

HITACHI



# Hitachi Metals FY2018 Medium-term Management Plan

May 10, 2016

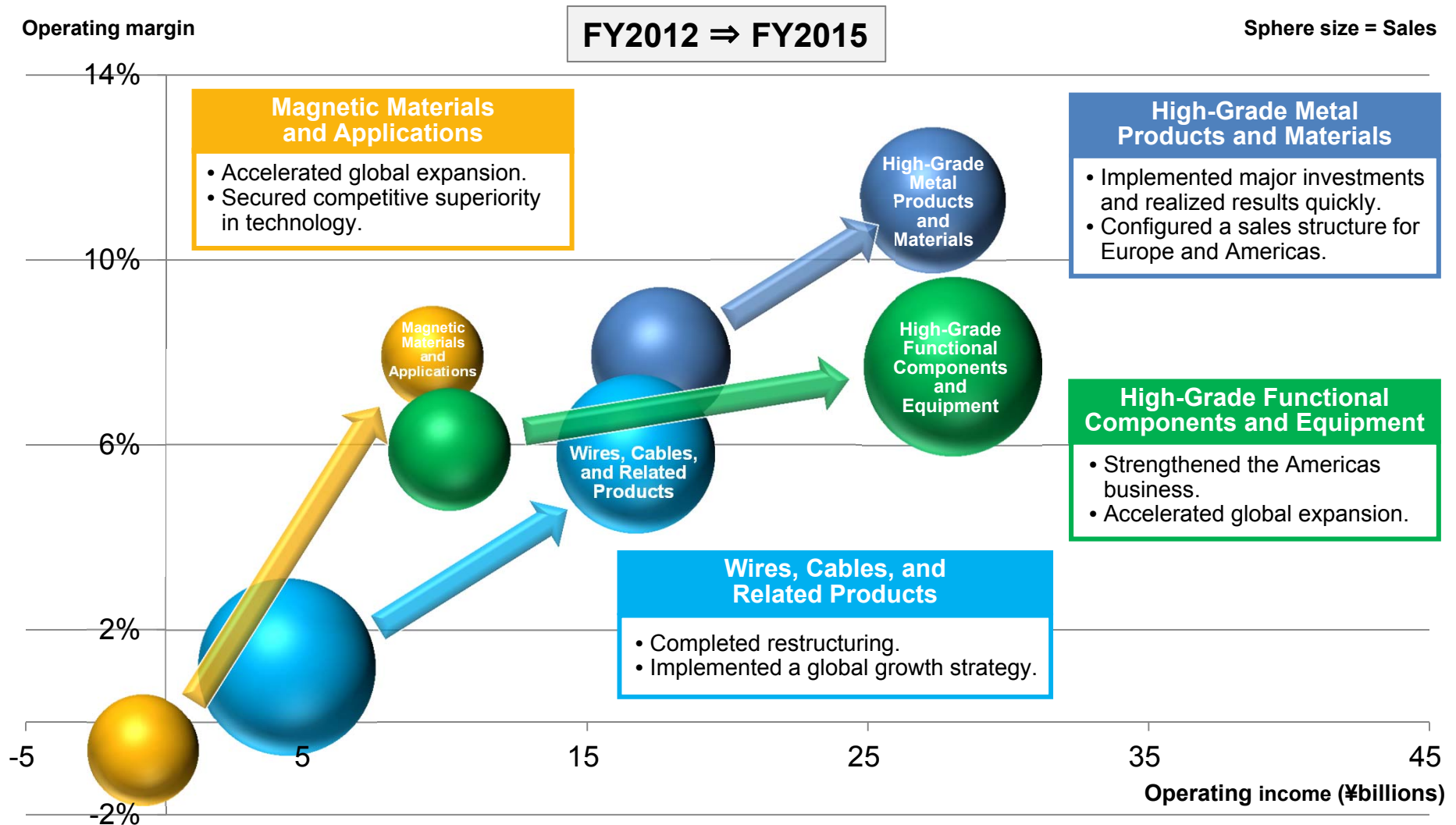
# Hitachi Metals FY2018 Medium-term Management Plan

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- 1. Overview of Operating Results for FY2015  
(Fiscal Year Ended Mar. 31, 2016)**
2. Overview of FY2018 Medium-term Management Plan
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# 1-1. FY2015 Medium-term Management Plan: Overview of Operating Results

## Shifted to profit-generating segments and built a structure targeted at sustainable growth



FY2012: Operating income according to Japanese GAAP; FY2015: Adjusted operating income (IFRS)

## 1-2. FY2015 Medium-term Management Plan: Overview of Initiatives (1)

### The business portfolio was restructured with the goal of achieving sustainable growth

#### ■ High-Grade Metal Products and Materials

Expanded the aircraft  
and energy segment  
business domains

- Acquired MMC Superalloy Corporation shares (boosting holdings from zero to 51%) and consolidated the company. (Consolidated in July 2014)
- Hitachi Metals MMC Superalloy, Ltd. made a major investment in an 840-ton large ring mill. (Began operation in November 2015)

Made large-scale investments  
in upstream operations  
(all of specialty steel)

- Invested in a 24-ton vacuum induction melting and casting furnace, the largest in the world. (Began operation in March 2015)
- Invested in a 10,000-ton class free forging press, high speed radial forging machine. (Scheduled for completion and launch of operation in FY2017)

Established a structure for  
expanding global sales  
(tool steel)

- Reconfigured the brand due to expand global sales. (October 2015)
- Began mass production of SLD-i™, a new type of cold-rolled tool steel produced with a new melting equipment. (April 2016)
- Expanded distribution network in North America with the acquisition of Diehl Tool Steel. (November 2015)

Reinforced the business base  
for cemented carbide tools

- Transferred shares held in Hitachi Tool Engineering, Ltd. (100%→49%). (April 2015)

#### ■ Magnetic Materials and Applications

Established a production  
location in China

- Concluded a joint venture agreement with Beijing Zhong Ke San Huan Hi-Tech Co., Ltd. (June 2015)

Increased production capacity  
at locations in Japan

- Increased production capacity for rare-earth magnets used in HEV (by over 10%). (2H of FY2014)

Reinforced the business base  
for ferrite magnets

- Developed ferrite magnets with the most distinctive qualities in the world (NMF™-15 series). (July 2014)
- Expanded production capacity at the plant in South Korea (by over 20%). (2H of FY2014)

# 1-3. FY2015 Medium-term Management Plan: Overview of Initiatives (2)

## The business portfolio was restructured with the goal of achieving sustainable growth

### ■ High-Grade Functional Components and Equipment

Expanded the automotive casting component business on a global basis

- Acquired Waupaca Foundry, Inc. (November 2014).
- Merged Waupaca Foundry, Inc. and Hitachi Metals Automotive Components. (April 2016)
- Increased production capacity of heat-resistant cast steel for turbo (by over 60%). (Scheduled to begin operation in the 2H of FY2016)

Sold shares in Hitachi Metals Techno, Ltd.

- Sold all shares held by Hitachi Metals through a public tender offer. (March 2015)

### ■ Wires, Cables, and Related Products

Achieved structural reform

- Sold shares in J-Power Systems Corporation (high-voltage cables), cutting holdings from 50% to zero. (April 2014)
- Reduced equity stake in Sumiden Hitachi Cable Ltd. (low-voltage cables) from 50% to 34%. (November 2014)
- Sold the compound semiconductor business. (April 2015)
- Decreased stake in Shanghai Hitachi Metals Cable Materials Co., Ltd. (wire coils) from 100% to 10%. (November 2015)

Reinforced the business base

- Decided to invest in continuous casting and rolling line equipment. (Scheduled to begin operation in April 2018)

Expanded business in growth segments

- [Medical] Acquired the HTP-Meds Group, a manufacturer of medical tubing in North America. (February 2016)
- [Electronic components] Configured global production structure for EPB harnesses and sensors. (October 2015)

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**Change to be a competitive business;  
Challenge ourselves to meet new targets**

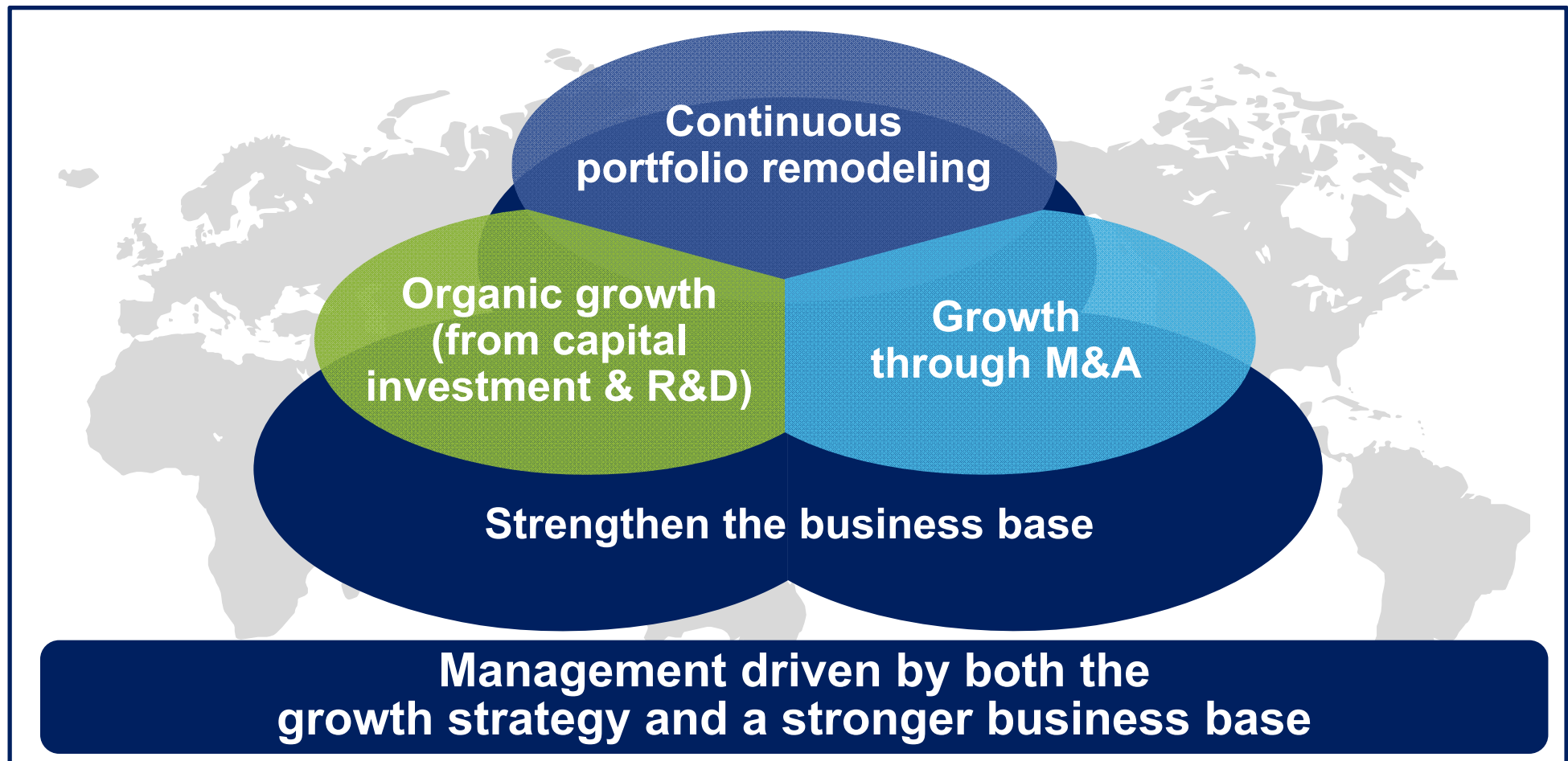
**Achieving our goal of becoming the  
world's leading high-performance materials company**

### **Key Policies of the FY2018 Medium-term Management Plan**

- 1. Accelerate the creation and execution of growth strategies.**
- 2. Achieve a robust business structure and highly efficient business management.**
- 3. Strive to establish a business base that is sustainable over the long-term.**

### Our vision

**Expand the business globally while improving profitability.**





## 2-3. FY2018 Medium-term Management Plan: Main Numerical Goals for Management

	FY2015 business performance (US\$1 = ¥120)	FY2018 Plan (Target) (US1 = ¥115)	% Change vs. 2015
Revenues	1,017.6	1,120.0	110%
Adjusted operating income	[7.5%] 76.1	[10.7%] 120.0	+43.9
IFRS operating income	100.0	112.0	+12.0
EBIT	99.1	112.0	+12.9
Income before income taxes	96.2	107.5	+11.3
Net income	69.1	75.0	+5.9
Total assets	1,033.3	1,250.0	+216.7
Shareholders' equity	495.9	645.0	+149.1
Interest-bearing debt	220.4	246.0	+25.6
D/E ratio (times)	0.44	0.38	-0.06
ROA	6.5%	6.4%	-0.1%
ROE	14.4%	12.2%	-2.2%
Percentage of revenues from overseas markets	56%	58%	+2%
Overseas production as % of total	44%	45%	+1%
Number of employees	29,157	29,400	243

## 2-4. Investment Cash Flow

**Make strategic investments aimed at expanding global business domains and strengthening the business base**

	FY2015 Medium-term Plan Cumulative Results	FY2018 Medium-term Cumulative Plan	Change
Operating cash flow	¥323.9 billion	¥340.0 billion	+ ¥16.1 billion
Investment amount (including M&A)	¥313.5 billion	¥340.0 billion	+ ¥26.5 billion

	FY2015 Medium-term Plan Cumulative Results	FY2018 Medium-term Cumulative Plan	Change
Depreciation and Amortization	¥116.6 billion	¥155.5 billion	+ ¥38.9 billion
R&D	¥56.8 billion	¥70.0 billion	+ ¥13.2 billion

### ■ Dividends

	Interim Dividends	Year-end Dividends	Annual Dividends
<b>FY2013</b>	<b>¥7</b>	<b>¥10</b>	<b>¥17</b>
<b>FY2014</b>	<b>¥10</b>	<b>¥13</b>	<b>¥23</b>
<b>FY2015</b>	<b>¥13</b>	<b>¥13</b> (Forecast)	<b>¥26</b> (Forecast)
<b>FY2016</b>	<b>¥13</b> (Forecast)	<b>¥13</b> (Forecast)	<b>¥26</b> (Forecast)

### ■ Policy on Shareholder Return in the FY2018 Medium-term Management Plan



**Achieve shareholder return that reflects high growth**

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### Continuous portfolio remodeling

**Concentrate on high-profit, high-growth segments.**

**Use management resources efficiently.**

### Organic growth (from capital investment and R&D)

**Strengthen & accelerate the pace of R&D.**

**Advance the Corporate *Monozukuri* Innovation Project.**

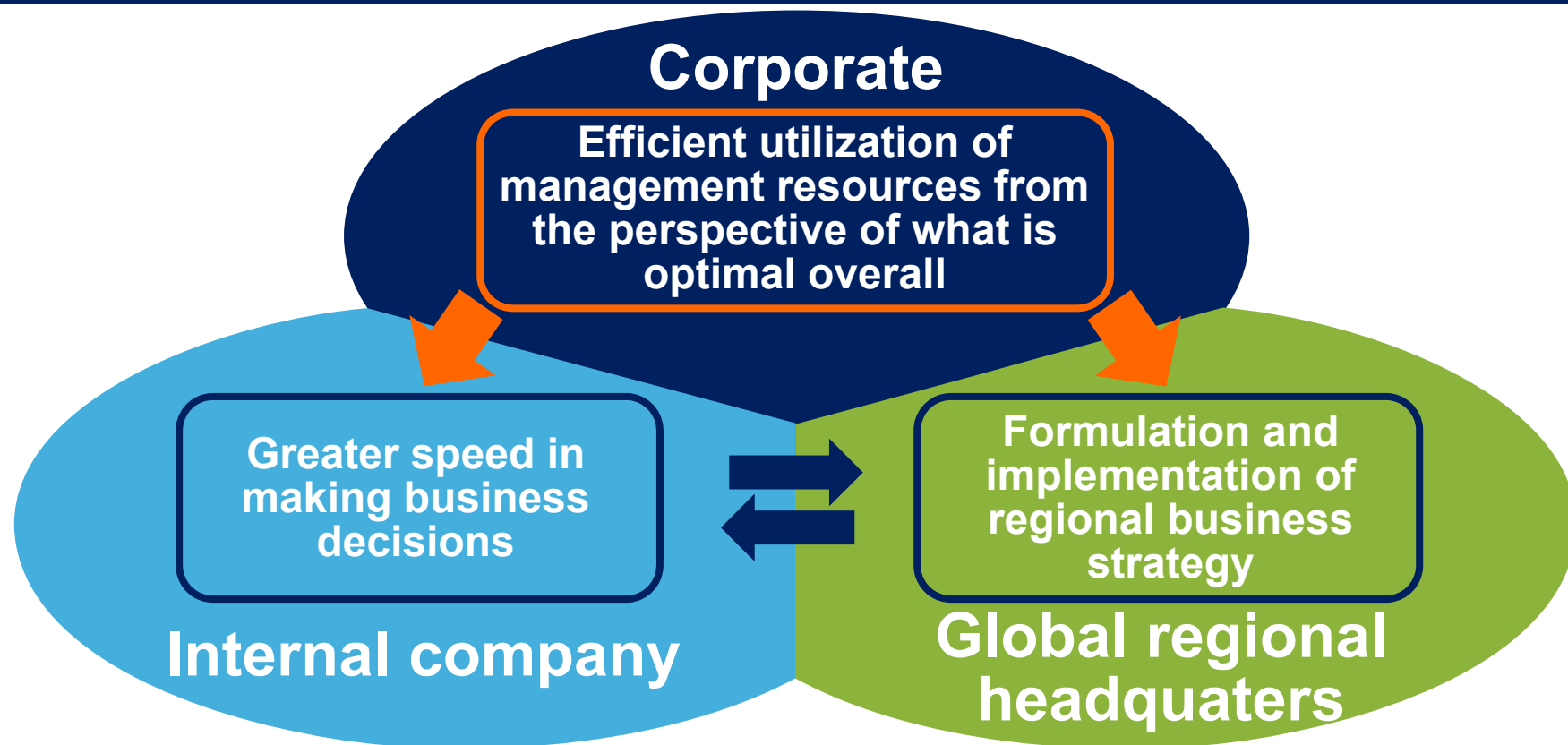
### Growth through M&A

**Generate synergistic benefits.**

**Acquire human resources & achieve rapid commercialization.**

## 3-2. Organizational Structure Aimed at Improving Corporate Value

**Strengthen cross-organizational functions to achieve business management having a directional focus that surpasses vertical organizational confines**



**Strengthen the business base to achieve sustainable growth**

### 3-3. Continuous Portfolio Remodeling (1)

## Enhance profitability while expanding business scale and domains

**Concentrate on high-profit, high-growth segments.**

**Utilize management resources efficiently.**

**Business domains**


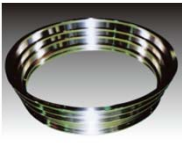


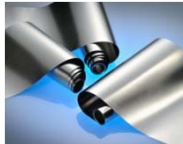
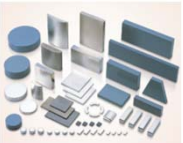





**Key segments**

**Business structure**

<b>High-Grade Metal Products and Materials</b>	<b>Invest management resources in the aircraft and energy segments.</b>
<b>Magnetic Materials and Applications</b>	<b>Expand business domains through joint ventures in China. (Europe &amp; Asia)</b>
<b>High-Grade Functional Components and Equipment</b>	<b>Expand the agriculture and construction machinery segments and expand to Central and South America.</b>
<b>Wires, Cables, and Related Products</b>	<b>Shrink business in segments with low profitability and expand it in highly profitable segments.</b>

## 3-4. Continuous Portfolio Remodeling (2)

# Concentrate on high-profit, high growth segments

Market Segment (% of sales in FY2015)	Automotive (% of sales: Approx. 50%)			Industrial Infrastructure (% of sales: Approx. 30%)			Electronics (% of sales: Approx. 20%)	
Key segments	HEV/EV	Automotive components	Construction and agricultural machinery	Railway	Aircraft	Energy	Medical	Batteries
Specialty Steel								
Soft Magnetic Components and Materials								
Magnets and Applied Products								
Casting Components								
Wires and Cables								



## Achieve reform from the medium- to long-term and cross-organizational business perspectives

- Build a corporate lab and pursue work on new business creation.

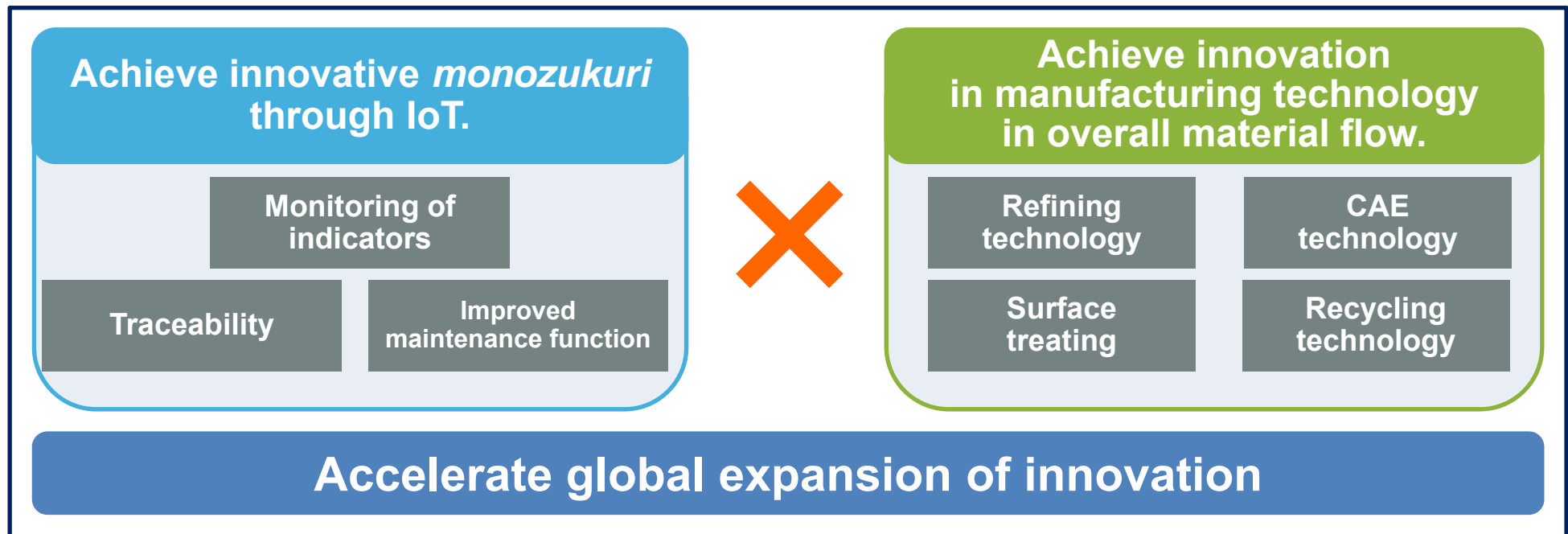


### R&D costs

**¥57 billion** (FY2015 Medium-term Plan, cumulative)

**⇒ ¥70 billion** (FY2018 Medium-term Plan, cumulative)

## Advancing the Corporate *Monozukuri* Innovation Project to achieve our goal of becoming the world's leading high-performance materials company



**Generate ¥20 billion more in profit (compared to FY2015)**

## Accelerate global expansion

- Achieve global expansion of SLD-i™, the new cold-rolled mold steel.



- Achieve greater brand diffusion and promote the solutions business.



**Sales plan for tool steel business**  
**¥60.5 billion (FY2015) ⇒ ¥79 billion (FY2018)**

### 3-8. High-Grade Metals Company: Aircraft and Energy-Related Businesses

## Strengthen and expand the aircraft and energy businesses

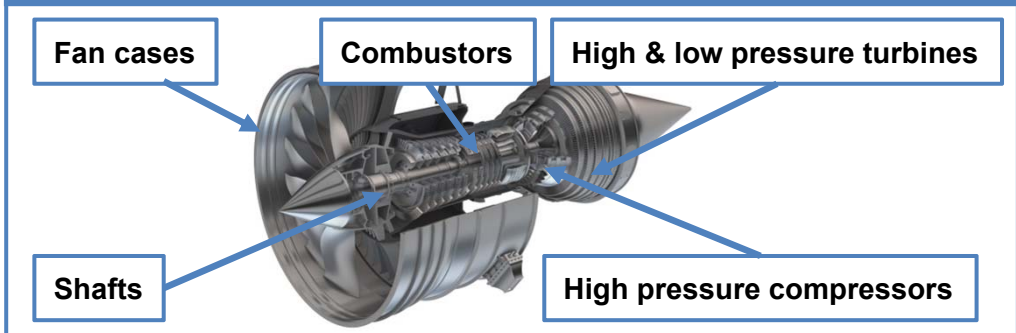
### ■ Expand business through integrated production of large casting components



Acquire melting certification from European engine manufacturers

Begin delivery of developed products at the end of FY2016

Target aircraft engines of the Hitachi Metals Group for sales expansion

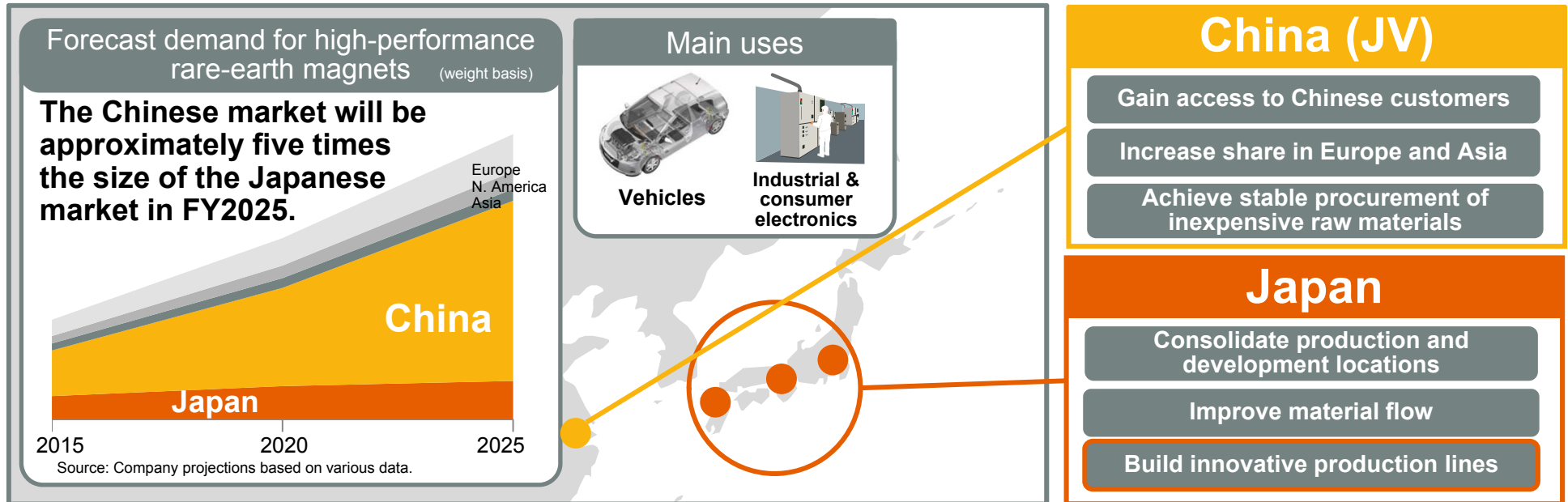


Sales plan for the aircraft and energy businesses  
¥33.5 billion (FY2015) ⇒ ¥37 billion (FY2018) ⇒ ¥60 billion (FY2025)

Accept the challenge of becoming one of the top four manufacturers of aircraft components and materials

## Launch the rare-earth magnet business in China & improve competitiveness

### ■ Establish optimal global production locations.



**Innovative production lines**

**Achieve high productivity through fully automated production lines.**

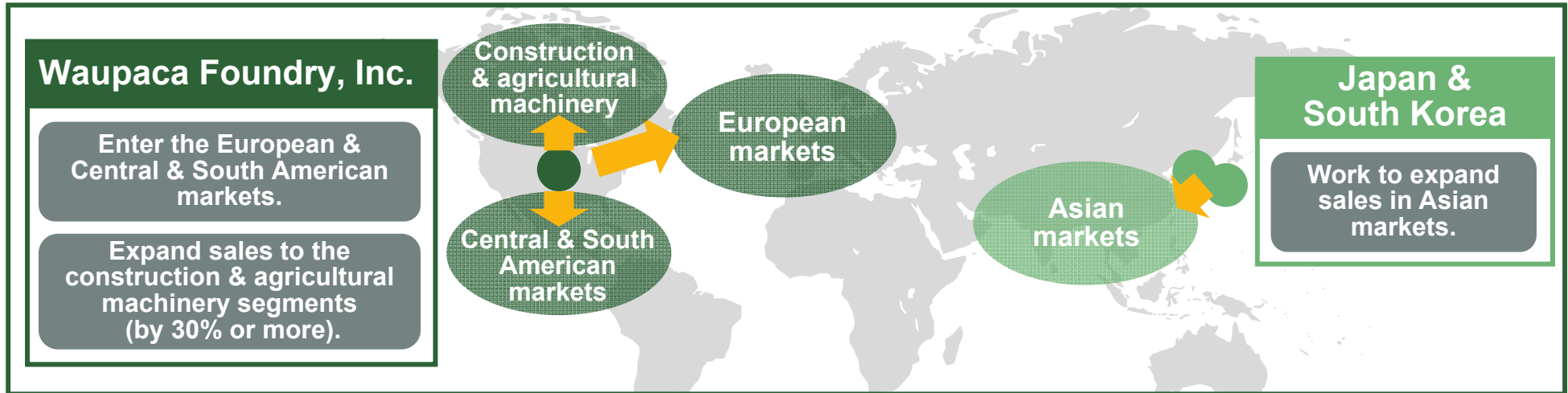
- Improve forming
- Enhance diffusion technology for heavy rare-earth metals
- Procure Chinese materials

**Sales plan for the Magnetic Materials Company**  
**¥106 billion (FY2015) ⇒ ¥132 billion (FY2018)**

### 3-10. High-Grade Functional Components Company: Cast Iron Business

**Maintain a firm hold on the No. 1 rank in the world  
through global expansion**

■ **Establish a business model based on local production and local consumption.**



■ **Improve cost competitiveness through innovations in manufacturing technology.**

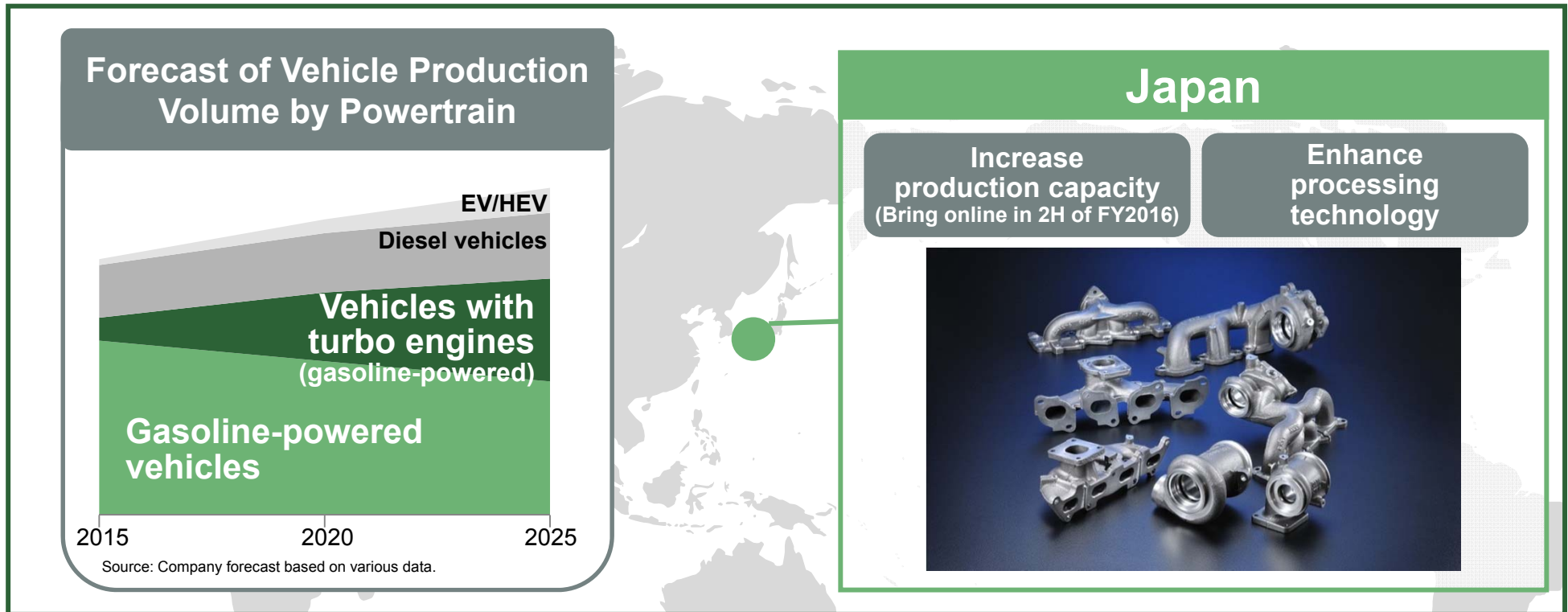
<b>Waupaca Foundry, Inc.</b>	Install of horizontal casting line (at the 5 <sup>th</sup> plant) and dedicate a plant to ductile cast iron (the 6 <sup>th</sup> plant).
<b>Asia</b>	Roll out the manufacturing and processing technology in Japan to elsewhere in Asia (South Korea).

**Sales plan for cast iron business**  
**¥250 billion (FY2015) ⇒ ¥260 billion (FY2018)**

### 3-11. High-Grade Functional Components Company: Heat-Resistant Cast Steel Business

## Strengthen business targeting the growing turbo market

- Configure an integrated production structure for materials and processing.



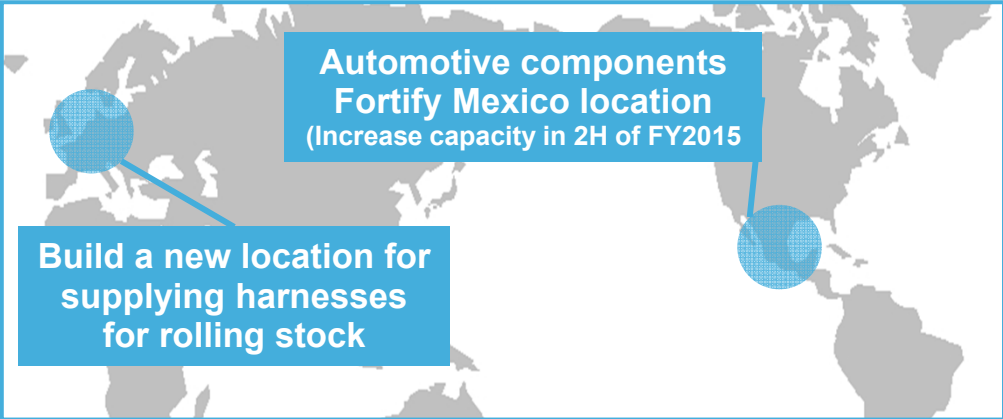
**Heat-resistant cast steel business:  
1.6x increase in sales volume for FY2018 (compared to FY2015)**



## Put a high-profit structure into place and strengthen the overseas business

### ■ Concentrate resources in high-profit segments.

Railway segment	Expand business in Chinese and European markets.
Medical segment	Generate synergies with HTP-Meds and expand business domains.
Automotive electronic components	Fortify global locations and supply chains.

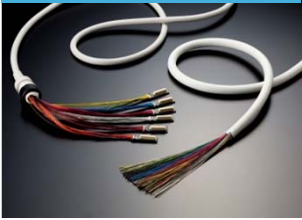


**Automotive components Fortify Mexico location**  
(Increase capacity in 2H of FY2015)

**Build a new location for supplying harnesses for rolling stock**


### Develop new medical products (that integrate diagnosis and treatment)

Cables for diagnostic purposes



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Tubing for therapeutic uses

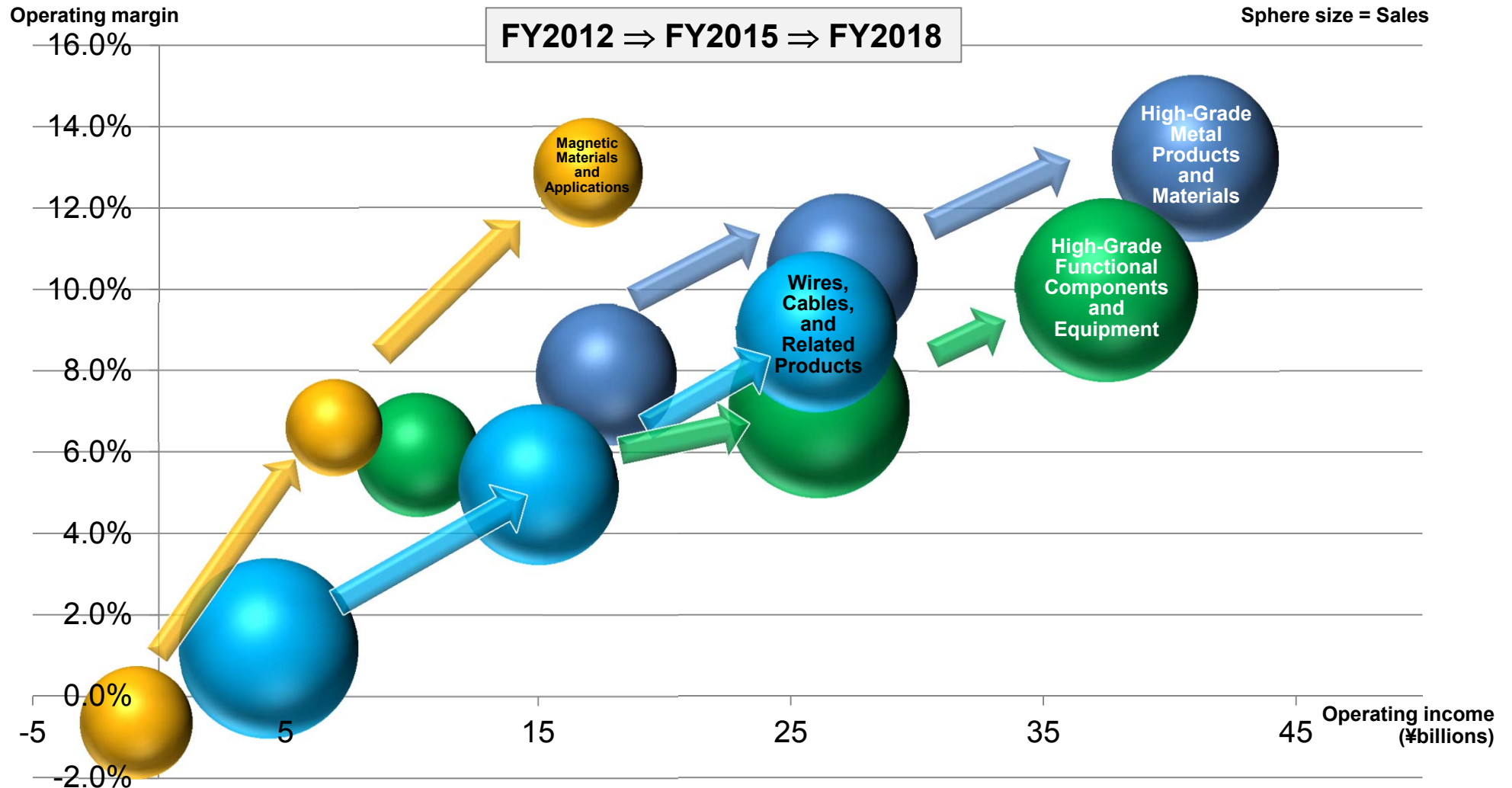


Sales plan for growth segments  
 ¥44.5 billion (FY2015) ⇒ ¥59 billion (FY2018)



# 3-13. Trends in Business Portfolio

## Achieve sustainable growth driven by organic growth and M&A

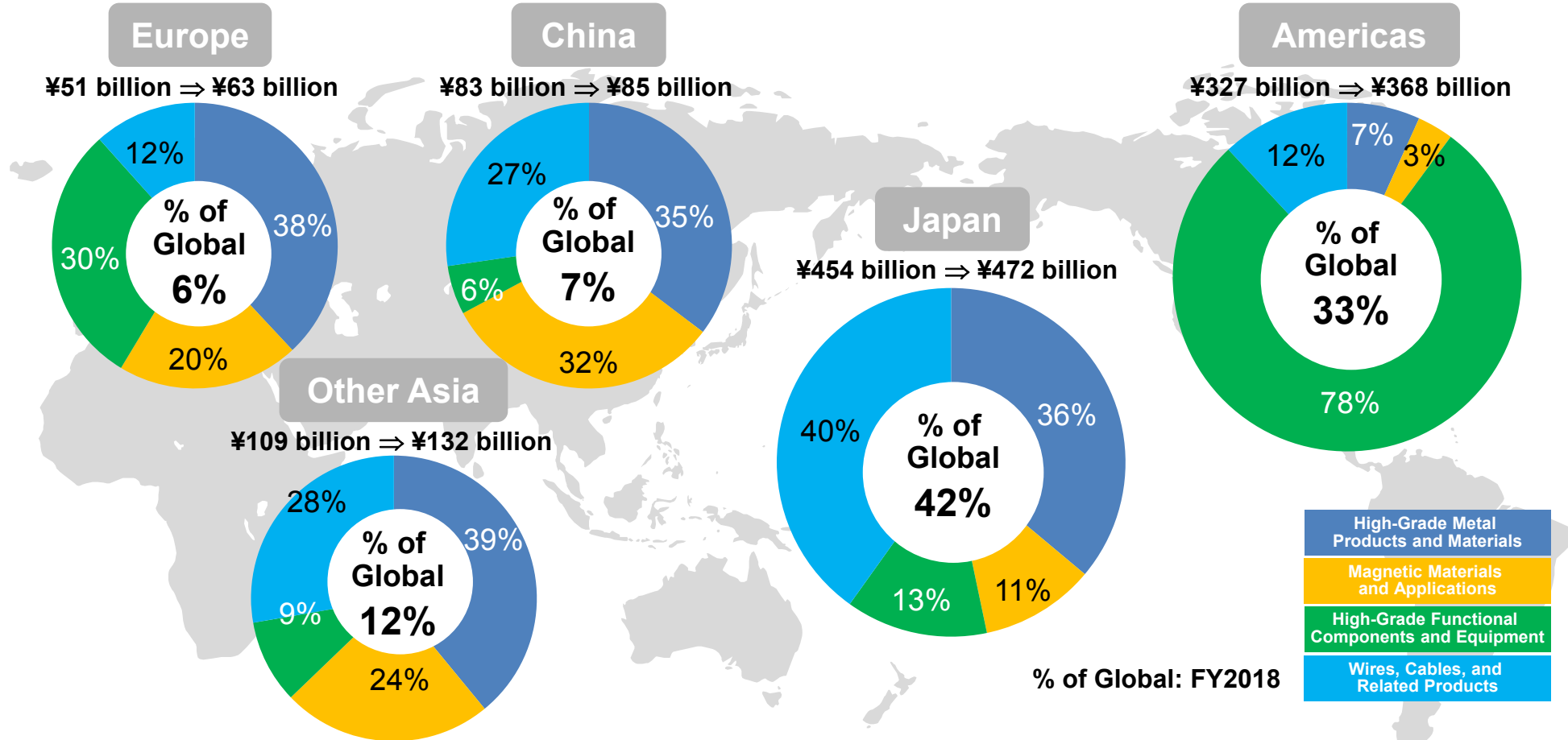


FY2012: Operating income according to Japanese GAAP; FY2015 and FY2018: Adjusted operating income (IFRS)

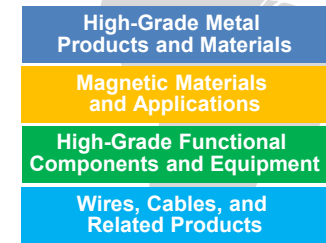
### 3-14. Revenues & Adjusted Operating Income by Segment

(¥billions, %)		FY2015 Results (US\$1\$ = ¥120)	FY2018 Plan (US\$1 = ¥115)	vs. FY2015
High-Grade Metal Products and Materials	Revenues	256.7	310.0	121%
	Adjusted operating income	27.0	41.0	+14.0
	Operating margin	10.5%	13.2%	+2.7%
Magnetic Materials and Applications	Revenues	105.3	132.0	125%
	Adjusted operating income	6.9	17.0	+10.1
	Operating margin	6.6%	12.9%	+6.3%
High-Grade Functional Components and Equipment	Revenues	365.1	375.0	103%
	Adjusted operating income	26.1	37.5	+11.4
	Operating margin	7.1%	10.0%	+2.9%
Wires, Cables, and Related Products	Revenues	288.2	290.0	101%
	Adjusted operating income	15.0	26.0	+11.0
	Operating margin	5.2%	9.0%	+3.8%
Other & Adjustments	Revenues	2.3	13.0	-
	Adjusted operating income	1.1	-1.5	-
Total	Revenues	1,017.6	1,120.0	110%
	Adjusted operating income	76.1	120.0	+43.9
	Operating margin	7.5%	10.7%	+3.2%

# 3-15. Global Sales Composition by Region (FY2015 ⇒ FY2018)



% of Global: FY2018



## Manage operations via global regional headquarters

Formulate and execute regional strategies

Localize operations with regional management committees

Promote local personnel to executive management

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### **FY2018 Plan**


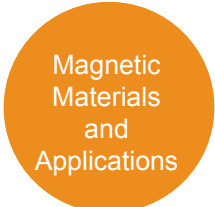


**Revenues: ¥1,120 billion**

**Adjusted Operating Income: ¥ 120 billion (P: 10.7%)**

**Strive for sustainable growth by executing global growth strategies and strengthening the business base.**

# (For reference) Hitachi Metals: Description of Business Segments

## ■ Business Operations

Business segments	Business Categories	Principal Products
 <p>High-Grade Metal Products and Materials</p>	High-Grade Metals Company	
	Specialty steel	YSS™ brand high-grade specialty steel products (molds and tool steel, alloys for electronic products [display-related materials, semiconductor and other packaging materials, and battery-related materials], materials for industrial equipment [automotive materials, razor and blade materials], aircraft-, and energy-related materials, and precision cast components )
	Rolls	Rolls for steel mills, injection molding machine parts, structural ceramic products , and steel-frame joints for construction
 <p>Magnetic Materials and Applications</p>	Magnetic Materials Company	
	Magnets and applied products	Magnets (NEOMAX® rare-earth magnets; ferrite magnets; and other magnets and applied products) Ceramic products
 <p>High-Grade Functional Components and Equipment</p>	High-Grade Functional Components Company	
	Casting components for automobiles	Casting components for automobiles (HNM™ high-grade ductile cast iron products, cast iron products for transportation equipment, and HERCUNITE™ heat-resistant exhaust casting components), SCUBA™ aluminum wheels and other aluminum components, Forged components for automobiles
 <p>Wires, Cables, and Related Products</p>	Cable Materials Company	
	Electric wires and cables	Industrial cables, electronic wires, electric equipment materials, and industrial rubber products
	High performance components	Cable assemblies, electronic automotive components, brake hoses, and wireless systems
	Information systems	APRESIA™ Information networks products

# Information on Risks Inherent in Future Projections

This document contains forward-looking statements—such as results forecasts and management plans—that are not historical facts. All such forward-looking statements are based upon all available information and upon assumptions and projections that were deemed reasonable at the time the Company prepared this document. Changes to the underlying assumptions or circumstances could cause the actual results to differ substantially. The factors causing such differences include, but are not limited to, the following:

- Changes in economic conditions and regulations in the main markets where the Company operates, particularly Japan, the United States, Asia and Europe
- Sudden changes in technological trends
- Changes in competitive advantage and the capabilities of the Company and its subsidiaries and affiliates to develop and commercialize new products and businesses
- Fluctuations in the status of product markets, exchange rates and international commodity markets
- Changes in financing environment
- The capability of the Company and its subsidiaries and affiliates to cope with fluctuations in product supply and demand, the status of product markets, exchange rates and international commodity markets
- Protection of the Company's intellectual property, and securing of licenses to use the intellectual property of other parties
- Changes in the status of alliances with other parties for product development, etc.
- Fluctuations in Japanese stock markets



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