Summer 2025

MERCER CAPITAL

All in the Family: X Corp. Merges with x.AI Corp.

Elon Musk continues to explore corporate governance and fairness boundaries

Jeff K. Davis, CFA
Managing Director
1.615.345.0350
jeffdavis@mercercapital.com

MERCER CAPITAL
BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES
WWW.MERCERCAPITAL.COM

Mercer Capital Disclaimer

This short presentation is intended to discuss some of the fairness issues raised by the March 2025 merger of x.AI Corporation ("xAI") and X Corporation ("X"). Nothing in this presentation should be construed to convey legal, accounting, investment or tax-related advice.

Mercer Capital Management, Inc. ("Mercer Capital") is a national valuation and transaction advisory firm that:

- 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.

Elon’s way

In the history of mankind, anyone who created great wealth likely stepped on a lot of toes to do so. Elon Musk certainly has done so. The 2016 acquisition of an outwardly insolvent SolarCity Corporation by Tesla, Inc. (NASDAQ:TSLA) tested corporate governance because Musk was a ~22% shareholder of both publicly traded companies. Litigation ensued, which we chronicled in ***Telsa Walks the Entirely Fair Line with SolarCity*** whereby in 2022 the Delaware Court of Chancery handed Musk a victory under the “entire fairness” standard.

In ***Twitter Solvency: A Bridge Likely Too Far*** we reviewed the concept of corporate solvency, solvency opinions and the tough set-up Musk’s lenders faced by providing $13 billion of debt financing as part of his over-priced $44 billion cash acquisition (30x EBITDA) of then publicly traded Twitter in October 2022. Musk almost immediately had buyer’s remorse after agreeing to the acquisition in April 2022. He sued in Delaware Chancery Court during July 2022 to terminate the merger agreement after having signed the Agreement without conducting much due diligence until May and June. When it became clear that he would lose the suit, Musk agreed to close.

On March 28, 2025, Musk posted on X that xAI (x.AI Corporation) acquired X Corporation, the entity which operates the rechristened Twitter, in a stock swap based upon a value of $80 billion for xAI and $33 billion for X. Including $12 billion of Twitter acquisition debt, the enterprise value for the renamed XAI Holdings was $125 billion without considering cash and any xAI debt.

Elon’s way

Musk is again testing corporate governance boundaries with the xAI-X merger transaction.

- Musk is the majority shareholder of both companies
- While there are common minority shareholders, the shareholders are not exclusively the same or own the same percentages (S&P Global Market Intelligence listed four shareholders for X and 57 shareholders for xAI whereas PitchBook lists 107 investors)
- X obtained a 25% stake in xAI that subsequent capital raises diluted to around 12% for providing access to its vast data that was (and is) needed to develop AI
- Morgan Stanley was hired to serve as financial advisor to X and xAI
- Sullivan and Cromwell was retained as legal counsel to X and xAI

The hiring of Morgan Stanley by both companies was an interesting twist because Morgan Stanley served as financial advisor and was the lead lender to Musk (via X Holdings) in the acquisition of Twitter. The acquisition debt Morgan Stanley, Bank of America and five other banks committed to provide in the spring of 2022 became hung on the banks’ balance sheets in the fall of 2022 as widening credit spreads and Twitter’s deteriorating performance caused the market clearing price of the loans to plunge before the group could sell the loans as planned. The loans were subsequently sold at modest discounts in several tranches during early 2025 as X’s fortunes improved with Musk joining the Trump Administration and X merging with an “AI” company.

Several Deal Questions

The appointment of Morgan Stanley as financial advisor to both companies has raised eyebrows but no litigation among the two small shareholder groups. It may be that all shareholders signed a support agreement that precluded any litigation. Nonetheless, the transaction raises a few questions.

How was an equitable exchange ratio established? We do not know how many xAI shares were issued for each X share and the resulting pro forma ownership. Morgan Stanley did not negotiate with itself to establish a ratio. If the exchange ratio was based upon the equity values Musk cited, then the ownership split would be 71% xAI / 29% X. However, qualitative factors may have been considered, too.

How was the value of each company established? No doubt Morgan Stanley analyzed comps and considered management projections in constructing DCF models, but it appears two transactions were the cornerstone.

a. *In February 2025, X raised $1 billion in new equity which reportedly included Musk for a presumed 3% interest given the post raise reported value of $33 billion. The pre-money value of $32 billion was 27% less than the $44 billion Musk paid for Twitter in October 2022.*

b. *xAI raised $6 billion in November 2024 at a pre-money valuation of $44 billion that was followed by a $10 billion raise that was launched in February 2025 at a pre-raise value of $65 billion, or $75 billion post-raise assuming the raise closed. From this, X's value can be split into two components consisting of $9.6 billion for X's 12% interest in xAI (12% x $80 billion) and $23.4 billion for X net of the xAI interest ($33 billion less $9.6 billion).*

.

Several Deal Questions

Did the transactions occur at arms' length? By this we are asking if the transactions met the fair market value standard of occurring among unrelated parties, neither under compulsion to act with relevant knowledge and capacity to transact. At one level the answer is yes with two corporations selling shares to existing and new shareholders. However, stepping back it is fair to say this question is in a gray zone—especially the X raise since Musk reportedly participated in it.

Did the two boards establish special committees composed of independent directors? Good corporate governance would say yes, but we do not know. In the Tesla-SolarCity litigation, a central issue was whether Musk with a 22% interest in each company was a "control" shareholder who dominated decision making. SolarCity established a special committee consisting of two independent directors whereas Tesla did not because only one director (Robyn Denholm) was not conflicted.

Did either board consider an alternative transaction? Since both companies are controlled by Musk, the presumption is no. Had xAI proposed to acquire X for cash, then the absence of an auction or "process" would be problematic to ensure value was maximized. We are not lawyers, but our take is that stock swaps in which no one is "cashed out" provide more leeway in board decision making about how and when value is maximized (i.e., a long-term view vs immediately).

Fair Enough?

Did Morgan Stanley issue fairness opinions? We do not know for sure, but it appears the answer is no based upon commentary about Morgan Stanley's role in the financial press. Conceivably Morgan Stanley could have issued a single fairness opinion addressed to both boards that the exchange ratio was fair from a financial point of view to both companies' shareholders, but it is not hard to imagine that Morgan Stanley's compliance department, fairness committee, and internal and external counsel would object.

Figure 1 – Capital Raise and Merger Math

Pre-Merger Raises	xAI	xAI	X Corp
Date of Equity Raise	Nov-24	Feb-25	Feb-25
Capital Raised	$6,000	$10,000	$1,000
Interest Sold	13.6%	15.4%	3.1%
Pre-Money Value	$44,000	$65,000	$32,000
Post-Money Value	$50,000	$75,000	$33,000
Debt	$0	$0	$12,000
Total Invested Capital	$50,000	$75,000	$45,000
TIC / EBITDA	na	na	20.0x
	na	na	$1,600
TIC / Revenue	na	na	11.4x
	na	na	$2,800

Merger Math +/-	X Corp	xAI	xAI Holdings
Equity Value	$33,000	$80,000	$113,000
Ownership	*29.2%*	*70.8%*	*100.0%*
Debt	$12,000	$0	$12,000
Total Invested Capital	$45,000	$80,000	$125,000
TIC / EBITDA	20.0x	na	na
TIC / Revenue	11.4x	na	na
Control Shareholder	Musk	Musk	Musk
Minority Shareholders	Fidelity	Fidelity	Fidelity
	Sequoia	Sequoia	Sequoia
	Andr Horo	Andr Horo	Andr Horo
	Vy Capital	Vy Capital	Vy Capital
	Others	~100 Others	~100 Others

Bloomberg reported on 1.30.25 that X had 4Q24 revenues of ~$700M and ~$400M of heavily adjusted EBITDA vs $2.9B of revenue and $1.2B of EBITDA for CY2024 based upon a review of marketing material X's lenders created for the belated sale of the Twitter acquisition debt

Source: S&P Global Market Intelligence, PitchBook and Bloomberg

Twitter's Historical Financials

X's CY24 Revenues $2.9B, EBITDA $1.2B; 4Q24 $700M / $400M - Bloomberg

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

Prior Management's Forecast

TWTR management provided its bankers a forecast that was disclosed in the 2022 deal proxy – Regardless of the optimism embedded in the forecast, X's performance dropped precipitously after Musk closed as advertisers fled, returning only recently

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

Bloomberg reported on 1.30.25 that X had 4Q24 revenues of ~$700M and ~$400M of heavily adjusted EBITDA vs $2.9B of revenue and $1.2B of EBITDA for CY2024 based upon a review of marketing material X's lenders created for the belated sale of the Twitter acquisition debt

Fairness

A board's fiduciary duty to shareholders is encapsulated by three mandates:

- Act in good faith;
- Duty of care (informed decision making); and
- Duty of loyalty (no self-dealing; conflicts disclosed).

There are three standards of review for Delaware corporations (xAI and X are Nevada corporations):

- Business judgment rule;
- Enhanced scrutiny; and
- Entire fairness.

Directors are generally shielded from courts second guessing their decisions by the ***business judgment rule*** provided there is no breach of duty to shareholders. The presumption is that non-conflicted directors made an informed decision in good faith. As a result, the burden of proof that a transaction is not fair and/or there was a breach of duty resides with the plaintiffs.

However, the burden of proof shifts to the directors if it is determined there was a breach of duty. If so, the decision will be judged based upon the ***entire fairness standard***—i.e., fair price *and* fair dealing.

The intermediate ***enhanced scrutiny*** standard of review covers possible conflicts of interest that may impact decision making. The standard is most often applied when a board moves to sell a company, cash out certain shareholders, or block a hostile takeover by adopting defensive measures.

Fairness

Fairness as an adjective means what is just, equitable, legitimate and consistent with rules and standards. As it relates to transactions, fairness is like valuation in that it is a range concept: transactions may not be fair, a close call, fair or very fair.

In order to avoid an actual or perceived breach of loyalty, boards are usually advised to form a special committee of disinterested and independent directors to negotiate a transaction. In this context disinterested means no interest in the transaction, or the same as other shareholders. Independent references no relationship with an interested party to the transaction that could impact the director's decision making (e.g., familial relationships, past business ties, etc.).

The committee should be free of influence from conflicted board members and/or management and have free reign to hire independent counsel and financial advisors.

Generally, the business judgment rule should be the standard for mergers involving a controlling shareholder where a special committee runs the process and an informed, uncoerced majority of the minority vote to approve a merger.

Fairness is subjective, but a good defense is a transaction in which consideration to be paid is demonstrably fair.

Fairness

Fair price, whether viewed from the perspective of the Business Judgment Rule or Entire Fairness Standard, addresses the economics of a transaction. Fair dealing examines the process:

- Who initiated the transaction?
- Who negotiated the transaction?
- What alternatives did the board consider?
- If shopped, who did the shopping?
- Did the board or special committee hire counsel and a financial advisor?
- Did the control shareholder withhold information from directors?
- What efforts have been obtained to improve any offer(s)?
- Did the board/committee have sufficient time to review the information?
- Are there agreements that might be seen as shifting value from shareholders to management and directors (e.g., new/richer employment agreements)?

Tesla and SpaceX?

While the corporate governance around the xAI-X merger appears to fall short of what is de rigueur, neither of the shareholder groups may care. xAI obtained outright ownership of X's data needed to continue to develop Grok and its other AI initiatives. X equity and debt investors (or lenders) may be overjoyed as the company's fortunes are now directly linked to AI rather than X whose financial performance had only partially recovered from the post-Twitter collapse.

Should Musk move to merge xAI with Tesla and thereby provide xAI investors with a liquid stock and Tesla with an AI narrative that may support its valuation, then corporate governance protocol would have to be much tighter since Tesla is publicly traded. Privately-held Space Exploration Technologies Corporation ("SpaceX") is another possible merger candidate though SpaceX more likely will pursue an IPO given its distinctly different mission.

Appendix

Jeff K. Davis, CFA

jeffdavis@mercercapital.com
615-345-0350 (O)
615-767-9490 (M)

Mercer Capital
104 Woodmont Boulevard
Suite 200
Nashville, TN 37205

Managing Director – Financial Institutions Group (FIG) at Mercer Capital and member of the Transactions Advisory Group

Provides financial advisory services primarily related to the valuation of privately-held equity and debt issued by financial services companies and M&A advisory and representation

S&P Global Market Intelligence (previously SNL Financial) contributor “Nashville Notes”

Previously a sell-side analyst covering commercial banks and specialty finance companies for Guggenheim Partners, FTN Financial and J.C. Bradford & Co.

FINRA registered rep with StillPoint Capital (CRD #4007205; Series 7, 63 and 79)

Rhodes College (BA); Vanderbilt University (MBA)

Representative Transactions

First Missouri Bancshares, Inc.
VERIMORE BANK
Brookfield, Missouri

has agreed to acquire

CCSB Financial Corp.
Clay County Savings Bank
Liberty, Missouri

Mercer Capital served as financial advisor to First Missouri and rendered a fairness opinion

– January 2025 –

innovations FINANCIAL CREDIT UNION
Panama City, FL

has acquired

FIRST NATIONAL BANK NORTHWEST FLORIDA
Panama City, FL

Mercer Capital provided valuation and advisory services to Innovations

– August 2024 –

ASPIRANT
Louisville, KY

has partnered with

point·c
Chicago, IL

Mercer Capital served as financial advisor to Aspirant

– May 2024 –

U.S. Based Manufacturer of Flow Control and Process Equipment

Mercer Capital rendered a solvency opinion for the manufacturer related to payment of a $200 million dividend following the sale of a business unit

– June 2024 –

Specialty Construction Materials Dealer / Distributor

Mercer Capital served as financial advisor to the seller in connection with an $81 million transaction

– May 2024 –

The Neverleak Company LP
ROOF FLASHINGS SINCE 1943
Olive Branch, MS

sold the majority of its assets to

NPG NORTH PARK GROUP
Chicago, IL

Mercer Capital served as financial advisor to The Neverleak Company LP

– April 2024 –

Levo Credit Union
Sioux Falls, SD

has announced it's intent to acquire a bank branch in Sioux City, Iowa from

HERITAGE BANK N.A.
Employee Owned
Spicer, MN

Mercer Capital served as financial advisor to Levo

– April 2024 –

HOSE of South Texas, Inc.
www.hose-etc.com
Corpus Christi, Texas

has formed a partnership with

TIPCO TECHNOLOGIES Focused Flexible Solutions
Owings Mills, Maryland

Mercer Capital served as financial advisor to Hose of South Texas

– April 2024 –

Representative Transactions

advia credit union
Kalamazoo, Michigan

has signed a definitive agreement to acquire

NorthSide Community Bank
Gurnee, Illinois

Mercer Capital served as financial advisor to Advia Credit Union

Worldwide Electric Corporation
ROCHESTER, NY

has acquired

North American Electric
Hernando, MS

Mercer Capital served as the financial advisor to North American Electric.

– January 2024 –

Apex Bank
Camden, TN

has acquired two branches from

United Community Bank
Greenville, SC

Mercer Capital served as the exclusive financial advisor to Apex Bank

– July 2023 –

Camber Energy
Houston, TX

has agreed to acquire the remaining ~39% common share interest in

Viking Energy Group, Inc.
Houston, TX

Mercer Capital rendered a fairness opinion on behalf of Camber Energy

– April 2023 –

WeCare Services Inc.
A Franchisee of Comfort Keepers™
Memphis, Tennessee

was aquired by a
Private Investment Group

Mercer Capital served as a financial advisor to WeCare Services Inc.

– May 2023 –

Krause Financial Services
Krause Brokerage Services
De Pere, Wisconsin

has acquired

USA-LTC
Rancho Sante Fe, California

Mercer Capital served as exclusive financial advisor to Krause Brokerage Services

– February 2023 –

LGE Community Credit Union
Atlanta, GA

has entered into a definitive agreement to purchase

Greater Community Bank
Rome, GA

Mercer Capital served as financial advisor to LGE Community Credit Union

– December 2022 –

Fidelity Bank
Maximum Bancshares, Inc.
West Des Moines, IA

has agreed to merge with

STSB Savanna-Thomson State Bank
Savanna-Thomson Investment, Inc.
Savanna, IL

Mercer Capital served as financial advisor to Maximum Bancshares, Inc. and rendered a fairness opinion

– September 2022 –

Transaction Advisory Group

Nicholas J. Heinz, ASA
heinzn@mercercapital.com
901.685.2120

Timothy R. Lee, ASA
leet@mercercapital.com
901.322.9740

Jeff K. Davis, CFA
jeffdavis@mercercapital.com
615.345.0350

Matthew R. Crow, ASA, CFA
crowm@mercercapital.com
901.685.2120

Travis W. Harms, CFA, CPA/ABV
harmst@mercercapital.com
901.322.9760

Bryce Erickson, ASA, MRICS
ericksonb@mercercapital.com
214.468.8400

Andrew K. Gibbs, CFA,CPA/ABV
gibbsa@mercercapital.com
901.685.2120

Z. Christopher Mercer, FASA, CFA, ABAR
mercerc@mercercapital.com
901.685.2120

Jay D. Wilson, Jr., CFA, ASA, CBA
wilsonj@mercercapital.com
467.778.5860

John T. (Tripp) Crews III
crewst@mercercapital.com
901.322.9735

MERCER CAPITAL

www.mercercapital.com

Memphis | Dallas | Nashville | Houston

1.800.769.0967
www.mercercapital.com