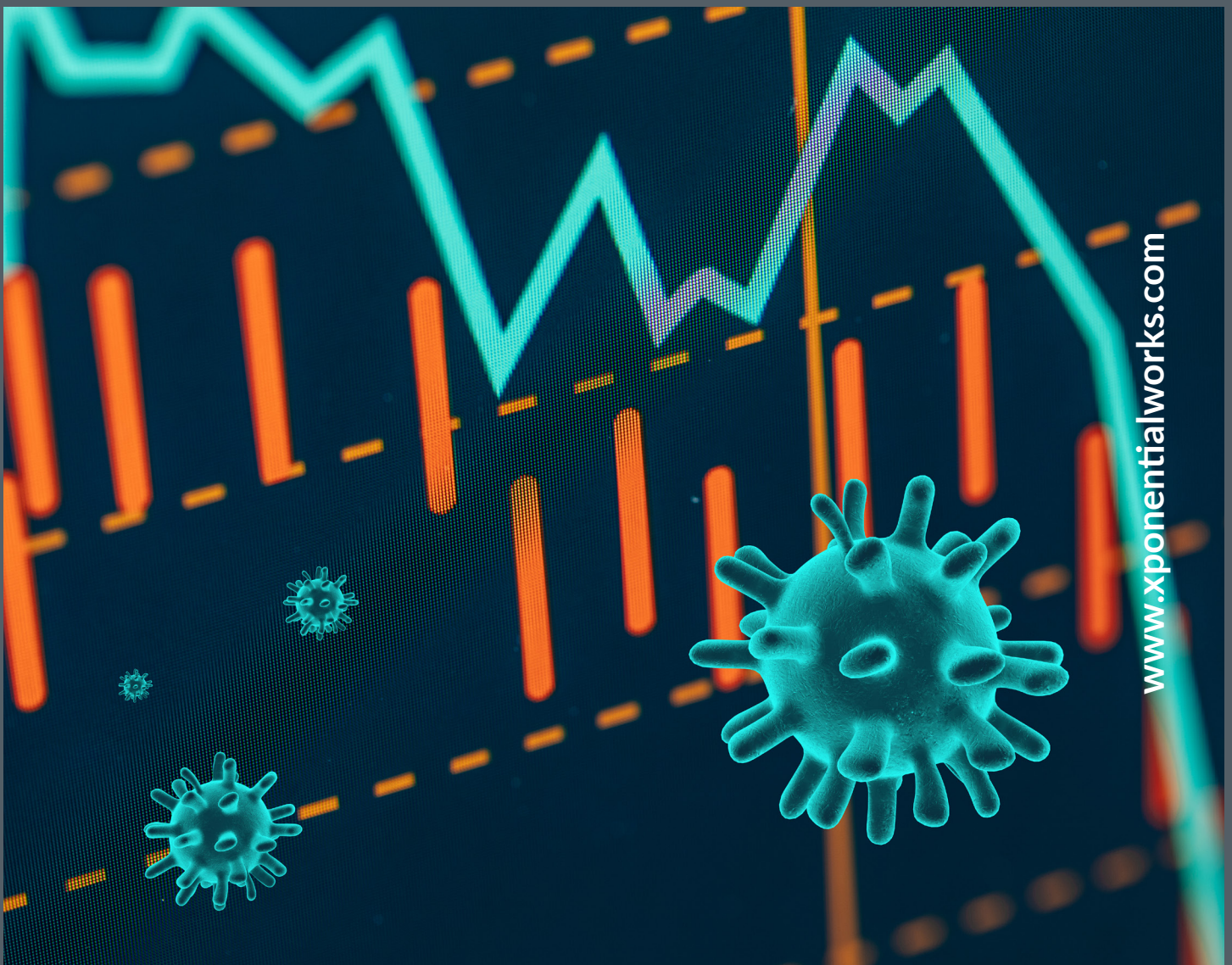




XponentialWorks

# Thriving Through the Coronavirus Chaos



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# 01 WE ARE FACING UNPRECEDENTED CHALLENGES

Dear all,

The world continues to change dramatically and at lightning speed - hour by hour. We are in a situation where we are unclear what the future holds, and at this time it is essential that we become much more agile and responsive.



No one expected this downturn and answers aren't always readily available. However, from drawing on past experience, I do believe that all businesses must throw out previous plans and reassess expenses, sales projections and risks. I have been through several recessions and have come out stronger, but this one is very different. While I believe that we will emerge stronger and bigger when this ends in six or more months, we will also have to make tougher decisions and figure out how to do more with less in order to reach the other side and use this time to our full advantage.

Please ensure that you and your families stay healthy and safe.

**Avi Reichental**

Founder, XponentialWorks

# 02 LESSON FROM PAST EXPERIENCES

Having weathered every business downturn for nearly fifty years, we've learned an important lesson – nobody ever regrets making fast and decisive adjustments to changing circumstances. In downturns, revenue and cash levels always fall faster than expenses. In some ways, business mirrors biology. As Darwin surmised, those who survive "are not the strongest or the most intelligent, but the most adaptable to change."





# 03 REVIEW: A LOOK AT THE STEPS BUSINESSES ARE TAKING

- Conserving cash and halting expenditures
- Managing supply chain and inventory
- Facilitating hybrid remote working for employees
- Implementing new health and safety procedures
- Stopping or slowing down recruiting
- Providing regular updates to employees
- Reducing staff size selectively
- Cancelling all events (conference, events, picnics, etc.)
- Shifting long term goals to meet first principles strategy
- Halting all company travel
- Investing in digital or virtual technologies and apps
- Working on reducing costs across the board
- Researching means and ways to innovate during crisis and pivot immediately after stabilizing the foundational core
- Evaluating entry in to new markets, particularly when there is a COVID-19 opportunity to engage as part of the solution

# 04 STATING THE OBVIOUS

## 1. Stay healthy

Minimize commuting and increase handwashing, sleep, exercise, nutrition and staying home when sick, are all good practices both now and in the future, when COVID-19 becomes part of the seasonal mix.

## 2. Run best and worst case scenarios using good numbers

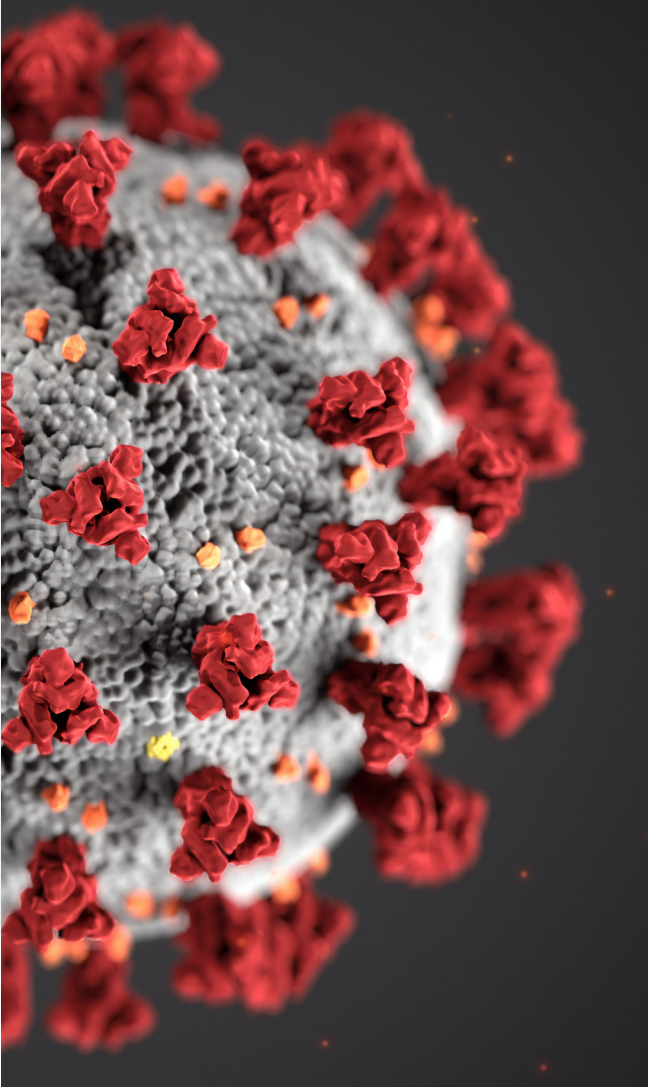
In the current environment, knee jerk decisions driven by fear seem to be on the rise. Instead of these counterproductive practices, we need to create a 12-month rolling forecast and then run-through “what-if” scenarios for a range of possibilities. This way we can ensure that we have the cash/profit needed to fuel our businesses through the current downturn.

## 3. Realign investment in sales towards digital marketing

Many competitors will cut their costs or investments. When the market develops into the new norm those competitors might then be at a competitive disadvantage; they will have to restart sales to win new customers. Some competitors may even be gone by year-end since they do not have the financial capacity or creativity to adjust to the new norm.

## 4. Scan future horizons to assess if you have the wherewithal to acquire a competitor

There is a good chance that it will be a buyers market soon for companies acquiring other companies. Mergers and acquisitions may be a good and effective strategy for us to fill capability gaps and/or scale.



# 05 IMPROVING THE SITUATION

Worldwide panic and the economy are shutting us down.

While the safety and well-being of workers affected by COVID-19 is the first priority, companies will also triage other essentials, such as incident management and stakeholder communications.

While it is too early to fully understand the severity of this crisis and its long-term implications, there are several steps businesses can take now to improve the situation.

# SITUATION ANALYSIS

- **Key markets are frozen for the next few months.**
  - » For how long nobody knows...
- **Most teams are forced to work remotely.**
  - » Install all necessary collaboration tools.
  - » For hardware businesses, it's hard to work remotely at the same productivity so expect a drop in productivity.
- **Reseller channels are in the same boat.**
  - » Use this time for sales and service training.
  - » Launch remote selling platforms.
  - » Leverage telepresence tools for customer acquisition and success.
- **Supply-chain is disrupted.**
  - » Have line of sight to full mitigation.
  - » Expanding global lock down could put these dates in jeopardy.
  - » Monitor inventory levels and extended cash conversion cycles.
- **Customers, suppliers & partners are in 'panic mode'.**
  - » Resellers and customers likely to pay late if at all.
  - » All at risk of running into their own cash and continuity crisis.
  - » Most customers have likely frozen their spend for now.
- **Extend cash runway up to 24 months.**
  - » Resize and realign team and operating expenses.
  - » Use time to enhance and advance marketplace competitiveness.
  - » Reinvent go to market, leveraging rapid acceptance of remote tools.



# 07 GUIDANCE FOR OUR LEADERSHIP TEAMS

- **Communicate with teams more than ever.**
  - » Zoom has become everyone's best friend. Make sure the camera is on for everyone!
- **Don't fight the wave – ride it.**
  - » Figure out how your business is relevant in this new world setting: reseller model, demand generation, service and training.
- **Watch revenue closely.**
  - » Now more than ever is the time to stay more in touch with key customers. They need to hear from you all the times.
- **Develop contingencies for the worst scenario you can envision.**
- **Collect your receivables faster and stretch your payment terms.**
- **You may need to furlough some of your people for a few weeks.**
- **Cut cash burn to extend your runway.**
  - » Do not assume that money you were planning to raise, at prior valuations is available.

- **Shaving \$200,000 off your monthly burn rate is equivalent to raising \$2,400,000 of new capital and that is nothing to sneeze at.**
- **Re-evaluate marketing and new customer acquisition costs.**
  - » Watch for increased customer acquisition costs and decline in lifetime value.
- **Headcount reduction.**
  - » Now may be the time to reduce your spend on ineffective manpower and let go of "projects".

- **First thing's first:**

- » Self-preservation
- » Cash conservation plan
- » Team realignment & resizing plan
- » Customer share & satisfaction

- **Next: New innovative ways to proceed**

- » Business continuity actions
- » Business growth strategy
- » New normal and how do you adjust

*Note: There may be a recurrence prior to an available vaccine.*

# HOW TODAY'S RESPONSE CAN POSITION YOUR BUSINESS TO THRIVE TOMORROW



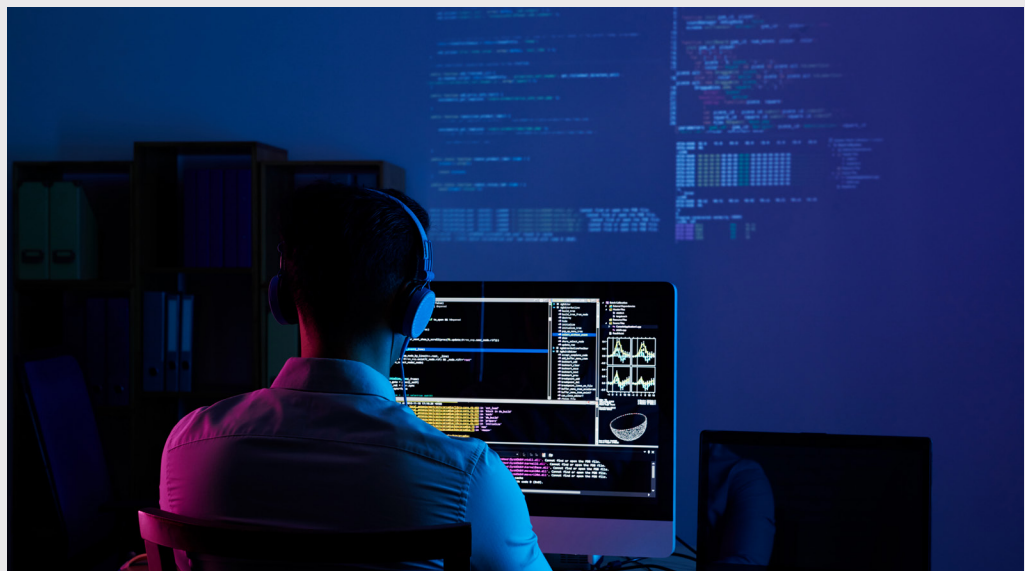
# 09 CRISIS DIFFERENCES & SIMILARITIES

- Not allowed to visit customers for sales or service.
  - » In past recessions, we were able to visit customers and get business done.
  - » We have a virtual advantage that we need to scale rapidly.
  - » Purchase orders are likely to be revisited or cancelled.
- Every customer is going to freeze spending and conserve cash at least for the next 6 months.
- Customers are going to be delaying payments.
- This recession may affect other customers that we have or are targeting as well as reseller abilities.
- What will our competitors do to survive? Will we see price wars? Product dumping? Will we see reseller bankruptcies?



# 10 ATTRACTING NEW INVESTMENTS AMIDST TURBULENT TIMES

- Don't assume there are no investments until the crisis is over. Keep trying!
- Many investors will focus on their current portfolio first, BUT ...
- The smart investors will be out there... on the offense.
- They know that some of the best deals surface at these times.
- If you have a Corona related thesis – these may be very good times for you – stress that.
- A Corona thesis is not only medical – improving remote access, distributed manufacturing, supply chain disruption and design agility will get you noticed.
- Adapt, be flexible, challenge your situation everyday.
- Plan for the worst and hope for the best.
- Start the raise with your internals first and attract more strategic investors.
- Be optimistic – the best companies are forged during times of crises.



# COVID-19: NAVIGATING THE CRISIS AS A COMMUNITY

## Communication:

- OVER communicate with all stakeholders. Frequently. Don't sugar coat.

## Continuity:

- Ensure team safety and business continuity contingencies are in place.

## Cash:

- Is King!
- Cash preservation, cash investment and cash generation.
- Adjust your burn runway. Know your break-even. Tighten credit. Understand the harsher venture environment.

## Change:

- Bin your 2020 plans.
- Prepare your company for the best - and worst - case scenarios.
- Reinvent your business model - the most adaptable will survive.
- For the additive manufacturing industry, COVID-19 may prove to be a growth catalyst and turbo charge the future, particularly in supply chain disruption and design agility.
  - » Reposition around mission critical solutions and resources.
  - » Redefine how you think about cost per part.
  - » There has never been a better time to collaborate - seek uncommon partnerships for access to everything.
  - » Scan for mergers and acquisitions on the other side.

## Courage:

- To lead, to be in reality and not in denial.
- For your employees, customers and investors.
- For the preservation of your business.
- To ask for help, to lean on your board and community. No one expects you to have all the answers.
- To act with agility and boldness and make the right decisions.
- To practice honesty and transparency, even when inconvenient

## Community:

We're in this together. This pandemic will pass but its lessons, and our combined efforts to get through this together as a community, will remain with us for the rest of our lives.