

VMW Q1FY21 Earnings Conference Call

May 28, 2020

VMware Delivers the Digital Foundation

Build, Run, Manage, Connect and Protect Any App on Any Cloud on Any Device

Any Device



Any Application



Traditional

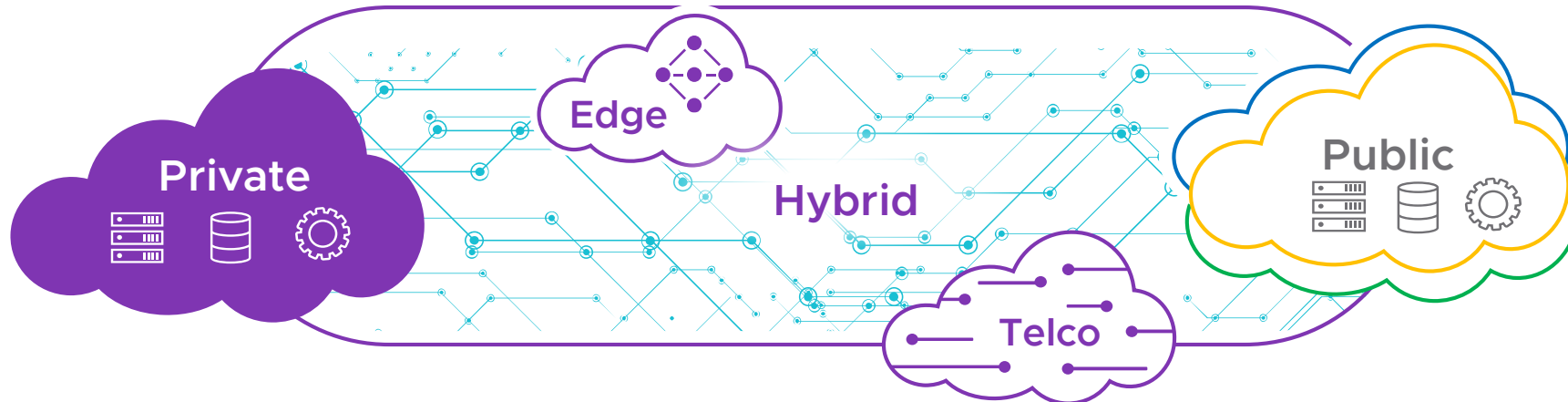


Cloud Native



SaaS

Any Cloud



Intrinsic Security

Pat Gelsinger, CEO

- Q1 total revenue increased 12% YoY, with non-GAAP earnings of \$1.52 per share.⁽¹⁾
- Our comprehensive strategy is increasingly being embraced by our customers to enable their digital foundation.
- Whether a government-mandated closure, preemptive remote work initiative, or an unexpected hospital network expansion, we rapidly enable customers to respond effectively.
- With Workspace ONE we are uniquely positioned to help our customers enable their employees to productively work remotely, work more securely with Carbon Black Cloud, increase connectivity with VMware SD-WAN and scale their applications with VMware Cloud.
- In Q1, we delivered a comprehensive portfolio of products and services to help customers modernize their applications and infrastructure. These new offerings featured VMware Tanzu, a portfolio of products and services that transform the way enterprises build, run, manage application software.

(1) See Appendix for reconciliation to GAAP.

Pat Gelsinger, CEO

- Announced the acquisition of Octarine, which will bring intrinsic security to containerized applications running in Kubernetes and build security capabilities into the fabric of the existing IT and DevOps ecosystems.
- Made major updates to the core portfolio across VMware Cloud Foundation, the largest evolution of vSphere in a decade, NSX-T, vSAN and vRealize Operations Cloud.
- Provided updates across many of our cloud partnership offerings, including an extension and expansion of our preferred VMware Cloud partnership with AWS, as well as new service offerings based on VMware Cloud technologies from Microsoft Azure, Google Cloud, Dell EMC, and Alibaba Cloud.
- Committed to helping our customers while also continuing to help ensure the safety and wellbeing of our employees.
- The pandemic has driven a decade of digital transformation in a few short weeks.
- We are accelerating to a new, post-pandemic world of how we will work, learn and live.

Zane Rowe, EVP & CFO

- In Q1, total revenue grew 12% YoY. Subscription and SaaS revenue grew 39% YoY. The combination of Subscription and SaaS and license revenue grew 17% YoY.
- Within Subscription and SaaS revenue, strong revenue performance from our EUC, Carbon Black, and VeloCloud offerings, as well as VMware Cloud on AWS.
- Q1 on-premises perpetual license revenue, increased 2% YoY, primarily driven by stronger than expected EUC license demand.
- Non-GAAP operating income increased 25% YoY in Q1, benefitting from lower spending directly tied to the impact of COVID-19.⁽¹⁾
- Ended Q1 with over \$9.2B in unearned revenue and \$5.9B in cash, which includes proceeds from a \$2B bond offering completed in April.
- Early in Q2, redeemed \$1.250B of notes, which were originally due to mature in August of this year.

(1) See Appendix for reconciliation to GAAP.

Zane Rowe, EVP & CFO

- At the end of Q1, RPO, which includes our committed and non-cancellable future revenue, was \$10.1B, up 19% YoY, 54% of which is classified as current.
- Q1 growth in Subscription and SaaS and license revenue plus the sequential change in unearned Subscription and SaaS and license revenue was 16% YoY.⁽¹⁾
- Q1 growth in total revenue plus the sequential change in total unearned revenue was 6% YoY.⁽¹⁾
- Saw strong demand from customers for VDI solutions in Q1.
- Pleased with Carbon Black's performance in Q1, increase in customers to over 15,000 as well as strong product bookings growth, particularly in Carbon Black Cloud.
- Modern Applications business, which includes Pivotal, Heptio, and Wavefront, had products bookings performance ahead of expectations in Q1.
- Remain confident we will continue to support our customers, develop and enhance our portfolio, and focus on driving long-term growth and value.

(1) See Appendix for details.

Overview of Results: Revenue Highlights

Q1FY21		
	Actual (\$M)	YoY Growth
Total Revenue	2,734	11.6%
Subscription & SaaS and License Revenue	1,232	16.6%
Subscription & SaaS Revenue	572	39.2%

Subscription & SaaS

Q1FY21

21% of total revenue

Subscription & SaaS Revenue contains:

VMware Cloud Provider Program, VMware Cloud on AWS, CloudHealth Technologies

Modern Applications Business including Pivotal, Heptio and Wavefront

Portion of EUC/Workspace One revenue recognized as SaaS, Horizon Cloud

Carbon Black and Appdefense

VeloCloud

Other “as a service” offerings

Income Statement Highlights

	Q1FY20	Q1FY21
License Revenue (\$M)	646	660
Subscription & SaaS Revenue (\$M)	411	572
Services Revenue (\$M)	1,393	1,502
Total Revenue (\$M)	2,450	2,734
Non-GAAP Operating Margin ⁽¹⁾	26.7%	29.9%
Non-GAAP Net Income per Diluted Share (\$) ⁽¹⁾⁽²⁾	1.25	1.52

(1) See Appendix for reconciliation to GAAP.

(2) Based on net income attributable to VMware.

Select Financial Measures

	Q1FY21
Headcount	31,645
Cash and Cash Equivalents (\$M)	5,946
Operating Cash Flow (\$M)	1,374
CapEx (\$M)	87
Unearned Revenue Total (\$M)	9,218
Long-Term Unearned Revenue (\$M) ⁽¹⁾	4,036

(1) Non-current unearned revenue as reported on VMware's condensed consolidated balance sheets.

Bookings for Key Products

Q1FY21 Bookings YoY Growth Rate	
NSX Product Bookings ⁽¹⁾	Increased over 20%
vSAN Product Bookings ⁽¹⁾	Increased over 20%
EUC Product Bookings ⁽¹⁾⁽²⁾	Increased nearly 10%
Core SDDC Product Bookings ⁽¹⁾	Declined in the mid-single digits
Core SDDC Total Bookings	Decreased 7%

- (1) Includes Subscription and SaaS and license bookings. Equivalent to “License Bookings” as stated in comparable periods.
(2) EUC Product Bookings based on TCY grew nearly 10% YoY. When measured on an ACV basis, EUC subscription bookings grew over 20% YoY. EUC on-premise license bookings grew 40% YoY.

Guidance

Q2FY21

Total Revenue	\$2,800M	6% YoY
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Subscription & SaaS and License Revenue	\$1,300M	7% YoY
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Guidance

Q2FY21

Non-GAAP Operating Margin ⁽¹⁾	28%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$1.44
Diluted Share Count	422M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 1 point lower to 1 point higher than Non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.

(2) The estimated tax rate on non-GAAP income is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above as well as significant tax adjustments. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenue and expenses, changes to our corporate structure and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rate, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

Q&A

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA For the Three Months Ended May 1, 2020 (amounts in millions, except per share amounts, and shares in thousands) (unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Realignment Charges	Acquisition, Disposition and Other Items	Tax Adjustment ⁽¹⁾	Non-GAAP As Adjusted ⁽²⁾
Operating expenses:								
Cost of license revenue	\$ 70	—	—	(42)	—	—	—	\$ 27
Cost of subscription and SaaS revenue	\$ 96	(4)	—	(12)	—	—	—	\$ 81
Cost of services revenue	\$ 318	(22)	—	(1)	—	—	—	\$ 295
Research and development	\$ 665	(125)	—	—	—	—	—	\$ 540
Sales and marketing	\$ 917	(72)	(3)	(25)	—	(2)	—	\$ 816
General and administrative	\$ 246	(49)	—	—	—	(39)	—	\$ 157
Realignment and loss on disposition	\$ 4	—	—	—	(4)	—	—	\$ —
Operating income	\$ 418	272	3	80	4	41	—	\$ 818
Operating margin ⁽²⁾	15.3%	10.0%	0.1%	2.9%	0.1%	1.5%	—	29.9%
Other income (expense), net ⁽³⁾	\$ (6)	—	—	—	—	(6)	—	\$ (12)
Income before income tax	\$ 368	272	3	80	4	35	—	\$ 762
Income tax provision (benefit)	\$ (18)						140	\$ 122
Tax rate ⁽²⁾	N/A							16.0%
Net income	\$ 386	272	3	80	4	35	(140)	\$ 640
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 0.92	\$ 0.65	\$ 0.01	\$ 0.19	\$ 0.01	\$ 0.08	\$ (0.33)	\$ 1.52

N/A - GAAP tax rate was not applicable due to the income tax benefit recorded for the three months ended May 1, 2020.

⁽¹⁾ Non-GAAP financial information for the quarter is adjusted for a tax rate equal to our annual estimated tax rate on non-GAAP income. This rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above as well as significant tax adjustments. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenue and expenses, changes to our corporate structure and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

⁽²⁾ Totals may not sum, due to rounding. Operating margin, tax rate and net income per weighted average share information are calculated based upon the respective underlying, non-rounded data.

⁽³⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized.

⁽⁴⁾ Calculated based upon 421,513 diluted weighted-average shares for Classes A and B.

Appendix

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended May 3, 2019
(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Items	Tax Adjustment ⁽¹⁾	Non-GAAP As Adjusted ⁽²⁾
Operating expenses:							
Cost of license revenue	\$ 36	—	—	(20)	—	—	\$ 16
Cost of subscription and SaaS revenue	\$ 94	(3)	—	(26)	—	—	\$ 65
Cost of services revenue	\$ 299	(18)	—	(1)	—	—	\$ 279
Research and development	\$ 590	(102)	—	—	—	—	\$ 489
Sales and marketing	\$ 868	(63)	(2)	(22)	—	—	\$ 781
General and administrative	\$ 209	(30)	—	—	(13)	—	\$ 166
Realignment and loss on disposition	\$ —	—	—	—	—	—	\$ —
Operating income	\$ 354	216	2	69	13	—	\$ 654
Operating margin ⁽²⁾	14.4%	8.8%	0.1%	2.8%	0.5%	—	26.7%
Other income (expense), net ⁽³⁾	\$ 17	—	—	—	(1)	—	\$ 16
Income before income tax	\$ 351	216	2	69	12	—	\$ 650
Income tax provision (benefit)	\$ (14)	—	—	—	—	118	\$ 104
Tax rate ⁽²⁾	N/A	—	—	—	—	—	16.0%
Net income	\$ 365	216	2	69	12	(118)	\$ 546
Less: Net income (loss) attributable to non-controlling interests	\$ (15)	22	—	9	—	(5)	\$ 11
Net income attributable to VMware, Inc.	\$ 380	194	2	60	12	(113)	\$ 535
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 0.89	\$ 0.45	\$ —	\$ 0.14	\$ 0.03	\$ (0.27)	\$ 1.25

N/A - GAAP tax rate was not applicable due to the income tax benefit recorded for the three months ended May 3, 2019.

⁽¹⁾ Non-GAAP financial information for the quarter is adjusted for a tax rate equal to our annual estimated tax rate on non-GAAP income. This rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above as well as significant tax adjustments. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenue and expenses, changes to our corporate structure and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

⁽²⁾ Totals may not sum, due to rounding. Operating margin, tax rate and net income per weighted average share information are calculated based upon the respective underlying, non-rounded data.

⁽³⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized.

ted based upon 426,697 diluted weighted-average shares for Classes A and B.

Appendix

VMware, Inc.

GROWTH IN REVENUE PLUS SEQUENTIAL CHANGE IN UNEARNED REVENUE

(in millions)

(unaudited)

Growth in Total Revenue Plus Sequential Change in Unearned Revenue

	<u>Three Months Ended</u>	
	<u>May 1, 2020</u>	<u>May 3, 2019</u>
Total revenue, as reported	\$ 2,734	\$ 2,450
Sequential change in unearned revenue ⁽¹⁾	(50)	89
Total revenue plus sequential change in unearned revenue	<u>\$ 2,684</u>	<u>\$ 2,539</u>
Change (%) over prior year, as reported	6 %	

Growth in License and Subscription and SaaS Revenue Plus Sequential Change in Unearned License and Subscription and SaaS Revenue

	<u>Three Months Ended</u>	
	<u>May 1, 2020</u>	<u>May 3, 2019</u>
Total license and subscription and SaaS revenue, as reported	\$ 1,232	\$ 1,057
Sequential change in unearned license and subscription and SaaS revenue	41	41
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue	<u>\$ 1,273</u>	<u>\$ 1,098</u>
Change (%) over prior year, as reported	16 %	

⁽¹⁾ Sequential change in unearned revenue consists of the change in total unearned revenue from the preceding quarter. Total unearned revenue consists of current and non-current unearned revenue amounts presented in the condensed consolidated balance sheets.

Appendix

Reconciliation of GAAP to Non-GAAP Operating Margin Expectation

	Q2FY21 (Projected)		FY21 (Estimated)	
GAAP Operating Margin	12.8% - 14.2% ⁽¹⁾	Projected	13.1% - 14.5% ⁽²⁾	Estimated
Stock-based Compensation	10.0%	Estimated	9.7%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	2.9%	Estimated	2.8%	Estimated
Acquisition, Disposition and Other Related Items	1.5%	Estimated	1.4%	Estimated
Non-GAAP Operating Margin	28.0%	Projected	28.0%	Estimated

(1) Values of items excluded from GAAP operating margin are estimates. While the aggregate of estimates may not foot, in total we expect GAAP operating margin to be 14 to 15 percentage points less than non-GAAP operating margin.

(2) Values of items excluded from GAAP operating margin are estimates. While the aggregate of estimates may not foot, in total we estimate GAAP operating margin to be 14 to 15 percentage points less than non-GAAP operating margin.

Appendix

Reconciliation of GAAP to Non-GAAP Net Income per Diluted Share Guidance

	Q2FY21 (Projected)	
GAAP Net Income per Diluted Share	\$0.57 - \$0.65 ⁽¹⁾	Projected
Stock-based Compensation	0.66	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated
Intangible Amortization	0.19	Estimated
Acquisition, Disposition and Other Related Items	0.10	Estimated
Tax Adjustment ⁽²⁾	(0.15)	Estimated
Non-GAAP Net Income per Diluted Share	\$1.44	Projected

(1) Values of items excluded from GAAP net income per diluted share are estimates. While the aggregate of estimates may not foot, in total we expect GAAP net income per share to be \$0.79 to \$0.87 less than non-GAAP net income per share.

(2) The estimated tax rate on non-GAAP income is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above as well as significant tax adjustments. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenue and expenses, changes to our corporate structure and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

Forward-Looking Statements

This presentation contains forward-looking statements including, among others, expected benefits to customers and continuing momentum of VMware's comprehensive strategy, products, services and solutions (including VMware Workspace ONE, Carbon Black Cloud, VMware SD-WAN, VMware Cloud, VMware Tanzu) and as a result of acquisition of Octarine; VMware's financial guidance for the second quarter of FY21; and VMware's expectations for FY21 non-GAAP operating margin. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including but not limited to: (1) the impact of the COVID-19 pandemic on our operations, financial condition, our customers, the business environment and the global and regional economies; (2) adverse changes in general economic or market conditions; (3) delays or reductions in consumer, government and information technology spending; (4) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the virtualization software and cloud, end user and mobile computing, and security industries, as well as new product and marketing initiatives by VMware's competitors; (5) the ability to successfully integrate into VMware acquired companies and assets and smoothly transition services related to divested assets from VMware; (6) rapid technological changes in the virtualization software and cloud, end user, security and mobile computing industries; (7) VMware's customers' ability to transition to new products, platforms, services, solutions and computing strategies in such areas as containerization, modern applications, intrinsic security and networking, cloud, digital workspaces, virtualization and the software defined data center, and the uncertainty of their acceptance of emerging technology; (8) VMware's ability to enter into, maintain and extend strategically effective partnerships and alliances; (9) the continued risk of litigation and regulatory actions; (10) VMware's ability to protect its proprietary technology; (11) changes to product and service development timelines; (12) VMware's relationship with Dell Technologies and Dell's ability to control matters requiring stockholder approval, including the election of VMware's board members and matters relating to Dell's investment in VMware; (13) VMware's ability to attract and retain highly qualified employees; (14) the ability of VMware to utilize our relationship with Dell to leverage go-to-market and product development activities; (15) risks associated with cyber-attacks, information security and data privacy; (16) disruptions resulting from key management changes; (17) risks associated with international sales such as fluctuating currency exchange rates and increased trade barriers; (18) changes in VMware's financial condition; (19) geopolitical changes such as Brexit and increased tariffs and trade barriers that could adversely impact our non-U.S. sales; and (20) other business effects, including those related to industry, market, economic, political, regulatory and global health conditions. These forward-looking statements are made as of the date of this press release, are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect as well as other risks detailed in documents filed with the Securities and Exchange Commission, including VMware's most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K that we may file from time to time, which could cause actual results to vary from expectations. VMware assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.