

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended November 1, 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	\$ 59	—	—	(34)	—	—	\$ 24
Cost of services revenue	\$ 319	(18)	—	(1)	—	—	\$ 301
Research and development	\$ 582	(110)	—	—	—	—	\$ 471
Sales and marketing	\$ 827	(67)	(1)	(14)	—	—	\$ 747
General and administrative	\$ 238	(35)	—	—	(49)	—	\$ 154
Operating income	\$ 431	230	1	49	49	—	\$ 759
<i>Operating margin⁽²⁾</i>	<i>17.5%</i>	<i>9.3%</i>	<i>—%</i>	<i>2.0%</i>	<i>2.0%</i>	—	<i>30.9%</i>
Other income (expense), net ⁽³⁾	\$ 263	—	—	—	(259)	—	\$ 4
Income before income tax	\$ 666	230	1	49	(210)	—	\$ 735
Income tax provision	\$ 45					73	\$ 118
<i>Tax rate⁽²⁾</i>	<i>6.7%</i>						<i>16.0%</i>
Net income	\$ 621	230	1	49	(210)	(73)	\$ 617
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 1.50	\$ 0.55	\$ —	\$ 0.12	\$ (0.51)	\$ (0.18)	\$ 1.49

⁽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 November 1, 2019, this adjustment primarily included an unrealized gain of \$249 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 414,054 diluted weighted-average shares for Classes A and B.

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 Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
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
Operating margin ⁽²⁾	22.5%	8.7%	0.1%	1.7%	0.7%	—	33.7%
Other income (expense), net ⁽³⁾	\$ (180)	—	—	—	177	—	\$ (3)
Income before income tax	\$ 345	192	2	38	191	—	\$ 768
Income tax provision	\$ 11					112	\$ 123
Tax rate ⁽²⁾	3.2%						16.0%
Net income	\$ 334	192	2	38	191	(112)	\$ 645
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 0.81	\$ 0.46	\$ —	\$ 0.09	\$ 0.46	\$ (0.27)	\$ 1.56

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

⁽⁴⁾ 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 Nine Months Ended November 1, 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	\$ 160	(1)	—	(101)	—	—	\$ 58
Cost of services revenue	\$ 936	(50)	—	(2)	—	—	\$ 884
Research and development	\$ 1,669	(306)	(1)	(1)	—	—	\$ 1,360
Sales and marketing	\$ 2,402	(183)	(6)	(34)	—	—	\$ 2,183
General and administrative	\$ 625	(92)	—	—	(83)	—	\$ 448
Operating income	\$ 1,369	632	7	138	83	—	\$ 2,228
Operating margin ⁽²⁾	19.1%	8.8%	0.1%	1.9%	1.2%	—	31.1%
Other income (expense), net ⁽³⁾	\$ (97)	—	—	—	123	—	\$ 27
Income before income tax	\$ 1,205	632	7	138	206	—	\$ 2,188
Income tax provision (benefit)	\$ (4,846) ⁽⁴⁾					5,196	\$ 350
Tax rate ⁽²⁾	N/M ⁽⁴⁾						16.0%
Net income	\$ 6,051	632	7	138	206	(5,196)	\$ 1,838
Net income per weighted-average share, diluted for Classes A and B ^{(2) (5)}	\$ 14.52	\$ 1.52	\$ 0.02	\$ 0.33	\$ 0.49	\$ (12.47)	\$ 4.41

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 nine months ended November 1, 2019, this adjustment primarily included an unrealized loss of \$157 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 416,668 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 Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
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
Operating margin ⁽²⁾	21.7%	8.3%	0.1%	1.8%	0.6%	—	32.5%
Other income (expense), net ⁽³⁾	\$ 839	—	—	—	(839)	—	\$ —
Income before income tax	\$ 2,292	531	5	114	(800)	—	\$ 2,141
Income tax provision	\$ 372					(29)	\$ 342
Tax rate ⁽²⁾	16.2%						16.0%
Net income	\$ 1,920	531	5	114	(800)	29	\$ 1,799
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 4.64	\$ 1.28	\$ 0.01	\$ 0.28	\$ (1.93)	\$ 0.07	\$ 4.35

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

⁽⁴⁾ Calculated based upon 413,378 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 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
GAAP cash flows from operating activities	\$ 810	\$ 769	\$ 2,782	\$ 2,651
Capital expenditures	(50)	(57)	(208)	(178)
Free cash flows	\$ 760	\$ 712	\$ 2,574	\$ 2,473