

HONDA

Investors and Analyst Session for Fiscal First Half Year Ended September 30, 2024

Financial Results Q&A

Date/Time : November 6, 2024, 17:00-18:00

Speakers :

Shinji Aoyama Director, Executive Vice President and Representative Executive Officer

Eiji Fujimura Director, Managing Executive Officer

Masao Kawaguchi Operating Executive, Head of Accounting and Finance Supervisory Unit

Q: Analyst A

1. I would like to ask you to explain about your Q2 results, how they compare to the internal plan, and whether there are any one-time costs or not, including warranty expenses that were considerably inflated for Q2.
2. I would like you to explain the situation in North America, and the situation of ICE and hybrids and battery EV, respectively. In your first explanation, you mentioned expanding incentives for battery EV. I would like to know what the level of incentives are for ICE, hybrids and for battery EV.

A: Aoyama

1. First of all, in terms of the Q2 results against the internal plan, the Q2 results deviated from the original plan by slightly less than JPY30 billion due to the foreign currency effects other than the US dollar. Specifically, the effect of the Mexican peso, the Canadian dollar, the Argentine peso, and other currencies is less than JPY30 billion. On the other hand, we have recorded warranty expenses, which we consider to be a one-time cost for the full year, but which were a negative factor of about JPY80 billion in Q2. So first, these two items will be JPY110 billion, and we expect that both will basically be eliminated for the full year. The incentives for battery EV have been inflated compared to what was originally planned, resulting in a negative balance of approximately JPY50 billion. In addition, there are some negative factors, including a decrease in unit sales in China and other Asian countries, but the positive factor is that although we have increased incentives for hybrids and battery EV, we are curtailing incentives for ICE and hybrids, which is a plus compared to the initial plan. Plus means that we are moving toward the positive. In addition, the strong performance of motorcycles in Asia and Brazil is also contributing to the positive trend, and the negative factor is approximately JPY150 billion compared to the initial forecast. However, we believe that less than JPY110 billion of this amount is considered to be transient.
2. Regarding ICE and hybrids in North America, which is also related to the second question, ICE and hybrids are performing well. As I mentioned earlier, we are moving in the direction

of curtailing incentives, and this will have an effect in the direction of curtailing in the full term as well. Regarding incentives for battery EV, we plan to sell approximately less than 70,000 units this fiscal year. We have secured funds for H2 as in H1.

A: Fujimura

1. As mentioned earlier, excluding the negative JPY100 billion from the JPY150 billion plan, it is around JPY45 billion or JPY50 billion. In Q2, the negative factors are battery EV, the decrease in unit sales in China and Thailand. The positive factors are ICE and motorcycles. The point is how this will work in the full fiscal year. As for the negative factors of battery EV, China, and the Asian region, we are forecasting a negative JPY150 billion for the full year due to the deterioration of these two factors compared to the full-year plan we announced last time in the summer. However, the above-mentioned measures for ICE and motorcycles, including curbing incentives and the strong performance of motorcycles, as well as reviewing the exchange rate, will add about JPY50 billion to the total. The approximately JPY150 billion deterioration in China, Asia, and battery EV will be covered by other areas. In addition, naturally, in this situation, the entire company will work together to control expenses. I think Q2 may have come as a bit of a surprise to some of you, but we are determined to achieve our initial goal of JPY1.42 trillion for the full year.

Following question on 1.

How much do you expect the US incentives to be in quantitative terms? Actual H1 figures and projected figures would be appreciated.

A: Fujimura

1. For H1, in Q2, it is about USD1,800 on a cash basis. The incentives for battery EV have been thickened considerably, but the incentives for ICE have been reduced to such a level. For the full year, on average it is around USD1,900. For some time now, ACURA's incentives are a little higher, but Honda's incentives are USD1,450, including the battery and EV, in the plan.

Q: Analyst B

1. I would like to confirm the contents of the revised plan for profits of equity method. I think the JPY25 billion reduction is probably due in part to transitory factors, so if possible, in considering the next fiscal year, I would like to know what transitory factors are included, and the scale of the amount as well.
2. I would like to know about your thoughts on share buybacks. You have announced an additional JPY100 billion this time, and the deadline is set for October of next year.

Considering the recent pace of share buybacks, I have a feeling that the buyback will be completed sooner. I would like to know what kind of message, or rather, what kind of decision the Company is making behind the size of the amount of money and the deadline.

A: Fujimura

1. In terms of the difference, the plan was revised downward by JPY25 billion for profits of equity methods, but this was due to the drop in unit sales in China. In China, we are trying to absorb the impact by mixing models, devising incentives, and so on. In addition to this impact, if we were to mention this, the Company name would be known. As for the compensation, operating profit in H1 included negative JPY80 billion, but we expect that the compensation would be partially available, which is a transitory factor included in domestic affiliates in H2. In terms of the composition, in the profits of equity method of negative JPY55 billion for this year, as a transitory factor, first, the structural reforms in China include the negative impact of about JPY20 billion. The domestic suppliers also include approximately negative JPY15 billion. I would like you to take the JPY55 billion as including these transitory factors of about JPY35 billion. In China, the negative figure in the actual business of about JPY30 billion is included. We have reduced the capacity to 1.2 million units this year. This depends on the extent to which fiscal year will occur next year, but we believe that the effect of fixed cost reductions will be reversed in the next fiscal year and beyond. As I mentioned earlier, the remaining negative figure of JPY55 billion is the sum of the negative impact from the money related to the development of an affiliate and the positive impact of approximately JPY40 billion in profits of equity method from motorcycle business in Indonesia.
2. The JPY100 billion we have added to the share buyback this time is intended to come from a slightly different source than in the past. As for non-ownership of our shares, we cleared shares held by financial companies by putting them up for sale during H1, but we also cleared our holdings. We have plans to clear some of the cross shareholdings we originally had. The cash inflow from such cross shareholdings should be returned to the shareholders, as we are aiming to improve capital efficiency. Naturally, considering the current cash status, net cash of JPY3.5 trillion is as large as ever. Most of all, the fund comes from the source as I mentioned earlier, so we are adding JPY100 billion to the amount. The reason why the deadline is set for October is that we are taking a little longer, and there is no particular reason for this.

Following question on 1.

Regarding the first point about China, I believe that the structural reforms will be going. I would like to know how we should understand the possibility of another round of reforms in the next fiscal year or so.

A: Aoyama

1. Nothing has been decided yet, but considering the situation, we are determined to reduce fixed costs. Although we have reduced the capacity we believe that we have no choice but to reduce fixed costs.

Q: Analyst C

1. You said that you planned to sell about 70,000 batteries this fiscal year, but was this limited to the US? Regarding the implications of selling so many units with a big incentive, I think this will involve regulations for the next fiscal year and beyond, and credits for that kind of thing. Please tell us the implications of this, that you have to work so hard to sell so many units.
2. The motorcycle business has been revised upward again this time, and I think it is continuing to be strong. Again, please update us on the competitive situation of your company in the major markets, the profit environment.

A: Aoyama

1. First, the number of units is in North America. For battery EV, less than 70,000 units have been sold in North America. In fact, the plan includes China, Europe, and Japan, so the sales plan for battery EV as a whole is 100,000 units for the fiscal year ending March 2025. Of these, less than 70,000 are in North America, so the incentives are being used mainly in North America. In North America, in particular, the battery EV that we are developing and producing will be launched in the 2026 model year, and we are basically trying to build momentum toward that time. On the other hand, as you pointed out, it is naturally a question of whether we can use incentives more and more to create momentum, and in addition to the incentives, we must also take into consideration compliance with environmental regulations, and the number of units required to meet the regulations. While building momentum, we have to look at things like how to control incentives, how to respond to regulations, and in addition, the number of battery EV and rather, credit trading. We are now thinking that we will have to develop a mix of various things. ACC1 is until the 2025 model year, but from the 2026 model year, ACC2 is applied in ZEV states. The GHG

as a whole is currently fine, but we are planning to increase the volume to meet the needs of ACC1 and ACC2, but we would like to balance this with the overall profitability.

2. As for the strong performance of motorcycles compared to the previous year, we had already factored in the fact that the market itself was difficult, but excluding Thailand, where the volume is down a little, we are planning to take over Hero Motocorp's number one share in India this year and become Honda as number one. In addition to the fact that sales are very strong in those areas, the market in Vietnam is returning faster than originally expected. Moreover, sales have been extremely strong in Brazil, and production capacity has not been able to keep up with demand. We will gradually increase production capacity there in stages to meet the large demand. Vietnam, India, and Indonesia, which is under the equity method. I hope you can understand that Vietnam, Brazil, and India are doing very well.

Following question on 1.

The way you put the full-year profit plan for the motorcycle business this time, have you already included the full amount in the budget? I think there is still a tendency for the motorcycle business to be upswinging, so let me confirm your thoughts on whether there is still an opportunity in this plan.

A: Fujimura

1. we have put in quite a bit, so please understand that we are expecting the same rate as last year and a larger amount than last year.

Q: Analyst D

1. When you said JPY50 billion earlier, for 15,000 units sold during the July to September period, JPY50 billion in incentives would correspond to about 20,000 units, which I think is a little too large, so I would like to confirm what you meant by JPY50 billion. I think that this incentive will be the same in H2 as in H1, and that the number of units will probably increase in the next fiscal year as well, and that the incentive will not decrease in the least. Is that the right way to think about it? Also, I think at first, the battery plant joint venture with LGES is an increase in initial expenses, but could you also tell me how this will be accounted for? If possible, if you could cut out just the battery EV and put it in a separate division, I know that it would probably cost a lot of initial costs, so I think we can find out the other costs and the actual value. My question is about the costs related to the battery EV.

2. In the area of warranty expenses, you just told us the YoY ratio, and I think it was high last year as well. What percentage was that to Q2 sales, and how much should be subtracted when returning to the actual value?

A: Aoyama

1. Incentives were as you calculated. The JPY50 billion is not all allocated for the 15,000 units, but half of it is positioned as an allowance for inventory. The breakdown is as follows: about JPY25 billion is the portion actually spent, and about JPY25 billion is for an allowance. I wonder if the incentive will not decrease in the next fiscal year as well. As I mentioned in the previous question, the impact on overall earnings, the impact of incentives, the impact of compliance with regulations, and the impact of building momentum in expanding sales of battery EV, which is a qualitative factor. We are still considering how to strike a balance of these, and since we do not believe that the current situation is acceptable as it is, we would like to examine this issue carefully and thoroughly. There are still some discussions about ACC2 itself in the US and in the industry, so I think we need to consider this issue as well. Regarding the initial cost of LGES, it will already be up and running in the next fiscal year ending March 2026.

A: Fujimura

2. As for the LGES part, at the moment, for us it is an investment. Please understand that it will become profit of equity method with respect to start-up costs that will not be recorded as investments at their place from the next fiscal year onward, and the final amount will come in as a negative figure.

A: Kawaguchi

2. In Q2, we have had three to four major cases of warranty expenses mainly for automobiles, and we have already responded to them with recalls, so you are probably familiar with the details of the recalls. In addition to that, there have actually been several recalls on motorcycles, and we have recorded a fairly large amount of reserves in Q2 for those as well. For Q2 in three months, the ratio to sales has risen to about 2.7%. Naturally, our budget is based on 1.2% of sales, so compared to the original budget, the effect is about JPY80 billion less than we had originally estimated, as Aoyama mentioned earlier. However, it is difficult to clearly state, but we have budgeted for quality projects, especially for automobiles, on the assumption that we will negotiate with our partners and ask for compensation in H2. Most, but not all, of the recall costs incurred for automobiles will be recovered in H2 in terms of operating profit. We hope you understand that we are considering this way.

Following question on 1.

I think the incentives for most battery EVs are as per the auto-data. If so, I'm a little curious about your company's sales, I have the impression that they are quite a bit better than GM's sibling models. What is your assessment? I don't think you offer more incentives than GM, so does that simply mean that more Honda customers are looking for battery EV?

A: Aoyama

1. We need to do a little more customer analysis. I'm afraid this is a bit of a gut feeling, but I think the West Coast, especially California, is the center of the market. I think it can be said that the relative number of Honda customers is originally higher along the West Coast. GM may have their own reasons, but we understand that a high percentage of our customers are based in California, as well as on the East Coast, and that there are many who are looking for our battery EV.

Q: Analyst E

1. The point may go back to the question at the beginning, but could you explain again the risks and opportunities for the JPY1.42 trillion in revenues?
2. About the EV incentive, which has been discussed a lot, but first, if possible, please explain how the USD1,900 incentive is now per unit for EV, hybrids and ICE vehicles. And then, could you tell us what the cost gap is between buying credits for ACC2 and selling EV? I think you have no choice but to wait until the zero series comes out, but I am still a little concerned about this increase in EV incentives. Maybe the idea is to sell EV, considering the reputation risk, and not buying credits, but I would be very grateful if you could explain this again.

A: Aoyama

1. The level of trading of credits in ACC2 is still at a very troubling stage. First, the framework for ACC2 itself is still under discussion. Originally, the penalty is USD20,000 per vehicle for failure to meet. Now ACC2 is starting from 2026 model, but until 2025 model, it is working within the framework of ACC1. For ACC1, we are moving forward positively so far. It's positive, so of course that can carry over to the 2026 model and beyond with a certain percentage. However, the discussion has not yet been finalized on the ratio of such a certain percentage. Although we have made various calculations based on the assumption of a certain value of credits, the framework itself still seems to be in motion. We are still in the

process of conducting various simulations to determine how to combine the incentive, volume, regulation, and credit trading, so it is difficult to give an accurate answer to this question here.

A: Kawaguchi

1. I will talk about risks and opportunities. As for opportunities, in terms of external environment, the first is the exchange rate. As you already know, the US dollar-yen exchange rate is JPY153, and although it is a bit difficult to forecast depending on the impact of today's presidential election, the US dollar is likely to remain strong for the time being. This time, we have changed the assumption of exchange rate from the previous forecast, and we are now putting it at JPY145 for Q3 and JPY140 for Q4. If the yen continues to depreciate at the current level, I think we can expect upside. On the other hand, up to Q2, we mentioned at the beginning the currencies of emerging countries, especially South American currencies such as the BRL and ARS, or the TRY. And conversely, the THB is very strong, and we have our production hub in Thailand, so the Thai baht had a considerable negative effect in Q2. We have incorporated this into our plan in line with the recent levels of currencies of emerging countries, but I think that how the US dollar will move in the future is, in a larger sense, an opportunity. The second opportunity is the motorcycle business, and the market is very strong, especially in Vietnam. As we mentioned, we have included quite a bit in the budget this time, but I think that we can expect a little more upside in the motorcycle business in terms of profitability, including the unit sales and sales prices, as well as in the unit sales and profit margin, including cost reductions. On the downside, there are concerns about the future economy, including the North American economy, and in many places, and the business environment for automobiles in Asia, including China, is extremely severe, so it is difficult to forecast. Although we have made some downward adjustments this time and are fully prepared, we would like to look at these downsides.

A: Fujimura

2. As for USD1,900 incentive, we put it at USD1,900 for the full year, but as I mentioned earlier, we are looking at about USD1,450 for Honda. If we divide the USD1,450 in Honda sales between ICE and hybrids, the ICE is about USD1,100, and the battery EV is at about the same level as we are seeing now in auto-data and other sources, which is about more than 10,000.

Following question on 1.

So you are saying that the rest are hybrids, and that we should calculate backwards?

A: Fujimura

1. As for hybrids, if we were to talk about models, ACCORD, CIVIC, and CR-V have the hybrids at the moment. The hybrid ratio is now about 22% to 23%. In terms of those three models, about 50% of them are already hybrids. In such a situation, in terms of the models that have the hybrids, the hybrid incentive has already been completed at about half that of PET.