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Latest Questions From Investors as Optical Breaks Out

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TELECOM & NETWORKING EQUIPMENT

North America
Industry View **In-Line**

WHAT'S CHANGED

	From	To
Corning Inc (GLW.N)		
Price Target	$127.00	**$140.00**
Lumentum Holdings Inc (LITE.O)		
Price Target	$595.00	**$710.00**
Coherent Corp (COHR.N)		
Price Target	$250.00	**$290.00**
Ciena Corporation (CIEN.N)		
Price Target	$286.00	**$405.00**

Optical stocks have continued to reach new heights, up another ~20% over the L1M. Teach-ins still taking place, pointing to availability of additional investors. With stocks at/near bull cases, we focus on recent debates. See more room in COHR if execution improves; more cautious GLW into EPS.

Key Takeaways

- A new wave of investors post-OFC have come into optical, driven by strong AI demand outlook given improvements in new models / momentum trade.
- Pool of new investors can continue to support bull cases and buy weakness; note mults have long broken out of trad'l ranges, particularly vs. memory/drives.
- Ability to capture margin in sold out conditions has been latest focus of investors, with LITE in the drivers seat today.
- Investor interest order (highest to lowest – though lowest still relatively high): COHR, GLW, LITE, CIEN.
- Expectations for near term margin, combined with recent moves, keep us more reserved into earnings on GLW, though tend to favor LT demand dynamics of GLW.

Pool of investors still growing, pointing to momentum continuing. With recent model releases showing non-linear improvements, supporting continued step-ups in AI capex spending, investors continue to gather in AI data center supply chain names. After a large wave of incremental investor conversations, largely in LITE towards the tail end of 2025, this has led to another wave of incremental investor conversations pick up in the last month. With optical names having broken out of historical multiples (now all pushing 20x+ bullish 28e multiples, more like 40x street) vs. memory / drives (trading in single digits or low double digits), we tend to see better returns elsewhere in the supply chain. ***We don't expect the enthusiasm for optical names to wane just yet as there is nothing that disproves the bull case for now. This is particularly true as many of the new products driving the bull***

case, and capacity expansions that could loosen sold out conditions don't come on until later this year or into 2027. In general, we would rank investor preference as COHR, GLW, LITE, CIEN, viewing the valuations of LITE / CIEN more full.

Given sold out conditions, margins to be in bigger focus heading into earnings; biggest concern in NT for GLW. As noted above, many optical names are simply sold out through this year and a good portion of next year (though we don't know that pricing is necessarily fixed in out years). That makes the top line much less of a mystery vs. margin in the coming quarters. While LITE has been raising prices aggressively to capture upside, a reason why bull case estimates are much higher than sellside estimates, we are less certain of it happening across the supply chain. Reports out of Asia have noted carrier fiber prices rising by 75%, to the highest price in 7 years, which in turn has raised investors interest in GLW, thinking that accompanying price increases could simply be passed through. Corning has been more reluctant to point to spot prices, noting as of Q4 earnings that "*there is enough fiber [globally] to meet demand*", and that pricing "*...you'll see the mix impact of these more valuable innovations. These innovations enable our customers to have better and more reliable optical performance...with significantly reduced installation costs. Whenever we create this much value, usually some of that value creation will end up accruing to our shareholders... So over time, the more valuable our innovations are, we would expect our profitability to improve.*" Recent checks also point to: 1) 30%+ of BEAD funds will now be focused towards fixed wireless / satellite, lowering the load on fiber buildouts from telcos, 2) upon CommScope's fiber business sale to Amphenol, Corning cancelled orders of raw fiber to CommScope, causing them to cancel orders, tightening the fiber market slightly.

While we would expect GLW to eventually be able to deliver higher margins given current incrementals in the 30's, we are more cautious around some of the near term pricing dislocation out of Asia being indicative of pricing in the US. ***While we are cautious into the print, we are cognizant that given the Investor Event the next week, investors are likely to stay with the name on hope of materially raised Project Springboard estimates (though even there, we don't see company guiding as aggressively as built into buy side estimates, limiting upside).***

'28e bull case expectations now within sight for investors. In general, the bull case EPS numbers we hear most often from investors are: $40 in 2028 for LITE, $6 in 2028 for GLW/ $10 in 2030 for GLW, $20 for CIEN in 2028 and $15+ for COHR. With stocks trading somewhere between 20-25x all of those bull case CY28 numbers, we often get the question of why is the multiple so much higher than for drives / memory. While muscle memory is certainly a part of it, the availability of data points within memory (and the pricing volatility is higher). Given those bull cases are a combination of pure cloud demand, new products, pricing and operational efficiencies, and many of those new products won't flow through until 2027 (when you could also see a pricing uplift), the general investor sentiment is that there is little to disprove the bull case for now (vs. memory where there are more data points in the near terms that drive the stocks).

Key questions / debates we have been having (see Analysis section for more detail):

- **What could GLW's Optical business margins look like if pricing passed through?**
- **How much capacity is coming online in Indium Phosphide (InP)?**
- **What multiples should these names be trading at?**
- **What does competitive landscape look like on optical circuit switching (OCS)?**
- **Will CIEN have any competition in scale across?**
- **What does "Narrow and Fast" vs. "Wide and Slow" optics mean for the optical supply chain?**

Exhibit 1: Lack of Headwinds in Near Term to Keep Stocks at Bull Cases, With Some Near Term Risk Around GLW

Questions	NT Impact	LT Impact	Primary Impact	Secondary Impact
What could GLW's Optical business margins look like if pricing passed through?			GLW	APH, Fujikura, Furukawa
How much capacity is coming online in Indium Phosphide (InP)?			LITE, COHR	AVGO, Sumitomo
What multiples should optical be trading at?			CIEN, LITE, COHR, GLW	AAOI, FN, NOK
What does competitive landscape look like on optical circuit switching (OCS)?			LITE, COHR	Innolight, Eoptolink
Will CIEN have any competition in scale across?			CIEN	NOK, CSCO
What does "Narrow and Fast" vs. "Wide and Slow" optics mean for the optical supply chain?			COHR, LITE	MicroLED companies

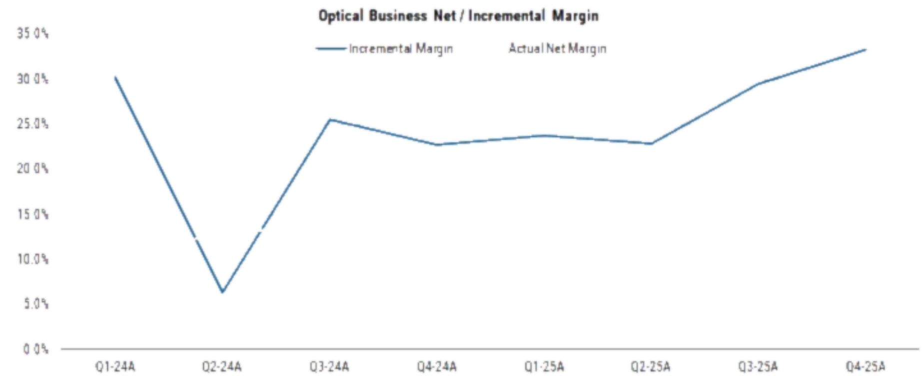
Source: Morgan Stanley Research estimates.

Price targets move closer to bull cases; few negative catalysts in near term (except for GLW). After OFC we are updating our models (aside from LITE, which was updated at OFC) to account for greater demand drives and commentary about margin leverage. We are also adjusting multiples to be closer to bull cases which incorporate investor feedback around EPS targets. As noted above, we do not see a lot of reason for valuations to revert to our price targets in the near term, incorporating more bullish expectations for CPO / OCS adoption and how long market can stay in tightness. We also see cases where given volatility in memory data points, investors continue to pile into these names. However, we do think at multiples of traditional multiples and embedding little in the ways of pricing competition ever moving into the space, that bull cases are very generous at this point. Our PT on GLW moves to $140 (from $127), LITE moves to $710 (from $595), CIEN moves to $405 (from $280) and COHR moves to $290 (from $250).

Analysis

What could GLW's Optical margins look like if pricing passed through? There are a couple of things we would highlight about recent questions about GLW's margins if fiber pricing commentary passed through. First, conversations as to why Asia fiber commentary could be different than the US has focused in on Ukrainian drones needing fiber to support flight to avoid signal scrambling, and that fiber type being what is sold out of China. Second, their commentary / track record would support more limited pricing changes. While that makes us more cautious on the degree of pricing increases vs. market expectations, we do acknowledge that current incrementals and Japanese fiber producer margins support higher eventual margins. The exhibits below detail incremental EPS impact from higher incremental margins on the optical business.

Exhibit 2: Incremental Margins in the 30's Could Support Meaningful Margin Expansion Particularly If Able to Pass on Further Price Increases



Source: Company filings

Exhibit 3: Incremental EPS As Growth Flows Through at Higher Margins

		Net Incremental Margin			
		30%	35%	40%	45%
500bps Optical Growth	'26 EPS	$ 0.11	$ 0.13	$ 0.14	$ 0.16
	'27 EPS	$ 0.13	$ 0.15	$ 0.17	$ 0.20
	'28 EPS	$ 0.16	$ 0.18	$ 0.21	$ 0.23

Source: Morgan Stanley Research estimates

How much capacity is coming online in Indium Phosphide (InP)?

We frequently get asked if we have a model for demand for lasers and overall supply. Given there is little market share data and Lumentum is the only name to give meaningful detail around capacity expansions, we have not found a reliable way to analyze the market. Additionally, there are a variety of opinions around what the split of EML / CW lasers will be in 1.6T demand, making forecast more difficult to predict (with LITE noting 30-40% of 1.6T demand will be CW, Sumitomo thinking it will be over 50%). ***We would***

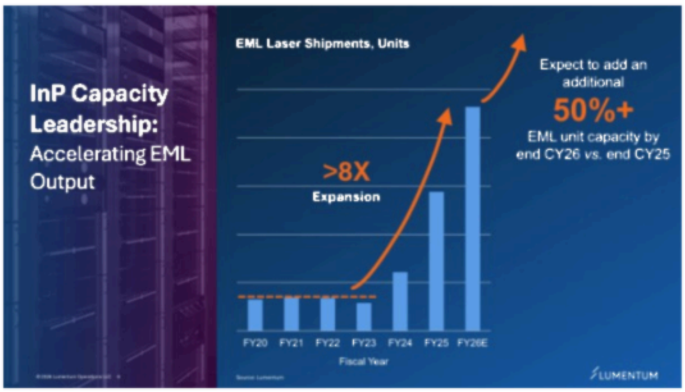
note recent commentary from Broadcom has noted that they would raise capacity 4-6x over the next year, which would seemingly loosen capacity bottlenecks significantly, however, the timing and exact details around the expansion are unknown. Yields are also a significant current unknown, with many vendors switching to 6", complicating the transition.

Exhibit 4: What We Know / What We Don't Know

What We Know	
Expansion of Capacity	50%+ in CY26 from LITE
	100% in CY26 / 100%+ in CY27 from COHR
	100% from '24-'26 / 40% from '26 - '28 from Sumitomo
	Significant Capacity Expansions from Broadcom
What We Don't Know	
Split of EML / CW Lasers	Estimates for CW as % of 1.6T Vary from 30% to Over 50%

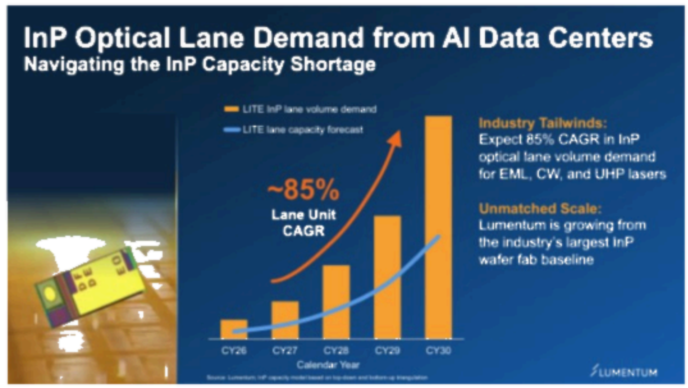
Source: Morgan Stanley Research estimates

Exhibit 5: LITE Gives Explicit Capacity Expansions Around EML's



Source: Lumentum

Exhibit 6: Though Still Pointing to Shortage



Source: Lumentum

What multiples should these names be trading at?

Looking at optical right now, it is trading at a meaningful premium to long term average multiples in the teens. With optical having growing content (co-packaged optics, optical circuit switching, coherent lite, fiber in scale-up), a premium to historical averages are reasonable. Additionally, street estimates are often well short of where buyside estimates are for optical (vs. memory / drives).

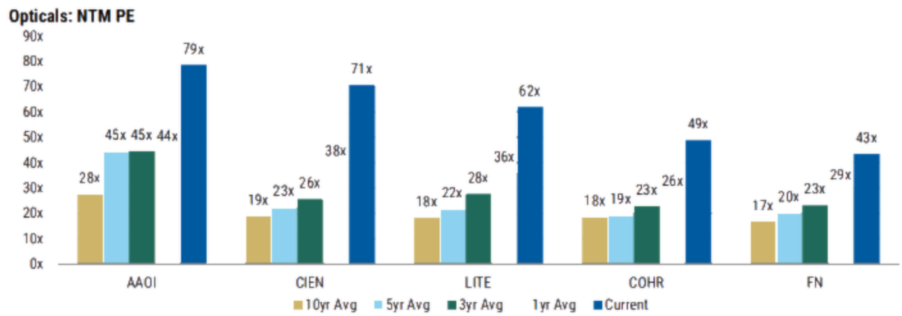
We see the 20-25x 28e EPS multiples sustaining in the near term given: 1) there are no spot prices, 2) many of the bull case drivers built into buyside estimates don't come out until '27/'28, 3) AI capex data points are showing no signs of abating (with many other areas of tech offering AI risk vs. AI reward). Where we would be cautious would be on 1) margins, given expectation of repricing (particularly for GLW, COHR), 2) AVGO's capacity expansions in lasers (which could bring some form of equilibrium to the market), 3) competitive landscape within OCS. If we were to see a more competitive landscape appear, we could see multiples fall back into the high-teens on a N+2 basis, more in-line with historical averages.

Exhibit 7: With the exception of SNDK and MU, optical, memory, and storage stocks are trading >100% higher than their respective 10-year avg. NTM PE

Optical / Memory / Storage Valuation											
	Historical NTM PE							Current % Difference Vs.			
Ticker	Current	1yr Avg	3yr Avg	5yr Avg	10yr Avg	10yr Min	10yr Max	1yr Avg	3yr Avg	5yr Avg	10yr Avg
AAOI	78.7x	44.5x	44.6x	44.6x	27.5x	8.1x	89.2x	77%	76%	76%	186%
CIEN	70.7x	38.3x	25.6x	22.5x	19.0x	9.8x	70.1x	85%	176%	214%	271%
LITE	62.0x	36.1x	27.7x	21.7x	18.2x	7.7x	64.5x	72%	124%	186%	240%
COHR	48.9x	26.4x	23.0x	19.3x	18.5x	7.4x	46.6x	86%	113%	154%	165%
FN	43.5x	29.0x	23.2x	20.4x	16.8x	7.5x	44.0x	50%	88%	113%	158%
STX	29.4x	18.7x	22.4x	18.3x	14.3x	6.4x	60.0x	57%	31%	61%	106%
WDC	28.7x	17.1x	15.7x	15.0x	13.4x	5.7x	86.5x	69%	83%	91%	115%
SNDK	9.8x	12.0x	12.0x	12.0x	12.0x	6.2x	24.1x	(19%)	(18%)	(18%)	(18%)
MU	5.6x	10.1x	14.5x	15.0x	12.7x	3.4x	87.3x	(44%)	(61%)	(62%)	(56%)
Avg.	**41.9x**	**25.8x**	**23.2x**	**21.0x**	**16.9x**	**6.9x**	**63.6x**	**48%**	**68%**	**90%**	**130%**

Source: Factset, Morgan Stanley Research
Note: Factset estimates as of 4/17/26

Exhibit 8: Optical valuation multiples began to inflect in April '25 and have since reached record levels, with names such as CIEN and LITE now trading at ~3x their respective five-year historical averages.



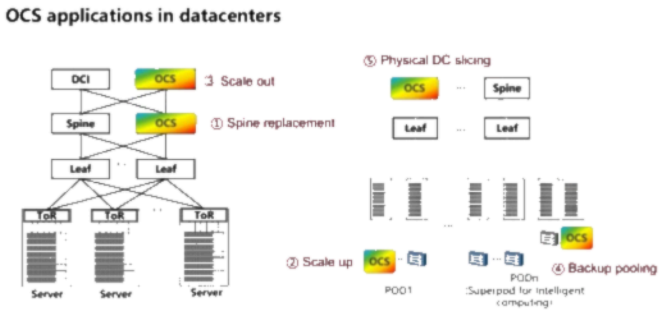
Source: Company data, Morgan Stanley Research
Note: Factset estimates as of 4/17/26

What does competitive landscape look like on optical circuit switching (OCS)?

As we noted – coming out of OFC, there has been significant momentum around optical circuit switching (OCS), with Google, Oracle and Meta investing meaningful resources behind it (with many others looking). Cisco noted at OFC that they found some of the start-ups in the space as having more compelling price points vs. LITE / COHR, leading to us often getting the question of who has the most compelling form factor and is best able to take advantage of the market opportunity. The broader competitive field is becoming more active, with Eoptolink pointing to more OCS product activity. Eoptolink unveiled its NX200 and NX300 OCS systems at OFC 2026 and highlighting self-developed MEMS mirrors and participation in the OCP OCS project. The company appears increasingly active in OCS, but we do not yet see official evidence of large-scale OCS-specific capacity buildouts, which keeps our near-term focus on proven deployments rather than on a broad new supply response.

In general, we would note that OCS is a more challenging architectural decision than currently estimated by investors. However, with multiple people looking at it, we tend to think that other customers are likely to want to replicate what they know works, hence leaning towards LITE's MEMS based solution in the near term. Longer term, given we see most of the use cases being in scale-up, we see a broader diversity of solutions being deployed.

Exhibit 9: Multiple Potential Use Cases For OCS, Though Scale-Up or Back-Up Pooling Seemingly More Likely



Source: FutureWEI technologies

Exhibit 10: Ecosystem of OCS Participants

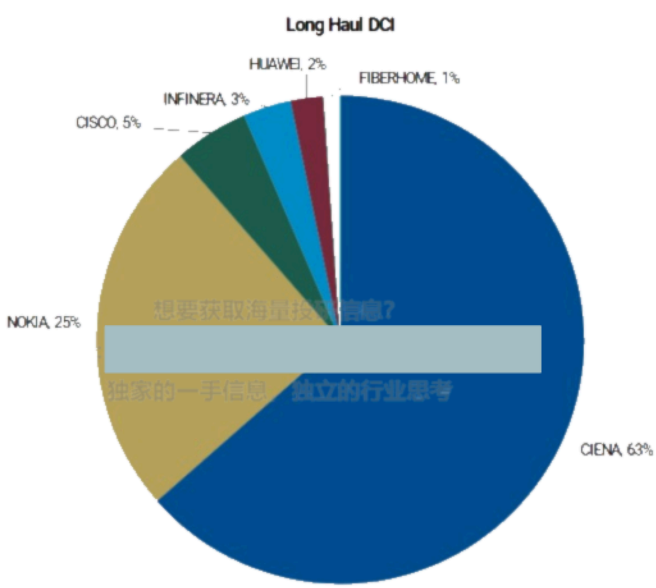
Technology	MEMS	Liquid Crystal	Robotic	Piezoelectric	SiPho
Vendors (Not a complete list)	Google, Lumentum, DiCon, Bright, Calient.AI	Coherent	Telescent	Huber+Suhner	iPronics, n-eye, Salience Labs
Applications					
Spine Layer Replacement	Google Deployed	Good	Good	Good	No
AI Cluster Reconfiguration	Google Deployed	Good	OK	Good	Good (small radix)
Multi-Layer Restoration	Good	Good	No	Good	Good
Pooled Resources	Good	Good	Good	Good	Good (small radix)
Scale Up	OK	OK	No	OK	Ideal
Virtual Meet-Me Rooms	Good	Good	Good	Good	No
Campus DCI	Good	Good	Good	Good	No
Lab Automation	Good	Good	Good	Good	No

Source: CignalAI.

Will CIEN have any competition in scale across?

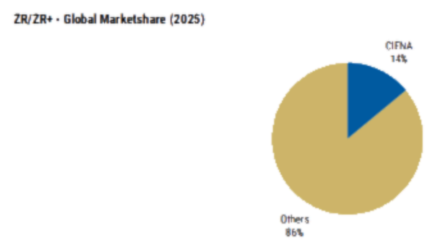
3rd party data indicates CIEN remains the clear leader in long haul DCI with ~63% share in North America (Exhibit 11). With multi-rail systems coming into the market later this year, CIEN has been optimistic about it offering an opportunity to help with operating margins, with multi-rail offering 50-70% price advantages. Some of this optomism around pricing is due to their dominant competitive positioning, and that their closest challenger Nokia has never produced competitive solutions to the degree that they are trying to (4 digital signal processors in 2 years vs. previous schedule of 1 every 4 years). If Nokia, covered by Terence Tsui, is able to produce to the schedule, in additional to Cisco, who will also have multi-rail products out, we see it as challenging for CIEN to raise price meaningfully on their products. If they stumble, CIEN could potentially have the earnings power bulls expect. We would note that since multi-rail products are not meaningful to CIEN until CY27, this is a debate that won't be solved in the near term, keeping valuations elevated.

Exhibit 11: CIEN Has Dominant Share in Long Haul DCI



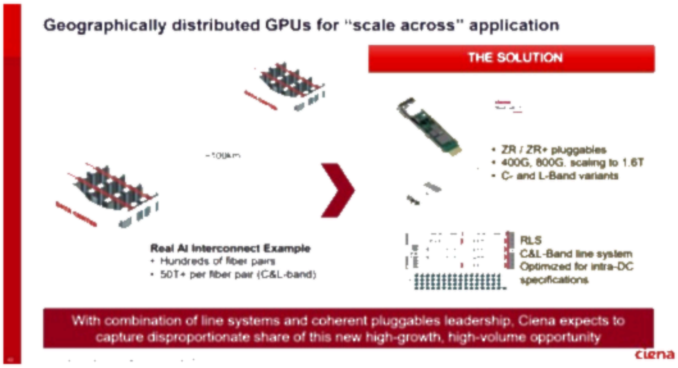
Source: Dell'Oro.

Exhibit 12: Vs. Pluggables Where they are More of a Challenger



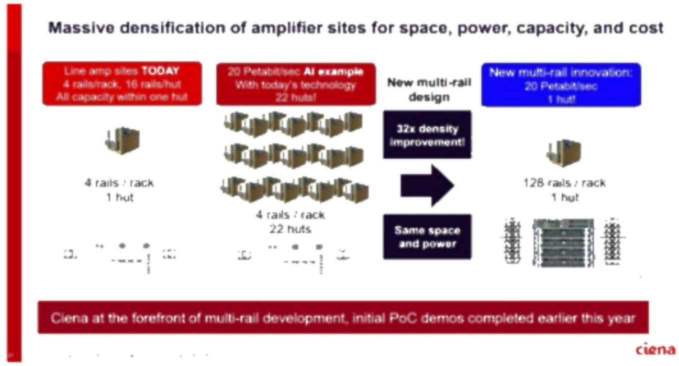
Source: Dell'oro

Exhibit 13: Diversity of CIEN Portfolio Leading Currently



Source: Ciena

Exhibit 14: Expects to be Earliest with Multi-Rail



Source: Ciena

Exhibit 15:

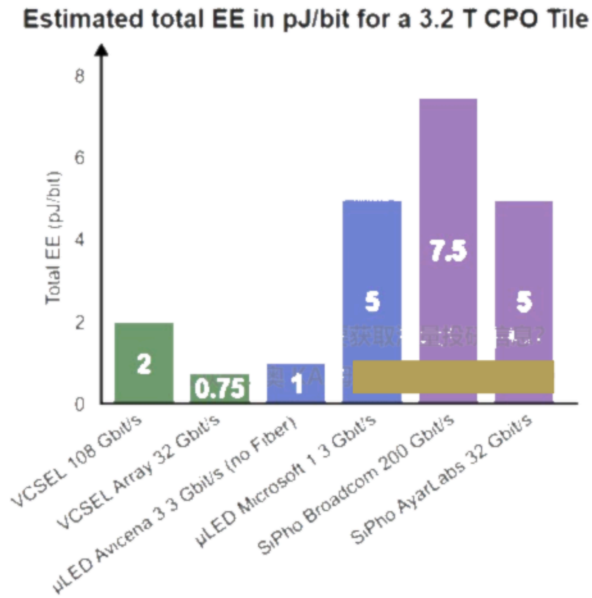
Nokia Targeting 4 DSP's in 2 Years – Nokia / Infinera Had Been On One DSP Per ~4 Years Previously

Source: Nokia

"Narrow and Fast" vs. "Wide and Slow" Optics in Co-Packaged Optics?

Today, most networks operate in fast-and-narrow implementations, namely using fewer lanes operating at the highest speeds. This causes greater power usage and can cause higher sign-to-noise requirements. The alternative is an approach with more lanes with lower speeds (known as Wide and Slow). The reason this is more of a debate is the use of Wide and Slow optics ushers in the use of microLEDs, which are easier to produce than the Indium Phosphide based lasers today. Coherent makes the argument below about VCSELs being a better solution in Wide and Slow as well. The topic will take multiple years to resolve, but is one that we have been asked about more recently.

Exhibit 16: Energy Comparison Across Copper, Pluggable Optics, Silicon Photonics CPO, microLED, and VCSEL based Wide and Slow



Source: Coherent

Exhibit 17: The next optical upgrade cycle is increasingly about moving fewer lanes at much higher speed, as narrow-and-fast architectures improve density and offer a more scalable path to AI-cluster bandwidth

Attribute	Narrow and Fast Optics	Wide and Slow Optics
Definition	Delivers the same aggregate bandwidth with fewer lanes running at a higher speed per lane. Typical framing is 1.6T as 8 x 200G, or future 3.2T as 8 x 400G.	Delivers the same aggregate bandwidth with more lanes running at a lower speed per lane. Typical framing is 1.6T as 16 x 100G, or 3.2T as 16 x 200G.
Mental model	Fewer, faster lanes improve bandwidth density and reduce the number of fibers, channels, connectors, and package interfaces needed for the same throughout.	More, slower lanes lean on a broader and more mature ecosystem, but consume more fibers, channels, and physical real estate for the same throughout.
Illustrative 1.6T example	1.6T – 8 lanes x 200G. Same total bandwidth with half the lane count of a 16 x 100G architecture.	1.6T – 16 lanes x 100G. Same total bandwidth, but with more optical channels and more cabling / module overhead.
Light Source / Fiber Type	Usually relies on conventional laser-based optics pushing high speed over a small number of channels. In practice, that can include VCSEL-based multimode links in shorter-reach deployments, or other conventional laser links, depending on reach and architecture; the key idea is still fewer lanes / channels running faster.	In Microsoft's MOSAIC framework, this shifts from lasers to inexpensive MicroLEDs and uses imaging fiber rather than conventional fiber. Imaging fiber looks like standard fiber but contains thousands of cores, which allows many parallel low-speed optical channels to carry the same aggregate bandwidth
What it optimizes	Bandwidth density, front-panel / package efficiency, and potentially power-per-bit and cost-per-bit once the technology stack is mature.	Design margin, ecosystem readiness, time-to-market, and the ability to leverage more proven lane technology.
Benefits	Can reduce lane count, cabling complexity, fiber count, and system footprint; tends to become more attractive as AI fabrics push toward higher density and lower power.	Can be easier to deploy early in a technology cycle because it uses more mature optics, DSP, SerDes, and manufacturing flows.
Trade-offs	Harder electrical and optical design. Higher lane rates raise signal integrity, thermal, reach, packaging, yield, and serviceability challenges	More channels and component count can mean lower density, more panel / fiber complexity, and worse scaling economics at very high bandwidth.
Technology enablers	200G/lane and 400G/lane DSP / SerDes, silicon photonics light engines, co-packaged optics, advanced EML / CW laser systems.	100G/lane and 200G/lane discrete optics, established DSP / laser ecosystems, and more conventional pluggable-module architectures.
Best fit today	Next-gen 1.6T / 3.2T pluggables, LPO / LRO, CPO, and dense scale-up / scale-out AI fabrics where power and density matter most.	Earlier-generation 400G / 800G and transitional deployments where ecosystem maturity, reach, and manufacturing readiness matter more.
Investor implication	The strategic direction of travel is toward fewer, faster lanes as AI clusters scale, because bandwidth density, power efficiency, and serviceability become more valuable.	Wide-and-slow remains commercially relevant during transition periods: it benefits incumbent supply chains and often persists longer than roadmaps imply.

Source: Company data, Morgan Stanley Research

Model Changes / PT Changes

Remain EW GLW, PT to $140 (from $127 PT). We are raising our PT as we reflect higher earnings power from contributions of fiber demand in coming years (with margin improvements). Our Base Case of $140 (from $127) applies our unchanged ~30 x multiple to our revised FY28e Base Case EPS of $4.66 (from FY28e $4.22). This multiple is well above GLW's traditional trading range of 16x over the last 10-years, but reflects optimism on growth / margin potential of optical business. Our Bear Case valuation of $72 (from$64) reflects ~16x FY28e Bear Case EPS of $4.50 (using $4.50 previously for FY28e)。 Our multiple of ~16x is closer to GLW's average trading range since 2010. Our Bull Case valuation of $192 (from $175) reflects ~35x FY28e Bull Case Core MSe EPS $5.5 (from $5). Our ~35x multiple is on the high end of GLW's historical ranges. Biggest downside risks to our PT are AI capex slowing, tariffs and macro uncertainty materially impacting demand with Service Provider customers and consumer exposed business lines (e.g. Display).

Exhibit 18: Changes to Our Model

($ millions, except per share data)	FY25A	Y/Y (%)	Q1-26E	Q2-26E	Q3-26E	Q4-26E	FY26E	Y/Y (%)	FY27E	Y/Y (%)
Old Core Revenue	$16,407.5	13%	$4,247.3	$4,642.4	$4,885.1	$4,929.5	$18,704.3	14%	$20,997.4	12%
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*0%*	
Old Core Gross Profit	$6,293.0	14%	$1,607.6	$1,745.3	$1,862.7	$1,884.0	$7,099.6	13%	$7,927.4	12%
Old Gross Margin	*38.4%*		*37.8%*	*38.2%*	*38.8%*	*38.9%*	*38.5%*		*38.9%*	
% Change	*0%*		*0%*	*2%*	*2%*	*3%*	*2%*		*4%*	
Old Core Operating Income	$3,160.0	25%	$860.0	$914.7	$1,007.8	$987.8	$3,770.3	19%	$4,371.9	16%
Old Operating Margin	*19.3%*		*20.2%*	*20.0%*	*21.0%*	*20.4%*	*20.4%*		*21.4%*	
% Change	*0%*		*0%*	*2%*	*3%*	*4%*	*2%*		*6%*	
Old Core EPS	$2.54	29%	$0.7	$0.7	$0.8	$0.8	$3.00	18%	$3.59	20%
% Change	*0%*		*0%*	*3%*	*3%*	*5%*	*3%*		*6%*	

Source: Morgan Stanley Research estimates

Remain EW LITE, PT to $710 from $595, bull case to $1,000. We are raising our PT to incorporate greater investor confidence around earnings power and demand, in light of management commentary about sold out conditions lasting into 2028. Our $710 PT represents 30x (from ~25x) on our FY28e earnings power of $23.70. Our bear case valuation represents $400 (from $360), reflecting 20x on our FY28e bear case earnings power of $20 (from $18). Our bear case accounts for weakening in pricing conditions. Our bull case valuation is $1,000 (from $900) and reflects 25x (from ~30x) our CY28e bull case earnings power of $40 (from ~$30 FY28), which continues to expect OCS and CPO ramps without any hiccups (trading at the high side of cyclical names). Biggest risk to our PT is a turn in AI ecosystem valuations and EML constraints.

Remain EW CIEN, raising PT to $405 (from $280). We are raising our PT as we reflect higher earnings power from contributions of fiber demand in coming years, which comes on with margin leverage. Our base case rises to $405 from $280, applying an unchanged ~32x multiple to revised FY28E EPS of $12.60 (from$8.60). Our bull case moves to $540 from $400, or ~27-30x CY28e buyside expectations of $18-20 (from 35x FY28 $10). Our bear case moves to $180 from $120 representing ~18x FY28e EPS. Biggest risk to our PT is constraints on telco spending or 800ZR/multi-rail becomes competitive in pricing earlier than expected.

Exhibit 19: Changes to Our Model

($ millions, except per share data)	FY25A	Y/Y (%)	Q1-26A	Q2-26E	Q3-26E	Q4-26E	FY26E	Y/Y (%)	FY27E	Y/Y (%)
Old Revenue	$4,769.5	19%	$1,427.0	$1,498.5	$1,515.8	$1,659.6	$6,101.0	28%	$7,072.0	16%
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*5%*	
Old Gross Profit	$2,038.3	16%	$638.2	$659.1	$664.4	$725.8	$2,687.5	32%	$3,139.9	17%
Old Gross Margin	*43%*		*45%*	*44%*	*44%*	*44%*	*44%*		*44%*	
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*5%*	
Old Operating Income	$532.5	37%	$255.0	$269.5	$273.3	$317.5	$1,115.3	109%	$1,416.3	27%
Old Operating Margin	*11%*		*18%*	*18%*	*18%*	*19%*	*18.3%*		*20%*	
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*12%*	
Old Adjusted EPS	$2.64	45%	$1.35	$1.39	$1.41	$1.65	$5.80	119%	$7.36	27%
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*12%*	

Source: Morgan Stanley Research estimates

Remain EW COHR, PT to $290 (from $250). We are raising our PT as we reflect higher earnings power from contributions of OCS / CPO / transceivers as demand continues to outstrip demand. Our $290 PT represents 30x our FY28e earnings power of ~$9.60 (from 32x $9), growing margin leverage as capacity comes online (and higher demand for CPO / OCS). Our multiple is above the historical average trading range given AI exposure. Our bear case valuation of $144 (from $120) reflects 16x our FY27e bear case earnings power of ~$9 (from $7.5). Our bull case valuation of $400 (from $350) reflects ~30x (from ~35x) our CY28e bull case earnings power of ~$13.50 (from ~$9.5), which continues to reflect share gains in datacomm. Biggest risk to our PT is a turn in AI ecosystem valuations and EML constraints.

Exhibit 20: Changes to Our Estimates

($ millions, except per share data)	2025A	Y/Y (%)	Q1-26A	Q2-26A	Q3-26E	Q4-26E	2026E	Y/Y (%)	2027E	Y/Y (%)	2028E	Y/Y (%)
Old Revenue	$5,810.1	23%	$1,581.4	$1,685.6	$1,768.6	$1,884.3	$6,919.9	19%	$8,467.7	22%	$9,888.2	17%
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*3%*		*6%*	
Old Gross Profit	$2,202.2	30%	$612.6	$657.1	$698.3	$745.9	$2,713.9	23%	$3,377.9	24%	$3,968.2	17%
Old Gross Margin	*38%*		*39%*	*39%*	*39%*	*40%*	*39%*		*40%*		*40%*	
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*3%*		*6%*	
Old Operating Income	$1,036.9	68%	$308.9	$336.0	$367.5	$398.0	$1,410.4	36%	$1,864.4	32%	$2,336.1	25%
Old Operating Margin	*18%*		*20%*	*20%*	*21%*	*21%*	*20%*		*22%*		*24%*	
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*3%*		*6%*	
Old Adjusted EPS	$3.54	191%	$1.16	$1.29	$1.42	$1.54	$5.42	53%	$7.24	34%	$8.00	24%
% Change	*0%*		*0%*	*0%*	*0%*	*0%*	*0%*		*3%*		*6%*	

Source: Morgan Stanley Research estimates

Risk Reward – Corning Inc (GLW.N)

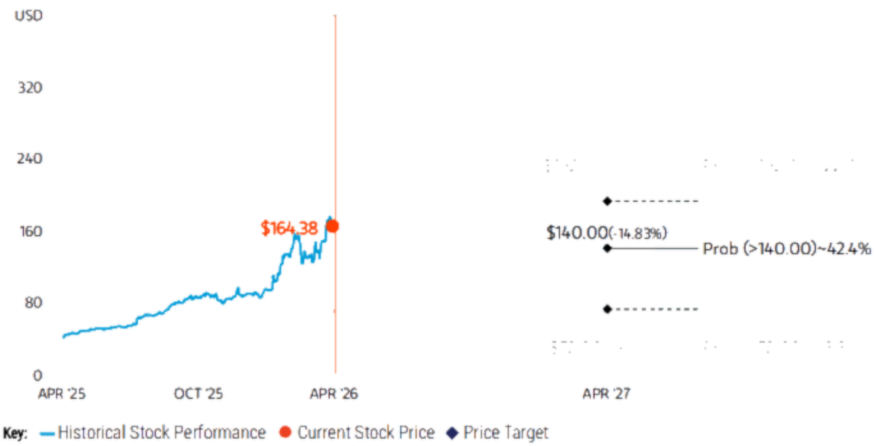
Exp'd Margin Leverage and Scale-Up Opportunity Driving Stock Towards Bull Case

PRICE TARGET $140.00

Our base case valuation reflects ~30x on FY28 Base Case earnings power of ~$4.66 (from $4.22). Our multiple represents a premium to GLW's traditional trading range over the last 10 years given AI megatrend.

Consensus Price Target Distribution

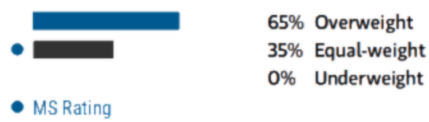
RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



EQUAL-WEIGHT THESIS

- Display business, which generates majority of earnings, operates efficiently. Additional currency related price increases support margins.
- Optical business sees resumption in growth as carrier fiber deployments pick up, and also benefits from AI datacenter demand for fiber.
- Consumer businesses see slow recovery, particularly given weaker macro

Consensus Rating Distribution



Risk Reward Themes

Pricing Power:	*Positive*
Secular Growth:	*Positive*

here

BULL CASE $192.00

~35x 28e MSe Bull Case Core EPS ($5.5)

Upside to estimates driven by fiber and entry intro manufacturing agreement to leverage US footprint. Our Bull Case reflects meaningful upside to Spiringboard and greater recognition of Solar / Telco Fiber business. Also gives credit for upside from unknown US manufacturing project. Premium to historical trading range given AI opportunity.

BASE CASE $140.00

~30x 28e Base Case Earning Power

Tariff risk largely ignored, continues to see upside to optical demand. GLW remains well exposed to various LT secular trends, with fiber pass through to margins being slightly better than expected. In this scenario, FY28e core EPS seen at $4.66. Our multiple represents a premium to GLW's traditional trading range over the last 10 years given accelerated growth and AI opportunity.

BEAR CASE $72.00

~16x Bear Case 28e EPS ($4.5)

Larger tariff Impact; less mitigation. Broadly speaking, growth challenged given macro headwinds, particularly in consumer exposed businesses. Our bear case earnings power accounts for downside from macro volatility if tariffs reintroduced. In this scenario, FY28e core EPS seen at $4.5. Multiple of 16x is closer to GLW's average trading range since 2010.

Risk Reward – Corning Inc (GLW.N)

KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
Total Revenue ($, mm)	15,629	17,985	20,255	22,688
Gross Margin (%)	36.0	35.7	36.7	37.7
Free Cash Flow ($, mm)	1,413	1,608	1,891	2,383
EPS Growth Y/Y (Non-GAAP) (%)	29.0	21.7	23.8	22.0

INVESTMENT DRIVERS

- Optical fiber deployments from service providers
- Consumer spending (mobile devices, TVs)
- Incremental adoption of core technologies (glass, ceramics, optical physics) across more end markets / verticals (i.e. auto glass)

GLOBAL REVENUE EXPOSURE

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MS ALPHA MODELS

5/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- Acceleration in optical project activity
- Margins improve on display business
- Use of more sheets of gorilla glass per mobile device, increase in auto
- Further gas particulate filter adoption
- Improved capital return as improved demand supports higher cash flow

RISKS TO DOWNSIDE

- Macro disruption challenges pricing / margins, cash flow generation
- Pricing discipline dissipates in display
- Delay in fiber deployment plans

OWNERSHIP POSITIONING

Inst. Owners, % Active	50.5%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	25.2%

MS ESTIMATES VS. CONSENSUS

FY Dec 2026e

Risk Reward – Lumentum Holdings Inc (LITE.O)

AI More Embedded Into Base Case, Greater CPO Adoption is Bull Case

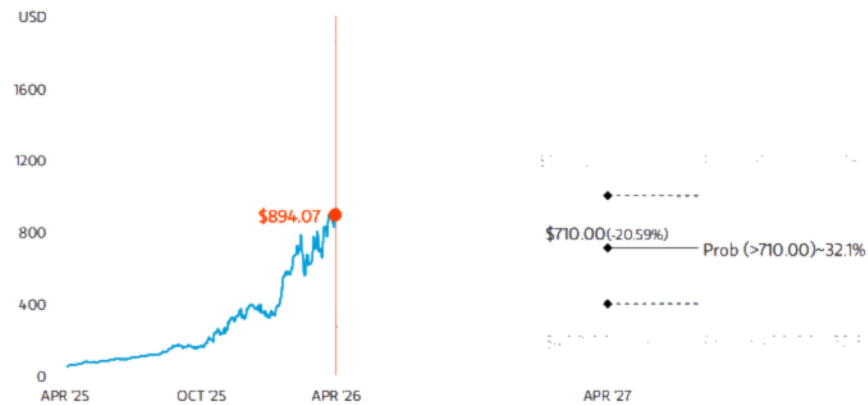
PRICE TARGET $710.00

30x FY28 P/E of ~$23.70. ~30x is a premium to historical trading range given AI growth outlook

Consensus Price Target Distribution $455.00 MS PT $1,225.00

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

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EQUAL-WEIGHT THESIS

- Datacom positioning attractive, particularly with ramping customer sets, but questions remain on margin contribution and impacts to earnings power
- Key questions remain on magnitude and timeline of OCS ramp and length of EML shortage.
- Upside to multiple likely limited by optical componentry being some of names most at risk from tariffs given intricate manufacturing that should be slower to move out of Asia, with LITE concentrated in Thailand

Consensus Rating Distribution

79% Overweight
21% Equal-weight
0% Underweight

● MS Rating

Risk Reward Themes

Secular Growth: *Positive*

here

BULL CASE $1,000.00

~25x CY28 Bull Case Earnings Power (~$40)

CPO penetration greater than expected. LITE able to achieve ~$40 in CY28 EPS in our bull case as multiple business lines ramp -- including CPO seeing far greater adoption in scale-up / out than expected in early days. Multiple remains at premium given growth outlook, particularly on scale-up.

BASE CASE $710.00

~30x FY28 P/E (~$23.70)

Broad-based AI growth. Ramps to EMLs, Telco (DCI), transceiver, OCS and CPO business concurrently. Margin benefit from EML constraints and higher blend of EML / OCS/ CPO. Our multiple is a premium to historical trading range given AI enthusiasm.

BEAR CASE $400.00

20x FY28 Bear Case Earnings Power (~$20)

Product lines have trouble ramping. OCS and CPO do not ramp to expectations on expected timeline. EMLs demand/supply reach equilibrium sooner than expected, pressuring margins. More signs that EMLs will lose share to CW (Silicon Photonics). Multiple trades closer to traditional ranges.

Risk Reward – Lumentum Holdings Inc (LITE.O)

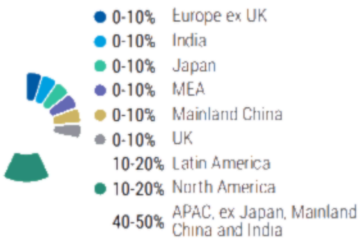
KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
Total Revenue ($, mm)	1,645	2,915	4,986	7,736
Gross Margin (%)	34.7	43.3	47.2	49.7
Operating Margin (%)	9.7	27.2	35.4	38.9
EPS Growth Y/Y (%)	366.1	276.2	93.7	58.2

INVESTMENT DRIVERS

- Opportunities like 3D sensing still in early days
- ROADMs in early days of deployment in China
- Position as a consolidator as leverage levers more reasonable

GLOBAL REVENUE EXPOSURE



MS ALPHA MODELS

5/5 **BEST**	24 Month Horizon	5/5 **MOST**	3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- Datacom ramps and revenue mix more attractive vs. expectations
- OCS ramps quickly, bringing additional revenue / profitability source
- AI demand remains strong, causing EML business to outperform and drive profitability

RISKS TO DOWNSIDE

- EML pricing falls given oversupply on reduced AI demand
- CW takes share from EML
- Cloud Light hurts ability to improve margins
- Industrial demand falls on macro

OWNERSHIP POSITIONING

Inst. Owners, % Active	60.4%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	25.2%

MS ESTIMATES VS. CONSENSUS

FY Jun 2026e

Risk Reward – Coherent Corp (COHR.N)

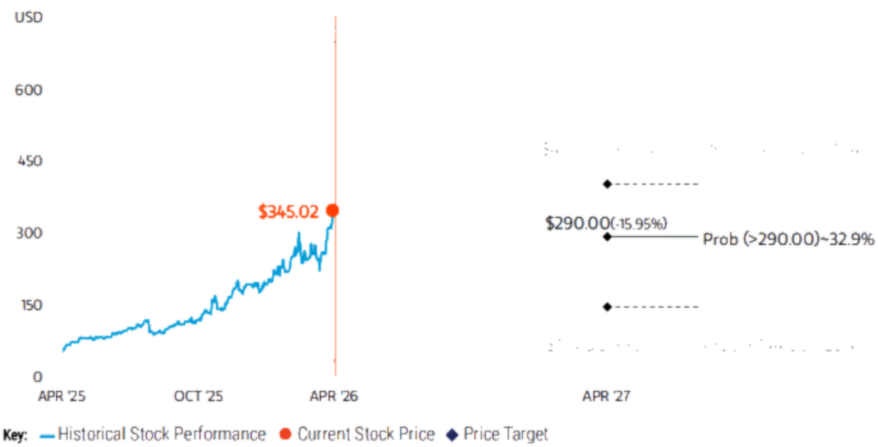
Street Building In Material Margin Improvement as Capacity Comes Online

PRICE TARGET $290.00

~30x Base FY28e EPS (~$9.60). Multiple trades at premium to historical trading range given AI exposure, trading more in-line with AI comps.

Consensus Price Target Distribution

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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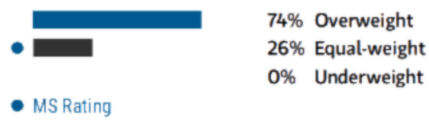
EQUAL-WEIGHT THESIS

- Near-term AI/ML opportunity and potential earnings optionality as net interest expense is worked down
- Valuation reflects volatility in end demand, particularly against more challenging Analyst Day targets
- Several levers to improve earnings power, including gross margin improvements and debt reduction
- Believe in longer term growth opportunity given attractive focus on differentiated processes and diversified customer base, with meaningful exposure to AI opportunity

Consensus Rating Distribution



Risk Reward Themes

Electric Vehicles:	*Positive*
Secular Growth:	*Positive*
Special Situation:	*Positive*

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BULL CASE $400.00

~30x Bull Case CY28 Earnings Power of (~$13.50)

Multiple sees expansion if company able to gain share in datacomm. EPS power accounts for COHR executing on self-help story likely outlined during upcoming Analyst Day, helping reduce interest expense headwinds / margin structure. Able to participate more meaningfully in CPO / OCS.

BASE CASE $290.00

~30x Base Case FY28 Earnings Power of ~$9.60

Spending trajectory healthy, but multiple capped by volatility of space. Giving more credit in earnings power for Analyst Day targets. However, given volatility in end markets, capping multiple at historical averages. Earnings power closer to ~$9.60 and multiple trades at a premium to historical trading levels given AI exposure.

BEAR CASE $144.00

16x Bear Case FY28 EPS of ~$9

See deterioration in pricing as too much capacity comes along. COHR is unable to execute on vision laid out at Analyst Day, limiting changes to interest expense or margin profile. Little earnings growth from FY26, causing multiple to trade slightly above 5-year minimums on the name.

Risk Reward – Coherent Corp (COHR.N)

KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
Revenue Growth Y/Y (%)	23.4	19.1	26.2	20.4
Gross Margin (%)	37.9	39.2	39.9	40.1
Operating Margin (%)	17.8	20.4	22.0	23.6
Net Debt / EBITDA	3.29	2.45	1.75	1.28

INVESTMENT DRIVERS

- What is the risk of China insourcing?
- Can 3D sensing still be an attractive market for COHR?
- Can COHR get larger than expected synergies out of Coherent?
- Can datacomm components capture outsized opportunity with AI?

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Japan
- 0-10% MEA
- 0-10% UK
- 10-20% Europe ex UK
- 10-20% Mainland China
- 50-60% North America

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MS ALPHA MODELS

5/5 **BEST**	24 Month Horizon	5/5 **MOST**	3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- Interest expense worked down given exit businesses or accelerated delevering
- Pricing increases help gross margins
- 1.6T AI opportunity ramps faster than expected, benefitting margins
- Recovery in non-datacomm portions of business

RISKS TO DOWNSIDE

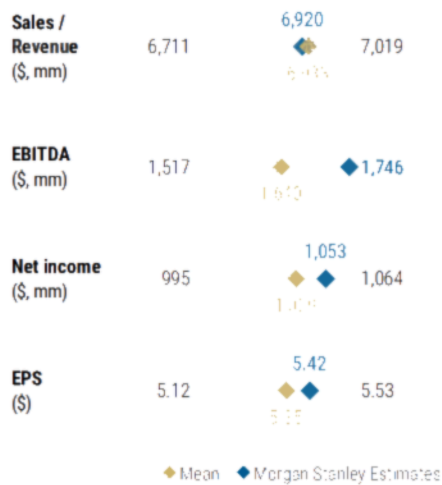
- Macro headwinds or pricing increases difficult to achieve given tariffs
- SiC market competitive
- AI build out pause, catalyzed by DeepSeek
- Competitive pressures in datacomm

OWNERSHIP POSITIONING

Inst. Owners, % Active	65.4%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	25.2%

MS ESTIMATES VS. CONSENSUS

FY Jun 2026e



Risk Reward – Ciena Corporation (CIEN.N)

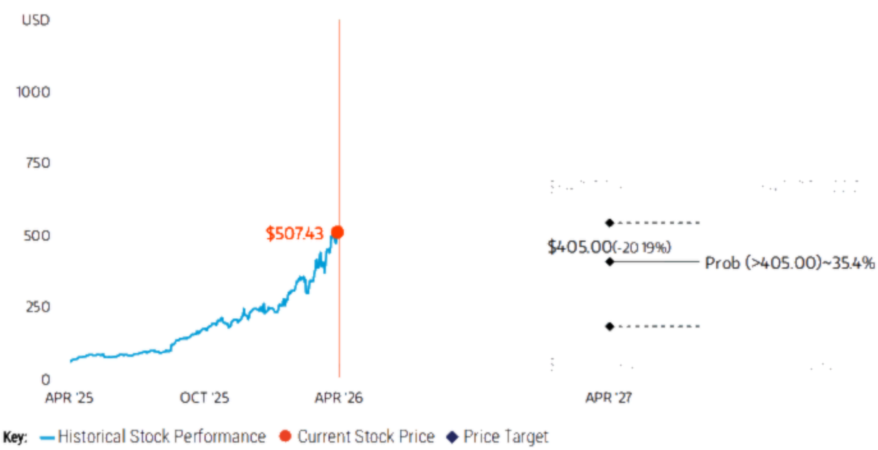
Positive Growth Drivers, But Limited Room for Multiple Expansion

PRICE TARGET $405.00

~32x FY28e (non-GAAP) EPS of ~$12.60. Multiple is at a premium to historical trading range and more in-line with AI comps, reflecting strong cloud positioning in AI opportunity and expectations for margin and revenue upside.

Consensus Price Target Distribution

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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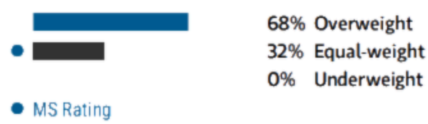
EQUAL-WEIGHT THESIS

- With visibility to growth drivers over the next year, continue to see meaningful upside to revenue
- Valuation appreciation more limited over NTM
- Believe valuation reflects positioning, limiting multiple expansion potential
- Expect telco spend gradually recovers
- Remain positive on upside to longer-term estimates given AI/DCI opportunity

Consensus Rating Distribution



Risk Reward Themes

Secular Growth: *Positive*

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BULL CASE $540.00

~27-30x Bull CY28 buyside EPS ($18-20)

Gains share in 800ZR, sees meaningful upside to revenue and earnings. Name able to be an outsized beneficiary of AI given lead on 800ZR and share gain opportunity with neo clouds / custom development. Able to see meaningful margin leverage as pricing improves on multi-rail. Multiple trades at a meaningful premium to 1-year averages.

BASE CASE $405.00

32x FY28e street EPS (non-GAAP) of ~$12.60

Sees primarily positive revenue revisions, less gross margin leverage than expected by bulls. See opportunity for upside to revenue. Current valuation of CIEN reflects company's stronger positioning vs. peers, though see minimal room for multiple expansion over NTM. Multiple is premium to historical trading levels.

BEAR CASE $180.00

~18x Bear FY28e EPS (non-GAAP)

Earnings power reduced given pricing pressure as competition enters the market and pushout of AI deployments. Market becomes more competitive as other players enter the market for 800ZR which pressures revenue opportunity and margins. Given uncertainty to demand, AI pushouts and impacts to margins, multiple contracts below 5-year averages.

Risk Reward – Ciena Corporation (CIEN.N)

KEY EARNINGS INPUTS

Drivers	2025	2026e	2027e	2028e
Revenue Growth Y/Y (%)	18.8	27.9	21.5	21.8
Gross Margin (%)	42.7	44.0	44.4	45.7
Operating Margin (%)	11.2	18.3	21.4	25.5
EPS Growth Y/Y (%)	44.9	119.4	42.8	46.9

INVESTMENT DRIVERS

- Will Ciena ever be able to consistently generate profits?
- How big can the international business get?

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Europe ex UK
- 0-10% India
- 0-10% Japan
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 70-80% North America

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MS ALPHA MODELS

5/5 BEST	24 Month Horizon	4/5 MOST	3 Month Horizon

RISKS TO PT/RATING

RISKS TO UPSIDE

- AI revenue (DCI or around data center) ramp ahead
- Meaningful inside the data center opportunity ahead
- Maintains technology leadership for longer

RISKS TO DOWNSIDE

- Greater headwind from tariffs / production moves
- Optical investment sees contraction from pluggables
- Routing opportunity slower to ramp
- Margin profile of expansion business

OWNERSHIP POSITIONING

Inst. Owners, % Active	59.3%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	25.2%

MS ESTIMATES VS. CONSENSUS

FY Oct 2026e