



ANALYST DAY

May 2, 2017

SAFE HARBOR MESSAGE

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 data and information 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 Annual Report on Form 10-K (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, May 2, 2017.

AGENDA

- **The opportunity ahead**
Jim Whitehurst, President and CEO
- **Building the future: containers, hybrid cloud and app dev**
Paul Cormier, President Products & Technologies
- **Strategic position driving growth**
Eric Shander, Executive Vice President and CFO

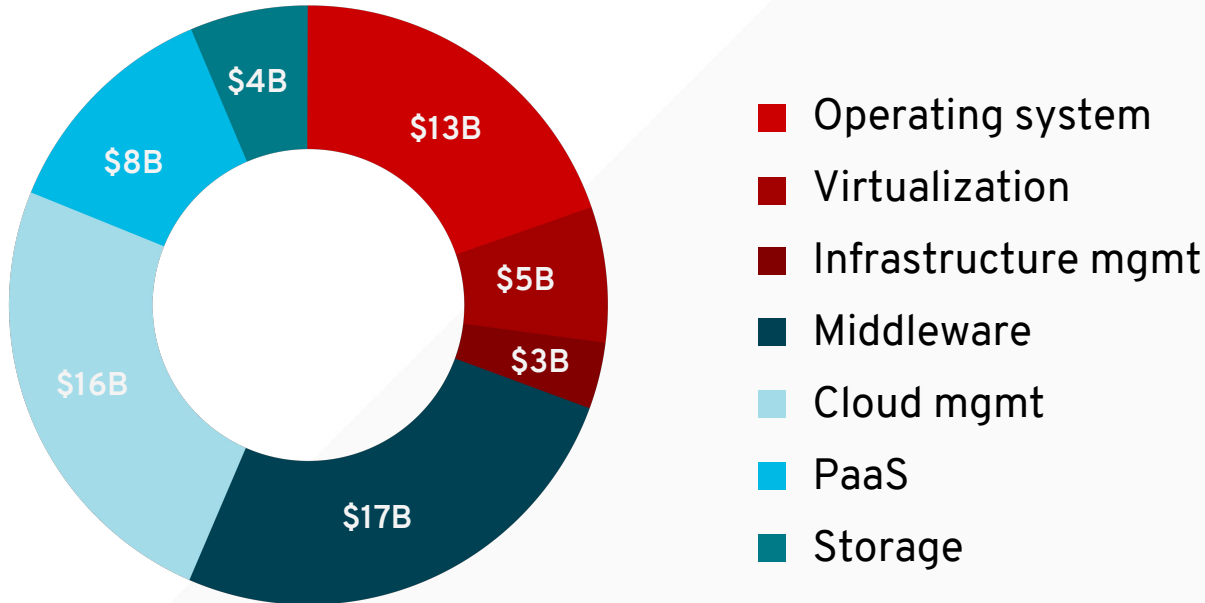


THE OPPORTUNITY AHEAD

Jim Whitehurst
President & chief executive officer
Red Hat

GROWTH OPPORTUNITY

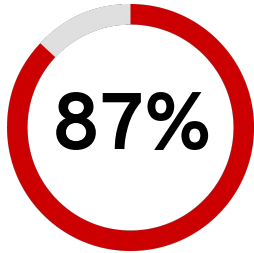
Total addressable market estimated at ~\$66 billion in 2020



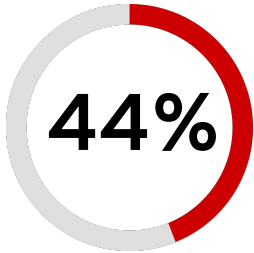
Source: Analyst and company estimates. Not to be construed as company guidance.

CHANGE IS COMING

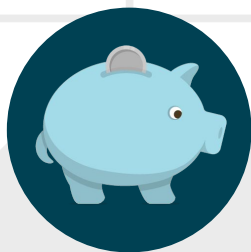
Is your organization also seeing digital disruption?



of respondents anticipate that their industries will be disrupted by digital trends to a great or moderate extent.



of respondents say their organizations are adequately preparing for the disruptions to come.



SAVE MONEY



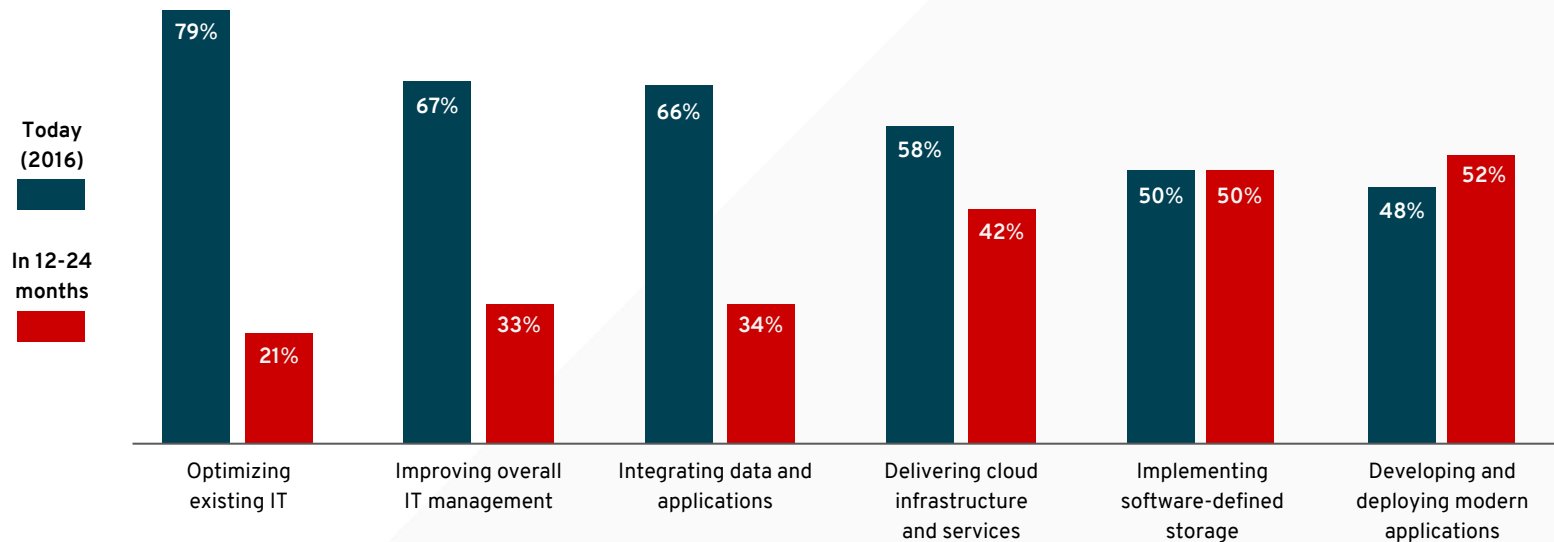
**SOLVE BUSINESS
PROBLEMS**



**ACHIEVE FULL
POTENTIAL**

SHIFT INVESTMENT TO INNOVATION

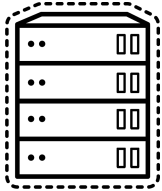
IT optimization to shift from 79% to 21% over next 24 months



Source: Red Hat Global Customer Tech Outlook 2017. Conducted Sept. & Oct. 2016 by TechValidate, n=268. <https://www.redhat.com/en/red-hat-global-customer-tech-outlook-2017>

BALANCING INNOVATION AND OPTIMIZATION

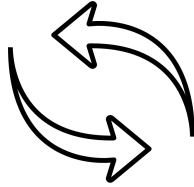
Here's what CIOs say are their top priorities and challenges



Optimizing the IT
you have



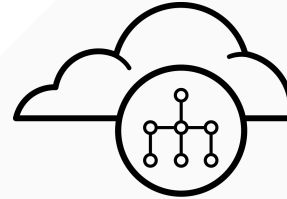
**GAIN
EFFICIENCY**



Integrate apps, data,
and processes



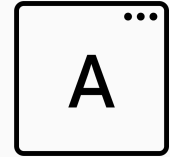
**IMPROVE
PRODUCTIVITY**



Add and manage cloud
infrastructure



**INCREASE
AGILITY**



Build more modern
applications



**MOVE
FASTER**

POWERED BY PARTICIPATION



OUR
TECHNOLOGY



OUR
PROCESS



OUR
CULTURE



Image Source: <http://www.biosmonthly.com/>





SCALE OUR
PARTNERSHIPS



FOCUS ON
CUSTOMERS

A ROBUST PARTNER ECOSYSTEM

CLOUD PARTNERS



TECH PARTNERS



SI PARTNERS



THE TRANSFORMATION IS REAL

And our customers can reap the benefits

PADDYPOWER.



- Open architecture with OpenStack and SDN
- Higher transaction volume and less downtime



- Adopted agile DevOps culture
- Improved efficiency with Red Hat OpenShift Container Platform

amaDEUS



- Created cloud computing platform collaboratively
- More automated and streamlined operations enables new apps to market faster

“The best way to predict
your future is to **create** it.”

– ABRAHAM LINCOLN

“The best way to predict
your future is to create it **TOGETHER.**”

– JIM WHITEHURST



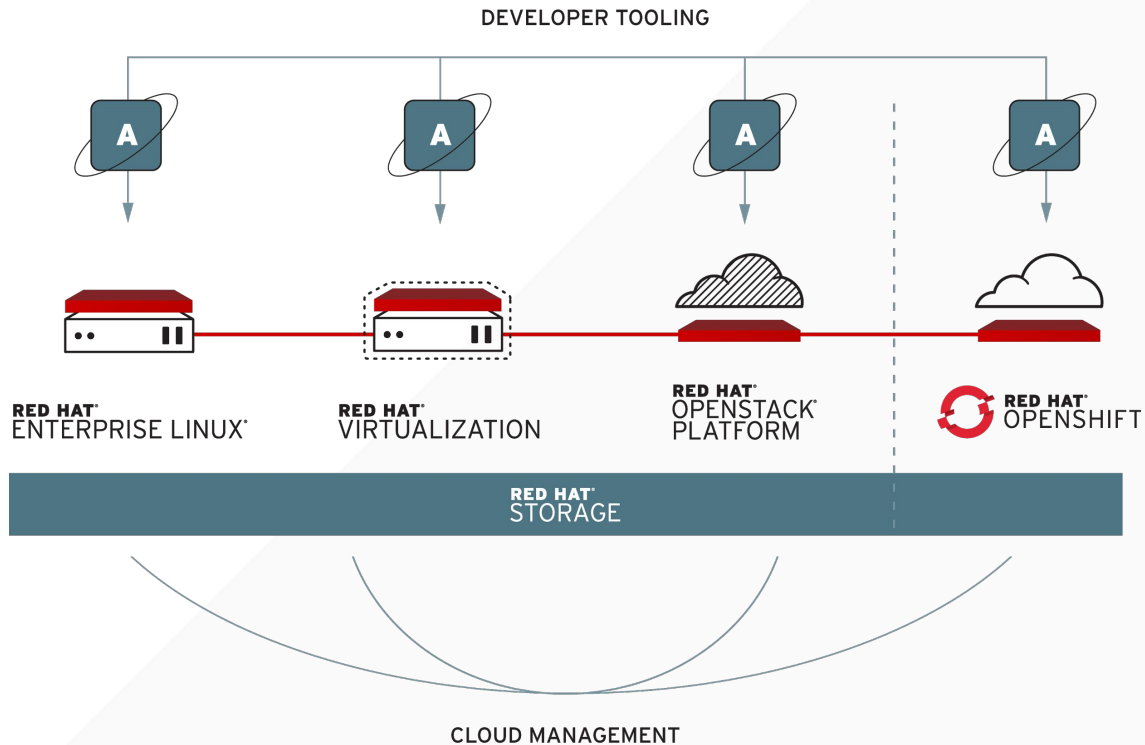
BUILDING THE FUTURE: CONTAINERS, HYBRID CLOUD, AND APP DEV

Paul Cormier
President, Products and Technologies
Red Hat

WHAT HAVE WE BEEN DOING?

HINT: THERE'S MORE TO OUR MODEL

THIS IS OUR MODEL



DEVELOPER TOOLING



COMMON ORCHESTRATION

RED HAT® JBOSS®
MIDDLEWARE

MIDDLEWARE SERVICES



RED HAT®
ENTERPRISE LINUX®

RED HAT®
VIRTUALIZATION

RED HAT®
OPENSTACK®
PLATFORM

RED HAT®
OPENSIFT

Google

amazon.com
web services

Microsoft Azure

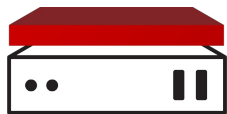
RED HAT®
STORAGE

CLOUD MANAGEMENT

RED HAT®
INSIGHTS

WHAT DO WE DO NEXT?

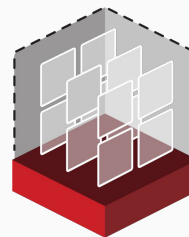
3 INITIATIVES FOR FY18



**RED HAT
ENTERPRISE LINUX**

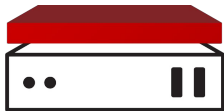


**HYBRID CLOUD
INFRASTRUCTURE**



CONTAINERS

RED HAT ENTERPRISE LINUX OPENS DOORS



RED HAT
ENTERPRISE LINUX

- A common foundation for Red Hat platforms
- The first step toward cloud-based infrastructure, platforms, and applications
- Part of traditional OS, virtualization, private cloud, and public clouds

We are the enterprise Linux leader with a 15-year head start building strong, flexible foundations.

HYBRID CLOUD INFRASTRUCTURE IS FLEXIBLE

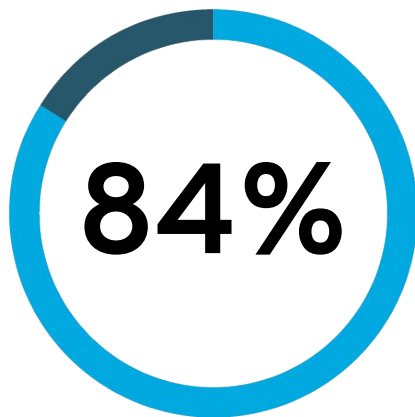


HYBRID CLOUD
INFRASTRUCTURE

- Our approach to cloud computing
- A more secure environment, managed across multiple footprints
- Presence of multiple vendors can prevent public cloud lock-in

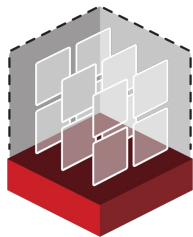
We are uniquely positioned to get apps to cloud in a practical way.

HYBRID CLOUD INFRASTRUCTURE



are using private, public, or hybrid cloud¹

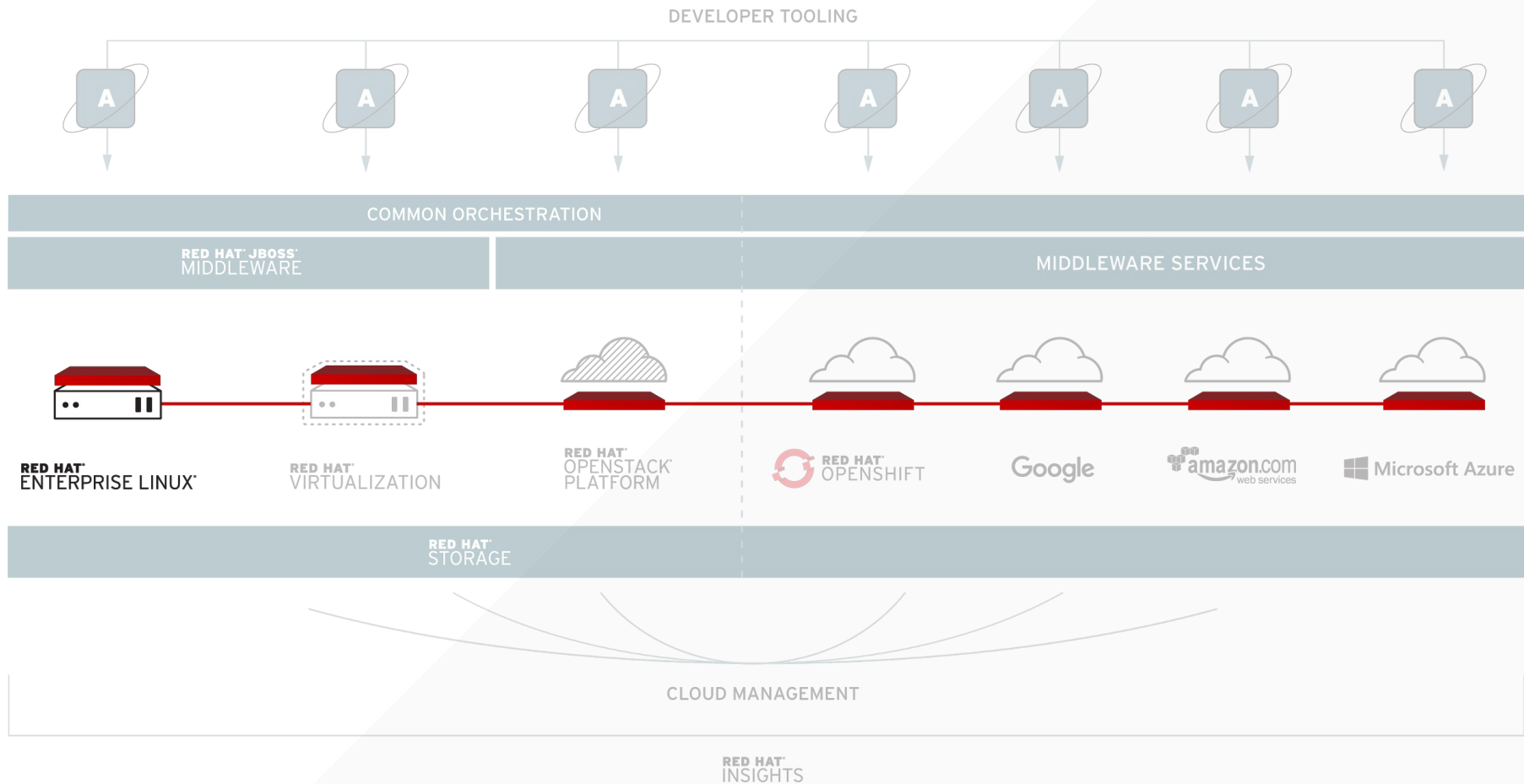
CONTAINERS ARE LINUX

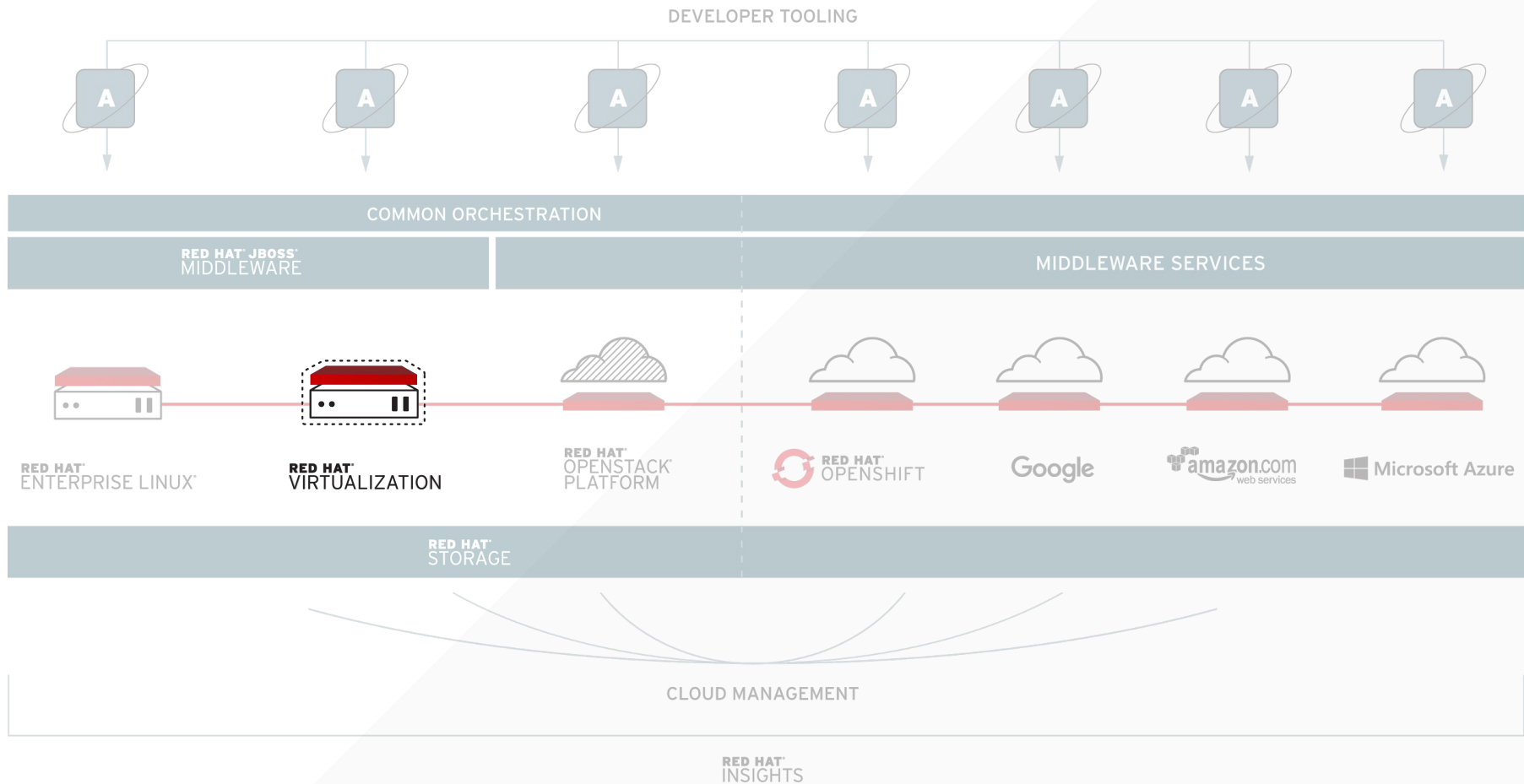


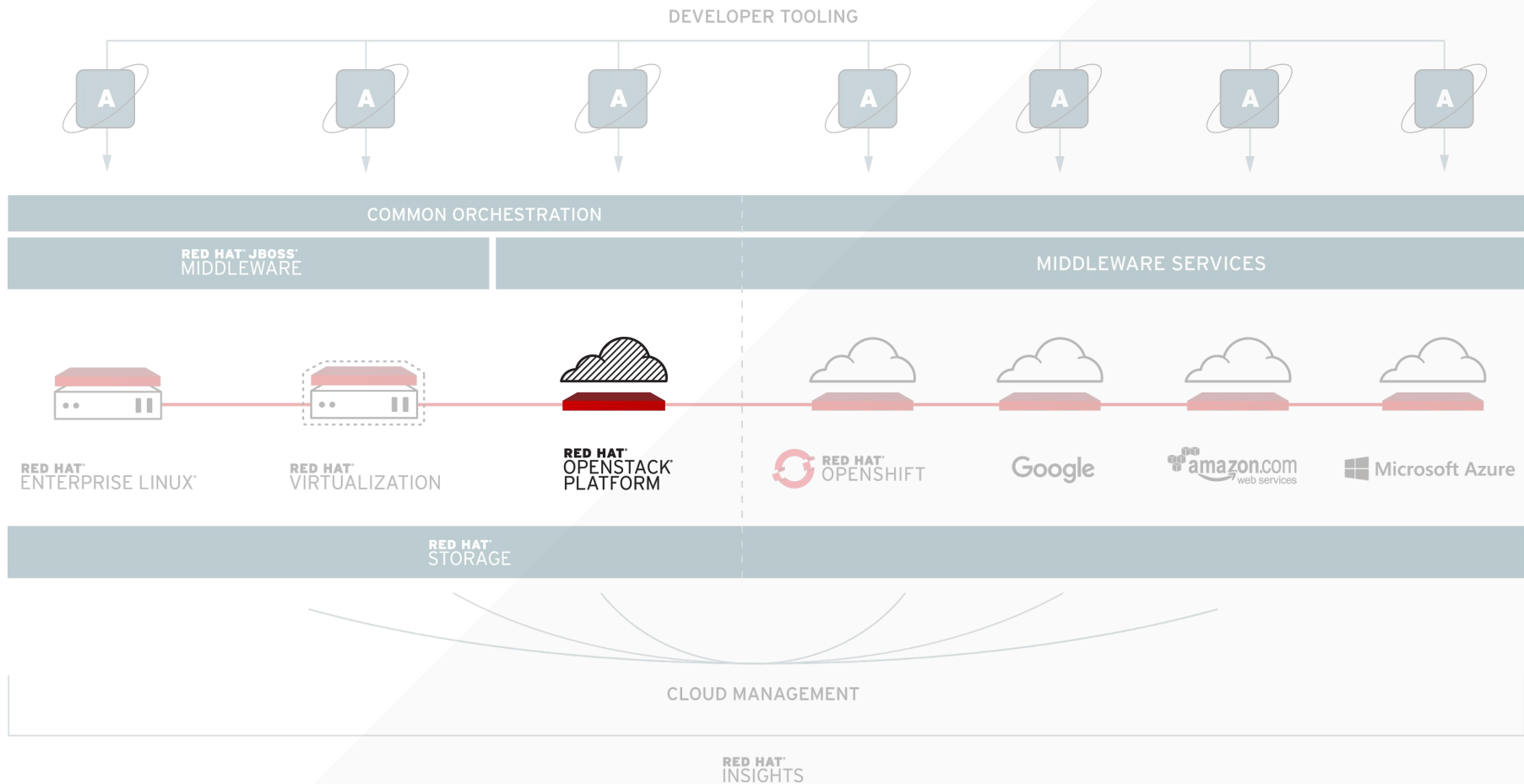
CONTAINERS

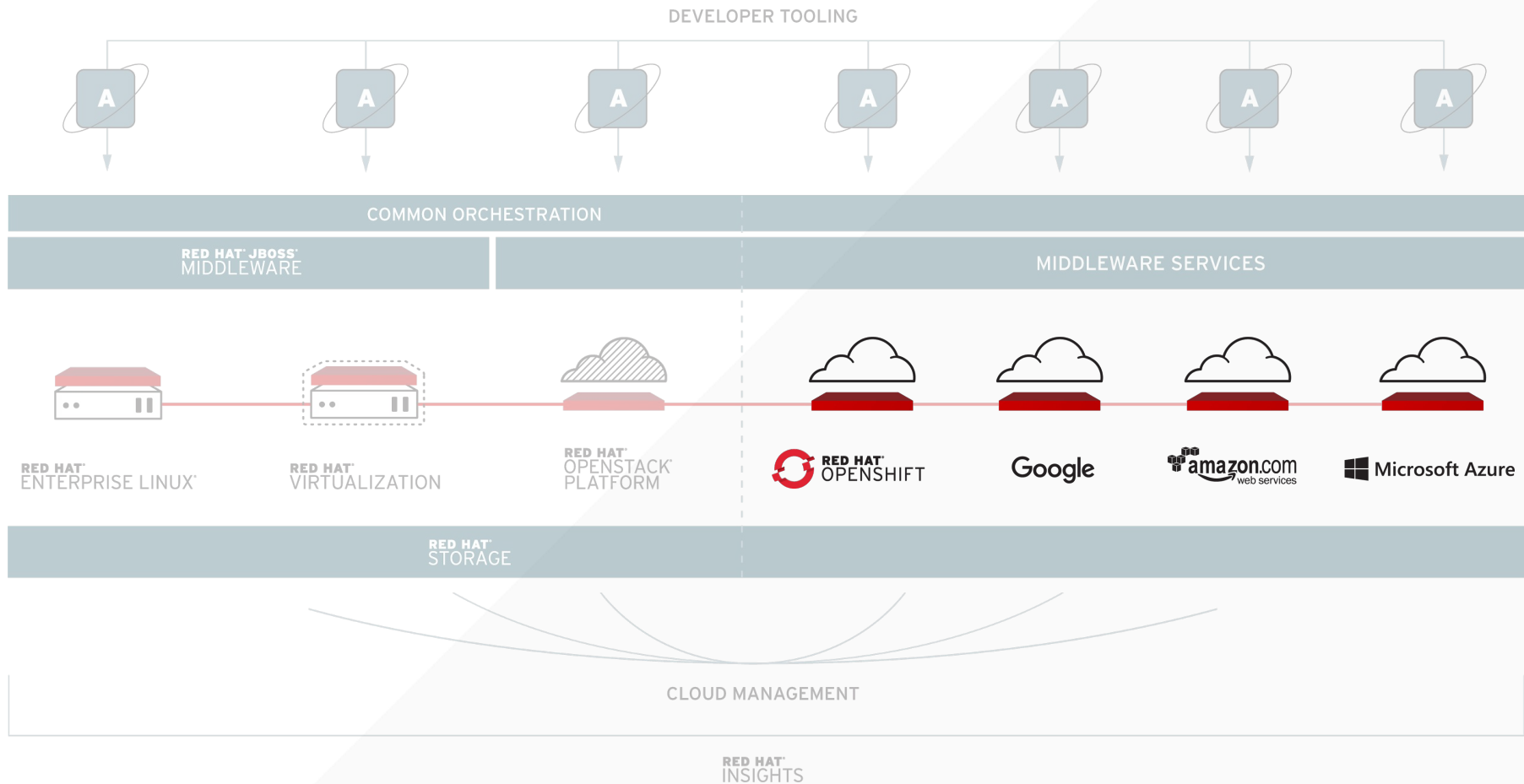
- Next-generation application platform for existing and new apps
- Portable across the hybrid cloud
- Container companies must be Linux companies

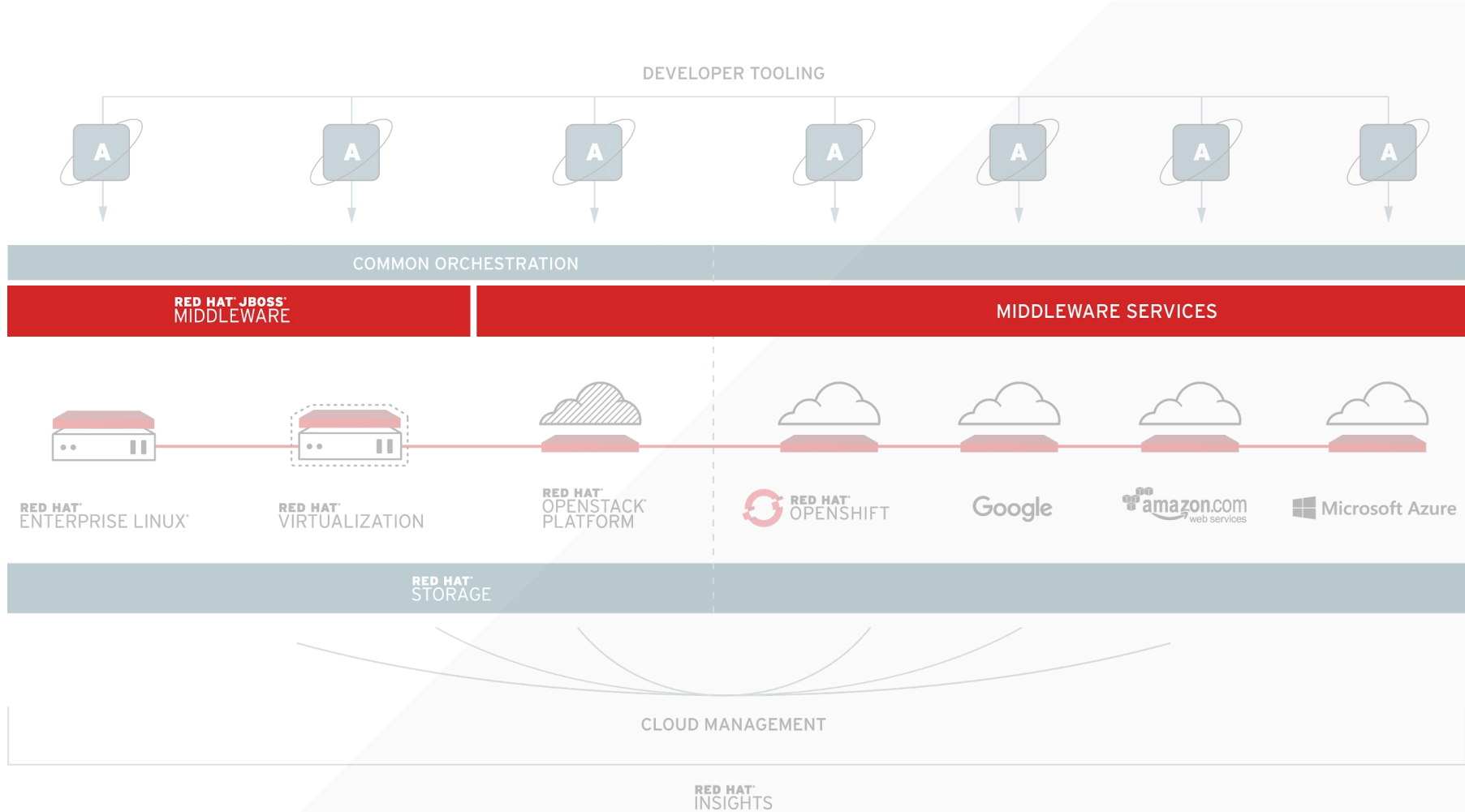
We are uniquely positioned to connect the future of infrastructure to the future of applications.

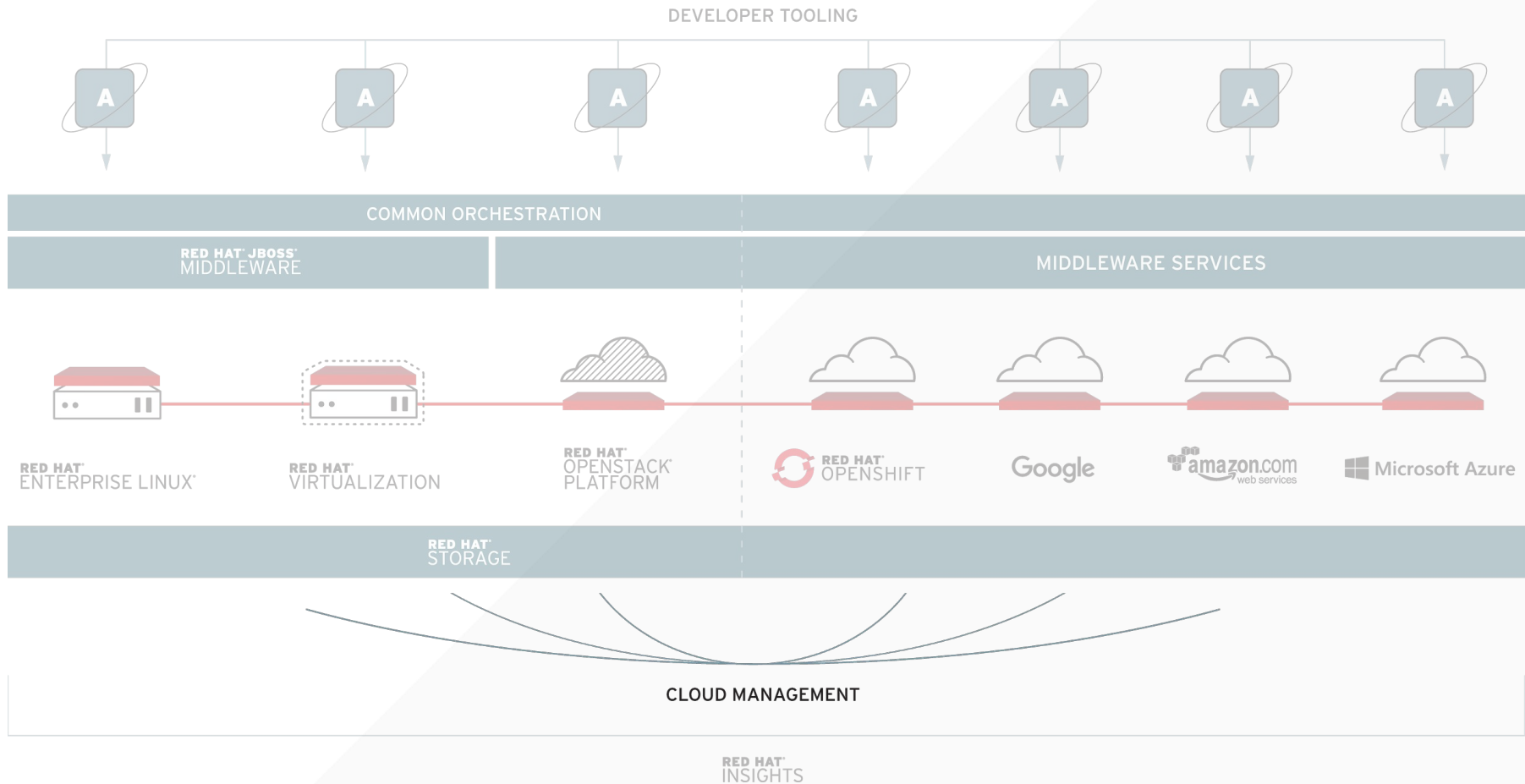












HOW ARE WE WINNING TODAY?



↓ **50% TCO¹**, ↑ **100% ROI²**

Red Hat JBoss Middleware (including Fuse and EAP) helps the airline integrate new companies and services.
Bonus: A consistent experience for its customers.

¹Red Hat customer case study. "Avianca streamlines application integration." <https://www.redhat.com/en/files/resources/en-rhib-avianca-INC0270735.pdf>

²Red Hat customer success story. "Avianca improves passengers' flying experience." <https://www.redhat.com/en/success-stories/avianca>



10K developers

How do you give that many developers what they need?
Red Hat OpenShift. With a little help from Red Hat Consulting.



1.5M+ customers per week

A RHEL foundation gave them consistency. Adding Red Hat OpenShift let KeyBank create a container-centric environment and continuous delivery pipeline. Now they can answer customer demand and do more, faster.

SECRETARY OF FINANCE, STATE OF JALISCO, MEXICO

↓ **60% infrastructure operational costs,**
↑ **900% citizens served**

A combination of Linux, virtualization, and middleware helps this government organization integrate applications and better serve citizens with highly available, high-performance systems and services.

**HOW ARE WE GOING TO CHANGE THE
WORLD OF COMPUTING?**

The background of the left panel is black with a complex network of thin, light gray lines crisscrossing the entire area. Scattered throughout this network are several icons: a server rack icon with a red top and blue base, and several cloud icons with white outlines and red horizontal bars at their bases.

RED HAT ENTERPRISE LINUX

The platform of today.

The background of the right panel is white with a complex network of thin, light gray lines crisscrossing the entire area. Scattered throughout this network are several application icons, each consisting of a blue square with a white letter 'A' and a small gray ring orbiting it.

RED HAT JBOSS MIDDLEWARE

The apps of today.

THE INFRASTRUCTURE OF TOMORROW

Is designed, developed, and implemented on Linux



**RED HAT
STORAGE**

Modern, scale-out
storage



**RED HAT OPENSTACK
PLATFORM**

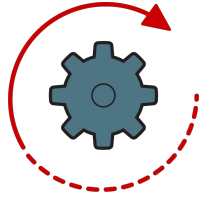
Modern datacenter
software



**RED HAT
VIRTUALIZATION**

Modern, flexible
virtualization

THE APPLICATIONS OF TOMORROW



**ANSIBLE
BY RED HAT**

A de facto open source
automation technology



**RED HAT
OPENSIFT**

Connects our portfolio
around containers

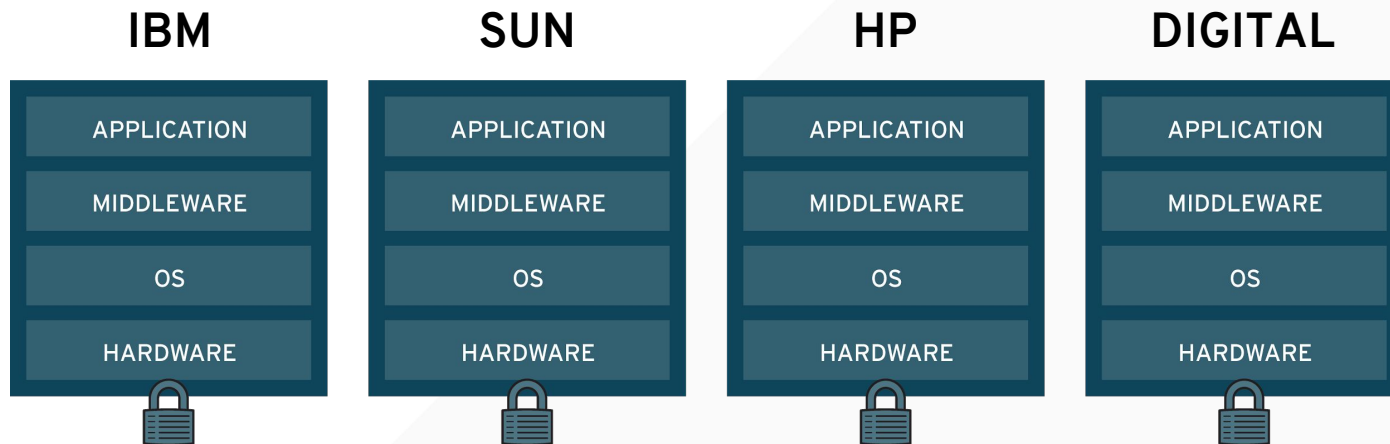
WE BRING THESE WORLDS TOGETHER.



**OUR VISION:
ANY APPLICATION.
ANY ENVIRONMENT.
NO LOCK-IN.**

WHY AM I SO CONFIDENT?

WE HAVE BEEN HERE BEFORE



WE HAVE BEEN HERE BEFORE

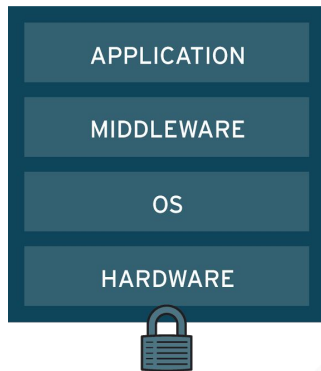
SOFTLAYER®
an IBM Company

 Microsoft Azure

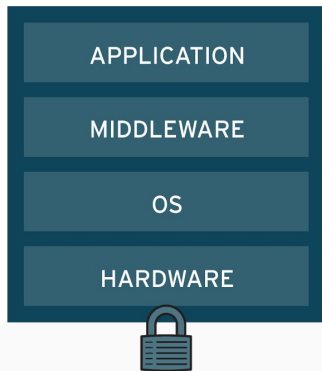
 **amazon.com**
web services


Google Cloud Platform

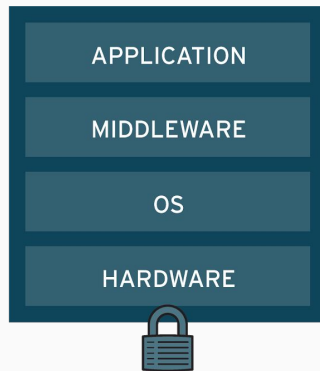
IBM



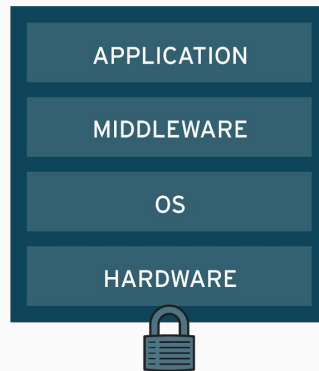
SUN



HP



DIGITAL



**WE HAVE THE PORTFOLIO AND THE
MODEL TO DELIVER WHAT
CUSTOMERS NEED.**



redhat.

THANK YOU



ANALYST DAY

STRATEGIC POSITION DRIVING GROWTH

Eric Shander
Executive vice president and chief financial officer

SAFE HARBOR MESSAGE

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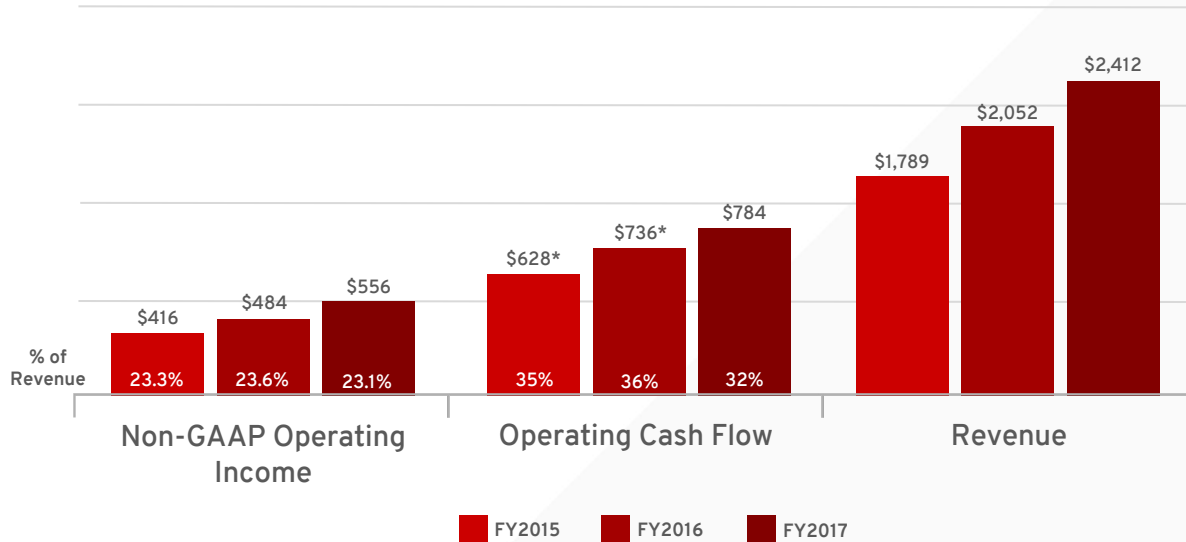
AGENDA

- > Financial results
- > Hybrid cloud opportunity
- > Financial strategy

FINANCIAL RESULTS

CONTINUED GROWTH ACROSS KEY METRICS

(\$ millions)

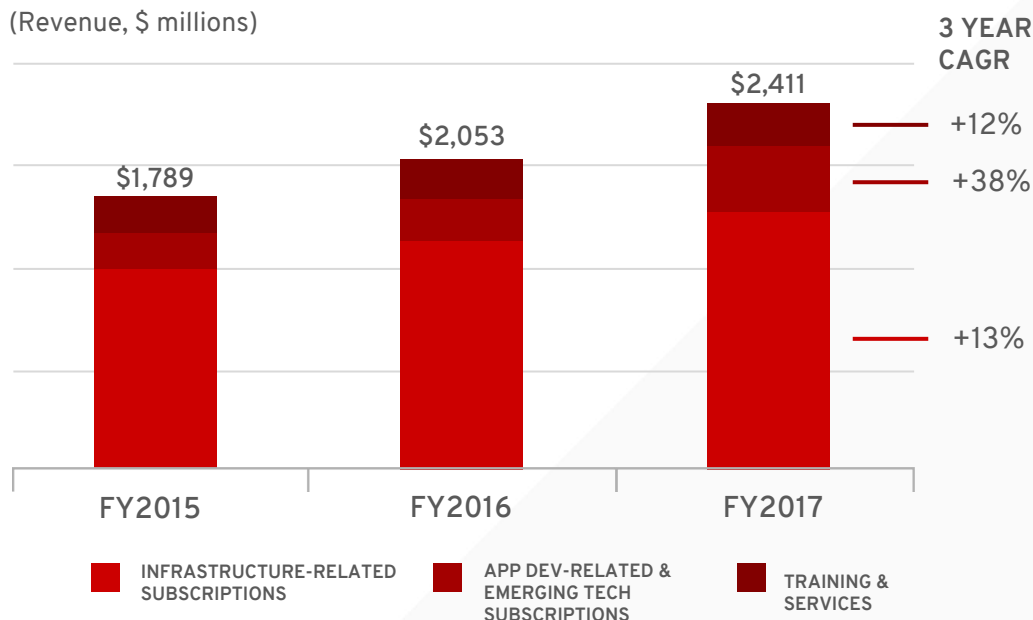


- > **60 consecutive quarters** of revenue growth
- > **Crossed over \$2B** milestone in subscription revenue
- > **Low to mid-teens 3 Yr CAGR** across key metrics

*FY15 and FY16 Operating Cash Flow adjusted retrospectively for ASU 2016-09. See Appendix for details.

Non-GAAP Operating Income excludes non-cash share-based compensation expense, amortization of intangible assets, and transaction costs related to business combinations of \$166M, \$196M and \$224M from GAAP operating income of \$250M, \$288M and \$332M in FY15, FY16 and FY17, respectively. Please refer to Appendix or <http://investors.redhat.com> for a GAAP to Non-GAAP reconciliation.
CAGR= compound annual growth rate.

STRONG GROWTH ACROSS ALL CATEGORIES



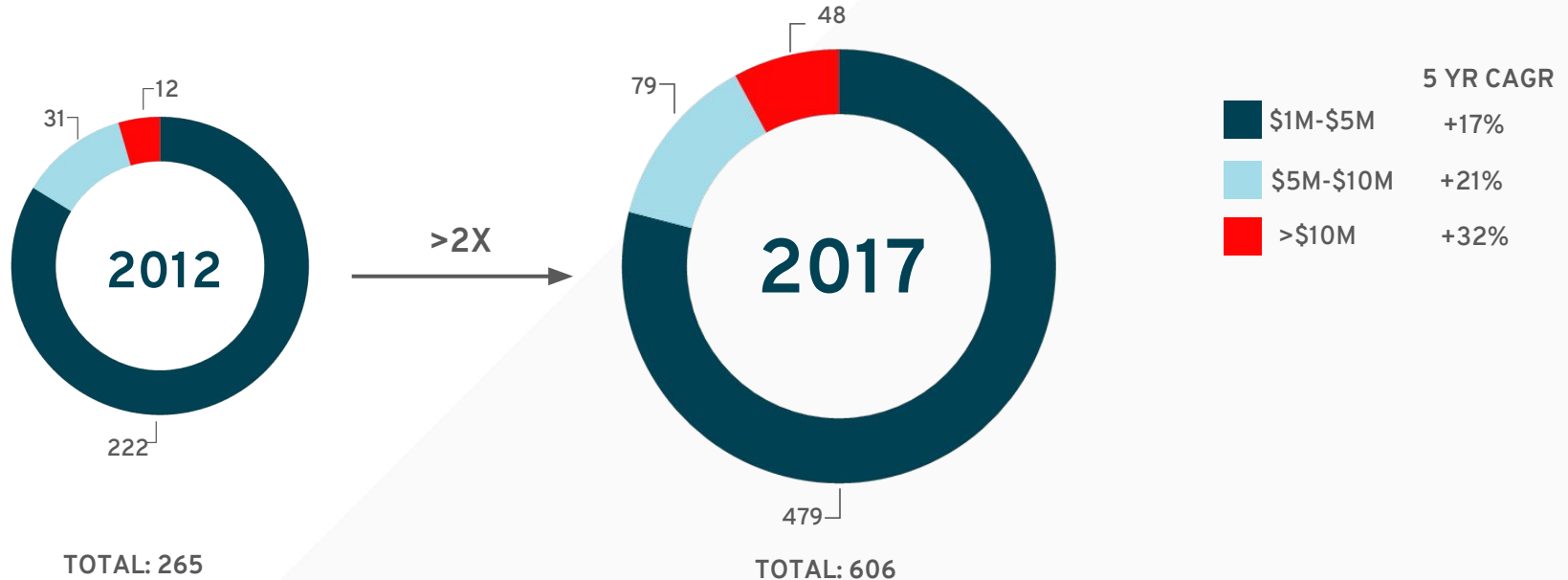
> Multiple growth drivers in each category:

- Market share gains
- Hybrid cloud and container adoption
- Increased cross-selling
- Emerging technologies driving services

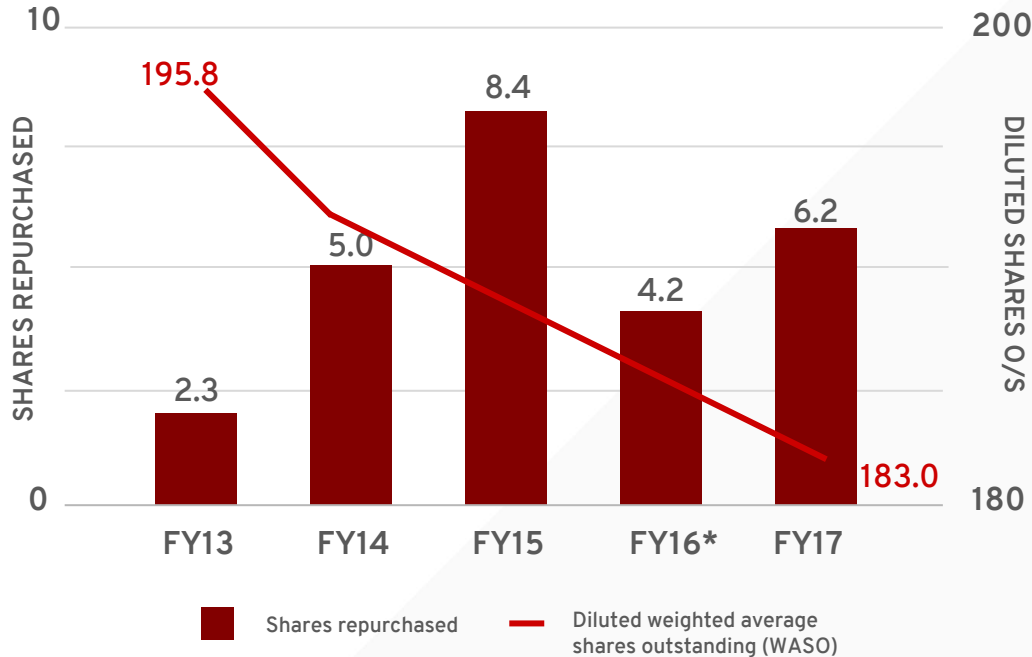
> App dev & emerging 21% of subscription revenue in FY17

STRATEGIC IMPORTANCE WITH CUSTOMERS

Customers >\$1M have more than doubled over the past 5 years



RETURNING VALUE TO SHAREHOLDERS



- > **5 year total repurchases**
 - 26 million shares
 - \$1.6 billion
- > **Diluted WASO** reduced by 7%
- > **Goal of ~50% of free cash flow** annually for share repurchases
- > **64% of FY17 free cash flow** was used for share repurchases

REAFFIRMING FY18 & Q1 GUIDANCE

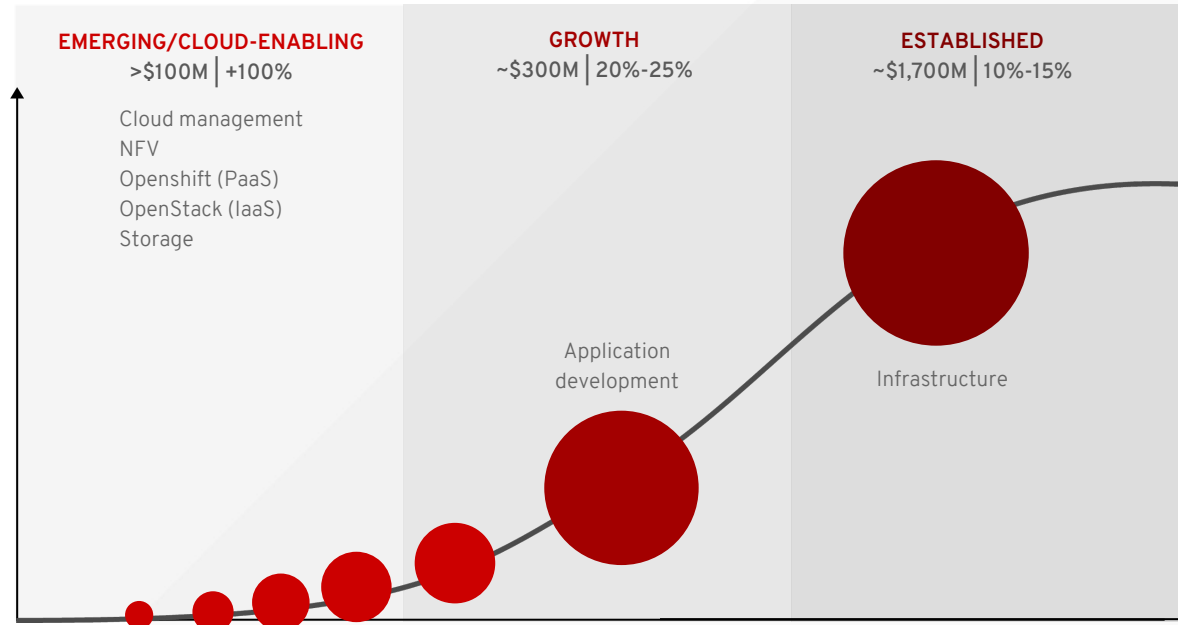
	Q118	FY2018
REVENUE	\$643M - \$650M	\$2.72B - \$2.76B
Y/Y GROWTH	13 - 15% USD	13 - 14% USD
NON-GAAP OPERATING MARGIN	~20.0%	~23.6%
NON-GAAP EPS	\$0.52 - \$0.53	\$2.60 - \$2.64
OPERATING CASH FLOW	N/A	\$850M - \$870M

- > **Continued growth and investment** with operating leverage
- > **Expect to expand Non-GAAP** operating margin by 50 bps in FY18
- > **Assumes ~2% FX headwind** for full year

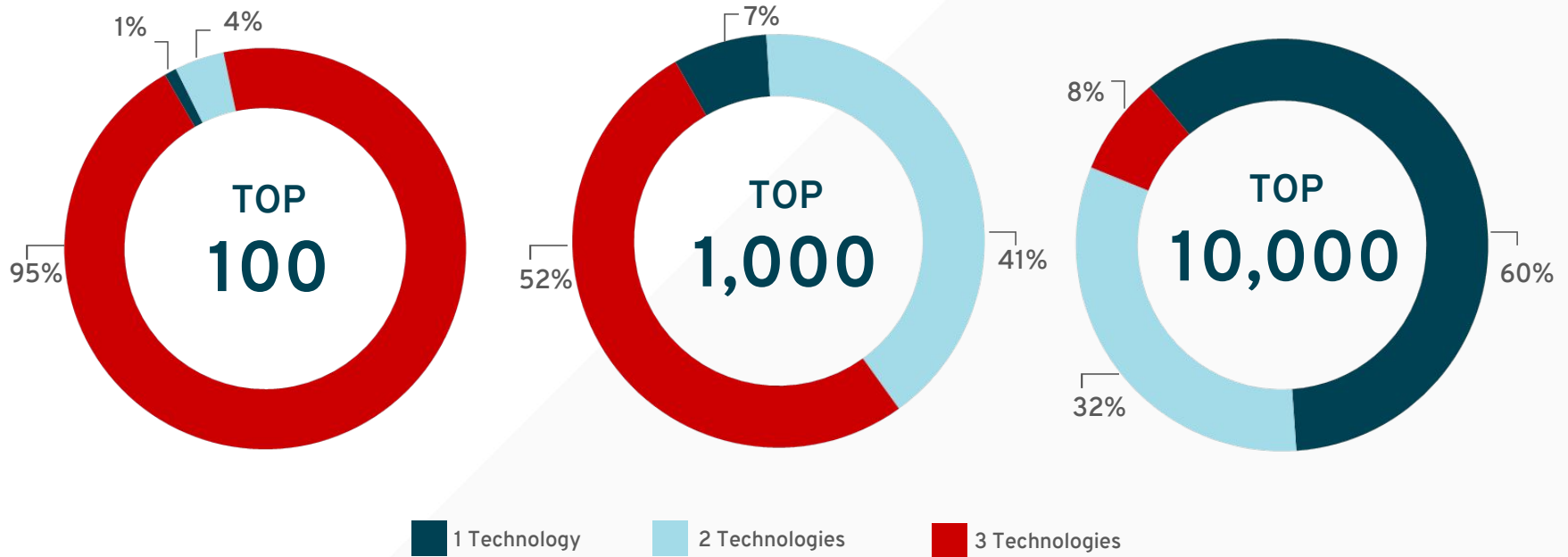
HYBRID CLOUD STRATEGY IS WORKING

OUR HYBRID CLOUD PORTFOLIO

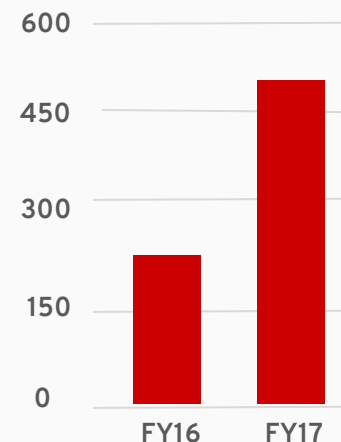
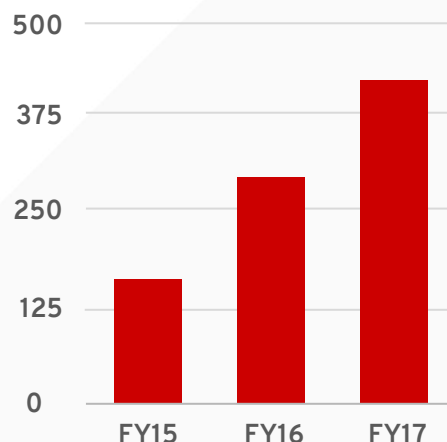
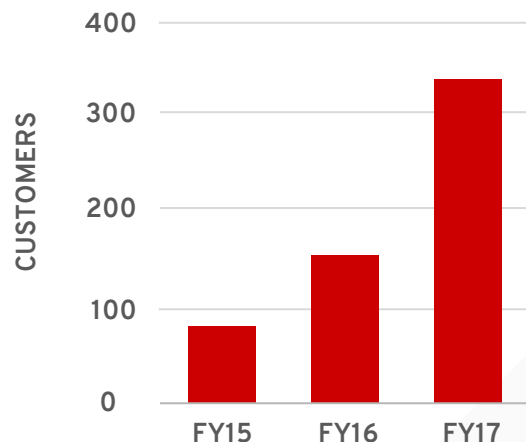
FY2017 subscription revenue and y/y growth



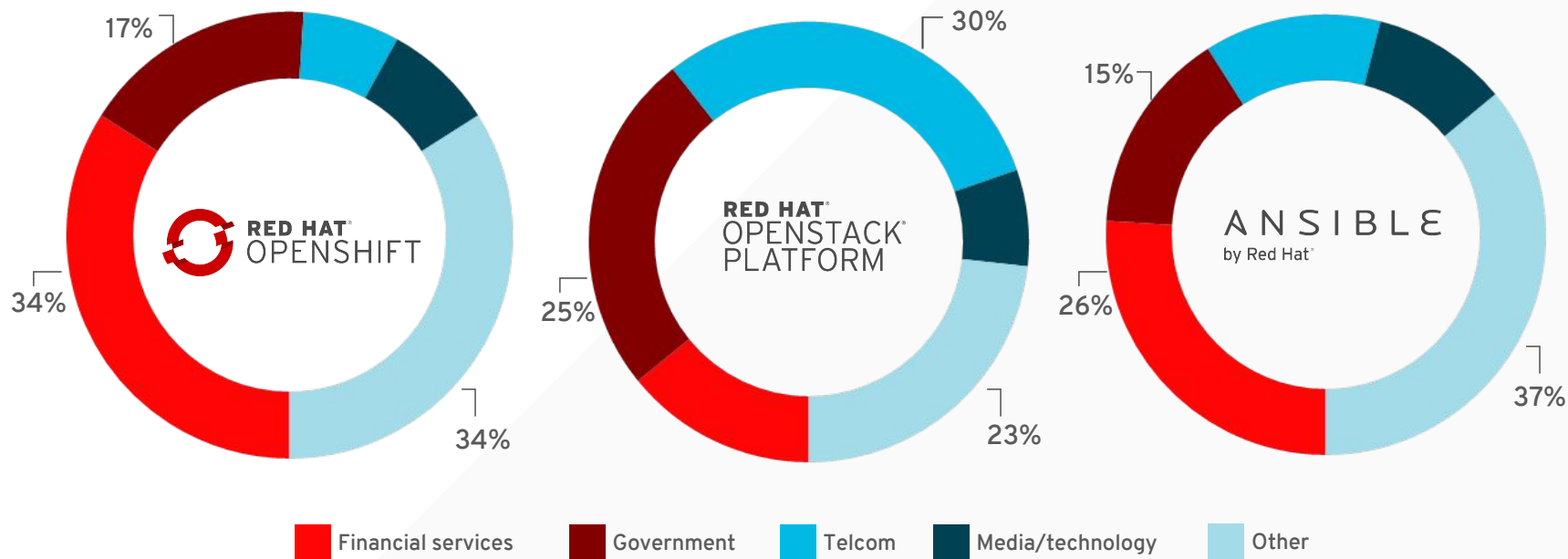
GROWTH OPPORTUNITY ACROSS CUSTOMER COHORTS



CUSTOMER ADOPTION OF TOP EMERGING TECHNOLOGIES



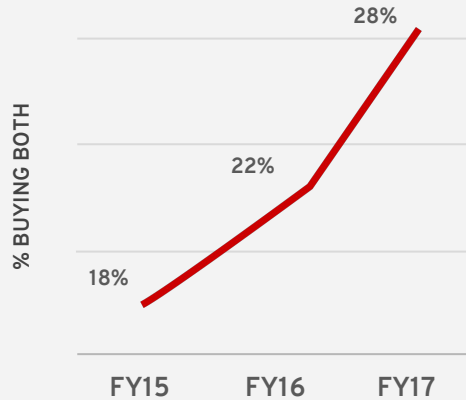
TOP EMERGING TECHNOLOGY ADOPTION BY VERTICAL



CLOUD-ENABLING TECHNOLOGIES FUEL GROWTH

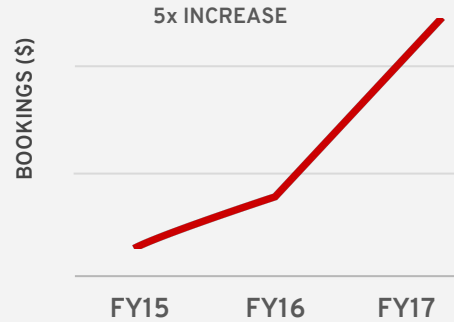
ATTACH RATE

Customers buying both
OpenStack and OpenShift*



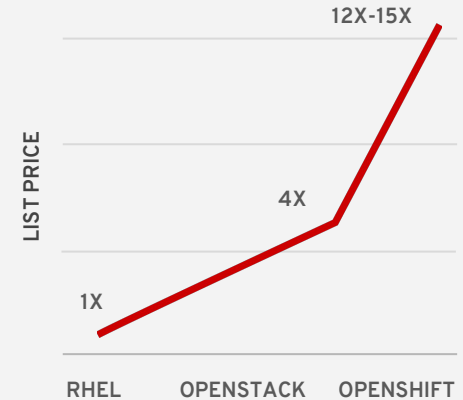
CHANNEL

Customers buying from partners



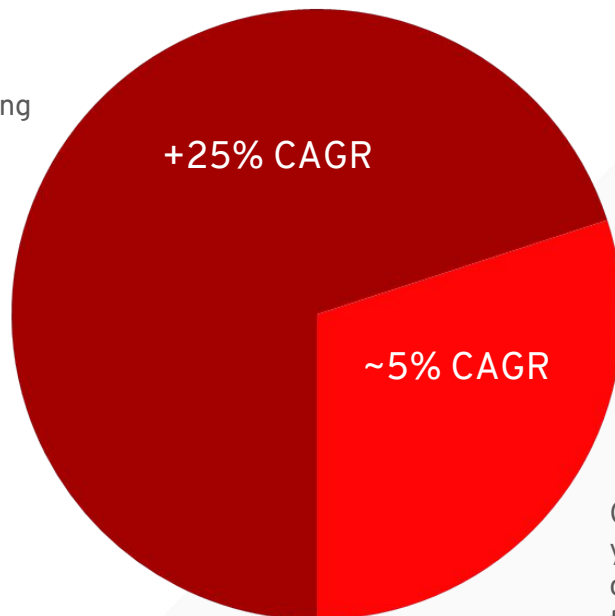
PRICING

Multiple of RHEL list price



HYBRID CLOUD STRATEGY IS WORKING

Customers utilizing RHEL, middleware and/or cloud-enabling technologies either on-premise or in public cloud



- > **Growth continues** across physical, virtual, public and private cloud environments
- > **Hybrid cloud customers'** spend with Red Hat is larger and growing faster than on-premise only customers as they initialize and adopt cloud-enabling technologies



FY17 total spend for customers buying cloud-enabling technologies



FY17 total spend from customers buying on-premise RHEL and middleware only

Customers not yet utilizing our cloud-enabling technologies

FINANCIAL STRATEGY IN A HYBRID CLOUD WORLD

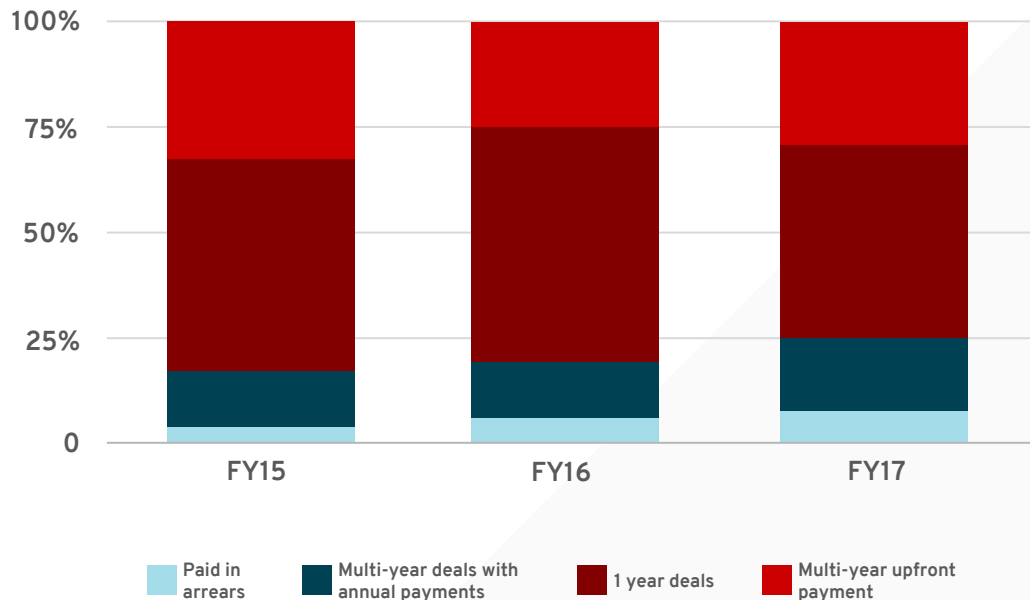
FINANCIAL MODEL DYNAMICS



- **Enabling next-generation consumption** by providing choice and flexibility to customers
- **Solution selling and business linearity** potential implications to cash flow growth
- **Balanced approach:** manage profitability while investing in emerging technologies and scaling our partners
- **Capitalizing on the significant opportunity**

ENABLING NEXT-GEN CONSUMPTION

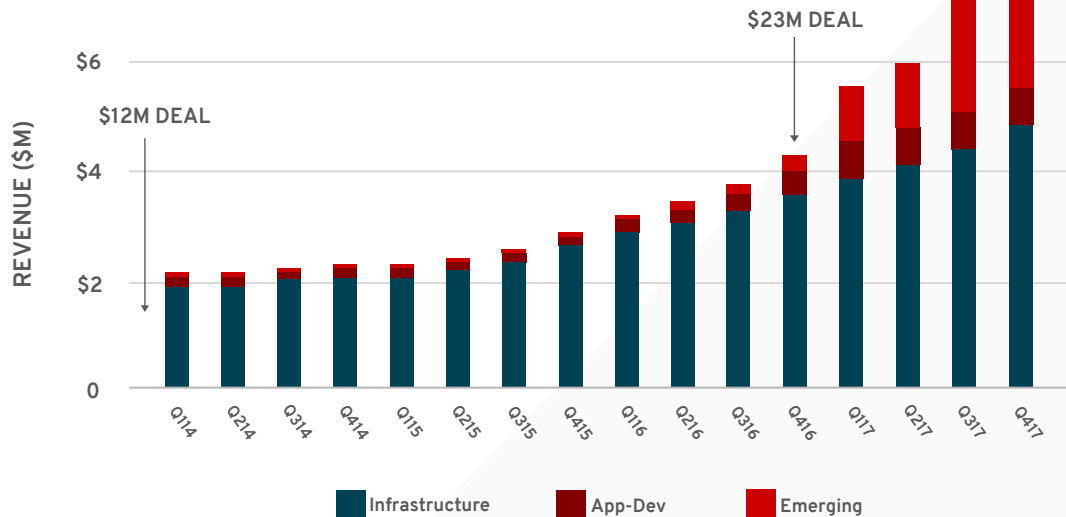
Billing terms of one year or less are gradually increasing



- > **Overall billings mix stable** with faster growth in multi-year deals with annual payments and in-arrears payments
- > **As multi-year deals** become larger, they may be more likely to bill annually vs upfront
- > **OBS grew 58% in FY17**, up from 8% growth in FY16

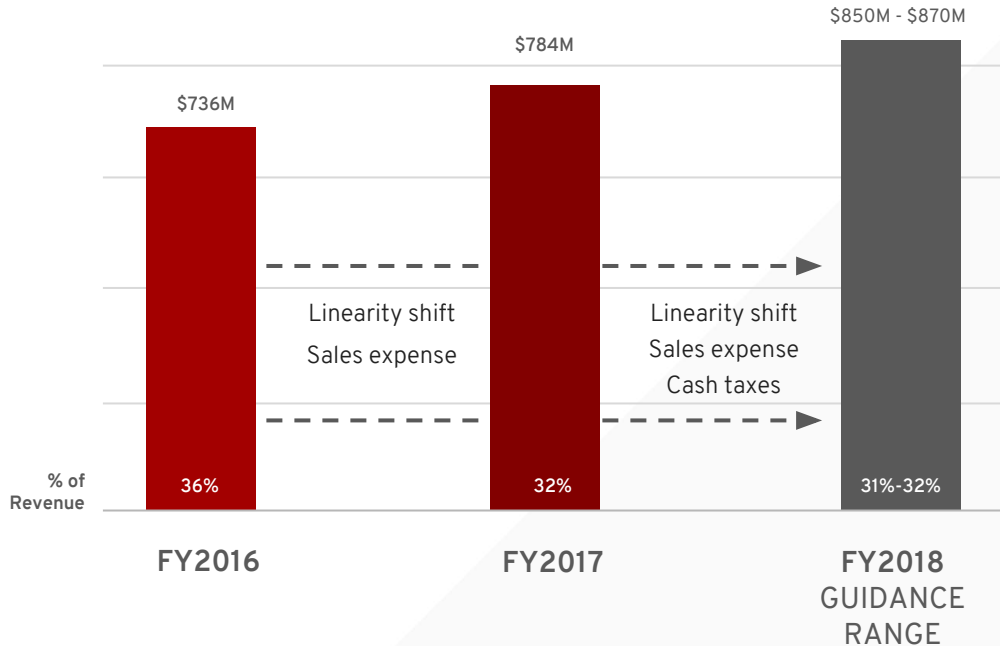
CASE STUDY: PORTFOLIO ADOPTION CYCLE

Infrastructure revenue steady growth along with quicker ramp-up in emerging technologies



- > Customer with 10+ year history
- > Total deal amounts have nearly doubled every 3 years
- > \$23M deal includes
 - \$5M OpenStack
 - \$2M Storage
 - \$1M Ansible

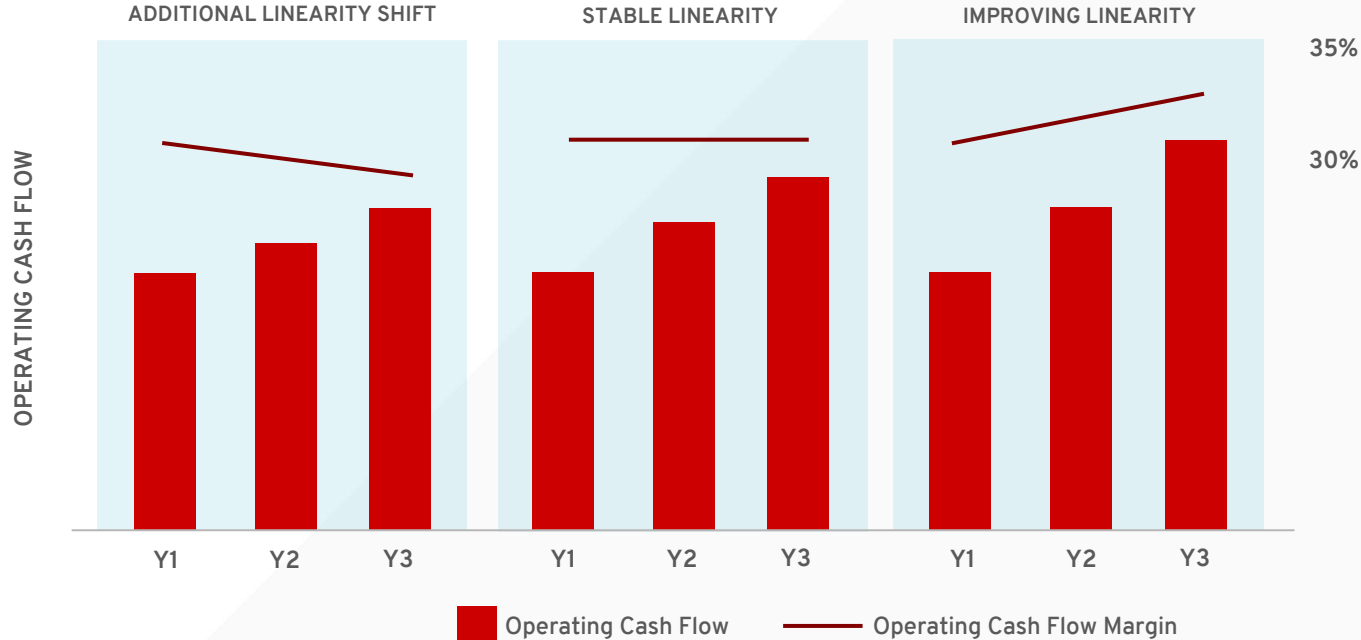
CASH FLOW DYNAMICS



- > Larger deals tend to take longer to close due to complexity
- > FY18 assumes 2% billings shift into Q4

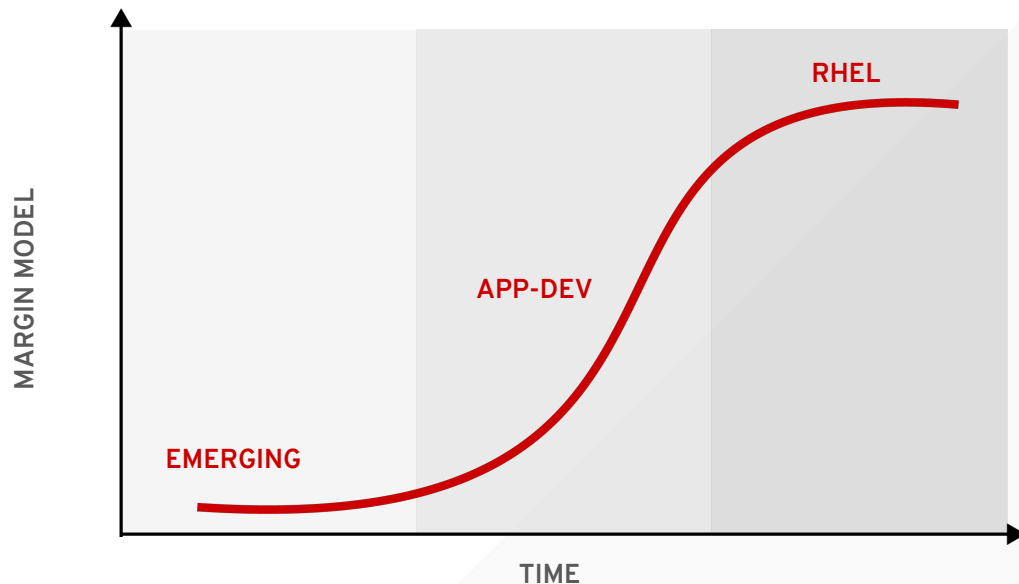
CASH FLOW LINEARITY SCENARIOS

Change in linearity moves OCF margin



SEIZING THE OPPORTUNITY

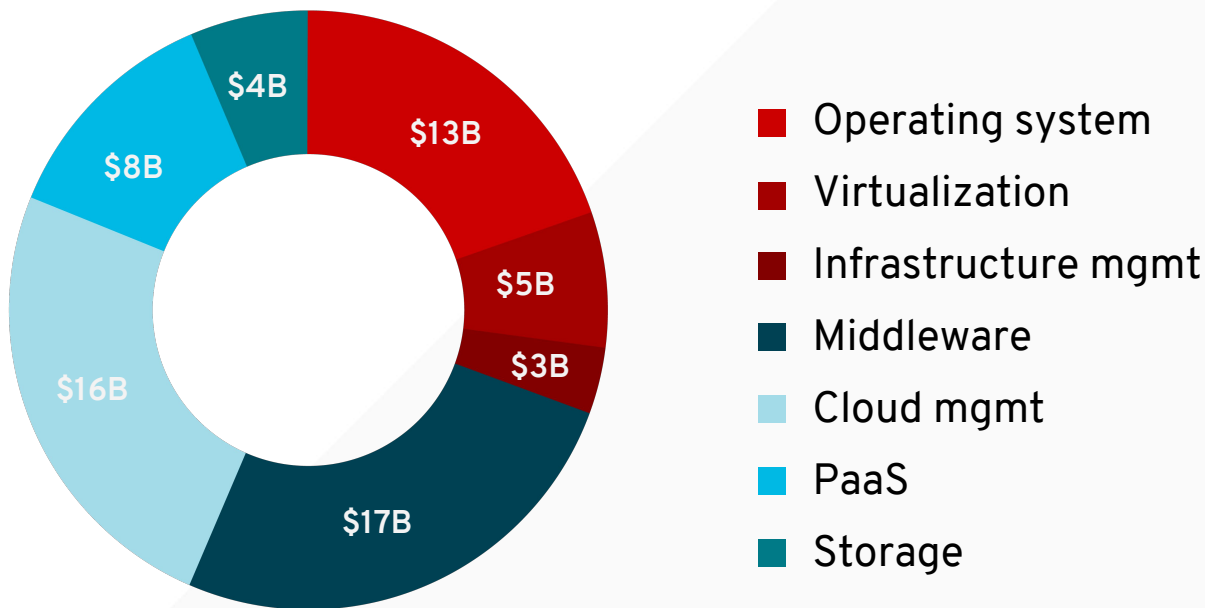
Balanced investments approach



- > **Opportunity for margin** expansion as technologies scale
- > **Requires continued investment**
- > **Scaling with the channel**
- > **Emerging product** significant strategic value add and pricing upside

SIGNIFICANT OPPORTUNITY AHEAD OF US

Total addressable market estimated at ~\$66 billion in 2020



SUMMARY



- > **Hybrid cloud is a reality** and we're seizing the opportunity
- > **Emerging technologies increase** our strategic position with customers
- > **Committed to balanced approach** to profitability and growth
- > **Capital strategy to drive** additional shareholder return



THANK YOU

APPENDIX

CATEGORY	TECHNOLOGIES
Infrastructure	Directory & Certificate RHEL RHEL w/ Smart Virtualization RHEV Satellite/Smart Management
Application Development	Acceleration (EAP, Web Service, EPP, JON, Other) Automation (BPM/BRMS) Integration (A-MQ, SOA, Data Virt/Services, Fuse, Messaging)
Emerging	Ansible CloudForms Mobile OpenShift RHCI RHEL-OpenStack Platform Gluster Ceph

Red Hat GAAP to Non-GAAP Reconciliation – Annual

(Unaudited)
(In thousands - except per share amounts)

	FY12 Year End 2/29/2012	FY13 Year End 2/28/2013	FY14 Year End 2/28/2014	FY15 Year End 2/28/2015	FY16 Year End 2/29/2016	FY17 Year End 2/28/2017
Revenue	\$ 1,133,103	\$ 1,328,817	\$ 1,534,615	\$ 1,789,489	\$ 2,052,230	\$ 2,411,803
GAAP Gross Profit as reported	\$ 954,555	\$ 1,128,217	\$ 1,302,015	\$ 1,516,290	\$ 1,742,601	\$ 2,057,425
Add: Non-cash share-based compensation expense	7,860	9,943	11,793	14,027	15,698	16,553
Add: Amortization of intangible assets	3,533	5,943	10,180	10,672	11,726	15,562
Non-GAAP Gross Profit	\$ 965,948	\$ 1,144,103	\$ 1,323,988	\$ 1,540,989	\$ 1,770,025	\$ 2,089,540
GAAP Operating Income as reported	\$ 199,913	\$ 201,038	\$ 232,290	\$ 249,994	\$ 288,048	\$ 332,245
Add: Non-cash share-based compensation expense – Cost of Revenue	7,860	9,943	11,793	14,027	15,698	16,553
Add: Non-cash share-based compensation expense – S&M	25,060	32,906	40,322	55,203	59,089	93,378
Add: Non-cash share-based compensation expense – R&D	21,570	29,647	34,194	38,517	48,466	52,424
Add: Non-cash share-based compensation expense – G&A	24,757	26,712	27,465	27,485	32,781	30,175
Total Non-cash share-based compensation expense	79,267	99,608	113,774	135,232	166,234	192,530
Add: Amortization of intangible assets – Cost of Revenue	3,533	5,943	10,180	10,672	11,726	15,562
Add: Amortization of intangible assets – S&M	8,348	8,416	8,872	7,838	8,075	7,078
Add: Amortization of intangible assets – R&D	4,194	3,836	3,836	2,417	542	135
Add: Amortization of intangible assets – G&A	3,674	5,328	5,316	5,959	5,160	7,078
Total Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803	29,856
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
Add: Facility exit costs	—	3,142	2,171	—	—	—
Non-GAAP Operating Income	\$ 298,929	\$ 326,401	\$ 376,439	\$ 416,112	\$ 483,969	\$ 556,420
GAAP Gross Margin as reported	84.2 %	84.9 %	84.8 %	84.7 %	84.9 %	85.3 %
Non-GAAP Gross Margin	85.2 %	86.1 %	86.3 %	86.1 %	86.3 %	86.6 %
GAAP Operating Margin as reported	17.6 %	15.1 %	15.1 %	14.0 %	14.0 %	13.8 %
Non-GAAP Operating Margin	26.4 %	24.6 %	24.5 %	23.3 %	23.6 %	23.1 %
GAAP Net Income as reported	\$ 146,626	\$ 150,204	\$ 178,292	\$ 180,201	\$ 199,365	\$ 253,703
GAAP provision for income taxes	61,353	59,548	61,256	75,297	75,500	66,477
GAAP income before provision for income taxes	\$ 208,009	\$ 209,752	\$ 239,548	\$ 255,498	\$ 274,865	\$ 320,180
Add: Non-cash share-based compensation expense	79,267	99,608	113,774	135,232	166,234	192,530
Add: Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803	29,856
Add: Non-cash interest expense related to the debt discount	—	—	—	7,292	16,570	19,104
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
Add: Facility exit costs	—	3,142	2,171	—	—	—
Non-GAAP adjusted income before provision for taxes	307,025	335,115	383,697	428,908	489,356	563,459
Non-GAAP provision for income taxes (1)	90,603	95,139	98,226	126,399	134,431	149,608
Non-GAAP adjusted net income	\$ 216,422	\$ 239,976	\$ 285,471	\$ 302,509	\$ 354,925	\$ 413,851
GAAP net income per share:						
Basic	\$ 0.76	\$ 0.78	\$ 0.94	\$ 0.97	\$ 1.09	\$ 1.41
Diluted	\$ 0.75	\$ 0.77	\$ 0.93	\$ 0.95	\$ 1.07	\$ 1.39
Non-GAAP adjusted net income per share:						
Basic	\$ 1.12	\$ 1.24	\$ 1.50	\$ 1.62	\$ 1.94	\$ 2.30
Diluted	\$ 1.10	\$ 1.23	\$ 1.49	\$ 1.60	\$ 1.91	\$ 2.27
Weighted average shares outstanding:						
Basic	193,151	193,147	189,920	186,529	182,817	179,642
GAAP Diluted	196,451	195,804	192,036	189,246	186,119	182,961
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)	(292)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837	182,669
Note: Certain prior year amounts have been reclassified to conform with current year presentation.						
(1) Note FY12, FY14 and FY17 included discrete tax benefits, please see below for provision for income tax break-out:						
Non-GAAP adjusted net income before income tax provision	\$ 307,025		\$ 383,697		\$ 563,459	
GAAP effective tax rate, excluding discrete tax items	31 %		26.7 %		27.7 %	
Non-GAAP provision for income taxes before discrete tax benefit	\$ 92,668		\$ 102,451		\$ 156,010	
Discrete tax benefit	(2,065)		(4,225)		(6,402)	
Provision for income taxes on Non-GAAP adjusted net income	\$ 90,603		\$ 98,226		\$ 149,608	

EARLY ADOPTION OF ACCOUNTING STANDARDS UPDATE

Effect of ASU 2016-09 on FY16 and FY17 operating cash flows

(unaudited)
(\$millions)

	FY2015	FY2016	FY2017
Operating cash flows prior to accounting update	\$623	\$716	\$767
Excess tax benefits from share-based payment arrangements now classified as an operating source of cash	\$5	\$20	\$16
Operating cash flows adjusted for accounting update	\$628	\$736	\$784