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BANKS FINANCING MUSK'S TWITTER DEAL FACE HEFTY LOSSES

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A file photo of Elon Musk against the Twitter logo | Photo Credit: REUTERS

Elon Musk's U-turn on buying Twitter Inc. could not have come at a worse time for the banks funding a large portion of the $44 billion deal, and they could be facing significant losses.

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As in any large acquisition, banks would look to sell the debt to get it off their books. But investors have lost their appetite for riskier debt such as leveraged loans, spooked by rapid interest rate hikes around the world, fears of recession and market volatility driven by Russia's invasion of Ukraine.

While Musk will provide much of $44 billion by selling down his stake in electric vehicle maker Tesla Inc. and by leaning on equity financing from large investors, major banks have committed to provide $12.5 billion.

They include Morgan Stanley, Bank of America Corp. and Barclays Plc. Mitsubishi UFJ Financial Group Inc., BNP Paribas SA, Mizuho Financial Group Inc. and Societe Generale SA are also part of the syndicate.

Noting other recent high-profile losses for banks in leveraged financing, more than 10 bankers and industry analysts told Reuters the outlook was poor for the banks trying to sell the debt.

The Twitter debt package is comprised of $6.5 billion in leveraged loans, $3 billion in secured bonds, and another $3 billion in unsecured bonds.

"From the banks' perspective, this is less than ideal," said Wedbush Securities analyst Dan Ives. "The banks have their backs to the wall - they have no choice but to finance the deal."

Leveraged financing sources have also previously told Reuters that potential losses for Wall Street banks involved in the Twitter debt in such a market could run to hundreds of millions of dollars.

Societe Generale did not respond to a request for comment while the other banks declined to comment. Twitter also declined to comment. Musk did not immediately respond to a request for comment.

Just last week, a group of lenders had to cancel efforts to sell $3.9 billion of debt that financed Apollo Global Management Inc.'s deal to buy telecom and broadband assets from Lumen Technologies Inc.

That came on the heels of a group of banks having to take a $700 million loss on the sale of about $4.55 billion in debt backing the leveraged buyout of business software company Citrix Systems Inc.

"The banks are on the hook for Twitter — they took a big loss on the Citrix deal a few weeks ago and they're facing an even bigger headache with this deal," said Chris Pultz, portfolio manager for merger arbitrage at Kellner Capital.

Banks have been forced to pull back from leveraged financing in the wake of Citrix and other deals weighing on their balance sheet - and that is unlikely to change anytime soon.

The second quarter also saw U.S. banks start to take a hit on their leveraged loans' exposure as the outlook for dealmaking turned sour. Banks will begin reporting third-quarter earnings next week.

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