

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$34.00** (as of November 01, 2005)

DELL has an approximate 0.59% weighting in the **S&P 500**

Sector: Information Technology

Sub-Industry: Computer Hardware

Peer Group: Computer Hardware - Large System Vendors

Summary: Dell (formerly Dell Computer Corp.) is the leading direct marketer and one of the world's 10 leading manufacturers of PCs compatible with industry standards established by IBM.

Quantitative Evaluations

Price as of 3/01/06: **\$29.27** 52-Week Range: **\$41.99 - \$28.62**

S&P Earnings & Dividend Rank: **B+**
D C B- B B+ A- A A+

S&P Fair Value Rank: **5+**
1 2 3 4 5
Lowest Highest

Fair Value Calc.: **\$42.20** (Undervalued)

S&P Investability Quotient Percentile
89%

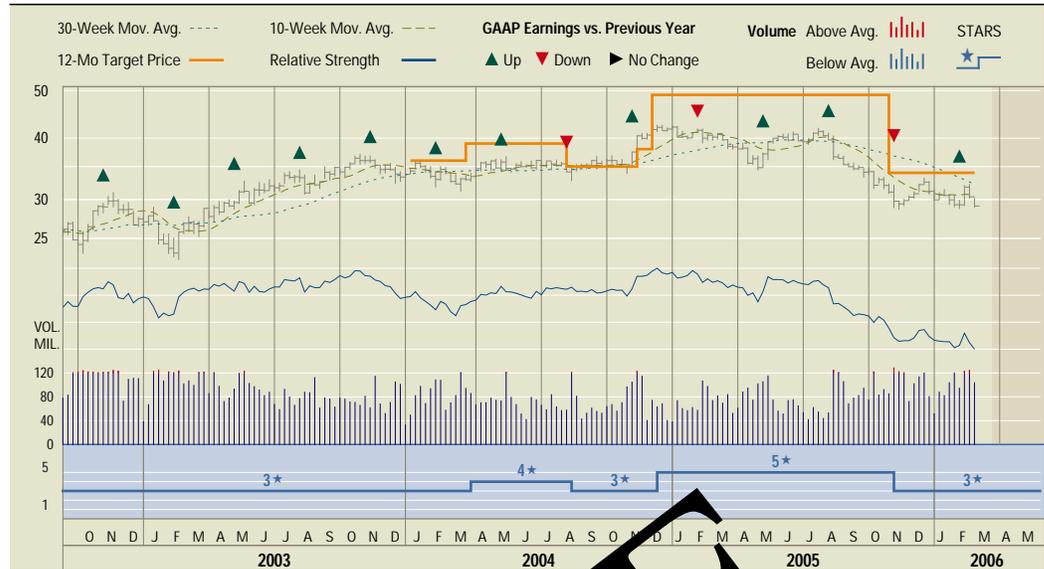
DELL scored higher than 89% of all companies for which an S&P Report is available.

Volatility: **Average**
Low Average High

Technical Evaluation: **Bearish**

Since 2/06, the technical indicators for DELL have been Bearish.

Relative Strength Rank: **Weak**
15
1 Lowest Highest 99



Analyst commentary prepared by Megan Graham-Hackett/CB... Options: ASE,CBOE,P,PH

Highlights February 27, 2006

- We forecast revenue growth of 9% in FY 07 (Jan.), representing a slowing from nearly 14% growth in FY 06. We believe there was a recovery in demand for PCs in FY 06, but, in our opinion, revenues have been weighed down by aggressive pricing pressure and a mix shift to the low end of the PC market. We expect these factors to persist in FY 07. However, we believe Dell has added to its share in servers and printers, and improved its penetration in international markets. While we believe the industry will continue to experience an aggressive pricing environment, we anticipate that Dell's ability to further boost penetration in international markets will enable the company to post revenue growth above the industry rate, but down from its high teens rate of the past several years.
- Gross margins widened slightly in FY 06 to about 18.4%, from 18.2% in FY 05, but we see contributions from wider margin products being outweighed by pricing pressures in FY 07, leading to narrower gross margins of 18.2%. We expect sales and marketing expenses to increase as a percentage of sales as Dell invests in its infrastructure (facilities and sales personnel) to capitalize on the growth we see ahead.
- We estimate FY 07 earnings per share of \$1.56, including expected stock option expense. For FY 06, the company reported non-GAAP earnings per share of \$1.56, before certain items, including stock option expense.

Key Stock Statistics

S&P Core EPS 2007E	1.55	12 Month P/E	20.1
S&P Oper. EPS 2007E	1.55	Beta	1.07
P/E on S&P Oper. EPS 2007E	18.8	Shareholders	34,625
Yield (%)	Nil	Market Cap (B)	\$ 68.9
Dividend Rate/Share	Nil	S&P Credit Rating	A-

Value of \$10,000 invested five years ago: **\$ 13,257**

Dividend Data

No cash dividends have been paid.

Investment Rationale/Risks February 27, 2006

- We continue to recommend holding the shares. Dell's results have recently been challenged by a shift in the industry toward lower end PC products, in our view. While Dell has been able to take advantage of a lower cost structure versus peers reflecting the cost advantages of its direct sales model, we believe the company is witnessing new and more aggressive competition, due to changes in the competitive landscape, such as the sale of IBM's PC business, as well as a new CEO at Hewlett-Packard (HPO: hold, \$31). However, with what we see as the company's solid focus on asset management enabling it to generate strong cash flow from operations, we believe the shares are worth holding.
- Risks to our opinion and target price include market share losses as Dell's peers improve their cost position in PCs, a slowdown in technology spending, and a moderation of printer market share gains.
- Our 12-month target price of \$34 is based on our discounted cash flow (DCF) and price to sales analyses. Our DCF model assumes free cash flow growth of 9% for the next 15 years and a weighted average cost of capital of 13%. On a price to sales basis, we value the shares at slightly below their recent historical trading range, due to what we view as recent execution missteps, or roughly 1.4X our FY 07 revenue per share estimate.

Revenues/Earnings Data Fiscal year ending January 31

Revenues (Million \$)	2006	2005	2004	2003	2002	2001
1Q	13,386	11,540	9,532	8,066	8,028	7,280
2Q	13,428	11,706	9,778	8,459	7,611	7,670
3Q	13,911	12,502	10,622	9,144	7,468	8,264
4Q	15,183	13,457	11,512	9,735	8,061	8,674
Yr.	55,908	49,205	41,444	35,404	31,168	31,888
Earnings Per Share (\$)	2006	2005	2004	2003	2002	2001
1Q	0.37	0.28	0.23	0.17	0.17	0.19
2Q	0.41	0.31	0.34	0.19	-0.04	0.22
3Q	0.25	0.33	0.26	0.21	0.16	0.25
4Q	0.43	0.26	0.29	0.23	0.17	0.16
Yr.	1.46	1.18	1.01	0.80	0.46	0.81

Next earnings report expected: mid-May Source: S&P, Company Reports
EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

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Business Summary February 27, 2006

CORPORATE OVERVIEW. Dell is a key player in the global market for information technology (IT), which totaled some \$1 trillion in 2004, according to data from IDC, a market researcher based in Framingham, MA. Total IT spending growth is slowing to a five-year compound annual growth rate of about 6%, from double digit rates last decade, partly reflecting the law of large numbers, but also due to intense pricing pressure in many key categories, especially computer hardware.

Computer hardware comprises about 40% of total IT spending, according to IDC, with PCs accounting for approximately 70% of that category. While leading computer hardware manufacturers have been grappling with plunging PC prices over the past decade, Dell has been leading this charge, in our opinion, and we think it has emerged as a key force with whom all computer hardware vendors have had to reckon.

Dell's share of the global PC market, currently at 18%, is up dramatically from 10.5% in FY 00 (Jan.). Dell has been the leader in this market for the past two years. In servers, Dell commands the number three spot (based on global system revenues). The majority of Dell's sales are from PCs (63%), but other categories are increasingly important to sales, such as servers (10%), services (9%), storage (3%) and software and peripherals (15%).

COMPETITIVE LANDSCAPE. In our opinion, Dell's competitive advantages lie not only in its lower cost structure (Dell has an operating margin of about 9%, even though 40% of its revenues are tied to desktops, while peers struggle to earn a profit on their PC businesses), but also its efficiency. For example, Dell's Research & Development (R&D) spending measures at less than 1% of sales, and compares

with peer levels of 4%-5%. However, in our view, Dell's efficient business model reflects significant investment in process re-engineering and applications of technology to simplify and add speed and transparency to processes including sales, logistics and supply chain. For example, Dell capitalizes on the cost benefits of directing sales and processes via the web, inventory is managed at four days supply and days sales outstanding (DSOs) have been maintained at around 30-33 days for the past five fiscal years.

CORPORATE STRATEGY. The company continues to pursue market opportunities to capitalize on higher margin profit pools in the market. We believe this not only serves to preserve Dell's profit margins (cost of entry is relatively low since Dell only focuses on markets that have standardized on key technologies), but also put its rivals on the defense. This strategy over the years has included servers and more recently storage, networking and printers.

FINANCIAL TRENDS. We believe that the company can sustain EPS growth of approximately 10%-15% over the next five years. However, we believe that Dell's outlook regarding its revenue growth is critical to investor sentiment. Currently, we think annual rates of 8%-12% are achievable for the company over the next five years; however, in early and mid-2005, Dell had indicated to investors that revenue growth near 18% was achievable. While we believe that in the next several months Dell will reduce this projection by several hundred basis points, we estimate that the shares' valuation already properly discounts this adjustment, with the shares recently trading below historical levels on a price-to-sales and P/E basis (using our FY 07 EPS estimate).

Company Financials Fiscal Year ending January 31

Per Share Data (\$)

(Year Ended January 31)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Tangible Bk. Val.	NA	2.61	2.46	1.89	1.80	1.96	1.94	0.91	0.50	0.29
Cash Flow	NA	1.32	1.11	0.88	0.54	0.67	0.67	0.56	0.34	0.19
Earnings	1.46	1.18	1.01	0.80	0.46	0.80	0.61	0.53	0.32	0.17
S&P Core Earnings	NA	0.88	0.68	0.49	0.28	0.58	NA	NA	NA	NA
Dividends	Nil	Nil								
Payout Ratio	Nil	Nil	Nil	Nil	Nil	NA	Nil	Nil	Nil	Nil
Cal. Yrs.	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Prices - High	42.30	42.57	37.18	31.06	31.30	37.68	55.00	37.90	12.98	4.02
- Low	28.62	31.14	22.59	21.90	16.01	16.25	31.37	9.92	3.11	0.71
P/E Ratio - High	29	36	37	20	68	74	90	73	41	23
- Low	20	26	22	17	35	20	51	19	10	4

Income Statement Analysis (Million \$)

Revs.	NA	49,205	41,440	35,400	31,168	31,888	25,265	18,243	12,327	7,759
Oper. Inc.	NA	5,588	4,807	3,055	2,510	3,008	2,419	2,149	1,383	761
Depr.	NA	2,263	2,263	2,111	2,399	2,400	1,156	1,103	670	470
Int. Exp.	NA	16.0	4.0	17.0	29.0	47.0	34.0	Nil	3.00	7.00
Pretax Inc.	NA	4,155	2,444	3,027	1,731	3,194	2,451	2,084	1,368	747
Eff. Tax Rate	NA	31.5%	29.6%	29.9%	28.0%	30.0%	32.0%	29.9%	31.0%	28.9%
Net Inc.	NA	3,043	2,645	2,122	1,246	2,236	1,666	1,460	944	531
S&P Core Earnings	NA	2,227	1,806	1,356	781	1,602	NA	NA	NA	NA

Balance Sheet & Other Fin. Data (Million \$)

Cash	NA	7,747	4,317	4,232	3,641	4,910	3,809	3,181	1,844	1,352
Curr. Assets	NA	16,897	10,633	8,924	7,877	9,491	7,681	6,339	3,912	2,747
Total Assets	NA	23,215	19,311	15,470	13,535	13,435	11,471	6,877	4,268	2,993
Curr. Liab.	NA	14,136	10,896	8,933	7,519	6,543	5,192	3,695	2,697	1,658
LT Debt	NA	505	505	506	520	509	508	512	17.0	18.0
Common Equity	NA	6,485	6,280	4,873	4,694	5,622	5,308	2,321	1,293	806
Total Cap.	NA	6,990	6,785	5,379	5,214	6,131	5,816	2,833	1,310	824
Cap. Exp.	NA	525	329	305	303	482	397	296	187	114
Cash Flow	NA	3,377	2,908	2,333	1,485	2,476	1,822	1,563	1,011	578
Curr. Ratio	NA	1.2	1.0	1.0	1.0	1.5	1.5	1.7	1.5	1.7
% LT Debt of Cap.	NA	7.2	7.4	9.4	10.0	8.3	8.7	18.1	1.3	2.2
% Net Inc. of Revs.	NA	6.2	6.4	6.0	4.0	7.0	6.6	8.0	7.7	6.8
% Ret. on Assets	NA	14.3	15.2	14.6	9.2	18.0	18.2	26.2	26.0	20.7
% Ret. on Equity	NA	47.7	47.4	44.4	24.2	40.9	43.7	80.8	89.9	59.9

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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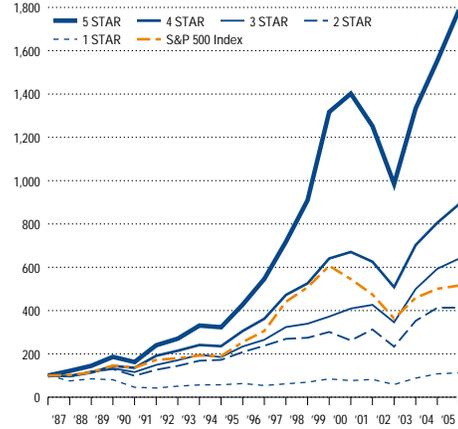
Auditor: Pricewaterhousecoopers.
Founded: in 1984.
Domicile: Delaware.
Employees: 55,200.
S&P Analyst: Megan Graham-Hackett/CB/BK

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$34.00** (as of November 01, 2005)

Glossary

S&P STARS - Since January 1, 1987, Standard & Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

STARS Average Annual Performance



S&P 12-Month Target Price - The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Quantitative Evaluations - In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Earnings & Dividend (Quality) Rank - S&P appraisals of the growth and stability of earnings and dividends over the past 10 years for individual companies are indicated by the quality ranks. Quality Rankings are not intended to predict stock movements.

- A+ Highest
- A High
- A- Above Average
- B+ Average
- NR Not Ranked
- B Lower
- B- Below Average
- C Lowest
- D In Reorganization

S&P Fair Value Rank - Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process.

A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calc. - The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Earnings & Dividend Rankings). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Investability Quotient (IQ) - The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

Standard & Poor's IQ Rationale:
Dell, Inc.

	Raw Score	Max Value
Proprietary S&P Measures	60	115
Technical Indicators		40
Liquidity/Volatility Measures		20
Quantitative Measures	27	75
IQ Total	130	250

Volatility - Rates the volatility of the stock's price over the past year.

Technical Evaluation - In reviewing the past market history of price and trading volume for each company, S&P computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank - Ranks, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS) - Industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 64 Industries, and 139 Sub-Industries.

S&P Core Earnings - Standard & Poor's Core Earnings is a uniform methodology for calculating operating earnings, and focuses on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, writedowns of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Required Disclosures

In the U.S.: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services U.S. have recommended 28.2% of issuers with buy recommendations, 61.3% with hold recommendations and 10.5% with sell recommendations.

In Europe: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services Europe have recommended 33.8% of issuers with buy recommendations, 46.8% with hold recommendations and 19.4% with sell recommendations.

In Asia: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services Asia have recommended 24.8% of issuers with buy recommendations, 53.1% with hold recommendations and 22.1% with sell recommendations.

Globally: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services globally have recommended 28.7% of issuers with buy recommendations, 59.1% with hold recommendations and 12.2% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★ **1-STAR (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In the U.S. the relevant benchmark is the S&P 500 Index, in Europe the S&P Europe 350 Index and in Asia the S&P Asia 50 Index.

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Additional information is available upon request.

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$34.00** (as of November 01, 2005)**Other Disclosures**

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This investment analysis was prepared from the following sources: S&P MarketScope, S&P Compustat, S&P Industry Reports, I/B/E/S International, Inc.; Standard & Poor's, 55 Water St., New York, NY 10041.

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