

Analysis of the WeWork Bankruptcy Case

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Abstract. This paper use case analysis and strategy analysis methods for the bankruptcy of Softbank for more than \$13 billion US dollars in 2018, and in 2022 to analyze the acquisition process of WeWork acquisition, the impact of WeWork bankruptcy, and Softbank's countermeasures. The analysis of this paper shows that the business pre-bankruptcy status and key factors are the key to the WeWork bankruptcy, and the post-bankruptcy impact also needs to consider the association with the acquisition. Finally, the measures taken by WeWork for the company's bankruptcy restructuring were discussed, as well as the challenges and opportunities faced by Softbank after WeWork's bankruptcy. On the one hand, the slowdown in global economic growth and increased uncertainty have brought enormous pressure to Softbank. On the other hand, with the continuous advancement of technological innovation, Softbank Group can achieve sustained growth by investing in emerging industries. This paper provides theoretical and practical references for theoretical research and practice in related fields. This paper reminds investors to understand the company's financial situation and business model during the domestic acquisition process. Attention should also be paid to the risk management after the acquisition.

Keywords: Softbank; WeWork; shared office space; prospect analysis; bankruptcy.

1. Introduction

This paper aims to analyze the case of WeWork bankruptcy after Softbank acquired WeWork. Sharing economy is an economic model. Through online platforms and technological innovation, individuals and organizations are encouraged to share their own idle resources, skills or services, so as to realize the optimal allocation of resources and maximize the value of [1]. With the emergence of the Internet and mobile technology, enterprises with a sharing economy as their business model have emerged in various fields. WeWork, a company primarily engaged in shared office spaces, was once hailed as a unicorn company. However, over time, WeWork encountered many problems in its business process, which led to operational difficulties and ultimately led to bankruptcy. Meanwhile, Softbank, as a major investor in WeWork, has also been deeply affected by its bankruptcy event.

Chen and Cui pointed out that today's world economy is not as good as before, and the trend of "deglobalization" is highlighted. Trade frictions between major economies are intensifying, and the world economy may be in crisis at any time [2]. Does this have a direct impact on the bankruptcy of WeWork. Meanwhile, this article analyzes the impact of Softbank as the main investor of WeWork on this event. Finally, relevant suggestions were put forward on how to respond to bankruptcy. The bankruptcy incident revealed the drawbacks of the sharing economy model, such as the impact of the unstable environment on the sharing economy, especially in the field of shared office. Hossain pointed out that in view of the COVID-19 pandemic, sharing economic activities are in an unstable situation. Although SE is regarded as a subversive phenomenon, especially in the field of accommodation and transportation, the COVID-19 epidemic has led to concerns about its sustainability. Many people are unemployed, the value of social enterprises is shrinking, and many service providers have no choice but to suspend operations [3]. Secondly, bankruptcy events play an important warning role for investors, entrepreneurs, and government regulatory agencies, educating them on how to better assess and manage risks. Finally, the bankruptcy incident has had a significant impact on the entire business ecosystem, triggering reflections and discussions on business models and enterprise development.

The rest of this article is organized as follows. In Section 2, this paper presented and described the acquisition motivation, process, and results of Softbank's acquisition of WeWork. In the following

section 3, This paper introduced the impact of mergers and acquisitions on both parties. And in Section 4, the factors and impacts of WeWork bankruptcy were analyzed. Then, in Section 5, this article proposes corresponding solutions after bankruptcy. Finally, this paper summarizes the research results and prospects.

2. The Motivation, Process, and Outcome of Softbank's Acquisition of WeWork

2.1. Motivation

Acquisitions are strategically important for Softbank. First, by acquiring WeWork, Softbank can further expand its market share in the sharing economy. WeWork As the world's leading shared office space provider, it has a huge user base and a global business layout. With the acquisition of WeWork, Softbank can directly acquire its huge user resources and further improve its competitiveness in the shared office space market.

On the other hand, the acquisition of WeWork can also give Softbank more revenue sources and profit growth points. In addition to rental income from shared office space, WeWork also earns income by providing value-added services, membership fees and other ways. With the acquisition of WeWork, Softbank can continue to develop and expand these value-added services and further improve its revenue level. At the same time, WeWork has a wide distribution around the world. After the acquisition, Softbank can further reduce costs and improve profit margins by integrating resources and optimizing management.

At the same time, the acquisition of WeWork could also provide Softbank with a diversified portfolio and risk diversification. Softbank As a large investment company, it owns the shares of many enterprises, and actively participates in the investment of emerging industries. With the acquisition of WeWork, Softbank can further expand its portfolio and get more quality investment projects in the sharing economy. In this way, Softbank can spread risk across different industries and businesses, reducing the risk of relying on specific industries or businesses.

2.2. Process and Outcome

After a comprehensive understanding of WeWork's background and operating model, Softbank realized the potential for rapid expansion of WeWork on a global scale. They saw the opportunity to work with WeWork, together to promote WeWork internationalization and business expansion through investment and merger. Softbank has carefully evaluated the decision-making factors for the acquisition. Valuing the target company is a crucial step, and if the valuation is too high, it may lead to increased merger and acquisition costs and financial risks for the company. Therefore, Softbank began negotiating, preparing, and evaluating with WeWork. Therefore, Softbank began to negotiate, prepare, and evaluate the work with WeWork.

They analyzed the strategic significance of the partnership with WeWork, including further enhancing Softbank's competitive advantage in shared office space, increasing revenue streams, and expanding market share. At the same time, they also considered the impact of the acquisition on Softbank itself, including capital investment, organizational restructuring and management change. Figure 1 below describes Softbank's strategy to acquire WeWork.

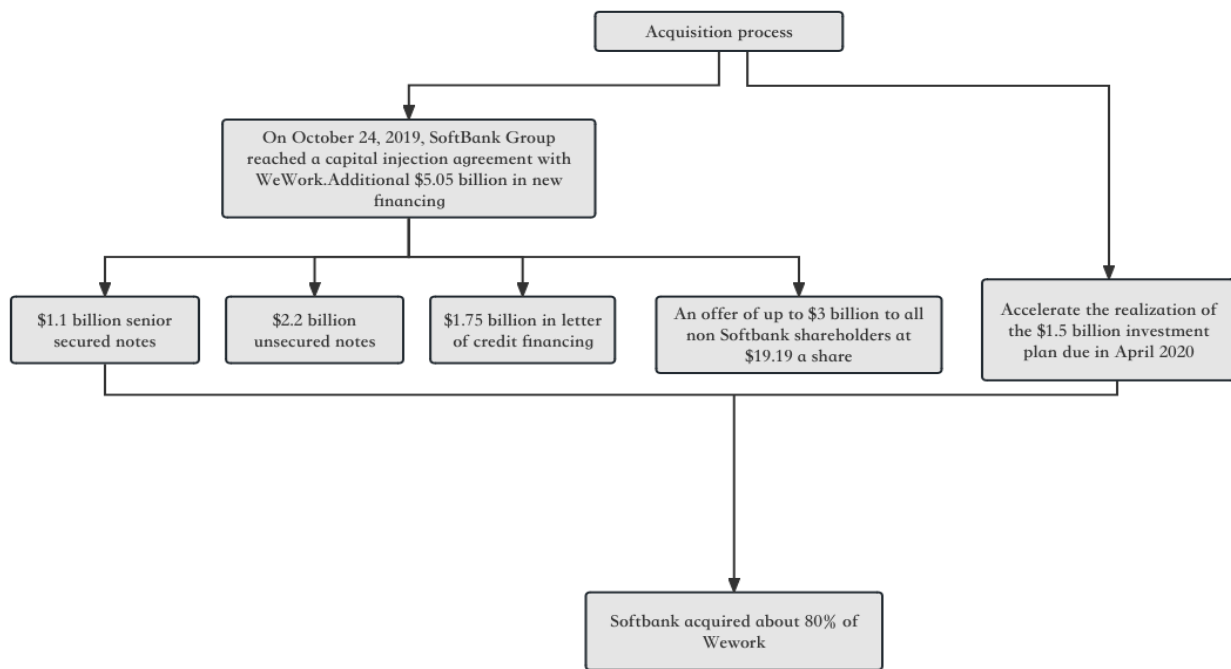


Fig. 1 Flow chart [4]

Softbank's acquisition of WeWork will have a far-reaching impact on Softbank's strategic layout and financial situation. First, the acquisition will strengthen Softbank's competitiveness in the shared office space market and expand its market share in the sector. Through WeWork's innovative business model and global influence, Softbank is expected to occupy a position in the shared office space market, thus achieving long-term growth and return on investment. In addition, the acquisition will also enhance the asset size and market value of Softbank and further enhance the company's financial performance. Figure 2 describes the increase in Softbank's total assets in the past five years, and the total assets acquired by WeWork in 2019 increased by 3.2% year-on-year.

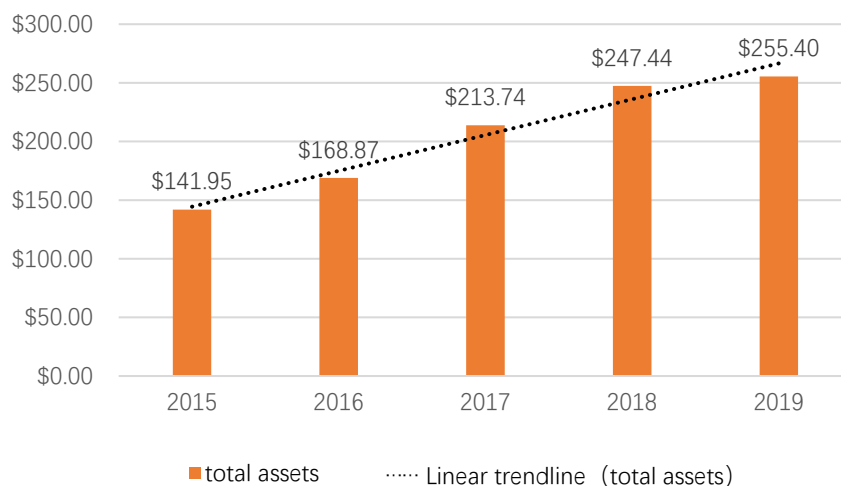


Fig. 2 Trends in total assets of Softbank (unit: 10 million) [5]

Before Softbank's stake, WeWork faced financial pressure and its overvaluation was questioned. However, Softbank's investment not only brings sufficient funds to WeWork, but also gives it a certain degree of market confidence and recognition. WeWork's market value has been significantly improved, thus providing greater convenience for its follow-up financing. This has also laid a solid foundation for WeWork's global expansion and development, helping it to further expand its market and attract more enterprises.

From the perspective of Softbank, the acquisition is undoubtedly an important supplement to its strategic layout. Through the acquisition of WeWork, Softbank can not only enter the fast-growing shared office market, but also use WeWork's global network to further promote its business expansion in Asia and other regions. In addition, WeWork's innovative business model and strong customer base will also bring new business growth points to Softbank and improve the company's profitability.

In short, Softbank's acquisition of WeWork will have a positive impact on its strategic layout and financial situation. In the context of increasing competition in the shared office space market, Softbank has consolidated its position through the acquisition of WeWork and is expected to achieve long-term returns. At the same time, WeWork's innovative business model and global influence will also bring more development opportunities to Softbank and enhance the company's market value and competitiveness. For both sides, this merger and acquisition is undoubtedly a win-win choice.

3. The reasons for WeWork's bankruptcy

3.1. Business Status Prior to Bankruptcy

In terms of its pre-bankruptcy financials, WeWork lost \$207 million in 2018 and \$1.69 billion in 2019, according to public information. One of the main reasons for the loss was the rising cost of operations and rent, due to continued expansion, and the failure to achieve the corresponding revenue growth. In addition, there are also high marketing costs and administrative expenses, which have further exacerbated the losses. In general, WeWork's business conditions before the bankruptcy faced a series of challenges and problems, which also laid the foundation for the subsequent bankruptcy. Figure 3 shows that WeWork's operating income and net profit have declined over the past five years, while total liabilities have risen almost vertically from 2020 to 2021.

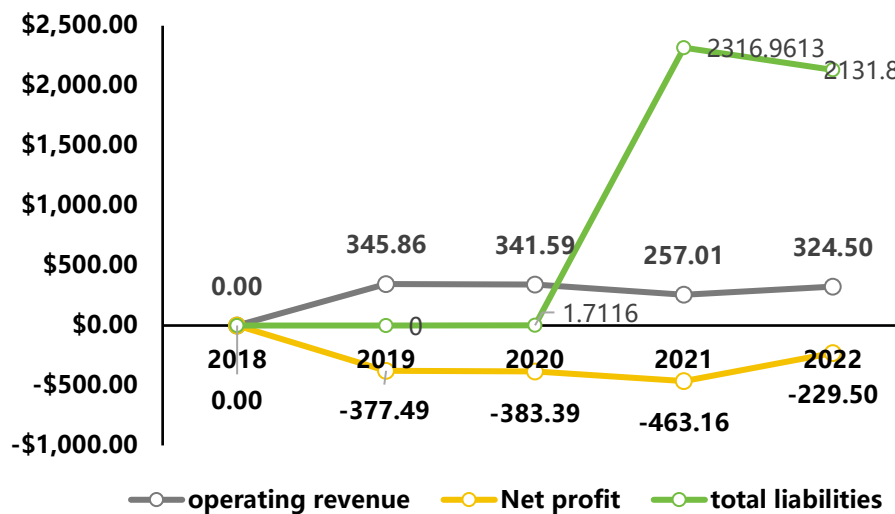


Fig. 3 WeWork Trend chart of operating income, net profit and total liabilities in past 5 years [6]

3.2. Key factors of bankruptcy

WeWork There are many aspects to the key factors of bankruptcy. First, WeWork suffered a huge loss during its operations. Wu once pointed out that the appropriate pace of development is very important, if only focus on the short-term scale, a large amount of investment, aggressive expansion, will make the enterprise in a dangerous situation [7]. According to public data, WeWork reported a net loss as of the third quarter of 2019 of \$1.47 billion. WeWork Has always had a reputation for its rapid expansion strategy, investing heavily in leasing office space and expanding its business globally, which has worsened its financial position. At the same time, WeWork's lease period does not match the flexible office model it provides, resulting to its increasing debt level. The financial strain of such massive investments and short-term leases was a important reason for WeWork's bankruptcy.

WeWork Corporate governance issues are also one of the most important factors leading to bankruptcy. Sui once pointed out that the disadvantages of family management mode include single property right structure, failure of decision-making caused by paternalistic management, cronyism, and uneven distribution of interests and internal strife, which seriously restrict the development of family business [8]. The founder and former CEO Adam Neumann of WeWork, who focused on his personal goals, took up company resources and made risky investments, which led to confusion and bad decisions. Adam Neumann also transferred its personal assets to the company before the company went public, exacerbating the company's financial risks. This conflict of personal interests and corporate interests and corporate governance failures caused WeWork's bankruptcy.

On the other hand, in order to achieve rapid expansion, WeWork has borrowed heavily, which has led to a continuous increase in its debt level. The result of this excessive debt is that WeWork's expenses in rent, operating costs, and other aspects far exceed its revenue, leading to sustained losses for the company. This long-term state of loss poses serious financial risks to the company. The bankruptcy cost caused by increased debt is more significant than agency cost, which leads to a decrease in the company's sustainable development ability [9]. Due to high debt, once a company encounters operational difficulties, the cost of bankruptcy will become extremely huge. This includes various aspects such as debt default penalties, employee severance pay, and contract termination fees. This greatly increases the likelihood of WeWork going bankrupt when facing market fluctuations and operational risks.

The key factors for WeWork's bankruptcy include significant losses, corporate governance issues, and unstable business models. These factors are intertwined and together led to the bankruptcy and demise of WeWork. This study aims to gain a deeper understanding of the reasons for WeWork's bankruptcy by analyzing these key factors, and provide lessons learned and management insights for similar businesses. According to public information, WeWork recorded losses of \$207 million and \$1.69 billion in 2018 and 2019, respectively. Therefore, the COVID-19 is not the root cause of WeWork's bankruptcy, but the last blow to make it in trouble.

4. Recommendations for bankruptcy and acquisitions

4.1. Recommendations for the Softbank

The collapse of WeWork will directly have a negative impact on Softbank's financial situation, which may lead to a huge loss of Softbank in the financial results. Starting From 2020, the investment income ratio of Softbank has decreased year by year. Figure 4 shows that Softbank's net investment cash showed a downward trend from 2019 to 2022, while the upward trend of investment income gradually weakened.

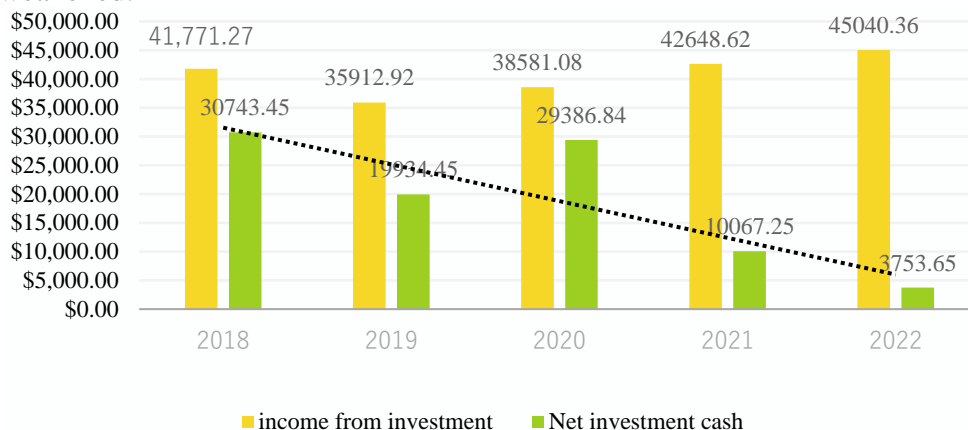


Fig. 4 Softbank's investment income and net investment cash in the past five years [10].

WeWork Bankruptcy may have a negative impact on Softbank's investment reputation. As an investment company focused on the technology field, Softbank has always enjoyed a high reputation

and influence. WeWork The bankruptcy makes investors question Softbank's investment vision, and raises questions about their investment ability and risk control ability. This may lead to the distrust of other potential investors to cooperate with or invest in Softbank, which in turn affects Softbank's competitive position and reputation in the industry.

Further analysis requires the impact of Arm's IPO plan and its impact on Softbank's overall strategy. Arm, a chip design company owned by Softbank, plans its IPO could bring some financial gains to Softbank. However, Arm's independent listing may also make Softbank lose direct control over it, and the impact on Softbank's overall strategy needs further evaluation.

With the rapid development of technology and the advancement of digital transformation, Softbank has the opportunity to find new business opportunities in emerging areas. For example, the popularization of technologies such as artificial intelligence, the Internet of Things, and 5G will bring a large number of business opportunities. In the era of complex information, the challenges and opportunities of content organization coexist. Whether it is structured rigor or unstructured freedom, its core goal remains consistent: to extract valuable content from massive amounts of information and meet the needs of various users [11]. Nowadays, the integration of cutting-edge technologies such as artificial intelligence, the Internet of Things, and machine learning provides strong support for enterprises to achieve this goal [12].

The intervention of artificial intelligence has significantly improved the efficiency of content organization. Through technologies such as natural language processing and image recognition, artificial intelligence can automatically conduct in-depth analysis of various forms of content and accurately extract key information. This not only accelerates the organization and classification of information, but also helps to discover potential correlations and trends behind the data, providing strong data support for decision-makers. The rise of machine learning technology has injected new vitality into content organization. It tightly connects the real world with the virtual world, building a vast network of devices. With the help of the Internet of Things, enterprises can collect and transmit various types of data in real-time, greatly enriching the data sources for content organization. These data not only help improve the internal operational efficiency of enterprises, but also bring users a more personalized and accurate service experience. In summary, the integration of artificial intelligence, the Internet of Things, and machine learning technologies has brought unprecedented opportunities for content organization. As a technology investment company, Softbank can actively participate in it through investment and mergers and acquisitions, and gain new growth points. Softbank into a strong global investment portfolio, with abundant capital and resources. This provides an opportunity for Softbank to exert a greater influence in the investment sector. By further integrating and optimizing the portfolio, Softbank can better identify market opportunities and improve returns and returns.

Softbank's overseas market layout has also brought opportunities for it. Especially in the Asian market, the popularization and widespread application of internet technology have effectively promoted the prosperity of the Asian economy [13]. In the rapidly changing trend of globalization, the use of the Internet enables Asian countries to better integrate into the global economic system and share the dividends of global economic development. At the same time, Asian countries have achieved economic restructuring and upgrading through technological innovation, and their wealth is increasingly gathering in the Asian region. With the rapid development of the Internet and digital economy, Softbank can leverage its own strength and experience to carry out more investment and cooperation projects in the Asian market, and obtain higher returns. Softbank's global business expansion and diversified operations will also bring some management challenges. Softbank needs to strengthen supervision and management of its subsidiaries and investment projects to ensure effective resource allocation and smooth business operations.

Softbank also need to face the risk of uncertainty and friction in the global economic situation. Rising international trade tensions and slowing global economic growth could adversely affect Softbank investment and operations. Therefore, Softbank needs to flexibly respond to various challenges and risks, seize opportunities, and improve its competitiveness and ability to resist risks.

4.2. Suggestions to WeWork Company

The strategy and measures of restructuring are an important part of WeWork's reorganized business after bankruptcy. Cui once pointed out that the restructured company first needs to have the core competitiveness and good development space. In order to get the support and trust of all stakeholders and win the injection of capital, the restructured enterprise must have the ability to rebuild [14]. According to the case analysis of this paper, the following strategies and measures.

WeWork A series of strategies need to be developed to address the current dilemma. First, the WeWork should reduce the debt pressure by reducing costs. They can cut back unnecessary expenses, especially on leasing and decorating. In addition, they can consider reducing the number of employees and payroll expenses to reduce operating costs. By reducing costs, WeWork can reduce debt and rebalance financial position.

WeWork Consider switching to a short-term leasing model to attract customers through more flexible contracts. They can also expand their services and provide more value-added services related to their office space, such as meeting room booking and office equipment rental, to increase their revenue streams.

WeWork may consider converting debt into equity, but in this process, the feasibility of equity conversion needs to be carefully assessed. Not all insolvent reorganized companies should be considered sustainable entities. When bankruptcy reorganization involves long-term economically viable financially troubled enterprises, converting debt into equity will help enterprises transform successfully, thus promoting the efficient allocation of social resources [15]. Therefore, in the process of bankruptcy reorganization, WeWork need to fully consider the constraints of various economic factors.

5. Conclusion

The case of Softbank's acquisition of WeWork has brought us a series of enlightenment and significance, and also provided valuable reference experience for the future enterprise acquisition and investment.

This case suggests that Acquirer need to conduct a comprehensive due diligence on the target enterprise when making corporate acquisitions. In the process of Softbank's acquisition of WeWork, Softbank did not fully understand WeWork's financial position and business model, leading to huge risks in the final investment. Therefore, the preparation work in the acquisition process is very important, including investigation and research and risk assessment, which can help the company to avoid potential risks. In addition, decision factors also have an important impact on the acquisition process, such as corporate strategy, market environment, etc. After the acquisition, enterprise; observed the initial effects, such as the brain drain, brand reputation damage, etc.

From the perspective of strategy analysis, Softbank's investment strategy involves many aspects, including investment scope, investment target and exit mechanism. The acquisition of WeWork is of great strategic significance to Softbank, which can help the company to further expand its market share and obtain more resources and cooperation opportunities. At the same time, the impact of acquisition on WeWork is also a factor that must be considered, such as cultural integration and improvement of operation model

The defect of this paper is that the specific process of Softbank acquiring WeWork is not described and analyzed in detail. In addition, there is no in-depth discussion on the specific business integration and synergistic effect analysis of WeWork after the acquisition. Future studies could further complement and refine the analysis of relevant aspects. Moreover, the research method can be expanded, and other theories or research methods can be used to analyze this case. This paper adopts case analysis and strategy analysis methods, but these two methods are only one of many research methods. In the future, other methods suitable for this paper, such as system analysis, influence network analysis, etc., can provide more perspectives and theoretical support for the analysis of this case.

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