

CASE ME/6971/21 ACQUISITION BY HITACHI RAIL OF THALES' GROUND TRANSPORTATION SYSTEMS BUSINESS

BENEFITS OF THE MERGER

1. OVERVIEW

- 1.1 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].
- 1.2 As explained in the Parties' previous submissions, the Proposed Transaction does not give rise to a substantial lessening of competition in any segment. Rather, the merged entity will be able to offer better solutions and provide stronger competition than either Party individually across a number of regions, including in the UK.
- 1.3 First, the combined skills, knowledge, resources and experiences of Hitachi Rail and the Target will build a stronger challenger to Siemens and Alstom-Bombardier globally.
[REDACTED]
[REDACTED] In the UK mainline signalling sector, the merged entity will have a greater local presence, deeper local railway expertise and experience. [REDACTED]
[REDACTED]
[REDACTED] and ultimately provide better pricing and services for the customer.
- 1.4 Second, the Proposed Transaction will enable Hitachi Rail and the Target [REDACTED]
[REDACTED]
[REDACTED]
- 1.5 Third, [REDACTED]. The complementary technological capabilities of Hitachi Rail and the Target will allow the merged entity to make significant in-roads into the provision of digital mobility solutions at a greater scale. These efforts will be supported by Hitachi Limited, a global enterprise and pioneer in the fields of green energy, mobility, digital transformation, automotive systems and connective industries. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 1.6 Fourth, the Proposed Transaction will allow the merged entity to benefit from economies of scale, improved procurement processes and associated cost savings for the ultimate benefit of its customers globally and in the UK.

2. **STRONGER CHALLENGER TO SIEMENS AND ALSTOM-BOMBARDIER**

2.1 Following the Proposed Transaction, the merged entity will be able to draw upon a deeper pool of global resources to compete more effectively with Siemens and Alstom-Bombardier and to support the development of new products and services to the benefit of customers.

A **Mainline signalling in the UK**

2.2 [REDACTED], through the Proposed Transaction, the merged entity will be better placed with a broader global expertise and full ETCS signalling portfolio (see paragraph 2.14 below) to more credibly challenge the UK duopoly of Siemens and Alstom-Bombardier.

2.3 Hitachi Rail and the Target are very small players in the UK mainline signalling sector, as previously described.¹ The move to digital signalling (when it happens) is not expected, on its own, to address the dominance of Siemens and Alstom-Bombardier.² Individually, neither Party will be able to materially challenge the significant and entrenched dominant position of the duopoly. However, by combining the Parties' resources, the merged entity will be a much stronger challenger in the UK.

2.4 First, the merged entity will have greater UK-based resources, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] smaller than that of Siemens or Alstom-Bombardier [REDACTED]
[REDACTED]
[REDACTED] it will nevertheless represent a material increase to the Parties' current position.

2.5 [REDACTED]
[REDACTED]
[REDACTED]:

(a) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) [REDACTED]
[REDACTED]

(c) [REDACTED].

¹ See e.g. section 4 of the Parties' submission on ETCS ATP wayside re-signalling projects.

² See e.g., paragraphs 3.11 *et seq* of the Parties' submission on ETCS ATP wayside re-signalling projects.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] 4 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED].

_____ 5

[REDACTED]

2.9 Second, as a larger UK signalling organisation, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] The Proposed Transaction would result in the Target becoming a core part of a larger rail-sector organisation, where signalling employees will be highly valued. This is a particularly important factor given the boom-and-bust⁶ nature of signalling procurement in the UK, [REDACTED]
[REDACTED]
[REDACTED]

4 [REDACTED]

5 [REDACTED]
[REDACTED]

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2.10 An increase in local capabilities of the breadth described above is expected to increase the competitiveness of the merged entity and to provide the following important benefits for customers:

(a) **Reduced costs:** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

(b) **Increased availability:** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

As a result, the merged entity would have a greater local footprint in the UK, that would allow it to provide greater customer service, deploy deeper local expertise and experience (at lower costs).

(c) **Improved delivery of service:** [REDACTED] ([REDACTED])
[REDACTED]
[REDACTED]
[REDACTED] As a result, customers would benefit from improved project management and more efficient project delivery.

2.11 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]), the merged entity will be a stronger competitor than either Party individually because it could draw on the best skills, knowledge and experiences of both Parties to put together a compelling submission.

2.12 Even a small increase in the merged entity's ability to challenge the incumbents would produce rivalry-enhancing benefits given the structure of the industry [REDACTED]
[REDACTED]
[REDACTED] This would change the dynamics of bidding in the TCSF and would increase competition.

2.13 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Enhanced ETCS OBU offering in the UK and globally

- 2.14 The combination of the Target's experience in the supply of [REDACTED] and its knowledge of [REDACTED], together with Hitachi Rail's understanding of [REDACTED] will result in the merged entity having a team that understands multiple systems. Specifically:
- (a) The Target will bring [REDACTED] product knowledge.
 - (b) Both Parties will bring knowledge of [REDACTED]
 - (c) [REDACTED].
 - (d) Hitachi Rail will contribute [REDACTED]
 - (e) Hitachi Rail will bring its knowledge of [REDACTED]
 - (f) The Target will bring its experience of [REDACTED]
- 2.15 As a result of the above, the merged entity will be able to offer customers greater confidence in the delivery of [REDACTED]. In addition, the merged entity will be able to offer customers a more competitive proposal through [REDACTED]. Together, the merged entity's offering would also be more comprehensive [REDACTED].

B Urban signalling worldwide

- 2.16 Hitachi Rail is a vertically integrated supplier of rolling stock and CBTC solutions. However, [REDACTED].⁷ [REDACTED] the Target has experience of delivering complex brownfield CBTC signalling solutions, including in London, but is not vertically integrated.
- 2.17 Accordingly, in circumstances where customers launch bundled tenders for CBTC and rolling stock⁸, the merged entity would be a stronger competitor to Siemens and Alstom-Bombardier (who are the only suppliers presently able to deliver complex brownfield CBTC signalling projects together with rolling stock in the EEA+UK). While this is not relevant in the UK (given that future tenders for CBTC signalling are expected to be in London, where Transport for London has a practice of tendering separately for

⁷ [REDACTED]

⁸ As mentioned in the FMN (Chapter 2, para 14.32.4), TfL typically tenders CBTC signalling separately to rolling stock.

rolling stock and signalling) elsewhere in the world, customers may elect to procure bundled tenders of rolling stock together with CBTC signalling in order to reduce integration risks [REDACTED] increase efficiency and in many cases, lower costs from a staffing perspective [REDACTED]
[REDACTED]
[REDACTED]

3. **STRATEGIC ALIGNMENT BETWEEN HITACHI RAIL AND THE TARGET**

A **Bidding for urban and mainline signalling tenders**

3.1 As previously explained, responding to a tender is time-intensive and requires suppliers to carefully assess the business case for pursuing a given project against the context of their wider priorities and overall strategy.⁹ Suppliers assess tenders on a case-by-case basis, and it does not follow from merely having a presence in a given country that a supplier will compete for a tender in that country. Both Parties are global companies that are constantly assessing opportunities in different countries with varying degrees of attractiveness (including [REDACTED]
[REDACTED]
[REDACTED] etc.).

3.2 The bidding data shows that neither of the Parties participated in [REDACTED]% of contestable mainline and urban tenders across the EEA+UK over the period 2012 to 2021.¹⁰ For [REDACTED] of these tenders, the only competitors were Siemens and/or Alstom-Bombardier.

3.3 Post-Proposed Transaction, the merged entity would have:

- (a) greater resources than either Party currently; and
- (b) a higher confidence of winning tenders than either Party individually as a result of the Parties' combined track record and geographic complementarity.

3.4 These factors should lead the merged entity to [REDACTED]
[REDACTED] compete in tenders that neither Party would otherwise have considered, [REDACTED]
[REDACTED]
[REDACTED]

3.5 In addition, these factors together with the operational synergies described in section 5 would enable the merged entity to dedicate greater resources [REDACTED]
[REDACTED]
[REDACTED] a market that is characterised by

⁹ See the Parties' responses to CMA RFI 1 Question 3.

¹⁰ [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

high entry barriers.

B

3.6 For the reasons outlined in this submission, the Parties expect that the merged entity will be a stronger and more successful competitor globally than either Party individually.

3.7 As a larger signalling player, with a real likelihood of challenging Siemens and Alstom-Bombardier globally, including in the UK, the merged entity will be set its offering apart from those of Siemens and Alstom-Bombardier.

3.8

4. **BENEFITS TO BROADER RAIL SECTOR FROM EXPANDED DIGITAL MOBILITY AND MAAS OFFERINGS**

4.1 The Parties expect that the Proposed Transaction will provide benefits for customers across the broader rail sector, several of which are detailed below. In addition, and more generally, the Parties expect that

4.2

4.3 The merged entity will be active across a larger range of rail sector technology. Specifically:

- (a) the Target is active in the supply of Communication and Supervision Systems, such as passenger information systems and supervision systems () and Ticketing and Fare Collection

Systems ("TFCS"),

.¹¹

- (b) Hitachi Rail, by contrast, is a much bigger rail sector organisation (albeit primarily active in the supply of rolling stock in Europe),

- (c) The Target also offers

¹²

- (d) Hitachi Rail includes . The Target has complementary capabilities in a similar space, including:

- (e) In addition, Hitachi Ltd group includes

4.4 With these complementary capabilities, the merged entity will be able to deliver a wider range of digital solutions for the rail sector, at greater scale, at a time when the industry (both in the UK and globally) is transitioning to digital technology:

- (a)

- (b)

11

12

13

14

(c)

5. REDUCED COSTS

A Procurement and supply chain synergies

5.1 Hitachi Rail expects that the Proposed Transaction will give rise to synergies in relation to purchasing conditions.

5.2

(a)

(b)

(c)

(d)

(e)

5.3 Hitachi Rail also expects that the Proposed Transaction would generate some synergies in the supply chain, through for instance,

5.4 These improvements to the merged entity's procurement and supply chain would result in reduced costs and ultimately, better terms for the end customer.

B In-sourcing of [REDACTED] in the UK

5.5 [REDACTED]
[REDACTED] Following completion of the Proposed Transaction, where the merged entity is awarded conventional or ETCS wayside re-signalling projects, it will be able to source [REDACTED] in-house. This in-sourcing of certain technologies will lead to reduced costs, due to the elimination of double marginalisation, and therefore benefit UK customers.

6. CONCLUSION

- 6.1 Hitachi Rail's rationale for the Proposed Transaction [REDACTED]
[REDACTED].
- 6.2 [REDACTED] the Proposed Transaction is expected to result in important benefits for customers and competition in the UK. In particular, the Proposed Transaction would allow the merged entity to present a more credible challenge to the duopoly of Siemens and Alstom-Bombardier in mainline signalling. Moreover, [REDACTED] the Target would benefit from greater investment, [REDACTED] and growth opportunities. In addition, the complementarity of the Parties' technological capabilities creates potential for the provision of a more comprehensive suite of digital mobility solutions on a larger scale, while the combination of the Parties' resources and commercial infrastructure will provide for better resource utilisation, improved procurement process and associated cost savings.