IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE: APPRAISAL OF DELL INC.	Consol. C. A. No. 9322-VCL

AFFIDAVIT OF BRADFORD CORNELL

STATE OF CALIFORNIA	)	
	)	S.S.
COUNTY OF LOS ANGELES	)	

Bradford Cornell, being duly sworn, does hereby state as follows:

I.   INTRODUCTION

1.   I submit this affidavit at the request of counsel for petitioners.

2.   After the Court issued its Memorandum Opinion on May 31, 2016 (the "Opinion"), I was asked to run the Discounted Cash Flow ("DCF") calculations based on the inputs accepted by the Court in that Opinion using the Excel models created by Professor Glenn Hubbard ("Hubbard"), which also appeared to have been largely accepted by the Court, to confirm the per share equity value calculations in the Opinion.

3.   These files were produced as Hubbard BCG Case DCF Model.xlsx ("BCG Case Excel Model") (JX900) and Hubbard Bank Case DCF model.xlsx ("Bank Case Excel Model") (JX899).

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4.   As explained below, although the calculations using the Bank Case confirmed the Court's calculation of $18.81 per share, my calculations using the same model and the same inputs taken from the Opinion for the adjusted BCG 25% Case reflect a per share value of $16.90, as compared to the Court's calculation of $16.43 per share. Weighting those calculations equally increases the implied fair value of shares of common stock of Dell Inc. ("Dell" or the "Company") from $17.62 per share as calculated in the Court's Opinion to $17.85 per share.

5.   The Court concluded that "the fair value of the Company's common stock at the effective time of the Merger was $17.62 per share."[1] This valuation conclusion was based on an equal weighting of Professor Hubbard's adjusted BCG 25% Case (calculated by the Court to be $16.43 per share) and Professor Hubbard's adjusted Bank Case (calculated by the Court to be $18.81 per share).[2]

6.   To confirm the calculation the fair value resulting from the Court's Opinion, I used the Excel models that Professor Hubbard produced at the time of his Opening Report, simply replaced the specific metrics in those spreadsheets with the specific inputs adopted by the Court to determine the implied enterprise

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[1]   Opinion, p. 1.

[2]   *Id.*, p. 112.

value, and then adjusted the resulting enterprise value with the specific inputs adopted in the Court's Opinion.

A. Enterprise Value

7.   The Court's decision accepted Professor Hubbard's BCG 25% Case and Bank Case forecasts except with respect to his selection of tax rates.[3]

8.   The Court's decision calculated a WACC of 9.46%,[4] which also was used in Professor Hubbard's model.[5]

9.   The Court's decision also accepted Professor Hubbard's use of a 2% perpetuity growth rate in calculating the Company's terminal value.[6]

10.   The Opinion adopts a 21% tax rate over the forecast period and terminal value.[7]   Accordingly, I changed the relevant cells in the Hubbard Excel models to reflect a tax rate of 21.0% for the forecast period and terminal value.[8] Mechanical changes:

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[3]   *Id.*, pp. 103-104, 105-107.

[4]   *Id.*, t p. 08 ("The inputs selected below generate a WACC of 9.46%").

[5]   *See* JX900 (BCG Case), "DCF Results" tab, cells D47 and D48 = 9.46%; JX899 (Bank Case), "DCF Control" tab, cell D30 = 9.46%.

[6]   Op., p. 105.

[7]   "Cornell used a 21% tax rate throughout his forecast period" (*id.*, p. 105) and "Cornell's tax estimate is more reliable and consistent with the Company's operative reality" (*Id..*, p. 107).

[8]   Note that the decrease in the tax rate for the terminal period from Professor Hubbard's 35.8% to 21.0% has the automatic effect (*i.e.*, an effect built-in the model) of increasing the Additional Requirement Investment in Professor

i. JX900 (BCG Case), "DCF Results" tab, cells D39 and D40 = 21%.

ii. JX899 (Bank Case), "DCF Control" tab, cells D31 and D32 = 21%.

Making these mechanical changes to the Hubbard Excel models automatically results in the following revised enterprise values per share:

i. JX900 (BCG Case), "DCF Results" tab, cell D34 = $16.00.

ii. JX899 (Bank Case), "DCF Control" tab, cell D21 = $17.90.

B. Enterprise Value to Equity Value Per Share Conversion

11.   The Opinion determined that at the time of the closing of the Merger, the Company had net cash of $6.158 billion.[9]

12.   <u>Working Capital and Restricted Cash</u>. The Opinion concluded that the Company required $3 billion in cash for working capital purposes and that $1.2 billion in cash on the balance sheet was restricted.[10]

Hubbard's valuation model. (See Hubbard Report, p. 112 and cells Q56 and K56-O56 (Core Dell) and Q60 and K60-O60 (New Dell) in the "DCF Results" tab of the BCG Case Excel Model and cells R43 and L43-P43 (Core Dell) and R47 and L47-P47 (New Dell) in the "DCF Control" tab of the Bank Case Excel Model. I express no opinion with regard to such Additional Requirement Investment or any increase thereof, and simply applied Professor Hubbard's model without altering any input other than the tax rate.

[9]   Op., p. 109 ("At the time of the Merger, the Company had $11.04 billion in cash and $5.054 billion in debt on its balance sheet. After adding back $172 million in transaction-related expenses, the Company had net cash of $6.158 billion.").

[10]   Id., p. 110 ("This decision deducts working capital of $3 billion and restricted cash of $1.2 billion from the Company's available cash for purposes of determining its [equity] value.").

13.   Deferred Taxes. The Opinion determined that it was not necessary to make any additional deduction for Deferred Taxes.[11]

14.   Liability for Unrecognized Tax Benefits. The Opinion concluded that Dell's cash balance should be adjusted to account for a $650 million liability for Unrecognized Tax Benefits (FIN 48).[12]

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[11] As the Court noted: "Hubbard deducted $2.24 billion for deferred taxes attributable to the Company's foreign earnings and profits" but that "the effective tax rate accounts for the deferred taxes, and because the Company never plans to repatriate those funds, a proper valuation would have to back out any deferred taxes on foreign earnings from its effective tax rate, which would increase the Company's value." *Id.*, p. 110.

[12] *Id.*, p. 112 ("This decision deducts $650 million from the Company's cash" for Unrecognized Tax Benefits.)

15.   The following table summarizes these cash adjustments:

	Memorandum Opinion (in millions)
Net Cash	$6,158
Adjustments to Net Cash:	
Working Capital	($3,000)
Restricted Cash	($1,200)
Deferred Taxes	$0
Contingent Taxes	($650)
NOL[13]	$278
Total Adjustments to Cash	($4,572)
Adjusted Net Cash	$1,586
Shares Outstanding	1,765.4[14]
Adjusted Net Cash Per Share	$0.90

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[13] Since the Opinion does not mention the appropriate treatment of Dell's Net Operating Loss ("NOL") carryforward benefits and Petitioners did not dispute this amount, I have assumed that the Court accepted Professor Hubbard's addition of $278 million to Net Cash. *See* Hubbard Opening Report p. 137.

[14] Op., p.112 ("This decision adopts the parties' agreed upon calculation of 1,765,369,276 fully diluted shares outstanding.")

16.   The following table summarizes the per share values based on the valuation inputs set forth in the Memorandum Opinion:

		BCG Case	Bank Case
Enterprise Value per Share	(¶ 10)	$16.00	$17.90
Adjusted Net Cash per Share	(¶ 15)	$0.90	$0.90
Equity Value per Share		$16.90	$18.80[15]

17. The following table compares the valuations set forth in the Memorandum Opinion with my calculations described above:

	Opinion	Cornell Calculation	Difference
BCG 25% Case	$16.43	$16.90	$0.47
Bank Case	$18.81	$18.80	($0.01)
Average	$17.62	$17.85	$0.23

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[15] My calculation for the value of the adjusted Bank Case is $18.80. This is not a material difference from the Court's calculation of the value under the adjusted Bank Case of $18.81.

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

Executed on: June 6 , 2016

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Bradford Cornell

SWORN AND SUBSCRIBED

Before me this ___ day of June, 2016

My Commission Expires: _____

CALIFORNIA JURAT WITH AFFIANT STATEMENT   GOVERNMENT CODE § 8202

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Signature of Document Signer No. 1   *Signature of Document Signer No. 2 (if any)*

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California
County of Los Angeles

Subscribed and sworn to (or affirmed) before me
on this 6TH day of June, 20 16,
by   Date   Month   Year

(1) Bradford Cornell _____

(and (2) _____),
                Name(s) of Signer(s)

proved to me on the basis of satisfactory evidence
to be the person(s) who appeared before me.

Signature _Susan Kiyo Drozdowski_
          Signature of Notary Public   Notary Public

Seal
Place Notary Seal Above

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