Revenued

Q3 2024

Revenued SMB Health Index Quarterly Update:

Slow and Steady Growth for Many

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The Revenued SMB Health Index Q3 2024 Update

Using real-time banking data to understand the financial pulse of SMBs

According to the U.S. Small Business Administration (SBA), 99.9% of U.S. businesses are small businesses, and they employ nearly half of all private sector employees.

When SMBs thrive, it often signals economic growth, increased employment, and consumer confidence. Conversely, financial struggles can be an early warning sign of economic downturns. SMBs also often react more quickly to economic shifts than larger companies.

However, businesses with under $1 million in annual revenue are often underrepresented in economic data and reporting. When they're included, the data is often months—or years—old.

The Revenued SMB Health Index is different. Revenued uses an explainable machine-learning credit model to help more small businesses qualify for financing with favorable terms, and we rely on real-time banking data to help power decisions.

We realized we could use anonymized real-time data to serve as a unique pulse check on SMBs. To do this, we aggregated data from over 20,000 American small businesses and looked for trends in five top sectors: construction, home improvement, professional services, restaurants, and transportation.

We then analyze monthly averages in specific areas and assign each a weight to create the Revenued SMB Health Index.

- Average Monthly Deposits (75%)
- Average Daily Bank Balances (20%)
- Average Amount of Outside Funding (15%)
- Average Number of Insufficient Funds (NSF) Transactions (-10%)

Our access to data increases as more businesses partner with Revenued, which can lead to changes in the historical data and trends we spot. But the resulting Revenued SMB Health Index still provides an insightful snapshot of how small businesses are doing relative to a year ago—and how they've fared in the interim.

In this report, we take a closer look at each of the four measures, examine how they've changed over the last year, and hypothesize what might be causing the changes.

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Background: What Is the Revenued SMB Health Index?

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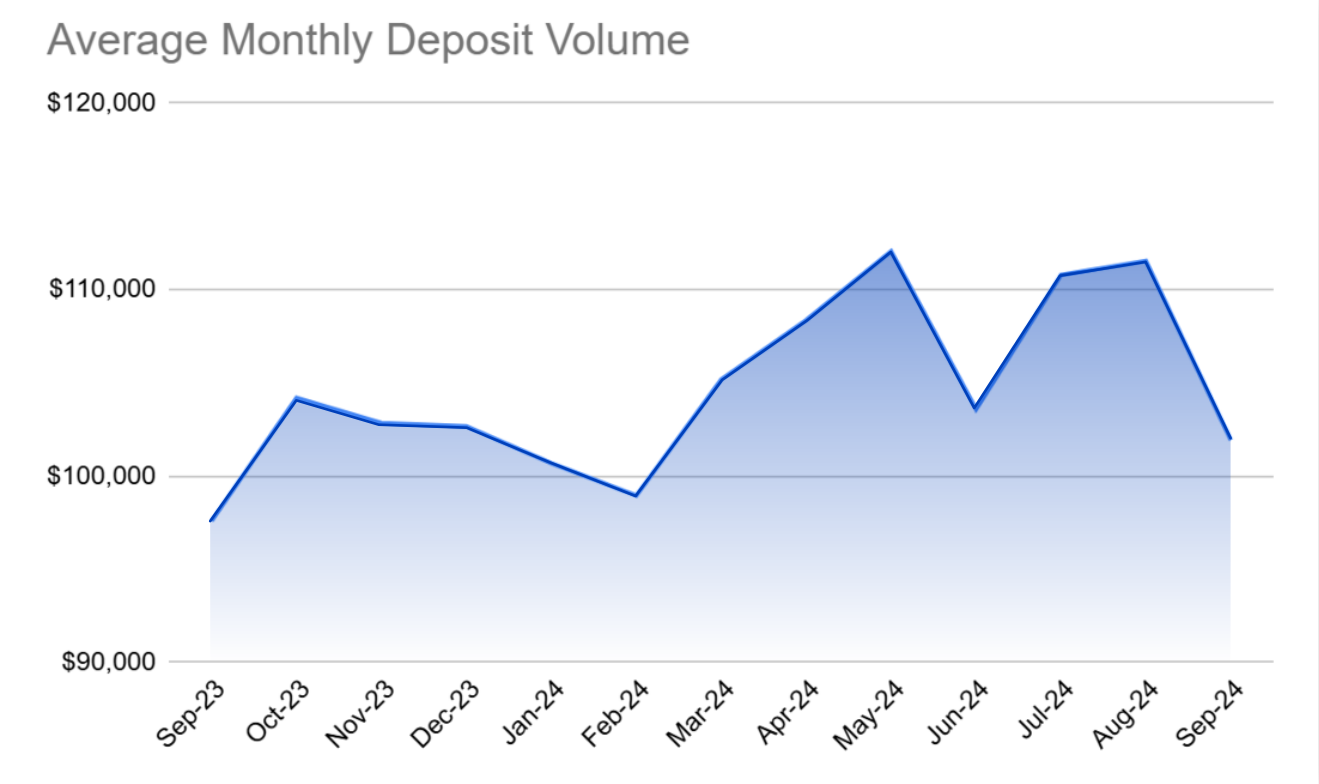
Average Monthly Deposits: A Window into Revenue

We use average monthly deposits and subtract inflows that we can tie to funding sources to create a proxy for revenue. We consider this a primary indicator of a small business's health, which is why it has the highest weighting (75%) on the Revenued SMB Health Index.



Average monthly deposits dipped in February, June, and September of 2024, but they've trended up overall during the last 13 months. Revenued's underwriters see the long-term increase in revenue as a positive sign, and they noted general growth in businesses that depend on consumer discretionary spending.

If we narrow in on the industries, we see that construction and transportation companies may be struggling. They both had a 12% decline in deposit volume from August to September 2024—and 6% and 5% declines over Q3, respectively. However, their deposit volumes are up slightly year-over-year, so it's too early to tell if the September decline is truly a worrying sign.

Home improvement companies also had a 12% drop in September, but they've increased daily balances over the last quarter, and the last year. In contrast, the construction and transportation companies have lower average daily balances over both timeframes.

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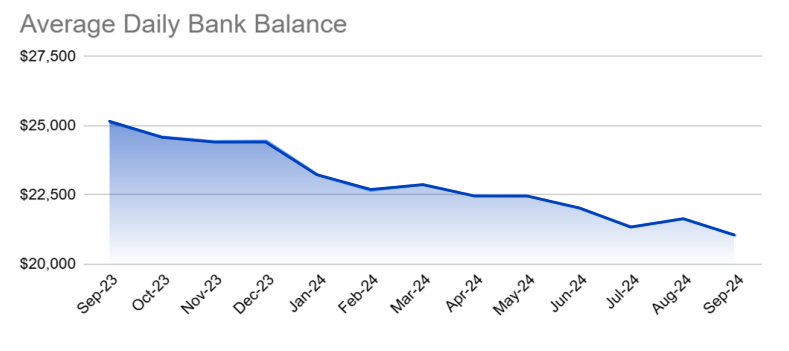
Average Daily Bank Balances: Gauging Financial Stability

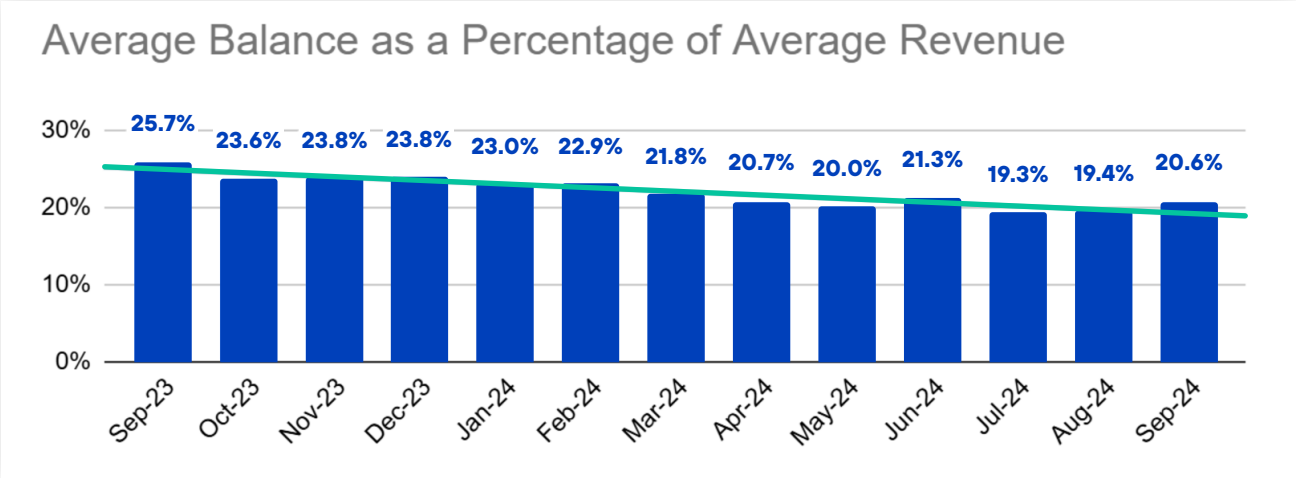
The average daily bank account balances can give us a sense of a business's financial stability, which is why we assign it a 20% weighting for the Revenued SMB Health Index.



Average daily balances are about 16% lower than a year ago. But we also like to compare daily balances to other metrics.

Balances might drop when business owners are struggling. Or, when they reinvest in their business.

Lower balances during the fall also aren't entirely abnormal for companies that need to build up inventories and start marketing campaigns ahead of the holidays.



When we compare average balances to average revenue, we see that the ratio stabilized around 20% throughout Q2 and Q3 of 2024.

In previous quarterly SMB Health Index reports, we saw stabilization around 22% to 24%. The lower ratio could be a worrying sign, particularly because part of the stabilization in Q3 2024 might be attributed to increased funding driving up average balances.

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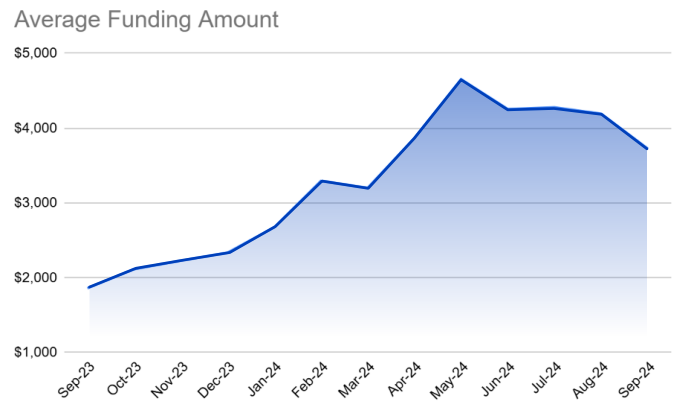
Average Amount of Outside Funding: Exploring Growth and Investment

The average amount of outside funding measures how much money small businesses borrowed, excluding funds from Revenued.

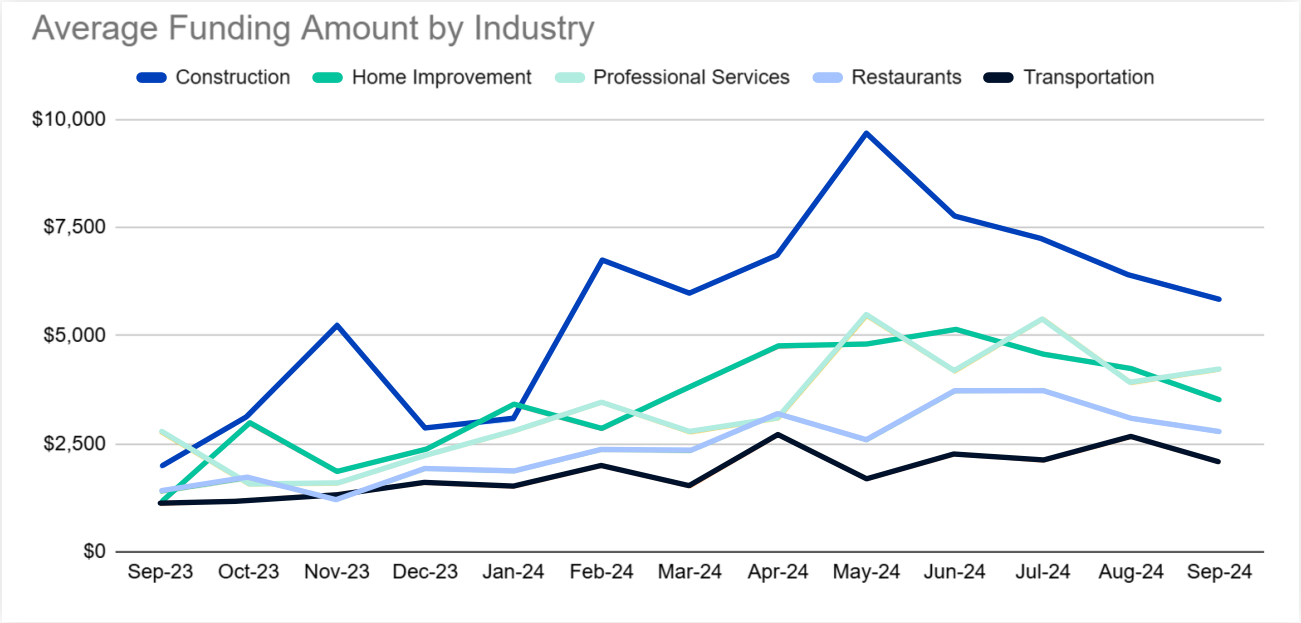
We see access to capital as a positive and give it a 15% weighting in the Revenued SMB Health Index. Many businesses use financing to fuel expansion or overcome cash flow crunches, and access to financing requires good creditworthiness. However, too much debt can be an issue.



In general, we saw funding volume quickly increase during the first half of 2024. Peak average funding volume hit $4,656 in May—over twice as much as the $1,859 we measured in September 2023.

Average funding volume decreased throughout Q3 2024, although it's unclear if that means small businesses are getting back to a more stable financial footing or if they don't have investment opportunities.

Anecdotally, Revenued underwriters report that many small businesses are investing in technology, such as customer interface tools, AI-powered systems, and internal software. Some businesses might finance the upfront cost of setting up these systems, and the improved efficiencies could lead to increased profits in the future.



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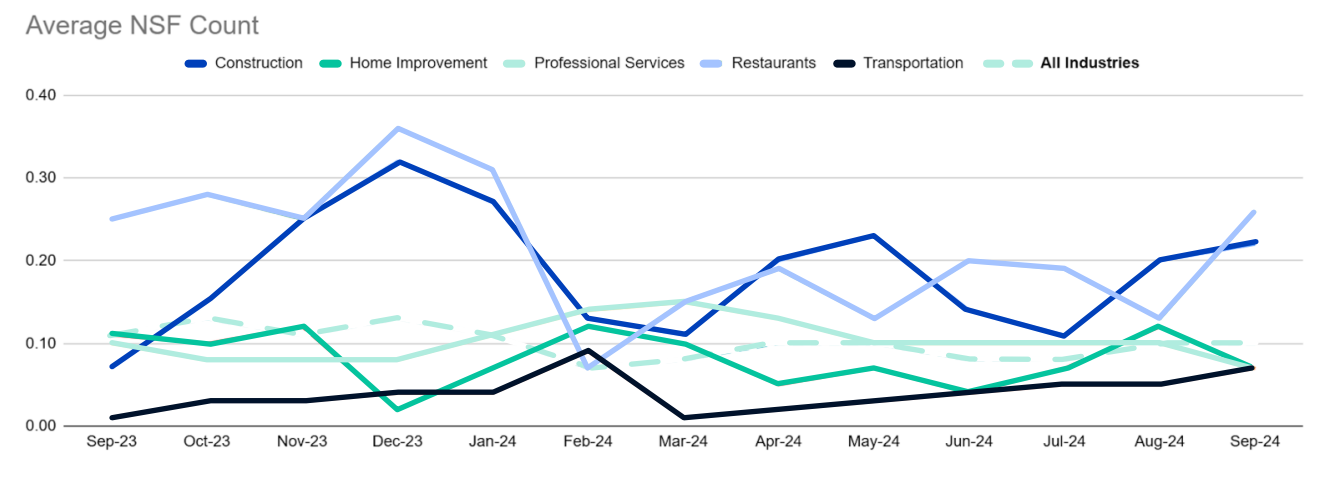
Average Number of Insufficient Funds (NSF) Transactions:
Managing Financial Health

An insufficient fund (NSF) transaction signals that the company overdrew its account. We use the average number of NSFs per month as a sign of financial distress and assign it a negative weight of -10%.

NSF transactions tend to be low in every industry, and many small businesses never have an NSF transaction. However, overall trends could be an indication of broad economic prosperity or distress. The NSF count can also offer context for other indicators that we track.

For example, based on the NSF count alone, restaurants and construction SMBs hit hard times during the end of 2023 and the start of 2024. Although they fared better throughout most of 2024, the recent increase in NFT transactions in those industries could be a potentially worrying sign. Especially because they also had around a 25% decrease in year-over-year average daily balances during Q3.



Although it's not clear from the chart, the NFT count also had a significant impact on the transportation industry's Health Index score because our methodology compares an industry to its starting point.

The transportation industry's NFT count increased seven-fold over the previous year, from .01 to .07. By comparison, the construction industry's NFT count increased by .14—twice as much—but it only tripled from .07 to .22 over the year. As a result, the NFT measurement had a greater negative impact on the transportation industry's Health Index score.

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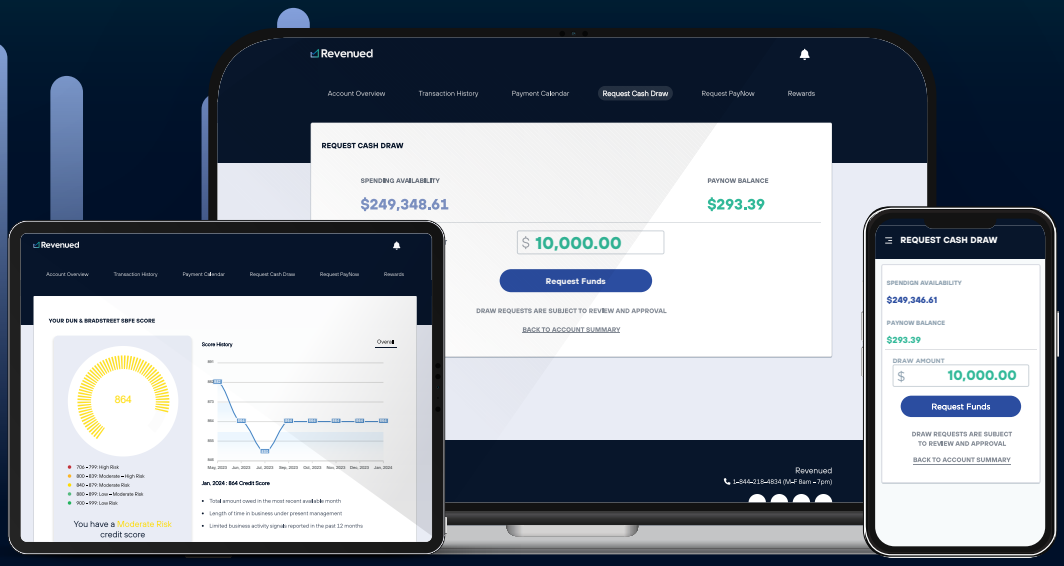

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