

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-37867

Dell Technologies Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

80-0890963

(I.R.S. Employer Identification No.)

One Dell Way, Round Rock, Texas 78682

(Address of principal executive offices) (Zip Code)

1-800-289-3355

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class C Common Stock, par value \$0.01 per share	DELL	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 27, 2020, there were 749,804,378 shares of the registrant's common stock outstanding, consisting of 263,653,066 outstanding shares of Class C Common Stock, 384,466,095 outstanding shares of Class A Common Stock, and 101,685,217 outstanding shares of Class B Common Stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “may,” “will,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “aim,” “seek,” and similar expressions as they relate to us or our management are intended to identify these forward-looking statements. All statements by us regarding our expected financial position, revenues, cash flows and other operating results, business strategy, legal proceedings, future responses to and effects of the coronavirus disease 2019 (“COVID-19”), and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Our results could be materially different from our expectations because of various risks, including the risks discussed in “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 and in our other periodic and current reports filed with the Securities and Exchange Commission (“SEC”). Any forward-looking statement speaks only as of the date as of which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement after the date as of which such statement was made, whether to reflect changes in circumstances or our expectations, the occurrence of unanticipated events, or otherwise.

DELL TECHNOLOGIES INC.

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PART I — FINANCIAL INFORMATION**ITEM 1 — FINANCIAL STATEMENTS (UNAUDITED)****Index**

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DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions; unaudited)

ASSETS	October 30, 2020	January 31, 2020
Current assets:		
Cash and cash equivalents	\$ 11,304	\$ 9,302
Accounts receivable, net of allowance of \$115 and \$94 (Note 18)	11,377	12,484
Short-term financing receivables, net of allowance of \$217 and \$109 (Note 4)	4,872	4,895
Inventories, net	3,393	3,281
Other current assets	7,668	6,906
Total current assets	38,614	36,868
Property, plant, and equipment, net	6,344	6,055
Long-term investments	1,655	864
Long-term financing receivables, net of allowance of \$90 and \$40 (Note 4)	5,374	4,848
Goodwill	40,643	41,691
Intangible assets, net	15,257	18,107
Other non-current assets	11,061	10,428
Total assets	\$ 118,948	\$ 118,861
LIABILITIES, REDEEMABLE SHARES, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 6,536	\$ 7,737
Accounts payable	19,792	20,065
Accrued and other	8,715	9,773
Short-term deferred revenue	15,259	14,881
Total current liabilities	50,302	52,456
Long-term debt	43,325	44,319
Long-term deferred revenue	13,422	12,919
Other non-current liabilities	5,433	5,383
Total liabilities	112,482	115,077
Commitments and contingencies (Note 10)		
Redeemable shares (Note 16)	527	629
Stockholders' equity (deficit):		
Common stock and capital in excess of \$0.01 par value (Note 14)	16,719	16,091
Treasury stock at cost	(305)	(65)
Accumulated deficit	(14,978)	(16,891)
Accumulated other comprehensive loss	(553)	(709)
Total Dell Technologies Inc. stockholders' equity (deficit)	883	(1,574)
Non-controlling interests	5,056	4,729
Total stockholders' equity	5,939	3,155
Total liabilities, redeemable shares, and stockholders' equity	\$ 118,948	\$ 118,861

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in millions, except per share amounts; unaudited)

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
<i>Net revenue:</i>				
Products	\$ 17,352	\$ 17,275	\$ 50,127	\$ 51,765
Services	6,130	5,569	17,985	16,357
Total net revenue	<u>23,482</u>	<u>22,844</u>	<u>68,112</u>	<u>68,122</u>
<i>Cost of net revenue:</i>				
Products	13,789	13,558	39,923	40,526
Services	2,432	2,160	6,919	6,347
Total cost of net revenue	<u>16,221</u>	<u>15,718</u>	<u>46,842</u>	<u>46,873</u>
Gross margin	<u>7,261</u>	<u>7,126</u>	<u>21,270</u>	<u>21,249</u>
<i>Operating expenses:</i>				
Selling, general, and administrative	4,772	5,028	14,419	15,677
Research and development	1,360	1,262	3,884	3,667
Total operating expenses	<u>6,132</u>	<u>6,290</u>	<u>18,303</u>	<u>19,344</u>
Operating income	1,129	836	2,967	1,905
Interest and other, net	273	(677)	(929)	(2,000)
Income (loss) before income taxes	1,402	159	2,038	(95)
Income tax expense (benefit)	521	(393)	(124)	(5,208)
Net income	881	552	2,162	5,113
Less: Net income attributable to non-controlling interests	49	53	139	905
Net income attributable to Dell Technologies Inc.	<u>\$ 832</u>	<u>\$ 499</u>	<u>\$ 2,023</u>	<u>\$ 4,208</u>
<i>Earnings per share attributable to Dell Technologies Inc.</i>				
Dell Technologies Common Stock — Basic	\$ 1.11	\$ 0.69	\$ 2.73	\$ 5.84
Dell Technologies Common Stock — Diluted	\$ 1.08	\$ 0.66	\$ 2.64	\$ 5.50

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions; unaudited)

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
Net income	\$ 881	\$ 552	\$ 2,162	\$ 5,113
<i>Other comprehensive income (loss), net of tax</i>				
Foreign currency translation adjustments	(21)	50	243	(186)
Cash flow hedges:				
Change in unrealized gains (losses)	45	(47)	(45)	210
Reclassification adjustment for net gains included in net income	84	(71)	(24)	(197)
Net change in cash flow hedges	129	(118)	(69)	13
Pension and other postretirement plans:				
Recognition of actuarial net gains (losses) from pension and other postretirement plans	1	—	(21)	8
Reclassification adjustments for net losses from pension and other postretirement plans	(1)	—	3	—
Net change in actuarial net gains (losses) from pension and other postretirement plans	—	—	(18)	8
Total other comprehensive income (loss), net of tax expense (benefit) of \$9 and \$(6), respectively, and \$(3) and \$1, respectively	108	(68)	156	(165)
Comprehensive income, net of tax	989	484	2,318	4,948
Less: Net income attributable to non-controlling interests	49	53	139	905
Less: Other comprehensive income (loss) attributable to non-controlling interests	1	(1)	—	—
Comprehensive income attributable to Dell Technologies Inc.	<u>\$ 939</u>	<u>\$ 432</u>	<u>\$ 2,179</u>	<u>\$ 4,043</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions; unaudited)

	Nine Months Ended	
	October 30, 2020	November 1, 2019
Cash flows from operating activities:		
Net income	\$ 2,162	\$ 5,113
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,017	4,608
Stock-based compensation expense	1,219	886
Deferred income taxes	(219)	(5,927)
Other, net	(322)	866
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	885	800
Financing receivables	(624)	(592)
Inventories	(198)	364
Other assets and liabilities	(2,175)	(2,445)
Accounts payable	(216)	299
Deferred revenue	1,001	1,811
Change in cash from operating activities	<u>5,530</u>	<u>5,783</u>
Cash flows from investing activities:		
Purchases of investments	(296)	(142)
Maturities and sales of investments	98	449
Capital expenditures and capitalized software development costs	(1,584)	(1,876)
Acquisition of businesses and assets, net	(405)	(2,437)
Divestitures of businesses and assets, net	2,187	(3)
Other	26	27
Change in cash from investing activities	<u>26</u>	<u>(3,982)</u>
Cash flows from financing activities:		
Proceeds from the issuance of common stock	389	451
Repurchases of parent common stock	(240)	(6)
Repurchases of subsidiary common stock	(890)	(1,686)
Proceeds from debt	14,772	17,656
Repayments of debt	(17,244)	(18,948)
Other	(270)	(67)
Change in cash from financing activities	<u>(3,483)</u>	<u>(2,600)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(67)	(100)
Change in cash, cash equivalents, and restricted cash	<u>2,006</u>	<u>(899)</u>
Cash, cash equivalents, and restricted cash at beginning of the period	10,151	10,240
Cash, cash equivalents, and restricted cash at end of the period	<u>\$ 12,157</u>	<u>\$ 9,341</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in millions; continued on next page; unaudited)

Three Months Ended October 30, 2020

	Common Stock and Capital in Excess of Par Value		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Dell Technologies Stockholders' Equity (Deficit)	Non- Controlling Interests	Total Stockholders' Equity (Deficit)
	Issued Shares	Amount	Shares	Amount					
Balances as of July 31, 2020	753	\$ 16,356	8	\$ (305)	\$ (15,810)	\$ (660)	\$ (419)	\$ 4,977	\$ 4,558
Net income	—	—	—	—	832	—	832	49	881
Foreign currency translation adjustments	—	—	—	—	—	(21)	(21)	—	(21)
Cash flow hedges, net change	—	—	—	—	—	128	128	1	129
Issuance of common stock	4	46	—	—	—	—	46	—	46
Stock-based compensation expense	—	126	—	—	—	—	126	310	436
Revaluation of redeemable shares	—	83	—	—	—	—	83	—	83
Impact from equity transactions of non-controlling interests	—	108	—	—	—	—	108	(281)	(173)
Balances as of October 30, 2020	<u>757</u>	<u>\$ 16,719</u>	<u>8</u>	<u>\$ (305)</u>	<u>\$ (14,978)</u>	<u>\$ (553)</u>	<u>\$ 883</u>	<u>\$ 5,056</u>	<u>\$ 5,939</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in millions; continued on next page; unaudited)

Nine Months Ended October 30, 2020

	Common Stock and Capital in Excess of Par Value		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Dell Technologies Stockholders' Equity (Deficit)	Non- Controlling Interests	Total Stockholders' Equity (Deficit)
	Issued Shares	Amount	Shares	Amount					
Balances as of January 31, 2020	745	\$ 16,091	2	\$ (65)	\$ (16,891)	\$ (709)	\$ (1,574)	\$ 4,729	\$ 3,155
Adjustment for adoption of accounting standards (Note 1)	—	—	—	—	(110)	—	(110)	—	(110)
Net income	—	—	—	—	2,023	—	2,023	139	2,162
Foreign currency translation adjustments	—	—	—	—	—	243	243	—	243
Cash flow hedges, net change	—	—	—	—	—	(69)	(69)	—	(69)
Pension and other post-retirement	—	—	—	—	—	(18)	(18)	—	(18)
Issuance of common stock	12	124	—	—	—	—	124	—	124
Stock-based compensation expense	—	332	—	—	—	—	332	887	1,219
Treasury stock repurchases	—	—	6	(240)	—	—	(240)	—	(240)
Revaluation of redeemable shares	—	102	—	—	—	—	102	—	102
Impact from equity transactions of non-controlling interests	—	70	—	—	—	—	70	(699)	(629)
Balances as of October 30, 2020	<u>757</u>	<u>\$ 16,719</u>	<u>8</u>	<u>\$ (305)</u>	<u>\$ (14,978)</u>	<u>\$ (553)</u>	<u>\$ 883</u>	<u>\$ 5,056</u>	<u>\$ 5,939</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(continued; in millions; unaudited)

Three Months Ended November 1, 2019

	Common Stock and Capital in Excess of Par Value		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Dell Technologies Stockholders' Equity (Deficit)	Non- Controlling Interests	Total Stockholders' Equity (Deficit)
	Issued Shares	Amount	Shares	Amount					
Balances as of August 2, 2019	726	\$ 15,956	2	\$ (65)	\$ (17,775)	\$ (565)	\$ (2,449)	\$ 5,544	\$ 3,095
Net income	—	—	—	—	499	—	499	53	552
Foreign currency translation adjustments	—	—	—	—	—	50	50	—	50
Cash flow hedges, net change	—	—	—	—	—	(117)	(117)	(1)	(118)
Issuance of common stock	5	67	—	—	—	—	67	—	67
Stock-based compensation expense	—	61	—	—	—	—	61	261	322
Revaluation of redeemable shares	—	90	—	—	—	—	90	—	90
Impact from equity transactions of non-controlling interests	—	18	—	—	(23)	—	(5)	(176)	(181)
Balances as of November 1, 2019	<u>731</u>	<u>\$ 16,192</u>	<u>2</u>	<u>\$ (65)</u>	<u>\$ (17,299)</u>	<u>\$ (632)</u>	<u>\$ (1,804)</u>	<u>\$ 5,681</u>	<u>\$ 3,877</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(continued; in millions; unaudited)

Nine Months Ended November 1, 2019

	Common Stock and Capital in Excess of Par Value		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Dell Technologies Stockholders' Equity (Deficit)	Non- Controlling Interests	Total Stockholders' Equity (Deficit)
	Issued Shares	Amount	Shares	Amount					
Balances as of February 2, 2019	721	\$ 16,114	2	\$ (63)	\$ (21,349)	\$ (467)	\$ (5,765)	\$ 4,823	\$ (942)
Adjustment for adoption of accounting standards	—	—	—	—	3	—	3	—	3
Net income	—	—	—	—	4,208	—	4,208	905	5,113
Foreign currency translation adjustments	—	—	—	—	—	(186)	(186)	—	(186)
Cash flow hedges, net change	—	—	—	—	—	13	13	—	13
Pension and other post-retirement	—	—	—	—	—	8	8	—	8
Issuance of common stock	10	152	—	—	—	—	152	—	152
Stock-based compensation expense	—	165	—	—	—	—	165	721	886
Treasury stock repurchases	—	—	—	(2)	—	—	(2)	—	(2)
Revaluation of redeemable shares	—	262	—	—	—	—	262	—	262
Impact from equity transactions of non-controlling interests	—	(501)	—	—	(161)	—	(662)	(768)	(1,430)
Balances as of November 1, 2019	<u>731</u>	<u>\$ 16,192</u>	<u>2</u>	<u>\$ (65)</u>	<u>\$ (17,299)</u>	<u>\$ (632)</u>	<u>\$ (1,804)</u>	<u>\$ 5,681</u>	<u>\$ 3,877</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 — BASIS OF PRESENTATION

References in these Notes to the Condensed Consolidated Financial Statements to the “Company” or “Dell Technologies” mean Dell Technologies Inc. individually and together with its consolidated subsidiaries.

Basis of Presentation — The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and accompanying Notes filed with the U.S. Securities and Exchange Commission (“SEC”) in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2020. These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the accompanying Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of Dell Technologies Inc. as of October 30, 2020 and January 31, 2020, the results of its operations and corresponding comprehensive income (loss) for the three and nine months ended October 30, 2020 and November 1, 2019, and its cash flows for the nine months ended October 30, 2020 and November 1, 2019.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and the accompanying Notes. Management has considered the potential economic implications of the outbreak of the coronavirus disease 2019 (“COVID-19”) pandemic on the Company’s critical and significant accounting estimates. Actual results could differ materially from those estimates. The results of operations and comprehensive income (loss) for the three and nine months ended October 30, 2020 and November 1, 2019 and the cash flows for the nine months ended October 30, 2020 and November 1, 2019 are not necessarily indicative of the results to be expected for the full fiscal year or for any other fiscal period.

The Company’s fiscal year is the 52- or 53-week period ending on the Friday nearest January 31. The fiscal year ended January 31, 2020 (“Fiscal 2020”) was a 52-week period, and the fiscal year ending January 29, 2021 (“Fiscal 2021”) will be a 52-week period.

Principles of Consolidation — These Condensed Consolidated Financial Statements include the accounts of Dell Technologies and its wholly-owned subsidiaries, as well as the accounts of VMware, Inc. and SecureWorks Corp. (“Secureworks”), each of which is majority-owned by Dell Technologies. All intercompany transactions have been eliminated.

Unless the context indicates otherwise, references in these Notes to the Condensed Consolidated Financial Statements to “VMware” mean the VMware reportable segment, which reflects the operations of VMware, Inc. (NYSE: VMW) within Dell Technologies.

Revenue Reclassification — For the fiscal year ended January 31, 2020, Dell Technologies made certain reclassifications of net revenue between the products and services categories on the Consolidated Statements of Income (Loss), which impacted previously reported amounts for the three and nine months ended November 1, 2019. The reclassifications were made to provide a more meaningful representation of the nature of certain service and software-as-a-service offerings of VMware, Inc. Prior period results were recast to conform with these changes, and resulted in an increase to services revenue and an equal and offsetting decrease to product revenue of \$210 million and \$584 million for the three and nine months ended November 1, 2019, respectively. Total net revenue as previously reported remains unchanged. The Company did not recast cost of goods sold for the related revenue reclassifications due to immateriality.

RSA Security Divestiture — On February 18, 2020, Dell Technologies announced its entry into a definitive agreement with a consortium led by Symphony Technology Group, Ontario Teachers’ Pension Plan Board and AlpInvest Partners to sell RSA Security. On September 1, 2020, the parties closed the transaction. At the completion of the sale, the Company received total cash consideration of approximately \$2.082 billion, resulting in a pre-tax gain on sale of \$338 million. The Company ultimately recorded a \$21 million loss, net of \$359 million in tax expense due to the relatively low tax basis for the assets sold, particularly goodwill. The transaction included the sale of RSA Archer, RSA NetWitness Platform, RSA SecurID, RSA Fraud and Risk Intelligence, and RSA Conference and was intended to further simplify Dell Technologies’ product portfolio and corporate structure. Prior to the divestiture, RSA Security’s operating results were included within Other businesses and did not qualify for presentation as a discontinued operation.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

VMware, Inc. Acquisition of Pivotal — On December 30, 2019, VMware, Inc. completed its acquisition of Pivotal Software, Inc. (“Pivotal”) from the Company by merger (the “Pivotal acquisition”), with Pivotal surviving the merger as a wholly-owned subsidiary of VMware, Inc. Each outstanding share of Pivotal’s Class A common stock (other than shares held by Pivotal stockholders who properly exercised their appraisal rights under Delaware law) was converted into the right to receive \$15.00 in cash, without interest, and each outstanding share of Pivotal’s Class B common stock was converted into the right to receive 0.0550 of a share of Class B common stock of VMware, Inc. Dell Technologies, which held all outstanding shares of Pivotal’s Class B common stock, received approximately 7.2 million shares of Class B common stock of VMware, Inc. in the transaction. As of the transaction date, Pivotal’s Class A common stock (NYSE: PVTI) ceased to be listed and traded on the New York Stock Exchange (“NYSE”).

Due to the Company’s ownership of a controlling interest in Pivotal, the Company and VMware, Inc. accounted for the acquisition of the controlling interest in Pivotal as a transaction between entities under common control, and, consequently, the transaction had no net effect to the Company’s consolidated financial statements. Subsequent to the Pivotal acquisition, Pivotal operates as a wholly-owned subsidiary of VMware, Inc. and Dell Technologies reports Pivotal results within the VMware reportable segment. Prior to the Pivotal acquisition, Pivotal results were reported within Other businesses. This change in Pivotal segment classification was reflected retrospectively and is presented in Note 17 of the Notes to the Condensed Consolidated Financial Statements.

Class V Transaction — On December 28, 2018, the Company completed a transaction (the “Class V transaction”) in which it paid \$14.0 billion in cash and issued 149,387,617 shares of its Class C Common Stock to holders of its Class V Common Stock in exchange for all outstanding shares of Class V Common Stock. The non-cash consideration portion of the Class V transaction totaled \$6.9 billion. As a result of the Class V transaction, the tracking stock feature of the Company’s capital structure associated with the Class V Common Stock was terminated. The Class C Common Stock is traded on the NYSE.

The merger pursuant to which the Class V transaction was effected and the Class V transaction have been accounted for as a hybrid liability and equity transaction involving the repurchase of outstanding common stock, with the consideration consisting of a variable combination of cash and shares. Upon settlement, the accounting for the Class V transaction reflected that the outstanding Class V Common Stock was canceled and exchanged for shares of Class C Common Stock at \$120.00 per share in cash or combination of cash and shares, depending on each holder’s election and subject to proration of the cash elections.

EMC Merger Transaction — On September 7, 2016, the Company completed its acquisition of EMC Corporation (“EMC”) by merger (the “EMC merger transaction”). The consolidated results of EMC are included in Dell Technologies’ consolidated results presented in these financial statements.

Recently Issued Accounting Pronouncements

Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity — In August 2020, the Financial Accounting Standards Board (“FASB”) issued guidance to simplify the accounting for convertible debt instruments and convertible preferred stock, and the derivatives scope exception for contracts in an entity’s own equity. In addition, the guidance on calculating diluted earnings per share has been simplified and made more internally consistent. Public entities must adopt the new guidance for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted for fiscal periods beginning after December 15, 2020. The Company will early adopt this guidance for the fiscal year beginning January 30, 2021 on a modified retrospective basis. Adoption of the new guidance is not expected to have a material impact on the Company’s financial results.

Simplifying Accounting for Income Taxes — In December 2019, the FASB issued guidance to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, *Income Taxes*, and by clarifying and amending existing guidance in order to improve consistent application of GAAP for other areas of Topic 740. Public entities must adopt the new guidance for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted for fiscal periods beginning after December 15, 2019. The Company will adopt this guidance for the fiscal year beginning January 30, 2021. The Company is currently evaluating the impact of adoption of this guidance.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Recently Adopted Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments — In June 2016, the FASB issued amended guidance which replaces the current incurred loss impairment methodology for measurement of credit losses on financial instruments with a methodology (the “current expected credit losses model” or “CECL model”) that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the CECL model, the allowance for losses on financial assets, measured at amortized cost, reflects management’s estimate of credit losses over the remaining expected life of such assets.

The Company adopted the standard (the “new CECL standard”) as of February 1, 2020 using the modified retrospective method, with the cumulative-effect adjustment to the opening balance of stockholders’ equity (deficit) as of the adoption date. The cumulative effect of adopting the new CECL standard resulted in an increase of \$111 million and \$27 million to the allowance for expected credit losses within financing receivables, net and accounts receivable, net, respectively, on the Condensed Consolidated Statements of Financial Position, and a corresponding decrease of \$28 million to other non-current liabilities related to deferred taxes and \$110 million to stockholders’ equity (deficit) as of February 1, 2020. See Note 2, Note 4, and Note 18 of the Notes to the Condensed Consolidated Financial Statements for additional information about the Company’s allowance for financing receivables losses and allowance for expected credit losses of accounts receivable.

Intangibles - Goodwill and Other - Internal-Use Software — In August 2018, the FASB issued guidance on a customer’s accounting for implementation costs incurred in a cloud-computing arrangement when hosted by a vendor. The guidance provides that, in a hosting arrangement that is a service contract, certain implementation costs should be capitalized and amortized over the term of the arrangement. The Company adopted the standard (the “new cloud computing standard”) during the three months ended May 1, 2020 using the prospective method. The impact of the adoption of this standard was immaterial to the Condensed Consolidated Financial Statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 2 — INTERIM UPDATE TO SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 1 of the Notes to the Condensed Consolidated Financial Statements, the Company adopted the new CECL standard as of February 1, 2020 using the modified retrospective method. The new impairment methodology for measurement of credit losses on financial instruments reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Additionally, the Company adopted the new cloud computing standard during the three months ended May 1, 2020 using the prospective method. In a cloud-computing hosting arrangement hosted by a vendor that is a service contract, certain implementation costs should be capitalized and amortized over the term of the arrangement. The following accounting policies have been updated as part of the adoption of the new standards.

Allowance for Expected Credit Losses — The Company recognizes an allowance for losses on accounts receivable in an amount equal to the current expected credit losses. The estimation of the allowance is based on an analysis of historical loss experience, current receivables aging, and management's assessment of current conditions and reasonable and supportable expectation of future conditions, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The Company assesses collectibility by pooling receivables where similar characteristics exist and evaluates receivables individually when specific customer balances no longer share those risk characteristics and are considered at risk or uncollectible. The expense associated with the allowance for expected credit losses is recognized in selling, general, and administrative expenses.

Allowance for Financing Receivables Losses — The Company recognizes an allowance for losses on financing receivables in an amount equal to the probable losses net of recoveries. The allowance for losses is determined based on various factors, including lifetime expected losses determined using macroeconomic forecast assumptions and management judgments applicable to and through the expected life of the portfolios as well as past due receivables, receivable type, and customer risk profile. Both fixed and revolving receivable loss rates are affected by macroeconomic conditions, including the level of gross domestic product ("GDP") growth, the level of commercial capital equipment investment, unemployment rates, and the credit quality of the borrower.

Customer account principal and interest are charged to the allowance for losses when an account is deemed to be uncollectible or generally when the account is 180 days delinquent. While the Company does not generally place financing receivables on non-accrual status during the delinquency period, accrued interest is included in the allowance for loss calculation and, therefore, the Company is adequately reserved in the event of charge off. Recoveries on receivables previously charged off as uncollectible are recorded to the allowance for financing receivables losses. The expense associated with the allowance for financing receivables losses is recognized as cost of net revenue.

Capitalized Software Development Costs — The Company capitalizes certain internal and external costs to acquire or create internal use software which are incurred subsequent to the completion of the preliminary project stage. Development costs are generally amortized on a straight-line basis over five years. Costs associated with maintenance and minor enhancements to the features and functionality of the Company's website are expensed as incurred.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 3 — FAIR VALUE MEASUREMENTS AND INVESTMENTS

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

	October 30, 2020				January 31, 2020			
	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
(in millions)								
Assets:								
Cash and cash equivalents:								
Money market funds	\$ 6,562	\$ —	\$ —	\$ 6,562	\$ 4,621	\$ —	\$ —	\$ 4,621
Equity and other securities	553	—	—	553	12	—	—	12
Derivative instruments	—	52	—	52	—	81	—	81
Total assets	<u>\$ 7,115</u>	<u>\$ 52</u>	<u>\$ —</u>	<u>\$ 7,167</u>	<u>\$ 4,633</u>	<u>\$ 81</u>	<u>\$ —</u>	<u>\$ 4,714</u>
Liabilities:								
Derivative instruments	\$ —	\$ 181	\$ —	\$ 181	\$ —	\$ 68	\$ —	\$ 68
Total liabilities	<u>\$ —</u>	<u>\$ 181</u>	<u>\$ —</u>	<u>\$ 181</u>	<u>\$ —</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ 68</u>

The following section describes the valuation methodologies the Company uses to measure financial instruments at fair value:

Money Market Funds — The Company's investments in money market funds that are classified as cash equivalents hold underlying investments with a weighted average maturity of 90 days or less and are recognized at fair value. The valuations of these securities are based on quoted prices in active markets for identical assets, when available, or pricing models whereby all significant inputs are observable or can be derived from or corroborated by observable market data. The Company reviews security pricing and assesses liquidity on a quarterly basis. As of October 30, 2020, the Company's U.S. portfolio had no material exposure to money market funds with a fluctuating net asset value.

Equity and Other Securities — The majority of the Company's investments in equity and other securities that are measured at fair value on a recurring basis consist of strategic investments in publicly-traded companies. The valuation of these securities is based on quoted prices in active markets.

Derivative Instruments — The Company's derivative financial instruments consist primarily of foreign currency forward and purchased option contracts and interest rate swaps. The fair value of the portfolio is determined using valuation models based on market observable inputs, including interest rate curves, forward and spot prices for currencies, and implied volatilities. Credit risk is also factored into the fair value calculation of the Company's derivative instrument portfolio. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for a description of the Company's derivative financial instrument activities.

Deferred Compensation Plans — The Company offers deferred compensation plans for eligible employees, which allow participants to defer payment for a portion of their compensation. Assets were the same as liabilities associated with the plans at approximately \$277 million and \$241 million as of October 30, 2020 and January 31, 2020, respectively, and are included in other assets and other liabilities on the Condensed Consolidated Statements of Financial Position. The net impact to the Condensed Consolidated Statements of Income (Loss) is not material since changes in the fair value of the assets substantially offset changes in the fair value of the liabilities. As such, assets and liabilities associated with these plans have not been included in the recurring fair value table above.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis — Certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the recurring fair value table above. These assets consist primarily of non-financial assets such as goodwill and intangible assets. See Note 8 of the Notes to the Condensed Consolidated Financial Statements for additional information about goodwill and intangible assets.

As of October 30, 2020 and January 31, 2020, the Company held private strategic investments of \$936 million and \$852 million, respectively. As these investments represent early-stage companies without readily determinable fair values, they are not included in the recurring fair value table above.

The Company has elected to apply the measurement alternative for these investments. Under the alternative, the Company measures investments without readily determinable fair values at cost, less impairment, adjusted by observable price changes. The Company must make a separate election to use the alternative for each eligible investment and is required to reassess at each reporting period whether an investment qualifies for the alternative. In evaluating these investments for impairment or observable price changes, the Company uses inputs including pre- and post-money valuations of recent financing events and the impact of those events on its fully diluted ownership percentages, as well as other available information regarding the issuer's historical and forecasted performance.

Carrying Value and Estimated Fair Value of Outstanding Debt — The following table presents the carrying value and estimated fair value of the Company's outstanding debt as described in Note 6 of the Notes to the Condensed Consolidated Financial Statements, including the current portion, as of the dates indicated:

	October 30, 2020		January 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in billions)			
Senior Secured Credit Facilities	\$ 8.6	\$ 8.6	\$ 8.8	\$ 9.0
First Lien Notes	\$ 18.3	\$ 22.0	\$ 20.5	\$ 23.9
Unsecured Notes and Debentures	\$ 1.2	\$ 1.5	\$ 1.2	\$ 1.5
Senior Notes	\$ 2.6	\$ 2.8	\$ 2.6	\$ 2.8
EMC Notes	\$ 1.0	\$ 1.0	\$ 1.6	\$ 1.6
VMware Notes and VMware Term Loan Facility	\$ 4.7	\$ 5.3	\$ 5.5	\$ 5.6
Margin Loan Facility	\$ 4.0	\$ 3.9	\$ 4.0	\$ 3.9

The fair values of the outstanding debt shown in the table above, as well as the Dell Financial Services ("DFS") debt described in Note 4 of the Notes to the Condensed Consolidated Financial Statements, were determined based on observable market prices in a less active market or based on valuation methodologies using observable inputs and were categorized as Level 2 in the fair value hierarchy. The carrying value of DFS debt approximates fair value.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Investments

The following table presents the carrying value of the Company's investments as of the dates indicated:

	October 30, 2020				January 31, 2020			
	Cost	Unrealized Gain	Unrealized (Loss)	Carrying Value	Cost	Unrealized Gain	Unrealized (Loss)	Carrying Value
	(in millions)							
Equity and other securities	\$ 944	\$ 579	\$ (34)	\$ 1,489	\$ 783	\$ 116	\$ (35)	\$ 864
Fixed income debt securities	163	3	—	166	—	—	—	—
Total securities				<u>\$ 1,655</u>				<u>\$ 864</u>

Equity and other securities — The Company has strategic investments in publicly-traded and privately-held companies. For the nine months ended October 30, 2020, the equity and other securities without readily determinable fair values of \$936 million increased by \$112 million, due to upward adjustments for observable price changes, offset by \$31 million of downward adjustments primarily attributable to impairments. The remainder of equity and other securities consists of publicly-traded investments that are measured at fair value on a recurring basis.

In September 2020, one of the Company's strategic investments, which previously did not have a readily determinable fair value, completed its initial public offering which resulted in it having a readily determinable fair value and in the recognition of an unrealized gain of \$465 million for the three and nine months ended October 30, 2020, which is reflected in the table above. The unrealized gain is reflected in Other, net as a non-cash adjustment within cash flows from operating activities on the Condensed Consolidated Statements of Cash Flows. As of October 30, 2020, the carrying value of this investment was \$543 million.

Fixed income debt securities — The Company has fixed income debt securities carried at amortized cost. The debt securities are held as collateral for borrowings. The Company intends to hold the investments to maturity. Unrealized gains relate to foreign currency impacts.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 4 — FINANCIAL SERVICES

The Company offers or arranges various financing options, services, and alternative payment structures for its customers in North America, Europe, Australia, and New Zealand through Dell Financial Services and its affiliates (“DFS”). The Company also arranges financing for some of its customers in various countries where DFS does not currently operate as a captive enterprise. The key activities of DFS include originating, collecting, and servicing customer financing arrangements primarily related to the purchase or use of Dell Technologies products and services. In some cases, DFS also offers financing on the purchase of third-party technology products that complement the Dell Technologies portfolio of products and services. New financing originations were \$2.1 billion and \$2.0 billion for the three months ended October 30, 2020 and November 1, 2019, respectively, and \$6.5 billion and \$5.7 billion for the nine months ended October 30, 2020 and November 1, 2019, respectively.

The Company’s loan and lease arrangements with customers are aggregated into the following categories:

Revolving loans — Revolving loans offered under private label credit financing programs provide qualified customers with a revolving credit line for the purchase of products and services offered by Dell Technologies. These private label credit financing programs are referred to as Dell Preferred Account (“DPA”) and Dell Business Credit (“DBC”). The DPA product is primarily offered to individual consumer customers, and the DBC product is primarily offered to small and medium-sized commercial customers. Revolving loans in the United States bear interest at a variable annual percentage rate that is tied to the prime rate. Based on historical payment patterns, revolving loan transactions are typically repaid within twelve months on average. Due to the short-term nature of the revolving loan portfolio, the carrying value of the portfolio approximates fair value.

Fixed-term leases and loans — The Company enters into financing arrangements with customers who seek lease financing for equipment. Pursuant to the current lease accounting standard effective February 2, 2019, new DFS leases are classified as sales-type leases, direct financing leases, or operating leases. When the terms of the DFS lease transfer control of the underlying asset to the lessee, the contract is typically classified as a sales-type lease. Direct financing leases are immaterial. All other new DFS leases are classified as operating leases. Leases that commenced prior to the effective date of the current lease accounting standard continue to be accounted for under previous lease accounting guidance. Leases with business customers have fixed terms of generally two to four years.

The Company also offers fixed-term loans to qualified small businesses, large commercial accounts, governmental organizations, educational entities, and certain individual consumer customers. These loans are repaid in equal payments including interest and have defined terms of generally three to five years. The fair value of the fixed-term loan portfolio is determined using market observable inputs. The carrying value of these loans approximates fair value.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Financing Receivables

The following table presents the components of the Company's financing receivables segregated by portfolio segment as of the dates indicated:

	October 30, 2020			January 31, 2020		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
<i>Financing receivables, net:</i>						
Customer receivables, gross (a)	\$ 768	\$ 9,313	\$ 10,081	\$ 824	\$ 8,486	\$ 9,310
Allowances for losses	(142)	(165)	(307)	(70)	(79)	(149)
Customer receivables, net	626	9,148	9,774	754	8,407	9,161
Residual interest	—	472	472	—	582	582
Financing receivables, net	<u>\$ 626</u>	<u>\$ 9,620</u>	<u>\$ 10,246</u>	<u>\$ 754</u>	<u>\$ 8,989</u>	<u>\$ 9,743</u>
Short-term	\$ 626	\$ 4,246	\$ 4,872	\$ 754	\$ 4,141	\$ 4,895
Long-term	\$ —	\$ 5,374	\$ 5,374	\$ —	\$ 4,848	\$ 4,848

(a) Customer receivables, gross includes amounts due from customers under revolving loans, fixed-term loans, fixed-term sales-type or direct financing leases, and accrued interest.

The allowance for losses as of October 30, 2020 includes the adoption of the new CECL standard, which was adopted as of February 1, 2020 using the modified retrospective method. Prior period amounts have not been recast. The provision recognized on the Condensed Consolidated Statements of Income (Loss) for the three and nine months ended October 30, 2020 is based on an assessment of the impact of current and expected future economic conditions, inclusive of the effect of the COVID-19 pandemic on credit losses. The duration and severity of COVID-19 and continued market volatility is highly uncertain and, as such, the impact on expected losses is subject to significant judgment and may cause variability in the Company's allowance for credit losses in future periods. See Note 1 and Note 2 of the Notes to the Condensed Consolidated Financial Statements for additional information about the new CECL standard.

The following tables present the changes in allowance for financing receivable losses for the periods indicated:

	Three Months Ended					
	October 30, 2020			November 1, 2019		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
<i>Allowance for financing receivable losses:</i>						
Balances at beginning of period	\$ 143	\$ 180	\$ 323	\$ 67	\$ 71	\$ 138
Charge-offs, net of recoveries	(13)	(6)	(19)	(18)	(6)	(24)
Provision charged to income statement	12	(9)	3	17	13	30
Balances at end of period	<u>\$ 142</u>	<u>\$ 165</u>	<u>\$ 307</u>	<u>\$ 66</u>	<u>\$ 78</u>	<u>\$ 144</u>

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	Nine Months Ended					
	October 30, 2020			November 1, 2019		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
<i>Allowance for financing receivable losses:</i>						
<i>Balances at beginning of period</i>	\$ 70	\$ 79	\$ 149	\$ 75	\$ 61	\$ 136
Adjustment for adoption of accounting standard (Note 1)	40	71	111	—	—	—
Charge-offs, net of recoveries	(51)	(22)	(73)	(53)	(18)	(71)
Provision charged to income statement	83	37	120	44	35	79
<i>Balances at end of period</i>	<u>\$ 142</u>	<u>\$ 165</u>	<u>\$ 307</u>	<u>\$ 66</u>	<u>\$ 78</u>	<u>\$ 144</u>

Aging

The following table presents the aging of the Company's customer financing receivables, gross, including accrued interest, segregated by class, as of the dates indicated:

	October 30, 2020				January 31, 2020			
	Current	Past Due 1 — 90 Days	Past Due >90 Days	Total	Current	Past Due 1 — 90 Days	Past Due >90 Days	Total
		(in millions)						
Revolving — DPA	\$ 548	\$ 34	\$ 10	\$ 592	\$ 550	\$ 51	\$ 20	\$ 621
Revolving — DBC	159	14	3	176	184	15	4	203
Fixed-term — Consumer and Commercial	8,947	299	67	9,313	8,005	373	108	8,486
Total customer receivables, gross	<u>\$ 9,654</u>	<u>\$ 347</u>	<u>\$ 80</u>	<u>\$ 10,081</u>	<u>\$ 8,739</u>	<u>\$ 439</u>	<u>\$ 132</u>	<u>\$ 9,310</u>

Aging is likely to fluctuate as a result of the variability in volume of large transactions entered into over the period, and the administrative processes that accompany those larger transactions. Aging is also impacted by the timing of the Dell Technologies fiscal period end date, relative to calendar month-end customer payment due dates. As a result of these factors, fluctuations in aging from period to period do not necessarily indicate a material change in the collectibility of the portfolio.

Fixed-term consumer and commercial customer receivables are placed on non-accrual status if principal or interest is past due and considered delinquent, or if there is concern about collectibility of a specific customer receivable. These receivables identified as doubtful for collectibility may be classified as current for aging purposes. Aged revolving portfolio customer receivables identified as delinquent are charged off.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Credit Quality

The following table presents customer receivables, gross, including accrued interest, by credit quality indicator segregated by class and year of origination, as of the date indicated:

October 30, 2020										
Fixed-term — Consumer and Commercial										
Fiscal Year of Origination										
	2021	2020	2019	2018	2017	Years Prior	Revolving — DPA (a)	Revolving — DBC (a)	Total	
(in millions)										
Higher	\$ 2,591	\$ 1,961	\$ 780	\$ 191	\$ 32	\$ —	\$ 158	\$ 48	\$ 5,761	
Mid	900	736	351	92	13	—	177	52	2,321	
Lower	723	572	303	53	14	1	257	76	1,999	
Total	<u>\$ 4,214</u>	<u>\$ 3,269</u>	<u>\$ 1,434</u>	<u>\$ 336</u>	<u>\$ 59</u>	<u>\$ 1</u>	<u>\$ 592</u>	<u>\$ 176</u>	<u>\$ 10,081</u>	

(a) The revolving portfolio is exempt from the requirement to disclose the amortized cost basis by year of origination since determining the appropriate origination year can be complex due to the nature of the revolving portfolio.

The following table presents customer receivables, gross, including accrued interest, by credit quality indicator segregated by class, as of the date indicated, and was not recast to reflect the impact of adoption of the new CECL standard:

January 31, 2020					
	Fixed-term — Consumer and Commercial	Revolving — DPA	Revolving — DBC	Total	
(in millions)					
Higher	\$ 5,042	\$ 137	\$ 55	\$ 5,234	
Mid	2,036	175	63	2,274	
Lower	1,408	309	85	1,802	
Total	<u>\$ 8,486</u>	<u>\$ 621</u>	<u>\$ 203</u>	<u>\$ 9,310</u>	

The categories shown in the tables above segregate customer receivables based on the relative degrees of credit risk. The credit quality indicators for DPA revolving accounts are measured primarily as of each quarter-end date, while all other indicators are generally updated on a periodic basis.

For DPA revolving receivables shown in the table above, the Company makes credit decisions based on proprietary scorecards, which include the customer's credit history, payment history, credit usage, and other credit agency-related elements. The higher quality category includes prime accounts generally of a higher credit quality that are comparable to U.S. customer FICO scores of 720 or above. The mid-category represents the mid-tier accounts that are comparable to U.S. customer FICO scores from 660 to 719. The lower category is generally sub-prime and represents lower credit quality accounts that are comparable to U.S. customer FICO scores below 660. For the DBC revolving receivables and fixed-term commercial receivables shown in the table above, an internal grading system is utilized that assigns a credit level score based on a number of considerations, including liquidity, operating performance, and industry outlook. The grading criteria and classifications for the fixed-term products differ from those for the revolving products as loss experience varies between these product and customer groups. The credit quality categories cannot be compared between the different classes as loss experience varies substantially between the classes.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Leases

Interest income on sales-type lease receivables was \$69 million and \$66 million for the three months ended October 30, 2020 and November 1, 2019, respectively, and \$200 million and \$196 million for the nine months ended October 30, 2020 and November 1, 2019, respectively.

The following table presents the net revenue, cost of net revenue, and gross margin recognized at the commencement date of sales-type leases for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
Net revenue — products	\$ 184	\$ 251	\$ 648	\$ 604
Cost of net revenue — products	102	215	435	475
Gross margin — products	<u>\$ 82</u>	<u>\$ 36</u>	<u>\$ 213</u>	<u>\$ 129</u>

The following table presents the future maturity of the Company's fixed-term customer leases and associated financing payments, and reconciles the undiscounted cash flows to the customer receivables, gross recognized on the Condensed Consolidated Statements of Financial Position as of the date indicated:

	October 30, 2020
Fiscal Years	(in millions)
Fiscal 2021 (remaining three months)	\$ 794
Fiscal 2022	2,378
Fiscal 2023	1,533
Fiscal 2024	783
Fiscal 2025 and beyond	360
Total undiscounted cash flows	5,848
Fixed-term loans	4,125
Revolving loans	768
Less: unearned income	(660)
Total customer receivables, gross	\$ 10,081

Operating Leases

The following table presents the components of the Company's operating lease portfolio included in Property, plant, and equipment, net as of the dates indicated:

	October 30, 2020	January 31, 2020
	(in millions)	
Equipment under operating lease, gross	\$ 1,592	\$ 956
Less: accumulated depreciation	(328)	(116)
Equipment under operating lease, net	\$ 1,264	\$ 840

Operating lease income relating to lease payments was \$120 million and \$63 million for the three months ended October 30, 2020 and November 1, 2019, respectively, and \$310 million and \$94 million for the nine months ended October 30, 2020 and November 1, 2019, respectively. Depreciation expense was \$92 million and \$40 million for the three months ended October 30, 2020 and November 1, 2019, respectively, and \$228 million and \$64 million for the nine months ended October 30, 2020 and November 1, 2019, respectively.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table presents the future payments to be received by the Company as lessor in operating lease contracts as of the date indicated:

Fiscal Years	October 30, 2020
	(in millions)
Fiscal 2021 (remaining three months)	\$ 142
Fiscal 2022	526
Fiscal 2023	404
Fiscal 2024	146
Fiscal 2025 and beyond	24
Total	<u>\$ 1,242</u>

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(unaudited)

DFS Debt

The Company maintains programs that facilitate the funding of leases, loans, and other alternative payment structures in the capital markets. The majority of DFS debt is non-recourse to Dell Technologies and represents borrowings under securitization programs and structured financing programs, for which the Company's risk of loss is limited to transferred loan and lease payments and associated equipment. The following table presents DFS debt as of the dates indicated. The table excludes the allocated portion of the Company's other borrowings, which represents the additional amount considered to fund the DFS business.

	October 30, 2020	January 31, 2020
	(in millions)	
<i>DFS U.S. debt:</i>		
Asset-based financing and securitization facilities	\$ 2,574	\$ 2,606
Fixed-term securitization offerings	3,465	2,593
Other	94	141
Total DFS U.S. debt	6,133	5,340
<i>DFS international debt:</i>		
Securitization facility	860	743
Other borrowings	791	931
Note payable	250	200
Dell Bank Senior Unsecured Eurobonds	1,167	551
Total DFS international debt	3,068	2,425
Total DFS debt	\$ 9,201	\$ 7,765
Total short-term DFS debt	\$ 4,884	\$ 4,152
Total long-term DFS debt	\$ 4,317	\$ 3,613

DFS U.S. Debt

Asset-Based Financing and Securitization Facilities — The Company maintains separate asset-based financing facilities and a securitization facility in the United States, which are revolving facilities for fixed-term leases and loans and for revolving loans, respectively. This debt is collateralized solely by the U.S. loan and lease payments and associated equipment in the facilities. The debt has a variable interest rate and the duration of the debt is based on the terms of the underlying loan and lease payment streams. As of October 30, 2020, the total debt capacity related to the U.S. asset-based financing and securitization facilities was \$4.1 billion. The Company enters into interest swap agreements to effectively convert a portion of this debt from a floating rate to a fixed rate. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for additional information about interest rate swaps.

The Company's U.S. securitization facility for revolving loans is effective through June 25, 2022. The Company's two U.S. asset-based financing facilities for fixed-term leases and loans are effective through August 22, 2021 and July 26, 2022, respectively.

The asset-based financing and securitization facilities contain standard structural features related to the performance of the funded receivables, which include defined credit losses, delinquencies, average credit scores, and minimum collection requirements. In the event one or more of these criteria are not met and the Company is unable to restructure the facility, no further funding of receivables will be permitted and the timing of the Company's expected cash flows from over-collateralization will be delayed. As of October 30, 2020, these criteria were met.

Fixed-Term Securitization Offerings — The Company periodically issues asset-backed debt securities under fixed-term securitization programs to private investors. The asset-backed debt securities are collateralized solely by the U.S. fixed-term leases and loans in the offerings, which are held by Special Purpose Entities ("SPEs"), as discussed below. The interest rate on these securities is fixed and ranges from 0.31% to 5.92% per annum, and the duration of these securities is based on the terms of the underlying loan and lease payment streams.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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DFS International Debt

Securitization Facility — The Company maintains a securitization facility in Europe for fixed-term leases and loans. This facility is effective through December 21, 2020 and has a total debt capacity of \$934 million as of October 30, 2020.

The securitization facility contains standard structural features related to the performance of the securitized receivables, which include defined credit losses, delinquencies, average credit scores, and minimum collection requirements. In the event one or more of these criteria are not met and the Company is unable to restructure the program, no further funding of receivables will be permitted and the timing of the Company's expected cash flows from over-collateralization will be delayed. As of October 30, 2020, these criteria were met.

Other Borrowings — In connection with the Company's international financing operations, the Company has entered into revolving structured financing debt programs related to its fixed-term lease and loan products sold in Canada, Europe, Australia, and New Zealand. The Canadian facility, which is collateralized solely by Canadian loan and lease payments and associated equipment, had a total debt capacity of \$281 million as of October 30, 2020, and is effective through January 16, 2023. The European facility, which is collateralized solely by European loan and lease payments and associated equipment, had a total debt capacity of \$700 million as of October 30, 2020, and is effective through June 14, 2022. The Australia and New Zealand facility, which is collateralized solely by Australia and New Zealand loan and lease payments and associated equipment, had a total debt capacity of \$246 million as of October 30, 2020, and is effective through December 20, 2021.

Note Payable — On November 27, 2017 the Company entered into an unsecured credit agreement to fund receivables in Mexico. As of July 31, 2020, the aggregate principal amount of the note payable was \$187 million. This note was repaid in full during the three months ended October 30, 2020.

On August 7, 2020, the Company entered into two new unsecured credit agreements to fund receivables in Mexico. As of October 30, 2020, the aggregate principal amount of the notes payable was \$250 million. The notes bear interest at 3.37% and will mature on June 1, 2022.

Dell Bank Senior Unsecured Eurobonds — On October 17, 2019, Dell Bank International D.A.C. issued 500 million Euro of 0.625% senior unsecured three year eurobonds due October 2022. On June 24, 2020, Dell Bank International D.A.C. issued an additional 500 million Euro of 1.625% senior unsecured four year eurobonds due June 2024. The issuances of the senior unsecured eurobonds support the expansion of the financing operations in Europe.

Variable Interest Entities

In connection with the asset-based financing facilities, securitization facilities, and fixed-term securitization offerings discussed above, the Company transfers certain U.S. and European loan and lease payments and associated equipment to SPEs that meet the definition of a Variable Interest Entity ("VIE") and are consolidated, along with the associated debt detailed above, into the Consolidated Financial Statements, as the Company is the primary beneficiary of those VIEs. The SPEs are bankruptcy-remote legal entities with separate assets and liabilities. The purpose of the SPEs is to facilitate the funding of customer loan and lease payments and associated equipment in the capital markets.

The following table presents financing receivables and equipment under operating leases, net held by the consolidated VIEs as of the dates indicated:

	October 30, 2020	January 31, 2020
	(in millions)	
<i>Assets held by consolidated VIEs, net:</i>		
Short-term, net	\$ 3,430	\$ 3,316
Long-term, net	4,070	3,348
Assets held by consolidated VIEs, net	<u>\$ 7,500</u>	<u>\$ 6,664</u>

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Loan and lease payments and associated equipment transferred via securitization through SPEs were \$1.6 billion and \$1.3 billion for the three months ended October 30, 2020 and November 1, 2019, respectively, and \$4.6 billion and \$4.1 billion for the nine months ended October 30, 2020 and November 1, 2019, respectively.

Some of the SPEs have entered into financing arrangements with multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. The DFS debt outstanding, which is collateralized by the loan and lease payments and associated equipment held by the consolidated VIEs, was \$6.9 billion and \$5.9 billion as of October 30, 2020 and January 31, 2020, respectively. The Company's risk of loss related to securitized receivables is limited to the amount by which the Company's right to receive collections for assets securitized exceeds the amount required to pay interest, principal, and fees and expenses related to the asset-backed securities. The Company provides credit enhancement to the securitizations in the form of over-collateralization.

Customer Receivables Sales

To manage certain concentrations of customer credit exposure, the Company may sell selected fixed-term customer receivables to unrelated third parties on a periodic basis, without recourse. The amount of customer receivables sold for this purpose was \$414 million and \$406 million for the nine months ended October 30, 2020 and November 1, 2019, respectively. The Company's continuing involvement in the above mentioned customer receivables is primarily limited to servicing arrangements.

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NOTE 5 — LEASES

The Company enters into leasing transactions in which the Company is the lessee. These lease contracts are typically classified as operating leases. The Company's lease contracts are generally for office buildings used to conduct its business, and the determination of whether such contracts contain leases generally does not require significant estimates or judgments. The Company also leases certain global logistics warehouses, employee vehicles, and equipment. As of October 30, 2020, the remaining terms of the Company's leases range from less than one month to 26 years.

The Company also enters into leasing transactions in which the Company is the lessor, primarily through customer financing arrangements offered through DFS. DFS originates leases that are primarily classified as either sales-type leases or operating leases. See Note 4 of the Notes to the Condensed Consolidated Financial Statements for more information on the DFS lease portfolio and related lease disclosures.

In adopting the current lease accounting standard effective February 2, 2019, the Company elected to apply a transition method that does not require the retrospective application to periods prior to the effective date. Financial information associated with the Company's leases in which the Company is the lessee is contained in this Note. As of October 30, 2020 and January 31, 2020, there were no material finance leases for which the Company was a lessee.

The following table presents components of lease costs included in the Condensed Consolidated Statements of Income (Loss) for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
Operating lease costs	\$ 129	\$ 134	\$ 384	\$ 377
Variable costs	37	41	113	120
Total lease costs	\$ 166	\$ 175	\$ 497	\$ 497

During both the nine months ended October 30, 2020 and November 1, 2019, sublease income, finance lease costs, and short-term lease costs were immaterial.

The following table presents supplemental information related to operating leases included in the Condensed Consolidated Statements of Financial Position as of the dates indicated:

	Classification	October 30, 2020	January 31, 2020
		(in millions, except for term and discount rate)	
Operating lease right of use ("ROU") assets	Other non-current assets	\$ 2,179	\$ 1,780
Current operating lease liabilities	Accrued and other current liabilities	\$ 424	\$ 432
Non-current operating lease liabilities	Other non-current liabilities	1,829	1,360
Total operating lease liabilities		\$ 2,253	\$ 1,792
Weighted-average remaining lease term (in years)		8.85	8.57
Weighted-average discount rate		3.56 %	3.81 %

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table presents supplemental cash flow information related to leases for the periods indicated:

	Nine Months Ended	
	October 30, 2020	November 1, 2019
	(in millions)	
Cash paid for amounts included in the measurement of lease liabilities — operating cash outflows from operating leases	\$ 384	\$ 367
ROU assets obtained in exchange for new operating lease liabilities	\$ 763	\$ 495

The following table presents the future maturity of the Company's operating lease liabilities under non-cancelable leases and reconciles the undiscounted cash flows for these leases to the lease liability recognized on the Condensed Consolidated Statements of Financial Position as of the date indicated:

	October 30, 2020
	(in millions)
Fiscal Years	
Fiscal 2021 (remaining three months)	\$ 110
Fiscal 2022	476
Fiscal 2023	429
Fiscal 2024	317
Fiscal 2025	237
Thereafter	1,131
Total lease payments	2,700
Less: Imputed interest	(447)
Total	\$ 2,253
Current operating lease liabilities	\$ 424
Non-current operating lease liabilities	\$ 1,829

Future lease commitments after Fiscal 2025 include the ground lease on VMware, Inc.'s Palo Alto, California headquarter facilities, which expires in Fiscal 2047.

As of October 30, 2020, the Company has additional operating leases that have not yet commenced of \$81 million. These operating leases will commence during Fiscal 2021 with lease terms of one year to 10 years.

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NOTE 6 — DEBT

The following table presents the Company's outstanding debt as of the dates indicated:

	<u>October 30, 2020</u>	<u>January 31, 2020</u>
	(in millions)	
Secured Debt		
Senior Secured Credit Facilities:		
2.75% Term Loan B-1 Facility due September 2025	\$ 4,691	\$ 4,738
1.90% Term Loan A-4 Facility due December 2023	679	679
1.90% Term Loan A-6 Facility due March 2024	3,316	3,497
First Lien Notes:		
4.42% due June 2021	—	4,500
5.45% due June 2023	3,750	3,750
4.00% due July 2024	1,000	1,000
5.85% due July 2025	1,000	—
6.02% due June 2026	4,500	4,500
4.90% due October 2026	1,750	1,750
6.10% due July 2027	500	—
5.30% due October 2029	1,750	1,750
6.20% due July 2030	750	—
8.10% due July 2036	1,500	1,500
8.35% due July 2046	2,000	2,000
Unsecured Debt		
Unsecured Notes and Debentures:		
4.625% due April 2021	400	400
7.10% due April 2028	300	300
6.50% due April 2038	388	388
5.40% due September 2040	264	264
Senior Notes:		
5.875% due June 2021	1,075	1,075
7.125% due June 2024	1,625	1,625
EMC Notes:		
2.650% due June 2020	—	600
3.375% due June 2023	1,000	1,000
Debt of Public Subsidiary		
VMware Notes:		
2.30% due August 2020	—	1,250
2.95% due August 2022	1,500	1,500
4.50% due May 2025	750	—
4.65% due May 2027	500	—
3.90% due August 2027	1,250	1,250
4.70% due May 2030	750	—
VMware Term Loan Facility	—	1,500
DFS Debt (Note 4)	9,201	7,765
Other		
2.46% Margin Loan Facility due April 2022	4,000	4,000
Other	222	84
Total debt, principal amount	\$ 50,411	\$ 52,665

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	October 30, 2020	January 31, 2020
	(in millions)	
Total debt, principal amount	\$ 50,411	\$ 52,665
Unamortized discount, net of unamortized premium	(217)	(241)
Debt issuance costs	(333)	(368)
Total debt, carrying value	<u>\$ 49,861</u>	<u>\$ 52,056</u>
Total short-term debt, carrying value	<u>\$ 6,536</u>	<u>\$ 7,737</u>
Total long-term debt, carrying value	<u>\$ 43,325</u>	<u>\$ 44,319</u>

During the nine months ended October 30, 2020, the net decrease in the Company's debt balance was primarily due to:

- retirement of \$4.5 billion principal amount of 4.42% First Lien Notes due June 2021 via repayment of \$4,265 million and open market repurchases of \$235 million;
- repayment of \$1.5 billion principal amount of VMware Term Loan Facility upon maturity;
- repayment of \$1.25 billion principal amount of 2.30% VMware Notes due August 2020;
- repayment of \$600 million principal amount of 2.650% EMC Notes due June 2020 upon maturity; and
- amortization of approximately \$229 million of principal under the Company's term loan facilities.

These decreases in the Company's debt balance were partially offset by:

- issuance of \$2.25 billion principal amount of First Lien Notes on April 9, 2020, described below;
- issuance of \$2.0 billion principal amount of VMware Notes on April 7, 2020, described below; and
- incurrence of an additional \$1.4 billion, net, in DFS debt to support the expansion of its financing receivables portfolio.

Secured Debt

Senior Secured Credit Facilities — The Company has entered into a credit agreement that provides for senior secured credit facilities (the "Senior Secured Credit Facilities") comprising (a) term loan facilities and (b) a senior secured Revolving Credit Facility, which provides for a borrowing capacity of up to \$4.5 billion for general corporate purposes, including capacity for up to \$0.5 billion of letters of credit and for borrowings of up to \$0.4 billion under swing-line loans.

As of October 30, 2020, available borrowings under the Revolving Credit Facility totaled \$4.5 billion. The Senior Secured Credit Facilities provide that the borrowers have the right at any time, subject to customary conditions, to request incremental term loans or incremental revolving commitments.

Borrowings under the Senior Secured Credit Facilities bear interest at a rate per annum equal to an applicable margin, plus, at the borrowers' option, either (a) a base rate, or (b) the London Interbank Offered Rate ("LIBOR"). The Term Loan B-1 Facility bears interest at LIBOR plus an applicable margin of 2.00% or a base rate plus an applicable margin of 1.00%. The Term Loan A-4 Facility and the Term Loan A-6 Facility bear interest at LIBOR plus an applicable margin ranging from 1.25% to 2.00% or a base rate plus an applicable margin ranging from 0.25% to 1.00%. Interest is payable, in the case of loans bearing interest based on LIBOR, at the end of each interest period (but at least every three months), in arrears and, in the case of loans bearing interest based on the base rate, quarterly in arrears.

The Term Loan B-1 Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. The Term Loan A-4 Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 5% of the original principal amount in each of the first four years after the facility closing date of December 20, 2018, and 80% of the original principal amount in the fifth year after December 20, 2018. The Term Loan A-6 Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 5% of the original principal amount in each of the first four years after the facility closing date of March 13, 2019, and 80% of the original principal amount in the fifth year after March 13, 2019. The Revolving Credit Facility has no amortization.

The borrowers may voluntarily repay outstanding loans under the term loan facilities and the Revolving Credit Facility at any time without premium or penalty, other than customary "breakage" costs.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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All obligations of the borrowers under the Senior Secured Credit Facilities and certain swap agreements, cash management arrangements, and certain letters of credit provided by any lender or agent party to the Senior Secured Credit Facilities or any of its affiliates and certain other persons are secured by (a) a first-priority security interest in certain tangible and intangible assets of the borrowers and the guarantors and (b) a first-priority pledge of 100% of the capital stock of the borrowers, Dell Inc., a wholly-owned subsidiary of the Company (“Dell”), and each wholly-owned material restricted subsidiary of the borrowers and the guarantors, in each case subject to certain thresholds, exceptions, and permitted liens.

First Lien Notes — Dell International L.L.C. and EMC Corporation, both of which are wholly-owned subsidiaries of Dell Technologies Inc., completed private offerings of multiple series of senior secured notes (collectively, the “First Lien Notes”) which were issued on June 1, 2016, March 20, 2019, and April 9, 2020 in aggregate principal amounts of \$20.0 billion, \$4.5 billion, and \$2.25 billion, respectively. Interest on the First Lien Notes is payable semiannually. The First Lien Notes are secured on a pari passu basis with the Senior Secured Credit Facilities, on a first-priority basis by substantially all of the tangible and intangible assets of the issuers and guarantors that secure obligations under the Senior Secured Credit Facilities, including pledges of all capital stock of the issuers, Dell, and certain wholly-owned material subsidiaries of the issuers and the guarantors, subject to certain exceptions.

The Company has agreed to use commercially reasonable efforts to register with the SEC notes having terms substantially identical to the terms of the First Lien Notes as part of an offer to exchange such registered notes for the First Lien Notes. The Company will be obligated to pay additional interest on the First Lien Notes if it fails to consummate such an exchange offer within five years after the closing date of the EMC merger transaction, in the case of the First Lien Notes issued on June 1, 2016, and within five years after their respective issue dates, in the case of the First Lien Notes issued on March 20, 2019 and April 9, 2020.

China Revolving Credit Facility — The Company entered into a new revolving credit facility for China (the “China Revolving Credit Facility”) effective May 25, 2020. The new terms provide for collateralized and non-collateralized principal amounts not to exceed \$1.0 billion Chinese renminbi and \$1.8 billion Chinese renminbi, respectively, or equivalent amounts in U.S. dollars. Outstanding borrowings under the collateralized portion of the China Revolving Credit Facility bear interest at the loan prime rate (“LPR”) less 0.2%, for borrowings denominated in Chinese renminbi, or LIBOR plus 1.0%, for borrowings denominated in U.S. dollars, and outstanding borrowings under the non-collateralized portion bear interest at LPR less 0.2%, for borrowings denominated in Chinese renminbi, or LIBOR plus 1.4%, for borrowings denominated in U.S. dollars. The new facility expired on August 30, 2020.

During the fiscal year ended January 31, 2020, the Company renewed the credit agreement for its legacy China revolving credit facility with a bank lender, which provided an uncommitted line with an aggregate principal amount not to exceed \$500 million at an interest rate of LIBOR plus 0.6% per annum. The facility was terminated upon expiration on February 26, 2020.

Unsecured Debt

Unsecured Notes and Debentures — The Company has outstanding unsecured notes and debentures (collectively, the “Unsecured Notes and Debentures”) that were issued by Dell prior to the acquisition of Dell by Dell Technologies Inc. in the going-private transaction that closed in October 2013. Interest on these borrowings is payable semiannually.

Senior Notes — The senior unsecured notes (collectively, the “Senior Notes”) were issued on June 22, 2016 in an aggregate principal amount of \$3.25 billion. Interest on these borrowings is payable semiannually.

EMC Notes — On September 7, 2016, EMC had outstanding \$2.5 billion aggregate principal amount of its 1.875% Notes due June 2018, which the Company fully repaid during the three months ended August 3, 2018, \$2.0 billion aggregate principal amount of its 2.650% Notes due June 2020, and \$1.0 billion aggregate principal amount of its 3.375% Notes due June 2023 (collectively, the “EMC Notes”). Interest on these borrowings is payable semiannually.

VMware Notes — VMware, Inc. completed public offerings of unsecured senior notes in the aggregate amounts of \$4.0 billion and \$2.0 billion on August 21, 2017 and April 7, 2020, respectively (the “VMware Notes”). None of the net proceeds of such borrowings will be made available to support the operations or satisfy any corporate purposes of Dell Technologies, other than the operations and corporate purposes of VMware, Inc. and VMware, Inc.’s subsidiaries. Interest on these borrowings is payable semiannually.

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VMware Revolving Credit Facility — On September 12, 2017, VMware, Inc. entered into an unsecured credit agreement, establishing a revolving credit facility (the “VMware Revolving Credit Facility”) with a syndicate of lenders that provides the company with a borrowing capacity of up to \$1.0 billion for VMware, Inc. general corporate purposes. Commitments under the VMware Revolving Credit Facility are available for a period of five years, which may be extended, subject to the satisfaction of certain conditions, by up to two one year periods. The credit agreement contains certain representations, warranties, and covenants. Commitment fees, interest rates, and other terms of borrowing under the VMware Revolving Credit Facility may vary based on VMware, Inc.’s external credit ratings. None of the net proceeds of such borrowings will be made available to support the operations or satisfy any corporate purposes of Dell Technologies, other than the operations and corporate purposes of VMware, Inc. and VMware, Inc.’s subsidiaries. As of October 30, 2020, there were no outstanding borrowings under the VMware Revolving Credit Facility.

VMware Term Loan Facility — On September 26, 2019, VMware, Inc. entered into a senior unsecured term loan facility (the “VMware Term Loan Facility”) with a syndicate of lenders that provided VMware, Inc. with a borrowing capacity of up to \$2.0 billion through February 7, 2020, for VMware, Inc. general corporate purposes. During the three months ended October 30, 2020, VMware, Inc. repaid the outstanding borrowings of \$1.5 billion under the VMware Term Loan Facility.

As of January 31, 2020, the outstanding borrowings under the VMware Term Loan Facility were \$1.5 billion. None of the net proceeds of such borrowings were made available to support the operations or satisfy any corporate purposes of Dell Technologies, other than the operations and corporate purposes of VMware, Inc. and VMware, Inc.’s subsidiaries.

DFS Debt

See Note 4 and Note 7 of the Notes to the Condensed Consolidated Financial Statements, respectively, for discussion of DFS debt and the interest rate swap agreements that hedge a portion of that debt.

Other

Margin Loan Facility — On April 12, 2017, the Company entered into the Margin Loan Facility in an aggregate principal amount of \$2.0 billion, under which VMW Holdco LLC, a wholly-owned subsidiary of EMC, is the borrower. In connection with the Class V transaction described in Note 1 of the Notes to the Condensed Consolidated Financial Statements, on December 20, 2018, the Company amended the Margin Loan Facility to increase the aggregate principal amount to \$3.35 billion. In connection with obtaining the Term Loan A-6 Facility during the fiscal year ended January 31, 2020, the Company increased the aggregate principal amount of the Margin Loan Facility to \$4.0 billion.

During the three months ended May 1, 2020, due to volatility in the U.S. stock market resulting from the outbreak of COVID-19, VMware Holdco LLC proactively pledged additional shares of VMware, Inc. common stock to secure its obligations under the Margin Loan Facility agreement. This resulted in an aggregate number of shares pledged of approximately 76 million shares of Class B common stock of VMware, Inc. and approximately 24 million shares of Class A common stock of VMware, Inc.

Loans under the Margin Loan Facility bear interest at a rate per annum payable, at the borrower’s option, either at (a) a base rate plus 1.25% per annum or (b) a LIBOR-based rate plus 2.25% per annum. Interest under the Margin Loan Facility is payable quarterly. The Margin Loan Facility will mature in April 2022. The borrower may voluntarily repay outstanding loans under the Margin Loan Facility at any time without premium or penalty, other than customary “breakage” costs, subject to certain minimum threshold amounts for prepayment.

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Aggregate Future Maturities

The following table presents the aggregate future maturities of the Company's debt as of October 30, 2020 for the periods indicated:

	Maturities by Fiscal Year						
	2021 (remaining three months)	2022	2023	2024	2025	Thereafter	Total
	(in millions)						
Senior Secured Credit Facilities and First Lien Notes	\$ —	\$ 172	\$ 286	\$ 7,384	\$ 1,047	\$ 18,297	\$ 27,186
Unsecured Notes and Debentures	—	400	—	—	—	952	1,352
Senior Notes and EMC Notes	—	1,075	—	1,000	1,625	—	3,700
VMware Notes	—	—	1,500	—	—	3,250	4,750
DFS Debt	2,012	3,481	2,654	356	692	6	9,201
Margin Loan Facility	—	—	4,000	—	—	—	4,000
Other	3	12	12	156	8	31	222
Total maturities, principal amount	2,015	5,140	8,452	8,896	3,372	22,536	50,411
Associated carrying value adjustments	(1)	(10)	(14)	(38)	(83)	(404)	(550)
Total maturities, carrying value amount	<u>\$ 2,014</u>	<u>\$ 5,130</u>	<u>\$ 8,438</u>	<u>\$ 8,858</u>	<u>\$ 3,289</u>	<u>\$ 22,132</u>	<u>\$ 49,861</u>

Covenants and Unrestricted Net Assets — The credit agreement for the Senior Secured Credit Facilities contains customary negative covenants that generally limit the ability of Denali Intermediate Inc., a wholly-owned subsidiary of Dell Technologies, Dell, and Dell's and Denali Intermediate's other restricted subsidiaries to incur debt, create liens, make fundamental changes, enter into asset sales, make certain investments, pay dividends or distribute or redeem certain equity interests, prepay or redeem certain debt, and enter into certain transactions with affiliates. The indenture governing the Senior Notes contains customary negative covenants that generally limit the ability of Denali Intermediate, Dell, and Dell's and Denali Intermediate's other restricted subsidiaries to incur additional debt or issue certain preferred shares, pay dividends on or make other distributions in respect of capital stock or make other restricted payments, make certain investments, sell or transfer certain assets, create liens on certain assets to secure debt, consolidate, merge, sell, or otherwise dispose of all or substantially all assets, enter into certain transactions with affiliates, and designate subsidiaries as unrestricted subsidiaries. The negative covenants under such credit agreements and indenture are subject to certain exceptions, qualifications, and "baskets." The indentures governing the First Lien Notes, the Unsecured Notes and Debentures, and the EMC Notes variously impose limitations, subject to specified exceptions, on creating certain liens, entering into sale and lease-back transactions, and entering into certain asset sales. The foregoing credit agreements and indentures contain customary events of default, including failure to make required payments, failure to comply with covenants, and the occurrence of certain events of bankruptcy and insolvency.

As of October 30, 2020, the Company had certain consolidated subsidiaries that were designated as unrestricted subsidiaries for all purposes of the applicable credit agreements and the indentures governing the First Lien Notes and the Senior Notes. Substantially all of the net assets of the Company's consolidated subsidiaries were restricted, with the exception of the Company's unrestricted subsidiaries, primarily VMware, Inc., Secureworks, and their respective subsidiaries, as of October 30, 2020.

The Term Loan A-4 Facility, the Term Loan A-6 Facility, and the Revolving Credit Facility are subject to a first lien leverage ratio covenant that is tested at the end of each fiscal quarter of Dell with respect to Dell's preceding four fiscal quarters. The Company was in compliance with all financial covenants as of October 30, 2020.

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NOTE 7 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As part of its risk management strategy, the Company uses derivative instruments, primarily foreign currency forward and option contracts and interest rate swaps, to hedge certain foreign currency and interest rate exposures, respectively.

The Company's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge the exposures, thereby reducing volatility of earnings and protecting the fair values of assets and liabilities. The earnings effects of the derivative instruments are presented in the same income statement line items as the earnings effects of the hedged items. For derivatives designated as cash flow hedges, the Company assesses hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. The Company does not have any derivatives designated as fair value hedges.

Foreign Exchange Risk

The Company uses foreign currency forward and option contracts designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted transactions denominated in currencies other than the U.S. Dollar. Hedge accounting is applied based upon the criteria established by accounting guidance for derivative instruments and hedging activities. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. The majority of these contracts typically expire in twelve months or less.

During the three and nine months ended October 30, 2020 and November 1, 2019, the Company did not discontinue any cash flow hedges related to foreign exchange contracts that had a material impact on the Company's results of operations due to the probability that the forecasted cash flows would not occur.

The Company uses forward contracts to hedge monetary assets and liabilities denominated in a foreign currency. These contracts generally expire in three months or less, are considered economic hedges, and are not designated for hedge accounting. The change in the fair value of these instruments represents a natural hedge as their gains and losses offset the changes in the underlying fair value of the monetary assets and liabilities due to movements in currency exchange rates.

In connection with expanded offerings of DFS in Europe, forward contracts are used to hedge financing receivables denominated in foreign currencies other than Euro. These contracts are not designated for hedge accounting and most expire within three years or less.

Interest Rate Risk

The Company uses interest rate swaps to hedge the variability in cash flows related to the interest rate payments on structured financing debt. The interest rate swaps economically convert the variable rate on the structured financing debt to a fixed interest rate to match the underlying fixed rate being received on fixed-term customer leases and loans. These contracts are not designated for hedge accounting and most expire within three years or less.

Interest rate swaps are utilized to manage the interest rate risk, at a portfolio level, associated with DFS operations in Europe. The interest rate swaps economically convert the fixed rate on financing receivables to a three-month Euribor floating rate basis in order to match the floating rate nature of the banks' funding pool. These contracts are not designated for hedge accounting and most expire within five years or less.

The Company utilizes cross currency amortizing swaps to hedge the currency and interest rate risk exposure associated with the securitization program that was established in Europe in January 2017. The cross currency swaps combine a Euro-based interest rate swap with a British Pound or U.S. Dollar foreign exchange forward contract in which the Company pays a fixed British Pound or U.S. Dollar amount and receives a floating amount in Euros linked to the one-month Euribor. The notional value of the swaps amortizes in line with the expected cash flows and run-off of the securitized assets. The swaps are not designated for hedge accounting and expire within five years or less.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Derivative Instruments
Notional Amounts of Outstanding Derivative Instruments

	October 30, 2020	January 31, 2020
	(in millions)	
<i>Foreign exchange contracts:</i>		
Designated as cash flow hedging instruments	\$ 6,436	\$ 8,703
Non-designated as hedging instruments	8,808	7,711
Total	\$ 15,244	\$ 16,414
<i>Interest rate contracts:</i>		
Non-designated as hedging instruments	\$ 5,164	\$ 4,043

Effect of Derivative Instruments Designated as Hedging Instruments on the Condensed Consolidated Statements of Financial Position and the Condensed Consolidated Statements of Income (Loss)

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI, Net of Tax, on Derivatives (in millions)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Gain (Loss) Reclassified from Accumulated OCI into Income (in millions)
<i>For the three months ended October 30, 2020</i>			
		Total net revenue	\$ (88)
Foreign exchange contracts	\$ 45	Total cost of net revenue	4
Interest rate contracts	—	Interest and other, net	—
Total	\$ 45		\$ (84)
<i>For the three months ended November 1, 2019</i>			
		Total net revenue	\$ 71
Foreign exchange contracts	\$ (47)	Total cost of net revenue	—
Interest rate contracts	—	Interest and other, net	—
Total	\$ (47)		\$ 71
<i>For the nine months ended October 30, 2020</i>			
		Total net revenue	\$ 17
Foreign exchange contracts	\$ (45)	Total cost of net revenue	7
Interest rate contracts	—	Interest and other, net	—
Total	\$ (45)		\$ 24
<i>For the nine months ended November 1, 2019</i>			
		Total net revenue	\$ 197
Foreign exchange contracts	\$ 210	Total cost of net revenue	—
Interest rate contracts	—	Interest and other, net	—
Total	\$ 210		\$ 197

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Effect of Derivative Instruments Not Designated as Hedging Instruments on the Condensed Consolidated Statements of Income (Loss)

	Three Months Ended		Nine Months Ended		Location of Gain (Loss) Recognized
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019	
	(in millions)				
<i>Gain (Loss) Recognized:</i>					
Foreign exchange contracts	\$ (127)	\$ 13	\$ 87	\$ (46)	Interest and other, net
Interest rate contracts	1	1	(43)	(21)	Interest and other, net
Total	<u>\$ (126)</u>	<u>\$ 14</u>	<u>\$ 44</u>	<u>\$ (67)</u>	

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Fair Value of Derivative Instruments in the Condensed Consolidated Statements of Financial Position

The Company presents its foreign exchange derivative instruments on a net basis in the Condensed Consolidated Statements of Financial Position due to the right of offset by its counterparties under master netting arrangements. The following tables present the fair value of those derivative instruments presented on a gross basis as of the dates indicated:

	October 30, 2020				
	Other Current Assets	Other Non-Current Assets	Other Current Liabilities	Other Non-Current Liabilities	Total Fair Value
	(in millions)				
<i>Derivatives designated as hedging instruments:</i>					
Foreign exchange contracts in an asset position	\$ 22	\$ —	\$ 59	\$ —	\$ 81
Foreign exchange contracts in a liability position	—	—	(13)	—	(13)
Net asset (liability)	22	—	46	—	68
<i>Derivatives not designated as hedging instruments:</i>					
Foreign exchange contracts in an asset position	37	1	79	—	117
Foreign exchange contracts in a liability position	(19)	—	(274)	(2)	(295)
Interest rate contracts in an asset position	—	11	—	—	11
Interest rate contracts in a liability position	—	—	—	(30)	(30)
Net asset (liability)	18	12	(195)	(32)	(197)
Total derivatives at fair value	\$ 40	\$ 12	\$ (149)	\$ (32)	\$ (129)

	January 31, 2020				
	Other Current Assets	Other Non-Current Assets	Other Current Liabilities	Other Non-Current Liabilities	Total Fair Value
	(in millions)				
<i>Derivatives designated as hedging instruments:</i>					
Foreign exchange contracts in an asset position	\$ 108	\$ —	\$ 15	\$ —	\$ 123
Foreign exchange contracts in a liability position	(2)	—	(3)	—	(5)
Net asset (liability)	106	—	12	—	118
<i>Derivatives not designated as hedging instruments:</i>					
Foreign exchange contracts in an asset position	136	—	39	—	175
Foreign exchange contracts in a liability position	(162)	—	(81)	(6)	(249)
Interest rate contracts in an asset position	—	1	—	—	1
Interest rate contracts in a liability position	—	—	—	(32)	(32)
Net asset (liability)	(26)	1	(42)	(38)	(105)
Total derivatives at fair value	\$ 80	\$ 1	\$ (30)	\$ (38)	\$ 13

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following tables present the gross amounts of the Company's derivative instruments, amounts offset due to master netting agreements with the Company's counterparties, and the net amounts recognized in the Condensed Consolidated Statements of Financial Position as of the dates indicated:

October 30, 2020						
	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/ (Liabilities) Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received or Pledged	
(in millions)						
<i>Derivative instruments:</i>						
Financial assets	\$ 209	\$ (157)	\$ 52	\$ —	\$ —	\$ 52
Financial liabilities	(338)	157	(181)	—	(4)	(185)
Total derivative instruments	<u>\$ (129)</u>	<u>\$ —</u>	<u>\$ (129)</u>	<u>\$ —</u>	<u>\$ (4)</u>	<u>\$ (133)</u>
January 31, 2020						
	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/ (Liabilities) Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received or Pledged	
(in millions)						
<i>Derivative instruments:</i>						
Financial assets	\$ 299	\$ (218)	\$ 81	\$ —	\$ —	\$ 81
Financial liabilities	(286)	218	(68)	—	15	(53)
Total derivative instruments	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 15</u>	<u>\$ 28</u>

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 8 — BUSINESS COMBINATIONS, GOODWILL AND INTANGIBLE ASSETS**Business Combinations***VMware, Inc. Acquisitions*

SaltStack, Inc. — During the three months ended October 30, 2020, VMware, Inc. completed the acquisition of SaltStack, Inc., a developer of intelligent, event-driven automation software, to broaden VMware, Inc.'s Cloud Management capabilities from infrastructure to applications. The total purchase price, net of cash acquired, was \$51 million. The purchase price primarily included \$29 million of intangible assets and \$24 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of three years.

Datrium, Inc. — During the three months ended July 31, 2020, VMware, Inc. completed the acquisition of Datrium, Inc., a provider of cloud-native disaster recovery solutions, to broaden the VMware Site Recovery Disaster Recovery as a Service offerings. The total purchase price, net of cash acquired, was \$137 million. The purchase price primarily included \$25 million of identifiable intangible assets and \$91 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of three years to five years.

Lastline, Inc. — During the three months ended July 31, 2020, VMware, Inc. completed the acquisition of Lastline, Inc., a provider of network-based security breach detection products and services, to enhance capabilities for network detection and threat analysis on VMware NSX and SD-WAN offerings. The total purchase price, net of cash acquired, was \$114 million. The purchase price primarily included \$29 million of identifiable intangible assets and \$86 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of one year to four years.

Nyansa, Inc. — During the three months ended May 1, 2020, VMware, Inc. completed the acquisition of Nyansa, Inc., a developer of artificial intelligence-based network analytics, to accelerate the delivery of end-to-end monitoring and troubleshooting capabilities within VMware SD-WAN by VeloCloud. The total purchase price, net of cash acquired, was \$38 million. The purchase price primarily included \$14 million of identifiable intangible assets and \$24 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of one year to four years.

Other Fiscal 2021 Acquisitions — During the nine months ended October 30, 2020, VMware, Inc. completed three other acquisitions, which were not material individually to the Condensed Consolidated Financial Statements. VMware, Inc. expects these acquisitions to enhance its product features and capabilities for VMware Carbon Black Cloud and vRealize Operations offerings. The aggregate purchase price for these three acquisitions, net of cash acquired, was \$44 million and primarily included \$35 million of identifiable intangible assets and \$16 million of goodwill, of which \$24 million is expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of one year to five years.

For each of the acquisitions completed during the nine months ended October 30, 2020, the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill, which management believes represents synergies expected from combining the technologies of VMware, Inc. with those of the acquired businesses. The estimated fair value assigned to the tangible assets, identifiable intangible assets, and assumed liabilities were based on management's estimates and assumptions. The initial allocation of the purchase price was based on preliminary valuations and assumptions and is subject to change within the measurement period. VMware, Inc. expects to finalize the allocation of the purchase price within the measurement period.

The pro forma financial information assuming these Fiscal 2021 acquisitions had occurred as of the beginning of the fiscal year prior to the fiscal year of acquisition, as well as the revenue and earnings generated during the current fiscal year, were not material for disclosure purposes.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Goodwill

The Infrastructure Solutions Group, Client Solutions Group, and VMware reporting units are consistent with the reportable segments identified in Note 17 of the Notes to the Condensed Consolidated Financial Statements. Offerings within Other businesses as defined below represent separate reporting units.

The following table presents goodwill allocated to the Company's reportable segments and changes in the carrying amount of goodwill as of the dates indicated:

	Infrastructure Solutions Group	Client Solutions Group	VMware	Other Businesses (a)	Total
	(in millions)				
<i>Balance as of January 31, 2020</i>	\$ 15,089	\$ 4,237	\$ 20,532	\$ 1,833	\$ 41,691
Goodwill acquired (b)	—	—	230	8	238
Impact of foreign currency translation	90	—	—	9	99
Goodwill divested (c)	—	—	—	(1,385)	(1,385)
<i>Balance as of October 30, 2020</i>	<u>\$ 15,179</u>	<u>\$ 4,237</u>	<u>\$ 20,762</u>	<u>\$ 465</u>	<u>\$ 40,643</u>

(a) As of October 30, 2020, goodwill allocated to Other businesses consists of Secureworks, Virtustream, and Boomi.

(b) Primarily VMware, Inc. business combinations completed during the nine months ended October 30, 2020, as discussed above.

(c) During the three months ended October 30, 2020, Dell Technologies closed the transaction to sell RSA Security. Prior to the divestiture, RSA Security was included in Other businesses. See Note 1 of the Notes to the Condensed Consolidated Financial Statements for additional information about the divestiture of RSA Security.

Goodwill Impairment Tests — Goodwill and indefinite-lived intangible assets are tested for impairment annually during the third fiscal quarter and whenever events or circumstances may indicate that an impairment has occurred. As a result of the changes in the current economic environment related to the COVID-19 pandemic, the Company considered whether there was a potential triggering event requiring the evaluation of whether goodwill of any of the reporting units should be tested for impairment. The Company determined there was no triggering event in previous quarters during Fiscal 2021 and no impairment test was performed other than the Company's annual impairment review in the third quarter of Fiscal 2021.

For the annual impairment review in the third quarter of Fiscal 2021, the Company elected to bypass the assessment of qualitative factors to determine whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount, including goodwill. In electing to bypass the qualitative assessment, the Company proceeded directly to performing a quantitative goodwill impairment test to measure the fair value of each goodwill reporting unit relative to its carrying amount, and to determine the amount of goodwill impairment loss to be recognized, if any.

Management exercised significant judgment related to the above assessment, including the identification of goodwill reporting units, assignment of assets and liabilities to goodwill reporting units, assignment of goodwill to reporting units, and determination of the fair value of each goodwill reporting unit. The fair value of each goodwill reporting unit is generally estimated using a combination of public company multiples and discounted cash flow methodologies, unless the reporting unit relates to a publicly-traded entity (VMware, Inc. or Secureworks), in which case the fair value is determined based primarily on the public company market valuation. The discounted cash flow and public company multiples methodologies require significant judgment, including estimation of future cash flows, which is dependent on internal forecasts, current and anticipated economic conditions and trends, selection of market multiples through assessment of the reporting unit's performance relative to peer competitors, the estimation of the long-term revenue growth rate and discount rate of the Company's business, and the determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the fair value of the goodwill reporting unit, potentially resulting in a non-cash impairment charge.

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The fair value of the indefinite-lived trade names is generally estimated using discounted cash flow methodologies. The discounted cash flow methodology requires significant judgment, including estimation of future revenue, which is dependent on internal forecasts, the estimation of the long-term revenue growth rate of the Company's business and the determination of the Company's weighted average cost of capital and royalty rates. Changes in these estimates and assumptions could materially affect the fair value of the indefinite-lived intangible assets, potentially resulting in a non-cash impairment charge.

Based on the results of the annual impairment test performed during the three months ended October 30, 2020, the fair values of each of the reporting units exceeded their carrying values.

During the fiscal year ended January 31, 2020, an interim impairment assessment of Virtustream was required. There were no remaining balances of Virtustream goodwill, intangible assets, or property, plant, and equipment as of January 31, 2020 following the gross asset impairment charge of \$619 million (comprised of \$207 million of goodwill, \$266 million of intangible assets, net, and \$146 million of property, plant, and equipment, net) recognized during the fiscal year ended January 31, 2020, and a gross goodwill impairment charge of \$190 million recognized during the fiscal year ended February 1, 2019. The impairment was reflected in Other, net within cash flows from operating activities on the Condensed Consolidated Statements of Cash Flows.

Intangible Assets

The following table presents the Company's intangible assets as of the dates indicated:

	October 30, 2020			January 31, 2020		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in millions)					
Customer relationships	\$ 22,399	\$ (15,004)	\$ 7,395	\$ 22,950	\$ (13,821)	\$ 9,129
Developed technology	15,484	(11,758)	3,726	15,707	(10,974)	4,733
Trade names	1,266	(885)	381	1,306	(816)	490
Definite-lived intangible assets	39,149	(27,647)	11,502	39,963	(25,611)	14,352
Indefinite-lived trade names	3,755	—	3,755	3,755	—	3,755
Total intangible assets	\$ 42,904	\$ (27,647)	\$ 15,257	\$ 43,718	\$ (25,611)	\$ 18,107

Amortization expense related to definite-lived intangible assets was approximately \$0.8 billion and \$1.1 billion for the three months ended October 30, 2020 and November 1, 2019, respectively, and \$2.5 billion and \$3.3 billion for the nine months ended October 30, 2020 and November 1, 2019, respectively. There were no material impairment charges related to intangible assets during the three and nine months ended October 30, 2020. During the nine months ended November 1, 2019, an impairment charge related to Virtustream intangible assets, net was approximately \$266 million.

During the three months ended May 1, 2020, the Company recognized proceeds and a gain of \$120 million from the sale of certain internally developed intellectual property assets.

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The following table presents the estimated future annual pre-tax amortization expense of definite-lived intangible assets as of the date indicated:

Fiscal Years	October 30, 2020
	(in millions)
2021 (remaining three months)	\$ 846
2022	2,698
2023	1,820
2024	1,451
2025	1,101
Thereafter	3,586
Total	\$ 11,502

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NOTE 9 — DEFERRED REVENUE

Deferred Revenue — Deferred revenue is recorded for support and deployment services, software maintenance, professional services, training, and software-as-a-service when the Company has a right to invoice or payments have been received for undelivered products or services where transfer of control has not occurred. Revenue is recognized on these items when the revenue recognition criteria are met, generally resulting in ratable recognition over the contract term. The Company also has deferred revenue related to undelivered hardware and professional services, consisting of installations and consulting engagements, which are recognized as the Company's performance obligations under the contract are completed.

The following table presents the changes in the Company's deferred revenue for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Deferred revenue:</i>				
Deferred revenue at beginning of period	\$ 28,791	\$ 25,348	\$ 27,800	\$ 24,010
Revenue deferrals	5,432	5,326	17,560	16,201
Revenue recognized	(5,542)	(4,922)	(16,418)	(14,459)
Other (a) (b)	—	151	(261)	151
Deferred revenue at end of period	\$ 28,681	\$ 25,903	\$ 28,681	\$ 25,903
Short-term deferred revenue	\$ 15,259	\$ 13,787	\$ 15,259	\$ 13,787
Long-term deferred revenue	\$ 13,422	\$ 12,116	\$ 13,422	\$ 12,116

(a) For the nine months ended October 30, 2020, Other consists of divested deferred revenue from the sale of RSA Security. See Note 1 of the Notes to the Condensed Consolidated Financial Statements for more information about the divestiture of RSA Security. For the three months ended October 30, 2020, there was no impact to deferred revenue because RSA Security was previously classified as held for sale.

(b) For the three and nine months ended November 1, 2019, Other consists of acquired deferred revenue from Carbon Black, Inc. by VMware, Inc.

Remaining Performance Obligations — Remaining performance obligations represent the aggregate amount of the transaction price allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include deferred revenue plus unbilled amounts not yet recorded in deferred revenue. The value of the transaction price allocated to remaining performance obligations as of October 30, 2020 was approximately \$38 billion. The Company expects to recognize approximately 63% of remaining performance obligations as revenue in the next twelve months, and the remainder thereafter.

The aggregate amount of the transaction price allocated to remaining performance obligations does not include amounts owed under cancelable contracts where there is no substantive termination penalty. The Company applied the practical expedient to exclude the value of remaining performance obligations for contracts for which revenue is recognized at the amount to which the Company has the right to invoice for services performed.

Remaining performance obligation estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidation, adjustments for revenue that have not materialized, and adjustments for currency.

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NOTE 10 — COMMITMENTS AND CONTINGENCIES**Legal Matters**

The Company is involved in various claims, suits, assessments, investigations, and legal proceedings that arise from time to time in the ordinary course of its business, including those identified below, consisting of matters involving consumer, antitrust, tax, intellectual property, and other issues on a global basis.

The Company accrues a liability when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The Company reviews these accruals at least quarterly and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, changes in the Company's accrued liabilities would be recorded in the period in which such a determination is made. For some matters, the amount of liability is not probable or the amount cannot be reasonably estimated and therefore accruals have not been made.

The following is a discussion of the Company's significant legal matters and other proceedings:

Class Actions Related to the Class V Transaction — Four purported stockholders brought putative class action complaints arising out of the Class V transaction described in Note 1of the Notes to the Condensed Consolidated Financial Statements. The actions were captioned Hallandale Beach Police and Fire Retirement Plan v. Michael Dell et al. (Civil Action No. 2018-0816-JTL), Howard Karp v. Michael Dell et al. (Civil Action No. 2019-0032-JTL), Miramar Police Officers' Retirement Plan v. Michael Dell et al. (Civil Action No. 2019-0049-JTL), and Steamfitters Local 449 Pension Plan v. Michael Dell et al. (Civil Action No. 2019-0115-JTL). The four actions were consolidated in the Delaware Chancery Court into In Re Dell Class V Litigation (Consol. C.A. No. 2018-0816-JTL), which names as defendants the Company's board of directors and certain stockholders of the Company, including Michael S. Dell. The plaintiffs generally allege that the defendants breached their fiduciary duties to the former holders of Class V Common Stock in connection with the Class V transaction by allegedly causing the Company to enter into a transaction that favored the interests of the controlling stockholders at the expense of such former stockholders. The plaintiffs seek, among other remedies, a judicial declaration that the defendants breached their fiduciary duties and an award of damages, fees, and costs. The plaintiffs filed an amended complaint in August 2019 making substantially similar allegations to those described above. The defendants filed a motion to dismiss the action in September 2019. The court denied the motion in June 2020 and the case has now moved to discovery.

Patent Litigation — On April 25, 2019, Cirba Inc. ("Cirba") filed a lawsuit against VMware, Inc. in the United States District Court for the District of Delaware, alleging two patent infringement claims and three trademark infringement-related claims. On May 6, 2019, Cirba filed a motion seeking a preliminary injunction tied to one of the two patents it alleges VMware, Inc. infringes. Following a hearing on August 6, 2019, the Court denied Cirba's preliminary injunction motion and set the case for trial in mid-January 2020. On August 20, 2019, VMware, Inc. filed counterclaims against Cirba, asserting among other claims that Cirba is infringing four VMware, Inc. patents. The Delaware Court severed those claims from the January 2020 trial on Cirba's claims, and the trial on VMware, Inc.'s patent claims is currently set for September 2021. The trial on Cirba's claims in the Delaware court was completed on January 23, 2020, and on January 24, 2020, the jury returned a verdict finding that VMware, Inc. willfully infringed the two asserted patents and awarding approximately \$237 million in damages. The jury further found that VMware, Inc. was not liable on Cirba's trademark infringement-related claims. A total of \$237 million was accrued for the Delaware action, which reflects the estimated losses that are considered both probable and reasonably estimable at this time. The parties filed the post-trial motions in which VMware, Inc. moved to set aside the verdict and reduce the damages award, and Cirba moved for a permanent injunction, enhanced damages, setting of an ongoing royalty rate, and an award of pre-judgment and post-judgment interest and supplemental damages. A hearing was held in the Delaware court on those motions on May 15, 2020, and the Delaware court has taken those motions under advisement. VMware, Inc. intends to vigorously defend itself in this matter, including, if necessary, via an appeal. Final resolution of this matter could be materially different from the amount accrued. The amount accrued for this matter is included in Accrued and other in the Condensed Consolidated Statements of Financial Position as of October 30, 2020 and January 31, 2020, and the charge was classified in Selling, general and administrative in the Consolidated Statements of Income (Loss) during the fiscal year ended January 31, 2020.

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On October 22, 2019, VMware, Inc. filed a separate patent infringement lawsuit against Cirba in the United States District Court for the Eastern District of Virginia, asserting that Cirba infringes four additional VMware, Inc. patents. The Virginia court transferred these patent claims to Delaware. On March 23, 2020, Cirba filed a counterclaim asserting one additional patent against VMware, Inc. VMware, Inc. intends to vigorously defend itself in this matter.

Class Actions Related to VMware, Inc.'s Acquisition of Pivotal — Two purported stockholders brought putative class action complaints arising out of VMware, Inc.'s acquisition of Pivotal Software, Inc. on December 30, 2019 as described in Note 1 of the Notes to the Condensed Consolidated Financial Statements. The two actions were consolidated in the Delaware Chancery Court into In re: Pivotal Software, Inc. Stockholders Litigation (Civil Action No. 2020-0440-KSJM). The complaint names as defendants the Company, VMware, Inc., Michael S. Dell, and certain officers of Pivotal. The plaintiffs generally allege that the defendants breached their fiduciary duties to the former holders of Pivotal Class A Common Stock in connection with VMware, Inc.'s acquisition of Pivotal by allegedly causing Pivotal to enter into a transaction that favored the interests of Pivotal's controlling stockholders at the expense of such former stockholders. The plaintiffs seek, among other remedies, a judicial declaration that the defendants breached their fiduciary duties and an award of damages, fees, and costs.

Other Litigation — The various legal proceedings in which Dell is involved include commercial and intellectual property litigation. Dell does not currently anticipate that any of these matters will have a material adverse effect on its business, financial condition, results of operations, or cash flows.

As of October 30, 2020, the Company does not believe there is a reasonable possibility that a material loss exceeding the amounts already accrued for these or other proceedings or matters has been incurred. However, since the ultimate resolution of any such proceedings and matters is inherently unpredictable, the Company's business, financial condition, results of operations, or cash flows could be materially affected in any particular period by unfavorable outcomes in one or more of these proceedings or matters. Whether the outcome of any claim, suit, assessment, investigation, or legal proceeding, individually or collectively, could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows will depend on a number of variables, including the nature, timing, and amount of any associated expenses, amounts paid in settlement, damages, or other remedies or consequences.

Indemnifications

In the ordinary course of business, the Company enters into contractual arrangements under which it may agree to indemnify the third party to such arrangements from any losses incurred relating to the services it performs on behalf of the Company or for losses arising from certain events as defined in the particular contract, such as litigation or claims relating to past performance. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments related to these indemnifications have not been material to the Company.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 11 — INCOME AND OTHER TAXES

For the three months ended October 30, 2020 and November 1, 2019, the Company's effective income tax rates were 37.2% and -247.2% on pre-tax income of \$1.4 billion and \$159 million, respectively. For the nine months ended October 30, 2020 and November 1, 2019, the Company's effective income tax rates were -6.1% and 5482.1% on pre-tax income of \$2.0 billion and pre-tax losses of \$95 million, respectively. The changes in the Company's effective income tax rates are primarily driven by discrete tax items and a change in the Company's jurisdictional mix of income.

The Company's effective income tax rates for the three and nine months ended October 30, 2020 include a discrete tax expense of \$359 million relating to the divestiture of RSA Security during the periods due to the relatively low tax basis for the assets sold, particularly goodwill. For the nine months ended October 30, 2020, the Company's effective income tax rate also includes discrete tax benefits of \$746 million related to an audit settlement and \$59 million from an intra-entity asset transfer of certain of Pivotal's intellectual property to an Irish subsidiary that was completed by VMware, Inc. For the nine months ended November 1, 2019, the Company's effective income tax rate includes discrete tax benefits of \$4.9 billion related to similar intra-entity asset transfers. The tax benefit for each intra-entity asset transfer was recorded as a deferred tax asset in the period of the transaction and represents the book and tax basis difference on the transferred assets measured based on the intellectual property's current fair value and applicable Irish statutory tax rate. The Company expects to be able to realize the deferred tax assets resulting from these intra-entity asset transfers. The Company's effective income tax rates for the three and nine months ended November 1, 2019 also include discrete tax benefits of \$305 million related to an audit settlement.

The differences between the estimated effective income tax rates and the U.S. federal statutory rate of 21% principally result from the Company's geographical distribution of income, differences between the book and tax treatment of certain items, and the discrete tax items discussed above. In certain jurisdictions, the Company's tax rate is significantly less than the applicable statutory rate as a result of tax holidays. The majority of the Company's foreign income that is subject to these tax holidays and lower tax rates is attributable to Singapore, China, and Malaysia. A significant portion of these income tax benefits relates to a tax holiday that will be effective until January 31, 2029. The Company's other tax holidays will expire in whole or in part during fiscal years 2022 through 2030. Many of these tax holidays and reduced tax rates may be extended when certain conditions are met or may be terminated early if certain conditions are not met. As of October 30, 2020, the Company was not aware of any matters of non-compliance related to these tax holidays. The effective income tax rate for future quarters of Fiscal 2021 may be impacted by the actual mix of jurisdictions in which income is generated.

During the nine months ended October 30, 2020, the Company effectively settled the Internal Revenue Service ("IRS") audit for fiscal years 2010 through 2014, for which the Company made a cash payment of \$435 million to the IRS on August 3, 2020. The IRS is currently examining fiscal years 2015 through 2019. The Company believes it has valid positions supporting its tax returns and that it is adequately reserved.

The Company is also currently under income tax audits in various state and foreign jurisdictions. The Company is undergoing negotiations, and in some cases contested proceedings, relating to tax matters with the taxing authorities in these jurisdictions. The Company believes that it has provided adequate reserves related to all matters contained in tax periods open to examination. Although the Company believes it has made adequate provisions for the uncertainties surrounding these audits, should the Company experience unfavorable outcomes, such outcomes could have a material impact on its results of operations, financial position, and cash flows. With respect to major U.S., state and foreign taxing jurisdictions, the Company is generally not subject to tax examinations for years prior to the fiscal year ended January 29, 2010.

Judgment is required in evaluating the Company's uncertain tax positions and determining the Company's provision for income taxes. The unrecognized tax benefits were \$1.4 billion and \$2.5 billion as of October 30, 2020 and January 31, 2020, respectively, and are included in accrued and other and other non-current liabilities in the Condensed Consolidated Statements of Financial Position. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The Company takes certain non-income tax positions in the jurisdictions in which it operates and has received certain non-income tax assessments from various jurisdictions. The Company believes that a material loss in these matters is not probable and that it is not reasonably possible that a material loss exceeding amounts already accrued has been incurred. The Company believes its positions in these non-income tax litigation matters are supportable and that it ultimately will prevail in the matters. In the normal course of business, the Company's positions and conclusions related to its non-income taxes could be challenged and assessments may be made. To the extent new information is obtained and the Company's views on its positions, probable outcomes of assessments, or litigation change, changes in estimates to the Company's accrued liabilities would be recorded in the period in which such a determination is made. In the resolution process for income tax and non-income tax audits, the Company is required in certain situations to provide collateral guarantees or indemnification to regulators and tax authorities until the matter is resolved.

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NOTE 12 — ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) is presented in stockholders' equity (deficit) in the Condensed Consolidated Statements of Financial Position and consists of amounts related to foreign currency translation adjustments, unrealized net gains (losses) on cash flow hedges, and actuarial net gains (losses) from pension and other postretirement plans.

The following table presents changes in accumulated other comprehensive income (loss), net of tax, by the following components as of the dates indicated:

	Foreign Currency Translation Adjustments	Cash Flow Hedges	Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
<i>Balances as of January 31, 2020</i>	\$ (678)	\$ 14	\$ (45)	\$ (709)
Other comprehensive income (loss) before reclassifications	243	(45)	(21)	177
Amounts reclassified from accumulated other comprehensive income (loss)	—	(24)	3	(21)
Total change for the period	243	(69)	(18)	156
Less: Change in comprehensive income (loss) attributable to non-controlling interests	—	—	—	—
<i>Balances as of October 30, 2020</i>	<u>\$ (435)</u>	<u>\$ (55)</u>	<u>\$ (63)</u>	<u>\$ (553)</u>

Amounts related to the Company's cash flow hedges are reclassified to net income during the same period in which the items being hedged are recognized in earnings. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for more information on the Company's derivative instruments.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table presents reclassifications out of accumulated other comprehensive income (loss), net of tax, to net income for the periods indicated:

	Three Months Ended					
	October 30, 2020			November 1, 2019		
	Cash Flow Hedges	Pensions	Total	Cash Flow Hedges	Pensions	Total
	(in millions)					
<i>Total reclassifications, net of tax:</i>						
Net revenue	\$ (88)	\$ —	\$ (88)	\$ 71	\$ —	\$ 71
Cost of net revenue	4	—	4	—	—	—
Operating expenses	—	1	1	—	—	—
Total reclassifications, net of tax	\$ (84)	\$ 1	\$ (83)	\$ 71	\$ —	\$ 71

	Nine Months Ended					
	October 30, 2020			November 1, 2019		
	Cash Flow Hedges	Pensions	Total	Cash Flow Hedges	Pensions	Total
	(in millions)					
<i>Total reclassifications, net of tax:</i>						
Net revenue	\$ 17	\$ —	\$ 17	\$ 197	\$ —	\$ 197
Cost of net revenue	7	—	7	—	—	—
Operating expenses	—	(3)	(3)	—	—	—
Total reclassifications, net of tax	\$ 24	\$ (3)	\$ 21	\$ 197	\$ —	\$ 197

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 13 — NON-CONTROLLING INTERESTS

VMware, Inc. — The non-controlling interests' share of equity in VMware, Inc. is reflected as a component of the non-controlling interests in the Condensed Consolidated Statements of Financial Position and was \$5.0 billion and \$4.6 billion as of October 30, 2020 and January 31, 2020, respectively. As of October 30, 2020 and January 31, 2020, the Company held approximately 80.4% and 80.9%, respectively, of the outstanding equity interest in VMware, Inc.

As a result of VMware, Inc.'s acquisition of the non-controlling interest in Pivotal from Pivotal's public shareholders on December 30, 2019, as described in Note 1 of the Notes to the Condensed Consolidated Financial Statements, the non-controlling interests' share of equity in Pivotal is only reflected as a component of the non-controlling interest through December 30, 2019. Pivotal's Class A common stock ceased to be listed and traded on the NYSE as of the acquisition date, and there was no non-controlling interest in Pivotal as of October 30, 2020 and January 31, 2020.

Secureworks — The non-controlling interests' share of equity in Secureworks is reflected as a component of the non-controlling interests in the Condensed Consolidated Statements of Financial Position and was \$94 million and \$88 million as of October 30, 2020 and January 31, 2020, respectively. As of October 30, 2020 and January 31, 2020, the Company held approximately 85.9% and 86.8%, respectively, of the outstanding equity interest in Secureworks, excluding restricted stock awards ("RSAs"). As of October 30, 2020 and January 31, 2020, the Company held approximately 85.1% and 86.2%, respectively, of the outstanding equity interest in Secureworks, including RSAs.

The following table presents the effect of changes in the Company's ownership interest in VMware, Inc. and Secureworks on the Company's equity for the period indicated:

	Nine Months Ended October 30, 2020
	(in millions)
Net income attributable to Dell Technologies Inc.	\$ 2,023
Transfers (to)/from the non-controlling interests:	
Increase in Dell Technologies Inc. additional paid-in-capital for equity issuances and other equity activity	774
Decrease in Dell Technologies Inc. additional paid-in-capital for equity issuances and other equity activity	(704)
Net transfers to non-controlling interests	70
Change from net income attributable to Dell Technologies Inc. and transfers to the non-controlling interests	\$ 2,093

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NOTE 14 — CAPITALIZATION

The following table presents the Company's authorized, issued, and outstanding common stock as of the dates indicated:

	Authorized	Issued	Outstanding
	(in millions)		
<i>Common stock as of October 30, 2020</i>			
Class A	600	385	385
Class B	200	102	102
Class C	7,900	270	262
Class D	100	—	—
Class V	343	—	—
	9,143	757	749
<i>Common stock as of January 31, 2020</i>			
Class A	600	385	385
Class B	200	102	102
Class C	7,900	258	256
Class D	100	—	—
Class V	343	—	—
	9,143	745	743

Under the Company's certificate of incorporation as amended and restated upon the completion of the Class V transaction described in Note 1 of the Notes to the Condensed Consolidated Financial Statements, the Company is prohibited from issuing any of the authorized shares of Class V Common Stock.

Preferred Stock

The Company is authorized to issue one million shares of preferred stock, par value \$0.01 per share. As of October 30, 2020 and January 31, 2020, no shares of preferred stock were issued or outstanding.

Common Stock

Dell Technologies Common Stock — The Class A Common Stock, the Class B Common Stock, the Class C Common Stock, and the Class D Common Stock are collectively referred to as Dell Technologies Common Stock. The par value for all classes of Dell Technologies Common Stock is \$0.01 per share. The Class A Common Stock, the Class B Common Stock, the Class C Common Stock, and the Class D Common Stock share equally in dividends declared or accumulated and have equal participation rights in undistributed earnings.

Voting Rights — Each holder of record of (a) Class A Common Stock is entitled to ten votes per share of Class A Common Stock; (b) Class B Common Stock is entitled to ten votes per share of Class B Common Stock; (c) Class C Common Stock is entitled to one vote per share of Class C Common Stock; and (d) Class D Common Stock is not entitled to any vote on any matter except to the extent required by provisions of Delaware law (in which case such holder is entitled to one vote per share of Class D Common Stock).

Conversion Rights — Under the Company's certificate of incorporation, at any time and from time to time, any holder of Class A Common Stock or Class B Common Stock has the right to convert all or any of the shares of Class A Common Stock or Class B Common Stock, as applicable, held by such holder into shares of Class C Common Stock on a one-to-one basis. During the nine months ended October 30, 2020, the Company issued 72,727 shares of Class C Common Stock to stockholders upon the conversion of the same number of shares of Class A Common Stock into Class C Common Stock in accordance with the Company's certificate of incorporation.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Repurchases of Common Stock*Dell Technologies Common Stock Repurchases by Dell Technologies*

On February 24, 2020, the Company's board of directors approved a stock repurchase program under which the Company is authorized to repurchase up to \$1.0 billion of shares of the Class C Common Stock over a 24-month period expiring on February 28, 2022, of which approximately \$760 million remained available as of October 30, 2020. During the nine months ended October 30, 2020, the Company repurchased approximately 6 million shares of Class C Common Stock for approximately \$240 million. During the three months ended May 1, 2020, the Company suspended activity under its stock repurchase program. During the nine months ended November 1, 2019, Dell Technologies Common Stock repurchases were immaterial.

To the extent not retired, shares repurchased under the repurchase program are placed in the Company's treasury.

VMware, Inc. Class A Common Stock Repurchases by VMware, Inc.

On May 29, 2019, VMware, Inc.'s board of directors authorized the repurchase of up to \$1.5 billion of VMware, Inc.'s Class A common stock through January 29, 2021. On July 15, 2020, VMware, Inc.'s board of directors extended authorization of VMware, Inc.'s existing repurchase program and authorized the repurchase of up to an additional \$1.0 billion of VMware, Inc.'s Class A common stock through January 28, 2022. As of October 30, 2020, the cumulative authorized amount remaining for stock repurchases was \$1.4 billion.

During the nine months ended October 30, 2020, VMware, Inc. repurchased 4.2 million shares of its Class A common stock in the open market for approximately \$566 million. During the nine months ended November 1, 2019, VMware, Inc. repurchased 7.3 million shares of its Class A common stock in the open market for approximately \$1.3 billion, of which approximately \$0.2 billion impacted Dell Technologies' accumulated deficit balance as of November 1, 2019 as a result of the full depletion of VMware, Inc.'s additional paid-in capital in the same period.

All shares repurchased under VMware, Inc.'s stock repurchase programs are retired.

The above VMware, Inc. Class A common stock repurchases for the nine months ended October 30, 2020 and November 1, 2019 exclude shares repurchased to settle employee tax withholding related to the vesting of VMware, Inc. stock awards of \$315 million and \$442 million, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 15 — EARNINGS PER SHARE

Basic earnings per share is based on the weighted-average effect of all common shares issued and outstanding and is calculated by dividing net income by the weighted-average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive instruments. The Company excludes equity instruments from the calculation of diluted earnings per share if the effect of including such instruments is antidilutive.

The Class A Common Stock, the Class B Common Stock, the Class C Common Stock, and the Class D Common Stock are collectively referred to as Dell Technologies Common Stock.

For purposes of calculating earnings per share, the Company uses the two-class method. As all classes of Dell Technologies Common Stock share the same rights in dividends, basic and diluted earnings per share are the same for each class of Dell Technologies Common Stock.

The following table presents the basic and diluted earnings per share for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
<i>Earnings per share attributable to Dell Technologies Inc.</i>				
Dell Technologies Common Stock — Basic	\$ 1.11	\$ 0.69	\$ 2.73	\$ 5.84
Dell Technologies Common Stock — Diluted	\$ 1.08	\$ 0.66	\$ 2.64	\$ 5.50

The following table presents the computation of basic and diluted earnings per share for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
(in millions)				
<i>Numerator: Dell Technologies Common Stock</i>				
Net income attributable to Dell Technologies — basic	\$ 832	\$ 499	\$ 2,023	\$ 4,208
Incremental dilution from VMware, Inc. attributable to Dell Technologies (a)	(3)	(6)	(8)	(81)
Net income attributable to Dell Technologies — diluted	\$ 829	\$ 493	\$ 2,015	\$ 4,127
<i>Denominator: Dell Technologies Common Stock weighted-average shares outstanding</i>				
Weighted-average shares outstanding — basic	747	725	742	720
Dilutive effect of options, restricted stock units, restricted stock, and other	24	25	22	30
Weighted-average shares outstanding — diluted	771	750	764	750
Weighted-average shares outstanding — antidilutive	—	—	1	—

(a) The incremental dilution from VMware, Inc. represents the impact of VMware, Inc.'s dilutive securities on diluted earnings per share of Dell Technologies Common Stock, and is calculated by multiplying the difference between VMware, Inc.'s basic and diluted earnings per share by the number of shares of VMware, Inc. common stock held by the Company. For the three and nine months ended November 1, 2019, the incremental dilution from VMware, Inc. was calculated by the Company without regard to VMware, Inc.'s required retrospective adjustments for the Pivotal acquisition in its stand-alone financial statements, and there was no incremental dilution from Pivotal due to its net loss position. For both periods presented, there was no incremental dilution from Secureworks due to its net loss position.

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NOTE 16 — REDEEMABLE SHARES

Awards under the Company's stock incentive plans include certain rights that allow the holder to exercise a put feature for the underlying Class A or Class C Common Stock after a six month holding period following the issuance of such common stock. The put feature requires the Company to purchase the stock at its fair market value. Accordingly, these awards and such common stock are subject to reclassification from equity to temporary equity, and the Company determines the award amounts to be classified as temporary equity as follows:

- For stock options to purchase Class C Common Stock subject to service requirements, the intrinsic value of the option is multiplied by the portion of the option for which services have been rendered. Upon exercise of the option, the amount in temporary equity represents the fair value of the Class C Common Stock.
- For stock appreciation rights, restricted stock units, or restricted stock awards, any of which stock award types are subject to service requirements, the fair value of the share is multiplied by the portion of the share for which services have been rendered.
- For share-based arrangements that are subject to the occurrence of a contingent event, those amounts are reclassified to temporary equity based on a probability assessment performed by the Company on a periodic basis. Contingent events include the achievement of performance-based metrics.

In connection with the Class V transaction described in Note 1 of the Notes to the Condensed Consolidated Financial Statements, the put feature provisions were amended to provide that the put feature applicable to transfers of Dell Technologies securities will terminate upon the earlier of two years after the expiration on June 27, 2019 of the post-transaction lock-up or consummation of any underwritten public offering of shares of Class C Common Stock.

The following table presents the amount of redeemable shares classified as temporary equity and summarizes the award type as of the dates indicated:

	October 30, 2020	January 31, 2020
	(in millions)	
Redeemable shares classified as temporary equity	\$ 527	\$ 629
Issued and outstanding unrestricted common shares	2	2
Restricted stock units	—	1
Restricted stock awards	—	—
Outstanding stock options	9	15

The decrease in the value of redeemable shares during the nine months ended October 30, 2020 was primarily attributable to a reduction in the number of shares eligible for put rights.

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NOTE 17 — SEGMENT INFORMATION

The Company has three reportable segments that are based on the following business units: Infrastructure Solutions Group (“ISG”); Client Solutions Group (“CSG”); and VMware.

On December 30, 2019, VMware, Inc. completed its acquisition of Pivotal. Due to the Company’s ownership of a controlling interest in Pivotal, the Company and VMware, Inc. accounted for the Pivotal acquisition as a transaction between entities under common control, and consequently the transaction had no net effect to the Company’s consolidated financial statements. Pivotal now operates as a wholly-owned subsidiary of VMware, Inc. and Dell Technologies reports Pivotal results within the VMware reportable segment. Previously, Pivotal results were reported within Other businesses. Prior period results have been recast to conform with the current period presentation.

ISG enables the digital transformation of the Company’s customers through its trusted multi-cloud and big data solutions, which are built upon a modern data center infrastructure. The ISG comprehensive portfolio of advanced storage solutions includes traditional storage solutions as well as next-generation storage solutions (such as all-flash arrays, scale-out file, object platforms, and software-defined solutions), while the Company’s server portfolio includes high-performance rack, blade, tower, and hyperscale servers. The ISG networking portfolio helps business customers transform and modernize their infrastructure, mobilize and enrich end-user experiences, and accelerate business applications and processes. ISG also offers attached software, peripherals, and services, including support and deployment, configuration, and extended warranty services.

CSG includes sales to commercial and consumer customers of branded hardware (such as desktops, workstations, and notebooks) and branded peripherals (such as displays and projectors), as well as services and third-party software and peripherals. CSG also offers attached software, peripherals, and services, including support and deployment, configuration, and extended warranty services.

VMware works with customers in the areas of hybrid and multi-cloud, modern applications, networking, security, and digital workspaces, helping customers manage their IT resources across private clouds and complex multi-cloud, multi-device environments. VMware enables its customers to digitally transform their operations as they ready their applications, infrastructure, and employees for constantly evolving business needs.

The reportable segments disclosed herein are based on information reviewed by the Company’s management to evaluate the business segment results. The Company’s measure of segment revenue and segment operating income for management reporting purposes excludes the impact of Other businesses, unallocated corporate transactions, the impact of purchase accounting, amortization of intangible assets, transaction-related expenses, stock-based compensation expense, and other corporate expenses, as applicable. The Company does not allocate assets to the above reportable segments for internal reporting purposes.

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The following table presents a reconciliation of net revenue by the Company's reportable segments to the Company's consolidated net revenue as well as a reconciliation of consolidated segment operating income to the Company's consolidated operating income for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Consolidated net revenue:</i>				
Infrastructure Solutions Group	\$ 8,024	\$ 8,390	\$ 23,800	\$ 25,213
Client Solutions Group	12,286	11,410	34,593	34,068
VMware	2,893	2,671	8,556	7,779
Reportable segment net revenue	<u>23,203</u>	<u>22,471</u>	<u>66,949</u>	<u>67,060</u>
Other businesses (a)	314	456	1,288	1,311
Unallocated transactions (b)	4	1	4	1
Impact of purchase accounting (c)	(39)	(84)	(129)	(250)
Total consolidated net revenue	<u>\$ 23,482</u>	<u>\$ 22,844</u>	<u>\$ 68,112</u>	<u>\$ 68,122</u>
<i>Consolidated operating income:</i>				
Infrastructure Solutions Group	\$ 882	\$ 996	\$ 2,587	\$ 2,889
Client Solutions Group	1,002	739	2,309	2,514
VMware	837	709	2,504	2,055
Reportable segment operating income	<u>2,721</u>	<u>2,444</u>	<u>7,400</u>	<u>7,458</u>
Other businesses (a)	3	—	105	(48)
Unallocated transactions (b)	1	(2)	(1)	(29)
Impact of purchase accounting (c)	(49)	(96)	(165)	(299)
Amortization of intangibles	(845)	(1,057)	(2,547)	(3,334)
Transaction-related expenses (d)	(52)	(76)	(211)	(165)
Stock-based compensation expense (e)	(436)	(322)	(1,219)	(886)
Other corporate expenses (f)	(214)	(55)	(395)	(792)
Total consolidated operating income	<u>\$ 1,129</u>	<u>\$ 836</u>	<u>\$ 2,967</u>	<u>\$ 1,905</u>

- (a) Secureworks, Virtustream, and Boomi constitute "Other businesses" and do not meet the requirements for a reportable segment, either individually or collectively. The results of Other businesses are not material to the Company's overall results. On September 1, 2020, the Company completed the sale of RSA Security. Prior to the divestiture, RSA Security's results were included in "Other businesses." See Note 1 of the Notes to the Condensed Consolidated Financial Statements for more information about the sale of RSA Security.
- (b) Unallocated transactions includes other corporate items that are not allocated to Dell Technologies' reportable segments.
- (c) Impact of purchase accounting includes non-cash purchase accounting adjustments that are primarily related to the EMC merger transaction.
- (d) Transaction-related expenses includes acquisition, integration, and divestiture related costs.
- (e) Stock-based compensation expense consists of equity awards granted based on the estimated fair value of those awards at grant date.
- (f) Other corporate expenses includes impairment charges, severance, facility action, and other costs. During the nine months ended November 1, 2019, this category includes Virtustream gross impairment charges of \$619 million.

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The following table presents the disaggregation of net revenue by reportable segment, and by major product categories within the segments for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Net revenue:</i>				
<i>Infrastructure Solutions Group:</i>				
Servers and networking	\$ 4,164	\$ 4,241	\$ 12,118	\$ 12,858
Storage	3,860	4,149	11,682	12,355
Total ISG net revenue	<u>8,024</u>	<u>8,390</u>	<u>23,800</u>	<u>25,213</u>
<i>Client Solutions Group:</i>				
Commercial	8,783	8,330	25,456	25,714
Consumer	3,503	3,080	9,137	8,354
Total CSG net revenue	<u>12,286</u>	<u>11,410</u>	<u>34,593</u>	<u>34,068</u>
<i>VMware:</i>				
Total VMware net revenue	2,893	2,671	8,556	7,779
Total segment net revenue	<u>\$ 23,203</u>	<u>\$ 22,471</u>	<u>\$ 66,949</u>	<u>\$ 67,060</u>

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NOTE 18 — SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION

The following table presents additional information on selected accounts included in the Condensed Consolidated Statements of Financial Position as of the dates indicated:

	October 30, 2020	January 31, 2020
	(in millions)	
<i>Cash, cash equivalents, and restricted cash:</i>		
Cash and cash equivalents	\$ 11,304	\$ 9,302
Restricted cash - other current assets (a)	761	730
Restricted cash - other non-current assets (a)	92	119
Total cash, cash equivalents, and restricted cash	<u>\$ 12,157</u>	<u>\$ 10,151</u>
<i>Inventories, net:</i>		
Production materials	\$ 1,687	\$ 1,590
Work-in-process	710	563
Finished goods	996	1,128
Total inventories, net	<u>\$ 3,393</u>	<u>\$ 3,281</u>
<i>Other non-current assets:</i>		
Deferred and other tax assets	\$ 6,127	\$ 5,960
Operating lease ROU assets	2,179	1,780
Deferred commissions	1,028	998
Other	1,727	1,690
Total other non-current assets	<u>\$ 11,061</u>	<u>\$ 10,428</u>
<i>Other non-current liabilities:</i>		
Deferred and other tax liabilities	\$ 2,184	\$ 3,110
Operating lease liabilities	1,829	1,360
Warranty liability	130	155
Other	1,290	758
Total other non-current liabilities	<u>\$ 5,433</u>	<u>\$ 5,383</u>

(a) Restricted cash primarily includes cash required to be held in escrow pursuant to DFS securitization arrangements and VMware, Inc. restricted cash.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Trade Receivables — Allowance for Expected Credit Losses

Allowance for expected credit losses of trade receivables as of October 30, 2020 includes the impact of adoption of the new CECL standard, which was adopted as of February 1, 2020 using the modified retrospective method, as described in Note 1 of the Notes to the Condensed Consolidated Financial Statements. The provision recognized on the Condensed Consolidated Statements of Income (Loss) during the three and nine months ended October 30, 2020 is based on an assessment of the impact of current and expected future conditions, inclusive of the effect of the COVID-19 pandemic on credit losses. The duration and severity of COVID-19 and continued market volatility is highly uncertain and, as such, the impact on expected credit losses is subject to significant judgment and may cause variability in the Company's allowance for credit losses in future periods.

The following table presents the changes in the Company's allowance for expected credit losses for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020		October 30, 2020	
	(in millions)			
<i>Trade Receivables - Allowance for expected credit losses:</i>				
Balance at beginning of period	\$	146	\$	94
Adjustment for adoption of the new CECL standard (Note 1)		—		27
Provision charged to income statement		(4)		43
Bad debt write-offs		(27)		(49)
Balance at end of period	\$	115	\$	115

Warranty Liability

The following table presents changes in the Company's liability for standard limited warranties for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Warranty liability:</i>				
Warranty liability at beginning of period	\$	479	\$	525
Costs accrued for new warranty contracts and changes in estimates for pre-existing warranties (a) (b)		219		211
Service obligations honored		(206)		(216)
Warranty liability at end of period	\$	492	\$	520
Current portion	\$	362	\$	351
Non-current portion	\$	130	\$	169

(a) Changes in cost estimates related to pre-existing warranties are aggregated with accruals for new standard warranty contracts. The Company's warranty liability process does not differentiate between estimates made for pre-existing warranties and new warranty obligations.

(b) Includes the impact of foreign currency exchange rate fluctuations.

DELL TECHNOLOGIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Severance Charges

The Company incurs costs related to employee severance and records a liability for these costs when it is probable that employees will be entitled to termination benefits and the amounts can be reasonably estimated. The liability related to these actions is included in accrued and other current liabilities in the Condensed Consolidated Statements of Financial Position. The following table presents the activity related to the Company's severance liability for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Severance liability:</i>				
Severance liability at beginning of period	\$ 168	\$ 115	\$ 196	\$ 146
Severance charges to provision	226	44	417	141
Cash paid and other (a)	(181)	(44)	(400)	(172)
Severance liability at end of period	\$ 213	\$ 115	\$ 213	\$ 115

(a) Other adjustments include the impact of foreign currency exchange rate fluctuations.

The following table presents severance charges as included in the Condensed Consolidated Statements of Income (Loss) for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Severance charges:</i>				
Cost of net revenue	\$ 46	\$ —	\$ 58	\$ 14
Selling, general, and administrative	139	31	308	103
Research and development	41	13	51	24
Total severance charges	\$ 226	\$ 44	\$ 417	\$ 141

Interest and Other, Net

The following table provides information regarding interest and other, net for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Interest and other, net:</i>				
Investment income, primarily interest	\$ 11	\$ 41	\$ 47	\$ 127
Gain on investments, net (a)	489	18	591	160
Interest expense	(566)	(654)	(1,855)	(2,045)
Foreign exchange	(31)	(43)	(130)	(123)
Other (b)	370	(39)	418	(119)
Total interest and other, net	\$ 273	\$ (677)	\$ (929)	\$ (2,000)

(a) Includes a \$465 million gain on the fair value adjustment of a strategic investment during three months ended October 30, 2020. See Note 3 of the Notes to the Condensed Consolidated Financial Statements for more information.

(b) Includes a pre-tax gain of \$338 million on the sale of RSA Security during three months ended October 30, 2020. See Note 1 of the Notes to the Condensed Consolidated Financial Statements for more information.

ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management’s discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and accompanying Notes included in the Company’s annual report on Form 10-K for the fiscal year ended January 31, 2020 and the unaudited Condensed Consolidated Financial Statements included in this report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs, and that are subject to numerous risks and uncertainties. Our actual results may differ materially from those expressed or implied in any forward-looking statements.

Unless otherwise indicated, all results presented are prepared in a manner that complies, in all material respects, with accounting principles generally accepted in the United States of America (“GAAP”). Additionally, unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal period.

Unless the context indicates otherwise, references in this report to “we,” “us,” “our,” the “Company,” and “Dell Technologies” mean Dell Technologies Inc. and its consolidated subsidiaries, references to “Dell” mean Dell Inc. and Dell Inc.’s consolidated subsidiaries, and references to “EMC” mean EMC Corporation and EMC Corporation’s consolidated subsidiaries.

Our fiscal year is the 52- or 53-week period ending on the Friday nearest January 31. We refer to our fiscal year ending January 29, 2021 and our fiscal year ended January 31, 2020 as “Fiscal 2021” and “Fiscal 2020,” respectively. Fiscal 2021 and Fiscal 2020 include 52 weeks.

INTRODUCTION

Dell Technologies is a leading global end-to-end technology provider, with a comprehensive portfolio of IT hardware, software, and services solutions spanning both traditional infrastructure and emerging multi-cloud technologies that enable our customers to build their digital future and transform how they work and live. We operate globally across key functional areas such as technology and product development, marketing, go-to-market, and global services, and are supported by Dell Financial Services. We continue to seamlessly deliver differentiated and holistic IT solutions to our customers, which has driven significant revenue growth and share gains.

Dell Technologies operates with significant scale and an unmatched breadth of complementary offerings. Digital transformation has become essential to all businesses, and we have expanded our portfolio to include holistic solutions that enable our customers to drive their ongoing digital transformation initiatives. Dell Technologies’ integrated solutions help customers modernize their IT infrastructure, address workforce transformation, and provide critical solutions to keep people and organizations connected in this current time of disruption caused by the coronavirus disease 2019 (“COVID-19”) pandemic. We are providing essential solutions to our customers during this period of accelerated digital transformation to improve and strengthen business and workforce productivity. With our extensive portfolio and our commitment to innovation, we have the ability to offer secure, integrated solutions that extend from the edge to the core to the cloud, and we are at the forefront of the software-defined and cloud native infrastructure era. Our end-to-end portfolio is supported by a differentiated go-to-market engine, which includes a 43,000-person sales force, a global network of channel partners, and a world-class supply chain that together drive long-term growth and operating efficiencies.

In October 2020, Dell Technologies announced Project APEX, which will simplify how our customers can consume IT as-a-Service—across storage, servers, networking, hyper-converged infrastructure, PCs and broader solutions. As we release these solutions over time, businesses will be able to buy and implement IT with a simple, consistent cloud experience across our extensive product portfolio. Dell Technologies Cloud Console will give customers a single self-service interface to manage every aspect of their cloud and as-a-Service journey. Dell Technologies Storage as-a-Service will be deployed and managed on-premises by Dell Technologies.

Products and Services

We design, develop, manufacture, market, sell, and support a wide range of comprehensive and integrated solutions, products, and services. We are organized into the following business units, which are our reportable segments: Infrastructure Solutions Group; Client Solutions Group; and VMware.

- *Infrastructure Solutions Group (“ISG”)* — ISG enables the digital transformation of our customers through our trusted multi-cloud and big data solutions, which are built upon a modern data center infrastructure. ISG works with customers in the area of hybrid cloud deployment with the goal of simplifying, streamlining, and automating cloud operations. ISG solutions are built for multicloud environments and are optimized to run cloud native workloads in both public and private clouds, as well as traditional on-premise workloads.

Our comprehensive portfolio of advanced storage solutions includes traditional storage solutions as well as next-generation storage solutions (such as all-flash arrays, scale-out file, object platforms, and software-defined solutions). We have simplified our storage portfolio to ensure that we deliver the technology needed for our customers’ digital transformation. We continue to make enhancements to our storage solutions offerings and expect that these offerings, including our new PowerStore storage array released in May 2020, will drive long-term improvements in the business. Our server portfolio includes high-performance rack, blade, tower, and hyperscale servers, optimized for artificial intelligence and machine learning workloads. Our networking portfolio helps our business customers transform and modernize their infrastructure, mobilize and enrich end-user experiences, and accelerate business applications and processes. Our strengths in server, storage, and virtualization software solutions enable us to offer leading converged and hyper-converged solutions, allowing our customers to accelerate their IT transformation by acquiring scalable integrated IT solutions instead of building and assembling their own IT platforms. ISG also offers attached software, peripherals, and services, including support and deployment, configuration, and extended warranty services.

Approximately half of ISG revenue is generated by sales to customers in the Americas, with the remaining portion derived from sales to customers in the Europe, Middle East, and Africa region (“EMEA”) and the Asia-Pacific and Japan region (“APJ”).

- *Client Solutions Group (“CSG”)* — CSG includes branded hardware (such as desktops, workstations, and notebooks) and branded peripherals (such as displays and projectors), as well as third-party software and peripherals. Our computing devices are designed with our commercial and consumer customers’ needs in mind, and we seek to optimize performance, reliability, manageability, design, and security. In addition to our traditional hardware business, we have a portfolio of thin client offerings that we believe will allow us to benefit from the growth trends in cloud computing. For our customers that are seeking to simplify client lifecycle management, Dell PC as a Service offering combines hardware, software, lifecycle services, and financing into one all-encompassing solution that provides predictable pricing per seat per month through Dell Financial Services. CSG also offers attached software, peripherals, and services, including support and deployment, configuration, and extended warranty services.

Approximately half of CSG revenue is generated by sales to customers in the Americas, with the remaining portion derived from sales to customers in EMEA and APJ.

- *VMware* — The VMware reportable segment (“VMware”) reflects the operations of VMware, Inc. (NYSE: VMW) within Dell Technologies. VMware works with customers in the areas of hybrid and multi-cloud, modern applications, networking, security, and digital workspaces, helping customers manage their IT resources across private clouds and complex multi-cloud, multi-device environments. VMware’s portfolio supports and addresses the key IT priorities of customers: accelerating their cloud journey, modernizing their applications, empowering digital workspaces, transforming networking, and embracing intrinsic security. VMware enables its customers to digitally transform their operations as they ready their applications, infrastructure, and employees for constantly evolving business needs.

During the third quarter of Fiscal 2020, VMware, Inc. completed its acquisition of Carbon Black, Inc. (“Carbon Black”), a developer of cloud-native endpoint protection.

On December 30, 2019, VMware, Inc. completed its acquisition of Pivotal Software, Inc. (“Pivotal”). Before the transaction, Pivotal was a majority-owned subsidiary of Dell Technologies through EMC and VMware, Inc. Pivotal provides a leading cloud-native platform that makes software development and IT operations a strategic advantage for

customers. Pivotal's cloud-native platform, Pivotal Cloud Foundry, accelerates and streamlines software development by reducing the complexity of building, deploying, and operating new cloud-native applications, and modernizing legacy applications. With the acquisition, which aligns key software assets, VMware, Inc. will drive and build on a comprehensive development platform with Kubernetes.

Dell Technologies now reports Pivotal results within the VMware reportable segment, and the historical segment results have been recast to reflect this change. Pivotal results were previously reported within other businesses. See Note 17 of the Notes to the Condensed Consolidated Financial Statements included in this report for the recast of segment results.

Approximately half of VMware revenue is generated by sales to customers in the United States.

Our other businesses, described below, consist of product and service offerings of Secureworks, Virtustream, and Boomi, each of which is majority-owned by Dell Technologies. These businesses are not classified as reportable segments, either individually or collectively, as the results of the businesses are not material to our overall results and the businesses do not meet the criteria for reportable segments.

- *Secureworks* (NASDAQ: SCWX) is a leading global provider of intelligence-driven information security solutions singularly focused on protecting its clients from cyber attacks. The solutions offered by Secureworks enable organizations of varying size and complexity to fortify their cyber defenses to prevent security breaches, detect malicious activity in near real time, prioritize and respond rapidly to security incidents, and predict emerging threats.
- *Virtustream* offers cloud software and infrastructure-as-a-service solutions that enable customers to migrate, run, and manage mission-critical applications in cloud-based IT environments.
- *Boomi* specializes in cloud-based integration, connecting information between existing on-premise and cloud-based applications to ensure that business processes are optimized, data is accurate and workflow is reliable.

On February 18, 2020, we announced our entry into a definitive agreement with a consortium of investors to sell RSA Security. On September 1, 2020, the parties closed the transaction. At the completion of the sale, we received total cash consideration of approximately \$2.082 billion, resulting in a pre-tax gain on sale of \$338 million. The Company ultimately recorded a \$21 million loss net of taxes. The transaction was intended to further simplify our product portfolio and corporate structure. Prior to the divestiture, RSA Security's operating results were included within Other businesses. See Note 1 of the Notes to the Condensed Consolidated Financial Statements included in this report for more information about this transaction.

We believe the collaboration, innovation, and coordination of the operations and strategies across all segments of our business, as well as our differentiated go-to-market model, will continue to drive revenue synergies. Through our coordinated research and development activities, we are able to jointly engineer leading innovative solutions that incorporate the distinct set of hardware, software, and services across all segments of our business.

Our products and services offerings are continually evolving in response to industry dynamics. As a result, reclassifications of certain products and services solutions in major product categories may be required. For further discussion regarding our current reportable segments, see "Results of Operations — Business Unit Results" and Note 17 of the Notes to the Condensed Consolidated Financial Statements included in this report.

Dell Financial Services

Dell Financial Services and its affiliates ("DFS") support our businesses by offering and arranging various financing options and services for our customers in North America, Europe, Australia, and New Zealand. DFS originates, collects, and services customer receivables primarily related to the purchase or use of our product, software, and service solutions. We also arrange financing for some of our customers in various countries where DFS does not currently operate as a captive. DFS further strengthens our customer relationships through its flexible consumption models, which enable us to offer our customers the option to pay over time and, in certain cases, based on utilization, providing them with financial flexibility to meet their changing technological requirements. The results of these operations are allocated to our segments based on the underlying product or service financed. In response to the COVID-19 pandemic, we are continuing to focus on supporting our customers and are providing up to \$9 billion in financing support by offering low or zero percent interest rate programs as well as payment deferral options. The financial impact to DFS and our securitization and structured financing programs is not expected to be

material. For additional information about our financing arrangements, see Note 4 of the Notes to the Condensed Consolidated Financial Statements included in this report.

Strategic Investments and Acquisitions

As part of our strategy, we will continue to evaluate opportunities for strategic investments through our venture capital investment arm, Dell Technologies Capital, with a focus on emerging technology areas that are relevant to all segments of our business and that will complement our existing portfolio of solutions. Our investment areas include storage, software-defined networking, management and orchestration, security, machine learning and artificial intelligence, Big Data and analytics, cloud, Internet of Things (“IoT”), and software development operations. In addition to these investments, we also may make disciplined acquisitions targeting businesses that advance our strategic objectives. As of October 30, 2020 and January 31, 2020, Dell Technologies held strategic investments of \$1.5 billion and \$0.9 billion, respectively.

Business Trends and Challenges

COVID-19 Pandemic and Response — In March 2020, the World Health Organization (“WHO”) declared the outbreak of the COVID-19 a global pandemic. This declaration has been followed by significant governmental measures implemented in the United States and globally, including travel bans and restrictions, shelter-in-place orders, limitations and closures of non-essential businesses, and social distancing requirements in efforts to slow down and control the spread of the virus.

The health of our employees, customers, business partners, and communities remains our primary focus. We have taken numerous actions to date in response to COVID-19, including a swift implementation of our business continuity plans. Our crisis management team is actively engaged to respond to changes in our environment quickly and effectively, and to ensure that our preparedness plans and response activities are aligned with recommendations of the WHO, the U.S. Centers for Disease Control and Prevention, and governmental regulations. We have implemented broad travel restrictions and moved to virtual-only events. Most of our employees were previously equipped with remote work capabilities over the past several years, thus enabling us to quickly establish a work-from-home posture for the majority of our employees. Further, we implemented pandemic-specific protocols for our essential employees whose jobs require them to be on-site or with customers. With the virus surging again across many regions, we are being cautious with our return-to-site protocols and will continue remote work practices to ensure the health and safety of our employees, customers, and business partners.

We are working closely with our customers and business partners to support them as they expand their own remote work solutions and contingency plans, helping them access our products and services remotely. We have benefited from our agility, our breadth, and our scale. Notable actions we have taken include the following:

- Our global sales teams embraced a new selling process and are successfully supporting our customers and partners remotely.
- We are helping to address our customers’ cash flow requirements by expanding our as-a-service and financing offerings.
- Our close relationships and ability to connect directly with our customers through our e-commerce business have enabled us to quickly meet the immediate demands of the new work- and learn-from-home environments.
- The strength, scale, and resiliency of our global supply chain have afforded us flexibility to manage through this challenging time. We adapted to events unfolding real-time by applying predictive analytics to model a variety of outcomes to respond quickly to the changing environment. We optimized our global supply chain footprint to maximize factory uptime, for both Dell Technologies and our suppliers, by working through various local governmental regulations and mandates. During this time, we established robust safety measures to protect the health and safety of our essential team members.
- We continue to drive innovation and excellence in engineering with a largely remote workforce. Engineers and product teams recently delivered several critical solutions, including cloud updates and key client product refreshes, as well as the May 2020 launch of the PowerStore midrange storage solution.

During the first nine months of Fiscal 2021, we took certain precautionary measures to increase our cash position and preserve financial flexibility. We also made a series of prudent decisions to manage expenses and preserve liquidity including but not

limited to global hiring limitations, reduction in consulting and contractor costs, global travel restrictions, suspension of the Dell 401(k) match program for U.S. employees, and lower facilities-related costs. We will evaluate these actions as we set our annual operating plan for Fiscal 2022, taking into account current conditions, and expect that some of the benefits of these cost reduction initiatives recognized during Fiscal 2021 will phase out over time. All of these actions are aligned with our strategy, which remains unchanged, of focusing on gaining share, integrating and innovating across the Dell Technologies portfolio, and strengthening our capital structure.

We saw unique demand dynamics during the first nine months of Fiscal 2021. In ISG, the demand environment weakened as enterprise customers directed more of their investments towards remote work and business continuity solutions. In CSG, overall demand was stronger than expected as customers sought to enable work and learn from home solutions. For additional information about impacts of COVID-19 on our operations, see “Results of Operations—Consolidated Results” and “—Business Unit Results.”

We are unable to accurately predict the full impact this unprecedented environment may have on our results of operations, financial condition, liquidity and cash flows due to numerous uncertainties involved, including the progression of the COVID-19 pandemic, governmental responses, and the timing of recovery. We will continue to actively monitor global events and make prudent decisions to navigate in this uncertain and ever-changing environment. We believe we are well-positioned for long-term success, and that we will continue to lead the industry with innovative solutions and the essential technology that the world needs now more than ever.

Dell Technologies Vision and Innovation — Our vision is to be the essential technology company for the data era and a leader in end-user computing, software-defined data center solutions, data management, virtualization, IoT, and cloud software. We believe that our results will benefit from an integrated go-to-market strategy, including enhanced coordination across all segments of our business, and from our differentiated products and solutions capabilities. We intend to continue to execute on our business model and seek to balance liquidity, profitability, and growth to position our company for long-term success.

We are seeing an accelerated rate of change in the IT industry. We seek to address our customers’ evolving needs and their broader digital transformation objectives as they embrace the hybrid multi-cloud environment of today. For many customers right now, a top digital priority is to build stable and resilient remote operational capabilities. We are seeing demand for simpler, more agile IT across multiple clouds. The pandemic has accelerated the introduction and adoption of new technologies to ensure productivity and collaboration from anywhere. In light of this rapid pace of innovation, we continue to invest in research and development, sales, and other key areas of our business to deliver superior products and solutions capabilities and to drive long-term sustainable growth.

ISG — We expect that ISG will continue to be impacted by the changing nature of the IT infrastructure market and competitive environment. The overall server demand environment was down for the first nine months of Fiscal 2021 and remains varied among international regions. In the fourth quarter of Fiscal 2021, we expect ISG demand to be slightly lower than the prior year’s sequential growth based on the continued softness in data center spending. We will continue to be selective in determining whether to pursue certain large hyperscale and other server transactions as we drive for balanced growth and profitability. With our scale and strong solutions portfolio, we believe we are well-positioned to respond to ongoing competitive dynamics. We continue to focus on customer base expansion and lifetime value of customer relationships.

Cloud-native applications are expected to continue as a primary growth driver in the infrastructure market as IT organizations increasingly adopt cloud native architectures. We believe the complementary cloud solutions across our business strongly position us to meet these demands for our customers, who are increasingly looking to leverage cloud native architectures, whether on-premises, private or public.

The unprecedented data growth throughout all industries is generating continued demand for our storage solutions and services. We benefit by offering solutions that address the emerging trends of enterprises deploying software-defined storage, hyper-converged infrastructure, and modular solutions based on server-centric architectures. These trends are changing the way customers are consuming our traditional storage offerings. We continue to expand our offerings in external storage arrays, which incorporate flexible, cloud-based functionality. Through our research and development efforts, we are developing new solutions in this rapidly changing industry that we believe will enable us to continue to provide superior solutions to our customers.

CSG — Our CSG offerings are an important element of our strategy, generating strong cash flow and opportunities for cross-selling of complementary solutions. During the first nine months of Fiscal 2021, CSG demand was strong in certain product

lines, particularly for notebooks and gaming systems, while demand for commercial desktops decreased. These demand dynamics were driven by the imperative for remote work and remote learning solutions, as business, government, and education customers sought to maintain productivity in the midst of COVID-19. We continue to deploy Dell PC as a Service offerings for customers who are seeking simplified solutions and lifecycle management with predictable pricing through DFS. We expect that the CSG demand environment will continue to be cyclical. CSG demand in the fourth quarter of the fiscal year is typically stronger due to holiday purchasing patterns, and in Fiscal 2021 we expect CSG demand in the fourth quarter to be slightly above normal seasonality. We remain committed to our long-term strategy for CSG and will continue to innovate across the portfolio, while benefiting from consolidation trends that are occurring in the markets in which we compete. Competitive dynamics will continue to be a factor in our CSG business as we seek to balance profitability and growth.

Recurring Revenue and Consumption Models — Our customers are interested in new and innovative models that address how they consume our solutions. We offer options including as-a-service, utility, leases, and immediate pay models, all designed to match customers’ consumption and financing preferences. Our multi-year agreements typically result in recurring revenue streams over the term of the arrangement. We expect that our flexible consumption models will further strengthen our customer relationships and provide a foundation for growth in recurring revenue.

Supply Chain — During Fiscal 2020, we recognized benefits to our ISG and CSG operating results from significant component cost declines. During the first nine months of Fiscal 2021, component costs continued to decline in the aggregate, but at a lower rate than in Fiscal 2020. In recent quarters ISG experienced some component cost inflation, particularly for servers. The component cost trending is dependent on the strength or weakness of actual end-user demand and supply dynamics, which will continue to evolve and ultimately impact the translation of the cost environment to pricing and operating results.

Dell Technologies maintains limited-source supplier relationships for certain components, because the relationships are advantageous in the areas of performance, quality, support, delivery, capacity, and price considerations. In recent periods, we have been impacted by component supply constraints in certain product offerings, some of which resulted from COVID-19 driven demand patterns. Delays in the supply of limited-source components, including as a result of COVID-19, are affecting the timing of shipments of certain products in desired quantities or configurations.

Macro-Economic Risks and Uncertainties — The impacts of trade protection measures, including increases in tariffs and trade barriers, and changes in government policies and international trade arrangements may affect our ability to conduct business in some non-U.S. markets. We monitor and seek to mitigate these risks with adjustments to our manufacturing, supply chain, and distribution networks.

We manage our business on a U.S. dollar basis. However, we have a large global presence, generating approximately half of our revenue by sales to customers outside of the United States during both the first nine months of Fiscal 2021 and Fiscal 2020. As a result, our revenue can be impacted by fluctuations in foreign currency exchange rates. We utilize a comprehensive hedging strategy intended to mitigate the impact of foreign currency volatility over time, and we adjust pricing when possible to further minimize foreign currency impacts.

Key Performance Metrics

Our key performance metrics are net revenue, operating income, adjusted EBITDA, and cash flows from operations, which are discussed elsewhere in this report.

Class V Transaction

On December 28, 2018, we completed a transaction (“Class V transaction”) in which we paid \$14.0 billion in cash and issued 149,387,617 shares of our Class C Common Stock to holders of our Class V Common Stock in exchange for all outstanding shares of Class V Common Stock. The non-cash consideration portion of the Class V transaction totaled \$6.9 billion. As a result of the Class V transaction, the tracking stock feature of Dell Technologies’ capital structure was terminated. The Class C Common Stock is traded on the New York Stock Exchange.

VMware, Inc. Ownership

On July 15, 2020, we announced that we are exploring potential alternatives with respect to our ownership in VMware, Inc., including a potential spin-off of that ownership interest to Dell Technologies' stockholders. Although this process is currently only at an exploratory stage, we believe a spin-off could benefit both Dell Technologies' and VMware, Inc.'s stockholders by simplifying capital structures and enhancing strategic flexibility, while still maintaining a mutually beneficial strategic and commercial partnership. Any potential spin-off would not occur prior to September 2021. Other strategic options include maintaining the status quo with respect to our ownership interest in VMware, Inc.

NON-GAAP FINANCIAL MEASURES

In this management's discussion and analysis, we use supplemental measures of our performance which are derived from our consolidated financial information but which are not presented in our consolidated financial statements prepared in accordance with GAAP. These non-GAAP financial measures include non-GAAP product net revenue; non-GAAP services net revenue; non-GAAP net revenue; non-GAAP product gross margin; non-GAAP services gross margin; non-GAAP gross margin; non-GAAP operating expenses; non-GAAP operating income; non-GAAP net income; earnings before interest and other, net, taxes, depreciation, and amortization ("EBITDA"); and adjusted EBITDA.

We use non-GAAP financial measures to supplement financial information presented on a GAAP basis. Management considers these non-GAAP measures in evaluating our operating trends and performance. Moreover, we believe these non-GAAP financial measures provide our stakeholders with useful and transparent information to help them evaluate our operating results by facilitating an enhanced understanding of our operating performance and enabling them to make more meaningful period to period comparisons. There are limitations to the use of the non-GAAP financial measures presented in this report. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Non-GAAP product net revenue, non-GAAP services net revenue, non-GAAP net revenue, non-GAAP product gross margin, non-GAAP services gross margin, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, and non-GAAP net income, as defined by us, exclude amortization of intangible assets, the impact of purchase accounting, transaction-related expenses, stock-based compensation expense, other corporate expenses and, for non-GAAP net income, fair value adjustments on equity adjustments and an aggregate adjustment for income taxes. As the excluded items have a material impact on our financial results, our management compensates for this limitation by relying primarily on our GAAP results and using non-GAAP financial measures supplementally or for projections when comparable GAAP financial measures are not available. The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for net revenue, gross margin, operating expenses, operating income, or net income prepared in accordance with GAAP, and should be read only in conjunction with financial information presented on a GAAP basis.

Reconciliations of each non-GAAP financial measure to its most directly comparable GAAP financial measure are presented below. We encourage you to review the reconciliations in conjunction with the presentation of the non-GAAP financial measures for each of the periods presented. The discussion below includes information on each of the excluded items as well as our reasons for excluding them from our non-GAAP results. In future fiscal periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in our non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent, or unusual.

Revenue Reclassification — During Fiscal 2020, Dell Technologies made certain reclassifications of net revenue between the products and services categories on the Consolidated Statement of Net Income (Loss), which impacted previously reported amounts for the third quarter and first nine months of Fiscal 2020. The reclassifications were made to provide a more meaningful representation of the nature of certain service and software-as-a-service offerings of VMware, Inc. The reclassifications resulted in an increase to services revenue and an equal and offsetting decrease to product revenue of \$210 million and \$584 million for the third quarter and first nine months of Fiscal 2020, respectively. Total net revenue as previously reported remains unchanged. The Company did not recast cost of goods sold for the related revenue reclassifications due to immateriality.

The following is a summary of the items excluded from the most comparable GAAP financial measures to calculate our non-GAAP financial measures:

- *Amortization of Intangible Assets* — Amortization of intangible assets primarily consists of amortization of customer relationships, developed technology, and trade names. In connection with our acquisition by merger of EMC on September 7, 2016, referred to as the EMC merger transaction, and the acquisition of Dell Inc. by Dell Technologies Inc. on October 29, 2013, referred to as the going-private transaction, all of the tangible and intangible assets and liabilities of EMC and Dell, respectively, were accounted for and recognized at fair value on the transaction dates. Accordingly, for the periods presented, amortization of intangible assets represents amortization associated with intangible assets recognized in connection with the EMC merger transaction and the going-private transaction. Amortization charges for purchased intangible assets are significantly impacted by the timing and magnitude of our acquisitions, and these charges may vary in amount from period to period. We exclude these charges for purposes of calculating the non-GAAP financial measures presented below to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.
- *Impact of Purchase Accounting* — The impact of purchase accounting includes purchase accounting adjustments related to the EMC merger transaction and, to a lesser extent, the going-private transaction, recorded under the acquisition method of accounting in accordance with the accounting guidance for business combinations. This guidance prescribes that the purchase price be allocated to assets acquired and liabilities assumed based on the estimated fair value of such assets and liabilities on the date of the transaction. Accordingly, all of the assets and liabilities acquired in the EMC merger transaction and the going-private transaction were accounted for and recognized at fair value as of the respective transaction dates, and the fair value adjustments are being amortized over the estimated useful lives in the periods following the transactions. The fair value adjustments primarily relate to deferred revenue, inventory, and property, plant, and equipment. Although the purchase accounting adjustments and related amortization of those adjustments are reflected in our GAAP results, we evaluate the operating results of the underlying businesses on a non-GAAP basis, after removing such adjustments. We believe that excluding the impact of purchase accounting provides results that are useful in understanding our current operating performance and provides more meaningful comparisons to our past operating performance.
- *Transaction-related Expenses* — Transaction-related expenses typically consist of acquisition, integration, and divestiture related costs and are expensed as incurred. These expenses primarily represent costs for legal, banking, consulting, and advisory services. From time to time, this category also may include transaction-related gains on divestitures of businesses or asset sales. During the first quarter of Fiscal 2021, we recognized a gain of \$120 million on the sale of certain intellectual property assets. During the third quarter of Fiscal 2021, we recognized a pre-tax gain of \$338 million on the sale of RSA Security. We exclude these items for purposes of calculating the non-GAAP financial measures presented below to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance. See Note 1 and Note 8 of the Notes to the Condensed Consolidated Financial Statements for additional information about the divestiture of RSA Security and acquisitions by VMware, Inc., respectively.
- *Stock-based Compensation Expense* — Stock-based compensation expense consists of equity awards granted based on the estimated fair value of those awards at grant date. We estimate the fair value of service-based stock options using the Black-Scholes valuation model. To estimate the fair value of performance-based awards containing a market condition, we use the Monte Carlo valuation model. For all other share-based awards, the fair value is based on the closing price of the Class C Common Stock as reported on the NYSE on the date of grant. Although stock-based compensation is an important aspect of the compensation of our employees and executives, the fair value of the stock-based awards may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. We believe that excluding stock-based compensation expense for purposes of calculating the non-GAAP financial measures presented below facilitates a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.
- *Other Corporate Expenses* — Other corporate expenses consists primarily of severance, facility action, and other costs. Severance costs are primarily related to severance and benefits for employees terminated pursuant to cost savings initiatives. We continue to integrate owned and leased facilities and may incur additional costs as we seek opportunities for operational efficiencies. Other corporate expenses vary from period to period and are significantly impacted by the timing and nature of these events. Therefore, although we may incur these types of expenses in the future, we believe that eliminating these charges for purposes of calculating the non-GAAP financial measures presented below facilitates a more

meaningful evaluation of our current operating performance and comparisons to our past operating performance. During the first nine months of Fiscal 2020, this category included Virtustream gross impairment charges of \$619 million.

- Fair Value Adjustments on Equity Investments — Fair value adjustments on equity investments primarily consists of the gain (loss) on strategic investments, which includes the recurring fair value adjustments of investments in publicly-traded companies, as well as those in privately-held companies, which are adjusted for observable price changes and, to a lesser extent, any potential impairments. During the third quarter and first nine months of Fiscal 2021, this category included an unrealized gain of \$465 million related to one of our strategic investments. See Note 3 of the Notes to the Condensed Consolidated Financial Statements for additional information on our strategic investment activity. Given the volatility in the ongoing adjustments to the valuation of these strategic investments, we believe that excluding these gains and losses for purposes of calculating non-GAAP net income presented below facilitates a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.
- Aggregate Adjustment for Income Taxes — The aggregate adjustment for income taxes is the estimated combined income tax effect for the adjustments described above, as well as an adjustment for discrete tax items. Due to the variability in recognition of discrete tax items from period to period, we believe that excluding these benefits or charges for purposes of calculating non-GAAP net income facilitates a more meaningful evaluation of our current operating performance and comparisons to our past operating performance. The tax effects are determined based on the tax jurisdictions where the above items were incurred. See Note 11 of the Notes to the Condensed Consolidated Financial Statements for additional information about our income taxes, including discrete tax items.

The table below presents a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP measure for the periods indicated:

	Three Months Ended			Nine Months Ended		
	October 30, 2020	% Change	November 1, 2019	October 30, 2020	% Change	November 1, 2019
	(in millions, except percentages)					
Product net revenue	\$ 17,352	— %	\$ 17,275	\$ 50,127	(3)%	\$ 51,765
Non-GAAP adjustments:						
Impact of purchase accounting	2		5	8		15
Non-GAAP product net revenue	<u>\$ 17,354</u>	— %	<u>\$ 17,280</u>	<u>\$ 50,135</u>	(3)%	<u>\$ 51,780</u>
Services net revenue	\$ 6,130	10 %	\$ 5,569	\$ 17,985	10 %	\$ 16,357
Non-GAAP adjustments:						
Impact of purchase accounting	37		79	121		235
Non-GAAP services net revenue	<u>\$ 6,167</u>	9 %	<u>\$ 5,648</u>	<u>\$ 18,106</u>	9 %	<u>\$ 16,592</u>
Net revenue	\$ 23,482	3 %	\$ 22,844	\$ 68,112	— %	\$ 68,122
Non-GAAP adjustments:						
Impact of purchase accounting	39		84	129		250
Non-GAAP net revenue	<u>\$ 23,521</u>	3 %	<u>\$ 22,928</u>	<u>\$ 68,241</u>	— %	<u>\$ 68,372</u>
Product gross margin	\$ 3,563	(4)%	\$ 3,717	\$ 10,204	(9)%	\$ 11,239
Non-GAAP adjustments:						
Amortization of intangibles	376		517	1,122		1,555
Impact of purchase accounting	3		7	13		20
Transaction-related expenses	—		—	—		(5)
Stock-based compensation expense	7		3	17		9
Other corporate expenses	12		2	15		11
Non-GAAP product gross margin	<u>\$ 3,961</u>	(7)%	<u>\$ 4,246</u>	<u>\$ 11,371</u>	(11)%	<u>\$ 12,829</u>
Services gross margin	\$ 3,698	8 %	\$ 3,409	\$ 11,066	11 %	\$ 10,010
Non-GAAP adjustments:						
Amortization of intangibles	(1)		—	—		—
Impact of purchase accounting	37		79	121		235
Transaction-related expenses	—		—	—		—
Stock-based compensation expense	44		30	124		82
Other corporate expenses	32		4	40		32
Non-GAAP services gross margin	<u>\$ 3,810</u>	8 %	<u>\$ 3,522</u>	<u>\$ 11,351</u>	10 %	<u>\$ 10,359</u>

	Three Months Ended			Nine Months Ended		
	October 30, 2020	% Change	November 1, 2019	October 30, 2020	% Change	November 1, 2019
	(in millions, except percentages)					
Gross margin	\$ 7,261	2 %	\$ 7,126	\$ 21,270	— %	\$ 21,249
Non-GAAP adjustments:						
Amortization of intangibles	375		517	1,122		1,555
Impact of purchase accounting	40		86	134		255
Transaction-related expenses	—		—	—		(5)
Stock-based compensation expense	51		33	141		91
Other corporate expenses	44		6	55		43
Non-GAAP gross margin	<u>\$ 7,771</u>	— %	<u>\$ 7,768</u>	<u>\$ 22,722</u>	(2)%	<u>\$ 23,188</u>
Operating expenses	\$ 6,132	(3)%	\$ 6,290	\$ 18,303	(5)%	\$ 19,344
Non-GAAP adjustments:						
Amortization of intangibles	(470)		(540)	(1,425)		(1,779)
Impact of purchase accounting	(9)		(10)	(31)		(44)
Transaction-related expenses	(52)		(76)	(211)		(170)
Stock-based compensation expense	(385)		(289)	(1,078)		(795)
Other corporate expenses	(170)		(49)	(340)		(749)
Non-GAAP operating expenses	<u>\$ 5,046</u>	(5)%	<u>\$ 5,326</u>	<u>\$ 15,218</u>	(4)%	<u>\$ 15,807</u>
Operating income	\$ 1,129	35 %	\$ 836	\$ 2,967	56 %	\$ 1,905
Non-GAAP adjustments:						
Amortization of intangibles	845		1,057	2,547		3,334
Impact of purchase accounting	49		96	165		299
Transaction-related expenses	52		76	211		165
Stock-based compensation expense	436		322	1,219		886
Other corporate expenses	214		55	395		792
Non-GAAP operating income	<u>\$ 2,725</u>	12 %	<u>\$ 2,442</u>	<u>\$ 7,504</u>	2 %	<u>\$ 7,381</u>
Net income	\$ 881	60 %	\$ 552	\$ 2,162	(58)%	\$ 5,113
Non-GAAP adjustments:						
Amortization of intangibles	845		1,057	2,547		3,334
Impact of purchase accounting	49		96	165		299
Transaction-related (income) expenses	(286)		76	(247)		165
Stock-based compensation expense	436		322	1,219		886
Other corporate expenses	106		55	287		792
Fair value adjustments on equity investments	(489)		(18)	(591)		(160)
Aggregate adjustment for income taxes	169		(695)	(1,067)		(6,024)
Non-GAAP net income	<u>\$ 1,711</u>	18 %	<u>\$ 1,445</u>	<u>\$ 4,475</u>	2 %	<u>\$ 4,405</u>

In addition to the above measures, we also use EBITDA and adjusted EBITDA to provide additional information for evaluation of our operating performance. Adjusted EBITDA excludes purchase accounting adjustments related to the EMC merger transaction and the going-private transaction, acquisition, integration, and divestiture related costs, severance, facility action, and other costs, and stock-based compensation expense. We believe that, due to the non-operational nature of the purchase accounting entries, it is appropriate to exclude these adjustments.

As is the case with the non-GAAP measures presented above, users should consider the limitations of using EBITDA and adjusted EBITDA, including the fact that those measures do not provide a complete measure of our operating performance. EBITDA and adjusted EBITDA do not purport to be alternatives to net income (loss) as measures of operating performance or to cash flows from operating activities as a measure of liquidity. In particular, EBITDA and adjusted EBITDA are not intended to be a measure of free cash flow available for management's discretionary use, as these measures do not consider certain cash requirements, such as working capital needs, capital expenditures, contractual commitments, interest payments, tax payments, and other debt service requirements.

The table below presents a reconciliation of EBITDA and adjusted EBITDA to net income for the periods indicated:

	Three Months Ended			Nine Months Ended		
	October 30, 2020	% Change	November 1, 2019	October 30, 2020	% Change	November 1, 2019
(in millions, except percentages)						
Net income	\$ 881	60 %	\$ 552	\$ 2,162	(58)%	\$ 5,113
Adjustments:						
Interest and other, net (a)	(273)		677	929		2,000
Income tax expense (benefit) (b)	521		(393)	(124)		(5,208)
Depreciation and amortization	1,361		1,494	4,017		4,608
EBITDA	<u>\$ 2,490</u>	7 %	<u>\$ 2,330</u>	<u>\$ 6,984</u>	7 %	<u>\$ 6,513</u>
EBITDA	\$ 2,490	7 %	\$ 2,330	\$ 6,984	7 %	\$ 6,513
Adjustments:						
Stock-based compensation expense	436		322	1,219		886
Impact of purchase accounting (c)	39		84	129		251
Transaction-related expenses (d)	52		76	211		165
Other corporate expenses (e)	214		45	395		771
Adjusted EBITDA	<u>\$ 3,231</u>	13 %	<u>\$ 2,857</u>	<u>\$ 8,938</u>	4 %	<u>\$ 8,586</u>

(a) See "Results of Operations — Interest and Other, Net" for more information on the components of interest and other, net.

(b) See Note 11 of the Notes to the Condensed Consolidated Financial Statements included in this report for additional information on discrete tax items recorded during the third quarter and first nine months of Fiscal 2021 and Fiscal 2020.

(c) This amount includes the non-cash purchase accounting adjustments related to the EMC merger transaction and the going-private transaction.

(d) Transaction-related expenses consist of acquisition, integration, and divestiture related costs.

(e) Other corporate expenses includes impairment charges, severance, facility action, and other costs.

RESULTS OF OPERATIONS

Consolidated Results

The following table summarizes our consolidated results for each of the periods presented. Unless otherwise indicated, all changes identified for the current period results represent comparisons to results for the prior corresponding fiscal period.

	Three Months Ended			Nine Months Ended						
	October 30, 2020		% Change	November 1, 2019		October 30, 2020		% Change	November 1, 2019	
Dollars	% of Net Revenue	Dollars		% of Net Revenue	Dollars	% of Net Revenue	Dollars		% of Net Revenue	
(in millions, except percentages)										
Net revenue:										
Products (a)	\$ 17,352	73.9 %	— %	\$ 17,275	75.6 %	\$ 50,127	73.6 %	(3)%	\$ 51,765	76.0 %
Services (a)	6,130	26.1 %	10 %	5,569	24.4 %	17,985	26.4 %	10 %	16,357	24.0 %
Total net revenue	\$ 23,482	100.0 %	3 %	\$ 22,844	100.0 %	\$ 68,112	100.0 %	— %	\$ 68,122	100.0 %
Gross margin:										
Products (b)	\$ 3,563	20.5 %	(4)%	\$ 3,717	21.5 %	\$ 10,204	20.4 %	(9)%	\$ 11,239	21.7 %
Services (c)	3,698	60.3 %	8 %	3,409	61.2 %	11,066	61.5 %	11 %	10,010	61.2 %
Total gross margin	\$ 7,261	30.9 %	2 %	\$ 7,126	31.2 %	\$ 21,270	31.2 %	— %	\$ 21,249	31.2 %
Operating expenses	\$ 6,132	26.1 %	(3)%	\$ 6,290	27.5 %	\$ 18,303	26.9 %	(5)%	\$ 19,344	28.4 %
Operating income	\$ 1,129	4.8 %	35 %	\$ 836	3.7 %	\$ 2,967	4.4 %	56 %	\$ 1,905	2.8 %
Net income	\$ 881	3.8 %	60 %	\$ 552	2.4 %	\$ 2,162	3.2 %	(58)%	\$ 5,113	7.5 %
Net income attributable to Dell Technologies Inc.	\$ 832	3.5 %	67 %	\$ 499	2.2 %	\$ 2,023	3.0 %	(52)%	\$ 4,208	6.2 %
Non-GAAP Financial Information										
Non-GAAP net revenue:										
Products (a)	\$ 17,354	73.8 %	— %	\$ 17,280	75.4 %	\$ 50,135	73.5 %	(3)%	\$ 51,780	75.7 %
Services (a)	6,167	26.2 %	9 %	5,648	24.6 %	18,106	26.5 %	9 %	16,592	24.3 %
Total non-GAAP net revenue	\$ 23,521	100.0 %	3 %	\$ 22,928	100.0 %	\$ 68,241	100.0 %	— %	\$ 68,372	100.0 %
Non-GAAP gross margin:										
Products (b)	\$ 3,961	22.8 %	(7)%	\$ 4,246	24.6 %	\$ 11,371	22.7 %	(11)%	\$ 12,829	24.8 %
Services (c)	3,810	61.8 %	8 %	3,522	62.4 %	11,351	62.7 %	10 %	10,359	62.4 %
Total non-GAAP gross margin	\$ 7,771	33.0 %	— %	\$ 7,768	33.9 %	\$ 22,722	33.3 %	(2)%	\$ 23,188	33.9 %
Non-GAAP operating expenses	\$ 5,046	21.5 %	(5)%	\$ 5,326	23.2 %	\$ 15,218	22.3 %	(4)%	\$ 15,807	23.1 %
Non-GAAP operating income	\$ 2,725	11.6 %	12 %	\$ 2,442	10.7 %	\$ 7,504	11.0 %	2 %	\$ 7,381	10.8 %
Non-GAAP net income	\$ 1,711	7.3 %	18 %	\$ 1,445	6.3 %	\$ 4,475	6.6 %	2 %	\$ 4,405	6.4 %
EBITDA	\$ 2,490	10.6 %	7 %	\$ 2,330	10.2 %	\$ 6,984	10.2 %	7 %	\$ 6,513	9.5 %
Adjusted EBITDA	\$ 3,231	13.7 %	13 %	\$ 2,857	12.5 %	\$ 8,938	13.1 %	4 %	\$ 8,586	12.6 %

(a) During Fiscal 2020, Dell Technologies made certain reclassifications of net revenue between the products and services categories on the Consolidated Statement of Net Income (Loss), which impacted previously reported amounts for the third quarter and first nine months of Fiscal 2020. The Company did not recast cost of goods sold for the related revenue reclassifications due to immateriality. The reclassifications resulted in an increase to services revenue and an equal and offsetting decrease to product revenue of \$210 million and \$584 million for the third quarter and first nine months of Fiscal 2020, respectively. Total net revenue as previously reported remains unchanged.

- (b) Product gross margin percentages represent product gross margin as a percentage of product net revenue, and non-GAAP product gross margin percentages represent non-GAAP product gross margin as a percentage of non-GAAP product net revenue.
- (c) Services gross margin percentages represent services gross margin as a percentage of services net revenue, and non-GAAP services gross margin percentages represent non-GAAP services gross margin as a percentage of non-GAAP services net revenue.

Non-GAAP product net revenue, non-GAAP services net revenue, non-GAAP net revenue, non-GAAP product gross margin, non-GAAP services gross margin, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income, EBITDA, and adjusted EBITDA are not measurements of financial performance prepared in accordance with GAAP. Non-GAAP financial measures as a percentage of net revenue are calculated based on non-GAAP net revenue. See “Non-GAAP Financial Measures” for additional information about these non-GAAP financial measures, including our reasons for including these measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

Overview

During the third quarter and first nine months of Fiscal 2021, our net revenue increased 3% and remained flat, respectively, as we benefited from the strength of our broad technology solutions portfolio, which helped us navigate market volatility and competitive pressures, particularly due to the COVID-19 environment. During the third quarter and first nine months of Fiscal 2021, our non-GAAP net revenue also increased 3% and remained flat, respectively. Increases in CSG and VMware net revenue were offset by a decline in ISG net revenue for both the third quarter and first nine months of Fiscal 2021. The increase in CSG net revenue was primarily driven by growth in consumer solutions and continued strong demand for commercial notebooks, partially offset by lower demand for commercial desktops. VMware net revenue increased due to growth in sales of subscriptions and software-as-a-service offerings and software maintenance. ISG net revenue decreased primarily due to a weaker demand environment as customers continued to direct their investments towards remote work and business continuity solutions. Although we are in the midst of unprecedented uncertainty as a result of the ongoing COVID-19 pandemic, we believe we are well-positioned for long-term profitable growth while also maintaining the ability to adjust as needed to changing market conditions with complementary solutions across all segments of our business, an agile workforce, and the strength of our global supply chain.

During the third quarter and first nine months of Fiscal 2021, our operating income increased 35% and 56%, respectively, primarily driven by lower selling, general, and administrative expenses as we realized the benefit of cost reduction initiatives. During the third quarter of Fiscal 2021, operating income benefited from increases in operating income for CSG and VMware, and a decrease in amortization of intangible assets. These benefits were partially offset by a decrease in operating income for ISG and increases in stock-based compensation expense and severance costs. During the first nine months of Fiscal 2021, the increase in operating income was primarily attributable to the absence of Virtustream impairment charges of \$619 million recognized in the first nine months of Fiscal 2020. Operating income for the first nine months of Fiscal 2021 also benefited from increases in operating income for VMware and other businesses and a decrease in amortization of intangible assets. These benefits were partially offset by decreases in operating income for CSG and ISG and increases in stock-based compensation expense and severance costs.

Amortization of intangible assets, stock-based compensation expense, and other corporate expenses that impacted our operating income totaled \$1.5 billion and \$1.4 billion for the third quarter of Fiscal 2021 and Fiscal 2020, respectively, and \$4.2 billion and \$5.0 billion for the first nine months of Fiscal 2021 and Fiscal 2020, respectively. Excluding these costs, and the impact of purchase accounting and transaction-related expenses, our non-GAAP operating income increased 12% and 2% during the third quarter and first nine months of Fiscal 2021, respectively. The 12% increase in non-GAAP operating income during the third quarter of Fiscal 2021 was due to increases in operating income for CSG and VMware, which were partially offset by a decrease in operating income for ISG. The 2% increase in non-GAAP operating income during the first nine months of Fiscal 2020 was due to increases in operating income for VMware and other businesses, which were partially offset by decreases in operating income for CSG and ISG.

Cash provided by operating activities was \$5.5 billion and \$5.8 billion for the first nine months of Fiscal 2021 and Fiscal 2020, respectively. Operating cash flows declined slightly during the first nine months of Fiscal 2021 as the strong profitability during the period was offset by unfavorable working capital impacts of an increase in inventory, decline in growth rate of deferred revenue, and timing of purchases and payments to vendors. COVID-19 impacts to working capital continued to

normalize during the third quarter of Fiscal 2021. See “Market Conditions, Liquidity, and Capital Commitments” for further information on our cash flow metrics.

Net Revenue

During the third quarter of Fiscal 2021, our net revenue and non-GAAP net revenue both increased 3%. The increases in net revenue and non-GAAP net revenue during the third quarter of Fiscal 2021 were primarily attributable to increases in net revenue for CSG and VMware, which were partially offset by a decrease in ISG net revenue. See “Business Unit Results” for further information. During the first nine months of Fiscal 2021, our revenue and non-GAAP net revenue both remained flat as increases in net revenue for CSG and VMware were offset by a decrease in ISG net revenue.

- **Product Net Revenue** — Product net revenue includes revenue from the sale of hardware products and software licenses. During the third quarter of Fiscal 2021, product net revenue and non-GAAP product net revenue both remained flat as an increase in product net revenue for CSG was offset by a decrease in product net revenue for ISG. During the first nine months of Fiscal 2021, product net revenue and non-GAAP product net revenue both decreased 3% primarily due to a decrease in product net revenue for ISG.
- **Services Net Revenue** — Services net revenue includes revenue from our services offerings and support services related to hardware products and software licenses. During the third quarter of Fiscal 2021, services net revenue and non-GAAP services net revenue increased 10% and 9%, respectively. During the first nine months of Fiscal 2021, services net revenue and non-GAAP services net revenue increased 10% and 9%, respectively. These increases were primarily attributable to increases in services net revenue for CSG third-party software and maintenance and VMware software, and in particular, increases in subscription-based licenses. A substantial portion of services net revenue is derived from offerings that have been deferred over a period of time, and, as a result, reported services net revenue growth rates will be different than reported product net revenue growth rates.

From a geographical perspective, during the third quarter and first nine months of Fiscal 2021, net revenue increased in the Americas due to strong CSG performance. These increases were offset by declines in net revenue generated by sales to customers in APJ as a result of a weaker demand environment.

Gross Margin

During the third quarter and first nine months of Fiscal 2021, our gross margin increased 2% to \$7.3 billion and remained flat at \$21.3 billion, respectively. The increase in our gross margin during the third quarter of Fiscal 2021 was driven by favorable impacts of gross margin increases in CSG and VMware and a decrease in amortization of intangible assets, partially offset by gross margin decreases for ISG and other businesses. During the first nine months of Fiscal 2021, our gross margin remained relatively flat as favorable impacts of gross margin increases for VMware and a decrease in amortization of intangible assets were offset by gross margin decreases for CSG and ISG.

During the third quarter and first nine months of Fiscal 2021, our gross margin percentage decreased 30 basis points to 30.9% and remained flat at 31.2% basis points, respectively. The decrease in our gross margin percentage during the third quarter of Fiscal 2021 was primarily driven by decreases in gross margin percentage for ISG due to higher product costs and a shift in mix due to strong CSG sales, which was partially offset by a decrease in amortization of intangible assets. During the first nine months of Fiscal 2021, gross margin percentage remained flat as the beneficial impact of a decrease in amortization of intangible assets was offset by decreases in gross margin percentage for ISG and CSG, as well as by a decrease due to a shift in product mix due to strong CSG sales.

Our gross margin included the impact of amortization of intangibles and purchase accounting adjustments of \$0.4 billion and \$0.6 billion for the third quarter of Fiscal 2021 and Fiscal 2020, respectively, and \$1.3 billion and \$1.8 billion during the first nine months of Fiscal 2021 and Fiscal 2020, respectively. Excluding these costs, transaction-related expenses, stock-based compensation expense, and other corporate expenses, non-GAAP gross margin during the third quarter and first nine months of Fiscal 2021 remained flat at \$7.8 billion and decreased 2% to \$22.7 billion, respectively.

Non-GAAP gross margin percentage decreased 90 basis points to 33.0% and 60 basis points to 33.3% during the third quarter and first nine months of Fiscal 2021, respectively. The decrease in our non-GAAP gross margin percentage during the third quarter of Fiscal 2021 was due to decreases in gross margin percentage for ISG due to higher product costs and a shift in mix due to strong CSG sales. During the first nine months of Fiscal 2021 the decrease in our non-GAAP gross margin percentage

was attributable to decreases in gross margin percentage for ISG and CSG, as well as a decrease due to a shift in product mix due to strong CSG sales.

- **Products** — During the third quarter of Fiscal 2021, product gross margin decreased 4% to \$3.6 billion, and product gross margin percentage decreased 100 basis points to 20.5%. The decrease in product gross margin was primarily driven by higher product costs for ISG partially offset by an increase in gross margin for CSG and a decrease in amortization of intangible assets. Product gross margin percentage decreased during the third quarter of Fiscal 2021 due to a shift in product mix due to strong CSG sales. During the third quarter of Fiscal 2021, non-GAAP product gross margin decreased 7% to \$4.0 billion, and non-GAAP product gross margin percentage decreased 180 basis points to 22.8% due to the same CSG and ISG dynamics discussed above.

During the first nine months of Fiscal 2021, product gross margin decreased 9% to \$10.2 billion, and product gross margin percentage decreased 130 basis points to 20.4%. The decreases in product gross margin and product gross margin percentage were primarily driven by higher product costs for ISG and a shift in product mix due to strong CSG sales. These unfavorable impacts were partially offset by a decrease in amortization of intangibles. During the first nine months of Fiscal 2021, non-GAAP product gross margin decreased 11% to \$11.4 billion, and non-GAAP product gross margin percentage decreased 210 basis points to 22.7% due to the same CSG and ISG dynamics discussed above.

- **Services** — During the third quarter of Fiscal 2021, services gross margin increased 8% to \$3.7 billion, and services gross margin percentage decreased 90 basis points to 60.3%. Services gross margin increased due to growth in VMware software maintenance and CSG third-party software and maintenance, particularly subscription-based licenses, as well as a decrease in purchase accounting adjustments. Excluding purchase accounting adjustments, transaction-related expenses, stock-based compensation expense, and other corporate expenses, non-GAAP services gross margin increased 8% to \$3.8 billion during the third quarter of Fiscal 2021 primarily due to growth in VMware software maintenance and CSG third-party software and maintenance, and in particular, increases in subscription-based licenses.

During the third quarter of Fiscal 2021, services gross margin percentage decreased 90 basis points to 60.3% and non-GAAP services gross margin percentage decreased 60 basis points to 61.8%. These decreases were driven by decreases in services gross margin percentage for CSG, partially offset by increases in services gross margin percentages for VMware and ISG.

During the first nine months of Fiscal 2021, services gross margin increased 11% to \$11.1 billion due to growth in VMware software maintenance and CSG third-party software and maintenance, and in particular, increases in subscription-based licenses, as well as a decrease in purchase accounting adjustments. Excluding purchase accounting adjustments, transaction-related expenses, stock-based compensation expense, and other corporate expenses, non-GAAP services gross margin increased 10% to \$11.4 billion during the first nine months of Fiscal 2021 primarily due to growth in VMware software maintenance and CSG third-party software and maintenance, particularly subscription-based licenses.

During the first nine months of Fiscal 2021, services gross margin percentage increased 30 basis points to 61.5% and non-GAAP services gross margin percentage increased 30 basis points to 62.7% primarily due to an increase in VMware services gross margin percentage.

Vendor Programs and Settlements

Our gross margin is affected by our ability to achieve competitive pricing with our vendors and contract manufacturers, including through our negotiation of a variety of vendor rebate programs to achieve lower net costs for the various components we include in our products. Under these programs, vendors provide us with rebates or other discounts from the list prices for the components, which are generally elements of their pricing strategy. We account for vendor rebates and other discounts as a reduction in cost of net revenue. We manage our costs on a total net cost basis, which includes supplier list prices reduced by vendor rebates and other discounts.

The terms and conditions of our vendor rebate programs are largely based on product volumes and are generally negotiated either at the beginning of the annual or quarterly period, depending on the program. The timing and amount of vendor rebates and other discounts we receive under the programs may vary from period to period, reflecting changes in the competitive environment. We monitor our component costs and seek to address the effects of any changes to terms that might arise under our vendor rebate programs. Our gross margins for the third quarter and first nine months of Fiscal 2021 and Fiscal 2020 were not materially affected by any changes to the terms of our vendor rebate programs, as the amounts we received under these programs were generally stable relative to our total net cost. We are not aware of any significant changes to vendor pricing or rebate programs that may impact our results in the near term.

Operating Expenses

The following table presents information regarding our operating expenses for the periods indicated:

	Three Months Ended			Three Months Ended			Nine Months Ended			Nine Months Ended		
	October 30, 2020			November 1, 2019			October 30, 2020			November 1, 2019		
	Dollars	% of Net Revenue	% Change	Dollars	% of Net Revenue	% Change	Dollars	% of Net Revenue	% Change	Dollars	% of Net Revenue	% Change
(in millions, except percentages)												
Operating expenses:												
Selling, general, and administrative	\$ 4,772	20.3 %	(5)%	\$ 5,028	22.0 %		\$ 14,419	21.1 %	(8)%	\$ 15,677	23.0 %	
Research and development	1,360	5.8 %	8 %	1,262	5.5 %		3,884	5.7 %	6 %	3,667	5.4 %	
Total operating expenses	<u>\$ 6,132</u>	26.1 %	(3)%	<u>\$ 6,290</u>	27.5 %		<u>\$ 18,303</u>	26.8 %	(5)%	<u>\$ 19,344</u>	28.4 %	
Other Financial Information												
Non-GAAP operating expenses	\$ 5,046	21.4 %	(5)%	\$ 5,326	23.2 %		\$ 15,218	22.3 %	(4)%	\$ 15,807	23.1 %	

During the third quarter and first nine months of Fiscal 2021, total operating expenses decreased 3% and 5%, respectively, primarily due to a decrease in selling, general, and administrative expenses, offset partially by an increase in research and development expenses. Our operating expenses include amortization of intangible assets, the impact of purchase accounting, transaction-related expenses, stock-based compensation expense, and other corporate expenses. In aggregate, these items totaled \$1.1 billion and \$1.0 billion for the third quarter of Fiscal 2021 and Fiscal 2020, respectively, and \$3.1 billion and \$3.5 billion for the first nine months of Fiscal 2021 and Fiscal 2020, respectively. Excluding these costs, total non-GAAP operating expenses decreased 5% and 4% for the third quarter and first nine months of Fiscal 2021, respectively.

- Selling, General, and Administrative*** — Selling, general, and administrative (“SG&A”) expenses decreased 5% and 8%, respectively, during the third quarter and first nine months of Fiscal 2021. The decreases in SG&A expenses were primarily due to measures taken as a result of the COVID-19 pandemic, which included global hiring limitations, reduction in consulting and contractor costs, global travel restrictions, suspension of the Dell 401(k) match program for U.S. employees, and lower facilities-related costs, as well as to a decrease in amortization of intangible assets. With respect to our cost reduction initiatives, we expect that some of the benefits which we recognized during the third quarter and first nine months of Fiscal 2021 will phase out over time. These favorable impacts to SG&A expenses were partially offset by increases in stock-based compensation expense and severance costs during the third quarter and first nine months of Fiscal 2021. Additionally, during the first nine months of Fiscal 2021, the decrease in SG&A expenses reflected the absence of Virtustream impairment charges of \$619 million recognized in the first nine months of Fiscal 2020.
- Research and Development*** — Research and development (“R&D”) expenses are primarily composed of personnel-related expenses related to product development. R&D expenses as a percentage of net revenue were approximately 5.8% and 5.5% for the third quarter of Fiscal 2021 and Fiscal 2020, respectively, and 5.7% and 5.4% for the first nine months of Fiscal 2021 and Fiscal 2020, respectively. R&D expenses as a percentage of net revenue increased during the third quarter and first nine months of Fiscal 2021 primarily due to an increase in compensation-related expense, including stock-based compensation expense, driven by VMware. As our industry continues to change and as the needs of our customers evolve, we intend to support R&D initiatives to innovate and introduce new and enhanced solutions into the market.

We continue to make selective investments designed to enable growth, marketing, and R&D, while balancing our efforts to drive cost efficiencies in the business. We also expect to continue to make investments in support of our own digital transformation to modernize and streamline our IT operations.

Operating Income

During the third quarter and first nine months of Fiscal 2021, our operating income increased 35% and 56%, respectively, primarily driven by lower selling, general, and administrative expenses as we realized the benefit of cost reduction initiatives. During the third quarter of Fiscal 2021, operating income benefited from increases in operating income for CSG and VMware, and from a decrease in amortization of intangible assets. These benefits were partially offset by a decrease in operating income for ISG and increases in stock-based compensation expense and severance costs. During the first nine months of Fiscal 2021, the increase in operating income was primarily attributable to the absence of Virtustream impairment charges of \$619 million recognized in the first nine months of Fiscal 2020. Operating income during the first nine months of Fiscal 2021 also benefited from increases in operating income for VMware and other businesses and a decrease in amortization of intangible assets. These benefits were partially offset by decreases in operating income for CSG and ISG and increases in stock-based compensation expense and severance costs.

Amortization of intangible assets, stock-based compensation expense, and other corporate expenses that impacted our operating income totaled \$1.5 billion and \$1.4 billion for the third quarter of Fiscal 2021 and Fiscal 2020, respectively, and \$4.2 billion and \$5.0 billion for the first nine months of Fiscal 2021 and Fiscal 2020, respectively. Excluding these costs, and the impact of purchase accounting and transaction-related expenses, our non-GAAP operating income increased 12% to \$2.7 billion and 2% to \$7.5 billion during the third quarter and first nine months of Fiscal 2021, respectively. Non-GAAP operating income increased 12% for the third quarter of Fiscal 2021 due to increases in operating income for CSG and VMware, which were partially offset by a decrease in operating income for ISG. Non-GAAP operating income increased 2% during the first nine months of Fiscal 2021 due to increases in operating income for VMware and other businesses, which were partially offset by decreases in operating income for CSG and ISG.

Interest and Other, Net

The following table provides information regarding interest and other, net for the periods indicated:

	Three Months Ended		Nine Months Ended	
	October 30, 2020	November 1, 2019	October 30, 2020	November 1, 2019
	(in millions)			
<i>Interest and other, net:</i>				
Investment income, primarily interest	\$ 11	\$ 41	\$ 47	\$ 127
Gain on investments, net	489	18	591	160
Interest expense	(566)	(654)	(1,855)	(2,045)
Foreign exchange	(31)	(43)	(130)	(123)
Other	370	(39)	418	(119)
Total interest and other, net	\$ 273	\$ (677)	\$ (929)	\$ (2,000)

During the third quarter and first nine months of Fiscal 2021, the change in interest and other, net was favorable by \$950 million and \$1,071 million, respectively, primarily driven by a \$465 million gain on the fair value adjustment of one of our strategic investments, a pre-tax gain of \$338 million on the sale of RSA Security reflected in Other in the table above, and a decrease in interest expense due to debt paydown over the periods. During the first nine months of Fiscal 2021, interest and other, net also benefited from a gain of \$120 million recognized from the sale of certain intellectual property assets during the first quarter of Fiscal 2021.

Income and Other Taxes

For the third quarter of Fiscal 2021 and Fiscal 2020, our effective income tax rates were 37.2% on pre-tax income of \$1.4 billion and -247.2% on pre-tax income of \$159 million, respectively. For the first nine months of Fiscal 2021 and Fiscal 2020, our effective income tax rates were -6.1% on pre-tax income of \$2.0 billion and 5482.1% on pre-tax losses of \$95 million, respectively. The changes in our effective income tax rates were primarily driven by discrete tax items and changes in our jurisdictional mix of income.

For the third quarter and first nine months of Fiscal 2021, our effective income tax rates include a discrete tax expense of \$359 million related to the divestiture of RSA Security during the period. Our effective income tax rate for the first nine months of Fiscal 2021 also includes discrete tax benefits of \$746 million related to an audit settlement and \$59 million from an intra-entity asset transfer of certain of Pivotal's intellectual property to an Irish subsidiary that was completed by VMware, Inc. For the first nine months of Fiscal 2020, our effective income tax rate includes discrete tax benefits of \$4.9 billion related to similar intra-entity asset transfers. The tax benefit for each intra-entity asset transfer was recorded as a deferred tax asset in the period of the transaction and represents the book and tax basis difference on the transferred assets measured based on the applicable Irish statutory tax rate. We expect to be able to realize the deferred tax assets resulting from these intra-entity asset transfers. Our effective income tax rates for the third quarter and first nine months of Fiscal 2020 also include discrete tax benefits of \$305 million related to an audit settlement.

Our effective income tax rate can fluctuate depending on the geographic distribution of our worldwide earnings, as our foreign earnings are generally taxed at lower rates than in the United States. The differences between our effective income tax rate and the U.S. federal statutory rate of 21% principally result from the geographical distribution of income, differences between the book and tax treatment of certain items, and the discrete tax items discussed above. In certain jurisdictions, our tax rate is significantly less than the applicable statutory rate as a result of tax holidays. The majority of our foreign income that is subject to these tax holidays and lower tax rates is attributable to Singapore, China, and Malaysia. A significant portion of these income tax benefits relates to a tax holiday that will be effective until January 31, 2029. Our other tax holidays will expire in whole or in part during Fiscal 2022 through Fiscal 2030. Many of these tax holidays and reduced tax rates may be extended when certain conditions are met or may be terminated early if certain conditions are not met. As of October 30, 2020, we were not aware of any matters of non-compliance related to these tax holidays. The effective income tax rate for future quarters of Fiscal 2021 may be impacted by the actual mix of jurisdictions in which income is generated.

For further discussion regarding tax matters, including the status of income tax audits, see Note 11 of the Notes to the Condensed Consolidated Financial Statements included in this report.

Net Income

During the third quarter and first nine months of Fiscal 2021, net income increased 60% to \$0.9 billion and decreased 58% to \$2.2 billion, respectively. The increase in net income during the third quarter of Fiscal 2021 was primarily due to net gains recognized in interest and other, net, and an increase in income taxes. The decrease in net income during the first nine months of Fiscal 2021 was primarily due to lower discrete tax benefits, which were partially offset by an increase in operating income.

Net income includes amortization of intangible assets, the impact of purchase accounting, transaction-related expenses, stock-based compensation expense, other corporate expenses, fair value adjustments on equity investments, and discrete tax items. Excluding these costs and the related tax impacts, non-GAAP net income increased 18% to \$1.7 billion and 2% to \$4.5 billion during the third quarter and first nine months of Fiscal 2021, respectively. The increases in non-GAAP net income during the third quarter and first nine months of Fiscal 2021 were primarily attributable to increases in non-GAAP operating income and increases in non-GAAP income taxes.

Non-controlling Interests

During the third quarter and first nine months of Fiscal 2021, net income attributable to non-controlling interests was \$49 million and \$139 million, respectively, and consisted of net income or loss attributable to our non-controlling interests in VMware, Inc. and Secureworks. During the third quarter and first nine months of Fiscal 2020, net income attributable to non-controlling interests was \$53 million and \$905 million, respectively, and consisted of net income or loss attributable to our non-controlling interests in VMware, Inc., Secureworks, and Pivotal. Pivotal was acquired by VMware, Inc. on December 30, 2019 and, as a result, we no longer have a separate non-controlling interest in Pivotal. The decreases in net income attributable to non-controlling interests during the third quarter and first nine months of Fiscal 2021 were attributable to decreases in net income attributable to our non-controlling interest in VMware, Inc. For more information about our non-controlling interests, see Note 13 of the Notes to the Condensed Consolidated Financial Statements included in this report.

Net Income Attributable to Dell Technologies Inc.

Net income attributable to Dell Technologies Inc. represents net income and an adjustment for non-controlling interests. During the third quarter and first nine months of Fiscal 2021, net income attributable to Dell Technologies Inc. was \$0.8 billion and \$2.0 billion, respectively. During the third quarter and first nine months of Fiscal 2020, net income attributable to Dell Technologies Inc. was \$0.5 billion and \$4.2 billion, respectively. The increase in net income attributable to Dell Technologies Inc. during the third quarter of Fiscal 2021 was primarily attributable to an increase in net income for the period. During the first nine months of Fiscal 2021, the decrease in net income attributable to Dell Technologies Inc. was primarily attributable to a decrease in net income for the period.

Business Unit Results

Our reportable segments are based on the following business units: ISG, CSG, and VMware. A description of our three business units is provided under “Introduction.” See Note 17 of the Notes to the Condensed Consolidated Financial Statements included in this report for a reconciliation of net revenue and operating income by reportable segment to consolidated net revenue and consolidated operating income, respectively.

Infrastructure Solutions Group

The following table presents net revenue and operating income attributable to ISG for the periods indicated:

	Three Months Ended			Nine Months Ended		
	October 30, 2020	% Change	November 1, 2019	October 30, 2020	% Change	November 1, 2019
(in millions, except percentages)						
<i>Net revenue:</i>						
Servers and networking	\$ 4,164	(2)%	\$ 4,241	\$ 12,118	(6)%	\$ 12,858
Storage	3,860	(7)%	4,149	11,682	(5)%	12,355
Total ISG net revenue	\$ 8,024	(4)%	\$ 8,390	\$ 23,800	(6)%	\$ 25,213
<i>Operating income:</i>						
ISG operating income	\$ 882	(11)%	\$ 996	\$ 2,587	(10)%	\$ 2,889
% of segment net revenue	11.0 %		11.9 %	10.9 %		11.5 %

Net Revenue — During the third quarter and first nine months of Fiscal 2021, ISG net revenue decreased 4% and 6%, respectively, due to decreases in sales of servers and networking and storage. ISG net revenue decreased primarily due to a weaker demand environment, as customers restricted technology spending and directed their investments toward remote work and business continuity solutions.

Revenue from the sales of servers and networking decreased 2% and 6% during the third quarter and first nine months of Fiscal 2021, respectively, primarily driven by declines in units sold of our PowerEdge servers due to the broader macro-economic environment, including the effects of COVID-19. During the third quarter of Fiscal 2021, the decline in volume was largely offset by improvement in average selling prices for servers. During the first nine months of Fiscal 2021, servers and networking revenue was impacted by an overall decrease in average selling prices for servers resulting from competitive pressures in certain geographies in the first half of Fiscal 2021. Storage revenue decreased 7% and 5% during the third quarter and first nine months of Fiscal 2021, respectively, primarily due to declines in demand for our core storage solutions offerings, partially offset by increased demand for hyperconverged infrastructure solutions. We continue to make enhancements to our storage solutions offerings and expect that these offerings, including our new PowerStore storage array released in May 2020, will drive long-term improvements in the business.

ISG customers are interested in new and innovative models that address how they consume our solutions. We offer options including as-a-service, utility, leases, and immediate pay models, all designed to match customers’ consumption and financing preferences. Our multi-year agreements typically result in recurring revenue streams over the term of the arrangement. We expect our flexible consumption models will further strengthen our customer relationships and provide a foundation for growth in recurring revenue.

From a geographical perspective, net revenue attributable to ISG decreased in all regions during both the third quarter and first nine months of Fiscal 2021, driven by a weaker demand environment as a result of pervasive global COVID-19 disruptions.

Operating Income — During the third quarter of Fiscal 2021, ISG operating income as a percentage of net revenue decreased 90 basis points to 11.0%. During the first nine months of Fiscal 2021, ISG operating income as a percentage of net revenue decreased 60 basis points to 10.9%. The declines in operating income percentages during the third quarter and first nine months of Fiscal 2021 were driven by declines in gross margin percentages for servers and networking, which were attributable to commodity inflation and competitive pricing dynamics. The declines in ISG gross margin percentage during the third quarter

and first nine months of Fiscal 2021 were partially offset by decreases in operating expenses as a percentage of net revenue, as we realized the benefit of cost reduction initiatives.

Client Solutions Group

The following table presents net revenue and operating income attributable to CSG for the periods indicated:

	Three Months Ended			Nine Months Ended		
	October 30, 2020	% Change	November 1, 2019	October 30, 2020	% Change	November 1, 2019
(in millions, except percentages)						
Net revenue:						
Commercial	\$ 8,783	5 %	\$ 8,330	\$ 25,456	(1)%	\$ 25,714
Consumer	3,503	14 %	3,080	9,137	9 %	8,354
Total CSG net revenue	\$ 12,286	8 %	\$ 11,410	\$ 34,593	2 %	\$ 34,068
Operating income:						
CSG operating income	\$ 1,002	36 %	\$ 739	\$ 2,309	(8)%	\$ 2,514
% of segment net revenue	8.2 %		6.5 %	6.7 %		7.4 %

Net Revenue — During the third quarter and first nine months of Fiscal 2021, CSG net revenue increased 8% and 2%, respectively, primarily due to increases in commercial and consumer notebook sales, partially offset by decreases in commercial desktop sales. Much of this demand was driven by the imperative for remote work and remote learning solutions, as business, government, and education customers sought to maintain productivity in the midst of COVID-19.

Commercial revenue increased 5% during the third quarter of Fiscal 2021, primarily due to increased demand for commercial notebooks, and particularly for entry-level commercial notebooks, driven by customers in education and state and local government. The increase in demand for commercial notebooks was partially offset by lower demand for commercial desktops during the third quarter of Fiscal 2021. Commercial revenue decreased 1% during the first nine months of Fiscal 2020 primarily due to lower demand for commercial desktops, the effects of which were largely offset by an increase in demand for entry-level commercial notebooks, driven by customers in education and state and local government.

Consumer revenue increased 14% and 9% during the third quarter and first nine months of Fiscal 2021, respectively, due to continued strong demand for consumer notebooks and high-end and gaming systems, coupled with an increase in average selling prices for our higher-priced consumer notebooks.

From a geographical perspective, net revenue attributable to CSG increased in the Americas and EMEA during both the third quarter and first nine months of Fiscal 2021. These increases were partially offset by declines in net revenue attributable to CSG in APJ during the periods.

Operating Income — During the third quarter of Fiscal 2021, CSG operating income as a percentage of net revenue increased 170 basis points to 8.2% primarily due to a decrease in operating expenses as a percentage of revenue, as we realized the benefit of cost reduction initiatives, and to a lesser extent, an increase in CSG gross margin percentage driven by consumer pricing favorability. During the first nine months of Fiscal 2021, CSG operating income as a percentage of net revenue decreased 70 basis points to 6.7%. This decrease was primarily attributable to a decrease in CSG gross margin percentage driven by a shift in product mix to entry-level commercial notebooks and lower component cost deflation relative to pricing. The decrease in CSG gross margin percentage was partially offset by a decrease in operating expenses as a percentage of revenue, as we realized the benefit of cost reduction initiatives.

VMware

The following table presents net revenue and operating income attributable to VMware for the periods indicated. During Fiscal 2020, the Company reclassified Pivotal operating results from other businesses to the VMware reportable segment. Prior period results have been recast to conform with the current period presentation.

	Three Months Ended			Nine Months Ended		
	October 30, 2020	% Change	November 1, 2019	October 30, 2020	% Change	November 1, 2019
(in millions, except percentages)						
<i>Net revenue:</i>						
VMware net revenue	\$ 2,893	8 %	\$ 2,671	\$ 8,556	10 %	\$ 7,779
<i>Operating income:</i>						
VMware operating income	\$ 837	18 %	\$ 709	\$ 2,504	22 %	\$ 2,055
% of segment net revenue	28.9 %		26.5 %	29.3 %		26.4 %

Net Revenue — VMware net revenue, inclusive of Pivotal, primarily consists of revenue from the sale of software licenses under perpetual licenses and subscription and software-as-a-service (“SaaS”) offerings, as well as related software maintenance services, support, training, consulting services, and hosted services. VMware net revenue for the third quarter and first nine months of Fiscal 2021 increased 8% and 10%, respectively, primarily due to growth in sales of subscriptions and SaaS offerings, as well as an increase in sales of software maintenance services. Growth in sales of subscriptions and SaaS offerings was primarily driven by increased demand for hybrid cloud offerings and digital workspaces. Software maintenance revenue benefited from maintenance contracts sold in previous periods.

From a geographical perspective, approximately half of VMware net revenue during the third quarter and first nine months of Fiscal 2021 was generated by sales to customers in the United States. VMware net revenue for the third quarter and first nine months of Fiscal 2021 increased in both the United States and internationally.

Operating Income — During the third quarter and first nine months of Fiscal 2021, VMware operating income as a percentage of net revenue increased 240 basis points to 28.9% and 290 basis points to 29.3%, respectively. The increases were primarily driven by decreases in selling, general, and administrative expenses as a percentage of net revenue as we benefited from decreased travel-related costs resulting from travel restrictions imposed in response to the COVID-19 pandemic. While the COVID-19 pandemic has not had a significant adverse financial impact on VMware operations to date, there continues to be significant uncertainty regarding the economic effects of the COVID-19 pandemic and the extent to which it may have a negative impact on VMware’s sales and results of operations for the remainder of Fiscal 2021 and into Fiscal 2022.

OTHER BALANCE SHEET ITEMS

Accounts Receivable

We sell products and services directly to customers and through a variety of sales channels, including retail distribution. Our accounts receivable, net, was \$11.4 billion and \$12.5 billion as of October 30, 2020 and January 31, 2020, respectively. We maintain an allowance for expected credit losses to cover receivables that may be deemed uncollectible. The allowance for expected credit losses is an estimate based on an analysis of historical loss experience, current receivables aging, and management's assessment of current conditions and reasonable and supportable expectation of future conditions, as well as specific identifiable customer accounts that are deemed at risk. Our analysis includes assumptions regarding the impact of COVID-19 and continued market volatility, which is highly uncertain and subject to significant judgment. Given this uncertainty, our allowance for expected credit losses in future periods may vary from our current estimates. As of October 30, 2020 and January 31, 2020, the allowance for expected credit losses was \$115 million and \$94 million, respectively. Allowance for expected credit losses of trade receivables as of October 30, 2020 includes the impact of adoption of the new current expected credit losses ("CECL") standard, which was adopted as of February 1, 2020 using the modified retrospective method. Based on our assessment, we believe that we are adequately reserved for expected credit losses. We will continue to monitor the aging of our accounts receivable and take actions, where necessary, to reduce our exposure to credit losses.

Dell Financial Services

Dell Financial Services and its affiliates ("DFS") support Dell Technologies by offering and arranging various financing options and services for our customers globally, including through captive financing operations in North America, Europe, Australia, and New Zealand. DFS originates, collects, and services customer receivables primarily related to the purchase of our product, software, and service solutions. DFS further strengthens our customer relationships through its flexible consumption models, which enable us to offer our customers the option to pay over time and, in certain cases, based on utilization, to provide them with financial flexibility to meet their changing technological requirements. New financing originations were \$2.1 billion and \$2.0 billion for the third quarter of Fiscal 2021 and Fiscal 2020, respectively, and \$6.5 billion and \$5.7 billion for the first nine months of Fiscal 2021 and Fiscal 2020, respectively.

Pursuant to the current lease accounting standard effective February 2, 2019, new DFS leases are classified as sales-type leases, direct financing leases, or operating leases. Amounts due from lessees under sales-type leases or direct financing leases are recorded as part of financing receivables, with interest income recognized over the contract term. On commencement of sales-type leases, we typically qualify for up-front revenue recognition. On originations of operating leases, we record equipment under operating leases, classified as property, plant, and equipment, and recognize rental revenue and depreciation expense, classified as cost of net revenue, over the contract term. Direct financing leases are immaterial. Leases that commenced prior to the effective date of the current lease accounting standard continue to be accounted for under previous lease accounting guidance.

As of October 30, 2020 and January 31, 2020, our financing receivables, net were \$10.2 billion and \$9.7 billion, respectively. We maintain an allowance to cover expected financing receivable credit losses and evaluate credit loss expectations based on our total portfolio. Allowance for expected credit losses of financing receivables as of October 30, 2020 includes the impact of adoption of the CECL standard referred to above. Our analysis includes assumptions regarding the impact of COVID-19 and continued market volatility, which is highly uncertain and subject to significant judgment. Given this uncertainty, our allowance for expected credit losses in future periods may vary from our current estimates. For the third quarter of Fiscal 2021 and Fiscal 2020, the principal charge-off rate for our financing receivables portfolio was 0.7% and 0.9%, respectively. For the first nine months of Fiscal 2021 and Fiscal 2020, the principal charge-off rate for our financing receivables portfolio was 0.9% and 1.0%, respectively. The credit quality of our financing receivables has improved in recent years due to an overall improvement in the credit environment and as the mix of high-quality commercial accounts in our portfolio has continued to increase. We continue to monitor broader economic indicators and their potential impact on future loss performance. We have an extensive process to manage our exposure to customer credit risk, including active management of credit lines and our collection activities. We also sell selected fixed-term financing receivables without recourse to unrelated third parties on a periodic basis, primarily to manage certain concentrations of customer credit exposure. Based on our assessment of the customer financing receivables, we believe that we are adequately reserved.

We retain a residual interest in equipment leased under our lease programs. As of October 30, 2020 and January 31, 2020, the residual interest recorded as part of financing receivables was \$472 million and \$582 million, respectively. The amount of the residual interest is established at the inception of the lease based upon estimates of the value of the equipment at the end of the lease term using historical studies, industry data, and future value-at-risk demand valuation methods. On a quarterly basis, we assess the carrying amount of our recorded residual values for impairment. Generally, residual value risk on equipment under lease is not considered to be significant, because of the existence of a secondary market with respect to the equipment. The lease agreement also clearly defines applicable return conditions and remedies for non-compliance, to ensure that the leased equipment will be in good operating condition upon return. Model changes and updates, as well as market strength and product acceptance, are monitored and adjustments are made to residual values in accordance with the significance of any such changes. Our remarketing sales staff works closely with customers and dealers to manage the sale of lease returns and the recovery of residual exposure. No impairment losses were recorded related to residual assets during the third quarter and first nine months of Fiscal 2021 and Fiscal 2020.

As of October 30, 2020 and January 31, 2020, equipment under operating leases, net was \$1.3 billion and \$0.8 billion, respectively. Based on triggering events, we assess the carrying amount of the equipment under operating leases recorded for impairment. No material impairment losses were recorded related to such equipment during the third quarter and first nine months of Fiscal 2021 and Fiscal 2020.

DFS offerings are initially funded through cash on hand at the time of origination, most of which is subsequently replaced with third-party financing. For DFS offerings which qualify as sales-type leases, the initial funding of financing receivables is reflected as an impact to cash flows from operations, and is largely subsequently offset by cash proceeds from financing. For DFS operating leases, which have increased under the current lease standard, the initial funding is classified as a capital expenditure and reflected as an impact to cash flows used in investing activities.

See Note 4 of the Notes to the Condensed Consolidated Financial Statements included in this report for additional information about our financing receivables and the associated allowances, and the equipment under operating leases.

Off-Balance Sheet Arrangements

As of October 30, 2020, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition or results of operations.

MARKET CONDITIONS, LIQUIDITY, AND CAPITAL COMMITMENTS**Market Conditions**

We regularly monitor economic conditions and associated impacts on the financial markets and our business. We consistently evaluate the financial health of our supplier base, carefully manage customer credit, diversify counterparty risk, and monitor the concentration risk of our cash and cash equivalents balances globally. We routinely monitor our financial exposure to borrowers and counterparties.

We monitor credit risk associated with our financial counterparties using various market credit risk indicators such as credit ratings issued by nationally recognized credit rating agencies and changes in market credit default swap levels. We perform periodic evaluations of our positions with these counterparties and may limit exposure to any one counterparty in accordance with our policies. We monitor and manage these activities depending on current and expected market developments.

We use derivative instruments to hedge certain foreign currency exposures. We use forward contracts and purchased options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted transactions denominated in currencies other than the U.S. dollar. In addition, we primarily use forward contracts and may use purchased options to hedge monetary assets and liabilities denominated in a foreign currency. See Note 7 of the Notes to the Condensed Consolidated Financial Statements included in this report for more information about our use of derivative instruments.

We are exposed to interest rate risk related to our variable-rate debt portfolio. In the normal course of business, we follow established policies and procedures to manage this risk, including monitoring of our asset and liability mix. As a result, we do not anticipate any material losses from interest rate risk.

The impact of any credit adjustments related to our use of counterparties on our Condensed Consolidated Financial Statements included in this report has been immaterial.

Liquidity and Capital Resources

To support our ongoing business operations, we rely on operating cash flows as our primary source of liquidity. We monitor the efficiency of our balance sheet to ensure that we have adequate liquidity to support our strategic initiatives. In addition to internally generated cash, we have access to other capital sources to finance our strategic initiatives and fund growth in our financing operations. Our strategy is to deploy capital from any potential source, whether internally generated cash or debt, depending on the adequacy and availability of that source of capital and whether it can be accessed in a cost-effective manner.

In this unprecedented environment resulting from the COVID-19 pandemic, we are taking actions to strengthen our cash position and preserve financial flexibility, while continuing to prioritize our debt paydown target for the fiscal year.

The following table presents our cash and cash equivalents as well as our available borrowings as of the dates indicated:

	October 30, 2020	January 31, 2020
	(in millions)	
<i>Cash and cash equivalents, and available borrowings:</i>		
Cash and cash equivalents (a)	\$ 11,304	\$ 9,302
Remaining available borrowings under revolving credit facilities (b)	5,466	5,972
Total cash, cash equivalents, and available borrowings	<u>\$ 16,770</u>	<u>\$ 15,274</u>

(a) Of the \$11.3 billion of cash and cash equivalents as of October 30, 2020, \$3.9 billion was held by VMware, Inc.

(b) Of the \$5.5 billion of remaining available borrowings under revolving credit facilities, \$1.0 billion was attributable to the VMware Revolving Credit Facility.

Our revolving credit facilities as of October 30, 2020 include the Revolving Credit Facility, which we entered into on May 25, 2020. The Revolving Credit Facility has a maximum aggregate borrowing capacity of \$4.5 billion, and available borrowings under this facility are reduced by draws on the facility and outstanding letters of credit. As of October 30, 2020, there were no

borrowings outstanding under the facility and remaining available borrowings totaled approximately \$4.5 billion. We may regularly use our available borrowings from our Revolving Credit Facility on a short-term basis for general corporate purposes.

The VMware Revolving Credit Facility has a maximum capacity of \$1.0 billion. As of October 30, 2020, \$1.0 billion was available under the VMware Revolving Credit Facility. None of the net proceeds of borrowings under the VMware Revolving Credit Facility will be made available to support the operations or satisfy any corporate purposes of Dell Technologies, other than the operations and corporate purposes of VMware, Inc. and VMware, Inc.'s subsidiaries.

See Note 6 of the Notes to the Condensed Consolidated Financial Statements included in this report for additional information about each of the foregoing revolving credit facilities.

We believe that our current cash and cash equivalents, together with cash that will be provided by future operations and borrowings expected to be available under our revolving credit facilities, will be sufficient over at least the next twelve months to fund our operations, debt service requirements and maturities, capital expenditures, share repurchases, and other corporate needs.

Debt

The following table summarizes our outstanding debt as of the dates indicated:

	<u>October 30, 2020</u>	<u>Increase (decrease)</u>	<u>January 31, 2020</u>
	(in millions)		
Core debt			
Senior Secured Credit Facilities and First Lien Notes	\$ 27,186	\$ (2,478)	\$ 29,664
Unsecured Notes and Debentures	1,352	—	1,352
Senior Notes	2,700	—	2,700
EMC Notes	1,000	(600)	1,600
DFS allocated debt	(870)	625	(1,495)
Total core debt	<u>31,368</u>	<u>(2,453)</u>	<u>33,821</u>
DFS related debt			
DFS debt	9,201	1,436	7,765
DFS allocated debt	870	(625)	1,495
Total DFS related debt	<u>10,071</u>	<u>811</u>	<u>9,260</u>
Margin Loan Facility and other	4,167	143	4,024
Debt of public subsidiary			
VMware Notes	4,750	750	4,000
VMware Term Loan Facility	—	(1,500)	1,500
Other	55	(5)	60
Total public subsidiary debt	<u>4,805</u>	<u>(755)</u>	<u>5,560</u>
Total debt, principal amount	50,411	(2,254)	52,665
Carrying value adjustments	(550)	59	(609)
Total debt, carrying value	<u>\$ 49,861</u>	<u>\$ (2,195)</u>	<u>\$ 52,056</u>

During the first nine months of Fiscal 2021, the outstanding principal amount of our debt decreased by \$2.3 billion to \$50.4 billion as of October 30, 2020, primarily driven by net repayments of core debt and VMware, Inc. debt, partially offset by a net increase in DFS debt.

We define core debt as the total principal amount of our debt, less DFS related debt, our Margin Loan Facility and other debt, and public subsidiary debt. Our core debt was \$31.4 billion as of October 30, 2020. During the first nine months of Fiscal 2021, the decrease in our core debt was driven by principal repayments. Proceeds of \$2.082 billion from the sale of RSA Security were used to pay down core debt. Principal repayments included the retirement in full of \$4.5 billion principal amount

of 4.42% First Lien Notes due June 2021, repayment of \$600 million principal amount of 2.650% EMC Notes due June 2020 upon maturity, and repayment of approximately \$229 million of term loan facilities. These repayments were partially offset by the issuance of multiple series of First Lien Notes in an aggregate principal amount of \$2.25 billion on April 9, 2020. See Note 6 of the Notes to the Condensed Consolidated Financial Statements included in this report for more information about our debt.

There are no scheduled maturities of core debt for the remainder Fiscal 2021, although we intend to continue making core debt principal payments as part of our overall capital allocation strategy.

During the first nine months of Fiscal 2021, we issued an additional \$1.4 billion, net, in DFS debt to support the expansion of our financing receivables portfolio, which includes the issuance of 500 million Euro of senior unsecured eurobonds on June 24, 2020. DFS related debt primarily represents debt from our securitization and structured financing programs. The majority of DFS debt is non-recourse to Dell Technologies and represents borrowings under securitization programs and structured financing programs, for which our risk of loss is limited to transferred lease and loan payments and associated equipment, and under which the credit holders have no recourse to Dell Technologies.

To fund expansion of the DFS business, we balance the use of the securitization and structured financing programs with other sources of liquidity. We approximate the amount of our debt used to fund the DFS business by applying a 7:1 debt to equity ratio to the sum of our financing receivables balance and equipment under our DFS operating leases, net. The debt to equity ratio used is based on the underlying credit quality of the assets. See Note 4 of the Notes to the Condensed Consolidated Financial Statements included in this report for more information about our DFS debt.

As of October 30, 2020, margin loan and other debt primarily consisted of the \$4.0 billion Margin Loan Facility.

Debt of public subsidiary represents VMware, Inc. indebtedness. The decrease in debt of public subsidiary during the first nine months of Fiscal 2021 was due to principal repayments by VMware, Inc. of \$1.25 billion principal amount of its 2.30% Notes due August 2020 and \$1.5 billion principal amount of the VMware Term Loan Facility. These repayments were partially offset by the issuance of VMware Notes in an aggregate principal amount of \$2.0 billion on April 7, 2020. See Note 6 of the Notes to the Condensed Consolidated Financial Statements included in this report for more information about VMware, Inc. debt.

VMware, Inc. and its respective subsidiaries are unrestricted subsidiaries for purposes of the core debt of Dell Technologies. Neither Dell Technologies nor any of its subsidiaries, other than VMware, Inc., is obligated to make payment on the VMware Notes or the VMware Term Loan Facility. None of the net proceeds of the VMware Notes or, as discussed above, the VMware Term Loan Facility will be made available to support the operations or satisfy any corporate purposes of Dell Technologies, other than the operations and corporate purposes of VMware, Inc. and its subsidiaries.

Our requirements for cash to pay principal and interest on our core debt increased significantly due to the borrowings we incurred to finance the EMC merger transaction and, to a lesser extent, the Class V transaction. We have made good progress in paying down core debt since the EMC merger transaction. We believe we will continue to be able to make our debt principal and interest payments, including the short-term maturities, from existing and expected sources of cash, primarily from operating cash flows. Cash used for debt principal and interest payments may also include short-term borrowings under our revolving credit facilities. We will continue to focus on paying down core debt. Under our variable-rate debt, we could have variations in our future interest expense from potential fluctuations in LIBOR, or from possible fluctuations in the level of DFS debt required to meet future demand for customer financing.

We or our affiliates or their related persons, at our or their sole discretion, may purchase, redeem, prepay, refinance, or otherwise retire any amount of our outstanding indebtedness under the terms of such indebtedness at any time and from time to time, in open market or negotiated transactions with the holders of such indebtedness or otherwise, as appropriate market conditions exist.

Cash Flows

The following table presents a summary of our Condensed Consolidated Statements of Cash Flows for the periods indicated:

	Nine Months Ended	
	October 30, 2020	November 1, 2019
	(in millions)	
<i>Net change in cash from:</i>		
Operating activities	\$ 5,530	\$ 5,783
Investing activities	26	(3,982)
Financing activities	(3,483)	(2,600)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(67)	(100)
Change in cash, cash equivalents, and restricted cash	<u>\$ 2,006</u>	<u>\$ (899)</u>

Operating Activities — Cash provided by operating activities was \$5.5 billion for the first nine months of Fiscal 2021 compared to \$5.8 billion for the first nine months of Fiscal 2020. Operating cash flows declined slightly during the first nine months of Fiscal 2021 as the strong profitability during the period was offset by unfavorable working capital impacts of an increase in inventory, decline in growth rate of deferred revenue, and timing of purchases and payments to vendors. COVID-19 impacts to working capital continued to normalize during the third quarter of Fiscal 2021.

DFS offerings are initially funded through cash on hand at the time of origination, most of which is subsequently replaced with third-party financing. For DFS offerings which qualify as sales-type leases, the initial funding of financing receivables is reflected as an impact to cash flows from operations, and is largely subsequently offset by cash proceeds from financing. For DFS operating leases, which have increased under the current leasing standard, the initial funding is classified as a capital expenditure and reflected as cash flows used in investing activities. DFS new financing originations were \$6.5 billion and \$5.7 billion during the first nine months of Fiscal 2021 and Fiscal 2020, respectively. As of October 30, 2020, DFS had \$10.2 billion of total net financing receivables and \$1.3 billion of equipment under DFS operating leases, net.

Investing Activities — Investing activities primarily consist of cash used to fund capital expenditures for property, plant, and equipment, which includes equipment under DFS operating leases, capitalized software development costs, strategic investments, and the maturities, sales, and purchases of investments. During the first nine months of Fiscal 2021, cash provided by investing activities was \$26 million and was primarily driven by net cash proceeds from the divestiture of RSA Security during the the third quarter of Fiscal 2021, largely offset by capital expenditures and acquisitions of businesses. In comparison, cash used in investing activities was \$4.0 billion during the first nine months of Fiscal 2020 and was primarily driven by capital expenditures and acquisition of businesses, which were partially offset by net cash proceeds from the net sales of strategic investments.

Financing Activities — Financing activities primarily consist of the proceeds and repayments of debt, cash used to repurchase common stock, and proceeds from the issuance of common stock. Cash used in financing activities of \$3.5 billion during the first nine months of Fiscal 2021 primarily consisted of debt repayments and repurchases of common stock by our public subsidiaries, partially offset by cash proceeds from the issuances of multiple series of First Lien Notes and VMware Notes. In comparison, cash used in financing activities of \$2.6 billion during the first nine months of Fiscal 2020 primarily consisted of repayments of debt and repurchases of common stock by our public subsidiaries.

Capital Commitments

Capital Expenditures — During the first nine months of Fiscal 2021 and Fiscal 2020, we spent \$1.4 billion and \$1.6 billion, respectively, on property, plant, and equipment. These expenditures were incurred in connection with our global expansion efforts and infrastructure investments made to support future growth, and the funding of equipment under DFS operating leases. During the first nine months of Fiscal 2021 and Fiscal 2020, funding of gross equipment under DFS operating leases was \$0.6 billion and \$0.7 billion, respectively. Product demand, product mix, and the use of contract manufacturers, as well as ongoing investments in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Aggregate capital expenditures for Fiscal 2021 are currently expected to be approximately \$1.9 billion, of which approximately \$0.8 billion is expected for equipment under DFS operating leases.

Purchase Obligations — Purchase obligations are defined as contractual obligations to purchase goods or services that are enforceable and legally binding on us. These obligations specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations do not include contracts that may be canceled without penalty.

We utilize several suppliers to manufacture sub-assemblies for our products. Our efficient supply chain management allows us to enter into flexible and mutually beneficial purchase arrangements with our suppliers in order to minimize inventory risk. Consistent with industry practice, we acquire raw materials or other goods and services, including product components, by issuing to suppliers authorizations to purchase based on our projected demand and manufacturing needs. These purchase orders are typically fulfilled within 30 days and are entered into during the ordinary course of business in order to establish best pricing and continuity of supply for our production.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see “Part II — Item 7A — Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020. Our exposure to market risks has not changed materially from that set forth in our Annual Report.

ITEM 4 — CONTROLS AND PROCEDURES

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 under the Securities Exchange Act of 1934 (the “Exchange Act”). See Exhibits 31.1 and 31.2 filed with this report. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of October 30, 2020. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of October 30, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended October 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal control over financial reporting. Most of our employees are working remotely for their health and safety during the COVID-19 pandemic. We are continually monitoring and assessing the potential impact of COVID-19 on our internal controls to minimize the impact on their design and operating effectiveness.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information required by this item is incorporated herein by reference to the information set forth under the caption “Legal Matters” in Note 10 of the Notes to the Condensed Consolidated Financial Statements included in this report.

ITEM 1A — RISK FACTORS

In addition to the other information set forth in this report, the risks discussed in “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 could materially affect our business, operating results, financial condition, or prospects. The risks described in our Annual Report on Form 10-K and our subsequent SEC reports are not the only risks facing us. There are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial that also may materially adversely affect our business, operating results, financial condition, or prospects.

ITEM 6 — EXHIBITS

The Company hereby files or furnishes the exhibits listed below:

Exhibit Number	Description
4.1††	Amendment No. 3 to the Second Amended and Restated Registration Rights Agreement, dated as of September 15, 2020, among Dell Technologies Inc., Michael S. Dell and Susan Lieberman Dell Separate Property Trust, SL SPV-2 L.P., Silver Lake Partners IV, L.P., Silver Lake Technology Investors IV, L.P., Silver Lake Partners V DE (AIV), L.P., Silver Lake Technology Investors V, L.P. and Venezia Investments Pte. Ltd.
10.1††*	Amended and Restated Dell Technologies Inc. Compensation Program for Independent Non-Employee Directors
31.1††	Certification of Michael S. Dell, Chairman and Chief Executive Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2††	Certification of Thomas W. Sweet, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†††	Certifications of Michael S. Dell, Chairman and Chief Executive Officer, and Thomas W. Sweet, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 .INS††	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101 .SCH††	Inline XBRL Taxonomy Extension Schema Document.
101 .CAL††	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101 .DEF††	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101 .LAB††	Inline XBRL Taxonomy Extension Label Linkbase Document.
101 .PRE††	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104††	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101).

†† Filed with this report.
††† Furnished with this report.
* Management contract or compensation plan or arrangement in which directors or executive officers participate.

**DELL TECHNOLOGIES INC.
AMENDMENT NO. 3 TO THE
SECOND AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT**

THIS AMENDMENT NO. 3 TO THE SECOND AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT, dated as of September 15, 2020 (this “Amendment”), is entered into by and among Dell Technologies Inc. (the “Company”), a Delaware corporation, and each of the following (hereinafter severally referred to as a “Stockholder” and collectively referred to as the “Stockholders”):

- (a) Michael S. Dell and Susan Lieberman Dell Separate Property Trust (collectively, the “MD Stockholders”);
- (b) SL SPV-2, L.P., a Delaware limited partnership, Silver Lake Partners IV, L.P., a Delaware limited partnership, Silver Lake Technology Investors IV, L.P., a Delaware limited partnership, Silver Lake Partners V DE (AIV), L.P., a Delaware limited partnership, and Silver Lake Technology Investors V, L.P., a Delaware limited partnership (collectively, the “SLP Stockholders”); and
- (c) Venezia Investments Pte. Ltd., a Singapore corporation (the “Temasek Stockholder”).

Capitalized terms used but not defined in this Amendment shall have the meanings ascribed to such terms in the Second Amended and Restated Registration Rights Agreement, dated as of December 25, 2018, as amended by Amendment No. 1, dated as of May 27, 2019 and Amendment No. 2, dated as of April 15, 2020 (as so amended, the “Registration Rights Agreement”), by and among the Company and the Stockholders referred to therein. Capitalized terms defined in this Amendment shall have the meanings ascribed to them herein for purposes of this Amendment and the Registration Rights Agreement.

WHEREAS, pursuant to Section 2.1(a) of the Registration Rights Agreement, the Company is required to use its reasonable best efforts to file a Shelf Registration Statement for a public offering of all Registrable Securities (or such lesser amount agreed in accordance with the terms and conditions of the Registration Rights Agreement) no later than the first day on which such filing can be made with the SEC on or after September 15, 2020 (such date, the “Current Filing Deadline”);

WHEREAS, the Company and the Stockholders wish to amend Section 2.1(a) of the Registration Rights Agreement to extend the Current Filing Deadline;

WHEREAS, any amendment, modification, supplement or waiver of or to any provision of the Registration Rights Agreement shall be effected in accordance with Section 3.11 thereof; and

WHEREAS, each of the undersigned Stockholders, on behalf of such Stockholder and such Stockholder’s designated transferees or successors, wishes to consent to the amendment of Section 2.1(a) of the Registration Rights Agreement provided for herein;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned parties agree as follows:

1. Amendment of Section 2.1(a). Section 2.1(a) of the Registration Rights Agreement is hereby amended by deleting the first sentence thereof in its entirety and replacing such deleted first sentence with the following:

Following the Merger, the Company shall use reasonable best efforts to (i) file a Shelf Registration Statement for a public offering of all Registrable Securities (or such lesser amount as the Sponsor Stockholders holding Registrable Securities agree, provided, that (x) all Registrable Securities of the Management Holders must be registered under such Shelf Registration Statement, (y) all Registrable Securities held by the Temasek Holders must be registered under such Shelf Registration Statement, and (z) upon the request of any such Sponsor Stockholder, the Company shall increase the number of Registrable Securities registered under such Shelf Registration Statement by the amount requested by such Sponsor Stockholder (or, in the event that no Shelf Registration Statement is effective at the time of such request, shall file and cause to become effective a Shelf Registration Statement covering such number of Registrable Securities), and this parenthetical shall apply to successive requests by Sponsor Stockholders holding Registrable Securities) pursuant to Rule 415 promulgated under the Securities Act no later than the first day on which such filing can be made with the SEC on or after December 31, 2020 (such date, the “Shelf Registration Filing Deadline”) and (ii) cause such Shelf Registration Statement to become effective as soon as possible thereafter; *provided*, however, that notwithstanding anything in Section 3.11 of the Registration Rights Agreement to the contrary, the Shelf Registration Filing Deadline may be further extended for one or more additional periods of up to three months each, in each case upon the express written consent of the Company and the SLP Stockholders.

2. No Further Amendment. Except as expressly provided by this Amendment, the Registration Rights Agreement is and shall continue to be in full force and effect and is hereby in all respects ratified and reaffirmed. Except as expressly set forth in this Amendment, no other terms and conditions of the Registration Rights Agreement are hereby amended, modified, supplemented or waived. Upon the effectiveness of this Amendment, each reference in the Registration Rights Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of similar import shall mean and be a reference to the Registration Rights Agreement as amended by this Amendment.

3. Governing Law. This Amendment and all claims or causes of action (whether in tort, contract or otherwise) that may be based upon, arise out of or relate to this Amendment or the negotiation, execution, interpretation or performance of this Amendment (including any claim or cause of action based upon, arising out of or related to any representation or warranty made in or in connection with this Amendment) shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable rules or principles of conflicts of laws.

4. Counterparts. This Amendment may be executed in any number of counterparts (which delivery may be via facsimile transmission or e-mail if in .pdf format), each of which shall be deemed an original, but all of which together shall constitute a single instrument.

[Signature pages follow.]

IN WITNESS WHEREOF, the undersigned have executed and delivered this Amendment effective as of the date set forth above.

CORPORATION:

DELL TECHNOLOGIES INC.

By: /s/ Robert L. Potts

Name: Robert L. Potts

Title: Senior Vice President and Assistant Secretary

MD STOCKHOLDER / MD HOLDER:

/s/ Michael S. Dell
Michael S. Dell

MD STOCKHOLDER / MD HOLDER:

SUSAN LIEBERMAN DELL SEPARATE PROPERTY TRUST

By: /s/ Marc R. Lisker

Name: Marc R. Lisker

Title: President of Trustee

SLP STOCKHOLDER / SLP HOLDER:

SL SPV-2, L.P.

By: SLTA SPV-2, L.P., its General Partner

By: SLTA SPV-2 (GP), L.L.C., its General Partner

By: Silver Lake Group, L.L.C., its Managing Member

By: /s/ Andrew J. Schader

Name: Andrew J. Schader

Title: Managing Director

SLP STOCKHOLDER / SLP HOLDER:

SILVER LAKE PARTNERS IV, L.P.

By: Silver Lake Technology Associates IV, L.P., its General Partner

By: SLTA IV (GP), L.L.C., its General Partner

By: Silver Lake Group, L.L.C., its Managing Member

By: /s/ Andrew J. Schader

Name: Andrew J. Schader

Title: Managing Director

SLP STOCKHOLDER / SLP HOLDER:

SILVER LAKE TECHNOLOGY INVESTORS IV, L.P.

By: Silver Lake Technology Associates IV, L.P., its General Partner

By: SLTA IV (GP), L.L.C., its General Partner

By: Silver Lake Group, L.L.C., its Managing Member

By: /s/ Andrew J. Schader
Name: Andrew J. Schader
Title: Managing Director

SLP STOCKHOLDER / SLP HOLDER:

SILVER LAKE PARTNERS V DE (AIV), L.P.

By: Silver Lake Technology Associates V, L.P., its General Partner

By: SLTA V (GP), L.L.C., its General Partner

By: Silver Lake Group, L.L.C., its Managing Member

By: /s/ Andrew J. Schader

Name: Andrew J. Schader

Title: Managing Director

SLP STOCKHOLDER / SLP HOLDER:

SILVER LAKE TECHNOLOGY INVESTORS V, L.P.

By: Silver Lake Technology Associates V, L.P., its General Partner

By: SLTA V (GP), L.L.C., its General Partner

By: Silver Lake Group, L.L.C., its Managing Member

By: /s/ Andrew J. Schader

Name: Andrew J. Schader

Title: Managing Director

TEMASEK STOCKHOLDER / TEMASEK HOLDER:

VENEZIO INVESTMENTS PTE. LTD.

By: /s/ Rohit Sipahimalani
Name: Rohit Sipahimalani
Title: Authorized Signatory

DELL TECHNOLOGIES INC.

**Amended and Restated
Compensation Program for Independent Non-Employee Directors**

Each independent non-employee member (a “director”) of the Board of Directors (“Board”) of Dell Technologies Inc. (the “Company”) shall be entitled to the payments described below while serving as a director on the Board. Other directors of the Board shall receive no compensation for their Board service. Any director compensation policies enacted from time to time hereafter are deemed to be incorporated herein upon their effective date, except as otherwise provided therein.

EFFECTIVE DATE: September 25, 2020

ANNUAL COMPENSATION:

- Annual Board Retainer: \$325,000, payable as follows:
 - \$100,000 in cash (the “Annual Cash Retainer”), unless the independent non-employee director (hereafter, a “director”) makes a timely election to receive all or a portion of the Annual Cash Retainer in the form of deferred stock units over Class C common stock of the Company (“Class C Shares,” and such units, “DSUs”), Class C Shares (“Stock”) or a combination thereof (in each case subject to the limitations described below), and
 - \$225,000 (the “Annual Equity Retainer”) in restricted stock units that settle in Class C Shares (“DTAs”), unless the director makes a timely election to receive all or a portion of the DTAs as DSUs (subject to the limitations described below), in which case the director shall receive DSUs in lieu of such DTAs (in whole or in part).
- Committee Chair Retainers: \$25,000, all payable in cash unless the director makes a timely election to receive all or a portion of such payment in DSUs, Stock or a combination thereof (in each case subject to the limitations described below), in which case the director shall receive the form or forms of award elected, in lieu of such cash payment (in whole or in part).
- All of the foregoing equity-based awards will be granted under the Dell Technologies Inc. 2013 Stock Incentive Plan, as amended and restated from time to time (the “Plan”), with all awards being granted annually. The equity awards are subject to vesting as described below, to the extent applicable.

TIMING OF ELECTIONS:

- Generally: Elections to receive DSUs (alone or in combination with other applicable forms of payment) must be made prior to the beginning of the calendar year to which they relate. Elections to receive Stock (alone or in combination with other applicable forms of payment) may be made at any time with respect to amounts that have not yet been paid out as to the relevant year and for which the director has not made an effective DSU election.
- New directors: Each new director may make an election to receive DSUs, Stock or a combination thereof within 30 days after becoming a director, but this election will only apply to the portion of the Annual Board Retainer or Committee Chair Retainer (if applicable) earned after the date of the election.
- Irrevocability of DSU Elections. Once the calendar year to which a director’s DSU elections relate commences, all elections to receive DSUs are irrevocable with respect to that year, and no new DSU elections may be made with respect to that year. A director may submit a new election to receive DSUs for each subsequent calendar year prior to the beginning of that calendar year.
- Carryover of Current Elections. Each director’s elections will remain in effect for subsequent years as provided in the director’s most recently submitted election forms if no new elections are timely submitted.

INDIVIDUAL COMPENSATION ELECTIONS:

- Directors may elect the forms of payment of their compensation on an individual basis.
- Elections must be made in multiples as follows:
 - Allocation of the Annual Cash Retainer among DSUs, Stock and cash (including a combination thereof) must be made in each case in multiples of 25% (up to a maximum of 100%).
 - Allocation of the Annual Equity Retainer to DSUs must be made in multiples of 25% (up to a maximum of 100%).
 - Allocation of the Committee Chair Retainer among DSUs, Stock and cash (including a combination thereof) must be made in each case in multiples of 25% (up to a maximum of 100%).

ANNUAL BOARD RETAINER SUMMARY

Payment Form	Maximum Allocation	Payment Timing /Transfer Restrictions	Vesting+	Default Form of Payment?
Cash	\$100,000	Lump sum following annual shareholders meeting. A director appointed other than pursuant to election at the annual meeting shall be entitled to pro-rated payment of the annual retainer fee for the partial year of service, payable in a lump sum upon his or her commencement of service on the Board.	Not applicable	Yes (for \$100,000 of the \$325,000 retainer)
DTAs	\$225,000*	Granted on or after the date of the Company’s annual shareholders meeting and settling in Class C Shares following vesting. A director appointed other than pursuant to election at the annual meeting shall be entitled to the pro-rated portion of the annual DTA grant for the partial year of service, payable on or after his or her commencement of service on the Board. The Class C Shares previously received in settlement of the DTAs are subject to certain restrictions as set forth in the Company’s Second Amended and Restated Management Stockholders Agreement.	Cliff vesting after one year	Yes (for \$225,000 of the \$325,000 retainer)

Payment Form	Maximum Allocation	Payment Timing /Transfer Restrictions	Vesting+	Default Form of Payment?
DSUs	\$325,000*	Granted on or after the date of the Company’s annual shareholders meeting (or, if a director is appointed other than pursuant to election at the annual meeting, at a time following such appointment determined by the Board that is compliant with Internal Revenue Code Section 409A) and settled in Class C Shares on the earlier of (i) the termination of service as a director for any reason and (ii) a Change in Control (as defined in the Plan) that also constitutes a “change in control event” under Internal Revenue Code Section 409A regulations.	Cliff vesting after one year.	No (Director may elect to receive all or a portion of each of the Annual Cash Retainer and the DTAs as DSUs)
Stock	\$100,000*	Granted on or after the date of the Company’s annual shareholders meeting (or, if a director is appointed other than pursuant to election at the annual meeting, at a time following such appointment determined by the Board that is compliant with Internal Revenue Code Section 409A).	Fully vested upon issuance.	No (Director may elect to receive all or a portion of the Annual Cash Retainer as Stock)

*The actual number of DTAs, DSUs and/or shares of Stock that will be granted will be determined by dividing the portion of the Annual Board Retainer allocated to such award by the fair market value of Class C Shares.

+ Upon the director’s termination from the Board:

- Vesting of unvested awards is fully accelerated in event of death, permanent disability or a termination without Cause (as defined in the Plan).
- All unvested equity awards are forfeited upon termination for Cause (as defined in the Plan).
- Vested Options (as defined in the Plan) granted to directors under prior independent non-employee director compensation program will remain exercisable until the earliest of (i) the nine-month anniversary of the date of termination, (ii) the expiration of the Option’s 10-year term and (iii) the date on which the director is terminated for Cause (as defined in the Plan).

+ All outstanding DTAs and DSUs will vest on a Change in Control (as defined in the Plan).

COMMITTEE CHAIR RETAINER SUMMARY

Payment Form	Maximum Allocation	Payment Timing	Vesting+	Default Form of Payment?
Cash	100%	Lump sum following annual meeting.	Not applicable	Yes

DSUs	100%	Settled in Class C Shares on the earlier of (i) the termination of service as a director for any reason and (ii) a Change in Control (as defined in the Plan) that also constitutes a “change in control event” under Internal Revenue Code Section 409A regulations.	Cliff vesting after one year*	No (Director may elect to receive all or a portion of the Committee Chair Retainer as DSUs)
Stock	100%	Granted on or after the date of the Company’s annual shareholders meeting (or, if a director is appointed other than pursuant to election at the annual meeting, at a time following such appointment determined by the Board that is compliant with Internal Revenue Code Section 409A).	Fully vested upon issuance.	No (Director may elect to receive all or a portion of the Committee Chair Retainer as Stock)

* See Annual Board Retainer Summary for how the number of DSUs or shares of Stock granted is determined.

+ See Annual Board Retainer Summary for vesting of DSUs upon termination and Change in Control (as defined in the Plan).

The Company does not pay any Board retainers or fees or provide any Board equity grants not set forth above. These retainers, fees, or grants may be modified or adjusted from time to time as determined by the Board.

This Amended and Restated Compensation Program for Independent Non-Employee Directors supersedes all prior agreements or policies concerning director compensation.

**CERTIFICATION OF MICHAEL S. DELL, CHAIRMAN AND
CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael S. Dell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dell Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 7, 2020

/s/ MICHAEL S. DELL

Michael S. Dell
Chairman and Chief Executive Officer

**CERTIFICATION OF THOMAS W. SWEET, EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13a-14(a) UNDER
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas W. Sweet, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dell Technologies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 7, 2020

/s/ THOMAS W. SWEET

Thomas W. Sweet
Executive Vice President and Chief Financial Officer

**CERTIFICATIONS OF MICHAEL S. DELL, CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
AND THOMAS W. SWEET, EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER, PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officers of Dell Technologies Inc. hereby certify that (a) Dell Technologies Inc.'s Quarterly Report on Form 10-Q for the three months ended October 30, 2020, as filed with the Securities and Exchange Commission, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (b) information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Dell Technologies Inc.

December 7, 2020

/s/ MICHAEL S. DELL

Michael S. Dell
Chairman and Chief Executive Officer

December 7, 2020

/s/ THOMAS W. SWEET

Thomas W. Sweet
Executive Vice President and Chief Financial Officer