

Deal puts Finmeccanica firmly on global radar

NEWS ANALYSIS

Italian group will market products of leading American military supplier around the world, write Guy Dinmore and Sylvia Pfeifer

Italy's largest aerospace and defence group yesterday hailed its acquisition of a leading supplier to the US military as a "strategic" deal that would allow it to market American products around the world.

"With this acquisition we have a large presence in defence," Pier Francesco Guarguaglini, chief executive of Finmeccanica, told the Financial Times.

"This will give us a strong capability around the world to present not just European but also US products."

Under the terms of the deal, sealed late on Monday evening in New York, Finmeccanica is paying \$81 a share, or \$5.2bn, for DRS Technologies.

DRS is a manufacturer of strategically sensitive electronics equipment such as sensors and radar which are used by the military and the US Department of Defense. Its products are also deployed on Los Angeles and Virginia class submarines.

Mr Guarguaglini said the deal would form the "third pillar" of the company's business in the US.

This compliments the 2005 presidential helicopter contract for its AgustaWestland subsidiary, and its aeronautics division which is working on Boeing's 787 Dreamliner and building the C27 cargo plane for the US armed forces.

The acquisition still needs to be approved by the Committee of Foreign Investment, which vets foreign deals, but analysts said in spite of the sensitive nature of some of the DRS technology, Finmeccanica had managed to build up a good relationship with the Pentagon.

Expanding sales abroad by DRS Technologies is also expected to be a factor in presenting the merits of the deal to the regulators.

Mr Guarguaglini said he did not see any obstacle or political risk to the deal so far, noting the close relations between Italy and the US.

Officials said a major US defence acquisition was an important boost for Italy in its competition against EU rivals for a strong presence in the world's most important market

Italian officials said a major defence acquisition in the US was seen as an important diplomatic boost for Italy in its competition against EU rivals for a strong presence in the world's most important defence market.

If approved, the deal will secure Finmeccanica a major foothold in the lucrative American market and put it some way ahead of its continental European peers.

Until now, companies from Britain have led the charge into the US market, with Cobham, the British aerospace and defence group,

unveiling another deal yesterday. EADS, the European aerospace and defence group, has made three acquisitions in the US in past years but none of the scale of DRS. The deal is also a coup for Mr Guarguaglini under whose stewardship Finmeccanica has successfully targeted international expansion.

In the UK it has quietly put together a string of deals in the past few years. These have taken it from nowhere to be by some measure the second-largest operator in the defence industry.

Just as it has done in the UK, where all its businesses are run by British managing directors, Finmeccanica will run DRS as a wholly owned subsidiary and maintain the company's own management and headquarters.

The acquisition will boost Finmeccanica's North American revenues from 11 per cent to 23 per cent.

Lobbying on behalf of Finmeccanica is Giovanni Castellaneta, Italy's ambassador to Washington, who is also a member of Finmeccanica's board representing the Italian government's "golden share". The Italian government owns 34 per cent of the former state-run conglomerate.

Mr Castellaneta is close to Silvio Berlusconi who returned as prime minister last week. Mr Berlusconi cultivated strong ties in his previous 2001-2006 government with George W. Bush, the US president.

Mr Guarguaglini said Mr Castellaneta had worked hard on the presidential helicopter contract, which analysts at the time saw in part as a US reward to Italy and the UK for their contribution to the war in Iraq.

