

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 leveraging 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 leveraging 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.

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