

Hitachi Will Acquire U.S. IT Company—No Immediate Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on Hitachi, Ltd.'s (security code: 6501) acquisition of GlobalLogic Inc. ("GlobalLogic")

- (1) On March 31, 2021, Hitachi, Ltd. (the "Company") announced that it would acquire GlobalLogic, a leading US-based digital engineering services company. The Company plans to acquire all shares of GlobalLogic by the end of July 2021, subject to regulatory approval and other conditions.
- (2) GlobalLogic has deep "chip-to-cloud" advanced software product engineering technology as well as experience design skills, and supports customers' digital transformation (DX). GlobalLogic has over 400 clients comprised of market leaders and marquee brands spanning key industries. The Company plans to accelerate global expansion of its focus, Lumada business, through acquisition of GlobalLogic's advanced capabilities and strong client base. GlobalLogic was established in September 2000, and boasts high growth rates and profitability, and its revenues are expected to reach approximately 129.6 billion yen with adjusted EBITDA margin to be over 20% (adjusted for non-recurring one-time costs, etc.) in FY2021.
- (3) The total acquisition cost, including repayment of GlobalLogic's interest-bearing debt, is expected to be approximately 1036.8 billion yen, and the Company plans to finance the most of the cost by interest-bearing debt. The Company's financial structure has deteriorated due to the acquisition of ABB's power grid business and Hitachi Hi-Tech becoming a wholly owned subsidiary in FY2020, and this acquisition will further increase the financial burden. A large amount of goodwill will also be generated, and the ratio of goodwill to the parent company's shareholders' equity is expected to increase rapidly.
- (4) On the other hand, this acquisition is generally in line with the Company's growth strategy, and the Company has indicated that it plans to reduce most of the increase in interest-bearing debt due to the acquisition in about one year by replacing assets, etc. The Company has a track record of repeated these asset replacements, and the probability of such replacement is recognized to a certain extent. For this reason, JCR does not believe that this acquisition will have an immediate impact on the rating. JCR will closely monitor whether the Company can quickly improve its financial structure and interest-bearing debt/ EBITDA ratio.

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<Reference>

Issuer: Hitachi, Ltd.

Long-term Issuer Rating: Aap

Outlook: Stable

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