

Alex Mandl & The Board of Directors  
Dell Inc.  
One Dell Way  
Round Rock, TX 78682  
USA

22 February 2013

Dear Mr Mandl

Metropolis Capital is the Investment Manager for the SF Metropolis Valuefund ("Metropolis"), a UK FSA regulated Open Ended Investment Company. Whilst Metropolis is a small holder, at 5.4% of the portfolio, Dell Inc represents a material position in the fund. We are writing to you in your capacity as lead Board Member on the Special Committee, which has evaluated the take-private transaction, proposed by Michael Dell and Silver Lake Partners.

Before taking any position, Metropolis Capital undertakes weeks of due diligence to understand the fundamental strengths and weaknesses of a firm. For Dell, we conducted most of our due diligence in the first half of 2012, a process which included interviews with the company, competitors and customers in addition to detailed analysis of the financial statements. This has been supplemented with additional work which has continued since we first purchased the position, leading us to increase our position as the share price fell.

Through this process, we have built up a strong conviction that Dell's share price during 2012 and 2013 has significantly undervalued the future cashflows of Dell. As such, we are very disappointed with the proposed price for this transaction of \$13.65 per share, which values Dell at \$24.4 billion.

We believe that a Private Equity owner will be able to hive off Dell Financial Services and with it a significant portion of Dell's debt; we estimate that this could reduce Dell's debt by as much \$3.9 billion. This would leave Dell with net cash of c.\$7.4 billion plus a further \$2.8 billion invested in corporate and government debt; these assets serve to reduce the proposed transaction price to an effective Enterprise Value for Dell of just \$14.2 billion. These numbers are based on the balance sheet of 01 February 2013, which were presented by the Board on 19 February 2013.

Reported net income for FY 2013 was \$2.4 billion however this figure understates the operational cash generation capability of Dell since it includes a non cash charge of \$1.1 billion in amortization and depreciation; whereas capital expenditure is only \$500 million. We therefore compare the Enterprise Value of \$13.5 billion to adjusted net income of \$3 billion, i.e. a post tax multiple of just 4.7x.

According to Dell, under 50% of its profits are generated by the parts of the business which have been causing the negative market sentiment, e.g. selling PCs / laptops / desktop software and peripherals. The remaining 50% of the profits are generated by divisions which are growing, namely application software, services, storage and servers. We believe that this part of the business alone is worth in excess of 12 times its free cashflow, or \$18 billion. It is worth noting that this multiple is considerably lower than the multiple that Dell itself paid for many of these businesses in recent

years and indeed the prices that similar businesses have been sold to other acquirers, so there is a strong element of conservatism in this multiple. Given the uncertainty in the PC business, fair value for this part of the business might well be as low as 4x post tax free cashflow or \$6 billion. Adding back the net cash and assets on the balance sheet implies a fair value of \$34billion or \$19-20 / share.

However, we believe that \$19-20 is at the low end of the intrinsic value range. In our research, we discovered that whilst Dell has a weak position selling PCs to consumers (where it makes almost no profit), businesses of all sizes and public sector organisations are willing to pay a slight premium for Dell products such that its margins are typically above 5%. Corporate purchasing lifecycles for PCs have elongated to 5-6 years, but they are still an essential business tool and rarely replaced by tablets. Given the strength of its franchise in corporate PCs, particularly to small and medium sized businesses, we believe that a fair multiple to pay for the highly cash generative business of selling PCs to corporates and the public sector would be 6x free cashflow, rather than 4x. Thus, our mid case scenario for valuing Dell is \$21-22 / share.

Note that we appreciate that there are some challenges for an owner in accessing the full value of the cash on the balance sheet. At worst, a forced repatriation of cash held overseas would reduce the intrinsic value by \$2 per share. However, we believe that there are mechanisms available to overcome this and refer you to the proposals recently put to Apple by Greenlight Capital.

We request that you review your current opinion that this proposed transaction represents a fair value to shareholders. It is not. We can confirm also that we will be voting against the transaction as it is currently structured.

Yours sincerely

Simon Denison-Smith & Jonathan Mills  
Fund Managers