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Opinion

WeWork: Is There Any There There?

We've had a good lesson this week in how not to go public in the age of the techlash.



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Illustration by Nicholas Konrad; Photographs by Getty Images

For a hipster office-rental company with a [chillax](#) mood and [kombucha](#) on tap, the vibe around [WeWork](#) these days has gotten pretty gnarly.

Is the I.P.O. filing by the We Company, the parent of WeWork, a “[masterpiece of obfuscation](#),” as one savvy Wall Street analyst said this week, a thumbs-down sentiment that is shared by many others?

Or is it a real estate version of Amazon Web Services, as one well-regarded tech pundit noted in making a positive case for the company, painting it as more of a misunderstood diamond that will deliver on that adage that everything that can shine eventually and always does?

[Kara Swisher answered questions about this column on [Twitter](#).]

What is clear, watching the intense debate around WeWork this week, is that its founders, board members and bankers are giving the investing audience a good lesson in how not to go public in the [age of the techlash](#).

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Actually, the company's performance thus far would be considered a classic goat rodeo in any age, exhibiting the kind of arrogant attitude that has too long been tolerated and encouraged in the tech world. At that crux is the idea that the value of all techy-type startups goes up and to the right and that potential [self-dealing](#) by tech executives is A-O.K. as long as it is disclosed.

It's all fun and games until the bomb drops, which is what happened when the [prospectus for WeWork landed](#), providing a strong reaction around its numbers due to a lot of are-you-kidding-me content.

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Scott Galloway, a New York University professor and [regular collaborator of mine](#), called it “WeWTF” in a [recent takedown](#) of the company's I.P.O. “Any equity analyst who endorses this stock above a \$10 billion valuation is lying, stupid or both,” he wrote.

The current valuation, in fact, is more than four times that now, as We Co. seeks to raise \$3.5 billion — with lots of red flags. They include paying its co-founder and chief executive, Adam Neumann, close to \$6 million for the “We” name and also allowing him to cash out or take a loan of \$700 million ahead of the I.P.O.

The Neumann payout is unusual, even for greedy Silicon Valley, but it is still the lofty valuation — which is many multiples higher than related companies — that is attracting a lot of scoffing and headlines that include words like “mystify.”

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That is especially so with the news that the company has only \$3 billion in cash on hand, billions in debt, tens of billions in future lease payment obligations and no clear road to profitability. Also worrisome: Despite revenues of \$1.8 billion last year, its net loss was more than \$1.6 billion. Revenues are growing strong so far in 2019 — but so are losses.

Another key question is whether it is a “tech” play or not. It's clear that the company is trying mightily to make the case that it is indeed a tech company by calling its analog renting of workstations “space-as-a-service.” (Get the geek pun? SaaS actually stands for the largely lucrative “software-as-a-service” sector, which We Co. is not.)

And the hits — and I mean the kind that can cause pain — kept on coming in the I.P.O. documents, including an outline of a corporate structure that screams lack of accountability. How? Mr. Neumann controls the company in an exceedingly complex manner that includes three classes of stock and a couple of limited liability companies (you don't want to know, and, really, it's hard to understand).

Which is why [Rett Wallace of Triton Research](#), which has a good record of calling this kind of thing, gave that tough assessment of the situation in the interview with Bloomberg, calling it an “obfuscation.” He added: “If the underlying facts were positive, why would a company go to so much trouble to prevent you from understanding them?”

But not everyone thinks this deal needs to be fully understood now. In that scenario, We is playing the kind of long game that Amazon did with its once-derided effort to make a business in cloud services. That morphed into A.W.S., a behemoth of profit for the retail giant.

And like Amazon, perfecting the core business by investing heavily, and also using tech before others do, is the real point. In a much-read piece, the tech strategist Ben Thompson laid out this case for WeWork in his [Stratechery](#) blog:

WeWork has also developed an expertise in utilizing office space efficiently, and while some of this is simply a willingness to cram more people into less space, opening triple-digit locations a year means that the company is by definition learning and iterating on what works for office space far faster than anyone else, and that is before the promised application of sensors and machine learning to the challenge. And then there is the question as to whether WeWork is, or can become, more than a real estate play at scale: what might be the equivalent of ‘server-less’ when it comes to office space — a unique capability that is uniquely unlocked by one company providing all of the real estate needs for, well, everyone?

Everyone? That's a lot of people. But it's true that there is a giant market out there — up to a trillion-dollar opportunity in just the 111 cities that WeWork is already in — to potentially use tech tools to find office space more efficiently. And the company has also been buying up adjacent startups to fill out its portfolio of services, like the workplace management platform [SpaceIQ](#), the meeting-room wrangler [Teem](#), and the coding academy [Flatiron School](#).

The selling point among those who think the company is visionary is that having a great brand, consumer awareness and first-mover advantage makes the deal attractive.

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All true, which is why it is perplexing that the We Co. has managed to paint its prospects so very badly and made even its fans wonder if there is no there there.

“When companies fight you on understanding the basic proposition of the mousetrap, it's always bad,” said Mr. Wallace of Triton to Bloomberg. “People who have good mousetraps say, ‘This is the thing: You put the cheese in, the trap is designed to never break your thumb, and it catches mice nine times out of 10.’”

The question then is this: Is We Co. actually an investor trap? No one seems to agree on an answer yet, but until its stock hawkers can assure potential shareholders it is not, here's a pro tip: Enjoy the kombucha, but stay far away from that cheese.

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