PHYS.ORG

Dell to go private in $24.4B deal led by founder (Update 3)

February 5 2013, by Michael Liedtke

In this Tuesday, Aug. 21, 2012, photo, the sun is reflected in the exterior of Dell Inc.'s offices in Santa Clara, Calif. Slumping personal computer maker Dell announced Tuesday, Feb. 5, 2013, it is bowing out of the stock market in a $24.4 billion buyout that represents the largest deal of its kind since the Great Recession dried up the financing for such risky maneuvers. (AP Photo/Paul Sakuma)

Slumping personal computer maker Dell is bowing out of the stock market in a $24.4 billion buyout that represents the largest deal of its kind since the Great Recession dried up the financing for such risky maneuvers.

The complex agreement announced Tuesday will allow Dell Inc.'s management, including eponymous founder Michael Dell, to attempt a company turnaround away from the glare and financial pressures of Wall Street.

Dell stockholders will be paid $13.65 per share to leave the company on its own. That's 25 percent more than the stock's price of $10.88 before word of the buyout talks trickled out three weeks ago. But it's a steep markdown from the shares' price of $24 six years ago when Michael Dell returned for a second go-round as CEO.

Dell shares rose 14 cents to $13.41 in afternoon trading, indicating that investors don't believe a better offer is likely.

The chances of a successful counter offer look slim, given the forces lined up behind the current deal.

Michael Dell, the company's largest shareholder, is throwing in his 14 percent stake and an undisclosed sliver of $16 billion fortune to help finance the sale to a group led by the investment firm Silver Lake.

"We recognize that (transformation) will still take more time, investment and patience, and I believe our efforts will be better supported by partnering with Silver Lake in our shared vision," Michael Dell said in a statement.

Software maker Microsoft, which counts Dell among its biggest customers, is backing the deal by lending $2 billion to the buyers. The remaining money to pay for the acquisition is being borrowed through loans arranged by several banks, saddling Dell with an estimated $15 billion in debt that could raise doubts about its financial stability among its risk-averse corporate customers.

The sale is structured as a leveraged buyout, which requires the acquired company to repay the debt taken on to finance the deal.

Dell's sale is the second highest-priced leveraged buyout of a technology company, trailing the $27 billion paid for First Data Corp. in 2007.

The deal is the largest leveraged buyout of any type since November 2007 when Alltel Corp. sold for $25 billion to TPG Capital and a Goldman Sachs subsidiary. Within a few months, the U.S. economy had collapsed into the worst recession since World War II.

Dell's decision to go private is a reflection of the tough times facing the personal computer industry as more technology spending flows toward smartphones and tablet computers. PC sales fell 3.5 percent last year, according to the research group Gartner Inc., the first annual decline in more than a decade. What's more, tablet computers are expected to outsell laptops this year.

The shift has weakened long-time stalwarts such as Dell, fellow PC maker Hewlett-Packard Co., chip maker Intel Corp. and Microsoft Corp.

Michael Dell, 47, is betting that his company will be able to evolve into a more diversified seller of technology services, business software and high-end computers without having to pander to the stock market's fixation on whether earnings are growing from one quarter to the next. Dell expects to complete the sale by the end of July.

Once the deal closes, Dell's stock will stop trading on the Nasdaq Stock Market 25 years after the Round Rock, Texas, company raised $30 million in an initial public offering of stock.

The proposed deal could face resistance from long-time stockholders who believe Dell is still worth at least $15 per share. Anticipating such criticism, Dell's board is allowing a 45-day period for potential suitors to submit higher bids.

Dell's board "is saying that no better option exists," said Bill Nygren, manager of the Oakmark Fund and affiliates, which own about 25 million shares of Dell stock. "Should we hear evidence to the contrary, we'll raise a ruckus."

If approved, the deal will likely give Michael Dell his last chance to restore the luster to a company that established him as one of the world's most respected entrepreneurs. Dell started selling PCs out of his dorm room while he was still a freshman at the University of Texas. His legacy has been tarnished in the past decade as HP and other rivals outmaneuvered his company. In recent years, Dell has struggled to cope with the upheaval unleashed by the popularity of smartphones and tablet computers.

The buyout marks a new era for a company created in 1984 by a college kid with a $1,000 investment. The company, initially called "PCs Limited," would go on to revolutionize the PC industry by taking orders for custom-made machines at a reasonable price—first on the phone, then on the Internet.

Initially valued at $85 million in its 1988 initial public offering of stock, Dell went on a growth tear that turned the company into a stock market star. At the height of the dot-com boom in 2000, Dell was the world's largest PC maker, with a market value of more than $100 billion.

But Dell began to falter as other PC makers were able to lower their costs. At the same time, HP and other rivals forged relationships with stores that gave them the advantage of being able to showcase their machines. By 2006, HP had supplanted Dell as the world's largest PC maker.

With its revenue slipping, Dell's market value had fallen to $19 billion before the recent leaks about the buyout negotiations.

Unlike its rival, HP apparently doesn't have any interest in going private. In a statement Tuesday, HP said it intends to court Dell customers who are worried about the company's ability to innovate, expand its product line and pay its bills now that it will have to earmark some of cash flow to reduce the debt taken on to go private.

"Dell has a very tough road ahead," HP said, adding that "leveraged buyouts tend to leave existing customers and innovation at the curb."

Going private also poses other risks. For instance, it will leave Dell without publicly traded shares to entice and reward talented workers or to help buy other companies.

Microsoft also is going out on a limb with Dell.

By becoming a major Dell backer, Microsoft could gain more influence in the design of the devices running on a radically redesigned version of Windows that was released in late October. The closer ties with Dell, though, could poison Microsoft's relationship with HP, the largest PC maker, and other manufacturers that buy Windows and other software. Microsoft's recent release of its own tablet computer, called Surface, already has alienated some of the company's partners.

In a Tuesday research note, Mizuho Securities analyst Abhey Lamba predicted Microsoft's closer ties will push more PC makers to produce machines that run on Google's Chrome operating system and other software besides Windows.

Microsoft's stock gained 13 cents to $27.57 in Tuesday's afternoon trading.