
Industrial Products Business Unit Business Strategy

Hitachi IR Day 2017

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Industrial Products Business Unit Business Strategy

- 1. Business Overview and Review of FY2016**
2. Business Strategy
3. Results
4. Conclusion

1-1. Business Overview

Establishing “strong product-led business” to meet a wide range of industrial needs

Resources
Oil & Gas

O&G, mining, city gas

Life / security

Pharmaceuticals, food,
agriculture, urban

Backbone
industries

Backbone manufacturing
industries, utilities

Social
infrastructure

Water & sewage, roads
ports & airports

Industrial Products BU / Hitachi Industrial Equipment Systems
- Integrated operations based on mutual cooperation -

Business
fields

Machinery

Drive / automation

Power substation /
distribution

Products

Compressors, marking,
pumps, fans



Motors / inverters,
UPS, PCS, IoT controllers



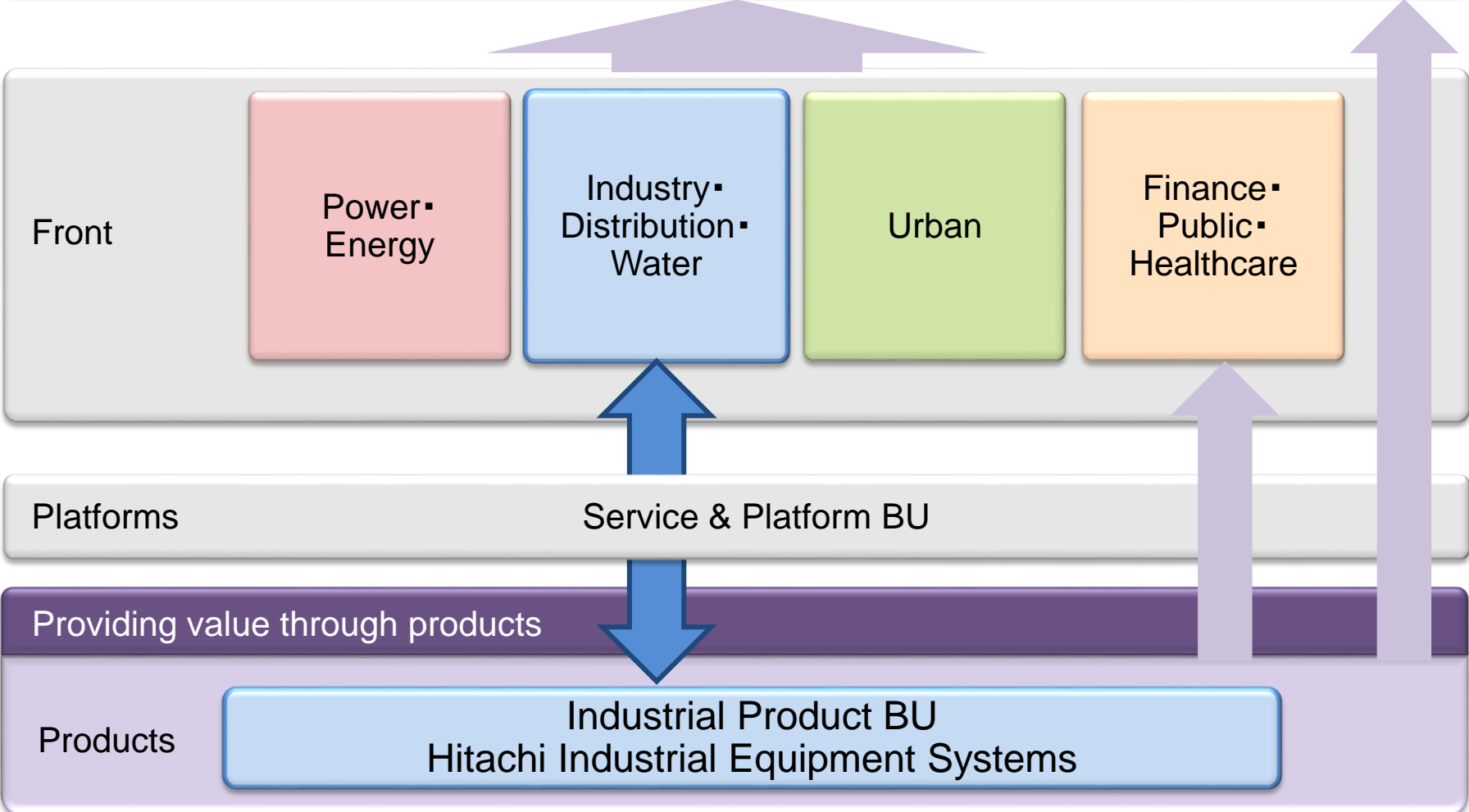
Transformers,
power supply control



1-2. Positioning within the Hitachi Group(1)

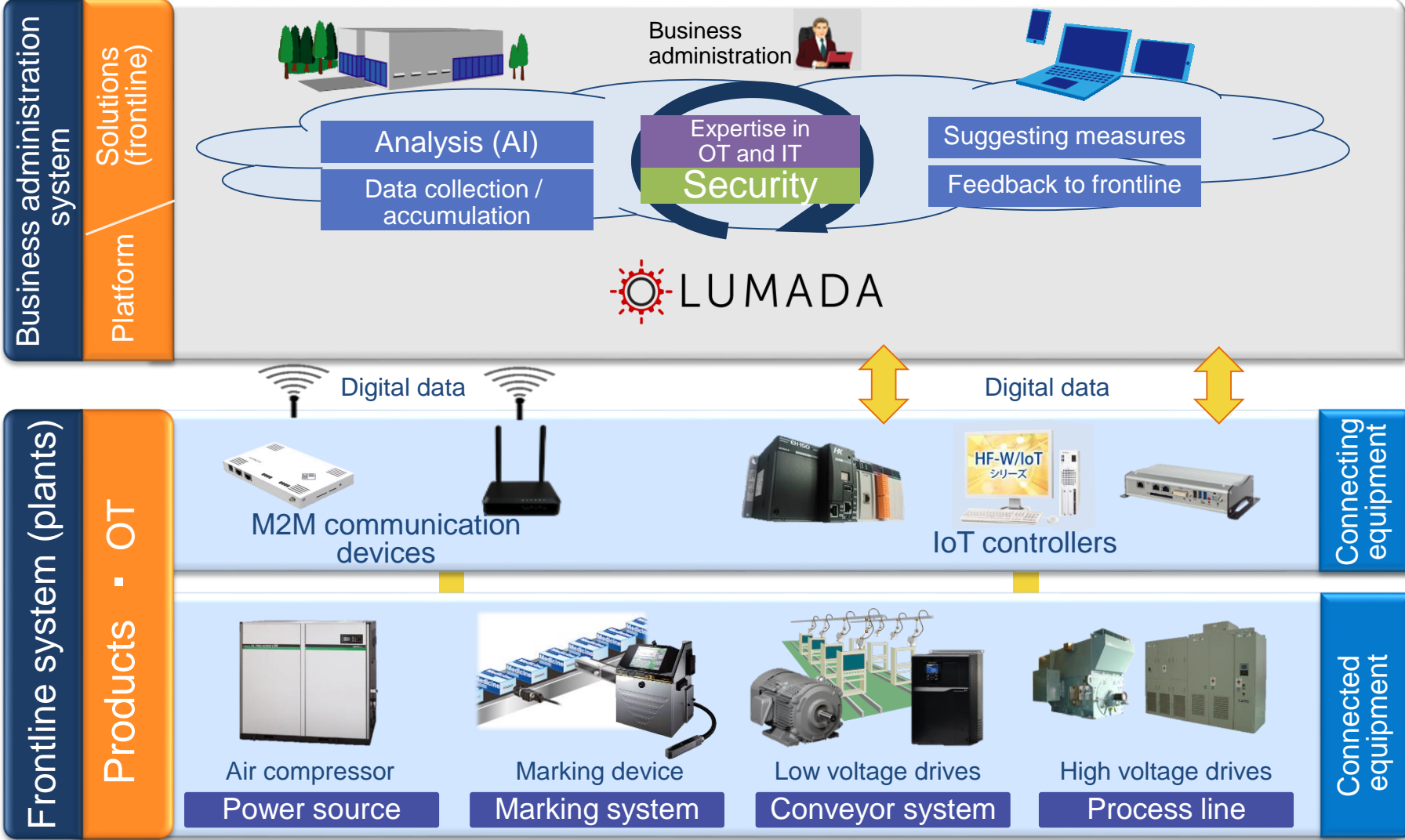
Expanding industrial business through collaboration between products and front divisions

Providing digital solution based on strong products

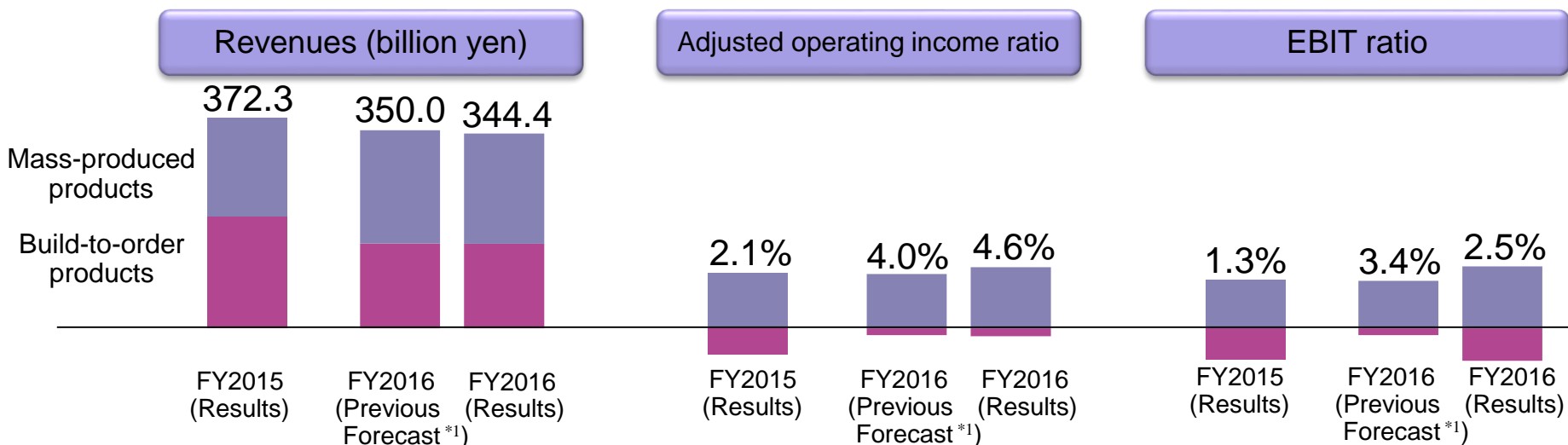


1-2. Positioning within the Hitachi Group(2)

Providing digital solutions based on strong products



1-3. Review of FY2016



	Achievements	Issues
Mass production	<ul style="list-style-type: none"> Increase revenues and adjusted operating income by launching new products Launch of business for IoT-compatible products <ul style="list-style-type: none"> Sales start of IoT controller Launch of IoT cloud monitoring service for air compressors 	<ul style="list-style-type: none"> Strengthening and expanding global business <ul style="list-style-type: none"> Accelerating growth strategies of recurring business*2 Strengthening business bases in North America and China
Build-to-order production	<ul style="list-style-type: none"> Improved profitability due to promotion of structural reform Strengthened the sales forces of products with dedicated staff Strengthened project management system and quality management 	<ul style="list-style-type: none"> Increase orders received by focusing on steady industries <ul style="list-style-type: none"> Capture renewable energy market (Japan and India) Responding to the demand of energy conservation / high efficiency (general industry)

*1 As of June 1, 2016

*2 Recurring business: Business with after-sales and reliable replacement market, such as replacement parts market

EBIT: Earnings Before Interest and Taxes

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2-1. Target Market

Business category	Market scale in FY2018 *1 Approx. 5.4 trillion yen Key industries / areas CAGR*2 4%	Trends in target markets
Air compressors	Global: Automotive, food, chemical 5%	<ul style="list-style-type: none"> ■ Sustainable growth across general industry (automotive, food, etc.) ■ Growing maintenance / service market due to development of IoT
Marking system	Global: Food, pharmaceutical, electronic components 5%	<ul style="list-style-type: none"> ■ Growing food and pharmaceutical markets (traceability) ■ Growing maintenance / service market due to development of IoT
Drive / Automation	Japan, Asia, and China: Automotive, machine tools, conveyance 4%	<ul style="list-style-type: none"> ■ IoT paving the way for optimized production ■ Continuing growth in demand for energy-saving / high-efficiency products ■ Growing demand for power-saving / automation
Power substation / distribution	Japan and Asia: Public, etc. 3%	<ul style="list-style-type: none"> ■ Growing demand for renewal of infrastructure
Pumps / fans	Japan: Public, building-related industry 1%	<ul style="list-style-type: none"> ■ Leveling off of domestic public demand, healthy demand for general industry / buildings
Centrifugal compressors	Asia and EMEA: Oil & Gas, medium- and small-motor-driven compressors 1%	<ul style="list-style-type: none"> ■ Expected to be revitalized with the stabilization of the crude oil price

*1 Hitachi estimation

*2 CAGR(Compound Annual Growth Rate) from FY2016 to FY2018

2-2. Vision

Vision Establishing “strong product-led businesses” to meet wide range of industrial needs

- Basic policy**
- Accelerate global growth strategy of recurring businesses
 - Strengthen business to IoT market: Expand product and service businesses
 - Resource concentration and strategic investment in growing businesses

	Priority businesses	Positioning	Policy
Global	Air compressors	Growth engines (promoting recurring businesses)	<ul style="list-style-type: none"> ■ Accelerating global expansion ■ Strengthening IoT compatibility ■ Expanding service businesses
	Marking system		<ul style="list-style-type: none"> Growing European/US markets Connected devices Lumada
IoT	Drive / automation	Switching to high value-added sectors	<ul style="list-style-type: none"> ■ Strengthening product capabilities for the IoT market ■ Catering to high-efficiency / high-torque demand
		Targeting Edge Computing	<ul style="list-style-type: none"> Connected devices Amorphous motors
	Power substation / distribution	Stable growth	<ul style="list-style-type: none"> ■ Strengthening IoT controller capabilities ■ Expanding M2M communication devices
			<ul style="list-style-type: none"> Amorphous transformers Monitoring / security

Accelerating global expansion of priority businesses

Accelerating global expansion of priority businesses

Enhancement policy

Accelerating growth by combining organic growth and alliances
 - Expansion of priority businesses and focusing on priority regions (Americas and China) -

Sales by business

Share of priority businesses: 57%



FY2016

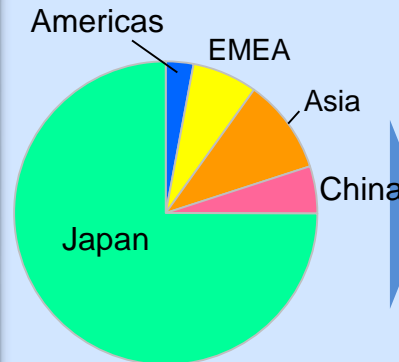
Share of priority businesses: 67%



FY2018
(Forecast)

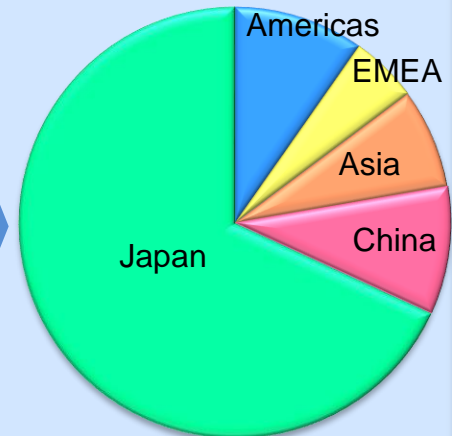
Sales by region

Share of overseas revenue: 25%



FY2016

Share of overseas revenue: 32%



FY2018
(Forecast)

Intensive investment in recurring business
(air compressors / marking system)

2-4. Growth Strategy for Priority Businesses

Features of recurring business (air compressors and marking system)

- Wide range of customers in various industrial fields
- Large after-sales market

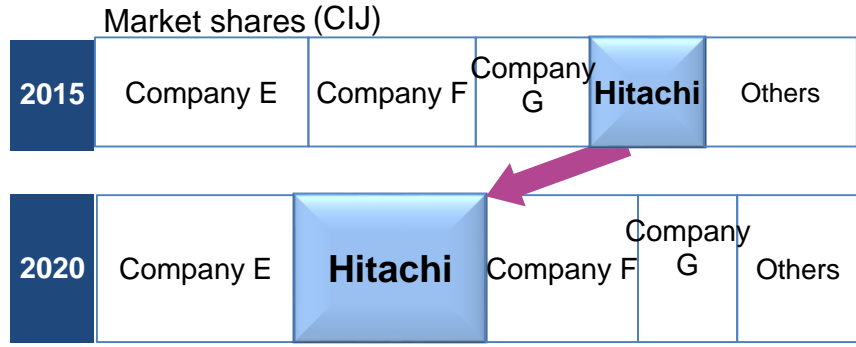
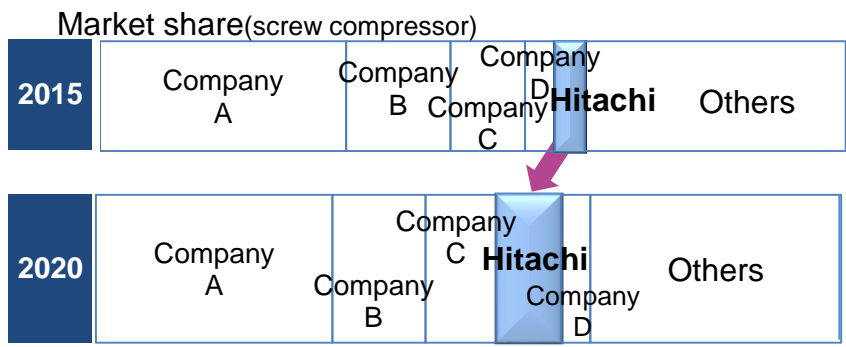
- Low fluctuation of demand in response to economic environment
- Great chance of digital innovation

Target position

■ To be a global top player in the recurring business (air compressors and marking system)

Air compressors Global market size*: 750 billion yen (2015)

Marking system Global market size*: 350 billion yen (2015)



Strategy ■ Expand business operation area
Enhancing operation in Americas and China

Strategy ■ Expand business operation domain
Expanding product range, from ink-jet marking devices to laser marking devices

Acquisition of customers, sales network and operating the industrial digital solution business based on products

* Hitachi Estimation
CIJ: Continuous Ink Jet printer

2-5. Air Compressor Business (1)

Expanding business by accelerating global growth strategy

■ Entering the North American market through the acquisition of Sullair

Overview of Sullair

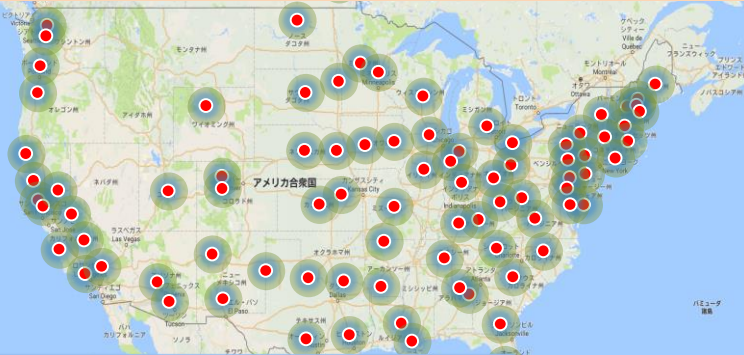
Established	1965	Head office	Chicago (USA)
Capital	\$377 million (as of December 31, 2016)	Employees	Approx. 890
Manufacturing plants	Michigan City (USA), Shenzhen/Suzhou (China)		
Revenues	FY2016(Results): 43.2 billion yen, FY2017(Forecast): 45.8 billion yen		
Distributors	Approx. 200 companies in North America, approx. 50 companies in China		

Business activities	Stationary compressors	Portable compressors	Solutions (Remote monitoring)	After-sales market
				

2-5. Air Compressor Business (2)

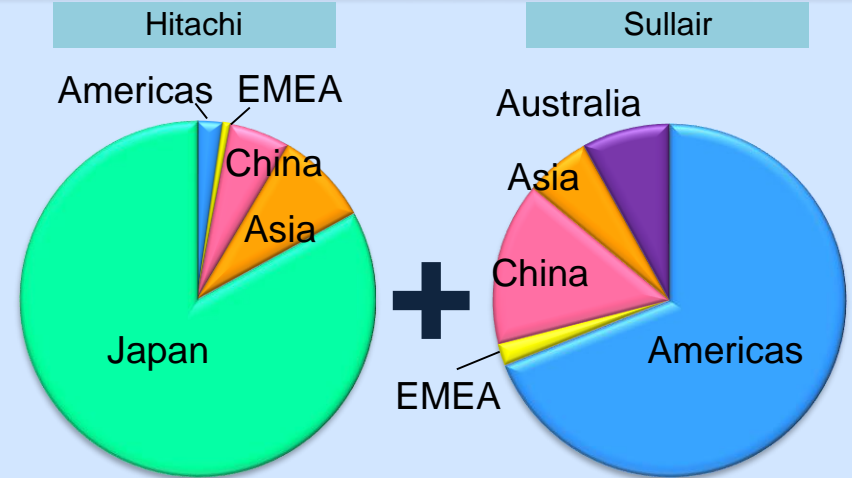
Acquiring Sullair's customer and sales network

Sullair's sales network in North America



- Distributors: Approx. 200 companies
- End users: Approx. 4,000 companies

Revenues by region(FY2016)



Synergy with Sullair

	Sullair's strengths	Hitachi's strengths
Areas	North America / China	Japan / Asia
Industries	Construction, mining, chemicals, food	Automotive, food, pharmaceuticals, electronics
Products/systems	Large stationary / portable compressors	Oil-free, inverter compressors, digital solutions


FY2018 Target revenues of Air compressor business : over 100 billion yen

2-5. Air Compressor Business (3)

Example of digital service provided by Sullair in North America

Remote monitoring

AirLinx™
Knowledge is Power



Compressed air supply business (As a service)

Example of Dow Chemical Midland plant

Sullair supplies dry compressed air to the entire plant as a turnkey contractor (620 m³/min)



- Integration with Hitachi's industrial digital solutions
- Promote digitalization and sophistication of the business

Increasing the number of customers and creating competitive edge in the markets of North America and China

2-5. Air Compressor Business (4)

■ Developing product-led industrial digital solution business in North America

Digitization options for everything from onsite machinery and services to solutions

Industrial digital solutions

IoT Platform



Sullair's customers in North America: Approx. 4,000 companies

Covering a wide range of industries and leading global companies



Air compressors

Marking systems, etc.

Strengthening product range and providing related products and services



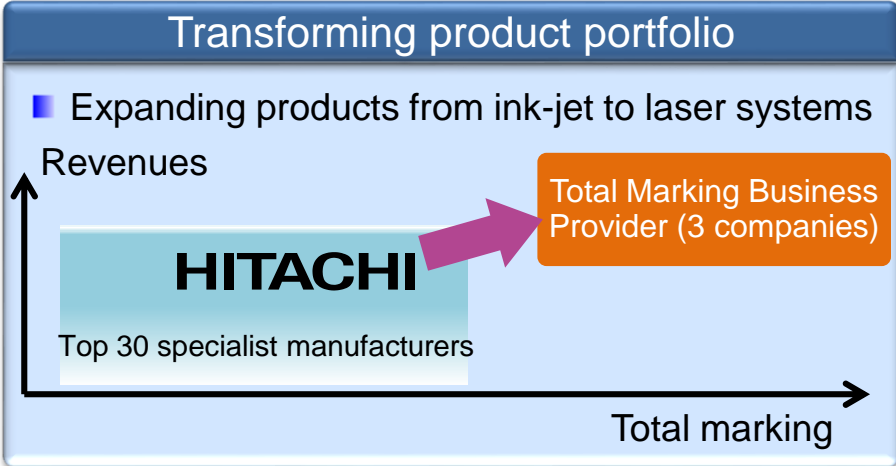
2-6. Marking System Business

Expanding business domain and accelerating global growth strategy

Establishing total marking business (laser markers, testing equipment, etc.)

Enhancement policy

- Expand business domain by transforming product portfolio
- Increasing overseas revenues: Creating new customers by launching new products, and marketing through Sullair's sales network



Launching new products

Twin nozzle devices

Nozzle 1
Nozzle 2

EMISS ALLER-ALLFER CL
COD: 20903
FAB: 07/2016
xxx CA : XX.XXX

Twin nozzle print sample

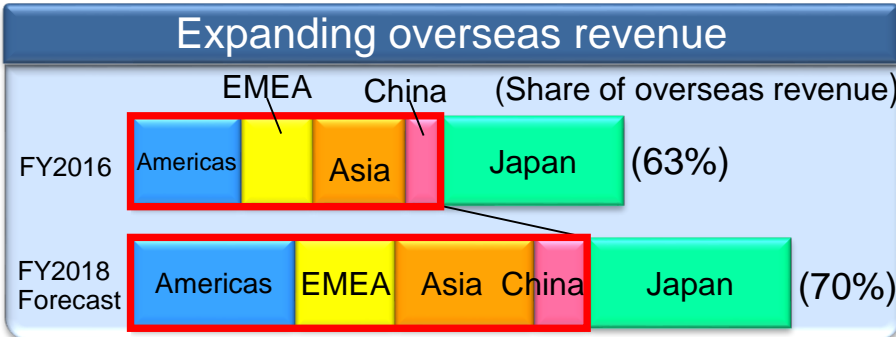
New laser markers

High-performance / environmental inks

Ink for eggs

Testing equipment

Ultraviolet luminescent ink



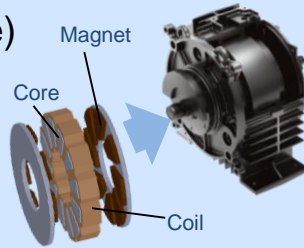
Creating value for customers by integrating OT & IT

Enhancement policy

- Providing products that enable simple integration of OT & IT
- Integrate OT and IT by open IoT controller

Drive (Amorphous Motor)

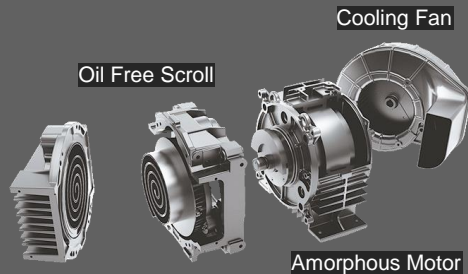
- Utilized amorphous alloy (core)
- World highest level of efficiency
- Thin and flat structure



Case study Amorphous motor Integrated scroll air compressor

- Energy saving improvement
- Ultra miniaturization of 37%

IoT compatible 

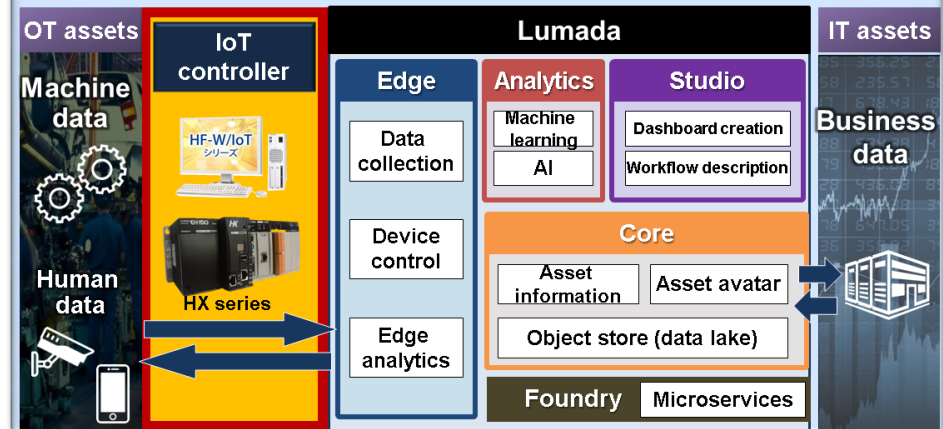


IoT Controller

- Edge computing compatible
- Upper layer controller that realize IoT solution (Open, Real-time)

Tackling social and management issues

Collaborative creation of digital solutions with customers



Expanding into maintenance services and operational support

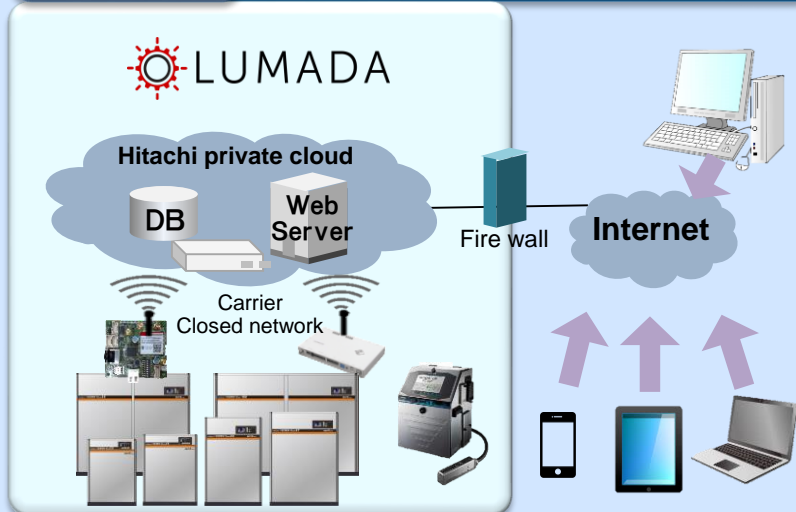
M2M telecommunication compatible
Cloud remote monitoring service



**Maintenance package service
with cloud remote monitoring**
October 2016, optional service

**Service
to connect**

Utilize Hitachi private cloud
Secure connection from carrier network
Built with own connected equipment



**Connected
equipment**

October 2017
Apply to all air compressors

Customer's merit

Contribution to product life-cycle support

- Support from maintenance to renewal replacement



Service to connect

Proactive diagnosis

Preventive maintenance

Scheduled visit

Prompt action
in case of failure

Enhancement of service menu
contributes to operating flexibility
and utilization of assets

Compressed air supply business (As a service)

- Payment in accordance with volume used
- Pay-per-use -

No initial investment

Contract based
on air volume

2-8. Strengthening Cash Generation Capabilities and Cost Strategy

Implementing structural reform and improving business efficiency

SG&A

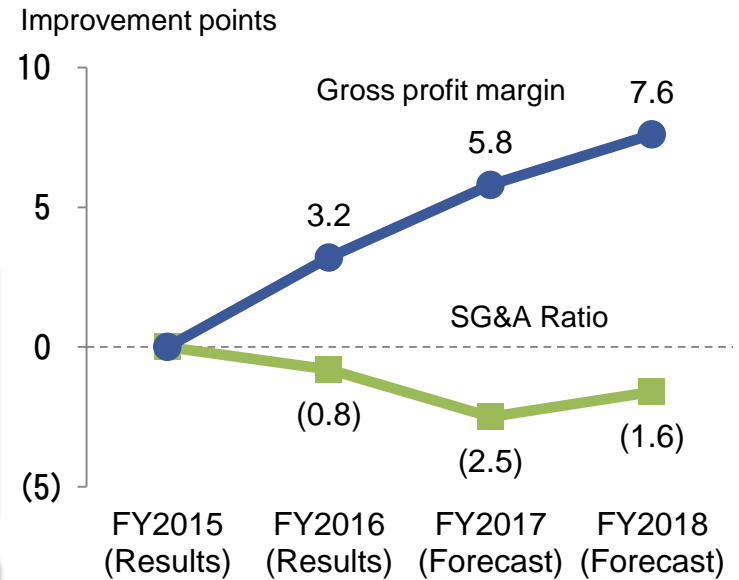
- Mass production
 - Improve productivity per person, reduce fixed costs
- Build-to-order production
 - Reduce fixed cost, strengthen project management system

Gross profit

- Mass production / Build-to-order production
 - Reduce direct material costs
 - Strengthen global procurement capabilities
 - Cost planning management at the time of development of new product

Cash creation

- Mass-production
 - Improving CCC through business process reform (inventory reduction, lead time reduction)
 - Creating synergy with Sullair
- Build-to-order production
 - Thorough management of project profit & loss (promoting cash flow monitoring)



	FY2016 (Results)	FY2017 (Forecast)	FY2018 (Forecast)
CCC	107.5 days	97.2 days	95.7 days

CCC: Cash Conversion Cycle

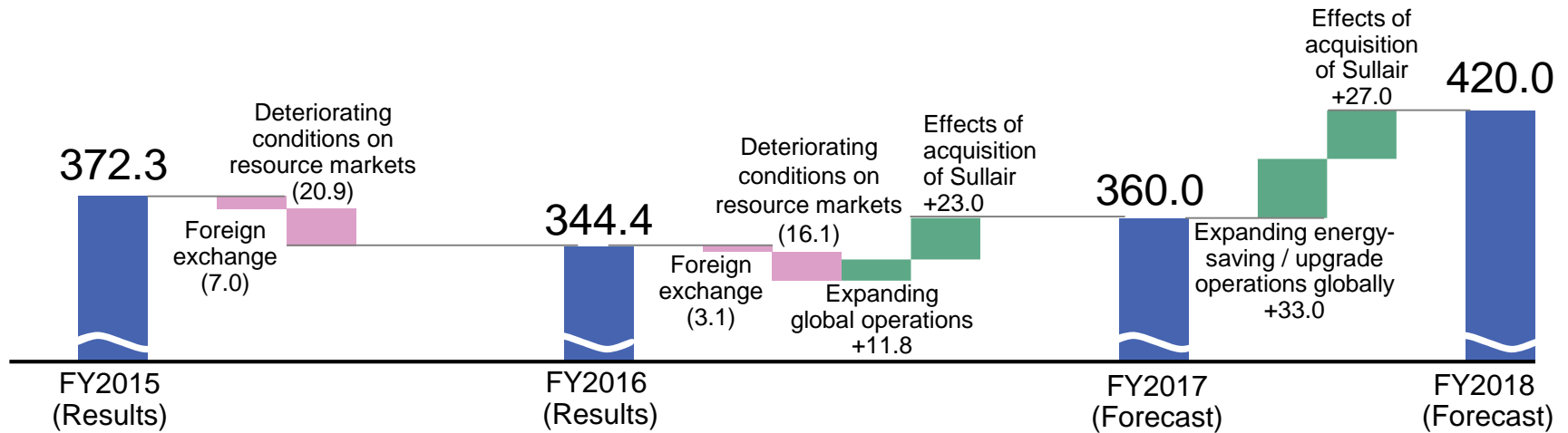
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3-1. Results and forecast

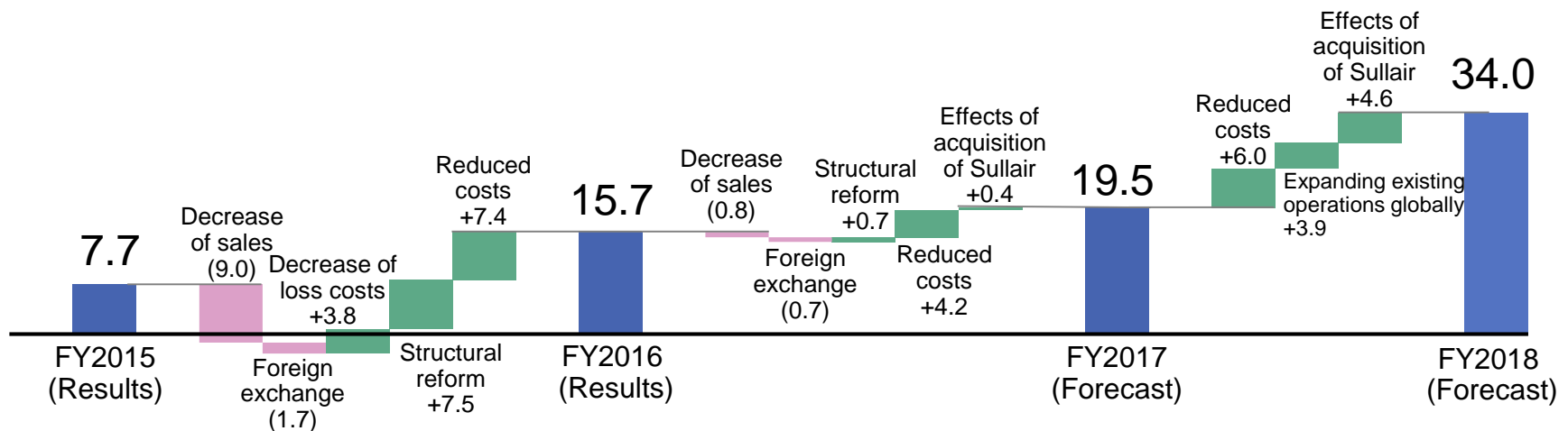
Revenues

(Unit: Billion yen)



Adjusted operating income

(Unit: Billion yen)

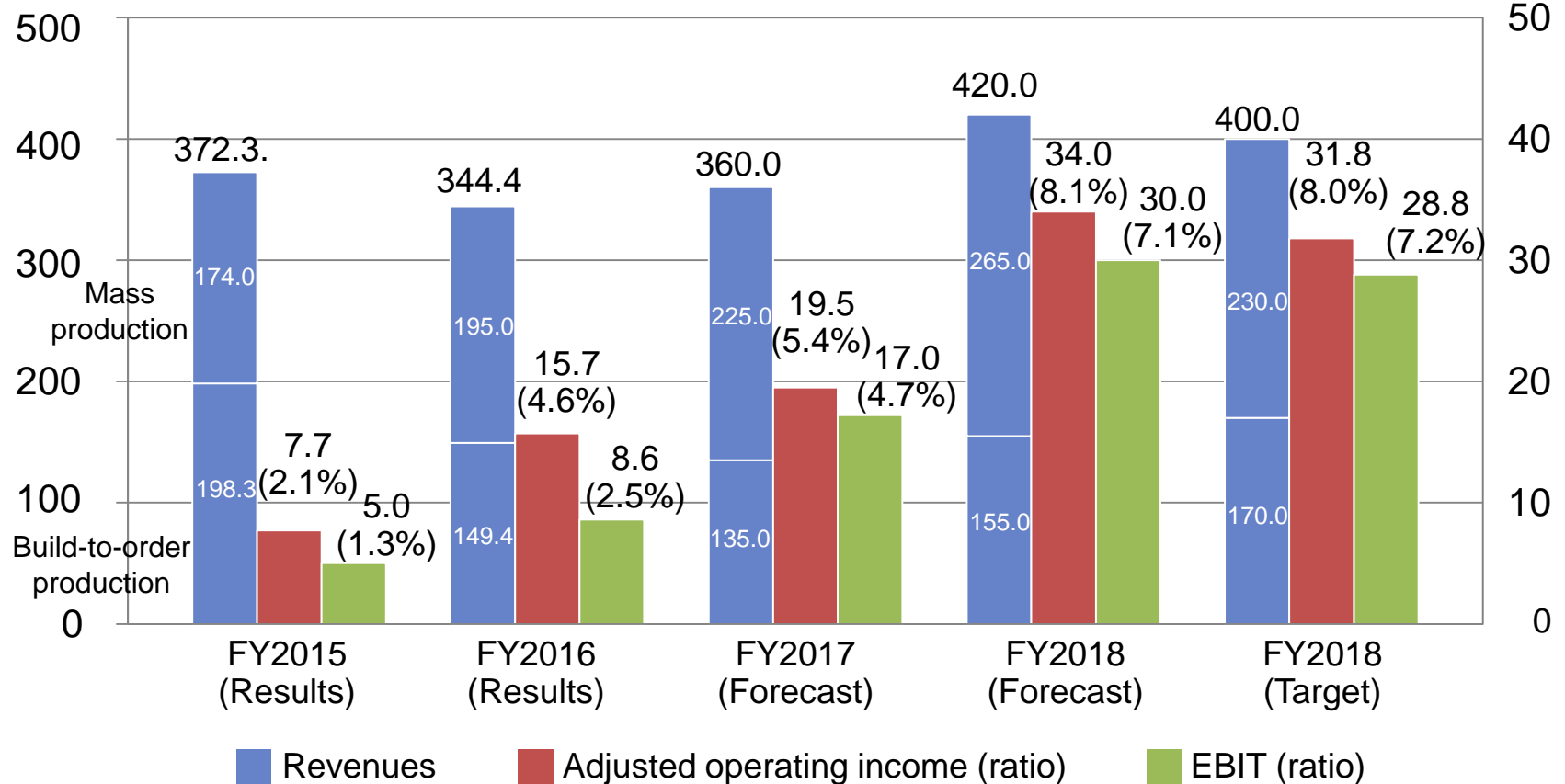


3-2. Performance transition

	FY2015 (Results)	FY2016 (Results)	FY2017 (Forecast)	FY2018 (Forecast)
Overseas revenue ratio	27%	25%	26%	32%

Revenues
(billion yen)

Adjusted operating income/
EBIT (billion yen)



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Toward FY2018

- Accelerate global growth strategy of recurring businesses
- Strengthen business to IoT market:
Expand product and service businesses
- Resource concentration and strategic investment in growing business

Cautionary Statement

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;
- 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;
- 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;
- 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 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;
- 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;
- 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;
- the potential for significant losses on Hitachi’s investments in equity-method associates and joint ventures;
- 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 cost structure overhaul;
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights;
- 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 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; 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 in other materials published by Hitachi.

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