Keep your eye on the dollar

Take FX fluctuations into account when considering your business plans

For years, the US-based innovation sector has benefited from a strong dollar – with most start-ups being net sellers of the US dollar (USD). Then COVID-19 hit.

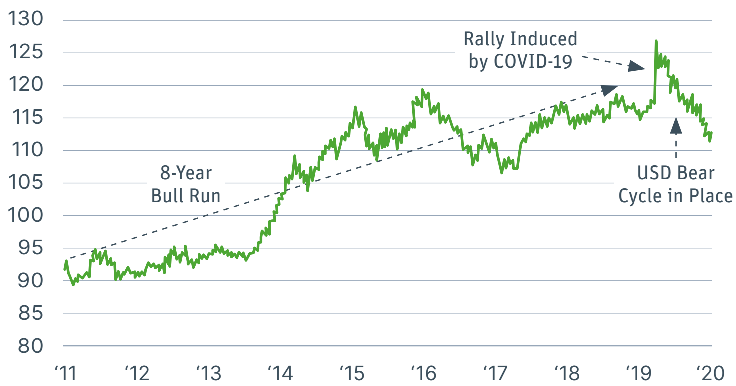
In line with previous episodes of financial distress, the USD defied expectations and went even higher, thanks to fear-driven USD buying.

However, as policy-makers responded with trillions of dollars of fiscal and monetary stimulus, demand softened and the USD began to weaken.

> With continued record low interest rates and an increasing account deficit, COVID-19 created a landscape for a further weakening of the USD.

How could fluctuations affect your business?

USD vs. Trade-Weighted Currencies

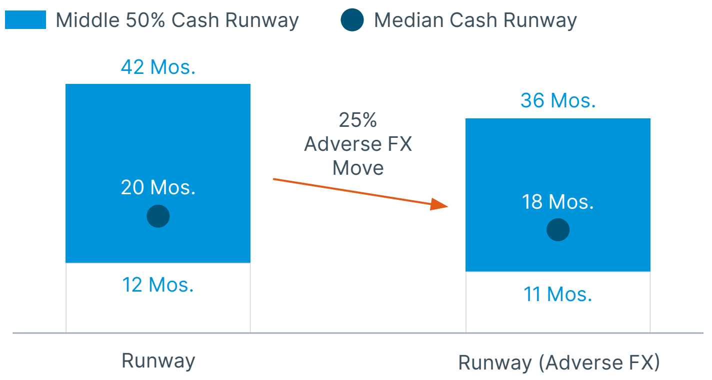


When thinking about currency impact for 2021 and beyond, it's worth asking, how will another double-digit rise in foreign currencies impact financial planning and analysis[1] and business performance metrics?

SVB's proprietary data shows that adverse FX moves can have a material negative impact on financial metrics. It can lower a company's cash runway for several months, while having a multiplier effect on the Rule of 40 valuation metric, with one unit of adverse FX move translating into more than one unit of Rule of 40 loss.

Currencies tend to mean-revert but they may not do so on a startup's timetable, so waiting for a pullback can be costly.

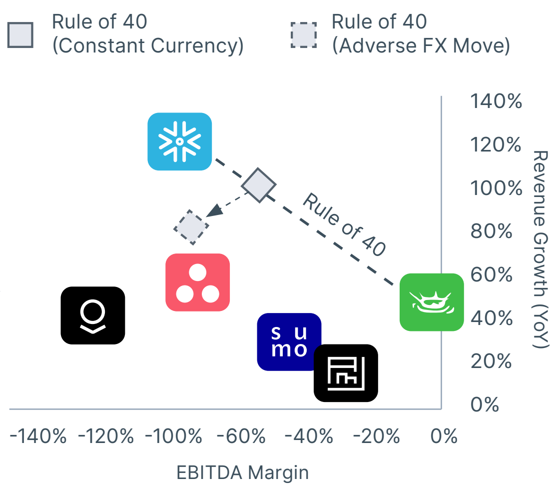
FX Effects on Cash Runway[2]



FX Effects on Valuation[3]

Assumptions		
Income Statement Item	**Amount**	**Metric**
Revenues (Year Prior)	$50,000,000	Revenue Growth: 100%
Revenues (Current)	$100,000,000	
Cost of Sales	$20,000,000	Operating Margin: -60%
Gross Profit	$80,000,000	
Operating Expenses	$140,000,000	Rule of 40 Metric: 40%
EBITDA	-$60,000,000	

% Non-USD Revenues	50%
Adverse FX Move	-20%
% Non-USD Costs	25%
Adverse FX Move	-10%



Notes:

1 Financial Planning & Analysis.
2 Defined as loss making SVB tech clients with negative EBITDA that are net sellers of the USD (>$1M) in 2020.
3 Illustrative purposes only, logos represent 2020 US VC-backed SaaS IPOs. Source: Federal Reserve, Bloomberg, PitchBook, S&P Cap IQ, SVB Proprietary Data and SVB Analysis.

Explanatory notes/glossary:

Bull run – a period of time when prices in financial markets are rising or expected to rise, typically during a period of economic strength.

Bear cycle – a period of time when prices in financial markets are declining, often during a period of general economic downturn.

Rally – a period of sustained increase in the prices of stocks. Rallies can be longer term, often induced by events or changes in government tax or fiscal policy, regulations or interest rates. Or they can be shorter term, resulting from news stories or events with shorter term consequences.

Cash runway – the length of time a business will be able to operate at a loss before running out of money. It's calculated based on the amount being burned through in each month versus how much is in the bank. A business with £100,000 in the bank, which is burning through £10,000 per month would have a cash runway of 10 months.

Rule of 40 – commonly used by investors and buyers to measure how well a business is performing. The rule states that a business' growth rate plus profitability margin should be 40% or more.

EBITDA – a measure of a business' overall financial performance based on earnings before interest, taxes, depreciation and amortisation.

Fiscal and monetary stimulus – tools used by governments to manage or stimulate their economy. Fiscal policy relates to taxation and government spending and is usually affected by government legislation. Monetary stimulus involves the management of interest rates and the total supply of money in circulation and is usually managed by a central bank, such as the Bank of England or Federal Reserve.