

Hitachi Rail enters agreement to acquire Thales' Ground Transportation Systems business

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Hitachi Rail has agreed to acquire Thales' Ground Transportation Systems business for an enterprise value of €1.66bn. The final purchase price will be determined after customary adjustments typical for a transaction of this nature. The acquisition is expected to close in late FY2022^[1], subject to the usual conditions including regulatory and antitrust clearances.

Employee representatives of both Thales and Hitachi Rail will be informed and consulted according to the laws of the countries concerned throughout the process. Hitachi intends to promote the conditions for a smooth and successful integration of the Business and is willing to take a number of social commitments in this respect.

GTS, a division of Thales, is a global leader in Rail Signalling and Train Control Systems, Telecommunications and Supervision systems and Fare collection solutions. In FY2020, GTS generated €1.6bn of revenues and today employs around 9,000 employees across 42 countries and is headquartered in Germany, France and Canada. Hitachi Rail expects GTS to show continued revenue and EBIT growth and

by closing, the implied standalone forward EV/EBIT valuation multiple should be around 10x.

As a result of this agreement, Hitachi Rail expects to drive growth by expanding the scale of its rail signalling systems business globally, bringing an enhanced turnkey railway offering to new markets around the world. The combined business will be positioned to become a global leader in the rail signalling market. The combined strength of Hitachi and GTS's Digital expertise will also help Hitachi Rail to accelerate its 'Mobility as a Service' (MaaS) offering for a global customer base.

With the complementary strength of GTS's signalling activities, and rapid growth in MaaS and digitisation in the rail sector, GTS will help Hitachi Rail to potentially reach €7.7bn revenue and double-digit adjusted operating income ratio by FY2026, or around four years from closing.

The business consists of four segments: mainline railroad signalling systems, urban rail signalling, integrated communication systems and revenue collection systems. Around 50% of the Business is dedicated to digital offerings, and the company employs a wealth of digital talent in the mobility sector.

The combination of Hitachi Rail and Thales' Ground Transportation Systems business is strategically attractive, geographically and technologically complementary and synergistic:

- **Global:** Complements Hitachi Rail's existing presence in Japan, Italy, UK and the United States with GTS's core locations including Germany, France and Canada. Creates a global signalling provider to meet customer demand in more regions around the world. This reinforces Hitachi Rail's core business as a fully integrated, global provider of rail solutions across rolling stock, signalling, service & maintenance, digital technology and turnkey solutions.
- **Digital:** Provides access for GTS' customers to Hitachi's Lumada digital solutions and services, and GlobalLogic's leading digital capability. This accelerates Hitachi Rail's entry into the MaaS segment which could drive significant growth in line with Hitachi's 2021 Mid-term Management Plan. According to independent research, the global 'MaaS' market is expected to grow by 25%+ compound annual growth rate to 2025^[2]. The combined Hitachi Rail and GTS business would be well positioned to benefit from this wider trend.
- **Sustainable:** Supports Hitachi's long-term environmental targets, including achieving carbon neutrality at all its business sites by 2030 and an 80% reduction in CO₂ emissions across the company's value chain by 2050. For example, GTS's GreenSpeed™ driver advisory system cuts energy consumption and CO₂ by 15% through optimizing train speeds.
- **Synergistic:** Run-rate synergies in excess of €100m per year are achievable through the greater scale of the combined business, which would enable growth opportunities such as cross-selling to a wider global customer base and cost competitiveness such as improving effectiveness of procurement, optimizing engineering capabilities and enhanced production. The run-rate synergies are expected to be achieved around 4 years after closing.

Andrew Barr, Chief Executive Officer, Hitachi Rail, said: "Today's announcement marks an exciting opportunity for the teams at Hitachi Rail and Thales' Ground Transportation Systems business to create

new value for our customers, cities and passengers around the world.

“Not only will we grow the reach of our core signalling capabilities as part of our turnkey offering, but we are also bringing together our digital and Mobility as a Service capabilities. The strong teams, customer relationships and technologies at GTS will help us grow to become a major player, further enabled by Lumada and the digital engineering of our teams at GlobalLogic and the broader Hitachi Group.”

Philippe Keryer, EVP Strategy, Research & Technology, Thales said: “After discussions with key market players, Thales has selected the best industrial partner to ensure a successful long term development of its ground transportation business. This move is creating significant value for our clients, employees and shareholders and enables Ground Transportation Systems to be at the forefront of growth in sustainable mobility.”

[1] Equivalent to Hitachi’s FY2022 for the year ending 31 March 2023

[2] Mobility-as-a-Service (MaaS) Global Study 2025, BIS research

Photo credit: Hitachi Rail