AngelList | Brex

# THE STATE OF U.S. EARLY-STAGE VENTURE & STARTUPS: 2Q23

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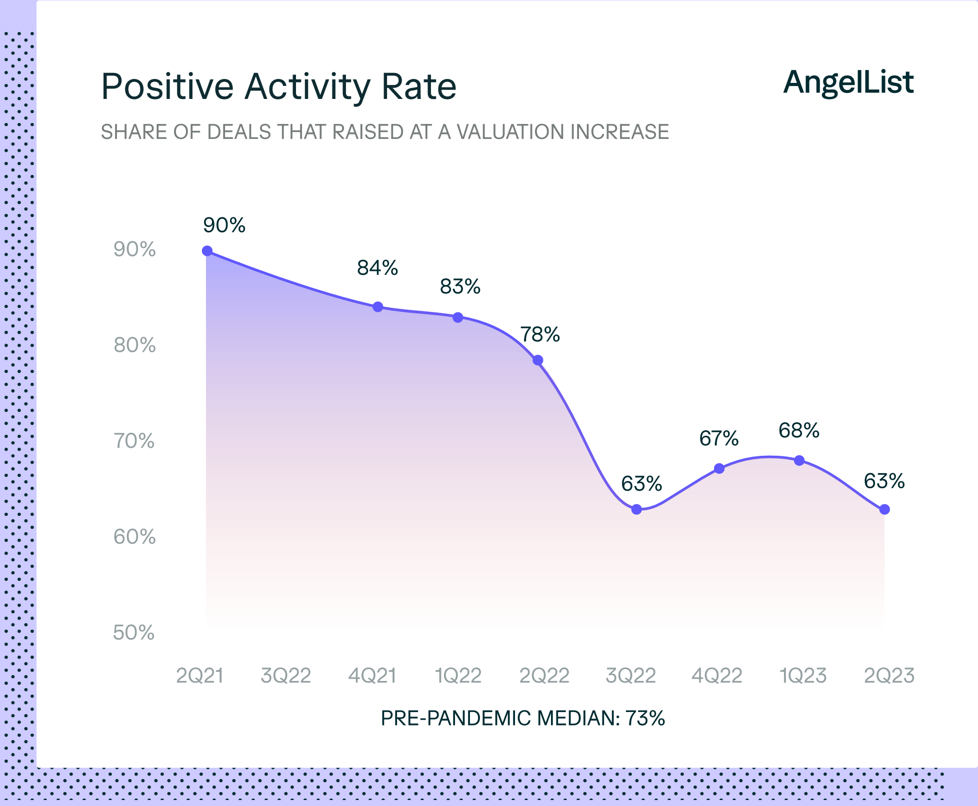
# TOC

# Executive Summary




After limping along for the better part of 9 months, early-stage venture capital performance hit a new low in 2Q23, in what we're considering the worst quarter ever for startup dealmaking. Activity rate hit a new all-time low, while positive activity netted out at the second-lowest rate ever observed in our dataset. This new low watermark in performance comes exactly two years after the best quarter ever for startups on AngelList, and one year after early-stage VC performance first started to show real signs of decline. **Our perspective is that we may have finally reached the "bottom" of the market.** While we think venture activity will likely not return to typical pre-pandemic levels until 2024, we believe 3Q23 and 4Q23 should be no worse than 2Q23.

The latest median valuation data lends credence to the idea that we've hit the "bottom" for early-stage venture activity. The continued lack of fundraising activity increased downward pressure on valuations, with most stages falling to levels closer to their historical norms (i.e., pre-pandemic rates). It's possible the repricing activity we're seeing across the early-stage ecosystem may be enough to lure more investors into the market in the coming months.

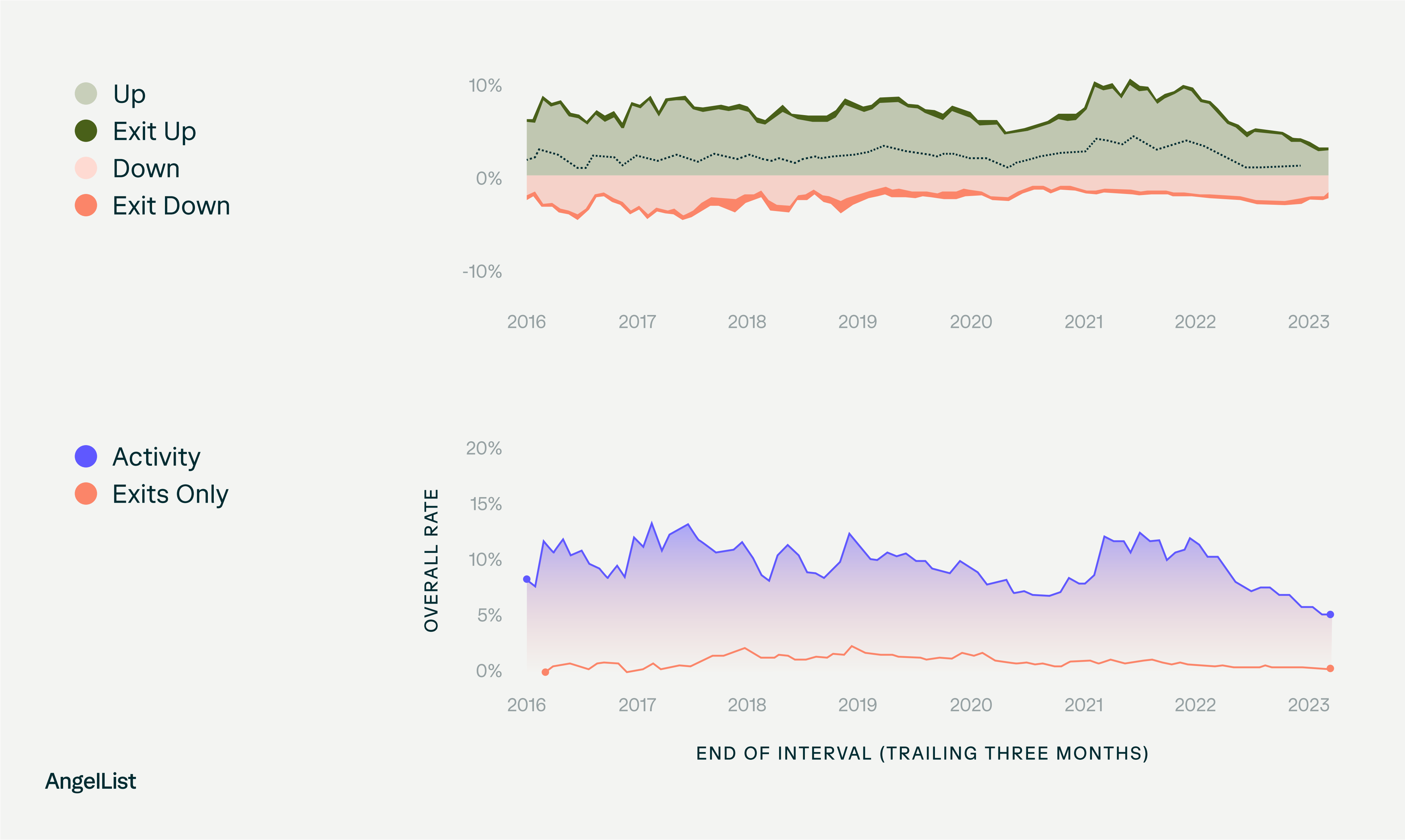
Amid the general market malaise, the AI / ML sector continues to provide a beacon of hope for the early-stage ecosystem. AI / ML was the most popular investment sector on AngelList in 2Q23 in both share of deal activity and capital deployed—and by a wide margin. The decline of investment activity in other once-popular sectors (notably, fintech and Web3) indicates that investors may not be currently seeing many worthwhile investment opportunities outside the realm of AI / ML.

Amongst female-founded startups, there was also a notable decline in deal activity and capital deployed in 2Q23. By investment instruments, 2Q23 saw a minor decline in SAFE usage and an increase in capital deployed via debt. In terms of distribution of investment activity by round name, pre-seed saw a decline while seed and later-stage rounds showed upticks relative to the previous quarter.

This quarter we've partnered with Brex to share data on startup spending activity. As might be expected in the current macro environment, spending activity is showing a year-over-year (YoY) decline, with seed-stage startups demonstrating the largest pullback in spending activity. Brex's spend data also provides insight into popular startup spending categories, a fresh look at the most popular locales for startup formation, and much more. Taken together, we believe AngelList and Brex's data provides a comprehensive and timely overview of how capital is currently flowing into and out of the startup ecosystem.

Overall, our combined datasets paint a picture of a market in transition. The optimistic view is that we've finally hit a floor from which early-stage venture can begin to rebound. However, this is far from a certainty. Previous AngelList research has suggested a recovery may not happen until 2024. In other words, **although we consider it unlikely that the early-stage venture market will perform much worse in 2023, we may have to wait a little while longer for the market to improve**.

# Markups

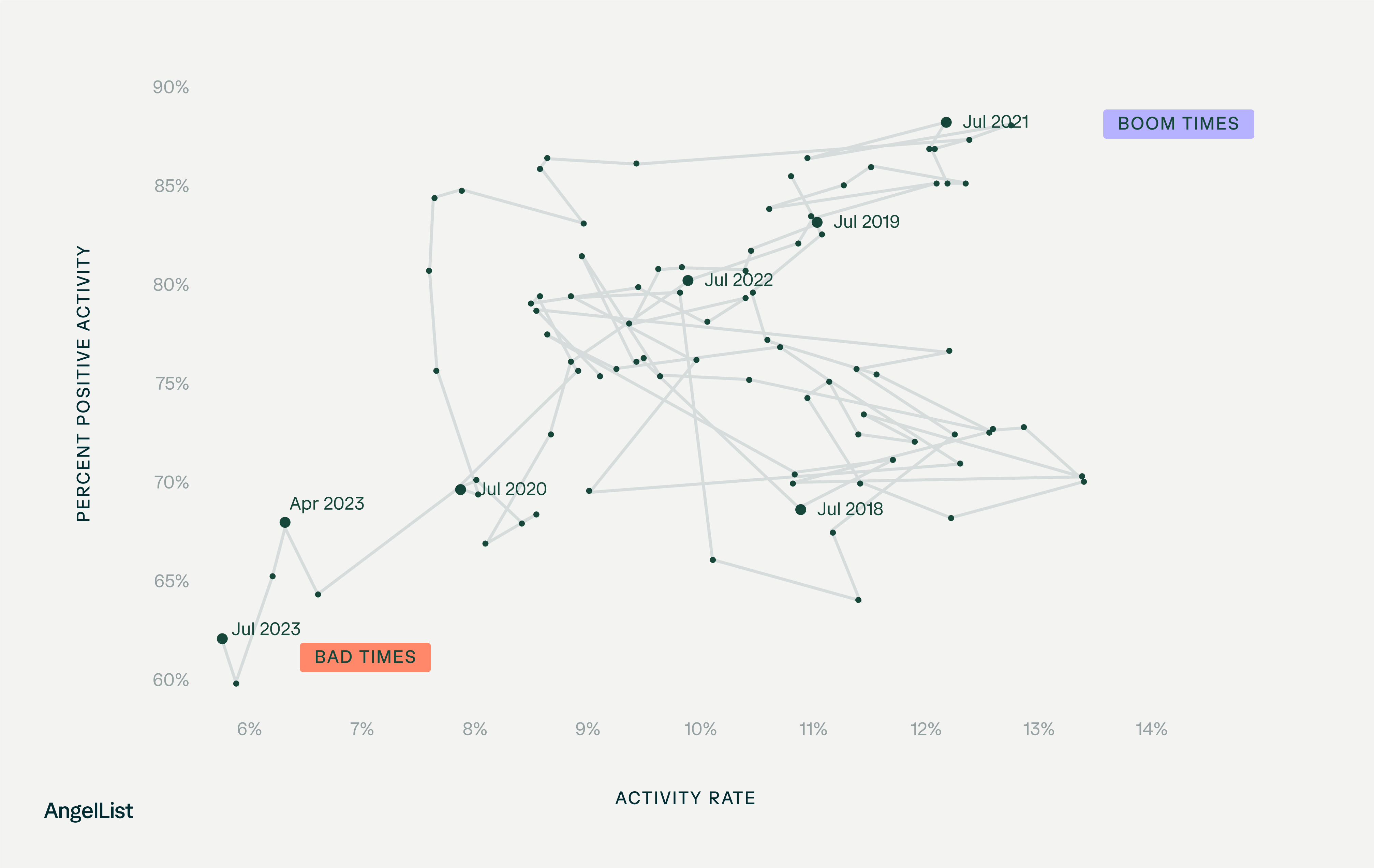



Source: AngelList

AngelList fund managers had seasoned investments into **14,755 active startups** at the start of 2Q23, primarily at the seed and pre-seed stages. Of those startups, **5.25%** raised a round or exited in 2Q23. **62.8%** of that activity was positive, meaning the startup saw its share price increase. This represents a **5% decline** from 1Q23's mark of **67.8%**. 2Q23's rate of 62.8% is the second-lowest positive activity rate ever observed in our dataset (after 2Q16's rate of 60%). However, while 2Q16 had the lowest positive activity rate ever observed in our dataset, that quarter saw nearly 2x the investment activity of 2Q23. We believe the outsized early-stage valuations generated during the pandemic may be a cause of the limited markup activity we're currently seeing.

Overall, **3.3%** of active startups that AngelList fund managers had seasoned investments into at the start of 2Q23 saw a share price increase, while **1.9%** saw a share price decrease relative to their last fundraise ("marked down").

# Rate of Activity

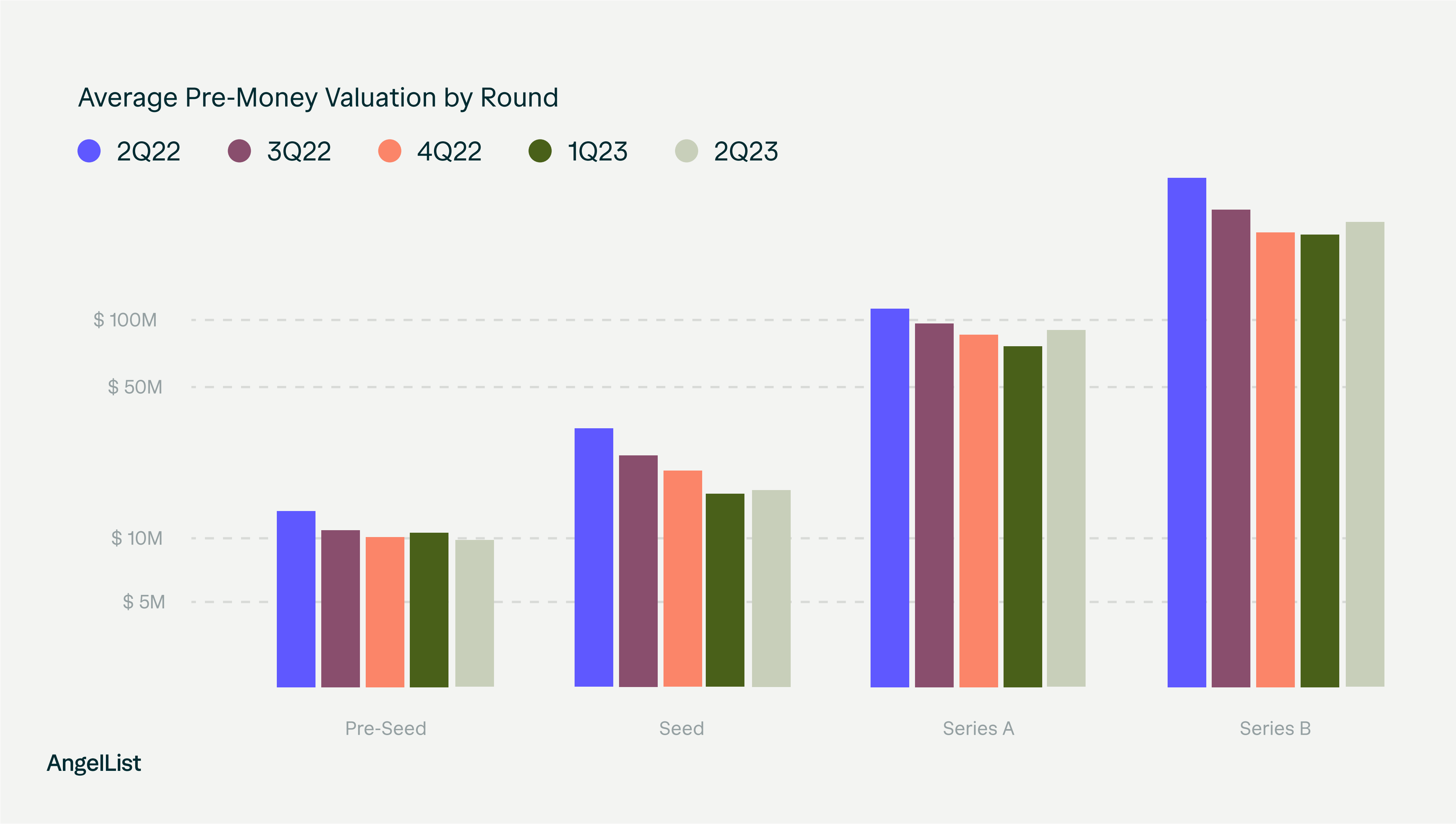



Source: AngelList

**5.25%** of active startups on AngelList raised a round or exited in 2Q23, the lowest rate ever observed in our dataset. This new low comes after 1Q23's rate of 6.1%, which was the previous lowest rate ever observed. Taken together, these data points suggest the first half of 2023 has been the slowest period for early-stage investment activity since AngelList started tracking this data in 2013.

Combining this lack of investment activity with the fact that, of the deals getting done, only 62.8% were positive (the second-lowest rate ever observed on AngelList) leads us to suggest that 2Q23 was the worst quarter ever for startup dealmaking.

# Average Valuation




Source: AngelList

Aside from pre-seed, average valuations went up in 2Q23, a surprising outcome considering the low rate of positive activity. While pre-seed valuations **declined by 8.2%** over the previous quarter to **$9.2M**, seed-stage valuations increased by **4%** to **$23.5M**. Series A valuations grew by **17%** to **$80.7M**, and Series B valuations grew by **12%** to **$252M**.

While rising valuations doesn't match the current market reality for most early-stage startups, it's worth noting that quality startups can still raise in down markets. It's possible that a handful of outlier deals skewed the data to paint a more startup-friendly picture than what most founders are currently experiencing.

# Median Valuation

| | 25th percentile | 50th percentile | 75th percentile |
|---|---|---|---|
| Pre-Seed | $5.5M | $8M | $12.5M |
| Seed | $10M | $16M | $24.5M |
| Series A | $26.2M | $45.5M | $81M |
| Series B | $50.25M | $100M | $216.7M |

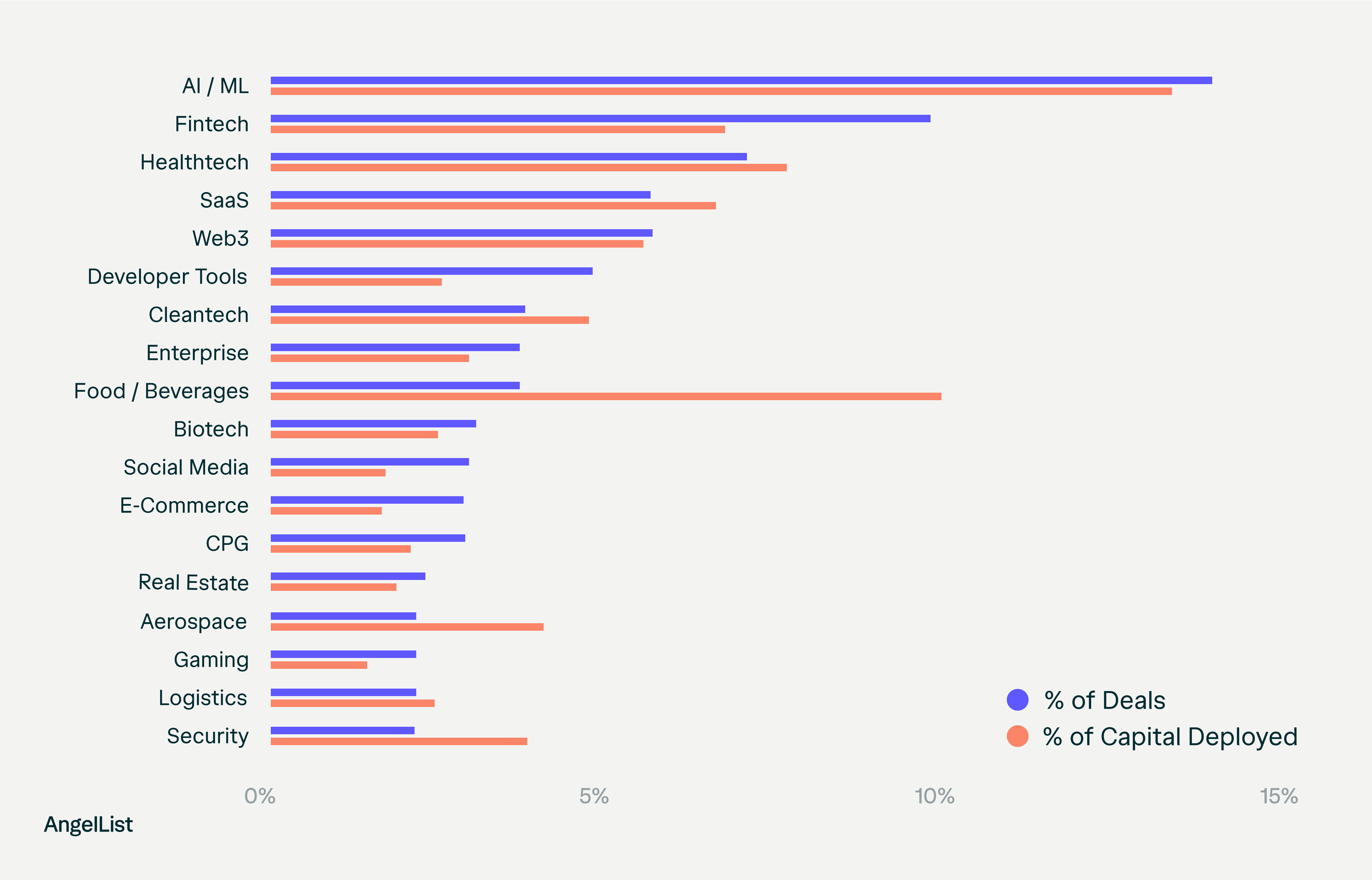
AngelList

Source: AngelList

Unlike average valuations, median valuations (50th percentile) for startups on AngelList showed material declines over the previous quarter. Median pre-seed valuations **declined by 20%** to **$8M**, seed-stage valuations **declined by 11.1%** to **$16M**, Series A valuations **declined by 20.1%** to **$45.5M**, and Series B valuations **declined by 33.3%** to **$100M**.

Last quarter, we suggested VCs may be waiting out the market in hopes of another material repricing event. Given the continued decline in valuations, in tandem with a decline in investment activity, it appears investors still believe valuations do not yet align with the market reality. As such, we may need to wait awhile longer for a market rebound.

# Early-Stage Venture by Market




Source: AngelList

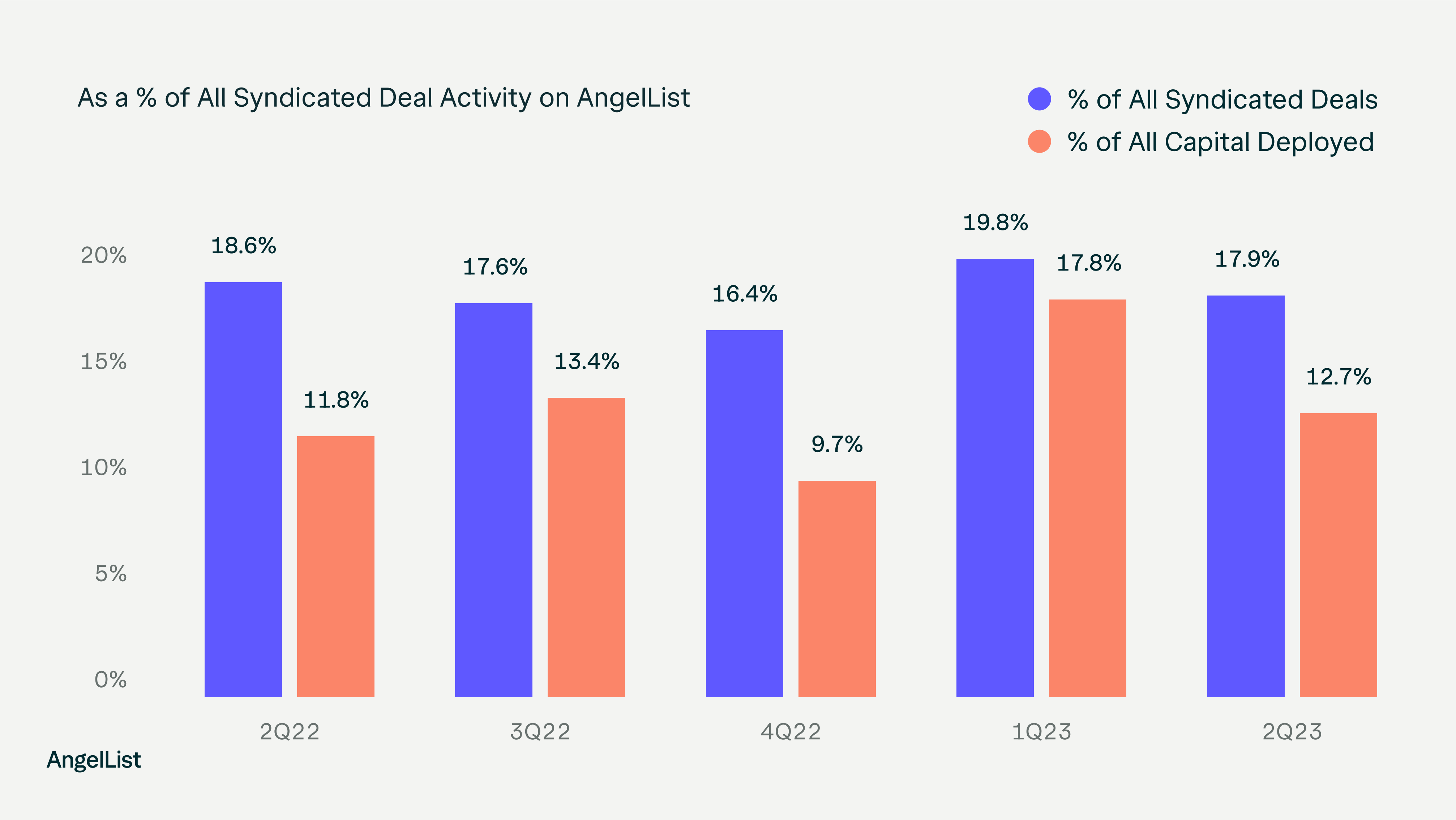
The AI / ML sector showed incredible momentum in 1Q23, capturing the second highest share of investment volume and sixth highest share of capital deployed. That momentum has transformed into an outright explosion of investor enthusiasm for AI technologies—as may be evident to anyone who pays attention to the tech news over the past 6 months. In 2Q23, the AI / ML sector captured **14% of investment volume** and **13.4% of capital deployed**—the highest rate ever observed of any sector in both categories.

Fintech **(9.9%)**, healthtech **(7.1%)**, SaaS **(5.7%)**, and Web3 **(5.7%)** were the four most popular investment activity sectors after AI / ML, but each showed marked declines over the previous quarter.

This suggests a potential lack of investor enthusiasm in sectors outside of AI amid the current AI boom.

By way of capital deployed, food and beverage **(10%)**, healthtech **(7.7%)**, fintech **(6.8%)**, and SaaS **(6.6%)** netted the largest shares after AI / ML. Of note is the continued presence of Web3 amongst the most popular sectors on AngelList despite the prolonged "crypto winter." After spending much of last year as the most popular sector for VCs on AngelList to invest in, it appears Web3 is demonstrating some staying power, even as the Web3 hype has been firmly supplanted by AI.

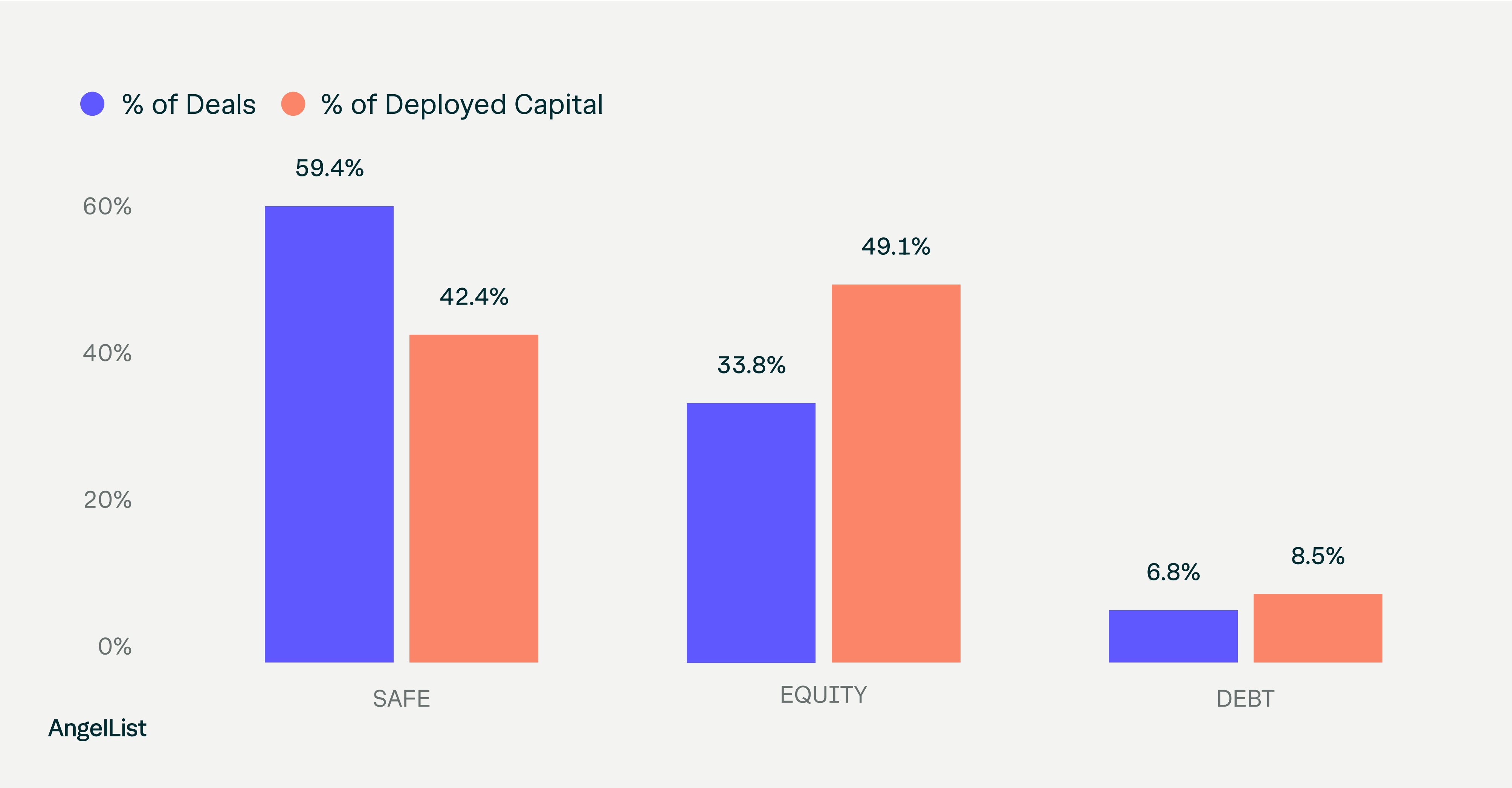
# Funding to Female Founders




Source: AngelList

Investments into female-founded startups declined by nearly **2%** in 2Q23 over the previous quarter, while capital deployed into female-founded startups declined over **5%** during that same period. The decline in dealshare is within the typical quarter-over-quarter fluctuations we've historically seen for female-founded startups. It'll be important to see whether the share of capital deployed to female founders can rebound alongside the broader market in the coming months.

# Deals by Instrument

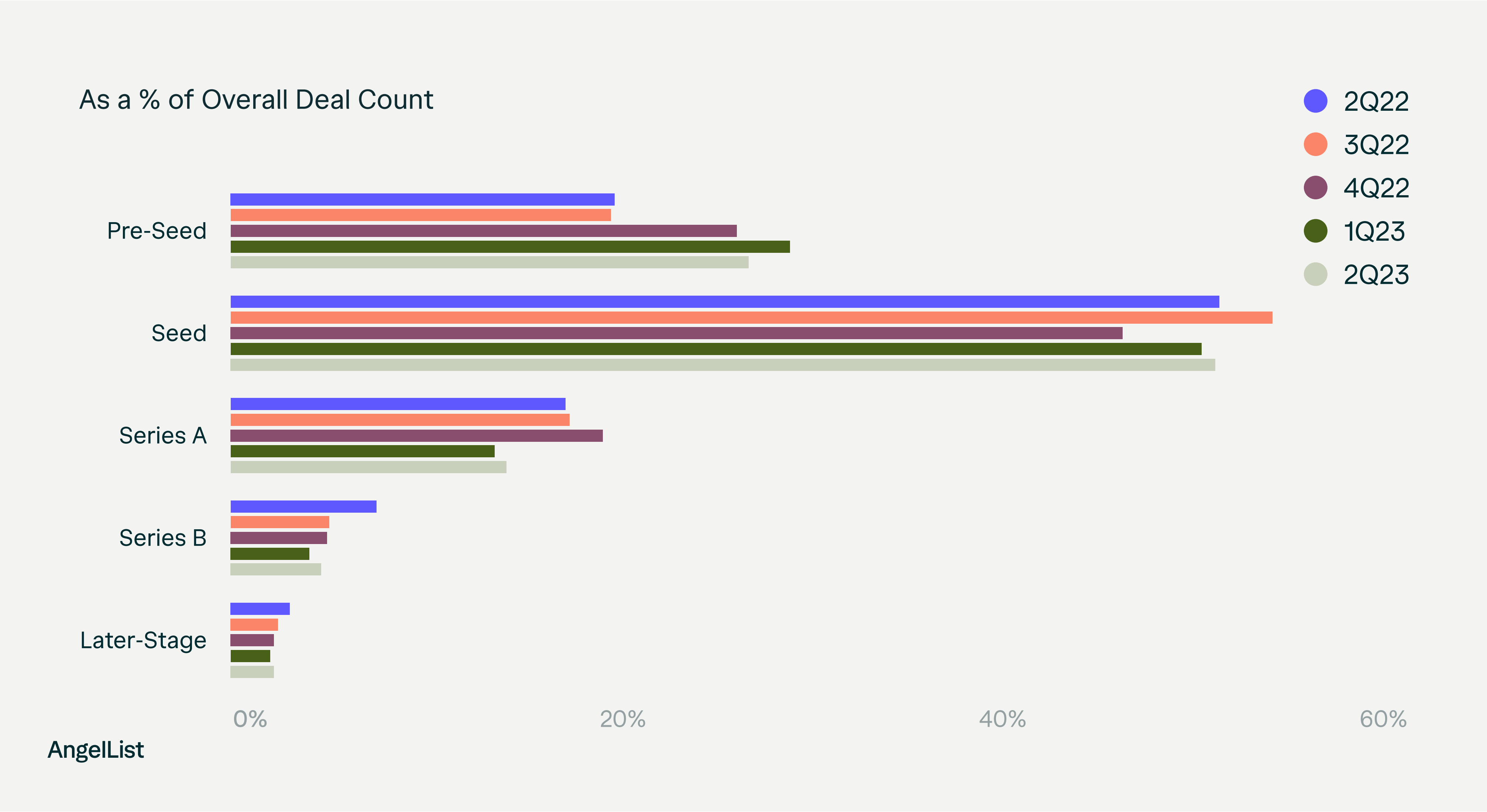



Source: AngelList

After a record quarter for SAFE usage in 1Q23, SAFE deals declined modestly in 2Q23, which also saw a slight uptick in equity deals. Even with the slight pullback, the preponderance of SAFEs suggests many venture deals right now are focused on early-stage, and that founders are deferring new valuations in the current market.

Share of capital deployed via SAFEs also declined modestly in 2Q23, while capital deployed via debt financings jumped by nearly 2% over the previous quarter.

# Deal Share by Round Name




Source: AngelList

A modest decline in SAFE usage correlates with a modest decline in pre-seed financings on AngelList, which **contracted by 2.1%** in 2Q23 over the previous quarter. Meanwhile, seed, Series A, Series B, and later-stage financings all saw slight increases over the previous quarter, although they're still lagging behind historical averages.

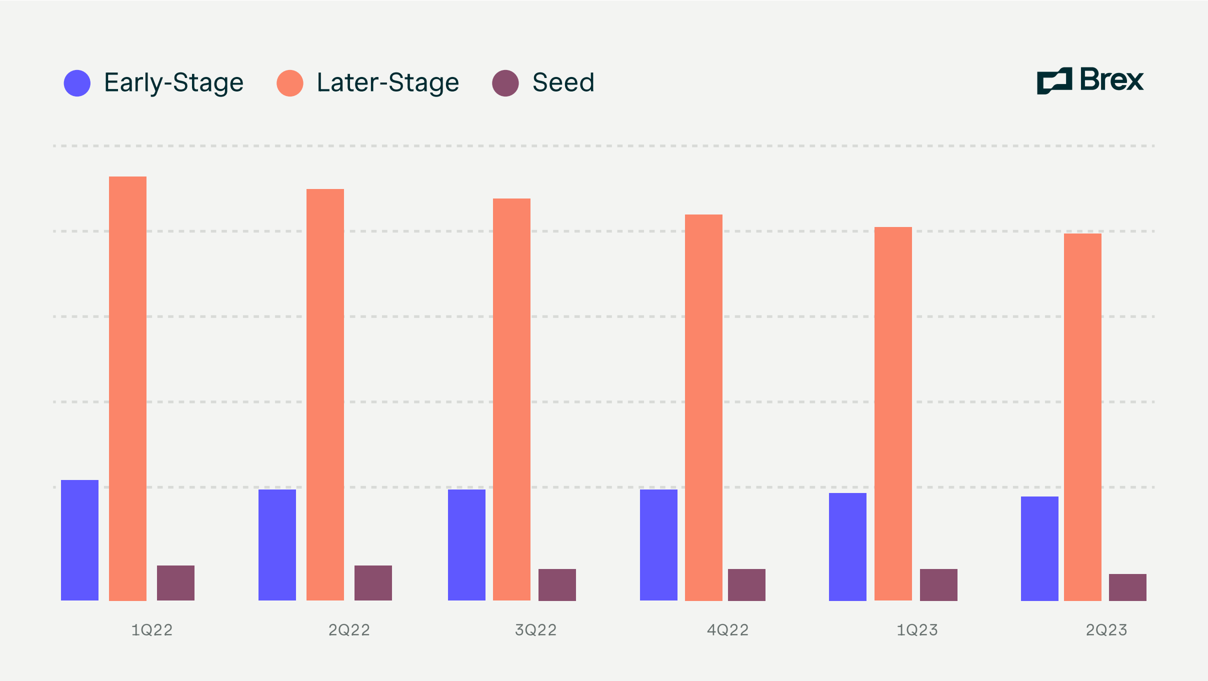
Overall, the share of seed deals on AngelList in 2Q23 increased by **0.6%** over the previous quarter to **51.5%**. The share of Series A deals increased by **0.6%** to **14.5%**, the share of Series B deals increased by **0.6%** to **4.7%**, and the share of later-stage deals increased by **0.2%** to **2.3%**.

# Startup Spending Trends

**Brex POV**: The aforementioned data from AngelList highlights the current market environment that founders are navigating. We've provided the spend analysis below to help founders understand what actions their peers are taking as a way to enable better decision making.

## Financial Discipline is on the Rise

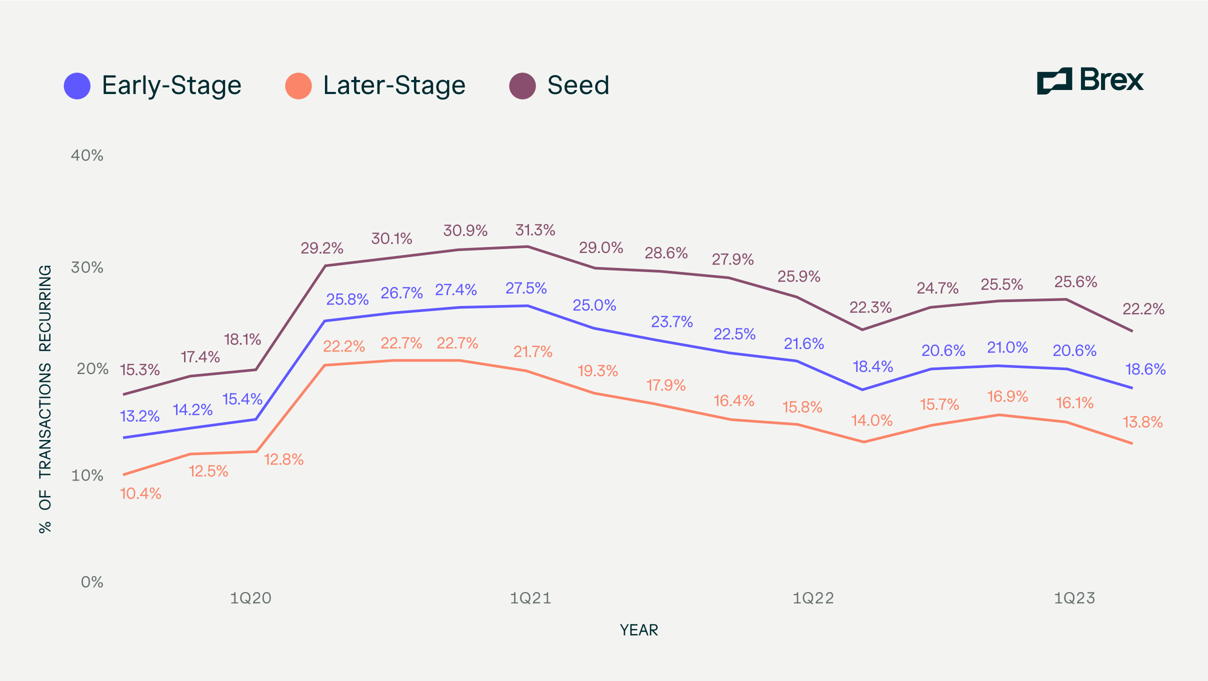
Average Quarterly Spend by Company Stage




Source: Brex

Given the slowdown in fundraising activity and overall economic uncertainty, it's no surprise Brex's data found that startups continued to be increasingly disciplined about spending in 2Q23, a trend evident since the start of 2022. This slowdown in spending was particularly pronounced for seed-stage startups, which cut back on average spend by **16%** compared to the same time last year. Early-stage startups pulled back on average YoY spending by almost **10%**, while later-stage startups only reduced spend by **3.8%** YoY.

## Percentage of Transactions Recurring



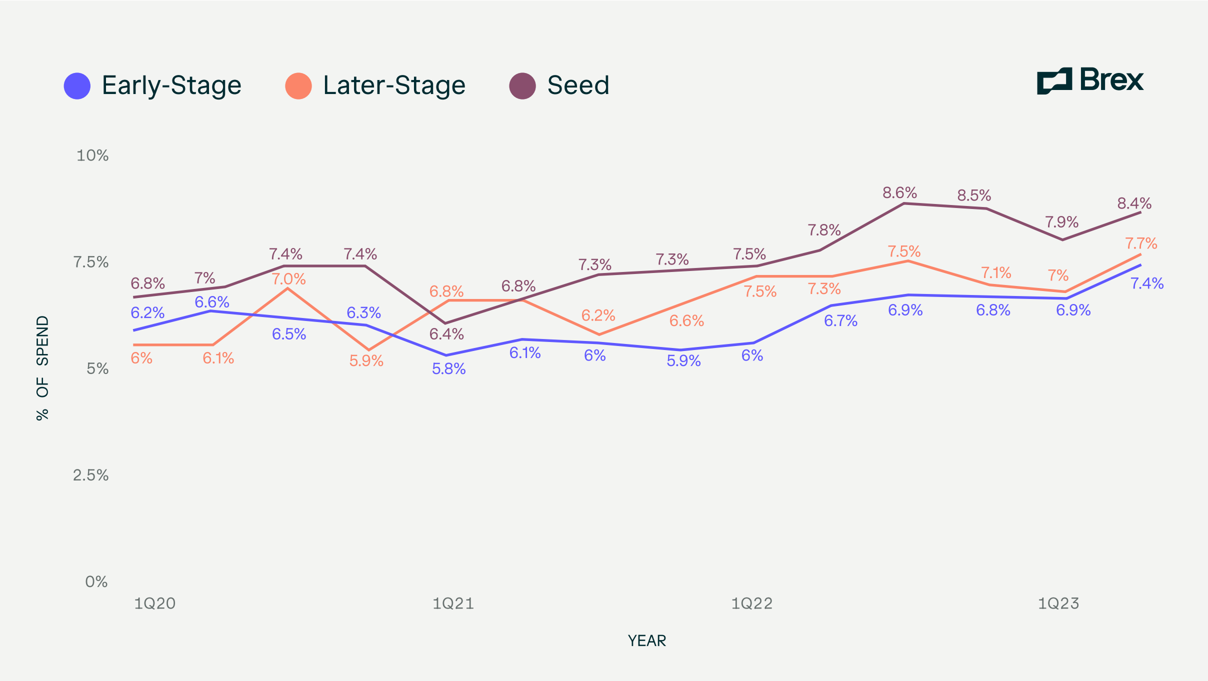

Source: Brex

Another indication that startups are cutting and / or redirecting their spend is a decrease in fixed expenses, or expenses that are recurring (e.g., business software). We saw these types of transactions spike during the pandemic, as many startups shifted to recurring software / servers that enabled remote work (e.g., Zoom, Slack, etc.). Along with cost-cutting, the current trend could be a sign of consolidation. Nonetheless, these fixed expenses are still higher today than they were prior to the pandemic, indicating a fundamental shift in how startups conduct business (i.e., hybrid or remote-first).

Also of note is the fact that seed-stage startups have historically spent a larger portion of their budget on recurring expenses than later-stage businesses. We speculate this trend may indicate more enthusiasm for hybrid or remote work arrangements among seed-stage businesses, as well as a greater willingness to experiment with different business softwares.

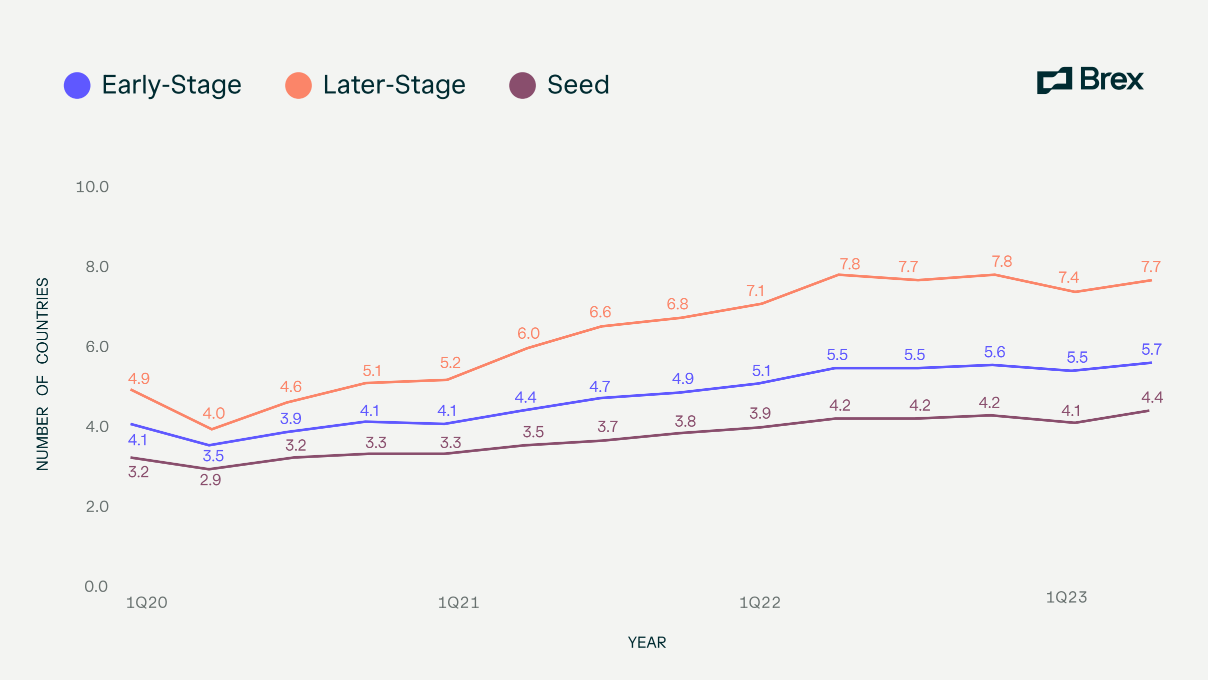
# The Tech Ecosystem is Increasingly Global

## Average % of Spend Outside U.S.




Source: Brex

## Average Number of Countries Transacted in per Quarter



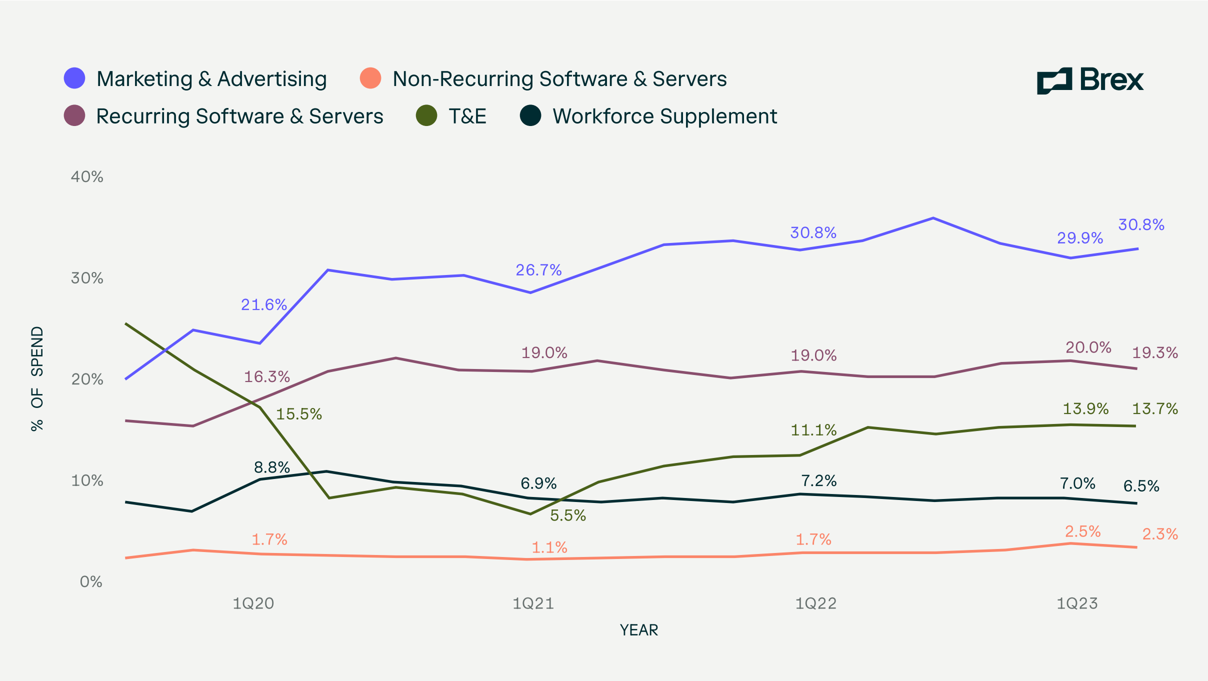

Source: Brex

As the global economy becomes more interconnected, it's apparent that an increasing number of U.S. startups are conducting business outside the country. While the amount startups are spending outside the U.S has increased modestly over the past 3 years, the average number of countries in which startups are conducting business has increased significantly across all stages, signaling that the tech ecosystem is increasingly global.

Overall, seed-stage startups have grown from transacting in 3.2 countries per quarter in 2020 to **4.4 countries** in 2023. Early-stage startups have grown from 4.1 countries per quarter to **5.7 countries**, and later-stage startups have grown from 4.9 countries per quarter to nearly **8 countries**.

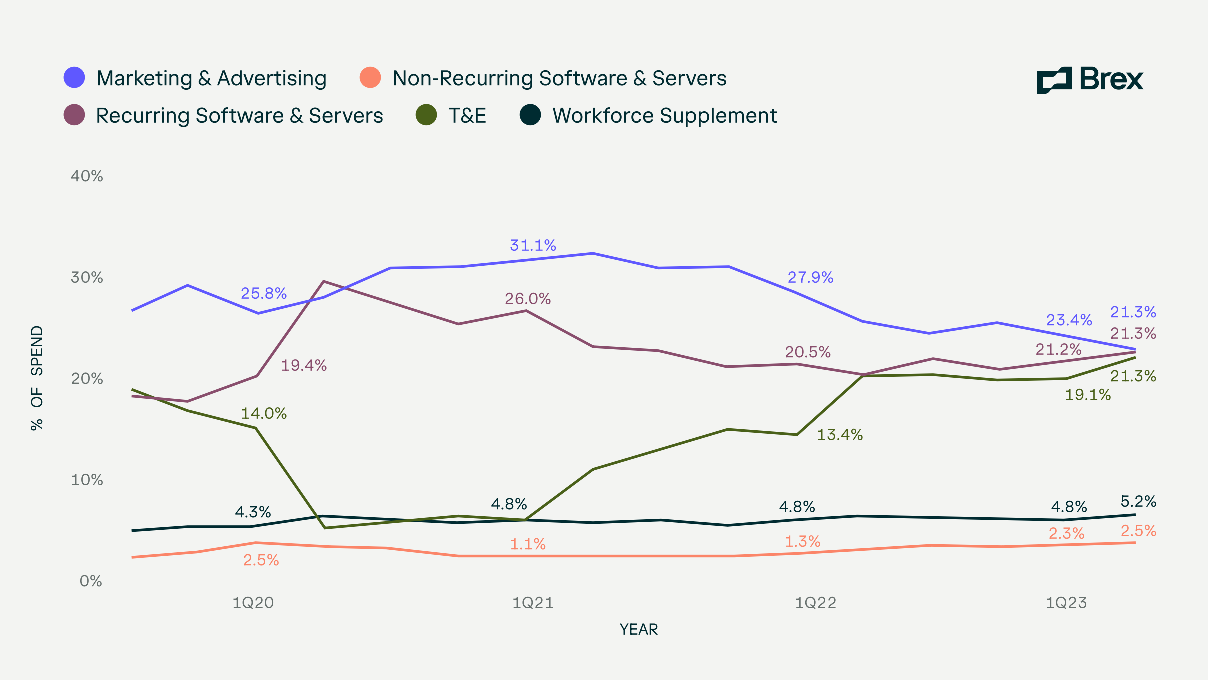
# Spend by Expense Category

## Seed Spend by Merchant Category




Source: Brex

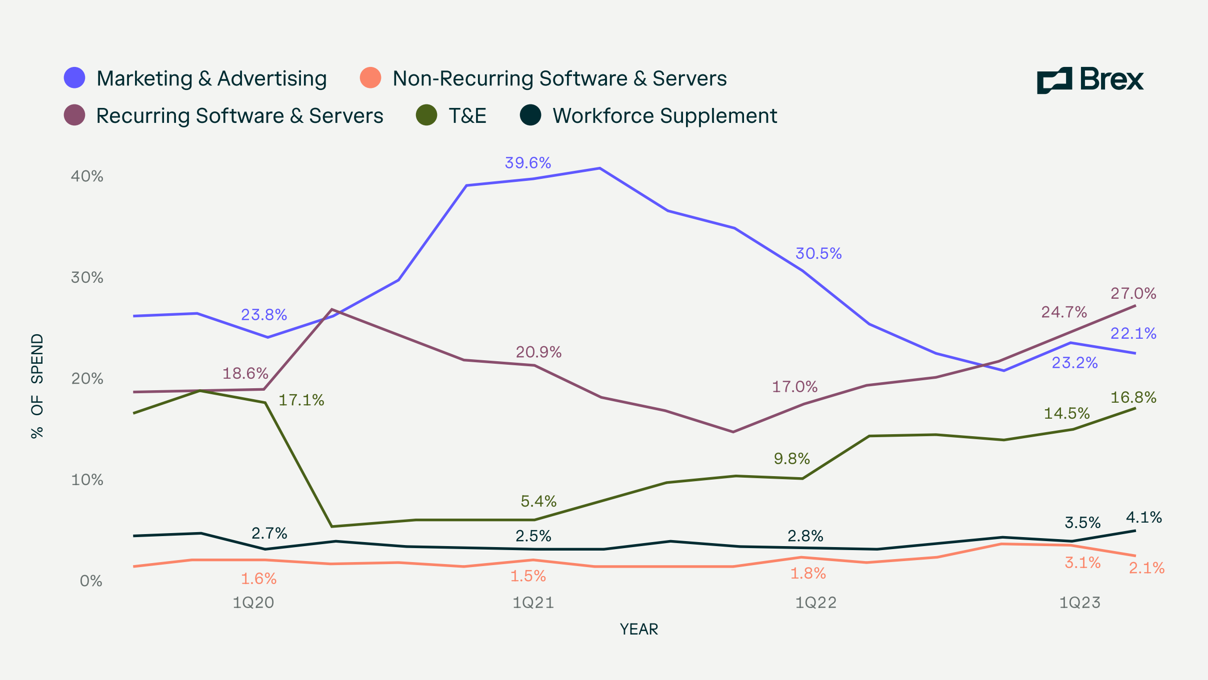
## Early-Stage Spend by Merchant Category




Source: Brex

YEAR

## Later-Stage Spend by Merchant Category




Source: Brex

When Brex analyzed startup spending activity by category, a few interesting trends emerged:

- **Marketing and advertising spend**—typically one of the largest expense categories for startups—has been in decline for over 2 years for both early and later-stage startups. This decline is particularly pronounced for later-stage businesses. While it's fair to speculate on this decline as a cost-cutting measure, it's worth noting that seed-stage startup marketing and ad spend has remained consistent over the same period. Our hypothesis is that when a startup is launching, they spend more to get their name out into the world, so promotional spend at this stage remains important. By merchant, startups across all stages tend to allocate the largest portion of their marketing budgets to Google and then Facebook. Additionally, over the past year, there's been a notable increase in TikTok marketing spend for early and later-stage businesses.

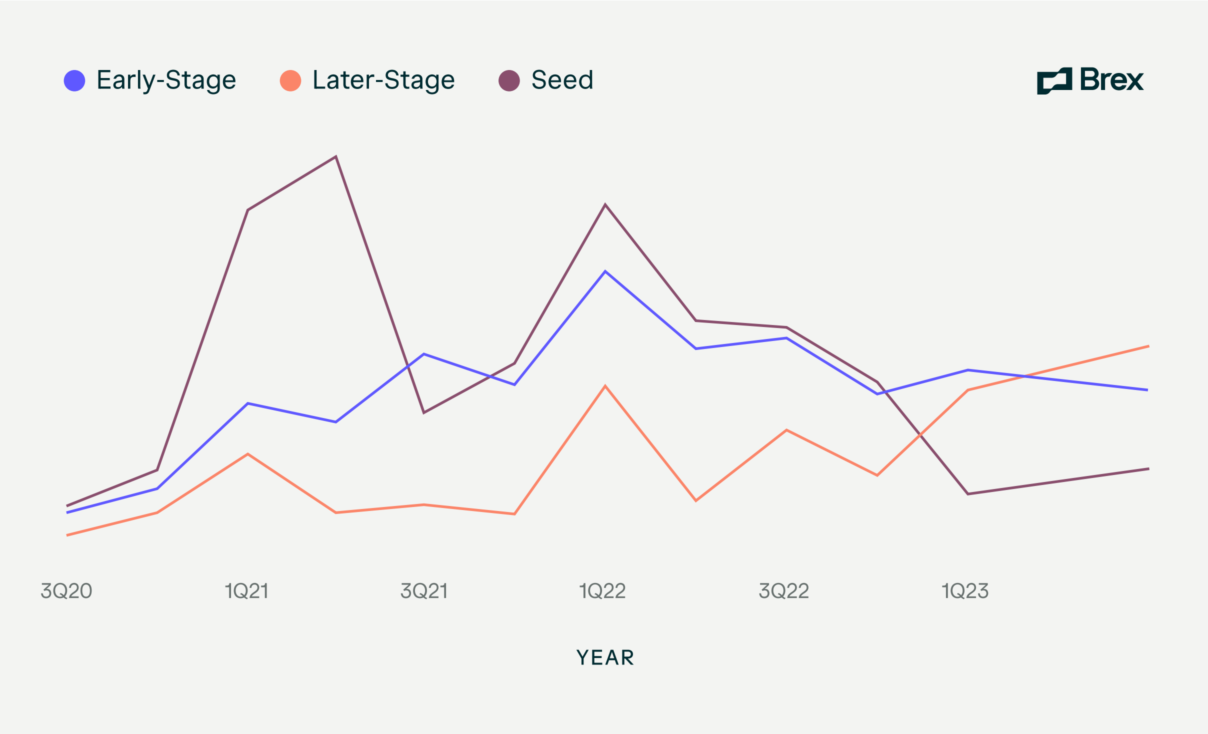
- **Travel and entertainment (T&E)** spend has rebounded after a sharp decline during the pandemic. The current levels are more in line with what was observed prior to the pandemic, possibly indicative of the fact that most COVID-related travel restrictions have been lifted, and employees feel more comfortable traveling for work. For seed-stage startups, the largest portion of T&E spend goes towards Uber. Meanwhile, early and later-stage startups spend the most on airlines (United, Delta, American).

- As previously mentioned, most startups saw a spike in **recurring software and server spend** during the pandemic as businesses shifted to remote work. For seed-stage and early-stage startups, the spend allocated to recurring software and servers has since declined or remained flat. However, later-stage startups appear to be allocating an increasingly larger portion of spend towards recurring software and servers—so much so that it's now the top expense category for these types of businesses, supplanting marketing and ad spend. While the volume of transactions to recurring software and server vendors is declining amongst later-stage startups (as evidenced by the Percentage of Transactions Recurring chart), the share of spend is increasing, indicating a possible reduction in the number of vendors later-stage startups are spending with as well as a reduction in other costs (i.e., marketing and ad spend). For startups at all stages, the largest portion of recurring software and server spend went to Amazon Web Services, followed by Google Cloud & Suite. Additionally, over the last year all startups in our dataset have reduced their spend on remote collaboration tools like Zoom and Slack.

# AI Spend Spotlight

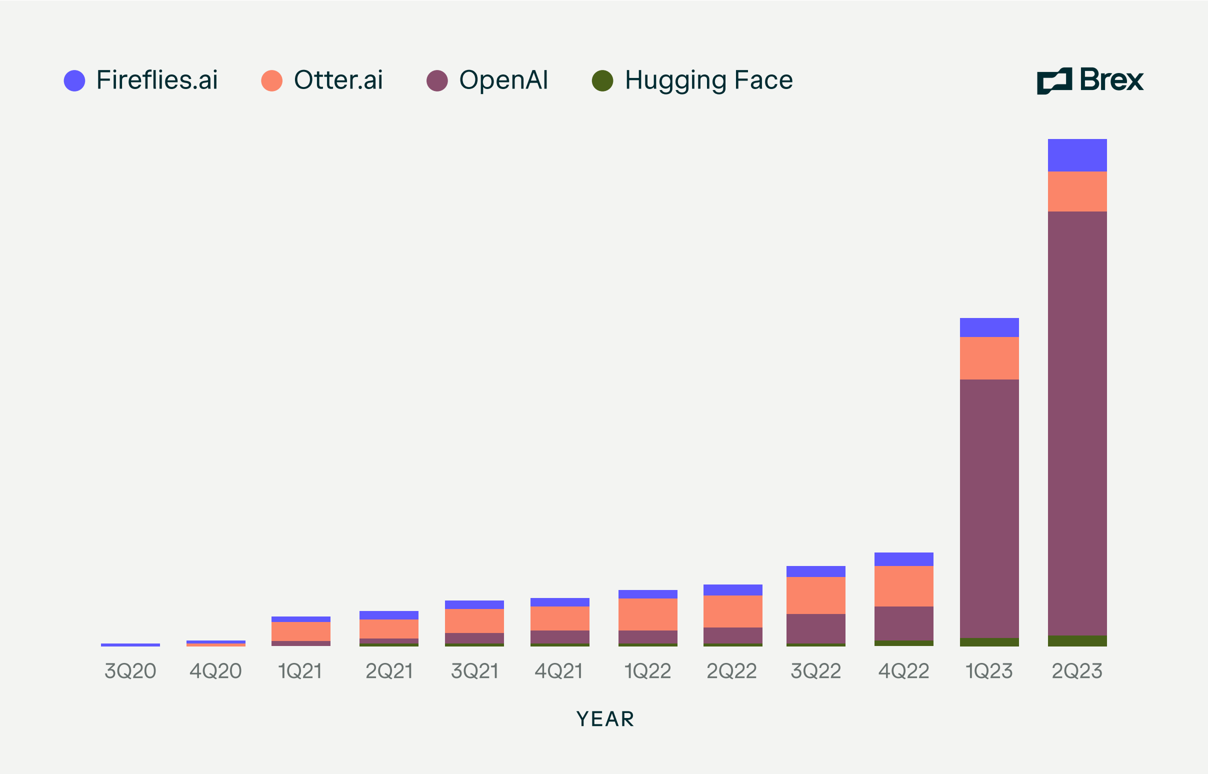
Note: Merchants include Otter.ai, OpenAI, Hugging Face, and Fireflies.ai. These vendors do not represent the entire AI tool universe. However, based on spend levels, they're representative of directional trending.

## Average Quarterly Spend on AI Tools




Source: Brex

## No. of Customers Spending on Select AI Merchants



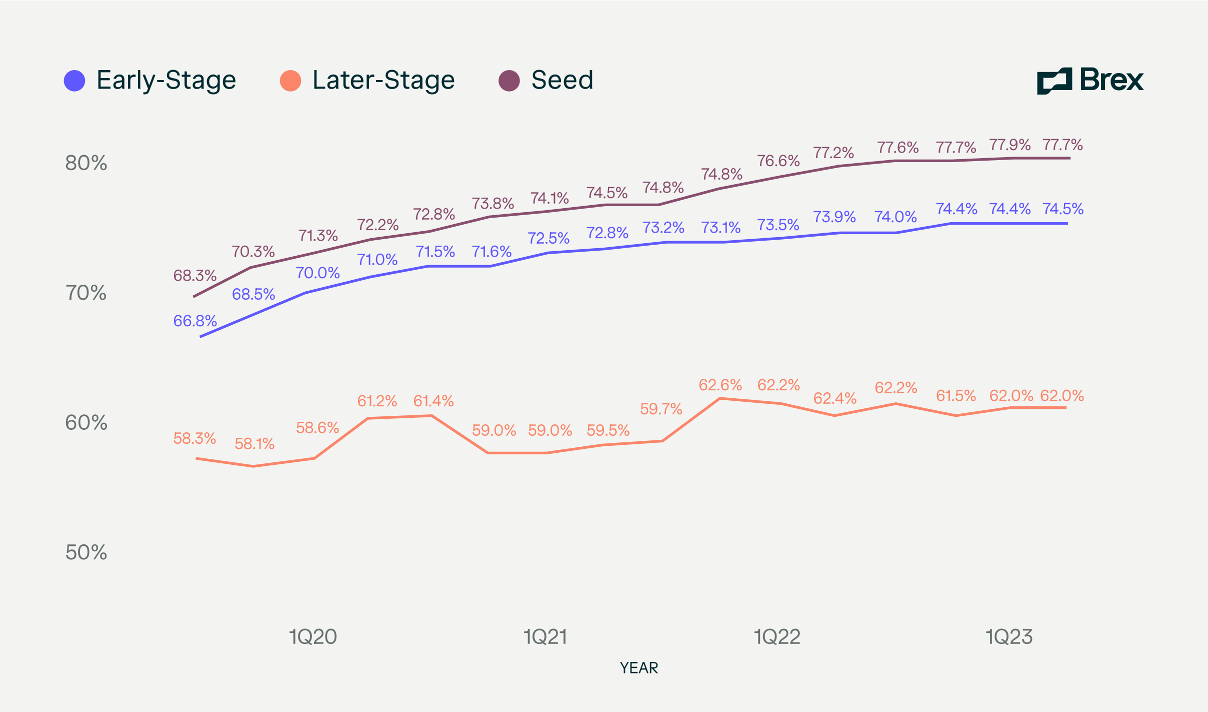

Source: Brex

Given the explosion of popularity in AI technologies, we thought it might be interesting to examine how startups today are allocating spend on AI. Generally, Brex has observed a rise in AI spend over time across all startup stages, with a dip in 4Q22 likely attributable to the launch of the free version of ChatGPT (vs. a dip in usage of AI tools).

Since the start of 2023, AI spend has been trending upward once again. The launch of ChatGPT's subscription product has led to a sharp spike in customers. However, the low cost of the ChatGPT subscription product has meant startups haven't had to greatly expand their budgets to utilize the emergent technology.

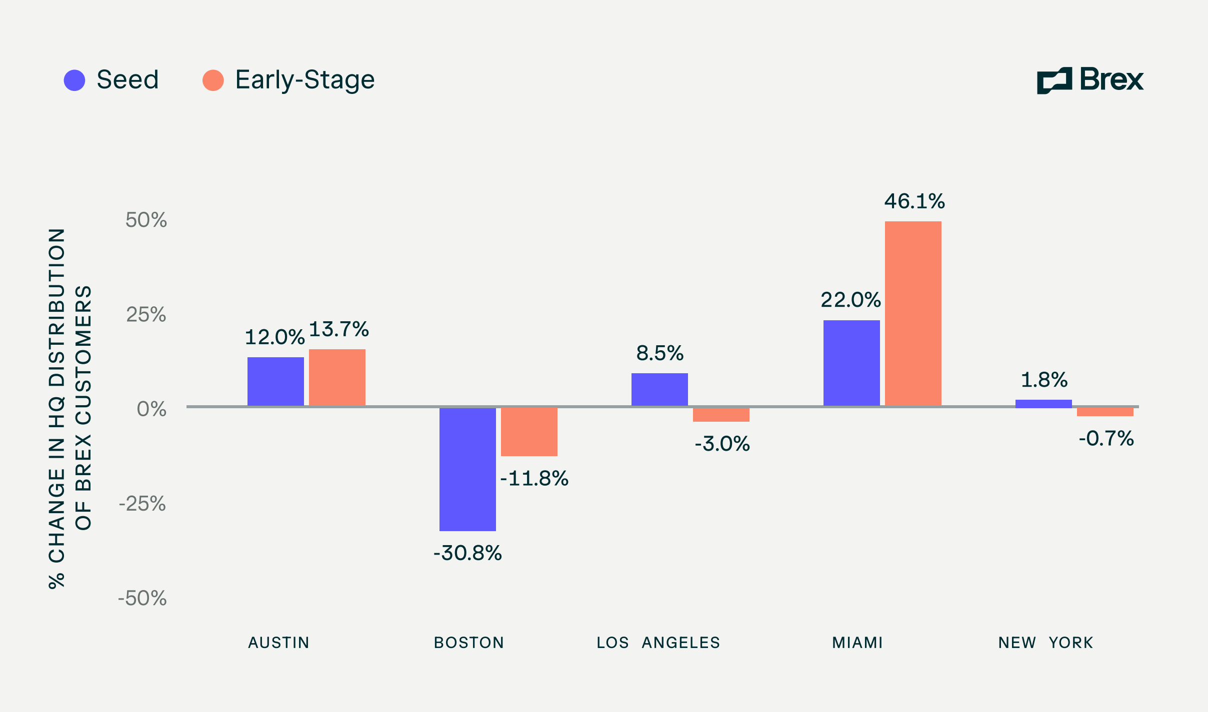
# Startups by Locale

## Percentage of Companies Headquartered Outside of Silicon Valley




Source: Brex

## Percent Change in HQ Location - 2Q20 vs. 2Q23




Source: Brex

The trend of startups launching outside the Bay Area is clearly evident in the data—but has somewhat abated in the wake of the pandemic. Even still, the tech ecosystem is more distributed today than it was in 2020. In terms of locales that have benefitted from this distribution, Austin and Miami have seen the largest increase of new startups, while Boston has experienced something of an exodus of early-stage tech companies.

# Summary of Findings

- 2Q23 was the worst quarter ever for startup dealmaking, as activity rate dropped to a historical low and positive activity rate dropped to a near-historical low.
- While average valuations data was mixed, median valuation data suggests startups are continuing to lower their valuations, likely to attract investment.
- AI / ML surged ahead as the most popular investment sector on AngelList in 2Q23, with VCs showing waning interest in other technology sectors.
- Continued inactivity in the fundraising market has most startups practicing financial discipline to extend runway.
- When reducing spend, startups appear to be focusing on their marketing and advertising spend, as well as spend on recurring softwares, particularly those that enable remote work.
- Overall spend analysis continues to validate long-term trends: the rise of AI, the increasing geographic distribution of startups, and the globalization of business.

Early-stage venture appears to be in the midst of a challenging transition, as startups that excelled from a fundraising standpoint during the 2021-22 bull market struggle to adapt to the current macroeconomic environment.

If there's a silver lining, it's that the declines in median valuations suggest we may have found a "bottom" of the market, and that early-stage venture may be poised for a rebound in the coming months. It's worth noting that venture performance was a bit stronger at the end of June than it was at the end of 1Q23.

Like all financial markets, everything in venture is cyclical. We believe what goes down, comes back up again at some point. Further, being at the market bottom may also present opportunities. For founders, it's a chance to get smarter about spend and identify the real revenue drivers of the business. For investors, it's the opportunity to invest while prices are low, and potentially ride the wave of a resurgent market.

# About AngelList

AngelList creates products and services for venture firms, private equity firms, investors, startups, and fund managers to accelerate innovation. As of this writing, we support nearly $15B in assets under management. Our data and access gives us a nearly unrivaled view into early-stage venture activity. That means we can report with more accuracy on market-wide trends within the startup ecosystem.

# About Brex

Brex is the first fully unified global spend platform—with corporate cards, expense management, reimbursements, bill pay, and travel, all in one place. Brex makes it easy for finance teams and founders to manage every aspect of global spend at scale by empowering their employees anywhere to make better financial decisions. Brex proudly serves tens of thousands of businesses, from enterprises to startups.

# About the Authors

Abe Othman is the Head of Data Science at AngelList, where he leads a small team creating the new field of quantitative venture capital. He has founded two machine-learning companies with successful exits and invested in more than a dozen seed-stage companies. He received his A.B. from Harvard in Applied Math and a Ph.D. in Computer Science from Carnegie Mellon.

ABE OTHMAN

Matthew Speiser writes about technology and investing for venture capital firms and startups, including AngelList, Hustle Fund, Mercury Bank, and others. He has a BS in Journalism from the University of Delaware. To learn more about Matthew's work, visit his website.

MATTHEW SPEISER

Tova Simonson is a Data Scientist at Brex, supporting the 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.

TOVA SIMONSON

# Legal Disclaimers

All data referenced in this material is current as of 7/1/23, unless otherwise mentioned. Data includes information that may be reported to AngelList by various third-parties. While we have no reason to doubt the authenticity of the data, we may not undertake any additional steps to verify its accuracy. Charts and graphs provided within are for informational purposes solely and should not be relied upon when making any investment decision. Past performance is not indicative of future results. The content speaks only as of the date indicated. We undertake no obligations to update them in the future.

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This report does not constitute an offer to sell or a solicitation of an offer to buy an interest in the partnership. Any offer to sell or solicitation of an offer to buy an interest in the partnership may be made only by way of the partnership's final definitive confidential disclosure document. All examples of past investments or funding rounds included in this presentation are purely for illustrative purposes.

Investing in venture capital funds is inherently risky and illiquid. It involves a high degree of risk and is suitable only for sophisticated and qualified investors.

# AngelList Methodology

An AngelList "deal" is an investment made by a Traditional or Rolling Fund, Syndicate (SPV), or Roll Up Vehicle hosted on the AngelList platform. We define “early stage” deals as deals that occur at Series A or prior. We include all deals signed in the relevant quarter, indicating a legal commitment to invest. We make no guarantee that these deals were finalized in the quarter, or ever. All deals are labeled by round and sector according to the best judgment of the deal lead, with potential oversight from the AngelList investment operations team.

Since we generally only update valuations at priced rounds, at any given three-month stretch, perhaps only 10% of companies will show a change in value. As AngelList skews towards earlier investments, we estimate that about three-quarters of the companies we track are at the seed or Series A stage.

This data represents deals signed by GPs on AngelList between 4/1/23 and 6/30/23.

## Markups

The “markups” charts represent what has happened to every active, “seasoned” company (“seasoned” meaning that we track an investment in the company that is at least 180 days old) over a trailing three-month window.

A seasoned startup is considered "marked up (down)" if the most recent deal tracked by AngelList into that startup increased (decreased) in value. Rates are all expressed relative to the number of startups with seasoned investments at the start of the quarter (14,755). While efforts are taken to track valuation updates and exits in a timely manner, readers should expect small changes to historical values on the plots, reflecting valuation changes or exits that occurred during the quarter but were not registered on the platform by the end of the quarter.

In both the “markups” and “activity” charts, time goes left to right, so the most recent activity is closest to the right-hand side of the plot. The top plot is a split between good events (Markups and Exit Ups), which are in shades of yellow and are on the positive side of the top plot, and bad events (Markdowns and Exit Downs), which are in shades of purple and are on the negative side of the top plot.

The dotted line in the top chart is the median outcome—when it’s positive, the typical startup event that we observed was positive. The bottom plot tracks activity rates overall and exit rates specifically.

## Rate of Activity

Only active (not exited) startups that we have a seasoned investment into (an investment at least 180 days old at the start of the three-month period) are considered. Since we detect activity by changes in the latest price-per-share, in some cases if a startup does a "flat" round that does not change the price per share, we may not detect that activity.

## Valuations

Based on summary statistics from the pre-money USD valuations of all the rounds within the interval.

Valuations are generally marked to a company's latest priced financing round, as disclosed to AngelList. While AngelList's valuation sources are believed to be reliable, AngelList does not undertake to verify the accuracy of such valuations. Companies that have not received new investments in a priced round since the last mark are held at cost or may be marked down at AngelList's discretion according to its valuation policy.

Valuations and returns do not account for liquidation preferences and other non-financial terms that may affect returns. Investments in later-stage companies may be sent to a third-party for valuation if (i) the company's estimated value is over $100 million, (ii) the investment is estimated to be worth over $10 million and (iii) 24 months have passed since the last investment. Valuations presented herein are calculated as of the date disclosed and have not been audited by a third-party. Contact us for full details on our valuation methodologies.

## Market Sector

Deal share by market sector was calculated by adding up the total deal count for each deal that was part of a Syndicate or Traditional Fund and was assigned a specific market sector tag at deal close. This number was then expressed as a percentage of overall deal count in 2Q23.

Share of capital deployed by market sector was calculated by adding up the total capital deployed for all deals that were part of a Syndicate or Traditional Fund and was assigned a specific market sector tag at deal close. This number was then expressed as a percentage of the total capital deployed across all sectors in 2Q23.

## Funding to Female Founders

Deal share of female founders was determined by adding up all syndicated deals to startups with a female member of the founding team (as reported by the investor and verified by AngelList). This number was then expressed as a percentage of overall deal count for 2Q23.

Share of capital deployed to female founders was determined by adding up the total syndicated capital deployed to startups with a female member of the founding team (as reported by the investor and verified by AngelList). This number was then expressed as a percentage of the total capital deployed on AngelList for 2Q23.

### Deals by Instrument

Deals by instrument were determined by adding up all deals completed in 2Q23 that were assigned a specific instrument tag at deal close. This number was then expressed as a percentage of overall deal count in 2Q23. Preferred investment instrument by round name was determined by adding up all deals assigned to a specific round in 2Q23 and assigned to a specific deal instrument tag at deal close. This number was then expressed as a percentage of the overall number of deals in that named round in 2Q23.

### Deals by Round Name

Deals by round name was determined by adding up the total number of deals that were assigned to a specific round for 2Q22, 3Q22, 4Q22, 1Q22, and 2Q23 at deal close. This number was then expressed as a percentage of the overall deal count that took place within the measured time period.

## Brex Methodology

All analysis that uses Brex internal customer data is anonymized and aggregated for privacy. The Brex customers that we analyze all use Brex Card, have been active customers for at least 90 days, were active during the quarter that their data is used, and have funding round information available via Pitchbook, Owler, or Crunchbase in order to identify them as a Startup.

### 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.

### Data Definitions

**Average quarterly spend by company stage**
Spend is summed per customer on a quarterly basis and then taken to average across each stage.

**Percentage of transactions recurring**
Calculates the # of transactions that are set to recur out of total # of transactions occurring each quarter.

**Average % of spend outside of the U.S.**
Calculates 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.

**Average number of countries transacted in per quarter**
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.

**Share of spend by merchant category & startup stage**
This analysis sums up all spend in each merchant category, quarter, and startup stage. It then calculates what percentage of spend each merchant category is for that quarter and startup stage. These merchant categories are the largest categories of spend; there is an “other” category that is not shown in the charts and is responsible for the rest of the spend.

**Average quarterly spend on AI Tools**
This is calculated by adding up the total amount of money each customer spends on AI tool merchants (identified as OpenAI, Fireflies.ai, Notion, and Otter.ai) each quarter. This sum is then averaged for customers across each funding round and quarter.

**# of customers spending on each AI merchant over time**
This is calculated by counting the unique number of customers who had a transaction with an AI tool merchant (identified as OpenAI, Fireflies.ai, Notion, ChatGPT, & Otter.ai) each quarter.

**% of Companies Headquartered outside of Silicon Valley**
Calculates the percentage of Brex’s active customer base located outside Silicon Valley at each quarter from 2020 to 2023. Location based on company address.

**% Change in HQ location - 2Q20 VS. 2Q23**
Analysis looks at the percentage of companies with HQ in that city in 2Q20 and 2Q23 and calculates the percent change. This represents the change in distribution of headquarters.