

Q&A Summary: Web Conference on Q1 FY2025 Earnings

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The following answers are all from CFO Kato.

Questioner 1

Q. Regarding the Services & Platforms business in the DSS sector, both order intake and revenues in Q1 were down 14% YoY due to the indirect impact of US tariffs. How do you expect this to change in Q2 and beyond? GlobalLogic's revenue growth rate was in the Mid-Single Digits in Q1, but the full-year outlook is in the Mid-Double Digits. What is your current outlook? Additionally, is there any risk that the tariff impact could persist longer than expected? In particular, the storage business seems to be facing challenging conditions. Could you provide company's view on the current situation and your outlook from Q2 onwards?

A. As for Q1 results, GlobalLogic achieved the aforementioned growth by expanding internal utilization and increasing new customers, despite customers' investment restraint as the indirect impact of US tariffs. On the other hand, Hitachi Vantara's storage business struggled. In addition to the indirect impact of tariffs, we lost deals to competitors due to intensifying competition. From Q2 onwards, GlobalLogic expects to grow as the full-year growth guidance, given that we are winning new projects and expanding internal utilization despite continued restraint in customer investment. In the storage business, we launched new products, including mid-range, in the previous fiscal year and will focus on expanding sales. Additionally, we will work to increase maintenance service contracts and optimize costs. We expect to materialize the effects of these measures in Q2 and beyond. However, if customers' investment restraint as the indirect impact of U.S. tariffs continues, there is a risk that improvements may be delayed. This factor contributed to our decision to include 20 billion yen of business deterioration in the current full-year outlook.

Q. What is the reason for the Energy sector's approximately 1 point upward revision of the full-year profit margin outlook? In addition, order intake has so far remained high, what is the outlook for this fiscal year?

A. Profit margins in the Energy business, particularly in the power grid business (Hitachi Energy), improved significantly. As of April, the impact of US tariffs was quite uncertain that made us somewhat conservative in factoring the risks into the outlook. However, based on current order trends and Q1 results, we believe the upward revision is reasonable. The 3.5-point increase in the Q1 profit margin has strengthened our confidence in our ongoing efforts. In addition to increased revenues and improved productivity, the product mix has also improved. A higher proportion of high-voltage products such as gas switchgear contributed to the improvement. We do not disclose the annual order outlook for Hitachi Energy. Although orders in Q1 decreased YoY due to the large orders in the previous year, base orders maintained double-digit growth, mainly in high-voltage and transformers. We expect this trend to continue. We expect orders to continue increasing, supported by the strong momentum of base orders in Q1 and the awarding of large orders.

Q. What is the ratio of base orders to Hitachi Energy's total order intake?

A. Base orders accounted for more than half in FY25 Q1, but this ratio will vary depending on the presence of large projects.

Questioner 2

Q. The full-year outlook for the entire company remains unchanged, but are there any changes in the hurdles to achieving the plans for each sector? In the DSS sector, some projects have been postponed, but how much of the gap can be filled in Q2 and beyond against the full-year revenue growth rate of +8% (excluding foreign exchange effects) and the +1% growth in Services and Platforms?

A. Regarding the DSS sector, domestic DX demand remains very strong. While there are some

rebound effects from large-scale projects and ATM project for renewal of Japanese banknotes, Q1 orders were solid and we expect steady growth in both Front Business and IT Services throughout the fiscal year. For overseas businesses, I recognize that GlobalLogic is performing steadily. However, as for storage businesses, the timing of the improvement effects may be delayed from our original projection due to customers' investment restraint caused by tariffs. We are steadily implementing improvement measures and will monitor progress closely, reflecting necessary changes in the outlook.

Q. In terms of overseas customers' investment restraint in DSS, it is said that there was an impact on the storage business and GlobalLogic in particular. Could you specify which customers and projects are being affected? Is there a possibility that this impact will spread further in the future?

A. Without going into detail, the automotive industry is facing challenges, and there are cases where government-led investment is not proceeding as initially planned. On the other hand, investment is increasing in some industries and customers, and overall, we expect the market as a whole to continue growing steadily over the medium to long term.

Q. How much does HMAX contribute to business performance? I understand that there are many relatively long-term projects, but does it contribute to upward revisions in the full-year outlook?

A. HMAX is part of the digital services for the railway business, and its individual quantitative information is not disclosed. It has a positive impact on the project. In Q1, we signed a long-term contract (until 2032) for vehicle maintenance in Scotland, and we are considering utilizing HMAX in this project as well. We have received very positive feedback from the customer.

Questioner 3

Q. Regarding the impact of U.S. tariffs, the full-year impact is estimated at a negative 30 billion yen in adjusted EBITA and a negative 35 billion yen in net income, which we understand has been unchanged from the initial outlook. On the other hand, since July, as tariff negotiations between countries have progressed, the situation appears to have become more concrete compared to earlier stages. What is the reason for maintaining the impact amount unchanged in this context? Even qualitatively, we would like to hear your current assessment of whether the tariff impact is easing compared to the beginning of the fiscal year or becoming more severe?

A. As the indirect impact of US tariffs could not be assessed as of April, only the direct impact was assumed, and a risk of negative 30 billion yen was factored into adjusted EBITA. Since then, negotiations between countries have progressed, and the actual tariff rates have become clearer, resulted in a decrease in the estimated direct impact compared to April. Meanwhile, indirect effects such as customer investment restraint are becoming more obvious, particularly in the IT sector, so the overall impact of negative 30 billion yen has been maintained.

Q. The company has revised its outlook for the Energy and Mobility sectors upward, but has not changed the full-year outlook for the company. The explanation given was that this revision reflects the incorporation of approximately 20 billion yen in business deterioration risks. What specific risks are being anticipated?

A. We have revised upward our full-year adjusted EBITA outlook for the Energy and Mobility sectors by approximately 30 billion yen. However, considering risks and other factors, we have not changed our overall profit outlook. Approximately 20 billion yen represents risks that, at this point, are not yet sufficiently certain to be incorporated into the outlook for each sector. The main factors we are considering are the indirect impact of tariffs and the suppression of customer investment in the IT field. We will continue to monitor progress and revise our outlook as necessary, while closely watching the situation toward Q2.

Questioner 4

Q. Regarding the impact of tariffs, I understand that Hitachi Energy is taking measures such as passing price increases on to customers. Could you explain specifically what measures have been taken and to what extent? And will you continue these measures in Q2 and beyond?

A. Under current contracts with customers of Hitachi Energy, tariff impacts can be reflected in prices basically. For contracts executed in the past, we are negotiating on a case-by-case basis. An

increasing number of customers are coming to understand the legitimacy of price pass-through, and compared to the April outlook, the direct impact is decreasing. We will continue to implement measures in Q2 and beyond.

Questioner 5

Q. As for regional revenues for Power Grids business, the European market performed well, while the US market remained flat. There are high expectations for the US market, including those related to generative AI. What are the factors driving the strong performance in Europe and what are the trends in orders and sales in the US?

A. Since regional revenues fluctuate quarterly depending on projects, the trend in Q1 is not necessarily indicative of future trends. In this Q1, strong demand for high-voltage and transformer products was reflected in revenues. In addition, HVDC revenues are recognized based on the progress of projects. Revenues in North America remained flat compared to the previous year due to the high growth rate last year, but we do not see stagnation. Regarding orders, while we do have orders for AI and data center-related transformers, the majority are for the renewal of aging infrastructure and grid stabilization for renewable energy grid connections which are driving steady growth.

Q. In domestic IT services business (Front Business, IT Services), profit increase per revenue increase seems to be lower than in the past. Were there any special factors affecting profitability this time?

A. Profit margins vary depending on the project, and they fluctuate from quarter to quarter. We are currently working to revise our prices by improving the value we offer, but some projects are seeing increased costs due to rising labor costs. On the other hand, we are proposing SI and IT services that utilize generative AI. Such Lumada businesses are steadily increasing, and we expect margins to improve going forward.

Questioner 6

Q. It was explained that competition is intensifying in DSS's overseas storage business. What is the current situation in the storage market? Is storage for large-scale cloud vendors facing difficulties, or is competition intensifying in the low-price storage market?

A. Our storage products are broadly divided into high-end and mid-range products. In Q1, there were project delays in high-end products due to customers' investment restraint, which we believe was due to individual factors rather than a decline in the overall market. On the other hand, competition in mid-range products is intensifying, and although the market itself has not shrunk, we lost some sales to competitors in Q1. However, we are steadily implementing recovery measures, including the launch of new products in the previous fiscal year, and aim to recover toward the second half.

Q. While there has been a long-standing shortage of IT engineer resource in Japan, AI layoffs are accelerating mainly in the US due to the spread of AI. In light of this, is Hitachi sticking to its existing hiring plans, or do you adjust the strategy, such as reducing the number of new hires? What is the current situation?

A. In Japan, customer demand for modernization and DX remains strong. We are also working to improve the efficiency of the total SI process by utilizing generative AI for coding, but there is still a shortage of IT talent. We have started utilizing overseas resources, but we expect the shortage of IT talent to continue for the near future.

Questioner 7

Q. I would like to ask about Power Grids business. Recently, there has been an increase in exports by Korean manufacturers and a rise in ASP (Average Selling Price). Since Hitachi has many long-term projects, it may not necessarily be in line with short-term trends, but do you see any changes or improvement trends in ASP at the moment?

A. We are constantly monitoring gross margins on orders of Power Grids business. The trend has been improving since the past, and we do not feel that sales prices are falling at the moment.

Q. Although the full-year outlook remains unchanged, I recognize that there are differences in performance between business segments. For example, based on the current order situation, we see signs of improvement at Hitachi High-Tech. Looking at the overall picture, please provide specific examples of businesses that are performing well or underperforming compared to the initial outlook.

A. We have revised upward our full-year outlook for the Energy and Mobility sectors. The Power Grids business has reached nearly full production capacity, and is unlikely to make significant upward revisions from supply volumes perspective. However, we see potential for upward revisions as production efficiency continue to improve through the company-wide implementation of ERP. Additionally, the CI sector saw a decline in both revenues and profits in Q1, which was in line with projection. For the full year, we anticipate a slight decrease in revenues, but expect to keep profits and improve profit margins. Overall, we remain somewhat prudent, including Hitachi High-Tech, and believe there is potential for upward revisions in Q2 and beyond depending on progress going forward.

Questioner 8

Q. With an 80 trillion yen investment plan in the US announced (by Japan government), what role do you think Hitachi will play? Hitachi has indicated that it will increase growth investments, including M&A, in its capital allocation, and the current environment seems to support this policy. Are there any plans for multiple 1 trillion yen M&A deals over the next three years in the US as a contribution to lowering tariffs and the benefit of Japan?

A. There are two main aspects to investment in the US. The first is capital expenditure (CAPEX). The Power Grids business already has production bases in the US and manufactures many products locally, but some products are sourced from other countries due to strong demand. Going forward, we plan to strategically expand CAPEX to increase production capacity in the US. The second is M&A. Under the Inspire 2027 strategy, we will promote M&A related to digital services from the perspective of Lumada 3.0. The target areas will cover all sectors. In the CI sector, we have already conducted small- and medium-scale M&A in North America. In addition, we also expect indirect benefits, such as an increase in automation-related demand driven by other companies' expansion of investment in North American manufacturing.

Q. Compared to Japanese IT service companies, the DSS sector's results appear weak. The full-year outlook remains unchanged which requires revenue growth from Q2 onwards. What changes do you anticipate?

A. Front Business is expected to recover in Q2 onwards, following a temporary decline in Q1 due to the rebound effects from large-scale projects and ATM project for renewal of Japanese banknotes in the previous fiscal year. IT Services segment was affected by customers' investment restraint in overseas ERP-related businesses, but are expected to recover in Q2 and beyond based on strong domestic demand. We will continue to monitor the situation closely as there are various factors that could cause fluctuations.

Q. What were the factors behind the weak performance of the Services & Platforms in Q1?

A. As indirect effects of tariffs, customer investment has slowed down. In particular, there was a delay in investment in high-end storage projects. In addition, competition was very intense, including in the mid-range storage products, and we lost some sales to competitors in Q1. In response to this situation, we launched new products, including mid-range, from last fiscal year, and we will work to improve the situation toward the second half by expanding sales of products and maintenance services and further optimizing costs. However, we will continue to closely monitor the risks associated with the indirect impact of tariffs.

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