aws activate

FINANCE TO SCALE

Brex has partnered with AWS to provide a financial planning and expense management resource for your startup. These materials are a framework for financial planning prior to scaling your business to help maximize your opportunity for success.

BREX

GETTING STARTED

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CASH & EXPENSE PLANNING

i Cash / Equity Balances

1 / Maintaining sufficient cash in your business is critical in the early days particularly if you are pre-revenue.

2 / Early stage companies often need infusions of cash to get their operations started. These can initially come from founders or outside investors.

3 / Brex recommends having 3 months of "cash burn" on hand at any time. Cash burn is defined as last month's "change in cash balance."

ii Payroll / Compensation

1 / Payroll is typically the largest expense of any company.

2 / Payroll expense comprises both salary / wages and employee benefits (i.e., health insurance, dental insurance, etc.).

3 / Benefits are typically ~20% of cash compensation.

4 / Employees often receive benefits from their employers while contractors do not.

5 / Stock-based compensation is another payroll expense, but it is not paid in cash so it does not contribute to cash burn.

6 / Stock-based compensation arises from equity granted to employees.

7 / Accounting rules are used to help companies estimate the "expense" associated with options granted to employees, as these dilute ownership in the company and therefore have a "cost."

8 / Early stage companies often use outsourced services (such as law firms) or software to help calculate these expenses (such as Carta and Shareworks).

iii Rent / Facilities expenses

1 / Early stage companies often begin in co-working spaces or even in residences.

2 / As companies scale, they often seek their own office space.

3 / Typically companies will sublet (meaning lease a space from a party who has a direct relationship with a landlord) to provide flexibility as they grow.

4 / Subleases are often shorter in term than direct leases.

5 / Rent is typically quoted in price/sq ft. This is an annual number (Total rent = annual rent x sq. ft of property).

6 / Companies should plan for the number of employees they expect to have in 12 months. A good forecasting estimate is 100 sq/ft per employee.

iv Hardware / Software

1 / Companies often purchase hardware and software for their employees.

2 / Technology organizations typically spend $1,000-$1,500 per employee on hardware, usually at the time an employee is hired.

3 / Technology organizations typically spend $500 / month per employee on external software.

Examples include: productivity / collaboration software (Dropbox, Office Suite), hosting and computing (AWS), developer tools (Twilio, CircleCI), etc.

4 / Companies with significant data storage needs often incur larger hosting and computing expenses.

v Travel & Entertainment

1 / Travel and entertainment expenses are related to the number of employees that travel often. Employees that travel the most typically have more of a sales or business-oriented role.

2 / Early-stage companies should budget $500 - $2,000 monthly per employee traveling for these expenses.

vi Advertising / Marketing

1 / Some companies use paid channels to acquire customers.

2 / Companies that focus on consumer markets rather than B2B businesses are more likely to pursue paid channels early in their lifecycle.

3 / Estimating acquisition expenses is a combination of conversion rates and costs per lead (Customer acquisition cost = cost per lead / conversion rate).

4 / While it varies for every market and product, businesses typically try and "earn-back" their customer acquisition cost within 6 – 12 months of revenue from their product / service.

5 / Some companies will also spend advertising dollars on brand marketing, which increases awareness of their product / service, but is not directly attributable to customer acquisition.

FINANCIAL CONTROLS

i Accounts Payable

1 / Companies are typically invoiced by vendors for expenses they incur, and these invoices can be paid by check, ACH / bill pay, wire, credit card, or cash.

2 / Credit card is typically the fastest and easiest way to pay for an expense. The controls and expense management features included within the Brex platform eliminate the complaints around lack of control that many business owners have with credit cards.

3 / A good rule is to ensure that before any expense is paid (any money leaves the company) an approval is requested and granted by a person different than the payor of the invoice.

ii Accounting

1 / Accounting entries are made to track the activity in a company.

2 / A good rule is to ensure that every entry is reviewed by a separate employee from the enterer of the transaction to ensure accounting accuracy and integrity.

iii Reconciliations

1 / Organizations that maintain good financial controls will typically reconcile their internal accounting to verifiable, third-party documents.

2 / Bank accounts and credit card statements are good examples of source documents for reconciliation.

3 / A good practice is to reconcile internal records with third party sources monthly.

4 / Using the Brex credit card, no reconciliation process is needed as long as Brex is integrated with your accounting software. If so, Brex auto-reconciles with each sync.

FINANCIAL INFRASTRUCTURE

i Bank Accounts

1 / Companies will use a corporate bank account to store funds and facilitate payments.

2/ Bank accounts often come with payments tools including the ability to pay invoices by check, wire and ACH / bill pay.

ii Credit Cards

1 / Credit cards are often the most efficient form of payment for companies as they pay the merchant immediately, offer 30 day float (bills are not due until 30 days later), and are accepted by most vendors.

2 / Many vendors, particularly those selling software and other goods online (including AWS), only accept credit card as a form of payment.

3 / Most credit card companies struggle to underwrite early stage companies, particularly those that are pre-revenue, and therefore ask the founders / employees to personally-guarantee the credit card or put up a security deposit.

4 / Brex solves this problem by integrating with the bank account to get better data about the company and therefore not require a personal guarantee.

iii Payroll Systems

1 / Companies often use software firms to manage the payroll of their employees.

2 / Payroll systems help companies maintain compliance with local and national laws including payroll taxes owed to the local and national governments.

3 / Some common vendors used by early stage companies include Gusto, Zenefits and Intuit Payroll.

ACCOUNTING & TAXES

i Accounting

1 / Early stage companies typically use accounting software such as Quickbooks or Xero to track the financial activity of their business. Brex has integrations with Quickbooks, Xero and Netsuite.

2 / Some early stage companies will outsource their accounting to a third party professional, particularly if there is no one in-house with that expertise.

3 / Early stage companies should use accounting software to establish their "Chart of Accounts" which is a listing of all of the business activity types used by an organization (i.e. "Revenue", "Compensation Expenses," etc.).

ii Monthly accounting reporting

1 / Accounting and financial records are typically maintained and reviewed on a monthly basis.

2 / The two most common reports that are examined are the income statement and the balance sheet.

3 / The income statement captures the flows of revenue and expenses over a period of time.

4 / The balance sheet is a static look at the outstanding balances of cash, debt, equity, and other items at a point in time.

iii Federal taxes

1 / Federal income taxes are paid annually to the Government based on the amount of profits earned by a company during the fiscal year ended the prior December.

2 / Federal taxes are owed by the 15th of April.

3 / Businesses file a Form 1120 with the Internal Revenue Service to outline the profitability of the business and the associated taxes owed.

4 / Even when a business is not profitable and therefore owes no taxes, it still must file its Form 1120.

iv State taxes

1 / Most states have a corporate income tax as well.

2 / This income tax is also owed by the 15th of April based on a fiscal year ended the previous December.

3 / Each state has its own tax form and tax code rules, but like Federal taxes, state taxes are based on corporate profitability / income.

4 / Companies should always file taxes in the state in which they are headquartered, not necessarily incorporated.

5 / Companies should consider the specific tax laws in all states where business is conducted or where it sells its goods and services.

6 / Many companies incorporate in Delaware due to its favorable tax and litigation environment. Companies incorporated in Delaware owe an annual franchise tax that is typically payable in February.

v Local taxes

1 / Many cities and other locations levy corporate taxes and or franchise taxes on companies headquartered or operating within their borders.

2 / These taxes are sometimes based on income, but often are based on gross receipts (revenue) or even payroll.

3 / Check the website of any city in which your company maintains either a physical presence or employs a worker to determine any tax liability.

BREX FAQ

i How is Brex different from a normal corporate card?

Brex is a new type of corporate card for early-stage technology companies. Brex built its payments technology stack from scratch - the underwriting model, customer interface, statements and billing capabilities, cardholder limits and controls. We have an integrated software suite that makes expense management, accounting, and budgeting simple and easy. Brex offers 10-20x higher credit limits, no late fees, and less risk (no personal guarantee). Our system has clean, transactional data that integrates with your accounting software and auto-reconciliates expenses at the end of the month.

ii How does Brex collect payment?

Brex offers 30-day statement periods. We automatically debit your business checking account (the same account you link in the onboarding process) at the end of your billing statement.

iii How does Brex underwrite?

Brex underwrites businesses—not people—so individual credit scores are not affected. Brex considers all of the relevant factors of your business: your investors, your cash balance, and spending patterns, and sets your limit accordingly. Brex is the only corporate credit card with a dynamic credit limit that adapts to your business activity.

iv What is the difference between a virtual card and physical card?

Brex cardholders have both a physical and virtual card. The virtual card is helpful for switching subscriptions and a great way to continue using the card if for some reason the physical card was lost. The physical card is metal / plastic and can be used for in-person transactions.