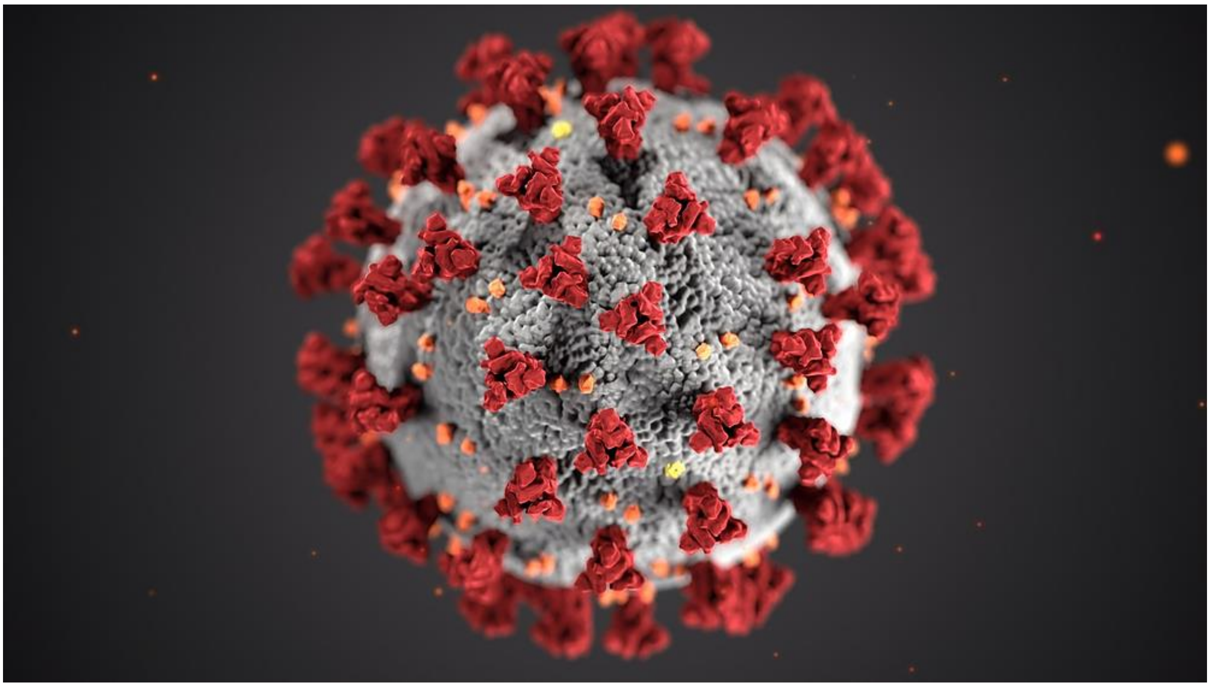
Aravis Growth I Developments in Q2 2020

Executive Summary

How are Swiss growth-stage companies navigating the COVID-19 crisis? To find out, we conducted a series of interviews with (almost) identical questions throughout May and June 2020. As you would expect, setting up home-office structures, having regular company update calls, arranging structural and organizational changes, adapting cash management as well as managing customers and investors were among the top ranked measures taken by interviewees. The most interesting part of the interviews concerned the choices of managing long term growth versus short term profitability. Key learnings that were drawn from the COVID-19 pandemic include the importance of leadership, having agile business structures, strong communication skills, understanding the pitfalls and opportunities that markets offer while fine-tuning growth rates and keeping an eye on financial liquidity.



Estimated impact of COVID-19 on growth companies

According to Startupticker.ch[1], companies that drive digitization and offer their clients tangible advantages have greatly benefited from the COVID-19 crisis. In Q1 2020, two thirds of Swiss fintech companies were growing rapidly and expanding their teams. They were forced to speed up their expansion plans within weeks, which would otherwise have taken them years. On the investor side, many are currently protecting their own portfolios and stacking up cash reserves before they start investing in new opportunities again. Ensuring that their existing portfolios obtain the liquidity necessary to survive and therefore avoiding bankruptcy is a top priority. Investiere.ch found that the general appetite from investors has not decreased, but rather that they are in a "wait and see mode". A reason for this is that they want to have better visibility of the economic repercussions that the pandemic will have on their existing portfolios before committing new capital.
The real impact of the pandemic varies between early- and late-stage ventures and is expected to be visible in the next 12 to 18 months. What is certain today already is that the ventures that were hit hardest were those that had just launched their products before the pandemic hit but had not reached enough revenue to scale and be profitable. Many of these companies spent their investments on product development and growing their teams and are now struggling due to a lack of demand and longer sales cycles.

General overview

The interviewed companies predicted a decline in revenue between 10-30% for the end of the year 2020. Obviously, these scenarios heavily depend on the ability to acquire new customers during these unpredictable times. Depending on the industry, customers were either difficult to reach or completely unavailable during the lockdown, which significantly slowed business plan expectations. Some companies have postponed larger projects to 2021 and are focusing on improving product efficiency and operations efficacy. The majority of the interviewed companies expect to see a delay in business operations of approximately one to three months, reaching the new normal by Q2 2020.

Key measures

1. Home-office

With the lockdown that was announced on March 17th 2020, employers had to ensure that all of their employees could remain in self-isolation for the months to come. Consequently, all of the interviewed companies were forced to immediately establish home office structures while ensuring that business operations continued to run smoothly. For all interviewees, this shift did not pose any major issues as most processes were already digitized and digital communication tools were rapidly put in place.

2. Company update call

All CEOs had to rethink their internal communication strategy and set up daily or weekly company calls. Depending on the size of the company, additional department calls and/or individual meetings became the norm. This was particularly important during the first weeks of lockdown when fear and anxiety were prevalent. Almost three months later, internal

[1] https://www.startupticker.ch/en/editorials/may-2020/digitalisation-start-ups-in-the-spotlight

evaluations confirmed that this approach was very appreciated by employees. It not only gave them a better overview of the status quo, but also increased their sense of job security and stability. Today, in one form or another, most employees are returning to their offices. Due to the positive perception of this measure, many will adhere to this new habit of connecting with their teams on a weekly basis.

3. Organizational changes

The newly established home office structures forced some of the companies to rearrange existing teams. Interestingly, some mentioned that the need for leadership and stricter structure required a more hierarchical approach compared to the oftentimes flat structures prior to the pandemic. On a positive note, because of the rapid reaction and fruitful measures taken, none of the interviewees were forced to let go of employees. On the contrary, some of them even hired substantially during the COVID-19 period.

4. Customer and investor management

Managing customers and investors was deemed to be crucial. However, keeping all stakeholders in the loop about product development, being transparent, addressing issues as well as delays was considered very time-consuming and exhausting. This also means that CEOs had to make a lot more time for these things during the COVID-19 crisis.

5. Cash management

40% of the interviewees introduced short-time work for at least three weeks. The remaining 60% did clean-ups that they didn’t have enough time for previously. 50% were eligible for the interest free COVID-19 loan, which is interest free and fully guaranteed by the Swiss Federation. Despite this financial support, everyone was forced to take drastic measures to be able to survive longer than expected without the liquidity boost of a financing round and had to adapt their expansion plans accordingly. Cutting costs by reducing operating expenses, marketing costs, salaries, bonuses and improving debtor payment cycles were among the top ranked measures. Ongoing discussions with interested investors were either postponed or interrupted completely by the end of Q1 and beginning of Q2. Arranging new meetings with investors was notably more difficult than before, which is why most fundraising plans and investor negotiations were pushed back by at least one to two quarters. Having a good investor base in times of crisis really seemed to pay off as they could inject the necessary cash for companies to endure. All interviewees are confident that with these financial measures, they are able to survive and that they will come out stronger than before.

Key learnings taken from this crisis

1. Leadership

Leadership is probably the most important quality in times of crisis. The climate of continuous uncertainty made many employees insecure and put them under a lot of emotional pressure. Most had family members who belonged to the risk group and/or had to home-school their kids. Remaining calm, taking rational decisions, managing time efficiently, regularly talking to each employee, showing empathy and being able to convey wage security were all considered key elements in ensuring that operations kept running smoothly. This approach received much more credit from employees than anticipated.

2. Agility

Many CEOs experienced that their ability to shoulder a larger workload and increased responsibility was a lot higher than anticipated. If you thought you were at your limits before the crisis, then being in the crisis made you realize that even more is possible. It goes without saying that having a great team really pays off. On the negative side, individual employees' failure to deliver was made more visible in the new work environment. Employees who were previously carried by their team members over-performance could no longer hide behind their more capable colleagues. Thus, it was necessary to rearrange certain team structures to remain agile and ensure steady communication flow across organizations.

3. New work structures

As already mentioned, the transition to home office was easier than expected. It is no surprise that 80% of the interviewees want to continue to cultivate it as they realized that efficiency and performance did not suffer under the new working conditions. This is also in the interest of employees, as reducing their commute time resulted in increased spare time. With the new team constellations, more creative outputs emerged as now different departments were involved. However, all interviewees seemed to agree that depending on the industry and phase of the company, physical team meetings cannot be fully replaced by virtual ones.

4. Understanding the market

In a crisis, it is crucial to get a good feeling for potential market shifts and changes in customer demand. Understanding their needs in the mid- and long-term and estimating the effects this will have on your company are key. Depending on the magnitude and the impact of these changes, some growth strategies had to be adapted. The majority of the interviewees considered themselves to be well prepared in the event of a second lock-down and created a contingency plan. This ability to rapidly react and adapt to new situations clearly distinguishes them from slower growing SMEs.

5. Liquidity

Different cash flow scenarios had to be constructed or adapted in order to understand the reach of the COVID-19 crisis. Based on the projected outcome, a contingency plan for the worst-case scenario had to be built. It is imperative to stick to a feasible and implementable plan. Some interviewees were lucky enough to close a round in Q4 2019 or Q1 2020 and had sufficient liquidity for the next 12 to 18 months, while others introduced short-time work or were eligible for the COVID-19 loan. The advantage of this loan is that it allows you to avoid unwanted valuation discussions with investors and helps to overcome revenue shortages from Q1 and Q2 2020. This crisis has once again underlined the importance of efficient cash management as it will decide whether your business will last in the long run or not.