

WeWork accepts SoftBank bailout plan valuing WeWork at \$8 bn: source

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Japan-based SoftBank will take control of WeWork in a bailout plan that will see the office-sharing startup's co-founder Adam Neumann exit the board, a person close to the matter said Tuesday.

SoftBank, which already holds 29 percent of WeWork, will invest at least \$5 billion more, the source said, which will give it control of the company.

About \$1.7 billion of the financing package will go to Neumann, who will step down from the board of directors.

The deal slashes the estimated value of WeWork to about \$8 billion, a far cry from the \$47 billion at the start of the year and a fraction of the sum envisioned in an initial public offering that was abandoned last month.

WeWork, which had also been weighing a bailout plan from JPMorgan Chase, declined comment.

The plan provides needed funds for the troubled office sharing company, which sources have said must raise at least \$3 billion to cover its financing needs through the end of the year.

Neumann stepped down as chief executive in September amid questions over perceived self-dealing between his personal assets and WeWork, and over unconventional personal conduct, including drug use.

The deal pays Neumann \$1 billion for his SoftBank shares, \$500 million for reimbursements of personal debts and \$185 million in consulting fees, the source said.

Neumann will maintain a small stake in the company.

The company in late September canceled a plan to go public amid questions over its profitability prospects for the long run, an outcome that some analysts applauded as a commendable weeding-out of overvalued entities in public markets.

SoftBank already about one-third of the company, which last year reported \$1.9 billion in losses.

'Blue sky' promises

The startup, which launched in 2010, has touted itself as revolutionizing commercial real estate by offering shared, flexible workspace arrangements, and has operations in 111 cities in 29 countries.

In some cities it is one of the major landlords, but its model of offering flexible, short-term leases, are alternately viewed as a selling point and a financial vulnerability for investors.

The travails of WeWork have weighed on SoftBank whose chief executive Masayoshi Son scored off of an early investment in Alibaba and a takeover of the Japanese arm of Vodafone.

However, Son has had a rough year in 2019 between WeWork's troubles and the initial public offering of Uber, which underperformed expectations.

Richard Windsor, founder of Radio Free Mobile, said WeWork amounts to a "searing indictment of Softbank's valuation and screening methodology which needs to shift towards being based on fundamentals rather than blue sky."

Windsor said the thesis around WeWork's appeal to investors was that it would continue to be able to grow quickly and charge more for renters.

"The hope was that tenants' experiences would be so good due to the 'technology platform' that they would swallow massive hikes in rent when it came to renewal time," Windsor said.

"It does not take more than a quick look at the accounts and to speak to a few tenants to realize that there is no technology platform and consequently no barriers to entry," he said, adding that as a result WeWork will struggle to keep rents high.

"How WeWork is ever going to make the margins promised remains a big mystery," Windsor said.

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