Dell's $24.4B deal opposed by major stockholder

February 9 2013, by Michael Liedtke

Dell Inc.'s decision to sell itself for $24.4 billion to a group led by its founder and CEO is being ridiculed as a rotten deal by a major shareholder who estimates the slumping personal computer maker is really worth more $42 billion.

The missive launched Friday by Southeastern Asset Management Inc. threatens to complicate Dell Inc.'s efforts to end its 25-year history as a public company.

In a letter to Dell's board of directors, Southeastern CEO O. Mason Hawkins threatened to lead a shareholder mutiny unless the company came up with an alternative to the deal announced earlier this week.

Hawkins vowed to wield Southeastern's 8.5 percent stake to thwart the deal currently on the table. Only Michael Dell, the company's eponymous founder and CEO, owns more stock with a roughly 14 percent stake.

Under Dell's proposal, Southeastern and other stockholders will be paid $13.65 per share to leave the company in control of Michael Dell, who founded the business in his University of Texas dorm room in 1984. Michael Dell is contributing about $4.5 billion in stock and cash to help pay for the deal. The rest of the money would be supplied by the investment firm Silver Lake, loans from Microsoft Corp. and a litany of banks. The loans will burden Dell with debts that could leave the company with less money to invest in innovation and acquisitions.

Hawkins derided the price of the proposed sale as "woefully inadequate" and laid out a scenario that values Dell at $23.72 per share, or about $42 billion. The per-share amount mirrors Dell's stock price six years ago, when Michael Dell returned for a second go-round as the company's CEO.

A Dell spokesman declined to comment Friday.

The company, based in Round Rock, Texas, has previously said that Michael Dell recused himself from all discussions about the proposed deal to take the company private. The board has also said it explored a wide range of alternatives before agreeing to sell the company for $24.4 billion—a price 80 percent below Dell's top market value of more than $150 billion at the peak of the dot-com boom 13 years ago.

Anticipating possible second-guessing, the board is allowing 45 days for other potential bidders to emerge.

Hawkins is worried other suitors will be discouraged from bidding because Michael Dell already has lined up a deal to buy the company for what Southeastern believes to be a steep discount.

The transaction that Michael Dell and Silver Lake negotiated "clearly represents an opportunistically timed bid to take the company private at a valuation far below Dell's intrinsic value, and deprives public shareholders of the ability to participate in the company's substantial future value creation," Hawkins wrote.

Michael Dell and Silver Lake contend the company will be in a better position to overhaul its operations as a privately held company. That's because Dell would be able to make dramatic changes without having to worry about Wall Street's fixation on whether earnings and revenue are growing from one quarter to the next.

The proposed sale at $13.65 per share is 25 percent above where Dell's stock stood last month, before word of the buyout negotiations leaked out in the media. Dell's stock has plunged during the past year as PC sales have slumped amid the technological upheaval caused by the growing popularity of smartphones and tablet computers.

Dell's shares rose 10 cents Friday to close at $13.63.

Michael Dell has been trying to wean his company from PCs by expanding sales of technology consulting services, business software and higher-end computers. As part of that process, Hawkins pointed out that Dell has spent $13.7 billion, or the equivalent of $7.58 per share, on acquisitions since Michael Dell returned as the company's CEO in January 2007. Dell hasn't taken any charges to reflect that the acquisitions have diminished in value.

In his letter Hawkins laid out his rationale for valuing the company's PC business at $2.78 per share and other product lines at a combined $13.36 per share.

Instead of sticking with the current deal, Dell's board should consider an alternative that would give existing shareholders a stake in a restructured company that would still be led by Michael Dell, Hawkins wrote.

Messages left with Southeastern for comment weren't immediately returned.

The 38-year-old firm, which is based in Memphis, Tennessee, manages about $33 billion in assets. In a regulatory filing Friday, Southeastern said it had spent about $2.28 billion to accumulate more than 147 million shares of Dell. That means Southeastern would lose about $270 million on its Dell holdings if the company is sold at $13.65 per share.