



## WeWork Has Its Work Cut Out for It to Revive Its IPO Plan

### Description

The We Company, parent of popular co-working space operator WeWork, has been driving toward an initial public offering for a while now, but the road has been bumpy, and beset with detours.

In this segment from [Motley Fool Money](#), host Chris Hill and senior analysts Andy Cross, Ron Gross, and Jason Moser review management's latest efforts to get back on track, consider what an appropriate valuation for the rapidly growing business might be, plumb the depths of its competitive moat (and its losses), and more.

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**Chris Hill:** The We Company saga continues. The parent company of WeWork is trying to salvage its IPO by updating its S-1 filing. Andy, they're trying to make it more shareholder friendly. Their initial plans to go public at a valuation of \$47 billion are quickly becoming a distant memory.

**Andy Cross:** Yeah, pretty much off the charts now. Speaking of bungled IPOs, they're trying to prevent having a bungled IPO. They've made these changes to filing their S-1. Now they'll be listed on the NASDAQ apparently. Apparently now, reports are that they're going to try to go in late September. Will set the initial price sometime soon. They changed a lot with how Adam Neumann, the co-founder, the CEO, the brand of WeWork, his relationship with the company. They committed to appointing more independent directors. The board will choose his successor rather than committee.

**Ron Gross:** His wife was supposed to be able to choose. I've never heard of that!

**Cross:** She actually works for the company. She is no longer involved in that decision. Importantly, his high vote stock, which was 20 votes to one, is now going to be pulled back to 10 votes. So, they are trying. But, Chris, you mentioned the valuation. Initially, earlier this year, **SoftBank** invested billions, had a \$47 billion valuation. Now there are talks of this valuation being \$15 billion to \$20 billion. They're

trying to avoid the situation that other IPOs like Smile Direct might find themselves in, when they have a bad day. And trying to avoid a stock price that, a couple of days trading after, is much lower.

**Gross:** I'm all in favor of improved corporate governance. This was pretty egregious. It's still a little egregious. But it's better. But that doesn't forgive the business model. The business model should never have supported a \$47 billion valuation in my opinion. SoftBank, I'm sure, has real smart folks over there. That baffles me. They've done a great sales job, I would say, with raising private money. But that sales job doesn't seem to be continuing to the IPO roadshow, because I think people are seeing this business model for what it is.

**Cross:** SoftBank owns about 30% of the company, SoftBank and its entities. They are seriously invested into the success of WeWork.

**Jason Moser:** You talk about the questionable business model. They're basically taking the concern of the fixed cost of real estate for many workers and eliminating it. The problem is, in eliminating it, they're just taking that risk on themselves. Real estate, at the end of the day, is still a very expensive proposition. To put some numbers around it, remember, in 2018, they brought in \$1.8 billion in revenue. That's terrific. But, they spent \$3.5 billion to make that \$1.8 billion. They're losing an astounding amount of money. There's no real flipping point there where that turns around and goes the other way. If we run into recession or some other type of real estate crisis, this is a company that stands to get hit very hard. It seems like a real mess. I understand why they're trying to rush to market, there are a lot of people that want to cash out for this. But man, oh, man, Smile Direct is looking a little bit better right now.

**Cross:** Importantly, they have a \$6 billion line of credit lined up. But it depends on a successful IPO raising over \$3 billion. As Jason mentioned, losses piling up. They have capital needs. Really interesting to see SoftBank and how much they are pushing WeWork to go public sooner. Or, are they not trying not to, but bankers are saying, "No, you have to go to the market now." There are a lot of investors out there in the market who don't want this to go because they're worried about what it does to the overall IPO market.

**Gross:** Yeah. The business, there's nothing proprietary here. There's competitors out there. It's duplicatable. Landlords, owners of real estate, can replicate this. Real, true competitors using the same business model are out there. Again, speaks to the valuation. Speaks to margins. Speaks to cash flow eventually. I just don't see it.

**Hill:** I realize that we're living in a different time than we did 20 years ago, particularly in terms of media and information. Ron, have you ever seen anything like this before? The closest thing I can think of is 20 years ago, when AltaVista was looking to go public. But that was a market condition thing. They canceled their IPO. I've never seen something like this, where they are stumbling to the finish line.

**Gross:** You just nailed it. I was going to say, I've seen IPOs be pulled, but it's usually the result of market conditions, not typically the results of something specific to a company. This is a debacle.

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