

# Q4 FY17 FINANCIAL HIGHLIGHTS & SUPPLEMENTAL METRICS

March 27, 2017

# 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, March 27, 2017.

## INTRODUCTION

The following presentation provides financial highlights and supplemental metrics for Red Hat's fourth quarter and fiscal year ended February 28, 2017. These financial highlights and supplemental metrics were made available on March 27, 2017 in connection with Red Hat's announcement of its financial results for the fourth quarter and fiscal year 2017. This presentation should be read in conjunction with Red Hat's press release issued on March 27, 2017 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>.

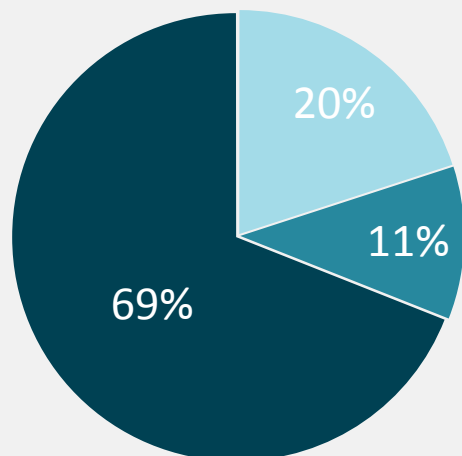
## Non-GAAP Measures

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 4<sup>TH</sup> QUARTER REVENUE GROWTH

% OF TOTAL REVENUE



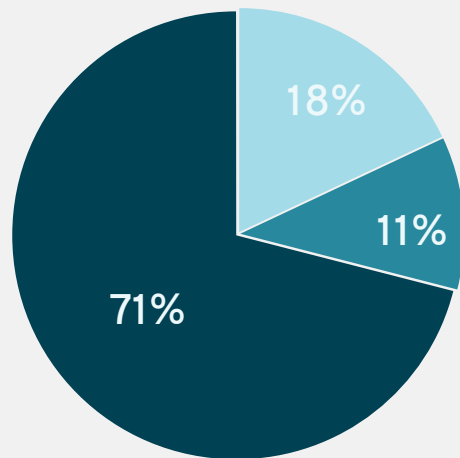
	Q417 Y/Y Growth	Q417 Y/Y Growth, cc <sup>(1)</sup>
App Dev & emerging tech	40%	40%
Infrastructure-related tech	11%	12%
Training & Consulting	8%	9%
<b>Total Revenue</b>	<b>16%</b>	<b>16%</b>

## Q4 HIGHLIGHTS:

- 60<sup>th</sup> consecutive quarter of revenue growth
- Continued strong growth in Application development-related and other emerging technologies revenue

# STRONG ANNUAL REVENUE GROWTH

% OF TOTAL REVENUE



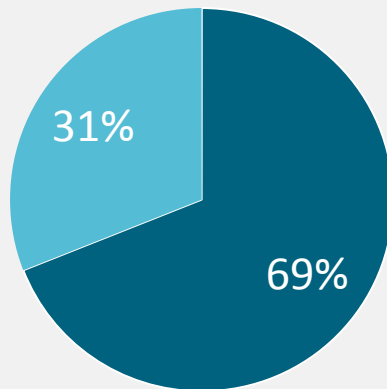
	FY17 Y/Y Growth	FY17 Y/Y Growth, cc <sup>(1)</sup>
App Dev & emerging tech	36%	36%
Infrastructure-related tech	15%	14%
Training & Consulting	11%	12%
<b>Total Revenue</b>	<b>18%</b>	<b>17%</b>

## FY17 HIGHLIGHTS:

- Crossed over \$2B milestone in subscription revenue
- Strong growth in both Infrastructure-related and App Dev & emerging
- App Dev & emerging tech now 18% of total revenue, up from 16% in FY16

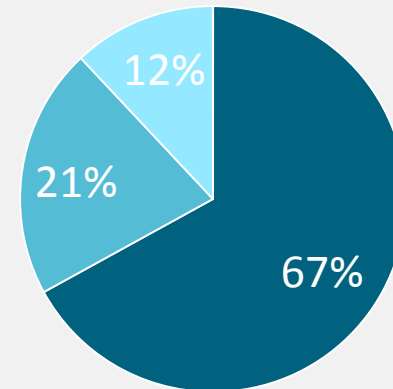
# Q417 BOOKINGS & DEAL METRICS

CHANNEL



■ Indirect ■ Direct

GEOGRAPHY



■ Americas ■ EMEA ■ APAC

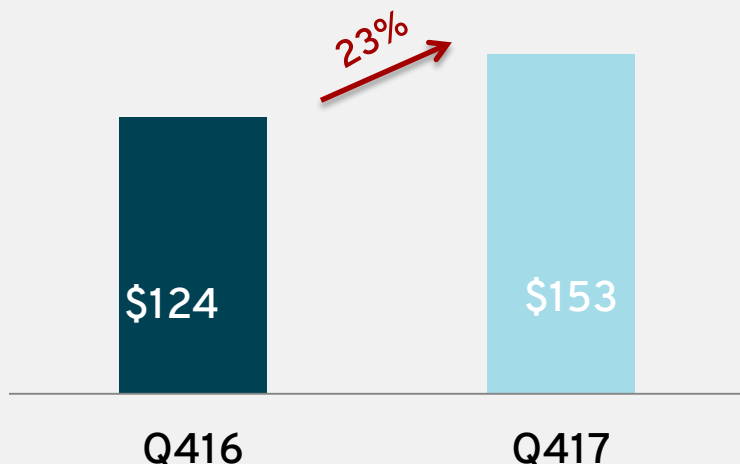
## Q4 HIGHLIGHTS:

- Total of 110 deals >\$1M; up 18% year-over year, including first ~\$100M deal
- Top 30 deals all over \$3M, with 16 over \$5M, 5 over \$10M and 4 over \$20M
- Strong cross-selling with 90% of top deals including an app-dev/emerging technology offering

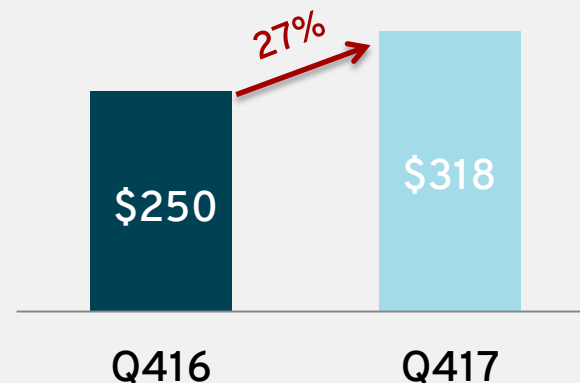
# QUARTERLY PROFITABILITY & CASH FLOW

(\$ millions, y/y growth)

## NON-GAAP OPERATING INCOME



## OPERATING CASH FLOW



## Q4 HIGHLIGHTS:

- 15.0% GAAP and 24.3% Non-GAAP operating margins
- \$0.36 GAAP and \$0.61 Non-GAAP EPS
- 20% y/y total deferred revenue growth
- \$2.1B cash & investments balance
- \$139M share repurchase

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 \$53 million in Q416 and \$58 million in Q417 from GAAP operating income of \$72 million in Q416 and \$94 million in Q417. Non-GAAP EPS excludes the expenses listed in previous sentence and non-cash interest expense related to the debt discount of \$5 million in Q417. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

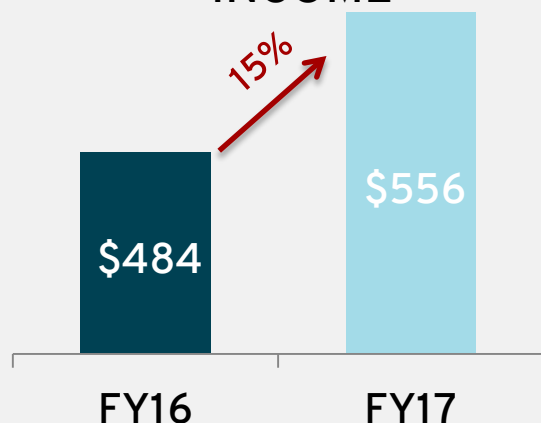


# ANNUAL PROFITABILITY & CASH FLOW

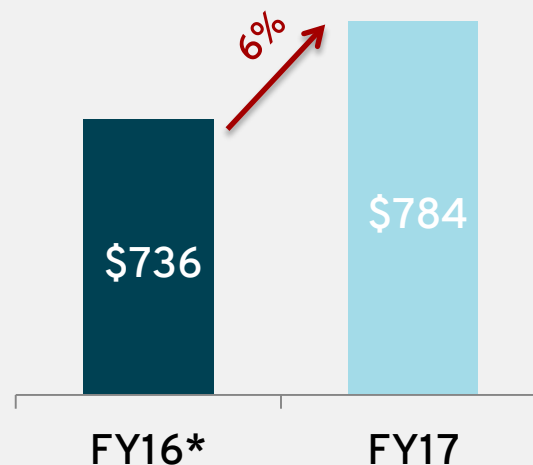
(\$ millions, y/y growth)

## NON-GAAP OPERATING

### INCOME



## OPERATING CASH FLOW



## FY17 HIGHLIGHTS:

- 13.8% GAAP and 23.1% Non-GAAP operating margins
- \$1.39 GAAP and \$2.27 Non-GAAP EPS
- \$459M share repurchase
- Free cash flow of \$715M

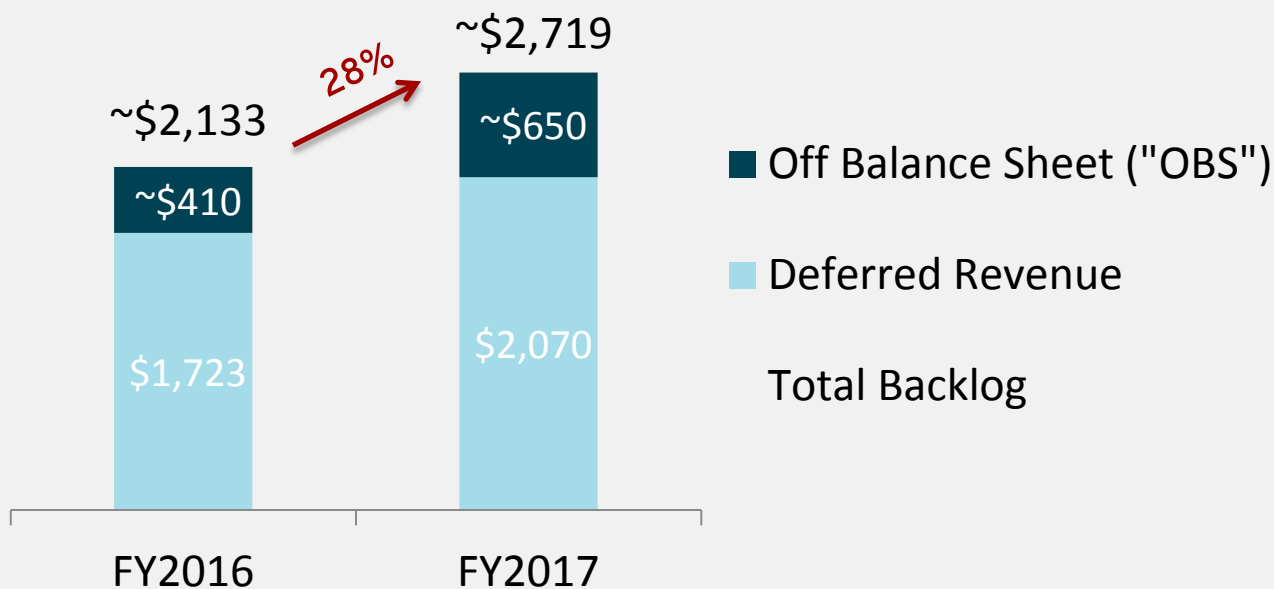
\*FY16 operating cash flow adjusted retrospectively for ASU 2016-09. See Appendix for details.

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 \$196 million in FY16 and \$224 million in FY17 from GAAP operating income of \$288 million in FY16 and \$332 million in FY17. Non-GAAP EPS excludes the expenses listed in previous sentence and non-cash interest expense related to the debt discount of \$19 million in FY17. See reconciliation in the following GAAP to Non-GAAP Reconciliation section.

Free cash flow defined as Net cash provided by operating activities less Purchase of property and equipment found on cash flow statement, \$784 million and \$69 million respectively in FY17.

# TOTAL BACKLOG

(\$ millions)



## HIGHLIGHTS:

- Off balance sheet (OBS) up 58% y/y
- Deferred revenue up 20% y/y
- Portion of total backlog to be billed during FY18 in excess of \$330M, up 20% y/y

Off Balance Sheet (OBS) backlog reported as a conservative approximation, often describing the amount as “in excess of”, primarily because the value of underlying contracts is derived from data not yet subjected to the complete application of our revenue recognition policies.

Total backlog = OBS + deferred revenue

# SUPPLEMENTAL FINANCIAL & BUSINESS METRICS

(Unaudited)  
(\$ in thousands)

	Feb-16		May-16	Aug-16	Nov-16	Feb-17	
Revenue	Q416	FY16	Q117	Q217	Q317	Q417	FY17
Infrastructure-related subscriptions	390,706	<b>1,480,463</b>	403,182	427,035	431,142	435,085	<b>1,696,443</b>
y/y change	15%	<b>12%</b>	14%	18%	16%	11%	<b>15%</b>
constant currency y/y change	18%	<b>18%</b>	13%	17%	14%	12%	<b>14%</b>
App dev & emerging subscriptions	88,936	<b>322,986</b>	98,483	104,174	112,176	124,503	<b>439,337</b>
y/y change	38%	<b>37%</b>	39%	33%	33%	40%	<b>36%</b>
constant currency y/y change	43%	<b>46%</b>	39%	32%	32%	40%	<b>36%</b>
<b>Subscription Revenue</b>	<b>479,642</b>	<b>1,803,449</b>	<b>501,665</b>	<b>531,209</b>	<b>543,318</b>	<b>559,588</b>	<b>2,135,780</b>
y/y change	18%	<b>16%</b>	18%	20%	19%	17%	<b>18%</b>
constant currency y/y change	22%	<b>22%</b>	18%	19%	18%	17%	<b>18%</b>
Training & services revenue	63,860	<b>248,781</b>	66,234	68,596	71,942	69,252	<b>276,023</b>
y/y change	8%	<b>9%</b>	18%	10%	9%	8%	<b>11%</b>
constant currency y/y change	14%	<b>17%</b>	19%	11%	10%	9%	<b>12%</b>
<b>Total Revenue</b>	<b>543,502</b>	<b>2,052,230</b>	<b>567,899</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>	<b>2,411,803</b>
y/y change	17%	<b>15%</b>	18%	19%	18%	16%	<b>18%</b>
constant currency y/y change	21%	<b>21%</b>	18%	18%	17%	16%	<b>17%</b>
<b>Percent of Total Revenue (in USD)</b>							
Infrastructure-related subscriptions	72%	72%	71%	71%	70%	69%	71%
App dev & emerging subscriptions	16%	16%	17%	17%	18%	20%	18%
Total Subscription Revenue	88%	88%	88%	89%	88%	89%	89%
Training & services revenue	12%	12%	12%	11%	12%	11%	11%
<b>Total Revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(Unaudited)  
(\$ in thousands)

	Feb-16		May-16	Aug-16	Nov-16	Feb-17	
Revenue by Geography	Q416	FY16	Q117	Q217	Q317	Q417	FY17
Americas	357,940	<b>1,354,345</b>	365,723	385,529	393,589	410,449	<b>1,555,290</b>
y/y change	17%	<b>18%</b>	14%	16%	15%	15%	<b>15%</b>
constant currency y/y change	19%	<b>20%</b>	15%	17%	15%	14%	<b>15%</b>
EMEA	115,468	<b>436,304</b>	124,299	127,467	132,568	131,308	<b>515,642</b>
y/y change	15%	<b>6%</b>	28%	18%	15%	14%	<b>18%</b>
constant currency y/y change	24%	<b>25%</b>	24%	17%	16%	17%	<b>18%</b>
APAC	70,094	<b>261,581</b>	77,877	86,809	89,103	87,083	<b>340,871</b>
y/y change	20%	<b>11%</b>	26%	37%	34%	24%	<b>30%</b>
constant currency y/y change	26%	<b>23%</b>	25%	27%	25%	22%	<b>25%</b>
<b>Total Revenue</b>	<b>543,502</b>	<b>2,052,230</b>	<b>567,899</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>	<b>2,411,803</b>
y/y change	17%	<b>15%</b>	18%	19%	18%	16%	<b>18%</b>
constant currency y/y change	21%	<b>21%</b>	18%	18%	17%	16%	<b>17%</b>
<b>Percent of Total Revenue (in USD)</b>							
Americas	66%	<b>66%</b>	64%	64%	64%	65%	<b>64%</b>
EMEA	21%	<b>21%</b>	22%	21%	22%	21%	<b>22%</b>
APAC	13%	<b>13%</b>	14%	15%	14%	14%	<b>14%</b>
<b>Total Revenue</b>	<b>100%</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)

	Feb-16		May-16	Aug-16	Nov-16	Feb-17	
<b>Non-GAAP Income Statement*:</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>
Gross Profit	469,662	<b>1,770,225</b>	491,779	520,034	533,077	544,651	<b>2,089,540</b>
Operating Income	124,442	<b>483,969</b>	123,964	136,663	143,166	152,627	<b>556,420</b>
Net Income	97,030	<b>354,925</b>	92,178	101,228	110,751	109,692	<b>413,851</b>
Gross Margin	86.4%	<b>86.3%</b>	86.6%	86.7%	86.6%	86.6%	<b>86.6%</b>
Subscription Gross Margin	94.1%		93.9%	93.6%	93.7%	93.5%	
Training & Services Gross Margin	28.6%		31.5%	33.0%	33.7%	30.7%	
Operating Margin	22.9%	<b>23.6%</b>	21.8%	22.8%	23.3%	24.3%	<b>23.1%</b>
EPS Basic	0.53	<b>1.94</b>	0.51	0.56	0.62	0.62	<b>2.30</b>
EPS Diluted	0.52	<b>1.91</b>	0.50	0.55	0.61	0.61	<b>2.27</b>
Tax Rate before discrete items	23.1%	<b>27.5%</b>	27.0%	27.0%	27.0%	29.5%	<b>27.5%</b>
Weighted Average Shares Outstanding							
Basic	182,099	<b>182,817</b>	181,168	180,322	179,233	177,802	<b>179,642</b>
Diluted	184,821	<b>185,837</b>	184,187	183,151	182,168	180,705	<b>182,669</b>
<b>Balance Sheet</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>
Total Cash & Investments	1,995,390	<b>1,995,390</b>	2,119,876	2,042,645	1,971,370	2,133,231	<b>\$ 2,133,231</b>
Current Deferred Revenue	1,272,908	<b>1,272,908</b>	1,251,096	1,233,762	1,225,421	1,512,762	<b>\$ 1,512,762</b>
Long-Term Deferred Revenue	449,636	<b>449,636</b>	441,060	446,890	482,557	557,194	<b>\$ 557,194</b>
Prior Year Deferred Revenue Balance	1,482,328		1,436,119	1,413,440	1,487,134	1,722,544	
Constant currency change in Deferred Revenue (1)	260,847		246,316	244,738	211,903	348,892	
Impact from foreign currency translation	(20,631)		9,721	22,474	8,941	(1,480)	
<b>Ending Deferred Revenue Balance</b>	<b>1,722,544</b>		<b>1,692,156</b>	<b>1,680,652</b>	<b>1,707,978</b>	<b>2,069,956</b>	
<b>Cash Flow Statement</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>
Current Deferred Revenue Change	182,875	<b>190,880</b>	(16,287)	(44,909)	16,526	284,083	<b>239,413</b>
Long-Term Deferred Revenue Change	37,535	<b>69,615</b>	(29,806)	17,956	47,655	73,316	<b>109,121</b>
Total Change in Deferred Revenue	220,410	<b>260,495</b>	(46,093)	(26,953)	64,181	357,399	<b>348,534</b>
Net Operating Cash Flow	249,697	<b>736,323</b>	232,297	96,802	136,359	318,259	<b>783,717</b>

\*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 February 28, 2017. (Quarterly FX impacts to y/y change in deferred revenue are \$4.6 million in Q417, \$(36.9) million in Q317, \$15.1 million in Q217 and \$15.7 million in Q117).

	Feb-16		May-16	Aug-16	Nov-16	Feb-17	
<b>Bookings &amp; Deal Metrics:</b>	<b>Q416</b>	<b>FY16</b>	<b>Q117</b>	<b>Q217</b>	<b>Q317</b>	<b>Q417</b>	<b>FY17</b>
# of Top 25 Renewals	25		25	23	25	25	
Top 25 Renewal Rates (of prior deal value)	~120%		~105%	~105%	>120%	>120%	
Top 30 Deal Sizes							
Deals \$1M - \$5M	16	<b>87</b>	24	25	22	14	<b>85</b>
Deals \$5M - \$10M	9	<b>20</b>	4	5	5	11	<b>25</b>
Deals >\$10M	5	<b>11</b>	2	0	3	5	<b>10</b>
Deals containing App Dev & Emerging Tech	83%	<b>73%</b>	83%	73%	60%	90%	<b>77%</b>
Deals w/ only App Dev & Emerging Tech	0%	<b>15%</b>	13%	13%	13%	13%	<b>13%</b>
Indirect Channel Bookings	71%	<b>72%</b>	78%	81%	72%	69%	<b>72%</b>
Direct Bookings	29%	<b>28%</b>	22%	19%	28%	31%	<b>28%</b>
Bookings by Geography							
Americas	64%	<b>60%</b>	60%	57%	57%	67%	<b>62%</b>
EMEA	23%	<b>24%</b>	21%	24%	27%	21%	<b>23%</b>
APAC	13%	<b>16%</b>	19%	19%	16%	12%	<b>15%</b>
Average Contract Length (months)	22	<b>21</b>	21	22	24	25	<b>23</b>
% of Single Year Bookings	73%	<b>75%</b>	74%	73%	67%	65%	<b>69%</b>
% of Multi-Year Bookings	27%	<b>25%</b>	26%	27%	33%	35%	<b>31%</b>
<b>Additional Metrics</b>							
Employees	8,799		9,324	9,861	10,257	10,489	
Average EUR FX Rate	1.10	<b>1.10</b>	1.13	1.12	1.10	1.06	1.10
Average JPY FX Rate	118	<b>121</b>	110	103	105	115	108

(Unaudited)

	Feb-16		May-16	Aug-16	Nov-16	Feb-17	
	Q416	FY16	Q117	Q217	Q317	Q417	FY17
<b>Share Repurchases</b>							
# Shares purchased (millions)	1.6	3.5	0.9	1.8	1.6	1.9	6.2
Aggregate Principal Amount (\$ millions)	114	263	66	127	125	139	459
Remaining Balance on Plan at quarter-end (\$ millions)	237		171	901	775	636	
<b>Days Sales Outstanding (DSO) (in thousands, except # of days)</b>							
Total Revenue	543,502	2,052,230	567,899	599,805	615,260	628,840	2,411,803
Q/Q Δ deferred revenue (Balance Sheet)	235,410		(30,388)	(11,504)	27,326	361,979	
Deferred revenue (Cash Flow Stmt.)	220,410	260,495	(46,093)	(26,953)	64,181	357,399	348,534
Accounts Receivable, net	509,715		326,334	359,893	427,436	634,821	
Q/Q FX impact on Accounts Receivable	(1,098)		(6,101)	(2,980)	4,926	(1,509)	
Accounts Receivable in constant currency	508,617		320,233	356,913	432,362	633,312	
# calendar days in quarter	91		92	92	91	90	
<b>DSO <sup>(1)</sup></b>	<b>60</b>		<b>56</b>	<b>56</b>	<b>61</b>	<b>58</b>	
<b>FX adj DSO <sup>(2)</sup></b>	<b>61</b>		<b>56</b>	<b>57</b>	<b>58</b>	<b>58</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

**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	Q216	Q316	Q416	Q117	Q217	Q317	Q417
	Quarter End	Quarter End	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	11/30/2016	2/28/2017
<b>GAAP Revenue:</b>								
Subscriptions	\$424,793	\$441,526	\$457,488	\$479,642	\$501,665	\$531,209	\$543,318	\$559,588
Training and services	56,208	62,622	66,092	63,860	66,234	68,596	71,942	69,252
Total subscription, training and services revenue	481,001	504,148	523,580	543,502	567,899	599,805	615,260	628,840
<b>Non-GAAP Cost of revenue:</b>								
Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828	34,488	36,229
Training and services	39,424	42,621	46,553	45,565	45,355	45,943	47,695	47,960
Total cost of subscription, training and services revenue	65,097	69,195	73,874	73,840	76,120	79,771	82,183	84,189
Total Non-GAAP gross profit	415,904	434,953	449,706	469,662	491,779	520,034	533,077	544,651
<b>Non-GAAP Operating expense:</b>								
Sales and marketing	181,455	186,309	196,262	207,760	222,892	230,989	238,761	242,924
Research and development	86,307	90,174	91,535	96,000	102,980	108,262	108,621	108,244
General and administrative	34,810	35,332	38,853	41,460	41,943	44,120	42,529	40,856
Total operating expense	302,572	311,815	326,650	345,220	367,815	383,371	389,911	392,024
Non-GAAP Income from operations	113,332	123,138	123,056	124,442	123,964	136,663	143,166	152,627
GAAP Interest income	2,715	2,895	2,874	3,189	3,430	3,392	3,346	3,754
Other income (expense), net	(203)	(1,245)	49	(337)	(553)	84	(1,392)	(304)
Interest expense	(1,116)	(1,113)	(1,153)	(1,170)	(1,156)	(1,172)	(1,209)	(1,182)
Income before provision for income taxes (1)	114,728	123,675	124,826	126,124	125,685	138,967	143,911	154,895
Provision for income taxes	33,271	35,866	36,200	29,094	33,507	37,739	33,160	45,203
Non-GAAP Net Income	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751	\$ 109,692
Non-GAAP Net Income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228	\$ 110,751	\$ 109,692
<b>Non-GAAP Net Income per share:</b>								
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56	\$ 0.62	\$ 0.62
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55	\$ 0.61	\$ 0.61
<b>Weighted average shares outstanding:</b>								
Basic	183,131	183,179	182,850	182,099	181,168	180,322	179,233	177,802
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346	182,682	181,197
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)	(514)	(492)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151	182,168	180,705
(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	\$ 143,911	\$ 154,895
GAAP estimated annual effective tax rate	29 %	29 %	29 %	23.1 %	27 %	27 %	27 %	29.5 %
Provision for income taxes on Non-GAAP adjusted net income before discrete tax expenses	33,271	35,866	36,200	29,094	33,935	37,521	38,856	45,698
Discrete tax expenses (benefits), excluding discrete tax expenses (benefits) related to share-based compensation	—	—	—	—	(428)	218	(5,696)	(495)
Provision for income taxes on Non-GAAP adjusted net income excluding discrete tax expenses (benefits) related to share-based compensation	\$ 33,271	\$ 35,866	\$ 36,200	\$ 29,094	\$ 33,507	\$ 37,739	\$ 33,160	\$ 45,203

**Red Hat GAAP to Non-GAAP Reconciliation Quarterly**

(Unaudited)

(In thousands - except per share amounts)

	Q116 Quarter End 5/31/2016	Q216 Quarter End 8/31/2016	Q316 Quarter End 11/30/2016	Q416 Quarter End 2/29/2016	Q117 Quarter End 5/31/2016	Q217 Quarter End 8/31/2016	Q317 Quarter End 11/30/2016	Q417 Quarter End 2/28/2017
<b>Revenue</b>	<b>\$ 481,001</b>	<b>\$ 604,148</b>	<b>\$ 623,580</b>	<b>\$ 643,602</b>	<b>\$ 687,889</b>	<b>\$ 688,806</b>	<b>\$ 815,280</b>	<b>\$ 828,840</b>
<b>GAAP Gross Profit as reported</b>	<b>\$ 409,804</b>	<b>\$ 428,184</b>	<b>\$ 442,632</b>	<b>\$ 482,282</b>	<b>\$ 483,861</b>	<b>\$ 612,134</b>	<b>\$ 624,807</b>	<b>\$ 638,833</b>
Add: Non-cash share-based compensation expense	3,727	4,151	4,074	3,946	4,305	4,054	4,037	4,157
Add: Amortization of intangible assets	2,573	2,618	3,100	3,434	3,623	3,846	4,233	3,861
<b>Non-GAAP Gross Profit</b>	<b>\$ 416,104</b>	<b>\$ 434,953</b>	<b>\$ 449,806</b>	<b>\$ 489,662</b>	<b>\$ 491,779</b>	<b>\$ 620,034</b>	<b>\$ 633,077</b>	<b>\$ 646,851</b>
<b>GAAP Operating Income as reported</b>	<b>\$ 70,830</b>	<b>\$ 78,470</b>	<b>\$ 88,877</b>	<b>\$ 71,772</b>	<b>\$ 76,383</b>	<b>\$ 81,884</b>	<b>\$ 80,773</b>	<b>\$ 84,226</b>
Add: Non-cash share-based compensation expense Cost of Revenue	3,727	4,151	4,074	3,946	4,305	4,054	4,037	4,157
Add: Non-cash share-based compensation expense G&M	15,412	16,782	17,192	19,703	18,440	20,361	26,624	27,952
Add: Non-cash share-based compensation expense R&D	10,874	12,022	13,059	12,511	12,002	12,969	13,814	13,639
Add: Non-cash share-based compensation expense G&A	6,509	7,582	9,082	9,608	6,528	7,973	10,266	5,409
<b>Total Non-cash share-based compensation expense</b>	<b>96,522</b>	<b>40,537</b>	<b>43,407</b>	<b>46,768</b>	<b>41,275</b>	<b>46,367</b>	<b>54,741</b>	<b>51,157</b>
Add: Amortization of intangible assets Cost of Revenue	2,573	2,618	3,100	3,434	3,623	3,846	4,233	3,861
Add: Amortization of intangible assets G&M	2,005	2,010	2,330	1,730	1,916	1,905	1,695	1,562
Add: Amortization of intangible assets R&D	250	292	312	(13)	34	34	34	35
Add: Amortization of intangible assets G&A	1,052	1,160	1,238	1,711	1,753	1,848	1,690	1,787
<b>Total Amortization of intangible assets</b>	<b>6,880</b>	<b>6,080</b>	<b>6,880</b>	<b>6,882</b>	<b>7,326</b>	<b>7,633</b>	<b>7,662</b>	<b>7,245</b>
Add: Facility exit costs	—	—	—	—	—	—	—	—
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789	—	—
<b>Non-GAAP Operating Income</b>	<b>\$ 113,332</b>	<b>\$ 123,138</b>	<b>\$ 123,068</b>	<b>\$ 124,442</b>	<b>\$ 123,984</b>	<b>\$ 138,683</b>	<b>\$ 143,168</b>	<b>\$ 162,827</b>
<b>GAAP Gross Margin as reported</b>	<b>85.2 %</b>	<b>84.8 %</b>	<b>84.6 %</b>	<b>86.1 %</b>	<b>86.2 %</b>	<b>86.4 %</b>	<b>86.3 %</b>	<b>86.3 %</b>
<b>Non-GAAP Gross Margin</b>	<b>88.6 %</b>	<b>88.3 %</b>	<b>86.9 %</b>	<b>88.4 %</b>	<b>88.6 %</b>	<b>88.7 %</b>	<b>88.8 %</b>	<b>88.8 %</b>
<b>GAAP Operating Margin as reported</b>	<b>14.7 %</b>	<b>16.2 %</b>	<b>13.2 %</b>	<b>13.2 %</b>	<b>13.3 %</b>	<b>13.7 %</b>	<b>13.1 %</b>	<b>16.0 %</b>
<b>Non-GAAP Operating Margin</b>	<b>23.8 %</b>	<b>24.4 %</b>	<b>23.6 %</b>	<b>22.9 %</b>	<b>21.8 %</b>	<b>22.8 %</b>	<b>23.3 %</b>	<b>24.3 %</b>
<b>GAAP Net Income as reported</b>	<b>\$ 48,086</b>	<b>\$ 51,395</b>	<b>\$ 46,848</b>	<b>\$ 53,036</b>	<b>\$ 61,184</b>	<b>\$ 58,772</b>	<b>\$ 67,943</b>	<b>\$ 65,803</b>
GAAP provision for income taxes	19,641	20,992	19,135	15,732	11,169	20,663	8,775	25,870
<b>GAAP Income before provision for income taxes</b>	<b>\$ 67,727</b>	<b>\$ 72,387</b>	<b>\$ 65,983</b>	<b>\$ 68,768</b>	<b>\$ 72,353</b>	<b>\$ 79,435</b>	<b>\$ 76,718</b>	<b>\$ 91,673</b>
Add: Non-cash share-based compensation expense	36,522	40,537	43,407	46,768	41,275	46,367	54,741	51,157
Add: Amortization of intangible assets	5,880	6,080	6,880	6,862	7,326	7,633	7,662	7,245
Add: Non-cash interest expense related to the debt discount	4,599	4,620	4,664	4,686	4,731	4,753	4,800	4,820
Add: Facility exit costs	—	—	—	—	—	—	—	—
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789	—	—
<b>Non-GAAP adjusted income before provision for taxes</b>	<b>114,728</b>	<b>123,675</b>	<b>124,826</b>	<b>126,124</b>	<b>125,685</b>	<b>138,967</b>	<b>143,911</b>	<b>154,895</b>
Non-GAAP provision for income taxes	33,271	35,866	36,200	29,094	33,507	37,739	33,160	45,203
<b>Non-GAAP adjusted net income</b>	<b>\$ 81,457</b>	<b>\$ 87,809</b>	<b>\$ 88,626</b>	<b>\$ 97,030</b>	<b>\$ 92,178</b>	<b>\$ 101,228</b>	<b>\$ 110,751</b>	<b>\$ 109,692</b>
<b>Non-GAAP adjusted net income-diluted</b>	<b>\$ 81,457</b>	<b>\$ 87,809</b>	<b>\$ 88,626</b>	<b>\$ 97,030</b>	<b>\$ 92,178</b>	<b>\$ 101,228</b>	<b>\$ 110,751</b>	<b>\$ 109,692</b>
<b>GAAP net income per share:</b>								
Basic	\$ 0.26	\$ 0.28	\$ 0.26	\$ 0.29	\$ 0.34	\$ 0.33	\$ 0.38	\$ 0.37
Diluted	\$ 0.25	\$ 0.28	\$ 0.25	\$ 0.29	\$ 0.33	\$ 0.32	\$ 0.37	\$ 0.36
<b>Non-GAAP adjusted net income per share:</b>								
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56	\$ 0.62	\$ 0.62
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55	\$ 0.61	\$ 0.61
<b>Weighted average shares outstanding:</b>								
Basic	183,131	183,179	182,850	182,099	181,168	180,322	179,233	177,802
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346	182,682	181,197
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)	(514)	(432)
<b>Non-GAAP Diluted</b>	<b>186,124</b>	<b>186,165</b>	<b>185,704</b>	<b>184,821</b>	<b>184,187</b>	<b>183,151</b>	<b>182,168</b>	<b>180,705</b>

**Red Hat GAAP to Non-GAAP Reconciliation Quarterly Gross Margins**

(Unaudited)  
(In thousands)

**GAAP Revenue:**

	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	Q317 Quarter End 11/30/2016	Q417 Quarter End 2/28/2017
Subscriptions	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	\$501,665	\$531,209	\$543,318	\$559,588
Training and services	56,208	62,622	66,092	63,860	66,234	68,596	71,942	69,252
<b>Total subscription, training and services revenue</b>	<b>481,001</b>	<b>504,148</b>	<b>523,580</b>	<b>543,502</b>	<b>567,899</b>	<b>599,805</b>	<b>615,260</b>	<b>628,840</b>

**Non-GAAP Cost of revenue:**

Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828	34,488	36,229
Training and services	39,424	42,621	46,553	45,565	45,355	45,943	47,695	47,960
<b>Total cost of subscription, training and services revenue</b>	<b>65,097</b>	<b>69,195</b>	<b>73,874</b>	<b>73,840</b>	<b>76,120</b>	<b>79,771</b>	<b>82,183</b>	<b>84,189</b>

**Total Non-GAAP gross profit**

<b>415,904</b>	<b>434,953</b>	<b>449,706</b>	<b>469,662</b>	<b>491,779</b>	<b>520,034</b>	<b>533,077</b>	<b>544,651</b>
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**Cost of revenue reconciliation GAAP to non-GAAP**

Subscriptions (GAAP)	29,846	30,996	32,246	33,575	36,545	39,678	40,660	42,095
Less: non-cash share-based compensation expense	1,692	1,836	1,825	1,866	2,157	2,004	1,939	2,005
Less: Amortization of intangible assets	2,481	2,586	3,100	3,434	3,623	3,846	4,233	3,861
<b>Subscriptions (non-GAAP)</b>	<b>25,673</b>	<b>26,574</b>	<b>27,321</b>	<b>28,275</b>	<b>30,765</b>	<b>33,828</b>	<b>34,488</b>	<b>36,229</b>

**Training and services (GAAP)**

Less: non-cash share-based compensation expense	41,551	44,968	48,802	47,645	47,503	47,993	49,793	50,112
Less: Amortization of intangible assets	2,035	2,315	2,249	2,080	2,148	2,050	2,098	2,152
<b>Training and services (non-GAAP)</b>	<b>39,424</b>	<b>42,621</b>	<b>46,553</b>	<b>45,565</b>	<b>45,355</b>	<b>45,943</b>	<b>47,695</b>	<b>47,960</b>

**GAAP Gross Margin**

<b>85.2 %</b>	<b>84.9 %</b>	<b>84.5 %</b>	<b>85.1 %</b>	<b>85.2 %</b>	<b>85.4 %</b>	<b>85.3 %</b>	<b>85.3 %</b>
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**Non-GAAP Gross Margin**

<b>86.5 %</b>	<b>86.3 %</b>	<b>85.9 %</b>	<b>86.4 %</b>	<b>86.6 %</b>	<b>86.7 %</b>	<b>86.6 %</b>	<b>86.6 %</b>
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**GAAP Subscription Gross Margin**

<b>93.0 %</b>	<b>93.0 %</b>	<b>93.0 %</b>	<b>93.0 %</b>	<b>92.7 %</b>	<b>92.5 %</b>	<b>92.5 %</b>	<b>92.5 %</b>
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**Non-GAAP Subscription Gross Margin**

<b>94.0 %</b>	<b>94.0 %</b>	<b>94.0 %</b>	<b>94.1 %</b>	<b>93.9 %</b>	<b>93.6 %</b>	<b>93.7 %</b>	<b>93.5 %</b>
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**GAAP Training and services Gross Margin**

<b>26.1 %</b>	<b>28.2 %</b>	<b>26.2 %</b>	<b>25.4 %</b>	<b>28.3 %</b>	<b>30.0 %</b>	<b>30.8 %</b>	<b>27.6 %</b>
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**Non-GAAP Training and services Gross Margin**

<b>29.9 %</b>	<b>31.9 %</b>	<b>29.6 %</b>	<b>28.6 %</b>	<b>31.5 %</b>	<b>33.0 %</b>	<b>33.7 %</b>	<b>30.7 %</b>
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**RED HAT, INC.**  
**Annual Non-GAAP Consolidated Statement of Ops**  
(Unaudited)  
(In thousands - except per share amounts)

	<b>FY2012</b> <b>Year End</b> <b>2/29/2012</b>	<b>FY2013</b> <b>Year End</b> <b>2/28/2013</b>	<b>FY2014</b> <b>Year End</b> <b>2/28/2014</b>	<b>FY2015</b> <b>Year End</b> <b>2/28/2015</b>	<b>FY2016</b> <b>Year End</b> <b>2/29/2016</b>	<b>FY2017</b> <b>Year End</b> <b>2/28/2017</b>
Revenue:						
Subscriptions	\$ 965,575	\$ 1,148,341	\$ 1,336,771	\$ 1,561,234	\$ 1,803,449	\$ 2,135,780
Training and services	167,528	180,476	197,844	228,255	248,781	276,023
Total subscription, training and services revenue	1,133,103	1,328,817	1,534,615	1,789,489	2,052,230	2,411,803
Cost of revenue:						
Subscriptions	59,109	70,059	81,316	95,865	107,842	135,310
Training and services	108,026	115,165	129,311	152,635	174,163	186,953
Total cost of subscription, training and services revenue	167,135	185,224	210,627	248,500	282,005	322,263
Total gross profit	965,968	1,143,593	1,323,988	1,540,989	1,770,225	2,089,540
Operating expense:						
Sales and marketing	386,226	473,232	548,691	665,346	771,786	935,565
Research and development	182,898	229,667	279,233	326,922	364,014	428,106
General and administrative	97,915	114,293	119,626	132,609	150,456	169,449
Total operating expense	667,039	817,192	947,550	1,124,877	1,286,256	1,533,120
Income from operations	298,929	326,401	376,438	416,112	483,969	556,420
Interest income	8,418	8,245	6,645	8,336	11,673	13,921
Other income (expense), net	(262)	736	774	6,562	(1,735)	(2,164)
Interest expense	(60)	(267)	(160)	(2,102)	(4,551)	(4,718)
Income before provision for income taxes	307,025	335,115	383,697	428,908	489,356	563,459
Provision for income taxes (GAAP tax rate) (1)	90,603	95,139	98,226	126,399	134,431	149,608
Net income	\$ 216,422	\$ 239,976	\$ 285,471	\$ 302,509	\$ 354,925	\$ 413,851
Net income per share at GAAP tax rate:						
Basic	\$ 1.12	\$ 1.24	\$ 1.50	\$ 1.62	\$ 1.94	\$ 2.30
Diluted	\$ 1.10	\$ 1.23	\$ 1.49	\$ 1.60	\$ 1.91	\$ 2.27
Weighted average shares outstanding:						
Basic	193,151	193,147	189,920	186,529	182,817	179,642
GAAP Diluted	196,451	195,804	192,036	189,246	186,119	182,961
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)	(292)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837	182,669

Note: certain prior year amounts have been reclassified to conform with current year presentation.

<b>Non-GAAP Tax Rate</b>	<b>29.5 %</b>	<b>28.4 %</b>	<b>25.6 %</b>	<b>29.5 %</b>	<b>27.5 %</b>	<b>26.6 %</b>
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(1) Note FY12, FY14 and FY17 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	\$ 563,459
GAAP effective tax rate, excluding discrete tax items	31 %	26.7 %	27.7 %
Non-GAAP provision for income taxes before discrete tax benefits	\$ 92,668	\$ 102,451	\$ 156,010
Discrete tax benefits	(2,066)	(4,225)	(6,402)
Provision for income taxes on Non-GAAP adjusted net income	\$ 90,602	\$ 98,226	\$ 149,608

**Red Hat GAAP to Non-GAAP Reconciliation – Annual**  
(Unaudited)  
(In thousands - except per share amounts)

	FY12 Year End 2/28/2012	FY13 Year End 2/28/2013	FY14 Year End 2/28/2014	FY15 Year End 2/28/2015	FY16 Year End 2/28/2016	FY17 Year End 2/28/2017
Revenue	\$ 1,133,103	\$ 1,328,817	\$ 1,534,615	\$ 1,789,489	\$ 2,052,230	\$ 2,411,803
GAAP Gross Profit as reported	\$ 954,555	\$ 1,128,217	\$ 1,302,015	\$ 1,516,290	\$ 1,742,601	\$ 2,057,425
Add: Non-cash share-based compensation expense	7,880	9,433	11,793	14,027	15,898	16,553
Add: Amortization of intangible assets	3,533	5,943	10,180	10,672	11,726	15,562
Non-GAAP Gross Profit	\$ 965,968	\$ 1,143,593	\$ 1,323,988	\$ 1,540,989	\$ 1,770,225	\$ 2,089,540
GAAP Operating Income as reported	\$ 199,913	\$ 201,038	\$ 232,290	\$ 249,994	\$ 288,048	\$ 332,345
Add: Non-cash share-based compensation expense – Cost of Revenue	7,880	9,433	11,793	14,027	15,898	16,553
Add: Non-cash share-based compensation expense – S&M	25,060	32,906	40,322	55,203	69,089	93,378
Add: Non-cash share-based compensation expense – R&D	21,570	29,647	34,194	38,517	48,466	52,404
Add: Non-cash share-based compensation expense – G&A	24,757	26,712	27,465	27,485	32,781	30,175
Total Non-cash share-based compensation expense	79,267	98,698	113,774	135,232	166,234	192,530
Add: Amortization of intangible assets – Cost of Revenue	3,533	5,943	10,180	10,672	11,726	15,562
Add: Amortization of intangible assets – S&M	8,348	8,416	8,872	7,838	8,075	7,078
Add: Amortization of intangible assets – R&D	4,194	3,836	3,836	2,417	842	138
Add: Amortization of intangible assets – G&A	3,674	5,328	5,316	5,958	5,160	7,078
Total Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803	29,856
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
Add: Facility exit costs	—	3,142	2,171	—	—	—
Non-GAAP Operating Income	\$ 298,929	\$ 326,401	\$ 376,439	\$ 416,112	\$ 483,969	\$ 556,420
GAAP Gross Margin as reported	84.2 %	84.9 %	84.8 %	84.7 %	84.9 %	85.3 %
Non-GAAP Gross Margin	85.2 %	86.1 %	86.3 %	86.1 %	86.3 %	86.6 %
GAAP Operating Margin as reported	17.6 %	15.1 %	15.1 %	14.0 %	14.0 %	13.8 %
Non-GAAP Operating Margin	26.4 %	24.6 %	24.5 %	23.3 %	23.6 %	23.1 %
GAAP Net Income as reported	\$ 146,626	\$ 150,204	\$ 178,292	\$ 180,201	\$ 199,365	\$ 253,703
GAAP provision for income taxes	61,383	59,548	61,256	75,297	75,500	66,477
GAAP Income before provision for income taxes	\$ 208,009	\$ 209,752	\$ 239,548	\$ 255,498	\$ 274,865	\$ 320,180
Add: Non-cash share-based compensation expense	79,267	98,698	113,774	135,232	166,234	192,530
Add: Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803	29,856
Add: Non-cash interest expense related to the debt discount	—	—	—	7,292	18,570	19,104
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884	1,789
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	563,459
Non-GAAP provision for income taxes (1)	90,603	95,139	98,226	126,399	134,431	149,608
Non-GAAP adjusted net income	\$ 216,422	\$ 239,976	\$ 285,471	\$ 302,509	\$ 354,925	\$ 413,851
GAAP net income per share:						
Basic	\$ 0.76	\$ 0.78	\$ 0.94	\$ 0.97	\$ 1.09	\$ 1.41
Diluted	\$ 0.75	\$ 0.77	\$ 0.93	\$ 0.96	\$ 1.07	\$ 1.39
Non-GAAP adjusted net income per share:						
Basic	\$ 1.12	\$ 1.24	\$ 1.50	\$ 1.62	\$ 1.94	\$ 2.30
Diluted	\$ 1.10	\$ 1.23	\$ 1.49	\$ 1.60	\$ 1.91	\$ 2.27
Weighted average shares outstanding:						
Basic	193,151	193,147	189,920	186,529	182,817	179,642
GAAP Diluted	196,451	195,804	192,036	189,246	185,119	182,961
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)	(292)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837	182,669

Note: Certain prior year amounts have been reclassified to conform with current year presentation.

(1) Note FY12, FY14 and FY17 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	\$ 563,459
GAAP effective tax rate, excluding discrete tax items	31 %	26.7 %	27.7 %
Non-GAAP provision for income taxes before discrete tax benefit	\$ 90,668	\$ 102,451	\$ 156,010
Discrete tax benefit	(2,065)	(4,225)	(6,402)
Provision for income taxes on Non-GAAP adjusted net income	\$ 90,603	\$ 98,226	\$ 149,608

Red Hat GAAP to Non-GAAP Reconciliation Rolling  
Average Four Quarters Billings Proxy  
(Unaudited)  
(In thousands)

	Q1FY18 Quarter End 6/31/2018	Q2FY18 Quarter End 8/31/2018	Q3FY18 Quarter End 11/30/2018	Q4FY18 Quarter End 2/28/2019	Rolling Average Four Quarter Billings Proxy	Q1FY17 Quarter End 6/31/2018	Q2FY17 Quarter End 8/31/2018	Q3FY17 Quarter End 11/30/2018	Q4FY17 Quarter End 2/28/2017	Rolling Average Four Quarter Billings Proxy	Year-Over- Year Growth
Total Revenue	481,001	504,148	523,580	543,502		567,899	599,805	615,260	628,840		
Change in deferred revenue on Statement of Cash Flows	(31,562)	(25,017)	96,664	220,410		(46,093)	(26,953)	64,181	357,399		
Billings Proxy	449,439	479,131	620,244	763,912	578,182	521,806	572,852	679,441	986,239	690,085	19.4 %
Adjustment for currency impact to total revenue						(1,700)	(3,479)	(4,981)	1,570		
Billings Proxy on a Constant Currency basis						520,106	569,373	674,460	987,809	687,937	19.0 %

# 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
  - Q417 GAAP net income and GAAP EPS benefited by less than \$1 million and less than \$0.01, respectively
  - FY17 GAAP net income and GAAP EPS benefited by approximately \$16 million and \$0.09, 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
  - Q417 and FY17 operating cash flow includes less than \$1 million and \$16 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 operating cash flows

	Q116	Q216	Q316	Q416	FY16		Q117	Q217	Q317	Q417	FY17
Operating cash flows prior to accounting update	\$209	\$120	\$139	\$247	\$716		\$224	\$ 96	\$130	\$317	\$767
Excess tax benefits from share-based payment arrangements now classified as an operating source of cash	6	3	9	2	20		8	1	6	1	16
Operating cash flows adjusted for accounting update	\$215	\$123	\$148	\$250	\$736		\$232	\$ 97	\$136	\$318	\$784