My Thoughts on WeWork's IPO Prospectus

August 15, 2019
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WeWork is getting ready to go public. Before a U.S. company goes public, it must file what is called a Form S-1 (aka an IPO Prospectus) with the SEC.

The S-1 provides information on things like intended use of money, business model, competition, risk factors and business dealings between the company and its directors.

WeWork's business model is to sign long term leases on buildings, build-out office space and then lease out that space to companies.

I have quickly gone through WeWork's filing and it's unlike anything I have seen. Here are some of the red flags I noticed.

- For the first 6 months of 2019, it lost $690 million on revenues of $1.54 billion. That's a -45% profit margin.

(Amounts in thousands, except share and per share data)	Year Ended December 31,			Six Months Ended June 30,	
	2016	2017	2018	2018	2019
Consolidated statement of operations information:					
Revenue	$ 436,099	$ 886,004	$ 1,821,751	$ 763,771	$ 1,535,420
Expenses:					
Location operating expenses (1)	433,167	814,782	1,521,129	635,968	1,232,941
Other operating expenses (1)	—	1,677	106,788	42,024	81,189
Pre-opening location expenses	115,749	131,324	357,831	156,983	255,133
Sales and marketing expenses	43,428	143,424	378,729	139,889	320,046
Growth and new market development expenses (2)	35,731	109,719	477,273	174,091	369,727
General and administrative expenses (2)	115,346	454,020	357,486	155,257	389,910
Depreciation and amortization	88,952	162,892	313,514	137,418	255,924
Total expenses	832,373	1,817,838	3,512,750	1,441,630	2,904,870
Loss from operations	(396,274)	(931,834)	(1,690,999)	(677,859)	(1,369,450)
Interest and other income (expense), net	(33,400)	(7,387)	(237,270)	(46,406)	469,915
Pre-tax loss	(429,674)	(939,221)	(1,928,269)	(724,265)	(899,535)
Income tax benefit (provision)	(16)	5,727	850	1,373	(5,117)
Net loss	(429,690)	(933,494)	(1,927,419)	(722,892)	(904,652)
Net loss attributable to noncontrolling interests	—	49,500	316,627	94,762	214,976
Net loss attributable to WeWork Companies Inc.	$(429,690)	$ (883,994)	$(1,610,792)	$ (628,130)	$ (689,676)
Net loss per share attributable to Class A and Class B common stockholders: (3)					
Basic	$ (2.66)	$ (5.54)	$ (9.87)	$ (3.87)	$ (4.15)

- Using made up non-GAAP metrics such as "Community Adjusted EBITDA" to magically and shamelessly turn losses into profits.

(Amounts in thousands, except percentages)	Year Ended December 31, 2016	2017	2018
Adjusted EBITDA[1]	$ (94,322)	$ (193,327)	$ (665,653)
Adjusted EBITDA Margin	(21.6)%	(21.8)%	(36.5)%
Community Adjusted EBITDA[1]	$ 95,943	$ 233,147	$ 467,125
Community Adjusted EBITDA Margin	22.1 %	26.9 %	27.5 %

- Dual-class share structure with super-voting rights. This means the company is effectively controlled by CEO and Founder Adam Neumann. By the way, the word "Adam" was mentioned 169 times in WeWork's S-1 whereas the word "Elon" appeared only 47 times in Tesla's S-1.

  I believe that super-voting is incredibly dangerous unless it is in the hands of an extremely ethical and talented entrepreneur. For example, when Uber's board ousted Travis Kalanick, by virtue of his ownership, he still had an enormous influence on the ability to elect people to the board.

- Adam Neumann's personal balance sheet is heavily levered. It is reported that he has taken huge personal loans and credit from WeWork and its underwriters.

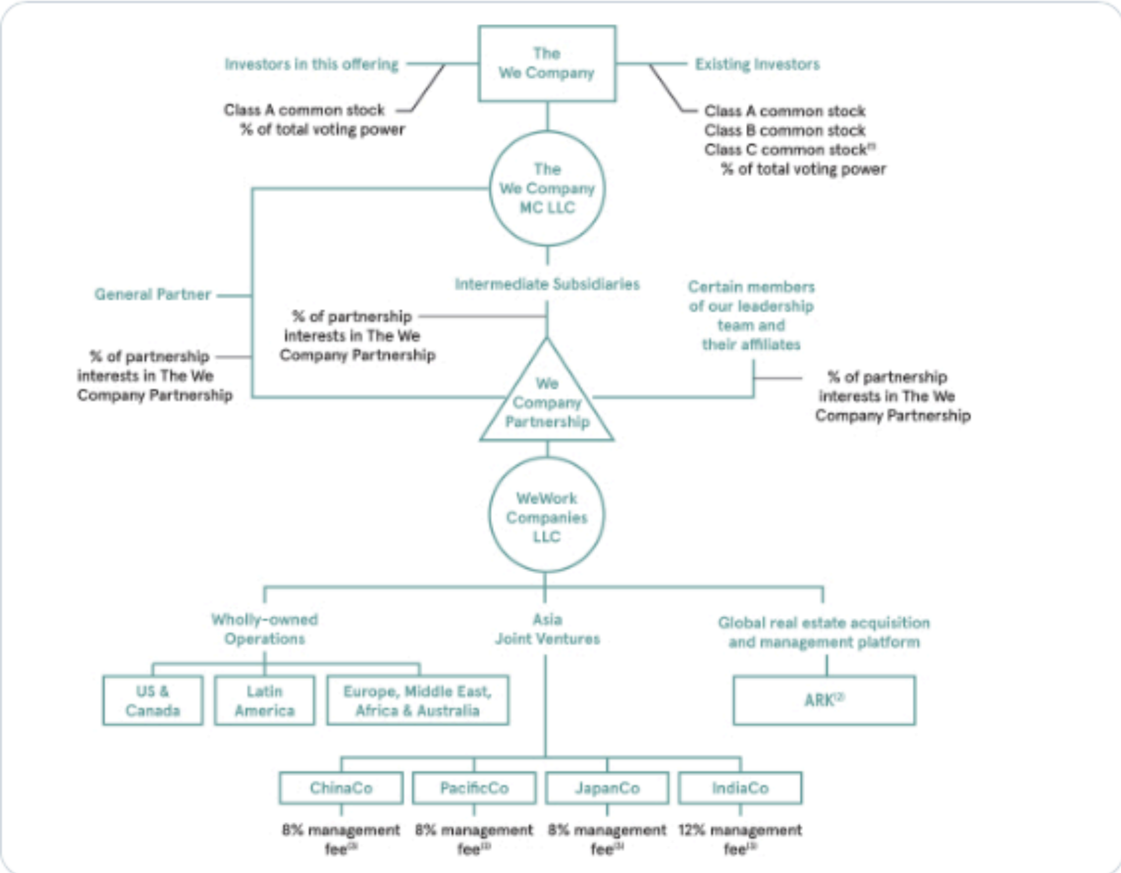
  Furthermore, WeWork is currently leasing buildings from Adam and other related parties. I don't know the specifics and whether they were executed at arm's length.

  I have read about situations where a levered promoter makes his public company buy his personal assets at inflated prices by getting a friendly and compliant Chartered Accountant to bless the valuation.

The Fin-Twit community is going nuts over WeWork's S-1. Here are some of my favorite tweets:

Eric Newcomer
@EricNewcomer

Someone please explain WeWork's christmas tree corporate structure to me



Derek Thompson
@DKThomp

If you work at WeWork, drive home with Uber, and then order food by DoorDash, you're engaging with three companies that are projected to lose about $13 billion this year.

7:44 PM · Aug 14, 2019 · Twitter Web App

Ellen Huet @ellenhuet

another tidbit I found amusing: In January, WeWork announced it was rebranding as The We Company. It bought trademarks for "we." From whom? We Holdings LLC, an entity controlled by WeWork CEO Adam Neumann

"we" cost $5.9 million bloomberg.com/news/articles/...

Early this year, WeWork unveiled its new corporate brand: We Co. It then sought to acquire the trademark to "we." The name was owned by We Holdings LLC, which manages some of the founders' stock and other assets. WeWork said it paid the founders' company $5.9 million for "we" this year, based on a valuation determined by a third-party appraisal. WeWork legally changed the company name last month.

4:28 AM · Aug 15, 2019 · Twitter Web Client

Daniel Roberts @readDanwrite

WeWork: Not only are we hemorrhaging money, we don't plan to be profitable in this lifetime

We may require additional capital, which may not be available on terms acceptable to us or at all.

We incurred net losses in the years ended December 31, 2016, 2017 and 2018 and in the six months ended June 30, 2018 and 2019, and we do not intend to achieve positive GAAP net income for the foreseeable future. As a result, we may require additional financing. Our future financing requirements will depend on many factors, including the number of new locations to be opened, our net membership retention rate, the timing and extent of spending to support the development of our platform, our ability to reduce capital expenditures, the expansion of our sales and marketing activities and potential investments in, or acquisitions of, businesses or technologies. Our ability to obtain financing will depend on, among other things, our development efforts, business plans, operating performance, investor demand and the condition of the capital markets at the time we seek financing. To the extent we use available funds or are unable to draw under our Delayed Draw Term Facility, we may need to raise additional funds, which may not be available to us on favorable terms when required, or at all. In the event that we are unable to obtain additional financing on favorable terms, our interest expense and principal repayment requirements could increase significantly, which could harm our business, revenue and financial results.

7:46 PM · Aug 14, 2019 · Twitter Web Client