

VMW Q1FY22 Earnings Conference Call

May 27, 2021

Zane Rowe, CFO & Interim CEO

- In Q1, total revenue grew 9% YoY to \$3B, with non-GAAP earnings of \$1.76 per share.⁽¹⁾
- On track to make most of our major product offerings available as Subscription and SaaS by the end of the year.
- Introduced VMware Cloud Universal, a program that provides customers with flexibility in utilizing VMware hybrid-cloud offerings as they progress on their cloud journeys.
- Announced updates to the VMware vRealize Cloud Management and CloudHealth portfolio.
- Unveiled expanded cloud workload protection capabilities to deliver better security for containers and Kubernetes.
- VMware and Dell continue to collaborate on solutions such as VMware Cloud on Dell EMC, VeloCloud SD-WAN, Digital Workspace and security, helping joint customers with their digital transformation journeys.

Zane Rowe, CFO & Interim CEO

- Unveiled VMware Anywhere Workspace, a solution designed to help customers manage multi-modal employee experiences, secure the distributed edge and automate their workspace.
- In Q1, the combination of Subscription & SaaS and License revenue grew 12% YoY to \$1.387B.
- Subscription and SaaS revenue increased 29% YoY in Q1.
- Q1 ARR for Subscription and SaaS was \$3B, an increase of 30% YoY.
- In Q1, RPO was \$11B, up 9% YoY, and current RPO was \$6.2B, up 12% YoY.
- Q1 total backlog was \$52M with license backlog at quarter-end of \$14M.

Zane Rowe, CFO & Interim CEO

- Q1 Core SDDC product bookings increased over 20% YoY.
- Q1 Compute product bookings increased over 20% YoY with strong growth for both on-prem deployments and Subscription and SaaS compute offerings, such as VCPP and VMC on AWS.
- Q1 Cloud Management product bookings were up in the high-teens YoY, driven by vRealize Subscription & SaaS, which enables customers to manage both on-prem and multi-cloud environments in a consistent manner.
- In Q1, Subscription & SaaS ACV bookings for EUC grew over 30% YoY; total EUC product bookings increased in the mid-teens YoY.
- Continue to focus on integrating Carbon Black and Tanzu into product development and go-to-market selling motions.
- Accelerating our progress towards leading our customers to the multi-cloud computing era.

Overview of Results: Revenue Highlights

Q1FY22		
	Actual (\$M)	YoY Growth
Total Revenue	2,994	9%
Subscription & SaaS and License Revenue	1,387	12%
Subscription & SaaS Revenue	741	29%
RPO ⁽¹⁾	11,032	9%
cRPO ⁽¹⁾	6,164	12%

(1) See Appendix for more information on RPO (Remaining Performance Obligations) and cRPO (Current Remaining Performance Obligations).

Subscription & SaaS

Q1FY22

25% of total revenue

Subscription & SaaS Revenue contains:

VMware Cloud Provider Program, VMware Cloud on AWS

Modern Applications Business including Tanzu and Pivotal

EUC: Portion of Workspace One revenue recognized as SaaS, VMware Horizon Service Universal

Carbon Black, AppDefense, Cloud Health Technologies, VeloCloud

VMware vRealize Cloud Universal & other “as a service” offerings

Income Statement Highlights

	Q1FY22	Q1FY21
License Revenue (\$M)	646	660
Subscription & SaaS Revenue (\$M)	741	572
Services Revenue (\$M)	1,607	1,502
Total Revenue (\$M)	2,994	2,734
Non-GAAP Operating Margin ⁽¹⁾	30.8%	29.9%
Non-GAAP Net Income per Diluted Share (\$) ⁽¹⁾	1.76	1.52

(1) See Appendix for reconciliation to GAAP.

Select Financial Measures

	Q1FY22
Headcount	34,618
Cash and Cash Equivalents (\$M)	5,594
Operating Cash Flow (\$M)	1,266
CapEx (\$M)	70
Unearned Revenue Total (\$M)	10,200
Long-Term Unearned Revenue (\$M) ⁽¹⁾	4,370

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

Guidance

FY22

Total Revenue Approximately \$12.80B 9% YoY

Subscription & SaaS and License Revenue Approximately \$6.33B* 12.5% YoY

* Approximately 53% from Subscription & SaaS

Guidance

FY22	
Non-GAAP Operating Margin ⁽¹⁾	28.5%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$6.88
Diluted Share Count	423M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 1 point higher to 2 points lower than Non-GAAP tax rate

Note: FY22 guidance does not include the impacts of incremental debt we expect to incur in conjunction with the planned spin-off from Dell later this year.

(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 such as a planned spinoff from our parent corporation, Dell Technologies, Inc. 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

FY22	
Cash Flow From Operations	\$3.90B
CapEx	\$380M
Free Cash Flow ⁽¹⁾	\$3.52B

Note: FY22 guidance does not include the impacts of incremental debt we expect to incur in conjunction with the planned spin-off from Dell later this year.

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

Guidance

Q2FY22

Total Revenue	\$3.100B	8% YoY
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Subscription & SaaS and License Revenue	\$1.485B*	10% YoY
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*Approximately 53% from Subscription & SaaS

Guidance

Q2FY22	
Non-GAAP Operating Margin ⁽¹⁾	28%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$1.62
Diluted Share Count	423M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 1 point higher to 1 point 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 such as a planned spinoff from our parent corporation, Dell Technologies, Inc. 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 April 30, 2021

(amounts in millions, except per share amounts, and shares in thousands)

	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	\$ 37	—	—	(11)	—	—	—	\$ 26
Cost of subscription and SaaS revenue	\$ 157	(5)	—	(42)	—	—	—	\$ 109
Cost of services revenue	\$ 337	(25)	—	—	—	—	—	\$ 312
Research and development	\$ 708	(127)	—	(2)	—	—	—	\$ 578
Sales and marketing	\$ 959	(75)	(1)	(22)	—	—	—	\$ 863
General and administrative	\$ 236	(31)	—	—	—	(22)	—	\$ 183
Realignment	\$ 1	—	—	—	(1)	—	—	\$ —
Operating income	\$ 559	263	1	77	1	22	—	\$ 923
Operating margin ⁽²⁾	18.7 %	8.8 %	— %	2.6 %	— %	0.7 %	—	30.8 %
Other income (expense), net ⁽³⁾	\$ (23)	—	—	—	—	36	—	\$ 12
Income before income tax	\$ 486	263	1	77	1	58	—	\$ 885
Income tax provision	\$ 61	—	—	—	—	—	80	\$ 141
Tax rate ⁽²⁾	12.6 %	—	—	—	—	—	—	16.0 %
Net income	\$ 425	263	1	77	1	58	(80)	\$ 744
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 1.01	\$ 0.62	\$ —	\$ 0.18	\$ —	\$ 0.14	\$ (0.19)	\$ 1.76

⁽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 investments in equity securities, whether realized or unrealized.

⁽⁴⁾ Calculated based upon 422,038 diluted weighted-average shares for Classes A and B.

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)

	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	\$ 40	—	—	(12)	—	—	—	\$ 27
Cost of subscription and SaaS revenue	\$ 126	(4)	—	(42)	—	—	—	\$ 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	\$ 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 investments in equity securities, whether realized or unrealized.

⁽⁴⁾ Calculated based upon 421,513 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>April 30,</u> <u>2021</u>	<u>May 1,</u> <u>2020</u>
Total revenue, as reported	\$ 2,994	\$ 2,734
Sequential change in unearned revenue ⁽¹⁾	(114)	(50)
Total revenue plus sequential change in unearned revenue	<u>\$ 2,880</u>	<u>\$ 2,684</u>
Change (%) over prior year, as reported	7 %	

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>April 30,</u> <u>2021</u>	<u>May 1,</u> <u>2020</u>
Total license and subscription and SaaS revenue, as reported	\$ 1,387	\$ 1,232
Sequential change in unearned license and subscription and SaaS revenue ⁽²⁾	67	41
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue	<u>\$ 1,454</u>	<u>\$ 1,273</u>
Change (%) over prior year, as reported	14 %	

⁽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 consolidated balance sheets.

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

Appendix

REMAINING PERFORMANCE OBLIGATIONS
(in millions)
(unaudited)

Growth in Remaining Performance Obligations

	April 30,	May 1,
	2021	2020
Remaining performance obligations ⁽³⁾	\$ 11,032	\$ 10,137
Change (%) over prior year	9 %	
Remaining performance obligations, current ⁽⁴⁾	\$ 6,164	\$ 5,518
Change (%) over prior year	12 %	

⁽³⁾ Remaining performance obligations represent the aggregate amount of the transaction price in contracts allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include unearned revenue, multi-year contracts with future installment payments and certain unfulfilled orders against accepted customer contracts at the end of any given period.

⁽⁴⁾ Current remaining performance obligations represent the amount expected to be recognized as revenue over the next twelve months.

Appendix

Reconciliation of GAAP to Non-GAAP Operating Margin Guidance

	Q2FY22 (Projected)		FY22 (Projected)	
GAAP Operating Margin	14.2% - 15.4% ⁽¹⁾	Projected	16.0% - 16.9% ⁽²⁾	Projected
Stock-based Compensation	9.7%	Estimated	8.7%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	2.5%	Estimated	2.3%	Estimated
Acquisition, Disposition and Other Related Items	0.6%	Estimated	0.6%	Estimated
Non-GAAP Operating Margin	28.0%	Projected	28.5%	Projected

(1) Values of items excluded from GAAP operating margin are estimates. While the aggregate of estimates may not foot, in total we project GAAP operating margin to be approximately 13 to 14 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 project GAAP operating margin to be approximately 12 percentage points less than non-GAAP operating margin.

Appendix

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

	Q2FY22 (Projected)		FY22 (Projected)	
GAAP Net Income per Diluted Share	\$0.78 - \$0.85⁽¹⁾	Projected	\$3.69 - \$3.94⁽²⁾	Projected
Stock-based Compensation	0.71	Estimated	2.65	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated	0.02	Estimated
Intangible Amortization	0.18	Estimated	0.71	Estimated
Acquisition, Disposition and Other Related Items	0.04	Estimated	0.26	Estimated
Tax Adjustment ⁽³⁾	(0.15)	Estimated	(0.65)	Estimated
Non-GAAP Net Income per Diluted Share	\$1.62	Projected	\$6.88	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 project GAAP net income per share to be \$0.77 to \$0.84 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 project GAAP net income per share to be \$2.94 to \$3.19 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 such as the planned spinoff from our parent corporation, Dell Technologies, Inc. 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, the anticipated timing and availability of VMware's major product offerings as subscription and SaaS; the benefits to customers of VMware's offerings and VMware's collaborations with Dell; acceleration of VMware's progress on its multi-cloud computing strategy; VMware's financial guidance for the second quarter and full year FY22; VMware's expected incurrence of incremental debt; and the planned spin-off of VMware from Dell. 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 failure of VMware or Dell Technologies to meet the contractual conditions for consummation of the spin-off; (2) the effect of the announced spin-off on VMware and Dell Technologies' strategic and commercial relationships and on the ability of VMware to retain and hire key personnel and maintain relationships with its customers, suppliers, operating results and business generally; (3) the impact of the COVID-19 pandemic on our operations, financial condition, our customers, the business environment and the global and regional economies; (4) adverse changes in general economic or market conditions; (5) delays or reductions in consumer, government and information technology spending; (6) 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, modern applications and security industries, as well as new product and marketing initiatives by VMware's competitors; (7) the ability to successfully integrate into VMware acquired companies and assets and smoothly transition services related to divested assets from VMware; (8) rapid technological changes in the virtualization software and cloud, end user, security, modern applications and mobile computing industries; (9) 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; (10) VMware's ability to enter into, maintain and extend strategically effective partnerships; (11) the continued risk of litigation and regulatory actions; (12) VMware's ability to protect its proprietary technology; (13) changes to product and service development timelines; (14) 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; (15) 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; (16) VMware's ability to attract and retain highly qualified employees; (17) the ability of VMware to utilize our relationship with Dell to leverage go-to-market and product development activities; (18) risks associated with cyber-attacks, information security and data privacy; (19) disruptions resulting from key management changes; (20) risks associated with international sales such as fluctuating currency exchange rates and increased trade barriers; (21) changes in VMware's financial condition; (22) geopolitical changes such as Brexit and increased tariffs and trade barriers that could adversely impact our non-U.S. sales; (23) the ability of VMware to adapt our offerings, business operations and go-to-market activities to changes in how customers consume information technology resources, such as through subscription and SaaS offerings; and (24) 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.