

# Q3 FY2018 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

December 19, 2017

# 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 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, December 19, 2017.

## **INTRODUCTION**

The following presentation provides financial highlights and supplemental metrics for Red Hat's third quarter ended November 30, 2017. These financial highlights and supplemental metrics were made available on December 19, 2017 in connection with Red Hat's announcement of its financial results for the third quarter of fiscal year 2018. This presentation should be read in conjunction with Red Hat's press release issued on December 19, 2017 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>.

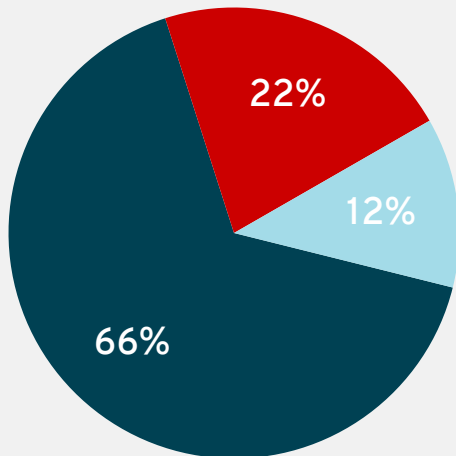
## **Non-GAAP Measures**

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 3rd QUARTER REVENUE GROWTH

% OF TOTAL REVENUE

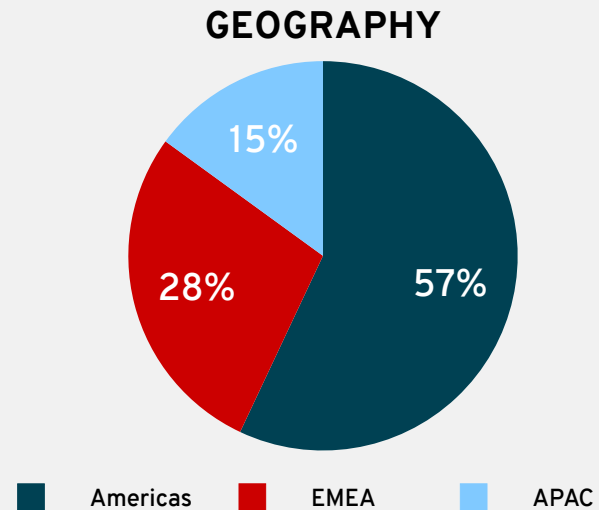
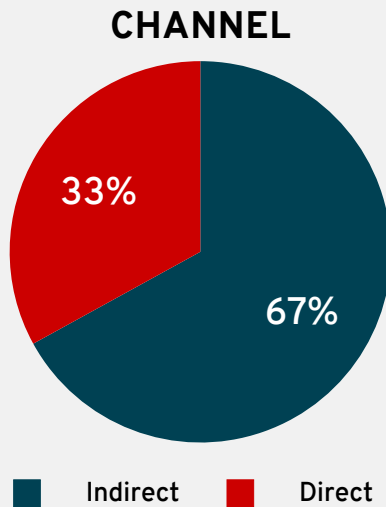


	Q318 Y/Y Growth	Q318 Y/Y Growth, cc <sup>(1)</sup>
App Dev & emerging tech	44%	42%
Infrastructure-related tech	15%	14%
Training & Consulting	27%	25%
Total Revenue	22%	20%

## Q3 HIGHLIGHTS:

- 63rd consecutive quarter of revenue growth
- 3rd consecutive quarter of 20% total revenue growth in constant currency

# Q318 BOOKINGS & DEAL METRICS



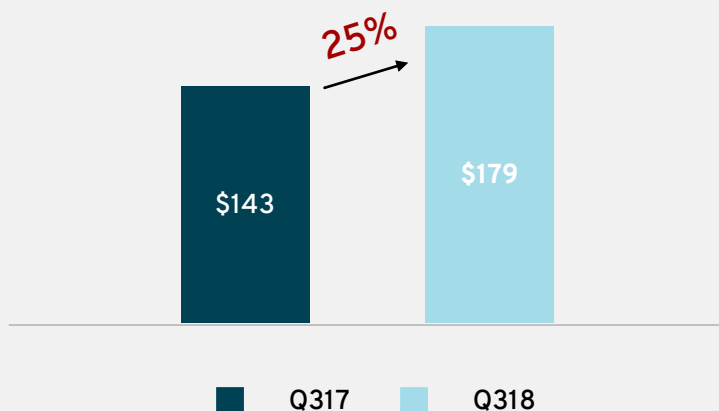
## Q3 HIGHLIGHTS:

- Total of 94 deals >\$1M; including 17 over \$5M
- Strong cross-selling with 62% of deals >\$1M including an app-dev/emerging technology offering

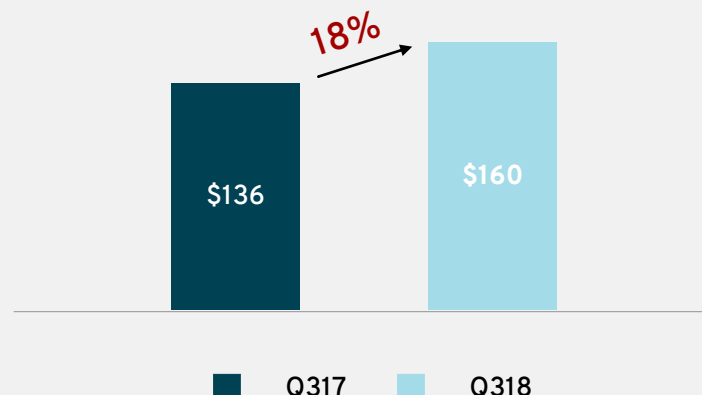
(\$ millions, y/y growth)

# QUARTERLY PROFITABILITY & CASH FLOW

## NON-GAAP OPERATING INCOME



## OPERATING CASH FLOW



## Q3 HIGHLIGHTS:

- 15.8% GAAP and 23.9% non-GAAP operating margins
- \$0.54 GAAP and \$0.73 non-GAAP EPS
- 23% y/y total deferred revenue growth
- \$2.3B cash & investments balance
- \$100M share repurchase

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 \$62 million in Q317 and \$60 million in Q318 from GAAP operating income of \$81 million in Q317 and \$118 million in Q318. Non-GAAP EPS for Q318 excludes the expenses listed in previous sentence and non-cash interest expense related to the debt discount of \$5 million. Non-GAAP diluted weighted average shares outstanding for Q318 excludes 4.1 million shares for share dilution that is expected to be offset by our convertible note hedge transactions. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

# SUPPLEMENTAL FINANCIAL & BUSINESS METRICS



(Unaudited)  
(\$ in thousands)

	Aug'16	Nov'16	Feb'17		May'17	Aug'17	Nov'17
Revenue	Q217	Q317	Q417	FY17	Q118	Q218	Q318
Infrastructure-related subscriptions	427,035	431,142	435,085	1,696,443	457,961	487,447	494,974
y/y change	18%	16%	11%	15%	14%	14%	15 %
constant currency y/y change	17%	14%	12%	14 %	14%	14%	14 %
App dev & emerging subscriptions	104,174	112,176	124,503	439,337	138,547	150,115	161,858
y/y change	33%	33%	40%	36%	41%	44%	44 %
constant currency y/y change	32%	32%	40%	36 %	42%	43%	42 %
<b>Subscription Revenue</b>	<b>531,209</b>	<b>543,318</b>	<b>559,588</b>	<b>2,135,780</b>	<b>596,508</b>	<b>637,562</b>	<b>656,832</b>
y/y change	20%	19%	17%	18%	19%	20%	21 %
constant currency y/y change	19%	18%	17%	18 %	20%	20%	19 %
Training & services revenue	68,596	71,942	69,252	276,023	80,288	85,793	91,146
y/y change	10%	9%	8%	11%	21%	25%	27 %
constant currency y/y change	11%	10%	9%	12 %	22%	25%	25 %
<b>Total Revenue</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>	<b>2,411,803</b>	<b>676,796</b>	<b>723,355</b>	<b>747,978</b>
y/y change	19%	18%	16%	18%	19%	21%	22 %
constant currency y/y change	18%	17%	16%	17 %	20%	20%	20 %
<b>Percent of Total Revenue (in USD)</b>							
Infrastructure-related subscriptions	71%	70%	69%	71%	68%	67%	66 %
App dev & emerging subscriptions	17%	18%	20%	18%	20%	21%	22 %
Total Subscription Revenue	89%	88%	89%	89%	88%	88%	88 %
Training & services revenue	11%	12%	11%	11%	12%	12%	12 %
<b>Total Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100 %</b>

(Unaudited)  
(\$ in thousands)

	Aug'16	Nov'16	Feb'17		May'17	Aug'17	Nov'17
<b>Revenue by Geography</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>	<b>Q118</b>	<b>Q218</b>	<b>Q318</b>
Americas	385,529	393,589	410,449	<b>1,555,290</b>	438,380	463,359	471,773
y/y change	16%	15%	15%	<b>15%</b>	20%	20%	20%
constant currency y/y change	17%	15%	14%	<b>15 %</b>	20%	20%	20%
EMEA	127,467	132,568	131,308	<b>515,642</b>	143,671	159,722	173,718
y/y change	18%	15%	14%	<b>18%</b>	16%	25%	31%
constant currency y/y change	17%	16%	17%	<b>18 %</b>	20%	21%	22%
APAC	86,809	89,103	87,083	<b>340,871</b>	94,745	100,274	102,487
y/y change	37%	34%	24%	<b>30%</b>	22%	16%	15%
constant currency y/y change	27%	25%	22%	<b>25 %</b>	22%	18%	17%
<b>Total Revenue</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>	<b>2,411,803</b>	<b>676,796</b>	<b>723,355</b>	<b>747,978</b>
y/y change	19%	18%	16%	<b>18%</b>	19%	21%	22%
constant currency y/y change	18%	17%	16%	<b>17 %</b>	20%	20%	20%
<b>Percent of Total Revenue (in USD)</b>							
Americas	64%	64%	65%	<b>64%</b>	65%	64%	63%
EMEA	21%	22%	21%	<b>22%</b>	21%	22%	23%
APAC	15%	14%	14%	<b>14%</b>	14%	14%	14%
<b>Total Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(Unaudited)

(\$ in thousands, except per share amounts)

	Aug'16	Nov'16	Feb'17		May'17	Aug'17	Nov'17
<b>Non-GAAP Income Statement:</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>	<b>Q118</b>	<b>Q218</b>	<b>Q318</b>
Gross Profit	520,034	533,078	544,651	<b>2,089,540</b>	583,884	625,225	644,747
Operating Income	136,663	143,167	152,627	<b>556,420</b>	138,623	190,897	178,718
Net Income	101,228	110,752	109,692	<b>413,851</b>	101,697	138,268	133,076
Gross Margin	86.7%	86.6%	86.6%	<b>86.6%</b>	86.3%	86.4%	86.2%
Subscription Gross Margin	93.6%	93.7%	93.5%		93.7%	93.7%	93.8%
Training & Services Gross Margin	33.0%	33.7%	30.7%		31.4%	31.4%	31.6%
Operating Margin	22.8%	23.3%	24.3%	<b>23.1%</b>	20.5%	26.4%	23.9%
EPS Basic	0.56	0.62	0.62	<b>2.30</b>	0.57	0.78	0.75
EPS Diluted	0.55	0.61	0.61	<b>2.27</b>	0.56	0.77	0.73
Tax Rate before discrete items	27.0%	27.0%	29.5%	<b>27.5%</b>	27.5%	27.6%	26.0%
Weighted Average Shares Outstanding							
Basic	180,322	179,233	177,802	<b>179,642</b>	177,243	177,257	177,063
Diluted	183,151	182,168	180,705	<b>182,669</b>	180,217	180,315	182,051
<b>Balance Sheet</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>	<b>Q118</b>	<b>Q218</b>	<b>Q318</b>
Total Cash & Investments	2,042,645	1,971,370	2,133,231	<b>2,133,231</b>	2,309,581	2,314,416	2,321,173
Current Deferred Revenue	1,233,762	1,225,421	1,512,762	<b>1,512,762</b>	1,486,409	1,471,434	1,482,428
Long-Term Deferred Revenue	446,890	482,557	557,194	<b>557,194</b>	567,755	581,077	623,150
Prior Year Deferred Revenue Balance	1,413,440	1,487,134	1,722,544		1,692,156	1,680,652	1,707,978
Constant currency change in Deferred Revenue <sup>(1)</sup>	244,738	211,903	348,892		349,267	335,313	328,407
Impact from foreign currency translation <sup>(2)</sup>	22,474	8,941	(1,480)		12,741	36,546	69,193
<b>Ending Deferred Revenue Balance</b>	<b>1,680,652</b>	<b>1,707,978</b>	<b>2,069,956</b>		2,054,164	2,052,511	2,105,578
<b>Cash Flow Statement</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>	<b>Q118</b>	<b>Q218</b>	<b>Q318</b>
Current Deferred Revenue Change	(44,909)	16,526	284,083	<b>239,413</b>	(45,758)	(41,741)	13,966
Long-Term Deferred Revenue Change	17,956	47,655	73,316	<b>109,121</b>	41	1,166	43,309
Total Change in Deferred Revenue	(26,953)	64,181	357,399	<b>348,534</b>	(45,717)	(40,575)	57,275
Net Operating Cash Flow	96,802	136,359	318,259	<b>783,717</b>	257,872	142,896	160,307

(1) Change in deferred revenue includes less than \$0.1 million acquired as part of a business combination during the twelve months ended November 30, 2017.

(2) Quarterly FX impacts to y/y change in deferred revenue are (\$4.2) million in Q3FY18, \$38.9 million in Q2FY18, \$29.9 million in Q1FY18 and \$4.6 million in Q4FY17.

	Aug'16	Nov'16	Feb'17		May'17	Aug'17	Nov'17
<b>Bookings &amp; Deal Metrics:</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>	<b>Q118</b>	<b>Q218</b>	<b>Q318</b>
# of Top 25 Renewals	23	25	25		25	25	25
Top 25 Renewal Rates (of prior deal	~105%	>120%	>120%		>120%	~115%	>120%
Deals >\$1M	<b>55</b>	<b>73</b>	<b>110</b>	<b>283</b>	<b>44</b>	<b>66</b>	<b>94</b>
Deals \$1M - \$5M	50	65	94	<b>248</b>	37	62	77
Deals \$5M - \$10M	5	5	11	<b>25</b>	3	4	13
Deals \$10M - \$20M	0	1	1	<b>4</b>	3	0	3
Deals >\$20M	0	2	4	<b>6</b>	1	0	1
Deals containing App Dev & Emerging	73%	60%	90%	<b>77%</b>	68%	61%	62%
Deals w/ only App Dev & Emerging	13%	13%	13%	<b>13%</b>	5%	17%	12%
Indirect Channel Bookings	81%	72%	69%	<b>72%</b>	72%	79%	67%
Direct Bookings	19%	28%	31%	<b>28%</b>	28%	21%	33%
Bookings by Geography							
Americas	57%	57%	67%	<b>62%</b>	55%	57%	57%
EMEA	24%	27%	21%	<b>23%</b>	24%	24%	28%
APAC	19%	16%	12%	<b>15%</b>	21%	19%	15%
Average Contract Length (months)	22	24	25	<b>23</b>	22	21	24
% of Single Year Bookings	73%	67%	65%	<b>69%</b>	73%	76%	67%
% of Multi-Year Bookings	27%	33%	35%	<b>31%</b>	27%	24%	33%
<b>Additional Metrics</b>							
Employees	9,861	10,257	10,489		10,706	11,084	11,413
Average EUR FX Rate	1.12	1.10	1.06	<b>1.10</b>	1.08	1.11	1.18
Average JPY FX Rate	103	105	115	<b>108</b>	112	112	112

(Unaudited)

	Aug'16	Nov'16	Feb'17		May'17	Aug'17	Nov'17
	Q217	Q317	Q417	FY17	Q118	Q218	Q318
<b>Share Repurchases</b>							
# Shares purchased (millions)	1.8	1.6	1.9	<b>6.2</b>	0.7	0.8	0.8
Aggregate Principal Amount (\$ millions)	127	125	139	<b>459</b>	62	75	100
Remaining Balance on Plan at quarter-end (\$ millions)	901	775	636		574	499	399
<b>Days Sales Outstanding (DSO) (in thousands, except # of days)</b>							
Total Revenue	599,805	615,260	628,840	<b>2,411,803</b>	676,796	723,355	747,978
Q/Q Δ deferred revenue (Balance Sheet)	(11,504)	27,326	361,979		(15,792)	(1,653)	53,067
Deferred revenue (Cash Flow Stmt.)	(26,953)	64,181	357,399	<b>348,534</b>	(45,717)	(40,575)	57,275
Accounts Receivable, net	359,893	427,436	634,821		429,908	418,449	531,509
Q/Q FX impact on Accounts Receivable	<u>(2,980)</u>	<u>4,926</u>	<u>(1,509)</u>		<u>(4,416)</u>	<u>(5,524)</u>	<u>1,400</u>
Accounts Receivable in constant currency	356,913	432,362	633,312		425,492	412,925	532,909
# calendar days in quarter	92	91	90		92	92	91
<b>DSO (1)</b>	<b>56</b>	<b>61</b>	<b>58</b>		<b>60</b>	<b>55</b>	<b>60</b>
<b>FX adj DSO (2)</b>	<b>57</b>	<b>58</b>	<b>58</b>		<b>62</b>	<b>56</b>	<b>60</b>

(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) (In thousands - except per share amounts)	Q416		Q117		Q217		Q317		Q417		Q118		Q218		Q318	
	Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
	2/29/2016		5/31/2016		8/31/2016		11/30/2016		2/28/2017		5/31/2017		8/31/2017		11/30/2017	
<b>GAAP Operating Income as reported</b>	\$	71,772	\$	75,363	\$	81,884	\$	80,773	\$	94,225	\$	87,608	\$	134,559	\$	118,413
Add: Non-cash share-based compensation expense Cost of Revenue		3,946		4,305		4,054		4,037		4,157		3,948		4,261		4,199
Add: Non-cash share-based compensation expense S&M		19,703		18,440		20,361		26,624		27,952		20,612		20,817		23,278
Add: Non-cash share-based compensation expense R&D		12,511		12,002		12,969		13,814		13,639		13,447		14,220		14,937
Add: Non-cash share-based compensation expense G&A		9,608		6,528		7,973		10,266		5,409		5,711		7,649		9,904
<b>Total Non-cash share-based compensation expense</b>		<b>45,768</b>		<b>41,275</b>		<b>45,357</b>		<b>54,741</b>		<b>51,157</b>		<b>43,718</b>		<b>46,947</b>		<b>52,318</b>
Add: Amortization of intangible assets Cost of Revenue		3,434		3,623		3,846		4,234		3,861		3,836		4,326		4,329
Add: Amortization of intangible assets S&M		1,730		1,916		1,905		1,695		1,562		1,459		1,583		1,592
Add: Amortization of intangible assets R&D		(13)		34		34		34		35		34		35		34
Add: Amortization of intangible assets G&A		1,711		1,753		1,848		1,690		1,787		1,826		2,227		2,084
<b>Total Amortization of intangible assets</b>		<b>6,862</b>		<b>7,326</b>		<b>7,633</b>		<b>7,653</b>		<b>7,245</b>		<b>7,155</b>		<b>8,171</b>		<b>8,039</b>
Add: Transaction costs related to business combinations		40		—		1,789		—		—		142		1,220		(52)
<b>Non-GAAP Operating Income</b>	<b>\$</b>	<b>124,442</b>	<b>\$</b>	<b>123,964</b>	<b>\$</b>	<b>136,663</b>	<b>\$</b>	<b>143,167</b>	<b>\$</b>	<b>152,627</b>	<b>\$</b>	<b>138,623</b>	<b>\$</b>	<b>190,897</b>	<b>\$</b>	<b>178,718</b>
<b>GAAP Operating Margin as reported</b>		<b>13.2%</b>		<b>13.3%</b>		<b>13.7%</b>		<b>13.1%</b>		<b>15.0%</b>		<b>12.9%</b>		<b>18.6%</b>		<b>15.8%</b>
<b>Non-GAAP Operating Margin</b>		<b>22.9%</b>		<b>21.8%</b>		<b>22.8%</b>		<b>23.3%</b>		<b>24.3%</b>		<b>20.5%</b>		<b>26.4%</b>		<b>23.9%</b>
GAAP Net Income as reported	\$	53,036	\$	61,184	\$	58,772	\$	67,943	\$	65,803	\$	73,190	\$	96,859	\$	101,306
GAAP provision for income taxes		15,732		11,169		20,663		8,775		25,870		11,740		34,971		14,604
GAAP Income before provision for income taxes		68,768		72,353		79,435		76,718		91,673		84,930		131,830		115,910
Add: Non-cash share-based compensation expense		45,768		41,275		45,357		54,741		51,157		43,718		46,947		52,318
Add: Amortization of intangible assets		6,862		7,326		7,633		7,653		7,245		7,155		8,171		8,039
Add: Non-cash interest expense related to the debt discount		4,686		4,731		4,753		4,800		4,820		4,867		4,890		4,936
Add: Transaction costs related to business combinations		40		—		1,789		—		—		142		1,220		(52)
Non-GAAP adjusted income before provision for taxes		126,124		125,685		138,967		143,912		154,895		140,812		193,058		181,151
Non-GAAP provision for income taxes		29,094		33,507		37,739		33,160		45,203		39,115		54,790		48,075
<b>Non-GAAP adjusted net income (basic and diluted)</b>	<b>\$</b>	<b>97,030</b>	<b>\$</b>	<b>92,178</b>	<b>\$</b>	<b>101,228</b>	<b>\$</b>	<b>110,752</b>	<b>\$</b>	<b>109,692</b>	<b>\$</b>	<b>101,697</b>	<b>\$</b>	<b>138,268</b>	<b>\$</b>	<b>133,076</b>
GAAP net income per share:																
Basic	\$	0.29	\$	0.34	\$	0.33	\$	0.38	\$	0.37	\$	0.41	\$	0.55	\$	0.57
Diluted	\$	0.29	\$	0.33	\$	0.32	\$	0.37	\$	0.36	\$	0.40	\$	0.53	\$	0.54
Non-GAAP adjusted net income per share:																
Basic	\$	0.53	\$	0.51	\$	0.56	\$	0.62	\$	0.62	\$	0.57	\$	0.78	\$	0.75
Diluted	\$	0.52	\$	0.50	\$	0.55	\$	0.61	\$	0.61	\$	0.56	\$	0.77	\$	0.73
Weighted average shares outstanding:																
Basic		182,099		181,168		180,322		179,233		177,802		177,243		177,257		177,063
GAAP Diluted		184,888		184,187		183,346		182,682		181,197		181,810		183,021		186,160
Dilution offset from convertible note hedge transactions		(67)		—		(195)		(514)		(492)		(1,593)		(2,706)		(4,109)
<b>Non-GAAP Diluted</b>		<b>184,821</b>		<b>184,187</b>		<b>183,151</b>		<b>182,168</b>		<b>180,705</b>		<b>180,217</b>		<b>180,315</b>		<b>182,051</b>

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

(Unaudited)	Q416		Q117		Q217		Q317		Q417		Q118		Q218		Q318	
(In thousands - except per share amounts)	Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
	<u>2/29/2016</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>	
Non-GAAP adjusted income before provision for income taxes	\$	126,124	\$	125,686	\$	138,967	\$	143,912	\$	154,895	\$	140,812	\$	193,058	\$	181,151
GAAP estimated annual effective tax rate		23.1%		27%		27.0%		27.0%		29.5%		27.5%		27.6%		26.0%
Provision for income taxes on non-GAAP adjusted income before discrete tax expenses (benefits)		29,094		33,935		37,521		38,856		45,698		38,723		53,425		46,908
Discrete tax expenses (benefits), excluding discrete benefits related to share-based compensation		—		(428)		218		(5,696)		(495)		391.884		1,365		1,167
Provision for income taxes on non-GAAP adjusted income, excluding discrete tax benefits related to share-based compensation	\$	29,094	\$	33,507	\$	37,739	\$	33,160	\$	45,203	\$	39,115	\$	54,790	\$	48,075



# Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>2/29/2016</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>
<b>GAAP Revenue:</b>								
Subscriptions	\$ 479,642	\$ 501,665	\$ 531,209	\$ 543,318	\$ 559,588	\$ 596,508	\$ 637,562	\$ 656,832
Training and services	63,860	66,234	68,596	71,942	69,252	80,288	85,793	91,146
<b>Total subscription, training and services revenue</b>	<b>543,502</b>	<b>567,899</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>	<b>676,796</b>	<b>723,355</b>	<b>747,978</b>
<b>Non-GAAP Cost of revenue:</b>								
Subscriptions	28,275	30,765	33,828	34,487	36,229	37,834	39,863	40,873
Training and services	45,565	45,355	45,943	47,695	47,960	55,078	58,267	62,358
<b>Total cost of subscription, training and services revenue</b>	<b>73,840</b>	<b>76,120</b>	<b>79,771</b>	<b>82,182</b>	<b>84,189</b>	<b>92,912</b>	<b>98,130</b>	<b>103,231</b>
<b>GAAP Gross Profit as reported</b>	<b>462,282</b>	<b>483,851</b>	<b>512,134</b>	<b>524,807</b>	<b>536,633</b>	<b>576,100</b>	<b>616,638</b>	<b>636,219</b>
Add: Non-cash share-based compensation expense	3,946	4,305	4,054	4,037	4,157	3,948	4,261	4,199
Add: Amortization of intangible assets	3,434	3,623	3,846	4,234	3,861	3,836	4,326	4,329
<b>Total Non-GAAP gross profit</b>	<b>469,662</b>	<b>491,779</b>	<b>520,034</b>	<b>533,078</b>	<b>544,651</b>	<b>583,884</b>	<b>625,225</b>	<b>644,747</b>
<b>Cost of revenue reconciliation GAAP to non-GAAP:</b>								
<b>Subscriptions (GAAP)</b>	<b>33,575</b>	<b>36,545</b>	<b>39,678</b>	<b>40,660</b>	<b>42,095</b>	<b>43,633</b>	<b>46,324</b>	<b>47,277</b>
Less: non-cash share-based compensation expense	1,866	2,157	2,004	1,939	2,005	1,963	2,135	2,075
Less: Amortization of intangible assets	3,434	3,623	3,846	4,234	3,861	3,836	4,326	4,329
<b>Subscriptions (non-GAAP)</b>	<b>28,275</b>	<b>30,765</b>	<b>33,828</b>	<b>34,487</b>	<b>36,229</b>	<b>37,834</b>	<b>39,863</b>	<b>40,873</b>
<b>Training and services (GAAP)</b>	<b>47,645</b>	<b>47,503</b>	<b>47,993</b>	<b>49,793</b>	<b>50,112</b>	<b>57,063</b>	<b>60,393</b>	<b>64,482</b>
Less: non-cash share-based compensation expense	2,080	2,148	2,050	2,098	2,152	1,985	2,126	2,124
Less: Amortization of intangible assets	—	—	—	—	—	—	—	—
<b>Training and services (non-GAAP)</b>	<b>45,565</b>	<b>45,355</b>	<b>45,943</b>	<b>47,695</b>	<b>47,960</b>	<b>55,078</b>	<b>58,267</b>	<b>62,358</b>
<b>GAAP Gross Margin</b>	<b>85.1%</b>	<b>85.2%</b>	<b>85.4%</b>	<b>85.3%</b>	<b>85.3%</b>	<b>85.1%</b>	<b>85.2%</b>	<b>85.1%</b>
<b>Non-GAAP Gross Margin</b>	<b>86.4%</b>	<b>86.6%</b>	<b>86.7%</b>	<b>86.6%</b>	<b>86.6%</b>	<b>86.3%</b>	<b>86.4%</b>	<b>86.2%</b>
<b>GAAP Subscription Gross Margin</b>	<b>93.0%</b>	<b>92.7%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.5%</b>	<b>92.7%</b>	<b>92.7%</b>	<b>92.8%</b>
<b>Non-GAAP Subscription Gross Margin</b>	<b>94.1%</b>	<b>93.9%</b>	<b>93.6%</b>	<b>93.7%</b>	<b>93.5%</b>	<b>93.7%</b>	<b>93.7%</b>	<b>93.8%</b>
<b>GAAP Training and services Gross Margin</b>	<b>25.4%</b>	<b>28.3%</b>	<b>30.0%</b>	<b>30.8%</b>	<b>27.6%</b>	<b>28.9%</b>	<b>29.6%</b>	<b>29.3%</b>
<b>Non-GAAP Training and services Gross Margin</b>	<b>28.6%</b>	<b>31.5%</b>	<b>33.0%</b>	<b>33.7%</b>	<b>30.7%</b>	<b>31.4%</b>	<b>32.1%</b>	<b>31.6%</b>

**Red Hat GAAP to Non-GAAP Reconciliation – Annual**

(Unaudited)

(In thousands - except per share amounts)

	FY12		FY13		FY14		FY15		FY16		FY17	
	Year End		Year End		Year End		Year End		Year End		Year End	
	2/29/2012		2/28/2013		2/28/2014		2/28/2015		2/29/2016		2/28/2017	
<b>GAAP Operating Income as reported</b>	\$	199,913	\$	201,038	\$	232,290	\$	249,994	\$	288,048	\$	332,245
Add: Non-cash share-based compensation expense – Cost of Revenue		7,880		9,433		11,793		14,027		15,898		16,553
Add: Non-cash share-based compensation expense – S&M		25,060		32,906		40,322		55,203		69,089		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
<b>Total Non-cash share-based compensation expense</b>		79,267		98,698		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		842		138
Add: Amortization of intangible assets – G&A		3,674		5,328		5,316		5,958		5,160		7,078
<b>Total Amortization of intangible assets</b>		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		—		—		—
<b>Non-GAAP Operating Income</b>	\$	298,929	\$	326,401	\$	376,439	\$	416,112	\$	483,969	\$	556,420
<b>GAAP Operating Margin as reported</b>		17.6%		15.1%		15.1%		14.0%		14.0%		13.7%
<b>Non-GAAP Operating Margin</b>		26.4%		24.6%		24.5%		23.3%		23.6%		23.0%
GAAP Net Income as reported	\$	146,626	\$	150,204	\$	178,292	\$	180,201	\$	199,365	\$	253,703
GAAP provision for income taxes		61,383		59,548		61,256		75,297		75,500		66,477
<b>GAAP Income before provision for income taxes</b>	\$	208,009	\$	209,752	\$	239,548	\$	255,498	\$	274,865	\$	320,180
Add: Non-cash share-based compensation expense		79,267		98,698		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		18,570		19,104
Add: Transaction costs related to business combinations		—		—		—		4,001		3,884		1,789
Add: Facility exit costs		—		3,142		2,171		—		—		—
<b>Non-GAAP adjusted income before provision for taxes</b>		307,025		335,115		383,697		428,908		489,356		563,459
Non-GAAP provision for income taxes		90,603		95,139		98,226		126,399		134,431		149,608
<b>Non-GAAP adjusted net income</b>	\$	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)
<b>Non-GAAP Diluted</b>		196,451		195,804		192,036		189,246		185,837		182,669

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

(Unaudited)

(In thousands - except per share amounts)

	FY12	FY13	FY14	FY15	FY16	FY17
	Year End	Year End	Year End	Year End	Year End	Year End
	<u>2/29/2012</u>	<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>
<b>Note FY12, FY14 and FY17 included discrete tax benefits, please see below for provision for income tax breakout:</b>						
Non-GAAP adjusted net income before income tax provision	\$ 307,025		\$ 383,697			\$ 563,459
GAAP effective tax rate, excluding discrete tax items	31.0%		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
<b>GAAP Gross Profit as reported</b>	954,555	1,128,217	1,302,015	1,516,290	1,742,601	2,057,425
Add: Non-cash share-based compensation expense	7,880	9,433	11,793	14,027	15,898	16,553
Add: Amortization of intangible assets	3,533	5,943	10,180	10,672	11,726	15,562
<b>Total Non-GAAP gross profit</b>	<b>965,968</b>	<b>1,143,593</b>	<b>1,323,988</b>	<b>1,540,989</b>	<b>1,770,225</b>	<b>2,089,540</b>
<b>GAAP Gross Margin as reported</b>	<b>84.2%</b>	<b>84.9%</b>	<b>84.8%</b>	<b>84.7%</b>	<b>84.9%</b>	<b>85.3%</b>
<b>Non-GAAP Gross Margin</b>	<b>85.2%</b>	<b>86.1%</b>	<b>86.3%</b>	<b>86.1%</b>	<b>86.3%</b>	<b>86.6%</b>

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

(Unaudited)

(In thousands)

	<u>Q4FY16</u>	<u>Q1FY17</u>	<u>Q2FY17</u>	<u>Q3FY17</u>	<u>Rolling Average Four Quarter Billings Proxy</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	<u>Q3FY18</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>2/29/2016</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>		
Total Revenue	543,502	567,899	599,805	615,260		628,840	676,796	723,355	747,978		
Change in deferred revenue on Statement of Cash Flows	220,410	(46,093)	(26,953)	64,181		357,399	(45,717)	(40,575)	57,275		
Billings proxy	763,912	521,806	572,852	679,441	634,503	986,239	631,079	682,780	805,253	776,338	22.4%
Adjustment for currency impact to total revenue						1,570	5,145	(2,782)	(9,562)		
Billings Proxy on a Constant Currency basis						987,809	636,224	679,998	795,691	774,931	22.1%