



**July 18, 2018**

Dell Investor Relations  
One Dell Way  
Round Rock, TX 78682

To Michael Dell, Affiliated Parties and Members of the DVMT Special Committee:

Dana believes that the outstanding offer to DVMT shareholders is inconsistent with Dell's ethical responsibilities and represents a troubling corporate governance development. As current DVMT and VMW shareholders – and potential shareholders in the Dell conglomerate – we intend to vote against the present DVMT offer. We are reevaluating our VMW position in light of these governance concerns.

Nonetheless, Dana admires Dell's strategic vision, strong market position, high employee satisfaction, and customer-centricity. We are willing and excited shareholders in the Dell conglomerate should our concerns be addressed.

A trusting relationship between shareholders and public companies is mutually reinforcing. Credibility begets higher valuations, begets strategic flexibility, begets long-term value creation for both affiliated and independent shareholders.

### **Dell's Ethical Responsibilities**

*"Integrity matters. It matters to our customers, partners, colleagues and communities. And it matters greatly to me.... We act with integrity and in accordance with the letter **and the spirit of the law**.... Our leaders have a special responsibility to lead with integrity and in ways that protect and enhance the reputation of our team and our company."<sup>1</sup>*

*-Michael Dell, "How We Win: Dell Technologies Code of Conduct," Message from our CEO (2018)*

The Dell-EMC merger proposal, filed with the SEC on June 6, 2016, states in the opening paragraph that DVMT shares are "intended to track the performance" of their respective economic interest in VMW. This statement is repeated seven times throughout the document.<sup>2</sup>

In an October 12, 2015, press release describing the Dell-EMC deal terms, Dell used VMW's undiscounted share price to illustrate the value of the proposed DVMT tracking stock.<sup>3</sup> This one-for-one VMW-DVMT valuation was explicitly relied upon by Evercore in its merger consideration fairness opinion. Evercore assumed a maximum tracking stock discount of 10%.<sup>4</sup>

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<sup>1</sup> <https://investors.delltechnologies.com/static-files/64a28a56-0fc2-415b-8b3b-095c288a506c> (emphasis ours; accessed 7.12.2018)

<sup>2</sup> <https://www.sec.gov/Archives/edgar/data/1571996/000119312516614129/d73946d424b3.htm> (accessed 7.12.2018)

<sup>3</sup> <https://www.sec.gov/Archives/edgar/data/790070/000119312515342138/d54941d425.htm> (accessed 7.12.2018)

<sup>4</sup> <https://www.sec.gov/Archives/edgar/data/1571996/000119312516614129/d73946d424b3.htm> (see 211; Evercore assumed a tracking stock



The intention – or spirit – of the one-for-one DVMT-VMW relationship is clear, yet Dell’s outstanding offer of \$95 per DVMT share is 63% less than VMW’s current share price.<sup>5</sup> The magnitude of the discount is inconsistent with the spirit of the agreement and ethically concerning.

## Corporate Governance Implications

A two-person Special Committee of Dell’s Independent Directors approved the outstanding offer. The offer was described as “the best way to maximize value for all Class V shareholders.”<sup>6</sup>

Evercore provided its second DVMT fairness opinion in less than three years.<sup>7</sup> A 27% tracking stock discount was deemed appropriate, substantially below the first assessment’s 10% maximum discount.<sup>8</sup> Meanwhile, DVMT’s contractual rights are unchanged.

A thorough five month evaluation involving independent directors, investment bankers and lawyers produced an implied \$109 per share offer, which the market quickly discounted to \$95 per share. The stock portion of the deal is valued at \$85 per share, representing no premium. Given the alleged expertise and thoroughness of the evaluation, the inability to properly value the Dell conglomerate is concerning.

The July 1, 2018, letter agreement describing the independent VMW special committee’s authorization of the special dividend raises caution. The ascribed rights to approve future dividends or business combinations are eerily similar to the rights ascribed to the DVMT special committee.<sup>9</sup> As VMW shareholders, we fear an outcome similar to the outstanding DVMT offer.

In both cases, independent shareholders rely upon the discretion of independent directors with close ties to Dell insiders.

## Evaluating the Outstanding Offer

Dana and other DVMT shareholders have been asked to directly invest in the Dell conglomerate. DVMT is currently worth \$95 per share.<sup>10</sup> With 199 million shares outstanding, DVMT’s market cap is approximately \$19 billion.

Dell is offering \$9 billion in aggregate cash. Therefore, the market implied value of Dell’s Class C share consideration is approximately \$10 billion.

The \$10 billion in share consideration gives DVMT shareholders ownership of approximately 21% of the pro forma Dell conglomerate.<sup>11</sup> As such, the market values pro forma Dell at approximately \$48 billion. Pro forma Dell will have approximately \$40 billion of net debt<sup>12</sup> and a total enterprise value of approximately \$90 billion. Pro forma Dell’s fiscal 2019 implied EBITDA guidance is \$9.6 billion at the midpoint.<sup>13</sup>

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<sup>5</sup> VMW closed at \$155 per share on 7.12.2018

<sup>6</sup> <https://www.sec.gov/Archives/edgar/data/1571996/000119312518210339/d880259dex992.htm> (accessed 7.12.2018)

<sup>7</sup> *Id.*

<sup>8</sup> Assumes pre-announcement VMW share price of \$150

<sup>9</sup> <https://www.sec.gov/Archives/edgar/data/1571996/000119312518210339/d880259dex102.htm> (accessed 7.12.2018)

<sup>10</sup> As of the 7.12.2018 market close

<sup>11</sup> <https://www.sec.gov/Archives/edgar/data/1571996/000119312518211444/d680939d425.htm> (See slide 5; accessed 7.12.2018)

<sup>12</sup> *Id.* (See slide 28; accessed 7.12.2018)

<sup>13</sup> *Id.* (See slide 22; assumes \$1.35B non-GAAP D&A; accessed 7.12.2018)



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The implied EV/EBITDA multiple is approximately 9x. A peer valuation comparison suggests that this is appropriate.

Company	CSCO	HP	HPE	IBM	NTAP	Average
FY1 EV/EBITDA	10.4	8.3	5.8	8.9	12.6	9.2

Dana agrees with the market’s implied valuation of pro forma Dell. We admire Dell’s business but struggle to assign a premium valuation to a company with a limited public track record, elevated leverage, subsidiary complexity, and significant exposure to slower growth end markets.

We do not believe that a sum-of-the-parts valuation is appropriate for a demonstrated consolidator.

### Counter-Proposal

We propose a revised cash election at \$125 per share<sup>14</sup> and a conversion ratio of 2.40 Dell Class C shares for each share of DVMT,<sup>15</sup> bringing the full deal consideration to approximately \$25 billion. Assuming full cash election at the \$125 offer, DVMT shareholders will own 33% of pro forma Dell, as opposed to 21% for the outstanding offer.

The revised offer price represents a 19% discount to the current VMW share price,<sup>16</sup> meaningfully below the maximum 10% discount contemplated in the Dell-EMC deal appraisal.

#### Dana Investment Advisors

By:           /s/ Joe Veranth          

Name:           Joe Veranth          

Title:           Chief Investment Officer          

By:           /s/ Duane Roberts          

Name:           Duane Roberts          

Title:           Director of Equities          

- Cc: Michael Dell
- William Green
- David Dorman
- SLD Trust
- MSD Partners
- Silver Lake Partners

<sup>14</sup> Maintaining the \$9 billion aggregate cash

<sup>15</sup> The conversion ratio is derived from the current implied market value of pro forma Dell

<sup>16</sup> VMW closed at \$155 per share on 7.12.2018