

VMW Q2FY21 Earnings Conference Call

August 27, 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

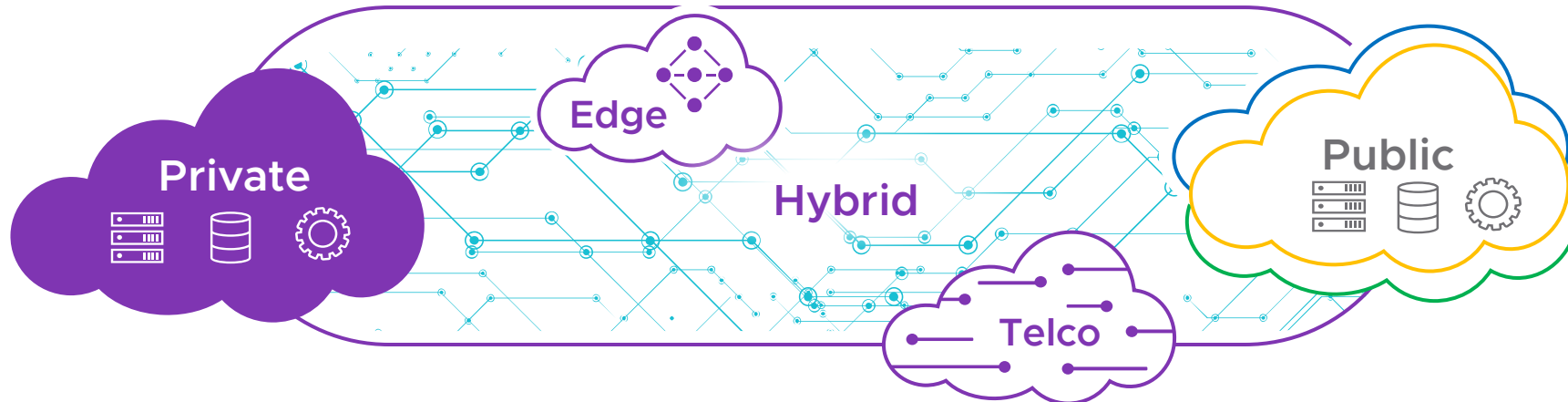


Cloud Native



SaaS

Any Cloud



Intrinsic Security

Pat Gelsinger, CEO

- Solid execution and financial performance in Q2, driven by strength in our Subscription and SaaS product offerings.
- Over 20% of VMware's total revenue is now generated from our Subscription and SaaS product offerings.
- Closed the acquisition of Octarine, which will help to further expand our intrinsic security strategy to containers and Kubernetes environments by embedding the Octarine technology into the VMware Carbon Black Cloud.
- Reached general availability status for new first party services offerings with Google and Oracle.
- Microsoft unveiled its next generation Azure VMware Services.
- Announced availability of the second generation of VMware Cloud on Dell EMC.
- Launched new capabilities for VMware Cloud on AWS for app modernization, business continuity and resiliency, and cloud migration.

Pat Gelsinger, CEO

- With VMware Cloud Foundation, we have seen a number of large customers in verticals across Financial Services and Service Providers reaching production at scale in the past few months.
- Our increasing focus on network security was reinforced this quarter with our acquisition of Lastline, a pioneer in anti-malware research and world leading AI powered, network threat detection and response.
- Introduced a suite of new workplace solutions in VMware Workspace ONE Intelligent Hub to help customers improve business resilience and prepare for the new distributed, hybrid workforce of the future.
- Unveiled, VMware Horizon 8, our flagship VDI platform, bringing more secure delivery and management of virtual desktops and applications across the hybrid cloud.
- View the VMware Telco Cloud as the software operating system for 5G and beyond.
- VMworld will take place online September 29th through October 1st.

Overview of Results: Revenue Highlights

Q2FY21		
	Actual (\$M)	YoY Growth
Total Revenue	2,875	9.2%
Subscription & SaaS and License Revenue	1,350	11.4%
Subscription & SaaS Revenue	631	43.8%

Subscription & SaaS

Q2FY21

22% of total revenue

Subscription & SaaS Revenue contains:

VMware Cloud Provider Program, VMware Cloud on AWS

Modern Applications Business including Pivotal, Heptio and Wavefront

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

Carbon Black and AppDefense

CloudHealth Technologies, VeloCloud & other “as a service” offerings

Income Statement Highlights

	Q2FY20	Q2FY21
License Revenue (\$M)	773	719
Subscription & SaaS Revenue (\$M)	439	631
Services Revenue (\$M)	1,420	1,525
Total Revenue (\$M)	2,632	2,875
Non-GAAP Operating Margin ⁽¹⁾	30.2%	33.0%
Non-GAAP Net Income per Diluted Share (\$) ⁽¹⁾⁽²⁾	1.53	1.81

(1) See Appendix for reconciliation to GAAP.

(2) Based on net income attributable to VMware.

Select Financial Measures

	Q2FY21
Headcount	33,305
Cash and Cash Equivalents (\$M)	4,703
Operating Cash Flow (\$M)	719
CapEx (\$M)	76
Unearned Revenue Total (\$M)	9,385
Long-Term Unearned Revenue (\$M) ⁽¹⁾	4,170

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

Zane Rowe, EVP & CFO

- At the end of Q2, RPO, which includes our committed and non-cancellable future revenue, was \$10.3B, up 17% YoY, 54% of which is classified as current.
- Total backlog was \$36 million dollars, which consisted of orders received on the last day of the quarter that were not shipped that day and orders held due to our export control process. License backlog at quarter-end was \$8 million dollars.
- Q2 growth in total revenue plus the sequential change in total unearned revenue was 2% YoY.⁽¹⁾
- Q2 growth in Subscription and SaaS and license revenue, plus the sequential change in unearned Subscription and SaaS and license revenue was 12% YoY.⁽¹⁾

(1) See Appendix for details.

Bookings for Key Products

Q2FY21 Bookings YoY Growth Rate

Core SDDC Product Bookings ⁽¹⁾	Decreased in the low-single digits
vSAN Product Bookings ⁽¹⁾	Decreased in the low-single digits
NSX Product Bookings ⁽¹⁾	Decreased in the mid-single digits
Total EUC Product Bookings* ⁽¹⁾⁽²⁾	Decreased in the high-single digits

*(EUC SaaS Bookings based on ACV grew over 35% YoY)

- (1) Includes Subscription and SaaS and license bookings. Equivalent to “License Bookings” as stated in comparable periods.
- (2) Total EUC product bookings which includes on-premises license bookings declined in the high-single-digits. EUC SaaS bookings based on TCV declined in the high-single digits. EUC SaaS Bookings based on ACV grew over 35% YoY.

Zane Rowe, EVP & CFO

- In Q2, Carbon Black had strong product bookings, as customer count increased to over 20,000.
- Total bookings for our Modern Applications Business Unit, which includes Pivotal, Heptio, and Wavefront, exceeded our expectations, with particular strength in services for the quarter.
- Pivotal and Carbon Black have helped us make progress in building out our 5 franchise platforms of modern apps, multi-cloud, networking, digital workspace, and security.
- In Q2, we repurchased \$130 million dollars of stock in the open market at an average price of \$141 per share. Through the end of Q2, have utilized \$810 million dollars from our current authorization of \$2.5 billion dollars.
- Plan to accelerate certain product initiatives through the remainder of the year to further support customers' digital transformations and grow our Subscription and SaaS product offerings.

Guidance

Q3FY21

Total Revenue	\$2.8B	5.4% YoY
---------------	--------	----------

Subscription & SaaS and License Revenue	\$1.265B*	5.6% YoY
---	-----------	----------

*Over half from Subscription & SaaS

Guidance

Q3FY21

Non-GAAP Operating Margin ⁽¹⁾	27.5%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$1.42
Diluted Share Count	423M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 2 points 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.

Guidance

FY21

Total Revenue

Approximately \$11.6B

7% YoY

Subscription & SaaS and License Revenue

Approximately \$5.5B*

Nearly 9% YoY

*Over 45% from Subscription & SaaS

Guidance

FY21	
Non-GAAP Operating Margin ⁽¹⁾	30.5%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$6.62
Diluted Share Count	423M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 7-8 points lower 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.

Guidance

FY21	
Cash Flow From Operations	Approximately \$3.7B
Cap Ex	\$300M
Free Cash Flow ⁽¹⁾	Approximately \$3.4B

(1) Free Cash Flow is a non-GAAP financial measure calculated by subtracting CapEx from Cash Flow From Operations. See table above

Q&A

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended July 31, 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	Acquisition, Disposition and Other Items	Tax Adjustment ⁽¹⁾	Non-GAAP As Adjusted ⁽²⁾
Operating expenses:							
Cost of license revenue	\$ 35	—	—	(9)	—	—	\$ 25
Cost of subscription and SaaS revenue	\$ 132	(5)	—	(48)	—	—	\$ 79
Cost of services revenue	\$ 321	(26)	—	—	—	—	\$ 294
Research and development	\$ 679	(132)	(1)	—	(1)	—	\$ 545
Sales and marketing	\$ 897	(88)	(3)	(24)	—	—	\$ 784
General and administrative	\$ 277	(42)	—	—	(37)	—	\$ 198
Operating income	\$ 534	293	4	81	38	—	\$ 950
Operating margin ⁽²⁾	18.6%	10.2%	0.1%	2.8%	1.3%	—	33.0%
Other income (expense), net ⁽³⁾	\$ 15	—	—	—	1	—	\$ 16
Income before income tax	\$ 495	293	4	81	39	—	\$ 912
Income tax provision	\$ 48	—	—	—	—	98	\$ 146
Tax rate ⁽²⁾	9.8%	—	—	—	—	—	16.0%
Net income	\$ 447	293	4	81	39	(98)	\$ 766
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 1.06	\$ 0.69	\$ 0.01	\$ 0.19	\$ 0.09	\$ (0.23)	\$ 1.81

⁽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 423,050 diluted weighted-average shares for Classes A and B.

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA For the Three Months Ended August 2, 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	\$ 38	—	—	(21)	—	—	\$ 17
Cost of subscription and SaaS revenue	\$ 97	(3)	—	(26)	—	—	\$ 68
Cost of services revenue	\$ 306	(20)	—	(1)	—	—	\$ 285
Research and development	\$ 614	(109)	—	—	—	—	\$ 505
Sales and marketing	\$ 888	(68)	(4)	(22)	—	—	\$ 795
General and administrative	\$ 223	(34)	—	—	(22)	—	\$ 167
Operating income	\$ 466	234	4	70	22	—	\$ 795
Operating margin ⁽²⁾	17.7%	8.9%	0.2%	2.7%	0.8%	—	30.2%
Other income (expense), net ⁽³⁾	\$ 41	—	—	—	(23)	—	\$ 17
Income before income tax	\$ 487	234	4	70	(1)	—	\$ 792
Income tax provision (benefit)	\$ (4,798) ⁽⁴⁾					4,925	\$ 127
Tax rate ⁽²⁾	N/M ⁽⁴⁾						16.0%
Net income	\$ 5,285	234	4	70	(1)	(4,925)	\$ 665
Less: Net income (loss) attributable to non-controlling interests	\$ (18)	26	—	9	—	(1)	\$ 15
Net income attributable to VMware, Inc.	\$ 5,303	208	4	61	(1)	(4,924)	\$ 650
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽²⁾⁽⁵⁾	\$ 12.47	\$ 0.49	\$ 0.01	\$ 0.14	\$ —	\$ (11.58)	\$ 1.53

N/M - Tax rate calculated on a GAAP basis is not considered meaningful.

⁽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⁾ During the second quarter of fiscal 2020, we completed an intra-group transfer of certain of our intellectual property rights to our Irish subsidiary, where our international business is headquartered. A discrete tax benefit of \$4.9 billion was recorded as a deferred tax asset. Due to the impact of the discrete tax benefit of \$4.9 billion, the tax rate calculated on a GAAP basis is not considered meaningful.

⁽⁵⁾ Calculated based upon 425,091 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>July 31,</u> <u>2020</u>	<u>August 2,</u> <u>2019</u>
Total revenue, as reported	\$ 2,875	\$ 2,632
Sequential change in unearned revenue ⁽¹⁾	167	360
Total revenue plus sequential change in unearned revenue	<u>\$ 3,042</u>	<u>\$ 2,992</u>
Change (%) over prior year, as reported	2 %	

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>July 31,</u> <u>2020</u>	<u>August 2,</u> <u>2019</u>
Total license and subscription and SaaS revenue, as reported	\$ 1,350	\$ 1,212
Sequential change in unearned license and subscription and SaaS revenue ⁽²⁾	36	23
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue	<u>\$ 1,386</u>	<u>\$ 1,235</u>
Change (%) over prior year, as reported	12 %	

⁽¹⁾ 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.

⁽²⁾ Consists of the change in unearned license and subscription and SaaS revenue from the preceding quarter .

Appendix

Reconciliation of GAAP to Non-GAAP Operating Margin Guidance

	Q3FY21 (Projected)		FY21 (Projected)	
GAAP Operating Margin	9.4% - 10.6% ⁽¹⁾	Projected	15.2% - 16.0% ⁽²⁾	Projected
Stock-based Compensation	10.3%	Estimated	9.9%	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	3.8%	Estimated	1.9%	Estimated
Non-GAAP Operating Margin	27.5%	Projected	30.5%	Projected

(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 17 to 18 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

	Q3FY21 (Projected)		FY21 (Projected)	
GAAP Net Income per Diluted Share	\$0.42 - \$0.49⁽¹⁾	Projected	\$3.41 - \$3.59⁽²⁾	Projected
Stock-based Compensation	0.68	Estimated	2.72	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated	0.03	Estimated
Intangible Amortization	0.19	Estimated	0.77	Estimated
Acquisition, Disposition and Other Related Items	0.25	Estimated	0.52	Estimated
Tax Adjustment ⁽³⁾	(0.19)	Estimated	(0.95)	Estimated
Non-GAAP Net Income per Diluted Share	\$1.42	Projected	\$6.62	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 \$0.93 to \$1.00 less than non-GAAP net income per share.

(2) 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 \$3.03 to \$3.21 less than non-GAAP net income per share.

(3) 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 Cloud on AWS, VMware Workspace ONE Intelligent Hub, VMware Horizon 8 and VMware Teleco Cloud) and as a result of recent acquisitions, such as that of Octarine; upcoming events, including VMworld 2020; VMware's plans to accelerate certain product initiatives to support customers and grow subscription and SaaS product offerings; and VMware's financial guidance for the third quarter and full year FY21. 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) the potential impact of Dell's investigation of strategic alternatives with respect to its interest in VMware, including a potential spinoff and related special cash dividend; (14) VMware's ability to attract and retain highly qualified employees; (15) the ability of VMware to utilize our relationship with Dell to leverage go-to-market and product development activities; (16) risks associated with cyber-attacks, information security and data privacy; (17) disruptions resulting from key management changes; (18) risks associated with international sales such as fluctuating currency exchange rates and increased trade barriers; (19) changes in VMware's financial condition; (20) geopolitical changes such as Brexit and increased tariffs and trade barriers that could adversely impact our non-U.S. sales; and (21) 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 presentation, 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 presentation.