

## Dell buyout in turmoil as Icahn enters the fray (Update)

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A proposed buyout of computer maker Dell Inc. appeared less likely Thursday after activist investor Carl Icahn said Dell should remain a public company and reward shareholders with a big, one-time payout.

The proposal further muddies a deal that already faced uncertain odds. Some of the company's biggest shareholders already had objected to the proposed buyout by founder and CEO Michael Dell. They say Dell's \$24.4 billion offer undervalues the company.

In a letter dated March 5, Icahn said the company is worth far more than the \$13.65 per share offered by Dell and his partner, investment manager Silver Lake.

Icahn wants shareholders to have a second option when they vote on the buyout. If Dell's offer is rejected, Icahn wants the company to pay shareholders a special dividend of \$9 per share, financed with existing cash and new debt. He says the payout will compensate shareholders for the company's weak performance while allowing them to profit from Dell's eventual recovery.

If Dell's board won't agree to make the offer, or to allow voting on new directors who would support it, Icahn said he expects "years of litigation ... challenging the transaction and the actions of those directors that participated in it."

The core question for shareholders is whether Dell is earning enough

cash to shoulder the additional debt and grow. Like other computer makers, Dell is navigating weakening demand for personal computers. Consumers are doing more of their computing on smartphones and tablets.

If Dell endured this challenge and grew, Icahn's proposal would be a boon for shareholders, said Ed Mullane, an editor with dealReporter, an industry publication covering mergers, acquisitions and other corporate events.

Taking on debt to afford a special payout, a process known as "leveraged recapitalization," is a bet on the company's long-term profitability, he explained.

The deal also carries some risk. If trends in the PC business punish Dell, leaving it unable to afford the extra debt and in serious financial trouble, shares could lose even more value.

"As a shareholder, do you take Michael Dell's offer and take the money and run, given the (poor) expectations for the PC business; or do you take some cash now, continue to hold stock and hope the company can pay down that debt and grow in the future?" Mullane said.

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.

Icahn's entry into the debate makes it even less likely that shareholders will accept Dell's current buyout offer, said James Kelleher, analyst with Argus Research, an independent equity research firm.

"This deal was between a rock and a hard place before—but they're really up against it now," Kelleher said. He said Dell may up his bid to satisfy shareholders, but it may not be possible to craft a viable deal that values shares at \$15 or \$16.

Investors appear to be banking on a higher offer. Dell shares have mostly traded above the buyout offering price since the deal was announced, a sign that investors expect a sweeter offer.

Dell has been trying to reduce its dependence on PCs. Michael Dell says the company can thrive again by expanding into business software, data analytics, storage and other more profitable niches in technology—a transition that he says would be easier without having to worry about the short-term financial interests of Wall Street.

Dell's strengths are overlooked by shareholders focused on short-term profits, Kelleher said. He said the company's difficult transition will take years, and "it would be preferable to do it behind closed doors."

If the current agreement is approved, Dell will end its 25-year history as a publicly traded company.

Icahn wrote that the PC maker's future is bright, and all shareholders should benefit from that, not just Michael Dell. He said Icahn Enterprises holds a substantial stake in Dell. CNBC reported this week that Icahn had acquired about 6 percent of Dell's stock.

Icahn did not return a call seeking comment.

Icahn is known for buying out-of-favor stocks and boosting them by pressuring or replacing boards of directors, installing new management and other hard-knuckle tactics.

Dell appointed a special committee of directors 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 relies primarily on loans from PC software maker Microsoft Corp. and an assortment of banks.

Dell's special committee has said it already considered a special dividend during a "rigorous" five-month review that culminated with the buyout plan. It said Thursday in a statement that it is conducting a search for better alternatives to the proposed buyout, and Icahn and others are welcome to participate.

"Our goal is to secure the best result for Dell's public shareholders—whether that is the announced transaction or an alternative," said a statement from the committee.

Shareholder Forum, a group that seeks to protect shareholder interests, has said it 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.

The stock fell 10 cents to \$14.22 Thursday. It rose a nickel to \$14.27 in extended trading after the market closed.

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