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Multiple Documents

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Case No. 9322-VCL

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE APPRAISAL OF DELL, INC.	Consolidated C.A. No. 9322-VCL

REVISED EXPERT REBUTTAL REPORT OF BRADFORD CORNELL

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I. ASSIGNMENT

1. I previously submitted an opening report in this matter on June 5, 2015 ("Cornell Report"),[1] which sets forth my qualifications and in which I opined that the fair value of Dell as of the Appraisal Date was $28.61 per share.[2] Also on June 5, 2015, Professors Glenn Hubbard and Stephen Shay submitted reports on behalf of Respondent ("Hubbard Report" and "Shay Report," respectively).

2. Counsel for Petitioners asked me to review and comment on Professor Hubbard's opinions as set forth in his report.[3]

II. SUMMARY OF OPINIONS

3. Based on my analysis of the record evidence and the results of the economic analyses described below, as well as my background and expertise, I have reached the following conclusions:

- Professor Hubbard makes downward adjustments to his selected projections that are unsupported by the facts in the record and inconsistent with assumptions made by Dell's management and Silver Lake in developing contemporaneous projections used in the normal course of business. These adjustments understate Professor Hubbard's concluded value using his BCG Case free cash flow

[1] Capitalized terms not otherwise defined herein have the same meaning as in the Cornell Report.

[2] Cornell Report, ¶ 18.

[3] I also respond to certain opinions expressed in Professor Shay's report that relate to positions Professor Hubbard adopts in his expert report regarding the valuation implications of Dell's tax rate and alleged tax obligations.

projections (the "Hubbard Adjusted BCG Case") by $5.04 per share.[4]

- The projections Professor Hubbard selected for his discounted cash flow ("DCF") analyses also improperly understated the expected impact of Dell's cost savings initiatives. These adjustments understate Professor Hubbard's concluded value using the Hubbard Adjusted BCG Case projections by $3.52 per share.[5]

- Professor Hubbard makes adjustments to Dell's cash balance and deducts tax liabilities that are inappropriate and inconsistent with contemporaneous DCF valuations as of the Appraisal Date. These adjustments understate Professor Hubbard's concluded value using the Hubbard Adjusted BCG Case projections by $5.59 per share.[6]

- Professor Hubbard makes certain assumptions that inflate his estimate of Dell's WACC. These adjustments understate Professor Hubbard's concluded value using the Hubbard Adjusted BCG Case projections by $0.57 per share.[7]

- Professor Hubbard's arguments why a Sum-of-the-Parts ("SOTP") trading multiples analysis is inapplicable to Dell are not credible given Dell management's and analysts' use of this valuation method. Nor do his criticisms cause me to question the appropriateness of my use of SOTP DCF and trading multiples analyses as reasonableness

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[4] Professor Hubbard examined the sensitivity of his concluded value based on a DCF valuation using the Bank Case projections, after applying similar downward adjustments ("Hubbard Adjusted Bank Case"). These adjustments understate Professor Hubbard's DCF value using the Hubbard Adjusted Bank Case projections by $5.04 per share.

[5] These adjustments understate Professor Hubbard's DCF value using the Hubbard Adjusted Bank Case projections by $4.20 per share.

[6] These adjustments understate Professor Hubbard's DCF value using the Hubbard Adjusted Bank Case projections by $5.60 per share.

[7] These adjustments understate Professor Hubbard's DCF value using the Hubbard Adjusted Bank Case projections by $0.75 per share. **Revised Exhibit 1** shows that the sum of the individual adjustments is less (more) than the total difference between Professor Hubbard and my DCF valuations for the Hubbard Adjusted BCG projections (Hubbard Adjusted Bank Case) projections. The reason is that certain of the adjustments affecting the free cash flow projections have a cumulating impact when aggregated.

checks on the results of my consolidated DCF valuation.

4. I provide the support for my opinions in the sections that follow. Finally, I further support the reasonableness of my fair value conclusion based on the DCF valuation of Dell as of October 29, 2013 prepared by E&Y for financial accounting purposes that Professor Hubbard uses as support for certain of his valuation assumptions. After considering the Hubbard Report, I continue to conclude that the fair value of Dell as of October 29, 2013 was $28.61 per share.[8]

III. PROFESSOR HUBBARD'S ADJUSTMENTS TO HIS SELECTED PROJECTIONS ARE SUBJECTIVE AND UNFOUNDED

5. In performing his DCF analyses, Professor Hubbard described the Hubbard Adjusted BCG Case as "the most accurate and reliable overall view of the Company's potential future cash flows through FY2017 as a public company."[9] Professor Hubbard also performed a DCF valuation of Dell using the Bank Case projections. In support of using these projections, Professor Hubbard noted that the "Bank Case … is useful to consider for corroboration" of his analysis because "it was closest in time to the valuation date, had management involvement, and included information shown to potential lenders and rating agencies."[10]

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[8] **Appendix A** contains a list of the documents that I relied upon in forming my opinions set forth in this report

[9] Hubbard Report, ¶ 187.

[10] Hubbard Report, ¶ 187.

6. According to Professor Hubbard, he needed to make "certain adjustments" to the BCG Case and Bank Case projections "to reflect the change in market conditions between the time they were prepared in late 2012/early 2013 and the Merger date of October 29, 2013."[11] More specifically, Professor Hubbard revised BCG's original revenue projections to take into account subsequent (and more pessimistic) International Data Corp. ("IDC") PC sales forecasts and Dell's earlier revenue attachment rates for Support & Deployment ("S&D") services even though neither Dell's management nor BCG had updated its projections as of the Appraisal Date. Further, while Professor Hubbard characterizes his forecast as the "Adjusted BCG 25% Case," the annual cost savings used by Professor Hubbard are not the same cost savings associated with the BCG 25% Case as discussed in the May Proxy.[12] The May Proxy described cost saving scenarios of 25% and 75% of Dell management's $3.3 billion in annual cost savings. In addition, Professor Hubbard extended his forecast period for both sets of projections by an additional five years for the sole purpose of justifying his valuation amounts given his perpetuity growth rate and his WACC estimate. Finally, Professor Hubbard used Dell's combined marginal tax rate of 35.8% during the terminal period in both sets

[11] Hubbard Report, ¶¶ 190, 279.
[12] May Proxy, pp. 100-101.

of projections, assuming that Dell would necessarily repatriate its offshore cash at that point and thus incur significantly higher tax liabilities.

7. As I describe in greater detail below, not only are these adjustments subjective and unfounded, they result in the creation of an entirely new set of projections based solely upon Professor Hubbard's *ex post* opinions. Further, every one of these adjustments reduces Professor Hubbard's estimate of Dell's per share equity value. Taken together, Professor Hubbard's adjustments result in an understatement of Dell's implied equity value of $5.04 per share for both the Hubbard Adjusted BCG Case and the Hubbard Adjusted Bank Case. (*See* **Revised Exhibit 1**.)

A. Updated PC Industry Forecasts

8. Professor Hubbard adjusts both the BCG Base Case and Bank Case projections to use IDC's PC industry forecasts published in August 2013. This change alone lowers his DCF valuations using the Hubbard Adjusted BCG Case by $1.35 per share and the Hubbard Adjusted Bank Case by $0.21 per share.

9. According to Professor Hubbard, the Base Case projections that BCG used to create its January and February 2013 presentations to Dell's Special Committee were based on August 2012 market data from IDC.[13] Professor

[13] Hubbard Report, ¶ 192.

Hubbard further asserts that between December 2012 (when the BCG projections were initially prepared) and the Appraisal Date, the market outlook for desktop and notebook PCs had deteriorated,[14] **a view that was not shared by either Silver Lake or Dell management as of August 2013 (when the Bank Case was created)**.[15] To reflect this more pessimistic outlook, Professor Hubbard updated the August 2012 IDC forecast that BCG used in its Base Case model with the August 2013 IDC forecast.[16] Interestingly, while Professor Hubbard quotes Mr. Gladden's testimony about IDC (and Gartner) being slow in reacting to shifts and updating their forecasts, he omits Mr. Gladden's testimony that Dell management "had a conclusion that even their short-term reporting wasn't very accurate, let alone their forecasts."[17]

10. The BCG forecasts that Professor Hubbard relied on used IDC forecast data. According to the testimony of Mr. Ning, BCG's representative, BCG had already updated their projections in January 2013 to take into account IDC's updated forecast for PC shipments.[18] Dell's Special Committee did not ask

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[14] Hubbard Report, ¶ 192.

[15] Dell Exhibit 25 (Dell Rating Agency Presentation, August 2013), pp. 20-21 (DELLE00779571-72).

[16] Hubbard Report, ¶ 192.

[17] Gladden Deposition, p. 79. Mr. Gladden further testified that the relative inaccuracy of the industry forecasts was one reason the Company considered investing in developing "a proprietary model that we would own that would give us more capability and [sic] forecasting demand." (*Id*.)

[18] Ning Deposition, pp. 195-196.

BCG to update its projections between J.P. Morgan's and Evercore's issuance of initial fairness opinions in February 2013 and their issuance of final fairness opinions in August 2013.[19] Moreover, Dell management did not update the BCG projections to take into account the most recent PC industry forecasts as of the Appraisal Date. Instead, they and Silver Lake prepared the Bank Case projections around the time of the August 2013 IDC forecast that Professor Hubbard used.[20]

11. Further, Professor Hubbard's downward adjustment of BCG's Base Case to use IDC data that purportedly reflects "deterioration" in the PC industry appears to be inconsistent with Dell management's and Silver Lake's rejection of that more pessimistic view in the Bank Case. The Bank Case projections could have reflected the IDC forecasts Professor Hubbard used had Dell management and Silver Lake thought it was reasonable to do so. Instead, Dell and Silver Lake

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[19] *See, e.g.*, Mandl Deposition, p. 151 (Mr. Mandl does not recall if the Special Committee asked BCG to update its projections before it rendered its final presentation for the fairness opinions). *See also* Ning Deposition, pp. 172-73 (BCG did not receive any more updates from Dell management on the productivity plan.)

[20] Silver Lake updated these projections in late August for its Rating Agency Presentation, and the forecasts were further refined in early October for purposes of E&Y's 2013 ASC 805 analysis. *See* Email from Kyle Paster to James Alejandro et al., September 4, 2013 (DELLE00733339); DELLE00733340.xlsx; Email from Jason Nies to Amber M. Price et al., October 10, 2013 (DELLE00734151); DELLE00734152.xlsx.

updated the Bank Case projections to reflect the stabilization and projected positive unit sales growth as shown in recent forecasts by both Gartner and IDC.[21]

12. Professor Hubbard disregards this critical basis underlying the Bank Case projections and instead expresses concern that "they may have an upward, optimistic bias."[22] Although it is true that the forecast revenues in the Bank Case are higher overall than those shown in the BCG Base Case,[23] the evidence I have described above suggests that the Bank Case projections reflect management's best estimate of Dell's future performance around the time of the Buyout Transaction. Consequently, any downward adjustment of revenue forecasts that were lower to begin with than the contemporaneous revenue forecasts in the Bank Case projections to reflect an even more negative view that was not shared by either the acquirers or Dell management is unreasonable and not supported by the evidence.

13. Delaware Chancery Court opinions have expressed skepticism regarding post-transaction adjustments to management forecasts after consultation with the subject company's management in conjunction with litigation, noting that such adjustments may reflect hindsight bias and the opinions of parties directly involved in the subject litigation who either have an interest in its outcome (i.e.,

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[21] *See*, *e.g.*, Silver Lake Partners, Project Denali, September 2013 (Durban Exhibit 19), pp. 40-43.

[22] Hubbard Report, ¶ 178.

[23] Compare Cornell Report Exhibit 1A to Exhibit 2.

Dell management and Silver Lake) or who have been hired as litigation consultants to help those parties achieve a favorable outcome.[24] For purposes of my analysis in this case, I used BCG's Base Case revenue projections as created by BCG and approved by Dell's Special Committee, took into account those cost savings that were actually in place and included in Dell's business plan, and adjusted these projections consistent with Mr. Ning's testimony regarding the appropriate level of projected cost savings given Dell's actual progress in realizing those savings (and remaining within the range of probabilities presented to Dell's Special committee by BCG).[25] In addition, I used the Bank Case projections that were created shortly before the Appraisal Date by Silver Lake with input from Dell's management and were presented to potential lenders to support financing during August and September 2013. Dell's and Silver Lake's use of these projections to support

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[24] *Owen v. Cannon*, pp. 52-53 citing *Agranoff v. Miller*. As former Vice Chancellor Strine noted in *Agranoff v. Miller*, "Suppose there was an interview with Sir George Martin from 1962 in which he opined as to how many number one songs he thought would be released by his new protégés, the Beatles. Could one fast-forward to 1971, interview Martin, and revise Martin's earlier projection in some reliable way, recognizing that Martin would have known the correct answer as of that date? How could Martin provide information that would not be possibly influenced in some way by his knowledge of the actual success enjoyed by the Beatles and his recollection of his earlier projection?" (*Agranoff v. Miller*, p. 27.)

[25] BCG00013575.xls and JPM_0119609.xls; Ning Deposition, p. 269 ("If they had already achieved the 50% [cost savings], then it was reasonable to rely on 50%"); Ning Exhibit 12 (Project Denali, Compendium of presented materials, February 5, 2013), p. 64 (DELL00002275).

financing indicates to me that they represented the acquirers' (and Dell management's) best estimate of the Company's expected future performance as of the Appraisal Date.[26] In short, the projections I used in my analyses represent either the best view of the Special Committee or of Dell management and Silver Lake regarding Dell's expected future performance as of the Appraisal Date.

14. In contrast, Professor Hubbard took the BCG Base Case and made after-the-fact downward adjustments that do not reflect either Dell management's or the Special Committee's views prior to the close of the Buyout Transaction. Moreover, the adjustments that Professor Hubbard made to purportedly reflect the updated IDC forecasts do not even match those forecasts in the interim years between 2012 and 2016. Instead, Professor Hubbard altered the PC sales forecasts in the BCG Base Case to reflect the August 2013 IDC forecasts for the years 2012 and 2016 and independently interpolated the projected annual sales between these two endpoints.[27] Thus, he reinterpreted the August 2013 IDC forecasts to create

[26] DELLE00734152.xls; Dell Rating Agency Presentation, April 2014 (Ning Exhibit 26) (DELLE00216698-216732). As then-Vice Chancellor Strine observed in *Delaware Open MRI Radiology Associates, P.A. v. Kessler*, because it is a federal felony to knowingly obtain any funds from a financial institution by false or fraudulent pretenses or representations, projections that are provided to a financing source are typically given "great weight" by this Court. *Delaware Open MRI Radiology Assoc., P.A. v. Kessler*, 2006 WL 4764042, at *29 (Del. Ch. April 26, 2006).)

[27] *See* Hubbard Figures.xlsx, "IDC & Gartner" tab, Cells M2:T21 and Hubbard BCG Case DCF Model, "Denali base case" tab, Cells AU122:BE129, AU141:BE148.

his own forecast and uses this self-created ex-post forecast to justify his lower estimate of Dell's value. Professor Hubbard's substitution of his own forecasts for those that were accepted contemporaneously by parties to the transaction provides further evidence that he has created an entirely new set of projections after the fact based on key inputs that were not reviewed and approved by these parties.

15. Professor Hubbard made similar downward "market" adjustments to the PC forecasts used in the Hubbard Adjusted Bank Case projections even though the original Bank Case projections reflected Silver Lake's and Dell management's views shortly before the Transaction Date.[28] He does not state which forecast he used in making these adjustments, but merely applied "modest adjustments as needed to reflect market conditions as of the Merger date that differed from those reflected in the spreadsheet" on the order of "less than one percent for desktops and less than three percent for notebooks as of FY2018."[29] Once again, Professor Hubbard made independent unsupported adjustments to contemporaneous projections that were created by the acquirers with input from Dell management, substituting his judgment for those parties and effectively creating his own set of projections. And again, the end result is that Professor Hubbard has created an entirely new set of projections based on key inputs that were not approved by

[28] Hubbard Bank Case DCF Model.xlsx, "Financials Control" tab, Cells F59:I59, F76:I76.

[29] Hubbard Report, ¶ 279.

Silver Lake or Dell management at the time of the transaction. Consequently, both the Hubbard Adjusted BCG Case and the Hubbard Adjusted Bank Case projections are speculative and unreliable.

B. Adjusted Attachment Rates

16. Professor Hubbard also adjusted the attachment rates[30] that were used to estimate the ratio of Support & Deployment (S&D) revenue as a function of the underlying hardware revenue in the Hubbard Adjusted BCG Case projections.[31] This change alone lowers his DCF valuation using the Hubbard Adjusted BCG Case by $0.96 per share.

17. According to Professor Hubbard, the original BCG model used a fixed percentage to estimate S&D revenue for New Dell (Enterprise Services Group, Software, and Services).[32] Professor Hubbard felt this approach was "no longer appropriate" due to the changes **he** made to update PC industry forecasts for Core Dell (End User Computing (i.e., the PC business) with attached software and services).[33] Professor Hubbard, therefore, used the percentage of New Dell sales to

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[30] An attachment rate is a methodology used to forecast sales of complementary products in relation to sales of a primary product that involves determining the amount of complementary products that will be sold along with a given unit of primary product within a specified time period.

[31] Hubbard Report, ¶ 195. Professor Hubbard did not update the attachment rates used in the Bank Case projections since those projections were prepared closer in time to the valuation date (¶ 279).

[32] Hubbard Report, ¶ 195.

[33] Hubbard Report, ¶¶ 195-196.

estimated attached S&D revenue (17%) that had been used in the September 21 Case developed by Dell management in the fall of 2012.[34] However, Mr. Ning testified that Dell management provided the attachment rates BCG used in its January and February 2013 analyses based on Dell's historical experience and that BCG did not make any independent determinations regarding these rates.[35] The attachment rates imputed by BCG's initial analysis range between 20.7 and 21.1%.[36]

18. Professor Hubbard does not explain why reverting back to Dell's older, lower attachment rate projections is reasonable, especially given that Dell management provided BCG with updated attachment rate data after retaining BCG in November 2012.[37] Nor does Professor Hubbard explain why he did not use the attachment rates directly forecasted in the Bank Case projections, which take account of the most recent forecast attachment rates.[38] Consequently, Professor Hubbard's adjustments to the attachment rates used in the BCG Base Case (i.e.,

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[34] Hubbard Report, ¶¶ 195-196.

[35] Ning Deposition, pp. 43-44.

[36] *See* Ning Exhibit 18 (BCG00013575.xlsx), Tab "New Denali model_BCG (2)," Cells E13:I13, E16:I16.

[37] Ning Deposition, pp. 22-23, 43-44.

[38] The Bank Case projections show a somewhat higher attachment rate percentage (17.9%) than the September 21 Case (17.0%). *See* DELLE00734152.xlsx, Tab "S&P" and DELLE0093835.xlsm), at row 176 of "Details" Tab. If Professor Hubbard had used the Bank Case attachment rate percentage in his BCG Case analysis, his estimate of Dell's per share value would have been $0.22 per share higher.

substituting an older, lower attachment rate forecast for a more recent, higher one) are unsupported by the evidence in this case and are therefore unreasonable.

C. Five Year Extension of the Projections to Support Additional Required Investment and Assumed 2% Growth in Perpetuity

19. Professor Hubbard's adjusted projections added an additional five-year transition period to the explicit forecast periods of the BCG Case and the Bank Case projections because he concluded that "Dell's business would not be expected to achieve a steady state by the end of the initial BCG projection period in FY2017" due to industry changes and the fact that Dell was undergoing a transformation.[39] Professor Hubbard notes that an extension period "allows key metrics such as growth rates, profit margins, and reinvestment rates to stabilize."[40]

20. Although I agree with the concept that an extension period may be reasonable in some situations, Professor Hubbard's "extension" is inappropriate in this case given that, as he pointed out, Dell is a mature company with moderate growth prospects.[41] In Dell's case, normalized growth rates and margins can reasonably be modeled without extending the forecast period. Further, Professor Hubbard does not use his "extension period" to trend towards normalized growth rates or margins.[42] Instead, Professor Hubbard's extension enables him to add

[39] Hubbard Report, ¶ 200.
[40] Hubbard Report, ¶ 200.
[41] Hubbard Report, ¶¶ 58, 62.
[42] Professor Hubbard instead assumed that the FY 2017 operating margin from the

sufficient additional investment that reduces Dell's projected free cash flows in the explicit forecast period by an amount sufficient enough to offset the impact of his use of a 2% perpetuity growth rate in his terminal value calculation. In particular, **Revised Exhibit 1** shows that the additional reinvestment that Professor Hubbard adds to the extension period (FY 2018-2022) and the Terminal Period in the Hubbard Adjusted BCG Case model reduces his DCF valuation by $0.44 per share and $1.75 per share, respectively. This additional investment more than offsets the valuation impact of his use of a higher perpetuity growth rate (2%) than I used in my (1%) terminal value calculation.[43] As a result, Professor Hubbard's "extension period" appears to be designed to lower the ultimate valuation of Dell while acknowledging that it is appropriate to assume a positive terminal growth rate.

Hubbard Adjusted BCG Case reflected a normalized margin and trended annual revenue growth rates between FY 2018 and 2022 such that his extended projections achieved his assumed 2% growth rate in perpetuity by the last year of his forecast period (FY 2022). (Hubbard Report, ¶¶ 201-202, Exhibit 18.)

[43] **Revised Exhibit 1** shows that the impact of lowering Professor Hubbard's Perpetuity Growth Rate ("PGR") from 2% to 1% decreases his DCF value by $1.32 per share in the Hubbard Adjusted BCG Case model. Thus, the net impact of Professor Hubbard's decision to extend the Hubbard Adjusted BCG Case projections beyond the explicit forecast period lowers his DCF valuation by $0.87 per share ($0.44 + $1.75 - $1.32).

Implied Terminal Growth Rate Assuming No Extension

21. **Exhibit 2A** shows that Professor Hubbard's calculated enterprise value of $26.049 billion in the Hubbard Adjusted BCG Case DCF model[44] implies a free cash flow perpetuity growth rate ("PGR") of -0.13% using his terminal value based on his free cash flow projection at the end of the BCG forecast period (FY 2017). **Exhibit 2B** shows that Professor Hubbard's calculated enterprise value of $28.973 billion in the Hubbard Adjusted Bank Case DCF model[45] implies a free cash flow PGR of 1.08% (i.e., almost identical to my selected PGR of 1.0%) had he calculated his terminal value based on his free cash flow projection at the end of the Bank Case forecast period (FY 2018). Thus, these exhibits show that Professor Hubbard could have arrived at his estimates of Dell's fair value while using a PGR of 1% or lower without extending his adjusted projections beyond the explicit forecast period.

22. **Exhibits 2A** and **2B** further show that the Hubbard Adjusted BCG Case and Bank Case projections contained sufficient investment during the explicit forecast period to support the implied PGR resulting from Professor Hubbard's valuation. Thus there was no need for Professor Hubbard to extend his projections. As I demonstrate below, the BCG 50% Case and Bank Case with Cost Savings

[44] Hubbard Report, Exhibit 18.
[45] Hubbard Report, Exhibit 24.

projections I used in my DCF valuation also contain sufficient reinvestment in order to support a 1.0% PGR at the end of the explicit forecast period.

Dell's Projections Do Not Require Additional Reinvestment

23. In his DCF analyses using both the Hubbard Adjusted BCG Case and Hubbard Adjusted Bank Case projections, Professor Hubbard assumed a terminal growth rate of 2% instead of determining what stable growth rate was consistent with the growth rates reflected in the projections as I did.[46] He concluded that funding this future growth would require additional annual investment during the terminal period using his "plowback" formula. In particular, Professor Hubbard calculates required investment in a given year as the amount equal to the product of Dell's projected annual operating profit[47] during that period and his projected investment rate for Dell, which was Dell's projected terminal growth rate (2%) divided by Dell's expected return on invested capital ("ROIC").[48] He set Dell's expected ROIC equal to his estimate of the Company's WACC of 9.46%,[49] **which**

[46] Hubbard Report, ¶¶ 217, 282; Cornell Report, ¶¶ 99-100.

[47] Professor Hubbard calculated Dell's after-tax operating profit as "EBITAO [Earnings Before Interest, Taxes, Amortization, and Option (stock-based compensation) Expense] less taxes on EBITAO minus the after-tax cost of stock-based compensation." (Hubbard Report, ¶ 211.)

[48] Hubbard Report, ¶ 211.

[49] Hubbard Report, ¶ 212.

implies that his required investment amounts would not generate any additional value for Dell. There is no justification for doing this.

24. Professor Hubbard then reduced his estimate of required annual investment by the amount of terminal period annual investment that was already incorporated into his model as projected capital expenditures, changes in net working capital, and acquisitions based on BCG's assumptions.[50] Finally, he assumed that Dell increased its investment amounts ratably each year over the transition period to reach the required investment calculation for FY 2023 (i.e., the terminal period) by the end of the transition period.[51]

25. Professor Hubbard's assumption that Dell's expected ROIC equals its WACC underestimates the expected return on the Company's investments because it assumes that they will not create any additional value beyond Dell's cost of capital. This runs directly counter to Dell's expectations for its acquisitions, which were given a target internal rate of return (IRR) of 15% and thus assumes that these acquisitions would create additional value for Dell because this target hurdle rate was higher than Professor Hubbard's estimate of Dell's WACC.[52] Because he underestimated Dell's expected return on investment, he overestimated the

[50] Hubbard Report, ¶ 213.
[51] Hubbard Report, ¶ 213.
[52] *See* Dell Ex. 28 (Bank Presentation), p. 8.

amounts that Dell would need to invest during the terminal period to achieve its terminal growth rate and therefore underestimated Dell's cash flows during the terminal period.

26. Even if one assumes for the sake of argument that Dell's expected return on investment is equal to its WACC, I have determined that, given my WACC estimate of 9% and estimated perpetuity growth rate of 1%,[53] no additional adjustments to projected investment amounts through acquisitions, capital expenditures, or changes in net working capital are necessary for either my Bank Case with Cost Savings or my BCG 50% Case scenario as shown in the Cornell Report because this scenario already includes sufficient investment amounts when I test it by applying Professor Hubbard's formula.[54]

27. When I apply Professor Hubbard's reinvestment formula to my Bank Case with Cost Savings projections, I determined that the annual reinvestment amount required during the terminal period to sustain a terminal growth rate of 1% (my estimate) at an expected ROIC of 9.0% (my estimate of Dell's WACC) is approximately $451 million (*see* **Exhibit 3A**). However, the Bank Case with Cost

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[53] Cornell Report, ¶¶ 120.

[54] Because Professor Hubbard has estimated Dell's perpetuity growth rate to be 2% and its WACC to be 9.46%, (Hubbard Report, ¶¶ 217, 257), applying his formula to my projection scenarios and using his estimated WACC and perpetuity growth rate leads to significantly higher required annual reinvestment amounts.

Savings projections already assume that Dell would make $400 million per year in new acquisitions during the terminal period,[55] and that Dell's net working capital needs are $15 million per year in the terminal period. Thus, Dell's required annual additional investment during the terminal period would be $36 million before taking prior acquisitions and changes in net working capital into account. However, according to Dell's FY 2013 10-K, the Company made $4.844 billion in acquisitions during that year and the Bank Case projected that Dell would make $400 million in acquisitions each year between FY 2014 and FY 2018, for a total of $6.844 billion in acquisitions.[56] In addition, the Bank Case projections assumed that net working capital would increase by $527 million between FY 2013 and FY 2018.[57] The total required investment amount between FY 2013 and FY 2018 was $2.213 billion before taking projected acquisitions and increases in net working capital into account. The implied lump sum additional investment necessary to sustain a 1% PGR at a 9.0% WACC as of the end of FY 2017 is $451 million,[58] but

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[55] Cornell Report, Exhibit 11. The Bank Case projections are already conservative with respect to reinvestment assumptions because they exclude expected incremental benefits to revenue and EBITDA from these projected acquisitions. Dell Exhibit 25 (August 2013 Rating Agency Presentation), p. 54.

[56] Dell FY 2013 10-K, p. 65; Cornell Report, Exhibit 11.

[57] Cornell Report, Exhibit 11.

[58] I assume that the annual reinvestment amount grows by 1% each year during the terminal period consistent with my assumed growth in free cash flows. Using the Gordon Growth Model, the lump sum amount equals the annual required investment of $36 million divided by (9% WACC – 1% PGR).

the surplus investment amount (Acquisitions + Changes in Net Working Capital – Required Investment Amount) at that time was projected to be $5.158 billion, which is more than enough built-up investment to fulfill any additional investments required to sustain my projected perpetuity growth rate of 1%.

28. When I apply the reinvestment formula to the BCG 50% Case projections, I determined that Dell's required annual investment amount during the terminal period would be approximately $415 million.[59] (*See* **Exhibit 3B**.) However, the BCG projections show Dell making $4.95 billion in additional acquisitions in FY 2013.[60] In addition, net working capital was projected to increase by a net amount of $2.948 billion between FY 2013 and FY 2017.[61] The total required investment amount between FY 2013 and FY 2017 for a 1% PGR is $1.844 billion before taking projected acquisitions and increases in net working capital into account. The implied lump sum additional investment necessary to sustain a 1% PGR at a 9.0% WACC as of the end of FY 2017 is $5.188 billion,[62] but the surplus investment amount at that time was projected to be $6.055 billion,

[59] Cornell Report, Exhibit 8.
[60] Cornell Report, Exhibit 8.
[61] Cornell Report, Exhibit 8.
[62] I assume that the annual reinvestment amount grows by 1% each year during the terminal period consistent with my assumed growth in free cash flows. Using the Gordon Growth Model, the lump sum amount equals the annual required investment of $415 million divided by (9% WACC – 1% PGR).

which is more than enough built-up investment to fulfill any additional investments required to sustain my projected perpetuity growth rate of 1%.

29. Further, I have reviewed twelve DCF analyses that value Dell between May 24, 2012 and January 31, 2014 (*see* **Exhibit 4**). None of these analyses include additional reinvestment amounts to sustain the growth implied by their terminal value calculation of Dell.

30. Finally, as noted above, Delaware Chancery Court opinions have expressed skepticism regarding post-transaction adjustments to management forecasts made in the course of litigation since these adjustments may reflect hindsight bias and the opinions of parties who have an interest in the outcome of the litigation.[63] By adding incremental investment amounts that were neither considered nor accepted by Dell management, Silver Lake, the Special Committee (or its financial advisors), or the financing banks, Professor Hubbard effectively substitutes his own judgment almost two years after the transaction close for the contemporaneous expectations of these insiders.

D. Cost Savings from May Proxy

31. The May Proxy disclosed BCG projections that reflected the impact of cost savings projections based on Dell's ability to achieve 25% and 75% of Dell

[63] *Owen v. Cannon*, pp. 52-53 (citing *Agranoff v. Miller*).

management's goal of $3.3 billion in annual cost savings ("BCG 25% Case" and "BCG 75% Case" projections).[64] These cost savings are reflected in the BCG 25% Case and BCG 75% Case DCF valuations used by the Special Committee's advisors in their fairness opinion valuations.[65] However, these are not the cost savings projections used by Professor Hubbard. Instead, Professor Hubbard relied on cost savings projections contained in a tab within BCG's valuation Excel model.[66]

32. While Professor Hubbard characterizes his forecast as the "Adjusted BCG 25% Case," the annual cost savings used by Professor Hubbard assume the cost savings phase in more quickly but plateau at a level lower than the cost savings associated with the BCG 25% Case as disclosed in the May Proxy, as set forth below (in millions).[67]

Comparison of BCG "25%" Cost Savings

	2014	2015	2016	2017
Hubbard "25%"	$200	$730	$780	$810
BCG 25% in Proxy	$84	$419	$838	$838

Using the cost savings for the explicit forecast period shown in the May proxy would reduce Professor Hubbard's estimate of Dell's value by $0.12 (*see* **Revised**

[64] May Proxy, pp. 100-101.
[65] May Proxy, pp. 67-68, 72, 78-79.
[66] Ning Exhibit 18 (BCG00013575.xlsx), Tab ("01-NCBM Minus") at cells L45:O45.
[67] May Proxy, pp. 100-101.

Revised Exhibit 1). Furthermore, Professor Hubbard's extension of the projections (discussed in ¶¶ 19-20 above) inexplicably results in a decline in the cost savings of approximately $115 million by 2022. In contrast, my BCG 50% Case assumes that Dell's cost savings grow at Dell's perpetuity growth rate (1% in my analysis) after the explicit forecast period.[68]

33. Eliminating Professor Hubbard's extension period and growing BCG's cost savings by 1% during the terminal period would increase Professor Hubbard's estimate by an additional $0.47 (*see* **Revised Exhibit 1**). In **Section IV**, I discuss the impact of Professor Hubbard's failure to take into account the full extent of Dell's expected cost savings as reflected in the BCG 50% Case and Bank Case with Cost Savings projections.

E. Professor Hubbard Erroneously Used Dell's Marginal Tax Rate During the Terminal Period of His DCF Analyses, Incorrectly Assuming That Dell's Offshore Cash Will Be Repatriated At That Rate

34. In his DCF analysis, Professor Hubbard used two different tax rates. During his projection period, he used a tax rate of 18.5% as identified by Professor Shay, Dell's tax expert.[69] For his terminal period, he used Dell's combined marginal tax rate (federal and state) of 35.8% under the assumption that "strategies that reduce current taxes are generally deferral strategies, not avoidance strategies,

[68] Cornell Report, Exhibit 10.
[69] Hubbard Report,¶ 221.

and are generally not sustainable in perpetuity," again relying on Professor Shay's opinions.[70] In contrast, I used a tax rate of 21% in both the forecast period and terminal period based on Dell management's September 21 Projections.[71]

35. The impact of using Dell's marginal tax rate of 35.8% instead of 18.5% in the terminal period is to reduce Dell's implied equity value per share by $2.40 per share in the Hubbard Adjusted BCG Case and by $2.82 in the Hubbard Adjusted Bank Case. In contrast, the impact of using a cash tax rate of 18.5% in each year as opposed to the 21.0% tax rate projected by Dell management increases Dell's implied equity value per share by $0.58 per share in the Hubbard Adjusted BCG Case and by $0.67 in the Hubbard Adjusted Bank Case. (*See* **Revised Exhibit 1**.)

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[70] Hubbard Report, ¶¶ 222-223. Professor Shay concluded that "deferral-based strategies are not sustainable in perpetuity" and that "even if a firm currently plays a lower than marginal rate, eventually marginal rates will have to be paid on earnings." (Shay Report, ¶ 44) He agreed with Professor Hubbard's use of Dell's combined marginal tax rate in the terminal period, stating that "it would be inappropriate to speculate about changes to future tax policy in the DCF valuation" and that using Dell's then-current marginal tax rates was "consistent with behavior of investors and other business persons I have observed over many years." (Shay Report, ¶ 45)

[71] Cornell Report, Exhibits 10 & 11. This is the same tax rate that the Special Committee's advisors used in their DCF valuations. *See* JPM_0003324.xlsm; JPM_0119609.xlsm; EVERCORE00004835.xlsm; and EVERCORE00051053.xlsm.

36. Professor Hubbard's assumption that a lower than marginal tax rate is "not sustainable in perpetuity" is inconsistent with Dell's actual experience in effectively paying far lower tax rates over the last 25 years. (*See* **Exhibit 5**.) In the 25 years leading up to the Buyout Transaction, Dell's effective tax rate was always significantly below the marginal rate. Moreover, the effective tax rate was lower in more recent years, averaging 23.8% over the prior 10 years and 18.5% over the prior 3 years. This is in spite of the fact that the marginal corporate tax rate has been at least 34% over that same time period.[72]

37. Professor Hubbard's assumption that Dell's offshore cash will eventually need to be repatriated in a way that necessarily results in higher effective tax rates is not supported by the record. **Exhibit 6** shows that Dell paid significant amounts to repurchase stock (more than $36 billion) between FY 2000 and FY 2013, made over $13.5 billion in acquisitions since FY 2000, and even began to pay dividends in FY 2013. Further, as Professor Steines points out in his report, Dell repatriated almost $13 billion in cash between 2006 and 2013 without incurring a significant tax liability.[73] Thus, I find no evidence to suggest that Dell

[72] The top corporate tax rate was 34% in 1988-1992 and 35% since 1993. (http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=65)

[73] Expert Report of John P. Steines Jr., July 24, 2015 (hereinafter referred to as the "Steines Report"), ¶ 7.

would pay tax at the statutory rate even if the Company repatriates its "offshore" cash.

38. Even if Dell needed to access offshore cash in order to pay out dividends or repurchase stock, there is no evidence it would need to repatriate that cash in order to do so. As a tax policy paper published by the Center for American Progress points out, "offshore" cash is not necessarily kept overseas physically. It can be deposited in U.S. banks and even invested in U.S. projects so long as these projects are controlled by a non-U.S. subsidiary.[74] "Repatriating" cash simply means bringing it under the control of a U.S. subsidiary rather than physically moving cash from overseas to the U.S. For instance, as of May 2013, Apple had $102 billion in "permanently invested" overseas income that was not subject to U.S. taxation even though these funds were actually deposited in New York banks. These funds could be invested in U.S. projects or investments so long as they were not used to directly invest in Apple's U.S. operations, pay dividends or repurchase shares.[75] Apple has been able to access these funds by borrowing at very low interest rates and the debt issuances have carried maturities up to 30 years.[76]

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[74] Center for American Progress, "Offshore Corporate Profits: The Only Thing Trapped is Tax Revenue," Available online at < https://www.americanprogress.org/issues/tax-reform/report/2014/01/09/81681/offshore-corporate-profits-the-only-thing-trapped-is-tax-revenue/>, p. 4.

[75] Offshore Corporate Profits, p. 4.

[76] "Apple Shops Third Big Bond Offering - $5B – Since 2013 Amid Shareholder

Microsoft, Walmart, Du Pont, Coca-Cola, and Johnson & Johnson have all employed similar strategies in recent years to avoid having to repatriate cash.[77]

39. Further, a study by Graham *et al*. (2012) provides additional support for the notion that repatriation of "offshore" cash is not a foregone conclusion. The authors point out that "if [foreign earnings] are never repatriated, then no U.S. taxes are ever paid."[78] If a company does not expect to repatriate earnings in the foreseeable future, it can defer the additional income tax expense in perpetuity. This deferral reduces the company's effective tax rate because if the firm never repatriates, it never pays the U.S. taxes.[79] When a company chooses not to repatriate earnings in the foreseeable future, these earnings are known as permanently reinvested earnings (PRE). PRE can be very large for some multinational companies. Graham *et al*. found that the aggregate PRE of the 50 largest U.S. companies in 2008 totaled $610 billion. Moreover, PRE has grown rapidly in recent years. In 2008, 273 of the Fortune 500 companies reported some amount of PRE for a total of $1.03 trillion. This represented a significant increase

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Plans," *Forbes*, February 2, 2015.

[77] Offshore Corporate Profits, pp. 5-6. Professor Steines describes additional strategies for tax-free repatriations in his report, including tax-free reorganizations involving affiliated companies and inversions. Steines Report, ¶¶ 21-25.

[78] Graham, John R., Jana S. Raedy, and Douglas A. Shackelford, "Research in Accounting for Income Taxes," *Journal of Accounting and Economics,* Volume 43, 2012, p. 418.

[79] Graham et al., p. 418.

from the estimated aggregate PRE of $381 million in 2002 for 296 firms in the S&P 500. Wunder (2009) found an average PRE of $3.74 billion per firm, which was more than seven times the $485 million mean reported by Krull (2004) in her study of Compustat firms in the 1990s.[80]

40. This growth in permanently reinvested earnings is particularly noteworthy because an IRS study of the tax holiday provided by the American Jobs Creation Act of 2004 estimates that the holiday led to the repatriation of $362 billion of foreign earnings.[81] A 2009 article in *The New York Times* shows that Dell repatriated $4 billion during the tax holiday and used $2 billion to repurchase shares.[82] On the other hand, because classifying earnings as PRE was one of the factors that determined the amount of foreign earnings that was subject to the Act's favorable holiday rates, managers may be classifying as permanently reinvested earnings as much foreign profits as possible to maximize the amount of PRE, particularly if they believe that there will be future tax holidays or other rate reductions for foreign earnings.[83] According to its FY 2013 10-K, Dell classified

[80] Graham et al., p. 418.
[81] Graham et al., p. 418.
[82] "High and Low Finance – Tax Break for Profits Went Awry," *The New York Times*, June 4, 2009. Professor Steines points out in his report that Dell also repatriated approximately $8.8 billion through an internal restructuring "much or perhaps all of it without incurring residual U.S. tax." (Steines Report, ¶ 7).
[83] Graham et al., p. 418.

at least some of its earnings as PRE,[84] and Professor Hubbard notes that his estimated $6.3 million deferred tax liability associated with a hypothetical repatriation of Dell's foreign earnings as of the Appraisal Date was identified by Dell as having been postponed "indefinitely."[85]

41. A leading valuation textbook further supports this notion, pointing out that "Multinational companies sometimes do not repatriate earnings (cash) back to their home country in order to defer taxation on that income. … [T]he tax a multinational company faces is often determined by its repatriation policy. In this case, the accumulation of excess cash may create value for shareholders because of its interplay with the taxes the entity pays."[86]

42. Further, a company that wishes to repatriate cash may wait for tax holidays, which are government incentive programs that offer tax reduction or elimination to businesses. In January 2015, Senators Rand Paul and Barbara Boxer proposed a 6.5% tax on repatriated funds provided those funds were used for initiatives like research and development, public-private partnerships, and

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[84] Dell FY 2013 10-K, p. 50 ("We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered permanently reinvested outside of the U.S.")

[85] Hubbard Report, ¶ 269; *see also* Shay Report, ¶ 48.

[86] Holthausen, Robert W., and Mark E. Zmjiewski, *Corporate Valuation: Theory, Evidence & Practice,* 1st Ed., Cambridge Business Publishers, 2014, pp. 149-150.

acquisitions, and such funds could not be used for executive compensation or stock buybacks.[87]

43. There are many economic benefits of tax holidays.[88] A 2009 Decision Economics study concluded that lowering the tax on repatriated foreign income would inject $545 billion into the U.S. economy, stimulate 2010 real GDP by $110 million, and result in 614,000 new jobs. In addition, this study projected that the U.S. Treasury would receive an average of $28 billion annual revenue for five years that it otherwise would not have received.[89]

44. Professor Hubbard selectively cites two valuation textbooks as support for his use of Dell's marginal tax rate to calculate his terminal period cash flows.[90] In one of those texts, the author (Professor Damodaran) concedes that his

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87 "Two Senators Have Proposed a Tax Holiday Tech Companies Would Love," *Business Insider*, January 29, 2015.

88 See "Larry Kudlow's Brilliant Idea for a Tax Holiday," *Motley Fool*, October 20, 2010; Larry Kudlow, "The economy could explode on the upside," *Real Clear Markets*, October 6, 2010; Michelle Lodge, "Will a Tax Break for Multinationals Create Jobs?," *CNBC*, July 28 2010; Allen Sinai, "A $545 Billion Private Stimulus Plan," *The Wall Street Journal*, January 28, 2009.

89 Allen Sinai, "A $545 Billion Private Stimulus Plan," *The Wall Street Journal*, January 28, 2009

90 Damodaran (Investment Valuation, 3rd Ed.), asserts that using a marginal tax rate in calculating the terminal value is "good practice," (p. 252) and Giri S. (Investment Banking: Concepts, Analysis, and Cases) relies on Damodaran in concluding that "[i]n measuring the FCFF [Free Cash Flow to the Firm] for the purpose of arriving at the terminal value … it is always the marginal tax rate that has to be used since all deferred tax assets get naturalized over a period of time and the company will eventually pay tax at the marginal rate." (p. 218)

approach is "conservative" and that the tax effect of repatriating offshore cash is "not so clear in the long term" due to the potential for tax holidays and changes in the tax rate.[91] Furthermore, other valuation textbooks dispute this practice. For example, *Valuation*, 5th Edition, notes: "In actuality, many companies will never pay (or at least significantly delay paying) accrual-based taxes. Consequently, a cash tax rate (one based on the operating taxes actually paid in cash to the government) represents value better than accrual-based taxes."[92] Elsewhere, it states: "Computing operating taxes by multiplying operating profit by the company's statutory tax rate typically leads to an upward-biased estimate of operating taxes because it fails to recognize that foreign earnings are often taxed at different levels."[93] In my textbook, I maintain that the proper practice is to use estimated cash taxes in a DCF analysis.[94]

45. Finally, none of the DCF valuations of Dell in the record use a marginal tax rate for the terminal value in their baseline valuations of Dell as a going concern, although some of the valuations did consider repatriation scenarios for sensitivity purposes.[95] (*See* **Exhibit 4**.)

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91 *Investment Valuation*, 3rd Ed., pp. 427-28.
92 *Valuation*, 5th Ed., p. 536.
93 *Valuation*, 5th Ed., p. 535.
94 Cornell, Bradford, *Corporate Valuation: Tools for Effective Appraisal and Decision Making* ("*Corporate Valuation"*), p. 113.
95 J.P. Morgan and Evercore used marginal rates in their sensitivity analyses

F. Other Minor Differences Between Hubbard and Cornell Projections

46. In addition to the adjustments I discuss above, Professor Hubbard's and my DCF valuations differ slightly in their treatment of Dell's projected stock-based compensation ("SBC") expense, depreciation and amortization expense, investment in net working capital, capital expenditures, restructuring charges, and the projections for the stub period of the FY 2014 projections between the valuation date and close of the fiscal year end in early 2015.

Stock-Based Compensation and Incremental Opex

47. In order to model the cash flow impact from Dell's use of stock-based compensation, I adopt the method used by the Special Committee's advisors and estimate FY 2014 to FY 2018 SBC expense of $362 million, which equals the actual SBC expense in FY 2012 and is identical to amounts projected for Dell in each of these years by the Special Committee's advisors in the BCG cases in their

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where they analyzed the effect on value of repatriating cash as part of the LBO transaction rather than the effect on Dell as a going concern public company. In contrast, the advisors' DCF valuation analyses of Dell as a going concern calculated the Company's terminal value based on multiples of EBITDA but still explicitly showed the tax rate during the terminal period to be 21%. (Rajkovic Deposition, pp. 52-53; JPM_0003324.xlsm; JPM_0119609.xlsm; EVERCORE00004835.xlsm; EVERCORE00051053.xlsm.) BCG used tax-adjusted cash balances in its DCF analysis that was presented to Dell's Board of Directors in January 2013 to reflect potential repatriation of offshore cash, but Mr. Ning testified that BCG did not perform any analysis to determine whether Dell, as a going concern, publicly-traded company would need to repatriate offshore cash. (BCG00013575.xlsx (Ning Exhibit 18), "Value Range" Tab; Ning Deposition, p. 194.)

fairness opinion DCF valuations.[96] I deduct SBC expense in arriving at the operating profit amount used to calculate Dell's cash taxes in each year, thereby deducting an after-tax amount of $286 million in each year ($362 million multiplied by 1 less the 21.0% tax rate).[97] Professor Hubbard uses this same SBC expense in his BCG 25% Case model but applies a different tax rate such that his after-tax deduction is $243 million in FY 2015 – 2017. He then models SBC expense as a constant percentage of FY 2017 Revenues beyond FY 2018, which results in lower after-tax SBC expense in each year than I project.[98] Had Professor Hubbard instead used my estimate of after-tax SBC expense, his DCF valuations would have been lower by $0.39 per share in the Hubbard Adjusted BCG Case model and by $0.10 per share in the Hubbard Adjusted Bank Case model. (*See* **Revised Exhibit 1**.)

48. In the Hubbard Adjusted Bank Case model, Professor Hubbard includes both Incremental Opex and SBC expense**.**[99] The Incremental Opex amount is what is referred to in the September 2013 Silver Lake presentation as

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96 Silver Lake Partners, Project Denali, September 2013, (Durban Exhibit 19), p. 13; JPM_0013172.xlsm, tab: "PL"; EVERCORE00004835.xlsm, tab: "BCG Total"; and Dell 2012 10-K, p. 61.

97 *See*, *e.g.*, Cornell Report, Exhibits 1E & 10 for BCG 50% Case projections and DCF valuation.

98 Hubbard Report, ¶¶ 198-199, fn 257; Hubbard Report, Exhibit 18.

99 Hubbard Bank Case DCF Model.xlsx, "Opex" tab, cells J33:N33, S33:W33.

Incremental Cash LTI (*i.e.*, long-term incentives).[100] As Silver Lake's presentation points out, the Bank Case includes Incremental Cash LTI expense as a private company replacement for SBC expense.[101] In my Bank Case with Cost Savings scenario, I remove Incremental Cash LTI as a private company expense to avoid this double-counting and instead include management's projections for Dell's SBC expense as a publicly traded company.[102] Had Professor Hubbard excluded the Incremental Opex amount from his Adjusted Bank Case projections, his estimate of Dell's value would increase by $1.24 per share. (*See* **Revised Exhibit 1**.)

Other Differences

49. In his Adjusted Bank Case Projections, Professor Hubbard also includes after-tax restructuring expense that Silver Lake described as "ongoing business rationalization and cost initiatives."[103] I did not include these payments in my estimate of Dell's fair value on a going concern basis because the cost savings in the Bank Case projections were based on $3.6 billion of specifically-identified initiatives that were already in place at the time the projections were created.[104]

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[100] Project Denali, September 2013, p. 13.
[101] Project Denali, September 2013, p. 13 ("$275 million annual incremental cash LTI granted in FY 2014E to reflect private company compensation plan; incremental to converted RSUs to cash awards").
[102] Cornell Report, fn. 237.
[103] Hubbard Bank Case DCF Model.xlsx, "DCF Control" tab, Cells G102:K102; Dell Exhibit 25 (August 2013 Rating Agency Presentation), p. 54.
[104] Dell Exhibit 25 (August 2013 Rating Agency Presentation), pp. 26-27.

However, as Michael Dell's testimony makes clear, not all of Dell's cost savings initiatives were reflected in the Bank Case. Rather, Silver Lake modeled several billion dollars in cost reduction and savings in addition to the $3.6 billion shown in the Bank Case.[105] Further, neither Silver Lake's representative nor Dell management testified that restructuring costs were part of Dell's ongoing operations had the company not gone private, nor were these costs shown as part of the Bank Case operating projections shown in the Dell's Rating Agency Presentation.[106] Thus, I believe it is appropriate to exclude these costs in estimating Dell's fair going concern value based on the Bank Case with Cost Savings projections.[107]

50. **Revised Exhibit 1** also shows the aggregate valuation effect of small changes between Professor Hubbard's valuation conclusion using his Adjusted BCG Case projections and my DCF valuation using the BCG 50% Case projections due to differences in our projections of Dell's depreciation and amortization expense ($0.15 per share), investment in net working capital ($0.20

[105] Dell Deposition, pp. 217-220.
[106] Dell Exhibit 25 (August 2013 Rating Agency Presentation), p. 55.
[107] If the Court decides that such costs should be included in estimating Dell's fair value as a publicly traded company, my concluded value of Dell based on my DCF valuation using the Bank Case with Cost Savings projections would decrease by $0.28 per share (*see* **Revised Exhibit 1**) and my overall concluded value, which is based on a 50% weighting of the results of the Bank Case with Cost Savings DCF valuation, would decrease by $0.14 per share.

per share), and capital expenditures (-$0.23 per share).[108] Finally, **Revised Exhibit 1** shows that Professor Hubbard's DCF value per share would be $0.05 per share lower had he assumed the same percentage of annual cash flows allocated to the Q4 FY 2014 stub period to account for the period between the valuation date and close of the fiscal year end in early 2015.

IV. PROFESSOR HUBBARD IMPROPERLY IGNORES THE IMPACT OF DELL'S EXPECTED COST SAVINGS

51. In selecting the Hubbard Adjusted BCG Case and Hubbard Adjusted Bank Case forecasts as the basis for his valuation of Dell, Professor Hubbard fails to take account of cost savings that Dell had already realized prior to the transaction. By doing so, his Adjusted BCG Case forecast underestimates Dell's value by $3.52 per share and his Bank Case forecast underestimates Dell's value by $4.20 per share (*see* **Revised Exhibit 1**).

52. I used versions of the BCG and Bank Case projections, but which appropriately incorporated the extent of the cost savings plans in place, in arriving at my estimate of Dell's fair value as of the Appraisal Date. As I explain below, my decision to use the BCG 50% Case and Bank Case with Cost Savings

[108] These differences arise due to the different treatment in modeling these line items in my forecast (*i.e.*, by using the advisors' forecasts for the explicit forecast period and by growing at the 1% PGR in the terminal period) compared to Professor Hubbard's use of the BCG balance sheet projections for Property & Equipment and Net Working Capital.

projections is supported by evidence in the record regarding Dell's success in implementing its cost savings initiatives at a pace that far exceeds that contemplated in the Hubbard Adjusted BCG Case projections.

A. Hubbard Adjusted BCG Case Projections

53. In creating the Hubbard Adjusted BCG Case projections, Professor Hubbard fails to take into account evidence in the record that, at the time of the transaction, Dell had achieved approximately 50% of the forecasted cost savings at a faster pace than was originally forecast. As I noted in the Cornell Report, there is ample evidence in the record regarding the implementation of the cost savings initiatives and its impact on actual results during Dell's fiscal year ("FY") 2014 to support the conclusion that Dell could reasonably be expected to achieve at least 50% of its projected costs savings as of the Appraisal Date.[109]

54. In particular, Dell significantly exceeded the planned cost savings for FY 2014 of $84 million in the BCG 25% Case and $168 million in the BCG 50% Case,[110] having realized $1.6 billion in these savings in that year, with another $1.5 billion expected to be realized in FY 2015.[111] And BCG's representative Lutao Ning acknowledged in his deposition that BCG's Base Case should be

[109] Cornell Report, ¶¶ 43, 45, 57.
[110] Cornell Report, Exhibit 1B (referencing JPM_0119609.xls; tab BCG-Total).
[111] Dell Rating Agency Presentation, April 2014 (Ning Exhibit 26), p. 19. (DELLE00216698-216732 at 216702.)

supplemented with the cost savings actually achieved, an amount that approximated BCG's 50% Case.[112] As I noted in the Cornell Report, Dell was on a pace to exceed even the rate of annual cost savings shown in the BCG Case, which forecast $251 million in FY 2014 and $1.3 billion in FY 2015.[113] Further, Michael Dell has admitted that at least some of the cost savings contributed to Dell's better-than-expected post-transaction performance.[114]

B. Bank Case Projections

55. Professor Hubbard downplays the relevance of the Bank Case projections by claiming that they contain elements of private company savings (e.g., lower investment in working capital) and are overly optimistic.[115] This conclusion ignores Mr. Gladden's testimony that the Bank Case projections were informed by Silver Lake's due diligence process and that he and his team reviewed and agreed with the key assumptions underlying the projections at the time they were created.[116]

56. Further, Professor Hubbard does not cite any evidence to support his conclusion that the Bank Case includes private company savings. To the contrary,

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[112] Ning Deposition, p. 269 ("Q: … So would it have been reasonable to rely on the 25% forecast? A: It could have been – it was reasonable to rely on – if they had already achieved the 50%, then it was reasonable to rely on 50%.").
[113] Cornell Report, ¶ 45, Exhibit 1B.
[114] Dell Deposition, p. 310.
[115] Hubbard Report, ¶¶ 178-79.
[116] Gladden Deposition, pp. 232-237, 240-241.

the August 2013 ratings agency presentation gives a detailed account of the strategies Michael Dell and Silver Lake intended to pursue for Dell as a private company.[117] Every one of these strategies (gain PC and server market share, more aggressively targeting certain commercial accounts, investing in sales coverage and integrated solutions for mid-market customers, and developing localized products and solutions and enhancing go-to market capabilities in emerging markets)[118] was possible for Dell to implement as a public company,[119] and the Bank Case projections included in the presentation already take account of these strategies.[120] Professor Hubbard does not provide any supporting evidence to show which savings were possible as a private company as opposed to a public one. In general, the most significant cost savings brought about by going private is the avoidance of regulatory filing and reporting costs.[121] I've found no evidence in the record that such a savings would impact Dell's cash flows in a material way.[122]

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[117] Dell Exhibit 25 (Dell Rating Agency Presentation, August 2013), p. 29.
[118] Dell Exhibit 25 (Dell Rating Agency Presentation, August 2013), p. 29.
[119] *See* Durban Deposition, pp. 170-178; *see, also,* Dell Deposition, pp. 155-156.
[120] Dell Exhibit 25 (Dell Rating Agency Presentation, August 2013), p. 55
[121] *See* Amihud, Yacov, "The Characteristics and Effects of Management Buyouts," in *Leveraged Management Buyouts: Causes and Consequences,* edited by Yacov Amihud, Beard Books, 2002, p. 25.
[122] For example, the August 2013 Rating Agency did not show filing and reporting costs in its detailed breakdown of the cost savings. (Dell Exhibit 25, pp. 26-27). *See, also,* Durban Exhibit 19 (Project Denali, September 2013), pp. 81-83 (DELLE00239046-48).

57. In contrast with Professor Hubbard's claims that the Bank Case projections contain much lower expense levels, **Exhibit 7** demonstrates that Corporate General & Administrative Expense as a percentage of Revenues in the Bank Case and Bank Case with Cost Savings projections are not materially lower than Dell experienced in FY 2009 – 2013. Similarly, Dell's projected EBITDA margin in the Bank Case is in line with Dell's actual experience during FY 2009 – 2013 and is projected to be only slightly higher in FY 2017 – 2018 when incremental cost savings are taken into account. **Exhibit 8** demonstrates that while the Bank Case projects lower net working capital investment than either the September 21 or BCG Case projections, total net reinvestment is projected to be higher than the BCG Base Case in FY 2015, 2016, 2018 and is also projected to be higher than the September 21 Case in FY 2017 and 2018.

58. Professor Hubbard also ignores the $1 billion in incremental cost savings included in the Bank Case projections even though he has not provided any evidence that these cost savings could not be achieved by Dell as a going concern, public company.[123] And, in fact, they are the same type of cost savings that management was in the process of implementing prior to the transaction.[124] Dell's management provided Silver Lake with the information used to describe the cost

[123] Durban Deposition, pp. 309-312; Dell Deposition, pp. 216-217, 259-261; and Gladden Deposition, pp. 247-249.
[124] Cornell Report, ¶ 80.

reduction opportunities included in the August 2013 Rating Agency Presentation.[125] This presentation showed initiatives that were expected to result in $3.6 billion in annual productivity cost savings in order to maintain and improve competitive positioning.[126] These additional cost savings are shown in a September 2013 Silver Lake Presentation as incremental cost savings of $500 million in FY 2015 and $1 billion in each of the years FY 2016-2018.[127] As noted above, Dell actually exceeded the planned cost savings for FY 2014, having realized $1.6 billion of these savings in that year, with another $1.5 billion in cost savings expected in 2015.[128]

59. **Exhibit 9** presents an analysis of EBITDA margins in BCG 25% Case, BCG 50% Case, Bank Case, and Bank Case with Cost Savings projections. The exhibit demonstrates that the Bank Case with Cost Savings projections start out below those for both BCG cases in FY 2014 and 2015, but increase over time such that they fall in between those projected by the BCG 25% Case and BCG 50% Case in FY 2016 and 2017. In contrast, the Bank Case projections that Professor Hubbard further adjusts downward do not rebound to the level of margin

[125] August 2013 Rating Agency Presentation (Gladden Exhibit 28), p. 26 (DELL00024949); Gladden Deposition, pp. 240-241.
[126] Gladden Exhibit 28, pp. 26-27.
[127] Silver Lake Partners, Project Denali, September 2013, (Durban Exhibit 19), p. 13.
[128] Dell Rating Agency Presentation, April 2014 (Ning Exhibit 26), p. 19. (DELLE00216698-216732 at 216702.)

projected in the BCG case projections until FY 2017. As I discussed above and in the Cornell Report, the failure to incorporate the impact of these projected cost savings in a forecast for purposes of valuing Dell is inconsistent with the record evidence as of the Appraisal Date.

V. PROFESSOR HUBBARD'S NON-OPERATING ASSET AND LIABILITY ADJUSTMENTS ARE INCONSISTENT WITH OTHER VALUATIONS IN THE RECORD

60. In this section, I analyze differences between Professor Hubbard's and my assumptions regarding the proper adjustments to make to Dell's estimated enterprise value (i.e., the value of its operating assets) in order to arrive at an estimate of Dell's equity value.[129] In particular, Professor Hubbard and I use different estimates of Dell's Net Debt (i.e., Cash less Total Debt) as of the

[129] Professor Hubbard also used a different method of estimating Dell's diluted shares outstanding. In particular, he used Dell's shares outstanding as of August 22, 2013 of 1.758 million and added an additional 7 million shares to reflect the reported impact of dilution from options, restricted stock units and shares for the three month period ended August 2, 2013 from Dell's 2Q FY 2014 Form 10-Q filing. (Hubbard Report, ¶ 272.) In contrast, I started with the same basic shares outstanding but used detail on the exercise prices and vesting schedules for the outstanding options and restricted stock units and shares to estimate the impact of dilution relative to my concluded equity value per share. (Cornell Report, fn. 277.) Professor Hubbard's approach is approximately correct (and in his case overstates dilution) because his valuation is lower than the transaction price (which approximates the Dell stock price that the Company would have used to estimate dilution for financial accounting purposes). My approach is more precise and allows me to estimate dilution for fair value conclusions that differ materially from Dell's actual stock price.

Appraisal Date. Moreover, Professor Hubbard inappropriately omits $5 billion in cash from Dell's total cash balance and deducts approximately $5 billion in net tax liabilities. Taken together, these adjustments underestimate Professor Hubbard's estimate of Dell's fair value using the Hubbard Adjusted BCG Case projections by $5.59 per share and using the Hubbard Adjusted Bank Case by $5.60 per share (*see* **Revised Exhibit 1**).

A. Professor Hubbard Improperly Omits $5 Billion in "Required" Cash from his Valuation

61. Professor Hubbard states that "[i]f a firm has more cash than is necessary for its ongoing operations, the excess cash is a valuable non-operating asset of the firm and should be added to the DCF valuation" and concludes that "Dell had more cash on the Merger date than it required for its ongoing operations."[130] Professor Hubbard relied upon the August 2013 Rating Agency Presentation and Dell's post-transaction cash balance to conclude that Dell required approximately $5 billion in cash to fund its ongoing operations.[131] He then deducted this $5 billion amount from his estimate of Dell's cash balance of $11.04 billion as of October 29, 2013 to arrive at excess cash of $6.04 billion.[132] Professor Hubbard's methodology has the effect of lowering his implied per share

[130] Hubbard Report, ¶ 261.
[131] Hubbard Report, ¶ 262.
[132] Hubbard Report, ¶ 263.

equity value by $2.83 per share ($5.0 billion divided by 1.765 million diluted shares outstanding).[133] (*See* **Revised Exhibit 1**.)

62. The amount of excess cash a company holds depends on the nature of the underlying business. As Professor Damodaran points out, there are certain types of businesses, such as a small retail firm that engages in a lot of cash transactions, which may require a substantial operating cash balance.[134] Other businesses, such as a manufacturing company in a developed market, may not need any operating cash. Operating cash should be viewed as part of a company's working capital requirements, and any excess cash and near-cash investments can be added to the value of the company's operating assets. As I have described in the Cornell Report,[135] Dell is a long-established global company with extensive worldwide manufacturing operations, such that it is reasonable to conclude that Dell's operating cash needs are already accounted for in the working capital forecasts that are part of its cash flow projections.[136]

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[133] Hubbard Report, ¶ 272.
[134] *Investment Valuation*, 3rd Ed., pp. 423-424.
[135] Cornell Report, ¶¶ 10-13, 39-40.
[136] *Valuation*, 5th Ed., p. 137. ("Operating working capital equals operating current assets minus operating current liabilities. Operating current assets comprise all current assets necessary for the operation of the business, including working cash balances, trade accounts receivable, inventory and prepaid expenses.")

63. Thus, Professor Hubbard appears to be double-counting Dell's cash requirements. Both the BCG Base Case and Bank Case projections show that Dell's working capital needs (including operating cash) were projected to increase over time as the Company carried out its business plan.[137] This projected increase in net working capital is shown as an offset to free cash flow. Both the BCG and Bank Case projections used by Professor Hubbard include projected changes in working capital, and Professor Hubbard does not provide any evidence that these projections did not include projected cash used in Dell's operations. In fact, the support that Professor Hubbard relies on for concluding that Dell's excess cash balance is only $6 billion does not consider Dell's working capital forecasts at all and does not support his implicit assertion that additional amounts beyond Dell's forecasted working capital needs should be deducted from Dell's cash balance.[138] Rather, the BCG Base Case projections used by Professor Hubbard in his analysis directly contradict this assertion because the BCG DCF analyses add total cash rather than excess cash to arrive at Dell's equity value.[139]

[137] BCG00013575.xlsx (Ning Exhibit 18), "Total Base" tab; DELLE00734152.xls, "Consolidated" tab.

[138] Denali Acquiror Inc., Rating Agency Presentation, p. 38 (DELLE00381224); LBO Project Update, Treasury Ops, September 3, 2013, p. 12 (DELLE00382674).

[139] *See* BCG00013575.xlsx (Ning Exhibit 18), "Value Range" tab.

64. Using a company's total cash and marketable securities to calculate firm value from enterprise value is a commonly accepted procedure. For example, a leading valuation textbook states that "[o]nce you value the operating assets, you can add the value of the cash and marketable securities to arrive at firm value…"[140] Another textbook states that "[t]o value the firm, we add the value of all of the cash and marketable securities to the enterprise value,"[141] and a leading investment banking text confirms this relationship.[142]

65. To examine whether Professor Hubbard's methodology of adding excess cash to a company's enterprise value is a commonly accepted practice, I reviewed twelve sets of DCF analyses which value Dell between May 24, 2012 and January 31, 2014 (*see* **Exhibit 4**). Not surprisingly, the vast majority of these analyses used total cash rather than excess cash in calculating firm value.[143] In

[140] Damodaran, Aswath, *Investment Valuation*, 3rd Ed., John Wiley & Sons, 2012, p. 425.

[141] Holthausen, Robert W. and Mark E. Zmijewski, *Corporate Valuation: Theory, Evidence & Practice First Edition*: Cambridge Business Publishers (2014), p. 564

[142] Rosenbaum, Joshua and Joshua Pearl, *Investment Banking*: *Valuation, Leveraged Buyouts and Mergers & Acquisitions*, Second Ed., John Wiley & Sons, 2013, p. 35.

[143] Three of these analyses (Morgan Stanley, Citi, Morningstar, and the Houlihan Lokey October 2013 Solvency Presentation) do not include long-term investments in calculating the total cash balance as I do. However, my inclusion of long-term investments is an appropriate addition to enterprise value in calculating a company's equity value per share since neither interest income nor dividends on those investments are included in the free cash flow projections.

fact, only one analysis, an Ernst & Young ASC 805 valuation, takes excess cash into account, and this was a purchase price allocation analysis for financial reporting purposes that did not purport to independently value Dell.[144] Even so, the total cash adjustments made by Ernst & Young are significantly less than those proposed by Professor Hubbard.[145] My review of these valuations confirms that adding total cash to enterprise value is commonly accepted practice.

B. Professor Hubbard Improperly Understates Dell's Net Cash as a Going Concern as of the Appraisal Date by Including Transaction-Related Items

66. Professor Hubbard and I also used different estimates of Dell's net cash balance as of the Appraisal Date.[146] In my analysis, I use Dell's adjusted October 29, 2013 total cash of $12.469 billion and total debt of $6.311 billion to arrive at net cash of $6.158 billion.[147] Professor Hubbard estimated Dell's total net cash to be $5.986 billion ($11.04 billion cash less $5.054 billion in debt).[148]

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[144] Dell Inc. ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4117. According to ASC 805, the purpose of such a valuation is to allocate the purchase consideration paid among various balance sheet items (assets and liabilities) for financial reporting and tax purposes (ASC 805-740-25-6).

[145] Ernst & Young's analysis adds $1.19 billion in "illiquid" cash and another $765 million in "excess" cash. *See* Ernst & Young ASC 805 Valuation Analysis (DELLE00734117).

[146] Because any differences in a company's total cash and total debt balances could arise due to paying off debt, it is more appropriate to look at a company's net cash (or net debt, if debt exceeds cash) balance instead.

[147] Cornell Report, Appendix G.

[148] Hubbard Report, ¶¶ 261, 264 and Exhibit 21. This amount does not take into

Professor Hubbard's lower net cash estimate (by $0.72 billion) results in his implied equity value per share being lower than mine by $0.10 per share.[149] (*See* **Revised Exhibit 1**.)

67. In order to accurately measure Dell's going concern net cash levels as of the Appraisal Date (*i.e.*, the level of net cash Dell would have had as of the Appraisal Date had the Buyout Transaction not taken place), it is necessary to exclude items such as redemption of investments and cash transfers into escrow accounts that took place between August 2[150] and October 29, 2013 since these items would not have taken place absent the Transaction and impact the net cash position (*i.e.*, do not involve an equal reduction in cash and debt balances).[151] As a result, I adjusted Professor Hubbard's October 29, 2013 debt amount of $5.054 billion by adding back $1.506 billion in transaction-related debt repayments and

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account Professor Hubbard's estimate of cash used in Dell's operations of "approximately $5 billion," which would reduce his net cash balance to $0.986 billion. (Hubbard Report, p. 134.)

[149] Hubbard Report, ¶ 272 (based on his 1.765 million diluted shares outstanding).

[150] August 2, 2013 is the end of Dell's second quarter of fiscal 2014. *See* Dell Inc., Form 10-Q for the quarter ended August 2, 2013 ("Dell Inc. 2Q FY 2014 10-Q").

[151] Both Professor Hubbard's debt and cash amounts are understated because he improperly deducts a transaction-related repayment of approximately $1.3 billion in structured finance debt. (Denali Holding Inc. Quarterly Report, November 1, 2014 (DELLE00292678-720), p. 24.) However, this repayment should have no impact on net cash since it results in a decrease to both cash and debt of approximately $1.3 billion.

deducting $249 million in transaction-related debt proceeds.[152] Similarly, I added back $172 million in transaction-related cash expenditures along with the $1.506 billion in transaction-related debt repayments and deducting the $249 million in transaction-related proceeds from debt issuances from Dell's cash balance as of October 28, 2013. (*See* **Revised Exhibit 10**.)

C. Professor Hubbard Improperly Adjusts Dell's Fair Value for Potential Tax Assets and Liabilities

FIN 48 Liability

68. In his report, Professor Hubbard reduces his estimate of Dell's enterprise value by $3.01 billion to ostensibly take into account a potential tax liability reflected in Dell's financial statements as of the Appraisal Date.[153] Professor Hubbard's inclusion of the FIN 48 liability reduces his implied per share equity value by $1.71 per share in both his BCG 25% Case and his Bank Case scenarios. (*See* **Revised Exhibit 1**.) To support this adjustment, he states that "[i]n addition to debt, other debt-like liabilities not related to the ongoing operations of the company should be subtracted from the DCF value" and that Dell's historical financial statements show a very large liability related to past tax returns in various countries.[154] Although I agree, as a general proposition, that a

[152] *See* Cornell Report, ¶ 113 and Appendix G.
[153] Hubbard Report, ¶ 267.
[154] Hubbard Report, ¶ 265.

company's non-operating liabilities should be subtracted from its DCF value to the extent they reflect additional cash outflows that are not reflected in the DCF analysis, I disagree with Professor Hubbard's implicit conclusion that FIN 48 provides a reliable measure of Dell's potential future tax liability that is not already taken into account by the estimates of projected cash taxes shown in the BCG Base Case and Bank Case cash flow projections.

69. According to FASB Interpretation No. 48 ("FIN 48"), companies must establish a contingent liability on their balance sheets for potential future tax payments, i.e., taxes that *might* have to be paid in the future.[155] Professor Hubbard acknowledges that FIN 48 liability is "a measure of the expected tax payments associated with tax positions that the company *may* lose *if* it is challenged by the tax authority."[156] These expected tax payments represent the difference between tax positions recognized on a company's tax return and those recognized on its income statement for financial reporting purposes (i.e., using accrual accounting)

[155] Hubbard Report, ¶¶ 265-266. Professor Shay agrees with Professor Hubbard's treatment. (Shay Report, ¶ 62.)

[156] Hubbard Report, ¶ 266 (emphasis added). According to the FASB's Summary of Interpretation No. 48, this recorded amount is an estimate of the total amount at risk given a determination that the risk of not owing this amount is not more likely than not assuming a 100% likelihood of being audited. <http://www.fasb.org/summary/finsum48.shtml>

and do not take into account the likelihood or effects of possible settlement with taxing authorities. [157]

70. Further, Professor Hubbard does not cite any valuation texts to support his inclusion of the FIN 48 liability in calculating Dell's equity value. None of the major valuation texts I have reviewed suggest reducing a company's enterprise value by its unadjusted FIN 48 liability. In addition, only three of the twelve valuations of Dell in the record (the Ernst & Young ASC 805 purchase allocation valuation and the Houlihan Lokey October 2013 and January 31, 2014 valuations) include offsets for tax liabilities (*see* **Exhibit 4**). Each of these three valuations of Dell was performed for financial accounting purposes, not to determine Dell's independent, fair value as a going concern.[158] Thus, I believe it is

[157] Financial Accounting Standards Board, FASB Interpretation No. 48: Accounting for Uncertainty in Income Taxes, (hereinafter referred to as "FIN 48"), Appendix A, p. 17.

[158] These valuations make several non-standard adjustments. For example, the Ernst &Young valuation adds the value of the Dell trade name and DFS' receivables as additional assets and subtracts additional net working capital beyond that shown in the cash flow forecasts and FIN 48 liability. E&Y's use of these adjustments may be appropriate in an ASC 805 valuation used to allocate the purchase price of an acquired company amount various balance sheet items, but in my experience these are not standard adjustments for purposes of arriving at an independent estimate of a company's intrinsic value. (DELLE00733762-4129 at 4117; ASC 805-740-25-6.) The two Houlihan Lokey valuations show Dell's estimate of between $800 and $850 million (October 2013) and between $835 and $865 million (January 31, 2014) for "tax and legal expenses" but do not provide any further detail as to the breakdown between these categories. (Dell Inc., Discussion Materials, October 2013, p. 13 (DELLE00780000) and Denali Holdings, Inc., Valuation Analysis as of January

inappropriate to rely on these valuations in determining whether a FIN 48 liability should be deducted from Dell's enterprise value.[159]

71. Moreover, a FIN 48 liability is measured by comparing projected cash tax expense under a worst case scenario with accrual-based tax expense recorded in that company's financial statements.[160] It does not measure the extent to which a given set of cash flow projections may or may not understate projected cash tax expense. As such, it is irrelevant in a DCF valuation context and should not be used to adjust projected cash taxes paid as shown in a set of cash flow projections.

72. I therefore conclude that the inclusion of a FIN 48 liability is speculative and inconsistent with standard practices of valuing companies on a going concern, fair value basis.

31, 2014, p. 3.)

[159] Moreover, the $3 billion FIN 48 liability used by Professor Hubbard is far in excess of the $800-$850M in "estimated exposure of certain tax and legal claims" that Houlihan Lokey assumed as contingent liabilities in its October 2013 solvency opinion (i.e., a valuation done for financial accounting purposes rather than for the purpose of determining Dell's intrinsic value). (DELLE00779987 at p. 11.) I note that the Houlihan Lokey valuations use tax rates of 15.0% (October 2013 valuation) and 17.0% (January 31, 2013 valuation), which are lower than my assumed effective tax rate of 21.0%, and this may account for Houlihan Lokey's conclusion that some amount of additional tax liability might need to be taken into account. (Dell Inc., Discussion Materials, October 2013, p. 13 (DELLE00780000); Denali Holdings, Inc., Valuation Analysis as of January 31, 2014, p. 3.)

[160] FIN 48, Appendix A, p. 17.

Deferred Tax Liability

73. According to Professor Hubbard, Dell has $6.3 billion of deferred taxes that need to be paid on overseas profits that have not yet been repatriated. He relied on Professor Shay for this assumption[161] and stated that "while this tax liability is currently identified as being 'indefinitely' overseas, at some point it will not be possible for Dell to continue deferring this liability. Similar to the accumulated overseas deferrals as of October 29, 2014, the additional deferrals resulting from the difference between the marginal rate of 35.8 percent and the lower tax rates modeled during the projection and transition periods would also need to be eventually recognized and paid."[162] Professor Hubbard's inclusion of the Deferred Tax liability reduces his implied per share equity value by $1.25 per

[161] Professor Shay recommended that Professor Hubbard use a 25-year payment period for purportedly deferred taxes because the latter's DCF analysis "calculates the cash flows of the enterprise that are available as returns to the investors or reinvestment anywhere in the business," and concluded without further explanation that "it is inconsistent to assume that these earnings will never be subject to U.S. tax." (Shay Report, ¶ 51)

[162] Hubbard Report, ¶ 269. Professor Hubbard modeled these deferred liabilities as accumulating and deferring to the terminal period and then being paid off over time. He carried the $6.3 billion amount forward to the terminal year but did not increase the amount over time. He then added to the $6.3 billion the year-by-year additional deferrals of the tax amounts resulting from the difference between the 18.5% rate he used during the forecast period and the 35.8% rate he used during the terminal period. He then assumed straight-line repayment over a 25-year period starting in the terminal year. He discounted these calculations at his WACC estimate of 9.46% to arrive at a present value deferred tax liability of $2.2 billion as of October 29, 2013. (Hubbard Report, ¶ 270-71, Hubbard Exhibit 23.)

share in the Hubbard Adjusted BCG Case and by $1.27 per share in the Hubbard Adjusted Bank Case valuations. (*See* **Revised Exhibit 1**.)

74. Neither Professor Hubbard nor Professor Shay cites *any* external support for the idea that Dell must repatriate its offshore cash "at some point" but simply conclude that such repatriation must necessarily take place. In fact, I find no evidence to support an assumption that Dell did not plan to use the profits earned overseas to support its significant overseas operations.[163] Dell had been investing heavily in its enterprise business in China and had plans to increase its investment in India, Indonesia, and Brazil, particularly in smaller cities.[164] Mr. Dell testified that Dell expected to double the number of stores in India during FY 2016 and "accelerated the pace of investment" in Indonesia, Thailand, Vietnam, Mexico, and other emerging markets "to be able to grow the business long-term."[165] Moreover, Mr. Rajkovic, J.P. Morgan's representative, testified that Dell had no plans to repatriate its overseas cash,[166] such that it is unclear if and when any such repatriation would occur. As I described above, there are several ways corporations can access cash without repatriating "offshore" cash. For these

[163] As of FY 2013, Dell operated in over 50 countries and over 50% of its revenue and at least 40% of its gross profit was earned outside the U.S. (Dell Exhibit 25 (Dell Rating Agency Presentation, August 2013), p. 29.)
[164] Gladden Deposition, pp. 202-203.
[165] Dell Deposition, pp. 156-57.
[166] Rajkovic Deposition, p. 52.

reasons, it is speculative to assume that Dell will necessarily have to repatriate its "overseas" cash and pay U.S. taxes on those overseas profits.

75. Further, Professor Hubbard's Deferred Tax Liability calculation implies that Dell would not pay a 35.8% marginal tax rate over the 25-year period beginning in FY 2024, but instead would pay an average effective tax rate of 45.6% in those years. (*See* **Exhibit 11**.) As discussed above, this assumption is inconsistent with Dell's historical experience of paying far lower than the marginal tax rate[167] and presumes, without any foundation, that Dell will not only pay the highest marginal tax rate on its current earnings but will also pay taxes on past earnings in the terminal period.

76. Valuation texts do not support deducting deferred tax liabilities (or assets) in arriving at a company's equity value from its enterprise value. A leading valuation textbook notes that "[d]eferred tax assets and liabilities classified as operating will flow through NOPLAT [Net Operating Profit or Loss After Tax] via cash taxes. As part of NOPLAT, they are also part of free cash flow and are not valued separately."[168] This approach is seconded by another leading valuation textbook, which states that "When valuing the equity of a company, we subtract

[167] **Exhibit 5** shows that not only has Dell's tax rate generally been well below the marginal rate, it has declined over time.
[168] *Valuation*, 5th Ed., p. 540.

the value of the non-equity claims from the value of the firm. However, we do not include deferred tax liabilities (or add the value of deferred tax assets) when measuring the value of common equity by taking the value of the firm less the market value of the non-common equity claims."[169] This is consistent with the use of tax rates far lower than the marginal tax rate in the terminal value period in both the BCG 25% Case and the Bank Case projections.

77. Finally, none of the twelve DCF valuations I have reviewed reduce Dell's enterprise value by a deferred foreign income tax liability in arriving at its equity value. (*See* **Exhibit 4**.) For these reasons, I conclude that Professor Hubbard's inclusion of a deferred foreign income tax liability as reduction to his DCF value is speculative and not supported by either the evidence in the record or standard valuation practice.

Net Operating Loss Carryforwards

78. Professor Hubbard increases his DCF estimate of Dell's enterprise value by $278 million in deferred tax assets related to carryforwards of prior Net Operating Losses (NOLs) as estimated by Professor Shay.[170] This deferred tax asset has the effect of increasing his per share estimate of Dell's equity value for

[169] Holthausen, Robert W. and Mark E. Zmijewski, *Corporate Valuation: Theory, Evidence & Practice First Edition*: Cambridge Business Publishers (2014), p. 102.

both his BCG 25% and his Bank Cases by $0.16 per share. (*See* **Revised Exhibit 1**.)

79. None of the twelve DCF analyses I have reviewed includes a deferred tax asset for Dell's NOL carryforwards (*see* **Exhibit 4**). Further, Professor Hubbard has not provided any evidence that Dell's management did not include the effect of these carryforwards in determining that 21.0% was the appropriate tax rate to apply in Dell's projections.

VI. PROFESSOR HUBBARD'S WACC IS TOO HIGH

80. I estimated Dell's WACC to be 9.03%, while Professor Hubbard estimated Dell's WACC to be 9.46%,[171] which is almost a full percentage point higher than Dell's internal WACC estimate of 8.5%.[172] Professor Hubbard's use of a 9.46% WACC rather than a 9.0% WACC lowers his DCF valuation using the Hubbard Adjusted BCG Case projections by $0.57 per share and using the Hubbard Adjusted Bank Case projections by $0.75 per share. (*See* **Revised Exhibit 1.**)

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[170] Hubbard Report, ¶ 268; Shay Report, ¶¶ 57-58.

[171] Cornell Report, ¶ 111 and Exhibit 7; Hubbard Report, ¶ 257 and Exhibit 16. I based my estimate of Dell's fair value on the average of my two DCF valuations using the BCG 50% Case and Bank Case with Additional Cost Savings projections on a WACC estimate of 9.0%, but also show the sensitivity of my valuation results to the WACC that Dell used in the normal course of business (8.5%).

[172] DELLE00197210.

81. The largest driver of the difference in our WACC estimates is Professor Hubbard's use of a higher estimate of the market equity risk premium (6.41%) than I did (5.50%).[173] (*See* **Exhibit 12**.) I discuss the impact of the equity risk premium below, as well as why I believe that my choice results in a better estimate of Dell's WACC as of the Appraisal Date.[174] This difference is offset to a minor extent by three inputs for which my selected input resulted in an otherwise higher WACC estimate than did Professor Hubbard's input: cost of debt, tax rate and beta. I discuss the impact of these three inputs and why I believe my choices result in a better estimate of Dell's WACC in **Appendix B**.

82. Professor Hubbard based his estimate of the appropriate forward-looking market equity risk premium of 6.41% on the average of the historical (6.70%) and supply side (6.11%) equity risk premium estimates published by

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[173] Hubbard Report, ¶ 250; Cornell Report, ¶ 110.

[174] The two remaining inputs (risk free rate and target capital structure) do not impact the difference in our WACC estimates. Both Professor Hubbard and I use the 3.31% yield on 20-year U.S. Treasury Securities as of October 29, 2013 in our calculation of Dell's WACC. Professor Hubbard uses Dell's average debt to total capital ratio calculated on a quarterly basis between January 12, 2011 and January 11, 2013 of 25.25%. (Hubbard Report, Exhibit 11.) I estimate Dell's target capital structure to be 24.75% using Dell's market capitalization immediately prior to rumors of the Buyout Transaction and its estimate debt balance as of October 29, 2013 (Cornell Report, ¶ 103). Since we both assume that Dell's historical capital structure of approximately 25% will remain its target going forward, and the difference in estimates of 0.5% in the debt to total capital ratio does not impact either WACC estimate, I consider either estimate to be an acceptable input for estimating Dell's WACC.

Ibbotson Associates.[175] These estimates are based on the long-term arithmetic average return of stocks over 20-year treasury bonds over the period 1926 to 2012.[176]

83. In contrast, I arrived at my estimate of the forward-looking market equity risk premium of 5.5% based on a current calculation of the implied equity risk premium based on current market returns, as well as a thorough review of academic and practitioner literature, and my experience, research, and writings.[177] As I noted in the Cornell Report, research by academics and practitioners over the last 20 years indicates that the forward-looking equity risk premium is significantly lower than the long-run historical average.[178] As a result, it is my opinion that Professor Hubbard inflates his equity risk premium estimate by placing any weight

[175] Hubbard Report, ¶ 250.
[176] Hubbard Report, ¶ 247; *2013 SBBI Valuation Yearbook*, p. 66.
[177] Cornell Report, ¶ 110.
[178] *See* Bradford Cornell, *The Equity Risk Premium: The Long-Run Future of the Stock Market*, John Wiley & Sons, 1999; *see also* Bradford Cornell, "Economic Growth and Equity Investing," *Financial Analysts Journal*, Volume 66, No. 1, 2010; Robert D. Arnott & Peter L. Bernstein, "What Risk Premium Is "Normal"?," *Financial Analysts Journal*, Volume 58, No. 2, March/April 2002; Eugene F. Fama & Kenneth R. French, "The Equity Premium," *The Journal of Finance*, Volume LVII, No. 2, April 2002. In addition, surveys of CFOs consistently report an average equity risk premium significantly lower than the historical equity risk premium. A survey of 404 CFOs conducted by Professors John Graham and Campbell Harvey in September 2013 reported an average equity risk premium of 3.11%. (John R. Graham and Campbell R. Harvey, "The Equity Risk Premium in 2014," Duke University Working Paper) (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2422008), p. 8.)

(in his case, 50%) on the historical equity risk premium. Moreover, although the supply side estimate attempts to correct the historical equity risk premium by adjusting that estimate to reflect recent expectations of equity returns based on real earnings growth, the current 6.11% estimate exceeds that of other forward-looking estimates available as of the Appraisal Date.[179] Moreover, in a recent survey of 150 valuation and finance textbooks, the average equity risk premium estimated by those authors who took current market values into account was 4.8%, and the most recent five-year moving average estimate recommended by the textbooks was 5.7%.[180] Thus, I continue to believe that my estimate of 5.5% represents the appropriate equity risk premium for purposes of valuating Dell as of October 29, 2013. Had Professor Hubbard instead used by 5.5% equity risk premium estimate,

[179] Surveys of CFOs consistently report an average equity risk premium significantly lower than the historical equity risk premium. A survey of 404 CFOs conducted by Professors John Graham and Campbell Harvey in September 2013 reported an average equity risk premium of 3.11%. (John R. Graham and Campbell R. Harvey, "The Equity Risk Premium in 2014," Duke University Working Paper (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2422008), p. 8.) Professor Damodaran calculates implied equity risk premiums on a monthly basis based on the required return on the S&P 500 Index (measured using its dividend and stock buyback yields) less the risk free rate. The monthly ERP for October 2013 was 5.59%. Aswath Damodaran, "Equity Risk Premiums (ERP): Determinants, Estimation and Implications – 2014 Edition," NYU Stern School of Business, March 2014, pp. 67-68, 79 (Figure 12 and backup data retrieved from http://pages.stern.nyu.edu/~adamodar/).

[180] Fernandez, Pablo, "The Equity Premium in 150 Textbooks," Unpublished Working Paper, January 9, 2015, pp. 2-3.

his concluded WACC would have been 8.58%, which is almost identical to Dell's internal WACC estimate of 8.5%.[181] (*See* **Exhibit 12**.)

84. After considering the Hubbard Report, I continue to believe that my WACC represents the best estimate of Dell's discount rate as of the Appraisal Date. I also note that my WACC estimate of 9.0% is closer to Dell's internal WACC estimate of 8.5%.

VII. PROFESSOR HUBBARD INAPPROPRIATELY ASSUMES DELL SHOULD NOT BE VALUED BASED ON A SUM OF THE PARTS ANALYSIS

85. In his report, Professor Hubbard concluded that sum of the parts (SOTP) analyses were most appropriate for "conglomerates, where there is truly a collection of free-standing and non-interconnected businesses that could be run separately or sold with little or no effect on the other businesses."[182] He explains that an SOTP analysis is not appropriate for Dell because Dell was "highly integrated and interconnected" and was becoming even more interconnected by offering integrated "IT solutions" to customers that included hardware, software, support, and services.[183] To support this conclusion, Professor Hubbard cited testimony by Mr. Rajkovic, who stated that J.P. Morgan did not perform an SOTP

[181] DELLE00197210.
[182] Hubbard Report, ¶ 292.
[183] Hubbard Report, ¶ 292.

analysis because Dell's business "was not separable" and that "the majority of the businesses within Dell are driven by the core business of PCs" such that they could not be valued separately, nor could they stand alone as separate entities.[184]

86. Professor Hubbard dismissed the fact that sum of the parts analyses were performed by Dell internally as well as by equity analysts.[185] (*See* **Exhibit 13**.) Dell's management, who were more familiar with the Company's operations than anyone else (and thus well-aware to the extent those operations were interconnected), performed these analyses and even recommended to analysts that they adopt this methodology in order to better understand Dell's true value.[186]

87. Professor Hubbard not only dismisses the importance of a SOTP-type analysis, but also the use of any companies that are comparable to Dell's individual business segments other than Hewlett-Packard Co. ("HP") when he performed his estimate of Dell's fair value based on a comparable company (consolidated) trading multiples.[187] I agreed in the Cornell Report that only HP was comparable to Dell across most of its business operations, but noted that each segment was comparable to many companies. [188] Professor Hubbard's sole choice of HP is also

[184] Hubbard Report, ¶ 293.
[185] Hubbard Report, ¶ 291.
[186] Mandl Exhibit 25.
[187] Hubbard Report, ¶¶ 289, 298.
[188] Cornell Report, ¶ 125.

problematic because Michael Dell has testified that "many people would say that [HP was Dell's closest competitor], but there's certainly significant differences between our business and HP's business."[189] Further, as I noted in the Cornell Report, multiples-based valuations "do not necessarily reflect the intrinsic value of an enterprise but instead may reflect under or over-pricing in the market due to the economic conditions at the time the trading or transaction multiple is calculated."[190] This concern is especially problematic where, as in Professor Hubbard's analysis, the multiples-based valuation relies not on a large number of comparable companies for which individual mispricing factors may average out, but instead on the trading multiple of one company.

88. Professor Hubbard's blanket dismissal of the sum of the parts methodology for valuing Dell ignores its usefulness for testing the reasonableness of estimates obtained using other methods. Unlike Professor Hubbard, I performed both SOTP multiples and DCF valuation analyses of Dell to test the reasonableness of my conclusion of Dell's fair value based on consolidated DCF valuations.[191] While the SOTP DCF analysis included projections for Dell's segments that factored in the cost savings expected to accrue over the forecast period, the SOTP multiples-based analysis based on Dell's FY 2014 projections would not account

[189] Dell Deposition, p. 231.
[190] Cornell Report, ¶ 125.
[191] Cornell Report, Exhibits 14–18, 20 B&C.

for the improved profitability and growth projected between FY 2014 and 2018. As a result, I normalized Dell's FY 2014 Earnings Before Interest and Taxes ("EBIT") and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) projections to reflect the full annual impact of the projected cost savings.[192] For the same reasons explained in the Cornell Report,[193] it is my opinion that Professor Hubbard's failure to normalize both the historical and FY 2014 EBITDA projections further understated the fair value estimates he generated from his consolidated trading multiples method.

89. A sum of the parts analysis is particularly useful in a company such as Dell which has a complicated mix of segments with different growth rates and profitability that are expected to change over the forecast period. In the Cornell Report, I used the growth rates implied by the segment projections to develop PGR estimates for each segment.[194] I then used the consolidated results of SOTP DCF valuations of the segments to develop an overall consolidated PGR estimate of 2.32%, which I lowered to 1.0% in order to take into account the possibility that Dell's transformation strategy would not occur within the time horizon

[192] Cornell Report, ¶ 127 and Exhibit 19.
[193] Cornell Report, ¶¶ 125-126.
[194] Cornell Report, ¶ 99.

projected.[195] It is my opinion that my consideration of the segment growth rates and resulting SOTP valuations provides independent support for my valuation.

VIII. E&Y'S ASC 805 DCF VALUATION PROVIDES FURTHER EVIDENCE OF THE REASONABLENESS OF MY ESTIMATE OF DELL'S FAIR VALUE PER SHARE

90. To further corroborate my estimates of Dell's value, I reviewed the consolidated DCF analysis in the aforementioned E&Y ASC 805 Valuation as of October 29, 2013. The projections used in this analysis were obtained from Dell's management and appear to represent Dell management's most recent views on Dell's future performance before the transaction closed.[196] Unlike the Bank Case with Cost Savings projections, the forecast period for the E&Y valuation runs through 2023. **Exhibit 14** compares the projections used in E&Y's DCF valuation with the Bank Case with Cost Savings projections. Although revenues are higher in the E&Y projections, EBITDA and free cash flow are lower. The E&Y projections show a delay of approximately three years in reaching the EBITDA levels and a delay of one to two years in reaching the free cash flow levels shown in the Bank Case with Cost Savings.

[195] Cornell Report, ¶ 100.
[196] Dell Inc. ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4022.

91. E&Y assumes a perpetuity growth rate of 1.2% and a discount rate of 17.6% to arrive at an estimated enterprise value of $21.1 billion.[197] However, when I use my estimate of Dell's WACC of 9.0%[198] while holding all other assumptions constant, I arrive at an estimated enterprise value of $44.2 billion. (*See* **Revised Exhibit 15A**.) Because the projections used in this valuation include an imputed charge for the use of Dell's trade name, I add back E&Y's estimate of Dell's trade name value of $1.435 billion.[199] I then adjust the resulting enterprise value by adding estimated cash and investments of $12.469 billion and deducting estimated debt of $6.311 billion to arrive at an estimate of Dell's total equity value of $51.772 billion.[200] I then divide by fully diluted shares outstanding of 1.784 billion to arrive at my estimate of Dell's equity value per share under this scenario of $29.02.

92. If I instead use Professor Hubbard's estimate of Dell's WACC of 9.46%, my estimate of Dell's equity value per share under this scenario would be $27.62. (*See* **Revised Exhibit 15B**.) The fact that both estimates are close to my

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[197] Dell Inc. ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4022.

[198] Cornell Report, ¶ 113.

[199] Dell Inc. ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4022. Given that the composite discount rate used to value Dell's trade name across segments is 17.6%, its value would be significantly higher (close to double) if either my WACC estimate (9.0%) or Professor Hubbard's estimate (9.46%) is used.

[200] Cornell Exhibit 11.

fair value conclusion of $28.61 per share provides further evidence that my conclusion is reasonable.

IX. CONCLUSION

93. Based on the analysis presented above, I continue to conclude that the fair value of Dell as of October 29, 2013 was $28.61 per share.

Bradford Cornell

July 24, 2015

Revised September 27, 2015

List of Materials Relied Upon

Bates Stamped Documents

1.) Board of Directors Meeting, Financial Framework, Brian Gladden Presentation, July 12, 2012. (DELL00017549) (Gladden Exhibit 9).
2.) Boston Consulting Group, Inc. Discounted Cash Flow Model, January 17, 2013. (BCG00013575) (Ning Exhibit 19).
3.) Boston Consulting Group. Discounted Cash Flow Model. January 17, 2013. (BCG00013575).
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5.) Dell Inc. Quarterly Report: For the quarterly period ended November 1, 2013. (DELLE00292619).
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7.) Dell LBO Project Update, Treasury Ops, September 3, 2013. (DELLE00382663).
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10.) Dell, Michael. "RE: Dell Valuation: S&P." Message to Brian Gladden, February 20, 2011. (DELLE00198789) (Mandl Exhibit 25)
11.) Denali Acquirer Inc. Rating Agency Presentation, August 2013. (DELL00014860) (Gladden Exhibit 28).
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15.) Evercore Partners, Discounted Cash Flow Model. August 1, 2013. (EVERCORE00051053).
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22.) J.P Morgan, SOTP Analysis. June 2013. (JPM_0018648).
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28.) Project Denali, Compendium of Presented Materials, February 5, 2013. (DELL00002211) (Ning Exhibit 12).
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31.) Silver Lake Partners, Project Denali Reviesed Bank Case, August 30, 2013. (DELLE00733340).
32.) Silver Lake Partners, Project Denali, September 2013. (DELLE00238966) (Durban Exhibit 19).
33.) Silver Lake Partners, The Bank Case projections, October 2013. (DELLE00734152).
34.) Suva, Jim. "Dell Discounted Cash Flow." Citi Investment Research. October 31, 2012 (SLP_DELLAP00038457).

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39.) Deposition of Brian T. Gladden, March 13, 2015.
40.) Deposition of Drago Rajkovic, April 15, 2015.
41.) Deposition of Egon Durban, May 20, 2015.
42.) Deposition of Lutao Ning, April 29, 2015.
43.) Deposition of Michael Dell, May 14 - 15, 2015.

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61.) Holt, Michael. *Dell's Results Take a Hit as the Firm Walks Away from Tough PC Pricing* , Morningstar. May 24, 2012.
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64.) *Ibbotson SBBI 2013 Valuation Yearbook: Market Results for Stocks, Bonds, Bills, and Inflation, 1926-2012.* Ibbotson Associates, 2013.
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Data Sources

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APPENDIX A

List of Materials Relied Upon

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Expert Reports

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95.) Expert Report of Stephen Shay, June 5, 2015.
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APPENDIX B

Minor Differences Between WACC Estimates

A. Cost of Debt

1. Professor Hubbard and I used a similar approach to estimate Dell's cost of debt (*i.e.*, the yield on an index based on long-term publicly traded debt issued by companies with a similar credit rating as Dell).[1] I similarly agree with Professor Hubbard that the estimate should be based on Dell's debt rating absent any impact of the anticipated Buyout Transaction.[2] Whereas Professor Hubbard used the yield as of October 29, 2013 on 15-year bonds with Dell's 'A' rating prior to the announcement of the Buyout Transaction (4.45%),[3] I use a more conservative (*i.e.*, value reducing) estimate: the yield on long-term bonds that reflect the downgrade in Dell's debt rating to 'BBB' following the Company's release of its results for the first quarter of FY 2014 in early May 2013 (4.95%).[4]

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1 Hubbard Report, ¶ 254; Cornell Report, ¶ 104.

2 Hubbard Report, ¶ 254; Cornell Report, ¶ 104.

3 Hubbard Report, ¶ 255.

4 Cornell Report, ¶ 104; "Dell Inc. Ratings Lowered To 'BBB' On Weak Operating Performance; Ratings Remain on CreditWatch Negative," S&P Ratings Direct Research Update, May 20, 2013. I use this rating because the report specifically references Dell's weak operating results as the reason for the downgrade, whereas the report characterizes the proposed Buyout Transaction as having only a "modest" chance of "materially degrad[ing] Dell's financial risk profile," finding instead that it may result in a future downgrade and thus justifies S&P's decision to maintain a CreditWatch with negative implications on Dell's rating.

Had Professor Hubbard instead used my 4.95% cost of debt estimate, his concluded WACC would have been 9.55%. (See **Exhibit 12**.)

B. Tax Rate

2. Professor Hubbard relies on the marginal tax rate of 35.8% identified in the Shay Report to estimate Dell's combined statutory rate for purposes of his calculation of Dell's after-tax cost of debt.[5] Professor Hubbard also calculates the after-tax amount of Dell's estimated excess cash using a 35.8% tax rate for purposes of the cash adjustment factor used in his beta adjustment (discussed below).[6]

3. After considering the Hubbard Report (and his reliance on the Shay Report), I continue to believe that using Dell management's 21.0% estimate of its effective tax rate is the appropriate rate to use in estimating Dell's WACC. As the table below shows, my use of a 21.0% tax rate is consistent with the rate used in many of the valuation analyses contemporaneous to the Appraisal Date.

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[5] As I discuss below, because Professor Hubbard uses an unlevering formula for calculating his beta estimate that assumes debt has no risk, he does not apply a tax shield to his unlevering formula as I do. (Hubbard Report, fn. 322 and Exhibit 16; Cornell Report, Exhibit 6.)

[6] Hubbard Report, Exhibit 15.

Analysis	Tax Rate
Evercore[7]	21.0%
J.P. Morgan[8]	21.0%
Goldman Sachs[9]	20.0%
Houlihan Lokey[10]	15.0%

Had Professor Hubbard instead used my 21.0% tax rate, his concluded WACC would have been 9.63%. (See **Exhibit 12**.)

C. Beta

4. Professor Hubbard and I used similar beta estimates in calculating Dell's WACC (1.31 vs. 1.35).[11] Professor Hubbard and I agreed that a cash adjustment factor must be applied in calculating beta and we both used two years of weekly Bloomberg data, a measurement period from January 14, 2011 through January 11, 2013, and the S&P500 as the market portfolio.[12]

5. We differed, however, in our starting point for estimating Dell's beta and in the mechanics of our cash adjustment. Professor Hubbard started with Dell's two-year, weekly beta estimate as of January 11, 2013, whereas I obtained beta estimates for each of my selected peer companies.[13] We both then unlevered

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7 EVERCORE00004835.xlsm; EVERCORE00051053.xlsm.
8 JPM_0003324.xlsm; JPM_0119609.xlsm.
9 GSDELL00000035662.xlsx, "DCF" Tab, Cells L32:Q32.
10 Dell Inc., Discussion Materials, October 2013.
11 Hubbard Report, ¶ 245; Cornell Report, ¶ 109.
12 Hubbard Report, ¶¶ 235-237, 240-243; Cornell Report, ¶¶ 108-109.
13 As I noted in the Cornell Report, I found it more appropriate to estimate Dell's beta based on the median peer company beta than its own historical beta due to the imprecision inherent in measuring beta using one company's estimate and

these betas (*i.e.*, removed the impact of the existing capital structure), which resulted in unlevered beta estimates of 0.83 for Professor Hubbard and 0.94 for me (based on the median of the unlevered peer company betas).[14]

6. I took the median unlevered beta of 0.94 and applied my cash adjustment (based on the median ratio of cash to firm value for the peer companies of 12.1%) to calculate a cash-adjusted unlevered peer beta of 1.07.[15] I then relevered the cash-adjusted unlevered median beta using my target capital structure of 24.75% debt to total capital to arrive at my beta estimate of 1.35.[16] Professor Hubbard instead relevered his beta using his same assumption for Dell's target capital structure and thus arrived at the same 1.11 beta he obtained from his regression.[17] Hubbard then applied a cash adjustment factor of 1.18, which is equivalent to a cash-to-firm value ratio of 15.25% (compared to my 12.1% ratio),

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since the transformation was expected to make Dell's operations more similar to that of its peers by the end of the forecast period (or soon thereafter). (Cornell Report, ¶ 108.)

[14] Professor Hubbard uses a relevering formula that assumes the debt tax shield has the same risk as operating assets. (*Valuation*, *5th Ed.*, p. 785, Hubbard Report, Exhibit 16.) I make the more conservative assumption and instead use a relevering formula that assumes the debt tax shield has the same risk as debt. (*Corporate Valuation*, p. 222, Cornell Report, Exhibit 7.) The formula used by Professor Hubbard assumes that Dell's debt is risk-free and that its beta is zero. Dell's debt carried a low risk of default, but it was not risk-free, which means that Professor Hubbard's formula results in measurement error. (See *Valuation*, 5th Ed., p. 785.)

[15] Cornell Report, Exhibit 6.

[16] Cornell Report, Exhibit 7.

[17] Hubbard Report, Exhibit 16.

to calculate a cash-adjusted beta of 1.31.[18] Had Professor Hubbard instead used my 1.35 beta estimate, his concluded WACC would have been 9.65%. (See **Exhibit 12**.)

[18] Hubbard Report, Exhibit 16. Professor Hubbard calculates his cash adjustment factor using an average excess cash amount measured quarterly over the period from Q4 FY 2011 – Q4 FY 2013. (Hubbard Report, Exhibit 15.) He assumes that $5 billion of cash is needed in Dell's operations, so his cash adjustment is based only on excess cash in each period and, as I discuss above, the excess cash amount is also calculated on an after-tax basis using his marginal tax rate of 35.8%.

Dell Inc.
Impact of Changes to Hubbard's Assumptions

#	Adjustment	Per Share Impact of Changes in: Hubbard Adjusted BCG Case	Hubbard Adjusted Bank Case
[1]	**As Reported**	**$12.52**	**$14.16**
	Adjustments to Free Cash Flow Projections (Report Section III)		
[2]	Impact of Updated PC Forecast	$1.35	$0.21
[3]	Impact of Attachment Rates	$0.96	N/A
[4]	Remove reinvestment in second stage	$0.44	$0.77
[5]	After change in [4]; remove Hubbard's reinvestment amount in terminal period	$1.75	$2.09
[6]	Include acquisitions in second stage	N/A	($0.64)
[7]	After change in [5] for BCG Case or [6] for Bank Case; change perpetuity growth rate from 2% to 1%	($1.32)	($1.25)
[8]	Change to 25% of $3.3B in cost savings	($0.12)	N/A
[9]	After change in [8]; grow cost savings at 1% in second stage	$0.47	N/A
[10]	Change terminal tax rate from 35.8% to 18.5% (i.e., all tax rates at 18.5%)	$2.40	$2.82
[11]	After change in [10]; change first stage, second stage, and terminal tax rates from 18.5% to 21% (i.e., all tax rates at 21%)	($0.58)	($0.67)
[12]	Change Hubbard's stock based compensation expense to Cornell's stock based compensation expense	($0.39)	($0.10)
[13]	Remove Private Company Compensation Plan Expense and Incremental Operating Expense	N/A	$1.24
[14]	Other Differences	$0.06	$0.58
[15]	Section III Subtotal	$5.04	$5.04
	Adjustments to Include Cost Savings (Report Section IV)		
[16]	After change in [9]; change to 50% of $3.3B in cost savings and grow at 1% in second stage	$3.52	N/A
[17]	Include cost savings of $500M in FY 2015 and $1.0B from FY 2016 to FY 2018 and then grow at 1% in second stage	N/A	$4.20
[18]	Section IV Subtotal	$3.52	$4.20
	Adjustments to Calculate Equity Value (Report Section V)		
[19]	Change Cash Balance from $6.040 billion to $11.040 billion	$2.83	$2.83
[20]	After change in [19]; change from Hubbard's Net Debt to Cornell's Net Debt	$0.10	$0.10
[21]	Change FIN 48 Liability from $3.010 billion to $0	$1.71	$1.71
[22]	Change Deferred Tax Liability from $2.199 billion to $0	$1.25	$1.27
[23]	Change Net Operating Loss Deferred Asset from $278 million to $0	($0.16)	($0.16)
[24]	Change from Hubbard's shares outstanding to Cornell's shares outstanding	($0.13)	($0.14)
[25]	Section V Subtotal	$5.59	$5.60
	Adjustments to WACC (Report Section VI)		
[26]	Change WACC from 9.46% to 9.00%	$0.57	$0.75
[27]	Total Impact of Individual Adjustments	$27.24	$29.74
[28]	Impact of Cumulating Adjustments	$1.67	($1.43)
[29]	**Cornell's Conclusion (BCG 50% Case: Revised Exhibit 10 and Bank Case: Revised Exhibit 11)**	**$28.91**	**$28.31**

See notes on following page.

Dell Inc.
Impact of Changes to Hubbard's Assumptions

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[14]: Includes adjustments for the differences in depreciation, working capital, capital expenditure, Q4 2013 stub period, and after tax restructuring. For the BCG Case the difference in depreciation is $0.15, working capital is $0.20, capital expenditure is ($0.23), and Q4 2013 stub period is ($0.05). For the Bank Case the difference in depreciation is $0.00, working capital is $0.31, capital expenditure is $0.00, Q4 2013 stub period is ($0.04), and after tax restructuring is $0.30. The sum of these amounts differs from the $0.06 per share (Hubbard Adjusted BCG 25% Case) and $0.58 per share (Hubbard Adjusted Bank Case) listed under adjustment [14] due to rounding.

[15] = Sum [2]:[14]

[18] = Sum [16]:[17]

[25] = Sum [19]:[24]

[27] = [15] + [18] + [25] + [26]

[28] = [29] - [27]

EXHIBIT 2A

Dell Inc.
Implied Perpetuity Growth Rate as of FY 2017 using Hubbard Adjusted BCG DCF Model
($ in millions)

#		Q4 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Terminal Value
[1]	Free Cash Flow (FCF)	$682.5	$2,611.6	$2,673.9	$2,319.0	$2,565.6	$2,468.4	$2,399.3	$2,355.9	$2,337.9	$1,734.6
[2]	Terminal Value										$23,252.2
[3]	Discount Factor	0.989	0.934	0.854	0.780	0.713	0.651	0.595	0.543	0.496	0.496
[4]	Discounted Free Cash Flow	$674.8	$2,440.5	$2,282.7	$1,808.7	$1,828.0	$1,606.8	$1,426.8	$1,279.9	$1,160.4	$11,540.7
[5]	Enterprise Value	$26,049.3									
[6]	FY 2018 to Terminal Value	$18,842.7									
[7]	FY 2017 Discount Factor	0.780									
[8]	Future Value of Terminal Value	$24,159.9									
[9]	FY 2017 Free Cash Flow	$2,319.0									
[10]	Discount Rate	9.46%									
[11]	**Implied Perpetuity Growth Rate**	**-0.13%**									

[1]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 18.
[2]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 18.
[3]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 18.
[4]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 18.
[5]: = Sum Line [4]
[6]: = Sum Line [4] from FY 2018 to Terminal Value
[7]: = Line [3] for FY 2017
[8] = [6] / [7]
[9]: = Line [1] for FY 2017
[10]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 16.
[11] = (([8] * [10]) - [9]) / ([8] + [9])

EXHIBIT 2B

Dell Inc.
Implied Perpetuity Growth Rate as of FY 2018 using Hubbard Adjusted Bank Case DCF Model
($ in millions)

#		Q4 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Terminal Value
[1]	Free Cash Flow (FCF)	$613.8	$1,528.2	$1,934.5	$2,276.7	$2,527.7	$2,777.0	$2,863.0	$2,936.9	$2,997.4	$3,043.2	$2,260.0
[2]	Terminal Value											$30,294.5
[3]	Discount Factor	0.989	0.934	0.854	0.780	0.713	0.651	0.595	0.543	0.496	0.453	0.453
[4]	Discounted Free Cash Flow	$606.9	$1,428.1	$1,651.5	$1,775.6	$1,801.0	$1,807.7	$1,702.6	$1,595.6	$1,487.7	$1,379.9	$13,736.6
[5]	Enterprise Value	$28,973.1										
[6]	FY 2019 to Terminal Value	$21,710.0										
[7]	FY 2018 Discount Factor	0.713										
[8]	Future Value of Terminal Value	$30,469.6										
[9]	FY 2018 Free Cash Flow	$2,527.7										
[10]	Discount Rate	9.46%										
[11]	**Implied Perpetuity Growth Rate**	**1.08%**										

[1]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 24.
[2]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 24.
[3]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 24.
[4]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 24.
[5]: = Sum Line [4]
[6]: = Sum Line [4] from FY 2019 to Terminal Value
[7]: = Line [3] for FY 2018
[8] = [6] / [7]
[9]: = Line [1] for FY 2018
[10]: Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 16.
[11] = (([8] * [10]) - [9]) / ([8] + [9])

EXHIBIT 3A

Dell Inc.
Terminal Period Annual Reinvestment Amount for Cornell Bank Case with Cost Savings Projections
($ in millions)

#		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	Total (FY2013-18)	Terminal
[1]	Earnings Before Interest, Taxes, and Amortization (EBITA)	$4,274	$2,731	$3,648	$4,526	$4,898	$5,135		
[2]	Add: Stock Based Compensation (Option Expense)	347	362	362	362	362	362		
[3]	Earnings Before Interest, Taxes, Amortization, and Option Expense (EBITAO)	$4,621	$3,093	$4,010	$4,888	$5,260	$5,497		
[4]	Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%		
[5]	Earnings Before Interest, Amortization, and Option Expense (EBIAO)	$3,651	$2,443	$3,168	$3,862	$4,155	$4,343		
[6]	Less: After-tax SBC	274	286	286	286	286	286		
[7]	Net Operating Profit After Tax (NOPLAT)	$3,376	$2,157	$2,882	$3,576	$3,869	$4,057		
[8]	Perpetuity Growth Rate (g)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%		1.00%
[9]	Return on Invested Capital (ROIC)	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%		9.00%
[10]	Required Investment in Following Year (Except Terminal Period)	$375	$240	$320	$397	$430	$451	$2,213	$451
[11]	Less; Acquisitions	($4,844)	($400)	($400)	($400)	($400)	($400)	(6,844)	(400)
[12]	Less: Annual Increase in Net Working Capital	($614)	$470	($182)	($115)	($71)	($15)	(527)	(15)
[13]	Net Investment Amount	($5,083)	$310	($262)	($117)	($41)	$36	($5,158)	$36
[14]	Lump-Sum Investment Needed for 1% Perpetuity Growth in Terminal Period								$451

Notes & Sources: Lump-sum investment amount calculated using Gordon Growth Model assuming that annual reinvestment amount grows at target perpetuity rate: $451 million Lump-sum Investment Amount = $36 million incremental required annual investment / (9.0% ROIC - 1.0% g). Formula for reinvestment amount from Expert Report of Glenn Hubbard, June 5, 2015, p. 110.
[1]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 5A. FY2013 EBITA figure per Dell Inc. FY2013 10-K, p. 65.
[2]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 2. FY2013 SBC figure per Dell Inc. FY2013 10-K, p. 65.
[3] = [1] + [2].
[4]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11.
[5] = [3] * ([1] - [4]).
[6] = [2] * ([1] - [4]).
[7] = [5] - [6].
[8]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11.
[9]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11.
[10] = [7] * [8] / [9].
[11]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 2. FY2013 acquisitions per Dell Inc. FY2013 10-K, p. 65.
[12]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 2. FY2013 figure from DELLE00734152.xls., tab: Consolidated.
[13] = SUM([10] : [12]).
[14] = Terminal [14] / ([9] - [8]).

EXHIBIT 3B

Dell Inc.
Terminal Period Annual Reinvestment Amount for Cornell BCG 50% Case Projections
($ in millions)

#		FY2013	FY2014	FY2015	FY2016	FY2017	Total (FY2013-17)	Terminal
[1]	Earnings Before Interest, Taxes, and Amortization (EBITA)	$3,851	$3,526	$4,120	$4,849	$4,658		
[2]	Add: Stock Based Compensation (Option Expense)	362	362	362	362	362		
[3]	Earnings Before Interest, Taxes, Amortization, and Option Expense (EBITAO)	$4,213	$3,888	$4,482	$5,211	$5,020		
[4]	Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%		
[5]	Earnings Before Interest, Amortization, and Option Expense (EBIAO)	$3,328	$3,071	$3,541	$4,116	$3,966		
[6]	Less: After-tax SBC	286	286	286	286	286		
[7]	Net Operating Profit After Tax (NOPLAT)	$3,042	$2,785	$3,255	$3,830	$3,680		
[8]	Perpetuity Growth Rate (g)	1.00%	1.00%	1.00%	1.00%	1.00%		1.00%
[9]	Return on Invested Capital (ROIC)	9.00%	9.00%	9.00%	9.00%	9.00%		9.00%
[10]	Required Investment in Following Year (Except Terminal Period)	$338	$309	$362	$426	$409	$1,844	$409
[11]	Less: Acquisitions	(4,950)	-	-	-	-	(4,950)	-
[12]	Less: Annual Increase in Net Working Capital	($1,355)	($561)	($599)	($439)	$6	(2,948)	$6
[13]	Net Investment Amount	($5,967)	($252)	($238)	($13)	$415	($6,055)	$415
[14]	Lump-Sum Investment Needed for 1% Perpetuity Growth in Terminal Period							$5,188

Note: Lump-sum investment amount calculated using Gordon Growth Model assuming that annual reinvestment amount grows at target perpetuity rate. $5.188 billion Lump-sum Investment Amount = $415 million incremental required annual investment / (9.0% ROIC - 1.0% g). Formula for reinvestment amount from Expert Report of Glenn Hubbard, June 5, 2015, p. 110.
[1]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 1E.
[2]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 1E.
[3] = [1] + [2].
[4]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11.
[5] = [3] *([1] - [4]).
[6] = [2] *([1] - [4]).
[7] = [5] - [6].
[8]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11.
[9]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11.
[10] = [7] * [8] / [9].
[11]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 1E.
[12]: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 1E.
[13] = SUM([10] : [12]).
[14] = Terminal [14] / ([9] - [8]).

Dell Inc.
Summary of Adjustments to DCF Analyses

#	Analysis	Adjust Projections for Updated PC Industry Forecasts	Adjust Projections for Updated Attachment Rates	Adjust Projections for Additional Investments	Use "Second Stage" Transition Period	Use Statutory Tax Rate in Terminal Period	Offset for FIN 48 Liability	Offset for Deferred Foreign Tax Liability	Add-on for Net Operating Loss Deferred Assets	Add-on for Excess Cash	Tax Rates Used in DCF
[1]	J.P. Morgan 2/8/2013					See note					21.0% except for 35.0% in Terminal Year for 3-year Street and 6-year Management Cases and Not Used in Fairness Opinion.
[2]	J.P. Morgan 8/2/2013										21.0%
[3]	Evercore 2/6/2013					See note					21.0% except 35.0% Tax on Repatriated Cash in Sensitivity Cases Not Used in Fairness Opinion
[4]	Evercore 8/2/2013					See note					21.0% except 35.0% Tax on Repatriated Cash in Sensitivity Cases Not Used in Fairness Opinion
[5]	Boston Consulting Group				X						FY2013: 21.9% FY2014-2015: 22.2% FY2016: 22.3% FY2017: 22.4% FY2018-2027: 20.0%
[6]	Morgan Stanley				X						21.0%
[7]	Citi Investment Research				X					See note	FY 2013: 17.5% - 22.5% FY 2014 and beyond: 21%
[8]	Brean Capital 3/25/13										Imputed 22.2%
[9]	Morningstar				X						Long-run tax rates 5/24/12: 22.4% 12/22/12 - 8/19/13: 25.0%
[10]	Houlihan Lokey October 2013						See note	See note			15.0%
[11]	Houlihan Lokey 1/31/14						See note	See note			17.0%
[12]	E&Y ASC 805				X		See note			See note	Maximum Effective Tax Rates Consolidated: 15.0% EUC: 10.0% ESG: 20.0% Services - Support: 10.0% Services - Other: 30.0% Software: 25.0%
[13]	**Hubbard Report**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**FY2014-22: 18.5%** **Terminal: 35.8%**

Notes and Sources on following page

EXHIBIT 4

Dell Inc.
Summary of Adjustments to DCF Analyses

#	Analysis	Adjust Projections for Updated PC Industry Forecasts	Adjust Projections for Updated Attachment Rates	Adjust Projections for Additional Investments	Use "Second Stage" Transition Period	Use Statutory Tax Rate in Terminal Period	Offset for FIN 48 Liability	Offset for Deferred Foreign Tax Liability	Add-on for Net Operating Loss Deferred Assets	Add-on for Excess Cash	Tax Rates Used in DCF

Notes & Sources:

[1] JPM_0003324.xlsm JPM performed sensitivity analyses assuming repatriation of cash with a 35% tax rate for the terminal period on the 3-year street and 6-year management case analyses that used perpetuity growth rates but did not use these values in its fairness opinion.

[2] JPM_0119609.xlsm

[3] EVERCORE00004835.xlsm Evercore performed sensitivity analyses assuming repatriation of cash with a 35% effective tax rate but did not use these values in its fairness opinion.

[4] EVERCORE00051053.xlsm Evercore performed sensitivity analyses assuming repatriation of cash with a 35% effective tax rate but did not use these values in its fairness opinion.

[5] BCG00013575.xlsx (Ning Exhibit 18)

[6] SLP_DELLAP00015608. See Expert Report of Glenn Hubbard, June 5, 2015, p. 140.

[7] SLP_DELLAP00038457. See Expert Report of Glenn Hubbard, June 5, 2015, p. 140. Citi took working capital requirements out of cash balance instead of treating them as cash flows.

[8] Brean Capital, LLC, Dell, Inc., "Bidding Could Be On With $15 Offer," March 25, 2013

[9] Morningstar, "Dell Inc.," Reports from May 24, 2012, December 22, 2012, March 1, 2013, May 21, 2013, and August 19, 2013. There is an offset for "other adjustments" without any details given. As of August 19, 2013, these adjustments totaled $163 million. (p. 15).

[10] Dell Inc., Discussion Materials, October 2013. Includes Dell's estimate of tax and legal liabilities between $800 and $850 million (DELLE00779987-052, at 000).

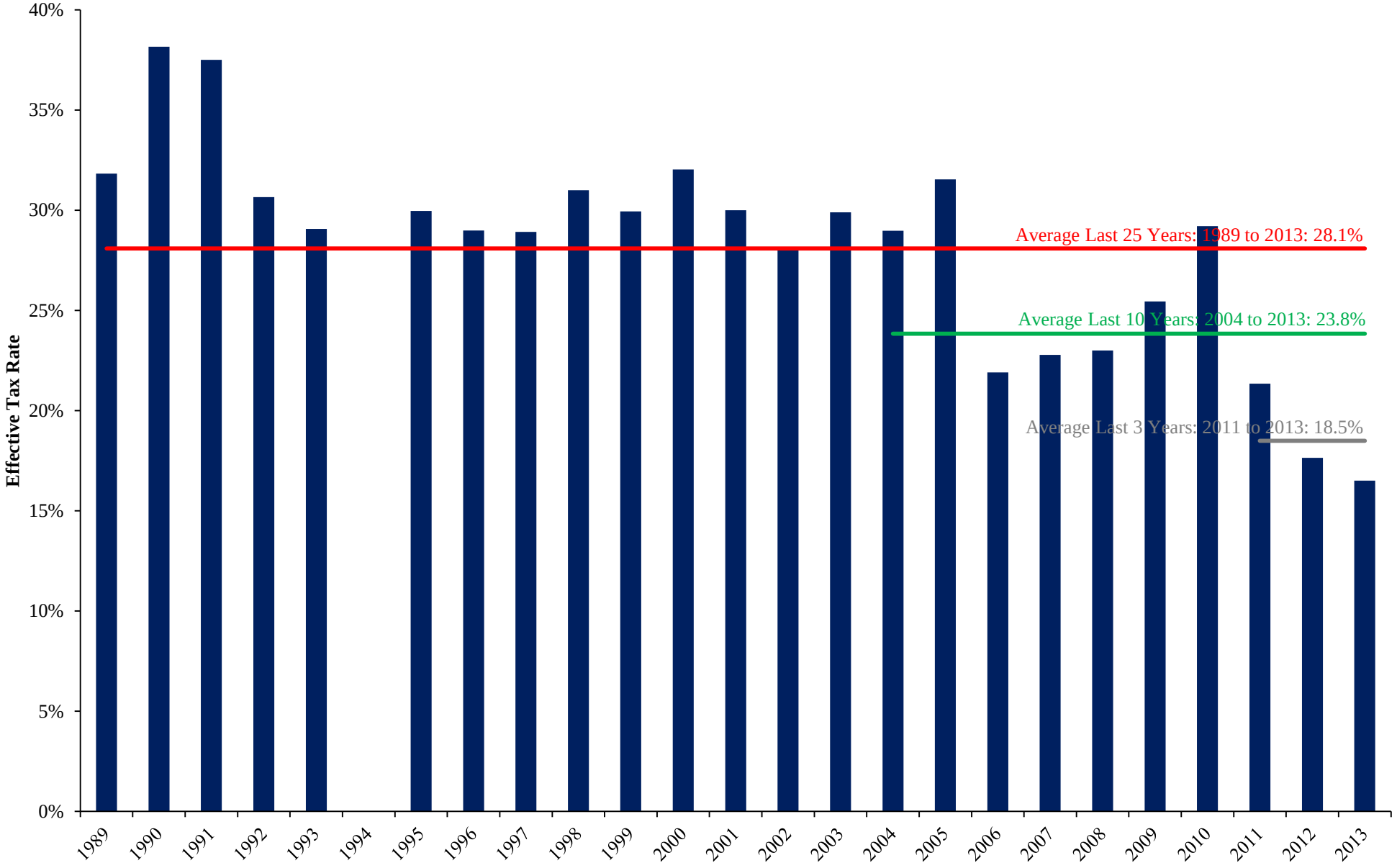
[11] Denali Holding, Inc., Valuation Analysis as of January 31, 2014. Includes Dell's estimate of tax and legal liabilities between $835 and $865 million (DELLE00735405-430, at 407)

[12] Dell Inc ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 022-027. Makes non-standard adjustments to DCF value to arrive at Total Invested Capital (DELLE00734117).

[13] Expert Report of Glenn Hubbard, June 5, 2015, pp. 69-146. Hubbard Exhibits 18 - 26.

EXHIBIT 5

Dell Inc.
Effective Tax Rate
FY 1989 to FY 2013



Source: Capital IQ.

EXHIBIT 6

Dell Inc.
Common Dividends Paid, Share Repurchases and Acquisitions
($ in millions)

Year	Common Stock Dividends	Share Repurchases	Acquisitions
FY2000	$0	($1,061)	$0
FY2001	$0	($2,700)	$0
FY2002	$0	($3,000)	$0
FY2003	$0	($2,290)	$0
FY2004	$0	($2,000)	$0
FY2005	$0	($4,219)	$0
FY2006	$0	($7,249)	$0
FY2007	$0	($3,026)	($118)
FY2008	$0	($4,004)	($2,217)
FY2009	$0	($2,867)	($176)
FY2010	$0	$0	($3,613)
FY2011	$0	($800)	($376)
FY2012	$0	($2,717)	($2,562)
FY2013	($278)	($724)	($4,844)
Total	**($278)**	**($36,657)**	**($13,906)**

Note: $172 million acquisition figure excluded in 2004 because figure represents cash assumed in consolidation of Dell Financial Services L.P.
Sources: Capital IQ; Dell, Inc. 2004 Form 10-K, p. 33.

EXHIBIT 7

Dell Inc.
Comparison of Historical Margins to Bank Case Projections

#	Line Item	2009A	2010A	2011A	2012A	2013A	2014E	2015E	2016E	2017E	2018E
	Corporate General & Administrative Expense as a % of Revenue										
[1]	Historical	11.40%	12.22%	11.87%	13.73%	14.23%					
[2]	Bank Case						13.12%	13.02%	12.93%	12.82%	12.75%
[3]	Bank Case with Cost Savings						13.12%	13.53%	13.92%	13.79%	13.70%
	EBITDA Margin										
[4]	Historical	6.94%	6.16%	7.25%	8.73%	7.42%					
[5]	Bank Case						5.71%	6.38%	6.85%	7.25%	7.50%
[6]	Bank Case with Cost Savings						5.71%	7.23%	8.51%	8.86%	9.08%

Notes & Sources: EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization. Bank Case Corporate G&A calculated as Total Operating Expense less R&D expense per Expert Report of Bradford Cornell, June 5, 2015, Exhibit 2. Bank Case with Cost Savings Bank Case Corporate G&A calculated as Total Operating Expense less R&D expense, and including bank case cost savings per Durban Exhibit 19 (Project Denali, September 2013), p. 82 (DELLE00239046-48).

[1] , [4] : Capital IQ.

[2] , [5] : Expert Report of Bradford Cornell, June 5, 2015, Exhibit 2.

[3] , [6] : Expert Report of Bradford Cornell, June 5, 2015, Exhibit 2. Breakdown of cost savings, where 60% of planned savings are in operating expenses, from Durban Exhibit 19 (Project Denali, September 2013), p. 82 (DELLE00239046-48).

EXHIBIT 8

Dell Inc.
Comparison of Projections for Net Working Capital Investment and Total Net Reinvestment
2014-2018
($ in millions)

	2014	2015	2016	2017	2018
Revenues					
9/21 Management Case	$59,933	$63,232	$66,567	$68,019	$69,562
% Growth	*4.25%*	*5.51%*	*5.27%*	*2.18%*	*2.27%*
BCG Base Case	$56,448	$55,511	$55,050	$54,339	$53,398
% Growth	*(0.70%)*	*(1.66%)*	*(0.83%)*	*(1.29%)*	*(1.73%)*
Bank Case	$57,200	$58,713	$60,240	$62,031	$63,154
% Growth	*0.46%*	*2.65%*	*2.60%*	*2.97%*	*1.81%*
Net Working Capital (NWC) Investment					
9/21 Management Case	($1,208)	($884)	($694)	($153)	($144)
% of Revenue	*2.02%*	*1.40%*	*1.04%*	*0.22%*	*0.21%*
BCG Base Case	($247)	($398)	($217)	($462)	($91)
% of Revenue	*0.44%*	*0.72%*	*0.39%*	*0.85%*	*0.17%*
Bank Case	$470	($182)	($115)	($71)	($15)
% of Revenue	*(0.82%)*	*0.31%*	*0.19%*	*0.11%*	*0.02%*
Capital Expenditures (CapEx)					
9/21 Management Case	($600)	($600)	($600)	($600)	($600)
% of Revenue	*1.00%*	*0.95%*	*0.90%*	*0.88%*	*0.86%*
BCG Base Case	($600)	($600)	($600)	($600)	($590)
% of Revenue	*1.06%*	*1.08%*	*1.09%*	*1.10%*	*1.10%*
Bank Case	($552)	($600)	($600)	($600)	($600)
% of Revenue	*0.97%*	*1.02%*	*1.00%*	*0.97%*	*0.95%*

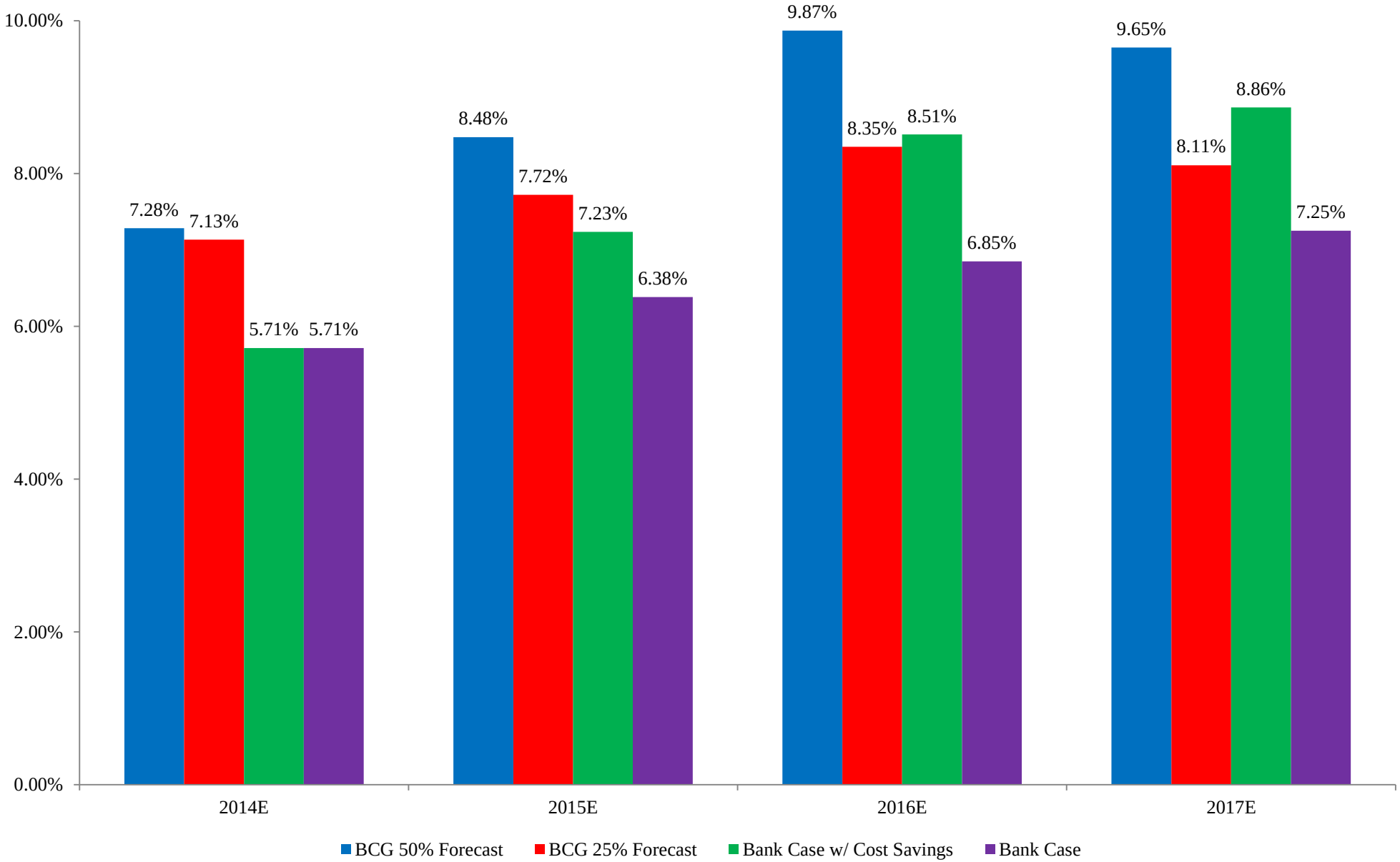
Dell Inc.
Comparison of Projections for Net Working Capital Investment and Total Net Reinvestment
2014-2018
($ in millions)

	2014	2015	2016	2017	2018
Acquisitions					
9/21 Management Case	($1,100)	$0	$0	$0	$0
% of Revenue	*1.84%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
BCG Base Case	$0	$0	$0	$0	$0
% of Revenue	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Bank Case	($472)	($400)	($400)	($400)	($400)
% of Revenue	*0.83%*	*0.68%*	*0.66%*	*0.64%*	*0.63%*
Depreciation and Amortization (D&A)					
9/21 Management Case	$586	$586	$586	$586	$586
% of Revenue	*0.98%*	*0.93%*	*0.88%*	*0.86%*	*0.84%*
BCG Base Case	$586	$586	$586	$586	$586
% of Revenue	*1.04%*	*1.05%*	*1.06%*	*1.08%*	*1.10%*
Bank Case	$538	$600	$600	$600	$600
% of Revenue	*0.94%*	*1.02%*	*1.00%*	*0.97%*	*0.95%*
Total Net Reinvestment (NWC + CapEx + Acquisitions - D&A)					
9/21 Management Case	($3,494)	($2,070)	($1,880)	($1,338)	($1,330)
% of Revenue	*5.83%*	*3.27%*	*2.82%*	*1.97%*	*1.91%*
BCG Base Case	($1,433)	($1,584)	($1,403)	($1,648)	($1,266)
% of Revenue	*2.54%*	*2.85%*	*2.55%*	*3.03%*	*2.37%*
Bank Case	($1,092)	($1,782)	($1,715)	($1,671)	($1,615)
% of Revenue	*1.91%*	*3.04%*	*2.85%*	*2.69%*	*2.56%*

Sources: Expert Report of Bradford Cornell, June 5, 2015, Appendix F and Exhibits 1A, 2.

EXHIBIT 9

Dell, Inc.
Comparison of EBITDA Margins in BCG and Bank Cases



Source: Expert Report of Bradford Cornell, June 5, 2015, Exhibits 1C, 1E, and 2.

REVISED EXHIBIT 10

Dell Inc.
Adjustments to Hubbard Net Cash as of October 29, 2013
($ in millions)

#	Item	Amount
[1]	Excess Cash per Hubbard	$6,040
[2]	Add: Operating Cash per Hubbard	$5,000
[3] = [1] + [2]	Total Cash per Hubbard	$11,040
[4]	Total Transaction-Related Cash Expenditures Paid Between 2/2/13 - 10/28/13	$172
[5]	Add: Transaction-Related Debt Repayments 8/2/13 - 10/28/13	$1,506
[6]	Less: Transaction Related Proceeds from Debt 8/2/13/ - 10/28/13	($249)
		$12,469
[7]	Debt per Hubbard	$5,054
[8]	Transaction-Related Debt Repayments 8/2/13 - 10/28/13	$1,506
[9]	Less: Transaction Related Proceeds from Debt 8/2/13/ - 10/28/13	($249)
[10] = [7] + [8] + [9]	Adjusted Debt	$6,311
[11] = [6] - [10]	Adjusted Net Cash	$6,158

Sources:
[1] - [2], [7]: Expert Report of Glenn Hubbard, June 5, 2015, p. 134.
[4] - [5], [8] -[9]: Cornell Report, Appendix G.

Dell Inc.
Professor Hubbard's Implicit Average Taxes Assuming Payment of Deferred Taxes Over 25-Year Period
($ in Millions)

#	Fiscal Year	EBITAO [A]	Current Tax Payment [B] = [A] * 35.8%	Deferred Tax Payment [C] = $11,699 / 25	Total Tax Payment [D] = [B] + [C]	Effective Tax Rate [E] = [D] / [A]
[1]	2023	$3,811	$1,364	$468	$1,832	48.08%
[2]	2024	$3,887	$1,391	$468	$1,859	47.84%
[3]	2025	$3,964	$1,419	$468	$1,887	47.60%
[4]	2026	$4,044	$1,448	$468	$1,916	47.37%
[5]	2027	$4,125	$1,477	$468	$1,945	47.15%
[6]	2028	$4,207	$1,506	$468	$1,974	46.92%
[7]	2029	$4,291	$1,536	$468	$2,004	46.70%
[8]	2030	$4,377	$1,567	$468	$2,035	46.49%
[9]	2031	$4,465	$1,598	$468	$2,066	46.28%
[10]	2032	$4,554	$1,630	$468	$2,098	46.08%
[11]	2033	$4,645	$1,663	$468	$2,131	45.87%
[12]	2034	$4,738	$1,696	$468	$2,164	45.68%
[13]	2035	$4,833	$1,730	$468	$2,198	45.48%
[14]	2036	$4,929	$1,765	$468	$2,233	45.29%
[15]	2037	$5,028	$1,800	$468	$2,268	45.11%
[16]	2038	$5,128	$1,836	$468	$2,304	44.92%
[17]	2039	$5,231	$1,873	$468	$2,341	44.75%
[18]	2040	$5,336	$1,910	$468	$2,378	44.57%
[19]	2041	$5,442	$1,948	$468	$2,416	44.40%
[20]	2042	$5,551	$1,987	$468	$2,455	44.23%
[21]	2043	$5,662	$2,027	$468	$2,495	44.06%
[22]	2044	$5,775	$2,068	$468	$2,536	43.90%
[23]	2045	$5,891	$2,109	$468	$2,577	43.74%
[24]	2046	$6,009	$2,151	$468	$2,619	43.59%
[25]	2047	$6,129	$2,194	$468	$2,662	43.44%
Average						**45.58%**

Notes:
1) Terminal period starts in FY2023. EBITAO assumed to grow at Hubbard 2% annual perpetuity growth rate.
2) Current Tax Payment at 35.8% statutory tax rate.
3) Deferred Tax Payment based on 25-year straight line repayment of $11.699 billion in deferred taxes.
Source: Expert Report of Glenn Hubbard, June 5, 2015, Exhibits 18 and 23.

EXHIBIT 12

Dell Inc.
WACC Inputs

Line Item		Hubbard	Hubbard Adjusted to Use: Cornell ERP	Hubbard Adjusted to Use: Cornell Cost of Debt	Hubbard Adjusted to Use: Cornell Tax Rate	Hubbard Adjusted to Use: Cornell Beta
Cost of Equity:						
Risk Free Rate	[1]	3.31%	3.31%	3.31%	3.31%	3.31%
Equity Risk Premium	[2]	6.41%	5.50%	6.41%	6.41%	6.41%
Unlevered Adjusted Beta	[3]	0.83	0.83	0.83	0.83	
Cash/Firm Value Ratio	[4]	15.25%	15.25%	15.25%	15.25%	
Cash Adjustment Factor	[4]	1.18	1.18	1.18	1.18	
Hubbard Relevered Beta	[5] = [3] * (1+ [6])	1.11	1.11	1.11	1.11	
Cornell Cash Unlevered Beta	[6] = [3] * [4]					
Assumed Dell D/E	[7] = (1 - [12]) / [12]	33.78%	33.78%	33.78%	33.78%	
Tax Rate	[8]	35.80%	18.50%	18.50%	21.00%	
Hubbard Cash Adjusted Relevered Beta	[9] = [4] * [5]	1.31	1.31	1.31	1.31	
Cornell Relevered Cash + Market Adjusted Beta	[10] = [6] * ((1 + (1 - [8]) * [7])					1.35
Cost of Equity	[11] = [1] + [2] * [10]	11.70%	10.52%	11.70%	11.70%	11.94%
Equity Weight	[12]	74.75%	74.75%	74.75%	74.75%	74.75%
Cost of Debt:						
Pre Tax Cost of Debt	[13]	4.45%	4.45%	4.95%	4.45%	4.45%
Tax Rate	[14] = [8]	35.80%	35.80%	35.80%	21.00%	35.80%
After Tax Cost of Debt	[15] = [13] * (1 - [14])	2.86%	2.86%	3.18%	3.52%	2.86%
Debt Weight	[16] = 1 - [12]	25.25%	25.25%	25.25%	25.25%	25.25%
WACC	[17] = [11] * [12] + [15] * [16]	9.47%	8.58%	9.55%	9.63%	9.65%

Sources: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 7. Expert Report of Glenn Hubbard, June 5, 2015, Exhibit 16.

EXHIBIT 13

Dell Inc.
Summary of Sum-of-the-Parts Valuations
2011-2013

#	Party	Valuation Date: Published Date	Valuation Date: As of Date	Segments	Adjustments	Value Conclusion
[1]	Dell	1/17/2011	1/14/2011	1) Consumer 2) Small & Medium Business 3) Large Enterprise & Public		$27.05/share
[2]	Dell	7/12/2012	12/31/2012	1) EUC 2) ESG 3) Services 4) S&P 5) Software		$40 billion
[3]	Jefferies	1/15/2013	1/15/2013	1) PCs 2) Software and Peripherals 3) Servers and Networking 4) Enhanced Services (Perot and PC Services) 5) Storage		$13.00/share
[4]	Icahn/Southeastern	2/8/2013	2/8/2013	1) Dell Financial Services (DFS) 2) Server Business 3) Support and Deployment 4) PC Business 5) Software and Peripherals	SOTP analysis also includes value of net cash, acquisitions since 2008, unallocated expenses, and DFS value embedded in segments.	$23.72/share
[5]	Brean Capital	2/14/2013	2/14/2013	1) Desktop 2) Mobility 3) Servers & Networking 4) Storage 5) Services 6) Software & Peripherals		$13.20 (based on P/E multiple) $19.90 (based on EV/EBITDA multiple) $16.60 (blended)
[6]	Brean Capital	3/25/2013	3/25/2013	1) Desktop 2) Mobility 3) Servers & Networking 4) Storage 5) Services 6) Software & Peripherals		$13.20 (based on P/E multiple) $19.90 (based on EV/EBITDA multiple) $16.60 (blended)
[7]	JP Morgan	N/A	1st Quarter of Fiscal Year 2014	1) EUC 2) ESG 3) Services 4) Software 5) Unallocated Corporate	SOTP Analysis also includes value of net cash.	$12.15-$14.74/share $21.7 billion-$26.4 billion for Implied Value

Notes & Sources (on following page):

EXHIBIT 13

Dell Inc.
Summary of Sum-of-the-Parts Valuations
2011-2013

Notes:
1. As of date is assumed to be the same as published date if not stated.
2. $40 billion Enterprise Value as of 2012 Year End was estimated by Dell on July 12, 2012. *See* Gladden Exhibit 9, p. 16 (DELL00017564).
Sources:
[1] Dell Investor Relations, Dell Sum of the Parts Analysis, January 17, 2011 (Gladden Exhibit 2), p. 5.
[2] Board of Directors Meeting, Financial Framework, July 12, 2012, Brian Gladden Presentation (Gladden Exhibit 9), p. 16 (DELL00017564).
[3] Jefferies, "LBO Is a Possibility; Raise Target to $13," January 13, 2013, p. 3.
[4] Dell Inc. Schedule 13D, February 8, 2013, pp. 2-3.
[5] Brean Capital, "Dell/HP Previews - Moving Dell to Hold, 'Tho We Agree LBO Undervalues Cash Flow," February 14, 2013, p. 4.
[6] Brean Capital, "Bidding Could Be On With $15 Offer," March 25, 2013, p. 4.
[7] Ex 30 2 of 2 (JPM_0018648).pdf, p. 0 (JPM_0018648).

EXHIBIT 14

Dell Inc.
Comparison of Bank Case with Cost Savings and E&Y Projections
2015-2023
($ in millions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue									
Bank Case w/ Cost Savings	$58,713	$60,240	$62,031	$63,154					
% Growth		*2.60%*	*2.97%*	*1.81%*					
E&Y Case	$60,148	$61,717	$63,583	$64,837	$65,915	$66,926	$67,845	$68,726	$69,551
% Growth		*2.61%*	*3.02%*	*1.97%*	*1.66%*	*1.53%*	*1.37%*	*1.30%*	*1.20%*
EBITDA									
Bank Case w/ Cost Savings	$4,248	$5,126	$5,498	$5,735					
% Growth		*20.69%*	*7.25%*	*4.32%*					
EBITDA Margin	*7.23%*	*8.51%*	*8.86%*	*9.08%*					
E&Y Case	$3,347	$3,770	$4,170	$4,487	$4,743	$4,949	$5,129	$5,255	$5,376
% Growth		*12.65%*	*10.63%*	*7.60%*	*5.70%*	*4.35%*	*3.63%*	*2.46%*	*2.29%*
EBITDA Margin	*5.56%*	*6.11%*	*6.56%*	*6.92%*	*7.20%*	*7.40%*	*7.56%*	*7.65%*	*7.73%*
Free Cash Flow									
Bank Case w/ Cost Savings	$2,299	$3,061	$3,398	$3,642					
% Growth		*33.13%*	*11.01%*	*7.19%*					
E&Y Case	$2,396	$2,755	$3,060	$3,317	$3,533	$3,685	$3,823	$3,919	$4,016
% Growth		*14.97%*	*11.09%*	*8.40%*	*6.50%*	*4.30%*	*3.75%*	*2.52%*	*2.47%*

Note: EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization.
Sources: Expert Report of Bradford Cornell, June 5, 2015, Exhibit 11. Dell Inc. ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4022.

REVISED EXHIBIT 15A

Dell Inc.
E&Y ASC 805 Valuation Analysis
Consolidated Discounted Cash Flow Analysis
As of October 29, 2013
($ in millions, except Per Share Values)

#		LTM	Remaining 3 Months 2014	For the Twelve Month Periods Ending January 31 2015	2016	2017	2018	2019	2020	2021	2022	2023
[1]	Total Revenue	$ 56,977,861	$ 15,130,275	$ 60,148,170	$ 61,717,248	$ 63,583,124	$ 64,836,918	$ 65,914,632	$ 66,925,554	$ 67,845,259	$ 68,726,445	$ 69,550,586
[2]	Cost of Goods Sold		12,094,588	47,807,568	48,814,609	50,085,617	50,878,419	51,604,731	52,296,211	52,951,281	53,575,822	54,157,882
[3]	Gross Profit		$ 3,035,687	$ 12,340,602	$ 12,902,639	$ 13,497,507	$ 13,958,499	$ 14,309,901	$ 14,629,343	$ 14,893,978	$ 15,150,623	$ 15,392,704
[4]	Operating Expenses											
[5]	Sales and Marketing		$ 1,311,664	$ 5,547,561	$ 5,624,487	$ 5,738,887	$ 5,817,092	$ 5,926,380	$ 6,022,343	$ 6,103,334	$ 6,203,890	$ 6,299,879
[6]	Research and Development		320,097	1,306,433	1,339,501	1,374,879	1,409,821	1,402,965	1,387,156	1,362,065	1,356,600	1,347,553
[7]	General and Administrative		575,284	2,367,116	2,386,567	2,419,775	2,443,351	2,442,547	2,481,089	2,515,151	2,554,095	2,591,364
[8]	Total Operating Expenses		$ 2,207,045	$ 9,221,110	$ 9,350,555	$ 9,533,541	$ 9,670,264	$ 9,771,892	$ 9,890,588	$ 9,980,550	$ 10,114,585	$ 10,238,796
[9]	EBIT		$ 828,642	$ 3,119,492	$ 3,552,084	$ 3,963,966	$ 4,288,235	$ 4,538,009	$ 4,738,755	$ 4,913,428	$ 5,036,038	$ 5,153,908
[10]	DFS Operating Interest Expense		20,927	82,630	84,342	86,585	87,835	88,879	89,862	90,762	91,626	92,437
[11]	Charge for use of the Dell Trade Name		72,921	290,356	297,969	306,947	312,971	318,175	323,059	327,502	332,565	338,168
[12]	Adjusted EBIT		$ 734,794	$ 2,746,506	$ 3,169,773	$ 3,570,434	$ 3,887,429	$ 4,130,955	$ 4,325,834	$ 4,495,164	$ 4,611,847	$ 4,723,303
[13]	Income Tax Expense		95,599	340,756	386,588	480,545	535,156	584,784	625,828	660,071	681,799	703,048
[14]	Debt-free Net Earnings		$ 639,195	$ 2,405,750	$ 2,783,185	$ 3,089,889	$ 3,352,273	$ 3,546,171	$ 3,700,006	$ 3,835,093	$ 3,930,048	$ 4,020,255
[15]	Add: Depreciation Expense		140,000	600,000	600,000	600,000	600,000	612,107	623,370	633,556	643,271	652,360
[16]	Add/(Less): Changes in DFNWC		14,775	(9,742)	(28,608)	(29,738)	(35,132)	(13,274)	(15,167)	(12,168)	(10,879)	(4,101)
[17]	Less: Capital Expenditures		(115,000)	(600,000)	(600,000)	(600,000)	(600,000)	(612,103)	(623,363)	(633,546)	(643,260)	(652,349)
[18]	Debt-free Cash Flow Available for Distribution		$ 678,970	$ 2,396,008	$ 2,754,577	$ 3,060,151	$ 3,317,141	$ 3,532,901	$ 3,684,846	$ 3,822,935	$ 3,919,180	$ 4,016,165
[19]	Discounting Convention		0.13	0.76	1.76	2.76	3.76	4.76	5.76	6.76	7.76	8.76
[20]	Present Value Factor at 9.0% (Cornell WACC Estimate)		0.9890	0.9368	0.8595	0.7885	0.7234	0.6637	0.6089	0.5586	0.5125	0.4701
[21]	Present Value - Debt-free Cash Flow		$ 671,477	$ 2,244,587	$ 2,367,427	$ 2,412,893	$ 2,399,565	$ 2,344,626	$ 2,243,546	$ 2,135,434	$ 2,008,435	$ 1,888,199

[22]	Sum of Present Values - Detailed Periods	$ 20,716,189
[23]	Add: Present Value - Terminal Year	23,462,398
[24]	Present Value of Operations	$ 44,178,587
[25]	Add: Dell Trade Name	1,435,000
[26]	Add: Cornell Cash and Investments	12,469,000
[27]	Less: Cornell Total Debt	(6,311,000)
[28]	Total Equity Value	$ 51,771,587
[29]	Shares Outstanding	1,783,913
[30]	Implied Equity Value per Share	$ 29.02

	Normalized Debt-Free Cash Flow	**Data**
[31]	EBITDA	$ 5,375,663
[32]	Less: Depreciation (Normalized)	(652,349)
[33]	Adjusted EBIT	$ 4,723,314
[34]	Income Tax Expense	703,048
[35]	Debt-Free Net Earnings	$ 4,020,266
[36]	Add: Depreciation (Normalized)	652,349
[37]	Add/(Less): Changes in DFNWC	(4,101)
[38]	Less: Capital Expenditures	(652,349)
[39]	Debt-free Cash Flow Available for Distribution	$ 4,016,165

	Constant Growth Model	**Data**
[40]	Debt-free Cash Flow (Normalized)	$ 4,016,165
[41]	Terminal Year Growth Rate	1.2%
[42]	Debt-Free Cash Flow, Year Ahead	$ 4,064,327
[43]	Divided by: Capitalization Rate	7.8%
[44]	Capitalized Value at End of Estimation Period	$ 52,101,411
[45]	Discount Period	9.26
[46]	Present Value Factor at 9.0% (Cornell WACC Estimate)	0.4503
[47]	Present Value of Terminal Year	$ 23,462,398

Notes & Sources (on following page):

Dell Inc.
E&Y ASC 805 Valuation Analysis
Consolidated Discounted Cash Flow Analysis
As of October 29, 2013
($ in millions, except Per Share Values)

Sources: Cash Flow Projections and Terminal Year Growth Rate [1] - [19], [41] -- Dell Inc ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4022. Dell Trade Name Value [25] -- Dell Inc ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4117. WACC Estimate [20] per Expert Report of Bradford Cornell, June 5, 2015, p. 71. Cash and Investments and Total Debt [26] - [27] per Expert Report of Bradford Cornell, June 5, 2015, Revised Exhibit 11.

REVISED EXHIBIT 15B

Dell Inc.
E&Y ASC 805 Valuation Analysis
Consolidated Discounted Cash Flow Analysis
As of October 29, 2013
($ in millions, except Per Share Values)

#		LTM	Remaining 3 Months 2014	For the Twelve Month Periods Ending January 31 2015	2016	2017	2018	2019	2020	2021	2022	2023
[1]	Total Revenue	$ 56,977,861	$ 15,130,275	$ 60,148,170	$ 61,717,248	$ 63,583,124	$ 64,836,918	$ 65,914,632	$ 66,925,554	$ 67,845,259	$ 68,726,445	$ 69,550,586
[2]	Cost of Goods Sold		12,094,588	47,807,568	48,814,609	50,085,617	50,878,419	51,604,731	52,296,211	52,951,281	53,575,822	54,157,882
[3]	Gross Profit		$ 3,035,687	$ 12,340,602	$ 12,902,639	$ 13,497,507	$ 13,958,499	$ 14,309,901	$ 14,629,343	$ 14,893,978	$ 15,150,623	$ 15,392,704
[4]	Operating Expenses											
[5]	Sales and Marketing		$ 1,311,664	$ 5,547,561	$ 5,624,487	$ 5,738,887	$ 5,817,092	$ 5,926,380	$ 6,022,343	$ 6,103,334	$ 6,203,890	$ 6,299,879
[6]	Research and Development		320,097	1,306,433	1,339,501	1,374,879	1,409,821	1,402,965	1,387,156	1,362,065	1,356,600	1,347,553
[7]	General and Administrative		575,284	2,367,116	2,386,567	2,419,775	2,443,351	2,442,547	2,481,089	2,515,151	2,554,095	2,591,364
[8]	Total Operating Expenses		$ 2,207,045	$ 9,221,110	$ 9,350,555	$ 9,533,541	$ 9,670,264	$ 9,771,892	$ 9,890,588	$ 9,980,550	$ 10,114,585	$ 10,238,796
[9]	EBIT		$ 828,642	$ 3,119,492	$ 3,552,084	$ 3,963,966	$ 4,288,235	$ 4,538,009	$ 4,738,755	$ 4,913,428	$ 5,036,038	$ 5,153,908
[10]	DFS Operating Interest Expense		20,927	82,630	84,342	86,585	87,835	88,879	89,862	90,762	91,626	92,437
[11]	Charge for use of the Dell Trade Name		72,921	290,356	297,969	306,947	312,971	318,175	323,059	327,502	332,565	338,168
[12]	Adjusted EBIT		$ 734,794	$ 2,746,506	$ 3,169,773	$ 3,570,434	$ 3,887,429	$ 4,130,955	$ 4,325,834	$ 4,495,164	$ 4,611,847	$ 4,723,303
[13]	Income Tax Expense		95,599	340,756	386,588	480,545	535,156	584,784	625,828	660,071	681,799	703,048
[14]	Debt-free Net Earnings		$ 639,195	$ 2,405,750	$ 2,783,185	$ 3,089,889	$ 3,352,273	$ 3,546,171	$ 3,700,006	$ 3,835,093	$ 3,930,048	$ 4,020,255
[15]	Add: Depreciation Expense		140,000	600,000	600,000	600,000	600,000	612,107	623,370	633,556	643,271	652,360
[16]	Add/(Less): Changes in DFNWC		14,775	(9,742)	(28,608)	(29,738)	(35,132)	(13,274)	(15,167)	(12,168)	(10,879)	(4,101)
[17]	Less: Capital Expenditures		(115,000)	(600,000)	(600,000)	(600,000)	(600,000)	(612,103)	(623,363)	(633,546)	(643,260)	(652,349)
[18]	Debt-free Cash Flow Available for Distribution		$ 678,970	$ 2,396,008	$ 2,754,577	$ 3,060,151	$ 3,317,141	$ 3,532,901	$ 3,684,846	$ 3,822,935	$ 3,919,180	$ 4,016,165
[19]	Discounting Convention		0.13	0.76	1.76	2.76	3.76	4.76	5.76	6.76	7.76	8.76
[20]	Present Value Factor at 9.46% (Hubbard WACC Estimate)		0.9884	0.9338	0.8531	0.7794	0.7120	0.6505	0.5943	0.5429	0.4960	0.4531
[21]	Present Value - Debt-free Cash Flow		$ 671,113	$ 2,237,438	$ 2,349,969	$ 2,385,034	$ 2,361,893	$ 2,298,118	$ 2,189,802	$ 2,075,520	$ 1,943,881	$ 1,819,829

[22]	Sum of Present Values - Detailed Periods	$ 20,332,598
[23]	Add: Present Value - Terminal Year	21,308,747
[24]	Present Value of Operations	$ 41,641,344
[25]	Add: Dell Trade Name	1,435,000
[26]	Add: Cornell Cash and Investments	12,469,000
[27]	Less: Cornell Total Debt	(6,311,000)
[28]	Total Equity Value	$ 49,234,344
[29]	Shares Outstanding	1,782,660
[30]	Implied Equity Value Per Share	$ 27.62

	Normalized Debt-Free Cash Flow	**Data**
[31]	EBITDA	$ 5,375,663
[32]	Less: Depreciation (Normalized)	(652,349)
[33]	Adjusted EBIT	$ 4,723,314
[34]	Income Tax Expense	703,048
[35]	Debt-Free Net Earnings	$ 4,020,266
[36]	Add: Depreciation (Normalized)	652,349
[37]	Add/(Less): Changes in DFNWC	(4,101)
[38]	Less: Capital Expenditures	(652,349)
[39]	Debt-free Cash Flow Available for Distribution	$ 4,016,165

	Constant Growth Model	**Data**
[40]	Debt-free Cash Flow (Normalized)	$ 4,016,165
[41]	Terminal Year Growth Rate	1.2%
[42]	Debt-Free Cash Flow, Year Ahead	$ 4,064,327
[43]	Divided by: Capitalization Rate	8.3%
[44]	Capitalized Value at End of Estimation Period	$ 49,200,160
[45]	Discount Period	9.26
[46]	Present Value Factor at 9.0% (Cornell WACC Estimate)	0.4331
[47]	Present Value of Terminal Year	$ 21,308,747

Notes & Sources (on following page):

Dell Inc.
E&Y ASC 805 Valuation Analysis
Consolidated Discounted Cash Flow Analysis
As of October 29, 2013
($ in millions, except Per Share Values)

Sources: Cash Flow Projections and Terminal Year Growth Rate [1] - [19], [41] -- Dell Inc ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4022. Dell Trade Name Value [25] -- Dell Inc ASC 805 Valuation Analysis as of 29 October 2013, Ernst & Young, DELLE00733762-4129 at 4117. WACC Estimate [20] per Expert Report of Glenn Hubbard, June 5, 2015, p. 132. Cash and Investments and Total Debt [26] -[27] per Expert Report of Bradford Cornell, June 5, 2015, Revised Exhibit 11.

General Information

Court	Delaware Court of Chancery
Docket Number	9322