

# RED HAT SUMMIT 2018 ANALYST DAY



# Analyst Day welcome and agenda

**12:35 - 1:00 p.m.** President and CEO Jim Whitehurst

**1:00 - 1:45 p.m.** President, Product and Technologies, Paul Cormier

**1:45 - 2:00 p.m.** Summit livestream

**2:00 - 2:45 p.m.** Executive vice president and CFO Eric Shander

**2:45 - 3:15 p.m.** Break/Summit livestream

**3:15 - 3:45 p.m.** Q&A with Eric, Jim, and Paul

# Safe Harbor Message

Certain statements contained in this press release 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; risks related to errors or defects in our offerings and third-party products upon which our offerings depend; risks related to the security of our offerings and other data security vulnerabilities; 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; changes in and a dependence on key personnel; the ability to meet financial and operational challenges encountered in our international operations; and ineffective management of, and control over, the Company's growth and international operations, as well as other factors contained in our most recent Annual Report on Form 10-K (copies of which may be accessed through the Securities and Exchange Commission's website at <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 press release represent the Company's views as of the date of this press release 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, May 8th, 2018.



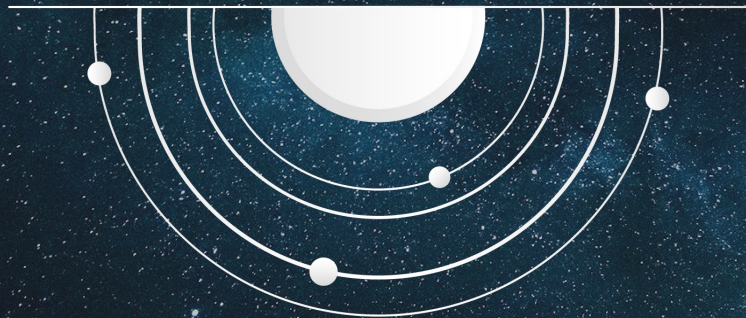
# NAVIGATING DIGITAL TRANSFORMATION

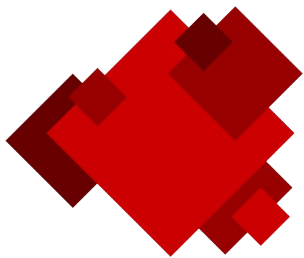
Jim Whitehurst  
President and CEO  
May 2018





# IDEAS WORTH EXPLORING





Two years ago:

Power of participation



Last year:

Impact of the individual

Plan

Prescribe

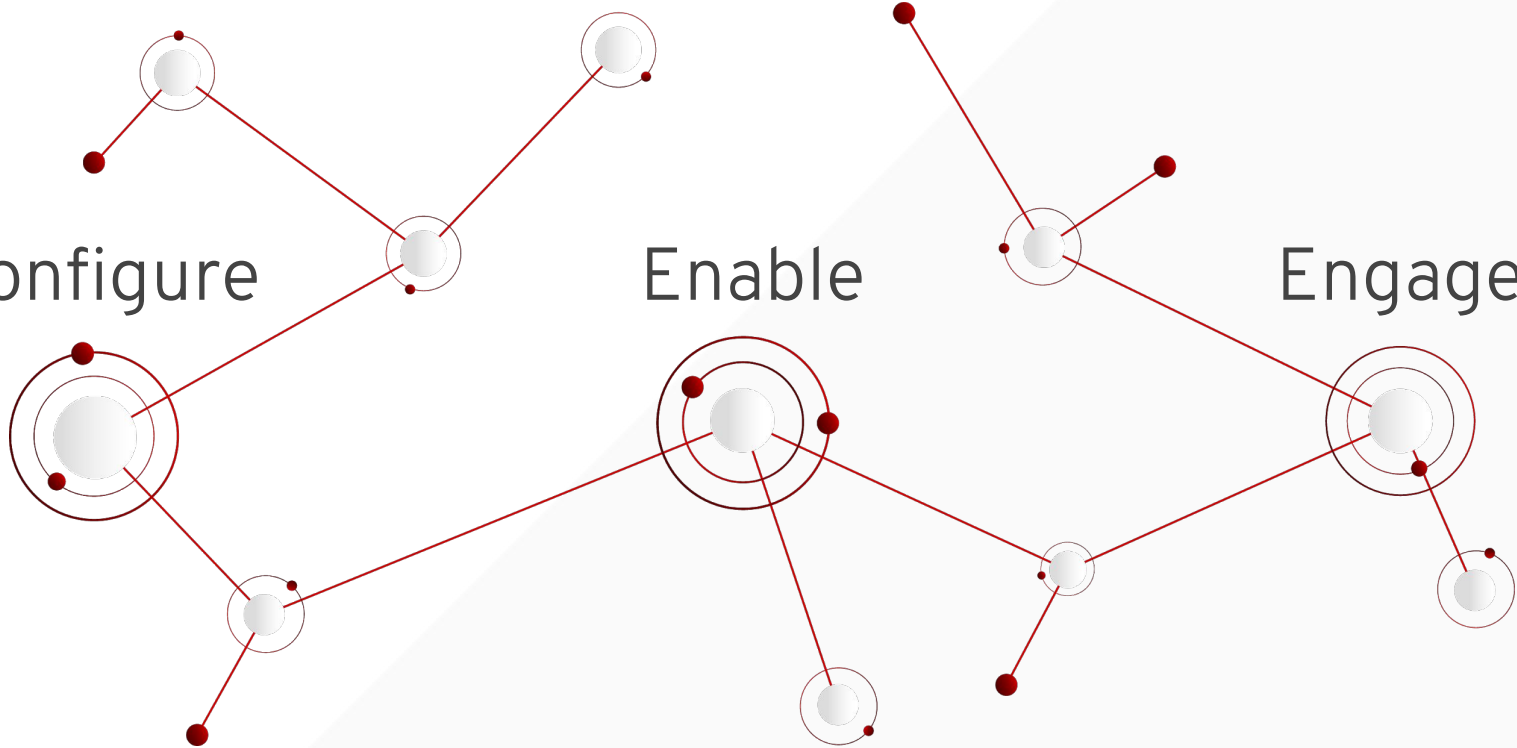
Execute



Configure

Enable

Engage



T · Systems ·

BBVA



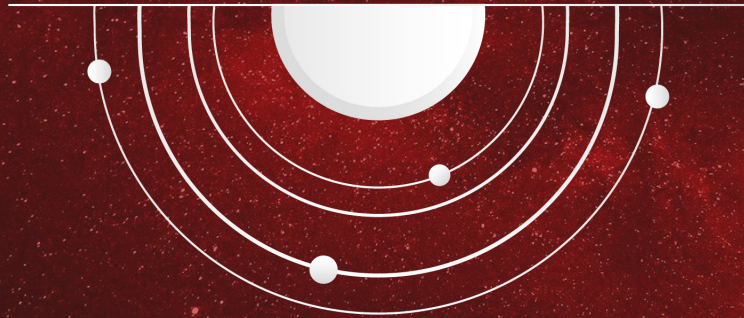
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Lufthansa Technik



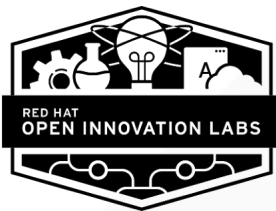
# CUSTOMER SUCCESS AT RED HAT





# Global Services is dedicated to customer success

**RED HAT®**  
TRAINING +  
CERTIFICATION



**RED HAT®**  
CONSULTING

RED HAT  
ONLINE PARTNER  
ENABLEMENT NETWORK







WE ARE  
**25**  
**YEARS**  
EST. 1993

# THANK YOU



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# INNOVATION ACROSS THE OPEN HYBRID CLOUD

Paul Cormier  
President, Products and Technologies  
Red Hat





# OUR BUSINESS

**Red Hat is an enterprise-class software company  
with an open source development model**

# RED HAT'S INTENTIONAL 25-YEAR JOURNEY

1993 • FOUNDED

1999 • IPO

2002 • FIRST RELEASE OF ENTERPRISE LINUX

2006 • JBOSS ACQUIRED

2009 • RED HAT VIRTUALIZATION RELEASED

• **RED HAT ADDED TO S&P 500 INDEX**

2011 • GLUSTER ACQUIRED  
OPENSIFT RELEASED

2012 • **\$1 BILLION IN REVENUE**  
RED HAT STORAGE RELEASED  
• FUSESOURCE, POLYMITA & MANAGEIQ ACQUIRED

2013 • RED HAT OPENSTACK PLATFORM RELEASED  
OPENSIFT ENTERPRISE RELEASED

2014 • INKTANK (CEPH),  
ENOVANCE (OPENSTACK),  
& FEEDHENRY (MOBILE) ACQUIRED

2015 • ANSIBLE ACQUIRED

2016 • **\$2 BILLION IN REVENUE**  
• 3SCALE (API MANAGEMENT) ACQUIRED

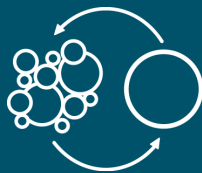
2017 • PERMABIT & CODENVY ACQUIRED

2018 • COREOS ACQUIRED  
**\$3 BILLION ANNUAL RUN RATE REVENUE**

# THE RED HAT ADVANTAGE



**STRENGTH  
IN LINUX**



**OPEN SOURCE  
LEADERSHIP**



**HYBRID  
CLOUD**



**COMPREHENSIVE  
PORTFOLIO**



**OUR PEOPLE & CULTURE**

# THE PORTFOLIO IS OPTIMIZED TO WORK TOGETHER

ANSIBLE  
by Red Hat

RED HAT  
CLOUDFORMS

RED HAT  
SATELLITE

RED HAT  
INSIGHTS

RED HAT  
OPENSIFT.io



RED HAT  
MOBILE APPLICATION  
PLATFORM



RED HAT  
FUSE

RED HAT  
OPENSIFT  
Application Runtimes



3scale  
by RED HAT



RED HAT JBOSS  
AMQ



RED HAT JBOSS  
MIDDLEWARE



RED HAT JBOSS  
ENTERPRISE  
APPLICATION PLATFORM



RED HAT JBOSS  
DATA GRID

RED HAT  
PROCESS AUTOMATION  
MANAGER



RED HAT  
DECISION  
MANAGER

RED HAT  
OPENSIFT  
Container Platform



RED HAT  
ENTERPRISE LINUX



RED HAT  
VIRTUALIZATION



RED HAT  
OPENSTACK  
PLATFORM



Google



aws



Microsoft Azure



OTHER  
PUBLIC CLOUDS

RED HAT  
ENTERPRISE LINUX

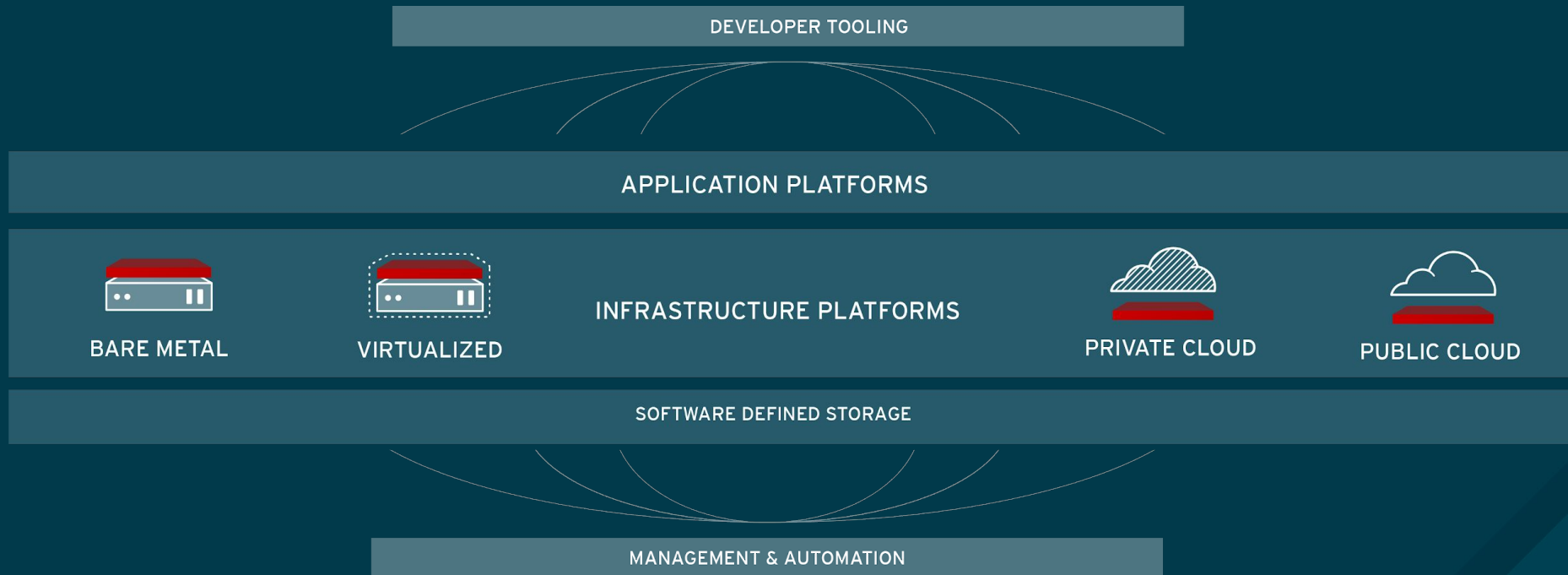
RED HAT  
GLUSTER STORAGE

RED HAT  
CEPH STORAGE



# OUR VISION: OPEN HYBRID CLOUD

ALL KINDS OF APPS AND ENVIRONMENTS, INCLUDING CONTAINERS



# THE 3 PILLARS OF RED HAT'S BUSINESS

SUPPORTED BY A TECHNOLOGY ECOSYSTEM



We have the Linux foundation & the cloud platforms to win hybrid cloud infrastructure.



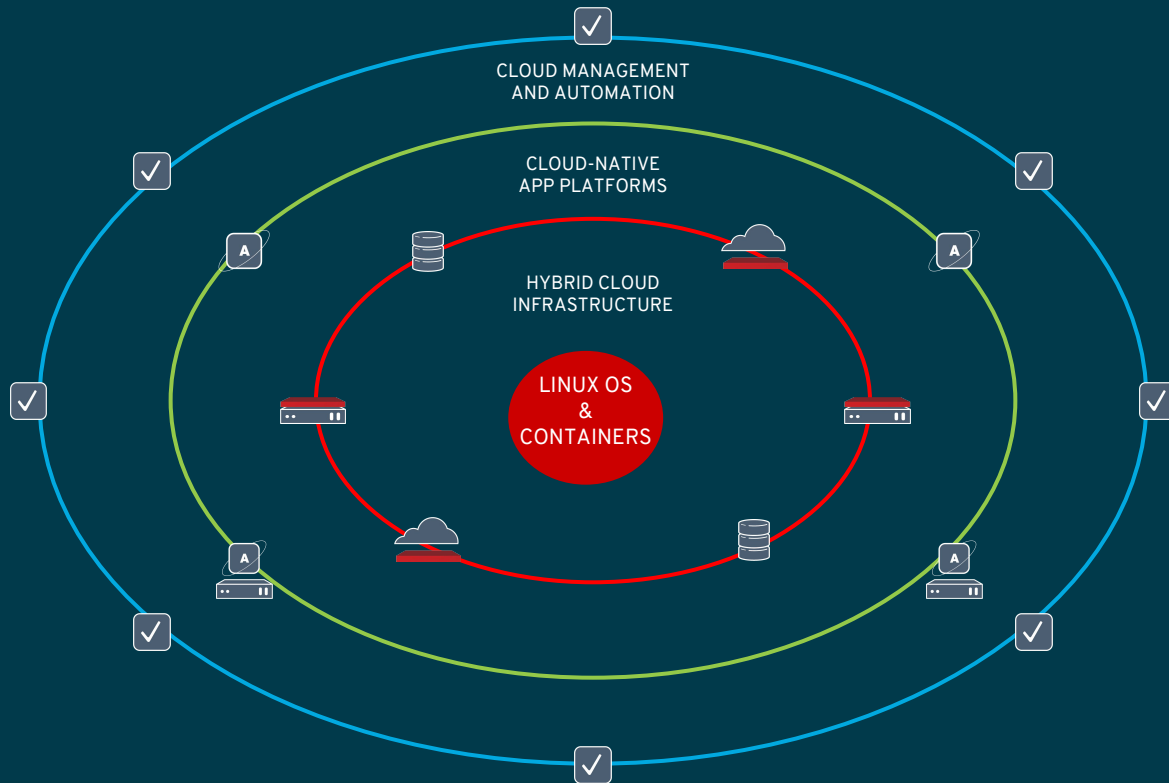
We have the leading enterprise Kubernetes container platform with middleware services to win the developer.



We have the management & automation solutions to make our portfolio sticky & easier to use.

## WE HAVE THE PARTNER ECOSYSTEM TO WIN OPEN HYBRID CLOUD

# THE PILLARS ARE INTERCONNECTED, WITH LINUX AT THE CORE



# HYBRID CLOUD INFRASTRUCTURE

## OPEN HYBRID CLOUD



### HYBRID CLOUD INFRASTRUCTURE

Infrastructure software  
across the 4 footprints, with  
RHEL at the core



### CLOUD-NATIVE APP PLATFORMS

Software designed to rapidly  
& efficiently develop & deploy  
apps across hybrid cloud



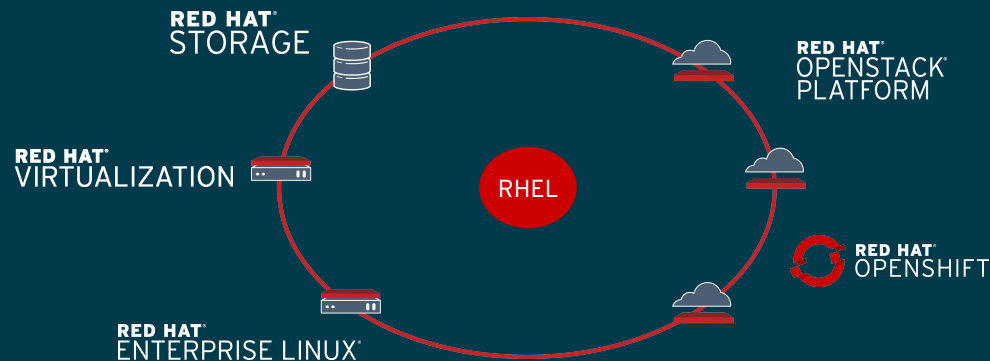
### MANAGEMENT & AUTOMATION

Software designed to simplify  
management & automation of  
hybrid cloud environments



# HYBRID CLOUD INFRASTRUCTURE

RED HAT IS THE FOUNDATION & PLATFORMS



- Built on RHEL foundation
- OpenStack is a private cloud platform
- OpenShift on-premise for hybrid applications
- Virtualization to bridge legacy to the cloud
- Software-defined storage for containers & cloud

# HYBRID CLOUD INFRASTRUCTURE

SUMMIT NEWS & DEMOS



## HYBRID CLOUD INFRASTRUCTURE

Infrastructure software  
across the 4 footprints, with  
RHEL at the very core

**NEW - CoreOS INTEGRATION:** OPENSIFT AND  
RED HAT CoreOS

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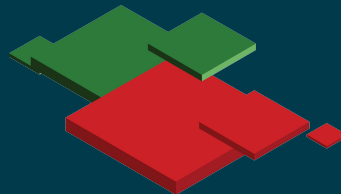
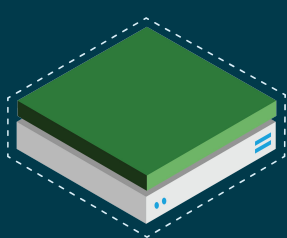
**NEW - OPENSIFT+OPENSTACK:** INTEGRATING HYBRID  
CLOUD INFRASTRUCTURE WITH CLOUD-NATIVE APP DEV

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**DEMO - TOOLING AND SERVICES TO MIGRATE FROM VMware**

# HYBRID CLOUD INFRASTRUCTURE

## VMWARE MIGRATION WITH CONTAINER-NATIVE VIRTUALIZATION



### VMWARE MIGRATION

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- Encourage migration from ESX to open-format: KVM on Red Hat Cloud Suite
- GUI-based polished tooling and services offerings to ease migration

### CONTAINER-NATIVE VIRTUALIZATION

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- Key to enabling application modernization

# HYBRID CLOUD INFRASTRUCTURE

## CUSTOMER SUCCESS STORY

*Using Red Hat technologies, Cathay Pacific created a more efficient and scalable platform for developing and delivering new services, enabling the company to create a better overall experience for its customers.*

“We wanted to invest in technologies that would drive what matters most to our customers: their end-to-end experience with Cathay Pacific. Red Hat solutions have enabled us to deliver value to our customers much faster, with improved performance and improved stability. The new architecture also provides our IT teams more time to do what matters to us most - innovate and create more value for our customers.”

- *Kerry Peirse, general manager of infrastructure and operations, Cathay Pacific Airways Limited*

Red Hat OpenShift Container Platform • Red Hat OpenStack Platform • Red Hat Ansible Tower •  
Red Hat CloudForms • Red Hat Enterprise Linux • Red Hat Satellite • Red Hat JBoss EAP





# CLOUD-NATIVE APPLICATION PLATFORMS

## OPEN HYBRID CLOUD



### HYBRID CLOUD INFRASTRUCTURE

Infrastructure software  
across the 4 footprints, with  
RHEL at the very core



### CLOUD-NATIVE APP PLATFORMS

Software designed to rapidly  
& efficiently develop & deploy  
apps across hybrid cloud

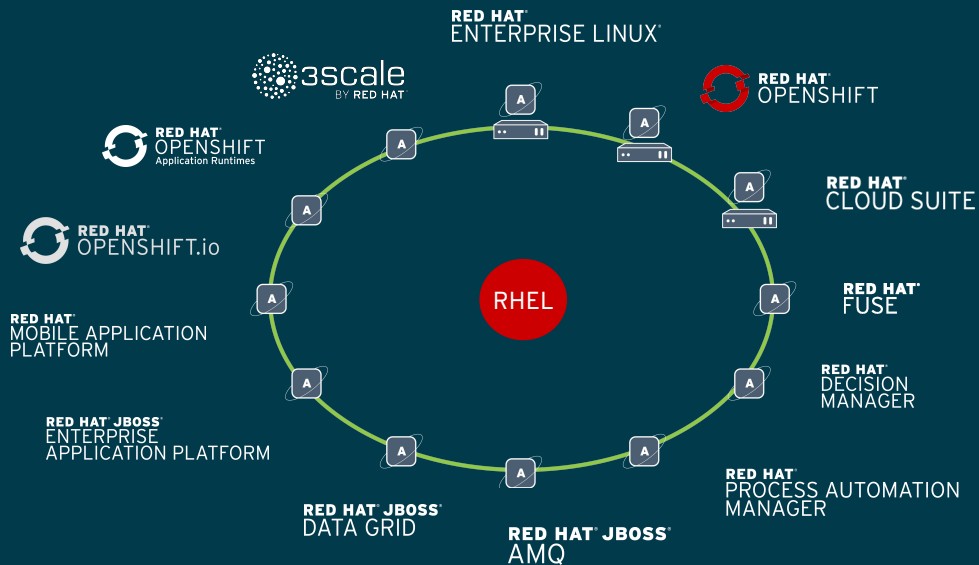


### MANAGEMENT & AUTOMATION

Software designed to simplify  
management & automation of  
hybrid cloud environments

# CLOUD-NATIVE APPLICATION PLATFORM

## ENTERPRISE CONTAINERS WITH APPLICATION SERVICES



- Enterprise Kubernetes container platform built on Red Hat Enterprise Linux
- OpenShift delivered across physical, virtual, private and public cloud
- Complete application services portfolio integrated with OpenShift
- Integration and API Management to help hybrid cloud deployments
- Application modernization for any app with JBoss and OpenShift

# CLOUD-NATIVE APPLICATION PLATFORMS

SUMMIT NEWS & DEMOS



## CLOUD-NATIVE APP PLATFORMS

Software to rapidly & efficiently develop & deploy apps across hybrid cloud.

### DEVELOPER PROGRAM MOMENTUM

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**NEW** - OPENSIFT.IO NOW IN OPEN ACCESS

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**NEW** - ECLIPSE CHE AVAILABILITY ON-PREMISE COMING SOON

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**NEW** - OPENSIFT CLOUD FUNCTIONS - INDUSTRY'S FIRST HYBRID ENTERPRISE SERVERLESS OFFERING

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**NEW** - iPaaS AS PART OF RED HAT FUSE 7 AND PROCESS AUTOMATION MANAGER 7 COMING SOON





RED HAT®  
**DEVELOPER  
PROGRAM**

**1 MILLION (AND GROWING)  
DEVELOPERS STRONG**

# CLOUD-NATIVE APPLICATION PLATFORMS

## CUSTOMER SUCCESS STORY



**Lufthansa Technik**

*Used Red Hat solutions to create AVIATAR, an open platform helping aviation industry customers work together and provide digital offerings that can improve the overall customer experience.*

“Our Red Hat stack has helped us become faster and cloud independent. With Red Hat OpenShift Container Platform, for example, we can start implementing a new application immediately, without waiting for any infrastructure, allowing us to produce results in just a few days and have a minimum viable product after just several weeks.”

- Thorsten Pohl, project manager, information systems, Lufthansa Technik AG

Red Hat Enterprise Linux • Red Hat OpenShift Container Platform • Red Hat JBoss EAP • Red Hat JBoss Fuse • Red Hat Data Grid • Red Hat Gluster Storage • Red Hat Ansible Tower • Red Hat 3scale API Management

# CLOUD-NATIVE APPLICATION PLATFORMS

## CUSTOMER SUCCESS STORY

# BBVA

Having implemented Red Hat solutions successfully on previous projects, BBVA chose to make Red Hat technology a key piece of its new cloud platform. BBVA's goals were to provide a single, global cloud platform that is fully automated, self-service, and data-centric, combining real-time and batch data.

With its Red Hat-based cloud platform, BBVA first aimed to migrate its Java™-based services application. The platform was built to support existing workloads of critical processes like new credit card contracts, claims, loans, and mortgages.

Red Hat OpenStack Platform • Red Hat OpenShift Container Platform • Red Hat BPM Suite

# MANAGEMENT & AUTOMATION

## OPEN HYBRID CLOUD



### HYBRID CLOUD INFRASTRUCTURE

Infrastructure software  
across the 4 footprints, with  
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### CLOUD-NATIVE APP PLATFORMS

Software designed to rapidly  
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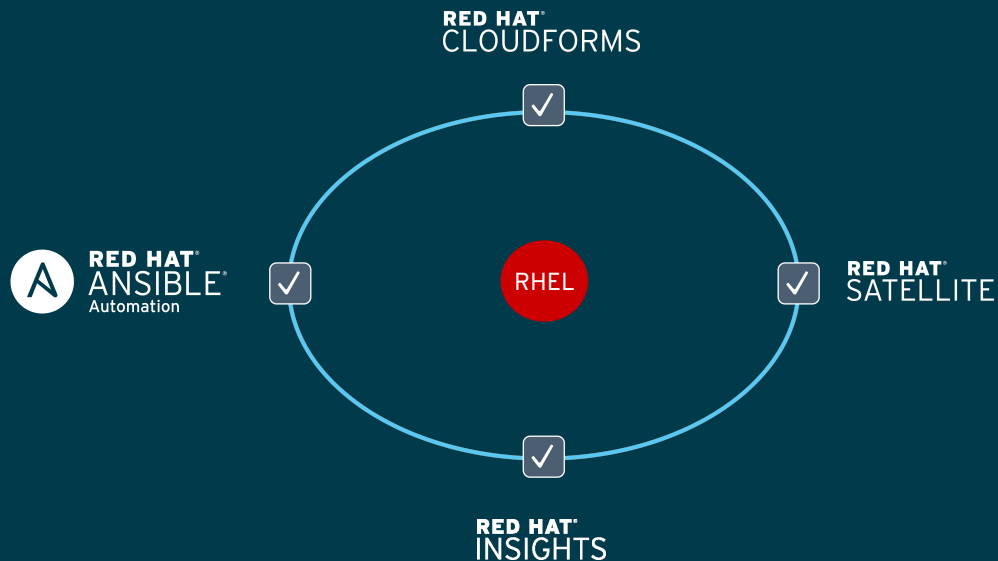


### MANAGEMENT & AUTOMATION

Software designed to simplify  
how hybrid cloud  
environments are managed &  
automated

# MANAGEMENT & AUTOMATION

REDUCING COMPLEXITY OF THE HYBRID CLOUD



1. Management portfolio to ease deployment and ongoing management of Red Hat portfolio
2. Hybrid cloud automation for consistency across all environments
3. Security and policy controls
4. Predictive analytics to keep you up to date and secure
5. Fast I.T. Automation across infrastructure and applications



# MANAGEMENT & AUTOMATION

SUMMIT NEWS & DEMOS



## MANAGEMENT & AUTOMATION

Software to simplify  
management & automation of  
hybrid cloud environments

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***NEW*** - CoreOS MANAGEMENT INTEGRATION WITH OPENSIFT

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***DEMO*** - BRINGING A.I. CAPABILITIES TO HYBRID MANAGEMENT

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***DELIVERY*** - ANSIBLE AUTOMATION INTEGRATED THROUGHOUT  
PORTFOLIO

# MANAGEMENT & AUTOMATION

## A.I.-ENABLED OPERATIONS ON HYBRID CLOUD



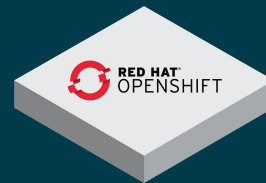
RED HAT  
INSIGHTS



Microsoft Azure



aws



- Consistency in the application: demonstrated through on-premise OpenShift/OpenStack to multiple public clouds
- Reducing risk of hybrid deployments through AI-based operational support from Insights
- Microsoft Azure managed offering of OpenShift Dedicated that is consistent with your on-premise deployment, reducing risk

# MANAGEMENT & AUTOMATION

## CUSTOMER SUCCESS STORY



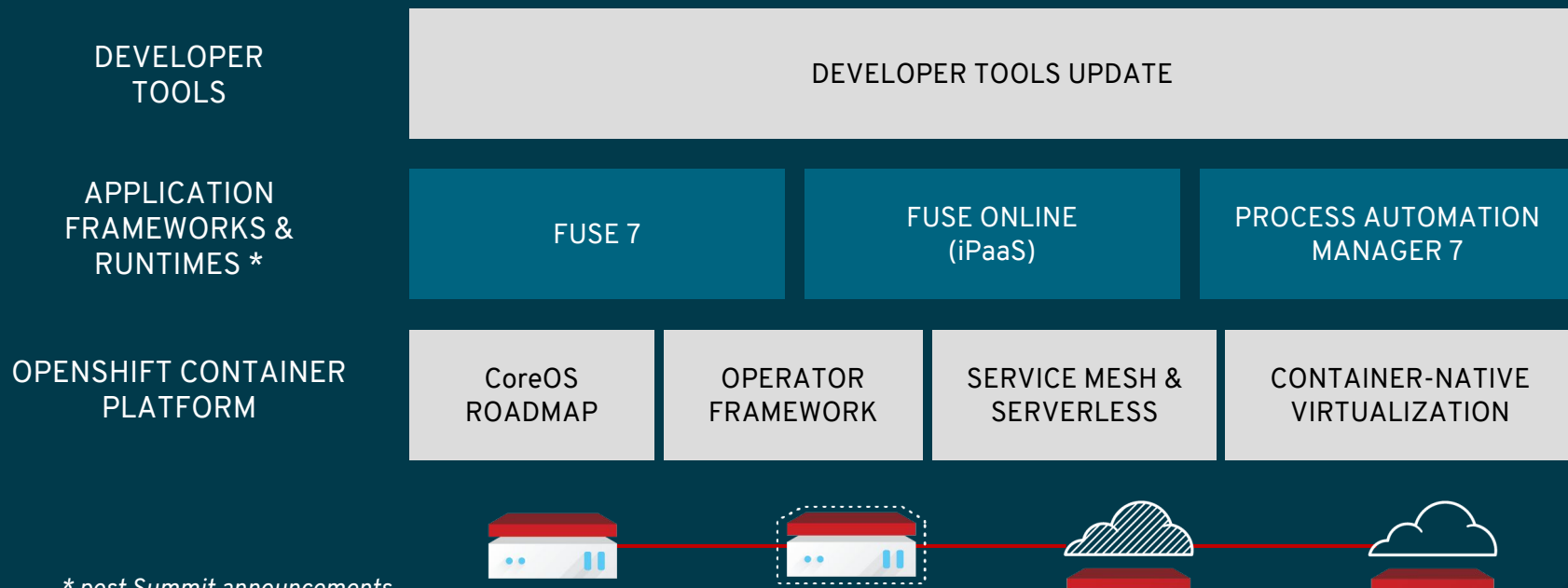
*The British Army's Information Application Services (IAS) branch delivers software applications, hosting, and web services to families, veterans, and personnel deployed around the world. To overcome issues with unplanned downtime and support, IAS used Red Hat solutions to migrate its private cloud environment and deploy simplified, automated management tools. Now IAS can make changes faster and more efficiently, cutting change delivery time by 75%.*

*“Red Hat and Ansible have met or exceeded all of the measurable outcomes we set for this project. Our adoption of these solutions is increasing throughout our organization.”*

*- Lt. Col. Dorian Seabrook, head of operations, Information Application Services (IAS) branch, British Army*

Red Hat Ansible Tower • Red Hat Enterprise Linux • Red Hat Enterprise Linux Resilient Storage Add-On

# RED HAT SUMMIT ANNOUNCEMENTS IN CONTEXT OF OUR CLOUD-NATIVE PORTFOLIO



# EXPANDING OPEN HYBRID CLOUD ECOSYSTEM

CONTINUING TO HELP OUR CUSTOMERS SUCCEED IN HYBRID CLOUD



## EXPANDED CONTAINERS CERTIFICATION

More than 214 certified images



## KUBERNETES OPERATOR SDK

Easier for partners to use OpenShift to their advantage



## NEW APPLICATION SERVICES ON OPENSHIFT

Middleware services from Red Hat and partners



## OPENSHIFT MANAGED SERVICES

New ways to use our enterprise container platform



# DEEPENING THE OPENSIFT ECOSYSTEM

accenture

AtoS

CISCO<sup>TM</sup>

DXC.technology

HCL

Hewlett Packard  
Enterprise

Lenovo<sup>TM</sup>

T-Systems

wipro

# THE INDUSTRY'S FIRST JOINTLY MANAGED OPENSIFT OFFERING IN THE PUBLIC CLOUD

AN UNPARALLELED HYBRID CLOUD OFFERING FROM THE LEADING KUBERNETES AND LINUX  
PROVIDER + LEADING CLOUD INFRASTRUCTURE PROVIDER



- INTRODUCING **OpenShift on Microsoft Azure**: the first jointly operated and managed OpenShift service
- OpenShift support on Microsoft Azure Stack
- OpenShift support for both Windows Container and RHEL Containers
  - Heterogeneous containers, managed uniformly in a single container platform
- Enhanced Developer and Application Support for OpenShift
  - Microsoft SQL Server as a certified RHEL container for deployment in OpenShift
  - RHEL available within Visual Studio subscriptions for no additional fee

# ENABLING MILLIONS OF APPLICATIONS WITH THE POWER OF OPENSIFT + IBM

IBM & RED HAT PROVIDE WEBSHERE & CLOUD PRIVATE INTEGRATION WITH OPENSIFT



- **IBM middleware (WebSphere, DB2, MQ) packaged as Certified RHEL Containers**
  - Millions of IBM based applications enabled for modernization with OpenShift
  - Enabling IBM's software to be integrated with cloud-native OpenShift applications
- **IBM Cloud Private and Red Hat OpenShift Container Platform integration**
  - Any IBM Cloud Private service natively available to OpenShift applications
  - IBM Services deployed in OpenShift automatically monitored, logged, and metered
- **Consistent Hybrid platform of OpenShift and IBM Cloud Private available on-premise and in the IBM Cloud**
- **Aligned consultancy and implementation services from IBM Garage and Red Hat Innovation Labs**

# THANK YOU



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[twitter.com/RedHat](https://twitter.com/RedHat)



[red.ht/red-hat-shares](https://red.ht/red-hat-shares)





# DRIVING GROWTH WITH CUSTOMERS

Eric Shander  
Executive Vice President and CFO  
May 8, 2018





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# Agenda

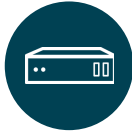
- Evolution of Red Hat and future opportunity
- Hybrid cloud expansion
- Financial model dynamics

# EVOLUTION



# Red Hat's 10-year evolution (FY08-FY18)

## From then ...



Red Hat Linux®



Low-cost focus



Competition



Revenue \$523M

## ... to now



Hybrid cloud solutions



Innovation focus



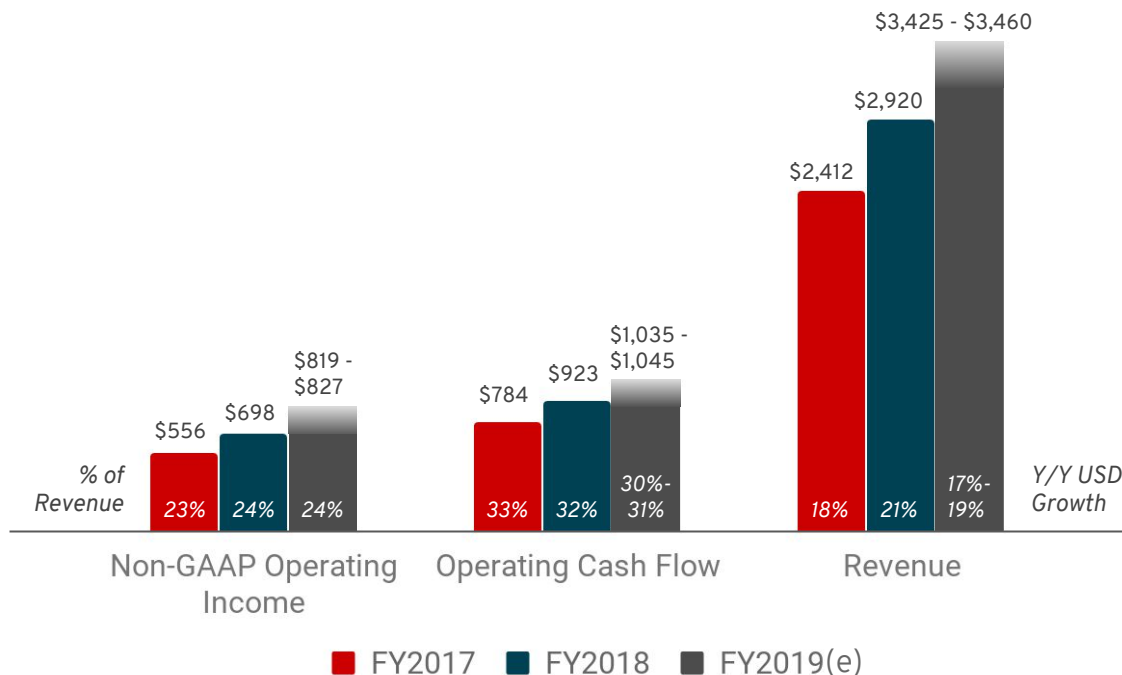
Partnering



Revenue \$3B annual run rate

# Growth across key metrics

(\$ millions)



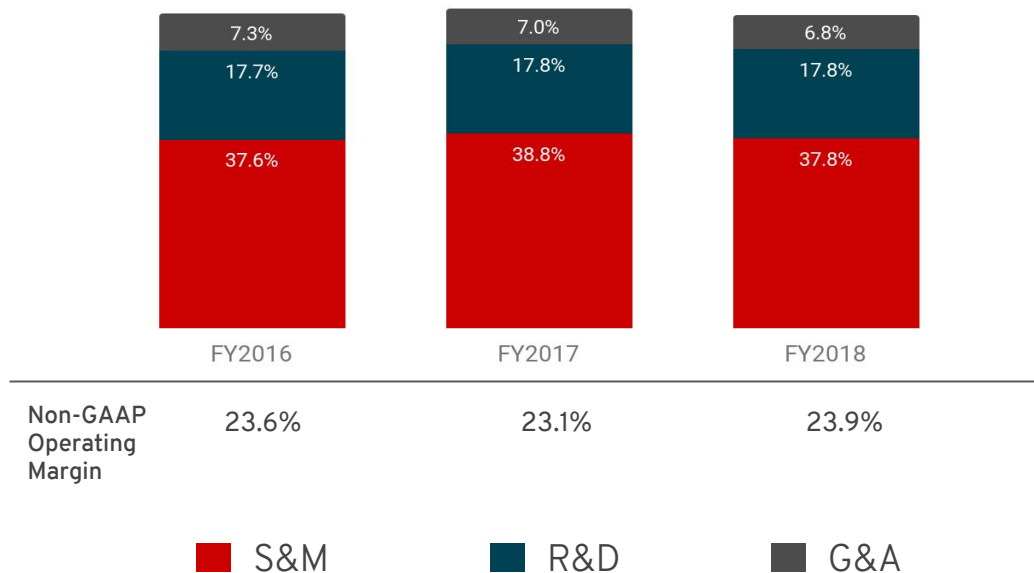
- 64 consecutive quarters of revenue growth
- App Dev & Emerging 24% of subscription revenue in FY18
- Low teens to 20% 3 year CAGR across key metrics

FY19 Outlook assumes currency exchange rates as they were March 26, 2018. All guidance metrics given on March 26, 2018 remain unchanged. Non-GAAP Operating Income excludes non-cash share-based compensation expense, amortization of intangible assets, and transaction costs related to business combinations of \$224M and \$226M from GAAP operating income of \$332M and \$472M in FY17 and FY18. FY19 Non-GAAP Operating Income guidance excludes estimated non-cash share-based compensation expense and estimated amortization of intangible assets of approximately \$250 million. Please refer to Appendix or earnings press release issued on March 26, 2018 at <http://investors.redhat.com> for a GAAP to Non-GAAP reconciliation. CAGR = compound annual growth rate.





# Balancing investments for growth



- Continued efficiencies within our partner model and global systems integrators (GSIs)
- Investments across our Emerging technologies portfolio and mid market
- Continue to scale in G&A

# Reaffirming Q1FY19 guidance

	Q1FY19
REVENUE	\$800M-\$810M
Y/Y GROWTH	18-20% USD
NON-GAAP OPERATING MARGIN	~20.5%
NON-GAAP EPS	\$0.68

- **Revenue** assumes ~4% FX tailwind for Q1FY19
- **Operating margin** includes expenses for Red Hat Summit and regional sales kickoff events
- **Non-GAAP EPS** assumes ~185M diluted shares

Q1FY19 Outlook assumes currency exchange rates as they were March 26, 2018. All guidance metrics given on March 26, 2018, for Q1 and full year FY19 remain unchanged. Non-GAAP Operating Income excludes estimated non-cash share-based compensation expense and estimated amortization of intangible assets of \$57.5M in Q1FY19. Please refer to appendix or earnings press release issued on March 26, 2018 at <http://investors.redhat.com> for a GAAP to Non-GAAP reconciliation.

First quarter diluted non-GAAP EPS guidance is derived by subtracting the expenses listed in the previous sentence and non-cash interest expense related to the debt discount of approximately \$5 million and an estimated annual effective tax rate of 25% before discrete tax items. Diluted non-GAAP EPS excludes approximately \$1 million of discrete tax benefits related to share-based compensation that are included in first quarter diluted GAAP EPS. Diluted non-GAAP EPS excludes approximately 2 million diluted shares related to the convertible notes, which are expected to be offset by our convertible note hedge transactions.

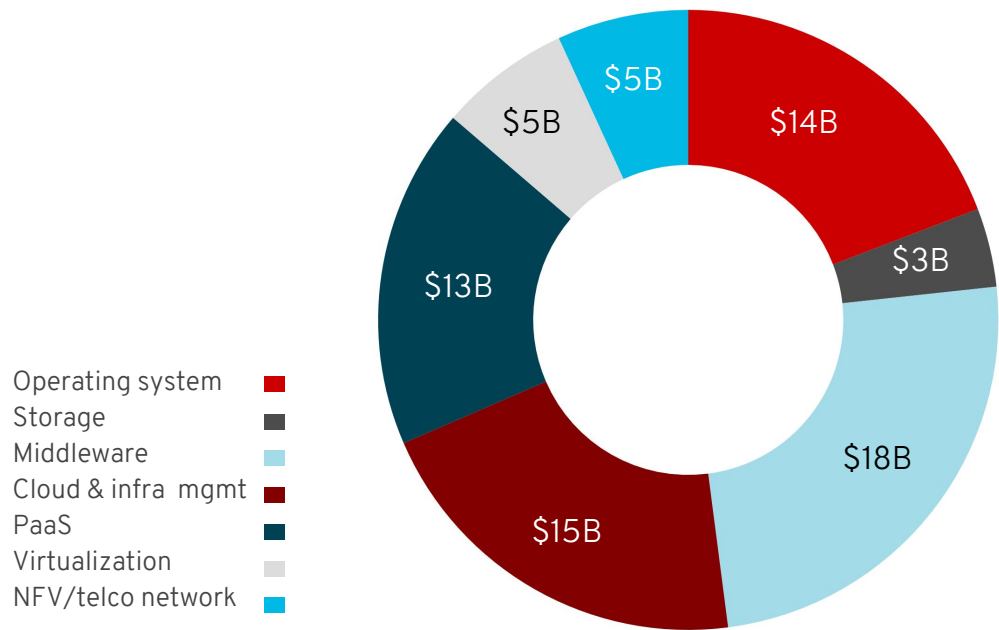


# HYBRID CLOUD EXPANSION



# Future opportunity expanding

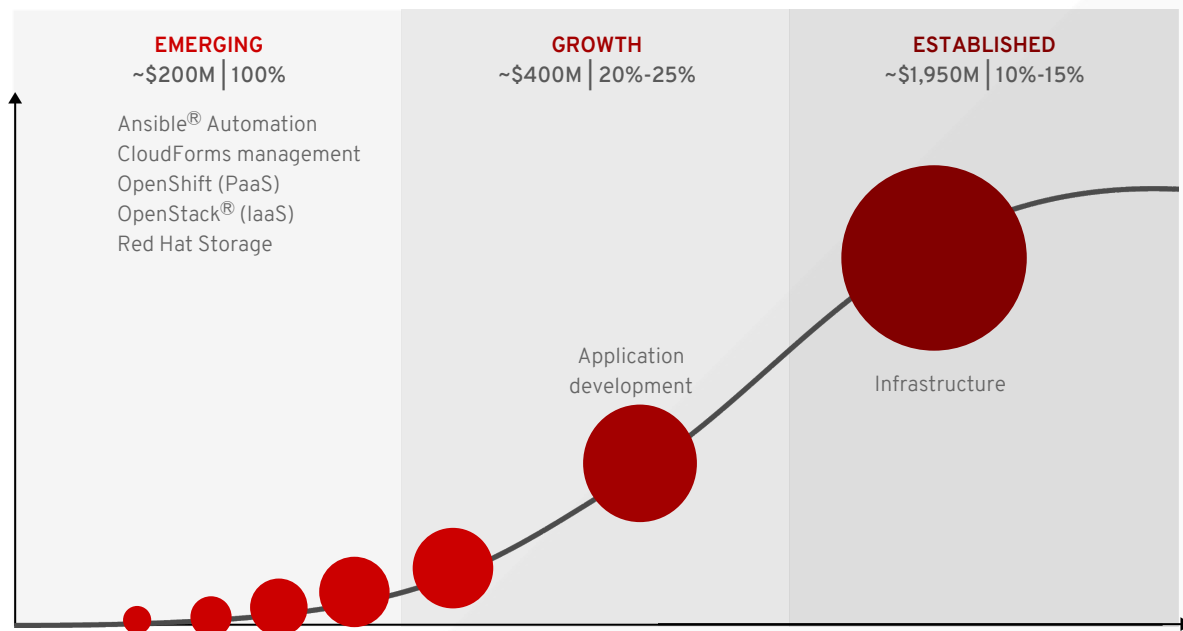
Total addressable market estimated at ~\$73 billion in 2021



- Linux is the fastest-growing OS
- Emerging technologies ~50%
- NFV/telco Network \$5B TAM

# Hybrid cloud portfolio continued growth

FY18 subscription revenue and y/y growth



**Revenue from Cloud-enabled customers** grew at 25% CAGR over 4 years

**Strong cross-selling** with 70% of the top deals having App dev & Emerging Tech

**CCSP** over \$200M in revenue, up +40% y/y

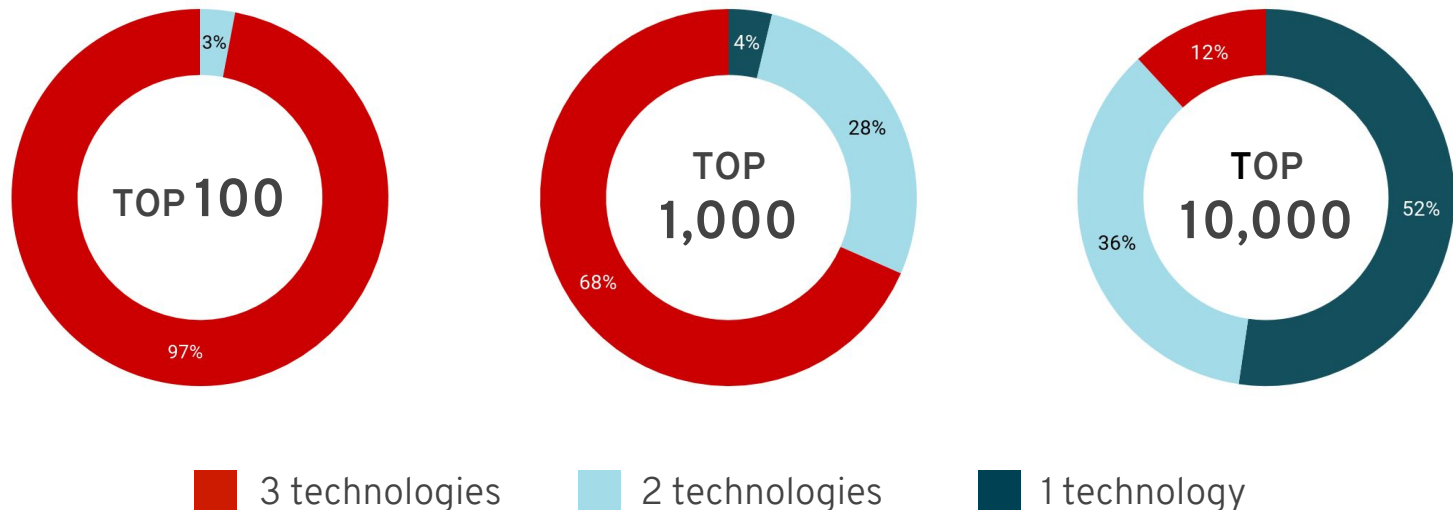
**40% of our top 100** public cloud customers were multi-cloud users

Chart for illustration purposes only. Not to be construed as guidance. Top Deals are deals greater than \$1M.

Cloud-enabling technologies as defined here includes OpenShift Enterprise, OpenStack, RHCI, Ceph Software, CloudForms, Data Grid, Gluster Software, Data Virtualization, and Ansible.

# Cross-selling opportunity across customers

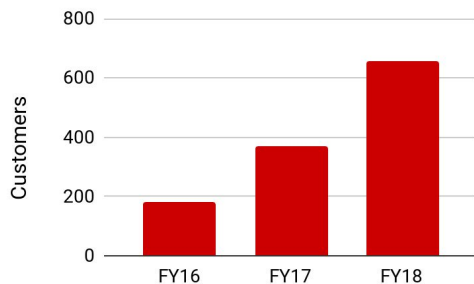
20% y/y growth in number of top 10,000 customers using >1 technology



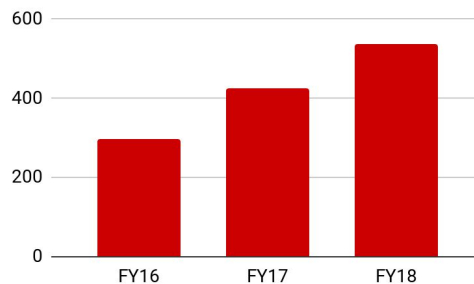
# Customer adoption of top emerging technologies



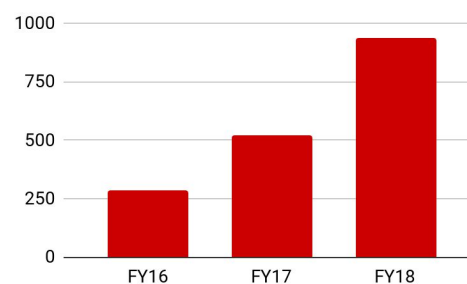
91% CAGR



34% CAGR

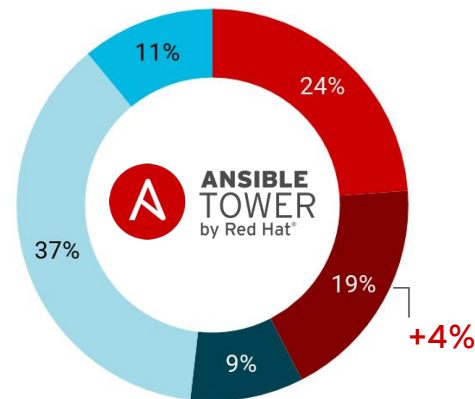
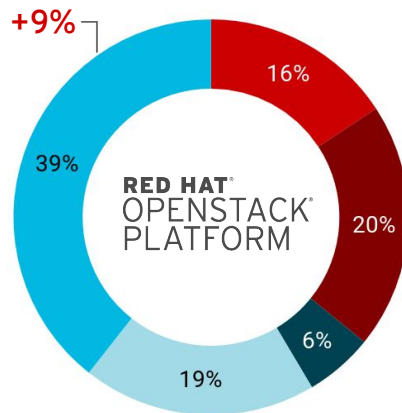
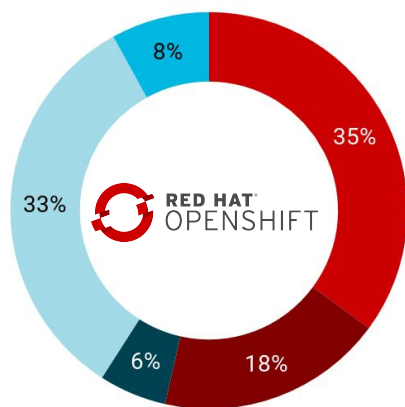


81% CAGR





# Top emerging technology adoption by vertical

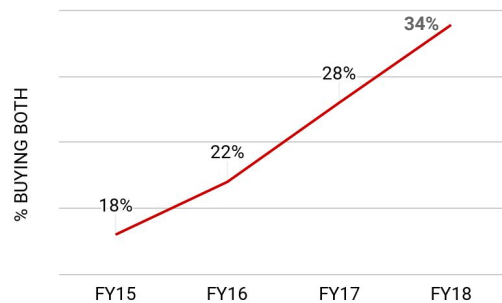


\*Verticals distribution based on FY18 annualized subscription data. +9% and +4% are percentage point increases from prior year.

# Emerging technologies fuel growth

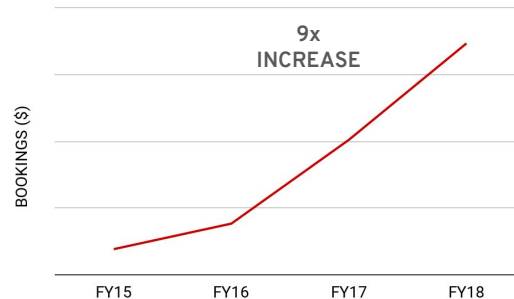
## ATTACH RATE

Customers buying both OpenStack and OpenShift



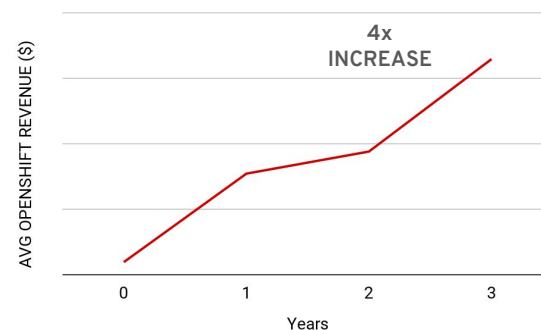
## CHANNEL

Customers buying Openstack and/or OpenShift from partners



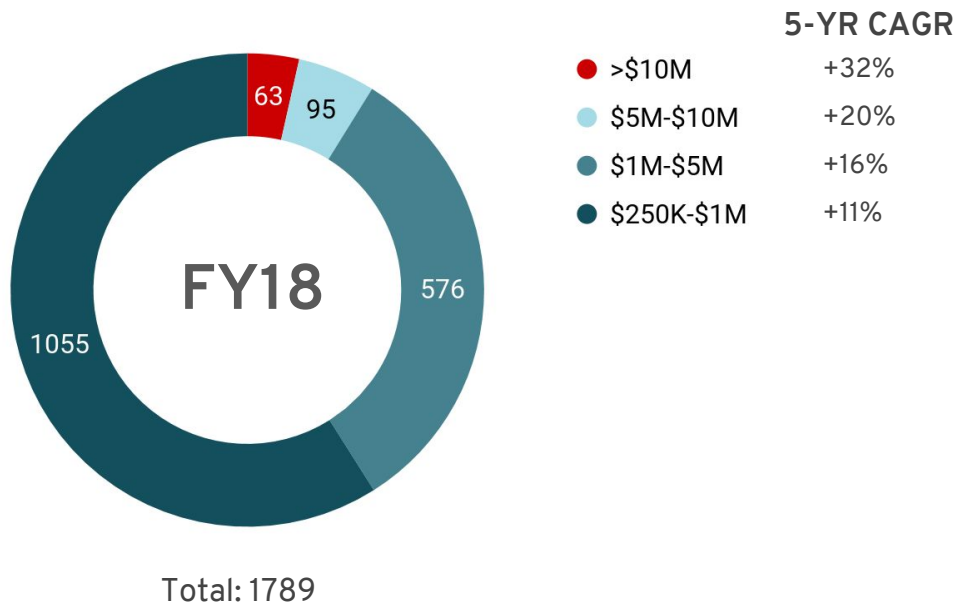
## RAMP

Mature OpenShift customers invest more



# Growing strategic importance with customers

Increasing share across customer base



**Growth** in customers >\$1M more than doubled over the last 5 years and grew 21% in FY18

**Cross-selling** with more than 50% using technologies across multiple categories

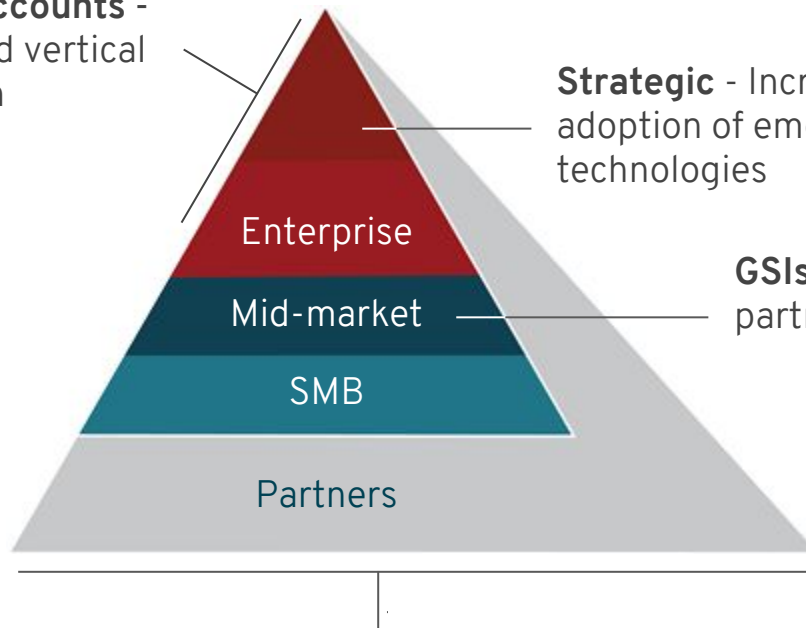
**Large opportunity** to drive growth with customers <\$1M

# Go-to-market ecosystem

Drive additional growth through GSIs, public cloud partners, and targeted programs

**Global accounts** -  
Expanded vertical  
approach

**Strategic** - Increase  
adoption of emerging  
technologies



**GSIs** and tailored  
partner campaigns

**Partners** - Bookings goal of 80% from the channel

# FINANCIAL MODEL

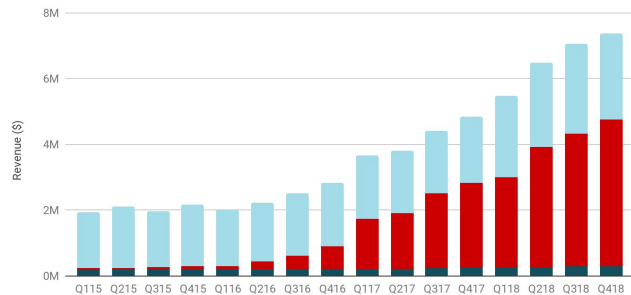


# Financial dynamics

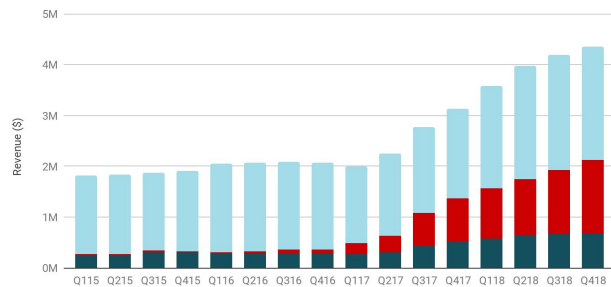
- Customer adoption history
- Solution selling and business linearity
- Balancing investments for growth
- Strong balance sheet and capital allocation strategy

# Customer adoption history

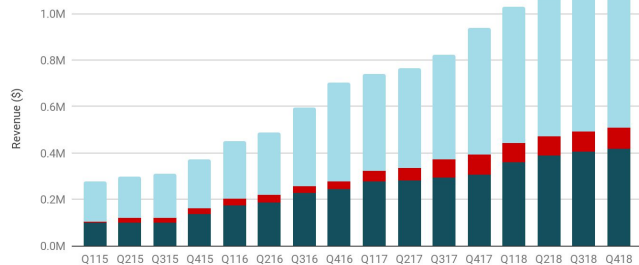
## Telco



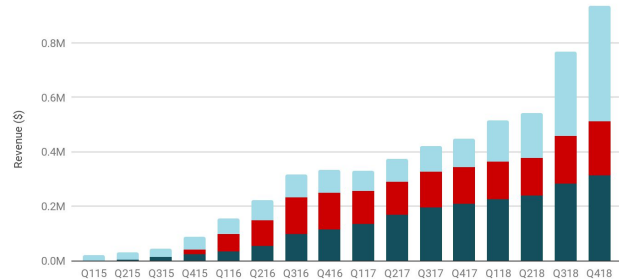
## Healthcare



## Manufacturing

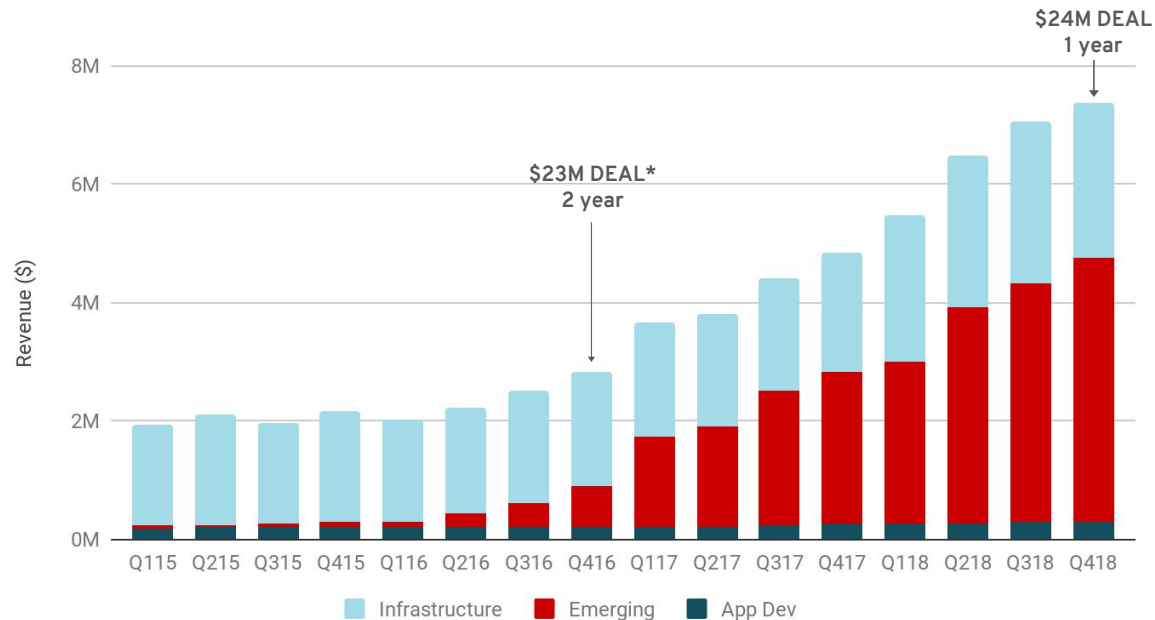


## Financial services





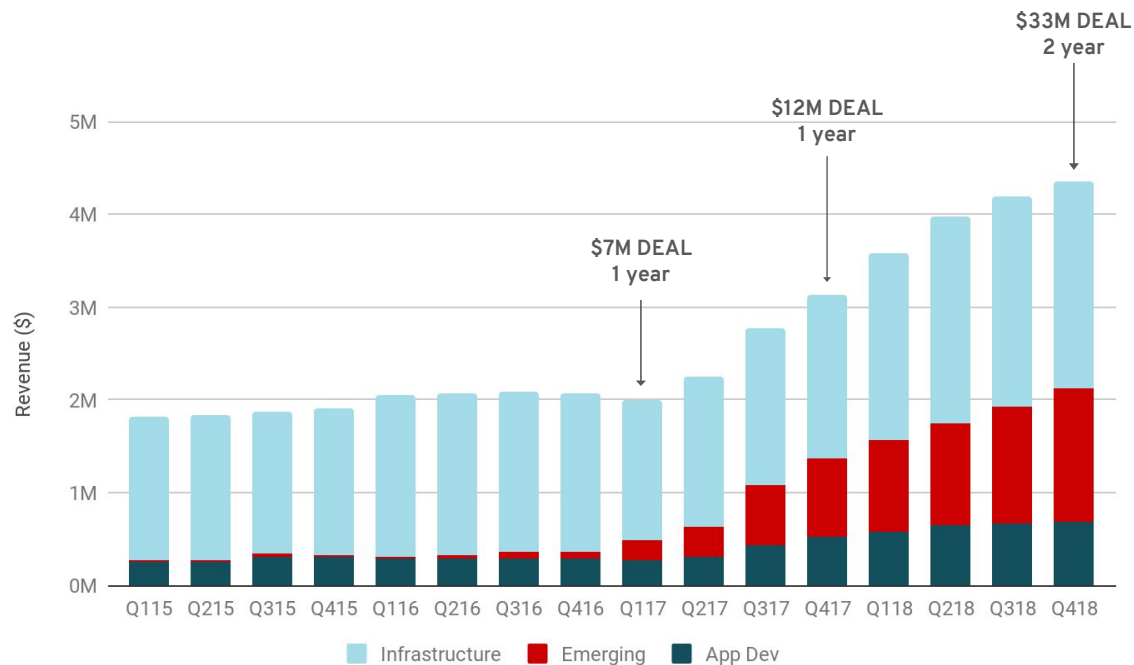
# Case study: Telco



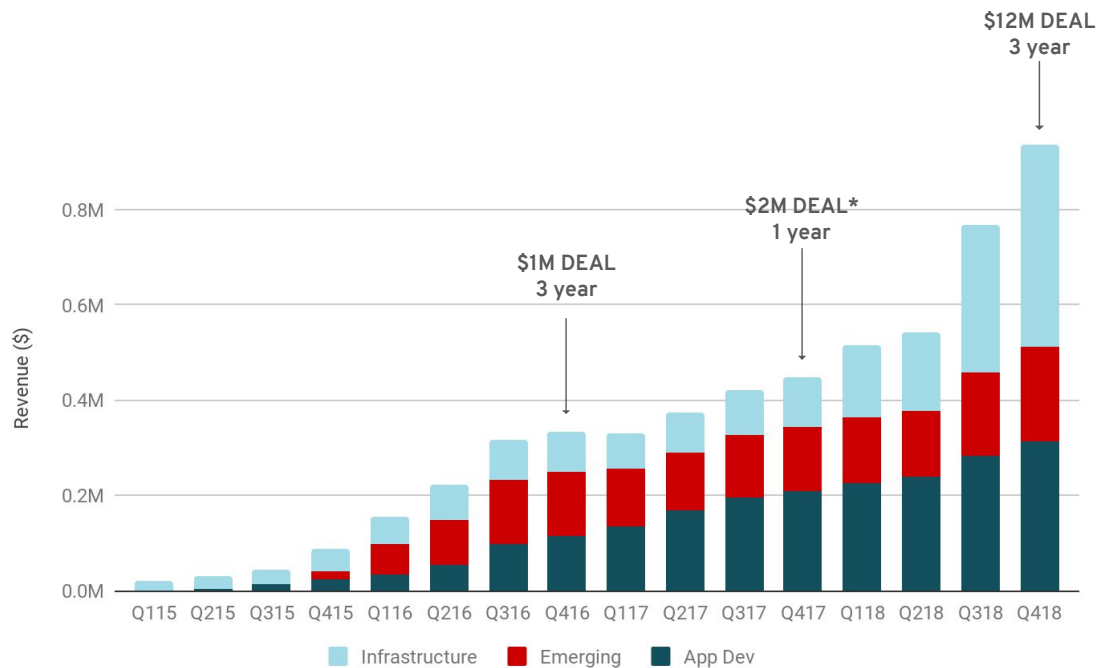
Source: Company subscription and select bookings data.

\*Q416 deal includes \$22M subscriptions and \$1M services

# Case study: Healthcare



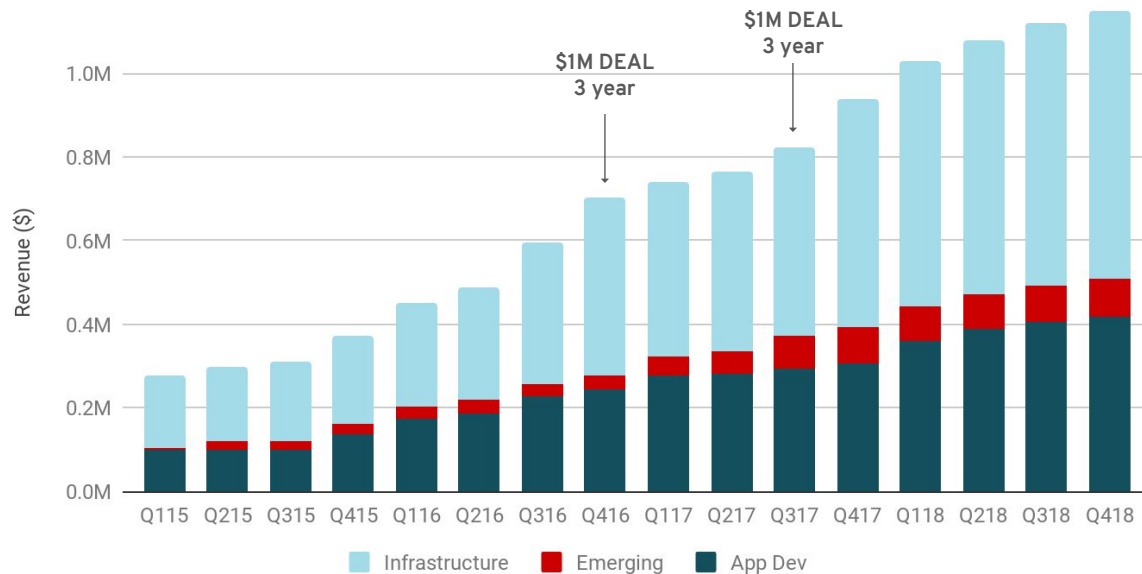
# Case study: Financial services



Source: Company subscription and select bookings data.

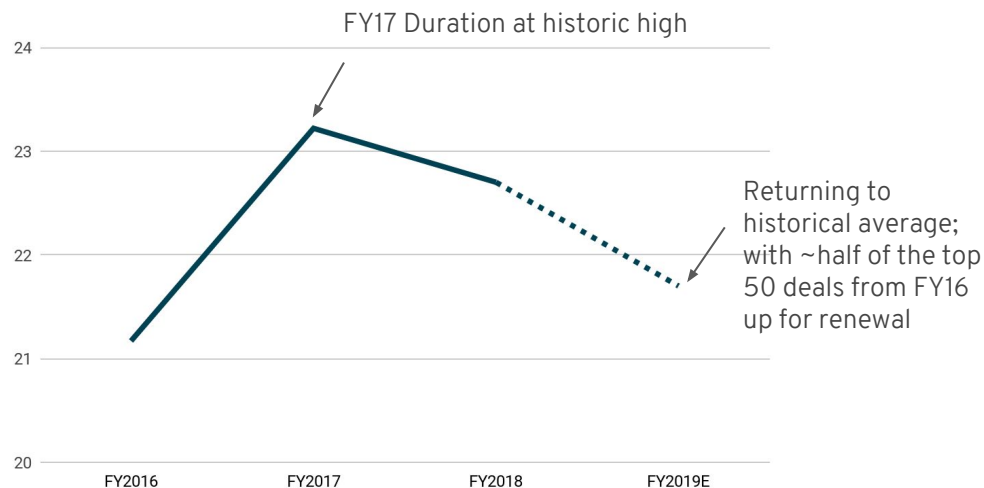
\*Q417 deal includes \$1M subscriptions and \$1M services

# Case study: Manufacturing



# Deal duration metrics

Customer choice and sales strategy drive average deal duration



## ➤ FY17 results

- Focus was long-term deals
- Duration & backlog growth hit new highs

## ➤ FY18 results

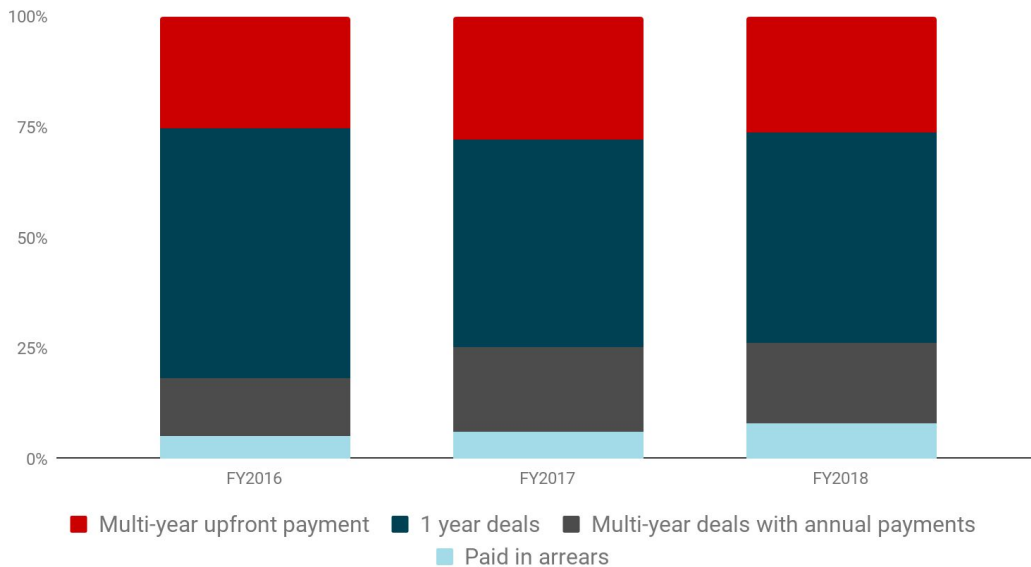
- Focus was Emerging Technologies
- 100% y/y Emerging Technologies revenue growth

## ➤ FY19 focus

- Mid-market customers
- Continued traction on Emerging Technologies
- Smaller base of large renewals due to change in deal duration from FY17

# Billing terms dynamics

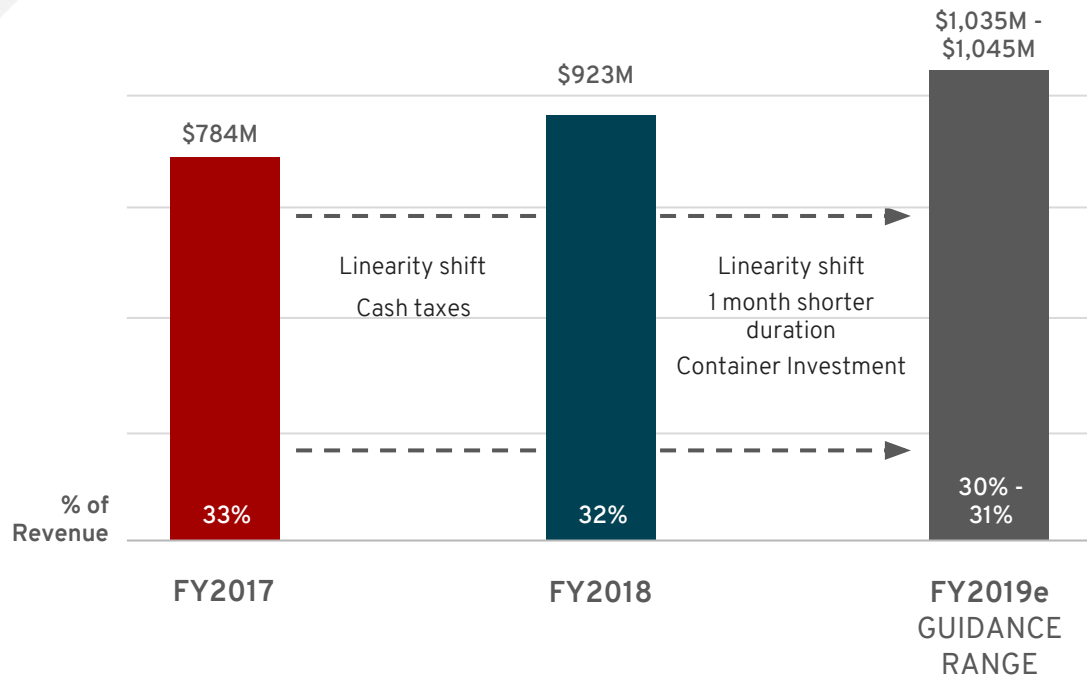
As we offer customers flexibility, contract renewal terms and duration can impact billings



- Paid in arrears continued to grow
- FY19 lower duration expected to impact backlog



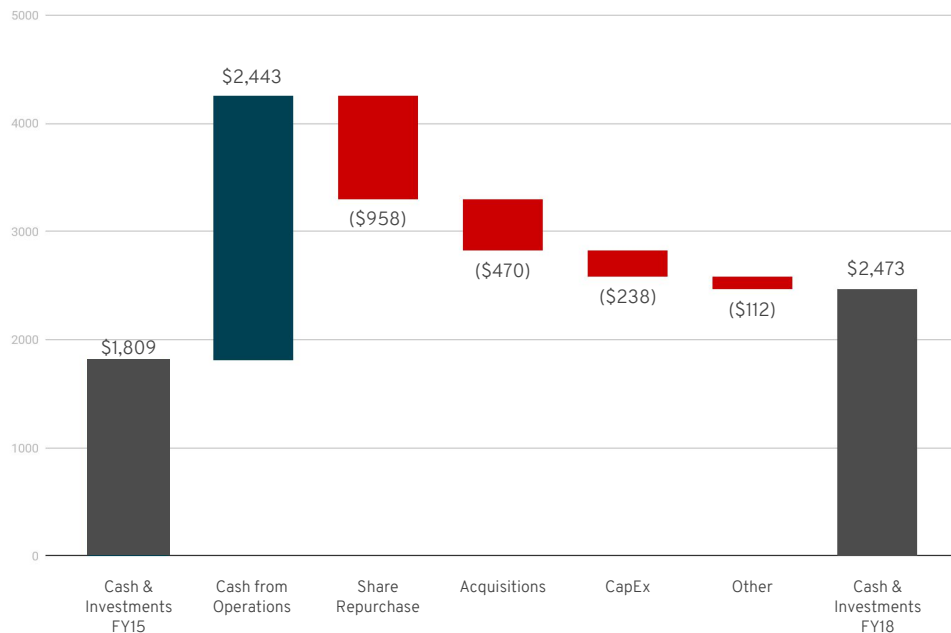
# Cash flow dynamics



- Projected operating cash flow growth up to 13% in FY19
- Linearity impacted by larger, more complex deals
- Shorter contract duration
- CoreOS and focused container investments

# Capital allocation

FY16-FY18 operating cash flow : \$2.4 billion



- **Top priorities remain:**
  - Invest in business
  - Strategic M&A
  - Share repurchase
- **Diluted WASO reduced by 3%**
- **U.S. vs. non-U.S. cash balance**
  - 58%/42% FY18 split
- **Cash balance of \$2.5B with 3-year CAGR of 11%**

# What the future holds

- Leveraging Linux as the foundation for our Emerging Technologies
- Partner ecosystem is a key enabler to driving growth
- Improve non-GAAP margins in FY20 and beyond with balanced approach
- Return value to shareholders through growth and stock repurchase

# THANK YOU



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[red.ht/red-hat-shares](https://red.ht/red-hat-shares)





# Q&A

Jim Whitehurst  
President and CEO

Paul Cormier  
President, Products  
and Technologies

Eric Shander  
Executive vice  
president & CFO

# APPENDIX





CATEGORY	TECHNOLOGIES
Infrastructure	Directory & Certificate RHEL RHEL w/ Smart Virtualization RHEV Satellite/Smart Management
Application Development	Acceleration (EAP, Web Service, EPP, JON, Other) Automation (BPM/BRMS) Integration (A-MQ, SOA, Data Virt/Services, Fuse, Messaging)
Emerging	Ansible CloudForms Mobile OpenShift RHCI RHEL-OpenStack Platform Gluster Ceph

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

	<b>FY16</b> <b>Year End</b> <b>2/29/2016</b>	<b>FY17</b> <b>Year End</b> <b>2/28/2017</b>	<b>FY18</b> <b>Year End</b> <b>2/28/2018</b>
<b>Revenue</b>	\$ 2,052,230	\$ 2,411,803	\$ 2,920,461
<b>GAAP Gross Profit as reported</b>	\$ 1,742,601	\$ 2,057,425	\$ 2,488,664
Add: Non-cash share-based compensation expense	15,898	16,553	16,862
Add: Amortization of intangible assets	11,726	15,562	16,705
<b>Non-GAAP Gross Profit</b>	<b>\$ 1,770,225</b>	<b>\$ 2,089,540</b>	<b>\$ 2,522,231</b>
<b>GAAP Operating Income as reported</b>	<b>\$ 288,048</b>	<b>\$ 332,245</b>	<b>\$ 472,442</b>
Add: Non-cash share-based compensation expense – Cost of Revenue	15,898	16,553	16,862
Add: Non-cash share-based compensation expense – S&M	69,089	93,378	87,158
Add: Non-cash share-based compensation expense – R&D	48,466	52,424	57,008
Add: Non-cash share-based compensation expense – G&A	32,781	30,175	31,221
<b>Total Non-cash share-based compensation expense</b>	<b>166,234</b>	<b>192,530</b>	<b>192,249</b>
Add: Amortization of intangible assets – Cost of Revenue	11,726	15,562	16,705
Add: Amortization of intangible assets – S&M	8,075	7,078	6,195
Add: Amortization of intangible assets – R&D	842	138	138
Add: Amortization of intangible assets – G&A	5,160	7,078	8,407
<b>Total Amortization of intangible assets</b>	<b>25,803</b>	<b>29,856</b>	<b>31,445</b>
Add: Transaction costs related to business combinations	3,884	1,789	2,038
Add: Facility exit costs	—	—	—
<b>Non-GAAP Operating Income</b>	<b>\$ 483,969</b>	<b>\$ 556,420</b>	<b>\$ 698,174</b>
<b>GAAP Operating Margin as reported</b>	<b>14.0 %</b>	<b>13.7 %</b>	<b>16.2 %</b>
<b>Non-GAAP Operating Margin</b>	<b>23.6 %</b>	<b>23.1 %</b>	<b>23.9 %</b>
<b>GAAP Net Income as reported</b>	<b>\$ 199,365</b>	<b>\$ 253,703</b>	<b>\$ 258,803</b>
GAAP provision for income taxes	75,500	66,477	215,898
<b>GAAP Income before provision for income taxes</b>	<b>\$ 274,865</b>	<b>\$ 320,180</b>	<b>\$ 474,701</b>
Add: Non-cash share-based compensation expense	166,234	192,530	192,249
Add: Amortization of intangible assets	25,803	29,856	31,445
Add: Non-cash interest expense related to the debt discount	18,570	19,104	19,654
Add: Transaction costs related to business combinations	3,884	1,789	2,038
Add: Facility exit costs	—	—	—
<b>Non-GAAP adjusted income before provision for taxes</b>	<b>489,356</b>	<b>563,459</b>	<b>720,087</b>
Non-GAAP provision for income taxes (1)	134,431	149,608	180,057
<b>Non-GAAP adjusted net income</b>	<b>\$ 354,925</b>	<b>\$ 413,851</b>	<b>\$ 540,030</b>
<b>GAAP net income per share:</b>			
Basic	\$ 1.09	\$ 1.41	\$ 1.46
Diluted	\$ 1.07	\$ 1.39	\$ 1.40
<b>Non-GAAP adjusted net income per share:</b>			
Basic	\$ 1.94	\$ 2.30	\$ 3.05
Diluted	\$ 1.91	\$ 2.27	\$ 2.98
<b>Weighted average shares outstanding:</b>			
Basic	182,817	179,642	177,150
GAAP Diluted	186,119	182,961	184,602
Dilution offset from convertible note hedge transactions	(282)	(292)	(3,445)
<b>Non-GAAP Diluted</b>	<b>185,837</b>	<b>182,669</b>	<b>181,157</b>

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

**(1)Note FY17 and FY18 included discrete tax benefits, please see below for provision for income tax breakout:**

Non-GAAP adjusted net income before income tax provision	\$ 563,459	\$ 720,087
GAAP effective tax rate, excluding discrete tax items	27.7 %	24.3 %
Non-GAAP provision for income taxes before discrete tax benefit	\$ 156,010	\$ 174,981
Discrete tax benefit	(6,402)	5,076
Provision for income taxes on Non-GAAP adjusted net income	\$ 149,608	\$ 180,057



**Outlook:** Red Hat's outlook assumes current business conditions and current foreign currency exchange rates.

**For the full year FY19:**

- Revenue is expected to be approximately \$3.425 billion to \$3.460 billion in USD.
- GAAP operating margin is expected to be approximately 16.6% and non-GAAP operating margin is expected to be approximately 23.9%.
- Diluted GAAP EPS is expected to be approximately \$2.25 to \$2.28, assuming 187 million diluted shares outstanding. Diluted non-GAAP EPS is expected to be approximately \$3.38 to \$3.41, assuming 185 million diluted shares outstanding. Both GAAP and non-GAAP EPS assume a \$4 million per quarter forecast for other income and an estimated annual effective tax rate of approximately 25% before discrete tax items.
- Operating cash flow is expected to be approximately \$1.035 billion to \$1.045 billion.

**GAAP to non-GAAP reconciliation:**

Full year non-GAAP operating margin guidance is derived by subtracting the estimated full year impact of non-cash share-based compensation expense of approximately \$215 million and amortization of intangible assets of approximately \$38 million. Full year diluted non-GAAP EPS guidance is derived by subtracting the expenses listed in the previous sentence and the full year impact of non-cash interest expense related to the debt discount of approximately \$20 million and an estimated annual effective tax rate of approximately 25% before discrete tax items. Additionally, full year diluted non-GAAP EPS excludes approximately \$30 million of discrete tax benefits related to share-based compensation that are included in full year diluted GAAP EPS. Full year diluted non-GAAP EPS excludes approximately 2 million diluted shares related to the convertible notes, which are expected to be offset by our convertible note hedge transactions.

**Outlook:** Red Hat's outlook assumes current business conditions and current foreign currency exchange rates.

### **For the first quarter FY19:**

- Revenue is expected to be approximately \$800 million to \$810 million.
- GAAP operating margin is expected to be approximately 13.4% and non-GAAP operating margin is expected to be approximately 20.5%.
- Diluted GAAP EPS is expected to be approximately \$0.42, assuming 187 million diluted shares outstanding. Diluted non-GAAP EPS is expected to be approximately \$0.68, assuming 185 million diluted shares outstanding. Both GAAP and non-GAAP EPS assume a \$4 million forecast for other income and an estimated annual effective tax rate of 25% before discrete tax items.

### **GAAP to non-GAAP reconciliation:**

First quarter non-GAAP operating margin guidance is derived by subtracting the estimated impact of non-cash share-based compensation expense of approximately \$48 million and amortization of intangible assets of approximately \$9.5 million. First quarter diluted non-GAAP EPS guidance is derived by subtracting the expenses listed in the previous sentence and non-cash interest expense related to the debt discount of approximately \$5 million and an estimated annual effective tax rate of 25% before discrete tax items. Additionally, first quarter diluted non-GAAP EPS excludes approximately \$1 million of discrete tax benefits related to share-based compensation that are included in first quarter diluted GAAP EPS. First quarter diluted non-GAAP EPS excludes approximately 2 million diluted shares related to the convertible notes, which are expected to be offset by our convertible note hedge transactions.