

# Q2 FY2019 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

September 19, 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; risks related to errors or defects in our offerings and third-party products upon which our offerings depend; risks related to the security of our offerings and other data security vulnerabilities; 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; 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.

## INTRODUCTION

The following presentation provides financial highlights and supplemental metrics for Red Hat's second quarter ended August 31, 2018. These financial highlights and supplemental metrics were made available on September 19, 2018 in connection with Red Hat's announcement of its financial results for the second quarter of fiscal year 2019. This presentation should be read in conjunction with Red Hat's press release issued on September 19, 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>.

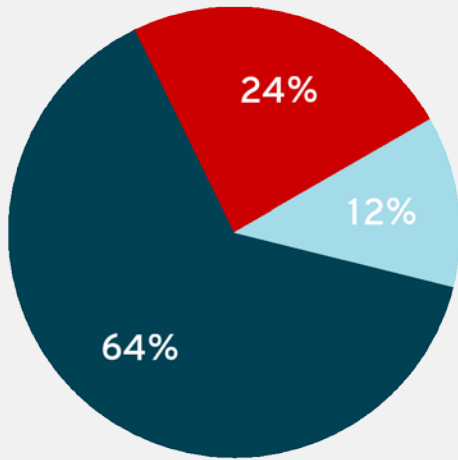
## Non-GAAP Measures

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 2nd QUARTER REVENUE GROWTH

% OF TOTAL REVENUE

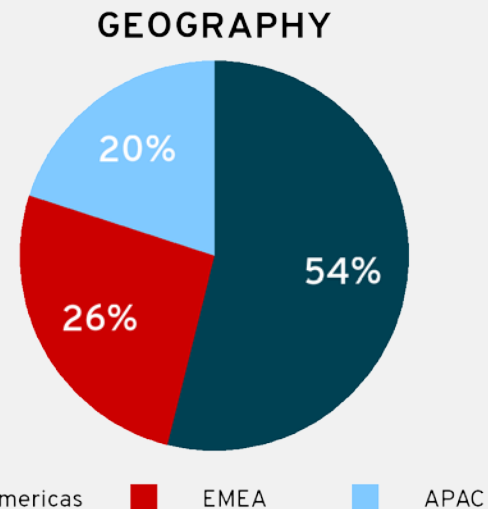
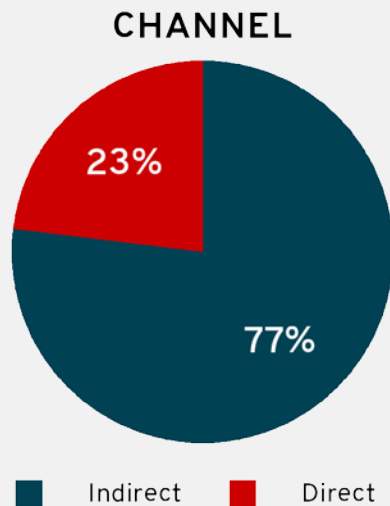


	Q219 Y/Y Growth	Q219 Y/Y Growth, cc <sup>(1)</sup>
App Dev & emerging tech	31%	31%
Infrastructure-related tech	8%	8%
Training & Consulting	17%	19%
Total Revenue	14%	14%

## Q2 HIGHLIGHTS:

- 66th consecutive quarter of revenue growth
- Subscription revenue of \$723 million, 88% of total revenue

# Q219 BOOKINGS & DEAL METRICS



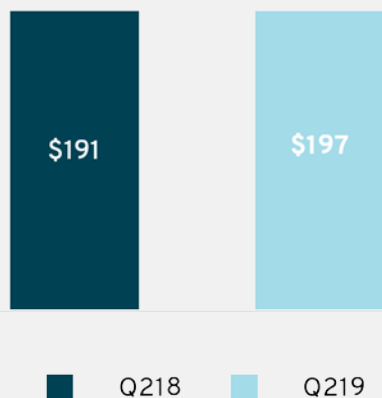
## Q2 HIGHLIGHTS:

- Total of 73 deals >\$1M, representing 11% y/y growth from Q218
- Strong cross-selling with over 76% of deals >\$1M including an App Dev & Emerging technology offering
- Total of 11 deals >\$5M, up from 4 deals in the year ago quarter

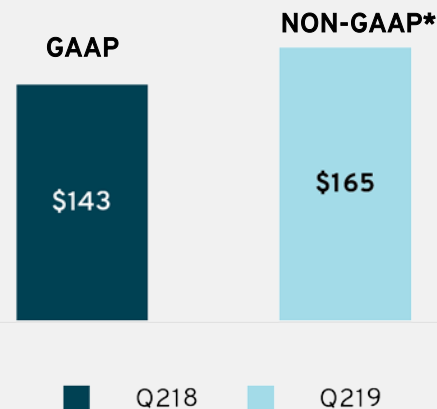
(\$ millions, y/y growth)

# QUARTERLY PROFITABILITY & CASH FLOW

## NON-GAAP OPERATING INCOME\*



## OPERATING CASH FLOW



### Q2 HIGHLIGHTS:

- 16.4% GAAP and 23.9% non-GAAP operating margins
- Purchased \$250M, or approximately 1.7M shares, of common stock in Q219
- 17% y/y total deferred revenue growth
- \$2.2B 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 totaling \$56 million in Q218 and \$62 million in Q219 from GAAP operating income of \$135 million in Q218 and \$135 million in Q219.

Q218 non-GAAP and GAAP operating income have been adjusted to reflect the full retrospective adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, now commonly referred to as Accounting Standards Codification Topic 606 ("ASC 606").

GAAP operating cash flow includes the impact of the recent adoption of ASU 2016-15: Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which requires the portion of repayments of convertible notes attributable to debt discount to be classified as operating cash flow. Non-GAAP operating cash flow in Q219 excludes repayments of convertible notes attributable to debt discount of \$33 million from GAAP operating cash flow of \$133 million.

\*See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

# SUPPLEMENTAL FINANCIAL & BUSINESS METRICS



(Unaudited)  
(\$ in thousands)

	Aug'17	Nov'17	Feb'18		May'18	Aug'18
Revenue	Q218	Q318	Q418	FY18	Q119	Q219
Infrastructure-related subscriptions	487,447	494,974	510,013	1,950,396	522,402	526,701
y/y change	14%	15%	17%	15%	14%	8%
constant currency y/y change	14%	14%	13%	14%	11%	8%
App dev & emerging subscriptions	150,115	161,858	173,263	623,782	189,119	195,998
y/y change	44%	44%	39%	42%	37%	31%
constant currency y/y change	43%	42%	34%	40%	32%	31%
<b>Total Subscription Revenue</b>	<b>637,562</b>	<b>656,832</b>	<b>683,276</b>	<b>2,574,178</b>	<b>711,521</b>	<b>722,699</b>
y/y change	20%	21%	22%	21%	19%	13%
constant currency y/y change	20%	19%	18%	19%	16%	14%
Training & services revenue	85,793	91,146	89,056	346,283	102,009	100,048
y/y change	25%	27%	29%	25%	27%	17%
constant currency y/y change	25%	25%	23%	24%	24%	19%
<b>Total Revenue</b>	<b>723,355</b>	<b>747,978</b>	<b>772,332</b>	<b>2,920,461</b>	<b>813,530</b>	<b>822,747</b>
y/y change	21%	22%	23%	21%	20%	14%
constant currency y/y change	20%	20%	18%	20%	17%	14%

**Percent of Total Revenue (in USD)**

Infrastructure-related subscriptions	67%	66%	66%	67%	64%	64%
App dev & emerging subscriptions	21%	22%	22%	21%	23%	24%
Total Subscription Revenue	88%	88%	88%	88%	87%	88%
Training & services revenue	12%	12%	12%	12%	13%	12%
<b>Total Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(Unaudited)  
(\$ in thousands)

	Aug'17	Nov'17	Feb'18		May'18	Aug'18
<b>Revenue by Geography</b>	<b>Q218</b>	<b>Q318</b>	<b>Q418</b>	<b>FY18</b>	<b>Q119</b>	<b>Q219</b>
Americas	463,359	471,773	484,492	<b>1,858,004</b>	500,306	514,323
y/y change	20%	20%	18%	<b>19%</b>	14%	11%
<i>constant currency y/y change</i>	<i>20%</i>	<i>20%</i>	<i>19%</i>	<i>19%</i>	<i>15%</i>	<i>12%</i>
EMEA	159,722	173,718	180,087	<b>657,197</b>	195,148	189,303
y/y change	25%	31%	37%	<b>27%</b>	36%	19%
<i>constant currency y/y change</i>	<i>21%</i>	<i>22%</i>	<i>20%</i>	<i>21%</i>	<i>21%</i>	<i>17%</i>
APAC	100,274	102,487	107,753	<b>405,260</b>	118,076	119,121
y/y change	16%	15%	24%	<b>19%</b>	25%	19%
<i>constant currency y/y change</i>	<i>18%</i>	<i>17%</i>	<i>18%</i>	<i>19%</i>	<i>21%</i>	<i>20%</i>
<b>Total Revenue</b>	<b>723,355</b>	<b>747,978</b>	<b>772,332</b>	<b>2,920,461</b>	<b>813,530</b>	<b>822,747</b>
y/y change	21%	22%	23%	<b>21%</b>	20%	14%
<i>constant currency y/y change</i>	<i>20%</i>	<i>20%</i>	<i>18%</i>	<i>20%</i>	<i>17%</i>	<i>14%</i>
<b><u>Percent of Total Revenue (in USD)</u></b>						
Americas	64%	63%	63%	<b>64%</b>	61%	63%
EMEA	22%	23%	23%	<b>22%</b>	24%	23%
APAC	14%	14%	14%	<b>14%</b>	15%	14%
<b>Total Revenue</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'17	Nov'17	Feb'18		May'18	Aug'18
	Q218	Q318	Q418	FY18	Q119	Q219
<b>Non-GAAP Income Statement*: <sup>(1)</sup></b>						
Gross Profit	625,225	644,747	668,375	2,522,231	702,100	714,439
Operating Income	191,128	179,023	190,554	701,464	168,082	197,039
Net Income	138,441	133,340	167,940	543,967	133,108	156,583
Gross Margin	86.4%	86.2%	86.5%	86.4%	86.3%	86.8%
Subscription Gross Margin	93.7%	93.8%	93.9%		93.8%	94.0%
Training & Services Gross Margin	32.1%	31.6%	30.1%		33.7%	35.4%
Operating Margin	26.4%	23.9%	24.7%	24.0%	20.7%	23.9%
EPS Basic	0.78	0.75	0.95	3.07	0.75	0.89
EPS Diluted	0.77	0.73	0.92	3.00	0.72	0.85
Tax Rate before non-GAAP adjustments	27.6%	25.9%	17.8%	24.1%	22.5%	24.1%
Weighted Average Shares Outstanding						
Basic	177,257	177,063	177,034	177,150	177,302	176,746
Diluted	180,315	182,051	183,005	181,157	185,053	183,237
<b>Balance Sheet</b>	<b>Q218</b>	<b>Q318</b>	<b>Q418</b>	<b>FY18</b>	<b>Q119</b>	<b>Q219</b>
Total Cash & Investments	2,314,416	2,321,173	2,472,932	2,472,932	2,527,129	2,157,862
Current Deferred Revenue	1,471,434	1,482,428	1,853,719	1,853,719	1,721,300	1,683,503
Long-Term Deferred Revenue	581,077	623,150	741,453	741,453	723,207	709,746
Prior Year Deferred Revenue Balance	1,680,652	1,707,978	2,069,956		2,054,164	2,052,511
Constant currency change in Deferred Revenue <sup>(2)</sup>	335,313	328,407	433,040		374,165	380,929
Impact from foreign currency translation <sup>(3)</sup>	36,546	69,193	92,176		16,178	(40,191)
<b>Ending Deferred Revenue Balance</b>	<b>2,052,511</b>	<b>2,105,578</b>	<b>2,595,172</b>		<b>2,444,507</b>	<b>2,393,249</b>
<b>Cash Flow Statement</b>	<b>Q218</b>	<b>Q318</b>	<b>Q418</b>	<b>FY18</b>	<b>Q119</b>	<b>Q219</b>
Current Deferred Revenue Change	(41,741)	13,966	351,968	278,435	(103,780)	(26,026)
Long-Term Deferred Revenue Change	1,166	43,309	109,231	153,747	(812)	(7,760)
Total Change in Deferred Revenue	(40,575)	57,275	461,199	432,182	(104,592)	(33,786)
Net Operating Cash Flow	142,896	160,307	362,063	923,138	346,159	132,792

\* See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

(1) Income statement data for FY18 has been adjusted to reflect the full retrospective adoption of ASC 606.

(2) Change in deferred revenue includes \$833 acquired as part of a business combination during the twelve months ended August 31, 2018.

(3) Quarterly FX impacts to y/y change in deferred revenue are (\$17.5) million in Q2FY19, (\$46.1) million in Q1FY19, \$27.6 million in Q4FY18 and (\$4.2) million in Q3FY18.

	Aug'17	Nov'17	Feb'18		May'18	Aug'18
<b>Bookings &amp; Deal Metrics:</b>	<b>Q218</b>	<b>Q318</b>	<b>Q418</b>	<b>FY18</b>	<b>Q119</b>	<b>Q219</b>
# of Top 25 Renewals	25	25	24		25	24
Top 25 Renewal Rates (of prior deal value)	~115%	>120%	>120%		>120%	>100%
Deals >\$1M	<b>66</b>	<b>94</b>	<b>169</b>	<b>373</b>	<b>65</b>	<b>73</b>
Deals >\$1M - \$5M	62	77	143	<b>319</b>	59	62
Deals >\$5M - \$10M	4	13	12	<b>32</b>	5	10
Deals >\$10M - \$20M	—	3	12	<b>18</b>	1	1
Deals >\$20M	—	1	2	<b>4</b>	—	—
Deals containing App Dev & Emerging Tech	61%	62%	81%	<b>71%</b>	71%	77%
Deals w/ only App Dev & Emerging Tech	17%	12%	19%	<b>15%</b>	19%	22%
Indirect Channel Bookings	79%	67%	71%	<b>72%</b>	75%	77%
Direct Bookings	21%	33%	29%	<b>28%</b>	25%	23%
Bookings by Geography						
Americas	57%	57%	58%	<b>57%</b>	50%	54%
EMEA	24%	28%	27%	<b>26%</b>	28%	26%
APAC	19%	15%	15%	<b>17%</b>	22%	20%
Average Contract Length (months)	21	24	23	<b>23</b>	21	22
% of Single Year Bookings	76%	67%	68%	<b>71%</b>	74%	74%
% of Multi-Year Bookings	24%	33%	32%	<b>29%</b>	26%	26%
<b>Additional Metrics</b>						
Employees	11,084	11,413	11,874		12,212	12,627
Average EUR FX Rate	1.11	1.18	1.24	<b>1.15</b>	1.21	1.16
Average JPY FX Rate	112	112	108	<b>111</b>	108	111

(Unaudited)

	Aug'17	Nov'17	Feb'18		May'18	Aug'18
	Q218	Q318	Q418	FY18	Q119	Q219
<b>Share Repurchases</b>						
# Shares purchased (millions)	0.8	0.8	—	2.3	0.9	1.7
Aggregate Principal Amount (\$ millions)	75	100	—	237	150	250
Remaining Balance on Plan at quarter-end (\$ millions)	499	399	399	399	249	750
<b>Days Sales Outstanding (DSO) (in thousands, except # of days)</b>						
Total Revenue	723,355	747,978	772,332	2,920,461	813,530	822,747
Q/Q Δ deferred revenue (Balance Sheet)	(1,653)	53,067	489,594		(150,665)	(51,258)
Deferred revenue (Cash Flow Stmt.)	(40,575)	57,275	461,199	432,182	(104,592)	(33,786)
Accounts Receivable, net	418,449	531,509	806,744		498,964	516,008
Q/Q FX impact on Accounts Receivable	(5,524)	1,400	(6,839)		7,779	4,169
Accounts Receivable in constant currency	412,925	532,909	799,905		506,743	520,177
# calendar days in quarter	92	91	90		92	92
<b>DSO <sup>(1)</sup></b>	<b>55</b>	<b>60</b>	<b>58</b>		<b>69</b>	<b>62</b>
<b>FX adj DSO <sup>(2)</sup></b>	<b>56</b>	<b>60</b>	<b>58</b>		<b>66</b>	<b>61</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 <sup>(1)</sup>

(Unaudited)

(In thousands - except per share amounts)

	Q218	Q318	Q418	Q119	Q219
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>8/31/2017</u>	<u>11/30/2017</u>	<u>2/28/2018</u>	<u>5/31/2018</u>	<u>8/31/2018</u>
<b>GAAP Operating Income as reported</b>	<b>\$ 134,790</b>	<b>\$ 118,718</b>	<b>\$ 132,480</b>	<b>\$ 112,156</b>	<b>\$ 134,556</b>
Add: Non-cash share-based compensation expense Cost of Revenue	4,261	4,199	4,454	5,128	4,747
Add: Non-cash share-based compensation expense S&M	20,817	23,278	22,451	19,520	22,824
Add: Non-cash share-based compensation expense R&D	14,220	14,937	14,404	14,782	16,306
Add: Non-cash share-based compensation expense G&A	7,649	9,904	7,957	6,575	8,809
<b>Total Non-cash share-based compensation expense</b>	<b>46,947</b>	<b>52,318</b>	<b>49,266</b>	<b>46,005</b>	<b>52,686</b>
Add: Amortization of intangible assets Cost of Revenue	4,326	4,329	4,214	6,141	5,875
Add: Amortization of intangible assets S&M	1,583	1,592	1,561	1,362	1,400
Add: Amortization of intangible assets R&D	35	34	35	34	35
Add: Amortization of intangible assets G&A	2,227	2,084	2,270	2,373	2,380
<b>Total Amortization of intangible assets</b>	<b>8,171</b>	<b>8,039</b>	<b>8,080</b>	<b>9,910</b>	<b>9,690</b>
Add: Transaction costs related to business combinations	1,220	(52)	728	11	107
<b>Non-GAAP Operating Income</b>	<b>\$ 191,128</b>	<b>\$ 179,023</b>	<b>\$ 190,554</b>	<b>\$ 168,082</b>	<b>\$ 197,039</b>
<b>GAAP Operating Margin as reported</b>	<b>18.6%</b>	<b>15.9%</b>	<b>17.2%</b>	<b>13.8%</b>	<b>16.4%</b>
<b>Non-GAAP Operating Margin</b>	<b>26.4%</b>	<b>23.9%</b>	<b>24.7%</b>	<b>20.7%</b>	<b>23.9%</b>
<b>GAAP Net Income as reported</b>	<b>\$ 97,088</b>	<b>\$ 101,609</b>	<b>\$ (12,160)</b>	<b>\$ 113,190</b>	<b>\$ 86,854</b>
GAAP provision for income taxes	34,973	14,606	154,809	(1,713)	48,292
GAAP Income before provision for income taxes	132,061	116,215	142,649	111,477	135,146
Add: Non-cash share-based compensation expense	46,947	52,318	49,266	46,005	52,686
Add: Amortization of intangible assets	8,171	8,039	8,080	9,910	9,690
Add: Non-cash interest expense related to the debt discount	4,890	4,936	4,961	5,007	3,869
Add: Transaction costs related to business combinations	1,220	(52)	728	11	107
Non-GAAP adjusted income before provision for taxes	193,289	181,456	205,684	172,410	201,498
Non-GAAP provision for income taxes	54,848	48,116	37,744	39,302	44,915
Non-GAAP adjusted net income (basic and diluted)	<b>\$ 138,441</b>	<b>\$ 133,340</b>	<b>\$ 167,940</b>	<b>\$ 133,108</b>	<b>\$ 156,583</b>
GAAP net income per share:					
Basic	\$ 0.55	\$ 0.57	\$ (0.07)	\$ 0.64	\$ 0.49
Diluted	\$ 0.53	\$ 0.55	\$ (0.07)	\$ 0.59	\$ 0.46
Non-GAAP adjusted net income per share:					
Basic	\$ 0.78	\$ 0.75	\$ 0.95	\$ 0.75	\$ 0.89
Diluted	\$ 0.77	\$ 0.73	\$ 0.92	\$ 0.72	\$ 0.85
Weighted average shares outstanding:					
Basic	177,257	177,063	177,034	177,302	176,746
GAAP Diluted	183,021	186,160	177,034	190,739	186,936
Dilutive effect of outstanding equity awards, convertible notes and warrants	—	—	10,699	—	—
Dilution offset from convertible note hedge transactions	(2,706)	(4,109)	(4,728)	(5,686)	(3,699)
Non-GAAP Diluted	180,315	182,051	183,005	185,053	183,237

<sup>(1)</sup> Income statement data for all FY18 quarters has been adjusted to reflect the full retrospective adoption of ASC 606.

**Red Hat GAAP to Non-GAAP Reconciliation Quarterly <sup>(1)</sup> (continued)**

(Unaudited)

(In thousands - except per share amounts)

**Computation of non-GAAP provision for income taxes:**

	Q218	Q318	Q418	Q119	Q219
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>8/31/2017</u>	<u>11/30/2017</u>	<u>2/28/2018</u>	<u>5/31/2018</u>	<u>8/31/2018</u>
Non-GAAP adjusted income before provision for income taxes	\$ 193,289	\$ 181,456	\$ 205,684	\$ 172,410	\$ 201,498
GAAP estimated annual effective tax rate	27.6%	25.9%	17.8%	22.5%	24.1%
Provision for income taxes on non-GAAP adjusted income before adjustments	53,483	46,949	35,592	38,792	48,702
Certain non-deductible share-based compensation	—	—	—	—	(4,973)
Discrete tax expense, excluding discrete benefits related to share-based compensation	1,365	1,167	2,152	510	1,186
Provision for income taxes on non-GAAP adjusted income, excluding impact from certain non-deductible share-based compensation and discrete tax benefits related to share-based compensation	\$ 54,848	\$ 48,116	\$ 37,744	\$ 39,302	\$ 44,915
<b>GAAP Operating Cash Flow as reported</b>	\$ 142,896	\$ 160,307	\$ 362,063	\$ 346,159	\$ 132,792
Repayments of convertible notes attributable to debt discount	—	—	—	—	32,563
<b>Non-GAAP Operating Cash Flow</b>	\$ 142,896	\$ 160,307	\$ 362,063	\$ 346,159	\$ 165,355

<sup>(1)</sup> Income statement data for all FY18 quarters has been adjusted to reflect the full retrospective adoption of ASC 606.



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

(Unaudited)

(In thousands)

	Q218	Q318	Q418	Q119	Q219
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>8/31/2017</u>	<u>11/30/2017</u>	<u>2/28/2018</u>	<u>5/31/2018</u>	<u>8/31/2018</u>
<b>GAAP Revenue:</b>					
Subscriptions	\$ 637,562	\$ 656,832	\$ 683,276	\$ 711,521	\$ 722,699
Training and services	85,793	91,146	89,056	102,009	100,048
<b>Total subscription, training and services revenue</b>	<b>723,355</b>	<b>747,978</b>	<b>772,332</b>	<b>813,530</b>	<b>822,747</b>
<b>Non-GAAP Cost of revenue:</b>					
Subscriptions	39,863	40,873	41,738	43,839	43,709
Training and services	58,267	62,358	62,219	67,591	64,599
<b>Total cost of subscription, training and services revenue</b>	<b>98,130</b>	<b>103,231</b>	<b>103,957</b>	<b>111,430</b>	<b>108,308</b>
<b>GAAP Gross Profit as reported</b>	<b>616,638</b>	<b>636,219</b>	<b>659,707</b>	<b>690,831</b>	<b>703,817</b>
Add: Non-cash share-based compensation expense	4,261	4,199	4,454	5,128	4,747
Add: Amortization of intangible assets	4,326	4,329	4,214	6,141	5,875
<b>Total Non-GAAP gross profit</b>	<b>625,225</b>	<b>644,747</b>	<b>688,375</b>	<b>702,100</b>	<b>714,439</b>
<b>Cost of revenue reconciliation GAAP to non-GAAP:</b>					
<b>Subscriptions (GAAP)</b>	<b>46,324</b>	<b>47,277</b>	<b>48,105</b>	<b>52,173</b>	<b>51,931</b>
Less: non-cash share-based compensation expense	2,135	2,075	2,153	2,193	2,347
Less: Amortization of intangible assets	4,326	4,329	4,214	6,141	5,875
<b>Subscriptions (non-GAAP)</b>	<b>39,863</b>	<b>40,873</b>	<b>41,738</b>	<b>43,839</b>	<b>43,709</b>
<b>Training and services (GAAP)</b>	<b>60,393</b>	<b>64,482</b>	<b>64,520</b>	<b>70,526</b>	<b>66,999</b>
Less: non-cash share-based compensation expense	2,126	2,124	2,301	2,935	2,400
Less: Amortization of intangible assets	—	—	—	—	—
<b>Training and services (non-GAAP)</b>	<b>58,267</b>	<b>62,358</b>	<b>62,219</b>	<b>67,591</b>	<b>64,599</b>
<b>GAAP Gross Margin</b>	<b>85.2%</b>	<b>85.1%</b>	<b>85.4%</b>	<b>84.9%</b>	<b>85.5%</b>
<b>Non-GAAP Gross Margin</b>	<b>86.4%</b>	<b>86.2%</b>	<b>86.5%</b>	<b>86.3%</b>	<b>86.8%</b>
<b>GAAP Subscription Gross Margin</b>	<b>92.7%</b>	<b>92.8%</b>	<b>93.0%</b>	<b>92.7%</b>	<b>92.8%</b>
<b>Non-GAAP Subscription Gross Margin</b>	<b>93.7%</b>	<b>93.8%</b>	<b>93.9%</b>	<b>93.8%</b>	<b>94.0%</b>
<b>GAAP Training and services Gross Margin</b>	<b>29.6%</b>	<b>29.3%</b>	<b>27.6%</b>	<b>30.9%</b>	<b>33.0%</b>
<b>Non-GAAP Training and services Gross Margin</b>	<b>32.1%</b>	<b>31.6%</b>	<b>30.1%</b>	<b>33.7%</b>	<b>35.4%</b>

# Red Hat GAAP to Non-GAAP Reconciliation – Annual <sup>(1)</sup>

(Unaudited)

(In thousands - except per share amounts)

	FY17	FY18
	Year End	Year End
	<u>2/28/2017</u>	<u>2/28/2018</u>
<b>GAAP Operating Income as reported</b>	\$ 334,075	\$ 475,732
Add: Non-cash share-based compensation expense – Cost of Revenue	16,553	16,862
Add: Non-cash share-based compensation expense – S&M	93,378	87,158
Add: Non-cash share-based compensation expense – R&D	52,424	57,008
Add: Non-cash share-based compensation expense – G&A	30,175	31,221
<b>Total Non-cash share-based compensation expense</b>	<b>192,530</b>	<b>192,249</b>
Add: Amortization of intangible assets – Cost of Revenue	15,562	16,705
Add: Amortization of intangible assets – S&M	7,078	6,195
Add: Amortization of intangible assets – R&D	138	138
Add: Amortization of intangible assets – G&A	7,078	8,407
<b>Total Amortization of intangible assets</b>	<b>29,856</b>	<b>31,445</b>
Add: Transaction costs related to business combinations	1,789	2,038
Add: Facility exit costs	—	—
<b>Non-GAAP Operating Income</b>	<b>\$ 558,250</b>	<b>\$ 701,464</b>
<b>GAAP Operating Margin as reported</b>	13.8%	16.2%
<b>Non-GAAP Operating Margin</b>	23.1%	24.0%
GAAP Net Income as reported	\$ 255,390	\$ 261,851
GAAP provision for income taxes	66,620	216,140
GAAP Income before provision for income taxes	\$ 322,010	\$ 477,991
Add: Non-cash share-based compensation expense	192,530	192,249
Add: Amortization of intangible assets	29,856	31,445
Add: Non-cash interest expense related to the debt discount	19,104	19,654
Add: Transaction costs related to business combinations	1,789	2,038
Add: Facility exit costs	—	—
Non-GAAP adjusted income before provision for taxes	565,289	723,377
Non-GAAP provision for income taxes	149,618	179,410
Non-GAAP adjusted net income	\$ 415,671	\$ 543,967
GAAP net income per share:		
Basic	\$ 1.42	\$ 1.48
Diluted	\$ 1.40	\$ 1.42
Non-GAAP adjusted net income per share:		
Basic	\$ 2.31	\$ 3.07
Diluted	\$ 2.28	\$ 3.00
Weighted average shares outstanding:		
Basic	179,642	177,150
GAAP Diluted	182,961	184,602
Dilution offset from convertible note hedge transactions	(292)	(3,445)
Non-GAAP Diluted	182,669	181,157

<sup>(1)</sup> Income statement data for FY17 and FY18 has been adjusted to reflect the full retrospective adoption of ASC 606.

**Red Hat GAAP to Non-GAAP Reconciliation Annual <sup>(1)</sup> (continued)**

(Unaudited)

(In thousands - except per share amounts)

<b>FY17</b>	<b>FY18</b>
<b>Year End</b>	<b>Year End</b>
<b><u>2/28/2017</u></b>	<b><u>2/28/2018</u></b>

**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	\$ 565,289	\$ 723,377
GAAP effective tax rate, excluding discrete tax items	27.6%	24.1%
Non-GAAP provision for income taxes before discrete tax benefit	\$ 156,020	\$ 174,334
Discrete tax benefit	(6,402)	5,076
Provision for income taxes on Non-GAAP adjusted net income	\$ 149,618	\$ 179,410
<b>GAAP Gross Profit as reported</b>	<b>\$ 2,057,425</b>	<b>\$ 2,488,664</b>
Add: Non-cash share-based compensation expense	16,553	16,862
Add: Amortization of intangible assets	15,562	16,705
<b>Total Non-GAAP gross profit</b>	<b>\$ 2,089,540</b>	<b>\$ 2,522,231</b>
<b>GAAP Gross Margin as reported</b>	<b>85.3%</b>	<b>85.2%</b>
<b>Non-GAAP Gross Margin</b>	<b>86.6%</b>	<b>86.4%</b>

<sup>(1)</sup> Income statement data for FY17 and FY18 has been adjusted to reflect the full retrospective adoption of ASC 606.

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

(Unaudited)

(In thousands)

	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	<u>Q2FY18</u>	Rolling Average Four Quarter Billings Proxy	<u>Q3FY18</u>	<u>Q4FY18</u>	<u>Q1FY19</u>	<u>Q2FY19</u>	Rolling Average Four Quarter Billings Proxy	Year-Over- Year Growth Rate
	Quarter End	Quarter End	Quarter End	Quarter End		Quarter End	Quarter End	Quarter End	Quarter End		
	<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>	<u>5/31/2018</u>	<u>8/31/2018</u>		
Total Revenue	615,260	628,840	676,796	723,355		747,978	772,332	813,530	822,747		
Change in deferred revenue on Statement of Cash Flows	64,181	357,399	(45,717)	(40,575)		57,275	461,199	(104,592)	(33,786)		
Billings proxy	679,441	986,239	631,079	682,780	744,885	805,253	1,233,531	708,938	788,961	884,171	18.7%
Adjustment for currency impact to total revenue						(9,562)	(27,234)	(22,518)	4,182		
Billings Proxy on a Constant Currency basis						795,691	1,206,297	686,420	793,143	870,388	16.8%