

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended August 4, 2017

(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	\$ 39	—	—	(26)	—	—	\$ 12
Cost of services revenue	\$ 231	(12)	1	(1)	1	—	\$ 221
Research and development	\$ 428	(89)	(1)	—	(1)	—	\$ 338
Sales and marketing	\$ 668	(48)	(1)	(6)	(1)	—	\$ 612
General and administrative	\$ 160	(20)	—	—	(8)	—	\$ 132
Realignment and loss on disposition	\$ 36	—	—	—	(36)	—	\$ —
Operating income	\$ 338	169	1	33	45	—	\$ 585
<i>Operating margin⁽²⁾</i>	<i>17.8%</i>	<i>8.9%</i>	<i>0.1%</i>	<i>1.7%</i>	<i>2.4%</i>	—	<i>30.8%</i>
Other income (expense), net	\$ 51	—	—	—	(38)	—	\$ 13
Income before income tax	\$ 407	169	1	33	7	—	\$ 616
Income tax provision	\$ 73					53	\$ 127
<i>Tax rate⁽²⁾</i>	<i>17.9%</i>						<i>20.5%</i>
Net income	\$ 334	169	1	33	7	(53)	\$ 489
Net income per weighted-average share, diluted for Class A and Class B ⁽²⁾⁽³⁾	\$ 0.81	\$ 0.41	\$ —	\$ 0.08	\$ 0.02	\$ (0.13)	\$ 1.19

⁽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 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⁾ Calculated based upon 412,768 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended June 30, 2016

(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 Related Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:								
Cost of license revenue	\$ 40	—	—	(25)	—	—	—	\$ 15
Cost of services revenue	\$ 221	(13)	—	(1)	—	—	—	\$ 207
Research and development	\$ 363	(74)	—	—	—	—	—	\$ 289
Sales and marketing	\$ 580	(47)	(1)	(5)	—	—	—	\$ 527
General and administrative	\$ 167	(18)	—	—	—	(3)	—	\$ 146
Realignment	\$ (1)	—	—	—	1	—	—	\$ —
Operating income	\$ 323	152	1	31	(1)	3	—	\$ 509
<i>Operating margin⁽²⁾</i>	<i>19.1%</i>	<i>9.0%</i>	<i>0.1%</i>	<i>1.8%</i>	<i>—%</i>	<i>0.2%</i>	—	<i>30.0%</i>
Other income (expense), net	\$ 2	—	—	—	—	(2)	—	\$ —
Income before income tax	\$ 337	152	1	31	(1)	1	—	\$ 521
Income tax provision	\$ 72						35	\$ 107
<i>Tax rate⁽²⁾</i>	<i>21.4%</i>							<i>20.5%</i>
Net income	\$ 265	152	1	31	(1)	1	(35)	\$ 414
Net income per weighted-average share, diluted for Class A and Class B ⁽²⁾⁽³⁾	\$ 0.62	\$ 0.35	\$ —	\$ 0.07	\$ —	\$ —	(0.08)	\$ 0.97

⁽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 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⁾ Calculated based upon 427,102 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES

TO FREE CASH FLOWS

(A NON-GAAP FINANCIAL MEASURE)

(in millions)

(unaudited)

	Three Months Ended		Six Months Ended	
	August 4, 2017	June 30, 2016	August 4, 2017	June 30, 2016
GAAP cash flows from operating activities	\$ 620	\$ 577	\$ 1,395	\$ 1,297
Capital expenditures	(57)	(38)	(105)	(79)
Free cash flows	<u>\$ 563</u>	<u>\$ 539</u>	<u>\$ 1,290</u>	<u>\$ 1,218</u>