

Twitter enters agreement to sell itself to Elon Musk

Article

The news: Twitter's board of directors has reached an agreement with **Elon Musk** to sell the social media platform to the world's richest individual.

- Once the transaction is completed, Twitter will become privately held for the first time since November 2013.
- What appeared to be a highly unlikely turn of events is inching closer to reality.
- Twitter's board met over the weekend to discuss Musk's **\$46.5 billion bid** after he **lined up financing** last week. That financing appeared to be the turning point in how the board viewed

his \$54.20 per share offer, going from an annoyance to a proposal meriting serious consideration.

How valuable is Twitter? While Musk's offer is 54% higher than the share price the day before he started buying up the stock in late January, for much of last year, Twitter's stock was trading higher than that. It closed on Monday at \$51.70, up 5.7%.

- Twitter said it had plans to double revenue last year, and its stock responded by reaching \$71.69 a share in July. Since then, it's been clear that investors don't believe the company could achieve those gains, and the stock has dropped to as low as \$32.68 this year.
- Part of Twitter's inability to hit its targets could be brands and agencies emphasizing more video content—something Twitter is not known for. Only 29% of video marketers expect to use Twitter for video marketing in 2022, per Wyzowl; YouTube (88%), LinkedIn and Instagram (68% apiece), and Facebook (65%) all trounced Twitter in that study.

Ads or no ads: If Musk's bid is successful, it would give someone who has publicly questioned the business' advertising model control over that model.

- It should be noted that **Tesla**, of which Musk is CEO and co-founder, does not buy advertising.
- Musk has called himself a “free speech absolutist” who has had problems with Twitter's content-moderation policies, which make it a more of a brand-safe destination for ad dollars.
- One of the things Musk likes about Twitter is the ability it provides to talk directly to his 83 million followers; if it becomes less of a brand-safe platform—similar to **Reddit**, particularly before it began ramping up toward its IPO—some of those followers could become less active or depart Twitter entirely.
- Major financial institutions including Morgan Stanley are providing over half of the funds for the deal in the form of debt. To finance that debt, Musk will have to maintain and grow Twitter's cash flow.
- Our forecast expected Twitter's US ad revenues per user (ARPU) to rise 41.6% from \$53.63 in 2022 to \$75.98 just two years later—but while Facebook's ARPU is not growing at the same clip, we forecast its ARPU to be \$142.46 for 2022, over two and a half times greater than that of Twitter.

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Musk has said that he wants to make Twitter into a **free speech haven**, which would likely reverse a lot of the guardrails that Twitter has instituted in order to protect the health of its platform, its users, and the brands that advertise there...doing so might make a lot of risk-averse advertisers **really wary** about advertising on Twitter.

If they are to keep this ad business, Musk has to figure out how to **balance** this idea of less content moderation with creating a brand-safe environment for advertisers.

Jasmine Enberg

Principal Analyst, Insider Intelligence, in Monday interview with Bloomberg

The Twitter Blue blues: Ads currently account for about 90% of Twitter's revenue; the rest comes mainly from data licensing. Twitter Blue, the company's first consumer subscription service, was introduced last year and rolled out to the US in November.

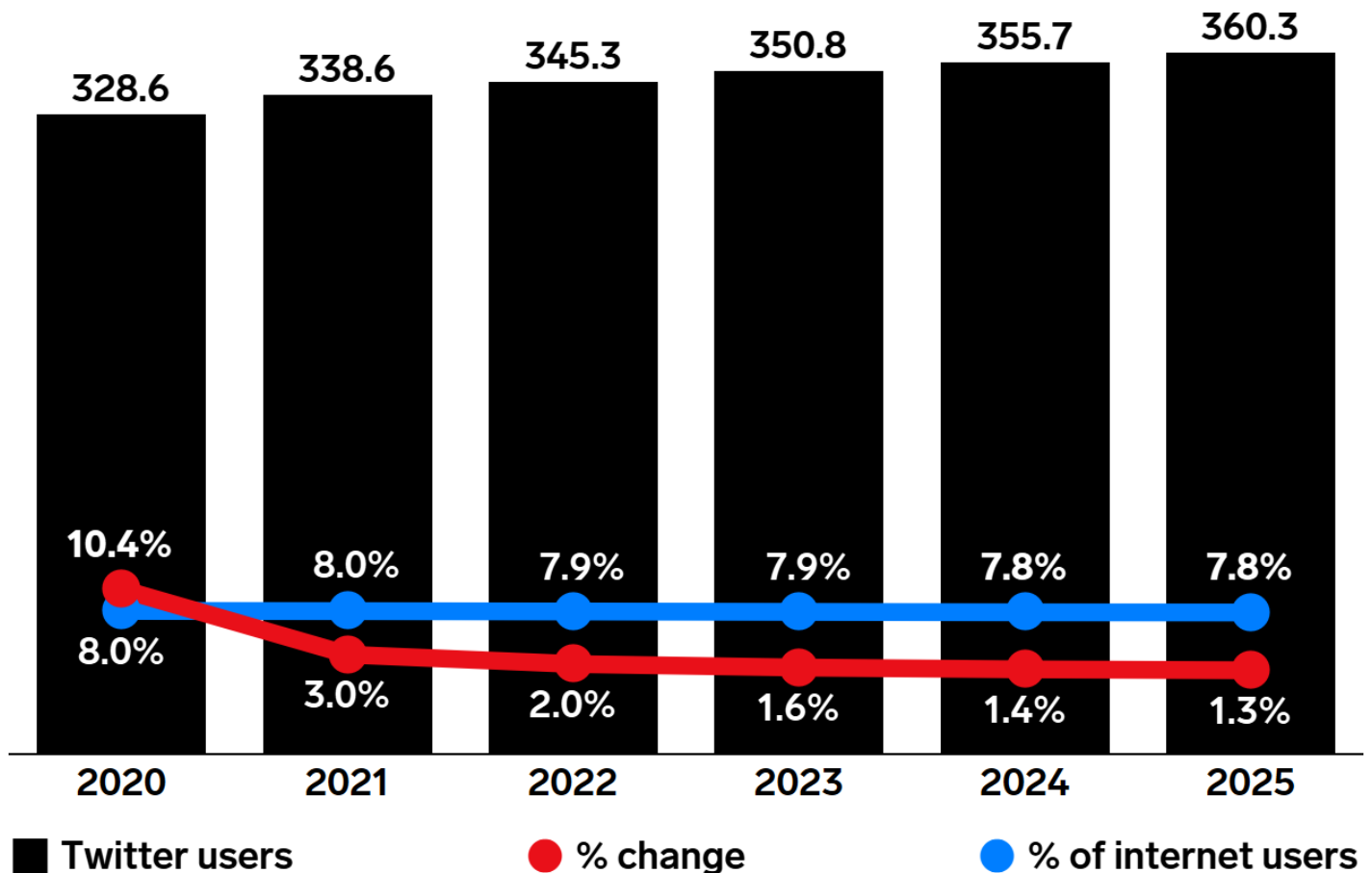
- We expect Twitter to have 345.3 million global users in 2022, per our forecast, and to achieve \$5.58 billion in ad revenue from them. At approximately \$36 per annual subscription, Twitter would have to convert 45% of its active users to Twitter Blue to fully replace its forecasted 2022 ad revenues.
- That's not going to happen. Twitter can cut the price of a Twitter Blue subscription to convert at a higher clip, or improve its user experience to add users at a more rapid pace—but there's no path to replacing advertising revenues solely through subscriptions anytime soon.

The big takeaway: Twitter earnings are expected to be announced on Thursday before markets open; notably, Twitter will not hold an earnings conference call, given the sale agreement.

- We can assume it hasn't been a gangbusters quarter for Twitter—otherwise why sell at \$54.20 a share if you're expecting an earnings-related price jump in just a few days?
- CEO **Parag Agrawal** seemed to be looking at his tenure in the rearview mirror in a Monday tweet. Expect big shake-ups in Twitter's leadership in coming days.

Twitter Users Worldwide, 2020-2025

millions, % change, and % of internet users



Note: internet users of any age who access their Twitter account via any device at least once per month

Source: eMarketer, November 2021

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