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Will EMC Adopt Dell ' s Lengthier Payment Terms ? Data storage firm's suppliers may prove a source of cash to pay for acquisition by Dell

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As Dell Inc. moves toward completing its acquisition of EMC Corp., the largest proposed technology takeover by market value, one group may be squeezed to help pay for the deal: EMC's suppliers.

Dell is one of the technology industry's most aggressive companies at delaying payments to help finance its operations. It took approximately 107 days to pay its bills in its most recent quarter, far more than the 42 average days in accounts payable at EMC, based on the companies' regulatory filings.

EMC shareholders on Tuesday are expected to approve the $60 billion sale. In acquiring the data storage company, Dell aims to overcome persistent declines in world-wide computer sales by creating a one-stop shop for corporate information technology.

Delaying payments could help Dell to quickly pay down some of the massive debt it has taken on to finance its purchase, even if would effectively mean replacing debt to creditors with debt to vendors.

Taking longer to pay EMC's suppliers, along with other efforts to wring greater efficiency out of EMC's working capital, could provide around $1 billion of extra cash in the first year or so after the acquisition, according to oneestimate.

Dell has borrowed around $40 billion and stands to bring in more than $5 billion through agreements to sell its IT services business and software divisions.

One EMC supplier said his firm isn't worried: "We don't see any cause for concern. We have full confidence in the Dell/EMC merger."

Other EMC suppliers contacted for this article declined to comment.

Dell, known for its relentless focus on working capital efficiency, has used this tactic before. Before going private in Oct. 2013, the Round Rock, Texas, computer maker stretched payment terms with vendors including Microsoft Corp., which also bought a $2 billion bond from the company, and Intel Corp., said people familiar with the matter. The move freed up around $1.2 billion of cash in the first 15 months after its leveraged buyout, based on an analysis of SEC filings. Microsoft and Intel declined to comment.

Dell's total free cash flow in those 15 months amounted to $3.05 billion, as indicated by its regulatory filings. Still, the company earned enough to retire around $3.6 billion of debt, according to a presentation to lenders. That set a positive precedent for lenders that would later make them more open to financing the EMC acquisition, debt investors say.

Since then, Dell has further increased the time it takes to pay suppliers, bringing its average days in accounts payable to 107 days in its most recent quarter from 87 days three years earlier, according to SEC filings.

Dell isn't the only company taking longer to pay its vendors. Among 3,000 public companies, the average time to pay bills climbed to 45 days in June 2015 from 35 days in March 2009, according to the Georgia Institute of Technology's Financial Reporting & Analysis Lab, which researches corporate financial filings.

Many tech firms now stretch payment terms. But Dell stands out among rivals such as HP Inc., which in its most recent quarter took around 88 days to pay suppliers; Apple Inc., which averaged 74 days; and Hewlett Packard Enterprise Co., which averaged 52 days, an analysis of SEC filings revealed.

Increasingly, companies are using their supply chains not just to obtain goods but to "fund the organization and to fund the growth opportunities," said Dale Rogers, professor of logistics and supply chain management at W.P. Carey School of Business at Arizona State University.

Still, extending payment terms can have drawbacks. Many suppliers pass along to their customers the interest rate they pay when they sell their invoices to third-party financial companies to get faster access to cash. That can be as low as 2% for suppliers to large companies like Dell, according to supply chain experts. But the cost will go up if benchmark interest rates rise, forcing Dell to take a direct hit to its profit or pay its suppliers more quickly, which would also diminish its cash flow.

Another problem is specific to companies like Dell with flat to declining revenues. In good times, taking less time to collect from customers and hold inventory than to pay suppliers amplifies the impact of rising revenue.

A company's liabilities rise as it sells more goods, and increasing any liability, whether debt to creditors or debt to vendors, leads directly to more cash on the balance sheet. The opposite is true in lean times, as its liabilities shrink with fewer goods sold.

That was evident in last fiscal year as its revenues declined by $3.2 billion and its accounts payable dropped by $374 million.

"Growth in free cash flow from taking longer to pay your vendors is not real growth," said Charles Mulford, a professor of accounting at Georgia Institute of Technology's Scheller College of Business. As actual growth slows, "all these metrics that worked in their favor, especially the accounts payable, starts to work against them," he added.

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