

# Dell wins bidding to buy Quest Software for \$2.4B

July 2 2012

---



Dell announced it was buying IT management software firm Quest Software for \$2.4 billion in the latest diversification move by the struggling PC maker.

(AP) — Dell is buying Quest Software for \$2.4 billion to expand its offerings as its personal computer business weakens in an era of smartphones and sleeker devices like the iPad.

The deal announced Monday capped off a bidding war that began last month when Quest revealed a mystery suitor had made an offer trumping a \$2 billion sale that had been worked out with Insight Venture Partners in March. The secret bidder turned out to be Dell Inc., the second largest PC maker in the U.S. behind Hewlett-Packard Co.

Dell prizes Quest primarily for its nearly 1,300 engineers and its stable

of software designed for businesses and government agencies. In particular, Dell is counting on Quest to help sell more servers, networking and storage products and computing services — all of which are typically more profitable than PCs these days.

Selling PCs is also getting more difficult as consumers increasingly rely on smartphones and tablets to fulfill their computing needs.

Driven by market conditions, both Dell and HP have been software and technology services companies to expand beyond PCs and plumb the more fertile territory of advising big companies and government agencies on how to manage their computing needs.

Quest is Dell's biggest acquisition since it bought technology consulting firm Perot Systems for \$3.9 billion in 2009.

The deal worked out well for Quest's shareholders. The sale price translates to \$28 per share, a 44 percent increase from Quest's stock price before the Aliso Viejo, California company announced its initial agreement with Insight. Dell is paying close to Quest's 10-year trading peak of \$28.10, according to Factset.

Quest shares added a penny to close at \$27.82 Monday.

Buying Quest will more than double the size of Dell's software business. Quest's revenue was \$857 million last year.

Dell expects to complete the acquisition later this year. The company, which is based in Round Rock, Texas, didn't project how Quest will affect its earnings. ISI Group analyst estimated Quest will increase Dell's earnings next year by 6 cents to \$2.01 per share, before adjusting for certain accounting items.

Although he considers the Quest acquisition to be a smart move, Marshall said he probably won't recommend that investors buy Dell's stock until it's trading at around \$10. The shares dipped 13 cents Monday to close at \$12.39. The stock has ranged from \$11.68 to \$18.36 in the past year.

Dell is coming off a disappointing first quarter that saw its sales to government, big businesses and consumers sag. Revenue in the consumer segment for the three-month period ending in early May dropped 12 percent from last year while government sales slipped 4 percent and sales to large businesses dipped 3 percent.

Sales to small and medium-sized businesses were a bright spot. They grew 4 percent.

To boost its earnings, Dell last month outlined plans to trim expenses by \$2 billion over the next three years. Management hasn't said whether the austerity program will result in layoffs among its workforce of 109,000 people. The Quest acquisition will add nearly 3,900 additional workers.

Breaking up the Insight deal cost Quest \$37 million. Insight is being paid a \$25 million termination fee, plus \$12 million to cover its expenses.

If Quest backs out of the Dell deal, it will be on the hook for a \$59 million breakup fee and up to \$5 million in expenses.

Quest CEO Vinny Smith, who owns a third of the company's stock, has already agreed to vote in favor of the Dell acquisition. He had previously agreed to support the Insight sale.

In a Monday letter to his employees, Smith predicted Quest would become the "foundation" for Dell's software division.

"Building a software business within a company as large as Dell is going to be a great opportunity in multiple ways for our employees." Smith assured the workers.

Copyright 2012 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: Dell wins bidding to buy Quest Software for \$2.4B (2012, July 2) retrieved 27 April 2024 from <https://phys.org/news/2012-07-dell-software-maker-quest-bn.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.