

VMware, Inc.

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 | 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 | \$ 52 | — | — | (31) | — | — | \$ 20 |
| Cost of services revenue | \$ 291 | (14) | — | (1) | (1) | — | \$ 275 |
| Research and development | \$ 542 | (99) | — | — | (1) | — | \$ 442 |
| Sales and marketing | \$ 807 | (56) | (1) | (10) | (1) | — | \$ 738 |
| General and administrative | \$ 235 | (31) | — | — | (55) | — | \$ 149 |
| Realignment and loss on disposition | \$ — | — | — | — | — | — | \$ — |
| Operating income | \$ 664 | 200 | 1 | 42 | 58 | — | \$ 967 |
| <i>Operating margin⁽²⁾</i> | <i>25.6%</i> | <i>7.7%</i> | <i>0.1%</i> | <i>1.6%</i> | <i>2.2%</i> | — | <i>37.3%</i> |
| Investment income (loss) | \$ (7) | — | — | — | 46 | — | \$ 40 |
| Other income (expense), net ⁽³⁾ | \$ (32) | — | — | — | 40 | — | \$ 7 |
| Income before income tax | \$ 591 | 200 | 1 | 42 | 144 | — | \$ 980 |
| Income tax provision | \$ 89 | | | | | 67 | \$ 157 |
| <i>Tax rate⁽²⁾</i> | <i>15.1%</i> | | | | | | <i>16.0%</i> |
| Net income | \$ 502 | 200 | 1 | 42 | 144 | (67) | \$ 823 |
| Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾ | \$ 1.21 | \$ 0.48 | \$ — | \$ 0.10 | \$ 0.35 | \$ (0.16) | \$ 1.98 |

⁽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 February 1, 2019, this adjustment primarily included a loss of \$38 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 416,451 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended February 2, 2018
(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)

| | GAAP ⁽¹⁾ | Stock-Based Compensation | Employer Payroll Taxes on Employee Stock Transactions | Intangible Amortization | Acquisition, Disposition and Other Items | Tax Adjustment ⁽¹⁾⁽²⁾ | Non-GAAP, as adjusted ⁽¹⁾⁽³⁾ |
|--|---------------------|--------------------------|---|-------------------------|--|----------------------------------|---|
| Operating expenses: | | | | | | | |
| Cost of license revenue | \$ 41 | — | — | (28) | — | — | \$ 12 |
| Cost of services revenue | \$ 263 | (12) | 1 | (1) | — | — | \$ 251 |
| Research and development | \$ 457 | (88) | — | — | (1) | — | \$ 368 |
| Sales and marketing | \$ 689 | (49) | (1) | (7) | 1 | — | \$ 633 |
| General and administrative | \$ 169 | (21) | — | — | (6) | — | \$ 142 |
| Realignment and loss on disposition | \$ 2 | — | — | — | (2) | — | \$ — |
| Operating income | \$ 605 | 170 | — | 36 | 8 | — | \$ 820 |
| <i>Operating margin⁽³⁾</i> | <i>27.2%</i> | <i>7.6%</i> | <i>—%</i> | <i>1.6%</i> | <i>0.4%</i> | — | <i>36.8%</i> |
| Other income (expense), net | \$ 15 | — | — | — | (13) | — | \$ 2 |
| Income before income tax | \$ 625 | 170 | — | 36 | (5) | — | \$ 827 |
| Income tax provision | \$ 1,012 | | | | | (843) | \$ 170 |
| <i>Tax rate⁽³⁾</i> | <i>161.9%</i> | | | | | | <i>20.5%</i> |
| Net income (loss) | \$ (387) | 170 | — | 36 | (5) | 843 | \$ 657 |
| Net income (loss) per weighted-average share, diluted for Classes A and B ⁽³⁾⁽⁴⁾⁽⁵⁾ | \$ (0.96) | \$ 0.41 | \$ — | \$ 0.09 | \$ (0.01) | \$ 2.06 | \$ 1.60 |

⁽¹⁾ Adjusted to reflect the adoption of ASC 606.

⁽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⁾ GAAP net loss per weighted-average share, diluted, was based upon 403,383 diluted weighted-average shares for Classes A and B. During the three months ended February 2, 2018, VMware incurred a GAAP net loss. As a result, all potentially dilutive securities were anti-dilutive and excluded from the computation of GAAP net loss per weighted-average share, diluted.

⁽⁵⁾ Non-GAAP net income per weighted-average share, diluted, was calculated based upon 410,096 diluted weighted-average shares for Classes A and B.

VMware, Inc.

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 | 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 | \$ 191 | (1) | — | (120) | — | — | \$ 70 |
| Cost of services revenue | \$ 1,067 | (51) | (1) | (3) | (2) | — | \$ 1,011 |
| Research and development | \$ 1,975 | (371) | (1) | — | (3) | — | \$ 1,600 |
| Sales and marketing | \$ 2,918 | (203) | (4) | (33) | (1) | — | \$ 2,675 |
| General and administrative | \$ 764 | (105) | (1) | — | (82) | — | \$ 577 |
| Realignment and loss on disposition | \$ 9 | — | — | — | (9) | — | \$ — |
| Operating income | \$ 2,050 | 731 | 7 | 156 | 97 | — | \$ 3,041 |
| Operating margin ⁽²⁾ | 22.8% | 8.1% | 0.1% | 1.7% | 1.1% | — | 33.9% |
| Investment income | \$ 161 | — | — | — | 46 | — | \$ 208 |
| Other income (expense), net ⁽³⁾ | \$ 806 | — | — | — | (798) | — | \$ 6 |
| Income before income tax | \$ 2,883 | 731 | 7 | 156 | (655) | — | \$ 3,121 |
| Income tax provision | \$ 461 | | | | | 38 | \$ 499 |
| Tax rate ⁽²⁾ | 16.0% | | | | | | 16.0% |
| Net income | \$ 2,422 | 731 | 7 | 156 | (655) | (38) | \$ 2,622 |
| Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾ | \$ 5.85 | \$ 1.76 | \$ 0.02 | \$ 0.38 | \$ (1.58) | \$ (0.09) | \$ 6.33 |

⁽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 twelve months ended February 1, 2019, this adjustment primarily included a gain of \$813 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 414,267 diluted weighted-average shares for Classes A and B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Twelve Months Ended February 2, 2018

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

(unaudited)

| | GAAP ⁽¹⁾ | Stock-Based Compensation | Employer Payroll Taxes on Employee Stock Transactions | Intangible Amortization | Acquisition, Disposition and Other Items ⁽¹⁾ | Loss on Share Repurchase | Tax Adjustment ⁽¹⁾⁽²⁾ | Non-GAAP, as adjusted ⁽¹⁾⁽³⁾ |
|---|---------------------|-----------------------------|---|----------------------------|--|-----------------------------|-------------------------------------|--|
| Operating expenses: | | | | | | | | |
| Cost of license revenue | \$ 157 | (2) | — | (107) | — | — | — | \$ 48 |
| Cost of services revenue | \$ 984 | (50) | (1) | (2) | — | — | — | \$ 930 |
| Research and development | \$ 1,755 | (355) | (1) | — | (5) | — | — | \$ 1,395 |
| Sales and marketing | \$ 2,506 | (197) | (3) | (23) | (2) | — | — | \$ 2,281 |
| General and administrative | \$ 654 | (79) | (1) | — | (23) | — | — | \$ 551 |
| Realignment and loss on disposition | \$ 104 | — | — | — | (104) | — | — | \$ — |
| Operating income | \$ 1,702 | 683 | 6 | 132 | 134 | — | — | \$ 2,657 |
| <i>Operating margin⁽³⁾</i> | <i>21.6%</i> | <i>8.7%</i> | <i>0.1%</i> | <i>1.7%</i> | <i>1.7%</i> | — | — | <i>33.8%</i> |
| Other income (expense), net | \$ 66 | — | — | — | (46) | 2 | — | \$ 21 |
| Income before income tax | \$ 1,814 | 683 | 6 | 132 | 88 | 2 | — | \$ 2,724 |
| Income tax provision | \$ 1,155 | | | | | | (597) | \$ 558 |
| <i>Tax rate⁽³⁾</i> | <i>63.7%</i> | | | | | | | <i>20.5%</i> |
| Net income | \$ 659 | 683 | 6 | 132 | 88 | 2 | 597 | \$ 2,166 |
| Net income per weighted-average share, diluted for Classes A and B ⁽³⁾⁽⁴⁾ | \$ 1.59 | \$ 1.65 | \$ 0.02 | \$ 0.32 | \$ 0.21 | \$ — | \$ 1.44 | \$ 5.24 |

⁽¹⁾ Adjusted to reflect the adoption of ASC 606.

⁽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⁾ Calculated based upon 413,368 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 | |
|---|-----------------------------|---|-----------------------------|---|
| | February 1, 2019 | February 2, 2018⁽¹⁾ | February 1, 2019 | February 2, 2018⁽¹⁾ |
| GAAP cash flows from operating activities | \$ 1,012 | \$ 850 | \$ 3,663 | \$ 3,218 |
| Capital expenditures | (66) | (99) | (245) | (263) |
| Free cash flows | <u>\$ 946</u> | <u>\$ 751</u> | <u>\$ 3,418</u> | <u>\$ 2,955</u> |

⁽¹⁾ Adjusted to reflect the adoption of ASU 2016-18. GAAP cash flows from operating activities increased by \$3 million and \$7 million for the three and twelve months ended February 2, 2018 when compared to the previously reported amounts due to the adoption of ASU 2016-18.

SUPPLEMENTAL SCHEDULE OF FINANCIAL INFORMATION ADJUSTED FOR ASC 606**(amounts in millions, except per share amounts, and shares in thousands)
(unaudited)**

During May 2014, the Financial Accounting Standards Board issued updates to accounting standards related to revenue recognition ("ASC 606"). VMware adopted ASC 606 on a full retrospective basis effective February 3, 2018.

Condensed Consolidated Statements of Income Adjusted for ASC 606

The following table presents the condensed consolidated statements of income for the quarterly and annual periods of fiscal 2018 and the annual period of fiscal 2016 as adjusted for ASC 606 (tables in millions, except per share amounts, and shares in thousands):

| | For the Three Months Ended | | | | For the Twelve Months Ended | |
|---|----------------------------|-------------------|---------------------|---------------------|------------------------------------|----------------------|
| | May 5, 2017 | August 4, 2017 | November 3, 2017 | February 2, 2018 | February 2, 2018 ⁽¹⁾ | December 31, 2016 |
| Revenue: | | | | | | |
| License | \$ 641 | \$ 783 | \$ 758 | \$ 1,018 | \$ 3,200 | \$ 2,799 |
| Services | 1,124 | 1,149 | 1,180 | 1,208 | 4,662 | 4,274 |
| Total revenue | 1,765 | 1,932 | 1,938 | 2,226 | 7,862 | 7,073 |
| Operating expenses: | | | | | | |
| Cost of license revenue | 39 | 39 | 38 | 41 | 157 | 159 |
| Cost of services revenue | 250 | 231 | 240 | 263 | 984 | 894 |
| Research and development | 421 | 428 | 449 | 457 | 1,755 | 1,503 |
| Sales and marketing | 579 | 613 | 624 | 689 | 2,506 | 2,307 |
| General and administrative | 151 | 160 | 175 | 169 | 654 | 689 |
| Realignment and loss on disposition | 64 | 36 | 2 | 2 | 104 | 52 |
| Operating income | 261 | 425 | 410 | 605 | 1,702 | 1,469 |
| Investment income | 23 | 25 | 33 | 38 | 120 | 77 |
| Interest expense | (7) | (7) | (28) | (33) | (74) | (26) |
| Other income (expense), net | 4 | 51 | (2) | 15 | 66 | (17) |
| Income before income tax | 281 | 494 | 413 | 625 | 1,814 | 1,503 |
| Income tax provision | 36 | 88 | 18 | 1,012 | 1,155 | 280 |
| Net income (loss) | \$ 245 | \$ 406 | \$ 395 | \$ (387) | \$ 659 | \$ 1,223 |
| Net income (loss) per weighted-average share, basic for Classes A and B | \$ 0.60 | \$ 0.99 | \$ 0.97 | \$ (0.96) | \$ 1.62 | \$ 2.91 |
| Net income (loss) per weighted-average share, diluted for Classes A and B | \$ 0.59 | \$ 0.98 | \$ 0.96 | \$ (0.96) | \$ 1.59 | \$ 2.87 |
| Weighted-average shares, basic for Classes A and B | 408,431 | 408,399 | 406,733 | 403,383 | 406,738 | 420,520 |
| Weighted-average shares, diluted for Classes A and B | 414,018 | 412,768 | 413,013 | 403,383 | 413,368 | 423,994 |

⁽¹⁾ Totals may not sum, due to rounding. Net income per weighted-average share information is calculated based upon the respective underlying, non-rounded data.