

# Progress of the Mid-term Management Plan 2024

April 27, 2023

**Keiji Kojima**

President & CEO

Hitachi, Ltd.

# Today's Topics

1. Positioning of Mid-term Management Plan 2024
2. Enhancement of enterprise value through the Social Innovation Business
3. Sustainable management to support growth

# Positioning of Mid-term Management Plan 2024

## A modal change from business portfolio transformation to sustainable growth, and acceleration of enterprise value enhancement

- Following the management crisis after the Global Financial Crisis, Hitachi decided to concentrate on the Social Innovation Business
- Continued business portfolio transformation for over 10 years, aiming to become a global leader in the Social Innovation Business
- As of FY2022, Hitachi no longer retains any listed subsidiaries and announced deconsolidation of Hitachi Astemo targeting an IPO
- Having completed portfolio transformation, Hitachi will switch its management focus to sustainable growth
- MMP\*2024 is an important turning point towards enterprise value enhancement through realization of sustainable growth





# 1.2 Past business portfolio transformation

## Business portfolio transformation to focus on the Social Innovation Business

### Acquisition of assets required in the global expansion of the Social Innovation Business

#### Track record FY2013-FY2021\*

- MMP2015 Ansaldo STS/Breda
- MMP2018 Sullair
- MMP2021 JR Automation, Hitachi High-Tech Chassis Brakes International, Keihin, Showa, and Nissin Kogyo, Hitachi Energy, GlobalLogic

#### Track record FY2022

- Dissolved Hitachi Energy JV; established as 100% subsidiary
- Acquired two companies to strengthen GlobalLogic's engineering capabilities

### Total revenues of acquired assets

3.1 trillion yen (approx.)

### Acquisition amount

3.6 trillion yen (approx.)

### Transfer of business assets with lesser relation to the Social Innovation Business

#### Track record FY2013-FY2021\*

- Main businesses: air conditioning, thermal power generation systems, diagnostic imaging-related business
- Listed subsidiaries: Hitachi Koki, Hitachi Chemical, Hitachi Capital, Hitachi Maxell, Clarion

#### Track record FY2022

- Hitachi Astemo to be deconsolidated targeting IPO
- Hitachi Construction Machinery, Hitachi Metals, Hitachi Transport System

### Total revenues of transferred assets

5.0 trillion yen (approx.)

### Transferred amount

2.0 trillion yen (approx.)

# 1.3 Globalization of business assets

Business assets were globalized drastically by business portfolio transformation

## Status of assets\*1

### Europe

FY2018 **0.2** trillion yen → **1.5** trillion yen (26%\*2)  
FY2021

Enhanced green area (e.g. energy and railways)

### North America

FY2018 **0.6** trillion yen → **1.9** trillion yen (33%\*2)  
FY2021

Enhanced digital area, green area (e.g. energy and railways) and industrial area (e.g. robotics)

### Asia

FY2018 **0.4** trillion yen → **0.6** trillion yen (11%\*2)  
FY2021

Enhanced green area (e.g. energy) and industrial area (e.g. elevators)

### Japan

FY2018 **1.6** trillion yen → **1.7** trillion yen (30%\*2)  
FY2021

Hold IT area (e.g. finance and public services), industrial area (e.g. production systems) and green area (e.g. railways and nuclear power)

\*1 Property, plant and equipment, investment properties, goodwill and other intangible assets \*2 Assets ratio by region

## Business assets obtained and integrated through major M&A as engines for global growth

### Hitachi High-Tech

#### Business directions

- Measurement and analytical system orders remained firm. Increased profitability drastically through restructuring. Further growth acceleration by investments for production expansion.

### Hitachi Energy

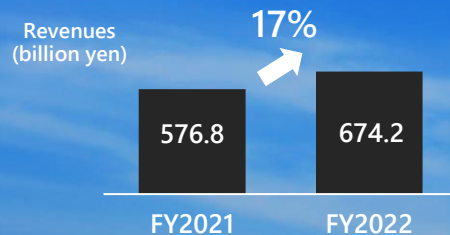
- Strong order capturing growth in the GX market. Further growth by investments for production expansion and productivity improvement.

### GlobalLogic

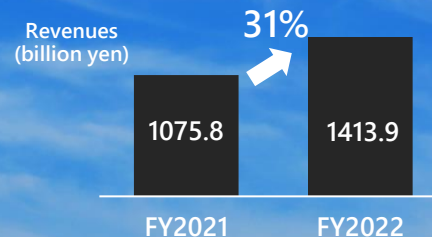
- Steadily expanded the digital engineering business and created synergy with Hitachi's OT\* businesses. Further growth by M&A obtaining digital talent.

#### Performance

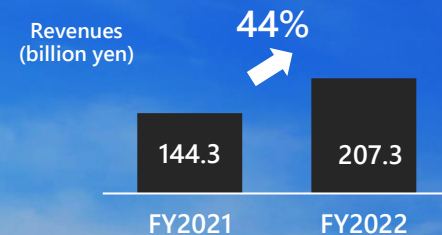
- Achieved record high profits in FY2022



- Strong orders, increased order backlogs



- High growth linked with DX market growth





## Major MMP2024 targets as a result of deconsolidation of listed subsidiaries and Hitachi Astemo\*1

	Revenues growth (FY2021-FY2024 CAGR)	Adj. EBITA*2	ROIC	EPS growth*3 (FY2021-FY2024 CAGR)	Core FCF*4 (3-year cumulative)
Before Hitachi Astemo deconsolidation	5%-7%	12%	10%	10%-14%	1.4 trillion yen Shareholder returns Approx. 50%
After Hitachi Astemo deconsolidation	5%-7%	12%	10%	10%-14%	<b>1.2 trillion yen</b> Shareholder returns <b>0.8-0.9 trillion yen</b>

\*1 Revenues, profits and cash-flow of listed subsidiaries and Hitachi Astemo are subtracted, and equity in earnings of affiliates are added to results and plans of FY2021-FY2024

\*2 Adjusted operating income plus Acquisition-related amortization and equity in earnings/losses of affiliates.

\*3 Impact of one-time factors is excluded from net income in FY2021

\*4 Core FCF = Cashflows from operating activities - CAPEX



# Enhancement of enterprise value through the Social Innovation Business

### Business that leverages Hitachi's IT, OT and products to resolve social challenges together with customers

- Work with customers to support people's quality of life and fosters a sustainable society through the use of data and technology
- Expand the Social Innovation Business in diverse industries using three global trends of Digital, Green, and Connective, as transformation drivers

#### Digital

transforming social systems

finance, public services, electric power, transportation, communications, etc.

#### Green

transforming social infrastructures

power grids, nuclear power, railways, etc.

#### Connective

transforming industrial systems

factories, tech, buildings, homes, etc.

- Globally expand Lumada as customer co-creation framework of the Social Innovation Business

### Lumada business expansion by One Hitachi focusing on customer footprints obtained through large-scale M&A

- Global-scale major M&A enhanced Hitachi's resources including human capital and footprints to create businesses in each region
- Achieve growth of the Social Innovation Business by resolving customer's challenges in each region

#### Europe

Expand green business focusing on railways and power grids business

#### North America

Target region that drives growth, mainly in digital and infrastructures

#### China

Growth utilizing existing footprints of elevators, Hitachi Energy, etc.

#### India, ASEAN

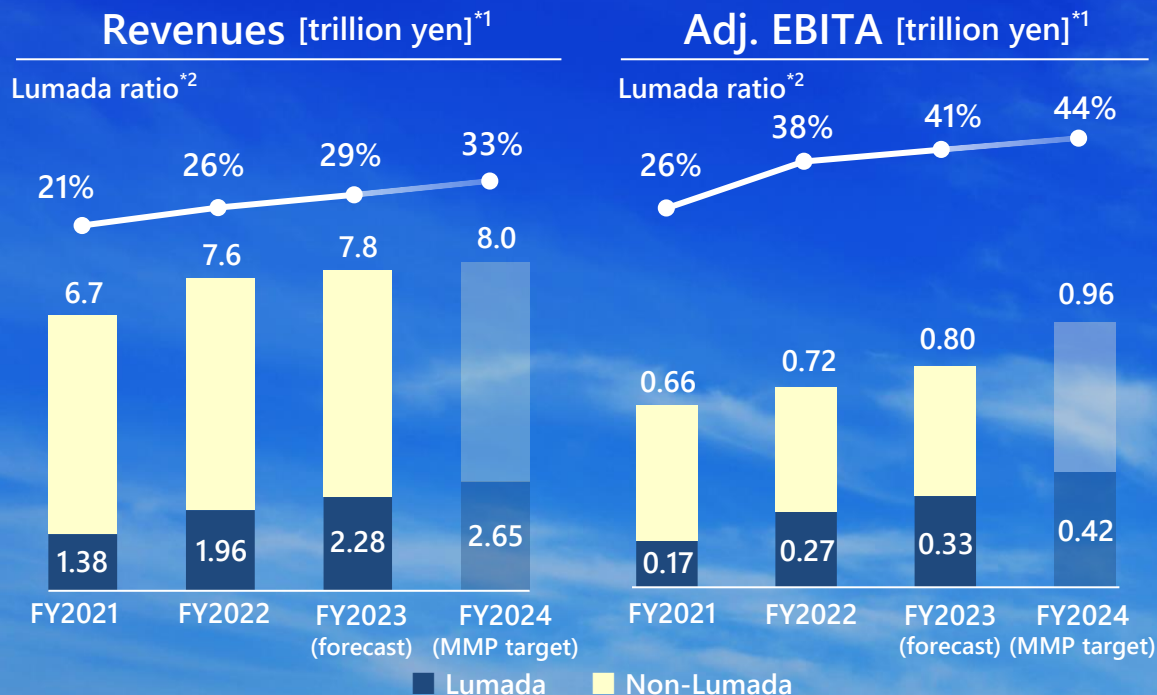
Focus on growing countries and regions, and obtain growth opportunities

#### Japan

Focus on growing customers and domains by DX and GX

## 2.3 Revenues and profits growth driven by Lumada

### Lumada business expansion leads revenues and profits growth of Hitachi overall



- Lumada business has performed a high growth rate
- Expecting steady growth with a tailwind of DX market expansion in FY2023
- Forecasting approx. one-third of revenues and over 40% of profits of Hitachi overall in FY2024

\*1 Revenues and profits of listed subsidiaries and Hitachi Astemo are subtracted, and equity in earnings of affiliates are added to results and plans of FY2021-FY2024

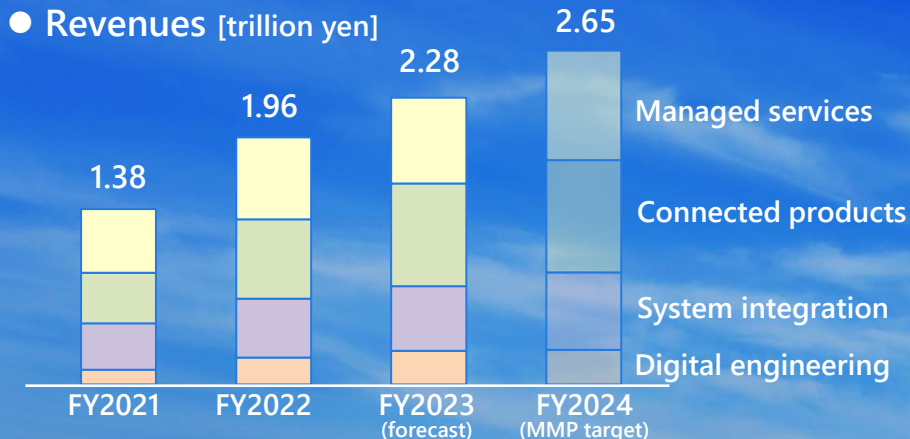
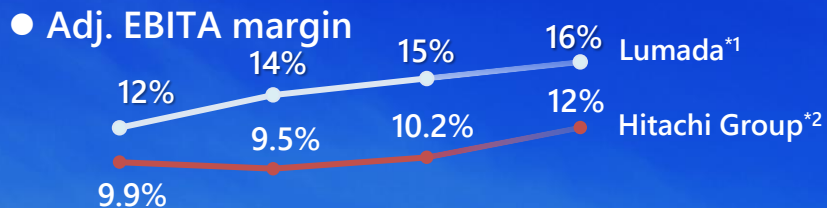
\*2 Equity in earnings of Hitachi Construction Machinery are classified into Lumada, those of Hitachi Astemo are classified into Non-Lumada



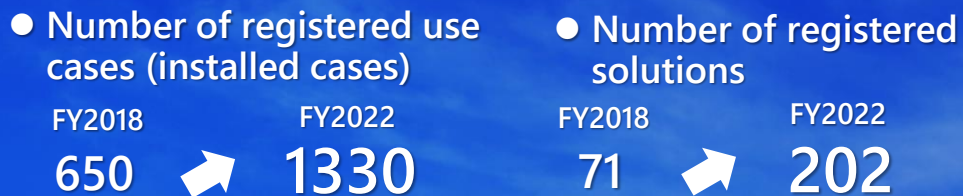
# 2.4 Profitability growth driven by Lumada

## Lumada's customer co-creation framework leads profitability improvement of Hitachi overall

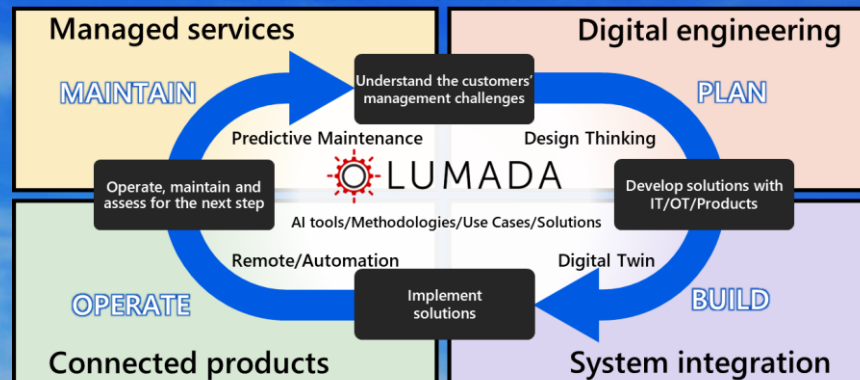
### Lumada Business growth



### Steady growth of Lumada Business profitability



### Profitability improvement by Lumada's customer co-creation framework



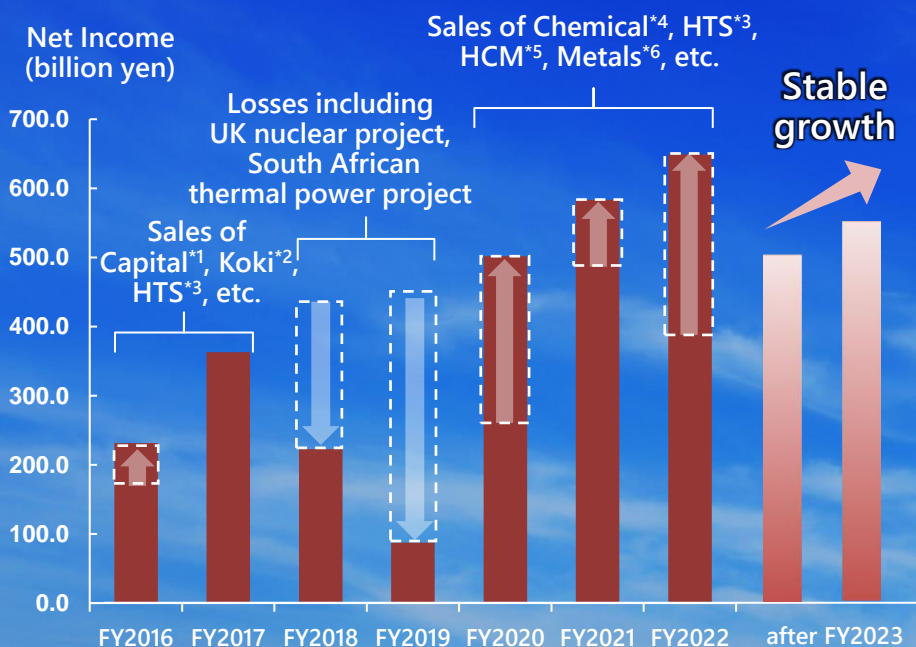
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\*2 Revenues and profits of listed subsidiaries and Hitachi Astemo are subtracted, and equity in earnings of affiliates are added to results and plans of FY2021-FY2024

## Phase shift from business portfolio transformation to stable growth

Impact on bottom-line due to non-operating profits from major asset sales diminishing

Risk management minimizes impact of one-time expenses and the economy



Risk	Response
Economic environment (Inflation, exchange rate fluctuations)	<ul style="list-style-type: none"> <li>Strengthen investment risk/return monitoring</li> <li>Reduce working capital</li> </ul>
Supply chain	<ul style="list-style-type: none"> <li>Promote price pass-through, supplier diversification</li> </ul>
Geopolitics	<ul style="list-style-type: none"> <li>Swiftly ensure employee safety and continue business</li> <li>Review overseas risk assets</li> </ul>
EPC	<ul style="list-style-type: none"> <li>Ensure limitation of liability in contracts</li> </ul>
Cyberattack	<ul style="list-style-type: none"> <li>Reinforce security including the adoption of Zero Trust security model</li> </ul>
Pandemic Natural disasters	<ul style="list-style-type: none"> <li>Create BCP</li> <li>Continue business system that allows remote operations</li> </ul>

\*1 Hitachi Capital \*2 Hitachi Koki \*3 Hitachi Transport System \*4 Hitachi Chemical \*5 Hitachi Construction Machinery \*6 Hitachi Metals

## Sustainable growth by well-balanced allocation of generated cash to growth investments and shareholder returns

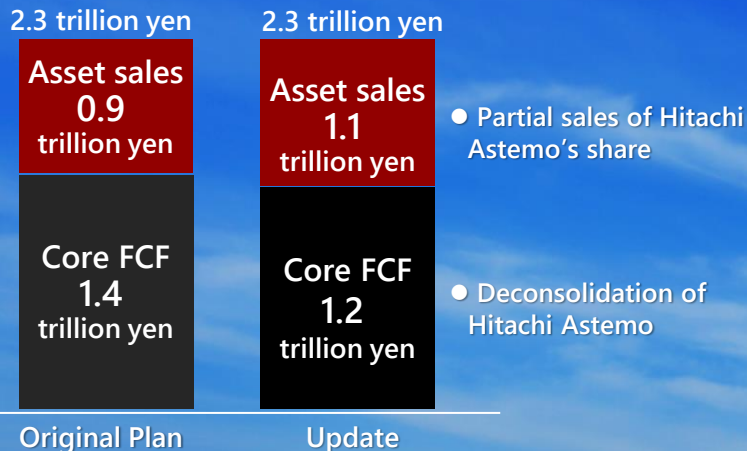
### Growth investments

- Focus on Digital, Green and Innovation
- Criteria: Adj. EBITA margin over 12%, ROIC over 10%

### Shareholder returns

- Dividends: Stable distribution based on business growth
- Share buyback: Implement based on funding demands and business environment, etc.
- Consider both 50% of core FCF and 50% of net income for total shareholder returns

### Cash generation (3 years cumulative)



### Capital allocation (3 years cumulative)

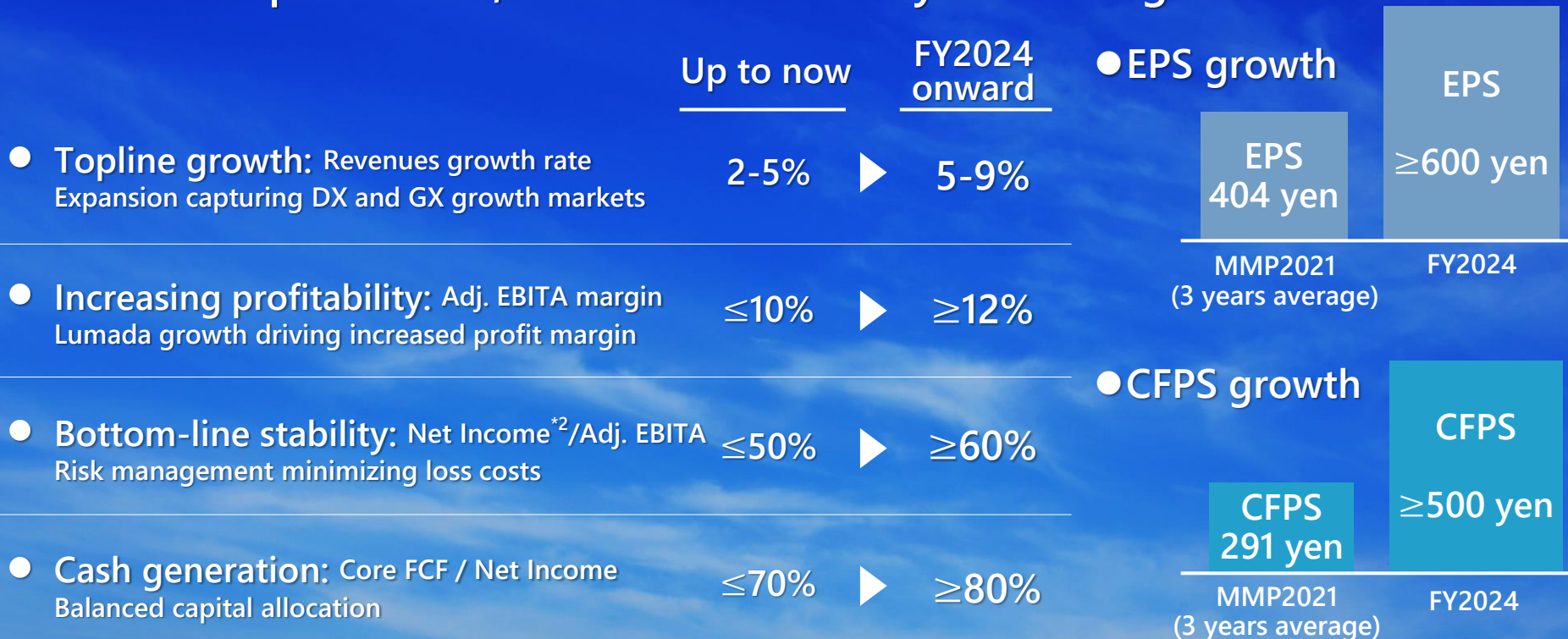


\* GTS: Ground Transportation Systems



## 2.7 EPS and CFPS growth

### EPS and CFPS\*1 growth through revenues expansion, profitability improvement, bottom-line stability and cash generation



\*1 CFPS : Core FCF per share    \*2 Excluded impact of one-time factors



# Sustainable management to support growth

# 3.1 Human capital activation

## Accelerate sustainable growth with talent acquisition and development, DEI implementation and engagement improvement

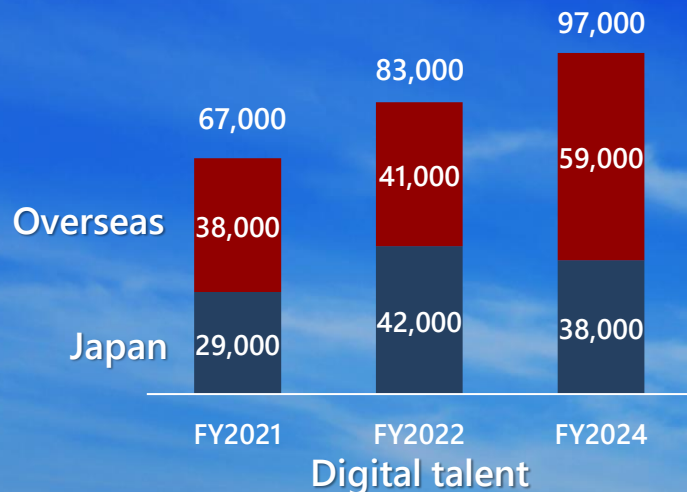
**Strengthen global talent for growth**  
Acquisition and development of digital talent

MMP target  
(digital talent)  
97,000 people\*1

**Increase the ability for innovation**  
Implement Diversity, Equity and Inclusion

MMP target (executives)  
Female: 15%  
Non-Japanese: 15%

- Continue to strengthen talent leveraging GlobalLogic's recruiting/development methods



- FY2022 Results\*2 Female 11%  
Non-Japanese 20%
- Understand customers' challenges to deliver innovations globally through inclusion of diverse talent

**Enhance a growth mindset as One Hitachi**  
Increase engagement

MMP target  
(engagement score)  
68.0

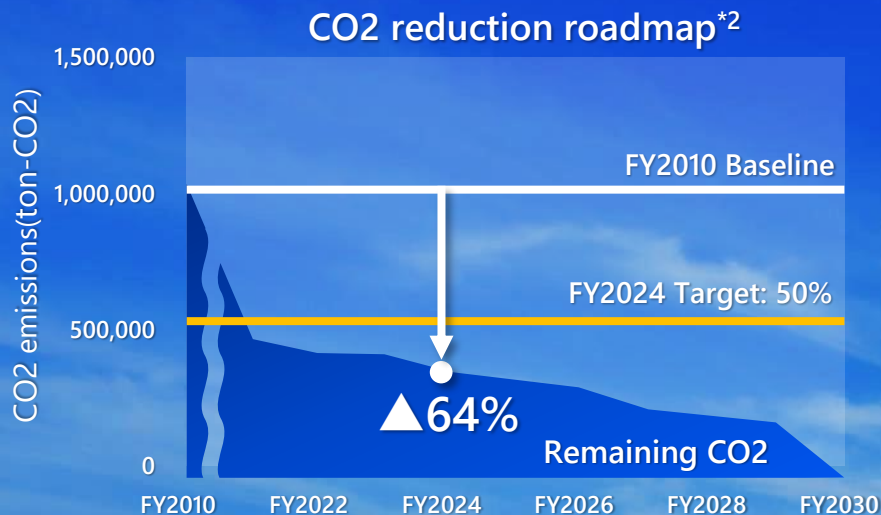
- FY2022 score results 69.5
- Globally accelerate co-creation by fostering One Hitachi growth mindset

\*1 Hitachi Astemo is excluded \*2 Included assignment as of April 1, 2023

## Steady progress toward achieving carbon neutrality commitment

### Achieve carbon neutrality\*1 in FY2030

- Progress of CO2 emission reduction has exceeded target of MMP2024 and expected to reach 64% reduction in FY2024



### Contribute to customer's decarbonization

- Forecast for CO2 avoided emissions\*3 aligned with calculation methodology of Category 11 in Scope 3\*4:
  - 126.1 million ton/year (Target: 100 million ton/year)
- 119.9 million ton/year avoided by energy transition (HVDC)
- 6.2 million ton/year avoided by energy saving & electrification

#### Digital Systems & Services



#### Green Energy & Mobility



#### Connective Industries



\*1 Scope1,2 (Emissions from the company's factories and offices) \*2 Hitachi Astemo is excluded \*3 3 years average during MMP2024  
\*4 GHG Protocol Standard, baseline is FY2013 (FY2020 for Hitachi Energy)



## Promoting internal and external activities to achieve a circular economy

### Aiming to build a sustainable recycling society



Applying eco-design for all newly-developed products\*1

- FY2022: 326 products registered



100% utilization of plastic waste\*2

- FY2022: 77% (estimation)



Zero waste to landfill\*2

- FY2022: 112 workplaces (estimation)



50% improvement of efficiency in use of water\*3

- FY2022: 30% (estimation)

### Contributing to a circular economy for society



Hitachi-AIST\*4 Circular Economy Cooperative Research Laboratory (since October 2022)

- Grand design, rule-making, and social implementation to realize circular economy



Vacuum cleaner utilizing recycled plastics

- Developed and released product of recycled plastic utilization ratio 40%+ (released in August 2022)



Hitachi Global Air Power's REMAN program

- End of life compressors are disassembled, parts reclaimed, then remanufactured to give equipment a 2<sup>nd</sup> and even 3<sup>rd</sup> life (Over 3000 compressors remanufactured since 2013)

\*1 FY2024 target \*2 FY2030 target, wherever this is compatible with local conditions and regulations \*3 FY2050 target, Baseline is FY2010

\*4 National Institute of Advanced Industrial Science and Technology



# Accelerate global management transformation through active discussions with a diverse Board of Directors

### Promoting highly effective measures through discussions with the Board of Directors

- Monitoring progress of MMP
- Investments deliberation
- CEO succession plan

### Corporate Governance of the Year 2022

- Awarded grand prize among approx. 1,800 listed companies in Tokyo Stock Exchange prime market
- Recognized for the diversity of the board members, continuous review of business portfolio, etc.

### Composition of the Board of Directors

12 board of directors

- Emphasize independence, diversity, and appropriate tenures

Independent	Non-Japanese, Female	Average Tenure
<b>75%</b> (9 members)	<b>42%, 17%</b> (5 members, 2 members respectively)	<b>5</b> years

### Executive compensation system linked with enterprise value improvement

- Strengthen links between compensation and enterprise value to further accelerate growth as a global company
  - Enlarged portion of mid to long term incentives linked to stock price
  - Introduced MMP achievement incentive by setting MMP targets as evaluation KPIs
  - Added comparison of global competitors in stock growth as evaluation KPI

## Introducing Hitachi's modal change from business portfolio transformation to sustainable growth, focusing on growth strategies of each area of the Social Innovation Business

- Date: Tuesday, June 13, 2023

- Agenda:

- |                |   |
|----------------|---|
| 1. CEO Remarks | Keiji Kojima, President & CEO                     |
| 2. Green       | Alistair Dormer, Executive Vice President         |
| 3. Digital     | Toshiaki Tokunaga, Executive Vice President       |
| 4. Connective  | Masakazu Aoki, Executive Vice President           |
| 5. CFO Session | Yoshihiko Kawamura, Executive Vice President, CFO |
| 6. Q&A Session |   |



A woman with her back to the camera, wearing a bright yellow jacket, stands on a grassy hill. In the background, there are several white wind turbines on a green slope. To the right, a dense city skyline with various skyscrapers is visible under a clear blue sky. The entire scene is overlaid with a complex network of white and blue lines and dots, resembling a digital or social network. The text 'Hitachi Social Innovation is POWERING GOOD' is centered in the upper half of the image.

Hitachi Social Innovation is  
**POWERING GOOD**

Certain statements found in this document may constitute “forward-looking statements” as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such “forward-looking statements” reflect management’s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends may identify “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this report.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- economic conditions, including consumer spending and plant and equipment investment in Hitachi’s major markets, as well as levels of demand in the major industrial sectors Hitachi serves;
- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- uncertainty as to general market price levels for equity securities, declines in which may require Hitachi to write down equity securities that it holds;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- credit conditions of Hitachi’s customers and suppliers;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- uncertainty as to Hitachi’s ability to respond to tightening of regulations to prevent climate change;
- uncertainty as to Hitachi’s ability to maintain the integrity of its information systems, as well as Hitachi’s ability to protect its confidential information or that of its customers;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- exacerbation of social and economic impacts of the spread of COVID-19;
- the possibility of disruption of Hitachi’s operations by natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- estimates, fluctuations in cost and cancellation of long-term projects for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- increased commoditization of and intensifying price competition for products;
- fluctuations in demand of products, etc. and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in demand of products, etc., exchange rates and/or price of raw materials or shortages of materials, parts and components;
- uncertainty as to the success of cost structure overhaul;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
- uncertainty as to the success of acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method associates and joint ventures have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

The factors listed above are not all-inclusive and are in addition to other factors contained elsewhere in this report and in other materials published by Hitachi.