VMW Q4 & FY2018 Earnings Conference Call

March 1, 2018

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Pat Gelsinger, CEO

- Pleased with Q4 performance around the world; in EMEA we saw very positive momentum with large deals
- Q4 FY18 total revenue grew 14% YoY[(1)]
- Q4 FY18 non-GAAP earnings of $1.68 per share, growth of 18% YoY[(2)]
- Completed the acquisition of VeloCloud Networks
- VMware and Pivotal announced the general availability of PKS
- VMware Cloud Provider Program grew over 30% YoY in FY18
- Acquired CloudCoreo, to help extend VMware’s support of consistent operations across any cloud

(1) Year-over-year comparisons are of VMware’s fiscal 2018 fourth quarter (Nov. 4, 2017 – Feb. 2, 2018) to VMware’s fiscal 2016 fourth quarter (Oct. 1, 2016 – Dec. 31, 2016) and of VMware’s full fiscal 2018 (Feb. 3, 2017 – Feb. 2, 2018) to VMware’s full fiscal 2016 (Jan. 1, 2016 – Dec. 31, 2016)
(2) See Appendix for reconciliation to GAAP

Pat Gelsinger, CEO

- Acquired CloudVelox, a pioneer in delivering software to enable workload mobility from existing data centers to modern private and public clouds
- VMware has been positioned in the Leaders quadrant of Gartner, Inc.'s 2018 Magic Quadrant for Hyperconverged Infrastructure[1]
- At Mobile World Congress, demonstrated the ability for CSPs to connect their virtualized core networks on VMware NFV by extending them to hyperscale public clouds using VMware Cloud on AWS
- Ranked #7 on Fast Company's "Most Innovative Company in Enterprise"; Placed #6 in the Leaders category of Fortune Future 50's ranking of "Top 50 Companies Best Positioned for Growth"; VMware has ranked #39 on the list of Fortune magazine's "100 Best Companies to Work For" in the U.S.

(1) Gartner, "Magic Quadrant for Hyperconverged Infrastructure," John McArthur et al, 6 February 2018. *Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.*

Overview of Results: Revenue Highlights

Q4FY18		
	Actual ($M)	YoY Growth
Total Revenue	2,309	14%
License Revenue	1,068	20%

FY2018		
	Actual ($M)	YoY Growth
Total Revenue	7,922	12%
License Revenue	3,195	14%

Hybrid Cloud and SaaS

Q4FY18
Over 8% of total revenue
Hybrid Cloud and SaaS Revenue contains:
VMware Cloud Provider Program - formerly known as vCloud Air Network
Portion of AirWatch revenue recognized as SaaS
Other "as a Service" offerings such as Desktop as a Service, Wavefront, VeloCloud and VMware Cloud on AWS

Income Statement Highlights

	Q4FY16	Q4FY18	FY2016	FY2018
License Revenue ($M)	887	1,068	2,794	3,195
Services Revenue ($M)	1,145	1,241	4,299	4,727
Total Revenue ($M)	2,032	2,309	7,093	7,922
Non-GAAP Operating Margin(1)	36.8%	37.3%	32.3%	33.2%
Non-GAAP Net Income per Diluted Share ($)(1)	1.43	1.68	4.39	5.19

(1) See Appendix for reconciliation to GAAP

Select Financial Measures

	FY2016	FY2018
Headcount	19,947	21,737
Cash, Cash Equivalents & Short-Term Investments ($M)	7,985	11,653
Operating Cash Flow ($M)	2,381	3,211
CapEx ($M)	153	263
Unearned Revenue Total ($M)	5,624	6,250
Long-Term Unearned Revenue ($M)(1)	2,093	2,473

(1) Non-current unearned revenue as reported on VMware's consolidated balance sheets

Zane Rowe, EVP & CFO

- YoY growth rate for Q4 total revenue plus the sequential change in total unearned revenue was 14%[(1)]
- YoY growth rate for Q4 license revenue plus the sequential change in unearned license revenue was 13%[(1)]
- Strong SnS bookings growth in Q4
- Approximately $400M in synergies with Dell Technologies at FY18-end
- NSX license bookings grew 24% YoY in Q4 and over 50% YoY for FY18
- NSX reached a $1.4B run-rate, based on annualized Q4 total bookings

(1) See Appendix for calculation

Zane Rowe, EVP & CFO

- vSAN license bookings grew 100% YoY in Q4 and over 130% YoY for FY18
- vSAN reached a $600M run-rate, based on annualized Q4 total bookings
- EUC license bookings were up over 30% YoY for both Q4 and FY18
- Q4 Compute license bookings declined 4% YoY, off a strong 11% YoY growth rate for FY16 Q4
- In Q4, Compute license bookings represented approximately 35% of total license bookings

Zane Rowe, EVP & CFO

- FY18 Compute license bookings increased in the low-single-digits YoY
- Total Compute bookings for Q4 increased in the low-single-digits YoY and increased in the mid-single-digits YoY for FY18
- In Q4, Management license bookings increased over 10% YoY; for the full year Management license bookings increased in the low-single-digits YoY
- Total Management bookings increased over 10% YoY in both Q4 and FY18
- Purchased $169M of stock in the open market during Q4 leaving approximately $900M outstanding on our existing repurchase authorization

Guidance

FY2019		
Total Revenue	$8.725B	+10.8% YoY(1)
License Revenue	$3.565B	+11.3% YoY(1)
Q1FY19		
Total Revenue	$1.955B	+10.1% YoY(1)
License Revenue	$730M	+13.5% YoY(1)

(1) During May 2014, the Financial Accounting Standards Board issued updates to accounting standards related to revenue recognition ("ASC 606"). VMware will adopt ASC 606 using the full retrospective transition method during the first quarter of fiscal 2019. Year-over-year comparisons in this table represent VMware's Q1 FY 2019 and FY 2019 guidance compared to a preliminary adjustments under ASC 606 to select financial data for Q1 FY18 and FY 2018. See Appendix for a supplemental schedule of preliminary ASC 606 adjustments.

Guidance

FY2019	
Non-GAAP Operating Margin [1]	33.3%
Diluted Non-GAAP EPS [1]	$6.02
Diluted Share Count[2]	409M
Non-GAAP Tax Rate[3]	16%
GAAP Tax Rate[3]	Approximately 1 point lower to 2 points higher than non-GAAP tax rate
Q1FY19	
Non-GAAP Operating Margin [1]	28.5%
Diluted Non-GAAP EPS [1]	$1.14
Diluted Share Count	412M
Non-GAAP Tax Rate[3]	16%
GAAP Tax Rate[3]	Approximately 1 point lower to 2 points higher than non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.
(2) Full fiscal year diluted share count assumes fulfillment of remaining repurchase authorization approved in August 2018.
(3) Reflects estimated impact of the U.S. Tax Cuts and Jobs Act. Final calculations 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.

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Guidance

FY2019	
Cash Flow From Operations	$3.55B
CapEx	$280M
Free Cash Flow[1]	$3.27B

(1) Free Cash Flow is a non-GAAP financial measure calculated by subtracting CapEx from Cash Flow From Operations. See table above.

Q&A

Appendix

Enterprise Agreements
47% of total bookings
16 deals over $10M
10 of the top 10 deals included EUC
10 of the top 10 deals included NSX
9 of the top 10 deals included vSAN

Appendix

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	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	$ 41	—	—	(28)	—	—	$ 12
Cost of services revenue	$ 263	(12)	1	(1)	—	—	$ 251
Research and development	$ 457	(88)	—	—	(1)	—	$ 368
Sales and marketing	$ 729	(49)	(1)	(7)	1	—	$ 674
General and administrative	$ 169	(21)	—	—	(6)	—	$ 142
Realignment and loss on disposition	$ 2	—	—	—	(2)	—	$ —
Operating income	$ 648	170	—	36	8	—	$ 862
Operating margin[2]	*28.1%*	*7.4%*	*—%*	*1.6%*	*0.3%*	—	*37.3%*
Other income (expense), net	$ 15	—	—	—	(13)	—	$ 2
Income before income tax	$ 668	170	—	36	(5)	—	$ 869
Income tax provision	$ 1,108					(929)	$ 178
Tax rate[2]	*165.8%*						*20.5%*
Net income (loss)	$ (440)	170	—	36	(5)	929	$ 691
Net income (loss) per weighted-average share, diluted for Classes A and B[2] [3] [4]	$ (1.09)	$ 0.41	$ —	$ 0.09	$ (0.01)	$ 2.27	$ 1.68

(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 "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) 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.

(4) Non-GAAP net income per weighted-average share, diluted, was calculated based upon 410,096 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 December 31, 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	Gain on Share Repurchase[4]	Tax Adjustment[1]	Non-GAAP, as adjusted[2]
Operating expenses:								
Cost of license revenue	$ 38	(1)	—	(24)	—	—	—	$ 14
Cost of services revenue	$ 237	(14)	—	(1)	—	—	—	$ 222
Research and development	$ 395	(81)	—	—	—	—	—	$ 314
Sales and marketing	$ 646	(49)	(2)	(5)	—	—	—	$ 591
General and administrative	$ 173	(20)	—	—	(9)	—	—	$ 144
Operating income	$ 543	165	2	30	9	—	—	$ 747
Operating margin[2]	*26.7%*	*8.1%*	*0.1%*	*1.5%*	*0.4%*	—	—	*36.8%*
Other income (expense), net	$ (8)	—	—	—	6	(8)	—	$ (11)
Income before income tax	$ 549	165	2	30	15	(8)	—	$ 751
Income tax provision	$ 108						46	$ 154
Tax rate[2]	*19.6%*							*20.5%*
Net income	$ 441	165	2	30	15	(8)	(46)	$ 597
Net income per weighted-average share, diluted for Classes A and B[2] [3]	$ 1.04	$ 0.40	$ —	$ 0.07	$ 0.04	$ —	$ (0.11)	$ 1.43

[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 416,512 diluted weighted-average shares for Classes A and B.

[4] In December 2016, VMware entered into a stock purchase agreement with Dell and Dell's wholly-owned subsidiary, EMC Equity Assets LLC ("EMC") pursuant to which VMware agreed to purchase $500 million of VMware Class A common stock from EMC. The final aggregate number of shares purchased will be determined based on a volume-weighted average price, less a contractually agreed upon discount. As of December 31, 2016, VMware had made an up-front payment of $375 million, as well as recognized a derivative asset and related $8 million gain in Other income (expense), net. The derivative asset is related to its obligation as of December 31, 2016 to repurchase $125 million of additional shares and is measured at fair value on a recurring basis. In accordance with U.S. GAAP, diluted net income per share does not include the impact of the remeasurement.

Appendix

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	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Related Items	Loss on Share Repurchase	Tax Adjustment[1]	Non-GAAP, as adjusted[2]
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	$ 2,593	(197)	(3)	(23)	(2)	—	—	$ 2,367
General and administrative	$ 654	(79)	(1)	—	(23)	—	—	$ 551
Realignment and loss on disposition	$ 90	—	—	—	(90)	—	—	$ —
Operating income	$ 1,689	683	6	132	120	—	—	$ 2,631
Operating margin[2]	*21.3%*	*8.6%*	*0.1%*	*1.7%*	*1.5%*	—	—	*33.2%*
Other income (expense), net	$ 66	—	—	—	(46)	2	—	$ 21
Income before income tax	$ 1,801	683	6	132	74	2	—	$ 2,698
Income tax provision	$ 1,231						(678)	$ 553
Tax rate[2]	*68.4%*							*20.5%*
Net income	$ 570	683	6	132	74	2	678	$ 2,145
Net income per weighted-average share, diluted for Classes A and B[2] [3]	$ 1.38	$ 1.65	$ 0.02	$ 0.32	$ 0.18	$ —	$ 1.64	$ 5.19

[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 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] Calculated based upon 413,368 diluted weighted-average shares for Classes A and B.

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VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Twelve Months Ended December 31, 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		Realignment Charges		Acquisition, Disposition and Other Related Items		Gain on Share Repurchase[4]		Tax Adjustment[1]		Non-GAAP, as adjusted[2]
Operating expenses:																		
Cost of license revenue	$	159		(2)		—		(100)		—		—		—		—	$	57
Cost of services revenue	$	894		(52)		(1)		(2)		—		—		—		—	$	839
Research and development	$	1,503		(305)		(1)		—		—		—		—		—	$	1,197
Sales and marketing	$	2,357		(195)		(5)		(22)		—		—		—		—	$	2,134
General and administrative	$	689		(82)		(1)		(1)		—		(34)		—		—	$	572
Realignment	$	52		—		—		—		(52)		—		—		—	$	—
Operating income	$	1,439		636		8		125		52		34		—		—	$	2,294
Operating margin[2]		*20.3%*		*9.0%*		*0.1%*		*1.8%*		*0.7%*		*0.5%*		—		—		*32.3%*
Other income (expense), net	$	(17)		—		—		—		—		20		(8)		—	$	(5)
Income before income tax	$	1,473		636		8		125		52		54		(8)		—	$	2,340
Income tax provision	$	287														191	$	478
Tax rate[2]		*19.5%*																*20.4%*
Net income	$	1,186		636		8		125		52		54		(8)		(191)	$	1,862
Net income per weighted-average share, diluted for Classes A and B[2] [3]	$	2.78	$	1.50	$	0.02	$	0.30	$	0.12	$	0.13	$	—	$	(0.45)	$	4.39

[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 423,994 diluted weighted-average shares for Classes A and B.

[4] In December 2016, VMware entered into a stock purchase agreement with Dell and Dell's wholly-owned subsidiary, EMC Equity Assets LLC ("EMC") pursuant to which VMware agreed to purchase $500 million of VMware Class A common stock from EMC. The final aggregate number of shares purchased will be determined based on a volume-weighted average price, less a contractually agreed upon discount. As of December 31, 2016, VMware had made an up-front payment of $375 million, as well as recognized a derivative asset and related $8 million gain in Other income (expense), net. The derivative asset is related to its obligation as of December 31, 2016 to repurchase $125 million of additional shares and is measured at fair value on a recurring basis. In accordance with U.S. GAAP, diluted net income per share does not include the impact of the remeasurement.

Appendix

VMware, Inc.

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	
	February 2, 2018	**December 31, 2016**
Total revenue, as reported	$ 2,309	$ 2,032
Sequential change in unearned revenue [(1)]	603	530
Total revenue plus sequential change in unearned revenue	$ 2,912	$ 2,562
Change (%) over prior year, as reported	14%	

Growth in License Revenue Plus Sequential Change in Unearned License Revenue

	Three Months Ended	
	February 2, 2018	**December 31, 2016**
Total license revenue, as reported	$ 1,068	$ 887
Sequential change in unearned license revenue	20	78
Total license revenue plus sequential change in unearned license revenue	$ 1,088	$ 965
Change (%) over prior year, as reported	13%	

[(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 consolidated balance sheets.

Appendix

Reconciliation of GAAP to Non-GAAP Operating Margin Guidance

	First Quarter Fiscal 2019 (Projected)		Full Year Fiscal 2019 (Projected)	
GAAP Operating Margin	**16.6% - 18.3%** (1)	**Projected**	**22.2% - 23.9%** (2)	**Projected**
Stock-based Compensation	8.2%	Estimated	7.9%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	1.9%	Estimated	1.6%	Estimated
Acquisition, Disposition and Other Related Items	0.4%	Estimated	0.3%	Estimated
Non-GAAP Operating Margin	**28.5%**	**Projected**	**33.3%**	**Projected**

(1) Values of items excluded from GAAP operating margin are estimates. While the aggregate of estimates may not foot, in total we expect GAAP operating margin to be 10 to 12 percentage points less than non-GAAP operating margin.

(2) Values of items excluded from GAAP operating margin are estimates. While the aggregate of estimates may not foot, in total we expect GAAP operating margin to be 9 to 11 percentage points less than non-GAAP operating margin.

Appendix

Reconciliation of GAAP to Non-GAAP Net Income per Diluted Share Guidance

	First Quarter Fiscal 2019 (Projected)		Full Year Fiscal 2019 (Projected)	
GAAP Net Income per Diluted Share	**$0.66 - $0.73** (1)	**Projected**	**$3.93 - $4.27** (2)	**Projected**
Stock-based Compensation	0.39	Estimated	1.69	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.00	Estimated	0.02	Estimated
Intangible Amortization	0.09	Estimated	0.35	Estimated
Acquisition, Disposition and Other Related Items	0.02	Estimated	0.06	Estimated
Tax Adjustment	(0.07) (3)	Estimated	(0.26) (3)	Estimated
Non-GAAP Net Income per Diluted Share	**$1.14**	**Projected**	**$6.02**	**Projected**

(1) 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 $0.41 to $0.48 less than non-GAAP net income per share.

(2) 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 $1.75 to $2.09 less than non-GAAP net income per share.

(3) Reflects estimated impact of the U.S. Tax Cuts and Jobs Act. Final calculations 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.

Appendix

VMware, Inc.

SUPPLEMENTAL SCHEDULE OF PRELIMINARY ASC 606 ADJUSTMENTS
(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 will adopt ASC 606 using the full retrospective transition method during the first quarter of fiscal 2019. The following tables present a preliminary view of selected financial information for the first quarter of fiscal 2018 and fiscal year 2018, as adjusted under ASC 606, to provide a comparable comparison to VMware's first quarter of fiscal 2019 and fiscal year 2019 guidance. The Company is continuing to evaluate the effect that ASC 606 will have on our consolidated financial statements, and these preliminary adjustments could differ from the final adjusted consolidated financial statements for the first quarter of fiscal 2018 and fiscal year 2018 to be disclosed in our Form 10-Q for the quarter ended May 4, 2018 and our Form 10-K for the year ended February 1, 2019.

Selected Income Statement Captions

Selected consolidated income statement captions, which reflect preliminary adjustments under ASC 606 are as follows (tables in millions):

	For the Three Months Ended May 5, 2017			
	GAAP As Reported	Preliminary ASC 606 Adjustments	Non-GAAP Adjustments[1]	Preliminary Non-GAAP As Adjusted
Revenue:				
License	$ 610	33	—	$ 643
Services	$ 1,126	6	—	$ 1,132
Total revenue[2]	$ 1,736	39	—	$ 1,775
Operating expenses:				
Sales and marketing[3]	$ 586	(8)	(54)	$ 524
Realignment and loss on disposition	$ 51	13	(64)	$ —
Operating income	$ 238	34	270	$ 542
Operating margin	*13.7%*			*30.5%*
Income before income tax	$ 258	34	273	$ 565
Income tax provision[4]	$ 26			$ 116
Tax rate	*10.1%*			*20.5%*
Net income	$ 232			$ 449
Net income per weighted-average share, diluted for Classes A and B[5]	$ 0.56			$ 1.08

	For the Twelve Months Ended February 2, 2018			
	GAAP As Reported	Preliminary ASC 606 Adjustments	Non-GAAP Adjustments[1]	Preliminary Non-GAAP As Adjusted
Revenue:				
License	$ 3,195	8	—	$ 3,203
Services	$ 4,727	(54)	—	$ 4,673
Total revenue[2]	$ 7,922	(46)	—	$ 7,876
Operating expenses:				
Sales and marketing[3]	$ 2,593	(94)	(226)	$ 2,273
Realignment and loss on disposition	$ 90	13	(103)	$ —
Operating income	$ 1,689	35	955	$ 2,679
Operating margin	*21.3%*			*34.0%*
Income before income tax	$ 1,801	35	910	$ 2,746
Income tax provision[4]	$ 1,231			$ 563
Tax rate	*68.4%*			*20.5%*
Net income	$ 570			$ 2,183
Net income per weighted-average share, diluted for Classes A and B[5]	$ 1.38			$ 5.28

[1] Represents the aggregate non-GAAP adjustments presented in the Reconciliation of GAAP to Non-GAAP data for the three months ended May 5, 2017 and twelve months ended February 2, 2018. Non-GAAP realignment and loss on disposition was also adjusted by $13 million relating to the preliminary ASC 606 adjustment.

[2] Under ASC 606, revenue increased during three months ended May 5, 2017 and decreased during the twelve months ended February 2, 2018, primarily due to changes in the timing of revenue recognition for license and services arrangements where revenue was previously deferred.

[3] Under ASC 606, additional sales commission costs are deferred and are amortized over a longer duration. Adjustments to sales and marketing expense are primarily due to the increased deferral of commission costs, net of related amortization.

[4] Adjustment to non-GAAP income tax provision reflects the non-GAAP tax rate of 20.5% applied against the preliminary ASC 606 adjustments. The non-GAAP income tax rate excludes the impact of discrete items, such as adjustments resulting from the implementation of the Tax Act. The Company is continuing to evaluate the tax impact on adjustments resulting from ASC 606 and a reasonable estimate of the impact to GAAP income tax provision cannot be made at this time.

[5] Calculated based upon 414,018 and 413,368 diluted weighted-average shares for Classes A and B for the three months ended May 5, 2017 and twelve months ended February 2, 2018, respectively.

Appendix

VMware, Inc.

SUPPLEMENTAL SCHEDULE OF PRELIMINARY ASC 606 ADJUSTMENTS (cont.)

Selected Balance Sheet Captions

Selected consolidated balance sheet captions, which reflect preliminary adjustments under ASC 606 are as follows (table in millions):

	February 2, 2018		
	As Reported	Preliminary ASC 606 Adjustments	Preliminary As Adjusted
Accounts receivable, net of allowance for doubtful accounts [1]	$ 1,312	70	$ 1,382
Other current assets	$ 237	22	$ 259
Other assets [2]	$ 323	609	$ 932
Accrued expenses and other [3]	$ 1,241	105	$ 1,346
Unearned revenue [4]	$ 6,250	(409)	$ 5,841

[1] Accounts receivable increased under ASC 606 primarily due to the recognition of unbilled receivables arising from the unconditional right to payment for licenses and services transferred.

[2] Under ASC 606, additional sales commission costs are deferred and are amortized over a longer duration. Adjustments to other assets primarily include the unamortized portion of deferred commission costs.

[3] Accrued expenses and other under ASC 606 includes customer prepayments related to contracts with various cancellation rights. Previously, these customer prepayments were included in unearned revenue.

[4] Generally, revenue that was previously deferred for on-premise license sales is accelerated under ASC 606 and reduces unearned revenue. In addition, customer prepayments on contracts with various cancellation rights are included in accrued expenses and other under ASC 606, which reduces unearned revenue.

The following table summarizes preliminary unearned revenue by type, as adjusted:

	February 2, 2018		
	As Reported	Preliminary ASC 606 Adjustments	Preliminary As Adjusted
Unearned revenue as reported:			
License	$ 523	$ (341)	$ 182
Software maintenance	5,141	(57)	5,084
Professional services	586	(11)	575
Total unearned revenue	$ 6,250	$ (409)	$ 5,841

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended May 5, 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	Loss on Share Repurchase	Tax Adjustment[1]	Non-GAAP, as adjusted[2]
Operating expenses:								
Cost of license revenue	$ 39	(1)	—	(26)	—	—	—	$ 12
Cost of services revenue	$ 250	(14)	(1)	(1)	(1)	—	—	$ 233
Research and development	$ 421	(82)	—	—	(3)	—	—	$ 337
Sales and marketing	$ 586	(48)	(2)	(4)	—	—	—	$ 531
General and administrative	$ 151	(18)	—	—	(5)	—	—	$ 128
Realignment and loss on disposition	$ 51	—	—	—	(51)	—	—	$ —
Operating income	$ 238	163	3	31	60	—	—	$ 495
Operating margin[2]	*13.7%*	*9.4%*	*0.2%*	*1.8%*	*3.5%*	—	—	*28.5%*
Other income (expense), net	$ 4	—	—	—	1	2	—	$ 7
Income before income tax	$ 258	163	3	31	61	2	—	$ 518
Income tax provision	$ 26						80	$ 106
Tax rate[2]	*10.1%*							*20.5%*
Net income	$ 232	163	3	31	61	2	(80)	$ 412
Net income per weighted-average share, diluted for Classes A and B[2] [3]	$ 0.56	$ 0.39	$ 0.01	$ 0.08	$ 0.15	$ —	$ (0.19)	$ 0.99

(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 414,018 diluted weighted-average shares for Classes A and B.

Revised Fiscal Calendar

YoY Comparisons of Quarterly Results and Sequential Change in Unearned Revenue Balances

VMware revised its fiscal calendar effective January 1, 2017. VMware's first fiscal year under its revised fiscal calendar began on February 4, 2017 and will end February 2, 2018. The period from January 1, 2017 through February 3, 2017 was recorded as a transition period and was first reported as a separate period in VMware's Form 10-Q filing for the first quarter of fiscal 2018 and will be reported as a separate period in VMware's Form 10-K filing for the fiscal year ended February 2, 2018.

Year-over-year comparisons of quarterly financial results included in this earnings presentation compare results for VMware's fiscal 2018 fourth quarter (November 4, 2017 through February 2, 2018) to VMware's fiscal 2016 fourth quarter (October 1, 2016 through December 31, 2016). Sequential changes in total unearned revenue and unearned license revenue for the fourth quarter of fiscal 2018 compare VMware's total unearned revenue and unearned license revenue balances as of November 3, 2017, the last day of the third fiscal quarter, to the respective balances as of February 2, 2018, the last day of VMware's fiscal 2018 fourth quarter.

Forward-Looking Statements

This presentation contains forward-looking statements including, among other things, statements regarding the momentum of customer interest in and expected benefits to customers of VMware products and services; the estimate of the net tax expense recognized in connection with the Tax Cuts and Jobs Act enacted on December 22, 2017 (the “Tax Act”); the schedule of preliminary adjustments to select financial data for the first quarter of fiscal 2018 and fiscal year 2018 pursuant to the update to accounting standards related revenue recognition set forth in ASC 606; expectations regarding total and license revenues growth, non-GAAP operating margin, diluted non-GAAP earnings per share, diluted share count and GAAP and non-GAAP tax rates for Q1 fiscal year 2019 (FY19) and FY19; expectations regarding FY19 cash flow from operations, capital expenditures and free cash flow; and expectations related to VMware’s non-GAAP to GAAP reconciliations of free cash flow for FY19 and operating margin and diluted earnings per share for Q1 FY19 and FY19. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including but not limited to: (i) adverse changes in general economic or market conditions; (ii) delays or reductions in consumer, government and information technology spending; (iii) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the virtualization software and cloud, end user and mobile computing industries, and new product and marketing initiatives by VMware’s competitors; (iv) VMware’s customers’ ability to transition to new products and computing strategies such as cloud computing, desktop virtualization and the software defined data center; (v) VMware’s ability to enter into and maintain strategically effective partnerships and alliances; (vi) the uncertainty of customer acceptance of emerging technology; (vii) rapid technological changes in the virtualization software and cloud, end user and mobile computing industries; (viii) changes to product and service development timelines; (ix) VMware’s relationship with Dell Technologies and Dell’s ability to control matters requiring stockholder approval, including the election of VMware’s board members and matters relating to Dell’s investment in VMware; (x) VMware’s ability to protect its proprietary technology; (xi) VMware’s ability to attract and retain highly qualified employees; (xii) the ability to successfully integrate into VMware acquired companies and assets and smoothly transition services related to divested assets from VMware; (xiii) the ability of VMware to realize synergies from Dell; (xiv) disruptions resulting from key management changes; (xv) fluctuating currency exchange rates; (xvi) changes in VMware’s financial condition; (xvii) continuing analysis of the impact of the Tax Act, for which final calculations 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; and (xviii) potential disruptions relating to the transition to Dell’s fiscal year and further business integrations with Dell. These forward-looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect as well as other risks detailed in documents filed with the Securities and Exchange Commission, including VMware’s most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K that VMware may file from time to time, which could cause actual results to vary from expectations. VMware assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this presentation.