

## 2023 Buy Here-Pay Here Financial Benchmarks

**S** Certified  
**G** Public  
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## Buy Here-Pay Here Market Trends

2023 was another tough year for the BHPH dealers. Sales were strong and auction prices did start to come down but rising interest rates and charge offs resulted in 2023 being one of the worst years on record\*.

Inventory prices did finally start to decline and that is reflected in the benchmarks. We also noted many dealers didn't stock up at the end of the year, knowing that with falling inventory prices could result in getting stuck with overpriced inventory. Parts pricing and shortages continued to plague the reconditioning process and we actually saw more dealers buying from wholesalers to avoid reconditioning all together.

The largest single impact on the benchmarks came from bad debts. Starting in 2022 and continuing into 2023, we saw a significant increase in overall bad debts. High inflation finally caught up with the average consumer, leading to significantly higher default rates. Falling inventory prices also hurt as repossession recoveries fell significantly. 2023 saw the implementation of dreaded CECL calculations, requiring dealers maintain an allowance for credit losses equal to the estimated future losses in the portfolio. Fortunately, CECL ultimately had minimal impact on many dealers, as dealers were already carrying a conservative allowance for credit losses on their financial statements.

Surprisingly, operating expenses fell in 2023, as many dealers scrutinized their expenses, cutting where ever possible. We saw a significant drop in salary expense as management bonuses were cut compared to prior years. We have also seen a trend of dealers starting to outsource collections overseas to cut costs.

Finally, the rising interest rates nearly doubled the interest expense most dealers paid in 2023. We saw multiple dealers break the interest coverage ratio on their line of credit as a result of rising interest rates. We also noted dealers are more highly leveraged resulting in higher interest costs.

2024 promises to be an interesting year. First quarter sales were strong, record setting even, but charge offs have also remained strong. The prospect of interest rates coming down significantly in 2024 are remote and dealers will continue to struggle with interest costs. With some luck, inventory prices will continue to fall and better credit customers will be pushed into the BHPH market, making 2024 the turning point back to stronger profitability.

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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 - 2023**

	<b>Best Dealer Benchmark 2023</b>	<b>Best Dealer Benchmark 2022</b>	<b>Best Dealer Benchmark 2021</b>
<b>Vehicle sales</b>	100%	100%	100%
<b>Cost of vehicle sales</b>	-67%	-69%	-66%
<b>Gross profit before bad debt and financing income</b>	<b>33%</b>	<b>31%</b>	<b>34%</b>
<b>Bad debt expense</b>	-24%	-21%	-15%
<b>Financing income</b>	17%	18%	17%
<b>Gross profit</b>	<b>26%</b>	<b>28%</b>	<b>36%</b>
<b>Operating expense</b>	-18%	-20%	-19%
<b>Operating income</b>	<b>8%</b>	<b>8%</b>	<b>17%</b>
<b>Interest expense</b>	-4%	-2%	-1%
<b>Income before income taxes</b>	<b>4%</b>	<b>6%</b>	<b>16%</b>

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**Cost of Goods Sold and Operating Expense Detail - 2023**

	<b>2023 % of Vehicle Sales</b>	<b>2022 % of Vehicle Sales</b>	<b>2021 % of Vehicle Sales</b>
<b><u>Cost of Vehicle Sales</u></b>			
Cost of vehicles	55.14%	57.05%	54.18%
Reconditioning costs	9.66%	9.59%	9.28%
Other	2.20%	2.36%	2.54%
<b>Total cost of vehicle sales</b>	<b>67.00%</b>	<b>69.00%</b>	<b>66.00%</b>
<b><u>Operating Expense</u></b>			
Advertising	2.28%	2.44%	2.50%
Bank charges	0.30%	0.31%	0.29%
Contributions	0.03%	0.03%	0.07%
Depreciation	0.20%	0.24%	0.25%
Dues and Subscriptions	0.30%	0.23%	0.20%
Insurance	0.61%	0.66%	0.47%
Legal and accounting	0.14%	0.17%	0.32%
Outside services	0.28%	0.58%	0.29%
Office expense	0.58%	0.68%	0.68%
Rent	1.62%	1.84%	2.09%
Repairs and maintenance	0.35%	0.24%	0.12%
Salaries (non-owners)	9.67%	10.55%	10.13%
Taxes - general	0.25%	0.33%	0.08%
Other Operating Expense	0.03%	0.05%	0.02%
Taxes - payroll	0.75%	0.75%	0.76%
Utilities and Telephone	0.29%	0.59%	0.50%
Travel / Training	0.32%	0.31%	0.24%
<b>Total operating expense</b>	<b>18.00%</b>	<b>20.00%</b>	<b>19.00%</b>

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**Ratio Comparisons - 2023**

	<b>2023 Average Benchmark</b>	<b>2022 Average Benchmark</b>	<b>2021 Average Benchmark</b>
<b><u>Combined Balance Sheet Ratios</u></b>			
(Year End Inventory x Days) / Cost of Vehicle Sales	48.23 days	55.2 days	62.86 days
Cost of Vehicle Sales / Average Inventory Dollars	7.54 x	6.75 x	6.34 x
Vehicle Sales / Average Inventory Dollars	11.17 x	9.83 x	9.55 x
Vehicle Sales / Total Assets	0.95 x	0.84 x	0.94 x
Total Assets / Total Liabilities	1.45 x	1.60 x	1.69 x
Allowance for Bad Debts / Finance Receivables*	20%	21%	21%
Total Debt / Total Assets	69%	62%	59%
* Finance receivables is principal before allowance for doubtful accounts			
	<b>2023 Average Benchmark</b>	<b>2022 Average Benchmark</b>	<b>2021 Average Benchmark</b>
<b><u>Combined Income Statement Ratios</u></b>			
Bad Debts / Vehicle Sales	24%	21%	15%
Cost of Vehicle Sales / Vehicle Sales	67%	69%	66%
Gross Profit** / Vehicle Sales	26%	28%	36%
Operating Expense / Vehicle Sales	18%	20%	19%
Interest Expense / Financing Income	24%	11%	6%
Operating Income / Vehicle Sales	8%	8%	17%
Financing Income / Vehicle Sales	17%	18%	17%
Compensation** / Vehicle Sales	9.67%	10.55%	10.13%
Reconditioning Cost / Vehicle Sales	9.7%	9.6%	9.3%

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