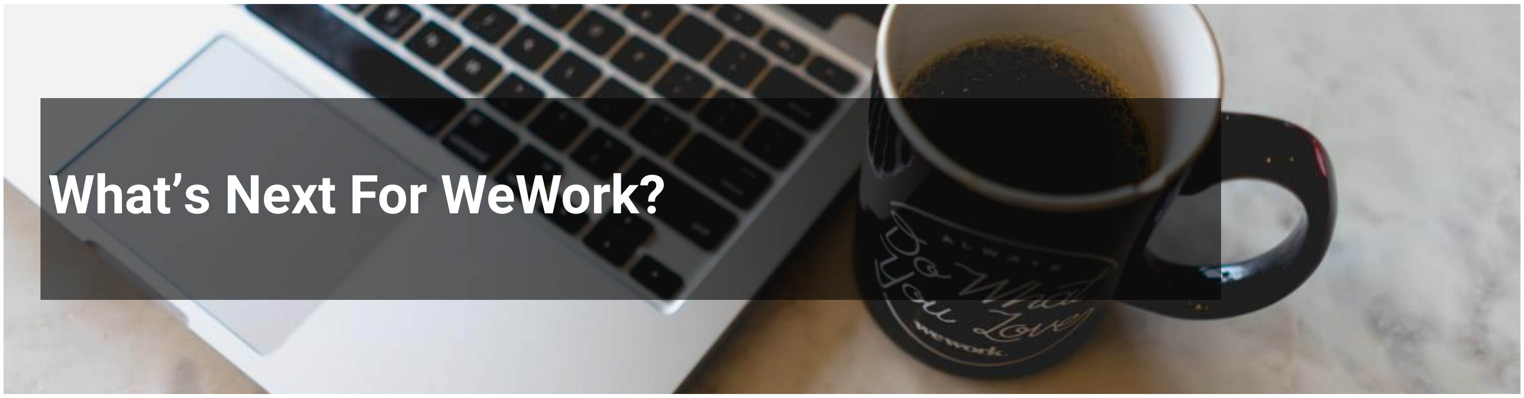

What's Next For WeWork?

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If Uber stumbled out of the gates, then the We Company (FKA WeWork) broke both of its legs before the race even started. The company has been mired in investor skepticism and controversy, which began long before the We Company filed its IPO paperwork. WeWork vaulted to fame by providing startups with beautifully designed coworking spaces on a short-term, flexible basis, and millennials flocked to WeWork as the company fostered a collegial environment. With each successive funding round, though, questions regarding WeWork's business model, valuation, and culture emerged. Was WeWork a tech or a real estate company? Will WeWork ever be profitable? Can CEO Adam Neumann avoid conflicts of interest concerns?

Above are some of the major questions that WeWork repeatedly faced prior to filing its S-1. On August 14, 2019, though, the cacophony of these questions only increased when the company publicly filed. WeWork's IPO paperwork disclosed massive losses, albeit accompanied by strong revenue growth. Much like in Uber's case, WeWork expected public investors to overlook the losses and instead focus on the growth story, even if that meant the company's stock debuted to lackluster demand. Ultimately, it was the complexity and opaqueness of its S-1 that caused the IPO to derail.

Investors scoffed at the multiple corporate governance lapses, outsized dual-class voting structure, and lack of property-level data and financial metrics. Crucially, investors struggled to understand why WeWork was anything but a real estate business, while the company hoped that it could convince the public it was a tech company and escape providing property-level data that is typical for real estate enterprises. Without this data, investors were unable to verify the company's claims that mature properties were profitable, justifying the company's $47B private valuation.

Adding to these concerns, investors saw many corporate governance lapses, beginning with Mr. Neumann's stakes in properties that were then leased to WeWork, drawing conflict of interest concerns. Additionally, the filings disclosed a trademark payment, giving WeWork the rights to the "We" trademark. Furthermore, investors derided the CEO succession plan, wherein Mr. Neumann's wife, Rebekah Neumann, was part of a three-person committee that would choose a new CEO if Mr. Neumann died or became incapacitated. Lastly, investors disliked the dual class voting structure, giving Mr. Neumann 20 votes per share.

WeWork backtracked on some of the above corporate governance structures in subsequent filings, but the damage was already done. The company's public image was tarnished, causing the reported IPO valuation to significantly drop and Mr. Neumann to step down as CEO. Considering this news, the following question comes to mind: What's Next for WeWork?

IPO Is Postponed

With Mr. Neumann stepping down as CEO, WeWork is expected to further postpone its IPO. The company will likely take this opportunity to right the ship, giving the two new Co-CEOs (Artie Minson and Sebastian Gunningham) the time to fix the business model and culture, much like in Uber's case after Travis Kalanick's departure. One aspect that investors will focus on is how the new CEOs cut costs (personnel, marketing, or other) and how it affects topline growth. The CEOs have already indicated that cutbacks and layoffs are likely to occur. In any new S-1 filings, investors will additionally expect a corporate governance overhaul and increased disclosures, specifically calling for property-level data.

Additionally, WeWork's valuation has taken a large hit, falling from its $47B last private valuation to as low as $10B. If and when the company goes public, the valuation is likely to be far less than the $47B valuation.

More Cash Please

WeWork filed to go public because it needs cash to fund its growth machine. As part of the IPO, WeWork was seeking $3B through the sale of common stock, which would have triggered a $6B loan package, for a total of at least $9B in new capital. Absent an IPO, WeWork has roughly $2B in cash available for operations. In an analysis done by The Information, WeWork is expected to burn through its cash to only $400M by March 2020, assuming no reduction in costs. As a result, WeWork has limited runway if it expects to continue its growth-at-any-cost strategy and will need to raise alternative capital.

The new CEOs' top concern will be the company's cash burn and what costs can be cut to bolster the business. Mr. Minson and Mr. Gunningham will need to take concrete steps toward profitability and increased corporate governance measures in order to convince lenders and investors to provide additional capital.

Impacts on the Broader Market

WeWork's experience underscored that the public market is no longer deferring to tech startups and their founders on valuation. Investors learned from other mega tech IPOs and are beginning to put highly-valued startups under greater scrutiny.

Corporate governance has become a real concern for public investors. WeWork illustrated that free wielding CEOs will not be tolerated, and strong, ethical CEOs are needed in order to maintain good culture and business practices. Additionally, dual class voting rights may become less common and only given to startups and founders who've proven themselves to be corporate stewards.

Additionally, VC firms injected capital into loss generating startups for years, buying into and oftentimes fueling lofty goals and mission statements. That investment style worked in the private markets, showcased by increasingly higher valuations, but has translated poorly to the public markets. The public market invests based on fundamentals, typically on a one- to two-year horizon, and has a hard time stomaching companies promising profitability "sometime in the future." As a result, startups and late-stage VC firms will likely begin to focus more closely on fundamentals, and companies will have to demonstrate a path to profitability sooner.