

**Italian job**

PAUL BETTS on Finmeccanica's turnround **Page 16**

**Finmeccanica outwits EADS with Tuscan tactics**

**Paul Betts**

**EUROPEAN VIEW**

Pier Francesco Guarguaglini is a rugged and determined Tuscan. Like so many others in lovely Tuscany, he likes to keep things simple and direct. Since taking charge of Finmeccanica six years ago, Mr Guarguaglini, 71, has turned the Cinderella of the European defence industry into a global player, outmanoeuvring bigger rivals such as the fiendishly complicated EADS.

He has quietly streamlined and refocused the Italian industrial group while EADS remains shackled to its bureaucratic Franco-German heritage. He has done all this even though the Italian government owns a big stake in his company just as the French and German governments have an influential say in EADS.

He reinforced the Italian group's presence in the UK by taking full control of Westland and then picking up a clutch of defence electronics businesses from BAE Systems. The UK, where Finmeccanica now employs about 10,000 people, has provided a bridgehead into the US, the biggest defence market, where EADS has also struggled to build a convincing defence presence.

EADS recently scored a big coup with the contract to supply the US Air Force with refuelling tankers. But Finmeccanica has also won some pretty impressive contracts. These include the prestigious deal to supply the US president with a new helicopter and the contract for the new C27J light transport aircraft from the Pentagon.

Now Mr Guarguaglini could be about to steal a real march on EADS and other continental European rivals with a \$3.5bn deal to acquire DRS Technologies, a significant US defence supplier.

Embarrassingly, EADS, which has been searching for a big deal in the US for the past year, has been forced to admit it did not know that DRS was in play. It is now trying to hint it could break in and spoil the party for Finmeccanica, but this could cost it dear.

It could be too late. Finmeccanica's board is due to meet imminently to seal the deal. If Mr Guarguaglini pulls off the US acquisition, it will give Finmeccanica an altogether different scale in the defence industry and confirm the group as a bona fide supplier to the Pentagon.

Yet no one should be surprised by Mr Guarguaglini's move. He has made no secret of his ambitions to clinch a big acquisition to boost the group's defence capabilities. He has said repeatedly that he had a \$3bn war chest and was ready to seize an opportunity, but many industry observers felt his principal target remained France.

Finmeccanica has long been rumoured as a potential defence electronics merger partner for Thales. A year or so ago, the French company revived speculation of doing a cross-border deal with the Italians as a way of frustrating its old foe EADS, which has sought repeatedly to take control of Thales. But Thales has subsequently turned its sights again on Safran, the French aero-engine and defence group.

Mr Guarguaglini was clearly not going to hang around indefinitely for the French to make up their minds. Instead, in his straightforward style, he has jumped on the opportunity to make a significant move across the Atlantic. This does not mean he has lost interest in France. If he gets DRS under his belt, he could be in an even stronger position eventually to negotiate a deal with the French. Simple rustic Tuscan tactics clearly pay higher dividends than the more Machiavellian approach of Finmeccanica's French and German rivals.

