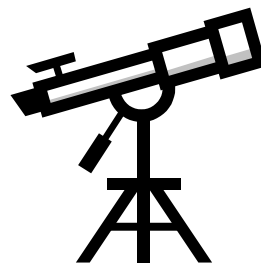


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# **Ocean Sparkle Limited**



## **Lease Vs. Buy Analysis**

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Ocean Sparkle Ltd Lease Vs. Buy Analysis

User Provided Parameters	
Lease Asset Value	50,000,000
Lease Management Fee	1.00%
Annual Lease Pricing Rate	16.00%
Lease Term (Years)	8
Balloon	0
Cost of Debt	11.50%
Cost of Equity	25.00%
Debt Financing	75.00%
Equity Financing	25.00%
Tax Rate	36.75%
Tax Depreciation Rate	20.00%
Depreciation Type	WDV
Tax Life of Asset (Years)	8
Rental Type	Fixed Annual Rentals
Tax Payment Delay (Months)	0

Derived Parameters	
Pre-Tax Cost of Debt	11.50%
Post-Tax Cost of Debt	7.27%
Pre-Tax Cost of Equity	39.53%
Post-Tax Cost of Equity	25.00%
Pre-Tax Cost of Capital	18.51%
Post-Tax Cost of Capital	11.71%

Lease Rentals	
Year 1	11,511,213.01
Year 2	11,511,213.01
Year 3	11,511,213.01
Year 4	11,511,213.01
Year 5	11,511,213.01
Year 6	11,511,213.01
Year 7	11,511,213.01
Year 8	11,511,213.01

Lease Vs. Buy Analysis	
Present Value of Lease Payments	36,860,303.00
Present Value of Buy Payments	37,939,412.85
Leasing is Cheaper than Buying	1,079,109.85

An easy way to evaluate 'Buying' and 'Leasing' is to compare the Post-Tax Cost of Capital (this is the cost of 'Buying') with the Post-Tax Cost of Leasing.

The Post Tax Cost of Capital (given assumptions on debt and equity) is 11.71%

As against this, the Post Tax Cost of Leasing is 11.07% (Table 4)

The cheaper cost of leasing is reflected in the financial savings set out in the above table (1.079 Million)

Ocean Sparkle Ltd.		Economics of Leasing				
Year	LMF	Lease Rental	Post Tax Outflow	PVF	Tax Delayed PVF	DCF
0	500,000.00	0	(316,250)	1.0000	1.0000	(316,250)
1	0.00	11,511,213	(7,280,842)	0.8952	0.8952	(6,517,901)
2	0.00	11,511,213	(7,280,842)	0.8014	0.8014	(5,834,907)
3	0.00	11,511,213	(7,280,842)	0.7174	0.7174	(5,223,482)
4	0.00	11,511,213	(7,280,842)	0.6423	0.6423	(4,676,127)
5	0.00	11,511,213	(7,280,842)	0.5750	0.5750	(4,186,128)
6	0.00	11,511,213	(7,280,842)	0.5147	0.5147	(3,747,474)
7	0.00	11,511,213	(7,280,842)	0.4608	0.4608	(3,354,786)
8	0.00	11,511,213	(7,280,842)	0.4125	0.4125	(3,003,247)
TOTALS	500,000	92,089,704	(58,562,988)			(36,860,303)

Ocean Sparkle Ltd. Economics of Buying

Year	Cost	Depn	Tax Write-Offs	Tax Shield	CF	PVF	Tax Delayed PVF	DCF
0	50,000,000	0	0	0	(50,000,000)	1.0000	1.0000	(50,000,000)
1	0	10,000,000	10,000,000	3,675,000	3,675,000	0.8952	0.8952	3,289,906
2	0	8,000,000	8,000,000	2,940,000	2,940,000	0.8014	0.8014	2,356,132
3	0	6,400,000	6,400,000	2,352,000	2,352,000	0.7174	0.7174	1,687,391
4	0	5,120,000	5,120,000	1,881,600	1,881,600	0.6423	0.6423	1,208,459
5	0	4,096,000	4,096,000	1,505,280	1,505,280	0.5750	0.5750	865,462
6	0	3,276,800	3,276,800	1,204,224	1,204,224	0.5147	0.5147	619,818
7	0	2,621,440	2,621,440	963,379	963,379	0.4608	0.4608	443,895
8	0	10,485,760	10,485,760	3,853,517	3,853,517	0.4125	0.4125	1,589,522
TOTALS	50,000,000	50,000,000	50,000,000	18,375,000	(31,625,000)			(37,939,413)

Ocean Sparkle Ltd. Implicit Cost of Leasing 11.07%

Year	Investment Saved	Lease Rental	Post Tax Rental	Depreciation	Depn Shield Foregone	Total Flows
0	50,000,000	500,000	(316,250)	0	0	49,683,750
1	0	11,511,213	(7,280,842)	10,000,000	(3,675,000)	(10,955,842)
2	0	11,511,213	(7,280,842)	8,000,000	(2,940,000)	(10,220,842)
3	0	11,511,213	(7,280,842)	6,400,000	(2,352,000)	(9,632,842)
4	0	11,511,213	(7,280,842)	5,120,000	(1,881,600)	(9,162,442)
5	0	11,511,213	(7,280,842)	4,096,000	(1,505,280)	(8,786,122)
6	0	11,511,213	(7,280,842)	3,276,800	(1,204,224)	(8,485,066)
7	0	11,511,213	(7,280,842)	2,621,440	(963,379)	(8,244,221)
8	0	11,511,213	(7,280,842)	10,485,760	(3,853,517)	(11,134,359)
TOTALS	50,000,000	92,589,704	(58,562,988)	50,000,000	(18,375,000)	(26,937,988)