

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended November 3, 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 ⁽³⁾
Operating expenses:							
Cost of license revenue	\$ 38	—	—	(26)	—	—	\$ 11
Cost of services revenue	\$ 240	(13)	(1)	(1)	—	—	\$ 225
Research and development	\$ 449	(96)	—	—	(1)	—	\$ 352
Sales and marketing	\$ 607	(52)	(1)	(6)	(1)	—	\$ 550
General and administrative	\$ 175	(21)	—	—	(4)	—	\$ 149
Realignment and loss on disposition	\$ 2	—	—	—	(2)	—	\$ —
Operating income	\$ 465	182	2	33	8	—	\$ 689
Operating margin ⁽²⁾	23.5%	9.2%	0.1%	1.6%	0.4%	—	34.8%
Other income (expense), net	\$ (2)	—	—	—	3	—	\$ 2
Income before income tax	\$ 468	182	2	33	11	—	\$ 696
Income tax provision	\$ 25					118	\$ 143
Tax rate ⁽²⁾	5.4%						20.5%
Net income	\$ 443	182	2	33	11	(118)	\$ 553
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽³⁾	\$ 1.07	\$ 0.44	\$ —	\$ 0.08	\$ 0.03	\$ (0.28)	\$ 1.34

⁽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 413,013 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended September 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	Acquisition, Disposition and Other Related Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:							
Cost of license revenue	\$ 40	—	—	(26)	—	—	\$ 13
Cost of services revenue	\$ 226	(13)	—	(1)	—	—	\$ 212
Research and development	\$ 389	(80)	—	—	—	—	\$ 309
Sales and marketing	\$ 564	(51)	(2)	(5)	—	—	\$ 507
General and administrative	\$ 178	(26)	—	—	(6)	—	\$ 145
Operating income	\$ 381	170	2	32	6	—	\$ 592
<i>Operating margin⁽²⁾</i>	<i>21.4%</i>	<i>9.6%</i>	<i>0.1%</i>	<i>1.8%</i>	<i>0.4%</i>	—	<i>33.3%</i>
Other income (expense), net	\$ (8)	—	—	—	13	—	\$ 5
Income before income tax	\$ 387	170	2	32	19	—	\$ 611
Income tax provision	\$ 68					57	\$ 126
<i>Tax rate⁽²⁾</i>	<i>17.6%</i>						<i>20.5%</i>
Net income	\$ 319	170	2	32	19	(57)	\$ 485
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽³⁾	\$ 0.75	\$ 0.40	\$ 0.01	\$ 0.08	\$ 0.04	\$ (0.13)	\$ 1.14

⁽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 425,008 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		Nine Months Ended	
	November 3, 2017	September 30, 2016	November 3, 2017	September 30, 2016
GAAP cash flows from operating activities	\$ 970	\$ 620	\$ 2,364	\$ 1,917
Capital expenditures	(59)	(30)	(164)	(109)
Free cash flows	<u>\$ 911</u>	<u>\$ 590</u>	<u>\$ 2,200</u>	<u>\$ 1,808</u>