

GAAP TO NON-GAAP RECONCILIATION

Red Hat GAAP to Non-GAAP Reconciliation Quarterly ⁽¹⁾

(Unaudited)

(In thousands - except per share amounts)

	Q118	Q218	Q318	Q418	Q119
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<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>
GAAP Operating Income as reported	\$ 89,744	\$ 134,790	\$ 118,718	\$ 132,480	\$ 112,156
Add: Non-cash share-based compensation expense Cost of Revenue	3,948	4,261	4,199	4,454	5,128
Add: Non-cash share-based compensation expense S&M	20,612	20,817	23,278	22,451	19,520
Add: Non-cash share-based compensation expense R&D	13,447	14,220	14,937	14,404	14,782
Add: Non-cash share-based compensation expense G&A	5,711	7,649	9,904	7,957	6,575
Total Non-cash share-based compensation expense	43,718	46,947	52,318	49,266	46,005
Add: Amortization of intangible assets Cost of Revenue	3,836	4,326	4,329	4,214	6,141
Add: Amortization of intangible assets S&M	1,459	1,583	1,592	1,561	1,362
Add: Amortization of intangible assets R&D	34	35	34	35	34
Add: Amortization of intangible assets G&A	1,826	2,227	2,084	2,270	2,373
Total Amortization of intangible assets	7,155	8,171	8,039	8,080	9,910
Add: Transaction costs related to business combinations	142	1,220	(52)	728	11
Non-GAAP Operating Income	\$ 140,759	\$ 191,128	\$ 179,023	\$ 190,554	\$ 168,082
GAAP Operating Margin as reported	13.3%	18.6%	15.9%	17.2%	13.8%
Non-GAAP Operating Margin	20.8%	26.4%	23.9%	24.7%	20.7%
 GAAP Net Income as reported	 \$ 75,314	 \$ 97,088	 \$ 101,609	 \$ (12,160)	 \$ 113,190
GAAP provision for income taxes	11,752	34,973	14,606	154,809	(1,713)
GAAP Income before provision for income taxes	87,066	132,061	116,215	142,649	111,477
Add: Non-cash share-based compensation expense	43,718	46,947	52,318	49,266	46,005
Add: Amortization of intangible assets	7,155	8,171	8,039	8,080	9,910
Add: Non-cash interest expense related to the debt discount	4,867	4,890	4,936	4,961	5,007
Add: Transaction costs related to business combinations	142	1,220	(52)	728	11
Non-GAAP adjusted income before provision for taxes	142,948	193,289	181,456	205,684	172,410
Non-GAAP provision for income taxes	38,702	54,848	48,116	37,744	39,302
Non-GAAP adjusted net income (basic and diluted)	\$ 104,246	\$ 138,441	\$ 133,340	\$ 167,940	\$ 133,108
GAAP net income per share:					
Basic	\$ 0.42	\$ 0.55	\$ 0.57	\$ (0.07)	\$ 0.64
Diluted	\$ 0.41	\$ 0.53	\$ 0.55	\$ (0.07)	\$ 0.59
Non-GAAP adjusted net income per share:					
Basic	\$ 0.59	\$ 0.78	\$ 0.75	\$ 0.95	\$ 0.75
Diluted	\$ 0.58	\$ 0.77	\$ 0.73	\$ 0.92	\$ 0.72
Weighted average shares outstanding:					
Basic	177,243	177,257	177,063	177,034	177,302
GAAP Diluted	181,810	183,021	186,160	177,034	190,739
Dilutive effect of outstanding equity awards, convertible notes and warrants	—	—	—	10,699	—
Dilution offset from convertible note hedge transactions	(1,593)	(2,706)	(4,109)	(4,728)	(5,686)
Non-GAAP Diluted	180,217	180,315	182,051	183,005	185,053

⁽¹⁾ Income statement data for Q4FY17 and all FY18 quarters has been adjusted to reflect the full retrospective adoption of ASC 606.

Red Hat GAAP to Non-GAAP Reconciliation Quarterly ⁽¹⁾
(continued)

(Unaudited)

(In thousands - except per share amounts)

	Q118		Q218		Q318		Q418		Q119	
	Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
	<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>	
Non-GAAP adjusted income before provision for income taxes	\$	142,948	\$	193,289	\$	181,456	\$	205,684	\$	172,410
GAAP estimated annual effective tax rate		26.8%		27.6%		25.9%		17.8%		22.5%
Provision for income taxes on non-GAAP adjusted income before discrete tax benefits		38,310		53,483		46,949		35,592		38,792
Discrete tax expense (benefit), excluding discrete benefits related to share-based compensation		392		1,365		1,167		2,152		510
Provision for income taxes on non-GAAP adjusted income, excluding impact of tax reform and discrete tax benefits related to share-based compensation	\$	38,702	\$	54,848	\$	48,116	\$	37,744	\$	39,302

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Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

	Q118	Q218	Q318	Q418	Q119
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<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>
GAAP Revenue:					
Subscriptions	\$ 596,508	\$ 637,562	\$ 656,832	\$ 683,276	\$ 711,521
Training and services	80,288	85,793	91,146	89,056	102,009
Total subscription, training and services revenue	676,796	723,355	747,978	772,332	813,530
Non-GAAP Cost of revenue:					
Subscriptions	37,834	39,863	40,873	41,738	43,839
Training and services	55,078	58,267	62,358	62,219	67,591
Total cost of subscription, training and services revenue	92,912	98,130	103,231	103,957	111,430
GAAP Gross Profit as reported	576,100	616,638	636,219	659,707	690,831
Add: Non-cash share-based compensation expense	3,948	4,261	4,199	4,454	5,128
Add: Amortization of intangible assets	3,836	4,326	4,329	4,214	6,141
Total Non-GAAP gross profit	583,884	625,225	644,747	688,375	702,100
Cost of revenue reconciliation GAAP to non-GAAP:					
Subscriptions (GAAP)	43,633	46,324	47,277	48,105	52,173
Less: non-cash share-based compensation expense	1,963	2,135	2,075	2,153	2,193
Less: Amortization of intangible assets	3,836	4,326	4,329	4,214	6,141
Subscriptions (non-GAAP)	37,834	39,863	40,873	41,738	43,839
Training and services (GAAP)	57,063	60,393	64,482	64,520	70,526
Less: non-cash share-based compensation expense	1,985	2,126	2,124	2,301	2,935
Less: Amortization of intangible assets	—	—	—	—	—
Training and services (non-GAAP)	55,078	58,267	62,358	62,219	67,591
GAAP Gross Margin	85.1%	85.2%	85.1%	85.4%	84.9%
Non-GAAP Gross Margin	86.3%	86.4%	86.2%	86.5%	86.3%
GAAP Subscription Gross Margin	92.7%	92.7%	92.8%	93.0%	92.7%
Non-GAAP Subscription Gross Margin	93.7%	93.7%	93.8%	93.9%	93.8%
GAAP Training and services Gross Margin	28.9%	29.6%	29.3%	27.6%	30.9%
Non-GAAP Training and services Gross Margin	31.4%	32.1%	31.6%	30.1%	33.7%

Red Hat GAAP to Non-GAAP Reconciliation – Annual ⁽¹⁾

(Unaudited)

(In thousands - except per share amounts)

	FY17	FY18
	Year End	Year End
	<u>2/28/2017</u>	<u>2/28/2018</u>
GAAP Operating Income as reported	\$ 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
Total Non-cash share-based compensation expense	192,530	192,249
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
Total Amortization of intangible assets	29,856	31,445
Add: Transaction costs related to business combinations	1,789	2,038
Add: Facility exit costs	—	—
Non-GAAP Operating Income	\$ 558,250	\$ 701,464
GAAP Operating Margin as reported	13.8%	16.2%
Non-GAAP Operating Margin	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

⁽¹⁾ 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 ⁽¹⁾ (continued)

(Unaudited)

(In thousands - except per share amounts)

Note FY17 and FY18 included discrete tax benefits, please see below for provision for income tax breakout:

	FY17	FY18
	Year End	Year End
	<u>2/28/2017</u>	<u>2/28/2018</u>
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
GAAP Gross Profit as reported	2,057,425	2,488,664
Add: Non-cash share-based compensation expense	16,553	16,862
Add: Amortization of intangible assets	15,562	16,705
Total Non-GAAP gross profit	2,089,540	2,522,231
GAAP Gross Margin as reported	85.3%	85.2%
Non-GAAP Gross Margin	86.6%	86.4%

⁽¹⁾ 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>Q2FY17</u>	<u>Q3FY17</u>	<u>Q4FY17</u>	<u>Q1FY18</u>	Rolling Average Four Quarter Billings Proxy	<u>Q2FY18</u>	<u>Q3FY18</u>	<u>Q4FY18</u>	<u>Q1FY19</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>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>	<u>5/31/2018</u>		
Total Revenue	599,805	615,260	628,840	676,796		723,355	747,978	772,332	813,530		
Change in deferred revenue on Statement of Cash Flows	(26,953)	64,181	357,399	(45,717)		(40,575)	57,275	461,199	(104,592)		
Billings proxy	572,852	679,441	986,239	631,079	717,403	682,780	805,253	1,233,531	708,938	857,626	19.5%
Adjustment for currency impact to total revenue						(2,782)	(9,562)	(27,234)	(22,518)		
Billings Proxy on a Constant Currency basis						679,998	795,691	1,206,297	686,420	842,102	17.4%