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Summary of WP Student Team

Corporate Finance Field Lab on Dell Inc.'s Leveraged Buyout

Group constitution:

Student Name	Program	Individual Title
Beatrice Sasso	Finance	Dell Inc's Strategic Analysis, Defining Agreements, Managing Debt, and Stakeholders Relations

Work project carried out under the supervision of:

Advisor: Rui Silva

Co-advisor: Margarida Soares

Reading observations for jury:
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Corporate Finance Field Lab on Dell Inc.'s Leveraged Buyout

Beatrice Sasso

Work project carried out under the supervision of:

Rui Silva
Margarida Soares

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Abstract

This case study analyses Dell's valuation, capital structure, and strategy in 2013 to assess its appropriateness for a leveraged buyout (LBO). We examined Dell's financials, including its EBITDA margin, liquidity, debt structure, and market position. The findings showed that Dell was undervalued, with strong liquidity and manageable debt, making it a strong LBO candidate. Dell's strategy of expanding into software and cloud solutions, combined with smart acquisitions, helped minimise the company's reliance on the decreasing PC market. These factors combined with its financial flexibility allowed Dell to successfully manage the LBO and foster long-term growth.

Keywords

Leveraged Buyout

Valuation

Liquidity

Debt Management

Capital Structure

Strategy

Diversification

Growth potential

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Group part

1.1 Introduction to Dell Inc. Case Study

In an attempt to reinvent itself in a technological landscape where computers are no longer the dominant business, Dell made a daring move by agreeing to a $24.4 billion deal to go private and escape the harsh scrutiny of Wall Street. However, the leveraged buyout, which was revealed on Tuesday 5th of February 2013 and would have been the largest since the recessionary days, was a significant risk. It added $15 billion to Dell's debt and accomplished nothing to stop the forces that were undermining the company's operations and changing the technological sector. In 2000s Dell made huge profits by selling costumers directly customised PCs. Six years before the LBO, it was the world's top producer of personal computers. In 2013, it was in third place, behind Hewlett-Packard and Lenovo, and failing in the meantime. Dell's percentage of the already declining PC market dropped from 16,6% in 2007 to just 1,7% in 2012. Chinese and Taiwanese competitors grind earnings to extremely thin margins: not Windows laptops and desktop computer, but Apple and Android smartphones are the most popular and profitable gadgets. Furthermore, even though the move to cloud computing increased demand for data centres and gave Dell the chance to sell serves, big clients as Google and Facebook were able to produce their own equipment at a lower cost. The proliferation of cloud services had also forced many businesses to abandon the purchase of new hardware in favour of renting time and use remote computer networks for their applications. On the 9.5 million serves sold in 2011, Dell's share of the server market decreased by roughly 1% to 22,2%. Michael S. Dell was placing a wager of about $700 million of his fortune, along with his stake in the company, on his ability to overcome these obstacles and restore the company he founded in his University of Texas dormitory room in 1984. With an estimated net worth of $16 billion, Mr. Dell was facing his greatest test with this deal. His strategy, which had involved multiple acquisitions totalling billions of dollars, had been to enter the data centre and corporate software services industries. Up until that point in time, this path produced few results. Dell's stock closed at \$13.42, below the \$13.65 takeover offer on February 5th, after declining 31% over the previous five years. Over the first ten years of 21st Century, Dell remained silent in the public eye due to either intense takeover negotiations, a lack of interest in the spotlight, or both. Instead, his business had spoken for itself. In 2004, Dell, both the individual and the business, were written off by Wall Street and Silicon Valley as being on the same path to technological irrelevance as BlackBerry or Palm. Even so, Mr. Dell recognized an opportunity and brought in billionaire co-head Egon Durban of Silver Lake, a private equity firm. The rest is history.

1.2 Introduction to Leveraged Buyout

A leveraged buyout is a transaction through which a Special Purpose Vehicle is created with the aim of acquiring a target company using financing. The debt, along with its repayment, will be covered by the future profits of the acquired company or through the sale of part of its assets. Essentially, the debt shifts from the Special Purpose Vehicle to the acquired company. But let's break it down step by step. The leveraged buyout is a business acquisition where a larger amount of external financing is placed on the acquired company while a smaller portion of equity is owned by the original company. Within the larger context of mergers and acquisitions, this transaction is classified as a leveraged acquisition, which is a particular kind of extraordinary finance operation. It is particularly suitable for restructuring and reviving businesses. The primary players in this market are institutional private equity investors, whose goal is to sell their holdings through one two potential channels: private negotiation with another intermediary or company, or through public listing. Numerous variations of a basic model have been derived from corporate practices to define the general characteristics of the operation.

To enable the ownership transfer, the buyers create a holding company, a Special Purpose Vehicle (SPV), or a new company known as NewCo: the new business raises the required capital to buy another company, or a division of it, known as target company, with a very small portion of equity. Most of the capital (around 70%) is provided by a group of banks and/or financial intermediaries as debt. The NewCo acquires the entire capital of the target company. By incorporating, the two businesses combine, forming a NewCo that is responsible for the obligations that were initially contracted. There are two possible scenarios for the merger: an indirect merger known as Reverse Merger, in which the target company merges with the shell company, or a direct merger, called Forward Merger, in which the target company is incorporated into the NewCo. The term “buyout” refers to the acquisition of companies and is used to mean “acquire” or “take over” in the financial context.

The inherent risk of this operation’s structure is significantly higher compared to typical extraordinary transactions: if the company subject to the LBO is publicly listed, it is delisted from the stock exchange for the length of the operation. The NewCo, expressly created for the transaction, is a kind of “empty shell”, depending on the target company’s ability to borrow money for the operation to succeed. This borrowing capacity is known as financial leveraged, measured by the ratio of the company’s total debt to company’s total assets. It is evident that the company’s debt load affects its profitability given market’s growth prospects and its volume of business. Therefore, the projected cash-flows of the acquired company serve as the main guiding principle for the bank in evaluating the company’s borrowing capacity. Real guarantees based on the target company’s assets or shares of the company are used to represent the guarantees given by the operation’s promoters to banks and financial institutions that supply the debt capital. As previously indicated, the target company’s ability to produce high enough cash-flows to pay off the debt and related interest is essential to the operation’s success. As a result, evaluating it is an essential step in the LBO process. An accurate analysis of the financial structure and the asset structure is fundamental. Regarding the financial structure, the company’s funding sources and uses are evaluated to assess company’s monetary balance, both in terms of timing and size of the cash-flows, as the company must be capable of covering all the financial obligations resulting from the acquisition. A high level of capitalization is crucial for potential investors, enabling them to better plan the economic and financial flows. From the standpoint of assets, it is critical to assess the firm's stability and debt load and paying particular attention to the asset's liquidity as they may be used one day to partially repay the debt. Three key attributes define the perfect target company: strong cash-flows, low debt, solid capitalization.

The term "strong cash-flows" refers to high cash-flows: not highly susceptible to market fluctuations, generated by the sale of well-known products, supported by an up-to-date structure.

The promoter's desire to restrict their financial obligations to the small portion of equity capital they subscribe to, still having complete control over the decisions and financial policies made by the company, is the primary driver behind this operation rather than a standard acquisition. The fact that an LBO makes acquisitions possible that, in certain circumstances, might not even happen if this option was not available is equally significant. Promoters as management group, other businesses or even family owners who would not have sufficient resources to carry out the acquisition on their own are included in.

1.3 Company Description

Dell is an information technology company that operates worldwide with its headquarters in Round Rock, Texas. The company provided a variety of products and services, with a specialisation on end-to-end technology. Its clients were large companies, public customers, small and medium-sized institutions and companies, as well as consumers. The company had 111,300 employees, thereof 40,500 are working in the United States (Dell 2013b, 4-11).

Group part

1.3.1 Evolution of the Company

In 1984, Michael Dell founded a company called “PC’s Limited” as a student. Dell had his own idea how technology had to be created, manufactured and distributed. Already in 1985, the company launched a new computer system. Additionally, PC’s Limited was the first company on the market that offered free returns and product support at home (Dell Technologies Inc., n.d.).

Two years later in 1987, the company established its first international branch in the United Kingdom. 1988, after years of growing massively, Dell went public and changed its name to “Dell Computer Corporation”. Due to new capital raised, the firm was able to extend its product lines. A manufacturing line in Ireland helped to provide better service to clients in Europe, the Middle East and Africa. In the following years, the company expanded more all over the world and gained international reputation (Dell Inc. n.d.-c).

1995, the company went global and started operating in Europe, Asia, Japan and the Americas. In 1996, Dell launched an online platform to sell its products. In addition to that, Dell opened its first Asia-Pacific Customer Center in Malaysia. Besides that, it launched exclusive online pages for its corporate clients for purchases and assistance. Between 1997 and 1998, Dell launched a new manufacturing line in Texas and opened a new subsidiary in China. In order to enhance the service for clients from Latin America, the company launched another manufacturing centre in Brazil in 1999. Furthermore, the company created an eSupport, which made technical support available via the internet. By the end of 1999, Dell secured the first rank in the U.S. PC market and became the global leader for medium-sized businesses (Dell Inc. n.d.-d).

In the early 2000s, the firm was able to stay on top of all the computer manufacturers across the world and generated $40 million a day with online sales. This enabled Dell to become one of the leading Ecommerce websites globally. In 2001, Dell improved its storage area network solutions by working with EMC, the current leader for storages at the time. In the same year, the company was able to be ranked first internationally as a computer system provider (Dell Technologies Inc. n.d.).

In the following years, the company expanded its product line with servers, projectors and printer for customers. 2004, Dell became the third largest distributor for computer systems and services in China. Moreover, the company started to collaborate with other players in the industry to work on code of conduct, social and environmental topics along the supply chain. In 2006, the company built their first research centre in China (Dell Inc. n.d.-b).

In 2009, Dell acquired Perot Systems. Moreover, the company launched new products including smartphones and laptops. In the subsequent years, the firm acquired companies that had competencies in storage, system management, cloud computing and software, as well as in enterprise solutions and services. Additionally, Dell expanded its core business by delivering end-to-end IT solutions for customers. The company invested $1 billion in new data, solution and R&D centres across the world (Dell Inc. n.d.-a).

In 2012, Dell continued to acquire new companies in order to enhance end-to-end IT solutions. At the same time, the company launched a new software group that concentrated on user computing, enterprise solutions, software and services (Dell Technologies Inc., n.d.).

1.3.2 Company description – Products

Dell provides a variety of products and services that are created, designed, assembled and sold directly by the company. With a wide range of client computing devices to meet clients’ needs, nowadays Dell offers desktop PCs, laptops and cloud-based mobile computing software. Besides that, Dell sells tablets and convertible solutions, which are designed to increase productivity and reduce total ownership costs for business clients.

Furthermore, Dell also has a large selection of servers in its product lineup, ranging from high performance servers for big business clients to tower server for small business or offices. Newly developed servers provide high performance and improved energy efficiency for data environments. In addition, the company sells networking and storage solutions. The networking solutions assist business clients to enhance their IT landscapes while lowering the operating costs of data centres. Dell provides clients with many storage solutions such as storage area networks, network-attached storage, direct-attached storage or backup systems. These solutions enable clients to expand their capacities, improve performance and secure data in a cost-effective way.

Moreover, Dell launched new hardware platforms, enterprise-class storage blade arrays, synchronous replication for real time data protection and network-attached storage gateways. Besides that, the company sells third party software and peripherals like monitors, printers or projectors. Besides that, the firm also sell software for system management, security and information management.

Dell is also offering services such as IT and business services for infrastructure technology, consulting, application and assistance regarding products. The services are divided into three main services. The first main service is called support and development services, which is related to all services regarding sold hardware like warranties or installations. The second product line is infrastructure, cloud, and security services, which provides customers with managed solutions, consulting and creating infrastructure technology strategies for clients. The third main service is called applications and business process services. Application services cover development, maintenance, migration and management of software, as well as testing and quality assurance. Business processes services provide customers with client operations including contact centres, back-office administration, and other technological services.

The company also offers financial services. With Dell Financial Services, customers receive financing options for Dell products. Private label credit financing is offered to consumer and commercial client, which is allowing them to buy products on credit. Leases and fixed-term financing are mainly targeted to commercial clients. They can choose if they want to lease or to finance equipment over a given length of time (Dell Inc. 2013b, 5-7).

1.3.3 Company Policies

In Dell’s board leadership structure, the Chairman and CEO is Mr. Dell. In addition, the firm has a Lead Director who is independent and elected on a yearly basis. Besides, there are independent directors, who are part of different committees. The Lead Director is in charge of coordinating executive sessions and their agendas, assisting the Chairman in meetings and serving as an intermediary between the Chairman and the independent directors, amongst others. The Lead Director also has the power to directly employ advisors for the Board or independent directors (Dell Inc. 2013c, 6).

Dell's Corporate Governance Policies aim to guarantee that the Board independently supervises the management. The policies enable private meetings of the directors without the management. These meetings are taking place regularly in combination with board meetings, whereby the topics discussed are chosen by the Lead Director. However, regular Board meetings with the Chairman Mr. Dell are taking place. The managing structure of having a CEO and Chairman combined, the Lead Director and the independent directors is seen as the best for Dell and its investors (Dell Inc. 2013c, 6-7).

Dell's board controls risk management through four committees, which are the Audit Committee, Finance Committee, Leadership Development and Compensation Committee, and Governance and Nominating Committee (Dell Inc. 2013c, 96). The Audit Committee helps the Board to ensure that Dell’s financial statements and reports are accurate and follow the law.

They check internal controls, the audit process and plan, as well as supervise the independent and internal auditors. The Leadership Development and Compensation Committee determines how much the CEO and other executives should be paid. They also assess and accept the compensation for non-employee directors. Moreover, the committee is managing the stock-based compensation arrangements. The Governance and Nominating Committee manages corporate governance, develops policies, ensures ethics and compliance, and assesses and elects Board candidates. It also monitors the Board's performance and Dell's attempts to become more sustainable. The Finance Committee is in charge of Dell's corporate finance, including capital structure management, debt and equity financing, investment decisions and other finance related activities (Dell Inc. 2013c, 7-8).

Because of the global financial crisis and laws like the Dodd-Frank Act, investors' interests in accountability and transparency grew. In FY2012, Dell increased stakeholder engagement activities, so that investors can address concerns and knowledge can be shared. Moreover, the firm took part in the SRI (socially responsible investors) Roadshow and engaged in sustainability-focused conferences. This helped the company to gain insights in order to enhance transparency and improve corporate responsibility reporting (Dell Inc. 2012, 95).

1.4 The Industry Background

The technology sector constantly reminds both producers and consumers of one thing: it never remains static. The technology industry saw numerous notable changes in the first ten years of the new millennium. Personal computing underwent a dramatic upheaval in the early 2000s, with a notable move towards mobility. Because of their portability and flexibility, laptops and portable computers have come to define this era's technology. These gadgets removed the limitations that once restricted computing to desktop use, enabling people to work, communicate, and access information while on the go. The big news reports from 2008 and

2009 show that the PC is no longer the only device used by many people worldwide to access the internet. Data management and security concerns have arisen as a result of the billions of connected devices worldwide: there is no longer just a “PC market” but also a “post-PC market”.

Steve Jobs promote for the need for a device that would sit between a PC and a smartphone when he presents the iPad in January 2010. Following the advent of personal computers, the transformation of the music industry, and the radical shift in the smartphone market, Apple introduced a new product category that could be seen as a threat or an opportunity for the market, depending on one’s point of view. Samsung, Hewlett-Packard and Acer quickly started making tablets on their own. Apple does it again: the iPad sets a new direction for computing. Meanwhile, with Windows Phone 7, Microsoft is attempting to reclaim ground. The technology giant requires a mobile phone market breakthrough. By grouping apps, services, and online content into hubs and, most significantly, by integrating with Office, Windows Phone 7 sets itself apart from all other competing operating systems. As many of its allies, Microsoft was up against tough competition in the market due to the rising sales of iPhones, corporate users’ preference for RIM’s BlackBerry, and the proliferation of Android devices coming together. The market was oversaturated. The titans of the mobile phone industry were Nokia and BlackBerry. All business or “work phones” had to have BlackBerry’s physical Qwerty keyboards.

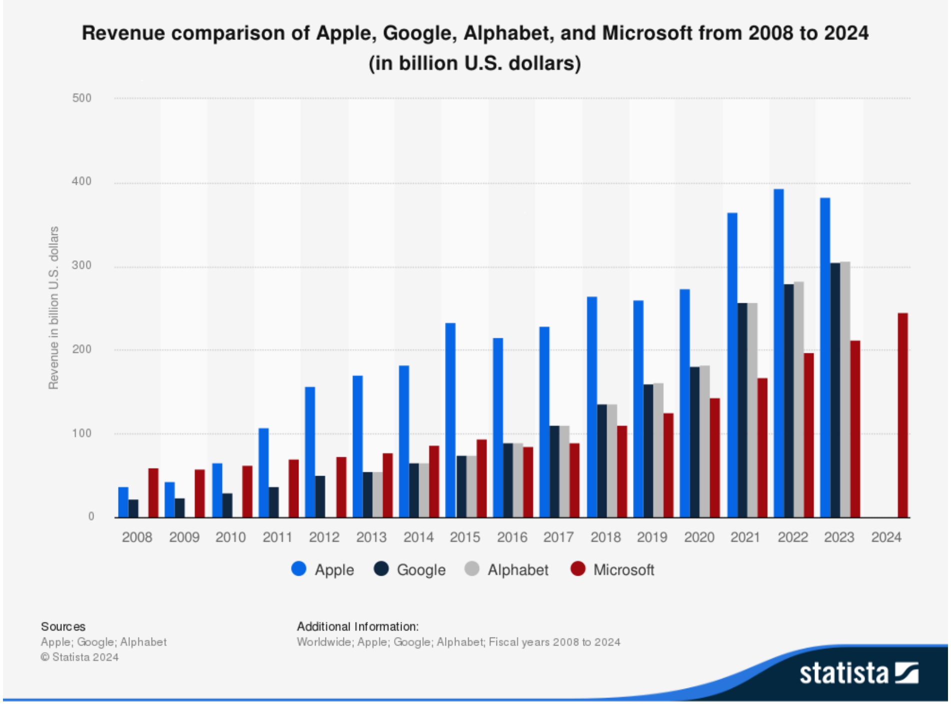

Figure 1: Revenue comparison of Apple, Google, Alphabet and Microsoft from 2008 to 2024

The next generation of wireless networks officially began in 2010 when Verizon Wireless launched its high-speed LTE (Long Term Evolution) network in 38 American cities. From there, it quickly spread throughout the globe. Verizon Wireless asserted its dominance in the American wireless network market. iPhone was the phone to beat, but Android was gaining ground. In 2010, newcomer Samsung made the leap to the Android platform by releasing the first four Galaxy S Models. One of these, the Galaxy Epic 4G, had a slide-out Qwerty keyboard and worked with Verizon Wireless's LTE rival, 4G WiMAX. It would take years for Samsung to start controlling the smartphone market and regularly taking on Apple.

Hewlett-Packard began the century as a main player in the personal computer and server market thanks to its merger with Compaq. However, it became harder for the American multinational to stay at the top, also because of Dell's market dominance. HP concentrated on creating accessible and user-friendly personal computers as a means of differentiating itself. The TouchSmart multimedia line, which included large touch screens intended for entertainment, was introduced in 2007. The modern all-in-one PCs were inspired by these early all-in-one desktop computers. Hewlett-Packard did not, however, achieve all of intended outcomes. After purchasing Palm’s webOS operating system in 2010, the company promptly ended the WebOS product line. HP was losing market share in the PC industry as it entered the IT services space, with Dell and Lenovo leading the way.

When Lenovo acquired IBM’s well-known PC division in 2005, the market was initially sceptical. The company gained credibility with the T series in 2007, powered by Intel Core 2 Duo processors, and won consumers over as the greatest notebook series in 2008. The Chinese multinational continued to pursue bold yet dangerous designs even during the global financial crisis of 2009; the X301 model with its one-inch-thick frame, was compared to the venerable MacBook Air. Lenovo finally made a big splash in 2013 with the Yoga line, perfecting the tablet and keyboard combo.

One of the most revolutionary periods in the history of technology and personal computing occurred in the first ten years of the twenty-first century, with a trend towards convergence and integration of computing capabilities. It was the age of Ultrabook, the age of tablets. Simultaneously, cloud computing became increasingly prominent, fundamentally altering the data management and accessibility scene. Online data processing and storage were made possible by this essentially decentralised method, which also provided the convenience of file and application access from any location in the globe with an internet connection. It also highlighted the idea of interconnection, emphasizing how people and businesses now function within a network of exchanges.

1.5 The U.S. and Global Economic Landscape in 2013

In 2013, the global economy was in recovery mode following the financial crisis, though the pace varied by region and some lingering effects still remained. Although financial stability had improved, as highlighted in the April 2013 Global Financial Stability Report (GFSR), businesses still struggled to manage volatile cash flows due to the not fully stabilized macroeconomic environment. Banks remained weak with low activity, but as housing prices rebounded and bank balance sheets improved, lending conditions began to ease. Previously, slow deposit growth, weakened public trust, and uncertainty had led to tighter lending. By 2013, lower market risk spreads and a growing financial conditions index in the U.S. indicated some easing, while Europe continued to experience tightening lending standards (World Economic outlook April 2013, international monetary fund). In 2012-2013, the Federal Reserve's quantitative easing program involved buying approximately $85 billion per month in Treasuries and mortgage-backed securities. This effort aimed to keep long-term interest rates low, encourage additional lending by banks, and stimulate economic activity. (Luck and Zimmermann 2019) As a result of quantitative easing, U.S. banks began offering lower interest rates than in the past, making debt financing more affordable for LBOs and other entities reliant on borrowing. For example, U.S. Treasury yields remained low, with the 10-year Treasury averaging 1.8% in 2012 and increasing slightly in 2013 (U.S. Department of the Treasury 2021). Additionally, the federal funds rate was maintained near zero during 2012-2013 to support economic recovery following the crisis (FRED 2024). This environment allowed companies to secure significant borrowing at lower costs without substantially raising repayment risks, creating favorable conditions for leveraged buyouts. However, currency volatility was a potential threat for businesses, potentially occurring as a side effect of quantitative easing.

Private demand in the U.S. showed resilience as the credit and housing markets rebounded, though fiscal adjustments were anticipated to limit GDP growth to around 2 percent in 2013, with a rise to 3 percent projected for 2014. This growth was driven by a strengthening in private domestic demand, spurred by continued recovery in the housing and labor markets, favorable financial conditions that boosted wealth through rising stock and housing prices, and supportive monetary policy. Inflation eased, dropping from roughly 2 percent to 1.75 percent in the U.S. and from 2.25 percent to 1.5 percent in the Eurozone (United Nations 2013). Moreover, in addition to the housing markets rebound in US, consumer confidence was returning in 2013 due to political stability achieved with Barack Obama's win in elections (Brett 2013). Higher consumer confidence generally leads to increased consumer spending, which can boost revenues for potential LBO targets. Additionally, lower inflation increases the predictability of cash flows, reducing the uncertainty for businesses.

According to the International Labor Association, Global unemployment rose in 2012 and could further increase in 2013. The number of unemployed worldwide rose by 4.2 million in 2012 to over 197 million, a 5.9 % unemployment rate, according to Global Employment Trends 2013 (International Labour Organization 2013). Between 2012 and 2013, the U.S. unemployment rate steadily decreased, signaling a gradual economic recovery. By the end of 2012, the rate had dropped to 7.7%, and it declined further to 7.6% in 2013 (U.S. Bureau Of Labor Statistics 2013). While the global economy remained fragile during this period, the U.S. recovery stood out, supporting increased consumer spending as more individuals found employment. This improvement often aligns with favourable lending conditions, creating an advantageous environment for executing leveraged buyouts.

High unemployment, balance sheet corrections, and ongoing fiscal consolidation continued to hinder economic activity in the euro area throughout 2013. Japan, benefiting from stronger external demand, was forecasted to experience a sharp rise in GDP for 2013, followed by stabilization in 2014. In Asia, particularly China, growth returned to a solid level, reflecting strong consumer demand, although real GDP growth in China remained unchanged at 7.8 percent from the previous year, indicating a slow recovery (United Nations 2013). Overall, global growth reached 2.75 percent by the end of 2012 and was expected to keep accelerating.

Group part

While China and the Eurozone were recovering at a slower pace than the U.S., the overall macroeconomic environment appeared relatively positive, with promising forecasts. This favourable economic outlook was advantageous for Dell, as global economic recovery was crucial to driving its sales. Improved financial market conditions, stronger than anticipated, raised the possibility of an unexpected boost in confidence, potentially leading to increased investment and durable goods consumption, particularly in the U.S, which could translate to positive cash flows for companies like Dell.

In 2013, equity markets began to rebound, with U.S. stock markets experiencing the lowest stock volatility in seven years, creating a favourable environment for stocks and IPOs. In the first quarter of 2013, the return of the U.S. market was over 11% according to Russell 3000 Index and daily volatility according to VIX had declined. In contrast, emerging markets saw negative returns, and their recovery was less pronounced than in developed markets. The year also marked a significant surge in initial public offerings (IPOs) since the financial crisis, with a 59% increase in the number of U.S. IPOs and a 31% rise in capital raised compared to 2012 (Harris 2014). The increase in capital raised could be attributed to heightened investor confidence, the easing of lending conditions, and the broader economic recovery. While equity markets were recovering, most of them were not at their peaks and sectors that remained undervalued presented attractive LBO targets before fully recovering.

In 2013, the U.S. was undergoing fiscal consolidation efforts, particularly through sequestration (Smith 2013), which involved across-the-board cuts to government agencies. These funding limits were introduced to meet budget targets and impacted various sectors of the economy, including healthcare, defense, and education. Following the 2008 recession, U.S. national debt had risen sharply, reaching $16 trillion by February 2013. Sequestration was first discussed in 2011, with the Budget Control Act implementing caps on discretionary spending and establishing a committee to draft legislation. In 2013, sequestration took effect, reducing government spending for that year.

Despite the generally positive economic outlook in 2013, some uncertainties and risks persisted. Fiscal tightening posed a potential threat to business and consumer confidence, possibly resulting in reduced consumer spending and lower company sales. Additionally, fiscal tightening could drive up interest rates, raising the cost of capital and making it more expensive to take companies private. Another concern was the lingering weakness in the banking system, leading to more risk-averse banks that were reluctant to issue loans for projects like leveraged buyouts (LBOs). Moreover, with slow and fragile recoveries in the Eurozone, China, and emerging markets, there was a risk of tighter lending policies, which could hurt global sales for companies like Dell, particularly those relying on customers' ability to purchase on credit. Beyond economics, geopolitical tensions in regions like Western Asia remained significant risks, potentially altering economic forecasts. Finally, the sequestration triggered in the US, had a potential to reduce the expected growth in GDP leading to reduced consumer spending, reduced investor and consumer confidence and making uncertainty regarding future cash flows and forecasts higher, which could make LBO deals even more challenging (United Nations 2013). Although 2013 marked the first year where the economy appeared stronger than ever following the crisis, it was still important to acknowledge risks and uncertainties beneath this prosperous economic picture.

1.6 Cast of characters in the LBO: the role of Silver Lake

From the moment Silver Lake was just an idea in the minds of the founders, it has emerged as one of the most prominent names in the private equity industry through its successful buyouts. At the time, the company was quite innovative in its initial mission, which was to exclusively focus on leveraged buyouts for tech companies. With funding from well-known figures like

Bill Gates, Larry Ellison and CalPERS, Silver Lake had $2 billion at its disposal just a few months after its funding in 1999. The fund sought to focus on the technology industry: Jim Davidson, Gleen Hutchins, Roger McNamee, and Dave Roux were four friends who swiftly rose to prominence as some of the most distinctive founders in the records of private equity.

LBOs in the technology industry were relatively rare in the early 2000s, due to a combination of factors that usually discourage private equity investments: inflated valuations, inconsistent earnings, a lack of profits. With more deals and a wave of competitors copying its strategies, Silver Lake quickly established itself as a major force in the private equity market. The company raised its second flagship fund in 2004, and its third fund in 2007, the same years in which the original founders left the company. Silver Lake primarily operates across four investment strategies: large-scale transactions, middle-market investments, growth-stage financing, and investments in the energy and resources sectors. The technology industry, in which the supported companies operate, is the common denominator of all these operations. The California-based company operates in a number of technology-related subsectors, such as e-commerce, semiconductors, cloud computing, mobile, and IT infrastructure. Considering the company's founding purpose, it is not surprising that about 65% of Silver Lake's investments have been concentrated in the IT sector, with the remaining percentage being distributed across the B2B and B2C sectors. The deal with Dell was among its largest buyouts, and the transaction overall was one of the biggest carried out in the United States between 2009 and 2013. One of the important players in the Dell transaction was Egon Durban. Having joined the company at the outset, he was instrumental in several high-profile transactions, including Silver Lake's acquisition of Dell and its takeover of Skype a few years prior.

Silver Lake rejects the term 'LBO shop,' which is often attributed to the firm by the market, even though it possesses the potential and all the tools to leverage technology companies. The fund uses deal structure to add incremental returns, though this is typically not part of the fundamental thesis of the deals it makes. Jim Davidson, one of the firm's original founders, argues that Silver Lake has never truly taken the lead in the entire process of structuring deals. Part of this stems from the fact that the firm focuses exclusively on technology or on those aspects of the economy enabled by innovation, rather than any other element at play. If using debt enhances returns on equity, Silver Lake does not hesitate to do so, and even if it's not how they lead negotiations, it is certainly one of the factors that motivates investors to work with the fund. Leverage has never been central to a Silver Lake transaction, in part because the firm entered the market when technological advancements were 1.5 to 3 times faster than global economic growth overall. Silver Lake's portfolio has seen a wide range of leverage levels associated with its investments, ranging from zero net debt to investments with a debt-to-equity ratio of eight times. Before making its major move with Dell, the firm made headlines when it led the acquisition of a 65% stake in Skype from eBay in 2009, valued at $2.7 billion. Despite being leveraged three times, Skype's portfolio grew rapidly. The transaction was a prime example of Silver Lake's thematic approach to technology investing and emerged as one of the most significant buyouts in the market in 2009. The development of the deal followed the fund's typical modus operandi: sharing its vision with the selling party and inviting it to actively participate in the journey. "Equity people" are not the only thing that Silver Lake is. Jim Davidson stated that the fund examines companies in the tech sector and seeks to determine the true franchise value before securing the best possible capital structure, one that preserves all the operational flexibility desired. The goal is to invest in the company, expand it, and improve it.

Silver Lake Partners was the main player on the "other side of the table" in this operation. The structure of the deal included the integration of 15.7% of the common shares held by Michael Dell, valued at $3.7 billion. Silver Lake invested approximately $1 billion in equity (this operation represents Silver Lake's largest equity contribution ever). Microsoft later entered the deal, lending $2 billion; $700 million in cash and the remaining billions were provided by four different banks: Bank of America, Barclays, Credit Suisse, and RBC. Lastly, the deal includes a penalty for Silver Lake: $450 million in favour of the fund if the deal did not go through and $180 million if Dell accepted another offer. The connection established between Silver Lake and Dell during the execution of the operation was key to its success. The American fund not only provided capital support but also offered the expertise and tools necessary to help Dell navigate the sea of evolution.

1.7 Sustainability at Dell

Sustainability is a topic of significant importance for Dell. As a key aspect of Dell's sustainability governance process, the company constantly engages in open discussions with stakeholders of the firm such as stockholders, customers, vendors to get feedback and address global challenges related to the environment and sustainability (Dell Inc. 2013b, 10).

In FY2013, Dell achieved its goal of reducing its greenhouse gas emissions by almost 30 million tons through enhanced product performance and energy-efficient settings. Additionally, Dell managed to reduce 5.3 million pounds of packing in 2012, increased the use of sustainable materials in cushioning packaging by 42% and made 75% of desktop and laptop packaging recyclable (Dell Inc. 2013a, 12-13).

Dell yearly conducts several environmental projects and focuses on product energy efficiency, minimising environmental harmful materials and offering responsible recycling options. The company offers a recycling programme that allows customers to recycle any computer or printer they purchase from Dell. The company was the first to launch such a program on a worldwide basis (Dell Inc. 2013b, 10). Dell extended its recycling services to 79 countries worldwide in 2012. Due to this, customers all across the world have easier access to recycling solutions. As evidence of Dell's dedication to reduce waste, the company recycled 170 million pounds of electronics worldwide. Due to this, Dell reached its goal of collecting 1 billion pounds of electronic waste (Dell Inc. 2013a, 40).

Moreover, the firm optimises its transportation network to cut emissions and uses sustainable packaging to reduce waste. Additionally, Dell is using a preventative approach in the product development in which harmful substances are replaced by sustainable alternatives. The goal is to obtain eco-friendly solutions that are reliable and economically scalable (Dell Inc. 2013b, 10).

By demanding a signed declaration of conformity and conducting supplier audits, Dell ensures that the suppliers are aligned with Dell's environmental policy. The company is committed to produce energy efficient and sustainable products. For this reason, the company applies environmental design rules. Moreover, Dell has been working together with the Institute of Electrical and Electronic Engineers to create green rating printers. In addition, Dell cooperated with EPA' Energy Star program to set new energy-saving standards for tablets and servers. Due to this, customer can easily recognize and choose eco-friendly products (Dell Inc. 2013a, 14-16).

To further minimise the environmental impact, Dell provides customer tools to optimise their IT operations regarding costs and sustainability. The firm also started to use more green energy sources. Almost 23% of the energy purchased was green energy in FY2013. Moreover, Dell was able to power 16 facilities with renewable energy. With a 98% recycling and reuse rate for non-hazardous waste by 2012, the company has made substantial progress in its manufacturing operations and nearing its 99% target set in 2007 (Dell Inc. 2013, 10).

Since 2003, the business has provided the Carbon Disclosure Project (CDP) with emissions data. By joining CDP's Supply Chain Leadership Collaboration Project, Dell monitors not only its own emissions but also those of its supply chain (Dell Inc. 2013a, 26).

1.8 Financial Information

In the fiscal year 2013, Dell generated a total net revenue of $56.940bn. This is a decrease of 8% compared to the fiscal year of 2012, when a revenue of $62.071bn was generated. The gross margin dropped from $13.811bn to $12.186bn in 2013. The operating expenses decreased by 2% from $9.380bn to $9.174bn in fiscal year 2013. Furthermore, the operating income decreased from $4.431bn in the fiscal year 2012 to $3.012bn in 2013, which is a change of 32%. The net income shows a similar picture. It fell from $3.492bn in 2012 to $2.372bn in fiscal year 2013 (Table 1).

	February 1, 2013		February 3, 2012	
	Dollars	% Change	Dollars	% Change
Net revenue	$56,940	-8%	$62,071	1%
Product	$44,744	-10%	$49,906	-
Services, incl. Software related	$12,196	-	$12,165	6%
Gross margin	$12,186	-12%	$13,811	21%
Operating income	$3,012	-32%	$4,431	29%
Net income	$2,372	-32%	$3,492	33%

(in millions, except percentages)

Table 1 – Revenue and Income

The overall decreasing development is mostly due to a drop in revenue in the consumer segment. Revenue in the other segments (large enterprise, public and SME business) declined as well between 2012 and 2013, although less significantly (Table 2). Multiple factors contributed to this trend, including a weak global macroeconomic environment, competitive pricing and an increase in competitors in the tech sector (Dell Inc. 2013b, 30).

Group part

Segments	February 1, 2013		February 3, 2012	
	Dollars	% Change	Dollars	% Change
Large Enterprise				
Net revenue	$17,781	-5%	$18,786	4%
Public				
Net revenue	$14,828	-8%	$16,070	-2%
Small and Medium Business				
Net revenue	$13,413	-1%	$13,547	7%
Consumer				
Net revenue	$10,918	-20%	$13,668	-5%

(in millions, except percentages)

Table 2 – Revenue of segments

The net revenue can be split into product and services. While the product revenue decreased by 10% in 2013, the generated service revenue stayed at the same level as compared to the fiscal year 2012 (Table 1). In the U.S., the revenue decreased by 7% to $28.2bn. Revenues from international business dropped by 9% to $28.7bn (Dell Inc. 2013b, 31).

The product gross margin as percentage of revenue fell from 20.5% in 2012 to 18% in 2013. The service gross margin increased from 29.5% to 33.8% between 2012 and 2013. This can be explained by an increase in services and software-related offerings (Dell Inc. 2013b, 32).

The expenses can also be divided into selling, general and administrative (SG&A) expenses and R&D expenses. Absolute SG&A expenses decreased in fiscal year 2013 by 5% but slightly increased as a percentage of revenues. On the other hand, absolute R&D expenses increased in fiscal year 2013 by 25% and increased as a percentage of revenues from 1.5% to 1.9% between 2012 and 2013 (Table 3).

Operating expensens	February 1, 2013			February 3, 2012		
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	% Change
Selling, general, and administrative	$8,102	14.2%	-5%	$8,524	13.7%	17%
Research, development, and engineering	$1,072	1.9%	25%	$856	1.5%	30%
Total	9,174	16.1%	-2%	9,380	15.2%	18%

(in millions, except percentages)

Table 3 – Operating expenses

Group part

1.9 Market Analysis

In the early 2000s, the PC industry was thriving, and Dell was one of the top-performing companies in this boom. As one of the older firms, Dell pioneered the Direct-to-Customer model in the 1990s, bypassing traditional retail channels to lower costs and speed up delivery times. Through this model, Dell engaged directly with current and prospective customers, gathering real-time feedback to refine its products and services, which became a powerful way to stay in sync with consumer needs. In 1996, Dell launched its online store, emphasizing its unique selling point: high-quality products at competitive prices. Dell's initial success was fueled by word-of-mouth marketing, which spread awareness of its innovations. Until PC demand began to slow, Dell primarily targeted individual consumers over businesses. By 2000, Dell had become the world's largest PC seller, enjoying widespread popularity and surging sales until 2012. However, by 2013, Dell had fallen to third place in global PC market share, behind HP and Acer (Alonso 2023).

In 2012, the PC market contracted as consumer preferences shifted, with many opting for tablets over replacing their PCs. This shift had a direct impact on Dell's market performance, as its market share fell from 12.2% in 2011 to 10.2% in 2012. Acer and other companies also saw declines in market share, while Lenovo, HP, and Asus were able to increase theirs. For example, Lenovo's growth outpaced regional growth rates in North America, EMEA, and Asia/Pacific. As the market evolved, with smartphones and tablets gaining popularity, Dell made attempts to adapt. In 2011, Dell launched the Venue, an Android smartphone featuring a 4.1-inch AMOLED touchscreen, aimed at improving web and media viewing. However, by March 2012, Dell announced it was discontinuing the Venue, because it never got any traction. Dell also introduced the Streak tablet, but it too was unsuccessful and even Android software was not suitable for it. Furthermore, Dell's collaboration with Windows 8 negatively impacted its PC sales, as the unsuccessful launch of Windows 8 led to decreased consumer interest (Alonso 2023). In contrast, Dell's competitors moved ahead. Lenovo, for instance, launched Lenovo Yoga in 2012, a convertible laptop that could function as both a laptop and tablet. While Dell was often seen as a PC company rather than a broader technology company, it did take steps to expand into new areas like cloud infrastructure. However, its competitors were more aggressive in responding to market changes, leaving Dell struggling to transform enough to remain competitive.

The M&A activity in the tech sector during 2012-2013 reflected key trends. Deal volumes for technology sub-sectors rose by 3.6% in 2013 compared to 2012. Valuation multiples (EV/EBITDA) increased for IT services and software but declined for internet and hardware, with the highest valuations attributed to companies offering cloud-based solutions rather than traditional business models. These trends underscored Dell's challenge in managing its hardware-centric business and the growing need to pivot toward software and services. Despite year-over-year earnings growth in the tech sector, P/E multiples from 2010 to 2013 remained significantly below pre-recession levels, indicating an incomplete recovery. During the recession, tech companies prioritized cash conservation overgrowth, as evidenced by a drop in average cash spent on acquisitions from 18% pre-recession to 11% post-recession. This led to an unprecedented accumulation of cash reserves on tech companies' balance sheets. The inverse relationship between P/E multiples and cash levels highlighted the importance of deploying excess cash for internal development or external growth. The competitive landscape intensified as technological advancements accelerated and new trends emerged. By 2013, the global cloud computing market was projected to grow at a 30% CAGR, with end-user spending on public cloud services increasing by 18% to $131 billion. Large companies heavily invested in cloud solutions, and sales of mobile devices like smartphones and tablets were expected to grow by 20% that year (Deloitte 2014). Big data analytics also gained traction among major players.

These shifts emphasized the urgency for Dell and other tech companies to diversify and invest in growth areas such as cloud solutions, big data analytics, and IT services to remain competitive.

1.10 Dells' Public Market Struggles

The global economy in 2012-2013 was still in recovery, and stock prices were lagging behind. Dell's shareholders were frustrated with the company's stock performance, as Dell's stock, which had closed at $15.51 in early January 2012, fell to $10.88 by the end of the year. Additionally, Dell was planning to shift its focus from the PC market to software and services. While this presented a potentially attractive opportunity, the volatile post-crisis macroeconomic environment and low investor confidence, as reflected in the depressed stock prices, made the prospects for this strategy in the public market appear unpromising in the near future. So, by the end of 2012, with Dell's stock having declined over the past year, frustrated shareholders were putting increasing pressure on the company's management to take action (McGee 2024).
The PC market underwent a significant shift in 2012, with global PC shipments declining by 4.9 percent in the fourth quarter compared to the same period in 2011. This decline was primarily driven by changing consumer preferences, as demand shifted from PCs to more attractive devices like tablets, which were gaining popularity at the time. As a result, total PC shipments fell from 42,8 million in 2011 to 37,6 million units in 2012. The growing interest in smartphones and tablets posed a new challenge for PC companies, pushing them to innovate and diversify their product lines. Dell, in particular, needed to diversify its offerings to avoid being overly reliant on PCs (Gartner 2013).
Moreover, Dell struggled in comparison to its competitors. While Dell's market share dropped nearly 2 percent in the fourth quarter of 2012, HP held its leading position, and Lenovo posted year-on-year growth. Preliminary worldwide PC vendor shipment for 2012 indicated that Dell experienced a 12.3% decline in growth, while competitors like Lenovo achieved a 14% growth

rate. These factors—declining stock prices, shifts in the PC market, and lagging behind competitors who had already diversified—created significant challenges for publicly traded Dell

1.11 The Dilemma

Dell, once a leader in the PC market, now found itself at a critical point. With a shifting global landscape and an unstable economy, Dell struggled to keep pace, unlike its competitors who had already diversified. Although the economy was recovering, potential fiscal tightening added more uncertainty for Dell, creating another challenge for Michael Dell. Competitors like Lenovo and HP had surged ahead, making Dell's comeback even harder. The shrinking PC market has led to a significant decline in Dell's sales. Unfortunately, the company was slow to adapt in the public market. Nevertheless, facing an increasingly fragile market, Dell had to act to remain relevant. The big question was whether it could successfully transition and diversify, considering pressure from stakeholders, fierce competition, drastic market changes, and a negative market outlook. Any move to pull the company out of its current struggles would be seen as a bold risk. Yet, bold risks can lead to great rewards. The dilemma was clear: should Dell keep fighting as a public company, or step out of the spotlight to rebuild

Beatrice Sasso

Dell Inc. Strategic Analysis, Defining Agreements, Managing Debt, and Stakeholder Relations

1 How could privatization influence Dell's business strategy?

1.1 The climb to privatization

In a 24.4 billion Leveraged Buyout, Dell Technologies, the once-dominant personal computer giant that is currently having difficulty holding onto its position in the tech ecosystem, was taken private. Will the business be able to recover without the pressure from investors? Let's go back a few months.

In October, Dell informs the market that it has received all required clearances to move forward with the acquisition, which is being financed by its founder and Silver Lake Partner. Although a 65% majority of shareholders have already authorized the proposal, the purchase required federal regulatory permission. Before the third quarter of 2014, Dell hopes to finalize and close the deal. Michael Dell talked about the path the computer giant was taking in an interview with AllThingsD. According to the CEO, his goal is to reinvest in the business, reimagine it, adopt a different strategy. He wants to establish a special channel for close enterprise clients and keep prices competitive, providing PCs and tablets to managers, staff members and homemakers.

Micheal Dell's attempt to sell his business turned into a protracted battle between two significant rival offers. Two rival takeover offers were presented to Dell's board of directors in May: one from an American activist investor Carl Icahn, and the other from the investment firm Blackstone. Compared to the founder's suggested price of $13,65 per share, both offers on the table provided a higher price per share. Carl Icahn's offer included $2 billion in equity financing and the purchase of $2 billion worth of shares at a price of $15 per. With a price of $14,25 per share, Blackstone's offer gave current shareholders the choice to stay on board. Bloomberg reports on the markets that other industry giants are advancing, Lenovo and Hewlett-Packard have indicated an interest in purchasing the business at a price higher than any prior bids. The actual proposals from HP and Lenovo are seen to be quite unlikely. Their involvement only makes Michael Dell's strategy more difficult. The immediate payout that Dell's founder promises to deliver to shareholders through the privatization deal appears unsatisfactory to some investors. Approximately 4,4% of Dell's shares are owned by the investment firm T. Rowe Price, which has publicly criticized the proposed terms. With about 8,5% of the shares, Southeastern Asset Management has also stated that it intends to vote against the transaction as it is. This opposition indicates that some investors are seeking a bigger offer than the proposed $24.4 billion, it does not necessarily represent a clear danger to the takeover. For Michael Dell's privatization ambitions to proceed, a majority vote in support of his buyout bid with Silver Lake is desperately needed.

In July, the offer on the table was $24.4 billion or the counteroffer from Carl Icahn. A morning's planned Dell shareholder meeting in that week's did not go as well as expected. The postponing of the meeting appeared to be an effort to buy some time, which was very valuable, as Michael Dell had not yet been able to get enough investor support to move forward with his plan. The previous month, Dell accepted to take into consideration Carl Icahn and Southeastern Asset Management's proposal. According to the Wall Street Journal, the plan called for a payout of $12 per share, in cash or stock. Carl Icahn's offer would allow stockholders who did not want to sell, to keep their shares, even if it is far less than Michael Dell's proposed price of $13,65 per share. Public trading of the remaining shares would continue.

In the summer of 2012, Dell came very close to approving its privatization plan. Michael Dell has had to increase his offer several times since the decision was made public. With a final agreed package of $13,75 per share and 13-cent dividend, the deal is worth $24.9 billion. The final count has not yet been made public. All the stockholders would receive hundreds of millions of dollars more than the board first agreed, according to Carl Icahn, who describes the raised final offer as evidence that the founder was feeling pushed. The activist investor continues to oppose the offer in principle, but now passively rather than actively, resigned. However, one of the biggest barriers to Dell's privatization has been removed.

Blackstone's group of investors strongly believes that Dell's stock market value is already fair. As the intrigue and talks over taking the company private continue, Dell's board has hinted that it may give Icahn's offer some serious thought. In order to limit Icahn's ability to take over the company, Dell told the markets that it had reached an agreement with him. The American investor agreed not to buy more that 10% of Dell Technologies' shares and not to enter into any agreements with other shareholders that would give the combined partnership more than 15% of Dell 'shares. Additionally, Dell gave Icahn and hid group a "limited waiver", which enables them to speak with other Dell shareholders about his offer and discuss possible joint ventures to support it. The deal between Dell Technologies and Carl Icahn was supposed to last until January 2013, or until the proposal from Silver Lake Partners and Dell was approved.

The markets were informed in January 2013 that Michael Dell was negotiating the removal of his company from the stock exchange. CNBC announced that Microsoft could be a potential investor to support the project, and with the software giant's interest in producing hardware for Windows 8, such a partnership could strengthen its business in the future. Michael Dell and Siler Lake Partners, the main sponsor behind the scenes, are officially in talks with Microsoft. Since the news broke, Dell's stock has increased by 15% and continues to climb in the U.S. and foreign markets. Microsoft has openly stated its aim to assist Dell in going private, following rumors of the software giant is investing billions of dollars in the company. Microsoft is going to provide about $2 billion for the venture, and Silver Lake, the same private equity group that assisted Microsoft in acquiring Skype for $8.5 billion in 2011, will oversee the entire deal. At first glance, stakeholders and investors involved may be surprised by the loan, but a closer look may reveal that it may represent a defensive strategy. Let's clarify.

New technological trends, up-and-coming start-ups and, finally, fierce rivals such as Google and Salesforce, are all threats to the software giant's hegemonic market position. Google and Microsoft have been engaged in a verbal sparring match in recent years, with Microsoft taking decisive defensive measures to keep business clients' support. Dell is a prime example of this tactic. February of 2013. With the completion of the acquisition, Dell formally privatized the business and taken it off the stock exchange. For every common share they own, Dell's shareholders will receive \$13,65, which is about 25% more than the company's closing price of \$10,88 per share on January 11th, 2013, the final trading day before the acquisition was made public. The deal has been the subject of constant reporting by Bloomberg and the Wall Street Journal since then.

1.2 Business Transformation and Adaptation to a Declining Market

Dell chose to adopt a primarily defensive strategy. The plan includes three major objectives: regaining competitiveness in the personal computer industry, expanding services and software solutions, and increasing sales capabilities. By making significant investments in R&D, improving control over the pricing of its PCs and servers, and growing its sales force, Dell aimed to achieve these goals. The plan is to use Dell's PC division to finance new software and services-related business capabilities. This ambitious plan entails numerous adjustments and, consequently, numerous risks. In essence, Dell's strategy is a proposal for business transformation. Additionally, while many publicly traded companies have successfully undergone transformations, none have done it in such a short amount of time without sacrificing the short-term trust of their shareholders. Because it promised capital expenditure and an immediate drop in profitability due to higher operating expenses, the strategy is risky by nature, as all good strategies are. If shareholders are not happy with the company's near-term returns, they start selling their shares and the company loses its value, and a good portion of its funding capabilities. Short-term risk implies lower share prices, which means less funding for the firm.

Therefore, without the shareholders' support, the strategy could not be implemented. The company's only choices were to go private or win over the shareholders. Dell chose to go private.

Going private is a difficult choice for a massive public firm with a market valuation of about $20 billion, one that requires a sometimes-complex procedure. Convincing the board of directors of the urgent necessity for change is the first step. To assess the decision, Dell's board of directors consulted experts, including JP Morgan, Boston Consulting Group, and Evercore. All of them shared a core opinion: the PC market is in decline. Despite the good examples set by IBM and BMW, it does not seem like a brilliant idea to fund a company transformation based on a declining firm. The experts' outlook was clear: the PC will be replaced by tablets and smartphones. The PC industry would brutally shrink if these group grew. Michael Dell disagrees. He believes that rather than replacing PCs, tablets and smartphones will only enhance the ecosystem and grow the market. The PC would continue to be the main productivity tool, while the tablet or smartphone would be an extra tool. The company's uncertain future created widespread confusion and hesitation among consumers, leading clients to put purchases on hold. Citing "incompetence" next to Michael Dell's name and calling it as a desperate attempt to stay in the spotlight on Wall Street, the media voiced their doubts about the plan.

Even though it took a while for Dell to fully implement its plan, the business did not sit around doing anything. Before the purchase talks ever took place, it had taken several strategic steps to drastically lessen its reliance on the declining PC market. Dell made significant purchases totaling more than $12.40 billion between 2007 and 2012 in order to expand its enterprise software and hardware offerings, which included cloud data management and storage. The acquisition focused on areas such as systems management, cloud security, data management in healthcare, data storage and cutting-edge software. Many years before privatization, the company had already started to break the connection between its PC market dominance and its financial health.

Since the 2000s, Michael Dell had anticipated how the technology sector would develop. Not the details, but the general trend that software, the cloud, and back-end are becoming more important, and that hardware and PCs are becoming less profitable. By observing that the amount of data in the world was growing exponentially, and that traditional data management would require server performance that was physically impossible to achieve, Dell was able to predict the needs of the market. However, he was aware that a solution was in the works: virtualisation, which uses computer-like software to create virtual mainframes inside of real mainframes.

2 How could Dell leverage its acquisition of EMC Corporation to strengthen its strategic positioning in the IT infrastructure and cloud markets?

2.1 Strategic Synergies

Three significant companies in the technology sector, Dell, EMC, and VMware, each have unique products and services that work well together. A database management system for businesses was one of EMC's successful products in the field of networked information storage systems. By enabling users to run multiple operating systems on a single device, VMware was a pioneer in virtualization. In addition to a number of back-end solutions that could grow and work well with the older technologies, Dell had a well-established distribution network. These three businesses began working together in 2001. Dell and EMC formed a strategic partnership to control a $100 billion market by 2005.

The partnership was a one-stone-three-birds project for EMC. In the first place, it provided a profitable distribution channel to clients that their rivals were already pursuing. Secondly, it made sure Dell would not collaborate with a rival. It also offered Dell three advantages. First, it gave a quickly expanding company access to high-performing products. Second, it provided it with a valuable client: Dell's serves were being used by EMC. Finally, it made it possible for Dell to further penetrate enterprise data centres. A strategic alliance that gave both Dell and EMC a competitive edge. In 2014, after both businesses had expanded and established themselves as leaders in their respective fields, Dell saw the potential for a merger as the two companies' services would bring significant value to their costumers when combined. EMC was publicly held while Dell was private, and when the idea was on the table, Dell found itself in competition with Cisco Systems and HP, two other interested parties. HP came very close to purchasing EMC.

EMC had expanded significantly by that point: it had acquired any short-to mid-term potential start-up disruptors to eliminate them. Dell's solutions were uniquely complemented by EMC's three businesses: one of the market leaders for data storage systems is EMC Information Structure. VMware is the leader in virtualization. Pivotal is a new company that offers a platform for creating cloud software. A sophisticated yet successful financial plan enabled the merged, and the synergies created by the merger increased revenue significantly. The additional revenue was significantly higher than anticipated a year after the merger was announced.

In order to improve its competitive position in cloud solutions, data management, and IT infrastructure, Dell made this acquisition in 2016. The company could strategically position itself as a leader in cloud services and enterprise IT by utilising EMC'S resources and technology. Dell may provide enterprise-specific IT infrastructure solutions by using EMC's data storage expertise and its wide variety of hardware. Dell can provide better hybrid and multi-cloud solutions by combining EMC's technology, allowing customers to manage on-premises and cloud setting easier. A key component of the deal was EMC's 81% ownership of VMware: Dell can enhance its cloud services since VMware's virtualization software serves as the basis for numerous cloud and data centre solutions. EMC's portfolio offered strong cybersecurity and data protection solutions. Dell is now able to improve its security services by integrating EMC's cybersecurity, backup, and disaster recovery capabilities, which are essential for businesses that place a high priority on data integrity. Through the acquisition, Dell can expand its global footprint, especially in areas where EMC was well-established. The Asia-Pacific, EMEA, and Latin American areas, where cloud adoption and data centre requirements are increasing, may see deeper penetration as a result of this combined presence.

3 How was the main strategy for managing the debt incurred through the LBO?

3.1 Financial Strategy and Management of Incurred Debt

Long before the deal was completed, Dell Technologies meticulously prepared its approach to handling the significant debt accumulated as a result of the leveraged buyout. Dell's ability to consistently produce cash flows from its activities was crucial. In order to increase profits and free up funds for debt repayment, Dell streamlined operations and enacted drastic cost-cutting measures. Renegotiating supplier contracts, streamlining operations, and cutting down on redundancies were all part of this. In collaboration with the investment partner Silver Lake, Dell implemented methods to preserve liquidity within the portfolio while keeping repayment deadlines under control. Dell's strategy, known as "cash sweep", allocates surplus cash flows from daily operations to debt reduction whenever possible. This method allows a broad balance between debt servicing and the need for operational investments, which are essential in capital-intensive sector like this, where ongoing investments in R&D are required.

The Dell transaction involved a variety of debt kinds. High-yield debt (subordinate notes), bank debt (term loans), mezzanine debt, and revolving credit facilities (known as "revolvers") make up the seniority of debt. Because it has tighter limits, is frequently secured by assets and must be repaid, debt with higher seniority is therefore less expensive, and poses a significantly lower risk to lenders. One of the bank's revolvers is the asset-based loan (ABL). With a maximum debt amount of $2 billion over a five-year period, it offers the lowest interest rate at LIBOR +275 basis points. This facility allows Dell to draw down the revolver when they need money and pay it back when they have extra. About 23% of the money came from Term Loan B, Term Loan C, and Euro Term Loan. Term loans have more stringent maintenance covenants, even though they are less expensive than other forms of subordinated debt. These covenants force the company to maintain performance indicators, tested on a quarterly basis. Although Term Loan C was less expensive than Term Loan B in this specific transaction, it required a higher quarterly amortization of 2.5% of the original principle. In order to cover the necessary costs, the Euro Term Loan was denominated in euros.

Senior and subordinate loans were both structured with fixed interest rates. The interest rate on the senior loan, which held priority in case of any repayment issues, was 5.62%. Dell benefited from the fixed rate since it gave them stability in their debt service commitments without making them susceptible to rising interest rates. Senior debt is generally more secure for lenders, which typically results in a lower rate compared to junior debt. Additionally, in collaboration with Microsoft, Dell issued a large, subordinated note with a fixed rate of 7.25%. Since subordinated debt is considered riskier than senior debt (as it is repaid only after senior obligations are met in the event of default), this kind of debt carries a higher interest rate to offset the greatest risk. This increased rate also represents Microsoft’s involvement in the deal as a strategic partner rather than a merely financier. For both forms of loan, fixed rates were chosen as a purposeful strategy to control cash flows in a predictable way. A fixed-rate structure can offer stability in capital-intensive technological sectors, which is crucial for long-term planning and controlling continuing operating costs.

With a “cash sweep” model, in which all excess cash is used to repay the incurred debt, this amount is calculated by subtracting cash flow from investments and mandatory debt repayment from operating cash flow, while maintaining a minimum cash balance to sustain daily operations. The cash flow from investments is comprised of capital expenditures and acquisition of intangible assets; in the case of Dell, both cost items are essential for maintaining the business. They allow the company to maintain its assets and continuously develop its product offerings: these items do not disappear during the LBO transaction. Additionally, a minimum cash balance is assumed to ensure the company can sustain its operations in the coming years.

4 How did LBO change Dell's relationship with all the stakeholders?

"Improve efficiency, increase IT productivity, and reduce costs" are Dell's management pillars. A PESTLE analysis, which encompasses political, economic, social, technological, legal, and environmental factors, can be used to analyse the trends in the industry and the relationships the company maintains every day.

4.1 PESTLE Analysis

In terms of political aspects, the political and legal environment is one of Dell's main sources of intimidation. Different laws and rules, including as trade agreements, import/export limitations, and tax laws, have an impact on Dell's activities. Dell's supply chain and market position were impacted by political stability, especially in the oriental markets. The US – China trade relationship was crucial since Dell sources a large amount of its component from China. Costs and profitability may be impacted by any trade restrictions or tariffs. Since there are many formalities involved in obtaining government contracts and the Chinese government prefers to support and promote domestic PC sellers over foreign ones, local firms in China are preferable by the China government.

The type and direction of the economy in which a corporation operates is known as the economic environment. Although the word economy was rising from the 2008-2009 financial crisis in 2013, regional development was still uneven. China, one of the emerging countries, demonstrated strong development, providing Dell with chances to increase its presence. The biggest concern facing Chinese computer industry is the issue of software piracy. With the largest population, China offers many economic potentials, but it is suffering from a lack of skilled workers. Dell is aware that cheaper systems are preferred in China. Businesses and individuals were cautious with their expenditures after the crisis. The goal of Dell was to reduce the company's dependency on the slow PC market and allow it to concentrate on higher-margin enterprise products.

In terms of sociological aspects, offering door-to-door or in person services is necessary for Dell to boost costumer confidence in the business and its offerings. Online collaboration tools and remote working were growing in popularity. This development gave Dell the chance to meet consumer demand for dependable desktops, laptops, and enterprise-level solutions. Growing middle-class population and rising internet penetration in nations as China, India, and Brazil pushed Dell's strategy of entering emerging markets.

The organizations and activities involved in incorporating new technologies into goods, materials, and procedures make up the technological sector. Technology is mostly focused on making things faster and smaller. By giving access to matured technologies, the institution has established itself as a vital government resource. Through the internet, businesses can quickly provide customized services to their target client group and get their name out there. However, after the privatization, Dell's position in the technology sector is threatened by the high cost of internet access in China.

As a technological business, Dell's capacity to safeguard its intellectual property such as software, patents, and trademarks, is crucial to its success. Due to prevalence of patent conflicts in the computer sector, Dell has to keep up strong Intellectual Property Rights practices to prevent expensive litigation. Dell received a $4 million fine for deceptive and fraudulent advertising about PCs that were sold to customers in New York. Two businesses in New Orleans allege that Dell is working with local authorities to promote a security camera system. This demonstrates how the legality of Dell's activities in different nations is interfering with their business.

Dell wants to create a corporate culture that is more environmentally conscious due to the principles of environmental preservations and waste reduction, which align with the values of the direct business model and are more efficient in providing value to customers. Dell works to improve the surrounding environment for its employees and to establish strategic alliances. The company's commitment to open communication with its suppliers, customers, and employees is based on its direct business model. Dell has direct conversations with socially responsible investment group, shareholder activists, and a wide range of nongovernmental organizations seeking business meetings to find a global solution to most public and environmental issues. As a leading tech company, it came under growing pressure for its electronic waste and the business had to set up sustainable recycling systems.

4.2 Dell's Shift to Enterprise IT Solutions

Through the LBO, Dell was able to reorganize its connections with all the main stakeholder groups, giving long-term strategic goals precedence over short-term financial goals. Dell changed its course from being a publicly traded corporation that concentrated on PCs to being a significant player in enterprise IT solutions by working more closely with enterprise clients, developing stronger ties with data and cloud sellers, and investing in staff and innovation. This shift entailed putting more of an emphasis on establishing strong and durable relationships with corporate clients, providing them with data centre infrastructure, cloud technologies, and full IT services. Through the change, Dell was able to strengthen its B2B client connections and establish a reputation for providing large businesses with integrated and high-quality solutions.

The LBO removed the public market's short-term scrutiny and allowed Michael Dell and his team to concentrate on long-term plans free from activist investor's interfering. Private equity stakeholders took the place of shareholders who sold their shares during the buyout because their goals were more in line with creating value over the long run.

5 Conclusion

Dell's decision to go private marked a pivotal step in its transformation strategy, allowing the business to concentrate on long-term objectives free from the demands of immediate shareholders' expectations. Dell took decisive action to lessen dependency on PCs by diversifying into enterprise software, cloud solutions, and data management in response to a falling PC market and criticism from media and industry experts. These initiatives, supported by large acquisitions and strategic vision, emphasized Michael Dell's prediction of a changing technological environment dominated by software, virtualization and cloud services. A careful balance between operational investment and financial restraint is demonstrated by Dell's strategic approach to handling significant debt from its leveraged purchase. Dell maintained liquidity while fulfilling its financial commitments by implementing stringent cost-cutting measures, optimizing operation, and implementing creative tactics. Cash flow management was made stable and predictable by the systematic use of a variety of financial instruments. Through careful debt management and strategic financial engineering, Dell was able to preserve financial stability while prioritizing long-term growth and R&D investments, guaranteeing sustainable operations in a capital-intensive industry. Dell's strategic development demonstrated its capacity to use creativity and adaptation to challenge external circumstances. Dell had been successful in coordinating its goals with market demands and regulatory constraints by tackling trade issues and economic imbalances, utilizing technical breakthroughs, and encouraging environmental responsibility. Dell established itself as a top supplier of comprehensive and superior IT solutions by putting emphasis on enterprise customers and environmentally friendly operations.

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