Digital Systems & Services

Business Structure

Services & Platforms
950.0 billion yen 34%

Front Business
982.5 billion yen 35%

IT Services
886.5 billion yen 31%

Business Performance (Billions of yen)

Revenues
2,389.0 billion yen

Lumada revenues
859.0

IT Services
886.5 billion yen

Front Business
982.5 billion yen

Adj. EBITA ratio
12.3%

CAGR 7%*2

ROIC
8.3%

Market Environment

Aiming to solve increasingly complex management issues and create new business, demand for DX is expected to continue to increase in the future. The global DX market from 2022 to 2024 is projected to expand at an average annual growth rate of 17%.

Moreover, DX initiatives aimed at business growth in Japan will also expand across various fields, with the utilization and spread of cloud and digital technologies expected to accelerate further.

Strengths

Over many years, the DSS sector has cultivated development and operating capabilities for highly reliable mission-critical systems in the areas of finance, government, electric power and transportation. The solutions, services and technologies that make DX possible, along with the numerous IT and digital talent in Japan and overseas, also serve as strengths of DSS.

To accelerate the expansion of the Lumada business, we have developed a global service delivery system that provides innovative digital solutions created with the design and digital engineering capabilities of GlobalLogic in a highly reliable and efficient cloud environment. We will further strengthen the digital resources and capabilities supporting the growth of the Lumada business while striving to further enhance the profitability of our traditional core businesses, as well as the products business.

Growth Strategies

Based on Lumada's customer co-creation framework, we will position digital engineering as our starting point in an effort to provide end-to-end services from system integration to managed services, and solve the issues faced by customers and society. In addition to business streamlining and cost savings, we will deliver new value that achieves business growth for customers, including enhancement of the customer experience (CX) and transformations of business models.

Aiming for further growth, we will continually reinforce our business foundations including enhanced talent through GlobalLogic's excellent hiring and training schemes globally and bolt-on M&A, expansion of the alliances with hyperscalers, virtualization and automated operation of storage in which Hitachi excels and the provision of highly reliable and efficient hybrid cloud solutions made possible by advanced data governance.

In our core business, we will address the needs to innovate and modernize mission-critical systems by leveraging our solid customer base and technological capabilities that enable us to handle large-scale and highly complex projects. We will also strongly promote the shift to a service-oriented (recurring) business model and achieve improved development efficiency through the use of low-code/no-code technologies and generative AI, in an effort to further increase profitability.
Net zero remains a critical global challenge with the drive for clean energy and mobility. Over the last two years, demand was strong with several key drivers, for example, recovery from COVID-19 and energy independence from geopolitical issues. In addition, the business model is now shifting toward long-term engagement. For instance, Hitachi Energy was awarded a long-term framework contract with its partner to enable the customer’s long-term capacity expansion to accelerate the energy transition. It will also allow Hitachi to make a timely decision on capital allocation. In the green mobility market, rethinking how conventional transportation systems transform, the rise of DX and GX is generating and expanding new markets that is driven by data. In particular, cutting-edge and demand-side markets including smart mobility, energy management services and energy storage solutions are expected to grow rapidly.

In terms of economic forecast, the conversion to green energy is expected to expand by up to 1.5 trillion U.S.$, while the conversion to green mobility will increase by up to 2.7 trillion U.S.$ by 2030. By continuing to invest in the “Green Energy and Mobility”, Hitachi is making major strides in a fluid and dynamic market environment.

Market Environment

Through divestment and investment, Hitachi has been transforming its portfolio that is competitive in a targeted market and has a global footprint. Especially, rail systems and power grids are in a global leading position in terms of technology and footprint. By leveraging such a huge global footprint, Hitachi aims to be a lifetime partner with our customers to address their issues and pain points throughout the product/system life cycle. We believe that digitalization by using Lumada is a key for the success, and we have the greatest partner within Hitachi, that is, the DSS sector. Combining domain knowledge, experiences and expertise with IT capability, driven by data, we believe that we can create business cases for our customers that resolve customers’ challenges.

Strengths

The basis of our strategy is transformation and sustainability. With strong demand, we developed record high order backlog. Although our main focus in the next couple of years will be delivering such orders, we will start transformation of our business model to achieve sustainable growth. Key areas for transformation are our services as well as digitally enabled solutions together with Hitachi Digital. Internally, we will pursue green transformation in the Hitachi Group supported by the DSS sector. That will enable the best use of energy, assets and resources. The internal effort will be our offerings for our customers. Our “sell together” approach with GlobalLogic differentiates us from peers and that is our value proposition. We can collaborate and create synergy within Hitachi and minimize interfaces for co-creation. None of our peers can provide such a seamless approach and our strategic structure can deliver solutions for customers.
**Connective Industries**

**Business Structure**

- **Industrial Digital BU**
  - 361.5 billion yen (12%)
- **Water & Environment BU**
  - 186.5 billion yen (6%)
- **Industrial Products Business**
  - 451.1 billion yen (15%)

**Business Performance (Billions of yen)**

- **Revenues**
  - FY2022: 2,975.2 billion yen
  - FY2023 (forecast): 3,000.0 billion yen
  - FY2024 (target): 1,100.0 billion yen
  - adj. EBITA ratio: 10.5%
  - ROIC: 11.0%
- **Hitachi Global Life Solutions**
  - 392.3 billion yen (13%)
- **Building Systems BU**
  - 891.0 billion yen (30%)

**Market Environment**

We develop businesses globally based on industry-leading competitive products and expand them by capturing each growing market. As social issues become more and more complex and complicated and are being shared by different fields, investment in industrial digital transformation and automation is accelerating in the area of industry. Meanwhile, the semiconductor market is expected to grow in the medium to long term. In the healthcare field, markets for diagnosis and therapy equipment in cutting-edge fields are growing steadily. In the urban field, the elevator and escalator market remains steady, while the smart building market is expected to expand significantly in the medium to long term.

**Strengths**

Hitachi brings together its unrivaled, industry-leading products, including elevators, escalators, home appliances, air-conditioning equipment, measurement and analysis equipment, medical equipment and industrial equipment, and provides the Total Seamless Solution in which it digitally connects its products and solves boundary issues that arise between workplaces and management, the supply chain and different fields. In a society that is rapidly becoming more complex, it is more important than ever to solve issues with “domain SI” gained through collaborative creation with customers, which connects workplaces to management and takes advantage of Hitachi’s proprietary technologies and extensive empirical knowledge, in all layers. Hitachi connects things and makes a difference, thereby providing differentiated value.

**Growth Strategies**

**(1) Evolution and expansion of the Total Seamless Solution using the Lumada framework for collaborative creation with customers**

We aim to evolve and expand the Total Seamless Solution using the Lumada framework for collaborative creation with customers. Taking advantage of the strength that comes from having products, OT and IT. Expanding the scope of applications of the Total Seamless Solution from industry to the urban and healthcare fields and to the green field, the sector plans to expand Lumada revenues at a CAGR of 28%*2 in fiscal 2024.

*Examples of the Total Seamless Solutions: Reform and evolution of distribution and delivery operations, initiatives in the healthcare field, initiatives to build a hydrogen and ammonia supply chain.

**(2) Strengthening recurring business**

We aim to strengthen recurring business through horizontal deployment and sharing recurring business expertise between businesses. We will evolve our its recurring business model from providing product services based on 0.9 million units of connected products to deepening solutions, where we will continue to develop and deepen solutions according to customers’ new needs, to achieve recurring business revenues of 880 billion yen and a CAGR of 8%*2 in fiscal 2024.

*Examples of recurring business: Smart building solutions, Medical solution service platform.

**(3) Accelerating global growth**

We plan to increase our overseas revenue ratio from 47% in fiscal 2021 to 52% in fiscal 2024. We aim to achieve a CAGR of 15%*2 in North America by strengthening key businesses, including investment. To expand the global business, in the North American industry field, we have accelerated the development of the Total Seamless Solution by using the air compressors of Hitachi Global Air Power (formerly Sullair), advancing the fusion of robotic SI and digital solutions at JR Automation, which have built the foundations of their business through M&A, and leveraging the marking systems of Teleles Technologies and MES/SCADA*, where Flexware Innovation, which was acquired in 2022, is strong. In the semiconductor field, we will deepen collaborative creation with customers by utilizing bases near global customers and will strengthen the fusion of semiconductor manufacturing equipment and measurement equipment with digital. In the healthcare field, we will strengthen the molecular diagnosis business and particle therapy systems, particularly in North America.

*4 MES: Manufacturing Execution System; SCADA: Supervisory Control And Data Acquisition