Brex Startup Review

Foreword

A word from our CFO/COO.

Since our founding, Brex has been committed to increasing the probability of success of startups in the world. We do this not only with our financial products that increase their speed of business and streamline their financial processes, but also by sharing helpful data and best practices to enable better decision making.

As the financial stack of choice for founders, with thousands of customers at every stage of growth, we have extensive data on the funding and deals landscape, startup spending patterns, and broader macro activity. And we've developed this report to share these proprietary findings with the startup community in the hopes that our data and insights will inform and up-level the key decisions they have to make every day — and the path to success that they pave for the future.

The startup market is under significant macroeconomic pressure, largely due to the increasing interest rate environment, which has increased the cost of capital. Therefore, we're seeing increased investor expectations around startup performance and ultimately profitability. While there are clearly negative implications of this for the startup ecosystem — for example, funding is down — the situation is not dire. Startups are among the most adaptive organizations in the economy, and the promise of long-term disruption and value creation is attractive in any rate environment. The fact that seed-round funding amounts have not decreased is a clear testament to this.

> "Startups are among the most adaptive organizations in the economy, and the promise of long-term disruption and value creation is attractive in any rate environment."

Michael Tannenbaum, Chief Financial Officer and Chief Operating Officer

During the height of the COVID-19 pandemic, Brex, like many companies, adapted its products and business operations to accommodate new ways of remote working. Consistent with our company belief that value can be created from everywhere, we're seeing that startup innovation and spending is no longer exclusive to classic hubs like Silicon Valley. Opportunity and promise (and value) is in more places, creating more economic opportunities for individuals and regions. The global demand for talent combined with new macroeconomic pressures are only accelerating this trend.

While we're seeing funding become more scarce (Q4'22 down 24% vs. Q1'22), this too — like all recessionary environments — shall pass. So while this may feel unprecedented, it's worth noting that in the 2001 tech-driven recession, fundraising across startups saw a 54% drop in funding rounds per Crunchbase data. Startups and their operators have survived this level of tumult before and continued to build and scale, forming many generational companies in the process.

“Big dreams and the tenacity of founders transcend any temporary economic volatility.”

Michael Tannenbaum, Chief Financial Officer and Chief Operating Officer

Big dreams and the tenacity of founders transcend any temporary economic volatility. Considering data that reflects the changing landscape, and benchmarking performance against this data, will help founders ensure that their big dreams can navigate challenging markets.

Michael Tannenbaum
Chief Financial Officer and Chief Operating Officer

Michael Tannenbaum is Brex's Chief Financial Officer and Chief Operating Officer, having joined the company in 2017 shortly after its founding. Michael is responsible for keeping the company accountable to financial, risk and operational goals. He helped lead the evolution and expansion of Brex from a corporate card for startups to a full financial stack of services and software serving innovative companies at every stage of growth. Prior to Brex, Michael was Chief Revenue Officer at SoFi and held positions in private equity and investment banking.

The state of startups: the good, the bad, and the exciting.

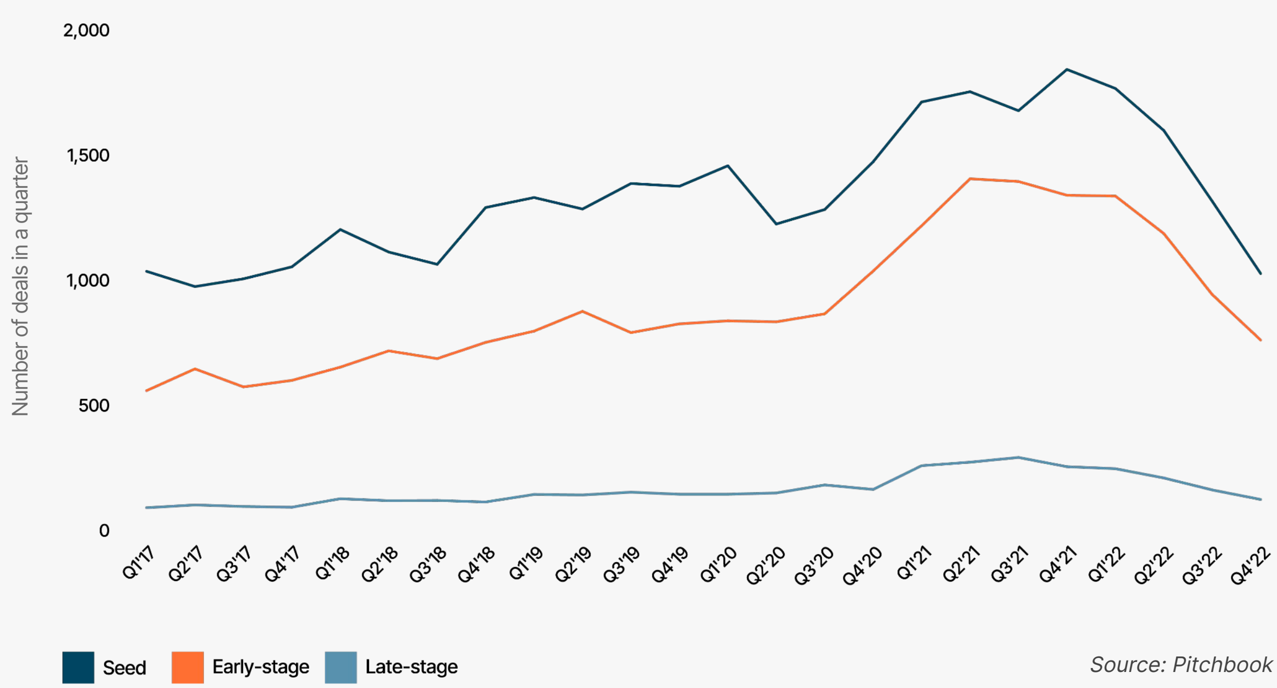
A change in funding patterns.

Startups are in a challenging position going into 2023. The macro landscape has shifted significantly, and the global economy — particularly in sectors sensitive to interest rates — is in the midst of a retraction. For startups, that means the bar for funding is higher, but there are green shoots: deals are still closing and exits are still happening — startups just need to adjust their approach, and this report shares insights to help them sharpen focus as 2023 unfolds.

Deal activity — the number of successful funding rounds in a quarter — trended downward in Q4, with a decline of 35% year over year **(Figure 1)**. Funding size for early-stage deals also showed signs of pressure in Q4, with the average amount back to 2020 levels, although still higher than in 2017, 2018, and 2019. Over the last four quarters ending December 31, 2022, funding for startups overall was down. However, we see a bright spot: seed-round funding amounts did not see any decrease **(Figure 2)**.

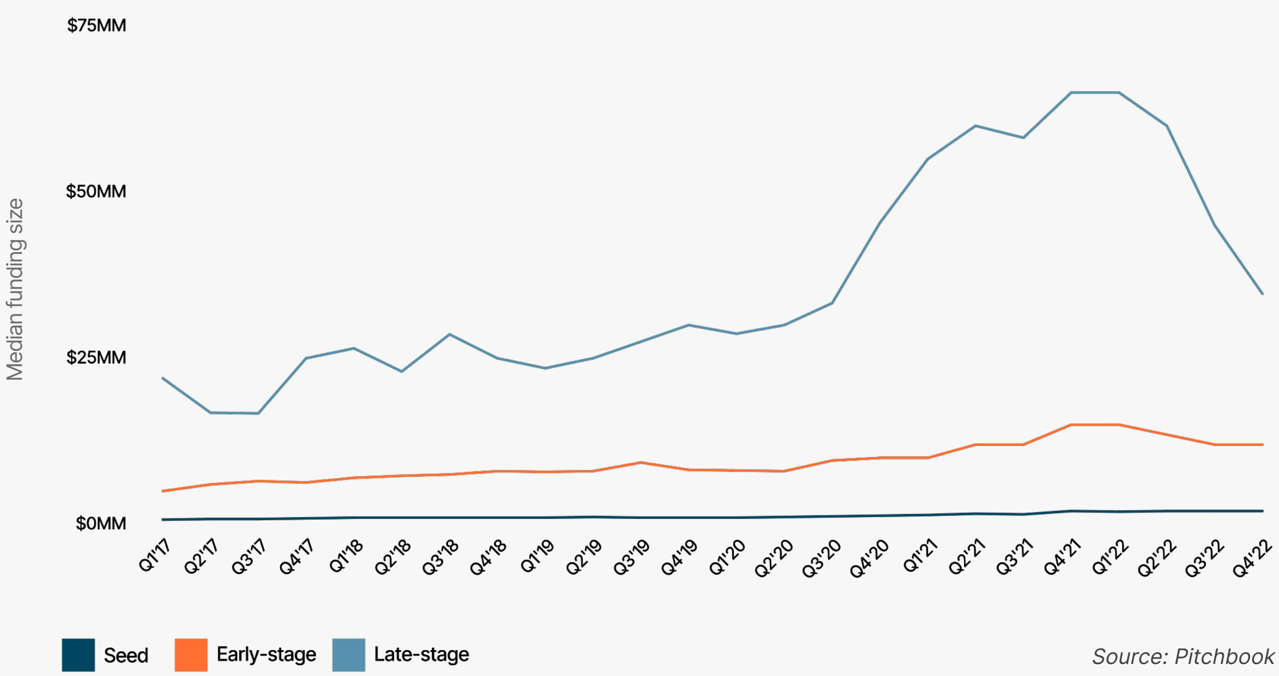
We've also observed a correlation between the annual change in funding sizes and NASDAQ returns in later-stage VC deals **(Figure 3)**, which suggests that we may keep seeing a negative impact of the stock sell-off on the VC market.

Figure 1 **Deal activity has continued its downward trend in Q4.**



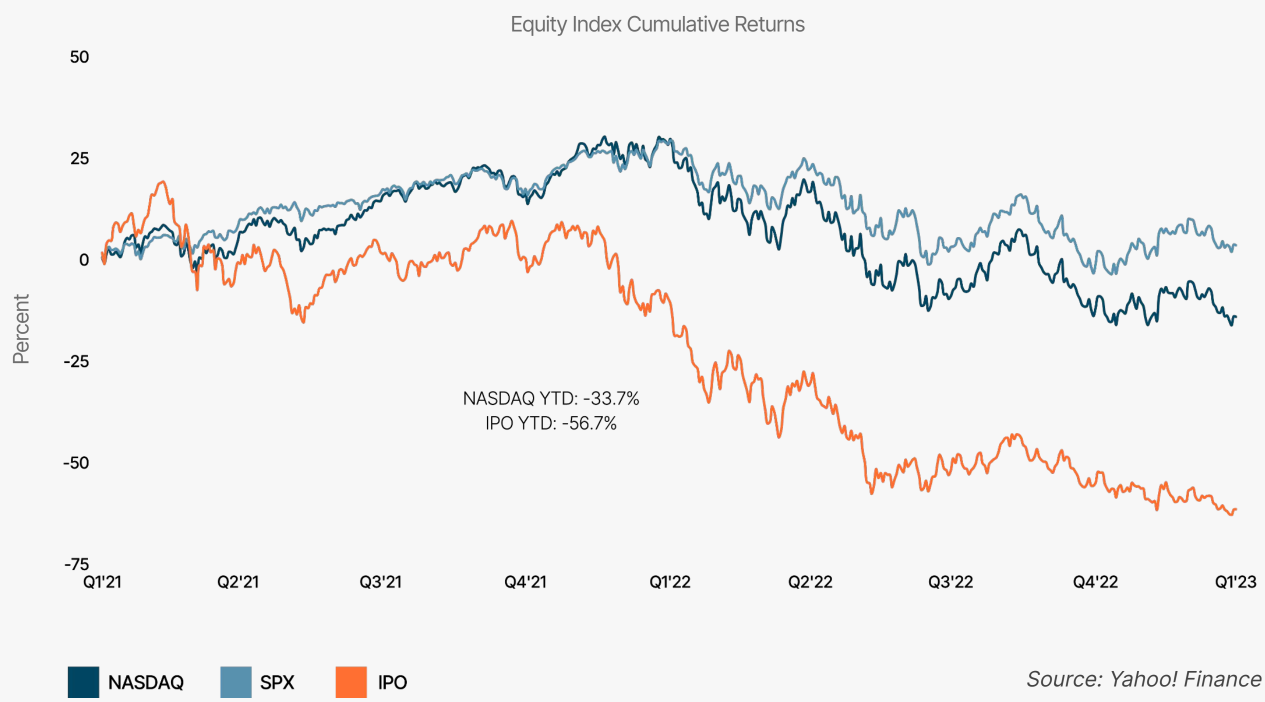
Source: Pitchbook

Figure 2 **Seed and early-stage deal sizes have held steady.**



Source: Pitchbook

Figure 3 **Observed correlation between annual change in funding sizes and NASDAQ returns in late-stage VC deals.**

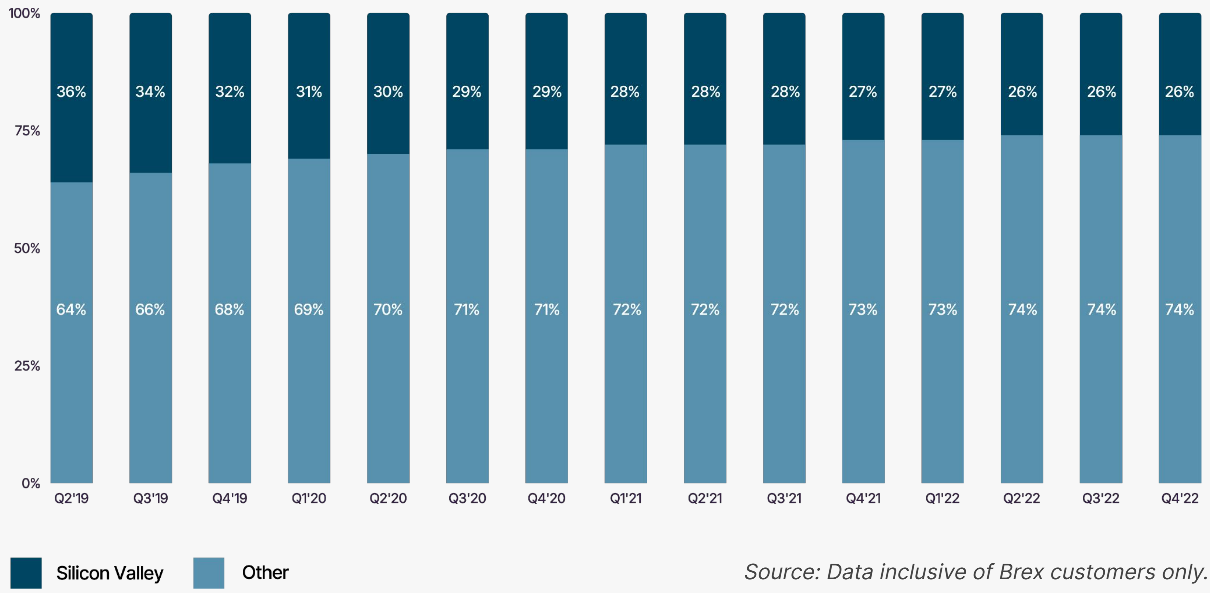


Source: Yahoo! Finance

Democratization of opportunity.

Despite the headwinds, we're entering an exciting new era for startups. The status quo of 2018 has evaporated. Back then, almost every startup had to be founded in Silicon Valley to be close to funding sources and the skilled employee base it needed to succeed. But in 2023, that's no longer the case — and our data backs that up. Since the first quarter of 2019, we've seen sustained growth in our startup customers that are not based in Silicon Valley **(Figure 4)**. We're seeing that the departure from Silicon Valley is not landing in one or two new hubs, but rather in many cities around the U.S., highlighting the dissolution of geographical boundaries for tech growth.

Figure 4 **Startups are moving beyond the boundaries of Silicon Valley.**



Source: Data inclusive of Brex customers only.

We're also seeing a change in the levers companies pull to fuel growth — this includes ad spend. In the past, a significant portion (50%+) of ad spend was tied up in the largest players in social media, like Meta. The rise of new ad players, as well as the changing Big Tech landscape, is creating new, more cost-effective opportunities to acquire customers — so while ad spend is down, startups may now be getting more bang for their buck with new players in the industry. We explore this later in the report.

Four key ways startups are adapting.

We've seen several big adjustments in the actions our startup customers are taking, and we think this gives some indication about the trends that will dominate 2023. We've grouped them into four distinct categories: runway, ad spend, remote work, and travel.

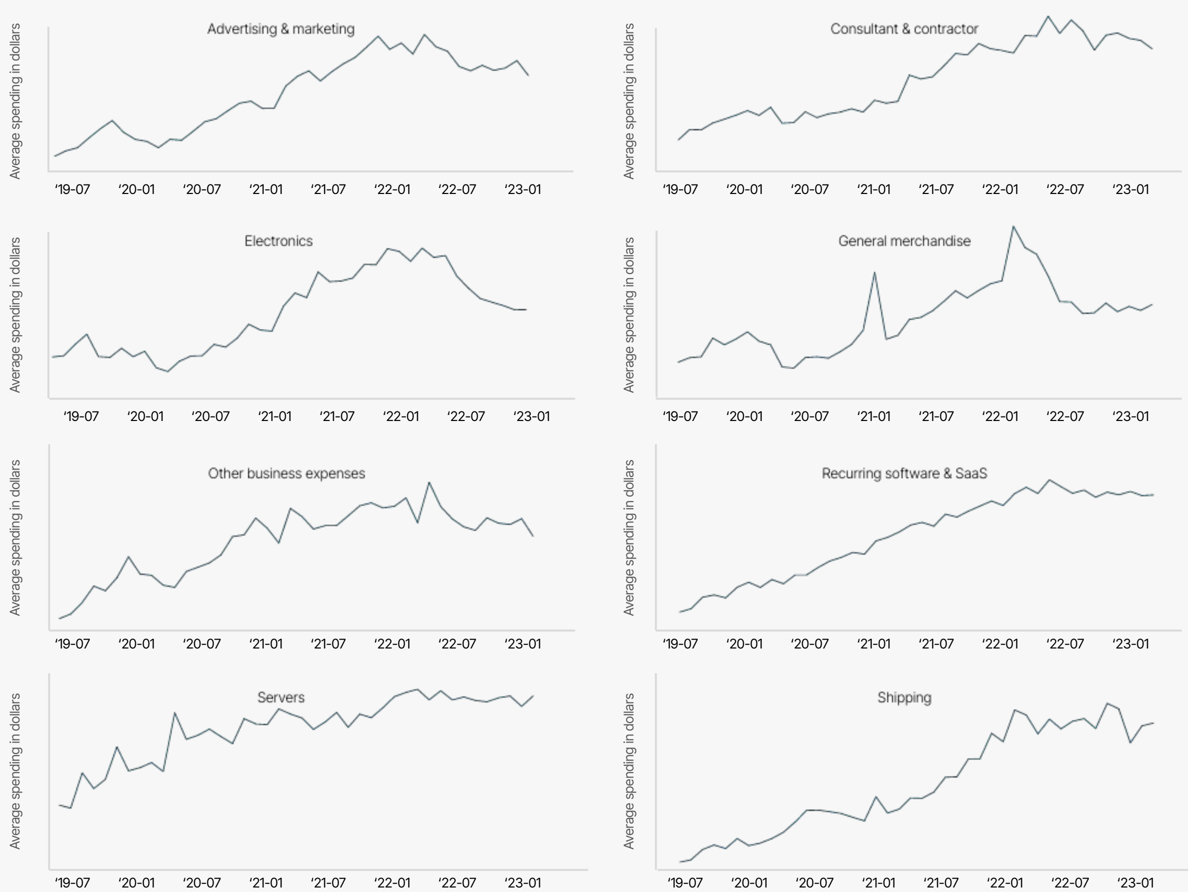
1. Focusing on runway and a path to profitability.

In 2023, startups are under pressure to demonstrate a path to profitability, especially in the early stages. Even as they dream big, we recommend that startups aim to have at least six months of runway in this macro environment to 1) give employees confidence in their jobs and 2) more broadly be prepared for anything that comes their way.

Startups are savvy, so they're preserving their runway by increasing their efforts to make do with the money they have, focus their spending, and place bets where they can be certain they'll see growth.

Since the beginning of 2022, we've seen decreases in spending in advertising and marketing, as well as in electronics and business expenses, indicating companies are adjusting or lowering budgets — especially on items that may be easier to cut **(Figure 5).**

Figure 5 **Startups across all stages are focusing their spending across categories to extend runway.**



Source: Data inclusive of Brex customers only.

Some startups are also moving the timelines for their spend or shifting investments around to make them work harder.

However, the average spending for early-stage companies has been relatively flat in the past six months, which indicates that they are more likely to keep their foot on the gas pedal, while later-stage companies are becoming more conservative in this environment **(Figure 6)**.

Figure 6 Late-stage companies are making larger cuts in spending when compared to early-stage companies.

Source: Data inclusive of Brex customers only.

2. Using new ad platforms.

Meta's strong grasp on startups' advertising dollars is getting weaker as we enter 2023. Over time — across all funding rounds — we have seen less ad spend going to Facebook and more going to Google and Amazon from early 2020 until the end of 2022 **(Figures 7-9)**.

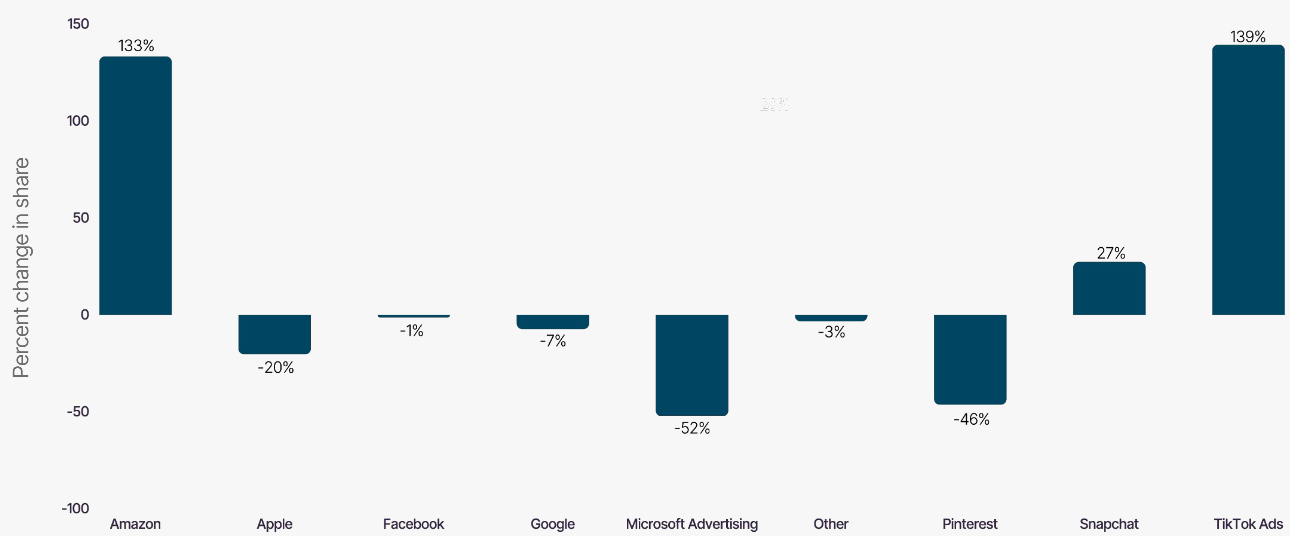
The rise of new social platforms that cater to different populations has given companies more choices about where they place their growth bets — and those choices are determined by their business strategy.

For example, when comparing Q1 of 2022 to Q4, we see an increase in advertising spend on TikTok ads for all three funding round segments. In fact, the biggest growth we see is late-stage companies' investment in TikTok, which was close to 0% at the beginning of the year, and now sits at 4.97%.

Across the board we see a large increase in TikTok ads spend, likely because this is an emerging platform with tremendous popularity, and their advertising offering continues to improve. It's possible that this may continue to evolve as TikTok is now under much greater regulatory scrutiny, and faces a chaotic year ahead due to bans at government agencies and universities.

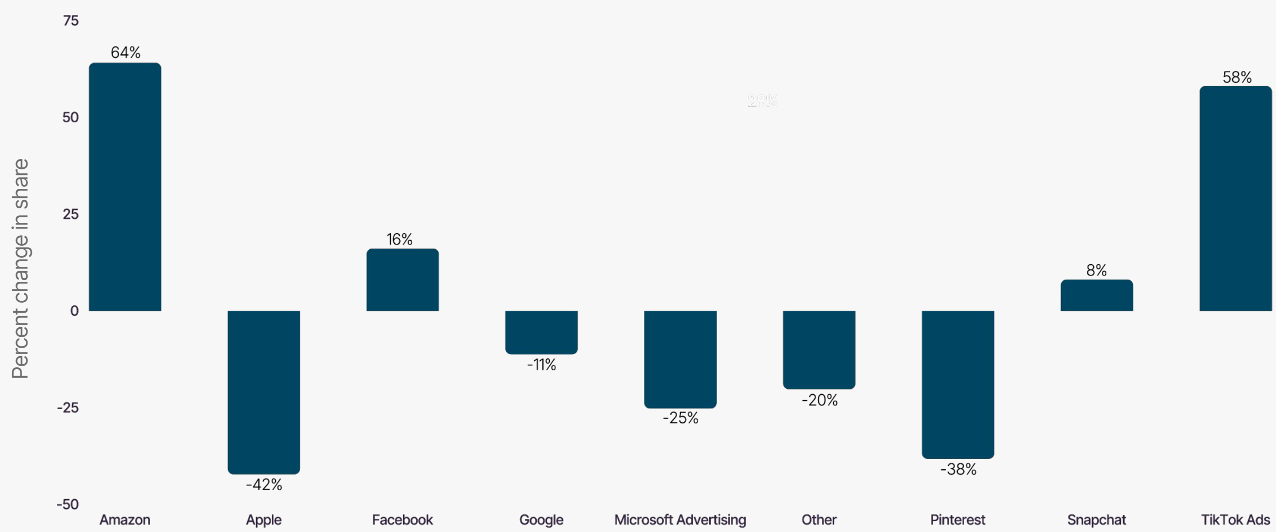
Finally, on Pinterest, we see early and seed companies lowering their spend by 38–46%, yet late-stage companies have decided to invest more of their marketing dollars in Pinterest with a 40% growth in share.

Figure 7 **Advertising spend changes with seed-stage customers.**



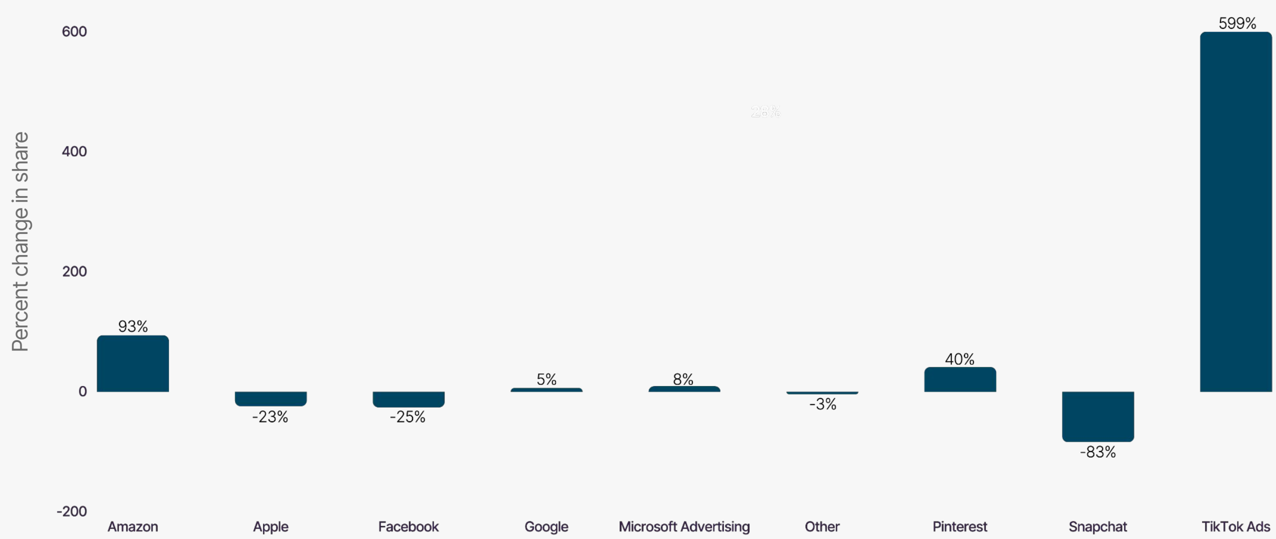
Source: Data inclusive of Brex customers only.

Figure 8 **Advertising spend changes with early-stage customers.**



Source: Data inclusive of Brex customers only.

Figure 9 **Advertising spend changes with late-stage customers.**



Source: Data inclusive of Brex customers only.

The unstoppable promise of startups.

Regardless of what's happening in the macro environment, startups by their very nature are scrappy. They're challenging the status quo in meaningful ways. They operate not based on how the world is today, but how the world will be in two, five, or ten years in the future — and they anticipate how to build for that world.

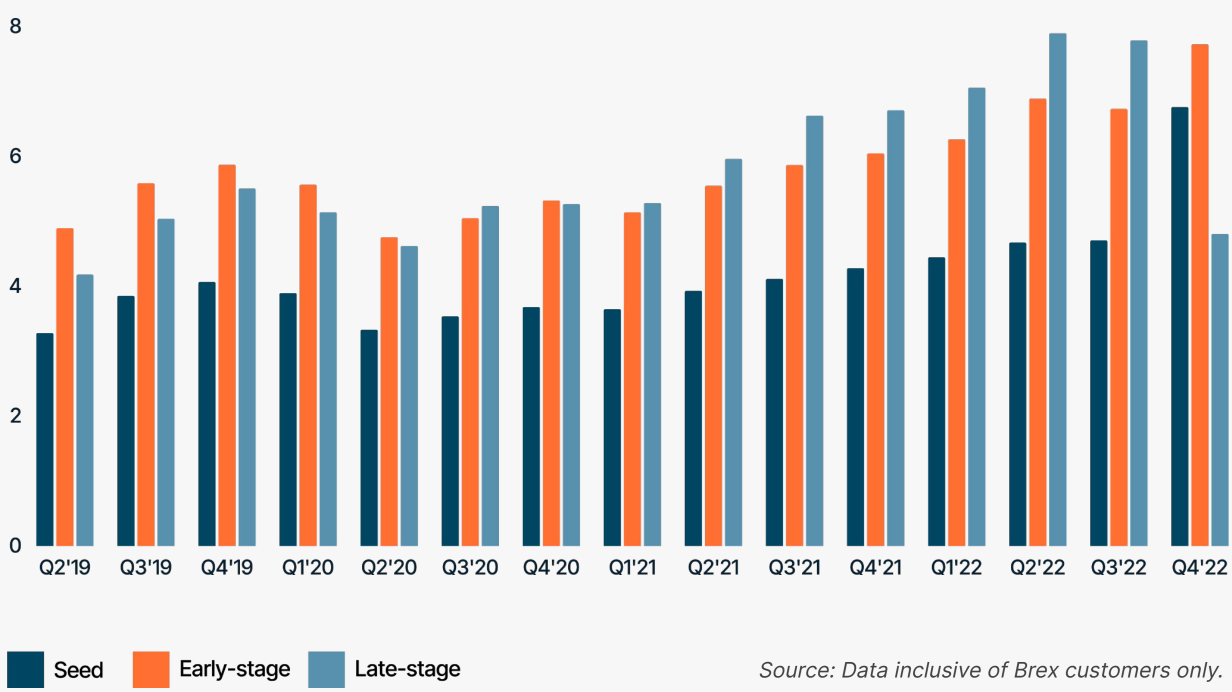
The promise of the future transcends any temporary economic situation, and indeed, there are still seed deals happening even in this unpredictable economy. The choices that founders make today set their companies up for success tomorrow and beyond. The key is to spend and invest wisely, and make the right choices now to build that future faster and more sustainably.

3. Operating remotely and globally, creating value from everywhere.

Given everything we've seen over the last few years, this change goes without saying, but we'll say it anyway: employees and companies are moving all over the world in 2023. Startups are finding it easier to launch from anywhere and we're seeing our startup customers spending in more countries than they were before.

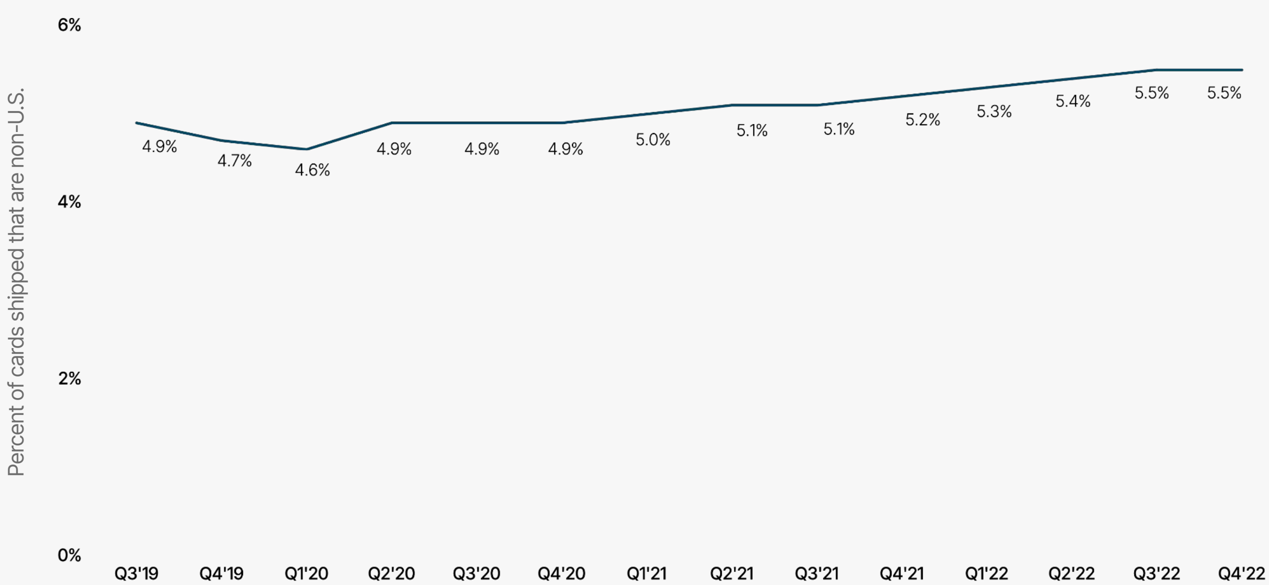
Year over year for Q4, we see the average number of countries where our startup customers had transactions increase 12–17% depending on the funding round segment **(Figure 10)**. Consistent with this observation, we've seen a steady upward trend in the percentage of customers receiving cards outside of the US **(Figure 11)** and an increase in the percentage of spend per customer outside the US. This metric is up 13% for seed companies, 23% for early-stage companies, and 11% for later-stage companies **(Figure 12)**.

Figure 10 **Average number of countries transacted in per customer.**



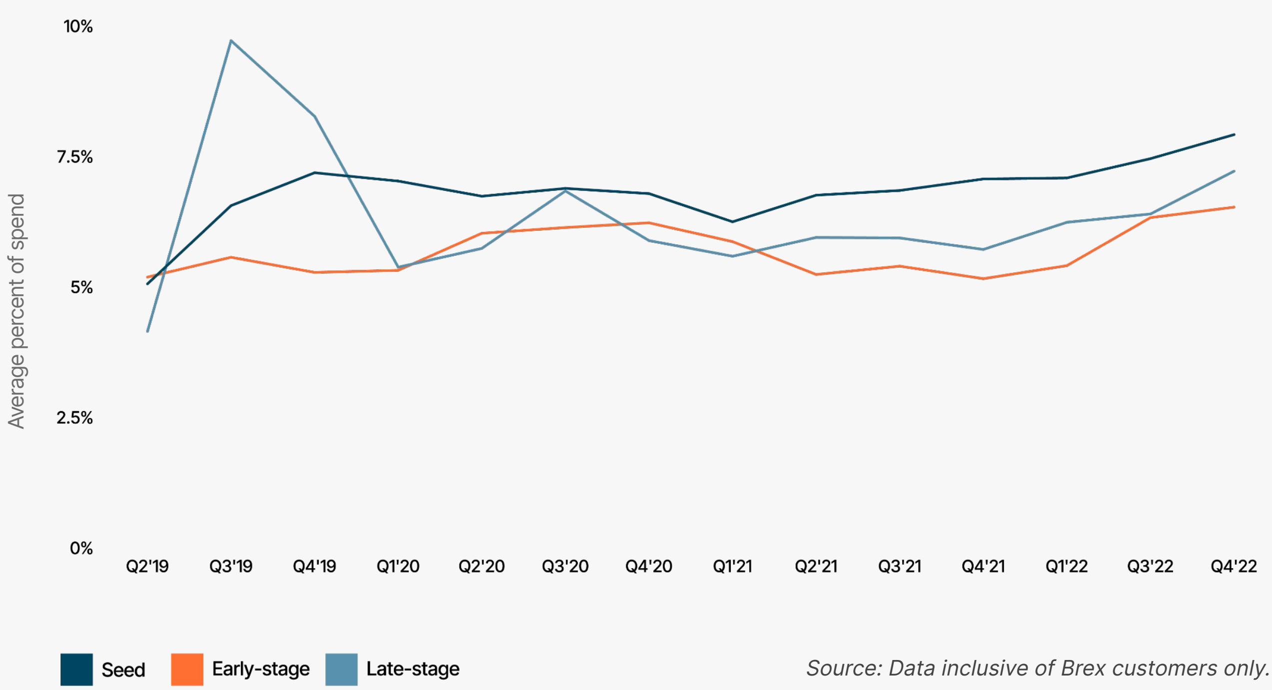
Source: Data inclusive of Brex customers only.

Figure 11 **Increase in percent of Brex cards shipped outside of the U.S.**



Source: Data inclusive of Brex customers only.

Figure 12 **Average percent of spend outside the U.S. has increased.**



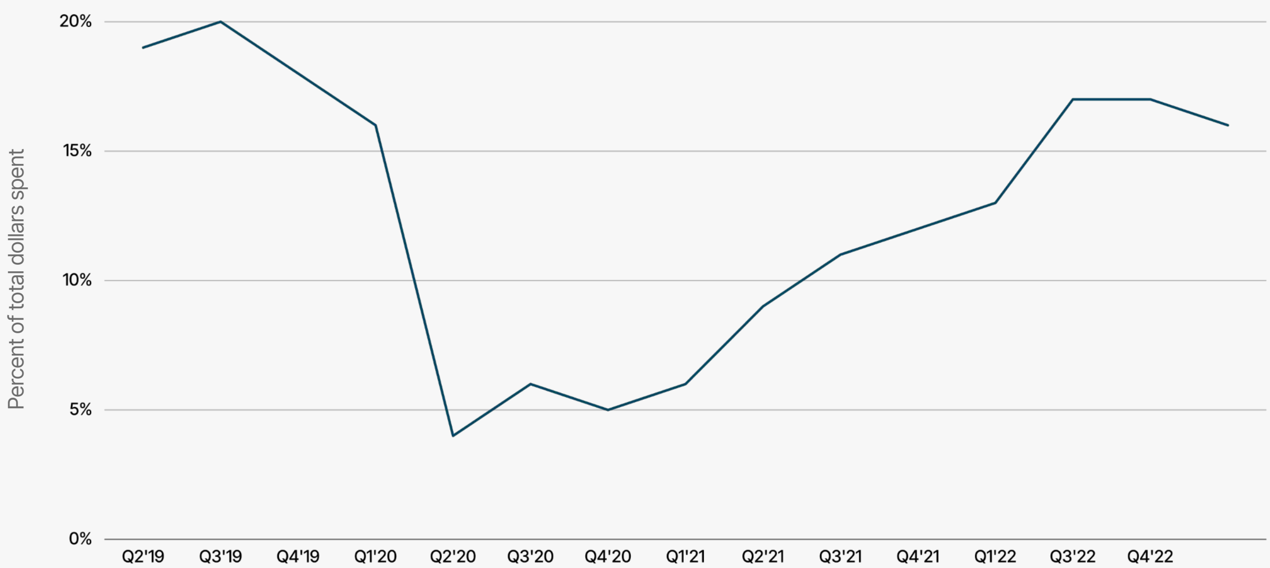
Source: Data inclusive of Brex customers only.

4. Traveling more — and for new reasons.

Related to the rise in distributed work mentioned above, now that employees are working around the globe, in-person events like offsites have become more important than ever. Employees are taking trips to company locations away from their home office. Conferences are also seeing a return to form after years of cancellations or virtual-only events. Add all that up, and we see that travel for work has rebounded to pre-pandemic levels.

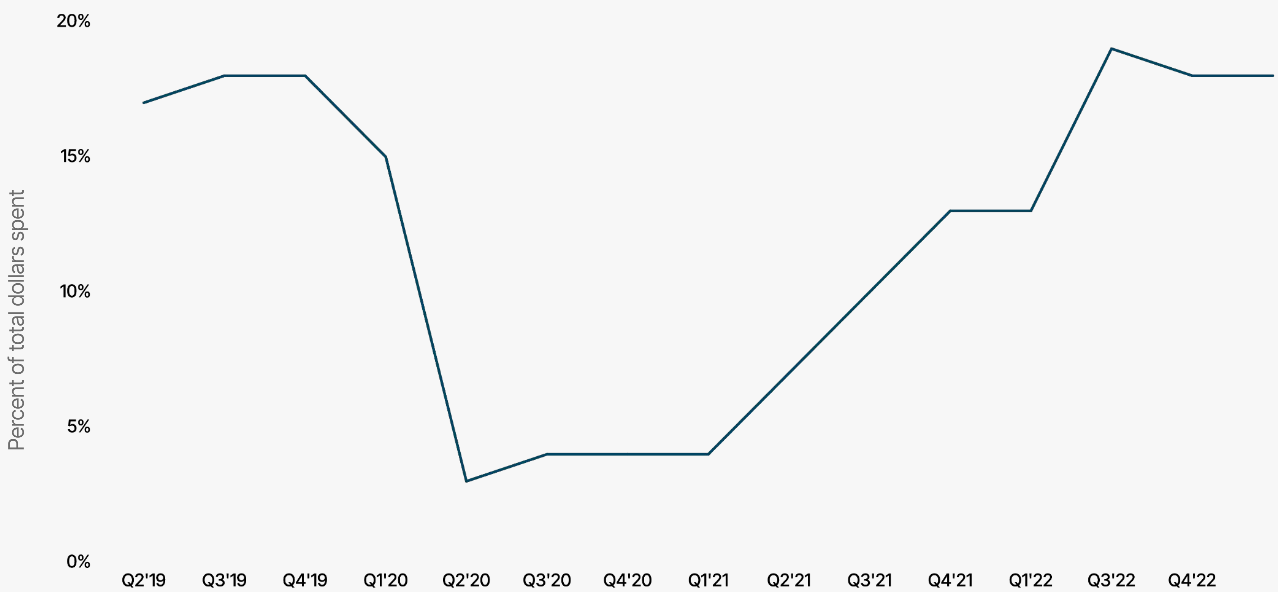
For seed companies, the last quarter of 2022 saw 16% of funds being spent on T&E, while in Q4 of 2019 that amount was 18% **(Figure 13)**. At early-stage startups, we see Q4 2022 and Q4 2019 at the same rate of 18% **(Figure 14)**. The later-stage startups saw Q4 of 2022 up one percentage point with 18% compared to 17% in Q4 of 2019 **(Figure 15)**.

Figure 13 **T&E spend bounces back to pre-pandemic levels for seed-stage companies.**



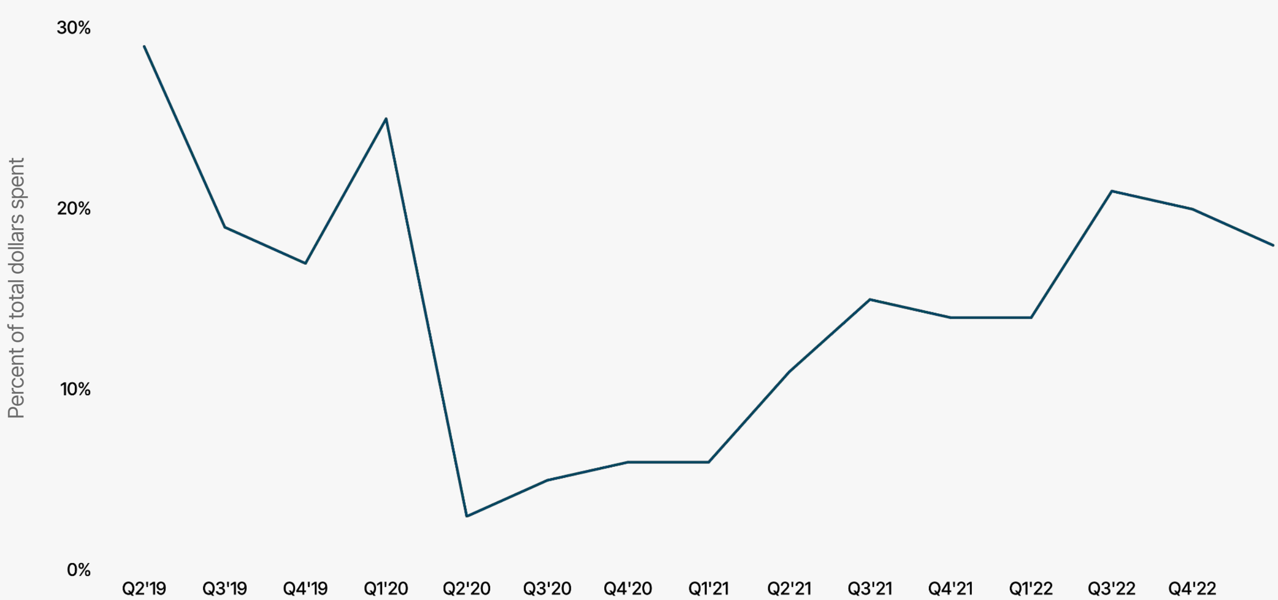
Source: Data inclusive of Brex customers only.

Figure 14 **T&E spend bounces back to pre-pandemic levels for early-stage companies.**



Source: Data inclusive of Brex customers only.

Figure 15 **T&E spend bounces back to pre-pandemic levels for late-stage companies.**



Source: Data inclusive of Brex customers only.

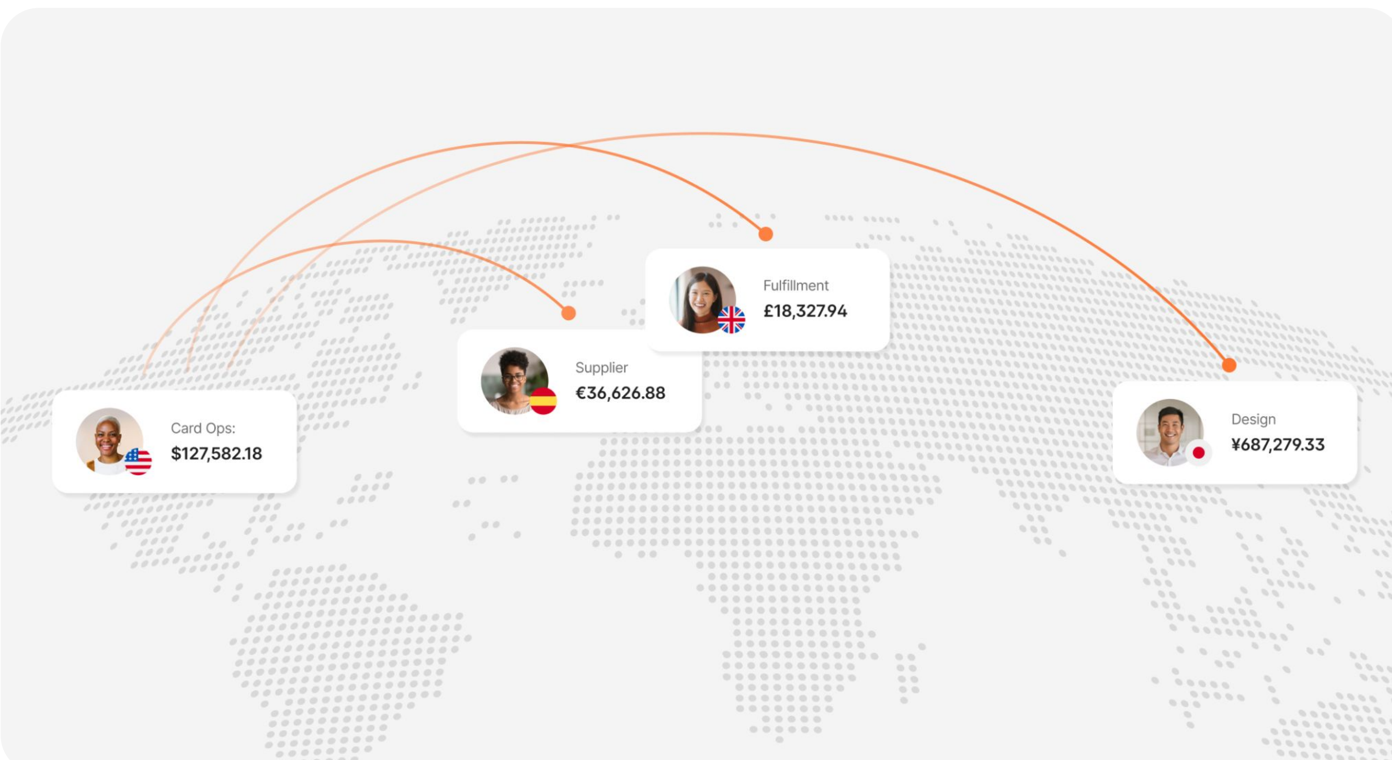
Moving forward.

A path to profitability is relevant at any stage of a startup's lifecycle but used to be necessary primarily after a series B. That's changed today. It is now incumbent upon startups at every stage — especially in their early stages — to show a path to profitability and a strong financial plan to secure any round of funding.

Startups are already making shrewd adjustments to extend their runway and are thriving even in a down economy. We recommend that startups strategically identify levers for profitable growth, such as more cost-effective ad platforms and new revenue streams.

And finally, the globalization of business will continue to open markets and cost-saving opportunities, so it will be important for founders to think globally and choose solutions designed to enable productivity anywhere. While we expect sustained macro volatility, new companies are still being founded and securing the funding to scale.

And we're here to help them dream big in any market.



About Brex

Brex empowers the next generation of businesses with integrated corporate cards and spend management software. We make it easy for our customers to manage every aspect of spending and empower their employees to make better financial decisions from anywhere they live or work. Brex proudly serves tens of thousands of growing businesses, from early-stage startups to enterprise leaders.

Learn more about what Brex offers startups at **brex.com/solutions/startups**

Meet our data scientists

Eugenie Li is a Data Scientist at Brex and works with Credit, Capital Markets, and Global Financial Services partners. Prior to joining Brex, she was a quantitative researcher at a machine learning hedge fund where she utilized data to make trading decisions. Eugenie graduated with a Master's in Financial Engineering and a B.A. in Computer Science and Statistics from University of California, Berkeley.

Tova Simonson is a Data Scientist at Brex, supporting our Marketing and Website teams. Prior to Brex, Tova was a Marketing Data Scientist at a startup meal delivery service. Tova received her Masters in Analytics from Northwestern University and a B.A. in Economics from Scripps College.

Methodology

All analysis conducted for this report that uses Brex internal customer data is anonymized and aggregated for privacy. To learn more about how we use data in anonymized or aggregated form for these trend reports, email us at privacy@brex.com.

Data parameters

Figures 1, 2, and 3 represent broader industry data on the startup market beyond just Brex customers in the analysis.

Figures 5 and 6 are analyzing Brex customers that meet the following parameters: uses Brex card, has activated within the last 180 days, and is currently active.

Figures 4, 7-15 are analyzing Brex anonymized customers that meet the following parameters: has funding round data available through PitchBook, Owler, or Crunchbase, uses Brex card, has activated within the last 90 days, and was active during the quarter that their data is used in analysis, although not necessarily currently active.

Data calculations

Figure 4 is analyzed using Brex internal customer data. It calculates the percentage of Brex's active customer base located in Silicon Valley at each quarter.

Figures 5-6 are analyzed using Brex internal customer data. They total the amount of spend across a spending category and/or funding round and divide by the number of currently active tenured Brex card customers to obtain the monthly average.

Figures 7-9 are analyzed using Brex internal customer data. They are calculated by summing up the total dollar amount for transactions in advertising and identifying the top eight merchants to understand what percentage of the total dollar amount is spent on each merchant. The percent change in the merchant share is then analyzed and broken down for Q1 2022 compared to Q4 2022.

Figure 10 is analyzed using internal Brex customer data. It identifies how many countries each customer had transactions in each quarter. The analysis then takes the average of this value for each quarter and funding stage.

Figure 11 is analyzed using internal Brex user data. It totals up the number of physical cards sent to non-US shipping addresses and divides by the total amount of physical cards sent by Brex in that quarter.

Figure 12 is analyzed using internal Brex customer data. It is calculated using the percent of transactions that are non-U.S. based for each customer and takes the average of that percentage across a quarter and funding stage.

Figures 13-15 are analyzed using internal Brex customer data. They are calculated by taking the total T&E transaction value in a quarter and dividing it by overall dollars spent to obtain the percentage of total dollars spent on T&E.

Customer Definitions

Customers labeled as "seed" in analysis are those customers who have raised seed capital. This category of customers is inclusive of those who have received angel investments.

Customers labeled as "early stage" in analysis are those customers who have raised Series A and Series B funding.

Customers labeled as "late stage" in analysis are those customers who have raised Series C and Series D funding.