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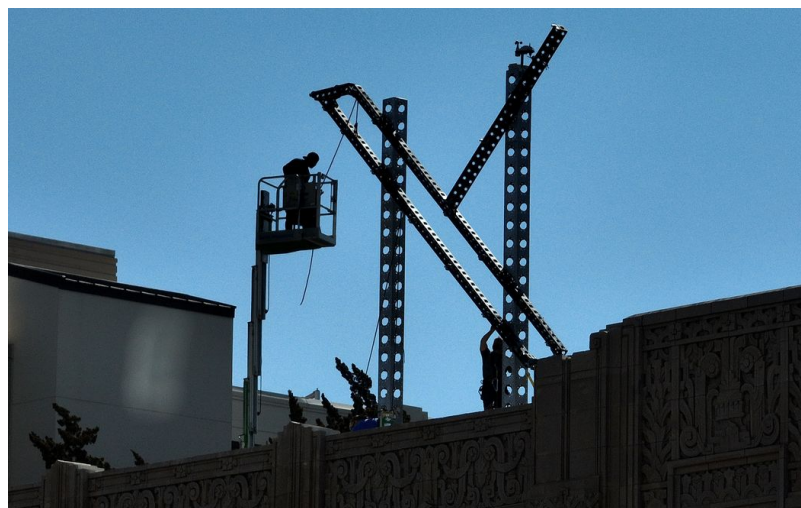
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One Year On, Twitter Continues to Burn a Hole Through Bank Balance Sheets

Banks have begun preparations to try to unload at least some of the \$13 billion of debt they underwrote, at a steep discount

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Twitter, which was renamed X, has seen investor appetite cool. PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

The banks that financed Elon Musk's \$44 billion purchase of Twitter are still struggling a year later to contain the damage to their balance sheets.

Seven banks including Morgan Stanley **MS -0.20%** ▼, Bank of America **BAC -0.39%** ▼ and Barclays **BCS -6.98%** ▼ lent Musk around \$13 billion to buy Twitter a year ago this coming Friday. Under normal circumstances, they would have unloaded the debt to Wall Street investment firms soon thereafter. But investor appetite for Twitter, which Musk has since renamed X, has cooled since the billionaire took over, forcing the banks to hold the debt on their own balance sheets at a discounted value.

The banks currently expect to take a hit of at least 15%, or roughly \$2 billion, when they sell the debt, people familiar with the matter said. That would mean hundreds of millions in losses for those holding the largest pieces, which include Morgan Stanley, Bank of America, Barclays and MUFG. BNP Paribas, Société

Générale and Mizuho were also involved.

After holding the debt for a year—an eternity in the corporate-finance world—the banks, which had hoped they could sell it by Labor Day, have recently begun preparations to try to unload at least some of it, the people said.

First they must secure a rating from the likes of Moody's and S&P, a quality seal investors such as mutual funds and loan managers typically require. If X receives a low credit rating, it would be hard for the banks to sell the debt to a broad investor base without taking an even bigger loss than what they are already anticipating.

Bankers close to the deal say that Musk's capricious management and a weakening advertising market could point to a junk-bond rating, a designation reserved for companies at higher risk of defaulting. Musk himself said last year that X was near the brink of bankruptcy after he took over.

Twitter pre-Musk was rated junk, despite carrying significantly less debt than it does now. Given that X is no longer publicly traded, it doesn't disclose its financials, though Musk has said the platform's advertising revenues have plummeted since he bought it.



Seven banks lent Elon Musk around \$13 billion to buy Twitter a year ago this coming Friday. PHOTO: GONZALO FUENTES/REUTERS

The company has slashed thousands of jobs and other costs under his ownership, partly to help support the hefty interest payments it must pay on the

debt, and Chief Executive Linda Yaccarino has said she expects X will turn a profit next year.

Musk's debt package included \$6.5 billion in term loans, \$6 billion split equally between secured and unsecured bonds and a \$500 million revolving line of credit.

X's unsold debt ranks among the largest and longest-held "hung" deals. Banks were in similar pickles in periods such as 2007-08, when investors lost confidence in the financial system during the financial crisis. They eventually managed to sell billions of debt backing major takeover deals as markets calmed down but were forced to swallow big losses.

The X deal should have been a fee bonanza for the banks, who stood to earn tens of millions of dollars on the debt. Instead, their inability to resell it has been an albatross on their lending businesses and prompted questions from their own investors.

Banks limit how much risk they take on at any given time, so holding X's debt has taken up loan-book capacity that their deal makers would prefer to allocate elsewhere.

Big hung deals don't sit well with regulators, who have been making more diligent checks on banks' financial footing following the failures of Silicon Valley Bank and others earlier this year. The longer the banks hold X's debt, the greater the scrutiny is likely to be from regulators, who penalize lenders for having direct credit exposure to junk-rated companies.

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