

2022 Buy Here-Pay Here Financial Benchmarks

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Buy Here-Pay Here Market Trends

2022 was an interesting year, it started with so much promise but ended in disappointment. 2022 was plagued with high inventory costs, high reconditioning costs and rising default rates, all of which lowered net income back to pre-Covid profit levels. Multiple dealers referred to 2022 as “Returning to normal”, implying that the Covid years were too good and things inevitably had to return to normal.

Dealers were hoping inventory costs would come down some in 2022 but they never really did. However, inventory costs weren’t the problem in 2022, reconditioning was. Parts prices jumped dramatically and parts shortages caused long delays in the reconditioning process. Many dealers were forced to buy higher end vehicles simply because reconditioning cheaper vehicles was no longer practical.

The largest single impact on the benchmarks* came from bad debts. Starting in the summer of 2022, we saw a significant increase in overall bad debts. High inflation and reduced government stimulus programs finally caught up with the average consumer, leading to significantly higher default rates. Luckily default rates seemed to settle down by early 2023 although the spike in bad debts may have long term effects on the implementation of CECL.

Operating expenses rose slightly in 2022, as expected given the inflationary environment. Salaries and insurance had the biggest increases. The labor market remains tight and hiring and retaining good employees costs more than ever. Multiple dealers reported significant increases in their garage and property insurance and the benchmarks reflect that.

Finally, the rising interest rates double the interest expense most dealers paid in 2022. We saw multiple dealers break the interest coverage ratio on their line of credit as a result of rising interest rates. A handful of dealers were able to lock in their rates using swaps and saw some significant benefits from these rates locks.

2023 promises to be a challenging year again. Inventory prices haven’t declined much and interest rates continue to climb. Luckily bad debts have leveled off some however dealers will be forced to implement CECL in 2023 and loss reserves could see a significant increase hurting the bottom line. Ultimately the best dealers will be the dealers who can control their costs and manage their bad debts.

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* The financial information presented represents a composite of some of the best performing operators in the industry and not an average of the entire industry. SGC has tracked the financial performance of these operators for multiple years to make the year over year numbers comparable.

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Income Statement - 2022

	Best Dealer Benchmark 2022	Best Dealer Benchmark 2021	Best Dealer Benchmark 2020
Vehicle sales	100%	100%	100%
Cost of vehicle sales	-69%	-66%	-64%
Gross profit before bad debt and financing income	31%	34%	36%
Bad debt expense	-21%	-15%	-19%
Financing income	18%	17%	21%
Gross profit	28%	36%	38%
Operating expense	-20%	-19%	-21%
Operating income	8%	17%	17%
Interest expense	-2%	-1%	-2%
Income before income taxes	6%	16%	15%

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Cost of Goods Sold and Operating Expense Detail - 2022

	2022 % of Vehicle Sales	2021 % of Vehicle Sales	2020 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	57.05%	54.18%	52.51%
Reconditioning costs	9.59%	9.28%	8.65%
Other	2.36%	2.54%	2.84%
Total cost of vehicle sales	69.00%	66.00%	64.00%
<u>Operating Expense</u>			
Advertising	2.44%	2.50%	2.24%
Bank charges	0.31%	0.29%	0.33%
Contributions	0.03%	0.07%	0.03%
Depreciation	0.24%	0.25%	0.28%
Dues and Subscriptions	0.23%	0.20%	0.35%
Insurance	0.66%	0.47%	0.48%
Legal and accounting	0.17%	0.32%	0.43%
Outside services	0.58%	0.29%	0.40%
Office expense	0.68%	0.68%	0.70%
Rent	1.84%	2.09%	2.08%
Repairs and maintenance	0.24%	0.12%	0.26%
Salaries (non-owners)	10.55%	10.13%	11.38%
Taxes - general	0.33%	0.08%	0.32%
Other Operating Expense	0.05%	0.02%	0.14%
Taxes - payroll	0.75%	0.76%	0.82%
Utilities and Telephone	0.59%	0.50%	0.54%
Travel / Training	0.31%	0.24%	0.22%
Total operating expense	20.00%	19.00%	21.00%

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Ratio Comparisons - 2022

	2022 Average Benchmark	2021 Average Benchmark	2020 Average Benchmark
<u>Combined Balance Sheet Ratios</u>			
(Year End Inventory x Days) / Cost of Vehicle Sales	55.2 days	62.86 days	64.96 days
Cost of Vehicle Sales / Average Inventory Dollars	6.75 x	6.34 x	5.79 x
Vehicle Sales / Average Inventory Dollars	9.83 x	9.55 x	8.99 x
Vehicle Sales / Total Assets	0.84 x	0.94 x	0.78 x
Total Assets / Total Liabilities	1.6 x	1.69 x	1.81 x
Allowance for Bad Debts / Finance Receivables*	21%	21%	22%
Total Debt / Total Assets	62%	59%	56%
* Finance receivables is principal before allowance for doubtful accounts			
	2022 Average Benchmark	2021 Average Benchmark	2020 Average Benchmark
<u>Combined Income Statement Ratios</u>			
Bad Debts / Vehicle Sales	21%	15%	19%
Cost of Vehicle Sales / Vehicle Sales	69%	66%	64%
Gross Profit** / Vehicle Sales	28%	36%	38%
Operating Expense / Vehicle Sales	20%	19%	21%
Interest Expense / Financing Income	11%	6%	10%
Operating Income / Vehicle Sales	8%	17%	17%
Financing Income / Vehicle Sales	18%	17%	21%
Compensation** / Vehicle Sales	10.55%	10.13%	11.38%
Reconditioning Cost / Vehicle Sales	9.6%	9.3%	8.7%

**Gross Profit is net of bad debts and financing income
x = times