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 x 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
x 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)**

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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¨ Fee paid previously with preliminary materials.

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Dell Supplemental Investor Materials
July 2013

Agenda

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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

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

2

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.