



TRANSCRIPT

## The Story of WeWork

**Michael Madsen:**

Hi, I'm Michael Madsen, International Liaison Partner for BDO Canada. Welcome to Bored at the Airport with Mike. This show is about doing business globally. Whether your business has international presence, is considering an international expansion, or if you're in the middle of revising your expansion plan, then this show is for you.

To kick off our podcast, we want to share the story of a startup that had massive potential, innovative ideas, billions of investment dollars, and still failed. This is an episode I call "WeWork? Not so much."

**Clip:**

What do you think when I say workspace? Cubicles, ugly furniture, bad fluorescent lighting, death. Exactly.

**Narrator:**

WeWork, at one time the world's most valuable startup, is the subject of the new series, 'We Crashed', starring Jared Leto and Anne Hathaway. It depicts the dramatic fall of the co-working phenomena on Apple TV. When WeWork launched back in 2010, it was heralded as the future of our working lives. It was the buzzword for a generation of freelancers, startup founders, and mobile entrepreneurs who traded in their work-at-home scenarios or Starbucks laptop sessions for sleek co-working spaces and networking. With free beer on tap.

**Clip:**

The sharing economy is on the rise. A recent study finds 72% of Americans have used a shared or on-demand service at least once. WeWork, offers customized shared office spaces for entrepreneurs. Its offices are home to 10,000 companies, and WeWork is now valued at - get this - more than \$16 billion. WeWork just launched WeLive, taking its concept from the office to the living room.

**Narrator:**

A report from CBS back from 2016. So, how was the WeLive concept supposed to work?

**Clip:**

So, if WeWork is the sharing of space, and we all have our private space, but we also like to be part of a community, WeLive is the same thing. If you were to get an apartment in New York City today, you'd have to show 50 times rent, which no 24-year-old has, and then you'd get this horrible hallway with this very small unit that costs a fortune. You'd be by yourself. WeLive is the opposite. All we need this one month's security deposit. We charge 30 to 40% less than it would cost an apartment, and we give you shared common space. So, even though you have your own kitchen and your own bathroom and shower, you can go to a chef kitchen. You can go to a screening room, you have a bar, and you have a lot of like-minded individuals that hang out every night and just share their experiences and prepare for the next day.

**Narrator:**

WeWork CEO, Adam Neumann. The company's proposition was as intoxicating as it was vague. At its height, it had locations in nearly every continent on the globe, was valued at \$47 billion, and was planning almost literally world domination with scope to expand into gyms, homes, and even schools. WeWork's planned expansion of the We brand into the personal living space with WeLive stalled at two buildings. And in 2021, they handed over management of the two WeLive locations in Virginia and Manhattan to the owners of the buildings. WeWork's troubles began in August 2019, when the company's IPO filing revealed it had lost \$1.9 billion the previous year and was on track to run through remaining cash. A crippling report from the Wall Street Journal in September, raised concerns over how its controversial CEO, Adam Neumann, managed the company, including possible illegal activities.

**Clip:**

From the first day that we started WeWork, it was about bringing people together. There's an energy that you feel, the energy's something that's hard to explain. It's something that either you feel it, or you don't. We like to call it the We generation.

**Narrator:**

Adam Newman's escapades are now legendary, if not cautionary. His private jet trips may have involved some incidental transportation of marijuana across international borders, his wife may have fired employees for their bad vibes, and the company may have ended a meeting announcing layoffs with a performance by a member of Run-DMC. SoftBank first made its multi-billion dollar investment in WeWork in 2017 through its \$100 billion vision fund, which has also funded Silicon Valley startups like Uber. The Japanese technology giant invested a total of \$18.5 billion in WeWork in the lead-up to its failed IPO, which 'Shark Tank' star Kevin O'Leary called in May of 2019.

**Clip:**

I think he's brilliant. I think he's a fantastic entrepreneur and, he's doing this at the right time because that model has gone bankrupt multiple times before. What happens is you over charge the risk of short-term leases with long-term debt. So you go buy a building, you put debt on it, very often variable debt. It may reset every three to five years. When rates go up and there's an economic slowdown, as in a recession, you go bankrupt. So no, I won't be investing in that, and I've seen this movie many times before. But is he a great entrepreneur? Absolutely. If you invest in that, you should realize that's another money loser right now. And if the economy softens or rates go up, I think you're basically screwed.

**Narrator:**

Under the financial scrutiny required prior to any IPO, the truth was revealed. WeWork was losing a ton of money. It's projections the size of the market for shared office space was wildly optimistic. The fantasy of WeWork began to unravel, further complicated by several lawsuits hitting the company that year. Most of which, centered on race and gender discrimination and sexual harassment.

**Clip:**

Does WeWork's implosion pose a systemic risk? Company went from a \$47 billion valuation to near bankruptcy in just six weeks. It's been a kind of a phenomenal story to watch.

WeWork is facing a cash crunch. It's probably going to run out of money by the first half of next year.

How, and what is this company going to do if it doesn't hit the public market and raise that money?

**Narrator:**

So what did they do? Days after founder and CEO, Adam Neumann, stepped down, the company sold his hugely controversial private jet. Next, the company shed the equally controversial 20 family and friends of the founder, including Newman's wife, Rebecca, who worked at WeWork. Then came the job cuts. By November 2019, the company had cut 20% of its workforce, about 2,400 jobs, and SoftBank, a major investor in Uber and WeWork's main investor, was in control. What has become of WeWork in October 2021, WeWork finally went public. Two years after its disastrous first attempt as part of a merger and under new management far from the chaotic and troubled founder and former CEO, Adam Neumann. The plans for a real-life "We" revolution came to a screeching halt. But this revolution will, in fact, continue as a television show.

**Clip:**

This is what tomorrow looks like. Let there be light, and wide open spaces. This isn't a place for people to punch in and out. We work's role is to elevate the world's consciousness. WeWork isn't just a company. It's a movement.

**Michael Madsen:**

Joining me is Peter Matutat, National Technology Leader and a Partner at BDO Canada. Peter specializes in emerging technology companies, and for the past two decades, he has dealt with both public and private tech companies. Peter, welcome to the program.

**Peter Matutat:**

Thank you Mike, happy to be here.

**Michael Madsen:**

It's not surprising that the WeWork story is being told through television. This is a real, made-for-TV story. Peter, what is your take on this saga?

**Peter Matutat:**

Well, the WeWork story is definitely one with a lot of takeaways and a lot of lessons, and it contains a lot of the elements of the advice we give to our clients, and I give to my clients as well. So first off, while everyone knows that the WeWork IPO failed in 2019, let's remember it now, it is a public company. It went public at \$9 billion a couple years ago, and this month is trading around \$5 billion with revenues of two and a half to three billion. While the made-for-TV show was called WeCrashed, WeWork is still around. It is still a viable business with a multi-billion dollar valuation. And I'm going to give you one of my personal maximums that I tell people when I'm talking about tech company valuations, and this is what I apply to startups. I tell people when they ask me, "How much is the startup worth?" I tell them every startup is worth \$3 million dollars. Now obviously, that isn't true, but let me run the numbers in terms of how I came up with that numbers and how valuation works in the tech space.

So a typical startup needs seed money. Typical amount is going to be something like \$500,000 to get off the ground and make things happen. So then you come to, "How much of a company is a founder going to give up for \$500,000?" It can't be too little, or else no one's going to invest. So it has to be at least 10%. No one's going to invest for less than 10%, but he can't give up too much. Otherwise, he has no further incentive. So he can't give up control in the first round of financing. So, ultimately, a typical investment is something around 15 to 20% of the company for \$500,000 or about one-sixth of the company. So someone put in \$500,000 for one-sixth of the company, well, the company must be worth \$3 million. So every startup is worth \$3 million.

No one's actually going to buy that startup for \$3 million. But what it is, is the concept of using money as a tool. So the \$500,000 is a tool that's being used to build the company. Their

founder's going to use it to hopefully build something substantial. The investor is hoping that it's going to turn into a substantial company, and they're all looking toward the future. So at the seed stage, normal valuation techniques don't apply. You can't simply multiply the 500,000 by six to get a valuation. And, actually, it's a very high chance that \$500,000 is going to disappear. So you just can't apply traditional returns, traditional valuation models in the tech space, fundamentally. I have a lot of my CFOs, they come to me, and they say, "The investors are saying I just have to spend my money. I feel like I'm going to be just losing money." They're not concerned about profitability. And that's true to a degree. They do care about profitability. They just don't care about profitability today, because what they want to do is they want to see growth, because that's where the real value is going to be. And that's what WeWork was trying to do with all that money they had, once again, taking it to an extreme. Now WeWork shows what happens when you just say, "Batten down the hatches, all we want to do is grow. We're going to spend billions and you're going to grow at all costs." They received the billions, tried to grow, to take over the world. That was ultimately their goal, didn't quite happen. So you end up with a bit of a collapse in your valuation from \$47 billion, maybe considered down to the 5 billion that they are today.

**Michael Madsen:**

How does the company know when it is the right time to expand?

**Peter Matutat:**

Key thing is, what's the demand for your product? What are your customers telling you? How much do they like your product? Do you think you're going to get customer acceptance beyond your core customer base? At any point in time, you have a certain number of customers. You're starting out. Maybe you have five customers, maybe you have a hundred customers. How do you feel about the effort that's going to be required to obtain those additional customers? What do you think the marketplace is ultimately for your business? And that can help you decide of like, "You know what, I think there's a lot of demand here. It's going to be worth me making the investment."

And let's take away the VC market or the WeWork example, and just more of the founder and the entrepreneur who's got a \$5 million business, and he wants to make a decision of, "Do I want to start taking some of my current profits and putting them into marketing and going forward?" I think he really needs to make that assessment of, is he getting the sense of the demand for his product that's out there?

**Michael Madsen:**

We heard about the leadership challenges WeWork faced. How important is strong leadership to a company's expansion plans?

**Peter Matutat:**

I tell you that the WeWork story's a really good example of leadership in action and leadership, a little bit inaction as well. In my thirty-year career, I've seen a lot of people call themselves leaders. Ultimately most of them are bosses. They're more bosses than leaders. They have a title, they have a job, but in the tech world, in particular, the startup world, you see a lot more real leadership. That's where I've seen the clearest examples of actual leadership, where you have people who are followers. You don't have employees. You have followers. It's beyond the employer-employee relationship, their actual devotees. They're people with belief. Especially in that zero to 50 employee stage where the staff really know the founders well, that's where I've seen the truest forms of leadership in my career. And the founder makes such an impact at that stage of the company.

And in tech, it can be vision, it can be charisma, it can be sales, it can be just really good coding ability, really good technical knowledge, or all of those factors combined. But that's where that personal charisma can make a huge difference. And it's really important at that stage when I'm dealing with my clients who kind of fit that mold. It's really important for them to make sure they have the right focus and understand their influence on the organization as a whole and a difference that they can make. Now that becomes a lot harder as the organization grows. The founder, all of a sudden, he can't be meeting with all the customers, can't motivate all the staff, and that's where you get to that inflection in that transition point of once you get past 50 employees, is the founder, the right person to be taking the company forward?

**Michael Madsen:**

Peter, you work with a number of tech companies. What advice do you have for any company looking to expand globally?

**Peter Matutat:**

You know, one of the most important things is to think about why you're ultimately going to go global. Why are you going to another country? What it should be, the right answer, is you see an opportunity to effectively scale the business. What you don't want to do is multiply the business. Your goal is not to create 10 of your current business in 10 different countries. You want to be able to scale. But in simple terms, you want to make sure you understand why you're going global.

In a lot of cases, if you're a Canadian company, you want to go to the US because a much bigger market makes all the sense in the world. If you're a European company, a lot of times, the same thing. You want to go to the US because that's a very big market. And if you're a US company, you want to go global because that's a direction you want to go, but you want to understand why you're doing it, and you want to make sure you've done your research and your homework to understand if it's going to be successful or not. Markets are very different around the world, and you want to make sure you have those fundamentals in place to have that work.

**Michael Madsen:**

If companies are currently considering or working on their M&A plan as part of their international expansion, how can we help them?

**Peter Matutat:**

The best thing BDO can do is we do what we do best to help our clients make their lives easier. If you are looking to expand into another country, you're looking to develop an international strategy, your goal is not to grow your finance department. Your goal is not to grow your accounting department. You're going into another country, either for development resources or for sales resources. That's where you want to focus your attention. So the best thing you can do is if you're going into another country is say, "You know what? I'm going to have BDO take care of the back office. I'm going to have them take care of my taxes, my sales taxes, my workers' comp, my payroll, take care of my bookkeeping. Then I'm going to focus on what's important."

We have a lot of clients where they know when they come to a new country, they go to the local BDO office, and we're all over the world. Hard to find a country you're going to expand to where BDO isn't already there. And they say, "You know what? I want BDO to just take care of my back office for the first two years. Let's see what happens after two years. And then I can decide how I want to handle things going forward."

**Michael Madsen:**

Thank you Peter. Peter Matutat, National Technology Leader and a Partner at BDO Canada. My guest on this episode of Bored at the Airport.

Thanks for being a part of Bored at the Airport with Mike. I'm Mike Madsen. If you liked this episode, subscribe to our podcast and connect with us on our LinkedIn Group Page.

**Narrator:**

On our next episode..

**Clip:**

We came as close as we have ever come in history to a total cardiac arrest, not just of the American economy but the entire world economy. We'll take you back to the 2008 financial crisis. The Dow fell a record 777 points.

**Narrator:**

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**Clip:**

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