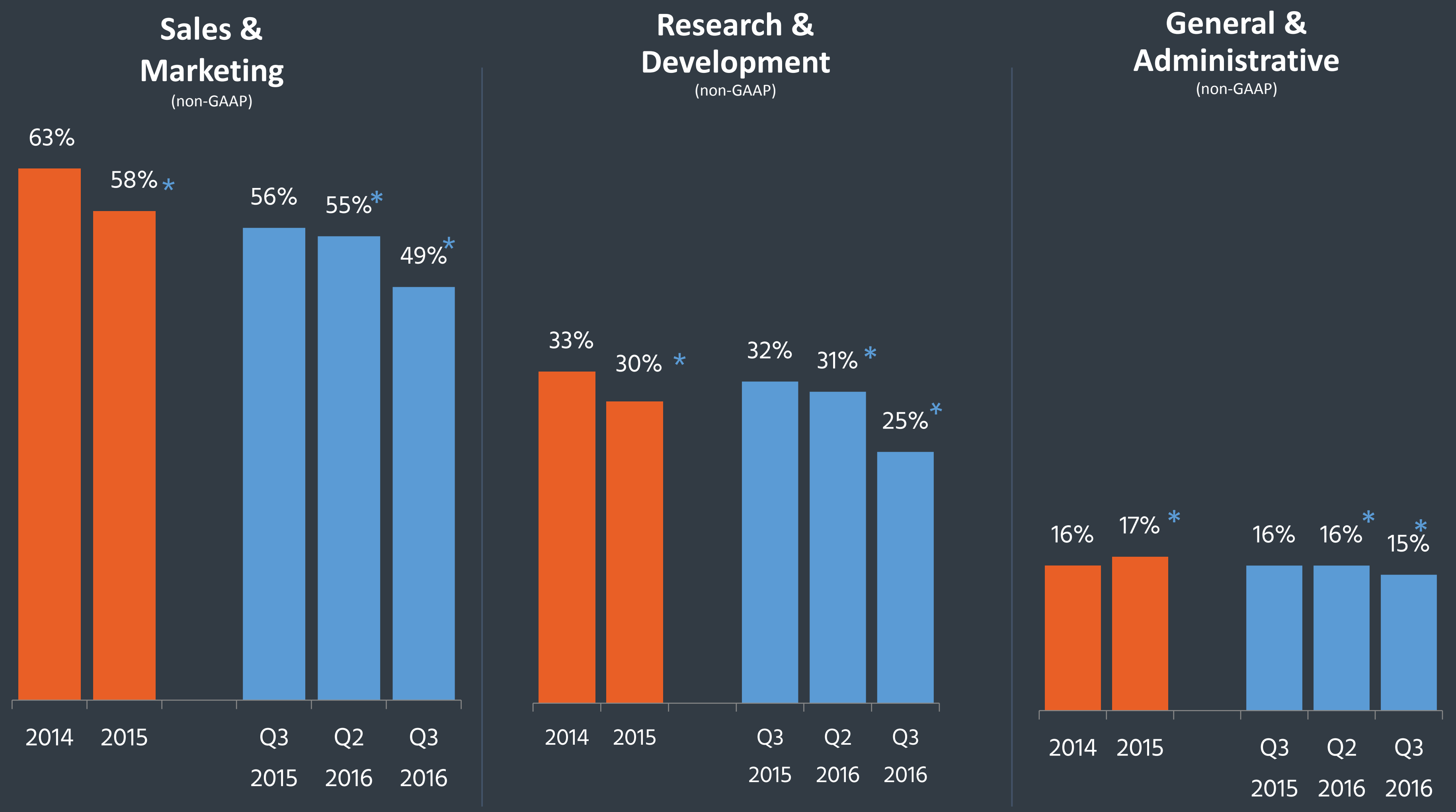


Continued Drive to Profitability

Leading down the path with strong & steady **Gross Margin of 77%**

Professional Services YoY improvement driven by higher revenues due to increase in demand as well as cost efficiencies

Operating Expenses as % of Revenue
(Non-GAAP)

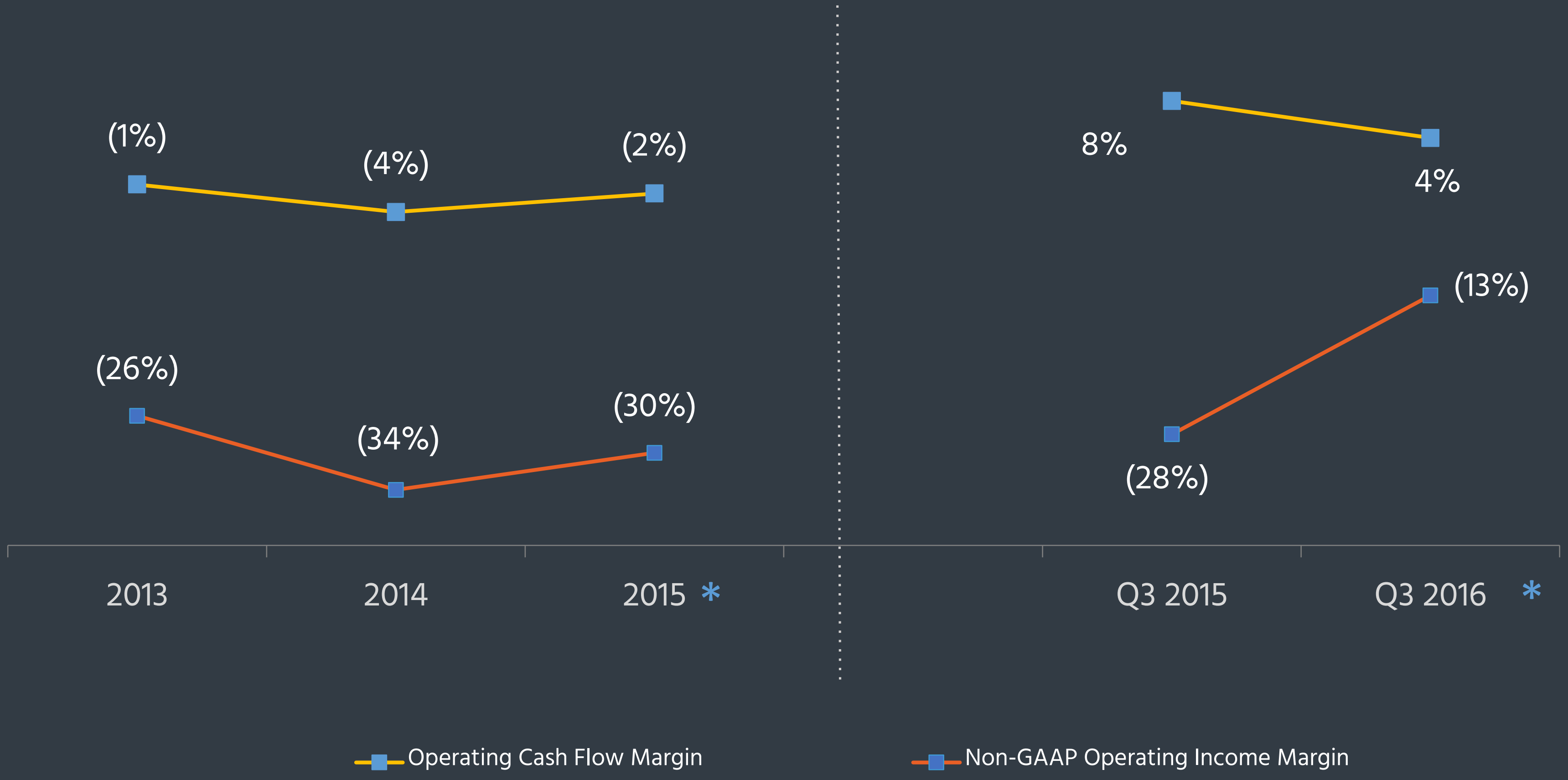


Solid improvements
in Expense to Revenue Ratios across all OPEX lines

We are making progress on our path to profitability

**Note: 2015, Q2 and Q3 2016 includes acquisition of Logentries*

Operating Cash Flow & Operating Income Margins



* 2015 and Q3 2016 include acquisition of Logentries

Q3 OCF

Decline driven by lower billings growth as well as a reduction in average contract length

Q3 OpInc

Improvement driven by efficiency and disciplined cost management

Customer Base | High-Quality & Rapidly Growing

37% of the Fortune 1000

14% International Revenue

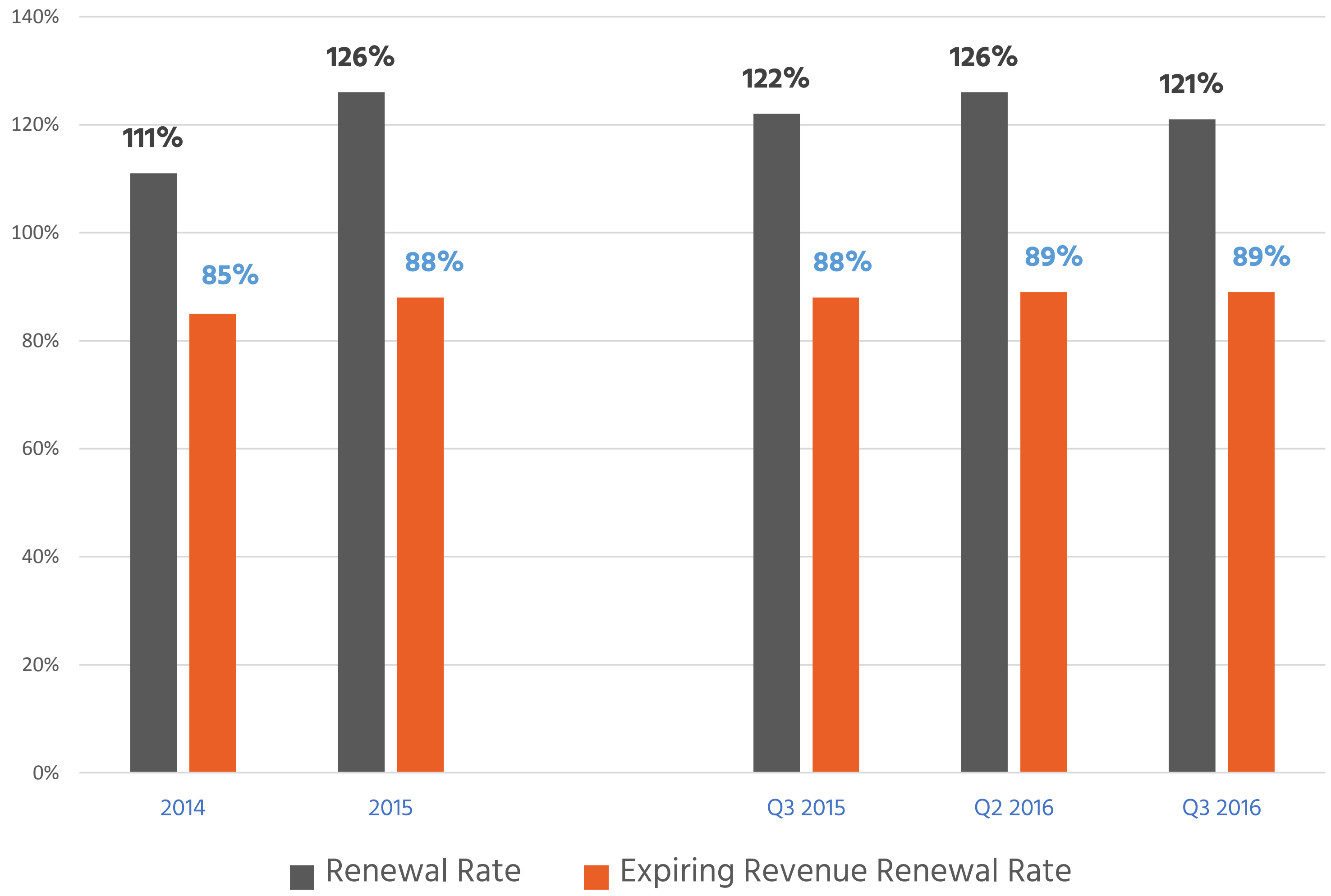
5,800+ CUSTOMERS

57% Enterprise Revenue

15% Largest Industry Segments (Financial Services)

33% Customer Count Growth

Renewal Rates | Continued Growth & Expansion



Renewal Rates Continue Above 100%

Improvement in Expiring from Q3'15

Overall the renewal rates remain strong due to combination of **renewals**, **up-sells** and **cross-sells,** driving better customer economics

Summary Balance Sheet | September 30, 2016

($ in millions)	September 30, 2016
Assets	
Cash and Cash Equivalents	$ 87.7
Accounts Receivable, Net	38.3
Prepaid Expenses and Other Current Assets	6.7
Total Current Assets	**$ 132.7**
Property and Equipment, Net	8.0
Goodwill & Intangible Assets, Net	84.6
Other Assets	0.7
Total Assets	**$ 226.0**
Liabilities and Stockholders' Equity	
Current Liabilities	26.2
Total Deferred Revenue	149.3
Other Long-Term Liabilities	2.9
Total Liabilities	**$ 178.4**
Total Stockholders' Equity	47.6
Total Liabilities and Stockholders' Equity	**$ 226.0**

Guidance | Q4 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 Q4 2016 and the full-year 2016:

	Q4 2016	2016
Total Revenue	$42.2 to $43.6 million	$154.6 to $156.0 million
Loss From Operations (non-GAAP)	$(11.7) to $(10.7) million	$(35.5) to $(34.5) million
Net Loss Per Share (non-GAAP)	$(0.28) to $(0.26)	$(0.87) to $(0.84)
Weighted-average common shares outstanding	*42.0 million*	*41.4 million*

End Notes

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- 62% Recurring Revenue defined as revenue from Content Subscription, Managed Services, Cloud-Based Subscriptions, and Maintenance & Support for Q3 2016.
- 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 three months in the quarter.

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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, impairment of long-lived assets, and acquisition related costs. Net loss per share (GAAP) is calculated 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 Q3 2016
- 62% Recurring Revenue defined as revenue from Content Subscription, Managed Services, Cloud-Based Subscription and Maintenance & Support for Q3 2016.

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- $44.9m in billings is for Q3 2016 and derived from financial statements as Q3 2016 revenue of $40.3m + Q3 2016 deferred revenue balance of $149.3m – Q2 2016 deferred revenue balance of $144.7m.

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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, impairment of long-lived assets and acquisition related costs.

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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, impairment of long-lived assets and acquisition related costs, as a percentage of total revenue.

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- All statistics are for Q3 2016 or as of September 30, 2016, as applicable.
- International revenue is the percentage of global revenue, excluding North America.
- Enterprise customers represent revenues with greater than $1 billion in annual revenue or greater than 2,500 employees as a percentage of revenue.
- A customer is defined as any entity that has 1) has an active Rapid7 contract or a contract that expired within 90 days or less of the applicable measurement date, 2) purchased Rapid7 professional services within the 12 months preceding the applicable measurement date or 3) an active subscription to our Logentries product with a contract value equal to or greater than $2,400 per year.
- Financial services segment individually represent 15% of our customer profiles in Q3 2016.

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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 three months in the quarter.
- 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 2016 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, and acquisition related expenses. 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 Billings, Gross Profit & Operating Loss Reconciliations

(in thousands)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Revenue (GAAP)	$ 40,339	$ 28,312
Plus: Change in Deferred Revenue	4,542	12,641
Billings (non- GAAP)	$ 44,881	$ 40,953

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Total gross profit (GAAP)	$ 30,301	$ 21,249
Plus: Stock-based compensation expense[1]	166	102
Plus: Amortization of intangible assets[2]	447	285
Total gross profit (non-GAAP)	$ 30,914	$ 21,636
Gross margin (non-GAAP)	77%	76%
Gross profit (GAAP) - Products and Maintenance and support	$ 27,586	$ 20,233
Plus: Stock-based compensation expense	52	23
Plus: Amortization of intangible assets	447	285
Total gross profit (non-GAAP) - Products and Maintenance and support	$ 28,085	$ 20,541
Gross margin (non-GAAP) - Products and Maintenance and support	86%	88%
Gross profit (GAAP) - Professional services	$ 2,715	$ 1,016
Plus: Stock-based compensation expense	114	79
Total gross profit (non-GAAP) - Professional services	$ 2,829	$ 1,095
Gross margin (non-GAAP) - Professional services	38%	22%
Loss from operations (GAAP)	$ (10,204)	$ (10,498)
Plus: Stock-based compensation expense[1]	4,177	1,427
Plus: Amortization of intangible assets[2]	769	285
Plus: Acquisition related expenses[3]	-	551
Plus: Impairment of long-lived assets[4]	-	483
Loss from operations (non-GAAP)	$ (5,258)	$ (7,752)

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

(in thousands, except share and per share data)

	Three Months Ended	
	September 30, 2016	September 30, 2015
Net loss attributable to common stockholders (GAAP)	$ (10,194)	$ (25,986)
Plus: Accretion of preferred stock to redemption value	-	-
Plus: Beneficial conversion charge relating to IPO Participatio Payment	-	14,161
Net loss (GAAP)	(10,194)	(11,825)
Plus: Stock-based compensation expense[1]	4,177	1,427
Plus: Amortization of intangible assets[2]	769	285
Plus: Acquisition related expenses[3]	-	551
Plus: Impairment of long-lived assets[4]	-	483
Net loss (non-GAAP)	$ (5,248)	$ (9,079)
Net loss per share, basic and diluted (non-GAAP)	$ (0.13)	$ (0.27)
Weighted-average common shares outstanding, basic and diluted	41,482,173	33,020,484
[1] Includes stock-based compensation expense as follows:		
Cost of revenue	$ 166	$ 102
Research and development	1,600	507
Sales and marketing	1,328	418
General and administrative	1,083	400
[2] Includes amortization of intangible assets as follows:		
Cost of revenue	$ 447	$ 285
Sales and marketing	38	-
General and administrative	284	-
[3] Includes acquisition related expenses as follows:		
General and administrative	$ -	$ 551
[4] Includes impairment of long-lived assets as follows:		
Research and development	$ -	$ 483

Rapid7, Inc.

100 Summer Street
Boston, MA 02110