

Revenued SMB Health
Index Quarterly Update:

SMBs Grow in Strength and Stability

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Revenued SMB Health Index Quarterly Update: **SMBs Grow in Strength and Stability**

The financial health of the **33.2 million SMBs** in the United States is a valuable indicator of the broader American economy's health. SMBs often react more swiftly to economic shifts than larger corporations, making them sensitive barometers of economic conditions. Q4 2023 marked the **first release of the Revenued SMB Health Index**, based on continuous analysis of the real-time banking data of Revenued current and would-be clients.

The Revenued SMB Health Index saw a steady rise through 2023, pointing to the recovery of many verticals from pandemic and post-pandemic struggles. The average monthly Total Deposit Volume across all industry grew more than 70% year-over-year. The average Daily Bank Balance also grew in parallel, showing increasing financial stability, strength and acumen.

Tightening margins do continue to affect SMBs, especially in the restaurant and transportation sectors. And December 2023 saw a drop in Total Deposit Volume and Daily Bank Balance, which is likely to be due to holiday season volatility, but which will need to be confirmed in the next SMB Health Index quarterly update.

Background of the Analysis

The banking data analyzed in the Revenued SMB Health Index is aggregated from more than 20,000 American small businesses across multiple sectors. We highlight some trends in specific industries, including professional services, construction, home improvement, transportation, and the restaurant industry.

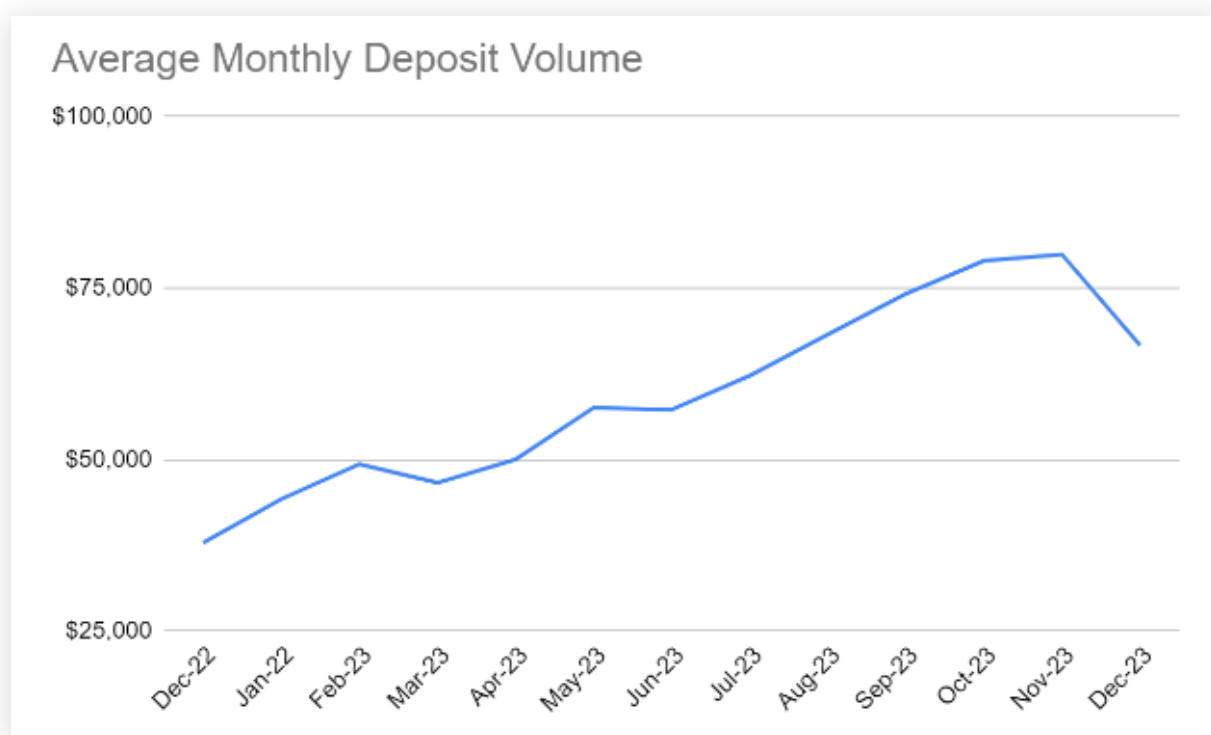
Four measures of business health are tracked:

- Total Deposit Volume
- Average Daily Bank Balance
- Average Number of Insufficient Funds Transactions
- Volume of Funding by External Capital Providers

The four measures are looked at individually and assigned weights to create an aggregate financial health score.

Total Deposit Volume: A Window into Revenue Streams

The first measure, Deposit Volume, includes only deposits that reflect actual business revenue. Deposits from external capital sources were excluded from this metric, enabling it to serve as a proxy for revenue. In the aggregate financial health score, Total Deposit Volume was assigned a weight of 65%.



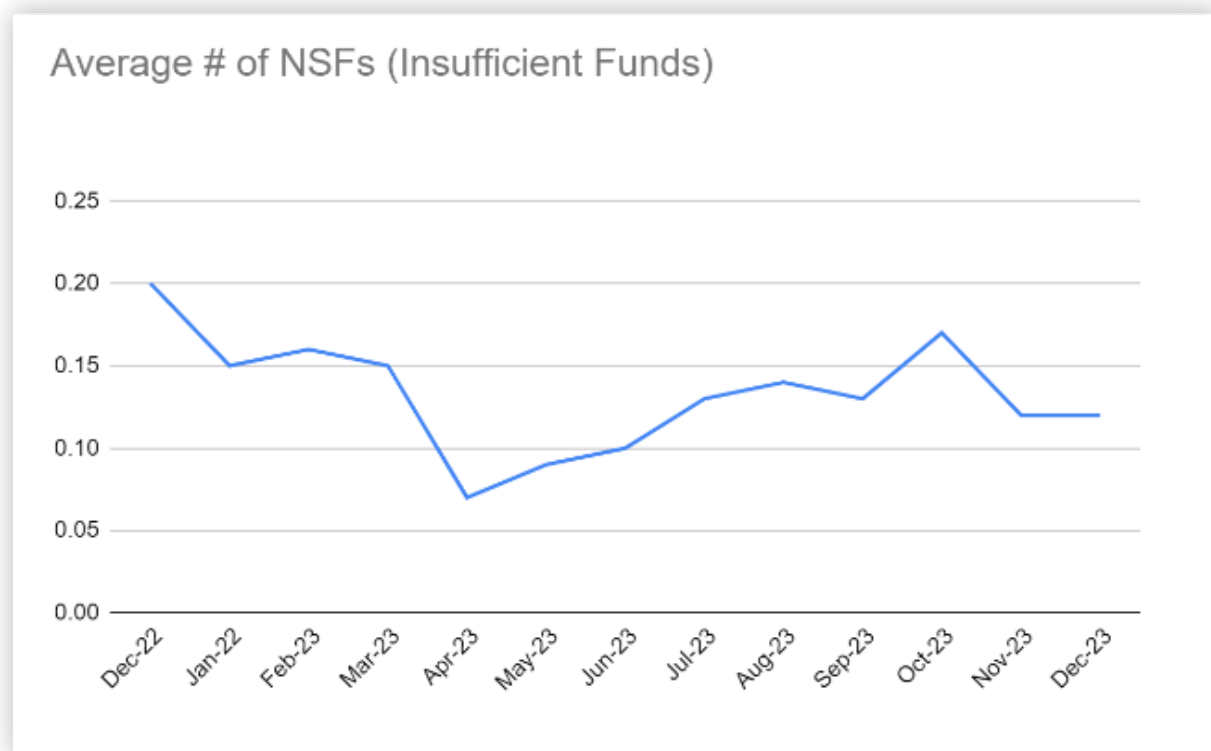
Total Deposit Volume rose steadily throughout the year, beginning at around \$38K in December 2022 and hitting \$79K and \$80K in October and November 2023, respectively.

In the last month covered by this index, December 2023, Total Deposit Volume took a dip to \$67K. The next index update will show whether this was the beginning of a downtrend or a temporary seasonal drop, but even at this point it is worth noting that the Total Deposit Volume is 76% higher than it was last December.

A look into industry-specific data shows larger SMB construction companies in the commercial space continuing to outperform and show strong growth. Within the home improvement niche, however, many smaller, often family-run, businesses are struggling. Over the past few two to three years they received an external boost from pandemic-related stimulus money and low-interest loans, but that help is fading, and they continue to face challenges with growth and cash flow.

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

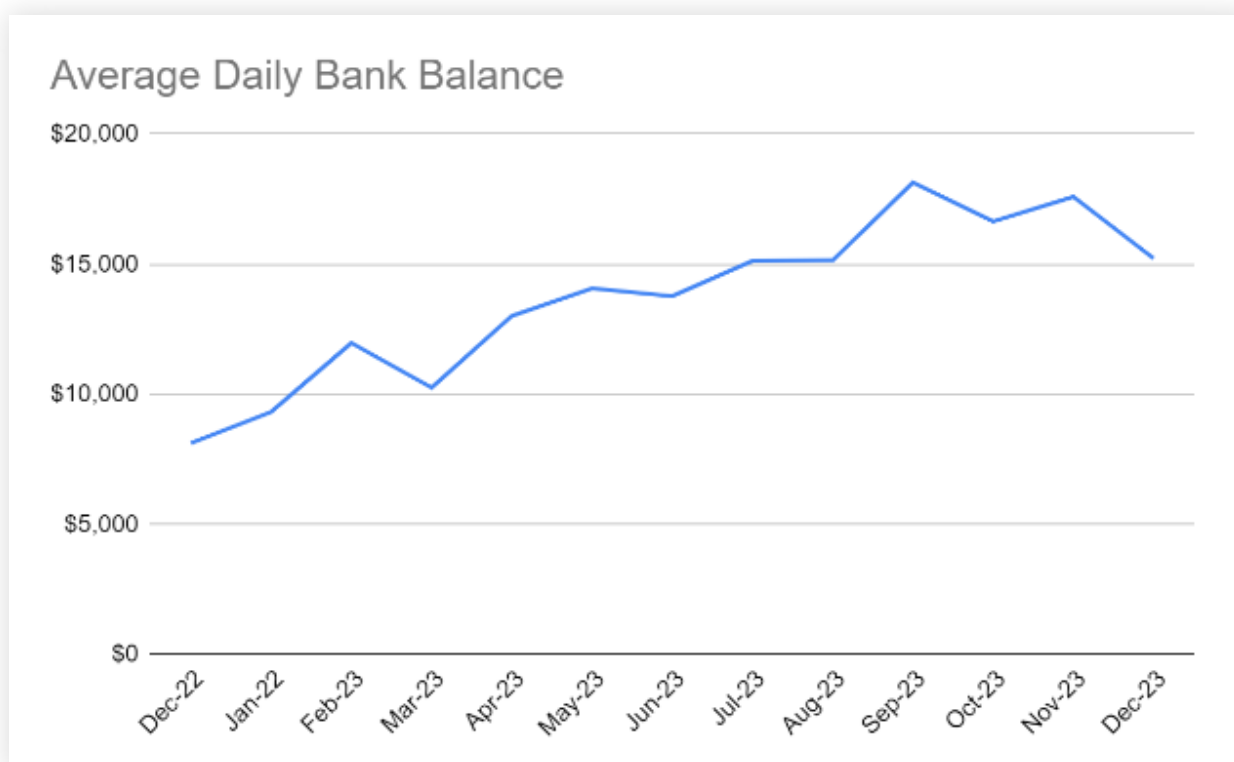
The second measure, the Average Number of NSF (Insufficient Funds) Transactions, gives the average of NSF transactions per merchant in the period specified (here, per month). A high number of NSF transactions may suggest that the organization is struggling with cash flow issues or has inadequate funds to cover its expenses, which can be a sign of financial stress. In the aggregate financial health score, the Average Number of NSF (Insufficient Funds) Transactions was assigned a (negative) weight of -10%. A rise in NSFs for an entire portfolio may indicate a signal for general economic distress for SMBs and is often a leading indicator for rising defaults.



Through October 2023, NSF transactions per business continued to increase coming off of April 2023 lows. For most of 2023, the average number of NSFs per business has hovered around 0.14-0.15.

Average Daily Bank Balances: Gauging Financial Stability

The third measure, Average Daily Bank Balance, looks at the balance in the SMB's banking account from day to day. Fluctuations in the average daily bank balance provide an idea of the financial stability of the business. In underwriting an individual business, greater insight can be had by comparing the average daily bank balance to the SMB's operating costs. In the aggregate financial health score, the Average Daily Bank Balance was assigned a weight of 25%.



Average Daily Bank Balance rose slowly throughout the year, beginning with \$8K in December 2022 and ending with almost double that (\$15K) in December 2023. September through November 2023 was the strongest period, with the Average Daily Bank Balance falling between \$16K and \$18K.

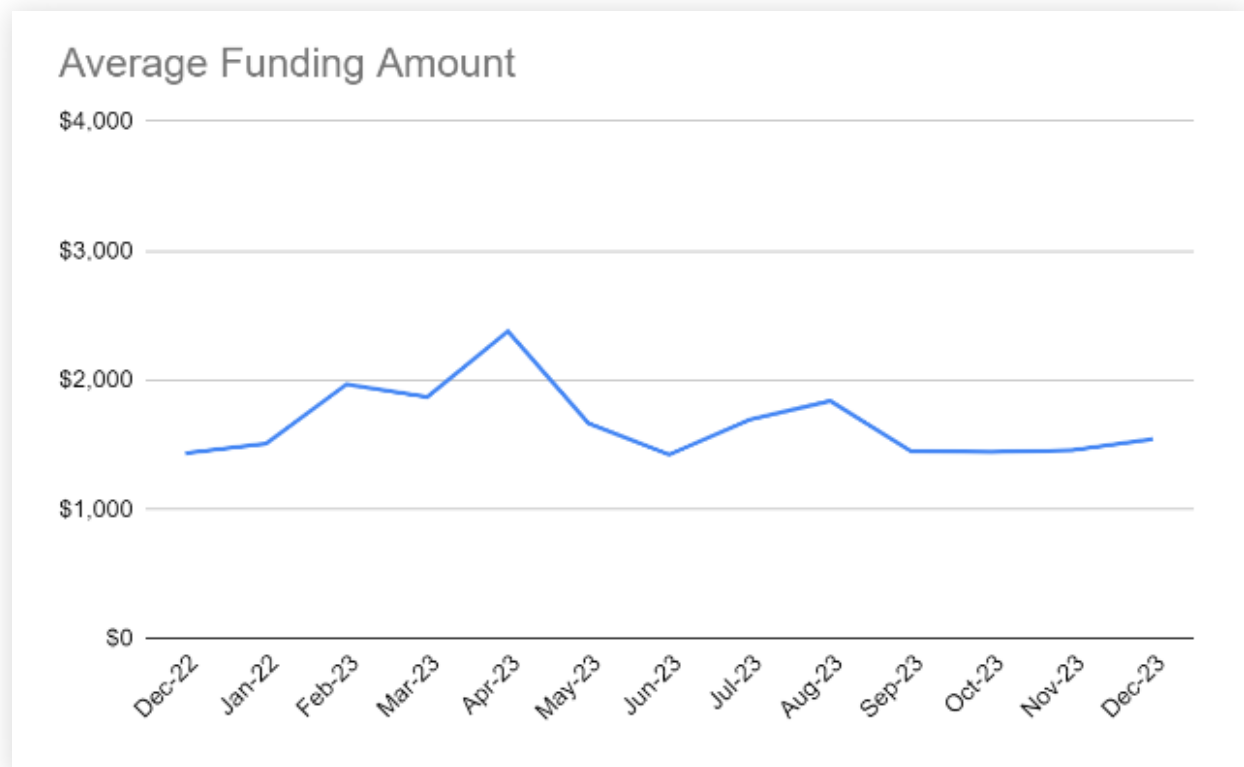
This increase in daily bank balances is likely driven by increasing revenue, as also indicated by the Total Deposit Volume (above). It also hints to increasing financial acumen on the part of SMBs, as businesses realize the importance of keeping some buffer to withstand any dips in revenue during the sometimes volatile Q4.

When analyzing the health of an SMB, it's important to look at a business's average daily bank balance relative to their revenue. A business that takes in \$10K in monthly revenue and maintains an average daily balance of \$5K is in a much better financial position than a business that takes in \$50K in monthly revenue but has an average daily balance of \$10K.

Business Funding Activity: Exploring Growth and Investment

The fourth measure, Average Funding Amount, is the average amount coming into the account from lenders (excluding funds provided by Revenued). An increasing number of SMBs require capital both to expand and to service existing customers, especially considering longer net payment terms.

Access to capital is positive. An SMB receiving large amounts of outside funding and investing in a growth strategy should count that funding toward its financial health and stability. In addition, for an SMB using outside funding to make payroll and cover operating costs, higher amounts of funding count indicate financial resiliency in being able to access emergency funds. Average Funding Amount was assigned a weight of 20% in the aggregate financial health score.



The Average Funding Amount stayed below \$2K throughout the year, except for a peak of \$2.3K in April 2023. We have, however, seen a general trend of SMBs keeping their options open, securing lines of credit or access to capital to proactively guard against any downturn, even if they are not using it actively on a regular basis.

Use of financing differs across industries. SMBs in the restaurant and transportation sectors continue to face challenges with low margins. Rising food costs squeeze already tight margins for restaurants, which could account for the uptick in financing inquiries

that we are seeing from that sector. While fuel costs have come down, transportation margins are still very tight, making it very difficult for SMBs in the transportation space to compete against larger companies.

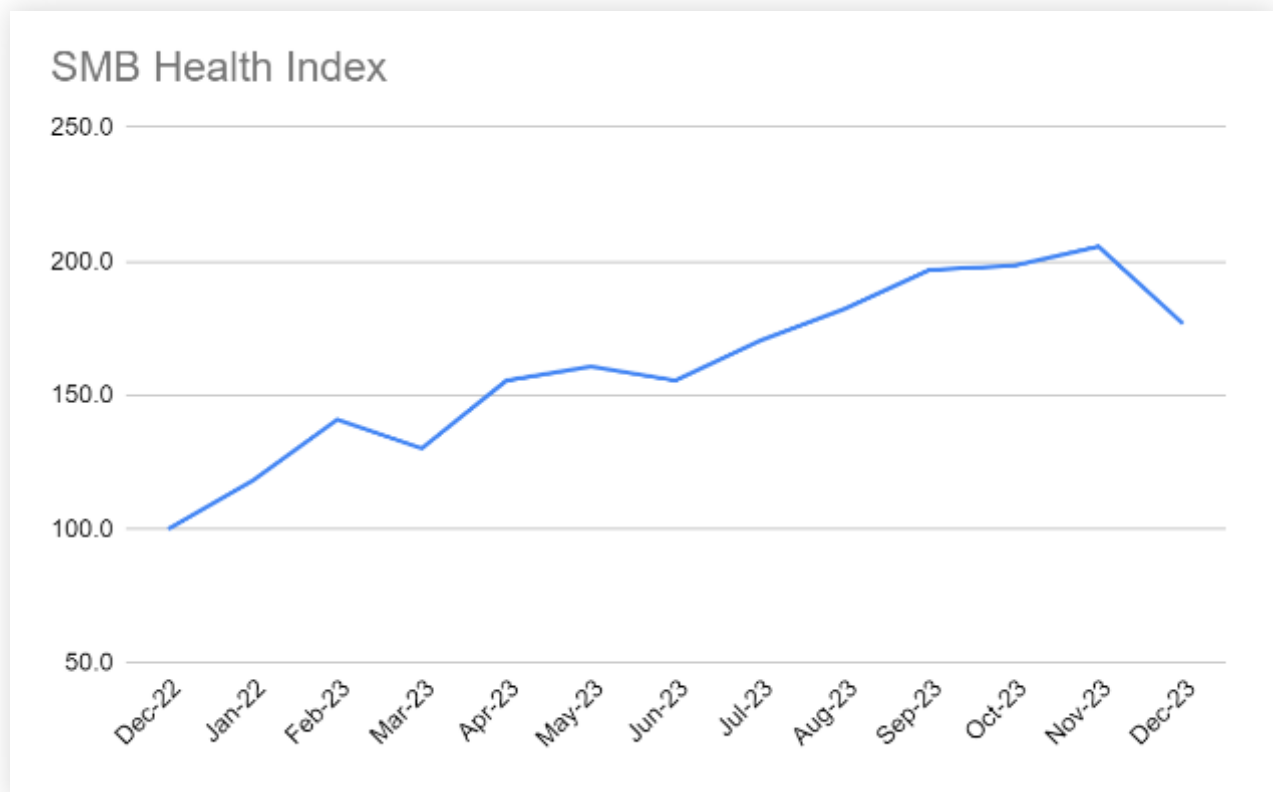
SMBs in the construction industry leverage financing to bridge the gap between paying for upfront costs, such as labor and material, and receiving payment for their work, which typically occurs on net 30- to 90-day terms.

Revenued's SMB Health Index Shows Stronger, Better Positioned Businesses

The Revenued SMB Health Index uses the banking data of SMBs in the U.S. across all sectors and is updated quarterly. The Index's primary benefit is its focus on small businesses, often underrepresented in economic data. Little is known about businesses with less than \$1 million in annual revenue, and most available data is only years old.

Revenued's SMB Health Index shows a trend of steady improvement over the past year. SMBs had a rough landing in 2022, readjusting after a period of COVID-related financial benefits while, simultaneously, inflation drove costs higher. In 2023, however, multiple verticals rebounded, showing dramatically improved performance across all key banking indicators.

The challenges of 2022, coupled with competition in many of these verticals, contributed to a "survival of the fittest" business environment, with the result that stronger businesses emerged from the down cycle. Today, more SMBs are much better positioned for success, whether through improved quality of products and services, better capitalization for growth and profitability, or both.





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