



Why WeWork Won't

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Few startup companies, or corporate founders, have attracted as much attention as WeWork (“WeWork”¹ or the Company). WeWork released its S-1 Registration Statement (the “Prospectus”) August 14th in anticipation of their IPO. The Prospectus pushes the boundaries of what are material nondisclosures permitted under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). WeWork’s Prospectus clearly states that they are an “emerging company” under the JOBS Act which permits certain startup companies to apply different (lower) standards in terms of IPO disclosures. If the Prospectus complies with the JOBS Act, there is something seriously wrong with the JOBS Act.

There has already been considerable commentary with complaints and hilarious comments about the byzantine corporate structure, the continuing projected losses, the plethora of conflicts, the complete absence of any substantive corporate governance, and the uncommon “New Age” parlance in the typical Prospectus. We stipulate to all of it but note there is a sense of “piling on” in terms of negative commentary. Remember many other high profile, recent IPO’d companies had plenty of conflicts, ridiculous corporate structures, pitiful corporate governance and flamboyant founders.

The point of this piece isn’t to rehash what has already been written. Instead, we analyze the Company’s financials as presented in the Prospectus highlighting issues that haven’t been addressed. The Prospectus may present a less than complete picture of WeWork’s financial results. Most importantly, given the suggestions of the potential “down round” valuation we raise the question of potential dilution.

We examine the facts versus the hype surrounding the Company that claims it is disrupting conventional office operations.

Background

One must give credit where credit is due. In the astonishingly short period of nine years WeWork became the world’s largest company, by private market capitalization, providing flexible community-oriented coworking spaces for entrepreneurs, small to medium size enterprises (“SMEs”), and global real estate solutions for some of the largest Fortune 500 companies “Enterprises”. WeWork refers to their SMEs and Enterprises as “members” and each chair leased as a membership.

Founded by Adam Neumann (“Neumann”), his wife Rebekeh, and Miguel McKelevy, they conceived a new business model of “space as service”. Neumann intended to revolutionize how companies and individuals use physical space by providing a conducive working environment offering a place to connect with others and have an enhanced “experience”.

¹ While the Company was rebranded as the “We Company” in January, we refer to the Company as WeWork.

WeWork's attributed its success to:

“... our ability to improve the utilization of space for our members, managing their real estate costs and converting them into short-term, flexible obligations. In addition, we meaningfully enhance the lifestyle and environment for our member companies, helping them support their culture and their ability to recruit and retain talent.”ⁱ

Neumann has revolutionized how landlords view tenants. In years past, landlords would negotiate a ten year lease with the tenant and then come back and see them in nine years and ask them to renew. Neumann recognized the tenants should instead be treated as “customers” to whom WeWork provides customized services. While this model is more expensive to operate, WeWork believes the increased costs will be more than covered by increased rents received for the aggregate space they manage.

Neumann's basic concept was to create working spaces whereby people would be in very close physical proximity to one another. This physical proximity, coupled with the other amenities WeWork offered its tenants, creates a physical environment that should foster a “community”. Like many tech companies Neumann wants the physical environment to encourage collaboration and creativity. The space should make people want to linger and interact.

Then, WeWork offers a customized service package that is differentiated from the traditional office product. Much has also already been written about the environment which includes open community spaces, entertainment areas, baristas and free beer on Friday afternoons (although this may be disappearing), in addition to the usual corporate services such as Wi-Fi, copy machines, conference rooms, etc.

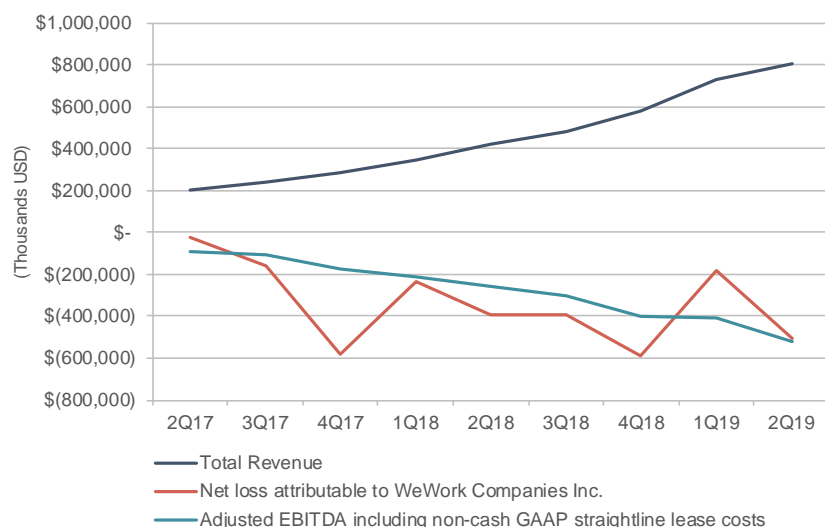
Part of Neumann's genius was that he tapped into the significant unmet demand particularly on the part of SMEs. He recognized SMEs needed more flexible lease terms with respect to the duration of the lease as well as corporate amenities that were more “current” than the typical bland office product. WeWork spaces are “cool” and have a “hip” tech feel analogous to that of incubator spaces.

SMEs and Enterprises are willing to pay for flexibility and the environment. Indeed, they love it. SMEs can expand or contract on almost a real time basis without being locked into comparatively long term leases of three to 10 years. Enterprises typically lease for longer, generally in the three year range, but similarly value the flexibility. In exchange for the flexibility and the amenity package WeWork offers, tenants accept far greater density in the office space. The average density for traditional office buildings was approximately 150 square feet per person while WeWork targets approximately 50-60 square feet per person. The increased density equates to higher overall rent for the space in aggregate than that being charged by the building owner/landlord under the master lease.

WeWork's growth has been explosive by a number of metrics. Its appetite for growth is rapacious. WeWork's Vice Chairman, Michael Gross, reported that the Company's annual compound growth (CAGR) has been over 100% for each of the past eight years. Its ability to scale has been akin to other “unicorn” tech companies.

However, as WeWork's top line revenues grew significantly over the past years so did its losses. In 2018, while its revenues grew 105% over the prior year to \$1.82 billion, its losses also grew proportionately to \$1.9 billion or 107% greater than the year before.

Figure 1. WeWork's Top Line Revenue and EBITDA Loss Growth Ratesⁱⁱ



Source: Authors

Some skeptics have questioned their business model as well as their accounting euphemisms described below.

WeWork's Business Model

In this section WeWork's business model is presented. Each of the major issues is then addressed in the Prospectus Disclosure section below. Fundamentally, WeWork engages in "rent arbitrage" by signing long term leases, generally 15 years, at one rate and subleasing the space to SMEs and Enterprise members at with shorter durations. While the cost per desk is lower for the member, the aggregate rent WeWork receives is higher for the space due to the density.

The practice obviously creates a duration mismatch which leaves WeWork, or the special purpose vehicle that entered into the lease, exposed to market fluctuations in the event of a downturn. The short duration of the subleases leaves WeWork exposed to the risk that tenants might abandon the space on short notice leaving WeWork liable for the master lease obligation. They are also exposed to the credit risk of the SME subleasees.

Much has already been written about the obvious risks associated with the duration mismatch, so we won't belabor them. WeWork has aggregated ~\$47 billion of undiscounted long term lease obligations, per their financials. However, this is the total of very long term leases. The more relevant lease obligation is their near term lease obligation. In 2020 their lease and other cash obligations total ~\$2.3 billion, which may increase depending on how many new leases they execute (see **Exhibit 1**).ⁱⁱⁱ

WeWork does not believe a market downturn will impair their business. To the contrary, WeWork maintains that as businesses contract, they will be attracted to WeWork's business model as it will offer SMEs and larger Enterprises the needed flexibility and lower cost structure per employee during a recession. Indeed, Neumann highlights that the Company was founded during the Great Recession and attracted tenants. Time will only tell if this will be accurate, but it is worth noting that their main competitor, Regus, now IWG, went bankrupt during the Great Recession.

Another significant advantage to the WeWork business model is the fact that even though tenants are crammed into smaller spaces, WeWork maintains they pay lower costs overall for their space (See **Figure 6** below). The lower rent expense to the tenant is one of the significant drivers of their business model.

However, the downside to the WeWork business model is that it is expensive. The cost of providing these services is significantly higher than those incurred under the traditional office format. There is also the higher cost of the physical improvements to the space to provide the WeWork "look". Industry estimates indicate that the aggregate rent for WeWork and other similar coworking spaces

has to be in the range of twice the market rate for the entire subleased space to cover the increased operational costs and the non-economic space of the community areas.

So, does the business model make economic sense when compared to the traditional office market analytics? The Company has been losing money at the same rate of increasing its top line revenues. WeWork has never been profitable but Neumann points to Amazon and the years it took for them to cross over into profitability. WeWork's net losses at December 31, 2018 were (105%) and on a similar track for the first six months at June 30, 2019 at (45%).^{iv}

Neumann famously rejected conventional metrics such as EBITDA, EBITDA margins, and other GAAP metrics. They initially coined a metric dubbed "Community Adjusted EBITDA"^v which was panned by the financial community.^{vi} This concept was abandoned in the Prospectus but replaced by a new metric entitled "Contribution Margin" described below.

WeWork focusses on different metrics to track their performance. The first important metric WeWork tracks is new "membership" (desks rented) growth. This concept is akin to the concept of "eyeballs" or "clicks" tech companies use on the theory that the more views one receives, the increased probability of a sale. Indeed, Neumann has analogized WeWork to a tech company in corporate presentations due to their extraordinary membership growth. This view is debunked below.

Neumann claims that WeWork's model is "asset light" as they are providing a "service" more akin to UBER or Airbnb. He believes their service package will set the standard of the industry. With membership growth WeWork believes they will achieve scale and become the dominant global presence in the co-working space sector. He believes WeWork's brand will become the default choice for global Enterprises requiring multiple locations and make the buildings WeWork occupies more valuable. To be fair, there are few global office owners that can provide "one stop shopping" to multinational corporations requiring space in multiple countries.

However, unlike Uber or Airbnb, WeWork has assets, lots of them. WeWork's leases are assets, ~\$15 billion and their rental obligations are liabilities, ~\$18 billion^{vii}. But these are offsetting. More importantly, the Company has ~\$7 billion of property and equipment. These are the desks, the chairs, the copy machines, the barista equipment, etc. The equipment becomes very relevant to their financial statements, as shown below.

Uber and Airbnb do not have the corporate overhead WeWork does. Uber, in particular, has independent contractor drivers and Airbnb does not own the properties where they facilitate rentals. In contrast WeWork has thousands of employees providing numerous services. They have employees on-site and at their corporate headquarters directing new acquisitions, overseeing the new tenant improvements, and managing the actual operations at their facilities. It is really difficult, and time and employee intensive, to provide consistent and exemplary service to one's clients. Ask any hotel manager. While not technically "assets", their people represent a significant expense not found in the typical "tech" company.

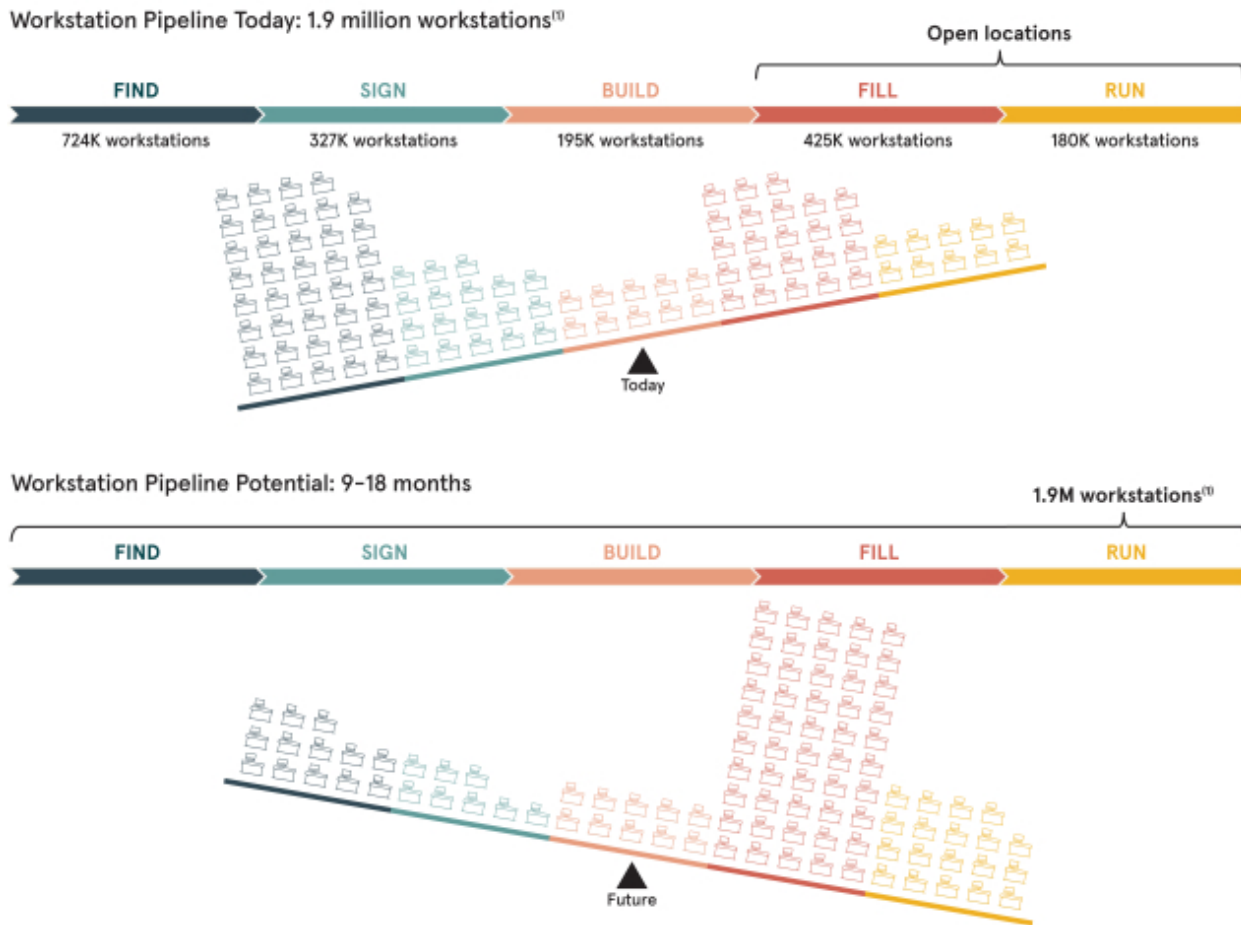
The second important monitoring metric WeWork introduced was their past reliance on "Community Adjusted EBITDA" and other "Community" accounting metrics. The names they gave the concepts were unfortunate, but on analysis they make some sense.

WeWork's presentations have evolved over the past year. They used to divide their activities into three categories: Operating Facilities, Growth Investments, and Enterprise Services. While in their frenetic growth phase, We Work attempted to present results in each category and to separate out the marketing costs, expenditures with space build-out and other development costs from their operating facilities.

It makes sense to present unit economics of the operating, stabilized assets separated from their growth activities which obviously provide no revenue. In this way WeWork matched top line revenues against operating expenses associated with those operating assets. Hopefully, this would present what the results of an operating, stabilized portfolio would look like when the Company achieves a level of maturity.

WeWork now has further broken down the stages of their assets as illustrated in **Figure 2**.

Figure 2. Pipeline of WeWork Stations by Lifecycle.



While they don't give the precise numbers in the tables above, one can infer that within 9-18 months the preponderance of their current locations will be open and operating. In their operating facilities, WeWork has previously reported and the Prospectus contains certain important factors:

- Break even for operating facilities has been reported to be 60% (analyst presentations prior to the release of the Prospectus, which were disclaimed in the Prospectus)^{viii}
- 24 months to achieve stabilization (analyst presentations prior to the release of the Prospectus indicated 18 months)
- 40% Enterprise members (defined as companies with >500 employees; previously >1,000 employees)
- For operating properties (including both stabilized and in lease up) overall physical occupancy of 87% (members/available desks)^{ix}
- Targeted "Contribution Margin" (see definition below) of 30% for stabilized assets
- The preponderance of their anticipated 1.9 million facilities will move into the "Fill" to "Run" categories in the next 18 months as illustrated in the table above

These factors will drive the Company's performance going forward.

Prospectus Disclosures or Potential Lack Thereof

WeWork's Prospectus clearly states they are an "emerging company" under the JOBS Act that permits startup companies to apply different (aka lower) standards in terms of IPO disclosures. They state,

"As such, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including reduced disclosure obligations regarding the provision of selected financial data and executive compensation arrangements."^x

In this section we address several key areas in which there are potential nondisclosures of information reasonable investors might want to know. Taken together these nondisclosures may be deemed material.

EBITDA Calculations and Contribution Margin

Nowhere in the Prospectus is there a GAAP compliant EBITDA or EBITDA margin calculation. Obviously, it would have been preferable had the Company presented them. Instead, WeWork presents a new metric they call "Contribution Margin". This concept is used to measure their profitability and performance of their operating locations. They present a partial picture of the Company's unit economics that may be misleading. WeWork states:

Why do we believe contribution margin is useful?

When used in conjunction with GAAP financial measures [*not all of which do they provide*], we believe that our contribution margin measures are useful supplemental measures of operating performance because they allow us to analyze the core operating performance of our locations. Contribution margin is a measure of unit economics or non-GAAP gross profit that can be determined on a location by location basis.

Contribution margin excluding non-cash GAAP straight-line lease cost allows management and our board of directors to monitor the performance of our locations based on our cash lease cost obligations. We believe this corresponds more closely over time to the revenue being generated from a location. Management and our board of directors also evaluate real estate lease transactions and develop internal budgets based upon this measure.

These measures account for the impact of support functions that are directly attributable to the operation of our locations, such as costs associated with billings, collections, purchasing and accounts payable functions. Our contribution margin measures exclude items that are not directly attributable to the membership and service revenue we realize from a given location in a relevant period, such as general and administrative expenses, pre-opening location expenses, sales and marketing expenses, growth and new market development expenses, other operating expenses, depreciation and amortization and other revenue.^{xi}

When calculating the "profitability" Contribution Margin WeWork nets Location Operating Expenses (the costs of running open locations) against the Revenues received from the open, operating locations. The largest expense WeWork incurs is the lease cost of the specific location. GAAP requires companies to straight-line the cost of a long term lease over the life of the lease. Upfront rent concessions received in the form of either free rent or tenant improvement reimbursements are also to be straight lined over the life of the lease.

In their "Contribution Margin" WeWork backs out the impact of the free rent and other upfront concessions when presenting their Contribution Margin as opposed to amortizing them. The rationale presumably is to make the Contribution Margin reflect the lower upfront, actual cash costs associated with the concessions matched to when they occur. This practice has the effect of reducing their current expenses at the June 30, 2019 date since so many new leases have been executed in the past year. What the Company fails to explain adequately is the impact that will occur once the impact of free rent burns off, typically within a year. The lease expense on a cash basis will actually be **higher** after the rent concessions burn off than that depicted in the GAAP calculation. So, the Contribution Margin will actually **decline** after the rent concession burns off and the lease expense reverts to the contract rate.

WeWork addresses this issue by saying:

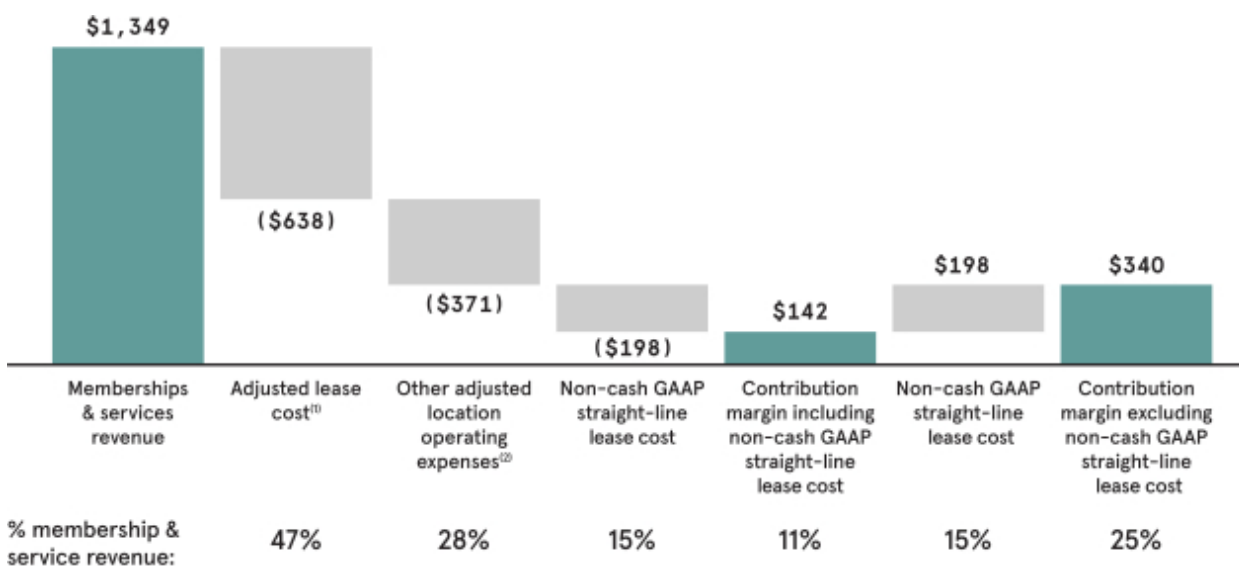
“While our lease arrangements are typically long-term in nature... (averaging approximately 15 years), with annual escalations later in the term of the lease, our membership agreements are typically shorter in duration (averaging less than two years), with annual escalations triggered upon renewal. We therefore expect to recognize higher memberships and service revenue as a result of price escalations and higher-priced membership agreements in the later stages of a lease, when we are also incurring additional cash lease cost due to annual escalations in our lease agreements.”^{xii}

Thus, the positive “Contribution Margin” impact only lasts as long as the Company continues to receive rent concessions on newly leased space and as long as they can continue to increase rents on their membership renewals. As WeWork mentions in the Prospectus, they are moving into new markets where upfront concessions are not the market norm. The potential impact of not receiving these upfront concessions on their Contribution Margin and their increased need for cash is not discussed.

Corporate G&A Allocations and Furniture, Fixtures and Equipment (“FF&E”) Reserves

WeWork does not include the impact of its corporate G&A on its net Contribution Margin, which under GAAP is included when calculating EBITDA. This is perhaps one of their more troubling omissions. The Company does segment the costs associated with its on-site personnel at its operating properties and they are included within Location Operating Expenses. By backing out the lease concessions, corporate G&A and FF&E reserves (aka depreciation), they show a positive unit Contribution Margin of 25%, as shown in Figure 3.^{xiii}

Figure 3. Contribution Margin for the Six Months Ending June 30, 2019 in millions from WeWork^{xiv}



(1) Adjusted lease cost represents lease costs (including base rent, common area maintenance charges and real estate taxes) for open locations, adjusted to exclude \$198 million of non-cash GAAP straight-line lease cost relating to free rent periods and lease cost escalations included in location operating expenses.

(2) Other adjusted location operating expenses represents location operating expenses other than lease costs, adjusted to exclude \$26.0 million of stock-based compensation expense.

Clearly, people are needed to make the Company, as opposed to just the location, operate and the reported costs were significant. Corporate G&A increased at rate that exceeds their top line revenue growth. At June 30, 2019 corporate G&A grew 151% over the previous twelve months when compared to June 30, 2018. Top line revenue growth for the same periods was 101%. While many of these people were engaged in the Company’s expansion activities, the Company should have allocated the proportion of their G&A associated with maintaining the operating facilities to make “Contribution Margin” a meaningful metric.

Further, there is no impact of the maintenance or replacement costs of Furniture, Fixtures and Equipment (“FF&E”). Contribution Margin excludes depreciation and amortization. When attempting to understand profitability on a cash basis, depreciation is often backed out as it is deemed a non-cash item. However, as hotel operators well know, the maintenance costs associated with maintaining furniture and equipment is considerable. Members in a perceived temporary space have little interest in preserving the condition of a desk they may or may not occupy the next day. Similarly, the cleanliness of the sofas and other community area furniture, and their useful life, after the weekly community events involving free beer are questionable. The facilities’ maintenance costs are identified as a risk factor but not quantified.^{xv}

WeWork should follow the example of the hotel sector, which is comparable in terms of what their business is. Hotels include FF&E expenditures as operating expenses, not capital items. WeWork’s FF&E are akin to the furniture in a hotel room and the sofas and chairs in their lounge areas are like hotel lobbies. These items should be deemed on-going operating expenses not capital items. These are very real cash expenditures that have to be paid on a current basis.

Below is WeWork’s Contribution Margin after adding back the very real expenses of G&A, an FF&E reserve, other operating expenses drawn from the financial statements, interest, and the amortization of lease incentives. The annual depreciation expense line item from the Company’s financials is used as a proxy for estimating FF&E.^{xvi} The other “add-backs” are taken from the operating statement. The resulting margin numbers are illustrated in the red box in Figure 4. Figure 5 illustrates which adjustments were added back. In short, the Contribution Margin declines to -40% when the impact of these items are included.

Figure 4. Contribution Margin for 1H19 – Adjusted for including Material Cash Items

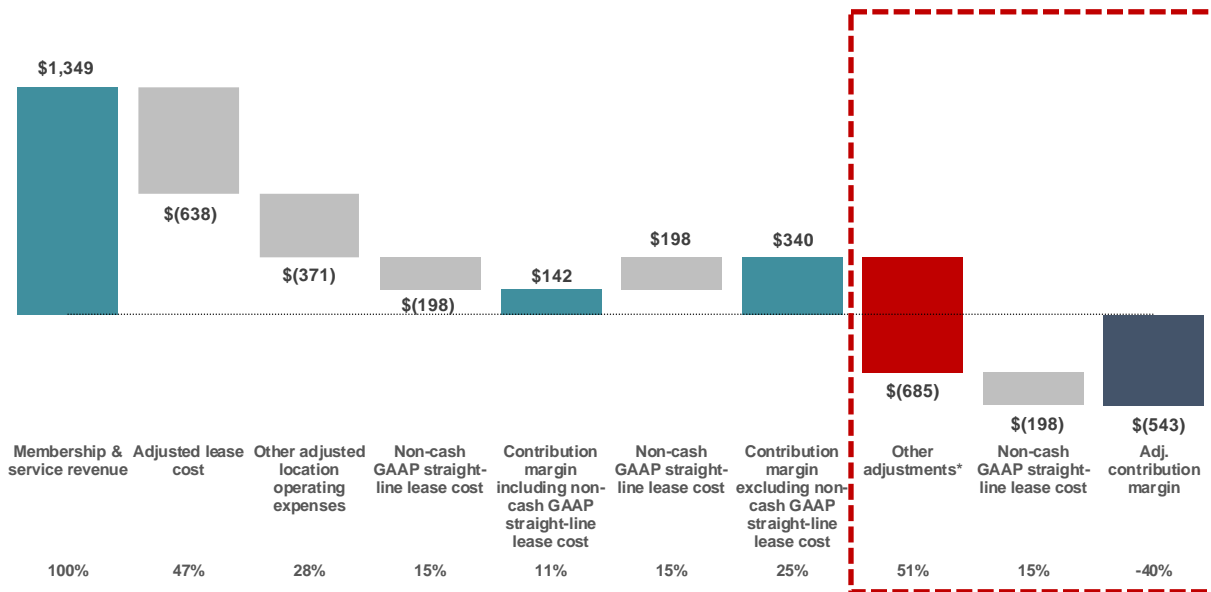
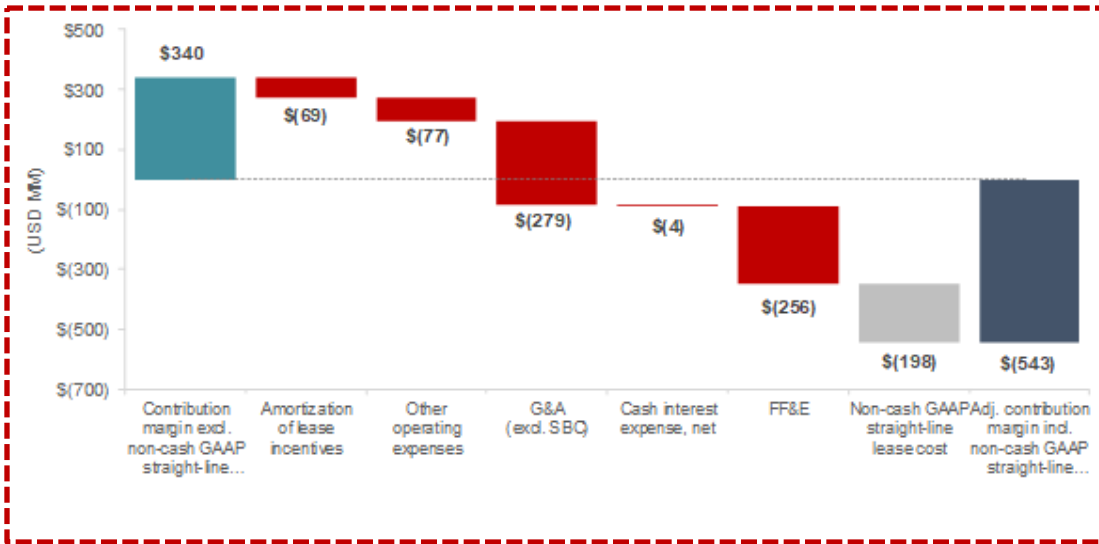


Figure 5. *Other Adjustments to Contribution Margin for 1H19 – Reconciliation of WeWork’s S-1 Disclosure to Adjusted Contribution Margin



Note:

“Amortization of lease incentives” – “represents the amortization of cash received for tenant improvement allowances and broker commissions, amortized on a straight-line basis over the terms of leases” (WeWork Prospectus, p. 73).

“Other operating expenses” – “relate to costs of operating and providing services to members through mature We Company offerings, including Meetup, Flatiron School, Conductor” (WeWork Prospectus, p. 90).

“G&A (excl. SBC)” – general and administrative expense excluding stock-based compensation.

“FF&E” – assumed to equate to depreciation and amortization expense in current period

One could quibble whether the amortization of tenant improvement reimbursements received from the landlord should be included given that the Company presumably receives these payments back from the landlords quickly. But, WeWork has to front the costs before they are reimbursed, and the amounts have increased over time. More importantly, WeWork excludes depreciation, amortization and Cap Ex from their Contribution Margin calculation. One can’t exclude capital expenditures and the related depreciation expense and then include the amortization of their reimbursement in the Contribution Margin. So, the Contribution Margin should either include both depreciation and the amortization of lease incentives to match TIs with capital expenditures or exclude them both altogether for an “apples to apples” comparison.

The reality is that the Contribution Margin, as defined by WeWork, metric is only of marginal utility in determining whether the **Company** versus a **specific location** will be profitable. The impact of adding corporate G&A, as well as FF&E reserves, leads to a very different conclusion. To suggest that WeWork’s Contribution Margin target is 30% and the 25% figure above is representative of their performance is misleading. Even if the corporate G&A, FF&E reserve, and other costs that should be included are not allocated, their margin is only 11% after straight lining the rent concessions.

If WeWork wants to provide a representative picture of their unit economics, some of the corporate G&A should be apportioned to the operating properties so that an investor could better understand the actual margins of their mature facilities. In addition to appropriate G&A allocations, WeWork also needs to reflect the upkeep costs of their facilities. Our estimates are only that; estimates. WeWork knows what the actual numbers are and they should have been presented to reflect a more realistic financial picture. The net result would be a negative margin for their operating locations.

Our calculations reflect a -40% Contribution Margin when we include other operating expenses, net interest (excluding non-cash), G&A (excluding stock-based compensation on the assumption this is a non cash item), an FF&E reserve, and back-out the amortization of lease incentives. This -40% still does not include other material expenditures or concessions WeWork makes that impact its cash position in the near term. These are discussed in the next section.

Free Rent Concessions WeWork Gives

While the Company discusses the upfront rent concessions they **receive** from landlords and how they treat them in their Contribution Margin calculation, there is **NO** discussion as to the upfront rent concessions they **give**, especially to their Enterprise members. They cite the impressive recent growth rate of their Enterprise clients such that they now comprise 40% of their total members at June 30, 2019. The upfront rent concessions, which they must be giving as they are common in the markets in which they operate, have the potential to have a material impact on the Company's cash position in the near term.

All we know is what WeWork says:

“We also expect the use of discounts to help drive initial occupancy and longer-term commitments, which we expect will have a significant impact on our financial performance.”^{xvii}

That's it. It is disheartening WeWork discusses the positive impact on their Contribution Margin of the rent concessions they receive without providing the commensurate negative impact the rent concessions they have to give on their operations.

We know the rent concessions WeWork received from their landlords at June 30, 2019 were 15% as a percentage of top line revenues received. (See, Figure 3 above (\$198 million of concessions given as a % of top line revenue of \$1,349 billion received). The rent concessions WeWork gives might possibly be in the same range, but who knows? If we use 15% as a proxy for the concessions WeWork has to give, and assume that 40% (percentage of Enterprise memberships), of the top line revenue is a proxy for the percentage of Enterprise revenue, then the impact would be in the range of \$79 million for the first half of the year, or roughly -6% of top line revenues.

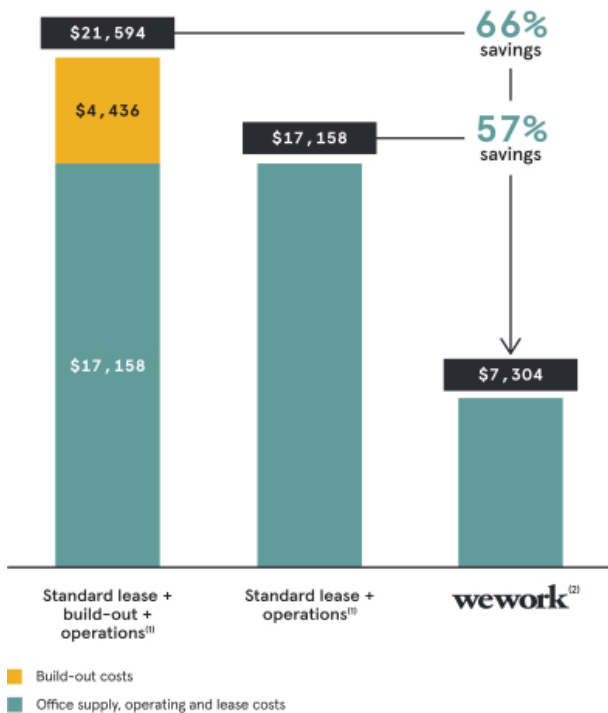
Another way to look at this issue is to determine the average revenue per membership per quarter. In 2017 the annualized average revenue per membership was \$7,364. At June 30, 2019 it was \$5,806 or a difference of (\$1,558) or -21%. (**See, Exhibit 2**). This is the time period in which WeWork ramped up its Enterprise clientele. Perhaps the difference between the two figures are rent concessions and TIs given to Enterprise members? Either way, the downward trend line is concerning. Equally concerning is the question of how WeWork accounts for the free rent it doles out. Is it simply a deduction from top line revenues? Is it in any way amortized? The Prospectus provides no guidance.

Impact of Revenue Sharing Arrangements

Central to WeWork's business model is the cost savings tenants realize when they become members. As emphasized in the Prospectus, the typical tenant saves 66% by becoming a WeWork member when contrasted with the conventional office lease. The savings are attributed to not having to incur the build-out costs nor the operating costs of maintaining the space. Of course members love the lower costs and the amenity package. Why would they not?

These cost savings as illustrated in the Prospectus are substantial. However, just because the member doesn't incur the costs doesn't mean they simply disappear. Someone has to do the build-out and manage the facilities. So, who incurs the costs?

Figure 6. Costs Savings to Members



Absent an agreement with the landlord or with the Enterprise member, the upfront build-out costs and ongoing maintenance expenses are borne by WeWork. On its face, this would indicate a cost transfer, not really a cost savings. WeWork has indicated that it has dramatically reduced its build-out costs (See below). Still, the work has to be done and someone has to bear the costs and the on-going operational costs are indisputably more expensive in the WeWork model than the conventional office lease.

To help defray the upfront build-costs, which obviously require current cash outlays, WeWork has indicated that it is more frequently entering into revenue sharing relationships with their landlords. Under these agreements the landlord may incur or defray some of the upfront construction build-out costs in exchange for sharing the lease revenues WeWork receives. This has the impact of reducing the current losses WeWork incurs in the near term. But, in the long term these revenue sharing arrangements will have an impact on top line revenues. To extrapolate the growth rate of top line revenues from the past growth rates may be misleading without understanding the impact of these revenue sharing arrangements. How these revenue sharing arrangements will affect WeWork’s future revenues is not discussed.

WeWork provides the total capital expenditures used for their build-out of locations as well as the cash collected for tenant improvement allowances or reimbursements. In 2018 and for the first six months of 2019, WeWork received 33% and 36%, respectively, of the total capital expenditures in tenant improvement allowances from either the landlords or their Enterprise members.^{xviii} These reimbursements do not come for free. WeWork has to bear the cost or enter into revenue sharing arrangements with their landlords or give a rent concession to their Enterprise member.

In fairness, We Work maintains the cost of their tenant improvements have been reduced substantially over recent time periods by ~50%.^{xix} It is interesting to note that in 2018 WeWork spent \$2.9 billion in cap ex and received \$1.5 billion in tenant reimbursements from their landlords, which equates to 50%. Whether this is a coincidence or a cost transfer they record as a cost reduction is unknown. WeWork should be able to achieve economies of scale by virtue of being able to design, order supplies and execute in bulk. If WeWork continues on its growth trajectory, it is on track to become one of the world’s largest general contractors. They suggested that the cost reductions are attributable to their increased efficiencies and scale. That, hopefully, is accurate.

WeWork has to address the impact of their revenue sharing arrangements with their landlords as well as the rent concessions they are giving their tenants. Landlords and the Enterprise tenants are not oblivious to the fact that WeWork is engaging in rent arbitrage. They want a share of it.

These two factors could have a material impact on their cash position over the next two years as they continue to expand by signing on ever more new members and enter into new master leases with building owners.

Path to Profitability?

There is another troubling aspect with regards to WeWork's financials. It is unclear why the Company's path to profitability is not showing some progress. For the past several years the rate of top line revenue growth and the rate of losses have essentially been equal. The Company has in the past stated that its operating margin on its stabilized assets is ~28% prior to the allocation of G&A and the other factors described above, and it is growing its revenues at over 100% per annum. In the Prospectus, WeWork indicates a target 30% Contribution Margin. Based upon the Prospectus, the operating portfolio is 87% leased at June 30, 2019 and previously reported breakeven occupancy is ~60%.^{xx} Couple what should be profitable operations for their open facilities with the cost savings they report they have realized in new construction, if these facts are accurate, the gap between the rate of top line revenue growth and the rate of loss should be shrinking. Obviously, that isn't the case.

Another troubling factor is that as WeWork moves into new markets they claim the revenue per desk may decline, which is reasonable given the rents in those markets are likely to be substantially lower than the markets in which they have established a beachhead. Rents in emerging markets are dramatically lower than in cities like New York. But the cost structure should be lower as well. Thus, the margin at the unit level should remain constant. The unit revenue per desk appears to have declined as shown in **Exhibit 2**.

Another issue is the rate of G&A growth, which has increased at a rate of 151% between June 2018 and June 2019. All that is stated is that G&A expenses may increase as the Company keeps expanding.

What Would You Have to Believe G&A Expenses Will Be for WeWork to Breakeven?

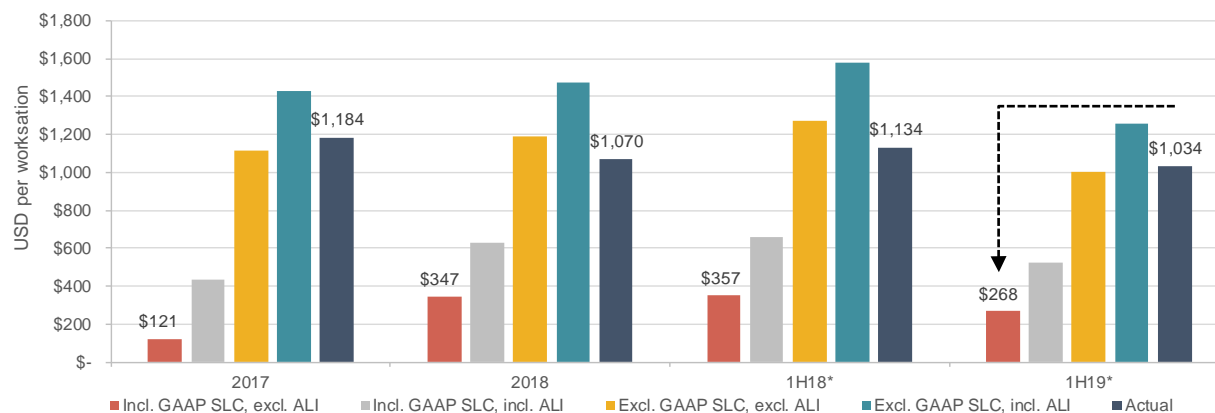
G&A expenses (defined as excluding non-cash stock-based compensation) since 2016 have averaged 20% of total revenues and \$1,051 per workstation per annum. Given how consistent G&A has scaled in relation with revenues and workstations, a key question to WeWork's profitability is when do they taper off? Can WeWork scale such that its G&A per workstation flattens, or better yet, goes down?

Starting with WeWork's Contribution Margin, Figure 7 shows the breakeven G&A expense per workstation. In other words what G&A expense per workstation would be required to breakeven? This is a conservative "sanity check" as it assumes steady state operations and does not include other operating expenses, scaling costs, interest expense, maintenance capex, non-cash stock-based compensation, depreciation, or initial capex.

WeWork's Contribution Margin includes non-cash adjustments, namely, amortization of lease incentives and GAAP straight-line lease costs. As their lease costs will eventually be greater than total real estate operating lease expenses (as non-cash GAAP straight-line lease costs reverse), the tables reflect the breakeven G&A both including and excluding non-cash adjustments.

The Contribution Margin, including non-cash GAAP straight-line lease expenses ("SLC") and excluding non-cash amortization of lease incentives ("ALI") (which should be excluded unless depreciation for up-front capital expenditures are included), as shown by the red bar below, is the most accurate representation of WeWork's steady-state lease costs. Therefore, steady state G&A per workstation would have to decrease from **\$1,034** (annualized 1H19) to **\$268** or **74%** in order for WeWork to breakeven on just its location operating profit.

Figure 7. G&A per Workstation Required for Breakeven Contribution Margin at June 30, 2019



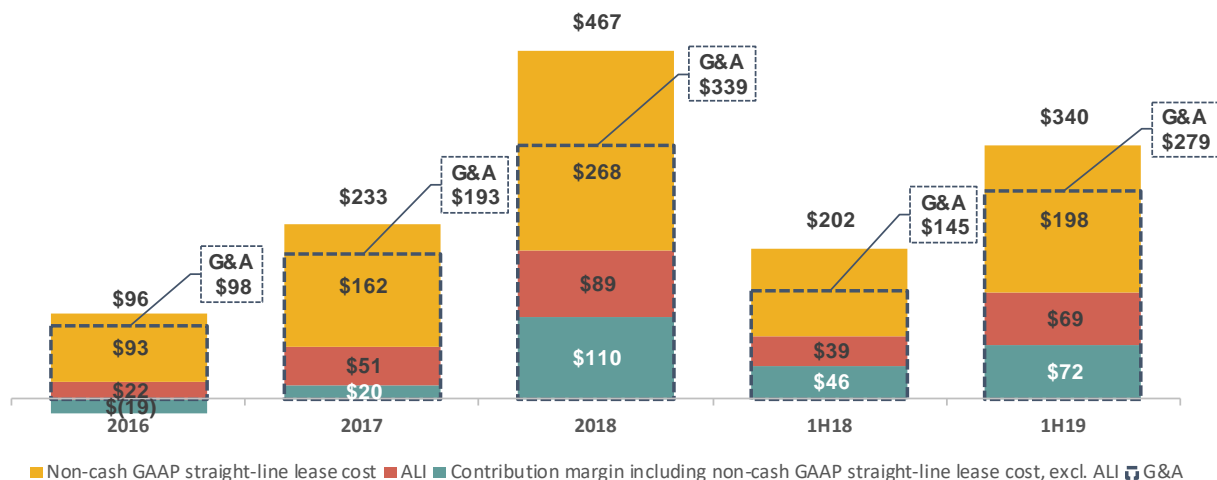
“SLC” – non-cash GAAP straight-line lease cost; “ALI” – amortization of lease incentives.

Figure 8. G&A per Workstation Required for Breakeven Contribution Margin

	2017	2018	1H18*	1H19*	Average
CM incl. GAAP SLC, incl. ALI	\$434	\$627	\$661	\$526	\$404
CM incl. GAAP SLC, excl. ALI	\$121	\$347	\$357	\$268	\$139
CM excl. GAAP SLC, incl. ALI	\$1,428	\$1,473	\$1,579	\$1,260	\$1,264
CM excl. GAAP SLC, excl. ALI	\$1,115	\$1,192	\$1,274	\$1,003	\$999
Actual (excl. SBC)	\$1,184	\$1,070	\$1,134	\$1,034	\$1,051
%Total Revenue	22%	19%	19%	18%	20%

*annualized

Figure 9. Contribution Margin versus G&A Expenses and Straight line amortization of lease incentives (USD millions) at June 30, 2019.



Source: Prospectus p. 70.

Assuming Contribution Margin (including non-cash GAAP straight-line lease costs) represents steady-state cash lease costs, location operating profits cannot cover G&A as defined by the dashed columns, much less other operating expenses, scaling costs, interest expense, maintenance capex, initial, etc.

WeWork's Contribution Margin excluding non-cash GAAP straight-line lease costs is misleading because the figure includes within it the non-cash amortization of lease incentives (red bar). As previously mentioned, WeWork excludes non-cash depreciation expense tied to capital expenditures, but includes a non-cash allowance tied to tenant improvement allowances that are used to reduce net capital expenditures. Not apples-to-apples. TI allowances reduce capex, and are reflected as a non-cash amortization of lease incentives (negative depreciation).

Given the Company's cash requirements and build-out expectations in the next two years it does not appear they have any expectation of turning a profit in this time frame.

One concern that investors should consider is that the Company has explicitly stated on page 31 that it may "make decisions consistent with our mission that may reduce our short term or medium term operating results". While they believe such decisions may benefit the Company, it may be in the long term, which was not defined.

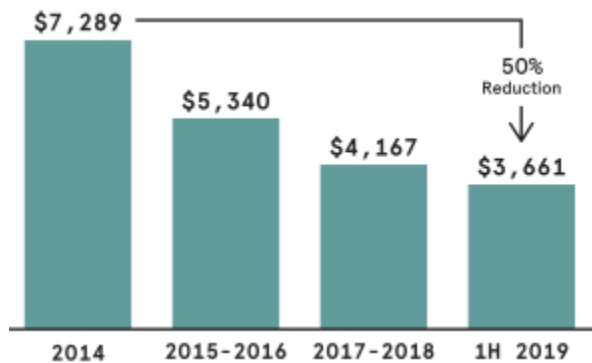
Given all of the above issues, it is difficult to see how WeWork can achieve profitability in any near term time period, if it continues its current business model.

How Much Cash Will WeWork Need in the Next 18 Months?

Given the financial disclosures it is virtually impossible to estimate WeWork's future cash requirements. We tried. We know their lease and other contractual obligations are ~\$2.3 billion in 2020. We tried to estimate the revenues using their reported Enterprise backlog revenues, \$4 billion, and assuming their top line grew as it has in the past. The analysis first fell apart in estimating their anticipated costs of the potential build-out of their pipeline of desks. We could not reconcile costs of each new station added at June 30, 2019 to their reported 50% cost reduction of \$3,661 per station. We could not even determine that actual number of stations added between December 2018 and June 30, 2019 given conflicting statistics in the Prospectus between their disclosure in footnote 3 on

page 82 and their Consolidated Results of Operations on page 112.^{xxi} When we looked at the Consolidated Results we found an increase of only 138,000, not 273,000 new stations.^{xxii} Obviously, using a different denominator results in a different cost per station or a cost of \$5,900 per station, not \$3,661. The same comments apply to determining the revenues per station.

Net Capex per Workstation Added as shown by WeWork



Source: We Company Form S-1, August 2019.

When you instead use the increase of 138,000 workstations added, the net capex per workstation over the period is closer to \$5,900 per workstation not \$3,661 (**see analysis below**). Further, this analysis does not account for when the cash was received for the TIs and other changes in working capital, which could have a cash impact for WeWork as they scale, assuming they pay for the tenant improvements upfront and are reimbursed by the landlords at a later date (which from 2016 to 2018 was disclosed in their financials under lease incentive receivables).

Net Capex per Workstation Added – Cash Basis

(Amounts in thousands)	Six Month Ended				
	Year Ended December 31,			June 30,	
	2016	2017	2018	2018	2019
Gross capital expenditures ¹	(776,074)	(1,023,953)	(2,055,020)	(701,265)	(1,266,748)
Cash collected for TI allowances ²	325,294	452,090	673,415	251,957	454,769
Net capital expenditures	(450,780)	(571,863)	(1,381,605)	(449,308)	(811,979)
Increase in workstations ³		107,000	252,000	87,000	138,000
Gross capex per workstation added		(9,570)	(8,155)	(8,061)	(9,179)
Net capex per workstation added		(5,345)	(5,483)	(5,164)	(5,884)

¹Purchases of property and equipment disclosed under investing cash flow; congruent with gross and net capital expenditures on p.118.

²Non-cash tenant improvement reported defined as: “total tenant improvement allowance provided per the terms of the leases associated with the projects completed in the period presented, regardless of when the cash collection for such tenant improvement allowance occurred” (We Company Form S-1, p. 118).

³Change in workstations over column periods (We Company Form S-1, p.112).

If WeWork continues on its same trajectory top line revenues would continue to double as would losses. There is nothing in the Prospectus that suggests that in the next 18 months this situation would change materially.

Neumann’s Sale of Shares

According to the Wall Street Journal, Neumann reportedly sold or financed approximately \$700 million of his position by mid-July.^{xxiii} The financing is described in the Prospectus but not the sale of shares. The Prospectus indicates that a consortium of banks had provided Neumann a line of credit up to \$500 million secured by his Series B shares. As of July 31, 2019, \$380 million was outstanding.

For the all the obvious reasons large sales by founders prior to an IPO are distinctly frowned upon. Why the Board would allow this to happen is a mystery when they clearly know it would be bad optically. Again, we have nothing new to add to this aspect of the conversation concerning WeWork’s IPO.

SoftBank's Role

WeWork's initial capital was provided by traditional venture capitalists until Masayoshi Son ("Son") of SoftBank and the Vision Fund discovered WeWork. In Neumann Son found a kindred spirit. He encouraged him to make his already grandiose plans 10 times larger than his original plans. Neumann wasn't being "crazy enough".^{xxiv}

SoftBank's initial commitments to WeWork came from its Vision Fund. However, in December 2018, things changed. It was widely reported that Son's planned commitment of \$16 billion to acquire a majority stake in the Company was scaled back to \$2 billion. Of the \$2 billion, \$1 billion was used to buy out existing shareholders and employees at a \$20 billion valuation and the remaining \$1 billion was invested in the Company at a reported \$47 billion valuation. How it is possible to have such widely divergent concurrent valuations was not explained at the time nor in the Prospectus.

The industry chatter as to why the commitment was scaled back was that the leading Middle Eastern investors in SoftBank's Vision Fund (the Saudi Public Investment Fund and Abu Dhabi's Mubadala Fund) were uncomfortable with (i) the size of the investment; (ii) the real estate (not tech) aspects of the investment; and (iii) the valuation itself. The December investment came from Soft Bank's balance sheet, not the Vision Fund.

The scale back precipitated the need for the new financing and equity from an IPO.

Now SoftBank may now have an even more pivotal role in WeWork's IPO. The Wall Street Journal reported that WeWork was preparing to slash its valuation from the December value of \$47 billion to \$20-30 billion for the IPO.^{xxv} This is often referred to as a "down round". Typically, venture capitalists build in an anti-dilution provision in their documents to protect themselves in the event of a down round. There is no mention of such a provision in the Prospectus Dilution section. However, in Note 13 to the Consolidated Financial Statements there is a description of the Convertible Note issued to SoftBank for \$1 billion. The Convertible Note along with warrants SoftBank holds will:

"...now automatically convert to the Company's capital stock at the same time as the Amended 2018 Warrant...., will be automatically exercised on December 31, 2019, for a fixed share price of \$110."^{xxvi}

It is unclear whether this is the anti-dilution protection typically found in most venture capital rounds or even if the price is dilutive. Dilution would be determined by the number of shares issued and at what value.

One should ask if the IPO values the Company dramatically lower than \$47 billion, or worse below \$20 billion, who suffers the dilution? Neumann and management? SoftBank? Or the public shareholders? If the \$110 value per share bears no relation to the IPO offering price, the public shareholders could be diluted by SoftBank's conversion of its Convertible Note at the end of this year.

How Should WeWork Be Valued?

Neumann clearly wants the world to view WeWork as a technology company. Indeed, the word "technology" was used 101 times in the Prospectus.^{xxvii} It is more likely that he wants a technology valuation. So, what are the attributes of a tech company? One frequently sees meteoric growth, a large scalable market, a platform that is scalable, growth at the expense of profits, an "asset light" business model, some aspect of technology used in a new way in their operations, tapping into an unmet demand with a novel business model, and valuations not based on conventional EBIDTA times comparable industry multiples. On this basis WeWork seemingly ticks the boxes except for the "asset light" factor.

To determine what WeWork is, it is important to examine *what they do versus what they say they are*.

- WeWork primarily subleases space from building owners/landlords at 60-90 days for SMEs or two to three years for Enterprises
- WeWork retrofits the space to conform to its brand image

- WeWork then manages the space and provides a standardized amenity package, such as copy machines, Wi-Fi, conference room access and another corporate activities, as well as the community activities such as their socials on Friday afternoons
- WeWork also designs and builds out space for Enterprise members to conform to the Enterprise’s particular brand
- WeWork’s affiliate now manages third party capital in its newly raised Ark fund to acquire buildings and then lease them to WeWork, but in the context of the present consolidated financials this is “noise”.

All the flowery language about their “community” activities belies the fact that WeWork is, in essence, a property management company, not a tech company. They provide **real estate services** to real estate users. In that regard, they are no different than the “op cos” service companies versus the “prop cos” property owners in the hotel space, or from IWG, formerly Regus. Those companies are their “comps”. The metrics of these companies are well covered by Wall Street.

Property management companies trade at vastly different multiples and margins than tech companies. Suffice it to say they have much lower multiples and lower margins. **Exhibit 3** illustrates comparative real estate service company metrics. At the midpoint of the multiple range, WeWork would obviously have a vastly different value than that which was ascribed last December. The median EBIDTA margin for these companies was 11.4% in 2019 and the median EV/EBIDTA was 9.5x. If priced like the median of these companies, the impact on existing equity holders could be disastrous.

A different argument could be that the level of services WeWork provides makes them more akin to a hotel operating company. Since many hotel companies have opted for an “op co/prop co” structure, the op co is somewhat analogous in that they are service companies albeit in a different property type. The level of services provided in a full service hotel still greatly exceeds those WeWork provides in their facilities. But in contrast to traditional office property managers, the level of services WeWork provides its members are materially greater. Indeed, the advent of WeWork’s amenity package has taken traditional office owners completely off guard and they are struggling to play catch up.

Hotel “op cos” trade at better metrics than the real estate service companies illustrated in **Exhibit 4**. The 2019 EBIDTA margin was 24.5% and the EV/EBIDTA was 12.6x. However, even using these metrics, which are better than real estate service companies, WeWork’s value cannot approximate what was derived last December.

Lastly, one can look at WeWork’s direct competition who provide co-sharing workspace services. The most direct and public company is IWG, the parent company of Regus, and its affiliates. IWG is commensurate with WeWork in terms of leased units but is more global. It has positive EBITDA. In fairness IWG is struggling to catch up to WeWork in terms of providing space that looks and feels similar to WeWork’s branded look. Their capital requirements, like WeWork’s, are considerable.

IWG’s financial metrics appear more attractive than the other real estate service companies and are more in line with the hotel sector. However, the conclusion remains the same; even if you use IWG’s better multiples, its value is only ~\$4 billion, a far cry from \$47 billion or even \$20 billion. While they have experienced steady top line revenue growth, it has not even come close to the meteoric rise that WeWork has had. The market does place a premium on growth. However, IWG’s TTM EBITDA margins were 18%. IWG has also been the subject of takeover speculations which may have had an impact on its stock price.

A comparison of IWG and WeWork incorporating June 30, 2019 data is shown below:

Figure 10. IWG and WeWork Comparative Metrics.

Metric	WeWork	IWG
Global square footage	45M	50M
Members	0.5M	2.5M
Locations	528	3,000+
Cities	111	1,000
Countries	29	120
Workstations	604K	547K
Revenue (2018)	\$1.8B	\$3.4B
Profit / Loss (2018)	\$-1.9B	\$0.5B
Valuation	\$47B	\$3.7B

Data is latest available unless noted otherwise.

Source: Company reports

recode BY Vox

In short, no matter how one looks at comparable real estate service companies, it seems beyond improbable that WeWork could achieve a valuation anywhere close to that which SoftBank agreed last December.

Can WeWork possibly be considered a tech company? Not on the basis of what it actually **does**. In short, WeWork should be considered the premier provider of coworking space services akin to the high end hotel companies such as the Four Seasons or the St Regis brands versus other hotel brands. In the coworking space there will likely be a range of alternatives from the high end, such as WeWork, to lower end service companies, albeit at a lower price, such as the Hilton Garden Inn brand versus the Four Seasons. These can be profitable companies but they are in very different business sectors and priced differently than tech companies. At best, WeWork should be valued like a hotel company “op co”.

Impact on the Office Sector and WeWork’s Role in It

Assuming WeWork can achieve stabilization, what will its position in the coworking sector be? Will they overtake the current market leader IWG? What will the industry sector look like?

It is clear WeWork has permanently disrupted the entire office sector and has set the bar for those who want to operate coworking space. Of course, tenants love the flexibility of shorter duration leases, the amenity package, the sense of community WeWork’s environment provides and, **most importantly**, the lower costs. Tenants appear more than willing to pay for the service package. Surveys of potential demand for this type of space range from 10-20% of total office space. In the Prospectus WeWork estimated that potential demand in their target 280 cities is \$3 trillion. Of course, they will not capture all the demand, but they certainly have a head start by virtue of their brand.

The question becomes whether this is an industry sector that will be monopolized by WeWork such that they will become the Google, Amazon or Uber equivalent on a global basis. Michael Porter’s Five Forces may provide some guidance as to possible outcomes. His famous thesis outlined the conditions that lend themselves to ultimate profitability.

His first two criteria relate to the ease of market entry and the number of potential rivals. The truth is there are no competitive barriers to entry, which is disclosed in the Prospectus, and the number of potential rivals equates to the number of building owners. Any owner theoretically can offer coworking space in their buildings. Indeed, the larger office owners are developing their own alternatives in response to WeWork’s entry.^{xxviii} But, do they want to offer this commensurate service package, or would they prefer to contract it out, presumably to WeWork in exchange for a revenue sharing agreement? So, the lack of any effective barriers to entry and the potential number of competitors, of which there are already many, is a theoretical negative for WeWork. Offsetting this risk is their first mover advantage and “Brand”.

Porter's next three criteria concern the power of suppliers and customers, and alternatives. In this context building owners should be considered the suppliers. The power of building owners as the space supplier WeWork wants to occupy will be a function of a given market's supply/demand characteristics. This is a factor outside WeWork's control and is a function of local market dynamics. In tight markets building owners will require WeWork to provide them with a percentage of the "arbitrage revenue" they receive and will be able to negotiate better terms in the leases. In soft markets WeWork would have the upper hand and could seek other alternatives where it could negotiate a better rate.

Similarly, the customer's power will be determined by supply/demand characteristics of the market and their alternatives. WeWork's pricing power will be driven by the competitive landscape of other operators, how they price their space and services, and how price sensitive the tenants are. The tenants will ultimately decide whether they want the location and amenity package of WeWork's products or a lower cost alternative.

Do the customers have alternatives? Yes. The SMEs can move to lower cost coworking spaces or go back home. Enterprises can consolidate to their home offices.

In the long run, one should ask if the current arbitrage WeWork receives is sustainable. Typically arbitrages in any market do not exist indefinitely. For the pricing model to exist indefinitely one must assume the consumer will accept this pricing model and that no competitive alternative service models come into play at lower costs. Based on an analysis of the Five Forces it would appear that WeWork is entering what will be a highly competitive market in which they will distinguish themselves by virtue of their brand and pricing.

Lastly, what will be the impact on office values that have a significant percentage of the space leased to WeWork or their equivalent? The data is mixed and limited. Lenders have been reluctant to lend to owners, if there is a significant percentage (greater than 40%) of the building leased to WeWork. This is due to short duration leases and the SME's general lack of credit. This is mitigated to an extent by the increase in the overall percentage of Enterprise members.

In transactions both CBRE and Eastdil have reported a slight negative impact when the occupancy of WeWork exceeds 40% in the range of 50 bp on the capitalization rate on sale. In prime locations where WeWork has space (such as London, New York, San Francisco and Los Angeles) capitalization rates are in the range of 4% implying an ~12.5% diminution in value attributable to having WeWork as a major tenant in the building. But it has to be emphasized that the data set on actual transactions is limited.

Intuitively, a building that has credit tenants in a prime location with long duration leases should be worth more than a building in a similar location with a significant percentage of the occupancy being given to no or little credit tenants on very short duration leases. WeWork's business model, or some version of it, though is here to stay. Tenants clearly love it. Building owners will have to adapt. Space as service is more like managing a hotel than an office building. Cap rates for hotels are very different (much worse) than office buildings due to the increased operating costs and short duration leases. Whether WeWork is disrupting the office sector or is ultimately destroying office values is a question for a later date.

Conclusion

The teeter-totter image in the Prospectus is inadvertently the best possible metaphor for the Company. WeWork has to successfully complete this IPO. It is hemorrhaging cash at an alarming rate notwithstanding its explosive growth in terms of new members. It is notable that the new loan agreement WeWork reached with its lender consortium is contingent upon successfully raising \$3 billion in the IPO. There are substantial cash reserve requirements in the proposed lending arrangement as described in the Prospectus.

If the IPO is not successful and the loan agreement is not closed, WeWork is in trouble absent another equity infusion from SoftBank. SoftBank may not want the IPO to proceed as it would have to mark to market their position on their balance sheet and in the Vision Fund. This may make life complicated as they are in the process of raising their next fund. Unless SoftBank is willing to cut WeWork loose, they may have no choice but to make another equity infusion and delay the IPO.

Neumann has claimed they can quickly turn profitable, should they reduce their expansion plans pointing to their experience in London. That is not at all clear. Where will they get the cash to complete the build-out of the space that is presently coming online?

Lastly, and quite concerning, is the fact that WeWork has availed itself of the less restrictive disclosure standards provided by the JOBS Act. If this Prospectus complies with the JOBS Act, something is seriously wrong with it. Just because WeWork could use the lower disclosure thresholds doesn't mean they should. Cryptic, missing and opaque disclosures equate to misleading information. For all of WeWork's narrative about "community values" one would think the Company would opt for the most complete disclosure of information, such as a GAAP compliant EBITDA calculation, for their newest "community members": their public shareholders.

Exhibit 1 WeWork Contractual Obligations

(Amounts in thousands)	Remainder of 2019	2020	2021	2022	2023	2024 and beyond	Total
Non-cancelable operating lease commitments ^a	\$ 868,895	\$ 2,164,826	\$ 2,322,922	\$ 2,383,279	\$ 2,426,278	\$23,787,202	\$33,953,402
Finance lease commitments, including interest	4,206	8,531	8,610	8,561	8,007	45,408	83,323
Construction commitments ^b	340,098	86,291	1,684	313	-	-	428,386
Asset retirement obligations ^c	487	490	137	2,051	1,139	107,013	111,317
Long-term debt obligations, including interest ^d	37,051	75,129	91,750	800,029	58,773	794,743	1,857,475
Convertible related party liabilities ^e	2,945,005	-	-	-	-	-	2,945,005
Total	\$4,195,742	\$2,335,267	\$2,425,103	\$3,194,233	\$2,494,197	\$24,734,366	\$39,378,908

Source: **We Company Form S-1, August 2019.**

Note: ^aFuture undiscounted fixed minimum lease cost payments for the non-cancelable leases, inclusive of escalation clauses and lease incentive receivable and exclusive of contingent lease cost payments that have initial or remaining lease terms in excess of one year as of June 30, 2019. Excludes an additional \$13.1 billion relating to executed non-cancelable leases that have not yet commenced as of June 30, 2019. See Note 4 of the unaudited interim condensed consolidated financial statements included elsewhere in this prospectus for additional details.

^bIn the ordinary course of our business, we enter into certain agreements to purchase construction and related contracting services related to the build-outs of our locations that are enforceable and legally binding and that specify all significant terms and the approximate timing of the purchase transaction. Our purchase orders are based on current needs and are fulfilled by the vendors as needed in accordance with our construction schedule.

^cCertain lease agreements contain provisions that require us to remove leasehold improvements at the end of the lease term. When such an obligation exists, we record an asset retirement obligation at the inception of the lease at its estimated fair value. These obligations are recorded as liabilities on the unaudited interim condensed consolidated balance sheet as of June 30, 2019.

^dPrimarily represents principal and interest payments on senior notes, other loans and 424 Fifth Venture loans.

^ePrimarily represents principal on the 2018 convertible note and 2018 warrant. These obligations are recorded as liabilities on the unaudited interim condensed consolidated balance sheet as of June 30, 2019. The 2018 warrant is classified as a liability in accordance with ASC 480, as it includes a potential cash settlement obligation to repurchase shares that is outside of our control. On July 15, 2019, the 2018 convertible note was converted in shares of Series G-1 preferred stock. On July 15, 2019, the 2018 warrant was exercised for shares of Series G-1 preferred stock. See Note 13 of the unaudited interim condensed consolidated financial statements included elsewhere in this prospectus for additional details.

Exhibit 2. Per Workstation Revenues on a Trailing Annualized Basis.

When you annualize the average revenue membership per quarter, it decreases from \$7,364 in 2Q17 to \$5,806 in 2Q19. Page 112, Prospectus.

(Amounts in thousands)	YE 2016				Three Months Ended						
	Dec. 31, 2016	March 31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017	March 31, 2018	June 30, 2018	Sept. 30, 2018	Dec. 31, 2018	March 31, 2019	June 30, 2019
Key performance indicators:											
Workstation capacity (in ones) ^f	107,000		154,000	178,000	214,000	251,000	301,000	354,000	466,000	548,000	604,000
Memberships (in ones) ^g	87,000		128,000	154,000	186,000	219,000	268,000	319,000	401,000	466,000	527,000
Annualized average revenue per average membership			7,364	6,648	6,396	6,429	6,382	6,187	5,882	5,796	5,806

Exhibit 3 Real Estate Service Comparable Companies

Company	Share Price 7/26/2019	% of 52- W High	Market Cap	Enterprise Value	EBITDA Margin		Revenue CAGR	EV/EBITDA		P/E		Net Debt /EBITDA
							'19E - '20E					
					CY19E	CY20E		CY19E	CY20E	CY19E	CY20E	CY19E
CBRE	\$52.88	100%	\$17,782	\$20,700	8.8%	8.6%	7.5%	10.1 x	9.5 x	14.4 x	13.5 x	1.5 x
JLL	\$144.33	84%	\$7,467	\$9,136	5.4%	5.6%	7.8%	9.5 x	8.6 x	12.4 x	11.4 x	1.7 x
Cushman & Wakefield	\$19.72	100%	\$4,275	\$6,498	11.4%	11.6%	5.3%	8.9 x	8.3 x	11.8 x	10.6 x	3.1 x
Colliers	\$77.10	94%	\$2,950	\$3,981	12.0%	12.3%	5.0%	10.6 x	9.8 x	16.5 x	15.0 x	1.8 x
Newmark Group ^a	\$9.85	68%	\$2,598	\$4,216	26.0%	25.7%	6.2%	7.4 x	7.0 x	6.0 x	5.7 x	2.2 x
Marcus & Millichap	\$33.15	77%	\$1,294	\$983	13.0%	13.7%	6.6%	9.6 x	8.6 x	17.3 x	15.1 x	-3.0 x
Savills	\$11.58	98%	\$1,655	\$1,523	8.7%	8.9%	2.3%	8.0 x	7.6 x	13.4 x	12.2 x	-0.5 x
Mean					12.2%	12.3%	5.8%	9.1 x	8.5 x	13.1 x	11.9 x	1.0 x
Median					11.4%	11.6%	6.2%	9.5 x	8.6 x	13.4 x	12.2 x	1.7 x

Source: FactSet, retrieved July 26, 2019.

^aIncludes class B shares and redeemable partnership interests.

Exhibit 4 Hotel Comparable Companies

Company	Share Price 8/26/2019	Market Cap	Enterprise Value	EBITDA	Rev.	EV/EBITDA		P/E		Net Debt
				Margin	CAGR	LTM	NTM	LTM	NTM	/EBITDA
				LTM	LTM	LTM	NTM	LTM	NTM	LTM
Accor SA	\$42.84	\$11,383	\$13,995	24.7%	56.3%	11.5 x	14.2 x	55.7 x	23.4 x	2.1 x
Choice Hotels International	\$87.64	\$4,851	\$5,636	33.7%	7.7%	15.7 x	15.0 x	22.8 x	20.6 x	2.2 x
Hilton Grand Vacations	\$31.79	\$2,731	\$4,320	24.0%	9.2%	9.8 x	10.3 x	11.8 x	13.3 x	3.7 x
Hilton Worldwide Holdings	\$91.08	\$26,127	\$34,505	48.5%	6.2%	19.0 x	14.5 x	33.6 x	22.4 x	4.6 x
Hyatt Hotels Corporation	\$72.26	\$7,518	\$9,017	24.5%	-1.8%	14.0 x	11.5 x	18.4 x	38.1 x	2.4 x
IWG plc	\$4.98	\$4,459	\$12,068	18.1%	14.4%	20.4 x	6.2 x	34.1 x	38.2 x	12.8 x
Marriott International	\$125.1	\$41,203	\$52,353	49.0%	2.9%	19.7 x	14.1 x	30.2 x	19.8 x	4.3 x
Marriott Vacations Worldwide	\$97.36	\$4,238	\$8,148	22.0%	97.7%	14.0 x	10.0 x	51.6 x	11.2 x	6.7 x
Norwegian Cruise Line Holdings Ltd.	\$49.72	\$10,715	\$16,886	29.3%	10.3%	9.1 x	8.2 x	11.1 x	9.6 x	3.3 x
Wyndham Destinations	\$42.32	\$3,903	\$9,264	23.5%	3.0%	9.9 x	9.0 x	9.3 x	7.4 x	5.7 x
Wyndham Hotels & Resorts	\$49.87	\$4,807	\$6,870	38.6%	29.6%	12.6 x	10.7 x	33.1 x	14.8 x	3.8 x
Wynn Resorts, Ltd	\$105.33	\$11,280	\$18,921	24.1%	3.3%	11.7 x	9.2 x	13.9 x	15.8 x	4.8 x
Mean				28.3%	21.4%	13.4 x	10.8 x	26.9 x	19.5 x	4.7 x
Median				24.5%	9.2%	12.6 x	10.3 x	22.8 x	15.8 x	4.1 x

Source: Capital IQ, retrieved August 26, 2019.

ⁱ WeWork Preliminary Offering Memorandum (“PPM”) for \$500 Million Senior Notes due 2015. Page 1. April, 2018.

ⁱⁱ Hobart, Byrne, What is We?! Understanding the WeWork IPO, Medium Business <https://medium.com/@byrnehobart/what-is-we-understanding-the-wework-ipo-b74f0f1f1b46>, accessed August 19, 2019.

ⁱⁱⁱ Prospectus, page 122.

^{iv} Prospectus, page 92.

^v “Community Adjusted EBITDA,” the gauge WeWork devised to measure net income before not only interest, taxes, depreciation, and amortization, but also “building- and community-level operating expenses,” a category that includes rent and tenancy expenses, utilities, internet, the salaries of building staff, and the cost of building amenities (which WeWork has described as “our largest category of expenses”).

^{vi} Powell, Jaime Revealed: the Cash Cost of WeWork’s Global Expansion, April 10, 2019, Alphaville <https://www.ft.com/content/884e7da3-2de7-3c56-bdff-a308152ce086>, accessed August 21, 2019. The Financial Times derided them as “the most infamous financial metric[s] in a generation”.

^{vii} Prospectus, page F66.

^{viii} (Eastdil Secured, “Collaborative Workspace Sector”, Presentation to Harvard Business School, p. 24)

^{ix} Calculated by dividing the number of 527K members by 604K desk capacity. Prospectus, Page 112.

^x Prospectus, p. 49.

^{xi} Prospectus, page 72.

^{xii} Prospectus, page 74

^{xiii} Prospectus, pages 28-33.

^{xiv} Prospectus page 71.

^{xv} Prospectus, page 30.

^{xvi} The assumption of using the depreciation line as a proxy for the FF&E reserves is based on the assumption that the Company straight line depreciates its FF&E over a five year period. Given the nature of their equipment, it seems a reasonable assumption that 20% of it would have to be replaced every year.

^{xvii} Prospectus, page

^{xviii} Prospectus, page 118.

^{xix} Prospectus, page 82.

^{xx} Eastdil Secured, “Collaborative Workspace Sector”, op cit., p. 24

^{xxi} There is a discrepancy in the number of workstations used when calculating the net capex per workstation for 1H19. In arriving at a net capex of \$3,661 per workstation in 1H19, WeWork discloses their assumptions in Footnote 3 of WeWork’s Net Capex per Workstation Exhibit on page 82 of the prospectus:

“Net capex per workstation added for the first half of 2019 reflects gross capital expenditures of approximately \$1.3 billion, less tenant improvement allowances of approximately \$0.5 billion divided by 273,000 workstations delivered, in each case in connection with projects completed during the period from January 1, 2019 to June 30, 2019.” (WeWork Form S-1, p. 82).

However, under the “Consolidated Results of Operations” on page 91, and the “Quarterly Results of Operations” on page 112, WeWork reports their workstation capacity increased from 466,000 as of December 31, 2018 to 604,000 as of June 30, 2019 – an increase of 138,000 not 273,000.

^{xxii} Prospectus, page 112.

^{xxiii} Brown, Eliot, Farrell, Maureen, Das, Anupreeta, WeWork Cofounder Has Cashed Out at Least \$700 million Via Sales and Loans, Wall Street Journal,

<https://www.wsj.com/articles/wework-co-founder-has-cashed-out-at-least-700-million-from-the-company-11563481395>, accessed August 19, 2019.

^{xxiv} Bartlett, Ian. “How Did WeWork’s Adam Neumann Build a \$47 Billion Company?” Intelligencer. June 10, 2019. Accessed July 26, 2019.

<http://nymag.com/intelligencer/2019/06/wework-adam-neumann.html>

^{xxv} <https://www.wsj.com/articles/wework-parent-weighs-slashing-its-valuation-roughly-in-half-11567689174>, accessed September 8, 2019.

^{xxvi} Footnote 12 to Consolidated Financial Statements

^{xxvii} Lapatto, Elizabeth, WeWork Isn’t A tech Company; It’s a Soap Opera, The Verge, <https://www.theverge.com/2019/8/15/20806366/we-company-wework-ipo-adam-neumann>, accessed August 17, 2019.

^{xxviii} Grant, Peter, WeWork’s Latest Threat, Old school Landlords Trying to Copy WeWork, <https://www.wsj.com/articles/weworks-latest-threat-old-school-landlords-trying-to-copy-wework-11568127640>, accessed September 19, 2019.