CFO Message

Financial Strategy That Balances Growth with Discipline and Supports Sustainable Corporate Value Improvement

Masao Kawaguchi
Executive Officer
Chief Financial Officer
Chief Officer, Corporate Administration Operations

Being Appointed as CFO

Honda has always grown by developing unique technologies and products, driven by dreams, and creating new value. I'm convinced that this culture of challenge is the source of Honda's competitiveness and our greatest strength for supporting future growth.

The management environment surrounding Honda is becoming increasingly uncertain. In the motorcycle business, the rise of emerging OEMs is resulting in intensifying competition. Despite this, due to our stronger product appeal that involved better fuel economy and sales growth in major markets, in the Fiscal Year Ended March 31, 2026, Honda achieved all-time highs for both sales volume and operating profit.

Meanwhile, in the automobile business, the rise of emerging OEMs with superior cost competitiveness and development speed is creating even more intense competition in the global market. The business environment is also experiencing significant changes including changes in the tariff policy in the United States and revisions to environmental regulations by various countries.

To address these changes in the business environment, Honda has positioned the coming three years as a "focused period of rebuilding the automobile business structure." By steadily advancing the "strategic reallocation of corporate resources," the "thorough strengthening of our manufacturing structure," and the "strategic utilization of external resources," Honda will work to recover the competitiveness of our products and technologies as well as our profitability in the automobile business.

Additionally, to achieve sustainable growth for Honda, it is important not only to pursue short-term profit recovery, but also to continue expanding our businesses and investing in future growth opportunities. From a financial perspective, we will clarify the role of each business and our capital allocation policy, while supporting each business in taking on bold challenges. At the same time, we will strategically allocate Honda's limited corporate resources to areas where medium- to long-term returns exceeding the cost of capital can be expected. Through these initiatives, we will enhance sustainable cash generation and capital efficiency and strive to maximize corporate value.

I would like to discuss our three financial strategy initiatives aimed at achieving enhanced corporate value: "strategic resource allocation," "strengthening management with an awareness of capital costs," and "proactive dialogue with the capital markets."

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Financial Strategy

Strategic Resource Allocation

In a highly uncertain business environment, it's important both to pursue future growth opportunities and to engage in disciplined resource allocation that can respond flexibly to changes in that environment. To achieve sustainable growth, rather than uniformly investing the cash we generate into each sector evenly, Honda will concentrate our corporate resources in key fields and priority regions based on the market environment and business characteristics.

Over the three-year period through the Fiscal Year Ending March 31, 2029, we expect to generate more than ¥7 trillion in company-wide R&D-adjusted CFO, excluding electrification-related losses, with more than ¥5 trillion from the automobile business and more than ¥2 trillion from the motorcycle business.

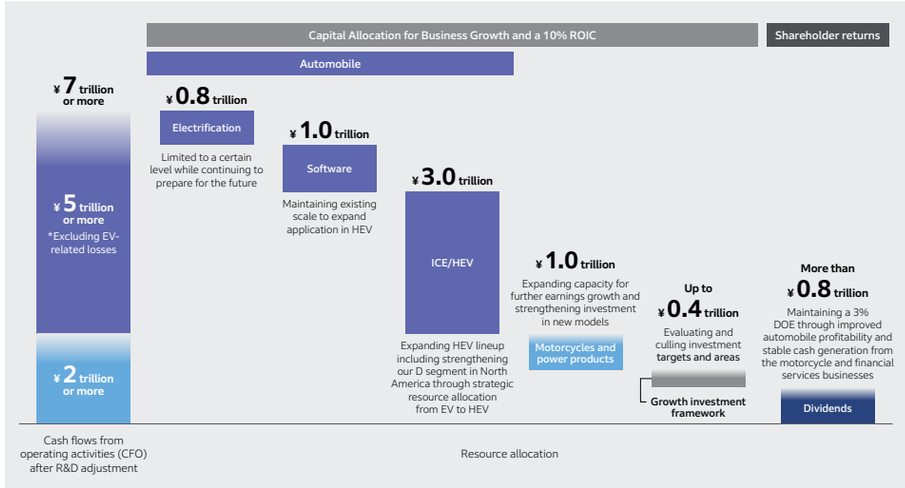
We will use the cash generated by our automobile business to strengthen investment, primarily in ICE and HEV technologies, which underpin our competitiveness in the near term. In the areas of electrification and software, we will continue to make the investments necessary to maintain competitiveness while enhancing investment efficiency through alliances and partnerships. In particular, in areas requiring significant investment, such as batteries and software-defined vehicles (SDVs), we will deepen collaboration with partners to optimize development and investment burdens while strengthening competitiveness.

Meanwhile, the motorcycle business will continue to serve as a stable source of cash generation supporting Honda's overall financial foundation. We will continue investing in capacity expansion and product competitiveness to drive further growth. Cash generated by the motorcycle business will be used not only for reinvestment to support future growth, but also as an important source of funding for stable and consistent shareholder returns.

The cash generated by the motorcycle business will also serve as a source of funding for our medium- to long-term growth as we work to create new pillars of growth. We will accelerate initiatives beyond R&D toward commercialization and monetization in areas such as software, intelligent technologies, battery and energy management, aviation and aerial mobility, and robotics. These are growth areas where Honda can leverage its technologies and expertise, and we aim to cultivate them into new pillars of growth alongside our motorcycle, automobile, power products, and financial services businesses.

In response to changes in the business environment, we will continue to flexibly review our resource allocation. In addition, by pursuing a balance among growth potential, profitability, and capital efficiency, we will strengthen our sustainable cash generation capability and achieve enhanced medium- to long-term corporate value.

Capital Allocation (Three Years from FYE Mar. 31, 2027–2029)



Strengthening Management with an Awareness of Capital Costs

Honda believes that sustainable corporate value enhancement requires each business to generate returns that consistently exceed the cost of capital. ROIC is a key management indicator, and we are targeting a company-wide ROIC of more than 10% in the Fiscal Year Ending March 31, 2031.

To achieve this goal, we must focus not only on revenue expansion, but also on what extent we can generate efficient returns on our invested capital. Honda aims to realize value creation that exceeds the expected returns of our stakeholders through the spread created between ROIC and our capital costs. In other words, through continuous value creation.

To achieve this goal, it is important to advance both profitability improvement and capital efficiency enhancement. We use ROIC as a key management indicator across all businesses and evaluate investment projects not only in terms of business viability and profitability, but also from the perspective of whether they are expected to generate returns exceeding the cost of capital. We will continue to review resource allocation in light of changes in the business environment and business characteristics and allocate corporate resources to areas with greater growth opportunities.

To improve capital efficiency, we are also optimizing our business portfolio and our invested capital and reducing cross-shareholdings. Our goal is to generate returns that exceed our capital costs by improving profitability, strengthening our cash generation capability, and streamlining invested capital to connect to sustainable corporate value enhancement and earn appropriate valuations from the market.

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A Financial Base Supporting Growth

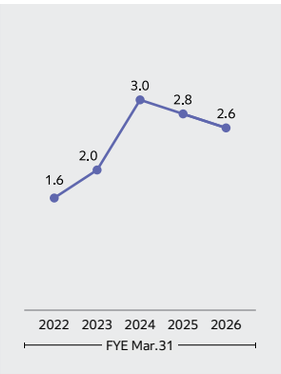
With our cash flows from operating activities (CFO) after R&D adjustment trending at the 3 trillion-yen level, Honda has maintained strong and stable cash generation capability from a financial base centered on ICE and HEV in our automobile business as well as from our motorcycle and financial businesses. I see this financial base as an important source of support for investment in the rebuilding of our automobile business and the electrification and intelligent technologies areas.

Although we recorded electrification-related losses, Honda continues to maintain a healthy cash position. At the Fiscal Year Ended March 31, 2026, the net cash balance of our operating companies stood at 3.3 trillion yen, maintaining a high level of liquidity.

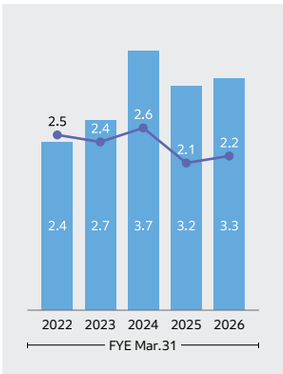
Additionally, to steadily capture future growth opportunities, it is essential to have the financial flexibility to dynamically implement growth investment according to changes in the business environment. As part of that directive, this July, Honda issued euro-denominated corporate bonds to diversify our fundraising methods. By strengthening our fundraising platform, we are securing an ample financial cushion even with an uncertain future business environment and are bolstering the system that allows us to continue making investments into the future.

Going forward, we plan to maintain sufficient on-hand liquidity and stable fundraising capabilities. At the same time, we will invest in rebuilding our automobile business and the electrification and intelligent technologies areas while also strategically investing resources in our steadily expanding motorcycle business and in new areas where we can leverage Honda's technologies and knowledge. Through these initiatives, we aim to balance our sustainable cash generation capability with financial soundness and to achieve enhanced medium- to long-term corporate value.

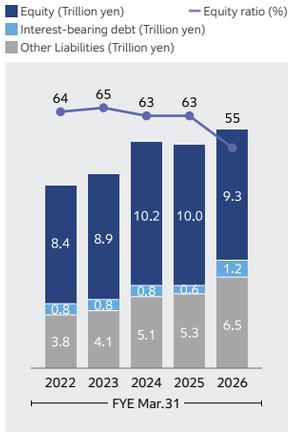
Cash Flows from Operating Activities (CFO) after R&D Adjustment*



Net Cash Fiscal Year-end Balance (Excluding cash and cash equivalents included in assets held for sale)



Equity Ratio and Interest-bearing Debt Balance



* R&D-adjusted cash flows from operating activities (operating companies excluding financial services business + R&D expenditures – transfers to development assets)

Shareholder Returns

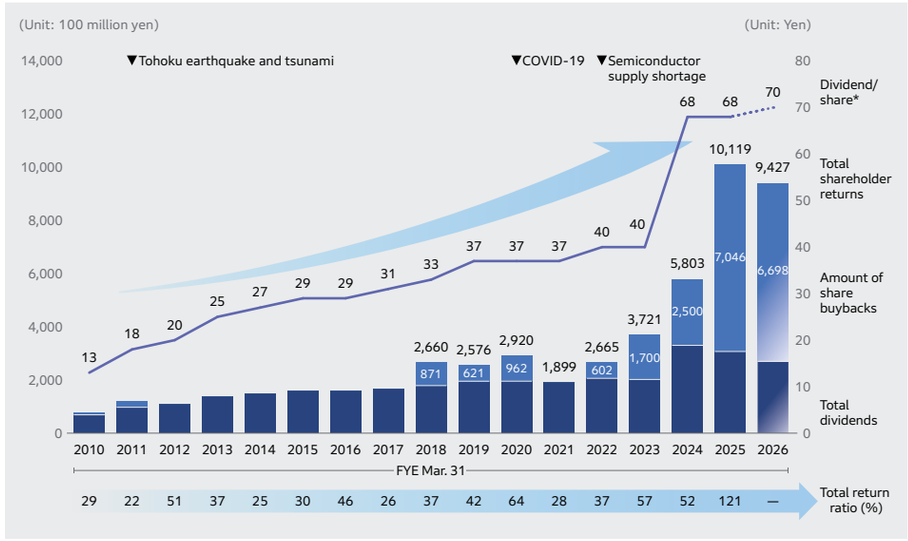
Honda positions returning profits to our shareholders as one of our most important management issues.

Regarding dividends, we returned approximately 1.3 trillion yen to shareholders over the five years through the Fiscal Year Ended March 31, 2026. Over the five years through the Fiscal Year Ending March 31, 2031, we aim to return more than 1.6 trillion yen. In May 2025, we introduced dividend on equity (DOE) as a new shareholder return indicator to support stable dividends and shareholder returns with an awareness of capital costs. Going forward, we will target a DOE of 3.0% as a benchmark for dividends.

This policy is a demonstration of Honda management's strong commitment to steadily returning profits to our shareholders based on a business portfolio that is resilient to changes in the business environment, even as its future remains uncertain due to factors such as tariff policies.

We will also appropriately carry out share buybacks based on the business environment and our financial conditions with the goal of increasing capital efficiency while realizing agile capital policy.

While pursuing the optimal balance between shareholder returns and growth investment, Honda will strive to achieve both enhanced medium- to long-term corporate value and enhanced shareholder value.



* A stock split was conducted with September 30, 2023 as the record date and October 1, 2023 as the effective date. Dividend per share figures have been adjusted accordingly.

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Proactive Dialogue with the Capital Markets

Honda regards constructive dialogue with shareholders and investors as an important management activity.

Through dialogue with our shareholders and investors, Honda works to create understanding of our management policy, business strategies, and approach to value creation, as well as to improve the quality of our management by reflecting the opinions and expectations of the capital markets. Additionally, through continuous dialogue with our shareholders and investors, top management looks for opportunities to review our business and capital efficiency based on objective perspectives.

Moreover, by increasing the transparency of Honda's management through proactive information disclosure and dialogue and deepening mutual understanding with the market, we aim to achieve accurate assessments of the Company's value and growth strategy. I believe that these initiatives will lead not only to improved capital efficiency but also to achieving value creation that exceeds our capital costs.

In addition to quarterly earnings briefings, we hold annual Honda Business Briefing to explain our medium- to long-term view of the business environment, business strategies, financial strategies, and capital allocation. We also hold dedicated briefings on topics of particular interest to the capital markets. In the Fiscal Year Ended March 31, 2026, we conducted an automobile technology workshop focused on next-generation technologies and our initiatives to strengthen competitiveness.

Top management, including our CEO, actively participates in these dialogues and places great importance on direct communication with the capital markets. By further enhancing dialogue and engagement with shareholders and investors, we will strengthen management transparency and accountability while leveraging feedback and expectations from the capital markets to drive management improvement and sustainable value creation.

In addition to expanding our individual shareholder base and encouraging long-term share ownership, Honda is strengthening engagement with shareholders to further expand the community of Honda supporters.

In recent years, we have also improved our experience-based shareholder benefits as opportunities for shareholders to directly experience Honda's uniqueness. Based on our shareholders' desire to experience Honda's products and services firsthand, we provide experience-based shareholder benefits unique to Honda, including the HondaJet Trial Event, Marine Test-Drive Event, Race Viewing, and Safety School Trial Event.

For the Fiscal Year Ending March 31, 2027, we have also adopted new shareholder benefits including apparel and original goods made by Honda's special subsidiary Honda Sun Co., Ltd. Honda Sun was established based on the desire of Soichiro Honda to realize a society in which anyone could be productive regardless of disabilities. It is an initiative that embodies one of the Fundamental Beliefs of the Honda Philosophy of "Respect for the Individual."

I hope that our shareholders can develop a deeper understanding of Honda's businesses and approaches to value creation by experiencing these kinds of initiatives in addition to our products and services. I also want to build a relationship of trust with the shareholders who will support Honda over the long term by helping them empathize with the Honda Philosophy.

By strengthening dialogue and engagement while valuing diverse points of contact with our shareholders, for our shareholders and other stakeholders, we aim to remain a company that the world values and looks to with expectations well into the future.

Topics of Interest to Investors

- Direction of automobile electrification strategy and growth strategy
- Competitive advantages of HEV
- Future direction of the SDV strategy
- Reasons for the strong profitability of the motorcycle business and future growth potential considering our electrification strategy
- Approach to shareholder returns
- Alliances with other companies

Marine Test-Drive Event

HondaJet Trial Event

Honda Sun Goods

Dialogue	FYE Mar. 31				
	2022	2023	2024	2025	2026
Financial results briefing	4	4	4	4	4
Non-deal tours (Japan, U.S., Europe, Asia, etc.)	(Online)	2	7	10	6
Conferences hosted by securities firms	7	6	14	14	12
Briefings for individual investors	—	1	4	6	6
ESG dialogue	25	64	40	49	39

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