

How Two Stanford Dropouts Built a \$2.6 Billion Company In Just Two Years

What you can learn from the initial stumbles and eventual success of Pedro Franceschi and Henrique Dubugras.

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While most elementary school students spend hours playing in the park with friends, Brazilian wunderkinds Pedro Franceschi and Henrique Dubugras had a different pastime: coding. Pedro was the first to jailbreak the iPhone 3G and the first to build software to make Apple's Siri virtual assistant speak in Portuguese, while Henrique was just 12 years old when he started coding and programming video games for himself.

The two met on Twitter, which was the beginning of a successful working relationship spanning multiple ventures. When they were just 16 years old, they started Pagar.me, Brazil's first developer-friendly payments processor, raised \$30 million for it and employed a staff of over 100 before selling the company and starting college at Stanford University. After eight short months at Stanford, they dropped out and started Brex, a startup that issues corporate cards to tech startups. In just two-and-a-half years, Pedro and Henrique grew Brex into a unicorn, as the company's latest fundraising round values the company at a whopping \$2.6 billion.

In an exclusive interview for *Entrepreneur*, I chatted with

Pedro and Henrique about their childhoods, their time at Stanford and how they honed their business acumen over time. Their experiences yielded five practical principles that helped them build a multi-billion-dollar company.

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1. They started early.

Though starting to code early helped the co-founders from a technical perspective, getting involved in the business world before they even began their teens also paid huge dividends. Pedro told me that “curiosity and entrepreneurial spirits” compelled him and Henrique to “learn the ins and outs of the business world in Brazil in our teenage years.”

At this point, they didn’t know much. Pedro told me that when he and Henrique raised the first round for Pagar.me, “We didn’t know how to think through valuation, or what was a ‘fair’ deal.” To put it simply, the young co-founders knew how to code, but they lacked business savvy.

But that was okay ☐– they were figuring stuff out as they encountered problems with monetization, scaling, and more. Little did they know at the time, the learning experience building Pagar.me would be invaluable and highly relevant to their next venture. Pedro told me: “We learned how critical it was to build systems from scratch to be able to modify important product features like underwriting, payment terms, and rewards without being hampered by legacy systems.”

Fundamentally, starting early allowed the co-founders to gain experience far beyond their years, to hop the learning curve immensely when they started Brex. But even with this experience, the odds were stacked against the young founders – college simply took up way too much of their time.

2. They took a risk and went all-in.

In just eight months at Stanford, Henrique says that the two “met great life-long friends and learned from outstanding professors.” But there was something off about college. Henrique told me that living out of a dorm room and attending classes made him realize that he missed the independence and entrepreneurial environment he had in Brazil.

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The co-founders loved school – they credit Stanford with its awesome academics and talented people, some of whom became early employees and investors at Brex. But the time commitment that came with attending Stanford was too much. In Henrique’s words, “We knew we were building something special that would require our full time and attention.” He added: “To build something great, once you have conviction, you really need to go all-in.”

Juggling school with Brex was the antithesis of going all-in. So Pedro and Henrique dropped out of Stanford despite the company still being very early-stage and having practically no traction. To say that was a risk would be a huge understatement.

3. They were flexible and pivoted quickly.

But before Brex was a fintech company specializing in corporate cards for startups (and before Pedro and Henrique dropped out), the co-founders thought that the payment woes they experienced in Brazil were already solved in the United States. Hence, they entered YCombinator thinking they would build a virtual reality startup. But just three weeks in, the

co-founders quickly realized “we didn’t know anything about the market at all and needed to pivot,” as Henrique told me.

Despite betting on the wrong company initially, Pedro and Henrique’s first weeks at YC weren’t a waste. When the co-founders saw that none of the YC startups in the winter 2017 batch could get a corporate card, they realized that the payments space in the United States needed to be shaken up too.

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That problem motivated Brex. And importantly, the co-founders learned the importance of flexibility first-hand. Henrique told me: “Nothing ever goes exactly as you envision it; staying flexible can help you adapt when these kinds of surprises arise.” Had they stayed with the VR startup idea for longer, it would have been impossible for them to reach the kind of growth Brex did.

4. They built a strong industry-specific network.

With payments experience, a vision, and a \$120,000 seed investment from YC, the co-founders knew they were on the right track but they had yet to gain industry validation. What they really needed to do was get in touch with Peter Thiel and Max Levchin, two of the co-founders behind PayPal.

When they did, “it was a huge turning point for Brex,” Henrique told me. “We already believed in our idea and knew there was a market for our product, but having the backing and support from two widely known industry executives was when we realized how big this company could be.”

The validation Brex received from the “PayPal Mafia” helped the company raise its \$50 million Series B, which included

participation from both Thiel and Levchin, Ribbit Capital, a fintech-focused venture firm, and a former Visa CEO. Altogether, establishing a strong industry-specific network ending up making all the difference for Pedro and Henrique, both in fundraising and growth.

5. They justified being highly capitalized.

With domain expertise and some of fintech's best onboard with Brex's mission, Pedro and Henrique needed to do one more thing to make its high-limit corporate card a reality: a lot of money. For many young entrepreneurs, fundraising is a huge pain-point. For Pedro and Henrique, it was no exception, but business fundamentals were on their side: in order to finance their growing payments operation, Brex needed to be highly capitalized. Fintech investors knew this.

Besides, Brex had the growth metrics to prove its concept too. Between its Series C in October 2018 and Series C-2 in June 2019, the company had increased monthly revenue sixfold, Bloomberg reported. Its rapid growth coupled with venture funding paved the way for debt financing too. Just three months ago, Brex raised \$100 million in debt from Barclays.

Altogether, because Brex's revenue continues to grow, coupled with the importance of fintechs being well-capitalized with strong balance sheets, fundraising became second nature. Investors from earlier rounds were pleased by Brex's valuation multiplier, and Brex's revenue allowed it to raise large amounts of debt from banks to further sustain its growth. Because Pedro and Henrique could justify Brex being highly capitalized, the cash in the bank just continued to grow.

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