Dell drama takes a twist with two new buyout bids (Update 3)

March 25 2013, by Michael Liedtke

In this Thursday, March 26, 2009 file photo, Michael Dell, Chairman and CEO of Dell Inc., reacts to a question during a news conference in Beijing. Dell said Monday, March 25, 2013, that a special board committee plans to negotiate with Blackstone Group and activist investor Carl Icahn over new acquisition bids for the computer maker that rival an offer of more than $24 billion from an investor group that includes founder Michael Dell. (AP Photo/Alexander F. Yuan, File)

The two new suitors pursuing Dell have a message for Wall Street: Don't allow Michael Dell to hoard potential gains from the expansion of the world's third largest PC maker into more profitable technology products and services.

Competing bidders Carl Icahn and the Blackstone Group LP are wooing Dell shareholders with an offer of a little more money today coupled with the possibility of even bigger returns later if the struggling personal computer maker can pull off the turnaround envisioned by its CEO and founder and a group of investors led by Silver Lake Partners.

The new bidders also propose to maintain Dell Inc.'s status as a publicly traded company.

The long-awaited challenge to Michael Dell and Silver Lake began to unfold Monday with the announcement that Icahn, a billionaire investor with a long history of corporate confrontation, and Blackstone, a major buyout firm, had submitted separate alternatives in an attempt to scuttle a $24.4 billion sales agreement that has been in place since Feb. 5.

If completed, the original deal would end Dell's 25-year history as a publicly traded company, leaving it entirely owned by Michael Dell, Silver Lake and a handful of other investors. The new bidders are taking advantage of a 45-day window that had been left open for better offers.

Although the details are still sketchy, both Icahn and Blackstone are offering to buy a portion of Dell Inc.'s outstanding stock at prices higher than the $13.65 per share that Michael Dell and Silver Lake have proposed to pay. Icahn is offering $15 per share for up to 58 percent of the company's existing stock, while Blackstone is offering more than $14.25 per share in cash or stock for an unspecified number of shares.

"We intend to work diligently with all three potential acquirers to ensure the best possible outcome for Dell shareholders, whichever transaction that may be," said Alex Mandl, the chairman of a four-person board committee overseeing the sale of the Texas-based company. For now, the committee is still recommending the deal put forth by Michael Dell and Silver Lake, though they are acknowledging the new offers could end up being more lucrative.

Dell's stock gained 37 cents, or 2.6 percent, to close Monday at $14.51. The shares have been trading above $14 most of this month, signaling that most investors expected alternative bids to emerge.

Monday's developments heighten the uncertainty surrounding Dell, the world's third largest PC maker behind Hewlett-Packard Co. and Lenovo Group. Dell's cloudy future could rattle some corporate customers who may be more willing to do business with HP, Lenovo or other rivals. It also threatens to distract Dell's 111,000 workers at a critical time.

The bidding battle also could culminate in the departure of Michael Dell, who founded the company bearing his name in 1984 while still a teenager attending the University of Texas.

In a statement, Dell's special committee said Michael Dell is willing to work with other parties besides Silver Lake.

Getting Dell's cooperation will be crucial for either Icahn or Blackstone if they hope to gain control of the company, predicted analyst Patrick Moorhead of Moor Insights & Strategy.

"It would be naive to move forward without Michael Dell," Moorhead said. "He is the glue the keeps the place together."

Other analysts fault Michael Dell for not reacting more swiftly to a computing shift unleashed by the 2007 introduction of Apple Inc.'s iPhone and the 2010 release of Apple's iPad. Those products ushered in an era of powerful and elegantly designed mobile devices that are causing consumers and companies to spend less on PCs. The upheaval is crimping Dell's earnings and has left its stock well below its price of $24 when Michael Dell returned for his second stint as CEO in early 2007.

Michael Dell, who would contribute about $4.5 billion in cash and stock to finance his preferred deal, believes he will be in a better position to overhaul the company if he doesn't have to worry about catering to Wall Street's fixation on short-term earnings and revenue growth.

Icahn, Blackstone and other current Dell shareholders also believe the company can bounce back. They just don't want to see Dell sold at a perceived discount that would deny existing shareholders the benefits of a potential comeback.

Under Icahn's proposal, his group would spend more than $15.6 billion to buy 1.04 billion shares of Dell stock, leaving about 900 million of the existing shares still on the market. If Icahn didn't spend all the money earmarked for buying 58 percent of the outstanding stock, the remaining amount would be distributed in the form of a special dividend. Icahn said he and his affiliates currently own about $1 billion worth of Dell's stock.

Blackstone's proposal doesn't spell out how much money it would spend to buy Dell's existing stock, nor does it estimate how much stock would remain trading on the Nasdaq exchange. The New York firm said it hopes to team up with Michael Dell and also hopes to work with other major company shareholders, including Southeastern Asset Management and the T. Rowe Price Group. Both of those shareholders, who combined own nearly 13 percent of Dell's stock, oppose the offer currently backed by Michael Dell.

In a letter to Dell's special committee, Blackstone predicted its bid would be more "compelling" than the deal proposed by Michael Dell and Silver

Lake.

If the deal with Michael Dell and Silver Lake falls apart, they would be owed a $180 million breakup fee.

The flexibility of the two new bids appeals to Bill Nygren, manager of the Oakmark Fund and affiliates, which owns about 25 million shares of Dell stock.

"Given the wide range of estimated values for Dell shares, if all else is nearly equal, we believe a proposal is superior if it allows investors who want to remain invested in Dell the opportunity to do so," Nygren said.

Dell shareholders who choose to retain some of the company's stock will be assuming the risk that things could get even worse if the turnaround plan flops and the sales in the slumping PC market deteriorate even more.

Although Dell has expanded into business software, technology consulting services and storage products, about 70 percent of its revenue remains tied to PCs and peripheral products, estimated Sterne Agee analyst Shaw Wu. That's one of the main reasons Dell's stock price had slipped below $10 before talk of a buyout began swirling earlier this year.

"What is going on now is quite good for Dell shareholders," Wu said. "It's a bit like a bailout."

Citation: Dell drama takes a twist with two new buyout bids (Update 3) (2013, March 25) retrieved 27 June 2024 from https://phys.org/news/2013-03-dell-board-icahn-blackstone.html