

Progress Software Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
February 28, 2019

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. We believe this non-GAAP financial information enhances investors' overall understanding of our current financial performance and our prospects for the future by providing more transparency for certain financial measures and providing a level of disclosure that helps investors understand how we plan and measure our business. We believe that providing this non-GAAP information affords investors a view of our operating results that may be more easily compared to our peer companies and enables investors to consider our operating results on both a GAAP and non-GAAP basis during and following the integration period of our acquisitions.

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.

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.
- *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 - FIRST QUARTER

(Unaudited)

	Three Months Ended		% Change <i>Non-GAAP</i>
	February 28, 2019	February 28, 2018 ⁽¹⁾	
<i>(In thousands, except per share data)</i>			
Adjusted revenue:			
GAAP revenue	\$ 89,549	\$ 95,410	
Acquisition-related revenue ⁽²⁾	—	127	
Non-GAAP revenue	<u>\$ 89,549</u>	<u>\$ 95,537</u>	(6)%
Adjusted income from operations:			
GAAP income from operations	\$ 15,409	\$ 19,131	20 %
Amortization of acquired intangibles	8,621	9,137	10 %
Fees related to shareholder activist	—	1,258	1 %
Restructuring expenses	415	1,821	2 %
Stock-based compensation	5,806	4,570	5 %
Acquisition-related revenue ⁽²⁾ and expenses	—	170	— %
Non-GAAP income from operations	<u>\$ 30,251</u>	<u>\$ 36,087</u>	(16)%
Adjusted net income:			
GAAP net income	\$ 9,402	\$ 13,732	14 %
Amortization of acquired intangibles	8,621	9,137	10 %
Fees related to shareholder activist	—	1,258	1 %
Restructuring expenses	415	1,821	2 %
Stock-based compensation	5,806	4,570	5 %
Acquisition-related revenue ⁽²⁾ and expenses	—	170	— %
Provision for income taxes	(1,519)	(4,107)	(4)%
Non-GAAP net income	<u>\$ 22,725</u>	<u>\$ 26,581</u>	(15)%
Adjusted diluted earnings per share:			
GAAP diluted earnings per share	\$ 0.21	\$ 0.29	
Amortization of acquired intangibles	0.19	0.19	
Fees related to shareholder activist	—	0.03	
Restructuring expenses	0.01	0.04	
Stock-based compensation	0.12	0.10	
Provision for income taxes	(0.03)	(0.09)	
Non-GAAP diluted earnings per share	<u>\$ 0.50</u>	<u>\$ 0.56</u>	(11)%
Non-GAAP weighted avg shares outstanding - diluted	45,286	47,476	(5)%

⁽¹⁾The Company adopted ASC 606 effective December 1, 2018, using the full retrospective method. Prior period results have been adjusted to reflect the adoption of this standard.

⁽²⁾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 business segment for Kinvey and Application Development and Deployment business segment for Telerik. Upon our adoption of ASC 606 in the first quarter of fiscal year 2019, our GAAP revenue and Non-GAAP revenue results are the same.

OTHER NON-GAAP FINANCIAL MEASURES

(Unaudited)

Adjusted Free Cash Flow

<i>(In thousands)</i>	Q1 2019	Q1 2018	% Change
Cash flows from operations	\$ 24,444	\$ 31,595	(23)%
Purchases of property and equipment	(246)	(1,386)	(82)%
Free cash flow	24,198	30,209	(20)%
Add back: restructuring payments	159	2,739	(94)%
Adjusted free cash flow	\$ 24,357	\$ 32,948	(26)%

Non-GAAP Bookings from Application Development and Deployment Segment

<i>(In thousands)</i>	Q1 2018 ⁽¹⁾	Q2 2018 ⁽¹⁾	Q3 2018 ⁽¹⁾	Q4 2018 ⁽¹⁾	FY 2018 ⁽¹⁾	Q1 2019
GAAP revenue	\$ 19,255	\$ 19,846	\$ 19,521	\$ 19,424	\$ 78,046	\$ 18,297
Add: change in deferred revenue						
Beginning balance, as adjusted	42,128	42,041	41,593	42,789	42,128	45,291
Ending balance, as adjusted	42,041	41,593	42,789	45,291	45,291	43,817
Change in deferred revenue	(87)	(448)	1,196	2,502	3,163	(1,474)
Non-GAAP bookings	\$ 19,168	\$ 19,398	\$ 20,717	\$ 21,926	\$ 81,209	\$ 16,823

⁽¹⁾The Company adopted ASC 606 effective December 1, 2018, using the full retrospective method. Prior period results have been adjusted to reflect the adoption of this standard.

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2019 GUIDANCE

(Unaudited)

Fiscal Year 2019 Updated Revenue Guidance

	Fiscal Year Ended		Fiscal Year Ending			
	November 30, 2018 ⁽¹⁾		November 30, 2019			
<i>(In millions)</i>			Low	% Change	High	% Change
GAAP revenue	\$	379.0	\$ 403.0	6%	\$ 409.0	8%
Acquisition-related adjustments - revenue ⁽²⁾		0.4	19.0	*	19.0	*
Non-GAAP revenue	\$	379.4	\$ 422.0	11%	\$ 428.0	13%

⁽¹⁾The Company adopted ASC 606 effective December 1, 2018, using the full retrospective method. Prior period results have been adjusted to reflect the adoption of this standard.

⁽²⁾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 business segment for Kinvey and Ipswitch (preliminary) and Application Development and Deployment business segment for Telerik.

*Not meaningful

Fiscal Year 2019 Updated Non-GAAP Operating Margin Guidance

	Fiscal Year Ending November 30, 2019			
	Low		High	
<i>(In millions)</i>				
GAAP income from operations	\$	53.4	\$	56.7
<i>GAAP operating margins</i>		13%		14%
Acquisition-related revenue		19.0		19.0
Acquisition-related expense		1.5		1.5
Restructuring expense		3.5		3.5
Stock-based compensation		23.8		23.8
Amortization of intangibles		48.7		48.7
Total adjustments		96.5		96.5
Non-GAAP income from operations	\$	149.9	\$	153.2
<i>Non-GAAP operating margin</i>		36%		36%

Fiscal Year 2019 Updated Non-GAAP Earnings per Share and Effective Tax Rate Guidance

	Fiscal Year Ending November 30, 2019			
	Low		High	
<i>(In millions, except per share data)</i>				
GAAP net income	\$	31.8	\$	34.4
Adjustments (from previous table)		96.5		96.5
Income tax adjustment ⁽³⁾		(16.8)		(16.6)
Non-GAAP net income	\$	111.5	\$	114.3
GAAP diluted earnings per share	\$	0.70	\$	0.76
Non-GAAP diluted earnings per share	\$	2.46	\$	2.52
Diluted weighted average shares outstanding		45.3		45.3

⁽³⁾Tax adjustment is based on a non-GAAP effective tax rate of approximately 19% for Low and High, calculated as follows:

Non-GAAP income from operations	\$	149.9	\$	153.2
Other (expense) income		(11.5)		(11.5)
Non-GAAP income from continuing operations before income taxes		138.4		141.7
Non-GAAP net income		111.6		114.2
Tax provision	\$	26.8	\$	27.5
Non-GAAP tax rate		19%		19%

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2019 GUIDANCE

(Unaudited)

Fiscal Year 2019 Updated Adjusted Free Cash Flow Guidance

<i>(In millions)</i>	Fiscal Year Ending November 30, 2019	
	Low	High
Cash flows from operations (GAAP)	\$ 128	\$ 133
Purchases of property and equipment	(6)	(6)
Add back: restructuring payments	3	3
Adjusted free cash flow (non-GAAP)	<u>\$ 125</u>	<u>\$ 130</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q2 2019 GUIDANCE

(Unaudited)

Q2 2019 Updated Revenue Guidance

	Three Months Ended		Three Months Ending			
	May 31, 2018 ⁽¹⁾		May 31, 2019			
<i>(In millions)</i>			Low	% Change	High	% Change
GAAP revenue	\$	92.9	\$ 93.0	—%	\$ 96.0	3%
Acquisition-related adjustments - revenue ⁽²⁾		0.1	3.0	*	3.0	*
Non-GAAP revenue	\$	93.0	\$ 96.0	3%	\$ 99.0	6%

⁽¹⁾The Company adopted ASC 606 effective December 1, 2018, using the full retrospective method. Prior period results have been adjusted to reflect the adoption of this standard.

⁽²⁾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 business segment for Kinvey and Ipswitch (preliminary) and Application Development and Deployment business segment for Telerik.

*Not meaningful

Q2 2019 Updated Non-GAAP Earnings per Share Guidance

	Three Months Ending May 31, 2019	
	Low	High
GAAP diluted earnings per share	\$ 0.07	\$ 0.09
Acquisition-related revenue	0.07	0.07
Acquisition-related expense	0.03	0.03
Restructuring expense	0.05	0.05
Stock-based compensation	0.14	0.14
Amortization of intangibles	0.24	0.24
Total adjustments	0.53	0.53
Income tax adjustment	(0.05)	(0.05)
Non-GAAP diluted earnings per share	\$ 0.55	\$ 0.57