

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 Related Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
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
Operating margin ⁽²⁾	19.0%	8.0%	0.1%	1.9%	0.8%	—	29.8%
Other income (expense), net ⁽³⁾	\$ 779	—	—	—	(776)	—	\$ 2
Income before income tax	\$ 1,175	161	2	38	(761)	—	\$ 614
Income tax provision	\$ 233					(134)	\$ 98
Tax rate ⁽²⁾	19.8%						16.0%
Net income	\$ 942	161	2	38	(761)	134	\$ 516
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 2.29	\$ 0.39	\$ —	\$ 0.09	\$ (1.85)	\$ 0.33	\$ 1.26

⁽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, such as adjustments resulting from the U.S. Tax Cuts and Jobs Act enacted on December 22, 2017 (the "Tax Act"). 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 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. 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.

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

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended May 5, 2017

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

(unaudited)

	GAAP ⁽¹⁾	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Related Items ⁽¹⁾	Loss on Share Repurchase	Tax Adjustment ⁽¹⁾⁽²⁾	Non-GAAP, as adjusted ⁽¹⁾⁽³⁾
Operating expenses:								
Cost of license revenue	\$ 39	(1)	—	(26)	—	—	—	\$ 12
Cost of services revenue	\$ 250	(14)	(1)	(1)	(1)	—	—	\$ 233
Research and development	\$ 421	(82)	—	—	(3)	—	—	\$ 337
Sales and marketing	\$ 579	(48)	(2)	(4)	—	—	—	\$ 524
General and administrative	\$ 151	(18)	—	—	(5)	—	—	\$ 128
Realignment	\$ 64	—	—	—	(64)	—	—	\$ —
Operating income	\$ 261	163	3	31	73	—	—	\$ 531
Operating margin ⁽³⁾	14.8%	9.2%	0.2%	1.8%	4.2%	—	—	30.1%
Other income (expense), net	\$ 4	—	—	—	1	2	—	\$ 7
Income before income tax	\$ 281	163	3	31	74	2	—	\$ 554
Income tax provision	\$ 36						78	\$ 114
Tax rate ⁽³⁾	12.8%							20.5%
Net income	\$ 245	163	3	31	74	2	(78)	\$ 440
Net income per weighted-average share, diluted for Classes A and B ⁽³⁾⁽⁴⁾	\$ 0.59	\$ 0.39	\$ 0.01	\$ 0.08	\$ 0.18	\$ —	(0.19)	\$ 1.06

⁽¹⁾ Adjusted to reflect the adoption of ASC 606.

⁽²⁾ 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 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.

⁽³⁾ 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.

⁽⁴⁾ Calculated based upon 414,018 diluted weighted-average shares for Classes A and B.

**RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES
TO FREE CASH FLOWS
(A NON-GAAP FINANCIAL MEASURE)
(in millions)
(unaudited)**

	Three Months Ended	
	May 4, 2018	May 5, 2017⁽¹⁾
GAAP cash flows from operating activities	\$ 1,095	\$ 777
Capital expenditures	(61)	(49)
Free cash flows	\$ 1,034	\$ 728

⁽¹⁾ Adjusted to reflect the adoption of ASU 2016-18. GAAP cash flows from operating activities for the three months ended May 5, 2017 increased by \$2 million when compared to the previously reported amount due to the adoption of ASU 2016-18.

SUPPLEMENTAL SCHEDULE OF FINANCIAL INFORMATION ADJUSTED FOR ASC 606**(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)**

During May 2014, the Financial Accounting Standards Board issued updates to accounting standards related to revenue recognition ("ASC 606"). VMware adopted ASC 606 on a full retrospective basis effective February 3, 2018.

Condensed Consolidated Statements of Income Adjusted for ASC 606

The following table presents the condensed consolidated statements of income for the quarterly and annual periods of fiscal 2018 and the annual period of fiscal 2016 as adjusted for ASC 606 (tables in millions, except per share amounts, and shares in thousands):

	For the Three Months Ended				For the Twelve Months Ended	
	May 5, 2017	August 4, 2017	November 3, 2017	February 2, 2018	February 2, 2018 ⁽¹⁾	December 31, 2016
Revenue:						
License	\$ 641	\$ 783	\$ 758	\$ 1,018	\$ 3,200	\$ 2,799
Services	1,124	1,149	1,180	1,208	4,662	4,274
Total revenue	1,765	1,932	1,938	2,226	7,862	7,073
Operating expenses:						
Cost of license revenue	39	39	38	41	157	159
Cost of services revenue	250	231	240	263	984	894
Research and development	421	428	449	457	1,755	1,503
Sales and marketing	579	613	624	689	2,506	2,307
General and administrative	151	160	175	169	654	689
Realignment and loss on disposition	64	36	2	2	104	52
Operating income	261	425	410	605	1,702	1,469
Investment income	23	25	33	38	120	77
Interest expense	(7)	(7)	(28)	(33)	(74)	(26)
Other income (expense), net	4	51	(2)	15	66	(17)
Income before income tax	281	494	413	625	1,814	1,503
Income tax provision	36	88	18	1,012	1,155	280
Net income (loss)	\$ 245	\$ 406	\$ 395	\$ (387)	\$ 659	\$ 1,223
Net income (loss) per weighted-average share, basic for Classes A and B	\$ 0.60	\$ 0.99	\$ 0.97	\$ (0.96)	\$ 1.62	\$ 2.91
Net income (loss) per weighted-average share, diluted for Classes A and B	\$ 0.59	\$ 0.98	\$ 0.96	\$ (0.96)	\$ 1.59	\$ 2.87
Weighted-average shares, basic for Classes A and B	408,431	408,399	406,733	403,383	406,738	420,520
Weighted-average shares, diluted for Classes A and B	414,018	412,768	413,013	403,383	413,368	423,994

⁽¹⁾ Totals may not sum, due to rounding. Net income per weighted-average share information is calculated based upon the respective underlying, non-rounded data.

RECONCILIATIONS OF GAAP TO NON-GAAP DATA
(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)

	For the Three Months Ended August 4, 2017		
	GAAP As Adjusted Under ASC 606	Non-GAAP Adjustments	Non-GAAP As Adjusted Under ASC 606⁽⁶⁾
Operating income	\$ 425	248 ⁽¹⁾	\$ 673
Income tax provision	\$ 88	56 ⁽²⁾	\$ 145
Net income	\$ 406	154 ⁽³⁾	\$ 559
Net income per weighted-average share, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 0.98	0.37 ⁽⁴⁾	\$ 1.35

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$169 million), employer payroll taxes on employee stock transactions (\$1 million), intangible amortization (\$33 million) and acquisition, disposition and other related items (\$45 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$56 million during the three months ended August 4, 2017.

⁽³⁾ Non-GAAP adjustments to net income include stock-based compensation (\$169 million), employer payroll taxes on employee stock transactions (\$1 million), intangible amortization (\$33 million), acquisition, disposition and other related items (\$7 million) and tax adjustment (-\$56 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share, diluted, include stock-based compensation (\$0.41), intangible amortization (\$0.08), acquisition, disposition and other related items (\$0.02) and tax adjustment (-\$0.14).

⁽⁵⁾ Non-GAAP net income per weighted-average share, diluted, was calculated based upon 412,768 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share was calculated based upon the respective underlying, non-rounded data.

	For the Three Months Ended November 3, 2017		
	GAAP As Adjusted Under ASC 606	Non-GAAP Adjustments	Non-GAAP As Adjusted Under ASC 606⁽⁶⁾
Operating income	\$ 410	225 ⁽¹⁾	\$ 634
Income tax provision	\$ 18	113 ⁽²⁾	\$ 132
Net income	\$ 395	115 ⁽³⁾	\$ 509
Net income per weighted-average share, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 0.96	0.28 ⁽⁴⁾	\$ 1.23

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$182 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$33 million) and acquisition, disposition and other related items (\$8 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$113 million during the three months ended November 3, 2017.

⁽³⁾ Non-GAAP adjustments to net income include stock-based compensation (\$182 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$33 million), acquisition, disposition and other related items (\$11 million) and tax adjustment (-\$113 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share, diluted, include stock-based compensation (\$0.44), intangible amortization (\$0.08), acquisition, disposition and other related items (\$0.03) and tax adjustment (-\$0.27).

⁽⁵⁾ Non-GAAP net income per weighted-average share, diluted, was calculated based upon 413,013 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share was calculated based upon the respective underlying, non-rounded data.

	For the Three Months Ended February 2, 2018		
	GAAP As Adjusted Under ASC 606	Non-GAAP Adjustments	Non-GAAP As Adjusted Under ASC 606⁽⁷⁾
Operating income	\$ 605	214 ⁽¹⁾	\$ 820
Income tax provision	\$ 1,012	(843) ⁽²⁾	\$ 170
Net income (loss)	\$ (387)	1,044 ⁽³⁾	\$ 657
Net income (loss) per weighted-average share, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ (0.96)	2.55 ⁽⁴⁾	\$ 1.60

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$170 million), intangible amortization (\$36 million) and acquisition, disposition and other related items (\$8 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were -\$843 million during the three months ended February 2, 2018.

⁽³⁾ Non-GAAP adjustments to net income (loss) include stock-based compensation (\$170 million), intangible amortization (\$36 million), acquisition, disposition and other related items (-\$5 million) and tax adjustment (\$843 million).

⁽⁴⁾ Non-GAAP adjustments to net income (loss) per weighted-average share, diluted, include stock-based compensation (\$0.41), intangible amortization (\$0.09), acquisition, disposition and other related items (-\$0.01) and tax adjustment (\$2.06).

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⁽⁵⁾ GAAP net loss per weighted-average share, diluted, was based upon 403,383 diluted weighted-average shares for Classes A and B. During the three months ended February 2, 2018, VMware incurred a GAAP net loss. As a result, all potentially dilutive securities were anti-dilutive and excluded from the computation of GAAP net loss per weighted-average share, diluted.

⁽⁶⁾ Non-GAAP net income per weighted-average share, diluted, was calculated based upon 410,096 diluted weighted-average shares for Classes A and B.

⁽⁷⁾ Totals may not sum, due to rounding. Net income (loss) per weighted-average share was calculated based upon the respective underlying, non-rounded data.

	For the Twelve Months Ended February 2, 2018		
	GAAP As Adjusted Under ASC 606	Non-GAAP Adjustments	Non-GAAP As Adjusted Under ASC 606⁽⁶⁾
Operating income	\$ 1,702	954 ⁽¹⁾	\$ 2,657
Income tax provision	\$ 1,155	(597) ⁽²⁾	\$ 558
Net income	\$ 659	1,507 ⁽³⁾	\$ 2,166
Net income per weighted-average share, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 1.59	3.65 ⁽⁴⁾	\$ 5.24

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$683 million), employer payroll taxes on employee stock transactions (\$6 million), intangible amortization (\$132 million) and acquisition, disposition and other related items (\$132 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were -\$597 million during the twelve months ended February 2, 2018.

⁽³⁾ Non-GAAP adjustments to net income include stock-based compensation (\$683 million), employer payroll taxes on employee stock transactions (\$6 million), intangible amortization (\$132 million), acquisition, disposition and other related items (\$87 million), loss on share repurchase (\$2 million) and tax adjustment (\$597 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share, diluted, include stock-based compensation (\$1.65), employer payroll taxes on employee stock transactions (\$0.02), intangible amortization (\$0.32), acquisition, disposition and other related items (\$0.21) and tax adjustment (\$1.44).

⁽⁵⁾ Non-GAAP net income per weighted-average share, diluted, was calculated based upon 413,368 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share was calculated based upon the respective underlying, non-rounded data.

	For the Twelve Months Ended December 31, 2016		
	GAAP As Adjusted Under ASC 606	Non-GAAP Adjustments	Non-GAAP As Adjusted Under ASC 606⁽⁶⁾
Operating income	\$ 1,469	855 ⁽¹⁾	\$ 2,325
Income tax provision	\$ 280	206 ⁽²⁾	\$ 486
Net income	\$ 1,223	661 ⁽³⁾	\$ 1,884
Net income per weighted-average share, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 2.87	1.58 ⁽⁴⁾	\$ 4.44

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$636 million), employer payroll taxes on employee stock transactions (\$8 million), intangible amortization (\$125 million), realignment charges (\$52 million) and acquisition, disposition and other related items (\$34 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$206 million during the twelve months ended December 31, 2016.

⁽³⁾ Non-GAAP adjustments to net income include stock-based compensation (\$636 million), employer payroll taxes on employee stock transactions (\$8 million), intangible amortization (\$125 million), realignment charges (\$52 million), acquisition, disposition and other related items (\$54 million), gain on share repurchase (-\$8 million) and tax adjustment (-\$206 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share, diluted, include stock-based compensation (\$1.50), employer payroll taxes on employee stock transactions (\$0.02), intangible amortization (\$0.30), realignment charges (\$0.12), acquisition, disposition and other related items (\$0.13) and tax adjustment (-\$0.49).

⁽⁵⁾ Non-GAAP net income per weighted-average share, diluted, was calculated based upon 423,994 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share was calculated based upon the respective underlying, non-rounded data.