

Progress Software Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
February 29, 2020

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, restructuring charges, acquisition-related and transition expenses, 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 Ipswitch, which we acquired on April 30, 2019. 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.

- *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
	February 29, 2020	February 28, 2019	
<i>(In thousands, except per share data)</i>			
Adjusted revenue:			
GAAP revenue	\$ 109,683	\$ 89,549	
Acquisition-related revenue ⁽¹⁾	4,079	—	
Non-GAAP revenue	<u>\$ 113,762</u>	<u>\$ 89,549</u>	<u>27%</u>
Adjusted income from operations:			
GAAP income from operations	\$ 30,712	28% \$ 15,409	17%
Amortization of acquired intangibles	5,777	8,621	
Restructuring expenses	1,040	415	
Stock-based compensation	6,051	5,806	
Acquisition-related revenue ⁽¹⁾ and expenses	4,393	—	
Non-GAAP income from operations	<u>\$ 47,973</u>	<u>42% \$ 30,251</u>	<u>34%</u>
Adjusted net income:			
GAAP net income	\$ 21,116	19% \$ 9,402	10%
Amortization of acquired intangibles	5,777	8,621	
Restructuring expenses	1,040	415	
Stock-based compensation	6,051	5,806	
Acquisition-related revenue ⁽¹⁾ and expenses	4,393	—	
Provision for income taxes	(3,674)	(1,519)	
Non-GAAP net income	<u>\$ 34,703</u>	<u>31% \$ 22,725</u>	<u>25%</u>
Adjusted diluted earnings per share:			
GAAP diluted earnings per share	\$ 0.46	\$ 0.21	
Amortization of acquired intangibles	0.13	0.19	
Restructuring expenses	0.02	0.01	
Stock-based compensation	0.13	0.12	
Acquisition-related revenue ⁽¹⁾ and expenses	0.10	—	
Provision for income taxes	(0.08)	(0.03)	
Non-GAAP diluted earnings per share	<u>\$ 0.76</u>	<u>\$ 0.50</u>	<u>52%</u>
Non-GAAP weighted avg shares outstanding - diluted	45,515	45,286	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. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

OTHER NON-GAAP FINANCIAL MEASURES

(Unaudited)

Revenue by Type

<i>(In thousands)</i>	Q1 2020	Non-GAAP Adjustment ⁽¹⁾	Non-GAAP Revenue
Software licenses	\$ 30,629	\$ 54	\$ 30,683
Maintenance	70,056	3,823	73,879
Services	8,998	202	9,200
Total revenue	<u>\$ 109,683</u>	<u>\$ 4,079</u>	<u>\$ 113,762</u>

Revenue by Region

<i>(In thousands)</i>	Q1 2020	Non-GAAP Adjustment ⁽¹⁾	Non-GAAP Revenue
North America	\$ 65,413	\$ 3,002	\$ 68,415
EMEA	34,988	741	35,729
Latin America	4,000	66	4,066
Asia Pacific	5,282	270	5,552
Total revenue	<u>\$ 109,683</u>	<u>\$ 4,079</u>	<u>\$ 113,762</u>

Revenue by Segment

<i>(In thousands)</i>	Q1 2020	Non-GAAP Adjustment ⁽¹⁾	Non-GAAP Revenue
OpenEdge	\$ 77,079	\$ 4,079	\$ 81,158
Data Connectivity and Integration	13,685	—	13,685
Application Development and Deployment	18,919	—	18,919
Total revenue	<u>\$ 109,683</u>	<u>\$ 4,079</u>	<u>\$ 113,762</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. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

Adjusted Free Cash Flow

<i>(In thousands)</i>	Q1 2020	Q1 2019	% Change
Cash flows from operations	\$ 33,016	\$ 24,444	35%
Purchases of property and equipment	(1,148)	(246)	367%
Free cash flow	<u>31,868</u>	<u>24,198</u>	<u>32%</u>
Add back: restructuring payments	1,429	159	799%
Adjusted free cash flow	<u>\$ 33,297</u>	<u>\$ 24,357</u>	<u>37%</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2020 GUIDANCE

(Unaudited)

Fiscal Year 2020 Updated Revenue Guidance

	Fiscal Year Ended		Fiscal Year Ending			
	November 30, 2019		November 30, 2020			
<i>(In millions)</i>			Low	% Change	High	% Change
GAAP revenue	\$	413.3	\$ 419.7	2 %	\$ 429.7	4 %
Acquisition-related adjustments - revenue ⁽¹⁾		18.7	8.3	(56)%	8.3	(56)%
Non-GAAP revenue	\$	432.0	\$ 428.0	(1)%	\$ 438.0	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. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

Fiscal Year 2020 Updated Non-GAAP Operating Margin Guidance

	Fiscal Year Ending November 30, 2020			
	Low		High	
GAAP income from operations	\$	112.2	\$	116.1
<i>GAAP operating margins</i>		27%		27%
Acquisition-related revenue		8.3		8.3
Restructuring expense		1.0		1.0
Stock-based compensation		23.3		23.3
Amortization of intangibles		23.2		23.2
Total adjustments		55.8		55.8
Non-GAAP income from operations	\$	168.0	\$	171.9
<i>Non-GAAP operating margin</i>		39%		39%

Fiscal Year 2020 Updated Non-GAAP Earnings per Share and Effective Tax Rate Guidance

	Fiscal Year Ending November 30, 2020			
	Low		High	
GAAP net income	\$	77.9	\$	81.0
Adjustments (from previous table)		55.8		55.8
Income tax adjustment ⁽²⁾		(10.7)		(10.7)
Non-GAAP net income	\$	123.0	\$	126.1
GAAP diluted earnings per share	\$	1.73	\$	1.80
Non-GAAP diluted earnings per share	\$	2.73	\$	2.80
Diluted weighted average shares outstanding		45.0		45.0

⁽²⁾Tax adjustment is based on a non-GAAP effective tax rate of approximately 21% for Low and High, calculated as follows:

Non-GAAP income from operations	\$	168.0	\$	171.9
Other (expense) income		(12.3)		(12.3)
Non-GAAP income from continuing operations before income taxes		155.7		159.6
Non-GAAP net income		123.0		126.1
Tax provision	\$	32.7	\$	33.5
Non-GAAP tax rate		21%		21%

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2020 GUIDANCE

(Unaudited)

Fiscal Year 2020 Updated Adjusted Free Cash Flow Guidance

	Fiscal Year Ending November 30, 2020	
	Low	High
<i>(In millions)</i>		
Cash flows from operations (GAAP)	\$ 128	\$ 138
Purchases of property and equipment	(6)	(6)
Add back: restructuring payments	3	3
Adjusted free cash flow (non-GAAP)	<u>\$ 125</u>	<u>\$ 135</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q2 2020 GUIDANCE

(Unaudited)

Q2 2020 Revenue Guidance

	Three Months Ended	Three Months Ending			
	May 31, 2019	May 31, 2020			
<i>(In millions)</i>		Low	% Change	High	% Change
GAAP revenue	\$ 100.0	\$ 92.9	(7)%	\$ 98.9	(1)%
Acquisition-related adjustments - revenue ⁽¹⁾	3.5	2.1	(40)%	2.1	(40)%
Non-GAAP revenue	\$ 103.5	\$ 95.0	(8)%	\$ 101.0	(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. Acquisition-related revenue adjustments relate to Progress' OpenEdge business segment for Ipswitch.

Q2 2020 Non-GAAP Earnings per Share Guidance

	Three Months Ending May 31, 2020	
	Low	High
GAAP diluted earnings per share	\$ 0.36	\$ 0.40
Acquisition-related revenue	0.05	0.05
Stock-based compensation	0.11	0.11
Amortization of intangibles	0.13	0.13
Total adjustments	0.29	0.29
Income tax adjustment	(0.05)	(0.05)
Non-GAAP diluted earnings per share	\$ 0.60	\$ 0.64