Why does Elon Musk want to take Twitter private, and what does it mean for shareholders?

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Billionaire Elon Musk plans to make Twitter a private company following his $44 billion deal to buy the social media platform.

Twitter has been a publicly traded company since 2013, but it only has turned a profit twice—in 2018 and 2019.

The social media platform's more than 200 million-user base is much smaller than competitors like TikTok and Facebook, and it's had lackluster revenue growth in comparison to Google and Facebook, the two dominant forces in digital advertising.

However, Twitter has been a popular social media platform for politicians, such as former President Donald Trump before he was banned from the site in January 2021, celebrities, and others to get their messages out for free to their followers.

Musk has argued that in order for Twitter to be successful and serve the "social imperative" of free speech, it must be "transformed as a private company."

What does Twitter going private mean for shareholders?

If Musk's planned deal to buy Twitter goes through, and he takes the company private, Twitter shareholders will receive $54.20 per share in cash. That's a 38% premium to Twitter's closing stock price on April 1, the last trading day before Musk publicly announced he had taken a 9% stake in the company.

That will put extra money in the pockets of most shareholders, said Matthew Faulkner, an assistant professor of finance at San Jose State University.

There have only been a few times in history when Twitter stock jumped above $54.20—once in 2013 after its Initial Public Offering, and in February 2021 in what Faulkner called a "COVID run-up of the market."

In order to go private, Twitter's board will negotiate a takeover deal with Musk and then host a special election for its investors to accept or decline the purchase.

Any investor who owns voting stock in the company would be able to vote, although institutional shareholders who tend to hold larger amounts of stock would represent a consequently larger portion of the vote.

It's easier to make changes in a private company

The biggest and most obvious benefit of making the company private is allowing more flexibility to make big changes when a company is not under scrutiny of thousands of shareholders and public filings required by the Securities and Exchange Commission, financial experts say.

Musk, however, still would be held accountable by his financiers, but going private may allow him to add value to the company, Faulkner said.

"Acting in the best interests of the shareholders is the goal of the board and management," Faulkner said. "And that's a very important thing to think about with the decision that they made here."

When Musk announced plans to take Tesla private in 2018, he said doing so would allow the electric car company to operate "free from as much distraction and short-term thinking as possible."

Wild stock swings and the quarterly earnings cycle both distracted workers and put pressure on the company to make decisions that were right for the moment, but not in the long-term, Musk wrote.

Musk, the richest person in the world with an estimated fortune of $219 billion according to Forbes Magazine, has hinted at adding an edit button to tweets, ending Twitter's dependence on ads, and expanding freedom of speech.

"There's fewer hurdles to jump over to make big changes, or small changes, within the company when you're not having to answer to thousands of shareholders," Faulkner said.

Musk has said he would "endeavor to keep as many shareholders in privatized Twitter as allowed by law."

Going private means no SEC reports

Taking Twitter private also means the company would no longer need to report its financial documents or "material" developments to the SEC, the federal regulatory agency Musk has had legal troubles with in the past.

Those regularly filed reports, which can include risks to the company and any plans that could impact its financial performance, are public information that shareholders and anyone can view.

After Musk tweeted that he had "funding secured" to take Tesla private, the SEC in 2018 accused him of securities fraud in a civil lawsuit that charged him with lying or being recklessly misleading in his tweets.

Tesla shares dropped massively following the SEC's claim, and Musk eventually had to pay a fine and step down as chairman of Tesla.

Other public companies that have gone private

Other big, well-known publicly traded companies also have gone private—and then jumped back into the market.

Dell said going private in 2013 would allow the company to "be even more flexible and entrepreneurial." Its founder, Michael Dell, said taking his company private allowed it to weather the downturn in the PC industry and expand into other growing IT sectors.

"One of the beauties of being the controlling shareholder in a company is you can do whatever you want to do," Dell said.

After going private in 2013, with its stock closing at $13.73, Dell went public again in 2018 at a price of $46 per share. The company said returning to the stock market would simplify its capital and ownership structure.

Hilton was bought out by a private investor group in 2007, and went public again in 2013. During its stint as a private company, the hotel business rebuilt itself: Its number of open rooms increased by 36%, and the number of rooms in the pipeline—to be developed but not being built yet—went up by 60%.

In Phoenix, Swift Transportation, one of the largest truck carriers in the United States, first went public in 1990. Company founder Jerry Moyes took the business private in 2007, after he had been forced out as CEO two years earlier following a SEC investigation for insider trading. Moyes admitted no wrongdoing and paid a $1.26 million settlement.

The company went public again in 2010, and it merged in 2017 to become Knight-Swift

Transportation Holdings.

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