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WeWork heads for September IPO but doubts linger

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Equities

Down-round looks unavoidable after Uber and Lyft misfire

The We Company, the flexible office space provider better known as WeWork, is forging ahead with plans to go public next month despite a wall of scepticism rivalling even that surrounding the much-maligned debut of Uber Technologies in May.

WeWork's IPO is expected to raise more than US$3bn and to be launched shortly after Labor Day on September 2.

The imminent launch has triggered some brutal assessments of its business model and corporate governance.

The company touts itself as a disruptor of the real estate business via its so-called "space-as-a-service" business model emphasising recurring revenues from the fees paid by members to take up space at its 528 properties in 111 cities around the globe. Founded in 2010, WeWork doubled revenues to US$1.5bn in the first half of 2019 but net losses widened to a mammoth US$690m.

Still, bankers close to the deal say the company won over some of the legion of doubters with its recent pre-marketing efforts, including a meeting with analysts in New York on July 31.

"From all of the investors and the banks we talk to, the common refrain is that there was a lot of scepticism when the IPO talk charged up earlier this summer," said one senior ECM banker working on the deal.

"But as everyone has started to dig into the story they have been pleasantly surprised by the business and the detail management has been willing to provide location-by-location. The unit economics are compelling."

JP Morgan, *Goldman Sachs* and *Bank of America Merrill Lynch* lead a nine-firm syndicate, comprising all the banks that committed to WeWork's US$6bn credit facility earlier this month.

JP Morgan's asset management arm and Goldman Sachs are both shareholders in the company.

DOWN-ROUND EXPECTED

WeWork's most recent private funding round in January, a US$5bn raising led by Japan's SoftBank, valued the company at US$47bn.

Already there are serious doubts as to whether WeWork can achieve anywhere near that mark at an IPO, reflecting its lack of profitability, its high cash burn and concerns about multiple conflicts of interests involving CEO, co-founder and controlling shareholder Adam Neumann.

Manhattan Venture Research earlier this month valued WeWork at US$28bn, noting that any enthusiasm for the company's market opportunity providing co-working spaces to start-ups was tempered by a growing list of competitors and the risk of holding long-term leases during an economic downturn.

Manhattan Venture analyst Santosh Rao said bankers initially hoped to put a US$120bn price tag on Uber before taking it public with a US$74bn valuation, so it was also conceivable that WeWork would come at a significantly lower mark than US$47bn.

"They want to get [the IPO done] as soon as possible but I don't see the urgency because they are so unprofitable and the story is so unclean," Rao said. "They really need to get the narrative right."

Still, most observers doubt that valuation pressure and specifically the prospect of a so-called "down-round" will dissuade WeWork from moving ahead with the IPO next month, particularly given its deep-pocketed backers.

"They will go ahead and I am sure there is going to be interest at some price, even though there are a lot of open questions," said IPOX Schuster's Josef Schuster, whose firm indexes IPOs.

"The press and the analysts are doing the market a real favour in bringing down the price, and it is all about valuation."

CHALLENGE

A challenge for analysts has been whether to value WeWork as a real estate, internet or services company. One cited comp is LSE-listed workspace company IWG (which owns Regus).

IWG's shares have doubled in the past year, though bankers say it is not an ideal comparison as the company is growing nowhere near as fast and is valued at less than US$4bn, a fraction of WeWork's likely value post-IPO.

Some are already bracing themselves for a similar experience to the disappointing debuts of fellow unicorns Uber and Lyft earlier this year. Despite a vibrant year for US IPOs, shares of both companies are down more than 20% since they went public.

"There used to be a thought in IPOs that large deals never fail – the banks would not let them - but with private valuations running at giddy levels, it just seems it's now become a give and take with company, banks and buyers in the public market and in this case nobody may win this battle," said IPO Boutique partner Jeff Zell.