

GROWTH IN REVENUE PLUS SEQUENTIAL CHANGE IN UNEARNED REVENUE

(in millions)

(unaudited)

Growth in Total Revenue Plus Sequential Change in Unearned Revenue

| | Three Months Ended | |
|--|---|-------------------------------|
| | November 3, 2017 | September 30, 2016 |
| Total revenue, as reported | \$ 1,976 | \$ 1,778 |
| Sequential change in unearned revenue ⁽¹⁾ | 143 | (27) |
| Total revenue plus sequential change in unearned revenue | <u>\$ 2,119</u> | <u>\$ 1,751</u> |
| Change (%) over prior year, as reported | 21% | |

Growth in License Revenue Plus Sequential Change in Unearned License Revenue

| | Three Months Ended | |
|--|---|-------------------------------|
| | November 3, 2017 | September 30, 2016 |
| Total license revenue, as reported | \$ 785 | \$ 691 |
| Sequential change in unearned license revenue | (16) | (30) |
| Total license revenue plus sequential change in unearned license revenue | <u>\$ 769</u> | <u>\$ 661</u> |
| Change (%) over prior year, as reported | 16% | |

⁽¹⁾ Sequential change in unearned revenue consists of the change in total unearned revenue from the preceding quarter. Total unearned revenue consists of current and non-current unearned revenue amounts presented in the condensed consolidated balance sheets.

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> |