

GAAP TO NON-GAAP RECONCILIATION

Red Hat GAAP to Non-GAAP Reconciliation Quarterly

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

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

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

Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

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

Red Hat GAAP to Non-GAAP Reconciliation – Annual

(Unaudited)

(In thousands - except per share amounts)

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

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

(Unaudited)

(In thousands - except per share amounts)

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

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

(Unaudited)

(In thousands)

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