

# 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%