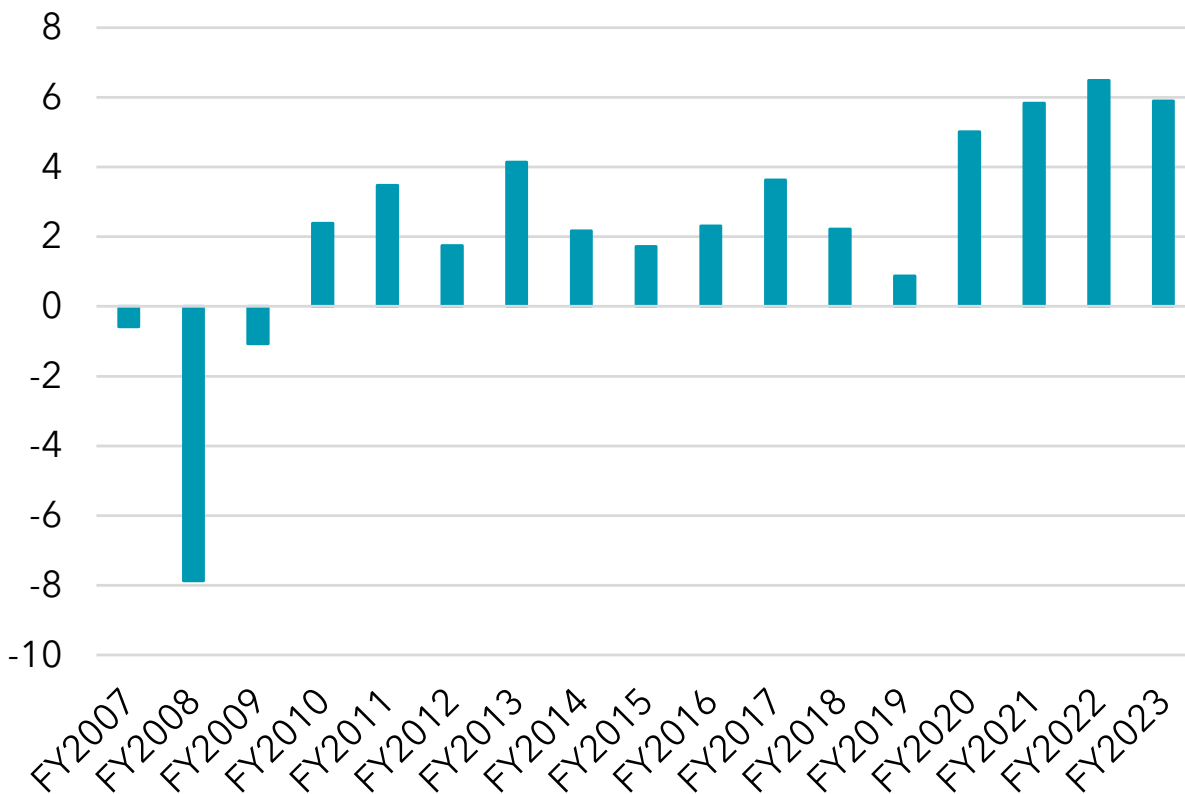


Coffee Break Column - Hitachi: How the obstinate titan reclaimed favour

Written by Katsunori Ogawa, Chief Portfolio Manager

Few might realise that companies like Senqcia, Koki Holdings, and Logisteed have something in common- they were once part of Hitachi's 22 publicly listed subsidiaries (Senqcia, formerly Hitachi Kizai, was delisted on June 25, 2015; Koki Holdings, formerly Hitachi Koki, on June 27, 2017; and Logisteed, formerly Hitachi Transport System, on February 2, 2023). Due to structural reforms, Hitachi eliminated its publicly traded subsidiaries with asset sales amounting to an impressive 2.5 trillion yen. Once dubbed a "sinking giant" wrestling with substantial losses, Hitachi was awarded the scarlet letters of JTC- 'Japanese Traditional Company', a snide neologism emphasising hidebound corporate culture. In this article we will explore Hitachi's remarkable transformation.

Graph 1 Hitachi net income (hundred billion JPY)



Source: Bloomberg

Graph 2 Hitachi share price (JPY)


Source: Bloomberg

After the 2008 global financial crisis, Hitachi faced management woes. For the fiscal year ending March 2009, the firm posted a net loss of 787.3 billion yen, at the time the largest ever recorded by a Japanese manufacturer. Its survival was in question. Then-President Takashi Kawamura took charge of raising funds for restructuring, initiating a drastic overhaul.

Hitachi consolidated into three areas: Digital, referring to information technology; Green, for power transmission as well as distribution and railways; and Industry, referencing semiconductor manufacturing equipment and industrial machinery. Nominated Chairman and CEO in 2014, Hiroaki Nakanishi made an emblematic sale of the hard disk drive business. Regardless of having been the subsidiary CEO that rebuilt it, his decision was born from the conviction that joining forces with the American rival Western Digital would increase their competitiveness.

It was also unprecedented to exit a profitable business; traditionally, this was not a consideration made by Japanese firms for divisions that were improving performance. Instead, disposals were often reactive and focused on offloading loss-making divisions. But Nakanishi's approach was for proactive and militantly strategic divestiture that became a key factor in driving such bold structural reform. Without any sacred cows, his unwavering determination was further demonstrated by the sale of publicly listed subsidiaries known as the "Big Three"—Hitachi Chemical, Hitachi Metals, and Hitachi Cable.

The funds generated from sales were partially allocated to share buybacks. For the fiscal year ending March 2024, Hitachi repurchased shares to the tune of 100 billion yen and paid total dividends worth 160 billion yen, resulting in a dividend payout ratio of 45%. The company has expressed its desire to keep the total shareholder return ratio at around 50% of profits.

Meanwhile, Hitachi also used the capital from its aggressive selling of misaligned corporate enterprises for titanic acquisitions to overhaul its operations. The acquisition criteria were that new functions would strengthen Lumada, the digital platform christened as its growth engine. 'Lumada' is a portmanteau of 'illuminate' and 'data,' coined to summarise the idea of using data to shine a light on client needs. Instead of simply brokering product equipment, the goal was to enhance profitability by offering packaged software that leveraged data collected from Lumada.

Under this strategy, in 2020 Hitachi invested approximately 750 billion yen to acquire a power grid business from ABB, a major Swiss heavy electric machinery firm with high voltage direct current (HVDC) technology essential for promoting renewable energy by mitigating transmission losses. By combining this global top-tier performer with Lumada's digital technology, there were expectations Hitachi would be able to offer innovative energy solutions at an international scale and would expand across sectors beyond energy including mobility, life, industry, and IT. Then in March 2021 Hitachi announced the acquisition of GlobalLogic, a California-based digital engineering services company, for a total of 9.6 billion USD (approximately 1.036 trillion yen at the time of the announcement). Finally, in August 2021 Hitachi acquired the rail signalling systems division of Thales Group, a major French defines, aerospace, and IT group.

By transitioning from a diversified electrical manufacturer, Hitachi has successfully ridden the wave of the AI revolution, with its market capitalisation increasing fourfold over the past decade. As of the end of 2024 it ranked fourth largest, making it one of the most prominent stocks on the Tokyo Stock Exchange and attracting international investors as a poster child for AI-related equities. Meanwhile, in December of the same year it announced the promotion of Executive Vice President Toshiaki Tokunaga, 57, to President and CEO effective April 1, 2025. In true Hitachi fashion he committed to sustainable corporate growth via further promotion of Lumada and to expanding the search for growth opportunities around the world.

Hitachi's phenomenal recovery can be attributed to improved profitability via meticulously selecting fields of operation, driven by top-down decision-making from successive generations at the helm, combined with lines of business to complement Lumada. Hitachi's future sustainable growth will depend on whether the company can actualise the Lumada-centric growth strategy, utilising it as a common foundational framework for its IoT initiatives.

Table 1 List of Major Acquisitions by Hitachi

Company	Amount (JPY)	Date	Explanation
Ansaldo Signalling and Transportation Systems	103 billion	Oct 2018	By combining driverless technology with Lumada, the company was able to develop a system to visualise station congestion using sensors installed at the stations. It also analyses passenger behaviour.
Sullair	135.7 billion	Apr 2017	Acquiring Sullair, a leading industrial air compressor company in the United States, helped the company promote Lumada sales in North America.
JR Automation	158.2 billion	Apr 2019	The company's advanced technology, know-how, resources from its robotics system integration business, and customer base in the operational technology space, made it possible to deploy Lumada globally.
Hitachi High-Tech	531.1 billion	Jan 2020	By combining Lumada solutions with Hitachi High-Tech's cutting-edge products, the company was able to help semiconductor manufacturers address challenges such as shortening development time and improving productivity.
ABB	740 billion	Jul 2020	By combining ABB's top-level power grid business with Lumada's digital technology, the company was able to provide innovative energy solutions at a global level.
Keihin, Showa, Nissin Kogyo	3.243 billion	Jan 2021	Collaboration with Lumada enabled the company to handle CASE megatrends.
GlobalLogic	1.37 trillion	Mar 2021	Leveraging the company's advanced digital engineering technology and combining IoT and cloud services lead to growth in new areas by creating new apps and services in collaboration with customers.
Thales Rail Signalling Solutions	215 billion	Aug 2021	By accessing Thales' customer base, Hitachi was able to accelerate the global deployment of Lumada. It was also able to strengthen its Mobility-as-a-Service (MaaS) business by utilising IT to combine multiple modes of transportation.

Source: Hitachi

About Writer



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Katsunori Ogawa is the founder and Chief Portfolio Manager of the Sakigake High Alpha strategy. He has more than 25 years of experience in the asset management industry. Katsunori joined the firm in 1994 and started his asset management career as a client relationship manager for public pension funds in 1997. In 2003, he launched the original Sakigake strategy and after accumulating ten years of exceptional returns, an investor requested Katsunori manage the portfolio with a higher risk/return profile in 2013. This led to the creation of Sakigake High Alpha. He was one of the earliest managers to identify trends such as China's growing consumption and the proliferation of e-commerce, as well as the changes that high-performance semiconductors are bringing to Japanese society. He has been leading the team since the inception of the two strategies.

Katsunori has been honoured with the Japan Best Equity Manager award at the Asia Asset Management Country Awards for five consecutive years, from 2020 to 2024. He holds a BA in economics from Keio University, and is both a Certified Member Analyst of the Securities Analysts Association of Japan (CMA) and a Certified International Investment Analyst (CIIA).

