

Progress Software Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
November 30, 2017

Progress Software Corporation 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, impairment 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 and capitalized software development costs, 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.
- *Impairment of goodwill and acquired intangibles* - In fiscal year 2016, we exclude impairment charges applicable to goodwill and acquired intangible assets because such expenses distort trends and are not part of our core operating results. Such impairment charges are inconsistent in amount and frequency and we believe that eliminating these amounts, when significant and not reflective of ongoing business and operating results, facilitates a more meaningful evaluation of our current operating performance and comparisons to our operating performance in other periods.
- *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, one of our largest shareholders, 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. In fiscal year 2017, we have incurred, and in fiscal year 2018 we expect to incur, 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. In addition, in fiscal year 2016, we adjusted our income tax provision to remove from non-GAAP income the positive impact of an out-of-period adjustment recorded to the income tax provision during the fiscal second quarter of 2016.

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - FOURTH QUARTER

(Unaudited)

	Three Months Ended				% Change Non-GAAP
	November 30, 2017		November 30, 2016		
<i>(In thousands, except per share data)</i>					
Adjusted revenue:					
GAAP revenue	\$ 116,079		\$ 117,724		
Acquisition-related revenue (1)	256		288		
Non-GAAP revenue	<u>\$ 116,335</u>	<u>100%</u>	<u>\$ 118,012</u>	<u>100 %</u>	(1)%
Adjusted gross margin:					
GAAP gross margin	\$ 98,120	85%	\$ 101,186	86 %	
Amortization of acquired intangibles	5,979	5	3,678	3	
Stock-based compensation (2)	226	—	299	—	
Acquisition-related revenue (1)	256	—	288	—	
Non-GAAP gross margin	<u>\$ 104,581</u>	<u>90%</u>	<u>\$ 105,451</u>	<u>89 %</u>	(1)%
Adjusted operating expenses:					
GAAP operating expenses	\$ 69,311	60%	\$ 163,550	139 %	
Amortization and impairment of acquired intangibles	(3,318)	(3)	(3,179)	(3)	
Impairment of goodwill	—	—	(92,000)	(78)	
Fees related to shareholder activist	(2,020)	(2)	—	—	
Restructuring expenses and other	(3,486)	(3)	(1,463)	(1)	
Acquisition-related expenses	(614)	—	(791)	(1)	
Stock-based compensation (2)	(4,368)	(4)	(3,232)	(3)	
Non-GAAP operating expenses	<u>\$ 55,505</u>	<u>48%</u>	<u>\$ 62,885</u>	<u>53 %</u>	(12)%
Adjusted income (loss) from operations:					
GAAP operating income (loss)	\$ 28,809	25%	\$ (62,364)	(53)%	
Amortization and impairment of acquired intangibles	9,297	8	6,857	6	
Impairment of goodwill	—	—	92,000	78	
Fees related to shareholder activist	2,020	2	—	—	
Restructuring expenses and other	3,486	3	1,463	1	
Stock-based compensation (2)	4,594	4	3,531	3	
Acquisition-related	870	—	1,079	1	
Non-GAAP income from operations	<u>\$ 49,076</u>	<u>42%</u>	<u>\$ 42,566</u>	<u>36 %</u>	15 %
Adjusted diluted earnings (loss) per share:					
GAAP diluted earnings (loss) per share	\$ 0.34		\$ (1.52)		
Amortization and impairment of acquired intangibles	0.20		0.14		
Impairment of goodwill	—		1.87		
Fees related to shareholder activist	0.04		—		
Restructuring expenses and other	0.07		0.03		
Stock-based compensation (2)	0.10		0.08		
Acquisition-related	0.02		0.03		
Provision for income taxes	(0.10)		(0.01)		
Non-GAAP diluted earnings per share	<u>\$ 0.67</u>		<u>\$ 0.62</u>		8 %
Non-GAAP weighted avg shares outstanding - diluted	48,171		49,229		(2)%

(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.

(2) Stock-based compensation is included in the GAAP statements of income, as follows:

Cost of revenue	\$ 226	\$ 299
Operating expenses	4,368	3,232
Total	<u>\$ 4,594</u>	<u>\$ 3,531</u>

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - FISCAL YEAR

(Unaudited)

	Fiscal Year Ended				% Change Non-GAAP
	November 30, 2017		November 30, 2016		
<i>(In thousands, except per share data)</i>					
Adjusted revenue:					
GAAP revenue	\$ 397,572		\$ 405,341		
Acquisition-related revenue (1)	1,015		2,014		
Non-GAAP revenue	<u>\$ 398,587</u>	<u>100%</u>	<u>\$ 407,355</u>	<u>100 %</u>	(2)%
Adjusted gross margin:					
GAAP gross margin	\$ 328,413	83%	\$ 339,629	84 %	
Amortization of acquired intangibles	20,108	5	15,496	4	
Stock-based compensation (2)	1,016	—	899	—	
Acquisition-related revenue (1)	1,015	—	2,014	—	
Non-GAAP gross margin	<u>\$ 350,552</u>	<u>88%</u>	<u>\$ 358,038</u>	<u>88 %</u>	(2)%
Adjusted operating expenses:					
GAAP operating expenses	\$ 257,799	65%	\$ 369,338	91 %	
Amortization and impairment of acquired intangibles	(13,039)	(3)	(17,786)	(4)	
Impairment of goodwill	—	—	(92,000)	(23)	
Fees related to shareholder activist	(2,020)	(1)	—	—	
Restructuring expenses and other	(22,046)	(6)	(1,692)	(1)	
Acquisition-related expenses	(1,458)	—	(1,240)	—	
Stock-based compensation (2)	(13,137)	(3)	(21,642)	(5)	
Non-GAAP operating expenses	<u>\$ 206,099</u>	<u>52%</u>	<u>\$ 234,978</u>	<u>58 %</u>	(12)%
Adjusted income (loss) from operations:					
GAAP operating (loss)	\$ 70,614	18%	\$ (29,709)	(7)%	
Amortization and impairment of acquired intangibles	33,147	8	33,282	8	
Impairment of goodwill	—	—	92,000	23	
Fees related to shareholder activist	2,020	—	—	—	
Restructuring expenses and other	22,046	5	1,692	—	
Stock-based compensation (2)	14,153	4	22,541	5	
Acquisition-related	2,473	1	3,254	1	
Non-GAAP income from operations	<u>\$ 144,453</u>	<u>36%</u>	<u>\$ 123,060</u>	<u>30 %</u>	17 %
Adjusted diluted earnings per share:					
GAAP diluted earnings (loss) per share	\$ 0.77		\$ (1.13)		
Amortization and impairment of acquired intangibles	0.68		0.67		
Impairment of goodwill	—		1.85		
Fees related to shareholder activist	0.04		—		
Restructuring expenses and other	0.46		0.03		
Stock-based compensation (2)	0.29		0.45		
Acquisition-related	0.05		0.07		
Provision for income taxes	(0.38)		(0.29)		
Non-GAAP diluted earnings per share	<u>\$ 1.91</u>		<u>\$ 1.65</u>		16 %
Non-GAAP weighted avg shares outstanding - diluted	48,516		50,039		(3)%

(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.

(2) Stock-based compensation is included in the GAAP statements of income, as follows:

Cost of revenue	\$ 1,016	\$ 899
Operating expenses	13,137	21,642
Total	<u>\$ 14,153</u>	<u>\$ 22,541</u>

OTHER NON-GAAP FINANCIAL MEASURES - FOURTH QUARTER

(Unaudited)

Revenue by Type

<i>(In thousands)</i>	Q4 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
License	\$ 45,963	\$ 26	\$ 45,989
Maintenance	61,826	62	61,888
Services	8,290	168	8,458
Total revenue	<u>\$ 116,079</u>	<u>\$ 256</u>	<u>\$ 116,335</u>

Revenue by Region

<i>(In thousands)</i>	Q4 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 66,504	\$ 256	\$ 66,760
EMEA	38,039	—	38,039
Latin America	5,489	—	5,489
Asia Pacific	6,047	—	6,047
Total revenue	<u>\$ 116,079</u>	<u>\$ 256</u>	<u>\$ 116,335</u>

Revenue by Segment

<i>(In thousands)</i>	Q4 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 77,639	\$ 168	\$ 77,807
Data Connectivity and Integration	18,044	—	18,044
Application Development and Deployment	20,396	88	20,484
Total revenue	<u>\$ 116,079</u>	<u>\$ 256</u>	<u>\$ 116,335</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>	Q4 2017	Q4 2016	% Change
Cash flows from operations	\$ 32,515	\$ 33,934	(4)%
Purchases of property and equipment	(2,512)	(2,042)	23
Free cash flow	<u>30,003</u>	<u>31,892</u>	<u>(6)</u>
Add back: restructuring payments	2,362	515	359
Adjusted free cash flow	<u>\$ 32,365</u>	<u>\$ 32,407</u>	<u>— %</u>

OTHER NON-GAAP FINANCIAL MEASURES - FISCAL YEAR

(Unaudited)

Revenue by Type

<i>(In thousands)</i>	FY 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
License	\$ 124,406	\$ 163	\$ 124,569
Maintenance	241,398	525	241,923
Services	31,768	327	32,095
Total revenue	<u>\$ 397,572</u>	<u>\$ 1,015</u>	<u>\$ 398,587</u>

Revenue by Region

<i>(In thousands)</i>	FY 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 223,942	\$ 1,015	\$ 224,957
EMEA	130,359	—	130,359
Latin America	21,158	—	21,158
Asia Pacific	22,113	—	22,113
Total revenue	<u>\$ 397,572</u>	<u>\$ 1,015</u>	<u>\$ 398,587</u>

Revenue by Segment

<i>(In thousands)</i>	FY 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 276,172	\$ 327	\$ 276,499
Data Connectivity and Integration	40,955	—	40,955
Application Development and Deployment	80,445	688	81,133
Total revenue	<u>\$ 397,572</u>	<u>\$ 1,015</u>	<u>\$ 398,587</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>	FY 2017	FY 2016	% Change
Cash flows from operations	\$ 105,686	\$ 102,845	3%
Purchases of property and equipment	(3,377)	(5,786)	(42)
Free cash flow	<u>102,309</u>	<u>97,059</u>	<u>5</u>
Add back: restructuring payments	19,234	3,539	443
Adjusted free cash flow	<u>\$ 121,543</u>	<u>\$ 100,598</u>	<u>21%</u>

Non-GAAP Bookings from Application Development and Deployment Segment

(Unaudited)

<i>(In thousands)</i>	<u>Q1 2016</u>	<u>Q2 2016</u>	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>FY 2016</u>
GAAP revenue	\$ 18,752	\$ 19,185	\$ 20,233	\$ 22,895	\$ 81,065
Add: change in deferred revenue					
Beginning balance	49,252	49,237	51,693	51,736	49,252
Ending balance	49,237	51,693	51,736	52,971	52,971
Change in deferred revenue	(15)	2,456	43	1,235	3,719
Non-GAAP bookings	\$ 18,737	\$ 21,641	\$ 20,276	\$ 24,130	\$ 84,784
<i>(In thousands)</i>	<u>Q1 2017</u>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>FY 2017</u>
GAAP revenue	\$ 19,634	\$ 20,227	\$ 20,188	\$ 20,396	\$ 80,445
Add: change in deferred revenue					
Beginning balance	52,971	51,298	52,400	52,615	52,971
Ending balance	51,298	52,400	52,615	53,794	53,794
Change in deferred revenue	(1,673)	1,102	215	1,179	823
Non-GAAP bookings	\$ 17,961	\$ 21,329	\$ 20,403	\$ 21,575	\$ 81,268

SaaS Revenue (Hosted Services) from Application Development and Deployment Segment

(Unaudited)

<i>(In thousands)</i>	<u>Q1 2016</u>	<u>Q2 2016</u>	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>FY 2016</u>
SaaS Revenue - Application Development and Deployment	\$ 1,071	\$ 1,079	\$ 1,160	\$ 1,163	\$ 4,473
<i>(In thousands)</i>	<u>Q1 2017</u>	<u>Q2 2017</u>	<u>Q3 2017</u>	<u>Q4 2017</u>	<u>FY 2017</u>
SaaS Revenue - Application Development and Deployment	\$ 963	\$ 854	\$ 799	\$ 741	\$ 3,357

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

(Unaudited)

Fiscal Year 2018 Non-GAAP 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 Kinvey 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	\$	76.8	\$	81.7
GAAP operating margins		19%		20%
Acquisition-related revenue		0.3		0.3
Acquisition-related expense		0.2		0.2
Restructuring expense		3.0		2.0
Stock-based compensation		22.0		22.0
Amortization of intangibles		36.4		36.4
Fees related to shareholder activist		2.8		2.8
Total adjustments		64.7		63.7
Non-GAAP income from operations	\$	141.5	\$	145.4
Non-GAAP operating margin		35%		36%

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	\$	52.6	\$	56.2
Adjustments (from previous table)		64.7		63.7
Income tax adjustment (2)		(11.4)		(11.0)
Non-GAAP net income	\$	105.9	\$	108.9
GAAP diluted earnings per share	\$	1.14	\$	1.21
Non-GAAP diluted earnings per share	\$	2.29	\$	2.35
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	\$	141.5	\$	145.4
Other (expense) income		(5.7)		(5.7)
Non-GAAP income from continuing operations before income taxes		135.8		139.7
Non-GAAP net income		105.9		108.9
Tax provision	\$	29.9	\$	30.8
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)	\$ 115	\$ 121
Purchases of property and equipment	(7)	(7)
Add back: restructuring payments	7	6
Adjusted free cash flow (non-GAAP)	\$ 115	\$ 120

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q1 2018 GUIDANCE

(Unaudited)

Q1 2018 Non-GAAP Revenue Guidance

	Three Months Ended	Three Months Ending			
	February 28, 2017	February 28, 2018			
		Low	% Change	High	% Change
<i>(In millions)</i>					
GAAP revenue	\$ 91.0	\$ 89.9	(1)%	\$ 92.9	2%
Acquisition-related adjustments - revenue (1)	0.2	0.1	(50)	0.1	(50)
Non-GAAP revenue	<u>\$ 91.2</u>	<u>\$ 90.0</u>	<u>(1)%</u>	<u>\$ 93.0</u>	<u>2%</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.

Q1 2018 Non-GAAP Earnings per Share Guidance

	February 28, 2018	
	Low	High
GAAP diluted earnings per share	\$ 0.15	\$ 0.19
Restructuring expense	0.04	0.02
Stock-based compensation	0.12	0.12
Amortization of intangibles	0.20	0.20
Fees related to shareholder activist	0.03	0.03
Total adjustments	<u>0.39</u>	<u>0.37</u>
Income tax adjustment	<u>(0.08)</u>	<u>(0.08)</u>
Non-GAAP diluted earnings per share	<u>\$ 0.46</u>	<u>\$ 0.48</u>