

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended August 2, 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 ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:							
Cost of license revenue	\$ 50	—	—	(34)	—	—	\$ 16
Cost of services revenue	\$ 315	(17)	—	(1)	—	—	\$ 297
Research and development	\$ 554	(101)	—	—	—	—	\$ 452
Sales and marketing	\$ 797	(60)	(4)	(10)	—	—	\$ 724
General and administrative	\$ 200	(30)	—	—	(22)	—	\$ 148
Operating income	\$ 523	208	4	45	22	—	\$ 802
Operating margin ⁽²⁾	21.5%	8.5%	0.1%	1.8%	0.9%	—	32.9%
Other income (expense), net ⁽³⁾	\$ (502)	—	—	—	515	—	\$ 12
Income before income tax	\$ 1	208	4	45	537	—	\$ 794
Income tax provision (benefit)	\$ (4,925) ⁽⁴⁾					5,052	\$ 127
Tax rate ⁽²⁾	N/M ⁽⁴⁾						16.0%
Net income	\$ 4,926	208	4	45	537	(5,052)	\$ 667
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁵⁾	\$ 11.83	\$ 0.50	\$ 0.01	\$ 0.11	\$ 1.29	\$ (12.14)	\$ 1.60

N/M - Tax rate calculated on a GAAP basis is not considered meaningful.

⁽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, 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.

⁽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 2, 2019, this adjustment primarily included an unrealized loss of \$538 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ During the second quarter of fiscal 2020, we completed an intra-group transfer of certain of our intellectual property rights to our Irish subsidiary, where our international business is headquartered. A discrete tax benefit of \$4.9 billion was recorded as a deferred tax asset. Due to the impact of the discrete tax benefit of \$4.9 billion, the tax rate calculated on a GAAP basis is not considered meaningful.

⁽⁵⁾ Calculated based upon 416,288 diluted weighted-average shares for Classes A and B.

VMware, Inc.

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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 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 an unrealized 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 Six Months Ended August 2, 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 ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:							
Cost of license revenue	\$ 101	(1)	—	(66)	—	—	\$ 33
Cost of services revenue	\$ 617	(33)	—	(1)	—	—	\$ 584
Research and development	\$ 1,087	(196)	—	(1)	—	—	\$ 889
Sales and marketing	\$ 1,575	(115)	(6)	(21)	—	—	\$ 1,436
General and administrative	\$ 387	(57)	—	—	(34)	—	\$ 294
Operating income	\$ 938	402	6	89	34	—	\$ 1,469
Operating margin ⁽²⁾	19.9%	8.5%	0.1%	1.9%	0.7%	—	31.2%
Other income (expense), net ⁽³⁾	\$ (359)	—	—	—	383	—	\$ 23
Income before income tax	\$ 540	402	6	89	417	—	\$ 1,453
Income tax provision (benefit)	\$ (4,890) ⁽⁴⁾					5,123	\$ 232
Tax rate ⁽²⁾	N/M ⁽⁴⁾						16.0%
Net income	\$ 5,430	402	6	89	417	(5,123)	\$ 1,221
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁵⁾	\$ 13.01	\$ 0.96	\$ 0.01	\$ 0.21	\$ 1.00	\$ (12.27)	\$ 2.92

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⁽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 2, 2019, this adjustment primarily included an unrealized loss of \$406 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ During the second quarter of fiscal 2020, we completed an intra-group transfer of certain of our intellectual property rights to our Irish subsidiary, where our international business is headquartered. A discrete tax benefit of \$4.9 billion was recorded as a deferred tax asset. Due to the impact of the discrete tax benefit of \$4.9 billion, the tax rate calculated on a GAAP basis is not considered meaningful.

⁽⁵⁾ Calculated based upon 417,488 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 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
Operating margin ⁽²⁾	21.3%	8.1%	0.1%	1.8%	0.6%	—	31.9%
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
Tax rate ⁽²⁾	18.5%						16.0%
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

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⁽⁴⁾ Calculated based upon 412,389 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 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
GAAP cash flows from operating activities	\$ 699	\$ 787	\$ 1,972	\$ 1,882
Capital expenditures	(88)	(61)	(158)	(121)
Free cash flows	<u>\$ 611</u>	<u>\$ 726</u>	<u>\$ 1,814</u>	<u>\$ 1,761</u>