

Q2 2025 LG Electronics Earnings Call

Company Participants

- Chang Tae Kim, Chief Financial Officer, Chief Risk Management Officer
- I-Kueon Kim, Senior Vice President, Home Appliance Solution Company
- Sang-Ho Park, Senior Vice President, Media Solution Company
- Ju Yong Kim, Vice President, Vehicle Solution Company
- Dong Hoon Shin, Vice President, Eco Solution Company
- Choong Hyun Park, Vice President, Corp. Business Mgmt. Division
- Hong Su Lee, Vice President, Accounting Division
- Young Kyoon Kim, Vice President, Finance Division
- Won Jae Park, Vice President, Investor Relations Division
- Sung Min Hong, Head, ESG Strategy

Other Participants

Analyst

- Dongwon Kim, KB Securities
- Sung-kyu Kim, Daiwa Securities
- Jihyun Hwang, NH Investment & Securities
- Seung-soo Yang, Meritz Securities

Presentation

- Operator

Good afternoon, and welcome to LG Electronics' Quarterly Earnings Conference Call. This conference call will begin with a presentation on the earnings results, followed by a Q&A session. To ask a question, please press star and one on your telephone keypad. Simultaneous English interpretation will be provided for the presentation, followed by consecutive interpretation for the Q&A.

Now I'd like to turn the call over to the first speaker.

- Won Jae Park

Good afternoon. My name is Won Jae Park from Investor Relations. Thank you for joining our earnings call for the second quarter of 2025.

With me are CFO and EVP of LG Electronics, Chang Tae Kim; SVP of HS Company, I-Kueon Kim; SVP of MS Company, Sang-Ho Park; VP of VS Company, Ju Yong Kim; VP of ES Company, Dong Hoon Shin; VP of Corporate Business Management, Choong Hyun Park; VP of Accounting, Hong Su Lee; VP of Finance, Young Kyun Kim; and Head of ESG Strategy, Sung Min Hong.

Today's presentation will proceed as follows. Our CFO will begin by presenting our second quarter results and outlook for the third quarter of 2025, including our strategic direction for qualitative growth. Then I'll present the key financial highlights of the second quarter. Following that, each business will present its individual results and outlook. Finally, we will conclude with an overview of our ESG activities and achievements.

Please note that all statements we make today regarding the financial results of the second quarter are subject to change in accordance with external review. Actual results may differ from today's outlooks and forward-looking statements due to market uncertainties and strategic changes.

Now let us begin with the performance of the second quarter of 2025 and the outlook for the third quarter.

- Chang Tae Kim

Good afternoon. I'm Chang Tae Kim, CFO of LG Electronics. Our consolidated Q2 financial results show KRW20.74 trillion in sales and KRW 639.4 billion in operating profit.

Q2 revenue declined year-over-year due to headwinds, including U.S. tariff policy changes and geopolitical risks in the Middle East, which led to a delay in consumer sentiment recovery. Despite these challenges, we are laying the foundation for qualitative growth, particularly within our subscription services, online direct sales, and B2B segments.

Operating profits declined year-over-year due to the increasing pressure of tariff-related costs, stagnant market demand for TVs, and intensified competition. On the other hand, we maintained last year's profitability for some businesses while achieving year-over-year improvement for others through enhanced operational efficiencies.

U.S. tariff policies, weakening consumer sentiment, geopolitical risks, and ongoing uncertainties will likely continue into Q3. Stronger competition, higher marketing expenses, and price hikes due to derivative tariffs are pressuring

the business. To address these challenges, we will mitigate the impact of escalating U.S. tariffs by employing various strategies, including optimizing production across our global network.

Additionally, we will strengthen our premium market position through region and segment-specific strategies while expanding into the mass market to secure sales growth momentum.

We will continue pursuing qualitative growth by focusing on high-growth areas within B2B, such as automotive electronics and HVAC, as well as on subscriptions and webOS to boost profitability. Mounting costs due to competition will be mitigated by improving our cost structure and operational efficiency to maintain stable profitability.

I will now discuss the progress and plans for qualitative growth. LGE is achieving meaningful results in establishing the foundation for qualitative growth, central to our business portfolio transformation. We expanded our B2B segment, including automotive electronics, HVAC, smart factory, and component solutions.

We also maintained solid growth in D2C, such as subscriptions and online direct sales. Furthermore, we are accelerating the growth of non-hardware businesses, including the webOS platform, specialized care, and HVAC maintenance.

Our success is built on strong, long-term partnerships with B2B clients and direct relationships cultivated through our subscription services and online direct sales. This foundation provides a distinctive, competitive advantage in a dynamic market, ensuring greater stability and profitability.

Going forward, we will accelerate our transition to a customer-centric model by offering tailored solutions to foster customer loyalty and strengthen retention.

Finally, we remain committed to enhancing corporate value through our shareholder return program. Yesterday, we announced the record date and amount of our interim dividend, as well as the planned cancellation of treasury stock at the end of this month. We are dedicated to enhancing value for both the company and our shareholders. Thank you.

- Won Jae Park

I'll now briefly review the Q2 2025 performance of the enterprise-wide operations and each business.

Our consolidated financial results for Q2 are KRW20.73 trillion in sales and KRW639.4 billion in operating profit. HS recorded KRW6.59 trillion in sales and KRW439.9 billion in operating profit. MS recorded KRW4.39 trillion in sales and KRW191.7 billion in operating loss. VS recorded KRW2.84 trillion in

sales and KRW126.2 billion in operating profit. Lastly, ES recorded KRW2.64 trillion in sales and KRW250.5 billion in operating profit.

Since the Q1 2025 earnings release, we have highlighted the performance of our B2B and subscription businesses. These are key drivers of qualitative growth aligned with our portfolio transition initiative.

In Q2, despite a slight quarter-over-quarter sales decline in commercial displays and chillers, our B2B segment sustained year-over-year sales growth. This growth was driven by VS sales expansion supported by a healthy order backlog and financial improvement within ES's system AC business.

The B2B segment's contribution to overall sales also increased both quarter-over-quarter and year-over-year. Subscription services in Korea maintained strong sales growth of nearly 30% year-over-year driven by differentiated care services.

Our overseas subscription business also achieved both quarter-over-quarter and year-over-year sales growth fueled by vigorous subscriber acquisition and portfolio expansion. Despite being in its early stages, the contribution of overseas subscriptions to total subscription sales also increased year-over-year as we accelerated business expansion. We will continue developing our business portfolio, including B2B and subscription services, to improve overall business performance.

Moving on to the income statements and cash flow for Q2. Reflecting financial income and expense, equity method gain and loss, other non-operating income and expense, corporate income tax, and income and loss from discontinued operation, net income for Q2 was KRW609.7 billion. As a result, first half net income attributable to controlling interest reached KRW1.40 trillion, up 36% year-on-year.

Now, let's look at cash flow. Cash flow from operating activities was KRW1.54 trillion and cash flow from investing activities was KRW185.7 billion, resulting in net cash flow of KRW1.51 trillion. When reflecting cash flow from financial activities of negative KRW921.4 billion, cash balance at the end of Q2 came to stand at KRW7.57 trillion, a KRW590.7 billion increase from the previous quarter.

Key financial positions and indicators for Q2 2025 are as follows. At the end of Q2, assets stand at KRW62.4 trillion, liabilities at KRW36.5 trillion, and equity at KRW25.9 trillion. In terms of leverage ratios, liability to equity, debt to equity, and net debt to equity all decreased quarter-over-quarter, reflecting a healthy financial condition.

Now, we will hear from each business company regarding its Q2 results and Q3 outlook, beginning with HS Company.

- I-Kueon Kim

Here are the Q2 results for the HS business. Volatile U.S. trade policies and geopolitical risks in the Middle East have delayed consumer sentiment recovery. Despite these headwinds, we achieved year-over-year sales growth. This growth is driven by our two-track strategy targeting both premium and volume segments, coupled with the expansion of our online direct sales and subscription services.

Despite rising tariffs and freight costs, we maintained operating profit at a level comparable to the previous year. This was achieved through sales growth, manufacturing cost improvements including production optimization and efficient marketing spend.

Looking ahead to the third quarter, we anticipate a continued delay in the global appliance market's recovery, driven by ongoing uncertainty in U.S. trade negotiations and monetary policies in developed markets. This environment will likely increase market competition.

In response, we will launch region-specific models, further strengthen our two-track strategy to address market uncertainties, and continue expanding our online direct sales and subscription services to maintain sales momentum.

To mitigate the impact of U.S. tariffs, we will work with distributors on price adjustments, optimize production locations for cost efficiency, and streamline logistics. Our goal is to achieve operating profits at or above last year's levels.

Let's turn to our outlook for the global appliance market in 2025. We update this forecast twice a year, in the first and second halves. By sharing our views, we aim to share our perspective on global demand trends and our corresponding strategies. Please note that this outlook focuses on combined market demand for refrigerators and washing machines, not our appliance revenue, which is influenced by factors such as regional market share and competition. Actual market conditions may differ from this outlook due to various factors such as macroeconomic conditions.

Forecasting appliance demand and its recovery trajectory is particularly challenging now given the uncertainty surrounding U.S. tariff policies and the rapidly evolving geopolitical landscape. In advanced markets, slowing housing market recovery and tariff related price increases are expected to depress North American demand. A gradual recovery is expected in Europe assuming the economy rebound from its trough.

Geopolitical factors will likely suppress demand in the Middle East and Africa this year, while Asia and India are projected to experience a turnaround and modest growth. Given ongoing uncertainties, we are closely monitoring market developments in the second half including supply chain fluctuations, inflation, and interest rates. We are also working with sales channels to ensure timely

demand sensing. Furthermore, our flexible global production network will help us maintain strong financial performance despite market challenges.

- Sang-Ho Park

Let's now turn to the Q2 results for our Media Solution business. Sales declined in Q2 compared to both the previous quarter and the same period last year due to market uncertainties which dampened consumer sentiment, stagnated hardware demand, and intensified competition. Operating profit deteriorated and was negative both quarter-over-quarter and year-over-year due to lower sales and increased competitive pressures.

Our outlook for the third quarter is as follows. Improvements in consumer sentiment and hardware demand are unlikely given persistent geo-economic uncertainties. Furthermore, competition is anticipated to heat up as Chinese brands facing weakening domestic demand, aggressively expand into overseas markets.

To address these challenges, we will focus on enhancing operational efficiency, strengthening the growth momentum of the webOS platform, and pursuing our Global South strategy to achieve qualitative growth.

- Ju Yong Kim

I will now review the Q2 results of VS Company. Sales grew both quarter-over-quarter and year-over-year driven by increased orders from European OEMs and a stable order backlog. Operating profit also improved in both periods thanks to higher sales and ongoing cost optimization efforts.

Regarding our Q3 outlook, global demand is expected to decline quarter-over-quarter due to uncertainties surrounding U.S. policies on EV subsidy and tariff risks. While acknowledging potential market headwinds, we will focus on strengthening OEM partnerships and optimizing operating expenses to minimize any negative effects on sales and maintain solid profitability.

- Dong Hoon Shin

Let me outline the Q2 results of ES Company. Domestic sales maintained strong growth as we vigorously pursued seasonal demand for residential ACs and dehumidifiers and expanded subscription and online direct sales.

On the other hand, we experienced limited growth in overseas sales year-over-year due to uncertainties stemming from U.S. tariff policies. While domestic sales increased and certain overseas markets showed continued

growth, operating profit dipped slightly year-over-year. This decline was primarily due to increased material and fixed cost.

Looking ahead to the third quarter. In the Korean market, we anticipate rising B2C demand for ACs fueled by a shorter rainy season and an early heat wave. The new government's pro-consumption policies are also expected to provide a boost. However, we project continued softening in B2B demand due to ongoing stagnation in the construction industry.

In overseas markets, we anticipate continued market uncertainty and potential demand contraction due to fluctuating tariff policies. To address these challenges, in Korea, we will actively target the high-efficiency AC replacement market, capitalizing on consumer demand for reduced energy costs. We'll also increase subscription sales by pursuing opportunities like government support for small business owners.

In overseas markets, we will closely monitor U.S. tariff policy developments while further optimizing our products and network, launching new models, and expanding into new sales channels to drive growth.

- Sung Min Hong

Finally, turning to our ESG activities and achievements. LGE is continuously pursuing initiatives for carbon reduction and resource circulation. We are expanding our transition to renewable energy by implementing PPAs across 14 global production sites, including new solar projects at our plants in Haiphong, Vietnam, and Changwon, Korea.

Since 2022, we have partnered with the Ministry of Environment and E-Circular Governance on Battery Return, a public resource circulation campaign resulting in the collection of 108.3 tons of used batteries to date.

Our eco-friendly products and technologies continue to gain recognition. Our OLED TVs have received Carbon Trust's Carbon Footprint certification for five consecutive years. We are also piloting a low-carbon mineral wash project for Water Positives, partnering with the Korea Water Cluster and the Korea Water Forum to measure and verify water and energy savings when using detergents containing mineral wash.

We strive to be a trusted partner for the market and our customers. In June, we published our 19th Sustainability Report, outlining our progress and goals towards "A better life for all". Our U.S. subsidiary earned its second consecutive Sustainability Brand Leader Award in the HVAC and Appliance categories from Green Builder Media, a leading North American green building publication. This highlights the trust we've built with homebuilders and consumers for our innovative eco-friendly solutions. As a smart life solution company, we remain committed to competitive and sustainable business practices.

- Won Jae Park

This brings us to the end of LG Electronics' second quarter earnings release and the third quarter outlook for 2025. We will now take questions.

Operator, please commence with the Q&A session.

Questions And Answers

- Operator

Now Q&A session will begin. The first question will be provided by Dongwon Kim from KB Securities. Please go ahead with your question.

Q - Dongwon Kim

Thank you for taking my question. My first question is for the HS division and the second question is for the MS division. My question for the HS division is, how significant is the impact of U.S. tariff policies, including steel tariffs, on LGE's second quarter performance? How will the levies affect LGE's business performance and demand fluctuations in the second half of the year?

If there are plans for price adjustments, to what extent will the prices be adjusted in response to increased costs? Could you elaborate on the price adjustment plans or status? Are there any new strategies being pursued beyond existing initiatives, such as production site optimization? If so, could you please share the details?

And my second question is on MS Company. I would like to ask the outlook of this year's revenue and profitability. Along with this, I see some rising LCD panel prices and TV set price reductions. Is there any possibility of MS business turning to an annual operating loss? And also, it would be appreciated if you can share your mid to long-term profitability improvement plans, including this year.

A - I-Kueon Kim

To answer your first question for the HS division, according to the Association of Home Appliance Manufacturers, home appliance shipments in the U.S. in the first half of the year maintained similar levels compared to the previous year. Some consumers have been rushing to make purchases before the tariffs take effect.

In the first half of 2025, we achieved approximately 3% growth year-over-year, higher than the market demand with new product launches and efficient sales operations, continuing to strengthen our market presence. Nonetheless, a rise in product costs driven by the 50% tariff on steel and reciprocal tariffs that are set to be applied in the latter half of the year could translate into greater uncertainties for the market price.

Additionally, shifts in the U.S. Government's trade policies and weakening consumer sentiment cast doubt on the demand outlook for home appliances.

The effects of U.S. tariffs began to be felt in the second quarter, but we were able to minimize the impact through preemptive inventory management and operations and cost-cutting efforts. While the tariffs are expected to have a more pronounced impact in the latter half of the year, we intend to promptly navigate these challenges through preemptive response scenarios, such as optimizing production sites and cutting costs. Price adjustments will be made after carefully considering multiple factors, including shifts in U.S. tariffs and the competitive landscape, and having discussions with distributors.

Regarding production site optimization, we will maintain our current supply system under universal tariffs, but also operate a product supply center throughout the U.S. to ensure competitive landed costs.

For washing machines, we plan to add a production site in Mexico's Mexicali in September to flexibly respond to the tariffs. After countries reach tariff deals and if reciprocal tariffs are imposed from August 1st, we plan to increase the supply from our U.S. and Mexico production plants.

A - Sang-Ho Park

Let me answer your question about MS. Due to dampened consumer sentiment stemming from geopolitical risks and intensified competition, the business environment is expected to remain challenging throughout the year.

At this point, it may be premature to forecast the full year results, including the performance during the anticipated peak season in the second half. Therefore, I approach discussing potential improvements cautiously. However, we are actively implementing various initiatives aimed at enhancing profitability in order to see an overall improvement of financial performance of MS from the first half to the second half of the year.

And about your question about profitability improvement plans, from a mid to long-term perspective, we will continuously improve our profitability not only by launching market-leading products that demonstrate technological leadership, but also by enhancing operational efficiency, including strengthening cost competitiveness, along with maximizing integrated synergy within MS through synergy creation among TV, IT, ID business, and value chain optimization,

and also by expanding and strengthening the webOS ecosystem in order to build capabilities as a media and entertainment solutions provider.

Next question please.

- Operator

The following question will be presented by SK Kim from Daiwa Securities. Please go ahead with your question.

Q - Sung-kyu Kim

Good afternoon. Thank you for taking my question. I have two questions, one for the VS division and the other for the company. My question for the VS division is, what are the current operational status and future plans for the production plants in Mexico and Hungary? What are the expected quarterly sales from these plants?

And my second question on corporate-wide operations. Considering the recent favorable progress such as the early recovery of loans to LG Display, could you share more about the current status on your financial structure and the future plans together?

A - Ju Yong Kim

First, let me answer your question on the VS division. LG Magna has established local production sites across various regions including Korea, China, Mexico and Hungary and is equipped with an operation system that can flexibly respond to fluctuations in our customers' PSI.

LG Magna's Mexico plant started mass production in September 2023. As of the first quarter of 2025, the Mexico plant contributed to approximately mid-30% of LG Magna's total sales. This upward trend will continue with the sales percentage expected to reach a low 40% range by the fourth quarter of 2025.

LG Magna's Hungary plant was established to reflect the localization needs of major European OEMs. The plant was completed as scheduled in December 2024 and full-scale production is expected to begin in mid 2026.

A – Young Kyoong Kim

Your question on corporate-wide operations will be covered by finance division. As you just covered, during the first half of the year, we saw improvements in our financial structure evidenced by a decrease in our debt-to-equity ratio and liability-to-equity ratio as a result of improved equity method

gain and loss, early collection of loans from sister company and efforts to reduce loan payables.

We will continue to expand efforts such as strengthening working capital management in this second half of the year so that we can maintain the stable and sound financial structure.

Next question, please.

- Operator

The following question will be presented by Ji Hyun Hwang from NH Investment & Securities. Please go ahead with your question.

Q – Ji Hyun Hwang

The first question for the ES division is, could you provide an overview of the current sales and order status of the chiller business for data centers including its contribution to the total ES division sales?

And the second question is, if possible, could you share the progress on the discussions made with big tech companies as well as business opportunities in domestic data center projects?

My third question is on corporate-wide operations. I understand that you are trying to embed more of the AI to robots and edge AI and so on. Can you tell us more about your direction in the mid to long term? And also it will be appreciated if you can tell us more about the scale of investments.

A - Dong Hoon Shin

First, to answer your questions on the ES division. Discussions are progressing with various partners in different regions regarding our data center business and the performance of orders received has tripled year-over-year showing rapid growth.

While we cannot provide extensive details, we are currently advancing our cooling solutions to better meet the wide ranging needs of our customers and have established a regular council with one of the global big tech firms, engaging in discussions to collaborate on a data center project.

The discussions involve detailed specifications such as air cooling chillers, one of the highly efficient data center cooling solutions and CDUs, a key component in chip cooling technology.

While domestic data centers are securing various business opportunities, we ask for your understanding as we are unable to disclose the details of ongoing collaborations at this time.

A - Won Jae Park

Your question about AI will be covered by IR division and I may cover a wide scope of AI, as it's not a common opportunity for us to talk about our AIs. Well, in LG Electronics, we define AI in two ways, AI for company and AI for customer. Firstly, in the AI for company domain, we are actively developing various solutions targeting to achieve over 30% AI driven efficiency gains within the next three years.

In the AI for customer domain, we're launching various new AI devices alongside ThinQ ON, pursuing diverse experimental initiatives and continuously enhancing the AI capabilities of our core appliances. For example, we are leading the market by delivering personalized customer experiences through the introduction of air conditioners equipped with AI spatial sensing technology and LLM-based voice control.

LG Electronics is also deeply committed to protecting consumer privacy in our application of AI technologies. Most sensing and contextual understanding relies on, on-device AI. For tasks requiring external information retrieval and large-scale inference, we utilize a hybrid approach that incorporates cloud computing.

Regarding the emerging field of humanoid robots, we see significant potential and opportunities in the home robotics sector. A key benefit of home robots lies in facilitating seamless interaction between appliances and users, and as we have strength in this area, we believe that we can leverage our extensive experience and expertise to tightly integrate our appliances with robotic platforms.

We're also securing business opportunities in AI-related downstream industries. In the data center cooling solution sector, where we already possess industry-leading technology and product competitiveness with our air-cooled chiller solutions, we have developed a high-efficiency liquid cooling solution specifically designed for AI data centers with commercialization targeted this year.

In addition to this, we are actively investing in R&D, operations, and infrastructure related to AI and robotics. We are strengthening our capabilities through a various approach encompassing in-house development, open innovation, and venture investments. In robotics specifically, we are accelerating the growth of our commercial robotics business through our acquisition of Bear Robotics.

Furthermore, we plan to bolster our technological and business capabilities in industrial robotics by integrating this with our smart factory initiatives within our Production Engineering Research Institute, or PRI.

Next question, please.

- Operator

The following question will be presented by Seung-soo Yang from Meritz Securities. Please go ahead with your question.

Q - Seung-soo Yang

Good afternoon. Thank you for taking my question. I have two questions, one for the HS division and the other for the ES division. My first question for the HS division is, what are the projections for logistics costs, marketing expenses, et cetera in the second half of 2025? Against this backdrop, what are the sales and operating profit projections for 2025?

My second question for the ES division is, how is the shifting trend towards liquid immersion cooling and data center cooling solutions expected to impact the chiller business? Could you share the progress of the development of new cooling solutions such as liquid immersion cooling and future plans?

A - I-Kueon Kim

First, let me answer your question for the HS division. For logistics costs, we expect to see improvements in the second half of 2025 compared to both the first half of the year and the previous year. This is driven by the recent finalization of the global sea freight bidding contract for volumes to be shipped in the latter half of the year, coupled with the overall downward trend in sea freight rates from July.

We are also strategically mixing new carriers and existing carriers to further enhance our cost competitiveness. Additionally, we are mitigating the impact of U.S. tariffs by shipping sales volume in advance and increasing the level of regional production.

For marketing expenses, while the second half of the year presents various business dynamics and external variables, we plan to maintain and strengthen our market position through optimizing resources. This will be achieved by focusing on customer communication and strategic marketing, supported by our unique core technologies, differentiated premium products with AI features, and regionally tailored products.

The business environment in 2025 continues to be riddled with numerous challenges, including shifts in U.S. tariff policies and weakened global consumer sentiments. Regardless, LGE will continue to boost sales with the two-track strategy tailored to each market and expansion of online and subscription businesses.

Furthermore, we project the operating profit to improve year-over-year with strengthened efforts to minimize the impact of U.S. tariffs and optimization of overhead expenses, including logistics and marketing costs.

A - Dong Hoon Shin

Now let me answer your question for the ES division. LGE's chiller business is rapidly expanding its market presence and continues to have robust orders and strong sales, fueled by demand for high-efficiency cooling solutions in various sectors, such as large buildings, nuclear power plants, and data centers.

We are recognized as industry leaders, offering best-in-class products and expertise for general internet data centers. As we expect to see increased demand in the data center market, we have developed both air-cooling chillers and liquid-chip cooling solutions with commercialization targeted at the end of the year.

In the future, immersion cooling is expected to be widely adopted in AI data centers as the technology boasts high cooling efficiency. In light of this, we are actively developing immersion cooling technology, collaborating with leading companies in the field to prepare for the shifting technological demands of the market.

Next question, please.

- Operator

Currently, there are no participants with questions. We will wait for a second until there is another question.

- Won Jae Park

This brings us to the end of LG Electronics' earnings release conference call for the second quarter of 2025. For further questions, please contact the IR team. Thank you.