

Revenued SMB Health  
Index Quarterly Update:

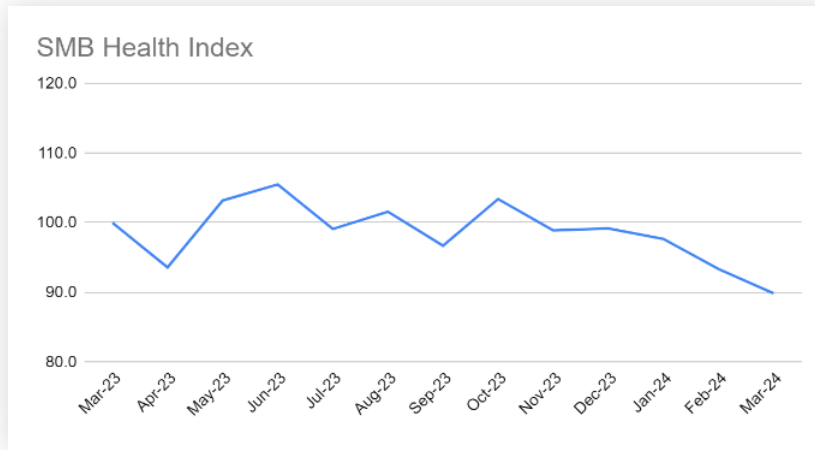
# A Tough Start to 2024

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## The Revenued SMB Health Index Q1 2024 Update

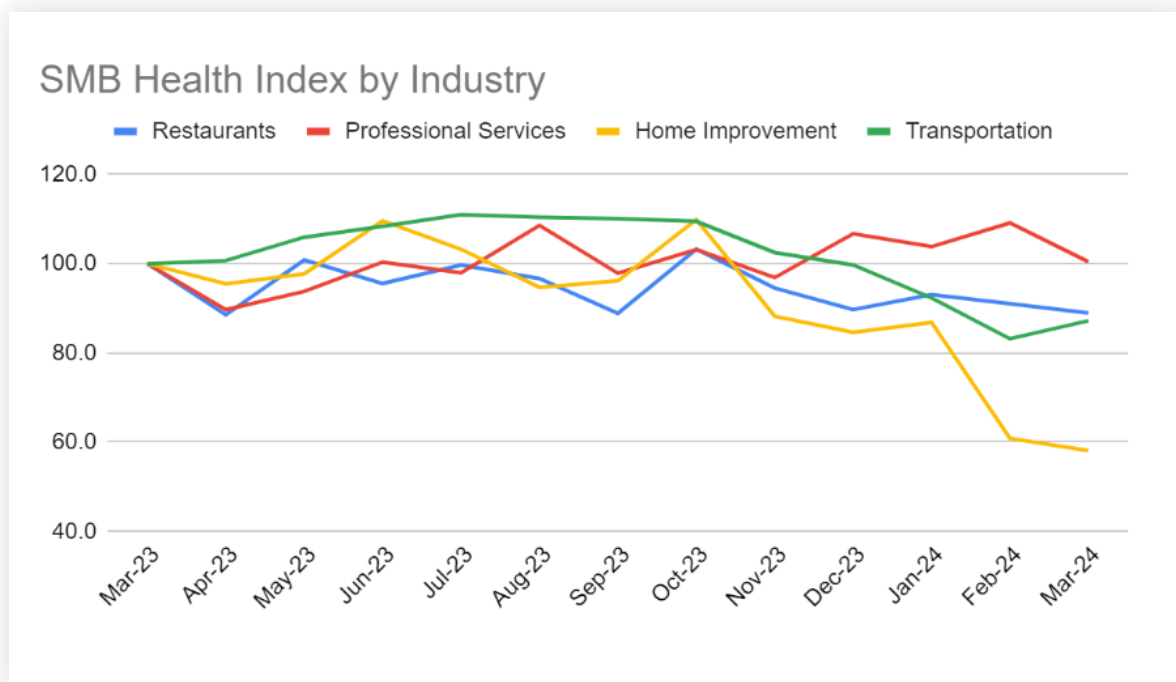
The Revenued SMB Health Index draws on real-time banking data from thousands of SMBs across the United States to better understand the state of small businesses.



The Health Index flattened at the end of last year and then declined throughout Q1 2024.

Decreased deposit volume and an increase in insufficient funds transactions were the primary drivers, along with decreased external funding in March 2024.

However, we also see that the decline isn't being felt equally. While home improvement SMBs saw steep drops in Q1, professional services companies and restaurants fared fairly well. Transportation companies also experienced a decline, but the industry tends to be seasonal, and we'll have to wait and see if business picks back up.



## **Background: What Is the Revenued SMB Health Index?**

### **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.

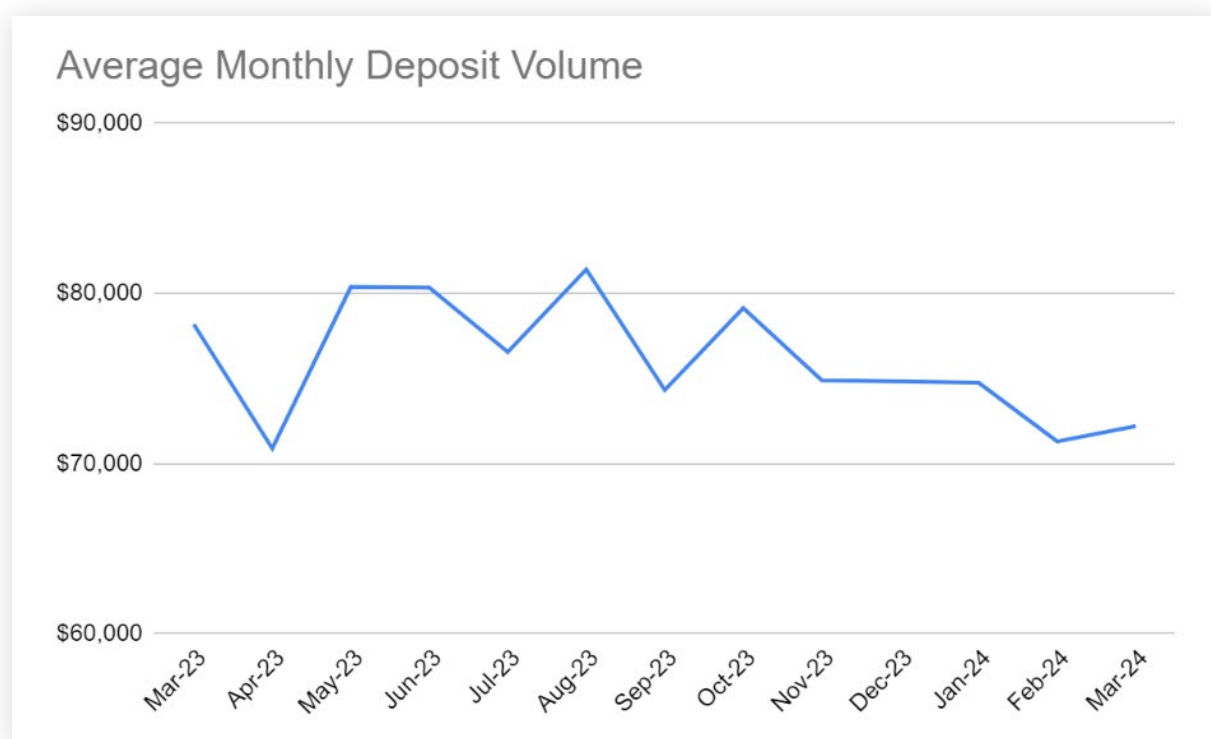
We then analyze monthly averages in specific areas and assign each a weight to create the Revenued SMB Health Index.

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

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

## 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.



Over the last thirteen months, we saw revenue increase during 2023 and then taper off toward the end of the year.

A general slowdown in construction and home improvement due to decreased demand and weather-related delays could be partially to blame. However, these industries weren't clear outliers—every industry we examined showed revenues have decreased since October 2023.

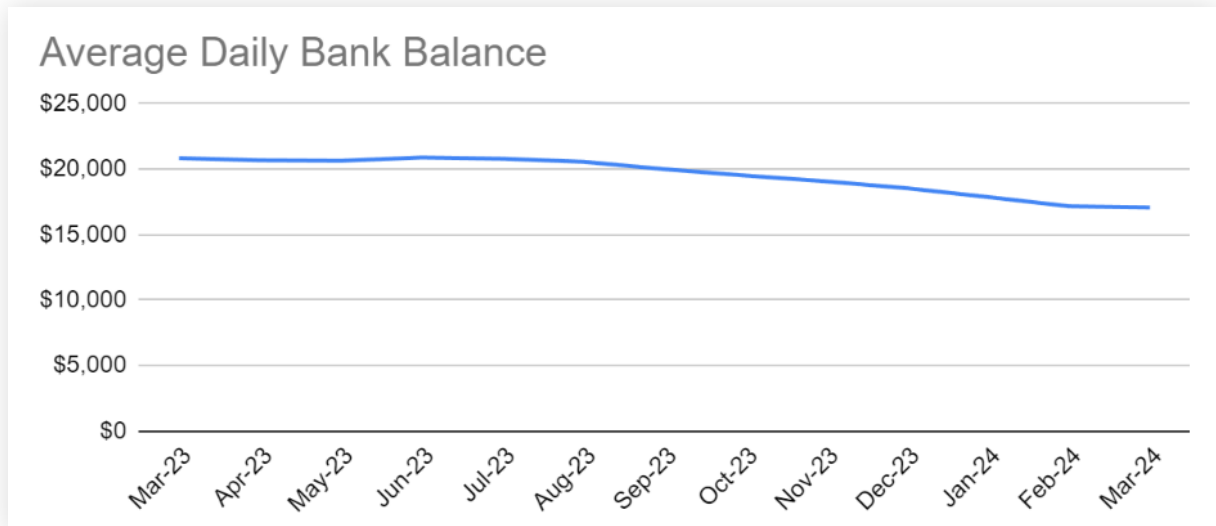
The decline is somewhat surprising given the holidays are often a period of increased consumer spending. Even if businesses were waiting on unpaid invoices, we'd expect to see an increase in revenues in Q1.

However, revenues generally continued to decrease in January and February 2024. Most industries experienced slight increases in March, a potentially good sign. But revenue in March was still below January 2024 levels across the board.



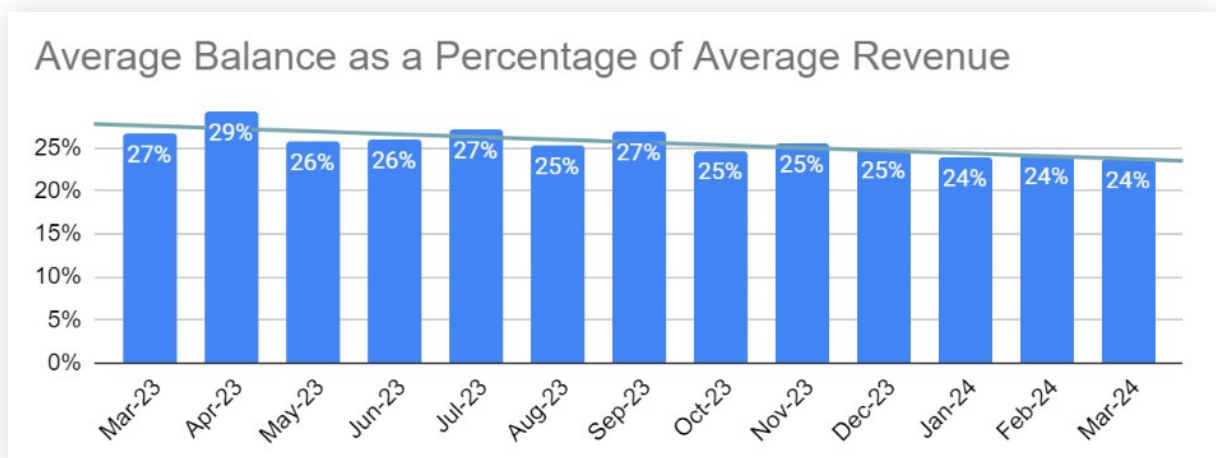
## Average Daily Bank Balances: Gauging Financial Stability

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. But we also recognize that daily balances should often be considered in comparison to other metrics.



For instance, decreasing daily balances isn't inherently a bad sign. When business owners feel confident, they might reinvest in the business without worrying about having less cash on hand. Mirrored oscillations in revenue and balances could also reflect seasonality.

However, average daily balances dropped below \$20,000 in September 2023 and haven't risen since. The steady decline could be a worrisome signal as revenue increased in August and October of 2023—changes that aren't reflected in increased daily balances.



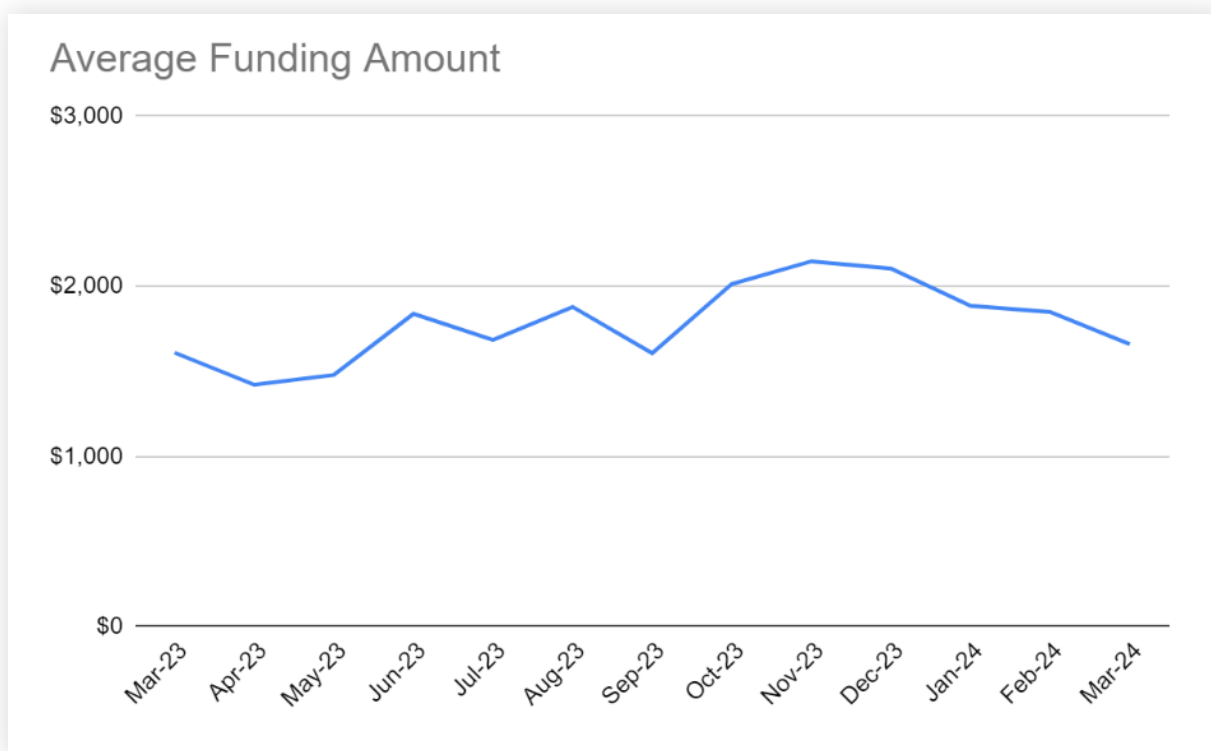
When we look at average daily balances as a percentage of average revenue, we see a downward decline and then a leveling off at a low point of 24% throughout Q1 2024. The leveling off could be a good sign, but we need to wait and see.

## **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 funding to fuel expansion, and it's often necessary for working capital during times of growth and cash flow crunches. They may also need to have and maintain good financial standing to qualify for outside financing.

In general, the accounts we pulled data from had relatively small amounts of average outside funding, with a range from \$1,422 in April 2023 to \$2,147 in November 2023.

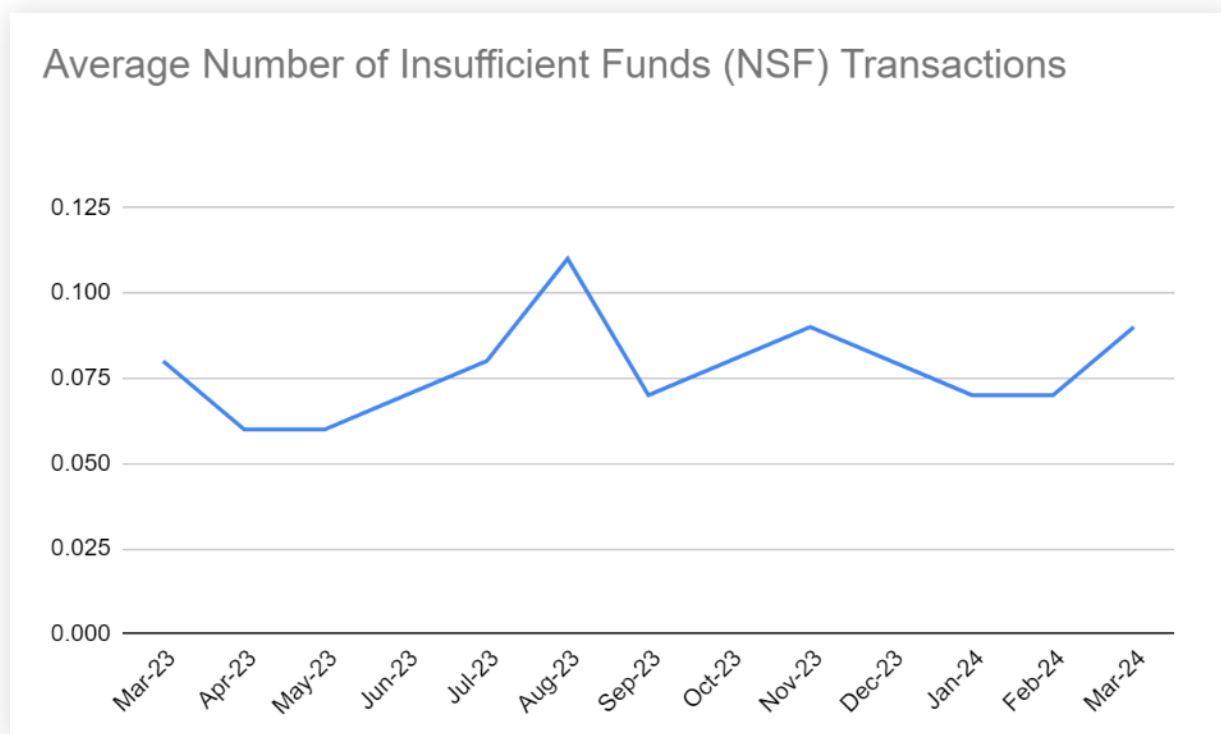


The numbers vary by industry—construction and home improvement businesses tend to borrow more than transportation and professional services companies. Restaurants fall somewhere in the middle. But overall, funding amounts dropped in Q1 2024.

In part, that might be businesses recovering from the holiday seasons. Perhaps some of the decrease in daily balances could be attributed to companies paying down debt. But anecdotally, we're hearing from our underwriters that the beginning of the year has been challenging and more businesses are looking for financing.

## 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 increase in August 2023 is largely due to rising NSFs by restaurants and, to a lesser extent, home improvement companies. The rising costs of food and overhead expenses can be especially challenging for newly established restaurants. And underwriters at Revenued are seeing a historically high number of restaurants seeking financing

The Q1 2024 rise in NSFs is more isolated to the home improvement industry, where NSFs more than doubled from January to February and increased again in March 2024. The average number of NSF transactions declined or were flat in all other industries during Q1.

The transportation industry did see an increase in NSF transactions in Q1 compared to the end of last year. However, this may reflect the industry's seasonality as March 2024 numbers are the same as March 2023.





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