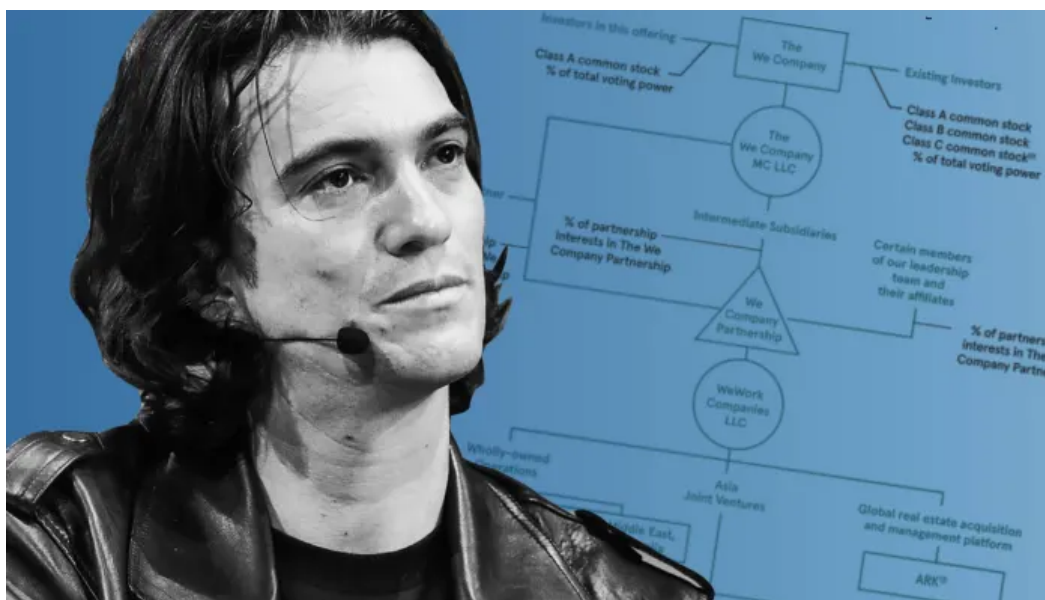


We Company MC LLC

WeWork tests tolerance for its 'gov-lite' structure

Listing document heightens fears over centralised control, lack of investor protections and lack of women on board



WeWork's listing document has raised concerns over co-founder Adam Neumann's influence over the US office space provider © FT montage; Getty Images

Andrew Edgecliffe-Johnson, Richard Henderson, Billy Nauman and Eric Platt in New York and Miles Kruppa in San Francisco
AUGUST 15, 2019

WeWork is facing a chorus of corporate governance concerns after disclosing details of co-founder Adam Neumann's share sales, transactions with the company and plan to retain control after it goes public.

The listing [document](#) published by the US office space provider on Wednesday added a string of questions about Mr Neumann's outsized influence over the company to the debate about its ability to reverse a record of steep losses.

Those concerns could affect public investors' willingness to buy the shares and offer an indicator of potential flashpoints awaiting WeWork after it lists.

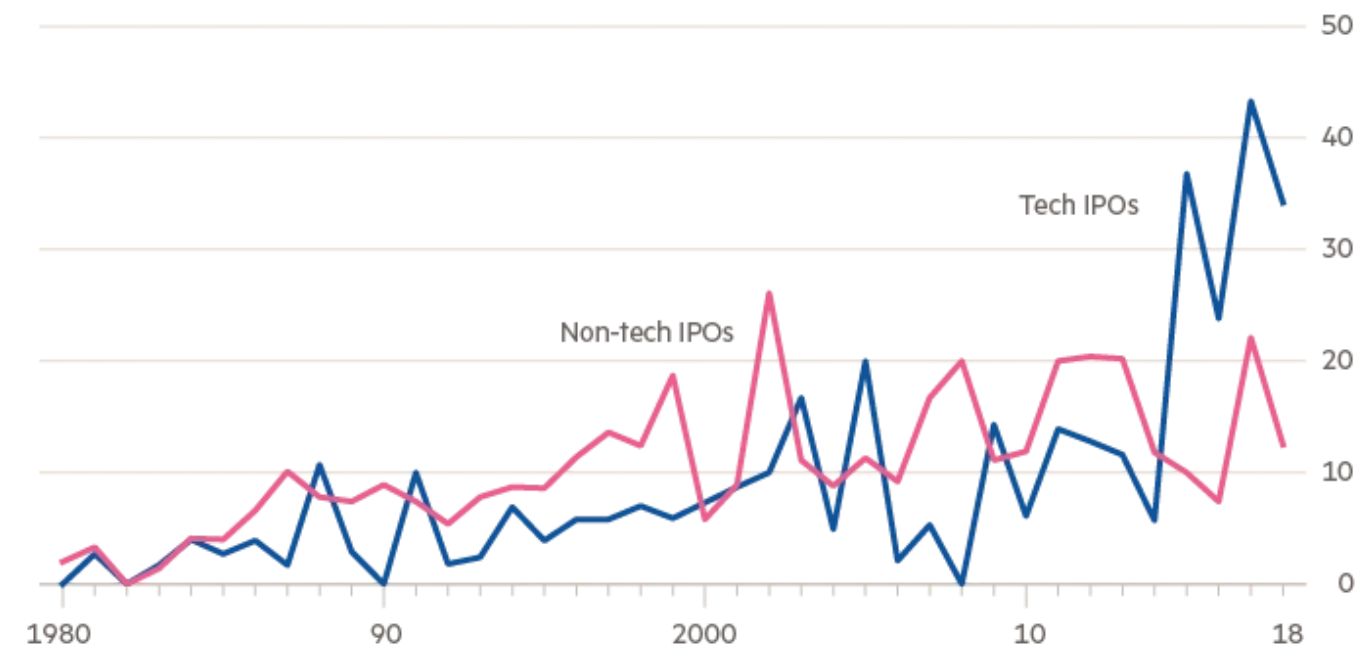
Some investors saw the lack of protections for investors as a top-of-the-market sign — a "gov-lite" governance structure akin to the sharp rise in "cov-lite" loans, debt with fewer covenants protecting lenders, which preceded previous market reversals.

"We're in the late stage of the economic cycle — it feels like 1999," said Michael Underhill, chief investment officer at Capital Innovations, a fund manager that has invested in other large IPOs. "There's a lack of corporate governance and a lack of alignment of interests with shareholders. For those reasons I'm not going to buy the stock."

Investors, their advisers and business school professors say [WeWork](#) stands out from other recent IPOs principally for the level of control it has given to Mr Neumann — even after his death — through a second class of stock that carries 20 times the voting rights of ordinary shares.

Dual-class shares in US listings

Amount In tech and non-tech IPOs* (%)



* IPOs with an offer price of at least \$5

Sources: CFA Institute; J.Ritter

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“Multi-class stock provisions are absolutely the central problem here,” said Ken Bertsch, executive director of the Council of Institutional Investors, which represents pension funds and others with \$4tn in combined assets.

“This is the third big IPO [after Lyft and Pinterest] where the supervoting shares are 20 to one. [The norm] used to be 10 to one, so that’s a bad trend,” he said.

A few large private technology companies, including Snap, have offered ordinary shareholders no voting rights at all, but Mr Bertsch said WeWork’s [arrangements](#) were particularly egregious because Mr Neumann can arrange for the transfer of his high-vote stock after his death to people or entities of his choosing, allowing for indefinite insider control.

Rebekah Neumann, Mr Neumann’s wife and co-founder, who is described in the listing document as his “strategic thought partner”, will be one of two or three people to decide on succession in the event of her husband’s death.

“Whatever you call succession planning is there in name, but not in fact because of the dual class [stock],” said Charles Elson, professor of finance at the University of Delaware. “From a shareholder’s standpoint, it means you’re basically putting complete confidence in [the current executive] team, because if something goes wrong there’s absolutely nothing you can do about it.”

WeWork’s board defies norms of including independent directors, he added, and would be “effectively a paper tiger” because of Mr Neumann’s control over it.

The board also flies in the face of recent corporate governance convention by including no women. Last month, the last S&P 500 company with an all-male board appointed its first female director, but WeWork plans to come to market with none.

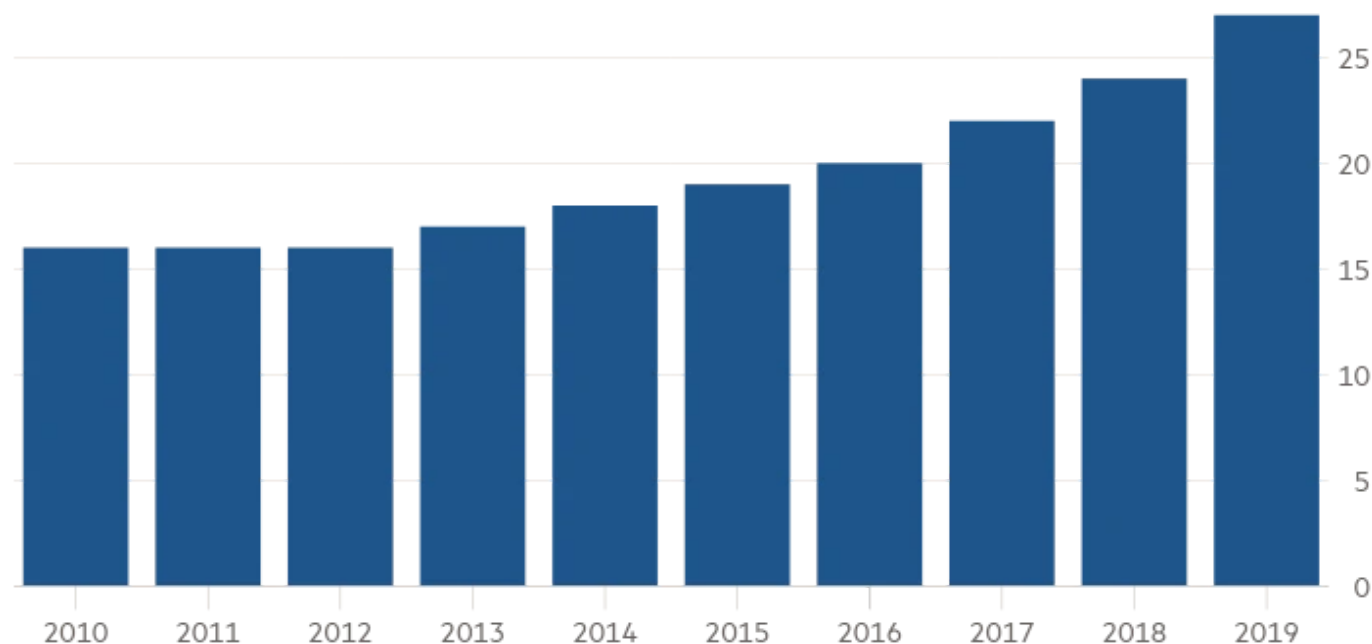
“There’s obviously a problem with the lack of women on the board. His wife plays a big role, but she’s not on the board. And that’s his wife. That’s different,” Mr Bertsch said.

Other IPO experts cited concerns about loans the company had extended to Mr Neumann — since repaid — and Mr Neumann’s sales of shares in the company, which the document says last happened in October 2017. People briefed on the matter have told the FT these have allowed Mr Neumann to raise at least \$700m for himself in recent years.

Lise Buyer, an IPO adviser in Silicon Valley, said the sales were one of a number of “yellow flags” in the IPO which raised questions about Mr Neumann’s confidence in the upcoming transaction.

The number of women on US boards has been slowly rising

Female directors at S&P 500 companies (%)



2019 Year-to-date

Source: Institutional Shareholder Services

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The filing also confirmed that WeWork has been making lease payments to four properties in which Mr Neumann has an interest. Even though Mr Neumann has put the properties in a new entity in which WeWork is the majority shareholder, John Coffee, director of Columbia Law School's corporate governance centre, described the arrangements as evidence of "self dealing".

"He's putting himself in the middle all the time," Mr Coffee said, questioning Wall Street advisers' willingness to support the arrangement. "When you see this it usually makes underwriters very, very leery. These are the most prestigious underwriters in the country but they don't usually have their banks making loans to the key person in the company."

David Erickson, senior fellow at the University of Pennsylvania and former Lehman Brothers and Barclays IPO banker, said he had found the lengthy "related parties" section of the filing "shocking".

"There were red flags before about [whether] this is the right management team . . . When you read the filing, it gets even worse and that's a huge red flag to investors," he said.

"In the market environment we're in it will be challenging to get a big deal done . . . unless they come at a very fair valuation," he added.

A volatile market, a tougher climate for recent IPOs and the specific concerns about WeWork's governance would make its pre-listing investor roadshow "make or break" for Mr Neumann, Mr Coffee said. "He's going to have to go through an ordeal of fire."

Mr Underhill of Capital Innovations acknowledged that there were still "two camps" among investors about the case for buying into WeWork, however, and Charles Lemonides, chief investment officer of ValueWorks, a hedge fund, said investors' decision would come down to valuation.

"You can look at the questionable elements of what they've done, the multi-share structure, the internal control, but they have done an amazing job of turning air into an asset," he said. "The tough part for investors isn't whether this is a good company or if it will do well, the question is whether the price is right."

A high valuation could create another governance flashpoint, however: the company issued Mr Neuman with options over 42.5m shares, which are set to vest over the next 10 years subject to it hitting certain valuation targets. The value of that pre-IPO award will only become apparent once it has set the prices for its offering.

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