Dell committee defends $24.4B sale as best choice

March 6 2013, by Michael Liedtke

The Dell Inc. committee that negotiated the slumping PC maker's $24.4 billion buyout is standing behind the deal despite the misgivings of major shareholders who believe the price is too low.

In a four-paragraph statement released Wednesday, the four directors who oversaw the discussions to sell Dell provided their most extensive defense of the deal since it was announced a month ago.

CEO Michael Dell, backed by other investors led by investment firm Silver Lake, is trying to buy out the company he founded for $13.65 per share.

Much of the information in the statement had already been disclosed. The directors' decision to publicly reiterate their rationale for agreeing to the deal currently on the table suggests that they aren't having second thoughts. It comes as Dell's largest independent shareholder prepares to lead a possible mutiny.

Southeastern Asset Management, the investment firm that owns an 8.4 percent stake in Dell Inc., has demanded the names of other shareholders. That information could be used to rally opposition to the deal. Mutual fund manager T. Rowe Price, which owns a nearly 5 percent stake in Dell, also is lobbying against the deal.

Those critics may soon be joined by another nettlesome investor, billionaire Carl Icahn. He specializes in buying out-of-favor stocks and then pressuring corporate boards to make deals or other moves to boost the share price.

Citing unidentified sources, financial news channel CNBC reported Wednesday that Icahn has been accumulating up to 100 million shares of Dell stock—an amount that would give him a roughly 6 percent stake in the company. Icahn didn't immediately return phone messages Wednesday.

CNBC's sources said Icahn wants Dell to pursue other options besides a sale, including paying a special one-time dividend to current shareholders.

That's one of the alternatives that Dell's special committee said it already considered during a "rigorous" five-month review. That analysis culminated in an agreement to sell the company to Michael Dell and the investment group for the $13.65-per-share price.

That's 37 percent above the shares' average trading price during the 90-day period before word of the buyout negotiations leaked out in mid-January. But the stock stood $10 higher, at about $24 per share, when Michael Dell returned for a second stint as CEO in 2007. That's the price Southeastern contends Dell is worth.

Many investors are betting the pot will have to be sweetened to get a deal done. Dell's stock rose 25 cents, or nearly 2 percent, to close Wednesday at $14.32. The shares have been trading above the current buyout offer for the past three weeks.

Before accepting the $13.65-per-share offer, the special committee said it considered a variety of other options. Besides a one-time dividend, these alternatives included revising the company's plan to diversity beyond PCs and breaking up the company so its operations could be sold in parts. The committee said it reached its decision in consultation with experts that included investment bankers from JP Morgan.

Shareholder Forum, a group that seeks to protect shareholder interests, wants access to the same information that influenced Dell's special committee to sell at $13.65 per share. The information would be used by experts to perform an independent evaluation of the proposed sale to help shareholders understand if it's the best choice, according to a Tuesday letter sent to Michael Dell by Gary Lutin, a former investment banker who runs the Shareholder Forum.

The group is acting as a delegate of an unidentified Dell shareholder, who Lutin says is not Southeastern Asset Management.

If second-guessing of the Dell deal continues, the spotlight on the board's special committee is likely to intensify. The committee is chaired by Alex Mandl, a former telecommunications executive. The three other committee members are Laura Conigliaro, a former computer industry analyst for Goldman Sachs; Ken Duberstein, who was President Ronald Reagan's chief of staff before starting his own consulting firm; and Janet Clark, the chief financial officer of Marathon Oil Corp.

The special committee was formed last August after Michael Dell notified the Round Rock, Texas, company that he was exploring a buyout bid in partnership with other investors. Michael Dell has agreed to contribute 273 million of the company stock that he controls and $750 million in cash to help finance the buyout, which rely primarily on loans from PC software maker Microsoft Corp. and an assortment of banks.

Michael Dell is trying to reduce the company's dependence on PCs, which are becoming tougher to sell as more people switch over to smartphones and tablet computers. He believes the company can thrive again by expanding into business software, data analytics and storage and other more profitable niches in technology—a transition that Michael Dell believes will be easier without having to worry about the short-term financial interests of Wall Street. If the current agreement is approved, Dell will end its 25-year history as a publicly traded company.

In an attempt to avoid allegations that it was biased toward Michael Dell's offer, the special committee has left open the door for a higher bid. The committee said it has provided financial incentives for investment banker Evercore Partners to find a better deal by March 22. If another enticing proposal surfaces, the special committee said it will negotiate past the March 22 deadline.

The special committee said that it "has worked hard, and continues to work hard to produce the best outcome for Dell's shareholders."