MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Dell's CFR to Ba2; outlook stable

Global Credit Research - 04 Feb 2015

Over $11.5 billion of rated debt affected

New York, February 04, 2015 -- Moody's Investors Service ("Moody's") upgraded Dell Inc.'s ("Dell") Corporate Family ("CFR") and Probability of Default ("PDR") ratings to Ba2 and Ba2-PD from Ba3 and Ba3-PD, respectively. In addition, Moody's upgraded Dell International LLC's (a debt issuing subsidiary of Dell Inc.) senior secured term loans and first lien notes to Ba1 from Ba2 and Dell Inc.'s unsecured notes to Ba3 from B1. The rating outlook is stable.

RATINGS RATIONALE

The upgrades reflect Moody's expectation Dell will remain committed to sizable debt reduction with gross reported debt falling to below $13.5 billion by the end of fiscal year ending January 2016 (fiscal year 2016) from nearly $18 billion as of the closing date of the LBO in late October 2013. Moody's expects adjusted gross leverage to improve to the mid 3x level by the end of fiscal year 2016 (or about mid 2x including the adjustment for the finance operations), supported by over $2 billion of free cash flow and mid single digit EBITDA growth over the next year.

This pace of de-leveraging is faster than Moody's had anticipated at the time of the LBO, as Dell has engaged in minimal M&A activity while benefiting from the rebound in the higher margin corporate PC market in the U.S. Moody's expects Dell's revenue growth rates from its PC business to temper to the low single digit range over the next year as the benefit from Windows operating system upgrades has largely occurred. But Dell will likely continue to gain market share through aggressive pricing, scale benefits, and good sales execution both in the U.S. and emerging countries. PC profit expansion may be limited by the higher growth of consumer markets, which will likely see growth from replacement-driven sales after the slowdown in sales of tablet devices.

Moody's expects the Enterprise Solutions Group (ESG) to grow by mid single digits over the next year, driven by a server refresh cycle as Microsoft ends support for its Windows Server 2003 operating system in July 2015. However, Moody's does not anticipate the same one-for-one replacement cycle in the server market as with PCs when Microsoft terminated support for Windows XP in April 2014. The server industry is affected by data-center consolidation, a movement to cloud computing, and an ongoing shift to "virtual" machines. Nonetheless, Moody's still expects Dell to see a boost in the server business, which accounts for the majority of revenue in ESG, with replacement units commanding higher selling prices given the increasing complexity of computing.

The Ba2 rating also incorporates the considerable key man risk associated with Michael Dell's majority stake and the long term potential exit of Silver Lake, which may lead to another levering event. Potential event risk could also arise if Dell is unable to achieve sustained revenue growth, especially in light of the possible waning hardware refresh cycle in fiscal year 2017. Moody's believes that Dell could ramp up its M&A activity to propel the top line or expand its technology footprint to remain competitive against technology peers with more diversified product, software and service offerings. Uncertainty over whether the strategic shift to higher margin enterprise solutions can be achieved organically remains a rating constraint. Since the LBO, virtually all of free cash flow has been used to pay down debt along with some cash on hand, which may not be a sustainable financial policy in the future.

The stable outlook is based on Moody's expectation that Dell will preserve its solid liquidity profile by growing its Enterprise solutions business in the mid single digits and its PC business in the low single digits through fiscal year 2016. Moody's anticipates that free cash flow will be used primarily for debt payments with some modest M&A activity.

Moody's could upgrade Dell's ratings if the company were to show greater revenue and profit contribution from the non-hardware businesses, sustained annual revenue growth of at least mid single digits, high single digit adjusted operating margins, and gross debt to EBITDA below 3 times. In addition, the risk of a significant levering event would have to be considered remote. The rating could be lowered with sustained erosion of market share, reported adjusted operating profit margins lower than 3%, or revenue declines from a contraction of the PC and server markets. Also, any indications of a change in Dell's financial policies, such that gross debt to EBITDA is expected to exceed 4 times beyond fiscal year 2016 could also pressure the rating down.

Ratings upgraded:

Dell Inc.

Corporate Family Rating to Ba2 from Ba3

Probability of Default Rating to Ba2-PD from Ba3-PD

Senior unsecured rating to Ba3 (LGD5) from B1 (LGD5)

Dell International LLC

Term Loans to Ba1 (LGD2) from Ba2 (LGD2)

First lien notes to Ba1 (LGD2) from Ba2 (LGD2)

The rating outlook is stable.

The principal methodology used in these ratings was Global Technology Hardware published in October 2010. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Stephen Sohn
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Lenny J. Ajzenman
Associate Managing Director

Corporate Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and