

# Telecom Italia becomes national drama

By Eric Sylvers

Published: April 8, 2007

**MILAN:** It has all the makings of your standard Italian financial melodrama, with a cast of characters stocked with the usual suspects - the struggling company that is a takeover target, the controlling shareholder trying one last coup to squeeze what he can from a bad investment, the just-resigned chairman, the minority shareholders excluded from the deal and the foreign buyers facing a reluctant government and skeptical financial establishment.

Telecom Italia, the struggling company and national icon, has attracted several potential buyers over the past six months, but the only concrete offer came April 1 when AT&T and America Móvil each offered to buy a third of Olimpia, which owns 18 percent of Telecom Italia's common shares, for a combined investment of about €4.5 billion, or \$6 billion.

Marco Tronchetti Provera, chairman of the tire company Pirelli, controls Telecom Italia through Pirelli's 80 percent stake in Olimpia, a holding he has been trying to sell for several months. His investment in Telecom Italia has lost half its value in the six years since he made it. Tronchetti Provera ousted Guido Rossi, considered by many in Milan financial circles to be one of the country's top turnaround gurus for troubled companies, last week because of differences on strategy.

AT&T and America Móvil, the largest cellphone companies in the United States and Latin America, respectively, may have dropped into the Italian soap opera unprepared for the backlash that came fast and furious from some Italian politicians and business leaders, who are demanding that Telecom Italia remain in domestic hands.

"The intertwining of business and politics is not a great omen for success," Jan Dawson, an analyst with the telecommunications consultancy Ovum, and two colleagues wrote in a note to clients last week. "Ownership and control of Telecom Italia is a political football in Italy."

It is testament to Italy's archaic capitalist system that AT&T and America Móvil can grab control of Telecom Italia, which has a market value of €44 billion, by investing little more than €2 billion each.

Pirelli and its partner, the Benetton family, would hold on to the other third of Olimpia, though they would likely have an opportunity to sell that to AT&T and America Móvil within a year.

With the relatively modest investment, AT&T would get a strong foothold in Italy's corporate market and an expanded presence in Germany, France and the Netherlands, countries where Telecom Italia has been building broadband Internet businesses. AT&T already sells telecommunications services to some of Europe's largest companies and provides services in Europe for U.S.-based companies.

"On the one hand, this would complement AT&T's global business," said Niall Hickey, an AT&T spokesman based in London. "And on the other hand, we think we can work with Telecom Italia to develop products and services together for the Italian market."

AT&T's biggest cost is what it pays telecommunications companies to use their networks. Owning a stake in Telecom Italia would give AT&T privileged access to the company's backbone network that crisscrosses all of Italy and connects to nine European countries. Though AT&T has infrastructure in 30 European countries, in most cases it is modest in breadth.

America Móvil's interest in Telecom Italia is almost certainly linked to the Italian company's Brazilian unit, TIM Brasil, with 25 million subscribers. America Móvil, which did not respond to requests for comment, tried unsuccessfully last year to buy TIM Brasil. AT&T owns about 9 percent of America Móvil, which is controlled by the Mexican billionaire Carlos Slim Helú.

Tronchetti Provera, who was chairman of Telecom Italia until September, had said he was willing to consider offers for TIM Brasil, but the potential sale was immediately shelved when Rossi succeeded him. Rossi and others criticized the move because TIM Brasil is the only part of Telecom Italia's business that is growing and continues to have room to expand.

"Tronchetti has been a disaster for Telecom Italia, and the company has suffered economically and strategically while he has been in control," **said Carlo Gentili, a partner and co-founder of Nextam Partners, a hedge fund and asset management company based in London and Milan.**

"Investors have lost money on his shift, but somebody is making money out of this because this is the fifth time Pirelli seems to be on the verge of selling and every time nothing happens. They say they might sell, the shares rise for a while, somebody makes money and then the shares drop when the sale falls through. You can be sure you aren't losing money if you are directing the operating."

Minority shareholders, about 20 percent of them non-Italian, will be forced to watch if Tronchetti Provera sells his stake in Telecom Italia. The sale price would be 32 percent more than the market value at the time AT&T and America Móvil announced their offer. No deal has been signed, but the companies are in exclusive talks with Pirelli until the end of the month.

As in any melodrama, there is the chance that a hero will appear and propose an all-Italian solution to replace Tronchetti Provera and satisfy the government's desire to keep Telecom Italia from foreign buyers. But for the moment, AT&T and America Móvil are waiting in the wings.