HONDA

Investors and Analyst Session for Fiscal First Quarter Ended June 30, 2025
Financial Results Q&A
Date/Time：August 6, 2025,　17:00-18:00
Speakers：
Eiji Fujimura　　Director, Managing Executive Officer
Masao Kawaguchi　Operating Executive, Head of Accounting and Finance Supervisory Unit

Q：Analyst A

1.

Looking at the results for Q1, there was an increase in EV-related expenses. What is the background behind the change of the EV profit forecast deficit from JPY600 billion to JPY650 billion for the full year. I would appreciate a comprehensive explanation of the EV losses, including how this will continue into next fiscal year.

2.

The progress rate of JPY1.1 trillion share buyback has now reached approximately 85%. I think the concerns such as the consideration of business integration with Nissan and the tariff have receded to some extent, so what next steps do you envision now, with free cash flow being generated by motorcycle business?

A：Fujimura

1.

I would like to reiterate that we expected to incur a loss of about JPY200 billion this fiscal year, which we had said from the beginning of the fiscal year. Compared to this about JPY200 billion, there was a portion of about JPY50 billion that added further to the allowance for losses. Therefore, the outlook for EV profitability is also worsening, with a deficit of about JPY650 billion expected for this fiscal year, an increase of JPY50 billion.

About JPY400 billion of the about JPY650 billion is the loss during normal EV operation. I imagine that this about JPY400 billion is divided into about JPY100 billion gross profit and about JPY300 billion in R&D.

As for the gross profit part, basically, these are EVs supplied by GM in the U.S., but from the perspective of subsidies and credits, despite the current weak momentum for EVs, these losses occurred in a situation where it was necessary to sell off inventory. The Honda 0 series will also be launched next year, but we recognize that it will face considerable headwinds as it launches.

As for R&D, we are in the final stages of development of the 0 series. So please understand that these costs are for work toward that. Whether the amount will be increased from about JPY300 billion or not depends on the trend of development costs. Although it is not necessarily EVs, the current and next fiscal years will probably be the peak of our R&D activities, as we are also preparing for the new next generation of ICE and HEVs. We would like to reduce the deficit from about JPY650 billion.

Regarding losses related to EVs, we are thinking that at least about JPY250 billion in one-time expenses will not occur in the next fiscal year or later.

2.

The progress of the share buyback is going well, and at the current pace, we expect, net cash, which used to exceed two months of monthly sales, is now expected to reach a level of a little more than one month.

The decision to acquire the JPY1.1 trillion share buyback was at the same time as discussions on a management integration with Nissan began. However, this decision was made in the knowledge that if the project were to be prolonged, it would become difficult to acquire the share buyback in a flexible manner from a due diligence perspective in the future. On the other hand, in order to organize accumulated net cash, We decided to handle the two years' worth in one go and brought it forward to do this JPY1.1 trillion.

I think we are on track to sort out net cash and equity capital to some extent. Our basic policy of flexibly implementing share buybacks will remain unchanged, but no decisions have been made regarding the next steps.

Please note that regarding shareholder returns, we have introduced the DOE indicator, setting a target of 3% since the fiscal year ending in March 2026. We are currently at almost 3% of JPY70.

Following question on 1.

Is there any risk that the JPY250 billion will further expand losses? Could you tell us how you see the positive side of easing of environmental regulations in the U.S.?

A：Fujimura

1.

EV-related expenses, on the balance sheet, are fixed assets, R&D assets, and the portion included in equity method investments in EVs in China, for example. In terms of accounting treatment, the accounting standards and calculation methods differ for the valuation of assets, so this is something that must always be considered in accounting discussions.

As for the positive aspects of deregulation, as we mentioned in the May business update, currently, HEVs are fortunately doing quite well with a good reputation among our customers. We are very confident about the performance, cost, and profitability of our next model. This is truly a positive direction.

Market conditions and regulatory trends vary from country to country, and the outlook remains uncertain. However, the important thing is not to force the existing plan as we go forward, but, for example, to make a quick decision to stop when it is time to stop. I believe that the key to this quick decision-making is cash.

As Mibe mentioned in the May business update, the spread of EVs may be delayed for the next five years or so, but EVs are still the optimal solution for achieving carbon neutrality. We have motorcycles, finance, and ICE, including HEVs, for automobiles, based on the abundant cash-generating business here, and we will continue to take on this challenge. We will continue to invest the money we earn in EVs at an appropriate level.

We intend to pursue management based on cash flow. This will probably continue until close to 2030, and I believe the next few years will be a very positive.

Q：Analyst B

1.

I would like to ask you to tell us about your evaluation of your Q1 performance.

2.

Regarding the JPY700 billion in the full-year plan, how has the anticipated recovery from the initial tariff impact forecast changed this time?

A：Fujimura

1.

In addition to the impact of tariffs, EV-related expenses were treated as non-recurring in Q1. Excluding these factors, operating income was about JPY480 billion, and the operating margin was 9%, which is the same level as the same period of the previous year.

This was largely due to the strong performance of the motorcycle business, which was naturally affected by tariffs but still achieved its highest-ever operating profit for a quarter. As for automobile business, although sales in Japan and Asia were somewhat sluggish, strong sales in the U.S. provided support, and overall sales volumes are progressing in line with plans.

A：Kawaguchi

1.

Regarding EV one-time expenses in Q1, there are two factors that account for the year-on-year decrease of about JPY120 billion, with each factor accounting for roughly half of the total amount.

First, half of the decrease is due to the removal of development assets previously recorded on the balance sheet as a result of a review of EV's future lineup.

The remaining half is a provision for the two EV models supplied by GM. For orders that have been confirmed with GM for this fiscal year and the next, if there is a loss after deducting cost and depreciation expenses from sales, we have made an accounting provision for future losses. We also made a similar provision at the end of the previous fiscal year, but since the start of this fiscal year, the loss is expected to be larger than anticipated due to the loss of IRA subsidies and the invalidation of ACCII credits.

Compared to internal plans, the disposal of the development asset was anticipated at the beginning of the period, but the additional provision had a downward effect.

2.

The JPY200 billion recovery from the impact of tariffs planned at the beginning of the fiscal year was expected to recover about 30% of the impact of tariffs, with half of that amount coming from sales prices and the other half from cost reductions through cost reductions and expense reductions.

With regard to sales prices, we are closely monitoring the movements of other companies, and since they are not raising their prices, we are not raising our sales prices specifically for the tariff portion at this point. We are steadily raising sales prices on an annual basis, but since we plan to recover only about half of the initially planned sales price of JPY100 billion in the next fiscal year and beyond, we have set the impact amount for this fiscal year at half of that, or JPY50 billion.

In terms of costs, we are currently confirming all supply chains with suppliers and investigating how much tariffs will actually cost, but to be honest, we have not yet reached an agreement on how much each party will bear. Therefore, we have decided to postpone the timing and reduce the amount to half, or JPY50 billion, in our current forecast.

Therefore, the JPY100 billion decrease in selling prices/costs in the factors affecting the change from the previous forecast is due to the recovery of JPY200 billion in tariff effects, which has been halved, resulting in a negative figure.

Following question on 2.

Could you also comment on the risks and opportunities related to the full year forecast of JPY700 billion?

A：Kawaguchi

First of all, the opportunity is the exchange rate. This time, we changed it to 140 yen against the U.S. dollar, but for the first half of the year, we are using 145 yen, which is closer to the actual market rate. On the other hand, for the second half of the year, due to the uncertainty surrounding the monetary policies of Japan and the U.S., as well as the U.S. economy, we are still using 135 yen, so this is an opportunity. In addition, regarding the North American automobile market environment, demand is currently very strong, centered on HEVs, so we expect further growth from here.

In terms of risks, when we reviewed the tariffs this time, the automobile tariffs between Japan and the U.S. were still being discussed, but we assume the 15% tariff will take effect on September 1, 2025. If there are delays or changes in the various negotiations between the U.S. and Japanese governments, for example, this could be a risk.

Q：Analyst C

1.

Regarding recovery from tariff impact, please tell us what specific measures you will take and on what timeline, such as increasing production at your U.S. manufacturing plant from two shifts to three shifts and reviewing your supply chain.

2.

Please update us on your efforts to achieve 1x PBR. If the level of cash is normalized to some extent in share buybacks, I have a feeling that the supply-demand situation will no

longer be the tailwind that it has been in the past. So, what do you plan to do going forward?

A：Fujimura

1.

We do not expect the impact of tariffs to be fully recovered this fiscal year, but we believe that we will be able to cover some of the impact through sales prices, while monitoring the situation at other companies.

Regarding increasing shifts at production plants, we will proceed with caution after carefully assessing factors such as the extent to which suppliers can keep up and the difficulty of hiring in the U.S. manufacturing industry. We are determined to take a steady approach over a period of two to three years.

In addition, regarding the review of the supply chain, we believe that switching to locally sourced parts is particularly important when tariffs become the new normal, especially for parts with low local procurement rates. Regarding batteries, we have already standardized specifications with Toyota, so we have begun sourcing them from Toyota's U.S. factories starting in July. For motors and PCUs, we have also shifted some sourcing to the U.S. In collaboration with manufacturers, we are actively promoting local sourcing, and we view the launch of new models as an opportunity to review the supply chain. We will continue to advance these efforts for the next generation of HEVs as well.

2.

As you mentioned earlier, we plan to address PBR by reorganizing our capital. We have a net cash balance equivalent to 2.5 months of monthly sales, and we have a rough estimate of how much that will be. We will use this to increase ROE, which will in turn raise PBR.

In addition, we have been focusing on IR initiatives such as strategic and technological communications over the past few years, but we believe there is still considerable room for improvement in terms of gaining a better understanding from the market. Therefore, we will continue to discuss how to raise expectations.

Now that we have a clear vision for capital optimization, our solid profits will lend credibility to our message. Based on this, we will focus our efforts on communicating a clear strategy that will increase expectations for Honda. We will place emphasis on communicating in a way that will increase expectations for Honda.

Q：Analyst D

1.

The operating margin for motorcycles business was very high at 19.9% in Q1, but while sales in Brazil and Vietnam were strong, we understand that India and Indonesia did not perform well. Please explain the situation in these regions.

2.

Please explain the breakdown of the approximately JPY120 billion impact of tariffs in Q1. Please also explain the details of the revision of the assumptions regarding the impact of tariffs.

A：Fujimura

1.

As you pointed out, Q1 of this year was weak compared to the same period last year in India. However, last year saw a rush of demand due to the impact of OBD2 regulatory changes, resulting in a significantly high figure. Therefore, although it may look bad, we are working hard this term with the goal of surpassing Hero MotoCorp and becoming the best. There are some areas where we have deviated from the plan, but we are on track, and we will be introducing models to the market, so we will be working hard on this.

Indonesia is certainly in line with those numbers and we intend to proceed without changing the plan.

A：Kawaguchi

1.

Compared to last year, it is about 180,000 units lower in India, but the operating profit margin in India has actually increased compared to the past, and is still in the double-digit ROS range.

Of course, Vietnam and Brazil have very high profit margins. In terms of year-on-year changes in operating income for the motorcycle business, sales volume and model mix accounted for JPY 32.3 billion of the JPY 41billion increase in sales impact, with Vietnam and Brazil offsetting the decline in India. In addition, the model mix had a positive effect in Japan and the U.S., where high value-added models sold well. Also, related to Price/Cost impacts, within the JPY14.2 billion, there is a revision of about JPY24 billion, which has two elements. One is that in Brazil's market environment, supply and demand are very strong, and this reflects price revisions. It also includes the impact of inflation in some countries, which has been offset by sales prices.

Therefore, although there is a risk that tariffs will affect the economies of each country in the future, we are confident that if India recovers steadily, countries such as Vietnam and Brazil will provide a boost, enabling us to achieve stable operating profit margins.

2.

Based on the results for Q1, the impact of tariffs amounted to about JPY120 billion. Broken down by category, about JPY90 billion of the JPY120 billion was related to automobile CBU imports, and the remaining JPY30 billion was related to automobile parts imports.

Regarding the JPY90 billion for automobile CBU, I think you will find that it is slightly more, but of the JPY90 billion, slightly less than 30% is a provision for tariffs that will likely be imposed this quarter on future losses for one model produced by GM in Mexico. Therefore, in terms of the actual tariffs incurred for sales in Q1, please deduct the provision amount from that amount.

In addition, the full-year forecast has been reduced by JPY200 billion from JPY650 billion to JPY450 billion. For automobile CBU, the forecast has been lowered by JPY110 billion from JPY300 billion at the beginning of the fiscal year to JPY190 billion. While the positive

effects of mutual tariffs on imports from Japan are beginning to take effect, the reality is that we are not currently exporting much from Japan.

One major factor in this review of assumptions is the change in production allocation. First, we transferred the production of the Civic from the Yorii plant to Indiana. We also transferred the production of vehicles for export to Central America from the U.S. to Canada, and changed the allocation to produce vehicles for the U.S. market with the freed-up capacity. In addition, through re-examining U.S. content and other measures, the total cost of automobile CBU has decreased by JPY110 billion.

In the parts business, the initial forecast of JPY220 billion was revised to JPY 160 billion, a reduction of JPY 60 billion. The biggest factor in this was that, regarding parts imported from suppliers in Canada and Mexico, although USMCA would normally apply and no additional tariffs would be imposed, at the beginning of the period, everything was subject to a 25% tariff because it was still under review. After further review, it became clear that a significant portion was eligible for USMCA, so that portion has been reflected.

On the other hand, as we conducted a thorough investigation, we unfortunately found that some of the imports we thought were from Canada and Mexico were actually imported from other countries when we traced them back to Tier 2, Tier 3, and beyond. We have reduced the amount by JPY60 billion after netting these amounts.

In addition, although the impact is not so significant, an additional tax rate of 50% is imposed on iron, aluminum, and copper, so we are increasing the budget by JPY10 billion.

Q：Analyst E

Previously, a clear strategy was presented on how to increase variations on the three axes: present, past, future.

The problem in the past is that excess cash on hand has been reduced, will reduce.

On the other hand, the current issue is that the operating profit margin of ICE and HEV, excluding EV, which was said to have been over 8% at one point, has declined significantly due to the impact of tariffs. How long will it take to return to the previous level?

Furthermore, in terms of future issues, the discussion has shifted to how quickly EV deficits can be reduced, given the current regulatory environment. Regarding EV deficits, it was mentioned earlier that the goal is to reduce the deficit from JPY650 billion. How do you plan to control this?

It is wonderful to set clear goals with easy-to-understand strategic announcements amid rising valuations, but I think there is no process. I believe that quickly putting into practice the increased disclosure of the automobile business that Mr. Fujimura mentioned in May is a very important factor in considering the future of your company. Please tell us how far along you are with this idea, how it will change, and when you plan to change it.

A：Fujimura

As you mentioned, regarding the past, present, and future, there are financial techniques involved in the past, and we have been working on share buybacks and strategic holdings.
In terms of the present, as for ICE, we are currently making a high profit. I think it will take a little more time to resolve the issue of tariffs, but I believe we will manage to work things out in accordance with market conditions. Even now, we are able to solidly keep our profits high, if tariffs are excluded. It is difficult to erase the current headwind all at once this fiscal year, but I would like to think about how we can do so.
In terms of the future, we are trying to reduce the deficit of EVs as quickly as possible, as we mentioned in our business update. We don't know how regulations in the US will change from 2028 onwards so we will get ready so that we are thoroughly prepared to be carbon neutral.
How quickly the deficit can be controlled and how quickly it can be reduced is a matter of how much research and development expenses can be kept at an appropriate level according to the market environment. I think it is about how to control that part of the process.
We also spoke in the business update about reducing investment of resources from JPY10 trillion to JPY7 trillion. About half of the JPY7 trillion has already been spent until about 2025, I think it is a matter of how to control the remaining JPY3.5 trillion wisely. There are of course also aspects that have changed a bit since the May business update, so I think it is a matter of how quickly we can do this.
As I mentioned earlier, so-called impairment losses are also a major hit to P&L. How it works depends on the accounting treatment, so it is quite difficult to determine. For example,

although the money spent so far poses a risk of impairment, from an accounting perspective, it does not affect cash flow. I believe that the cash allocation chart needs to be explained to everyone in a more understandable manner.

We need to move in the next few years to a point where we manage our business not only by P&L but also by cash, so that we do not become so afraid of P&L losses that we are unable to stop what we want to stop. I believe that we will manage our business with a firm emphasis on how we can control our cash.

The structure to earn cash through the abovementioned activities is in ICE, HEVs, motorcycles, and financial services. I think that to what degree we can effectively fit our investment resources to the market is also important.

Regarding the EV deficit, at present, GM's EVs are operating at a loss in terms of gross profit, but the upcoming Honda 0 series is expected to be significantly more competitive. Furthermore, next-generation EVs after 2028 will be competitively priced and highly competitive products, and we hope to reduce our losses by introducing these models.

To that end, we believe it is important to make the disclosure of P&L and cash, especially for the automobile business, as easy to understand as possible, and we are considering various options internally.

As I mentioned in the business update, we are considering how to communicate the corporate value of our motorcycle business, for example, while seeking the opinions of professionals. We are currently discussing whether it would be better to hold such a briefing at the time of the financial results announcement or at another time. We are making steady progress in strengthening our disclosure, and we would like to explore the best approach while seeking advice from investors and analysts.

The new IR manager, Ichinoseki, is also working hard on this, so we hope to come up with some kind of solution. This may be a vague answer, but this is how we are proceeding with the discussion.