



Face to Face

Finmeccanica CEO Orsi Details Plans For ‘Integrated System’

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Andy Nativi

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Giuseppe Orsi

Age: 65

Education: Ph.D. in aeronautical engineering from Milan Polytechnic University.

Career: In 1973, joined Siai Marchetti, an aircraft company later absorbed into Agusta. Prior to becoming Finmeccanica CEO, Orsi headed AgustaWestland.

Did you know? Orsi holds a private pilot’s license and is a Commander of the British Empire, an honorary title.

Finmeccanica’s new CEO, Giuseppe Orsi, was appointed to run the Italian aerospace and defense giant on May 5. He takes on the role during a time of tremendous turmoil, with the company in the midst of a major reorganization to improve profitability as European and U.S. defense budgets contract. This is also a contentious period between Finmeccanica’s Alenia Aeronautica unit and

Boeing over 787 production issues. Orsi, who is due to unveil his plans for Finmeccanica in October, sat down with Contributing Editor Andy Nativi in Rome to provide insight into his thinking.



Credit: FINMECCANICA

AW&ST: You are taking over at Finmeccanica during a time of big spending shifts and other turmoil. Where do you focus your attention first?

Orsi: The markets in which Finmeccanica is active have been subjected to significant shocks in recent times, and we need to adapt the way we operate to deal with sudden changes, such as political and financial instability. Competition is becoming fiercer in all our markets, where our clients are becoming more demanding. Consequently, I need to make sure Finmeccanica achieves a structure that can rise to the challenges of the new business environment. That means improving our ability to respond to change. We are redefining the operating structure and the business model, and we are refocusing our priorities.

A few of our businesses, particularly aeronautics and rolling stock, need reorganizing and restructuring, and we are addressing this with urgency to minimize their impact on the performance of the group.

We need to consolidate and strengthen our skills base, which includes rethinking our organization. Finmeccanica needs to operate as an integrated system of companies with a shared overarching strategy. To do this, we will need to make our industrial capabilities more efficient and focus our technology efforts on those products and solutions where we can be a market leader.

How do you see your structure once you are through with these measures?

The bulk of our business will concentrate on three strategic pillars: aeronautics, helicopters and defense electronics. At the same time we will make selective investments in other sectors based on their growth prospects and market conditions. Finmeccanica needs to achieve the best possible balance between industrial and technology risks and financial return, while making the company heads assume responsibility for their performance. We need to maximize synergies between companies and give priority to high-level in-house training to create a new generation of top managers who will be even better equipped to operate in a complex, multinational environment.

With DRS Technologies, you made a huge and expensive bet on the U.S. market. How do you see your position there evolving?

Following the acquisition of DRS in 2008, Finmeccanica established an important presence there, after Italy and the U.K. Today our growth strategy in the U.S. has not changed: DRS remains the core business, and we want it to focus on its key competencies and intensify its collaboration with other group companies. In part, this will be achieved through a combination of asset disposal and targeted acquisitions.

We need to pursue major opportunities for helicopters and military aircraft, such as the V-XX presidential helicopter and T-X program [to replace USAF T-38s], where I believe the U.S. Defense Department will need to continue to invest. With respect to the trainer, we believe that the T-100—the U.S. market variant of the M-346—will offer the U.S. Air Force the best fit for its requirement.

Budgets in your three core markets are contracting, though.

I believe Finmeccanica will need to be less dependent on its domestic markets [Italy, the U.S. and U.K.] and grow its presence in other areas such as Brazil, Russia, India, Turkey, China and the Middle East. In 2011, we aim to increase group orders from non-domestic markets to around €10 billion [\$13.6 billion]. In the period 2011-15, our challenge is to increase orders from emerging markets by 20%. We need to adopt a coherent approach to ensure we can deliver on opportunities in

these markets, where we need to improve our presence and ensure more stable access to the customer base for our products.

The difficult budget environment in the U.S. and Europe will spur merger and acquisition opportunities. But Finmeccanica still has a sizable mountain of debt after the DRS deal. Can you participate in M&A activities?

Yes, of course. Finance is not a concern for us. If the proposition makes good business and financial sense, we will be able to raise the necessary money. It's clear that the general market trend will be toward consolidation. Finmeccanica is open to partnerships. In sectors where we have good capabilities, but lack critical mass, partnerships are certainly an option. More generally, we cannot rule out the possibility that in time it will be necessary to consolidate European capabilities.

Finmeccanica is streamlining its defense electronic business, which is still spread across several companies. Do you consider the current structure as definitive?

Recently we concentrated our Defense and Security Electronics segment within four key areas. We consolidated the role of Selex Sistemi Integrati; defined the role of Selex Galileo as our specialist on avionics and sensors; and created an integrated information and communication technology [ICT], as well as a security capability with specific expertise in cybersecurity, ICT and automation, with the recent merger of Elsag Datamat and Selex Communications into a new company called Selex Elsag. We are also refocusing and sharpening DRS.

Our top priorities are to increase coordination and integration between group companies, share products and technology and ensure a coherent approach to international markets. A further review of our capabilities across the sector is underway to determine what other options might be available to improve our business effectiveness. The definitive organization of the defense electronics activities, in any case, will depend on how the market develops.

How do you want to streamline the aeronautics business?

The integration process is almost completed and the reorganization plan is now ready. The process set out last year is currently taking shape with the merger of Alenia Aeronautica and Alenia Aermacchi to create a single company—renamed Alenia Aermacchi—from 2012. The move is based on a major reorganization that will create several benefits, making Finmeccanica's aeronautics activities increasingly competitive on the global market.

Is there anything similar planned for the defense segment?

A review of the competitive positioning of those businesses is under way.

Do you think Finmeccanica is strong and big enough at its current size or does it need further nonorganic growth to remain competitive?

I believe sufficient critical mass has been achieved in its core businesses. Looking to the future, it is essential that we focus on consolidating those products and technologies that will enable us to achieve market leadership and an attractive level of profitability.

The Italian government has announced spending cuts that will impact defense and security spending. Are you concerned?

There are unlikely to be reductions in 2011-12 to the main programs in which we play a key part. Moreover, important programs such as the army digitalization program, Forza NEC, are being constantly funded despite the budget cuts, and significant investments have been made in the space sector. Pressure on the Italian defense budget continues, but my expectation is that the main programs will stay on course.

Which sectors do you consider more interesting and profitable?

Defense electronics and security will continue to be one of the group's key markets in the next few years, with particularly interesting prospects in the security sector, where as a group we have been active for years with a robust portfolio, including a significant capability in cyberdefense. In this context, Finmeccanica's defense electronics and security business represents one of the three pillars on which the group's growth prospects are based. An equally important area is, of course, the rotary-wing sector, where our leading position in translating innovation into strong shareholder returns offers a good reference for our other businesses.

Financial analysts hammered your share price after your last set of earnings, which they felt were hugely disappointing. What's your near- and mid-term outlook for the company?

Finmeccanica today is in a sound financial position and doesn't have any debt repayments due before well into 2013. For the current year we have revised our guidance on revenues and new orders, also as a result of the 45% deconsolidation of Ansaldo Energia, but the 2011 financials will certainly show a net profit for the year.

The new guidance is the result of the performances of certain markets, political and social developments in North Africa—where we expect our current contracts will continue to be honored—the financial crisis affecting some European countries and the weakness of the industrial recovery in the U.S. We have also encountered internal difficulties with the industrial performance in some of our businesses.

However, our total order backlog is equivalent to around two and a half years of revenues, and this represents a significant cushion against uncertainty and gives us a positive medium-term horizon. In five years' time, I expect a far more consolidated and core business-focused group, with good profitability and a strong presence in our traditional markets as well as a greater footprint in faster-growing markets.

In my view, even considering the current difficult financial environment, the real value of Finmeccanica is not reflected in its stock price; and as a tangible sign of our confidence in the strength of the group, most senior managers and I recently decided to increase our personal holdings of Finmeccanica shares.

Another headache has been the Boeing 787 experience. How do you see your long-term relationship with Boeing?

Following the collaboration with Boeing on the 787 and given the level of expertise acquired in composite materials technology, Alenia will be involved increasingly in the civil sector. The company has all the capabilities to participate in any new Boeing program, and the technologies developed for the 787 can be applicable elsewhere.

Are you content with being a supplier, though?

It is certainly our ambition to become an original equipment maker for a commercial aircraft program.

Finmeccanica boasts several UAV projects, but has received very little in terms of contracts and programs. How do you want to change that?

In reality, there are many initiatives in this sector but relatively few high-end contracts. Finmeccanica is present in the tactical UAV field with several products. We have matured a significant know-how in related mission-system technologies, and are comfortable with positioning ourselves as a complete UAV systems integrator. We should therefore be in a strong position to compete for the development of next-generation autonomous systems. Finmeccanica has key competencies across most domains, including rotor, land-based and naval autonomous systems, which will be rationalized and consolidated.