

ICONIQ

ICONIQ ANALYTICS & INSIGHTS
Covid-19 Scenario Planning Framework

April 2020

ICONIQ Capital, LLC

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Covid-19 Scenario Planning

Overview

The specifics of scenario planning will vary by company, however the overarching goal is universal – to proactively outline and align on a thoughtful framework to address varying degrees of potential impact

Objectives, Priorities, Learnings

Proactively creating a framework and aligning on decisions before they need to be made is critical

- Ensure leadership is aligned - ideally, none of these decisions should be reactive one-off, nor silo-ed, but rather part of a comprehensive, predetermined plan
- Transparent, proactive, and on-going communication is key to preserving cultural health
- Navigate decisions with empathy and care – they are challenging and layered

These scenarios and the corresponding actions taken should be tied to aggregate impact expected

- Construct possible scenarios that the organization must plan for – could be anchored to lockdown timeframe or other macro scenarios relevant to your business
- The underlying driver of business impact will vary by company size, customer segment, sales motions, product and will likely evolve over time
- However, the end goal remains the same: **to limit cash burn and preserve capital to the extent possible with strategic, empathetic decision making**
- Understanding your customer composition and how their ability to pay on time and consistently is likely to be impacted during this time will also be essential to planning (*See illustrative case study*)

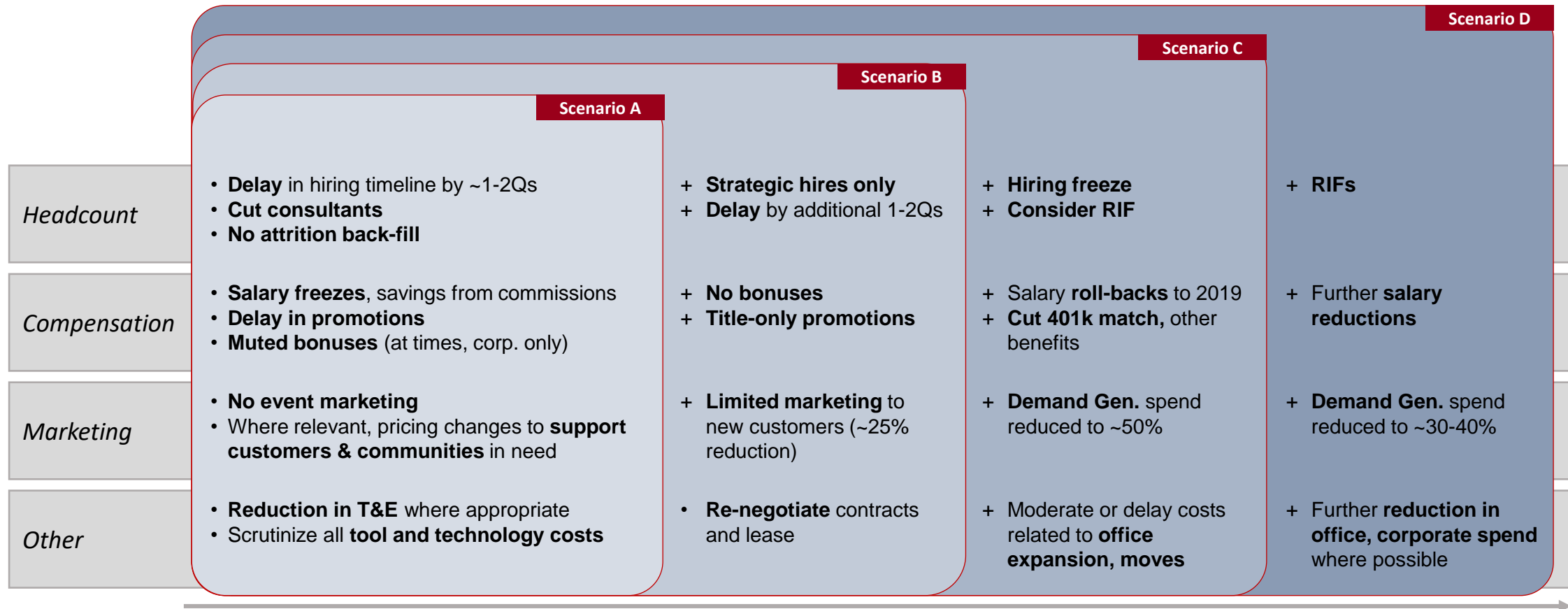
The impact of levers used to manage costs will also vary by company and make-up of expense base

- For smaller companies (e.g., expense base of <\$50M), personnel related costs become much more significant than companies of scale (expense bases of \$300M+ – *See illustrative case study*)

Scenario Planning Overview – Key Levers Used

While some companies may immediately cut marketing + other costs, we typically see a clearer sequence in managing costs related to personnel, with CEOs doing their best to mitigate RIFs until absolutely necessary

Illustrative Sequencing of Major Cost Management Levers



There are a number of both leading and lagging indicators that should be monitored (ideally on a daily basis) in order to understand the evolving impact of this environment and which scenario feels most likely at any given time

LEADING INDICATORS

- Web Visits
- Inbound demo requests
- Cancelled meetings
- Implementation volumes
- Pipeline & sales forecast
- Support volumes
- Product Usage
- Requests for adjusted terms

LAGGING INDICATORS

- New Bookings
- Churn
- Downsell
- Debookings
- Accounts Receivable
- Accounts Receivable, 30+ days

Many companies are also grappling with questions related to if and how they should be adjusting quota attainment expectations in this environment – we look forward to sharing insights on this topic in the near future

Revisiting Sales Plans & Compensation:

Common questions we hope to address in upcoming work

*To date (through Q1 2020), we **have not seen companies make meaningful changes to sales team compensation plans or structures**, however we are compiling data to better understand how this may change in the near future:*

- 1 How are we seeing companies change AE compensation, if at all?
- 2 What are the trade-offs to doing so from a cultural, strategic and impact standpoint?
- 3 Structurally, are these changes driven by adjustments to quotas, attainment percentages, or other means?
- 4 How do these tie to Q1 performance and Q2 plan adjustments?

Covid-19 Scenario Planning

Illustrative Case Study:

Enterprise SaaS Company of Scale (\$150M+ ARR)

COVID-19 Scenarios Summary

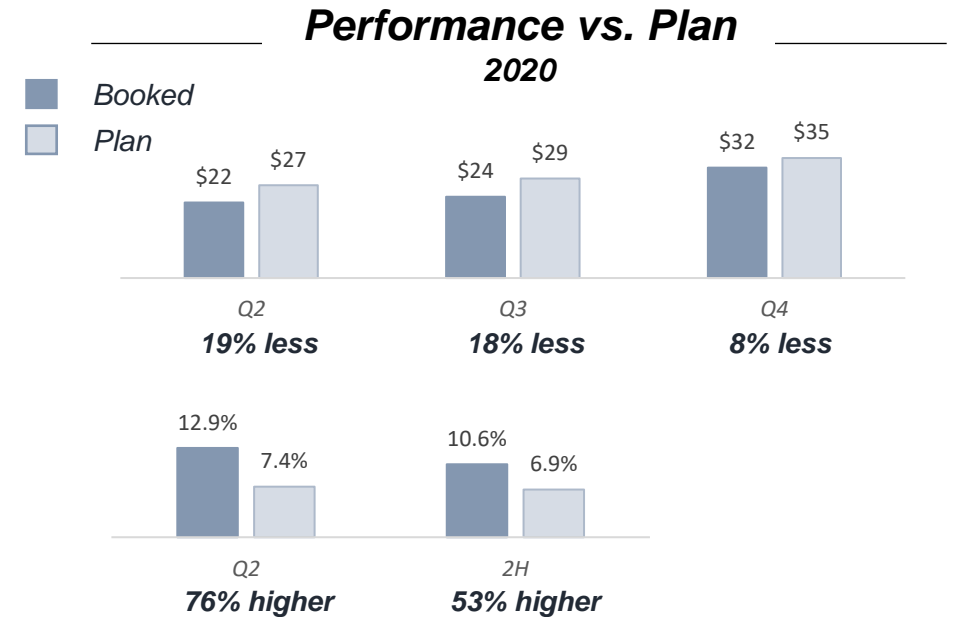
	Pre-Covid 2020 Plan	Scenario 1 3 - 6 wk lockdown	Scenario 2 6 - 9 wk lockdown	Scenario 3 9 - 12 wk lockdown	Scenario 4 12+ wk lockdown
Gross New Bookings <i>(YoY Growth)</i>	\$105M 35%	\$92M 18%	\$76M (2%)	\$61M (22%)	\$34M (56%)
Annual Gross Churn <i>(Churn Rate)</i>	\$17M (6.9%)	\$23M (10.6%)	\$25M (11.7%)	\$36M (16.7%)	\$40M (18.7%)
Net New Bookings <i>(YoY Growth)</i>	\$88M 37%	\$69M 5%	\$52M (22)%	\$25M (62)%	\$(6)M (109)%
Ending ARR <i>(YoY Growth)</i>	\$307M 43%	\$289M 35%	\$271M 26%	\$245M 14%	\$214M (1%)
Collection Days Avg	30	+10 Days	+20 Days	+35 Days	+60 Days
Impact of Billing Terms changes on FCF	-	\$(25)M	\$(34)M	\$(32)M	\$(31)M
Total Costs Cut	-	\$24M	\$40M	\$72M	\$100M
Free Cash Flow	\$(20)M	\$(34)M	\$(43)M	\$(36)M	\$(39)M
Ending Cash Balance	\$53M	\$38M	\$31M	\$37M	\$34M
Ending A/R Balance	\$49M	\$59M	\$67M	\$73M	\$77M

Scenario 1 Overview

- The lockdown lasts for **3 - 6 weeks** in relevant geographies with a moderate impact to our customers' verticals during the lockdown
- The virus spread is contained inside of April 2020 and we are able to return to some sense of normalcy towards the second half of Q2, with a mild recession that only lasts 2 quarters
- While the economy starts to recover in Q3, we face a slower quarter as companies/industries evaluate the scale of the impact
- Represents the 'best case' scenario

Scenario 1 - Summary of Impact: Bookings & Retention

- Net New Bookings in 2020 decrease by 23% as customers and prospects pause to evaluate the damage from the brief lockdown
- Increase in cancellations concentrated in SMB and lower end of Mid Market, with smaller companies going out of business
- Downsell likely to come from all segments, concentrated in accounts renewing in Q2-20



- **\$21M reduction in annual net bookings vs. plan**
 - 5% YoY growth vs. plan of 37%

Scenario 1 - Summary of Impact: Terms & Cash

- Relevant verticals lose ~30 days of work activity across at least some of their jobs, many smaller customers will need 30-60 days to get paid as they return to work
 - SMB customers most impacted – likely to push for payment extensions
 - Larger customers likely to request change to payment terms
- In this scenario, we assume all SMB and some Mid Market customers ask for 60 day terms while others ask for at least 30 days or to move billing terms towards quarterly

Collections

- **20% ARR** pushes to **30 days**
- **10% ARR** pushes to **60 days**
- Collection Days **increase by ~10 days** to 40 days on average

Payment Terms

- **20% annual** move to **quarterly**
- **10% semi-annual** move to **quarterly**
- **10% quarterly** move to **monthly**

FCF & Cash Balance

- **FCF: \$(34M)**
- **Lowest Cash balance in Q4**, ending with \$38M
- Movement in **billing terms and collection days results in \$25M** change in FCF

Scenario 1 Managing Costs

Key Sources of Cost Reductions

- Delay Hiring by 1 Quarter **(\$5M)**
- Cut T&E Spend in Q2-20 through EOY **(\$3M)**
- Voluntary / Involuntary Attrition **(\$3M)**
- Corporate Bonus Savings **(\$2M)**
- Delay Raises/Promos **(\$2M)**
- Cut Marketing **(\$1M)**
- Cut Professional Fees/Consultants in Q2 **(\$1M)**

Full Detail

	<u>Detailed Category</u>	Total Available Spend (\$M)	% Cut Target	<u>Total Cost Reduction (\$M)</u>
Compensation	Commissions Savings	\$15.7	15%	\$2.4
	Corporate Bonus (Dir+)	\$5.3	40%	\$2.1
	Delay Raises / Promos (Dir+)	\$0.8	40%	\$0.3
	Delay Raises / Promos (Everyone Else)	\$3.2	40%	\$1.3
	Manager / IC Corporate	\$1.8	40%	\$0.7
	Cut Raises / Promos	\$1.4	40%	\$0.5
	Sales Commissions Give Back	-\$3.0	40%	-\$1.2
Headcount	Voluntary / involuntary Attrition (no backfill)	\$14.0	20%	\$2.8
	Delay Hiring by 1Q	\$7.0	75%	\$5.2
	Professional Fees / Consultants 2Q	\$3.3	25%	\$0.8
Marketing	Marketing - Demand Gen	\$3.7	15%	\$0.6
	Marketing - Other Events	\$1.7	20%	\$0.3
	Marketing - International	\$3.3	15%	\$0.5
	Marketing - Brand	\$0.1	20%	\$0.0
	Cut T&E Q2	\$3.2	80%	\$2.6
Other	Cut T&E Q3-Q4	\$7.4	15%	\$1.1
	CapEx Delays	\$6.6	10%	\$0.7
	Corporate Finance	\$4.1	100%	\$4.1
	Corporate Allocations Q3-Q4	\$12.7	5%	\$0.6
	Corporate Allocations Q2	\$6.0	5%	\$0.3
	Trainings / Seminars 3Q-4Q	\$0.6	50%	\$0.3
	Trainings / Seminars 2Q	\$0.3	0%	\$0.0
	Discretionary / New Software	\$0.6	20%	\$0.1
Add'l Unforeseen Costs	-\$1.8	100%	-\$1.8	
				\$24M

Scenario 2 Overview

- The lockdown lasts for **6 - 9 weeks** in relevant geographies with a significant impact to our customers' verticals during the lockdown
- The virus is not contained until early Q3, resulting in poor economic performance in Q2 and a moderate recovery in H2
- Despite the recovery in H2, we are still in recession for the full year
 - The economy starts to pull itself out of the recession in Q1-21, returning to FY-19 levels by the end of 2021
- This scenario assumes a prolonged shutdown leading to recession
 - Large percentages of the population are infected with Coronavirus, but we are ultimately able to flatten the curve
 - There is continued uncertainty through at least the end of Q2

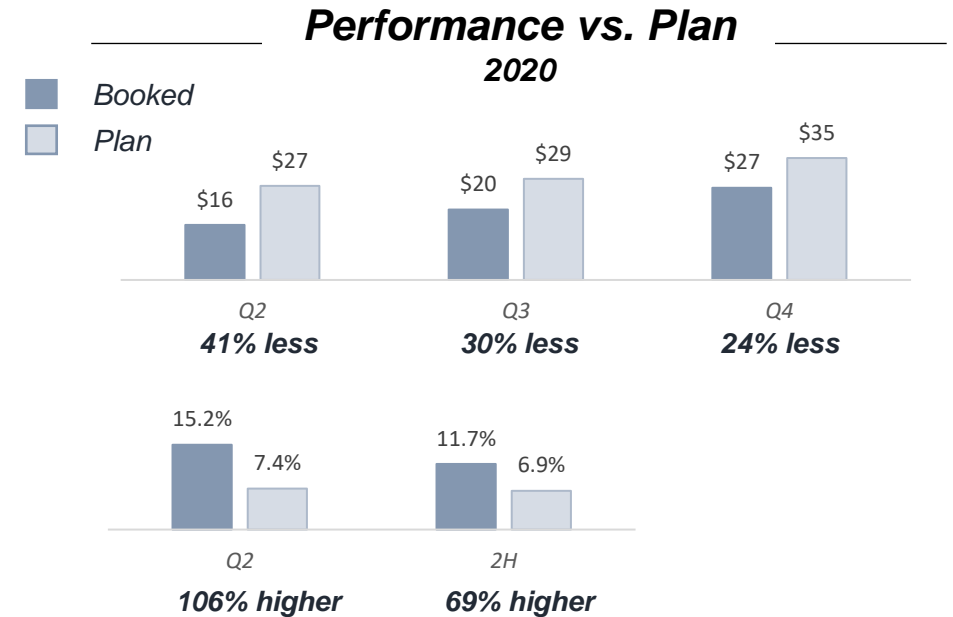
Scenario 2 - Summary of Impact: Bookings & Retention

- Net New Bookings in 2020 decrease by 43% relative to Plan, as our installed base of customers elect not to increase the volume of their subscriptions and close rates on new accounts
- Impact expected across all segments decrease due to delayed technology decisions tied to the market uncertainty
- We expect cancellations to increase across all segments except Enterprise. We also anticipate meaningful downsells in the Enterprise segment in this scenario

Gross New Bookings

Gross \$ Churn

Net New Bookings



- **\$39M reduction in annual net bookings vs. plan**
 - -22% YoY growth vs. plan of 37%

Scenario 2 - Summary of Impact: Terms & Cash

- Assume that the majority of our SMB and Mid Market customers will need payment relief of either 60 or 90 days
- Some large customers may get 30 day extensions, we believe about 50% of our bigger customers will aim to move away from an annual terms (rather than request 30+ day extensions) as larger customers
- Assume all SMB and some Mid Market customers ask for 60 day terms while many others ask for at least 30 days, or instead move billing terms towards quarterly

Collections

- **20%** of ARR pushes to **30 days**
- **20%** of ARR pushes to **60 days**
- **15%** of ARR pushes to **90 days**
- Collection Days **increase by ~20 days** to 50 (avg.)

Payment Terms

- **30% annual** move to **quarterly**
- **25% semi-annual** move to **quarterly**
- **10% quarterly** move to **monthly**

FCF & Cash Balance

- **FCF: \$(43M)**
- **Lowest Cash balance in Q4**, ending with \$31M

Scenario 2 Managing Costs

Key Sources of Cost Reductions

- Delay Hiring for Q2-20 through EOY **(\$8M)**
- Commissions Savings **(\$7M)**
- Corporate Bonus Savings **(\$5M)**
- Cut T&E Spend in Q2-20 through EOY **(\$4M)**
- Delay Raises/Promotions **(\$4M)**
- Voluntary / Involuntary Attrition **(\$4M)**
- Capex Delays **(\$3M)**

Full Detail

	<u>Detailed Category</u>	Total Available Spend (\$M)	% Cut Target	Total Cost Reduction (\$M)
Compensation	Commissions Savings	\$15.7	45%	\$7.1
	Corporate Bonus (Dir+)	\$5.3	100%	\$5.3
	Delay Raises / Promos (Dir+)	\$0.8	100%	\$0.8
	Delay Raises / Promos (Everyone Else)	\$3.2	100%	\$3.2
	Manager / IC Corporate	\$1.8	100%	\$1.8
	Cut Raises / Promos	\$1.4	100%	\$1.4
Headcount	Sales Commissions Give Back	-\$6.2	60%	-\$3.7
	Voluntary / involuntary Attrition (no backfill)	\$14.0	25%	\$3.5
	Delay Hiring through YE	\$9.2	25%	\$2.3
	Delay Hiring by 1Q	\$7.0	80%	\$5.6
	Professional Fees / Consultants 2Q	\$3.3	35%	\$1.1
	Marketing	Marketing - Demand Gen	\$3.7	25%
Marketing - Other Events		\$1.7	25%	\$0.4
Marketing - International		\$3.3	25%	\$0.8
Marketing - Brand		\$0.1	50%	\$0.0
Cut T&E Q2		\$3.2	5%	\$0.2
Cut T&E Q3-Q4		\$7.4	50%	\$3.7
Other	CapEx Delays	\$6.6	50%	\$3.3
	Corporate Finance	\$4.1	100%	\$4.1
	Corporate Allocations Q3-Q4	\$12.7	5%	\$0.6
	Corporate Allocations Q2	\$6.0	5%	\$0.3
	Trainings / Seminars 3Q-4Q	\$0.6	50%	\$0.3
	Trainings / Seminars 2Q	\$0.3	50%	\$0.1
	Discretionary / New Software	\$0.6	10%	\$0.1
	Add'l Unforeseen Costs	-\$1.8	150%	-\$2.7

\$40M

Scenario 3 Overview

- The US lockdown lasts for **9 - 12 weeks**
- The virus is not contained until late Q3, resulting in poor economic performance in Q2 and Q3, with the economy starting its road to recovery in Q4
- We remain in a recession through year-end
 - The economy starts to pull itself out of the recession in Q2-21, however, we don't see a return to FY-19 productivity levels until the end of 2021
- This scenario assumes a prolonged shutdown leading to a deeper recession
 - A material share of the population is infected with Coronavirus, and we are unable to contain the impact until mid-Q3
 - There is continued uncertainty through at least the end of Q3

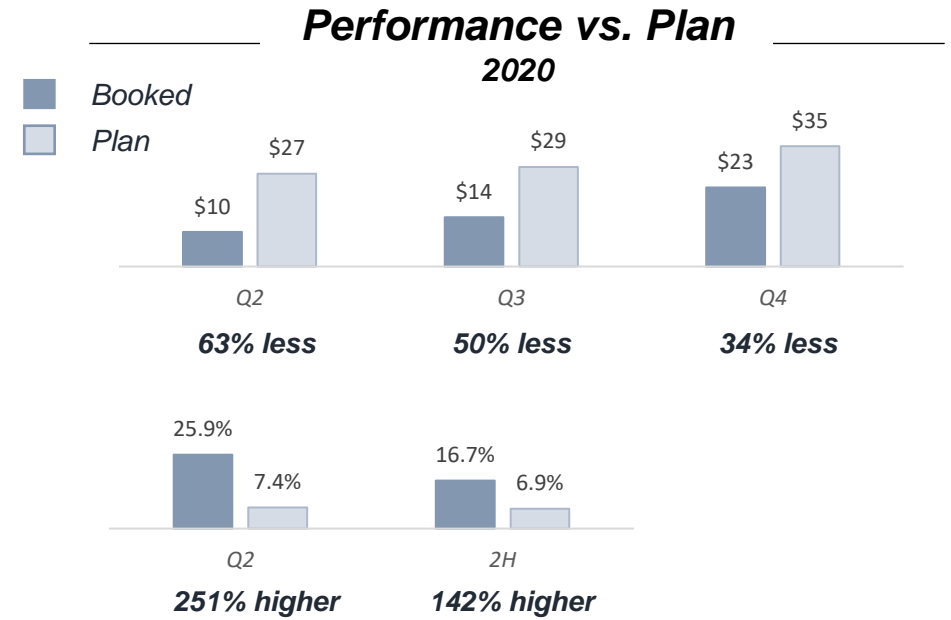
Scenario 3 - Summary of Impact: Bookings & Retention

- Net New Bookings in 2020 decrease to 73% less than Plan
 - Existing customers forego expansion in their subscriptions, and new deals grind to a halt amidst the ongoing epidemic
- We expect significant cancellations and downsell of both products and volume across segments, including Enterprise

Gross New Bookings

Gross \$ Churn

Net New Bookings



- **\$65M reduction in annual net bookings vs. plan**
 - -62% YoY growth vs. plan of 37%

Scenario 3 - Summary of Impact: Terms & Cash

- Assume a small share of customers (again, largely SMB) will need 90+ days to make payments
- While some Mid Market and Enterprise customers may get 30-60 day extensions, we believe if they do not get a payment extension that they will change payment terms
- In this scenario we assume **75+% of customers make some change to timing of payment or terms** with those in most need moving to monthly or quarterly payments and pushing out their payment date

Collections

- **25% of ARR pushes to 30 days**
- **20% of ARR pushes to 60 days**
- **15% of ARR pushes to 90 days**
- **10% of ARR pushes to 120 days**
- Collection Days **increase by ~35 days to 65 (avg.)**

Payment Terms

- **45% annual move to quarterly**
- **20% semi-annual move to quarterly**
- **15% quarterly move to monthly**

FCF & Cash Balance

- **FCF: \$(36M)**
- **Lowest Cash balance in Q4, ending with \$37M**

Scenario 3 Managing Costs

Key Sources of Cost Reductions

- Delay Hiring for Q2-20 through EOY **(\$14M)**
- RIF and Voluntary / Involuntary Attrition **(\$13M)**
- Commissions Savings **(\$12M)**
- Cut T&E Spend in Q2-20 through EOY **(\$8M)**
- Cut Marketing **(\$5M)**
- Corporate Bonus Savings **(\$5M)**
- Delay Raises/Promotions **(\$4M)**
- Cut Professional Fees/Consultants **(\$4M)**

Full Detail

	Detailed Category	Total Available Spend (\$M)	% Cut Target	Total Cost Reduction (\$M)
Compensation	Commissions Savings	\$15.74	75%	\$11.8
	Corporate Bonus (Dir+)	\$5.26	100%	\$5.3
	Delay Raises / Promos (Dir+)	\$0.76	100%	\$0.8
	Delay Raises / Promos (Everyone Else)	\$3.24	100%	\$3.2
	Cut 401k Match Q3-Q4	\$3.06	100%	\$3.1
	Manager / IC Corporate	\$1.75	100%	\$1.8
	Cut Raises / Promos	\$1.37	100%	\$1.4
	Sales Commissions Give Back	-\$11.03	30%	-\$3.3
	Reduction in Workforce			\$9.8
	Voluntary / involuntary Attrition (no backfill)	\$3.06	100%	\$3.1
Headcount	Delay Hiring through YE	\$8.82	75%	\$6.6
	Delay Hiring by 1Q	\$6.99	100%	\$7.0
	Professional Fees / Consultants Q4-Q4	\$6.51	30%	\$2.0
	Professional Fees / Consultants 2Q	\$3.27	50%	\$1.6
	Marketing - Demand Gen	\$3.70	50%	\$1.8
	Marketing - Other Events	\$1.68	50%	\$0.8
	Marketing - International	\$3.25	30%	\$1.0
	Marketing - Cancel Conference	\$1.20	100%	\$1.2
	Marketing - Other Discretionary	\$1.45	30%	\$0.4
	Marketing - Brand	\$0.09	100%	\$0.1
Marketing	Cut T&E Q2	\$3.23	75%	\$2.4
	Cut T&E Q3-Q4	\$7.44	75%	\$5.6
	CapEx Delays	\$6.57	50%	\$3.3
	Corporate Finance	\$4.07	100%	\$4.1
	Corporate Allocations Q3-Q4	\$12.70	10%	\$1.3
	Corporate Allocations Q2	\$5.95	10%	\$0.6
	Trainings / Seminars 3Q-4Q	\$0.60	75%	\$0.4
	Trainings / Seminars 2Q	\$0.29	75%	\$0.2
	Discretionary / New Software	\$0.60	25%	\$0.2
	Add'l Unforeseen Costs	-\$1.80	300%	-\$5.4
Other				\$72M

\$72M

Scenario 4 Overview

- The US lockdown lasts **12 or more weeks** and the virus is not contained until the end of 2020, resulting in ruinous economic performance through EOY
 - Results in almost no sales in Q2, and limited sales in H2 across most industries
- We remain in a recession through 2021
 - In this scenario, the economy doesn't begin its recovery until Q1 of 2022, nearly 24 months after the initial outbreak
- This scenario assumes a recession on par with the Great-Depression that lasts well into 2021
 - During this period, 30% of US small business will go out of business

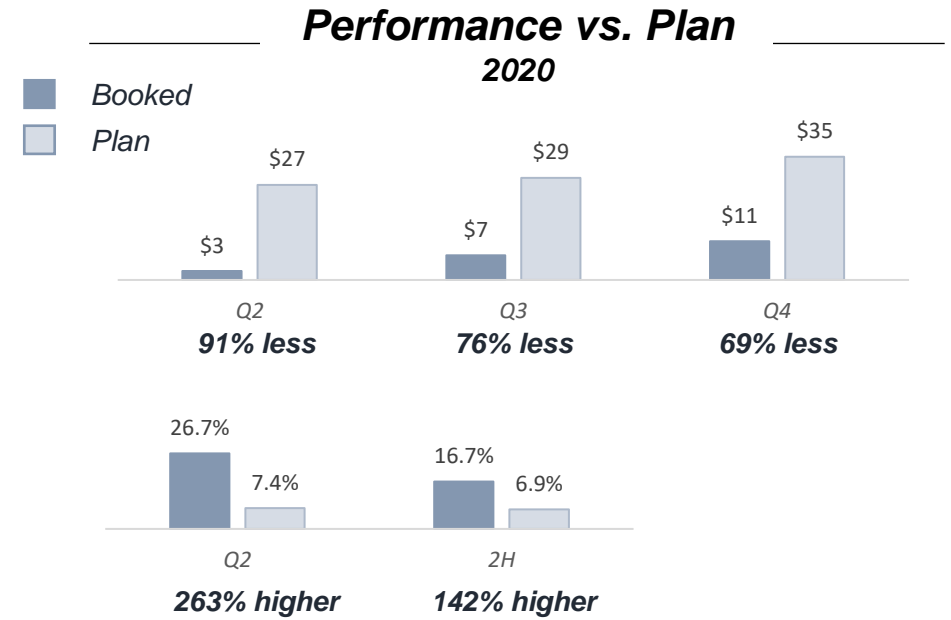
Scenario 4 - Summary of Impact: Bookings & Retention

- Net New bookings come in ~110% less than Plan, as both expansion opportunities and new deals grind to a halt amidst the ongoing epidemic
- We expect meaningful, material cancellations and downsells of both products and volume across segments, including Enterprise

Gross New Bookings

Gross \$ Churn

Net New Bookings



- **\$96M reduction in annual net bookings vs. plan**
 - -109% YoY growth vs. plan of 37%

Scenario 4 - Summary of Impact: Terms & Cash

- Assume all customers are cash constrained
- In order to create time to allow the industry to get back to work, understand the impact of the lockdown and allow time for people to get paid for a cycle of work we assume we have to make payment and term adjustments for the vast majority of our customers
- This approach assumes on average our collections get pushed by a quarter and 60-80% of our annual contracts move to quarterly or monthly terms in addition to getting payment terms

Collections

- **15%** of ARR pushes to **30 days**
- **20%** of ARR pushes to **60 days**
- **35%** of ARR pushes to **90 days**
- **20%** of ARR pushes to **120 days**
- Collection Days **increase by ~60 days to 90 (avg.)**

Payment Terms

- **40% annual** move to **quarterly**
- **30% semi-annual** move to **quarterly**
- **20% quarterly** move to **monthly**

FCF & Cash Balance

- **FCF: \$(39M)**
- **Lowest Cash balance in Q4**, ending with **\$34M**

Scenario 4 Managing Costs

Key Sources of Cost Reductions

- Salary Reduction, RIF and Attrition **(\$25M)**
- Delay Hiring for Q2-20 through EOY **(\$16M)**
- Commissions Savings **(\$16M)**
- Cut T&E Spend in Q2-20 through EOY **(\$9M)**
- Cut Marketing **(\$8M)**
- Corporate Bonus Savings **(\$7M)**
- Cut Professional Fees/Consultants **(\$7M)**
- Delay Raises/Promotions **(\$4M)**

Full Detail

	<u>Detailed Category</u>	Total Available Spend (\$M)	% Cut Target	Total Cost Reduction (\$M)
Compensation	Commissions Savings	\$15.74	100%	\$15.7
	Corporate Bonus (Dir+)	\$5.26	100%	\$5.3
	Delay Raises / Promos (Dir+)	\$0.76	100%	\$0.8
	Delay Raises / Promos (Everyone Else)	\$3.24	100%	\$3.2
	Cut 401k Match Q3-Q4	\$3.06	100%	\$3.1
	Salary Reduction	-	-	\$3.0
	Manager / IC Corporate	\$1.75	100%	\$1.8
	Cut Raises / Promos	\$1.37	100%	\$1.4
	Sales Commissions Give Back	-\$16.37	20%	-\$3.3
	Reduction in Workforce	-	-	\$20.7
Headcount	Voluntary / involuntary Attrition (no backfill)	-	-	\$4.2
	Delay Hiring through YE	\$8.82	100%	\$8.8
	Delay Hiring by 1Q	\$6.99	100%	\$7.0
	Professional Fees / Consultants Q4-Q4	\$6.51	60%	\$3.9
	Professional Fees / Consultants 2Q	\$3.27	80%	\$2.6
	Marketing - Demand Gen	\$3.70	75%	\$2.8
Marketing	Marketing - Other Events	\$1.68	100%	\$1.7
	Marketing - International	\$3.25	50%	\$1.6
	Marketing - Cancel Conference	\$1.20	100%	\$1.2
	Marketing - Other Discretionary	\$1.45	45%	\$0.7
	Marketing - Brand	\$0.09	100%	\$0.1
	Cut T&E Q2	\$3.23	100%	\$3.2
Other	Cut T&E Q3-Q4	\$7.44	75%	\$5.6
	CapEx Delays	\$6.57	75%	\$4.9
	Corporate Finance	\$4.07	100%	\$4.1
	Corporate Allocations Q3-Q4	\$12.70	10%	\$1.3
	Corporate Allocations Q2	\$5.95	10%	\$0.6
	Trainings / Seminars 3Q-4Q	\$0.60	75%	\$0.4
	Trainings / Seminars 2Q	\$0.29	75%	\$0.2
	Discretionary / New Software	\$0.60	30%	\$0.2
Add'l Unforeseen Costs	-\$1.80	400%	-\$7.2	

\$100M