

2024 Buy Here-Pay Here Financial Benchmarks

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Buy Here-Pay Here Market Trends

2024 has the distinction of being the worst year on record since our firm started tracking benchmarks in 1999*. Sales remained strong but charge offs skyrocketed as consumers struggled with inflation.

Inventory prices did decline as reflected in the benchmarks. Higher repossessions industry wide dragged inventory prices down but more recycling of repossessions meant more reconditioning. Parts pricing and shortages continue to plague the reconditioning department.

As with 2023, the single largest impact on the benchmarks came from bad debts. From 2022 to 2024, bad debt expense has jumped from 21% of sales to 28% of sales. Consumers continue to struggle with inflation and while the government statistics say inflation was about 10% from 2022 to 2024, the average grocery bill and take out receipt would beg to differ. Many dealers' portfolios declined in size as they tightened underwriting and dealt with the higher charge offs. 2023 saw the implementation of CECL, requiring dealers maintain an allowance for credit losses equal to the estimated future losses in the portfolio. For some dealers, CECL had a significant impact on their bottom line in 2024 as higher bad debts started to impact their static pool loss rates and their CECL calculation.

Operating expenses increased as dealers were not immune to inflation. The single largest increase was in salaries, where dealers were compelled to give out cost of living increases to their staff, even if the dealer was having a down year. The only expenses to decline were expenses that the dealer had control over such as advertising, dues and subscriptions and travel.

We did see finance income increase significantly in 2024. We noted multiple dealers who increased the interest rate charged to consumers trying to compensate for rising bad debt. This may be a short-sighted decision though as affordability seems to be the key to improving bad debts. Consumers do need transportation; they just need to be able to afford it.

Unfortunately, the greatest threat facing the industry right now is the number of lenders leaving the space. After two down years for the BHPH industry, banks are moving out of the industry after taking multiple losses. With tight bank financing right now, dealers need to focus on reducing debt levels and running lean, even if that means contracting in size.

Hopefully 2025 is the turning point. We are starting to see improvements to bad debts as dealers focus on tighter underwriting and more affordable vehicles. Let's hope a return to basics can lead the industry back to success.

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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.

**Buy Here, Pay Here Industry Benchmarks
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Income Statement - 2024

	Best Dealer Benchmark 2024	Best Dealer Benchmark 2023	Best Dealer Benchmark 2022
Vehicle sales	100%	100%	100%
Cost of vehicle sales	-67%	-67%	-69%
Gross profit before bad debt and financing income	33%	33%	31%
Bad debt expense	-28%	-24%	-21%
Financing income	20%	17%	18%
Gross profit	25%	26%	28%
Operating expense	-19%	-18%	-20%
Operating income	6%	8%	8%
Interest expense	-4%	-4%	-2%
Income before income taxes	2%	4%	6%

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Cost of Goods Sold and Operating Expense Detail - 2024

	2024 % of Vehicle Sales	2023 % of Vehicle Sales	2022 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	54.20%	55.14%	57.05%
Reconditioning costs	10.32%	9.66%	9.59%
Other	2.48%	2.20%	2.36%
Total cost of vehicle sales	67.00%	67.00%	69.00%
<u>Operating Expense</u>			
Advertising	2.09%	2.28%	2.44%
Bank charges	0.38%	0.30%	0.31%
Contributions	0.02%	0.03%	0.03%
Depreciation	0.26%	0.20%	0.24%
Dues and Subscriptions	0.28%	0.30%	0.23%
Insurance	0.65%	0.61%	0.66%
Legal and accounting	0.24%	0.14%	0.17%
Outside services	0.31%	0.28%	0.58%
Office expense	0.56%	0.58%	0.68%
Rent	1.75%	1.62%	1.84%
Repairs and maintenance	0.29%	0.35%	0.24%
Salaries (non-owners)	10.46%	9.67%	10.55%
Taxes - general	0.26%	0.25%	0.33%
Other Operating Expense	0.02%	0.03%	0.05%
Taxes - payroll	0.81%	0.75%	0.75%
Utilities and Telephone	0.33%	0.29%	0.59%
Travel / Training	0.27%	0.32%	0.31%
Total operating expense	19.00%	18.00%	20.00%

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Ratio Comparisons - 2024

	2024 Average Benchmark	2023 Average Benchmark	2022 Average Benchmark
<u>Combined Balance Sheet Ratios</u>			
(Yeat End Inventory x Days) / Cost of Vehicle Sales	52.55 days	48.23 days	55.2 days
Cost of Vehicle Sales /Average Inventory Dollars	6.89 x	7.54 x	6.75 x
Vehicle Sales / Average Inventory Dollars	10.26 x	11.17 x	9.83 x
Vehicle Sales / Total Assets	0.8 x	0.95 x	0.84 x
Total Assets / Total Liabilities	1.57 x	1.453 x	1.60 x
Allowance for Bad Debts / Finance Receivables*	20%	20%	21%
Total Debt / Total Assets	64%	69%	62%
* Finance receivables is principal before allowance for doubtful accounts			
	2024 Average Benchmark	2023 Average Benchmark	2022 Average Benchmark
<u>Combined Income Statement Ratios</u>			
Bad Debts / Vehicle Sales	28%	24%	21%
Cost of Vehicle Sales / Vehicle Sales	67%	67%	69%
Gross Profit** / Vehicle Sales	25%	26%	28%
Operating Expense / Vehicle Sales	19%	18%	20%
Interest Expense / Financing Income	20%	24%	11%
Operating Income / Vehicle Sales	6%	8%	8%
Financing Income / Vehicle Sales	20%	17%	18%
Compensation** / Vehicle Sales	10.46%	9.67%	10.55%
Reconditioning Cost / Vehicle Sales	10.3%	9.7%	9.6%

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