

## VMware Reports Fiscal Year 2024 First Quarter Results

*Total Revenue of \$3.28 billion*

*Subscription and SaaS Revenue of \$1.22 billion, an increase of 35% year-over-year*

**PALO ALTO, Calif., June 1, 2023** — VMware, Inc. (NYSE: VMW), a leading innovator in enterprise software, today announced financial results for the first quarter of fiscal year 2024:

### Quarterly Review

- Revenue for the first quarter was \$3.28 billion, an increase of 6% from the first quarter of fiscal 2023.
- Subscription and SaaS revenue for the first quarter was \$1.22 billion, an increase of 35% year-over-year.
- Subscription and SaaS revenue constituted 37% of total revenue for the quarter.
- Subscription and SaaS ARR for the first quarter was \$4.85 billion, an increase of 32% year-over-year.
- GAAP net income for the first quarter was \$224 million, or \$0.52 per diluted share, down 9% per diluted share compared to \$242 million, or \$0.57 per diluted share, for the first quarter of fiscal 2023. Non-GAAP net income for the first quarter was \$644 million, or \$1.49 per diluted share, up 16% per diluted share compared to \$542 million, or \$1.28 per diluted share, for the first quarter of fiscal 2023.<sup>1</sup>
- GAAP operating income for the first quarter was \$309 million, a decrease of 24% from the first quarter of fiscal 2023. Non-GAAP operating income for the first quarter was \$819 million, up 6% compared to the first quarter of fiscal 2023.
- Operating cash flow for the first quarter was \$1.75 billion. Free cash flow for the first quarter was \$1.65 billion.
- RPO for the first quarter totaled \$13.01 billion, up 13% year-over-year.

“We are pleased with our Q1 results. This past quarter we demonstrated momentum and engagement with our customers and partners as we continue to help them transform their businesses and unlock the full potential of multi-cloud,” said Raghu Raghuram, CEO, VMware. “We are excited to introduce new product innovations and host our customers and partners this year at VMware Explore events across Las Vegas, Singapore, Brazil, Barcelona, and Japan.”

“Our Q1 performance reflected a good start to fiscal year 2024 and was highlighted by our subscription and SaaS revenue, which grew 35% year-over-year,” said Zane Rowe, executive vice president and CFO, VMware. “We continue to invest in our cloud offerings to drive future recurring revenue growth.”

### Business Highlights & Strategic Announcements

- VMware announced in May that Karen Dykstra will take on the role as CFO and executive vice president, in addition to her current role as a member of the VMware Board of Directors, and that current VMware CFO and executive vice president Zane Rowe will be leaving the company, effective June 9, 2023. Please refer to the May 25, 2023 announcement entitled, “VMware Names Karen Dykstra as CFO; Zane Rowe to Depart Company,” available on [news.vmware.com](https://news.vmware.com).

- At Mobile World Congress 2023, VMware announced innovations, enhancements and partnerships to further meet the evolving needs of Communications Service Providers (CSPs) and enterprises, including:
  - **VMware Telco Cloud platform** will help CSPs accelerate network modernization and capture 5G and edge opportunities through innovations that enable RAN and edge transformation, improve telco efficiency, and enable smarter networking.
  - **Project Kauai** was unveiled to expand VMware Telco Cloud Platform RAN deployment options to include bare metal resources.
  - **Next-generation networking within VMware Telco Cloud Platform with VMware NSX**, delivering telco-grade intelligent networking and lateral security capabilities.
  - **Vodafone Qatar** selected both VMware Telco Cloud Platform-5G Edition and VMware Cloud Foundation with Tanzu as the cornerstone of its modern cloud platform. This approach will enable it to fully utilize the power of 5G, cloud and modern applications to bring new services to market.
  - **Samsung and VMware** expanded their collaboration, resulting in the integration of Samsung's O-RAN compliant virtualized RAN solutions and VMware Telco Cloud Platform as part of the DISH Wireless 5G network buildout.
  - **NTT DATA and VMware** announced an expanded collaboration to accelerate the path to software-defined, large-scale Open RAN deployments through combined solutions and services.
- VMware announced VMware Cross-Cloud managed services, a set of prescriptive offerings with enhanced partner and customer benefits that will enable highly skilled partners to expand their managed services practices.
- VMware unveiled the next evolution of the VMware Partner Connect program, a singular, unified program for all partner types, helping their customers accelerate the migration of applications to the right cloud, automate and better secure the software supply chain, and manage spending on private and public cloud infrastructures.
- VMware released new VMware Anywhere Workspace platform enhancements, including major changes to the Workspace ONE architecture that enable high performance and scalability for upwards of millions of endpoints, and new innovations in VMware App Volumes that greatly reduce the management time and infrastructure cost of virtual app and desktop environments.
- VMware Aria Automation was ranked as a leader in The Forrester Wave™ Infrastructure Automation. According to Forrester's evaluation, "VMware gives customers an easy path to automatically move between on-premises and cloud licenses."<sup>2</sup> The evaluation also noted VMware's massive partner ecosystem and array of supporting products and services.
- VMware received recognition for its ongoing Environmental, Social and Governance (ESG) leadership, demonstrating progress on its [2030 Agenda](#):
  - For the second consecutive year, VMware was recognized by Newsweek as one of America's Most Trustworthy Companies, ranking second in the Software and Telecommunications industry.
  - VMware was also recognized by Newsweek as one of America's Greatest Workplaces for Diversity, receiving 5/5 diversity score.
  - Forbes recognized VMware for its commitment to Diversity, Equity and Inclusion (DEI) and included VMware on its list of America's Best Employers for Diversity.

<sup>1</sup> Our annual effective tax rate is based upon, among other things, current tax law, including Internal Revenue Code Section 174 relating to research and development expense capitalization, which became effective beginning in VMware's fiscal 2023. If in the future this provision is deferred, modified or repealed, our effective tax rate may fluctuate significantly in the quarter in which such change in law becomes effective.

<sup>2</sup> Forrester Research, Inc., The Forrester Wave™: Infrastructure Automation, Q1 2023, March 21, 2023

## **About VMware**

VMware is a leading provider of multi-cloud services for all apps, enabling digital innovation with enterprise control. As a trusted foundation to accelerate innovation, VMware software gives businesses the flexibility and choice they need to build the future. Headquartered in Palo Alto, California, VMware is committed to building a better future through the company's [2030 Agenda](#). For more information, please visit [vmware.com/company](https://www.vmware.com/company).

## **Definitive Agreement to be Acquired by Broadcom**

VMware has entered into a definitive agreement to be acquired by Broadcom Inc. ("Broadcom"). The transaction, which is expected to be completed in Broadcom's fiscal year 2023, is subject to the receipt of regulatory approvals and other customary closing conditions. Please refer to the May 26, 2022 announcement entitled, "Broadcom to Acquire VMware for Approximately \$61 Billion in Cash and Stock," available on [news.vmware.com](https://news.vmware.com).

## **Additional Information**

VMware's website is located at [vmware.com](https://www.vmware.com), and its investor relations website is located at [ir.vmware.com](https://ir.vmware.com). VMware's goal is to maintain the investor relations website as a portal through which investors can easily find or navigate to pertinent information about VMware, all of which is made available free of charge. The additional information includes: materials that VMware files with the SEC; announcements of investor conferences, speeches and events at which its executives talk about its products, services and competitive strategies; webcasts of its earnings calls, investor conferences and events (archives of which are also available for a limited time); additional information on its financial metrics, including reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures; press releases on quarterly earnings, product and service announcements, legal developments and international news; corporate governance information; ESG (environmental, social and governance) information; other news, blogs and announcements that VMware may post from time to time that investors may find useful or interesting; and opportunities to sign up for email alerts and RSS feeds to have information pushed in real time.

VMware, Explore, NSX, Tanzu, VMware Anywhere Workspace, Workspace ONE, and Aria are registered trademarks or trademarks of VMware, Inc. or its subsidiaries in the United States and other jurisdictions. All other marks and names mentioned herein may be trademarks of their respective organizations.

## **Use of Non-GAAP Financial Measures**

Reconciliations of non-GAAP financial measures to VMware's financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables titled "About Non-GAAP Financial Measures."

## **Annual Recurring Revenue ("ARR")**

ARR is an operating measure VMware uses to assess the strength of the Company's subscription and SaaS offerings. ARR is a performance metric and should be viewed independently of, and not as a substitute for or combined with, revenue and unearned revenue. ARR represents the annualized value of VMware's committed customer subscription and SaaS contracts as of the end of the reporting period, assuming any contract that expires during the next 12 months is renewed on its existing terms and any applicable termination for convenience rights are not exercised, except that, for consumption-based subscription and SaaS offerings, ARR represents the annualized quarterly revenue based on revenue recognized for the current reporting period.

## **Forward-Looking Statements**

This press release contains forward-looking statements including, among other things, statements regarding the expected benefits to customers, partners and stockholders of VMware's strategy, offerings, collaborations and partnerships; upcoming VMware Explore events; investments in cloud products and those investments driving recurring revenue; VMware's CFO transition and related timing; and the proposed acquisition of VMware by Broadcom, related timing of its consummation and benefits to customers of combined VMware and Broadcom solutions. 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 satisfaction of the conditions precedent to consummation of the pending acquisition, and the ability to consummate the pending acquisition, on a timely basis or at all; (2) business disruption following the announcement of the pending acquisition, including disruption of current plans and operations; (3) the effects of the pending acquisition, the spin-off of VMware from Dell and changes in VMware's and Dell's commercial relationships and go-to-market strategy on VMware's ability to (a) enter into, maintain and extend strategically effective partnerships, collaborations and alliances, (b) maintain and establish new relationships with customers, partners and suppliers, and (c) maintain operating results and VMware's business generally; (4) difficulties in retaining and hiring key personnel and employees, including due to the pending acquisition; (5) the ability to implement plans, forecasts and other expectations with respect to the business after the completion of the pending acquisition and realize synergies; (6) the impact of the COVID-19 pandemic on VMware's operations, financial condition, customers, the business environment and global and regional economies; (7) the ability of VMware to transition its business model and adapt its offerings, business operations and go-to-market activities to changes in how customers consume information technology resources, such as through subscription and SaaS offerings and its subscription and SaaS portfolio; (8) changes to VMware's and Dell's respective financial conditions and strategic directions, including potential effects of the pending acquisition of VMware by Broadcom, that could adversely impact the VMware-Dell commercial relationship and collaborations; (9) the continued risk of on-going and new litigation and regulatory actions, including the outcome of any legal proceedings related to the pending acquisition; (10) adverse changes in general economic or market conditions; (11) delays or reductions in consumer, government and information technology spending, including due to the announced acquisition; (12) competitive factors, such as pricing pressures, industry consolidation, entry of new competitors into the industries in which VMware competes, as well as new product and marketing initiatives by VMware's competitors; (13) rapid technological changes in the virtualization software, cloud, end user, edge security and mobile computing and telecom industries; (14) the uncertainty of VMware's customers' acceptance of and ability to transition to emerging technologies and new offerings and computing strategies in the industries in which VMware competes; (15) VMware's ability to protect its proprietary technology; (16) changes to product and services development timelines; (17) risks associated with cyber-attacks, information security and data privacy; (18) disruptions resulting from key management changes; (19) risks associated with international sales, such as fluctuating currency exchange rates and increased trade barriers; (20) changes in VMware's financial condition; and (21) other impacts to VMware's business, 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 press release, 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 release.

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**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(amounts in millions, except per share amounts, and shares in thousands)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>May 5, 2023</b>	<b>April 29, 2022</b>
Revenue:		
License	\$ 517	\$ 572
Subscription and SaaS	1,217	899
Services	1,543	1,617
Total revenue	<u>3,277</u>	<u>3,088</u>
Operating expenses <sup>(1)</sup> :		
Cost of license revenue	39	35
Cost of subscription and SaaS revenue	208	192
Cost of services revenue	397	375
Research and development	847	774
Sales and marketing	1,104	1,053
General and administrative	373	251
Operating income	<u>309</u>	<u>408</u>
Investment income	64	1
Interest expense	(80)	(71)
Other income (expense), net	6	(10)
Income before income tax	<u>299</u>	<u>328</u>
Income tax provision	75	86
Net income	<u>\$ 224</u>	<u>\$ 242</u>
Net income per weighted-average share, basic	<u>\$ 0.52</u>	<u>\$ 0.58</u>
Net income per weighted-average share, diluted	<u>\$ 0.52</u>	<u>\$ 0.57</u>
Weighted-average shares, basic	428,185	420,586
Weighted-average shares, diluted	431,583	422,987

<sup>(1)</sup> Includes stock-based compensation as follows:

Cost of subscription and SaaS revenue	\$ 6	\$ 5
Cost of services revenue	22	23
Research and development	146	132
Sales and marketing	82	83
General and administrative	34	40

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(amounts in millions, except per share amounts, and shares in thousands)  
(unaudited)

	May 5, 2023	February 3, 2023
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,548	\$ 5,100
Accounts receivable, net of allowance of \$9 and \$9	1,833	2,510
Due from related parties	661	2,078
Other current assets	556	543
Total current assets	9,598	10,231
Property and equipment, net	1,636	1,623
Deferred tax assets	6,247	6,157
Intangible assets, net	427	478
Goodwill	9,598	9,598
Due from related parties	206	208
Other assets	2,862	2,942
Total assets	<u>\$ 30,574</u>	<u>\$ 31,237</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 225	\$ 267
Accrued expenses and other	2,108	2,568
Customer deposits	1,155	1,087
Current portion of long-term debt	1,000	1,000
Unearned revenue	6,806	7,079
Due to related parties	379	390
Total current liabilities	11,673	12,391
Long-term debt	9,445	9,440
Unearned revenue	5,399	5,664
Income tax payable	295	287
Operating lease liabilities	819	845
Due to related parties	648	648
Other liabilities	428	428
Total liabilities	28,707	29,703
Contingencies		
Stockholders' equity:		
Class A common stock, par value \$0.01; authorized 2,500,000 shares; issued and outstanding 429,707 and 426,741 shares	4	4
Additional paid-in capital	1,204	1,095
Accumulated other comprehensive loss	(4)	(4)
Retained earnings	663	439
Total stockholders' equity	<u>1,867</u>	<u>1,534</u>
Total liabilities and stockholders' equity	<u>\$ 30,574</u>	<u>\$ 31,237</u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended	
	May 5, 2023	April 29, 2022
<b>Operating activities:</b>		
Net income	\$ 224	\$ 242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	331	288
Stock-based compensation	290	283
Deferred income taxes, net	(87)	(43)
(Gain) loss on equity securities and disposition of assets, net	1	(9)
Other	5	3
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	672	675
Other current assets and other assets	(106)	(244)
Due from related parties	1,419	801
Accounts payable	(40)	(28)
Accrued expenses, customer deposits and other liabilities	(517)	(665)
Income taxes payable	106	74
Unearned revenue	(538)	(357)
Due to related parties	(10)	(15)
Net cash provided by operating activities	<u>1,750</u>	<u>1,005</u>
<b>Investing activities:</b>		
Additions to property and equipment	(105)	(106)
Sales of investments in equity securities	—	20
Purchases of strategic investments	—	(8)
Proceeds from disposition of assets	—	6
Business combinations, net of cash acquired, and purchases of intangible assets	(8)	(3)
Net cash used in investing activities	<u>(113)</u>	<u>(91)</u>
<b>Financing activities:</b>		
Proceeds from issuance of common stock	2	119
Repayment of term loan	—	(750)
Repurchase of common stock	—	(89)
Shares repurchased for tax withholdings on vesting of restricted stock	(190)	(94)
Principal payments on finance lease obligations	(1)	(1)
Net cash used in financing activities	<u>(189)</u>	<u>(815)</u>
Net increase in cash, cash equivalents and restricted cash	1,448	99
Cash, cash equivalents and restricted cash at beginning of the period	5,127	3,663
Cash, cash equivalents and restricted cash at end of the period	<u>\$ 6,575</u>	<u>\$ 3,762</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 86	\$ 80
Cash paid for taxes, net	63	69
<b>Non-cash items:</b>		
Changes in capital additions, accrued but not paid	\$ (9)	\$ (7)

**GROWTH IN REVENUE PLUS SEQUENTIAL CHANGE IN UNEARNED REVENUE**

(in millions)

(unaudited)

**Growth in Total Revenue Plus Sequential Change in Unearned Revenue**

	<b>Three Months Ended</b>	
	<b>May 5, 2023</b>	<b>April 29, 2022</b>
Total revenue, as reported	\$ 3,277	\$ 3,088
Sequential change in unearned revenue <sup>(1)</sup>	(538)	(356)
Total revenue plus sequential change in unearned revenue	<u>\$ 2,739</u>	<u>\$ 2,732</u>
Change (%) over prior year, as reported	— %	

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

	<b>Three Months Ended</b>	
	<b>May 5, 2023</b>	<b>April 29, 2022</b>
Subscription and SaaS revenue, as reported	\$ 1,217	\$ 899
Sequential change in unearned subscription and SaaS revenue <sup>(2)</sup>	(15)	2
Subscription and SaaS revenue plus sequential change in unearned subscription and SaaS revenue	<u>\$ 1,202</u>	<u>\$ 901</u>
Change (%) over prior year, as reported	33 %	

<sup>(1)</sup> 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.

<sup>(2)</sup> Consists of the change in unearned subscription and SaaS revenue from the preceding quarter.

**REMAINING PERFORMANCE OBLIGATIONS**

(in millions)

(unaudited)

**Growth in Remaining Performance Obligations**

	<b>May 5, 2023</b>	<b>April 29, 2022</b>
Remaining performance obligations <sup>(3)</sup>	\$ 13,012	\$ 11,556
Change (%) over prior year	13 %	
Remaining performance obligations, current <sup>(4)</sup>	\$ 7,068	\$ 6,563
Change (%) over prior year	8 %	

<sup>(3)</sup> Remaining performance obligations represent the aggregate amount of the transaction price in contracts allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include unearned revenue, multi-year contracts with future installment payments and certain unfulfilled orders against accepted customer contracts at the end of any given period.

<sup>(4)</sup> Current remaining performance obligations represent the amount expected to be recognized as revenue over the next twelve months.



VMware, Inc.

SUPPLEMENTAL UNEARNED REVENUE SCHEDULE

(in millions)

(unaudited)

	May 5, 2023	February 3, 2023	October 28, 2022	July 29, 2022	April 29, 2022	January 28, 2022
Unearned revenue as reported:						
License	\$ 17	\$ 21	\$ 28	\$ 20	\$ 20	\$ 19
Subscription and SaaS	4,386	4,401	3,197	2,952	2,671	2,669
Services						
Software maintenance	6,348	6,805	6,636	6,903	6,877	7,208
Professional services	1,454	1,516	1,356	1,356	1,298	1,326
Total unearned revenue	<u>\$ 12,205</u>	<u>\$ 12,743</u>	<u>\$ 11,217</u>	<u>\$ 11,231</u>	<u>\$ 10,866</u>	<u>\$ 11,222</u>

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended May 5, 2023

(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	Certain Litigation and Other Contingencies	Tax Adjustment <sup>(1)</sup>	Non-GAAP As Adjusted <sup>(3)</sup>
Operating expenses:								
Cost of license revenue	\$ 39	—	—	(9)	—	—	—	\$ 30
Cost of subscription and SaaS revenue	\$ 208	(6)	—	(33)	—	—	—	\$ 168
Cost of services revenue	\$ 397	(22)	(1)	—	(9)	—	—	\$ 365
Research and development	\$ 847	(146)	(1)	(3)	(1)	—	—	\$ 697
Sales and marketing	\$ 1,104	(82)	(2)	(14)	(10)	—	—	\$ 996
General and administrative	\$ 373	(34)	—	—	(53)	(85)	—	\$ 202
Operating income	\$ 309	290	4	59	73	85	—	\$ 819
Operating margin <sup>(3)</sup>	9.4 %	8.8 %	0.1 %	1.8 %	2.2 %	2.6 %	—	25.0 %
Other income (expense), net <sup>(4)</sup>	\$ 6	—	—	—	1	—	—	\$ 7
Income before income tax	\$ 299	290	4	59	74	85	—	\$ 810
Income tax provision	\$ 75						91	\$ 166
Tax rate <sup>(2)(3)</sup>	25.0 %							20.5 %
Net income	\$ 224	290	4	59	74	85	(91)	\$ 644
Net income per weighted-average share, diluted <sup>(3)(5)</sup>	\$ 0.52	\$ 0.67	\$ 0.01	\$ 0.14	\$ 0.17	\$ 0.20	\$ (0.21)	\$ 1.49

<sup>(1)</sup> 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.

<sup>(2)</sup> Our annual effective tax rate is based upon, among other things, current tax law, including Internal Revenue Code Section 174 relating to research and development expense capitalization, which became effective beginning in VMware's fiscal 2023. If in the future this provision is deferred, modified or repealed, our effective tax rate may fluctuate significantly in the quarter in which such change in law becomes effective.

<sup>(3)</sup> 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.

<sup>(4)</sup> Non-GAAP adjustment to other income (expense), net includes gains or losses on investments in equity securities, whether realized or unrealized.

<sup>(5)</sup> Calculated based upon 431,583 diluted weighted-average shares of common stock.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended April 29, 2022

(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 <sup>(1)</sup>	Non-GAAP As Adjusted <sup>(2)</sup>
Operating expenses:							
Cost of license revenue	\$ 35	—	—	(10)	—	—	\$ 24
Cost of subscription and SaaS revenue	\$ 192	(5)	—	(37)	—	—	\$ 150
Cost of services revenue	\$ 375	(23)	—	—	—	—	\$ 352
Research and development	\$ 774	(132)	—	(2)	—	—	\$ 639
Sales and marketing	\$ 1,053	(83)	(2)	(17)	—	—	\$ 954
General and administrative	\$ 251	(40)	—	—	(13)	—	\$ 198
Operating income	\$ 408	283	2	66	13	—	\$ 771
Operating margin <sup>(2)</sup>	13.2 %	9.2 %	0.1 %	2.1 %	0.4 %	—	25.0 %
Other income (expense), net <sup>(3)</sup>	\$ (10)	—	—	—	(9)	—	\$ (19)
Income before income tax	\$ 328	283	2	66	4	—	\$ 682
Income tax provision	\$ 86					54	\$ 140
Tax rate <sup>(2)</sup>	26.1 %						20.5 %
Net income	\$ 242	283	2	66	4	(54)	\$ 542
Net income per weighted-average share, diluted <sup>(2)(4)</sup>	\$ 0.57	\$ 0.67	\$ —	\$ 0.16	\$ 0.01	\$ (0.13)	\$ 1.28

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Non-GAAP adjustment to other income (expense), net includes gains or losses on investments in equity securities, whether realized or unrealized.

<sup>(4)</sup> Calculated based upon 422,987 diluted weighted-average shares of common stock.

VMware, Inc.

REVENUE BY TYPE

(in millions)

(unaudited)

	<b>Three Months Ended</b>	
	<b>May 5, 2023</b>	<b>April 29, 2022</b>
Revenue:		
License	\$ 517	\$ 572
Subscription and SaaS	1,217	899
Services:		
Software maintenance	1,234	1,310
Professional services	309	307
Total services	<u>1,543</u>	<u>1,617</u>
Total revenue	<u>\$ 3,277</u>	<u>\$ 3,088</u>
Percentage of revenue:		
License	15.8 %	18.5 %
Subscription and SaaS	37.1 %	29.1 %
Services:		
Software maintenance	37.7 %	42.4 %
Professional services	9.4 %	10.0 %
Total services	<u>47.1 %</u>	<u>52.4 %</u>
Total revenue	<u>100.0 %</u>	<u>100.0 %</u>

VMware, Inc.

REVENUE BY GEOGRAPHY

(in millions)

(unaudited)

	<b>Three Months Ended</b>	
	<b>May 5, 2023</b>	<b>April 29, 2022</b>
Revenue:		
United States	\$ 1,555	\$ 1,518
International	1,722	1,570
Total revenue	<u>\$ 3,277</u>	<u>\$ 3,088</u>
Percentage of revenue:		
United States	47.4 %	49.1 %
International	52.6 %	50.9 %
Total revenue	<u>100.0 %</u>	<u>100.0 %</u>

VMware, Inc.

RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES

TO FREE CASH FLOWS

(A NON-GAAP FINANCIAL MEASURE)

(in millions)

(unaudited)

	<b>Three Months Ended</b>	
	<b>May 5,</b>	<b>April 29,</b>
	<b>2023</b>	<b>2022</b>
GAAP cash flows from operating activities	\$ 1,750	\$ 1,005
Capital expenditures	(105)	(106)
Free cash flows	\$ 1,645	\$ 899

## About Non-GAAP Financial Measures

To provide investors and others with additional information regarding VMware's results, VMware has disclosed in this earnings release the following non-GAAP financial measures: non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per diluted share and free cash flow. VMware has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. Other than free cash flow, these non-GAAP financial measures differ from GAAP in that they exclude stock-based compensation, employer payroll taxes on employee stock transactions, amortization of acquired intangible assets, realignment charges, acquisition, disposition and other items, certain litigation and other contingencies, and discrete items that impacted our GAAP tax rate, each as discussed below. Our non-GAAP financial measures also reflect the application of our non-GAAP tax rate. Free cash flow differs from GAAP cash flow from operating activities with respect to the treatment of capital expenditures.

VMware's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, to calculate bonus payments and to evaluate VMware's financial performance, the performance of its individual functional groups and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect VMware's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in VMware's business, as they exclude charges and gains that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating VMware's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flow provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to repurchase shares, to fund ongoing operations and to fund other capital expenditures.

Management believes these non-GAAP financial measures are useful to investors and others in assessing VMware's operating performance due to the following factors:

- *Stock-based compensation.* Stock-based compensation is generally fixed at the time the stock-based instrument is granted and amortized over a period of several years. Although stock-based compensation is an important aspect of the compensation of VMware's employees and executives, the expense for the fair value of the stock-based instruments VMware utilizes may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Management believes it is useful to exclude stock-based compensation in order to better understand the long-term performance of VMware's core business.
- *Employer payroll taxes on employee stock transactions.* The amount of employer payroll taxes on stock-based compensation is dependent on VMware's stock price and other factors that are beyond VMware's control and do not correlate to the operation of the business.
- *Amortization of acquired intangible assets.* A portion of the purchase price of VMware's acquisitions is generally allocated to intangible assets, such as intellectual property, and is subject to amortization. However, VMware does not acquire businesses on a predictable cycle. Additionally, the amount of an acquisition's purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition. Therefore, VMware believes that the presentation of non-GAAP financial measures that adjust for the amortization of intangible assets provides investors and others with a consistent basis for comparison across accounting periods.
- *Realignment charges.* Realignment charges include workforce reductions, asset impairments, losses on asset disposals and costs to exit facilities. VMware's management believes it is useful to exclude these items, when significant, as they are not reflective of VMware's core business and operating results.
- *Acquisition, disposition and other items.* As VMware does not acquire or dispose of businesses on a predictable cycle and the terms of each transaction can vary significantly and are unique to each transaction, VMware believes it is useful to exclude acquisition, disposition and other items when looking for a consistent basis for comparison across accounting periods. These items include:
  - Direct costs of acquisitions and dispositions, such as transaction and advisory fees.
  - Costs associated with integrating acquired businesses.
  - Accruals for the portion of merger consideration payable in installments that may be paid in cash or VMware stock, at the option of VMware.
  - Gains or losses on investments in equity securities, whether realized or unrealized.

## VMware, Inc.

- Charges recognized for non-recoverable strategic investments or gains recognized on the disposition of strategic investments.
  - Gains or losses on sale or disposal of distinct lines of business or product offerings, or transactions with features similar to discontinued operations, including recoveries or charges recognized to adjust the fair value of assets that qualify as “held for sale.”
  - Certain costs incurred related to VMware's pending acquisition by Broadcom Inc. (“Broadcom”), such as legal and advisory fees incurred to effect the acquisition and retention compensation incurred to preserve our business organization through the consummation of the merger. The acquisition is expected to occur in Broadcom’s fiscal year 2023 and is subject to the receipt of regulatory approvals and other customary closing conditions.
- *Certain litigation and other contingencies.* VMware, from time to time, may incur charges or benefits that are outside of the ordinary course of VMware’s business related to litigation and other contingencies. VMware believes it is useful to exclude such charges or benefits because it does not consider such amounts to be part of the ongoing operation of VMware’s business and because of the singular nature of the claims underlying such matters.
  - *Tax adjustment.* Non-GAAP financial information for the quarter is adjusted for a tax rate equal to VMware’s annual estimated tax rate on non-GAAP income. 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 significant tax adjustments. 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. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to VMware’s estimated annual tax rates as described above, the estimated tax rate on non-GAAP income may differ from the GAAP tax rate and from VMware’s actual tax liabilities.

Additionally, VMware’s management believes that the non-GAAP financial measure of free cash flow is meaningful to investors because management reviews cash flow generated from operations after taking into consideration capital expenditures due to the fact that these expenditures are considered to be a necessary component of ongoing operations.

The use of non-GAAP financial measures has certain limitations because they do not reflect all items of income and expense that affect VMware’s operations. Specifically, in the case of stock-based compensation, if VMware did not pay out a portion of its compensation in the form of stock-based compensation and related employer payroll taxes, the cash salary expense included in operating expenses would be higher, which would affect VMware’s cash position. VMware compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP and should not be considered measures of VMware’s liquidity. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited.

Management encourages investors and others to review VMware’s financial information in its entirety and not rely on a single financial measure.