Carlos Arias
carlos.eligio92@gmail.com

Twitter Leverage Buyout

This document is a case study of the Elon Must Twitter Leverage Buyout (LBO) of 2022. Its purpose it's to learn about LBO models and the events leading up to the transactions that are considered in the model.

Executive Summary of Events

On October 4th, Musk proposed the completion of the original deal of acquiring Twitter for $44 billion at $54.20 per share. On October 28th, Musk closes the deal to acquire Twitter on the final day before the Delaware Chancery Court trial would have moved forward. The total cost of the Twitter LBO was $46 billion, it being $44 Billion plus transaction and financing fees as seen in Exhibit 1. It is quite different from other LBOs and the biggest differentiator is that it was funded mainly by one individual, Elon Musk, with $26 billion in cash. The second biggest contributor was the Saudi Arabian investor Prince Alwaleed Bin Talal with $1.89 billion. To complete the transaction, Musk borrowed $13 billion dollars in debt, $6.5 billion term loan facility, $3 billion secured bridge loans, $3 billion unsecured bridge loans, and $500 million revolving loan facility as seen in Exhibit 4. The debt secured has high interest rates due to Twitter's credit rating prior to the acquisition as seen in Exhibit 6.

Background Info of the Transaction

On January 2022, Musk began buying shares of Twitter a public company at the time, according to the information filed from the SEC, and by March 14th he reached an ownership stake of 9.2% in the company becoming the largest shareholder of Twitter. He then offers to buy Twitter at $54.20 per share, the company was being valued at $43 billion dollars. On April 21st, Musk proceeds to show in a SEC filing that he has $46.5 billion worth in financing for a possible Twitter acquisition Then, on April 25th, Twitter accepts Musk's offer to acquire the company and the deal was valued at $44 billion.

On May 13th, Musk tweets that the acquisition is temporarily on hold due to his preoccupations that the platform had less than 5% of actual users and the rest were bots and/or spam accounts. He wanted to see supporting calculations regarding this matter. On June 6th, he threatens to pull of the deal if the company does not provide sufficient information regarding the fake accounts. On July 8th, he moves to terminate the acquisition deal since the company did not deliver the required information regarding the fake accounts. On July 12th, Twitter sues Musk in Chancery Court in Delaware to force him to complete the deal.

After the Elon Must takeover Twitter has lost many advertisement customers due to the free speech approach implemented on the social network by Musk's team. Twitter's revenue has decreased in 2023 when compared to previous years and it's due to Elon Musk's Twitter takeover, see Exhibit 5. Afterwards there is an increase in revenue, these assumptions are based on the new revenue streams implemented in the social network, for example: Twitter Blue with an average cost of $11

monthly or ~$100 yearly per user depending on the platform (website or app), see Exhibit 8. In addition, after February 9, 2023, Twitter has started to charge for the use of their API. As well, Musk has planned to increase Twitter's revenue by adding the ability to do payments within the platform. This business model hasn't been proven since it was implemented at beginning of the year 2023, but it will potentially help Twitter increase its overall revenue. It is important that Twitter increases their sales to have a positive free cash flow to reduce the ratio of Net Debt / EBITDA and Total Debt / EBIDTA to pay down the debt as seen in Exhibit 3.

Musk has laid off approximately 49% of the workforce (~3700 employees) since the takeoever, which reduced the operating cost by approximately $556 million (see Exhibit 7).

Assuming Musk will be able to turn around Twitter by cutting cost and increasing revenue, we estimate an IRR of ~15% by year 5. In addition, estimating a best-case scenario of an IRR ~19% with an exit on 5 years as seen in Exhibit 2. In this scenario it will require a rapid increase of revenue, which I believe is highly unlikely but could be plausible.

Elon Musk is considered one of the smartest people in the world, and after the Twitter takeover he has been decisive and effective in reducing cost and implementing efficiency. He has gathered brilliant people to work with him, and as time goes by sales will end up augmenting and positive free cash flow will roll in to pay down the debts. We cannot underestimate Musk, since he has continuously proven himself with his other major companies, such as Tesla, SpaceX, The Boring Company, SolarCity, and Neuralink. All which are high on complexity of tech, and Twitter remains a global platform for public self-expression and conversation.

Operating Scenarios

The LBO model consists of three different operating scenario which are based on different assumptions for its potential revenue, gross profit, and EBITDA as seen in Exhibit 5. The different operating scenarios help identify different patterns of Twitter and its future. The three scenarios are 1) worst, 2) base, and 3) best which different internal rates of return (IRRs) as seen in Exhibit 2.

The worst scenario in this LBO Model has an internal rate of return (IRR) of ~10%. This is due to the high decrease of revenue in 2023 because of the loss of advertisers in the platform. In the following years, there is a high increase of revenue in 2024 and then a constant 10% increase in revenue for the following three years. We chose this conservative approach because Musk hasn't proven that the new business model works, and since Twitter had a net income loss for the years 2020, 2021, and 2022. Musk will need to increase the revenue by huge margins to have a larger IRR.

The base scenario in this LBO Model has an IRR of ~15%. The assumptions for this scenario are that Twitter will have a decrease in revenue for the year 2023, but it will start increasing by the year 2024. Then it will have a constant 15% increase of sales throughout the years, and by the last year have a 10% increase. This scenario is the most likely, because after Musk's takeover there have been massive layoffs to reduce costs. In addition, there has been an increase in efficiency and production due to Musk's high demand from the Twitter engineers that stayed with the company.

They have also been creating new revenue sources that haven't proved its effectiveness but throughout the years they should find its course to increase Twitter's revenue.

The best scenario in this LBO model has an IRR of ~19%. This scenario is more of an optimistic approach, since for the year 2023 as previously stated Twitter has had a decrease in revenue but afterwards there will be an exponential increase of sales for the following years. These assumptions are based on how Musk has implemented a new culture in Twitter based on high achieving engineers that are currently working long hours to implement new sources of revenue on the platform. After the takeover Twitter's workforce decreased by ~50% and the platform already has reached an all-time high of active users. In addition, Musk has implemented two new additional revenue streams which are Twitter Blue and charging for their API in less than 6 months of taking over. Twitter has become the application where high achiever engineers are looking to work, since they know it will be a challenging working environment where they can grow alongside one of the brightest human beings. If Musk can keep this high achieving culture throughout the years, and the innovative ideas to increase the revenue this scenario could be plausible.

Return Analysis

As Exhibit 9 demonstrates another key metric when analyzing LBO transactions is the multiple on invested capital (MOIC), which is also reflected in this section. For the base scenario the model has a MOIC of 2.0x.

Exhibit 1 – Inputs and Scenarios

Inputs	in millions
Purchase Price	44,000
Transaction Fees	2.00%
Financing Fees	2.50%
LTM EBITDA	211
Entry Multiple	209
Exit Multiple	20

Scenarios	
	Select
Operating Scenarios	1

Exhibit 2 – IRR Sensitivity

Twitter's IRR at $54.20		
Operating	**1**	10.60%
Scenario	**2**	15.00%
	3	18.80%

Exhibit 3 – Credit Statistics throughout Investment Horizon

	Projection Period				
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
SUMMARY CREDIT STATISTICS					
% Debt to Total Capitalization	31.5%	33.8%	35.6%	37.1%	38.2%
EBITDA / Cash Interest Expense	-0.4x	-0.6x	-1.0x	-1.4x	-2.1x
(EBITDA - Capex) / Cash Interest Expense	0.0x	0.0x	-0.3x	-0.4x	-0.7x
EBITDA / Total Interest Expense	-0.4x	-0.6x	-1.0x	-1.4x	-2.1x
(EBITDA - Capex) / Total Interest Expense	0.0x	0.0x	-0.3x	-0.4x	-0.7x
Total Debt / EBITDA	22.3x	16.7x	11.2x	8.1x	5.5x
Net Debt / EBITDA	15.7x	12.2x	8.4x	6.2x	4.3x

Exhibit 4 – Sources and Uses

Sources		
Source	Amount	Multiple of EBITDA
New Debt		
1st Lien Revolver	0	0x
1 Lien Term Loan	6,500	31x
Senior Secured Increasing Rate Secured Bridge Loan	3,000	14x
Senior Secured Increasing Rate Unsecured Bridge Loan	3,000	14x
Equity		
Elon Musk Equity and Others	30572	145x
Cash		
Cash from Balance Sheet	6,121	29x

Uses			
Use	Amount	Multiple of EBITDA	% of Total
Enterprise Value	44,000	209x	89.4%
Transaction Fees	880	4x	1.8%
Financing Fees	313	1x	0.6%
Minimum Cash Balance	4,000	19x	8.1%
Total Uses	49,193	233x	100.0%

Exhibit 5 – Operational Scenarios

Worst					
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Revenue	$4,078	$4,894	$6,362	$8,907	$13,361
Gross Profit	$2,651	$3,279	$4,454	$6,235	$9,353
EBITDA	$612	$881	$1,400	$2,049	$3,207

Base					
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Revenue	$4,288	$5,231	$6,905	$9,805	$14,903
Gross Profit	$2,916	$3,505	$4,488	$6,667	$10,432
EBITDA	$772	$942	$1,174	$2,059	$3,577

Best					
	FY 2023	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Revenue	$4,078	$5,098	$7,137	$11,063	$18,806
Gross Profit	$2,610	$3,365	$4,925	$7,633	$12,976
EBITDA	$571	$867	$1,499	$2,434	$4,325

Exhibit 6 – Debt Assumptions

Debt Assumptions					
	2023E	2024E	2025E	2026E	2027E
1-Month SOFR Curve	4.86%	3.31%	2.76%	2.72%	2.82%
Revolver					
Multipler of EBITDA -Drawn	0.0				
Multiple of EBITDA -Maximum	2.4				
Interest Rate Spread	4.50%				
	2023E	2024E	2025E	2026E	2027E
Interest Rate	9.36%	7.81%	7.26%	7.22%	7.32%
1st Lien Term Loan					
Multiple of EBITDA	0				
$ Amount	6,500				
Interest Rate Spread	4.75%				
	2023E	2024E	2025E	2026E	2027E
Interest Rate	9.61%	8.06%	7.51%	7.47%	7.57%
Senior Secured Increasing Rate Secured Brdige Loan					
Multiple of EBITDA	0				
$ Amount	3,000				
Interest Rate Spread	6.75%				
	2023E	2024E	2025E	2026E	2027E
Interest Rate	11.61%	10.06%	9.51%	9.47%	9.57%
Senior Unsecured Increasing Rate Unsecured Bridge Loans					
Multiple of EBITDA	0				
$ Amount	3,000				
Interest Rate Spread	10.00%				
	2023E	2024E	2025E	2026E	2027E
Interest Rate	14.86%	13.31%	12.76%	12.72%	12.82%

Exhibit 7 – Employee Salaries & Schedule

Employees - June 30, 2022	7,500	
Average Salary	0.117	
Total Salary	878	
Benefits	25%	
Salaries & Benefits - Pre-Transaction	1098	
Layoff %	49%	
Layoffs	3,700	
Salaries & Benefits – Post-Transaction	556	
Pre-Transaction		
	LTM June 30, 2022	
SG&A	1,487	50.1%
R&D	1,483	49.9%
Total	2,970	
Post-Transaction		
SG&A	1208	
R&D	1205	
Total	2414	

Exhibit 8 – Twitter Users & Blue Verification

TWITTER USERS - BLUE VERIFICATION

Users		
Daily Active Users	368	
Daily Active Users in US	63	17.1%
Annual Active Users	401	

Twitter Blue Pricing	
iOS Pricing (Monthly)	11
Android Pricing (Monthly)	11
Web Pricing (Monthly)	8
Average Cost (Monthly)	**10**
Web Pricing (Annually)	84
iOS Pricing (Annually)	114.99
Average Cost (Yearly)	**99.495**

Exhibit 9 – Return Analysis

Equity Value	
LTM EBITDA	3,746
Exit Multiple	20x
Implied Enterprise Value	74,912
Net Debt	-13,322
Implied Equity Value	61,590
Original Investment	30,572

Returns	
IRR	15.0%
MOIC	2.0x