

Honda Briefing on Automobile Electrification Business
speech script

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Honda Motor Co., Ltd.

Speaker: Toshihiro Mibe

Director, President and Representative Executive Officer

Good morning, everyone! Thank you for taking time to join us today.

It has been a year since Honda made a new start with a new management team last April.

Today, I would like to talk about

- Achievements we have made through initiatives we have taken the last several years.
- And “progress we are making in the electrification of our automobile products, since the start of our “New Honda.”

First, let’s look at our initiatives of the past several years.

Since Mr. Hachigo was CEO, Honda has been working to “solidify our existing businesses” and “prepare for new growth.”

Initiatives have sprouted and begun bearing fruit consistently in the areas of our products, businesses and the development of advanced technologies which will lead us to new growth.

As for “solidifying our existing businesses,” delivering strong products, especially automobiles, and strengthening our business structure have been top priorities.

As to automobile products, we launched the all-new Vezel and all-new Civic last year.

Both models have been very well received, and the Civic was named the North American Car of the Year for the third time.

The reason for such high marks is the positive effect of the “reform of our Monozukuri,” which we have been working on the past several years.

Honda has distinctive strengths in such areas as packaging technology to realize cabin space with expansive visibility as well as lightweight technologies. We are focused on enhancing such strengths in our products to please our customers.

With Civic, we began full adoption of Honda Architecture to enable layout integration and component commonization for our vehicles. By applying Honda Architecture to more models, we are becoming more efficient in making good products.

We believe that Vezei and Civic received high acclaim because the reform of our Monozukuri came to fruition in our products.

As for strengthening our business structure, it is increasingly important, not just to improve profitability, but to generate more investments in electrification and new growth areas.

As we announced, we are working to...

- reduce total variations at the trim and option level for global models to one-third by 2025, compared to what we had in 2018,
- and reduce global cost in production by 10% by 2025, compared to 2018.

Thus far, we have reduced the total variations to less than one-half compared to 2018.

As for production cost, we have been optimizing capacity, including discontinuing production in the U.K, Turkey and Sayama Plant in Japan, while also reforming production operations. Thus, we are on track to achieve our 10% reduction target, and our business structure is steadily improving.

From here forward, we will continue to offer high-value products for our customers globally, not just automobiles but motorcycle and power products.

“Preparing for new growth” is the other direction Honda has been pursuing. Last year, we were able to introduce specific themes for our new initiatives, which Honda R&D has been working on the past several years.

This illustration represents the direction of the future “mobility ecosystem” Honda is striving to realize with our original advanced technologies.

We will create more free time for people and expand time and space where people take active roles, to remove any constraints on people’s freedom of mobility.

By realizing such value, we will strive to expand the range of human living and activities, and become a driving force to help change our society.

To this end, we are working on three new areas: eVTOL, an avatar robot and the field of space technology.

We see this as the expansion of Honda’s original business as a mobility company, because core technologies in these areas are an extension of what we amassed in our existing businesses.

I believe the reason we have been able to make steady progress in both existing businesses and new areas is mainly the result of organizational changes and the advancement of operations over the last several years.

From Honda R&D, we took the area of product development and advanced our operational structure by integrating it with business operations.

This change accelerated the “synergy between our technologies and businesses.”

At the same time, we created the Innovative Research Excellence and Innovative Research Excellence – Power Unit & Energy centers at Honda R&D, to enable them to focus on advanced technologies, without being bound by our existing businesses.

In this way, we solidify existing businesses and generate resources, that we can invest in electrification and preparing for new growth.

We will continue and further accelerate through these “two-wheeled” efforts into the future.

Next, let me talk about new initiatives we will take to accelerate our electrification.

Last April, when I assumed responsibility as Global CEO of Honda, we announced these 2050 environmental and safety targets.

Our environmental target to “realize carbon neutrality for all our products and corporate activities by 2050” is by no means an easy thing to do.

But then, why does Honda set such a high target and work toward electrification?

Honda is a mobility company offering a wide range of products including motorcycles, automobiles, power products, outboard motors, and aircraft. This makes Honda the world's largest power unit maker with annual sales of about 30 million units.

To continue serving as a source of power that supports people around the world trying to do things based on their own initiative, Honda strives to realize “the joy and freedom of mobility,” by seeking “zero environmental footprint.”

To this end, we will first work toward carbon neutrality of our mobility products and their power source – the power unit.

To realize our carbon neutrality goal, we must take into consideration our diverse range of mobility products, the diverse ways our customers use our products and their living environment, and also the availability of renewable energy in their markets.

Moreover, we have to see things from the viewpoint of the product lifecycle, and we also must have the perspective of how we can contribute to the total amount of energy and energy efficiency for society as a whole.

Like this image, when we think of carbon neutrality of mobility products, we need to take a multifaceted and multidimensional approach, not just replacement of engines with batteries.

For example, for commercial commuters, including motorcycles and electric tricycle taxis popular in India, we need swappable batteries and a system for efficient use of such batteries, to increase resource efficiency through battery sharing.

For mobility products which require heavy weight and/or long range, utilization of hydrogen fuel cells will be effective. However, to achieve popularization, we need to work on the entire system, including hydrogen supply and storage.

Moreover, from the perspective of improving the efficiency of mobility, in addition to personal mobility products, we must expand the offering of services such as an autonomous vehicle taxi service.

Furthermore, we must optimize how we increase efficiency of society and enhance the convenience of our customers by collecting and analyzing and making recommendations based on data related to mobility, power sources and energy.

We will offer a variety of solutions according to how our customers in various regions use our mobility products. In doing so, we will strive to realize “the joy and freedom of mobility” while leaving “zero environmental footprint” on Earth.

Furthermore, with the connected platform, which connects all these elements, we will enhance the convenience and efficiency of society as a whole.

That is Honda’s approach.

To be more specific, in addition to the advancement of stationary batteries, we will work on various areas including

- popularization of swappable batteries such as Mobile Power Pack,
- widespread adoption of hydrogen fuel cells and systems,
- utilization of carbon-neutral fuels like biofuels and SAF, and
- improvement in efficiency of mobility through an autonomous vehicle mobility service business we are pursuing with GM and GM Cruise.

By pursuing these areas, we will strive to realize multifaceted and multidimensional solutions.

To increase the speed of our initiatives significantly, we made changes this month to our organizational structure and resource allocation.

In the past, our organization was divided by products: motorcycle, automobile and power products.

However, starting this fiscal year, we will spin off some technology areas from each of our product-based business operations.

These are the areas which will become the core of our future competitiveness and will be applicable to all product areas.

To be specific, these are the areas of

- various electrified products and services,
- battery,
- energy,
- Mobile Power Pack,
- hydrogen,
- and areas of software and connected technologies.

These areas will be combined under one organizational structure and led by the newly created Business Development Operations.

With this change, we will increase how quickly we can make a move and enhance the synergy effect by integrating technology and business for multiple product domains.

As for our future plans for resource investments...

we will budget about 8 trillion yen for our research and development expenses over the next 10 years.

For the key target areas of electrification and software technologies, we are planning to devote about 5 trillion yen over the next 10 years, which will include investments.

To prepare for new growth, including new technology areas and resource circulation, which we will pursue from a long-term perspective, we plan to invest about 1 trillion yen over the next 10 years.

Now, Mr. Aoyama will introduce initiatives the newly created Business Development Operations will pursue, especially in the area of EV business.

Then, Mr. Takeuchi will explain our financial strategy which will support this ongoing transformation of Honda. Thank you.

Speaker: Shinji Aoyama

Senior Managing Executive Officer

Hello, everyone.

Starting this April, I became in charge of Business Development Operations. I would like to talk about Honda's initiatives with regard to EVs.

As you know, the key challenge in the EV era is the global procurement of batteries. Honda has two basic approaches.

First...

- For liquid lithium-ion batteries we need now, we will secure stable volume supply by strengthening external partnerships.

Second...

- From the second half of the 2020s, we will further accelerate our independent R&D of next-generation batteries and develop them in-house.

As to the procurement of liquid lithium-ion batteries, we set procurement policies for each respective major market, based on our commitment to “build EV batteries close to the vehicle facility.” This will maintain our competitiveness from a product lifecycle perspective.

In North America, we are planning to procure Ultium batteries from GM.

Separately, we are exploring the possibility of creating a joint venture company for battery production.

In China, we will further strengthen our collaboration with CATL.

In Japan, Honda will first introduce mini-EVs, and we agreed to procure batteries from Envision AESC.

In the meantime, Honda is working on all-solid-state batteries as our next-generation batteries.

As for progress in this area, we have already conducted technology and production verification in the lab and determined target performance.

Then, to establish production technology in-house, we decided to build a demonstration line, to enable us to work on the design of production lines, including production processes, and secure a competitive advantage of our mass-production batteries in performance, cost and safety.

We are planning to invest approx. 43 billion yen, with a goal to make it operational in Sakura-city in Tochigi, in Spring 2024.

We are accelerating research to adopt our next-generation batteries to our EV models in the second half of the 2020s.

But mass-production will be a major challenge for Honda, so we will take a proactive approach, including recruiting more experts, to strengthen our battery production system and capability.

Next, let me talk about more specifics about the introduction of our EV models.

First, through the second half of the 2020s, which will be the dawn of the popularization of EVs, we will introduce products tailored to the characteristics of each region, such as our key EV markets of North America, China and Japan.

In North America, we will first introduce mid- to large-size EV models we are developing jointly with GM.

In 2024, in addition to the Prologue, an all-new Honda-brand EV model, we will introduce a large-size EV SUV model from the Acura brand.

In China, where EVs are becoming popular ahead of other regions, we will leverage their unique characteristics and introduce our EVs speedily through independent and local development.

As we announced last year, we will introduce a total of 10 new EV models in the next 5 years, by 2027.

In Japan, where hybrid vehicles are significantly more popular than any other regions, we will first introduce a commercial-use mini-EV in early 2024, to begin popularizing EVs in the professional and heavy-use area, such as a delivery business.

For the popularization of EVs, we will strive to offer this commercial-use mini-EV in the 1-million-yen price range.

In the meantime, while monitoring market factors such as availability of renewable energy for the entire infrastructure, we will make the timely introduction of personal-use mini-EVs and EV SUVs.

After the second half of the 2020s, we assume it will be the period of EV popularity.

At this stage, we will begin introducing the best EVs from a global perspective.

For example, in 2026, we will begin adopting Honda e:Architecture, an EV platform that combines the hardware and software platform.

This combines the EV hardware platform including the battery with a next-generation electronic platform which will be the foundation for the OTA (over the air updates) needed to advance vehicle functions after the sale.

By combining hardware and software, we can break away from non-recurring business and stay connected with our customers through our products, making it possible for us to continue offering various services and value.

By launching this not only to electrify automobiles, but as a platform to be applied to other mobility products, Honda will strive to offer added value only Honda can provide to our customers.

Moreover, in 2027, through the alliance with GM, we are planning to introduce affordable EVs with cost and range as competitive as those of gasoline-powered vehicles.

Through this joint development, including joint purchasing, we will continue our initiatives to popularize EVs on a global basis.

In the meantime, we recently announced plans to explore an EV business joint venture with Sony. We position this as our “challenge to expand the concept of mobility,” to explore the new value of mobility, that a mobility company could not do alone. By combining the strengths of both companies, we are aiming to introduce software-defined and high-value added EVs in 2025.

This is a joint venture with Sony, which is separate from Honda’s EV lineup.

However, new value created through this joint venture, such as advanced software and entertainment, will be incorporated into Honda products.

Through these initiatives I introduced today, Honda plans to launch 30 EV models globally by 2030, with annual production volume of more than 2 million units. This will include a full lineup from commercial-use mini-EVs to flagship models.

As for EV production operations that enable such volume, we have announced plans to build a dedicated EV plant in Wuhan, China. And we plan to build another one in Guangzhou.

In addition, we are planning for a dedicated EV production line in North America.

As with battery production, building EV products close to the customer will be a source of our competitiveness from the perspective of the product lifecycle. So, we will study the production capacity needed in each key market.

In line with electrification, the new Business Development Operations will be working on strengthening our software and connected technologies.

As Mr. Mibe mentioned earlier, Honda's strength is the greater value we offer not only with each of our products, but when various Honda products become linked and realize a "cross-domain" connectivity. And that is our goal.

To achieve this, we need to implement our "combined solution business" in which we position our electrified products as "terminals" to connect energy and information stored in each product with our users and society. This will offer new value.

To this end, we will work on establishing the cross-domain connected platform, which will be the key component.

At this time, Honda's current competency in the areas of software and connected technologies were combined into the newly-created operation. From here forward, to accelerate development, we will strive for a significant enhancement of our capabilities in the areas of electrification technologies, including batteries, as well as software and connected technologies. This will include strengthening human resource recruiting and adopting technology from outside our company.

Moreover, in addition to strengthening our internal capability, we will proactively pursue inter-industry collaboration and alliances, as well as

investments in startups. Recent examples include Honda taking stakes in SES for battery development and Helm.ai in the area of artificial intelligence.

Through initiatives I explained today, along with the introduction of our EV models, Honda will strive to establish a business that can continue offering a new value of mobility to our customers.

Thank you.

Speaker: Kohei Takeuchi

Director, Executive Vice President and Representative Executive Officer

Good morning, everyone.

I will speak about financial strategies which will support our transformation.

Honda has been conducting business with a primary focus on hardware sales; however, from here forward, while making progress in electrification, we will strive to transform the portfolio of Honda businesses by expanding recurring businesses that offer services to our customers through products that combine hardware with software.

Also, after 2030, we will pursue real-world implementation of our combined solution business and strengthen new businesses in new areas such as eVTOL, avatar robots and space technologies.

To realize such transformation of our business portfolio, Honda has been putting company-wide effort into solidifying our existing businesses.

As Mr. Mibe explained earlier, we have been adopting Honda Architecture, optimizing our production capacity, and steadily implementing these initiatives to solidify our existing business. As a result, the earnings structure of our automobile business, which we needed to address, has been steadily improving.

This chart shows pre-Covid FY2019 consolidated operating profit result and the FY2022 forecast which we announced on February 9 this year.

In addition to our steady efforts to solidify existing businesses, we strived to reduce costs, mainly fixed costs, from all businesses and all regions while facing a difficult business environment due to the pandemic and semiconductor shortage.

As a result, on the basis of FY2022 forecasts, the company-wide ROS is expected to be 5.5% despite the fact that Honda Group automobile unit sales is expected to experience a decrease of about 20%.

When the market makes an expected recovery, we are confident our continuous efforts will enable us to achieve ROS of more than 7%, which had been our mid- to long-term target.

Also, the net cash balance of Honda group companies for business operations at the end of the third quarter ended Dec. 31, 2021, was 1.9 trillion yen, a healthy level despite the severe business environment.

Now, let me explain how we will invest our capital on hand and resources we generate by solidifying existing businesses to achieve further growth.

Honda will invest approx. 8 trillion yen for R&D expenses over the next 10 years.

Approximately 3.5 trillion yen will be allocated in the areas of electrification and software.

Approximately 1 trillion yen will be allocated in new areas such as eVTOL, avatar robot, space technology, as well as intelligent technology and resource circulation, to prepare us for new growth.

Moreover, we are planning to make additional investments of about 1.5 trillion yen in the areas of electrification and software over the next 10 years. This includes investment for construction of dedicated EV production plants. Combined with R&D expenses, we will be investing a total of 5 trillion yen in these areas.

We also will invest in startups with high-potential advanced technologies and business models at a scale of 10 billion yen per year, which will expand the range of Honda technologies and businesses. This will enable Honda to offer attractive products and accelerate new businesses.

As these plans indicate, from here forward, we will further shift our resources toward electrification and software. At the same time, we will utilize alliances and efficiently and effectively manage our resources while deciding what should be done independently by Honda and what should be done in collaboration with others.

As for dividends, we will continue paying shareholder returns continuously and stably.

Lastly, let me explain our funding strategy.

In addition to funds in hand, we will generate more funds by solidifying our existing businesses and utilize external funding methods on an as-needed basis.

As a part of such external funding, we issued Green Bonds totaling US\$2.75 billion in March of this year.

By allocating proceeds from these Green Bonds to the development and production of zero-emission vehicles such as EVs and FCVs, we will further accelerate our initiatives toward the realization of a society that aims for zero environmental impact.

In conclusion, based on the approach we explained today, Honda will further strengthen its business structure to realize more efficient and effective resource management, so that we can accelerate electrification and transform our business portfolio.

Thank you.

Speaker: Toshihiro Mibe

Director, President and Representative Executive Officer

Today, we introduced some of the progress we are making in our electrification initiatives, primarily for automobile business.

For the realization of carbon neutrality, the electrification of motorcycles, Mobile Power Pack and fuel cell also will be important factors.

For those initiatives, we will set up a separate opportunity to introduce our progress.

While taking on these challenges toward carbon neutrality and electrification, Honda always wants to offer FUN for its customers.

The “joy of driving,” which people expect of Honda and Honda always wants to deliver, will be passed on to our models even in the era of electrification.

We are currently exploring global introduction of two sports models, specialty and flagship models, which will embody Honda’s universal sports mindset and distinctive characteristics.

We will be developing these models without compromise, so that we can fulfill the expectations of our fans and customers.

We will continue working harder by setting ambitious goals for our challenge toward carbon neutrality through electrification, for racing and for the development of sports models.

Please keep your expectations high for Honda’s future initiatives.

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