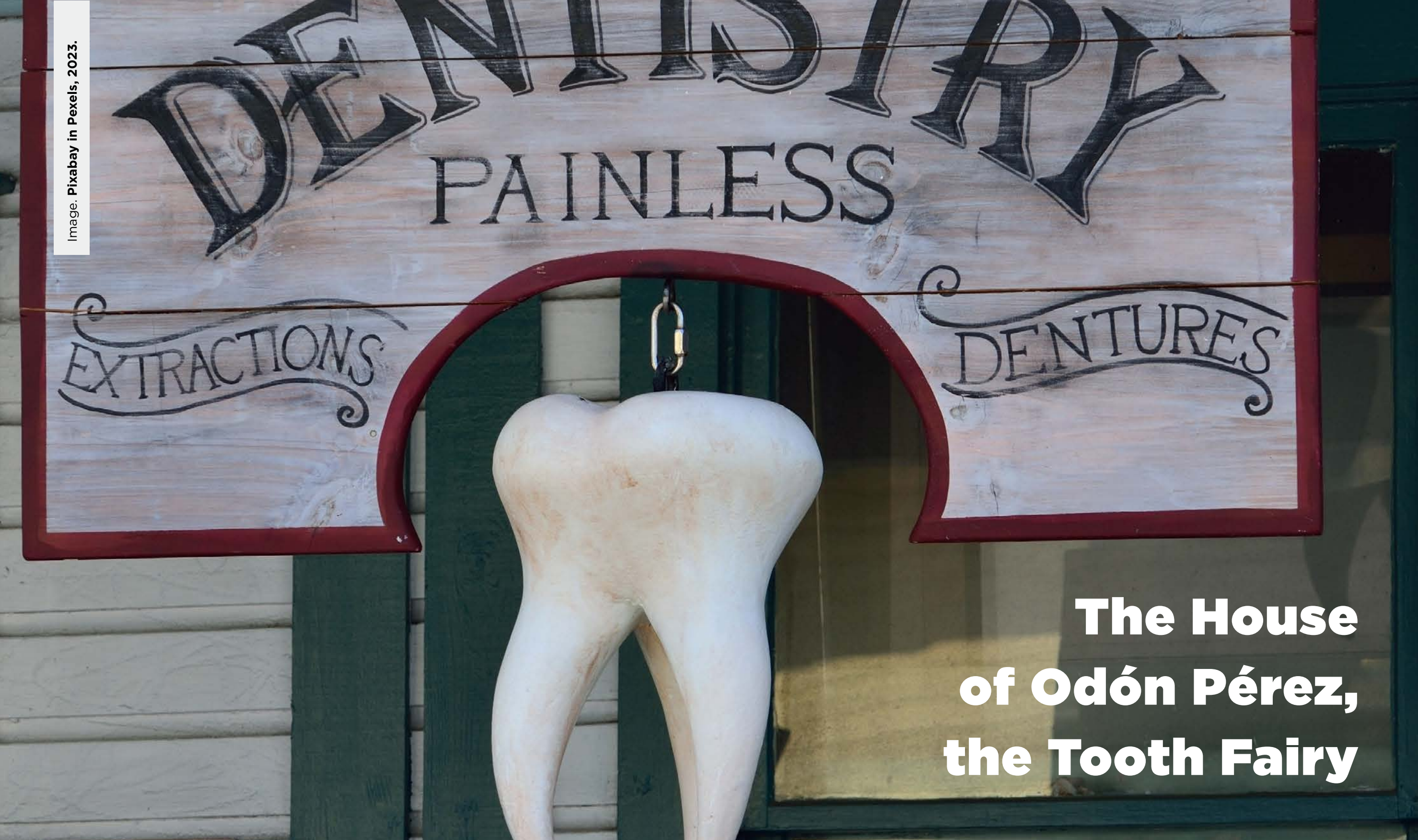




The House of Odón Pérez, the Tooth Fairy

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FUNDING

Odón Pérez, originally from Mazatlán, Sinaloa (Mexico), studied Pediatric dentistry in Culiacán, the state capital; his dream was to start his professional career by opening a dental clinic in an excellent location in his hometown, property of his parents.

Once graduated, Odón tells his parents about his professional plans and says that he has already done some research and planned a budget to accomplish them; he has already identified the investment that is needed to refurbish the clinic. Including the furniture, equipment, and necessary work tools, he will need a bank loan for eight hundred thousand pesos (MXN).

Despite being a recent graduate, Odón has a good history in the credit bureau,

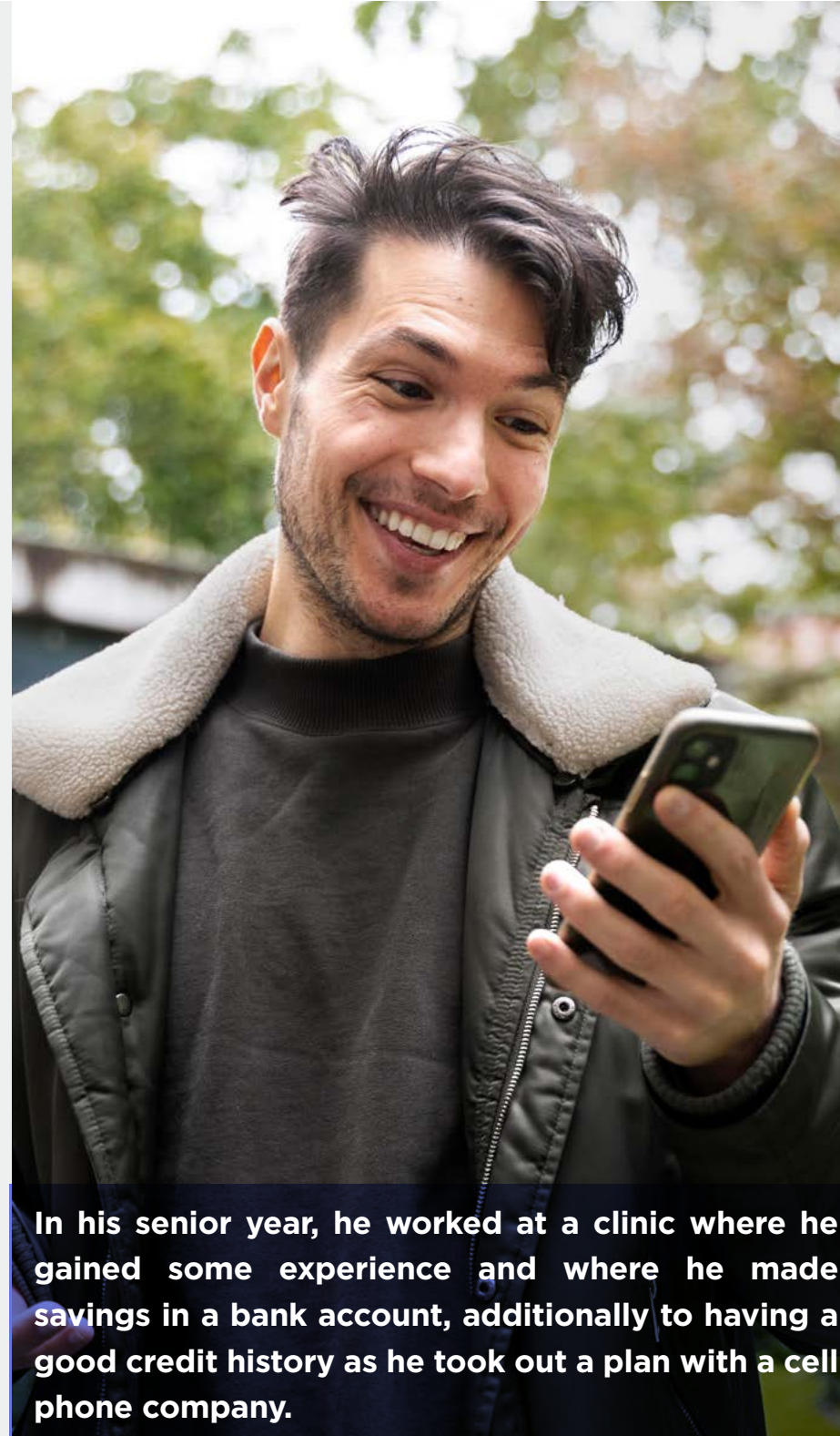


Image. Freepik, 2023.

In his senior year, he worked at a clinic where he gained some experience and where he made savings in a bank account, additionally to having a good credit history as he took out a plan with a cell phone company.

so he is certain that he will be able to get a loan from a banking institution. He turns

to those recommended by Condusef⁺, and after an exhaustive research and elaboration of depreciation tables of each credit (considering five years), he chooses the most suitable according to CAT.

As the premises where he will set up the clinic belong to his parents, they propose that in exchange for the monthly rent he should pay, he makes them partners of the clinic with a 15% capital contribution. His parents agree to contribute this percentage to the funds that are needed to launch the business, but in exchange ask for whatever has the best yield, between the return that results from calculating the CAPM [determined according to the 1 month CETES⁺ rate, a risk multiplying factor (also known as Beta) of 1.1 and the market rate determined by the IPC return in the last year] or 1 month CETES.

INVESTMENT

After analyzing his parents’ proposal, Odón formulates two possible scenarios, not before making an estimate of the annual income and expenses of the clinic for five years, the time that he believes to be appropriate to assess whether to invest in a dental clinic, or find a job in an already established clinic.

Both scenarios imply the same income level, but considering expenses, if he decides not to team with his parents, they would ask for a rent, which would be of 120 thousand pesos (MXN) for the first year.

Odón acknowledges that his income and expenses would change over the years for the following reasons:

- 1. By creating a reputation as a dentist, and with the lack of pediatric dentists in the area, his income should increase 15% every year.
- 2. Expenses will grow 8% every year as the result of inflation and income growth.

Image: Senivpetro in Freepik, 2023.



POSSIBLE SCENARIOS			
CAPITAL STRUCTURE		SCENARIO 1	SCENARIO 2
Debt (bank)		100 %	85 %
Capital (parents)		-	15 %
YEAR	INCOME	EXPENSES SCENARIO 1	EXPENSES SCENARIO 2
1	\$450,000	\$340,000	\$220,000

THE DECISION

Odón cannot sleep for a full night, as he must make two important decisions: deciding on his funding sources, and finally, investing on the clinic. Odón understands that before making a decision he must answer the following:

- Of the banks that Condusef is recommending as the cheapest, which has the lowest cost and how much will he have to pay annually?
- How much will it cost him to fund his clinic by obtaining the funding directly from the bank, and how much if he partners up with his parents?
- Which would be the net cash flows that he would have for five years in each of both alternatives?
- Which of the funding alternatives would bring better return? Are there any other alternatives? Which could these be, and which could be their advantages?