We will further promote management based on return on invested capital (ROIC) and allocate the cash created through synergies from large-scale acquisitions to enhance shareholder returns and growth investments.

Yoshikiko Kawamura
Senior Vice President and Executive Officer, CFO

Joined Hitachi in 2015 after serving as an executive officer at Mitsubishi Corporation. Leveraging the experience he gained at Harvard Business School and the World Bank, he has played a key role as CFO (Chief Strategy Officer) since 2018 and has driven structural reforms and the design of the 2021 Mid-term Management Plan. He was appointed CFO (Chief Financial Officer) in April 2020.

First, please give us your thoughts on your first year since being appointed CFO.

The COVID-19 pandemic, which broke out in 2020, is unprecedented in the history of modern management in that it, for example, we see businesses with a negative ROIC spread for the first time since the crisis, we are enhancing ROIC management on a deeper level; various workplaces. We disclose ROIC for each sector to all employees through these types of day-to-day activities, of capital (WACC). I feel that by increasing the awareness of within Hitachi by conducting regular training to encourage a marginal income (overseas business in many cases). Moving there are two important elements to the sector investments efficiency.

In regional strategies, we monitor the status of marginal income (increased profits in line with additional invested resources) for both the domestic and overseas business, and we are shifting the focus toward businesses with higher ROIC, which is achieved by incorporating businesses from outside, like when we acquired ABB's power grids business. Capital growth strategies comprise regional strategies and sector strategies with a three-dimensional approach, considering the timeframe for investment efficiency.

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Q: Please tell us about your approach to M&A.

I have held a concurrent position as the head of the Investment Strategy Division since April of this year, and I am able to look at investments and loans, so the financing and allocation of capital for acquisitions has been going even more smoothly than in the past. For example, we needed about one trillion yen for the acquisition of GlobalLogic, and we were able to move quickly in investigating capital financing procurement methods and simulations of the short- and medium-term impact of the acquisition on financial and management performance KPIs. In general, when you announce that you are going to undertake an M&A project, there is a tendency for share price volatility to increase in the short term. If you want to control that volatility, it's important to clearly communicate a medium- and long-term equity story to the capital markets. In post-merger integration (PMI), the integration into consolidated management systems is completed in a comparatively short period of just a few months, but PMI takes two or three years after that to impact performance. We focus our efforts on garnering synergies in the medium to long term, as we amortize the intangible assets involved in the acquisition. In terms of the impact of integration at Hitachi ABB Power Grids, we expect to see cost-reduction effects on a scale of about 100 billion yen by 2025, through the use of shared service functions involving the new company's indirect operations in Europe, including general affairs, HR, finance, accounting, and procurement. We are also promoting cross-selling and synergies with Lumada in each business sector and, in some cases, the impact has already become apparent.

Please tell us your thoughts on capital allocation.

In capital allocation, we have no immediate plans for large-scale loans or capital increases, but we will continue to increase operating cash flow through growth investments and secure funding by constantly switching out assets. We consider returns to shareholders to be an important theme. Our investment strategy is to allocate one-third of capital to each of three areas: returns to shareholders and repayment of loans, growth investments, and capital investments. We will also further enhance R&D investments, targeting cumulative investments of about 1.5 trillion yen over the three years from fiscal 2022. Growth investments are growth drivers that increase enterprise value. There are two ways of achieving our goals for growth investments: “organic growth,” where we increase the added value of Hitachi’s own killer technologies, as in the case of particle beam therapy systems, and “organic growth,” which is achieved by incorporating businesses from outside, like when we acquired ABB’s power grids business. Capital growth strategies comprise regional strategies and sector strategies with a three-dimensional approach, considering the timeframe for investment efficiency.

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Q: What are your basic policies for return to shareholders?

We will aim for returns to shareholders on three levels: not only dividends and share buybacks but also increasing stock prices (capital gains). We will monitor dividend yield levels in other businesses as well and aim for a stable increase in dividends based on business growth. We will consider and undertake share buybacks while conducting a variety of simulations, keeping in mind business growth, the sell-off of assets, and stock price levels. We will continue our efforts to increase shareholder value through intensive engagement with the capital markets.

In closing, please give us your thoughts on non-financial KPI information and disclosure of that information.

There are four important non-financial KPIs: governance, climate change measures, the value of human resources, and the happiness of human society. Governance can be very difficult to present in the form of a KPI, but in addition to the diverse background and experience of the people who make up the Board of Directors, my goal is to be able to explain to outside parties how these directors engage in exchanges of constructive criticism with the executive side, as well as discussions related to ethical behavior at board meetings. In climate change measures, Hitachi has set a target KPI of achieving carbon neutrality in our own operations by 2030, and we are accelerating these activities. We need to look at this problem from a broader perspective, however, so I believe we must show an aggressive stance and involvement in activities targeting this problem, while introducing how Hitachi will reduce CO2 emissions in an economic society and how we can contribute to the global environment, presenting actual examples of R&D activities and specific contributions through businesses. In terms of the value of human resources, first, it is important to explain clearly how we encourage diversity and inclusion within Hitachi. I can say with confidence that by fostering and training our people worldwide through day-to-day corporate activities in which we cultivate our technical strengths, we support the international competitiveness of Japan as a whole. I would like to set this as a kind of KPI, as a means of communicating Hitachi's contributions. Finally, and I think that this is the most important perspective, there is the question of whether our corporate activities help to improve the public welfare; in other words, whether people’s lives are more culturally oriented, healthier, and richer because of our corporate activities. This is the starting point for all corporate activities, so I want to keep this in mind as a corporate citizen and ensure that we continue to ask these questions of ourselves. My approach to non-financial KPIs is to maintain a focus on these four perspectives and use these as key indexes for management as we undertake activities that tie into increased corporate value.