Morgan Stanley | RESEARCH

UPDATE

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Lumentum Holdings Inc | North America

Showing Pricing Power in Margins

WHAT'S CHANGED		
Lumentum Holdings Inc (LITE.O)	**From**	**To**
Price Target	$710.00	**$900.00**

LITE's FQ3 and FQ4 outlook were largely in and around bogeys, which given the run up in the name, may cause some near term digestion. Encouraged by pricing power company is seeing, helping margins, particularly in telco/DCI; watching supply chain for OCS. PT moves as bull case more likely.

Key Takeaways

- LITE results largely in-line with bogeys, though show remarkable ability to ramp production (+90% Y/Y).
- Pricing power continues to be a standout, with gross margins more than 350bps better than expectations.
- Focus will be on commentary around OCS supply chain and whether company can continue to be aggressive on ramp schedule there.
- Could see some digestion given 100%+ perf over L3M, and in-line result, but highly correlated to AI trade, with stock overall remaining closer to bull case.

Stock will go the way of momentum, but results / outlook largely in-line with bogeys coming into the print. Lumentum continues to be able to very effectively leverage their position in EMLs and pump lasers, in particular, to raise price / capitalize on very tight conditions in the market (e.g. gross margins were already at the top end of the 9-12 mo guide). With demand for product continuing to grow, that sets the stock up to maintain bull case valuation in the near term, as pricing power is unlikely to ease. This is even before we have really seen the ramp of optical circuit switching (OCS) and co-packaged optics (CPO), which don't become more material until later in the year. We don't see buyside $40 bull case of EPS in CY28 moving meaningfully post the print given how elevated expectations were, but that doesn't mean the stock won't continue to trade higher in the near term as the SOX reaches new heights / AI capex data points move materially higher. We think some digestion would be healthy, as the company noted the $1.25bn quarterly target was meant for Dec/Mar quarter, not Sep/Dec as bullish investors were expecting, but we acknowledge LITE taking advantage of pricing power to the degree they are is a bullish indicator for the name.

Things we liked:

- **Gross margins.** LITE posted a 540bps improvement Q/Q in gross margins in FQ3, coming in 350bps above expectations, and at the high end of their

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Lumentum Holdings Inc (LITE.O, LITE US)

Telecom & Networking Equipment | United States of America

Stock Rating	**Equal-weight**
Industry View	**In-Line**
Price target	**$900.00**
Shr price, close (May 5, 2026)	$994.56
Mkt cap, curr (mm)	$95,677
52-Week Range	$1,021.00-60.38

Fiscal Year Ending	06/25	06/26e	06/27e	06/28e
ModelWare EPS ($)	(0.43)	6.32	15.57	24.12
EPS ($)**	2.06	8.40	17.31	25.74
Div yld (%)	-	-	-	-

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
e = Morgan Stanley Research estimates

QUARTERLY EPS ($)

Quarter	2025	2026e Prior	2026e Current	2027e Prior	2027e Current
Q1	0.18	-	1.10a	2.79	3.34
Q2	0.42	-	1.67a	3.63	4.22
Q3	0.57	-	2.37a	4.00	4.58
Q4	0.88	2.56	2.97	4.51	5.13

e = Morgan Stanley Research estimates, a = Actual Company reported data guidance for 3-4 quarters from now. Significant upside driven by better factory absorption, favorable mix (tilt to 200G EMLs), and selective pricing in constrained areas (EMLs / pump lasers).

- **More potential pricing power, particularly on telco / DCI products.** While 540bps step-up was well north of expectations, the company noted that there is more leverage possible. EMLs and pumps continued to be the strongest callouts with management explicitly highlighting ability to raise prices and negotiate LTAs (incl. prepay / take-or-pay). Internal sourcing of CW lasers within transceiver products should also support gross margin expansion, particularly as LITE's transceiver gross margins remain below 30%, leaving a path toward peer levels above 40%.
- **Ability to ramp capacity.** While revenue was about in line with expectations, it was up 21% sequentially and ~90% Y/Y. The biggest source of this growth was on the transceiver side, but EMLs and telco / DCI also likely stepped up $100mm Y/Y. Supply remains the gating factor despite aggressive ramp (EML supply +50% YoY), with multiple initiatives underway (CapEx, contract manufacturing, new fabs) — though demand still exceeds supply by >30%, implying multi-year catch-up rather tdhan near-term normalization.

Things we are watching:

- **OCS supply chain.** OCS ramp progressing but tightly constrained by supply chain and step-function demand increase; described as a "tightrope" with output limited despite strong backlog and customer traction, reinforcing that supply — not demand — is the primary bottleneck near-term. Given ramp expected by investors, this is something we are watching.
- **EML output in light of needing to use some InP capacity for CW lasers.** EML remains supply-constrained (>30% imbalance), while some InP capacity is being reallocated to internal CW lasers to support transceiver integration — creating incremental tension on EML supply.
- **Transceiver mix impact on GM progression.** Much of LITE's upside to the quarter was from transceiver upside, making the gross margin performance particularly impressive. With the company expecting transceiver volumes to continue to increase and gross margins on transceivers still being the lowest of the company (~30%), the step function we have seen in GMs may slow slightly. The company is optimistic that they can improve margins here as they move to more 1.6T transceivers, and incorporate their lasers, but it is something we are mindful of.

Changes to our estimates. We are raising estimates on account of better transceiver output and margins on the EML / pump laser portion of the business. We have not raised our CPO / OCS estimates meaningfully given supply chain is still a challenge to ramp, particularly on the OCS side. Our revised FQ4 / FY27 revenue / non-GAAP estimates are $980.5 / $5,374.3 and $2.97 / $17.31 vs. $911.5 / $4,986.3 and $2.56 / $14.98 previously.

PT to $900 from $710; remain EW, but see trading closer to bull case in NT. We are raising our PT to incorporate higher overall estimates and rolling forward our PT to be based on CY28 from FY28. Our multiples have remained the same, which remain elevated as capex data points continue to rise and pricing conditions continue to support the profitability profile of the company continuing to rise. While our PT moves closer to our bull case, and our bull case moves higher, we see the stock trading closer to bull case in near term. Our $900 PT represents 30x on our CY28e earnings power of ~$30 (from FY28 of $23.70). Our bear case valuation represents $500 (from $400), reflecting 20x on our CY28e bear case earnings power of $25 (from FY28 of $20). Our bear case accounts for weakening in pricing conditions. Our bull case valuation is $1,125 (from $1,000) and reflects 25x our CY28e bull case earnings power of $45 (from ~$40), which continues to expect OCS and CPO ramps without any hiccups (and that pricing can continue to be raised). Biggest risk to our PT is a turn in AI ecosystem valuations and EML constraints.

Analysis

Exhibit 1: Changes to Our Model

	2025A	Y/Y (%)	Q1-26A	Q2-26A	Q3-26A	Q4-26E	2026E	Y/Y (%)	2027E	Y/Y (%)
New Revenue	**$1,645.0**	**21%**	**$533.8**	**$665.5**	**$808.4**	**$980.5**	**$2,988.2**	**82%**	**$5,374.3**	**80%**
Old Revenue	$1,645.0	21%	$533.8	$665.5	$804.3	$911.5	$2,915.0	77%	$4,986.3	58%
% Change	*0%*		*0%*	*0%*	*1%*	*8%*	*3%*		*8%*	
New Gross Profit	**$571.5**	**39%**	**$210.3**	**$282.6**	**$386.9**	**$479.9**	**$1,359.7**	**138%**	**$2,746.3**	**102%**
New Gross Margin	***35%***		***39.4%***	***42.5%***	***47.9%***	***49.0%***	***45.5%***		***51.1%***	
Old Gross Profit	$571.5	39%	$210.3	$282.6	$356.6	$411.9	$1,261.4	121%	$2,352.4	69%
Old Gross Margin	*35%*		*39.4%*	*42.5%*	*44.3%*	*45.2%*	*43.3%*		*47.2%*	
% Change	*0%*		*0%*	*0%*	*8%*	*17%*	*8%*		*17%*	
New Operating Income	**$160.1**	**(2207%)**	**$99.8**	**$167.7**	**$260.7**	**$347.6**	**$875.8**	**447%**	**$2,114.5**	**141%**
New Operating Margin	***10%***		***18.7%***	***25.2%***	***32.2%***	***35.5%***	***29%***		***39%***	
Old Operating Income	$160.1	(2207%)	$99.8	$167.7	$239.2	$285.2	$791.9	395%	$1,766.8	100%
Old Operating Margin	*10%*		*18.7%*	*25.2%*	*29.7%*	*31.3%*	*27%*		*35%*	
% Change	*0%*		*0%*	*0%*	*9%*	*22%*	*11%*		*20%*	
New Adjusted EPS	**$2.06**	**366%**	**$1.10**	**$1.67**	**$2.37**	**$2.97**	**$8.40**	**309%**	**$17.31**	**106%**
Old Adjusted EPS	$2.06	366%	$1.10	$1.67	$2.23	$2.56	$7.73	276%	$14.98	74%
% Change	*0%*		*0%*	*0%*	*6%*	*16%*	*9%*		*16%*	

Source: Morgan Stanley Research estimates.

Financials

Exhibit 2: LITE: Income Statement

	Sep-24 Q1-25A	Dec-24 Q2-25A	Mar-25 Q3-25A	Jun-25 Q4-25A	Sep-25 Q1-26A	Dec-25 Q2-26A	Mar-26 Q3-26A	Jun-26 Q4-26E	Sep-26 Q1-27E	Dec-26 Q2-27E	Mar-27 Q3-27E	Jun-27 Q4-27E	FY 2023A	FY 2024A	FY 2025A	FY 2026E	FY 2027E	FY 2028E
Net Sales	**336.9**	**402.2**	**425.2**	**480.7**	**533.8**	**665.5**	**808.4**	**980.5**	**1,069.0**	**1,303.1**	**1,408.6**	**1,593.5**	**1,767.0**	**1,359.2**	**1,645.0**	**2,988.2**	**5,374.3**	**8,272.5**
% chg q/q	*9.3%*	*19.4%*	*5.7%*	*13.1%*	*11.0%*	*24.7%*	*21.5%*	*21.3%*	*9.0%*	*21.9%*	*8.1%*	*13.1%*						
% chg y/y	*6.1%*	*9.7%*	*16.0%*	*55.9%*	*58.4%*	*65.5%*	*90.1%*	*104.0%*	*100.3%*	*95.8%*	*74.2%*	*62.5%*	*3.2%*	*-23.1%*	*21.0%*	*81.7%*	*79.9%*	*53.9%*
Cost of Sales	226.5	272.2	275.7	299.1	323.5	382.9	421.5	500.5	537.6	637.0	682.2	771.3	1,003.5	949.1	1,073.5	1,628.4	2,628.0	3,973.9
Total Gross Profit	**110.4**	**130.0**	**149.5**	**181.6**	**210.3**	**282.6**	**386.9**	**479.9**	**531.4**	**666.2**	**726.4**	**822.3**	**763.5**	**410.1**	**571.5**	**1,359.7**	**2,746.3**	**4,298.6**
Total Gross Margin	*32.8%*	*32.3%*	*35.2%*	*37.8%*	*39.4%*	*42.5%*	*47.9%*	*49.0%*	*49.7%*	*51.1%*	*51.6%*	*51.6%*	*43.2%*	*30.2%*	*34.7%*	*45.5%*	*51.1%*	*52.0%*
R&D Expense	62.7	62.4	63.3	67.6	69.0	69.9	78.4	82.4	88.7	95.1	98.6	108.4	249.0	261.0	256.0	299.7	390.8	552.7
SG&A Expense	37.7	35.9	40.1	41.7	41.5	45.0	47.8	50.0	53.4	58.6	62.0	66.9	175.3	156.7	155.4	184.3	241.0	343.2
Total Op Expenses	**100.4**	**98.3**	**103.4**	**109.3**	**110.5**	**114.9**	**126.2**	**132.4**	**142.2**	**153.8**	**160.6**	**175.3**	**424.3**	**417.7**	**411.4**	**484.0**	**631.8**	**895.9**
Operating Income	**10.0**	**31.7**	**46.1**	**72.3**	**99.8**	**167.7**	**260.7**	**347.6**	**389.3**	**512.4**	**565.9**	**647.0**	**339.2**	**(7.6)**	**160.1**	**875.8**	**2,114.5**	**3,402.7**
Total Operating Margin	*3.0%*	*7.9%*	*10.8%*	*15.0%*	*18.7%*	*25.2%*	*32.2%*	*35.5%*	*36.4%*	*39.3%*	*40.2%*	*40.6%*	*19.2%*	*-0.6%*	*9.7%*	*29.3%*	*39.3%*	*41.1%*
Interest and other income (expense)	4.6	4.2	2.9	3.5	3.7	4.6	9.6	16.4	27.1	24.5	27.1	29.6	29.6	42.5	15.2	34.3	108.2	148.7
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	**14.6**	**35.9**	**49.0**	**75.8**	**103.5**	**172.3**	**270.3**	**364.0**	**416.3**	**536.9**	**592.9**	**676.5**	**368.8**	**34.9**	**175.3**	**910.1**	**2,222.7**	**3,551.3**
Effective Tax Rate	*16.4%*	*16.4%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*14.5%*	*14.6%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*
Income Tax Provision	2.4	5.9	8.1	12.5	17.1	28.4	44.6	60.1	68.7	88.6	97.8	111.6	53.5	5.1	28.9	150.2	366.7	586.0
Pro Forma Net Income to Common	**12.2**	**30.0**	**40.9**	**63.3**	**86.4**	**143.9**	**225.7**	**303.9**	**347.6**	**448.3**	**495.1**	**564.9**	**315.3**	**29.8**	**146.4**	**759.9**	**1,855.9**	**2,965.4**
AT Stock Comp Expense	35.6	38.8	62.8	40.0	46.5	47.9	46.8	46.8	46.8	46.8	46.8	46.8	136.5	128.8	177.2	188.0	187.2	187.2
PF Net Income w/Stock Comp	**(23.4)**	**(8.8)**	**(21.9)**	**23.3**	**39.9**	**96.0**	**178.9**	**257.1**	**300.8**	**401.5**	**448.3**	**518.1**	**178.8**	**(99.0)**	**(30.8)**	**571.9**	**1,668.7**	**2,778.2**
Basic Shares Outstanding-GAAP	68.3	68.9	69.3	69.6	70.3	71.1	71.5	71.5	71.5	71.5	71.5	71.5	68.3	67.3	69.0	71.1	71.5	71.5
Fully Diluted Shares Outstanding-GAAP	68.3	68.9	69.3	72.0	78.3	87.8	96.2	102.2	104.2	106.2	108.2	110.2	68.3	67.3	69.6	91.1	107.2	115.2
Fully Diluted Shares Outstanding-Non-GAAP	69.1	71.6	72.2	72.0	78.3	86.1	95.2	102.2	104.2	106.2	108.2	110.2	69.1	67.6	71.2	90.5	107.2	115.2
Change	1.3	2.5	0.6	0.5	3.0	5.0	6.0	7.0	2.0	2.0	2.0	2.0	(5.1)	(1.6)	3.6	19.2	16.8	8.0
Pro Forma EPS	**$0.18**	**$0.42**	**$0.57**	**$0.88**	**$1.10**	**$1.67**	**$2.37**	**$2.97**	**$3.34**	**$4.22**	**$4.58**	**$5.13**	**$4.56**	**$0.44**	**$2.06**	**$8.40**	**$17.31**	**$25.74**
PF EPS Adj for Stock Comp	($0.52)	($0.54)	($0.87)	($0.56)	($0.59)	($0.56)	($0.49)	($0.46)	($0.45)	($0.44)	($0.43)	($0.42)	($1.97)	($1.91)	($2.49)	($2.08)	($1.75)	($1.63)
PF EPS w/ Stock Comp Exp	**($0.34)**	**($0.12)**	**($0.30)**	**$0.32**	**$0.51**	**$1.11**	**$1.88**	**$2.52**	**$2.89**	**$3.78**	**$4.14**	**$4.70**	**$2.59**	**($1.47)**	**($0.43)**	**$6.32**	**$15.57**	**$24.12**

Source: Company data, Morgan Stanley Research

Exhibit 3: LITE: Revenue Breakdown

	Sep-24 Q1-25A	Dec-24 Q2-25A	Mar-25 Q3-25A	Jun-25 Q4-25A	Sep-25 Q1-26A	Dec-25 Q2-26A	Mar-26 Q3-26A	Jun-26 Q4-26E	Sep-26 Q1-27E	Dec-26 Q2-27E	Mar-27 Q3-27E	Jun-27 Q4-27E
Segment Revenue (New)												
Cloud & Networking	282.3	339.2	365.2	424.1	477.4	600.4	745.4	921.0	1,010.6	1,235.8	1,341.4	1,530.0
Industrial Tech	54.6	63.0	60.0	56.6	56.4	65.1	63.0	59.4	58.4	67.4	67.2	63.5
Total Revenue	336.9	402.2	425.2	480.7	533.8	665.5	808.4	980.5	1,069.0	1,303.1	1,408.6	1,593.5
NEW SEGMENTATION												
Components	231.4	263.7	300.8	320.4	379.2	443.7	533.3					
Systems	105.5	138.5	124.4	160.3	154.6	221.8	275.1					
Total	336.9	402.2	425.2	480.7	533.8	665.5	808.4					
Revenue Mix												
Cloud & Networking	84%	84%	86%	88%	89%	90%	92%	94%	95%	95%	95%	96%
Datacom	16%	14%	16%	20%	21%	21%	21%	20%	19%	18%	18%	17%
Cloud Light	11%	19%	18%	25%	23%	25%	27%	29%	30%	27%	27%	26%
OCS/CPO						2%	5%	10%	14%	19%	21%	25%
Telecom	56%	51%	49%	44%	45%	42%	39%	34%	32%	30%	29%	27%
NPTN	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Industrial Tech	16%	16%	14%	12%	11%	10%	8%	6%	5%	5%	5%	4%
Industrial & Consumer	7%	5%	5%	4%	3%	3%	3%	2%	2%	2%	1%	1%
3D Sensing (w/in C&I)	4%	5%	2%	2%	2%	3%	1%	1%	1%	2%	1%	1%
Lasers	9%	11%	9%	8%	7%	7%	5%	4%	4%	4%	3%	3%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Q/Q Change												
Cloud & Networking	11%	20%	8%	16%	13%	26%	24%	24%	10%	22%	9%	14%
Datacom	3%	4%	21%	39%	21%	24%	22%	15%	3%	18%	8%	7%
Cloud Light	-31%	100%	0%	56%	3%	35%	34%	29%	11%	12%	6%	10%
OCS/CPO							159%	157%	50%	67%	20%	33%
Telecom	29%	9%	1%	1%	15%	16%	12%	8%	0%	16%	4%	8%
NPTN	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Industrial Tech	2%	15%	-5%	-6%	0%	15%	-3%	-6%	-2%	15%	0%	-6%
Industrial & Consumer	17%	-15%	-2%	-8%	-2%	14%	3%	-8%	-7%	14%	3%	-8%
3D Sensing (w/in C&I)	88%	33%	-50%	-20%	63%	54%	-50%	-20%	63%	54%	-50%	-20%
Lasers	-7%	38%	-6%	-4%	1%	16%	-6%	-4%	1%	16%	-2%	-4%
Total Revenue	9%	19%	6%	13%	11%	25%	21%	21%	9%	22%	8%	13%
Y/Y Change												
Cloud & Networking	23%	18%	16%	67%	69%	77%	104%	117%	112%	106%	80%	66%
Datacom	135.0%	45.0%	33.0%	80.0%	110.5%	152.0%	155.0%	110.0%	80.0%	70.0%	50.0%	40.0%
Cloud Light	-12.0%	28.6%	-10.0%	115.0%	220.0%	115.5%	190.0%	140.0%	160.0%	115.0%	70.0%	45.0%
OCS/CPO										1566.7%	671.2%	300.0%
Telecom	-22.1%	9.6%	17.0%	43.3%	27.0%	35.0%	50.0%	60.0%	40.0%	40.0%	30.0%	30.0%
NPTN												
Industrial Tech	-38%	-21%	14%	6%	3%	3%	5%	5%	3%	3%	7%	7%
Industrial & Consumer	-39.0%	-37.5%	-5.0%	-10.0%	-25.0%	0.0%	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%
3D Sensing (w/in C&I)	-46%	0%	25%	0%	-13%	0%	0%	0%	0%	0%	0%	0%
Lasers	-37.0%	-10.4%	26.1%	15.0%	25.0%	5.0%	5.0%	5.0%	5.0%	5.0%	10.0%	10.0%
Total Revenue	6%	10%	16%	56%	58%	65%	90%	104%	100%	96%	74%	63%

	FY 2023A	FY 2024A	FY 2025A	FY 2026E	FY 2027E	FY 2028E
Segment Revenue (New)						
Cloud & Networking	1,322.5	1,084.9	1,410.8	2,744.3	5,117.9	8,002.6
Industrial Tech	444.5	274.3	234.2	244.0	256.4	269.9
Total Revenue	1,767.0	1,359.2	1,645.0	2,988.2	5,374.3	8,272.5
Y/Y Change						
Cloud & Networking		-18%	30%	95%	86%	56%
Datacom		9%	67%	130%	57%	19%
Cloud Light		#DIV/0!	55%	156%	84%	36%
OCS/CPO						
Telecom		-13%	13%	43%	34%	20%
NPTN						
Industrial Tech		-38%	-15%	4%	5%	5%
Industrial & Consumer		-52%	-27%	-5%	0%	0%
3D Sensing (w/in C&I)						
Lasers		-22%	-6%	9%	7%	8%
Total Revenue		-23%	21%	82%	80%	54%

Source: Company data, Morgan Stanley Research

Exhibit 4: LITE: Balance Sheet

	Sep-24 Q1-25A	Dec-24 Q2-25A	Mar-25 Q3-25A	Jun-25 Q4-25A	Sep-25 Q1-26A	Dec-25 Q2-26A	Mar-26 Q3-26A	Jun-26 Q4-26E	Sep-26 Q1-27E	Dec-26 Q2-27E	Mar-27 Q3-27E	Jun-27 Q4-27E	FY 2023A	FY 2024A	FY 2025A	FY 2026E	FY 2027E	FY 2028E
Assets																		
Cash and cash equivalents	489.2	479.7	516.4	520.7	772.9	657.7	2,617.8	2,137.4	2,378.7	2,551.9	2,834.8	2,996.7	859.0	436.7	520.7	2,137.4	2,996.7	4,386.4
Short-term investments	426.9	417.0	350.3	356.4	348.9	497.6	554.5	554.5	554.5	554.5	554.5	554.5	1,154.6	450.3	356.4	554.5	554.5	554.5
Accounts receivable, net	198.5	226.9	255.7	250.0	307.0	376.8	441.6	589.6	642.9	737.8	769.5	958.3	246.1	194.7	250.0	589.6	958.3	1,461.8
Inventories, net	403.3	402.3	422.9	470.1	531.6	570.4	632.8	751.4	716.7	849.3	909.6	1,028.4	408.6	398.4	470.1	751.4	1,028.4	1,532.7
Prepayments and other current assets	118.3	125.5	122.0	120.1	125.2	180.7	149.0	196.1	213.8	260.6	281.7	318.7	109.6	110.0	120.1	196.1	318.7	486.2
Total current assets	1,636.2	1,651.4	1,667.3	1,717.3	2,085.6	2,283.2	4,395.7	4,229.1	4,506.6	4,954.1	5,350.1	5,856.5	2,777.9	1,590.1	1,717.3	4,229.1	5,856.5	8,421.6
Property, plant and equipment, net	638.4	663.4	693.3	726.4	794.8	813.5	964.3	1,080.8	1,206.8	1,364.4	1,532.6	1,723.3	489.5	572.5	726.4	1,080.8	1,723.3	2,703.1
Goodwill	1,060.9	1,060.9	1,060.9	1,060.9	1,060.9	1,060.9	1,066.3	1,066.3	1,066.3	1,066.3	1,066.3	1,066.3	695.1	1,055.8	1,060.9	1,066.3	1,066.3	1,066.3
Intangible, net	573.9	534.9	499.8	465.1	430.7	396.7	362.9	332.9	302.9	272.9	242.9	212.9	459.2	617.5	465.1	332.9	212.9	92.9
Deferred income taxes	12.5	11.0	12.7	210.3	204.6	206.1	197.9	197.9	197.9	197.9	197.9	197.9	116.3	10.7	210.3	197.9	197.9	197.9
Other non-current assets	47.7	44.5	41.0	38.7	36.5	44.9	40.8	40.8	40.8	40.8	40.8	40.8	94.1	85.3	38.7	40.8	40.8	40.8
Total Assets	**3,969.6**	**3,966.1**	**3,975.0**	**4,218.7**	**4,613.1**	**4,805.3**	**7,027.9**	**6,947.8**	**7,321.4**	**7,896.5**	**8,430.6**	**9,097.8**	**4,632.1**	**3,931.9**	**4,218.7**	**6,947.8**	**9,097.8**	**12,522.6**
Liabilities & Shareholders' Equity																		
Accounts payable	163.1	184.7	195.2	225.2	278.6	347.4	392.7	466.3	500.8	593.4	635.6	718.6	169.4	126.3	225.2	466.3	718.6	1,070.9
Accrued payroll and related expenses	42.0	40.1	42.8	57.9	69.3	85.3	109.7	69.1	75.3	91.8	99.2	112.3	39.4	36.1	57.9	69.1	112.3	171.3
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued expenses	39.7	46.2	43.5	34.6	45.5	39.2	48.9	117.7	128.3	156.4	169.0	191.2	51.2	52.4	34.6	117.7	191.2	291.7
Short term debt	10.8	9.8	10.3	10.6	1,079.0	3,240.2	3,238.6	2,764.0	2,764.0	2,764.0	2,764.0	2,764.0	311.6	-	10.6	2,764.0	2,764.0	2,764.0
Other current liabilities	49.5	66.1	61.2	64.5	53.8	55.5	75.4	98.8	107.7	131.3	142.0	160.6	62.2	54.5	64.5	98.8	160.6	245.0
Total current liabilities	305.1	346.9	353.0	392.8	1,526.2	3,767.6	3,865.3	3,515.9	3,576.2	3,737.0	3,809.8	3,946.7	633.8	269.3	392.8	3,515.9	3,946.7	4,542.9
Convertible Debt	2,569.2	2,561.2	2,562.4	2,562.6	2,164.5	47.1	43.2	43.2	43.2	43.2	43.2	43.2	2,500.0	2,503.2	2,562.6	43.2	43.2	43.2
Term Loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	199.4	185.7	180.1	128.6	141.6	144.0	146.0	146.0	146.0	146.0	146.0	146.0	142.5	202.1	128.6	146.0	146.0	146.0
Total Liabilities	**3,073.7**	**3,093.8**	**3,095.5**	**3,084.0**	**3,832.3**	**3,958.7**	**4,054.5**	**3,705.1**	**3,765.4**	**3,926.2**	**3,999.0**	**4,135.9**	**3,276.3**	**2,974.6**	**3,084.0**	**3,705.1**	**4,135.9**	**4,732.1**
Redeemable Series A preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock; par value	0.1	0.1	0.1	0.1	0.1	0.1	0.1	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	0.1	0.1	0.1	0.1	0.1	0.1
Additional paid-in capital	884.2	862.0	868.3	1,125.6	771.6	837.1	2,966.3	3,235.6	3,548.9	3,963.2	4,424.5	4,954.8	1,351.6	947.9	1,125.6	3,235.6	4,954.8	7,783.4
JDSU net investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive (loss) income	11.6	10.2	11.1	9.0	9.1	9.4	7.0	7.0	7.0	7.0	7.0	7.0	4.1	9.3	9.0	7.0	7.0	7.0
Total Shareholders' Equity	895.9	872.3	879.5	1,134.7	780.8	846.6	2,973.4	3,242.7	3,556.0	3,970.3	4,431.6	4,961.9	1,355.8	957.3	1,134.7	3,242.7	4,961.9	7,790.5
Total Liabilities and Shareholders' Equity	**3,969.6**	**3,966.1**	**3,975.0**	**4,218.7**	**4,613.1**	**4,805.3**	**7,027.9**	**6,947.8**	**7,321.3**	**7,896.5**	**8,430.6**	**9,097.8**	**4,632.1**	**3,931.9**	**4,218.7**	**6,947.8**	**9,097.8**	**12,522.6**

Source: Company data, Morgan Stanley Research

Exhibit 5: LITE: Cash Flow Statement

	Sep-24 Q1-25A	Dec-24 Q2-25A	Mar-25 Q3-25A	Jun-25 Q4-25A	Sep-25 Q1-26A	Dec-25 Q2-26A	Mar-26 Q3-26A	Jun-26 Q4-26E	Sep-26 Q1-27E	Dec-26 Q2-27E	Mar-27 Q3-27E	Jun-27 Q4-27E	FY 2023A	FY 2024A	FY 2025A	FY 2026E	FY 2027E	FY 2028E
GAAP Cash Flow Statement																		
OPERATING ACTIVITIES:																		
Net Income (loss)	(82.4)	(60.9)	(44.1)	213.3	4.2	78.2	144.2	222.5	266.4	367.5	414.5	483.5	(131.6)	(546.5)	25.9	449.1	1,531.9	2,641.4
Depreciation	27.0	25.9	26.9	28.1	29.5	28.9	29.6	35.1	39.3	43.9	49.6	55.7	106.6	110.6	107.9	123.0	188.5	299.4
Amortization of acquired technologies and other intangit	43.6	39.0	30.0	34.7	34.4	(34.4)	33.8	30.0	30.0	30.0	30.0	30.0	149.0	179.7	147.3	63.8	120.0	120.0
Stock-based compensation	35.6	38.8	62.8	40.0	46.5	41.3	46.8	46.8	46.8	46.8	46.8	46.8	148.4	128.8	177.2	181.4	187.2	187.2
Other non-cash (income) expenses	5.9	(6.7)	47.7	-	(266.9)	350.2	(120.0)	-	-	-	-	-	44.0	13.3	46.9	(36.7)	-	-
Changes in operating assets and liabilities:																		-
Accounts receivable	(3.8)	(28.4)	(28.8)	5.7	(57.0)	(69.7)	(64.8)	(148.0)	(53.2)	(95.0)	(31.7)	(188.8)	83.2	72.3	(55.3)	(339.5)	(368.7)	(503.5)
Inventories	(6.5)	1.5	(20.6)	(47.2)	(61.5)	(41.0)	(62.4)	(118.6)	34.7	(132.5)	(60.3)	(118.8)	(81.5)	73.8	(72.8)	(283.5)	(276.9)	(504.3)
Other current and non-current assets	(16.8)	4.2	7.0	4.2	(2.9)	(26.2)	-	(47.1)	(17.7)	(46.8)	(21.1)	(37.0)	(4.9)	29.7	(1.4)	(76.2)	(122.6)	(167.5)
Accounts payable	32.6	6.1	10.5	30.0	53.4	26.5	45.3	73.6	34.5	92.6	42.1	83.0	(74.0)	(89.7)	79.2	198.8	252.2	352.4
Income taxes payable	7.2	21.3	-	-	-	1.5	-	-	-	-	-	-	(37.9)	77.7	28.5	1.5	-	-
Deferred taxes, net	-	-	(1.7)	(197.6)	5.7	(5.7)	8.2	-	-	-	-	-	-	-	(199.3)	8.2	-	-
Accrued payroll and related expenses	5.9	(1.9)	2.7	15.1	11.4	16.0	24.4	(40.6)	6.2	16.5	7.4	13.0	(36.3)	(8.9)	21.8	11.2	43.2	59.0
Accrued expenses and other current and non-current lia	(8.7)	(14.6)	(13.2)	(57.1)	13.2	9.0	-	92.2	19.5	51.7	23.3	40.8	14.8	(16.1)	(93.6)	114.4	135.4	184.9
Net cash from Operations	**39.6**	**24.3**	**79.2**	**69.2**	**(190.0)**	**374.6**	**85.1**	**145.8**	**406.6**	**374.7**	**500.7**	**408.3**	**179.8**	**24.7**	**212.3**	**415.5**	**1,690.3**	**2,668.9**
INVESTING ACTIVITIES:																		
Acquisitions of businesses, net of cash acquired	-	-	-	-	-	-	-	-	-	-	-	-	(861.6)	(700.9)	-	-	-	-
Capital expenditures	(74.1)	(40.2)	(42.5)	(47.1)	(57.8)	(102.0)	(125.0)	(151.6)	(165.3)	(201.5)	(217.8)	(246.4)	(128.5)	(133.0)	(203.9)	(436.4)	(831.0)	(1,279.1)
Purchase / sale of securities	26.8	9.5	-	-	-	(139.4)	-	-	-	-	-	-	115.8	718.8	36.3	(139.4)	-	-
Proceeds from the sales of a business and assets, net o	0.2	-	-	-	-	-	-	-	-	-	-	-	0.3	0.8	0.2	-	-	-
Net cash from Investing Activities	**(47.1)**	**(30.7)**	**(42.5)**	**(47.1)**	**(57.8)**	**(241.4)**	**(125.0)**	**(151.6)**	**(165.3)**	**(201.5)**	**(217.8)**	**(246.4)**	**(874.0)**	**(114.3)**	**(167.4)**	**(575.8)**	**(831.0)**	**(1,279.1)**
FINANCING ACTIVITIES:																		
Convertible Proceeds					500.0	754.7		(474.6)					-	-	-	780.1	-	-
Other Cash Flow from Financing	60.0	(3.1)	-	-	-	(1,003.1)	2,000.0	-	-	-	-	-	263.0	(332.7)	56.9	996.9	-	-
Net cash provided by financing activities	**60.0**	**(3.1)**	**-**	**-**	**500.0**	**(248.4)**	**2,000.0**	**(474.6)**	**-**	**-**	**-**	**-**	**263.0**	**(332.7)**	**56.9**	**1,777.0**	**-**	**-**
FX Impact	-	-	-	(17.8)	-	-	-	-	-	-	-	-	-	-	(17.8)	-	-	-
Cash and cash equivalents at beg. of period	436.7	489.2	479.7	516.4	520.7	772.9	657.7	2,617.8	2,137.4	2,378.7	2,551.9	2,834.8	1,290.2	859.0	436.7	520.7	2,137.4	2,996.7
Net increase (decrease) in cash and cash equivalents	52.5	(9.5)	36.7	4.3	252.2	(115.2)	1,960.1	(480.4)	241.3	173.2	282.9	161.9	(431.2)	(422.3)	84.0	1,616.7	859.3	1,389.8
Cash and cash equivalents at end of period	489.2	479.7	516.4	520.7	772.9	657.7	2,617.8	2,137.4	2,378.7	2,551.9	2,834.8	2,996.7	859.0	436.7	520.7	2,137.4	2,996.7	4,386.4

Source: Company data, Morgan Stanley Research

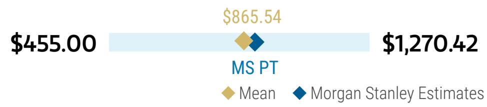
Risk Reward – Lumentum Holdings Inc (LITE.O)

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

PRICE TARGET $900.00

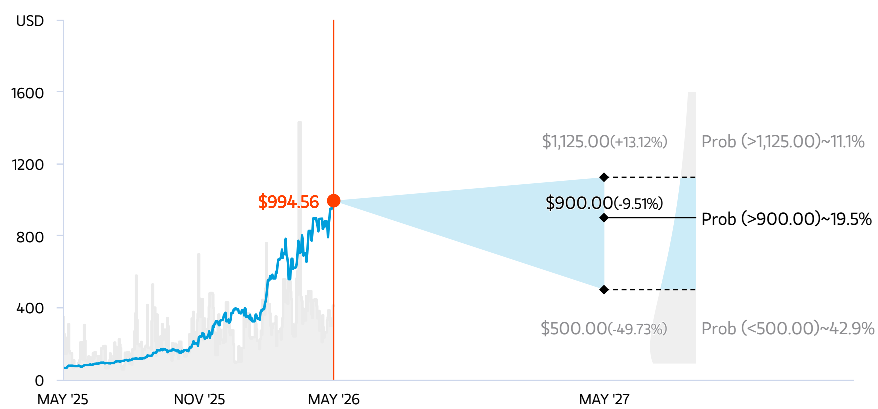
30x CY28 P/E of ~$30. ~30x is a premium to historical trading range given AI growth outlook

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



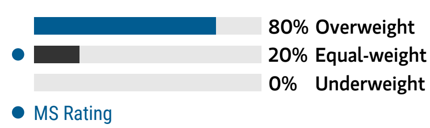
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 5 May 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

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



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $1,125.00

~25x CY28 Bull Case Earnings Power (~$45)

CPO penetration greater than expected. LITE able to achieve ~$45 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. Exert meaningful pricing pressure, which maintains through CY28. Multiple remains at premium given growth outlook, particularly on scale-up.

BASE CASE $900.00

~30x CY28 P/E (~$30)

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 capex spend.

BEAR CASE $500.00

20x CY28 Bear Case Earnings Power (~$25)

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	2,988	5,374	8,272
Gross Margin (%)	34.7	45.5	51.1	52.0
Operating Margin (%)	9.7	29.3	39.3	41.1
EPS Growth Y/Y (%)	366.1	308.8	106.1	48.7

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

- 0-10% Europe ex UK
- 0-10% India
- 0-10% Japan
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Latin America
- 10-20% North America
- 40-50% APAC, ex Japan, Mainland China and India

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

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

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

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

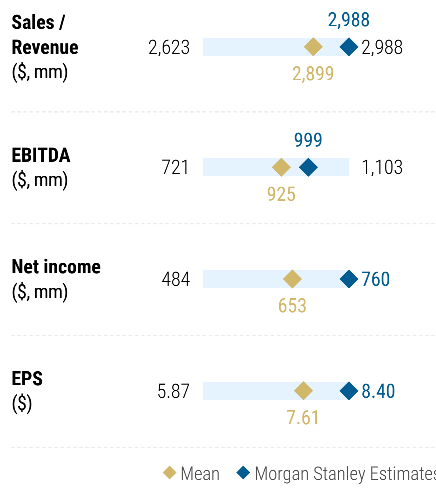
OWNERSHIP POSITIONING

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

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2026e



Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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Global Stock Ratings Distribution

(as of April 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1546	42%	467	51%	30%	709	44%
Equal-weight/Hold	1568	43%	358	39%	23%	715	44%
Not-Rated/Hold	4	0%	0	0%	0%	1	0%
Underweight/Sell	555	15%	84	9%	15%	202	12%
Total	3,673		909			1627	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

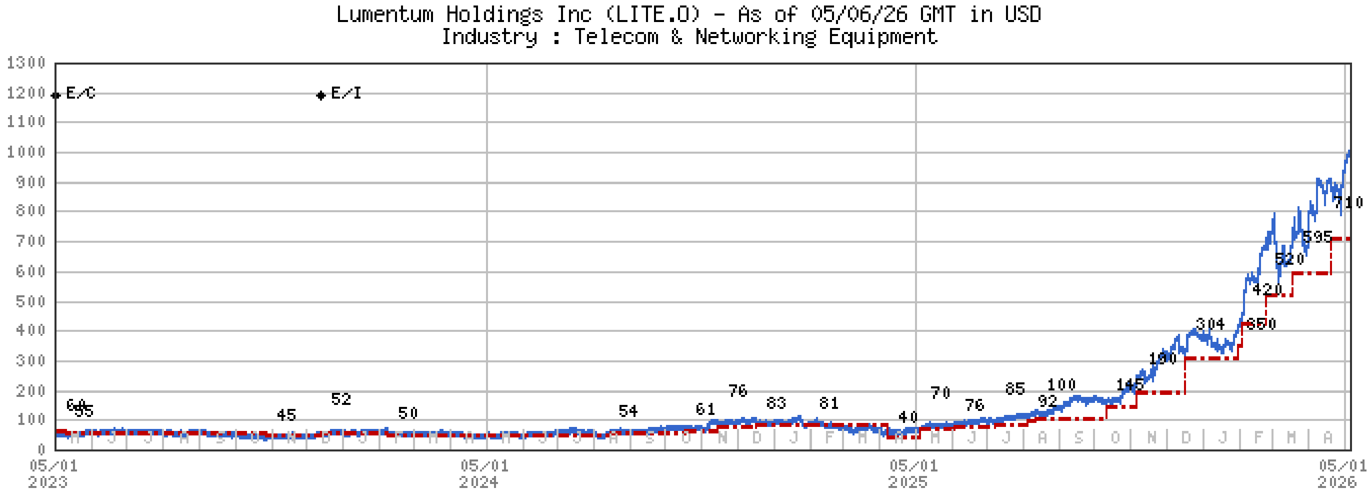
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 5/1/21 : O/I; 5/12/21 : E/I; 4/12/22 : E/C; 12/13/23 : E/I

Price Target History: 12/15/20 : 105; 5/12/21 : 81; 11/4/21 : 91; 2/3/22 : 97; 5/2/22 : 94; 8/16/22 : 98; 10/11/22 : 84; 11/8/22 : 75; 12/13/22 : 66; 4/5/23 : 60; 5/9/23 : 55; 10/27/23 : 45; 12/13/23 : 52; 2/8/24 : 50; 8/14/24 : 54; 10/17/24 : 61; 11/14/24 : 76; 12/17/24 : 83; 1/31/25 : 81; 4/8/25 : 40; 5/6/25 : 70; 6/3/25 : 76; 7/8/25 : 85; 8/4/25 : 92; 8/12/25 : 100; 10/10/25 : 145; 11/5/25 : 190; 12/17/25 : 304; 1/30/26 : 350; 2/3/26 : 420; 2/23/26 : 520; 3/18/26 : 595; 4/19/26 : 710

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: Telecom & Networking Equipment

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/05/2026)
Meta A Marshall		
Arista Networks (ANET.N)	O (10/31/2023)	$170.22
Axon Enterprise Inc (AXON.O)	O (12/03/2024)	$380.60
Ciena Corporation (CIEN.N)	E (10/10/2025)	$544.75
Cisco Systems Inc (CSCO.O)	O (04/08/2024)	$94.30
Coherent Corp (COHR.N)	E (12/13/2023)	$335.73
Corning Inc (GLW.N)	E (06/13/2024)	$162.10
F5 Inc (FFIV.O)	E (04/12/2022)	$339.90
Keysight Technologies Inc (KEYS.N)	E (10/10/2025)	$355.93
Lumentum Holdings Inc (LITE.O)	E (05/12/2021)	$994.56
Motorola Solutions Inc (MSI.N)	O (12/17/2025)	$438.00
Zebra Technologies Corporation (ZBRA.O)	E (12/02/2024)	$228.39

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* Historical prices are not split adjusted.