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Southeastern Asset Management Challenges Buyout at Dell

Michael Dell and Silver Lake both had the kind of numbers on the company that we did, which is of course the reason they wanted to take Dell private. We said over and over, "It's not about the PC!"

— Staley Cates, president and CIO, Southeastern Asset Management

In October 2013, Staley Cates, president and chief investment officer at Southeastern Asset Management Company, reflected on events of the prior ten months. Southeastern had been in a fierce battle with Dell Inc.'s board to prevent Michael Dell and Silver Lake Partners, a private equity firm, from taking Dell private. Several shareholder votes had been cancelled just as Southeastern seemed poised to win the battle. But in the end, on September 12, 2013, Dell's shareholders approved the transaction and Southeastern lost their dissident campaign. Cates and his colleagues were frustrated with the outcome and wondered what, if anything, they should have done differently.

Southeastern Asset Management

Southeastern Asset Management was founded in 1975 as a 100% employee-owned independent investment advisory firm that aimed to employ a value investing approach to long only equity investing "with a long-term time horizon in strong businesses with good people at deeply discounted prices."[1] By 2013 the company, led by CEO and founder Mason Hawkins and Cates, had approximately $31 billion of assets under management, and offices in Memphis, London, Singapore, and Sydney. Both men liked to play up the firm's physical, if not philosophical, distance from Wall Street.[2]

The firm's Longleaf Partners funds provided opportunities for institutional investors to invest in focused portfolios, large- and small-cap U.S. stocks, and international stocks. Since inception, the Longleaf Partners Fund (focused on large-cap U.S. stocks) had generated an average annual return of 11.5% (versus 9.6% for the S&P 500 Index), the Longleaf Partners Small-Cap Fund had an average return of 11.4% (versus 10.0% for the Russell 1000), and the Longleaf Partners International Fund had generated an average return of 9.4% (versus 5.1% for the MSCI EAFE Index).[3]

Southeastern's team of ten research analysts was charged with identifying "individual companies that were misunderstood, underfollowed, temporarily challenged, or intensely disliked."[4] All

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analysts at the firm scrutinized the resulting stock recommendations to determine which 18 to 22 would make the most attractive investment opportunities. Richard Hussey, chief operating officer and principal, explained the company's investment approach:

> We look for securities that we believe are fundamentally mispriced, that are good businesses run by capable management. Everything we do is predicated on trying to close that gap between the current market price and what we deem to be the intrinsic value of the company. We don't get involved in micromanaging the company's operations, but we do spend time understanding what the business is doing and suggest to management how to allocate capital more effectively.

Southeastern was known for its conservative long-term approach to investing and for working with the management and boards of companies in its portfolio to improve their business results, but it was not shy about becoming more actively engaged. For example, in 2012 Southeastern took a lead role in publicly advocating for change at Chesapeake Energy Corp., a natural gas company, in which it held a 13.6% stake. As a result of declining performance and persistent questions about its CEO and corporate governance, Chesapeake's shares were down 41% since Southeastern began building its stake in the company six years earlier.[5] Southeastern's activism and the accompanying media scrutiny prompted the board to strip the CEO of the chairman's position and eliminate the program that allowed the CEO to borrow money from the company to buy an interest in wells Chesapeake drilled. Eventually Southeastern and Carl Icahn won seats on the board and other independent directors were also added. "The clear impression we had was that Mason [Hawkins] was a long-term investor, and he wasn't a breakup artist. It gave us a real sense of commitment," said one former board member.[6]

Cates joined Southeastern as an analyst in 1986 after graduating from the University of Texas. He became president of the company in 1994, and co-managed the firm's Longleaf Partners funds. In 2006, Cates was awarded Morningstar's Domestic Equity Fund Manager of the Year along with Hawkins. In addition to his work with Southeastern, Cates was an active social entrepreneur in the Memphis community, co-founding and leading several Christian-based youth and education initiatives, and helping to attract the NBA franchise Memphis Grizzlies.

Dell Inc.

Michael Dell started Dell from his dorm room at the University of Texas, Austin in 1986. By bypassing the middleman and selling custom-built computers directly to customers, Dell became the number one computer systems manufacturer (primarily personal computers, or PCs) in the world in 2001.[7] In March 2004, Michael Dell stepped down as CEO, but remained the firm's chairman.

By 2005, PC rivals had closed the efficiency gap with Dell and were enjoying resurgent sales at retail stores.[8] In 2006, for the first time since its founding, Dell grew more slowly than the overall market and rival Hewlett-Packard overtook Dell as the largest PC manufacturer.[9] Further, Dell seemed slow to react to the move to more mobile computing. In January 2007, Michael Dell returned as CEO, and set out to transform the company from a PC maker to an enterprise solution and services (ESS) provider of software, networking, data storage, and security to large companies.

To accelerate its transformation, Dell embarked on a series of acquisitions. The largest of these was the September 2009 $3.9 billion acquisition of Perot Systems, seller of a wide range of business IT services. In building its ESS business, Dell spent more than $13 billion on acquisitions since fiscal year 2008. As a result, 34% of Dell's $56.9 billion in 2013 revenues came from ESS compared to 24% in

2009. This increase came at the expense of the PC segment whose share of revenues declined from 59% in 2009 to 50% in 2013 (See **Exhibits 1a**, **1b**, and **1c** for Dell's income statement, balance sheet, and cash flow statement, **Exhibit 2** for Dell's business segment revenue, and **Exhibit 3** for business segment performance of HP Inc., a competitor to Dell.)[a] Yet despite this progress, Dell's five-year stock performance lagged the broader market. For the five years ending January 1st 2013, Dell had underperformed the Nasdaq Index by over 65%.

Dell first showed up on Southeastern's list of undervalued stocks in 2005. Southeastern's analysis, Cates explained, showed "a gap between price and value" because the market was not recognizing the transformation taking place at Dell. "Over time we attributed less than 20% of our value of Dell to the PC business," Hussey noted. "We did underestimate how fast and how violent an impact the decline in the PC business would have on Dell's intrinsic value; that said, we recognized the company's transformation while the marketplace continued to fixate on the PC business."

Lee Harper (HBS '89), Southeastern's head of client portfolio management, explained, "Over the years we had discussions with Dell's management on how to tell their story more effectively; how to get out the word that in fact it was transforming. It had a growing and profitable enterprise business. That Dell was not just a PC company any longer. But the message never got out there as we hoped."

As a result of its analysis, Southeastern began accumulating Dell stock. By January 2013, it had bought 146 million shares in Dell at a total cost of $2.4 billion, around $16.66 a share.[10] With Dell's stock price continuing to languish, Cates and his team devised a more ambitious plan to unlock its potential value. On June 15, 2012, Cates contacted Michael Dell to suggest the possibility of taking the company private and allowing shareholders who did not want the immediate liquidity such as Southeastern to participate in such a transaction. He provided an example of how Southeastern and Michael Dell could roll over their shares (that is, they would substitute their shares in Dell for shares in the private company) and take Dell private along the lines of how Clear Channel had essentially gone private with a small number of remaining owners. After Southeastern provided additional information to Michael Dell over the next few weeks, he responded that he would think about the idea.[11] Michael Dell and Southeastern spoke again in July and then had no further discussions.

Taking Dell Private

In August 2012, Michael Dell informed Dell's board of directors that he wanted to join forces with a private equity firm to take the company private in a leveraged buyout transaction. The board quickly formed a special committee of four independent directors led by Alex Mandl to consider the matter (see **Exhibit 4** for their bios). In the fall, the special committee retained J.P. Morgan and Boston Consulting Group (BCG) to review proposals and strategic alternatives for the company.[12] The scope of BCG's work included analysis of the future of the PC business, prospects for Dell's transformation, and financial cases to model various sensitivities around possible cost savings targets. (See **Exhibit 5** for a summary of BCG's analysis.)

Michael Dell had met with private equity firms Silver Lake and Kohlberg Kravis Roberts (KKR) to discuss each's interest in partnering with him on a take-private transaction. Both firms with Michael

[a] Prior to February 2013, Dell had four business segments, based on customer type (Large enterprise, Public, Small and medium business, and Consumer). In its 2013 annual report, Dell announced that it was changing its business segments based on the types of services offered (Enterprise servers and networking, Services, Software and Client), and reported sales for the new segments.

Dell submitted preliminary offers to the board on October 23, 2012. Silver Lake offered $11.22 to $12.16 a share, with Michael Dell rolling over his 16% equity stake in the company.[13] KKR proposed a deal for $12 to $13 per share, with the expectation that Michael Dell and Southeastern would join the offer and that Michael Dell would contribute an additional $500 million.[14] However, in December, KKR dropped out of the process, citing its unease "with the risks [. . .] associated with the uncertain PC market, and concerns [. . .] regarding the competitive pressures the company faced."[15] A few days later, Mandl contacted a third private equity firm, but it quickly dropped out with "concerns about the negative trends in gross margins and earnings in the PC business [. . .]."[16]

Michael Dell's Strategic Rationale

Michael Dell contended that Dell's transformation could not take place as a public company. (See **Exhibit 6**.) In a presentation to investors he explained:

> [T]he Company's transformation is still in its initial stages. Significant incremental investment is required [. . .] to restore the Company to health in the long term. In the short term, however, [these investments] are likely to lower gross margins, raise the Company's operating expenses and raise capital expenditures, resulting in lower earnings [. . .]. Taking these actions as a public company could adversely affect Dell's stock price. A continuing decline in public share price would threaten to adversely affect customer perception and make it more difficult to retain employees. As a public company we must take a more cautious approach to our transformation because we must consider how our stock price will react [. . .]. This hurts the speed and efficacy of the transformation and is not good for the long-term health of the company.
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> Risky transformation has a higher probability of success as a private company. Given the market environment facing the Company, the significant investments and aggressive steps the Company needs to take entail significant risk [. . .] As a private company owned by two financially strong equity investors, Dell will be better able to aggressively pursue its long-term business strategy and thereby increase the speed and likelihood of success. Private owners [. . .] will be able to absorb the risks of the transformation and the likely near-term adverse effects on earnings. Financially strong equity owners have the resources to provide additional capital if needed. As a private company, stock price fluctuations will no longer be a concern.[17]

The Transaction Structure and Price

In January 2013, Michael Dell/Silver Lake increased their offer to $13.65 per share of common stock for a total of roughly $25 billion, about $28 billion including transaction costs.[18] This represented a 25% premium on Dell's closing share price on January 11, 2013, when rumors of the transaction hit the market.[19] Many business news outlets had carried the story within a few days.

To fund the deal (see **Table 1** below), Michael Dell and Silver Lake planned to borrow $13.75 billion from banks and an additional $2 billion from Microsoft Corp. Microsoft's involvement was largely seen as a defensive move to maintain Dell's commitment to the Windows operating system.[20] Silver Lake planned to put in $1.4 billion, and Michael Dell and his wealth management firm would contribute $750 million. The remainder was to be paid for with $7.4 billion of Dell Inc.'s cash, all but $500 million of which was held by foreign subsidiaries. At the 35% U.S. corporate tax rate, repatriation could result in a tax bill as high as $2.6 billion. In addition, Michael Dell would swap 273 million of his Dell shares valued at $13.36.

Table 1 Proposed Deal Financing

Source	Amount ($ billions)	Comments
Debt	$13.75	Including loans and revolving credit facilities
Dell Inc. cash	7.40	$6.9B held by foreign subs, subject to 35% U.S. corporate tax rate
From Microsoft Corp	2.00	7.25% unsecured subordinated notes
Cash from Silver Lake	1.40	
Cash from Michael Dell	0.75	
Total	$25.30	

Source: Dell Inc. Schedule 14A, May 30, 2013, http://www.sec.gov/Archives/edgar/data/826083/000119312513242115/d505470ddefm14a.htm, accessed April 7, 2014.

On February 5, 2013, Dell's board released an announcement saying that it had accepted the Michael Dell/Silver Lake offer (see **Exhibit 7** for the full board announcement). The deal, however, required the approval of holders of a majority of outstanding shares, excluding shares held by Michael Dell or certain members of Dell's management team and board. If approved, it would be the biggest buyout since the Blackstone Group's $26 billion takeover of Hilton Hotels in the summer of 2007.[21]

Southeastern's Reaction

On February 5, one week prior to the board's announcement of the buyout offer, amidst market rumors of an impending deal, Southeastern and its outside counsel met with Mandl and expressed its opposition to any deal in the range of $14 or $15 per share that did not allow existing large stockholders to roll over a portion of their equity interests into the new company.[22] Southeastern believed that Dell's long-term stockholders had funded the successful transformation from a PC to an ESS business and should, therefore, be given the opportunity to benefit from their investment.

Critiquing the Strategic Rationale

Although Southeastern had approached Michael Dell about taking Dell private, the firm did not believe going private was necessary for the company to make a successful transformation to an ESS business. It offered examples of firms such as Apple, IBM, and Philips that underwent significant and successful transformations as public companies. Apple was able to make major R&D investments and build an integrated ecosystem as a public company—taking its market capitalization from $1.7 billion (2007) to $658 billion (September 2012). Lou Gerstner's decision as CEO of IBM to exit mainframes and PCs for software and services required transforming a legacy culture. Southeastern indicated that public companies such as Nokia and Kodak had failed to transform because of a continued focus on legacy products, while Dell had spent more than $13 billion on acquisitions to build its ESS business.[23] (See **Exhibit 8** for more of Southeastern's critique of the buyout proposal.)

Southeastern pointed to the seven potential take-private value levers that BCG identified and concluded that Dell could use most of them even if it remained a public company (see **Exhibit 9**). Southeastern argued that sophisticated investors, such as pension and hedge funds and investment firms like itself, were quite capable of absorbing the risks associated with a conservatively leveraged balance sheet that would be necessary to continue Dell's transformation.

Critiquing the Transaction Structure and Price

With its 8.4% stake, Southeastern was Dell's largest outside investor. "We're not opposed to companies being taken private, but we want it at a fair price," Harper explained. "We don't want it stolen from us. Just because you don't think you're getting a fair deal doesn't mean you want to spend the time, effort and dollars to fight it. But, we thought that there was enough chance of improving our outcome and our client's outcome that it was worth the fight."

On February 8, 2013, Southeastern sent a letter to Dell's board expressing its "extreme disappointment" in the offer:[24]

> [We believe] modest valuations of Dell result in per share valuations vastly in excess of the $13.65 offer price. Net cash per share after deducting structured debt within Dell Financial Services[b] (DFS) is $3.64. [DFS] has a book value of $1.72 per share. In addition, since [. . .] 2007, the Company has spent $13.7 billion or $7.58 per share on acquisitions intended to transform the Company into a sustainable IT business and lessen its reliance on the PC business. [In June 2012, Dell's CFO said] in aggregate the acquisitions [. . .] had delivered a 15% internal rate of return. [. . .] We therefore conservatively believe the acquisitions are worth a minimum of their cost.[25]

Southeastern added that its own valuation indicated that Dell's shares were worth $23.72 (see **Table 2** below). As a result, it vowed that it would vote against the deal.

Table 2 Southeastern's Dell Inc. Valuation

	Value	Assumptions
Net cash	$3.64	Cash and equivalents/investments of $14.2B less total debt of $7.6B
Dell Financial Services	1.72	DFS book value
Acquisitions since 2008	7.58	Cash spent on acquisitions, net of cash acquired, since FY 2008
Server Business	4.44	$8B of revenue & $880M of operating income excluding acquired businesses
Support and Deployment	3.89	$4.8B of revenue and $1B of operating income
PC Business	2.78	$27B in revenue and $1.3B of operating income
Software and Peripherals	1.67	$9B in revenues and $450M in operating profit
Unallocated Expenses	-1.00	
DFS embedded in businesses	-1.00	
Total	**$23.72**	

Source: Southeastern Asset Management, Schedule 13D, filed February 8, 2013, http://www.sec.gov/Archives/edgar/data/807985/000094787113000078/ss164605_sc13d.htm, accessed Sept. 16, 2013.

Southeastern was convinced that analysts were not valuing the ESS business correctly and that they were also overlooking Dell Financial Services, which, according to Cates, was worth a few dollars per share. Moreover, Southeastern had a different take on the $7.4 billion in cash Dell held at its foreign subsidiaries. "The sell-side just dismissed the offshore cash in its valuations," Cates offered. "They said the cash is trapped. But Dell could pay U.S. tax and bring it back at say 65% of value. If that was not palatable, you could consider Dell using the money for a foreign acquisition to add value."

[b] Founded in 1997, Dell Financial Services provided customer financing of products and services sold by Dell through consumer and small business revolving loans and fixed-term business loan and lease financings in the U.S. and Canada. Source: https://dfs.dell.com/Pages/AboutDFS.aspx, accessed January 24, 2014.

On making the Southeastern valuation public, Hussey observed:

> There is an incredible reluctance for institutional money managers to say anything publicly in these kinds of deals. We talked to other long-term shareholders who had similar values. They just weren't going to go public with their analysis. We put our value out there. Some people would say you shouldn't do that because you're putting a bull's-eye on yourself, but for us it was all about principle. It's what we thought it was worth, it's what we told our clients it was worth, and we were fighting for our clients.

"When we first put out our appraisal, our lawyers, PR people and even some inside the firm worried that making our valuation public exposed us to attack," Cates noted. "But we said we know how to appraise and it is the linchpin of our case; so put it out there and let others challenge it."

Southeastern was not the only investment firm opposed to the deal. T Rowe Price Group Inc., the second-largest outside investor in Dell, made its position known on February 8: "We believe the proposed buyout does not reflect the value of Dell and we do not intend to support the offer as put forward," said T. Rowe's chairman and chief investment officer.[26] *Reuters* reported that other institutional shareholders opposed to the deal included Harris Associates, Yacktman Asset Management, and Pzena Investment Management, which together held 3.3% of Dell's outstanding shares. Pzena's chairman, Richard Pzena, said Dell's stock was worth more than $20 per share.[27]

Go-Shop

The Michael Dell/Silver Lake agreement included a 45-day "go-shop" period during which Dell's special committee would consider offers from other parties. The go-shop period would run through March 22, 2013, after which negotiations would continue if a potentially "superior proposal" emerged. A superior proposal meant a bona fide written acquisition proposal that the board determined in its good faith judgment (after consultation with outside legal counsel and its financial advisor) was more favorable to Dell's stockholders than the Michael Dell/Silver Lake buyout offer.[28]

If Dell's board accepted an offer from a competing bidder during the go-shop period, the company would pay Michael Dell/Silver Lake a termination (or break-up) fee of $180 million. This would increase to $450 million if a bid was accepted outside the go-shop period.[c,29] However, Hussey explained, the "go-shop" period was unlikely to lead to a serious competing bid:

> The reality is you had 45 days to do the diligence. To be considered in the realm of a superior proposal you had to have financing in place, without contingencies. But the board would not entertain an offer that would use the company's cash to help finance the deal. A levered recap such as we proposed would not be considered an "alternative" by the board because unless you had control of the company, the board said you don't have control of the cash, so you can't use it. Of course, to get control, you'd have to run a proxy slate to elect your own board members which is antagonistic towards the current board.

Cates added:

[c] From 2008 to 2012, termination fees in the U.S. were between 3.3% and 3.5% of deal value. Source: Houlihan Lokey, "2012 Termination Transaction Fee Study," p. 6, June 2013, http://www.hl.com/email/pdf/2012-HL-transaction-termination-fee-study.pdf, accessed January 16, 2014. Study used data from Thomson Reuters.

> Even if you could put together an alternative offer, you'd pay $100 million to $200 million in commitment fees to the banks if the board rejected your offer. Lenders charge commitment fees because they lock up their balance sheet for the amount you want to borrow. This was not a worry for Michael and Silver Lake because they had a break-up fee as part of their agreement with the board; so if in the end their offer was rejected they would cover their expenses and would be out nothing. It was highly unlikely that another private equity firm would make a hostile offer with a founder CEO. In addition, many strategic buyers whom we spoke with were interested in owning pieces of the company, but they did not want or were unable to buy the whole company.

In early March, within the go-shop period, activist investor Carl Icahn revealed he had a "substantial," undisclosed ownership stake in Dell and that he disapproved of the take-private transaction, essentially joining Southeastern in the fight against the buyout. "Icahn and Southeastern have rarely been co-investors in the same stock," Harper said. "We have different models. We always go into a company thinking there are good management partners there; while Carl typically wants to change management or improve governance." Icahn called for Dell to pay a $9 per share special dividend. In a March 5 letter to the special committee, he wrote:

> [W]e propose that [. . .] in the event that the [Michael Dell/Silver Lake offer] is voted down by shareholders, Dell will immediately declare and pay a special dividend of $9 per share comprised of proceeds from the following sources: (1) $4.26 per share, or $7.4 [billion], from available cash as proposed in the [Michael Dell/Silver Lake offer], (2) $1.73 per share, or $3 [billion], from factoring existing commercial and consumer receivables as proposed in the [Michael Dell/Silver Lake offer], and (3) $4.26, or $5.25 [billion] in new debt.
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> We believe that such a transaction is superior [. . .] because we value the proforma "stub"[d] at $13.81 per share using a discounted cash flow valuation methodology based on a consensus of analyst forecasts. The "stub" value of $13.81 combined with our proposed $9.00 special dividend gives Dell shareholders a total value of $22.81 per share, representing a 67% premium to the $13.65 per share price proposed.
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> We hope that this Board will agree [. . .]. This would avoid a proxy fight.[30]

The Blackstone Group, the world's largest private equity firm, showed interest during the go-shop period and on March 22 made a $14.25 a share offer to buy Dell. But before the board determined if Icahn's or Blackstone's proposals were superior (the only two submitted), Blackstone withdrew its offer, concerned with "an unprecedented 14% market decline in PC volume in the first quarter of 2013, its steepest drop in history [. . .] and the rapidly eroding financial profile of Dell [management revised its operating income projections for the fiscal year from $3.7 billion to $3.0 billion]."[31]

With Blackstone's bleak assessment of the PC market and Dell's prospects, some analysts wondered whether Michael Dell and Silver Lake could lower their bid or use the Blackstone assessment to sway Southeastern and other large shareholders to vote in favor of their $13.65 per share offer.

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[d] Stub referred to the remaining value of a share of stock after the special dividend was paid out. Prior to the payout, the stock price reflected the future dividend payout; once the payout was made the stock price dropped.

Alternative Proposals

After the go-shop period Southeastern remained steadfast in its opposition to the take-private transaction. On May 5, Southeastern and Icahn co-wrote the special committee proposing that Dell pay shareholders a special dividend of $12 per share in cash or $12 in additional shares valued at $1.65 per share. They believed their proposal was superior to the take-private offer that they dubbed the "Great Giveaway."[32] In their letter the two dissidents argued:

> It does not take a mathematician to understand that $12.00 in cash and a stub equity component with [. . .] significant upside operating potential is superior to only $13.65 in cash.[33] We are often cynical about corporate boards, but this board has brought that cynicism to new heights [. . .]. The company is poised for a rebound in its fortunes, one that [we] fear [will] be enjoyed only by Mr. Dell and Silver Lake if their bid succeeds.[34]

"Our goal all along was to put a credible leveraged recapitalization alternative on the table for shareholders to vote on," Hussey said. Southeastern noted that the special committee's ownership interest in Dell was only 0.1% of all shares outstanding.

Days later, Southeastern and Icahn notified the company that they intended to each nominate six new directors to Dell's board. On the same day, the special committee requested more information on the Southeastern/Icahn proposal: "[it] is not clear to us whether you intend to formulate your transaction as an actual acquisition proposal that the Board could evaluate and potentially endorse or accept or rather to propose it as an alternative that the Board could consider in the event the pending sale to Silver Lake and Michael Dell is not approved."[35]

On May 16, Dell reported disappointing first quarter fiscal year 2014 results. Earnings per share were $0.21 (a 51% year-over-year reduction)[36] versus analysts' expectations of $0.35.[37] One analyst believed Dell had sacrificed profit by reducing prices to help move PCs, servers and other products during the quarter.[38] For the first time, the company reported segment results for ESS and End User (PC) segments. ESS reported sales of $3.1 billion and operating income of $136 million, which represented a 10 percent increase and 71 percent increase respectively over the same quarter the of prior year. The End User segment had sales of $8.9 billion and operating income of $224 million, representing a 9 percent decrease and 65 percent decrease respectively over the same quarter of the prior year. (Segment information for competitor HP Inc. is in **Exhibit 3**.)

With a special stockholders' meeting scheduled for July 18, 2013 to take up the Michael Dell/Silver Lake offer, Southeastern and Icahn needed to convince other shareholders to first oppose the deal and later, given that it had become clear that Michael Dell and the board opposed a leveraged recap, vote for the alternative slate of directors at the annual shareholders meeting scheduled for October 7, 2013. In a move designed to increase acceptance of the recap, Southeastern sold 72 million of its Dell shares at $13.52 each to Icahn. The transaction increased Icahn's holdings to 9%, making him the second largest shareholder behind Michael Dell.[39] Hussey explained the sale:

> We wanted to provide shareholders with a viable alternative to the Michael Dell/Silver Lake proposal. For it to be a credible alternative, we needed more financing. Carl was able to cobble together the necessary financing without having to go the banks—thereby avoiding the millions in commitment fees which we would have been required to pay the banks whether or not we were successful in getting shareholder approval for a leveraged recapitalization.

As Dell's second largest shareholder, Icahn penned a new proposal to shareholders on June 18:

> We have also come to the conclusion that [the board . . .] will never accept our [earlier] proposal as a Superior Proposal [. . .]. As a result, and in order to settle all questions regarding liquidity, we propose that Dell engage in the $14 per share tender offer described below. In order to implement our tender offer proposal we will: (1) seek to defeat the Michael Dell/Silver Lake transaction at the July 18 Special Meeting . . . and (2) once the Michael Dell/Silver lake transaction is defeated, seek to elect our slate of directors at the 2013 Dell annual meeting of shareholders to implement our proposed $14 per share tender offer.
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> We propose that Dell commence a tender offer for approximately 1.1 billion Dell shares at $14 per share (for a maximum of $16 billion available in the tender offer). Icahn and Southeastern (who together hold approximately 13% of Dell's shares) will agree not to tender in the tender offer. Our proposal allows those who believe, like us, that the $13.65 price being offered in the Michael Dell/Silver Lake going private transaction significantly undervalues Dell, to continue to hold Dell shares. It also provides an opportunity for those who wish to tender at $14 a share to do so, with the knowledge that they will be able to sell at least approximately 72% of their position, and possibly more if other shareholders do not fully subscribe to the tender offer. Funding for the tender offer would be provided from $5.2 billion of debt financing, together with $7.5 billion in cash available at Dell (after taxes and payment of fees) and $2.9 billion available through a sale of Dell receivables.

Icahn said this proposal would leave approximately $4.9 billion of cash on Dell's balance sheet for ongoing Dell operations. And according to Southeastern, this latest self-tender proposal would result in a maximum Net Debt/EBITDA or leverage multiple of 1.7x, well below the Michael Dell/Silver Lake multiple.

Challenges to the Southeastern/Icahn Proposal

On June 24, Dell's special committee made a presentation to investors explaining why the Michael Dell/Silver Lake offer was reasonable and that the Southeastern/Icahn proposal lacked credibility and had a potential $3.9 billion funding shortfall. The special committee said that Icahn had not secured committed financing for any of his proposals and had failed to provide the key provisions and mechanics, which the committee had requested. It also questioned why Southeastern sold shares to Icahn for less than the bid offer and reiterated that in its opinion a leveraged recap was high risk—it would add debt to a deteriorating operating performance and have a potential adverse impact on employees, vendors and customer perceptions.[40] At an investor presentation in June, Michael Dell supported the special committee's concern about a leveraged recap, stating it would add "substantial debt while leaving the company as a public company [. . .]. [It] would leave the company [. . .] with all of the issues that make it more difficult, slower, and riskier to accomplish the company's necessary transformation."[41]

On leverage, Cates said:

> The special committee and Michael were saying that the Southeastern and Icahn proposals were too dangerous because it would increase Dell's financial leverage. We countered that with the take-private transaction, Dell Inc. would be super-leveraged. What we heard back was "You just can't be leveraged as a public company when you're competing with all these other tech companies that have net cash on their balance sheet." The argument was that customers would be worried about dealing with the company if it had too much debt. We felt that was nonsense because customers care

> about the product and services they are buying, not how much net cash you have. But if true, wouldn't that hold for a private company too?

Furthermore, Southeastern pointed out that, for those concerned with the company's leverage under the recap proposal, BCG had projected that Dell could realize more than $3 billion in cost savings with certain initiatives which would fall to the bottom line and help pay off the debt.

Southeastern's and Icahn's proposal faced a further challenge since it was not clear to shareholders who would run Dell under their scenario. Cates explained:

> This was an issue for some investors. They worried that we were just financial players and had no idea how to run Dell. We were painfully aware of that concern. We had a CEO with incredible industry credentials and name recognition lined up. He did not want his name released before the deal was approved because he thought that being part of a dragged-out proxy fight would cast criticism on him and inevitably damage his stature with employees and customers, making it difficult for him to lead Dell should we win the proxy. We had to keep his name out of the deal fray to preserve his effectiveness as a CEO if we won, but we had the Dell board and ISS saying our proposal should not win because we had no CEO to run the company.

On June 27, in a presentation to Dell's shareholders, Southeastern pointed out that "Michael Dell and Silver Lake would not be pursuing a take-private transaction unless they thought it was a good deal for them."[42] It reiterated that Dell did not need to be a private company to successfully transform to an ESS business.

Michael Dell/Silver Lake got a boost on July 7, when Institutional Investor Services (ISS), a leading proxy advisory firm, backed their plan to take Dell private. ISS explained, "there is compelling evidence [. . .] that the business equation undergirding the transformational strategy [. . .] is deteriorating rapidly."[43] ISS added, "From a public company shareholder's perspective, if your chief executive is willing to buy your falling knife for the privilege of catching it, there is probably a price at which you should let him."[44] Glass Lewis and Egan-Jones, two other proxy advisory firms, also endorsed Michael Dell/Silver Lake.

Five days later, on July 12, Icahn and Southeastern again increased their alternative proposal, sweetening the deal for Dell's shareholders in an effort to persuade them to vote against Michael Dell/Silver Lake. "Under our revised proposal, Dell would self-tender for 1.1 billion shares of Dell stock in exchange for $14 per share plus one transferable warrant for every four shares purchased in the self-tender offer," they wrote. "Each warrant would entitle stockholders, for a period of 7 years, to purchase a Dell share for $20."[45] They argued this proposal implied that each share was worth between $15.50 and $18.[46] (**Exhibit 10** highlights all the Southeastern/Icahn proposals.)

Voting

On the morning of July 18, 1.1 billion shares had been voted with 579 million for and 563 against Michael Dell/Silver Lake. And according to the rules set by the board, the 334 million shares that had yet to vote would be counted as "no" votes, if they remained uncast.[47] With defeat almost certain, the board abruptly postponed the meeting until July 24.

One day before the rescheduled special meeting, Michael Dell/Silver Lake increased their offer by $0.10 per share to $13.75 and proposed a one-time $0.13 per share dividend, *provided* the voting rules were changed so that abstentions would not be counted as "no" votes and that the record date (the date by which shareholders had to have held shares to be eligible to vote) be changed from June 2 to August 13. "This would allow more arbs [arbitrageurs] to vote," explained Cates, "and they are interested in a quick gain, not in the long term viability of the company."

With this revised offer, valued at about $24.9 billion, the vote was once again suspended, pushed out to August 2. On August 2, the special committee announced that it had entered into a revised definitive merger agreement with Michael Dell/Silver Lake that increased the aggregate value to shareholders by at least $350 million. In addition to the increase in the purchase price and the special dividend, Michael Dell/Silver Lake would also pay a third quarter dividend of $0.08 per share, which the board valued at $120 million. The special committee announced that the company's voting standard had been modified to satisfy the Michael Dell/Silver Lake contingent offer, and again postponed the special meeting, this time from August 2 to September 12. Cates remarked:

> Changing the rules was the only way they could win the vote. The original offer stated that the provision to count the non-votes as votes against the deal "shall not be waivable," yet the board waived this condition, essentially changing the outcome, for a mere $0.10 per share. To further ensure that the deal passed, the board did not send new proxy materials to enable voting by those who originally had abstained with the intent to defeat the deal. Dell's original proxy materials and subsequent communications had told shareholders that failing to vote would have the same effect as voting against the deal, but once that was no longer true, people did not receive a revised solicitation. The board considered it the ultimate evil to hand the keys over to "corporate-raider" Carl Icahn.

Yet Icahn continued to fight on. He filed a complaint against Dell Inc. and its board seeking to prevent changes in the voting rules. If a new record date was permitted, Icahn wanted the court to insist that Dell also hold the annual meeting at the same time, in which case Icahn would try to replace the board. He also sought "(1) a declaration that the Dell Board breached its fiduciary duties to the stockholders by, among other things, adjourning the Special Meeting on July 24 without also scheduling the Annual Meeting at the same time, (2) to enjoin the company from changing the stockholder voting requirements in the Merger Agreement, and (3) damages from Dell and its directors for any losses caused by Dell and its Board."[48] Michael Dell responded that the complaint was "grandstanding."[49]

On August 15, Dell announced that its second quarter net income was 72% lower than the same quarter the prior year, while revenue was flat.[50] The next day, August 16, the court dismissed Icahn's complaint, stating: "There is no apparent reason to believe the special committee is acting from any reason other than that the meeting scheduled is in the best interests of Dell stockholders."[51]

Shareholders Approve the Deal

The ruling was a fatal blow to Southeastern and Icahn's fight to defeat the take-private transaction. On September 9, Southeastern released a statement saying:

> We are grateful for the strong support we received from our fellow Dell stockholders [. . .] as we fought diligently on their behalf. Indeed, prior to the Special Committee's decision to change the voting standard, the Michael Dell/Silver Lake transaction did not receive the required stockholder approval on three separate occasions. While we continue to oppose the Michael Dell/Silver Lake freeze-out transaction, given the new

> record date, the new stockholder base, the modified voting standard and the Boards refusal to combine the Annual Meeting and Special Meeting [. . .], Southeastern and Icahn will not pursue additional efforts to defeat the transaction. Though we continue to believe that our proposal is superior [. . .] we are pleased that our efforts contributed to the modest increase [. . .] Dell stockholders will receive.[52]

The September 12 meeting went ahead as planned, and shareholders approved the sale of Dell to Michael Dell and Silver Lake for approximately $24.9 billion. On October 29, Dell stopped trading on NASDAQ. (See **Exhibit 11** for a summary of key events.)

Reflections

As the portfolio managers of Southeastern reflected on the outcome of the ten-month battle, they remained convinced that the Michael Dell/Silver Lake deal had not been in the best interests of the firm's shareholders. But, Hussey observed, "there is always a healthy amount of skepticism when a company is trying to reinvent itself from a legacy business to a new business via acquisition or organically. Going into territories where they haven't played before raises doubt and that absolutely played into shareholders' decision making." Reflecting on what took place, Cates observed,

> We knew fighting the board's decision, coming out with our own valuation, opposing Michael Dell would be challenging to say the least. But we felt it was the right thing to do. We thought we could generate an outcome of around $20 a share for our clients. It is very frustrating because the votes were there to defeat the take-private transaction in July, if only the board had not changed the rules.

Exhibit 1a Dell Inc.'s Income Statement, 2009 to 2013 (in $ millions, except per share data)

	Fiscal Year				
	2009	2010	2011	2012	2013
Revenue	$61,101	$52,902	$61,494	$62,071	$56,940
Cost Of Goods Sold	49,998	43,404	50,041	48,211	44,687
Gross Profit	11,103	9,498	11,453	13,860	12,253
Selling General & Admin Expense	6,966	6,465	7,302	8,524	8,102
R & D Exp.	665	624	661	856	1,072
Other Operating Expense, Total	7,631	7,089	7,963	9,380	9,174
Operating Income	3,472	2,409	3,490	4,480	3,079
Interest Expense	(93)	(160)	(199)	(279)	(270)
Interest and Investment Income	180	57	47	81	100
Net Interest Expense	87	(103)	(152)	(198)	(170)
Currency Exchange Gains (Loss)	115	(59)	4	5	(18)
Other Non-Operating Inc. (Expense)	(58)	12	(13)	(6)	(18)
EBT Excl. Unusual Items	3,616	2,259	3,329	4,281	2,873
Restructuring Charges	(282)	(237)	(57)	(49)	(67)
Merger & Related Restruct. Charges	0	0	72	0	0
Gain (Loss) On Sale Of Investment	(10)	2	6	8	35
EBT Incl. Unusual Items	3,324	2,024	3,350	4,240	2,841
Income Tax Expense	846	591	715	748	469
Net Income	$2,478	$1,433	$2,635	$3,492	$2,372
Basic EPS	$ 1.25	$ 0.73	$ 1.36	$ 1.90	$ 1.36

Source: Capital IQ, accessed May 28, 2014.

Note: Dell Inc.'s fiscal year ended on the Friday nearest to January 31.

Exhibit 1b Dell Inc.'s Balance Sheet, 2009 to 2013 (in $ millions, except per share data)

	Fiscal Year				
	2009	**2010**	**2011**	**2012**	**2013**
Assets					
Cash And Equivalents	$8,352	$10,635	$13,913	$13,852	$12,569
Short Term Investments	740	373	452	966	208
Total Cash & ST Investments	9,092	11,008	14,365	14,818	12,777
Accounts Receivable	4,731	5,837	6,493	6,476	6,629
Inventory	867	1,051	1,301	1,404	1,382
Prepaid Exp.	447	539	374	362	446
Finance Div. Loans and Leases, ST	1,712	2,706	3,643	3,327	3,213
Deferred Tax Assets, Curr.	499	444	558	682	850
Restricted Cash	213	147	-	-	-
Other Current Assets	2,590	2,513	2,287	2,379	2,671
Total Current Assets	20,151	24,245	29,021	29,448	27,968
Net Property, Plant & Equipment	2,277	2,181	1,953	2,124	2,126
Long-term Investments	454	782	704	3,412	2,577
Goodwill	1,737	4,074	4,365	5,838	9,304
Other Intangibles	724	1,694	1,495	1,857	3,374
Finance Div. Loans and Leases, LT	500	332	799	1,372	1,349
Deferred Tax Assets, LT	568	237	75	-	-
Other Long-Term Assets	89	107	187	482	842
Total Assets	**26,500**	**33,652**	**38,599**	**44,533**	**47,540**
Liabilities					
Accounts Payable	8,309	11,373	11,293	11,656	11,579
Accrued Exp.	3,009	1,112	1,550	1,604	1,182
Short-term Borrowings	113	499	1	1,503	1,809
Curr. Port. of LT Debt	-	-	578	924	1,101
Finance Div. Debt Current	-	164	272	440	933
Curr. Income Taxes Payable	6	426	529	432	807
Unearned Revenue, Current	2,701	3,040	3,158	3,738	4,373
Other Current Liabilities	721	2,346	2,102	1,704	1,655
Total Current Liabilities	14,859	18,960	19,483	22,001	23,439
Long-Term Debt	1,898	3,417	4,318	5,467	4,887
Finance Div. Debt Non-Curr.	-	-	828	920	355
Unearned Revenue, Non-Current	3,000	3,029	3,518	3,855	3,971
Def. Tax Liability, Non-Curr.	-	-	-	405	918
Other Non-Current Liabilities	2,472	2,605	2,686	2,968	3,269
Total Liabilities	**22,229**	**28,011**	**30,833**	**35,616**	**36,839**
Common Stock	11,189	11,472	11,797	12,187	12,554
Additional Paid In Capital					
Retained Earnings	20,677	22,110	24,744	28,236	30,330
Treasury Stock	(27,904)	(27,904)	(28,704)	(31,445)	(32,145)
Comprehensive Inc. and Other	309	(37)	(71)	(61)	(59)
Total Common Equity	4,271	5,641	7,766	8,917	10,680
Minority Interest	-	-	-	-	21
Total Equity	4,271	5,641	7,766	8,917	10,701
Total Liabilities And Equity	**26,500**	**33,652**	**38,599**	**44,533**	**47,540**

Source: Capital IQ, accessed May 28, 2014.

Exhibit 1c Dell Inc.'s Cash Flow, 2009 to 2013 (in $ millions)

	Fiscal Year				
	2009	**2010**	**2011**	**2012**	**2013**
Net Income	$2,478	$1,433	$2,635	$3,492	$2,372
Depreciation & Amort.	666	647	621	545	531
Amort. of Goodwill and Intangibles	103	205	349	391	613
Depreciation & Amort., Total	**769**	**852**	**970**	**936**	**1,144**
Stock-Based Compensation	418	312	332	362	347
Provision & Write-off of Bad debts	310	429	382	234	258
Other Operating Activities	5	109	(23)	35	(391)
Change in Acc. Receivable	480	(660)	(707)	(53)	(150)
Change In Inventories	309	(183)	(248)	(52)	48
Change in Acc. Payable	(3,117)	2,833	(151)	327	(74)
Change in Unearned Rev.	663	135	307	701	382
Change in Other Net Operating Assets	(421)	(1,354)	472	(455)	(653)
Cash from Ops.	**1,894**	**3,906**	**3,969**	**5,527**	**3,283**
Capital Expenditure	(440)	(367)	(444)	(675)	(513)
Sale of Property, Plant, and Equipment	44	16	18	14	90
Cash Acquisitions	(176)	(3,613)	(376)	(2,562)	(4,844)
Divestitures	-	-	-	-	45
Invest. in Marketable & Equity Securt.	749	155	(2)	(3,221)	1,739
Net (Inc.) Dec. in Loans Originated/Sold	-	-	(361)	278	167
Other Investing Activities	-	-	-	-	-
Cash from Investing	**177**	**(3,809)**	**(1,165)**	**(6,166)**	**(3,316)**
Short Term Debt Issued	100	76	-	635	-
Long-Term Debt Issued	1,519	2,058	3,069	4,050	3,311
Total Debt Issued	**1,619**	**2,134**	**3,069**	**4,685.**	**3,311**
Short Term Debt Repaid	-	-	(176)	-	(331)
Long-Term Debt Repaid	(237)	(122)	(1,630)	(1,435)	(3,248)
Total Debt Repaid	**(237)**	**(122)**	**(1,806)**	**(1,435)**	**(3,579)**
Issuance of Common Stock	79	2	12	40	52
Repurchase of Common Stock	(2,867)	-	(800)	(2,717)	(724)
Common Dividends Paid	-	-	-	-	(278)
Total Dividends Paid	**-**	**-**	**-**	**-**	**(278)**
Special Dividend Paid	-	-	-	-	-
Other Financing Activities	-	(2)	2	4	8
Cash from Financing	**(1,406)**	**2,012**	**477**	**577**	**(1,210)**
Foreign Exchange Rate Adj.	(77)	174	(3)	1	(40)
Net Change in Cash	**588**	**2,283**	**3,278**	**(61)**	**(1,283)**

Source: Capital IQ, accessed March 9, 2017.

Exhibit 2 Dell Inc.'s Business Segment Revenues, 2011 to 2103

Amounts in $ billions	2011	2012	2013
Enterprise solutions	9,904	10,279	10,993
Services	7,673	8,322	8,396
Software	10,261	10,222	9,257
Client	33,656	33,248	28,294

Source: Dell Form 10-K, for year ended February 1, 2013.

Notes: Enterprise solutions includes sales of servers, networking and storage. Services provides technology consulting, outsourcing and support services. Software sells third-party software and peripherals. Client provides personal computers, workstation, tablets and accessories for consumer and commercial markets.

Exhibit 3 Business Segment Information for HP Inc. ($ millions), 2011 to 2013

	2011	2012	2013
Revenues			
Personal systems	39,654	35,725	32,071
Printing	26,176	24,487	23,854
Enterprise group	31,460	29,779	28,183
Enterprise services	26,268	25,609	23,520
Software	3,367	4,060	3,913
HP Financial services	3,596	3,819	3,629
Operating earnings before tax			
Personal systems	2,327	1,689	949
Printing	3,927	3,585	3,890
Enterprise Group	6,265	5,194	4,301
Enterprise Services	1,972	1,045	679
Software	722	827	866
HP Financial services	348	388	399
Operating assets			
Personal Systems	15,781	12,752	11,870
Printing	11,939	11,169	10,705
Enterprise Group	30,858	30,851	32,388
Enterprise Services	25,765	16,383	15,229
Software	21,028	12,264	11,868
HP Financial services	13,543	1,294	12,011

Source: HP Annual Report for the year ended October 31, 2012.

Notes: Personal systems provide personal computers, workstations, tablets and related accessories for the consumer and commercial markets. Printing provides consumer and commercial printing hardware, supplies, media and services. Enterprise group provides servers, storage networking, technology services. Enterprise services provides technology consulting, outsourcing and support services for infrastructure, applications and business process domains. Software provides IT management big data and security solutions for businesses. HP financial services provides financing for customers to purchase IT from HP.

Exhibit 4 Dell's Special Committee

Alex J. Mandl - Director since November 1997

(Presiding Director) /Board Committees: Audit (Chair), Governance and Nominating

Current non-executive chairman of Gemalto, a digital security company; executive chairman from June 2006 to December 2007. Previously president, CEO and board member of Gemplus, a company that merged with Axalto in 2006 to become Gemalto. Since April 2001, a principal of ASM Investments, a firm which funded early stage technology companies. Former chairman and CEO of Teligent Inc., a telecomm company. President and COO of AT&T from 1994 to 1996; executive vice president and CFO from 1991 to 1993. Chairman and CEO of Sea-Land Services Inc. from 1988 to 1991. On board of Horizon Lines, an ocean shipping company.

Laura Conigliaro - Director since September 2011 / Board Committees: Finance

Retired partner of Goldman Sachs. While at Goldman Sachs, served on the Compensation Policy Committee, as well as the Americas Diversity Committee. From 1979 to 1996, an analyst at Prudential Securities specializing in the computer technology sector. Previously an intelligence analyst at the National Security Agency. On boards of Arista Networks, a cloud networking company, and Bottomless Closet, a nonprofit organization.

Janet F. Clark - Director since September 2011 / Board Committees: Audit

Executive vice president, treasurer, CFO of Marathon Oil Corp. and member of its executive committee. Previously, senior vice president and CFO for Nuevo Energy. Before joining Nuevo, executive vice president of corporate development and administration, and CFO at Santa Fe Snyder, an energy company. Began career as an investment banker specializing in corporate finance. On boards of four nonprofit organizations in the Houston, Texas area. Serves on the Rice University-Jones Graduate School of Management Council of Overseers. Named to the *Forbes* "One Hundred Most Powerful Women in the World," to the *Houston Woman Magazine's* "Houston's 50 Most Influential Women of 2010" and "Best CFO of the Year for 2011 for a Large Public Company," by the *Houston Business Journal*.

Kenneth M. Duberstein - Director since September 2011 / Board Committees: Governance and Nominating

Chairman and CEO of The Duberstein Group, Inc., a strategic planning and consulting firm. In the 1980s, served as White House Chief of Staff, Deputy Chief of Staff and Assistant to the President for Legislative Affairs for the Reagan Administration. Began career in public service as an U.S. Senate aide and later as Deputy Under Secretary of Labor under the Ford Administration. Served as director of Congressional and Intergovernmental Affairs at the U.S. General Services Administration. Prior to joining the Reagan Administration was vice president and director of Business-Government Relations of the Committee for Economic Development and vice president of the government relations firm Timmons & Co., Inc. Serves as lead director of Boeing Co.; on the boards of ConocoPhillips and The Travelers Companies, and nonprofits including the Council on Foreign Relations and the Brookings Institution.

Source: Dell Inc. website, http://www.dell.com/learn/us/en/uscorp1/leadership-board-of-directors?c=us&l=en&s=corp&cs=uscorp1, accessed August 23, 2013.

Exhibit 5 BCG's Analysis of Dell Inc.

According to BCG, Dell had "certain positional strengths which [. . .] were not reflected in the company's public market valuation, likely as a result of investor concerns about the durability or use of the company's cash flows and uncertainty about [Dell's] EUC [end user computing] business. [. . .] Furthermore [. . . Dell's] expansion of its ESS business has been slower than expected and [. . . its] revenue growth across the different ESS business segments had been mixed. [. . . Dell] was still in the process of integrating its numerous recent acquisitions and that these acquisitions had yielded lower returns to date relative to the returns expected by [Dell's] management. [. . . Dell] would have to take steps to drive growth in its ESS business, including increasing investment in research and development and expanding [Dell's] sales force."

In its assessment of separating Dell's EUC business from its ESS business, BCG concluded "that the risks and costs [. . .] in terms of revenue and cost dis-synergies, execution risk, time to completion and transaction costs, appeared to substantially outweigh the potential benefit [. . .] from having the public markets attach a higher valuation multiple to a new company containing [Dell's] ESS business."

BCG created a forecast for Dell (see **Table 1** below), which it presented to the Special Committee on January 15, 2013 and to the Board on January 18, 2013. The forecast consisted of a base case, as well as forecasts reflecting the incremental effect of certain management initiatives and market sensitivities on the base case—a forecast based on the current business mix and geographical distribution of Dell's portfolio, taking into account, among other factors, industry prospects and Dell's competitive position within the industry. BCG then considered the effect of potential phased productivity cost reductions, assuming in one case that 25% of such reductions (representing reductions that could be achieved through specific potential initiatives identified by either management or BCG) would be attained and in another case that 75% of such reductions would be attained. In addition, BCG considered the results of initiatives to increase market share for the Dell's end-user computing (EUC) business, particularly in emerging markets; and to increase the effectiveness of Dell's sales force.

Table 1 BCG Forecast (in billions)

		Fiscal Year			
		2014	**2015**	**2016**	**2017**
All Cases	Revenue	$56.4	$55.5	$55.1	$54.3
Base Case	Gross margin	12.9	12.6	12.5	12.3
	Operating income (non-GAAP[1])	3.4	3.3	3.2	3.0
Base 25% Case	Gross margin	12.9	12.8	12.8	12.6
	Operating income (non-GAAP[1])	3.4	3.7	4.0	3.8
Base 75% Case	Gross margin	13.0	13.1	13.4	13.1
	Operating income (non-GAAP[1])	3.6	4.5	5.7	5.5

[1] Excludes amortization of intangibles, severance and facility actions, and acquisition-related costs.Based on BCG's forecast, JP Morgan derived the following implied valuation ranges.

Table 2 Implied Per Common Share Valuations

	Based on Enterprise Value to Estimated EBITDA	Based on Ratio of Price Per Share to Expected Earnings Per Share
Base Case	$10.50 to $15.00	$7.25 to $14.50
Base 25% Case	$12.00 to $17.25	$9.00 to $18.00
Base 75% Case	$15.25 to $22.50	$13.00 to $26.00

Source: Dell 14A Proxy Statement filed May 31, 2013, pp. 30, 41, 42, 66, 101, https://www.sec.gov/Archives/edgar/data/826083/000119312513242115/0001193125-13-242115-index.htm, accessed May 28, 2014.

Exhibit 6 Michael Dell's Rationale for Taking the Company Private (Abridged)

Dell's Transformation is necessary to navigate a rapidly changing landscape

- Dell's transformation from a PC-focused business to an ESS-focused business is critical to its future success, especially as the PC market is changing faster than anticipated.
- PC market fundamentals are under significant pressure, with growing threats from the emergence of cloud computing and mobile/tablet products.
- Dell faces increasingly aggressive competition from low-cost competitors.
- Dell's ESS business is growing but faces ongoing integration and competitive risk; Dell's market share in software and services remains less than 1%.
- Completing Dell's transformation as quickly as possible is essential. Significant near-term investment is needed for the Company to succeed in its transformation.

Accomplishing Dell's transformation is more challenging as a public company

- Despite [...] investments [...] the Company's transformation is still in its initial stages.
  - Significant incremental investment is required to extend end-to-end IT solutions capabilities, expand sales coverage, compete in emerging markets, invest in the PC and tablet business [...] and enhance customer experience.

These steps in Dell's transformation are needed to restore the Company to health in the long term. In the short term, however, they are likely to lower gross margins, raise [...] operating expenses [...] and capital expenditures, resulting in lower earnings.

Taking these actions as a public company could adversely affect Dell's stock price.

- A continuing decline in […] share price would […] adversely affect customer perception and make it more difficult to retain employees.
- Our Company lives on customer confidence and the commitment of our excellent employees. A lagging public stock price would hurt both.

- As a public company we must take a more cautious approach to our transformation because we must consider how our stock price will react to the steps we take [...]. This hurts the speed and efficacy of the transformation.

Risky transformation has a higher probability of success as a private company

- Given the market environment facing the Company, the significant investments and aggressive steps the Company needs to take entail significant risk.
- The transition to "New Dell" is highly dependent on challenged "core Dell" performance.
- Dell's rate of transformation is being outpaced by the rapid market shift to cloud.
- As a private company owned by two financially strong equity investors, Dell will be better able to […] pursue its long-term business strategy and increase the speed and likelihood of success [...].
- Private owners aligned on Dell's long-term strategy will be able to absorb the risks {…} and likely near-term adverse effect on earnings.
- Financially strong equity owners have the resources to provide additional capital if needed.
- As a private company, stock price fluctuations will no longer be a concern.

Source: "The Rationale for a Private Dell," June 2013, Dell Inc. Schedule 14A, http: //www.sec.gov/Archives/edgar/data/826083/000119312513266621/d558010ddfan14a.htm., accessed August 23, 2013.

Exhibit 7 Press Release Announcing Deal with Michael Dell and Silver Lake (Abridged), February 5, 2013

Dell Enters Into Agreement to Be Acquired By Michael Dell and Silver Lake

- **Dell stockholders to receive $13.65 per share in cash**
- **Transaction valued at approximately $24.4 billion**
- **Transaction implies a 37 percent premium over the average closing share price during the previous 90 calendar days ending Jan. 11, 2013**

Dell Inc. today announced it has signed a definitive merger agreement under which Michael Dell [. . .] in partnership with global technology investment firm Silver Lake, will acquire Dell.

Under the terms of the agreement, Dell stockholders will receive $13.65 in cash for each share of Dell common stock they hold, in a transaction valued at approximately $24.4 billion. The price represents a premium of 25 percent over Dell's closing share price of $10.88 on Jan. 11, 2013, the last trading day before rumors of a possible going-private transaction were first published; a premium of approximately 35 percent over Dell's enterprise value as of Jan. 11, 2013; and a premium of approximately 37 percent over the average closing share price during the previous 90 calendar days ending Jan. 11, 2013. The buyers will acquire for cash all of the outstanding shares of Dell not held by Mr. Dell and certain other members of management.

The Dell Board of Directors acting on the recommendation of a special committee of independent directors unanimously approved [the] merger agreement [. . .] subject to a number of conditions, including a vote of the unaffiliated stockholders. Mr. Dell recused himself from all Board discussions and from the Board vote regarding the transaction.

Mr. Dell said: "I believe this transaction will open an exciting new chapter for Dell, our customers and team members. We can deliver immediate value to stockholders, while we continue the execution of our long-term strategy and focus on delivering best-in-class solutions to our customers as a private enterprise. Dell has made solid progress executing this strategy over the past four years, but we recognize that it will still take more time, investment and patience, and I believe our efforts will be better supported by partnering with Silver Lake in our shared vision. I am committed to this journey and I have put a substantial amount of my own capital at risk together with Silver Lake, a world-class investor with an outstanding reputation [. . .]."

"Michael Dell is a true visionary and one of the preeminent leaders of the global technology industry," said a Silver Lake managing partner. "Silver Lake is looking forward to partnering with him, the talented management team at Dell and the investor group to innovate, invest in long-term growth initiatives and accelerate the company's transformation strategy to become an integrated and diversified global IT solutions provider."

Following completion of the transaction, Mr. Dell, who owns approximately 14 percent of Dell's common shares, will continue to lead the company as Chairman and Chief Executive Officer and will maintain a significant equity investment in Dell by contributing his shares of Dell to the new company, as well as making a substantial additional cash investment. Dell will continue to be headquartered in Round Rock, Texas.

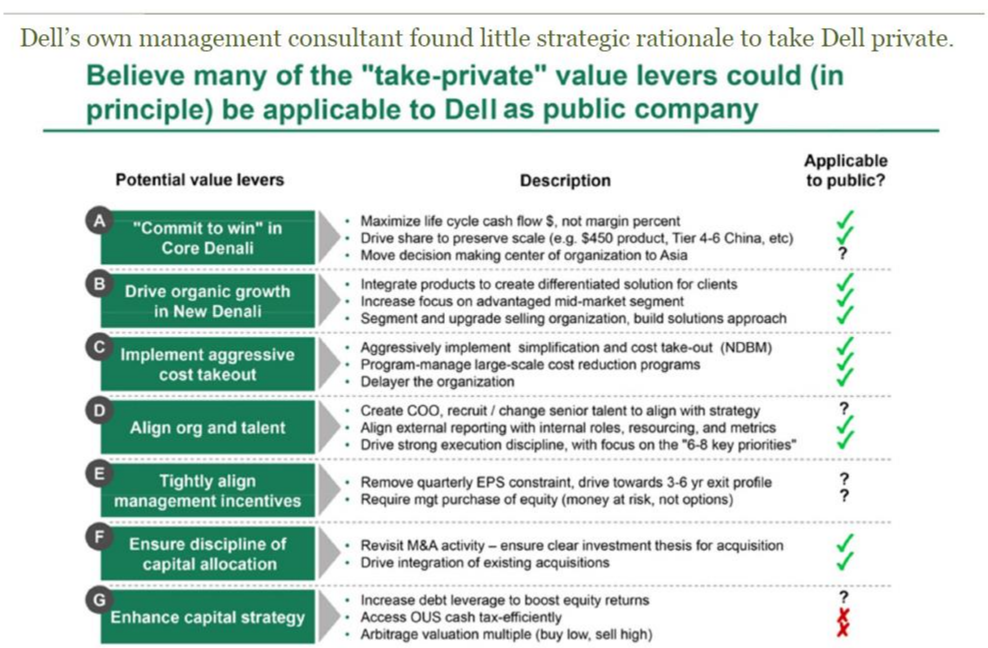
Source: Dell Inc. Press Release, February 5, 2013, http://www.dell.com/learn/us/en/uscorp1/secure/2013-02-04-michael-dell-silverlake-acquisition, accessed August 8, 2013.

Exhibit 8 Southeastern's Case for Dell's Future

It is Not About the PC	Dell has been executing an M&A strategy to move away from PC business for a number of years.
Dell's Acquisitions	Dell has spent approximately $13 billion (18 companies acquired) to do so. These will benefit from the heavy R&D investments being made by Dell now. Dell is delivering on its 15% IRR target for acquisitions.
Enterprise Solutions is the Future	In Q1 Fiscal Year 2013, accounted for 65% of segment operating income. The non-PC business has higher growth and higher margins.
Cost Cutting Opportunities Identified	BCG estimated that Dell could realize up to $3.4 billion in cost savings
Positioning for Long-Term Profitability	Dell's aggressive PC pricing was designed to buy meaningful market share while sacrificing near-term margins—a strategy that will benefit future owners
Long-Term Potential	BCG's cases (**Exhibit 6**) present an attractive picture of Dell's long term potential.
Reasonable Balance Sheet Utilization	Under the Michael Dell/Silver Lake proposal, net Debt/EBITDA is about 3.7x. Under the Icahn and Southeastern self-tender proposal, the maximum pro forma Net Debt/EBITDA multiple is 1.7x.
Stock Price "Capped" by Merger Consideration	Dell's Special Committee may have obtained a 37% premium for stockholders but the nearest comp had appreciated by 65% over the same period.
No Premium for Long-Term Stockholders	Dell's long-term stockholders have funded the company's turnaround and should be given the opportunity to benefit from their investment

Source: Southeastern's "Investor Presentation: Opposing the Proposed Dell Take-Private Transaction," June 27, 2013, at http://www.sec.gov/Achives/edgar/data/807985/000094787113000441/ss180150_dfan14a, accessed April 7, 2014.

Exhibit 9 Southeastern's Critique of Take-Private Levers



Source: Southeastern's "Investor Presentation: Opposing the Proposed Dell Take-Private Transaction," June 27, 2013, at http://www.sec.gov/Achives/edgar/data/807985/000094787113000441/ss180150_dfan14a, accessed April 7, 2014.

Note: "Denali" refers to Denali Holding Inc., set up by Michael Dell/Silver Lake as the vehicle to acquire Dell Inc.

Exhibit 10 Icahn's and Southeastern's Leveraged Recapitalization Proposals

2013	Proposal	Note

March 5	Dell gives shareholders a special $9.00 per share dividend	• Shareholders would maintain their existing equity positions
		• No change in the number of shares publicly traded
		• Sources of funding:
		  • $7.5 billion of cash
		  • $5.2 billion of new debt
		  • $2.2 billion from sale of receivables

May 9	Dell gives shareholders either $12.00 per share in cash or 7.27 additional shares valued at $1.65 per share (estimated the remaining stub would earn between $0.50 and $0.89 in annual near-term pre-tax EPS with potential for greater long-term earnings)	• Shareholders would maintain their existing equity positions
		• 4.4 billion of Dell shares would continue to trade publicly[a]
		• Sources of funding:
		  • Company cash
		  • $5.2 billion of new debt
		  • Icahn and Southeastern would take the additional shares in lieu of cash

June 18	Dell tenders $14.00 per share for 1.1 billion shares	• Icahn and Southeastern would not tender their shares; and other shareholders also could do the same.
		• Total shares publicly traded after transaction approximately 0.7 billion
		• Sources of funding:
		  • $7.5 billion of cash
		  • $5.2 billion of new debt
		  • $2.9 billion from sale of receivables

July 12	Dell tenders $14.00 per share for 1.1 billion shares *plus* one warrant for every four shares purchased in the self-tender	• Warrant would allow holder to buy one share of Dell stock for $20 for a period of seven years • Icahn and Southeastern would not tender their shares • Total shares publicly traded after transaction approximately 0.7 billion

Source: Casewriter from SEC filings and Peter Gothard, "Icahn Secures $5.2bn Funding, Seeks Dell Meeting," *Computing*, July 2, 2013, via Factiva, accessed August 21, 2013.

[a]Assumes 20% of the 1.8 billion fully diluted shares outstanding opt to take additional shares over the cash payout.

Exhibit 11 Summary of Key Events

Date	Event
July 2012	Michael Dell and Silver Lake began discussions to take Dell Inc. private in a leveraged buyout.
Feb 5, 2013	Dell Inc. filed a Form 8-K with the SEC announcing it had signed a definitive merger agreement under which Michael Dell and Silver Lake would acquire Dell for approximately $24.4 billion, or $13.65 per share of common stock.
May 30, 2013	Dell Inc. filed a Schedule 14A with the SEC calling for a special stockholders' meeting to be held on July 18, 2013 to approve the sale of the company's shares for $13.65 in cash per share to Michael Dell and Silver Lake. Votes not cast would count as "no" votes.
June 2013	Icahn bought half of Southeastern's holdings in Dell at $13.52 per share. The transaction increased Icahn's holdings to 9%, making him the second largest shareholder behind Michael Dell.
July 18, 2013	Special stockholders meeting opened and immediately adjourned until July 24, 2013.
July 24, 2013	Dell and Silver Lake revised their offer, upping the per share cash price $0.10 to $13.75, and giving a one-time $0.13 per share dividend, provided the voting rules were changed so that abstentions would not be counted as "no" votes. The total offer approximated $24.9 billion. Stockholder meeting opened and immediately adjourned until August 2, 2013.
Aug 1, 2013	Icahn filed a complaint in Delaware against Dell Inc., in an attempt to stop the voting rule changes, etc.
Aug 2, 2013	The board announced it had agreed to change the voting rules in exchange for the higher offer, and set new vote date for September 12, 2013.
Aug 16, 2013	The court rejected Icahn's complaint; opening the door for the September 12th vote.
Sept 9, 2013	In a letter to Dell Inc. shareholders, Icahn reported that his firm and Southeastern would no longer invest in defeating the Michael Dell and Silver Lake bid to take Dell Inc. private.
Sept 12, 2013	Shareholders approved the sale of Dell Inc. to Michael Dell and Silver Lake for approximately $24.9 billion.
Oct 29, 2013	Dell Inc. delisted from NASDAQ.

Source: Casewriter.

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