

FINANCIAL TIMES

March 31, 2015 11:42 am

Hitachi chief looks beyond Japan to build global conglomerate

Kana Inagaki in Tokyo [Author alerts](#) ▼



Hiroaki Nakanishi, the chief executive of [Hitachi](#), made his name as a turnaround artist, setting the broader trend for Japan's pullback from loss-making consumer electronics products.

But a new sense of crisis is now driving Mr Nakanishi.

The Japanese industrial conglomerate, with annual sales of \$80bn, lacks the scale of rivals such as [General Electric](#) (which turns over almost \$150bn) while growing Chinese players pose a new threat.

Prime Minister Shinzo Abe's policies to bolster the economy and weaken the yen have helped, but Abenomics has not been the solution for Hitachi and many other Japanese companies who have already given up on consumer-focused businesses in mobile phones and flat-panel televisions to pursue global ambitions.

"We don't have any interest in becoming Japan's No 1. The market itself is globalised and we have to be a global player," Mr Nakanishi says.

It was the same crisis mentality that pushed [Mitsubishi Heavy Industries](#) and Hitachi — which have a joint venture in thermal power business — to team up with [Siemens](#) of Germany in a rare global takeover battle for French industrial group [Alstom](#) last year. GE ultimately won the bid.

To build its international footprint, Hitachi in February announced a €809m cash deal to acquire [Finmeccanica's](#) rail assets. With combined sales topping Y400bn (\$3.3bn), the deal would bring Hitachi closer to the three market leaders of Canada's [Bombardier](#), [Alstom](#) and Siemens.

The Japanese group has been successful in winning big train orders in the UK, and has announced plans to move the HQ of Hitachi Rail to London and to open a train assembly plant in north-east England. But it has faced resistance from rivals to expand into other European markets.

"We really wanted a European player to be part of the club," Mr Nakanishi says. "Europeans say

they are open but it's actually exclusive and you have to become an insider.”

Through the acquisition of Finmeccanica's stakes in Ansaldo STS, a company that makes rail signalling equipment, and in the loss-making train manufacturing unit AnsaldoBreda, Hitachi hopes to strengthen its position in Europe and then expand into India, Australia, New Zealand and the Middle East.

Where it lacks scale, Hitachi hopes to use its information technology services to connect and manage infrastructure systems.

“Japan's railway business will become extinct unless a global presence can be established,” Mr Nakanishi says.

In spite of large ambitions, analysts say that it will take time for Hitachi to turn round AnsaldoBreda's business before it can capture deals in new markets outside of Europe.

“It's going to be quite a challenge. Hitachi has built its track record in UK, but it won't be easy trying to do the same elsewhere,” says Yukihiko Shimada, analyst at SMBC Nikko Securities.

In addition, Japanese players are jostling with new rivals in the crowded global market.

When Hitachi was holding talks with Finmeccanica, two Chinese competitors, CNR and Insignia, expressed interest. CNR last year secured China's first order for rolling stock in the US, winning a \$570m contract to supply more than 280 passenger cars to Boston's subway system.



China's clout is expected to increase with state-owned train manufacturers [CSR Corp](#) and CNR planning to merge to create a company with combined revenues estimated at \$32bn.

The country's “new normal” of slower growth and a shift away from reliance on construction and heavy industry in the home market will have an impact on “everything” in relation to Hitachi's businesses ranging from construction machinery, power plants to automotive systems, Mr

Nakanishi says.

China, where Hitachi earns about 11 per cent of its revenues, is in some ways a double-edged sword. As with the Finmeccanica deal, Hitachi will be a direct competitor as Chinese heavy industry moves its focus to overseas investment, but a bigger market created by the entrance of new players will also pose opportunities for Hitachi to take a bigger slice.

“It may not necessarily be a happy ending but I'm hopeful Mr Nakanishi will pull off this global challenge” following his success in turning round Hitachi after years of massive losses, Mr Shimada