

Avoiding Dell Drama - A Case Study

RotaryGallop

In this guest article, Rotary Gallop's CTO, Guy Tal, and CEO, Travis Dirks, explain how their analysis of Dell's voting register highlighted that the management buyout would not win a shareholder vote without a change in the voting standard.

Around July 17, 2013, after months of high profile headlines and one of the biggest proxy battles ever, Michael Dell and Silver Lake finally came to understand two key facts that Rotary Gallop has known [and made public](#) over [five months prior](#). First, they were going to lose the shareholder vote on a \$24.9 billion bid to take Dell private. Second, the reason would be a previously little-discussed rule involving the treatment of abstaining votes. We know it took Dell's team this long to realize their position, because it was only on July 24 that they made an increase in the purchase price contingent upon a demand that the rules of the game be changed. Most likely, they only realized their position by counting the number of abstentions as they came in.

So how did a startup figure out what the best team money can buy took months to learn the hard way? Rotary Gallop pioneers the application of Nobel-prize winning mathematics to the problem of acquiring, keeping, and exercising corporate control with empirically tested algorithms that *replace* guesswork with proven analytic techniques to remove blind spots. Here is how we predicted Dell's situation:

In January, Rotary Gallop calculated that Dell had an *RG Whale Score* that put it in the top 5% of all companies in the S&P500. The *RG Whale Score* measures a company's vulnerability to its largest shareholders – a clear indication in this case that shareholder opposition was a primary risk in the event of a proxy battle.

By mid-February, it became clear (to us) that the opposition had a significant chance of winning the battle. The day T.Rowe Price joined Southeastern Asset Management in opposition to the Dell transaction, we took a public list of Dell shareholders and the knowledge that these two shareholders were against the transaction, and *measured* their control and likelihood of voting the deal down. Together Southeastern and T.Rowe Price had a 93% chance of winning this shareholder vote, and had the deciding vote in (i.e., controlled) 86% of all possible outcomes.

Next we analyzed Michael Dell's chances of winning and observed that low abstentions halved his chances and more realistic abstentions worsened them 10-fold! [Below is a graph of this effect](#) (figure 1), published as the rest of the world wondered why Dell was insistent on changing the rules around abstention. Under the old rules, abstention caused a deep nonlinear depression in Dell's odds of success, while under the new rules it hardly affected the outcome at all.

Knowing the odds of proxy success a priori is indispensable for activists and defense to create an ideal negotiating stance. Using these odds as a starting point, our tools can also point to the right proxy strategy by measuring the effect and relative importance of key variables that affect a proxy campaign – the impact of ISS, retail campaigns, arbs, abstention, etc.

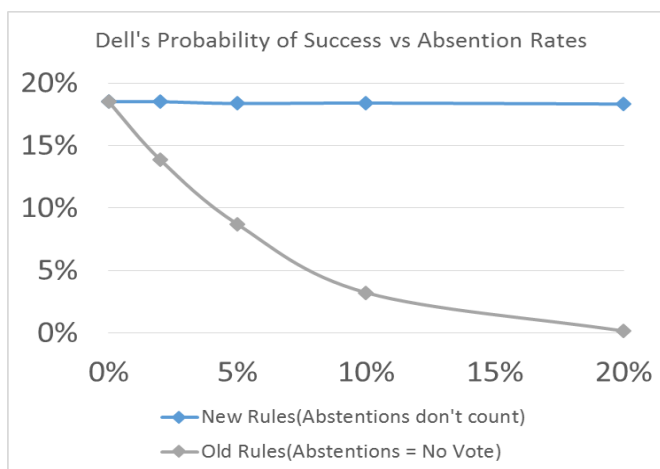


Figure 1: This graph reflects the entrance of Icahn and the new independence of T. Rowe price at that time. X axis - shares abstaining (%). Y Axis - probability that Dell's bid passes a shareholder vote. (Updated Calculations for publication in Quartz on July 31).

About Rotary Gallop:

Rotary Gallop specializes in the direct calculation of shareholder control and chances of winning a proxy battle to guide strategy in hostile takeovers, activist situations, corporate defense, and contested M&A transactions. Our insights are grounded in the scientific method and domain expertise, and powered using big data & quantitative tools.

What YOU need depends on the stage of your contested situation:

Pre-game: Your goal is to understand the distribution of control at the company in question and which groups may have enough control to swing the outcome. We recommend our Control and Vulnerability Database. Single company reports are available as well as industry and sector datasets.

Game On: The considered or anticipated contested situation has appeared and your primary responsibility is to determine the basis of your negotiation stance and strategy. We can use your team's best information to calculate your odds of winning ahead of time and help identify pitfalls to avoid.

Strategy and Tactics Deep Dive: Once you've decided to fight a battle it's time for a dive into the areas critical to your success. These differ from battle to battle, but some common things we analyze are: the top 20 shareholders' control, ISS's effective control, ROI of a retail shareholder campaign, and the effect of abstention.

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