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WEWORK IPO: THE IPO THAT NEVER WAS

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Abstract

WeWork was a start-up venture founded by Adam Neumann and Miguel McKelvey in 2010. Both were advocates of the potentiality of human productivity and creativity while living in a community. Hence, they wanted to transform the way people worked, by offering to entrepreneurs a coworking space, embedded in technology. Adam attracted the attention of prestigious investors, most notoriously Masayoshi Son. After spending more than \$10 billion, the unicorn was valued at \$47 billion. However, after the release of the S-1 Form, investors were skeptical of the business financial sustainability and the lack of proper governance within WeWork.

Keywords: *WeWork, Corporate Governance, Venture Valuation, Funding.*

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WeWork IPO: The IPO That Never Was

On the 9th September 2019, Masayoshi Son, founder and CEO of SoftBank, was gazing at the streets of Tokyo from the SoftBank's headquarters, reflecting on the WeWork IPO roadshow that was postponed for the following week. Investors had been showing little interest in the upcoming shares of WeWork. The current CEO, Adam Neumann, was referred to as irresponsible and accused of unethical practices, while the corporate governance and the business model were facing some intense scrutiny and criticism.

In January 2019, WeWork was rebranded as The We Company¹ and it was valued at \$47 billion, being one of the most valuable unicorns as of August 2019 (see in **Exhibit 1**). In August, WeWork filed the prospectus to go public, and for the first time the financials of the company were available to the public. Analysts questioned its valuation, revenues were growing at more than 100%, but WeWork was spending billions of cash and the path to profitability was not clear.

For the IPO, WeWork decreased its valuation by more than 50%ⁱ, decreasing its share price from the latest private valuation, like Pinterestⁱⁱ and Squareⁱⁱⁱ. As the largest institutional investor in WeWork^{iv}, with a 29% stake in the company^v, SoftBank knew that investors would drop the deal because of the red flags: bizarre corporate structure, financial practices, and value destruction decisions. The “gut-led investor”, Masayoshi Son, wonders if it would be the right time to exit the investment, or to hold a little longer and postpone the offer. Would the market be ready for a troublesome stock, or was there some fixing needed first, before selling to the public?

The community lovers - Adam and Miguel

Adam Neuman and Miguel McKelvey, WeWork founders, both started their careers as entrepreneurs. They met in 2008 while working on their individual projects. They shared the same building as their workspace and noticed the numerous vacant floors available. Selling these vacancies as coworking spaces was an interesting business idea that they shared and later suggested it to their landlord. The three would kickstart GreenDesk, an eco-friendly coworking space provider. The success of this venture led Adam and Miguel to start another one on their own. With that in mind, they sold their stake to the landlord and used those proceeds to launch WeWork in 2010, following the mission of building a global community.

¹ The We Company and WeWork will be used as synonyms in this paper. Although the company was rebranded to The We Company in January 2019, the company name was the same of its main business unit throughout most of its existence.

Adam was charismatic and a free spirit, always very effective in delivering his perspective to others, Miguel on the other hand was more serious and “well-behaved”. Despite their differences, what united them was a shared feeling of living in a community, as Adam explained: “To be part of something bigger than myself”. Adam lived his childhood in a kibbutz², therefore, the feeling of family and being connected was important for him. Miguel grew up in a five-mother collective, sharing that same feeling.

WeWork business model

“We are a community company committed to maximum global impact. Our mission is to elevate the world’s consciousness.” – WeWork S-1 Form.

WeWork provided shared offices and coworking spaces. Its primary selling point was the collaborative working environment, the casual dressing and hip feel, cutting edge technology and community culture. Its source of income came from rent arbitrage. WeWork entered into long-term leasing contracts with landlords to lease buildings and floors, then transformed these spaces into smaller offices and common areas, to build a coworking space. Renting it to a customer base composed of freelancers, entrepreneurs, small and medium-sized enterprise (SME) owners, and big enterprises, monetizing it in the form of memberships³. Members could book a desk, an office, or even an entire floor, offering to clients a workplace with a cool and trendy design, amenities, the opportunity to work with other professionals and exchange ideas with entrepreneurs.

The demand was high for this product, as it allowed professionals focus on their jobs without the concern of leasing an office, worrying about growth needs and other administrative duties. Primarily, it offered flexibility. Whereas landlords would always negotiate 10-year leasing contracts with tenants. WeWork on the other hand recognized that tenants, which they called “members”, needed more flexibility, short-term and personalized leasing contracts, delivering Space-as-a-Service (SaaS, using the same acronym that is used to describe Software-as-a-Service, a model of software distribution). This way, it centralized all its clients’ needs into one single membership, offering: space, services, and products.

Despite the real estate roots of the business, WeWork positioned as a technology company. It employed approximately one thousand engineers, product designers, and machine learning

² Kibbutz is a form of collective community in Israel, a utopian socialist community, where no one had possessions, and everything was of everybody.

³ A membership, like it is referred in the WeWork S-1 Form, is the equivalent to a member subscription.

scientists, it used high level of technology to operate and automate the business systems. It used analytics and smart tech to track space usage, understand customer behaviors, market studying, design spaces, and optimize operations and energy consumption.

The flexible model was conceived to target small businesses, however, the customer base has changed throughout the years, focusing more on well-established enterprises such as General Electric, Microsoft, HSBC, General Motors, Amazon^{vi} (client portfolio evolution detailed in **Exhibit 2**). The opportunity arose as it allowed established companies to eliminate the need to have a real estate competency all over the world and allowing for expansion in new geographies to be less risky. WeWork became a facilities manager for most of the companies, given that enterprises were losing the interest of having the expertise to manage real estate, allowing them to re-scale with the business needs^{vii}.

The customized service was valuable, and WeWork promised it at a discount price from the standard lease costs, as it claimed to have a lower cost structure (see in **Exhibit 3**). This was sustainable because WeWork had a higher average density in its offices with the shared workspaces. According to *Bloomberg*, an office would have an average density of 14 m² to 19 m² per person^{viii}, the average density of WeWork's offices was of 5.1 square meters per person^{ix}.

WeWork's mission was to create a community, being present in every aspect of its members' life. It focused in four main business units: WeWork – the shared coworking space unit; WeLive – the shared living unit; WeGrow – the education unit; WeWork Labs – the startup incubator.

SoftBank and the Vision Fund Investment Vehicle

SoftBank Group Corp. is a Japanese multinational conglomerate holding company. The company was established in September 1981, by its CEO Masayoshi Son, widely known as “Masa”. It invested heavily in technology with the belief that the computer industry would drive the Information Revolution^x. Given this investment objective, SoftBank sought to always invest in the emerging technologies.

In 2000 the holding would invest \$20 million into the Chinese e-commerce Alibaba^{xi}, having a critical role in its expansion and continuous and rapid growth. Softbank, as of May 2019, owned 28.9% of Alibaba^{xii}, and it was the leader value driver in the holding's portfolio, which had a market capitalization surpassing \$400 billion.

Recent companies such as Uber, Airbnb, PayPal and Netflix were pushing the boundaries of tech in the consumer's daily lives of. In 2017 Masa announced the Vision Fund, the new investment

vehicle that would be focused on investing in promising companies in various fields of technology, exploiting similar opportunities and to drive similar success such as Alibaba.

Vision Fund was the SoftBank's first Venture Capital (VC) fund with a committed capital of \$98.6 billion, backed by the Public Investment Fund of Saudi Arabia, Abu Dhabi's Mubadala Investment, Apple, Foxconn Technology, Qualcomm, Sharp, and SoftBank Group itself. SoftBank, was ranked as the largest 2019 fundraiser, followed by the Chinese Reform Holdings Corporation Fund, who raised \$15 billion^{xiii}.

This new market player was changing the rules of VC. This industry was defined by making small investments in early-stage companies and betting on their potential growth. Instead, Vision Fund made large-scale investments in startups that were potential leaders in their industry. This aggressive style allowed SoftBank to monopolize deals, out funding major venture capitalists (see in **Exhibit 4**). By March 2019, Vision Fund had invested \$60.1 billion in acquiring stakes in companies such as Uber, WeWork and Slack⁴.

Masayoshi Son's Vision

Masa is well known for his success in the technology industry, although a huge risk-taker. Investments like Alibaba defined his expertise in the field and allowed him to achieve a status of "Genius". However, Masa's strategy would be seen as impulsive and "visionary" by some analysts. Often, he did not consider the venture's finances but judged its success based on the charisma and attitude of its leader. In an interview with *Bloomberg*, when asked what drove him to invest in Alibaba, Masa answered^{xiv}:

"He had no business plan and zero revenue. (...) But his eyes were very strong. (...) I could tell from the way he talked, the way he looked. He had charisma, he had leadership."

Following the launch of Vision Fund, emerged a spree of spending and unicorn hunting, offering companies more money than what they needed. In December 2016 Masa and Adam made a deal that would shape WeWork's future in a meeting that lasted less than half an hour^{xv}. On Masa's tablet, he sketched a contract for them both to sign for an investment of \$4.4 billion, to be delivered in August 2017, after intensive due diligence. At the meeting, Masa said to Adam that they (the founders) were not crazy enough and ambitious enough.

⁴ Slack is a channel-based messaging digital platform.

Quoting from CBIInsights, “I told Adam not to be proud that WeWork was growing organically without a large sales force or spending big marketing dollars. Make it ten times bigger than your original plan.” — Masayoshi Son, CEO, SoftBank Group^{xvi}.

From Private to Public: Unraveled

WeWork’s funding history

WeWork was mostly known by its top valuation given by SoftBank at the beginning of 2019. But before the unicorn got the attention of Masa, there were fifteen other investors that drove the company’s expansion and valuation (see investors’ descriptions in **Exhibit 5**).

The first known post-money valuation was about \$45 million, after a \$15 million investment from Joel Schreiber, for a 33% stake in the company^{xvii}. Afterwards, the company would raise more \$7.9 million in seed funding. It would only be after the Series – A raise, during the second quarter of 2012, that the company would see an enhancement on its valuation, to \$97 million. From this point onwards, for every new funding series, the company would see a rise in its valuation. In 5 years, the company would achieve a whopping increase in valuation to \$10 billion, after the intervention of well renown investment banks such as Goldman Sachs and JP Morgan and the icon of real estate Mortimer Zuckerman (see **Exhibit 6** for the detailed valuation map).

After the injection of \$4.4 billion by the Vision Fund, the company’s valuation increased to \$21 billion. At that time, WeWork started to gain more attention in the media, due to the amazing capacity to attract investors and the quick growth in valuation (see detailed funding history in **Exhibits 7**). By the end of 2018, according to *Reuters*^{xviii}, SoftBank was planning to spend another \$20 billion using 50% of that amount to buy out early investors and employees to gain majority control. However, due to the low performance of the SoftBank stock (see **Exhibit 8**), the investment was reconsidered and reduced to \$2 billion. In total, SoftBank had invested more than \$10 billion in WeWork.

WeWork’s Operational Performance

Since its first opened location in New York, by August 2019 WeWork has expanded throughout 528 locations worldwide, spread across 111 cities, obtaining 527000 memberships (see **Exhibit 9**). There were approximately 605 thousand opened workstations, where 30% of those were running at a run-rate capacity (stable occupancy rate - considered mature), according to the company’s prospectus, these workstations only represented 33% of the total pipeline of workstations (see workstations detailed information in **Exhibit 10**).

The intensive funding allowed the company to scale up the business by increasing the opening rate of workstations as fast as possible. In the following 9-18 months, WeWork was planning to have 69% of the pipeline working. According to company information, on average, a workstation would be able to breakeven Capex and operational expenses within 6 months.

Since 2014 memberships had been growing over 100% a year. However, revenue per member has been declining. By June 2019, more than 50% of the memberships were from outside the U.S., due to the aggressive expansion to international markets. Markets where real estate prices are lower, and commitments have shorter terms.

Additionally, expansion strategies focused on concentration instead of diversification. WeWork focused on concentrating the number of workstations in determined locations instead of highly distributing them. One example of this was the U.S. market, where, as of January 2019, almost 28% of all the workstations were located in New York City. It would be obvious to assume that the concentration would lead to a cannibalization effect, however, the company prospectus clarified that the concentration allowed for greater brand awareness and economies of scale.

Revenue was also rising over 100% each year (see WeWork's financial statements in **Exhibits 11 to 15**). The main source of revenue was from the office real estate unit and since 2018 the revenue from other units represented between 5% to 14% of total revenue. At the end of 2018, the company had reached a revenue of \$1.8 billion, and only in the first half of 2019, it reached 84% of that milestone. The shift to a greater focus on big corporations increased the revenue backlog⁵ exponentially, from \$100 million in 2016, to 4 billion as of June 30, 2019 (see in **Exhibit 16**). Despite this performance, the company was piling great sums of losses and since 2016 WeWork was unable to drive positive EBIT.

Operations cash flow had been negative since 2018, although irregular, causing a worsening of the cash position at the end of each successive year, despite the capital injections. A big portion of cash expense was attributed to investments and acquisitions, acquiring twenty startups and investing in another eight startups (see **Exhibit 17**). Another major concern was the company's net leasing obligations of \$39.4 billion as of June 30, 2019 (detailed lease obligations in **Exhibit 18**), derived from the numerous 10 to 15 years contracts with landlords.

Despite this rapid cash burning, the rising lease obligations and the detachment from profitability, the company's future strategy was still focused on growing and expanding to new and existing

⁵ Revenue backlog represents unrecognized revenue, from a subscription business (mainly in SaaS), from non-cancellable contractual commitments. Commonly known as deferred revenue, revenue yet to be recognized.

markets in the next years, while decreasing capital costs. WeWork was gradually mitigating the lease exposure by engaging in co-management agreements and acquiring real estate^{xix}. Co-management agreements allowed WeWork to share costs and risks with landlords at the expense of sharing revenue. With this business model shift, it would operate in a similar way as the hotel industry, eliminating some exposure to real estate risk.

Competition

WeWork faced intense competition from many fronts, due to the versatile business model that it was trying to pioneer (**Exhibit 19** provides data on selected potential comparable firms).

The main companies that we can consider as direct competitors are startups such as Knotel, RocketSpace, Convene, Spacious, and Industrious. However, all these companies were still private, the closest public company that analysts and investors considered comparing WeWork to was International Workplace Group (IWG). IWG operates in the co-working industry and office rental through multiple brands, their major differences were in the geographical concentration of office strategy, profitability, and valuation.

Whereas WeWork focused on concentrating offices around one single area, IWG had spread its business throughout 3306 locations in 1100 cities across the world, having a total of 547000 workstations. In 2018, IWG had a customer base of 2.5 million members. This superior operational performance resulted in IWG obtaining a larger revenue and having a profit of \$132.1 million in 2018. In the first half of 2019, IWG's revenue was at the same level as WeWork's, however it was able to make a profit of \$46 million, whereas WeWork couldn't. Bottom line, the company that thrived with positive results had less than 8% of WeWork's valuation.

Although IWG was at a more stable stage, with revenue growth rates of 8% to 12%, where WeWork showed greater potential (see **Exhibit 20**). IWG was also more conservative managing lease obligations. IWG engaged in shorter-term contracts, in June 2019, total obligations summed a total of \$8.3 billion, about 62.7% of them were due within the next 5 years. Comparatively, WeWork obligations within 5 years were 37.2% of total obligations.

“Too much money will kill you”

Before Adam's meeting with Masa, most of the cash from funding was redirected to operate the business, core expansions and investments. It had expanded to some key cities like London, Amsterdam and Seoul and had expanded its business portfolio by launching WeLive. Other than that, it had been a focused growth and almost organic.

However, the above mentioned \$4.4 billion cash injection seemed to have changed the strategy. The unicorn became the acquirer, acquiring twenty-one companies in the following years. The unicorn became the investor, spending \$134.7 million in venture capital. The unicorn occupied the world, as it expanded to every market even if its potential revenue was minimal.

WeWork seemed to be spending its money carelessly. Acquiring companies with a doubtful connection to the core business, the best example being the acquisition of WaveGarden, a company that produced equipment to create artificial waves for swimming pools. Renovations to buildings were frequent, spending more and more money on furniture and build outs, even if workstations were in perfect condition.

IPO filing

By the summer of 2019 WeWork was burning more cash since ever. Such spending would have been partially sustained, if not for the misfortunes on SoftBank stock performance. The problem was simple: WeWork needed more money, but this time SoftBank could not be present to feed the starving beast.

At that time, raising debt was out of the question due to the disastrous performance in the secondary market of the Senior Notes issued in April 2018 (see the details of WeWork's debt info in **Exhibit 21**). Credit rating companies disagreed in the intrinsic risks of these bonds, Fitch rated them as a BB-, while Moody's rated it a CCC (default probability per rating provided in **Exhibit 22**). Investors spoke for themselves, and in the first week after their issuance, the bonds had fallen in value to 95.75 cents on the dollar, translating into an 8.6% yield, and an intrinsic rating of B- or CCC+, according to *Bloomberg*^{xx}.

Even though the bonds were considered speculative there was demand for them, by the investors that craved for tech opportunities and wanted to be part of "the next big thing". Facing financial difficulties and hoping to monetize from the hype, Adam decided that it was time to go public, and on August 14, 2019, The We Company filed its S-1 filing (the provisional prospectus) with the Security and Exchange Commission (SEC)^{xxi}.

JP Morgan was selected to occupy the top position as the lead underwriter^{xxii}, sharing some of the wealthiest fees with Goldman Sachs^{xxiii}. A surprising turn of events, considering that Michael Grimes, the head of Global Technology Investment Banking at Morgan Stanley – "The kingpin banker in Silicon Valley"^{xxiv}, had pitched for the lead role in WeWork's IPO.

Grimes was known for tackling some of the lead tech-companies IPOs, such as Google, LinkedIn and Twitter, and for leading some high-profile tech M&A transactions, the sale of GitHub to Microsoft, WhatsApp's sale to Facebook and Skype's sale to eBay, for example^{xxv}. Although having a solid deal history, he is remembered for his work with Facebook's and Uber's IPO, due to the share price short-term underperformance. Grimes allowed Morgan Stanley to be in top underwriting positions in multiple tech IPOs, including 2019 hottest deal of Uber^{xxvi}.

Morgan Stanley walked completely out of the deal after being rejected for the lead underwriter position. He pitched to Adam Neumann a conservative valuation range of \$18 - \$51 billion, when compared to JP Morgan valuation (\$43 - \$104 billion) and Goldman Sachs valuation (\$61 - \$96 billion). The demanding CEO also asked the Investment Banks to participate in a \$500 million personal credit line, with his shares as collateral, and to extend the debt financing. Michael Grimes refused to participate, as he was not willing to comply with the demands for an unorthodox IPO structure, mixing debt and equity financing.

In the end, the long relationship of JP Morgan CEO, Jamie Dimon, with WeWork paid off. Since 2015 the bank invested directly in the start-up and has been present in several debt deals and credit lines, being also the lead underwriter of the 2018 Senior Notes. WeWork's long-time financial advisor^{xxvii} was on the verge of receiving a share of what could be more than \$122 million in underwriting fees^{xxviii}.

With the IPO WeWork would raise \$9 to \$10 billion. \$3 to \$4 billion would come from selling shares and the remaining from debt to be issued after, tied to the shares selling success^{xxix}. But the S-1 raised more questions than answers to investors, revealed an unprofitable business, a misleading prospectus and bad corporate governance and structure.

Valuation

SoftBank's private valuation of \$47 billion was questionable, the S-1 revealed various risks that were incompatible with such valuation, raising several concerns. According to many analysts "it is real estate and not tech"^{xxx}. How could this business be valued with the same multiples and be funded like tech unicorns? Was it really tech or real estate with some tech?^{xxxi}.

The usage of the acronym SaaS 40 times in the S-1 emphasized how much WeWork wanted its investors to perceive the business as scalable and cheap similar to any cloud service, but the value of that growth potential did not seem reasonable with the presented financials. WeWork may have had high usage and investment in tech, compared to its coworking/office rental competitors,

but it wasn't correct to assume that its core business was based in tech. After all, there was no actual selling of any software or tech service.

WeWork's greatest advantage was its brand recognition in the industry, however, could the "cool and trendy" intangible factor that WeWork was creating in the coworking industry be that valuable? Which raised the question: "what is the real worth of cool and trendy?". Investors were not disregarding WeWork's business, but at that point, the value seemed to be derived from future speculation and not from value creation (market and industry data in **Exhibits 23** and **24**).

As of 2018, according to *Business Insider*, almost 80% of the companies that went public were unprofitable, (see **Exhibit 25**), this trust was often seen in tech IPOs, due to the high potential and the greater focus in growth.

Business Model Risks

Many analysts were also skeptical about the business model, claiming it was not revolutionary, just riskier^{xxxii}. In particular, of its ability to survive an economic downturn, due to the lack of hedging, and mismatching cash flows. The company was securing landlord lease payments without having secured cash flow from revenues, a situation that aggravates during a recession. WeWork's customer base, which was heavily reliant on tech entrepreneurs and SME, would become obsolete, as they were the ones with weaker financial stability, resulting in the extinction of revenue, as they would lose the ability to keep their businesses running.

Revenue is abundant during booms, where the occupancy is high, during a downturn, occupancy falls, and WeWork would be forced to reduce prices to attract customers while keeping the same level of lease obligations. What WeWork was selling to its members was flexibility: members could sign short-term membership contracts and could easily forfeit the contract, resulting in a weak and fragile long-term sustainability^{xxxiii}.

WeWork was allowing tenants to have the same flexibility that Airlines pay for. Part of a fleet is owned through operational leasing, that allows Airlines to have flexible units to adapt to the changing demand, at a higher cost. WeWork sold the same expensive flexibility at a lower price like it was mentioned above, implying an expensive business model. Nevertheless, the company supposedly would break even every workstation within 6 months, however, there was no actual manifestation of that in the financials, the desired economies of scale seemed out of reach.

To real estate experts, the "asset-light" model is a risk. It has strong exposure to the real estate market, without owning real estate. Owning real estate properties is one way to hedge that risk.

Hotel companies like Marriot have recently stopped owning real estate, while keeping high margins, by shifting towards a franchising and operator model^{xxxiv}. Acting as a franchisor or as a property manager, hotel companies force other real estate owners to bear most of the risk.

Adam was indifferent and careless regarding all these risks. He believed that not only the company had the means to survive a downturn, as it would prosper from it. With the growing enterprise memberships, client's commitments had increased to 15 months and revenue backlog was enhanced. The flexibility needed during a downturn and the low costs would attract new customers and the memberships' low prices would be sustainable with the high-density rate.

Providing that the company had enough capital, the downturn would accelerate buildout and expansion, as lease and construction costs would fall^{xxxv}.

There is no We, only I for Adam

Adam was a pivotal piece in WeWork's early success. The secret laid in his charismatic manner, being a remarkable pitcher and a salesman capable of converting skeptical audiences into "bulls" towards WeWork^{xxxvi}. His ability to convey a successful business model was the major driver of funding. This skill was evident from day one, as the real estate owner Joel Schreiber said: "*I didn't negotiate – I said yes.*"^{xxxvii}.

Adam had received an "Untouchable Status" when SoftBank intervened^{xxxviii}, this power created a nepotist, opportunistic and unethical leader, whose actions raised several concerns about his intentions and how he led the company to his profitability.

Cashing Out

As of April 2019, Adam had cashed out from the company more than \$700 million from loans and selling shares^{xxxix}. The leader was telling his audience to buy, but he was exiting from his position. In June 2016, WeWork issued to Adam a loan of \$7 million, with an interest rate of 0.64%. With that money, Adam bought properties to lease back to WeWork^{xl}.

According to the S-1 Form, at the time of the rebranding, the company acquired the rights related to "We" family trademarks. As a payment, it issued partnership interests in fair market value of \$5.9 billion to the previous owner, Adam Neumann^{xli}. Additionally, Adam had a \$500 million credit line secured by his holdings on class C common stock^{xlii}.

Management and Board

The board of directors has the primary function of representing the shareholders and to monitor the management, to assure that the actions taken are in the best interest of the shareholders with the chairman being the responsible entity of the board. To avoid agency problems, a separation between the board and the management is required, but in many start-ups, founders hold the supreme power on both sides. Adam Neumann, being both chairman and CEO had the responsibility to supervise his actions, allowing for weaker supervision.

As never seen before, the S-1 delivered to the SEC included a detailed description of WeWork's succession plan. In the event that Adam would be "permanently disabled or deceased during the ten-year period commencing upon the completion of this offering", as quoted in the provisional prospectus^{xliii}, the new CEO would be selected by a committee formed for that purpose only, composed by Rebekah Neumann and two other directors, Bruce Dunlevie and Steven Langman. If neither of them was serving as directors, Rebekah alone would have that power.

Adam was showing evidence of overlapping his professional and personal life, with his wife Rebekah receiving so much power in the corporate structure. She became WeWork's founding partner in 2016, and since 2014 she was serving as Chief Brand Officer and CEO of WeGrow. The overlap would continue with WeWork foresting family relatives into executive positions^{xliv}.

Multiple Share Class Structure

For new shareholders, buying shares on WeWork would leave them with little to no voting power. The company had three classes of shares: class A, B and C common stock. Shares sold at the IPO would be of class A, with one vote per share. On the other hand, class B and C held twenty votes per share. Adam had full control of the company by holding the entire batch of class C shares and holding a majority percentage of class B shares. The remaining investors all held class A shares and convertibles to class A shares (shareholders list is detailed in **Exhibit 26**).

Multi-class shares were a growing trend, especially among tech companies (see **Exhibit 27**)^{xliv}. It was conceived as an instrument for startups to access capital markets without diluting the company's control, protecting the founding shareholders and initial investors. Supporters of this structure defend that flexibility allowed investors to participate in promising equity deals while guaranteeing majority control to founders. Allowing them to pursue long-term investments and strategy without having to worry with short term stock market performance and hostile takeovers.

Despite the benefits, this structure was more exposed to greater agency costs, given that individuals that were present in the roles of management, as well as ownership, had the power to

take thoughtless decisions that surpassed the board and any other company holder. Individuals may take unnecessary, unfocused, value-destroying actions to self-enrichment purposes, at the cost of the other shareholders. These companies often lacked an independent board leadership. 52% of the multi-class structured companies from Russel 3000 were missing an independent board leader. These structures were much more likely to face governance concerns^{xlvi}.

Masterpiece of Obfuscation

Uncovering the company numbers from the prospectus for any type of analysis was not made easy, as *Bloomberg* describes it, the prospectus was a “Masterpiece of Obfuscation”^{xlvii}. The prospectus failed to deliver to investors enough clear information to create a model and to pursue a concise financial analysis. The information provided was inconclusive and lacking. An example of this problem can be found in **Exhibit 28**, a breakeven graph with a missing y-axis. More effort was put into the layout of the prospectus than on the information that it was supposed to contain.

WeWork introduced a new performance metric that was not compliant with GAAP standards, Contribution Margin – “Adjusted EBITDA excluding non-cash GAAP straight-line lease cost”. Due to the absence of profitability, WeWork disguised its financial performance through the Contribution Margin, a metric adjusted to exclude non-cash stock-based compensation expenses included in location operating expenses and excluding straight-line lease costs. In analyzing the profitability of specific workstations, WeWork was not considering local lease costs, which were the main costs of the business. Promising to achieve a 30% margin in the near future.

Final Move

WeWork was presenting itself to be a nerve-wracking situation for Masayoshi Son. Adam was dangerous, his reckless actions were not being monitored and were damaging the firm’s value. Through the corporate structure, financial engineering, and negotiations Adam had acquired excessive power in the company.

Investors were unhappy with the unraveling problems and had lost trust in the big institutions that invested so much in the startup, without proper diligence. On September 9, 2019, Masa contended with the possibility of having to suggest canceling the IPO. On one hand, corporations that had invested millions in funding were anxious for an exit opportunity, but on the other hand, the market had shown low demand and trust for WeWork stocks with the current problems.

With some power on WeWork’s corporate decisions, Son had to decide if he still wanted to support the IPO, and if he did, was it the time to do so? Did investors accept the current conditions

or were there changes that needed to be taken first? Was the path to profitability and the weak financials the main focus, or was it the management that needed a revamp?

Endnotes

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