

Elon Musk's Acquisition of Twitter for \$44bn

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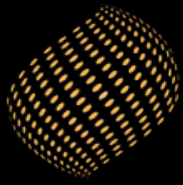
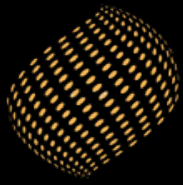


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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

Tesla founder and CEO Elon Musk finalised his \$44 billion acquisition of Twitter on the 28th of October, making it the largest **leveraged buyout** of a technology company in history.

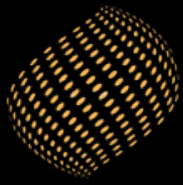
Musk plans to pay the platform's shareholders \$54.20 a share, which is a 64% premium over the price Twitter stock was trading at a few weeks before Musk's offer was first disclosed on April 14, 2022.

After months of consistently building up his share of the company since late January to make him its largest stakeholder with 9.2%, the turbulent six-month path to finally closing the deal involved multiple legal conflicts, including a shareholders' class-action lawsuit against Musk over alleged stock manipulation, Twitter's lawsuit against Musk for his **exit strategy**, and Musk's counter-lawsuit against the platform for committing a "material breach" of his agreement.

This groundbreaking deal involved JPMorgan Chase and Goldman Sachs advising Twitter under the code name Project Tundra, and Morgan Stanley and Barclays advising Musk under Project X.



Source: CNBC



REASONS FOR M&A

Musk's acquisition came at a moment of weakness for Twitter, which was battling slowing advertising sales and lacklustre product innovation under a new, little-known chief executive. The platform had not turned a profit for 8 of the past 10 years.

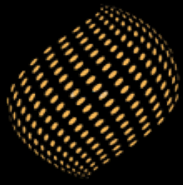
Plans for Increasing Revenue

In a pitch deck for investors, Musk says he will quintuple Twitter's revenue by 2028, increasing annual earnings to \$26.4 billion, the New York Times reports.

Musk announced that his investment in Twitter was because he wanted to develop the platform's potential for inspiring 'free speech around the globe', which he believed to be a 'social imperative for a functioning democracy' (Musk said in April's filing with the Securities and Exchange Commission).



Source: Elon Musk/Twitter



INDUSTRY OVERVIEW: SOCIAL MEDIA

TRENDS FOR 2022

TikTok

The social media app that was widely unheard of prior to 2020 has continued to grow in popularity. TikTok is now not only a site where people can share short video clips but has also introduced a variety of useful features for businesses such as ads, business profiles and even an in-app store. All of this means TikTok is set to become a prime source of marketing for brands to reach millennials as well as to sell their products.

Social Commerce

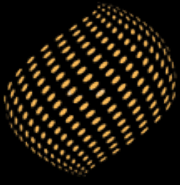
The ability to buy products through social media platforms is nothing new, however, the ability to directly purchase goods without leaving the app is an extremely useful tool for businesses. The whole idea is to provide a frictionless shopping experience to consumers with eMarketer predicting the social commerce industry will be worth \$80 billion by 2025.

Video content

The rise of TikTok has also shown the rise in the popularity of video content, according to a Cisco study that by 2022, 82% of all online content will be in the form of video content. This clearly illustrates the need for brands and businesses to adapt their ways of marketing, as well as show social media companies that they need to provide the ability to share video content.

HISTORICAL TRENDS

The original social media sites such as Myspace and Friendster, founded in the early 2000, had a very simple purpose: allow individuals to create an online profile to share with others. Twenty years later we can see this key principle hasn't changed but what has is the way we choose to share this content with others, what started as a profile picture and a small biography has transformed into a huge industry with over 72% of US adults having a social media presence.



ACQUIRER OVERVIEW



Source: Wikipedia

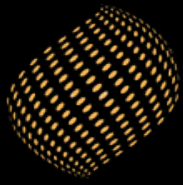
KEY FINANCIALS

Elon Musk Net worth between November 2021 and November 2022



Source: Bloomberg

From the above graph we can see over the past year Musk's net worth has seen substantial fluctuation, with a peak of \$338 billion in November 2021 and a low of \$190 billion this November. The main driving force behind this fluctuation is the fact that the majority of Musk's net worth is tied to Tesla stock, with Musk owning around 25% before recent sell offs. The recent drop we can see in his net worth can be attributed to recent Tesla stock **sell offs** to finance the Twitter deal, with Musk selling \$3.95 billion worth of shares in November 2022.



BIOGRAPHY OF BUSINESS ENDEAVORS

1983 - AT age 12 Musk creates and sells his first commercial software game, Blastar for \$500.

1995 - Creates online publishing platform Zip2, selling it for \$300 million four years later.

1999 - Develops an online payment system called X.com.

2000 - Merges X.com with PayPal's parent company, Cofinity.

2002 - PayPal acquired by eBay for \$1.5 billion.

2002 - Establishes SpaceX in a former aeroplane hangar near LAX.

2003 - Begins designing the all-electric Tesla Roadster.

2008 - SpaceX delivers its first satellite into space.

2010 - Tesla Motors begins trading on the NASDAQ stock exchange.

2020 - Tesla becomes the world's most valuable carmaker in July.

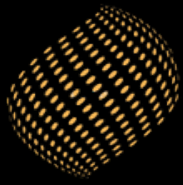
2021 - Musk becomes the world's richest person in January.

2022 - Purchases social-media company Twitter Inc for \$44 billion.

REASONS FOR M&A

Musk's decision to acquire the social media giant has been a topic of great discussion in recent months, with many questioning his motives.

In a recent interview, Musk stated his reasoning for the acquisition is to provide future civilisations with "a common digital town square" for healthy debate and right advertising, this makes sense considering he has long been a campaigner for the right to speech on social media platforms. Others believe Musk will try to turn Twitter into a western WeChat, which is a Chinese 'one-stop shop' for messaging, shopping, and payment services. If this is the case, we could soon see Twitter becoming a much more prominent app with a variety of services aside from sharing information and opinions.



TARGET OVERVIEW



Ticker: TWTR

TWITTER

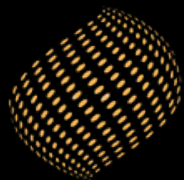
Twitter, Inc. is an American communications company that operates the social networking platform Twitter. The platform was founded back in 2006 by Jack Dorsey, Eva Williams, Noah Glass and Biz Stone, and currently has 396.5 million users across the globe. Twitter has a loyal audience, with around 206 million daily active users who check their feed on a regular basis.

BUSINESS MODEL

Twitter generates revenue through two core avenues: Advertising and Data Licensing.

The sale of advertising services constitutes the majority of the company's earnings, as they sell promoted products such as Promoted Ads, Follower Ads and Twitter Amplify to advertisers. Twitter also use an algorithm to create tailored advertising opportunities, meaning that advertisers can achieve more successful campaigns.

Although most of the revenue from advertising services is generated through Twitter's own platform, a small portion is also generated via placement on third-party websites and applications. Alongside advertising services, Twitter also sells data licenses that enable its data partners to harness historical and real-time data on the company's platform.



ESG PRACTICES

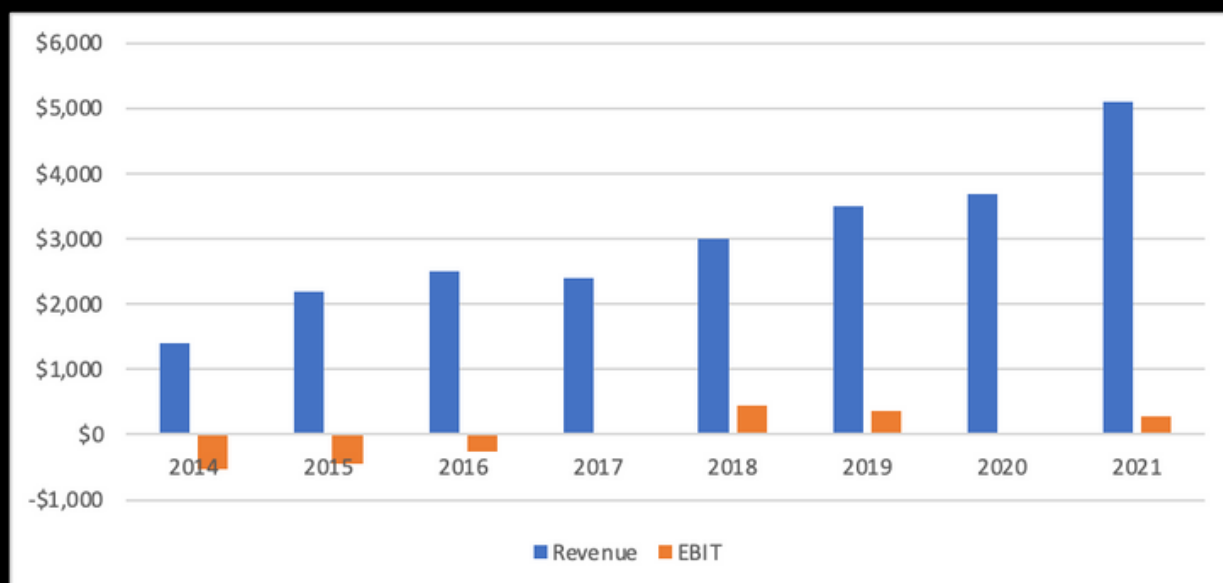
In 2019, Twitter made several commitments to reduce their carbon footprint.

This included the launch of their partnership with Cool Effect, a non-profit organisation that identifies projects across the globe to reduce carbon emissions. Some of the projects that Twitter have supported involves replanting trees in India, Kenya and Uganda, improving the conservation of Brazil's Jacundá Forest Reserve and encouraging biodiversity protection in Indonesia.

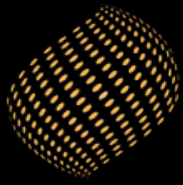
Aside from this, Twitter have developed a robust long-term strategy to build sustainable workspaces, efficiently operate their data centers and commit to international environmental protocols.

KEY FINANCIALS

Q2 2022 has recorded a revenue of \$1.18 billion, a decrease of 1% from the second quarter of 2021, or an increase of 2% on a constant currency basis



| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------|--------|--------|--------|------|-------|-------|------|------|
| EBIT Margin | -38.4% | -20.3% | -10.5% | 1.6% | 14.9% | 10.6% | 0.7% | 5.4% |



DEAL ANALYSIS

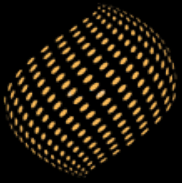
STRENGTHS

For Twitter, this acquisition can help improve the platform's quality and customer satisfaction with an improved business model. This comes with Musk's plans to introduce a \$8 (£7) monthly cost for 'blue tick users', and 'Twitter Premium'. His plans for the stricter regulation of spam and bot accounts (a discussion which had even led to a legal dispute over Twitter's lack of clarity regarding the percentage of bot accounts during the six-month period leading up to closing the deal) can also improve the quality of the platform - not only bringing greater customer satisfaction, but also creating more space on the platform for actual customers.

OPPORTUNITIES

For Musk, the acquisition provides him with access to greater marketing opportunities for his companies (Tesla and SpaceX) through the platform. Although his media and PR strategy appear reckless at surface level, the attention he has gained from the build up to the acquisition alone, as well as the advertising and marketing resources he now has access to on the platform, can help grow his companies immensely.

Musk can also make use of access to data that comes with his acquisition of the platform - Data is vital for the improvement of all advanced autonomous vehicles like Tesla, especially for features like their sensor systems, the light detection and ranging (LiDAR), and sensor performance used to reduce false activations. Musk can also leverage this newly accessible dataset for other Tesla products, such as the Optimus, his developing humanoid robot. Ultimately, the acquisition gives him newfound political leverage as only a billionaire can acquire, which could benefit some of his other businesses.



WEAKNESSES

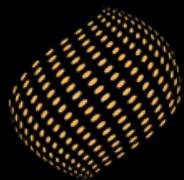
Musk loaded \$13 billion of debt onto a platform that has not seen profit in 10 years. As the deal was agreed to before current market volatility, **economic uncertainty**, and depressed values of many tech stocks, it is suggested that Musk overpaid for the company.

A 25% layoff is predicted, and a number of top executives have reportedly been fired from this acquisition, including CEO Parag Agrawal, Chief financial officer Ned Segal, and the firm's top legal and policy executive, Vijaya Gadde. This complete internal restructuring has already been met with apprehension from Twitter's co-founder, Jack Dorsey, who criticised Musk's 'undemocratic' changes to the workforce, and his acquisition's job cuts, and their impacts on thousands of peoples lives

THREATS

The newfound leverage of Musk and the privatisation of the platform holds significant societal implications. Reduced content moderation as part of his pledge to freedom of speech can directly lead to an increase in the misuse of the platform and general spread of misinformation and fake news, making the information, current affairs and news, and discourse and debate services provided by the platform even less transparent and more unaccountable.

The deal also holds significant political and national security implications, which have been brought to the attention of the US Treasury department. With the number of foreign investors Musk brought on to help finance the deal, including entities with links to China, Qatar, and Saudi Arabia, alongside Tesla's increasing dependence on the Chinese market and the goodwill of the Chinese government, the acquisition's implications for Twitter as a platform for political discourse has been called for investigation. These large foreign investors could potentially have access to confidential information about Twitter's finances and even its users, under the terms of Elon Musk's deal to acquire the social media site - posing a threat to national security.



VALUATION ANALYSIS

PUBLIC COMPARABLES MODEL

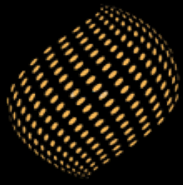
| | Low | High |
|---------------------------|----------|----------|
| Selected EBITDA Multiple: | 20.3x | 39.7x |
| Implied Enterprise Value | 18,971 | 37,161 |
| Net Debt, NCI and Others | (4,075) | (4,075) |
| Implied Equity Value | 14,896 | 33,086 |
| Equity Value per share | \$ 18.68 | \$ 41.48 |
| Discount / (Premium) % | 190.21% | 30.66% |

[Please click on the table to access full model.](#)

Based on the comparable company analysis (CCA), Twitter's **valuation multiples** appear to be higher than the mean of the comparable group of companies. Out of the 5 comparable companies, there were a wide range of social media companies in terms of equity value and **EV/EBITDA** multiples. All comparable companies appeared to have positive EV/EBITDA valuation multiples.

As a result of the multiples, the low and high EBITDA multiples were chosen to be 20.3x and 39.7x, giving the implied enterprise values of \$18,971bn and \$37,161bn, respectively. At the end of the valuation, the implied share price was found to be at least \$18.68 and at most \$41.48.

This analysis suggests that Musk has paid a premium since the high value of the CCA analysis was in line with the share price of Twitter around September 2022. The speculations behind the deal impacted the past share prices of Twitter positively, leading Musk to pay around 30.66% of **premium** based on our analysis.



VALUATION ANALYSIS

LEVERAGED BUYOUT MODEL

| Return Analysis | |
|--|--------------------|
| Exit Year EBITDA | \$ 4,157.1 |
| Assumed Exit Multiple | 20x |
| Exit Enterprise Value | \$ 83,142.7 |
| (-) Net Debt | \$ (15,338.5) |
| Exit Equity Value | \$ 67,804.2 |
| Purchase Equity Value | \$ 45,311.2 |
| % Change | 49.6% |
| Equity Investor Multiple | 4x |
| Equity Investor Internal Rate of Return | 23.6% |

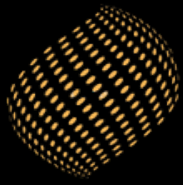
Please click on the table to access full model.

As shown within the model, the acquisition could earn Musk a strong return after a 5-year period, with a near 20%+ **IRR** and a 4x on initial equity investment, assuming a 20x exit multiple.

However, there are some key problems with the deal. First, Twitter cash flows in recent years haven't been stable, so repayments on the debt used in the deal will likely be difficult. After the 5-year period of the \$25 billion in debt, \$17 billion is still not settled.

For this return to be reliably possible, this model assumes very optimistic business growth. For example, revenues are projected to grow at a 16% **CAGR**, with earnings expected to reach a 26% margin by FY2027. At this stage, it isn't yet clear how Musk plans to further monetise Twitter's business model, with many casting doubt over the new subscription-based 'blue tick'.

It will be interesting to see what other changes Musk plans to introduce to the existing business model, and how well this translates into increased profitability given such a short time horizon of just 5-7 years.



CONCLUSION

IMPACT ON THE CLOSE COMPETITORS

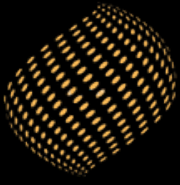
Elon Musk's Twitter acquisition deal has been completed at a time when ad spending is on a decline across social media platforms. Now that Twitter has been taken private, its management team has gained capacity to develop new services and products without having to worry about quarterly investor demands for driving the share price higher.

If Musk manages to refine Twitter's business model during this tough period for social media platforms, the company will have a significant edge over its competitors. The deal may influence the current approach of Twitter's competitors, as Musk looks to pioneer revenue-generating services aside from advertising. Competitors such as Facebook, Snapchat and Pinterest may follow this approach to combat the current downturn in ad spending and to stabilise revenues.

IMPACT ON THE INDUSTRY

Musk has anticipated that by 2028, Twitter will reach annual revenue of \$26.4 billion and have 931 million users – over 4 times the current number of users. By harnessing a combined strategy of cutting company costs, increasing transparency of content-promoting algorithms and eliminating spam on the platform, Twitter can position itself to significantly increase its number of active users and create leading revenue-growth strategies that transform the market. However, the deal has also attracted controversy along the way, due to Musk's plans to facilitate free speech on the platform. This has sparked political debates across the globe, with many advertisers now worried to allow their brands to appear alongside controversial tweets on the Twitter platform.

Depending on how effectively Musk can steer away from any sort of negative limelight, the Twitter acquisition deal will enable the platform to achieve significant growth prospects and potentially disrupt the social media industry in the near future.



GLOSSARY

CAGR (Compound Annual Growth Rate): The rate at which an investment would grow with reinvested profits at the end of each year.

Economic Uncertainty: This term refers to the unpredictability of the financial market as well as the economy.

EV/EBITDA: Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.

Exit Strategy: A plan of the investor regarding the time when the assets will be disposed or liquidated.

IRR (Internal Rate of Return): Internal rate of return is a metric used to measure the profitability of an investment.

Leveraged Buyout: Purchasing a company's controlling shares through using monetary sources that are externally provided.

Premium: Increased amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.

Sell off: The term refers to selling large volumes of securities in a relatively short period of time.

Valuation Multiples: Financial tool providing one metric as a ratio of another; often used to compare similar companies.

