

Musk's Hostile Takeover Bid for Twitter

A Funny One, Isn't it?

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This case study was written by Rainer Michaeli and Ursula Teubert from the Institute for Competitive Intelligence (ICI). It was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On April 4 2022, entrepreneur Elon Musk offered to acquire 100% of Twitter shares at a 38% premium from all shareholders. This deal was valued at \$43 billion – even for Musk, who according to the Bloomberg Billionaires Index was valued at some \$240 billion, it was a steep offer. However, Musk reassured the public that he can afford the deal.

Musk, known for his sometimes bizarre and unconventional business behavior, might have his own perspective on such a move.

Observers may just wonder what Musk's intentions are behind this bid. What might be his "plan B"?

1 Twitter

Twitter has grown since its foundation in 2006 to become the prime text messaging platform. With more than 200 million people using Twitter daily, it has considerable influence on real-time messaging as well as on relationship management. Anybody willing to register on Twitter can start generating content, at virtually no cost. Via hashtags or search engines, readers can search for relevant content or they can simply follow their preferred Twitter users. Traditional news media can hence be circumvented with communication flowing directly from a source to the readers.

Twitter went public in 2013, at which point it was already valued at \$14.2 billion.

2 Elon Musk

Elon Musk, born in 1971, has pursued a fairy-tale business career. In April 2022, he was reported to be the richest person on Earth – at least if legally acquired wealth is measured. One of his first entrepreneurial success stories was the sale of PayPal to eBay – when Musk received \$176 million for his equity share.

Musk received global recognition as a tech wizard when he founded Space Exploration Technologies Corp., traded as SpaceX, in May 2002.

Tesla Inc. was founded in 2003. In 2004, Elon Musk joined as an investor. Soon, Musk took over operational responsibilities. Finally, in 2008 Musk assumed leadership of the company as CEO and product architect. By 2020, Tesla became the most valuable carmaker.

Musk's other entrepreneurial ventures include SolarCity, Tesla Energy, The Boring Company, and Neuralink.

Elon Musk alone has 80 million Twitter followers. He used Twitter to communicate with the public about his plans to sell off 10% of his Tesla shares (2021), Tesla's future car production (2019), and Tesla's stock price (2020) – with activities like this, the US Security Exchange Commission (SEC) filed lawsuits against Musk. Musk settled with the SEC, without admitting or denying the SEC's allegations. Musk and Tesla were fined \$20 million each, and Musk was forced to step down for three years as Tesla chairman but was able to remain as CEO. /5/

3 The Twitter Bid

On April 4 2022, Elon Musk announced in a regulatory SEC filing that he had acquired a 9.2% stake in Twitter Inc., making him the biggest individual investor. Musk started investing in Twitter on January 28 2022 /1/, neglecting a mandatory filing with the SEC once he had accumulated 5% of Twitter's equity.

Musk has regularly questioned the Silicon Valley giants – just a week prior to this announcement Musk indicated that he might “shake up the social media industry” /2/. Musk was offered a seat on Twitter’s board of directors as part of a deal that prohibited him from acquiring more than 14.9% of the company, but Musk decided not to join the board before his appointment became effective on April 9. /6/

On April 13 2022, Musk announced his intention to take over Twitter Inc. at a share price of \$54.20 – a premium of 38% against Twitter’s share price on April 1, the last trading day prior to his announcement on April 4. His Twitter offer indicated that he wanted to privatize Twitter and consequently unlock the “extraordinary potential”. “[Twitter] will neither thrive nor serve [its free speech] societal imperative in its current form. Twitter needs to be transformed as a private company” /5/. Musk’s offer had a value of \$41.4 billion.

On April 14, Twitter’s board reacted to Musk’s hostile takeover offer by strengthening existing shareholders’ rights, adopting a shareholder rights plan allowing them to acquire additional shares more easily once one party owns more than 15% of the total equity. This plan makes it significantly more expensive for any single investor to own more than 15% of the company without the approval of the board. A “poisoned pill” for Elon Musk.

Musk indicated that he wasn’t certain his bid will succeed. Observers noted that Musk might not have enough cash on hand, although Musk claimed that he had taken precocious steps to ensure such a bid. In an interview at a TED conference on April 13, Musk said he’s not sure he’ll succeed with the acquisition, and indicated that he has a Plan B if Twitter’s board rejects his offer. He declined to elaborate /8/.

On April 21, Musk announced that he had lined up about \$25.5 billion in debt financing from Morgan Stanley and other financial institutions, according to a regulatory filing. According to this announcement, Musk will contribute an additional \$21 billion of his own money through equity financing.

On April 23, Elon Musk repeated his claims that after a takeover he’ll transform Twitter into a platform for free speech with few restrictions – something he calls “essential to a functioning democracy”. But Musk, who is famously sensitive to criticism, has a track record of silencing those who stand up against him. /3/

On April 26, Twitter’s board finally approved Musk’s takeover bid. All shareholders were then asked to decide if they want to accept Musk’s offer. Wild speculation arose, as it was unclear how Musk wanted to achieve the “global digital market square” he was pushing for. After all, government regulations were imposed to restrict any social media platform in regulating content.

Twitter Take-Private

Shares have fluctuated as Elon Musk builds stake



Figure 1: Twitter Shares 12-Month Development

4 Sources

/1/ April 14 2022, Bloomberg

Elon Musk Makes \$43 Billion Unsolicited Bid to Take Twitter Private

Turner, Giles; Adler, Maxwell

/2/ April 4 2022, Bloomberg

Elon Musk Takes 9.2% Stake in Twitter After Hinting at Shake-Up

Turner, Giles and Trudell, Craig

/3/ April 21 2022 Bloomberg

Musk Wants Free Speech on Twitter After Spending Years Silencing Critics

Hull, Dana; Frier, Sarah; Adler, Maxwell

/4/ April 15 2022 Der Spiegel

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/5/ WIKIPEDIA Elon Musk Profile

https://en.wikipedia.org/wiki/Elon_Musk, retrieved April 24 2022

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/6/ WIKIPEDIA Twitter

https://en.wikipedia.org/wiki/Twitter#Elon_Musk_takeover_bid, retrieved April 24 2022

/7/ April 14 2022, TechCrunch

Watch Elon Musk (probably) wreak havoc at the TED2022 conference
Silberling, Amanda

/8/ April 14 2022, TED2022

<https://youtu.be/cdZZpaB2kDM>

Interview and presentation with Elon Musk