

## **Thales enters into agreement in view of selling its Ground Transportation Systems business to Hitachi Rail**

- Entry into exclusive negotiations with Hitachi Rail on the sale of “Ground Transportation Systems” business, for an enterprise value of € 1,660 million
- Compelling valuation reflecting effective turnaround
- Reinforcement of Thales's strategic focus on 3 long-term growth markets: Aerospace, Defense & Security, Digital Identity and Security, driving accelerated EBIT margin accretion and further deleveraging
- Combined GTS and Hitachi Rail business to be positioned as a global leader in the rail signaling market
- Employee representative bodies of both Thales and Hitachi Rail are being consulted on this project, which is also subject to usual closing conditions

Thales (Euronext Paris: HO) and Hitachi Rail announce today that they are entering into exclusive negotiations on the sale of Thales's Ground Transportation Systems Global Business Unit (“Ground Transportation Systems” or “GTS”) for an enterprise value of € 1,660 million.

With around 9,000 employees at the end of 2020, Ground Transportation Systems is a global leader in Rail Signaling and Train Control Systems, Telecommunications and Supervision systems and Fare collection solutions, key technologies for a more sustainable mobility. Around 8 billion passengers benefit from GTS's rail technologies every year.

Thanks to the engagement of GTS employees and, more globally, of Thales's management team, the business achieved a remarkable turnaround over the past 5 years, delivering in 2020 and H1 2021 its best financial performance of the past 7 years, in spite of the Covid-19 crisis.

Thanks to the strong technical, geographical and commercial complementarities between Hitachi Rail and Ground Transportation Systems, the combination will create a leading rail signaling provider with a broader product offering and stronger capabilities to meet customer demand around the world. In addition, it will offer GTS's employees enhanced professional opportunities. The combined strength of Hitachi and GTS's digital expertise will also help Hitachi Rail to accelerate its Mobility as a Service (“MaaS”) offering.

Through this transaction, Thales reinforces its strategic focus on 3 long-term high technology growth markets: Aerospace, Defense & Security, and Digital Identity & Security. Each of its businesses is an industry leading pure player focused on intelligent systems and digital solutions, able to sustainably deliver double-digit EBIT margins. This move enables the Group to now target an EBIT margin of 12% in the medium-term.

The transaction will also strengthen Thales's balance sheet and provide substantial cash optionality.

*“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.” – **Philippe Keryer**, EVP Strategy, Research & Technology, Thales*

*“With this major strategic move, we will be able to focus on the development of our 3 high-tech long-term growth businesses, each of them able to sustainably deliver double-digit margins -- Aerospace, Defense & Security, and Digital Identity & Security -- further strengthening their best-in-class market position.” – **Patrice Caine**, Chairman and CEO, Thales*

*“Today's announcement marks an exciting opportunity for the teams at Hitachi Rail and Thales's Ground Transportations 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 signaling capabilities as part of our turnkey offering, but we are also bringing together our digital and MaaS 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.” – **Andrew Barr**, Chief Executive Officer, Hitachi Rail*

### **Updated 2021 financial outlook**

Since the transport segment will be treated as discontinued operations in the 2021 financial statements, Thales's 2021 financial outlook is updated as follows:

- As in 2019 and 2020, a book-to-bill ratio above 1;
- Sales in the range of €15.8 billion to €16.3 billion;
- An EBIT margin in the range of 9.8% to 10.3%, up 180 to 230 basis points from 2020.

### **Next steps**

Employee representatives of both Thales and Hitachi Rail will be informed and consulted on this project according to the laws of involved countries.

The completion of the transaction will require the carve-out of the business in several countries, and is subject to usual conditions including regulatory and antitrust clearances. It is expected to close by the end of calendar year 2022 / early in calendar year 2023.

### **Deal background**

- Scheme: 100% acquisition of “Ground Transportation Systems” business by Hitachi Rail following carve-out from Thales, subject to approvals from employee representatives and relevant regulatory bodies

- Price: Enterprise Value of € 1,660 million (¥215bn), corresponding to an implied valuation of 13.8x EV/EBIT, based on reported H2 2020-H1 2021 segment EBIT. The final purchase price will be determined after customary adjustments for net working capital and net debt based on actual amounts at the closing date.
- Source of funds: Paid by cash at hand at closing
- Offer approved by both Thales's and Hitachi's Boards of Directors
- Transaction advisors: In connection with the transaction, Lazard acted as financial advisor to Thales, and BDGS, Baker McKenzie and August Debouzy acted as legal counsels.

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This press release contains inside information as per the definition of article 7 of EU regulation No. 596/2014. It contains certain forward-looking statements. Although Thales believes that its expectations are based on reasonable assumptions, actual results may differ significantly from the forward-looking statements due to various risks and uncertainties, as described in the Company's Universal Registration Document, which has been filed with the French financial markets authority (Autorité des marchés financiers – AMF).

## About Thales

Thales (Euronext Paris: HO) is a global leader in advanced technologies, investing in digital and “deep tech” innovations – connectivity, big data, artificial intelligence, cybersecurity and quantum computing – to build a confident future crucial for the development of our societies. The Group provides its customers – businesses, organisations and governments – in the defense, aeronautics, space, transport, and digital identity and security domains with solutions, services and products that help them fulfil their critical role, consideration for the individual being the driving force behind all decisions.

Thales has 81,000 employees in 68 countries. In 2020 the Group generated sales of €17 billion.

## About Hitachi, Ltd.

Hitachi, Ltd. (TSE: 6501), headquartered in Tokyo, Japan, is focused on its Social Innovation Business that combines information technology (IT), operational technology (OT) and products. The company's consolidated revenues for fiscal year 2020 (ended March 31, 2021) totaled ¥8,729.1bn (\$78.6bn), with 871 consolidated subsidiaries and approximately 350,000 employees worldwide. Hitachi is working to increase social, environmental and economic value for its customers across six domains; IT, Energy, Industry, Mobility, Smart Life and Automotive Systems through Lumada, Hitachi's advanced digital solutions, services, and technologies for turning data into insights to drive digital innovation. For more information on Hitachi, please visit the company's website at <https://www.hitachi.com>.

### **About Hitachi Rail**

Hitachi Rail is a fully integrated, global provider of rail solutions across rolling stock, signalling, service & maintenance, digital technology and turnkey solutions. With a presence in 38 countries across six continents and over 12,000 employees, our mission is to contribute to society through the continuous development of superior rail transport solutions. We are proud of our global achievements, from our world-famous 'bullet trains', to our signalling solutions and turnkey projects, state-of-the-art traffic management and digital solutions. Drawing on the wider Hitachi Group's market-leading technology and research-and-development capabilities, we strive for industry leading innovations and solutions that can deliver value for customers and sustainable railway systems that benefit wider society. For information about Hitachi Rail, visit [www.hitachirail.com](http://www.hitachirail.com).

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## **CONTACTS**

### **Thales, Media Relations**

Cédric Leurquin  
+33 (0)1 57 77 90 93  
[cedric.leurquin@thalesgroup.com](mailto:cedric.leurquin@thalesgroup.com)

### **Thales, Analysts/Investors**

Bertrand Delcaire  
+33 1 57 77 89 02  
[ir@thalesgroup.com](mailto:ir@thalesgroup.com)

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