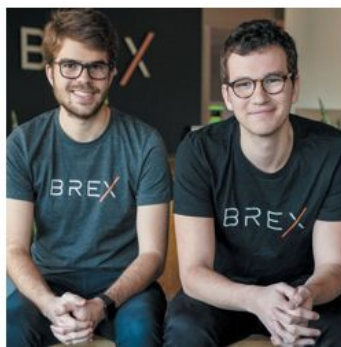
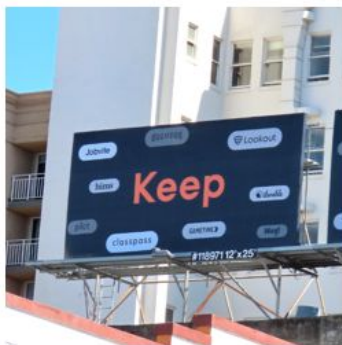
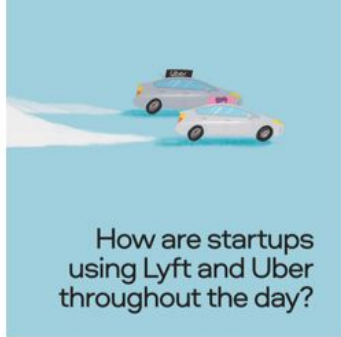


# **Brexfast in Bed: Startup Fundraising in Today's Environment**



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TAILORED REWARDS ON  
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NO HIDDEN FEES

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**BREX**

## Tech - Where we are today

<b>Economic Backdrop</b>		<ul style="list-style-type: none"><li>• May'19 Uber IPO disappointment and failed WeWork IPO in Sep'19</li><li>• Increased focused on profitability</li></ul>
<b>Investor Guidance</b>		<ul style="list-style-type: none"><li>• Coronavirus - <a href="#">The Black Swan of 2020</a></li></ul>
<b>Workday Disruption</b>		<ul style="list-style-type: none"><li>• Big Tech all WFH and most tech companies following suit</li></ul>
<b>Event Cancellations</b>	 <p>Citing concern over COVID-19, Y Combinator moves demo day online</p>	<ul style="list-style-type: none"><li>• YC Demo Day remote</li><li>• SaaStr, SXSW, SuiteWorld all cancelled</li></ul>

# What is the impact?

## Low

- Temporary suspension of economic activity during virus outbreak, confined to a short period of time
- Virus-related disruptions minimal and life for consumers and businesses returns to normal quickly

## Meaningful

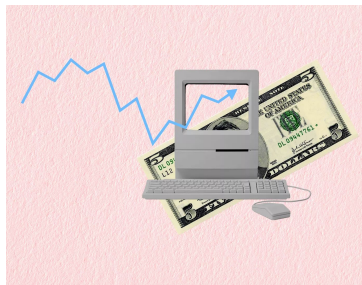
- Major economic disruption during virus outbreak
- Modest recovery following a resumption of "business as usual"
- Enter into mild recession (~10% increase in business churn per Bureau of Labor Statistics)

## Large

- Severe economic disruption during outbreak
- Prolonged period of economic slowness post (~20% increase in business churn per BLS)
- China retail sales declined 20.5% Jan/Feb (COVID-19 impact). U.S. is 70% consumer economy → 14% impact (vs. 8.4% contraction in Q4'08)

# What has happened in the past?

## Tech Recession: 2000 - 2001



	Tech Biz Formations	Funding Rounds < \$10M
1999	10,700	500
2000	10,000 (-7%)	1,300 (160%)
2001	9,400 (-6%)	600 (-54%)

Category	Impact	Source
Ad Spend	(7%)	Nielsen
Business Spend	~0%	AMEX
Consumer Spend	10%	Capital One
Enterprise Tech Spend	3%	Microsoft
SMB Tech Spend	~0%	Intuit

## Global Fin. Crisis: 2008 - 2009



	Tech Biz Formations	Funding Rounds < \$10M
2007	13,000	2,300
2008	15,000 (15%)	2,400 (4%)
2009	17,000 (13%)	4,000 (67%)

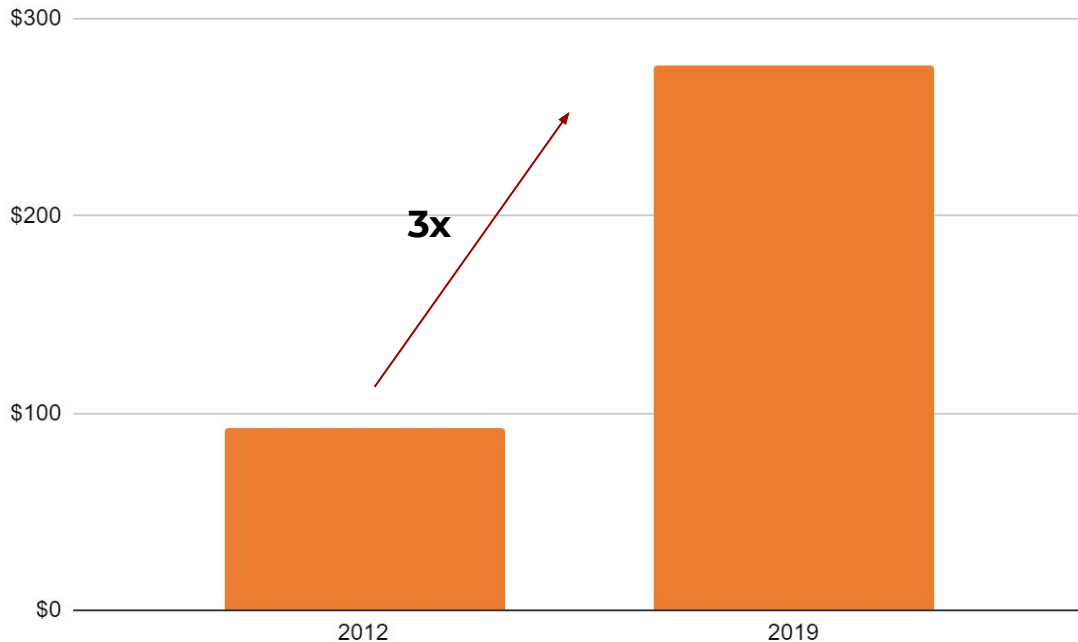
Category	Impact	Source
Ad Spend	(10%)	Nielsen
Business Spend	2%	AMEX
Consumer Spend	4%	Capital One
Enterprise Tech Spend	~0%	Microsoft
SMB Tech Spend	(2%)	Intuit

Source: Crunchbase, Company filings, Bureau of Labor Statistics

Note: Impact for Amex represents change in revenue generated through their Global Commercial Services segment. Impact for Capital One represents change in non-interest income revenue generated from their Consumer Banking segment.

# The money is there!

## Venture Capital “Dry Powder” = \$276B at end of 2019



Source: Preqin and Wall Street Journal

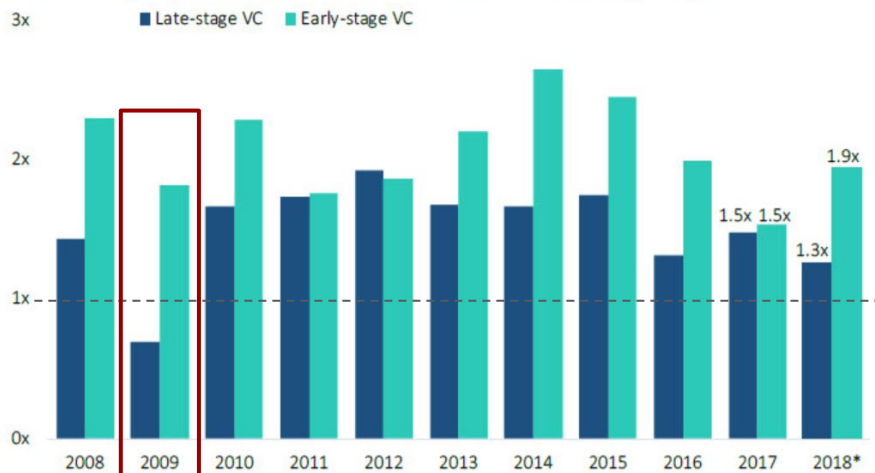
### Context on \$276B:

- 1.8M of the standard YC Investment = \$150K
- 184K of the median venture-backed Seed Round in 2019 = \$1.5M
- 35K of the median Series A Round in 2019 = \$8M

# A tale of two markets: Early and Late Stage

- Early Stage fundraising is about team, TAM, tech → success not dependent on Global GDP trajectory
- For Late Stage fundraises, likely impact as expectations for revenue traction, unit economics, cash burn and path to profitability are all impacted by a changing economic environment

Median step-up from last VC round valuation to exit by stage



<https://pitchbook.com/news/articles/vc-valuation-trends-in-7-charts>

Source: PitchBook

# Early Stage - What can you expect and do?

Process	Economics	Materials	Planning	Resources
<p><u>Slower Speed:</u></p> <ul style="list-style-type: none"><li>Market is nervous, investors are not compelled to take action</li></ul> <p><u>Leverage Existing Relationships:</u></p> <ul style="list-style-type: none"><li>Existing investors will want to fund good bets</li><li>Harder to meet new investors → Everything is virtual</li></ul> <p><u>Be clear on the ask:</u></p> <ul style="list-style-type: none"><li>When and how much</li><li>Investors will value clarity in these markets and will only want to spend time with teams that inspire confidence</li></ul>	<p><u>Modest Valuation Impact:</u></p> <ul style="list-style-type: none"><li>Disruption of big addressable markets is attractive in any economy</li><li>Still being assessed on Team / TAM</li></ul> <p><u>Terms:</u></p> <ul style="list-style-type: none"><li>Governance (supervoting, information rights, anti-dilution) etc. are likely to be less founder friendly</li><li>Do not expect lots of structure - standard venture preferred should still apply</li></ul>	<p><u>Investor Deck Is Critical:</u></p> <ul style="list-style-type: none"><li>People are going to want to see a real, high quality presentation</li><li>Virtual meetings</li><li>VCs can be pickier today</li></ul> <p><u>COVID-19 Impact:</u></p> <ul style="list-style-type: none"><li>Should be addressed - this is top of mind for people → how does your company fare in the new normal</li></ul> <p><u>Financial Model:</u></p> <ul style="list-style-type: none"><li>Even before COVID-19, unit economics at scale were under scrutiny.</li><li>Your materials must have this</li></ul>	<p><u>Expense planning:</u></p> <ul style="list-style-type: none"><li>Early stage startups most financial planning is just expense forecasting</li><li>Compensation, rent, SaaS, T&amp;E should get you there</li><li>Revenue / Gross Profit if meaningful</li><li>Build a simple financial model for expectations</li><li>This suggests a burn number</li></ul> <p><u>Cash planning:</u></p> <ul style="list-style-type: none"><li>Give yourself 6-9 months runway if you can</li><li>Monthly burn and fundraising expectations drive your cash planning</li></ul>	<ul style="list-style-type: none"><li>10Ks / Annual reports of relevant public companies → benchmarking</li><li>First Round Blog</li><li>Y-Combinator</li><li>Brex in the Black</li></ul>

# Late Stage - What can you expect and do?

Process	Economics	Materials	Planning	Resources
<p><u>Delay if Possible:</u></p> <ul style="list-style-type: none"> <li>Coming out right now with a fundraise in late stage will be perceived negatively</li> <li>Things are very volatile right now, but they will settle and this will be less true</li> </ul> <p><u>Milestone Approach:</u></p> <ul style="list-style-type: none"> <li>Position fundraise around a specific milestone - opportunistic / strategic in this time</li> </ul> <p><u>Time to Close:</u></p> <ul style="list-style-type: none"> <li>Assume fundraises are going to take longer</li> <li>Be willing to implement phased closes - getting to first close is critical</li> </ul>	<p><u>Meaningful Valuation Impact:</u></p> <ul style="list-style-type: none"> <li>Public markets more relevant, down ~45%</li> <li>Companies that need cash</li> </ul> <p><u>Terms:</u></p> <ul style="list-style-type: none"> <li>Structure will be in vogue, and it's likely your friend now</li> <li>Ratchets, converts and anti-dilution are going to be more relevant</li> <li>Don't be afraid to get creative → <u>but think through all scenarios, the market will recover</u></li> </ul>	<p><u>Full Dataroom Prep:</u></p> <ul style="list-style-type: none"> <li>Everything needs to be ready: Presentation, Model, Supporting schedules (unit economics, cohorts, margins, etc.)</li> </ul> <p><u>COVID-19 Impact:</u></p> <ul style="list-style-type: none"> <li>All projections and unit economics need to assume a recessionary environment near term</li> <li>Quantify the impact directly for investors</li> </ul>	<p><u>Burn Management:</u></p> <ul style="list-style-type: none"> <li>To address burn - must first understand it - make sure you have a clear sense of this and key driver</li> <li>Often largest expense by far is headcount → be more strict about hiring planning</li> </ul> <p><u>Contingency Planning:</u></p> <ul style="list-style-type: none"> <li>Form a plan in the event that topline and capital raises do not go your way - what will you do</li> <li>This should include all strategic impacts including product roadmap, liquidity, financial forecast</li> </ul>	<ul style="list-style-type: none"> <li>10Ks / Annual reports of relevant public companies → benchmarking</li> <li>SaaSr</li> <li>S-1s of recent IPOs</li> </ul>

# What has Brex done

## Last Week

- Proactive update to the BoD on current status
- Communicated where we stood with employees
- Full financial model with contingency planning
- Basic customer communications

## This Week

- Detailed customer communication regarding Brex health and stability
- Interim Board of Directors meeting to review contingency
- Revised Q2 OKRs for new reality

## Next Week

- Proactive outreach to key partners
  - Reviewing Q2 headcount planning and open roles
  - Implementing operational changes suggested from contingency planning
- 