

A critical appraisal of strategic action plans



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Dell chief Michael Dell, right, visited a new manufacturing plant in Chengdu, China, on June 6. The computer maker's chief executive has barely talked publicly about the proposed deal struck in February to take Dell private—a controversial transaction that has become in part a referendum on Mr. Dell's stewardship of the company he founded nearly 30 years ago. On Friday, however, Mr. Dell laid out in an eight-page presentation to investors why he believes his company needs time away from the scrutiny of public shareholders to push through a corporate turnaround that so far has found a rough road.

As a public company, we must take a more cautious approach to our transformation, because we must consider how our stock price will react to the steps we take and what effect that will have on the company and on customers and employees," Mr. Dell says in the presentation, which was filed with the Securities and Exchange Commission. " This hurts the speed and efficacy of the transformation and isn't good for the long-term health of the company. " The presentation—titled " The Rationale for a Private Dell"—adds more detail to prior disclosures about pressures the company is facing.

It states that the personal-computing market is deteriorating faster than expected, and Dell hasn't yet been able to make up the difference with newer businesses selling corporate software, computing storage and other services to companies. Dell's market share in software and services, for example, remains less than 1%, the document states. The company also is threatened by potential margin erosion from competition in sales of server systems, and the company's share of the market for storage systems has

deteriorated since Dell ended a reseller relationship with EMC Corp. , EMC -1. 66% it adds.

Mr. Dell said the company may need more cash, and is better off with a duo of determined equity holders—himself and partner Silver Lake Partners—rather than public stockholders. The presentation lays out many of the same arguments made for months by Dell directors, who voted to approve the buyout. But this is the first time Mr. Dell is making the case on his own. According to a person familiar with the matter, Mr. Dell released the investor presentation because he is meeting with Institutional Shareholder Services, which advises stockholders how to vote on deals and other corporate issues.

People familiar with shareholder discussions believe the recommendation of ISS may be the swing factor in whether the Dell buyout is approved or defeated. He plans to meet soon with Dell stockholders to personally make his pitch, according to a person familiar with Mr. Dell's plans. Taking his buyout views directly to shareholders shows the stakes for Mr. Dell, who is risking part of his personal fortune and his reputation as a pioneering technology entrepreneur. He pledged \$4.5 billion of his cash and Dell stock toward the proposed buyout. The buyout is facing loud opposition from investor Carl Icahn and some other Dell stockholders.

The opponents say Mr. Dell is unfairly taking advantage of a low point in his company's fortunes to buy Dell on the cheap. Mr. Icahn said Mr. Dell's arguments are self-serving. " I have one simple question: If the company is so bad, why is Mr. Dell fighting so hard to buy it? " he said in an interview Friday. Some of the company's long-term shareholders have said their

investments have subsidized Dell's push into newer business lines like computing storage and software, and they believe the buyout deal strips them of a chance to reap rewards if those businesses pan out.

But repeatedly in the investor pitch, Mr. Dell mentions concerns that employees and companies that buy Dell products will be unnerved if Dell stays public and is subject to further punishing stock-market declines. People familiar with Mr. Dell's discussions have said he has spent time before and after the buyout was struck in February talking to Dell customers and assuring them he has their best interests at heart. If shareholders approve the buyout deal in a vote slated for July 18, Mr. Dell would own the majority 2of Dell's stock—giving him much greater influence over the company and its strategy than he has had.

Now, Mr. Dell and affiliates hold roughly 16% of Dell's publicly traded shares. It isn't clear that Mr. Dell's pitch will sway investors who feel shortchanged by the buyout. Some already have gotten phone calls from advisers working for Dell directors to urge them to vote for the buyout. They will soon be hearing from Mr. Dell too, and likely from Mr. Icahn, who this week floated a proposal for Dell to stay public and buy back up to \$16 billion in stock with the help of debt Mr. Icahn is seeking to borrow.

People familiar with the conversations with Dell shareholders say they believe they can win support for the buyout from a majority of Dell's stockholders. But the vote is complicated by Mr. Dell not being allowed to vote his stake for the deal, and by the continued pressure by Mr. Icahn. Dell shares closed trading Friday at \$13. 35, down 1 cent. The stock price

continues to trade below the \$13.65-a-share deal price, in a sign market participants believe the buyout will clear the shareholder vote next month.

The presentation states that Mr. Dell would oppose an effort to borrow money and keep at least some Dell shares publicly traded, a type of transaction that Mr. Icahn has supported. “ Adding substantial debt to the company while leaving it as a public company would decrease the company’s financial flexibility and hurt the company’s ability to weather an economic or business downturn,” Mr. Dell said. Deal watchers have wondered whether Mr. Dell would want to stay as CEO if company shareholders reject his buyout deal. In the presentation, Mr. Dell said if the deal vote goes against him, he would “ remain committed to doing my utmost for the company. “