



Q2 FY17 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

September 21, 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; 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; risks related to data and information security vulnerabilities; the ability to meet financial and operations changes encountered in our international operations; ineffective management of, and control over, the Company's growth and international operations; and changes in and a dependence on key personnel, 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, September 21, 2016.

INTRODUCTION

The following presentation provides financial highlights and supplemental metrics for Red Hat's second quarter ended August 31, 2016. These financial highlights and supplemental metrics were made available on September 21, 2016 in connection with Red Hat's announcement of its financial results for the second quarter of fiscal year 2017. This presentation should be read in conjunction with Red Hat's press release issued on September 21, 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>.

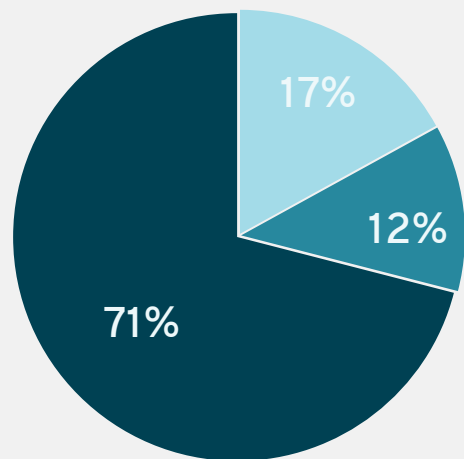
Non-GAAP Measures

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 2ND QUARTER REVENUE GROWTH

% OF TOTAL REVENUE



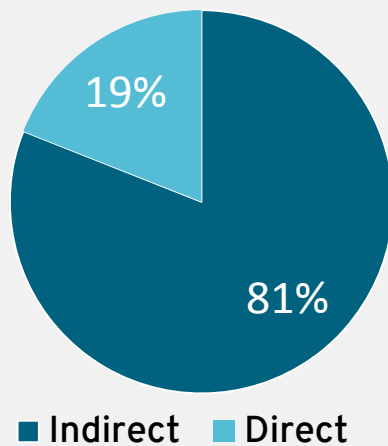
	Q217 Y/Y Growth	Q217 Y/Y Growth, cc ⁽¹⁾
App Dev & emerging tech	33%	32%
Infrastructure-related tech	18%	17%
Training & Consulting	10%	11%
Total Revenue	19%	18%

Q2 HIGHLIGHTS:

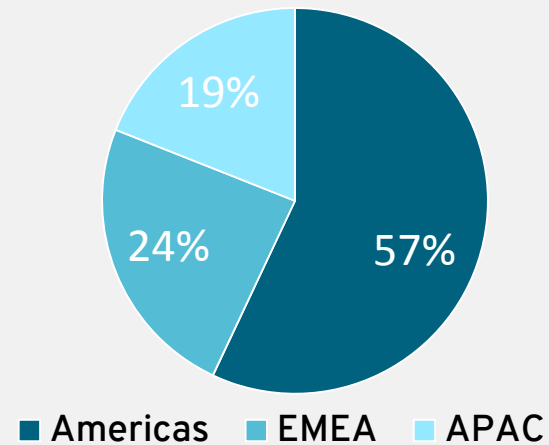
- 58th consecutive quarter of revenue growth
- Q2 revenue above the high end of guidance
- Highest Q2 subscription revenue growth rate in USD in 5 years

BOOKINGS & DEAL METRICS

CHANNEL



GEOGRAPHY



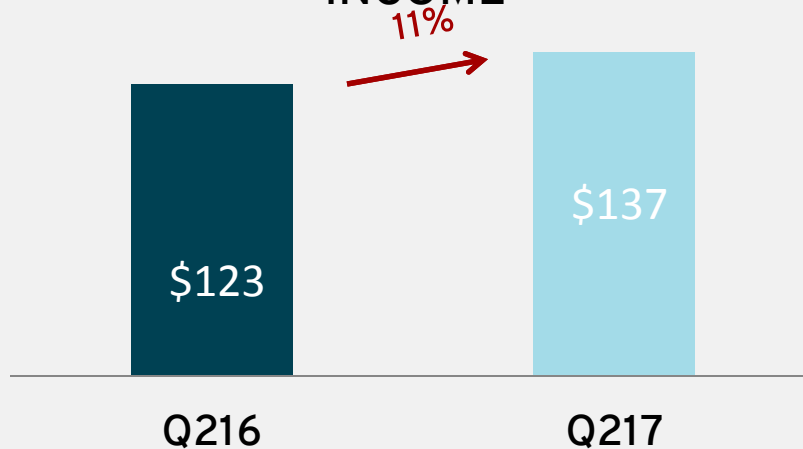
Q2 HIGHLIGHTS:

- Total of 55 deals >\$1M; up 60% year-over year
- Top 30 deals all over \$1M, with 5 over \$5M
- Strong cross-selling with 70% of top deals including an app-dev/emerging technology offering

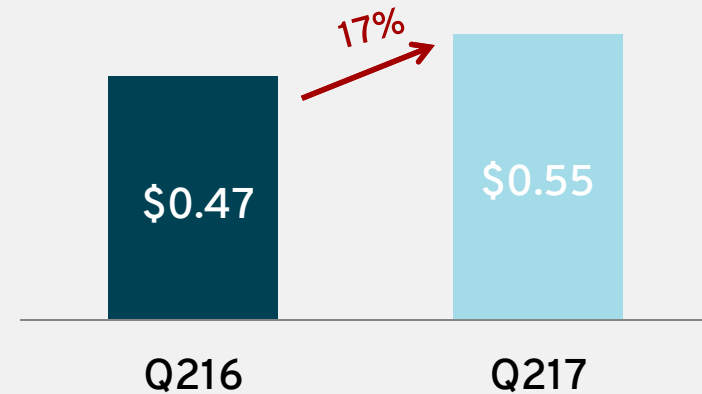
QUARTERLY PROFITABILITY & LIQUIDITY

(\$ millions, y/y growth)

NON-GAAP OPERATING INCOME



NON-GAAP EPS



Q2 HIGHLIGHTS:

- 22.8% Non-GAAP operating margin
- \$127M share repurchase
- 19% y/y total deferred revenue growth
- \$2.04B 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 of \$47 million in Q216 and \$55 million in Q217 from GAAP operating income of \$76 million in Q216 and \$82 million in Q217. Non-GAAP EPS excludes the expenses listed in previous sentence and non-cash interest expense related to the debt discount of \$5 million in both Q216 and Q217 from GAAP EPS of \$0.28 in Q216 and \$0.32 in Q217. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

SUPPLEMENTAL FINANCIAL & BUSINESS METRICS

(Unaudited)
(\$ in thousands)

	Aug-15	Nov-15	Feb-16		May-16	Aug-16
Revenue	Q216	Q316	Q416	FY16	Q117	Q217
Infrastructure-related subscriptions	362,926	373,091	390,706	1,480,463	403,182	427,035
y/y change	9%	12%	15%	12%	14%	18%
constant currency y/y change	17%	18%	18%	18%	13%	17%
App dev & emerging subscriptions	78,600	84,397	88,936	322,986	98,483	104,174
y/y change	37%	37%	38%	37%	39%	33%
constant currency y/y change	48%	45%	43%	46%	39%	32%
Subscription Revenue	441,526	457,488	479,642	1,803,449	501,665	531,209
y/y change	13%	16%	18%	16%	18%	20%
constant currency y/y change	21%	22%	22%	22%	18%	19%
Training & services revenue	62,622	66,092	63,860	248,781	66,234	68,596
y/y change	11%	8%	8%	9%	18%	10%
constant currency y/y change	21%	16%	14%	17%	19%	11%
Total Revenue	504,148	523,580	543,502	2,052,230	567,899	599,805
y/y change	13%	15%	17%	15%	18%	19%
constant currency y/y change	21%	21%	21%	21%	18%	18%
Percent of Total Revenue (in USD)						
Infrastructure-related subscriptions	72%	71%	72%	72%	71%	71%
App dev & emerging subscriptions	16%	16%	16%	16%	17%	17%
Total Subscription Revenue	88%	87%	88%	88%	88%	89%
Training & services revenue	12%	13%	12%	12%	12%	11%
Total Revenue	100%	100%	100%	100%	100%	100%

(Unaudited)
(\$ in thousands)

	Aug-15	Nov-15	Feb-16		May-16	Aug-16
Revenue by Geography	Q216	Q316	Q416	FY16	Q117	Q217
Americas	332,204	342,368	357,940	1,354,345	365,723	385,529
y/y change	18%	18%	17%	18%	14%	16%
constant currency y/y change	19%	19%	19%	20%	15%	17%
EMEA	108,454	114,909	115,468	436,304	124,299	127,467
y/y change	5%	9%	15%	6%	28%	18%
constant currency y/y change	27%	25%	24%	25%	24%	17%
APAC	63,490	66,303	70,094	261,581	77,877	86,809
y/y change	5%	11%	20%	11%	26%	37%
constant currency y/y change	22%	23%	26%	23%	25%	27%
Total Revenue	504,148	523,580	543,502	2,052,230	567,899	599,805
y/y change	13%	15%	17%	15%	18%	19%
constant currency y/y change	21%	21%	21%	21%	18%	18%
Percent of Total Revenue (in USD)						
Americas	66%	65%	66%	66%	64%	64%
EMEA	21%	22%	21%	21%	22%	21%
APAC	13%	13%	13%	13%	14%	15%
Total Revenue	100%	100%	100%	100%	100%	100%

(Unaudited)
(\$ in thousands, except per share amounts)

	Aug-15	Nov-15	Feb-16		May-16	Aug-16
Non-GAAP Income Statement*:	Q216	Q316	Q416	FY16	Q117	Q217
Gross Profit	434,953	449,706	469,662	1,770,225	491,779	520,034
Operating Income	123,138	123,056	124,442	483,969	123,964	136,663
Net Income	87,809	88,627	97,030	354,925	92,178	101,228
Gross Margin	86.3%	85.9%	86.4%	86.3%	86.6%	86.7%
Subscription Gross Margin	94.0%	94.0%	94.1%		93.9%	93.6%
Training & Services Gross Margin	31.9%	29.6%	28.6%		31.5%	33.0%
Operating Margin	24.4%	23.5%	22.9%	23.6%	21.8%	22.8%
EPS Basic	0.48	0.48	0.53	1.94	0.51	0.56
EPS Diluted	0.47	0.48	0.52	1.91	0.50	0.55
Tax Rate before discrete items	29.0%	29.0%	23.1%	27.5%	27.0%	27.0%
Weighted Average Shares Outstanding						
Basic	183,179	183,179	182,099	182,817	181,168	180,322
Diluted	186,165	185,704	184,821	185,837	184,187	183,151
Balance Sheet	Q216	Q316	Q416	FY16	Q117	Q217
Total Cash & Investments	1,995,830	1,871,456	1,995,390	1,995,390	2,119,876	2,042,645
Short Term Deferred Revenue	1,047,732	1,080,572	1,272,908	1,272,908	1,251,096	1,233,762
Long Term Deferred Revenue	365,708	406,562	449,636	449,636	441,060	446,890
Prior Year Deferred Revenue Balance	1,251,797	1,300,125	1,482,328		1,436,119	1,413,440
Constant currency change in Deferred Rev(1)	252,260	265,045	260,847		246,316	244,738
Impact from foreign currency translation	(90,616)	(78,036)	(20,631)		9,721	22,474
Ending Deferred Revenue Balance	1,413,440	1,487,134	1,722,544		1,692,156	1,680,652
Cash Flow Statement	Q216	Q316	Q416	FY16	Q117	Q217
Short Term Deferred Revenue Change	(20,168)	46,880	182,875	190,880	(16,287)	(44,909)
Long Term Deferred Revenue Change	(4,849)	49,784	37,535	69,615	(29,806)	17,956
Total Change in Deferred Revenue	(25,017)	96,664	220,410	260,495	(46,093)	(26,953)
Net Operating Cash Flow	120,277	139,603	247,453	716,092	232,297	96,802

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

(1) Change in Deferred Revenue includes approximately \$0.7 million acquired as part of business combinations during the twelve months ended August 31, 2016. (Quarterly FX impacts to y/y change in deferred revenue are \$15.1 million in Q217, \$15.7 million in Q117, \$15.0 million in Q416 and \$(23.3) million in Q316).

	Aug-16	Nov-16	Feb-16		May-16	Aug-16
Bookings & Deal Metrics:	Q216	Q316	Q416	FY16	Q117	Q217
# of Top 25 Renewals	25	25	25		25	23
Top 25 Renewal Rates (of prior deal value)	~115%	~120%	~120%		~105%	~105%
Top 30 Deal Sizes						
Deals \$1M - \$5M	26	19	16	87	24	25
Deals \$5M - \$10M	3	8	9	20	4	5
Deals >\$10M	1	3	5	11	2	0
Deals containing App Dev & Emerging Tech	67%	70%	83%	73%	83%	73%
Deals w/ only App Dev & Emerging Tech	20%	17%	0%	15%	13%	13%
Indirect Channel Bookings	75%	67%	71%	72%	78%	81%
Direct Bookings	25%	33%	29%	28%	22%	19%
Bookings by Geography						
Americas	60%	60%	64%	60%	60%	57%
EMEA	22%	26%	23%	24%	21%	24%
APAC	18%	14%	13%	16%	19%	19%
Average Contract Length (months)	20	22	22	21	21	22
% of Single Year Bookings	77%	72%	73%	75%	74%	73%
% of Multi-Year Bookings	23%	28%	27%	25%	26%	27%
Additional Metrics						
Employees	7,917	8,317	8,799		9,324	9,861
Average EUR FX Rate	1.11	1.11	1.10	1.10	1.13	1.12
Average JPY FX Rate	123	121	118	121	110	103

(Unaudited)

	Q216	Q316	Q416	FY16	Q117	Q217
Share Repurchases						
# Shares purchased (millions)	0.9	1.0	1.6	3.5	0.9	1.8
Aggregate Principal Amount (\$ millions)	70	78	114	263	66	127
Remaining Balance on Plan at quarter-end (\$ millions)	430	352	237		171	901
Days Sales Outstanding (DSO) (in thousands, except # of days)						
Total Revenue	504,148	523,580	543,502	2,052,230	567,899	599,805
Q/Q Δ deferred revenue (Balance Sheet)	(22,679)	73,694	235,410		(30,388)	(11,504)
Deferred revenue (Cash Flow Stmt.)	(25,017)	96,664	220,410	260,495	(46,093)	(26,953)
Accounts Receivable, net	302,098	396,545	509,715		326,334	359,893
Q/Q FX impact on Accounts Receivable	<u>179</u>	<u>3,487</u>	<u>(1,098)</u>		<u>(6,101)</u>	<u>(2,980)</u>
Accounts Receivable in constant currency	302,277	400,032	508,617		320,233	356,913
# calendar days in quarter	92	91	91		92	92
DSO ⁽¹⁾	58	60	60		56	56
FX adj DSO ⁽²⁾	58	59	61		56	57

(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

RED HAT, INC.
Quarterly Non-GAAP Consolidated Statement of Ops (see Non-GAAP reconciliation on following page)

(Unaudited)

(In thousands - except per share amounts)

	Q116 Quarter End 5/31/2015	Q216 Quarter End 8/31/2015	Q316 Quarter End 11/30/2015	Q416 Quarter End 2/29/2016	Q117 Quarter End 5/31/2016	Q217 Quarter End 8/31/2016
GAAP Revenue:						
Subscriptions	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	501,665	531,209
Training and services	56,208	62,622	66,092	63,860	66,234	68,596
Total subscription, training and services revenue	481,001	504,148	523,580	543,502	567,899	599,805
Non-GAAP Cost of revenue:						
Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828
Training and services	39,424	42,621	46,553	45,565	45,355	45,943
Total cost of subscription, training and services revenue	65,097	69,195	73,874	73,840	76,120	79,771
Total Non-GAAP gross profit	415,904	434,953	449,706	469,662	491,779	520,034
Non-GAAP Operating expense:						
Sales and marketing	181,455	186,309	196,262	207,760	222,892	230,989
Research and development	86,307	90,174	91,535	96,000	102,980	108,262
General and administrative	34,810	35,332	38,853	41,460	41,943	44,120
Total operating expense	302,572	311,815	326,650	345,220	367,815	383,371
Non-GAAP Income from operations	113,332	123,138	123,056	124,442	123,964	136,663
GAAP Interest income	2,715	2,895	2,874	3,189	3,430	3,392
Other income (expense), net	(203)	(1,245)	49	(337)	(553)	84
Interest expense	(1,116)	(1,113)	(1,153)	(1,170)	(1,156)	(1,172)
Income before provision (benefit) for income taxes (1)	114,728	123,675	124,826	126,124	125,685	138,967
Provision (benefit) for income taxes	33,271	35,866	36,200	29,094	33,507	37,739
Non-GAAP Net income	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
Net income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
Non-GAAP Net income per share:						
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55
Weighted average shares outstanding:						
Basic	183,131	183,179	182,850	182,099	181,168	180,322
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151
(1) Non-GAAP provision for income taxes:						
Non-GAAP adjusted income before provision for income taxes	\$ 114,728	\$ 123,675	\$ 124,826	\$ 126,124	\$ 125,685	\$ 138,967
GAAP estimated annual effective tax rate	29 %	29 %	29 %	23.1 %	27 %	27 %
Provision for income taxes on Non-GAAP adjusted net income before discrete tax expenses (benefits)	33,271	35,866	36,200	29,094	33,935	37,521
Discrete tax expenses (benefits), excluding discrete tax expenses (benefits) related to share-based compensation	—	—	—	—	(428)	218
Provision for income taxes on Non-GAAP adjusted net income excluding discrete tax benefits (expenses) related to share-based compensation	\$ 33,271	\$ 35,866	\$ 36,200	\$ 29,094	\$ 33,507	\$ 37,739

Red Hat GAAP to Non-GAAP Reconciliation Quarterly

(Unaudited)

(In thousands - except per share amounts)

	Q116 Quarter End 5/31/2015	Q216 Quarter End 8/31/2015	Q316 Quarter End 11/30/2015	Q416 Quarter End 2/29/2016	Q117 Quarter End 5/31/2016	Q217 Quarter End 8/31/2016
Revenue	\$ 481,001	\$ 504,148	\$ 523,580	\$ 543,502	\$ 567,899	\$ 599,805
GAAP Gross Profit as reported	\$ 409,604	\$ 428,184	\$ 442,532	\$ 462,282	\$ 483,851	\$ 512,134
Add: Non-cash share-based compensation expense	3,727	4,151	4,074	3,946	4,305	4,054
Add: Amortization of intangible assets	2,573	2,618	3,100	3,434	3,623	3,846
Non-GAAP Gross Profit	\$ 415,904	\$ 434,953	\$ 449,706	\$ 469,662	\$ 491,779	\$ 520,034
GAAP Operating Income as reported	\$ 70,930	\$ 76,470	\$ 68,877	\$ 71,772	\$ 75,363	\$ 81,884
Add: Non-cash share-based compensation expense Cost of Revenue	3,727	4,151	4,074	3,946	4,305	4,054
Add: Non-cash share-based compensation expense S&M	15,412	16,782	17,192	19,703	18,440	20,361
Add: Non-cash share-based compensation expense R&D	10,874	12,022	13,059	12,511	12,002	12,969
Add: Non-cash share-based compensation expense G&A	6,509	7,582	9,082	9,608	6,528	7,973
Total Non-cash share-based compensation expense	36,522	40,537	43,407	45,768	41,275	45,357
Add: Amortization of intangible assets Cost of Revenue	2,573	2,618	3,100	3,434	3,623	3,846
Add: Amortization of intangible assets S&M	2,005	2,010	2,330	1,730	1,916	1,905
Add: Amortization of intangible assets R&D	250	292	312	(13)	34	34
Add: Amortization of intangible assets G&A	1,052	1,160	1,238	1,711	1,753	1,848
Total Amortization of intangible assets	5,880	6,080	6,980	6,862	7,326	7,633
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789
Non-GAAP Operating Income	\$ 113,332	\$ 123,138	\$ 123,056	\$ 124,442	\$ 123,964	\$ 136,663
GAAP Gross Margin as reported	85.2 %	84.9 %	84.5 %	85.1 %	85.2 %	85.4 %
Non-GAAP Gross Margin	86.5 %	86.3 %	85.9 %	86.4 %	86.6 %	86.7 %
GAAP Operating Margin as reported	14.7 %	15.2 %	13.2 %	13.2 %	13.3 %	13.7 %
Non-GAAP Operating Margin	23.6 %	24.4 %	23.5 %	22.9 %	21.8 %	22.8 %
GAAP Net Income as reported	\$ 48,086	\$ 51,395	\$ 46,848	\$ 53,036	\$ 61,184	\$ 58,772
GAAP provision for income taxes	19,641	20,992	19,135	15,732	11,169	20,663
GAAP Income before provision for income taxes	\$ 67,727	\$ 72,387	\$ 65,983	\$ 68,768	\$ 72,353	\$ 79,435
Add: Non-cash share-based compensation expense	36,522	40,537	43,407	45,768	41,275	45,357
Add: Amortization of intangible assets	5,880	6,080	6,980	6,862	7,326	7,633
Add: Non-cash interest expense related to the debt discount	4,599	4,620	4,664	4,686	4,731	4,753
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789
Non-GAAP adjusted income before provision for taxes	114,728	123,675	124,826	126,124	125,685	138,967
Non-GAAP provision for income taxes	33,271	35,866	36,200	29,094	33,507	37,739
Non-GAAP adjusted net income	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
Non-GAAP adjusted net income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
GAAP net income per share:						
Basic	\$ 0.26	\$ 0.28	\$ 0.26	\$ 0.29	\$ 0.34	\$ 0.33
Diluted	\$ 0.26	\$ 0.28	\$ 0.25	\$ 0.29	\$ 0.33	\$ 0.32
Non-GAAP adjusted net income per share:						
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55
Weighted average shares outstanding:						
Basic	183,131	183,179	182,850	182,099	181,168	180,322
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151

Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

GAAP Revenue:

Subscriptions

Training and services

Total subscription, training and services revenue

Non-GAAP Cost of revenue:

Subscriptions

Training and services

Total cost of subscription, training and services revenue

Total Non-GAAP gross profit

Cost of revenue reconciliation GAAP to non-GAAP

Subscriptions (GAAP)

Less: non-cash share-based compensation expense

Less: Amortization of intangible assets

Subscriptions (non-GAAP)

Training and services (GAAP)

Less: non-cash share-based compensation expense

Less: Amortization of intangible assets

Training and services (non-GAAP)

GAAP Gross Margin

Non-GAAP Gross Margin

GAAP Subscription Gross Margin

Non-GAAP Subscription Gross Margin

GAAP Training and services Gross Margin

Non-GAAP Training and services Gross Margin

Q116		Q216		Q316		Q416		Q117		Q217	
Quarter End		Quarter End		Quarter End		Quarter End		Quarter End		Quarter End	
5/31/2015		8/31/2015		11/30/2015		2/29/2016		5/31/2016		8/31/2016	
\$	424,793	\$	441,526	\$	457,488	\$	479,642	\$	501,665	\$	531,209
	56,208		62,622		66,092		63,860		66,234		68,596
	481,001		504,148		523,580		543,502		567,899		599,805
	25,673		26,574		27,321		28,275		30,765		33,828
	39,424		42,621		46,553		45,565		45,355		45,943
	65,097		69,195		73,874		73,840		76,120		79,771
	415,904		434,953		449,706		469,662		491,779		520,034
	29,846		30,996		32,246		33,575		36,545		39,678
	1,692		1,836		1,825		1,866		2,157		2,004
	2,481		2,586		3,100		3,434		3,623		3,846
	25,673		26,574		27,321		28,275		30,765		33,828
	41,551		44,968		48,802		47,645		47,503		47,993
	2,035		2,315		2,249		2,080		2,148		2,050
	92		32		—		—		—		—
	39,424		42,621		46,553		45,565		45,355		45,943
	85.2 %		84.9 %		84.5 %		85.1 %		85.2 %		85.4 %
	86.5 %		86.3 %		85.9 %		86.4 %		86.6 %		86.7 %
	93.0 %		93.0 %		93.0 %		93.0 %		92.7 %		92.5 %
	94.0 %		94.0 %		94.0 %		94.1 %		93.9 %		93.6 %
	26.1 %		28.2 %		26.2 %		25.4 %		28.3 %		30.0 %
	29.9 %		31.9 %		29.6 %		28.6 %		31.5 %		33.0 %

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

(Unaudited)

(In thousands - except per share amounts)

	FY2012 Year End 2/29/2012	FY2013 Year End 2/28/2013	FY2014 Year End 2/28/2014	FY2015 Year End 2/28/2015	FY2016 Year End 2/29/2016
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) (1)	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
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 %
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(1) 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 Year End 2/29/2012	FY13 Year End 2/28/2013	FY14 Year End 2/28/2014	FY15 Year End 2/28/2015	FY16 Year End 2/29/2016
Revenue	\$ 1,133,103	\$ 1,328,817	\$ 1,534,615	\$ 1,789,489	\$ 2,052,230
GAAP Gross Profit as reported	\$ 954,555	\$ 1,128,217	\$ 1,302,015	\$ 1,516,290	\$ 1,742,601
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
Non-GAAP Gross Profit	\$ 965,968	\$ 1,143,593	\$ 1,323,988	\$ 1,540,989	\$ 1,770,225
GAAP Operating Income as reported	\$ 199,913	\$ 201,038	\$ 232,290	\$ 249,994	\$ 288,048
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
Total Non-cash share-based compensation expense	79,267	98,698	113,774	135,232	166,234
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
Total Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884
Add: Facility exit costs	—	3,142	2,171	—	—
Non-GAAP Operating Income	\$ 298,929	\$ 326,401	\$ 376,439	\$ 416,112	\$ 483,969
GAAP Gross Margin as reported	84.2 %	84.9 %	84.8 %	84.7 %	84.9 %
Non-GAAP Gross Margin	85.2 %	86.1 %	86.3 %	86.1 %	86.3 %
GAAP Operating Margin as reported	17.6 %	15.1 %	15.1 %	14 %	14 %
Non-GAAP Operating Margin	26.4 %	24.6 %	24.5 %	23.3 %	23.6 %
GAAP Net Income as reported	\$ 146,626	\$ 150,204	\$ 178,292	\$ 180,201	\$ 199,365
GAAP provision for income taxes	61,383	59,548	61,256	75,297	75,500
GAAP Income before provision for income taxes	\$ 208,009	\$ 209,752	\$ 239,548	\$ 255,498	\$ 274,865
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	—	—
Non-GAAP adjusted income before provision for taxes	307,025	335,115	383,697	428,908	489,356
Non-GAAP provision for income taxes (1)	90,603	95,139	98,226	126,399	134,431
Non-GAAP adjusted net income	\$ 216,422	\$ 239,976	\$ 285,471	\$ 302,509	\$ 354,925
GAAP net income per share:					
Basic	\$ 0.76	\$ 0.78	\$ 0.94	\$ 0.97	\$ 1.09
Diluted	\$ 0.75	\$ 0.77	\$ 0.93	\$ 0.95	\$ 1.07
Non-GAAP adjusted net income per share (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	189,320	186,529	182,817
GAAP Diluted	196,451	195,804	192,036	189,246	186,119
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)
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Note: Certain prior year amounts have been reclassified to conform with current year presentation.

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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
Provision for income taxes on Non-GAAP adjusted net income	\$ 90,602	\$ 98,226

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 Q118. RHT adopted early in Q117 as permitted.
- Excess tax benefits from share-based payments are now recognized as a discrete tax benefit or expense in the Statements of Operations
 - Q217 GAAP net income and GAAP EPS benefited by \$1 million and approximately \$0.01, respectively
 - FY17 YTD GAAP net income and GAAP EPS benefited by \$9 million and \$0.05, respectively
 - Effect of ASU 2016-09 is 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
 - Q217 and FY17 YTD operating cash flow includes \$1 million and \$9 million of excess tax benefits, respectively
 - Prior year Statements of Cash Flows are adjusted to comparable presentation on the following page

EARLY ADOPTION OF ACCOUNTING STANDARDS UPDATE

(unaudited)
(\$ millions)

Effect of ASU 2016-09 on FY16 and Q1 & Q2 FY17 operating cash flows

	Q116	Q216	Q316	Q416	FY16	Q117	Q217	FY17 YTD
Operating cash flows prior to accounting update	\$ 209	\$ 120	\$ 139	\$ 247	\$ 716	\$ 224	\$ 96	\$ 320
Excess tax benefits from share-based payment arrangements now classified as an operating source of cash	6	3	9	2	20	8	1	9
Operating cash flows adjusted for accounting update	\$ 215	\$ 123	\$ 148	\$ 249	\$ 736	\$ 232	\$ 97	\$ 329