

DELL INC
Form DEFA14A
July 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Dell Inc.

(Exact name of registrant as specified in its charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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Dell Supplemental Investor Materials
July 2013

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Trends in Dell's PC business put the transformation at risk

Dell remains largely a PC business

Two thirds of Dell's revenue is driven by PCs

1

Support and Deployment services, which are largely PC-driven, represent a majority of consolidated operating income

Cash flow that has fueled Enterprise acquisitions is deteriorating

PC business is in secular decline

PC unit forecasts revised downward and sector valuations declining

Dell does not have a meaningful tablet business and lacks a smartphone offering

Transition to enterprise is risky, expensive and a multi-year process

Dell has completed \$13bn of acquisitions

Product and sales force integration remains a work in progress

Growth of Cloud represents a substantial threat

Proposed transaction shifts all business risks to the buyer

Source: BCG

Note: PC business, or PCs, representative of EUC segment

1

Includes desktop, mobility and third-party software and peripherals revenue in FY13

2

On June 28, 2013, Morgan Stanley lowered its 2013 PC unit forecast from -5% to -10%

the lack of catalyst until C4Q will likely drive disappointing near-term results

Our tablet unit growth rate of 55% in 2013 is unchanged from our prior estimate

38% decrease in IDC '16E shipment forecasts since June 2012

Recent industry research forecasts continued PC deterioration

3

Source: IDC, Gartner, Morgan Stanley, Barclays

1

Represents 2012-15E CAGR

2

Based on preliminary IDC estimates

3

Based on IDC data

PCs

IDC estimates

2005-11A CAGR

Historical: 9.7%

2012-16E

CAGR

7.4%

8.4%

4.3%

1.7%

Other sources: 2012-16E CAGR

(~1.5%)

PC market outlook continues to show a secular decline

250

300

350

400

450

500

550

'09

'10

'11

'12

'13

'14

'15

'16

Jun '12

Sep '12

Dec '12

Mar '13

Jun '13

2

1

Gartner (Jun '13): 0.5%

Morgan Stanley

(Jun '13): (5.3%)

Barclays (Mar '13): (6.7%)

PC exposure will likely continue to weigh on Dell's share price,
regardless of the Enterprise trajectory

Source: Company filings; FactSet

Note: Market data from 1/11/08 to 1/11/13

1

PC revenue includes desktops and notebooks

2

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Unaffected multiple shown at stock price of \$10.88 as of 1/11/13 before transaction rumors

4

Dell NTM P/E multiple

\$37

\$28

\$10

\$20

\$30

\$40

FY08

FY13

0.0x

5.0x

10.0x

15.0x

20.0x

Dell's NTM P/E

multiple **peaked at**

15.4x

in June 08

Returns for Dell's acquisition program remain uncertain
Significant future integration and investment still required

5

Over \$13bn spent on acquisitions since FY08 to transform Dell into a solutions-oriented business

Sales force integration benefits and cross-selling synergies taking longer to achieve

A number of acquisitions have required additional investments to reposition for growth or new business opportunities

Current returns are lagging the 15% IRR target by the Company due, in part, to required additional investments

As the environment continues to evolve rapidly, additional investments and acquisitions are likely to be required to complete the transformation

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Business perspectives

Icahn / Southeastern's sum-of-the-parts valuation implies unrealistic multiples

How can Dell be worth 12.0x EBITDA when its closest peer, HP, trades at 4.6x EBITDA?

EUC

ESG

Services

Cost

opportunity
DFS
Net cash
Software,
other
Total
Icahn / Southeastern
value per share
Implied
FV / EBITDA
\$2.00
3.0x
\$5.57
15.4x
\$6.78
7.9x
\$1.66
6.0x
\$2.43
\$3.31
\$0.60
\$22.34
12.0x

Source: Icahn / Southeastern presentation to ISS (6/24/13), Company filings

Note: Metrics based on LQA Q1 FY14 figures; Net cash based on cash and debt as of Q1 FY14; PC-centric peers include Acer

Commentary

7

n

Dell's
consolidated
unaffected
multiple
was
3.3x,
which
includes
higher
growth
ESG
businesses
n
PC-centric
peers'
median
EBITDA
multiples
are
down
over
20%

since
unaffected
date
with
Dell
business
underperforming
vs.
peers
n
How
can
Dell's
Enterprise
business
be
valued
at
more
than
double
software-centric
peers
like
Microsoft
(7x)
and
purer-plays
positioned
for
next-gen infrastructure like EMC (7x)
n
Discounted multiple due to heavy profit contribution from servers, which
are under increasing competitive pressure
n
Nearly
twice
the
multiple
of
pure
play
CSC
trading
at
4x
EBITDA
n
Dell
Services

much
more
PC
driven
than
peers,
which
should
drive
a
discount to value

n
\$500mm
in
annual
cost
savings
are
arbitrary
and
unidentified

n
Significant portion of cost savings are likely to be reinvested in business to
protect margins and competitive position

n
How
can
cost
savings
be
valued
at

a
multiple
that
is
nearly
double
Dell's
consolidated unaffected multiple of 3.3x?

n
Overvalues
segment
reporting
income
by
not
stripping
out
~\$250mm

in
DFS income per Icahn / Southeastern May 9th letter
n
Majority of cash flow generated in foreign jurisdictions

BCG 75% Case

is based on an aspirational cost savings target,

not

concrete initiatives

Source: Dell management estimates, BCG estimates, Wall Street estimates as of 6/28/13

1

Q1 FY14 operating income of \$590mm annualized

2

Based on Dell's Q1 FY14 consolidated operating margin

Implies an unrealistic

consolidated

operating margin of

10% vs. 4% today

BCG evaluated the impact if

management achieved 75% of the

aspirational cost savings of \$3.3bn

Many of the categories of cost

savings were not specifically

identified

Significant portion (~\$1.5bn of

\$3.3bn) is already embedded in

Final FY14 Board Case

Significant portion of any cost

savings will need to be reinvested in

the business / would not drop to the

bottom line

BCG 75% Case FY15 forecast is

~50% higher than current Street

consensus

8

Given aggressive margin expansion assumptions, the BCG 75% Case

was deemed by the Special Committee to be aspirational at best

\$3.0

\$2.4

Forecasted operating income (\$ in billions)

Commentary

\$3.9

\$3.6

\$4.5

\$5.7

\$5.5

\$2.5

\$2.9

Final FY14 Board Case

LQA Q1 FY14

BCG 75% Case

Wall Street Consensus

\$2.0

\$3.0

\$4.0

\$5.0

\$6.0

FY13E

FY14E

FY15E

FY16E

FY17E

2
1

Modest potential sponsor returns depending on the case
Source: Evercore Partners presentation to Board of Directors (2/4/13)

9

IRRs using BCG 75% Case are unrealistic
Sub-20% IRR using Wall Street consensus

1

2

Highlights why Michael Dell had to subsidize
Silver Lake's returns by rolling his shares at a
lower price (\$13.36 vs. \$13.65)

3

other

sponsors

passed

on

the

transaction

after

extensive

due

diligence

Substantial downside risk to Dell shareholders if transaction rejected
\$13.65 represents substantial premium to implied Dell share prices using current HP P/E multiples
10
Source: Company filings, FactSet; Market data as of 6/28/13
1
Assumes HP's CY13E P/E multiple of 6.9x
\$1.25

\$1.00

\$0.84

EPS:

97% premium

133% premium

\$13.65

\$8.67

\$6.92

\$5.85

Silver Lake /

Michael Dell

Final FY14

Board Case

Wall Street

Consensus

LQA

Q1 FY14

57% premium

1

Assuming HP's CY13E P/E

Absent transaction, where would the analyst price targets be?

Current earnings
estimates

Broker

Price target

FY14E EPS

Implied P/E ratio

FY14E EPS (May 2013)

Argus Research

\$14.00

\$1.90

7.4x

\$1.13

Baird

11.00

1.76

6.3x

0.91

BMO

11.00

1.57

7.0x

0.90

Brean Capital

12.00

1.74

6.9x

0.96

Credit Suisse

9.00

1.55

5.8x

1.05

Deutsche Bank

13.00

1.75

7.4x

1.00

FBN Securities

11.00

1.45

7.6x

0.90

Goldman Sachs

13.00

1.53

8.5x

1.12

Jefferies

10.00

1.60

6.3x

1.30

Monness, Crespi, Hardt & Co.

13.00

1.77

7.3x

1.06

Raymond James

13.00

1.60

8.1x

1.05

Sanford Bernstein

15.00

1.60

9.4x

1.01

Topeka

13.50

1.83

7.4x

1.13

UBS

9.75

1.75

5.6x

0.97

Mean

\$12.02

\$1.67

7.2x

\$1.04

Median

\$12.50

\$1.67

7.4x

\$1.03

11

% decline since

pre-LBO leak:

(38%)

(38%)

1

Source: Bloomberg, FactSet, Wall Street research

Note: Excludes Wall Street research that does not provide price targets pre-LBO leak or FY14E EPS estimates as of May 2013

All estimates as of November 2012, post Dell's Q3 FY13 earnings, except for Goldman Sachs (December 2012) and Credit

1

Pre-LBO leak Wall Street estimates with price targets

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HP's recent performance has been superior to Dell's
Revenue
breakdown

Q1
FY14
(May)

Revenue
breakdown

Q2
FY13
(April)
Q2 FY13
Q1 FY13
QoQ var.
Revenue
\$27,582
\$28,359
(3%)
Memo: PC revenue
\$7,584
\$8,204
(8%)
Operating income
\$2,370
\$2,236
6%
% margin
8.6%
7.9%
EPS
\$0.87
\$0.82
6%

Source: Company filings, Wall Street research

Note: Dell and HP segments include internal revenue; HP revenue breakdown calculations exclude Corporate Investments and

1

Excludes one-time \$250mm gain from vendor settlements

Services
15%
Software
2%
EUC
(desktop
and
mobility)
48%
EUC S&P
14%
ESG
21%
Q1 FY14
Q4 FY13
QoQ var.
Revenue
\$14,074

\$14,314

(2%)

Memo: PC revenue

\$6,891

\$6,870

0%

Operating income

\$590

\$704

(16%)

% margin

4.2%

4.9%

EPS

\$0.21

\$0.29

(28%)

Enterprise

Services

22%

Software

3%

PSG

(desktop

and

mobility)

28%

Printers

22%

Enterprise

Group

25%

Q1 FY14 (May) QoQ results

Q2 FY13 (April) QoQ results

13

1

1

Forward-looking statements

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Any statements in these materials about prospective performance and plans for the Company, the expected timing of the completion of the proposed merger and the ability to complete the proposed merger, and other statements containing the words estimates, believes, anticipates, plans, expects, will, and similar expressions, other than historical facts, constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Factors or risks that could cause our

actual results to differ materially from the results we anticipate include, but are not limited to: (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; (2) the inability to complete the proposed merger due to the failure to obtain stockholder approval for the proposed merger or the failure to satisfy other conditions to completion of the proposed merger, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction; (3) the failure to obtain the necessary financing arrangements set forth in the debt and equity commitment letters delivered pursuant to the merger agreement; (4) risks related to disruption of management's attention from the Company's ongoing business operations due to the transaction; and (5) the effect of the announcement of the proposed merger on the Company's relationships with its customers, operating results and business generally. Actual results may differ materially from those indicated by such forward-looking statements. In addition, the forward-looking statements included in these materials represent our views as of the date hereof. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date hereof. Additional factors that may cause results to differ materially from those described in the forward-looking statements are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2013, which was filed with the SEC on March 12, 2013, under the heading "Item 1A Risk Factors," and in subsequent reports on Forms 10-Q and 8-K filed with the SEC by the Company.

Additional information and where to find It

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In connection with the proposed merger transaction, the Company filed with the SEC a definitive proxy statement and other relevant documents, including a form of proxy card, on May 31, 2013. The definitive proxy statement and a form of proxy have been mailed to the Company's stockholders. Stockholders are urged to read the proxy statement and any other documents filed with the SEC in connection with the proposed merger or incorporated by reference in the proxy statement because they contain important information about the proposed merger.

Investors will be able to obtain a free copy of documents filed with the SEC at the SEC's website at <http://www.sec.gov>. In addition, investors may obtain a free copy of the Company's filings with the SEC from the Company's website at <http://content.dell.com/us/en/corp/investor-financial-reporting.aspx> or by directing a request to: Dell Inc. One Dell Way, Round Rock, Texas 78682, Attn: Investor Relations, (512) 728-7800, investor_relations@dell.com.

The Company and its directors, executive officers and certain other members of management and employees of the Company may be deemed participants in the solicitation of proxies from stockholders of the Company in favor of the proposed merger. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of the stockholders of the Company in connection with the proposed merger, and their direct or indirect interests, by security holdings or otherwise, which may be different from those of the Company's stockholders generally, is set forth in the definitive proxy statement and the other relevant documents filed with the SEC. You can find information about the Company's executive officers and directors in its Annual Report on Form 10-K for the fiscal year ended February 1, 2013 (as amended with the filing of a Form 10-K/A on June 3, 2013 containing Part III information) and in its definitive proxy statement filed with the SEC on Schedule 14A on May 24, 2012.