

Hitachi Investor Day 2023

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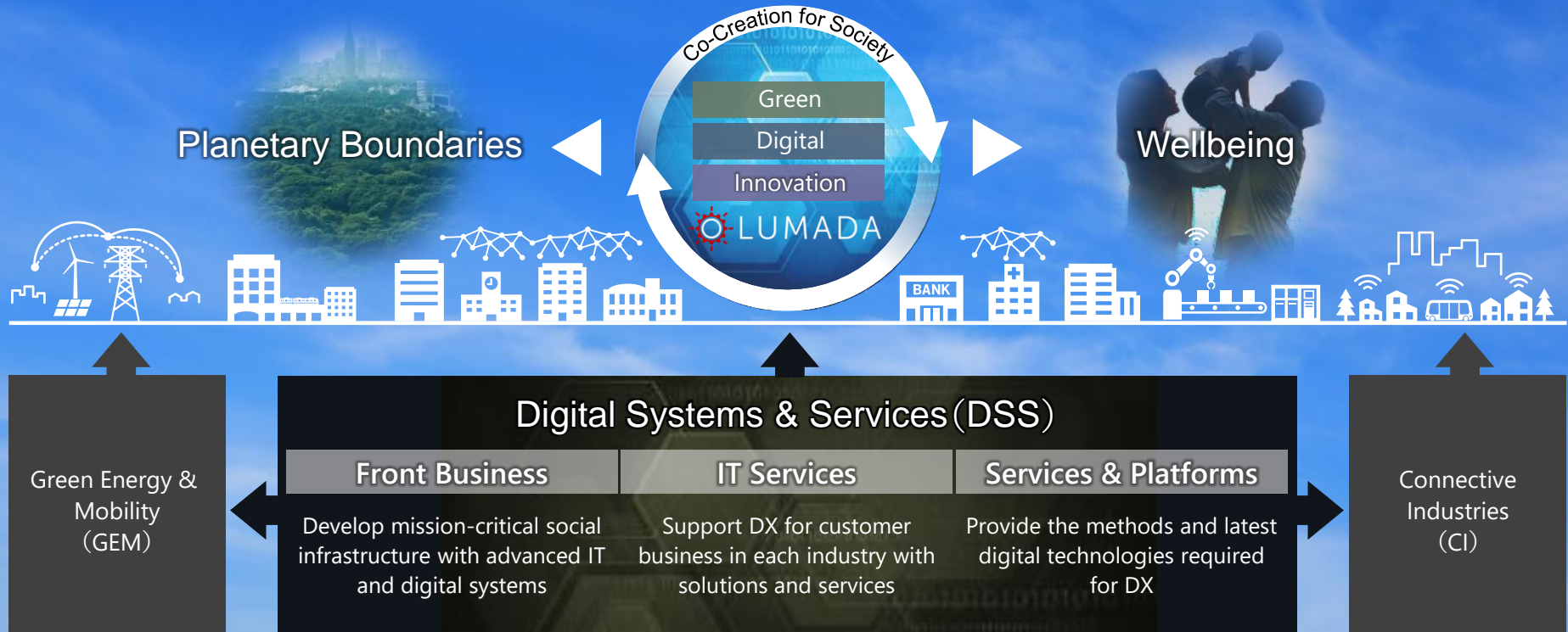
# Digital Strategy

June 13, 2023

**Toshiaki Tokunaga**

Executive Vice President and Executive Officer,  
General Manager of Digital Systems & Services Division, Hitachi, Ltd.

Contribute to a sustainable society by solving the various issues that our customers' management and our society are facing with digital capabilities



## Lead the growth of the Lumada business of the overall Hitachi Group

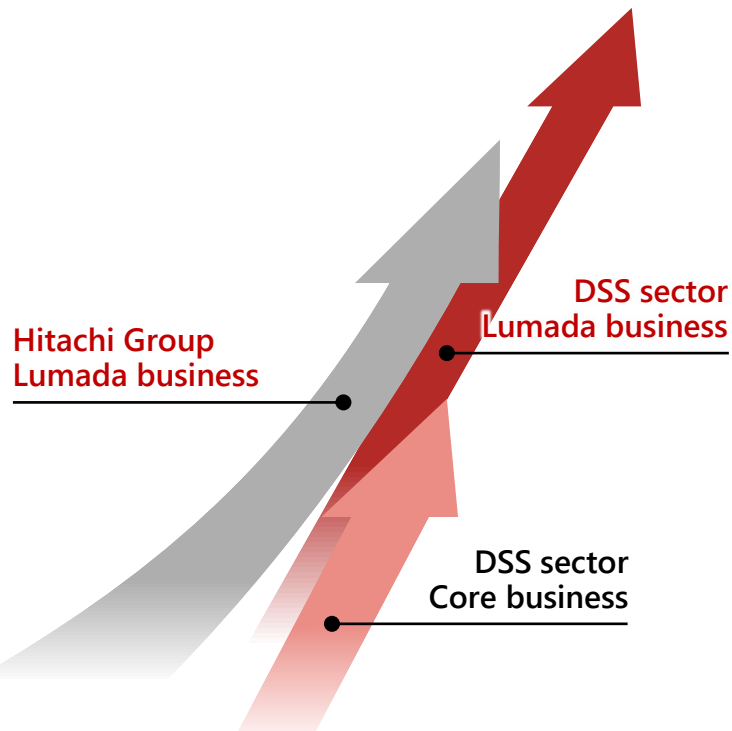
- 1 | Continuous growth of GlobalLogic, the growth engine of digital business
- 2 | Expand synergies of "One Hitachi" utilizing Hitachi Digital as a hub
- 3 | Increase the profitability of core business by shifting to the service business model and utilizing digital technologies

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1. **Mid-term Management Plan 2024**
2. Growth with “Digital Centric” Approach
3. Growth with “One Hitachi” Approach
4. Increase Profitability of Core Business
5. Summary

Growth of the Lumada business and high profitability of core business\* to drive the improvement of the profitability of the Hitachi Group



## Growth of the Lumada business

- Continuous growth of GlobalLogic
- Expansion of “One Hitachi” synergies

Lumada business	FY2022	FY2023	FY2024	CAGR (2022-2024)
Revenues (DSS sector)	0.86 trillion yen	1.00 trillion yen	1.20 trillion yen	+18%
Revenues (Hitachi Group)	1.96 trillion yen	2.28 trillion yen	2.65 trillion yen	+16%
Adj. EBITA ratio (Hitachi Group)	14%	15%	16%	—

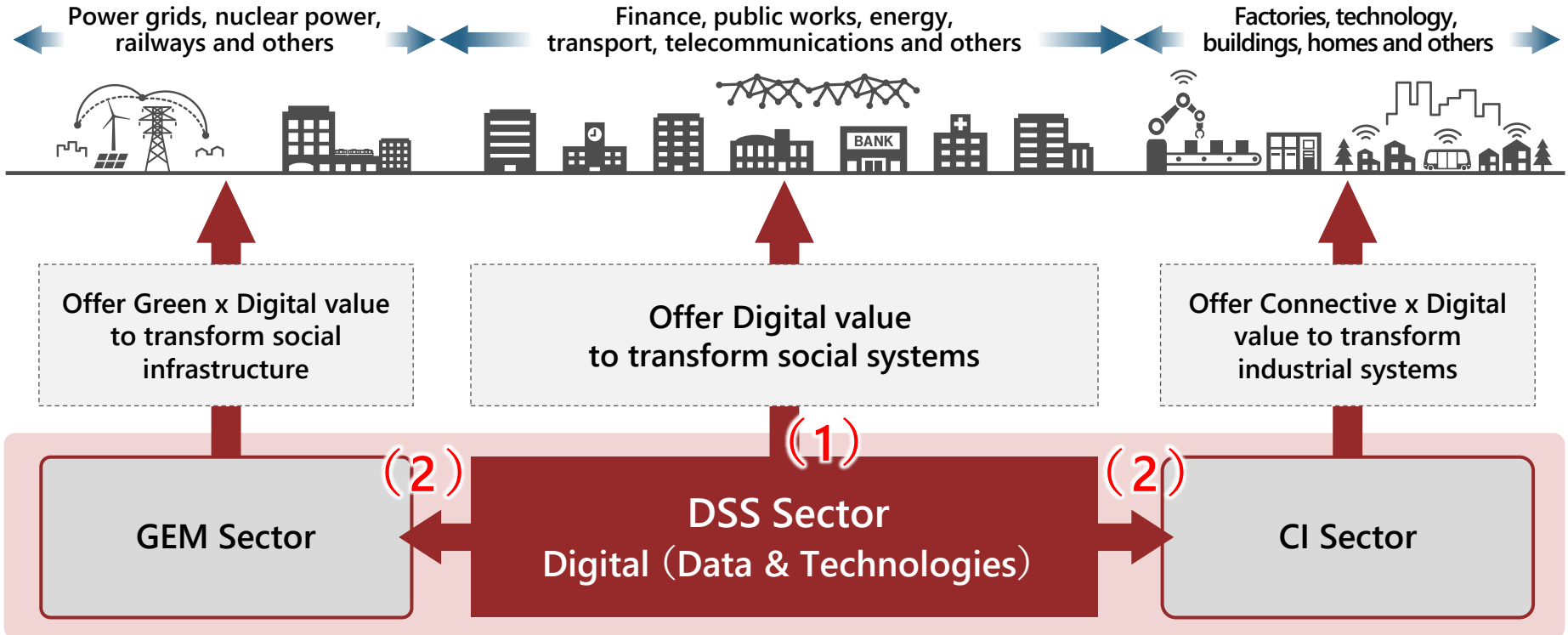
## High profitability of DSS sector core business

- Shifting to the service (recurring) business model
- Improving development efficiency through digital technology

\*Core business : Business such as system development of mission-critical systems, operation services, and products (business not included in the Lumada business)

# 1.2 Growth of the Lumada Business

Growth through both “Digital Centric ( 1 ),” in which DSS sector directly solves customers’ issues, and “One Hitachi ( 2 ),” in which DSS together with GEM and CI sectors, solve their customers' issues.



# 1.3 Focus Domains in Digital Market

Focus on domains where Hitachi can maximize its IT x OT x Products advantages

[Global DX market size in 2024: 2,580 billion U.S. dollars, CAGR (in 2022-2024): +17%]



DX market size (in 2024)

140 billion dollars	120 billion dollars	290 billion dollars	250 billion dollars	170 billion dollars	740 billion dollars
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CAGR (2022-2024)

+14%	+15%	+20%	+15%	+17%	+16%
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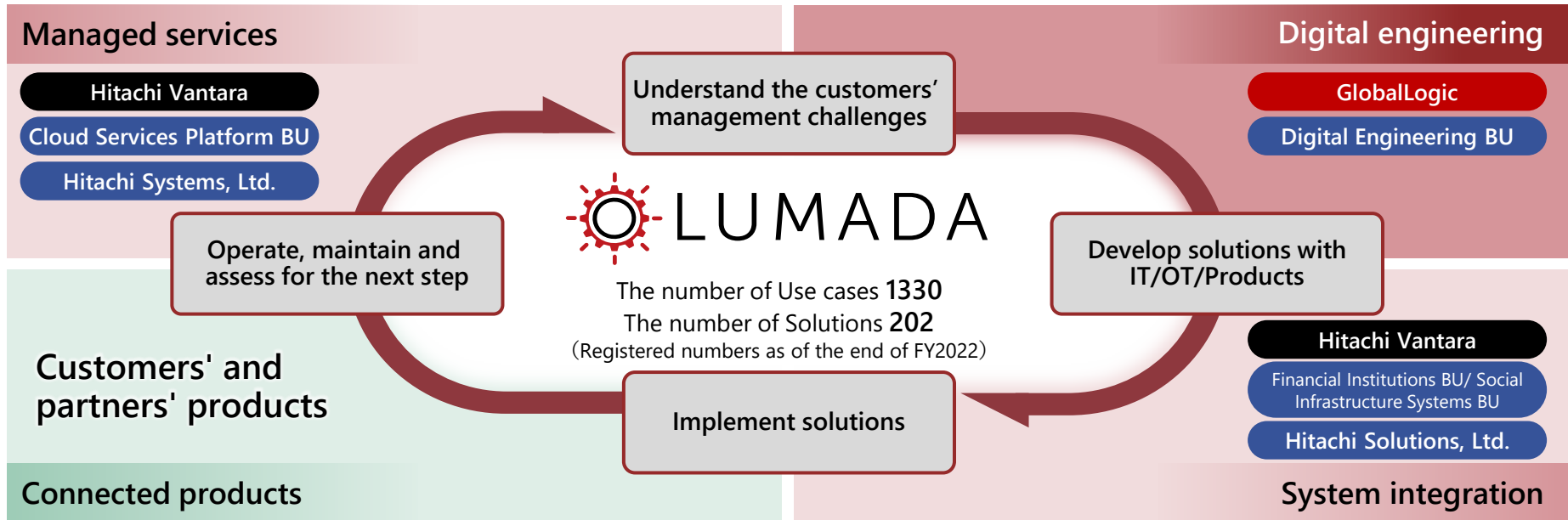
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1. Mid-term Management Plan 2024
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# 2.1 Growth with "Digital Centric" Approach

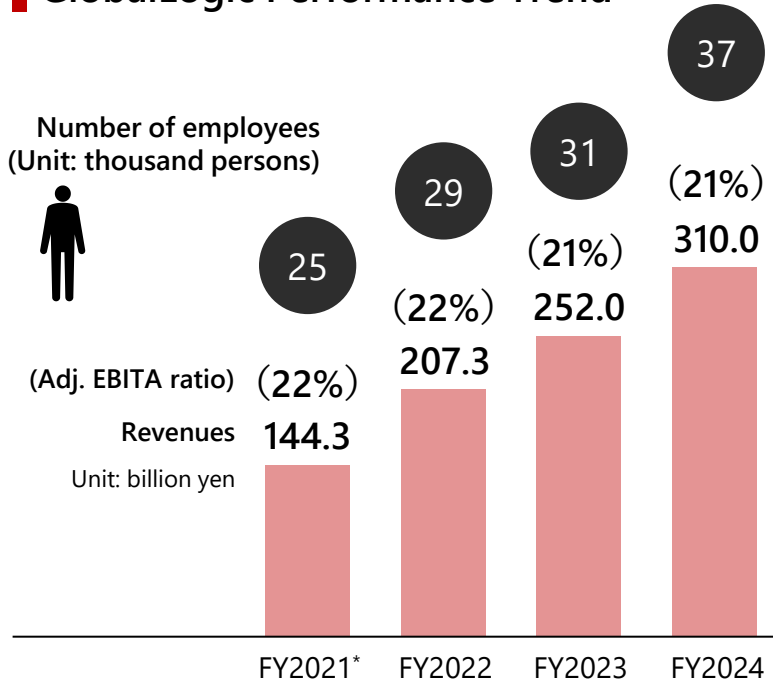
- Expanding the highly profitable Lumada business that provides end-to-end value from digital engineering to system integration and managed services
- Supporting transformation that contributes to customers' business growth by improving the customer experience (CX) of their product business and transforming to a subscription model, in addition to cost reduction and efficiency improvement



## 2.2 Continuous Growth of GlobalLogic

Maintain high business growth as the "growth engine" of Hitachi's digital strategy and accelerate the growth of the Lumada business by expanding the regions and industries to covered.

### GlobalLogic Performance Trend



LIHT : Lumada Innovation Hub Tokyo

\*Revenues and Adj. EBITA ratio for GlobalLogic in FY2021 include figures prior to the completion of the acquisition

### Continuous growth of the digital engineering business

- Implement a robust recruitment and training scheme to increase digital talent
- Complete the post-merger integration (PMI) of the two companies acquired in FY2022 and continue expansion of delivery bases through bolt-on acquisitions

Fortech based in Romania    January 2023  
Hexacta based in Latin America    March 2023

### Growth through expansion of business regions and industries

- Expand strengths in skills and knowledge to improve the customer experience (CX) with our customers' business and products to more regions and industries
- In Japan, LIHT and GlobalLogic Japan, established in FY2022, provides digital engineering services as base points of collaborative creation on a full scale



#### FY2022 LIHT Activities

Number of visitors : 15,000

Collaborative creation cases with customers: 75

## 2.3 Expansion of Cloud Managed Services

### Global deployment of "HARC" for highly reliable and efficient cloud operation

#### HARC : Hitachi Application Reliability Centers

- Support customers' application migration, modernization, and cloud operations on leading cloud platforms
- **More than 20 major global companies** have adopted the service in its first year of operation

Johnson Controls, Raiffeisen Bank, and more

Optimization of cloud costs

Consulting on operation DX

AWS, Microsoft Azure, Google Cloud and others

Efficient operation and management

Construction support of high reliability systems

Global expansion



**Hyderabad**  
Established in June 2022



**New Tokyo**  
Established in June 2023

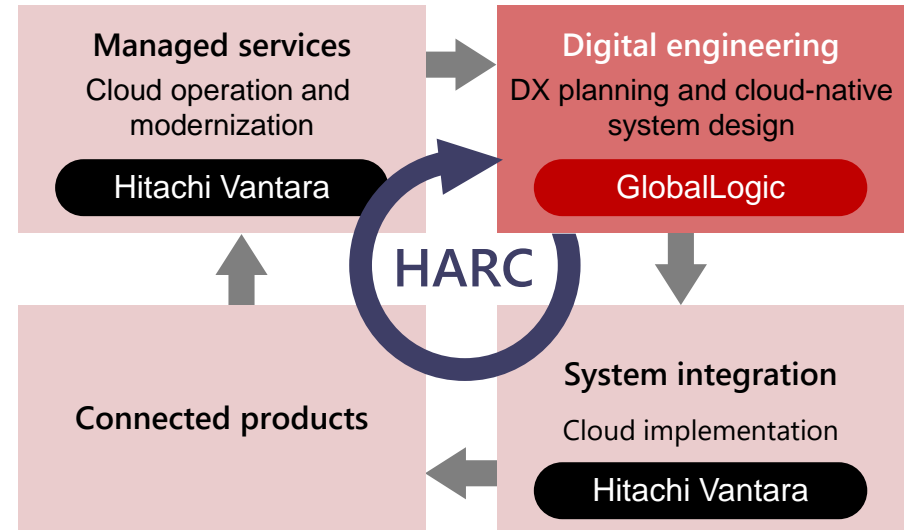
**HARC locations**



**Dallas**  
Established in September 2022

#### End-to-end provision of services

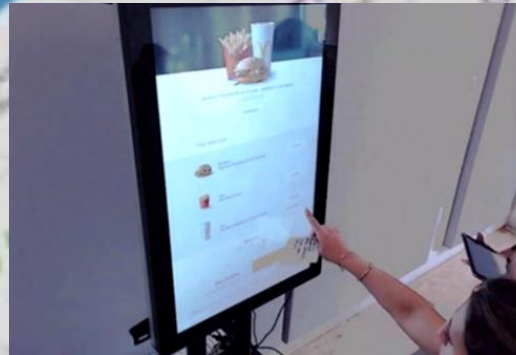
- Hitachi Vantara's HARC plays a central role in offering **one-stop cloud services**, including GlobalLogic's system design, Hitachi Vantara's implementation and operation



**A new ordering experience  
used by 68 million people worldwide**

GlobalLogic

Designed self-ordering systems, such as digital menu boards, mobile apps and websites, from the user's point of view



## 2.5 "Digital Centric" Customer Case: World Leading Multinational Tools Company

### Transformed revenue model to service based business

GlobalLogic

- Converted revenue model from product sales to subscription model
- Create new sources of revenue, such as tool management services, by utilizing data acquired through "Chip to Cloud"

# Accelerate Software platform development for next-generation SDVs

SDV : Software Defined Vehicle

GlobalLogic

- Jointly established a new 300-person automotive-centric software facility with leading automotive company Stellantis, which has historic brands such as Chrysler and Citroen
- Supporting Stellantis to provide customers the option to add innovative features and services to their vehicles years after they have been built



**Modernized 100+ applications to the cloud**  
**Accelerate innovative customer experiences**

Hitachi Vantara & GlobalLogic

- Large-scale modernization project for a European financial institution  
Migrate more than 300 applications in next two years
- Saving cost with Engineering led cloud operations and shortened application delivery cycles with HARC

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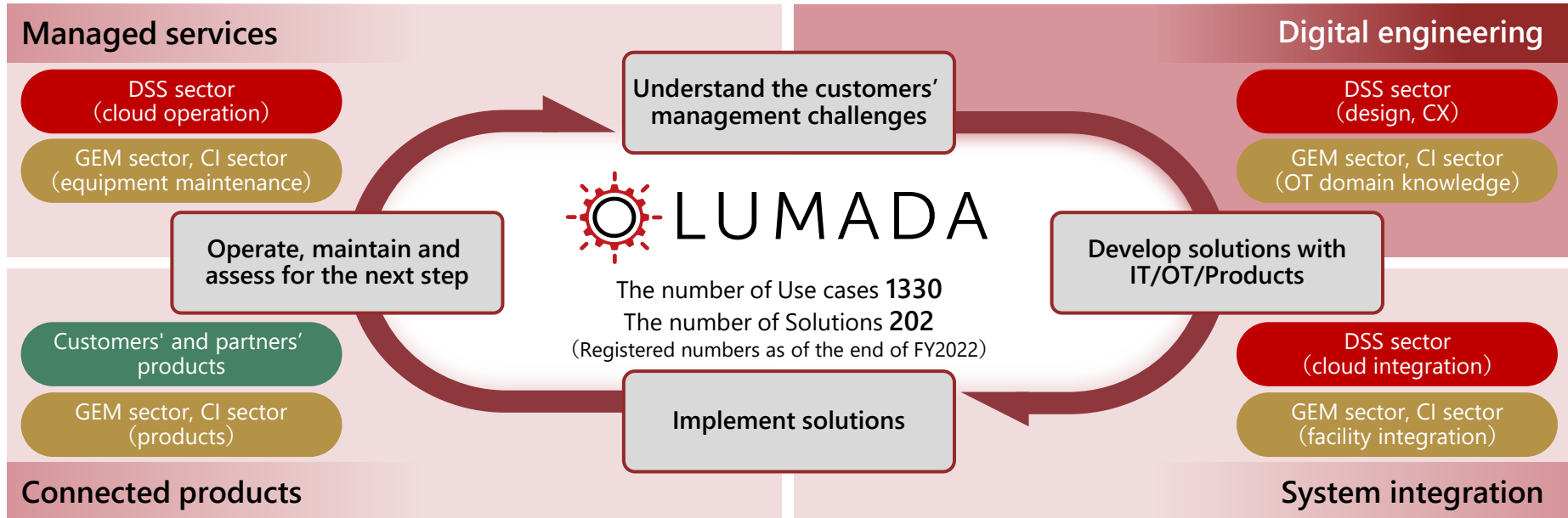
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# 3.1 Growth with "One Hitachi" Approach

- Improve Hitachi's overall profitability through "One Hitachi" Lumada business, which combines the OT and product businesses of GEM and CI sectors with the digital capabilities of DSS sector on an end-to-end basis
- Apply GlobalLogic's digital engineering to products in GEM and CI sectors to make them higher value-added products with greater market competitiveness

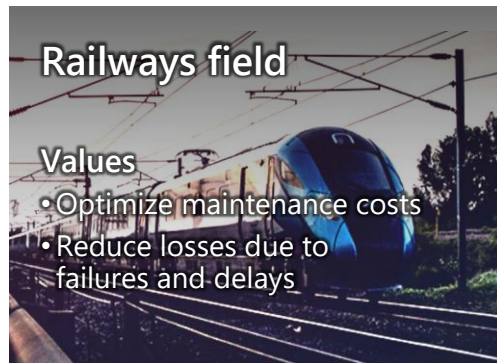
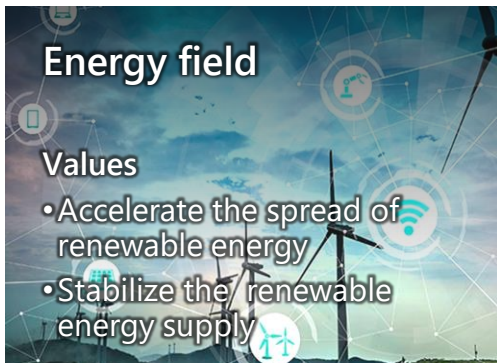


## 3.2 Expand synergies of "One Hitachi" utilizing Hitachi Digital as a Hub **HITACHI** Inspire the Next

- Hitachi Digital leads the Lumada business of "One Hitachi" globally
- Provide value to customers with locally-led formation utilizing the global footprint of Hitachi Energy and Hitachi Rail and the global business assets of DSS sector

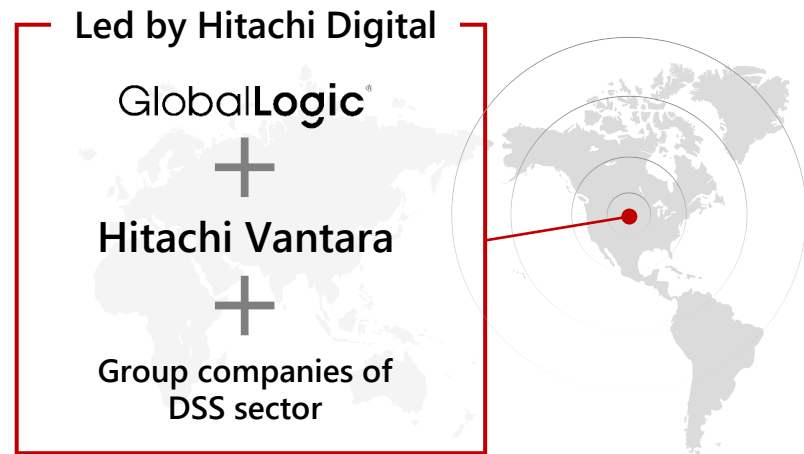
### Rapid promotion of the Lumada business with locally-led decisions

- Set up Hitachi Digital's "Decision & Advisory Board", which leads the development and implementation of the digital strategies across Hitachi Group
- Solve issues by top-down approach and promote "One Hitachi" Lumada business rapidly with locally-led decisions



### Enhance global service delivery

- Enhance service delivery capabilities through integrated management of global IT service business assets and consolidated resources



# 3.3 Acceleration of Digital Utilization in the OT Sector

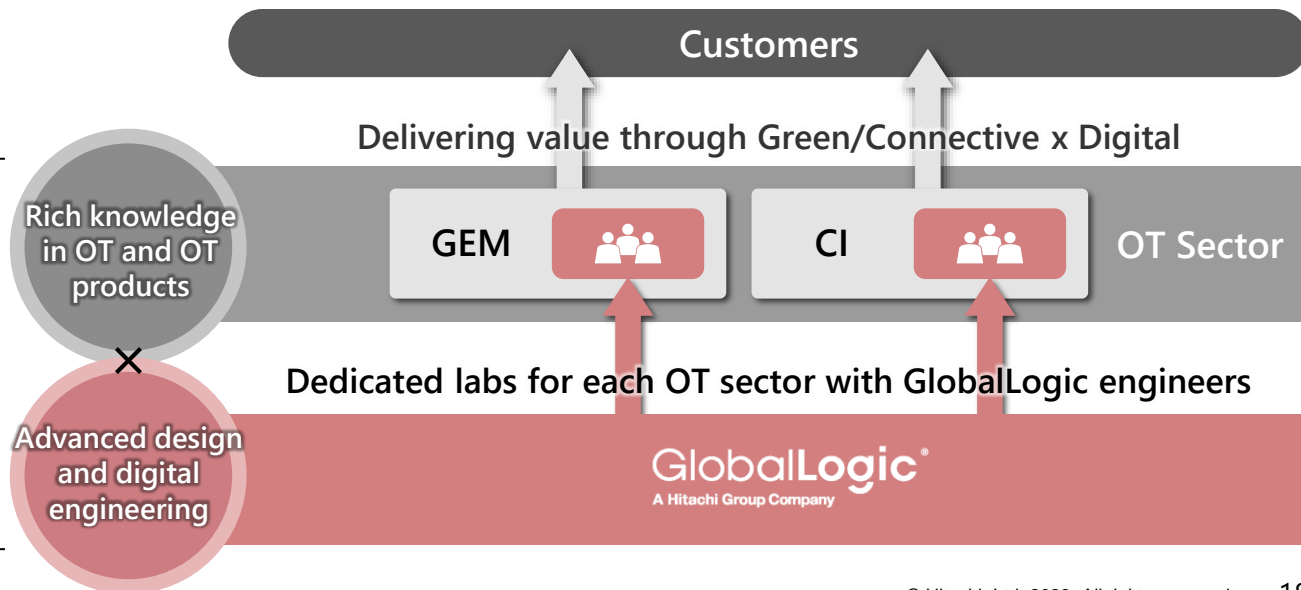
Apply the Lab Model, which is GlobalLogic's scheme of collaborative creation with a global track record, to the OT sector\*

Appoint dedicated digital engineers to solve OT sector customers' management issues swiftly

- Achieve swift digital utilization in the OT sector and quickly develop personnel with knowledge of both OT and digital technologies
- Around 500 engineers in GlobalLogic collaborated with companies such as Hitachi Energy and Hitachi Rail to jointly drive business acceleration. Plan to expand to over 1,000 engineers by FY2024 through the deployment of the Lab Model

## Lab Model : GlobalLogic's scheme of collaborative creation

- Scheme that provides end-to-end DX support by assigning dedicated digital engineers to customers
- More than 100 cases in 15 years



\*OT sector : GEM sector, CI sector

## 3.4. Strengthen Global Service Delivery Infrastructure

- Expanding alliances with partners and continue to strengthen service delivery infrastructure
- Global deployment of hybrid cloud solutions that combine the high reliability and flexibility required by customers

### Hybrid Cloud Solution “EverFlex from Hitachi”

(From October 2021)

#### Hybrid Cloud



On-premise

Public Cloud



### Providing High-quality Hybrid Cloud Services on Equinix's Data Centers\*

(From April 2023)

Opened Verification Center to continuously enhance hybrid cloud solutions

Highly reliable and efficient data management



### Transparent access between on-premise and cloud

(From June 2023)

Providing data location-free cloud storage service between On-premise and AWS

Flexible Data Utilization

\* Equinix International Business Exchange™ (IBX®)

Green

×

Digital

# Formulate **company-wide DX grand design**

Hitachi Energy & GlobalLogic

- Support design and execution of digital transformation across the entire energy value chain, from operation optimization of power generation, transmission and distribution to UX improvement of services for users
- Raising employee awareness toward DX and creating a safe and secure work environment

**Expand these initiatives to other global regions and businesses**

Accelerate collaborative creation with customers with energy industry domain knowledge and design and digital engineering capabilities

## 3.6 "One Hitachi" Customer Case : Washington Metro

Green

×

Digital

### People and Environment-conscious state-of-the-art digital factory

Hitachi Rail, Hitachi America(R & D), Flexware Innovation, GlobalLogic and Hitachi Vantara

- Promote the digitalization of a large-scale rolling stock manufacturing plant\* (Maryland, USA) for the Washington Metro by "One Hitachi"
- Realize a sustainable manufacturing environment by applying cutting-edge digital technology in the entire value chain

As a showcase of One Hitachi's digital ecosystem, accelerate expansion to the Americas, Europe, other global regions and other industries.

\*New factory will design and produce a fleet of up to 800 metro cars for the Washington Metropolitan Area Transit Authority (WMATA).  
Scheduled to open in 2024

Connective



Digital

### “Laboratory automation” to speed up materials development

Hitachi High-Tech, Social Infrastructure Systems BU and GlobalLogic

- Through the promoting collaborative creation program utilizing cutting-edge digital technologies, realize a data-driven platform for materials development which is a focus of SEKISUI CHEMICAL
- Automate data collection and analysis by seamlessly connecting experiment/measuring equipment and analysis environments
- Reduce R&D period by combining proven equipment and digital technology (Materials Informatics\*)

\*Lumada's materials development and R&D DX solutions have over 50 customers and over 100 cases.

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# 4.1 Increase Profitability of Core Business

- Earn stable revenues and profit from updating and modernizing mission-critical systems with solid domestic customer base and technological capabilities to handle large-scale, highly complex projects
- Make core business more profitable by shifting business model to services and improving development efficiency with the use of digital technologies

## Shift to service (recurring) businesses

- Accelerate the shift from a business entailing man-month labor costs to a stock-type business such as managed services

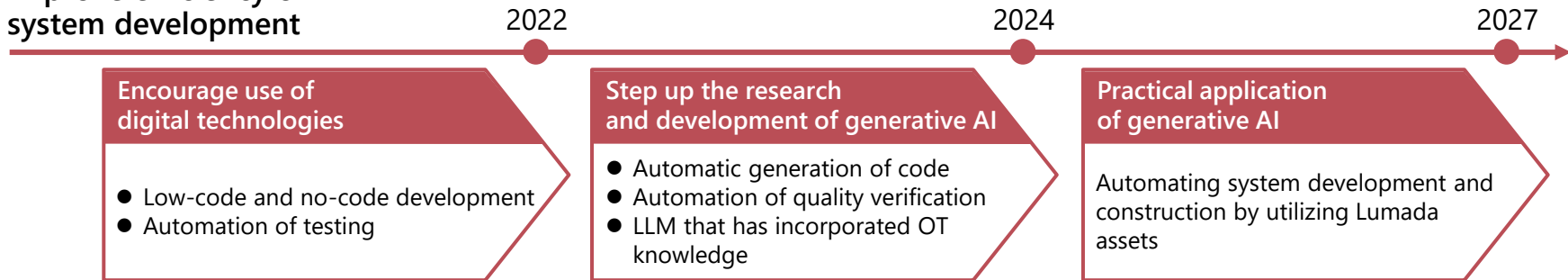
FY2024 Service revenues ratio (DSS Sector)	Higher than <b>40%</b>
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## Improve development efficiency by utilizing digital technologies

- Expand application of low-code and no-code technologies and AI to all processes of system development

FY2027 Increase productivity of system development	Target <b>30%</b>
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## Improve efficiency of system development

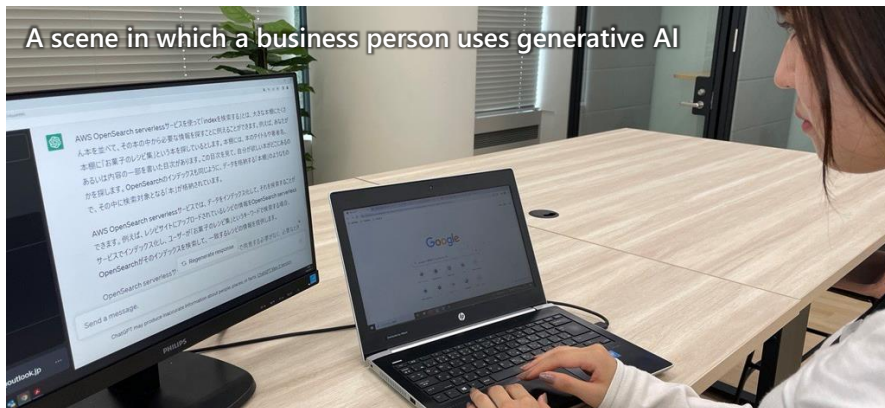


## 4.2 Strengthen Digital Technologies Supporting Growth

- Promote labor saving and automation of all Hitachi operations by accelerating generative AI
- In addition to supporting the safe and secure use of AI by customers, Hitachi's unique LLM, which has learned OT domain knowledge, quickly solves customer issues

### Generative AI Center newly established

- Support the **safe and secure use of generative AI** in customers' operations
- **Hitachi Group wide 320,000 personnel use** to improve productivity  
Improve business efficiency not only in development but also in consulting and sales



### Effective utilization of OT domain knowledge

- **Hitachi's unique LLM, which has learned OT domain knowledge**, supports engineers and quickly provides value to customers in the OT sector

A conceptual example of use by an engineer  
(for supporting the use of low-code development)

Please provide the Node-RED flow that notifies the anomaly of the device in JSON format.

Find attached below the flow described in JSON format.

```
"id": "xxxxxx.xxxxx",  
"type": "xxxxxx",  
"option": "xxxxxxx",
```

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Lead the growth of the Lumada business of the overall Hitachi Group by implementing the digital strategy

	Lumada business revenues of Hitachi Group	Lumada business Adj. EBITA ratio of Hitachi Group
FY2022	1.96 trillion yen	14%
FY2023	2.28 trillion yen	15%

**FY2024**

Lumada business revenues of Hitachi Group

**2.65**  
trillion yen

Lumada business Adj. EBITA ratio of Hitachi Group

**16%**

Lumada business revenues of Hitachi Group  
CAGR(FY2022-FY2024)

**+16%**

A woman with her back to the camera, wearing a bright yellow jacket, stands on a grassy hill. In the background, there are several white wind turbines on a green slope. To the right, a dense city skyline with tall skyscrapers is visible under a clear blue sky. The entire scene is overlaid with a complex network of white lines and glowing blue and white nodes, suggesting a digital or social network. A semi-circular pattern of green dots is positioned to the left of the main text.

# Hitachi Social Innovation is **POWERING GOOD**

## Services & Platforms

Lumada's core DX methodology and digital technology

- **Digital Engineering BU**  
Provide DX services based on the strength of experience design and digital engineering
- **Cloud Services Platform BU**  
Provide the cloud service, data management business globally on the strength of expertise in systems and IT platforms

## IT Services

DX solutions and services

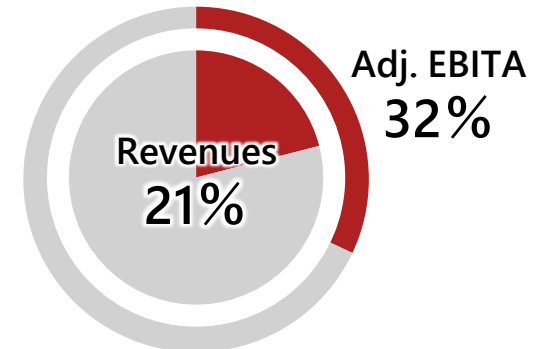
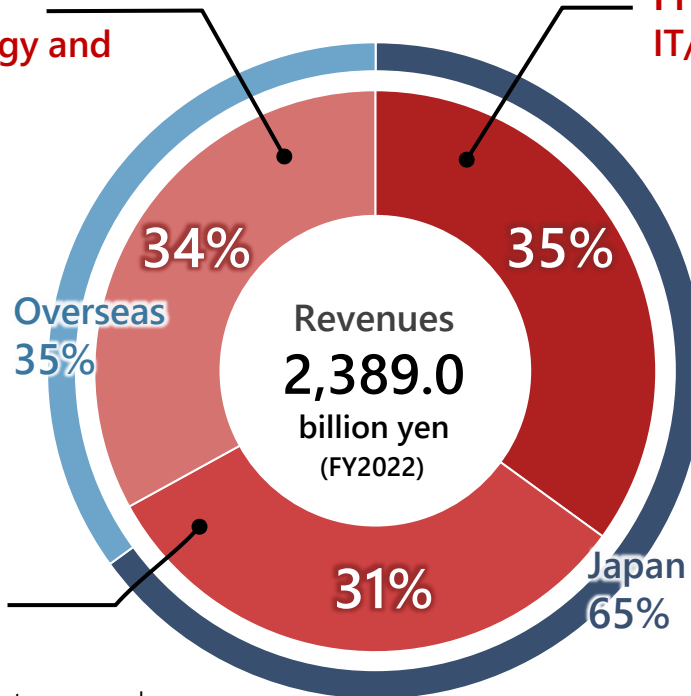
- **Hitachi Systems, Ltd**  
System operation, monitoring, and maintenance and one-stop services covering the entire IT lifecycle
- **Hitachi Solutions, Ltd**  
Solutions for productivity improvement and new business creation through combinations of packages and services

## Front Business

IT/digital systems in mission-critical fields

- **Financial Institutions BU**  
Development and operation of mission-critical systems and financial solutions for banks, insurance companies and securities companies
- **Social Infrastructure Systems BU**  
Construction and operation of social infrastructural systems, defense systems and control systems for public offices, municipal governments, electric power companies and transportation companies, and provision of digital solutions to those entities

Percentage of all Hitachi Group companies that is DSS sector





## Accelerate ESG investment and market development

Financial Institutions BU

- Commencement of joint studies on business initiatives towards **the development of sustainable finance** with several megabanks and insurance companies
- Launch **a digital platform** that connects investment institutions and listed companies and **promotes ESG information disclosure** (Establish a general incorporated association this summer)



## Support for supply chain decarbonization

Social Infrastructure Systems BU

- Conduct decarbonization PoC in product lines such as storage production at the Kanagawa works  
Realize **automatic calculation** and visualization of **greenhouse gas emissions in the product life cycle**
- Deploy the know-how to other sites of the Hitachi Group and promote external sales.  
**Reduce the huge number of man-hours required for calculation**



## Support standardization of local governments and accelerate DX

Hitachi Systems, Ltd.

- Providing a new service that **supports smooth migration and operation to the Government Cloud** for local governments business where Hitachi Systems has a proven track record, scheduled to start this fiscal year
- As a precedent, started operation of **27 mission-critical systems in Sakura City, Chiba Prefecture** on the Government Cloud



## Create the new business "Construction Tech"

Hitachi Solutions, Ltd.

- Strengthen **solutions for the "Construction Tech" field** to cope with labor shortages and improve productivity Collaborative creation with multiple major general contractors
- Established **a new company, Oprizon Ltd., with OBAYASHI CORPORATION**  
Provide smart building services that integrate construction & facilities and digital technology

Certain statements found in this document may constitute “forward-looking statements” as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such “forward-looking statements” reflect management’s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends may identify “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this report.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- economic conditions, including consumer spending and plant and equipment investment in Hitachi’s major markets, as well as levels of demand in the major industrial sectors Hitachi serves;
- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- uncertainty as to general market price levels for equity securities, declines in which may require Hitachi to write down equity securities that it holds;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- credit conditions of Hitachi’s customers and suppliers;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- uncertainty as to Hitachi’s ability to respond to tightening of regulations to prevent climate change;
- uncertainty as to Hitachi’s ability to maintain the integrity of its information systems, as well as Hitachi’s ability to protect its confidential information or that of its customers;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- exacerbation of social and economic impacts of the spread of COVID-19;
- the possibility of disruption of Hitachi’s operations by natural disasters such as earthquakes and tsunamis, the spread of infectious diseases, and geopolitical and social instability such as terrorism and conflict;
- estimates, fluctuations in cost and cancellation of long-term projects for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- increased commoditization of and intensifying price competition for products;
- fluctuations in demand of products, etc. and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in demand of products, etc., exchange rates and/or price of raw materials or shortages of materials, parts and components;
- uncertainty as to the success of cost structure overhaul;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
- uncertainty as to the success of acquisitions of other companies, joint ventures and strategic alliances and the possibility of incurring related expenses;
- uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity-method associates and joint ventures have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property; and
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its employee benefit-related costs.

The factors listed above are not all-inclusive and are in addition to other factors contained elsewhere in this report and in other materials published by Hitachi.