

DELL Technologies



DELL EMC Secureworks[®] vmware[®]

Dell Technologies

LONG NYSE: DELL

PT \$58.59 (+14.44%)

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Presentation Outline

Roadmap of Pitch

1 Timeline of Dell

2 Early PC Industry [1980-2000]

3 Time of Troubles [2000-2010]

4 Dell's Private Turnaround [2010-Present]

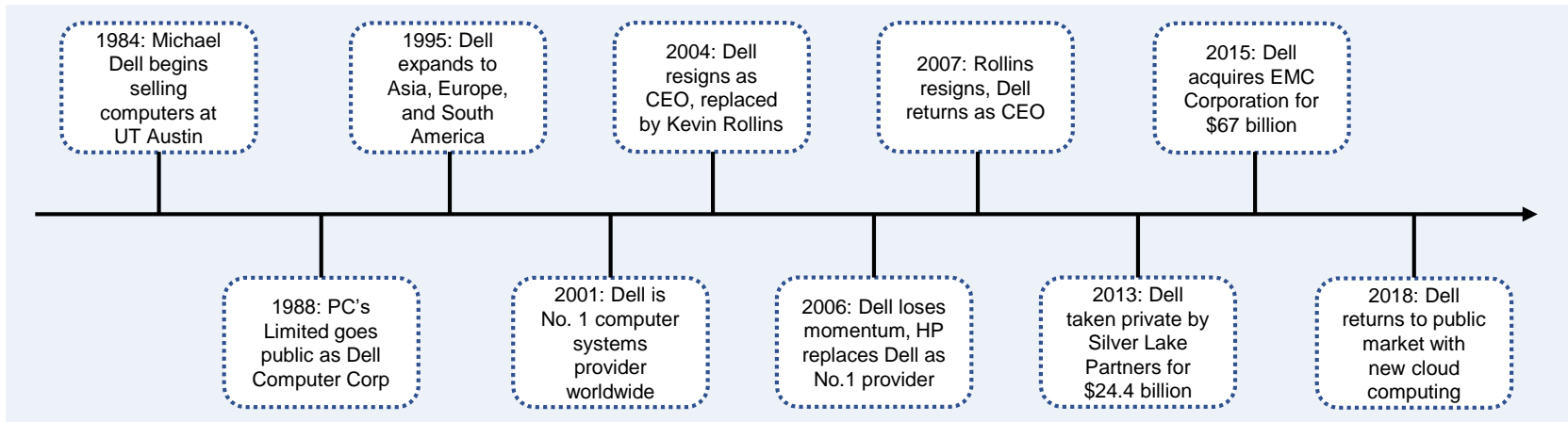
5 Introduction to Sum of the Parts Valuations

6 Catalysts



Michael Dell and Dell Timeline

Timeline



Dell CEO – Michael Dell



“He’s an absolute Chad.”

~ Anthony, 2020

Became the youngest CEO of a Fortune 500 company at 27

Owns 57% of Dell stock and 66% of voting rights

Orchestrated the largest buyout since the Great Recession

“Our business is about technology, yes. But it’s also about operations and customer relationships.”



Early Successes [1980-2000]

The Rise of the PC

Gamers Rise Up

Home video gaming begins to gain popularity with the Atari Video Computer System (Atari 2600).



Educational Applications

For many students in the 1980s, the Commodore PET was an introduction to desktop computing and simple programming.



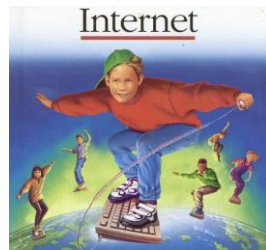
Household Uses

Released in 1982, the C64 helped establishing the home computing market. An early platform for consumer-friendly software, it remains one of the all-time, top-selling PC's.



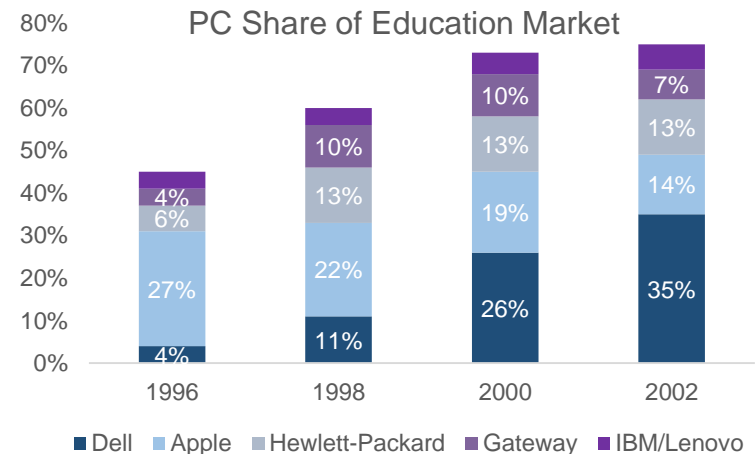
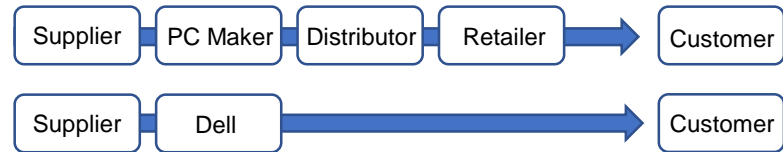
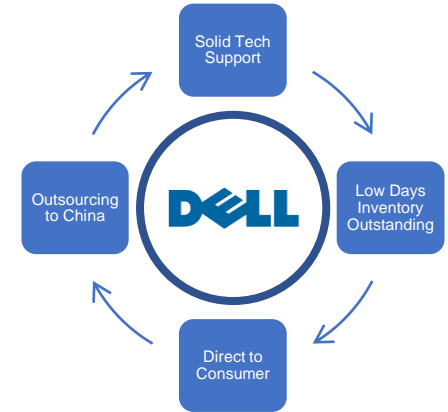
Information Superhighway

A term coined by Al Gore, the superhighway refers to digital communication systems and the Internet telecommunication network, providing users access to high-speed communication.



Dell's Competitive Edge

During the advent of the PC, Dell steadily captured share from competitors through unbeatable cost efficiency, thanks in large part to the CEO himself, Michael Dell. Their tight supply chain and differentiated customer experience drove sales for years.



Time of Troubles [2000-2010]

Maturing PC Industry

- By the **mid-2000's** the Global PC demand on the consumer front was reaching its limits
- Consumers began consolidating their number of computers, and began keeping their computers for longer time periods

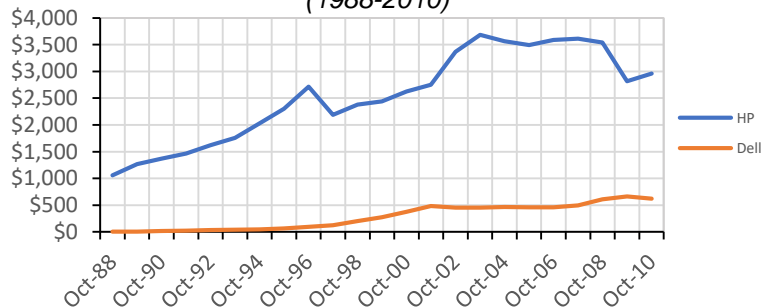
2002
~2 Years
Computer Life

2008
5+ Years
Computer Life

Heightened Competition

- By 2006, **mid-2000's** other PC manufacturers were emulating Dell's supply chain strategies, and could provide more innovative products for similarly low prices

Dell vs HP R&D Spending
(1988-2010)

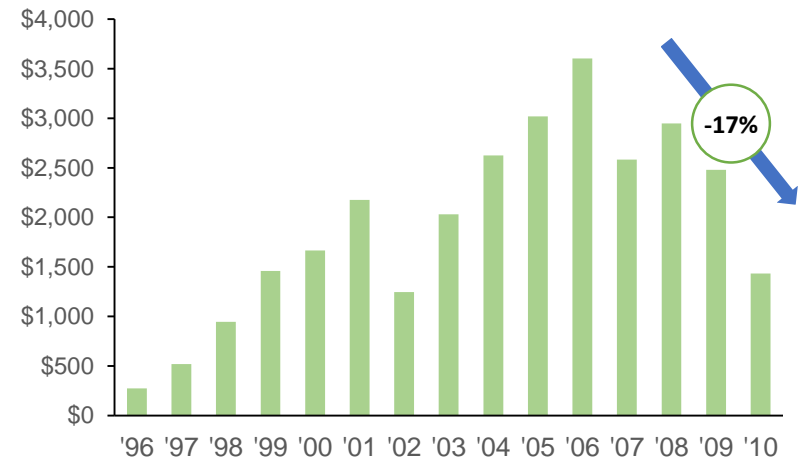


Management Changes

- Michael Dell stepped back from his CEO position at Dell in 2004, and was succeeded by his COO **Kevin Rollins**
- Rollins invested millions to developing new customer service centers in Canada and India
- This ultimately took further funding away from R&D, which Dell needed to compete against Lenovo and HP's more innovative products
- Increased headcount of Dell employees by **~8,000+** going into the 2008 Financial Crisis

Dell Net Income (in millions)

- Dell's Net Income fell drastically following 2006, falling by **-17% CAGR** from 2006-2010



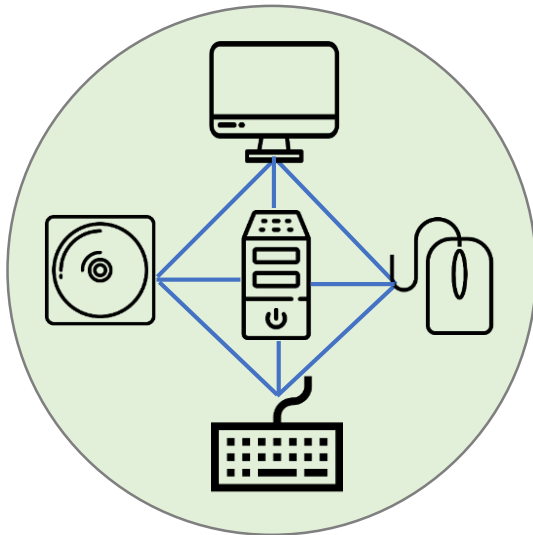
Introduction to End to End Technology

End-to-End Technology Company

- An end-to-end technology company is a company which can provide all products and services required to bring a technological product to competition
- Dell is one of the few-remaining end-to-end companies, having all the products to completely build a company a complex IT network

Pros: Simple for customer, Low-Risk of update errors, Standard process can be cheaper

Cons: Low customization, Relies on 1 company



Modern Tech Company

- Today, most day-to-day consumers use a combination of different products and software for their technological purpose
- By breaking up the overall system into smaller individual companies, each step can be optimized and customized to a users need
- Many of the older end-to-end tech companies lost market share due to these small software/hardware tech startups

Individual Consumer

Physical Hardware



System Software



GNU/LINUX

Application Software



PC Industry Nowadays [2010-Present]

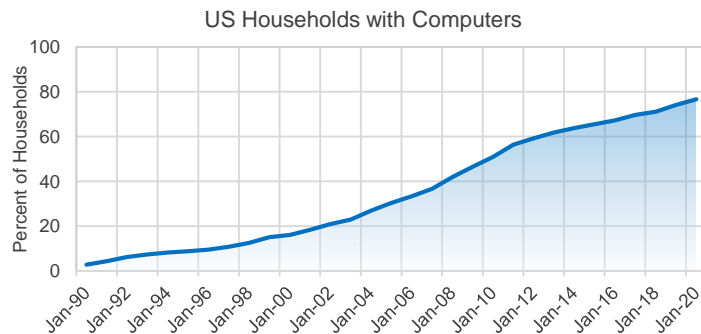
New PC Purchases

- PC Purchases have trended steady/downwards over the past **~8 years**
- This is due to product consolidation within the PC consumer base, where consumers own fewer distinct computers

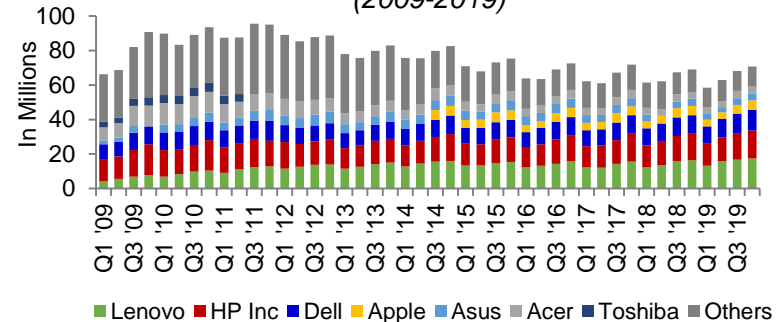
“The PC market continues to show pockets of resiliency as PC usage experience evolves and improves”

Demand

- The new PC industry is dependent on Corporate PC sales, while consumer purchases continue to decline
- Recent Windows 10 updates have spurred new PC Shipments, as Windows 7 was discontinued forcing corporates to repurchase

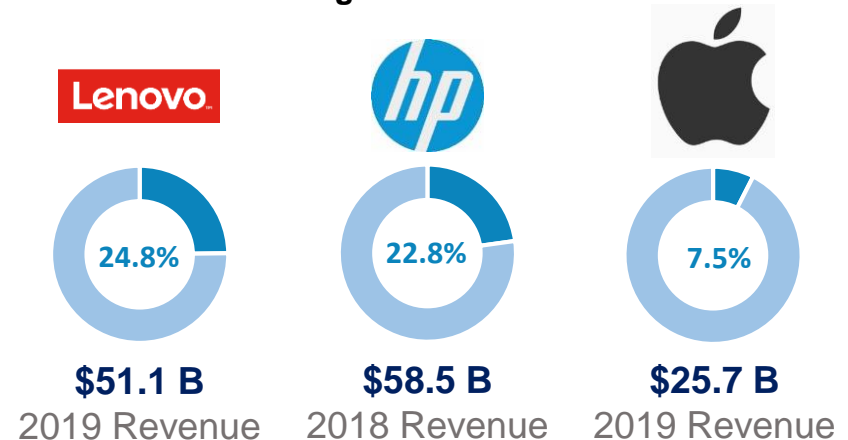


PC Shipments Worldwide (2009-2019)



Competition

- Dell competes primarily with other PC development/manufacturing firms, such as HP, Lenovo, Apple, and Acer
- Dell the **3rd largest** as of 2019



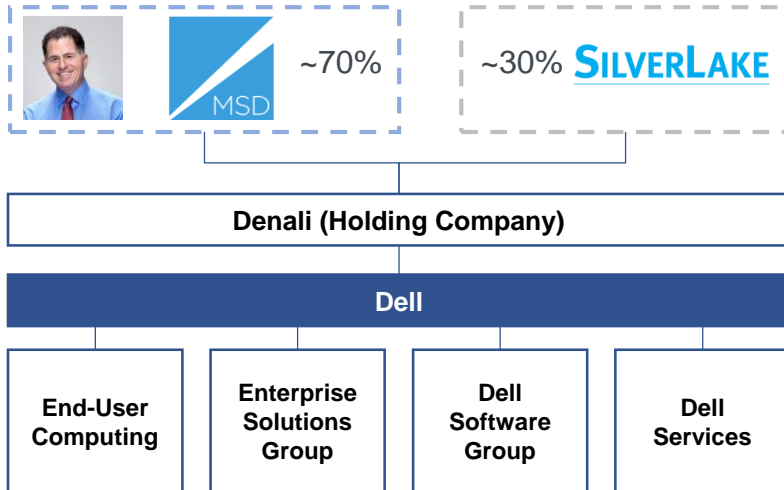
Private Company Turnaround Successful

Dell was taken private on October 29th, 2013 in a \$24.9bn deal by Silver Lake, a private equity firm, and Michael Dell. Dell Subsequently acquired EMC in another \$67bn transaction

What were the problems?

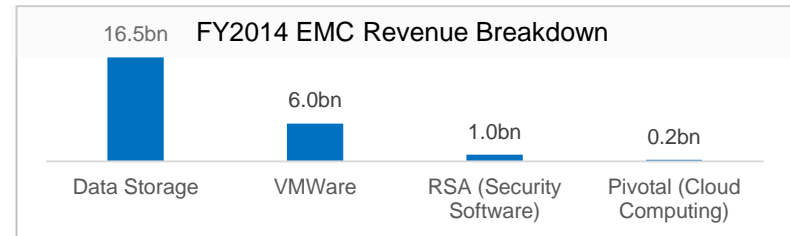
- Dell's share of an already **contracting PC market** slipped from 16.6% in 2007 to 10.7% in 2012
- Asian rivals in forced PC margins to razor-thin and **margin and market share** for servers continued to shrink
- The PC business, despite the decline, is still generating **substantial cash flow of \$5.5bn**
- 31 percent **fall in share price** over 5 years

Take-Private in 2013



Acquisition of EMC in 2015

- EMC is an American IT and data storage company founded in 1979
- VMWare is a software company that provides cloud computing and virtualization software



Rationale:

After the take-private, Dell is undergoing a significant makeover

- EMC allowed Dell to **diversify** into data centers, cloud computing, servers, software, services, security and system management
- Also allowed Dell to exploit the **converged infrastructure** pioneered by EMC

Going Private Is Paying Off for Dell

A year later, we're able to focus on customers and the long term, rather than activist investors.

By Michael Dell
Nov. 24, 2014 6:47 pm ET

WSJ | OPINION

SAVE PRINT TEXT



Brand New Business

Dell has experienced a successful turnaround, resulting it to be a much better business

VMWare

- Virtualization and cloud infrastructure solutions: broad portfolio of virtualization technologies across three main product groups: software-defined data center; hybrid cloud computing; and end-user computing
- 23.6x trailing EV/EBITDA** as of today

EMC (ISG)

- EMC's Information Storage segment (storage solutions) and Dell's legacy Enterprise Solutions Group (server and networking solutions)
- 50% of revenue comes from Americas, with the rest coming from EMEA and EPJ.
- Hovers around **10x trailing EV/EBITDA** multiple in 2014 and 2015

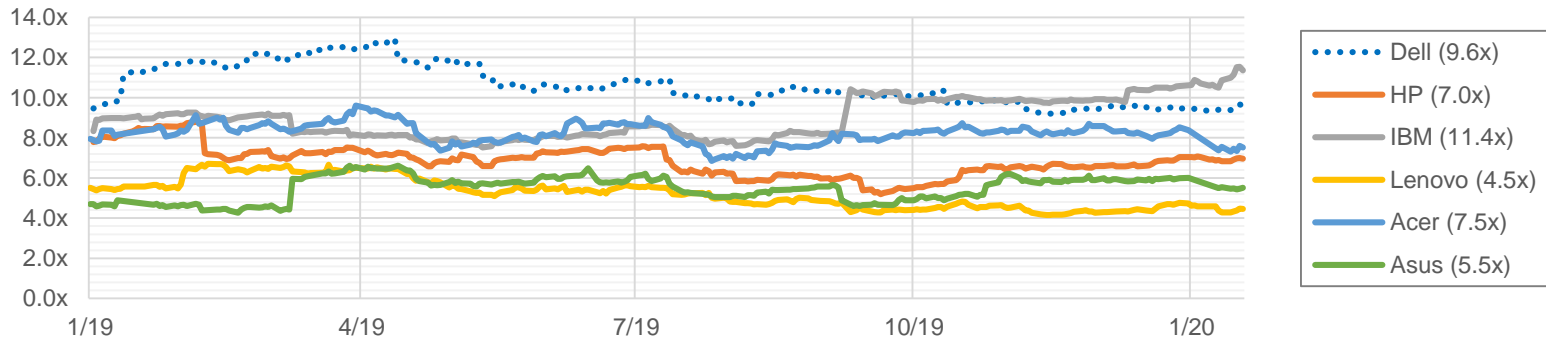
PC (CSG)

- Branded hardware: desktop PCs, notebooks, and tablets, and branded peripherals, such as monitors, printers, and projectors
- 50% of revenue comes from Americas, with the rest coming from EMEA and EPJ
- Should trade in line with other pure-play PC manufacturers (**Lenovo at 6.3x, Acer 9.7x**)

Post-Buyout

Pre-Buyout

Trailing EBITDA Multiple



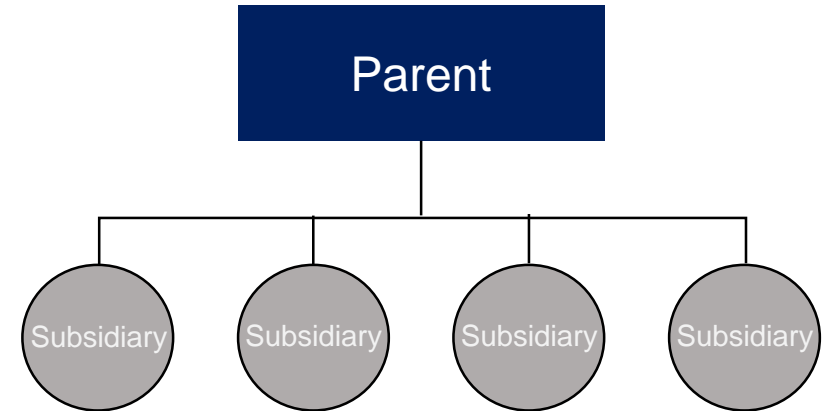
Corporate Federation

EMC

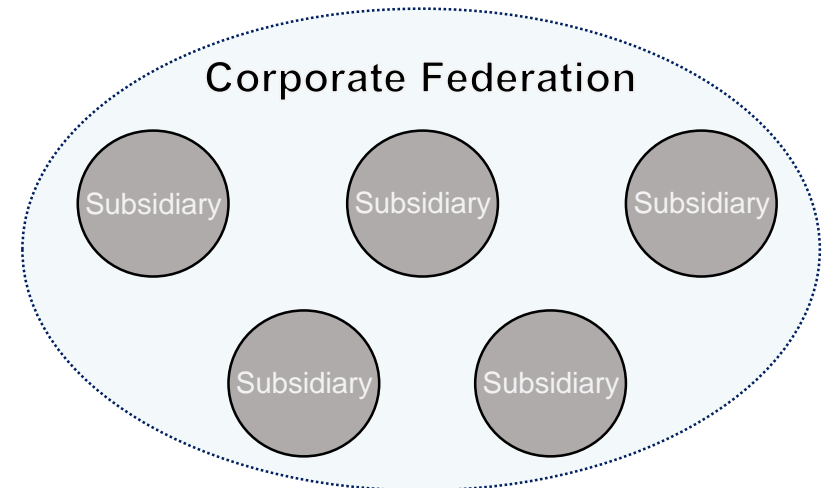
- EMC had a unique corporate structure that is rarely seen today, and has affected how Dell is able to fully structure itself
- EMC was structured as a Corporate Federation (co-operative federation)
- In a traditional corporate hierarchy, the parent company directly controls a number of various subsidiaries, and has a unified strategy
- A corporate federation allows each subsidiary to be independent of the others
- These subsidiaries would even be allowed to compete with the parent company directly
- Elliot management hated this strategy as VMWare and EMC were directly competing



Traditional vs Federation Structure



VS



Dell Rising Back to Relevance

Dell 2.0

- After restructuring themselves while private, Dell has emerged as a more efficient company
- The company has reinvested substantial time and money into repairing its supply-line efficiencies, while slimming labor costs by cutting unnecessary jobs
- Improved Free Cash Flow generation

In Millions	8/3/2018	11/2/2018	2/1/2019	5/3/2019	8/2/2019	11/1/2019
EBIT	(13.00)	(356.00)	331.00	550.00	519.00	836.00
(-) Income Tax	(2.73)	(74.76)	69.51	115.50	108.99	175.56
(+) D&A	1,931.00	1,961.00	1,940.00	1,616.00	1,498.00	1,494.00
(-) Change in NWC	(3,106.00)	1,429.00	(4,210.00)	(990.00)	(1,880.00)	(2,579.00)
(-) CAPEX	288.00	300.00	297.00	610.00	473.00	529.00
Unlevered FCF	4,738.73	(49.24)	6,114.49	2,430.50	3,315.01	4,204.44

Best Selling Laptops



Dell XPS 13

- 4.5/5.0 Avg. Stars
- Top selling laptop model for 2019
- Beat out HP Spectre x360 and Lenovo Yoga C930

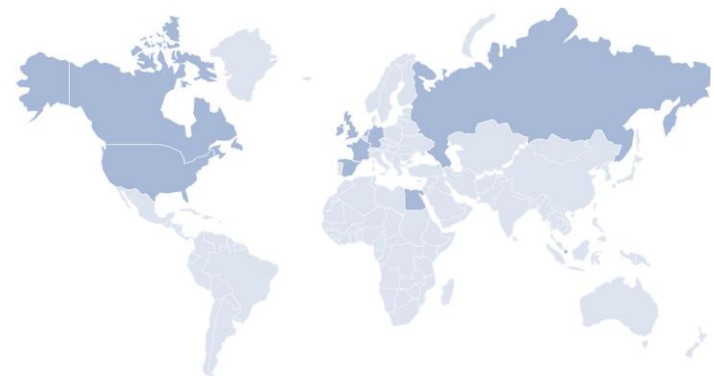
“One of the most powerful and best designed ultraportables laptops you can buy”
 ~PCMag “Best 2019 Laptops”

Early Market Returns



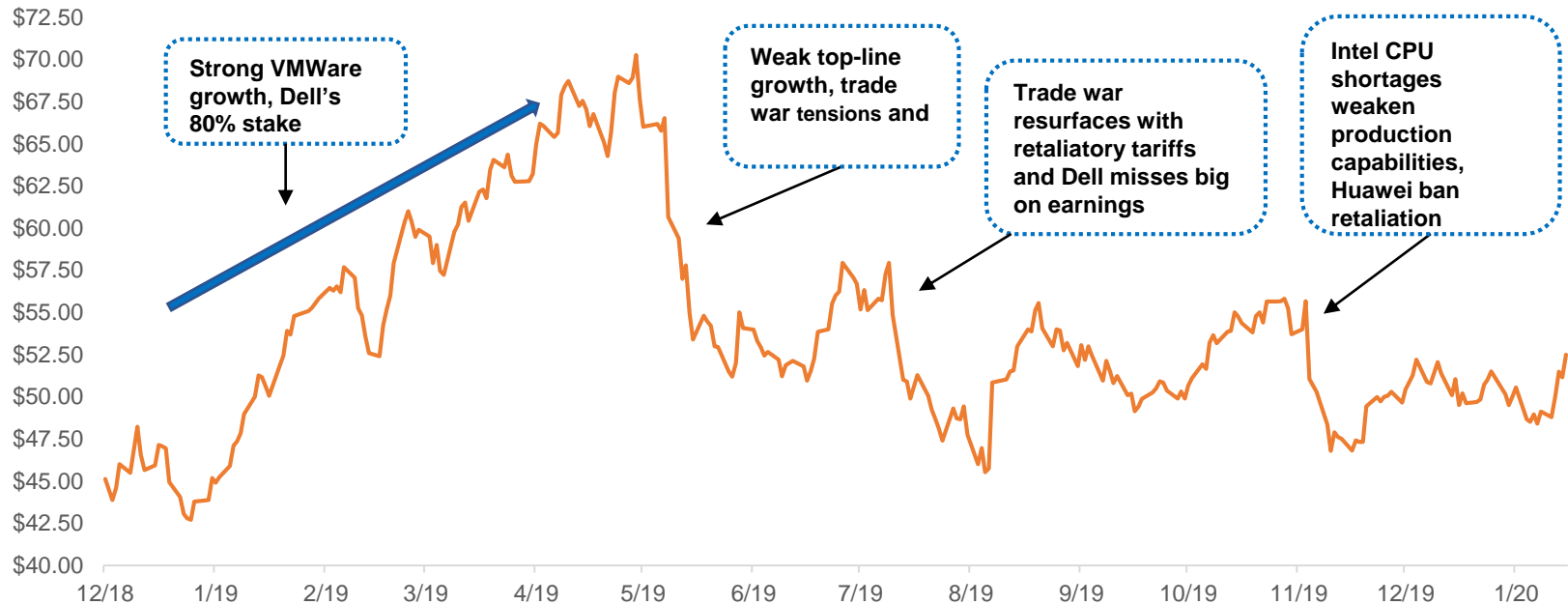
Global Outreach

- Dell has significant markets where it has a large manufacturing presence, gaining firm market shares in the below countries



The Re-IPO of Dell

Performance Since IPO: Dell C-Class



Class A

- Michael Dell and his family office
- 70% of the equity value
- **Ten votes per share**
- Entitled to 74% of total voting power

Class B

- Silver Lake
- 22% of the equity value
- **Ten votes per share**
- Entitled to 24% of total voting power

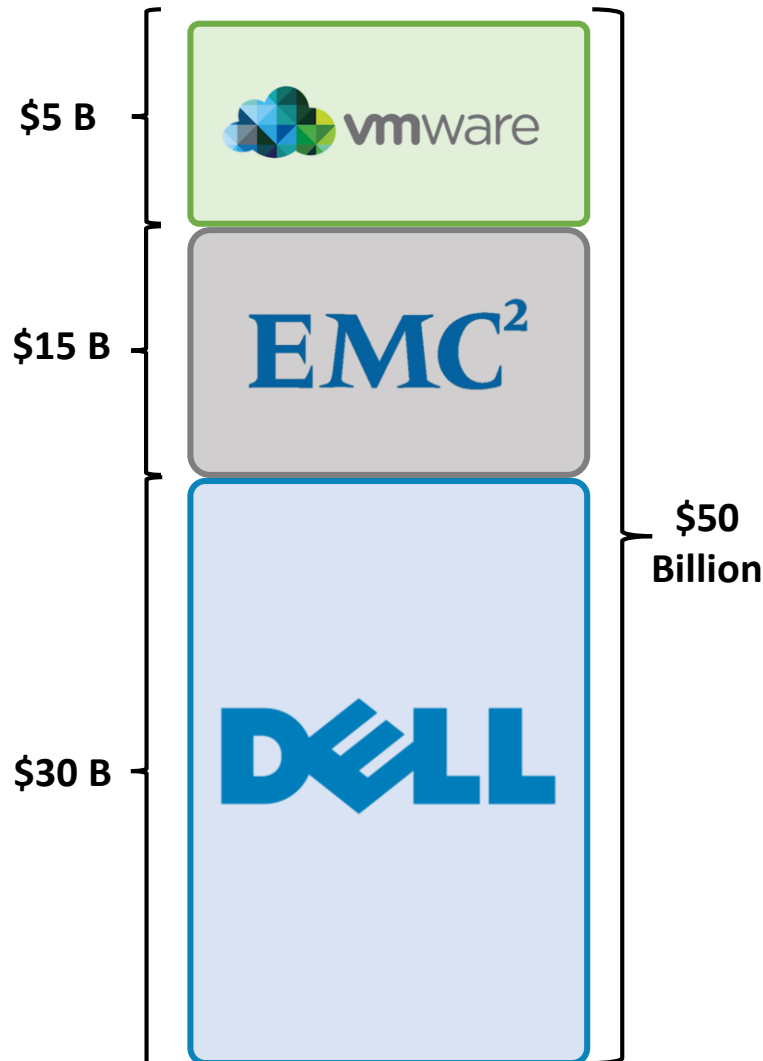
Class C

- Publicly traded
- 11% of equity
- One vote per share
- Entitled to **1% of total voting power**



Valuation: Sum of the Parts

Example Visualization



What is a Sum of the Parts?

The sum of the parts valuation is a process of valuing a company by determining what its aggregate division would be worth if they were spun-off

$$\text{Sum of the Parts} = N_1 + N_2 + \dots + ND - NL + NA$$

N_1 = Value of first segment

ND = Net Debt

N_2 = Value of second segment

NL = non-operating liabilities

NA = non-operating assets

The SOTP valuation is most commonly used to value a company comprised of business units in different industries since valuation methods differ across industries depending on the nature of revenue



Valuation: Sum of the Parts

Dell Sum of the Parts

Total Shares Outstanding (DELL)	756.06
Share Price (2/7/2020)	\$51.67
Market Value of DELL	39,065.62
Total Long-Term Debt	44,727
(Cash from Parent)	(8,555)
Total Net Debt	36,172
Total Enterprise Value	75,238
Less Public Equity Stakes	(39,939)
Value of Core Dell	34,943
TEV / 2021E EBITDA of Core Dell	5.17
TEV / 2022E EBITDA of Core Dell	5.08

Core Dell Valuation:

Core Dell EBITDA	\$6,755
Target EV / EBITDA Multiple	6.00x
Target Enterprise Value	\$40,532
Dell Total Net Debt	36,172
Target Equity Value for Core Del	\$4,360
Value of Owned Public Equity Sta	\$39,939
Total Dell Equity Value Target	\$44,299
Shares Outstanding	756.06
Target Price	\$58.59
Current Price (1/24/2020)	\$51.20
Implied Returns	14.44%

Public Equity Stakes	Owned by Dell		Price	% Owned
	Mkt Value	Shares		
VMWare	51,741	338	\$153.08	81%
Secureworks	1,080	70	\$15.43	86%
Owned Public Equity Stake	\$52,821			

Discount Rate 24.4%

EBITDA	2021E	2022E
Dell	10,986.40	11,568.00
VMWare	4,216.60	4,669.00
Secure Work	14.503	22.775
Core EBITDA	6,755.30	6,876.23

PC Comps	Mkt Cap	EV	EV/EBITDA 2021E	EV/EBITDA 2022E
LENOVO GROUP LTD	8,385.94	10,951.84	4.62	4.24
ASUSTEK COMPUTER INC	5,500.65	3,669.05	7.61	-
ACER INC	1,720.66	1,094.85	6.07	-
TOSHIBA CORP	15,248.16	14,519.43	6.04	5.67
Median	6,943.29	7,310.44	6.05	4.96

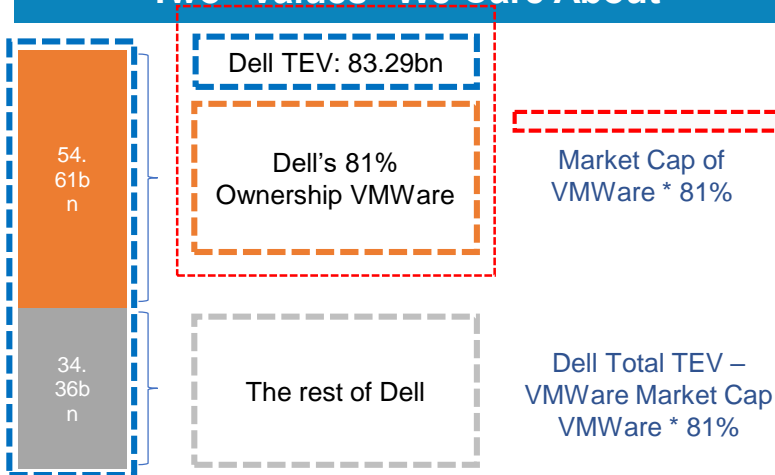
Server Comps	Mkt Cap	EV	EV/EBITDA 2021E	EV/EBITDA 2022E
HP INC	31,577.76	32,177.76	6.81	6.99
LENOVO GROUP LTD	8,385.94	10,951.84	4.62	4.24
INTL BUSINESS MACHINES CORP	135,865.64	195,299.64	9.99	9.52
Median	31,577.76	32,177.76	6.81	6.99



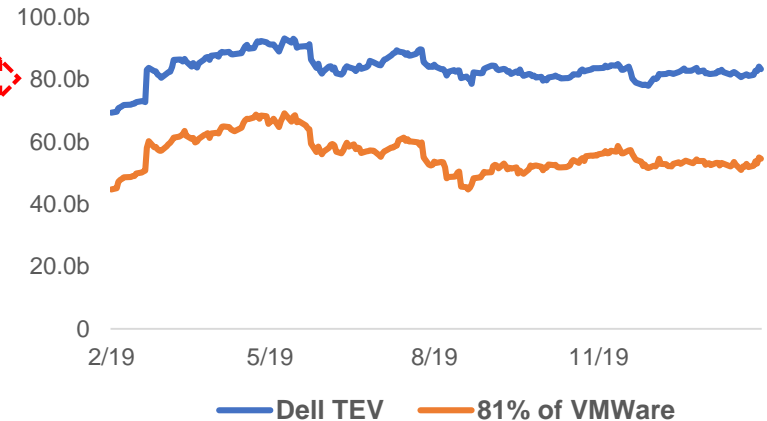
Valuation: Getting the Discount on VMWare Ownership

Dell's 81% ownership of VMWare is discounted by the market due to illiquidity; we want to figure out by how much

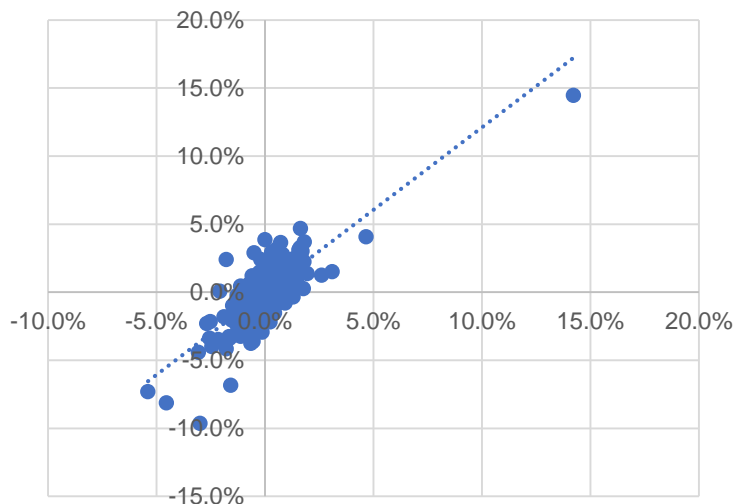
Two "Values" We Care About



Charting the Two "Values"



Daily Change Regression



Regression Results

	Coefficients	Standard Error	t Stat	P-value
Intercept	0.0003	0.0005	0.5257	0.5996
X Variable 1	0.5274	0.0251	20.9728	0.0000

$$\frac{81\% \text{ of } EMWare}{TEV \text{ of } Dell} = 65.6\%$$

$$Discount = 65.6\% \div 52.7\% - 1 = 24.5\%$$

What it should be in an ideal world

How market perceives it

How much market is discounting it by



Valuation: Sum of the Parts

		Discount						
		22.0%	23.0%	24.0%	25.0%	26.0%	27.0%	28.0%
EV/EBITDA	4.0x	-17.2%	-18.6%	-19.9%	-21.3%	-22.7%	-24.0%	-25.4%
	4.5x	-8.5%	-9.8%	-11.2%	-12.6%	-13.9%	-15.3%	-16.7%
	5.0x	0.2%	-1.1%	-2.5%	-3.8%	-5.2%	-6.6%	-7.9%
	5.5x	9.0%	7.6%	6.2%	4.9%	3.5%	2.1%	0.8%
	6.0x	17.7%	16.3%	15.0%	13.6%	12.2%	10.9%	9.5%
	6.5x	26.4%	25.1%	23.7%	22.3%	21.0%	19.6%	18.2%
	7.0x	35.1%	33.8%	32.4%	31.1%	29.7%	28.3%	27.0%
	7.5x	43.9%	42.5%	41.1%	39.8%	38.4%	37.0%	35.7%
	8.0x	52.6%	51.2%	49.9%	48.5%	47.1%	45.8%	44.4%



Value Realization Event: VMWare Spin-Off

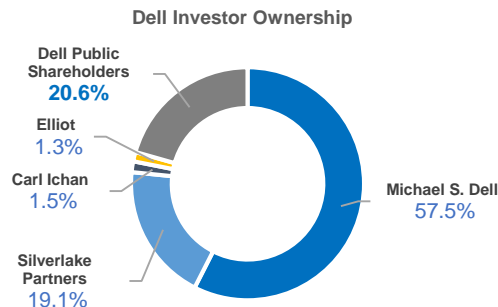
VMWare Partial Spin-Off Event

- When considering a sum-of-the-parts discounted valuation, it is very important to consider a strong catalyst
- A catalyst in equity markets is an event or other news that propels the price of a security dramatically up or down
- For Dell there appears to a strong catalyst opportunity in 2021, when the company can spin off partial control of VMWare to show the core-Dell discounted valuation



Silver Lake Exit Opportunity

- Silver Lake will need to exit its position on Dell
- The firm is allowed to exercise their position of Class B shares into publically traded Class C trades
- Silver Lake hasn't liquidated their position, as they still hold 19.1% of Dell's shares



Tax Free Event

- On September 30th, 2021 Dell will be able to spin-off its stake in VMWare on a tax-free basis
- Elliot Management, an activist fund, has invested heavily into Dell with the stated goal of wanting to see a spin-off event for value recognition



Thank You!



Q&A