

Lights, Camera... Investment?

Click on the content you want
to know more about.

MENU.
Click to return to this page.

THE STORY

**ESTIMATED
REVENUES**

**COSTS
AND EXPENSES**

**INVESTMENTS IN
FIXED ASSETS**

**FINANCING
SOURCES**

**ANALYSIS
SCENARIOS**

THE DECISION

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THE STORY

Ana Ríos and Santiago Herrera, third-semester Business students, have been developing their audiovisual project “FrameNew” for two years. They have produced content for musicians, influencers, and local small businesses, earning between 15,000 and 30,000 pesos monthly. Now, they want to professionalize their operation: legally establish a microenterprise, acquire professional equipment, set up their own studio, and hire freelance staff.

An investor, Luis Barrera, a Tec alumnus and entrepreneur in the creative sector, proposes to invest 400,000 pesos in exchange for 40% of the company. The capital would be used to acquire key assets, set up the studio, and launch a marketing strategy.

Before making a decision, Ana and Santiago want to thoroughly analyze the financial viability of the project, evaluate funding sources, expected profitability, and risks.

ESTIMATED INITIAL INVESTMENT		
CONCEPT	ESTIMATED AMOUNT (MXN)	USEFUL LIFE (YEARS)
Professional Cinema Camera	180,000	5
Lighting Kit	60,000	5
Editing Station (Computer + Software)	70,000	4
Studio Setup and Initial Rent (6 months)	60,000	0
Initial Working Capital	80,000	0
Total Initial Investment	450,000	

Source: Own elaboration, 2025.

Note: Working capital covers operational supplies, freelance staff payments, licenses, unforeseen expenses, and cash flow for the first few months.



Image. Frimufilms in Freepik, 2025.

ESTIMATED REVENUES

Luis already has a reputation for quality work, and Ana and Santiago, despite their few years of experience, have shown great talent and creativity. Luis’s contribution, both in knowledge and better work tools, and Ana and Santiago’s strengths will gradually increase the number of projects “FrameNew” undertakes.

The team has set an average price of 15,000 pesos per project, which will be updated annually according to inflation.

They’ve set goals and plan to achieve the following production contracts over the next five years, which they consider a suitable period to evaluate Luis’s investment and seek further expansion.					
YEAR	1	2	3	4	5
Productions	24	30	36	42	48
Source: Own elaboration, 2025.					

COSTS AND EXPENSES

Based on their experience, the three partners have identified the costs and expenses involved in their projects and their behavior. This information allows them to estimate and include them in the financial evaluation. They expect similar behavior over the five years; additional working capital is replenished annually and recovered in year five at the end of the investment horizon.

EXPENSE OR COST	AMOUNT OR BEHAVIOR
Variable Costs	30% of annual income
Annual Fixed Expenses (rent, services, marketing)	\$180,000
Increase in Fixed Expenses	8% annually
Annual Working Capital	10% of the following year’s income
Depreciation	Straight-line with no salvage value
Income Tax (ISR)	30%
Estimated Inflation	4% annually

Source: Own elaboration, 2025.

INVESTMENTS IN FIXED ASSETS

Upon analyzing the project details, they decide that the fixed assets from the initial investment will not be replaced, nor will additional assets be needed during the five years. However, they recognize that at the end of that period, all equipment could be sold for 10% of its original value.

Images: Freepik in Flaticon, 2025.

SOURCES OF FINANCING

Boosting FrameNew’s growth will definitely require Luis’s involvement, but also a small loan to cover the initial investment.

AGREEMENTS TO FINANCE FRAMENEW’S EXPANSION	
 SOURCE OF FINANCING	 COST
Luis’s contribution in exchange for 40% of the company’s equity	Luis agrees to receive a return equivalent to the expected return from a combination of market return, risk-free rate, and a market risk indicator of 1.3
Business loan with preferential rate	18% annually
Source: Own elaboration, 2025.	

ANALYSIS SCENARIOS

Ana believes it's important to consider that things don't always go as planned, so she proposes studying a scenario with better-than-expected results and another with worse outcomes. She suggests changes in the structure of costs, expenses, and revenues, as well as the probability of each scenario occurring.

PRODUCTIONS PER YEAR	1	2	3	4	5
Optimistic	24	34	44	54	64
Pessimistic	24	26	28	30	32
Source: Own elaboration, 2025.					

SCENARIO	ANNUAL INCREASE IN FIXED COSTS	PROBABILITY
Optimistic	5 %	20 %
Base	8 %	60 %
Pessimistic	15 %	20 %
Source: Own elaboration, 2025.		

THE DECISION

With all this information on the table, Ana and Santiago need to make a decision after analyzing the answers to several questions that have come up during their discussions:

What is the weighted average cost of the project considering the defined sources of financing and their proportion relative to the initial investment?

Will the project be profitable? What will its profitability be, and how long will it take to recover the investment?

What happens to the project's profitability under different scenarios?

What financial and strategic implications does accepting Luis as a partner have?