

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding VMware's results, VMware has disclosed in this earnings release the following non-GAAP financial measures: non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per diluted share and free cash flow. VMware has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. These non-GAAP financial measures, other than free cash flow, differ from GAAP in that they exclude stock-based compensation, employer payroll taxes on employee stock transactions, amortization of acquired intangible assets, realignment charges, acquisition, disposition and other items, certain litigation and other contingencies, loss on share repurchase and discrete items that impacted our GAAP tax rate, each as discussed below. Our non-GAAP financial measures also reflect the application of our non-GAAP tax rate. Free cash flow differs from GAAP cash flow from operating activities with respect to the treatment of capital expenditures.

VMware's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, to calculate bonus payments and to evaluate VMware's financial performance, the performance of its individual functional groups and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect VMware's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in VMware's business, as they exclude charges and gains that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating VMware's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flow provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to repurchase shares, to fund ongoing operations and to fund other capital expenditures.

Management believes these non-GAAP financial measures are useful to investors and others in assessing VMware's operating performance due to the following factors:

- *Stock-based compensation.* Stock-based compensation is generally fixed at the time the stock-based instrument is granted and amortized over a period of several years. Although stock-based compensation is an important aspect of the compensation of VMware's employees and executives, the expense for the fair value of the stock-based instruments VMware utilizes may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Management believes it is useful to exclude stock-based compensation in order to better understand the long-term performance of VMware's core business.
- *Employer payroll taxes on employee stock transactions.* The amount of employer payroll taxes on stock-based compensation is dependent on VMware's stock price and other factors that are beyond VMware's control and do not correlate to the operation of the business.
- *Amortization of acquired intangible assets.* A portion of the purchase price of VMware's acquisitions is generally allocated to intangible assets, such as intellectual property, and is subject to amortization. However, VMware does not acquire businesses on a predictable cycle. Additionally, the amount of an acquisition's purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition. Therefore, VMware believes that the presentation of non-GAAP financial measures that adjust for the amortization of intangible assets provides investors and others with a consistent basis for comparison across accounting periods.
- *Realignment charges.* Realignment charges include workforce reductions, asset impairments, losses on asset disposals and costs to exit facilities. VMware's management believes it is useful to exclude these items, when significant, as they are not reflective of VMware's core business and operating results.
- *Acquisition, disposition and other items.* As VMware does not acquire or dispose of businesses on a predictable cycle and the terms of each transaction can vary significantly and are unique to each transaction, VMware believes it is useful to exclude acquisition, disposition and other items when looking for a consistent basis for comparison across accounting periods. These items include:
 - Direct costs of acquisitions and dispositions, such as transaction and advisory fees.
 - Costs associated with integrating acquired businesses.
 - Accruals for the portion of merger consideration payable in installments that may be paid in cash or VMware stock, at the option of VMware.
 - Gains or losses on equity investments, whether realized or unrealized.
 - Charges recognized for non-recoverable strategic investments or gains recognized on the disposition of strategic investments.

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- Gains or losses on sale or disposal of distinct lines of business or product offerings, or transactions with features similar to discontinued operations, including recoveries or charges recognized to adjust the fair value of assets that qualify as “held for sale.”
- *Certain litigation and other contingencies.* VMware, from time to time, may incur charges or benefits that are outside of the ordinary course of VMware’s business related to litigation and other contingencies. VMware believes it is useful to exclude such charges or benefits because it does not consider such amounts to be part of the ongoing operation of VMware’s business and because of the singular nature of the claims underlying such matters.
- *Gain or loss on share repurchase.* In December 2016, VMware entered into a stock purchase agreement with Dell and Dell’s wholly-owned subsidiary, EMC Equity Assets LLC, pursuant to which VMware agreed to purchase \$500 million of VMware Class A common stock. The derivative asset was measured at fair value on a recurring basis and resulted in the recognition of gains and losses, which were recorded to other income (expense), net on the condensed consolidated statements of income. On February 15, 2017, the stock purchase agreement with Dell was completed. VMware’s management believes it is useful to exclude the mark-to-market adjustment on the derivative asset, as it is not reflective of VMware’s core business and operating results.
- *Tax adjustment.* Non-GAAP financial information for the quarter is adjusted for a tax rate equal to VMware’s annual estimated tax rate on non-GAAP income. This rate is based on VMware’s estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating VMware’s non-GAAP income as well as significant tax adjustments. VMware’s 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 VMware management believes 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 VMware’s estimated annual tax rates as described above, the estimated tax rate on non-GAAP income may differ from the GAAP tax rate and from VMware’s actual tax liabilities.

Additionally, VMware’s management believes that the non-GAAP financial measure of free cash flow is meaningful to investors because management reviews cash flow generated from operations after taking into consideration capital expenditures due to the fact that these expenditures are considered to be a necessary component of ongoing operations.

The use of non-GAAP financial measures has certain limitations because they do not reflect all items of income and expense that affect VMware’s operations. Specifically, in the case of stock-based compensation, if VMware did not pay out a portion of its compensation in the form of stock-based compensation and related employer payroll taxes, the cash salary expense included in operating expenses would be higher, which would affect VMware’s cash position. VMware compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP and should not be considered measures of VMware’s liquidity. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited.

Management encourages investors and others to review VMware’s financial information in its entirety and not rely on a single financial measure.

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RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended January 31, 2020

(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	Realignment Charges	Acquisition, Disposition and Other Items	Certain Litigation and Other Contingencies	Tax Adjustment ⁽¹⁾	Non-GAAP As Adjusted ⁽²⁾
Operating expenses ⁽³⁾ :									
Cost of license revenue	\$ 50	—	—	(27)	—	—	—	—	\$ 23
Cost of subscription and SaaS revenue	\$ 106	(3)	—	(25)	—	—	—	—	\$ 79
Cost of services revenue	\$ 317	(24)	(2)	—	—	—	—	—	\$ 291
Research and development	\$ 676	(130)	(2)	—	—	—	—	—	\$ 543
Sales and marketing	\$ 1,003	(91)	—	(34)	—	—	—	—	\$ 881
General and administrative	\$ 592	(64)	(3)	—	—	(84)	(237)	—	\$ 202
Realignment and loss on disposition	\$ 79	—	—	—	(79)	—	—	—	\$ —
Operating income	\$ 250	312	7	86	79	84	237	—	\$ 1,054
Operating margin ⁽²⁾	8.1%	10.1%	0.2%	2.8%	2.6%	2.7%	7.7%	—	34.3%
Other income (expense), net ⁽⁴⁾	\$ 10	—	—	—	—	(1)	—	—	\$ 10
Income before income tax	\$ 239	312	7	86	79	83	237	—	\$ 1,043
Income tax provision (benefit)	\$ (76)							242	\$ 166
Tax rate ⁽²⁾	N/A								16.0%
Net income	\$ 315	312	7	86	79	83	237	(242)	\$ 877
Less: Net income (loss) attributable to non-controlling interests	\$ (6)	23	—	7	—	1	—	(15)	\$ 9
Net income attributable to VMware, Inc.	\$ 321	289	7	79	79	82	237	(227)	\$ 868
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽²⁾⁽⁵⁾	\$ 0.76	\$ 0.68	\$ 0.02	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.56	\$ (0.53)	\$ 2.05

N/A - GAAP tax rate was not applicable due to the income tax benefit recorded for the three months ended January 31, 2020.

⁽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⁾ Cost of subscription and SaaS revenue was allocated between cost of license revenue and cost of services revenue in prior year and has been reclassified to conform with current period presentation.

⁽⁴⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized.

⁽⁵⁾ Calculated based upon 424,007 diluted weighted-average shares for Classes A and B.

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RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended February 1, 2019

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

(unaudited)

	GAAP ⁽¹⁾	Stock-Based Compensation ⁽¹⁾	Employer Payroll Taxes on Employee Stock Transactions ⁽¹⁾	Intangible Amortization ⁽¹⁾	Acquisition, Disposition and Other Items ⁽¹⁾	Tax Adjustment ⁽¹⁾⁽²⁾	Non-GAAP As Adjusted ⁽¹⁾⁽³⁾
Operating expenses ⁽⁴⁾ :							
Cost of license revenue	\$ 40	—	—	(20)	—	—	\$ 20
Cost of subscription and SaaS revenue	\$ 86	(2)	—	(25)	—	—	\$ 58
Cost of services revenue	\$ 292	(16)	—	(1)	(1)	—	\$ 274
Research and development	\$ 596	(105)	—	—	(1)	—	\$ 490
Sales and marketing	\$ 889	(63)	(1)	(17)	(1)	—	\$ 808
General and administrative	\$ 258	(34)	—	—	(55)	—	\$ 169
Realignment and loss on disposition	\$ —	—	—	—	—	—	\$ —
Operating income	\$ 598	220	1	63	58	—	\$ 940
Operating margin ⁽³⁾	21.7%	8.0%	—%	2.3%	2.1%	—	34.1%
Investment income (loss)	\$ (7)	—	—	—	46	—	\$ 39
Other income (expense), net ⁽⁵⁾	\$ 9	—	—	—	2	—	\$ 11
Income before income tax	\$ 566	220	1	63	106	—	\$ 956
Income tax provision	\$ 87	—	—	—	—	67	\$ 154
Tax rate ⁽³⁾	15.4%	—	—	—	—	—	16.0%
Net income	\$ 479	220	1	63	106	(67)	\$ 802
Less: Net income (loss) attributable to non-controlling interests	\$ (17)	20	—	7	—	(3)	\$ 7
Net income attributable to VMware, Inc.	\$ 496	200	1	56	106	(64)	\$ 795
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽³⁾⁽⁶⁾	\$ 1.17	\$ 0.47	\$ —	\$ 0.13	\$ 0.25	\$ (0.15)	\$ 1.87

⁽¹⁾ Adjusted to reflect the recast of prior period information due to the Pivotal acquisition, which was accounted for as a transaction between entities under common control.

⁽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, 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.

⁽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⁾ Cost of subscription and SaaS revenue was allocated between cost of license revenue and cost of services revenue in prior year and has been reclassified to conform with current period presentation.

⁽⁵⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized.

⁽⁶⁾ Calculated based upon 424,630 diluted weighted-average shares for Classes A and B.

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RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Twelve Months Ended January 31, 2020

(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	Realignment Charges	Acquisition, Disposition and Other Items	Certain Litigation and Other Contingencies	Tax Adjustment ⁽¹⁾	Non-GAAP As Adjusted ⁽²⁾
Operating expenses ⁽³⁾ :									
Cost of license revenue	\$ 166	(1)	—	(89)	—	—	—	—	\$ 76
Cost of subscription and SaaS	\$ 400	(13)	—	(103)	—	—	—	—	\$ 285
Cost of services revenue	\$ 1,233	(83)	(2)	(2)	—	—	—	—	\$ 1,147
Research and development	\$ 2,522	(459)	(3)	(1)	—	—	—	—	\$ 2,058
Sales and marketing	\$ 3,677	(293)	(6)	(105)	—	—	—	—	\$ 3,273
General and administrative	\$ 1,293	(168)	(3)	—	—	(173)	(237)	—	\$ 711
Realignment and loss on disposition	\$ 79	—	—	—	(79)	—	—	—	\$ —
Operating income	\$ 1,441	1,017	14	300	79	173	237	—	\$ 3,261
Operating margin ⁽²⁾	13.3%	9.4%	0.1%	2.8%	0.7%	1.6%	2.2%	—	30.2%
Other income (expense), net ⁽⁴⁾	\$ 86	—	—	—	—	(35)	—	—	\$ 50
Income before income tax	\$ 1,438	1,017	14	300	79	138	237	—	\$ 3,222
Income tax provision (benefit)	\$ (4,918)	⁽⁶⁾						5,432	\$ 514
Tax rate ⁽²⁾	N/M	⁽⁶⁾							16.0%
Net income	\$ 6,356	1,017	14	300	79	138	237	(5,432)	\$ 2,708
Less: Net income (loss) attributable to non-controlling interests	\$ (56)	97	—	33	—	3	—	(24)	\$ 53
Net income attributable to VMware, Inc.	\$ 6,412	920	14	267	79	135	237	(5,408)	\$ 2,655
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽²⁾⁽⁵⁾	\$ 15.08	\$ 2.16	\$ 0.03	\$ 0.63	\$ 0.19	\$ 0.32	\$ 0.56	\$ (12.72)	\$ 6.24

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⁾ Cost of subscription and SaaS revenue was included in both cost of license revenue and cost of services revenue in prior year and has been reclassified to conform with current period presentation.

⁽⁴⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized.

⁽⁵⁾ Calculated based upon 425,235 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ 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.

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RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Twelve Months Ended February 1, 2019
(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)

	GAAP ⁽¹⁾	Stock-Based Compensation ⁽¹⁾	Employer Payroll Taxes on Employee Stock Transactions ⁽¹⁾	Intangible Amortization ⁽¹⁾	Acquisition, Disposition and Other Items ⁽¹⁾	Tax Adjustment ⁽¹⁾⁽²⁾	Non-GAAP As Adjusted ⁽¹⁾⁽³⁾
Operating expenses ⁽⁴⁾ :							
Cost of license revenue	\$ 150	(1)	—	(85)	—	—	\$ 64
Cost of subscription and SaaS revenue	\$ 280	(7)	—	(89)	—	—	\$ 184
Cost of services revenue	\$ 1,122	(58)	(1)	(3)	(2)	—	\$ 1,058
Research and development	\$ 2,173	(391)	(1)	—	(3)	—	\$ 1,778
Sales and marketing	\$ 3,230	(226)	(4)	(64)	(1)	—	\$ 2,935
General and administrative	\$ 846	(117)	(1)	—	(82)	—	\$ 646
Realignment and loss on disposition	\$ 9	—	—	—	(9)	—	\$ —
Operating income	\$ 1,803	800	7	241	97	—	\$ 2,948
Operating margin ⁽³⁾	18.8%	8.3%	0.1%	2.5%	1.0%	—	30.7%
Investment income (loss)	\$ 161	—	—	—	46	—	\$ 207
Other income (expense), net ⁽⁵⁾	\$ (1)	—	—	—	10	—	\$ 9
Income before income tax	\$ 1,829	800	7	241	153	—	\$ 3,030
Income tax provision	\$ 239					247	\$ 486
Tax rate ⁽³⁾	13.1%						16.0%
Net income	\$ 1,590	800	7	241	153	(247)	\$ 2,544
Less: Net income (loss) attributable to non-controlling interests	\$ (60)	69	—	24	(1)	(6)	\$ 26
Net income attributable to VMware, Inc.	\$ 1,650	731	7	217	154	(241)	\$ 2,518
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽³⁾⁽⁶⁾	\$ 3.92	\$ 1.74	\$ 0.02	\$ 0.51	\$ 0.37	\$ (0.57)	\$ 5.98

⁽¹⁾ Adjusted to reflect the recast of prior period information due to the Pivotal acquisition, which was accounted for as a transaction between entities under common control.

⁽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, 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.

⁽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⁾ Cost of subscription and SaaS revenue was included in both cost of license revenue and cost of services revenue in prior year and has been reclassified to conform with current period presentation.

⁽⁵⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized.

⁽⁶⁾ Calculated based upon 421,131 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		Twelve Months Ended	
	January 31, 2020	February 1, 2019⁽¹⁾	January 31, 2020	February 1, 2019⁽¹⁾
GAAP cash flows from operating activities	\$ 1,085	\$ 1,020	\$ 3,872	\$ 3,657
Capital expenditures	(64)	(68)	(279)	(254)
Free cash flows	\$ 1,021	\$ 952	\$ 3,593	\$ 3,403

⁽¹⁾ Adjusted to reflect the recast of prior period information due to the Pivotal acquisition, which was accounted for as a transaction between entities under common control.

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Reconciliations of GAAP to Non-GAAP Data Adjusted for Pivotal Acquisition

The following tables present the reconciliations of GAAP to non-GAAP data for the first three quarters of fiscal 2020, the four quarters of fiscal 2019, and the annual periods of fiscal 2019 and fiscal 2018 as adjusted for the Pivotal acquisition (tables in millions, except per share amounts):

	Three Months Ended November 1, 2019				
	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 431	(60)	\$ 371	386 ⁽¹⁾	\$ 758
Income tax provision (benefit)	45	(75)	(30)	147 ⁽²⁾	118
Net income attributable to VMware, Inc.	\$ 621	(214)	\$ 407	195 ⁽³⁾	\$ 602
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 1.50		\$ 0.96	0.45 ⁽⁴⁾	\$ 1.42

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$256 million), employer payroll taxes on employee stock transactions (\$1 million), intangible amortization (\$74 million) and acquisition, disposition and other items (\$55 million).

⁽²⁾ Non-GAAP adjustments to income tax provision (benefit) were \$147 million during the three months ended November 1, 2019.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$230 million), employer payroll taxes on employee stock transactions (\$1 million), intangible amortization (\$65 million), acquisition, disposition and other items (\$43 million) and tax adjustment (-\$144 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.54), intangible amortization (\$0.15), acquisition, disposition and other items (\$0.10) and tax adjustment (-\$0.34).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 423,035 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

	Three Months Ended August 2, 2019				
	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 523	(57)	\$ 466	330 ⁽¹⁾	\$ 795
Income tax provision (benefit)	(4,925)	127	(4,798)	4,925 ⁽²⁾	127
Net income attributable to VMware, Inc.	\$ 4,926	377	\$ 5,303	(4,652) ⁽³⁾	\$ 650
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 11.83		\$ 12.47	(10.94) ⁽⁴⁾	\$ 1.53

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$234 million), employer payroll taxes on employee stock transactions (\$4 million), intangible amortization (\$70 million) and acquisition, disposition and other items (\$22 million).

⁽²⁾ Non-GAAP adjustments to income tax provision (benefit) were \$4,925 million during the three months ended August 2, 2019.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$208 million), employer payroll taxes on employee stock transactions (\$4 million), intangible amortization (\$61 million), acquisition, disposition and other items (-\$1 million) and tax adjustment (-\$4,924 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.49), employer payroll taxes on employee stock transactions (\$0.01), intangible amortization (\$0.14), and tax adjustment (-\$11.58).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 425,091 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

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Reconciliations of GAAP to Non-GAAP Data Adjusted for Pivotal Acquisition (cont.)

Three Months Ended May 3, 2019

	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 415	(61)	\$ 354	300 ⁽¹⁾	\$ 654
Income tax provision (benefit)	35	(49)	(14)	118 ⁽²⁾	104
Net income attributable to VMware, Inc.	\$ 505	(125)	\$ 380	155 ⁽³⁾	\$ 535
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 1.21		\$ 0.89	0.35 ⁽⁴⁾	\$ 1.25

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$216 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$69 million) and acquisition, disposition and other items (\$13 million).

⁽²⁾ Non-GAAP adjustments to income tax provision (benefit) were \$118 million during the three months ended May 3, 2019.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$194 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$60 million), acquisition, disposition and other items (\$12 million) and tax adjustment (-\$113 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.45), intangible amortization (\$0.14), acquisition, disposition and other items (\$0.03) and tax adjustment (-\$0.27).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 426,697 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

Three Months Ended February 1, 2019

	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 664	(66)	\$ 598	342 ⁽¹⁾	\$ 940
Income tax provision	89	(2)	87	67 ⁽²⁾	153
Net income attributable to VMware, Inc.	\$ 502	(6)	\$ 496	299 ⁽³⁾	\$ 795
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 1.21		\$ 1.17	0.70 ⁽⁴⁾	\$ 1.87

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$220 million), employer payroll taxes on employee stock transactions (\$1 million), intangible amortization (\$63 million) and acquisition, disposition and other items (\$58 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$67 million during the three months ended February 1, 2019.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$200 million), employer payroll taxes on employee stock transactions (\$1 million), intangible amortization (\$56 million), acquisition, disposition and other items (\$106 million) and tax adjustment (-\$64 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.47), intangible amortization (\$0.13), acquisition, disposition and other items (\$0.25) and tax adjustment (-\$0.15).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 424,630 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

VMware, Inc.

Reconciliations of GAAP to Non-GAAP Data Adjusted for Pivotal Acquisition (cont.)

Three Months Ended November 2, 2018

	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 495	(62)	\$ 433	287 ⁽¹⁾	\$ 720
Income tax provision	11	30	41	79 ⁽²⁾	120
Net income attributable to VMware, Inc.	\$ 334	88	\$ 422	200 ⁽³⁾	\$ 622
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 0.81		\$ 1.00	0.47 ⁽⁴⁾	\$ 1.47

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$211 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$60 million) and acquisition, disposition and other items (\$14 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$79 million during the three months ended November 2, 2018.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$192 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$53 million), acquisition, disposition and other items (\$30 million) and tax adjustment (-\$77 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.45), intangible amortization (\$0.13), acquisition, disposition and other items (\$0.07) and tax adjustment (-\$0.18).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 422,629 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

Three Months Ended August 3, 2018

	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 509	(62)	\$ 447	267 ⁽¹⁾	\$ 714
Income tax provision	128	(64)	64	54 ⁽²⁾	118
Net income attributable to VMware, Inc.	\$ 644	(211)	\$ 433	180 ⁽³⁾	\$ 613
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 1.56		\$ 1.03	0.42 ⁽⁴⁾	\$ 1.45

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$196 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$60 million) and acquisition, disposition and other items (\$9 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$54 million during the three months ended August 3, 2018.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$177 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$53 million), acquisition, disposition and other items (\$1 million) and tax adjustment (-\$53 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.42), intangible amortization (\$0.13) and tax adjustment (-\$0.13).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 421,421 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

VMware, Inc.

Reconciliations of GAAP to Non-GAAP Data Adjusted for Pivotal Acquisition (cont.)

Three Months Ended May 4, 2018

	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments		Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 382	(59)	\$ 323	248 ⁽¹⁾	\$	572
Income tax provision	233	(187)	46	48 ⁽²⁾		94
Net income attributable to VMware, Inc.	\$ 942	(643)	\$ 299	189 ⁽³⁾	\$	488
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 2.29		\$ 0.71	0.45 ⁽⁴⁾	\$	1.16

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$172 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$59 million) and acquisition, disposition and other items (\$15 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$48 million during the three months ended May 4, 2018.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$161 million), employer payroll taxes on employee stock transactions (\$2 million), intangible amortization (\$55 million), acquisition, disposition and other items (\$18 million) and tax adjustment (-\$47 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$0.39), intangible amortization (\$0.13), acquisition, disposition and other items (\$0.04) and tax adjustment (-\$0.11).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 418,836 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

Twelve Months Ended February 1, 2019

	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted⁽⁶⁾	Non-GAAP Adjustments		Non-GAAP As Adjusted⁽⁶⁾
Operating income	\$ 2,050	(247)	\$ 1,803	1,145 ⁽¹⁾	\$	2,948
Income tax provision	461	(222)	239	247 ⁽²⁾		486
Net income attributable to VMware, Inc.	\$ 2,422	(772)	\$ 1,650	868 ⁽³⁾	\$	2,518
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 5.85		\$ 3.92	2.07 ⁽⁴⁾	\$	5.98

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$800 million), employer payroll taxes on employee stock transactions (\$7 million), intangible amortization (\$241 million) and acquisition, disposition and other items (\$97 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were \$247 million during the twelve months ended February 1, 2019.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware, Inc. include stock-based compensation (\$731 million), employer payroll taxes on employee stock transactions (\$7 million), intangible amortization (\$217 million), acquisition, disposition and other items (\$154 million) and tax adjustment (-\$241 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$1.74), employer payroll taxes on employee stock transactions (\$0.02), intangible amortization (\$0.51), acquisition, disposition and other items (\$0.37) and tax adjustment (-\$0.57).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 421,131 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

VMware, Inc.

Reconciliations of GAAP to Non-GAAP Data Adjusted for Pivotal Acquisition (cont.)

	Twelve Months Ended February 2, 2018				
	GAAP As Originally Reported	Pivotal Adjustments	Combined GAAP As Adjusted ⁽⁶⁾	Non-GAAP Adjustments	Non-GAAP As Adjusted ⁽⁶⁾
Operating income	\$ 1,702	(239)	\$ 1,463	1,026 ⁽¹⁾	\$ 2,489
Income tax provision	1,155	(3)	1,152	(627) ⁽²⁾	525
Net income attributable to VMware, Inc.	\$ 659	(222)	\$ 437	1,578 ⁽³⁾	\$ 2,016
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽⁵⁾⁽⁶⁾	\$ 1.59		\$ 1.04	3.74 ⁽⁴⁾	\$ 4.79

⁽¹⁾ Non-GAAP adjustments to operating income include stock-based compensation (\$712 million), employer payroll taxes on employee stock transactions (\$6 million), intangible amortization (\$174 million) and acquisition, disposition and other items (\$134 million).

⁽²⁾ Non-GAAP adjustments to income tax provision were -\$627 million during the twelve months ended February 2, 2018.

⁽³⁾ Non-GAAP adjustments to net income attributable to VMware Inc. include stock-based compensation (\$683 million), employer payroll taxes on employee stock transactions (\$6 million), intangible amortization (\$172 million), acquisition, disposition and other items (\$88 million), loss on share repurchase (\$2 million) and tax adjustment (\$627 million).

⁽⁴⁾ Non-GAAP adjustments to net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, include stock-based compensation (\$1.62), employer payroll taxes on employee stock transactions (\$0.01), intangible amortization (\$0.41), acquisition, disposition and other items (\$0.21) and tax adjustment (\$1.49).

⁽⁵⁾ Combined GAAP as adjusted and non-GAAP as adjusted net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted, were calculated based upon 420,887 diluted weighted-average shares for Classes A and B.

⁽⁶⁾ Totals may not sum, due to rounding. Net income per weighted-average share attributable to VMware, Inc. common stockholders was calculated based upon the respective underlying, non-rounded data.

VMware, Inc.

Reconciliation of GAAP Cash Flows from Operating Activities to Free Cash Flows Adjusted for Pivotal Acquisition

The following table presents the reconciliation of GAAP cash flows from operating activities to free cash flows as adjusted for the Pivotal acquisition for the first three quarters of fiscal 2020, the four quarters of fiscal 2019, and the annual periods of fiscal 2019 and fiscal 2018 (table in millions):

	Three Months Ended						Twelve Months Ended		
	November 1, 2019	August 2, 2019	May 3, 2019	February 1, 2019	November 2, 2018	August 3, 2018	May 4, 2018	February 1, 2019	February 2, 2018
GAAP cash flows from operating activities	\$ 751	\$ 641	\$ 1,395	\$ 1,020	\$ 733	\$ 805	\$ 1,101	\$ 3,657	\$ 3,101
Capital expenditures	(52)	(91)	(73)	(68)	(60)	(63)	(63)	(254)	(276)
Free cash flows	\$ 699	\$ 550	\$ 1,322	\$ 952	\$ 673	\$ 742	\$ 1,038	\$ 3,403	\$ 2,825

The following tables present the reconciliation of GAAP cash flows from operating activities to free cash flows as originally reported and as adjusted for the Pivotal acquisition for the first three quarters of fiscal 2020, the four quarters of fiscal 2019, and the annual periods of fiscal 2019 and fiscal 2018 (tables in millions):

	Three Months Ended November 1, 2019		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 810	(59)	\$ 751
Capital expenditures	(50)	(2)	(52)
Free cash flows	\$ 760	(61)	\$ 699

	Three Months Ended August 2, 2019		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 699	(58)	\$ 641
Capital expenditures	(88)	(3)	(91)
Free cash flows	\$ 611	(61)	\$ 550

	Three Months Ended May 3, 2019		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 1,273	122	\$ 1,395
Capital expenditures	(71)	(2)	(73)
Free cash flows	\$ 1,202	120	\$ 1,322

VMware, Inc.

Reconciliation of GAAP Cash Flows from Operating Activities to Free Cash Flows Adjusted for Pivotal Acquisition (cont.)

	Three Months Ended February 1, 2019		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 1,012	8	\$ 1,020
Capital expenditures	(66)	(2)	(68)
Free cash flows	<u>\$ 946</u>	<u>6</u>	<u>\$ 952</u>

	Three Months Ended November 2, 2018		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 769	(36)	\$ 733
Capital expenditures	(57)	(3)	(60)
Free cash flows	<u>\$ 712</u>	<u>(39)</u>	<u>\$ 673</u>

	Three Months Ended August 3, 2018		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 787	18	\$ 805
Capital expenditures	(61)	(2)	(63)
Free cash flows	<u>\$ 726</u>	<u>16</u>	<u>\$ 742</u>

	Three Months Ended May 4, 2018		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 1,095	6	\$ 1,101
Capital expenditures	(61)	(2)	(63)
Free cash flows	<u>\$ 1,034</u>	<u>4</u>	<u>\$ 1,038</u>

	Twelve Months Ended February 1, 2019		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 3,663	(6)	\$ 3,657
Capital expenditures	(245)	(9)	(254)
Free cash flows	<u>\$ 3,418</u>	<u>(15)</u>	<u>\$ 3,403</u>

VMware, Inc.

Reconciliation of GAAP Cash Flows from Operating Activities to Free Cash Flows Adjusted for Pivotal Acquisition (cont.)

	Twelve Months Ended February 2, 2018		
	As Originally Reported	Pivotal Adjustments	Combined As Adjusted
GAAP cash flows from operating activities	\$ 3,218	(117)	\$ 3,101
Capital expenditures	(263)	(13)	(276)
Free cash flows	<u>\$ 2,955</u>	<u>(130)</u>	<u>\$ 2,825</u>