

DELL INC  
Form DEFA14A  
July 15, 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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Payment of Filing Fee (Check the appropriate box):

No fee required

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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**Explanatory Note**

This amendment to Schedule 14A amends and restates the Dell Supplemental Investor Materials filed as definitive additional materials with the Securities and Exchange Commission on July 5, 2013 to include a non-GAAP financial measures reconciliation table as Appendix A and certain other technical revisions.

Dell Supplemental Investor Materials  
July 2013

Agenda

1

Business perspectives

2

Valuation perspectives

7

Appendix



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

Agenda

6

Valuation perspectives

7

Appendix

13

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 non-GAAP operating income of \$590 million, annualized. See Appendix A for more detail

2

Based on Dell's Q1 FY14 consolidated operating margin

Forecasted operating income (\$ in billions)

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 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

Commentary

8

Given aggressive margin expansion assumptions, the BCG 75% Case was deemed by the Special Committee to be aspirational at best

Implies an unrealistic consolidated

operating margin of

10% vs. 4% today

\$2.4

\$3.0

2



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

Agenda  
Business perspectives  
2  
Valuation perspectives  
7  
12  
Appendix





Q2 FY13  
Q1 FY13  
QoQ var.  
Revenue  
\$27,582  
\$28,359  
(3%)

Memo: PC revenue  
 \$7,584  
 \$8,204  
 (8%)  
 Non-GAAP earnings  
 from operations  
 \$2,370  
 \$2,236  
 6%  
 % margin  
 8.6%  
 7.9%  
 Non-GAAP EPS - diluted  
 \$0.87  
 \$0.82  
 6%  
 Q1 FY14  
 Q4 FY13  
 QoQ var.  
 Revenue  
 \$14,074  
 \$14,314  
 (2%)  
 Memo: PC revenue  
 \$6,891  
 \$6,870  
 0%  
 Non-GAAP operating  
 income  
 \$590  
 \$704  
 (16%)  
 % margin  
 4.2%  
 4.9%  
 Non-GAAP EPS - diluted  
 \$0.21  
 \$0.29  
 (28%)  
 HP's recent performance has been superior to Dell's  
 Services  
 15%  
 Software  
 2%  
 EUC  
 (desktop  
 and  
 mobility)  
 48%  
 EUC S&P

14%  
ESG  
21%  
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  
2  
2  
1

Source: Company filings, Wall Street research

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

1

For Q4 FY13, PC revenue includes revenue from desktop PCs and mobility offerings. For Q1 FY14, PC revenue includes revenue primarily consist of origination fees related to the sale of extended warranty services; <sup>2</sup> Excludes severance and facility actions

Dell's proposed merger. In addition, to highlight significant changes period over period, this presentation excludes benefits of S

Appendix A for more information

Revenue breakdown Q1 FY14 (May)

Revenue breakdown Q2 FY13 (April)

Appendix A: Reconciliation to non-GAAP financials

14

1

Includes merger-related costs, which consist of transaction expenses associated with Dell's proposed merger as well as expense  
Q1 FY14

2

Assuming a tax rate of 23.4% and weighted average share count of 1,748mm on benefits of approximately \$250 million, which

1

Reconciliation to non-GAAP operating income

Q4 FY13

Q1 FY14

GAAP operating income

\$698

\$226

Amortization of intangibles

188

196

Severance and facility actions and acquisition related costs

68

80

Other

88

Non-GAAP

operating

income

-

as

previously

disclosed

\$954

\$590

Vendor settlements

(250)

-

Non-GAAP operating income

\$704

\$590

Reconciliation

to

non-GAAP

EPS

-

diluted

Q4 FY13

Q1 FY14

GAAP

EPS

-

diluted

\$0.30

\$0.07

Non-GAAP adjustments per share

0.10

0.14

Non-GAAP EPS -

diluted -

as previously disclosed

\$0.40

\$0.21

Vendor settlements

(0.11)

-

Non-GAAP

EPS

-

diluted

\$0.29

\$0.21

2

Reconciliation to non-GAAP financials Q4 FY13 and Q1 FY14

Appendix A: Reconciliation to non-GAAP financials (cont d)

15

There are limitations to the use of the non-GAAP financial measures presented in this presentation. Dell's non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in Dell's industry, may calculate the non-GAAP financial measures differently than Dell, limiting the usefulness of those measures for comparative purposes. In addition, items such as amortization of purchased intangible assets represent the loss in value of intangible assets over time. The expense associated with this loss in



value is not included in the non-GAAP financial measures and such measures, therefore, do not reflect the full economic effect of such loss. Further, items such as severance and facility actions, acquisition-related costs, and other charges that are excluded from the non-GAAP financial measures can have a material impact on earnings. Dell's management compensates for the foregoing limitations by relying primarily on GAAP results and using non-GAAP financial measures supplementally or for projections when comparable GAAP financial measures are not available. The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for gross margin, operating expenses, operating income, net income, and earnings per share prepared in accordance with GAAP, and should be read only in conjunction with financial information presented on a GAAP basis. See above for reconciliations of each non-GAAP financial measure to its most directly comparable GAAP financial measure. We encourage you to review the reconciliations in conjunction with the presentation of the non-GAAP financial measures for each of the periods presented.

Appendix A: Reconciliation to non-GAAP financials (cont d)

16

The

following

is

a

summary

of  
the  
costs  
and  
other  
items  
excluded  
from  
the  
most  
comparable  
GAAP  
financial  
measures to calculate non-GAAP financial measures:

Severance  
and  
Facility  
Actions  
and  
Acquisition-related  
Costs

-  
Severance  
and  
facility  
action  
costs  
are  
primarily  
related to facilities charges, including accelerated depreciation and severance and benefits for employees terminated  
pursuant  
to  
cost  
synergies  
related  
to  
strategic  
acquisitions  
and  
actions  
taken  
as  
part  
of  
a  
comprehensive  
review  
of  
costs. Acquisition-related charges are expensed as incurred and consist primarily of retention payments, integration

costs, and other costs. Retention payments include stock-based compensation and cash incentives awarded to employees, which are recognized over the vesting period. Integration costs primarily include IT costs related to the integration of IT systems and processes, costs related to the integration of employees, consulting expenses, and for acquisitions made prior to Fiscal 2013, costs related to full-time employees who were working on the integration. Severance and facility actions and acquisition-related charges are inconsistent in amount and are significantly impacted by the timing and nature of these events. Therefore, although Dell may incur these types of expenses in the future, it believes that eliminating these charges for purposes of calculating the non-GAAP financial measures presented above facilitates a more meaningful evaluation of Dell's current operating performance and comparisons to Dell's past operating performance.

Amortization  
of  
Intangible  
Assets

-  
Amortization  
of  
purchased  
intangible  
assets  
consists  
primarily  
of  
amortization  
of

customer relationships, acquired technology, non-compete covenants, and trade names purchased in connection with business acquisitions. Dell incurs charges related to the amortization of these intangibles, and those charges are included in Dell's Consolidated Financial Statements. Amortization charges for purchased intangible assets are significantly impacted by the timing and magnitude of Dell's acquisitions. Accordingly, these charges may vary in amount from period to period. Dell excludes these charges for purposes of calculating the non-GAAP financial measures presented above to facilitate a more meaningful evaluation of Dell's current operating performance and comparisons to Dell's past operating performance.

Appendix A: Reconciliation to non-GAAP financials (cont d)

17

Other  
Items

-

Dell

also  
adjusts  
GAAP  
financial  
results  
for  
expenses  
associated  
with  
Dell's  
proposed  
merger.

These  
expenses consist of professional fees incurred by Dell in connection with Dell's proposed merger as well as the  
reimbursement  
of  
transaction-related  
expenses  
incurred  
by  
certain  
participants  
approved  
by  
a  
special  
committee  
of  
the  
Board  
of  
Directors.

In  
addition,  
Dell  
adjusts  
GAAP  
financial  
results  
for  
special  
retention  
cash  
bonus  
awards  
granted  
to

certain key employees in the first quarter of Fiscal 2014 that will be payable in March 2014. Dell is excluding these  
expenses for the purpose of calculating the non-GAAP financial measures presented above because Dell believes  
these items are outside our ordinary course of business and do not contribute to a meaningful evaluation of Dell's

current operating performance or comparisons to Dell's past operating performance. In addition, previously disclosed non-GAAP financial measures have been further adjusted to exclude certain vendor settlements.

The aggregate adjustment for income taxes is the estimated combined income tax effect for the adjustments mentioned

above.

The

tax

effects

are

determined

based

on

the

tax

jurisdictions

where

the

above

items

were

incurred.

Forward-looking statements

18

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

19

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](mailto: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.