
Healthcare Business Strategy

Hitachi IR Day 2016

June 1, 2016

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CEO of Healthcare Business Unit
Hitachi, Ltd.**

Healthcare Business Strategy

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- 1. Review of FY2015**
2. Business Overview and Overall Strategies
3. Innovation and Collaborative Creation for New Growth
4. Change of Portfolio and Main Business
5. Reinforcement of Business Structure and Investment
6. Conclusion

1-1. 2015 Mid-term Management Plan Review

- Reinforced business structure by founding Healthcare Company
- Increased revenue and profit in FY2015
 - Testing & Reagents increased revenue, Diagnostics & Clinical improved profit

		FY2014 Result*1	FY2015*2		
			Previous Forecast*3	Result	
					YoY
Revenue	Pre-business segment reclassification	337.9 billion yen	360.0 billion yen	348.6 billion yen	103%
	Post-business segment reclassification	320.0 billion yen	344.3 billion yen	332.6 billion yen	104%
Adjusted operating income ratio		6.3%	7.4%	7.6%	+1.3points
EBIT ratio		5.7%	7.4%	6.6%	+0.9points
Overseas revenue ratio		65%	63%	64%	(1)point

*1 Managerial accounting consolidation based on US GAAP
*3 As of June 11, 2015

*2 Managerial accounting consolidation based on IFRS

Diagnosics & Clinical

- Took 6 orders for PBT
(USA, Hong Kong, Nagamori Memorial Center of Innovative Cancer Therapy and Research, etc.)
- Launched 2 new ultrasound models (for POC and Surgery)(Feb. 2016)

Testing & Reagents

- Hitachi High-Technologies: Entered into strategic collaboration with QIAGEN for molecular testing (Jun. 2015)

Informatics

- Received order for Integrated Community Care Systems:
Fukuoka City (Dec. 2015) and Buzen City (Jan. 2016)
- Started operation of National Hospital Organization Data Archives (Mar. 2016)
- Hitachi Data Systems collaborated with Philips to deliver Vendor Neutral Archives (Feb. 2016)

New Business

- Hitachi Chemical: Cell manufacturing business for regenerative medicine (Mar.2016)

Reinforcement of Business Structure

- Integrated Hitachi Medical Corporation and Hitachi Aloka Medical into Hitachi, Ltd. (Apr. 2016)

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Innovating Healthcare, Embracing the Future

For a society where all can enjoy a secure, safe, healthy way of life, Hitachi delivers innovation for implementing healthcare services tailored to individuals.

Diagnostics & Clinical

- Diagnostic Imaging Systems (Ultrasound, MRI, others)
- Particle Beam Therapy Systems

Testing & Reagents

- Analyzer
- Automated Laboratory Systems

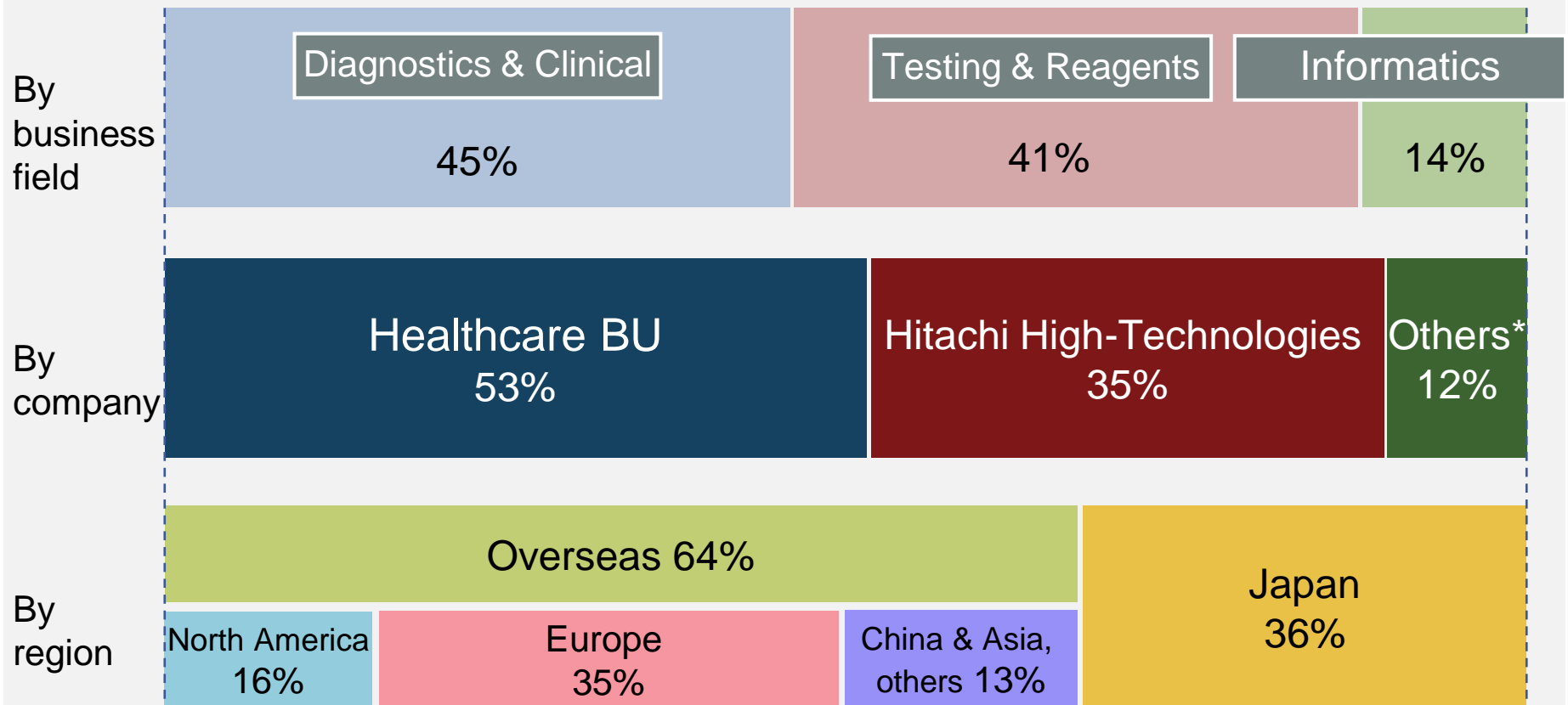
Informatics

- Analytics
- Integrated Community Care Systems

2-2. Business Overview

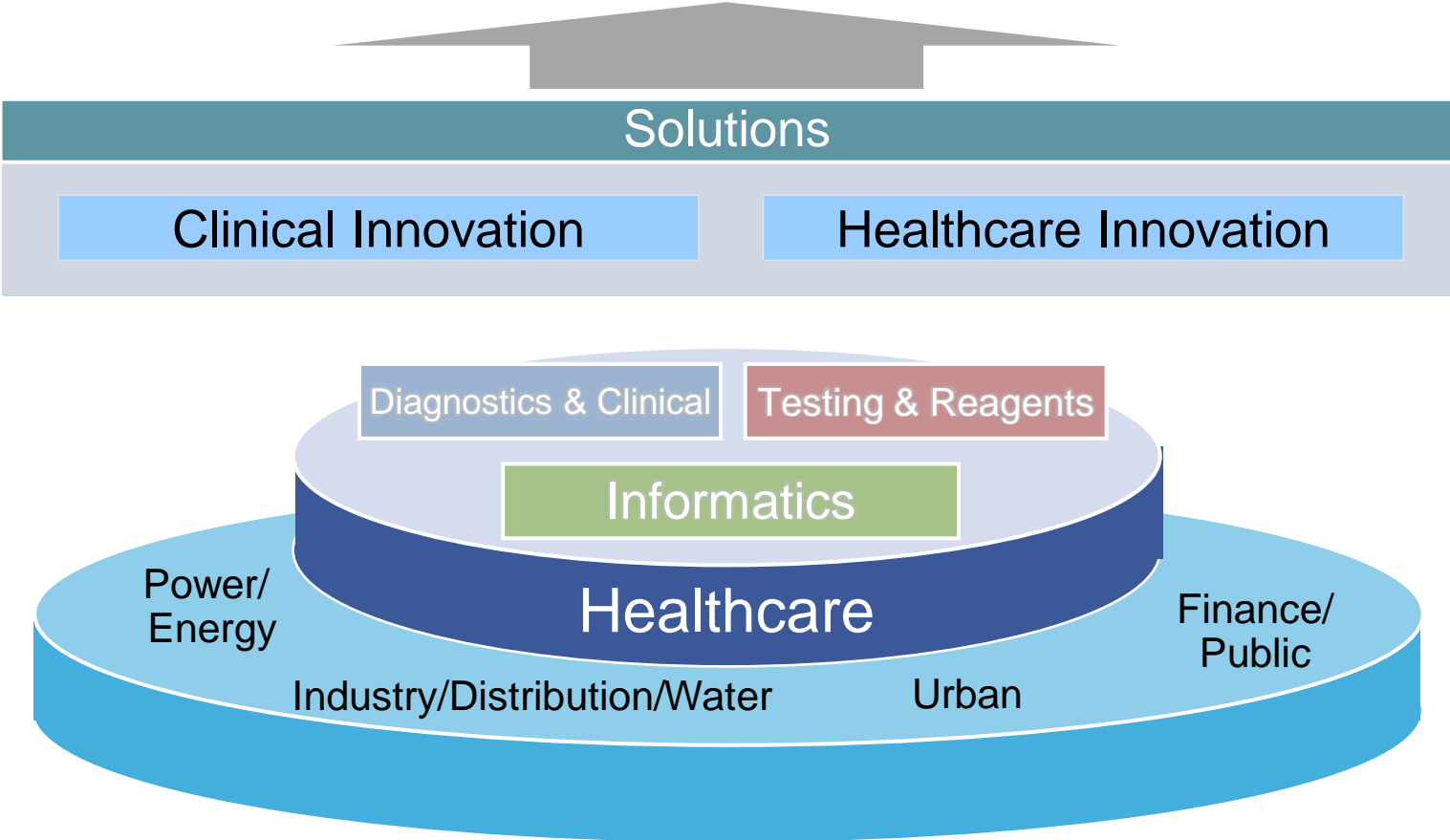
Global business development centered on 3 Core Domains
FY2015 revenues: 332.6 billion yen

● Revenues Breakdown



*Others: Hitachi Data Systems, Hitachi Chemical, etc.

Innovation for Efficient and Improved Quality of Healthcare Supporting Customers' Value Chains



2-4. Key Indicators of 2018 Mid-term Management Plan

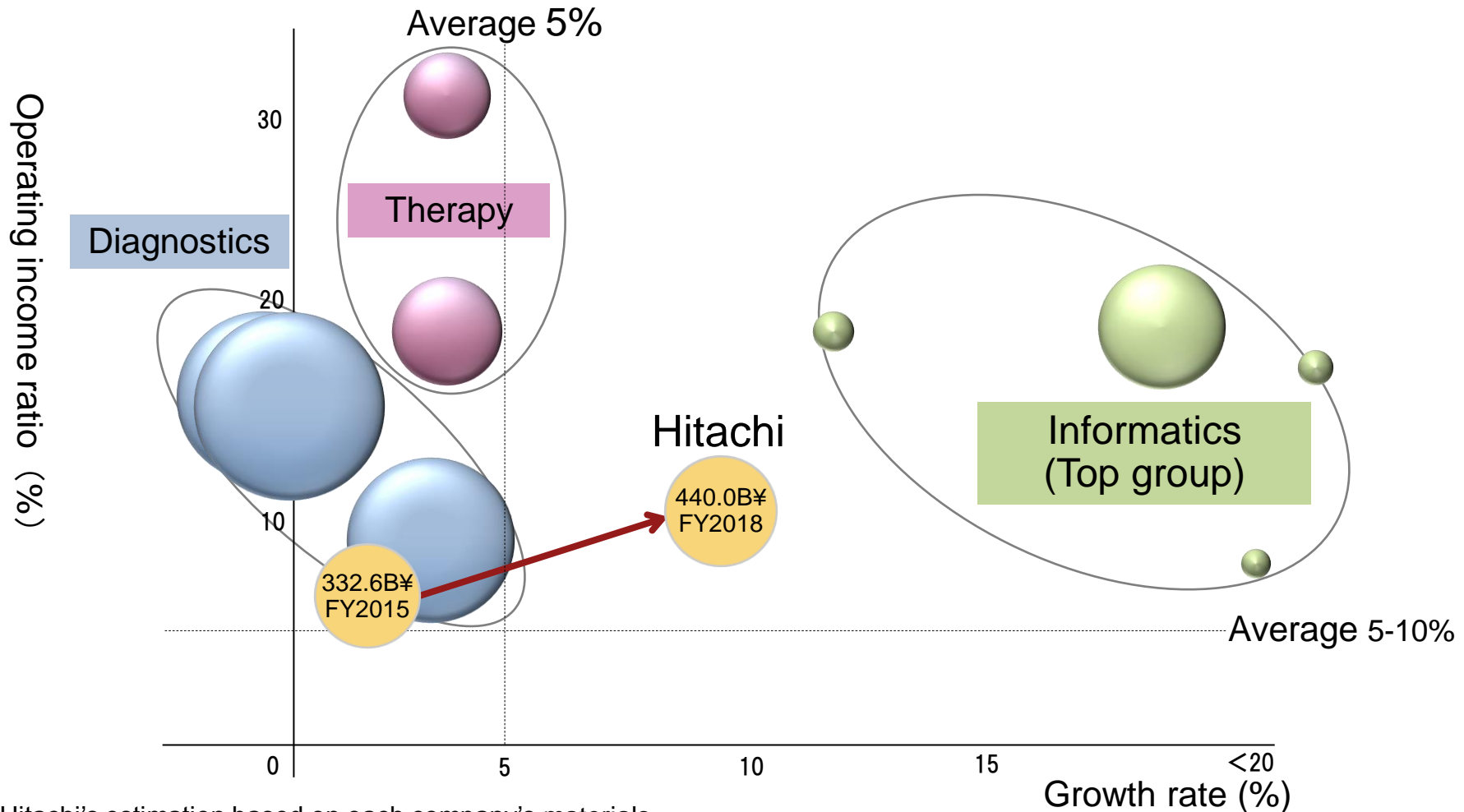
- Review of revenue plan in FY2018
 - Change Portfolio focusing on growth and profit
 - Reexamine the investment plan

		FY2015 Result	FY2018	
			Previous Target*	Target
Revenues	Pre-business segment reclassification	348.6 billion yen	600.0 billion yen	—
	Post-business segment reclassification	332.6 billion yen	585.0 billion yen	440.0 billion yen
Adjusted operating income ratio		7.6%	10%	10%
EBIT ratio		6.6%	10%	10%
Overseas revenue ratio		64%	67%	70%

*As of June 11, 2015

2-5. Target Position

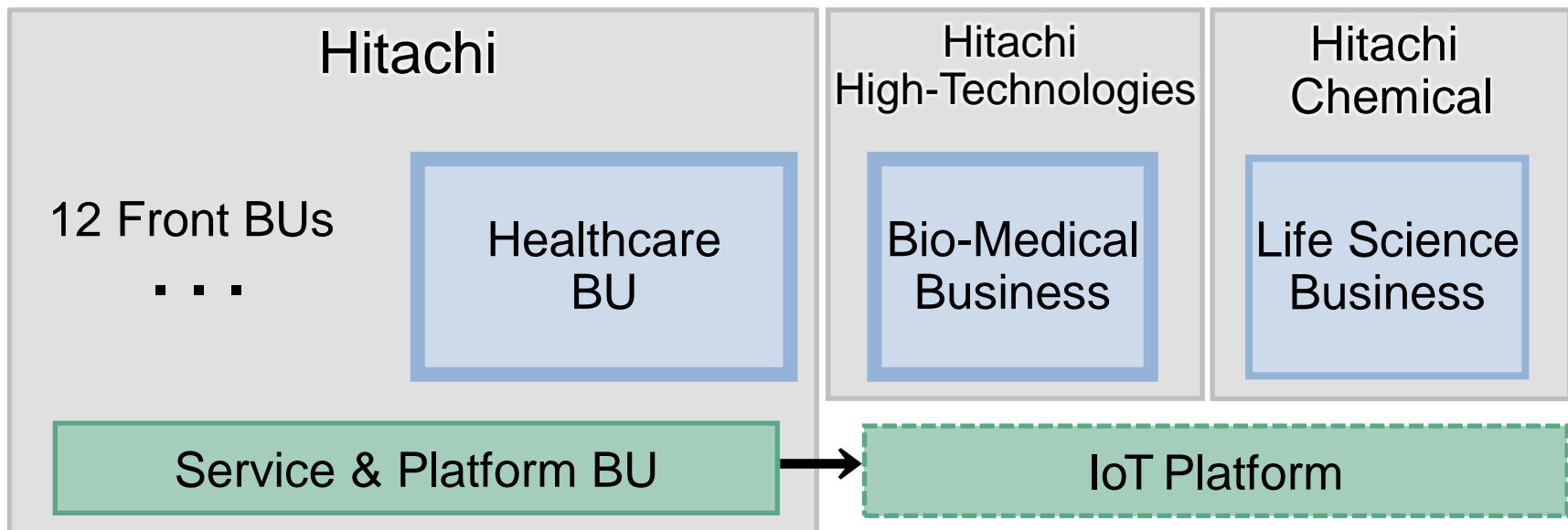
- Change Portfolio to improve profitability and increase growth rate
- Become solution provider featuring by combining Diagnostics & Clinical with Informatics



Hitachi's estimation based on each company's materials
(Circles in the graph are in proportion to revenues)

2-6. New Structure of Hitachi Group's Healthcare Business **HITACHI** Inspire the Next

- Healthcare BU leads all healthcare business as the front-line function
- Realize Hitachi group's comprehensive strength
 - Hitachi High-Technologies: Focus on Bio-Medical Business (Testing & Reagents)
 - Hitachi Chemical: Entered regenerative medicine business (investment in PCT, USA; announced Mar.2016)
 - Cooperate with other Front BUs and 4 regional HQ
- Utilize IoT Platform provided by Service & Platform BU

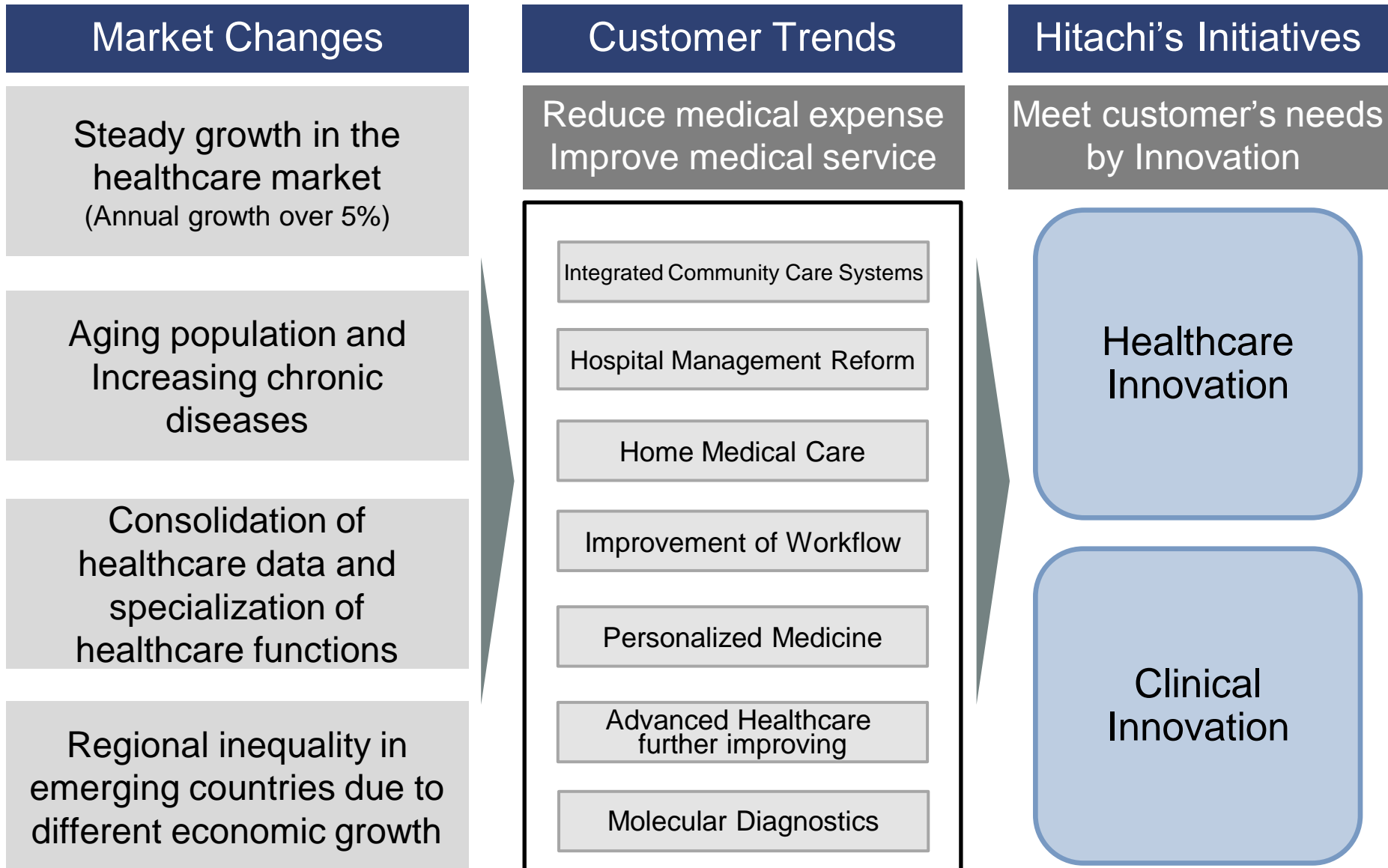


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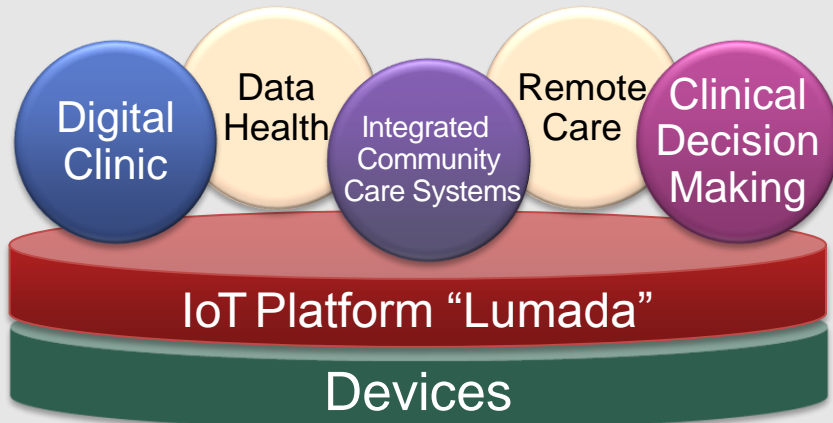
3-1. Market / Customer Trends and Hitachi's Action



3-2. Approaching Philosophy for Innovation

- Collaborative Creation with customers
 - Open innovation with key customers and KOL
 - Utilize tools of collaborative creation(NEXPERIENCE/Cyber-PoC*,etc.)
- Utilize IoT Platform of Hitachi group

Adapt IoT Platform into Healthcare



Cases:

- Prediction maintenance service of MRI
 - Define the root of cause with great accuracy
- Transfer Medical images from examination cars/buses
 - Upload images to medical facilities via cloud
- Vendor Neutral Archive
 - Manage various healthcare data

- Lumada: announced May 2016

KOL: Key Opinion Leader

* NEXPERIENCE/Cyber-Proof of Concept(Cyber-PoC): Service business simulator

Operational Service

- Provide operational services for hospital department
 - Kurume University hospital, etc.(6 facilities) in Japan
 - Global(China, Middle East, etc.)

PET(Cancer, Alzheimer)

Imaging/Examination center

Radiation therapy center

Hospital Management Reform

- Adapt advanced social innovation methods
 - Ethnography, analyze people flow



Bispebjerg and Frederiksberg University Hospital in Denmark

Digital Health

- Digital Clinic
 - Utilize medical data seamlessly

Clinic



Pharmacy



Home

IoT Platform

- Build National Hospital Organization Data Archives

Integrated Community Care Systems

- Examples
 - Kasama City, Buzen City, Fukuoka City, etc.
 - Share and utilize municipal data
- Founded the “Integrated Community Care Solution Center”
 - One Stop solution provider
 - Expand to public-private initiative business

3-4. Action for Clinical Innovation & Improved Economic Outcomes

From Intelligent Operation to Smart Operation

- IoT for integrating devices and utilizing clinical data



Intelligent Operation
15 facilities(results)
→expand globally



SCOT*
Collaborative creation
with Tokyo Women's
Medical University, etc.

Solutions for each clinical area

- Shift from product sales to solution providers
 - Endoscopy Testing / Therapeutic image guide
 - Simulation of liver cancer
 - Prostate IVR navigation
 - Automated whole breast examination
- Expand clinical areas by collaborative creation

Utilization of clinical data

- Predictive analytics
 - Cancer treatment
(predict effects and its side-effects)
- Clinical decision support systems
 - Advanced Solutions(e.g. Lung cancer CAD)
 - AI(Artificial Intelligence) for advancement

Life cycle support

- Advanced maintenance service for optimizing TCO
 - Guarantee the machines' utilization ratio, prediction maintenance
- For Clinics
 - Reduce TCO
 - Provide Consulting, One-Stop Solution

* SCOT: Smart Cyber Operating Theater which is a outsourcing project of Development of Medical Devices and Systems for Advanced Medical Services from Japan Agency for Medical Research and Development(AMED)

CAD: Computer-Aided Diagnosis IVR: Interventional Radiology TCO: Total Cost of Ownership

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4-1. Growth Strategies

Current Position

Diagnostics & Clinical

- Ultrasound: No.1 Market Share in Japan
- PBT: Top 3 Global Market Share

Testing & Reagents

- Clinical chemistry & Immunodiagnostic analyzers: No.1 Global Market Share
- Automated laboratory systems No.1 share in Japan

Informatics

- Customer base in Japan
- Start collaborative creation with prominent hospital in North America

New Business

- Incubation(Regenerative medicine)

Innovation for Growth

FY2018 Target

Ultrasound, PBT: Global Share No.1

- Ultrasound: Expand for each clinical area, focus on POC
- PBT: Providing total solution
- Selection and Concentration

Collaborative creation for providing solutions

- Focus on growing business (gene, microbe)
- Expand “Laboratory System Engineering” business

Informatics for meeting customer’s needs

- Expand Integrated Community Care Systems
- Consolidate business platform In North America

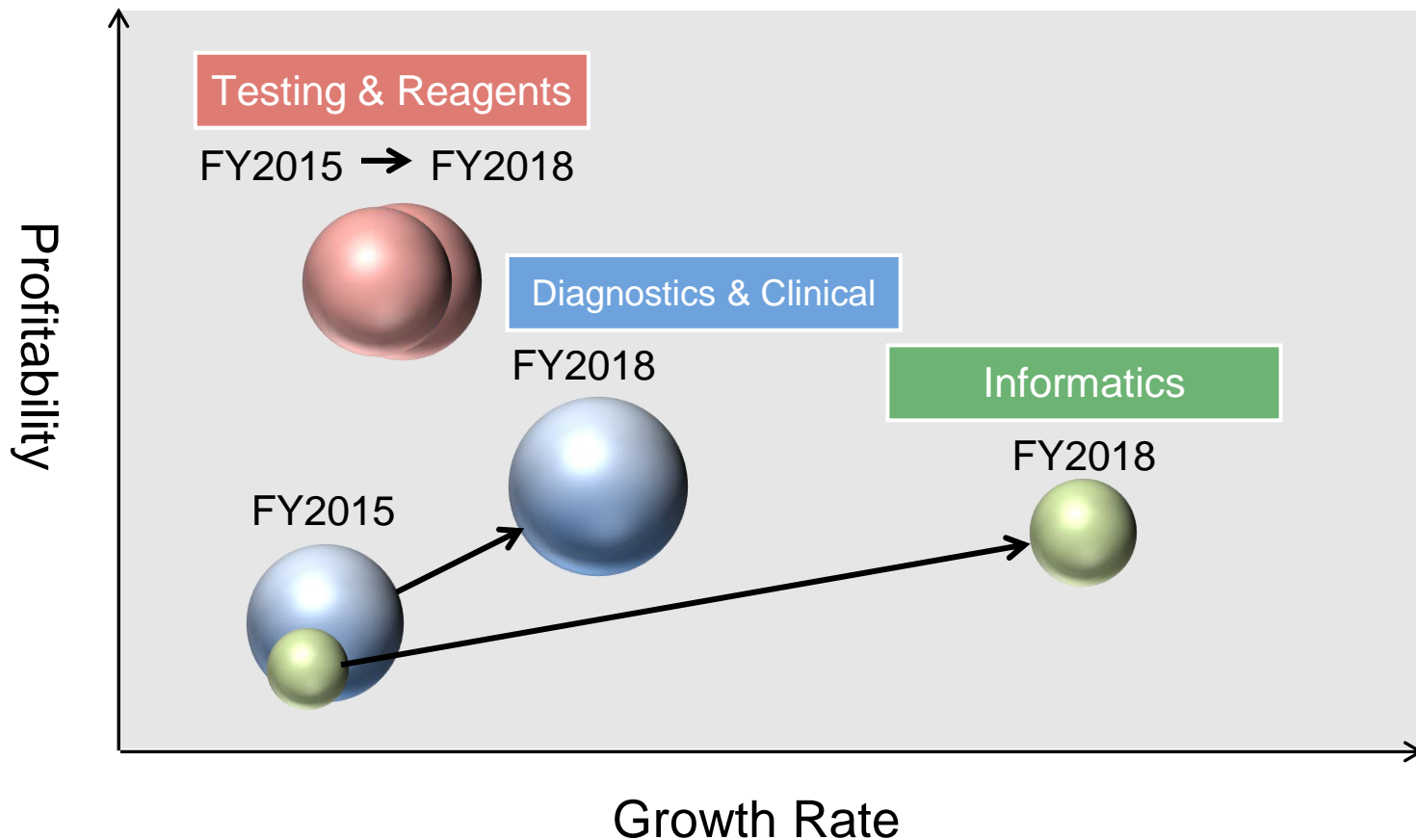
R&D and Investments considering post 2018 Mid-term Management Plan

- Regenerative medicine: Enter cell manufacturing business
- Robotics, etc.

4-2. Target for New Business Portfolio

■ New Portfolio Target

Strengthening the 3 Core Domains shall drive us to higher Profitability and Growth



Circles in the graph are in proportion to revenues

4-3. Radiation Therapy(1) Market Trends and Target

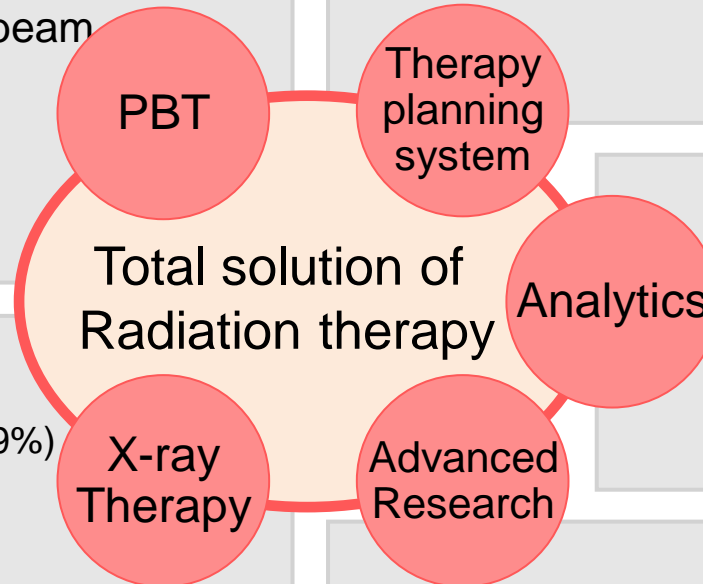
- Growth of market (CAGR:8%)
 - Expand in China, Asia and Europe
 - Low-end model
- Footprint at Top hospitals
 - Various product line-up
e.g. heavy ion and proton beam
 - Took 6 orders in FY2015
(total 17 facilities)

- Market demands for seamless usage
- Provide various line-up
 - Hitachi's software (for PBT)
 - RayStation, Pinnacle³

- Growth of market (CAGR:9%)
 - Growth Expected
in Japan and Asia
- Promote collaboration with Accuray
 - Sales partner to Strategic partner

- Growth of market
- Promote joint study
 - Clinical support
application

- Research for personalized cancer
treatment methods
 - Select optimal cancer treatment by
diagnosing single-cell analysis



Target position

- No.1 Global Share
- The total solution provider for radiation therapy

Growth strategies

- Develop market and cultivate customers aggressively
 - High-end model: Key hospitals in China, Asia and Europe
 - Low-end model: Launch new-model for target customers
 - Collaborative creation with North American KOL's introducing cancer treatment solutions

[Operating facility]



[Orders received facilities]



St. Jude Children's Research Hospital
(the world's first childhood care facility)

Sibley Memorial Hospital,
a member of
Johns Hopkins Medicine

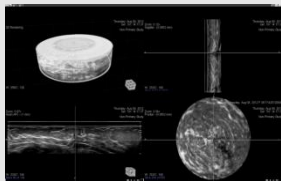
Hong Kong Sanatorium
& Hospital*

Nagamori Memorial Center
of Innovative Cancer
Therapy and Research

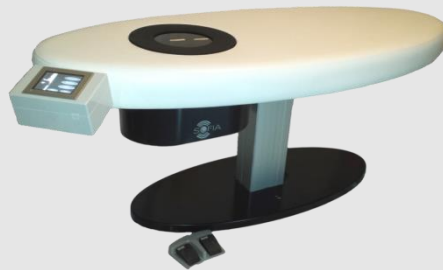
* Design subject to change. For reference only.

Market growth 3%→5% (FY2015-FY2018)

- Easy-to-use ultrasound accepted widely in clinical areas
 - Large demand for applications specializing in specific clinical area
 - Use devices in combination to improve diagnostic and treatment efficiency
 - e.g.
 - Improved Breast Cancer Diagnostic Solution integrating Hitachi ultrasound with technology partner
 - Using Hitachi ultrasound technology for Image Guided Therapy
 - Expansion of POC(primary care, home medical care) market
 - Expansion of market in Emerging countries



Breast cancer diagnosis solution
(Automated whole breast scanner
/iVu imaging corporation)



For POC

Hitachi's position

Market share

- Global 12%*
- Surgery/Urology 22%*

Hitachi's Strength

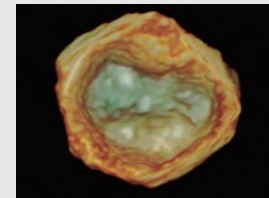
- Industry No.1 provider in number of probe models
 - Applicable to various use
- Differentiation
 - Elasticity scanning: Elastography
 - Visualization of Blood Flow: VFM

Target position

- No.1 Global Share
- The solution provider for all clinical areas

Growth strategies

- Designate unique strategies for each clinical area (e.g. Cardiology, Obstetrics/Gynecology, Radiology)
 - Differentiation with unique application
- Collaboration in diagnosis and therapy market
 - Leader in breast cancer diagnosis
 - Strengthen fields where diagnosis and therapy are integrated with each other
- Expanding business in growing markets
 - Strengthen presence in POC(primary care/home medical care)
 - Strengthen sales network in emerging market



3D transesophageal probe:
Real time 3D display



For surgery

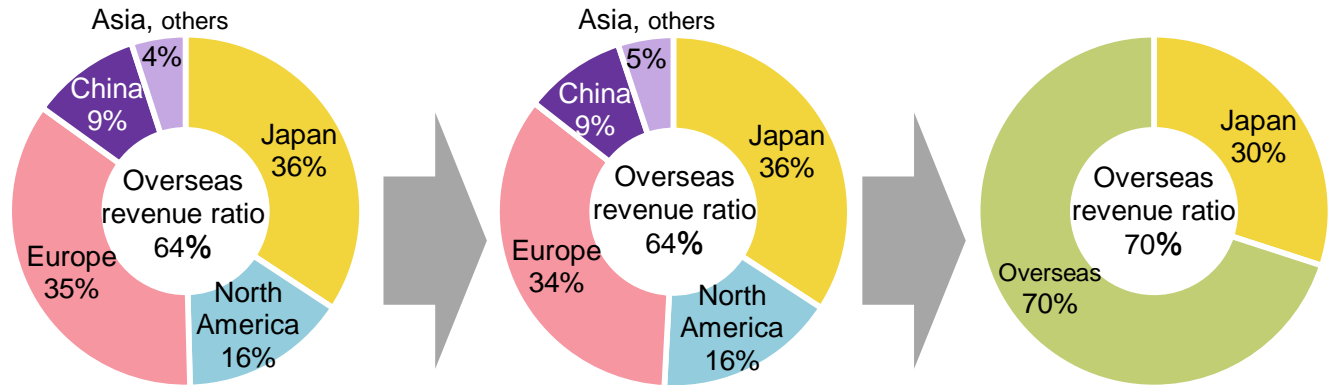


Elasticity scanning
New application:
Shear Wave
Measurement



Probe for operation

4-5. Global Business Target



	FY2015 Result	FY2016 Forecast	FY2018 Target
Overseas revenues	212.9 billion yen	215.0 billion yen	310.0 billion yen

The overseas business shall lead the healthcare business growth

- Strengthen diagnostic imaging sales network: Current approx. 200 distributors → Further strengthen China, Asia and Europe sales network
- Strategic investment: i) Reinforce sales network in emerging markets ii) Informatics
- Focus on North America & China market
 - North America: Established the dedicated team to promote the Informatics and Innovation Business. (Apr. 2016)
 - China: Shift sales resources to private hospitals/expand sales of PBT
- Global operation reform: Enhance SCM and standardize business process

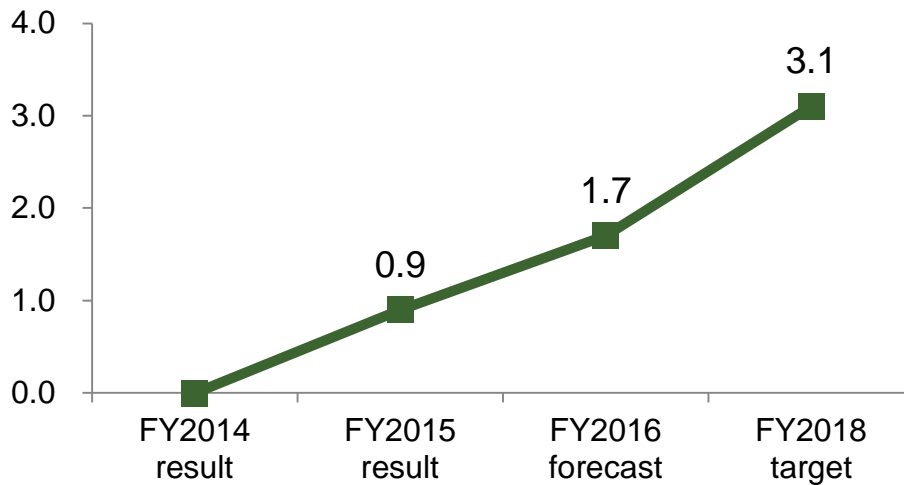
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Improve SG&A margin & generate FCF

Improving points of SG&A margin
(accumulated number since FY2014)



	FY2014 Result	FY2015 Result	FY2016 Forecast	FY2018 Target
CCC	179 days	140 days	116 days	92 days

Above number is indicator of Healthcare BU

CCC: Cash Conversion Cycle

HMC: Hitachi Medical Corporation

HAM: Hitachi Aloka Medical, Ltd.

FY2015 Results

- “Smart Transformation PJ” for optimizing employees in Japan
- Big improvement of FCF by SCM reform
- Integration of HMC and HAM (April 2016)

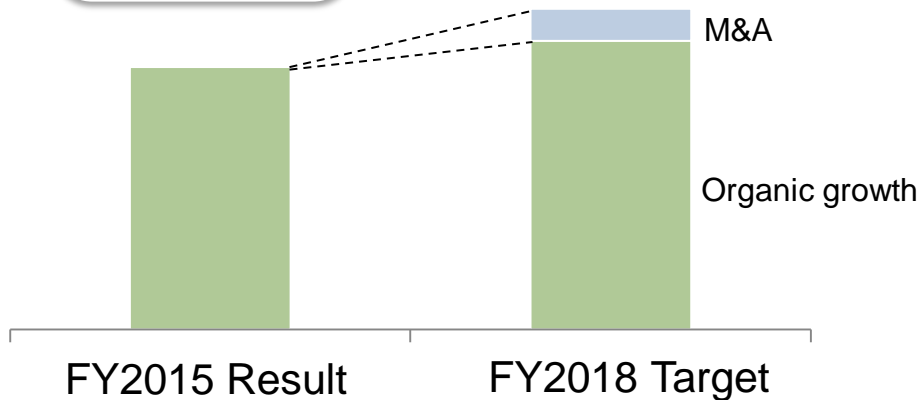
Action of 2018 Mid-term Management Plan

- Evolution of “Smart Transformation PJ” for improving SG&A margin and generating FCF
 - Enjoy the synergy from the integration of HMC and HAM
 - Commodity → Shift to high profit products
 - Loss cost reduction
- Minimize foreign exchange risks

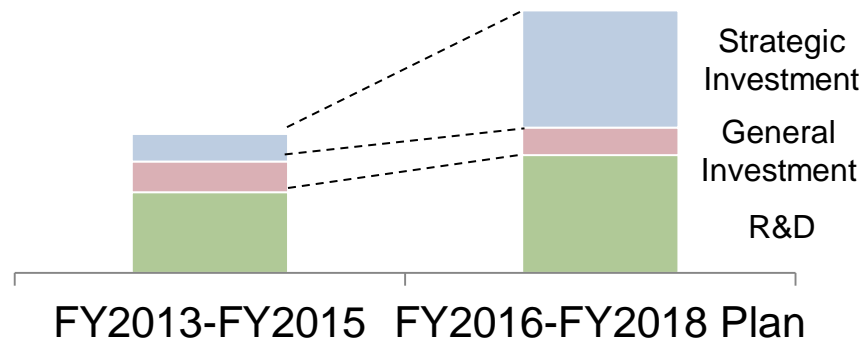
High profitable structure in FY2016

Investment for accelerating Innovation

Revenues



Investment



- Strategic Investment
 - Strengthen Informatics (Global, especially North America)
 - Strengthen global business

- R&D
 - Focus on Informatics and Ultrasound
 - Promote the joint study with KOL
 - R&D considering post 2018 Mid-term Management Plan (Regenerative medicine, Genetic testing, etc.)

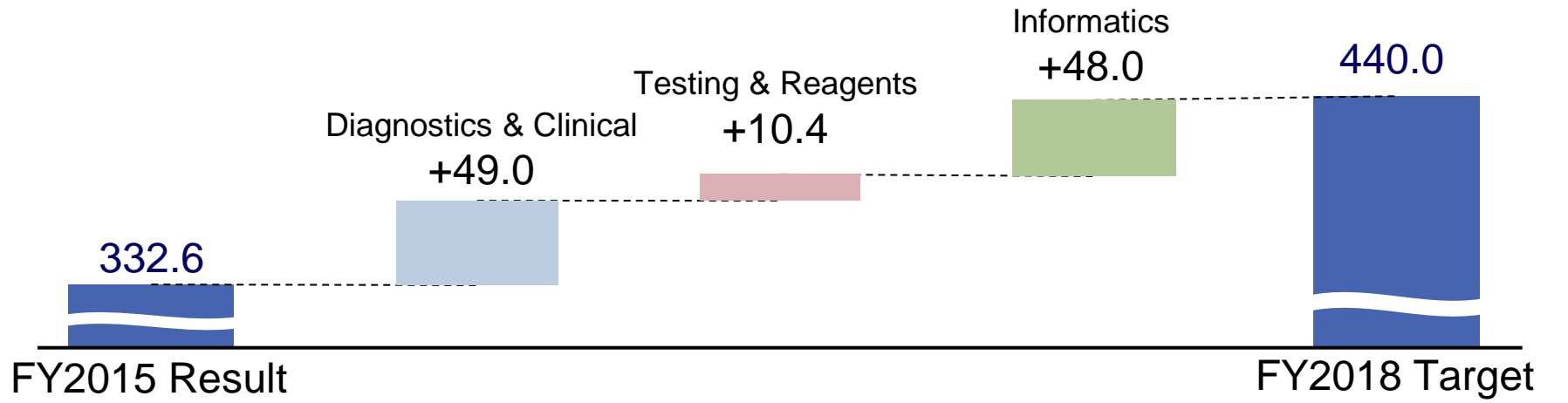
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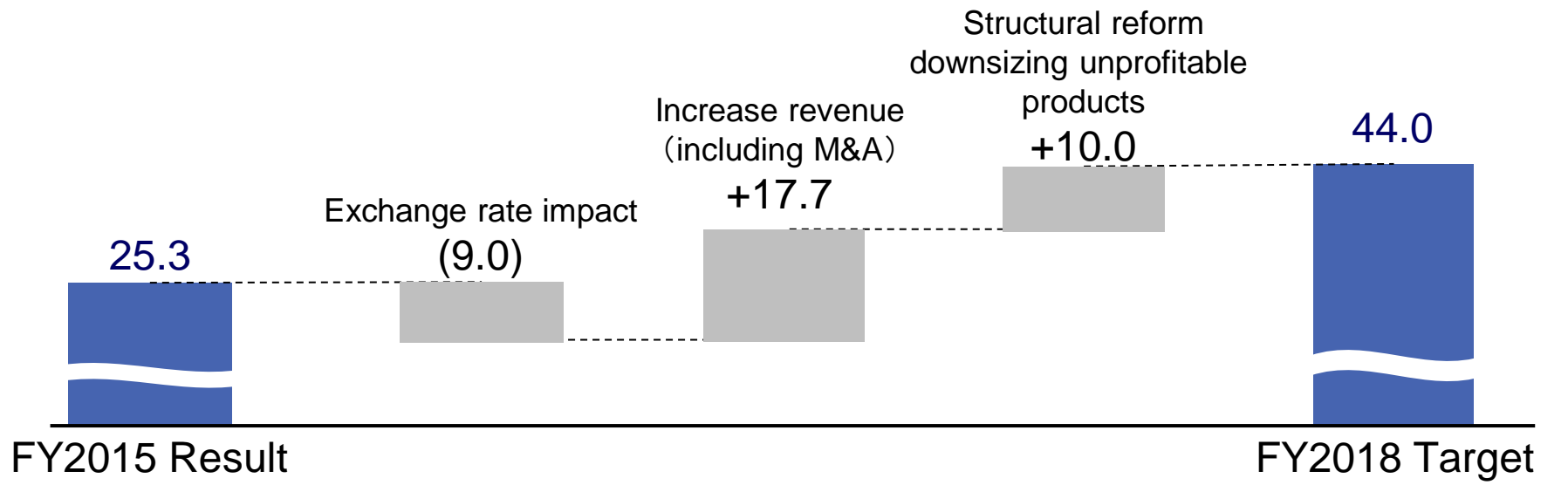
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6-1. Business Performance Trends(1)

[Revenues] (Billion yen)

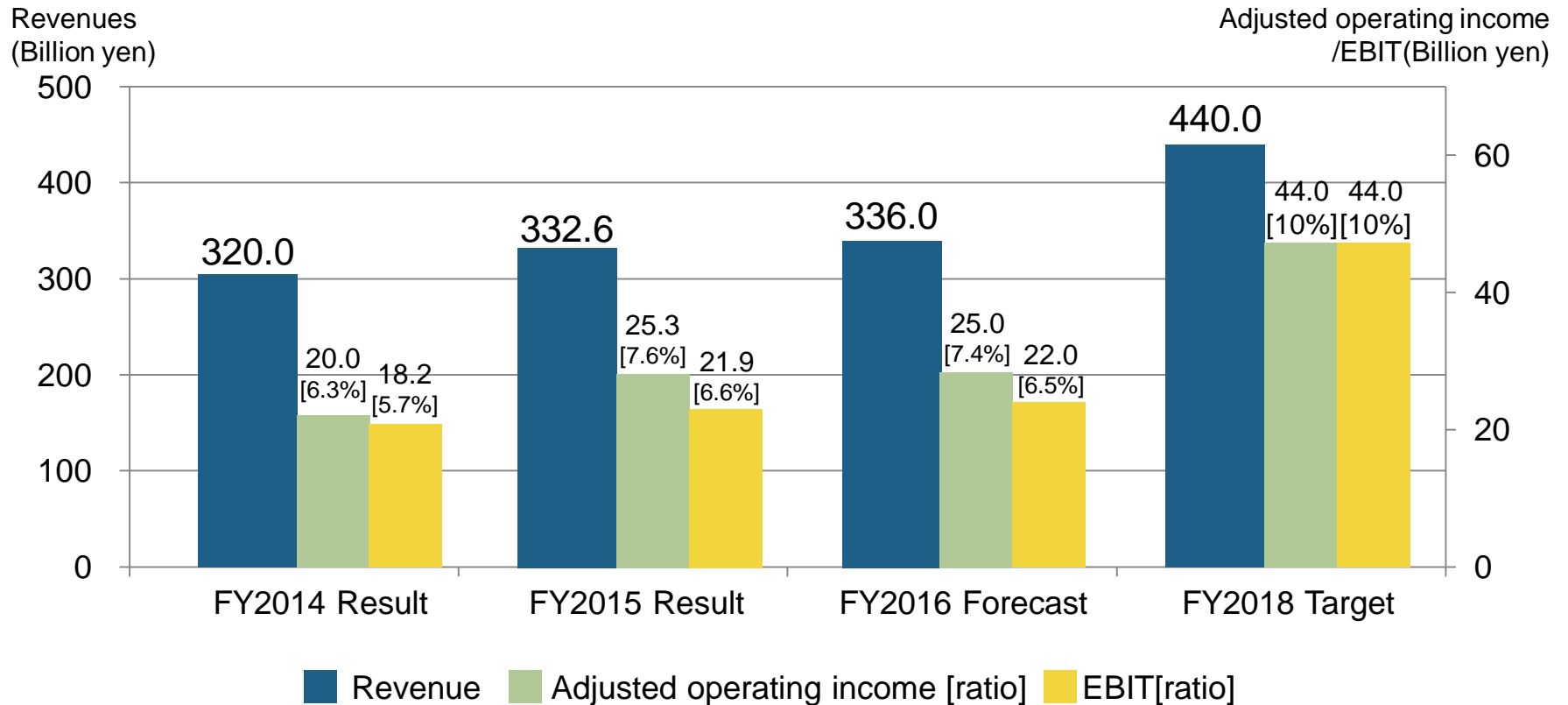


[Adjusted operating income] (Billion yen)



6-1. Business Performance Trends(2)

	FY2014 Result	FY2015 Result	FY2016 Forecast	FY2018 Target
Overseas revenue ratio	65%	64%	64%	70%



FY2018 Target

- Revenues

440 billion yen (132% v.s FY2015)

- Adjusted operating income [EBIT] ratio

10%[10%]

(+ 2.4points [+ 3.4points] v.s FY2015)

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, 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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Inspire the Next