09 Sep 2026 17:36:14 ET | 13 pages

Lumentum Holdings Inc (LITE.O)

Citi Global TMT Conference Takeaways - Positive

CITI'S TAKE

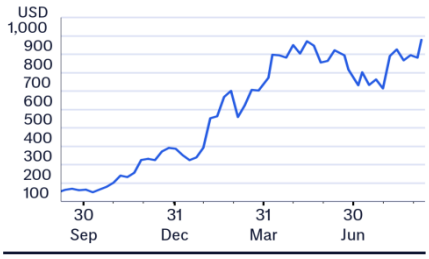
We hosted Lumentum President of Business Units Wupen Yuen and VP of IR Kathy Ta at Citi's Global TMT conference today and recap key takeaways.

Buy

Catalyst Watch: Upside, expires 14-OCT-26

Price (09 Sep 26 16:00)	US$988.98
Target price	US$1,200.00
Expected share price return	21.3%
Expected dividend yield	0.0%
Expected total return	21.3%
Market Cap	US$88,712M

Price Performance
(RIC: LITE.O, BB: LITE US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2026A	1.10A	1.67A	2.37A	3.23A	8.68A	8.67A
2027E	**4.18E**	**4.97E**	**6.21E**	**7.60E**	**23.03E**	**21.35E**
Previous	4.18E	4.97E	6.21E	7.60E	23.03E	na
2028E	**8.62E**	**9.06E**	**9.58E**	**10.02E**	**37.21E**	**33.11E**
Previous	8.62E	9.06E	9.58E	10.02E	37.21E	na
2029E	**na**	**na**	**na**	**na**	**na**	**46.49E**

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See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

LITE.O: Fiscal year end 30-Jun — **Price: US$988.98; TP: US$1,200.00; Market Cap: US$88,712m; Recomm: Buy**

Profit & Loss (US$m)	2025	2026	2027E	2028E
Sales revenue	1,645	3,014	6,828	10,532
Cost of sales	-1,185	-1,758	-3,378	-4,942
Gross profit	460	1,256	3,450	5,590
Gross Margin (%)	28.0	41.7	50.5	53.1
EBITDA (Adj)	**214**	**880**	**3,208**	**5,343**
EBITDA Margin (Adj) (%)	13.0	29.2	47.0	50.7
Depreciation	-104	-147	-378	-583
Amortisation	0	0	0	0
EBIT (Adj)	**160**	**897**	**2,838**	**4,771**
EBIT Margin (Adj) (%)	9.7	29.8	41.6	45.3
Net interest	-22	-22	-25	-25
Associates	0	0	0	0
Non-Op/Except/Other Adj	-345	-291	-417	-534
Pre-tax profit	**-207**	**584**	**2,395**	**4,212**
Tax	198	238	-503	-885
Extraord./Min.Int./Pref.div.	0	0	0	0
Reported net profit	**-9**	**822**	**1,892**	**3,327**
Net Margin (%)	-0.5	27.3	27.7	31.6
Core NPAT	146	782	2,399	4,033

Per share data	2025	2026	2027E	2028E
Reported EPS ($)	-0.13	9.11	18.17	30.70
Core EPS ($)	2.06	8.68	23.03	37.21
DPS ($)	0	0	0	0
CFPS ($)	1.77	10.57	16.14	36.36
FCFPS ($)	-1.47	5.98	7.70	23.85
BVPS ($)	16.30	42.24	58.01	92.34
Wtd avg ord shares (m)	71	90	104	108
Wtd avg diluted shares (m)	71	90	104	108

Growth rates	2025	2026	2027E	2028E
Sales revenue (%)	21.0	83.2	126.5	54.3
EBIT (Adj) (%)	448.3	460.3	216.4	68.1
Core NPAT (%)	138.4	434.4	206.7	68.1
Core EPS (%)	126.6	322.1	165.5	61.5

Balance Sheet (US$m)	2025	2026	2027E	2028E
Cash & cash equiv.	877	3,607	4,410	6,995
Accounts receivables	250	550	1,218	1,546
Inventory	470	750	1,557	1,911
Net fixed & other tangibles	975	1,277	1,778	2,552
Goodwill & intangibles	1,526	1,429	1,429	1,429
Financial & other assets	120	149	149	149
Total assets	**4,219**	**7,762**	**10,540**	**14,581**
Accounts payable	225	465	966	1,186
Short-term debt	11	3,239	3,239	3,239
Long-term debt	2,563	43	43	43
Provisions & other liab	286	380	380	380
Total liabilities	**3,084**	**4,127**	**4,628**	**4,848**
Shareholders' equity	1,135	3,635	5,913	9,733
Minority interests	0	0	0	1
Total equity	**1,135**	**3,635**	**5,913**	**9,734**
Net debt (Adj)	**1,696**	**-326**	**-1,128**	**-3,713**
Net debt to equity (Adj) (%)	149.5	-9.0	-19.1	-38.1

Valuation ratios	2025	2026	2027E	2028E
PE (x)	na	na	42.9	26.6
PB (x)	60.7	23.4	17.0	10.7
EV/EBITDA (x)	na	na	27.4	16.1
FCF yield (%)	-0.1	0.6	0.8	2.4
Dividend yield (%)	na	na	na	na
Payout ratio (%)	0	0	0	0
ROE (%)	-0.9	34.4	39.6	42.5

Cashflow (US$m)	2025	2026	2027E	2028E
EBITDA	-88	683	2,718	4,740
Working capital	-315	-327	-974	-462
Other	529	597	-62	-336
Operating cashflow	**126**	**953**	**1,682**	**3,942**
Capex	-231	-414	-880	-1,357
Net acq/disposals	99	-197	0	0
Other	48	0	0	0
Investing cashflow	**-84**	**-611**	**-880**	**-1,357**
Dividends paid	0	0	0	0
Financing cashflow	**42**	**2,190**	**0**	**0**
Net change in cash	**84**	**2,532**	**802**	**2,585**
Free cashflow to s/holders	**-105**	**539**	**802**	**2,585**

For definitions of the items in this table, please click here.



Demand backdrop: Management characterized the industry as still early in the AI buildout, with demand for compute-driven infrastructure structurally outpacing supply and no signs of that gap closing over the next several years. As AI models scale and interconnect requirements intensify, copper is increasingly hitting physical limitations, pushing more of the network toward optical connectivity. Management framed data center interconnect as a roughly 1x baseline, with scale-out representing approximately 10x that intensity, the first wave of scale-up copper-to-optical (CPO) transitions beginning in the second half of calendar 2027 representing a further multiple on top of scale-out, and the eventual full transition of scale-up to optical adding another 10x layer — with scale-in interconnect still not yet part of that math.

Supply-demand gap: Management indicated the company remains capacity-constrained across its laser portfolio, including EML and CW products, and does not expect that shortage to clear through 2027, as scale-up module volumes are expected to roughly double from 2026 to 2027 before another step-up in 2028 tied to scale-up ramps. Pricing was described as healthy, with new deals being signed at pricing equal to or above prior escalated levels, which management pointed to as evidence the supply-demand imbalance persists.

FY28 EPS target of $40: Management attributed the recently raised fiscal 2028 EPS target primarily to greater visibility into optical circuit switching (OCS) opportunity than previously understood, driven by increased unit demand from its largest customer as that customer's own hardware business scales. Management characterized the guidance as layering in through fiscal 2028 rather than being back-end loaded, with intensity increasing progressively through the year.

CPO and NPO dynamics: On CPO, management said the qualification timeline with its lead customer remains unchanged, but order intensity has increased — a positive signal for the technology's commercial traction rather than a pull-forward. On the more actively discussed NPO opportunity, management now frames the optical scale-up market as roughly split 50/50 between CPO and NPO architectures by 2028, a shift from earlier expectations that CPO alone would serve scale-up. Within NPO, management expects roughly 3/4 of volume to use external (rather than integrated) light sources, driven by thermal proximity concerns when optical engines sit close to accelerator heat sources. Even the integrated-light-source portion of NPO is expected to favor fewer, higher-power lasers (in the 120–150 milliwatt-plus range) rather than the lower-power lasers used in today's pluggable transceiver market, differentiating this demand pool from the segment where Chinese laser competition is currently concentrated.

Capacity ramp and China competition: Management laid out a three-stage capacity ramp for ultra-high-power lasers: an existing U.S. facility ramping through 2027, a UK facility adding capacity beginning in the second quarter of 2027 and continuing through 2028, and a third facility targeted for mid-2028. The primary variable to accelerating that third ramp is customer qualification cycle time rather than internal readiness. On competitive threats, management said it sees no meaningful new entrants in EML lasers from China today, with only one vendor noted as producing EML for internal module use without signs of external commercialization. On UHP lasers specifically, management named Coherent as the only comparable competitor and was skeptical China-based suppliers could replicate the combination of power, low relative-intensity noise, narrow linewidth, and mode-hop-free performance required at volume in the near term, while

acknowledging the industry likely needs a qualified second source by 2027 to support 2028 scale-up demand.

ELS (external laser source) opportunity: Management confirmed its first ELS win, announced last earnings call, with an existing CPO customer, with shipments expected to begin in the second half of calendar 2027 and an estimated 15–20% share of that customer's fleet. Management expressed greater optimism about ELS opportunity within NPO given that architecture skews more heavily toward external light sources, noting several NPO customers have expressed interest in Lumentum as an ELS supplier rather than solely a laser chip supplier, though no NPO wins have been announced yet.

Transceiver and CW laser mix: In pluggable transceivers, management said 800G EML remains the dominant mix today, expects 1.6T to become the larger share going forward, and described continuing-wave (CW) laser capacity allocation as serving three purposes: bridging customers through supply gaps, securing early design-win positioning for future capacity, and supporting Lumentum's own coherent module needs. Management indicated CW laser yields and margins are improving and moving closer to (though still not matching) EML-level economics as the underlying technology matures.

Scale-across (pump laser) business: Asked what may be underappreciated in the story, management pointed to the scale-across pump laser business, noting a roughly 4x volume multiplier expected over the next five quarters, long-term agreements signed with all major network equipment manufacturers, and ten consecutive quarters of growth in that segment — calling it a durable, underappreciated growth pillar alongside the higher-profile CPO/NPO and OCS narratives.

OCS TAM: Management said the previously disclosed ~$8B OCS total addressable market figure, published roughly six months prior, likely understates the opportunity given strong performance from its largest customer and emerging use cases such as dynamic accelerator partitioning and network resiliency/reroute-around-underperforming-accelerator applications, which are moving into serious R&D with customers and could extend visibility into the 2028–early 2029 timeframe. On content per accelerator management talked about a 1.5 to 1 port per accelerator as the rule of thumb.