

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended August 3, 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)	—	—	\$ 16
Cost of services revenue	\$ 260	(12)	—	(1)	(1)	—	\$ 246
Research and development	\$ 481	(90)	—	—	(1)	—	\$ 390
Sales and marketing	\$ 696	(49)	(2)	(7)	1	—	\$ 637
General and administrative	\$ 182	(26)	—	—	(7)	—	\$ 150
Realignment and loss on disposition	\$ 1	—	—	—	(1)	—	\$ —
Operating income	\$ 509	177	2	38	9	—	\$ 735
Operating margin ⁽²⁾	23.4%	8.2%	0.1%	1.7%	0.4%	—	33.8%
Other income (expense), net ⁽³⁾	\$ 240	—	—	—	(239)	—	\$ 1
Income before income tax	\$ 772	177	2	38	(230)	—	\$ 759
Income tax provision	\$ 128					(7)	\$ 121
Tax rate ⁽²⁾	16.6%						16.0%
Net income	\$ 644	177	2	38	(230)	7	\$ 638
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 1.56	\$ 0.43	\$ —	\$ 0.09	\$ (0.56)	\$ 0.02	\$ 1.54

⁽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 "2017 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 three months ended August 3, 2018, this adjustment primarily included a gain of \$231 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 413,286 diluted weighted-average shares for Classes A and B.

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 ⁽¹⁾	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Related Items	Tax Adjustment ⁽¹⁾⁽²⁾	Non-GAAP, as adjusted ⁽¹⁾⁽³⁾
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	\$ 613	(48)	(1)	(6)	(1)	—	\$ 556
General and administrative	\$ 160	(20)	—	—	(8)	—	\$ 132
Realignment and loss on disposition	\$ 36	—	—	—	(36)	—	\$ —
Operating income	\$ 425	169	1	33	45	—	\$ 673
<i>Operating margin⁽³⁾</i>	22.0%	8.7%	0.1%	1.7%	2.3%	—	34.8%
Other income (expense), net	\$ 51	—	—	—	(38)	—	\$ 13
Income before income tax	\$ 494	169	1	33	7	—	\$ 704
Income tax provision	\$ 88					56	\$ 145
<i>Tax rate⁽³⁾</i>	17.9%						20.5%
Net income	\$ 406	169	1	33	7	(56)	\$ 559
Net income per weighted-average share, diluted for Classes A and B ⁽³⁾⁽⁴⁾	\$ 0.98	\$ 0.41	\$ —	\$ 0.08	\$ 0.02	\$ 0.14	\$ 1.35

⁽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 412,768 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Six Months Ended August 3, 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	\$ 90	—	—	(59)	—	—	\$ 31
Cost of services revenue	\$ 511	(24)	(1)	(1)	—	—	\$ 485
Research and development	\$ 934	(174)	—	—	(1)	—	\$ 758
Sales and marketing	\$ 1,403	(95)	(3)	(16)	(2)	—	\$ 1,289
General and administrative	\$ 351	(46)	—	—	(18)	—	\$ 287
Realignment and loss on disposition	\$ 3	—	—	—	(3)	—	\$ —
Operating income	\$ 891	339	4	76	24	—	\$ 1,333
<i>Operating margin⁽²⁾</i>	<i>21.3%</i>	<i>8.1%</i>	<i>0.1%</i>	<i>1.8%</i>	<i>0.6%</i>	—	<i>31.9%</i>
Other income (expense), net ⁽³⁾	\$ 1,018	—	—	—	(1,015)	—	\$ 3
Income before income tax	\$ 1,947	339	4	76	(991)	—	\$ 1,374
Income tax provision	\$ 361					(141)	\$ 220
<i>Tax rate⁽²⁾</i>	<i>18.5%</i>						<i>16.0%</i>
Net income	\$ 1,586	339	4	76	(991)	141	\$ 1,154
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 3.85	\$ 0.82	\$ 0.01	\$ 0.18	\$ (2.40)	\$ 0.34	\$ 2.80

⁽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 2017 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 six months ended August 3, 2018, this adjustment primarily included a gain of \$1,012 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 412,389 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Six Months Ended August 4, 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	\$ 78	(1)	—	(52)	—	—	—	\$ 25
Cost of services revenue	\$ 481	(25)	(1)	(1)	—	—	—	\$ 454
Research and development	\$ 849	(170)	(1)	—	(3)	—	—	\$ 675
Sales and marketing	\$ 1,195	(98)	(2)	(11)	(2)	—	—	\$ 1,081
General and administrative	\$ 311	(37)	—	—	(13)	—	—	\$ 260
Realignment and loss on disposition	\$ 99	—	—	—	(99)	—	—	\$ —
Operating income	\$ 685	331	4	64	117	—	—	\$ 1,203
<i>Operating margin⁽³⁾</i>	<i>18.6%</i>	<i>9.0%</i>	<i>0.1%</i>	<i>1.7%</i>	<i>3.2%</i>	—	—	<i>32.5%</i>
Other income (expense), net	\$ 54	—	—	—	(37)	2	—	\$ 19
Income before income tax	\$ 774	331	4	64	80	2	—	\$ 1,257
Income tax provision	\$ 124						134	\$ 258
<i>Tax rate⁽³⁾</i>	<i>16.0%</i>							<i>20.5%</i>
Net income	\$ 650	331	4	64	80	2	(134)	\$ 999
Net income per weighted-average share, diluted for Classes A and B ⁽³⁾⁽⁴⁾	\$ 1.57	\$ 0.80	\$ 0.01	\$ 0.15	\$ 0.20	\$ —	\$ (0.32)	\$ 2.41

⁽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.

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⁽⁴⁾ Calculated based upon 413,920 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		Six Months Ended	
	August 3, 2018	August 4, 2017 ⁽¹⁾	August 3, 2018	August 4, 2017 ⁽¹⁾
GAAP cash flows from operating activities	\$ 787	\$ 621	\$ 1,882	\$ 1,398
Capital expenditures	(61)	(57)	(121)	(105)
Free cash flows	\$ 726	\$ 564	\$ 1,761	\$ 1,293

⁽¹⁾ Adjusted to reflect the adoption of ASU 2016-18. GAAP cash flows from operating activities increased by \$1 million and \$3 million for the three and six months ended August 4, 2017, respectively, when compared to the previously reported amounts due to the adoption of ASU 2016-18.