



Healing touch: Franco Bernabè is known for having turned round the fortunes of Eni, but he suggests that the challenge at TI is greater because of profound technological change

ROPI

TI chief has some tough calls to make

FT INTERVIEW

Franco Bernabè is refusing to offer quick fixes at struggling Telecom Italia, write Adrian Michaels and Andrew Parker

Franco Bernabè has a hard sell. Telecom Italia is not expecting to grow in the coming year, and in the following two years revenue growth is due to be very limited. Moreover, its profitability is declining because of intense competition and pressure from regulators for price cuts.

While those problems have manifested themselves at many telecoms companies, the new chief executive of TI knows the company has come off worse than most.

There have been more than 20 months of turmoil at TI since the resignation of Marco Tronchetti Provera as chairman amid a dispute with the previous Italian government over an aborted restructuring of the group.

When Mr Bernabè took over as chief executive six months ago, the shares started hitting lows not seen for 10 years.

He is refusing to offer quick fixes at TI, warning analysts and investors there will be no "fireworks". TI has a bigger debt pile than

its European peers - known as incumbents because of their former monopoly status - so he is ruling out finding growth and profit by large acquisitions. Instead, he is focusing on cutting costs.

"Non-growth is not stagnation," says Mr Bernabè in an interview with the Financial Times. "Non-growth is an enormous transformation of the company. The problem now is that the general public and the financial community perceive the big incumbent telcos like dinosaurs that are [heading for] extinction. But this is absolutely not true. I think that in the long run the incumbents will grow back as the leading actors in the industry."

He blames TI's poor share price performance partly on a general lack of investor appetite for the telecoms

industry this year, because of fears that the economic downturn will hurt them.

But rivals such as Vodafone of the UK and Spain's Telefónica, which last year became TI's largest shareholder, are doing better partly because they have strong presences in fast-growing emerging markets such as Asia and Latin America.

TI's only significant foreign markets today are Brazil and Argentina because it has progressively sold off most of its assets in developing countries.

Mr Bernabè has expressed public regret that such disposals took place, but says TI should not now try to make acquisitions in emerging markets. "We were on that model 10 years ago. We had a large portfolio of international businesses, but now

I think that we would miss completely the point if we were to engage in the same exercise because emerging markets are commanding incredibly high prices."

Instead he is interested in finding financial partners - private equity firms or sovereign wealth funds - that could help TI purchase telecoms assets. TI would then manage the assets. "The mindset of a big company was: 'We have to own everything, we have to consolidate, we have to expand.' My mindset is we have to make money; we have to increase our earnings per share."

Mr Bernabè is shifting the company's strategy with regulators. TI, he believes, suffered from harsh rules because it was unnecessarily hostile to regulators as well as rivals.

He is seeking a more con-

sensual tone, and this was vindicated last month with a more-lenient-than-anticipated plan from the telecoms watchdog for cuts in the fees that TI charges rivals for connecting calls to its mobile network.

"There has been a lot of competition by litigation round here, and relations [with rivals] were very tense," he says. "I think that competition is needed - we are all in favour of competition - but there is a way of doing competition that is not aggressive, that is not hurting people."

Mr Bernabè is famed for his work in turning round the fortunes of Eni, the Italian energy company, in the 1990s. There he battled politicians and criminal probes as the company was caught up in a corruption scandal. He sold more than 300 opera-

tions and focused on boosting productivity.

But he implies that what lies ahead at TI could be more challenging than what he encountered at Eni, partly because the telecoms industry is going through profound technological change.

"Here it's different because what you are facing is a complete change in the environment in which the industry lives. So, it takes much more entrepreneurship, much more innovation... Eni was 90 per cent organisation and orderly execution. Here 90 per cent is innovation, new architecture, adaptation to a completely different mindset."

Mr Bernabè does not foresee a merger between Telefónica and TI in the near-term, though he pointedly declines the invitation to predict that the company he leads will be independent in a decade.

The farthest he will go is to predict consolidation among European telecoms companies, partly to counter the threat posed by fast growing rivals in China and India. "I think that Europe will need to redefine sovereignty... to create different, bigger companies that can become international leaders," he says.

"We are confronting now competition from the Chinese, from the Asians, that are a multiple of our size [in Europe] and will become even bigger."

Franco Bernabè

- Born in Vipiteno, northern Italy, in September 1948. Educated at Turin university. Married with two children
- Began his professional career in 1976 as an economist at the OECD in Paris
- Joined Fiat as chief economist in its planning department in 1978
- Recruited by Eni in 1983 as assistant to the company chairman
- CEO of Eni from 1992 to

- 1998, when he led the company's turnaround and privatisation
- CEO of Telecom Italia from 1998 to 1999 but left after the company's takeover by Olivetti
- Founded FB group, an investment company, in 1999. The company was bought by Rothschild in 2004, after which he joined the bank
- Appointed chief executive of TI for a second time in December 2007

European telecoms
Share prices (rebased)



Source: Thomson Datastream