
Industry & Distribution Business Strategy

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Industry & Distribution Business Strategy

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1. Business Overview

Collaborative partner creating new innovative values with customers
in the field of industry and distribution

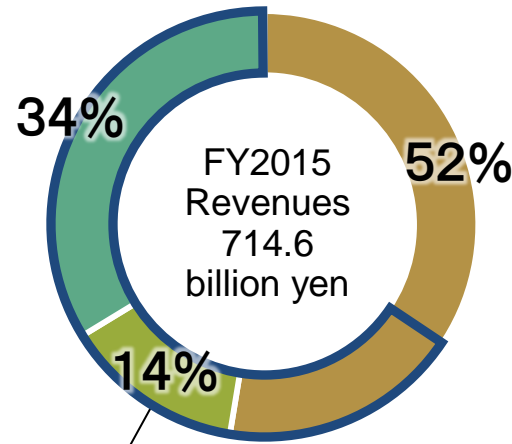
-- Providing total solutions, from plant engineering to control and IT system--

Plant engineering

- Design, Installation
- Maintenance services



Bio-plant culture facilities
(Top share in Japan *2)



Industry & Distribution BU*1
459.2 billion yen

Business Management solutions*3

- Hitachi Total Supply Chain Management Solution/loT



- Logistics solutions
- ERP solutions



Top level in Japan
for SAP® related
business*2,4

- Outsourcing services



Control solutions

- Manufacturing execution systems
- Operating/management systems



HITPHAMS: pharmaceutical manufacturing management system
(Top share in Japan*2)



NXAUTO: automotive production management system



Doctor Cloud: Cloud-based device facilities maintenance • facilities management service

*1: The Industry & Distribution Business Unit was newly established in April 2016, following restructuring of the industry and distribution divisions of the former Information & Telecommunications Systems company and Infrastructure Systems company
*2: Hitachi's estimate
*3: Business Management solutions include revenues of Hitachi Solutions
*4: SAP, SAP logo are registered trademarks or trademarks of SAP AG in Germany and other countries.

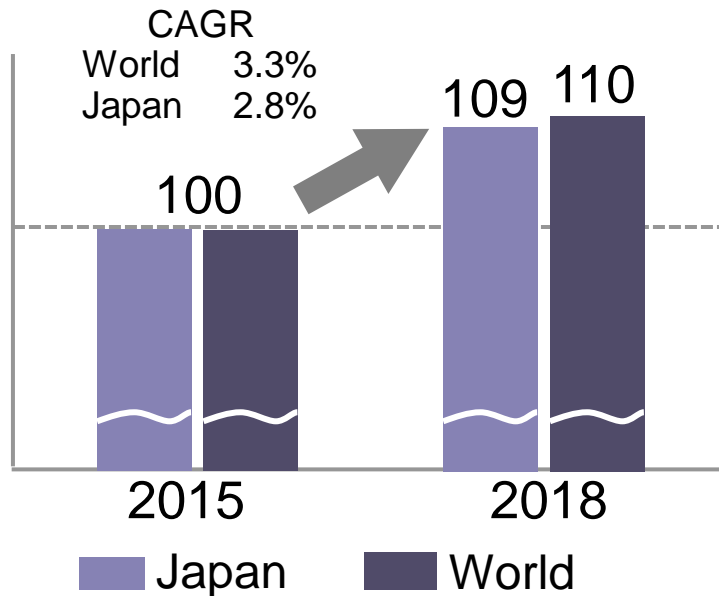
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Steadily increasing investment in the manufacturing and distribution industries for the next growth

● Projected investment



- Investment in advanced distribution in line with the prevalence of e-commerce
- Capital investment for improving productivity and quality through IoT

● Customers

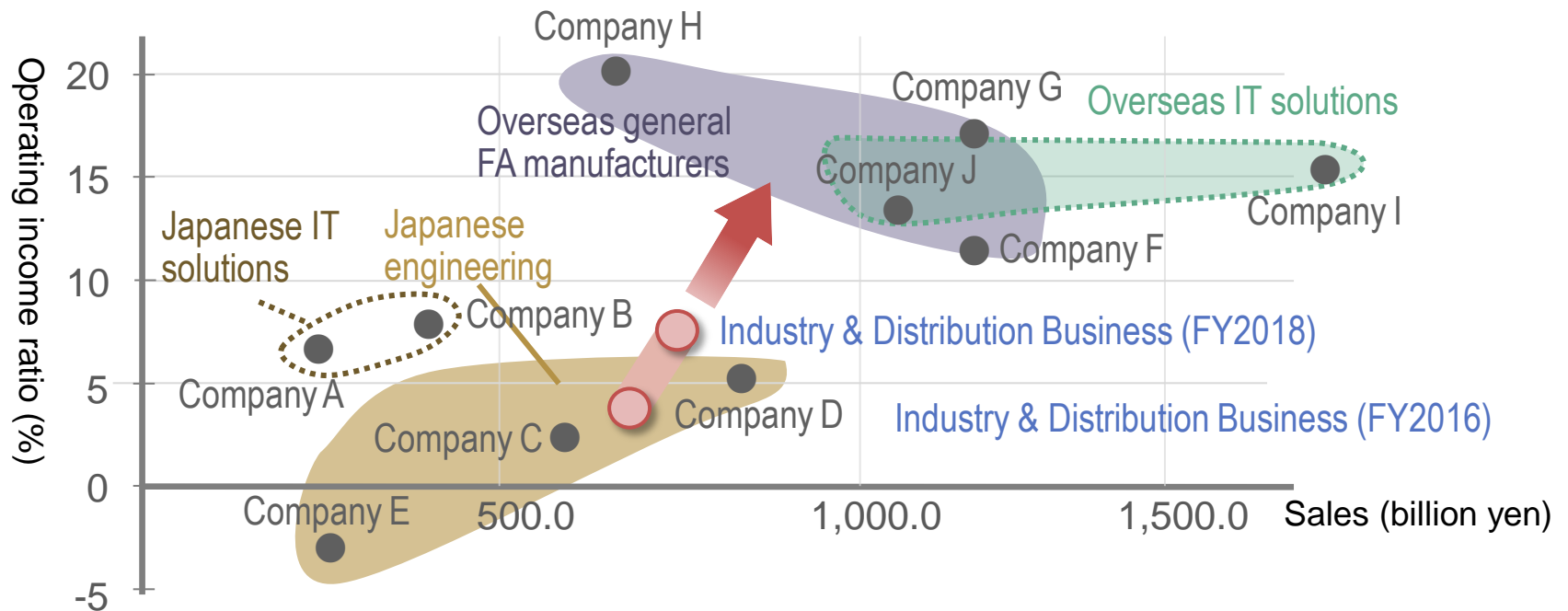
- New opportunities for growth based on new demand and growing service market
- New competitors, materialization of risks (globalization, mega-recalls, etc.)
- Increasingly complex and sophisticated challenges throughout the supply chain

● Hitachi's response

- Providing the total service, from plant engineering to control and business management solutions, in order to resolve customers' issues and contribute to growth

2-2. Target Position

Toward a globally competitive position by means of own strength



Competitors' trends

- FA manufacturers strengthening IT functions through acquisition, etc.
- IT companies looking to join forces with facility manufacturers

Hitachi's strengths

- Integrated plant engineering, control and IT
- Expertise as a manufacturer

*1: Compiled by Hitachi based on figures published by individual companies (figures for divisions equivalent to Industry & Distribution BU)

*2: Figures for Hitachi include Hitachi Solutions

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3-1. Review of 2015 Mid-term Management Plan

	FY2015 results	Previous forecast*1	Difference	(Reference) Initial targets in 2015 Mid-term Management Plan*2
Revenues	714.6 billion yen	717.1 billion yen	(2.5) billion yen	774.3 billion yen
Adjusted operating income ratio	(1.3)%	4.8%	(6.1) points	5.4%
EBIT ratio	(1.6)%	4.8%	(6.4) points	5.4%

Reason for difference

- Decreased sales due to the withdrawal from Middle East construction and overseas chemical plant business.
- Increased deficits in existing Middle East construction and overseas chemical plant projects.

Results

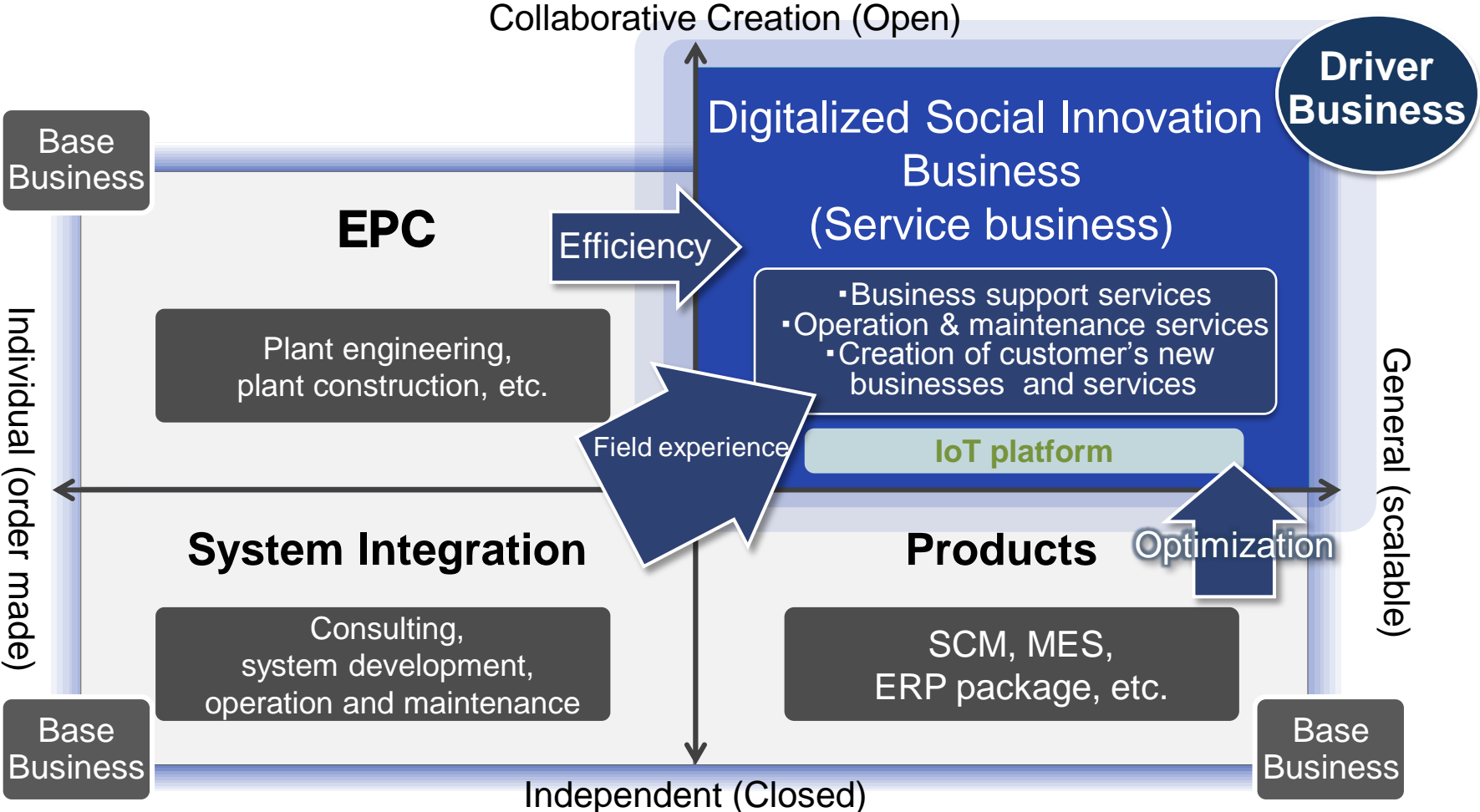
- Secured large-scale orders in annuity service business
- Verified fusion technologies through PoC*3 projects

Portfolio revision

- Concentrate resources in the digitalized Social Innovation Business (service businesses)
- Exit from deficit and low earnings businesses
- Increase profitability through BU structure fusion effects

3-2. Direction

Provide services unique to Hitachi based on OT strength from existing businesses and experience in customers' work site.



	Business strategy	Target*
1	<p>Transition to digital service business</p> <ul style="list-style-type: none"> Establish service business based on IoT platform “Lumada”, collaborative creation with customers and verification results 	<p>Service revenue ratio 61% → 66%</p>
2	<p>Expanding industry-specific solutions</p> <ul style="list-style-type: none"> Focus on growth sectors (automotive, pharmaceutical, etc.) Expand peripheral solutions around core solutions Total engineering based on field experience as a manufacturer 	<ul style="list-style-type: none"> Revenues Approx. 50.0 billion yen Operating income Approx. 20.0 billion yen
3	<p>Strengthen logistics solution business (Create service models and value chains that connect different industries)</p>	

*: Effects based on comparison between FY2015 and FY2018 (additional amounts)

3-4-1. Transition to Digital Service Business

Contribute to growth and problem solving by providing wide range of services, sharing, visualizing and optimizing information throughout the supply chain

Issues

- Speeding up development of new products and services
- Optimizing global factory, sales and distribution allocation
- Rectifying imbalances between items and data, and handling mega-recalls

Collaborative creation

Measures

Using IoT platform to provide data-based services

Design/Procurement

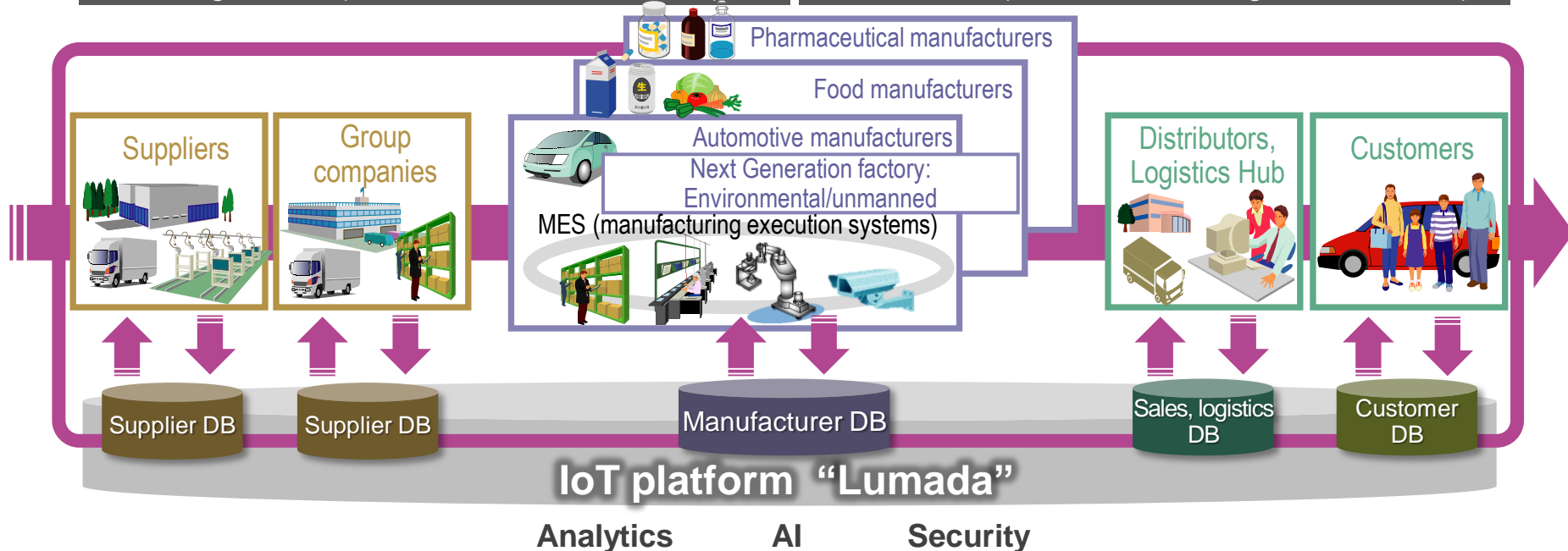
Manufacturing/Distribution

Sales/Maintenance

SCM/QC cloud services (production/sales plans, traceability)

Design cloud (3D-CAD, CAE automation)

Connected (remote monitoring, maintenance)



3-4-2. Expanding Industry-specific Solutions (Automotive: CAE Automation)

Improve development efficiency and safety by sharing design data and know-how

Issues

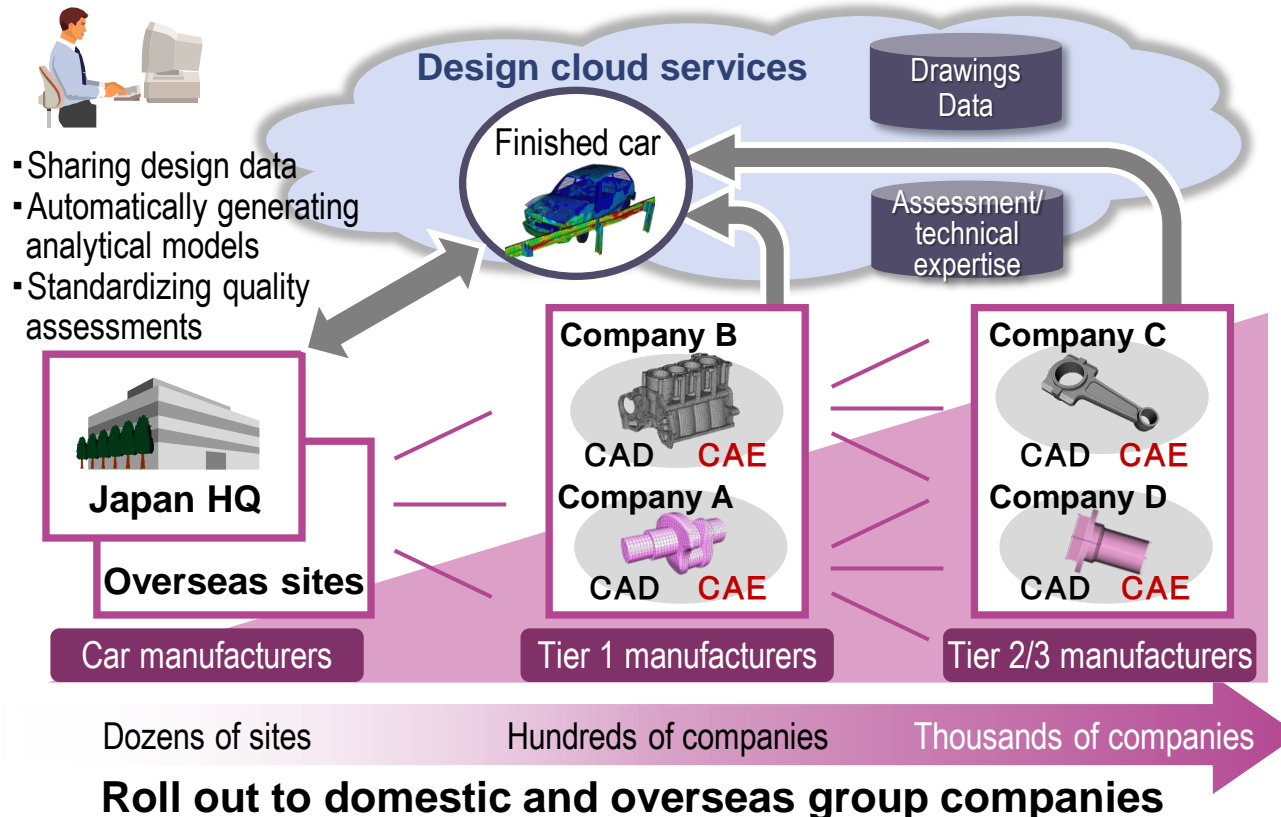
- Improving safety and quality, high functionality (Automotive)
- Increasing efficiency of design processes, shortening development times
- Improving efficiency throughout the group

Collaborative creation



Measures

Providing the same design cloud environment, in order to standardize design processes to a high level throughout the group



- Sharing design data
- Automatically generating analytical models
- Standardizing quality assessments

Expected effects

- Creating analytical models for development processes of resin components (Reducing man-hours by approx. 30%)
- Ensuring quality through high-level standardization

Reduce development lead time

3-4-3. Expanding Industry-specific Solutions (Pharmaceutical)

Support high quality and highly reliable pharmaceutical businesses by IoT and plant expertise

Issues

- Maintaining stable supplies of bio-pharmaceuticals, improving yields and quality
- Speeding up new drug development

Collaborative creation

Measures

- Making use of various data analysis including AI, and visualize management indicators through BI*1 tools.
- Creating value throughout the value chain

Business support

- Business viability assessments
- Investment decisions
- Maximizing equipment efficiency



Contributing to healthcare

- Creating groundbreaking new drugs
- Tailored diagnostic support
- Improving efficiency of clinical tests



Improving development, quality and productivity

- Optimizing manufacturing processes, quality control
- Advanced design for culture facilities
- Plant maintenance/operating services



- Using information from management / frontline

BI tools AI Pentaho
IoT platform "Lumada"

- Using data from clinical analyser
- Diagnosis, analysis of electronic medical records

Business Support Supply Chain Management

Visualizing management indicators

HITPHAMS pharmaceutical manufacturing management (Top share in Japan*2)

Monitoring, control, gathering process information

Plant design and construction

Raw materials

Culture facilities
(Top share in Japan*2)



Refining

Filling

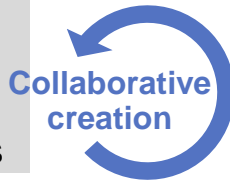
Products



3-4-4. Activities targeting the logistics solution business

Create new value and new service business connecting different industries

- Issues**
- Insufficient drivers/trucks
 - Traffic jams, delivery delays, wasted fuel
 - Increased corporate and social costs



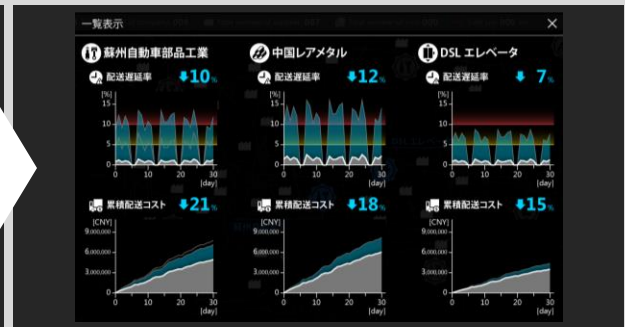
- Measures**
- Joint deliveries going round multiple sites
 - Optimum deliveries (minimum time and cost) through simulations based on traffic flow



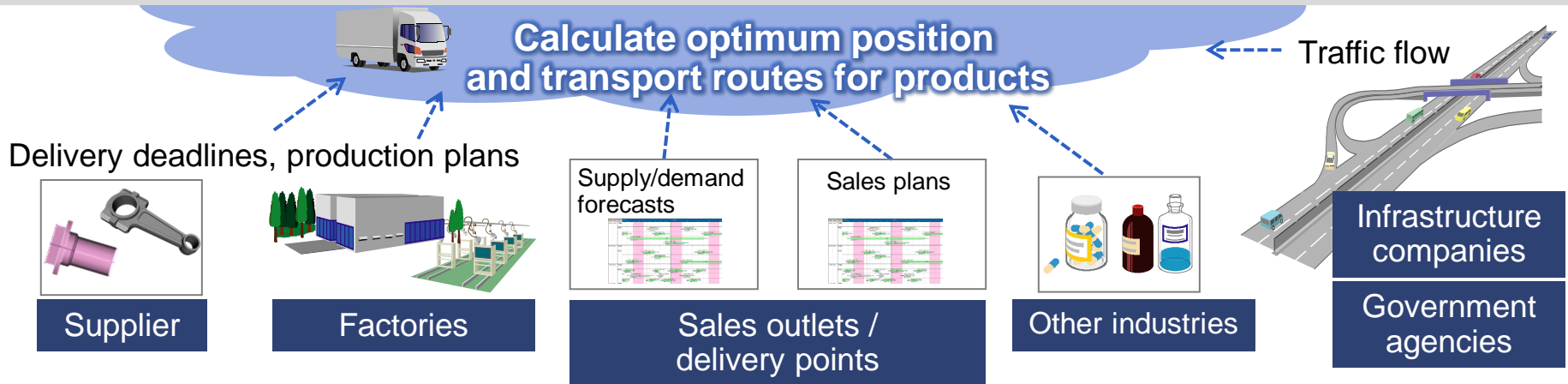
Monitor current status



Simulations



Visualization of effects



3-5. Cash Generation and Cost Strategies

Reap the benefits of BU structure fusion and the evolution of the Hitachi Smart Transformation

SG&A

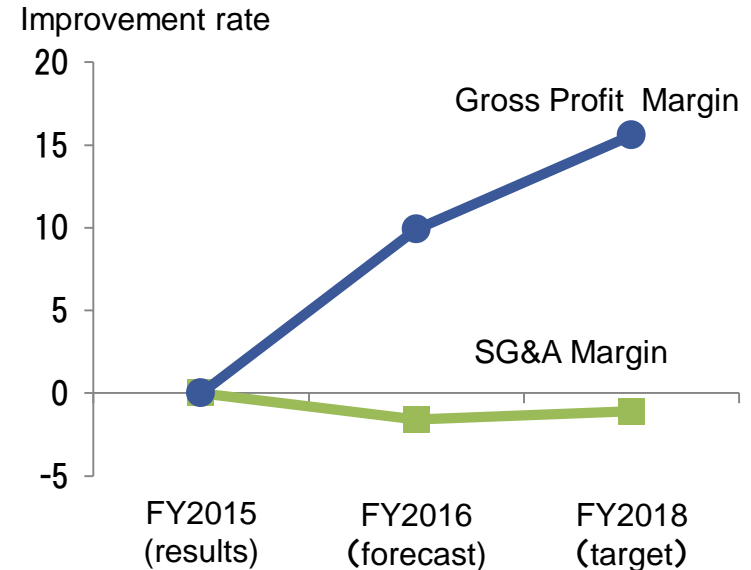
- Increase efficiency and add value by strengthening pipeline management throughout the entire value chain
- Strengthen front sales forces, resolving the customers' management issues

Gross Profit

- Strengthen Phase Gate operations
- Create high added value services by fusion of IT and OT engineers

Cash Generation

- Strict cash flow management on each projects and organizations
- Prompt cash generation by transformation to digital service and annuity business
- Improve CCC by reducing overall assets



	FY2015 (Results)	FY2016 (Forecast)	FY2018 (Target)
CCC	53 days	85 days	79 days

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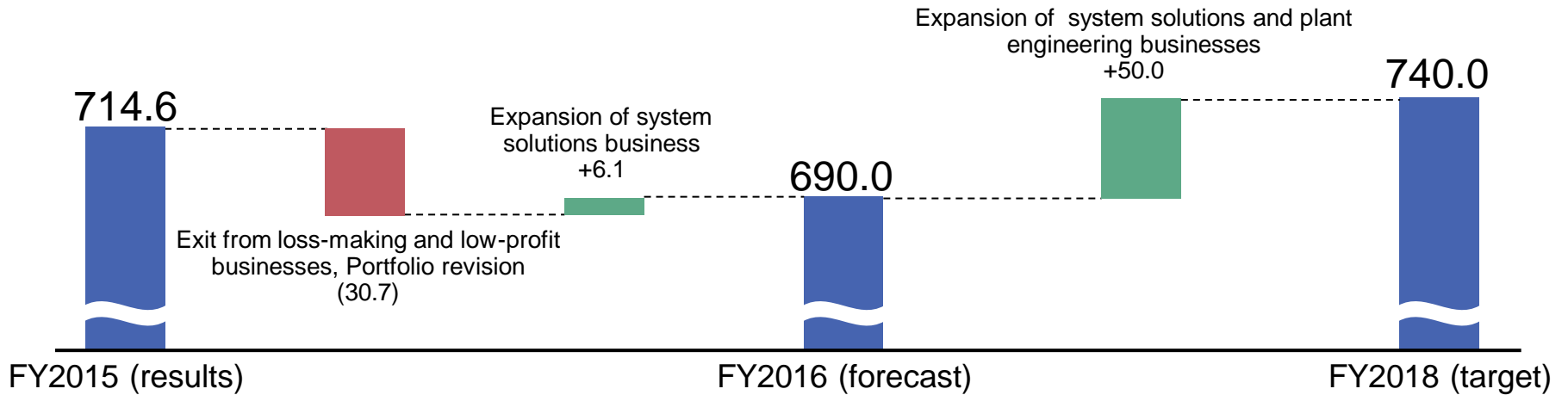
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4-1. Business Performance Trends

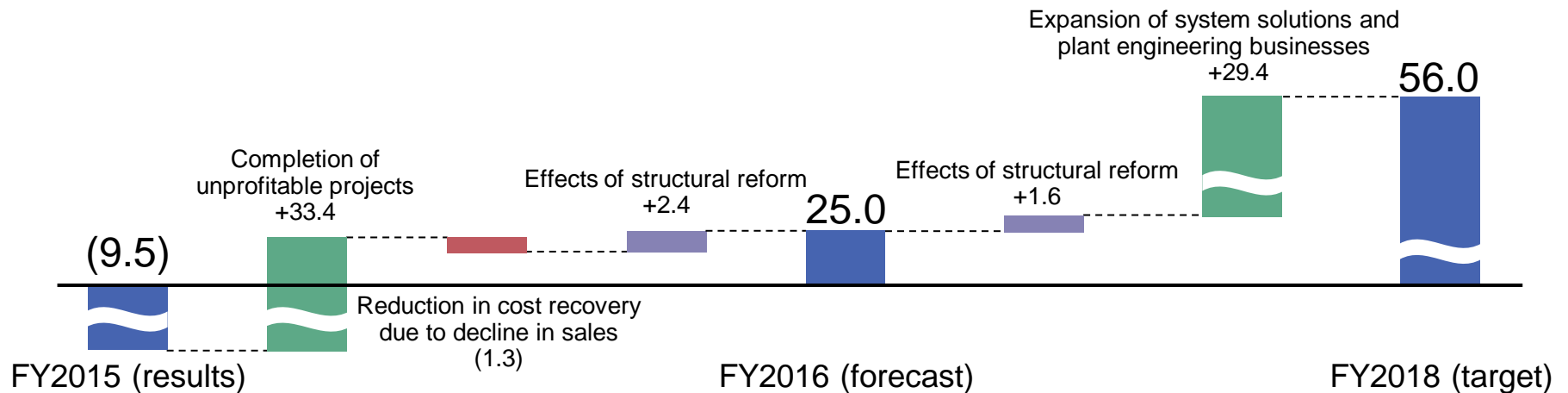
Revenues

(Unit: Billion yen)



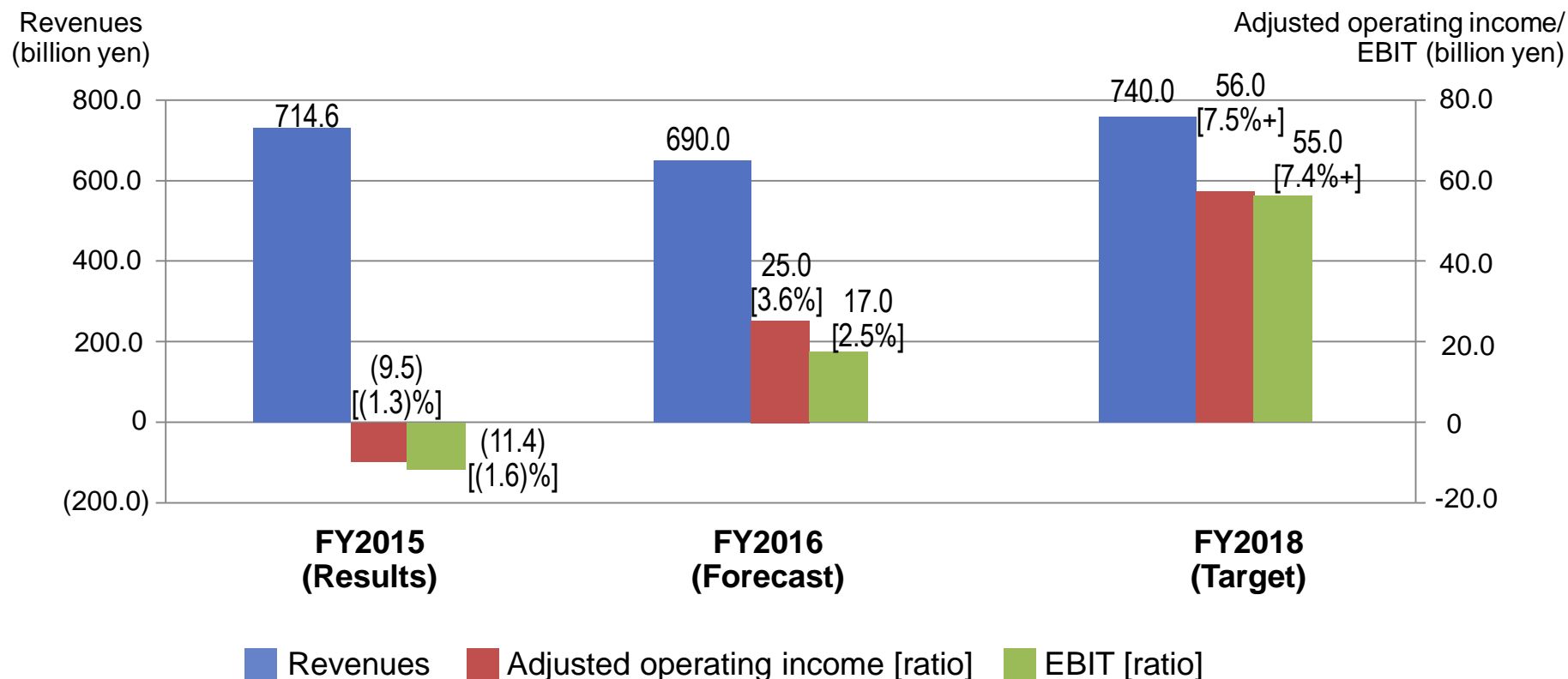
Adjusted operating income

(Unit: Billion yen)



4-2. Business Performance Trends

	FY2015 (results)	FY2016 (forecast)	FY2018 (target)
Amount of orders received (billion yen)	766.1	700.0	—
Service revenue ratio	61%	62%	66%
Overseas revenue ratio	15%	15%	19%



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FY2018 Target

- **Revenues: 740.0 billion yen**
(Increase by 3.6% over FY2015)
- **Adjusted operating income ratio: More than 7.5%**
(Improve by more than 8.8 points over FY2015)
- **EBIT ratio: More than 7.4%**
(Improve by more than 9.0 points over FY2015)

Collaborative partner to create innovative values with customers in the fields of industry and distribution

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 document.

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, particularly Japan, Asia, the United States and Europe, as well as levels of demand in the major industrial sectors Hitachi serves, including, without limitation, the information, electronics, automotive, construction and financial sectors;
- 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, particularly against the U.S. dollar and the euro;
- 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;
- 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;
- the possibility of cost fluctuations during the lifetime of, or cancellation of, long-term contracts for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- credit conditions of Hitachi’s customers and suppliers;
- 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;
- fluctuations in product demand and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rates and/or price of raw materials or shortages of materials, parts and components;
- increased commoditization of and intensifying price competition for products;
- 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;
- uncertainty as to the success of cost reduction measures;
- 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 the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- 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;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- 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;
- 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 the accuracy of key assumptions Hitachi uses to evaluate its significant employee benefit-related costs; and
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel.

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

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