

# VMW Q3FY22 Earnings Conference Call

November 23, 2021

# Raghu Raghuram, CEO

- Successfully completed our spin-off from Dell Technologies on November 1, 2021.
- Customers continue to choose VMware as their trusted digital foundation to accelerate their innovation.
- For the next 20 years, multi-cloud will be the model for digital business.
- Our Tanzu portfolio is now one of the most comprehensive in the industry for both Kubernetes operations and developer experience.
- Recently announced new advancements for VMware Cloud, the industry's first and only cloud-agnostic computing infrastructure.

# Raghu Raghuram, CEO

- Announced the VMware Sovereign Cloud initiative, partnering across our VMware Cloud Providers to deliver cloud services on sovereign digital infrastructure.
- Introduced VMware Edge, a product portfolio that will enable organizations to run, manage & better secure edge-native apps across multiple clouds, anywhere.
- In the security space, VMware is delivering solutions built specifically for the threats customers face today.
- Excited about our continuing innovation on SASE, Secure Access Services Edge.
- Strive to serve our customers by being the trusted foundation for their most critical business operations, by offering an innovative portfolio of best-in-class solutions to fulfill their multi-cloud vision and by having a broad set of strategic partnerships required to unlock the full potential of multi-cloud.

# Overview of Results: Revenue Highlights

Q3FY22		
	Actual (\$M)	YoY Growth
Total Revenue	3,188	11%
Subscription & SaaS and License Revenue	1,530	16%
Subscription & SaaS Revenue	820	21%
License Revenue	710	11%
RPO <sup>(1)</sup>	11,123	9%
cRPO <sup>(1)</sup>	6,232	11%

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

# Income Statement Highlights

	Q3FY22	Q3FY21
License Revenue (\$M)	710	639
Subscription & SaaS Revenue (\$M)	820	676
Services Revenue (\$M)	1,658	1,549
Total Revenue (\$M)	3,188	2,864
Non-GAAP Operating Margin <sup>(1)</sup>	29.3%	31.0%
Non-GAAP Net Income per Diluted Share (\$) <sup>(1)</sup>	1.72	1.66

(1) See Appendix for reconciliation to GAAP.

# Select Financial Measures

	Q3FY22
Headcount	36,744
Cash and Cash Equivalents (\$M)	12,500
Operating Cash Flow (\$M)	1,090
CapEx (\$M)	106
Unearned Revenue Total (\$M)	10,233
Long-Term Unearned Revenue (\$M) <sup>(1)</sup>	4,425

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

# Zane Rowe, CFO & Executive Vice President

- Strong YoY product bookings growth in major product categories.<sup>(1)</sup>
- Q3 Core SDDC product bookings increased over 20% YoY.<sup>(1)</sup>
- Q3 Compute product bookings were up in the low double-digits YoY.<sup>(1)</sup>
- Q3 Cloud management product bookings were up in the strong double-digits YoY.<sup>(1)</sup>

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

# Zane Rowe, CFO & Executive Vice President

- Continued to drive innovation and new product offerings across our Carbon Black Cloud and Tanzu platforms.
- NSX product bookings increased in the low double-digits versus Q3 of last year.<sup>(1)</sup>
- vSAN product bookings grew in the high-teens YoY.<sup>(1)</sup>
- EUC total product bookings as well as Sub & SaaS ACV bookings were up in the strong double-digits YoY.<sup>(1)(2)</sup>

(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

\$12.830B

9% YoY

Subscription & SaaS and License Revenue

\$6.305B\*

12% YoY

\* Approximately 50.5% from Subscription & SaaS

# Guidance

FY22	
Non-GAAP Operating Margin <sup>(1)</sup>	30%
Diluted Non-GAAP Net Income per Share <sup>(1)</sup>	\$7.19
Other Income & Expense <sup>(2)</sup>	(\$234M)
Diluted Share Count	422M
Non-GAAP Tax Rate <sup>(3)</sup>	16%
GAAP Tax Rate <sup>(3)</sup>	Approximately 1 to 2 points lower than Non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.

(2) Other income & expense guidance reflects the interest expense for the debt incurred in connection with VMware's spin-off from 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 the spin-off of VMware from 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	\$4.10B
CapEx	\$380M
Free Cash Flow <sup>(1)</sup>	\$3.72B

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

# Guidance

## Q4FY22

Total Revenue	\$3.510B	7% YoY
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Subscription & SaaS and License Revenue	\$1.875B*	9% YoY
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\*Approximately \$860M from Subscription & SaaS

# Guidance

## Q4FY22

Non-GAAP Operating Margin <sup>(1)</sup>	30.4%
Diluted Non-GAAP Net Income per Share <sup>(1)</sup>	\$1.96
Other Income & Expense <sup>(2)</sup>	(\$82M)
Diluted Share Count	422M
Non-GAAP Tax Rate <sup>(3)</sup>	16%
GAAP Tax Rate <sup>(3)</sup>	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 interest expense for the debt incurred in connection with VMware's spin-off from 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 the spin-off of VMware from 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.

# Q&A

# Product Portfolio Addresses Key Customer Priorities

Focus on scaling our Sub & SaaS offerings; opportunity to drive large installed base to Sub & SaaS



## License & Software Maintenance

Focus on product innovation to bring Sub & SaaS offerings to market



VMware vSphere®



VMware vSAN™

Subscription tech preview at VMworld (Project Arctic)



VMware NSX®



VMware Cloud Foundation™



## Customer Choice

Focus on driving to Sub & SaaS while providing customers increased value, choice & flexibility



VMware Cloud Management



VMware Workspace ONE®



VMware SD-WAN™



VMware Horizon®



## Subscription & SaaS

Focus on driving innovation and scaling offerings



VMware Cloud Provider™



VMware Cloud™



VMware Tanzu™



VMware Carbon Black™

# Subscription & SaaS

Q3FY22

26% 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 October 29, 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 <sup>(1)</sup>	Non-GAAP As Adjusted <sup>(2)</sup>
Operating expenses:							
Cost of license revenue	\$ 37	—	—	(10)	—	—	\$ 27
Cost of subscription and SaaS revenue	\$ 175	(5)	—	(43)	—	—	\$ 127
Cost of services revenue	\$ 362	(21)	—	—	—	—	\$ 341
Research and development	\$ 768	(125)	—	(2)	—	—	\$ 641
Sales and marketing	\$ 1,011	(74)	(1)	(20)	—	—	\$ 915
General and administrative	\$ 316	(33)	—	—	(82)	—	\$ 202
Operating income	\$ 519	258	1	75	82	—	\$ 935
Operating margin <sup>(2)</sup>	16.3 %	8.1 %	— %	2.4 %	2.6 %	—	29.3 %
Other income (expense), net <sup>(3)</sup>	\$ 12	—	—	—	(10)	—	\$ 2
Income before income tax	\$ 457	258	1	75	72	—	\$ 863
Income tax provision	\$ 59					79	\$ 138
Tax rate <sup>(2)</sup>	12.9 %						16.0 %
Net income	\$ 398	258	1	75	72	(79)	\$ 725
Net income per weighted-average share, diluted for Classes A and B <sup>(2)(4)</sup>	\$ 0.94	\$ 0.61	\$ —	\$ 0.18	\$ 0.17	\$ (0.19)	\$ 1.72

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Calculated based upon 421,763 diluted weighted-average shares for Classes A and B.

# Appendix

## VMware, Inc.

### RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended October 30, 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 <sup>(1)</sup>	Non-GAAP As Adjusted <sup>(2)</sup>
Operating expenses:								
Cost of license revenue	\$ 44	—	—	(11)	—	—	—	\$ 33
Cost of subscription and SaaS revenue	\$ 142	(4)	—	(48)	—	—	—	\$ 90
Cost of services revenue	\$ 330	(25)	—	—	—	—	—	\$ 305
Research and development	\$ 714	(140)	—	(1)	—	—	—	\$ 573
Sales and marketing	\$ 912	(85)	(1)	(23)	—	—	—	\$ 803
General and administrative	\$ 250	(50)	—	—	—	(28)	—	\$ 172
Realignment	\$ 44	—	—	—	(44)	—	—	\$ —
Operating income	\$ 428	304	1	83	44	28	—	\$ 888
Operating margin <sup>(2)</sup>	14.9 %	10.6 %	— %	2.9 %	1.5 %	1.0 %	—	31.0 %
Other income (expense), net <sup>(3)</sup>	\$ 177	—	—	—	—	(175)	—	\$ 1
Income before income tax	\$ 554	304	1	83	44	(147)	—	\$ 838
Income tax provision	\$ 120						14	\$ 134
Tax rate <sup>(2)</sup>	21.6 %							16.0 %
Net income	\$ 434	304	1	83	44	(147)	(14)	\$ 704
Net income per weighted-average share, diluted for Classes A and B <sup>(2)(4)</sup>	\$ 1.02	\$ 0.72	\$ —	\$ 0.20	\$ 0.10	\$ (0.35)	\$ (0.03)	\$ 1.66

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Calculated based upon 423,400 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>October 29, 2021</u>	<u>October 30, 2020</u>
Total revenue, as reported	\$ 3,188	\$ 2,864
Sequential change in unearned revenue <sup>(1)</sup>	(105)	(150)
Total revenue plus sequential change in unearned revenue	<u>\$ 3,083</u>	<u>\$ 2,714</u>
Change (%) over prior year, as reported	14 %	

### 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>October 29, 2021</u>	<u>October 30, 2020</u>
Total license and subscription and SaaS revenue, as reported	\$ 1,530	\$ 1,315
Sequential change in unearned license and subscription and SaaS revenue <sup>(2)</sup>	27	(23)
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue	<u>\$ 1,557</u>	<u>\$ 1,292</u>
Change (%) over prior year, as reported	21 %	

<sup>(1)</sup> 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.

<sup>(2)</sup> 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**

	<b>October 29, 2021</b>	<b>October 30, 2020</b>
Remaining performance obligations <sup>(3)</sup>	\$ 11,123	\$ 10,173
Change (%) over prior year	9 %	
Remaining performance obligations, current <sup>(4)</sup>	\$ 6,232	\$ 5,631
Change (%) over prior year	11 %	

<sup>(3)</sup> 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.

<sup>(4)</sup> 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

	Q4FY22 (Projected)		FY22 (Projected)	
<b>GAAP Operating Margin</b>	<b>19.4% - 20.5%</b> <sup>(1)</sup>	<b>Projected</b>	<b>17.8% - 18.1%</b> <sup>(2)</sup>	<b>Projected</b>
Stock-based Compensation	7.5%	Estimated	8.4%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	2.1%	Estimated	2.4%	Estimated
Acquisition, Disposition and Other Related Items	0.6%	Estimated	1.1%	Estimated
<b>Non-GAAP Operating Margin</b>	<b>30.4%</b>	<b>Projected</b>	<b>30.0%</b>	<b>Projected</b>

(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 10 to 11 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

	Q4FY22 (Projected)		FY22 (Projected)	
<b>GAAP Net Income per Diluted Share</b>	<b>\$1.19 - \$1.28</b> <sup>(1)</sup>	<b>Projected</b>	<b>\$4.13 - \$4.18</b> <sup>(2)</sup>	<b>Projected</b>
Stock-based Compensation	0.62	Estimated	2.55	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated	0.03	Estimated
Intangible Amortization	0.17	Estimated	0.72	Estimated
Acquisition, Disposition and Other Related Items	0.05	Estimated	0.41	Estimated
Tax Adjustment <sup>(3)</sup>	(0.14)	Estimated	(0.69)	Estimated
<b>Non-GAAP Net Income per Diluted Share</b>	<b>\$1.96</b>	<b>Projected</b>	<b>\$7.19</b>	<b>Projected</b>

(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 \$0.68 to \$0.77 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 \$3.01 to \$3.06 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 spin-off of VMware from 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, the expected benefits to customers of VMware's strategy, partnerships and offerings; and VMware's financial guidance for the fourth quarter and full year FY22 and full year FY23. 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 VMware's operations, financial condition, VMware's customers, the business environment and global and regional economies; (2) the ability of VMware to adapt its offerings, business operations and go-to-market activities to changes in how customers consume information technology resources, such as through subscription and SaaS offerings; (3) the effect of the spin-off from Dell Technologies ("Dell") and changes in VMware's and Dell's commercial relationships and go-to-market and technology collaborations on VMware's ability to maintain relationships with its customers, suppliers and on VMware's operating results and business generally; (4) changes to VMware's and Dell's respective financial conditions and strategic directions that could adversely impact their commercial relationship and collaborations; (5) the continued risk of litigation and regulatory actions; (6) adverse changes in general economic or market conditions; (7) delays or reductions in consumer, government and information technology spending; (8) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the industries in which VMware competes, as well as new product and marketing initiatives by VMware's competitors; (9) rapid technological changes in the virtualization software and cloud, end user, edge security and mobile computing and telecom industries; (10) the uncertainty of VMware's customers' acceptance of and ability to transition to emerging technologies and new offerings and computing strategies in the industries in which VMware competes; (11) VMware's ability to enter into, maintain and extend strategically effective partnerships, collaborations and alliances; (12) VMware's ability to protect its proprietary technology; (13) changes to product and services development timelines; (14) risks associated with cyber-attacks, information security and data privacy; (15) disruptions resulting from key management changes; (16) risks associated with international sales, such as fluctuating currency exchange rates and increased trade barriers; (17) changes in VMware's financial condition; and (18) 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 VMware 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.