FitchRatings

FITCH DOWNGRADES DELL'S IDR TO 'BB-'; RATING OUTLOOK STABLE

Fitch Ratings-New York-10 September 2013: Fitch Ratings has downgraded Dell Inc.'s (Dell) ratings as follows:

--Long-term Issuer Default Rating (IDR) to 'BB-' from 'BB+';
--Senior unsecured debt to 'B+' from 'BB+';

Fitch has also withdrawn Dell's bank credit facility rating of 'BB-' and short-term IDR and commercial paper rating of 'B'.

Fitch expects to rate the following upon closing of Dell's leverage buyout (LBO):

--Senior secured first lien ABL facility 'BB+';
--Senior secured first lien term loans 'BB+';
--Senior secured first-lien notes 'BB+'; and
--Senior secured second-lien notes 'BB';

Fitch has removed Dell's ratings from Rating Watch Negative and assigned a Stable Rating Outlook. The ratings were previously placed on Negative Watch in February 2013 following Dell's announcement that it will be acquired by Michael Dell and Silver Lake in a leverage buyout (LBO).

KEY RATING DRIVERS

The ratings and Outlook reflect:

--Fitch's expectations that Dell's shareholders will approve the LBO at a special meeting on Sept. 12, 2013.

--Moderate credit metrics for a LBO, especially core (non-financing). Fitch estimates pro forma total and core leverage of 4.8x and 4.0x as of Aug. 3, 2012.

Fitch previously indicated an IDR of 'BB-' was possible based on pro forma leverage of 3.5x - 4.5x. Despite total leverage at the higher end of Fitch's prior range, Dell's IDR of 'BB-' is supported by the agency's belief that Dell will aggressively de-lever with free cash flow (FCF), and recent profitability pressures will be at least mitigated by substantial cost savings opportunities, initial returns on significant prior long-term investments that have weighed on margins (primarily R&D and sales force), and a moderation in the highly aggressive pricing environment for industry standard servers.

--Solid market position in industry standard servers (#2), density optimized servers for large scale datacenters (#1), PC (#3), storage (#5) and services (#13).

--Increasing contribution of higher value and margin enterprise solutions and services (servers, networking, storage and services), accounting for nearly 36% of revenue, up five percentage points since fiscal 2011, and half of gross margin.

--Significant scale, which provides procurement efficiencies for memory, hard disk drives and other components utilized across the hardware business, specifically PCs, servers and storage.

--Highly diversified revenue base by customer and geography (50% outside U.S.)

Credit concerns center on:

--The highly competitive, low margin PC business accounts for approximately one-third of Dell's operating profit in the first half of fiscal 2014. Positively, Fitch estimates consumer end-user computing (EUC), which has performed considerably poorer than the commercial side due to tablet and smartphone substitution, will account for only 20% - 25% of EUC revenue, 14% of total revenue and 0% of operating profit in fiscal 2014. The direct to consumer EUC business does generate considerable cash flow due to the strongest cash conversion cycle relative to Dell's other business.

--Aggressive industry pricing pressure in PCs and servers that has pressured near-term profitability. Fitch expects aggressive PC pricing to continue.

--Potential hardware revenue pressures from aggressive cloud adoption by the U.S. federal government, a key Dell customer, and/or significant market concentration of cloud providers that have significant pricing leverage due to scale or utilize unbranded custom-built servers.

--Limited financial flexibility to make significant acquisitions to fill product and service gaps that may arise as technologies evolve.

RATING SENSITIVITIES

The ratings may be upgraded in the event of:

--FCF is primarily used for debt reduction rather than acquisitions.
--Revenue mix materially shifts toward enterprise solutions, resulting in significant operating profit margin expansion, reduced reliance on the extremely competitive PC industry and lower financial performance volatility due to a greater percentage of recurring revenue from long-term contracts, such as IT services or software.

The ratings may be downgraded in the event of:

--Accelerating PC revenue declines, materially pressuring liquidity, profitability and FCF generation.

--Revenue growth is negative for an extended duration, resulting in significant liquidity pressures. Dell's negative cash conversion cycle generates significant cash flow usage from working capital in a declining revenue environment.

Contact:

Primary Analyst
John M. Witt, CFA
Senior Director
+1-212-908-0673
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Jason Pompeii
Senior Director
+1-312-368-3210

Committee Chairperson
Jamie Rizzo, CFA
Sr. Director
+1-212-908-0548

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 8, 2012).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Effective from 8 August 2012 - 5 August 2013
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.