

ANALYSIS OF EFFECT OF ELON MUSK'S TWITTER ACQUISITION ON REVENUE AND MARKET CAPITALISATION

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Abstract

In corporate world, there are many major actions which largely affect and transform the lives of the companies involved and the common masses. Out of these actions acquisition, mergers and takeovers are the most common actions that occur. There could be number of reason for why the companies adopt this type of action out of which the most common reasons are company growth, product diversification, geographic expansion, knowledge transfer, financial situation etc. In this research paper we are going to analyze the acquisition of twitter by Elon Musk in the year 2022 and the impact of it on financial condition of twitter. In this research paper secondary data has been used in order to analyze and study this impact. In this paper, the market capitalization and revenue of twitter from the year 2013 to 2023 has been analyzed using statistical measures and also studies impact of acquisition by Elon Musk on twitter.

Introduction

Elon Musk's deal of twitter of \$44 billion ranks fifth largest transaction in terms of technology in recent decades. World's richest person and Tesla CEO Elon Musk started the acquisition of Twitter on 14 April 2022 and it was closed on 27 October 2022. During the deal, it was proposed that twitter shareholders would receive \$54.20 in cash per share after the completion of the deal.

Merger- When two companies mutually decide to combine their business operations to form one new entity. Both the companies cease to exist after the merge.

Acquisition- When one larger company acquires or buys the other small company. Smaller company ceases to exist after the acquisition.

Takeover- A takeover is a kind of acquisition in which one company acquires the other company without its consent and cooperation.

This paper studies the market capitalization and revenue of twitter from the year 2013 to 2023 and also studies impact of acquisition by Elon Musk on twitter.

Literature Review

Saleem Ahmad , Dr. Sanjay Biyani (2023) concluded that merger and acquisition has significant impact on the company and employees of target company and may also lead to legal battles. Structural changes, value appreciation, revenue changes may also result after M&A.

Prateek Pathak , Dr. Navita Nathani (2021) analyzed data of 6 companies from period 2012- 2017 and result showed that there was no significant change of financial performance in India after merger .

Davor Filipović (2012) studied effect of size of companies on takeover. It was concluded that for the success of takeover the size of the target company should be smaller than the acquirer.

Lozic, J. Lozic, I. & Vojkovic, G (2021). analysed the effect of covid 19 on twitter performance.

Research Methodology

Descriptive research methodology has been adopted in this research. It is type of methodology in which data is analyzed without being manipulated. A case study approach has been used in this paper. In this paper secondary data has been collected from various websites

and the data has been analyzed using statistical measures such as line charts, bar graphs, etc.

About Twitter and Elon Musk

Twitter a social networking free site where users put posts known as tweets which could be in the form of text, photo, videos. It was created by Jack Dorsey, Noah Glass, Biz Stone and Evan Williams in March 2006. Elon Musk is CEO of SpaceX and Tesla and is also said to be richest man in the world. He proposed to acquire twitter in April \$44 billion and the acquisition was closed in October. He wanted to make the company private.

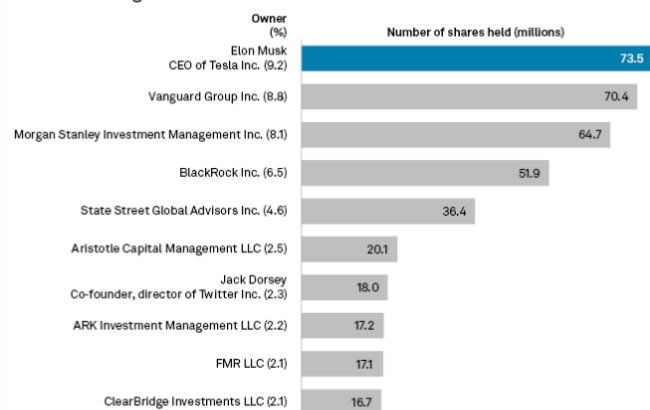
Timeline of the deal

Late January 2022	Elon musk started investing in twitter
March 2022	Musk began criticizing twitter by giving stress on his idea of free speech
4 April 2022	Musk became twitter’s largest stakeholder with more than 9.2% share. He was invited to become part of board of directors
10 April 2022	Decline to become part of board of directors
14 April 2022	Musk makes an offer to purchase Twitter \$43 billion, He proposed to make the company private.
13 May 2022	Musk put the deal on hold saying 5% of users are spam accounts
15 July 2022	Twitter sues Musk in Chancery Court in Delaware to force him to complete the deal.

4 October 2022	Musk proposed continue on price of \$44 billion (\$54.20 per share) on a term that Twitter drops its lawsuit. In tweet his said that his goal by acquiring twitter is to make an everything app which he would name “X”
27 October 2022	The deal was closed

Following is the graph showing the top ten persons who were the largest shareholders of twitter in April 2022. When the stake crosses 5% it needs to be disclosed to the public and SEC according to Securities and Exchange Commission of America.

Twitter’s 10 largest owners

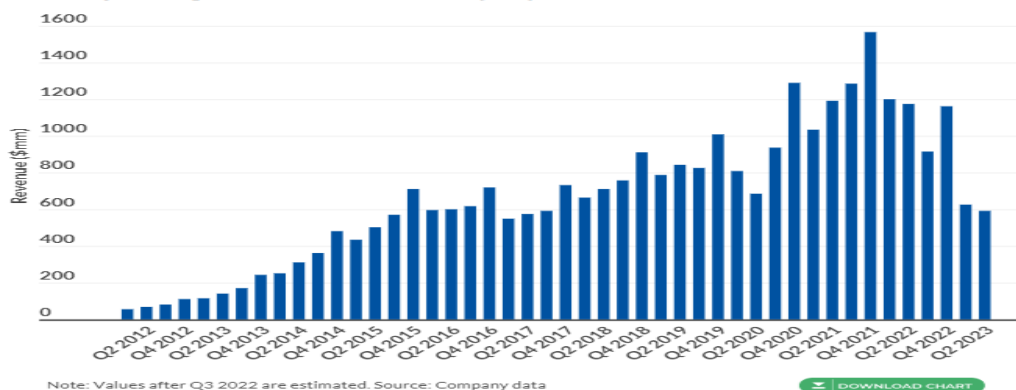


Data compiled April 4, 2022. Number of shares held for Elon Musk is as of March 14, 2022, and for Jack Dorsey is as of April 5, 2021. Number of shares held for all others listed are as of Dec. 31, 2021. Percent held by the owner is calculated based on the latest shares outstanding as of Feb. 16, 2022. Source: S&P Global Market Intelligence

Figure 1: Percentage of ownership of various shareholders in twitter in April 2022.

Twitter Revenue over the years

Twitter quarterly revenue 2012 to 2023 (\$bn)



Note: Values after Q3 2022 are estimated. Source: Company data

Figure 2: Quarterly revenue of twitter from 2012 to 2022.

Source: <https://www.businessofapps.com/data/twitter-statistics/>

Elon Musk closed the deal for Twitter in October 2022. From figure 2, it is visible that Twitter started with a quarterly revenue of around \$70 billion in 2012 which kept on rising until 2014. Twitter saw a massive increase in revenue in quarter 2 of 2022 which due to the 6 month legal battle that took place in 2022 between Twitter and Elon Musk faced a massive decline in the year 2022 according to the company report.

From figure 3, it is visible that due to the 6 month legal battle that took place in 2022 between Twitter and Elon Musk, the annual revenue of Twitter which was growing from past years reduced from \$ 5 billion to \$ 4.4 billion in the year 2022 according to the company report.

Market Capitalization Of Twitter over the years

Twitter annual revenue 2012 to 2022 (\$bn)

Year	Revenue (\$bn)
2012	0.3
2013	0.6
2014	1.4
2015	2.2
2016	2.5
2017	2.4
2018	3
2019	3.4
2020	3.7
2021	5
2022	4.4

Source: Company data, The Information, Social App Report

Year	Market cap(in billion dollars)
2023	41.09
2022	38.17
2021	34.55
2020	43.06
2019	24.98
2018	21.96
2017	17.83
2016	11.65
2015	16.06
2014	23.04
2013	36.27

Figure 3: Annual revenue of Twitter from 2012 to 2022.

Figure 4: source: <https://companiesmarketcap.com/twitter/marketcap/>

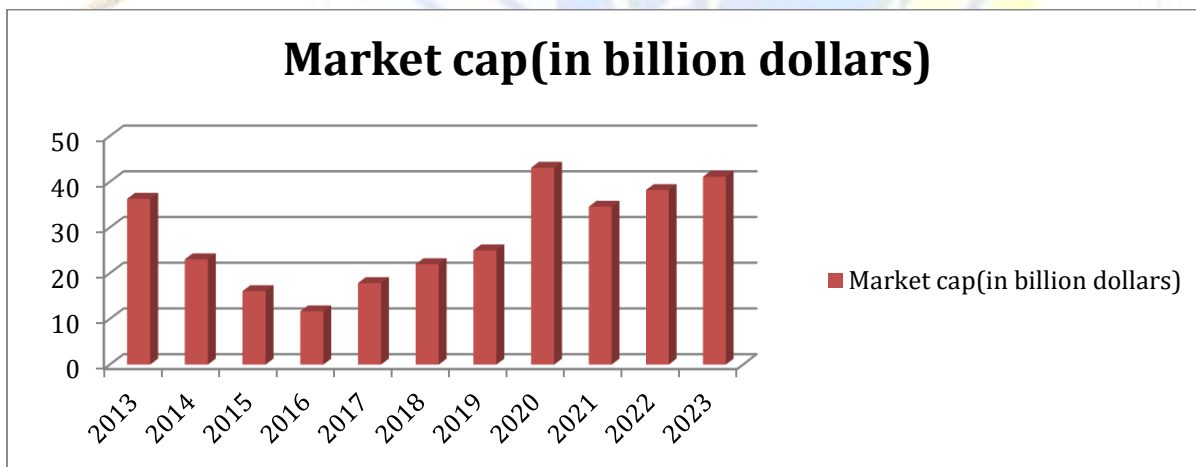


Figure 5: Market capitalisation of Twitter from the year 2013 to 2023

From the above figure we could say that in 2013, Twitter started with \$ 36.27 billion market capitalization and in the coming 2 years its market capitalization decreased to almost half in 2017 after which it rose. During the covid period it again faced a decline in market capitalization. At the end of year 2021, Twitter had market capitalization of

\$34.55 billion. Musk bought it at \$44 billion in October 2022 and after that the market capitalization increased in 2023.

Conclusion

During the 6 month period when the twitter and musk news in the news there was a huge impact on the financial performance of twitter. The revenue of twitter decreased from the \$ 5 billion to \$ 4.4 billion in 2022 by 12%. The market capitalization of twitter reduced by 20% in the year 2021 as compared to the previous year. However market capitalization has increased from 34.55 in 2021 to 38.17 in 2022 to 41.09 in 2023 billion dollars. We can see this as an impact of the acquisition of twitter. The company's revenue has decreased to a large extent. There has been an increase in market capitalization but the increase was not very large.

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