

Hitachi to Acquire Power Grids Business from ABB—Limited Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by Hitachi, Ltd. (security code: 6501) to acquire the power grids business from ABB Ltd.

- (1) Hitachi, Ltd. (the "Company") announced on December 17 its plan to acquire the power grids business from ABB Ltd ("ABB"). Equity value based on the valuation of this business is approximately 880 billion yen. The Company will initially acquire an 80.1% stake (approximately 704 billion yen) in the company to be separated from ABB to operate said business as a joint venture with ABB ("JV") and expects to close the deal by the first half of 2020, upon which JV will become its subsidiary. It will finance the deal using cash on hand and borrowings and plans to make JV a wholly owned subsidiary as early as three years after the closing.
- (2) In the Power and Energy business, one of the core pillars of the Social Innovation Business, the Company concentrates its management resources in grid solutions and other areas. ABB's world-class power grids business generated approximately 1,100 billion yen in revenues and 110 billion yen in operational EBITA in 2017. The Company aims to offer innovative energy solutions globally by combining the strengths of this business with its own digital technology.
- (3) That said, the acquisition will be the largest ever for the Company, and the share purchase price and impact on the balance sheet (an increase in assets, including goodwill and intangible assets, of approximately 1,900 billion yen) are not small at all. Even so, given that the Company has recently been increasing its earnings power and cash flow generation capacity, thereby gaining greater investment capacity and financial durability (total Hitachi, Ltd. stockholders' equity as of September 30, 2018: 3,449.2 billion yen), JCR considers the acquisition will have only a limited impact on the rating.

Hiroyuki Chikusa, Hiroaki Sekiguchi

<Reference>

Issuer: Hitachi, Ltd.

Long-term Issuer Rating: AAp Outlook: Stable

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.