

Blackstone drops out of race to buy Dell (Update)

April 19 2013, by Michael Liedtke

Buyout specialist Blackstone Group LP is dropping its effort to acquire Dell as the computer maker faces slumping sales in personal computers and worsening financial projections.

Blackstone and its partners said that because of those challenges, which surfaced after their bid was submitted last month, they have dropped a plan to buy most of Dell's outstanding stock for \$14.25 per share. A letter from the group to a special committee of Dell board members was dated Thursday and disclosed Friday.

The withdrawal of the Blackstone-led bid leaves Dell with two potential bidders. A group that includes its founder and CEO Michael Dell has offered \$24.4 billion, or \$13.65 per share, and would take the company private. Billionaire investor Carl Icahn has made a preliminary proposal to buy a majority of Dell stock while keeping it publicly traded. Icahn plans to pay up to \$15 per share for 58 percent of Dell's stock.

The Blackstone letter said that while the bidders still believe Dell is "a leading global company with strong market positions," it also cited Dell's "rapidly eroding financial profile." It noted that Dell has lowered its operating income forecast for this year to \$3 billion, from \$3.7 billion. That \$3.7 billion, in turn, had been lowered this year from a \$5.6 billion figure that Dell had circulated internally in July, according to regulatory filings.

The letter also cited an unprecedented drop in PC sales, which comes as

people delay replacing desktop and laptop computers and spend money instead on smartphones and tablet computers. Worldwide PC shipments plunged by 14 percent in the first three months of the year, according to IDC. That's the steepest quarterly decline during the 19 years that the research firm has been tracking the market. Dell, the world's third largest maker of desktop and laptop computers, saw PC sales fall 11 percent during the first quarter.

Shares of Dell fell 52 cents, or 3.7 percent, to \$13.43 in midday trading Friday, after briefly hitting \$13.40—the lowest since Feb. 6, the day after the buyout offer from Michael Dell's group was announced. The stock price had increased since then and had exceeded the \$13.65 price in the Michael Dell offer for most of the time, indicating that investors were betting on the emergence of a better offer.

When asked about Blackstone's characterization of Dell's financial profile, spokesman David Frink said in an email that the company remains focused on its customers and "providing innovative products."

A spokeswoman for New York-based Blackstone declined any additional comment on the decision.

Initially valued at \$85 million in its 1988 initial public offering, 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 \$150 billion.

But Dell began to falter as other PC makers were able to lower their costs. At the same time, Hewlett-Packard Co. 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 just before the Michael Dell bid emerged.

Michael Dell believes he can turn around the company by diversifying into more profitable niches such as business software, data storage and consulting. It could be a wrenching process, something that Michael Dell believes he will be able to do if he doesn't have to worry about Wall Street's fixation on short-term results.

In a show of confidence in his plan, Michael Dell is contributing \$4.5 billion of his cash and stock to the proposed buyout, which is led by investment firm Silver Lake Partners. Loans would provide most of the rest of the financing. Microsoft Corp., which counts Dell among its biggest customers, is backing the deal by lending \$2 billion to the buyers.

Major shareholders have been unhappy about that offer, and competing bids have since emerged.

The board special committee has said it believed Blackstone's proposal could be more lucrative than the deal struck with Michael Dell and Silver Lake. But the committee wanted to review the formal terms of Blackstone's bid before making a final assessment.

Dell has agreed to cover up to \$25 million in expenses that Blackstone incurred while exploring its bid.

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