

# Q1 FY17 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

June 22, 2016

# SAFE HARBOR 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; 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 data and information security vulnerabilities; ineffective management of, and control over, the Company's growth and international operations; fluctuations in exchange rates; and changes in and a dependence on key personnel, as well as other factors contained in our most recent Annual Report on Form 10-K (copies of which may be accessed through the Securities and Exchange Commission's website at [www.sec.gov](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, June 22, 2016.

## INTRODUCTION

The following presentation provides financial highlights and supplemental metrics for Red Hat's first quarter ended May 31, 2016. These financial highlights and supplemental metrics were made available on June 22, 2016 in connection with Red Hat's announcement of its financial results for the first quarter of fiscal year 2017. This presentation should be read in conjunction with Red Hat's press release issued on June 22, 2016 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>.

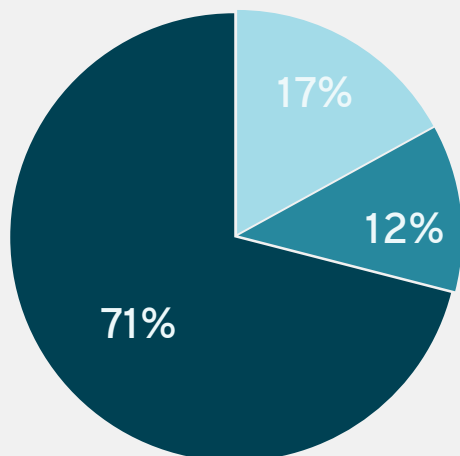
## Non-GAAP Measures

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 1<sup>ST</sup> QUARTER REVENUE GROWTH

% OF TOTAL REVENUE

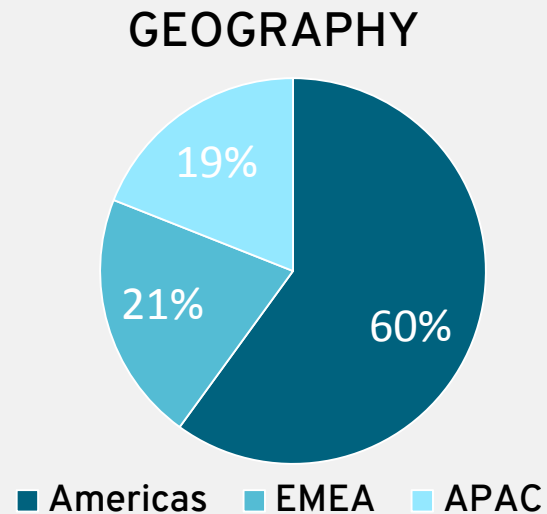
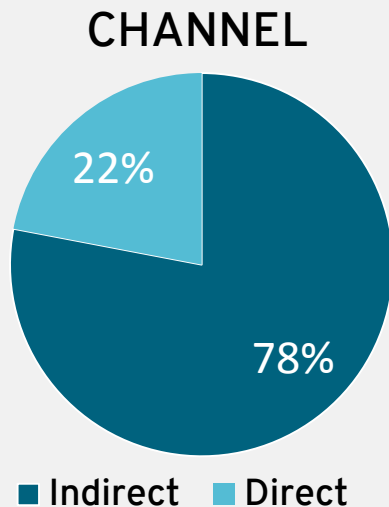


	Q117 Y/Y Growth	Q117 Y/Y Growth, cc <sup>(1)</sup>
App Dev & emerging tech	39%	39%
Infrastructure-related tech	14%	13%
Training & Consulting	18%	18%
<b>Total Revenue</b>	<b>18%</b>	<b>18%</b>

## Q1 HIGHLIGHTS:

- 57<sup>th</sup> consecutive quarter of revenue growth
- Q1 revenue above the high end of guidance
- Highest Q1 total revenue growth rate in USD in 3 years

# BOOKINGS & DEAL METRICS



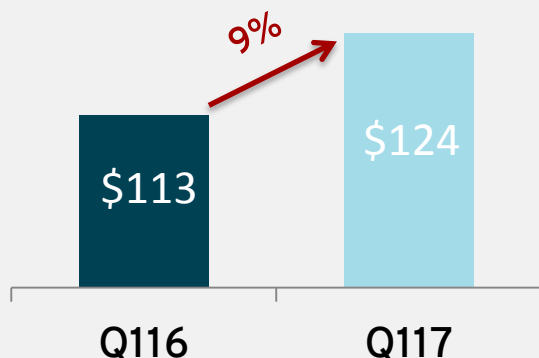
## Q1 HIGHLIGHTS:

- Record number of deals >\$1M; up 50% year-over year
- Top 30 deals all over \$1M, with 6 over \$5M, and 2 over \$10M
- Strong cross-selling with over 80% of top deals including an app-dev/emerging technology offering

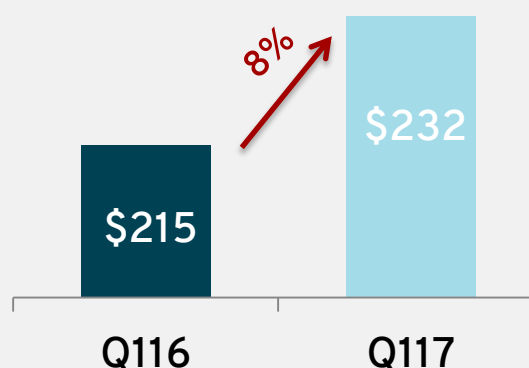
# QUARTERLY PROFITABILITY & CASH FLOW

(\$ millions, y/y growth)

## NON-GAAP OPERATING INCOME



## OPERATING CASH FLOW



### Q1 HIGHLIGHTS:

- 21.8% Non-GAAP operating margin
- \$0.50 Non-GAAP EPS
- \$66M share repurchase

- 18% y/y total deferred revenue growth, 17% in cc <sup>(1)</sup>
- \$2.12B cash & investments balance

(1) Constant currency

Operating cash flows for Q116 and Q117 include the effect of early adoption of ASU 2016-09, which increased operating cash flow by \$6M and \$8M, respectively.

# SUPPLEMENTAL FINANCIAL & BUSINESS METRICS



(Unaudited)  
(\$ in thousands)

	May-15	Aug-15	Nov-15	Feb-16		May-16
<b>Revenue</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>
Infrastructure-related subscriptions	354,018	362,926	373,091	390,706	<b>1,480,463</b>	403,182
y/y change	11%	9%	12%	15%	<b>12%</b>	14%
<i>constant currency y/y change</i>	<i>19%</i>	<i>17%</i>	<i>18%</i>	<i>18%</i>	<i><b>18%</b></i>	<i>13%</i>
App dev & emerging subscriptions	70,775	78,600	84,397	88,936	<b>322,986</b>	98,483
y/y change	34%	37%	37%	38%	<b>37%</b>	39%
<i>constant currency y/y change</i>	<i>44%</i>	<i>48%</i>	<i>45%</i>	<i>43%</i>	<i><b>46%</b></i>	<i>39%</i>
<b>Subscription Revenue</b>	<b>424,793</b>	<b>441,526</b>	<b>457,488</b>	<b>479,642</b>	<b>1,803,449</b>	<b>501,665</b>
y/y change	14%	13%	16%	18%	<b>16%</b>	18%
<i>constant currency y/y change</i>	<i>23%</i>	<i>21%</i>	<i>22%</i>	<i>22%</i>	<i><b>22%</b></i>	<i>18%</i>
Training & services revenue	<b>56,208</b>	<b>62,622</b>	<b>66,092</b>	<b>63,860</b>	<b>248,781</b>	<b>66,234</b>
y/y change	9%	11%	8%	8%	<b>9%</b>	18%
<i>constant currency y/y change</i>	<i>18%</i>	<i>21%</i>	<i>16%</i>	<i>14%</i>	<i><b>17%</b></i>	<i>19%</i>
<b>Total Revenue</b>	<b>481,001</b>	<b>504,148</b>	<b>523,580</b>	<b>543,502</b>	<b>2,052,230</b>	<b>567,899</b>
y/y change	14%	13%	15%	17%	<b>15%</b>	18%
<i>constant currency y/y change</i>	<i>22%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>	<i><b>21%</b></i>	<i>18%</i>
<b>Percent of Total Revenue</b>						
Infrastructure-related subscriptions	74%	72%	71%	72%	<b>72%</b>	71%
App dev & emerging subscriptions	15%	16%	16%	16%	<b>16%</b>	17%
Total Subscription Revenue	88%	88%	87%	88%	<b>88%</b>	88%
Training & services revenue	12%	12%	13%	12%	<b>12%</b>	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)

	May-15	Aug-15	Nov-15	Feb-16		May-16
<b>Revenue by Geography</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>
Americas	321,833	332,204	342,368	357,940	<b>1,354,345</b>	365,723
y/y change	21%	18%	18%	17%	<b>18%</b>	14%
constant currency y/y change	22%	19%	19%	19%	<b>20%</b>	15%
EMEA	97,473	108,454	114,909	115,468	<b>436,304</b>	124,299
y/y change	(3%)	5%	9%	15%	<b>6%</b>	28%
constant currency y/y change	22%	27%	25%	24%	<b>25%</b>	24%
APAC	61,695	63,490	66,303	70,094	<b>261,581</b>	77,877
y/y change	9%	5%	11%	20%	<b>11%</b>	26%
constant currency y/y change	22%	22%	23%	26%	<b>23%</b>	25%
<b>Total Revenue</b>	<b>481,001</b>	<b>504,148</b>	<b>523,580</b>	<b>543,502</b>	<b>2,052,230</b>	<b>567,899</b>
y/y change	14%	13%	15%	17%	<b>15%</b>	18%
constant currency y/y change	22%	21%	21%	21%	<b>21%</b>	18%
<b>Percent of Total Revenue</b>						
Americas	67%	66%	65%	66%	<b>66%</b>	64%
EMEA	20%	21%	22%	21%	<b>21%</b>	22%
APAC	13%	13%	13%	13%	<b>13%</b>	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)

<b>Non-GAAP Income Statement*:</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>
Gross Profit	415,904	434,953	449,706	469,662	<b>1,770,225</b>	491,779
Operating Income	113,332	123,138	123,056	124,442	<b>483,969</b>	123,964
Net Income	81,457	87,809	88,627	97,030	<b>354,925</b>	92,178
Gross Margin	86.5%	86.3%	85.9%	86.4%	<b>86.3%</b>	86.6%
Subscription Gross Margin	94.0%	94.0%	94.0%	94.1%		93.9%
Training & Services Gross Margin	29.9%	31.9%	29.6%	28.6%		31.5%
Operating Margin	23.6%	24.4%	23.5%	22.9%	<b>23.6%</b>	21.8%
EPS Basic	0.44	0.48	0.48	0.53	<b>1.94</b>	0.51
EPS Diluted	0.44	0.47	0.48	0.52	<b>1.91</b>	0.50
Tax Rate before discrete items	29.0%	29.0%	29.0%	23.1%	<b>27.5%</b>	27.0%
Weighted Average Shares Outstanding						
Basic	183,130	183,179	183,179	182,099	<b>182,817</b>	181,168
Diluted	186,124	186,165	185,704	184,821	<b>185,837</b>	184,187
<b>Balance Sheet</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>
Total Cash & Investments	1,968,474	1,995,830	1,871,456	1,995,390	<b>1,995,390</b>	2,119,876
Short Term Deferred Revenue	1,066,254	1,047,732	1,080,572	1,272,908	<b>1,272,908</b>	1,251,096
Long Term Deferred Revenue	369,865	365,708	406,562	449,636	<b>449,636</b>	441,060
Prior Year Deferred Revenue Balance	1,272,569	1,251,797	1,300,125	1,482,328		1,436,119
Constant currency change in Deferred Rev(1)	271,414	252,260	265,045	260,847		246,316
Impact from foreign currency translation	(107,864)	(90,616)	(78,036)	(20,631)		9,721
<b>Ending Deferred Revenue Balance</b>	<b>1,436,119</b>	<b>1,413,441</b>	<b>1,487,134</b>	<b>1,722,544</b>		<b>1,692,156</b>
<b>Cash Flow Statement</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>
Short Term Deferred Revenue Change	(18,707)	(20,168)	46,880	182,875	<b>190,880</b>	(16,287)
Long Term Deferred Revenue Change	(12,855)	(4,849)	49,784	37,535	<b>69,615</b>	(29,806)
Total Change in Deferred Revenue	(31,562)	(25,017)	96,664	220,410	<b>260,495</b>	(46,093)
Net Operating Cash Flow	208,758	120,277	139,603	247,453	<b>716,092</b>	232,297

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

(1) Change in Deferred Revenue includes approximately \$0.4 million acquired as part of business combinations during FY16. (Quarterly FX impacts to y/y change in deferred revenue are \$15.7 million in Q117 and \$2.3 million, \$(23.3) million and \$15.0 million in Q216, Q316 and Q416, respectively.)

<b>Bookings &amp; Deal Metrics:</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>
# of Top 25 Renewals	25	25	25	25		25
Top 25 Renewal Rates (of prior deal value)	~115%	~115%	~120%	~120%		~105%
<b>Top 30 Deal Sizes</b>						
Deals \$1M - \$5M	26	26	19	16	<b>87</b>	24
Deals \$5M - \$10M	0	3	8	9	<b>20</b>	4
Deals >\$10M	2	1	3	5	<b>11</b>	2
Deals containing App Dev & Emerging Tech	73%	67%	70%	83%	<b>73%</b>	83%
Deals w/ only App Dev & Emerging Tech	23%	20%	17%	0%	<b>15%</b>	13%
Indirect Channel Bookings	75%	75%	67%	71%	<b>72%</b>	78%
Direct Bookings	25%	25%	33%	29%	<b>28%</b>	22%
<b>Bookings by Geography</b>						
Americas	55%	60%	60%	64%	<b>60%</b>	60%
EMEA	25%	22%	26%	23%	<b>24%</b>	21%
APAC	20%	18%	14%	13%	<b>16%</b>	19%
Average Contract Length (months)	20	20	22	22	<b>21</b>	21
% of Single Year Bookings	79%	77%	72%	73%	<b>75%</b>	74%
% of Multi-Year Bookings	21%	23%	28%	27%	<b>25%</b>	26%
<b>Additional Metrics</b>						
Employees	7,501	7,917	8,317	8,799		9,324
Average EUR FX Rate	1.09	1.11	1.11	1.10	<b>1.10</b>	1.13
Average JPY FX Rate	120	123	121	118	<b>121</b>	110

(Unaudited)

	Q116	Q216	Q316	Q416	FY16	Q117
<b>Share Repurchases</b>						
# Shares purchased (millions)	0	0.9	1.0	1.6	3.5	0.9
Aggregate Principal Amount (\$ millions)	0	70	78	114	263	66
Remaining Balance on Plan at quarter-end (\$ millions)	500	430	352	237		171
<b>Days Sales Outstanding (DSO) (in thousands, except # of days)</b>						
Total Revenue	481,001	504,148	523,580	543,502	2,052,230	567,899
Q/Q Δ deferred revenue (Balance Sheet)	(46,209)	(22,679)	73,694	235,410		(30,388)
Deferred revenue (Cash Flow Stmt.)	(31,562)	(25,017)	96,664	220,410	260,495	(46,093)
Accounts Receivable, net	284,582	302,098	396,545	509,715		326,334
Q/Q FX impact on Accounts Receivable	<u>3,929</u>	<u>179</u>	<u>3,487</u>	<u>(1,098)</u>		<u>(6,101)</u>
Accounts Receivable in constant currency	288,510	302,277	400,032	508,617		320,233
# calendar days in quarter	92	92	91	91		92
<b>DSO <sup>(1)</sup></b>	<b>60</b>	<b>58</b>	<b>60</b>	<b>60</b>		<b>56</b>
<b>FX adj DSO <sup>(2)</sup></b>	<b>59</b>	<b>58</b>	<b>59</b>	<b>61</b>		<b>56</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

**Quarterly Non-GAAP Consolidated Statement of Ops (see Non-GAAP reconciliation on following page)**

(Unaudited)

(In thousands - except per share amounts)

	Q415	Q116	Q216	Q316	Q416	Q117
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>2/28/2015</u>	<u>5/31/2015</u>	<u>8/31/2015</u>	<u>11/30/2015</u>	<u>2/29/2016</u>	<u>5/31/2016</u>
GAAP Revenue:						
Subscriptions	\$ 405,073	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	501,665
Training and services	58,869	56,208	62,622	66,092	63,860	66,234
Total subscription, training and services revenue	463,942	481,001	504,148	523,580	543,502	567,899
Non-GAAP Cost of revenue:						
Subscriptions	24,669	25,673	26,574	27,321	28,275	30,765
Training and services	39,404	39,424	42,621	46,553	45,565	45,355
Total cost of subscription, training and services revenue	64,073	65,097	69,195	73,874	73,840	76,120
Total Non-GAAP gross profit	399,869	415,904	434,953	449,706	469,662	491,779
Non-GAAP Operating expense:						
Sales and marketing	172,098	181,455	186,309	196,262	207,760	222,892
Research and development	81,362	86,307	90,174	91,535	96,000	102,980
General and administrative	35,896	34,810	35,332	38,853	41,460	41,943
Total operating expense	289,356	302,572	311,815	326,650	345,220	367,815
Non-GAAP Income from operations	110,513	113,332	123,138	123,056	124,442	123,964
GAAP Interest income	2,288	2,715	2,895	2,874	3,189	3,430
Other income (expense), net	4,784	(203)	(1,245)	49	(337)	(553)
Interest expense	(1,247)	(1,116)	(1,113)	(1,153)	(1,170)	(1,156)
Income before provision (benefit) for income taxes (1)	116,338	114,728	123,675	124,826	126,124	125,685
Provision (benefit) for income taxes	35,754	33,271	35,866	36,200	29,094	33,507
Non-GAAP Net income	\$ 80,584	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178
Net income-diluted	\$ 80,584	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178
Non-GAAP Net income per share:						
Basic	\$ 0.44	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51
Diluted	\$ 0.43	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50
Weighted average shares outstanding:						
Basic	183,459	183,131	183,179	182,850	182,099	181,168
GAAP Diluted	186,307	186,175	186,750	186,094	184,888	184,187
Dilution offset from convertible note hedge transactions	—	(51)	(585)	(390)	(67)	—
Non-GAAP Diluted	186,307	186,124	186,165	185,704	184,821	184,187
(1) Non-GAAP provision for income taxes:						
Non-GAAP adjusted income before provision for income taxes	\$ 116,338	\$ 114,728	\$ 123,675	\$ 124,826	\$ 126,124	\$ 125,685
GAAP estimated effective tax rate	30.7 %	29 %	29 %	29 %	23.1 %	27 %
Provision for income taxes on Non-GAAP adjusted net income before discrete tax benefits	35,754	33,271	35,866	36,200	29,094	33,935
Discrete tax benefits, excluding discrete benefits related to share-based compensation	—	—	—	—	—	(428)
Provision for income taxes on Non-GAAP adjusted net income excluding discrete benefits related to share-based compensation	\$ 35,754	\$ 33,271	\$ 35,866	\$ 36,200	\$ 29,094	\$ 33,507

# Red Hat GAAP to Non-GAAP Reconciliation Quarterly

(Unaudited)	Q415	Q116	Q216	Q316	Q416	Q117
(In thousands - except per share amounts)	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>2/28/2015</u>	<u>5/31/2015</u>	<u>8/31/2015</u>	<u>11/30/2015</u>	<u>2/29/2016</u>	<u>5/31/2016</u>
<b>Revenue</b>	<b>\$ 463,942</b>	<b>\$ 481,001</b>	<b>\$ 504,148</b>	<b>\$ 523,580</b>	<b>\$ 543,502</b>	<b>\$ 567,899</b>
<b>GAAP Gross Profit as reported</b>	<b>\$ 393,724</b>	<b>\$ 409,604</b>	<b>\$ 428,184</b>	<b>\$ 442,532</b>	<b>\$ 462,282</b>	<b>\$ 483,851</b>
Add: Non-cash share-based compensation expense	3,569	3,727	4,151	4,074	3,946	4,305
Add: Amortization of intangible assets	2,576	2,573	2,618	3,100	3,434	3,623
<b>Non-GAAP Gross Profit</b>	<b>\$ 399,869</b>	<b>\$ 415,904</b>	<b>\$ 434,953</b>	<b>\$ 449,706</b>	<b>\$ 469,662</b>	<b>\$ 491,779</b>
<b>GAAP Operating Income as reported</b>	<b>\$ 67,608</b>	<b>\$ 70,930</b>	<b>\$ 76,470</b>	<b>\$ 68,877</b>	<b>\$ 71,772</b>	<b>\$ 75,363</b>
Add: Non-cash share-based compensation expense	3,569	3,727	4,151	4,074	3,946	4,305
Cost of Revenue	15,408	15,412	16,782	17,192	19,703	18,440
Add: Non-cash share-based compensation expense S&M	10,426	10,874	12,022	13,059	12,511	12,002
Add: Non-cash share-based compensation expense R&D	6,887	6,509	7,582	9,082	9,608	6,528
Add: Non-cash share-based compensation expense G&A	36,290	36,522	40,537	43,407	45,768	41,275
<b>Total Non-cash share-based compensation expense</b>	<b>36,290</b>	<b>36,522</b>	<b>40,537</b>	<b>43,407</b>	<b>45,768</b>	<b>41,275</b>
Add: Amortization of intangible assets Cost of Revenue	2,576	2,573	2,618	3,100	3,434	3,623
Add: Amortization of intangible assets S&M	2,305	2,005	2,010	2,330	1,730	1,916
Add: Amortization of intangible assets R&D	250	250	292	312	(13)	34
Add: Amortization of intangible assets G&A	1,484	1,052	1,160	1,238	1,711	1,753
<b>Total Amortization of intangible assets</b>	<b>6,615</b>	<b>5,880</b>	<b>6,080</b>	<b>6,980</b>	<b>6,862</b>	<b>7,326</b>
Add: Facility exit costs	—	—	—	—	—	—
Add: Transaction costs related to business combinations	—	—	51	3,792	40	—
<b>Non-GAAP Operating Income</b>	<b>\$ 110,513</b>	<b>\$ 113,332</b>	<b>\$ 123,138</b>	<b>\$ 123,056</b>	<b>\$ 124,442</b>	<b>\$ 123,964</b>
<b>GAAP Gross Margin as reported</b>	<b>84.9 %</b>	<b>85.2 %</b>	<b>84.9 %</b>	<b>84.5 %</b>	<b>85.1 %</b>	<b>85.2 %</b>
<b>Non-GAAP Gross Margin</b>	<b>86.2 %</b>	<b>86.5 %</b>	<b>86.3 %</b>	<b>85.9 %</b>	<b>86.4 %</b>	<b>86.6 %</b>
<b>GAAP Operating Margin as reported</b>	<b>14.6 %</b>	<b>14.7 %</b>	<b>15.2 %</b>	<b>13.2 %</b>	<b>13.2 %</b>	<b>13.3 %</b>
<b>Non-GAAP Operating Margin</b>	<b>23.8 %</b>	<b>23.6 %</b>	<b>24.4 %</b>	<b>23.5 %</b>	<b>22.9 %</b>	<b>21.8 %</b>
<b>GAAP Net Income as reported</b>	<b>\$ 47,700</b>	<b>\$ 48,086</b>	<b>\$ 51,395</b>	<b>\$ 46,848</b>	<b>\$ 53,036</b>	<b>\$ 61,184</b>
GAAP provision for income taxes	21,177	19,641	20,992	19,135	15,732	11,169
<b>GAAP Income before provision for income taxes</b>	<b>\$ 68,877</b>	<b>\$ 67,727</b>	<b>\$ 72,387</b>	<b>\$ 65,983</b>	<b>\$ 68,768</b>	<b>\$ 72,353</b>
Add: Non-cash share-based compensation expense	36,290	36,522	40,537	43,407	45,768	41,275
Add: Amortization of intangible assets	6,615	5,880	6,080	6,980	6,862	7,326
Add: Non-cash interest expense related to the debt discount	4,556	4,599	4,620	4,664	4,686	4,731
Add: Transaction costs related to business combinations	—	—	51	3,792	40	—
<b>Non-GAAP adjusted income before provision for taxes</b>	<b>116,338</b>	<b>114,728</b>	<b>123,675</b>	<b>124,826</b>	<b>126,124</b>	<b>125,685</b>
Non-GAAP provision for income taxes	35,754	33,271	35,866	36,200	29,094	33,507
<b>Non-GAAP adjusted net income</b>	<b>\$ 80,584</b>	<b>\$ 81,457</b>	<b>\$ 87,809</b>	<b>\$ 88,626</b>	<b>\$ 97,030</b>	<b>\$ 92,178</b>
<b>Non-GAAP adjusted net income-diluted</b>	<b>\$ 80,584</b>	<b>\$ 81,457</b>	<b>\$ 87,809</b>	<b>\$ 88,626</b>	<b>\$ 97,030</b>	<b>\$ 92,178</b>
<b>Non-GAAP adjusted net income per share:</b>						
Basic	\$ 0.44	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51
Diluted	\$ 0.43	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50



<b>Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins</b>						
(Unaudited)						
(In thousands)						
	<b>Q415</b>	<b>Q116</b>	<b>Q216</b>	<b>Q316</b>	<b>Q416</b>	<b>Q117</b>
	<b>Quarter End</b>	<b>Quarter End</b>	<b>Quarter End</b>	<b>Quarter End</b>	<b>Quarter End</b>	<b>Quarter End</b>
	<b><u>2/28/2015</u></b>	<b><u>5/31/2015</u></b>	<b><u>8/31/2015</u></b>	<b><u>11/30/2015</u></b>	<b><u>2/29/2016</u></b>	<b><u>5/31/2016</u></b>
<b>GAAP Revenue:</b>						
Subscriptions	\$ 405,073	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	\$ 501,665
Training and services	58,869	56,208	62,622	66,092	63,860	66,234
<b>Total subscription, training and services revenue</b>	<b>463,942</b>	<b>481,001</b>	<b>504,148</b>	<b>523,580</b>	<b>543,502</b>	<b>567,899</b>
<b>Non-GAAP Cost of revenue:</b>						
Subscriptions	24,669	25,673	26,574	27,321	28,275	30,765
Training and services	39,404	39,424	42,621	46,553	45,565	45,355
<b>Total cost of subscription, training and services revenue</b>	<b>64,073</b>	<b>65,097</b>	<b>69,195</b>	<b>73,874</b>	<b>73,840</b>	<b>76,120</b>
<b>Total Non-GAAP gross profit</b>	<b>399,869</b>	<b>415,904</b>	<b>434,953</b>	<b>449,706</b>	<b>469,662</b>	<b>491,779</b>
<b>Non-GAAP Gross Margin</b>	<b>86.2 %</b>	<b>86.5 %</b>	<b>86.3 %</b>	<b>85.9 %</b>	<b>86.4 %</b>	<b>86.6 %</b>
<b>Non-GAAP Subscription Gross Margin</b>	<b>93.9 %</b>	<b>94.0 %</b>	<b>94.0 %</b>	<b>94.0 %</b>	<b>94.1 %</b>	<b>93.9 %</b>
<b>Non-GAAP Training and services Gross Margin</b>	<b>33.1 %</b>	<b>29.9 %</b>	<b>31.9 %</b>	<b>29.6 %</b>	<b>28.6 %</b>	<b>31.5 %</b>
<b>Cost of revenue reconciliation GAAP to non-GAAP</b>						
<b>Subscriptions (GAAP)</b>	<b>28,731</b>	<b>29,846</b>	<b>30,996</b>	<b>32,246</b>	<b>33,575</b>	<b>36,545</b>
Less: non-cash share-based compensation expense	1,586	1,692	1,836	1,825	1,866	2,157
Less: Amortization of intangible assets	2,476	2,481	2,586	3,100	3,434	3,623
<b>Subscriptions (non-GAAP)</b>	<b>24,669</b>	<b>25,673</b>	<b>26,574</b>	<b>27,321</b>	<b>28,275</b>	<b>30,765</b>
<b>Training and services (GAAP)</b>	<b>41,487</b>	<b>41,551</b>	<b>44,968</b>	<b>48,802</b>	<b>47,645</b>	<b>47,503</b>
Less: non-cash share-based compensation expense	1,983	2,035	2,315	2,249	2,080	2,148
Less: Amortization of intangible assets	100	92	32	—	—	—
<b>Training and services (non-GAAP)</b>	<b>39,404</b>	<b>39,424</b>	<b>42,621</b>	<b>46,553</b>	<b>45,565</b>	<b>45,355</b>

**RED HAT, INC.****Annual Non-GAAP Consolidated Statement of Ops**

(Unaudited)

(In thousands - except per share amounts)

	FY2012	FY2013	FY2014	FY2015	FY2016
	Year End	Year End	Year End	Year End	Year End
	02/29/2012	02/28/2013	02/28/2014	02/28/2015	02/29/2016
Revenue:					
Subscriptions	\$965,575	\$1,148,341	\$1,336,771	\$1,561,234	\$1,803,449
Training and services	167,528	180,476	197,844	228,255	248,781
Total subscription, training and services revenue	1,133,103	1,328,817	1,534,615	1,789,489	2,052,230
Cost of revenue:					
Subscriptions	59,109	70,059	81,316	95,865	107,842
Training and services	108,026	115,165	129,311	152,635	174,163
Total cost of subscription, training and services revenue	167,135	185,224	210,627	248,500	282,005
Total gross profit	965,968	1,143,593	1,323,988	1,540,989	1,770,225
Operating expense:					
Sales and marketing	386,226	473,232	548,691	665,346	771,786
Research and development	182,898	229,667	279,233	326,922	364,014
General and administrative	97,915	114,293	119,626	132,609	150,456
Total operating expense	667,039	817,192	947,550	1,124,877	1,286,256
Income from operations	298,929	326,401	376,438	416,112	483,969
Interest income	8,418	8,245	6,645	8,336	11,673
Other income (expense), net	(262)	736	774	6,562	(1,735)
Interest expense	(60)	(267)	(160)	(2,102)	(4,551)
Income before provision (benefit) for income taxes	307,025	335,115	383,697	428,908	489,356
Provision (benefit) for income taxes (GAAP tax rate) <sup>1</sup>	90,603	95,139	98,226	126,399	134,431
Net income	\$216,422	\$239,976	\$285,471	\$302,509	\$354,925
Net income per share at GAAP tax rate:					
Basic	\$1.12	\$1.24	\$1.50	\$1.62	\$1.94
Diluted	\$1.10	\$1.23	\$1.49	\$1.60	\$1.91
Weighted average shares outstanding:					
Basic	193,151	193,147	189,920	186,529	182,817
Non-GAAP Diluted	196,451	195,804	192,036	189,246	186,119
Weighted average shares outstanding:					
GAAP Diluted	196,451	195,804	192,036	189,246	186,119
Dilution offset from convertible note hedge transactions	-	-	-	-	(282)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837
Note: certain prior year amounts have been reclassified to conform with current year presentation.					
GAAP Tax Rate	29.5%	28.4%	25.6%	29.5%	27.5%
Note Q212 & Q314 included discrete tax benefits, please see below for provision for income tax breakout:					
Non-GAAP adjusted net income before income tax provision	\$307,025		\$383,697		
GAAP effective tax rate, excluding discrete tax items	31%		26%		
Non-GAAP provision for income taxes before discrete tax benefits	\$92,668		\$102,451		
Discrete tax benefits	2,066		4,225		
Provision for income taxes on Non-GAAP adjusted net income	\$90,602		\$98,226		

# Red Hat GAAP to Non-GAAP Reconciliation – Annual

(Unaudited)

(In thousands - except per share amounts)

	FY12	FY13	FY14	FY15	FY16
	Year End	Year End	Year End	Year End	Year End
	02/29/2012	02/28/2013	02/28/2014	02/28/2015	02/29/2016
<b>Revenue</b>	<b>\$1,133,103</b>	<b>\$1,328,817</b>	<b>\$1,534,615</b>	<b>\$1,789,489</b>	<b>\$2,052,230</b>
<b>GAAP Gross Profit as reported</b>	<b>\$954,555</b>	<b>\$1,128,217</b>	<b>\$1,302,015</b>	<b>\$1,516,290</b>	<b>\$1,742,601</b>
Add: Non-cash share-based compensation expense	7,880	9,433	11,793	14,027	15,898
Add: Amortization of intangible assets	3,533	5,943	10,180	10,672	11,726
<b>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>GAAP Operating Income as reported</b>	<b>\$199,913</b>	<b>\$201,038</b>	<b>\$232,290</b>	<b>\$249,994</b>	<b>\$288,048</b>
Add: Non-cash share-based compensation expense – Cost of Revenue	7,880	9,433	11,793	14,027	15,898
Add: Non-cash share-based compensation expense – S&M	25,060	32,906	40,322	55,203	69,089
Add: Non-cash share-based compensation expense – R&D	21,570	29,647	34,194	38,517	48,466
Add: Non-cash share-based compensation expense – G&A	24,757	26,712	27,465	27,485	32,781
<b>Total Non-cash share-based compensation expense</b>	<b>79,267</b>	<b>98,698</b>	<b>113,774</b>	<b>135,232</b>	<b>166,234</b>
Add: Amortization of intangible assets – Cost of Revenue	3,533	5,943	10,180	10,672	11,726
Add: Amortization of intangible assets – S&M	8,348	8,416	8,872	7,838	8,075
Add: Amortization of intangible assets – R&D	4,194	3,836	3,836	2,417	842
Add: Amortization of intangible assets – G&A	3,674	5,328	5,316	5,958	5,160
<b>Total Amortization of intangible assets</b>	<b>19,749</b>	<b>23,523</b>	<b>28,204</b>	<b>26,885</b>	<b>25,803</b>
Add: Transaction costs related to business combinations	-	-	-	4,001	3,884
Add: Facility exit costs	-	3,142	2,171	-	-
<b>Non-GAAP Operating Income</b>	<b>\$298,929</b>	<b>\$326,401</b>	<b>\$376,439</b>	<b>\$416,112</b>	<b>\$483,969</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>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>GAAP Operating Margin as reported</b>	<b>17.6%</b>	<b>15.1%</b>	<b>15.1%</b>	<b>14.0%</b>	<b>14.0%</b>
<b>Non-GAAP Operating Margin</b>	<b>26.4%</b>	<b>24.6%</b>	<b>24.5%</b>	<b>23.3%</b>	<b>23.6%</b>
<b>GAAP Net Income as reported</b>	<b>\$146,626</b>	<b>\$150,204</b>	<b>\$178,292</b>	<b>\$180,201</b>	<b>\$199,365</b>
GAAP provision for income taxes	61,383	59,548	61,256	75,297	75,500
<b>GAAP Income before provision for income taxes</b>	<b>\$208,009</b>	<b>\$209,752</b>	<b>\$239,548</b>	<b>\$255,498</b>	<b>\$274,865</b>
Add: Non-cash share-based compensation expense per FAS 123R	79,267	98,698	113,774	135,232	166,234
Add: Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803
Add: Non-cash interest expense related to the debt discount	-	-	-	7,292	18,570
Add: Transaction costs related to business combinations	-	-	-	4,001	3,884
Add: Facility exit costs	-	3,142	2,171	-	-
<b>Non-GAAP adjusted income before provision for taxes</b>	<b>307,025</b>	<b>335,115</b>	<b>383,697</b>	<b>428,908</b>	<b>489,356</b>
<b>Non-GAAP provision for income taxes (1)</b>	<b>90,603</b>	<b>95,139</b>	<b>98,226</b>	<b>126,399</b>	<b>134,431</b>
<b>Non-GAAP adjusted net income</b>	<b>\$216,422</b>	<b>\$239,976</b>	<b>\$285,471</b>	<b>\$302,509</b>	<b>\$354,925</b>
<b>Non-GAAP adjusted net income per share (GAAP Tax Rate):</b>					
Basic	\$1.12	\$1.24	\$1.50	\$1.62	\$1.94
Diluted	\$1.10	\$1.23	\$1.49	\$1.60	\$1.91
<b>Note: Certain prior year amounts have been reclassified to conform with current year presentation.</b>					
<b>(1)Note Q212 &amp; Q314 included discrete tax benefit, please see below for provision for income tax breakout:</b>					
Non-GAAP adjusted net income before income tax provision	\$307,025		\$383,697		
GAAP effective tax rate, excluding discrete tax items	31%		26.7%		
Non-GAAP provision for income taxes before discrete tax benefit	\$92,668		\$102,451		
Discrete tax benefit	2,066		4,225		
<b>Provision for income taxes on Non-GAAP adjusted net income</b>	<b>\$90,602</b>		<b>\$98,226</b>		

# APPENDIX

# EARLY ADOPTION OF ACCOUNTING STANDARDS UPDATE

ASU 2016-09 was issued in March 2016 to simplify accounting for share-based compensation

- As described in the FY16 10-K in Recent Accounting Pronouncements, adoption was required Q1 '18. RHT adopted early in Q1'17 as permitted.
- Excess tax benefits from share-based payments are now recognized as a discrete tax benefit or expense in the Statements of Operations
  - Q1'17 GAAP net income and GAAP EPS benefited by \$8 million and \$0.04, respectively
  - Effects of ASU 2016-09 are excluded from non-GAAP net income and non-GAAP EPS
- Excess tax benefits from share-based payments on the Statements of Cash Flows are now recognized as an operating cash flow rather than a financing cash flow
  - Q1'17 operating cash flow includes \$8 million of excess tax benefits
  - Prior year Statements of Cash Flows are adjusted to comparable presentation on the following page

# EARLY ADOPTION OF ACCOUNTING STANDARDS UPDATE

(\$ millions)

## Effect of ASU 2016-09 on FY16 and Q1 FY17 operating cash flows

	Q1'16	Q2'16	Q3'16	Q4'16	FY16	Q1'17
Operating cash flows prior to accounting update	\$ 209	\$ 120	\$ 139	\$ 247	\$ 716	\$ 224
Excess tax benefits from share-based payment arrangements now classified as an operating source of cash	6	3	9	2	20	8
Operating cash flows adjusted for accounting update	\$ 215	\$ 123	\$ 148	\$ 249	\$ 736	\$ 232