



Lease vs Buy Analysis

Analysis for: Sample Analysis

Compare: 12% Purchase Option Lease vs Bank Loan

Length of Financing: 5 Years

Type of Equipment: Medical Equipment

The following analysis is designed to evaluate the lease vs. buy decision. The analysis compares the present value of cash outflows and inflows of leasing and buying. The scenario that produces the lower present value of cash outflows, is in theory, the method which an organization should use to acquire equipment. Please see below for a list of assumptions that were used in this analysis and a brief definition of key terms.

Terms:

Purchase Price	100,000	Disposal Value of Equipment	10,000
Corporate Tax Rate	34%	Cost of Funds (Prime Rate +1%)	9.50%
Length of Term (months)	60	Monthly Lease Rate	1,883
After-Tax Cost of Funds	6.27%	Cash (1) or Bank Financing (2)	2
Cost of Equity	12.5%	Tax Classification	True Tax



Scenario 1

Purchase with Bank Financing

Years	0	1	2	3	4	5
Loan Proceeds	100,000.00					
Purchase Cost	(100,000.00)					
Repayment of Principle		(16,404.30)	(18,032.39)	(19,822.06)	(21,789.35)	(23,951.89)
Depreciation		20,000.00	20,000.00	20,000.00	20,000.00	20,000.00
Interest Paid		(8,797.93)	(7,169.84)	(5,380.17)	(3,412.88)	(1,250.34)
Interest Tax Shield		2,991.30	2,437.75	1,829.26	1,160.38	425.12
Depreciation Tax Shield		6,800.00	6,800.00	6,800.00	6,800.00	6,800.00
Disposal						10,000.00
Disposal Tax (Loss)/Break						(3,400.00)
Projected Cash Flows		(15,410.94)	(15,964.49)	(16,572.97)	(17,241.85)	(11,377.12)

Present Value of Cash Outflows: (64,360.20)



Scenario 2

Lease Finance

Years	0	1	2	3	4	5
Lease Payments		(22,596.00)	(22,596.00)	(22,596.00)	(22,596.00)	(22,596.00)
Tax Benefit of Lease Payments		7,682.64	7,682.64	7,682.64	7,682.64	7,682.64
12% Purchase Option --- Decline						0.00
Projected Cash Flows		(14,913.36)	(14,913.36)	(14,913.36)	(14,913.36)	(14,913.36)

Present Value of Cash Outflows: (62,361.75)

Results

Net Leasing Advantage(Disadvantage): 1,998



Assumptions:

1. Assume straight line depreciation and useful life of 5 years.
2. Length of lease and loan term are the same.
3. Disposal value of equipment at end of lease/loan term is identical.
4. Cost of Equity=Cost of Funds + 3%

Definition of Key Terms:

Purchase Price: Cost of Equipment

Tax Rate: Company's corporate tax rate.

Length of Term: Stated in months, lists the length of the lease and corresponding loan.

Disposal Value: Projected market value of equipment at end of lease/loan term.

Cost of Funds: Incremental Borrowing Rate

Contact ST Capital today if Interested in a complimentary Lease vs. Buy Analysis:

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