

## **The American takeover bid**

Finmeccanica wins a place in the sun with DRS

With the acquisition of US company DRS, Finmeccanica has to all intents and purposes become a world player in the defence sector. After the takeover of DRS it knows it has taken its place in history. Chairman and MD Pier Francesco Guarguaglini: a deal worth USD 5.2 billion, or EUR 3.4 billion. A successful strike at the US military market, the world leader in terms of turnover and technology. Meanwhile, Finmeccanica's profit soars by 279% in the first quarter.

### **Finmeccanica wins a place in the sun**

Guarguaglini: "With DRS we're no longer in the second division. Long-term bonds issued for the transaction". Profits climb by 279%.

By CLAUDIO ANTONELLI

The Financial Times yesterday described the takeover by Finmeccanica more or less like the transformation of a caterpillar into a butterfly, achieved thanks to the Tuscan tenacity of the company's top man Pier Francesco Guarguaglini. And in just seven years. Unlike EADS, which is increasingly trapped in the quicksand of bureaucracy on which it is built (as demonstrated by the speed with which Finmeccanica whisked the New Jersey company from under its French "cousin's" nose). The strategy implemented by the Italian group's chairman and CEO turned out to be a winning one: penetrate the UK market, acquire companies in key sectors in order to increase critical mass and finally aim to grow in the US market. "This acquisition", concludes the Financial Times, "will give Finmeccanica a completely different weight in the defence market and confirms the group as a reliable and valuable supplier to the Pentagon". A few nights ago, the board of US company DRS Technologies approved the friendly takeover of 100% of its shares for USD 81 per share in cash, while the overall value of the deal (which, according to Finmeccanica's senior management, requires a capital increase of no more than EUR 850 million and perhaps not even the use of a bridging loan from the banks) stands at around EUR 3.4 billion. Also yesterday, the acquisition was announced of 11% of Eurotech, a leading company in the construction and marketing of nano PCs and high processing capacity (HPC) computers: a blitz worth around EUR 20 million which will also be good for the Friuli-based company, thanks to the contracts it will receive. A flurry of news, while the Rome-based company was presenting its first quarter figures at its London office. Revenues are up six percent, with profit up by EUR 126 million on 2007, or EUR 72 million excluding the capital gain on the sale of STM shares. Estimates remain unchanged however, with like-for-like growth predicted to be between 6% and 11% and EBITDA predicted to increase by between 12% and 19%. Essentially, as a result of the takeover of DRS, revenues are expected to rise to between EUR 17.3 billion and EUR 18.1 billion in 2009. Piazza Affari is undecided, while in the afternoon Fitch confirmed the long-term rating as BBB and the short-term rating as F2. Standard & Poor's went the same way, announcing a triple B and a short-term rating of A2, but with a negative credit watch.

With all this going on, European competitors Thales and EADS, who have viewed Italy for years as amateurs working in defence as a hobby, will be forced to review their positions and balances in their respective joint ventures.

**Chairman Guarguaglini, did you plant a nice little flag in the defence electronics sector yesterday?**

“With the takeover of DRS we have obtained technology as well as a share of the US market. We have taken an important step in three directions: centralisation, internationalisation and a decisive push into the largest defence and security market in the world. It’s no longer enough for us to be strong in helicopters and platforms, we have to be successful at defence electronics as well now”.

**Will there be a sale of any of the numerous assets owned by the American DRS company?**

“No. By keeping all their facilities, our group will reach the significant number of 70,000 employees. This is also not a negligible fact”.

**Your objectives for the future?**

“First of all we’ll be aiming to strengthen our technological know-how. Once this has been achieved, we will be making further acquisitions around the world according to the same logic we have always used”.

**As regards the financing, will there be a long-term bond issue?**

“We’ll be using a bank loan to finance the acquisition of DRS, but it won’t be a large one and will be repaid by a combination of a capital increase and a long-term bond issue. The stock market listing of Ansaldo Energia also counts among these prospects.”

**Meanwhile, how will balances change in Europe? Will Thales and EADS be forced to review many of their strategies?**

“What I can say is that we’re one of the major players now. Our years in the second and third divisions have passed. Things are different now. We’ll have a voice in Europe and we won’t miss an opportunity to use it”.