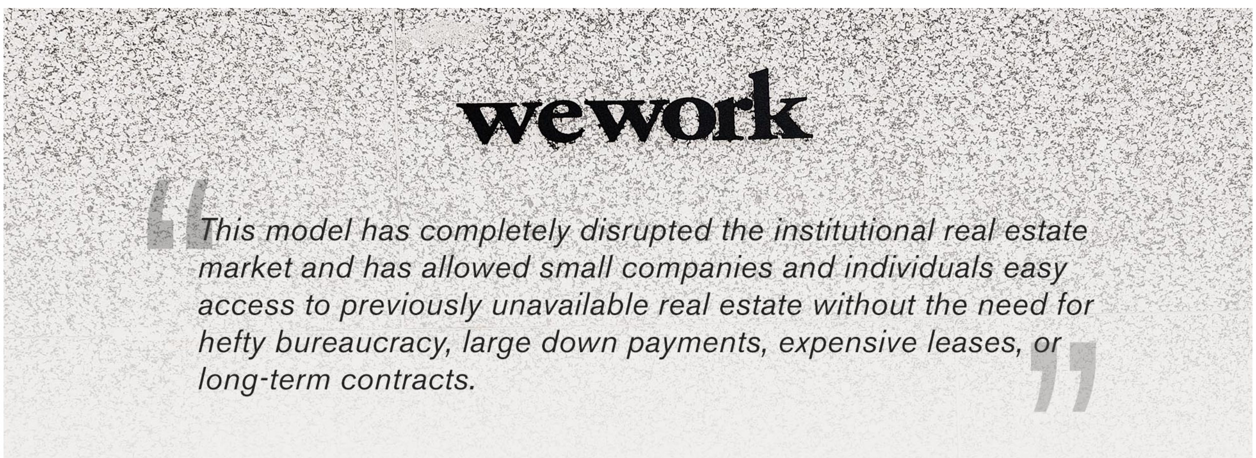
Listening to the Future. What Emotional AI is telling us about WeWork's Doomed IPO. September 8th, 2019

With The We Company's (aka WeWork) IPO fast approaching, we wanted to share some insights on the upcoming offering.

The company initially came out with a $47 billion valuation, and recently there has been speculation that the valuation may be cut in half and the IPO postponed after strong backlash and very weak demand from investors that have been burned by other high flying IPOs this year.

WeWork's business model centers around leasing large amounts of real estate via long-term leases and splitting the space into small parcels and renting them out to startups and individuals on an on-demand basis.



This model has completely disrupted the institutional real estate market and has allowed small companies and individuals easy access to previously unavailable real estate without the need for hefty bureaucracy, large down payments, expensive leases, or long-term contracts.

WeWork launched in 2010 and its growth coincides with the advent of mega-rounds and mega-funds that started in 2013. For example, the Vision Fund and SoftBank have invested over $10 billion into the company, making it one of their largest individual holdings.

This massive amount of capital infusions has allowed WeWork to expand rapidly without much concern for profitability. The company is now the largest tenant in both NYC and London and is still growing fast.

The availability of capital also allowed WeWork to stay private much longer and create massive amounts of value in the private market, much to the detriment of public investors who wanted to cash in on this opportunity.

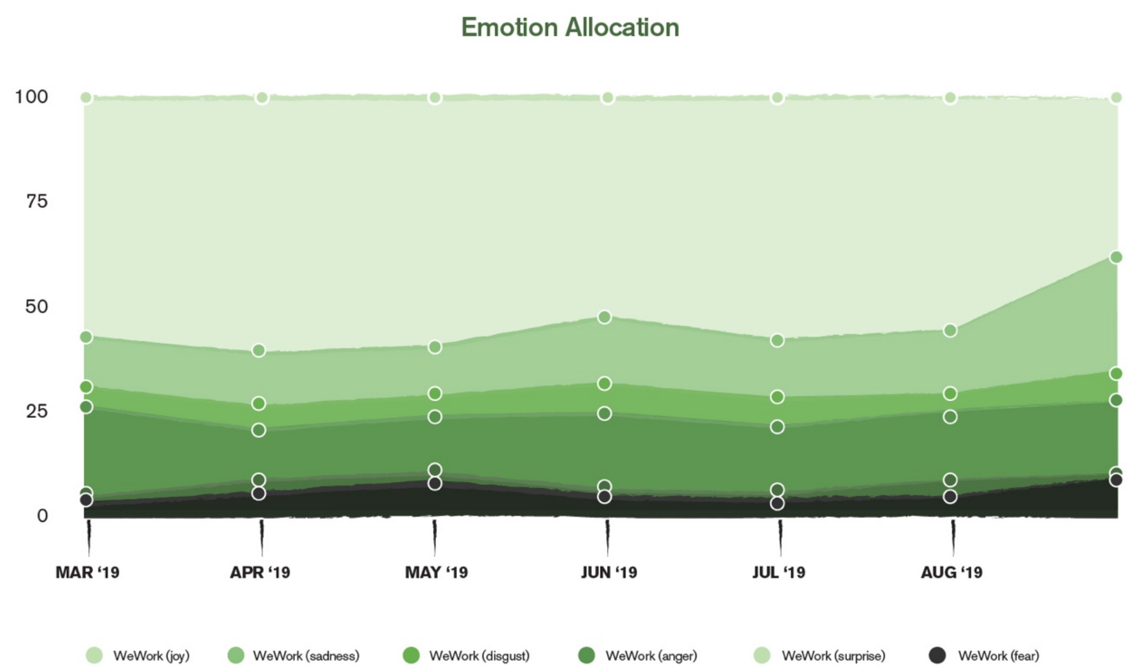
Their IPO saga started once SoftBank took away the gravy train and only allocated an additional $2 billion, rather than the $16 billion WeWork was asking for. That move accelerated the process, prompting WeWork to scramble to raise private market loans ahead of the IPO.

According to recent IPO filings, WeWork revenue and losses doubled in 2018 to $1.8 and $1.9 billion respectively; they are going public with operating losses that are double their revenue and racking up a $20-$47 billion valuation in the process, a 13 to 26-fold revenue multiple.

As WeWork is a private company, it is hard to capture information and more importantly wanted to better understand the underlying emotions that have caused the company to potentially cut its valuation in half or delay the offering altogether.

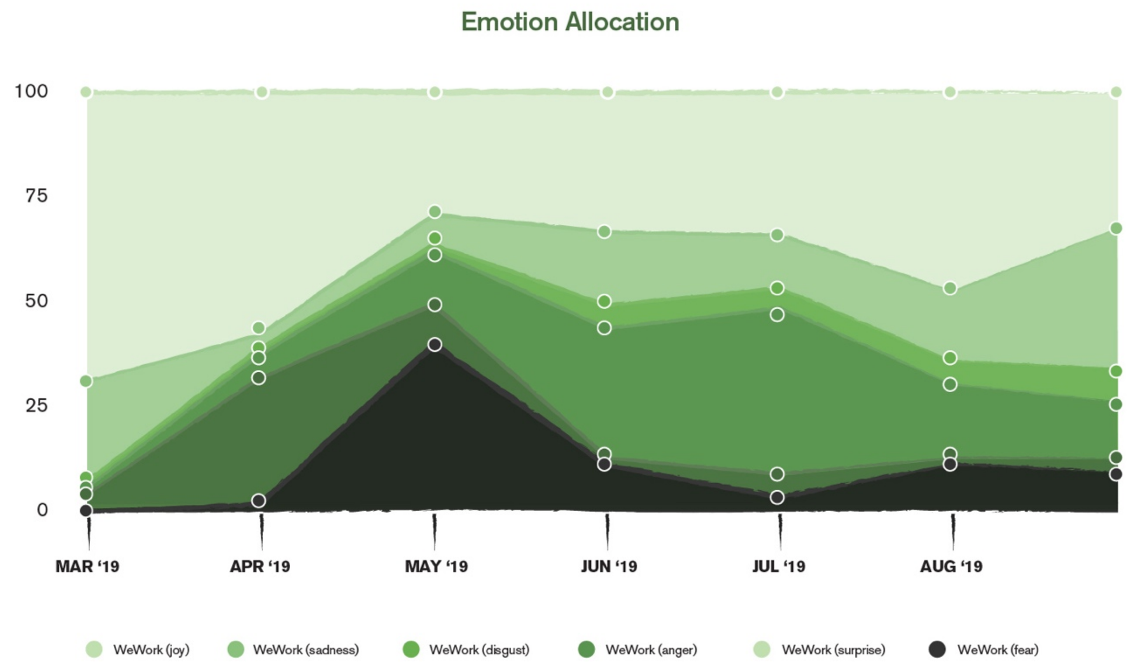
I reached out to my friend Matt D'Alto at Emotional AI company **Cognovi Labs** and Matt and his team were kind enough to provide some proprietary insights into what key emotions are driving volatile behavior ahead of WeWork IPO.

WeWork: Overall emotional allocation chart (sadness increasing in August, driven by consumers bashing the upcoming IPO:



WeWork: Underlying emotional allocation for people specifically talking about the WeWork IPO, its valuation, or the CEO.

Starting to see **Sadness** especially bleeding into the overall positive consumer emotional allocation on WeWork as we get closer to the IPO:

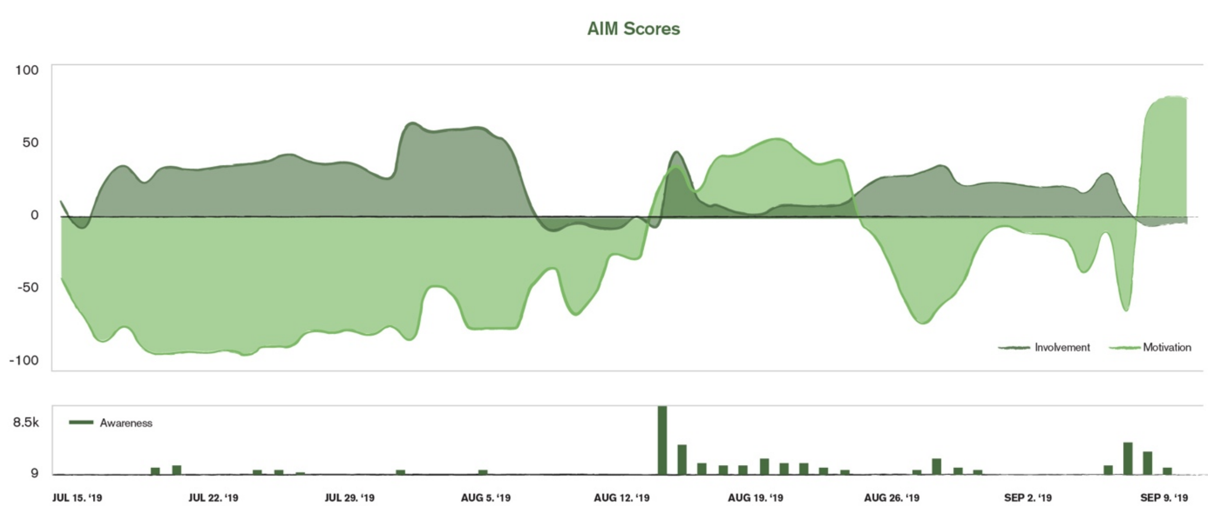


WeWork: In general, people didn't care or talk much about the IPO and the CEO of WeWork until we got into August.

The dark green bars at the bottom of the AIM Scores graph show a significant pickup in **Awareness** for and talk about the IPO, and when that happened, emotional **Involvement** went from negative to positive, and both emotions and consumer **Motivation** toward WeWork became more volatile.

We can see Motivation is actually turning slightly negative now heading into the September IPO, on strong bounce emotional Involvement.

This is another way of saying that the negativity around the IPO may be potentially impacting and bleeding into the overall WeWork brand perception.



Overall, the main takeaway is that consumers aren't talking nearly as much about their great experiences as tenants in WeWork but are instead expressing a lot of other negative emotions around the investment opportunity.

This is the kind of negativity that could bleed into the overall perception of the WeWork customer (tenants) as well if the negative press continues after the IPO.

To turn this around, WeWork will need to maintain its strong growth rate and figure out a way to begin turning profits. The former is completely dependent on the latter, but will be hard to achieve since one of their main draws for attracting clients is the below-market-rate leases that they offer.

Even more concerning, the U.S. is currently at the tail end of the longest period of financial expansion in history. How will WeWork's model fare when the U.S. enters a recession and many of the on-demand leases are just not renewable?

When the next recession hits and startups begin to struggle, the whole model is at risk of collapsing. WeWork itself has become a systemic risk to the system since it now controls a sizable percentage of the rental market in key cities in the U.S. and worldwide. They hold long-term leases with the buildings they work with and on-demand leases from their tenants. This house of cards can fall quickly in a moment of stress, and can mimic a traditional run at a bank, where depositors withdraw their money and only a sliver of equity defends the bank from failure.

The financial crisis is merely a decade old and it appears the market has lost sight of key fundamentals. Without a doubt, WeWork has created an impressive ecosystem and disrupted a massive market to the benefit of thousands of users, myself included.

I am happy to see the strong pushback the offering has received, as investors have gotten burned with both Uber and Lyft and were not willing to accept a $47 billion valuation. Even at

$20 billion, I am afraid that too many of the gains have been made in the private market and if things continue on this trajectory, it could potentially create significant risks to the system during the next economic downturn and as Cognovi's AI is showing, the overall brand is running strong risk of deterioration, which can be very harmful to its future economic performance.