

## Q&A Summary:

### Inspire 2027, Hitachi Group's New Management Plan / FY2024 Financial Results Briefing

Date : Monday April 28, 2025, 16:30-18:10 JST  
Speaker : Toshiaki Tokunaga, President & CEO  
: Tomomi Kato, Senior Vice President and Executive Officer, CFO

#### Questioner 1

**Q. Within Inspire 2027, the growth rate in the Energy Sector is expected to be on the same level as the market (11-13%). Do you think that growth will exceed market levels?**

A. Tokunaga

We recognize that energy is a field that drives growth for Hitachi as a whole, and we expect to see a high rate of growth in the future as well. Based on the current unpredictable conditions, at this moment, we expect to see a growth rate that is roughly on the same level as the market, but we will still aim for a higher level of growth. Regarding growth in the service business, which is expanding in parallel, there are some areas where advanced investments will be required, so we will distribute investments while keeping an eye on overall conditions, and work to increase returns.

**Q. This year, strategic investments are up by 43 billion yen. How has allocation changed in comparison to the previous year?**

A. Tokunaga

The most significant changes from FY2024 to FY2025 are Strategic SIB (Social Innovation Business) and generative AI, which will be the driving force behind future growth. Investments will be allocated with an emphasis on these pillars of strategic investment, from the perspective of generating future growth. In addition, in order to evolve autonomous decentralized management aimed at achieving growth in six key regions around the world, we will also make an effort to invest in strengthening these regions.

**Q. Regarding the profit margin at Building Systems BU this year, I am aware that up to now, the profit margin has continued to improve as a result of the shift toward services and strengthened maintenance, but it appears that these improvements have hit a ceiling. What can you tell us about the background factors?**

A. Kato

As there were signs from order received in FY2024, revenue involving new facilities in the Chinese market have dropped off from 2024 through to 2025. As a result, revenue overall declined sharply and profits floundered, so improvements in the profit margin have stopped, and FY2025 has become a plateau. On the other hand, renovations and service operations are growing, so we will continue to expand these areas.

## Questioner 2

**Q. You said that the power grid business will drive growth in the future, but this field is also expected to be impacted by the U.S. tariff policies. I'd like to hear your comments regarding the need for investments in the U.S., based on market trends and trends in the American power grid field.**

A. Tokunaga

With regard to power grids, we are in the process of detailed capacity planning based on a combination of current demand and capacity. We have already moved into the execution phase for investments on a scale of US\$ 6 billion. The local production ratio related to Hitachi Energy in the U.S. is currently around 80%, and we need to continue increasing this ratio in order to alleviate the impact of tariffs. We are currently considering responses to increases that can't be covered by local production, including passing on costs to customers.

**Q. Hitachi continues to expand on Lumada, as it has in the past. I would like to hear some specific comments based on your efforts to further expand over the next three years, particularly as your competitors accelerate these types of frameworks as well; for example, regarding key divisions and staffing, technologies, and AI agents.**

A. Tokunaga

We believe that Hitachi as a whole will continue to grow in the future through growth in Lumada, but it is true that we have dealt with a number of issues up to now. Still, we are gradually reaching a point where these issues can be overcome through the use of generative AI. For example, as demonstrated in the case of Hitachi Rail's HMAX, by training AI in Hitachi's OT knowledge and domain knowledge, we were able to achieve efficient use of assets and improve operations. We recognize that by applying our track record with HMAX in the fields of energy and industry as well, we will be able to increase the scale of Lumada. The Digital Systems & Services(DSS) Sector will be the key to doing this, and GlobalLogic in particular will promote the use of AI in close collaboration with various sectors. We believe that through Hitachi's new organizational structures and collaborations with digital technologies at the core, we will be able to dramatically increase the scale of Lumada. The various sector leaders are in the process of incorporating concrete numbers based on Inspire 2027, and I am confident that we can achieve our goals.

**Q. GlobalLogic has an advanced business model; using that model, will Hitachi be able to establish business dominance based on its unique position in the rollout of business in Japan? If so, what is the driving force for achieving that dominance?**

A. Tokunaga

I think that GlobalLogic's knowledge and track record will be essential driving elements. There is a shortage of digital talents in the Japanese market, but we will gradually overcome that shortage by expanding on insourcing – that is, by bringing in GlobalLogic's human resources from India and Eastern Europe into system development in Japan – and we will continue to increase work in the Japanese market. Hitachi has received an outstanding response from customers for its development of mission critical systems in Japan and these projects are growing in scale. I believe we can maintain our position as a unique vendor that can handle these types of projects, while also expanding the DSS business in Japan.

### Questioner 3

**Q. Could you please give us your impressions on the FY2024 consolidated financial results, and tell us the key points that will tie into future growth?**

A. Tokunaga

Overall, the FY2024 results were outstanding. We achieved organic growth, which was one of the goals of Mid-term Management Plan 2024(MMP 2024), and we entrenched management with an emphasis on cash flow and ROIC. Although conditions in FY2025 are unpredictable, we are planning to strengthen current businesses while ensuring thorough risk management, based on the outlook that momentum in DX and GX will remain unchanged in the medium to long term. FY2025 is an important year in terms of preparing for future growth. We will steadily move ahead with current business while at the same time developing new business areas, as in the case of Strategic SIB, and prepare for the next stage of growth.

**Q. You said that you will focus efforts on Lumada, and also respond steadily in businesses where earnings are not expected. Could you tell us which specific fields you are referring to?**

A. Tokunaga

I will refrain from commenting on individual businesses, but I can say that if there are any businesses that cannot accommodate a shift to Lumada, or that demonstrate minimal growth potential or profitability, we will respond appropriately regardless of the field, to achieve our goals of increasing the Lumada revenue ratio to 50% and profitability to 18%.

### Questioner 4

**Q. You said that in MMP 2024, you were unable to execute growth investments according to the plan. What is your analysis of the background factors? Also, what are your thoughts on M&A strategies for the next three years?**

A. Tokunaga

I said that during the period of MMP 2024, we prepared growth investments on a scale of 1 trillion yen, but we were unable to make sufficient growth investments due to a lack of targets that align with Hitachi's business strategies, or bring about appropriate business returns. In Inspire 2027, we will strengthen growth investments in three fields: In addition to strengthening Strategic SIB, we will strengthen the capabilities that Hitachi is lacking in fields that we will focus on in the future, including data centers, and we will also invest in industrial automation, which is likely to become a central pillar in the Connective Industries(CI) Sector, where we will promote portfolio reforms. With regard to GlobalLogic, we will continue to execute bolt-on M&As.

### Questioner 5

**Q. Regarding ROIC, based on the capital allocation diagram on page 9 of the management plan presentation, if we assume that shareholder returns will roughly double to about two trillion yen, will you really be able to achieve your targeted D/E ratio of 0.5x?**

A. Kato

The capital allocation diagram in the presentation is just an image; the scale is not precise. Also, a large part of future growth investments and the selloff of assets are still unclear. In any case, I believe that we won't be far off (from the scale of our targeted D/E ratio), although we held off from providing any absolute numbers. Of course, we intend to increase shareholder returns, and we have added an arrow to indicate that.

**Q. Does that mean the balance sheet will have interest-bearing debt valued at about half of equity, with a view toward a D/E ratio of 0.5 after three years?**

A. Kato

Financial discipline is a reference point rather than a fixed target of 0.5, and it is subject to change depending on circumstances.

**Q. In MMP 2024, ROIC improved by three points, but in Inspire 2027, the improvement is expected to be between one and two points. It seems like the improvement in ROIC is slowing down.**

**What can you tell us about that?**

A. Tokunaga

Our stance of emphasizing ROIC remains unchanged. I feel that this is one of the most important KPIs, and one that must be protected even beyond the scope of Inspire 2027. At the same time, because we also need to implement growth investments in parallel, we set 12-13% as a target in Inspire 2027 to ensure an effective balance between the two. We will continue our efforts to further increase ROIC.

#### **Questioner 6**

**Q. When you aim to increase the Adjusted EBITA margin from 11% in FY2025 to 13-15% in FY2027, what will you change, and what are the drivers of 13-15% that will change the track you are on? I think that the concept of Lumada3.0 has a great deal of future potential, but I am not confident that it serves as the driver over this three-year period seems to be lacking yet. Could you comment on this?**

A. Tokunaga

Risks in the external environment have been incorporated into the forecast figures for FY2025. It's difficult to predict whether or not these risks will become a reality during FY2025, but it's important to think about how to alleviate these risks, and how to overcome them to secure a high profit margin. We will promote global autonomous decentralized management, based on the assumption that the trend of economic nationalism will continue for the time being. Also, from the perspective of increasing profitability, we will expand the service business – notably through Lumada – and implement reforms in the business portfolio as quickly as possible. You also asked whether Lumada3.0 will serve as a driver. We know that we can increase the efficiency of social infrastructure assets, as in the case of HMAX. The leaders in each sector play a central role in creating detailed plans for the expansion of Lumada3.0, and we are planning on providing more specifics at Investor Day in June.

**Q. The profit margin for FY2027 in the Energy Sector is projected to exceed 12%, but the profit margin for Siemens Energy's Grid Technology, a competitor of Hitachi Energy, is expected to be over 15%, and this level is expected to continue at around 15% in the future as well. Both companies have a similar business model, and Hitachi's target of 12%+ feels conservative. Did you study this target based on current pricing and supply chain conditions?**

A. Tokunaga

We set the goal of over 12% for the profit margin to be achieved in the Energy Sector in FY2027, which means we want to bring the profit margin up above 12% at least. It's difficult to make a comparison with Siemens Energy under identical conditions, but the key to increasing Hitachi Energy's profit margin will be strengthening the service business. In April, we established a new division within Hitachi Energy in charge of the service business, and we have begun the creation and execution of business strategies. I believe that by starting up this service business, there is potential for increasing profitability. Disturbances in the supply chain represent one risk, but in addition to autonomous decentralized management, we will implement escalation clauses as needed, and pass on price increases to customers.

## Questioner 7

**Q. Given the unpredictability of the business environment, what specific types of reviews have been incorporated into the new management plan?**

A. Tokunaga

We conducted reviews in two areas based on the unpredictability of the business environment. One is finding ways of alleviating risks amid an increasing tendency to economic nationalism. We have reflected improvements in processes for promoting autonomous decentralized management on a global scale and promoting business while sharing awareness with the leaders in six regions worldwide. The second is strengthening the Lumada business. Lumada can be expected to offer high profitability and growth potential, and must remain an essential part of the customers' management. We conducted a review from the perspective of finding ways to provide solutions with value for the customers, and finding ways to scale those solutions. We are making preparations to provide a more detailed explanation at Investor Day in June.

A. Kato

In the FY2025 forecast alone, we have incorporated only the direct impact of tariff risks in the U.S. Because Inspire 2027 itself is a medium- to long-term plan, I would just like to clarify that specific risks have not been incorporated.

**Q. Is there any impact on future investments for facilities or human resources? For example, you said that growth investments would continue, but what are your thoughts on the possibility that it will be more difficult to decide on capital investments given the unpredictable environment, or that it will be more difficult to increase wages as you have done on a continuing basis in the past?**

A. Tokunaga

The basic assumption is that growth investments are executed carefully after identifying risks and returns. Then, when it comes to capital investments, amid an accelerating trend toward economic nationalism, we feel that we need to build a supply chain for local production and local consumption, so we will plan and implement capital investments based on the assumption that the situation will not change dramatically. In terms of human resources, for example in the Japanese market, one management issue is finding ways of securing human resources involved in Hitachi's business amid a continuing population decline. This is a problem that we need to think about as a set, including offering an attractive compensation package to bring people in.

A. Kato

If I could just add to that, regarding the increase in organic investments in FY2025, I said that we would strengthen Lumada3.0 and regions, but we will also work on designing new compensation systems, training leaders, and investing human capital to strengthen the management base.

## Questioner 8

**Q. In the Energy Segment, has your conservative stance strengthened in comparison to forecasts from six months or a year ago, in response to current geopolitical conditions?**

A. Tokunaga

It's possible that there will be an impact from the recent tariffs and other factors, but we recognize that the medium- to long-term momentum with regard to GX will not change. For this reason, we expect to see strong growth in the future at Hitachi Energy and in the Energy Sector. Because of the impact of the tariffs, however, I think that there is a definite possibility that the customers' investment behaviors will change, and we will keep a close eye out for economic recession and other trends.

## Questioner 9

**Q. What is the timeline for actual improvements in profitability resulting from an acceleration of Lumada3.0? What percentage of the adjusted EBITA margin of 12%+ in the Energy Sector will service revenue account for? (Can we just look at the Lumada revenue ratio for this number?) Also, would we be correct to understand that the increase in the profit margin resulting from a deployment to other companies' and in other industries' installed base will take place sometime after Inspire 2027? And what are your thoughts on the leaders and the business divisions that will serve as control towers in the context of rollout to other companies and industries?**

A. Tokunaga

The ratio of Lumada revenue in the Energy Sector in FY2024 was only 11%, and the key to success will be strengthening the service business and the resulting increase in profitability. From FY2025, we have established a new division dedicated to the service business in the Energy Sector, so by expanding the service business all at once, mainly led by this division, we will create a service business that contributes during the period of Inspire 2027. To roll out solutions into other companies' installed base, divisions focusing mainly on the service business will act as control towers. The DSS Sector, including GlobalLogic, will play a role in the actual implementation of digital technologies, and based on requests from the control tower divisions, the DSS will introduce digital technologies while coordinating with the Energy Sector in the same way that this was achieved with HMAX in the railway business.

**Q. Can we assume that the Lumada revenue ratio in the Energy Sector will be about the same as for grid automation?**

A. Tokunaga

Even aside from grid automation – for example, transformers for data centers – this is a field where customers don't want devices to be connected, because of security issues. In the future, we plan to sufficiently guarantee security and strengthen remote monitoring, to take on the challenge of increasing operation rates for the customers' devices.

## Questioner 10

**Q. Revenues at Hitachi Energy and Railway BU exceeded previous forecasts by over 10 billion yen. What were the background factors, and what is the potential for maintaining these levels in the future?**

A. Kato

We expected that revenue of power grids would exceed the forecast, and in the context of Hitachi's consolidated basis, this was within the scope of expectations. Background factors included an increase in new orders in Japan, as well as substantial progress in transformers, switchgears, and large-scale systems. In the railway business, we took a conservative view of progress in projects. The positive performance was due in part to the fact that this was the final year of MMP 2024, so the determined efforts of staff tied into improvements in profits. This was a factor in revenue and profits exceeding forecasts for Hitachi as a whole.

**Q. Regarding cash allocation, you commented “I believe that we won’t be far off.” Do you mean that the shareholder returns of 2 trillion yen feels right? You also touched on strengthening industrial automation, but it seems that CI has a weak presence. What is your approach to strengthening this presence? For example, are you aiming for a position like Siemens or Honeywell, in hardware or software?**

A. Kato

When I said that it felt right, I was talking about the level of the D/E ratio rather than the scale of shareholder returns.

A. Tokunaga

In industrial automation, we will target the fields where discrete systems and process systems come together; in other words, mission critical fields. In this way, we expect to be able to leverage Hitachi’s capabilities in OT x IT x products. In mission critical fields, markets for batteries, bio pharma, and advanced materials are growing. We will strive to embody the strategies of the CI Sector, to focus on growth in this area.

**Q. It feels like Hitachi and GlobalLogic are collaborating effectively in HMAX in other areas, but what were the background factors in the success of horizontal rollout? Did your (CEO Tokunaga’s) leadership and organizational factors contribute?**

A. Tokunaga

One background factor was that GlobalLogic, which has outstanding digital engineering capabilities, autonomously has been undertaking work that tied into multiple sectors. Also, starting from FY2025, all of the sector leaders, regional leaders, and corporate top management have set up meetings to discuss strategies and decide on concrete actions together. This has given rise to active discussions, and I believe that this will make a substantial positive contribution to the execution of strategies moving forward.

End