Fall 2023

MERCER CAPITAL

Twitter (X Holdings I, Inc.) Solvency

Exploring the issuance of a solvency opinion for the October 2022 acquisition of Twitter, Inc. by Elon Musk's X Holdings I, Inc.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON SEPTEMBER 13, 2022

Notice is given that a special meeting of stockholders (which we refer to, together with any adjournment, postponement or other delay thereof, as the "**special meeting**") of Twitter, Inc., a Delaware corporation (which we refer to as "**Twitter**"), will be held on September 13, 2022, at 10:00 a.m., Pacific time, for the following purposes:

1. To consider and vote on the proposal to adopt the Agreement and Plan of Merger (as it may be amended from time to time) dated as of April 25, 2022, among X Holdings I, Inc., X Holdings II, Inc., Twitter, and, solely for the purposes of certain provisions of the merger agreement, Elon R. Musk (which we refer to as the "**merger agreement**");

2. To consider and vote on the proposal to approve, on a non-binding, advisory basis, the compensation that will or may become payable by Twitter to its named executive officers in connection with the merger of X Holdings II, Inc., a wholly owned subsidiary of X Holdings I, Inc., with and into Twitter (which we refer to as the "**merger**");

3. To consider and vote on any proposal to adjourn the special meeting, from time to time, to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting; and

4. To transact any other business that may properly come before the special meeting.

The special meeting will be held by means of a live interactive webcast on the internet at http://www.virtualshareholdermeeting.com/TWTR2022SM. You will be able to listen to the special meeting live and vote online. The special meeting will begin promptly at 10:00 a.m., Pacific time. Online check-in will begin a few minutes prior to the special meeting. You will need the control number found on your proxy card or voting instruction form in order to participate in the special meeting (including voting your shares).

Only Twitter stockholders as of the close of business on July 22, 2022 are entitled to notice of, and to vote at, the special meeting.

Twitter's Board of Directors unanimously recommends that you vote: (1) "FOR" the adoption of the merger agreement; (2) "FOR" the compensation that will or may become payable by Twitter to its named executive officers in connection with the merger; and (3) "FOR" the adjournment of the special meeting, from time to time, to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the time of the special meeting.

Disclaimer

This short presentation is intended to discuss the concept of corporate solvency, solvency opinions and provide perspective on what issues a solvency opinion might address regarding the October 27, 2022, acquisition of Twitter, Inc. ("Twitter") by Elon Musk's X Holding I, Inc. ("XHI"). Since then, the entities have been renamed X Holdings Corp., which in turn wholly owns X Corp. that operates "X" previously known as Twitter.

A link to the Twitter proxy dated July 26, 2022, for the shareholder meeting held on September 13, 2022, can be found

HERE

In addition, the presentation makes observations about the financial performance of Twitter and the financing structure employed by XHI. Nothing in this this presentation should be construed to convey legal, accounting, investment or tax-related advice.

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- Values illiquid securities on behalf of companies, financial institutions, private equity and credit sponsors, high net worth individuals, benefit plan trustees, and government agencies;
- Provides advisory services including the issuance of fairness and solvency opinions related to M&A, divestitures, capital raises, buy-backs and other significant corporate transactions; and
- Provides buyer and seller representation in M&A transactions.

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A Quick Deal

Section 1

A Quick Deal

Love him or loathe him, Elon Musk has provided endless material for social, political and economic pundits. The acquisition of Twitter by Musk has amplified his reach; however, the steep drop in Twitter's revenues since the acquisition occurred combined with a heavily leveraged purchase has raised the prospect of a bankruptcy filing if Musk cannot turnaround the financial performance and/or if he does not inject additional capital. Some have speculated that Musk may be able to rescue his sizable investment (~$25 billion plus ~$8 billion from co-investors) if the company's lenders led by Morgan Stanley sell their debt to Musk at a steep discount to forego a messy bankruptcy proceeding.

What seems unlikely is a replay of the Tesla-SolarCity merger in 2016 that some think was orchestrated by Musk to bailout a financially challenged SolarCity. We previously commented on the litigation in ***Telsa Walks the Entirely Fair Line with SolarCity*** in which the Delaware Court of Chancery handed Musk a resounding victory under the "entire fairness" standard in 2022.

* * * * * * * * * *

Twitter agreed to be acquired by Musk's XHI on April 25, 2022, for cash consideration of $54.20 per share and a reported transaction value of $44 billion. The deal came together quickly with most diligence occurring after the agreement was signed.

The proxy statement notes in the "background of the merger" that Musk first contacted Twitter founder and x-CEO Jack Dorsey on March 26, 2022, after which discussions with the board ensued. Musk publicly disclosed that he purchased over 9% of the company's shares on April 4 and then made a non-binding offer to acquire the company for $54.20 per share on April 13.

Stretch Pricing

30x management's projected 2022 EBITDA

During this period, J.P. Morgan and Goldman Sachs did not find an alternative transaction for the board to consider at a time when Musk had publicly put the company in play, and Morgan Stanley as Musk's lead advisor provided financing information that satisfied Twitter's board about the ability of Musk to close. On April 24, Musk delivered a letter to the Twitter board that noted his offer was binary: either the board accepts it, or Musk would sell all his shares.

Based upon Twitter's earnings, Musk's offer was stupendous at 59x recurring 2021 EBITDA (as calculated by S&P) of $818 million (16% margin) and 30x management's projected 2022 EBITDA of $1.6 billion (27% margin).

Twitter's historical performance implies the 2022 forecast was a stretch as were the five-year projections provided to J.P. Morgan and Goldman Sachs that assumed Twitter's market share would increase to 3.3% by 2027 ($5.4 billion EBITDA, 42% margin) from a seven-year average of 2.1%.

	Acquired	100%
Common Shares (M)	763.58	763.58
Less Musk Shares - 9.55%	(73.12)	
RSUs	67.58	67.58
Options & Other CSEs	3.90	3.90
Acquired Shares	761.93	835.05
Cash Price	$54.20	$54.20
Common Equity Value	**$41,297**	**$45,260**
Convertible Notes	3,563	3,563
Adjusted Equity Value	**$44,860**	**$48,823**
Debt (x-leases)	1,684	1,684
Cash	(2,681)	(2,681)
Enterprise Value	**$43,863**	**$47,826**
Investments	*(3,440)*	*(3,440)*
Adjusted Enterprise Value	*$39,426*	*$43,389*
Ent Value / FY21A Revenue	5,077	9.4x
Ent Value / FY22E Revenue	5,928	8.1x
Ent Value / FY21A EBITDA	818	58.5x
Ent Value / FY22E EBITDA	1,602	29.9x
JPM & GS Fairness Opinion M&A Comps		~25-35x

Source: TWTR SEC filings and Mercer Capital estimates

Buyer’s Remorse

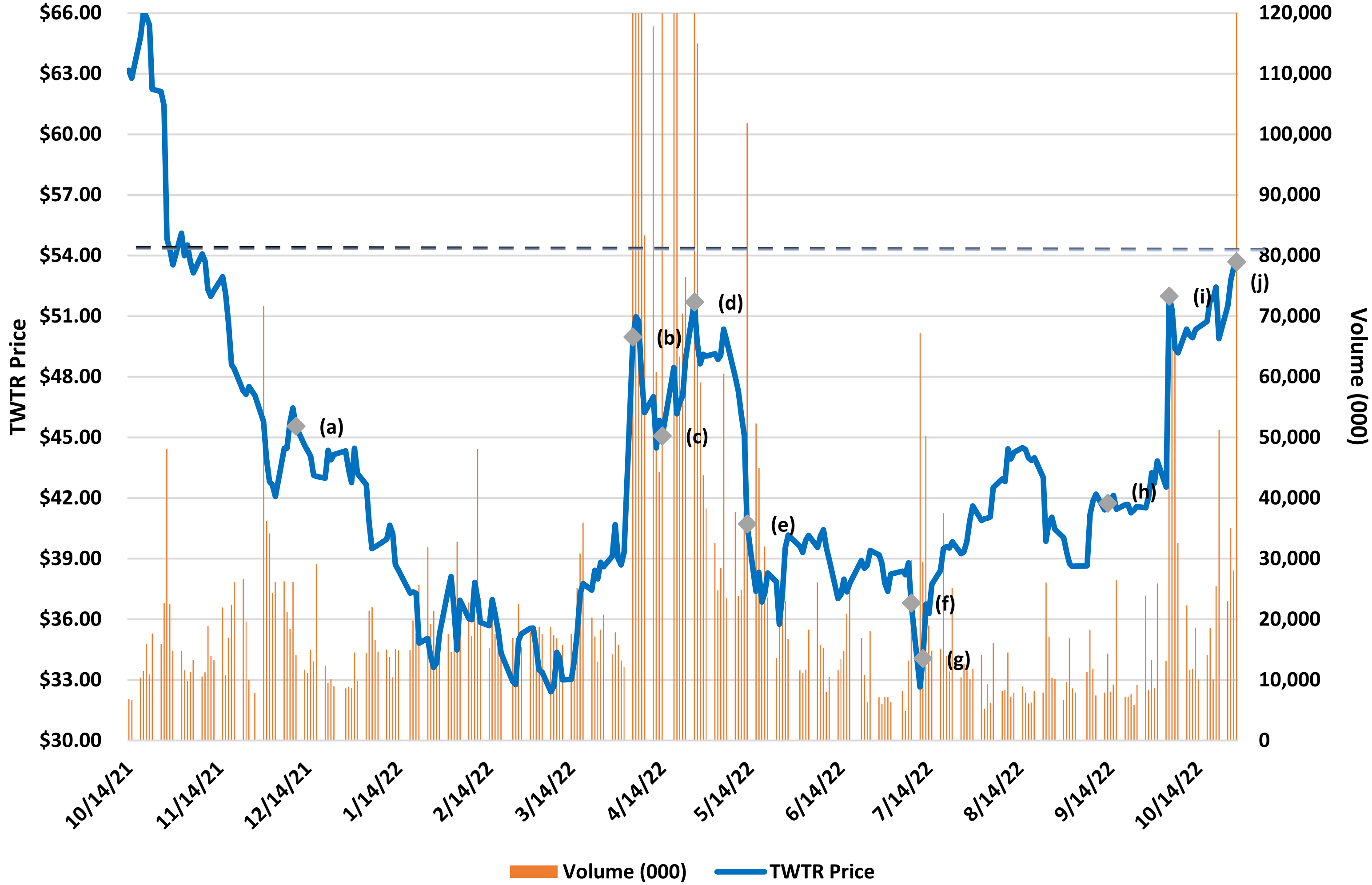
The acquisition price was attractive, too, based on the 38% premium over the share price the day before Musk disclosed his position and the 54% premium immediately before he began building a position. Twitter’s shares produced just a middling CAGR of 8.5% when measured from its IPO price of $26.00 per share in November 2013 through the closing of the acquisition in October 2022 compared to a CAGR of 11.7% for the NASDAQ. The all-time high price of $77.63 per share was recorded on March 1, 2021.

The proxy does not say it, but the board probably did not have to think too hard about signing the agreement. Musk had buyer’s remorse, however.

By early June, Musk’s attorneys raised the possibility of asserting a right not to consummate and terminate because Musk believed Twitter was not providing information he was entitled to receive (i.e., the bot and spam issue).

On July 8, Musk asserted his right to terminate the agreement. Twitter subsequently sued Musk in the Delaware Court of Chancery, which granted a motion to expedite the proceedings.

On October 4, Musk gave up and agreed to close as it (apparently) became obvious that Twitter would prevail in court, which would then create the potential for damages. The transaction closed on October 27, 2022, about six weeks after Twitter shareholders overwhelmingly approved Musk’s generous offer.



(a) Freefall in Twitter's shares was not in isolation as the NASDAQ bear market began in 4Q21 and did not bottom until Oct 2022 down 35%; (b) Musk discloses 9% position 4/4/22; (c) Musk offers to buy all shares for $54.20 p/s cash 4/13/22; (d) TWTR board approves the deal 4/25/22; (e) Musk tweets deal on hold; (f) Musk gives termination notice, citing bots; (g) TWTR sues in DE Chancery to force Musk to close; (h) shareholders overwhelmingly approve the deal 9/13/22; (i) Musk gives up legal fight to terminate 10/4/22; (j) deal closes 10/27/22

Source: S&P Global Market Intelligence & TWTR SEC filings

Twitter's Historical Financials

The accumulated deficit - a component of equity - was $1.1 billion as of YE21

Twitter, Inc.	2Q22 LTM	1Q22 LTM	2021 FY	2020 FY	2019 FY	2018 FY	2017 FY
Period Ended	6/30/22	3/31/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17
Balance Sheet ($Mil)							
Cash & Short Term Investments	$2,681	$2,283	$2,187	$1,988	$1,799	$1,894	$1,638
Investments	3,677	4,192	4,415	5,570	4,918	4,345	2,792
Fixed Assets & Lease Right-of-Use	3,548	3,423	3,277	2,424	1,729	885	774
Total Assets	13,579	13,551	14,060	13,379	12,703	10,163	7,412
Total Debt	6,717	6,626	5,547	4,484	3,288	2,721	1,794
Net Debt	*596*	*365*	*(847)*	*(2,989)*	*(3,351)*	*(3,489)*	*(2,609)*
Total Equity	5,932	5,905	7,307	7,970	8,704	6,806	5,047
Total Debt / EBITDA (x)	11.45	7.35	5.38	6.77	3.58	3.55	5.31
Income Statement ($Mil)							
Total Revenue	$5,229	$5,242	$5,077	$3,716	$3,459	$3,042	$2,443
Net Income	(112)	224	(221)	(1,136)	1,466	1,206	(108)
EBITDA	589	962	149	509	836	870	361
Recurring EBITDA	**331**	**667**	**818**	**522**	**832**	**875**	**429**
EBITDA / Interest Expense (x)	9.32	16.86	20.14	4.33	6.65	5.78	3.21
Cash Flow ($Mil)							
Cash from Operations	$16	$369	$633	$993	$1,303	$1,340	$831
Cash from Investing	984	437	53	(1,561)	(1,116)	(2,056)	(117)
Capital Expenditure	*(869)*	*(994)*	*(1,012)*	*(873)*	*(541)*	*(484)*	*(161)*
Cash from Financing	(2,424)	(2,764)	(473)	755	(286)	978	(78)
Profitability (%)							
Return on Common Equity	(1.6)	3.3	(2.9)	(13.6)	18.9	20.3	(2.2)
EBITDA Margin	**4.0**	**10.4**	**13.7**	**11.1**	**20.7**	**25.2**	**13.8**
Per Share Information ($)							
Common Shares Outstanding (Mil)	770.98	763.58	799.38	796.00	779.62	764.26	746.90
Book Value Per Share	$7.69	$7.73	$9.14	$10.01	$11.16	$8.90	$6.76
Diluted EPS Excl. Extra Items	($0.15)	$0.28	($0.28)	($1.44)	$1.87	$1.56	($0.15)

Source: S&P Global Market Intelligence

Management's Forecast

Don't laugh: A turnaround predicated upon a 50% increase in market share

Prior Mng't Forecast ($Mil)	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Revenue	$5,077	$5,928	$7,200	$8,481	$9,793	$11,264	$12,917
Adjusted EBITDA	**818**	**1,602**	**2,685**	**3,243**	**3,846**	**4,558**	**5,399**
EBITDA Margin (%)	*16.1*	*27.0*	*37.3*	*38.2*	*39.3*	*40.5*	*41.8*
Growth Rate	*56.7*	*95.9*	*67.6*	*20.8*	*18.6*	*18.5*	*18.5*
Capital Expenditure	*(1,012)*	*(968)*	*(982)*	*(1,018)*	*(1,077)*	*(1,014)*	*(1,033)*
Adjusted EBITDA less Capex	(194)	634	1,703	2,225	2,769	3,544	4,366
GAAP Operating Income		(47)	917	1,192	1,517	1,932	2,455
Unlevered Free Cash Flow		561	1,279	1,900	2,371	3,046	3,742
Unlevered FCF (less stock comp)		(303)	379	834	1,133	1,616	2,099

Source: S&P Global Market Intelligence

Financing

Section 2

Financing

After Musk increased the amount of equity capital, financing at closing consisted of $33.5 billion of equity from Musk and co-investors and $13.0 billion of debt consisting of:

- $500 million senior secured revolver due October 2027 @ SOFR+4.50%;
- $6.5 billion senior secured term loan due October 2029 @ SOFR+4.75%;
- $3.0 billion senior secured bridge loan due October 2023 @ SOFR+6.75%; and
- $3.0 billion senior unsecured bridge loan due October 2023 @ SOFR+10.0%.

The term loan entails a standard leverage loan structure (term loan B – "TLB") of annual amortization of 1.0% of the original balance payable in 0.25% quarterly increments. Both bridge loans, which have yet to be repaid via one or more note offerings, mature on October 27, 2023, at which point they convert to seven-year and eight-year term loans.

An additional wrinkle is that both bridge loans entail a 0.50% quarterly escalator for every quarter that the bridge loans are not refinanced subject to caps that have been reported to be 9.75% for the secured bridge loan and 11.75% for the unsecured bridge loan. The commitment letter (**here**) references the cap as being defined in the "Fee Letter." If the bridge loans convert to term loans, then the caps shall apply. Absent the caps, the respective rates on the bridge loans would be ~14% and ~17% as of October 2023.

High Leverage

Cap structure entailed only ~30% debt, but high (or extreme) leverage on iffy earning power

On October 31, Moody's cut its rating to B1 from Ba2. S&P cut its rating to B- from BB+. Both withdrew their ratings a few weeks later due to a lack of information. A downgrade to CCC in time seemed likely.

Depending upon one's view of Twitter's earning power, net debt at closing was heavy at ~7x projected 2022 EBITDA or extreme at ~13x 2021 EBITDA. It is worse now because Musk has said that advertising revenues which constituted ~90% of pre-deal revenues were off 50% after many advertisers exited Twitter, though [recent comments] indicate some improvement.

Twitter, Inc. ($Mil)	6/30/22	Adj	Pro Forma
Cash	$2,681	($950)	$1,731
Accounts Receivable	1,010		1,010
Investments	3,440		3,440
Net Fixed Assets	3,548		3,548
Goodwill & Intangibles	1,356	43,162	44,518
Other Assets	1,545		1,545
TOTAL ASSETS	**$13,579**	**$42,212**	**$55,791**
Accounts Payable & Accrued Exp	$699		$699
Other Liabilities	1,701		1,701
Lease Liability	1,472		1,472
Revolving Credit Facility	0	0	0
Senior Notes	1,684	(1,684)	0
Convertible Notes	3,563	(3,563)	0
Term Loan B	0	6,500	6,500
Secured Notes due	0	3,000	3,000
Unsecured Notes due	0	3,000	3,000
Total Debt	**5,247**	**7,253**	**12,500**
Total Liabilities	7,647	7,253	14,900
Equity	**5,932**	**34,959**	**40,891** [1]
TOTAL LIABILITIES & EQUITY	$13,579	$42,212	$55,791

Source of Funds ($Mil)	
Cash [2]	950
$500M Revolver (SOFR+450)	0
Term Loan B (SOFR+475)	6,500
Sr Sec Bridge Ln (SOFR+675) [3]	3,000
Unsec Bridge Ln (SOFR+1000) [3]	3,000
Equity Financing	33,500
Total Source of Funds	**$46,950**

Use of Funds ($Mil)	
Shareholder Pmt x-Musk Shares	$41,297
Convertible Notes	3,563
Senior Notes	1,684
Fees & Deal Expenses [2]	406
Total Use of Funds	**$46,950**
Enterprise Value	$47,826
Adj Enterprise Value	*43,389*
EV / FY21 EBITDA $818	58.5x
EV / FY22 EBITDA $1,602	29.9x
Debt / FY21A EBITDA $818	15.3x
Net Debt / FY21A EBITDA	13.2x

1) Equity=value of acquired common equity less fees and expenses; 2) MC estimate; 3) margin increases 50bps per qtr until refinanced

Source: TWTR SEC filings and Mercer Capital estimates

Rising Interest Payments

No interest payments have been missed through October 2023

Interest coverage is poor or may not really exist based upon the drop in revenues, though it should be noted Musk has taken a meat cleaver to staffing without any outward impact to functionality.

When the merger agreement was signed on April 25, 2022, SOFR was ~0.50%, which equated to about $900 million of annual interest expense.

While the Fed was expected to push its policy rates higher that SOFR tracks when the financing commitment was made, few expected the current rate of 5.3%. We calculate annual interest expense of about $1.3 billion today. Absent the caps, annual interest expense would be closer to $1.6 billion.

	SOFR Margin		4/26/22	10/27/22	10/5/23
Base Rate - SOFR			0.62%	3.05%	5.32%
Revolver (*if undrawn*)	0	4.50%	0	0	0
Term Loan B	6,500	4.75%	349	507	655
Bridge-Secured	3,000	6.75%	221	294	362
50bps / Qtr Add-On		*2.00%*			*60*
Adjust for Rate Cap @		*9.75%*			*(130)*
Bridge-Unsecured	3,000	10.00%	319	392	460
50bps / Qtr Add-On		*2.00%*			*60*
Adjust for Rate Cap @		*11.75%*			*(167)*
Est. Annual Interest Expense ($Mil)			**$889**	**$1,193**	**$1,300**
Other Annual Expenditures					
Capital Expenditures					1,000
TLB Principal Amortization					65
Annual Working Capital Investment					?
Taxes					Minimal ?
Est. Annual Other Cash Needs ($Mil)					**TBD**

Source: SEC filing (4.20 commitment letter), Fortune and Mercer Capital estimates

Hung Financing

The financing structure assumed Morgan Stanley, Bank of America, Barclays and other lenders would place the leverage loan (TLB) with credit investors, while notes would be issued to other investors to refinance the bridge loans; however, given the rapid increase in rates and Twitter's deteriorating finances, the banks are now stuck with $13 billion of loans.

As shown on the following pages, our rough analysis indicates the TLB should not be valued anywhere close to par. Under a full pay scenario assuming a premium to the forward curve of 25%, the implied value of the TLB is about 52% of the current unpaid balance. The indicated value is around 49% under a restructuring scenario that assumes a 50% haircut in January 2025. The values are hypotheticals, though nonetheless illustrative of the loss of value because investors will have to target a very high IRR given a range of outcomes, most of which would be bad from a lender's perspective. The adage that there are no bad bonds (or loans) only bad prices paid is especially apropos here.

The bridge loans are worth less than the TLB because (a) the rates are capped at 9.75% and 11.75% based upon reporting by Fortune; (b) these loans are lower in the capital stack; and (c) the junior bridge loan is uncollateralized. Absent a drop in rates and/or sharp improvement in Twitter's finances, the dire financial position appears to give Musk significant leverage with his lenders. Various scenarios are being floated around Wall Street such as one where the banks sell the bridge loans to Musk at a deep discount to rescue the revolver and TLB.

Why might Morgan Stanley et al do that? Because they made a bad deal 18 months ago and presumably have marked their exposure to market or nearly so. If Musk skips an interest payment to force the issue (i.e., an event of default), they would be gambling that they could find a new operator for the company who could preserve value assuming Musk walked.

Term Loan B Details - Pay as Agreed		
Base Rate		SOFR
Margin Rate Over SOFR		4.75%
Original / Current UPB	$6,500	$6,451
Quarterly Amortization	0.25%	$16.25
Origination and 1st Pmt	10/27/22	1/27/22
Payoff Date & % of UPB	10/27/29	100%
Valuation Date		10/5/23
Pays as agreed scenario		
Conclusion of Fair Value as % of Par		**51.9%**
Conclusion of Fair Value of TLB		**$3,351**
Projected IRR for Price Paid		**30.5%**

Indicative Yields / OAS Spreads to Discount CFs	Yield	Spread	
ICE BofA BB HY Index	7.85%	3.03%	
ICE BofA B HY Index	9.36%	4.56%	
ICE BofA CCC HY Index	14.36%	9.81%	
Selected Baseline OAS		9.81%	
Other Factors-Illiquidity		2.00%	
Other Factors-Financial Distress		5.00%	
Other Factors-Musk		8.00%	*<> Paradoy, sort of*
Selected Prem to Spot Curve to PV CFs		25.00%	

	FV if Prem to Spot Rate to Discount CFs =			
	15.0%	20.0%	25.0%	30.0%
	$4,550	$3,876	$3,351	$2,936
% of UPB	70.5%	60.1%	51.9%	45.5%

Payment Date	Fwrd 90D SOFR	SOFR + Margin = TLB Rate	Proj Int Expense	Principal Payment	Proj CF for Period	Ending Loan Balance	Spot Rate	Discount Rate (Spot + Prem)	Number of Periods Discounted	PV Interest Factor	PV of Cash Flows for Period	PV of Aggregate Cash Flows	**IRR if Price Paid for TLB =** **30.5%** **($3,351)**	**18.1%** **($4,901)**	**10.6%** **($6,451)**
10/27/23	5.423%	10.173%	167.7	16.3	184.0	6,435	5.377%	30.377%	0.0611	0.9839	181	181	$184	$184	$184
1/27/24	5.461%	10.211%	167.9	16.3	184.2	6,419	5.399%	30.399%	0.3167	0.9194	169	350	$184	$184	$184
4/27/24	5.487%	10.237%	166.1	16.3	182.3	6,403	5.420%	30.420%	0.5694	0.8596	157	507	$182	$182	$182
7/27/24	5.481%	10.231%	165.6	16.3	181.8	6,386	5.437%	30.437%	0.8222	0.8037	146	653	$182	$182	$182
10/27/24	5.474%	10.224%	166.9	16.3	183.1	6,370	5.445%	30.445%	1.0778	0.7509	137	791	$183	$183	$183
1/27/25	5.455%	10.205%	166.1	16.3	182.4	6,354	5.450%	30.450%	1.3333	0.7016	128	919	$182	$182	$182
4/27/25	5.382%	10.132%	160.9	16.3	177.2	6,338	5.451%	30.451%	1.5833	0.6565	116	1,035	$177	$177	$177
7/27/25	5.314%	10.064%	161.2	16.3	177.5	6,321	5.442%	30.442%	1.8361	0.6139	109	1,144	$177	$177	$177
10/27/25	5.258%	10.008%	161.7	16.3	177.9	6,305	5.428%	30.428%	2.0917	0.5737	102	1,246	$178	$178	$178
1/27/26	5.159%	9.909%	159.7	16.3	175.9	6,289	5.411%	30.411%	2.3472	0.5362	94	1,340	$176	$176	$176
4/27/26	5.097%	9.847%	154.8	16.3	171.1	6,273	5.388%	30.388%	2.5972	0.5020	86	1,426	$171	$171	$171
7/27/26	4.748%	9.498%	150.6	16.3	166.8	6,256	5.364%	30.364%	2.8500	0.4697	78	1,505	$167	$167	$167
10/27/26	4.710%	9.460%	151.2	16.3	167.5	6,240	5.316%	30.316%	3.1056	0.4394	74	1,578	$167	$167	$167
1/27/27	4.710%	9.460%	150.9	16.3	167.1	6,224	5.273%	30.273%	3.3611	0.4111	69	1,647	$167	$167	$167
4/27/27	4.710%	9.460%	147.2	16.3	163.4	6,208	5.235%	30.235%	3.6111	0.3852	63	1,710	$163	$163	$163
7/27/27	4.710%	9.460%	148.4	16.3	164.7	6,191	5.202%	30.202%	3.8639	0.3607	59	1,769	$165	$165	$165
10/27/27	4.710%	9.460%	149.7	16.3	165.9	6,175	5.175%	30.175%	4.1194	0.3374	56	1,825	$166	$166	$166
1/27/28	4.288%	9.038%	142.6	16.3	158.9	6,159	5.149%	30.149%	4.3750	0.3157	50	1,875	$159	$159	$159
4/27/28	4.159%	8.909%	138.7	16.3	154.9	6,143	5.105%	30.105%	4.6278	0.2959	46	1,921	$155	$155	$155
7/27/28	4.159%	8.909%	138.3	16.3	154.6	6,126	5.056%	30.056%	4.8806	0.2773	43	1,964	$155	$155	$155
10/27/28	4.159%	8.909%	139.5	16.3	155.7	6,110	5.014%	30.014%	5.1361	0.2597	40	2,005	$156	$156	$156
1/27/29	4.159%	8.909%	139.1	16.3	155.4	6,094	4.975%	29.975%	5.3917	0.2433	38	2,042	$155	$155	$155
4/27/29	4.159%	8.909%	135.7	16.3	152.0	6,078	4.939%	29.939%	5.6417	0.2282	35	2,077	$152	$152	$152
7/27/29	3.969%	8.719%	133.9	16.3	150.2	6,061	4.907%	29.907%	5.8944	0.2139	32	2,109	$150	$150	$150
10/27/29	3.911%	8.661%	134.2	6,061.3	6,195.4	0	4.869%	29.869%	6.1500	0.2004	1,242	3,351	$6,195	$6,195	$6,195
1/27/30	3.911%	8.661%	0.0	0.0	0.0	0	4.832%	29.832%	6.4056	0.1878	0	3,351	$0	$0	$0

Term Loan B Details - Haircut Restructure		
Base Rate		SOFR
Margin Rate Over SOFR		4.75%
Original / Current UPB	$6,500	$6,451
Quarterly Amortization	0.25%	$16.25
Origination and 1st Pmt	10/27/22	1/27/22
Payoff Date & % of UPB	1/27/25	50%
Valuation Date		10/5/23
Debt is restructured (haircut)		
Conclusion of Fair Value as % of Par		**48.7%**
Conclusion of Fair Value of TLB		**$3,142**
Projected IRR for Price Paid		**30.9%**

Indicative Yields / OAS Spreads to Discount CFs	Yield	Spread
ICE BofA BB HY Index	7.85%	3.03%
ICE BofA B HY Index	9.36%	4.56%
ICE BofA CCC HY Index	14.36%	9.81%
Selected Baseline OAS		9.81%
Other Factors-Illiquidity		2.00%
Other Factors-Financial Distress		5.00%
Other Factors-Musk		8.00% *<> Paradoy, sort of*
Selected Prem to Spot Curve to PV CFs		25.00%

FV Sensitivity: Prem to Spot Rate vs Recovery %	15.0%	20.0%	25.0%	30.0%
67%	$4,285	$4,085	$3,902	$3,734
50%	$3,440	$3,284	$3,142	$3,011
33%	$2,595	$2,484	$2,382	$2,289

Payment Date	Fwrd 90D SOFR	SOFR + Margin = TLB Rate	Proj Int Expense	Principal Payment	Proj CF for Period	Ending Loan Balance	Spot Rate	Discount Rate (Spot + Prem)	Number of Periods Discounted	PV Interest Factor	PV of Cash Flows for Period	PV of Aggregate Cash Flows	IRR if Price Paid for TLB = 30.9% ($3,142)	-9.6% ($4,797)	-29.7% ($6,451)
10/27/23	5.423%	10.173%	167.7	16.3	184.0	6,435	5.377%	30.377%	0.0611	0.9839	181	181	$184	$184	$184
1/27/24	5.461%	10.211%	167.9	16.3	184.2	6,419	5.399%	30.399%	0.3167	0.9194	169	350	$184	$184	$184
4/27/24	5.487%	10.237%	166.1	16.3	182.3	6,403	5.420%	30.420%	0.5694	0.8596	157	507	$182	$182	$182
7/27/24	5.481%	10.231%	165.6	16.3	181.8	6,386	5.437%	30.437%	0.8222	0.8037	146	653	$182	$182	$182
10/27/24	5.474%	10.224%	166.9	16.3	183.1	6,370	5.445%	30.445%	1.0778	0.7509	137	791	$183	$183	$183
1/27/25	5.455%	10.205%	166.1	3,185.0	3,351.1	3,185	5.450%	30.450%	1.3333	0.7016	2,351	3,142	$3,351	$3,351	$3,351
4/27/25	5.382%	10.132%	0.0	0.0	0.0	0	5.451%	30.451%	1.5833	0.6565	0	3,142	$0	$0	$0
7/27/25	5.314%	10.064%	0.0	0.0	0.0	0	5.442%	30.442%	1.8361	0.6139	0	3,142	$0	$0	$0
10/27/25	5.258%	10.008%	0.0	0.0	0.0	0	5.428%	30.428%	2.0917	0.5737	0	3,142	$0	$0	$0
1/27/26	5.159%	9.909%	0.0	0.0	0.0	0	5.411%	30.411%	2.3472	0.5362	0	3,142	$0	$0	$0
4/27/26	5.097%	9.847%	0.0	0.0	0.0	0	5.388%	30.388%	2.5972	0.5020	0	3,142	$0	$0	$0
7/27/26	4.748%	9.498%	0.0	0.0	0.0	0	5.364%	30.364%	2.8500	0.4697	0	3,142	$0	$0	$0
10/27/26	4.710%	9.460%	0.0	0.0	0.0	0	5.316%	30.316%	3.1056	0.4394	0	3,142	$0	$0	$0
1/27/27	4.710%	9.460%	0.0	0.0	0.0	0	5.273%	30.273%	3.3611	0.4111	0	3,142	$0	$0	$0
4/27/27	4.710%	9.460%	0.0	0.0	0.0	0	5.235%	30.235%	3.6111	0.3852	0	3,142	$0	$0	$0
7/27/27	4.710%	9.460%	0.0	0.0	0.0	0	5.202%	30.202%	3.8639	0.3607	0	3,142	$0	$0	$0
10/27/27	4.710%	9.460%	0.0	0.0	0.0	0	5.175%	30.175%	4.1194	0.3374	0	3,142	$0	$0	$0
1/27/28	4.288%	9.038%	0.0	0.0	0.0	0	5.149%	30.149%	4.3750	0.3157	0	3,142	$0	$0	$0
4/27/28	4.159%	8.909%	0.0	0.0	0.0	0	5.105%	30.105%	4.6278	0.2959	0	3,142	$0	$0	$0
7/27/28	4.159%	8.909%	0.0	0.0	0.0	0	5.056%	30.056%	4.8806	0.2773	0	3,142	$0	$0	$0
10/27/28	4.159%	8.909%	0.0	0.0	0.0	0	5.014%	30.014%	5.1361	0.2597	0	3,142	$0	$0	$0
1/27/29	4.159%	8.909%	0.0	0.0	0.0	0	4.975%	29.975%	5.3917	0.2433	0	3,142	$0	$0	$0
4/27/29	4.159%	8.909%	0.0	0.0	0.0	0	4.939%	29.939%	5.6417	0.2282	0	3,142	$0	$0	$0
7/27/29	3.969%	8.719%	0.0	0.0	0.0	0	4.907%	29.907%	5.8944	0.2139	0	3,142	$0	$0	$0
10/27/29	3.911%	8.661%	0.0	0.0	0.0	0	4.869%	29.869%	6.1500	0.2004	0	3,142	$0	$0	$0
1/27/30	3.911%	8.661%	0.0	0.0	0.0	0	4.832%	29.832%	6.4056	0.1878	0	3,142	$0	$0	$0

Solvency

Section 3

Solvency Representation

Our lookback here raises the question of solvency when Morgan Stanley and the other banks originated the loans. The credit agreement entails a solvency representation made to the lenders in the form of a Solvency Certificate from the financial executive officer that states:

1. The sum of the liabilities (including contingent liabilities) of the Borrower and its restricted subsidiaries, on a consolidated basis, does not exceed the present fair saleable value of the present assets of the Borrower and its restricted subsidiaries, on a consolidated basis;
2. The fair value of the property of the Borrower and its restricted subsidiaries, on a consolidated basis, is greater than the total amount of liabilities (including contingent liabilities) of the Borrower and its restricted subsidiaries, on a consolidated basis as such liabilities become absolute and mature;
3. The capital of the Borrower and its restricted subsidiaries, on a consolidated basis, is not unreasonably small in relation to their business as contemplated on the date hereof; and
4. The Borrower and its restricted subsidiaries, on a consolidated basis, have not incurred and do not intend to incur, or believe that they will incur, debts including current obligations beyond their ability to pay such debts as they become due (whether at maturity or otherwise).

We do not know if XHI's board obtained a solvency opinion prior to providing the Solvency Certificate, but what appeared to be iffy solvency at closing is more so today.

Solvency Opinions

The Business Judgement Rule, an English case law doctrine followed in the US and Canada, provides directors with great latitude in running the affairs of a corporation provided directors do not breach their fiduciary duties to act in good faith, loyalty and due care. However, there are instances when state law prohibits certain actions including the fraudulent transfer of assets to stockholders that would leave a company insolvent.

Transactions that may meaningfully alter the capitalization of a company include leveraged dividend recapitalizations, leveraged buyouts, significant share repurchases, and special dividends funded with existing assets. Often a board contemplating such actions will be required to obtain a solvency opinion at the direction of its lenders or corporate counsel to provide evidence that the board exercised its duty of care to make an informed decision should the decision be challenged.

A solvency opinion addresses four questions, three of which XHI represented as true in its Solvency Certificate (the fourth question re “surplus” is not addressed):

- Does the fair value of the company’s assets exceed its liabilities after giving effect to the proposed action?
- Will the company be able to pay its debts (or refinance them) as they mature?
- Will the company be left with inadequate capital?
- Does the fair value of the company’s assets exceed its liabilities and surplus after giving effect to the proposed action?

Twitter's Shadow Solvency Opinion

Balance Sheet Test asks if the fair value and present fair saleable value of the company's total assets exceed the company's total liabilities, including all identified contingent liabilities. In the case of XHI, the answer seemingly is a straightforward "yes." The announced deal value was $44 billion, while we calculate the value of total invested capital of upwards of $48 billion versus ~$15 billion of post-transaction liabilities. One could (or should) argue that the transaction itself illustrates a positive value. Even if Twitter's pre-Musk disclosure price of ~$39 per share is applied, a market cap of ~$30 billion entails plenty of cushion. The conclusion might be questioned if other valuation methodologies are introduced such as a discounted cash flow ("DCF") method in which management's projections are replaced with a forecast that is consistent with performance the past few years. YES

Cash Flow Test asks if the company can pay (or refinance) its debts as they come due. The answer to this question for Twitter immediately before closing probably was at best "it depends" upon management's forecast of significant market share gains being realized. Otherwise, the company's history of upwards of $1 billion of annual EBITDA would be insufficient to cover annual capex and interest expense that combined approximate $2 billion. If measured today, the answer would be "no" based on a reduction in annual revenues to ~$3 billion from ~$5 billion absent Musk and his co-investors providing additional capital. NO

Twitter's Shadow Solvency Opinion

Capital Adequacy Test asks if the company operates with unreasonably small capital in the context of its business plan. There is no bright line test for what "unreasonably small capital" means. We typically evaluate this concept based upon pro forma and projected leverage multiples (Debt/EBITDA and EBITDA/Interest Expense) relative to public market comps and rating agency benchmarks. While management's projections represent a baseline scenario, alternative downside scenarios are constructed to assess the "unreasonably small capital" question. For XHI, the capital adequacy test is a "no" given extreme leverage of 15x (13x net) 2021 EBITDA and roughly 1x interest coverage. NO

Capital Surplus Test asks if the fair value of the Company's assets exceed the sum of (a) its total liabilities (including identified contingent liabilities) and (b) its capital as such capital is calculated pursuant to Section 154 of the Delaware General Corporation Law which defines statutory capital as (c) the par value of the stock; or in stances when there is no par value as (d) the entire consideration received for the issuance of the stock. Twitter would comfortably pass the capital surplus test if the test were applied to the pre-transaction company because the par value of its stock was less than $5,000 at $0.000005 per share. We do not know the capital construct of Delaware-chartered XHI and whether there is par value stock and if so its value, but it seems safe to assume XHI would pass this test, too. YES

Twitter’s Shadow Solvency Opinion

The issuance of a solvency opinion for XHI seems like a tough proposition for a solvency committee. It is hard to ignore the company’s mediocre financial performance before the transaction, which in turn makes prior management’s forecast dubious as it relates to debt service capacity. It may be that Musk’s team (Morgan Stanley was led financial advisor and lender) relied upon a more sober forecast than the one produced by Twitter management for J.P. Morgan and Goldman Sachs as part of their evaluation of the transaction.

If the projections were doubtful, then the solvency committee could consider the likelihood of the sponsor (Musk) to support the company to protect his investment. Given the size of the investment that would not be an unreasonable assumption, though Wall Street speculation that the banks may sell the bridge loans at steep discounts to rescue the TLB and revolver is not consistent with a solvent company that can service its debts as they come due.

Solvency opinions are like fairness opinions: many are fine based upon reasonable assumptions; some are a close call; and occasionally a transaction is not a close call. Twitter appears to have been a tough call when the deal was announced and a stretch if not a bridge too far by the September 2022 shareholder meeting to approve the deal given mediocre year-to-date results.

Appendix

Section 7

Representative Transactions

National Retail Insurance Brokerage

Dividend & Recapitalization Transaction of $50 million

Mercer Capital rendered a solvency opinion on behalf of the board of directors of the Company

– April 2022 –

ROBINS Financial CREDIT UNION

Robins, Georgia

Has entered into a definitive agreement to acquire

PERSONS Banking Company

Forsyth, Georgia

Mercer Capital served as exclusive financial advisor to Robins Financial Credit Union

– March 2022 –

Own GEORGIA'S OWN CREDIT UNION

Atlanta, Georgia

has agreed to acquire the majority of the assets and liabilities of

Vinings Bank

Smyrna, Georgia

Mercer Capital served as exclusive financial advisor to Georgia's Own Credit Union

– February 2022 –

STIFEL FINANCIAL

Stifel Financial

St. Louis, Missouri

has acquired

VINING SPARKS

Vining-Sparks IBG, L.P.

Memphis, Tennessee

Mercer Capital provided financial advisory services and rendered a fairness opinion on behalf of Vining-Sparks

– October 2021 –

KYZEN Where Science and Care Converge.

KYZEN Corporation

Nashville, TN

Cash-Out Merger

Mercer Capital served as financial advisor to the board of directors to establish a range of value at which certain shareholders would receive cash and rendered a fairness opinion in a go-private transaction

– August 2021 –

KRAUSE FINANCIAL SERVICES

Krause Brokerage Services

De Pere, Wisconsin

has acquired

LTC Solutions Your source for long-term care insurance

LTC Solutions

Cape Coral, Florida

Mercer Capital served as exclusive financial advisor to Krause Brokerage Services

– July 2021 –

Simmons Bank.

Simmons First National Corp.

Pine Bluff, Arkansas

has entered into an agreement to acquire

LANDMARK IT'S ALL ABOUT THE EXPERIENCE

Landmark Community Bank

Collierville, Tennessee

Mercer Capital rendered a fairness opinion on behalf of Simmons First National Corporation

– June 2021 –

National Cellular Retailer

$75 million dividend recapitalization transaction Mercer Capital rendered a solvency opinion on behalf of the board of directors of the company

– May 2021 –

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