


CFO and CRMO Message

Investor Day (CFO session) 

Aiming for Enhanced Corporate Value by Accelerating the Transformation to a Digital-centric Company and Achieving High Profitability and Sustainable Growth

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Review of Mid-term Management Plan 2024

Achieved Organic Growth and Established Cash Flow and ROIC-focused Management

In fiscal 2024, we recorded increased revenues and profit in all sectors, driven by GEM sector†, which performed well with renewable energy-related projects and projects involving transmission upgrades, and DSS sector, which grew greatly boosted by the trend towards DX and modernization in the domestic IT market, and also due to the solid growth of CI sector both domestically and overseas. As a result, we set a new record for the highest ever adjusted EBITA margin and core FCF in our history.

Reflecting on Mid-term Management Plan 2024 as a whole, we achieved the organic growth we had set as a target and also increased both revenues and profit margins. Furthermore, thanks to our cash flow-focused management policy, cash efficiency went up and core FCF increased dramatically. We were also able to improve ROIC and by and large meet our KPIs overall.

Despite that, however, we were still faced with the issue where we could not make enough growth investments because we did not find opportunities that matched Hitachi's business strategy while also promising suitable returns. Furthermore, we are aware that compared to our global peers, we need to increase our profitability even more and further enhance our business portfolio and risk management.

† Green Energy & Mobility Sector was divided into Energy sector and Mobility sector from fiscal 2025.

Overview of FY2024 Performance

	Revenues CAGR (FY2021–2024)	Adj. EBITA Margin	EPS Growth Rate CAGR (FY2021–2024)	Core FCF 3-year cumulative (FY2022–2024)	ROIC
MMP2024 Targets	5–7%*1	12.0%*3	10–14%	1.2 tn yen	10.0%
Results	8%*2	11.7%*3	18%	1.8 tn yen	10.9%

*1 Three Sectors (excluding Astemo) *2 Excluding foreign exchange effect

*3 Old definition of Adj. EBITA: Adj. operating income plus acquisition-related amortization and equity in earnings (losses) of affiliates

Financial Targets of Inspire 2027

Aiming for Sustainable Growth to Further Enhance Corporate Value

Under Inspire 2027, we have set five financial KPIs to help us further enhance corporate value by accelerating our transformation into a digital-centric company, evolving Lumada with generative AI and achieving high profitability and sustainable growth.

Firstly, when it comes to revenues, our target is to achieve sustainable growth at a yearly average of 7–9% despite the unstable economic conditions. For adjusted EBITA margin, our target is 13–15% to bring us closer to the level of our global peers. Our cash flow conversion target is over 90%, which we intend to reach through means such as improving our cash conversion cycle, optimizing CAPEX and others. As we steadily improve these three financial indices, we will continuously expand our core FCF and work to boost our cash generation capabilities.

Next, we will work towards improvements in medium- to long-term capital efficiency as we make aggressive inorganic investments while maximizing returns and optimizing invested capital through the expansion of the Lumada business. We are targeting ROIC of 12–13% even though we expect to make a certain amount of growth investments.

Additionally, we have set targets of 50% revenue ratio and 18% adjusted EBITA margin for the Lumada business, which will be the driver for growth and greater profitability. We will accelerate our transformation into a digital-centric company with the Lumada business at its core and steadily increase corporate value despite the uncertain business environment we are placed in.

Financial KPIs Targeted in Inspire 2027

	FY2021	FY2024	FY2027
Revenues CAGR*4	5%*5	8%*6	7–9%
Adj. EBITA margin	9.9%*5	11.1%*7	13–15%*7
Cash flow conversion*8	50%	83%	Over 90%
ROIC	7.7%	10.9%	12–13%
Lumada	Revenue ratio	21%	50%
	Adj. EBITA margin	12%	18%

*4 Three-year CAGR *5 Three sectors *6 Excluding foreign exchange

*7 Updated definition of Adj. EBITA: Adj. operating income plus acquisition-related amortization

*8 Core FCF/Net income (excluding special factors)

CFO and CRMO Message

Enhancing Cash Generation Capabilities

Continuously Increasing Core FCF by Increasing Revenues and Profit Margins through the Expansion of the Lumada Business, and by Improving Cash Flow Conversion

Hitachi's core FCF has grown at a year over year of 23% until now. We will aim to continuously increase core FCF going forward by achieving revenue growth and higher profit margins through the expansion of the Lumada business in addition to further improving the conversion of profit to cash. Additionally, as we accelerate our transformation into a digital-centric company, we will steadily restructure our business portfolio based on the potential to enhance both growth and profitability in the Lumada business.

Capital Allocation (Growth and Returns)

Focus on Returns and Allocate Cash between Growth Investment and Shareholder Returns in a Balanced and Flexible Manner

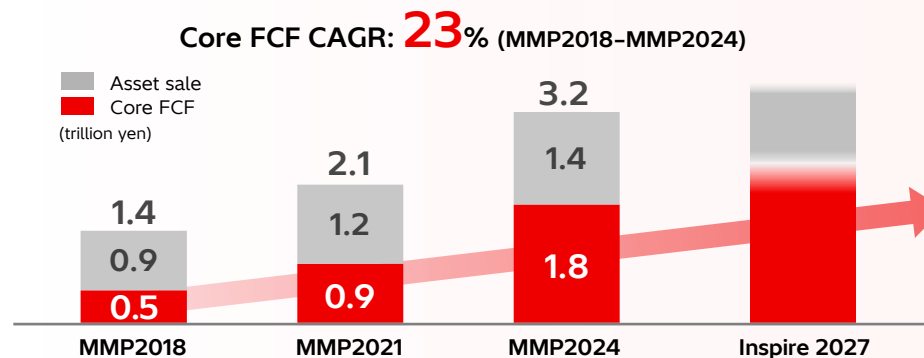
In Inspire 2027, as a basic policy just as in the previous Mid-term Management Plan 2024, we will focus on returns and allocate cash between growth investments and shareholder returns in a balanced and flexible manner.

When allocating cash, core FCF will be allocated to growth investments and shareholder returns. Next, cash from the sales of assets will be invested in growth if there are growth investment opportunities or allocated to share buybacks if there are no such opportunities. Borrowing leverage will also be used for growth investments.

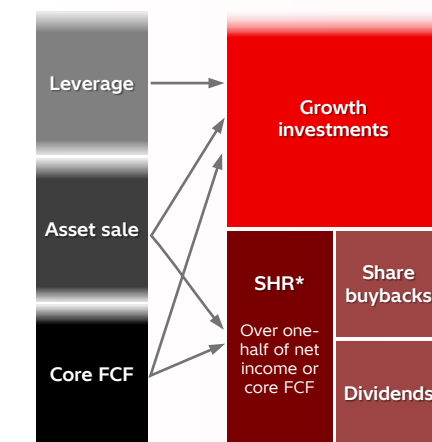
For inorganic growth investments, we are focusing investment targets on fields that match the company-wide growth strategy and that can be expected to result in higher profitability and capital efficiency. In specific terms, we expect these to be investments that enhance digital areas or expand service businesses, and the majority of investments will likely take the form of bolt-on M&As that complement existing businesses.

In making investment decisions, in addition to their compatibility with our strategy, we will use Inspire 2027's financial target values (adjusted EBITA margin of 13–15%, ROIC of 12–13%) as the hurdle rate and consider risks and other factors as we carefully make decisions. On the funding side, as financial discipline we will aim to maintain a D/E ratio of 0.5x and a Net Debt/EBITDA ratio of approximately 1–2x in the medium term, and we will also use borrowing leverage depending on the growth investment opportunities available.

Cash Generation Trends



Capital Allocation Policy



*Shareholder Returns

- Priority: 1. Dividends
2. Growth investments/share buybacks
3. Debt repayment

In the absence of growth investment opportunities, excess cash will be returned to shareholders

Investment in Inorganic Growth

- Focus investment in digital enhancement and service expansion
 - Strengthen Strategic SIBs (data centers, healthcare, etc.)
 - Strengthen integrated industry automation
 - Strengthen digital engineering and service
- Invest with strategic, risk, and return considerations
 - Hurdle rate: Financial KPIs under Inspire 2027 (Adj. EBITA: 13–15% and ROIC: 12–13%)
- Utilize leverage under financial discipline
 - D/E ratio: 0.5 times
 - Net Debt/EBITDA multiple: 1–2 times

Shareholder Returns

- Continuously increase returns to shareholders over the medium to long term
- Over one-half of core FCF or net income
- Stable dividend growth in line with business growth
- Flexible share buybacks

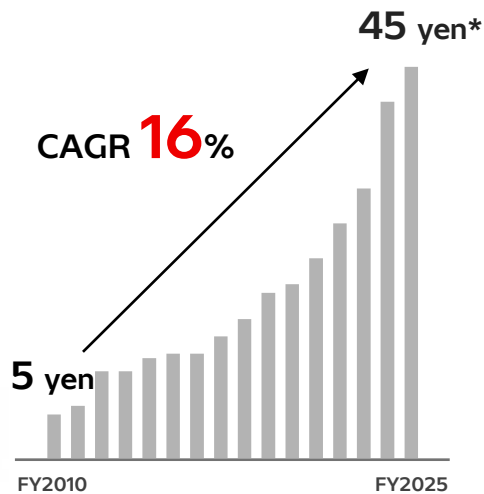
CFO and CRMO Message

When it comes to shareholder returns, our policy is to set aside 50% or more of core FCF or net income for shareholder returns on a yearly basis, and we will steadily increase the amount of returns in the medium to long term.

The dividend amount has trended upwards in the past 14 years, and we will aim for continued stable growth in line with business growth. We plan to achieve a CAGR of 16% for the annual dividend per share (payment basis) by fiscal 2025, taking fiscal 2010 as the starting year.

We will flexibly do share buybacks while taking the state of cash generation, financial conditions, the progress of asset sales and other factors into comprehensive account. In fiscal 2025, we plan to buy back approximately 300 billion yen in shares, 100 billion yen more than the previous fiscal year.

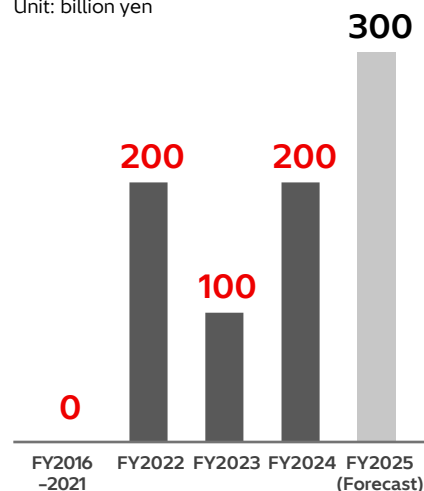
Annual Dividend Per Share (Payment basis)



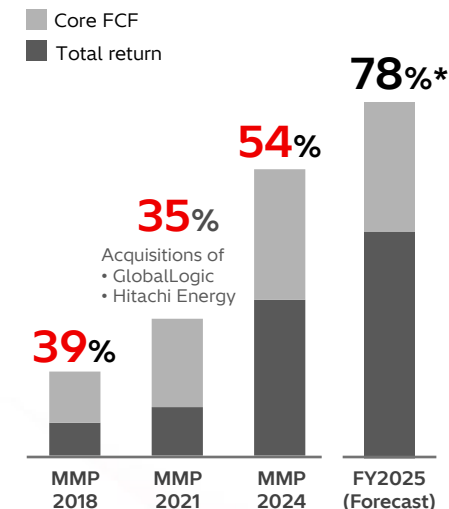
*Planned amount of interim dividend for FY2025

Share Buybacks

Unit: billion yen



Total Shareholder Return Ratio (To core FCF, cumulative total for three years, payment basis)



*Total return ratio for a single fiscal year

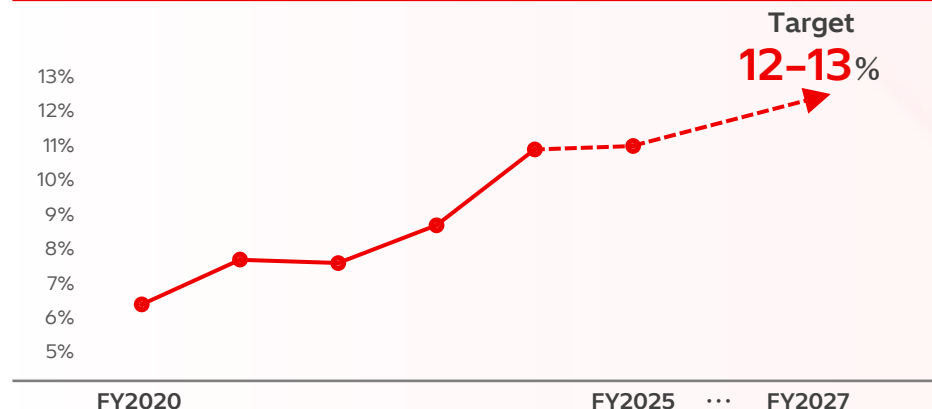
Improving Capital Efficiency

Improving ROIC through Maximizing Returns and Optimizing Invested Capital by Expanding Lumada Business
Expanding ROIC-WACC Spread through Improving and Early Recovery of ROIC after Inorganic Investments and Reducing WACC

By continuing our transformation into a digital-centric corporate body through the expansion of the Lumada business, we will strive to improve returns, optimize invested capital and further increase ROIC.

We believe that inorganic growth investments are indispensable to sustainable growth in the medium to long term. If ROIC drops momentarily after an investment is made, we will attempt to quickly recover and improve it by applying strict investment discipline, and we will also focus on WACC reduction and expanding the ROIC-WACC spread.

ROIC Trend



CFO and CRMO Message

We will endeavor to achieve greater returns, in other words to improve the numerator for ROIC, by boosting growth potential and profitability in the four core businesses with Lumada at their core. On the other hand, we will work to optimize invested capital, the denominator, by driving asset-light business models and optimizing our equity ratio. We will proceed with asset sales strategically based on criteria such as the growth potential of the Lumada business, the rationale for retaining its business and ROIC. To further expand the ROIC-WACC spread, we will strive to reduce WACC by using leverage, optimizing β by stabilizing profitability through the expansion of digital services, and communicating with stakeholders in capital market.

Risk Management

Enhancing ERM (Enterprise Risk Management)

Hitachi's business activities have been transformed through innovations in digital technologies such as generative AI and the advancement of globalization. The risks that may have a significant impact on management have become diversified and more complex. Since individual risks interact with each other and can affect business activities in a complex chain reaction, they must be viewed from multiple perspectives, such as their nature, likelihood of occurrence and impact on Hitachi if they do occur.

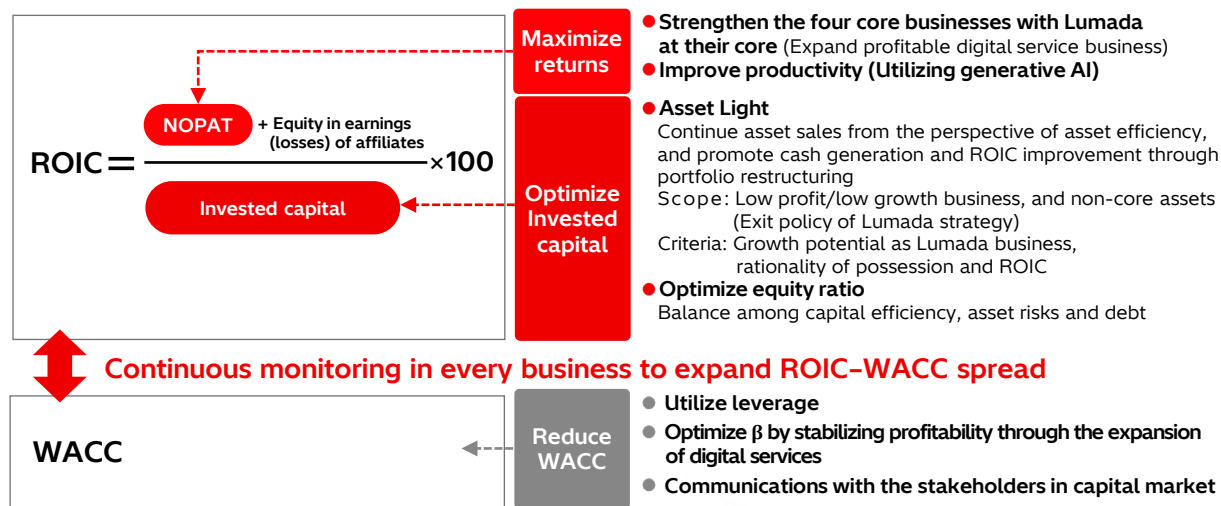
For Hitachi to enhance its corporate value over the medium to long term, it needs not only to grasp risks as threats but also to see their positive aspects as business opportunities in order to implement risk management and to create profit-earning opportunities.

From this perspective, Hitachi has established the risk management system and risk management process to manage risks in a group-wide manner. As the Chief Risk Management Officer (CRMO), I identify major risks across the Group and report the status of our risk response to the Senior Executive Committee and Board of Directors.

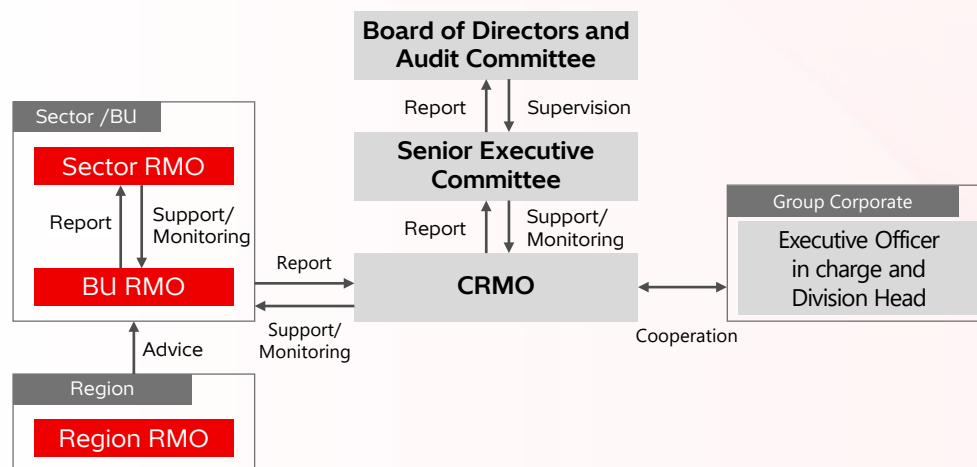
Hitachi operates its risk management system based on clearly defined roles and responsibilities. RMOs placed in sectors and BUs identify and evaluate risks from the standpoint of persons close to the front line and report to the CRMO. Furthermore, we have appointed regional RMOs in six regions including Japan, and they give advice from regional perspectives. Group corporate organizations also support the sectors and BUs through advice and monitoring.

By building the RMO network, we are incorporating region-specific perspectives in addition to those from sectors, BUs and corporate functions, managing major risks in a centralized, company-wide manner, and enhancing our ERM.

Measures for Improving ROIC and Expanding ROIC-WACC Spread



Group Risk Management System



CFO and CRMO Message

Risk Management

Building a Risk Culture with One Hitachi

To ensure comprehensive and efficient risk management throughout the Group, we have established group risk items, risk assessment methods, etc. in the internal regulations for group-wide risk management. Risks are assessed by evaluating the impact and likelihood of occurrence for each risk item and by creating the risk heat map. In the assessment, sector/BU identifies risks related to its business activities and assesses the impact and likelihood of occurrence as a bottom-up approach. The members of the Senior Executive Committee, etc. make adjustments for the risks identified and assessed by the bottom-up approach, as well as their impact and likelihood of occurrence, from the perspective of the Group as a whole as a top-down approach. Through this process, Hitachi's countermeasures against major risks are considered from the perspective of avoidance, mitigation, transfer and acceptance. The effectiveness of measures taken to address risks is monitored on a regular basis, and additional countermeasures and remedial measures are implemented as necessary.

Risk management cannot be fully carried out by only management and the CRMO. It is crucial for every single employee to understand the connection between risks and their duties and to take a proactive stance. We share risk-related information, learn together, and strive to foster a proactive risk culture as One Hitachi. Through an approach that balances growth strategy with risk management, we will aim for the sustainable enhancement of corporate value.

Message for Shareholders and Investors

Working to Further Increase Corporate Value

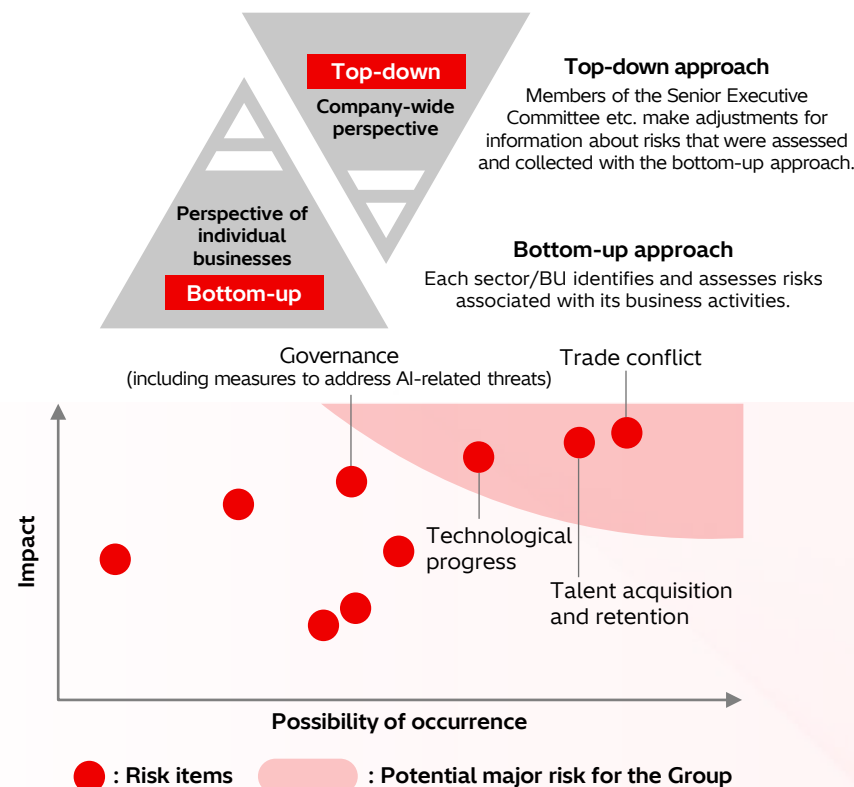
Under Inspire 2027, we will continue to drive three financial indices: revenues, adjusted EBITA margins and cash flow conversion to continuously strengthen our cash flow generation capabilities. Cash generated will be allocated between growth investments and shareholder returns in a flexible and balanced manner. Furthermore, we will work towards improvements in medium- to long-term capital efficiency as we make inorganic investments while maximizing returns and optimizing invested capital.

Over the past few years, geopolitical risks have intensified, with global trade tensions and regional disputes becoming more apparent. Moreover, amid the rapid evolution of generative AI, the global political, economic and social landscapes are changing at unprecedented speed.

Even in today's uncertain business environment, I am committed to fulfill my responsibilities as CFO while concurrently serving as CRMO. By enhancing ERM and accelerating Hitachi's transformation into a digital-centric company with the Lumada business at its core, we aim to enhance corporate value through the realization of high profitability and sustainable growth.

I will continue enhancing Hitachi's corporate value by engaging in interactive dialogue with our investors.

Risk Evaluation Process and Heat Map



The following initiatives are available in the Sustainability Report:

Climate-related Financial Information Disclosure	Efforts against Investment risks
AI governance-related initiatives	Business ethics and compliance
Quantitative understanding of risks	Information security initiatives

Moreover, details on risks for our business and others are available on [page 44 of the Annual Securities Report](#)