



트레이드 렌즈
TRADE LENS

Bringing investing into focus.

COMPANY RESEARCH / No.01

LG Electronics

KOSPI 066570 · ELECTRONICS / HVAC

HVAC Drives Today's Earnings. AI Cooling Is the Next Growth Engine.

Order growth is encouraging.

Margin recovery and repeat revenue are the keys to a different earnings mix.

Separate the long-term business outlook from near-term results—and assess how much profit is needed to change consolidated performance.

26.1%

FY2025 ES profit contribution

Share of consolidated operating profit;
calculation [1]

> KRW 600bn

1H26 data center cooling orders

Company-reported; production under
way [2]

-26.3%

1H26 ES operating profit

2026 first-half year-on-year change [1]

View: HVAC's long-term prospects are positive. ES margins are the first near-term earnings variable.

The cover figures cover different periods and scopes. They are not cooling-only earnings or share-price forecasts.

01 / RESEARCH VIEW

View: Positive on HVAC; margins come first

AI cooling is a promising future business, but it does not yet explain all of LG Electronics' earnings.

TradeLens view | A new growth path on an existing earnings base

We assess LG Electronics' HVAC business positively over the medium to long term. Commercial and industrial facilities, and data centers, are expanding the customer base of an already profitable business. Current earnings, however, lag the expectations for new businesses. Our near-term focus is **ES margin recovery**; over the medium term, it is **repeat cooling revenue**.

Question	Assessment	Evidence and significance
HVAC outlook	Positive over the medium to long term	An existing ES earnings base and a path to B2B expansion—not just a future-business story. [1] [5]
Role of AI cooling	A growth engine entering commercialization	The company reported more than KRW 600bn of first-half cooling orders, with production under way. [2]
Near-term earnings	Profits are currently declining	ES operating profit fell 26.3% year on year in 1H26; expectations and reported earnings remain apart. [1]
Order of priorities	Margins, then conversion to revenue	Prioritize year-on-year ES profit recovery, shipments and repeat cooling orders over the number of new qualifications.

The one-sentence takeaway

LG is better understood as a company that can restore existing HVAC profitability while broadening growth through cooling, rather than one that will grow rapidly on AI cooling alone. Both the scale of new-business revenue and the margin on the established business matter.

Connecting the numbers to the thesis

At the FY2025 revenue base, a 1 percentage-point increase in the ES margin would add approximately **KRW 93.2bn** of annual profit. By comparison, KRW 100bn of new revenue at an assumed 10% margin yields KRW 10bn. Existing-business margin recovery can affect consolidated profit before a smaller new-business opportunity does. [\[1\]](#)

Illustrative sensitivity, not a confirmed earnings forecast. Pages 8–10 distinguish model assumptions from the implications for consolidated earnings.



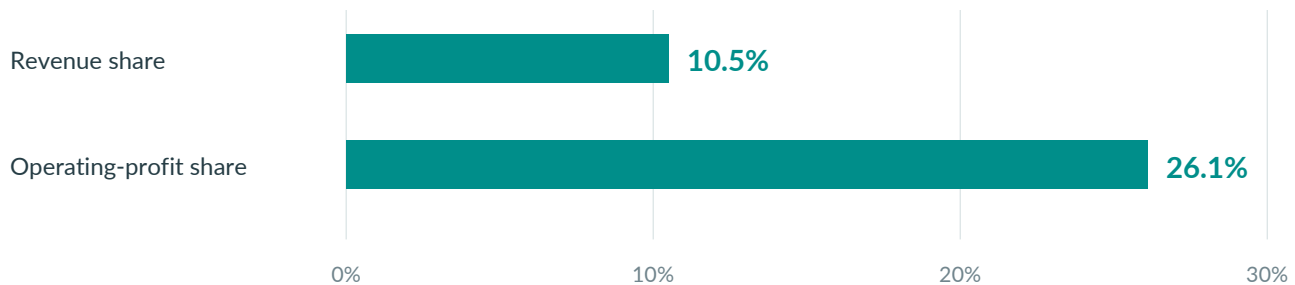
02 / PROFIT FOUNDATION

HVAC already earns money

ES is not the whole company, but it is already a meaningful earnings pillar.

In 2025, ES generated revenue of **KRW 9.323tn** and operating profit of **KRW 647.3bn**. Its approximately 10.5% share of consolidated revenue corresponded to 26.1% of consolidated operating profit. HVAC does not need to be treated solely as a distant growth opportunity. [1] [4]

ES share of consolidated results, FY2025



Same financial year; percent. Earnings contribution exceeds revenue share. These are ES segment figures, not AI-cooling-only figures.

Earnings mix by period	FY2025	1H2026
ES revenue / operating profit (KRW bn)	9,323.0 / 647.3	5,548.4 / 484.3
ES operating margin	6.9%	8.7%
Consolidated operating profit (KRW bn)	2,478.4	3,252.8
ES / consolidated operating profit	26.1%	14.9%

Latest quarterly IR reclassification basis. ES includes HVAC and air care, not AI cooling alone. Annual and half-year figures are neither annualized nor directly compared as a growth rate. [1]

26.1% shows significance—not a fixed share

In 2025, losses elsewhere and company-wide one-off costs depressed consolidated profit. In 1H26, profit recovery in other businesses coincided with lower ES profit, reducing its share to 14.9%. The share reflects both HVAC's performance and the condition of the rest of the group. [1] [4]

Starting point | Protect the established HVAC earnings base

LG's HVAC investment case is not about waiting for an unproven new business. It combines preserving and recovering existing earnings with adding industrial cooling. The resilience of the current HVAC business comes first, even in a long-term growth assessment.

03 / GROWTH ENGINE

The growth case extends beyond air conditioners

The strategy broadens what LG supplies to each customer—from heating and cooling products to commercial and industrial thermal management.

Growth path	Company-stated business basis	TradeLens interpretation
Residential / heating	European heat pumps, integrated hot-water products and residential project supply; announced OSO acquisition agreement. [7] [8]	Scope can expand from a single appliance to a heating, cooling and hot-water package.
Commercial / industrial HVAC	Chillers, integrated commercial HVAC and region-specific B2B expansion strategy. [5]	Design, installation and operation create customer touchpoints beyond the equipment sale.
Data centers	Chillers, CDUs and other cooling products, alongside actual cooling orders. [2] [9]	A route to apply existing thermal-management and manufacturing expertise to new customer facilities.

The installed relationship can support the next order



The company reports about **70 HVAC training locations across more than 40 countries**, supporting installation, maintenance and design personnel. This is tangible evidence of local execution capability—a system for turning product performance into on-site operation. The size of that network does not, by itself, establish service margins. [6]

The KRW 20tn target | A change in business mix, not just scale

LG targets **KRW 20tn of HVAC revenue by 2030** and an increase in the non-hardware revenue share from **10% to 20%**. We treat these as company goals, not forecasts: the direction is toward broader facility and operating relationships rather than equipment sales alone. Service contracts and repeat orders will show the quality of that growth. [5]

The HVAC target and disclosed ES results are not assumed to have identical accounting scope. Customer switching costs and repeat-business effects are analytical interpretations of the business model.

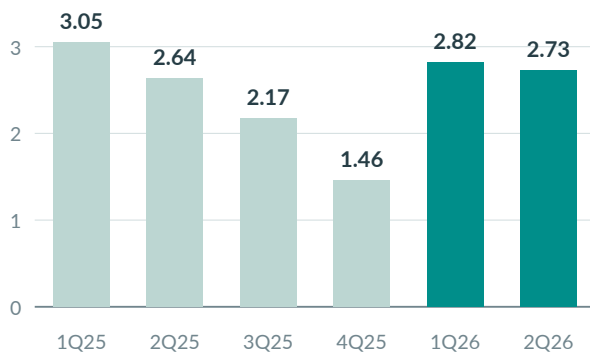
04 / CURRENT EARNINGS

Promising growth; weaker recent earnings

A constructive long-term outlook must coexist with the current decline in operating profit.

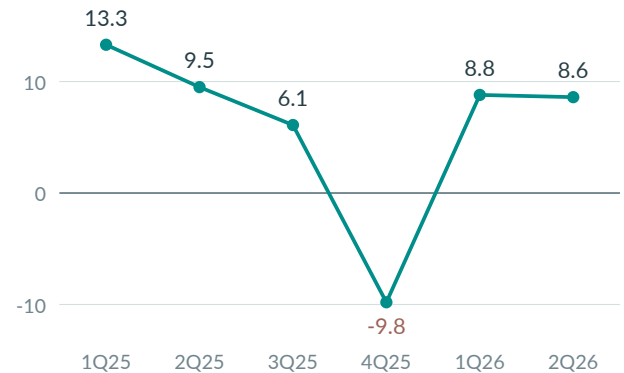
ES quarterly revenue

KRW tn



ES operating margin

%



ES first-half results	2025	2026	Year on year
Revenue (KRW bn)	5,698.6	5,548.4	-2.6%
Operating profit (KRW bn)	657.2	484.3	-26.3%
Operating margin	11.5%	8.7%	-2.8 pp

Latest IR basis; margins and changes are TradeLens calculations. 4Q25 costs included workforce optimization and other factors; the quarter is not interpreted as seasonality alone. [\[1\]](#) [\[4\]](#)

Why profit is weaker than revenue

Although overseas HVAC sales increased in the second quarter, LG cited logistics and promotion costs, together with staffing for growth businesses. This suggests a period in which additional sales are not fully translating into profit. Public information does not separate temporary investment costs from continuing competitive costs. [\[2\]](#) [\[3\]](#)

Near-term view | Not yet an earnings-acceleration phase

Until HVAC earnings recover, we do not equate positive AI-cooling news with an immediate surge in quarterly profits. The first test is whether **year-on-year ES operating profit and margin improve together**. Revenue growth alone is insufficient to strengthen the assessment.

Conversely, expanding orders and shipments alongside slower cost growth would indicate that upfront investment is beginning to convert into profit. The focus is not whether growth exists, but **when it becomes earnings**.

05 / DATA CENTER OPPORTUNITY

AI cooling has begun to win orders

This is early commercialization, not just a concept. The size of the profit contribution is a separate question.

> KRW 600bn

First-half cooling orders

Company: production under way [2]

KRW trillions

Annual new-order target

Company target; attainment not confirmed [2]

Broader range

Chillers + liquid cooling

CDUs and facility cooling [9]

The key point in the company's conference call is actual orders and production—not just qualifications. LG also described expanding North American hyperscaler, colocation and channel customers as buyers look for new suppliers. Customer-by-customer amounts were not disclosed, but the business has moved beyond sales and product preparation alone. [2]

Timing	Fact / company plan	Business significance
1H2026	Cooling orders above KRW 600bn; production under way. [2]	Evidence of actual customer demand
22 Sep 2026	2.6MW CDU meets DSX Ready requirements. [9]	Broadens the high-density cooling proposition
28 Sep 2026	Participation as an NVIDIA Preferred Partner. [10]	Potentially stronger ecosystem sales access
Target: end-2026	Validation of a 4.0MW CDU planned. [10]	A catalyst for the higher-capacity range

Why the growth path is credible

LG is not commercializing cooling from scratch. It is adding a new customer group to existing HVAC and chiller manufacturing and field-service capabilities. Applying those capabilities to more demanding thermal requirements is a persuasive path. Broader system responsibility must nevertheless be managed through warranty and maintenance costs if profit is to remain.

A promising growth engine—not yet the dominant earnings source

Cooling orders may include chillers and multiple product categories. The total is not current-period revenue, CDU-only revenue or shipments to NVIDIA. Our business assessment is positive, but the magnitude of profit contribution must be evaluated separately. The following pages examine competition and the revenue scale required.

06 / COMPETITIVE POSITION

LG's opportunity is integration, not monopoly

Demand growth opens the market; nameplate cooling capacity alone does not establish a competitive advantage.

Positive evidence | Products plus execution capability

LG combines chillers, air cooling and liquid cooling with an installation-training network and actual cooling orders. Customers may face fewer design and delivery-coordination burdens. This combination distinguishes LG from a company linked to the theme in name only. [2] [6] [9]

Company	Officially described business scope	Implication for LG
LG Electronics	Chip-to-Chiller portfolio and CDU validation. [9] [10]	A basis to offer more than a standalone component
Trane / LiquidStack	Acquisition completion announced on 3 Mar 2026; integrated cooling from central plant to chip. [11]	Established HVAC competitors are adding liquid cooling too
Vertiv	CDUs, heat rejection, chillers and thermal-management products. [12]	An integrated portfolio is not unique to LG

The stronger evidence is the next customer order

A new supplier may enter through available manufacturing capacity and reliable delivery. Repeat orders require proof of stability and total cost in early operation. Being selected again for the same customer's expansion is stronger competitive evidence than the announcement of a larger CDU.

Potential advantage	What must be demonstrated
Integrated supply scope	Shorter design and commissioning periods; adoption of additional products
Manufacturing and service response	On-time delivery; warranty and failure costs; reorders from the same customer

Comparison of official product portfolios, not a ranking of market share, profitability or investment recommendations.

LG's business outlook is positive, but neither an exclusive supplier position nor competitor-level margins is assumed. The thesis rests on **using existing capabilities to enter the market and expand customers**, not on monopoly power.



07 / MATERIALITY TEST

How large must cooling become to move group earnings?

Beyond the growth direction, the test is the scale needed to change consolidated profit meaningfully.

Illustrative question | A contribution equal to 10% of operating profit

FY2025 consolidated operating profit was **KRW 2,478.4bn**; 10% is approximately KRW 247.8bn. At an assumed 10% incremental margin, new cooling business would need about **KRW 2.48tn in annual incremental revenue**. This is a reverse calculation of materiality, not a target. [1]

Assumed annual incremental revenue	Profit at a 5% margin	Profit at a 10% margin	Share of group profit ¹ at 10%
KRW 1tn	KRW 50bn	KRW 100bn	4.0%
KRW 2tn	KRW 100bn	KRW 200bn	8.1%
KRW 3tn	KRW 150bn	KRW 300bn	12.1%

¹ FY2025 consolidated operating profit. Incremental revenue and margins are assumptions, not annual cooling-revenue forecasts. Assumed margins include related incremental operating costs but exclude financing costs and tax.

KRW 600bn of orders matters—but do not overstate the scale

For illustration, **KRW 600bn of revenue at a 10% margin** would generate KRW 60bn in profit, about 2.4% of the consolidated-profit benchmark. Initial orders alone do not immediately transform LG's earnings. The contribution would be different if the business repeatedly generated annual revenue measured in trillions of won. This is why sustained order expansion matters.

TradeLens interpretation | A future growth engine; pace still matters

AI cooling is an additional axis that can change HVAC growth and product mix, rather than instantly replace the value of the existing company. Follow **larger orders → shipment and acceptance → reorders on the next project**. Repetition of this sequence matters more for consolidated profit than one qualification.

The table assumes revenue incremental to the existing reported business. The actual orders above KRW 600bn are not treated as the model's annual revenue or added again to ES results. The 5% and 10% margins are not disclosed cooling-business profit margins.

08 / EARNINGS PATH

The base path is gradual earnings recovery

Orders are expanding ahead of margins. That gap shapes the central business assessment.

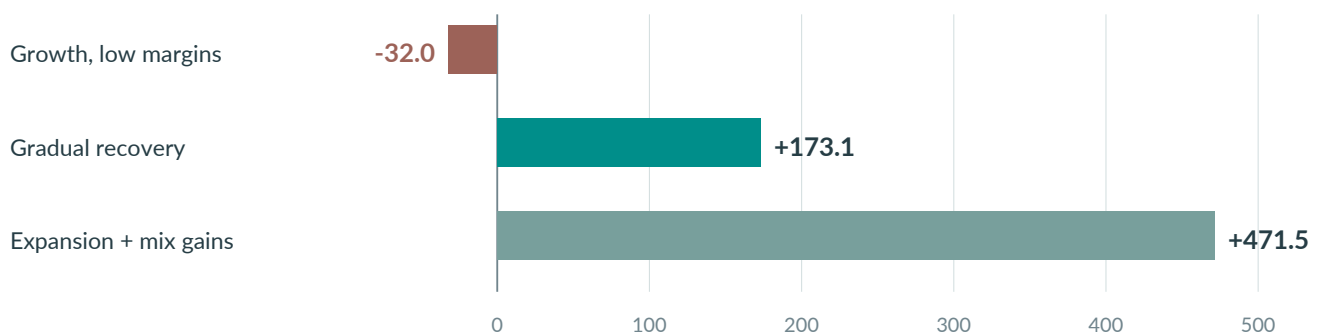
TradeLens places more weight on **winning orders while recovering margins** than on immediate accelerating growth. Cooling orders and product expansion are positive, but ES profit declined in the first half. The conditional annual-scale model below illustrates the size of possible earnings effects. [\[1\]](#) [\[2\]](#)

Scenario	Revenue growth assumption	Margin assumption	ES operating profit	Change vs. base
Growth, low margins	+10%	6%	615.3	-32.0
Gradual recovery	+10%	8%	820.4	+173.1
Expansion + mix gains	+20%	10%	1,118.8	+471.5

Profit amounts: KRW bn. Base: FY2025 ES revenue of KRW 9,323.0bn and operating profit of KRW 647.3bn. Formula: base revenue × (1 + growth) × margin. Not a 2026/2027 forecast or probability-weighted outlook; cooling revenue is not separately added. [\[1\]](#)

Change in ES operating profit by assumption

Versus FY2025; KRW bn



The middle case adds **KRW 173.1bn**, approximately 7.0% of FY2025 consolidated operating profit. HVAC can change group earnings, but the combination of growth and margin required matters. Declines in other businesses would reduce the net improvement.

Why the margin receives greater weight

At base revenue, 1 percentage point of ES margin represents roughly **KRW 93.2bn**. Even with the same 10% revenue growth, a 6% margin reduces profit while an 8% margin increases it. The 8% central case is an illustration; the first-half margin of 8.7% is not treated as an assured annual result.

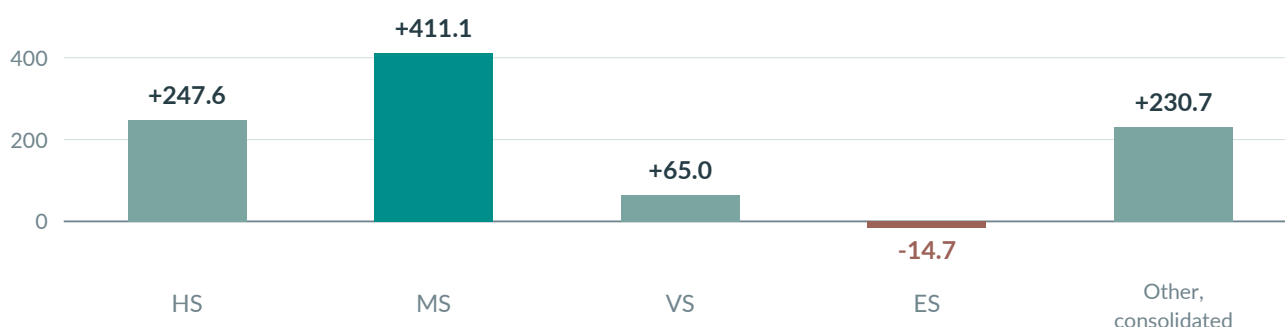
09 / GROUP EARNINGS & CAPITAL

Existing businesses must hold up, too

LG is not a pure-play HVAC company. Group earnings and capital allocation determine how much growth ultimately contributes.

Year-on-year change in 2Q operating profit

2Q26 minus 2Q25; KRW bn



IR reclassification basis. "Other, consolidated" is the residual for other businesses, LG Innotek and intercompany adjustments. Total increase: KRW 939.7bn. Segment one-off effects are not removed. [1]

MS and HS led the second-quarter profit improvement, while ES profit declined. Even after mechanically subtracting approximately KRW 300bn of company-described net one-off effects, reference operating profit is around KRW 1.28tn. Resilience in appliances and media is needed for HVAC growth to add to group value. [1] [2] [3]

Financial position, end-2Q26	Amount	Implication for the outlook
Cash and cash equivalents	KRW 10.07tn	Resources for new businesses, but shared across the group
Net debt ¹	KRW 4.13tn	A lower borrowing burden than in the preceding quarter
Inventories	KRW 12.19tn	Cash-conversion speed to monitor as orders expand

¹ IR definition: borrowings include lease liabilities, less cash. Consolidated figures are not cash independently available to ES. [1]

The performance test is repeat earnings and cash flow

A larger HVAC contribution and stable existing businesses can improve the earnings mix. This report analyzes business growth and earnings durability; it provides no buy/sell opinions, trading timing, fair values or price targets.

Assess HVAC profit and cash flow separately. Expansion can improve consolidated performance when **repeat cooling revenue and cash collection** are added to resilient appliance and media earnings.

10 / DECISION & MONITORING

The next evidence is earnings, not qualification

Maintain the positive business outlook, while specifying what would strengthen it—and what would invalidate it.

Priority	Evidence that strengthens the view	Evidence that weakens the view
1. ES earnings recovery	Sustained year-on-year gains in operating profit and margin	Profit declines and persistent cost pressure despite revenue growth
2. Cooling revenue conversion	Shipment, acceptance and repeat orders; clearer standalone revenue	Delivery delays and rising warranty costs after order growth
3. Group cash	Resilient existing earnings; working-capital and debt control	Weakness elsewhere offsets ES improvement

Two kinds of announcements matter next

Earnings releases: Over the next two to four quarters, watch for year-on-year ES earnings recovery and more specific disclosure of cooling revenue. No announcement dates are fixed in this report.

Business updates: Monitor the planned year-end 4.0MW CDU validation and progress toward the company's annual new-order target in the trillions of won. Product milestones and revenue recognition are separate events. [\[2\]](#) [\[10\]](#)

Final view | HVAC provides a reason to reassess LG

HVAC has a positive medium- to long-term outlook: an existing earnings base and routes into industrial applications, services and AI cooling. Data center cooling is not an intangible hope; it has begun winning orders. The appropriate framing is **a recovering HVAC earnings base with a new growth engine**, not an immediate group-wide surge driven by cooling alone.

Three conclusions to retain

First: HVAC already earns money; it is not only a future profit source.

Second: AI cooling broadens growth, but scale and repetition are required to move consolidated earnings.

Third: ES margins and year-on-year profit recovery take precedence over additional qualifications in the near term.

Downside signals are monitoring criteria, not assertions that those problems have occurred. Scope: business and industry analysis only; no buy/sell opinions, trading timing, fair values, price targets or personalized investment advice.

11 / SOURCE REGISTER

Official sources behind the analysis

Select a teal citation in the report, or a source title or “Open source” below, to open the original document.

01. LG Electronics | 2Q 2026 Earnings Release

30 Jul 2026 · Appendix pp. 17–19: consolidated and segment results; balance sheet · [Open source](#)

02. LG Electronics | 2Q 2026 Earnings Call and Q&A

30 Jul 2026 · pp. 3, 7, 11, 13: cooling orders, costs, targets and production strategy · [Open source](#)

03. LG Electronics | Second-Quarter 2026 Financial Results

30 Jul 2026 · Official release: HS, MS, VS and ES results and business context · [Open source](#)

04. LG Electronics | Fourth-Quarter and Full-Year 2025 Results

30 Jan 2026 · Annual ES profit, group costs and B2B operations · [Open source](#)

05. LG Electronics | Global HVAC Solutions Strategy

8 Jul 2025 · 2030 revenue and non-hardware targets; commercial HVAC strategy · [Open source](#)

06. LG Electronics | HVAC Academy: Installation and Service

2 Jul 2026 · About 70 training locations across more than 40 countries · [Open source](#)

07. LG Electronics | European Heat Pumps and Residential Projects

17 Jun 2026 · Heating, cooling and hot-water solutions; European supply cases · [Open source](#)

08. LG Electronics | OSO Water-Heating Acquisition Agreement

30 Jun 2025 · Integrated HVAC and hot-water portfolio expansion · [Open source](#)

09. LG Electronics / LG Media | 2.6MW CDU Qualification

22 Sep 2026 · NVIDIA DSX Ready and Chip-to-Chiller product range · [Open source](#)

10. LG Electronics | NVIDIA Power and Cooling Preferred Partner

28 Sep 2026 · Partnership and planned year-end 4.0MW CDU validation · [Open source](#)

11. LiquidStack | Trane Technologies Acquisition Completion

3 Mar 2026 · Integrated cooling from central plant to chip · [Open source](#)

12. Vertiv | Official Product Portfolio

Accessed 29 Sep 2026 · CDUs, heat rejection, chillers and thermal management · [Open source](#)

Sources 1–10 support the analysis of LG’s results, products and business strategy. Sources 11–12 describe competitors’ cooling portfolios. Appendix page labels in the quarterly IR differ by one page from the PDF file’s page count.

12 / METHODOLOGY & USE

Methodology, disclaimer and permitted use

Distinguish reported facts, company targets, TradeLens interpretations and illustrative calculations.

Item	Basis applied
Analysis date	29 Sep 2026. Financials: 2Q26 IR; major business announcements through 28 September.
Source basis	Company IR and business releases, plus public competitor materials, underpin the analysis of growth, profitability and consolidated earnings contribution.
Financial scope	K-IFRS consolidated results and the ES segment are distinguished. Quantitative analysis prioritizes the latest reclassified IR tables; Q&A provides context.
Scope of service	Business and industry analysis only. No buy/sell opinions, trading timing, fair values, price targets or personalized investment advice.
Analysis and models	Business views are TradeLens interpretations. Margins, incremental revenue and growth assumptions on pages 8–9 are illustrative, not company guidance.

IR data may change through external review or correction. Contribution ratios based on FY2025 consolidated profit are comparisons, not normalized earnings or a fixed denominator for future profit. Tables and charts have been recalculated or redrawn; they do not imply endorsement or guarantees by the originating organizations. Monetary figures are expressed in KRW billions or trillions; no foreign-exchange conversion is applied.

Preparation note: Generative AI was used in researching, analyzing and drafting this report.

Disclaimer

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