Q&A: Investor Day 2025

Date	**:**	**Wednesday June 11, 2025, 15:00-18:00 JST**	
Speaker	**:**	**Toshiaki Tokunaga**	**Representative Executive Officer, President & CEO**
		Giuseppe Marino	**Senior Vice President and Executive Officer, Head of Mobility Business**
		Andreas Schierenbeck	**Senior Vice President and Executive Officer, Head of Energy Business**
		Brice Koch	**Representative Executive Officer, Executive Vice President and Executive Officer, Assistant to the President, Head of Connective Industries Business**
		Jun Abe	**Representative Executive Officer, Executive Vice President and Executive Officer, Assistant to the President, Head of Digital Systems & Services Business**
		Lorena Dellagiovanna	**Senior Vice President and Executive Officer, Chief Sustainability Officer, CHRO, CDEIO**
		Tomomi Kato	**Representative Executive Officer, Senior Vice President and Executive Officer, CFO**

Questioner 1

Q. We understand that generative AI (GenAI) contributes both to enhancing the value of external offerings and to improving internal productivity through cost reductions. The target Adjusted EBITA margin for the Lumada business in FY2030 is 20%, representing a 5-point improvement from FY2024. Are there any current examples where GenAI is already helping to improve the Lumada business' Adjusted EBITA margin? Also, to what extent is GenAI expected to contribute to the 5-point improvement?

A. Tokunaga

GenAI contributes in two ways by enhancing the value of our solutions and by reducing internal costs and improving productivity. The value enhancement side is what we refer to as "Lumada 3.0". The use cases presented today by each sector leader are examples of this. On the cost reduction side, as Abe explained, we are aiming for around 30% efficiency improvement in system development, which we expect to achieve cost reductions of approximately ¥100 billion.

A. Abe

The ¥100 billion impact reflects the estimated difference in cost between using GenAI and not using it. There are two additional effects of GenAI utilization. First, it helps address the shortage of talent. It is estimated that Japan will face a shortage of about 800,000 IT professionals by 2030. GenAI enhances both speed and quality in delivery. If customers recognize this improvement as added value and are willing to pay for it, it will help boost our profitability. Second, we will expand our business by leveraging GlobalLogic's software assets, such as VelocityAI. By embedding these assets into Lumada and reusing them across applications and AI agents, we aim to further enhance profitability.

Q. In regard to the ¥100 billion benefit expected from the application of GenAI, with System Integration (SI) business revenue at approximately ¥1.2 trillion, this would imply an 8-point improvement in profit margin through simple calculation. How should we interpret this ¥100 billion figure?

A. Abe

The ¥100 billion includes company-wide cost reduction effects.

Q. I see significant upside potential in the Connective Industries sector (CI). However, when explaining this to investors, I often face two objections. First, that the business may contain too many areas unrelated to Lumada, and second, that the individual businesses are too small in scale to truly compete on a global level. Today you mentioned leveraging AI and HMAX, and focusing on the hybrid domain, but can the CI businesses really compete globally in their current scale? How do you envision the CI's business portfolio evolving toward FY2027 and FY2030?

A. Tokunaga

Since the decision was made for Koch to lead the CI, we have been actively discussing the very points you raised. To enhance the profitability of this sector, portfolio transformation is essential. This includes both acquiring and divesting businesses. While I will refrain from naming specific businesses at this stage, we believe such actions must be pursued decisively. The issue of individual businesses being subscale has been a recurring point that Koch himself has emphasized. As mentioned in today's presentation, we are expanding globally. One of Hitachi's key strengths lies in our ability to operate in both discrete and process industries—this hybrid domain will be at the core of our strategy. That said, we will continue to strengthen our capabilities through bolt-on M&As as necessary.

A. Koch

As Tokunaga noted, portfolio review and optimization are key. This includes some divestments, but more importantly, doubling down on areas where Hitachi has distinct strengths—such as our mission-critical products, robust OT capabilities, and the integration with IT through HMAX. It is also important to focus on specific industries. The more complex the industry, the more our domain knowledge and ability to deliver integrated solutions serve as a competitive advantage, this is a key differentiator for the CI sector. Global expansion is another important priority. For business areas that are currently subscale, we will work to grow them and rebuild our competitive edge. Another critical aspect is the integration of the sector. Currently, the businesses operate too independently. We aim to unify efforts under "One CI" by concentrating on hybrid areas such as battery, biopharma, and advanced material. We will also integrate go-to-market functions and leverage cross-selling to drive revenue growth. From a talent perspective, we are bringing in people from the Digital Systems & Services (DSS) and Energy sectors. By combining diverse backgrounds, we are confident we can further strengthen the business.

A. Tokunaga

To increase the Lumada revenue ratio, we will expand Lumada 3.0 services, with HMAX as a prime example. HMAX is not limited to the railway domain; it is evolving into HMAX for Energy, HMAX for Industry, and HMAX for Everything. We intend to expand the concept, platform, and architecture of HMAX across the Hitachi Group to further strengthen Lumada.

Questioner 2

Q. On page 7 of the CFO's presentation, there is a reference to "reducing WACC." What is your current WACC level? Also, there was mention of reducing WACC by measures such as increasing leverage and focusing on services. However, in today's equity markets, stock prices tend to be driven by short-term performance. Is there any possibility that you will disclose the WACC on a quarterly basis going forward?

A. Tokunaga

In terms of reducing WACC, we believe that, in addition to utilizing leverage, enhancing transparency in management is critically important. We will continue to strengthen our engagement with capital markets. We do not disclose a specific WACC figure at this time.

A. Kato

Internally, we manage WACC based on certain assumptions and use it in combination with ROIC and ROIC-WACC spread as part of our management framework. However, since WACC is ultimately determined by investors and can vary significantly depending on their position, we have decided not to disclose it. That said, as a general sense, our assumed WACC typically falls within the range of 6% to 10%, varying by region and business.

Q. When companies review their business portfolios, it's common practice to divest businesses with relatively low ROIC. Based on today's presentation, the DSS and CI sectors appear to have relatively low ROIC. Will these two sectors be the focus of future restructuring? Additionally, while some acquisitions may temporarily lower ROIC, what criteria will you apply in such cases?

A. Tokunaga

ROIC is a very important metric when considering future business growth. I personally recognize the need to further enhance our management approach to improving ROIC. That said, it is extremely difficult to definitively state at this point which businesses we will divest or retain in the long term. These decisions must be made dynamically, depending on changes in market and business conditions. No business can be assumed to remain secure indefinitely. If a business is no longer seen as having growth potential, we will include it as a candidate for review. Currently, it is true that within the CI and DSS sectors, there are some businesses with low ROIC or limited alignment with the Lumada 80-20 framework. For those, we will carefully assess their future growth potential and consider portfolio rebalancing as needed.

A. Kato

Regarding the impact of M&A on ROIC, we have traditionally evaluated deals based on net present value, payback period, strategic fit, and hurdle rate such as Adjusted EBITA and ROIC. Since last fiscal year, we've added a new requirement: when proposing M&A, we assess the potential impact on the ROIC and ROIC-WACC spread of the relevant business unit or sector. If the deal is expected to cause a temporary decline, the business unit must commit to a recovery timeline. Post-acquisition, we typically monitor performance over five years. While we used to focus on revenue, profit, and cash flow, we now also track whether the ROIC and ROIC-WACC spread recover as committed under the new criteria. These measures are now being implemented to ensure the recovery of ROIC and ROIC-WACC spread.

Questioner 3

Q. On page 6 of the CI presentation, it is stated that the core area for growth are defined as "hybrid domains such as battery, advanced material, and biopharma." At the same time, markets such as chemicals and oil & gas are mature but still offer significant potential for improving productivity and energy efficiency. Are M&A opportunities in such mature markets also being considered? What is your strategy for creating value in low-growth markets? While I understand the focus is on high-growth areas, would opportunities in low-growth markets also be pursued if there is potential to deliver added value?

A. Koch

Yes, we will consider M&A opportunities when they create value. If a potential target complements our core business, offers synergy, and contributes to profitability and growth, we will evaluate it. Even in low-growth markets, high-margin businesses may be considered. The two key criteria are: first, whether the business has strong synergies with the rest of CI; and second, whether it allows us to create value through those synergies post-acquisition. We take a highly disciplined approach when assessing M&A opportunities. A key consideration is whether the acquisition enables us to leverage Lumada, particularly to expand recurring business models like HMAX. This framework will continue to guide us in enhancing business value.

Q. You mentioned that ROIC-WACC spread is assessed at the sector level when evaluating M&A. How do you assess synergies across different sectors? For example, if an acquisition has strong potential to enhance the DSS, how do you evaluate "One Hitachi" synergies, and in what forums are such discussions held?

A. Tokunaga

When any sector identifies an M&A opportunity, we, this leadership team you see today, always discuss whether the deal can create synergies across One Hitachi, truly drive growth, and enhance corporate value. Through these discussions, we evaluate the implications for other sectors. For instance, we ask: "What does this opportunity mean for DSS?" and "Can DSS's capabilities generate further synergies?" These cross-sector evaluations are a required part of the process for every deal. We have become more capable of assessing the enterprise value of potential targets from a holistic One Hitachi perspective.

Questioner 4

Q. The sector strategy presentations began with the Mobility sector, which gave the impression that this sector may be the most advanced in terms of digitalization. Among all business segments, which sector is expected to see the earliest profit contribution from digitalization and Lumada adoption? Are there any sectors that are further along, or lagging behind, than you initially expected in terms of digital transformation? If some sectors are lagging, what are the bottlenecks? Also, when pursuing M&A, would you prioritize targets that can be quickly integrated into Lumada? Are there any digitalization-related assets that Hitachi currently lacks but considers valuable for future profit growth?

A. Tokunaga

In Inspire 2027, the core of our Lumada business is what we call Lumada 3.0. The basic model is to collect data from digitalized assets, analyze it using AI, and turn it into services. This cycle increases the number of digitalized assets we have and strengthens our value proposition. The reason we began the presentations with the Mobility sector was that HMAX is the most advanced in this cycle. As you heard from the other sector leaders, we are now working to expand the Lumada 3.0 model across Hitachi by leveraging the architecture of HMAX, through HMAX for Energy, HMAX for Industry, and beyond. We are currently in the phase of scaling, mainly by leveraging capabilities from the DSS. There are no major bottlenecks at the moment, we are progressing steadily. Regarding M&A, there are two main areas we are focusing on. First, enhancing security capabilities to collect data securely. Second, to build more digitalized services, we need to further strengthen the capabilities of GlobalLogic. We may pursue acquisitions in areas that enable secure, digital service delivery. In any case, we aim to accelerate our bolt-on M&A strategy in line with the Lumada 3.0 concept: expanding digitalized assets and monetizing the data through service transformation.

A. Marino

HMAX is extremely important for the Mobility sector. During the Inspire 2027 period, we expect HMAX to contribute not just to revenue but also to profit. Many HMAX contracts are multi-year agreements, which makes it possible to build recurring revenue. This lowers cyclicality and improves profit and margin visibility. That's why we are concentrating heavily on promoting HMAX as a next step for this Inspire 2027 plan.

Q. Regarding Tokunaga-san's earlier comments, is it correct to understand that one of the key challenges in driving digitalization in the Energy sector is addressing security concerns?

A. Tokunaga

Yes, there are two main challenges we must overcome to advance digitalization in the Energy sector. First, as Schierenbeck mentioned in his presentation, Hitachi currently provides maintenance services for only about 1% of the installed base. We need to use digital technologies to expand the share of equipment for which Hitachi can offer maintenance services. Second, as you correctly pointed out, many customers in the Energy sector, particularly utilities and infrastructure-related companies using Hitachi equipment, perceive security risks in connecting devices to networks. We believe that by strengthening Hitachi's security solutions, we can gradually overcome these concerns and support broader adoption of digital solutions.

A. Schierenbeck

As you noted, many customers are still cautious about connecting transmission infrastructure to networks due to security concerns. That said, transmission infrastructure typically has a long operational lifespan, so even data collected months earlier can be useful for maintenance. For example, power transformers often have a 30-year lifecycle, and accumulated data can help determine when maintenance is needed and how much load the equipment has experienced. At the same time, the market is evolving. Utility companies are slowly shifting from their traditionally conservative stance on real-time connectivity. Moreover, data center operators have a completely different mindset. They are fully open to connecting their equipment to Hitachi Energy systems, as their top priority is stable operation. Their expectations for services are very different. The expansion of Lumada and the provision of services to the existing installed base are closely linked to future projects aimed at business growth. With a strong backlog already in place, we intend to expand service business.

Q. With regard to capital allocation, what was the rationale behind setting a target of returning more than half of core free cash flow and net income to shareholders? Also, in the earlier discussion about the ROIC-WACC spread, given Hitachi's global operations, do you manage ROIC-WACC spread targets for each business and region?

A. Tokunaga

Let me begin by emphasizing that our fundamental approach to capital allocation remains unchanged. There are two main reasons why we decided to set the shareholder return target at "more than half." First, we have a solid track record of returning at least half, or even more, of our core free cash flow and net income to shareholders in the past. Second, in our investor communications in May, we received many questions and suggestions about capital allocation. Some investors pointed out that, given our track record, Hitachi has sufficient capacity to return more than 50%. I agreed with that view, and therefore, I made the strong decision to clearly state this new commitment.

A. Kato

When calculating WACC, we do consider regional differences in capital costs. That said, we manage ROIC, WACC, and the ROIC-WACC spread primarily at the sector and business unit level. While regional optimization, such as revenue or production allocation, is a consideration, many factors cannot be controlled purely at the local level. For that reason, we conduct performance management using ROIC and WACC at the business unit or sector level.

Questioner 5

Q. Regarding the CI, the discussion gave the impression that certain businesses may already have been identified as candidates for restructuring, or as being misaligned with Lumada 3.0. If there are businesses deemed less compatible with Lumada or digital business, what are the reasons or implications behind such assessments? Also, it seems that large-scale businesses such as rail and power grids, with many components, may be more suitable for digitalization, whereas smaller-scale businesses with fewer components may be harder to digitalize. What is your view on this?

A. Tokunaga

We are constantly discussing which businesses are a good fit with the Lumada 80-20 concept and which have future growth potential. At the same time, we are continuing discussions around possible business divestitures and also actively looking for external growth opportunities. That said, it's very difficult to definitively identify which businesses should be restructured. As you pointed out, large-scale enterprise systems often come with asset management challenges for customers, and this is where Hitachi has deep expertise. The intersection of these two factors allows us to propose highly effective solutions, which is why we've been able to secure orders. It's not scale alone that determines the potential for digitalization. Instead, there remains significant room for efficiency gains through digital utilization, which is increasingly creating new business opportunities. On the other hand, in smaller-scale businesses, it's not necessarily the size that matters, it's often that many products are deployed across diverse regions and customers. Even in such cases, we are promoting digital utilization. For example, in the CI sector, compressors and pumps are used by a wide range of customers. We are already collecting data from these devices and applying digital solutions where appropriate. So, we don't see business size as a decisive factor in determining compatibility with digitalization. It's more about how and where digital value can be created.

Q. Regarding the Energy sector, we understand that data centers are a major driver of growing electricity demand. With evolving technologies such as SMRs (Small Modular Reactors)and off-grid solutions, the landscape appears to be changing rapidly. From an external perspective, it is difficult to assess supply-demand outlooks, market growth potential, or downside risks. Specifically, regarding data centers, could you share your views on potential risks or challenges in the power grid market?

A. Schierenbeck

A few years ago, data centers were not even part of our planning, making their current growth an unexpected upside. AI-focused data centers are expanding rapidly and consume enormous amounts of electricity. Their power usage is highly volatile, increasing dramatically during AI model training and dropping sharply when idle. This volatility is one of the factors driving interest in off-grid solutions. Compared to conventional data centers, the scale of AI data centers is much larger. However, it's important to note that technology itself is not new—it's the same fundamental approach, requiring a reliable energy source. Off-grid solutions are gaining attention because utilities are often unable to provide grid access quickly enough. While it takes just a few years to build a data center, grid infrastructure development can take 6 to 10 years, sometimes up to 15. For Hitachi Energy, this trend is positive: regardless of whether data centers are grid-connected or not, demand for transformers and substations continues to grow. SMRs also present tailwinds, though widespread adoption is still several years away. In the U.S., we're seeing movements such as restarting nuclear power plants for hyperscalers, and in Texas, debates around hyperscalers being required to pay premium electricity rates. Overall, this presents more of an upside risk—meaning greater-than-expected opportunities—than a downside, especially given our strong relationships with hyperscalers.

Questioner 6

Q. On page 9 of the DSS sector presentation, there is a mention of productivity improvement across the entire SI process through the use of GenAI. What specific initiatives are currently underway? If there are any new efforts, could you share them? Also, what are Hitachi's strengths and competitive advantages in the GenAI space? In which domains or areas is Hitachi particularly strong? Would you consider Hitachi a leading AI company in Japan?

A. Tokunaga

We are steadily expanding the application of GenAI across large-scale SI projects at Hitachi. While we initially focused on the coding phase, we are now applying GenAI across the entire development lifecycle, which marks a significant evolution in our approach. We've stated a target of 30% improvement in development efficiency, and in fact, we are seeing greater gains in some specific phases. We are also accumulating a great deal of knowledge on how best to apply AI across workflows. As for competitiveness, I don't think it's meaningful to draw a strict line between Japan and the global market. GlobalLogic is widely recognized as a global leader in the practical application of AI, and we are actively bringing their capabilities and best practices into Japan to further enhance our own efficiency. We believe we are highly competitive in the market.

A. Abe

In software development, we are not just applying AI to coding, but also in mission-critical areas such as testing. We are using AI to support modernization of legacy systems and cloud migration, and our engineers are increasingly collaborating with AI specialists. This collaboration is reinvigorating our development process. GlobalLogic works with top-tier digital customers globally and has very advanced AI capabilities. One of Hitachi's key strengths is access to this deep pool of engineering talent, which we can also leverage in our domestic business. Furthermore, beyond software development, we see growing demand for applying AI in physical domains, such as maintenance or operations, especially amid a growing shortage of experienced workers due to retirement. HMAX is one such example, and we expect this area to remain a key growth driver going forward.

Q. In the DSS, the domestic SI and services businesses show lower revenue growth targets in Inspire 2027 compared to the overall sector. Given the rise in AI utilization, we expected stronger growth in domestic operations. Is the revenue growth mainly driven by GlobalLogic?

A. Tokunaga

In terms of digital and AI, I would suggest focusing on Lumada's revenue growth. For this sector, Lumada revenue is expected to grow at 22–24%, which is even higher than the overall DX market growth. That said, the domestic services business includes a wide variety of operations, and naturally, the average revenue growth appears more moderate.

Q. In the Energy sector, the current service contract penetration rate is below 1%, which seems quite low. Even if this quadruples, it would still only be 4%, so the upside potential appears significant. What is your view?

A. Tokunaga

As you pointed out, coverage of O&M service contracts being below 1% is indeed low. But that also indicates considerable upside, as explained in Schierenbeck's presentation.

A. Schierenbeck

At Hitachi Energy, we have traditionally focused on products, and expanding the service business has been challenging. Initially, service contracts were not particularly attractive from a profitability perspective. Negotiating service contracts together with product deals can be complex, and in many industries, services tend to be overlooked, especially in the absence of a dedicated organization. We have worked to change that, and as a result, we've raised our service ambition. Originally, we planned to triple our service business, but recognizing this greater potential, we have upgraded our target to 4–5 times growth. As part of our ambition to become a 300 billion USD business by FY2030, the service business will play a key role, including through M&A. We have started bundling service contracts with new equipment sales to get this business off ground. Prior to launching our new organization, we conducted customer interviews, and many customers told us they are facing workforce shortages and an aging engineering team and therefore prefer to outsource services rather than manage them in-house. This indicates substantial growth potential. While we cannot commit to specific numbers today, we believe there is a strong upside ahead.

Q. If Hitachi Energy's service business expands by 4–5 times, what percentage of total revenue would services represent?

A. Schierenbeck

We expect it would account for around 25% of total revenue.

Questioner 7

Q. When I look at the Lumada penetration over the last midterm management plan, it has gone from approximately 20% to 30%, and we've seen ROIC jump 2% to 3% as a result of that. The Lumada penetration will be much higher over the next three years, but the ROIC increase is lower. Does that reflect kind of cushioning for M&A, conservatism or, I guess, is it more difficult to get higher ROIC despite rising Lumada penetration?

A. Kato

First, as you pointed out, Inspire 2027 anticipates the execution of M&A activities. Second, in FY2024, ROIC exceeded 10% for the first time, reaching a high level, primarily because M&A was not actively pursued during that period.

Q. I did want to ask about the nuclear business. It sounds like the Power Grids business is such a strong driver. Could you see selling the Nuclear Power business as it's kind of parallel to or perhaps not progressing as quickly as Power Grids?

A. Schierenbeck

I've tried to convince you that we have a booming market in SMRs in front of us with hundreds of gigawatts of installations. Why would we exit that? We have great capabilities and experience in SMRs because SMRs are, from my point of view, not new technology, but old technology. We are just scaling it down, making it smaller, making it safer, making it easy to produce in one factory, so you don't have to install it on-site. We have the experienced people here in Japan and these are capabilities you cannot buy, they take years to develop because it takes years to get a welder certified and to learn that. From my point of view, the best thing we can do is because that will actually be the next wave of growth. If the Power Grids business scales down in 10–15 years, this technology will have huge potential.

A. Dellagiovanna

In Hitachi, we have already quite a lot of capabilities, but we need to accelerate recruitment. We are exploring various channels, from referrals to job postings, because we are looking for a lot of electrical engineers. We must ensure that people are ready to be on board, and we also need to retain our senior managers, as their experience is essential. Globally, there are no more such capabilities. Hitachi truly has a competitive advantage in this area. For this reason, we are investing a lot in our new human capital strategy to have a strong recruitment engine.

Questioner 8

Q. Regarding the CI, from the perspective of enhancing its valuation in the stock market and making efficient use of management resources, how should the current business portfolio and end-market composition be reviewed over the medium to long term? Given the current state of conglomerate diversification, disciplined management is essential, especially in evaluating alignment with Lumada and overseeing risk. I'm not fully convinced that expanding into end markets such as biopharmaceuticals and advanced materials will result in favorable evaluations from capital markets. Going forward, is the strategy to reduce the number of end-markets through M&A and portfolio restructuring? Or is the approach to continuing to expand into new end-markets as long as there is an alignment with HMAX for Industry?

A. Tokunaga

In the CI, rather than expanding into more end-markets, we have already indicated in our presentation that the direction is to narrow our focus. That direction centers on Integrated Industry Automation. If there are businesses that do not align with this focus, they will be divested from the Hitachi Group. Conversely, core businesses will be further strengthened. In other words, instead of making the current mini-conglomerate structure even more complex, we aim to simplify it.

A. Koch

You can look at CI today as pieces of a puzzle that are somewhat scattered. We clearly recognize that some pieces are very close to each other, and it takes very little to form a clear picture—which we now call Integrated Industry Automation. By focusing on areas that are compatible with Lumada, we aim to generate the expected returns while creating synergies across CI and the broader Hitachi group. Furthermore, the addition of services and recurring business not only contributes to profitability but also plays a key role in connecting the overall CI portfolio. In one or two years, you will see a very clear picture.

Questioner 9

Q. In today's presentations, it was mentioned that the partnership with NVIDIA is progressing. Going forward, Hitachi's OT data will be increasingly utilized within NVIDIA. As a result, NVIDIA is expected to enhance its value in the physical AI domain and further increase its market capitalization. In this context, how will Hitachi benefit and raise its own market capitalization? Could you explain the underlying strategy?

A. Tokunaga

The collaboration with NVIDIA began in March 2023. When I met with Jensen Huang, I explained that Hitachi has deep expertise and a strong track record across products, OT, and IT, and we agreed to "work together." This marked the starting point for the development of HMAX. From there, the collaboration rapidly expanded to include IT products like Hitachi iQ and new partnerships. What I want to emphasize is that it is Hitachi that directly engages with customers and solves their challenges. Of course, we utilize NVIDIA's solutions and products, but it is Hitachi that delivers the core value. I hope this point is clearly understood.

A. Marino

The collaboration with NVIDIA is at various levels. I would like to underline that we have been developing driverless metros for 15 years. We are leaders worldwide and believe we have very strong expertise. The collaboration with NVIDIA, in the context of physical AI, is primarily to use microprocessors similar to those in the automotive industry to achieve the necessary computing capacity. We are already using them for some applications, and we hope to use this kind of computing power to read data. Our ambition is to develop a "robot as a train", specifically designed for urban rail environments. Metro systems and trains are already driverless due to their confined settings. However, when it comes to urban transit—such as streetcars that operate alongside cars, bicycles, and pedestrians—a different system is required. The data comes from our own systems; both the OT and IT layers are ours. We are performing tokenization, which is the technical process of recognizing the environment. We will keep both the data and the technology. From NVIDIA, we receive machine learning and deep learning tools.

A. Tokunaga

In the world of GenAI, value is created at both the application layer and the infrastructure layer. The infrastructure layer is driven by companies like NVIDIA, while it is Hitachi that delivers real value at the application layer. Hitachi will continue to strengthen its focus on this application layer going forward.

Questioner 10

Q. In the expansion of HMAX, you mentioned that in addition to your own install base, you plan to extend into the install base of other company's products to broaden the TAM and SAM. Will this be pursued on the same timeline and with the same strategy as for your own products, or will it require a different approach or face different hurdles?

A. Tokunaga

One of the key differentiators of HMAX is its ability to be deployed across installations from other companies. In particular, the Mobility sector has already succeeded in turning data analysis from vehicles manufactured by other companies into services. For expansion into other sectors, the Go-to-Market strategy is being developed based on the proven track record in the Mobility sector.

A. Marino

Our data foundation is the very important OT experience we have. We acquired two companies, Perpetuum and Omnicom. We also have our own sensor technology. For instance, we know the track geometry through our specific sensors designed for rail. We cannot buy sensors off the shelf due to regulatory requirements. With this technology, the sensors are developed to be used on any train—even those from competitors. They are simply bolt-on solutions that can be applied. This is already happening in various applications. More and more, we are gaining credibility, and customers are asking to use these sensors and the platform that supports them. Regarding our go-to-market strategy, yes, we created a separate area called the Center of Excellence. We brought in a manager

from the digital division, which is very important. Combined with the right expertise, our dedicated sales organization, and collaboration with each regional manager, we are once again engaging with different customers. This approach targets the existing installed base, while new orders are already coming, most of them already equipped with the ready-now HMAX application. The truth is that digitalization in trains is bringing a significant advantage. Trains are complex systems—much like those provided by the Energy sector or CI sector—and for such sophisticated assets, the impact of digitalization is significant. Technologies such as generative AI for statistical analysis, agentic AI to enhance maintenance services, and physical AI are playing a major role.

Questioner 11

Q. The Inspire 2027 plan is ambitious and optimistic, which raises an important question going forward: is it truly achievable? I would like to ask Tokunaga-san, Kato-san, and Koch-san what they each prioritize in achieving this goal from their respective positions. To Tokunaga-san, as CEO, what KPI do you consider most critical? Also, how are you incorporating uncertainties such as U.S. tariffs and a potential global economic downturn into the plan, and how do you intend to reflect those risks in the figures if they materialize? To Kato-san, when it comes to M&A, can the hurdle rate truly be applied rigorously? Could financial discipline be compromised for strategic reasons in the context of acquisitions? To Koch-san, the KPIs for the CI appear to be quite ambitious. What assumptions are these targets based on, and what is your top priority in achieving them?

A. Tokunaga

The KPI I prioritize most as CEO is ROIC. Inspire 2027 outlines five key KPIs, all of which are important. However, if I had to choose just one, I would say ROIC is the most critical. By placing ROIC at the center of our management approach, we aim to enhance corporate value. Regarding the impact of U.S. tariffs, we have incorporated this as a risk factor into our FY2025 outlook. As for the potential economic downturn, it is currently difficult to quantify, so it has not been reflected in either the FY2025 outlook or the Inspire 2027 plan. That said, we are certainly not managing the business with undue optimism. We operate under the assumption that risks may increase in the future. Based on the principles of enterprise risk management, each CXO shares the current situation and engages in daily discussions to guide our management decisions. We have established a system that allows us to respond immediately should any risks materialize.

A. Kato

We acknowledge that the outlook for the business landscape ahead is more uncertain than ever, and we are managing with a constant sense of urgency. Regarding the impact of U.S. tariffs, we currently have only visibility into the direct effects, while we continue to monitor potential indirect consequences closely. In addition, I serve as Chair of the Investment Strategy Committee in my role as CRMO (Chief Risk Management Officer). When making investment decisions, we assess not only against the hurdle rate but also in terms of strategic alignment. At the same time, we place equal emphasis on cash generation and ROIC. I want to emphasize that our management decisions are made with a high level of discipline and rigor.

A. Koch

I focus on improving my portfolio and doubling down on where we are already very strong, either from a growth or a profit point of view. That is the part I want to develop. That means developing growth, profitability, returns, and—how should I say—synergistic opportunities with the service, Lumada, HMAX. And we already have a lot of these golden nuggets in CI. Now it's a matter of growing them.

Questioner 12

Q. According to the disclosure materials, there appears to be a significant difference in executive compensation depending on the region. I assume similar disparities exist at the employee level as well. Going forward, is it possible for the employee compensation system to further enhance its transparency?

A. Tokunaga

To continue securing top talent in each region, it is essential that Hitachi's compensation remains competitive compared to other companies. Therefore, during the Human Capital Strategy session, Dellagiovanna explained that we are reviewing the overall compensation system, including strengthening the stock compensation program for employees.

A. Dellagiovanna

This was one of the key topics I looked at when I started the role one year ago because we are a global company, and we operate in so many different industries. For us to leverage the mobility and the internal mobility of our people, we needed consistency across the compensation. Our new global compensation program focuses on consistency, transparency, and pay for performance. We are looking at two different angles. One is the structure, which means a consistent mix for employees and executives, including base salary, STI(short-term incentives), LTI(medium- and long-term incentives), and the new stock compensation program. We are also linking performance to the financial targets of the company. The other one is the base salary. The base salary is strongly influenced by the local regulation, the cost of living, and the retirement scheme, and this is something that we must respect. We continue to emphasize transparency, fairness and pay for performance. We are trying to attract talent but also to retain the talent that we have now.

End