

Q4 FY2018 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

March 26, 2018

FORWARD-LOOKING STATEMENTS

Certain statements contained in this presentation may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: risks related to the ability of the Company to compete effectively; the ability to deliver and stimulate demand for new products and technological innovations on a timely basis; delays or reductions in information technology spending; the integration of acquisitions and the ability to market successfully acquired technologies and products; fluctuations in exchange rates; the effects of industry consolidation; uncertainty and adverse results in litigation and related settlements; the inability to adequately protect Company intellectual property and the potential for infringement or breach of license claims of or relating to third party intellectual property; risks related to defects in our offerings and third-party hardware upon which our offerings depend; risks related to the security of our offerings and other data security vulnerabilities; changes in and a dependence on key personnel; the ability to meet financial and operational challenges encountered in our international operations; and ineffective management of, and control over, the Company's growth and international operations, as well as other factors contained in our most recent Quarterly Report on Form 10-Q (copies of which may be accessed through the Securities and Exchange Commission's website at <http://www.sec.gov>), including those found therein under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". In addition to these factors, actual future performance, outcomes, and results may differ materially because of more general factors including (without limitation) general industry and market conditions and growth rates, economic and political conditions, governmental and public policy changes and the impact of natural disasters such as earthquakes and floods. The forward-looking statements included in this presentation represent the Company's views as of the date of this presentation and these views could change. However, while the Company may elect to update these forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this presentation, March 26, 2018.

INTRODUCTION

The following presentation provides financial highlights and supplemental metrics for Red Hat's fourth quarter ended February 28, 2018. These financial highlights and supplemental metrics were made available on March 26, 2018 in connection with Red Hat's announcement of its financial results for the fourth quarter of fiscal year 2018. This presentation should be read in conjunction with Red Hat's press release issued on March 26, 2018 for its earnings announcement, as well as Red Hat's filings with the U.S. Securities and Exchange Commission, which are available on Red Hat's investor relations website at <http://investors.redhat.com>.

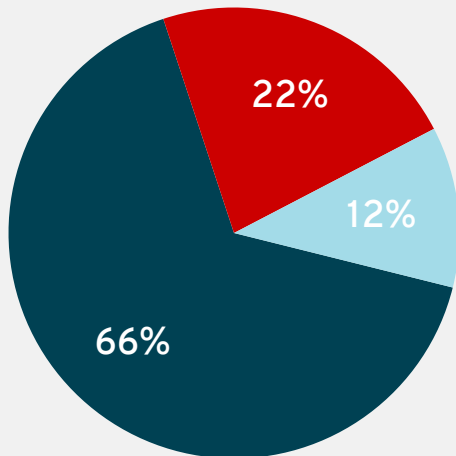
Non-GAAP Measures

In an effort to offer a means of comparing our performance to prior periods, Red Hat augments the financial highlights and supplemental metrics provided in this presentation with non-GAAP financial information. Any non-GAAP financial information provided in this presentation should not be used as a substitute for financial information presented in accordance with GAAP but instead should be read in conjunction with our GAAP results. The methods we use to calculate non-GAAP financial information are not computed according to GAAP and may be materially different from the methods used by other companies.

FINANCIAL HIGHLIGHTS

STRONG 4th QUARTER REVENUE GROWTH

% OF TOTAL REVENUE



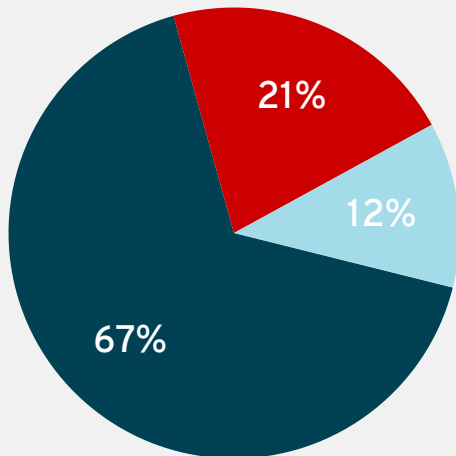
	Q418 Y/Y Growth	Q418 Y/Y Growth, cc ⁽¹⁾
App Dev & emerging tech	39%	34%
Infrastructure-related tech	17%	13%
Training & Consulting	29%	23%
Total Revenue	23%	18%

Q4 HIGHLIGHTS:

- 64th consecutive quarter of revenue growth
- Annualized total revenue run rate of \$3 billion

STRONG ANNUAL REVENUE GROWTH

% OF TOTAL REVENUE

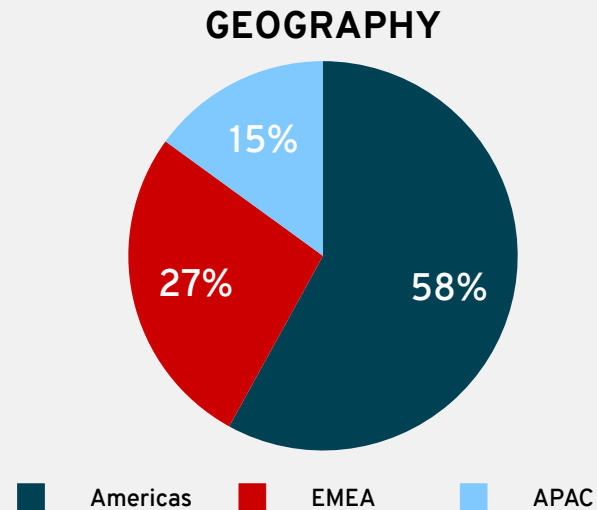
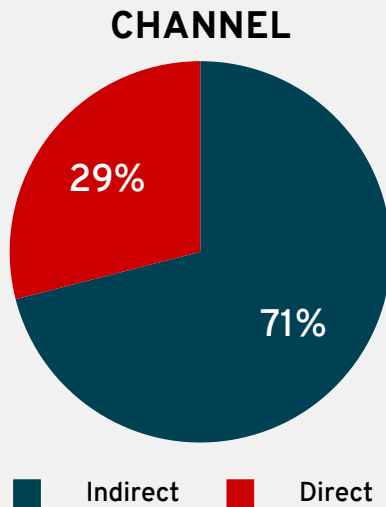


	FY18 Y/Y Growth	FY18 Growth, cc ⁽¹⁾
App Dev & emerging tech	42%	40%
Infrastructure-related tech	15%	14%
Training & Consulting	25%	24%
Total Revenue	21%	20%

FY18 HIGHLIGHTS:

- Strong growth in both Infrastructure-related and App Dev & Emerging tech
- App Dev & Emerging tech now 21% of total revenue and 24% of subscription revenue
- Record number of large deals with 373 deals >\$1M including 54 deals >\$5M

Q418 BOOKINGS & DEAL METRICS



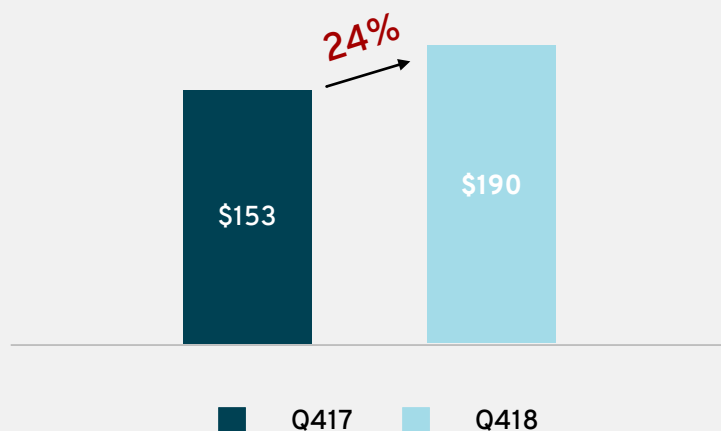
Q4 HIGHLIGHTS:

- Total of 169 deals >\$1M; including 26 over \$5M
- Strong cross-selling with 81% of deals >\$1M including an App Dev & Emerging technology offering

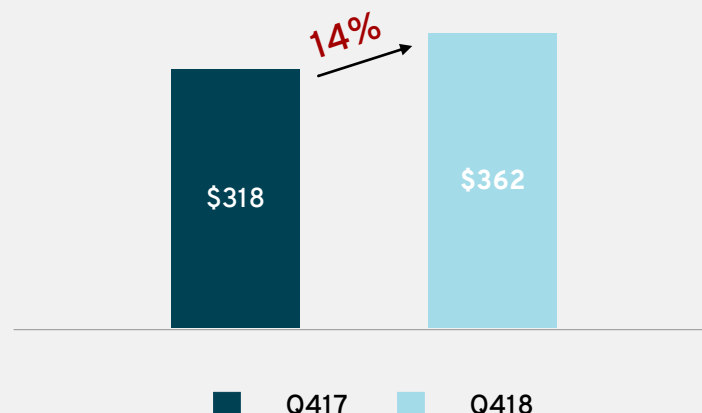
(\$ millions, y/y growth)

QUARTERLY PROFITABILITY & CASH FLOW

NON-GAAP OPERATING INCOME



OPERATING CASH FLOW



Q4 HIGHLIGHTS:

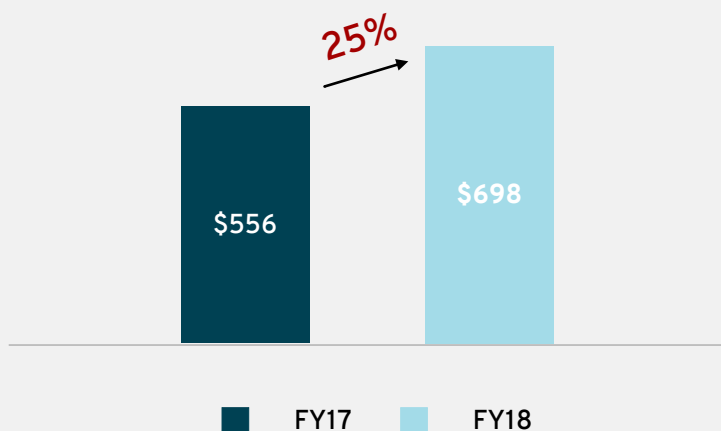
- 17.1% GAAP and 24.6% non-GAAP operating margins
- 25% y/y total deferred revenue growth
- \$2.5B cash & investments balance

Non-GAAP operating income and non-GAAP operating margin exclude non-cash share-based compensation expense, amortization of intangible assets, and transaction costs related to business combinations of \$58 million in Q417 and \$58 million in Q418 from GAAP operating income of \$94 million in Q417 and \$132 million in Q418. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

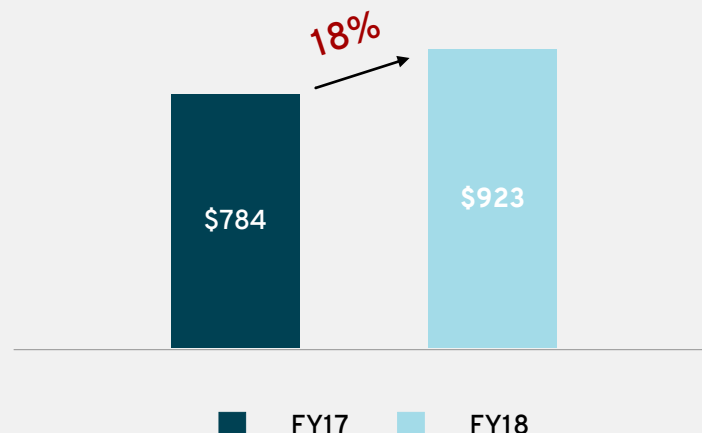
(\$ millions, y/y growth)

ANNUAL PROFITABILITY & CASH FLOW

NON-GAAP OPERATING INCOME



OPERATING CASH FLOW



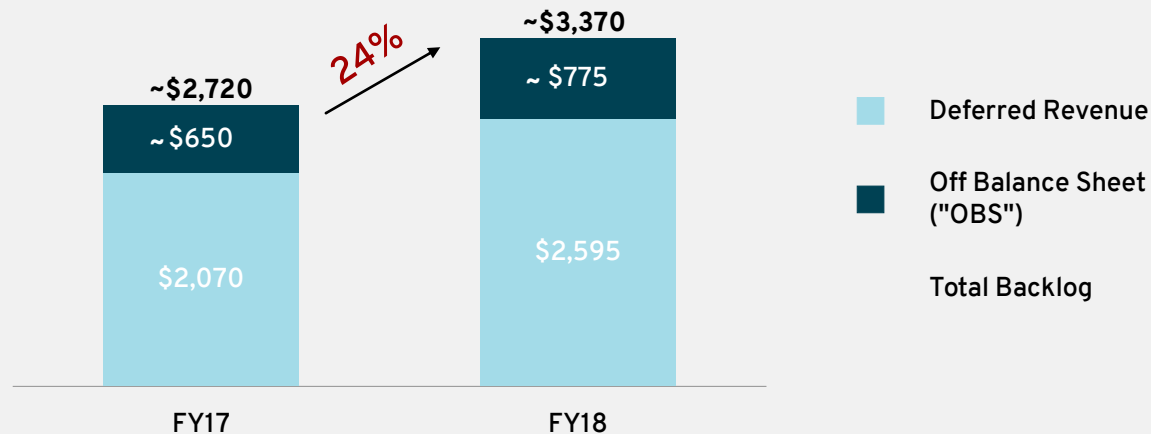
FY18 HIGHLIGHTS:

- 16.2% GAAP and 23.9% non-GAAP operating margins
- Repurchased 2.3 million shares for approximately \$237M

Non-GAAP operating income and non-GAAP operating margin exclude non-cash share-based compensation expense, amortization of intangible assets, and transaction costs related to business combinations of \$224 million in FY17 and \$226 million in FY18 from GAAP operating income of \$332 million in FY17 and \$472 million in FY18. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

(\$ millions, y/y growth)

TOTAL BACKLOG



HIGHLIGHTS:

- Off balance sheet (OBS) up 19% y/y
- Deferred revenue up 25% y/y
- Portion of total backlog to billed during FY19 in excess of \$450M, up 36% y/y

Off Balance Sheet (OBS) backlog reported as a conservative approximation, often describing the amount as "in excess of", primarily because the value of underlying contracts is derived from data not yet subjected to the complete application of our revenue recognition policies.
Total backlog = OBS + deferred revenue

SUPPLEMENTAL FINANCIAL & BUSINESS METRICS

(Unaudited)
(\$ in thousands)

(\$ in thousands)

	Feb'17		May'17		Aug'17		Nov'17		Feb'18	
Revenue	Q417	FY17	Q118	Q218	Q318	Q418	FY18			
Infrastructure-related subscriptions	435,085	1,696,443	457,961	487,447	494,974	510,013	1,950,396			
y/y change	11%	15%	14%	14%	15%	17%	15%			
constant currency y/y change	12%	14%	14%	14%	14%	13%	14%			
App dev & emerging subscriptions	124,503	439,337	138,547	150,115	161,858	173,263	623,782			
y/y change	40%	36%	41%	44%	44%	39%	42%			
constant currency y/y change	40%	36%	42%	43%	42%	34%	40%			
Total Subscription Revenue	559,588	2,135,780	596,508	637,562	656,832	683,276	2,574,178			
y/y change	17%	18%	19%	20%	21%	22%	21%			
constant currency y/y change	17%	18%	20%	20%	19%	18%	19%			
Training & services revenue	69,252	276,023	80,288	85,793	91,146	89,056	346,283			
y/y change	8%	11%	21%	25%	27%	29%	25%			
constant currency y/y change	9%	12%	22%	25%	25%	23%	24%			
Total Revenue	628,840	2,411,803	676,796	723,355	747,978	772,332	2,920,461			
y/y change	16%	18%	19%	21%	22%	23%	21%			
constant currency y/y change	16%	17%	20%	20%	20%	18%	20%			

Percent of Total Revenue (in USD)

Infrastructure-related subscriptions	69%	71%	68%	67%	66%	66%	67%
App dev & emerging subscriptions	20%	18%	20%	21%	22%	22%	21%
Total Subscription Revenue	89%	89%	88%	88%	88%	88%	88%
Training & services revenue	11%	11%	12%	12%	12%	12%	12%
Total Revenue	100%	100%	100%	100%	100%	100%	100%

(Unaudited)
(\$ in thousands)

	Feb'17		May'17	Aug'17	Nov'17	Feb'18	
Revenue by Geography	Q417	FY17	Q118	Q218	Q318	Q418	FY18
Americas	410,449	1,555,290	438,380	463,359	471,773	484,492	1,858,004
y/y change	15%	15%	20%	20%	20%	18%	19%
constant currency y/y change	14%	15 %	20%	20%	20%	18%	19 %
EMEA	131,308	515,642	143,671	159,722	173,718	180,087	657,197
y/y change	14%	18%	16%	25%	31%	37%	27%
constant currency y/y change	17%	18 %	20%	21%	22%	20%	21 %
APAC	87,083	340,871	94,745	100,274	102,487	107,753	405,260
y/y change	24%	30%	22%	16%	15%	24%	19%
constant currency y/y change	22%	25 %	22%	18%	17%	18%	19 %
Total Revenue	628,840	2,411,803	676,796	723,355	747,978	772,332	2,920,461
y/y change	16%	18%	19%	21%	22%	23%	21%
constant currency y/y change	16%	17 %	20%	20%	20%	18%	20 %
Percent of Total Revenue (in USD)							
Americas	65%	64%	65%	64%	63%	63%	64%
EMEA	21%	22%	21%	22%	23%	23%	22%
APAC	14%	14%	14%	14%	14%	14%	14%
Total Revenue	100%	100%	100%	100%	100%	100%	100%

(Unaudited)

(\$ in thousands, except per share amounts)

	Feb'17		May'17	Aug'17	Nov'17	Feb'18	
Non-GAAP Income Statement:	Q417	FY17	Q118	Q218	Q318	Q418	FY18
Gross Profit	544,651	2,089,540	583,884	625,225	644,747	668,374	2,522,231
Operating Income	152,628	556,420	138,623	190,897	178,718	189,936	698,174
Net Income	109,692	413,851	101,697	138,268	133,076	166,989	540,030
Gross Margin	86.6%	86.6%	86.3%	86.4%	86.2%	86.5%	86.4%
Subscription Gross Margin	93.5%		93.7%	93.7%	93.8%	93.9%	
Training & Services Gross Margin	30.7%		31.4%	32.1%	31.6%	30.1%	
Operating Margin	24.3%	23.1%	20.5%	26.4%	23.9%	24.6%	23.9%
EPS Basic	0.62	2.30	0.57	0.78	0.75	0.94	3.05
EPS Diluted	0.61	2.27	0.56	0.77	0.73	0.91	2.98
Tax Rate before discrete items	29.5%	27.5%	27.5%	27.6%	26.0%	17.8%	24.3%
Weighted Average Shares Outstanding							
Basic	177,802	179,642	177,243	177,257	177,063	177,034	177,150
Diluted	180,705	182,669	180,217	180,315	182,051	183,005	181,157
Balance Sheet	Q417	FY17	Q118	Q218	Q318	Q418	FY18
Total Cash & Investments	2,133,231	2,133,231	2,309,581	2,314,416	2,321,173	2,472,932	2,472,932
Current Deferred Revenue	1,512,762	1,512,762	1,486,409	1,471,434	1,482,428	1,853,719	1,853,719
Long-Term Deferred Revenue	557,194	557,194	567,755	581,077	623,150	741,453	741,453
Prior Year Deferred Revenue Balance	1,722,544		1,692,156	1,680,652	1,707,978	2,069,956	
Constant currency change in Deferred Revenue ⁽¹⁾	348,892		349,267	335,313	328,407	433,040	
Impact from foreign currency translation ⁽²⁾	(1,480)		12,741	36,546	69,193	92,176	
Ending Deferred Revenue Balance	2,069,956		2,054,164	2,052,511	2,105,578	2,595,172	
Cash Flow Statement	Q417	FY17	Q118	Q218	Q318	Q418	FY18
Current Deferred Revenue Change	284,083	239,413	(45,758)	(41,741)	13,966	351,968	278,435
Long-Term Deferred Revenue Change	73,316	109,121	41	1,166	43,309	109,231	153,747
Total Change in Deferred Revenue	357,399	348,534	(45,717)	(40,575)	57,275	461,199	432,182
Net Operating Cash Flow	318,259	783,717	257,872	142,896	160,307	362,063	923,138

(1) Change in deferred revenue includes \$858 acquired as part of a business combination during the twelve months ended February 28, 2018.

(2) Quarterly FX impacts to y/y change in deferred revenue are \$27.6 million in Q4FY18, (\$4.2) million in Q3FY18, \$38.9 million in Q2FY18 and \$29.9 million in Q1FY18.

	Feb'17		May'17	Aug'17	Nov'17	Feb'18	
Bookings & Deal Metrics:	Q417	FY17	Q118	Q218	Q318	Q418	FY18
# of Top 25 Renewals	25		25	25	25	24	
Top 25 Renewal Rates (of prior deal value)	>120%		>120%	~115%	>120%	>120%	
Deals >\$1M	110	283	44	66	94	169	373
Deals >\$1M - \$5M	94	248	37	62	77	143	319
Deals >\$5M - \$10M	11	25	3	4	13	12	32
Deals >\$10M - \$20M	1	4	3	—	3	12	18
Deals >\$20M	4	6	1	—	1	2	4
Deals containing App Dev & Emerging Tech	58%	57%	68%	61%	62%	81%	71%
Deals w/ only App Dev & Emerging Tech	23%	19%	5%	17%	12%	19%	15%
Indirect Channel Bookings	69%	72%	72%	79%	67%	71%	72%
Direct Bookings	31%	28%	28%	21%	33%	29%	28%
Bookings by Geography							
Americas	67%	62%	55%	57%	57%	58%	57%
EMEA	21%	23%	24%	24%	28%	27%	26%
APAC	12%	15%	21%	19%	15%	15%	17%
Average Contract Length (months)	25	23	22	21	24	23	23
% of Single Year Bookings	65%	69%	73%	76%	67%	68%	71%
% of Multi-Year Bookings	35%	31%	27%	24%	33%	32%	29%
Additional Metrics							
Employees	10,489		10,706	11,084	11,413	11,874	
Average EUR FX Rate	1.06	1.10	1.08	1.11	1.18	1.24	1.15
Average JPY FX Rate	115	108	112	112	112	108	111

(Unaudited)

	Feb'17		May'17	Aug'17	Nov'17	Feb'18	
	Q417	FY17	Q118	Q218	Q318	Q418	FY18
Share Repurchases							
# Shares purchased (millions)	1.9	6.2	0.7	0.8	0.8	—	2.3
Aggregate Principal Amount (\$ millions)	139	459	62	75	100	—	237
Remaining Balance on Plan at quarter-end (\$ millions)	636	636	574	499	399	399	399
Days Sales Outstanding (DSO) (in thousands, except # of days)							
Total Revenue	628,840	2,411,803	676,796	723,355	747,978	772,332	2,920,461
Q/Q Δ deferred revenue (Balance Sheet)	361,979		(15,792)	(1,653)	53,067	489,594	
Deferred revenue (Cash Flow Stmt.)	357,399	348,534	(45,717)	(40,575)	57,275	461,199	432,182
Accounts Receivable, net	634,821		429,908	418,449	531,509	806,744	
Q/Q FX impact on Accounts Receivable	(1,509)		(4,416)	(5,524)	1,400	(6,839)	
Accounts Receivable in constant currency	633,312		425,492	412,925	532,909	799,905	
# calendar days in quarter	90		92	92	91	90	
DSO ⁽¹⁾	58		60	55	60	58	
FX adj DSO ⁽²⁾	58		62	56	60	58	

⁽¹⁾ Days Sales Outstanding (DSO) is calculated by dividing Accounts Receivable, net by (Total Revenue + Q/Q change in deferred revenue from Balance Sheet) then multiplying by the number of calendar days in the quarter.

⁽²⁾ FX adjusted DSO is calculated by dividing Accounts Receivable in constant currency by (Total Revenue + Deferred Revenue from Cash Flow Statement) then multiplying by the number of calendar days in the quarter.

GAAP TO NON-GAAP RECONCILIATION

Red Hat GAAP to Non-GAAP Reconciliation Quarterly

(Unaudited)		Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418
(In thousands - except per share amounts)		Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
		5/31/2016	8/31/2016	11/30/2016	2/28/2017	5/31/2017	8/31/2017	11/30/2017	2/28/2018
GAAP Operating Income as reported		\$ 75,363	\$ 81,884	\$ 80,773	\$ 94,225	\$ 87,608	\$ 134,559	\$ 118,413	\$ 131,862
Add: Non-cash share-based compensation expense	Cost of Revenue	4,305	4,054	4,037	4,157	3,948	4,261	4,199	4,453
Add: Non-cash share-based compensation expense	S&M	18,440	20,361	26,624	27,952	20,612	20,817	23,278	22,450
Add: Non-cash share-based compensation expense	R&D	12,002	12,969	13,814	13,639	13,447	14,220	14,937	14,405
Add: Non-cash share-based compensation expense	G&A	6,528	7,973	10,266	5,409	5,711	7,649	9,904	7,958
Total Non-cash share-based compensation expense		41,275	45,357	54,741	51,157	43,718	46,947	52,318	49,266
Add: Amortization of intangible assets	Cost of Revenue	3,623	3,846	4,234	3,861	3,836	4,326	4,329	4,214
Add: Amortization of intangible assets	S&M	1,916	1,905	1,695	1,563	1,459	1,583	1,592	1,561
Add: Amortization of intangible assets	R&D	34	34	34	35	34	35	34	35
Add: Amortization of intangible assets	G&A	1,753	1,848	1,690	1,787	1,826	2,227	2,084	2,270
Total Amortization of intangible assets		7,326	7,633	7,653	7,246	7,155	8,171	8,039	8,080
Add: Transaction costs related to business combinations		—	1,789	—	—	142	1,220	(52)	728
Non-GAAP Operating Income		\$ 123,964	\$ 136,663	\$ 143,167	\$ 152,628	\$ 138,623	\$ 190,897	\$ 178,718	\$ 189,936
GAAP Operating Margin as reported		13.3%	13.7%	13.1%	15.0%	12.9%	18.6%	15.8%	17.1%
Non-GAAP Operating Margin		21.8%	22.8%	23.3%	24.3%	20.5%	26.4%	23.9%	24.6%
GAAP Net Income as reported		\$ 61,184	\$ 58,772	\$ 67,943	\$ 65,803	\$ 73,190	\$ 96,859	\$ 101,306	\$ (12,552)
GAAP provision for income taxes		11,169	20,663	8,775	25,870	11,740	34,971	14,604	154,583
GAAP Income before provision for income taxes		72,353	79,435	76,718	91,673	84,930	131,830	115,910	142,031
Add: Non-cash share-based compensation expense		41,275	45,357	54,741	51,157	43,718	46,947	52,318	49,266
Add: Amortization of intangible assets		7,326	7,633	7,653	7,246	7,155	8,171	8,039	8,080
Add: Non-cash interest expense related to the debt discount		4,731	4,753	4,800	4,820	4,867	4,890	4,936	4,961
Add: Transaction costs related to business combinations		—	1,789	—	—	142	1,220	(52)	728
Non-GAAP adjusted income before provision for taxes		125,685	138,967	143,912	154,896	140,812	193,058	181,151	205,066
Non-GAAP provision for income taxes		33,507	37,739	33,160	45,204	39,115	54,790	48,075	38,077
Non-GAAP adjusted net income (basic and diluted)		\$ 92,178	\$ 101,228	\$ 110,752	\$ 109,692	\$ 101,697	\$ 138,268	\$ 133,076	\$ 166,989
GAAP net income per share:									
Basic		\$ 0.34	\$ 0.33	\$ 0.38	\$ 0.37	\$ 0.41	\$ 0.55	\$ 0.57	\$ (0.07)
Diluted		\$ 0.33	\$ 0.32	\$ 0.37	\$ 0.36	\$ 0.40	\$ 0.53	\$ 0.54	\$ (0.07)
Non-GAAP adjusted net income per share:									
Basic		\$ 0.51	\$ 0.56	\$ 0.62	\$ 0.62	\$ 0.57	\$ 0.78	\$ 0.75	\$ 0.94
Diluted		\$ 0.50	\$ 0.55	\$ 0.61	\$ 0.61	\$ 0.56	\$ 0.77	\$ 0.73	\$ 0.91
Weighted average shares outstanding:									
Basic		181,168	180,322	179,233	177,802	177,243	177,257	177,063	177,034
GAAP Diluted		184,187	183,346	182,682	181,197	181,810	183,021	186,160	177,034
Dilutive effect of outstanding equity awards, convertible notes and warrants		—	—	—	—	—	—	—	10,699
Dilution offset from convertible note hedge transactions		—	(195)	(514)	(492)	(1,593)	(2,706)	(4,109)	(4,728)
Non-GAAP Diluted		184,187	183,151	182,168	180,705	180,217	180,315	182,051	183,005

Red Hat GAAP to Non-GAAP Reconciliation Quarterly (continued)

(Unaudited)	Q117		Q217		Q317		Q417		Q118		Q218		Q318		Q418	
(In thousands - except per share amounts)	Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
	<u>5/31/2016</u>		<u>8/31/2016</u>		<u>11/30/2016</u>		<u>2/28/2017</u>		<u>5/31/2017</u>		<u>8/31/2017</u>		<u>11/30/2017</u>		<u>2/28/2018</u>	
Non-GAAP adjusted income before provision for income taxes	\$	125,686	\$	138,967	\$	143,912	\$	154,896	\$	140,812	\$	193,058	\$	181,151	\$	205,066
GAAP estimated annual effective tax rate		27.0%		27%		27.0%		29.5%		27.5%		27.6%		26.0%		17.8%
Provision for income taxes on non-GAAP adjusted income before discrete tax benefits		33,935		37,521		38,856		45,698		38,723		53,425		46,908		35,925
Discrete tax expense (benefit), excluding discrete benefits related to share-based compensation		(428)		218		(5,696)		(494)		391.884		1,365		1,167		2,152
Provision for income taxes on non-GAAP adjusted income, excluding impact of tax reform and discrete tax benefits related to share-based compensation	\$	33,507	\$	37,739	\$	33,160	\$	45,204	\$	39,115	\$	54,790	\$	48,075	\$	38,077

Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>5/31/2016</u>	<u>8/31/2016</u>	<u>11/30/2016</u>	<u>2/28/2017</u>	<u>5/31/2017</u>	<u>8/31/2017</u>	<u>11/30/2017</u>	<u>2/28/2018</u>
GAAP Revenue:								
Subscriptions	\$ 501,665	\$ 531,209	\$ 543,318	\$ 559,588	\$ 596,508	\$ 637,562	\$ 656,832	\$ 683,276
Training and services	66,234	68,596	71,942	69,252	80,288	85,793	91,146	89,056
Total subscription, training and services revenue	567,899	599,805	615,260	628,840	676,796	723,355	747,978	772,332
Non-GAAP Cost of revenue:								
Subscriptions	30,765	33,828	34,487	36,229	37,834	39,863	40,873	41,739
Training and services	45,355	45,943	47,695	47,960	55,078	58,267	62,358	62,219
Total cost of subscription, training and services revenue	76,120	79,771	82,182	84,189	92,912	98,130	103,231	103,958
GAAP Gross Profit as reported	483,851	512,134	524,807	536,633	576,100	616,638	636,219	659,707
Add: Non-cash share-based compensation expense	4,305	4,054	4,037	4,157	3,948	4,261	4,199	4,453
Add: Amortization of intangible assets	3,623	3,846	4,234	3,861	3,836	4,326	4,329	4,214
Total Non-GAAP gross profit	491,779	520,034	533,078	544,651	583,884	625,225	644,747	668,374
Cost of revenue reconciliation GAAP to non-GAAP:								
Subscriptions (GAAP)	36,545	39,678	40,660	42,095	43,633	46,324	47,277	48,105
Less: non-cash share-based compensation expense	2,157	2,004	1,939	2,005	1,963	2,135	2,075	2,152
Less: Amortization of intangible assets	3,623	3,846	4,234	3,861	3,836	4,326	4,329	4,214
Subscriptions (non-GAAP)	30,765	33,828	34,487	36,229	37,834	39,863	40,873	41,739
Training and services (GAAP)	47,503	47,993	49,793	50,112	57,063	60,393	64,482	64,520
Less: non-cash share-based compensation expense	2,148	2,050	2,098	2,152	1,985	2,126	2,124	2,301
Less: Amortization of intangible assets	—	—	—	—	—	—	—	—
Training and services (non-GAAP)	45,355	45,943	47,695	47,960	55,078	58,267	62,358	62,219
GAAP Gross Margin	85.2%	85.4%	85.3%	85.3%	85.1%	85.2%	85.1%	85.4%
Non-GAAP Gross Margin	86.6%	86.7%	86.6%	86.6%	86.3%	86.4%	86.2%	86.5%
GAAP Subscription Gross Margin	92.7%	92.5%	92.5%	92.5%	92.7%	92.7%	92.8%	93.0%
Non-GAAP Subscription Gross Margin	93.9%	93.6%	93.7%	93.5%	93.7%	93.7%	93.8%	93.9%
GAAP Training and services Gross Margin	28.3%	30.0%	30.8%	27.6%	28.9%	29.6%	29.3%	27.6%
Non-GAAP Training and services Gross Margin	31.5%	33.0%	33.7%	30.7%	31.4%	32.1%	31.6%	30.1%

Red Hat GAAP to Non-GAAP Reconciliation – Annual

(Unaudited)

(In thousands - except per share amounts)

	FY13		FY14		FY15		FY16		FY17		FY18	
	Year End		Year End		Year End		Year End		Year End		Year End	
	2/28/2013		2/28/2014		2/28/2015		2/29/2016		2/28/2017		2/28/2018	
GAAP Operating Income as reported	\$	201,038	\$	232,290	\$	249,994	\$	288,048	\$	332,245	\$	472,442
Add: Non-cash share-based compensation expense – Cost of Revenue		9,433		11,793		14,027		15,898		16,553		16,862
Add: Non-cash share-based compensation expense – S&M		32,906		40,322		55,203		69,089		93,378		87,158
Add: Non-cash share-based compensation expense – R&D		29,647		34,194		38,517		48,466		52,424		57,008
Add: Non-cash share-based compensation expense – G&A		26,712		27,465		27,485		32,781		30,175		31,221
Total Non-cash share-based compensation expense		98,698		113,774		135,232		166,234		192,530		192,249
Add: Amortization of intangible assets – Cost of Revenue		5,943		10,180		10,672		11,726		15,562		16,705
Add: Amortization of intangible assets – S&M		8,416		8,872		7,838		8,075		7,078		6,195
Add: Amortization of intangible assets – R&D		3,836		3,836		2,417		842		138		138
Add: Amortization of intangible assets – G&A		5,328		5,316		5,958		5,160		7,078		8,407
Total Amortization of intangible assets		23,523		28,204		26,885		25,803		29,856		31,445
Add: Transaction costs related to business combinations		—		—		4,001		3,884		1,789		2,038
Add: Facility exit costs		3,142		2,171		—		—		—		—
Non-GAAP Operating Income	\$	326,401	\$	376,439	\$	416,112	\$	483,969	\$	556,420	\$	698,174
GAAP Operating Margin as reported		15.1%		15.1%		14.0%		14.0%		13.7%		16.2%
Non-GAAP Operating Margin		24.6%		24.5%		23.3%		23.6%		23.1%		23.9%
GAAP Net Income as reported	\$	150,204	\$	178,292	\$	180,201	\$	199,365	\$	253,703	\$	258,803
GAAP provision for income taxes		59,548		61,256		75,297		75,500		66,477		215,898
GAAP Income before provision for income taxes	\$	209,752	\$	239,548	\$	255,498	\$	274,865	\$	320,180	\$	474,701
Add: Non-cash share-based compensation expense		98,698		113,774		135,232		166,234		192,530		192,249
Add: Amortization of intangible assets		23,523		28,204		26,885		25,803		29,856		31,445
Add: Non-cash interest expense related to the debt discount		—		—		7,292		18,570		19,104		19,654
Add: Transaction costs related to business combinations		—		—		4,001		3,884		1,789		2,038
Add: Facility exit costs		3,142		2,171		—		—		—		—
Non-GAAP adjusted income before provision for taxes		335,115		383,697		428,908		489,356		563,459		720,087
Non-GAAP provision for income taxes		95,139		98,226		126,399		134,431		149,608		180,057
Non-GAAP adjusted net income	\$	239,976	\$	285,471	\$	302,509	\$	354,925	\$	413,851	\$	540,030
GAAP net income per share:												
Basic	\$	0.78	\$	0.94	\$	0.97	\$	1.09	\$	1.41	\$	1.46
Diluted	\$	0.77	\$	0.93	\$	0.95	\$	1.07	\$	1.39	\$	1.40
Non-GAAP adjusted net income per share:												
Basic	\$	1.24	\$	1.50	\$	1.62	\$	1.94	\$	2.30	\$	3.05
Diluted	\$	1.23	\$	1.49	\$	1.60	\$	1.91	\$	2.27	\$	2.98
Weighted average shares outstanding:												
Basic		193,147		189,920		186,529		182,817		179,642		177,150
GAAP Diluted		195,804		192,036		189,246		186,119		182,961		184,602
Dilution offset from convertible note hedge transactions		—		—		—		(282)		(292)		(3,445)
Non-GAAP Diluted		195,804		192,036		189,246		185,837		182,669		181,157

Red Hat GAAP to Non-GAAP Reconciliation Annual (continued)

(Unaudited)

(In thousands - except per share amounts)

	FY13	FY14	FY15	FY16	FY17	FY18
	Year End	Year End	Year End	Year End	Year End	Year End
	<u>2/28/2013</u>	<u>2/28/2014</u>	<u>2/28/2015</u>	<u>2/29/2016</u>	<u>2/28/2017</u>	<u>2/28/2018</u>
Note FY14, FY17 and FY18 included discrete tax benefits, please see below for provision for income tax breakout:						
Non-GAAP adjusted net income before income tax provision		383,697			563,459	\$ 720,087
GAAP effective tax rate, excluding discrete tax items		<u>26.7%</u>			<u>27.7%</u>	<u>24.3%</u>
Non-GAAP provision for income taxes before discrete tax benefit		102,451			156,010	\$ 174,981
Discrete tax benefit		<u>(4,225)</u>			<u>(6,402)</u>	<u>5,076</u>
Provision for income taxes on Non-GAAP adjusted net income		98,226			149,608	180,057
GAAP Gross Profit as reported	1,128,217	1,302,015	1,516,290	1,742,601	2,057,425	2,488,664
Add: Non-cash share-based compensation expense	9,433	11,793	14,027	15,898	16,553	16,862
Add: Amortization of intangible assets	5,943	10,180	10,672	11,726	15,562	16,705
Total Non-GAAP gross profit	1,143,593	1,323,988	1,540,989	1,770,225	2,089,540	2,522,231
GAAP Gross Margin as reported	84.9%	84.8%	84.7%	84.9%	85.3%	85.2%
Non-GAAP Gross Margin	86.1%	86.3%	86.1%	86.3%	86.6%	86.4%

Red Hat GAAP to Non-GAAP Reconciliation Rolling Average Four Quarter Billings Proxy

(Unaudited)

(In thousands)

	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Rolling Average Four Quarter Billings Proxy</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>	<u>Rolling Average Four Quarter Billings Proxy</u>	<u>Year-Over- Year Growth Rate</u>
	<u>Quarter End</u>	<u>Quarter End</u>	<u>Quarter End</u>	<u>Quarter End</u>		<u>Quarter End</u>	<u>Quarter End</u>	<u>Quarter End</u>	<u>Quarter End</u>		
	<u>5/31/2016</u>	<u>8/31/2016</u>	<u>11/30/2016</u>	<u>2/28/2017</u>		<u>5/31/2017</u>	<u>8/31/2017</u>	<u>11/30/2017</u>	<u>2/28/2018</u>		
Total Revenue	567,899	599,805	615,260	628,840		676,796	723,355	747,978	772,332		
Change in deferred revenue on Statement of Cash Flows	(46,093)	(26,953)	64,181	357,399		(45,717)	(40,575)	57,275	461,199		
Billings proxy	521,806	572,852	679,441	986,239	690,085	631,079	682,780	805,253	1,233,531	838,161	21.5%
Adjustment for currency impact to total revenue						5,145	(2,782)	(9,562)	(27,234)		
Billings Proxy on a Constant Currency basis						636,224	679,998	795,691	1,206,297	829,553	20.2%