LG Electronics 2024. 4Q Earnings release conference call

January 23, 2025, 4:30 PM

Good afternoon.

Welcome to LG Electronics' quarterly earnings conference call.

This conference call will start with a presentation on the earnings result, followed by a Q&A session. If you wish to ask a question, you will need to press star and one on your telephone. English translation will be provided for this call simultaneously for the presentation and consecutively for the Q&A session.

I will now 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 2024.

With me are:

- CFO and EVP of LG Electronics Changtae Kim,
- SVP of HS Company I-Kueon Kim,
- SVP of MS Company Sang Ho Park,
- VP of VS Company Ju Yong Kim,
- VP of former BS Company Dong Cheol Lee,
- VP of Corporate Business Management Choong Hyun Park,
- VP of Accounting Hong Su Lee,

- VP of Finance Young Kyoon Kim, and
- Head of ESG Strategy Sung Min Hong.

Here is today's presentation agenda. First, our CFO will outline the overall performance of the fourth quarter and the outlook for 2025. Then, I'll present the Q4 results and financial highlights. Subsequently, each business will take turns to deliver its results and outlook. After that, I'll provide a briefing on the organizational redesign of 2025. 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 fourth quarter are subject to change in accordance with the final audit results. Uncertainties in the market and changes in strategies may cause our results to be different from the outlooks and forward-looking statements made today.

Now, let us begin with the overall performance of the fourth quarter of 2024 and the outlook for 2025.

○ **Changtae Kim**

Good afternoon. My name is Changtae Kim, CFO of LG Electronics.

2024 has been a year in which solid growth in sales and stable profits were achieved despite internal and external headwinds.

External factors like soaring logistics costs and fluctuating exchange rates have impacted our Q4 and second half profitability. However, despite a global slowdown in demand recovery, we strengthened our market position and maintained sales growth through enhanced product competitiveness and differentiated promotions. In terms of operating profit, the subscription and webOS businesses, which are at the heart of our portfolio transition initiative, contributed to offsetting rising expenses, including fixed and logistics costs. I believe this is vital for improving our business performance and achieving our mid-to long-term goals.

As the global economy transitions to a geo-economic era in 2025, stronger protectionism in major markets like the U.S., concerns over persistent inflation, and delays in rate cuts are likely to heighten uncertainties. Competition is expected to intensify as the demand recovery lags, compounded by inflation-triggered cost increases that may work against us.

In response to these challenges, responsive measures centered on differentiated customer value are being developed and implemented for crisis management. Firstly, we will secure fundamental competitiveness and continue to invest in future growth areas to identify opportunities that may arise amidst industrial changes. Strategic priorities will be considered in this process and investment efficiency will be maximized through a selective focus.

We will deliver sustainable results by realigning our execution strategies to adapt to changes in the market, while maintaining consistency in our mid-to long-term direction toward achieving Future Vision 2030. We will mitigate the negative impact of additional risks such as the shift toward protectionism, the reshaping of the global supply chain, exchange rate fluctuations, and rising cost pressures by optimizing our supply chain, leveraging our production flexibility, and enhancing operational efficiency. By doing so, we aim to enhance our competitive edge across our businesses and turn this crisis into opportunities for solid growth and stable profitability this year.

Lastly, we will spare no efforts in maximizing shareholder value, based on our business achievements by driving diverse initiatives from our Value-Up Plans announced last year, with strong accountability.

○ **Wonjae Park**

I will now briefly review the Q4 performance of the enterprise-wide operations in each business.

LGE's consolidated financial results for the fourth quarter of 2024 are 22.76 trillion won in sales and 135.4 billion won in operating profit.
H&A recorded 7.41 trillion won in sales and 117.3 billion won in operating loss.
HE recorded 4.37 trillion won in sales, 37.3 billion won in operating profit.
VS recorded 2.65 trillion won in sales and 20 billion won in operating loss.
Last but not least, BS recorded 1.24 trillion won in sales and 123.1 billion won in operating loss.

Let's move on to the profit and loss and cash flow for Q4. 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, we posted 713.7 billion won in net loss.

Next on cash flow. Q4 cash flow from operating activities was 1.86 trillion won and cash flow from investment activities was a negative 1.24 trillion won, resulting in net cash flow of 807.3 billion won. When reflecting cash flow from financial activities of negative 926.6 billion won, cash balance at the end of Q4 came to stand at 7.57 trillion won, a 119.3 billion won decrease from the previous quarter.

Next is the key financial position and indicators for the Q4 of 2024. As of the end of Q4, our assets stand at 65.6 trillion won, liabilities at 40.4 trillion won, and equity at 25.2 trillion won. In terms of leverage ratios, specifically liability to equity, debt to equity, and net debt to equity, we are maintaining a healthy financial condition.

Now let's turn the call over to each business for Q4 results in the outlook for 2025. We will begin with H&A.

○ **I-Kueon Kim**

Let me present the Q4 result of the H&A business.

Despite the delayed recovery of global home appliance demand, we have maintained growth through the acceleration of our subscription business and differentiated promotions in Korea. Additionally, strong sales of new models in North America and our leadership in premium products in emerging countries have contributed to year-over-year growth. Operating profit has remained at a similar level year-over-year despite the unfavorable environment, including rising logistics costs, thanks to sales growth and reduced marketing expenditure.

Next, I'll discuss the annual outlook for the year 2025.

The recovery in the Korean market is expected to be delayed due to internal and external variables. Growth in the overseas market is anticipated to mirror 2024, but changes in U.S. trade policies may heighten uncertainties in global trade, which has traditionally relied on distinct roles among trading countries and regions.

Our goal is to drive sales by introducing products tailored to regional need and powered by AI, and expanding our volume zone segments. We also aim to sustain sales momentum by growing our online and subscription businesses.

Furthermore, we will maintain operating profit at or above last year's levels by optimizing productivity to reduce manufacturing and logistics costs, while strategically managing competition-related expenditures.

Next, I would like to share our views on the demand for the global home appliance market in 2025.

Beginning with the first quarter earnings release in 2024, we have been sharing our annual demand forecast to enhance the market understanding of the global home appliance sector. We update this forecast twice a year in the first and second half. By sharing our views, we aim to outline where we believe global demand is headed and help the market understand our responsive strategies.

Please note that the data presented in this section reflect an outlook on combined market demand for refrigerators and washing machines, not projections of our appliance revenue affected by various factors including regional market share and the competition. Actual market conditions may differ from this outlook due to various factors, including the macroeconomic environment.

Overall, we anticipate gradual growth in the global home appliance market in 2025, with a strong improvement in the second half than in the first across most regions. However, increased protectionism and universal tariff plans, likely to be endorsed by the second Trump administration, may impact the global supply chain. Concerns around inflation and a slowing pace of interest rate cuts will further complicate uncertainties necessitating our continuous and thorough monitoring of the market. In response, we have optimized our global production footprint and are implementing various strategies tailored to regional needs.

To address macroeconomic uncertainties and potential demand changes, both in terms of quantity and quality, we will employ our “Two-Track” strategy to respond to bipolarizing demand. Additionally, we will pursue opportunities in emerging and untapped markets to maintain our track record of solid business results achieved, despite challenges posed by the endemic.

○ **Sang Ho Park**

Next is the Q4 result of Home Entertainment business.

Sales grew quarter-over-quarter, as we effectively responded to peak season demand. The figures also show a rising trend year-over-year driven by higher sales, especially in Europe, MEA, and Asia, along with the expansion of our webOS-based advertising and content businesses.
Operating profit declined quarter-over-quarter, primarily due to increased marketing investment during the peak season. However, thanks to the high profitability of the webOS business and rising sales of OLED TVs, operating profit improved year-over-year.

Now, let's turn our attention to the annual outlook for the year 2025.

Geo-economic uncertainties in the global market persist, compounded by risks such as a strong dollar and rising protectionism. Market demand is projected to drop slightly year-over-year in the first half, with a gradual recovery expected in the second half, resulting in an annual level comparable to that of last year.

In response, we aim to drive sales by focusing on premium products, including OLED TVs and QNED, while offering differentiated customer experiences through advanced AI features. Additionally, we will continue to grow webOS sales and profitability by investing in content for better usability, strengthening our capabilities in advertising, and expanding partnerships.

○ **Ju Yong Kim**

Next, we will review the Q4 result of the Vehicle Component Solutions business.

Despite some delays in sales realization due to stagnant demand for EVs, we sustained growth momentum in sales both quarter-over-quarter and year-over-year, supported by a stable order backlog. Operating profit experienced a slight year-over-year decline, due to higher investments in development, driven by the rise in the number of awarded projects, as well as R&D for SDVs.

Now, let's turn our attention to the outlook for the year 2025.

Demand for automobiles is likely to decline slightly year-over-year, due to risks such as changes in U.S. tariff policies. While demand for EVs is projected to experience a modest increase compared to last year, the overall level is expected to be weaker than earlier forecasts. Despite the negative impact of stagnant EV demand, we will strive to stabilize profitability by maintaining sales volume, supported by a healthy level of order backlog, improving our product mix and optimizing operational expenses.

○ **Dong Cheol Lee**

Let me present the Q4 results of BS Company.

In the IT business, despite efforts to boost sales—especially in gaming monitors during the year-end peak season—revenue declined year-over-year due to intensified competition. Conversely, the ID business saw year-over-year revenue growth fueled by increased sales of strategic and incubating products, as well as the fine-pitch LED series. Operating profit also declined year-over-year, impacted by lower selling prices, resulting from intensified competition, along with rising logistics costs and raw material prices.

Looking ahead to the full year of 2025, market conditions suggest slight growth in monitor demand for the IT business, compared to last year. The demand for PCs is expected to experience an uptick, fueled by the widespread eruption of AI and anticipated enterprise PC replacements as Windows 10 reaches its end of life. For the ID business, demand for LED signage and hotel TV is also expected to grow.

Against this backdrop, for monitors, we will focus on selling high-value-added products such as gaming and medical monitors. For PCs, we will cater to the premium market with AI-featured products like the Gram Pro, while boosting sales with new budget-friendly offerings. In the ID business, we aim to enhance the value chain of our existing operations to grow sales and enhance profitability.

○ **Wonjae Park**

To facilitate our transition into a "Smart Life Solution Company" that connects and enhances customer experiences across various living spaces, we are redesigning our business structure in line with our portfolio strategy to enhance synergy among businesses and improve future competitiveness. We have redesigned our organizations into Solution Companies that offer comprehensive customer experiences, and we aligned various levels within them to improve operational efficiency and ensure future growth.

H&A Company has been renamed HS Company to provide solutions that enable new and valuable experiences across diverse spaces.

The air solution business from H&A has been separated to operate as a standalone entity, called ES Company, with the aim of growing the HVAC business to reach the top tier category.

Considering that HE Company aims to provide the best entertainment experience to customers through diverse media devices, it has been renamed MS, Media Entertainment Company, integrating IT and ID businesses from BS Company to create synergy across the entire display value chain.

Additionally, VS Company has been rebranded as 'Vehicle Solution Company' to highlight its commitment to delivering solutions across the entire automotive ecosystem, moving beyond just supplying components. The organizational changes will be reflected in the earnings release starting from the first quarter of 2025.

○ **Sung Min Hong**

Last but not least, our ESG activities and achievements.

LGE is widely recognized for its sustainable technologies and products, having been named the most sustainable brand in the U.S. for HVAC solutions and appliances by the Green Builder Sustainable Brand Index, published annually by Green Builder Media, a leading North American eco-friendly construction media outlet. We have also been designated as a laboratory of excellence for three consecutive years by the Environmental Resource Association, for our analytical capabilities and reliability.

In addition, we are acknowledged for various initiatives aimed at improving the quality of life for everyone. We launched six new comfort kit products designed to simplify the use of home appliances.

Furthermore, we were named one of the best employers for engineers by Forbes, and our Indian subsidiary was recognized as a great place to work for two consecutive years by GPTW. We also received the Minister of Employment and Labor Award for promoting public-private partnerships, reflecting our 13 years of support for social enterprises.

Our ESG activities have garnered recognition, achieving the highest score in our industry group in the S&P global CSA in 2024, and securing inclusion in the Dow Jones Sustainability World Index for 13 consecutive years. Additionally, we received an A rating for our fourth consecutive years in the 2024 ESG evaluation by the Korea Institute of Corporate Governance and Sustainability.

As a smart life solution company, we will continue to strengthen our competitiveness in sustainable products and services along with our various initiatives aimed at improving the quality of life for all.

○ **Wonjae Park**

This brings us to the end of the fourth quarter earnings release and outlook for 2025.

We will now take questions. Operator, please commence with the Q&A session.

Q&A

○ **Moderator**

Now Q&A session will begin. Please press star and one if you have any questions. Questions will be taken according to the order you have pressed the star and one. For cancellation, please press star and two on your phone.

The first question will be provided by Dong-won Kim from KB Securities. Please go ahead with your question.

○ **Dong Won Kim (KB Securities)**

Thank you for taking my question. I have two questions, one for the company and one for H&A.

My first question goes for the company. It is likely that the Trump administration will levy high tariffs and that there's going to be changes in the trading landscape? What will the risks be and how will you counter these risks?

My second question is about home appliance business. The year 2024 saw a rise in logistics costs, which negatively influenced profitability of H&A. How do you foresee the trend evolving in 2025?

○ **Wonjae Park**

The first question will be answered by our CFO.

○ **Changtae Kim**

The Trump administration has not yet officially outlined the details on tariffs, such as the timeline and rates, and recently there have been reports on possibility of a gradual rollout of the policy, but from what has been proposed during the presidential campaign, the administration will likely impose high tariffs on countries the U.S. has large trade deficits with, namely China, Mexico, Vietnam, and Korea, which also happen to be where our major production sites are located. The effects of these tariffs on LGE will be more pronounced if the administration goes a step further to impose import quotas or safeguard measures to protect its industries.

Though a majority of our key competitors will likely face similar headwinds against such tariff hikes, we will be meticulous in our response, optimizing our entire value chain from production to sales, while developing measures against various scenarios in efforts to mitigate potential consequences. With regards to goods with high tariffs imposed, we will expand our swing production, where multiple sites can be utilized while running optimal production sites in light of cost advantage. In addition, we will shift global production volumes via pre-production, and work with our distributors in mitigating risks.

When the hikes and tariffs call for a fundamental change in our supply chain, we will draw on our industry-leading expertise in smart factories and know-how in successfully operating U.S. production sites, and we will be proactive in shifting our manufacturing strategies, such as adjusting capacity or relocating in cases where such may be called for.

Thank you.

○ **I-Kueon Kim**

Your question about logistic costs will be covered by H&A.

We expect logistic costs to slightly improve in 2025, thanks to the reduction in sea transportation costs. As the issues in the Red Sea continued throughout 2024, general shortage of shipping capacity resulted in high freight rates. Although the Suez Canal is still not operating at normal levels, global shipping demand is projected to increase by 2.8% in 2025 while shipping supply is expected to rise by 5.4%.

As a result, further reductions in maritime freight rates are anticipated as we move into the second half of 2025, and in this context, we have focused on semi-annual contracts for the first half of 2025 when bidding for freight rates. We plan to conduct further bidding processes in the second half to ensure competitive pricing for maritime transport. As for logistic costs excluding maritime transport, we are continually undertaking improvement measures and believe they will remain at a similar or lower level compared to sales of the previous year.

Thank you.

○ **Wonjae Park**

Next question, please.

○ **Moderator**

The following question will be presented by Kang Ho Park from Daishin Securities. Please go ahead with your question.

○ **Kang Ho Park (Daishin Securities)**

Thank you for taking my questions. I have two questions, one for the company and one for HE.

For the company, I have a question on the Indian IPO. Could you please share on the progress and the future milestones for the Indian IPO? And when the IPO is successful, I believe there is going to be an inflow of capital. Can you please share on your plans on using the capital raised? And third, I believe there is a lot of interest from investors. Could you please share your valuation of the Indian subsidiary and as well as the market value that you see after the IPO has taken place?

My second question goes for HE with regards to webOS. We believe that webOS is a future driver for growth, especially in terms of profitability. Can you please share on your performance and profitability for 2024, as well as your outlook for 2025 as well? And in cases where the environment seems to be difficult, can you also share on how you manage to realize the goals that you have outlined?

Thank you.

○ **Wonjae Park**

Let me answer your question on the Indian IPO.

The growth potential held by India has recently attracted many interest from investors. And following the IPOs of many major South Korean companies, we too are aware of the rising public interest on the possibility of listing our Indian subsidiary, which has unique strength in the strong Indian market. LGE filed the preliminary prospectus required for IPO, the draft red herring prospectus, with Securities and Exchange Board of India, aka SEBI, on December 6, 2024. Final decisions on going public will depend on market receptivity and results on book building. Therefore, LGE will sell a stake of up to 15% in LGE India Limited, but details on the offering price is yet to be determined.

We would like to shed some light on the current standing of our Indian subsidiary, its business, as well as future plans. For LGE, it has been 27 years since we entered the Indian market, during which we were able to build a complete local network, spanning the entire supply chain from production to sales. And our home appliance business constitutes a strong pillar for growth.

In 2024, the home appliance sector drove strong performance compared to last year, with revenue growth of nearly 10% and operating margin at low teens, underpinned by not only our strategy in targeting both premium and mass tiers, but also bullish growth of residential and commercial SAC orders from property developers.

This year, we will fast-forward this business momentum to penetrate into the lives of Indian consumers, by gaining a larger market share and starting our subscription biz. In terms of capacity, we will ensure stability in operations of our local production through enhanced productivity of the subsidiary, greater operational efficiency of

OEMs, and flexibility in shift in production aligned to volumes as part of the larger efforts in meeting India's rising market demand.

Furthermore, in sustaining our number one market position, we will increase the penetration of our home appliances in tandem with India's economic growth, while reviewing possibilities on scaling capacity upon close monitoring of government policies.

We believe that the IPO of our Indian subsidiary may serve as a potential option in terms of financing our commitment to deliver on the corporate value and growth strategy of LGE and LGEIL. Though we are reviewing the details at multiple fronts, nothing is final at the moment from compliance perspective.

○ **Sang Ho Park**

Despite heightened competition during 2024, our webOS platform business has seen a solid selling growth with sale of webOS-based products reaching 240 million, and we have sustained upswings in our customer usability, a core pillar of our business, by building on the strength we have in LGE channels, FAST services.

We have further built on the partnerships we have with global content providers and local players in key countries. And while trying to cater to the needs of webOS customers with the launch of new services, we have also continued to broaden the webOS ecosystem, having had our webOS deployed in at least 10 million non-LGE smart TVs in 2024.

With regards to 2024 performance, let me give you a brief outline. We were able to achieve our initial target for 2024 of 1 trillion in revenue with robust profitability levels above our expectations.

This year, we will continue investing in our contents to provide our users of LGE smart TVs with greater assortment of content, and the usability that we have gained will serve to not only build on our fundamentals and the advertisement biz, but also on our footsteps in diversifying our revenue stream realized from entering new spheres, like gaming and commerce. We will also continue to seek opportunities to partner with global leading players and have webOS become a large pillar of our business.

Thank you.

○ **Wonjae Park**

Next question, please.

○ **Moderator**

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

○ **Sung Kyu Kim (Daiwa Securities)**

Thank you for giving me the opportunity. I have brought two questions.

My first question is about your home appliance business. I understand your Korean competitor is jumping into subscription business. How do you expect this trend to affect the market landscape, and what would be your countermeasure?

My second question is about vehicle solutions. I understand that the EV demand is remaining stagnant at the moment. What is the current status and outlook of the LG

Magna business, and could you please provide an estimate of the revenue contributed by the Mexico plant?

○ **I-Kueon Kim**

While there are worries regarding intensified competition in the market, we see this as a beneficial element that supports the growth of the home appliance subscription business in Korea and enhances consumer awareness. Furthermore, we plan to reinforce our competitive strength by enhancing the core principles of home appliance subscriptions, namely providing ongoing care and strengthening the diverse customer experiences, thereby shaping our unique subscription brand.

First and foremost, our group of specialized care managers provide professional services to our customers, and the differentiated customer experiences delivered through them will be a significant strength for us in the future. Additionally, we plan to continuously develop product and services suitable for a subscription business. For example, care managers can take care of refrigerators within built-in filters, and products that can be easily disassembled for cleaning can make our customers recognize our value. Our subscription is not limited to straightforward installments. It emphasizes personalized care offerings.

Adding more colors on the Korean market, the revenue from the home appliance subscription business accounts for 27% of our total appliance sales, achieving a cumulative revenue of 1.6 trillion won, witnessing 50% growth year-on-year. Despite the overall contraction in the Korean home appliance market, we are generating differentiated results based on the acceleration of the subscription model.

○ **Ju Yong Kim**

Your question about LG Magna business will be covered by Vehicle Solutions.

Looking ahead to the next two to three years, we anticipate that the stagnation in EVs may result in our sales and profitability falling short of our original expectations. However, we project that our sales and profitability will gradually bounce back after EV market recovery based on our effort to win more orders to diversify our client base.

LG Magna Mexico plant started mass production in September 2023, and the revenue contribution have increased every quarter in 2024, reaching 20% level in 2024. And we anticipate its contribution to rise to 50% level in 2025.

Thank you.

○ **Wonjae Park**

Next question, please.

○ **Moderator**

The following question will be presented by So Won Kim from Kiwoom Securities. Please go ahead with your question.

○ **So Won Kim (Kiwoom Securities)**

Thank you for taking my questions.

I have brought one question to Business Solutions. Could you please provide me with the details regarding the release plans for AI PCs and the differentiation strategies compared to other companies? And, other than this, I believe that the profitability remains low. Could you share any methods to show recovery?

Thank you.

○ **Dong Cheol Lee**

Our 2025 LG Gram is embedded with on-device AI, Gram chat On-Device. We plan to provide an even more innovative customer experience by introducing AI, not as artificial intelligence, but as affectionate intelligence, which is designed to be more considerate and empathetic towards users.

Gram chat On-Device is a customer-centric solution that performs AI computations within the laptop based on the user's PC usage history and stored files, without the need for a network connection. When searching for and summarizing content closely related to individuals, it is faster and more secure than cloud-based AI. With affectionate intelligence, which provides tailored responses and empathy, users can enhance their productivity. Additionally, by connecting with AI software, like GramLink, users can enjoy a smart lifestyle anytime and anywhere with their mobile devices.

Gram chat Cloud, a cloud-based AI, connects to the network to answer complex questions based on large language models. It can be utilized as a more personalized AI by integrating with personal emails and calendars.

And let me answer your question about IT ID and better profitability.

After the COVID-19 pandemic, we have seen great ups and downs in IT and ID business in the long term, and this has led to an intensified competition in the market. And that's why we have gone through difficulties last year because of such fierce competition. Therefore, I believe that we are witnessing some negative figures today.

However, starting from next year, we would like to focus on our premium lineup, and increase the proportion of our premium products. And as many of the BS products are based on B2B business, we would like to expand the vertical line, so that we can seek for greater profitability.

Thank you.

○ **Wonjae Park**

Next question, please.

○ **Moderator**

The following question will be presented by Rok Ho Kim from Hana Securities. Please go ahead with your question.

○ **Rok Ho Kim (Hana Securities)**

Thank you.

I have one simple question. So, in the fourth quarter, it seems as if you have seen losses in your non-operating profit. Can you explain why?

○ **Wonjae Park**

This will be answered from our accounting team.

○ **Hong Su Lee**

As disclosed, consolidated 2024 operating margin stands at levels seen last year with changes in valuation of asset and the liabilities incorporated as per the accounting standards. These factors are not actual cashouts and financial liability valuation loss of these subsidiary overseas come from their improving business performance.

Thank you.

○ **Wonjae Park**

Next question, please.

This wraps up LG Electronics earnings release conference call for the fourth quarter of 2024. For any further questions, please contact the IR team.

A belated new year to everyone. I wish you the best for this year.

Thank you.