



Q3 FY17 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

December 21, 2016

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 operational challenges 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, December 21, 2016.

INTRODUCTION

The following presentation provides financial highlights and supplemental metrics for Red Hat's third quarter ended November 30, 2016. These financial highlights and supplemental metrics were made available on December 21, 2016 in connection with Red Hat's announcement of its financial results for the third quarter of fiscal year 2017. This presentation should be read in conjunction with Red Hat's press release issued on December 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>.

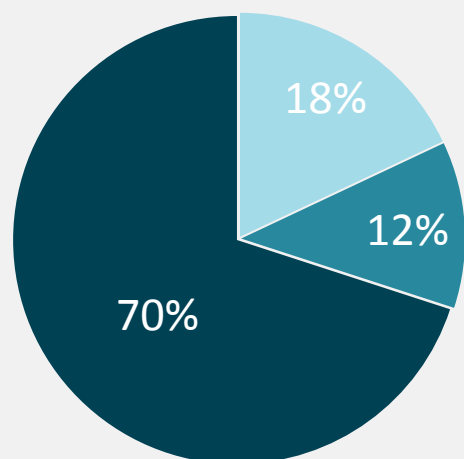
Non-GAAP Measures

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 3RD QUARTER REVENUE GROWTH

% OF TOTAL REVENUE



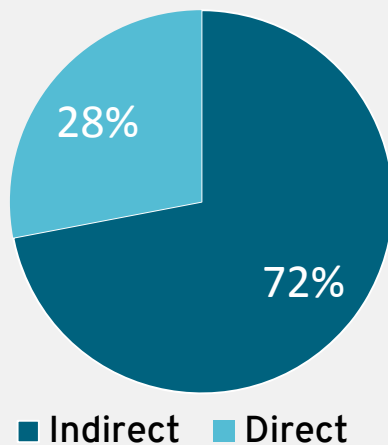
	Q317 Y/Y Growth	Q317 Y/Y Growth, cc ⁽¹⁾
App Dev & emerging tech	33%	32%
Infrastructure-related tech	16%	14%
Training & Consulting	9%	10%
Total Revenue	18%	17%

Q3 HIGHLIGHTS:

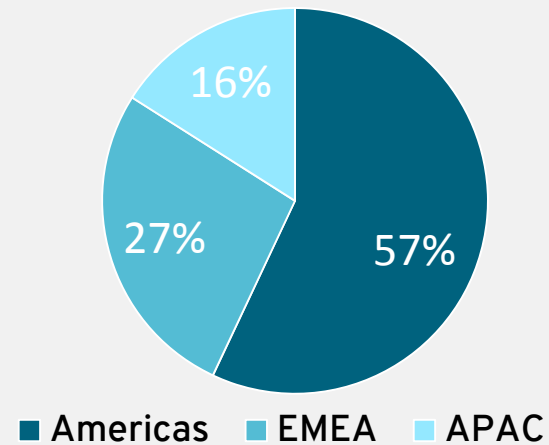
- 59th consecutive quarter of revenue growth
- Continued strong growth in Application development-related and other emerging technologies revenue

BOOKINGS & DEAL METRICS

CHANNEL



GEOGRAPHY



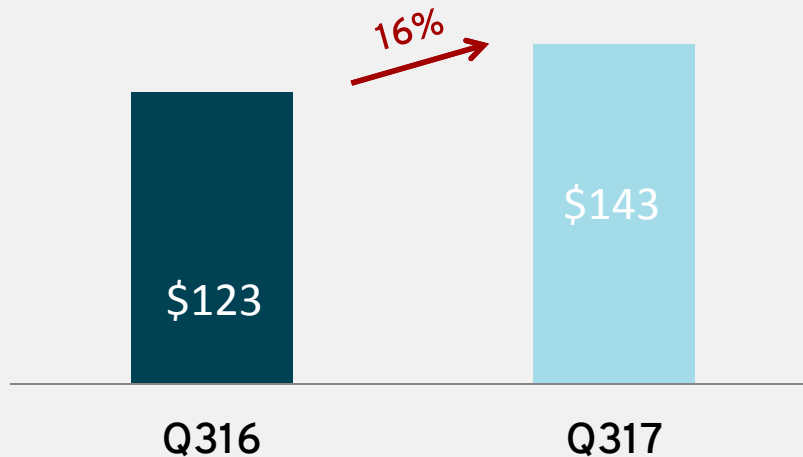
Q3 HIGHLIGHTS:

- Total of 73 deals >\$1M; up 20% year-over year
- Top 30 deals all over \$2M, with 8 over \$5M and 3 over \$10M
- Strong cross-selling with 60% of top deals including an app-dev/emerging technology offering

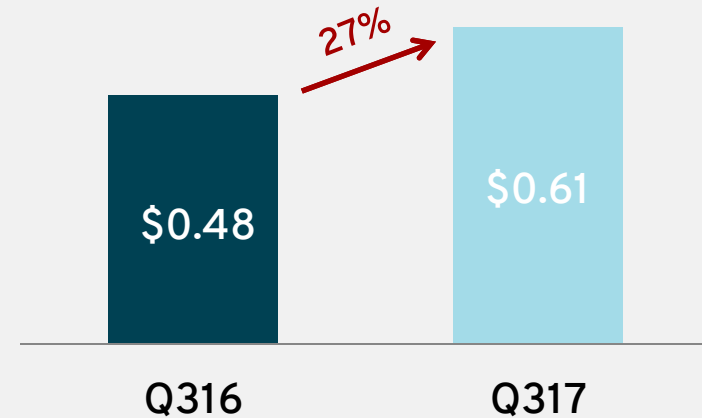
QUARTERLY PROFITABILITY & LIQUIDITY

(\$ millions, y/y growth)

NON-GAAP OPERATING INCOME



NON-GAAP EPS



Q3 HIGHLIGHTS:

- 13.1% GAAP and 23.3% Non-GAAP operating margins
- \$125M share repurchase
- 15% y/y total deferred revenue growth
- \$2.0B 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 \$54 million in Q316 and \$62 million in Q317 from GAAP operating income of \$69 million in Q316 and \$81 million in Q317. 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 Q316 and Q317 from GAAP EPS of \$0.25 in Q316 and \$0.37 in Q317. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

SUPPLEMENTAL FINANCIAL & BUSINESS METRICS

(Unaudited)
(\$ in thousands)

	Nov-15	Feb-16		May-16	Aug-16	Nov-16
Revenue	Q316	Q416	FY16	Q117	Q217	Q317
Infrastructure-related subscriptions	373,091	390,706	1,480,463	403,182	427,035	431,142
y/y change	12%	15%	12%	14%	18%	16%
constant currency y/y change	18%	18%	18%	13%	17%	14%
App dev & emerging subscriptions	84,397	88,936	322,986	98,483	104,174	112,176
y/y change	37%	38%	37%	39%	33%	33%
constant currency y/y change	45%	43%	46%	39%	32%	32%
Subscription Revenue	457,488	479,642	1,803,449	501,665	531,209	543,318
y/y change	16%	18%	16%	18%	20%	19%
constant currency y/y change	22%	22%	22%	18%	19%	18%
Training & services revenue	66,092	63,860	248,781	66,234	68,596	71,942
y/y change	8%	8%	9%	18%	10%	9%
constant currency y/y change	16%	14%	17%	19%	11%	10%
Total Revenue	523,580	543,502	2,052,230	567,899	599,805	615,260
y/y change	15%	17%	15%	18%	19%	18%
constant currency y/y change	21%	21%	21%	18%	18%	17%
Percent of Total Revenue (in USD)						
Infrastructure-related subscriptions	71%	72%	72%	71%	71%	70%
App dev & emerging subscriptions	16%	16%	16%	17%	17%	18%
Total Subscription Revenue	87%	88%	88%	88%	89%	88%
Training & services revenue	13%	12%	12%	12%	11%	12%
Total Revenue	100%	100%	100%	100%	100%	100%

(Unaudited)
(\$ in thousands)

	Nov-15	Feb-16		May-16	Aug-16	Nov-16
Revenue by Geography	Q316	Q416	FY16	Q117	Q217	Q317
Americas	342,368	357,940	1,354,345	365,723	385,529	393,589
y/y change	18%	17%	18%	14%	16%	15%
constant currency y/y change	19%	19%	20%	15%	17%	15%
EMEA	114,909	115,468	436,304	124,299	127,467	132,568
y/y change	9%	15%	6%	28%	18%	15%
constant currency y/y change	25%	24%	25%	24%	17%	16%
APAC	66,303	70,094	261,581	77,877	86,809	89,103
y/y change	11%	20%	11%	26%	37%	34%
constant currency y/y change	23%	26%	23%	25%	27%	25%
Total Revenue	523,580	543,502	2,052,230	567,899	599,805	615,260
y/y change	15%	17%	15%	18%	19%	18%
constant currency y/y change	21%	21%	21%	18%	18%	17%
Percent of Total Revenue (in USD)						
Americas	65%	66%	66%	64%	64%	64%
EMEA	22%	21%	21%	22%	21%	22%
APAC	13%	13%	13%	14%	15%	14%
Total Revenue	100%	100%	100%	100%	100%	100%

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

	Nov-15	Feb-16		May-16	Aug-16	Nov-16
Non-GAAP Income Statement*:	Q316	Q416	FY16	Q117	Q217	Q317
Gross Profit	449,706	469,662	1,770,225	491,779	520,034	533,077
Operating Income	123,056	124,442	483,969	123,964	136,663	143,166
Net Income	88,627	97,030	354,925	92,178	101,228	110,751
Gross Margin	85.9%	86.4%	86.3%	86.6%	86.7%	86.6%
Subscription Gross Margin	94.0%	94.1%		93.9%	93.6%	93.7%
Training & Services Gross Margin	29.6%	28.6%		31.5%	33.0%	33.7%
Operating Margin	23.5%	22.9%	23.6%	21.8%	22.8%	23.3%
EPS Basic	0.48	0.53	1.94	0.51	0.56	0.62
EPS Diluted	0.48	0.52	1.91	0.50	0.55	0.61
Tax Rate before discrete items	29.0%	23.1%	27.5%	27.0%	27.0%	27.0%
Weighted Average Shares Outstanding						
Basic	183,179	182,099	182,817	181,168	180,322	179,233
Diluted	185,704	184,821	185,837	184,187	183,151	182,168
Balance Sheet	Q316	Q416	FY16	Q117	Q217	Q317
Total Cash & Investments	1,871,456	1,995,390	1,995,390	2,119,876	2,042,645	1,971,370
Current Deferred Revenue	1,080,572	1,272,908	1,272,908	1,251,096	1,233,762	1,225,421
Long-Term Deferred Revenue	406,562	449,636	449,636	441,060	446,890	482,557
Prior Year Deferred Revenue Balance	1,300,125	1,482,328		1,436,119	1,413,440	1,487,134
Constant currency change in Deferred Revenue (1)	265,045	260,847		246,316	244,738	211,903
Impact from foreign currency translation	(78,036)	(20,631)		9,721	22,474	8,941
Ending Deferred Revenue Balance	1,487,134	1,722,544		1,692,156	1,680,652	1,707,978
Cash Flow Statement	Q316	Q416	FY16	Q117	Q217	Q317
Current Deferred Revenue Change	46,880	182,875	190,880	(16,287)	(44,909)	16,526
Long-Term Deferred Revenue Change	49,784	37,535	69,615	(29,806)	17,956	47,655
Total Change in Deferred Revenue	96,664	220,410	260,495	(46,093)	(26,953)	64,181
Net Operating Cash Flow	148,359	249,697	736,323	232,297	96,802	136,359

*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 the twelve months ended November 30, 2016. (Quarterly FX impacts to y/y change in deferred revenue are \$(36.9) million in Q317, \$15.1 million in Q217, \$15.7 million in Q117, and \$15.0 million in Q416).

	Nov-16	Feb-16		May-16	Aug-16	Nov-16
Bookings & Deal Metrics:	Q316	Q416	FY16	Q117	Q217	Q317
# of Top 25 Renewals	25	25		25	23	25
Top 25 Renewal Rates (of prior deal value)	~120%	~120%		~105%	~105%	>120%
Top 30 Deal Sizes						
Deals \$1M - \$5M	19	16	87	24	25	22
Deals \$5M - \$10M	8	9	20	4	5	5
Deals >\$10M	3	5	11	2	0	3
Deals containing App Dev & Emerging Tech	70%	83%	73%	83%	73%	60%
Deals w/ only App Dev & Emerging Tech	17%	0%	15%	13%	13%	13%
Indirect Channel Bookings	67%	71%	72%	78%	81%	72%
Direct Bookings	33%	29%	28%	22%	19%	28%
Bookings by Geography						
Americas	60%	64%	60%	60%	57%	57%
EMEA	26%	23%	24%	21%	24%	27%
APAC	14%	13%	16%	19%	19%	16%
Average Contract Length (months)	22	22	21	21	22	24
% of Single Year Bookings	72%	73%	75%	74%	73%	67%
% of Multi-Year Bookings	28%	27%	25%	26%	27%	33%
Additional Metrics						
Employees	8,317	8,799		9,324	9,861	10,257
Average EUR FX Rate	1.11	1.10	1.10	1.13	1.12	1.10
Average JPY FX Rate	121	118	121	110	103	105

(Unaudited)

	Nov-16	Feb-16		May-16	Aug-16	Nov-16
	Q316	Q416	FY16	Q117	Q217	Q317
Share Repurchases						
# Shares purchased (millions)	1.0	1.6	3.5	0.9	1.8	1.6
Aggregate Principal Amount (\$ millions)	78	114	263	66	127	125
Remaining Balance on Plan at quarter-end (\$ millions)	352	237		171	901	775
Days Sales Outstanding (DSO) (in thousands, except # of days)						
Total Revenue	523,580	543,502	2,052,230	567,899	599,805	615,260
Q/Q Δ deferred revenue (Balance Sheet)	73,694	235,410		(30,388)	(11,504)	27,326
Deferred revenue (Cash Flow Stmt.)	96,664	220,410	260,495	(46,093)	(26,953)	64,181
Accounts Receivable, net	396,545	509,715		326,334	359,893	427,436
Q/Q FX impact on Accounts Receivable	<u>3,487</u>	<u>(1,098)</u>		<u>(6,101)</u>	<u>(2,980)</u>	<u>4,926</u>
Accounts Receivable in constant currency	400,032	508,617		320,233	356,913	432,362
# calendar days in quarter	91	91		92	92	91
DSO ⁽¹⁾	60	60		56	56	61
FX adj DSO ⁽²⁾	59	61		56	57	58

(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)

	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	Q317 Quarter End 11/30/2016
GAAP Revenue:						
Subscriptions	\$ 441,526	\$ 457,488	\$ 479,642	\$ 501,665	\$ 531,209	\$ 543,318
Training and services	62,622	66,092	63,860	66,234	68,596	71,942
Total subscription, training and services revenue	504,148	523,580	543,502	567,899	599,805	615,260
Non-GAAP Cost of revenue:						
Subscriptions	26,574	27,321	28,275	30,765	33,828	34,488
Training and services	42,621	46,553	45,565	45,355	45,943	47,695
Total cost of subscription, training and services revenue	69,195	73,874	73,840	76,120	79,771	82,183
Total Non-GAAP gross profit	434,953	449,706	469,662	491,779	520,034	533,077
Non-GAAP Operating expense:						
Sales and marketing	186,309	196,262	207,760	222,892	230,989	238,761
Research and development	90,174	91,535	96,000	102,980	108,262	108,621
General and administrative	35,332	38,853	41,460	41,943	44,120	42,529
Total operating expense	311,815	326,650	345,220	367,815	383,371	389,911
Non-GAAP Income from operations	123,138	123,056	124,442	123,964	136,663	143,166
GAAP Interest income	2,895	2,874	3,189	3,430	3,392	3,346
Other income (expense), net	(1,245)	49	(337)	(553)	84	(1,392)
Interest expense	(1,113)	(1,153)	(1,170)	(1,156)	(1,172)	(1,209)
Income before provision (benefit) for income taxes (1)	123,675	124,826	126,124	125,685	138,967	143,911
Provision (benefit) for income taxes	35,866	36,200	29,094	33,507	37,739	33,160
Non-GAAP Net income	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751
Non-GAAP Net income-diluted	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751
Non-GAAP Net income per share:						
Basic	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56	\$ 0.62
Diluted	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55	\$ 0.61
Weighted average shares outstanding:						
Basic	183,179	182,850	182,099	181,168	180,322	179,233
GAAP Diluted	186,750	186,094	184,888	184,187	183,346	182,682
Dilution offset from convertible note hedge transactions	(585)	(390)	(67)	—	(195)	(514)
Non-GAAP Diluted	186,165	185,704	184,821	184,187	183,151	182,168
(1) Non-GAAP provision for income taxes:						
Non-GAAP adjusted income before provision for income taxes	\$ 123,675	\$ 124,826	\$ 126,124	\$ 125,685	\$ 138,967	\$ 143,911
GAAP estimated annual effective tax rate	29 %	29 %	23.1 %	27 %	27 %	27 %
Provision for income taxes on Non-GAAP adjusted net income before discrete tax expenses (benefits)	35,866	36,200	29,094	33,935	37,521	38,856
Discrete tax expenses (benefits), excluding discrete tax expenses (benefits) related to share-based compensation	—	—	—	(428)	218	(5,696)
Provision for income taxes on Non-GAAP adjusted net income excluding discrete tax expenses (benefits) related to share-based compensation	\$ 35,866	\$ 36,200	\$ 29,094	\$ 33,507	\$ 37,739	\$ 33,160

Red Hat GAAP to Non-GAAP Reconciliation Quarterly

(Unaudited)

(In thousands - except per share amounts)

	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	Q317 Quarter End 11/30/2016
Revenue	\$ 504,148	\$ 523,580	\$ 543,502	\$ 567,899	\$ 599,805	\$ 615,260
GAAP Gross Profit as reported	\$ 428,184	\$ 442,532	\$ 462,282	\$ 483,851	\$ 512,134	\$ 524,807
Add: Non-cash share-based compensation expense	4,151	4,074	3,946	4,305	4,054	4,037
Add: Amortization of intangible assets	2,618	3,100	3,434	3,623	3,846	4,233
Non-GAAP Gross Profit	\$ 434,953	\$ 449,706	\$ 469,662	\$ 491,779	\$ 520,034	\$ 533,077
GAAP Operating Income as reported	\$ 76,470	\$ 68,877	\$ 71,772	\$ 75,363	\$ 81,884	\$ 80,773
Add: Non-cash share-based compensation expense Cost of Revenue	4,151	4,074	3,946	4,305	4,054	4,037
Add: Non-cash share-based compensation expense S&M	16,782	17,192	19,703	18,440	20,361	26,624
Add: Non-cash share-based compensation expense R&D	12,022	13,059	12,511	12,002	12,969	13,814
Add: Non-cash share-based compensation expense G&A	7,582	9,082	9,608	6,528	7,973	10,266
Total Non-cash share-based compensation expense	40,537	43,407	45,768	41,275	45,357	54,741
Add: Amortization of intangible assets Cost of Revenue	2,618	3,100	3,434	3,623	3,846	4,233
Add: Amortization of intangible assets S&M	2,010	2,330	1,730	1,916	1,905	1,695
Add: Amortization of intangible assets R&D	292	312	(13)	34	34	34
Add: Amortization of intangible assets G&A	1,160	1,238	1,711	1,753	1,848	1,690
Total Amortization of intangible assets	6,080	6,980	6,862	7,326	7,633	7,652
Add: Transaction costs related to business combinations	51	3,792	40	—	1,789	—
Non-GAAP Operating Income	\$ 123,138	\$ 123,056	\$ 124,442	\$ 123,964	\$ 136,663	\$ 143,166
GAAP Gross Margin as reported	84.9 %	84.5 %	85.1 %	85.2 %	85.4 %	85.3 %
Non-GAAP Gross Margin	86.3 %	85.9 %	86.4 %	86.6 %	86.7 %	86.6 %
GAAP Operating Margin as reported	15.2 %	13.2 %	13.2 %	13.3 %	13.7 %	13.1 %
Non-GAAP Operating Margin	24.4 %	23.5 %	22.9 %	21.8 %	22.8 %	23.3 %
GAAP Net Income as reported	\$ 51,395	\$ 46,848	\$ 53,036	\$ 61,184	\$ 58,772	\$ 67,943
GAAP provision for income taxes	20,992	19,135	15,732	11,169	20,663	8,775
GAAP Income before provision for income taxes	\$ 72,387	\$ 65,983	\$ 68,768	\$ 72,353	\$ 79,435	\$ 76,718
Add: Non-cash share-based compensation expense	40,537	43,407	45,768	41,275	45,357	54,741
Add: Amortization of intangible assets	6,080	6,980	6,862	7,326	7,633	7,652
Add: Non-cash interest expense related to the debt discount	4,620	4,664	4,686	4,731	4,753	4,800
Add: Transaction costs related to business combinations	51	3,792	40	—	1,789	—
Non-GAAP adjusted income before provision for taxes	123,675	124,826	126,124	125,685	138,967	143,911
Non-GAAP provision for income taxes	35,866	36,200	29,094	33,507	37,739	33,160
Non-GAAP adjusted net income	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751
Non-GAAP adjusted net income-diluted	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751
GAAP net income per share:						
Basic	\$ 0.28	\$ 0.26	\$ 0.29	\$ 0.34	\$ 0.33	\$ 0.38
Diluted	\$ 0.28	\$ 0.25	\$ 0.29	\$ 0.33	\$ 0.32	\$ 0.37
Non-GAAP adjusted net income per share:						
Basic	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56	\$ 0.62
Diluted	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55	\$ 0.61
Weighted average shares outstanding:						
Basic	183,179	182,850	182,099	181,168	180,322	179,233
GAAP Diluted	186,750	186,094	184,888	184,187	183,346	182,682
Dilution offset from convertible note hedge transactions	(585)	(390)	(0.067)	—	(195)	(514)
Non-GAAP Diluted	186,165	185,704	184,821	184,187	183,151	182,168

Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins

(Unaudited)

(In thousands)

GAAP Revenue:

	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	Q317 Quarter End 11/30/2016
Subscriptions	\$ 441,526	\$ 457,488	\$ 479,642	\$ 501,665	\$ 531,209	\$ 543,318
Training and services	62,622	66,092	63,860	66,234	68,596	71,942
Total subscription, training and services revenue	504,148	523,580	543,502	567,899	599,805	615,260

Non-GAAP Cost of revenue:

Subscriptions	26,574	27,321	28,275	30,765	33,828	34,488
Training and services	42,621	46,553	45,565	45,355	45,943	47,695
Total cost of subscription, training and services revenue	69,195	73,874	73,840	76,120	79,771	82,183

Total Non-GAAP gross profit

434,953	449,706	469,662	491,779	520,034	533,077
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Cost of revenue reconciliation GAAP to non-GAAP

Subscriptions (GAAP)	30,996	32,246	33,575	36,545	39,678	40,660
Less: non-cash share-based compensation expense	1,836	1,825	1,866	2,157	2,004	1,939
Less: Amortization of intangible assets	2,586	3,100	3,434	3,623	3,846	4,233
Subscriptions (non-GAAP)	26,574	27,321	28,275	30,765	33,828	34,488

Training and services (GAAP)

44,968	48,802	47,645	47,503	47,993	49,793
Less: non-cash share-based compensation expense	2,315	2,249	2,080	2,148	2,050
Less: Amortization of intangible assets	32	—	—	—	—

Training and services (non-GAAP)

42,621	46,553	45,565	45,355	45,943	47,695
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GAAP Gross Margin

84.9 %	84.5 %	85.1 %	85.2 %	85.4 %	85.3 %
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Non-GAAP Gross Margin

86.3 %	85.9 %	86.4 %	86.6 %	86.7 %	86.6 %
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GAAP Subscription Gross Margin

93.0 %	93.0 %	93.0 %	92.7 %	92.5 %	92.5 %
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Non-GAAP Subscription Gross Margin

94.0 %	94.0 %	94.1 %	93.9 %	93.6 %	93.7 %
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GAAP Training and services Gross Margin

28.2 %	26.2 %	25.4 %	28.3 %	30.0 %	30.8 %
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Non-GAAP Training and services Gross Margin

31.9 %	29.6 %	28.6 %	31.5 %	33.0 %	33.7 %
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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 %
(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 %	14.0 %	14.0 %
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	189,920	186,529	182,817
GAAP Diluted	196,451	195,804	192,036	189,246	186,119
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Note: Certain prior year amounts have been reclassified to conform with current year presentation.

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

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

(Unaudited)

(In thousands)

	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Rolling Average Four Quarter Billings Proxy	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Rolling Average Four Quarter Billings Proxy	Year-Over-Year Growth Rate
	Quarter End <u>2/28/2015</u>	Quarter End <u>5/31/2015</u>	Quarter End <u>8/31/2015</u>	Quarter End <u>11/30/2015</u>		Quarter End <u>2/29/2016</u>	Quarter End <u>5/31/2016</u>	Quarter End <u>8/31/2016</u>	Quarter End <u>11/30/2016</u>		
Total Revenue	463,942	481,001	504,148	523,580		543,502	567,899	599,805	615,260		
Change in deferred revenue on Statement of Cash Flows	224,738	(31,562)	(25,017)	96,664		220,410	(46,093)	(26,953)	64,181		
Billings Proxy	688,680	449,439	479,131	620,244	559,374	763,912	521,806	572,852	679,441	634,503	13.4 %
Adjustment for currency impact to total revenue						16,546	(1,700)	(3,479)	(4,981)		
Billings Proxy on a Constant Currency basis						780,458	520,106	569,373	674,460	636,099	13.7 %

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
 - Q317 GAAP net income and GAAP EPS benefited by \$6 million and approximately \$0.03, respectively
 - FY17 YTD GAAP net income and GAAP EPS benefited by \$15 million and \$0.08, 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
 - Q317 and FY17 YTD operating cash flow includes \$6 million and \$15 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 FY17 YTD operating cash flows

	Q116	Q216	Q316	Q416	FY16	Q117	Q217	Q317	FY17 YTD
Operating cash flows prior to accounting update	\$ 209	\$ 120	\$ 139	\$ 247	\$ 716	\$ 224	\$ 96	\$ 130	\$ 450
Excess tax benefits from share-based payment arrangements now classified as an operating source of cash	6	3	9	2	20	8	1	6	15
Operating cash flows adjusted for accounting update	\$ 215	\$ 123	\$ 148	\$ 249	\$ 736	\$ 232	\$ 97	\$ 136	\$ 465