



## Progress 2018 Second Quarter Results Exceed Guidance

June 27, 2018

### Raises 2018 Guidance for Earnings Per Share, Operating Margin and Adjusted Free Cash Flow

BEDFORD, Mass.--(BUSINESS WIRE)--Jun. 27, 2018-- Progress (NASDAQ: PRGS), the leading provider of application development and digital experience technologies, today announced results for its fiscal second quarter ended May 31, 2018.

Revenue was \$96.1 million during the quarter compared to \$93.2 million in the same quarter last year, a year-over-year increase of 3% on an actual currency basis, and 1% on a constant currency basis. On a non-GAAP basis, revenue was \$96.2 million during the quarter compared to \$93.4 million in the same quarter last year, an increase of 3% on an actual currency basis, and flat on a constant currency basis.

On a GAAP basis, diluted earnings per share was \$0.33 compared to \$0.21 in the same quarter last year, an increase of 57%. On a non-GAAP basis, diluted earnings per share was \$0.60 compared to \$0.42 in the same quarter last year, an increase of 43%.

"We are very pleased with our Q2 performance, and our strong first half," said Yogesh Gupta, CEO at Progress. "We exceeded our earnings per share expectations for the quarter, and our consistent execution provides us the confidence to once again raise our full year guidance for operating margin and earnings per share, as well as increase our expectations for free cash flow. We continue to focus on keeping our business strong, and driving new opportunities through our Cognitive Apps initiatives."

Additional financial highlights included:

	Three Months Ended					
	GAAP			Non-GAAP		
	May 31, 2018	May 31, 2017	% Change	May 31, 2018	May 31, 2017	% Change
<i>(In thousands, except percentages and per share amounts)</i>						
Revenue	\$96,102	\$93,213	3%	\$96,212	\$93,427	3%
Income from operations	21,788	20,284	7%	37,378	32,579	15%
Operating margin	23%	22%	5%	39%	35%	11%
Net income	15,403	10,341	49%	27,763	20,530	35%
Diluted earnings per share	0.33	0.21	57%	0.60	0.42	43%
Cash from operations (GAAP) /Adjusted free cash flow (Non-GAAP)	\$42,129	\$22,429	88%	\$42,761	\$27,855	54%

Paul Jalbert, CFO, said: "We had another strong financial performance in Q2, and returned over \$50 million of capital to shareholders through share repurchases and dividends. We remain focused on running our operations efficiently while also making the investments needed to strengthen our business, in order to drive sustainable, long-term value for all of our shareholders."

Other fiscal second quarter 2018 metrics and recent results included:

- Cash, cash equivalents and short-term investments were \$144.2 million at the end of the quarter;
- DSO was 40 days compared to 42 days in the fiscal second quarter of 2017, and 51 days in the fiscal first quarter of 2018;
- Pursuant to the \$250 million share authorization by the Board of Directors, Progress repurchased 1.1 million shares for \$45.0 million during the fiscal second quarter of 2018. As of May 31, 2018, there was \$130.0 million remaining under this authorization; and
- On June 20, 2018, our Board of Directors declared a quarterly dividend of \$0.14 per share of common stock that will be paid on September 17, 2018 to shareholders of record as of the close of business on September 3, 2018.

### 2018 Business Outlook

Progress provides the following guidance for the fiscal year ending November 30, 2018 and the third fiscal quarter ending August 31, 2018:

	FY 2018	FY 2018	Q3 2018	Q3 2018
	GAAP	Non-GAAP	GAAP	Non-GAAP
<i>(In millions, except percentages and per share amounts)</i>				
Revenue	\$398 - \$404	\$399 - \$404	\$95 - \$97	\$95 - \$97
Diluted earnings per share	\$1.33 - \$1.39	\$2.45 - \$2.50	\$0.30 - \$0.33	\$0.56 - \$0.58
Operating margin	22% - 23%	38%	*	*

Cash from operations (GAAP) /			*	*
Adjusted free cash flow (Non-GAAP)	\$120 - \$126	\$120 - \$125		
Effective tax rate	26%	22%	*	*

\* We do not provide guidance for this financial measure.

Based on current exchange rates, the expected positive currency translation impact on Progress' fiscal year 2018 business outlook compared to 2017 exchange rates is approximately \$4.5 million on GAAP and non-GAAP revenue, and \$0.02 on GAAP and non-GAAP diluted earnings per share. The expected currency translation impact on Progress' fiscal Q3 2018 business outlook compared to 2017 exchange rates on GAAP and non-GAAP revenue, and on GAAP and non-GAAP diluted earnings per share is not meaningful. To the extent that there are changes in exchange rates versus the current environment, this may have an impact on Progress' business outlook.

## Conference Call

The Progress quarterly investor conference call to review its fiscal second quarter of 2018 will be broadcast live at 5:00 p.m. ET on Wednesday, June 27, 2018 and can be accessed on the investor relations section of the company's website, located at [www.progress.com](http://www.progress.com). Additionally, you can listen to the call by telephone by dialing 1-877-874-1563, pass code 8020190. The conference call will include comments followed by questions and answers. An archived version of the conference call and supporting materials will be available on the Progress website within the investor relations section after the live conference call.

## Non-GAAP Financial Information

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](http://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.

### **Constant Currency**

Revenue from our international operations has historically represented a substantial portion of our total revenue. As a result, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, if the local currencies of our foreign subsidiaries strengthen, our consolidated results stated in U.S. dollars are positively impacted.

As exchange rates are an important factor in understanding period to period comparisons, we present revenue growth rates on a constant currency basis, which helps improve the understanding of our revenue results and our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP.

### **Note Regarding Forward-Looking Statements**

This press release contains statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Progress has identified some of these forward-looking statements with words like “believe,” “may,” “could,” “would,” “might,” “should,” “expect,” “intend,” “plan,” “target,” “anticipate” and “continue,” the negative of these words, other terms of similar meaning or the use of future dates.

Forward-looking statements in this press release include, but are not limited to, statements regarding Progress' business outlook and financial guidance. There are a number of factors that could cause actual results or future events to differ materially from those anticipated by the forward-looking statements, including, without limitation:

(1) Economic, geopolitical and market conditions can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price. (2) We may fail to achieve our financial forecasts due to such factors as delays or size reductions in transactions, fewer large transactions in a particular quarter, fluctuations in currency exchange rates, or a decline in our renewal rates for contracts. (3) Our ability to successfully manage transitions to new business models and markets, including an increased emphasis on a cloud and subscription strategy, may not be successful. (4) If we are unable to develop new or sufficiently differentiated products and services, or to enhance and improve our existing products and services in a timely manner to meet market demand, partners and customers may not purchase new software licenses or subscriptions or purchase or renew support contracts. (5) We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners. (6) Our international sales and operations subject us to additional risks that can adversely affect our operating results, including risks relating to foreign currency gains and losses. (7) If the security measures for our software, services or other offerings are compromised or subject to a successful cyber-attack, or if such offerings contain significant coding or configuration errors, we may experience reputational harm, legal claims and financial exposure. (8) We have made acquisitions, and may make acquisitions in the future, and those acquisitions may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations. For further information regarding risks and uncertainties associated with Progress' business, please refer to Progress' filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended November 30, 2017, as amended. Progress undertakes no obligation to update any forward-looking statements, which speak only as of the date of this press release.

### **About Progress**

Progress (NASDAQ: PRGS) offers the leading platform for developing and deploying strategic business applications. We enable customers and partners to deliver modern, high-impact digital experiences with a fraction of the effort, time and cost. Progress offers powerful tools for easily building adaptive user experiences across any type of device or touchpoint, award-winning machine learning that enables cognitive capabilities to be a part of any application, the flexibility of a serverless cloud to deploy modern apps, business rules, web content management, plus leading data connectivity technology. Over 1,700 independent software vendors, 100,000 enterprise customers, and 2 million developers rely on Progress to power their applications. Learn about Progress at [www.progress.com](http://www.progress.com) or +1-800-477-6473.

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	Three Months Ended			Six Months Ended		
	May 31, 2018	May 31, 2017	% Change	May 31, 2018	May 31, 2017	% Change
<i>(In thousands, except per share data)</i>						
Revenue:						
Software licenses	\$26,439	\$25,592	3%	\$51,782	\$49,914	4%
Maintenance and services	69,663	67,621	3%	138,367	134,269	3%
Total revenue	96,102	93,213	3%	190,149	184,183	3%
Costs of revenue:						
Cost of software licenses	1,233	1,422	(13)%	2,494	3,010	(17)%
Cost of maintenance and services	9,511	11,262	(16)%	19,335	21,754	(11)%
Amortization of acquired intangibles	5,899	4,683	26%	11,717	8,361	40%
Total costs of revenue	16,643	17,367	(4)%	33,546	33,125	1%
Gross profit	79,459	75,846	5%	156,603	151,058	4%
Operating expenses:						
Sales and marketing	21,658	21,236	2%	43,086	46,957	(8)%
Product development	19,822	18,791	5%	40,067	36,125	11%
General and administrative	12,190	11,606	5%	23,452	22,174	6%
Amortization of acquired intangibles	3,318	3,223	3%	6,637	6,402	4%
Fees related to shareholder activist	214	— *		1,472	— *	
Restructuring expense	426	662	(36)%	2,247	17,801	(87)%
Acquisition-related expenses	43	44	(2)%	86	93	(8)%
Total operating expenses	57,671	55,562	4%	117,047	129,552	(10)%
Income from operations	21,788	20,284	7%	39,556	21,506	84%
Other (expense) income, net	(1,284)	(1,552)	17%	(2,869)	(2,899)	1%
Income before income taxes	20,504	18,732	9%	36,687	18,607	97%
Provision for income taxes	5,101	8,391	(39)%	8,372	8,791	(5)%
Net income	\$15,403	\$10,341	49%	\$28,315	\$ 9,816	188%
Earnings per share:						
Basic	\$ 0.34	\$ 0.21	62%	\$ 0.62	\$ 0.20	210%
Diluted	\$ 0.33	\$ 0.21	57%	\$ 0.61	\$ 0.20	205%
Weighted average shares outstanding:						
Basic	45,531	48,221	(6)%	46,030	48,477	(5)%
Diluted	46,087	48,490	(5)%	46,781	48,762	(4)%
Cash dividends declared per common share	\$ 0.140	\$ 0.125	12%	\$ 0.280	\$ 0.250	12%

Stock-based compensation is included in the condensed consolidated statements of operations, as follows:

Cost of revenue	\$ 269	\$ 294	(9)%	\$ 515	\$ 551	(7)%
Sales and marketing	995	200	398%	1,365	563	142%
Product development	1,984	1,158	71%	4,030	1,054	282%
General and administrative	2,332	1,981	18%	4,240	3,095	37%
Total	\$ 5,580	\$ 3,633	54%	\$ 10,150	\$ 5,263	93%

\*Not meaningful

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	May 31, 2018	November 30, 2017
<i>(In thousands)</i>		
Assets		
Current assets:		
Cash, cash equivalents and short-term investments	\$144,200	\$ 183,609
Accounts receivable, net	42,577	61,210
Other current assets	13,844	18,588
Total current assets	200,621	263,407
Property and equipment, net	42,208	42,261

Goodwill and intangible assets, net	391,552	409,935
Other assets	2,592	3,115
Total assets	<u>\$636,973</u>	<u>\$ 718,718</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 53,842	\$ 69,661
Current portion of long-term debt, net	5,819	5,819
Short-term deferred revenue	135,202	132,538
Total current liabilities	<u>194,863</u>	<u>208,018</u>
Long-term deferred revenue	12,586	9,750
Long-term debt, net	113,180	116,090
Other long-term liabilities	7,207	8,776
Shareholders' equity:		
Common stock and additional paid-in capital	258,696	249,836
Retained earnings	50,441	126,248
Total shareholders' equity	<u>309,137</u>	<u>376,084</u>
Total liabilities and shareholders' equity	<u>\$636,973</u>	<u>\$ 718,718</u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended		Six Months Ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
<i>(In thousands)</i>				
Cash flows from operating activities:				
Net income	\$ 15,403	\$ 10,341	\$ 28,315	\$ 9,816
Depreciation and amortization	11,331	10,490	22,633	19,848
Stock-based compensation	5,580	3,633	10,150	5,263
Other non-cash adjustments	(1,117)	444	(1,251)	4,571
Changes in operating assets and liabilities	10,932	(2,479)	13,877	20,231
Net cash flows from operating activities	<u>42,129</u>	<u>22,429</u>	<u>73,724</u>	<u>59,729</u>
Capital expenditures	(1,810)	(140)	(3,196)	(523)
Repurchases of common stock, net of issuances	(42,798)	(7,503)	(85,329)	(19,923)
Dividend payments to shareholders	(6,482)	(6,044)	(13,101)	(12,116)
Payments for acquisitions, net of cash acquired	—	(28,270)	—	(28,270)
Payments of principal on long-term debt	(1,547)	(3,750)	(3,094)	(7,500)
Other	(12,789)	4,168	(8,413)	3,931
Net change in cash, cash equivalents and short-term investments	<u>(23,297)</u>	<u>(19,110)</u>	<u>(39,409)</u>	<u>(4,672)</u>
Cash, cash equivalents and short-term investments, beginning of period	<u>167,497</u>	<u>264,192</u>	<u>183,609</u>	<u>249,754</u>
Cash, cash equivalents and short-term investments, end of period	<u>\$144,200</u>	<u>\$245,082</u>	<u>\$144,200</u>	<u>\$245,082</u>

## RESULTS OF OPERATIONS BY SEGMENT

(Unaudited)

	Three Months Ended			Six Months Ended		
	May 31, 2018	May 31, 2017	% Change	May 31, 2018	May 31, 2017	% Change
<i>(In thousands)</i>						
Segment revenue:						
OpenEdge	\$69,967	\$65,890	6%	\$136,375	\$130,398	5%
Data Connectivity and Integration	5,788	7,096	(18)%	13,392	13,924	(4)%
Application Development and Deployment	20,347	20,227	1%	40,382	39,861	1%
Total revenue	<u>96,102</u>	<u>93,213</u>	<u>3%</u>	<u>190,149</u>	<u>184,183</u>	<u>3%</u>
Segment costs of revenue and operating expenses:						
OpenEdge	15,013	16,287	(8)%	30,775	34,164	(10)%
Data Connectivity and Integration	1,674	2,069	(19)%	3,303	4,331	(24)%
Application Development and Deployment	6,199	5,991	3%	12,997	13,527	(4)%
Total costs of revenue and operating expenses	<u>22,886</u>	<u>24,347</u>	<u>(6)%</u>	<u>47,075</u>	<u>52,022</u>	<u>(10)%</u>

Segment contribution margin:						
OpenEdge	54,954	49,603	11%	105,600	96,234	10%
Data Connectivity and Integration	4,114	5,027	(18)%	10,089	9,593	5%
Application Development and Deployment	14,148	14,236	(1)%	27,385	26,334	4%
Total contribution margin	<u>73,216</u>	<u>68,866</u>	<u>6%</u>	<u>143,074</u>	<u>132,161</u>	<u>8%</u>
Other unallocated expenses (1)	<u>51,428</u>	<u>48,582</u>	<u>6%</u>	<u>103,518</u>	<u>110,655</u>	<u>(6)%</u>
Income from operations	<u>21,788</u>	<u>20,284</u>	<u>7%</u>	<u>39,556</u>	<u>21,506</u>	<u>84%</u>
Other (expense) income, net	<u>(1,284)</u>	<u>(1,552)</u>	<u>17%</u>	<u>(2,869)</u>	<u>(2,899)</u>	<u>1%</u>
Income before income taxes	<u>\$20,504</u>	<u>\$18,732</u>	<u>9%</u>	<u>\$ 36,687</u>	<u>\$ 18,607</u>	<u>97%</u>

(1) The following expenses are not allocated to our segments as we manage and report our business in these functional areas on a consolidated basis only: certain product development and corporate sales and marketing expenses, customer support, administration, amortization of acquired intangibles, stock-based compensation, fees related to shareholder activist, restructuring, and acquisition-related expenses.

## SUPPLEMENTAL INFORMATION

(Unaudited)

### Revenue by Type

<i>(In thousands)</i>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>Q1 2018</u>	<u>Q2 2018</u>
Software licenses	\$25,592	\$28,529	\$ 45,963	\$25,343	\$ 26,439
Maintenance	59,898	60,536	61,826	61,479	62,323
Services	<u>7,723</u>	<u>8,245</u>	<u>8,290</u>	<u>7,225</u>	<u>7,340</u>
Total revenue	<u>\$93,213</u>	<u>\$97,310</u>	<u>\$116,079</u>	<u>\$94,047</u>	<u>\$ 96,102</u>

### Revenue by Region

<i>(In thousands)</i>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>Q1 2018</u>	<u>Q2 2018</u>
North America	\$51,430	\$55,703	\$ 66,504	\$51,641	\$ 50,823
EMEA	30,646	31,830	38,039	33,014	35,333
Latin America	5,637	5,009	5,489	4,461	4,256
Asia Pacific	<u>5,500</u>	<u>4,768</u>	<u>6,047</u>	<u>4,931</u>	<u>5,690</u>
Total revenue	<u>\$93,213</u>	<u>\$97,310</u>	<u>\$116,079</u>	<u>\$94,047</u>	<u>\$ 96,102</u>

### Revenue by Segment

<i>(In thousands)</i>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>Q1 2018</u>	<u>Q2 2018</u>
OpenEdge	\$65,890	\$68,135	\$ 77,639	\$66,408	\$ 69,967
Data Connectivity and Integration	7,096	8,987	18,044	7,604	5,788
Application Development and Deployment	<u>20,227</u>	<u>20,188</u>	<u>20,396</u>	<u>20,035</u>	<u>20,347</u>
Total revenue	<u>\$93,213</u>	<u>\$97,310</u>	<u>\$116,079</u>	<u>\$94,047</u>	<u>\$ 96,102</u>

## RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES

(Unaudited)

	<u>Three Months Ended</u>				<u>% Change</u>
<i>(In thousands, except per share data)</i>	<u>May 31, 2018</u>	<u>May 31, 2017</u>			<u>Non-GAAP</u>
<b>Adjusted revenue:</b>					
GAAP revenue	\$96,102	\$93,213			
Acquisition-related revenue (1)	<u>110</u>	<u>214</u>			
Non-GAAP revenue	<u>\$96,212</u>	<u>\$93,427</u>	<u>100%</u>	<u>100%</u>	3%
<b>Adjusted gross margin:</b>					
GAAP gross margin	\$79,459	83%	\$75,846	81%	
Amortization of acquired intangibles	5,899	6%	4,683	6%	
Stock-based compensation	269	—%	294	—%	
Acquisition-related revenue (1)	<u>110</u>	<u>—%</u>	<u>214</u>	<u>—%</u>	

Non-GAAP gross margin	<u>\$85,737</u>	<u>89%</u>	<u>\$81,037</u>	<u>87%</u>	6%
<b>Adjusted operating expenses:</b>					
GAAP operating expenses	\$57,671	60%	\$55,562	60%	
Amortization of acquired intangibles	(3,318)	(3)%	(3,223)	(3)%	
Fees related to shareholder activist	(214)	—%	—	—%	
Restructuring expenses and other	(426)	(1)%	(498)	(1)%	
Acquisition-related expenses	(43)	—%	(44)	—%	
Stock-based compensation	<u>(5,311)</u>	<u>(6)%</u>	<u>(3,339)</u>	<u>(4)%</u>	
Non-GAAP operating expenses	<u>\$48,359</u>	<u>50%</u>	<u>\$48,458</u>	<u>52%</u>	—%
<b>Adjusted income from operations:</b>					
GAAP income from operations	\$21,788	23%	\$20,284	22%	
Amortization of acquired intangibles	9,217	10%	7,906	8%	
Fees related to shareholder activist	214	—%	—	—%	
Restructuring expenses and other	426	—%	498	1%	
Stock-based compensation	5,580	6%	3,633	4%	
Acquisition-related	<u>153</u>	<u>—%</u>	<u>258</u>	<u>—%</u>	
Non-GAAP income from operations	<u>\$37,378</u>	<u>39%</u>	<u>\$32,579</u>	<u>35%</u>	15%
<b>Adjusted diluted earnings per share:</b>					
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	<u>(0.07)</u>		<u>(0.04)</u>		
Non-GAAP diluted earnings per share	<u>\$ 0.60</u>		<u>\$ 0.42</u>		43%
<b>Non-GAAP weighted avg shares outstanding - diluted</b>	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 Kinvey 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>					
<b>Adjusted revenue:</b>					
GAAP revenue	\$190,149	\$184,183			
Acquisition-related revenue (1)	<u>257</u>	<u>446</u>			
Non-GAAP revenue	<u>\$190,406</u>	<u>\$184,629</u>	100%	100%	3%
<b>Adjusted gross margin:</b>					
GAAP gross margin	\$156,603	\$151,058	82%	82%	
Amortization of acquired intangibles	11,717	8,361	6%	5%	
Stock-based compensation	515	551	1%	—%	
Acquisition-related revenue (1)	<u>257</u>	<u>446</u>	—%	—%	
Non-GAAP gross margin	<u>\$169,092</u>	<u>\$160,416</u>	<u>89%</u>	<u>87%</u>	5%
<b>Adjusted operating expenses:</b>					
GAAP operating expenses	\$117,047	\$129,552	62%	70%	
Amortization of acquired intangibles	(6,637)	(6,402)	(3)%	(3)%	
Fees related to shareholder activist	(1,472)	—	(1)%	—%	
Restructuring expenses and other	(2,247)	(17,637)	(2)%	(10)%	
Acquisition-related expenses	<u>(86)</u>	<u>(93)</u>	—%	—%	

Stock-based compensation	<u>(9,635)</u>	<u>(5)%</u>	<u>(4,712)</u>	<u>(2)%</u>	
Non-GAAP operating expenses	<u>\$ 96,970</u>	<u>51%</u>	<u>\$100,708</u>	<u>55%</u>	(4)%

**Adjusted income from operations:**

GAAP income from operations	\$ 39,556	21%	\$ 21,506	12%	
Amortization of acquired intangibles	18,354	10%	14,763	8%	
Fees related to shareholder activist	1,472	1%	—	—%	
Restructuring expenses and other	2,247	1%	17,637	9%	
Stock-based compensation	10,150	5%	5,263	3%	
Acquisition-related	343	—%	539	—%	
Non-GAAP income from operations	<u>\$ 72,122</u>	<u>38%</u>	<u>\$ 59,708</u>	<u>32%</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	<u>(0.16)</u>		<u>(0.21)</u>		
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 Kinvey 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>	<u>Q2 2018</u>	<u>Q2 2017</u>	<u>% Change</u>
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	<u>2,442</u>	<u>5,566</u>	<u>(56)%</u>
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>	<u>YTD 2018</u>	<u>Non-GAAP Adjustment (1)</u>	<u>Non-GAAP Revenue</u>
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>	<u>YTD 2018</u>	<u>Non-GAAP Adjustment (1)</u>	<u>Non-GAAP Revenue</u>
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>	<u>YTD 2018</u>	<u>Non-GAAP Adjustment (1)</u>	<u>Non-GAAP Revenue</u>
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>	<u>YTD 2018</u>	<u>YTD Q2 2017</u>	<u>% Change</u>
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	<u>5,181</u>	<u>11,630</u>	<u>(55)%</u>
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>	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017	Q1 2018	Q2 2018
GAAP revenue	\$19,634	\$20,227	\$20,188	\$20,396	\$80,445	\$20,035	\$20,347
Add: change in deferred revenue							
Beginning balance	52,971	51,298	52,400	52,615	52,971	53,794	52,927
Ending balance	51,298	52,400	52,615	53,794	53,794	52,927	51,978
Change in deferred revenue	(1,673)	1,102	215	1,179	823	(867)	(949)
Non-GAAP bookings	\$17,961	\$21,329	\$20,403	\$21,575	\$81,268	\$19,168	\$19,398

### 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			
<i>(In millions)</i>			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 Kinvey and Telerik, respectively.

#### Fiscal Year 2018 Non-GAAP Operating Margin Guidance

<i>(In millions)</i>	Fiscal Year Ending November 30, 2018	
	Low	High
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

<i>(In millions, except per share data)</i>	Fiscal Year Ending November 30, 2018	
	Low	High
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**

(In millions)	Fiscal Year Ending November 30, 2018	
	Low	High
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)	\$ 120	\$ 125

**RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q3 2018 GUIDANCE**  
(Unaudited)

**Q3 2018 Revenue Guidance**

(In millions)	Three Months Ended	Three Months Ending			
	August 31, 2017	August 31, 2018			
		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 Kinvey 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

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