

Winning With Lease vs. Cash Analysis

By Sudhir Amembal

Too many deals are unnecessarily lost to cash! “We want to pay cash”, “It’s cheaper to pay cash”. We hear this day in and day out. We counter back with statements such as “Why tie-up the cash?”, “Cash has an opportunity cost to it”, ... These counters are simply not good enough. The best and the only way to truly convince the skeptics is to present them with a simple lease versus cash analysis.

When such analysis is done correctly, 9 times out of 10, it will clearly show your customer that leasing is definitely cheaper than an outright cash purchase! The critical component of the analysis rests with the choice of the discount rate. One can use a variety of discount rates. These include:

- Inflation rate
- Pretax cost of debt
- After-tax cost of debt
- Opportunity cost
- Cost of capital
- Return on equity

The very fact that the above numbers could range from say 3% to 25% demonstrates how critical it is to use the right one. The most appropriate rate is based on the customer's liquidity preference and it is then a choice from among the last three listed.

Beyond using the most appropriate discount rate, one needs to have a working knowledge of the other components of a properly done lease versus buy analysis. These include:

- Lessee's tax rate
- Tax consequences of both modes of acquisition, and
- Consistency with end of term options

Analysis is one thing, presentation is another. Present value after tax analysis is not something that many of your customers will comprehend. Some may pretend to – you will quickly be able to discern this, just watch their glassy eyes! Thus, it

is important that you present the analysis in as simple a format as possible and with simple, easy to understand conclusions.

Of course, if your eyes glaze over, too, at the mere thought of doing a lease versus cash analysis on a present value, after-tax basis, then simply call one of our representatives at Amembal Capital. They live and breath lease versus cash, and will be happy to be of service to you. And, your chances of winning the deal will soar! We are truly value added!!

P.S. One of our recent broker participants at our free broker seminar wrote in his evaluation "Lease versus cash analysis will create additional sales for me".