

Analysts: Dell buyout could make sense

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Back in 2010, Michael Dell acknowledged that he had considered taking his company, Dell Inc., private, but he declined to say much about it.

When he was asked at an investment conference whether he had considered that sort of move for his [company](#), Dell said simply "Yes." When [Bernstein Research analyst](#) Toni Sacconaghi pressed for a further explanation, the CEO said simply, "No comment." Dell Inc. officially still has no comment on the subject.

But numerous reports from the financial media this week said Dell Inc. is discussing a potential leveraged buyout, one that, if it happens, could be the largest U.S. corporate buyout in five years.

The [Wall Street Journal](#) on Tuesday said Dell is working with two investment firms TPG Capital - formerly known as Texas Pacific Group - and Silver Lake Partners, both of which have taken other tech companies private. Kevin Rollins, Dell's former CEO, is a senior adviser to TPG.

While some financial analysts and industry experts said the size of such a deal - which probably would be more than \$20 billion - would make it difficult to pull off, other analysts said that the deal makes sense because interest rates are near historic lows, because Dell's stock price is devalued, and because Michael Dell owns nearly 16 percent of the company's stock and is determined to turn it around.

Michael Dell, at age 47, is one of the nation's richest tech executives. But only about a quarter of his estimated total wealth of more than \$14

billion is tied up in his company's stock. He owns nearly 16 percent of the company's stock, an amount that was worth about \$3.5 billion at the market's close Tuesday.

The real motivation for Dell, analysts say, is to remake and strengthen the company he founded in 1984 when he was a freshman at the University of Texas-Austin.

"This will be his monument to forever," said analyst [Rob Enderle](#) with the Enderle Group. "Michael is at an age where you realize that mortality is real and you start thinking long-term. He really wants his company to outlast him."

Analysts said any buyout deal for Dell Inc., the world's third-largest personal computer maker, could take at least a month to put together and could be a challenge to finance despite prevailing low interest rates.

It would be the biggest buyout of a company since the financial crisis of 2008 brought such deals to a screeching halt. Analysts say a Dell buyout deal could be valued at more than \$20 billion.

"Now is the time to do it," Enderle said. "A large portion of this is going to be debt-financed. If you are going to do it, you are going to do it when interest rates are incredibly low.

Taking the company private would give Dell the freedom to make bigger moves to restructure the company without worrying about push back from stock analysts and stock investors.

"It allows you to operate more strategically," Enderle said. "You can make big gambles. And he doesn't have to sweat the [financial analysts](#) pummeling him every quarter for any move that he makes.

"He would be pulling the company off the track and putting it into the shop and making the changes it needs so he can take it out and race it again."

Going private would give Dell the chance to revamp the company more thoroughly and complete the transformation journey it began five years ago.

During that time, [Dell Inc.](#) has spent more than \$12 billion to buy more than two dozen companies with advanced technologies related to networking, storage, services and software.

The biggest acquisition was for Perot Systems, the Plano, Texas-based computer services company that was bought in 2009 for \$3.9 billion. But a more recent big transaction for was California-based Quest Software, which was bought in September for \$2.4 billion.

Dell needs to acquire more pieces to become the one-stop-shop in information technology that the company has been aiming for.

"Software is a huge focus," Enderle said. "In software, Dell is a lightweight."

Dell needs to push faster into software and advanced systems that generate bigger profits than the company's traditional core of commodity personal computers, analysts say.

Dell has been under earnings and revenue pressure in the past year, because the global PC market has slowed and price competition from Asian companies, including China's Lenovo Group, and Taiwan's AsusTek Computer, has increased.

As Dell's revenue and profits have shrunk over the past year, its [stock](#)

[price](#) has dropped sharply. Dell's stock fell by more than 29 percent in 2012.

"The stock market right now thinks of Dell as a failed Apple," Enderle said. "But Dell wants to restructure itself as a new-age IBM Corp. It needs to have some time away from the market so it can transform itself."

The challenge, says Jim Nolen, a retired distinguished finance lecturer at the University of Texas McCombs School of Business, is that Michael Dell must build a much different company than the one he created in the 1980s.

"It's almost like starting a new business, because (personal computer) hardware is dead," Nolen said. "Yes, you built a great company, but it was a different business."

Dell employed about 109,000 people worldwide a year ago. The company has added workers in recent years as it has made more business acquisitions. Quest Software, for instance, had more than 3,800 workers before it was acquired.

But Nolen said some of those workers don't have the skills that the re-engineered company will need.

"Dell doesn't have the personnel to create some of the things they need going forward," Nolen said. "They could lay off people and hire new resources to go in the direction of being a software and services company."

Another challenge, Nolen noted, is that Dell has replaced several members of its senior management team in the past year. In December alone, the company announced the departures of Steve Schuckenbrock,

president of [Dell](#) Services, and Darren Thomas, who headed the company's storage systems business.

Despite those setbacks, Nolen said he gives [Michael Dell](#) a good chance to pull off a turnaround.

"I like a guy that has skin in the game," he said. "He is going to work hard. His name is on the company. He is smart and he can surround himself with good people again."

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