

The Fall of WeWork

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A PROMISING START

Adam Neumann and Miguel McKelvey founded the company in 2010, with the purpose of profiting from the growing popularity of shared offices in the real estate industry at that time. The first company office opened in New York and it operated under the model of renting large spaces “so that companies could occupy them and share experiences among them” (Olmos, 2023).

WeWork capitalized on the real estate crisis of the first decade of the twenty-first century, to purchase favorable properties and leasing contracts, making it an attractive company for investors (Olmos, 2023).

Their CEO, Adam Neumann, collaborated with the media and the investors, a strategy that enabled him to attract risk capitalists such as Benchmark, Goldman Sachs, and SoftBank.

Neumann was able to raise billions in risk capital from the global finance elite, due mainly to the momentum he was able to generate, and to the fact that he seemed to be on the way to a huge share launching which could make everyone rich. He had an initial public offering in 2021, but with a nine billion dollar (USD) valuation, compared to the valuation in the final round of risk capital of \$47 billion (USD)...

That is, \$10 billion (USD) more than Ford, and twice as much as Iceland’s GDP (Rao, 2023) (Sherman, 2019).

According to company data, in 2019 they already had 425 offices in 100 cities, and in that same year, they achieved trading at \$10 billion dollars (USD) (Olmos, 2023).



Image. Freepik, 2024.

THE NARRATIVE BREAKS DOWN

Nevertheless, at the end of 2018, WeWork had lost \$2 billion dollars and they had a business model that was not working: “the company signed long-term lease agreements and sub-leased spaces to freelancers and corporations in the short term. However, somehow their value continued increasing” (Sherman, 2019).

Neumann is considered a visionary leader, with great charisma and persuasion power, even among major experienced investors who bet on his entrepreneurship, as they believed his narrative and arguments: “Being close to Neumann’s charisma was intoxicating. If you had to go to war, you would want for him to be your

general”, an executive said. “His sense of himself goes beyond human”, another one pointed out. “Neumann...had a puzzling capacity to keep visual contact throughout a conversation, which gave him a guru aura. When you are in the same room with Adam, he can basically convince you about anything” (Sherman, 2019).

Nonetheless, he used that charismatic power to create a toxic culture in the team: “We would joke that we worked as slaves”, said a former employee of WeWork (Sherman, 2019). Along with that working environment, some ethically dubious job actions and with little professional care were promoted constantly.

Image: Garetsvisual in Freepik, 2024.



“Adam held meetings on Sundays and one could never miss them. Sometimes, that would not happen, or it would happen later, and one would be there all night. One would cry in the bathroom all the time” (Sherman, 2019).

The end took place in October 2019, when one of the investors of WeWork, Softbank (who had lent \$9.5 billion dollars (USD) to the company), influenced the resignation of its founder (Soyemprendedor editorial, 2023).

Neumann’s fall is one of the most spectacular failures in recent corporate history, a tale as that of a modern Icarus; though, in Neumann’s case, the fall was in a gold parachute. Neumann had a retirement package with great sums of money...Nevertheless, the money did not alleviate the anger and confusion that Neumann experienced, as expressed by people of his close circle (Sherman, 2019).

According to the portal Soyemprendedor.com, these are the most important problems that Neumann’s management as CEO generated:



1. An unsustainable business model: Neumann promoted a business model that focused on rapid growth and expansion, often without a solid financial basis. This focus resulted in an excessive capital consumption without a clear route towards profitability.



2. A questionable financial management: under Neumann’s management, WeWork incurred in exorbitant and often unnecessary expenses, which included the purchase of luxurious properties and the frequent use of private jets. These decisions contributed to a major financial burden for the company.



3. Lack of transparency and ethical problems: Neumann’s administration was marked by a lack of transparency and possible conflicts of interest.



4. A problematic business culture: Neumann promoted a corporate culture that some described as problematic, with reports of a working environment that promoted an excess and the lack of professional limits.



5. Failed Initial Public Offering (IPO): one of the most significant mistakes of Adam Neumann was the failed intent of listing WeWork in the Stock Market in 2019. IPO's process revealed numerous weaknesses in WeWork's financial and operational structure, which resulted in a dramatic fall of its valuation and the loss of the investors' trust.



6. Deficient handling of the COVID-19 crisis: although the COVID-19 pandemic was an external challenge, Neumann's answer could not adapt WeWork's business model to the new reality of remote work and a decrease in the demand of shared office spaces, aggravating the company's financial problems.



7. Lack of focus on profitability: Neumann prioritized expansion over profitability, taking WeWork to the accumulation of a significant amount of debt and long-term leasing agreements, putting the company's long-term financial viability at risk.

After Neumann's forced resignation, Sandeep Mathrani, a real-estate expert, was named chief executive officer and member of the board of directors in February 2020. After a great deal of effort and many problems, WeWork filed bankruptcy in North America after losing over 99% of the value in the stock market (NASDAQ) and being incapable of meeting their financial obligations (Jiménez, 2023).

FURTHER IMPACTS

In light of the policy applied by WeWork, which focused on signing long-term lease agreements and renting short-term spaces, their business model is no longer sustainable (Olmos, 2023).

WeWork's tailspin would have cost SoftBank more than the \$11.5 billion dollars (USD) estimated in capital loss, and another \$2.200 billion dollars (USD) in debt that were still at stake. The very public fall of WeWork, along with the record loss of Vision Fund for \$32 billion dollars (USD) in 2022, affected Masayoshi Son's (SoftBank's CEO) reputation as a clever investor who had obtained several legendary victories in the risk capital industry. *You can recover from mistakes, but how do you recover from the perception that you do not know what you are doing?*

As expressed by Aswath Damodaran, professor at the Stern Business School of New York University (Lee, 2023).

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