

## Module 7: Year End Discussion

"Masayoshi Son, the billionaire founder of SoftBank Group Corp., said this Wednesday his "really bad" judgment championing U.S. office-sharing company WeWork left the Japanese conglomerate and its massive tech-investment fund with the biggest quarterly loss in its 38-year history."

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

Daniel Talamantez

Daniel Talamantez

Nov 5, 2020 Nov 5 at 5:01pm

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

Based on relevant information, SoftBank's initial investment practices regarding WeWork show a lapse in judgement at the highest level. It is evident that Softbank's Chief Executive Masayoshi Son was captured more by the potential positives than the glaring outweighing negatives that the investment presented. The failure gaps that are evident include: not listening to hired independent auditors and staffers regarding the actual investment, overvaluing of the company WeWork (\$47 billion initially to \$8 billion actual), a focus on future growth and market share without any hope of profit, investments dollars given that fall way over actual value (\$10 billion invested + \$5 billion lent), WeWorks steep and growing losses at the time of investment, and trust in a poor and erratic CEO in WeWork's Adam Neumann. Cash burning startup WeWork mismanaged billions of dollars by throwing fundamentals and corporate governance out the window. The simple fact that WeWork disregarded shareholders rights is why the IPO failed. Continuing forward, the WeWork bailout potentially violates an agreement with Vision Fund investors that specifies outside any capital, they will not be held responsible for any losses in the fund. Where this gets murky is ultimately Softbank supplied a 1/3 of the total investments in Vision Fund and Masayoshi Son leads control over it. Softbank invested the initial \$6 billion in WeWork with another \$3 billion coming from the fund. Softbank now owns 80% of shares of WeWork and so their liabilities (debts), and obligations (employees) are in question as to who will fund these losses being that they are closely linked. With the new economic downturn, I expect commercial real estate to decrease. Especially with personnel moving to work from home. With the current business model that WeWork takes on long term lease obligations and only leases on short terms, the outlook for WeWork looks gloomy. Softbank unfortunately will have to continue funding this company for fear of total loss. Looking into the future, it is important that Softbank/Vision Fund focus on short term cash flow and earnings in future investments to reduce their overall growing debt. A focus on growth/ market share, lack of

profitability, and corporate mismanagement are what ultimately spelled doom for WeWork and any investments made into it.

#### References:

Dvorak, P., & Fujikawa, M. (n.d.). SofBank Founder Calls Judgment 'Bad' After \$4.7 Billion WeWork Hit [PDF]. Wall Street Journal.

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Reply Reply to Comment

Bill Osburn

Bill Osburn

Nov 8, 2020 Nov 8 at 10:21am

Daniel,

The investment into WeWork from SoftBank was way off base. There were plenty of reasons to not invest and few reasons to invest. Mr. Son's relationship with Mr. Neumann caused concern.

He was so enamored with him that he disregarded the data available to him. SoftBank will be paying for quite some time, it seems, for this major investment failure.

Do you think there is any way to save WeWork? Or has it gone too far and should SoftBank cut its losses?

Reply Reply to Comment

Daniel Talamantez

Daniel Talamantez

Nov 8, 2020 Nov 8 at 3:14pm

Bill,

That is a great question, I notated this fact from the additional article I read. Unfortunately, in this case SoftBank is into WeWork for roughly \$15 billion. I think it would be really hard to justify just walking away, however given the current pandemic there may be enough evidence to force their hand. I believe the commercial real estate market will slump for a bit especially if more and more companies decide to forgo new leases and start working from home instead. Short term leases are WeWork's fundamental business plan and so I do not know if Softbank can withstand further losses from a company that will continue to decline. They have a very hard choice to make.

Reply Reply to Comment

Jun Gao

Jun Gao

Nov 6, 2020 Nov 6 at 10:13pm

SoftBank Group is the world's largest tech investor. The company's strategy is to invest in startup tech companies with high market growth potential. This high risk and high return business model has paid off spectacularly. They have successfully invested in Yahoo, Alibaba, Sprint and ARM, etc. In September, 2020, SoftBank sold ARM to Nvidia for 40 billion dollars. Because of their risk appetite, they have investment failures. Large stakes in WeWork is one such example.

As we learned the winner's curse in the lecture, the SoftBank wanted to put more money into WeWork to prevent future loss. This is a typical psychological factor led risk-seeking behavior.

This has happened quite a lot in the stock market as well. When stock prices crashes, most investors would keep buying to minimize the potential loss. It's also called buying the dip. The fact of the matter is, you can probably never catch a stock at its low. Most investor will be trapped in there for a long time. In this kind of situation, a smart investor would sell assets to stay afloat. The biggest mistake SoftBank made is, they kept throwing more money at the loss-making WeWork. They trusted their gut decision instead of the market response on the WeWork IPO request.

SoftBank also made several other decision-making bias mistakes as listed below:

SoftBank ignored the public revealed deep governance issues of Wework.

Son's admitted that the biggest mistake he had made was misjudging Mr. Neumann's leadership and governance.

SoftBank should not allow founders to dominate a company's board and voting rights, especially during the finical crisis. Allowing the founder to dominate and manage the company seems a norm for their investor. The successful example was from Facebook. Peter Thiel, Facebooks first big investor has never involved in Facebooks strategic decision-making. However, when the company faces the finical or governance crisis, the major investor should take actions to protect their investment. This should be part of negotiation before they sign off the investment agreement.

The profitability of the company is the most important measurement metrics for public to evaluate the value of the company. As one of the WeWork's major investor, SoftBank seems not paid much attention on WeWork's business practices and their negative financial projections.

Mr. Son said, "From my perspective, there is no change in our journey. No change in our vision. No strategic change. All we will do is to just keep going, keep moving forward". Strategically, SoftBank does not need make any changes. But learning from the investment failure, avoiding the decision bias, and leverage the data-based decision making process can improve their future investment.

Reply Reply to Comment (1 like)

Bill Osburn

Bill Osburn

Nov 8, 2020 Nov 8 at 10:37am

Jun,

SoftBank had so many successes that they were blind to the possibility that they would not be able to save WeWork. Maybe Ego played a part in Mr. Son blindly pumping money into WeWork even though all the data pointed away from doing that.

Mr. Son fell into a trap by trusting Mr. Neumann and not seeing the lack of leadership displayed by him. He was an erratic leader and made decisions without processing the numbers. Profitability has become what investors are looking for in new investments now. At other times revenue was the key to new investment options. Not paying attention to the negative information available was the key issue regarding investment in WeWork.

Mr. Son should make some changes in his decisions with future investments. They need to be more data-driven and not gut feelings. He has made a lot of money and tends to make the right decisions most of the time, so I think he will be OK.

Reply Reply to Comment

Daniel Talamantez

Daniel Talamantez

Nov 8, 2020 Nov 8 at 3:26pm

Jun,

You make a great point that SoftBank should have pulled out early given the red flags. Moving forward, what do think they should do? Given that they have already sunk billions of dollars into this investment, would you cut your losses and move on or keep them afloat? Based on the information I read, it looks like they will continue to fund WeWork even though they continue to lose market share and value. Market conditions today for this type of business are volatile. It is almost a guess as to what may happen in the future given our current pandemic and political transition. I can only imagine the pressure they are now feeling.

Edited by Daniel Talamantez on Nov 9 at 1:39pm

Reply Reply to Comment

Jay Hembree

Jay Hembree

Nov 22, 2020 Nov 22 at 5:01pm

Howdy Jun,

Your line by line examples of the decision-making bias are spot on. It seems Mr. Son was enamored with the leader who treated his company similar to the way he ran SoftBank. As the founders, they dominated the board and managed the company's details nearly as an authoritarian. The example you gave of Peter Theil and Facebook should be looked upon by other tech companies like SoftBank and WeWork. You would think that after living thru the economic turndown in the tech sector of the early 2000's that more caution would be taken and more data-driven decision-making would take place. Do you feel they have truly learned from this experience? Starting Vision Fund 2 made me worried that truly nothing will change and his bias will continue to drive the company to take risks without all the data.

-Jay

Reply Reply to Comment

Daniel Day

Daniel Day

Nov 6, 2020 Nov 6 at 11:15pm

From the reading provided and other sources, it appears that SoftBank committed two errors when deciding to invest in and subsequently rescue struggling office space provider WeWork.

First, SoftBank did not perform an adequate analysis of the structure and business model of WeWork. SoftBank believed they had the next tech revolution on their hands, and were far too hasty in investing heavily without doing their "due diligence". From The ConversationLinks to an external site.:

"SoftBank made a very big bet that WeWork (and Uber) are "winner takes all" industries – like Amazon was for online shoppingLinks to an external site.. This gamble was based on the idea that they revolutionised their respective industries with their app design and technology.

But WeWork has major strategic failings in that it attempts to arbitrage long-term contracts with short-term rentals. Any recession or downturn is likely to put the model under strain. If the model is successful then competitors will follow, which will lower occupancy levels and push down profit margins.

It's not clear that WeWork's technology changes any of these traditional vulnerabilities of its business model." (Colley, 2019).

Additionally, SoftBank did not appropriately evaluate the corporate structure of WeWork. There were a number of warning signs in the company structure and culture at WeWork that would have likely caused most investors to steer clear of the company and its hard partying CEO Adam Neumann. This Vox article [Links to an external site.](#) breaks down exactly what was wrong in the corporate structure and culture at WeWork, including the shareholder power structure that gave Neumann almost total control of the Board of Directors at the company, and the extremely thin and shady lines between WeWork's corporate funds and Neumann's personal money.

The second failure of SoftBank in this case is something we discussed at the very beginning of this course: sunk cost bias. SoftBank was invested heavily in WeWork, and when it became clear that the investment was not going to be profitable for SoftBank, the investment firm doubled down instead of bailing out. SoftBank was unwilling to let go of the WeWork investment; they had already invested so much into the company that they felt committed to making it work at all costs, even when it was becoming clear that the business model of WeWork was failing, and that the economic conditions in the country couldn't support a venture such as WeWork.

Reply Reply to Comment

Bill Osburn

Bill Osburn

Nov 8, 2020 Nov 8 at 10:49am

Daniel,

SoftBank really missed the mark by not doing a complete analysis of WeWork before investing so much capital in the company.

The leadership was lacking with Mr. Neumann and his partying ways should have been a red flag. For some reason, Mr. Son was enamored with Mr. Neumann and I think he liked he was a risk-taker as was Mr. Son.

You are spot on with the sunk-cost bias explanation. They invested so much they were not willing to admit the failure and cut their losses. So they kept sinking money into WeWork. Maybe Mr. Son should take our class and he would know better.

Reply Reply to Comment

Jordan Caddick

Jordan Caddick

Nov 9, 2020 Nov 9 at 12:28am

Daniel,

My research also indicated that SoftBank failed to perform their due diligence when choosing to invest in SoftBank. I feel this was the result of some specific biases, and more generally heuristics that we too often rely upon to make decisions. I think that you have a very valid point that performing an adequate analysis of the structure and business model of WeWork could have led to some more insight that may have changed SoftBank's opinion on whether or not to invest in WeWork.

Reply Reply to Comment

Jonathan Weiss

Jonathan Weiss

Nov 24, 2020 Nov 24 at 4:56am

Daniel,



Good write-up. I agree with everything you said, I liked your supporting articles as well. They did appear hasty. SoftBank was worth billions and seemed very willing to take on major risk to invest in the next big thing. Of course, this strategy had worked in the past, but there's obvious obvious issues with this kind of approach. Another point you made, that I think is right on, was that SoftBank was a victim of sunk cost bias. They had already invested a lot of money, which they didn't want to be a total loss. So, instead of bailing out, they poured more money in, with a hope that things would change for the better.

Reply Reply to Comment

Joe Williams

Joe Williams

Nov 24, 2020 Nov 24 at 5:40pm

Daniel good on you for going out and look at other sources. For me this was such a train wreck from reading the articles that he already had posted I could care less to see any more of the train wreck! Therefore I didn't waste any time in getting outside information. I think that they committed allot more than two errors when deciding to invest WeWork, but you did a good job at picking out those two critical failures for sure!

After reading these 4 articles, it almost seems as if SoftBank had a "too big to fail" mentality going on. This means that they really felt that as soon as they put their money into it, along with their name, that everything and everyone was just going to magically make profits again. Seeing how they already had so many irons in the fire helping out other startups they had this same mentality with, I really think they sold themselves short and that "too big" ego got busted.

The point you make about them being the "winner takes all" was highly an ego play gone wrong. No way does WeWork have something unique. Anyone can make a comparable product and run with it. There is nothing proprietary about what they do. Anyone else can easily make this scalable and run with it.

Reply Reply to Comment

Eric Worley

Eric Worley

Nov 7, 2020 Nov 7 at 2:43pm

## TCMT 612 - Technical Management Decision Making

### Module 7: Discussion

Reading the articles provided about SoftBank's founder Mr. Son and some of his decisions was interesting. At first, I suspected Mr. Son's portfolio company, WeWork, encountered economic challenges since it was heavily focused on growth and not bottom-line profitability. The shock of WeWork's failed initial public offering has helped awaken investors from the dream that easy finance will last forever. The new approach showed up immediately in the market's reaction to third-quarter results. Pre-We, in the days when investors cared only about growth, it was the sales line that mattered, not the bottom line. But a stream of highly valued growth companies reported better revenue than forecast only to find investors dumped the stocks due to disappointing earnings. Tesla did the opposite, with worse-than-expected revenue but an unexpected profit, and shares soared. [1]

While these circumstances may have been a primary driver for the financial pressure, Mr. Son's direct decisions and biases to bailout WeWork exacerbated the already struggling company's dire situation. Additionally, Mr. Son's lack of accountability resonates when comparing his actions with what he says. At a Vision Fund meeting in September that brought together its investors and portfolio companies, Mr. Son repeatedly told attendees that the fund now views the ability to make money as important as increasing revenue or market share, according to a person who was present. [2] While Mr. Son has said that the Vision Fund would take minority stakes in companies and not seek to control them, SoftBank is expected to own up to 80% of WeWork's shares, with Mr. Claire, the conglomerate's chief operating officer, heading the board. [3] This dichotomy of speak versus actions resounds loudly.

Finally, my pessimistic view of Mr. Son's business practices and decisions is allegedly affirmed from a Forbes article I came across, highlighting disconcerting text messages between himself and Mr. Claire. Text messages read: "It's great to postpone the close of tender...Use whatever excuse to make senses," Son replied. Claire texted back: "Ok. Will use antitrust. I am turning good at excuses like someone I know very well :)." After delaying the tender offer from February 28 to April 1, shareholders were notified on the deadline that SoftBank would not in fact pay the tender offer, citing among a number of reasons, "failure to satisfy the regulatory approval condition" which included "antitrust approvals." The aborted multi-billion-dollar payout has since been at the center of multiple lawsuits filed by shareholders of the global

office-space company. Wednesday's court filing in Delaware Chancery Court appeared in the case brought by Adam Neumann, who was expected to receive almost \$1 billion. [4]

The resulting coordination between Mr. Son and Mr. Claure to not pay out billions of dollars, along with the alleged text messages, speaks volumes. Assuming these allegations are true, I hope Mr. Neumann and WeWork's employees will win the lawsuit, and justice is served. These events seem to be a clear case of very wealthy individuals' corporate greed and selfishness to do whatever they can to benefit their own interests.

Eric Worley

ewworley@tamu.edu

TAM\_EWorley\_Module7Discussion\_WorksCited\_TCMT612TechnicalManagementDecisionMaking.pdfPreview the document

Reply Reply to Comment

Jun Gao

Jun Gao

Nov 8, 2020 Nov 8 at 8:48pm

Eric:

There is no doubt that Mr. Son is successful according to his successful investments on many small startup tech companies. I actually was a big fan of Mr. Son because of Alibaba. I knew Alibaba was struggling to survive at its early stage. Without Mr. Son and SoftBank, Alibaba would not be the world's biggest online commerce company. For this particular WeWork case, I have seen way more negative reports on the WeWork due to Mr. Neumann's poor governance. I truly believe that both parties have issues. In these days, the pandemic and overall economic declines have led a variety of business model changes. Work from home has become a norm. Even if WeWork wins the lawsuit, they really need to think about how to change their business model and strategies to adopt the current market change.

Reply Reply to Comment

Jordan Caddick

Jordan Caddick

Nov 9, 2020 Nov 9 at 12:49am

Eric,

Great insight on SoftBank's executive leadership. I believe that Mr. Neumann also had many issues of his own, and I think that both individuals were more interested in making money or realizing personal gain than building on a vision for a good product for the customer. I think that Mr. Neumann is just as much to blame as Mr. Son for selling investors a product that was grossly overvalued. Based on the outcome, I think it gives us more of a reason to maintain one's integrity as a leader in one's respective profession.

[Reply](#) [Reply to Comment](#)

Matthew Hudson

Matthew Hudson

Nov 18, 2020 Nov 18 at 7:40pm

You detail very well the slow decline of the company and blind bias of Mr. Son. I wonder if anyone was telling him the truth or if he simply didn't want to hear about the impending failure? In the end the lawsuits and court order fillings will not give back investors or employees lives back. It is hard to see how one man's bias caused a company to fail and for many to lose their money. I think back to Enron and how it was on top one day and bankrupt the next, leading to employees to lose their retirements.

[Reply](#) [Reply to Comment](#)

Bill Osburn

Bill Osburn

Nov 8, 2020 Nov 8 at 9:48am

TCMT 612

Module 7 Discussion

Bill Osburn

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

It looks obvious that Mr. Son made some poor decisions when it came to the WeWork investment. It looks as though the decisions were made because they already had so much invested in WeWork and Mr. Son, maybe, did not want to admit that he had made mistakes in what the earnings would be for WeWork. Mr. Neumann, one of WeWork's cofounders, had backing from Mr. Son which could have led to him wanting to invest more into WeWork. With SoftBank investing basically \$15 billion for a company valued at approximately \$8 billion, there had to be some personal gain at stake or maybe Mr. Son's personal relationship with Mr. Neumann clouded his judgment. The valuation decreases of \$40 billion should have been a major red flag for Mr. Son. (Hoffman & Farrell, WeWork's Board to Evaluate Emergency Bailout Plans).

Mr. Son had stated that the investment in WeWork would come from the Vision Fund but much of the investment came from SoftBank, about \$6 billion of the initial \$9 billion. This was causing SoftBank's credit rating to drop even lower than it already was. Its investment in Alibaba Group Holding Ltd. was one of the only things keeping SoftBank relative at the time. (Dvorak & Baer, SoftBank's WeWork Bailout Draws Investor Concern).

WeWork's debacle caused investors to look more at the bottom line and not just revenue when looking to invest in a company. This pattern is happening across a lot of markets but may not continue in the long run. Cash flow seems to be the most important aspect of determining whether to invest in a company or not currently. (Mackintosh, WeWork Debacle Teaches Investors a Lesson About Value).

It was a learning experience for Mr. Son, even though his past investments were lucrative. His admiration for Mr. Neumann got in the way of him making a rational decision when it came to WeWork. He has stated that he will no longer be bailing out companies like WeWork. (Dvorak & Fujikawa, SoftBank Founder Calls Judgment 'Bad' After \$4.7 Billion WeWork Hit).

The growth rate of the U.S. economy was much better than the Japanese economy at the time which is another reason Mr. Son wanted to invest elsewhere.

Picture1.png

Also, Mr. Son treated WeWork as a tech company when it really was not. All the data was there to steer Mr. Son away from this investment, but he chose to ignore it, and looking back on it, he knows that. (Zakir, 2020).

#### References:

Dvorak, P., & Baer, J. (n.d.). SofBank's WeWork Bailout Draws Investor Concern. Wall Street Journal.

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Hoffman, L., & Farrell, M. (n.d.). WeWork's Board to Evaluate Emergency Bailout Plans. Wall Street Journal.

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Zakir, H. (2020, February 08). WeWork/SoftBank: A Case-study of a Failed Acquisition. Retrieved November 08, 2020, from <https://medium.com/@hatemzakir/wework-softbank-a-case-study-of-a-failed-acquisition-bd21e94ca07d>

Reply Reply to Comment

Daniel Talamantez

Daniel Talamantez

Nov 8, 2020 Nov 8 at 3:19pm

Bill,

The information that we have gone through says a lot about the relationship between Mr. Son and Mr. Neumann. Outside looking in, it seems business decisions were made based on a friendship rather than actual numbers. You mentioned that Mr. Son may not have wanted to admit he was initially wrong and so kept moving along. I would agree with this point, and I wonder at what point in the agreement that he found out he was in trouble with this dealing (early on or late). The information states that Mr. Neumann continuously made bad business decisions and was more focused on non-business matters. Do you think Mr. Son may have been conned?

Edited by Daniel Talamantez on Nov 8 at 3:21pm

Reply Reply to Comment (1 like)

Bill Osburn

Bill Osburn

Nov 13, 2020 Nov 13 at 4:40pm

Daniel,

Thank you for your reply. I think he may have believed many things that Mr. Neumann told him and he fell into a trap.

Reply Reply to Comment (1 like)

Jun Gao

Jun Gao

Nov 8, 2020 Nov 8 at 8:45pm

Bill

Actually, the investment is far more complicated than we discussed here. In your statement, you said that you think the cash flow is the most important aspect for investor's decision-making. Tesla is a good opposite example. If we look at their net income in the last five years, they have only had two positive quarterly earnings from 2016 thru mid 2019.

Screenshot\_2020-11-08 Tesla Net Income (Quarterly) TSLA.png

Screenshot\_2020-11-08 Tesla Revenue (Quarterly) TSLA.png

However, if we look at their quarterly total revenue, you can see their growth even though the growth trend is not smooth. There are ups and downs along the way. If the investor only paid attention to the cash flow, gross margin or the stock market responses, the performance of Tesla would have scared a lot of investors away. Nevertheless, a rising trend of revenue indicates a growing of the company. As investors, they definitely need to evaluate the company's revenue along with other factors for their critical decision-making, such as the market/customer's inquiry, government policy and technology development direction, etc. Besides data based decision-making, a good investor also need good faith and a big vision of the company's growth in the competitive market.

Reply Reply to Comment (1 like)

Bill Osburn

Bill Osburn

Nov 13, 2020 Nov 13 at 4:46pm

Jun,

Thank you for reading my post. I appreciate your feedback.

I did not mean to imply or state that Cash Flow is most important in investing. I was trying to say that Cash Flow is what investors are looking at more than revenue but it will most likely change.

Reply Reply to Comment

Jonathan Weiss

Jonathan Weiss

Nov 24, 2020 Nov 24 at 5:06am

Bill,



You made some good points. The first red flag was that SoftBank invested \$15 billion into a company that was valued at \$8 billion, not to mention the decrease in value from \$40 billion. I believe Neumann did cloud his judgement. Son probably thought he had a chance to win big again. Reality is that he invested a ton of money into a losing company and continued to invest more in order to save it.

Reply Reply to Comment

Jordan Caddick

Jordan Caddick

Nov 9, 2020 Nov 9 at 12:20am

What is your view of SoftBank's investment decision practices (or gaps) in the WeWork case?

I believe that SoftBank's investment decision practices relied too heavily the representative heuristic (specifically misconceptions of chance) which caused them to miscalculate their support of WeWork leading to a massive loss. SoftBank appears to have weathered some serious storms in its history that many people expected it would not survive. For example, SoftBank survived the dot-com crash and the widespread availability of cost-effective broadband in Japan in the mid-2000's. SoftBank also survived after they bought Japan's 3rd biggest mobile carrier (Vodafone Japan) and took on the substantial debt associated with that company. Throughout all this, SoftBank grew to operate in broadband, fixed-line telecommunications, e-commerce, internet, technology services, finance, media and marketing, semiconductor design, and other areas as well as manage the Vision Fund worth \$100 billion. It is my suspicion that the representative heuristic led Mr. Son to feel as though some of his decisions were a result of his prescience, when in actuality some of these positive outcomes were purely chance. I think this definitely came into play when propping up WeWork. In the past, the decisions that were made by Mr. Son turned out to be profitable. Why, then, would the decision to invest in WeWork be any different? I also recognize that using practical and analytical decision making tools such as regression analysis forecasting or decision tree models would have also shed some light on the fact that WeWork was overvalued, and may have deterred Mr. Son from engaging with Mr. Neumann. Perhaps a Dupont analysis of WeWork would have yielded some information that would have deterred Mr. Son. However, I still feel that the strongest factors at play here were in the form of biases under the representative heuristic. According to the below article from FastCompany, "If the company's board of directors had resisted the lure of biases and measured their execution readiness early on in WeWork's expansion, they likely could have prevented many of their problems. Perhaps the company could have even lived up to its original sky-high valuation."

<https://www.fastcompany.com/90444597/this-is-what-really-brought-down-wework>Links to an external site.

For me, I think the lessons on biases in decision making were the most valuable I could have learned in our class. The fact that every human, from Steve Jobs to any one of us, is governed by many of the same sets of biases when making decisions is a very powerful thought. The fact that we have the tools to recognize and free ourselves of these biases when making important decisions like whether or not to invest in WeWork is an even more powerful thought.

Reply Reply to Comment

Daniel Day

Daniel Day

Nov 12, 2020 Nov 12 at 8:37pm

Jordan,

That's a good point about the biases that make us make poor decisions. We learned about many of these at the beginning of the class, as you point out, and I also highlighted one of those biases in my analysis. It looks like it was probably several of these types of decision making biases working together that caused SoftBank to miss so wildly with WeWork. I think this is probably often the case. It's likely rare that any one particular bias is solely responsible for failures of this magnitude. For a firm as successful as SoftBank to be lead this far down the rabbit hole probably takes multiple failures at several levels.

Reply Reply to Comment

Jeremy Meehleib

Jeremy Meehleib

Nov 18, 2020 Nov 18 at 11:45am

Jordan,

Enjoyed your focus on biases in your analysis of the SoftBank and WeWork case study.

I think one of the problems not often considered is the massive amount of money these organizations are working with. They are starting from a skewed anchoring bias of their own

making. They are working in magnitudes of hundreds of BILLIONS of dollars that are abbreviated by \$100B. I mean, just the thought of being responsible to others for such a sum should be met with a little humility. Yet, it is a number on a sheet of paper. People respond to the mismanagement of such funds as if their parents caught them smoking.

By human nature we become normalized to a set of conditions relatively quickly. Taking note of the true reality of value when you are working with this kind of money seem a bit obtuse I suppose. Losing 10 cents on a dollar purchase is not a big deal. Losing \$10,000 on a \$100,000 purchase appears significant. To groups like SoftBank and WeWork, \$10B loss on \$100B is just lost change that falls from their pockets.

I once heard a story of one of my friends that was an entrepreneur and had occasion to mingle with venture capitalists. They said one of these investors mentioned that their success "allowed them to never have to look at the right side of the menu." I asked what that meant? To which, my friend replied "That's where the prices are." This person, obviously, was not thinking big enough!!!

Thank you

Jeremy Meehleib

Reply Reply to Comment

Brandi Greenberg

Brandi Greenberg

Nov 20, 2020 Nov 20 at 9:33am

Howdy Jordan,

I agree with your statements that biases are playing a massive part in Mr. Son's decision-making process. In my write-up, I cited different biases and leaned more towards the halo effect than any other bias. We are bombarded with the halo effect in everything we do, even commercials on TV. Do you believe that friendship and relationships among business leaders affect how much people are willing to invest in another company, even if they know it might be a bad investment, just because their friend is charismatic?

Reply Reply to Comment

Jay Hembree

Jay Hembree

Nov 22, 2020 Nov 22 at 4:43pm

Howdy Jordan,

Your point of the heuristic bias being at play is similar to how I saw this case. They are obviously not risk-averse and had been willing to take chances for decades. I agree that as you come thru adversity after adversity with positive results you start to think you are Midas and can do no wrong. I think the same thing happens with investors. We see someone or a company that is successful and want to be a part of it and assume they will always be successful. Our biases reinforce the company officer's own biases (like Mr. Son) to continue on their path. Until true adversity hits many don't change their ways. Even in this case and after the biggest loss in the companies 38-year history "Mr. Son said the first Vision Fund hit its spending limit of 85% in September and could no longer make new investments. SoftBank is already starting to invest from Vision Fund 2 using its own money as seed capital".

-Jay

Reply Reply to Comment

Kacie Fischer

Kacie Fischer

Nov 22, 2020 Nov 22 at 5:05pm

Jordan,

Excellent evaluation! It makes me wish I could look at the information Mr. Son had and perform an evaluation myself. I am curious to see if there was possibly some behind-the-scenes distorting of numbers/revenue or even future expected profit that isn't exclusively available to the public (on WeWork's part), which led Mr. Son to make some of these critical investment errors that he did. And with the representative heuristic bias incorporated into that mix, to Mr. Son, any risk was worth taking because in the past it had proved to be successful. Interesting take.

Kacie

Reply Reply to Comment

Jeremy Meehleib

Jeremy Meehleib

Nov 10, 2020 Nov 10 at 3:11pm

What is your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

As I look at this business scenario, the thing that stands out to me are the judgement biases discussed early in the course. Escalation of Commitment and Sunk Cost Biases appear to be actively involved in this scenario.

The WSJ articles indicate SoftBank “will have invested well over \$10 billion, and lent \$5 billion more, to a company now valued at \$8 billion or less.” And as of January of that year, SoftBank had valued WeWork at \$47 Billion prior to that funding.

The effort to keep investing appears to be in service of covering Softbank’s previous decisions to invest in WeWork. I generally understand that companies are unprofitable initially (until they make the ‘turn’), but I am unfamiliar with how these scenarios are weighted in terms of time horizon for making money on the investment. Later in another of the WSJ articles it is indicated that “WeWork was an extreme example of a company forced to dump its ambitions and focus on survival because investors would no longer finance a land grab of growth at any cost.” This appears to indicate that such a time horizon does have limits.

The concern about the founding CEO’s business antics of trademarking “We” and then selling it to the “WeWork” company for \$5.6 million dollars should also have been a red flag and forced any investor to walk away.

Just in my short search of the internet, the Investopedia article (below) discussed a company with a comparable office space rental strategy. “Switzerland-based IWG, like WeWork, provides flexible-office space, but unlike WeWork, is a publicly traded company and is valued at around \$4.6 billion, about a tenth of what WeWork is valued at. IWG is considered the biggest company in terms of office space with 60 million square feet globally. Meanwhile, WeWork had just 45 million square feet as of March, according to BloombergLinks to an external site..”

I am no business mogul, but I would be skeptical of a valuation of WeWork of 10x greater than a comparable company that is already publicly traded with more office space. I would also question why someone would have invested \$15 billion dollars in WeWork with that a reference.

One other thing that the Investopedia article points out is that the office space WeWork rents out is itself leased by WeWork. "WeWork's latest idea has been to start a \$2.9 billion dollar fund that will invest in outright ownership of office buildings. It's not a bad idea, but it's difficult to see how it's any different from what a typical property management firm does and there are lots of those around." Without physical assets, how can the valuation be \$45+ billion?

So as for SoftBank's investment decision practices regarding WeWork, I am unsure there were any practices other than covering for their past decisions. I am unsure how that could be captured in a company strategy statement.

Thank you,

Jeremy Meehleib

Other reference articles below:

<https://www.investopedia.com/what-you-need-to-know-about-the-wework-ipo-4767438>Links to an external site.

<https://www.businessinsider.com/wework-ipo-fiasco-adam-neumann-explained-events-timeline-2019-9>Links to an external site.

<https://www.cnn.com/2019/09/04/wework-ceo-returns-5point9-million-the-company-paid-for-we-trademark.html>Links to an external site.

Edited by Jeremy Meehleib on Nov 10 at 3:15pm

Reply Reply to Comment

Daniel Day

Daniel Day

Nov 12, 2020 Nov 12 at 9:04pm

Jeremy,

I was also put off by WeWork's CEO's behavior. It doesn't instill confidence that the company is on a solid business foundation when the CEO is scamming his own company with shady deals. You can also look to the firm's stock structure and org chart to tell you that this company appeared to be at the total mercy of the guy who's using company money to fund party getaways. It was a disaster waiting to happen. I know they say hindsight is 20/20, and it may only appear obvious now that WeWork has ousted Neumann from his leadership role, but it is very hard to see why SoftBank or Mr. Son would be so enamored of Adam Neumann. And confident enough to initially invest to the tune of 10 million dollars? You're absolutely right about the sunk cost and escalation biases, and I mentioned that in my analysis, too. SoftBank was "throwing good money after bad" as the WSJ put it. I wonder if it gets even harder to admit a mistake when that mistake seems so obvious in hindsight.

[Reply](#) [Reply to Comment](#)

Tom Cappucci

Tom Cappucci

Nov 15, 2020 Nov 15 at 12:26pm

"Masayoshi Son, the billionaire founder of SoftBank Group Corp., said this Wednesday his "really bad" judgment championing U.S. office-sharing company WeWork left the Japanese conglomerate and its massive tech-investment fund with the biggest quarterly loss in its 38-year history."

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

Your response should be 100-200 words in length, reflecting on the prompt above.

When making decisions that affect billion-dollar investment strategies, it is important to know yourself, recognize when you are using bias to make a decision. To make a good decision, you need to collect multiple sets of data, and investigate options fully before pursuit, especially if the data indicates your original hypothesis is incorrect. The decision practices of SoftBank are known as "red flag conditions". These conditions provide the framework for experienced decision makers to make the wrong decision. The identifiable red flags from the readings are:

Misleading experiences, inappropriate self-interests, governance issues, emotional attachments, and gut feeling decisions. Softbank had prior success on investments in a similar category and misrecognized the pattern to success. Mr. Son had clear inappropriate attachment to the WeWork CEO, in the form of a strong emotional feeling. “Mr. Son said he had been too enamored of Mr. Neumann’s positive qualities and turned a blind eye to negatives, including governance problems”. For the case at SoftBank, inappropriate self-interests & poor governance are tied together. The board was comprised of internal stakeholders, who have personal interest that conflict with the responsibilities SoftBank had for other stakeholders. In a recent article a CNBC, “SoftBank CEO Masayoshi Son is making the changes to improve the perception of board independence...including ensuring we have a greater proportion of External Board Directors, and further highlight SoftBank’s commitment to corporate governance”. The articles point to the fact Mr. Son often makes “quirky and gut driven investments” and is willing “to stake tens of billions on what seemed to be mad bets on growth without any hope of profit”. It seems like the non-data backed decision style of SoftBank, has caught up to them, and the luck is running out. SoftBank is making the organizational changes necessary to make better decisions, but they have a long way to go.

Reply Reply to Comment

Brandi Greenberg

Brandi Greenberg

Nov 20, 2020 Nov 20 at 9:58am

Howdy Tom,

In the WSJ article about the bailout drawing investor concerns, it stated that SoftBank had taken on slimming down the business. I read that they were selling or shutting down all the different side ventures that Adam Neumann had put in place. I saw that there was a private elementary school called WeGrow that was in the Chelsea neighborhood of New York City; it charged over \$42K a year per student and closed its doors. The event planning website meetup.com was sold off to Alley Corp for less than the \$156M acquired price. SoftBank was also hoping to refocus on its core business of leasing office buildings, renovating them, and subletting to short-term tenants.



With this new era of working in a pandemic, do you see that a company like WeWork could flourish? Companies are unwilling to commit to multi-year leases without knowing what the new normal is. WeWork could offer a way to get temporary or flexible space with amenities that still let workers collaborate in person. For workers whose housing situations aren't amenable to remote work, WeWork can provide an office environment even if they work for a company with a remote-work culture.[1]

[1] <https://www.bloomberg.com/opinion/articles/2020-09-15/wework-was-built-for-post-coronavirus-flexible-work-demands>

Reply Reply to Comment (1 like)

Tom Cappucci

Tom Cappucci

Nov 22, 2020 Nov 22 at 11:56am

Brandi,

I absolutely see the flexibility WeWork could provide to companies looking for temporary office space, being a major plus for the company. I have several friends who work for companies who have terminated leases on office space, and are having people work from home full time now moving forward. I think the next year will be very telling, and we will see if return to office space is in the cards for a lot of companies.

Reply Reply to Comment (1 like)

Brandi Greenberg

Brandi Greenberg

Nov 24, 2020 Nov 24 at 4:33pm

Tom,

For some reason I want them to succeed, I hope that Mr. Son makes his money back, and people find WeWork beneficial.

Reply Reply to Comment (1 like)

John Schaub

John Schaub

Nov 22, 2020 Nov 22 at 8:27pm

Tom,

Bingo! You too had the same gut reaction I had that a more qualitative decision based methodology may have been utilized or a heavily biased probabilities engineered by Mr. Son played a vital role in SoftBanks investment in WeWork.

It does go to show that even the best (Mr. Son was a genius investor during the .com era) can make fundamental mistakes in areas in which they are experts.

Cheers,

John

Reply Reply to Comment (1 like)

Amy Hollabaugh

Amy Hollabaugh

Nov 16, 2020 Nov 16 at 10:31pm

I think Masayoshi Son became enamored with the founder, Adam Neumann, and then became blind to the red flags to make any good decisions. By reading some additional material, the New York times published an article stating that Neumann was leasing buildings he owned back to WeWork, Neumann was taking home a profit and Wework was hemorrhaging cash flow. Also the articles in Wall Street Journal highlighted that WeWork didn't have well established governance, which makes it harder to make decisions when there are not any procedures or

rules to follow to make good business decisions. I think Masayoshi didn't want to admit failure after WeWork failed going public and its valuation plummeted afterwards. WeWork was managed poorly by Neumann and the company didn't even try to show that it could make a revenue before going public, but Son was under the spell of Neumann and overly optimistic that he could save WeWork from failing, it doesn't seem like Son did his due diligence into WeWork's books and instead of analyzing the financials of the company he was blinded by Neumann's over optimistic views of his own company's success and how much money WeWork would bring to Softbank's investment.

Reply Reply to Comment

Carolyn Perez

Carolyn Perez

Nov 19, 2020 Nov 19 at 5:29pm

Amy,

You make such a great point about the fact that Mr. Son was essentially blinded by a good salesman who was clearly not capable of running a company. Though analysts pointed out the unusual corporate governance structure and the books and financials (which would have been a clear indicator not to invest) the optimism that Neumann had for his own company and the excitement that Son had based off of Neumann's claims of success was a huge mistake on the part of SoftBank. It is interesting to me that other's saw Neumann for what he was and Mr. Son did not. I guess a big personality and charisma like that can take you places, but it appears only so far.

Reply Reply to Comment

Jacquelyn Lopez-Barlow

Jacquelyn Lopez-Barlow

Nov 24, 2020 Nov 24 at 4:09am

Amy and Carolyn,

I also agree about Mr. Son being blinded and unable to remain objective to evaluate the various red flags. Several interviews about their relationship make it seem like they had a very close relationship and describe Mr. Son as Mr. Neumann's mentor and that he was the driving force behind Neumann's behavior. At some point wanting more became the driving force for both

men, though maybe fueled by different motivations. Mr. Son wanted to expand his portfolio and develop his next vision fund and I think Mr. Neumann wanted to be a top billionaire like Mark Zuckerberg.

Edited by Jacquelyn Lopez-Barlow on Nov 24 at 4:12am

Reply Reply to Comment

Taylor Anderson

Taylor Anderson

Nov 24, 2020 Nov 24 at 11:44pm

Amy,

Good point on SoftBank becoming blind to red flags. It appears that there were many red flags there like Neumann purchasing property and leasing it back to WeWork and many others, but yet SoftBank continued to invest despite all of these red flags. Red flags are something that should not be ignored and should at least be looked into to see if they are a true concern and that did not appear to take place in this situation.

Reply Reply to Comment

Richard Pearson

Richard Pearson

Nov 17, 2020 Nov 17 at 10:22am

SoftBank is a Japanese holding company consisting of many technology-focused companies. In 2016, the Chief Executive Officer of SoftBank, Masayoshi Son, announced the \$100 Billion SoftBank Vision Fund to invest in the fast-paced venture capital sector. At the time of inception, the entire venture capital industry received investments totaling \$75.3 billion [1]; this new investment would be larger than any other fund previously created and by a large margin.

With such a large fund at its disposal, SoftBank can invest large sums of money while risking only a small percentage of their total fund. By early 2019, SoftBank had invested nearly \$10.5 Billion in WeWork [2] through a combination of share purchases and cash injections to help bolster the balance sheet for WeWork. With such large sums of money being invested, the valuation of WeWork saw a dramatic increase climbing from approximately \$10 Billion in 2015 to nearly \$47 Billion in 2019 [3]. One thing is critical with all of this information though,

WeWork was a private company and as such a lot of the financials and details of the business were only provided to potential investors and not available to the general public.

With a large fund SoftBank more than likely saw a lot of groups interested in a piece of the pie they were offering. It is unknown exactly how SoftBank evaluates their potential investments or what information was presented by WeWork, but SoftBank does provide some insight into Valuations Process as of December 2018. The SoftBank Investor Advisors (SBIA) Valuations Process includes multiple reviews included independent valuations, reviews by Valuations and Financial Risks Committees and audit opinions against the ISA and GAAS auditing standards [4].

The first public view of the WeWork business was presented on August 14, 2019 when The We Company “WeWork” filed their first S-1 [5] in preparation for their initial public offering (IPO). The focus of WeWork is to buy or lease properties and then to sub-lease or rent those spaces to companies or individuals touting flexibility to scale up or down based on needs. To grow at the rate WeWork had been experiencing, large sums of money and expensive real estate purchases and agreements were required to expand.

In my opinion, the failure of SoftBank was to properly audit and determine the ins and outs of the finances of WeWork and the method by which WeWork locations were acquired. WeWork was operating on thin margins and presented a level of volatility of their income on a year over year basis. WeWork didn’t own the majority of properties there were leasing to companies and individuals, most of the properties were leased or rented themselves then subleased to tenants. This placed a significant risk to the company for increased costs as agreements were renegotiated in the future.

The corporate structure of The We Company is uncommon and places a large amount of ownership in the CEO and Founder Adam Neumann. The S-1 filing contains a lot of information on Adam alone and indicates that Adam’s shares held 20 times more voting power than other shares. Other items stand out as well such as real estate that Adam owned that was leased back to WeWork but was acquired via WeWork lines of credit. Additionally, there are several notes of family members being employed at a nearly \$200,000 a year salary.

What seemed like a relatively small investment to SoftBank, relative to their fund size, more than likely turned into a snowballing event in an effort to protect their initial investment. These additional investments in an effort to protect the initial investment inflated the valuation of their investment and garnered additional review and disclosures that, when reviewed by additional outside sources, did not pass various levels of scrutiny.

[1] <https://www.bloomberg.com/news/features/2018-09-27/masayoshi-son-softbank-and-the-100-billion-blitz-on-sand-hill-road>Links to an external site.

[2] <https://www.nytimes.com/2019/01/07/business/softbank-wework.html>Links to an external site.

[3] <https://news.crunchbase.com/news/wework-may-reduce-its-valuation-ahead-of-ipo-by-tens-of-billions/>Links to an external site.

[4] <https://visionfund.com/pdf?file=https%3A//visionfund.com/uploads/Quarterly-Results-FY-2018-December-2018.pdf>Links to an external site.

[5]  
<https://www.sec.gov/Archives/edgar/data/1533523/000119312519220499/d781982ds1.htm>Links to an external site.

Reply Reply to Comment

Jeremy Meehleib

Jeremy Meehleib

Nov 18, 2020 Nov 18 at 12:03pm

Richard,

You captured something I mentioned but you put down more concisely. "...most of the properties were leased or rented themselves then subleased to tenants. This placed a significant risk to the company for increased costs as agreements were renegotiated in the future."

I mean think about this. It's as if they rented a host of cars from Hertz and then leased each of these cars to several Uber drivers. It would appear there would be a multitude of disadvantages to such a model. The financial ability of the Uber drivers who would lease from me for one. Who's to say the lessor would not undercut my price to my perspective customers. After I invested in the leased property, who's to say the property owner would not sell the building out from underneath me outright?

I would be hard pressed to see this as worth the billions of dollars invested. They had no physical assets! They had customers and cash flow potential. Seems a bit weak. Then again, I do not have BILLIONS of dollars just laying around, not doing anything.

Thank you,

Jeremy Meehleib

Edited by Jeremy Meehleib on Nov 18 at 12:05pm

[Reply](#) [Reply to Comment](#)

Jonathan Weiss

Jonathan Weiss

Nov 17, 2020 Nov 17 at 7:16pm

SoftBank undoubtedly took a gamble with investing in WeWork. Masayoshi Son, the founder of SoftBank Group Corporation, hit it big in the early 2000's, when they purchased an e-commerce company. The company also managed to recover from their investment in Sprint after T-Mobile came into the picture, which floated SoftBank again. With that, it does seem that SoftBank is suffering on several fronts, which may give an insight to the mistakes that Son and SoftBank have made.

It seems that SoftBank's decisions and investments are bordering the line of extreme risk and recklessness. SoftBank is currently in the red with Uber and WeWork and it does not seem like that is going to be turning around soon. Son's decisions seem to run with the mentality of big risk and big reward, proving dangerous for investors. Skepticism and doubt seem to be a growing trend for those that are associated with SoftBank and WeWork.

At one point, according to Forbes, SoftBank's effort to save WeWork was welcome with open arms and people were optimistic for WeWork to make a come back, but this has proved challenging. The definition and trends for the success of a company has changed. Revenue used to dictate success and investor confidence. Now, the profit or bottom line of a company is what people care about. This reality has been tough on SoftBank and WeWork.

I feel that the success and failures of Son and SoftBank are due to a lot of biases. In my opinion, the decision making process seemed to falter greatly. We can be our best friend and worst enemy. Son made it big, real big. For a short moment in time, he was the richest man in Japan.

That had to have instilled a certain sense of invincibility and confidence. Because it seems that some of Son's major successes were a result of luck and not skill and finesse, there's a chance that Son created a false sense of security for himself.

Qualitative and quantitative analysis should play a role in business decisions. I wonder how much of this took place before some of SoftBank's business decisions. Son's further investment in WeWork was an effort to save SoftBank's initial investment. As project managers, we've learned that we must know when to pull the plug, regardless of the investments that have already been sunk. Son's bottom line may be in a better position if he had decided to pass on some investments.

Kirsch, Noah. "Softbank's Latest Lifeline To WeWork Is A Fresh Snub Of Adam Neumann, But What Happens Next?" (2020). Forbes.com.  
<https://www.forbes.com/sites/noahkirsch/2020/08/15/softbanks-latest-lifeline-to-wework-is-a-fresh-snub-of-adam-neumann-but-what-happens-next/?sh=4b1c1e20038f>.

Edited by Jonathan Weiss on Nov 17 at 7:35pm

Reply Reply to Comment

Matthew Hudson

Matthew Hudson

Nov 18, 2020 Nov 18 at 7:32pm

Jonahan, " SoftBank's decisions and investments are bordering the line of extreme risk and recklessness." you are spot on with that statement. The blatant disregard for investor's money and company value lead him down a hole. I can't help but wonder if it was a blindness or business culture that he saw he could save this company and bring it back. I agree that he should have "pulled the plug" instead of continuing down his path.

Reply Reply to Comment

Jacquelyn Lopez-Barlow

Jacquelyn Lopez-Barlow

Nov 24, 2020 Nov 24 at 4:33am



Jonathan and Matthew,

Mr. Son and SoftBank have made a lot of money by taking extreme risks. Sometimes it has not worked but most of the time the losses were manageable. SoftBank had invested in WeWork two years before the attempted IPO and had developed a close relationship with Mr. Neumann. The IPO failed because WeWork's business model was not sustainable. I think biases and personalities played a big role in the decisions both men made regarding their partnership that resulted in a public apology by Mr. Son, Mr. Neumann being replaced, SoftBank's first loss in 14 years, and WeWork having to be bailed out. Their behaviors and decisions have had a broader impact that was highlighted by the failed IPO.

Reply Reply to Comment

Carolyn Perez

Carolyn Perez

Nov 19, 2020 Nov 19 at 5:14pm

Jonathan,

I liked your statement about Mr. Son having a sense of invincibility. I would also agree that it seems, and perhaps this is simply an outsiders' perspective, that luck played a huge part in getting Mr. Son to where he is today. It even mentions in the articles that Alibaba was a massive success and now it appears Alibaba is essentially a cushion for horrible investment mistakes that SoftBank can ride on. Though he lost billions in the WeWork deal, he can turn around and say that they still only have a debt ratio of 17%, which is well below their 25% ceiling that Mr. Son set, which again, is all because of that initial investment in Alibaba.

Reply Reply to Comment

John Schaub

John Schaub

Nov 22, 2020 Nov 22 at 8:24pm

Jonathan,

Great views and well presented.

After reading the article provided I was floundering at first to try and understand what Softbank's investment strategy was and their decision methodology used. Like yourself, I too thought that a qualitative approach was used; however, with billions on the line could that really be possible?

While I do believe there was quantifiable methods used I believe wholeheartedly Mr. Son's bias likely played a role in some of the probabilities utilized when engineering the algorithms to base his and Softbank's investment.

Cheers,

John

Reply Reply to Comment

Mariano Paoli

Mariano Paoli

Nov 24, 2020 Nov 24 at 8:01am

Jonathan,

I agree with the points you listed, as my response was very similar to yours. I certainly think that biases got the best of Mr. Son. I do believe that SoftBank does perform data-driven decisions, but I think Mr. Son overrode these based on his relationship and views of Mr. Neumann.

Reply Reply to Comment

Matthew Hudson

Matthew Hudson

Nov 18, 2020 Nov 18 at 7:24pm

SoftBank's investment reads like a captain the refuses to leave a sinking ship. The Endowment effect with loss aversion is in full swing. The lending of \$5 billion, 1.5 billion investment, \$1 billion in stock buyback bringing it up to a 50% ownership is a justification to keep the company afloat, a bad decision but blinded by bias. Because Mr. Son was herald as a titan in the investment world. Even as the value dropped more than \$47billion, he refused to let go. Mr. Son was caught by the charisma of the Mr. Neumann and not the company's growth and protentional. In fact, it was the complete opposite SoftBank "switch from growth at all costs to profit at all costs" in order to profit. His apparent emotional attachment sounds like status quo bias, in which he just wanted to keep it going because it is all going to work out in the end. WeWork's diverse platform of leasing office space, private elementary school, and event-planning website appears to be a diverse portfolio that would be able to weather the financial storm but from over investing and poor decisions, it was best to drop the remaining platforms and focus on the business. While Mr. Son loses face, it would have been better to release SoftBank before the IPO.

Investors want a quality investment; IPO showed the failure in the company and direction. They appear to be wildly investing home one investment will tip the scale on a different loss. With the goal that it will recover and everything will work out. I found it difficult to separate Vision fund from SoftBank. It as if it was shell corporation taking the load for SoftBank.

<http://glnbnews.com/url.html?p=https://www.reuters.com/article/us-wework-survival-analysis/wework-still-on-life-support-rivals-say-it-must-cut-costs-fast-idUSKBN1XF2GM>

Reply Reply to Comment

Amy Hollabaugh

Amy Hollabaugh

Nov 20, 2020 Nov 20 at 11:26am

Hi Matthew,

I think you hit the nail on the head with your assessment of a captain refusing to leave a sinking ship. I think, all to often, we let our egos/pride get in the way of admitting we made a mistake. All the investment that Softbank poured into WeWork at the end was Son's ego willing the

company to succeed so he wouldn't have to admit to defeat and making falling for the silvered tongue of Neumann.

Reply Reply to Comment

Mariano Paoli

Mariano Paoli

Nov 24, 2020 Nov 24 at 8:15am

Matthew,

I do agree that the biases of Mr. Son affected the decision making of the company. He relied on his intuitive judgment instead of data. I would say that I believe it was the escalation of commitment bias that made him continue to invest in WeWorks rather than the status quo bias. I think the status quo bias would be more appropriate for a do-nothing decision, e.g., invest once and then fail to make any moves, as pulling out could mean loss of a gain, and doubling down could mean a more significant loss.

Reply Reply to Comment

Carolyn Perez

Carolyn Perez

Nov 19, 2020 Nov 19 at 4:43pm

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

As we learned by the attached articles, SoftBank is a very large tech investor with a history of investing in startup tech companies that they believe will have high market potential. With the successful investment in Alibaba and Sprint, they appear to have a liking to take risky investments. With taking risky investments, though, there will always be failure.

My view of SoftBank's investment decision practices and gaps in the WeWork case is that it was a huge mistake as Mr. Son has mentioned. First, the red flags should have been obvious when SoftBank's reputation began taking a hit due to two of its Vision Fund portfolio companies, Uber and WeWork, divulged major losses in their filings to go public. When WeWork's bid to go public ended in disaster due to the criticism about its financial hits and "unusual corporate governance structure", this should have been an indication that there is an issue. The infatuation with Mr. Neumann was also a huge issue for Mr. Son who admitted that he was

enamored with all of his positive qualities and therefore turned a blind eye to the negative ones.

As more and more investors and analysts dug into their financials, the value of the company, which at one point, prior to the IPO, that We Work's value was expected to be worth as much as \$100 billion, began to go down to \$47 billion in January of 2019. All of this information coupled with the coronavirus led to Vision Fund's loss of \$18 billion. We Work, as of March 31st, is estimated to be only valued \$2.9 billion according to SoftBank. The strategy of pouring an inordinate amount of money into WeWork in order to prevent future loss was a big mistake.

<https://www.cnn.com/2020/05/18/softbank-ceo-calls-wework-investment-foolish-valuation-falls-to-2point9-billion.html>

Edited by Carolyn Perez on Nov 19 at 5pm

Reply Reply to Comment

Amy Hollabaugh

Amy Hollabaugh

Nov 20, 2020 Nov 20 at 11:18am

Hey Carolyn,

I came to the same conclusion. I really feel the major downfall to Softbank's decision in investing more into WeWork was Son's evacuation with Neumann, as you said it blinded Son to all the red flags. I don't blame Son because I think we all can fall under the spell, someone is charismatic and feeds into our egos, and it is easy to believe into what that person is selling.

Reply Reply to Comment

Tom Cappucci

Tom Cappucci

Nov 22, 2020 Nov 22 at 12:32pm

Carolyn,

Enjoyed the post. I think you are spot on when you say SoftBank has a risk taking investment strategy, that had paid off in the past. However, they would be ignorant to think that would always be the case on future investments.

Reply Reply to Comment

Brandi Greenberg

Brandi Greenberg

Nov 20, 2020 Nov 20 at 9:08am

After reading the articles from the Wall Street Journal and doing some research into WeWork as a company, Adam Neumann as the founder, and Masayoshi Son, as the investor; I was all over the place in my views of SoftBank's investment decision practices. I tried to focus on the decisions made by SoftBank Group Corp. and Masayoshi Son, but I felt like there was something else at play with these decisions. SoftBank has received praise for its colorful investments and made a name for itself because of a risky and flashy bet on Chinese tech giant Alibaba.[1] It did not surprise me to learn that the \$100 billion Vision Fund of SoftBank reportedly invested \$18.5 billion in the WeWork company.[2] Or that Mr. Son stated at his earnings call, "We made a failure on investing in WeWork, and I've been admitting that several times I was foolish." [3]

Adam Neumann is charismatic and magnetic. He started WeWork after the financial crisis of 2010, and he saw an opportunity to give small start-ups a place to work without the overhead of real estate. He offered flexibility and a cool place to work. People did not have to sign long leases, and instead of a water cooler, there was a beer keg. WeWork appealed to many twenty and thirty-year-olds who wanted to be their own boss and get out of the corporate world; no one starts a start-up without the desire to get rich. All of the articles about him point to the fact that he could dominate a room. He could gain investors and make everyone feel special. He held meetings on his private jet and in the back of his Maybach. When the initial public offering (IPO) was \$47 billion, Adam Neumann wanted it to be \$100 billion; the filings with the securities and exchange commission (SEC) revealed billions in losses, an enormous collection of leases, and to continue aggressive spending. An example of WeWork's losses is \$690 million on \$1.5 billion in revenue.[4] With the IPO delayed and a reduction to the valuation a month later to \$20 billion. Adam was able to convince investors that WeWork would make money and that he could turn a profit with just a little more investment. A month after that, SoftBank bailed out WeWork.

To me, it seems as if WeWork and Mr. Son were both riding the success of their companies. I believe that there was some bias in the investment decisions with WeWork and SoftBank. Overconfidence is a bias. It has two components: overconfidence in your information quality and your ability to act on said information at the right time for maximum gain.[5] If you throw in a little optimism bias, essentially, we tend to be too optimistic for our own good. We overestimate the likelihood that good things will happen to us while underestimating the probability that adverse events will impact our lives.[6] This last one is my favorite for this case study, the halo effect. I read several articles where all the authors thought it was imperative to

point out that Adam Neumann was six foot five inches tall, lean, and charismatic. The tendency for our initial impression of a person to influence what we think of them is known as the halo effect. Also known as the “physical attractiveness stereotype” or the “what is beautiful is ‘good’ principle,” we are either influenced by or use the halo to influence others almost every day. Mr. Son still says he loves and respects Adam Neumann even after losing billions on the WeWork investments. He talks about Adam at the New York Times DealBook Conference, saying that Adam is a “smart guy and an aggressive guy” and that we all make mistakes.

Reducing regret in the investment world is when we hold on to that investment because we think we are right; even when the stock is losing value, we hold on until there is nothing to hold on to anymore. We want to be correct. I think that Mr. Son is still trying to be right in his investment. As humans, we try to avoid the feeling of regret as much as possible, and often we will go to great lengths, sometimes incredible lengths, to avoid having to own the sense of shame. [7] Mr. Son, the founder of SoftBank, bailed out WeWork and founder Mr. Neumann several times. After the departure of Mr. Neumann, SoftBank has made some tough decisions. The business has had to slim-down, sell or shut down side ventures, including a private elementary school and event-planning website Meetup.com, to focus on its core business of leasing office buildings, renovating them, and subletting to short-term tenants.[8] Bringing back the WeWork company will be a considerable problem for SoftBank, and they are just now seeing the impacts on their reputation. SoftBank “wants to avoid consolidation of WeWork given its debt position could potentially damage SoftBank’s credit position.” [9] Mr. Son is fighting to preserve his reputation as one of the world’s savviest and most influential technology investors after the spectacular collapse of one of his most prized portfolio companies and the tumble in the value of several others.[10]

I know I am focusing on soft skills in this module discussion and not concentrating on the different forecasting models we have learned. Still, I feel like these biases that we all have, influence our decisions all day long, every day. Overconfidence, optimism, the halo effect, and reducing regret are all forms of bias. I have no idea if any were present in this decision, but I could see them in the different articles I read. We have worked in this class to overcome these biases and not let them affect us. I wanted to point out the founder of SoftBank let his preference and biases get in the way of making a decision that could have saved his companies reputation and billions of dollars.

[1] <https://www.cnn.com/2020/05/18/softbank-ceo-calls-wework-investment-foolish-valuation-falls-to-2point9-billion.html>

[2] Same as footnote #1

[3] Same as footnote #1

[4] <https://medium.com/banking-at-michigan/a-timeline-of-weworks-failed-ipo-893f1501f494>

[5] <https://www.investopedia.com/articles/investing/050813/4-behavioral-biases-and-how-avoid-them.asp>

[6] <https://www.verywellmind.com/what-is-the-optimism-bias-2795031>

[7] <https://www.investopedia.com/articles/investing/050813/4-behavioral-biases-and-how-avoid-them.asp>

[8] Wall Street Journal “WeWork’s Board to Evaluate Emergency Bailout Plans” by Liz Hoffman and Maureen Farrell

[9] Wall Street Journal “SoftBank’s WeWork Bailout Draws Investor Concern” by Phred Dvorak and Justin Baer

[10] Same as footnote #6

Reply Reply to Comment

Rosanna Popa Rangel

Rosanna Popa Rangel

Nov 21, 2020 Nov 21 at 4:36pm



What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

WeWork, as a start-up company, had high possibilities of becoming the biggest co-working type company. With a value of \$47 billion, SoftBank invested more than \$18 billion since they sought out the possibility of increasing its value to \$108 billion. Due to COVID and the lack of coworking, this value diminished and Mr. Son, as well as WeWork Chairman, are now in an Escalation of commitment type of situation. They are so invested in this company and the possibility of its growth that they are not relying on its data and future performance.

More so, Mr. Son has indicated many times that it was foolish of him to invest in We Work, but the real motive comes after the possibility of investing in the Vision Fund to attract investors to support artificial intelligence companies. WeWork railing businesses are a low-margin business.

If Softbank walked away, then WeWork would have probably folded, and Softbank would have lost all of its investment. There is no real prospect of return from the investment done by Softbank.

I think the best thing Softbank could do is walk away. The money invested in this company is hurting its pocket and its reputation as a tech investor. The loss is a great one to take, but investing more money is only delaying what it could be the final fall of WeWork. Mr. Son needs to take the loss and move on to better investments and try to improve Softbank's reputation for the other companies it owns.

Additional source:

<https://theconversation.com/softbank-why-weworks-japanese-investors-are-doubling-down-after-a-failed-ipo-126052>Links to an external site.

Edited by Rosanna Popa Rangel on Nov 21 at 4:39pm

Reply Reply to Comment

Tom Cappucci

Tom Cappucci

Nov 22, 2020 Nov 22 at 12:18pm

Rosanna,

I think you have a really good takeaway point in your post: the loss is a great one to take, but investing more money only delays the inevitable loss. If Mr. Son had not invested more in the first place, do you think the investors in SoftBank would have responded more positively?

Reply Reply to Comment (1 like)

Rosanna Popa Rangel

Rosanna Popa Rangel

Nov 22, 2020 Nov 22 at 12:39pm

Tom,

That's a great question.

I think that if the return of the initial investment was somehow between the reasonable expectation limits that Softbank had for Wework, the impact wouldn't have been as great as it was with a bigger investment and low return (or none).

Softbank is known for its big money investments and I think in this case it was more of what they thought they could get out of WeWork and the projection that they had, which by the way, seemed a little too optimistic, than what was happening in reality.

They should have left that investment before it became a hazard for their business and reputation. When talking billion dollars of loss in a business that is obviously not growing because of Covid, then they need a way out.

Thanks,

Rosanna

Reply Reply to Comment

Kacie Fischer

Kacie Fischer

Nov 22, 2020 Nov 22 at 4:55pm

Rossana,

I appreciate your take on the situation. I must admit that I was a little lost in adequately analyzing the situation. It seemed that a huge problem was the discrepancy between what the

company COULD make and what it ACTUALLY was making. Much like many businesses, COVID hit WeWork pretty hard. If no one is going to work, will companies really see the value in continuing investment in share space workspaces?

I would also agree that Mr. Son and SoftBank should have pulled out sooner, taking the loss. This is always the less glamorous choice to make; there will always be "what ifs" that are never answered and those who believe that, if he had just taken the loss, that WeWork could have been successful and, with significant capital, profitable.

Kacie

Reply Reply to Comment (1 like)

Rosanna Popa Rangel

Rosanna Popa Rangel

Nov 22, 2020 Nov 22 at 5:12pm

Kacie,

I completely agree. I know it's a tough decision, and at that level I understand it's hard to pull the trigger on such a big investment. There are many variables to consider, but taking that the pandemic is still ongoing, and that we might have another lockdown as we are seeing in Europe happening, it would be hard for WeWork to regain its pre-pandemic value.

Thanks,

Rosanna

Reply Reply to Comment

Jay Hembree

Jay Hembree

Nov 22, 2020 Nov 22 at 4:31pm

There appear to be several biases and bad decisions made by SoftBank during the WeWork case study. There are several examples of Masayoshi Son's impulsiveness:

SoftBank's ownership and fortunate sale of soon to be bankrupt Sprint were followed by the promotion of the Sprint CEO to be WeWork's executive chairman.

It also seems he created the vision fund so he could work as a venture capitalist with the company and outside investors' money without much oversight. He had the company at a BB+ rating and carrying \$160B in debt. By taking money from both the company's main fund and the vision fund he was able to obfuscate the details of how much liability SoftBank would have in WeWork's debt while still owning up to 80% of the shares. It was a takeover without assuming the company into his own.

Accessibility score: Low Click to improve It appears that We Work may have been concerned more with the sales line and not the bottom line (Accessibility score: Low Click to improve <https://canvas.tamu.edu/courses/34884/files/1309602/download?wrap=1>). As investors moved to a bottom line/profit model in lieu of sales as a metric for success and viability, companies like WeWork were devalued and "forced to dump its ambitions and focus on survival because investors would no longer finance a land grab of growth at any cost". As stated in one article "SoftBank was willing to stake tens of billions on what seemed to be mad bets on growth without any hope of profit, and after WeWork, it is hard to believe anyone will soon step up to replace them."

Son also showed bias in believing in a person and not in the data. "The collapse was particularly embarrassing for Mr. Son because he had pushed for the investment in WeWork—which before the October bailout had totaled more than \$10 billion —and championed its founder, Adam Neumann. Mr. Son said he had been too enamored of Mr. Neumann's positive qualities and turned a blind eye to negatives, including governance problems."

Reply Reply to Comment

Ken Wagner

Ken Wagner

Nov 23, 2020 Nov 23 at 8:16pm

Your fourth point is one that I put some focus on. He had more of a messianic complex that showed he did not care about the company itself but more about changing the world and used his company as a platform. While there were many reports on his behavior, his partying with alcohol and drugs were overlooked as well as his open tolerance policy of use within the office. This alone show me that the CEO was more interested in being a celebrity and not someone who had the chops to run a business. While have this sort of fantasy thinking can be useful, it does not help if you only stay in this fantasy land. But listening to someone talk about the future with so much optimism can blind you to everything else because hope is a powerful motivator even if it is misplaced.

Reply Reply to Comment

Kacie Fischer

Kacie Fischer

Nov 22, 2020 Nov 22 at 4:50pm

"Masayoshi Son, the billionaire founder of SoftBank Group Corp., said this Wednesday his “really bad” judgment championing U.S. office-sharing company WeWork left the Japanese conglomerate and its massive tech-investment fund with the biggest quarterly loss in its 38-year history."

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

First, a little back story about the company. WeWork is a startup company whose primary goal is to provide shared workspaces, both physical and virtual, to other organizations and companies. It was first established in 2010, with its headquarters located in NYC. Just to give you an idea of size of the company by 2018, WeWork managed ~47 million sq. ft. of space, had more than 5000 employees with roughly 280 locations which spanned 32 nations (including Brazil, Germany, and Thailand) (Shrivastava, 2020).

Their business model was quite lucrative. The idea was to provide a “conventionally elusive, on-request adaptable space with momentary leases (even on a month-to-month premise at times)” (Shrivastava, 2020). Additionally, once a company meets/exceeds its set WeWork participation level, it can move up the tier system progressively to a more permanent location that offers a host of office advantages (quick internet, free coffee, etc.). This was specifically targeted for developing businesses that suffer from the extra work and cost involved with a non-permanent workspace. This not only provided for developing business owners but also landowners as well. Their services off huge incentives to landowners, including more permanent renters and higher rent rates.

There is so much more that I could touch upon here, if you haven't read further into the company, I highly recommend it! There is more to learn than just failure. They really had a great business model, before making several bad decisions. See the image below capturing their business strategy (Sharvastava, 2020).

wework-business-model-1\_startuptalky-1.jpg

Although it is just speculation, it looks like the company had big hopes for future revenue that just didn't come to fruition, in addition to expanding faster than its cash flow could handle. The article sites the major problem with WeWork is that it has a large negative cash flow and that its whole model is flawed with excessive leverage. The organization was valued at \$47 billion in January 2019, however by September when an IPO was developed, the valuation has decreased to the \$10-12 billion range. At the same time, previous CEO, Adam Neumann, stepped down (with a not-so-little severance package of 1.5 billion), perhaps something to the WeWork scandal after all. At this point, SoftBank decided to step in, "injecting billions of dollars into WeWork" (Hiyama, 2019).

SoftBank's commitment to start-ups like WeWork, which had unclear profit models and extremely optimistic development plans, clearly didn't go according to plan. It is always easy to say in hindsight what would have been the right thing to do at the time with the information that Mr. Son had. He seemed to keep true to his business model, but sometimes you need to take a step back and evaluate if cutting ties right now is more profitable than trudging on. Was it the right investment decisions? Probably not to the scale that SoftBank pursued.

Class, I've genuinely enjoyed getting a new perspective and reading all your thoughts on the discussion prompts. See y'all next semester!

Kacie

## References

Hiyama, H. (November 6, 2019). SoftBank Group logs worst quarterly loss, Son admits 'poor' decisions. TechXplore. [LinkLinks to an external site.](#)

Shrivastava, D. (October 14, 2020). WeWork Case Study: A Fall from the Pinnacle of Success. StartUp Talky. [LinkLinks to an external site.](#)

Edited by Kacie Fischer on Nov 23 at 5:06pm

[Reply](#) [Reply to Comment](#)

Ken Wagner

Ken Wagner

Nov 23, 2020 Nov 23 at 8:10pm

This makes a great point and something I kind of grazed in my discussion post. One of the areas that I believe Mr. Son missed was everything that was outside the core business model. When looking at just the core business model, I would have compared the company doing something similar to Uber. I am personally cautious on companies like that, but for someone who is an expert tech investor that company model is very attractive. The understanding is that the company will not make profit until it establishes an even larger foothold within the industry it is in. However, the things he did miss was the 20 or so companies that WeWorks bought out. Only a few companies related to WeWorks while the others were in way different industries causing WeWork to actually stretch itself thin and have too many places to focus. This ultimately ends up with a company that numerous products that are subpar. If WeWork would have just focused on its own growth as well as only companies that were related this would probably have been more of a success story.

Reply Reply to Comment

John Schaub

John Schaub

Nov 22, 2020 Nov 22 at 8:17pm

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

Like that of nearly all investments, there is a level amount of risk taken when trying to achieve one goals and objectives. In the case of Mr. Sons willingness to invest SoftBanks credit to WeWork, it appears there may have been several contributing factors, one being anchored in his own bias that he makes little mistakes and two, his blind faith in the eccentric co-founder, Mr. Neumann.

Perhaps nothing more was relevant as Mr. Son's continues grab for growth as indicated in the article WeWork Debacle Teaches Investors a Lesson About Value, by James Mackintosh. Within the articles opening it spoke of companies willing to jump headfirst into investments that chased growth, many of which panned out to be successful, some of which did not, WeWork was an example of an unsuccessful veture.

Mr. Sons was no stranger to success as he became one of the richest men in the world chasing growth the.com era. I believe it was Mr. Sons own ego that likely blinded his judgement to trying to float a sinking ship like that of WeWork. Mr. Son himself was quoted as saying that the

fund now views the ability to make money as important as increasing revenue or market share; however, after a floundering initial public offering none would materialize (Dvorak).

I would like to have read more about how SoftBank came to the decision to invest, what were Mr. Son's tools that caused him to go head-first? With billions of dollars on the line I would seriously doubt qualitative methods were used but after the outcome it's hard to believe that Mr. Son did not see the proverbial writing on the wall.

#### Works Cited

Dvorak, Phred. "SoftBank's WeWork." Wall Street Journal (2020): 4. Web page. 22 11 2020.

Mackintosh, James. "WeWork Debacle Teaches." Wallstreet Journal (2002): 4. Document. 22 11 2020.

Reply Reply to Comment

Grant Shirley

Grant Shirley

Nov 24, 2020 Nov 24 at 8:11pm

Howdy John,

I think you're spot on with your assessment that Mr. Son continues to grab for growth. This trait may have led to his fall from riches during the dotcom crash. I think ego is definitely at play but think this was also an irresponsible gamble predicated by other successful tech offerings being immediately overvalued and financed on the shoulders of internet forum investors. I think the decision to invest in WeWork may be as simple as Mr. Son trying to ride the wave of similar IPOs such as Pinterest and Uber. His gamble simply didn't pay.

Reply Reply to Comment

Ken Wagner

Ken Wagner

Nov 23, 2020 Nov 23 at 6:56pm



What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

Without going into the specifics of this deal and just from an investment standpoint. The company just on the surface combines two of the riskiest areas of investment. While real-estate can be a great business, watching trends shows that it was on a very shaky foundation. Combined with a business plan such as Uber, Lyft, and AirBnB would make me avoid anything like that if you are interested in long term investment. But this is all personal and parts of my investment strategy and why break what has been working.

One of the first issues I believe to have occurred in this investment was the feeling of loss. SoftBank has already invested a sizable amount into WeWork before the company hit turmoil. Instead of cutting their losses and doing their due diligence on the company they decided to double down on their investment. This caused a huge financial hit to SoftBank and to the reputation of Masayoshi Son.

Masayoshi has made a name for himself due to being a savvy tech investor. But the issue is that during this timeframe, people were pumping in money into tech startups regardless of the product causing them all to be bloated. However, most tech startups tend to focus on one niche of the market, WeWork did not. WeWork was mostly known for owning real-estate and focusing on office sharing. However, they were trying to expand into various other sectors before having solid ground in one. Uber for instance remained unprofitable for most of its existence and only recently has it shown any signs of having a long term future. They took the progress of rideshare and added in food delivery as well. Between the year of 2015 to 2019, we work acquired a total of 20 companies. These included well known companies as Meetup. The companies ranged from software to coding classes. Each company have very little to do with the other. A simple look at the companies finances would have shown how thin this company was stretched.

Another issue was the CEO of the company. Adam Neumann had a messianic personality in the tech world. When he gave speeches, he said his goal was not to make money or rent office space (which was the company's business) but to change the world. He had plans to enter into almost every market with little regards to the ones he was already in. Based on his habits, this man was more interested in partying and living as a celebrity than doing anything to turn a business profitable.

Up to the initial IPO filings, many financial articles were printed in regards to how WeWork operated. It came out that the CEO was doing unethical business dealing by buying up

residential or office space and then having WeWork pay for rent. He was also known for dumping stock of the company as the value bumped up. There were article after article about the terrible and expensive finances of the company as well as the business model had very little chance of profitability.

When going over everything that was publicly known at the time it seemed like the investment practice was more of a panic to not loss the original investment and for Son to keep his reputation intact. Instead he had to write off 8-10 billion dollars as well as took a hit to his reputation as an investor.

<https://www.ft.com/content/3694a074-0061-11ea-b7bc-f3fa4e77dd47>Links to an external site.

<https://www.theguardian.com/business/2019/dec/20/why-wework-went-wrong>Links to an external site.

<https://www.businessinsider.com/weworks-nightmare-ipo>Links to an external site.

Reply Reply to Comment

Jeremy Smith

Jeremy Smith

Nov 24, 2020 Nov 24 at 12:59pm

Ken,

I think you made an astute observation about the combinatorial risk of real estate and start-ups. Both of those, as you stated, are very high risk investments on their own. Investors would either have massive gains or massive losses, and that would be if the company was managed properly in the first place. I like that you also show that as time went on, WeWork kept taking on more risk by not focusing on creating solid foundations, acquiring companies that didn't match a portfolio, continued escalation of personal antics by key leadership in the company and shady business dealings. It makes sense that a company would eventually falter when incorporating risk at the rates that they were going. I think this is what the initial IPO filing uncovered and was being concealed by the investors and WeWork management alike. It makes me think that the initial IPO offering was created just to try to recoup losses, but unfortunately

for the investors, the public recognized the gambit and the exorbitant risks that WeWork possessed.

Reply Reply to Comment

Joe Williams

Joe Williams

Nov 23, 2020 Nov 23 at 8:47pm

After reading the Wall Street Journal articles mentioned in the assignment, the follow is my mindset on where they went wrong solely based off of the articles. The whole idea started off wrong when they were taking \$10b already into the company and putting another \$5b into it, when it was only evaluated at \$8b. Simple math just scares me away from the deal right here. I'm going to sell out, cut my losses and move on. Softbank was looking at getting deeply involved with this company who was already looking to terminate 1,000's of employees, but backed out because the severance packages were going to cost more than to leave them onboard. So in my mindset, this is 1,000's of employees who are already disgruntled, job seeking, and could possibly walk out the next day and leave us scrambling to find replacements who are not familiar with the company. So here we are again with one more thing to say, "not interested" in this deal and walk away. The way that this deal was setup is SoftBank was responsible for the bulk of the work of having to get WeWork re-aligned and operating for profit again. So the risk was all falling on Softbank but the reward was aimed more at their Vision Fund which is a group of outside investors, and a portion of Softbank as well. The risk was absorbed by current shareholders, including Softbank, but the reward is mainly for the Vision Fund. "Poor Governance, magnifies poor investment decisions", real sums this up and one more reason to walk away. For an investment that was going to be this major it calls for all of your talent to get involved in seeing this to succeed. At the time Softbank had their resources already spread out into other areas of interest as they had other younger startup companies on their roster and they were focused on them realigning their business for profits. So if you aren't going to have your top people, on the largest investment you have, one more reason to walk away from the deal. If I hadn't discussed enough reasons to walk away, here is just one more thing! This deal would give Softbank up to 80% of the shares in WeWork, however it would not have majority of voting rights, or control of the company. So this is really saying, "Here's our money, do what you want, we don't care, have fun!!!". If I have majority share in a company, you best believe I'm going to be there day in and day out, and having a say in allot of the big decisions that affect the company majorly. This setup right here was enough to make me walk away one last time!

Reply Reply to Comment

Jeremy Smith

Jeremy Smith

Nov 24, 2020 Nov 24 at 12:42pm

Joe,

I came out with the same thoughts as yourself. The number of chances, red flags, and poor decisions one after another, is enough to make any sane person's head spin. It is probably fair to say that hindsight is 20/20, but it is quite evident due diligence was either not being done, or faked. There is definitely a key piece to this puzzle that is missing because one would think that investments at those levels would warrant some pretty deep dives into how things were being done, especially by the majority shareholder.

Reply Reply to Comment

Joe Williams

Joe Williams

Nov 24, 2020 Nov 24 at 5:46pm

What gets me is that on a company that size..... there was no check and balance..... like where is the quality control aspect? Baffling to say the least.

Edited by Joe Williams on Nov 24 at 5:47pm

Reply Reply to Comment

Jacquelyn Lopez-Barlow

Jacquelyn Lopez-Barlow

Nov 24, 2020 Nov 24 at 3:25am

I found reading about this case interesting and strange at the same time. What I found interesting was that SoftBank became the lifeline for WeWork. When WeWork submitted their IPO, there were some inconsistencies with the financial information presented and significant risks identified. SoftBank has been willing to take on some risky investments before, but this one was different. The revenue WeWork made annually was barely enough to cover expenses before the IPO, and after the attempt, the company has been close to bankruptcy multiple times. Mr. Son admitted that it was a poor investment but hinted that they are optimistic about WeWork's future.

There were so many red flags but as the relationship between Mr. Son and Mr. Neumann grew, any decision-making objectivity at SoftBank reduced. Due to the decisions made by both SoftBank and WeWork management, there was organizational restructuring, layoffs, broken deals, and investigations. The impacts are being felt throughout the previous and current workforce and investors. What I found strange were all the articles about WeWorks CEO and his wife.

Below are additional articles I found:

<https://www.businessinsider.com/wework-ipo-fiasco-adam-neumann-explained-events-timeline-2019-9#november-18-8>Links to an external site.

<https://www.businessinsider.com/wework-ipo-risk-factors-revealed-2019-8#7-and-of-course-theres-always-the-risk-of-a-massive-data-leak-7>Links to an external site.

<https://www.fastcompany.com/90426446/wefail-how-the-doomed-masa-son-adam-neumann-relationship-set-wework-on-the-road-to-disaster>Links to an external site.

<https://www.forbes.com/sites/samanthasharf/2020/04/13/wework-employees-feel-abandoned-and-angry-as-softbank-ditches-its-3-billion-buyout-offer/?sh=108c31c51320>Links to an external site.

<https://www.zdnet.com/article/wework-sues-softbank-over-decision-to-terminate-tender-offer/>Links to an external site.

Edited by Jacquelyn Lopez-Barlow on Nov 24 at 3:41am

Reply Reply to Comment

Joe Williams

Joe Williams

Nov 24, 2020 Nov 24 at 6:35pm

Your saying of "strange at the same time" is quiet comical, because it was strange an a whole bunch more added for sure! . The portion where Mr. Son admitted that it was a poor investment, and then played the political role to please investors by saying "they are optimistic" about WeWork's future was a major turn off for me. If they were already \$10b into the

company at the \$8b evaluation there is more than "optimism" that is going to be needed! So yes, start laughing I will when I hear things like this.

I wonder how many people, media included, knew about the relationship between Mr. Son and Mr. Neumann and just kept it hidden. This alone had recipe for disaster written all over it. Yet where was the "check and balance" at? Is anyone willing to check Mr. Son? To me this just sounds like a gigantic "Spot me a \$20, and i'll pay you back in the future" just on a much higher scale!!!

Seeing stuff like this just really turns me off to International business/investors. It really makes me wonder if there is any regulation taking place if a company as big as Softbank can have decisions made like this w/out a check and balance, what else are they doing?

Reply Reply to Comment

Mariano Paoli

Mariano Paoli

Nov 24, 2020 Nov 24 at 7:45am

I believe that there are a few issues associated with SoftBank's investment decision in WeWork. One of the articles quotes Mr. Son saying that he was "too enamored of Mr. Neumann's positive qualities and turned a blind eye to negatives." This indicates that even though there was information available to make a data-driven decision, Mr. Son used his intuition instead. Another problem working against SoftBank was Mr. Son's escalation of commitment. The continuous enthusiasm of Mr. Son with regards to WeWork led to multiple investments. As the majority owner of WeWork, SoftBank is now attempting to salvage the failing company by assigning new leadership. Deviating from their strategy was another problem that worked against SoftBank. Investors' concern began to grow over the decision making process at SoftBank. For instance, the Vision Fund was meant to be a secure investment option for investors with a strict vetting process; instead, SoftBank will dip into the fund to cover the bad WeWork investment costs. Finally, I believe that lack of diversification is another issue with SoftBank's investment options. The focus on fast-growing, high-risk tech companies is finally catching up due to investors wanting to see positive returns now instead of keep gambling on future growth.

References:

The 4 WSJ Articles provided in the prompt.

<https://www.investopedia.com/articles/investing/092215/behind-weworks-10-billion-valuation.asp>Links to an external site.

<https://www.businessinsider.com/softbank-wework-adam-neumann-masayoshi-son-mistake-2020-4>Links to an external site.

Edited by Mariano Paoli on Nov 24 at 7:50am

Reply Reply to Comment

Kassie Mobley

Kassie Mobley

Nov 24, 2020 Nov 24 at 11:18am

Masayoshi Son is a well-known, successful investor whose risk appetite in investment decisions was high. This style of investing had served him and his company well, so it makes sense he would be intrigued by the opportunity presented to him by founder and former CEO, Adam Neumann. There is no deny the business potential within the concept of WeWork and Neumann was skilled at living it and selling it; WeWork represented community, lifestyle and the future; it was more than just a business. Unfortunately for both Masayoshi Son, his investment style failed him this time. Upon his initial investment, which was made after a 28 minute in person visit in New York, Masayoshi advised Neumann that he wanted him to be crazier. This meant he wanted Neumann to spend, go bigger and that is exactly what happened with little to no oversight. There were many points of failure on behalf of Masayoshi but it was not investing in the company; it was blindly investing without proper checks and balances in place before and after the investment. If more caution would have been taken I do not have confidence that WeWork would have been more successful but I do think the loss taken by SoftBank would have been significantly less.

\*In writing this response I used the podcast “WeCrashed” by Wondery as reference. I highly suggest listening to the podcast which can be found on Apple, Spotify or anywhere you listen to podcasts.

Reply Reply to Comment

Timothy Koontz

Timothy Koontz

Nov 24, 2020 Nov 24 at 4:55pm

Howdy Kassie.

The extra information regarding the meeting between Mr. Son and Mr. Newman. This gives more of a backdrop on how things escalated and money went unchecked. Mr. Son's previous business ventures made him a highly distinguished investor. I would speculate that he was fully aware of his following and treated it like a trophy that is on a high shelf for all to admire. I believe that he came into the business venture wanting to live the success stories like Google and Apple. He may have believed that there was some worth in the project and thought that the company's dynamics and his name brand could equal success. Even when the balance sheets showed that the company was of less value than the original estimate, Mr. Son succumbed to the fallacy of escalation of commitment. He could not allow something that he had invested in to fail. This would tarnish his brand name and the investing company. This over commitment caused him to keep investing in a failing company.

Reply Reply to Comment

Jeremy Smith

Jeremy Smith

Nov 24, 2020 Nov 24 at 12:10pm

After reading the materials, my view is that Softbank definitely got caught in the trap of purely emotional intuitive judgement decision making and displays a primary example of escalation of commitment. There were issues of mounting debt and operational costs (these were found after review of the financials during the initial IPO stages), but still more investments were poured into WeWork as evident by the multibillion dollar investment from SoftBank. Softbank and their leader Masayoshi Son, who is known for making investment decisions based solely on intuition, kept putting good money after bad in order to maintain the consistency with their previous decisions and their public announcements.

It is clear that the private investors had a very emotional attachment to WeWork and did not successfully utilize data-driven decision making in concert with their intuition, otherwise known as performing due-diligence. Their overly optimistic attitudes made them blind to the mounting operational issues, flagrant misuse of leadership positions, poor corporate governance, and



rising debt. All of which would be evident in the financial numbers, and was extremely apparent during the attempt at an IPO, as public investors have a strong adherence to data-driven decision-making.

It would have helped if Softbank had scheduled time to step back and view WeWork from an outside point of view with rigorous stage gates. Softbank should also revise their policies to improve their approach and make it more systematic. This could be accomplished with improved project management systems.

Other References outside of 4 prompt articles:

<https://www.cnbc.com/2019/10/21/softbank-to-take-control-of-wework-sources.html>

<https://medium.com/swlh/everything-that-went-wrong-with-wework-74a469c4e026>

Edited by Jeremy Smith on Nov 24 at 12:21pm

Reply Reply to Comment

Grant Shirley

Grant Shirley

Nov 24, 2020 Nov 24 at 8:14pm

Hey Jeremy,

I think you hit the nail on the head with Mr. Son making this decision purely from emotional intuitive judgment. Aside from the emotional attachment to WeWork's Founder, I think Mr. Son was trying to ride the coattails of similar tech IPOs that have been booming in recent years. I like your point that Softbank should have removed themselves from the personal aspect and viewed the valuation objectively. I think this is a great cautionary tale to make data-driven decisions rather than personal or emotional.

Reply Reply to Comment

Tanner Welch

Tanner Welch

Nov 24, 2020 Nov 24 at 1:31pm

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

Personally, my view of Softbank's investment decision practices is quite positive. Within the article, "SoftBank's WeWork Bailout Draws Investor Concern" the authors state that Softbank's Vision Fund hired more than a hundred staffers to vet prospects and manage investments and that auditors hired by the fund's outside investors performed a valuation process. This valuation and review process seems adequately thorough if properly followed; however, it seems that the personal, qualitative investment style of SoftBank's founder, Masayoshi Son, was speculative a gut driven, not driven in sound financial investment principles. Furthermore, the article "SoftBank Founder Calls Judgment 'Bad' After \$4.7 Billion WeWork Hit" details that the independent auditing process of the Vision Fund vetoed a sizable follow-on investment that resulted in SoftBank's personal investment commitment from its own balance sheet.

My opinion is that Softbank's founder, Masayoshi Son, was too personally enamored with WeWork's founder's charisma and management style that he committed a large investment into a company that showed no signs of early profits. Masayoshi Son was then too committed to his fund's investment and sought further investment, compared to scuttling and preserving the Vision Funds investors.

Reply Reply to Comment

Timothy Koontz

Timothy Koontz

Nov 24, 2020 Nov 24 at 4:44pm

Howdy Tanner.

I agree with your opinion that many of the investors and leadership team were dazzled by the CEO's charm and charisma. This seems to be a common occurrence in business. CEOs are inherently risk takers and visionaries. The successful ones are glorified like Elon Musk, Steve Jobs, and Richard Branson. Everyone idolizes them and allow them to exercise poor judgement as long as they are confident and have a history of being successful. Sometimes everyone overlooks the fact that their history is marred with more failures than success. We live in a age

where CEOs have become rockstars which further feed their ego and their belief of invulnerability.

Reply Reply to Comment

Timothy Koontz

Timothy Koontz

Nov 24, 2020 Nov 24 at 3:57pm

Howdy Fellow Leaders.

I believe that the primary reason as to why Soft Bank lost so much money is due to the fallacy, escalation of commitment. The investors followed Masayoshi Son's lead and kept funding the WeWork venture. Soft Bank and Vision Fund vested \$20 billion dollars in a WeWork even though the company lost \$40 billion dollars after the blotched effort in going public. Mr. Son has a reputation of being an extraordinary investor that many in the investment community hold in high regard. Mr. Son may have felt that pressure not to fail and tarnish his reputation. The executive team focused on growing the company into a conglomerate and disregarded the sales margin and budget. There were indicators that the company was not a viable investment, but Soft Bank continued to invest. Enron and GM both encountered the same issue of focusing on growth instead of the budget. Both companies had the ideology that they were too big to fail, which had disastrous consequences.

Reply Reply to Comment

Logan Presnall

Logan Presnall

Nov 24, 2020 Nov 24 at 5:29pm

I don't agree with what SoftBank did by trying to bail out WeWork with a \$10 Billion dollar package. The company was in free fall due to poor capital management, by the time they were willing to do anything about it the company had already lost nearly all of its value. They believed that with the bailout and by selling their side ventures that would lead to them returning to profitability but by that time, investors had already started to question where the company was going, as the article stated, "SoftBank was willing to stake tens of billions on what seemed to be bets on growth without any hope of profit". There was just the hope that the companies \$100 billion Vision Fund would come through, take a step back and looking at the true financial picture and the cash flow of the company would have made that very clear.

Reply Reply to Comment

Travis Metz

Travis Metz

Nov 24, 2020 Nov 24 at 7:47pm

“First of all, WeWork positioned itself as a tech company and a disruptor. In the prospectus for its ill-fated IPO, its promoters said, “We are a community company committed to maximum global impact. Our mission is to elevate the world’s consciousness.” And later they added, “Technology is at the foundation of our global platform” as they touted their “purpose-built technology and operational expertise.” That’s rather heady language for what is, in essence, not much more than an office rental company that acts as a middleman between landlords and short-term tenants. It’s a business model that has existed for decades with companies like Regus and Servcorp offering up the same recipe. What WeWork brings to the party is basically the same thing plus some high-tech amenities and, when it fails, it won’t be the first one in this industry to take a trip through bankruptcy court.” (Schultze, Oct. 2019)

This is a blunt statement to open with, but it paints most of the picture for the investment shortcomings experienced by SoftBank. Masayoshi Son, founder and chief executive of SoftBank, was enamored with the personality and lifestyle of WeWork’s former CEO, Adam Neumann. By allowing an optimism bias cloud the reality of what WeWork was and what it could offer, SoftBank and several investors were drawn into a seemingly bottomless rabbit hole. The risks involved with such an investment as this do not seem to have been properly accounted for in size or impact. Instinctual based decisions are certainly appropriate for some situations, but when billions of dollars are on the table, it seems unwise to rely exclusively on instinct. We are only human, after all.

Why WeWork Won't Work -- Hello Neumann!

Schultze

<https://www.forbes.com/sites/georgeschultze/2019/10/08/why-wework-wont-work-hello-neumann/?sh=45ca2a6e4e03>Links to an external site.

It is really difficult to see how WeWork will ever be profitable

Edwards

<https://www.businessinsider.com/can-wework-be-profitable-ipo-financials-2019-8>Links to an external site.

SoftBank's CEO now says its \$9 billion bet on WeWork and Adam Neumann was a mistake - but he still thinks WeWork will end up making money

Gilbert

<https://www.businessinsider.com/softbank-wework-adam-neumann-masayoshi-son-mistake-2020-4>Links to an external site.

Reply Reply to Comment

Grant Shirley

Grant Shirley

Nov 24, 2020 Nov 24 at 8:05pm

There were many pitfalls associated with the Softbank investment in WeWork that can be learned from for future investment strategy. The deal was forged based on too many intangibles and gambles. First, Softbank's Mr. Son pushed for the investment personally due to being "enamored" with WeWork's founder Adam Neumann's positive qualities rather than being objective and reviewing deeper issues within the company. This personal oversight may have overshadowed some glaring issues under the surface with WeWork's management and business decisions. Softbank seemingly had an insurance policy to combat such cases by using independent auditors hired by the investors to check on its valuation process. This shows how preventive measures may not be bulletproof, still allowing the WeWork valuation to slip through the cracks. Additionally, WeWork was banking on the recent trend of the tech investment bubble to finance and support its future growth. This strategy was not tenable and ended up costing the company and forcing them to reorient towards a survival strategy rather than the skyrocketing growth enjoyed by others in the tech sector. This was a tremendous

oversight on Softbank's vision fund. Rather than focusing on proven, tangible business assets, the fund was gambling on the prospect of the stock market going crazy for another tech IPO.

Reply Reply to Comment

Joseph Ramirez

Joseph Ramirez

Nov 24, 2020 Nov 24 at 8:29pm

SoftBank took a risk like they often do, but this just so happened to become extremely effected by the pandemic, along with issues from the CEO managing WeWork. The investment may have been influenced in some way by the relationship between Neumann and Mr. Son. They invested billions into a growing company that was growing rapidly and more vetting may have been needed. WeWork was unstable in 2019 with a removed CEO and in just one month, valuation went from 47 billion down to 10 billion. This can be a good lesson for investors to focus on value instead of potential growth, with a current unstable economy. It is a tough period right now dealing with a pandemic and the need to work from home for companies. If the company can survive this down time then there is potential for growth and profit. It is hard to say that this is a completely failed investment at the time. With SoftBank making more of the executive decisions now they can focus more on profitability and less on expansion. Demand is low now but with new management and a better economy, there can be some slight optimism.

Reply Reply to Comment

John Mullins

John Mullins

Nov 24, 2020 Nov 24 at 8:46pm

My initial theory while reading the 4 articles was that Masayoshi Son got caught up partying with Adam Neumann, that he was paying to play and got carried away. Starting from the initial investment, to the reinvestments, and the final acquisition of We Works suggested a scenario of Son got caught up in a lifestyle offered by younger entrepreneur Neumann. After finishing the articles further research could not confirm this theory, few details including the two spent an evening in India at a bar when they met in 2016, and that Neumann was known to party often times at the office using company resources were convincing enough. Learning more about Son led me to believe his arrogance and cockiness are reflected by the aggressive investing style he maintains leading to many wins overshadowing significant losses. He was once named richest man in the world in 1999 only to see his fortune lose \$70 billion in 2000 with the internet bubble bursting and his over investing. His path to acquire such wealth

included early success creating an electronic translator that he sold to Sharp for \$1.7 million and while in college he installed video game machines in restaurant's and dorms making \$1.5 million. An economics major with a computer technology background laid the foundation for the entrepreneur he would become. Son founded SoftBank in 1981 as a software distributor growing its portfolio investing in technology, energy, and financial companies. Son's investing generated great wealth and rewards for himself, Softbank's investors, and other companies he led creating an environment of Yes men and women allowing him the ability to invest freely lacking checks and balances. WeWork's is a good example of a rash investment in the tech industry he has made even with visible red flags deterring most investors but instead he believed in growing the company. "His (Son) only objection, as Neumann and his team laid out their plan during a meeting in Tokyo, was that they were still being too timid. "Why only a million members when you can have five?" Masa said at a time when WeWork barely had 100,000. If WeWork could do that, grow to 50 times its size, Masa said its valuation at the time — just shy of \$20 billion — would look cheap. The company might be worth \$1 trillion. His long-term vision is key for decision-making process and how he values investments often overlooking market value and using the value a company has down the road with his involvement. Wiedeman stated in an article that "Son prided himself on an ability to see through the numbers and into the soul of a business and its entrepreneur (Reeves Wiedeman, Curbed)," which he used as a tool for investing. Often Son and Softbank's investment have been successful affording him the opportunity to recover from his \$70 billion loss reclaiming the world's 32 richest person in 2020 with \$30 billion and Softbank growing to a value of \$21.15 billion. Although Son has acknowledged his past mistakes his investment strategies mirror those of the past focusing heavily on technology and startup's looking for the next big win. Softbank goes where Son goes as he is still CEO and final decision maker for the company, the company from past lessons learned incorporated checks and balances designed to incorporate more opinions during company valuations.

#### References:

[https://en.wikipedia.org/wiki/Masayoshi\\_Son](https://en.wikipedia.org/wiki/Masayoshi_Son)Links to an external site.

<https://www.curbed.com/2020/10/wework-billion-dollar-loser-book-excerpt.html>

<https://www.nytimes.com/2019/11/02/business/adam-neumann-wework-exit-package.html>Links to an external site.

<https://money.cnn.com/interactive/technology/masayoshi-son-profile/index.html>Links to an external site.

Edited by John Mullins on Nov 24 at 8:49pm

Reply Reply to Comment

Christopher Huebel

Christopher Huebel

Nov 24, 2020 Nov 24 at 9:58pm

Personally my view on SoftBank's investment decision came down solely to Mr. Son's pride and over confidence in his decision making abilities. Mr. Son has continuously made great decisions involving technology investments that have more or less paid off over the years. It's no surprise that Mr. Son had faith in his decision making capabilities that WeWorks IPO would again be profitable under his hand. Fortunately SoftBank's assets were still very profitable and still had investor backing even though its liabilities had increased after pumping money into WeWorks failure. I am sure that Mr. Son hasn't failed to many times in his investment career and thought he could pull this off regardless of the daunting task ahead. One thing that I really appreciated about Mr. Son is his ability to bounce back and not dwell to much on mistakes made. He and his organization used the WeWork failure as measuring tool on what not to do. Though it wasn't the best decision Mr. Son has ever made, he made a conscious decision to learn from his mistakes and grow all while earning back the trust of his investors.

Reply Reply to Comment

Troy Philips

Troy Philips

Nov 24, 2020 Nov 24 at 10:03pm

I don't feel like I'm in the position if criticize one of the world's most successful investors, but if I was to say something it would be that it seemed Mr. Son had some optimism's bias for WeWork. He states that he was enamored by the WeWork founder and overlooked negatives about the investment. He also personally pushed for the investment in the first place, even going as far as investing more into the company in the form of a bailout. Although I'm sure he saw something to invest, I believe he was wanting to work more than expecting it to.

Reply Reply to Comment



Mitchel Garrish

Mitchel Garrish

Nov 24, 2020 Nov 24 at 10:14pm

It seems as if Softbank's investment in WeWork was an escalation of commitment. Softbank's initial 1/3rd ownership of WeWork may have caused them to increase their investment instead of taking the sure loss. Instead of allowing WeWork to fail or be bailed out by another company, they continued to invest money into a faltering company. Softbank should have considered the value of each decision; yes, letting it fail was a sure loss, but bailing it out was a risk that proved to be more costly. To avoid escalation of commitment, Mr. Son could have implemented barriers to recognize and reduce commitment escalation.

Reply Reply to Comment

Kaleigh Philips

Kaleigh Philips

Nov 24, 2020 Nov 24 at 10:20pm

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

After reading the various articles on the WeWork case, it appears that SoftBank's founder, Mr. Son, was too close to the situation and imposed his own biases into the decision making process. Not only had SoftBank already invested more in bailouts than the company was worth, Mr. Son was so enamored with WeWork's founder that he admittedly overlooked the negatives. These two things alone are red flags within the decision making process. It also appear that Mr. Son's reputation may have halted any other members from speaking up against the decisions he was making in regards to WeWork. Even though this was the biggest loss in the company's history, they still have a strong reputation and hold within the investment world. So with guidelines being put in place to better govern its portfolio I don't doubt that the company will rebound from this. Mr. Son is not risk averse, so failures like this are bound to happen, but I feel this one could have been minimized of better overall governance of the decision making process was in place.

Reply Reply to Comment

Zachary Smith

Zachary Smith

Nov 24, 2020 Nov 24 at 10:36pm

My take on the "bad judgement" with SoftBank's investment decision has to do with timing. According to the Phred Dvorak and Megumi Fujikawa's article SoftBank Founder Call Judgement 'Bad' After \$4.7 Billion WeWork Hit the upfront investment to build the company's production and revenue infrastructure had not come to fruition to roughly match the money they put in. Due to the company's well established public relations and innovative brand, tLinks to an external site. here were no issues continuing to get private investors which should have been the path they continued down rather than prematurely going public in hopes the market could align with their valuation. Son should have waited and had better proof that the market would have valued WeWork aligned with their investments.

The article Too-Early IPOs Create ProblemsLinks to an external site. has advice from industry leaders that warn investors, and this should be relevant to companies trying to go "public", that investments need to consider proven business that historically have proven they can generate profits rather than companies that have enticing business plans that have not been proven.

Reply Reply to Comment

Harshvardhan Tirpude

Harshvardhan Tirpude

Nov 24, 2020 Nov 24 at 11:07pm

What's your view of SoftBank's investment decision practices (or gaps) in the WeWork case?

SoftBank Group Corp. - It is a Japanese multinational conglomerate holding company headquartered in Minato, Tokyo. They own stakes in many technology, energy, and financial companies. It also runs Vision Fund, the world's largest technology-focused venture capital fund, with over \$100 billion in the capital.

WeWork – It is an American commercial real estate company that provides flexible shared workspaces for technology startups and services for other enterprises. WeWork designs and builds physical and virtual shared spaces and office services for entrepreneurs and companies.

SoftBank, through its “Vision Fund”, decided to invest in WeWork, a NewYork based company as it was one of the most valuable and profitable companies which were growing as per Fortune Magazine which attracted them to invest in it as in Japan the economy was underperforming as compared to the USA.

In my view, Softbank should not have invested more and took the wrong decision in investing a billion more even after knowing that company was sinking. The CEO/founder of SoftBank, Masayoshi Son [Links to an external site.](#) was very optimistic that if he invests more it may help WeWork to again become profitable. Softbank also did fundamental and operation mistake to calculate the WeWork valuation based on expectations of a very high growth rate on Softbank's past experiences with tech companies. Despite the loss reducing situation where everything was negative utility, Softbank went for the highest utility and a maximax approach instead of following maximin thinking and reducing the highest possible loss by choosing not to invest further. Due to the made wrong decision Softbank also lost billion and had faced the biggest quarterly loss in its 38-year history. Also due to the wrong decision to invest in We Work, it lost its reputation made over the years as one of the world's savviest and most influential technology investors.

Reply Reply to Comment

Tyler Gilbreath

Tyler Gilbreath

Nov 24, 2020 Nov 24 at 11:15pm

SoftBank's investment decision practices remind me of a lesson I recently learned about blind faith. The company continued to invest and prop up WeWork acquiring an additional stake in the company with each bailout or investment. Mr. Son became too personally invested in WeWork and appears to have been making decisions based on feelings instead of data or information. There was not a sufficient balance between Mr. Son's personal and professional handling of the investing. This is not to say you shouldn't ever be familiar with the companies or people you invest in, but you must always keep the original goal in mind --- continued profitability.

Reply Reply to Comment

Taylor Anderson

Taylor Anderson

Nov 24, 2020 Nov 24 at 11:40pm

Tyler,

Such a good point on relating it back to Project Management and blind faith. This project seemed to be tanking and not going anywhere and yet SoftBank continued to pour money into the company. SoftBank remained optimistic as you said, but in the end, this only hurt everyone involved. SoftBank continueing to invest money only fed the "blind faith" even more for WeWork and other investors.

Reply Reply to Comment

Taylor Anderson

Taylor Anderson

Nov 24, 2020 Nov 24 at 11:37pm

It seems odd that SoftBank continued to pour money into WeWork even after it was tanking and all of the "behind the scenes" issues about the former CEO were being discovered. The former CEO of WeWork seemed to be participating in some business practices that would be extremely frowned upon and yet SoftBank continued on. Also, WeWork had an estimated worth of close to \$50 Billion at the start of the year and then dropped drastically to an estimated \$8 Billion which SoftBank was still willing to invest more money into. I do not necessarily agree with continuing to invest money after the company was quickly tanking and it's worth only continues to drop.

<https://www.vox.com/recode/2019/9/23/20879656/wework-mess-explained-ipo-softbank>Links to an external site.

Reply Reply to Comment

Robert Carrano

Robert Carrano

Nov 24, 2020 Nov 24 at 11:51pm

What's your view of the SoftBank's investment decision practices (or gaps) in the WeWork case?

SoftBank acted quickly and invested too much money in WeWork. They ended up spending more on it between share purchases and debt financing than what it was worth. Had they done more research they would have seen this was not worth the effort. The plans WeWork had to reduce costs and get ahead were faulty. They intended to lay workers off but couldn't due to a lack of severance packages. SoftBank investing in WeWork might have at least urged to cut some personnel instead of holding off all together. Due to these factor's Softbank received immediate blowback when their stock shares dropped. I believe they were blind but committed. They're bias caused them to have poor judgement and make decisions that not only cost them money, but questioned their expertise and reputation. If a deeper look at the WeWork was taken, and a better risk assessment was made, Mr. Son could have seen the negative implications that were faced when deciding to back this company.

Reply Reply to Comment