VMW Q2FY22 Earnings Conference Call

August 26, 2021

Raghu Raghuram, CEO

- Q2, total revenue of $3.1B, with non-GAAP earnings of $1.75 per share.[1]
- Customers are evolving their strategy from a ‘cloud first’ to a ‘cloud smart’ philosophy.
- Multi-cloud is emerging as customers’ default strategy.
- Customers are using our Tanzu platform to adopt public clouds and drive a consistent developer and cloud ops experience across all their clouds including data centers.
- VMware Cloud Universal provides customers the flexibility to move to the cloud at their own pace.

(1) See Appendix for reconciliation to GAAP.

Raghu Raghuram, CEO

- VMware Cloud on AWS customers continued to expand their usage as we delivered key engineering capabilities and footprint expansions including a new AWS Milan region.

- Unveiled VMware SASE, a cloud-native, scalable solution.

- Announced updates to the VMware vRealize Cloud Management and CloudHealth portfolio.

- Added new capabilities to VMware Horizon making it easier for IT to manage deployments wherever they may be, on-premises or in the cloud.

- SpringOne takes place September 1st & 2nd, optimized for developers, DevOps pros and software leaders.

- VMworld takes place October 4th – 7th and will be a virtual event.

Overview of Results: Revenue Highlights

Q2FY22		
	Actual ($M)	YoY Growth
Total Revenue	3,138	9%
Subscription & SaaS and License Revenue	1,514	12%
Subscription & SaaS Revenue	776	23%
RPO[(1)]	11,201	8%
cRPO[(1)]	6,249	11%

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

Zane Rowe, CFO & Executive Vice President

- In Q2, the combination of Subscription & SaaS and License revenue grew 12% YoY to $1.5B.
- Subscription and SaaS revenue increased 23% YoY in Q2.
- Q2 ARR for Subscription and SaaS was $3B, an increase of 26% YoY.[1]
- In Q2, RPO was $11B, up 8% YoY, and current RPO was $6B, up 11% YoY.
- Q2 total backlog was $66M with license backlog at quarter-end of $19M.
- Q2 Core SDDC product bookings increased over 20% YoY.[2]
- Q2 Compute product bookings increased over 20% YoY.[2]

(1) Annual Recurring Revenue ("ARR") represents the annualized value of our committed customer Subscription and SaaS contracts as of the end of the reporting period, assuming any contract that expires during the next 12 months is renewed on its existing terms. For consumption-based offerings, ARR represents the annualized quarterly revenue based on revenue recognized for the current reporting period.
(2) Product bookings include perpetual license, term license, Subscription & SaaS new and expansion, and Subscription & SaaS renewals, represented in Total Contract Value.

Income Statement Highlights

	Q2FY22	Q2FY21
License Revenue ($M)	738	719
Subscription & SaaS Revenue ($M)	776	631
Services Revenue ($M)	1,624	1,525
Total Revenue ($M)	3,138	2,875
Non-GAAP Operating Margin[(1)]	29.4%	33.0%
Non-GAAP Net Income per Diluted Share ($)[(1)]	1.75	1.81

(1) See Appendix for reconciliation to GAAP.

Select Financial Measures

	Q2FY22
Headcount	35,779
Cash and Cash Equivalents ($M)	5,855
Operating Cash Flow ($M)	864
CapEx ($M)	87
Unearned Revenue Total ($M)	10,338
Long-Term Unearned Revenue ($M)[1]	4,459

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

Zane Rowe, CFO & Executive Vice President

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Zane Rowe, CFO & Executive Vice President

- Q2 Cloud Management product bookings were up over 30% YoY.[1]
- Compute growth was strong for both on-prem and cloud deployments, benefitting from an improved economic backdrop, strength in our commercial business, and continued growth in our multi-cloud Subscription and SaaS offerings.
- EUC and NSX product bookings were both up in the strong double-digits versus Q2 last year.[1]
- vSAN product bookings grew in the low-single-digits YoY in Q2.[1]
- Carbon Black Cloud and our Modern Applications business continued to have strong growth in the quarter.
- In Q2, Subscription & SaaS ACV bookings for EUC grew in the strong double-digits YoY, driven by both Horizon and Workspace ONE.[2]

(1) Product bookings include perpetual license, term license, Subscription & SaaS new and expansion, and Subscription & SaaS renewals, represented in Total Contract Value.
(2) Subscription & SaaS ACV bookings include term license, Subscription & SaaS new and expansion, and Subscription & SaaS renewals, represented in Annual Contract Value.

Guidance

FY22		
Total Revenue	$12.80B	9% YoY
Subscription & SaaS and License Revenue	$6.27B*	11.5% YoY

* Approximately 51.5% from Subscription & SaaS

Guidance

	FY22
Non–GAAP Operating Margin (1)	29%
Diluted Non-GAAP Net Income per Share (1)	$6.90
Other Income & Expense (2)	($240M)
Diluted Share Count	423M
Non-GAAP Tax Rate (3)	16%
GAAP Tax Rate (3)	Approximately 1 point higher to 2 points lower than Non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.
(2) Other income & expense guidance reflects the estimated interest expense for the debt incurred in connection with the planned spin-off from our parent corporation, Dell Technologies Inc. (Dell).
(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 a planned spin-off from our parent corporation, Dell. 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 includes nearly $100M in debt issuance costs and estimated costs associated with the planned spin-off from Dell.

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

Guidance

Q3FY22		
Total Revenue	$3.12B	9% YoY
Subscription & SaaS and License Revenue	$1.47B*	12% YoY

*Approximately 56% from Subscription & SaaS

Guidance

	Q3FY22
Non–GAAP Operating Margin[(1)]	27%
Diluted Non-GAAP Net Income per Share[(1)]	$1.53
Other Income & Expense[(2)]	($75M)
Diluted Share Count	422M
Non-GAAP Tax Rate[(3)]	16%
GAAP Tax Rate[(3)]	Approximately 1 point higher to 1 point lower than Non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.
(2) Other income & expense guidance reflects the estimated interest expense for the debt incurred in connection with the planned spin-off from our parent corporation, Dell.
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Q&A

Subscription & SaaS

Q2FY22
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

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended July 30, 2021

(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	$ 37	—	—	(10)	—	—	$ 27
Cost of subscription and SaaS revenue	$ 170	(5)	—	(43)	—	—	$ 121
Cost of services revenue	$ 352	(24)	(1)	—	—	—	$ 326
Research and development	$ 775	(150)	(1)	(2)	—	—	$ 622
Sales and marketing	$ 1,023	(81)	(3)	(22)	—	—	$ 919
General and administrative	$ 256	(33)	(1)	—	(23)	—	$ 199
Operating income	$ 525	293	6	77	23	—	$ 924
Operating margin[2]	*16.7 %*	*9.3 %*	*0.2 %*	*2.4 %*	*0.7 %*	—	*29.4 %*
Other income (expense), net[3]	$ 3	—	—	—	1	—	$ 4
Income before income tax	$ 480	293	6	77	24	—	$ 880
Income tax provision	$ 69					71	$ 141
Tax rate[2]	*14.4 %*						*16.0 %*
Net income	$ 411	293	6	77	24	(71)	$ 739
Net income per weighted-average share, diluted for Classes A and B[2][4]	$ 0.97	$ 0.69	$ 0.02	$ 0.18	$ 0.06	$ (0.17)	$ 1.75

[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 422,802 diluted weighted-average shares for Classes A and B.

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 investments in equity securities, whether realized or unrealized.

[4] Calculated based upon 423,050 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

	Three Months Ended	
	July 30, 2021	July 31, 2020
Total revenue, as reported	$ 3,138	$ 2,875
Sequential change in unearned revenue[1]	138	167
Total revenue plus sequential change in unearned revenue	$ 3,276	$ 3,042
Change (%) over prior year, as reported	8 %	

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

	Three Months Ended	
	July 30, 2021	July 31, 2020
Total license and subscription and SaaS revenue, as reported	$ 1,514	$ 1,350
Sequential change in unearned license and subscription and SaaS revenue[2]	148	36
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue	$ 1,662	$ 1,386
Change (%) over prior year, as reported	20 %	

[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

	July 30, 2021	July 31, 2020
Remaining performance obligations[3]	$ 11,201	$ 10,335
Change (%) over prior year	8 %	
Remaining performance obligations, current[4]	$ 6,249	$ 5,625
Change (%) over prior year	11 %	

[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

	Q3FY22 (Projected)		FY22 (Projected)	
GAAP Operating Margin	**14.4% - 15.6%** [(1)]	**Projected**	**16.4% - 17.0%** [(2)]	**Projected**
Stock-based Compensation	8.4%	Estimated	8.5%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	2.4%	Estimated	2.4%	Estimated
Acquisition, Disposition and Other Related Items	0.8%	Estimated	1.2%	Estimated
Non-GAAP Operating Margin	**27.0%**	**Projected**	**29.0%**	**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 11 to 13 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 to 13 percentage points less than non-GAAP operating margin.

Appendix

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

	Q3FY22 (Projected)		FY22 (Projected)	
GAAP Net Income per Diluted Share	**$0.74 - $0.82** (1)	**Projected**	**$3.64 - $3.84** (2)	**Projected**
Stock-based Compensation	0.62	Estimated	2.57	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated	0.03	Estimated
Intangible Amortization	0.18	Estimated	0.72	Estimated
Acquisition, Disposition and Other Related Items	0.06	Estimated	0.46	Estimated
Tax Adjustment (3)	(0.13)	Estimated	(0.65)	Estimated
Non-GAAP Net Income per Diluted Share	**$1.53**	**Projected**	**$6.90**	**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 $0.71 to $0.79 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 $3.06 to $3.26 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. 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, customer trends; the benefits to customers of VMware's offerings; VMware's financial guidance for the third quarter and full year FY22; 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 delay or failure to consummate the spin-off from Dell Technologies; (2) the impact of the COVID-19 pandemic on our operations, financial condition, our customers, the business environment and the global and regional economies; (3) adverse changes in general economic or market conditions; (4) delays or reductions in consumer, government and information technology spending; (5) 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; (6) the ability to successfully integrate into VMware acquired companies and assets and smoothly transition services related to divested assets from VMware; (7) rapid technological changes in the virtualization software and cloud, end user, security, modern applications and mobile computing industries; (8) 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; (9) VMware's ability to enter into, maintain and extend strategically effective partnerships; (10) the continued risk of litigation and regulatory actions; (11) VMware's ability to protect its proprietary technology; (12) changes to product and service development timelines; (13) 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; (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 and increased tariffs and trade barriers that could adversely impact our non-U.S. sales; (21) 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 (22) 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.