

Progress Software Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
May 31, 2018

Progress provides non-GAAP supplemental information to its financial results.

We use this non-GAAP information to evaluate our period-over-period operating performance because our management believes the information helps illustrate underlying trends in our business and provides us with a more comparable measure of our continuing business, as well as a greater understanding of the results from the primary operations of our business, by excluding the effects of certain items that do not reflect the ordinary earnings of our operations. Management also uses this non-GAAP financial information to establish budgets and operational goals, which are communicated internally and externally, evaluate performance, and allocate resources. In addition, compensation of our executives and non-executive employees is based in part on the performance of our business evaluated using this same non-GAAP information.

However, this non-GAAP information is not in accordance with, or an alternative to, generally accepted accounting principles in the United States (GAAP) and should be considered in conjunction with our GAAP results as the items excluded from the non-GAAP information often have a material impact on Progress' financial results. A reconciliation of non-GAAP adjustments to Progress' GAAP financial results is included in the tables below and is available on the Progress website at www.progress.com within the investor relations section.

As described in more detail below, non-GAAP revenue, non-GAAP costs of sales and operating expenses, non-GAAP income from operations and operating margin, non-GAAP net income, and non-GAAP diluted earnings per share exclude the effect of purchase accounting on the fair value of acquired deferred revenue, amortization of acquired intangible assets, stock-based compensation expense, fees related to shareholder activist, restructuring charges, acquisition-related expenses, certain identified non-operating gains and losses, and the related tax effects of the preceding items. We also provide guidance on adjusted free cash flow, which is equal to cash flows from operating activities less purchases of property and equipment, plus restructuring payments.

In the noted fiscal periods, we adjusted for the following items from our GAAP financial results to arrive at our non-GAAP financial measures:

- *Acquisition-related revenue* - In all periods presented, we include acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. The acquisition-related revenue relates to Telerik, which we acquired on December 2, 2014, and Kinvey, which we acquired on June 1, 2017. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. We believe these adjustments are useful to management and investors as a measure of the ongoing performance of the business because, although we cannot be certain that customers will renew their contracts, we have historically experienced high renewal rates on maintenance and support agreements and other customer contracts. Additionally, although acquisition-related revenue adjustments are non-recurring with respect to past acquisitions, we expect to incur these adjustments in connection with any future acquisitions.
- *Amortization of acquired intangibles* - In all periods presented, we exclude amortization of acquired intangibles because those expenses are unrelated to our core operating performance and the intangible assets acquired vary significantly based on the timing and magnitude of our acquisition transactions and the maturities of the businesses acquired.
- *Stock-based compensation* - In all periods presented, we exclude stock-based compensation to be consistent with the way management and the financial community evaluates our performance and the methods used by analysts to

calculate consensus estimates. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include these charges in operating plans. Stock-based compensation will continue in future periods.

- *Fees related to shareholder activist* - In September 2017, Praesidium Investment Management publicly announced in a Schedule 13D filed with the Securities and Exchange Commission its disagreement with our strategy and stated that it was seeking changes in the composition of our Board of Directors. We incurred professional and other fees relating to Praesidium's actions. We exclude these fees because they distort trends and are not part of our core operating results. We do not expect to incur additional professional and other fees related to this matter.
- *Restructuring expenses* - In all periods presented, we exclude restructuring expenses incurred because those expenses distort trends and are not part of our core operating results.
- *Acquisition-related and transition expenses* - In all periods presented, we exclude acquisition-related expenses because those expenses distort trends and are not part of our core operating results. In recent years, we have completed a number of acquisitions, which result in our incurring operating expenses which would not otherwise have been incurred. By excluding certain transition, integration and other acquisition-related expense items in connection with acquisitions, this provides more meaningful comparisons of the financial results to our historical operations and forward-looking guidance and the financial results of less acquisitive peer companies. We consider these types of costs and adjustments, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, we do not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition-related costs, may not be indicative of the size, complexity and/or volume of future acquisitions.
- *Income tax adjustment* - In all periods presented, we adjust our income tax provision by excluding the tax impact of the non-GAAP adjustments discussed above.

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES

(Unaudited)

	Three Months Ended		% Change Non-GAAP
	May 31, 2018	May 31, 2017	
<i>(In thousands, except per share data)</i>			
Adjusted revenue:			
GAAP revenue	\$ 96,102	\$ 93,213	
Acquisition-related revenue (1)	110	214	
Non-GAAP revenue	<u>\$ 96,212</u>	<u>\$ 93,427</u>	3 %
Adjusted gross margin:			
GAAP gross margin	\$ 79,459	\$ 75,846	83 %
Amortization of acquired intangibles	5,899	4,683	6 %
Stock-based compensation	269	294	— %
Acquisition-related revenue (1)	110	214	— %
Non-GAAP gross margin	<u>\$ 85,737</u>	<u>\$ 81,037</u>	6 %
Adjusted operating expenses:			
GAAP operating expenses	\$ 57,671	\$ 55,562	60 %
Amortization of acquired intangibles	(3,318)	(3,223)	(3)%
Fees related to shareholder activist	(214)	—	— %
Restructuring expenses and other	(426)	(498)	(1)%
Acquisition-related expenses	(43)	(44)	— %
Stock-based compensation	(5,311)	(3,339)	(6)%
Non-GAAP operating expenses	<u>\$ 48,359</u>	<u>\$ 48,458</u>	— %
Adjusted income from operations:			
GAAP income from operations	\$ 21,788	\$ 20,284	23 %
Amortization of acquired intangibles	9,217	7,906	10 %
Fees related to shareholder activist	214	—	— %
Restructuring expenses and other	426	498	1 %
Stock-based compensation	5,580	3,633	6 %
Acquisition-related	153	258	— %
Non-GAAP income from operations	<u>\$ 37,378</u>	<u>\$ 32,579</u>	35 %
Adjusted diluted earnings per share:			
GAAP diluted earnings per share	\$ 0.33	\$ 0.21	
Amortization of acquired intangibles	0.20	0.16	
Fees related to shareholder activist	—	—	
Restructuring expenses and other	0.01	0.01	
Stock-based compensation	0.13	0.07	
Acquisition-related	—	0.01	
Provision for income taxes	(0.07)	(0.04)	
Non-GAAP diluted earnings per share	<u>\$ 0.60</u>	<u>\$ 0.42</u>	43 %
Non-GAAP weighted avg shares outstanding - diluted	46,087	48,490	(5)%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvev and Telerik, respectively.

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES

(Unaudited)

	Six Months Ended		% Change Non-GAAP
	May 31, 2018	May 31, 2017	
<i>(In thousands, except per share data)</i>			
Adjusted revenue:			
GAAP revenue	\$ 190,149	\$ 184,183	
Acquisition-related revenue (1)	257	446	
Non-GAAP revenue	<u>\$ 190,406</u>	<u>\$ 184,629</u>	3 %
Adjusted gross margin:			
GAAP gross margin	\$ 156,603	\$ 151,058	82 %
Amortization of acquired intangibles	11,717	8,361	5 %
Stock-based compensation	515	551	— %
Acquisition-related revenue (1)	257	446	— %
Non-GAAP gross margin	<u>\$ 169,092</u>	<u>\$ 160,416</u>	5 %
Adjusted operating expenses:			
GAAP operating expenses	\$ 117,047	\$ 129,552	70 %
Amortization of acquired intangibles	(6,637)	(6,402)	(3)%
Fees related to shareholder activist	(1,472)	—	— %
Restructuring expenses and other	(2,247)	(17,637)	(10)%
Acquisition-related expenses	(86)	(93)	— %
Stock-based compensation	(9,635)	(4,712)	(2)%
Non-GAAP operating expenses	<u>\$ 96,970</u>	<u>\$ 100,708</u>	(4)%
Adjusted income from operations:			
GAAP income from operations	\$ 39,556	\$ 21,506	12 %
Amortization of acquired intangibles	18,354	14,763	8 %
Fees related to shareholder activist	1,472	—	— %
Restructuring expenses and other	2,247	17,637	9 %
Stock-based compensation	10,150	5,263	3 %
Acquisition-related	343	539	— %
Non-GAAP income from operations	<u>\$ 72,122</u>	<u>\$ 59,708</u>	21 %
Adjusted diluted earnings per share:			
GAAP diluted earnings per share	\$ 0.61	\$ 0.20	
Amortization of acquired intangibles	0.39	0.30	
Fees related to shareholder activist	0.03	—	
Restructuring expenses and other	0.05	0.36	
Stock-based compensation	0.21	0.11	
Acquisition-related	0.01	0.01	
Provision for income taxes	(0.16)	(0.21)	
Non-GAAP diluted earnings per share	<u>\$ 1.14</u>	<u>\$ 0.77</u>	48 %
Non-GAAP weighted avg shares outstanding - diluted	46,781	48,762	(4)%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvev and Telerik, respectively.

OTHER NON-GAAP FINANCIAL MEASURES

(Unaudited)

Revenue by Type

<i>(In thousands)</i>	Q2 2018	Non-GAAP Adjustment (1)	Non-GAAP Revenue
Software licenses	\$ 26,439	\$ 18	\$ 26,457
Maintenance	62,323	43	62,366
Services	7,340	49	7,389
Total revenue	<u>\$ 96,102</u>	<u>\$ 110</u>	<u>\$ 96,212</u>

Revenue by Region

<i>(In thousands)</i>	Q2 2018	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 50,823	\$ 110	\$ 50,933
EMEA	35,333	—	35,333
Latin America	4,256	—	4,256
Asia Pacific	5,690	—	5,690
Total revenue	<u>\$ 96,102</u>	<u>\$ 110</u>	<u>\$ 96,212</u>

Revenue by Segment

<i>(In thousands)</i>	Q2 2018	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 69,967	\$ 49	\$ 70,016
Data Connectivity and Integration	5,788	—	5,788
Application Development and Deployment	20,347	61	20,408
Total revenue	<u>\$ 96,102</u>	<u>\$ 110</u>	<u>\$ 96,212</u>

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

Adjusted Free Cash Flow

<i>(In thousands)</i>	Q2 2018	Q2 2017	% Change
Cash flows from operations	\$ 42,129	\$ 22,429	88 %
Purchases of property and equipment	(1,810)	(140)	1,193 %
Free cash flow	<u>40,319</u>	<u>22,289</u>	<u>81 %</u>
Add back: restructuring payments	2,442	5,566	(56)%
Adjusted free cash flow	<u>\$ 42,761</u>	<u>\$ 27,855</u>	<u>54 %</u>

OTHER NON-GAAP FINANCIAL MEASURES

(Unaudited)

Revenue by Type

<i>(In thousands)</i>	YTD 2018	Non-GAAP Adjustment (1)	Non-GAAP Revenue
Software licenses	\$ 51,782	\$ 37	\$ 51,819
Maintenance	123,802	89	123,891
Services	14,565	131	14,696
Total revenue	<u>\$ 190,149</u>	<u>\$ 257</u>	<u>\$ 190,406</u>

Revenue by Region

<i>(In thousands)</i>	YTD 2018	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 102,464	\$ 257	\$ 102,721
EMEA	68,347	—	68,347
Latin America	8,717	—	8,717
Asia Pacific	10,621	—	10,621
Total revenue	<u>\$ 190,149</u>	<u>\$ 257</u>	<u>\$ 190,406</u>

Revenue by Segment

<i>(In thousands)</i>	YTD 2018	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 136,375	\$ 131	\$ 136,506
Data Connectivity and Integration	13,392	—	13,392
Application Development and Deployment	40,382	126	40,508
Total revenue	<u>\$ 190,149</u>	<u>\$ 257</u>	<u>\$ 190,406</u>

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

Adjusted Free Cash Flow

<i>(In thousands)</i>	YTD 2018	YTD Q2 2017	% Change
Cash flows from operations	\$ 73,724	\$ 59,729	23 %
Purchases of property and equipment	(3,196)	(523)	511 %
Free cash flow	<u>70,528</u>	<u>59,206</u>	<u>19 %</u>
Add back: restructuring payments	5,181	11,630	(55)%
Adjusted free cash flow	<u>\$ 75,709</u>	<u>\$ 70,836</u>	<u>7 %</u>

Non-GAAP Bookings from Application Development and Deployment Segment

(Unaudited)

<i>(In thousands)</i>	<u>Q1 2017</u>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>FY 2017</u>	<u>Q1 2018</u>	<u>Q2 2018</u>
GAAP revenue	<u>\$ 19,634</u>	<u>\$ 20,227</u>	<u>\$ 20,188</u>	<u>\$ 20,396</u>	<u>\$ 80,445</u>	<u>\$ 20,035</u>	<u>\$ 20,347</u>
Add: change in deferred revenue							
Beginning balance	52,971	51,298	52,400	52,615	52,971	53,794	52,927
Ending balance	<u>51,298</u>	<u>52,400</u>	<u>52,615</u>	<u>53,794</u>	<u>53,794</u>	<u>52,927</u>	<u>51,978</u>
Change in deferred revenue	<u>(1,673)</u>	<u>1,102</u>	<u>215</u>	<u>1,179</u>	<u>823</u>	<u>(867)</u>	<u>(949)</u>
Non-GAAP bookings	<u>\$ 17,961</u>	<u>\$ 21,329</u>	<u>\$ 20,403</u>	<u>\$ 21,575</u>	<u>\$ 81,268</u>	<u>\$ 19,168</u>	<u>\$ 19,398</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2018 GUIDANCE

(Unaudited)

Fiscal Year 2018 Revenue Guidance

	Fiscal Year Ended		Fiscal Year Ending			
	November 30, 2017		November 30, 2018			
(In millions)			Low	% Change	High	% Change
GAAP revenue	\$	397.6	\$ 398.3	— %	\$ 403.7	2 %
Acquisition-related adjustments - revenue (1)		1.0	0.3	(70)%	0.3	(70)%
Non-GAAP revenue	\$	398.6	\$ 398.6	— %	\$ 404.0	1 %

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvev and Telerik, respectively.

Fiscal Year 2018 Non-GAAP Operating Margin Guidance

	Fiscal Year Ending November 30, 2018			
	Low		High	
(In millions)				
GAAP income from operations	\$	89.6	\$	93.1
GAAP operating margins		22%		23%
Acquisition-related revenue		0.3		0.3
Acquisition-related expense		0.2		0.2
Restructuring expense		3.0		2.2
Stock-based compensation		21.0		21.0
Amortization of intangibles		36.0		36.0
Fees related to shareholder activist		1.5		1.5
Total adjustments		62.0		61.2
Non-GAAP income from operations	\$	151.6	\$	154.3
Non-GAAP operating margin		38%		38%

Fiscal Year 2018 Non-GAAP Earnings per Share and Effective Tax Rate Guidance

	Fiscal Year Ending November 30, 2018			
	Low		High	
(In millions, except per share data)				
GAAP net income	\$	61.8	\$	64.4
Adjustments (from previous table)		62.0		61.2
Income tax adjustment (2)		(10.3)		(10.0)
Non-GAAP net income	\$	113.5	\$	115.6
GAAP diluted earnings per share	\$	1.33	\$	1.39
Non-GAAP diluted earnings per share	\$	2.45	\$	2.50
Diluted weighted average shares outstanding		46.3		46.3

(2) Tax adjustment is based on a non-GAAP effective tax rate of approximately 22% for Low and High, calculated as follows:

Non-GAAP income from operations	\$	151.6	\$	154.3
Other (expense) income		(6.1)		(6.1)
Non-GAAP income from continuing operations before income taxes		145.5		148.2
Non-GAAP net income		113.5		115.6
Tax provision	\$	32.0	\$	32.6
Non-GAAP tax rate		22%		22%

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2018 GUIDANCE

(Unaudited)

Fiscal Year 2018 Adjusted Free Cash Flow Guidance

	Fiscal Year Ending November 30, 2018	
	Low	High
<i>(In millions)</i>		
Cash flows from operations (GAAP)	\$ 120	\$ 126
Purchases of property and equipment	(7)	(7)
Add back: restructuring payments	7	6
Adjusted free cash flow (non-GAAP)	<u>\$ 120</u>	<u>\$ 125</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q3 2018 GUIDANCE

(Unaudited)

Q3 2018 Revenue Guidance

	Three Months Ended		Three Months Ending			
	August 31, 2017		August 31, 2018			
<i>(In millions)</i>			Low	% Change	High	% Change
GAAP revenue	\$	97.3	\$ 94.9	(2)%	\$ 96.9	— %
Acquisition-related adjustments - revenue (1)		0.3	0.1	(67)%	0.1	(67)%
Non-GAAP revenue	\$	97.6	\$ 95.0	(3)%	\$ 97.0	(1)%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvev and Telerik, respectively.

Q3 2018 Non-GAAP Earnings per Share Guidance

	Three Months Ending August 31, 2018			
	Low		High	
GAAP diluted earnings per share	\$	0.30	\$	0.33
Restructuring expense		0.01		—
Stock-based compensation		0.11		0.11
Amortization of intangibles		0.19		0.19
Total adjustments		0.31		0.30
Income tax adjustment		(0.05)		(0.05)
Non-GAAP diluted earnings per share	\$	0.56	\$	0.58