

VMW Q3FY21 Earnings Conference Call

November 24, 2020

VMware Delivers the Digital Foundation for an Unpredictable World

Anywhere



Any Application



Traditional

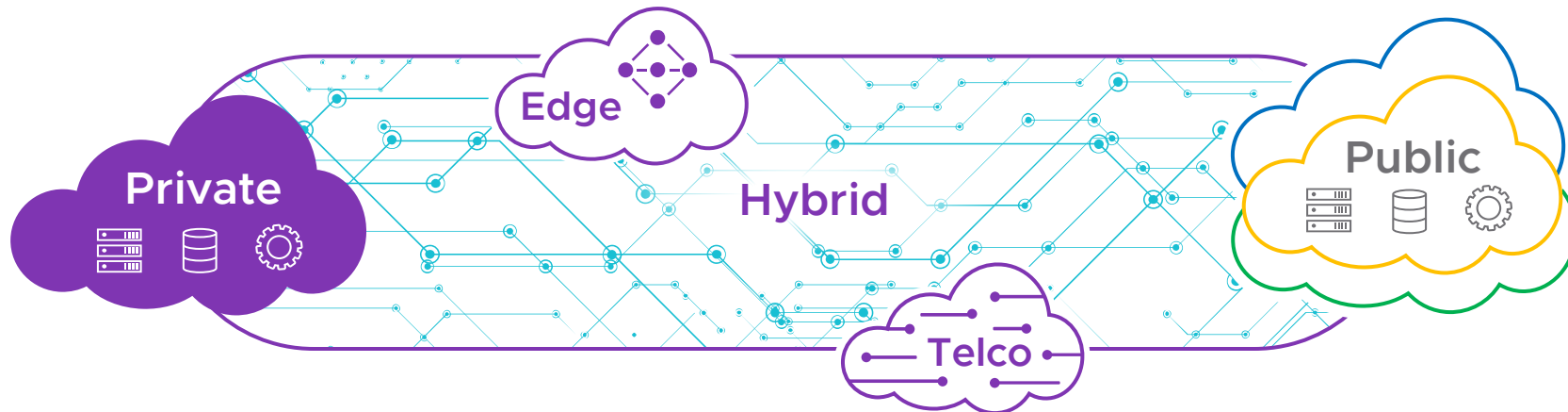


Cloud Native



SaaS

Any Cloud



Intrinsic Security

Pat Gelsinger, CEO

- Q3 financial performance driven by Subscription and SaaS revenue growth of 44% YoY, surpassing on-premises license revenue for the first time.
- Continue to expand our five franchise platform capabilities to enable a unique multi-cloud capability while also supporting customers who prefer to maintain some or all of their capacity on premises.
- Hosted first all-digital VMworld in Q3, welcoming nearly 200,000 registrants.
- VMware Tanzu, a complete portfolio for modern applications, is now supported across VMware Cloud on AWS, Azure VMware Solution and Oracle Cloud VMware Solution.
- Unveiled a new series of updates across VMware vSphere 7, VMware vSAN 7 and VMware Cloud Foundation that streamline customer adoption of Kubernetes.
- Unveiled Project Monterey, a major architectural evolution of the VMware platform into a fully distributed system for the datacenter, cloud and edge while harnessing major silicon and hardware advances.

Pat Gelsinger, CEO

- VMware Cloud on AWS continued to grow revenue over 100% YoY in Q3.
- Announced a new set of Cloud Management offerings to enable organizations to consistently deploy, operate, and govern applications, infrastructure, and platform services across a multi-cloud environment.
- Acquired SaltStack, a pioneer in building intelligent, event-driven automation software.
- Launched the 5G Telco Cloud Platform, a consistent cloud first, network architecture to accelerate 5G and edge innovation powered by a field-proven, carrier-grade, and high-performance cloud native infrastructure with intelligent orchestration and automation.
- Launched VMware Success 360, a comprehensive customer lifecycle offering that provides our customers a unified and simplified way of realizing value continuously from VMware solutions.
- VMware's focus on delivering the digital foundation for an unpredictable world is shaping the future in strategic areas that are a top priority for every business.

Overview of Results: Revenue Highlights

Q3FY21		
	Actual (\$M)	YoY Growth
Total Revenue	2,864	8%
Subscription & SaaS and License Revenue	1,315	10%
Subscription & SaaS Revenue	676	44%

Subscription & SaaS

Q3FY21

24% of total revenue

Subscription & SaaS Revenue contains:

VMware Cloud Provider Program, VMware Cloud on AWS

Modern Applications Business including Pivotal, Heptio and Wavefront

EUC: Portion of Workspace One revenue recognized as SaaS, Horizon Cloud

Carbon Black, AppDefense, Cloud Health Technologies, VeloCloud

Cloud Management & other “as a service” offerings

Income Statement Highlights

	Q3FY20	Q3FY21
License Revenue (\$M)	728	639
Subscription & SaaS Revenue (\$M)	470	676
Services Revenue (\$M)	1,458	1,549
Total Revenue (\$M)	2,656	2,864
Non-GAAP Operating Margin ⁽¹⁾	28.5%	31.0%
Non-GAAP Net Income per Diluted Share (\$) ⁽¹⁾⁽²⁾	1.42	1.66

(1) See Appendix for reconciliation to GAAP.

(2) Q3FY20 Non-GAAP Net Income per Diluted Share based on net income attributable to VMware.

Select Financial Measures

	Q3FY21
Headcount	33,645
Cash and Cash Equivalents (\$M)	3,898
Operating Cash Flow (\$M)	992
CapEx (\$M)	84
Unearned Revenue Total (\$M)	9,235
Long-Term Unearned Revenue (\$M) ⁽¹⁾	4,030

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

Zane Rowe, EVP & CFO

- In Q3, total revenue grew 8% YoY to \$2.864B, the combination of Subscription & SaaS and license revenue grew 10% YoY to \$1.315B.
- Subscription and SaaS revenue comprised 24% of total revenue in Q3, better than expected growth in VCPP, Modern Apps and VMC on AWS.
- Total backlog was \$33M, substantially all of which consisted of orders received on the last day of the quarter that were not shipped that day, and orders held due to our export control process. License backlog at quarter-end was \$9M.
- At the end of Q3, RPO, which consists of committed and non-cancellable future revenue, was \$10.2B, up 10% YoY, 55% of which is classified as current.

Zane Rowe, EVP & CFO

- Adjusting for the acquired unearned revenue for Carbon Black in Q3 of last year, total revenue plus sequential change in unearned revenue declined 4% YoY ⁽¹⁾, and subscription and SaaS and license revenue plus sequential change in unearned subscription and SaaS and license revenue increased 1% YoY in Q3. ⁽¹⁾
- Q3 product bookings for vSAN, NSX and EUC declined in the low to mid-teens YoY.
- Traction for the modern applications portfolio drove strong product bookings in Q3.
- Q3 saw good performance for Carbon Black Cloud.
- Repurchased 1.8M shares in the open market at an average price of \$144 per share in Q3.
- Will continue to invest in and focus on further expanding our Subscription and SaaS portfolio.

Guidance

FY21

Total Revenue

Approximately \$11.70B

8% YoY

Subscription & SaaS and License Revenue

Approximately \$5.56B*

10% YoY

* Over 45% from Subscription & SaaS

Guidance

FY21	
Non-GAAP Operating Margin ⁽¹⁾	32%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$7.03
Diluted Share Count	423M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 4-5 points lower than Non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.

(2) The estimated tax rate on non-GAAP income 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 rate, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

Guidance

FY21	
Cash Flow From Operations	\$3.75B
Cap Ex	\$300M
Free Cash Flow ⁽¹⁾	\$3.45B

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

Guidance

Q4FY21

Total Revenue	\$3.225B	5% YoY
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Subscription & SaaS and License Revenue	\$1.660B*	4.5% YoY
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*Approximately 43% from Subscription & SaaS

Guidance

Q4FY21

Non-GAAP Operating Margin ⁽¹⁾	33.5%
Diluted Non-GAAP Net Income per Share ⁽¹⁾	\$2.04
Diluted Share Count	423M
Non-GAAP Tax Rate ⁽²⁾	16%
GAAP Tax Rate ⁽²⁾	Approximately 0-2 points lower than Non-GAAP tax rate

(1) See Appendix for reconciliation to GAAP.

(2) The estimated tax rate on non-GAAP income 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 rate, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

Q&A

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended October 30, 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	Tax Adjustment ⁽¹⁾	Non-GAAP As Adjusted ⁽²⁾
Operating expenses:								
Cost of license revenue	\$ 44	—	—	(11)	—	—	—	\$ 33
Cost of subscription and SaaS revenue	\$ 142	(4)	—	(48)	—	—	—	\$ 90
Cost of services revenue	\$ 330	(25)	—	—	—	—	—	\$ 305
Research and development	\$ 714	(140)	—	(1)	—	—	—	\$ 573
Sales and marketing	\$ 912	(85)	(1)	(23)	—	—	—	\$ 803
General and administrative	\$ 250	(50)	—	—	—	(28)	—	\$ 172
Realignment	\$ 44	—	—	—	(44)	—	—	\$ —
Operating income	\$ 428	304	1	83	44	28	—	\$ 888
Operating margin ⁽²⁾	14.9%	10.6%	—%	2.9%	1.5%	1.0%	—	31.0%
Other income (expense), net ⁽³⁾	\$ 177	—	—	—	—	(175)	—	\$ 1
Income before income tax	\$ 554	304	1	83	44	(147)	—	\$ 838
Income tax provision	\$ 120						14	\$ 134
Tax rate ⁽²⁾	21.6%							16.0%
Net income	\$ 434	304	1	83	44	(147)	(14)	\$ 704
Net income per weighted-average share, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 1.02	\$ 0.72	\$ —	\$ 0.20	\$ 0.10	\$ (0.35)	\$ (0.03)	\$ 1.66

⁽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 investments in equity securities, whether realized or unrealized.

⁽⁴⁾ Calculated based upon 423,400 diluted weighted-average shares for Classes A and B.

Appendix

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA For the Three Months Ended November 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	\$ 42	—	—	(21)	—	—	\$ 21
Cost of subscription and SaaS revenue	\$ 103	(3)	—	(26)	—	—	\$ 73
Cost of services revenue	\$ 311	(20)	—	(1)	—	—	\$ 289
Research and development	\$ 642	(118)	—	—	—	—	\$ 524
Sales and marketing	\$ 918	(76)	(1)	(26)	—	—	\$ 816
General and administrative	\$ 269	(39)	—	—	(55)	—	\$ 175
Operating income	\$ 371	256	1	74	55	—	\$ 758
Operating margin ⁽²⁾	14.0%	9.6%	—%	2.8%	2.1%	—	28.5%
Other income (expense), net ⁽³⁾	\$ 17	—	—	—	(10)	—	\$ 7
Income before income tax	\$ 360	256	1	74	45	—	\$ 737
Income tax provision (benefit)	\$ (30)	—	—	—	—	147	\$ 118
Tax rate ⁽²⁾	N/M	—	—	—	—	—	16.0%
Net income	\$ 390	256	1	74	45	(147)	\$ 619
Less: Net income (loss) attributable to non-controlling interests	\$ (17)	26	—	9	2	(3)	\$ 17
Net income attributable to VMware, Inc.	\$ 407	230	1	65	43	(144)	\$ 602
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B ⁽²⁾⁽⁴⁾	\$ 0.96	\$ 0.54	\$ —	\$ 0.15	\$ 0.10	\$ (0.34)	\$ 1.42

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

⁽⁴⁾ Calculated based upon 423,035 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	
	October 30, 2020	November 1, 2019
Total revenue, as reported	\$ 2,864	\$ 2,656
Sequential change in unearned revenue ⁽¹⁾	(150)	329
Total revenue plus sequential change in unearned revenue	\$ 2,714	\$ 2,985
Change (%) over prior year, as reported	(9)%	
Assumed Carbon Black unearned revenue ⁽³⁾	\$ —	\$ (151)
Total revenue plus sequential change in unearned revenue, excluding impact of Carbon Black	\$ 2,714	\$ 2,834
Change (%) over prior year, excluding impact of Carbon Black	(4)%	

Growth in License and Subscription and SaaS Revenue Plus Sequential Change in Unearned License and Subscription and SaaS Revenue

	Three Months Ended	
	October 30, 2020	November 1, 2019
Total license and subscription and SaaS revenue, as reported	\$ 1,315	\$ 1,198
Sequential change in unearned license and subscription and SaaS revenue ⁽²⁾	(23)	223
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue	\$ 1,292	\$ 1,421
Change (%) over prior year, as reported	(9)%	
Assumed Carbon Black unearned subscription and SaaS revenue ⁽³⁾	\$ —	\$ (145)
Total license and subscription and SaaS revenue plus sequential change in unearned license and subscription and SaaS revenue, excluding impact of Carbon Black	\$ 1,292	\$ 1,276
Change (%) over prior year, excluding impact of Carbon Black	1 %	

⁽¹⁾ 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⁾ Consists of the change in unearned license and subscription and SaaS revenue from the preceding quarter .

⁽³⁾ Amount represents unearned revenue assumed in the acquisition of Carbon Black.

Appendix

Reconciliation of GAAP to Non-GAAP Operating Margin Guidance

	Q4FY21 (Projected)		FY21 (Projected)	
GAAP Operating Margin	19.7% - 21.2% ⁽¹⁾	Projected	17.2% - 17.6% ⁽²⁾	Projected
Stock-based Compensation	9.1%	Estimated	9.9%	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.1%	Estimated	0.1%	Estimated
Intangible Amortization	2.6%	Estimated	2.8%	Estimated
Acquisition, Disposition and Other Related Items	0.9%	Estimated	1.6%	Estimated
Non-GAAP Operating Margin	33.5%	Projected	32.0%	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 12 to 14 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 estimate GAAP operating margin to be 14 to 15 percentage points less than non-GAAP operating margin.

Appendix

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

	Q4FY21 (Projected)		FY21 (Projected)	
GAAP Net Income per Diluted Share	\$1.17 - \$1.27⁽¹⁾	Projected	\$4.17 - \$4.27⁽²⁾	Projected
Stock-based Compensation	0.70	Estimated	2.75	Estimated
Employer Payroll Tax on Employee Stock Transactions	0.01	Estimated	0.02	Estimated
Intangible Amortization	0.20	Estimated	0.78	Estimated
Acquisition, Disposition and Other Related Items ⁽³⁾	0.07	Estimated	0.00	Estimated
Tax Adjustment ⁽⁴⁾	(0.17)	Estimated	(0.76)	Estimated
Non-GAAP Net Income per Diluted Share	\$2.04	Projected	\$7.03	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 \$0.77 to \$0.87 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 \$2.76 to \$2.86 less than non-GAAP net income per share.

(3) Includes gains/loss on investments in equity securities, whether realized or unrealized, during the nine months ended October 30, 2020, including the unrealized gain of \$189 million on an investment in a company that completed its initial public offering during the third quarter of fiscal 2021.

(4) The estimated tax rate on non-GAAP income 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.

Forward-Looking Statements

This presentation contains forward-looking statements including, among others, expected benefits to customers and continuing momentum of VMware's strategy and offerings, including with respect to Tanzu, VMware vSphere, VMware vSAN, VMware Cloud Foundation, Project Monterey, 5G Telco Platform and VMware Success 360; VMware's plans to further invest in and focus on expanding its Subscription and SaaS portfolio; and VMware's financial guidance for the fourth quarter and full year FY21. 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: (1) the impact of the COVID-19 pandemic on our operations, financial condition, our customers, the business environment and the global and regional economies; (2) adverse changes in general economic or market conditions; (3) delays or reductions in consumer, government and information technology spending; (4) 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, and security industries, as well as new product and marketing initiatives by VMware's competitors; (5) the ability to successfully integrate into VMware acquired companies and assets and smoothly transition services related to divested assets from VMware; (6) rapid technological changes in the virtualization software and cloud, end user, security and mobile computing industries; (7) VMware's customers' ability to transition to new products, platforms, services, solutions and computing strategies in such areas as containerization, modern applications, intrinsic security and networking, cloud, digital workspaces, virtualization and the software defined data center, and the uncertainty of their acceptance of emerging technology; (8) VMware's ability to enter into, maintain and extend strategically effective partnerships and alliances; (9) the continued risk of litigation and regulatory actions; (10) VMware's ability to protect its proprietary technology; (11) changes to product and service development timelines; (12) 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; (13) the potential impact of Dell's investigation of strategic alternatives with respect to its interest in VMware, including a potential spinoff and related special cash dividend; (14) VMware's ability to attract and retain highly qualified employees; (15) the ability of VMware to utilize our relationship with Dell to leverage go-to-market and product development activities; (16) risks associated with cyber-attacks, information security and data privacy; (17) disruptions resulting from key management changes; (18) risks associated with international sales such as fluctuating currency exchange rates and increased trade barriers; (19) changes in VMware's financial condition; (20) geopolitical changes such as Brexit and increased tariffs and trade barriers that could adversely impact our non-U.S. sales; and (21) other business effects, including those related to industry, market, economic, political, regulatory and global health conditions. These forward-looking statements are made as of the date of this presentation, 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 we 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.