

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,</b>	<b>May 4,</b>
	<b>2019</b>	<b>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>