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### WeWork Touts Recession-Resistant Disrupter Story: IPO Tearsheet

By Crystal Kim and Drew Singer

(Bloomberg) -- We Company, parent of WeWork, says its "space-as-a-service" membership model offers individuals and organizations greater flexibility in cost and value than traditional offices and could actually draw more customers in the event of a recession.

The potential to succeed during an economic downturn should be a major focus for investors evaluating the unprofitable office space rental firm as inverted yield curves add fuel to recession fears. WeWork is expected to raise near \$3.5 billion in its initial public offering, making it the year's second-largest behind Uber Technologies Inc.

"Individuals and organizations turn to us directly to solve their workspace needs because of the value of our integrated solution-space, community, services and technology--and the scale of our global platform," the company said in its filing on Wednesday. "In a downturn, we expect that businesses will search for more flexible and lower cost alternatives."

#### BANKS INVOLVED

- JPMorgan and Goldman Sachs are lead banks
- Also on syndicate: BofA, Barclays, Citigroup, Credit Suisse, HSBC, UBS, Wells Fargo

#### COMPANY DETAILS

- Membership base is 527,000, rising more than 100% annually since 2014, with more than half of members located outside the U.S. as of June 2019
- For the six months ended June 30, 56% of revenue came from U.S. vs 44% international; the breakdown was 62% and 38% in the first six months of 2018
- Three classes of common stock: Class A shareholders will receive one vote each, while Class B and Class C shares will be "high-vote stock" worth 20 votes apiece
- WeWork does not intend to pay dividends and will retain all earnings to support operations and finance growth. The company also confirmed that debt agreements with banks and investors impose certain restrictions on cash distributions to equity holders
- Symbol will be "WE," stock exchange not disclosed, initial registration \$1 billion

#### MANAGEMENT

- Adam Neumann, co-founder and CEO, age 40
- Rebekah Neumann, co-founder and chief brand and impact officer
- Arthur Minson, CFO, age 48
- Jennifer Berrent, co-president and chief legal officer, age 47

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- Revenue for six months ended June 30 was \$1.53 billion
- Committed revenue backlog as of June 30 was \$4 billion, ~8 times Dec. 31, 2017 backlog
- Run-rate revenue as of June 30 was \$3.3 billion, up 86% y/y
- Net loss per share for six months ended June 30 was \$4.15

### COMMENTARY FROM FILING

- Sees total global opportunity of \$3.0 trillion across 255 million potential members in 280 target cities
- In the 111 cities with WeWork locations as of June 1, there are approximately 149 million potential members
- “Not only do we believe our business model mitigates the pressures of an economic recession, we also believe that our model could position us well in a downturn. An economic downturn may provide us an opportunity to further scale our platform at more attractive unit economics.”
- “The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our Class A common stock and enable access to the public equity markets for us and our stockholders.”
- “For the year ended December 31, 2018 and the six months ended June 30, 2019, we generated the majority of our revenue from locations in the United States and the United Kingdom. The majority of our revenue from locations in the United States was generated from our locations in the greater New York City, San Francisco, Los Angeles, Seattle, Washington, D.C. and Boston markets. A majority of our locations in the United Kingdom are in London.”

### 5% OR GREATER HOLDERS

- WE Holdings LLC
- Benchmark
- JPMorgan
- Softbank
- Adam Neumann
- Bruce Dunlevie

### RISK FACTORS INCLUDE

- Few barriers to entry
- History of losses, company might not be able to achieve profitability for the foreseeable future
- Economic downturn or decline in market rents could result in increased member terminations
- Transactions with related parties, including CEO Adam Neumann, could present possible conflicts of interest
- International growth includes joint ventures in China, Japan and broader Pacific region and success is dependent on third parties whose actions cannot be controlled

### SEE ALSO:

- ECM Watch
- Americas ECM Agenda

- Five Takeaways From WeWork's IPO Filing: TOPLive

Related ticker:

0134620D US (WeWork Cos Inc)

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