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**INTERVIEW : Guarguaglini : How I won over the USA**

### **Guarguaglini: “Me, the Amerikan”**

Following the acquisition of DRS, the chief executive of Finmeccanica explains the expansion strategy in the United States, which started with helicopters: “If you're strong in the US defence sector, then the path is clear for the rest of the world”

By MARCO PANARA

#### ***Rome***

First the United Kingdom, followed by America. And when the Pentagon then opens its doors to a defence firm, the rest of the world comes of its own accord. In two key steps, Finmeccanica has become a leading player in its sector on the global stage, with sales set to reach EUR 18 billion in 2009. The two key steps were firstly the acquisitions in Great Britain (the remaining 50% of Agusta Westland and Bae System's defence electronics business) and then the acquisition of US DRS Technologies, which is currently being finalised. With these acquisitions, the Italian group will have a manufacturing presence and 10,000 employees in the United Kingdom and a manufacturing presence with over 10,000 employees in the United States, a country which alone accounts for one-half of all defence investments made each year throughout the entire planet. These two steps were taken under the leadership of Pierfrancesco Guarguaglini, Chairman and Chief Executive of Finmeccanica.

**Finmeccanica will be investing over US\$ 5 billion for DRS, the biggest acquisition ever made by Finmeccanica. But what has most struck international observers is that for first time the United States is allowing the acquisition of a major defence sector group by a “non-English speaking” group. How come they decided to sell it to you?**

“It was in the joint interests of both companies. Finmeccanica was looking for an American high-tech business with close ties to the end customer in order to gain a presence in that market, and with helicopters and aircraft in defence electronics too. DRS managers were aware that their company was a potential target and concluded that they would be given the greatest guarantees of independence by Finmeccanica. I should add that there's a long-standing and respectful relationship with Newman, the son of the DRS's founder and the company's current headman”.

#### **What else counted?**

“The price, which had to be credible to allow the DRS management to put our bid to its shareholders, and also the positive attitude of the Government in Washington. Of course, a series of fundamental steps are still missing: the approval of shareholders, the review by the Antitrust Authorities, which oversee foreign investments, and the final opinion of the

SSA, which gives the go-ahead for purchases of firms in the military sector. Meanwhile there's always the possibility that someone may decide to make a higher bid”.

**Are you expecting this?**

“It's possible, not by a US company so much as a European one”.

**What does DRS bring to Finmeccanica?**

“Around US\$ 3 billion in sales accounting for 90% of the United States where DRS is a major supplier to the army and marines of technologically advanced products. As a company, it's very strong on support and much appreciated by the armed forces in the United States”.

**What, from your point of view, are its most important gifts?**

“Without doubt the fact that it is well-liked by the end customer and has excellent technologies. What's more, Finmeccanica has many air and land platforms and supplies systems so DRS will be able to use our platforms for its products and will be able to grow from a supplier of equipment into a supplier of systems”.

**With this acquisition, has Finmeccanica completed its programme with regard to defence electronics or are there other transactions in prospect?**

“Further expectations cannot be ruled out, but for now we're excellently placed in Italy, the United Kingdom and the United States and hence throughout the world, and we can go forward perfectly well with this structure”.

**You also bought into Eurotech recently.**

“It's a fairly small investment, but Eurotech has interesting technology and immediately sought a presence in Great Britain and America, which shows that it shares our own aspirations, albeit on a smaller scale, so a collaborative venture may yield excellent results”.

**Does landing in America close the doors to European alliances?**

“We're always amenable. We have numerous alliances on programmes; with Thales, for example, we're working together on Italo-French naval programmes while on other projects we're rivals. As for structural alliances, this American operation clearly makes us stronger because it gives us a significant presence on the world's leading market. None of which means though that we shouldn't talk”.

**Since reaching the top job in Finmeccanica in 2002, your strategy has always been to dismantle alliances rather than build them.**

“More than anything else we have dismantled those alliances with a 50% capital split because in those situations it’s never clear who’s in control, and we’ve repurchased all the defence electronics businesses precisely because the big systems are in the hands of those with the electronics and not those with the platforms. We were then successful in the United States with the US101 helicopters chosen by the White House, and with the C27J Spartan transport aircraft adopted by the Armed Forces, and we were keen to strengthen our position on that market in defence electronics as well”.

**Finmeccanica is also very active in Russia. Could your presence in the East interfere with the authorisations for the purchase of DRS?**

“I don't think so. In Russia, our efforts are focused in a variety of sectors. There’s aeronautics with Sukoi for the manufacture of the superjet, we’re in discussions with the railways for train signalling, we’re interested in postal automation, air traffic control, digital communications; we’re in talks on energy and the sale of helicopters for civilian use, and we’ve already sold some satellites. Relations are intense and varied therefore, but they’re all in civilian sectors”.

**The other delicate front in your business is the twin relationship with two large and fiercely rival groups, Boeing and EADS.**

“We believe that our composites technology is excellent and the aircraft of the future will increasingly be built using materials of this type. Since we’re not responsible for the aircraft project, we offer our technology to anyone who needs it, nothing more”.

**The DRS transaction has met with largely positive reactions from analysts. Debt is the cause of some concern, but the aspect that draws most criticism is the profitability of the Finmeccanica Group.**

“In my opinion, our profitability is excellent. EBIT in 2003 was 5.6% and in 2007 approached 8% with the target of reaching 10% in 2010. Some analysts, moreover, have reported that without Ansaldo Breda, EBIT would already have reached 9%, and we forecast that this year Ansaldo Breda is set to break even. Finmeccanica’s profitability is one of the best in the sector within Europe and is also in line with that of US firms. This is no mean feat considering that in 2002 the group's only profits were those produced by STM, which doesn't even appear now. The fact is that we’re managing to grow revenues and profitability together, which is no mean achievement”.

**Finmeccanica is a technology group, but Italy doesn't seem to be the ideal country for research.**

“The problem is basically one of resources. The public sector invests little and private firms are often too small and focus more on the idea than on systematic investments in research and technology. At the risk of sounding paradoxical, we have far too many researchers who, without the funds to support their research, inevitably perform poorly. If the resources cannot be increased then it's better to have fewer researchers with sufficient funds to develop their pursuits”.

**We're at the height of the nominations season and your term of office is due to expire...**

“The Finmeccanica shareholders’ meeting was scheduled for 6 June precisely so that it could be held with a Government in office. I'm not worried about nominations because it's down to the relevant ministers. I can only say that the board of directors of Finmeccanica appointed by the previous Berlusconi Government has achieved excellent results”.

**Six years at the Group’s helm**

Livorno-born Pierfrancesco Guarguaglini, aged 71 years, has been leading Finmeccanica for the past six years, having joined it following his success as a “restructuring” at Oto Melara, at Breda and finally at Fincantieri between 1999 and 2002. At Finmeccanica, he has managed to transform the Cinderella of the defence industry into a world player. The purchase of DRS is the biggest operation in information technology. According to the *Wall Street Journal*, its success is due to the patient diplomatic work of Giovanni Castellaneta, currently Ambassador to Washington and previously Vice-Chairman of none other than Finmeccanica itself.