

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended November 2, 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 <sup>(1)</sup>	Non-GAAP, as adjusted <sup>(2)</sup>
Operating expenses:							
Cost of license revenue	\$ 49	—	—	(29)	—	—	\$ 19
Cost of services revenue	\$ 266	(13)	—	(1)	—	—	\$ 252
Research and development	\$ 499	(98)	—	—	—	—	\$ 400
Sales and marketing	\$ 707	(53)	(2)	(8)	—	—	\$ 647
General and administrative	\$ 178	(28)	—	—	(8)	—	\$ 141
Realignment and loss on disposition	\$ 6	—	—	—	(6)	—	\$ —
Operating income	\$ 495	192	2	38	14	—	\$ 741
<i>Operating margin<sup>(2)</sup></i>	<i>22.5%</i>	<i>8.7%</i>	<i>0.1%</i>	<i>1.7%</i>	<i>0.7%</i>	—	<i>33.7%</i>
Other income (expense), net <sup>(3)</sup>	\$ (180)	—	—	—	177	—	\$ (3)
Income before income tax	\$ 345	192	2	38	191	—	\$ 768
Income tax provision	\$ 11					112	\$ 123
<i>Tax rate<sup>(2)</sup></i>	<i>3.2%</i>						<i>16.0%</i>
Net income	\$ 334	192	2	38	191	(112)	\$ 645
Net income per weighted-average share, diluted for Classes A and B <sup>(2)(4)</sup>	\$ 0.81	\$ 0.46	\$ —	\$ 0.09	\$ 0.46	\$ (0.27)	\$ 1.56

<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, 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.

<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 November 2, 2018, this adjustment primarily included a loss of \$161 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

<sup>(4)</sup> Calculated based upon 414,477 diluted weighted-average shares for Classes A and B.

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 <sup>(1)</sup>	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Related Items	Tax Adjustment <sup>(1)(2)</sup>	Non-GAAP, as adjusted <sup>(1)(3)</sup>
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	\$ 624	(52)	(1)	(6)	(1)	—	\$ 567
General and administrative	\$ 175	(21)	—	—	(4)	—	\$ 149
Realignment and loss on disposition	\$ 2	—	—	—	(2)	—	\$ —
Operating income	\$ 410	182	2	33	8	—	\$ 634
Operating margin <sup>(3)</sup>	21.1%	9.4%	0.1%	1.7%	0.4%	—	32.7%
Other income (expense), net	\$ (2)	—	—	—	3	—	\$ 2
Income before income tax	\$ 413	182	2	33	11	—	\$ 641
Income tax provision	\$ 18					113	\$ 132
Tax rate <sup>(3)</sup>	4.4%						20.5%
Net income	\$ 395	182	2	33	11	(113)	\$ 509
Net income per weighted-average share, diluted for Classes A and B <sup>(3)(4)</sup>	\$ 0.96	\$ 0.44	\$ —	\$ 0.08	\$ 0.03	\$ (0.27)	\$ 1.23

<sup>(1)</sup> Adjusted to reflect the adoption of ASC 606.

<sup>(2)</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 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>(3)</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>(4)</sup> 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 Nine Months Ended November 2, 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 <sup>(1)</sup>	Non-GAAP, as adjusted <sup>(2)</sup>
Operating expenses:							
Cost of license revenue	\$ 139	(1)	—	(89)	—	—	\$ 50
Cost of services revenue	\$ 777	(37)	(1)	(2)	—	—	\$ 737
Research and development	\$ 1,433	(272)	—	—	(2)	—	\$ 1,159
Sales and marketing	\$ 2,110	(147)	(3)	(23)	(2)	—	\$ 1,935
General and administrative	\$ 529	(74)	(1)	—	(26)	—	\$ 428
Realignment and loss on disposition	\$ 9	—	—	—	(9)	—	\$ —
Operating income	\$ 1,386	531	5	114	39	—	\$ 2,074
<i>Operating margin<sup>(2)</sup></i>	<i>21.7%</i>	<i>8.3%</i>	<i>0.1%</i>	<i>1.8%</i>	<i>0.6%</i>	—	<i>32.5%</i>
Other income (expense), net <sup>(3)</sup>	\$ 839	—	—	—	(839)	—	\$ —
Income before income tax	\$ 2,292	531	5	114	(800)	—	\$ 2,141
Income tax provision	\$ 372					(29)	\$ 342
<i>Tax rate<sup>(2)</sup></i>	<i>16.2%</i>						<i>16.0%</i>
Net income	\$ 1,920	531	5	114	(800)	29	\$ 1,799
Net income per weighted-average share, diluted for Classes A and B <sup>(2)(4)</sup>	\$ 4.64	\$ 1.28	\$ 0.01	\$ 0.28	\$ (1.93)	\$ 0.07	\$ 4.35

<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, 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.

<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 nine months ended November 2, 2018, this adjustment primarily included a gain of \$851 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

<sup>(4)</sup> Calculated based upon 413,378 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Nine Months Ended November 3, 2017

(amounts in millions, except per share amounts, and shares in thousands)

(unaudited)

	GAAP <sup>(1)</sup>	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Related Items <sup>(1)</sup>	Loss on Share Repurchase	Tax Adjustment <sup>(1)(2)</sup>	Non-GAAP, as adjusted <sup>(1)(3)</sup>
Operating expenses:								
Cost of license revenue	\$ 116	(1)	—	(79)	—	—	—	\$ 35
Cost of services revenue	\$ 721	(38)	(1)	(2)	—	—	—	\$ 679
Research and development	\$ 1,298	(266)	(1)	—	(4)	—	—	\$ 1,028
Sales and marketing	\$ 1,818	(150)	(3)	(15)	(3)	—	—	\$ 1,647
General and administrative	\$ 486	(58)	(1)	—	(17)	—	—	\$ 409
Realignment and loss on disposition	\$ 101	—	—	—	(101)	—	—	\$ —
Operating income	\$ 1,096	513	6	96	125	—	—	\$ 1,838
<i>Operating margin<sup>(3)</sup></i>	<i>19.4%</i>	<i>9.1%</i>	<i>0.1%</i>	<i>1.7%</i>	<i>2.2%</i>	—	—	<i>32.6%</i>
Other income (expense), net	\$ 51	—	—	—	(33)	2	—	\$ 19
Income before income tax	\$ 1,188	513	6	96	92	2	—	\$ 1,898
Income tax provision	\$ 143						246	\$ 389
<i>Tax rate<sup>(3)</sup></i>	<i>12.0%</i>							<i>20.5%</i>
Net income	\$ 1,045	513	6	96	92	2	(246)	\$ 1,509
Net income per weighted-average share, diluted for Classes A and B <sup>(3)(4)</sup>	\$ 2.53	\$ 1.24	\$ 0.01	\$ 0.23	\$ 0.22	\$ —	\$ (0.60)	\$ 3.64

<sup>(1)</sup> Adjusted to reflect the adoption of ASC 606.

<sup>(2)</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 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>(3)</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>(4)</sup> Calculated based upon 413,957 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)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 2, 2018</b>	<b>November 3, 2017<sup>(1)</sup></b>	<b>November 2, 2018</b>	<b>November 3, 2017<sup>(1)</sup></b>
GAAP cash flows from operating activities	\$ 769	\$ 970	\$ 2,651	\$ 2,367
Capital expenditures	(57)	(59)	(178)	(164)
Free cash flows	<u>\$ 712</u>	<u>\$ 911</u>	<u>\$ 2,473</u>	<u>\$ 2,203</u>

<sup>(1)</sup> Adjusted to reflect the adoption of ASU 2016-18. GAAP cash flows from operating activities increased by \$3 million for the nine months ended November 3, 2017 when compared to the previously reported amount due to the adoption of ASU 2016-18. There was no impact to GAAP cash flows from operating activities for the three months ended November 3, 2017 due to the adoption of ASU 2016-18.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**FISCAL 2019 NET INCOME PER DILUTED SHARE GUIDANCE**

(in millions)

(unaudited)

	Full Year Fiscal 2019 (Projected)			
	Current Guidance		Prior Guidance	
<b>GAAP Net income per diluted share</b>	<b>\$5.95 - \$6.07<sup>(1)</sup></b>	<b>Projected</b>	<b>\$6.08 - \$6.34<sup>(2)</sup></b>	<b>Projected</b>
Stock-based compensation	1.74	Estimated	1.71	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.02	Estimated	0.02	Estimated
Intangible Amortization	0.38	Estimated	0.36	Estimated
Acquisition, Disposition and Other Related Items <sup>(3)</sup>	(1.92)	Estimated	(2.37)	Estimated
Tax adjustment <sup>(4)</sup>	(0.01)	Estimated	0.21	Estimated
<b>Non-GAAP Net income per diluted share</b>	<b>\$6.22</b>	<b>Projected</b>	<b>\$6.14</b>	<b>Projected</b>

<sup>(1)</sup> Values of items excluded from GAAP net income per diluted share are estimates. While the aggregate of estimates may not foot, in total we expect GAAP net income per share to be \$0.15 to \$0.27 less than non-GAAP net income per share.

<sup>(2)</sup> Values of items excluded from GAAP net income per diluted share are estimates. While the aggregate of estimates may not foot, in total we expect GAAP net income per share to be \$0.20 more to \$0.06 less than non-GAAP net income per share.

<sup>(3)</sup> Includes an unrealized loss of \$161 million during the three months ended November 2, 2018 and an unrealized gain of \$851 million during the nine months ended November 2, 2018, which related to VMware's investment in Pivotal to adjust it to its fair value.

<sup>(4)</sup> Reflects estimated impact of the U.S. Tax Cuts and Jobs Act. Final calculation may differ materially from estimates, due to, among other things, additional analysis on the application of the tax laws and further clarification and guidance issued by the U.S. Treasury Department, the IRS and other standard-setting bodies and authorities.