

Honda Motor (7267 JP)

FUNDAMENTAL VIEW ¹

As of 27 May 2025

- Virtually all the company's FY26 profit headwinds stem from currency and tariffs that combined represent a 370 bp consolidated operating profit headwind. The currency headwind is related to the depreciation of emerging market currencies against the US dollar and, in our view, is rarely a consideration in the credit rating decision-making process. The tariff headwind is more concerning, although we note the company's tariff cost estimates are a worst-case scenario that includes tariffs on parts as the company works to complete the country-of-origin certification process to qualify for the USMCA tariff exemption. Still, we believe the weak guidance and uncertain trade environment may be enough for Moody's and Fitch to follow S&P's lead in revising Honda's outlook to negative.

RISKS & CATALYSTS

As of 27 May 2025

- Management unveiled FY26 guidance that represented higher motorcycle wholesales, lower automobile wholesales, and a steep decline in consolidated operating income based on currency and tariff headwinds. Management expects FY26 motorcycle wholesales to increase 4%, with the change compared to FY25 driven primarily by Asia. It expects automobile wholesales in North America to increase 2% YoY; while management currently expects the North America automobile market size to be about the same as last year, it is concerned about the impact of tariffs on total demand.
- FY26 revenue is expected to decline by about 6% as price increases related to "improved product values" are expected to be offset by currency headwinds. Management predicts its FY26 consolidated operating margin would be the same as its FY25 margin of 6.2% when adjusted for warranty, currency, and tariff impacts. However, the expected impacts of currency and tariffs are expected to reduce Honda's consolidated operating income by 59% in FY26, or 370 bp of margin compression to 2.5%. The currency impacts are driven by projected depreciation of emerging market currencies against the US dollar

CREDIT QUALITY SCORE (CQS) ²

As of 04 Jun 2025

CURRENT CQS

74

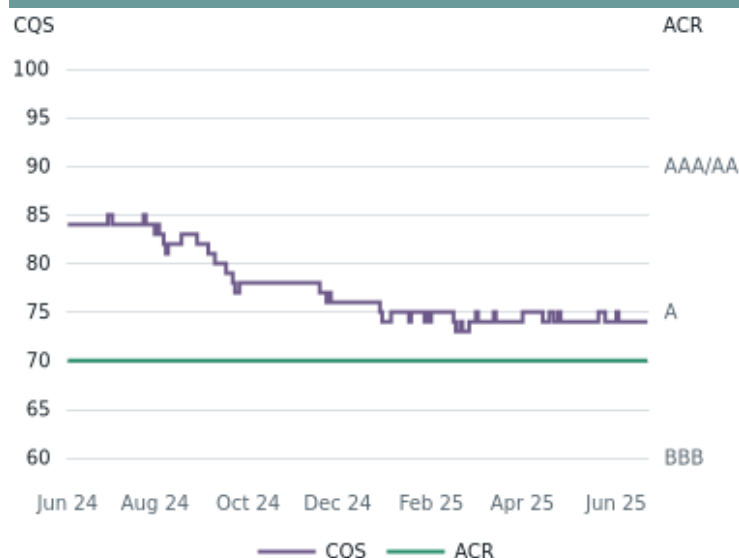
CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)® VS CQS



KEY METRICS

As of 27 May 2025

JPY BN	FY21	FY22	FY23	FY24	FY25
Revenue	10,908	11,967	14,167	17,434	18,509
EBIT	576	741	612	1,219	899
EBIT Margin	5.3%	6.2%	4.3%	7.0%	4.9%
EBITDA	1,175	1,334	1,294	1,964	1,630
EBITDA Margin	10.8%	11.1%	9.1%	11.3%	8.8%
Total Liquidity	3,717	4,612	4,926	6,150	5,387
Net Debt	(2,048)	(2,481)	(2,751)	(3,762)	(3,216)
Total Debt	480	837	803	863	646
Gross Leverage	0.4x	0.6x	0.6x	0.4x	0.4x
Net Leverage	-1.7x	-1.9x	-2.1x	-1.9x	-2.0x

BUSINESS DESCRIPTION

As of 27 May 2025

- Honda Motor Co., Ltd. engages in the manufacture and sale of automobiles, motorcycles, and power products. It operates through the following segments: Automobile, Motorcycle, Financial Services, and Power Product and Other Businesses. The Automobile segment manufactures and sells automobiles and related accessories. The Motorcycle segment handles all-terrain vehicles, motorcycle business, and related parts. The Financial Services segment provides financial and insurance services. The Power Products and Other Businesses segment offers power products and relevant parts.
- American Honda Finance Corporation (AHFC) is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM or the Parent). Honda Canada Finance Inc. (HCFI) is a majority-owned subsidiary of AHFC. Non-controlling interest in HCFI is held by Honda Canada Inc. (HCI), an affiliate of AHFC. AHM is a wholly-owned subsidiary and HCI is an indirect wholly-owned subsidiary of Honda Motor Co., Ltd. (HMC). Honda Motor Co. (HMC) maintains Keep Well (support) agreements with its North American finance subsidiaries, AHFC and HCFI. Under the Keep Well agreements, HMC agrees to (1) maintain at least 80% ownership in AHFC and HCFI, (2) ensure AHFC and HCFI maintain a positive net worth, and (3) ensure both AHFC and HCFI have sufficient liquidity to meet their debt payment obligations.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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