HONDA

Investors and Analyst Session for the Fiscal Year Ended March 31, 2025
Financial Results Q&A
Date/Time : May 13, 2025, 17:00-18:00
Speakers :
Toshihiro Mibe, Director, President and Representative Executive Officer
Noriya Kaihara, Director, Executive Vice President and Representative Executive Officer
Eiji Fujimura, Director, Managing Executive Officer

Q: Analyst A

1.

You explained in detail the impact of the tariffs on your plans for this new fiscal year, as the supplemental information you have given us. In this context, I have the impression that the impact of tariffs on parts is a bit large. I was thinking that the tariff refund, which was announced the other day, would make the impact a little lighter. For example, does it include accepting requests from suppliers for price increases? I would like to have some additional information on the impact of the tariffs for the new fiscal year, especially in parts.

2.

Regarding the use of cash or a JPY1.1 trillion share buyback, which has already been announced, I think you have already acquired about half of that. I was thinking that there was a possibility to temporarily suspend the share buyback program because the impact of tariffs would cause a significant decrease in the ability to generate cash flows albeit temporarily. I understand that the fact that the Canadian project has also been postponed for a while has an effect, but is there any change in this capital allocation concept from a medium- to long-term perspective? I would appreciate a slightly more comprehensive explanation including this point.

A: Mibe

1.

As for parts, we are estimating based on the maximum 25% level this time. There are still under investigation, and there is a good possibility that the impact on parts will reduce further. We will revise this again as soon as we can see it with a close examination of the details. We are looking into the details, including certifications of origin, and are considering how much the impact amount can be reduced. Today, including these factors, we have estimated the JPY650 billion tariff impacts and JPY200 billion recovery efforts. I would like you to understand that we will be able to further increase the recovery in the future. The basis for our calculations includes various areas, including motorcycles and PP, so our figure of JPY650 billion are the result of such factors taken into account. We have already started communication with our suppliers to minimize the impacts, including cost reduction.

A: Fujimura

2.

There was never any discussion of suspending the JPY1.1 trillion share buyback. The one-month level is appropriate for net cash. We are now almost halfway through the program, and we currently have net cash of JPY3.2 trillion, which is still the level of a little more than two months. I think the program will probably be completed by December, and at that stage, we will be finally approaching the one-month level. I think we are making good progress in optimizing the cash flows. The Company aims to generate JPY3 trillion level of operating cash flows before R&D adjustment every year. We have always said that this is the way to ensure future investments and stable returns. We assume JPY135, and including tariffs, operating cash flows before R&D adjustment will certainly be lower, but they will still be quite sufficient to provide for the future. In addition, we believe that we will be able to maintain stable dividend payments. That is the situation, we never stop the share buyback. As for the future electrification, there is talk of the delay of the investments in Canada. We will have a business briefing next week on the 20th, and I will be able to talk about the delay in the input of resources for electrification next week.

Q: Analyst B

1.

You have introduced a new return policy, DOE. For example, you will exclude the effect of foreign exchange and market environment based on the DOE. I wonder if it is safe to assume that there will be no dividend cut in such case. Also, how can you balance this with share buybacks? I would like to know the background behind the change in policy and your thoughts on the future.

2.

I would like to confirm if there were BEV-related incentives or transient expenses, which you had not assumed, in the fiscal year that ended. Also, I would like to know what kind of assumptions you are making about the BEV business in your plan for the new fiscal year, such as incentives, number of units, and so on.

A: Mibe

1.

Although the business environment is very uncertain due to the impact of tariffs and other factors, I believe that we can continue to generate stable profits by further improving the profitability of our motorcycle business, financial services business, and HEVs as I explained today. In addition, the Board of Directors has decided today that DOE would be introduced in terms of maintaining capital adequacy after the JPY1.1 trillion share buyback and achieving financial targets. We have always had a policy of stable and continuous dividend payments, and we have decided to adopt DOE this time to demonstrate management's strong more clearly will to commit to stable and continuous shareholder returns even in an uncertain environment.

2.

In the fiscal year that ended, we have already decided to reduce the units of two models supplied by GM, including 2025 and 2026 models, and have set aside JPY53 billion for these losses. In this fiscal year, we have so far included a onetime loss of JPY200 billion in BEVs. Although we may reduce the volume and model lineup a little, we continue to believe that BEVs are the best solution for achieving carbon neutrality by 2050, so we will basically continue to release vehicles as planned, such as the Honda 0 series that we

have announced in the past. We will continue to refine our battery EV business by introducing products to the market, and we will not back down in this area. In other words, the period from 2025 to 2030 is a time to refine battery EV technology and products. We would like to see the battery EV business as a pillar of our business from 2030 onward. Our ICE business, including HEVs, could generate profits of about JPY1 trillion. In terms of battery EVs, we recorded a loss of JPY600 billion in the previous fiscal year and expect a loss of JPY600 billion in the current fiscal year, including a onetime loss of JPY200 billion. However, we will balance the challenge of our future electrification business with the investments of management resources, and our strategy for electrification is to successfully overcome the transitional period during the next five fiscal years, or from 2025 to 2030. We will explain the details on May 20.

A: Fujimura

1.

If we go back to FY2010, our dividend per share was JPY13 after the stock split. From there, we have raised the dividend to JPY68, a five-fold increase in 15 years. Looking back, there were many incidents including the Great East Japan Earthquake, the airbag recall, COVID-19 pandemic, semiconductor supply shortages, and this year's tariffs, but we have been able to consistently increase dividends while we have had some fluctuations in profits over the past 15 years. Therefore, for the future, if we do not go into the red, we will be able to accumulate sufficient equity capital with the DOE policy, and we will continue to do so in such a way as to achieve 3% target. We will decide whether the DOE ratio of 3% is appropriate, depending on how equity capital accumulates, and in this case, we will review the DOE ratio. We will also decide on share buyback in a timely manner.

2.

As onetime expenses in the fiscal year that ended, a negative JPY53 billion was recorded. As for the units of so-called 2025- and 2026-year models, GM and we have mutually agreed on the supply volume. Unfortunately, due to the incentives, there is a negative gross profit margin for GM battery EVs in the US. Although these have not yet been supplied, based on discussions with the audit firm, it has been decided that the loss

should be allocated in advance at the contract stage, so we have allocated a loss of JPY53 billion for the fiscal year that ended.

Q: Analyst C

1.

I would like to know more details on the JPY200 billion tariff recovery measures for each business.

2.

As for China business, looking at the monthly sales, I have the impression that the negative trend has not been halted and that it is difficult to see how far down it will fall. Please give me an update on how your company views the China business and what kind of breakthrough measures you are considering.

A : Fujimura

1.

We don't have specific recovery efforts in mind. As for the JPY650 billion gross amount mentioned earlier, we need to increase the accuracy of the amount to ensure that those items that can be exempted from taxation are secured in full and to minimize the gross amount in such a way as to obtain more certifications of origin. Also, we have to take into account the overall inflationary situation of other companies and in the US, and I believe that recovery from selling prices is also a possibility, of course. We will be very careful in determining this, though. We also need to work together on this with suppliers as well. For example, suppliers in the US import from Mexico, Canada, and other countries, and if they are in Mexico or Canada, for example, we will make sure to obtain certifications of origin. If we can, we will move allocations toward the US. We will work together to do this kind of thing and lower the cost itself. I think that would be included such efforts. Approximately JPY130 billion has been included in motorcycles and power products, about half of which are from tariffs. As you know, regarding motorcycles, we send fun bikes from Thailand and Japan to the US, so we have an influence by that. As for the other half, there will also be investments when the economy worsens and the unit sales

decline in countries such as Thailand, for example. In such case, we will recover through efforts to lower other costs or expenses. We are estimating JPY200 billion, including such items. I would like to include a few more if possible.

A: Mibe

1.

In China, the market for the fiscal year ended March 31, 2025, was 23.74 million units, growing 5.2%. Also, the price competition in the industry continues, and currently CNY40,000 as an incentive is necessary on average. In addition, BYD and other companies have been lowering their prices by repositioning their products. We are aware that the environment surrounding Honda continues to be extremely severe. In fact, in the fiscal year ended March 31, 2025, the unit sales were 786,000 or down 34% YoY, which is a significant drop in volume. This is still a very difficult situation for Honda, an ICE-driven company, because the ICE market is declining and the NEV market is expanding. That is our understanding. To overcome this situation, we launched two EVs in 2024, e:NP2 and e:NS2 in the e:N series, but their unit sales have remained low. For 2025, we will further increase the number of NEV vehicles, and we have just launched the S7 and P7 of the yè series. These two products have received very high evaluations, but the current situation is that they are falling short of the actual sales plan. We believe that one of the reasons for this is the high market price of the products compared to the competitive products. One way to break the deadlock is, for example, to offer special pricing, which is only available for a limited time. Now we are thinking of something like one price. In addition to this, we will introduce the AI from DeepSeek in China in the Over-The-Air, which we announced at the Auto Shanghai the other day, and once the authorities' screening is complete, we will start using it in our vehicles. In this way, we would like to strengthen our product appeal while incorporating Chinese technology and increase sales of EVs and other products. In the meantime, we are naturally trying to reduce fixed costs to cope with the decline in volume. In GAC Honda Automobile, they stopped the line at the third plant and closed the line at the fourth plant. As for Dongfeng Honda Automobile, after the suspension of the line at the second plant, while the current production capacity including ICEs and EVs is still 1.2 million units, the production capacity is already at the 700,000-unit level in terms of the direct personnel. We are currently in the process of reducing indirect personnel as well, and we will carefully

consider further optimization of production capacity since the existing ICE plant has already been depreciated. As such, we are currently promoting fixed cost reduction in all areas. The situation continues to be very difficult, but we have no choice but to steadily strengthen our products, including NEVs, and build a structure that will enable us to compete in the Chinese market. The current situation is that we are looking for the next area of growth while reducing fixed costs in a timely manner to offset the current decrease in the number of units, and at all costs, we aim to make our China business improve.

Following question on 2.

For example, if you look at the picture in about five years, what do you want Honda to do in the China business? I think from the current situation, you will make the China business shrinking and will focus more on the US. Is this understanding correct?

A: Mibe

In the Chinese business, the focus is now the software-defined vehicle, the so-called SDV, and unless we can compete in this area, it will be difficult to improve our Chinese business. In this area, we are thinking of incorporating technology from AI companies in China, but it is very difficult to use that on a global basis. Although we were a little late to the game, we see this intelligent technology as a core part of future SDVs on a global scale. Therefore, we will not change our development plan at all in intelligent technology, although we have said that we would delay our electrification strategy. We will create such technology that will catch up with and even surpass the technology of China without any change of our plan. I believe that after 2030, most cars will probably be SDVs globally. We recognize that if we cannot win in China, we will probably not be able to win globally. It is important to refine key technologies within Honda and link them to the business. I believe that our winning technique will be to create technology while taking advantage of economies of scale, including alliances with Nissan Motor and Mitsubishi Motors.

Q: Analyst D

1.

As for the US, I think the high local procurement rate will increase your competitive advantage, but how do you make the most of this advantage? Will you take market share, or will you and your suppliers have the capacity for that much local production? Please let me know your fight against US tariffs. Also, is it necessary to accumulate a large reserve for the cost of complying with environmental regulations in the future, or is it safe to understand that the risk is decreasing as various regulations are becoming milder?

2.

Regarding the current motorcycle business, are there any changes emerging in terms of unit sales or profitability? At a briefing by another company, there was a comment that the sales financial environment for motorcycles in India is deteriorating and inventories are increasing significantly, so I would like you to focus on India.

A: Mibe

1.

Since we already send almost no cars or finished cars from Japan to the US, we are hardly affected by tariffs between the US and Japan. We have employed the policy of manufacturing products where there is demand. In North America, since the NAFTA era, including the USMCA, we have been looking at North America, Mexico, and Canada, as a single economic zone. Currently, 60% of the cars sold in the US are produced in the US, but 25% are produced in Canada, and the remaining 15% are finished cars sent to the US from Mexico, so the current situation is that we are quite much affected by tariffs in the USMCA. We are looking into the impact of the tariffs, but the impact is a quite large. So, if the impact is prolonged, we will reevaluate the situation, including the allocations for production. What this means is that we think it may be necessary in the medium term to increase production in the US a little. There are various ways to do this, and we are currently conducting various studies. The factories in the US are currently operating two shifts, so by running three shifts, for example, and including weekends in the operation, we can increase production. That is what can be done in existing factories. If the impact is prolonged, there will be the possibility of new investments. In any case, we would like to make a business decision at the necessary time in the future, as the impacts on the employment and supply chain in US will be large as well. Also, I will talk about

environmental regulations on May 20, but assuming that the most impactful aspect, the ACCII standard, we are reviewing the electrification strategy quite a bit. I think the risk of battery EV business is decreasing, but it is still difficult to do business in this environment, including, for example, the cost of batteries. We are currently in a situation where we have to offer considerable incentives if we try to sell the target units. So, I believe that the risk will continue, but the risk has become smaller than it was at one time. Over the next five years or so, we will further develop battery EV technologies, including cost reductions, and change the business structure so that it will be profitable by 2030. We will revise the EV strategy, but we never think that we will stop producing EVs. We would like to keep the business at an appropriate volume and aim to make it profitable by 2030 while polishing the EV business.

A: Kaihara

2.

First, in terms of the global market, we expect the market to remain mostly unchanged or be slightly positive. The level of 51 million units may go to almost 52 million units. Honda's unit sales for the current fiscal year were 20.57 million, and we expect to steadily expand this figure to 21.3 million units. By market, Vietnam, Indonesia, India, and Brazil continue to be strong to some extent, and we believe that we will be able to increase unit sales in each of these markets beyond the current fiscal year. In India, as you pointed out the sales finance, we are aware that the southern part of India is still in a bit of a difficult situation, but in other regions such as the western part, there are areas where the market continues to be strong. Therefore, we expect the market to grow. Honda will continue to focus on the Activa125, the best-selling scooter in India, as its main model, and the SP125, another new motorcycle, with a sporty appearance to stimulate customer demand. We expect the Indian market to reach approximately 5.6 million units in the current fiscal year compared to 5.3 million units in the previous fiscal year. While the overall market is growing slightly, we expect the market to remain almost flat or increase a little, but with 5.6 million units, we think we are at a level where we can aim for the number one position in the Indian market.

A: Mibe

2.

In India, Hero MotoCorp has the number one market share, and in the last fiscal year, Hero MotoCorp's share was 29.5% and Honda's share was 28.3%, so our goal for this fiscal year is to catch Hero MotoCorp and capture the number one position in the Indian market.

Q: Analyst E

1.

I am concerned about the JPY200 billion in tariff impact recovery efforts. If you consider the short-term measures and the medium- to long-term measures, how much of the tariff impacts can your company expect to recover over the next two to three years? For example, if you bring 200,000 units to the US, can you expect an increase of JPY200 billion or JPY300 billion?

2.

The structure of the industry has changed dramatically since February, and I would like you to explain the most recent updates about the relationship with Nissan Motor and the progress in strengthening the technological linkage.

A : Fujimura

1.

I think it is quite difficult. As you know, we are currently negotiating on finished cars in Canada and Mexico, and around 550,000 units will be allocated to the US. Imports from other regions are very few. We originally planned to send CIVICs from Japan this year or so, but we have put a stop to this. We have begun to produce them in Indiana in the US, but we will probably have to invest in automation, hire more people to operate three shifts instead of two shifts, and see how far suppliers can keep up with us, to produce 550,000 units. I am sure we will continue to do so while keeping a close eye on trends, but I think the question is how much can be cut from the approximately 300 billion as an impact of 550,000 units, by how much we would allocate to the US. On the other hand,

since this is a rule, we do not know what will happen. The amount of exemption for parts was announced at the end of April. Since the amount of exemption will gradually decrease, we will have to make up for this as well. We have already released information on the amount of JPY650 billion based on the available information, and we will recover JPY200 billion from that amount. I would like to say that we will absorb this amount as a corporate effort. However, but I would like to refrain from telling how much we are going to do and how we will do today.

A: Mibe

2.

As for the management integration with Nissan Motor, as announced on February 13, it fell apart and has not progressed since then. On the other hand, the MOU for strategic partnership that was signed last August is still in effect, and we are continuing discussions with them and Mitsubishi Motors as well to consider maximizing our collaboration. Some of the items we decided on at that time were joint research on the next generation SDV platform, battery mutual supply, eAxle, vehicle complementation, domestic energy services, and collaboration in resource recycling. It has been quite some time since these have been decided and we are now in the process of scrutinizing them once again, including their effectiveness. In addition, the environment surrounding us has changed considerably, including the current tariff issue, and we are currently discussing new areas of collaboration, including consideration of synergies that could be achieved. In any case, our thinking remains that scaling is extremely powerful weapon in the areas of electrification and intelligence, and we believe that even without capital tie-ups, we will be able to produce results on a project basis in a very short period. The three companies are currently discussing various issues from the perspective of maximizing synergy effects on a project basis with a sense of urgency, and we will inform you of any further decisions that are made.