

## About Non-GAAP Financial Measures

To provide investors and others with additional information regarding VMware's results, VMware has disclosed in this earnings release the following non-GAAP financial measures: non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per diluted share and free cash flow. VMware has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. These non-GAAP financial measures, other than free cash flow, differ from GAAP in that they exclude stock-based compensation, employer payroll tax on employee stock transactions, amortization of acquired intangible assets, realignment charges, acquisition, disposition and other-related items, certain litigation and other contingencies and discrete items that impacted our GAAP tax rate, each as discussed below. Our non-GAAP financial measures also reflect the application of our non-GAAP tax rate. Free cash flow differs from GAAP cash flow from operating activities with respect to the treatment of capital expenditures.

VMware's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, to calculate bonus payments and to evaluate VMware's financial performance, the performance of its individual functional groups and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect VMware's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in VMware's business, as they exclude charges and gains that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating VMware's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flow provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to repurchase shares, to fund ongoing operations and to fund other capital expenditures.

Management believes these non-GAAP financial measures are useful to investors and others in assessing VMware's operating performance due to the following factors:

- *Stock-based compensation.* Stock-based compensation is generally fixed at the time the stock-based instrument is granted and amortized over a period of several years. Although stock-based compensation is an important aspect of the compensation of VMware's employees and executives, the expense for the fair value of the stock-based instruments VMware utilizes may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Management believes it is useful to exclude stock-based compensation in order to better understand the long-term performance of VMware's core business.
- *Employer payroll tax on employee stock transactions.* The amount of employer payroll taxes on stock-based compensation is dependent on VMware's stock price and other factors that are beyond VMware's control and do not correlate to the operation of the business.
- *Amortization of acquired intangible assets.* A portion of the purchase price of VMware's acquisitions is generally allocated to intangible assets, such as intellectual property, and is subject to amortization. However, VMware does not acquire businesses on a predictable cycle. Additionally, the amount of an acquisition's purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition. Therefore, VMware believes that the presentation of non-GAAP financial measures that adjust for the amortization of intangible assets provides investors and others with a consistent basis for comparison across accounting periods.
- *Realignment charges.* Realignment charges include workforce reductions, asset impairments, losses on asset disposals and costs to exit facilities. VMware's management believes it is useful to exclude these items, when significant, as they are not reflective of VMware's core business and operating results.

- *Acquisition, disposition and other-related items.* As VMware does not acquire or dispose of businesses on a predictable cycle and the terms of each transaction can vary significantly and are unique to each transaction, VMware believes it is useful to exclude acquisition, disposition and other-related items when looking for a consistent basis for comparison across accounting periods. These items include:
  - Direct costs of acquisitions and dispositions, such as transaction and advisory fees.
  - Accruals for the portion of merger consideration payable in installments that may be paid in cash or VMware stock, at the option of VMware.
  - Gains or losses on equity investments, whether realized or unrealized, including unrealized gains or losses related to VMware's investment in Pivotal to adjust it to its fair value.
  - Charges recognized for non-recoverable strategic investments or gains recognized on the disposition of strategic investments are included as other-related items.
  - Gains or losses on sale or disposal of distinct lines of business or product offerings, or transactions with features similar to discontinued operations, including recoveries or charges recognized to adjust the fair value of assets that qualify as "held for sale."
  - Certain costs incurred related to Dell's acquisition of VMware's parent company, EMC Corporation.
  
- *Certain litigation and other contingencies.* VMware, from time to time, may incur charges or benefits that are outside of the ordinary course of VMware's business related to litigation and other contingencies. VMware believes it is useful to exclude such charges or benefits because it does not consider such amounts to be part of the ongoing operation of VMware's business and because of the singular nature of the claims underlying such matters.
  
- *Tax adjustment.* Non-GAAP financial information for the quarter is adjusted for a tax rate equal to VMware's annual estimated tax rate on non-GAAP income. This rate is based on VMware's estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating VMware's non-GAAP income as well as significant tax adjustments. VMware's 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 VMware management believes 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 VMware's estimated annual tax rates as described above, the estimated tax rate on non-GAAP income may differ from the GAAP tax rate and from VMware's actual tax liabilities.

Additionally, VMware's management believes that the non-GAAP financial measure of free cash flow is meaningful to investors because management reviews cash flow generated from operations after taking into consideration capital expenditures due to the fact that these expenditures are considered to be a necessary component of ongoing operations.

The use of non-GAAP financial measures has certain limitations because they do not reflect all items of income and expense that affect VMware's operations. Specifically, in the case of stock-based compensation, if VMware did not pay out a portion of its compensation in the form of stock-based compensation and related employer payroll taxes, the cash salary expense included in operating expenses would be higher, which would affect VMware's cash position. VMware compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP and should not be considered measures of VMware's liquidity. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited.

Management encourages investors and others to review VMware's financial information in its entirety and not rely on a single financial measure.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended May 3, 2019

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

(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Items	Tax Adjustment <sup>(1)</sup>	Non-GAAP, as adjusted <sup>(2)</sup>
Operating expenses:							
Cost of license revenue	\$ 50	—	—	(33)	—	—	\$ 17
Cost of services revenue	\$ 302	(16)	—	(1)	—	—	\$ 287
Research and development	\$ 533	(95)	—	—	—	—	\$ 437
Sales and marketing	\$ 779	(57)	(2)	(10)	—	—	\$ 712
General and administrative	\$ 187	(26)	—	—	(13)	—	\$ 146
Operating income	\$ 415	194	2	44	13	—	\$ 667
<i>Operating margin<sup>(2)</sup></i>	<i>18.3%</i>	<i>8.5%</i>	<i>0.1%</i>	<i>1.9%</i>	<i>0.6%</i>	—	<i>29.5%</i>
Other income (expense), net <sup>(3)</sup>	\$ 145	—	—	—	(133)	—	\$ 12
Income before income tax	\$ 540	194	2	44	(120)	—	\$ 659
Income tax provision	\$ 35					71	\$ 106
<i>Tax rate<sup>(2)</sup></i>	<i>6.4%</i>						<i>16.0%</i>
Net income	\$ 505	194	2	44	(120)	(71)	\$ 553
Net income per weighted-average share, diluted for Classes A and B <sup>(2)(4)</sup>	\$ 1.21	\$ 0.46	\$ 0.01	\$ 0.10	\$ (0.29)	\$ (0.17)	\$ 1.32

<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 equity investments, whether realized or unrealized. During the three months ended May 3, 2019, this adjustment primarily included an unrealized gain of \$132 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

<sup>(4)</sup> Calculated based upon 418,387 diluted weighted-average shares for Classes A and B.

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Three Months Ended May 4, 2018**  
(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	\$ 45	—	—	(30)	—	—	\$ 15
Cost of services revenue	\$ 251	(11)	(1)	(1)	—	—	\$ 239
Research and development	\$ 453	(84)	—	—	(1)	—	\$ 368
Sales and marketing	\$ 706	(46)	(1)	(7)	(1)	—	\$ 651
General and administrative	\$ 169	(20)	—	—	(11)	—	\$ 137
Realignment and loss on disposition	\$ 2	—	—	—	(2)	—	\$ —
Operating income	\$ 382	161	2	38	15	—	\$ 598
<i>Operating margin<sup>(2)</sup></i>	<i>19.0%</i>	<i>8.0%</i>	<i>0.1%</i>	<i>1.9%</i>	<i>0.8%</i>	—	<i>29.8%</i>
Other income (expense), net <sup>(3)</sup>	\$ 779	—	—	—	(776)	—	\$ 2
Income before income tax	\$ 1,175	161	2	38	(761)	—	\$ 614
Income tax provision	\$ 233					(134)	\$ 98
<i>Tax rate<sup>(2)</sup></i>	<i>19.8%</i>						<i>16.0%</i>
Net income	\$ 942	161	2	38	(761)	134	\$ 516
Net income per weighted-average share, diluted for Classes A and B <sup>(2)(4)</sup>	\$ 2.29	\$ 0.39	\$ —	\$ 0.09	\$ (1.85)	\$ 0.33	\$ 1.26

<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 equity investments, whether realized or unrealized. During the first quarter of fiscal 2019, this adjustment primarily included a gain of \$781 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

<sup>(4)</sup> Calculated based upon 410,932 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES

TO FREE CASH FLOWS

(A NON-GAAP FINANCIAL MEASURE)

(in millions)

(unaudited)

	<b>Three Months Ended</b>	
	<b>May 3, 2019</b>	<b>May 4, 2018</b>
GAAP cash flows from operating activities	\$ 1,273	\$ 1,095
Capital expenditures	(71)	(61)
Free cash flows	<u>\$ 1,202</u>	<u>\$ 1,034</u>