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# **FY2019-FY2021 Mid-Term Management Plan — Value Up Stage toward Our Vision —**

**October 9, 2019**

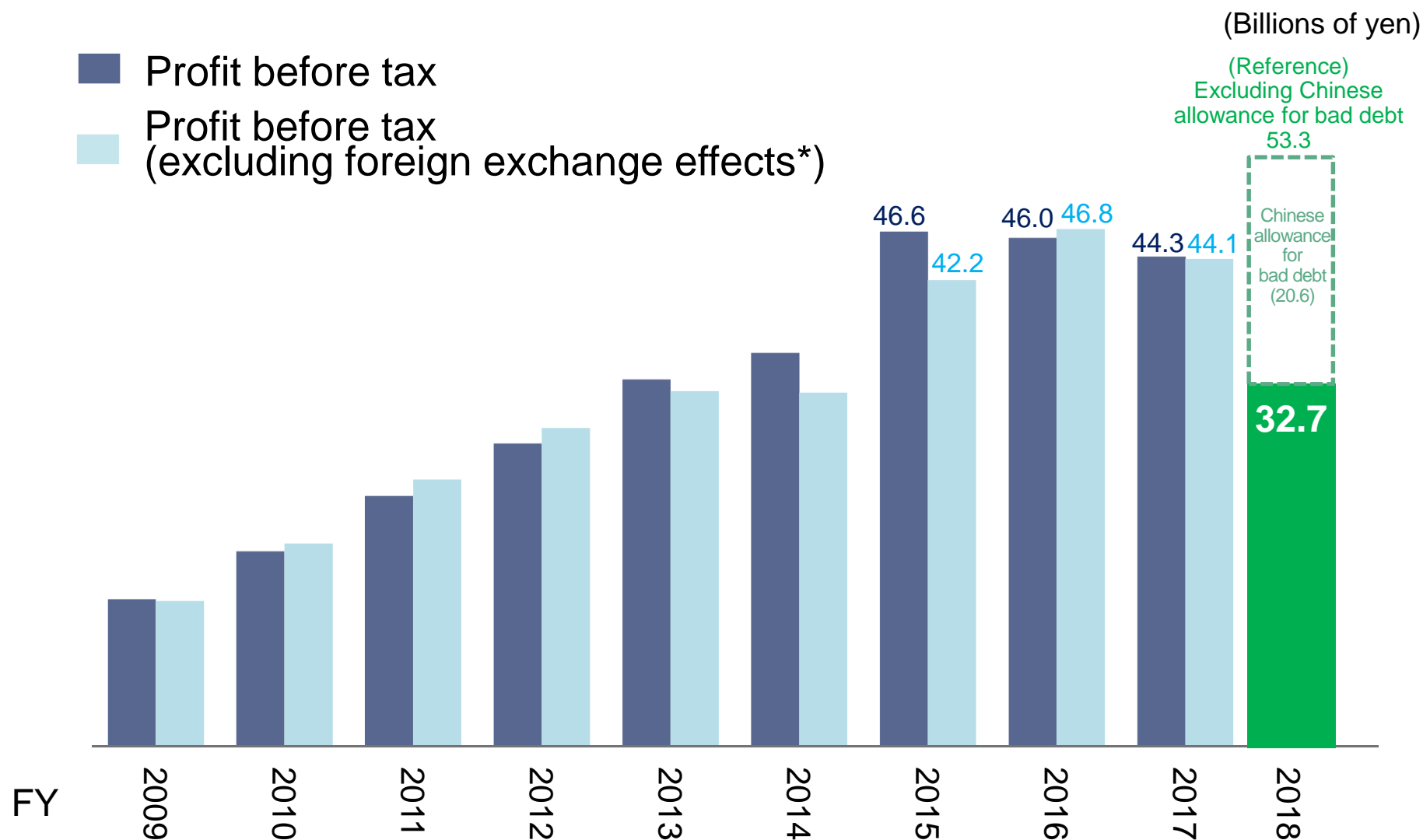
 **Hitachi Capital Corporation**

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# 1-1. Business Results



\* Excluding foreign exchange effects: Calculated using the exchange rate for FY2018 (£1 = ¥145, \$1 = ¥110)

# 1-2. Review of 2018 Mid-Term Management Plan: Highlights

## Achieved the targets for most key measures

[FY2018]			
		Initial plan	Results
<b>Global Business: Continue double digit growth</b>	<b>CAGR</b> (Profit before tax) [(Reference) Excluding Chinese allowance for bad debt]	Double-digit	<b>-8.2%</b> [10.9%]
	<b>Overseas ratio</b> (Profit before tax)	60%	<b>27%</b>
<b>Japan Business: Challenge to achieve 2% ROA</b>	<b>ROA</b>	1.9%	<b>1.9%</b>
	<b>OHR</b>	<60%	<b>56.3%</b>
<b>Aggressive investment: Highly-skilled professionals/ Aggressive IT investment/ Collaborate with Partners</b>	<b>M&amp;As</b>	¥300 billion	<b>¥139 billion</b>
	<b>IT investment</b>	¥20 billion	<b>¥19 billion</b>
	<b>Highly-skilled professionals</b>	200	<b>230</b>

\* CAGR: Average annual growth rate (FY2015-FY2018), excluding foreign exchange effects (calculated using the actual exchange rate for FY2018)

M&As, IT investment, and Highly-skilled professionals show cumulative figures from FY2016 to FY2018.

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# 1-3. Review of 2018 Mid-Term Management Plan: Excluding China Business

**Significantly exceeded the initial plans on a global basis except China business**

## Japan Business

[Profit before tax (billions of yen)]

**23.1**

*CAGR 9%*

**30.2**

FY2015

FY2018

KPI	FY2015	FY2018
ROA	1.3%	1.9%
OHR	64.6%	56.3%
Ratio of focused sectors (operating assets)	26%	36%

\*Focused sectors: Environment/Energy, Mobility, Social infrastructure, etc.

## Europe Business

[Profit before tax (billions of yen)]

**14.0**

*CAGR 9%*

**18.2**

FY2015

FY2018

KPI	FY2015	FY2018
ROA	2.7%	2.2%
OHR	49.8%	50.5%
Ratio of continental Europe (operating assets)	1%	6%

## The Americas Business

[Profit before tax (billions of yen)]

**3.2**

*CAGR 16%*

**5.1**

FY2015

FY2018

KPI	FY2015	FY2018
ROA	1.7%	1.3%
OHR	49.7%	54.3%
Ratio of Canada (operating assets)	15%	24%

## ASEAN Business

[Profit before tax (billions of yen)]

**0.24**

*CAGR 82%*

**1.49**

FY2015

FY2018

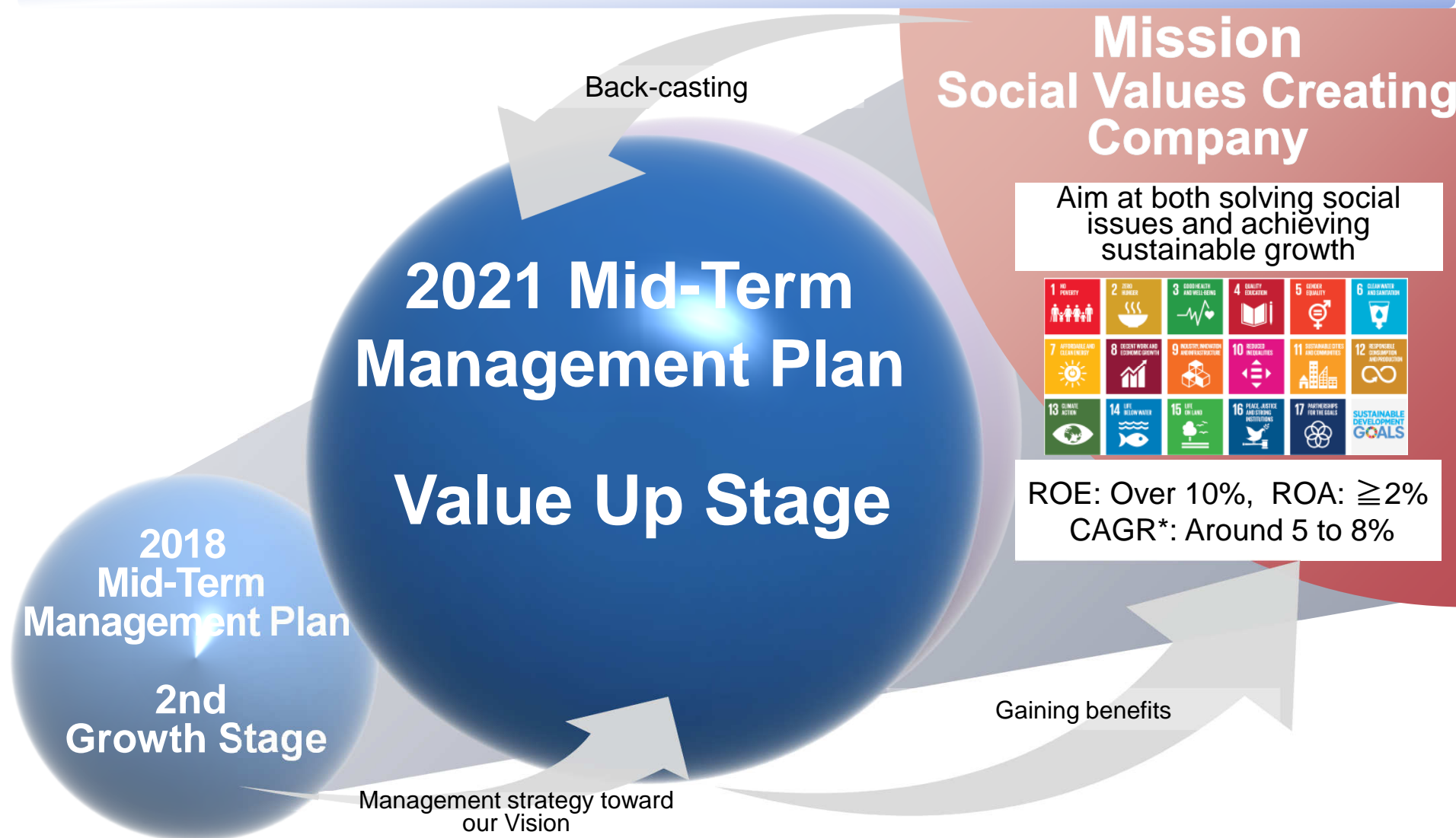
KPI	FY2015	FY2018
ROA	0.2%	1.1%
OHR	74.0%	61.1%
Credit loss ratio	0.91%	0.47%

\*CAGR: Average annual growth rate of profit before tax (FY2015-FY2018)

\*Excluding foreign exchange effects (Profit before tax for FY2015 was calculated using the actual exchange rate for FY2018)

## 2. Vision

### Social values creation based on SDGs



\* CAGR: Average annual growth rate of profit before tax

### 3. Highlights of 2021 Mid-Term Management Plan (Major Management Strategies)

<b>Business Strategy</b>	Shift to key businesses	<ul style="list-style-type: none"> <li>■ Shift to key businesses based on megatrends</li> </ul>
	Deepen regional strategy	<ul style="list-style-type: none"> <li>■ Further improve profitability of Japan Business: ROA <math>\geq 2\%</math></li> <li>■ Stable and systematic growth of Global Business</li> </ul>
	Increase added value	<ul style="list-style-type: none"> <li>■ Accelerate business model shift</li> <li>■ Focused investment of management resources on business enhancement measures</li> </ul>
<b>Management Base</b>	Strengthen non-financial capital	<ul style="list-style-type: none"> <li>■ Strengthen management base to support growth</li> <li>■ Promote ESG management</li> </ul>
<b>Return to Shareholders</b>	Enhance return to shareholders	<ul style="list-style-type: none"> <li>■ Increase payout ratio to around 40%</li> <li>■ Maintain a balance of return to shareholders, credit ratings, and investment for growth</li> </ul>

## 4-1. Megatrends

**SUSTAINABLE  
DEVELOPMENT GOALS**  
17 GOALS TO TRANSFORM OUR WORLD

**Society 5.0**  
ソ サ エ ティ

### — Megatrends —

Energy      Mobility  
(Transportation)      Urbanization      Healthcare      Population  
growth

**Smartization**

**Innovation**

**Technology advancement  
(Digital technology and data utilization)**

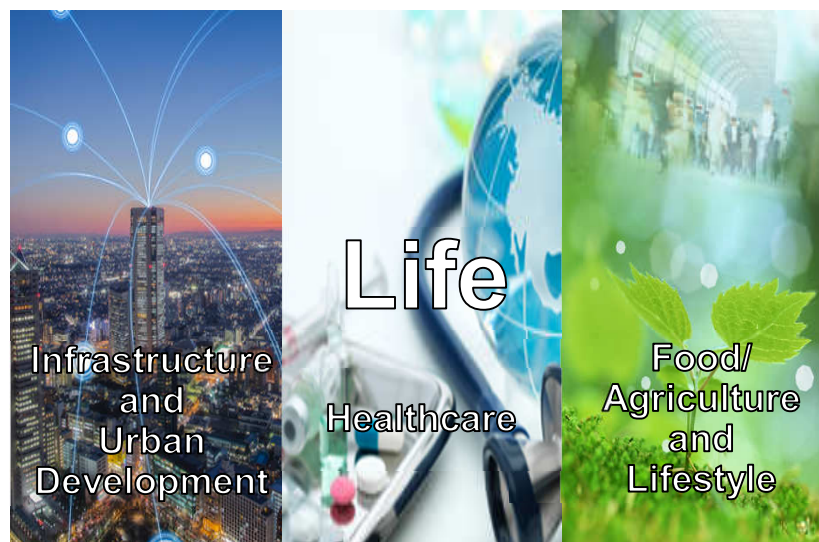
**New service model  
such as sharing**

\*1 SDGs: Action plan adopted by the United Nations covering global issues to be achieved by 2030, consisting of 17 Sustainable Development Goals and 169 specific targets

\*2 Society 5.0: Vision of future society proposed by the Japanese Government  
A human-centered society that balances economic advancement with the resolution of social issues by a system that highly integrates cyberspace and physical space (reality space)



## 4-2. Key Businesses



## 4-3. Key Businesses: Environment/Energy

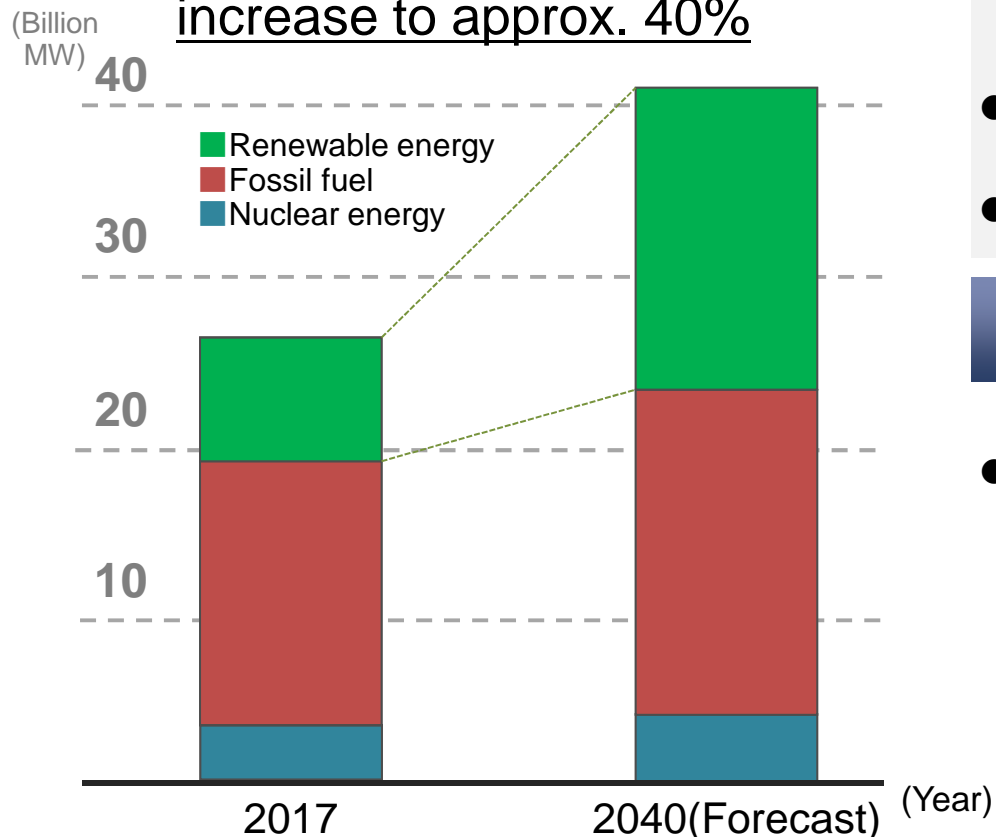


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**Enter global market with our strengths —  
wind power generation and energy saving services**

### Global power generation

Ratio of renewable energy will  
increase to approx. 40%



Source: International Energy Agency (IEA) "World Energy Outlook 2018"

### Our initiatives

- Develop new businesses to shift from FIT (Self-consumption type, power supply for limited area, etc.)
- Expand the renewable energy business (Wind power, biogas, biomass, etc.)
- Accelerate global expansion

### Advanced initiatives

- [Japan] Resource-recycling model (biogas)
- Entered into a bioenergy business using waste (e.g. residua of yam)



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## 4-4. Key Businesses: Mobility



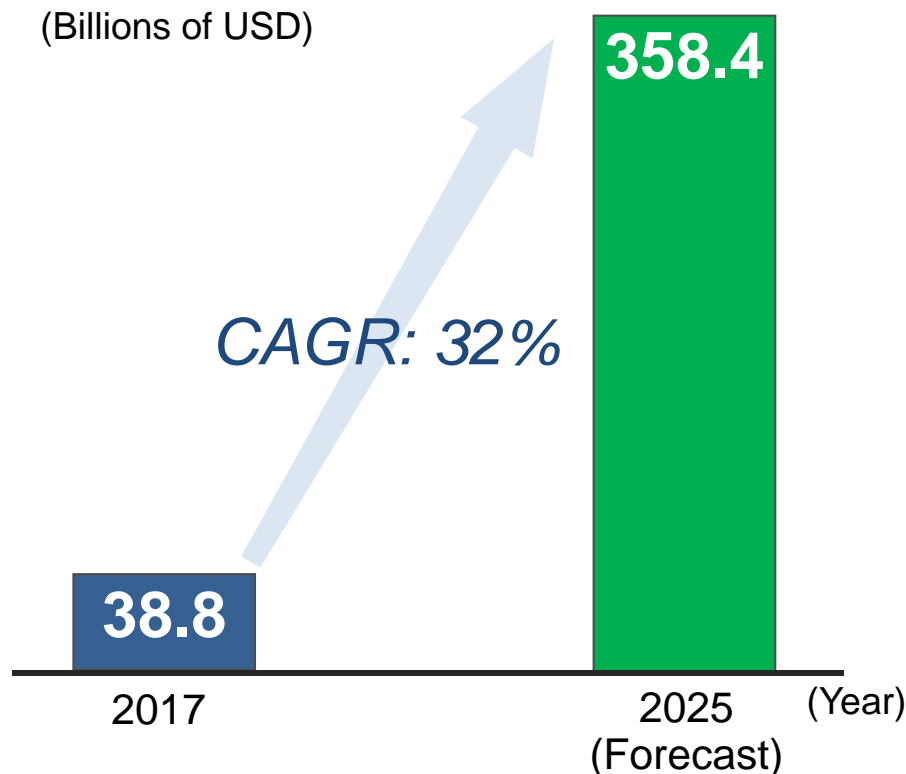
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### Evolve into mobility solutions by utilizing data

#### Global MaaS market

Market size will expand rapidly

(Billions of USD)



Source: Research and Markets

#### Our initiatives

- Mobility as a Service (MaaS)
- Collaboration for EV platform in areas where we operate
- B to B sharing business

#### Advanced initiatives

- [Europe] Demonstration testing of EV in UK
- Analyzed issues in introducing EV (impacts on power grids, etc.) to prepare for a shift to EV



## 4-5. Key Businesses: Life



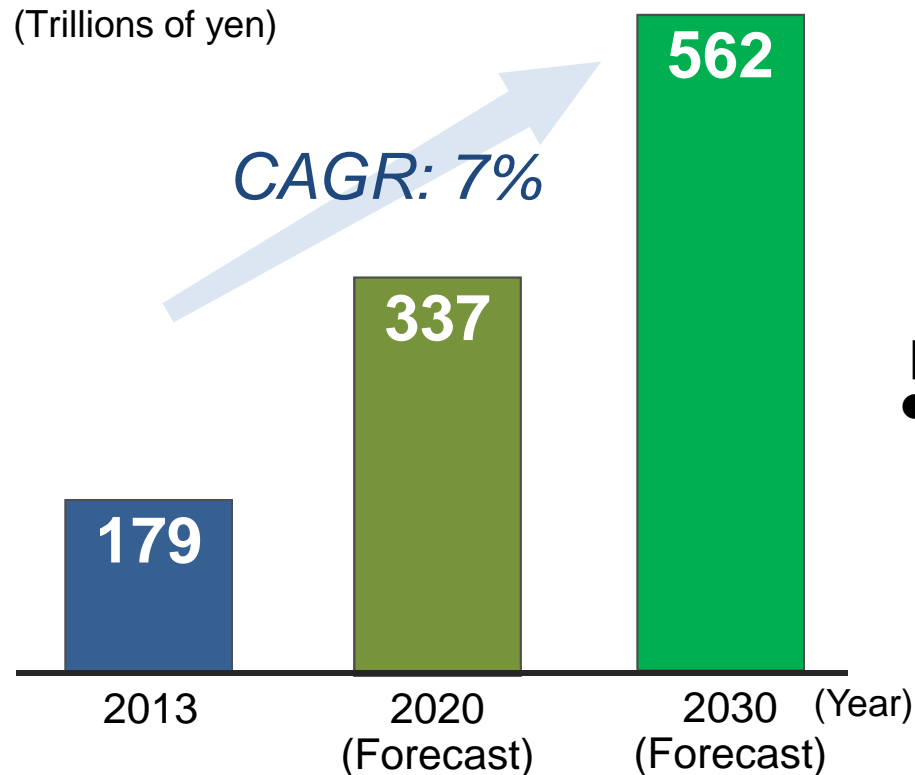
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### Strengthen solutions for realization of richer life

#### Global healthcare market

Market size will grow at 7% per annum

(Trillions of yen)



Source: Japan Revitalization Strategy

#### Our initiatives

- Develop subscription-type services
- Provide intelligent logistics
- Enter into “Infrastructure as a Service” business

#### Advanced initiatives

- [China] Management of diagnostic imaging center
- Participated in management of the healthcare business with local partners





## 4-6. Key Businesses: Sales Finance



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### Strengthen competitiveness by seeking convenience for vendors

#### Key developments

##### Expanded business globally

From 1999 Hong Kong	Launched sales finance through collaboration with a multifunction copier vendor  Market share: Approx. 60%
From 2013 Europe	Expanded regional coverage through collaboration with third-party financial institutions  Regional coverage: 17 countries (FY2018)
From 2013 Japan	Acquired NBL Co., Ltd. (Consolidated vendor solution business)  Built one of the largest network in Japan
From 2016 US	Full-scale entry through acquisition of CC and GTF  Acquired business platform

\*Market share in Hong Kong: Based on our estimate (FY2018)

Domestic network: For information communications equipment vendors

US: Acquisition of a business of Creekridge Capital LLC (CC), and acquisition of Global Technology Finance, LLC (GTF)

#### Future initiatives

- Enhance convenience of vendors by linking systems and data with them
- Use AI in front, middle, and back offices (including for screening) to promote manpower saving and streamlining

#### Advanced initiatives

- [Japan] Improved efficiency of screening by using AI
- Improved convenience for vendors and operational efficiency by using Hitachi's AI

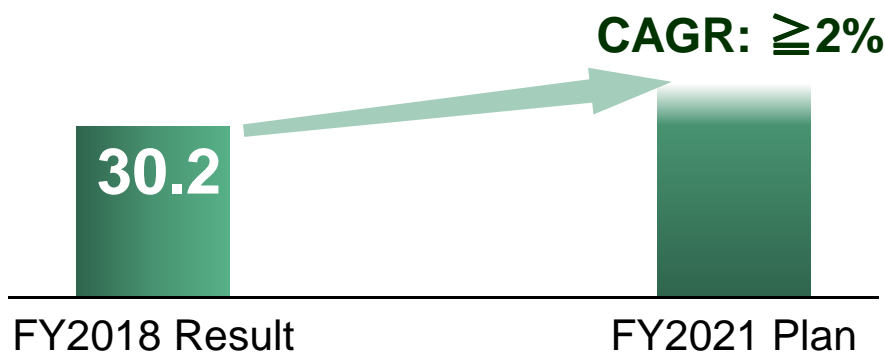


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## 5-1. Deepen Regional Strategy: Japan Business

**Aim at further improvement of profitability through continuing cost structure reform in addition to the shift to key businesses such as environment/energy and life**

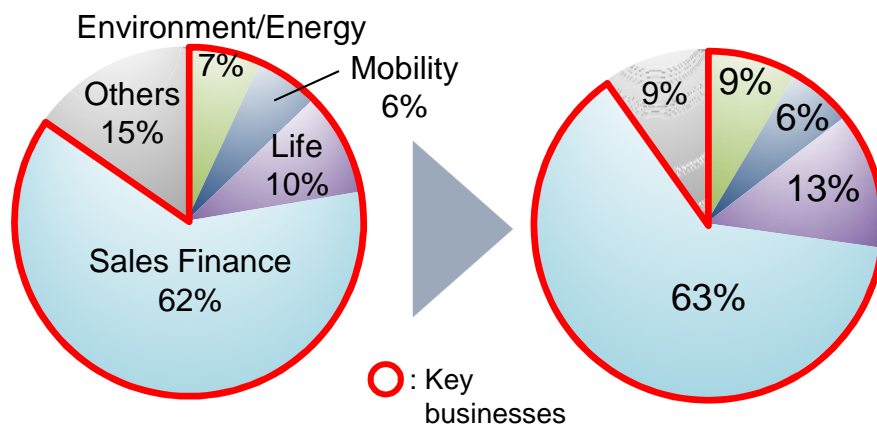
[Profit before tax (billions of yen)]



[Operating assets (composition ratio)]

FY2018

FY2021 Plan



### Key businesses

2018 Mid-Term Management Plan  
(Focused Sectors)

2021 Mid-Term Management Plan  
(Key Businesses)

Environment/Energy

Environment/Energy

Vehicle

Mobility

Social Infrastructure

Life

Local governments/public

Sales Finance

### Cost structure reform

- Digital Transformation
- Working method transformation
- Reduce process operations

**$\Rightarrow$  ROA target:  $\geq 2\%$**

## 5-2. Deepen Regional Strategy: Europe Business

**Pursue growth unaffected by external environment through stable growth in UK business and acceleration of the development in continental Europe (mobility and sales finance)**

[Profit before tax (billions of yen)]

**CAGR:  $\geq 8\%$**

18.2

FY2018 Result

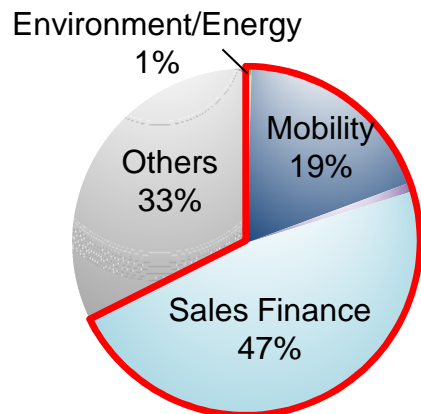
FY2021 Plan

\* CAGR: Assuming constant exchange rates

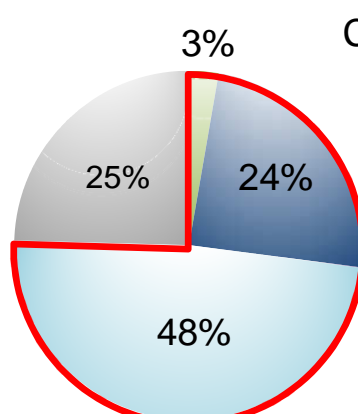
[Operating assets (composition ratio)]

FY2018

FY2021 Plan



○: Key businesses



### UK business

- Strategic IT investments to enhance competitiveness (Innovation of core systems)
- Demonstration testing to prepare for a shift to EV

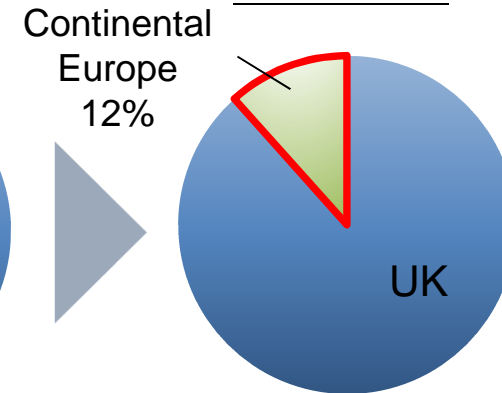
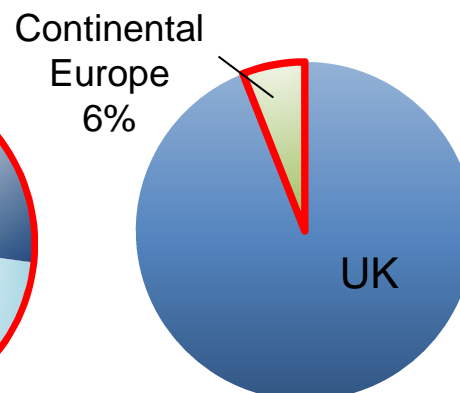
⇒ Profit growth of UK business:  
CAGR of around 6%

### Development in continental Europe

[Operating assets (composition ratio)]

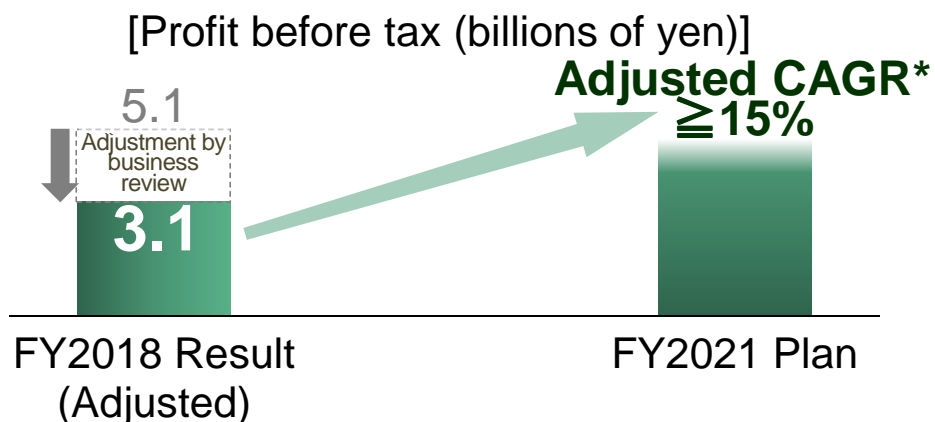
FY2018

FY2021 Plan

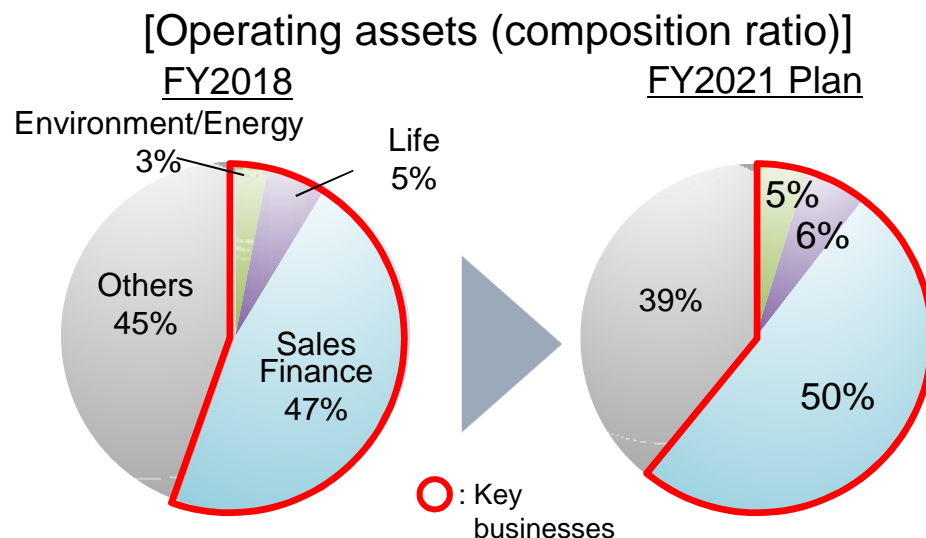


## 5-3. Deepen Regional Strategy: The Americas Business **HITACHI** Inspire the Next

### Regrowth by building new core businesses Focus on sales finance and environment/energy



\*Adjusted CAGR: Calculated by incorporating the impact of business review (termination of large factoring business, etc.) assuming constant exchange rates



#### US business

- Develop sales finance through expansion of supply chain finance  
(In February 2019, acquired Global Technology Finance, LLC which provides services to VAR\*)
- Enter into subscription-type energy saving business through collaboration with partners

\* Value Added Resellers: Business operators who add multiple functions as additional value to existing hardware and software to resell them

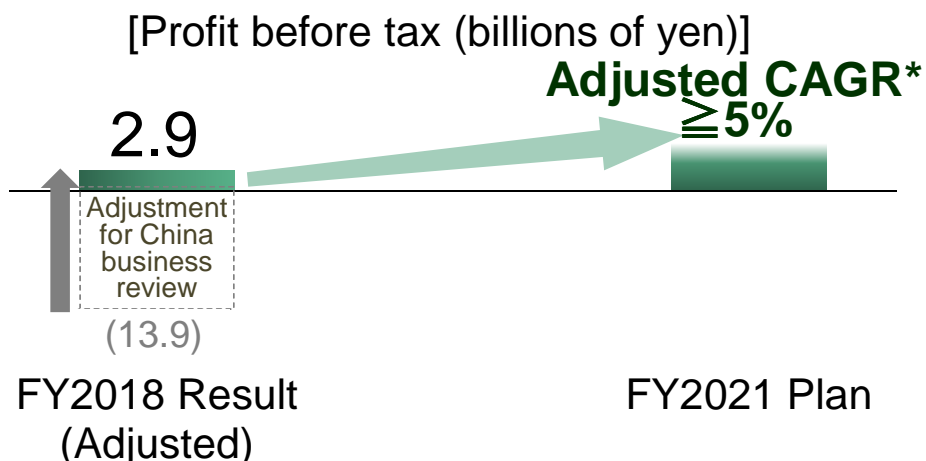
#### Canada business

- Maintain stable growth through solution expansion and thorough risk management

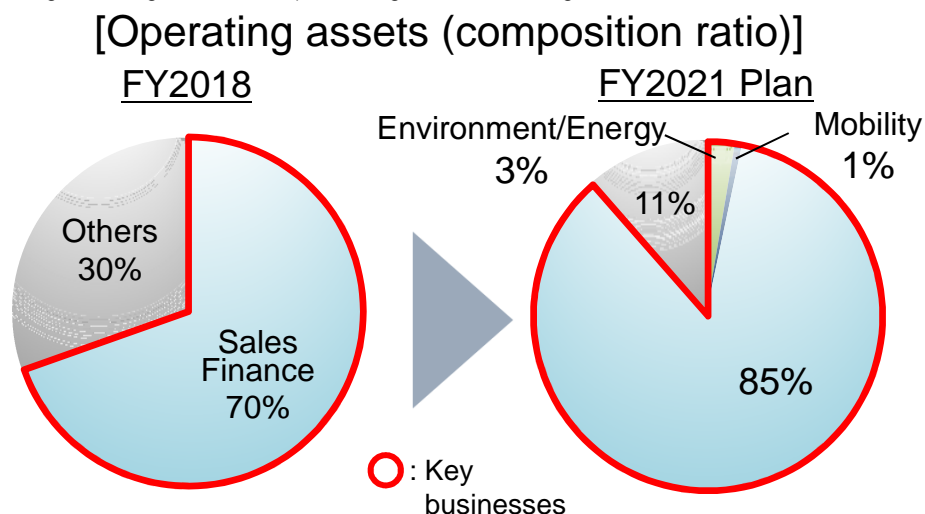


## 5-4. Deepen Regional Strategy: China Business

### Drastic review of business strategy by selection and concentration of businesses Return to sales finance (diversified model)



\*Adjusted CAGR: Calculated by incorporating the impact of business review (termination of large factoring business, etc.) assuming constant exchange rates



### Business strategy review

#### [Termination]

- Terminate large factoring and syndicate loans, etc.

#### [Restructuring]

- Focus on sales finance (return to a diversified model)
- Build new business in key businesses (Environment/Energy, Life, etc.)
- Enhance collaboration with partners (Including existing investees)

### Thorough risk management

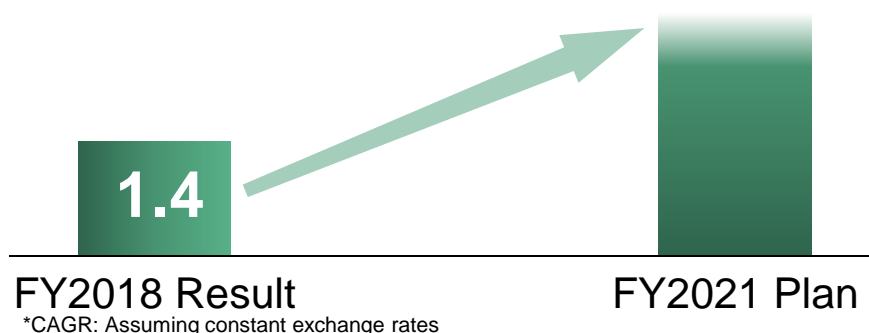
- Selection and concentration taking into account business risks (region, partner, etc.)
- Tighten screening criteria and review processes

## 5-5. Deepen Regional Strategy: ASEAN Business

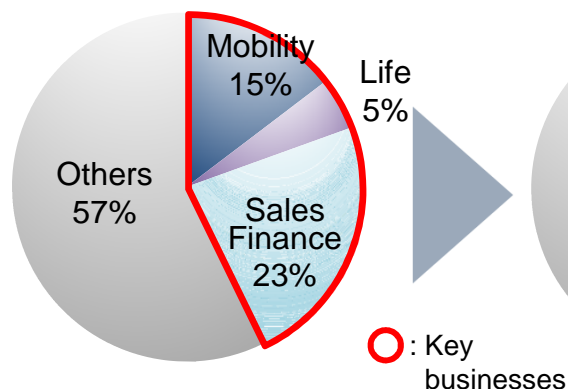
**Promote expansion of business domains and areas in line with regional needs and resources of each company**  
**Seek new business opportunities in key businesses (e.g. Life)**

[Profit before tax (billions of yen)]

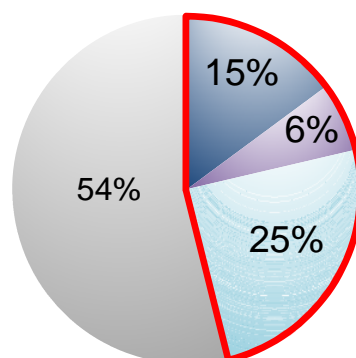
**CAGR:  $\geq 20\%$**



[Operating assets (composition ratio)]  
FY2018



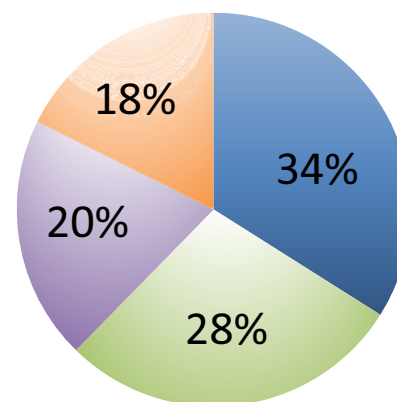
FY2021 Plan



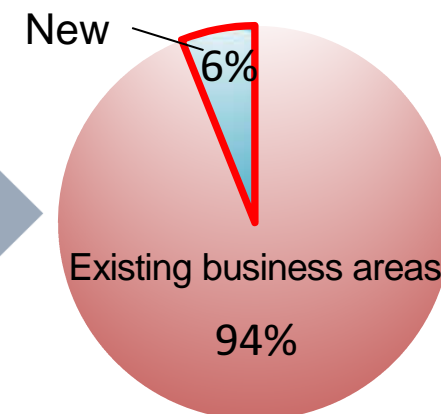
### Business area expansion

[Operating assets (composition ratio)]

FY2018



FY2021 Plan



FY2018

- Singapore
- Malaysia

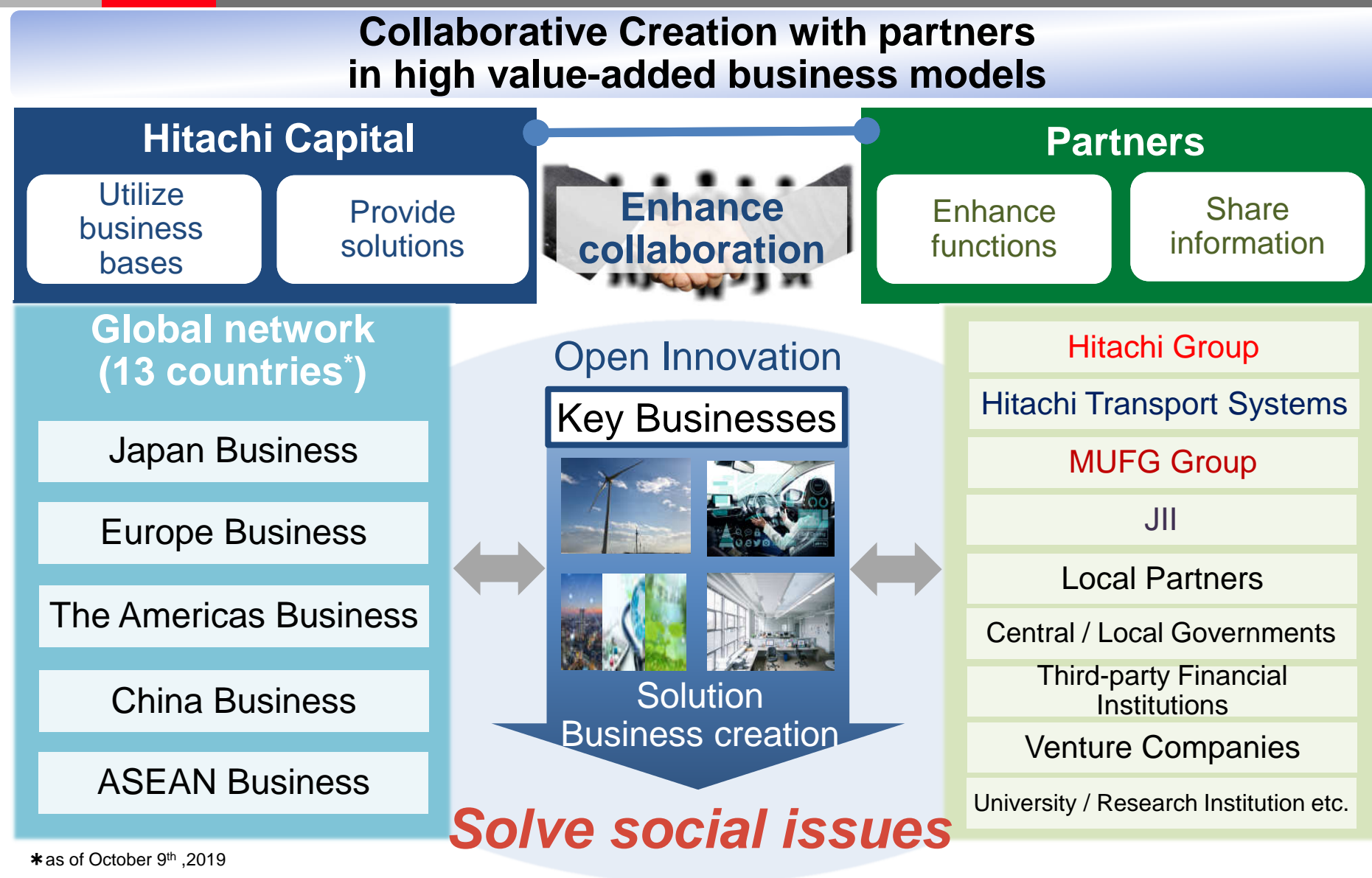
- Thailand
- Indonesia

FY2021

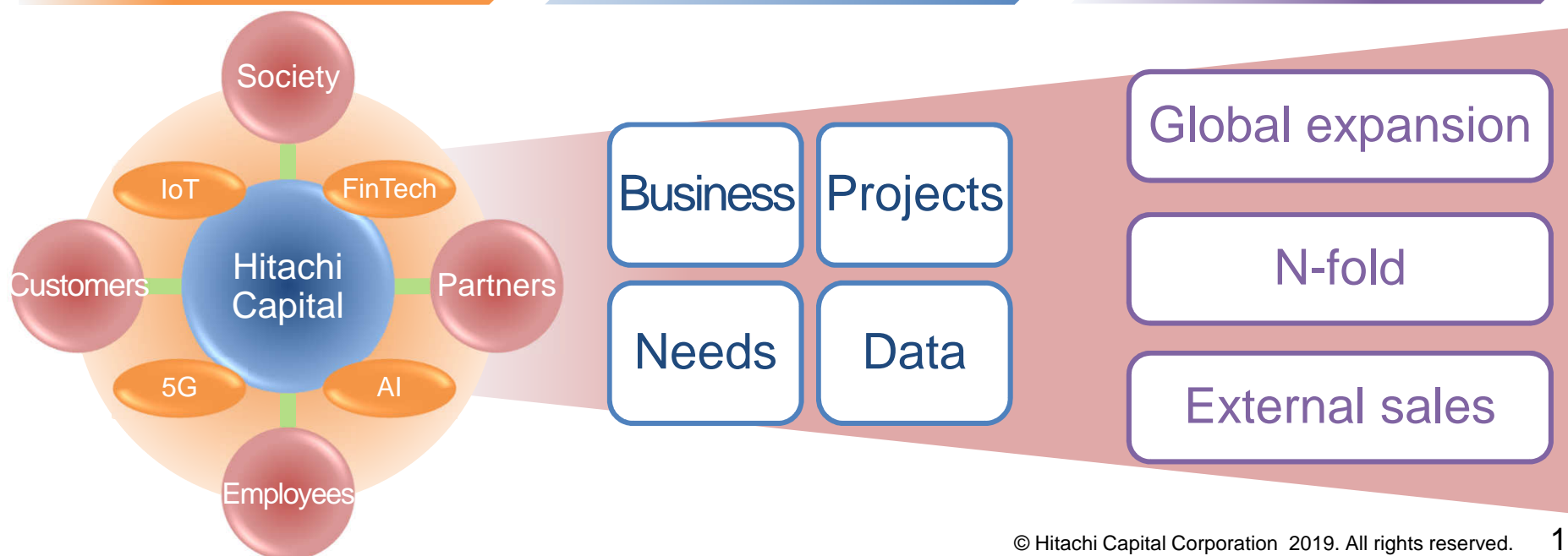
- Existing business areas
- New business areas

[Potential business areas]  
The Philippines, Australia, etc.

## 6-1. Increase Added Value: Collaboration with Partners



## 6-2. Increase Added Value: Shift of Business Model



## 6-3. Increase Added Value: Business Enhancement

Focused investment of management resources

### *Achievement of Value Up Stage*

Management resources (people, products, money)

Enhance functions  
Acquire human  
resources

**M&A**

Create  
new businesses

**R&D**

Streamline process  
operation  
Improve top line  
Enhance governance

**DX**

<Investment in 2021 Mid-Term Management Plan (cumulative total of 3 years)>

Approx. ¥50-¥100 billion  
(Operating assets)

Approx. ¥3 billion  
(Investment amount)

Approx. ¥15 billion  
(Investment amount)

Careful investment in M&A with consideration given to external environment and  
active R&D investments to create new businesses

## 7-1. Strengthen Non-Financial Capital: Management Base

### Strengthen management base that supports our sustainable growth



- Enhance funding capacity for foreign currencies with diversified funding sources and methods
- Maintain solid financial base and high credit ratings
- Thorough ALM on a global basis



- Enhance resistance against cyberattacks
- Innovative business reform through DX
- Proactive IT use in front, middle, and back offices



- Provide growth opportunities suitable for individual career development
- Establish competitive compensation system

Implement Mission, Principles, and Core Values



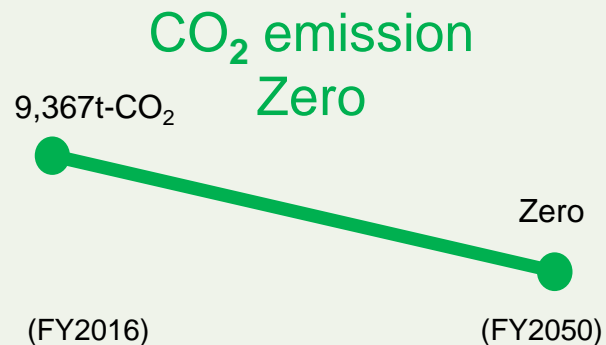
## 7-2. Strengthen Non-Financial Capital: ESG Management

### *Enhancing sustainable corporate values*

#### Environment

##### *Earth-friendly*

- Commit to support recommendations issued by the TCFD\* and promote information disclosure
- Promote environment/energy business
- Promote energy-saving activities in the Group

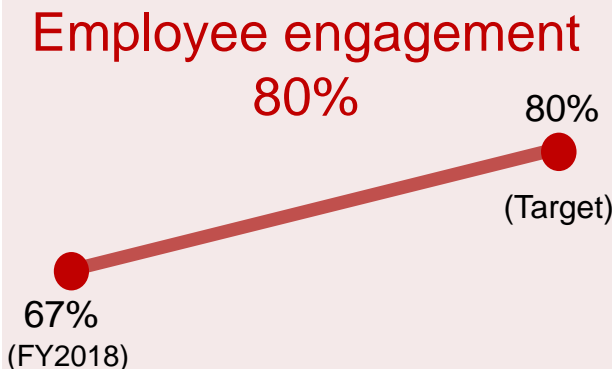


\*TCFD: Task Force on Climate-related Financial Disclosures established by Financial Stability Board (FSB)

#### Society

##### *Respecting employees*

- Diversity & inclusion
- Create rewarding and attractive work places
- Promote flourish various human resources in the workplace



#### Governance

##### *Fair management*

- Maintain directors' independence
- Strengthen risk management globally in the Group
- Further strengthen three lines of defense\*  
(Enhance the 2nd line, monitoring function)

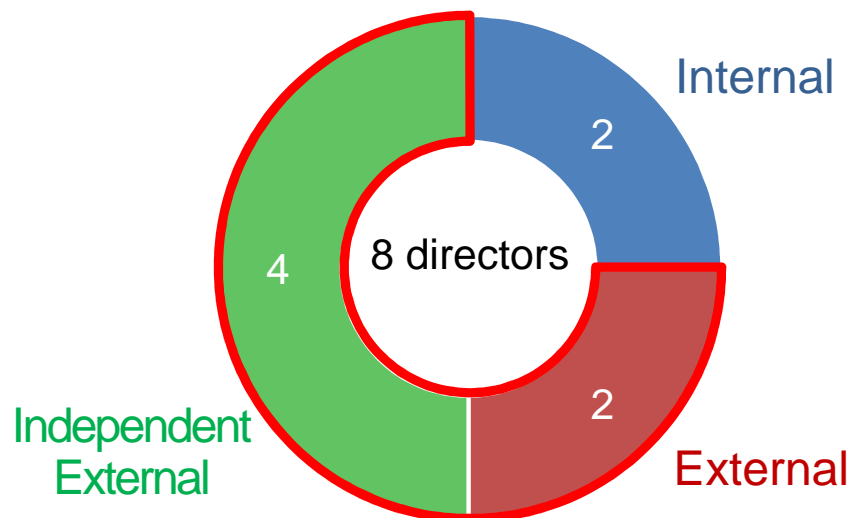
**Promote information disclosure to ensure management transparency**

\* Three lines of defense: An approach to perform internal control by dividing an organization into three categories of (1) business operation, (2) administration, and (3) internal audit, with each category assuming one of the three roles of risk management (defense lines)

## 7-3. Strengthen Non-Financial Capital: Enhance Corporate Governance

### Corporate Governance

- Maintain independence
  - External directors account for a majority of the Board
  - An independent external director chairs the Board
- Protect minority shareholders' interests
  - Business management ensuring interests of all shareholders



Ratio of external directors: 75%  
(Ratio of independent external directors: 50%)

### Risk Management

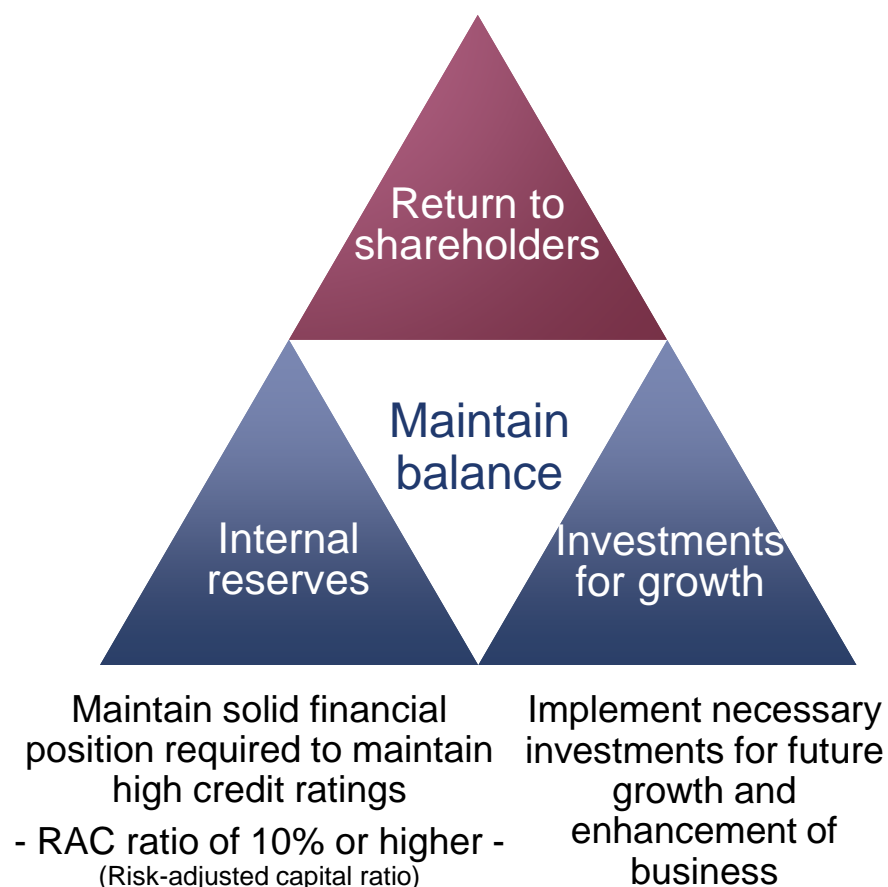
- FY2018
    - Inappropriate factoring deals occurred in China  
(Recorded a large amount of allowance for damages from heinous and artful frauds)
- ▼
- Thorough implementation of recurrence prevention measures
    - Strengthen operational risk management system and fraud risk management
    - Further strengthen three lines of defense  
(Enhance the 2nd line, monitoring function)
    - Drastic business review  
(Terminate large factoring and syndicate loans, etc.)



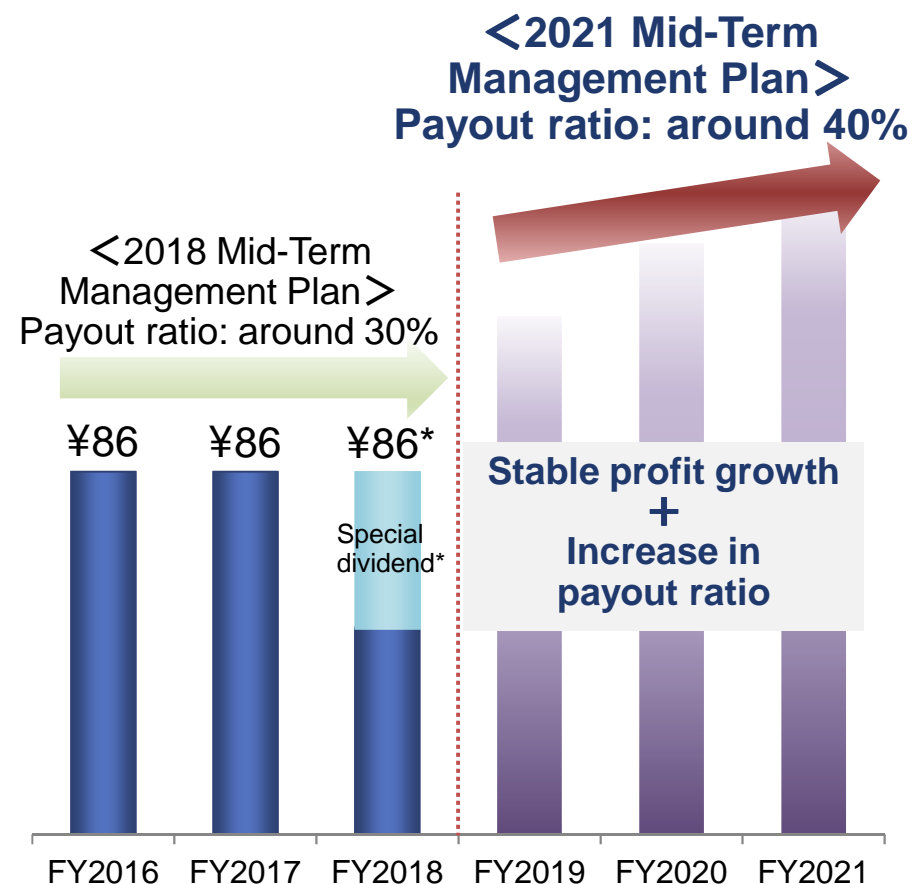
## 8. Enhance Return to Shareholders

### Improve shareholder value

Increase payout ratio to around 40%  
in the 2021 Mid-Term Management Plan  
— Highest level in the leasing industry —



[Dividend per share]



\* Including special dividend of ¥40 per share (record date: August 14, 2019)

## 9. Financial Targets

	[FY2018]	[FY2021 Target]	[Vision]
Profit before tax	¥32.7 billion	¥55.0 billion	Stable growth (CAGR: Around 5 to 8%)
Asset efficiency (ROA)	1.0%	1.7%	$\geq 2\%$
Capital efficiency (ROE)	5.1%	9%	Over 10%

\* Exchange rate: £1 = ¥145, \$1 = ¥110 for FY2018  
£1 = ¥135, \$1 = ¥108 for FY2021

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**Note:**

This document contains forward - looking statements with respect to future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed using information available at the time. Accordingly, forecasts may differ from actual results due to a variety of factors.