

A Work Project, presented as part of the requirements for the Award of a Master's degree in  
Finance and Management from the Nova School of Business and Economics.

BETWEEN UTOPIA AND CHAOS: A COMPREHENSIVE ANALYSIS OF WEWORK'S  
CORPORATE JOURNEY

- Understanding WeWork's Post-IPO Financial Distress and Anticipating the Future –

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## **Abstract**

WeWork, once a formidable disruptor within the co-working and real estate sectors, boasting a valuation of \$47 billion in 2019, faces a series of challenges that have substantially eroded its market capitalization and hindered its ability to continue as a going concern four years later.

Spanning a chronological timeline of thirteen years from its inception in 2010, the case follows WeWork's journey, encompassing investment rounds, transitions in leadership, and pivotal policy shifts. Thus, today, September 1, 2023, the aim is to explore the multifaceted factors that precipitated WeWork's decline, offering valuable insights into the complexities of its rise and fall.

**Keywords** (Bankruptcy, Corporate Governance, Entrepreneurial Finance, Entrepreneurial Strategy, Entrepreneurship, Financial Distress, Growth, Investments, IPOs, Management, Profitability, Real Estate, SPACs, Strategy, Valuation, Venture Capital)

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## **Group Part – Between Utopia and Chaos: A Comprehensive Analysis of WeWork’s Corporate Journey**

### **1. Introduction**

As the clock struck eleven on a brisk September Friday night, Anna Smith, a seasoned analyst at Horizon Ventures, found herself buried in paperwork, her fingers flying across the keyboard as she frantically completed the final due diligence for a potential investment – a \$500 million gamble on an ambitious startup called Flow. Flow, with the aim of creating a superior living environment that enhanced the life of residents through innovative technology and a focus on community, had already garnered significant attention, attracting a \$350 million investment from Andreessen Horowitz just a year prior.

Anna's eyes darted across the presentation, scrutinizing every detail, every projection, every word. But as she delved deeper into the proposal, an unsettling thought began to form. The core concepts of Flow – Disrupt, Enhance, Revolutionize, Community – echoed strikingly with those of WeWork, Adam Neumann’s previous venture. His entrepreneurial journey, from forays into children footwear to the revolutionary co-working space WeWork, had redefined the commercial real estate landscape. However, Neumann’s meteoric rise was accompanied by a tumultuous reign as WeWork's CEO, marked by controversy and a dramatic exit.

Anna's mind raced as she grappled with the parallels between WeWork and Flow: should she alert management to the similarities between the two ventures? Was Flow simply another manifestation of Neumann's unwavering belief in innovation, but lack of ability to transform inspiration into profits? So, with renewed determination, Anna embarked on a quest to unravel the enigma of WeWork. Her journey, guided by a desire to understand, to question, and to ultimately contribute to the ongoing conversation surrounding the “*Neuman Effect*” and the pitfalls that metamorphosed WeWork into “*WeBroke*”.

## 2. About WeWork: Transforming Workspaces and Empowering Communities

Founded in 2010 by Adam Neumann and Miguel McKelvey, WeWork emerged as a leading provider of flexible shared workspace solutions for businesses and individuals. With a pioneering vision, WeWork sought to revolutionize the traditional office space and real estate industry, by providing a diverse range of workspaces, from private offices to event venues.

In 2011, the company launched its first co-working space in the trendy SoHo neighborhood of New York City. Today, WeWork's global presence is undeniably remarkable, comprising an extensive network of 654 locations across 119 cities worldwide.

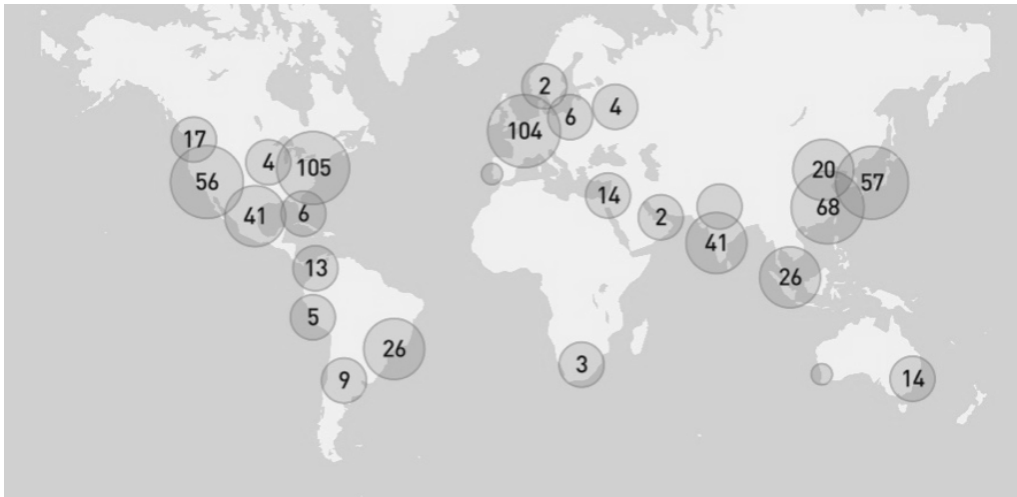


Exhibit 1. WeWork's Global Presence 2023 (Source: WeWork's Website)

### 2.1. WeWork's Mission, Vision and Values

WeWork's mission statement, "*Empowering tomorrow's world at work*" (WeWork, n.d.), encapsulates its vision of creating a global community, where collaboration thrives, innovation flourishes and the potential of every individual and organization is unlocked. The company's impact relies on purpose-drive leadership, aiming to make a positive and permanent difference in the life of its stakeholders. Moreover, its values emphasize doing the right thing, embracing entrepreneurship, valuing humanity, recognizing the significance of kindness, striving for unity, and incorporating the transformative power of gratitude.

## 2.2. WeWork's Business Model

WeWork's business model comprises the strategic combination of four core elements: i) flexible workspace rentals; ii) a diverse range of membership plans; iii) a community-driven environment; and iv) a seamless integration of technology services to elevate the user experience. The company prioritizes flexibility, allowing clients to liberate themselves from the commitment of conventional long-term leases.

Central to WeWork's strategy is the concept of "*Space-as-a-Service*", granting individuals and organizations the possibility to adjust their workspaces to suit their ever-evolving needs. This approach simplifies the complexities of traditional real estate leasing into a streamlined membership structure, while offering members a premium experience at a more competitive price point.

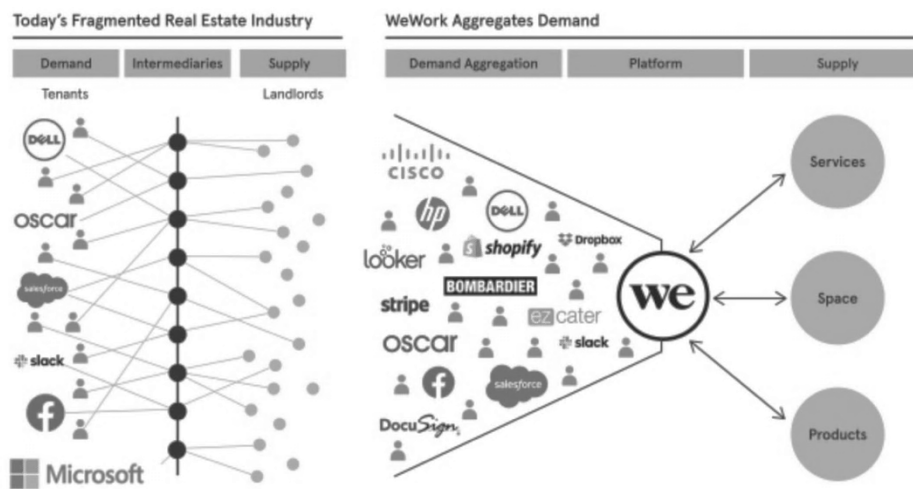


Exhibit 2. WeWork's Business Model Illustration (Source: WeWork's S-1 Filing)

The company provides a range of six membership tiers to cater the unique requirements of its customer base:

- **All-Access.** Tailored for individual professionals seeking the freedom to arrive at their convenience at one of the company's worldwide locations, select a desk and start working.

- ***On-Demand.*** Allows users to pay solely for the hours they utilize the space, whether on a daily or hourly basis, providing a greater control over the workspace usage and costs.
- ***Dedicated Desk.*** Ideal for those who value a consistent and predictable work setup, with dedicated desks exclusively leased to a single client or business entity, fostering a sense of stability.
- ***Small Private Offices.*** Designed to accommodate growing teams and enterprises of varying sizes, offering privacy, focus and a dedicated space for collaboration and productivity.
- ***Office Suites.*** Scalable in nature, provides larger and more personalized workspaces, catering to enterprises seeking a designated space that reflects their brand identity and facilitates seamless teamwork.
- ***Custom Full-Floor Offices.*** Allows groups to tailor their workspace to their exact specifications, incorporating features like CEO suites, executive meeting rooms, and specialized amenities that align with their unique business needs.

In July 2022, WeWork launched WeWork Workplace, a groundbreaking platform that extended beyond its established membership options to empower other landlords and operators to manage and optimize their flexible workspace portfolios. This solution provides owners with WeWork's extensive customer base and enables them to easily market and rent their spaces online. Moreover, it offers comprehensive utilization analytics, allowing landlords to gain valuable insights into space usage patterns and optimize their assets for maximum efficiency. WeWork Workplace marked a significant evolution in the company's commitment to foster dynamic and adaptable work environments, extending its expertise beyond its own workplaces.

### 2.3. WeWork's Revenue Streams and Cost Structure

WeWork's revenue streams are strategically centered on the monetization of its global platform, primarily achieved through the sale of memberships and the provision of ancillary value-added products and services to members. The company's revenue is diversified across three key streams:

- **Membership Revenue.** Encompasses the fees generated from the sale of WeWork's memberships. The company employs a rent arbitrage strategy, leasing properties from landlords at predetermined rates and subsequently subleasing them to clients at higher prices. Notably, these properties are transformed through interior refurbishments and the incorporation of amenities, including cafés, offices, and community spaces, enhancing their overall appeal. Additionally, the cost of each membership varies depending on the type of workplace, the geographic location and the monthly allowances included in the membership.
- **Service Revenue.** Comprises supplementary services provided to members, including partnerships with local businesses, access to conference rooms, printing, car rentals and IT services.
- **Other revenue.** Wherein WeWork offers on-site office management, including design, construction, and space management services.

WeWork's financial sustainability relies heavily on the revenue generated from client's memberships payments, being instrumental in offsetting the company's considerable operational costs, which include the following components:

- **Leasing costs.** The company typically signs long-term leases with the property owners, where price may vary according to the location and market conditions.

- ***Building Improvement and Aesthetics.*** Central to WeWork’s business model are the cost savings tenants realize by becoming members, as the build-out and refurbishment costs are entirely assumed by WeWork.
- ***Other costs.*** Include the daily operational expenses – such as utilities, maintenance and cleaning services –, marketing expenses and general administrative expenses – namely employees’ salaries and benefits.

In the realm of business, the interplay between costs and revenues is intricate for every company. WeWork, with an average lease agreement extending over 15 years and tenant commitments typically lasting on average 15 months (Reiff, 2019), relies significantly on its ability to attract a substantial customer base to occupy available spaces to ensure financial sustainability.

#### **2.4. WeWork’s Growth strategy**

Since its inception, WeWork has been pursuing a rapid global expansion in the co-working space industry, complemented by a series of strategic acquisitions and partnerships.

##### ***Expansion Strategy***

In its early years, WeWork embarked on an ambitious plan to expand globally, fueled by venture capital funding. With the belief of “*the more locations we strategically cluster in a given city, the larger and more dynamic our community becomes*”, the company aggressively leased office spaces in major cities around the globe, aiming to become the leading provider of flexible workspace solutions.

This rapid expansion led to significant financial scrutiny, as the company’s performance was highly dependent on the continued members’ growth and on the ability to secure new leases. In response, WeWork began to shift its expansion strategy towards a more cautious approach,

prioritizing profitability over exponential growth, by improving occupancy rates and reducing costs, through the divestiture of its less profitable locations.

### ***Acquisitions and Diversification***

By broadening its offerings across different geographies and services, the company was able to cater to a wider range of customer needs and preferences, enabling it to remain competitive and adaptable in a rapidly evolving co-working industry.

Beyond traditional co-working spaces, WeWork gradually expanded to other segments of the market. In 2016, the company launched *WeLive*, a residential co-living concept aiming to provide a unique shared living experience. Additionally, it introduced *WeGrow*, an education and school initiative with the purpose of redefining and establishing a new model for conscious entrepreneurial education.

Furthermore, the company spent close to \$1 billion in over 20 acquisitions, across verticals like Consumer Digital and Enterprise Tech. For instance, in 2017, it acquired Spacemob for \$500 million, in an attempt to reaffirm the commitment to scaling its business across the Asian Market.

WeWork also pursued partnerships with property owners, developers and real estate firms to access a wide range of properties and locations without imposing a significant capital commitment. Moreover, the company partnered with local businesses, including restaurants and gyms, to extend exclusive discounts and perks to its members.

### **3. Macroeconomic Context**

*“It is an unusual period of volatility. We have new shocks layered on top of old shocks layered on top of longer-term disruptive trends. Inflation and low consumer confidence, for example, are layered on top of some overhangs from COVID-19 as well as trends like digital disruption and the sustainability imperative that we have been wrestling with for years.”* (Birshan, 2023).

In recent times, volatility and fluctuations stemming from macroeconomic and geopolitical elements have been undeniably shaping the business landscape and challenging management teams in unprecedented ways.

Reflecting on the past two years, the world confronted a multitude of formidable challenges. January 2022 was marked by the rapid spread of the Omicron variant of COVID-19, and supply chain disruptions persisted, leading to logistical difficulties amidst extraordinary demand.

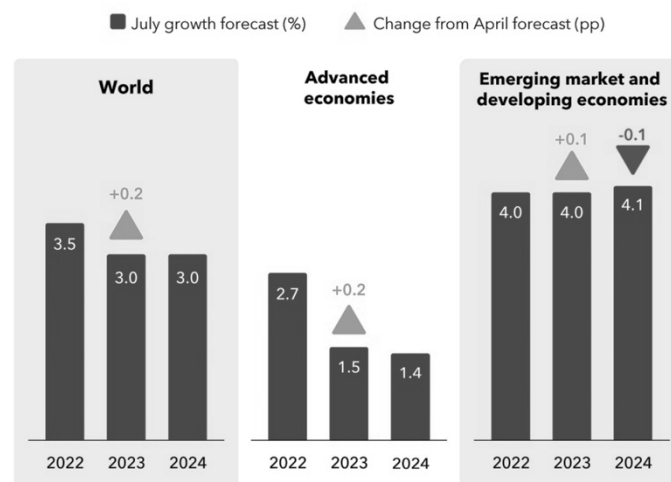
In parallel, commodity prices increased by an astounding 30%, while global container shipping rates skyrocketed nearly tenfold and inland freight haul rates experienced similar growth. Labor market imbalances, particularly pronounced in the U.S. and the U.K., resulted in wage hikes surpassing pre-COVID-19 levels. During this period, inflation reached figures not seen in generations (McKinsey, 2023).

Still, there was a glimmer of optimism that the most acute repercussions of the pandemic had subsided. Nonetheless, in February of 2022, the optimism shifted into apprehension when Russia launched an invasion of Ukraine, a long-lasting geopolitical development that prompted a chain reaction and led to the most severe humanitarian crisis witnessed in Europe since World War II, further aggravated by a worldwide scarcity of food and energy resources.

Despite the ongoing obstacles, 2023 sees a shift in the scenery – energy prices have eased from their peaks, and signs of inflation stabilization emerge, partly due to continuous interest rate increases, all while economic growth showcases its resilience under lingering economic uncertainties.

Global economic growth is forecasted to moderate from 3.5% in the previous year to 3%. The former reduction is particularly pronounced in advanced economies, where growth is

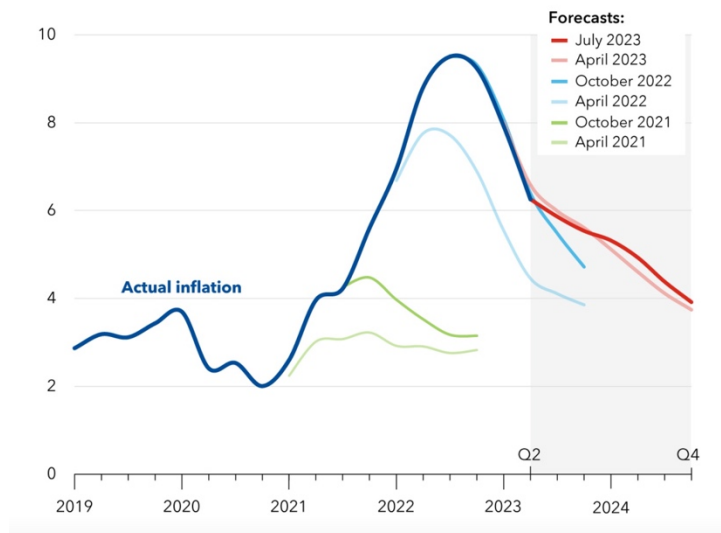
anticipated to decrease from 2.7% in 2022 to 1.5%, with the Euro area notably affected by the war-induced surge in gas prices (International Monetary Fund, 2023).



**Exhibit 3.** GDP % Growth Projections (Source: International Monetary Fund and World Economic Outlook)

Additionally, global economic activity is showing signs of losing momentum due to the tightening of monetary policy, which is impacting credit growth, and household and firm interest payments, collectively exerting downward pressure on investment activity, in particular on real estate markets. From July to September 2023, the U.S. commercial real estate sector witnessed a substantial contraction in investment volume, marking a 54% year-over-year decline to \$82 billion. Also, the trailing third quarter volume ending registered a significant 57% year-over-year decrease, reaching \$400 billion, the lowest total since the first quarter of 2021 (CBRE, 2023). Furthermore, core inflation, excluding energy and food prices, remains above central banks' targets and is expected to gradually decline from 6% in 2023 to 4.7% in 2024 (International Monetary Fund, 2023).

Notably, labor market dynamics play a relevant role in the persistence of inflation and, while unemployment rates remain below pre-COVID-19 levels in numerous economies, a decline in real wages is witnessed.



**Exhibit 4.** Actual and Forecasted Inflation (Source: International Monetary Fund and World Economic Outlook)

Moreover, the global economic challenges arising from geoeconomics fragmentation, with the global economy dividing into rival blocs, pose a particular risk to emerging and developing economies that rely on integrated global markets, foreign direct investment, and technology transfers. Plus, the insufficient progress on the climate transition is expected to affect poorer countries disproportionately, despite their relatively small contribution to global emissions.

As one gazes ahead to the present and the near future, it becomes evident that the macroeconomic outlook remains uncertain, with signs of recovery and growth in some regions, but the persistence of an unfavorable economic climate in others.

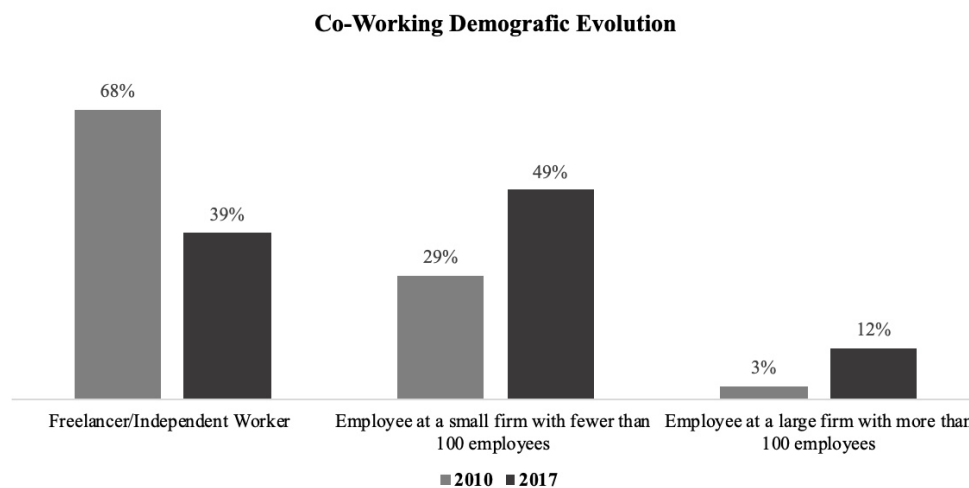
#### 4. Industry Analysis

Co-working spaces have emerged as crucial enablers for collaboration and innovation. The shift in employee objectives and expectations represents a unique opportunity for organizational leaders to reimagine their workspaces for the future, and to provide a favorable environment for individuals and businesses to synergize their efforts.

The inception of co-working spaces, a concept with a history spanning several decades, finds its origins in Berlin, Germany, dating back to the year 1995. The pioneering co-working space known as C-Base emerged from the efforts of 17 computer engineers who envisioned a

“hackerspace” (Mason, 2021). Conceived as a non-profit initiative, it was purposely designed to serve as a communal hub for computer enthusiasts and to provide essential facilities, relevant equipment, and a conducive environment fostering collaboration. But only four years later, in 1999, did Bernard DeKoven, an American game designer and writer, formally introduce the term “Co-working” to describe the collaborative work approach between individuals and the removal of hierarchical structures within professional settings.

The term eventually materialized in 2005, with the inauguration of an official co-working space in San Francisco, California, conceived by Brad Neuberg, with the dual aim of offering a dedicated environment for independent work and nurturing a community of like-minded professionals (Mason, 2021). Subsequently, a number of co-working spaces emerged around the globe, evolving from a specialized commercial real estate product, primarily focused on individuals and small start-ups, to a viable substitute for traditional leased office spaces. In this regard, the increasing number of startups and the demand for flexible office solutions have been crucial drivers of the co-working industry’s growth.



**Exhibit 5.** Co-Working Demographic Evolution between 2010 and 2017 (Source: Own illustration based on CBIInsights, Emergent Research, Recode)

Testimony of this opportunity is the expected industry’s market size of \$34.99 billion by 2027, compounded at a Compound Annual Growth Rate (CAGR) of 16.4%. The optimistic projection

aligns with the proliferation of co-working spaces witnessed worldwide, which increased from 1,130 in 2011 to 18,900 in 2019, with the Asia-Pacific region leading the market. Moreover, in the U.S., co-working spaces are expected to represent 30% of the national office stock by 2030 (Business Research Company, 2023).

As noted, while the industry exhibited consistent growth, the global COVID-19 pandemic introduced significant challenges, which encompassed a notable reduction in the number of daily users and an average decrease of 20% in leasable desks (Foertsch, 2021). Nevertheless, amidst this demanding environment, certain co-working spaces demonstrated a remarkable ability to adapt, and, by strategically refining their offerings to harmonize with the evolving needs, emerged as even more indispensable in the post-pandemic reality.

As a result, compared with the original state, the co-working industry grew towards greater specialization, tailoring its offerings to cater to distinct demographic segments, through the provision of customized amenities. Additionally, co-working spaces have diversified their service portfolios, which now include areas like digital marketing, with the primary objective of both acquiring and retaining members.

Furthermore, the industry has recognized the significance of community well-being, as evidenced by the introduction of features specifically designed to enhance mental health, ranging from meditation or yoga rooms to fitness facilities. Concurrently, co-working spaces are actively embracing the hybrid work model, affording members the flexibility of adaptable work hours, remote work alternatives, and shorter lease terms. All the above reflect the industry metamorphosis from an office-centric to a human-centric paradigm.

## 5. The Narrative between Utopia and Chaos

### 5.1. From Green Desk to WeWork

In 2001, upon concluding his mandatory military service in Israel, Adam Neumann made his way to New York City, driven by an unwavering ambition to achieve financial success.

Already immersed in the development of a business concept focused on padded-knee baby clothes, known as *Krawlers*, Neumann's path intersected with that of Miguel McKelvey, who was working as an architect for a burgeoning company in the same building, situated in the Dumbo neighborhood of Brooklyn.

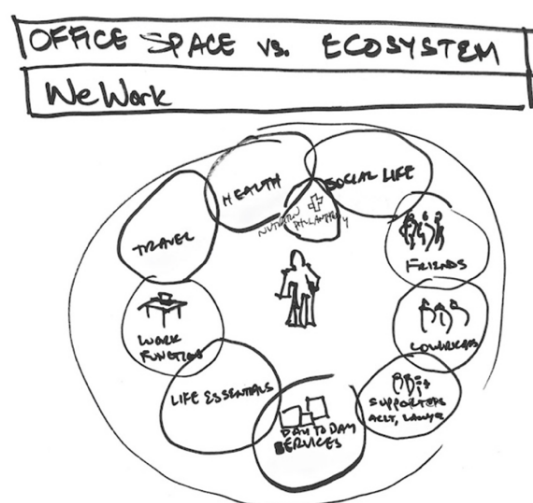
Soon enough, Adam and Miguel identified untapped potential within the edifice, realizing there was unused space and, after some persuasive efforts with the landlord, Adam successfully secured permission to lease small portions of the vacant floors to fellow entrepreneurs. This bold maneuver, coming from a struggling immigrant with no prior experience in real estate, was particularly audacious, especially considering Neumann's occasional tardiness with his own rent payments. Nevertheless, as McKelvey would later attest, Neumann possessed an “*endless faith in his ability to convince people to do things he wants them to do*” (Brown and Farrell, 2021).

In May 2008, the pair opened GreenDesk, an eco-friendly coworking space, featuring sustainable workspaces furnished with recycled items and powered by wind electricity. Customers of GreenDesk, called “*members*”, could choose to rent office space or individual desks on a monthly basis, from \$300 to \$2,500. The cumulative rental income exceeded lease payments, thereby generating a profit. Almost immediately, the startup found success, even as the economic downturn from the 2007-2008 Global Financial Crisis placed strain on many businesses. The founders soon realized that the true strength and appeal of their concept relied not only in its environmentally sustainable, welcoming and affordable spaces, but also in the

sense of community they provided – a place where individuals and startups could mingle and collaborate.

In the fall of 2009, Adam Neumann and Miguel McKelvey sold their company to their landlord, Josh Guttman, for \$3 million, payable over several years. With \$300,000 in cash from the sale and credit cards and loans from friends, they embarked on the ambitious endeavor of replicating their successful concept in SoHo. To facilitate this expansion, Neumann then sent “complimentary” invitations to his Israeli contacts, who, under the impression of a leisurely visit to the U.S., found themselves dedicating seven days a week to the construction build out (Konrad, 2014).

Going beyond a mere continuation of their previous venture, Adam aimed to create a space more expansive than the conventional co-working model typified by GreenDesk. The triumph in Dumbo not only confirmed the demand for communal office spaces, but also indicated a broader generational shift. Neumann and McKelvey recognized that the incoming millennial workforce sought social interaction in their professional settings. Rejecting the isolation of traditional offices, they envisioned workplaces that echoed the vibrancy of a college dorm or the convivial atmosphere of a club.



**Exhibit 6.** The vision for the WeWork ecosystem drawn by Miguel McKelvey in 2009 (Source: The Beginning of a New Story (Adam Neumann, 2019))

In April 2011, Adam and Miguel opened the doors to what would later become WeWork's first member community, at 154 Grand Street in New York City, heralding the beginning of a transformative journey.

## **5.2. The Ascent to Unicorn Status**

Although detailed information regarding the specific individual investors participating in WeWork's Seed Round lacks, it is generally understood that the initial capital of \$1 million (see Exhibit 9.), the catalyst for the company's operations and growth, primarily came from close acquaintances, family members, and early enthusiasts who shared a strong belief in WeWork's vision and concept. Among these contributors, names such as DAG Ventures, Joel Schreiber, and others have been frequently mentioned.

In January 2012, WeWork, "*the world's first physical social network*", raised \$6.9 million in an Angel Round, as it prepared to open yet another space in New York and its first in Los Angeles. By year-end, the company had multiple locations and ambitious aspirations. "*We try to choose only 'we' investors. Not just anyone who offers us money— investors who have a 'we' mentality which means they care about the bigger picture... and think collaboration is the future of innovation*", said Neumann (2012). The new funds would be used to grow the company, develop new technology and "*invest in some startups that are in our technology incubator. (...) All the money is for growth. It's for building community, building technology*". Nevertheless, when asked "how" or "why", he did not have an answer. However, the company's rapid growth and innovative approach to office space quickly garnered substantial attention, leading to subsequent rounds of private funding.

In the spanning period from 2012 through 2014, WeWork expanded its footprint to locations in Chicago, Portland, and overseas to London and the company's ascent continued with a \$17 million Series A in July 2012, a \$40 million Series B in May 2013, and a \$150 million Series

C in February 2014, as per VC Experts and WeWork. Notably, Series A and B funding rounds were approximately twice the size of the average rounds during that timeframe, whereas the Series C round surpassed the average by over fivefold (Langevoort and Hillary, 2021).

The Series C round was particularly noteworthy, as it attracted the interest of Benchmark, a prominent venture capital fund in Silicon Valley, renowned for backing industry giants like eBay, Twitter and Uber. Despite Benchmark's lack of prior involvement in real estate ventures, the fund's leader visited New York to personally assess WeWork's concept of distinctiveness in the shared office space landscape. Convinced by Neumann's vision, Benchmark valued WeWork at \$1.5 billion, more than quadrupling its valuation from the beginning of 2013, surpassing the \$1 billion threshold, and attaining the coveted "unicorn" status (Rao, 2023) – a testament to WeWork's transformative impact in the industry.

### **5.3. Adventurous Times and Attaining New Heights**

During the same period, WeWork's youthful and unconventional culture gained increased visibility in the public eye and media. In 2012, the company introduced a unique practice, organizing retreats for entrepreneurs and employees at a summer camp in the Adirondacks, owned by Rebekah Paltrow Neumann's family, Adam's wife. The "*Summer Camps*" mirrored the vibrant and carefree atmosphere of the company, placing a strong emphasis on networking and community building, with an abundance of hookahs, vintage typewriters, beer-laden canoes, and a lack of cellphone service or Wi-Fi. In 2014, when further investments were being considered by Benchmark, the camp experience featured vodka, humorous declarations, and a distinct vibe compared to urban or upscale locations.

However, this unorthodox culture extended beyond the camps. Since its foundation, WeWork embraced a "*work hard, play hard*" culture. "*A lot of WeWork feels like a never-ending party*", remarked one former employee in 2019, pertaining to the second part of the ethos. Adam

Neumann was recognized for his barefoot office appearances, late-night 2:00 a.m. meetings, and advocacy for Don Julio tequila shots among employees. The company also provided unlimited free beer to both workers and tenants around the clock and maintained a relaxed stance towards marijuana at work. Weekends often involved dancing around fires in the woods, and Neumann even fitted his Manhattan office with an infrared sauna and a cold plunge pool. This exemplified the company's exuberant lifestyle and unrestrained "*hustle*" culture, transcending the boundaries between work and leisure.

In his own words, Adam was the embodiment of the core philosophy "*We Generation*" – a guiding principle that underpinned WeWork's fundamental ethos, dedicated to uniting people and nurturing an indescribable energy.

Despite the perceived "*adolescent antics*", WeWork continued to receive robust financial backing. Merely a few months following the publication of The New York Times article detailing the camp in 2014, WeWork successfully secured a substantial \$355 million in a Series D funding round, in December of the same year. Although the company had not turned a profit yet, WeWork garnered an impressive valuation of \$5 billion (Gellman and Brown, 2014). Noteworthy investors such as Goldman Sachs, J.P. Morgan, Wellington Management, and T. Rowe Price actively participated in this funding round, triggering media speculation about a potential initial public offering (IPO) in the ensuing years.

While Adam drew parallels between WeWork and companies like Uber and Airbnb, both operating in the "*sharing economy*" and platforms like Facebook or LinkedIn, WeWork's business model carried more inherent risk, with its sustainability reliant on densely occupied office spaces. During the Series D funding round, money was flowing freely, affording WeWork the means to cover rent. However, skeptics started to question whether the valuation was justified, hinting at the possibility of it being part of a burgeoning technology bubble. The

critical question emerged: what would happen if “*the money dries up or – dare we say it – the bubble bursts?*” (Lapowsky, 2014).

As we delve into the subsequent developments, the bubble did eventually burst, but not before WeWork underwent several significant Series Rounds, characterized as “*late stage*”.

By June 2015, WeWork’s reach expanded further, securing a staggering \$434 million in its Series E funding round, which propelled the company’s valuation to an astonishing c. \$10 billion (Kunthara, 2019). With over 23,000 customers paying memberships and offering desk rentals starting at an affordable \$45 per month, WeWork was rapidly becoming the go-to destination for entrepreneurs, freelancers, and small businesses. By the end of the year, the company had nearly tripled in size compared to 2014, growing from roughly 16,000 to over 40,000 members and opening 40 new locations all over the world, including spaces in brand new markets, in addition to an expansion into Brooklyn in New York City.

Nonetheless, as WeWork underwent its expansion phase, an array of difficulties and concerns started to emerge, spanning internal corporate matters and broader issues pertaining to regulations and the legal landscape. In the same year, WeWork came into the public eye when the most prominent union representing building service workers in the U.S. filed an official complaint, citing unfair employment practices concerning office cleaners.

2016 also witnessed WeWork implementing significant staff reductions, affecting approximately 1,000 employees and a temporary hiring freeze. Notwithstanding, in October, the company embarked on its Series F round with a grand entrance, securing \$690 million in investments from Hony Capital & Legend Holdings and attaining a valuation of \$16.9 billion (Kunthara, 2019). Additionally, in August 2017, SoftBank’s Vision Fund bought \$1.3 billion worth of the visionary unicorn’s shares (Dimri, 2023).

#### **5.4. SoftBank as a Growth Enabler**

SoftBank Group Corporation played a focal role in WeWork's history due to its significant financial backing and involvement.

Established in September 1981 as SOFTBANK Corp. Japan (current SoftBank Group Corp.) in Tokyo by Masayoshi Son, the company's original objective was to be a software bank that would serve as the infrastructure of the new information society emerging in the country. Over time, the company diversified into various sectors, and in recent years, by operating as a prominent multinational investment holding company, it distinguished itself with a primary focus on investment management. The SoftBank Vision Fund, a venture capital fund founded in 2017 as a subsidiary of the SoftBank Group, stood as the world's largest technology-focused investment fund, boasting a staggering \$100 billion in capital (León, 2019).

As WeWork captivated the world with its vision of transforming the office landscape, SoftBank's CEO and Chairman, Masayoshi Son, sensed an opportunity to shape the future of work. In August 2017, he embarked on the groundbreaking investment in WeWork, a saga that has become an iconic chapter in the world of technology. Neumann spent only twelve minutes with Son touring the company's headquarters before reaching an agreement on a \$4.4 billion investment from the fund, marking one of the largest investments in a private technology company at the time. In fact, this Series G investment round valued WeWork at approximately \$20 billion (Kunthara, 2019), making it the fourth-most valuable startup in the U.S., behind only Uber, Airbnb, and SpaceX, and resulting in SoftBank gaining a significant ownership stake in the company. Most of the investment, \$3 billion, was directly allocated to the company, via primary and secondary shares, while the remaining \$1.4 billion went towards the Asian market expansion. Fueled by the validation and financial backing of SoftBank, Neumann's already ambitious goals soared to new heights. He wanted to be the world's first trillionaire. He wanted to be president of the world (Chozick, 2019).

Early 2018, SoftBank Corp. reaffirmed its faith with an additional \$1 billion investment in the unicorn through convertible notes, and later, in November, the company announced the investment of another \$3 billion in two equally split tranches in the form of a warrant, which automatically would convert into stock in September, ultimately valuing WeWork at \$42 billion (Ghosh, 2018).

Driven by what seemed like an insatiable appetite for Adam, and by extension WeWork, SoftBank invested a substantial \$6 billion in January 2019, of which \$5 billion represented primary growth capital and the remaining \$1 billion constituted secondary capital, which was used to fund share purchases from investors and employees. This propelled WeWork's post-money valuation to \$47 billion, positioning the company as "*the second-highest-valued private company on the planet*" (Brown and Farrell, 2021). The CEO, adamantly focused on the valuation as a testament to the company's success, whose magnitude was above numerous Fortune 500 companies like FedEx.

Articulating a vision of WeWork as "*a community, a company, a family*" transcending conventional office spaces, Adam envisioned that "*Next year, (...) (the valuation) would be \$100 billion*" (Brown and Farrell, 2021), emphasizing a commitment to aggressive growth with annual doubling of revenue. Amid promises for expansion into Africa, the launch of a TV show, and a significant pledge to hiring military veterans, Adam Neumann (2019) emphasized a dedication to ethical business practices, asserting that "*if you do the right thing, you make the most money*".

However, concealed behind the optimistic narrative was a critical reality that eluded the predominantly young, idealistic workforce: the \$1 billion infusion was insufficient to offset WeWork's substantial financial losses (see Exhibit 10., Exhibit 11., and Exhibit 12.). The ambitious growth came at considerable costs, placing the company in a precarious financial position, demanding a continuous influx of billions of dollars.

For a span of nine years, WeWork's investors, ranging from Silicon Valley venture capitalists to the Japanese conglomerate SoftBank, prioritized growth over financial prudence. As of that year, WeWork and its subsidiary entities had raised more than \$10 billion in total commitments from SoftBank, with Son (2019) stating: *“WeWork is disrupting a multi-trillion-dollar industry with a technology platform that provides a complete solution for space needs. WeWork has already experienced unparalleled growth and we are confident that with Adam’s vision and this growth capital the company will be able to aggressively pursue the enormous market opportunity ahead of them”*.

### **5.5. From WeWork to The We Company**

In the heart of 2019, as WeWork soared to unprecedented heights, driven by its rapid expansion and significant investments, the company embarked on a transformative rebranding as *“The We Company”*, embracing a new identity meant to reach beyond traditional co-working spaces, with a lofty mission to *“elevate the world’s consciousness”*. This move marked the company’s aspirations to establish a comprehensive lifestyle ecosystem, encompassing a broader range of services and initiatives, that would enhance its members’ lives.

**WeWork.** The core business of providing co-working spaces, with the objective to *“create a world where people work to make a life, not just a living”*.

**WeLive.** A residential concept offering short-term apartment rentals, aiming to foster a sense of community and reduce loneliness among its residents, with a mission to *“build a world where no one feels alone”*, and the impactful aspiration of potentially *“driving down suicide rates”*.

**WeGrow.** A school seeking to *“unleash every human’s superpower”*, through a unique educational approach that emphasized creativity, critical thinking, and social-emotional learning. For WeGrow the plan was not only to *“shelter the world’s orphans”*, but also to *“give them a new family: the WeWork family”*.

Neumann's vision extended beyond these three pillars, enveloping a wide range of ventures that pierced through various aspects of life: "*There was talk of a WeBank, WeSail, WeSleep (and) an airline*", reflecting his unyielding belief in the power to transform the world and ambition to create a "*We*" Ecosystem (Chozick, 2019).

As WeWork's valuation ascended, fueled by optimism and unwavering support, discussions regarding an IPO became more recurring, with both investors and the public captivated by the promise of a revolutionary lifestyle ecosystem. Ultimately, the IPO proved to be WeWork's downfall.

## **5.6. The IPO Fiasco**

WeWork's registration paperwork was made available on the Securities and Exchange Commission (SEC) website at precisely 7:12 a.m. on a bright late-summer morning in New York City on August 14, 2019. This application, formally known as an S-1 Filing, represented a significant step in the precisely planned process towards public listing.

Thousands of investors and journalists would get their first genuine look at the company's financial situation, allowing them to determine whether WeWork was, as its founder promised, on route to galactic supremacy and unbelievable profits. While the initial response held a restrained tone, a few hours of financial scrutiny caused the dam to break.

Regardless of generating \$1.8 billion in revenue, WeWork incurred a staggering net loss of \$1.9 billion in 2018, a pattern repeated in the first half of 2019, when the company reported another loss of \$900 million, on \$1.5 billion in revenue – in other words, WeWork was spending c. 2\$ for each earned dollar in revenue. These alarming figures highlighted the unsustainable nature of the company's business model. Adding to investor concerns was the company's lengthy list of risk factors, containing a plethora of potential threats to its business, financial condition, legal compliance, organizational structure and even the specific offering and ownership of its

Class A common stock. Of the risk factors that occupied over 13% of the S-1 Filing, the following stood out:

- i. WeWork had grown rapidly, and that growth might not be sustainable;
- ii. The company had a history of significant losses, expected to continue in the foreseeable future due to its investment strategy;
- iii. The real estate market was highly volatile and could negatively impact the company's result if a global economic recession occurred or industry trends shifted;
- iv. WeWork had been prioritizing its mission over short-term profit and there was no guarantee that it would even benefit the company in the long-term;
- v. There was a big dependence on the CEO Adam Neumann, revealing a variety of conflicts of interest and raising concerns about corporate governance practices.

Moreover, in the opening pages, the company declared *"We dedicate this to the energy of We – greater than any one of us but inside each of us"*, further adding *"We are a community company committed to maximum global impact. Our mission is to elevate the world's consciousness. We have built a worldwide platform that supports growth, shared experiences, and true success"*. Despite their inspirational nature, these statements reflected negatively on WeWork, being perceived as detached from the company's financial reality.

Notwithstanding bearing the name *"The We Company"*, the IPO documentation uncovered that WeWork was fundamentally centered around Adam Neumann, with his personal interests and unorthodox business practices dominating the narrative.

The uncertainties surrounding the company then prompted a significant reduction in its targeted public valuation, with reports suggested a decline to \$10-\$12 billion, revealing a substantial decrease from its earlier private valuation of \$47 billion (Palmer, 2019).

As apprehensions surrounding WeWork's business practices and financial prospects escalated, the highly anticipated IPO faced an abrupt postponement in 2019. This decision marked a turning point for WeWork, not only sending shockwaves through the investment community, but also highlighting the importance of transparent information for companies and investors alike. The cascading consequences of WeWork's struggles laid bare the need for a fundamental shift, as it became clear that the company's business model, valuation, and investor base were all under intense scrutiny.

On September 24, 2019, the turmoil reached a peak when it was announced that the Co-founder Adam Neumann had decided to step back from his role as CEO: *"While our business has never been stronger, in recent weeks, the scrutiny directed toward me has become a significant distraction, and I have decided that it is in the best interest of the company to step down as chief executive"* to become only a board observer. This decision came as a response to the Board of Directors pressure, with all members voting for Neumann's resignation. Adam was reportedly offered \$1.7 billion package to exit the company, marking SoftBank's take of control.

Yet, amidst these setbacks, an opportunity emerged for WeWork to reevaluate its strategy and address corporate issues. This moment sparked a period of introspection and substantial transformations which culminated in the announcement by the Co-executives of the company, Artie Minson and Sebastian Gunnigham, *"We have decided to postpone our IPO to focus on our core business, the fundamentals of which remain strong"*, on September 30, 2019. The aim was to concentrate on core co-working operations and implement initiatives to enhance corporate governance and financial stability. While the withdrawal of the IPO was not the desired outcome, it was deemed necessary for the company's restructuring and long-term viability. Nevertheless, the prospect of going public remained open: *"We have every intention*

*to operate WeWork as a public company and look forward to revisiting the public equity markets in the future”*, added the Co-executives.

Shortly after Neumann’s departure, on October 22, SoftBank announced it would provide the company with a bailout package, seen as a lifeline for WeWork. The \$9.5 billion financial package, contingent upon substantial business restructuring, was comprised of:

- i. Accelerating existing commitment:** a \$1.5 billion commitment scheduled for April 2020 would be anticipated, at a rate of \$11.60 per share. This transaction was expected to be concluded within 7 days post-signing, dependent on WeWork’s shareholder approval;
- ii. Tender offer launch:** valued at as much as \$3 billion to all non-Softbank shareholders at a per-share price of \$19.19. It was scheduled for the fourth quarter of 2019, with closing subject to regulatory approvals and other customary closing conditions;
- iii. New debt financing:** comprising \$1.1 billion in Senior Secured Notes, \$2.2 billion in Unsecured Notes and \$1.75 billion through a Letter of Credit Facility, expected to materialize following the completion of the tender offer;
- iv. Joint venture share swap:** SoftBank Vision Fund’s holdings in regional joint ventures (excluding Japan) would be exchanged for WeWork’s shares, at a rate of \$11.60 per share.

The described funding allowed SoftBank to acquire 80% of WeWork. However, due to WeWork’s multi-class share structure and the structural voting power enjoyed by the founder, SoftBank did not hold a majority of voting rights, preventing it from gaining control. Consequently, WeWork did not become a subsidiary of Softbank, but instead remained an associate. This distinction is crucial as it allowed the former to retain its corporate identity and decision-making authority, while the latter maintained a significant financial interest in the

company's success, akin to a non-controlling interest and aligned with SoftBank's desire to avoid taking on the full risks of WeWork's business in a quest to protect its own balance sheet.

Furthermore, as part of this agreement, WeWork's board appointed Marcelo Claure, Chief Operating Officer (COO) of SoftBank Group Corp., as the Executive Chairman of the Board of Directors of WeWork.

Later that year, by October, WeWork's valuation had plummeted to a mere \$8 billion (Klebnikov, 2019), a glaring decrease from its pre-IPO private valuation of \$47 billion, reflecting the mounting concerns with the company's financial health. In the aftermath of the bailout, WeWork embarked on a series of restructuring measures to address challenges and restore investors' confidence, catalyzing a period of substantial transformation.

### **5.7. Restructuring Efforts**

On November 21, 2019, the company laid off 2,400 employees – equivalent to nearly 20% of its global staff. *“As part of our renewed focus on the core WeWork business, and as we have previously shared with employees, the company is making necessary layoffs to create a more efficient organization”*, a WeWork representative said in a statement provided to CNN Business in 2019. *“The process began weeks ago in regions around the world and continued this week in the U.S.”*

In the wake of WeWork's collapse, Sandeep Mathrani assumed the role of CEO in February 2020, bringing an extensive leadership experience in real estate and a seasoned track record in operational efficiency, succeeding Co-CEOs Artie Minson and Sebastian Gunningham. Under Mathrani's leadership, WeWork engaged in a comprehensive reassessment, instituting rigorous cost-cutting measures to address the company's vulnerabilities and right its culture. This involved significant workforce reductions, closure of underperforming locations, and negotiations with landlords, resulting in diminished rent obligations.

However, the onset of the COVID-19 pandemic, which brought the world to a standstill, posed an unexpected threat to the company's business model. As the prevalence of remote work surged, demand for WeWork's shared workspaces experienced a marked decline.

On October 14, 2020, a significant announcement was made through the company's rebranding from “*The We Company*” back to its original moniker, “*WeWork*”, a crucial step in realigning the company's focus on its core product and solidifying its position as a global leader in end-to-end business solutions.

Throughout the year, WeWork reduced overhead costs by \$1.1 billion and trimmed \$400 million in operating expenses, culminating in an improved free cash flow by \$1.6 billion. Despite these efforts, WeWork's valuation plummeted to \$2.9 billion by May, a stark contrast to SoftBank's \$7.3 billion appraisal in December 2019 (Savov, 2020). By December, WeWork had strategically withdrawn from 106 locations that were either underperforming or not yet operational and negotiated over 100 lease amendments, resulting in an estimated \$4 billion reduction in future lease payments.

### **5.8. Path to Public Listing**

In the latter half of 2020, WeWork found itself approached by numerous Special Purpose Acquisition Companies (SPACs) on a weekly basis, each presenting merger proposals. The turning point came in January 2021, when Sandeep engaged in discussions with BowX Acquisition Corporation (BowX) (NASDAQ: BOWX, BOWXU, and BOWXW), one of the SPACs, to assess whether a SPAC merger could serve as the optimal strategy for WeWork's resurgence post the setbacks of the failed IPO.

In March, WeWork and BowX formally announced a definitive merger agreement, setting the stage for WeWork's public listing. One analyst noted in 2021, “*The SPAC route gives Mathrani*

*a lot of control and a quick, clean, direct method to go public, and that gives him the chance to run the business rather running a public process”.*

Sponsored by Bow Capital Management, under the leadership of Vivek Ranadivé, BowX had raised \$420 million in its IPO on August 7, 2020, supplemented by an additional \$63 million through the exercise of an over-allotment option. The combined proceeds of \$483 million were placed in a trust account, instrumental in funding the subsequent SPAC merger with WeWork, on October 21, 2021. Additionally, an \$800 million private placement of \$10 per share, known as a Private Investment in Public Equity (PIPE), was ensued, featuring contributions from prominent investors, namely Insight Partners, Starwood Capital Group, Fidelity Management & Research Company LLC, Centaurus Capital, and BlackRock. As negotiations concluded, WeWork's valuation underwent revision, with investors in the PIPE transaction forcing a reduction from \$9.9 billion to \$9 billion. WeWork's entry into the public domain then resulted in an Enterprise Value of \$9 billion (Johnston, 2021).

On October 21, 2021, WeWork successfully went public and its shares began trading under the ticker "WE" on the NYSE. The closing price of \$11.78 per share marked a 13% increase on its first trading day, resulting in a valuation of \$9.3 billion. As a result of the SPAC, WeWork raised approximately \$1.3 billion, with BowX assuming control of 56% of the company (Smith, 2021). The ensuing financial landscape reflected a robust balance sheet, boasting approximately \$1.9 billion in cash and a total liquidity of \$2.4 billion, inclusive of a \$550 million senior secured notes facility from SoftBank Group.

CEO Sandeep Mathrani, buoyed by WeWork's substantial financial injection and strategic partnership with BowX, conveyed unwavering confidence in the company's value proposition and its distinguished global standing within the flexible workspace sector. In an interview with CNBC's "Squawk Box" (2021), he noted: *“You’ve said this is a story with drama. Sure, this is a story where a lot of people wrote documentaries that it was the end of WeWork. Well the*

*resistance, the persistence of these people is incredible. This company is here, is stronger than ever, and no doubt that we're going to be celebrating many more milestones".* Marcelo Claire also echoed this sentiment, underlining the transformative potential of WeWork in reshaping the commercial real estate landscape, particularly in the post-pandemic era where the convergence of digital technology and flexible workspaces assumed heightened significance.

Despite uncertainties regarding post-pandemic working trends, WeWork's response was marked by adaptability, with the company pivoting its offerings to encompass hybrid work solutions and cater to businesses with remote employees. Claire highlighted this as an opportunity for WeWork to *"reinvent"* itself, revealing that demand for WeWork spaces had surpassed pre-pandemic levels. In parallel, BowX's CEO Ranadivé remained bullish about WeWork's prospects, foreseeing a fruitful partnership and anticipating both short-term profitability and long-term growth through innovation. He contended that the corporate focus on flexibility would act as a tailwind for the company. *"Companies have now decided that flex space is the must-have"*, he told CNBC in an interview, per The New York Times (2021). *"Maybe for their own headquarters, they want to own that space. But for everything else, they want to hand it over to a WeWork"*, he added. As a result, WeWork would be the *"opportunity stock for the recovery"*.

Following the transaction, leadership remained intact, with Claire and Mathrani continuing to lead WeWork as Executive Chairman and CEO, respectively. Ranadivé and Deven Parekh of Insight Partners joined WeWork's Board of Directors, contributing to the strategic direction and governance of the company.

## **5.9. Turbulence following Public Listing**

Between the moment WeWork boldly took its place on the trading floor and early 2023, the company continued to fortify its financial standing, attracting capital from a diverse array of

investors. Notably, in October 2021, Cushman & Wakefield provided \$150 million in equity and, subsequently, in May 12 of the following year, WeWork secured an additional \$350 million in debt financing from Brookfield Asset Management. Building on this momentum, on January 3, 2023, the SoftBank Vision Fund orchestrated a significant infusion of \$250 million, also in the form of debt funding (see Exhibit 9.).

Yet, despite the described funding triumphs, WeWork's post-IPO journey was akin to navigating turbulent waters. Financially, the company grappled with persistent challenges, evident by the five consecutive years of negative EBITDA and the reported net loss in 2022 of \$2.3 million (see Exhibit 10., Exhibit 11., and Exhibit 12.). Furthermore, since 2021, WeWork found itself losing track of the intricate equilibrium expected between balance sheet components, with liabilities consistently surpassing assets, resulting in negative equity — an unbalance that raised legitimate concerns about the company's capacity to meet its long-term financial commitments. Also, in a strategic move to enhance its liquidity position, SoftBank Group Corp. significantly extended WeWork's financial commitments of \$1.75 billion from February 2023 to the following year.

But, even amidst financial turbulences, WeWork maintained a dedication to reinforce its cost-effective strategic expansion, emphasizing growth and innovation as its guiding principles.

Notably, on the 25<sup>th</sup> of January 2022, WeWork acquired Common Desk, a flexible space provider based in Dallas, Texas, and only two weeks later announced a strategic partnership with UpFlex, a co-working aggregator and global flexible workplace startup. The arrangements aimed at extending WeWork's footprint across non-core markets globally, providing members with an expanded array of tailored flexible solutions.

Subsequently, on April 13, 2022, WeWork entered into a partnership with Yardi, a leading real estate software provider. The culmination of these efforts materialized in July, with the official

launch of WeWork Workplace, a universal platform designed for inventory management across office spaces, enhanced employee experiences, and space optimization through insights and analytics.

Despite the series of strategic acquisitions and partnerships initiatives, the company witnessed several high-level executive departures, underscoring the ongoing instability within the organization, a narrative that persisted into the present year.

### **5.10. The Closing Chapter**

In April 2023, WeWork released yet another underwhelming official announcement: the company received a formal notice (referred to as “*the Notice*”) from NYSE, stating non-compliance with the continued listing standards. As of April 11, the average closing price of the Company's Class A Common Stock had fallen below the stipulated threshold of \$1.00 per share, over a continuous 30 trading-day period. Notably, the Notice did not result in the immediate delisting of the Company's Common Stock, rather WeWork was granted a specific six-month “*cure period*” to rectify the deficiency.

WeWork acknowledged several avenues to regain compliance with the minimum share price requirement during the corrective phase, provided that, on the final trading day of any given calendar month, or on the concluding day of the correction period itself, the company met two specific conditions: i) a closing share price not less than \$1.00; and ii) an average closing share price of at least \$1.00 over the 30 trading-day intervals terminating on the ultimate trading day of that respective month.

Barely one month after, WeWork’s crisis aggravated, this time within its leadership ranks. Sandeep Mathrani, who held the positions of Chairman and CEO, would step down from both roles, with the effective date set for May 26. In the transitional phase, David Tolley, existing member of WeWork’s Board, was designated as the interim CEO. “*I am tremendously excited*

*to join WeWork's management team as the company continues to grow and progress towards free cash flow*", said Tolley (2023) in the company's announcement which led WeWork's shares to rise more than 2% after-hours.

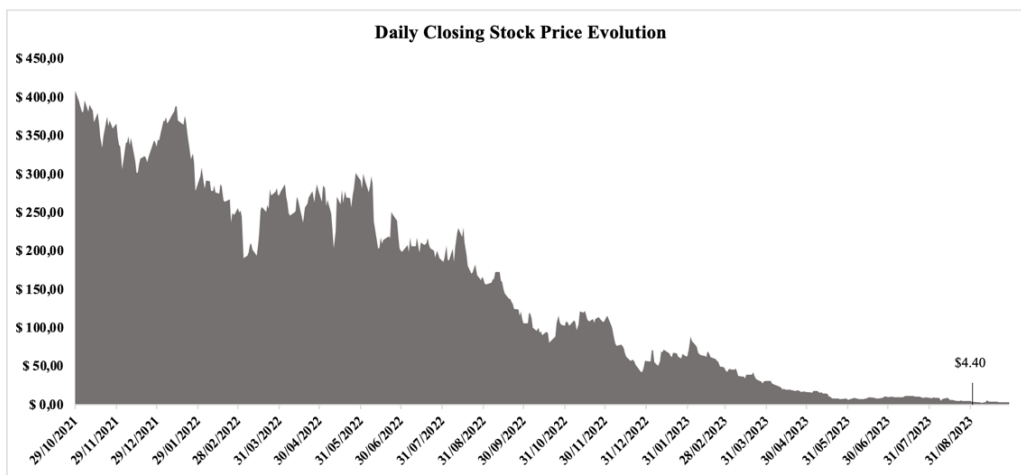
But the respite was short-lived. On August 8, the second quarter earnings release casted, once more, a shadow of significant uncertainty regarding the company's ability to continue as a going concern, resulting from losses and projected cash needs, combined with increased member churn and severe cash bleed. In the second quarter alone, WeWork reported a net loss of \$397 million, a figure which still showed an improvement compared to the homologous period in 2022 (\$635 million), when the company was losing c. \$5,000 per minute.

In response to mounting concerns, WeWork's management articulated yet another strategic plan aimed at bolstering the company's financial stability through: i) reduction of rent and tenancy costs through the implementation of restructuring measures and negotiations for more favorable lease terms; ii) enhancement of revenue by mitigating member churn and augmenting new sales; iii) stringent control of expenses and the imposition of limits on capital expenditures; and iv) pursuit of additional capital through the issuance of debt or equity securities, or through asset sales.

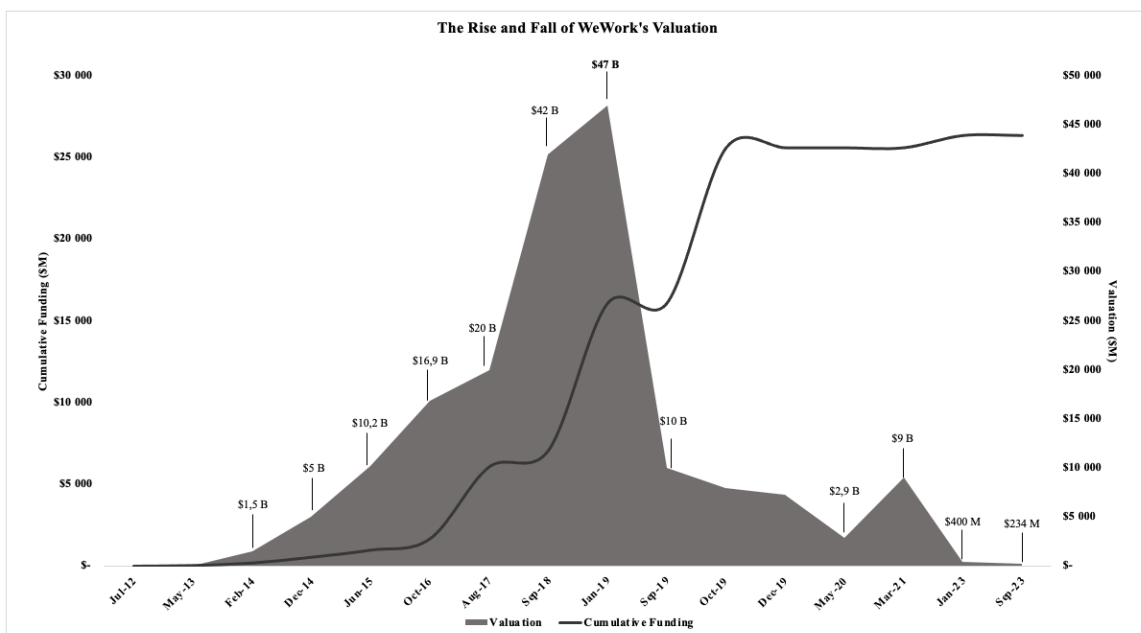
Only ten days later, WeWork confirmed its decision to implement a 1-for-40 reverse stock split of its Class A and Class C Common Stock. This move, which would artificially inflate the stock price by reducing the number of outstanding shares, sent stocks plummeting by 11% that Friday, closing at 14 cents. But with or without a higher stock price, the company's market capitalization had shrunk to around \$300 million (Bloomberg, 2023).

The situation deteriorated further on late August, when the NYSE ultimately suspended trading in WeWork's warrants, citing "*abnormally low*" trading price levels and initiating the delisting process for these financial instruments.

Amidst a period of profound turbulence within the commercial real estate sector, the challenges that WeWork faces today emerge from a multifaceted web of complexities, which culminated in the implementation of the 1-for-40 reverse stock split, as a final effort to resuscitate the company's ailing stock price and circumvent delisting. The reverse stock split took effect at 4:01 p.m. Eastern Time today, the 1<sup>st</sup> of September, and as of the market opening on September 05, 2023, WeWork's Class A Common Stock will commence trading on a split-adjusted basis. Despite this drastic manoeuvre, WeWork's downward spiral continues. Today, the company's shares closed at \$4.40, equating to a market capitalization of \$234.324 million.



**Exhibit 7.** WeWork's Daily Closing Stock Price Evolution (Source: Own illustration based on Bloomberg)



**Exhibit 8.** The Rise and Fall of WeWork's Valuation (Source: Own illustration based on Crunchbase, Business Insider, S-1 Filing)

This represents a staggering decline of 99.5% from its once-imposing \$47 billion valuation in 2019, when it held the title of largest private occupier of office spaces in Manhattan and London.

As it stands, WeWork's legacy is not one of value creation, but rather a narrative between utopia and chaos of what is, in essence, one of the most spectacular collapses in recent memory.

## **6. Transition to Teaching Note**

As Anna delved deeper into the complexities of WeWork's rise and fall, she determined that Neumann's unconventional leadership style, coupled with his unchecked ambition and disregard for financial discipline, created an environment that fostered unethical practices and unsustainable growth.

She understood that innovation and disruption, while essential for growth, must be tempered with sound management practices and a healthy dose of caution. Nonetheless, Neumann's individual contributions, while undeniable, appeared to be only one piece of the puzzle explaining WeWork's downfall.

Factors including the profound transformation of work patterns driven by the COVID-19 pandemic, a marked and precipitous devaluation of office and retail properties, and the cascading consequences of escalating interest rates also placed undue strain on industries reliant on credit. In fact, businesses are now engaged in a comprehensive reevaluation of their office space needs, prompted by the seismic shift toward remote work alternatives that employees have increasingly embraced. Also, the adverse outcomes stemming from the potential delisting and the ongoing financial tribulations seem to cast a long shadow of uncertainty over WeWork's future.

Amid these transformative dynamics, WeWork's longstanding business model, traditionally anchored in long-term leases and membership commitments, appears incongruent with the

contemporary outlook. The once vibrant co-working industry, considered a beacon of innovation and promise, now grapples with a turbulent landscape.

This unfolding narrative stands as an insightful testament to the paramount importance of preserving sound leadership, financial prudence, and a commitment to transparency. Yet, a compelling question remains unanswered: **If not only prompted by the “*Neumann Effect*”, what precise combination of factors and events propelled this co-working giant into its present state of financial precariousness?**

## **Individual Part**

### **Laura Sofia Lisboa Lopes**

#### **Case Synopsis**

In the late hours of a September night, Anna Smith, a seasoned analyst at Horizon Ventures, finds herself immersed in the evaluation of Flow, an ambitious startup seeking a \$500 million investment. As she meticulously combs through the details, a sense of *déjà vu* envelops her consciousness. The ambitious business model, the charismatic leadership of Neumann, the rapid growth plans – it all echoes the trajectory of WeWork, once a formidable disruptor within the co-working sector, commanding a valuation of \$47 billion as of January 2019, and now facing a substantially eroded market capitalization and ability to continue as a going concern. This realization propels Anna into an introspective journey through WeWork's story, a saga of meteoric ascent to success, fraught with turbulent challenges, ultimately culminating in a fall that sent ripples across the business world. Anna is left to wonder: What precise combination of factors and events propelled WeWork into its present state of financial precariousness?

#### **Learning Objectives/Purpose**

This Case Study offers students a profound understanding of the precise combination of factors and events that propelled WeWork into its current state of financial uncertainty. It challenges them to engage in rigorous critical thinking when delving into potential explanations, which may encompass the unconventional corporate culture and governance practices and the intricacies of its business model. By consolidating solid theoretical and analytical background, students are encouraged to unravel the mysteries behind WeWork's staggering \$47 billion valuation, the factors contributing to the failed IPO, the strategic shifts leading to its eventual public listing, and the crucial role played by SoftBank as its primary investor. Additionally, this

case conducts an in-depth analysis of Financial Distress models that seem to validate WeWork's standing at the precipice of bankruptcy.

### **Target audience**

This case study is designed to be a valuable resource for academic programs at the Master's and MBA levels, with an emphasis on courses related to Entrepreneurship, Entrepreneurial Finance and Venture Capital. It may also be incorporated into curricula related to Corporate Governance, Corporate Finance, and Credit Risk. Students are expected to have a foundational understanding of Entrepreneurial Finance, particularly of Funding Rounds, Multiples Valuation, and the dynamics of Financial Distress.

### **Teaching Plan**

The overall session should be allocated a minimum duration of 120 minutes. It is expected that students receive and read the Case Study in advance as well as address the assigned questions in preparation for the classroom discussion. In addition to the core case material, supplementary resources are available to enrich the learning experience, including the video "*The Spectacular Rise and Fall of WeWork*" by Bloomberg, the series "*We Crashed*" on Apple TV+ and the book "*The Cult of We: WeWork, Adam Neumann and the Great Startup Delusion*". It is recommended that each of the four sets of questions is analyzed within approximately 25 minutes, followed by a comprehensive review of key learnings and takeaways.

**Assigned Questions** (Focus on the period between October 2021, month of WeWork's SPAC Merger IPO, and today, September 1, 2023.)

1. Examine the evolution of WeWork's Credit Rating Post-SPAC Merger IPO.
2. Conduct a comprehensive Z-score Analysis for WeWork as of December 2021, December 2022, and June 2023: i) select the most suitable Z-score Model; and ii) ascertain Credit Ratings and Probability of Default implied by the Z-scores.

3. Conduct a detailed Distance to Default Analysis (utilizing the Bharath and Shumway Model (2008)) for December 2022, March 2023, and June 2023, to assess WeWork's Default Probability.
4. Reflect on the key Learnings and Takeaways from the Case Study "Between Utopia and Chaos: A Comprehensive Analysis of WeWork's Corporate Journey": i) identify critical factors influencing WeWork's pursuit of sustainability; ii) project WeWork's future trajectory based on analyses conducted in points 1, 2, and 3; and iii) highlight vital lessons and insights for Entrepreneurs, Investors, and Business Strategists.

## **Case Analysis**

### **1. WeWork's Present Outlook**

The depreciation of WeWork's shares has been pronounced since the company's IPO in October 2021 – shares are trading at \$4.40, as of September 1, 2023, vs \$408.4, as of October 29, 2021 –, following a dramatic setback during its earlier attempt two years prior, which prompted the removal of CEO and Co-founder Adam Neumann (see Exhibit 7.). Despite efforts to turn the company around following Adam's departure, distress, and potentially bankruptcy, remain a plausible scenario, raising concerns about repercussions for the already vulnerable industry of office real estate.

Since the seminal work of Beaver in 1966, comprehending the underlying motivations for corporate bankruptcy has remained a focus for scholars. The ramifications of bankruptcy extend beyond the firm itself, impacting stakeholders, including managers, employees, suppliers, and financial institutions. Platt and Platt (2006) assert that bankruptcy and financial distress are not successive stages: while financial distress may arise from poor operating results or external factors, bankruptcy represents a strategic action taken by firms to safeguard assets against creditor claims. To assess the likelihood of bankruptcy, employing credit analysis

models becomes imperative. The forthcoming section seeks to apply theoretical frameworks to gain insight on the degree of distress WeWork faces, ranging from accounting to structural models.

In the realm of accounting-based models, Altman's contributions in 1968 propose a traditional approach to assess the likelihood of corporate bankruptcy. Conversely, a contemporary trend involves the attempt to gauge the default risk of enterprises through models grounded in option theory, notably employing the Black-Scholes Model (1973). Exemplifying this trend is Merton's Structural Model (1974), a sophisticated framework that considers the interconnectedness of a firm's structural components. The Bharath and Shumway Model (2008) represents a notable addition to the landscape of credit analysis models.

### **1.1. Credit Rating Analysis**

Credit ratings serve as an indispensable metric, offering a comprehensive evaluation of an entity's creditworthiness, and hold the power to influence strategic decision-making, investment strategies, and overall risk management. A higher credit rating not only suggests lower risk, but also translates into tangible benefits, such as reduced costs of debt. Contrarily, a lower credit rating may trigger higher interest rates, indicative of an augmented likelihood of default. The latter reflects the dual nature of credit ratings, as both an indicator and a determinant of financial health.

Particularly, Fitch Ratings provide forward-looking credit assessments, offering insights into an entity's capacity to meet its financial obligations, through the assignment of Issuer Default Ratings (IDRs) to diverse entities and Issue Level Ratings to financial instruments. Fitch's scale, spanning from 'AAA' to 'BBB' (investment grade) and 'BB' to 'D' (speculative grade), communicates distinctions in the probability of default or recovery.

Fitch credit ratings for WeWork throughout the considered timeline, from October 2021 to September 2023, reveal a persistently challenging financial landscape, with a series of downgrades indicating heightened credit risk (see Exhibit 32.), and carrying significant implications for investor sentiment and market dynamics.

In October 2021, following the completion of the SPAC merger and public listing, Fitch Ratings upgraded WeWork Companies LLC and WeWork Inc.'s Long-Term Issuer Default Ratings (LT IDRs) to 'CCC+' from 'CCC', and unsecured notes to 'CCC-'/RR6'. The upgrade was result of an improved financial position and renewed focus on core operations, achieved through location portfolio rationalization and cost cutting initiatives. At the time, WeWork's comprehensive Liquidity and Funding Plan was expected to result in approximately \$1.3 billion in wholly owned cash by the end of the year. Also, successful restructuring efforts, including lease exits and portfolio optimization, reduced overhead expenses by \$1.1 billion on a run-rate basis, positioning the company for potential breakeven in 2022. In parallel, WeWork's occupancy rate increased by 15 percentage points year-to-date, reaching 64% in the third quarter of 2021 and projected to hit 74% by year-end. Additionally, a recovery in demand for flexible office spaces was anticipated, which would align WeWork's occupancy with pre-pandemic levels in the low-to-mid 80% range.

The optimism was, however, short-lived, with a subsequent downgrade in December 2022. Fitch downgraded WeWork Companies LLC and Inc.'s Long-Term Issuer Default Ratings (LT IDRs) to 'CCC', and senior unsecured notes to 'CC-'/RR6'. While 2022 set the stage for improvements in operating losses, the estimated negative EBITDA of \$455 million for 2022 (actual was of negative \$325 million) indicated continued challenges, expected to worsen in 2023 without additional restructuring. In September of the same year, WeWork reported a combined \$960 million in cash and undrawn senior secured notes commitments, believed to provide sufficient liquidity for the following 12 months.

Three months later, in March 2023, both the issuer and the financial instruments were subject to a further downgrade to 'C' and 'C'/RR6', respectively. The rating adjustment stemmed from WeWork's transaction support agreement with bondholders and SoftBank Group Corp., characterized as a distressed debt exchange (DDE) with a material reduction in the original terms for unsecured note holders.

The materialization of the mentioned exchange offer culminated in a Restricted Default (RD) rating in May 2023, which painted a grim picture of WeWork's financial position. The RD rating signaled selective default, an undeniable red flag for investors and the market alike. Nonetheless, the subsequent upgrade to CCC- on the same day added complexity to the narrative, creating a paradoxical situation. While an upgrade typically implies positive developments, the context of a RD raised questions about the resolution and the overall health of WeWork's financial standing. WeWork's restructuring, anticipated to yield sufficient liquidity for the forthcoming 12 months, remained contingent upon the company's sustained enhancement in operating performance. Also, while WeWork cost savings from selling, general and administrative (SG&A), and lease exits continued to portray a positive trend, the company's cash burn rate and actual operating performance, even with an improved occupancy rate (46% in the fourth quarter of 2020 vs. 73% in the first quarter of 2023), made them fall short from the breakeven scenario eagerly anticipated since the previous year.

On August 16<sup>th</sup> 2023, Fitch Ratings further downgraded WeWork Companies, LLC and WeWork Inc.'s Long-Term Issuer Default Ratings to 'CC', due to disappointing second quarter financial results, which followed alarming signs of potential insolvency, executive resignations, and restructuring expert appointments. The issue-level ratings for first-lien bonds were also downgraded to 'CCC-/RR3'. WeWork's liquidity, previously deemed adequate based on operational improvements, faltered. By June 30, 2023, the reported cash on the balance sheet

was \$205 million, more than halving from the previous quarter (\$422 million), result from increased churn and ongoing cash burn.

In sum, WeWork's actual operating performance consistently lagged behind growth and cost reduction projections outlined in 2021 and 2022 and, despite the opportunities in the flexible workspace market, WeWork has yet to fully reflect the potential it has consistently claimed to possess. In the almost two years considered, the company Issuer Credit ratings predominantly oscillated between 'CCC', signifying substantial credit risk and material possibility of default, and 'C', implying exceptionally high levels of credit risk, with default imminent or inevitable (Fitch, 2023). Additionally, the market sentiment towards WeWork during the period mirrored the negative credit rating changes (see Exhibit 33.).

## **2. Z"-score Analysis (1993)**

The Altman Z-score model, introduced in 1968, has been a particularly foundational instrument in financial analysis. Originally designed to assess the risk of bankruptcy for publicly listed companies and industrial firms (Taffler, 1983), the Z-score model quickly gained recognition for the predictive power of the combinations of five variables and weights, chosen using the Cooley-Lohnes (1962) computer program, and identified as jointly performing optimally in predicting corporate bankruptcy. The final discriminant function is expressed as  $Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 0.999X_5$  (1), wherein  $X_1$  = working capital/total assets,  $X_2$  = retained earnings/total assets,  $X_3$  = earnings before interest and taxes (EBIT)/total assets,  $X_4$  = market value of equity/book value of total liabilities,  $X_5$  = sales/total assets, and Z denotes the overall index.

One should note that the applicability of the original Z-score model is not universal, and that the model's effectiveness varies when applied to non-listed and manufacturing firms (Chuvakhin & Gertmenian, 2003). To address this limitation, Altman introduced the Z'-score

model (1983), offering a more encompassing framework that caters to other industrial firms, such as private manufacturing firms. The reestimation formula of Altman Z'-score is  $Z' = 0.717X_1 + 0.847X_2 + 3.107X_3 + 0.420X_4 + 0.998X_5$  (2), where the market value of equity is substituted for book value in  $X_4$ .

After the revision of the initial Z-score, the author introduced an additional modified model, the Z''-score (1993), tailored for both non-industrial and emerging market firms. Notably, the ratio  $X_5$  was omitted, resulting in a discriminant function of  $Z'' = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$  (3).

WeWork operates in the flexible office space and co-working industry, which, to a certain extent, can be considered a component of the broader commercial real estate and office services market. As WeWork is a publicly traded corporation listed on the New York Stock Exchange (NYSE), one found it sensible to apply the *Standardized Z''-score* model to evaluate the company's risk of bankruptcy (see Exhibit 34.).

The operating current asset account transitioned from \$310 millions in December 2021 to \$253 million in June 2023, with the figure for operating current liabilities mirroring the behavior (\$621 million for December 2021 vs \$455 million for June 2023). Total assets and total liabilities also displayed a downward trend, reaching \$15.06 and \$18.66 billion in June 2023, respectively. It is worth noting, however, that the relative decrease in the first item of 30.76%, was more substantial than of the second (of 19.48%). Simultaneously, the persistent negative book value of equity accentuates financial fragility, signifying a situation where liabilities surpass assets. Earnings Before Interest and Taxes (EBIT) depict a gradual amelioration, transitioning from a substantial negative value of \$3.70 billion in December 2021 to a far less pronounced negative Last Twelve Months (LTM) of \$1.50 billions in June 2023. Despite this positive trend, the losses sustained remain a significant area of concern. Additionally, retained

earnings exhibited a consistent decline, reaching negative \$16.79 billion in June 2023, implying challenges in accumulating profits and indicating a deeper financial strain.

As a result, the working capital/total assets ratio (X1) maintained rather stable (-0.014 for December 2021, -0.016 for December 2022, and to -0.013 for June 2023), but still below zero, indicative of difficulties in managing short-term obligations relative to total assets.

Also, the retained earnings/total assets ratio (X2) worsened from -0.650 to -1.115, reflecting heightened strain on the accumulation of earnings.

Conversely, the earnings before interest and taxes/total assets ratio (X3) improved from -0.170 to -0.098, suggesting a positive trend in generating earnings relative to total assets. Given that WeWork's sustained existence is contingent on the earning capacity of its assets, this ratio is particularly suitable to address corporate failure and the minor improvement introduces a slight sense of optimism.

Finally, the book value of equity/book value of total liabilities ratio (X4) declined from -0.063 to -0.191, indicating potential challenges in the valuation of equity compared to total liabilities.

As a result, the *Standardized Z*"-score, synthesized as a weighted calculation of these ratios combined with a constant of 3.25, manifests a deteriorating trend, transitioning from -0.171 in December 2021 to -0.572 in December 2022, and -1.329 in June 2023 (see Exhibit 35. and Exhibit 36.). Furthermore, considering 5.85 as the lower threshold for the Safety Zone, and 4.50 as the upper threshold for the Distress Zone (see Exhibit 37.), WeWork was consistently placed in the latter for the period considered, indicating a high probability of bankruptcy.

Additionally, one can conduct an empirical match between the calculated *Standardized Z*"-scores and yearly bond rating equivalents for ascertaining the probability of default associated with the implied ratings. Altman and Hotchkiss (2006) proposed correspondence (see Exhibit 38.) suggests an S&P rating of 'D' for 2021-23. It is worth highlighting that a 'D' rating is

assigned when S&P Global Ratings believes that the default will be general, and that the obligator will fail to pay all or substantially all of its obligations as they come due. In this regard, however, ideally and for practical applications, both the threshold values for zone defining and the rating correspondence should be calibrated to the particular point in time and industry considered. Also, based on data from Moody's between 1998-2022 regarding global defaults rates, the calculated *Standardized Z*'-scores and the implied credit ratings, a "C" Moody's credit rating company – equivalent to "D" credit rating of S&P credit agency (see Exhibit 39.) – presents an average cumulative default rate of 34.5% and 47.5% over a one-year and two-year period, respectively (see Exhibit 40.).

### **3. Simple Alternative "*probability*" Model (2008)**

An exemplary forecasting model, widely utilized in both academic research and practical applications to predict corporate default, is a specific adaptation of Merton's (1974) framework developed by the proprietors of the KMV corporation.

The Merton Distance to Default (DD) Model operates within the framework established by Merton (1974), wherein the equity of the firm is construed as a call option on the underlying value of the firm, with a strike price equivalent to the face value of the firm's debt. It is worth noting that the model acknowledges the non-direct observability of both the underlying value of the firm and its volatility, which must rather be deduced from the value and volatility of equity and various other observable variables, utilizing an iterative procedure to solve a system of nonlinear equations. Subsequently, the model stipulates that the probability of default is determined by the normal cumulative density function of a Z-score.

The Merton DD model, while representing a sophisticated application of classic finance theory, is contingent upon the plausibility of its assumptions for accurate forecasting. Acknowledging the complex nature of the conventional model, a pragmatic alternative was proposed by

Bharath and Shumway in 2008. The simple alternative “probability” model, while ostensibly more straightforward, represents a departure from the conventional methodology. The objectives underlying the formulation of the naïve predictor were twofold: i) to design a predictor possessing a commensurate efficacy with the Merton DD predictor; and ii) to avoid intricate equation solving or challenging estimation procedures.

Thus, the described model approximates the market value of a firm's debt with its face value (naïve  $D = F$  (4)). Additionally, given that firms in close proximity to default exhibit highly risky debt, the volatility of a firm's debt is approximated considering its inherent correlation with equity risk (naïve  $\sigma_D = 0.05 + 0.25*\sigma_E$  (5)). As a result, the approximation to the total volatility of the firm is naïve  $\sigma_V = \frac{E}{E+F} \sigma_E + \frac{F}{E+F} (0.05 + 0.25*\sigma_E)$  (6). Moreover, the expected return on the firm's assets is equated to the firm's stock return over the preceding year (naïve  $\mu = r_{it-1}$  (7)). Leveraging this information, the naïve DD is subsequently derived: naïve  $DD = \frac{\ln((E+F)/F) + (r_{it-1} - 0.5\text{naïve } \mu_V^2)T}{\text{naïve } \sigma_V \sqrt{T}}$  (8). The naïve probability estimate is defined as  $\pi_{\text{naïve}} = N(-\text{naïve } DD)$  (9).

The former model was employed in the assessment of WeWork financial health, particularly through the lens of the Naïve Distance to Default (DD) and the corresponding Probability of Default (PD). The analysis was conducted for December 2022 and March and June 2023, considering the necessary inputs to compute the naïve expected return on the firm's assets.

In December 2022, the Naïve DD is registered at -2.56 and, value experiences a steady decrease, transitioning to -2.58 and -2.62 by March and June 2023, respectively. The former is accompanied by a shift in the naïve Probability of Default. In December 2022, the PD is reported at 99.48 %, reflecting an undeniable likelihood of default and, by June 2023, the figure sets at 99.56 %, expanding each trimester (see Exhibit 41. and Exhibit 42.).

#### 4. Learnings & Takeaways

The contemporary global landscape has undergone profound transformations, driven by unpredictable shifts in societal, economic, political, and technological scopes, significantly influencing how individuals approach work and life, and prompting the real estate industry to redefine its strategies. In this regard, as technology continues to mitigate the constraints of distance, the future of workplaces is envisioned to actively draw individuals in, engaging and inspiring them to optimize their productivity, a philosophy inadvertently propelled by the COVID-19 pandemic. A survey conducted by Cushman & Wakefield (2022) paints a vivid picture: 60% of European and UK respondents found themselves predominantly working from home, with a striking 47% opting for a full-time remote work arrangement.

Established in 2010 by Adam Neumann and Miguel McKelvey, WeWork rapidly emerged as a transformative force, reshaping conventional office spaces into adaptive, community-centric environments, anchored in the vision of “*Empowering tomorrow's world at work*”. The pinnacle of WeWork's private market valuation, reaching an astounding \$47 billion in January 2019, reflected an era of visionary promises and a collective optimism pervading financial circles, and aligning the unicorn's trajectory with of growth-focused tech giants. Indeed, WeWork perceived itself as a “*community company*”, akin to being a disruptor in the same mold as Uber or Airbnb (Bliss, 2018).

Yet, the company's attempt to go public faced widespread skepticism, prompting the withdrawal of the IPO and Neumann's resignation as CEO in September 2019. Labor disputes, mass layoffs, and the resonating echoes of legal conflicts unraveled a tapestry of deficient corporate governance strategies. Notably, since 2021, the year when WeWork became publicly traded through a SPAC merger, and with unrestricted access from investors and the market alike to the company's financials, the “*WE*” demystification was prompted. Furthermore, the market capitalization has experienced an unrelenting freefall to a modest \$234.324 million by

September 2023 (see Exhibit 8.), which coincides with the subsidizing of the pandemic and normalization of lease commitments.

While the global pandemic disrupted traditional office models, it also paradoxically revealed a layered narrative of resilience within the shared workspace sector. Co-working providers, noted for their adaptability, catered to the needs of businesses navigating pandemic-induced uncertainties, in contrast to traditional occupiers, who grappled with the inertia of adapting their assets to the emergent prevalence of hybrid work models. In fact, for WeWork, the pandemic's most significant impact did not advent from diminishing demand, but rather from the exposure of the company's severely deficient *modus operandi* and intricate contractual complexities.

While WeWork possessed a fundamentally robust vision at its core, the unfortunate reality remains that the company failed to establish an equally robust business model. Characterized by short-term tenant commitments, with an average duration of fifteen months, and enduring lease liabilities, with an average term of fifteen years, WeWork displayed an inherently unstable financial structure (see Exhibit 16.). This imbalance was exacerbated by WeWork's aggressive expansion, fueled by a "*lease everything, at any cost*" mentality, which required substantial upfront expenditures to transform generic office spaces into modern and up-scale environments. Also in this regard, the low occupancy rates, hovering around 75%, served as a clear reminder of the disconnect between WeWork's ambitious goals and its actual performance. While it is commonly understood that most startups achieve profitability within three years (Lisa, 2021), WeWork's inability to make a profit after thirteen years, despite numerous restructuring efforts, further highlights the company's flawed high-cost and low-margin framework, which might have struggled to sustain even in times of great economic prosperity.

Referencing to the analysis concluded supra, since the IPO in October 2021, WeWork has navigated an undeniably tumultuous financial landscape, marked by multiple downgrades in credit ratings, signaling an increased risk of default, with the threat of bankruptcy remaining a pressing concern. This scenario is further substantiated by credit analysis models, including the traditional Altman model and a more contemporary framework based on Merton's structural model, all of which indicate deepening distress and an urgent need for strategic financial revaluation, which have culminated in the implementation of the 1-for-40 reverse stock split, as a final effort to circumvent delisting. Particularly in this context, Kiang et al. (2009) suggests that the motivations for conducting reverse splits vary, with weak companies, such as WeWork, seeking to expand their share price, while stronger firms aim to adjust their market positioning. In an unsettling note, one should comprehend, however, that on average the stock returns of all reverse splits resulted in negative abnormal returns, substantially more expressive in the former group of companies. Additionally, and anticipating macroeconomic challenges persisting into 2024, WeWork foresees stagnant revenue and a constrained 2% growth. Also, considering how WeWork's pricing dynamics are anticipated to pose a sustained challenge, particularly in the event of broader economic contraction (Fitch, 2023), the prospect of bankruptcy appears increasingly probable.

And as WeWork contemplates its future amidst bankruptcy proceedings, the fate of its myriad workspaces remains veiled in uncertainty, with potential outcomes ranging from a rebranded WeWork to landlords reclaiming spaces based on their individual prospects and preferences. Nevertheless, in the broader shared workspace sector, WeWork's setbacks do not foretell the demise of the industry. Persistent demand, particularly among smaller enterprises and individuals seeking flexible arrangements, signals a resilient market. In this regard, and contrast to WeWork's tribulations, industry peers like IWG exemplify a more pragmatic trajectory. Boasting five times the properties of WeWork, IWG's business model prioritizes substance over

style. Similarly, The Office Group, a smaller yet organically grown player, underscores the viability of an approach grounded in controlled costs and gradual expansion (Creasey, 2023).

As it stands, WeWork's legacy is not one of value creation, but rather a narrative of what is, in essence, one of the most spectacular collapses in recent memory, offering invaluable insights for entrepreneurs, investors, and business strategists.

***Focus on Sustainable Growth.*** WeWork's rapid expansion, though impressive, was ultimately unsustainable due to the side-lining of profitability and fiscal prudence, emphasizing the need for companies to maintain a balance between ambitious growth and longevity.

***Cashflow Management.*** WeWork's continuous cash haemorrhage eventually culminated in a liquidity crisis, illustrating the importance of prudent cashflow management in ensuring the longevity and viability of a business.

***Robust Corporate Governance.*** The absence of stringent governance mechanisms and effective checks and balances within WeWork, led to misaligned strategies and decisions, adversely impacting the company's path. Effective governance is, thus, integral to guiding high-growth enterprises towards ethical business practices and to mitigate agency conflicts.

***Thorough Investor Due Diligence.*** WeWork's faltering IPO prompted a seismic shift in investor focus — from the relentless pursuit of growth to a renewed emphasis on profitability, rooted in a comprehensive analysis of business fundamentals (Griffith, 2019; cf. Thompson, 2019). A more meticulous and evaluative approach could have potentially identified the weaknesses in WeWork's model, avoiding the pitfalls of an expansion strategy that lacked clarity.

In a journey between utopia and chaos, the implosion of WeWork offers a sonnet of instructive lessons, casting shadows on the canvas of entrepreneurial pursuits and investment landscapes. Sustainable growth, vigilant stewardship of cash flow, robust corporate governance structures,

and the discerning scrutiny of investors stand as the pillars of resilience in the ever-evolving domain of high-growth enterprises. Investor must employ critical judgement, and businesses must be analyzed based on desirability, feasibility, and viability, three criteria which collectively determine sustainability. For WeWork, well, it barely filled one.

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In September 2023, WeWork embarked on a significant strategic restructuring in response to financial challenges, aimed at resizing the company's cost structure, enhancing revenue, and strengthening the balance sheet through lease renegotiations. The latter would include not only divestment from locations that were underperforming, but also reallocation towards more profitable assets, an essential step into optimizing the company's real estate portfolio. Notwithstanding, on November 7, 2023, WeWork sought Chapter 11 bankruptcy protection, which led to approximately 92% of creditors agreeing to convert their secured debt into equity, culminating in a material reduction of c. \$3 billion in debt (Reuters, 2023). Notably, by December 2023, WeWork has resolved landlord objections to its bankruptcy financing agreement, a significant milestone in the company's Chapter 11 restructuring process (Reuters, 2023).

## Appendix

### Exhibit 9. WeWork's Funding Rounds

Date	Transaction Name	Capital Raised (\$)	Capital Provider
Oct-11	Seed Round	\$1M	<i>n. a.</i>
Jan-12	Angel Round	\$6,85M	<i>n. a.</i>
Jul-12	Series A	\$17M	<i>n. a.</i>
May-13	Series B	\$40M	<i>n. a.</i>
Feb-14	Series C	\$150M	Benchmark
Dec-14	Series D	\$355M	Goldman Sachs, J.P. Morgan, Wellington Management and T. Rowe Price
Jun-15	Series E	\$434M	Glade Brook Capital Partners
Oct-16	Series F	\$690M	Hony Capital & Legend Holdings
Aug-17	Series G	\$4,4B	SoftBank Vision Fund
Apr-18	Debt Financing	\$1B	SoftBank
Nov-18	Secondary Market	\$3B	SoftBank
Jan-19	Series H	\$6B	SoftBank
Oct-19	Bailout Package	\$9,5B	SoftBank
Oct-21	Post-IPO Equity	\$150M	Cushman & Wakefield
May-22	Post-IPO Debt	\$350M	Brookfield Asset Management
Jan-23	Post-IPO Debt	\$250M	SoftBank Vision Fund

Source: Own illustration based on selected Crunchbase Information

## Exhibit 10. WeWork's Income Statement

	2016	2017	2018	HI 2019	2019	2020	2021	2022	Q1 2023	Q2 2023
<b>Revenue</b>	436,10	886,00	1,821,75	1,535,42	3,458,59	3,415,87	2,570,00	3,245,00	849,00	844,00
<b>Expenses:</b>										
Location operating expenses - cost of revenue	433,17	814,78	1,521,13	1,232,94	2,758,32	3,542,92	3,085,00	2,914,00	724,00	725,00
Other operating expenses	n.a.	1,68	106,79	81,19	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pre-opening location expenses	115,75	131,32	357,83	255,13	571,97	273,05	159,00	121,00	7,00	8,00
Selling, general and administrative expenses	115,35	454,02	357,49	389,91	2,793,66	1,604,67	1,011,00	735,00	155,00	150,00
Sales and marketing expenses	43,43	143,42	378,73	320,05	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Growth and new market development expenses	35,73	109,72	477,27	369,73	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Restructuring and other related costs	n.a.	n.a.	n.a.	n.a.	329,22	206,70	434,00	200,00	58,00	107,00
<b>EBITDA</b>	307,32	768,94	1,377,49	1,113,53	2,994,58	2,211,47	2,119,00	725,00	95,00	146,00
Impairment expense	n.a.	n.a.	n.a.	n.a.	335,01	1,355,92	870,00	625,00	77,00	263,00
Depreciation and Amortization	88,95	162,89	313,51	255,92	589,91	779,37	709,00	641,00	148,00	156,00
<b>EBIT</b>	396,27	931,83	1,691,00	1,369,45	3,919,50	4,346,76	3,698,00	1,591,00	204,00	351,00
<b>Interest and other income (expense), net:</b>										
Income (loss) from equity method and other investments	0,36	30,90	12,64	n.a.	32,21	44,79	18,00	17,00	2,00	n.a.
Interest expense	12,35	15,46	183,70	n.a.	99,59	331,22	455,00	516,00	131,00	102,00
Interest income	2,48	9,53	37,66	n.a.	16,91	16,91	19,00	9,00	4,00	n.a.
Foreign currency gain (loss)	23,17	29,44	78,60	n.a.	29,65	149,20	134,00	185,00	31,00	20,00
Gain (loss) from change in fair value of related party financial instruments	n.a.	n.a.	n.a.	n.a.	239,15	819,65	343,00	11,00	n.a.	n.a.
Loss on extinguishment of debt	n.a.	n.a.	n.a.	n.a.	n.a.	77,34	n.a.	n.a.	n.a.	n.a.
Other income (expense), net	33,40	7,39	237,27	469,92	190,25	n.a.	n.a.	n.a.	n.a.	41,00
Total interest and other income (expense), net	429,67	939,22	1,928,27	899,54	3,729,25	3,184,35	4,629,00	2,289,00	302,00	392,00
<b>EBT</b>	0,02	5,73	0,85	5,12	45,64	19,51	3,00	6,00	3,00	5,00
<b>Income Tax benefit (provision)</b>	429,69	933,49	1,927,42	904,65	3,774,89	3,833,86	4,632,00	2,295,00	299,00	397,00
<b>Net loss</b>	n.a.	49,50	292,13	n.a.	493,05	675,63	139,00	54,00	6,00	10,00
Net loss attributable to noncontrolling interests:	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Redeemable noncontrolling interests — mezzanine	n.a.	18,70	24,49	17,10	17,10	28,87	54,00	207,00	29,00	38,00
Noncontrolling interest — equity	429,69	883,99	1,610,79	689,68	3,264,74	3,129,36	4,439,00	2,034,00	264,00	349,00
<b>Net loss attributable to WeWork Inc.</b>	2,66	5,54	9,87	4,15	23,46	22,24	18,38	2,67	0,34	0,21
Basic	2,66	5,54	9,87	4,15	23,46	22,24	18,38	2,67	0,34	0,21
Diluted	161,324,94	159,689,12	163,148,92	166,301,58	139,160,23	140,680,13	263,584,93	761,845,61	766,258,25	1,626,430,04
Weighted-average shares used to compute net loss per share attributable to Class A and Class B common stockholders, basic and diluted	429,69	933,49	1,927,42	n.a.	3,774,89	3,833,86	4,632,00	2,295,00	299,00	397,00
<b>Other comprehensive income (loss), net of tax:</b>										
Foreign currency translation adjustments	9,46	18,70	7,67	n.a.	17,01	146,74	95,00	155,00	32,00	24,00
Unrealized (loss) gain on available-for-sale securities	9,46	n.a.	n.a.	n.a.	n.a.	3,27	2,00	3,00	n.a.	n.a.
Other comprehensive income (loss), net of tax	420,23	952,19	1,919,75	n.a.	3,791,90	3,977,32	4,539,00	2,137,00	331,00	421,00
<b>Comprehensive loss</b>	n.a.	49,50	316,63	n.a.	510,15	704,50	193,00	261,00	35,00	48,00
Net (income) loss attributable to noncontrolling interests	n.a.	0,77	18,93	n.a.	-1,11	23,16	35,00	22,00	n.a.	4,00
Other comprehensive (income) loss attributable to noncontrolling interests	420,23	901,92	1,584,20	n.a.	3,282,85	3,295,98	4,311,00	1,854,00	296,00	369,00
Comprehensive loss attributable to Legacy WeWork										

Source: Own illustration based on WeWork's S-1 Filing and Official Annual Reports

## Exhibit 11. WeWork's Balance Sheet

(Amounts in millions, except share and per share amounts)	2017	2018	H1 2019	2020	2021	2022	Q1 2023	Q2 2023
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	2 020,81	1 744,21	2 473,07	800,54	924,00	287,00	224,00	205,00
Accounts receivable and accrued revenue	35,582	99,525	181,049	176,52	130,00	109,00	107,00	118,00
Prepaid expenses	n.a.	n.a.	n.a.	162,84	180,00	138,00	139,00	135,00
Lease incentives receivable	117,779	232,243	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Due from related parties	1,200	2,500	1,4120	n.a.	n.a.	n.a.	n.a.	n.a.
Other current assets	251,73	385,60	376,79	189,33	238,00	155,00	368,00	286,00
<b>Total current assets</b>	<b>2 427,10</b>	<b>2 464,08</b>	<b>3 032,32</b>	<b>1 329,23</b>	<b>1 472,00</b>	<b>689,00</b>	<b>838,00</b>	<b>744,00</b>
Property and equipment, net	2 337,09	4 368,77	6 729,43	6 859,16	5 374,00	4 391,00	4 193,00	3 860,00
Deferred lease acquisition costs, net	31,03	69,39	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lease right-of-use assets, net	n.a.	n.a.	15 112,85	15 107,88	13 052,00	11 243,00	10 399,00	9 275,00
Restricted Cash	150,31	419,73	575,60	53,62	n.a.	n.a.	n.a.	n.a.
Equity method and other investments	57,22	218,44	186,01	214,94	200,00	63,00	60,00	49,00
Goodwill and Intangible Assets	240,64	840,16	1 046,48	729,25	734,00	737,00	736,00	735,00
Other assets	120,69	264,35	364,55	1 062,26	924,00	740,00	723,00	400,00
<b>Total Assets</b>	<b>5 364,07</b>	<b>8 644,92</b>	<b>27 047,24</b>	<b>25 356,33</b>	<b>21 756,00</b>	<b>17 863,00</b>	<b>16 949,00</b>	<b>15 063,00</b>
<b>Liabilities:</b>								
<b>Current liabilities:</b>								
Accounts payable and accrued expenses	314,27	826,40	1 294,50	723,41	621,00	526,00	495,00	455,00
Members' service retainers	195,08	396,86	498,93	358,57	421,00	445,00	440,00	434,00
Deferred revenue	48,85	113,24	170,46	176,00	120,00	151,00	127,00	112,00
Capital lease obligations	1,65	1,96	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current lease obligations	n.a.	n.a.	535,95	847,53	893,00	936,00	918,00	883,00
Loans payable to related parties	26,09	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other current liabilities	64,65	270,64	103,31	83,76	78,00	172,00	295,00	305,00
<b>Total current liabilities</b>	<b>650,59</b>	<b>1 609,09</b>	<b>2 603,15</b>	<b>2 189,27</b>	<b>2 133,00</b>	<b>2 230,00</b>	<b>2 275,00</b>	<b>2 189,00</b>
Capital lease obligations	50,76	50,79	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Long-term lease obligations			17 916,80	20 263,61	17 926,00	15 598,00	14 564,00	13 280,00
Deferred rent	1 636,59	2 831,75	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Convertible related party liabilities, net	n.a.	949,99	2 665,20	n.a.	n.a.	n.a.	n.a.	n.a.
Unsecured notes payable	n.a.	n.a.	n.a.	1 200,00	2 200,00	n.a.	n.a.	n.a.
Warrant liabilities, net	n.a.	n.a.	n.a.	418,91	16,00	n.a.	n.a.	n.a.
Long-term debt, net	n.a.	748,81	1 342,66	688,36	666,00	3 208,00	3 576,00	2 910,00
Other liabilities	64,10	91,17	113,94	221,78	228,00	282,00	320,00	277,00
Deferred income taxes	4,47	2,57	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total Liabilities</b>	<b>2 406,51</b>	<b>6 284,16</b>	<b>24 641,75</b>	<b>24 981,92</b>	<b>23 169,00</b>	<b>21 318,00</b>	<b>20 735,00</b>	<b>18 656,00</b>
Commitments and contingencies								
Convertible preferred stock	3 405,44	3 498,70	3 591,09	7 666,10	n.a.	n.a.	n.a.	n.a.
Redeemable noncontrolling interests	854,58	1 320,64	1 113,81	380,24	36,00	20,00	24,00	33,00
<b>Equity:</b>								
WeWork Inc. shareholders' equity (deficit):								
Preferred stock	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Common stock Class A	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Common stock Class B	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Common stock Class C	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Common stock Class D	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Treasury stock, at cost	n.a.	n.a.	n.a.	n.a.	- 29,00	- 29,00	- 29,00	- 29,00
Additional paid-in capital	407,80	797,96	1 402,69	2 188,50	12 321,00	12 387,00	12 390,00	13 004,00
Accumulated other comprehensive income (loss)	- 9,92	15,51	18,05	- 158,81	- 31,00	149,00	117,00	97,00
Accumulated deficit	- 1 700,49	- 3 311,29	- 3 999,26	- 9 703,49	- 14 143,00	- 16 177,00	- 16 441,00	- 16 790,00
Total WeWork Inc. shareholders' deficit	- 1 302,45	- 2 497,65	- 2 578,35	- 7 673,79	- 1 882,00	3 670,00	3 963,00	- 3 718,00
Noncontrolling interests	n.a.	39,07	278,95	1,86	433,00	235,00	201,00	158,00
<b>Total Equity</b>	<b>- 1 302,45</b>	<b>- 2 458,58</b>	<b>- 2 299,40</b>	<b>- 7 671,92</b>	<b>- 1 449,00</b>	<b>- 3 435,00</b>	<b>- 3 762,00</b>	<b>- 3 560,00</b>
<b>Total Liabilities and Equity</b>	<b>5 364,07</b>	<b>8 644,92</b>	<b>27 047,24</b>	<b>25 356,33</b>	<b>21 756,00</b>	<b>17 863,00</b>	<b>16 949,00</b>	<b>15 063,00</b>

Source: Own illustration based on WeWork's S-1 Filing and Official Annual Reports

## Exhibit 12. WeWork's Cashflow Statement

(Amounts in millions, except share and per share amounts)	2016	2017	2018	H1 2019
<b>Cash Flow from Operating Activities:</b>				
Net loss	- 429,69	- 933,49	- 1,927,42	- 904,65
Adjustments to reconcile net loss to net cash from oper. activities:				
Depreciation and amortization	88,952	162,892	313,514	255,924
Impairment of property and equipment	<i>n.a.</i>	6,797	29,572	9,483
Stock-based compensation expense	22,660	295,362	69,400	188,335
Cash paid to settle employee stock for services rendered	<i>n.a.</i>	<i>n.a.</i>	13,94	<i>n.a.</i>
Issuance of common stock for services rendered	1,594	7,327	18,957	10,4770
Non-cash interest expense	2,436	3,673	127,716	12,46
Provision for allowance for doubtful accounts	2,317	4,546	6,722	4,70
(Income) loss from equity method and other investments	0,359	30,900	12,638	2,56
Foreign currency (gain) loss	23,415	-29,419	80,587	- 4,66
Change in fair value of financial instruments	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	- 486,15
Contingent consideration fair market value adjustment	<i>n.a.</i>	<i>n.a.</i>	76,439	- 43,08
<b>Changes in operating assets and liabilities:</b>				
Operating lease right-of-use assets	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-3 488,84
Current and long-term lease obligations	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	4 266,84
Accounts receivable and accrued revenue	- 13,88	- 22,05	- 69,40	- 83,26
Lease incentives receivable	46,234	- 64,95	- 121,73	<i>n.a.</i>
Deferred lease acquisition costs	- 7,63	- 18,26	- 40,35	<i>n.a.</i>
Other assets	- 29,53	- 88,47	- 211,69	- 111,22
Accounts payable and accrued expenses	12,862	96,360	147,627	112,54
Deferred rent	451,344	752,063	1278,348	<i>n.a.</i>
Deferred revenue	5,505	35,348	54,782	76,92
Other liabilities	- 0,04	13,39	1,62	- 17,08
Deferred income taxes	<i>n.a.</i>	- 8,03	- 10,11	<i>n.a.</i>
<b>Net cash provided by (used in) operating activities</b>	<b>176,91</b>	<b>243,99</b>	<b>- 176,73</b>	<b>- 198,71</b>
<b>Cash Flow from Investing Activities:</b>				
Purchases of property and equipment	- 776,07	- 1,023,95	- 2,055,02	- 1,266,75
Capitalized software	- 2,32	- 8,39	- 8,89	- 17,73
Sale of software license	<i>n.a.</i>	<i>n.a.</i>	9,00	<i>n.a.</i>
Change in security deposits with landlords	- 9,58	- 67,12	- 95,46	- 88,85
Proceeds from sale or redemption of investments	<i>n.a.</i>	12,800	2,202	<i>n.a.</i>
Contributions to investments	- 19,70	- 56,48	- 121,63	- 19,71
Loans to employees and related parties	- 10,27	9,80	1,86	- 2,82
Cash used for acquisitions	- 0,58	- 234,41	- 204,14	- 966,91
<b>Net cash used in investing activities</b>	<b>- 818,53</b>	<b>- 1,367,77</b>	<b>- 2,475,80</b>	<b>- 2,362,77</b>
<b>Cash Flow from Financing Activities:</b>				
Principal payments for property and equipment acquired under capital leases	- 1,12	- 1,35	- 1,87	- 1,65
Proceeds from issuance of debt	<i>n.a.</i>	<i>n.a.</i>	768,795	633,31
Proceeds from issuance of convertible related party liabilities	<i>n.a.</i>	<i>n.a.</i>	1000,000	2,500,00
Bond repurchase	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	- 32,35
Repayments of debt	<i>n.a.</i>	<i>n.a.</i>	- 1,09	- 1,34
Debt and equity issuance costs	- 1,31	- 3,57	- 23,23	- 35,51
Loans payable to related parties	<i>n.a.</i>	26,088	- 27,55	<i>n.a.</i>
Proceeds from sale of Series F Preferred Stock and associated warrants	679,901	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Proceeds from sale of Series G Preferred Stock	<i>n.a.</i>	1697,761	<i>n.a.</i>	<i>n.a.</i>
Proceeds from exercise of stock options and warrants	1,228	8,939	3,505	34,29
Proceeds from issuance of noncontrolling interests	<i>n.a.</i>	900,003	747,91	243,48
Payments for contingent consideration and holdback of acquisition proceeds	<i>n.a.</i>	<i>n.a.</i>	- 14,44	- 11,62
Change in members' service retainers	49,201	96,442	206,431	101,64
<b>Net cash provided by financing activities</b>	<b>727,908</b>	<b>2,724,315</b>	<b>2,658,469</b>	<b>3,430,26</b>
Effects of exchange rate changes on cash, cash equivalents, and restricted cash	- 2,26	- 763,00	- 13,12	15,96
Net increase (decrease) in cash, cash equivalents, and restricted cash	84,027	1590,777	7,18	884,73
<b>Cash, cash equivalents, and restricted cash—Beginning of period</b>	<b>496,315</b>	<b>580,342</b>	<b>2171,119</b>	<b>2,163,94</b>
<b>Cash, cash equivalents, and restricted cash—End of period</b>	<b>580,342</b>	<b>2171,119</b>	<b>2163,942</b>	<b>3,048,67</b>
<b>Supplemental Cash Flow Disclosures:</b>				
Cash paid during the period for interest	4,656	6,685	41,326	<i>n.a.</i>
Cash paid during the period for income taxes, net of refunds	0,008	0,011	4,376	<i>n.a.</i>
Cash received for tenant improvement allowances	325,294	452,090	673,415	<i>n.a.</i>
<b>Supplemental Disclosure of Non-cash Investing &amp; Financing Activities:</b>				
Property and equipment included in accounts payable and accrued expenses	76,740	174,747	485,037	<i>n.a.</i>
Issuance of common and preferred shares for acquisitions	<i>n.a.</i>	23,367	274,118	<i>n.a.</i>
Acquisition consideration holdback included in other liabilities	<i>n.a.</i>	22,189	43,156	<i>n.a.</i>
Issuance of common shares for equity method and other investments	1,147	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Issuance of shares for goods received capitalized in property and equipment	<i>n.a.</i>	0,901	1,087	<i>n.a.</i>
Transfer of acquisition deposit to contribution to equity method investment	<i>n.a.</i>	<i>n.a.</i>	52,858	<i>n.a.</i>
Net loss on issuance of Series G Preferred Stock	<i>n.a.</i>	16,481	<i>n.a.</i>	<i>n.a.</i>
Vesting of shares related to early exercise of stock options	0,573	0,21	0,105	<i>n.a.</i>
Common share repurchase and retirement	6,374	0,454	0,289	<i>n.a.</i>

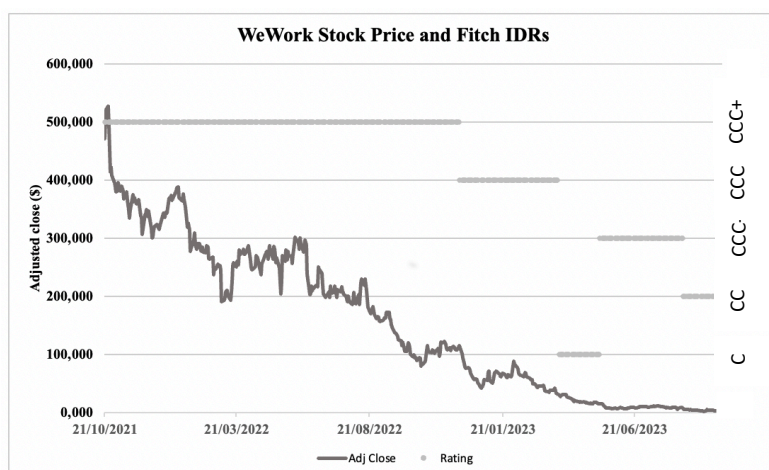
Source: Own illustration based on WeWork's S-1 Filing and Official Annual Reports

## Exhibit 32. WeWork's Credit Ratings post-IPO

Date	Rated Entity/Debt	Rating Type	Rating	Rating Action	Recovery
22-Oct-21	ISSUER: WeWork Inc.*Ultimate Parent ISSUE: The We Company	LT IDR	CCC+	Upgrade	
	ISSUER: WeWork Companies LLC ISSUE: WeWork Companies LLC	LT IDR	CCC+	Upgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 699 mln 7.875% bond/note 01-May-2025	LT	CCC-	Upgrade	RR6 7%
	ISSUER: WeWork Inc.*Ultimate Parent ISSUE: WeWork Inc.	LT IDR	CCC+	Affirmed	
07-Dec-21	ISSUER: WeWork Companies LLC	LT IDR	CCC+	Affirmed	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 699 mln 7.875% bond/note 01-May-2025	LT	CCC-	Affirmed	RR6 7%
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: Proposed USD bond/note	LT	CCC-	New Rating	RR6 7%
	ISSUER: WeWork Inc.*Ultimate Parent	LT IDR	CCC	Downgrade	
02-Dec-22	ISSUER: WeWork Companies LLC	LT IDR	CCC	Downgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 702 mln 7.875% bond/note 01-May-2025	LT	CC	Downgrade	RR6
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 550 mln 5% bond/note 10-Jul-2025	LT	CC	Downgrade	RR6
	ISSUER: WeWork Inc.*Ultimate Parent	LT IDR	C	Downgrade	
27-Mar-23	ISSUER: WeWork Companies LLC	LT IDR	C	Downgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 702 mln 7.875% bond/note 01-May-2025	LT	C	Downgrade	RR6
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 550 mln 5% bond/note 10-Jul-2025	LT	C	Downgrade	RR6
	ISSUER: WeWork Inc.*Ultimate Parent	LT IDR	RD	Downgrade	
12-May-2023 (1)	ISSUER: WeWork Companies LLC	LT IDR	RD	Downgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 702 mln 7.875% bond/note 01-May-2025	LT	RD	Downgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 550 mln 5% bond/note 10-Jul-2025	LT	RD	Downgrade	
	ISSUER: WeWork Inc.*Ultimate Parent	LT IDR	CCC-	Upgrade	
12-May-2023 (2)	ISSUER: WeWork Companies LLC	LT IDR	CCC-	Upgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 702 mln 7.875% bond/note 01-May-2025	LT	C	Upgrade	RR6
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 550 mln 5% bond/note 10-Jul-2025	LT	C	Upgrade	RR6
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior secured ISSUE: USD 525 mln First Lien 15% bond/note 15-Aug-2027	LT	CCC	New Rating	RR3 58%
	ISSUER: WeWork Companies LLC DEBT LEVEL: Senior Secured 2nd Lien ISSUE: USD 687 mln 11% bond/note 15-Aug-2027	LT	C	New Rating	RR6
	ISSUER: WeWork Inc.*Ultimate Parent	LT IDR	CC	Downgrade	
16-Aug-23	ISSUER: WeWork Companies LLC	LT IDR	CC	Downgrade	
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 702 mln 7.875% bond/note 01-May-2025	LT	C	Affirmed	RR6
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior unsecured ISSUE: USD 550 mln 5% bond/note 10-Jul-2025	LT	C	Affirmed	RR6
	ISSUER: WeWork Companies LLC DEBT LEVEL: senior secured ISSUE: USD 525 mln First Lien 15% bond/note 15-Aug-2027	LT	CCC-	Downgrade	RR3 58%
	ISSUER: WeWork Companies LLC DEBT LEVEL: Senior Secured 2nd Lien ISSUE: USD 687 mln 11% bond/note 15-Aug-2027	LT	C	Affirmed	RR6
	ISSUER: WeWork Inc.*Ultimate Parent	LT IDR	CC	Downgrade	

Source: Own illustration based on Fitch Ratings

### Exhibit 33. WeWork's Stock Price and Fitch Issuer Default Rating Evolution



Source: Own illustration based on Fitch Ratings and selected Bloomberg information

### Exhibit 34. General Z''-score Function

General Z''-score function	
<b><math>Z'' = 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4</math></b>	
<b>Standardized Z'' = Z'' + 3,25</b>	
Where:	
- X1	= Working Capital/Total Assets
- X2	= Retained Earnings/Total Assets
- X3	= Earnings before Interests and Taxes (EBIT)/Total Assets
- X4	= Book Value of Equity/Total Liabilities
Additional considerations include:	
- Net Working Capital (NWC)	= Operating Current Assets – Operating
- Operating Current Assets	→ Accounts Receivables (A/R), Inventory,
- Operating Current Liabilities	→ Accounts Payable (A/P), Accrued Expense

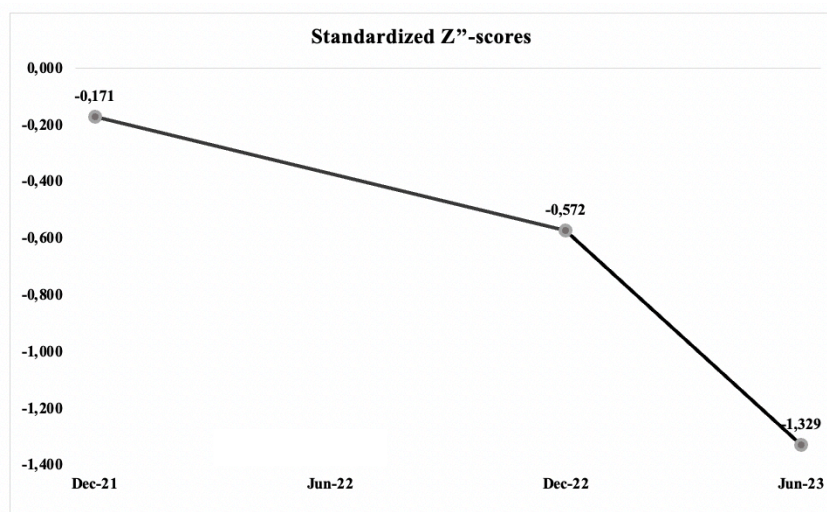
Source: Own illustration

### Exhibit 35. WeWork's Standardized Z''-scores

Standardized Z''s			
(Amounts in million USD)	Dec-21	Dec-22	Jun-23
Operating Current Assets	310	247	253
Operating Current Liabilities	621	526	455
Total Assets	21 756	17 863	15 063
Total Liabilities	23 169	21 318	18 656
Book Value of Equity	-1 449	-3 435	-3 560
EBIT (full-year)	-3 698	-1 591	-1 472
Retained Earnings	-14 143	-16 177	-16 790
X1	-0,014	-0,016	-0,013
X2	-0,650	-0,906	-1,115
X3	-0,170	-0,089	-0,098
X4	-0,063	-0,161	-0,191
Standardized Z''	<b>-0,171</b>	<b>-0,572</b>	<b>-1,329</b>
Zone	Distress	Distress	Distress
Credit Rating Equivalent (S&P)	D	D	D

Source: Own illustration

### Exhibit 36. WeWork's Standardized Z''-scores Evolution



Source: Own illustration

### Exhibit 37. Bankruptcy Thresholds

Bankruptcy thresholds (Z-score, Z'-score, Z''-score and Standardized Z''-score)				
Zone	Z-score	Z'-score	Z''-score	Standardized Z''-score
Safe	> 2,99	> 2,90	> 2,60	> 5,85
Gray	1,81 < Z < 2,99	1,23 < Z' < 2,90	1,10 < Z'' < 2,60	4,50 < Standardized Z'' < 5,85
Distress	< 1,81	< 1,23	< 1,10	< 4,50

Source: Own illustration based on Altman (1993) and Altman and Hotchkiss (2006)

### Exhibit 38. Correspondence between Standardized Z''-scores and S&P Ratings

Correspondence between Standardized Z''s and S&P Ratings		
Lower	Upper	Rating
8,15	>8,15	AAA
7,6	8,15	AA+
7,3	7,6	AA
7	7,3	AA-
6,85	7	A+
6,65	6,85	A
6,4	6,65	A-
6,25	6,4	BBB+
5,85	6,25	BBB
5,65	5,85	BBB-
5,25	5,65	BB+
4,95	5,25	BB
4,75	4,95	BB-
4,5	4,75	B+
4,15	4,5	B
3,75	4,15	B-
3,2	3,75	CCC+
2,5	3,2	CCC
1,75	2,5	CCC-
<1,75	1,75	D

Source: Own illustration based on Altman and Hotchkiss (2006)

**Exhibit 39.** Correspondence between Credit Rating Agencies

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High Grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper Medium Grade
A2	A	A	
A2	A-	A-	
Baa1	BBB+	BBB+	Lower Medium Grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-Investment Grade Speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly Speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial Risk
Caa2	CCC		Extremely Speculative
Caa3	CCC-		Default Imminent with Little Prospect for Recovery
Ca	CC	CC	
	C	C	
C	D	D	In Default
/			
/			

Source: Own illustration based on Zolio (2017)

**Exhibit 40.** Average Cumulative Issuer-weighted Global Default Rates by alphanumeric rating 1998-2022

Rating/Year	1	2	3	4	5	6	7	8	9	10
Aaa	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Aa1	0,0%	0,0%	0,0%	0,0%	0,0%	0,1%	0,1%	0,1%	0,1%	0,2%
Aa2	0,0%	0,0%	0,1%	0,2%	0,3%	0,4%	0,5%	0,6%	0,7%	0,9%
Aa3	0,0%	0,1%	0,2%	0,2%	0,4%	0,5%	0,7%	0,9%	1,0%	1,1%
A1	0,1%	0,2%	0,3%	0,3%	0,5%	0,7%	0,9%	1,1%	1,3%	1,6%
A2	0,1%	0,2%	0,3%	0,5%	0,7%	1,0%	1,3%	1,6%	2,0%	2,5%
A3	0,1%	0,2%	0,3%	0,5%	0,8%	1,0%	1,2%	1,5%	1,9%	2,2%
Baa1	0,1%	0,3%	0,4%	0,6%	0,7%	1,0%	1,2%	1,5%	1,8%	2,2%
Baa2	0,2%	0,4%	0,7%	0,9%	1,1%	1,3%	1,5%	1,7%	2,1%	2,3%
Baa3	0,3%	0,7%	1,1%	1,7%	2,2%	2,7%	3,1%	3,8%	4,4%	5,0%
Ba1	0,4%	1,3%	2,3%	3,2%	4,3%	5,4%	6,4%	7,2%	8,1%	8,9%
Ba2	0,7%	1,9%	3,2%	4,6%	6,0%	7,3%	8,5%	9,8%	11,2%	12,9%
Ba3	0,9%	2,5%	4,4%	6,5%	8,2%	9,8%	11,6%	13,7%	15,8%	17,9%
B1	1,2%	3,7%	6,5%	9,4%	12,0%	14,4%	16,9%	19,3%	21,3%	23,1%
B2	2,7%	7,1%	11,7%	16,0%	19,7%	22,9%	25,6%	28,0%	30,7%	33,4%
B3	3,5%	8,7%	14,3%	19,2%	23,4%	27,1%	30,1%	33,1%	36,0%	38,4%
Caa1	4,2%	9,7%	15,3%	20,4%	25,1%	29,2%	32,6%	35,5%	38,6%	41,3%
Caa2	6,7%	13,2%	19,2%	24,7%	29,7%	34,1%	38,0%	41,9%	45,1%	47,5%
Caa3	17,4%	29,6%	38,1%	43,8%	48,7%	53,3%	57,3%	60,7%	63,0%	64,6%
Ca-C	34,5%	47,5%	56,6%	63,3%	66,4%	67,5%	69,7%	71,2%	72,3%	72,8%
IG	0,1%	0,3%	0,5%	0,7%	0,9%	1,1%	1,3%	1,6%	1,9%	2,2%
SG	4,1%	8,3%	12,3%	15,8%	18,8%	21,4%	23,7%	25,8%	27,8%	29,7%
All	1,8%	3,5%	5,1%	6,5%	7,6%	8,6%	9,4%	10,2%	10,9%	11,6%

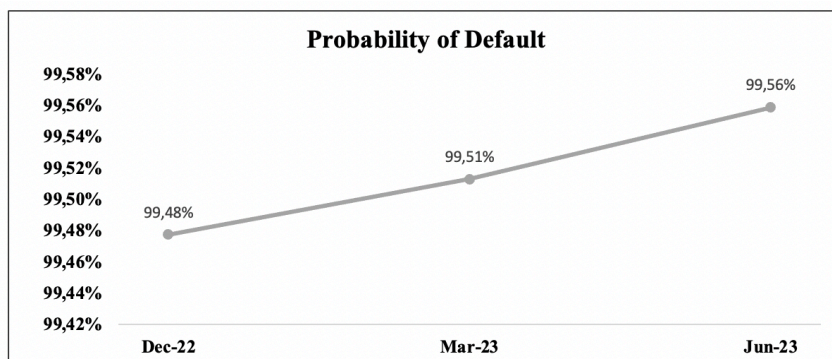
Source: Own illustration based on Moody's Investors Service

**Exhibit 41.** WeWork’s Probabilities of Default based on Simple Alternative “Probability” Model

	<b>Dec-22</b>	<b>Mar-23</b>	<b>Jun-23</b>
Market Cap (in million USD)	1130	640	160
Naïve D (in million USD)	19 742	19 058	17 073
Annualized volatility of the monthly returns	97,12%	111,76%	135,22%
Naïve Assets return	-84,51%	-88,77%	-97,01%
Naïve Debt volatility	29,28%	32,94%	38,81%
Naïve Firm volatility	32,95%	35,50%	39,70%
Naïve DD	-2,56	-2,58	-2,62
<b>PD</b>	<b>99,48%</b>	<b>99,51%</b>	<b>99,56%</b>

Source: Own illustration

**Exhibit 42.** WeWork’s Probabilities of Default Evolution



Source: Own illustration

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