Forbes Middle East

WeWork's Adam Neumann Is Out, As Reality Catches Up To A High-Flying Startup

WeWork cofounder Adam Neumann stepped down as chief executive Tuesday, capping more than a month of turmoil for the once high-flying shared-office company.

Neumann's ouster from the top job is the latest—and most dramatic—in a string of efforts to stabilize the nine-year-old company after plans for its public offering soured. In the six weeks since the The We Co., as it is officially known, released its Form S-1, the company has concede to major governance changes, reportedly slashed its valuation to as low as $15 billion and postponed its offering, initially planned for this month.

"While our business has never been stronger, in recent weeks, the scrutiny directed toward me has become a significant distraction, and I have decided that it is in the best interest of the company to step down as chief executive," said Neumann in a statement. Neumann is staying on as non-executive chairman of the board. Chief financial officer Artie Minson and vice chairman Sebastian Gugginham were named co-CEOs.

Neumann and cofounder Miguel McKelvey opened the first WeWork in Manhattan's SoHo neighborhood in 2010. Neumann convinced investors like SoftBank, Benchmark Capital and real estate billionaire Mort Zuckerman, that software, smart design and community could make WeWork as valuable as the hottest tech companies. By January the company boasted a $47 billion valuation.

While there had long been questions about how a real estate company could be worth 26 times revenue, WeWork appeared on track for one of the largest initial public offerings in years when in April it said it had confidentially registered.

After the hotly anticipated filing was released in mid-August, however, the backlash was swift. The document confirmed that in 2018 WeWork lost $1.9 billion on revenue of $1.8 billion and showed that losses continued expanding rapidly in the first half of 2019. While not totally unexpected, this was unwelcome news for public market investors, who had started to sour on highly valued startups without a clear path to profitability.

Perhaps more troubling to potential investors was the unusual governance and ownership structure shown in the filing—such as 20-to-1 voting rights for Neumann and a clause that would allow his wife, Rebekah, to play a major role in selecting a new CEO should he be unable to serve. A month after the initial filing, We released an amended S-1 that, among other changes, cut Neumann's voting rights in half and declared that the entire board of directors would choose his successor when the time came.

It apparently wasn't enough. Eleven days later Neumann is out. While he is not longer CEO, his wealth is still closely tied to the company.

According to the latest filling, Neumann and McKelvey collectively held over 114 million shares of the company through WE Holdings LLC and Neumann had another 2.4 million shares individually. By stepping down it appears he gives up an incentive pay package that would have granted him an additional 42.5 million shares over the next decade. The *Wall Street Journal* reports that his voting shares are being reduced to 3-to-1 from 10-to-1, which would mean he no longer has majority control.

With the company's valuation in flux, it is not immediately clear what this all means for his fortune. *Forbes* currently estimates his net worth to be $2.2 billion, down from more than $4 billion following the last private funding round. Over the years Neumann has cashed out with private stock sales and through a $500 million line of credit that's pledged against his WeWork stake. He also received loans from the company on three occasions.

In addition to his We stake, Neumann has a sizable real estate portfolio, including two homes in downtown Manhattan and one outside San Francisco that was designed to resemble a guitar. His commercial holdings including four buildings in which WeWork leases space.

https://www.forbesmiddleeast.com/weworks-adam-neumann-is-out-as-reality-catches-up-to-a-high-flying-startup