

Il Sole 24 Ore- 14th November 2008

Finmeccanica. “Mission accomplished in US”

DRS completes expansion in biggest defence market

INTERVIEW Pier Francesco Guarguaglini Chairman of Finmeccanica

“I am a man with strong nerves, and my courage has been rewarded: funds have also invested in us”

by Mario Monti

Milan

“I believe I am a person with strong nerves, which has been a very useful quality in the past few months. Now I can say that my courage has been rewarded”. Pier Francesco Guarguaglini, chairman and CEO of **Finmeccanica**, has overseen several major successes this week, including the clinching of the acquisition of **DRS Technologies**, the defence electronics specialist, a capital increase that was more than 98% subscribed and announcements of increased revenues and orders in the third quarter. This was no mean feat, given the extreme volatility of the financial markets and uncertainty over the commitment of shareholders to the kind of industrial operation that has become a rarity in this climate of global meltdown. The DRS deal took place as Lehman Brothers, one of Finmeccanica’s advisors, went bankrupt, and against the backdrop of the US presidential elections.

It was “a calculated risk,” according to the manager from Livorno, who has held the top job at Finmeccanica since 2002, and has achieved the difficult task of convincing US and UK funds to invest in Finmeccanica “with a view to the long-term”. Less predictable was confirmation of another dividend of 41 euro cents for next year, and preservation of the group’s financial guidance, despite the crisis: Guarguaglini forecasts EUR 3bn in revenues for DRS, which would boost Finmeccanica’s consolidated revenues to EUR 18.1bn-18.9bn.

Mr Guarguaglini, 90% of DRS’s turnover is generated by Pentagon orders. Would this not be excessive exposure if the new US administration were to consider cuts to defence spending?

The new president of the United States will make his own mark, but he will certainly also have the country's responsibilities in mind. We believe that security will continue to be a major priority for the new administration. This presidency should approve the 2010 defence budget by December, and therefore cuts in spending are not expected before 2011.

So in the short term, problems are not anticipated...

We based our investment in DRS on a long-term vision and we are convinced that the US will continue to be the main defence market. DRS’s business model makes it less vulnerable to any contractions in US defence spending. At the moment, we are pleased with the results from the last quarter, which were better than the estimates given at the time of the acquisition. We have also been able to exploit the dollar's weakness against the euro with hedging operations, allowing us to make savings on the original value of our stake.

And in other countries?

There is a trend of stable growth in defence spending, although at a less rapid rate than in recent years. Italy represents 35% of orders from armed forces, with an estimated budget of EUR 4.5bn-5bn for the next three years. The UK accounts for just under 20%, and the US about 23%. Our broad customer base world-wide reduces the risk represented by possible budget cuts.

The next phase will be the start of the integration process...

By acquiring this US firm Finmeccanica has completed its presence in the US with three business lines: aeronautics, helicopters and now defence electronics. DRS has strong penetration in the US market, in both technology and operational support, which will allow us to consolidate our relationships with US clients. DRS will simultaneously benefit from Finmeccanica's presence on foreign markets, and we are already jointly participating in calls for tenders in Saudi Arabia and in Greece. The combined and complementary services of our platforms, together with DRS's products, will allow us to take up new business opportunities on international markets, in both traditional military systems and in homeland security.

Is there any risk of overlap with Finmeccanica's products?

There could be overlaps, but they are manageable, and in any case outweighed by other opportunities. We have now identified about 70 possible collaborations in the US that could be supported by the development platforms and the group's companies.

So will 2009 be a year of consolidation?

Of course we will be focussing on DRS and organising the product portfolio. The order for the US101 helicopter, made by AgustaWestland, has to be completed and orders for Alenia Aeronautica's C-27J and Boeing's B787 Dreamliner carried out. 85% of next year's revenues and budget is already covered by the order book, meaning that we can confirm our revenue target for 2008 at the top end of the range of EUR 14.25bn-14.9bn and our ebita target of EUR 1.170bn-1.240bn.

Pier Francesco Guarguaglini (above), 71, has been chairman and CEO of Finmeccanica since 2002. He has fulfilled a number of management posts, including: COO of Officine Galileo, CEO of Oto Melara and Breda Meccanica Bresciana, director of defence at Finmeccanica, chairman of Alenia Marconi Systems and COO of Fincantieri. He has been chairman and CEO of Finmeccanica since 2002. His mandate was renewed for the third time at this year's general meeting, until 2011.