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LG Electronics Inc (066570 KS Equity)

Q4 2025 Earnings Call

Company Participants

- Changtae Kim, Chief Financial Officer
- Donghoon Shin, Vice President, Eco Solution
- Jong-In Yoo, Division Leader, Home Appliance Solution
- Ju Yong Kim, Vice President, Vehicle Solution
- Sang-Ho Park, Senior Vice President, Media Entertainment Solution
- Jihwan Park, Senior Vice President, Corporate Business Management
- Youngkyoon Kim, Vice President, Finance Division
- In Geun Park, Division Leader, Accounting Division
- Wonjae Park, Vice President, Investor Relations

Other Participants

- Boyoung Choi, Analyst, Kyobo Securities
- Junseo Park, Analyst, Mirae Asset Securities
- Kangho Park, Analyst, Daishin Securities
- Sanghyun Park, Analyst, Korea Investment and Securities

Presentation

Operator

Good afternoon, and welcome to the LG Electronics Quarterly Earnings Conference Call. This conference call will begin with a presentation on the earnings results, followed by a Q&A session. (Operator Instructions) 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.

Wonjae Park

Good afternoon. My name is Wonjae Park from Investor Relations. Thank you for joining our Earnings Call for the Fourth Quarter of 2025. With me are

Changtae Kim, CFO and EVP of LG Electronics; from each company's Business Management Division, Jong-In Yoo from HS, Sang-Ho Park, SVP of MS, Ju Yong Kim, VP of VS, and Donghoon Shin, VP of ES. From Headquarters, Jihwan Park, SVP of Corporate Business Management, Youngkyoon Kim, VP of Finance, and In Geun Park, VP of Accounting.

Today's presentation will proceed as follows. Our CFO will review the 2025 results, 2026 outlook, and provide updates on our robotics business and credit rating upgrades. I will then present the fourth quarter financial highlights. After that, each business will share its individual results and outlook. An overview of our ESG activities will be included in the upcoming first- and third-quarter earnings releases. Please note that all statements made today regarding the fourth quarter financial results 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 adjustments.

Now, let us begin with the performance review for 2025 and the outlook for 2026.

Changtae Kim

Good afternoon. I'm Chang-Tae Kim, CFO of LG Electronics. Despite sluggish global consumption amid rising protectionism and geopolitical risks, LGE achieved sales growth in 2025, driven by the expansion of our core businesses in emerging markets, our two-track strategy targeting both premium and mass-tier segments, and continued growth in automotive electronics and HVAC businesses.

In home appliances, we mitigated cost pressures, including US tariffs, through global production optimization and efficient operations. In automotive electronics, we achieved meaningful profitability improvements through higher sales of high-value-added products and enhanced operational efficiency. To tackle profitability challenges in our display business amid weak demand and rising competition, we strengthened cost structure and built a foundation for fundamental cost competitiveness. Growth in new areas, smart factory, subscription services, and webOS platform accelerated, further boosting overall profitability.

Persisting uncertainties in the global economy and a delayed demand recovery, coupled with cost pressures from tariffs and component prices are expected to weigh on operations. At the same time, rising investment in AI and robotics, driven by advances in AI technologies, is expected to create new opportunities. In response, we will strengthen our market presence by securing sales growth momentum in our core business through the Global South strategy and region-specific initiatives.

We will continue pursuing qualitative growth by expanding subscription services, the webOS platform, and other new business models, along with B2B areas including automotive electronics and HVAC. To gain a competitive

edge in the evolving AI-centered ecosystem, we will focus on pursuing investment and growth opportunities in AI-driven smart factories, AI data center cooling solutions, robotics, and other future growth areas. At the same time, by adopting AX in the way we work, we will redirect our focus towards higher-value tasks, enhancing speed and execution.

Let me briefly highlight our robotics business, which is drawing stronger market interest. LGE has long accumulated technological know-how in industrial robots for smart factories as well as in motors, actuators, and autonomous driving for commercial robots across various services. Leveraging our deep understanding of customers, we are advancing smart appliances through AI, introducing the concept of AI home solution.

Our vision for home appliances, 'Zero Labor Home' is built upon our expertise and extensive experience. At CES, LGE unveiled LG CLOiD, a household robot aiming to dramatically reduce household chores. What truly differentiates our vision for home robots from other humanoids is our deep understanding of the home as a living space, our extensive and diverse ecosystem of smart home appliances, and the rich lifestyle data accumulated through this platform.

Our home robot will not simply remain as humanoid devices limited to individual operations. Through mutual interaction among customers, appliances, and robots, we aim to embody our vision of offering home robot solutions that address customers' key needs in the most efficient way possible. In addition, we continue to expand the features and ecosystem of our home robot solutions. We're building a comprehensive robotic ecosystem that spans industrial, commercial, and home robots. By leveraging partnerships with leading global companies, we plan to secure technological capabilities and explore new business opportunities.

Lastly, I would like to share some news about our corporate credit rating. Recently, Moody's, one of the world's leading credit rating agencies, announced an upgrade of LG Electronics' credit rating from Baa2 to Baa1. This marks the highest rating our company has ever received from Moody's. I believe this achievement reflects our longstanding efforts to transform our business portfolio, our ability to overcome challenging external conditions through differentiated competitiveness and strong execution, and the market's objective recognition of our solid financial management capabilities, which have consistently supported our strategic initiatives. As a member of the management team, I'm pleased to share this encouraging news.

We expect this credit rating upgrade to have a positive impact across our business operations going forward. We will continue to enhance trust in our company by delivering strong results through disciplined execution and by maintaining stable and efficient business operations.

I will now briefly review the Q4 2025 performance of the enterprise-wide operations and each business. Our consolidated financial results for Q4 were KRW23.85 trillion in sales and KRW109 billion in operating loss. HS recorded KRW6.25 trillion in sales and KRW171.1 billion in operating loss. MS recorded KRW5.43 trillion in sales and KRW261.5 billion in operating loss. VS recorded KRW2.79 trillion in sales and KRW158.1 billion in operating profit. Lastly, ES recorded KRW1.45 trillion in sales and KRW142.8 billion in operating loss.

Moving on, the next focus is on B2B and subscription businesses, which serve as key drivers of qualitative growth in our portfolio transformation. Sales of automotive electronics increased in Q4, supported by a stable order backlog. However, overall B2B sales slightly declined year over year due to a decrease in HVAC sales driven by weakened consumer sentiment and the off-peak season in the second half. Despite this, the contribution of the B2B business to total sales continues to grow qualitatively, maintaining a stable performance level.

Turning to the subscription business, our Korean operations further strengthened their competitive edge through differentiated care services, maintaining strong double-digit sales growth year over year. Overseas, following successful entries into Malaysia, Thailand, and Taiwan, we recently launched in Singapore, further broadening our global subscription footprint. Although still in its early stage, the accelerated expansion of our overseas subscription business is steadily increasing its contribution to overall subscription sales year over year. We will continue to enhance our performance by advancing our business portfolio, including both B2B and subscription businesses.

Moving on to the income statement and cash flow for Q4. Reflecting financial income and expenses, equity method gains and losses, other non-operating items, corporate tax, and discontinued operations, the Q4 net loss was KRW725.9 billion. Now let's look at cash flow. Cash flow from operating activities was KRW612.5 billion, while cash flow from investing activities was negative KRW1.13 trillion, resulting in a net cash flow of negative KRW342.7 billion. When reflecting cash flow from financial activities of KRW1.15 trillion, the cash balance at the end of Q4 stood at KRW8.76 trillion, an KRW811.7 billion increase from the previous quarter.

Key financial positions and indicators for Q4 2025 are as follows. At the end of Q4, assets stood at KRW68.6 trillion, liabilities at KRW40.1 trillion, and equity at KRW28.5 trillion. Leverage ratios, including liability to equity, debt to equity, and net debt to equity, have improved, remaining at healthy levels.

Now we will hear from each business company regarding its Q4 2025 results and 2026 outlook, beginning with HS.

Here are the Q4 results for the HS business. A recovery in consumer sentiment has been delayed due to US tariffs, inflation, and geopolitical uncertainties. Despite the ongoing intense competition, we achieved year-over-year sales growth through our Two-Track strategy targeting both premium and mass-tier segments, as well as the accelerated growth of our B2B, online and subscription businesses.

Operating income declined YoY despite measures to address US tariffs, such as expanding local production and adjusting sales prices, and an improvement in cost structure, including marketing efficiency. The decline mainly reflected one-off costs from a voluntary buyout program for healthy workforce renewal.

Looking ahead to 2026. Although expectations are rising with the adoption of stimulus policies in major markets and the potential for rate cuts, global demand for appliances is expected to remain close to last year's level amid ongoing geopolitical, inflation, and FX uncertainties. Demand for AI-based smart and premium appliances is likely to grow with advancing technology and rising consumer interest alongside continued expansion in service-integrated markets such as subscriptions. Accordingly, we will drive sales growth through our portfolio strategy, including the Two-Track approach, B2B, online, and subscription businesses, while expanding AI products and focusing on emerging markets, particularly the Global South. We are optimizing our production footprint and leveraging the ecosystems of cost-efficient countries to boost manufacturing and logistics competitiveness, thereby securing profitability comparable to last year.

Let's turn to the outlook for the global appliance market demand in 2026. We update this forecast twice a year, and by sharing our views, we aim to provide our perspective on global demand trends and corresponding strategies. Please note that this outlook focuses on the year-over-year market demand forecast, not our appliance revenue. Actual market conditions may differ from this outlook due to various factors such as economic policies on tariffs, interest rates, and other variables, as well as geopolitical issues.

The global appliance market is expected to see a gradual recovery from the second half of 2025 through the first half of 2026, albeit at a limited scale. Considering base effects and uncertainties such as FX fluctuations, demand in the second half is likely to show slight negative year-over-year growth, resulting in an overall level similar to the previous year. By region, in North America, overall demand is forecasted to slow slightly, mainly due to inflation and a delayed recovery in the housing market as the impact of tariffs began to take effect. At the same time, consumption is expected to become increasingly polarized. Accordingly, we plan to respond flexibly by strengthening our premium presence and expanding mass-tier coverage through enhanced cost competitiveness.

In the Global South, where we are driving growth to diversify our regional portfolio, we expect to see a slight uptick in demand. We aim to further

accelerate our Global South strategy by launching new, more competitive lineups, including region-specific models, so that this market can establish itself as another key pillar of growth for LGE. Various uncertainties, including macroeconomic factors, are expected to persist through 2026. We will pursue solid performance through well-established strategies built on our global market experience and through close cooperation with our trading partners.

Let's now turn to the Q4 results for our Media Solution business. Sales rose quarter over quarter with the peak season, especially for TVs and in North America and Europe, but fell year over year due to a delayed recovery in consumer sentiment and stronger competition. Operating profit improved quarter over quarter on higher sales and cost improvement, but fell year over year due to price reductions and competition-related costs.

Our outlook for 2026 is as follows. Sporting events such as the Winter Olympics and the World Cup are expected to boost demand, but overall growth will likely stay flat as economic uncertainty and rising component costs, such as for memory, are reflected in product prices. We will drive sales by enhancing product competitiveness through greater customer value while improving profitability by achieving cost competitiveness, comparable to Chinese players, and increasing operational efficiency. We also plan to create new demand by strengthening our competitiveness in the webOS platform and B2B business, thereby leading the market.

I will now review the Q4 results of the VS company. Despite slower EV sales triggered by suspended US subsidies, sales rose both quarter-over-quarter and year over year as backlogged orders were smoothly converted into sales. Operating profit also improved quarter over quarter and year over year, driven by sales growth and cost structure improvements. Regarding our 2026 outlook, global automotive demand is expected to remain stagnant amid macroeconomic volatility from weak EV demand, changing regulations, and tariff issues. We will continue expanding sales through new projects and mass production while strengthening OEM partnerships with an improved product mix and optimizing operational costs to maintain solid profitability.

Let me outline the Q4 results of the ES company. Sales declined year over year both in Korea and overseas, impacted by the off-peak season in the second half and weakened consumer sentiment amid persistent macroeconomic uncertainties. Operating profit also decreased year over year due to lower sales from seasonal effects, higher competition-related costs, one-off expenses from the buyout program, and increased labor costs from core business hires.

Looking ahead to 2026. Korean market demand is expected to decline amid weak consumer sentiment and stagnation in the construction sector, while overseas demand, especially for premium products, is set to grow with stricter environmental regulations and rising preference for high-efficiency smart products. We will boost sales by launching price-competitive strategic models

and new products in core businesses while accelerating online sales. For the incubating segment, we will address new demand and regulatory changes with high-efficiency B2B solutions like data center chillers and heat pumps using eco-friendly refrigerants.

This brings us to the end of LG Electronics' Fourth Quarter Earnings Release and the 2026 outlook. 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 Kangho Park from Daishin Securities. Please go ahead with your question.

Q - Kangho Park

Thank you for the opportunity. I am Kangho Park from Daishin Securities. My first question is for the company as a whole, and my second question is for the HS company. My first question for the company is, LGE announced plans for a share buyback yesterday. Could you provide further details and outline the company's plans going forward?

And my second question goes for HS. We believe that tariffs still hold great importance this year, and uncertainties continue to loom in the landscape. Can you share the status on your local production in the United States and Mexico? Whether you have any plans to add more capacities in the coming future? Thank you.

A - Wonjae Park

The first question regarding the share buyback program will be answered by our CFO, and the second question regarding HS business division's production site will be answered by the Head of HS business management division.

A - Changtae Kim

Let me answer your first question on our share buyback program. LGE places significant importance on shareholder returns and the enhancement of shareholder value. As disclosed in our Corporate Value-Up Plan announced on November 28, 2025, we outlined the following shareholder return initiatives.

First, we plan to proceed with the cancellation of our remaining treasury shares, subject to approval at the upcoming Annual General Shareholders

Meeting scheduled for March 2026. Second, we plan to implement additional shareholder returns totaling KRW200 billion over the next two years.

In addition, as announced yesterday through the disclosure on the decision to enter into a Trust Agreement for the Acquisition of Treasury Shares, we plan to repurchase KRW 100 billion worth of treasury shares between February and September of this year. This repurchase represents the first phase of the total KRW 200 billion shareholder return plan.

Going forward, we will continue to take proactive steps to further enhance shareholder value, including follow-up actions on the previously announced shareholder return plan.

A - Jong-In Yoo

Let me answer your question on HS. With the start of operations of our Mexicali plant in Mexico since October 2025, we have three local production sites serving the North American market, including our site in Tennessee, US, and in Monterrey, Mexico. We intend on expanding the share of local production through increased capacity drawn from greater productivity.

We cannot provide the details, but we believe the share of local production will reach levels up to 60% by 2026, facilitated by the additional plant and enhanced productivity. Thank you.

A – Seunghyun Kim

Next question, please.

Operator

The following question will be presented by Boyoung Choi from Kyobo Securities. Please go ahead with your question.

Q – Boyoung Choi

Yes, thank you for the opportunity. I also have two questions. One for MS, and the other for ES. For MS, I believe that the TV industry still faces a challenging environment. What is the sales and profitability outlook for MS in 2026? Will you be able to turn a profit?

My second question is for the ES business division. AI is one of the hot topics in the world today. And I'm curious to know how the chiller business and data center cooling solutions are currently performing. And what is the outlook for 2026 in the mid-to long-term?

A - Wonjae Park

Yes, thank you for your question. For your question on TV and MS performance, it will be answered by the Head of MS business management division. And for the chiller, it will be answered by the Head of ES business management division.

A - Sang-Ho Park

Let me answer your question on MS. Sales in 2025 declined with heightened competition and dampened growth and demand for key products such as TV.

For our margins, we drove greater operational efficiency through synergy across the integrated division in 2024, added smart lines in oversea production sites and reduced raw material costs. These efforts, however, were offset by heightened competition in not only the premium but also mass-tier lineups, leading to greater competition cost and lower selling price and ultimately operating loss.

Major sporting events such as the Winter Olympics and the World Cup in 2026 may push up demand, but with headwinds such as ongoing macro uncertainty and rising part prices, including memory chips, downsides on demand persist as well. Accordingly, market demand is projected to climb slightly YoY or stay at levels seen last year. For sales -- this answer on demand, I hope will answer the question.

We will increase our sales through stronger product advantage that stems from enhanced customer value. We will improve our margin with a cost advantage, coupled with greater efficiency across all of our operations.

In addition, we will continue to build on our webOS and B2B business to create new demand and lead in the area.

But uncertainty remains from geoeconomic shifts, and the market is prone to greater competition and rising chip prices. Hence, it is difficult to comment on whether we will be able to turn a profit by the end of the year.

Thank you.

A - Dong Hoon Shin

Now, let me answer your second question for the ES business division on the chiller business status and projections. In 2025, the chiller business faced an overall challenging environment amid continued uncertainty in the global business landscape. Factors such as the implementation of US tariff policies, escalating US-China tensions, and geopolitical risks in the Middle East and Europe led to a broad decline in investments across the global industry. In addition, the revision of Korea's Energy Use Rationalization Act had a negative impact on the chiller business as well. Despite these headwinds, orders for data centers increased threefold year-over-year.

In 2026, we expect a substantial increase in sales driven by a full-scale expansion of new orders, previously secured overseas data center chiller projects, and the expansion of high-efficiency inverter scroll products.

Leveraging our One LG capabilities, we also plan to further strengthen our data center solution offerings.

Furthermore, the chiller business, including data centers, remains on track toward its KRW1 trillion total sales target by 2027. Over the mid to long-term, we aim to achieve sustained growth in both sales and profitability. Thank you.

A – Seunghyun Kim

Next question, please.

Operator

The following question will be presented by Sanghyun Park from Korea Investment and Securities. Please go ahead with your question.

Q - Sanghyun Park

Yes, thank you for the opportunity. I also have two questions, one for HS and the other for MS. For HS, your subscription business has gone through impressive expansion in 2025. Can you highlight your annual performance for 2025, including the details on sales and profit contribution, as well as your direction for 2026?

And my second question goes for MS. Prices of raw materials, including memory chips and metals, are on the rise. How are you responding to this? I believe your PC and TVs are especially prone to the rise in memory prices. How will you address this?

A - Wonjae Park

For your question on subscription, I know it involves a lot of other businesses, but it will be answered by the Head of HS business management division. And for our memory price rises, it will be answered by the Head of MS business management division.

A - Jong-In Yoo

Let me answer your question on your subscription. As you have mentioned, our subscription business did undergo impressive growth both home and abroad in 2025. With competition in the domestic market evolving to focus on subscriptions, we were able to sustain a stable growth trajectory by increasing our lineups of large white goods while identifying potential products and delivering better care services. As a result, our sales exceeded KRW2 trillion, positioning us strongly in the market.

We see business expanding overseas as well, especially in Asia, with the growth momentum strong. Drawing on the infrastructures we have in Malaysia and Thailand, we have expanded the business to include Taiwan and Singapore, and sales have thus grown beyond 40% since last year.

In 2026, with greater offerings, especially of large white goods and addition of sale channels beyond our Best Shops, we will continue to drive sales growth. We will also build on our business prowess with greater improvements and

efforts made across our customer touchpoints spanning sales, delivery, installation, and care services. In laying the groundworks to capture new customer base and mid to long-term growth, we will continue to diversify our portfolios not only through subscriptions, but also by identifying various business models such as B2B subscriptions.

A - Sang-Ho Park

Let me answer your question -- second question on the back of the surge in demand for AI servers, memory makers have rapidly reallocated their capacity to servers, resulting in supply shortage and price hikes.

An unprecedeted memory super cycle has begun, which will weigh on supply over long term.

This prompts us to proactively seek closer ties with our memory partners and ensuring stability in supply and across the supply chain.

In detail, our strategies involve the signing of supply MoUs with key partners, supplier diversification, dual sourcing, and closer cooperation with suppliers for stockpiling to ensure overall stability across our supply chain.

But it will be hard to dismiss a rise in cost, and the pressure is especially high among memory-intensive products. We will therefore mitigate the impacts on our margins through partial price raise, additional cost reductions, optimizing our specifications, and modifying our portfolio to be centered on premium products. Thank you.

A – Seunghyun Kim

Next question, please.

Operator

The following question will be presented by Junseo Park from Mirae Asset Securities. Please go ahead with your question.

Q - Junseo Park

Thank you for the opportunity. I have two questions, one for the logistics and the second for the VS business division. For the first question, what were the logistics costs in the fourth quarter of 2025? And what is the logistics cost outlook for 2026? And how is LGE going to manage through its strategy?

My second question for the VS business division is, recently the business division has seen a stable profitability throughout the quarter. And how does LGE look at this throughout the quarter? And also, what is the VS business division's mid to long-term target profitability?

A - Wonjae Park

The first question regarding logistics costs will be answered by the Head of Investor Relations division, and the second question on the VS business division's profitability, which is also one of the things that we're very proud of, will be answered by the Head of VS business management division.

Let me walk you through the fourth quarter 2025 logistics cost. Logistics cost in the fourth quarter of 2025 increased slightly year over year, largely attributable to higher warehousing and trucking expenses driven by inventory replenishment to meet order demand from major US retail partners.

For 2026, following the results of the 2026 ocean freight bidding process completed in December 2025, we expect ocean freight rates to decline compared to the prior year. However, cost pressures related to trucking and warehousing are expected to persist in 2026, reflecting rising labor costs and inflation across major global markets. In response, we have continued to launch tasks and initiatives to enhance logistics efficiency across our subsidiaries, with a particular focus on the US to further improve profitability.

A - Ju Yong Kim

Let me also answer your second question regarding the VS business division's profitability management and the mid to long-term target profitability. While heightened macroeconomic volatility driven by a prolonged EV chasm, the rollback of environmental policies, and ongoing tariff issues continues to pose challenges, we are strengthening our monitoring efforts and deepening collaboration with global OEMs to build an agile operating framework that allows us to flexibly respond to changing market conditions. Through continued improvements in our product mix and ongoing optimization of operating expenses, we remain committed to securing solid profitability over the long term. As EV demand gradually recovers, we expect sales growth to be supported by a solid order backlog. Over the mid to long-term, our goal is to achieve profitability approaching high-single-digit levels. Thank you.

A – Seunghyun Kim

Next question, please.

Operator

Currently, there are no participants with questions.

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

A - Wonjae Park

Since it is Friday afternoon, we will end our earnings call here. This brings us to the end of LG Electronics Earning Release Conference Call for the Fourth Quarter of 2025. We're very happy to give out good news regarding

shareholder returns and our raise of credit rating. If you have any further questions, please contact the IR team. Thank you.