Acquisition of Thales’ Ground Transportation Systems Business

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Alistair Dormer
Executive Vice President and Executive Officer
Chief Environmental Officer
## Right Opportunity at the Right time: GTS is fully aligned to our Mobility Growth strategy

### Driver for Growth
- Potential to reach ¥1trn revenue and double digit adjusted operating income ratio by FY26
- Run-rate synergies estimated to be in excess of €100m per annum by FY26
- Closing expected to take c.18 months therefore closing / cash out will be in late FY22

### Complementary Scale – Regions and Technologies
- Enhances Hitachi Rail’s global leadership position in the rail signalling market
- **Regions**: Regional footprint complements Hitachi Rail’s existing presence in Japan, Italy, UK and the United States with GTS’s core locations including Germany, France and Canada.
- **Technologies**: Expansion of core signalling business in new markets creates full turnkey opportunities for GTS customers and a broader signalling portfolio for the combined business.

### Digital
- Around 50% of GTS sales is dedicated to digital offerings, and the company employs a wealth of digital talent in the mobility sector.
- 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.

### 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. As well as decarbonisation of rail, MaaS will be a driver for carbon reduction by encouraging modal shift.

### Valuation
- Hitachi Rail expects GTS to show continued revenue and EBIT growth and by closing, the implied standalone forward EV/EBIT valuation multiple will be around 10x
## Overview of the Acquisition

### Overview
- Thales’ Ground Transportation Systems business (the “Business” or “GTS”). GTS today employs around 9,000 employees across 42 countries and is **headquartered in Germany, France and Canada**.
- The Business consists of four segments: **mainline signalling systems**, **urban rail signalling**, **integrated communication systems** and **revenue collection systems**.

### Deal value
- Enterprise Value of **€1,660m (~¥215bn)**. The purchase price will be adjusted at deal closing as is customary in M&A processes.

### Types of consideration
- **Cash**, to be confirmed at closing

### Scheme
- 100% acquisition of Thales Ground Transportation Systems business following carve-out from Thales group

### Schedule
- The acquisition is subject to the usual conditions including regulatory and antitrust clearances.
- The deal is expected to **close with cash out in late FY2022**
Rail strategy is focused on capitalizing on our core, digitalization and strengthening competitiveness.

**Potential to reach ¥1trn revenue and double digit AOP by FY26**

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<tr>
<th>FY2020</th>
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<tbody>
<tr>
<td>Strengthen Market Position</td>
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<td>Consolidate expansion in the USA</td>
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<td>Expand Operations, Service &amp; Maintenance</td>
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<td>Strengthen Signalling and expand beyond the core through digital solutions (MaaS)</td>
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<td>Boost Profitability</td>
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<td>Transform operating costs</td>
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<td>Simplify product design and reduce fleet costs</td>
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<td>Capability in low cost locations</td>
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### Targeting An Improved Financial Profile

**Rail prioritises strengthening profitability**

**Key drivers**

#### Strengths
- Full product offering
- Leadership and challenger position in key markets
- Synergies with Hitachi Group especially in digital and energy

#### Benefits of Agreement
- Addresses Hitachi Rail’s global scale
- Expands into adjacencies – e.g. MaaS

#### Further Response
- Digitalise core offering
- Expand in North America
- Reduce cost
- Drive synergies within Hitachi
- Longer term: M&A in the core and/or adjacencies

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* Hitachi results show Adjusted operating income ratio, all other competitors show EBIT; results show the market prior to Alstom/ Bombardier merger
## Highly Complementary Business is 50% Digital and Gives Access to New Markets

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<td><strong>Main Line Signalling</strong></td>
<td><strong>Urban Rail Signalling</strong></td>
<td><strong>Integrated Communication</strong></td>
<td><strong>Revenue Collection Systems</strong></td>
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<td><em>(MLS)</em></td>
<td><em>(URS)</em></td>
<td><em>(Systems (ICS))</em></td>
<td><em>(RCS)</em></td>
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### Main Products
- **Train Control Systems (ETCS L1, L2, L3)**
- **Traffic Management Systems (Intelligent Traffic Orchestration)**
- **Digitalization (Cybersecurity, Services, Autonomy)**
- **Route Control Systems (Digital interlocking)**

### Main Products
- **CBTC (SelTrac – integrated ATS/ATO/ATP)**
- **Interlocking (LockTrac – CENELEC and AREMA compliant)**
- **Field equipment (Lite4ce)**
- **Traffic management and driver advisory systems**

### Main Products
- **Operation control centres, SCADA**
- **Telecom solutions (broadband track-to-train communications, backbone)**
- **Passenger mobility, video and security**
- **Predictive maintenance**
- **Tram and LRT signalling**

### Main Products
- **Revenue collection (hardware, software and services)**
- **Automated fare collection systems (multi-modal / operated, gated or non-gated)**
- **Road tolling**
- **Car park payments**

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The combined company would provide a valuable footprint in complementary countries:

GTS has a strong presence in **France, Germany, the UK and Canada** complementing Hitachi Rail’s strong presence in **Japan, Italy, the UK and the USA**.
Thales Ground Transportation Systems is a step change serving our core and adjacent strategies

LUMADA 20% of Rail revenues is derived from Lumada

Sustainability

Operational technology

Information technology

Adjacencies

GTS

GTS

HyperloopTT

GlobalLogic®

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## Roadmap

| **Timing** | The deal is expected to close in late FY22, subject to usual conditions (antitrust, employee representatives). This period will include a carve-out process before close. |
| **Day 1** | Following close, we are looking forward to working closely with GTS leadership and commercial teams who have strong customer relationships in new markets for Hitachi |
| **Short Term** | Our intent is to fully integrate GTS into Hitachi Rail to benefit from access to wider business and group capabilities |
| **Medium Term to Long Term** | Hitachi Rail’s fully integrated turnkey rail business will create new opportunities to help GTS customers beyond signalling |
| **Medium Term to Long Term** | Opportunity to create new digital offering to power our Mobility as a Service strategy – powered by the wider Hitachi eco-system – such as GlobalLogic, Lumada |
Cautionary Statement

Certain statements found in this document may constitute “forward-looking statements” as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such “forward-looking statements” reflect management’s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends may identify “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this report.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- exacerbation of social and economic impacts of the spread of COVID-19;
- economic conditions, including consumer spending and plant and equipment investment in Hitachi’s major markets, as well as levels of demand in the major industrial sectors Hitachi serves;
- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- estimates, fluctuations in cost and cancellation of long-term projects for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- increased commoditization of and intensifying price competition for products;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- fluctuations in demand of products, etc. and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in demand of products, etc., exchange rates and/or price of raw materials or shortages of materials, parts and components;
- credit conditions of Hitachi’s customers and suppliers;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
- uncertainty as to the success of acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- uncertainty as to the success of cost structure overhaul;
- the possibility of disruption of Hitachi’s operations by natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method associates and joint ventures have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- uncertainty as to Hitachi’s ability to maintain the integrity of its information systems, as well as Hitachi’s ability to protect its confidential information or that of its customers;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

The factors listed above are not all-inclusive and are in addition to other factors contained elsewhere in this report and in other materials published by Hitachi.
Market Trends Favour Digital Players

Railway market is expected to grow

- 5.8tr Yen → 7.0tr Yen, 3% CAGR

Digitalisation of rail grows twice as fast

- 1.3tr Yen → 1.9tr Yen, 7% CAGR

The competitive environment is challenging

- Hitachi is #4 globally in revenue (tr Yen)

Rolling Stock and Signaling will continue to be twin market engines

- Growth driven by automation and predictive maintenance

- Services (+14%)

0.5 Relative Market Share

*The competitor list excludes CRRC and reflects the state before the merger of Bombardier and Alstom; Source: Industry reports