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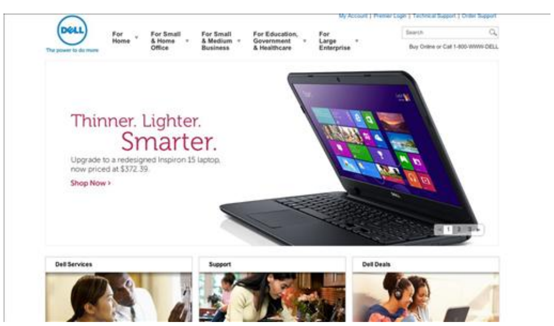
Dell Nears $23 Billion Deal to Go Private

By ANUPREETA DAS And BEN WORTHEN

Dell Inc. on Monday was close to finishing a $23 billion deal to take itself private at between $13.50 and $13.75 a share, said people familiar with the matter, in a buyout that marks an unofficial end to the era when a handful of young entrepreneurs made PCs the dominant computing device.

Timeline: Dell's Ups and Downs



Dell Inc. on Monday was close to finishing a $23 billion deal to take itself private at between $13.50 and $13.75 a share, said people familiar with the matter. WSJ's Ben Worthen reports on Digits. Photo: Dell.

The buyout, if approved by shareholders, would be the largest such transaction since the financial crisis, and reflects the combined heft of Michael Dell, the computer maker's founder and chief executive, software titan Microsoft Corp., private-equity firm Silver Lake Partners and a handful of investment banks.

As part of the deal, Mr. Dell would contribute his nearly 16% stake valued at $3.7 billion, and an investment firm he controls would provide $700 million, the people said.

Microsoft would invest about $2 billion in the form of a subordinated debenture, a less-risky investment than common stock, and Silver Lake Partners would invest more than $1 billion.

Microsoft isn't expected to get board seats or other governance rights in a closely held Dell, one of the people said. The companies are expected to tighten their commercial relationship regarding the use of Microsoft's Windows operating software, the person said.

Four banks are expected to arrange about $15 billion in debt to help fund the deal, and each would handle about a quarter of that amount, one of the people said.

At $13.50, the deal would offer about a 24% premium to the nearly $11 a share price that Dell traded at before the possibility of a deal became public in January. Still, it is less than the $18 a share price it had a year ago.

The people familiar with the matter said a final agreement hasn't been reached and terms could shift. Dell shares were trading around $13.29 apiece on Monday, down 2.5%. On Friday, the company's market value was around $23.7 billion.

The Round Rock, Texas, company was once the world's largest PC maker and boasted a market capitalization above $100 billion. But it largely has been sidelined as tablets and smartphones became the more popular devices and PC sales shrunk.

Mr. Dell, who started the company in 1984 in his dorm room at the University of Texas, decided to pursue a buyout of the company last year, people familiar with the matter say.

The 47-year-old is the sole executive among a cast of entrepreneurs still running a company that helped spawn the PC revolution. Among the others who built empires from PCs were Microsoft's Bill Gates, Gateway Inc. founder Ted Waitt, and Apple Inc. co-founders Steve Wozniak and the late Steve Jobs.

It remains to be seen whether Dell shareholders would support the deal. Some people involved in the buyout say investors likely would take the offer because of the broader trends in the PC industry and the risk it presents to Dell.

David Fleer, a portfolio manager at Bristlecone Value Partners, which owned nearly 84,000 Dell shares as of Sept. 30, said on Monday he would be disappointed if the computer giant went private at between $13 and $15 a share. He said he prefers a price up to half as much more.

If a deal was struck for a lower than his preferred price, he said, he would consider voting against it. "It is a fantastic deal for Michael Dell," Mr. Fleer said. But he doubts the CEO would accept the terms being discussed if he wasn't involved in the deal. "It just seems like a really low price," he added.

Some shareholders said they would be better served if the company took the billions of debt to be raised and used it to pay a special dividend to shareholders, who would still retain their ownership, rather than for a buyout that would change ownership from public shareholders to the chief executive and others.

Shareholders are "getting the short end of the stick," said Wayne Jervis, of hedge fund Jaamco. He said the fund has a modest position in Dell.

Mr. Dell's motivations aren't entirely clear. People who have worked with him say that the CEO wants to take the company private—and secure majority ownership—to secure his legacy. Private ownership also lets a company pursue strategic changes without having to regularly answer to shareholders.

PCs still account for about half the company's revenue and restructuring that business in ways that could sharply reduce Dell's top line and potentially alarm investors might be easier as a private company, analysts and people involved in the transaction say.

Dell's PC business is a key to maintaining relationships with companies that buy other products. It also brings Dell volume discounts on components that are also in other products such as servers.

But a private Dell could overhaul or even cease its consumer PCs operations, people who have worked closely with Mr. Dell say. The consumer unit hasn't had much luck coming up with hit products. For the nine months ended in November, it posted an operating loss of $19 million, while revenue declined 19% from a year earlier to $8.13 billion.

At the same time, the deal signals that Dell won't likely abandon the PC business entirely. In deal talks, Microsoft discussed receiving an assurance from Dell that a substantial majority of Dell devices will run Windows, one person familiar with the matter said.

The shift away from PCs also has posed a problem for Microsoft, whose Windows operating system powers most PCs but hasn't made much of a dent with other types of devices. An investment in Dell could help stabilize one of the software giant's key distributors and ensure that Microsoft has a major channel for Windows.

Lately Microsoft has been willing to use some of its cash hoard to make investments in other companies, with strings attached. For example, Microsoft is giving Nokia Corp. billions of dollars as part of a deal to get Microsoft software on the Finnish company's phones.

Microsoft ended December with $68.3 billion in cash and short-term investments.

While Microsoft's investment in Dell would enjoy some protections—a subordinated debenture generally has fewer protections than regular bonds but more than common stock—it risks upsetting other PC companies if Microsoft is seen as playing favorites.

On Monday, Hewlett-Packard Co., the world's largest PC maker, announced a computer that will run the Chrome operating system from Google Inc.

Whatever the investors' plan, they would need to execute while paying back billions in debt. Dell already has about $9 billion in debt.

Leveraged buyouts are funded with a relatively small percentage of cash put up by private-equity investors and their partners, and a typically much-larger percentage of new debt, which becomes the burden of the company being bought. The borrowings ultimately are to be repaid with funds generated by the company's operations or the sale of its assets.

Dell generates several billion dollars a year from operations, so investors thus far have viewed it as capable of paying off its debt.

Big LBOs were in fashion about six years ago, a period that saw multiple buyouts above $20 billion, including those of Hilton Hotels Corp. and First Data Corp. But such sizable deals haven't emerged since the recession, when some buyout targets struggled under the weight of their deal-generated debt loads as the economy turned.

Lately, with interest rates so low for so long, investors in debt markets have become hungry for deals like buyouts that can offer more-attractive yields. Private-equity firms can get better returns on their money when the debt they can raise for buyouts is relatively inexpensive.

At the same time, some say the Dell deal won't necessarily usher in a wave of big private-equity pursued buyouts. This deal, for example, was aided by the investment by Microsoft, help not every buyout firm can regularly tap.

—Shira Ovide and Ian Sherr contributed to this article.