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**DOMENICO CAVALIERE FOR FM60**

***From Physics to Consulting***

**20 December 2002**

L.E.K. CONSULTING SRL  
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## ***Agenda***

- **Introduction**
- **Profile of L.E.K. Consulting**
- **A few corporate finance ideas**

***It all started with Francesco in Via Irnerio ...***

- **Dec 1981 graduation paper: Elastic waves in composite materials (approximating several layers with an equivalent elastic medium) - A few war stories to tell ...**
- **1982-1984: IBM Italia: Systems Engineer**
- **1984-1987: Hewlett-Packard: District Manager**
- **1987-1988: INSEAD, Fontainebleau (F): Master in Business Administration**
- **1988-1989: Strat\*X, Paris: Strategic Marketing Consultant**
- **1989-present: L.E.K. Consulting, London and Milan: Managing Partner**

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## ***L.E.K. Consulting is a global strategy consulting firm with a special focus upon M&A transaction support***

- L.E.K. Consulting was founded by Lawrence, Evans and Koch in London in 1983
- Since then it has become one of the world's most successful strategy consulting firms with approx. 500 professional staff across our network of 15 offices in the major cities of Europe, North America and Asia-Pacific
- Our services include business strategy development, mergers and acquisitions advisory services and shareholder value consulting
- L.E.K. has specialist expertise in mergers and acquisitions gained from our involvement in transactions totalling more than \$300 billion over the past five years alone
- 90% of L.E.K.'s business is from clients who have experienced our work or who have been introduced to us by client recommendations
- World-wide, L.E.K. currently has over 55 private equity clients
- In Italy, L.E.K. Consulting has been operating out of Milan since 1991 and has provided members of the private equity community, large corporations and small and medium-sized companies with strategic advice and commercial support
- Nearly 20% of the Milan Office's revenues in 2001 were derived from services for private equity houses
- In addition, L.E.K. has established a leading reputation for assisting companies in the process of going public

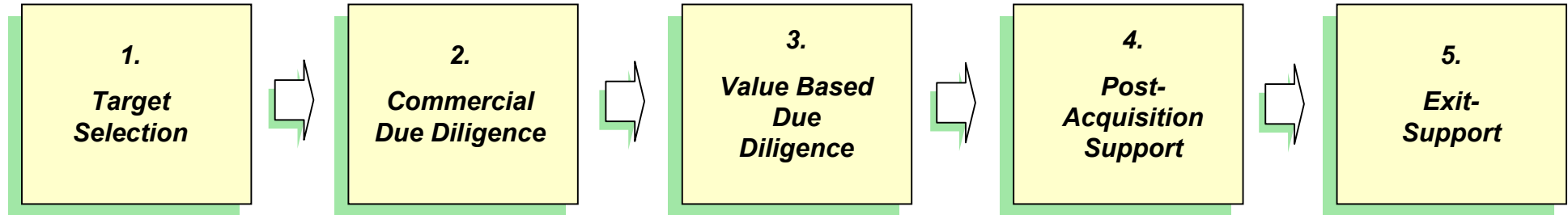
***Our services include mergers and acquisitions advice, business strategy development, shareholder value consulting, and implementation support***



***L.E.K. Consulting employs more than 500 employees across a network of 15 offices in the major cities of Europe, North America and Asia-Pacific***



**L.E.K.'s services for M&A and private equity clients span the whole acquisition cycle**



- Acquisition Screen
- Portfolio and strategy review
- „Public to private“

- Primary and secondary market analysis
- Quantification of market potential and growth
- Competitor analysis and benchmarking
- Analysis of target information (data room) and corporate finance
- Identification of up- and downsides
- Evaluation of business plan
- Support in tender process

- Identification, quantification and prioritization of value drivers
- Target valuation
- Development of different valuation scenarios and sensitivity analysis
- Development of strategies for value maximization
- Evaluation of exit options

- Introduction of Value Based corporate finance
- Support in implementing value potentials with corporate finance
- Development of Value Based Reporting for investors and Top corporate finance
- Support in M&A activities

- Evaluation of exit strategies
- Support in getting ready for IPO
- Project corporate finance of IPO process
- Identification of potential strategic and financial buyers



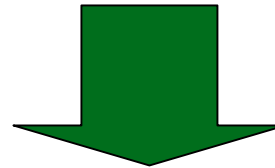
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***The time value of money: “Cash today is better than cash tomorrow”***

Year	1	2	3	4	n
Discount Factor	$1/(1+10\%)$	$1/(1+10\%)^2$	$1/(1+10\%)^3$	$1/(1+10\%)^4$	$1/(1+10\%)^n$
	X	X <sup>2</sup>	X <sup>3</sup>	X <sup>4</sup>	X <sup>n</sup>
Present Value	0.909	0.826	0.751	0.683	

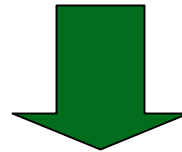
$$X = \frac{1}{(1+10\%)} < 1$$



Assuming interest at 10%, a financial investor would be indifferent between receiving 909 Euro today or 1,000 Euro at the end of next year, because 909 Euro could be invested at 10% for one year to yield 1,000 Euro

## Discounted Cash Flow (DCF) Valuation

Year	1	2	3	4	5
Cash Flow	CF1	CF2	CF3	CF4	CF5
Present Value	0.909 x CF1	0.826 x CF2	0.751 x CF3	0.683 x CF4	0.621 x CF5



The value of a company is the value of its future cash flows, adjusted to reflect the time value of money

$$\sum_{n=0}^{\infty} \frac{CF_n}{(1 + \text{Rate})^n}$$

**The perpetuity value: Cash Flows beyond the planning period (typically 3-5 years) are assumed to be constant**

$$\sum_{n=6}^{\infty} \frac{CF_n}{(1+Rate)^n} = \frac{CF}{(1+Rate)^6} \sum_{n=0}^{\infty} X^n = \frac{CF}{(1+Rate)^6} \cdot \frac{1}{(1-X)} =$$

$$= \frac{1}{(1+Rate)^5} \cdot \frac{CF}{Rate}$$

Perpetuity Value

$$X = \frac{1}{(1+Rate)} < 1$$



The value of the company equals the sum of:

- discounted cash flows over the planning period PLUS
- the present value of the perpetuity