https://www.wsj.com/articles/softbank-seeking-to-take-control-of-wework-through-financing-package-11571002488

BUSINESS

SoftBank Seeking to Take Control of WeWork Through Financing Package

Potential deal would ease WeWork's cash crunch and further sideline co-founder Neumann

Adam Neumann speaking in January in Los Angeles. **PHOTO:** MICHAEL KOVAC/GETTY IMAGES FOR WEWORK

By Maureen Farrell, Liz Hoffman and Eliot Brown

Updated Oct. 13, 2019 7:21 pm ET

SoftBank Group Corp. 9984 **-2.58%** ▼ has prepared a financing package that would give it control of WeWork and further sideline its founder Adam Neumann in exchange for relieving the shared-office startup's looming cash crunch, according to people familiar with the matter.

WeWork is racing to find a way to shore up its financing after its New York parent company We Co. pulled its plans for an initial public offering and Mr. Neumann resigned as chief executive under pressure.

One potential solution is the SoftBank package. Another possibility: The board has tapped JPMorgan Chase & Co. to look at ways for the company to raise billions in debt, and the bank is in the middle of meetings with investors about participating in a multibillion-dollar debt deal, people familiar with the company's plans said.

"WeWork has retained a major Wall Street financial institution to arrange a financing," a company spokesman said. "Approximately 60 financing sources have signed confidentiality agreements and are meeting with the company's management and its bankers over the course of this past week and this coming week."

SoftBank, which already owns one-third of WeWork, is aiming to invest several billion dollars in new equity and debt, some of the people familiar with the matter said.

Should there be a deal with SoftBank, much of Mr. Neumann's voting power—already diminished from its peak but still substantial—would shift to the Japanese conglomerate, which would take a bigger role in turning around We's operations, people familiar with the matter said.

SHARE YOUR THOUGHTS

What potential gains or losses do you foresee for SoftBank if it gains control of WeWork? Join the conversation below.

The situation remains fluid and there is no guarantee a deal with SoftBank, a bank-debt agreement—or some combination of the two—will be reached.

Bleeding cash and shunned by mainstream investors, once-highflying WeWork has become the poster child for startup excess and has called into question the Silicon Valley practice of overlooking financial losses and unorthodox management styles in hopes of future riches.

We, valued at $47 billion in a SoftBank investment early this year, had been preparing to go public before investors balked at the company's ballooning losses and atypical financial entanglements with Mr. Neumann, who co-founded WeWork in 2010. Its expected valuation plummeted to below $20 billion, Mr. Neumann resigned under pressure and the listing was scrapped, casting uncertainty over the future of the company, the largest commercial tenant in many cities.

Details including the exact amount of SoftBank's potential investment couldn't be learned, but executives at SoftBank figure We needs at least $3 billion to get through the next year, people familiar with the discussions said. The price SoftBank would pay for We's shares would be much lower than the level at which it invested in January and its valuation could sink below $10 billion, some of the people said.

PREVIOUS COVERAGE

- WeWork Investors Turned Off by 'Sloppy' IPO Filings (Oct. 7)
- Chastened WeWork Weighs Pullback in China (Oct. 1)
- WeWork Still Needs Cash After Pulling IPO (Sept. 30)
- WeWork's Adam Neumann Steps Down as CEO (Sept. 24)

Some of SoftBank's cash could also be used by Mr. Neumann to repay hundreds of millions of dollars of personal bank loans, one of the people said.

Meanwhile, SoftBank Chief Executive Masayoshi Son has tapped Marcelo Claure, a top SoftBank executive, to work with We's new co-CEOs, Artie Minson and Sebastian Gunningham, on a turnaround plan, according to a person familiar with the matter. Since Mr. Neumann's departure, Mr. Claure and about 20 additional SoftBank employees have been analyzing the company's leases and buildings around the world, the person familiar said.

SoftBank already holds two seats on We's seven-member board. A pair of executives tied to the conglomerate joined after SoftBank committed $4.4 billion to the company in 2017.

SoftBank has hired lawyers from Weil, Gotshal & Manges LLP, a corporate law firm known for its financial-restructuring specialists, to help sort through We's finances and advise on the potential investment, some of the people said.

After Mr. Neumann's Sept. 24 departure, We's board tapped JPMorgan to assemble a fresh debt package, people familiar with the matter said. The terms of the arrangement don't require the bank to backstop the deal with its own balance sheet, but only to try its best to sell the debt to its clients.

Had We moved forward with an IPO that raised at least $3 billion, the company would have unlocked a package of up to $6 billion in funding through a debt deal.

"Best-efforts" deals typically mean a bank is uneasy taking on the risk itself. JPMorgan is deeply intertwined with We—as an investor in the company, lead underwriter of its planned IPO and personal banker to Mr. Neumann. Goldman Sachs Group Inc., which was one of the lead underwriters on the We IPO, isn't working with the company on this potential financing.

Absent new financing, We—which carries a junk credit rating—faces an acute cash crunch, as construction costs and other bills eat into the $2.5 billion it had on hand as of June 30.

The company is expected to run out of cash later this year if it doesn't secure additional funding, people familiar with the company's finances said.

The deal would be at a much lower price tag for SoftBank than when it previously tried to buy a majority stake in the company. SoftBank's Vision Fund last year tried to purchase a majority stake in We in a potential $16 billion deal, but key Vision Fund investors balked and the size of the investment was ratcheted down significantly.

The exact size of Mr. Neumann's stake is unclear, but We Holdings LLC, a company he controls that also includes other early investors, owns about one-third of We, according to securities filings. His shares carry three times the normal voting power, giving him substantial influence over the company.

Banks including JPMorgan lent Mr. Neumann $380 million as of June 30 tied to his stock in We. In recent weeks he has been working to restructure the loans, people familiar with the matter said. Since he was pushed out as CEO, Mr. Neumann's partners on some commercial properties he owns have begun sounding out buyers on a potential sale of those assets, people familiar with those conversations said.

Mr. Neumann owns properties in New York and the San Francisco Bay Area, including a building leased to We in lower Manhattan and several lots in San Jose, Calif., that were once intended to be a campus for We, people familiar with the properties said.

—David Benoit contributed to this article.

Write to Maureen Farrell at maureen.farrell@wsj.com, Liz Hoffman at liz.hoffman@wsj.com and Eliot Brown at eliot.brown@wsj.com