

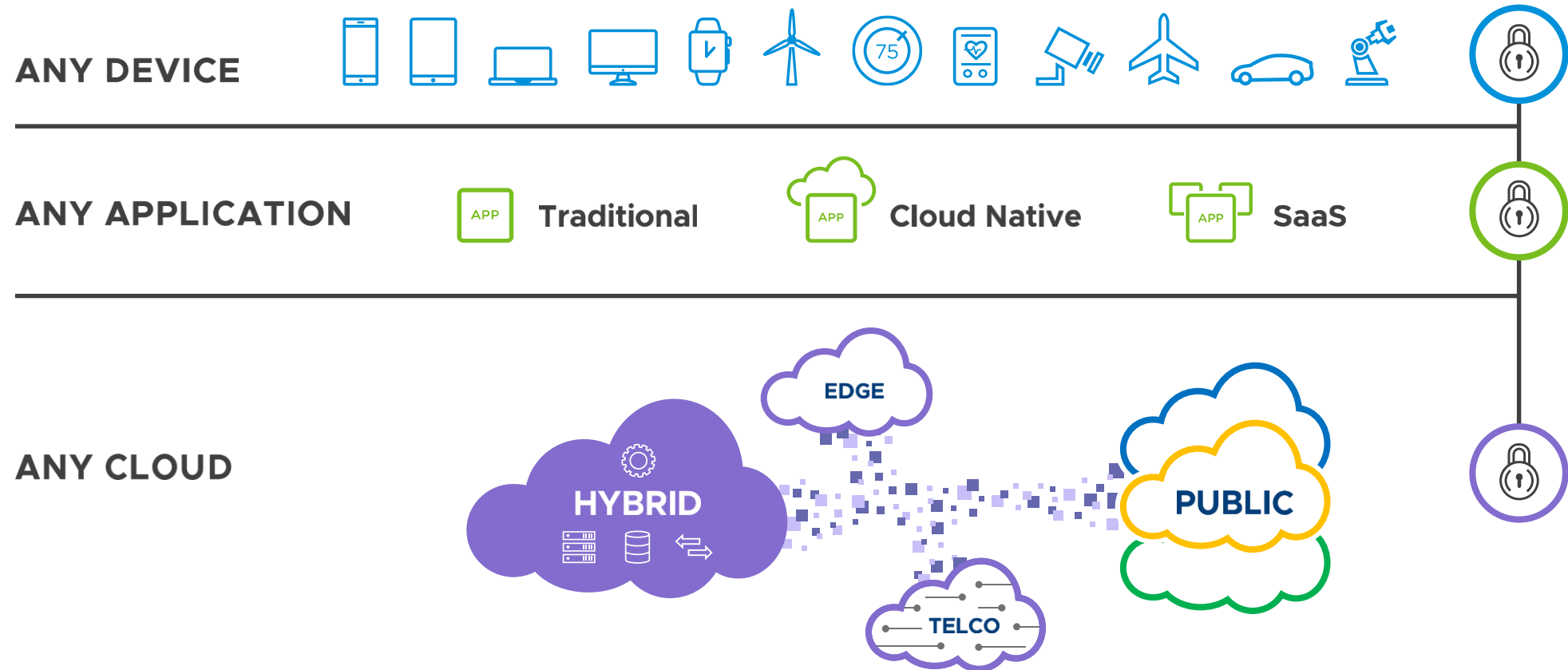
VMW Q1 FY2020 Earnings Conference Call

May 30, 2019

Pat Gelsinger, CEO

- Q1 was a good start to fiscal 2020 across our diverse product portfolio.
- Q1 total revenue increased 13% YoY.
- Q1 non-GAAP earnings per share of \$1.32.⁽¹⁾
- Especially pleased to announce a number of important agreements during the quarter with key partners Amazon Web Services, Dell and Microsoft.
- EMEA and Asia Pacific geographies had particularly strong results in Q1.

VMware Vision: The Essential, Ubiquitous Digital Foundation



Pat Gelsinger, CEO

- Announced VMware Cloud on AWS availability in Canada, Mumbai, Paris and Singapore with the service now available in 14 regions globally.
- Announced VMware Cloud on Dell EMC, which will provide simple, more secure and scalable infrastructure delivered as-a-service to customers' on-premises data centers.
- Newly announced Azure VMware Solutions, which enables customers to capitalize on VMware Cloud Foundation—a comprehensive offering of software-defined compute, storage, networking and management that is sold and supported by Microsoft on their Azure cloud.
- Announced VMware Cloud Foundation 3.7, which is now available on VxRail, integrated with VMware's flexible, full stack HCI architecture.

Pat Gelsinger, CEO

- Acquired Bitnami, a leader in application packaging solutions providing the largest catalog of click-to-deploy applications and development stacks for major cloud and Kubernetes environments.
- Announced the acquisition of AetherPal to extend our digital workspace remote support capabilities.
- With the announced expanded partnership with Microsoft, mutual customers can now embrace Microsoft 365 and Workspace ONE together to meet their digital workplace needs.
- VMware Cloud Foundation is now the hybrid cloud infrastructure across multiple cloud models including:
 - customer-managed clouds on custom built and hyperconverged solutions;
 - partner-managed clouds, such as IBM and Azure along with Cloud Verified Partners; and

Overview of Results: Revenue Highlights

Q1FY20		
	Actual (\$M)	YoY Growth
Total Revenue	2,266	13%
License Revenue	869	12%

Hybrid Cloud Subscription and SaaS

Q1FY20

Greater than 12% of total revenue

Hybrid Cloud Subscription and SaaS Revenue contains:

VMware Cloud Provider Program

Portion of EUC/Workspace One revenue recognized as SaaS

Other "as a Service" offerings such as CloudHealth Technologies, Horizon Cloud, VeloCloud, VMware Cloud on AWS and Wavefront

Income Statement Highlights

	Q1FY19	Q1FY20
License Revenue (\$M)	774	869
Services Revenue (\$M)	1,234	1,397
Total Revenue (\$M)	2,008	2,266
Non-GAAP Operating Margin ⁽¹⁾	29.8%	29.5%
Non-GAAP Net Income per Diluted Share (\$) ⁽¹⁾	1.26	1.32

(1) See Appendix for reconciliation to GAAP.

Select Financial Measures

	Q1FY20
Headcount	25,259
Cash, Cash Equivalents & Short-Term Investments (\$M)	3,311
Operating Cash Flow (\$M)	1,273
CapEx (\$M)	71
Unearned Revenue Total (\$M)	7,119
Long-Term Unearned Revenue (\$M) ⁽¹⁾	3,100

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

Zane Rowe, EVP & CFO

- Q1 growth in total revenue plus the sequential change in total unearned revenue was 25% YoY.⁽¹⁾⁽²⁾
- Q1 growth in license revenue plus the sequential change in unearned license revenue was 23% YoY.⁽¹⁾⁽²⁾
- NSX portfolio license bookings for Q1 increased over 40% YoY. NSX was included in all of our top 10 deals in Q1.
- vSAN license bookings grew over 50% YoY in Q1. vSAN was included in 8 of our top 10 deals for the quarter; customer count of over 20,000.
- EUC license bookings grew in the low-teens YoY in Q1. EUC was included in 9 of our top 10 deals for the quarter.
- Over 50% of EUC product bookings are now sold as SaaS.

(1) See Appendix.

Zane Rowe, EVP & CFO

- In Q1, Core SDDC license bookings grew in the low-teens YoY and total Core SDDC bookings were up in the low-double-digits.
- Both Cloud Management license bookings and total Cloud Management bookings grew in the strong double-digits YoY in Q1.
- Cloud Management license bookings growth was driven by vRealize and CloudHealth.
- In Q1, Compute license bookings grew in the mid-single-digits, driven primarily by growth in VMware Cloud Provider Program, with total Compute bookings up in the high-single-digits YoY.
- Announced additional stock repurchase authorization of \$1.5B through the end of FY2021.

Guidance

FY20		
Total Revenue	\$10.030B	11.8% YoY
License Revenue	\$4.275B	12.8% YoY

Guidance

FY20	
Non-GAAP Operating Margin ⁽¹⁾	33%
Diluted Non-GAAP Net Income per share ⁽¹⁾	\$6.49
Diluted Share Count	417M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 1 to 3 points lower than non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.

(2) Non-GAAP tax rate is equal to VMware's annual estimated tax rate on non-GAAP income for the period shown. 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 discrete items. 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.

Guidance

FY20	
Cash Flow From Operations	\$3.950B
CapEx	\$320M
Free Cash Flow ⁽¹⁾	\$3.630B

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

Guidance

Q2FY20		
Total Revenue	\$2.425B	11.5% YoY
License Revenue	\$1B	11.1% YoY

Guidance

Q2FY20	
Non-GAAP Operating Margin ⁽¹⁾	32.6%
Diluted Non-GAAP Net Income per share ⁽¹⁾	\$1.55
Diluted Share Count	417M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 1 to 3 points higher than non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.

(2) Non-GAAP tax rate is equal to VMware's annual estimated tax rate on non-GAAP income for the period shown. 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 discrete items. 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.

Q&A

Appendix

Enterprise Agreements

43% of total bookings

16 deals over \$10M

10 of the top 10 deals included NSX

9 of the top 10 deals included Management

9 of the top 10 deals included EUC

8 of the top 10 deals included vSAN

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended May 3, 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	\$ 50	—	—	(33)	—	—	\$ 17
Cost of services revenue	\$ 302	(16)	—	(1)	—	—	\$ 287
Research and development	\$ 533	(95)	—	—	—	—	\$ 437
Sales and marketing	\$ 779	(57)	(2)	(10)	—	—	\$ 712
General and administrative	\$ 187	(26)	—	—	(13)	—	\$ 146
Operating income	\$ 415	194	2	44	13	—	\$ 667
Operating margin ⁽²⁾	18.3%	8.5%	0.1%	1.9%	0.6%	—	29.5%
Other income (expense), net ⁽³⁾	\$ 145	—	—	—	(133)	—	\$ 12
Income before income tax	\$ 540	194	2	44	(120)	—	\$ 659
Income tax provision	\$ 35					71	\$ 106
Tax rate ⁽²⁾	6.4%						16.0%
Net income	\$ 505	194	2	44	(120)	(71)	\$ 553
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 1.21	\$ 0.46	\$ 0.01	\$ 0.10	\$ (0.29)	\$ (0.17)	\$ 1.32

⁽¹⁾ Non-GAAP financial information for the quarter is adjusted for a tax rate equal to our annual estimated tax rate on non-GAAP income. This rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above as well as significant tax adjustments. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenue and expenses, changes to our corporate structure and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

⁽²⁾ Totals may not sum, due to rounding. Operating margin, tax rate and net income per weighted average share information are calculated based upon the respective underlying, non-rounded data.

⁽³⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized. During the three months ended May 3, 2019, this adjustment primarily included an unrealized gain of \$132 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 418,387 diluted weighted-average shares for Classes A and B.

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA For the Three Months Ended May 4, 2018 (amounts in millions, except per share amounts, and shares in thousands) (unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:							
Cost of license revenue	\$ 45	—	—	(30)	—	—	\$ 15
Cost of services revenue	\$ 251	(11)	(1)	(1)	—	—	\$ 239
Research and development	\$ 453	(84)	—	—	(1)	—	\$ 368
Sales and marketing	\$ 706	(46)	(1)	(7)	(1)	—	\$ 651
General and administrative	\$ 169	(20)	—	—	(11)	—	\$ 137
Realignment and loss on disposition	\$ 2	—	—	—	(2)	—	\$ —
Operating income	\$ 382	161	2	38	15	—	\$ 598
Operating margin ⁽²⁾	19.0%	8.0%	0.1%	1.9%	0.8%	—	29.8%
Other income (expense), net ⁽³⁾	\$ 779	—	—	—	(776)	—	\$ 2
Income before income tax	\$ 1,175	161	2	38	(761)	—	\$ 614
Income tax provision	\$ 233	—	—	—	—	(134)	\$ 98
Tax rate ⁽²⁾	19.8%	—	—	—	—	—	16.0%
Net income	\$ 942	161	2	38	(761)	134	\$ 516
Net income per weighted-average share, diluted for Classes A and B ^{(2),(4)}	\$ 2.29	\$ 0.39	\$ —	\$ 0.09	\$ (1.85)	\$ 0.33	\$ 1.26

⁽¹⁾ Non-GAAP financial information for the quarter is adjusted for a tax rate equal to our annual estimated tax rate on non-GAAP income. This rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above as well as significant tax adjustments. Our estimated tax rate on non-GAAP income is determined annually and may be adjusted during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of revenue and expenses, changes to our corporate structure and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

⁽²⁾ Totals may not sum, due to rounding. Operating margin, tax rate and net income per weighted average share information are calculated based upon the respective underlying, non-rounded data.

⁽³⁾ Non-GAAP adjustment to other income (expense), net includes gains or losses on equity investments, whether realized or unrealized. During the first quarter of fiscal 2019, this adjustment primarily included a gain of \$781 million, which related to VMware's investment in Pivotal to adjust it to its fair value.

⁽⁴⁾ Calculated based upon 410,932 diluted weighted-average shares for Classes A and B.

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	
	May 3, 2019	May 4, 2018
Total revenue, as reported	\$ 2,266	\$ 2,008
Sequential change in unearned revenue ⁽¹⁾	141	(83)
Total revenue plus sequential change in unearned revenue	<u>\$ 2,407</u>	<u>\$ 1,925</u>
Change (%) over prior year, as reported	25%	
Change in unearned revenue due to cloud credits reclassification ⁽²⁾	\$ —	\$ 77
Total revenue plus sequential change in unearned revenue, excluding impact of cloud credits reclassification	<u>\$ 2,407</u>	<u>\$ 2,002</u>
Change (%) over prior year, excluding impact of cloud credits reclassification	20%	

Growth in License Revenue Plus Sequential Change in Unearned License Revenue

	Three Months Ended	
	May 3, 2019	May 4, 2018
Total license revenue, as reported	\$ 869	\$ 774
Sequential change in unearned license revenue ⁽³⁾	48	(27)
Total license revenue plus sequential change in unearned license revenue	<u>\$ 917</u>	<u>\$ 747</u>
Change (%) over prior year, as reported	23%	
Change in unearned license revenue due to cloud credits reclassification ⁽²⁾	\$ —	\$ 39
Total license revenue plus sequential change in unearned license revenue, excluding impact of cloud credits reclassification	<u>\$ 917</u>	<u>\$ 786</u>
Change (%) over prior year, excluding impact of cloud credits reclassification	17%	

⁽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.

⁽²⁾ During the three months ended May 4, 2018, with the adoption of Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"), cloud credits totaling \$77 million, which were redeemable by the customer for the gross value of our cloud offerings, were reclassified from unearned revenue to customer deposits as customers could redeem the cloud credits for certain third-party cloud offerings where revenue would be recognized net of third-party costs. This reclassification included \$39 million from unearned license revenue. Customer deposits are included in accrued expenses and other as well as other long-term liabilities on the condensed consolidated balance sheets.

⁽³⁾ Unearned license revenue primarily consists of the allocated portion of VMware's SaaS offerings.

Appendix

Reconciliation of GAAP to Non-GAAP Operating Margin Guidance

	Q2FY20 (Projected)		FY20 (Projected)	
	20.0% - 21.6% ⁽¹⁾	Projected	21.4% - 22.8% ⁽²⁾	Projected
GAAP Operating Margin				
Stock-based Compensation	8.9%	Estimated	8.4%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	1.8%	Estimated	1.5%	Estimated
Acquisition, Disposition and Other Related Items	0.6%	Estimated	0.5%	Estimated
Non-GAAP Operating Margin	32.6%	Projected	33.0%	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 11 to 13 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 10 to 12 percentage points less than non-GAAP operating margin.

Appendix

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

	Q2FY20 (Projected)		FY20 (Projected)	
GAAP Net Income per Diluted Share	\$0.90 - \$0.98 ⁽¹⁾	Projected	\$4.52 - \$4.82 ⁽²⁾	Projected
Stock-based Compensation	0.52	Estimated	2.03	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated	0.02	Estimated
Intangible Amortization	0.10	Estimated	0.36	Estimated
Acquisition, Disposition and Other Related Items	0.03	Estimated	(0.20)	Estimated ⁽³⁾
Tax Adjustment ⁽⁴⁾	(0.07)	Estimated	(0.47)	Estimated
Non-GAAP Net Income per Diluted Share	\$1.55	Projected	\$6.49	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 \$0.57 to \$0.65 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 \$1.67 to \$1.97 less than non-GAAP net income per share.

(3) Includes Q1 FY-20 gains on strategic investments, including Q1 FY-20 gain on investment in Pivotal Software of \$132M.

(4) Non-GAAP tax rate is equal to VMware's annual estimated tax rate on non-GAAP income for the period shown. 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 discrete items. 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.

Forward-Looking Statements

This presentation contains forward-looking statements including, among other things, expected benefits to customers and continuing momentum of VMware products, services, solutions and partnership offerings, such as VMware Cloud on Dell EMC, Azure VMware Solutions and the expanded partnership with Microsoft; the amount of stock repurchases through the end of fiscal year 2021; VMware's expectations and estimates regarding total and license revenues, GAAP and non-GAAP operating margin, diluted GAAP and non-GAAP net income per share, diluted share count and GAAP and non-GAAP tax rates for Q2 fiscal year 2020 (FY20) and full year FY20; expectations regarding and non-GAAP to GAAP reconciliations of FY20 cash flow from operations, capital expenditures and free cash flow; expectations related to VMware's non-GAAP to GAAP reconciliations of operating margin and diluted net income per share for Q2 FY20 and FY20. 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, maintain and extend strategically effective partnerships and alliances; (vi) the uncertainty of customer acceptance of emerging technology; (vii) the ability to successfully integrate into VMware acquired companies and assets and smoothly transition services related to divested assets from VMware; (viii) rapid technological changes in the virtualization software and cloud, end user and mobile computing industries; (ix) changes to product and service development timelines; (x) 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; (xi) VMware's ability to protect its proprietary technology; (xii) VMware's ability to attract and retain highly qualified employees; (xiii) the ability of VMware to realize synergies from Dell; (xiv) disruptions resulting from key management changes; (xv) risks associated with geopolitical changes, such as Brexit, and international sales, such as fluctuating currency exchange rates and increased tariffs and trade barriers that could adversely impact our non-U.S. sales; (xvi) changes in VMware's financial condition; (xvii) risks associated with cyber-attacks, information security and privacy; (xviii) changes in business opportunities and priorities that could cause VMware to consider uses of cash other than to repurchase stock; and (xiv) fluctuations in the level of cash that is available for stock repurchase. 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.