

Deal Terms	
1 EMC = \$24.05+0.111 VMW tracking stock	
Target: EMC Corp	
Country	US
Bloomberg	EMC
Sector	IT
Share price (USD)	24.67
Market cap (USDm)	47,853.1
Free float (%)	~95
Acquirer: Dell	
Country	
Bloomberg	
Sector	
Share price (USD)	
Market cap (USDm)	
Free float min (%)	
EMC Price Chart	
	
Status	
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EMC Corp (EMC) / Dell Update

The deal spread offers a good entry point in our view. Given limited the downside, we believe that EMC is highly attractive at these levels.

IGR view

- We believe that the **main risks** to the deal are related to **financing, taxation and shareholder support**.
- We believe that **regulatory** approvals will be granted as there is limited product overlap between the two companies: they both offer competitive storage products and services and security software. We note that while EMC serves large corporates, Dell focuses on the SMB segment and both companies face strong competition from cloud storage providers. Under the DMA the bidder is obliged to offer remedies/defend litigation in case of antitrust concerns.
- Approvals are required in US, Australia, Brazil, Canada, China, the European Union, India, Israel, Japan, Mexico, Russia, South Africa, South Korea, Switzerland, Taiwan and Turkey.
- We expect shareholders to support the deal** given the high cash proportion and significant premium to the current market price and our standalone valuation. Elliott (holding ~2% of EMC) which has been pushing for changes at EMC said it strongly supports the merger.
- Dell has secured **committed debt and equity financing** and expects to achieve IG rating for the combined entity. We believe that Dell has enough room to meet its targets via **asset sales**.
 - Perot systems is said to be sold for ~\$4.2-4.3b to Atos, somewhat lower than expected.
 - Dell also plans to sell Quest Software and SonicWall for \$2bn each.
 - Back-up solutions unit AppAssure was also said to be a candidate to be sold
 - Furthermore, Dell filed for the IPO of its security business subsidiary SecureWorks (~\$1b), which it acquired for \$612m and EMC is exploring the potential of floating minority stake of Pivotal in 2016.
- In a worst-case scenario with a major market blowup, if Dell fails to implement planned asset sales and the combined company gets junk rating, banks may withdraw financing claiming insolvency of the combined entity as set out in the DMA.
- The deal is conditional on the receipt of a **tax opinion** according to which it qualifies as an exchange under Section 351 and that the tracking stock is considered as common stock of Parent, otherwise Dell would incur tax liability based on the appreciation of EMC's VMWare stake. We believe that the bidder has considered the tax consequences of the deal and has consulted with tax advisors before making the offer. We believe that the tracking stock should qualify as Denali stock based on the following:
 - Economic interest, governance of VMW will be retained by Denali
 - Holders of the tracker will be exposed to Denali's credit risks as a whole not only risks related to VMW. No specific assets are assigned to the tracker.
 - The tracker will have no voting rights, rights to VMW dividends or claim on VMW assets
- We would assume a **10-30% discount for the tracking stock** compared to VMW given the lack of shareholder rights (voting, potential dividends, claim on assets) based on European comparables with capital structures where dividends are similar but one share class does not have voting rights.
- We estimate an **implied deal closing probability** of ~40% assuming deal close by end of July 2016, downside to \$22/EMC share and a 20% discount for the VMW tracking stock. We would assign ~60-70% probability to a successful deal close. We note that the actual downside may be somewhat higher if we account for the \$4-6b reverse break fee.
 - We find the deal spread and the upside/downside characteristics of the deal attractive and we would be long EMC.

Financing:

Debt:

The debt commitment letter, in the aggregate up to **\$49.5 billion in debt financing** (not all of which is expected to be drawn at the closing of the merger), consisting of the following:

- \$8.0 billion senior secured term loan B facility
- \$3.5 billion senior secured term loan A-1 facility;
- \$3.5 billion senior secured term loan A-2 facility
- \$2.5 billion senior secured term cash flow facility
- \$3.0 billion senior secured revolving facility
- \$16.0 billion senior secured bridge facility (which would be utilized in the event that Dell does not issue and sell the full amount of the senior secured notes);
- \$9.0 billion senior unsecured bridge facility (which would be utilized in the event that Dell does not issue and sell the full amount of the senior unsecured notes
- \$2.5 billion margin bridge facility; and
- \$1.5 billion VMware note bridge facility

It is expected that, at or prior to the closing of the merger, up to \$25.0 billion in aggregate principal amount of senior secured notes (IG) and senior unsecured notes (non-IG), referred to as the notes, will be issued by Dell.

The commitments under the credit facilities may be increased in an aggregate amount not to exceed (1) the greater of (i) \$10.0 billion **and (ii) 100% of consolidated EBITDA for the last four fiscal quarters of Dell for which financial statements have been delivered**, plus (2) all voluntary prepayments of the credit facilities **(with respect to the senior secured revolving facility, to the extent the revolving commitments thereunder are permanently reduced) that are not funded with the proceeds of long-term debt and (3) an additional amount (without giving effect to amounts incurred simultaneously under (1) and (2)) such that the first lien leverage ratio would not exceed 3.25:1.00 on a pro forma basis, subject to certain exceptions and the satisfaction of certain conditions.**

Equity:

Denali has also obtained **committed equity financing** for up to **\$4.25 billion** in the aggregate from the common stock investors.

Cash:

Denali and EMC has agreed to make available a certain amount of **cash on hand** (at least **\$2.95 billion, in the case of Denali, and \$4.75 billion in the case of EMC**) at the closing of the merger for the purpose of financing the transactions contemplated by the merger agreement. The required amounts of cash on hand are to be amended in line with changes in Denali and EMC indebtedness before deal close.

Denali Cash on Hand:

Each of Denali and Dell has agreed to take all actions required to collectively have available cash on hand in bank accounts located in the United States in an amount no less than \$2.95 billion, referred to as the Denali cash on hand, no later than the date the marketing period commences and thereafter at all times until the earliest of (1) the closing of the merger, (2) the termination of the merger agreement in accordance with its terms and (3) the date on which such marketing period is deemed to have not commenced the required amount of Denali cash on hand shall be decreased (but not below zero) by the aggregate amount of indebtedness for borrowed money of Denali or its subsidiaries that is repaid or redeemed by Denali or its subsidiaries before the closing date of the merger that, if outstanding as of the closing date of the merger, would have been required to be repaid, redeemed, discharged or refinanced as required by the debt commitment letter.

Each of Denali and Dell has also agreed to cause the Denali cash on hand (after giving effect to any permitted reduction in the amount of Denali cash on hand described in the prior sentence) to be available without restriction no later than the closing date of the merger for the purpose of financing the transactions contemplated by the merger agreement at the effective time of the merger. Denali has agreed to confirm to EMC in writing that Denali and Dell have the Denali cash on hand, with reasonable supporting evidence of the sources thereof, on the marketing period commencement date. Denali shall promptly notify EMC in writing (1) of any permitted reduction in the amount of Denali

cash on hand, providing reasonable supporting evidence thereof, and (2) in the event that at any time Denali and Dell do not have the Denali cash on hand (after giving effect to any permitted reduction in the amount of available cash on hand).

Liquidation of Investments; Cash Transfers

Prior to the closing date, subject to compliance with applicable law by EMC and its subsidiaries and subject to certain permitted reductions, EMC has agreed to, and to cause its wholly owned subsidiaries to, (1) sell for cash marketable securities (other than shares of VMware common stock) and cash equivalents held by, or on behalf of or for the benefit of, EMC and/or any of such subsidiaries, and (2) transfer from such subsidiaries, prior to the effective time of the merger, an amount of cash to EMC, such that EMC may (i) make available at the effective time of the merger no less than the Target Amount (as defined below) of cash on hand and (2) use reasonable efforts to make available at the effective time of the merger any additional cash that exceeds the Target Amount of cash on hand to the extent a specific amount of available cash in excess of the Target Amount of cash on hand is requested in writing by Denali at least 15 days prior to the anticipated expiration of the marketing period. EMC has agreed to make available no less than the Target Amount of cash on hand at the closing to finance the cash payments to be made on the closing date of the merger and to use reasonable efforts to make available any additional available cash pursuant to the terms of the merger agreement.

Sources and uses of cash (as per Proxy 12/14/2015):

Sources of cash	USDb
Cash from Dell and EMC balance sheet	4.705
Liquidation of investments (marketable securities, cash equivalents)	3.775
Debt	48.35
Equity issuance	4.25
Total	61.08
Uses of cash	
Cash consideration	48.416
EMC debt refinancing	1.948
Denali debt refinancing	8.914
Transaction costs	1.802
Total	61.08

Source: Company filings

Debt refinancing (required by covenants, debt commitment letter):

- \$1.9 billion of EMC's commercial paper
- \$8.9 billion of Denali's notes and term loans:

	July 31, 2015
Secured Debt	
Structured financing debt	\$ 3,361
3.75% Floating rate due October 2018 ("Term Loan C Facility")	1,153
4.00% Floating rate due April 2020 ("Term Loan B Facility")	4,351
4.00% Floating rate due April 2020 ("Term Loan Euro Facility")	910
5.625% due October 2020 ("Senior First Lien Notes")	1,400

Source: Company filings

The credit agreements for the Term Loan facilities and the ABL Credit Facility and the indenture governing the Senior First Lien Notes contain covenants restricting the ability of Dell and its restricted subsidiaries, subject to specified exceptions, to incur additional debt, create liens on certain assets to secure debt, pay dividends and make other restricted payments, make certain investments, sell or transfer certain assets, consolidate, merge, sell or otherwise dispose of all or substantially all of their assets, and enter into certain transactions with affiliates.

Dell further expects that all of Dell's and EMC's other outstanding senior notes and senior debentures will remain outstanding after the effective time of the merger in accordance with their respective terms.

Asset sales

Dell also plans to **divest assets** in order to decrease leverage and achieve IG rating for the combined co. Dell is said to have told rating agencies to divest ~\$10b worth of assets.

Perot systems is said to be sold for ~\$4.2-4.3b to Atos. Further asset sales/IPOs may be implemented in order to reduce leverage:

- Dell also plans to sell **Quest Software** and **SonicWall** for \$2bn each.
- Furthermore, Dell filed for the **IPO** of its security business subsidiary **SecureWorks** (said to be worth ~\$1b), which it acquired for \$612m
- Back-up solutions unit **AppAssure** was also said to be a candidate to be sold
- EMC is exploring the potential of **floating** minority stake of **Pivotal** in 2016.

We believe that the above mentioned debt and equity commitments and asset sales will enable Dell to achieve its financing related goals.

The combined company's nearly \$5b cash flows, the ~\$3b savings on EMC dividends and buybacks and deal synergies will enable Dell to reduce leverage as intended. Moody's have signalled its intent to increase Dell's rating as a result of the combination.

Shareholder vote:

We expect shareholders to support the deal given the high cash proportion and significant premium to the current price and our standalone valuation of EMC. Elliott (holding ~2% of EMC) which has been pushing for changes at EMC said it strongly supports the merger.

Currently the deal is worth ~\$28.70/share (assuming 20% tracking stock discount) which is still an attractive premium to pre-announcement levels last September. In the last ~3 years – before the emergence of Dell rumors - EMC only traded higher than that as a result of Elliott's presence.

We note that since announcement VMW has backed out of a partnership with EMC in Virtustream and Denali has lined up \$3b for repurchases to enhance prospects of the VMW and its tracking stock to appease shareholders.

Valuation:**Tracking stock discount**

We would assume a **10-30% discount for the tracking stock** compared to VMW given the lack of shareholder rights (voting, potential dividends, claim on assets) based on European comparables with capital structures where dividends are similar but one share class does not have voting rights (BMW, RWE, Intesa Sanpaolo, Telecom Italia, Grifols). We believe these structures represent a good proxy as currently VMW pays no dividends and as Denali's tracking stock policy suggests that they are likely to pay dividends to tracking stock holders, should VMW declare one.

Company	Current	3M avg discount	1Y low	1Y high
BMW	-19.0%	-21.7%	-28.2%	-16.7%
RWE AG	-23.9%	-22.3%	-27.4%	-17.6%
Intesa Sanpaolo	-7.9%	-8.5%	-14.5%	-7.1%
Telecom Italia SpA	-20.0%	-15.7%	-22.2%	-10.2%
Grifols SA	-28.7%	-26.9%	-29.9%	-13.4%

Pre-announcement trading:

EMC has traded ~\$23-24 in September before Dell rumors emerged. EMC has a beta ~1 and 0.8 with regards to S&P500 and NASDAQ. Both Nasdaq and S&P are trading at similar levels as end of September 2015.

2016 EV/EBITDA multiple:

Based on comparable multiples we have valued EMC's VMW stake at 7.5-8x 2016 EBITDA and the rest of EMC at 5.5-6x and arrived to a \$20.5-\$22.5 standalone value range.

Company	Ticker	Ann. Yr	FY1 EV/EBITDA	FY2 EV/EBITDA	FY1 EBITDA margin	FY2/FY1 Sales
EMC	EMC US	12/2014	7.1x	6.6x	27.3%	3.2%
NetApp	NTAP US	04/2015	3.0x	2.8x	18.9%	0.2%
HP Enterprise	HPE US	10/2015	3.5x	3.5x	16.0%	0.2%
HPQ	HPQ US	10/2015	6.0x	6.0x	9.2%	-2.0%
IBM	IBM US	12/2014	7.4x	7.4x	25.9%	-2.2%
Cisco	CSCO US	07/2015	5.3x	5.3x	34.6%	3.5%
Citrix	CTXS US	12/2014	9.1x	9.4x	35.9%	2.0%
SAP	SAP GY	12/2014	12.9x	12.2x	35.5%	5.3%
Microsoft	MSFT US	06/2015	10.6x	10.6x	36.1%	7.2%
Oracle	ORCL US	05/2015	8.0x	8.0x	44.9%	2.6%
Intel	INTC US	12/2014	6.5x	5.9x	40.6%	7.3%
Symantec	SYMC US	03/2015	7.6x	10.0x	34.5%	-21.1%
sandisk	SNDK US	12/2014	9.2x	8.5x	25.2%	5.8%
CA Inc	CA US	03/2015	5.7x	6.4x	44.0%	1.5%

Tax issues

The **closing of the merger is conditioned** upon the receipt by each of EMC and Denali, respectively, of an **opinion from its tax counsel** that

- (1) the merger, taken together with related transactions, should qualify as an **exchange described in Section 351** of the Internal Revenue Code and
- (2) for U.S. federal income tax purposes, the **Class V Common Stock should be considered common stock of Denali**.

There are no Internal Revenue Code provisions, U.S. federal income tax regulations, court decisions or published IRS rulings directly addressing the characterization of stock with characteristics similar to the Class V Common Stock. In the past, the IRS and prior presidential administrations have announced that they are studying the appropriate treatment of stock similar to the Class V Common Stock or have proposed changing the tax treatment of such stock. The IRS has announced that it will not issue advance rulings on the characterization of an instrument with characteristics similar to those of Class V Common Stock.

The **tax opinions** of counsel **will not be binding on the IRS or the courts**. **EMC and Denali have not requested and do not intend to request any ruling** from the IRS as to the U.S. federal income tax consequences of the merger.

A U.S. holder that exchanges EMC common stock for shares of Class V Common Stock and cash in such exchange:

- should recognize capital gain (but not loss) equal to the lesser of (1) the excess, if any, of the amount of cash (other than cash received instead of a fractional share of Class V Common Stock) plus the fair market value of any Class V Common Stock received in the exchange over the U.S. holder's tax basis in the shares of EMC common stock surrendered in exchange therefor and (2) the amount of cash received by the U.S. holder in the exchange (other than cash instead of a fractional share of Class V Common Stock)
- should have a tax basis in the Class V Common Stock received equal to the tax basis of the EMC common stock surrendered in exchange therefor, increased by the amount of taxable gain, if any, recognized by the U.S. holder in the exchange (other than with respect to cash received instead of a fractional share of Class V Common Stock), and decreased by the amount of cash received by the U.S. holder in the exchange (other than cash received instead of a fractional share of Class V Common Stock); and
- should have a holding period for the shares of Class V Common Stock received in the exchange that includes its holding period for its shares of EMC common stock surrendered in exchange therefor

However, to the extent any portion of the cash received in exchange for EMC common stock is considered to be provided by EMC, such cash should be treated as received in a redemption of EMC common stock by EMC and, in such case, a U.S. holder would generally recognize

capital gain or loss equal to the difference between the amount of cash received in such redemption and such holder's tax basis in the portion of such holder's EMC common stock redeemed in such redemption.

Under Section 351:

No corporate level gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock in such corporation and immediately after the exchange such person or persons are in control (as defined in section 368(c)) of the corporation.

If for any reason the Class V Common Stock were to fail to be treated as common stock of Denali, then:

- each EMC shareholder would recognize gain or loss with respect to such shareholder's shares of EMC common stock equal to the difference between (1) the sum of the fair market value of the Class V Common Stock and cash received pursuant to the merger and (2) the shareholder's basis in the EMC common stock exchanged, and the foregoing would also result if the merger were to fail to qualify as an exchange described in Section 351 of the Internal Revenue Code for any other reason
- **EMC may be required to recognize gain for U.S. federal income tax purposes** in an amount equal to the excess of the fair market value of the VMware common stock that are tracked by the Class V Common Stock over EMC's basis in such VMware common stock, which liability would be allocated to the Class V Group pursuant to the Denali Tracking Stock Policy if such tax liability is imposed as a result of a change in tax law under certain circumstances, and would be allocated to the DHI Group in all other circumstances; and
- Denali may no longer be able to file consolidated U.S. federal income tax returns that include VMware, which **could require Denali to file amended tax returns and pay additional taxes**

One reason for the above could be that the deal being considered a taxable distribution under [Section 355](#) (Recognition of Gain on Certain Distributions of Stock or Securities in Connection with an Acquisition).

- Under Section 355 if the distribution is **part of a plan** pursuant to which one or more persons acquire stock **representing at least 50% of interest in distributing or any controlled corp, distributing company must recognize gain.**
- According to Section 355: If 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation during the 4-year period beginning on the date which is 2 years before the date of the distribution, such acquisition shall be treated as **pursuant to a plan** described in subparagraph (A)(ii) unless it is established that the distribution and the acquisition are not pursuant to a plan or series of related transactions.
- **"50-percent or greater interest"** means stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock.
- For 355 to apply **Distributing co must generally distribute all (or at least controlling stake) of the stock of controlled** held by it:

MAC limitation:

According to the DMA Parent and the Company shall use their commercially reasonable best efforts to take or cause to be taken any action necessary for the Merger to qualify as an exchange described in Section 351 of the Code executing such amendments to this Agreement as may be reasonably required in order to obtain the Intended Tax Treatment (it being understood that no party will be required to agree to any such amendment that it determines in good faith is reasonably likely to **materially adversely affect the value of the Merger** to such party or its shareholders)

In the event the parties are not able to obtain such tax opinions, solely to the extent necessary to obtain the opinions referred to in Section 6.02(d) and Section 6.03(c), Parent and the Company shall modify the structure of the transaction such that a new holding corporation is formed to acquire both Parent and Company in a transaction described in Section 351 of the Code, which modification to the structure of

the transaction shall preserve to the greatest extent possible the economic substance of the transactions contemplated by this Agreement, and shall work together in good faith to promptly implement such modification.

Dell is expected to face a ~\$10b tax liability if the merger does not qualify as an exchange, which would most likely trigger the above mentioned MAC.

IGR View:

In our view while some of the conditions of 355 apply to the EMC/Dell merger (part of a plan, acquisition of more than 50% in distributing co) we believe that the Class V stock cannot be considered as VMW stock (stock of controlled entity) thus we expect the deal to be tax-free on a corporate level.

We believe that the tracking stock should qualify as common stock of Denali based on the below:

- Economic interest, governance of VMW will be retained by Denali
- Holders of the tracker will be exposed to Denali's credit risks as a whole not only risks related to VMW. No specific assets are assigned to the tracker
- The tracker will have no voting rights, rights to VMW dividends or claim on VMW assets

We also note that Dell is not distributing all of the controlled entity's stock or a controlling stake, which is a condition of a taxable distribution under Section 355.

Deal rationale:

- Deal helps Dell **diversify away from the stagnant personal computer market** and give it the scale to attack the faster-growing and more lucrative market for managing and storing data for businesses
- Potential for revenue (cross selling VMW products to Dell customers) and cost **efficiencies**
- **Customers want fewer, more strategic partners**, easier to manage relationships.
- Combined company will have **leadership positions** in servers, storage, virtualization and PCs and it brings together strong capabilities in the fastest growing areas of the industry, including digital transformation, software-defined data center, hybrid cloud, converged infrastructure, mobile and security.
- The transaction will unite Dell's strength with small business and mid-market **customers** with EMC's strength with large enterprises to fuel profitable growth and scale
- **Complementary product range** (Dell's server business, EMC's storage)
- **Flexibility**, long term benefits of a being a private company.
- Deal enhances Dell's **credit profile** as they aim to achieve an investment grade rating for the combined company

Antitrust and regulatory

Approvals are required in US, Australia, Brazil, Canada, China, the European Union, India, Israel, Japan, Mexico, Russia, South Africa, South Korea, Switzerland, Taiwan and Turkey. As of mid-December filing has been made in India.

Under the DMA the bidder is obliged to offer remedies/defend litigation in case of antitrust concerns.

The companies have market-leading portfolios in their respective segments, Dell in commercial PCs and servers, EMC in storage, and VMware in virtualization.

We expect the deal to close as there is **limited product overlap** between the two companies: Both parties are active in **competitive storage and security software**.

The two companies focus on different segments of the market as EMC serves large corporates and mid-market, Dell focuses on SMB market and both companies face strong competition from cloud storage providers and overlapping areas make up for only a little percentage of combined revenues (<5%).

Dell segments/revenues:

Dell had \$58b revenues in fiscal year ended Jan 30, 2015.

- Client services (desktops, mobility, peripherals, 3rd party software) - \$40b of sales
- Enterprise Solutions Group (servers, networking, **storage (~\$1.5b)**, EGS services, ESG peripherals & 3rd party software) ~\$15b
- **Software** (system management, **security**, info management) \$1.5b
- Services (infrastructure & cloud, applications, Business process management) – \$3b

EMC segments/revenues:

- Information storage& services \$17b (67% of revenues)
In Storage the company has a product range including high-end hybrid SAN, All-Flash Arrays (XtremIO), Scale-Out NAS (Isilon), DSSD (PCIe), and ScaleIO (Software-defined Storage)
- RSA Information security \$1b (4%)
RSA delivers intelligence-driven security solutions that are designed to help organizations reduce the risks of operating in a digital world. These capabilities are made available through offerings in three primary lines of business: Identity and Data Protection, Security Management and Compliance, and Security Operations Center services.
- VMWare \$6b (24.5%)
VMware is the leader in virtualization infrastructure solutions. VMware is also well positioned to help customers move from the client-server era to the mobile-cloud era of computing, enabling them to capture new levels of efficiency, control and agility. VMware develops and markets its product and service offerings within three main product groups, and it also seeks to leverage synergies across these three business areas: Software-Defined Data Center, Cloud Computing Services and End-User Computing.
- Information intelligence \$0.6b (2.6%)
- Pivotal \$0.2b (1%)
Pivotal Software is a leading provider of application and data infrastructure software, agile development services and data science consulting. Pivotal is building a new platform comprising next-generation data fabrics, application fabrics and a cloud-independent platform-as-a-service (“PaaS”).
Pivotal Products and Offerings are focused on three areas
 - Pivotal Labs: unique custom apps and data service business
 - Pivotal Cloud Foundry: Open-source app platform (PaaS) portable across Clouds
 - Pivotal Big Data Suite: comprehensive Hadoop-based open-source suite

Storage market:

There is a secular shift in the storage market with traditional storage declining. The overall storage market is growing at 2-3% with Emerging Storage is growing at a high-teens rate while traditional storage is declining at a low-teens rate.

There is increased competition in Emerging Storage from providers like Pure, Kaminario, Nutanix, Simplivity.

Cloud storage providers run by Amazon, Dropbox, Microsoft and Google are taking market share and commoditizing the storage market putting pressure on incumbents.

Worldwide external storage market shares (IDC):

EMC has ~30%, IBM 11%, Netapp 11%, HPQ 10%, Dell 6%, Hitachi 6%

Worldwide total disk storage systems market (IDC)

EMC 20%, HP 13%, Dell 10%, NetApp 10%, IBM 9%

We note that EMC's joint venture with Lenovo may have to be addressed in the antitrust process as Lenovo is Dell's largest competitor in PCs.

Appendix:

Part 1: Key terms of the merger

Transaction Details

Announcement Date	October 12, 2015
Offer terms	1 EMC = \$24.05 in cash plus ~0.111 VMW tracking stock linked to EMC's economic interest in VMware Inc
% owned by current EMC shareholders	0%
Deal Size (market value)	\$67b
Offer structure	Cash and stock merger

EMC holds ~81% in VMW through ownership of 35% of Class A and 100% of Class B shares. Dell will retain 28% ownership and issues tracking stock for 53%.

The VMW [tracking stock](#) (Class V shares issued by Denali Holding) monetizes EMC's stake helping to finance the acquisition in a tax-efficient manner without the acquirers giving up the voting rights in VMW.

The Class V Common Stock is expected to have approximately 223 million shares outstanding, compared to the current public float of 79 million VMware shares

Target's Board Recommendation	Yes
Voting agreement	No
EMC Incorporation	US (MA)
Merger Agreement	Click here for the Merger Agreement.
Synergies	~\$1b 75% of which revenue synergies coming from selling VMW software to Dell's customers
Governing law	The laws of the Commonwealth of Massachusetts
Closing definition	The third Business Day after satisfaction or waiver of the conditions provided, that, if the Marketing Period has not ended the Closing shall not occur until the earlier of <ul style="list-style-type: none"> a Business Day during the Marketing Period specified by Parent on no fewer than three Business Days written notice to the Company (it being understood that such date may be conditioned upon the simultaneous completion of Parent's financing of the transactions contemplated by this Agreement) and the first Business Day following the final day of the Marketing Period

Capital Structure

<ul style="list-style-type: none"> EMC equity 	<ul style="list-style-type: none"> At the close of business on October 9, 2015, 1,939,730,246 shares of Company Common Stock were issued and outstanding; there were <ul style="list-style-type: none"> (A) 386,162 shares of Company Common Stock subject to vesting or other forfeiture conditions or repurchase by the Company (such shares, the "Company Restricted Stock") issued and outstanding under Company Stock Plans, (B) 29,245,241 shares of Company Common Stock subject to outstanding options under Company Stock Plans to purchase shares of Company Common Stock with a weighted average exercise price of \$12.95, (C) 43,877,501 shares of Company Common Stock underlying restricted stock units issued (D) 12,107,368 shares of Company Common Stock underlying performance stock units (assuming target performance) issued under Company Stock Plans (each, a "Company PSU Award"), and (E) 17,301,984 shares of Company Common Stock reserved for issuance under the Company's Amended and Restated 1989 Employee Stock Purchase Plan (the "Company ESPP").
<ul style="list-style-type: none"> EMC debt 	<p>EMC had a net cash position on June 30, 2015.</p> <p>EMC bond yields climbed after the announcement as EMC's 1.875% securities due in 2018,, 2.65% notes due in 2020 and 3.375% bonds due in 2023 don't have change-of-control clauses</p>
<ul style="list-style-type: none"> EMC Credit rating 	A / A1
<ul style="list-style-type: none"> EMC net leverage 	N/A

Indicated Closing Date

The deal is expected to close in May to October of next year.

Dividends

EMC is allowed to pay regular quarterly dividends until deal close not exceeding \$0.115/share.

Marketing period

Marketing period:

“**Marketing Period**” means the first period of **twenty (20) consecutive Business Days** commencing after the date hereof and throughout and at the end of which

- Parent shall have received the Required Information from the Company and
- the conditions set forth in Section 6.01 and Section 6.02 are satisfied provided, that if on the date that is thirty (30) Business Days prior to the Outside Date, all of such conditions are satisfied except for Section 6.01(b) or Section 6.01(c) solely in respect of the Applicable Jurisdictions set forth on Section 8.03(p) of the Company Disclosure Letter (the “Excluded Conditions”) and no Excluded Condition is incapable of being satisfied on or prior to the Outside Date, the satisfaction of the Excluded Conditions shall not be required in order to commence or continue the Marketing Period as long as all other prerequisites to commencing and continuing the Marketing Period have been satisfied (it being understood that such Marketing Period shall be deemed to have commenced no earlier than such date that is thirty (30) Business Days prior to the Outside Date), and
- nothing has occurred and no condition exists that entitles Parent to terminate this Agreement pursuant to Section 7.01(c)(i); provided, that the Marketing Period shall end on any earlier date that is the date on which the proceeds of the Debt Financing are obtained in full; provided further that

- **such twenty (20) consecutive Business Day period shall only occur within any of the following time periods:** (i) beginning on January 4, 2016 and ending on (and including) February 8, 2016, (ii) beginning on March 24, 2016 and ending on (and including) May 9, 2016, (iii) beginning on May 10, 2016 and ending on (and including) June 11, 2016, (iv) beginning June 3, 2016 and ending on (and including) August 8, 2016, (v) beginning on August 9, 2016 and ending on (and including) September 10, 2016, (vi) beginning on September 12, 2016 and ending on (and including) November 8, 2016, and (vii) beginning on November 9, 2016 and ending on (and including) December 10, 2016, (y) the Marketing Period shall either end on or prior to August 19, 2016 or, if the Marketing Period has not ended on or prior to August 19, 2016, then the Marketing Period shall commence no earlier than September 6, 2016, and

- **the Marketing Period shall not be deemed to have commenced if** after the date of this Agreement and prior to the completion of the Marketing Period, the financial statements included in the Required Information that is available to Parent on the first day of any such twenty (20) consecutive Business Day period are not, during each day of such period, the most recent consolidated financial statements of the Company on which the Company’s independent accountants have performed and completed an audit or review as described in AU Section 722, Interim Financial Information, then the Marketing Period shall not be deemed to commence until the receipt by Parent of such most recent consolidated financial statements

Break fees

Break fee: \$2.5b (~3.7% of deal value) except if the deal is terminated by EMC before the end of the go-shop period entering an agreement for a superior proposal

Reverse break fee: \$4b (~6% in case of breach of covenants, reps and warranties, failure to obtain debt financing)

Alternative reverse break fee: \$6b (~9% if all conditions are met, debt financing is in place and Parent and Dell do not make available the Parent Cash on Hand

EMC Solicitation

There is a go-shop period until December 12, 2015 and a 5BD matching period.

“**Superior Proposal**” means any bona fide proposal or offer from any person that is not an Affiliate of the Company that if consummated would result in such person (or its stockholders) owning, directly or indirectly,

- more than 50% of the shares of Company Common Stock then outstanding (or of the shares of the surviving entity in a merger or the direct or indirect parent of the surviving entity in a merger) or
- assets (including equity securities of any Subsidiary of the Company) or businesses that constitute more than 50% of the consolidated revenues, net income or assets of the Company and its Subsidiaries, taken as a whole,

which the Board of Directors of the Company reasonably determines (after consultation with its outside legal advisors and a financial advisor of nationally recognized reputation), taking into account all financial, legal, timing, regulatory and other aspects of such proposal or offer (including any break-up fee, expense reimbursement provisions, conditions to consummation and financing terms) and the person making the proposal or offer to be more favorable to

the shareholders of the Company from a financial point of view than the transactions contemplated by this Agreement (after giving effect to any changes to the financial terms of this Agreement proposed by Parent in writing prior to the time of such determination).

Key conditions to the merger

■ EMC shareholder approval	Yes - majority in voting power of the outstanding shares
■ Regulatory approvals	Yes – HSR, EU, China, Australia, Brazil, Canada, India, Israel, Japan, Mexico, Russia, South Africa, South Korea, Switzerland, Taiwan and Turkey
■ No injunction	Yes
■ No restraints	Yes
■ S-4 effectiveness	Yes
■ Reps and warranties	Yes
■ No MAC	Yes
■ Performance of obligations	Yes
■ Listing	Yes
■ Tax opinion	Yes

Parent and Company shall have received (from Simpson Thacher & Bartlett LLP and Skadden respectively) a written opinion dated the Closing Date to effect that, the Merger should qualify as an exchange described in Section 351 of the Code and for U.S. Federal income tax purposes the Class V Common Stock should be considered common stock of Parent and a copy of the Company Tax Opinion.

Regulatory matters

Jurisdictions	■ HSR, EU, China, Australia, Brazil, Canada, India, Israel, Japan, Mexico, Russia, South Africa, South Korea, Switzerland, Taiwan and Turkey.
Divestiture or mitigation obligation	■ Yes
Litigation obligation	■ Yes
Antitrust related break fee	■ Yes

Specific performance

Yes

If and only if:

- **all of the conditions to Closing set forth in Section 6.01 and Section 6.02 have been satisfied** (other than those conditions that by their nature are to be satisfied by actions taken at Closing, but subject to those conditions being capable of being satisfied at such time if specific performance was granted pursuant to this Section 8.09(b)) at the time when the Closing would have been required to occur pursuant to Section 1.02;
- **Parent and Merger Sub have failed to complete the Closing** following the date the Closing is required to occur pursuant to Section 1.02;
- **the Debt Financing has been funded** or the Financing Sources for the Debt Financing have confirmed that the Debt Financing will be funded in accordance with the terms thereof at the Closing; and
- the Company has irrevocably confirmed to Parent in writing that it is ready, willing and able for the Closing to occur if specific performance is granted and that if the Debt Financing is funded, then the Closing will occur (provided that such irrevocable notice may remain subject to the continued satisfaction as of the Closing of the conditions set forth in Section 6.01(b), Section 6.03(a) (solely as such condition relates to the representations set forth in Section 3.02(h), Section 6.01(d) and Section 6.03(d)) and Section 6.03(b) (solely as such condition relates to the obligations under Section 5.19).

Parent's obligations to have and maintain the Parent Cash on Hand as required by Section 5.13(j) shall not be subject to the conditions above

Under no circumstances shall the Company be permitted or entitled to receive both (A) a grant of specific performance to require Parent and Merger Sub to consummate the Closing and (B) payment of the Reverse Termination Fee or the Alternative Reverse Termination Fee (as applicable).

Material Adverse Effect

Material Adverse Effect means any event, development, circumstance, change, effect or occurrence that, individually or in the aggregate with all other events, developments, circumstances, changes, effects or occurrences, has a material adverse effect on or with respect to the business, assets, liabilities, results of operations or financial condition of the Company and its Subsidiaries, taken as a whole;

MAC Carve-outs:

- (i) changes or conditions generally affecting the industries in which the Company and its Subsidiaries operate,
- (ii) general changes or developments in the economy or the financial, debt, capital, credit or securities markets in the United States or elsewhere in the world, including as a result of changes in geopolitical conditions,
- (iii) the negotiation, execution, delivery or performance of this Agreement (other than with respect to the Company's obligations under the first sentence of Section 4.01(a)), the identity of Parent, or the public announcement, pendency or consummation of this Agreement or the Merger or the other transactions contemplated hereby (including the effect thereof on relationships, contractual or otherwise, of the Company or any of its Subsidiaries with employees, customers, suppliers, partners or Governmental Entities), and including any Transaction Litigation or any demand, action, claim or proceeding for appraisal or the fair value of any shares of Company Common Stock pursuant to the MBCA in connection herewith,
- (iv) changes in any applicable Laws or regulations or applicable accounting regulations or principles or interpretation thereof, in each case, unrelated to the transactions contemplated hereby,
- (v) any hurricane, tornado, earthquake, flood, tsunami or other natural disaster or outbreak or escalation of hostilities or war (whether or not declared), military actions or any act of sabotage or terrorism, or any change in general national or international political or social conditions,
- (vi) any change in the price or trading volume of the Company Common Stock or the VMware Common Stock or the credit rating of the Company or VMware, in and of itself,
- (vii) any failure by the Company or VMware to meet any published analyst estimates or expectations of the Company's or VMware's revenue, earnings or other financial performance or results of operations for any period, or any failure by the Company or VMware to meet its internal or published projections, budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations, in and of itself or
- (viii) compliance with the terms of, or the taking of any action expressly required by, this Agreement (other than with respect to the Company's obligations under the first sentence Section 4.01(a)); except (A) in the cases of clause (i), (ii), (iv) or (v), to the extent that the Company and its Subsidiaries, taken as a whole, are disproportionately affected thereby as compared with other participants in the industries in which the Company and its Subsidiaries operate and (B) that clause (vi) or (vii) shall not prevent or otherwise affect a determination that any events, developments, circumstances, changes, effects or occurrences (unless otherwise excepted under clauses (i)-(v) or (viii) hereof) underlying such changes or failures constitute or contribute to a Material Adverse Effect; provided, further, that the exceptions in clause (iii) above shall not apply with respect to references to Material Adverse Effect in those portions of the representations and warranties contained in Section 3.01(e) (to the extent related to such portions of such representation) the purposes of which are to address the consequences resulting from the execution, delivery and performance of this Agreement by the Company or the consummation of the Merger and the other transactions contemplated by this Agreement.

"Parent Material Adverse Effect" means any event, development, circumstance, change, effect or occurrence that, individually or in the aggregate with all other events, developments, circumstances, changes, effects or occurrences, has a material adverse effect on or with respect to the business, assets, liabilities, results of operations or financial condition of Parent and its Subsidiaries, taken as a whole;

Parent MAC Carve-outs:

- changes or conditions generally affecting the industries in which Parent and its Subsidiaries operate,
- (ii) general changes or developments in the economy or the financial, debt, capital, credit or securities markets in the United States or elsewhere in the world, including as a result of changes in geopolitical conditions,
- (iii) the negotiation, execution, delivery or performance of this Agreement, the identity of the Company or VMware, or the public announcement, pendency or consummation of this Agreement or the Merger or the other transactions contemplated hereby (including the effect thereof on relationships, contractual or otherwise, of Parent or any of its Subsidiaries with employees, customers, suppliers, partners or Governmental Entities), and including any Transaction Litigation to the extent Parent or its Subsidiaries is a defendant thereto,
- (iv) changes in any applicable Laws or regulations or applicable accounting regulations or principles or interpretation thereof, in each case, unrelated to the transactions contemplated hereby,
- (v) any hurricane, tornado, earthquake, flood, tsunami or other natural disaster or outbreak or escalation of hostilities or war (whether or not declared), military actions or any act of sabotage or terrorism, or any change in general national or international political or social conditions,
- (vi) any failure by Parent to meet any published analyst estimates or expectations of Parent's revenue, earnings or other financial performance or results of operations for any period, or any failure by Parent to meet its internal or published projections, budgets, plans or forecasts of its revenues, earnings or other financial performance or results of operations, in and of itself or
- (vii) compliance with the terms of, or the taking of any action expressly required by, this Agreement; except (A) in the cases of clause (i), (ii), (iv) or (v), to the extent that Parent and its Subsidiaries, taken as a whole, are disproportionately affected thereby as compared with other participants in the industries in which Parent and its Subsidiaries operate and (B) that clause (vi) shall not prevent or otherwise affect a determination that any events, developments, circumstances, changes, effects or occurrences (unless otherwise excepted under clauses (i)-(v) or (vii) hereof) underlying such changes or failures constitute or contribute to a Parent Material Adverse Effect.

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