

Elon Musk's Purchase of Twitter and its Financial Implications

Xingrui Li

St. Margaret's School, Victoria, Canada

xingrui.li@smsbc.ca

Abstract. Elon Musk's acquisition of Twitter has made its loud debut, but ever since the acquisition, Musk appears to have only reported bad news about the company, and at one point he even hinted at bankruptcy. Through examining different sources such as current literature, news reports, and Musk's tweets, this study investigates the implications of Musk's changes to the company following his acquisition and how they may have contributed to Twitter's financial problems. It was discovered that Musk's acquisition was accompanied by a large debt as well as a number of bills that he has yet to pay, which is expected to cause backlash if left unchecked. The primary cause of the problem was identified as a mass exodus of advertisers, which led to a plunge in the company's main revenue source. This is a result of the loosening of content moderation and the new Twitter Blue, which made the platform more disorderly and unappealing to advertisers. This study aims to clear up some confusion around the reasons behind Twitter's post-acquisition financial struggles and provide further insights on how the company can recover its profitability.

Keywords: Twitter, Financial, Elon Musk.

1. Introduction

1.1. Background

Acquisition is the procedure of acquiring a controlling share in a business, thereby assuming control of its assets, technology, human resources, and other resources. When executed correctly, this strategy can lead to strategic moves that reshape industries and spur innovation in the ever-changing context of the global economy. However, acquisition can also be a complex and risky process due to significant financial investments and potential challenges.

Twitter Inc., a social media company based in San Francisco, California, was founded in 2006. With over 330 million monthly active users, Twitter's high influence has contributed to shaping public discourse [1]. Elon Musk, the world's richest man and the owner of Tesla, purchased the company for \$44 billion in October 2022 and became its sole director [2]. Since then, Musk has made radical changes that have wreaked havoc on the platform, eliciting complaints from clients, employees, and users alike. The public is unsure of Musk's next steps, and many are worried that the platform will face bankruptcy under his leadership. Due to the company going private, Musk is now the only primary source of information about the company's situation, making circumstances murkier than ever.

This paper contributes to the current literature by looking into how specific changes implemented by Musk have caused Twitter's havoc and financial loss, and through this analysis, a clearer understanding of the current situation can be gained, allowing for informed discussions moving forward.

1.2. Literature Review

Musk's entrepreneurial decisions and leadership have long been a subject of analysis in various fields. Scholars, journalists, and the general public are all curious whether his latest purchase will be a success or a failure. Due to the nature of Twitter, the majority of current research focuses on how Musk's leadership is altering the platform in a social or political context. Additionally, due to the event's recentness and the constantly changing circumstances, the current available academic literature is limited, but this does not diminish the relevance of the topic. Most of the current literature is skeptical of Musk's reasoning behind the purchase. Contrary to the entrepreneur's claim, who stated

at a press conference that "this is not a way to make money" when asked about his motivations for the purchase, relevant studies consistently show that the entire acquisition is money-driven [3]. Not only did Musk disregard the interests of other stakeholders in favor of his shareholders', but he also made the new Twitter Blue available in the hopes of increasing subscription revenue, despite warnings from his team that it could lead to impersonation chaos on the platform [4, 5]. Additionally, Twitter has a history of gathering user phone numbers for what they claimed were security reasons before using them for targeted advertising. Kasinathan speculated in his commentary that Musk may continue such behavior for advertising revenue [4]. Another common theme expressed by most journalists and analysts who witnessed the situation unfold is that Musk has been making decisions that are not in the best interests of his stakeholders, whether they are employees, Twitter users, or even the government. Bebachuk et al. pointed out that Musk did not promise protection or monetary benefits for both the employees he laid off or retained after the acquisition. Musk's new approach to content moderation unleashed a flood of hate speech and slurs on the platform, negatively impacting the user experience, as many journalists reported [6]. Easing control over such hateful behavior directly exposed some communities to online abuse, which contradicted Twitter's mission and values prior to Musk's takeover [5]. Additionally, President Biden has expressed concern over the controversy surrounding the acquisition, saying the situation is "worthy of being looked at" [2]. All of Musk's actions mentioned above give the public a valid reason to be concerned about the backlash that Twitter can potentially face.

1.3. Research Content and Framework

This paper aims to provide an analysis of the takeover from a financial perspective and begins with a timeline of the acquisition to provide a comprehensive context for the situation. The following section examines Twitter's current state critically by examining various statistics, news reports, and complaints from multiple stakeholders and then identifies two primary causes of the company's current economic troubles. This study then explores potential strategies that could mitigate the risk of bankruptcy and restore public trust in the platform.

2. A Timeline of Elon Musk's Twitter Takeover

Elon Musk has become a Twitter user since June 2009 and has gained millions of followers and created numerous headlines with his influence. However, it was only until recent years that he started criticizing the app's mechanics and how it affects "public discourse" [7]. Musk openly stated that Twitter is failing to adhere to the principles of free speech and that changes needed to be made, foreshadowing Twitter's dramatic future transformation [7]. Musk started buying Twitter's shares in January 2022 and soon became the company's largest shareholder with 73.5 million shares, or roughly a 9% stake [8]. In April 2022, he offered to purchase the company for roughly \$44 billion and take it private. In response, Twitter put forward a "poison pill," which is a strategy aimed at deterring potential acquirers by making the takeover financially unattractive [8]. Musk then proceeded to sell Tesla stocks and acquire funds from tech investors to finance his purchase. However, in May 2022, Musk was getting cold feet about his plans as high-tech stock prices plummeted and Twitter's share prices dropped below his offer of \$54.20 per share [9]. Musk halted the offer, claiming that Twitter provided him with false information about the number of fake accounts on the platform, which was followed by a series of legal disputes. Finally, on October 27th, just hours before the case went to court, Musk went ahead with his original \$44 billion deal and took control of the company, announcing to the world that "The bird is freed" [7].

The chaos really began to unfold after the takeover. Musk fired the board of directors and took Twitter private as soon as the deal was approved, becoming the company's sole director. Since then, the number of racist, anti-Semitic, and discriminatory comments has more than tripled [6]. It was not only the user experience that was going south - the company was also suffering a huge financial loss. In November, Musk claimed that the platform was losing \$4 million a day, and hinted at possible

bankruptcy if the company does not start generating profit [7]. At the same time, people were leaving Twitter - advertisers, users, and employees. Hashtags like "#RIPTwitter" have been trending every now and then as users anticipate the platform's demise [2]. It has been more than 8 months since Musk's Twitter era began, but the company has yet to take flight, contrary to Musk's expectations. According to the latest valuation in May, Twitter is worth only \$15 billion, almost a third of the \$44 billion that he paid for [10]. He recently stated in July that Twitter's cash flow is still negative and that the company is heavily in debt [7]. Where will Twitter end up in the future?

3. Twitter's Current Problems and Causes

3.1. Unpaid Bills and Other Burdens on the Company

The numerous bills that Twitter must pay are a major contributor to its financial difficulties. Even before Musk's takeover, Twitter was not the most profitable business. Despite its large user base and influence, the platform struggled to effectively monetize its services and compete with its rivals like Google and Facebook [11]. This was evident in the company's consistently low profitability, with the company losing money in 8 of the previous 10 years [1]. Musk's entrance into the picture only exacerbated these existing challenges, causing further financial strain on Twitter. His \$44 billion purchase was accompanied by a \$13 billion debt, which translates into an interest payment of more than \$1 billion in 2023 [11]. To offset the loss, Musk has launched a major cost-cutting campaign, starting off by laying off more than half of Twitter's 7,500 employees [2]. Musk also stopped making required payments, which prompted lawsuits and other issues [2]. To name a few, he refused to reimburse vendors for travel expenses passed on to him by previous executives, paid less than promised severance to Twitter's management team staff, whom he fired, and paused some of the company's rent payments [12]. Among other lawsuits, Innisfree M&A Incorporated sued Twitter in February 2023 for failing to pay \$1.9 million for the assistance and services it had provided the business [12]. In the face of those legal challenges, the company is likely to have difficulty dealing with them as its legal team shrinks as Musk continues his cost-cutting layoffs. Along with his \$13 billion debt, Twitter is saddled with bills that it will struggle to pay.

3.2. Loss in Advertising Revenue

In his tweet, Elon Musk stated two reasons for Twitter's dire financial situation - one being the heavy debt that it is burdened with, and the other is the loss in advertising revenue [7]. The Twitter advertising service enables advertisers to select their target demographics and direct their content to appear on the timeline of those users. Aside from directly promoting their content, advertisers can also use services to promote specific accounts, as well as temporarily take over the Trend list [13,14]. Advertising services accounted for roughly 90% of Twitter's revenue in 2021, the last full year for which figures were made public before Musk took the company private. Due to Twitter's reliance on advertising as a major source of income, the revenue drop has a significant impact.

The fall in advertising revenue is, naturally, caused by a lack of clients. Brands and companies have been leaving Twitter ever since the takeover. Almost immediately after Musk took control, half of Twitter's top 100 advertisers, including well-known brands like Chipotle, General Motors Co., and Pfizer, issued statements announcing that they would pause or discontinue their campaigns on the platform [15]. The number increased to over 500, according to reports from January 2023 [16]. The mass exodus of advertisers is the result of a number of factors related to Musk's Twitter transformation. In accordance with his free speech principles, Musk shrank Twitter's content moderation team, known as the Safety and Trust team, from a couple hundred to only 15 people. This move led to an increase in hate speech, misinformation, and conspiracy theories that had been long debunked on the platform [2]. As a result, advertisers became concerned about associating their brands with such content and decided to pull their campaigns from Twitter. In response to that, Musk also assured advertisers that he did not intend to turn Twitter into a "free-for-all hellscape," implying that there would still be consequences for certain types of behavior [16]. However, clients did not

appear to believe Musk, so he blamed the revenue drop on activist groups, which he claimed were "pressuring advertisers" [16]. Aside from the toxic content, brands also feared the spread of misinformation caused by the new version of Twitter Blue. Twitter Blue was first introduced in Australia and Canada in June 2021 as a subscription service that provides users with special features such as bookmarks and the ability to undo tweets [17]. However, under Musk's control, it also allowed users to receive a verification mark for \$8 per month [2]. Since then, users have begun to impersonate brands by utilizing the "verified" checkmark and disseminating disruptive false information, such as someone impersonating Eli Lilly and spreading information about free insulin [12]. This, on top of the already chaotic Twitter environment, drove even more advertisers away, as they feared their brand image would be further harmed. As a result, Twitter faced severe backlash from the exodus of advertisers, leading to a significant decline in its revenue. As Musk stated in his tweet, the platform's advertising revenue had dropped by nearly 50% as of July 2023 [7].

4. Suggestions

It would be most logical for Twitter to improve its advertising business by luring advertisers back in order to increase revenue and manage the heavy debt payments. However, Musk seems to be less interested in Twitter's advertising revenues and wants to transform the company in other directions. As a result, this section makes a few suggestions for alternative ways for Twitter to pay its interest payments.

4.1. Finance Twitter Using Musk's Personal Fortune

To meet Twitter's financial requirements, Musk could theoretically use his personal funds. In 2022, Musk sold \$23 billion in Tesla stock, most likely to fund the Twitter acquisition [16]. Even after putting up another 60% of Tesla stock as collateral, he still has approximately \$67 billion in shares that can be sold immediately [16]. There have also been cases where billionaires attempted to support mergers and acquisitions using their own fortune. When the merger between Sears and Kmart failed, Edward Lampert, for instance, invested billions of his own funds in Sears to keep it alive [12]. However, Musk, while having the ability to financially support Twitter, publicly stated that he does not have plans to sell more Tesla shares [16]. Therefore, even though theoretically feasible, it can only be an idea.

4.2. Increase Subscription Revenue

Another direction that Musk is particularly interested in is the Twitter Blue subscription service. Not long after the takeover, Musk made an effort to increase Twitter's profitability by promoting the subscription, which led to the "verified" check mark fiasco mentioned above [2]. Currently, Twitter Blue has far fewer subscribers than is necessary for it to turn a profit for the business. Twitter Blue had an estimated 450,000 subscribers as of March 2023, which is less than a fraction of the number of active users on Twitter [11]. If Musk wants to shift away from relying solely on advertising revenue and put more focus on subscriptions, one possible solution is to provide more incentives for people to join the subscription. For example, creating more advanced analytics that allow users to better track tweet performance as well as provide in-depth insights to help subscribers optimize their content strategy can potentially encourage more users to subscribe.

4.3. Progress Towards the "Everything App"

Musk tweeted in 2022, "Buying Twitter is an accelerant to creating X, the everything app," and now that Twitter has officially rebranded as X, it appears that he is one step closer to realizing his vision. Creating the "everything app" could, in fact, be a solution to provide alternative income streams for the platform. Musk compared Twitter's future to a product like WeChat, a hugely successful platform in China that lets users send texts as well as make payments, sign up for newsletters, and even call taxis [16]. Peer-to-peer payments, one of WeChat's features, could be

adapted and monetized for Twitter, adding a new source of revenue for the company. Musk's company, X.com, also merged with PayPal, the pioneer of digital currency, indicating that Musk has prior experience with financial services, which may help the new "everything app" succeed [18].

5. Conclusion

The primary goal of this paper was to identify the reasons for Twitter's financial predicament after Elon Musk's acquisition, as this topic is relatively new and there is little existing literature on the subject. This study sought to investigate a number of news reports and statistics, as well as Musk's statements at conferences and tweets. By analyzing these sources, it became evident that Twitter's financial struggles can be attributed to specific changes implemented by Musk, namely the easing of content moderation on the platform and the new version of Twitter Blue, which drove away advertisers and significantly decreased advertising revenue, the company's main source of income. Combined with a number of legal bills that Twitter has paused or postponed paying, Musk is facing challenges in returning his newly acquired business to a financially healthy state.

This study has gone some way towards enhancing the current understanding of the financial struggles faced by Musk in his efforts to revitalize Twitter. It highlights the detrimental effects of his decision making and provides insights into potential strategies for overcoming these challenges. The findings will be of interest to both investors and stakeholders in order to make informed decisions about the future of the company. However, it is important to note that this study is limited by the lack of academic literature as an information source and instead relies on news reports and primary sources such as Musk's tweets, which may contain inaccurate information. Another limitation is that this study contains little quantitative analysis because Twitter is no longer required to publicize its figures, and some of the numbers are provided by Twitter employees or analysts, which are only estimates and can also contain inaccuracies. More quantitative research is needed to validate the findings of this current study. Future studies should also conduct a more thorough literature review in order to gather information from a more credible and scholarly standpoint. More research can also be conducted to uncover additional potential strategies that Musk could employ to restore Twitter's profitability and growth.

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