

Q&A Summary:

Web Conference on the Progress of “Inspire 2027” Management Plan and FY2025 Earnings

Date : Monday April 27, 2026, 16:30-18:00 JST
Speaker : Toshiaki Tokunaga President & CEO
Tomomi Kato Senior Vice President and Executive Officer, CFO

Questioner 1

Q. I would like to ask about how FY2026 is positioned within Inspire 2027. Looking only at the headline numbers, both the sales growth rate and the improvement in the adjusted EBITA margin appear somewhat slower relative to the FY2027 targets. Given that the plan includes factoring in ¥20 billion of Middle East-related risk, as well as an additional ¥30 billion increase in corporate strategic investments this time, should FY2026 be understood as a year of upfront investment—effectively laying the groundwork to ensure the steady achievement of the FY2027 targets?

A. Tokunaga

Excluding the impact of Middle East-related risk and the increase in corporate strategic investments, the FY2026 plan is positioned to exceed even FY2025, which marked our highest profit level to date. However, when looking only at the headline growth rates, the inclusion of these factors means that the growth does not appear particularly strong on the surface. That said, as you rightly pointed out, we are planning to make substantial and focused corporate strategic investments. The figures for FY2026 therefore reflect our intention to make the achievement of the FY2027 targets more certain. By firmly delivering on the FY2026 plan, we aim to build solid momentum and carry it through to FY2027.

Q. You mentioned that IT services in North America performed well, particularly at HDS with YoY growth of 10%. This appears stronger than the general trend in the North American IT services market. Could you elaborate on the specific drivers behind this performance?

A. Kato

Hitachi Digital Services has long provided a broad range of solutions to its customers, including ERP. In particular, what stood out in the fourth quarter was the strong demand from globally operating manufacturing customers, including Japanese companies expanding overseas. This increase in customer engagement led to the results you see today. Profitability has also been steadily improving, so we expect the momentum seen in the fourth quarter to continue for the time being.

Tokunaga

To add slightly to Kato-san's comments, we see another positive factor as well. The business model of Hitachi Digital Services differs from the time-and-materials model. Instead, it is predominantly based on outcome-based contracts commonly used in the DSS sector in Japan, and we have become increasingly successful in expanding this model. In other words, even in North America, there is still significant room for growth if we focus on outcome-based contract structures. We see this as one of the drivers behind our ongoing business model transformation, and we intend to continue pushing forward in this area.

Q. In the Energy sector, the adjusted EBITA margin improved by +3.3 percentage points from FY2024 to FY2025, whereas the outlook for FY2025 to FY2026 assumes only a +0.6 percentage points improvement. Given factors such as improved profitability of the order backlog, expanded sales of HMAX Energy, and productivity enhancements, this guidance appears somewhat conservative. Is there any specific background, for example, a transitional phase in margin improvement, which explains the smaller improvement?

A. Kato

We believe that the adjusted EBITA margin improvement in FY2025 reflects the successful execution of a wide range of initiatives we have implemented over time. While sales grew significantly, this was not solely due to expanded production capacity. Contributing factors also included higher productivity, better resource allocation, the benefits of IT system implementation, and pricing improvements. Together, these factors drove both strong revenue growth and margin

improvement.

Looking ahead, we expect margins to continue improving. However, the improvement in FY2025 was exceptionally large, which makes the incremental improvement planned for FY2026 appear smaller by comparison. If you look at the absolute margin level, we believe you will see that FY2026 still represents a meaningful improvement. In addition, we will continue to invest in IT and other initiatives aimed at further enhancing productivity.

Questioner 2

Q. Hitachi Energy's order backlog is performing well, up 33% YoY on a dollar basis. However, when compared with competitors, the growth may appear somewhat lower. While we understand there are differences in scale, could you share your view on whether Hitachi Energy is growing at least in line with, or outperforming, the industry overall?

A. Kato

Order intake can fluctuate significantly depending on individual projects, especially given the presence of very large-scale orders, where timing can have a substantial impact. What we would like you to focus on this time is the sales growth rate for FY2025. Hitachi Energy recorded dollar-based sales growth of 26% YoY, which translates to an increase of USD 4.1 billion in absolute terms.

While the growth rate itself is broadly in line with that of our peers, we operate from a leading position with a larger underlying revenue base. As a result, an absolute increase of USD 4.1 billion exceeds that of other companies, and we believe this represents a highly competitive level of performance. Going forward, we intend to maintain our top position over the long term by continuing to invest not only in capital expenditure, but also through various other forms of investment.

Q. GlobalLogic's revenue in the fourth quarter grew 44% YoY including synergies. What was the level of organic growth? If there is a significant gap between those two figures, could you explain what accounts for the difference? In addition, given discussions around so-called SaaS-related disruptions, has there been any impact on organic growth?

A. Tokunaga

As disclosed on page 36 of our FY2025 earnings presentation, while synergy-related growth increased significantly, GlobalLogic's organic, stand-alone growth was 3% YoY. Let me add some context by touching briefly on overall market conditions.

First, market conditions differ considerably between Japan and overseas markets. In Japan, demand remains extremely strong so much so that we are actually facing labor shortages. We have addressed this situation through productivity enhancements using AI, which helped drive the growth we achieved. We believe this strong demand environment in Japan is likely to continue for some time.

On the other hand, in the overseas and global markets where GlobalLogic has a strong presence, pricing pressure on time-and-materials contracts has intensified, as reflected in the weaker stand-alone growth. This explains the relatively modest organic growth figure.

That said, in the OT sectors—namely Energy, Mobility, and Industry—GlobalLogic's capabilities are becoming increasingly critical in advancing digitalization and AI transformation. The rapid ramp-up of HMAX, in particular, owes a great deal to GlobalLogic's expertise. Against this backdrop, synergy-driven growth was strong, leading to the overall results we reported.

We plan to provide a more detailed explanation of the current state of the DSS sector and our growth strategy at the Hitachi Investor Day in June.

Q. From a financial perspective, the current D/E ratio appears to have deviated somewhat from your discipline range. While the scale of share buybacks has reached a record high, given Hitachi's current financial strength, it may still feel as though ROE improvement is limited. Could you share your thoughts on future cash allocation, including organic investments?

A. Kato

As you pointed out, the D/E ratio has declined as of the end of FY2025. We executed a number of bolt-on M&A transactions during the year, but there were no large-scale deals, which means transactions in the several hundred billion to one trillion-yen range.

However, as we stated when we launched Inspire 2027 a year ago, we remain prepared to pursue acquisitions of approximately one trillion yen if suitable opportunities arise during this management plan. Taking this into account, we are shaping our current capital efficiency and capital allocation measures accordingly.

We will continue to carefully assess risk and return, and we intend to focus our investments on our strategic domains—namely digital and services—specifically those that contribute to Lumada and HMAX. Based on these growth investments, we expect that over the medium to long term, the D/E ratio will move toward our discipline level of around 0.5x, and we are implementing our current measures with that trajectory in mind.

Q. Regarding the Energy sector's adjusted EBITA margin, the FY2027 target has now been set at above 14%. This corresponds to the midpoint of Hitachi Energy's original FY2027 target range of 13–15%. How should we interpret this message?

A. Kato

In the power grid business, we typically have a sizable order backlog, which allows us to estimate mid-term profitability with a reasonable degree of certainty. As mentioned earlier, productivity improvements in FY2025 progressed faster than we had anticipated.

As a result, compared with when we announced Inspire 2027 a year ago, we can now target a higher level of profitability. This has led us to revise upward the Energy sector's FY2027 adjusted EBITA margin target from over 12% previously to over 14% this time.

Questioner 3

Q. Regarding DSS's storage business, through the third quarter it appeared to be a case of declining revenue but improving profit. Did this trend of earnings improvement continue into the fourth quarter as well? On page 24 of the FY2025 earnings presentation, you mention stricter project management and cost reductions—could you elaborate on the specific initiatives planned going forward? In addition, we would appreciate an update on the competitive environment.

A. Tokunaga

With regard to storage, Hitachi is currently focusing on block storage. We were able to launch a new product for the first time in quite a while, and we have received strong interest from customers who have been waiting for it. This has contributed to the improvement in profitability. Looking ahead, we intend to continue concentrating on block storage while, at the same time, advancing cost reductions in the actual business operations. Through these efforts, we aim to improve profitability in the short term. From a medium- to long-term perspective, as we have mentioned before, we are considering developing and executing a further growth story for this business through strategic partnerships. However, our immediate priority is to accelerate the transformation of the business into one that can reliably generate earnings.

Q. Regarding the progress of Inspire 2027, the FY2027 target for the Energy sector has been revised upward, while the company-wide targets remain unchanged from the previous plan. Does this imply that we should be mindful of downside risks in businesses other than Energy?

A. Tokunaga

It is true that there was internal discussion about whether to raise the overall Inspire 2027 targets. However, at this point, the impact of Middle East-related risks remain highly uncertain, and under these circumstances, it is honestly quite difficult to revise the targets upward.

That said, if our businesses continue to perform steadily, we intend to keep updating our outlook at the time of future earnings announcements, as we normally do. At this stage, however, we would like you to understand that we do not believe we are facing any significant downside risk.

Q. You mentioned that ¥20 billion of Middle East-related risk has been factored in for the first quarter. If this situation were to persist, should we assume a rough annualized impact—for example, something like ¥20 billion multiplied by four?

A. Kato

For the first quarter, we have factored in ¥20 billion as a risk estimate based solely on direct impacts. This figure itself is a rough estimate and could change. At this stage, we have not factored in any impact on the second quarter onward.

Moreover, we are currently unable to forecast indirect impacts—such as potential effects on our

customers that could lead to delays in order timing. Given this level of uncertainty, we would like to refrain from providing a full-year impact estimate at this time.

Questioner 4

Q. In the domestic IT services market, the topic of the so-called “death of SaaS” has become a major theme and is increasingly being discussed in the equity market. There are, of course, both positive and negative factors, but given how robust performance has been to date, the market is focusing more on potential downside factors, for example, customers moving toward greater in-house development or shifting to cloud-based solutions. At this point, are there any specific risks or negative factors related to the “death of SaaS” theme in the domestic IT services business that you are concerned about and could share with us?

A. Tokunaga

The phrase “death of SaaS” has been used for quite some time now, but when we look at the domestic market we are currently operating in, conditions remain extremely solid at this stage. There are several reasons for this, but in particular, we believe that the Japan-specific division of role between customers and Slers, as well as Hitachi’s long-established capability to deliver large-scale system development projects, have worked positively and allowed us to maintain this powerful performance.

As for potential risks going forward, one area we are monitoring is the continued evolution of AI agents. As AI agents become more sophisticated, there is a possibility—though not a certainty—that parts of the work we have traditionally done through human labor could gradually be replaced by AI agents.

That said, the scope of work likely to be replaced by AI agents is mainly in areas such as coding and testing—tasks that are labor-intensive but typically handled by entry- to mid-level engineers. At the same time, as humans begin working alongside AI agents, new types of work are also likely to emerge. For example, managing AI-driven system changes in a way that avoids unintended impacts across the broader system, or shifting from providing SI-based solutions to delivering services—potentially leading to changes in the business model itself.

From the perspective of adapting to these new forms of work, we do not believe our role will disappear. Rather, we see the nature of our work evolving. As DSS, we are currently accelerating this transformation. As mentioned previously, we plan to provide more detailed insights into our thinking at the Hitachi Investor Day.

Q. Continuing the same topic, it is understood that significant changes are occurring in the United States as well. Based on discussions with our U.S.-based software coverage, there appears to be a trend among customers toward greater in-house development. My understanding is that in areas such as agile software development, work that was previously done by people is particularly likely to be replaced by AI agents. How does Hitachi view the changes currently taking place in the U.S. market?

A. Tokunaga

In the U.S., we do see major changes driven by the adoption of AI. As a result, the time-and-materials model that GlobalLogic has long operated under has become increasingly difficult to sustain, with growing resistance from customers and heightened pricing pressure becoming more apparent.

On the other hand, as I briefly mentioned earlier in relation to Hitachi Digital Services, outcome-based delivery models—rather than time-and-materials—have been effective in providing value to customers. We intend to continue refining and strengthening this approach.

Given that it will be challenging for GlobalLogic to continue relying primarily on a time-and-materials model, we are considering reallocating a certain portion of resources decisively toward AI-driven transformation in the OT sectors. This shift is already yielding positive results, as evidenced by the very rapid ramp-up of HMAX.

As changes in the North American market continue to unfold, we will closely monitor developments and move forward on two fronts: transforming our business model and redefining the role and positioning of GlobalLogic accordingly.

Q. There is growing discussion around a serious shortage of power supply for data centers. In October last year, Sam Altman visited Japan, and Hitachi announced a partnership with OpenAI. Over the past six months, there seems to have been a tangible acceleration in demand. Even qualitative comments would be helpful, could you share your outlook on growth expectations over the next three to five years?

A. Tokunaga

When it comes to data centers, demand is extremely strong—quite simply put. In addition to the partnership with OpenAI, we are seeing a growing number of other business opportunities in this area as well.

That said, revenue related to data center businesses still represents a small portion of Hitachi Energy's overall scale. Conversely, as demand continues to expand, we believe this area has the potential to become a meaningful growth engine for Hitachi Energy. With that in mind, we intend to steadily increase our production capacity and ensure that we can respond effectively to the strong demand we are seeing.

Questioner 5

Q. Regarding HMAX, revenue has been disclosed this time. Do you have any medium- to long-term targets?

A. Tokunaga

We have already set our FY2027 targets under the "Lumada 50-18" framework—namely, achieving a 50% Lumada revenue ratio and a 18% adjusted EBITA margin. HMAX is positioned as one of the key drivers to achieve these targets.

While we have not set a standalone numerical target specifically for HMAX, our FY2026 plan already assumes an extremely high growth rate, and we intend to continue sustaining this robust growth momentum going forward.

Q. Regarding Physical AI, I believe competitors are also bringing to market solutions that leverage on-site know-how and operational data. Compared with existing competitors or major technology companies, could you once again explain what differentiates Hitachi and where its strengths lie?

A. Tokunaga

We fully recognize that many other companies are making significant investments in Physical AI. However, from my perspective, there are two major differences between what other companies refer to as Physical AI and what Hitachi is presenting as Physical AI.

First, the Physical AI initiatives of many other companies tend to be centered on robotics—primarily focused on Physical AI within factories. In contrast, Hitachi's Physical AI is designed to impact on the physical world across our entire portfolio of social infrastructure businesses, namely Energy, Mobility, and Industry. Our objective is to create value that influences the real world across all three of these domains.

Second, in building our Physical AI business, we have what we call "Customer Zero"—a large internal market within Hitachi itself. Leveraging the track record and expertise gained through deploying these solutions internally enables us to offer proven, highly credible solutions to our customers.

We believe these differences represent Hitachi's unique strengths, and we intend to leverage them to further grow both HMAX and our Physical AI business.

Questioner 6

Q. Regarding the business development investments under the Strategic SIB, the Inspire 2027 presentation last year mentioned a total investment of JPY 500 billion. Could you provide an update on the progress and breakdown of this investment? In addition, do you plan to continue investing with a similar allocation going forward, and what is your current thinking?

A. Tokunaga

With respect to the Strategic SIB, we are steadily executing the strategic investments as planned. In terms of progress, one year has passed out of the three-year period, and investment execution has reached slightly less than one-third of the JPY 500 billion target.

We are also beginning to see tangible outcomes, such as the development of new data center architectures, initiatives with Mitsui O.S.K. Lines, and our Battery-as-a-Service collaboration with

MUFG. These results are gradually starting to take shape.

Regarding progress on the Strategic SIB, I have been discussing with Vice President Taniguchi the possibility of arranging dedicated opportunities to provide more detailed updates. Once the details are finalized, we will be happy to share them with you.

Q. Last year, four strategic business areas were identified. Going forward, which of these areas are you particularly looking to prioritize for investment?

A. Tokunaga

We see meaningful differences in the time horizons of these four business areas. For example, among the four, data centers are an area where commercialization can be achieved in a short timeframe—what we might refer to as Horizon One.

Battery and healthcare businesses are areas where we aim to achieve commercialization over the medium term, within three to five years; these could be considered Horizon Two.

Smart cities, on the other hand, are an area that requires a longer development timeline, and we position this as a Horizon Three business.

The Strategic SIB plays an important role in continuously building future growth pillars over the long term by addressing business domains across different time horizons.

While we started with these four business areas, we will also progressively expand the pool of candidate businesses beyond them, taking into account changes in the market environment as well as enhancements to Hitachi's internal capabilities.

Q. Looking at investments related to data centers, massive capital investments are being made globally, and Hitachi itself is actively investing, including factory investments for power grids. At the same time, there could be risks such as demand-supply imbalances or a market downturn. How does Hitachi view these risks, and how are they being managed or hedged? What policies guide your investment decisions?

A. Kato

Within Hitachi, the business that is currently growing most strongly in relation to data centers is our power grid business, namely Hitachi Energy. We are seeing a significant increase in orders at present.

That said, while overall demand for transmission grids is expanding rapidly, revenue attributable specifically to data center-related demand still accounts for less than 10% of total sales. Although we expect this ratio to increase over time, our current view is that even if it were to fluctuate to some extent, the impact on the overall revenue of the power grid business would remain limited.

As the scale of the business grows further, volatility could have a larger quantitative impact depending on its magnitude and intensity. We will therefore closely monitor market developments and respond appropriately as conditions evolve.

Questioner 7

Q. I believe revenue growth for CI and DSS in FY2025 was limited. In addition, growth investment in FY2025 was only JPY 0.2 trillion, which does not seem particularly large. What impact could the small level of growth investment have on future top-line growth, especially for CI and DSS? Can the Inspire 2027 targets be achieved through organic growth alone, or is there a risk of underperformance?

A. Tokunaga

We do recognize that growth investment in FY2025 remaining at JPY 0.2 trillion is an issue for us. For FY2026, we plan to set aside a growth-investment plan and actively pursue opportunities that contribute to improving Hitachi's ROIC.

At the same time, I sense that part of your question may be whether the Inspire 2027 targets assume a significant amount of M&A. To be clear, these targets do not include any large-scale M&A.

However, to achieve sustained growth beyond just this three-year period, we believe it is necessary to actively reshape our business portfolio through both growth investments and divestments. From FY2026 onward, while carefully assessing returns, we intend to proactively explore attractive M&A opportunities.

Q. Regarding the JPY 20 billion impact assumed for Middle East-related risks, I would like to reconfirm whether this amount reflects only direct impacts. Also, since March, have you seen any indirect impacts emerge, or what kinds of indirect effects could potentially materialize, to the extent you can comment on at this stage?

A. Kato

The JPY 20 billion impact assumed for the first quarter reflects direct impacts only. Based on what we are currently aware of, no indirect impacts have materialized so far.

When we refer to indirect impacts, we mean effects not related to shortages, cost increases, or delays in our own operations, but rather impacts occurring on the customer side, for example, delays in customer orders to us. That said, with two months remaining in the first quarter, such impacts could still emerge, so we will continue to monitor the situation closely.

Q. Also related to Middle East risks, inflation has already been elevated over the past few years, so I assume many contracts include clauses that allow for price pass-through. Could you share the status of risk management in this area?

A. Kato

Given the inflationary environment over the past several years, large-scale or long-term contracts generally include clauses that allow for inflation-based price pass-through. However, in the case of shorter-term or smaller contracts, such clauses may not always be fully incorporated.

What we are currently concerned about is the gradual rise in costs such as energy prices, logistics expenses, and petrochemical-based materials. For these cost increases, we will continue discussions with customers on how to appropriately reflect them in pricing.

Questioner 8

Q. I would like to ask about the impact of AI-driven development on the man-month-based business model. You mentioned that AI-driven development has delivered significant efficiency gains, but wouldn't that have a negative impact on man-month-based revenues?

A. Tokunaga

First, regarding system development using AI, we are already deploying this at a fairly large scale in projects in Japan. As Kato explained earlier, depending on the project, we have achieved development-efficiency improvements of more than 10%.

Most projects in Japan are, in fact, not strictly based on man-month contracts. Instead, they are typically structured around defining outcomes over a long project timeline and delivering those outputs. As a result, improvements in development efficiency through AI tend to have a positive impact on Hitachi's profit margins.

In addition, as I mentioned earlier, we are currently facing a very tight labor-resource environment. Leveraging AI allows us to help alleviate these resource constraints while continuing to execute projects.

On the other hand, overseas, particularly at GlobalLogic—the majority of work is based on a time-and-materials model. In this area, we are seeing pricing pressure, as well as cases where some customers are choosing to bring development work in-house.

Accordingly, we are moving forward with initiatives to reallocate GlobalLogic's resources toward accelerating AI transformation in the OT sector, as well as pursuing a transformation of the business model away from a heavy reliance on time-and-materials engagement.

Questioner 9

Q. Overseas, the time-and-materials business model is becoming more challenging. I understand that the business model in Japan is different from that overseas, but I cannot help worrying that this may simply be a difference in timing—and that similar issues could emerge in Japan in three to five years. How should we think about this risk and concern?

A. Tokunaga

It is true that when we look three to five years ahead, there is a high likelihood that the form of what Hitachi currently considers traditional SI work will change. That said, within the Japanese market, the role that Hitachi plays—namely, designing the overall system architecture, carrying out system design, and managing projects end to end—is not something we believe will disappear. Rather, while these activities may evolve into a model where we work in close collaboration with AI, they will continue to be essential.

In addition, as AI is introduced and as we increasingly work alongside AI, we expect new types of work to emerge. This includes clearly defining the areas where AI should be deployed and designing processes that enable effective collaboration between humans and AI.

As you rightly point out, the form of SI work will change. However, we believe that the role expected of system integrators will continue to exist, and we are accelerating our transformation toward this new model.

Q. Regarding growth investment, what are the missing pieces today in realizing Lumada 3.0?

I understand there are strategic considerations, but could you share what you can at this stage?

A. Tokunaga

If I go into too much detail, it could potentially hinder future M&A activities, so we would like to explain certain aspects in more detail at Hitachi Investor Day. That said, at this point, there are two key areas we are focused on.

First, past results have shown that the Lumada 3.0 core model works effectively in the Energy and Mobility sectors. Therefore, strengthening world-class products—those that are global No.1 or No.1 in specific markets—in the CI sector is extremely important for further advancing the Lumada 3.0 model and driving transformation within the CI sector itself.

Second, one major differentiator for Hitachi in advancing Lumada 3.0 is our ability to deploy the same business model across multiple segments and create new customer value by combining data across those segments. For example, in the Mobility sector, HMAX Mobility is already leveraging Energy-sector data to help customers optimize energy consumption in railway operations.

To enable this kind of cross-sector data integration, we believe it is also critical to further strengthen the underlying platforms that support such capabilities.

Q. I have two questions regarding HMAX. First, I understand that revenue grows significantly from JPY 300 billion in FY2025 to JPY 480 billion in FY2026, and that the adjusted EBITA margin reaches a remarkably elevated level of 22%. Roughly speaking, what is the typical deal size for an HMAX project? Second, when breaking down the JPY 480 billion in FY2026 revenue, how is it allocated across Energy, Mobility, and CI?

A. Tokunaga

With regard to the size of individual HMAX projects, it varies significantly depending on the type of value we provide to customers and where their specific pain points are. For that reason, it is difficult to generalize and say that HMAX projects are typically of a certain size.

What I can add is that, internally, we align on the understanding that for a service to qualify as HMAX—given that it addresses management or societal challenges—it must deliver an adjusted EBITA margin of at least 20%. Based on that premise, we expect profitability at this level to be maintained going forward.

As for the breakdown of HMAX revenue by sector, we would prefer not to disclose detailed figures at this time. However, as things stand today, we are seeing particularly strong revenue growth in the Mobility and CI sectors.

End