

An Analysis of Dell

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INVESTMENT FUNDS MANAGED BY WHITNEY TILSON AND GLENN TONGUE OWN STOCK AND CALL OPTIONS IN DELL AS OF 9/13/11. THEY HAVE NO OBLIGATION TO UPDATE THE INFORMATION CONTAINED HEREIN AND MAY MAKE INVESTMENT DECISIONS THAT ARE INCONSISTENT WITH THE VIEWS EXPRESSED IN THIS PRESENTATION.

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Dell Since 2002



Dell Over the Past Three Years



▶ **Very cheap stock**

- Stock Price: \$15.28 (close on 10/7/11)
- Net Cash, Equity and Other Investments: \$16.2 billion
- Debt: \$7.7 billion
- Net cash: \$8.5 billion = \$4.54/share
- Stock price net of cash: \$10.74
- TTM Earnings: \$1.87
- Very cheap multiple: 5.7x trailing earnings, net of cash

▶ **Significant margin expansion and profit growth**

- In most recent quarter, revenue up only 1% but EPS up 69%
- Free cash flow margin has risen from 2.5% in FY 2009 to 7.6% TTM
- Guidance for FY 2012 (last two quarters, plus next two) is 17-23% jump in adjusted operating income

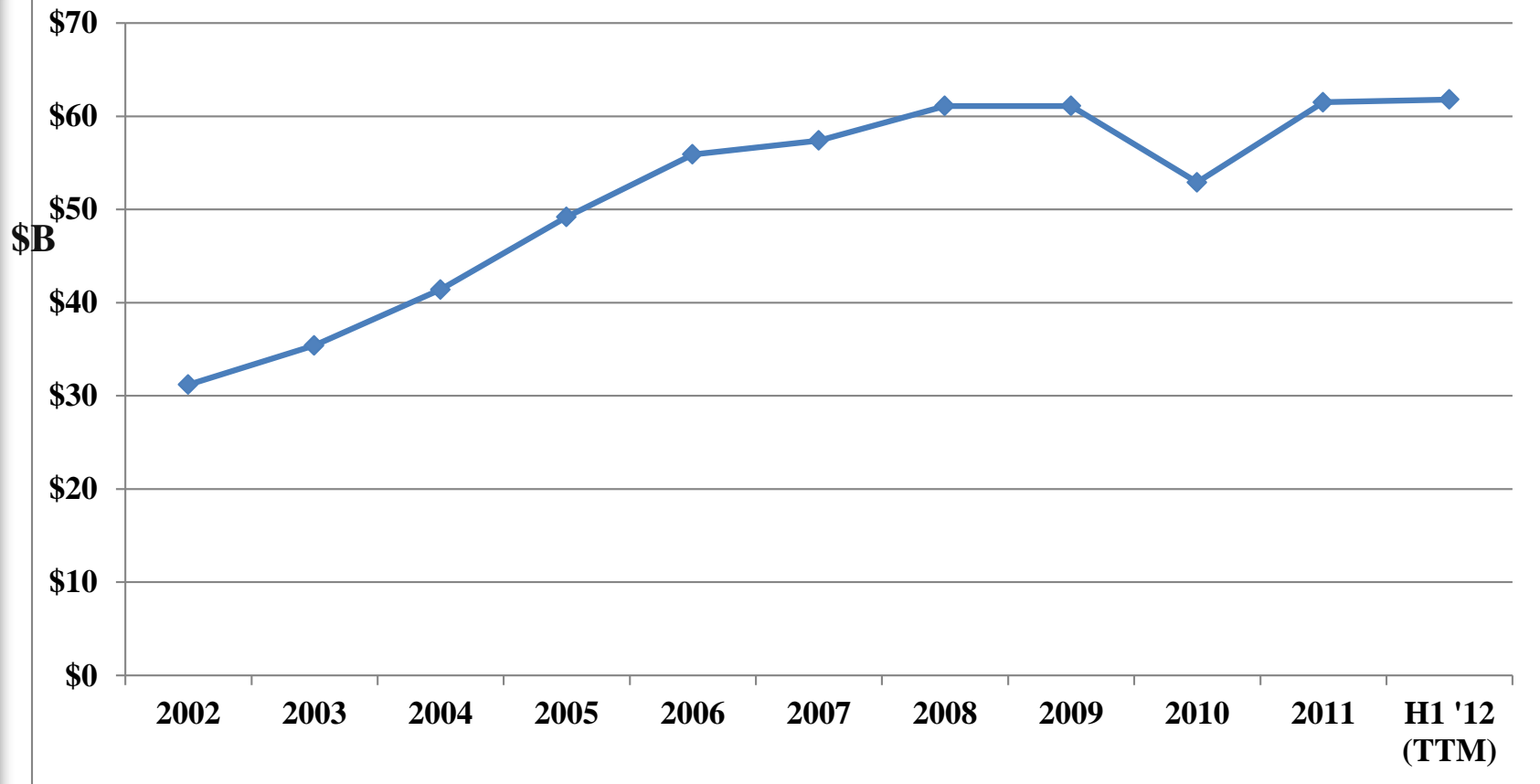
▶ **Well diversified global business**

- 50% of revenues outside the U.S.
- 28% of revenues in growth markets (outside U.S., Canada, W. Eu. and Japan)

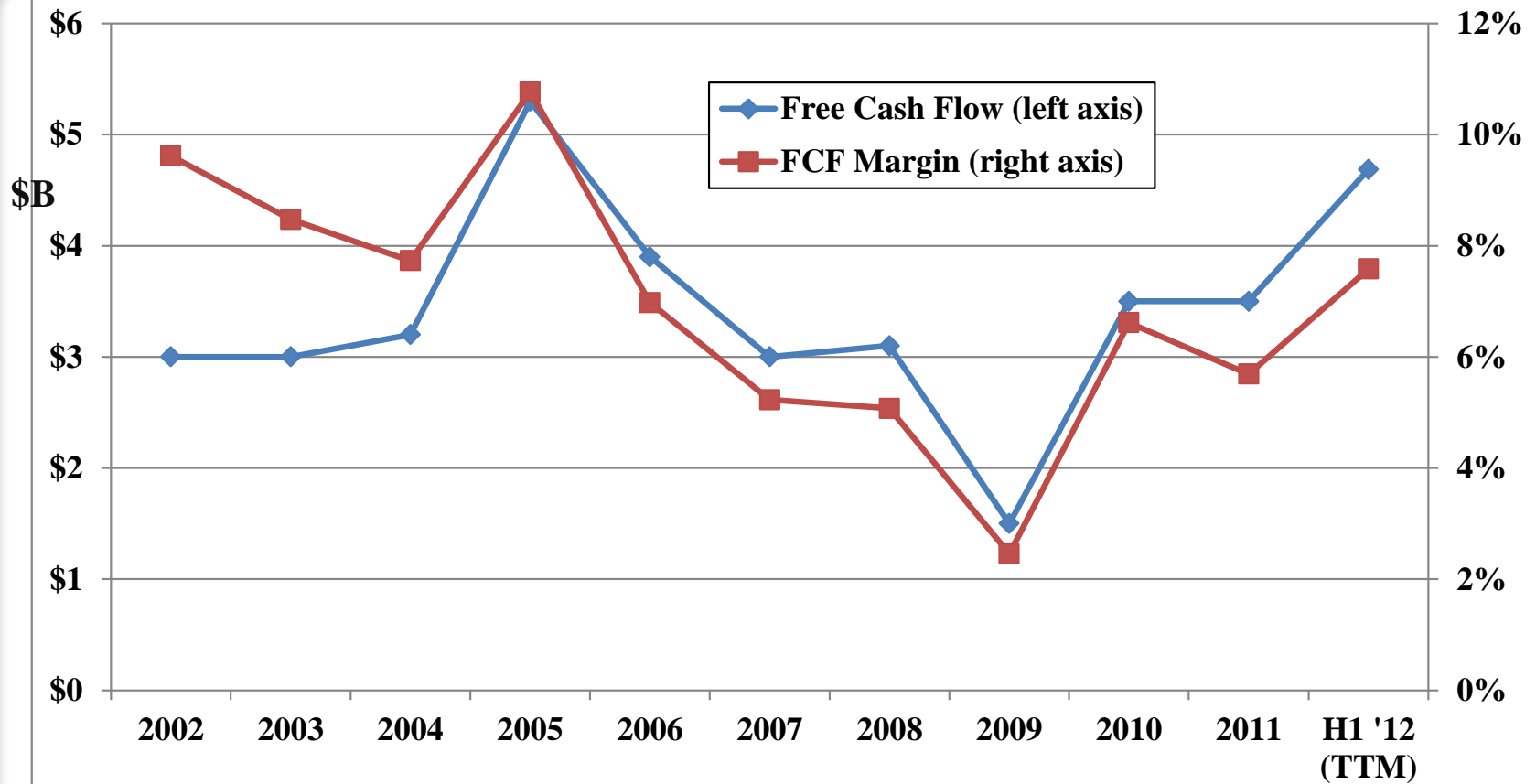
▶ **Decent capital allocation**

- Repurchased 3% of shares outstanding in Q2 alone, and 5% year-over-year
- Just announced a \$5 billion share repurchase (on top of \$2.2B remaining from prior authorizations); \$7.2B is equal to 27% of Dell's current market cap

While Dell's Revenue Is Stagnant...



...Free Cash Flows Have Risen Dramatically Thanks to Higher Margins



Note: FCF is operating cash flow minus cap ex

Q2 Results Were Exceptionally Strong Thanks to a Dramatic Increase in Margins

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2Q FY12 Non-GAAP Consolidated Results

Consolidated P&L¹

\$ in Millions – except Units and EPS

| | 2Q'11 | 1Q'12 | 2Q'12 | Y/Y Growth | Seq Growth |
|-----------------------------|--------|--------|--------|---------------|---------------|
| Units (thousands) | 11,604 | 10,918 | 11,573 | 0% | 6% |
| Revenues | 15,534 | 15,017 | 15,658 | 1% | 4% |
| Gross Margin | 2,671 | 3,511 | 3,625 | 36% | 3% |
| <i>GM % of revenue</i> | 17.2% | 23.4% | 23.2% | 600 bps | -20 bps |
| Operating Expenses | 1,799 | 2,135 | 2,297 | 28% | 8% |
| <i>Opex % of revenue</i> | 11.6% | 14.2% | 14.7% | 310 bps | 50 bps |
| Operating Income | 872 | 1,376 | 1,328 | 52% | -3% |
| <i>OpInc % of revenue</i> | 5.6% | 9.2% | 8.5% | 290 bps | -70 bps |
| Income Before Taxes | 823 | 1,334 | 1,273 | 55% | -5% |
| Income Tax | 194 | 284 | 267 | 38% | -6% |
| <i>Effective Tax Rate %</i> | 23.6% | 21.3% | 21.0% | -260 bps | -30 bps |
| Net Income | 629 | 1,050 | 1,006 | 60% | -4% |
| <i>NI % of revenue</i> | 4.0% | 7.0% | 6.4% | 240 bps | -60 bps |
| Diluted EPS | \$0.32 | \$0.55 | \$0.54 | 69% | -2% |

¹Percentages and ratios are calculated based on underlying data

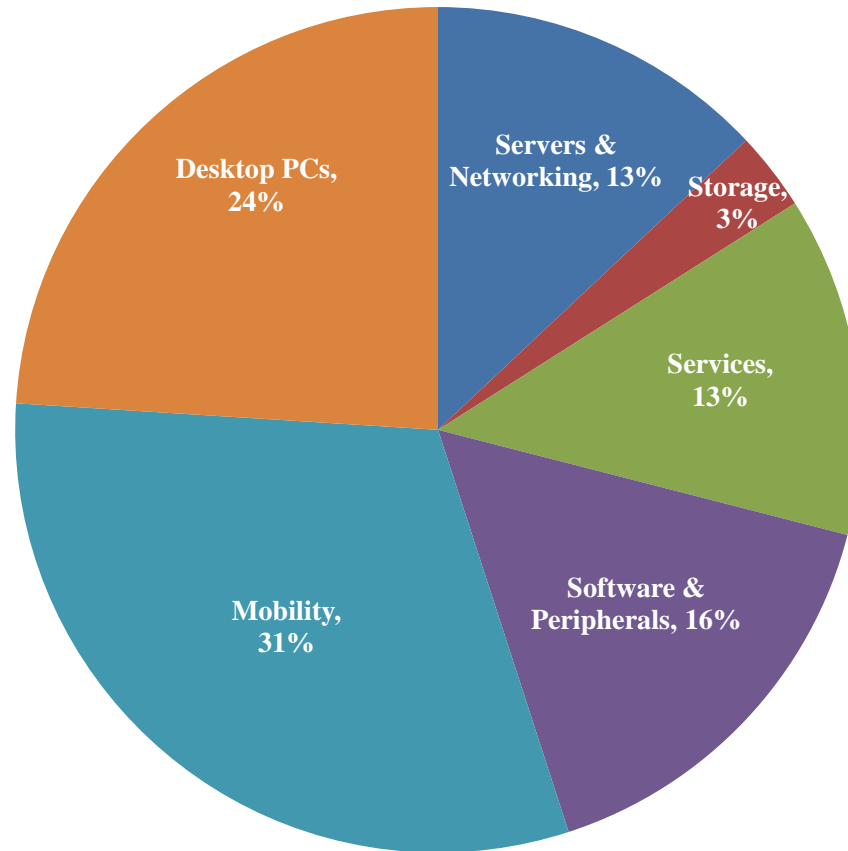
Growth refers to year-over-year

- Revenue up +1%, to \$15.7B
- Gross margin of 23.2% driven by continued cost execution, disciplined pricing, and ongoing shift to higher value Dell technologies
- Opex of \$2.3B or 14.7% of revenue, driven by mix shift to selling more Dell technologies and higher incentive based compensation
- Operating income up +52%, to \$1.3B or 8.5% of revenue
- Interest & other expenses were \$55M
- Tax rate was 21.0%
- EPS 54 cents, up +69%



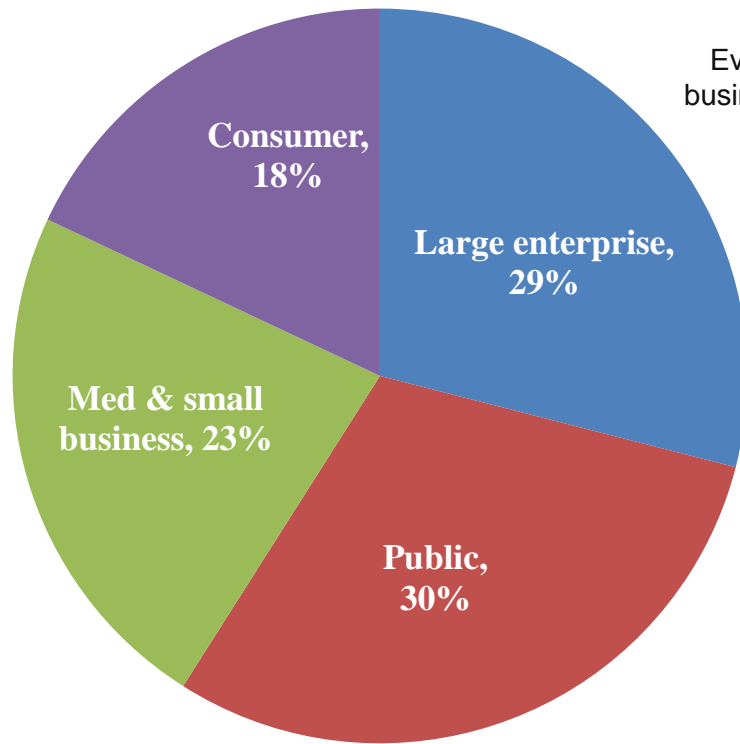
Dell's Business Is Well Diversified

Revenue Breakdown



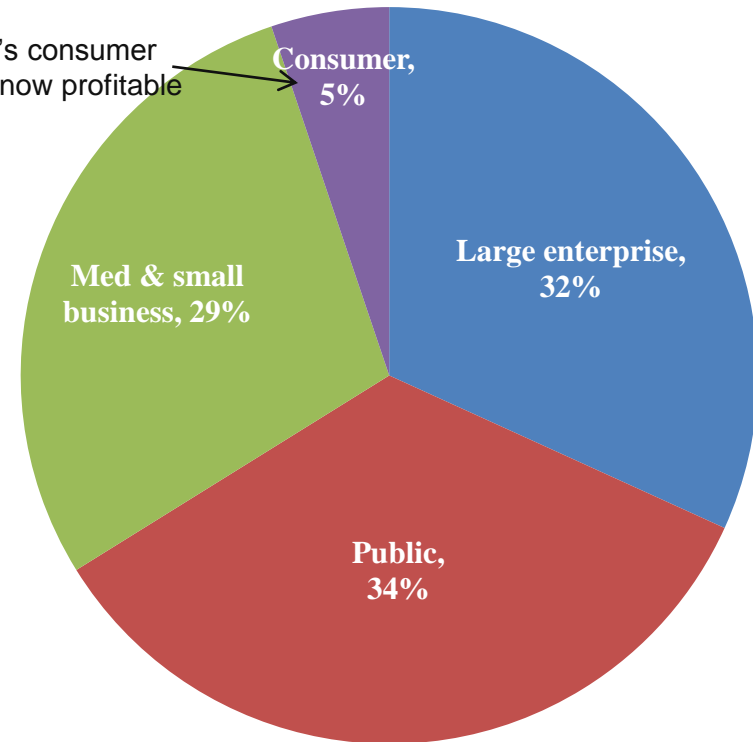
Dell's Business Is Well Diversified (2)

Revenue Breakdown



Oper. Income Breakdown

Even Dell's consumer business is now profitable



Expected Return/Potential Upside

- Analysts are currently expecting Dell to earn \$2.00 in FY 2012 (ending six months from now), and only \$1.97 in FY 2013.
- We think there is upside to these estimates, especially as Hewlett Packard struggles and the share repurchases kick in
- In any case, the multiple is *way* too low. Even with flat earnings, we think Dell is worth 8-10x earnings and with any growth, 10-12x
- With earnings of \$2/share plus \$5/share of cash, the stock would trade at:

| | | | |
|--------------------|-------------|-------------|-------------|
| Multiple | 8x | 10x | 12x |
| Stock price | \$21 | \$25 | \$29 |
| Return | 37% | 64% | 90% |