WeWork Co-Founder Has Cashed Out at Least $700 Million Via Sales, Loans

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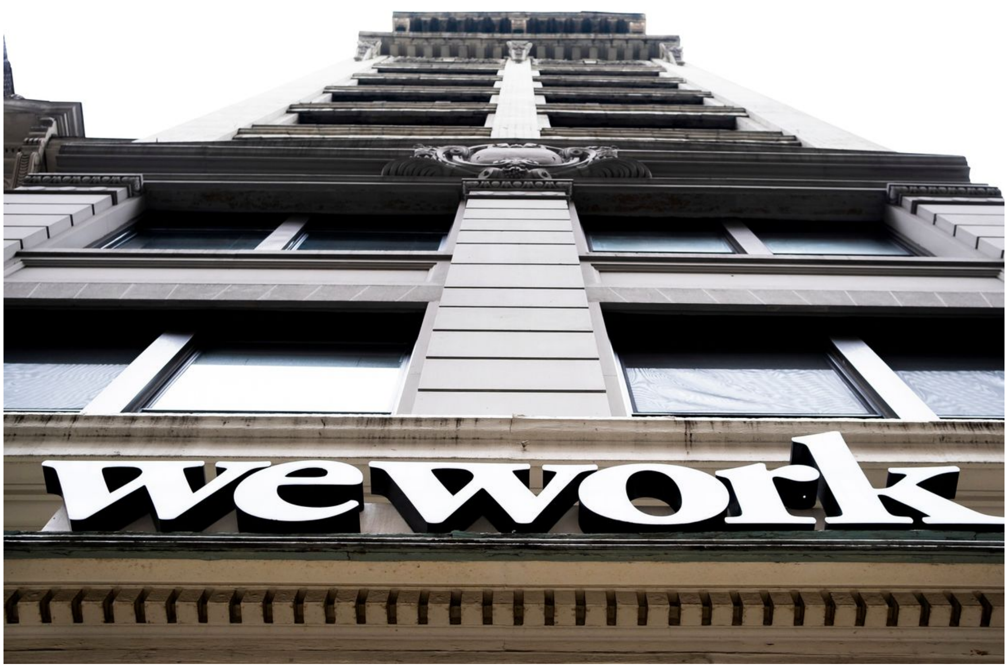
WeWork Cos. co-founder Adam Neumann has cashed out more than $700 million from the company ahead of its initial public offering through a mix of stock sales and debt, people familiar with the matter said—an unusually large sum given that startup founders typically wait for the IPO to monetize their holdings.

Mr. Neumann, who is chief executive of the shared office-space giant and remains its single largest shareholder, over several years has sold some of his stake in the company and borrowed against some of his holdings, the people said.

The exact size of Mr. Neumann's current ownership in WeWork couldn't be learned. He recently set up a family office to invest the proceeds and has begun to hire financial professionals to run it, they said.

Investors in startups have generally frowned upon founders who cash out large chunks of shares ahead of a public-markets debut, because it raises questions about their confidence in the company. On the other hand, people close to Mr. Neumann say, his borrowings against some of his WeWork shares indicate that he is bullish on the company's long-term prospects.



WeWork was valued at $47 billion in its latest investment round, in January; it filed confidentially for an initial public offering of shares late last year.

Photo: justin lane/epa/Shutterstock

Since WeWork was founded nine years ago, Mr. Neumann has invested heavily in real estate, spending more than $80 million for at least five homes, according to public records and people familiar with his home purchases. His other investments include commercial properties and stakes in startups, including a medical cannabis company. He has also given away more than $100 million, according to people familiar with his finances who declined to name specific recipients.

Share Your Thoughts

When do you think is the right time for startup CEOs to cash in on the wealth tied up in their companies? Join the conversation below.

Private companies rarely publicize disposals of stock by their top executives before making their IPO filings public. But among known instances of share sales by top executives of a U.S. startup, Mr. Neumann's transactions collectively rank among the largest in dollar terms.

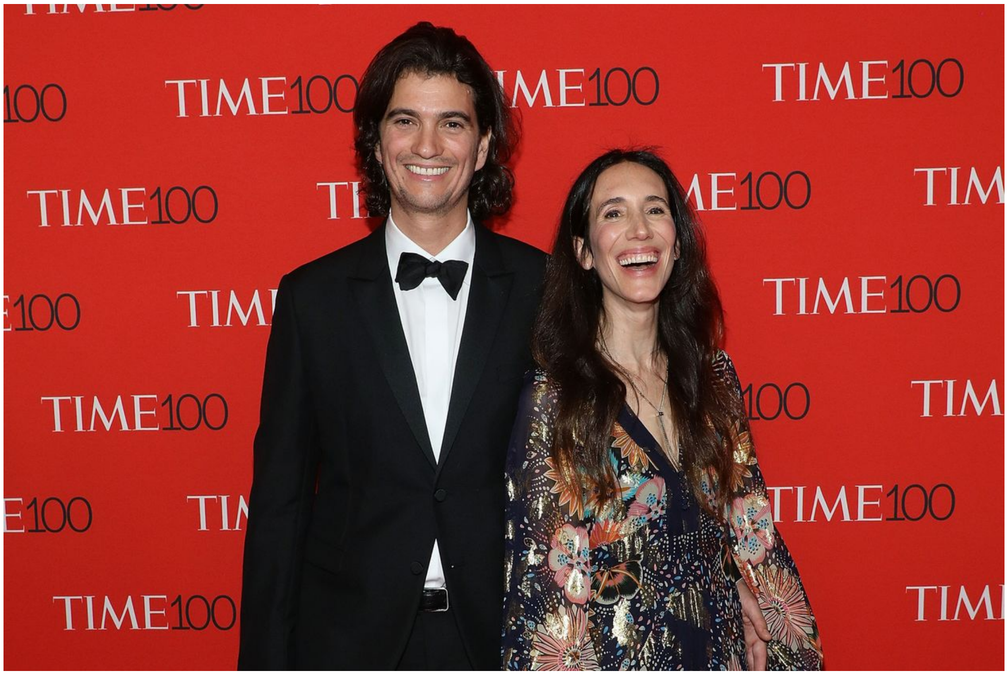
WeWork was valued at $47 billion in its latest investment round in January. It has said it filed confidentially late last year for an initial public offering of shares. The company plans to move ahead with the listing later this year or early next, people familiar with WeWork's timing have said.

Mr. Neumann, 40 years old, has sold shares during most of the investment rounds since 2014, although he didn't take money out in the round this past January, according to people familiar with the matter. He has also taken out loans of several hundred million dollars backed by his WeWork shares, people familiar with his finances said.

He has used some of the proceeds to purchase more WeWork shares by exercising his stock options early, some of the people said. By doing so, Mr. Neumann is betting that the value of WeWork's shares will rise while also minimizing his taxes, the people added. The majority of his wealth remains connected to WeWork, the people said.

Mr. Neumann declined to comment through a WeWork spokesman.

JPMorgan Chase & Co. has been the main bank helping Mr. Neumann borrow against his WeWork stake, people familiar with those loans said. The bank has separately been working with WeWork to structure a debt deal that would raise as much as $3 billion to $4 billion ahead of its IPO, The Wall Street Journal has reported.



Adam Neumann and his wife, Rebekah Neumann, in New York City in 2018. We Holdings LLC, which Mr. Neumann controls, held about 30% of WeWork at the end of 2017, according to 2018 securities filings.

Photo: Taylor Hill/FilmMagic/Getty Images

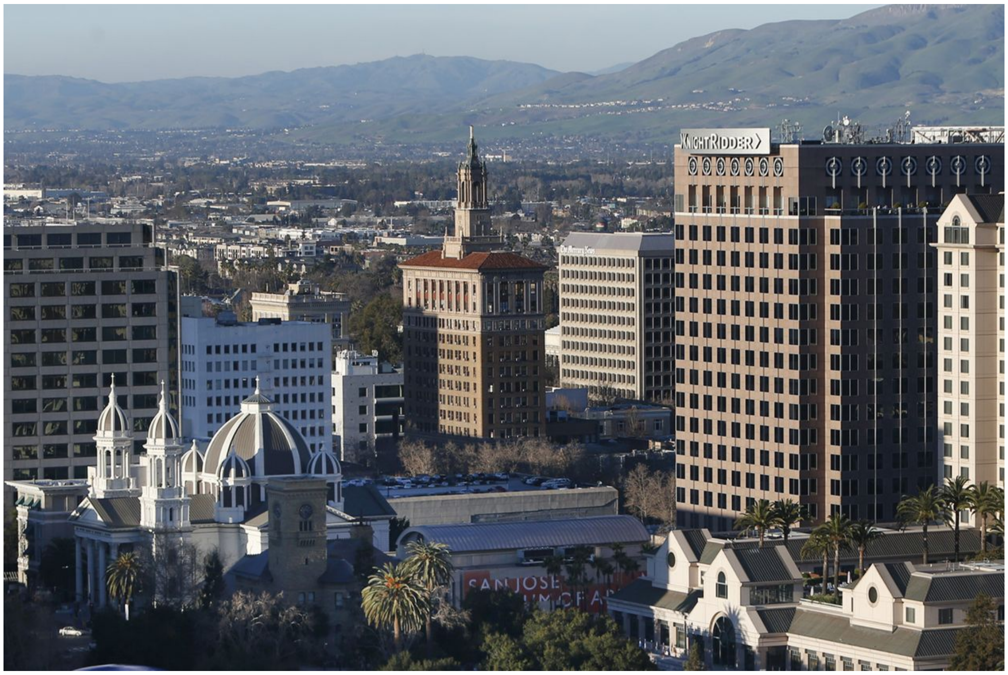
Historically, venture capitalists have been skeptical of sales by founders and executives of the startups they back, preferring these insiders keep their wealth tied to the company's fortunes until it goes public. Bill Gurley, a partner at Benchmark, a WeWork investor, criticized such sales last year, calling them a sign of froth in the markets.

Speaking at an event, Mr. Gurley said the practice is driven by investors who "come in at the late stage and they beg the founders to take liquidity because they're trying to get more ownership." In an email this week, Mr. Gurley said he was speaking generally and not about WeWork.

Later-stage investors often are willing to provide more money to startups than traditional venture capitalists, enabling companies to stay private for much longer. That has made it more acceptable for founders to sell small stakes—typically ranging from a few million to tens of millions of dollars—to these bigger investors, especially if a company has remained private for nearly a decade. Sometimes, venture capitalists also sell some of their stakes in these later rounds.

"Over the last five years there's been a growing level of comfort among the VC community to let founders sell," said Andrea Walne, a partner at Manhattan Venture Partners, a firm that helps arrange such sales.

Some of the other largest publicly-known sales of stock before an IPO include Zynga Inc. founder and CEO Mark Pincus's deal to take more than $109 million off the table before the social-gaming company's 2011 IPO. Eric Lefkofsky, as executive chairman and co-founder of Groupon Inc., sold more than $300 million in Groupon stock before the 2011 IPO. Both deals attracted criticism at the time, particularly after the companies' stocks later traded at lower valuations.



The skyline of downtown San Jose, Calif., in 2015. Mr. Neumann has used some of his WeWork proceeds to invest in commercial real estate in San Jose, where the company is planning an urban campus.

Photo: Karl Mondon/TNS/Zuma Press

More recently, Snap Inc. disclosed that co-founder Evan Spiegel sold roughly $8 million in stock and borrowed $20 million from the company before its 2017 IPO. Slack Technologies Inc. disclosed CEO Stewart Butterfield sold $3.2 million of stock between September 2016 and Slack's June public listing.

While WeWork hasn't disclosed Mr. Neumann's precise stake, a company he controls that includes his co-founder's stake—We Holdings LLC—held about 30% of WeWork at the end of 2017, according to securities documents related to a bond sale last year. Those shares have 10 times the votes of standard common stock, giving Mr. Neumann voting control.

He recently hired Ilan Stern, a former employee of Soros Fund Management, who also worked at venture-capital firm General Catalyst, to set up a family office to manage his wealth, including the more than $700 million from WeWork. The office is named 166 2nd Financial Services—after an apartment where he lived with his wife, Rebekah Paltrow Neumann, WeWork's chief brand officer.

You're a New Tech IPO Millionaire, Now What?

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You're a New Tech IPO Millionaire, Now What?

From Uber to Lyft to Airbnb, it's the year of the tech initial public offering. Jonathan DeYoe, a Bay Area financial adviser to some of the new IPO millionaires, explains how many of his clients acquired so much stock and what he suggests they do with their new riches. Illustration: Timothy Wong for The Wall Street Journal.

Since 2013, Mr. Neumann has bought four homes in and around New York City and last year paid $21 million for a 13,000-square-foot house in the Bay Area with a guitar-shaped room.

He has used some of the proceeds from his WeWork loan to invest tens of millions of dollars in commercial real estate, including several properties in downtown San Jose, Calif., where WeWork has been planning an urban campus, and in New York City, people familiar with the deals said. Four of his properties are leased to WeWork—a controversial practice given that WeWork is paying him millions a year in rent. WeWork recently said Mr. Neumann intends to transfer his property holdings to a WeWork-run fund at cost.

—Corrie Driebusch contributed to this article.

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