

Impact of Merger and Acquisition on the Companies Involved: A Case Study of Musk-Twitter Acquisition

Saleem Ahmad¹, Dr. Sanjay Biyani²

¹Research Scholar, Biyani Institute of Science and Management, Jaipur, Rajasthan

²Research Supervisor, Biyani Institute of Science and Management, Jaipur, Rajasthan

Abstract:

There are many corporate actions as and when announced by the organisations. Out of these corporate actions, merger and acquisition announcement plays a very important role and it directly and indirectly affects the stakeholders in many ways. Companies may go for merger and acquisition for various reasons like growth, diversification and elimination of competition etc. The study focuses on highlighting the impact of merger and acquisition on the companies or parties involved. It also throws light on the impact of such corporate actions on the employees of the target company. Data used for the study is of secondary nature and have been collected from the respective websites of the companies involved in M&A and some other websites have also been used to collect the required data. Research methodology used is descriptive and case study approach has been used for the study. The study concludes that there are many structural changes in the companies involved in merger and acquisition. Some growth opportunities and challenges also are there for the acquirer after M&A and the management and employees of the target company may face some unfavourable changes.

Key words: Merger, Acquisition, Amalgamation, Management and Take-over.

Introduction: Growth is said to be essential for a business concern to survive. When an organisation expands its business through increasing the output of the same product or entering into the new market or by producing a new product, it is said to grow internally but when the organisation expands its business through acquiring the other businesses or through combining with other firms, it is said to grow externally.

Merger and acquisition may take place due to many reasons like economies of scale, elimination of competition, tax implications, better financial planning, growth, and stabilisation by diversification, personal reasons and many more. Before moving ahead we must understand the meaning of merger and acquisition and the related terms.

Merger: It is said to be a situation where two or more companies are combined in such a way that one company acquires the assets of the other company or companies and the other company/companies is/are dissolved. In such a deal the shareholders of the merged company or companies are paid cash or securities by the acquiring company.

Amalgamation: This is said to be a situation where two or more existing companies combine together to form a new company and the old companies cease to exist. The shareholders of the old companies are paid by the new company in the form of cash or in its shares or debentures.

Acquisition: It is the process of taking effective control over assets and management of one company by another company. It is to be noted here that for taking effective control it is not necessary to own 51% of the share capital of another company. Sometimes the ownership of 20% or as little as 10% of the share capital may constitute effective control.

Take-over: When the acquisition is opposed by the target company and it is not through mutual agreement, it is known as take-over. It is hostile or unwilling acquisition.

The merger may take any of the three forms or the following situations may be there for a merger to take place:

Horizontal Merger: In this type of merger, two or more companies operating in the same area of business or producing the same products or providing the same services join together.

Vertical Merger: Here, two or more companies which produce same goods or services but are involved in different stages of production or distribution, combine together.

Conglomerate Merger: In this type of merger, two or more companies who operate entirely different businesses and are not related to each other in any way, combine together. The objective of such a merger is diversification of business activities.

Review of Literature:

Rima Tamosiuniene, Egle Duksaite (2009) concludes that M&A are the vital part of any healthy economy and the primary way that companies are able to provide returns to owners and investors.

Tajalli Fatima, Amir Shehzad (2014) indicates that only at 5% level of significance only ROE is affected by the merger and acquisition and other ratios have no impact from this strategy.

Maja Pervan, Josipa Višić, Kristina Barnjak (2015) the results clearly indicated statistically insignificant differences in target companies' performances before and after M&A activity.

ATM Adnan¹, Alamgir Hossain (2016) observed that target companies' CAAR value over the period of post-merger announcement is higher than the acquiring companies' CAAR value.

Md Alam Ansari¹, M. Mustafa (2018) suggested that there is no significant change on the financial performance of corporate sector in India after merger.

S.Praveen, Suneetha Rani Tatineni (2019) reveals that giant companies arise out of mergers, and such companies capture the attention of regulatory bodies which try to ensure that competition exists in the market to prevent an event of market failure.

Dharen Kumar Pandey, Vineeta Kumari (2020) shows that such news does impact the stock price reaction and the impact has been significantly negative.

Isha Gupta, Nandita Mishra, and Naliniprava Tripathy (2021) indicates that the outcome of the study signs that mergers create positive value for post merger acquiring firms, and lagged synergy influences future synergies positively.

Research Methodology:

The research methodology applied for the study is descriptive in nature and a case study approach has been used to meet the research objective. Secondary data have been collected from the websites of the companies involved in merger and acquisition. Some other sources also have been used to collect secondary data. In order to understand the impact of merger and acquisition on the companies or parties involved, a case study of Musk-Twitter acquisition has been selected.

About Twitter:

Twitter Inc. is a social media company where the users post or interact with messages known as “Tweets”. It is headquartered at San Francisco, California, USA. It was created by four people namely Jack Dorsey, Noah Glass, Biz Stone, and Evan Williams in March 2006. In 2007, Twitter found a tipping point for its popularity at South by Southwest Interactive (SXSWi) conference. During this event, the Twitter usage surprisingly increased from 20000 to 60000 tweets per day. The company was made public in the month of November 2013. After a report that Twitter had received some takeover approaches, its shares rose 20% in September 2016 and the among the potential buyers there were Microsoft, Alphabet (A parent company of Google), The Walt Disney Company, Salesforce.com and Verizon. However, by the end of 2016, no deal was made. By the end of 2019, the company reported 330 million active users on monthly basis.

Merger and Acquisitions by Twitter:

Some of the popular M&A deals of Twitter are as follows: In 2010, Twitter acquired the company Atebits, the developer of the Twitter clients Tweetie for the Mac and iPhone. In 2013, Crashlytics was acquired by Twitter and in the same year it also acquired MoPub and Trendrr. In 2014, Twitter made an announcement that it would acquire Namo Media a firm having specialisation in native advertising for mobile devices and in the same year it also announced a partnership with IBM to help business use Twitter data to understand the customers and other trends in the market. In 2015, it acquired Niche an advertising company and in 2016, Magic Pony an artificial intelligence startup. In 2021, an email newsletter service provider Revue was acquired by Twitter. In November and December 2021, two of its competitors: Threader.app and Quill, a messaging service were acquired and immediately shut down by Twitter.

About Elon Musk:

Elon Reeve Musk is a well known name in corporate world. He is a successful businessman, investor and founder of many organisations. He is the founder of Angel Investor, SpaceX, The Boring Company and the co-founder of Neuralink and Open AI. He is also the CEO of Tesla Inc. and the president of Musk Foundation and now also the owner and CEO of Twitter Inc. Musk is the richest man of the world according to many sources like Bloomberg Billionaires Index and Forbes’ real-time billionaires list. According to him, he has \$ 250 Billion assets.

Musk was born and brought up in Pretoria, South Africa. At the age of 17, he moved to Canada and got citizenship there through his Canadian-born mother. Before moving to Canada, he studied at University of Pretoria. After moving to Canada, he matriculated from Queen’s University and then got transferred to the University of Pennsylvania and studied his bachelor’s degree in Economics and Physics. In 1995, he moved to California to attend the Stanford University but soon after he dropped out to pursue his business career. With his brother Kimbal, he co-founded the web software company Zip2 which was

acquired by Compaq for the amount of \$ 307 million in 1999. He also co-founded online bank X.Com which later got merged with Confinity and in 2000, he co-founded PayPal. Later in the year 2002, eBay bought PayPal for \$ 1.5 Billion.

Musk-Twitter Deal:

The wealthiest person of the world, Elon Musk purchased the most famous social media platform, Twitter for \$ 44 Billion on October 27, 2022. The chronology of how the event took place is as under:

Important things that happened before announcement of deal:

| S. No. | Date | Particulars |
|--------|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | 31.01.2022 | Musk bought shares of Twitter for the first time and he steadily kept buying more shares for next couple of months. |
| 2 | 14.03.2022 | By the date his stake in Twitter, crossed 5% shareholding. According to securities and exchange commission of America, if stake is more than 5% then this needs to be disclosed to the SEC and the public also comes to know this. But the deadline to inform the SEC was missed Elon Musk by 10 days. |
| 3 | 24.03.2022 | Elon Musk tweets to criticise Twitter by asking whether Twitter supports free speech or not. By the time, Musk started discussing his ideas with former CEO of Twitter, Jack Dorsey and he was in support of Musk as Dorsey liked his ideas of free speech. |
| 4 | 03.04.2022 | Musk shared his ideas with the then CEO of Twitter, Parag Agarwal and he said, "Either take the company private or I will start a rival social media platform." |
| 5 | 04.04.2022 | By the time, public came to know that Musk is the largest shareholder of Twitter, holding 9.2% stake. After this announcement, share price of Twitter goes high. |
| 6 | 05.04.2022 | The BOD of Twitter offered a seat to Musk in the board and Musk accepted this offer. |
| 7 | 09.03.2022 | Musk tweets, "Is Twitter dying?" Here chat war starts between Musk and Parag and Elon Musk refused to join the board of Twitter. |
| 8 | 11.04.2022 | Musk declares that he wants to make Twitter a private company. At this point of time, Twitter filed a case against Musk. |

Announcement of deal and finalization:

Musk-Twitter deal began on 14th of April and concluded on 27th of October. Meanwhile several dramatic things happened before the deal concluded. Here is the detail of important events related to the acquisition of Twitter by Elon Musk.

| S. No. | Date | Particulars |
|--------|------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | 14.04.2022 | Musk makes an announcement regarding his offer to buy Twitter for \$43 Billion as he wanted to take full control over the social media platform. |

| | | |
|----|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | 15.04.2022 | All these things heated the conversation between Musk and Parag. Twitter puts in a “Poison-Pill” takeover defense. |
| 3 | 20.04.2022 | Musk secured financing from group of banks led by Morgan Stanley, Bank of America, Barclays, MUFG, Societe Generale, Mizuho Bank and BNP Paribas for a potential tender offer to acquire the company. Funding includes \$7 Billion senior secured bank loans, \$6 Billion in subordinated debt, \$6.25 Billion in bank loans to Musk personally secured by \$62.5 Billion of his Tesla Stock, cash equity worth \$20 Billion will be provided by sales of Tesla stock and other assets from Elon Musk and \$7.1 Billion in equity from 19 independent investors. |
| 4 | 25.04.2022 | Twitter agrees to Musk offer of \$54.20 per share. The board of Twitter recommended the vote by shareholders in support of acquisition by Musk. But some conditions were there from the side of Twitter: (a) Elon Musk could not say anything negative about Twitter as he was barred from disparaging the company and its officials during the deal. (b) If Musk could not secure the deal, he will be liable to pay \$1 Billion termination fee. |
| 5 | 13.05.2022 | As per experts’ opinion, Musk suffered “Buyer’s Remorse” as he said \$44 Billion Twitter deal on hold by giving the reasons that as per some reports only 5% of the Twitter users were actually BOTS and he apparently believed that more than 20% would be BOTS on Twitter. Musk felt cheated and asked Twitter to bring in some proofs in support of calculation of BOTS. That time Musk and Parag got into feud on Twitter. |
| 6 | 17.05.2022 | Twitter filed new documents with the US SEC which included a detailed timeline of its sale to Elon Musk. Twitter said that Musk was breaching the contract by speaking negatively about Twitter, |
| 7 | June 2022 | SEC directed the Twitter to provide the data required by Elon Musk, provide an estimate of the spam accounts on Twitter. |
| 8 | 07.07.2022 | Twitter says that it removes over 1 Million spam accounts everyday but this could not be investigated by an external agency and that they could not reveal the exact data because it will be a threat to the privacy of the users. |
| 9 | 08.07.2022 | Musk said that he would terminate this deal. |
| 10 | 12.07.2022 | Twitter filed a court case against Musk. Twitter blames that due to uncertainty from the side of Musk, the performance of the company is affected and revenues are declining. By the time, Twitter did not want only \$1 Billion termination fee from Musk but the company board was committed to closing the transaction on the price and terms agreed upon with Musk and also planned to pursue the legal actions to enforce the merger agreement. |
| 11 | 29.07.2022 | Musk also filed a court case against Twitter claiming that Twitter did not public the details and misleded the investors by floating a false number of spam and BOT accounts. |
| 12 | 23.08.2022 | Peiter Zatkó’s whistle blower report claims, “Extreme, egregious deficiencies by Twitter” related to privacy, security and content |

| | | |
|----|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>moderation.</p> <p>Based on this, Musk sends second termination letter of acquisition of Twitter with reason being allegations made by Zatkan.</p> <p>Twitter replied that Zatkan, the former security chief of Twitter angered over being fired for ineffective leadership and poor performance. So his narratives are false.</p> |
| 13 | 13.09.2022 | The US senate judiciary agreed to listen to Zatkan’s allegation. |
| 14 | 03.10.2022 | Musk’s legal team informed him that it would be difficult for them to contest the case as they did not have any concrete reasons to reject the deal. |
| 15 | 04.10.2022 | Musk took a U-turn and sent a letter to Twitter to inform that the offer for buying Twitter for \$44 Billion is still application. |
| 16 | 21.10.2022 | <p>The Washington Post reported that Musk plans to cut 75% of Twitter staff if he takes over the company.</p> <p>In response to this, Twitter employees wrote an open letter protesting Musk’s take-over of Twitter and they showed their disagreement claiming that it would not help Twitter in future.</p> |
| 17 | 27.10.2022 | The deal was finally closed. After months of legal battle, Elon Musk officially bought Twitter. |

The Post-Merger events:

- (a) After the finalization of the deal, on 28th of October Musk fired Parag Agarwal, CFO, The Chief legal officer and also fired the general council and as per the report of India Today around 50% employees got fired.
- (b) As a public company, since 28th of October, Twitter was delisted from the New York Stock Exchange. Twitter is now a private company.
- (c) According to “The Hindu” on 29th October, Musk says that Twitter will form a new content moderation council which will work to handle free speech.
- (d) Musk expresses that he wants to make Twitter like the Chinese app WeChat, where people can not only tweet but also would be able to chat on it and also make video calls and play video games and even make payments.
- (e) On 5th November 2022, “The Guardian” reports that Twitter slashes nearly half of its workforce as Musk admits massive drop in revenues.
- (f) Musk reveals on 5th November 2022, that the blue tick marks on Twitter which are normally given to famous and notable people, will be given to everyone at the cost of \$8 per month.
- (g) Musk plans to take Twitter’s revenue to \$26 Billion by 2028, whereas as of last year it was \$5 Billion.
- (h) Musk says to achieve 931 million users goal by 2028, whereas currently it is 217 million users.

Conclusion:

On the basis of pre-merger events, the things that happened during the deal and also on the basis of post-merger events, it is clearly evident that there are noticeable impacts of merger and acquisition deals on the parties/companies involved. Due to such deals there may be the situation of legal battle between the companies involved. Employees of the target company may be fired. Structural changes in the target company are to be seen. There are the changes in the management of the acquired company and new

policies are to be framed and implemented. A company can achieve and maintain the desired growth rate by acquiring the other company. Shareholders of the company may have value appreciation on the shares held by them. There are the chances of increased revenue because of combined resources. Therefore it can be seen that M&A deals favorably or unfavorably impacts the companies involved in the deal.

References:

1. Rima Tamosiuniene , Egle Duksaite, “The Importance of Mergers and Acquisitions in Today’s Economy”, April 2009, KSI- Journal.
2. Tajalli Fatima, Amir Shehzad, “An Analysis of Impact of Merger and Acquisition of Financial Performance of Banks: A case of Pakistan”, Vol.5 2014, Journal of Poverty, Investment and Development.
3. Maja Pervan, Josipa Višić, Kristina Barnjak, “The impact of M&A on company performance: Evidence from Croatia”, (2015), Procedia Economics and Finance.
4. ATM Adnan, Alamgir Hossain, Impact of M&A Announcement on Acquiring and Target Firm’s Stock Price: An Event Analysis Approach vol. 5, Issue-5, 2016, International Journal of Finance and Accounting.
5. Md. Alam Ansari, M.Mustafa, “An analytical study of impact of merger & acquisition on financial performance of corporate sector in India”, April-June, 2018, Journal of Management Research and Analysis.
6. S. Praveen, Suneetha Rani Tatineni, “Impact of Merger & Acquisition on Organizations”, Volume-9, Issue-1, November 2019, International Journal of Innovative Technology and Exploring Engineering (IJITEE).
7. Dharen Kumar Pandey, Vineeta Kumari P. G., “Impacts of corporate announcements on stock returns during the global pandemic: evidence from the Indian stock market”, Vol. 7 No. 2, 2022, Asian Journal of Accounting Research.
8. Isha Gupta, Nandita Mishra, and Naliniprava Tripathy, “The Impact of Merger and Acquisition on Value Creation: An Empirical Evidence”, 2021, Springer.
9. M.R. Agarwal, “Financial Management”, Second Revised Edition:2010, Garima Publications, Jaipur (Raj.)
10. https://en.wikipedia.org/wiki/Elon_Musk
11. https://en.wikipedia.org/wiki/Twitter,_Inc.
12. https://twitter.com/dhruv_rathee/status/1590253988351352832