The We Company

November 10, 2019

Bulls & Bears
Corporate Finance

1. Company Background

1.1. Company identification

The exact name is The We Company. The jurisdiction of incorporation is in Delaware. The primary standard industrial classification code number is 7380. The I.R.S. Employer Identification Number is 61-1936163. It is located in 115 West 18th Street in New York City and the zip code is 10011. Its telephone number is 6464919060. The Co-President and Chief Legal Officer is Jennifer Berrent. The Deputy Chief Legal Officer is Jared DeMatteis.

1.2. Nature and history of the company

In early 2010, WeWork was opened to their first member community at 154 Grand Street in New York City. In the beginning, their members consisted mostly of freelancers, start-ups and small businesses. Over the past nine years, they have rapidly scaled their business while honoring our mission. Today, their global platform integrates space, community, services and technology in over 528 locations in 111 cities across 29 countries. Their 527,000 memberships represent global enterprises across multiple industries, including 38% of the Global Fortune 500. They are committed to providing their members around the world with a better day at work for less.

1.3. Management team

1.4. Comparable firm analysis (WeWork & IWG)

1.4.1 Business model

WeWork and IWG share similar business models. THey both make profits by lease large spaces , refurbish them and rent to individuals and companies at a higher price. Landlords want stability and guaranteed cash flows; therefore, they may be willing to lower rental rates for long-term leases. On the contrary, startups and freelancers want flexibility and may accept higher rates. In this way, WeWork and IWG can capture the spread between long term and short term rent rates.

1.4.2 Working space style

WeWork and IWG share similar style in terms of working spaces.

Figure 1: WeWork's typical working space

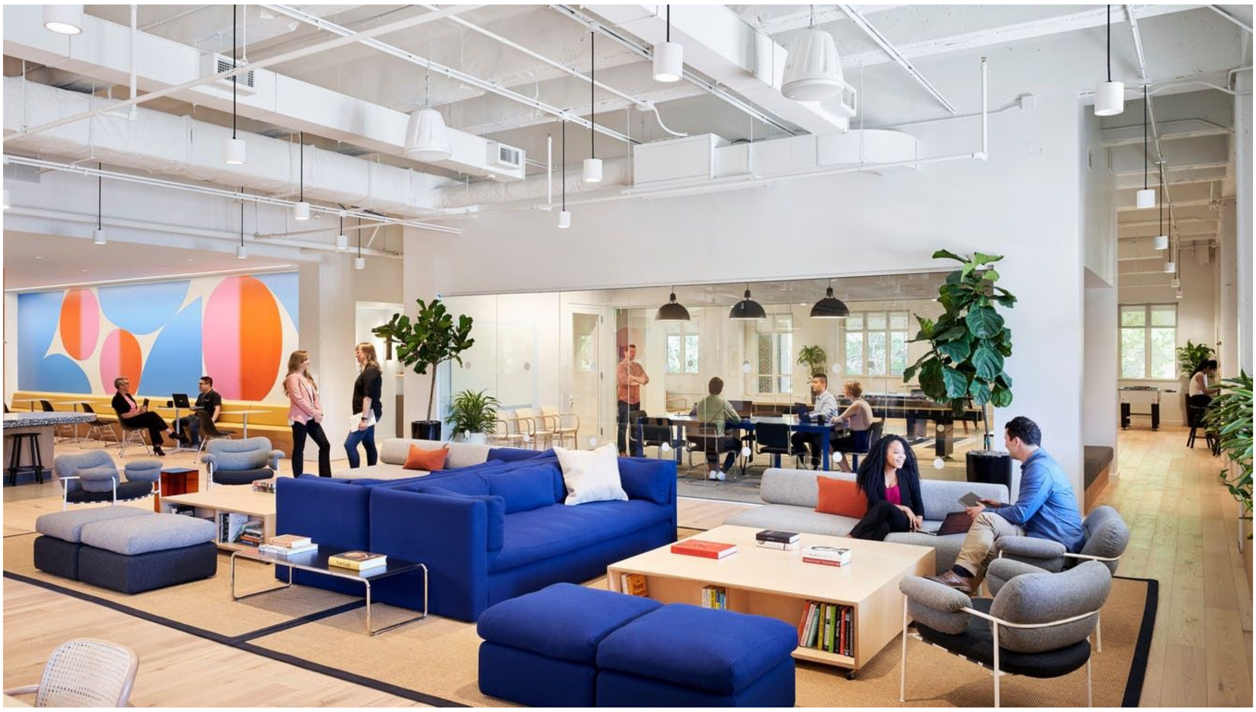


Figure 2: IWG's typical working space

1.4.3 Geographical Concentration

Compared with IWG, WeWork is more geologically focused. IWG's geographical locations are spread across over 3306 locations in over 1.000 cities in the world. On the contrary, WeWork just operates in 111 cities. WeWork's geographical concentration lies in New York, San Francisco, Los Angeles, Seattle, Washington D.C. Boston and London.

Table 1: Geographical Comparison Matrix

	WeWork	IWG
Global Footprint(Square feet)	45m	57m
Locations	528	3306
Cities	111	1100
Countries	29	120

High geological concentration, especially in US cities, may lead to downturn in its operations during the economic recession. During the economic recession, companies may reduce office spaces and terminate their lease with WeWork. However, WeWork has locked themselves into long term leases and pay a fixed rate regardless of economic situations. Adding to this concern it that US is already late in the economic cycle, which may lead to slowdown of economic growth in the foreseeable future.

1.4.4 Lease obligation

The average length of the initial term of WeWork's U.S. leases is approximately 15 years, and its future undiscounted minimum lease cost payment obligations under signed operating and finance leases was $47.2 billion as of June 30, 2019. Out of 33.9 million operating lease term commitments, 23.7 million(70%) are due after 2024.

Figure 3: WeWork's contractual obligations

(Amounts in thousands)	Remainder of 2019	2020	2021	2022	2023	2024 and beyond	Total
Non-cancelable operating lease commitments (1)	$ 868,895	$2,164,826	$2,322,922	$2,383,279	$2,426,278	$23,787,202	$33,953,402
Finance lease commitments, including interest	4,206	8,531	8,610	8,561	8,007	45,408	83,323
Construction commitments (2)	340,098	86,291	1,684	313	—	—	428,386
Asset retirement obligations (3)	487	490	137	2,051	1,139	107,013	111,317
Long-term debt obligations, including interest (4)	37,051	75,129	91,750	800,029	58,773	794,743	1,857,475
Convertible related party liabilities (5)	2,945,005	—	—	—	—	—	2,945,005
Total	$4,195,742	$2,335,267	$2,425,103	$3,194,233	$2,494,197	$24,734,366	$39,378,908

IWG did not disclose its average lease terms in its SEC filing. However, out of 6641.6 million Eurodollars, only 2474.7 million (37.2%) is due after 5 years.

Figure 4: IWG's Non-cancellable Operating Lease Commitments

	2018			2017		
	Property £m	Other £m	Total £m	Property £m	Other £m	Total £m
Lease obligations falling due:						
Within one year	**1,047.8**	**0.1**	**1,047.9**	914.8	0.5	915.3
Between one and five years	**3,119.0**	**–**	**3,119.0**	2,630.5	0.4	2,630.9
After five years	**2,474.7**	**–**	**2,474.7**	1,511.3	–	1,511.3
	6,641.5	**0.1**	**6,641.6**	5,056.6	0.9	5,057.5

Non-cancellable operating lease commitments exclude future contingent rental amounts such as the variable amounts payable under performance based leases, where the rents vary in line with a centre's performance.

The Group's non-cancellable operating lease commitments do not generally include purchase options, nor do they impose restrictions on the Group regarding dividends, debt or further leasing.

Long lease duration of WeWork raise the risk that during economic downtown, WeWork will be locked into fixed expansive leases and unable to find sub-tenants to cover the rental expense.

1.4.5 Financial performance

Table 2: Financial Performance Matrix

	WeWork	IWG
Revenue	1.8B	2.8B
Net Profit	-1.7B	0.2B
Valuation	47.2B	3.7B

calculated as of year 2018

WeWork valuated on primary market

1.5. Business model

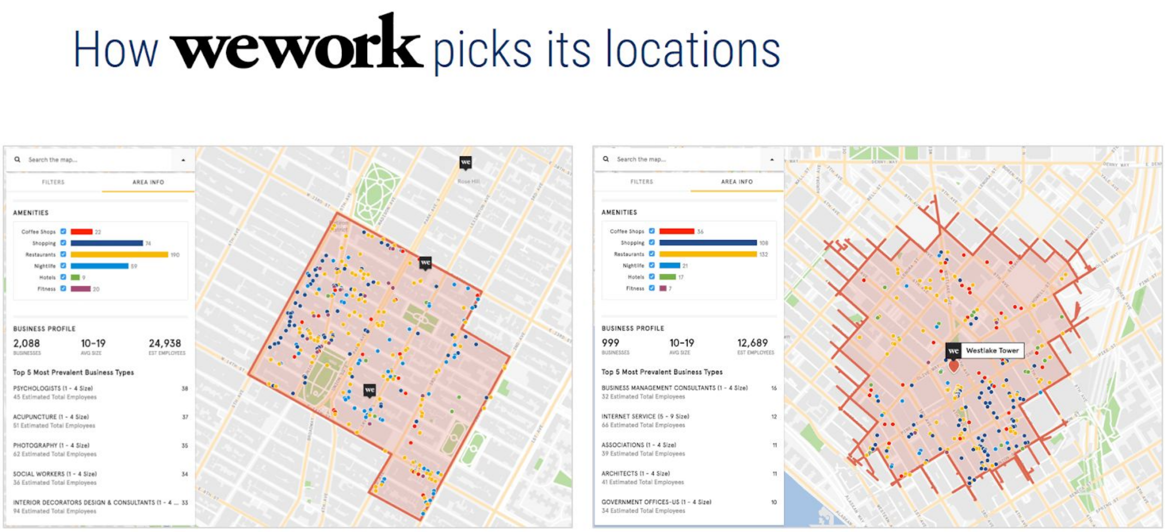
1.5.1 Core business model

WeWork leases office space from landlords and real estate brokers through long-term contracts, works with developers to refurbish the space, and finally offers small parts of the space along with some added perks to tenants on a short-term basis. It has a tiered pricing that allows different customers – from freelancers to large companies – to benefit from its offering, depending on their needs and willingness to pay. WeWork adds value to its office spaces in other ways – through renovations, technological support, and enhanced amenities – but the spread between long-term and short-term rent is at the core of its business model.

1.5.2 Products and services

Office space and design: Given the importance of a fast-paced global expansion, WeWork has a calculated way of scouting its locations for buildings. WeWork addresses the bottleneck in location vetting by leveraging data on a target neighborhood's business composition. In a partnership with Factual, a location data provider, WeWork rates locations based on proximity to amenities and businesses, including coffee shops, shopping, restaurants, bars, hotels, and gyms. Factual claims its partnership with WeWork drove a 95% increase in WeWork locations in a 12-month period between 2016 and 2017. Interestingly, the proximity of other WeWorks is also a factor. In cities where there are numerous WeWork locations, each additional location serves to drive down membership churn.

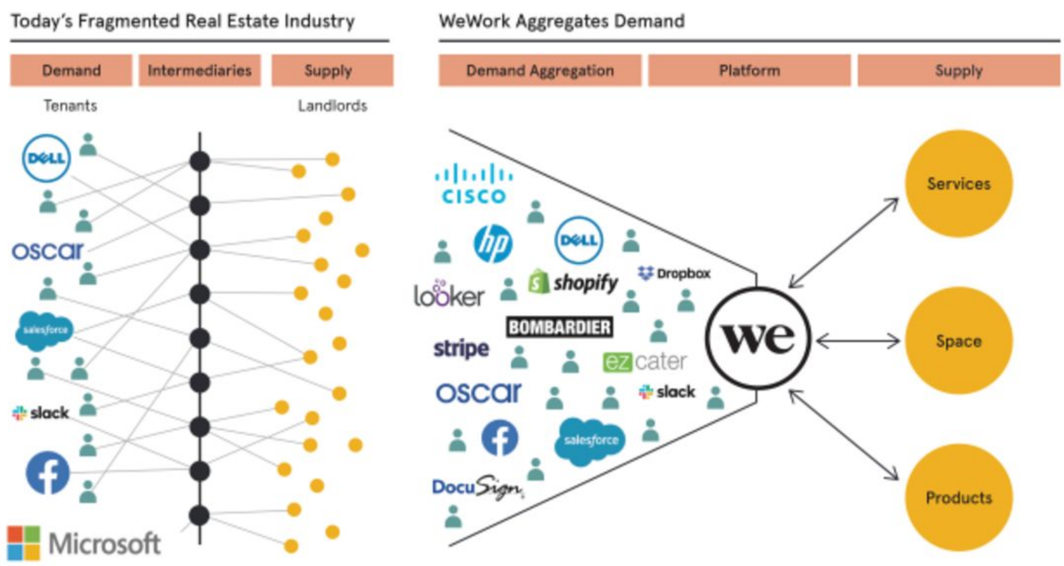
Figure 5: How wework picks its locations



WeWork has a dedicated team which leverages software to look for undervalued office space that they believe could be a good place for startups. Besides that, it uses historical real estate price data from its existing offices to establish long-term relationships with real estate brokers and show prospective lessors that WeWork has consistently increased the value of its offices and surrounding areas and get cheaper rates. WeWork also has a team of architects and interior designers who have a streamlined process and accumulated knowledge that allows them to assess and quickly redesign new offices to create a startup friendly environment. They create a mix of diverse working spaces to fit different people's needs (small offices, big open-spaces, meeting corners, conference rooms) and social areas (common areas, bars, arcade machines, foosball, etc.) where people can meet each other on a more relaxed environment, all with a design developed to foster creativity and adapted to the local community context.

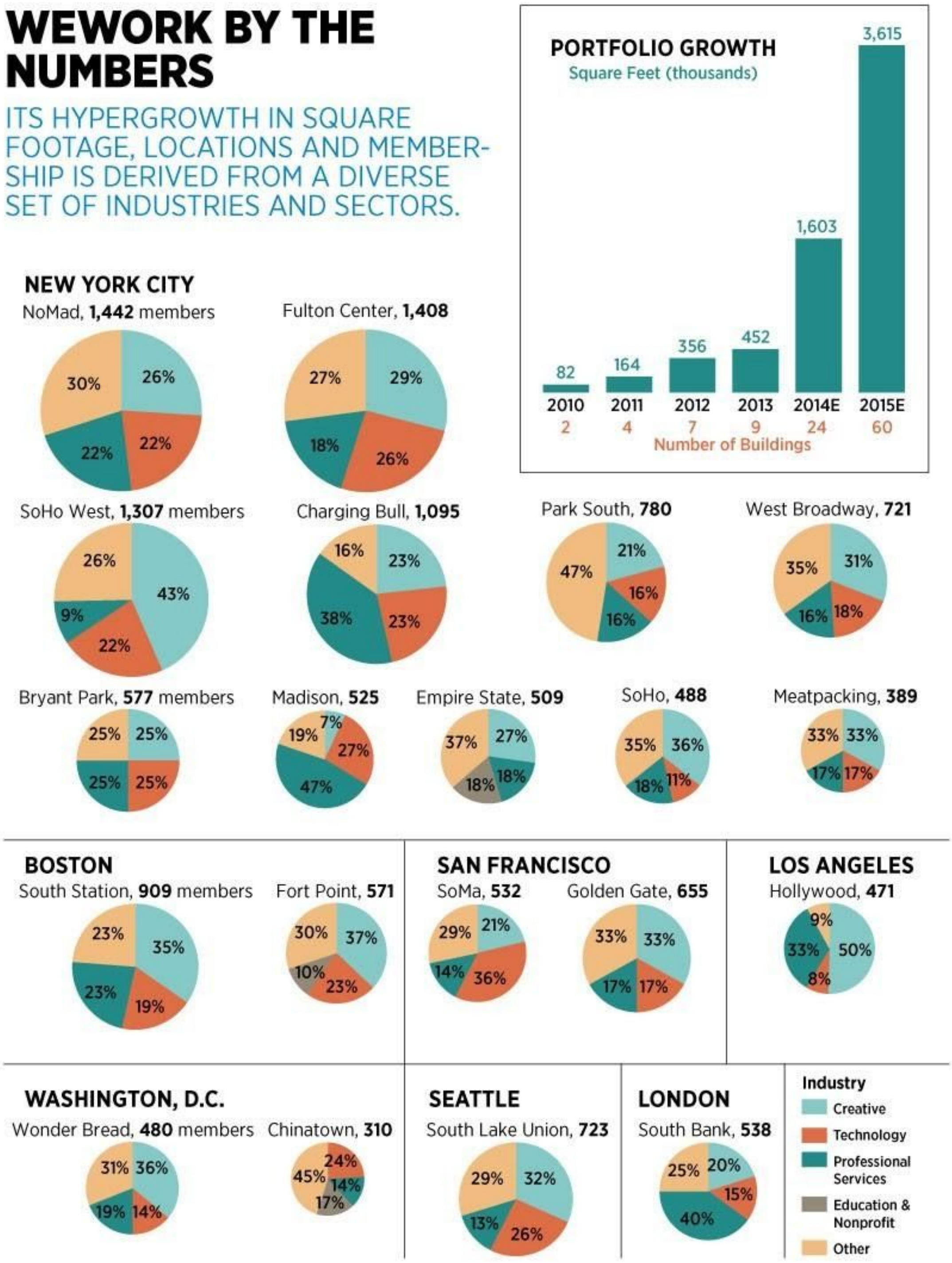
Community: Community is perhaps the biggest focus of WeWork. It has created an office space that fosters creativity and human interaction, hired community managers and gave them considerable power in the organization, created a social program (including parties, retreats and happy hours) that members rave about and have fostered diversity within the community.

Figure 6: wework aggregates demand



Technology and complementary services: Since the onset, WeWork has leveraged technology to provide its tenants the most seamless experience possible. As WeWork grew, it started to take a more holistic approach to solve the needs of startups and created partnerships with other companies to provide additional services and perks.

Figure 7: wework by the numbers



1.5.3 Suppliers, clients and partnership

Suppliers: WeWork's goal is to maximize space usage while also providing ample common space, meeting rooms, and natural light. Once WeWork signs a lease and begins building out its office to maximize revenues and office culture, technology takes an even bigger role. The company's acquisitions of architecture technology firm Case Inc. and of construction management platform FieldLens to form its Physical Products team have been essential to improving the design and build out phase.

One of the ways WeWork achieves maximum efficiency in planning is through its use of machine learning. To decide how many meeting rooms to construct, researchers at WeWork created a neural net that collects information on its existing buildings' layouts and meeting room usage. Based on knowledge of its building layouts and meeting rooms utilization, the company can predict meeting room usage for a layout that has yet to be constructed.

In a test of the neural net system, the program estimated room usage 40% more accurately than WeWork's human designers did. The graphs below show the number of hours a meeting room was utilized vs. its predicted hours, with the neural net achieving far more linear correlation.

Figure 8: Machine Learning for floor planning

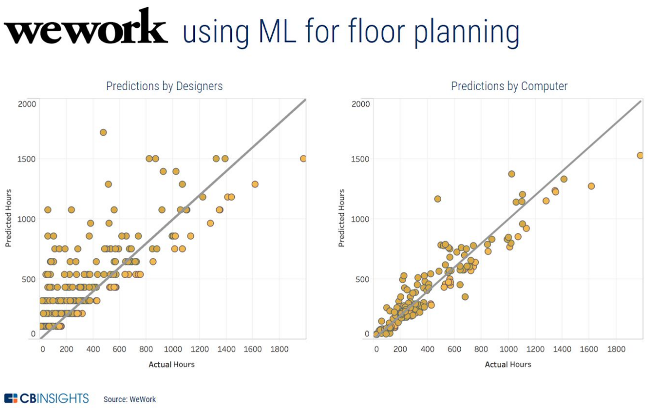


Figure 9: wework's floorplans show efficient space usage

The more buildings WeWork opens, the more data it collects, and the more its process improves — providing a strategic advantage over other co-working startups and incumbents. This technology, combined with increasing buying power from constructing at scale, lowered the cost of adding a new desk to $9,504 in September of 2017, from $14,144 a year prior, representing 33% savings. This data advantage in building and managing office space is one of the major selling points to enterprise customers.

Clients: Apart from the regular freelancers who run their private enterprise, **WeWork** is targeting such big **clients** as IBM, Salesforce and Microsoft offering them corporate coworking facilities that rival the larger office space chains

Figure 10: Some notable corporates that are using WeWork for office space

Parternership

Services Store: WeWork's services store offers members discounts on software and office services, including basics like Microsoft Office, Slack, and InVision. The store can be accessed with the lowest WeWork membership package, which lets customers pay as they go for co-working space. The store underscores the company's intent to position itself as an office services provider.

Flatiron School: WeWork's acquisition of the Flatiron School, a coding academy, offers its members an educational amenity. Flatiron School had to close a number of its coding boot camps prior to the acquisition. Its courses and programs are being integrated into WeWork locations and online.

2U: WeWork partnered with 2U in 2018 to further enhance its menu of amenities. 2U is an education technology company that offers customers online courses from top universities and colleges. The partnership terms include $5M in scholarships paid for by 2U to WeWork members over 3 years. Additionally, 2U will be licensed Flatiron School's Learn.co technology.

SoFi: WeWork's partnership with fintech startup SoFi is a service offered within the WeWork Services Store. WeWork members in the United States receive a 0.125% rate discount on student loan refinancing or Parents PLUS loans.

Meetup: The company's acquisition of Meetup, a platform that connects groups of people with similar interests, ties in with WeWork's core offering of networking space. Since 2013, more than 100,000 have attended a meetup at a WeWork.
Techstars:WeWork's partnership with Techstars gives the global accelerator office space and access to WeWork services in Toronto, Kansas City, Boston, and New York City. Techstars and alumni are offered discounted membership.

1.5.4 New Brands of WeWork
WeWork designs and builds physical and virtual shared spaces and office services for entrepreneurs and companies. WeWork's rebranding effort to become The We Company initially will focus on three business units: WeWork, the co-working unit; WeLive, its residential arm; and WeGrow, which includes an elementary school and coding academy. The company also shared its long-term vision from 2009, which incorporates travel, social life, and health into the WeWork ecosystem.

WeLive: WeLive is WeWork's vision for membership-based housing. Like WeWork's office, WeLive offers dorm-style apartments that can be rented on a month-to-month basis. TV, internet, concierge, housekeeping, access to community events, refreshments, and communal kitchens are all included in the pricing. Unlike WeWork's office locations, WeLive has not seen much growth. The company currently has two WeLive locations, well short of its goal to expand to 68 locations.

Private studios start at $3,050 per month in New York City and $1,500 per month in Washington DC, while four-bedroom apartments start at $7,600 in NYC and $3,700 per month in DC.

Rise by We: In October 2017, WeWork announced the opening of its spa and gym, Rise by We. The facility, currently only offered at one location in New York City, is open to WeWork members, with a non-WeWork members fee starting at $100/month for access to four studio classes. WeWork intends to build out similar gym/spa offerings in other locations.

The addition of exercise facilities seems like a well-timed decision, as fitness companies like Equinox are blurring the lines between recreational spaces and hotels, with plans in the works to launch an Equinox hotel in New York City's Hudson Yards development in 2019.

WeGrow: One month after its announcement of Rise by We, WeWork announced plans to start a private elementary school called WeGrow. The WeGrow school opened in the Chelsea neighborhood of New York City in September 2018. At launch, 46 children were enrolled in the school's classes ranging from pre-K to 4th grade. Tuition costs between $36,000 and $42,000.

The school's mission is centered around "a conscious entrepreneurial approach to education." Students are also able to connect with WeWork members for mentorship in career fields of interest. The initiative has drawn quite a bit of press — and a fair amount of skepticism.

WeWork Labs: WeWork Labs is a partnership program with local accelerators and incubators that assists small companies with "space, community, and programming" for a fee (not an equity stake). Currently, the program is available in Manhattan, Brooklyn, Washington DC, Seattle, and Dallas, as well as 14 other cities around the world.

WeWork’s tertiary businesses make up one if its greatest potential competitive advantages. WeWork Labs in particular has become increasingly important to the company, and seems poised to make further inroads in an already crowded market.

WeWork has doubled down on its burgeoning accelerator program. In November 2018, the company announced it had hired Prabhdeep Singh, former head of enterprise at Uber Eats, as the global head of operations for WeWork Labs. Singh’s appointment is a clear indication that Labs will continue to be a primary focus for WeWork, which could be a strong driver of growth for the company.

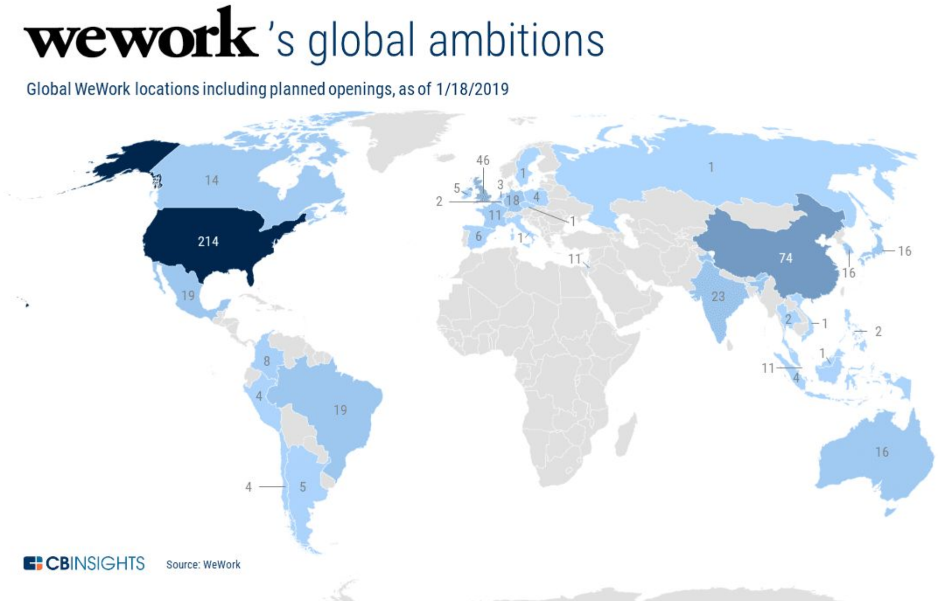
Part of what makes WeWork Labs compelling is that it does not accept equity from the startups participating in its incubator program. Instead it earns revenues off of renting out discounted office space, following its main business model.

Figure 11: The brands of wework

1.5.5 Global Expansion

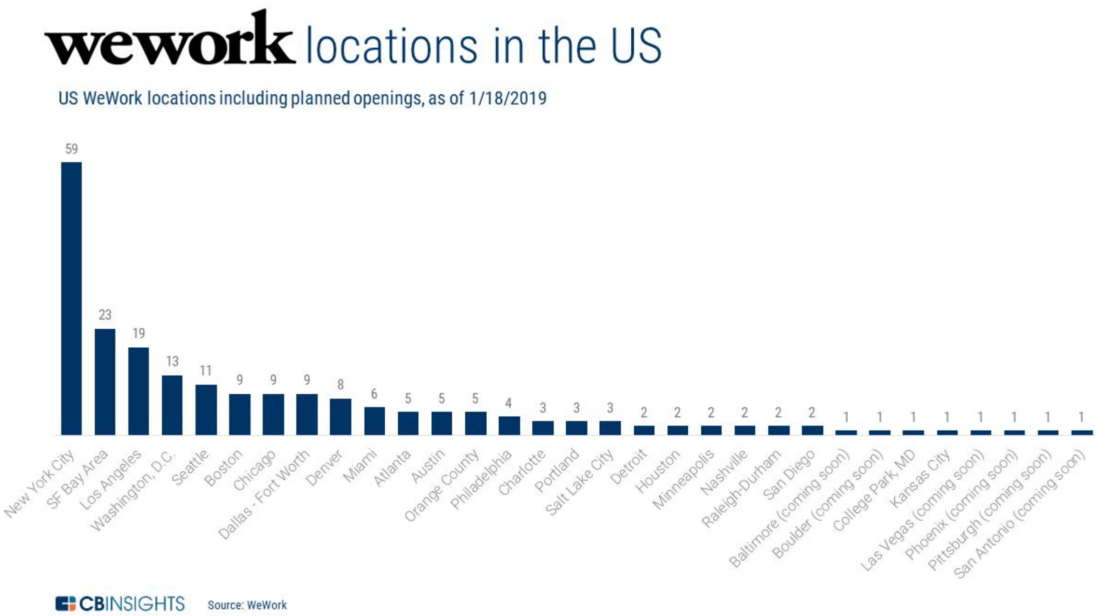
WeWork is quickly expanding in the US and abroad, with more than 550 office locations worldwide and counting.

Figure 12: WeWork’s global ambitions



WeWork has focused on the United States, with 212 locations nationwide as of January 18, 2019. The company’s US locations are largely concentrated within New York City, which is home to 59 of the 212 offices. WeWork also has 19 locations in Los Angeles, 13 in Washington DC, and 12 in San Francisco. Among them, New York City and San Francisco lead as the most expensive in the US, while Austin, Boston, and Chicago round out the top 5.

Figure 13: WeWork locations in the US

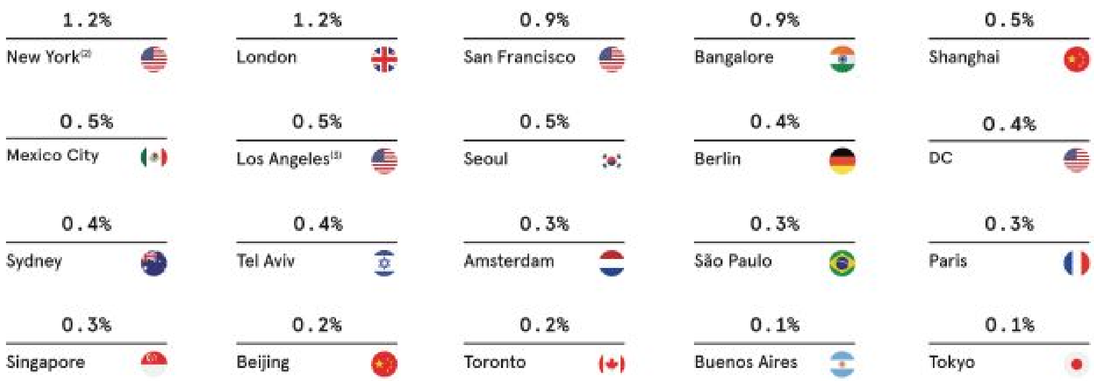


Looking beyond the US, London has the second most WeWork locations after New York City. The average starting cost of membership in London is 25% higher than New York City. WeWork has certainly made London a central strategic focus. WeWork has become one of the largest office space tenant in central London, second only to the government offices of the United Kingdom, according to the Financial Times. Moreover, based on filings made by WeWork's UK units, the company owes a minimum of $1.1B of future rent in London, some $318M of which will be paid out in the next 5 years.

WeWork's expansion in emerging markets: WeWork is also expanding in emerging markets with burgeoning tech scenes, especially China and India. China's country-wide average of $757 for a private desk aligns with major US cities like Chicago or Los Angeles. Compared to China, India has significantly lower membership fees, with a $358 country-wide average for a private office, and $145 for a hot desk.

To boost expansion in Southeast Asia, WeWork also purchased co-working startup Spacemob in August 2017. The Singapore-based company had previously raised $5.5M from Vertex Ventures SE Asia, Alpha JWC Ventures, and Temasek Holdings. The acquisition also brought on Spacemob's founder and CEO Turochas Fuad to manage its expansion through Southeast Asia.

Figure 14: WeWork's market penetration by city



Gain and loss: WeWork is a fast-growing startup that provides shared working space to companies, non-profits and individuals. Its advanced concept of rapid expansion has attracted everyone's attention, making it one of the most valuable star start-up company.

However, the implication of creating a company that absorbs all of the fixed costs in order to offer a variable cost service to other companies is massive amounts of up-front investment. WeWork needs to build out offices spaces before it can sell desktops or conference rooms. In other words, it would be strange if WeWork were not losing lots of money, particularly given its expansion rate. Still, it is doubtful that WeWork will slow the rate with which it opens locations given the company's view of its total addressable market.

Figure 15: WeWork expansion timeline

	2010	2012	2014	2016	2018	Q2 2019
Locations	2	7	23	111	425	528
Cities	1	3	8	34	100	111
Memberships	450	4,000	15,000	87,000	401,000	527,000

2. Historical financial statements

2.1. Income statement analysis

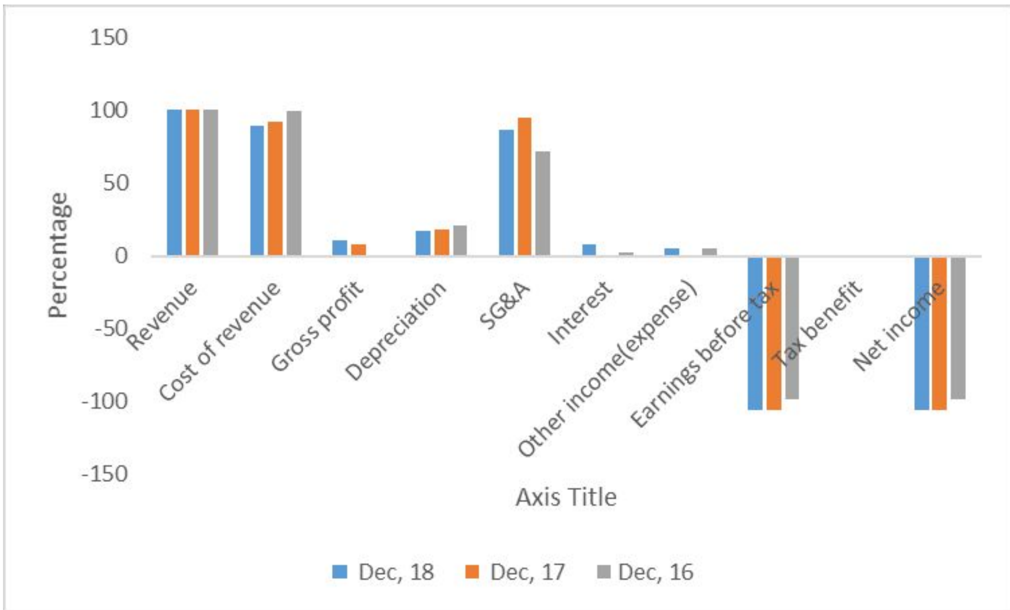
2.1.1 Vertical analysis

In the income statement shown below, we have the total dollar amounts and how every line item compares to revenue as percentage.

Table 3: Vertical analysis of WeWork’s Income Statement

(In thousands)	Dec, 18	Dec, 17	Dec, 16	Dec, 18	Dec, 17	Dec, 16
Revenue	1,821,751	886,004	436,099	100.00%	100.00%	100.00%
Cost of revenue	1,627,917	816,459	433,167	89.36%	92.15%	99.33%
Gross profit	**193,834**	**69,545**	**2,932**	**10.64%**	**7.85%**	**0.67%**
Depreciation	313,514	162,892	88,952	17.21%	18.39%	20.40%
SG&A	1,571,319	838,487	310,254	86.25%	94.64%	71.14%
Interest	146,034	5,928	9,874	8.02%	0.67%	2.26%
Other income(expense)	91,236	1,459	23,526	5.01%	0.16%	5.39%
Earnings before tax	**(1,928,269)**	**(939,221)**	**(429,674)**	**-105.85%**	**-106.01%**	**-98.53%**
Tax benefit	850	5,727	(16)	0.05%	0.65%	0.00%
Net income	**(1,927,419)**	**(933,494)**	**(429,690)**	**-105.80%**	**-105.36%**	**-98.53%**

Figure 16: Percentage of each item comparing to revenue



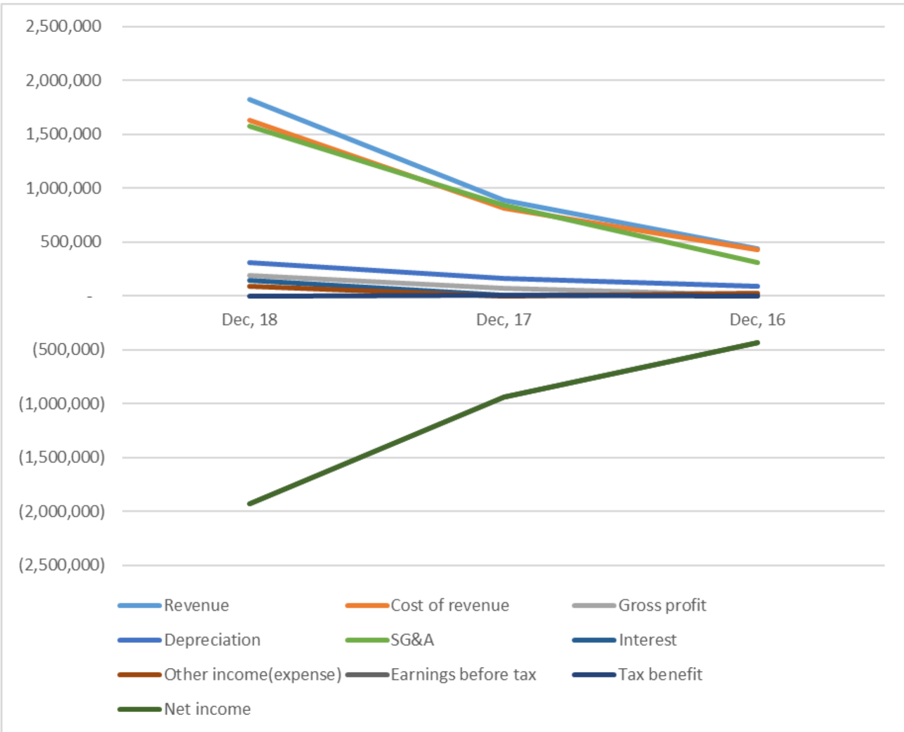
As we can see in the above, although the percentage of cost of revenue decreases from 99.33% in 2016 to 89.36%, the high percentage of cost of revenue and operating expense shows that WeWork doesn't go very far to become profitable. This can also be shown on net income, which is negative and declines from -98.53% in 2016 to -105.80% in 2018. This reveals that WeWork has massive losses, comparing to its profit.

2.1.2 Horizontal analysis

Table 4: Horizontal Analysis of WeWork's income statement

(In thousands)	Dec, 18	Dec, 17	Dec, 16	Dec, 18	Dec, 17	Dec, 16
Revenue	1,821,751	886,004	436,099	105.61%	103.17%	-
Cost of revenue	1,627,917	816,459	433,167	99.39%	88.49%	-
Gross profit	**193,834**	**69,545**	**2,932**	**178.72%**	**2271.93%**	-
Depreciation	313,514	162,892	88,952	92.47%	83.12%	-
SG&A	1,571,319	838,487	310,254	87.40%	170.26%	-
Interest	146,034	5,928	9,874	2363.46%	-39.96%	-
Other income(expense)	91,236	1,459	23,526	6153.32%	-93.80%	-
Earnings before tax	**(1,928,269)**	**(939,221)**	**(429,674)**	**105.31%**	**118.59%**	-
Tax benefit	850	5,727	(16)	-85.16%	-35893.75%	-
Net income	**(1,927,419)**	**(933,494)**	**(429,690)**	**106.47%**	**117.25%**	-

Figure 17: Horizontal Analysis of WeWork's income statement



The table in the above shows more about the change in revenue and cost. From 2016 to 2018, WeWork's earnings increases 103% in one year, and doubles again in the following year. This company has rapidly growth, becoming among the biggest corporate landlords in some cities. However, its cost has also growth sharply, making large net loss. This warns that the company has spent so much to develop its business that it is not able to achieve profitability.

2.2 Balance sheet and leverage ratio

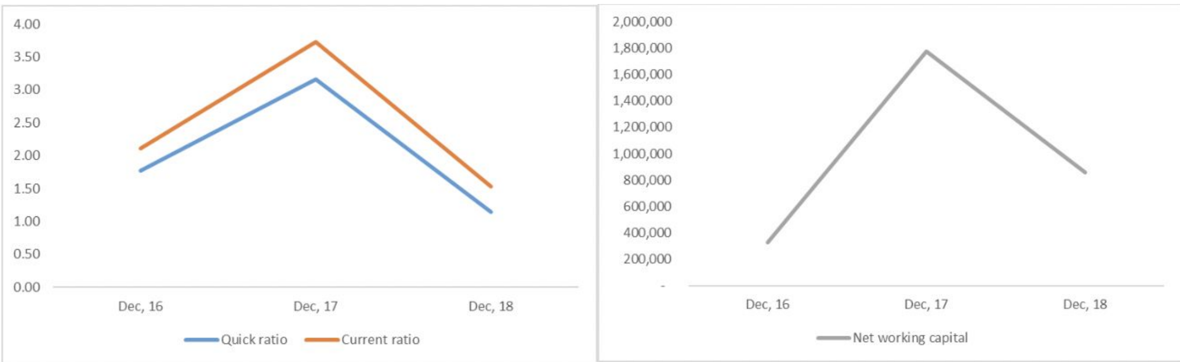
2.2.1 Liquidity ratios

Table 5: Liquidity ratios of WeWork

	Dec, 16	Dec, 17	Dec, 18
Quick ratio	1.78	3.16	1.15
Current ratio	2.10	3.73	1.53
Net working capital	326,163	1,776,509	854,990

Dec, 17	Dec, 18
77.84%	-63.75%
77.23%	-58.95%
444.67%	-51.87%

Figure 18: Change in quick ratio and current ratio (left) and in net working capital (right)



For WeWork, its net working capital increases 444.67% from 2016 to 2017, and decreases 51.87% from 2017 to 2018, and the current ratio increases 77.23% then decreases 58.95%, which suggest that WeWork experienced large expansion in its business, large increase in its current assets and cash in 2017, but had lower ability to generate cash and capital to cover its short-term expenses in 2018. The decline in these two ratios is attributable to a rapid growth in its current liabilities. The quick ratio also decreases 63.75% from 2017 to 2018, which indicates a worse in the liquidity of WeWork.

2.2.2 Leverage ratios

Table 6: Items related to leverage ratio

	Dec, 16	Dec, 17	Dec, 18
Debt	1,281,784	2,406,511	6,284,159
Equity	956,735	2,957,561	2,360,757
EBITDA	(307,322)	(768,942)	(1,377,485)
EBIT	(396,274)	(931,834)	(1,690,999)
Interest expense	12,351	15,459	183,697

Dec, 17	Dec, 18
87.75%	161.13%
209.13%	-20.18%
-150.21%	-79.14%
-135.15%	-81.47%
25.16%	1088.29%

Table 7: Leverage ratio of WeWork

	Dec, 16	Dec, 17	Dec, 18
Debt to equity	1.34	0.81	2.66

Dec, 17	Dec, 18
-39.27%	227.15%

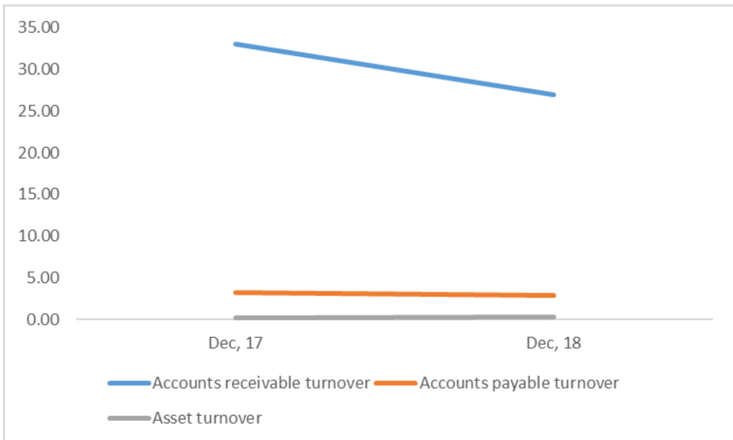
For WeWork, its debt-to-equity decreases 39.27% from 2016 to 2017 but increases 227.15% from 2017 to 2018. WeWork raised funds and increased its equity in 2017 to expand its business. However, in 2018, WeWork's current debt and noncurrent debt both continued to go up, with decrease in equity, which led to WeWork's higher debt-to-equity ratio. In the meanwhile, it shows negative EBITDA and EBIT in the income statement, which indicates that WeWork is not able to pay off its debt until now. WeWork also needs to pay more interest because of its previous issued debt, according to higher interest expense.

2.2.3 Operating efficiency ratios

Table 8: Operating efficiency ratios of WeWork

	Dec, 17	Dec, 18	Change
Accounts receivable turnover	33.04	26.97	-18.38%
Accounts payable turnover	3.24	2.85	-11.80%
Asset turnover	0.23	0.26	11.59%

Figure 19: Change in operating efficiency ratios



For WeWork, the table in the above shows high value in accounts receivable turnover, which indicates the firm's bargaining power against the customers is strong (or may be due to the short-term rent nature of WeWork). But there is a decline from 2017 to 2018, which shows that some collection problems appear in 2018. However, low value in accounts payable turnover indicates that WeWork takes long to pay off its suppliers (or may be due to WeWork long-term lease with landlords). Decreasing in this ratio shows a worse situation about paying of its suppliers. In the meantime, WeWork maintains low asset turnover ratio in both 2017 and 2018. It generated low revenue per dollar of assets, utilized assets in a less efficient way.

2.3. Overview of cash flow statement

Table 9: Statements of Cash Flows of WeWork

(In thousands)	**Dec, 18**	**Dec, 17**	**Dec, 16**
Net income	**(1,927,419)**	**(933,494)**	**(429,690)**
Depreciation and amortization	313,514	162,892	88,952
Impairment of property and equipment	29,572	6,797	-
Stock-based compensation expense	69,400	295,362	22,660
Cash paid to settle employee stock awards	(13,939)	-	-
Issurance of common stock for services rendered	18,957	7,327	1,594
Noncash interest expense	127,716	3,673	2,436
Provision for allowance for doubtful accounts	6,722	4,546	2,317
(Income) loss from equity method and other investments	12,638	30,900	359
Foreign currency gain/loss	80,587	(29,419)	23,415
Contingent consideration fair market value adjustment	76,439	-	-
Accounts receivable and accrued revenue	(69,403)	(22,052)	(13,877)
Lease incentives receivable	(121,734)	(64,948)	46,234
Deferred lease acquisition costs	(40,352)	(18,258)	(7,630)
Other assets	(211,690)	(88,467)	(29,534)
Accounts payable and accrued expenses	147,627	96,360	12,862
Deferred rent	1,278,348	752,063	451,344
Deferred revenue	54,782	35,348	5,505
Deferred income taxes	(10,112)	(8,029)	-
Other liabilities	1,618	13,391	(42)
Cash flow from operating activities	**(176,729)**	**243,992**	**176,905**
Purchases of property and equipment	(2,055,020)	(1,023,953)	(776,074)
Capitalized software	(8,891)	(8,393)	(2,317)
Sale of software license	9,000	-	-
Change in security deposits with landlords	(95,463)	(67,124)	(9,578)
Proceeds from sale or redemption of investments	2,202	12,800	-
Contributions to investments	(121,626)	(56,483)	(19,703)
Loans to employees and related parties	(1,859)	9,796	(10,273)
Cash used for acquisitions	(204,141)	(243,410)	(580)
Cash flow from investing activities	**(2,475,798)**	**(1,376,767)**	**(818,525)**
Principal payments for property and equipment acquired under capital leases (Short-term borrowings)	(1,869)	(1,350)	(1,116)
Proceeds from issurance of debt	768,795	-	-
Proceeds from issurance of convertible related party liabilities	1,000,000	-	-
Debt and equity issuance costs (Long-term borrowings)	(23,227)	(3,568)	(1,306)
Loans payable to related parties	(27,552)	26,088	-
Proceeds from sale of Series F Preferred Stock and associated warrants	-	-	679,901
Proceeds from sale of Series G Preferred Stock	-	1,697,761	-
Procees from exercise of stock option and warrants	3,505	8,939	1,228
Proceeds from issuance of noncontrolling interests	747,907	900,003	-
Payments for contigent consideration and holdback of acquisition proceeds	(14,436)	-	-
Change in members' service retainers	206,431	96,442	49,201
Cash flow from financing activities	**2,658,469**	**2,724,315**	**727,908**
Effects of exchange rate changes on cash, cash equivalents, and restricted cash	(13,119)	(763)	(2,261)
Net change in cash	**(7,177)**	**1,590,777**	**84,027**

Figure 20: Change in cash flow

The statement of cash flow reveals a net cash outflow from operations of $176,729,000 in 2018. Although the company gained much cash inflow for deferred rent, it shows a net loss of $1,927,419,000, which is a sharp decrease comparing to 2017 and 2016.

Its "Cash flow from investing activities" primarily consists of purchases of property and equipment. Because of its expansion, WeWork's investment on property has increased from 0.7 million in 2016, to 2.1 million in 2018.

Financial activities mean taking loans, debt etc. for buying assets. From 2016 to 2017, WeWork sold preferred stocks each year. And in 2018, WeWork issued around 1.8 million of debt and convertible related party liabilities to support and expand its business. That's why it has had positive cash flow from financing in the past three years.

3 Appendix

3.1. Balance sheet

(In thousands)	**Dec, 18**	**Dec, 17**	**Dec,16**
Cash	1,744,209	2,020,805	506,597
Accounts receivable	99,525	35,582	18,047
Current assets:	**2,464,078**	**2,427,096**	**621,355**
Property and equipment, net (PP&E)	4,368,772	2,337,092	1,451,897
Equity method and other investments	218,435	57,217	25,705
Goodwill	681,017	156,117	5,317
Intangible assets, net	159,143	84,519	3,912
Total assets	**8,644,916**	**5,364,072**	**2,238,519**
Accounts payable	826,396	314,267	190,295
Members' service retainers	396,857	195,081	94,560
Short-term debt (including capital lease obligations, current portion and loans paya	1,958	27,737	1,178
Current liabilities	**1,609,088**	**650,587**	**295,192**
Deferred rent	2,831,747	1,636,587	900,731
Long-term debt (including capital lease obligations)	799,599	50,764	52,060
Convertible related party liabilities, net	949,985	-	-
Total liabilities	**6,284,159**	**2,406,511**	**1,281,784**
Common stock	165	162	159
Convertible preferred stock	3,498,696	3,405,435	1,678,301
Additional Paid-in Capital	797,963	407,804	86,769
Accumulated deficit (Retained Earnings)	(3,311,285)	(1,700,493)	(816,499)
Accumulated other comprehensive income	15,511	(9,924)	8,005
Redeemable noncontrolling interests	1,320,637	854,577	-
Total Equity	**2,360,757**	**2,957,561**	**956,735**

3.2. Income statement

(In thousands)	**Dec, 18**	**Dec, 17**	**Dec, 16**
Revenue	1,821,751	886,004	436,099
Cost of revenue	1,627,917	816,459	433,167
Gross profit	**193,834**	**69,545**	**2,932**
Pre-opening location expenses	357,831	131,324	115,749
Sales and marketing expenses	378,729	143,424	43,428
Growth and new market development expenses	477,273	109,719	35,731
General and administrative expense	357,486	454,020	115,346
Depreciation and amortization	313,514	162,892	88,952
Operating expense total	**1,884,833**	**1,001,379**	**399,206**
EBIT	**(1,690,999)**	**(931,834)**	**(396,274)**
Interest expense	(183,697)	(15,459)	(12,351)
Interest income	37,663	9,531	2,477
Other income(expense)	(91,236)	(1,459)	(23,526)
Pre tax profit	**(1,928,269)**	**(939,221)**	**(429,674)**
Income tax benefit	850	5,727	(16)
Net income	**(1,927,419)**	**(933,494)**	**(429,690)**