

An Overall Analysis of Twitter and Elon Musk M&A Deal

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Abstract. In April 2022, the investor of Tesla and SpaceX, Elon Musk, start the acquisition of the social media platform, Twitter. Elon Musk offers \$44 billion (\$54.20 per share) to purchase Twitter. However, this M&A deal faced an impasse in July 2022. This deal is ending with Twitter having sued Elon Musk to 'force' the completion of the \$44 billion purchase which causes this deal seems will be failed. The paper focuses on the financial deal between two powerful parties, the social media platform Twitter and the richest man alive Elon Musk (by 2022), by illustrating whilst analyzing the various strategic tactics and methodology displayed by each individual party towards achieving their objectives, in order to finally be able to interpret the whole timeline of the deal. The projection that both parties' BATNA will be when this deal fails fully will also be explained at the conclusion of this paper.

Keywords: Media deal analysis, Twitter, Elon Musk.

1. Introduction

Twitter, Inc. is an American communications company created by Jack Dorsey, Noah Glass, Biz Stone, and Evan Williams on March 21, 2006, in San Francisco, U.S. The main worldwide service of the company is the social networking service, Twitter. However, it has also operated the short video app, Vine, and the live streaming service, Periscope.

Twitter, is a social media network with a sizable user base of about 319 million people worldwide that enables the dissemination of information. Twitter supports the value proposition of allowing immediate, barrier-free creation and sharing of ideas and information by everyone. It also offers its customers extraordinary social experiences, trending topics and strong influence [1].

Throughout the years, Twitter focused on their platform development, trends watching, forum moderation, software development, hardware deployment, product roadmap and IT maintenance. As of today, Twitter has developed their website, desktop apps, mobile app and "Twitter Lite" which is a web app designed for regions with unreliable and slow internet connections. Twitter's resources include its large user base, 340 million tweets overall, 1.6 billion searches daily, brand, ad platform, and big data. The majority of Twitter's annual sales are more than 85% advertising money. It uses a model incorporating Promoted Ads, Follower Ads, and Trend Takeovers which is similar to Google Adwords' advertising model [2]. The cost structure of Twitter is made up of servers, employees, storage, platform maintenance, operations, software development, office, taxes, acquisitions and investments.

Twitter mainly competes with other similar social media apps including Meta, Wechat, YouTube, Google, WhatsApp, LinkedIn, Snapchat and Instagram. Recently, Tiktok and Discord have also been expanding quickly to challenge Twitter. However, while many other apps have attempted to follow the Twitter model, only a select number have been successful in gaining significant, long-lasting popularity in the market.

Elon Musk is a business magnate and investor. He is the founder and CEO of SpaceX as well as the CEO, product architect, and angel investor of Tesla. According to both the Bloomberg Billionaires Index and Forbes' real-time billionaires' list, Elon Musk is the wealthiest person in the world [3].

Elon Musk founded SpaceX, an aerospace manufacturer and space transport services company in 2002. SpaceX provides transport into Earth Orbit to its customers such as US Government NASA,

the Military Market, Telecommunication Satellite Provider, and Merchandising. The primary endeavour of SpaceX is the development and it also has pretty rich resources like launch systems and NASA & US Air Force support. It also owns political support, however, as well as public Awareness. SpaceX getting revenue from every Launch, every ISS Supply & Crew Transportation and every sale. Blue Origin, Rocket Lab, Northrop Grumman, Boeing, and United Launch Alliance are among SpaceX's main rivals. However, SpaceX as one of the few of these companies who have already done and few launches and has support from the government, make it occupied a pretty high position in the market.

In 2004, Elon Musk invested in an electric vehicle manufacturer which is today's Tesla Inc. Fully electric vehicles, advanced electric vehicle technology and solar energy systems are thing value propositions that Tesla is working to reach. Tesla mainly focused on R&D, design, innovative leap, software development and sales & marketing. Tesla generates income from the automotive, energy production, and storage industries. Tesla's unique position in the car market is one of its biggest strengths. Firstly, Tesla is the only company selling production volumes of a high-end, high-range electric vehicle which makes Tesla lack competition. Second, the green car market that Tesla entered is segmented. These factors contribute to Tesla's strong market position.

As a result, Elon Musk owns two businesses that are both quite successful in their respective markets, which gives him a significant global influence.

2. Business Analysis

2.1 Twitter

Twitter's business strategy is focused on conversation and engagement with the targeted audience. It requires a certain economic and human capacity to maintain its platform and develop the platform as well. Elon Musk, as mentioned above, has a powerful position in the markets he has influenced, but he has never joined the social media marketplace. Therefore, since Elon Musk lacks the expertise that Twitter needs, Twitter may not find Elon Musk's human potential to be alluring. In reality, Elon Musk tried to buy Twitter at first, but they declined. Nevertheless, Twitter then altered its mind. Even though Twitter has never given a rationale for their decision to change, it is clear that Elon Musk's financial resources will be very beneficial to the company. To add on more information, Twitter currently makes most of its revenue from advertising, but Elon Musk tries to reduce Twitter's reliance on advertising revenue to less than 50%. As Twitter has a solid financial foundation, it could greatly improve its platform and hire more experts which helps Twitter to occupy a higher position in the marketplace [4].

2.2 Elon Musk:

Elon Musk is extremely successful in the two key markets that he entered, as was already mentioned. He has not, however, ventured into the social media market. For the two companies that Elon Musk primarily concentrated on, they both require a platform to market their products, improve their value and broaden their influence. Twitter, as a platform that has a large customer base with a huge amount of information propagation, is Elon Musk's low-cost and efficient marketing medium. However, the primary reason that led Elon Musk to wish to own Twitter is that he wants to turn Twitter into a free speech environment so that he can use it to shape public opinion and behaviour without any restrictions. He wishes people in the world can have more freedom to speak for themselves or for others and to share their ideas and opinions without restriction. Twitter's large following and enormous influence are a perfect place to start Elon Musk's this vision. Additionally, the start-up vision of Twitter which is "We believe in free expression and think every voice has the power to impact the world." completely meets with Elon Musk's vision [5].

3. M&A Deal

3.1 Key elements of the deal

About the early offer, on April the 25th, 2022 Elon Musk (AKA richest man on planet earth, Tesla CEO) reached a deal to purchase Twitter, one of the many well-known free social platforms on the internet. Though this process had already begun on the 31st of January 2022, when Elon Musk announced that he had acquired 9.2% of the Twitter stock at a price of 2.64 billion dollars, which led to him becoming the biggest stakeholder, such news has led the Twitter stock to rise by about 27%. Thanks to this event, Elon Musk, on the 5th of April was invited by the company to officially take part on the company board. Before the appointment took effect, Elon Musk had changed his idea, which consequently caused a lawsuit, accusing him of manipulation of the company's stock market [6].

On April 14th, Elon Musk made the 'famous' offer to purchase Twitter at a price of 43 billion dollars, privately. And Twitter, towards such an attempt to take over the event, responded that they would review it carefully. In interviews and on social media, Elon Musk states that he shall make Twitter 'a platform with a free speech around the globe while denying the purchase is reserved for any business use or method to increase awareness.

Twitter's board accepted the deal on the 25th of April with the price of 44 billion dollars, both publicly and unanimously, and once the transaction is completed, Twitter would officially become a private company. Furthermore, various rules were set in the agreement such as prohibiting Musk from criticizing the company or its personnel Before the sale was completed, for which he has not complied. One of the most outstanding treaties in the agreement was that of the 'penalty' that Elon Musk would need to pay if he decides to back out, a total of approximately 1 billion dollars.

Elon on the 8th of July, Elon Musk announces the termination of the \$44 billion offer to buy Twitter, which according to officials (Elon Musk's lawyer), is due to 'Twitter making false and misleading representations, tricking Elon Musk into the merger agreement, leading to catastrophic adverse consequences for the company. In simple words accusing the company of hiding information [7].

Though Elon Musk and his group are still to prove the such a statement in order to avoid the 1 billion dollar bill, according to the 95-page acquisition agreement (which is a file including US securities and exchange commissions).

Further stated by Elon Musk's attorney, Alex Spiro during a Friday court filing "Twitter's bid for extreme expedition rests on the false premise that the Termination Date in the merger

agreement is October 24, glossing over that this date automatically stays if either party files litigation. By filing its complaint, Plaintiff has rendered its supposed need for a September trial moot." Referencing Twitter's action of obligating the completion of the purchase being illegal and against the contract, and with addition, lacking evidence on which the statement relies on.

"Twitter's sudden request for warp speed after two months of foot-dragging and obfuscation is its latest tactic to shroud the truth about spam accounts long enough to railroad Defendants into the closing" suggesting the reliability of the deal.

While for Twitter, the company decided to sue Elon Musk to 'force' completion of the \$44 billion purchase, holding a four-day trial in September, to state a close deadline for the deal in October [8, 9].

The Delaware Chancery Court has not yet but will determine whether the obligation purchase of Twitter by Elon Musk lies on a contract or if the billionaire is allowed to back out from the deal [10].

3.2 Analysis of the Deal

1.1.1 Key objective

Firstly, the key objective for Twitter, its own platform, is to get financial support from Elon Musk to improve its platform, software development and IT maintenance. In this way, Twitter will be more

competitive compared to its other competitors such as Facebook, Instagram and etc. Secondly, the key objective, for the founders of Twitter, is they can just easily apply the exit strategy which takes the money that Elon Musk paid for buying all the stocks and quit their involvement.

For Elon Musk, he wishes Twitter to open-source its algorithms for example to publicly share the decision-making behind what tweet gets shown to users. In contrast to the current state of social media, where there are many restrictions on the information that can be posted and the content must always be validated before being posted, Elon Musk has an ambitious vision for a world where there is more freedom of speech.

1.1.2 Key leverage points

For Twitter, getting the 40 billion dollars from Elon Musk's acquisition and the financial support that Elon Musk could provide afterwards will be its key leverage points. Twitter might adjust its income and marketing models and grow its platform by receiving this money. When that happens, they will be able to occupy a stronger position in the market.

For Elon Musk, he is trying to use Twitter to achieve his vision of making a free speech environment. As Elon Musk successfully makes the acquisition with Twitter and become Twitter's private owner, he will be having the right to control Twitter's running rule. In order to achieve his vision, he might begin to ease content restrictions or streamline the process of verifying each post. since once it accepts funding from sponsors and aids in their promotion, Twitter is no longer in a neutral position, which is contrary to Elon Musk's mission. Consequently, Elon Musk will try to open Twitter totally piece by piece.

1.1.3 Relative bargaining power

Twitter's bargaining power of suppliers is high since the number of technical equipment suppliers is limited, and it's difficult to find the right one. Advertising through tweets, news, and other forms is also an important part of Twitter's revenue. Twitter's bargaining power of buyers is high since the buyers are companies and individuals who pay to advertise on Twitter, but many social platforms have this pattern. Once Twitter makes the price change, buyers may choose other substitutes. Thus, it's hard for Twitter to make price changes [11].

Through the analysis of the bargaining power of buyers and suppliers, it can be found that Twitter's bargaining power is low.

The analysis of Elon Musk's relative bargaining power will be analyzed through Tesla & SpaceX. They have a high bargaining power of suppliers since the supply chain is a very important factor in the operation of a company, and there is a period of shortage in the supply chain of a company. Their bargaining power of buyers is low since Elon Musk's companies are all very innovative enterprises in the industry. The key advantage of sustainable competition is differentiation, which enables buyers to experience unique products and services. Also, many buyers are Elon Musk's followers, therefore, many customers will buy Elon Musk's products and services because of psychological factors. Price is not the most important thing for some customers [12].

As a result, the bargaining power of Elon Musk is medium.

1.1.4 Core economic issues

Twitter is a venture that runs in a very stable model, therefore there is no big economic problem for Twitter. The only weakness for Twitter might be its revenue model. Twitter makes most of its revenue from advertisements and it is very lacking in revenue sources. Therefore, if the sources of advertising experience any difficulties, it may have a risky revenue problem.

For Elon Musk, there are also no big economic issues for him. However, even though he is one of the wealthiest people in the world, 40 billion dollars is still not a small amount of cost. In addition, substantial financial investments are required for both SpaceX and Tesla. As a result, if he used the money to purchase Twitter, his cash flow might become limited.

1.1.5 Core rights issues

At Twitter's startup, it has a great vision which is "We believe in free expression and thinks every voice has the power to impact the world." and its mission is to give everyone the power to create and share ideas and information instantly, without barriers. However, during its development, it did not accomplish its vision due to many restrictions in reality. Its management team was forced to start deviating from its start-up vision, for example, it must put restrictions on the contents.

Twitter is currently a public company that has many shareholders, therefore, even though Elon Musk already become the biggest holder, he still does not have the right to manage Twitter by himself. That's also the reason why he chooses to do the acquisition of Twitter and make it become a private company so that he can lead Twitter toward his vision.

1.1.6 BATNA

According to the current situation, the deal between Twitter and Elon Musk seems to be experiencing an impasse. This deal may can not be made. Once the deal failed, Twitter's BATNA continued to maintain their business model and found opportunities by itself to improve and develop its platform. Elon Musk's BATNA is to just give up his vision of free speech in the world and keep focused on the development of Tesla and SpaceX.

4. Conclusions

Overall each party tried to maximize their value through the deal, despite the 'breaking up of the deal. For Twitter, the party baited for a further elevation of the price from \$ 44 billion to \$ 46.5 billion, claiming to be seriously considering the deal offer, further presenting to Elon Musk that the deal is indeed possible, 'leading' him to add funding to it. At the same time for Twitter, the company tried to maximize its profit when Elon Musk announced that he would back out from the deal, by suing him and forcing the purchase. Though to some extent, little changes in terms of a different approach to the deal could be done apart from renegotiating the agreement terms and breakup fee issues. According to the following situation, whether the implementation of the deal will be successful or not is still unsettled, but it can be concluded into the following situation: First, Twitter wins the lawsuit and is able to obligate Elon Musk the complete purchase of the company. Second, Twitter wins the lawsuit, with Elon Musk paying the breakup fee. Third, Elon Musk was able to prove the withholding of information by Twitter, allowing him to walk away free. Last, further negotiation about price by both parties. Though it is more likely the win of one party (1-3) instead of the fourth scenario.

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