on 12-Oct-2026

BERNSTEIN
SOCIETE GENERALE GROUP

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US Networking & Communications Equipment

LITE & COHR: Illuminating the Optical Debate - Top investor questions and feedback from our initiation



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On 9/29, we initiated coverage on the US Networking & Communications Equipment sector (US Networking: Scaling the bandwidth wall. Initiating with a positive view). Investor feedback on our initiation on the Optical Module sub-sector (LITE & COHR) has centered on a number of key debates in the industry. In this note, we lay out the feedback on these debates and our thoughts on these debates. We intend to follow-up on feedback and pushbacks for other subsectors at a later date.

Feedback from long-only investors has skewed towards basic investor education. This suggests to us that many are on the sidelines, either not owning the names or owning an index weight. Even among long-only investors who were more engaged with the key debates, many expressed frustration about the perceived difficulty of gaining conviction on the names rather than expressing a strong view on either side. Investors also expressed concern with the way Lumentum communicates with investors, with one investor going as far as saying that Lumentum's decision to update guidance at a bank conference instead of a company event was "inappropriate".

By contrast, Lumentum and Coherent were hotly debated among hedge funds, across a number of fronts.

The conventional narrative among hedge funds was that, scale-up optics would provide the next leg of growth, and CPO/NPO would determine the timing of scale-up optics. While investors lacked confidence that CPO at-scale in 2028 was achievable, investors appeared to be growing more confident that near-packaged optics (NPO) would serve as an adequate backup plan to drive optical adoption.

However, investors also raised concerns about the growing intensity of competition from Asian players and raised questions about the depth of the technology moat, especially if VCSELs or microLEDs can be used for scale-up NPO. Optical circuit switching (OCS) also attracted interest. We roughly size the market at ~$6B, but lack confidence in the growth trajectory.

While conversations typically started on Lumentum, EPS numbers were hotly debated, and hedge fund investors appeared to be warming to Coherent, especially given that the valuation gap between the two has widened. Lumentum was generally seen as a stronger company than Coherent, given that it is perceived as having clearer technology leadership. Some investors see $40 in 2028 Lumentum EPS as a ceiling for revisions and others see a path to $55. Investors also believe that this preference is already reflected in the price, given the widening valuation gap, with some investors appearing to flip to being long Coherent instead of Lumentum.

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BERNSTEIN TICKER TABLE

			9 Oct 2026		TTM	Reported EPS				Reported P/E (x)	
			Closing	Price	Rel.						
Ticker	Rating	Cur	Price	Target	Perf.	Cur	2025A	2026E	2027E	2025A	2026E	2027E
LITE (Lumentum)	O	USD	1,103.36	1,220.00	574.7%	USD	2.05	8.37	22.40	539.4	131.7	49.3
COHR (Coherent)	O	USD	312.62	350.00	139.5%	USD	3.53	5.58	9.51	88.5	56.0	32.9
SPX			7,811.54									

ESTIMATE CHANGE IN BOLD

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

On net, we update our estimates for Lumentum FY 2028 (and beyond) to reflect updated guidance, and maintain our Outperform rating on both Lumentum and Coherent.

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DETAILS

On September 29, we initiated coverage on the US Networking & Communications Equipment sector (US Networking: Scaling the bandwidth wall. Initiating with a positive view). Investor feedback on our initiation on the Optical Module sub-sector (LITE & COHR) has centered on a number of key debates in the industry. In this note, we lay out the feedback on these debates and our thoughts on these debates. We intend to follow-up on feedback and pushbacks for other subsectors at a later date.

Feedback from long-only investors has skewed towards basic investor education. This suggests to us that many are on the sidelines, either not owning the names or owning an index weight. By contrast, Lumentum and Coherent were hotly debated among hedge funds, across a number of fronts. Even among long-only investors who were more engaged with the key debates, many expressed frustration about the perceived difficulty of gaining conviction on the names rather than expressing a strong view on either side. Investors also expressed concern with the way Lumentum communicates with investors, with one investor going as far as saying that Lumentum's decision to update guidance at a bank conference instead of a company event was "inappropriate".

- **Feedback from long-only investors has skewed towards basic investor education. We believe many long-onlies are on the sidelines, either not owning the names or owning an index weight in Lumentum.** Many long-onlies were open in acknowledging that they had not had the chance to really dig into the names (or were early on in their ramp), and accordingly were asking relatively basic investor education questions. Coupled with the lack of strong views around the key debates suggested to us that many long-onlies are on the sidelines, either not owning the names at all or owning an index weight in Lumentum (following its inclusion in the S&P 500 in March).

- **Many long-onlies expressed frustration with the perceived difficulty of gaining conviction on the names.** In many conversations, investors did not hold a strong view on the debates, but instead expressed their frustration with the perceived difficulty of gaining conviction on the names. In particular, investors highlighted that Lumentum and Coherent's economics were supported by them owning the bottleneck on Indium Phosphide wafers, but that the lack of good industry data on InP supply or demand made it hard to underwrite the sustainability of the supply/demand gap.

- **Long only investors also appeared uncomfortable with the way that Lumentum communicates with investors, in particular highlighting the decision to update guidance at a bank conference instead of at a company event.** A number of long only investors expressed discomfort with Lumentum's investor communications. In particular, investors questioned the decision to give updated 2028 guidance at the Deutsche Bank Technology Conference instead of at a company event, especially with the conference coming just two weeks after 2026 FQ4 earnings. One investor went as far as to call it "inappropriate". Even investors who used softer language observed that the decision likely rewards investors who more regularly trade around bank conferences compared to ones with longer duration, and argued that this may serve to skew the investor base more towards fast money.

The conventional narrative among hedge funds was that, scale-up optics would provide the next leg of growth, and while scale-up optics were a matter of "when", not "if", the "when" still mattered enormously to the stocks. Since co-packaged optics (CPO) is presented as a catalyst for adoption of scale-up optics, the debate around the adoption timeline for scale-up optics often translates into a debate about the timing of CPO. However, while investors lacked confidence that CPO at-scale in 2028 was achievable, investors appeared to be growing more confident that near-packaged optics (NPO) would serve as an adequate backup plan to drive optical adoption.

- **Scale-up optics will drive the next leg of growth, but the timing matters.** Investors generally agreed that scale-up optics would drive the next leg of growth in optical modules, as the effective reach of copper reached practical limits (Exhibit 1), and that scale-up optics adoption was a question of "when", not "if". However, investors also argued that the timing of adoption was immensely important. While InP supply and demand is difficult to model, investor conviction is supported by CEO Michael Hurlston's comments that supply is sold out through 2029. However, the company's supply/demand forecast seems to bake in scale-up and CPO adoption in 2028. Accordingly, bears argue that, since both Lumentum and Coherent's economics depend on the InP bottleneck (Exhibit 2) if CPO adoption is delayed, scale-up adoption would also be delayed, and the supply/demand outlook would then look a lot worse.

- **CPO is presented as an adoption catalyst, and the CPO data points sound bad…** Investors highlighted Asia checks that suggested that Hon Hai is producing 10k CPO switches in Q4 and plans to produce 30k in 2027. While we were not able to verify these checks, we agree that these numbers sound bad: Even if these switchers were $50k each (which would likely be higher than the cost of a scale-up switch), this would point to ~2% of 2026 revenues coming from CPO, with 2027 volumes lagging even the annualized run-rate. We continue to lack confidence that the fiber mislaignment issues that

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appear to bottleneck CPO production can be solved in the near term, and accordingly also lack confidence that CPO can be deployed at scale by 2028.

- **…but is CPO really as important as it sounds, given NPO could be ready in 2027?** However, investors also appeared to be warming up to the view that the debate has perhaps been overly fixated on CPO. NPO (Exhibit 3) exists as a technology in large part because it captures most of the benefits of CPO while being much easier to manufacture. Accordingly, investors appear increaisngly comfortable with the view that, even if CPO adoption continues to lag, NPO would be an adequate alternative for scale-up optics, especially given industry reports that NPO could be ready in 2027.

- **Recap: the CPO manufacturability issue appears to stem from fiber alignment.** As a reminder to investors not tracking the debate closely, concerns about CPO manufacturability first surfaced after TSMC COUPE yields were reported at 95%, implying 20% yields on the whole switch (given 32 COUPEs per switch). Our understanding is that this issue essentially stems from fiber misalignment: in order to fit optics within the semiconductor packaging, the optical engines need to be soldered on to the switch board. However, because optical fibers have a low melting point and cannot withstand the heat of soldering, they then need to be attached afterwards. Accordingly, misaligning a single optical fiber during attachment will ruin the optical engine, and given that they are soldered on, one ruined optical engine ruins the whole switch. NPO resolves this issue because the optical engines are instead attached via a socket that connects through the packaging. This means that fibers can be attached to the optical engine and tested before inserting OEs into the socket, and so the whole process is done with yielded OEs.

However, outside of the conventional narrative, investors also raised concerns about the growing intensity of competition from Asian players and raised questions about the depth of the technology moat, especially if VCSELs or microLEDs can be used for scale-up NPO.

- **Competition from Asian competitors is intensifying.** Asia based investors highlighted the increasing intensity of Asian competition, with many players adding capacity, especially in China, including some reports that CW lasers are now in oversupply. While US investors responded that the US names had a regulatory moat, given that the administration is unlikely to allow the import of Chinese-made lasers. However, other investors pushed back, arguing that even if the Chinese players will not be allowed to export to the US, import substitution and potentially exports to other non-US markets would clearly be negative for the industry-wide supply/demand balance.

- **Lumentum and Coherent's dominance in high-power lasers was seen as the deepest moat, but investors questioned whether the use of lower-power VCSELs or microLEDs for scale-up NPO might weaken the technology advantage.** Lumentum and Coherent's dominance in high-power lasers was seen as the deepest moat, especially given Chinese competitors continue to lag in that area. However, investors questioned whether or not lower-power VCSELs or microLEDs might be sufficient for scale-up NPO, especially after Coherent and AMS-Osram's presentations at ECOC. Ashkan Seyedi (formerly Nvidia's lead for technical product marketing on CPO and pluggable interconnect) moving from Nvidia to AMS-Osram was also seen as a stamp of approval for AMS-Osram's microLED approach. Investors in turn worried that the shift to lower-power lasers for scale-up could reduce the relevance of Lumentum and Coherent's technology advantage in higher power lasers. We believe that the technology risk could be material, and see both as areas where we need to continue to do deeper work.

Optical circuit switching (OCS) also attracted interest. We roughly size the market at ~$6B, but lack confidence in the growth trajectory. We anchor to reports that the MEMs OCS solution Lumentum is producing for Google costs ~$600 per port, and estimate OCS content at $154k per rack for TPU v7 Ironwood (Exhibit 4 - for more details see: AI Value Chain: How much does a GW of AI ASIC data center capacity actually cost?). Layering on Bernstein's Asia semiconductor team's estimates for 2.6M ASIC units for TPU v7 (and 64 ASICs per rack) implies 40k racks and $6.1B in demand for 2026. However, we remind investors that despite having "switch" in the name, OCS is not a true replacement for conventional switching; Google's networking fabric depends on combining OCS with its inter-chip interconnect solution. Accordingly, adopting OCS at scale requires significant redesign of the rack architecture. Despite clear interest and experimentation, we are unsure whether other players will invest in redesigning the rack at that level, and accordingly unsure of the growth trajectory for OCS.

While conversations typically started on Lumentum, EPS numbers were hotly debated, and hedge fund investors appeared to be warming to Coherent, especially given that the valuation gap between the two has widened.

- **Lumentum was generally seen as a stronger company than Coherent, given that it is perceived as having clearer technology leadership.** The pitch from investors seemed clear. The technology moat is largely on the fact that Asian competitors were unable to make competitive high end lasers. Lumentum makes the highest power lasers, and therefore it

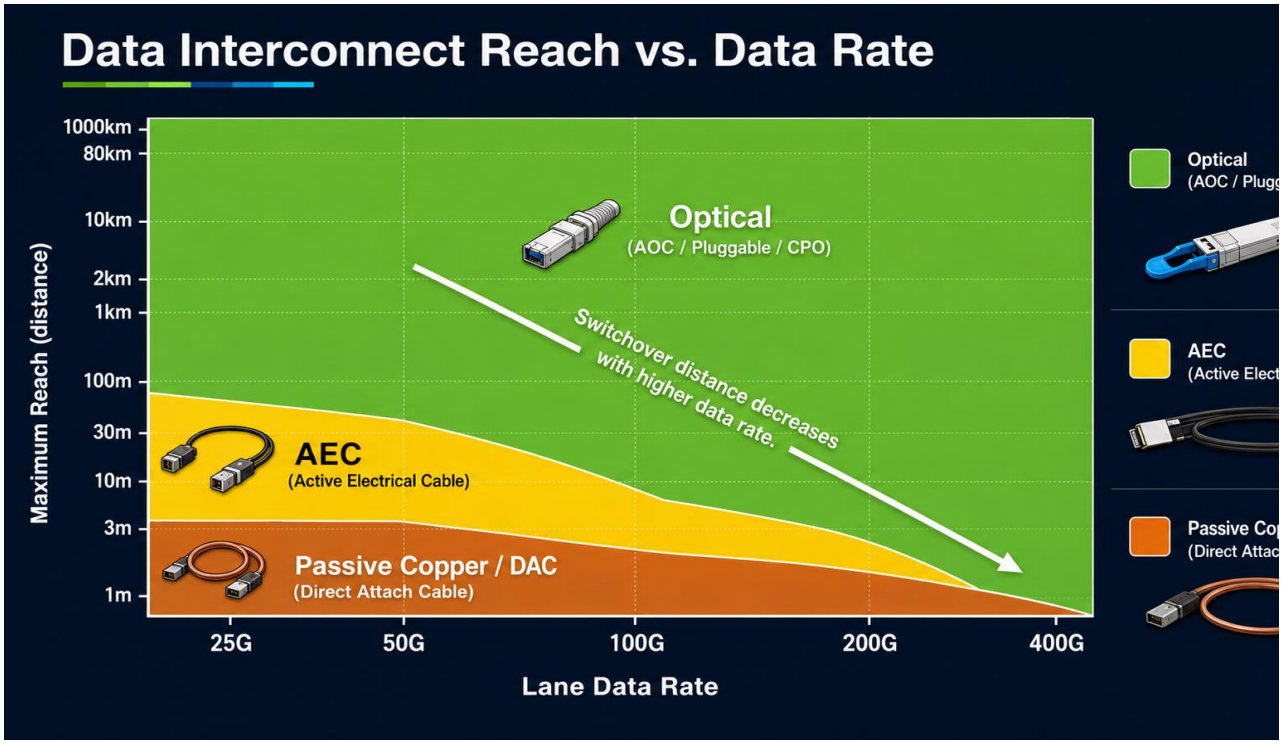
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is the technology leader and has the deepest moat. Investors also generally agreed with the view that Lumentum had higher operating leverage (Exhibit 5). Investors also questioned why Coherent has not seen a clearer margin impact from the 6 inch wafer ramp.

- **However, EPS numbers for Lumentum were hotly debated, with some investors seeing $40 in 2028 EPS as a ceiling for revisions and others seeing a path to $55.** The range in estimates for Lumentum seemed wide. Some investors argued that, following the $40 guide and including OCS, near-term numbers for Lumentum were likely capped, with most potential upside levers baked into numbers, and accordingly veiwed Lumentum as a potential funding short for other high-momentum longs. Conversely, other investors believe there is still more upside, and see a path to $55 or more in 2028 EPS.
- **Investors also believe that this preference is already reflected in the price, given the widening valuation gap, with some investors appearing to flip to being long Coherent instead of Lumentum.**

On net, we update our Lumentum estimates to reflect updated guidance, and maintain our Outperform rating on both Lumentum and Coherent. We acknowledge that we need to do more work to build further conviction, especially around the technology debates, which we see as material to the investment thesis. However, we believe risk-reward on both names skews positive, given 1) high likelihood of beats and raises for the next few quarters, 2) the technology debate, while real and material, is unlikely to shift before OFC, and 3) OFC has historically been a postive catalyst for the sub-sector. Accordingly, we are comfortable recommending that investors maintain long / overweight positions while digging deeper into these questions, and maintain our Outperform ratings on both Lumenutm and Coherent.

EXHIBIT 1: **Data Interconnect Reach by Data Rate**

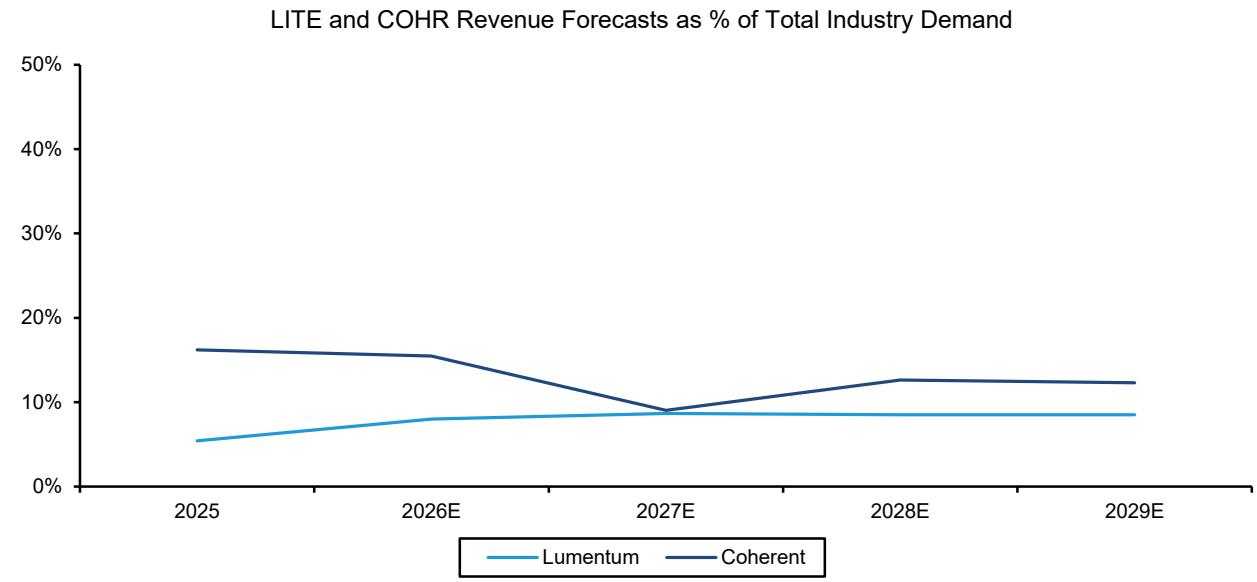


Source: Atlantec, T. Pasemiconductor, "OFC 2026 Outlook: AI Data Center Optical Interconnect Trends", Perplexity

Note: Prepared by Perplexity

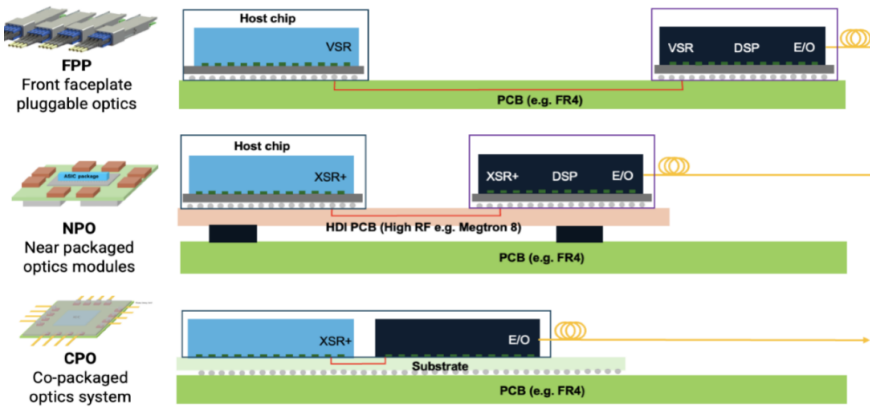
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EXHIBIT 2: **We expect optical demand to exceed supply through 2028 and see limited risk of a new entrant disrupting the LITE/COHR duopoly**



Source: Dell'Oro, Bernstein estimates and analysis

EXHIBIT 3: **Optical stocks sold off on negative CPO headlines, which we see as unwarranted as CPO yield issues would likely spur a shift to NPO**



Source: Senko, Resolute Photonics

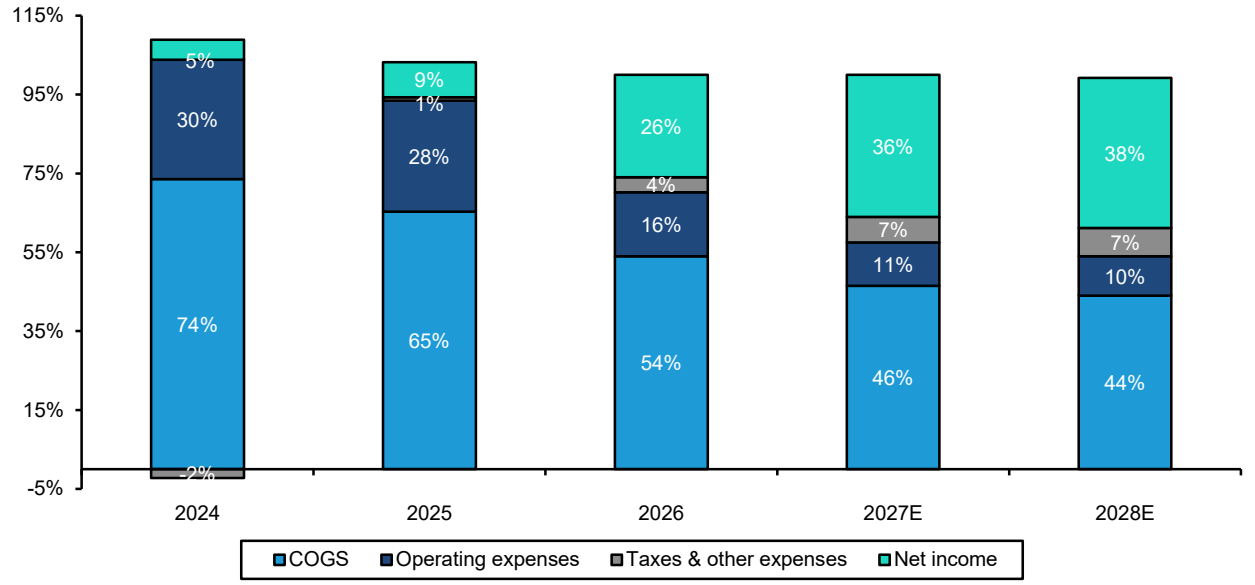
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EXHIBIT 4: **Datacenter XPU Pod Capex Breakdown by Architecture**

	Nvidia			AMD	Google	OpenAI
	H100 DGX x8	GB200 NVL 72	VR NVL 72	MI455X Helios	TPU v7 Ironwood	Jalapeno
		4	225			
$K / Rack						
CPU ex. DRAM	34	92	180	268	32	320
DRAM	263	280	888	1,212	126	395
CPU	**297**	**372**	**1,068**	**1,481**	**158**	**715**
XPU ex. HBM	182	2,112	3,960	2,520	1,408	2,034
HBM	59	300	697	952	275	846
XPU	**240**	**2,412**	**4,657**	**3,472**	**1,683**	**2,880**
Computing sub-total	**537**	**2,784**	**5,725**	**4,952**	**1,841**	**3,595**
Front-end		144	80	70		32
Scale-up Switches		180	277	200		300
OCS					154	77
Cabling		123	158	140	43	194
Backplanes & Other		102	154	250	102	102
Scale-up		**405**	**589**	**590**	**299**	**673**
SuperNICS	**112**	144	198	324		0
Scale-out Switching		108	108	237	113	0
Transceivers		127	194	245	128	109
Scale-out	**22**	**380**	**500**	**806**	**241**	**0**
Networking sub-total	**134**	**929**	**1,170**	**1,466**	**539**	**814**
Direct-attached Storage	106	222	222	532	92	214
Cooling	16	51	102	102	40	70
Chassis	31	100	100	100	48	96
Power Delivery	14	44	102	80	30	144
Others			100	100	100	100
Pod Total	**838**	**4,130**	**7,520**	**7,333**	**2,691**	**5,032**

Source: Expert Conversations, Company Disclosures, LIterature Search, Channel Checks, Bernstein estimates and analysis

EXHIBIT 5: **LITE Margin Mix**



Source: Company filings, Bernstein estimates and analysis

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APPENDIX - FINANCIAL FORECASTS

EXHIBIT 6: **Lumentum Operating Model**

Lumentum Holdings Inc - Operating Model	6/30/2025	6/30/2026	6/30/2027	6/30/2028	9/30/2024	12/31/2024	3/31/2025	6/30/2025	9/30/2025	12/31/2025	3/31/2026	6/30/2026	9/30/2026	12/31/2026	3/31/2027	6/30/2027
In US$ M unless otherwise specified	2025A	2026A	2027E	2028E	1Q25A	2Q25A	3Q25A	4Q25A	1Q26A	2Q26A	3Q26A	4Q26A	1Q27E	2Q27E	3Q27E	4Q27E
Revenue Drivers																
Revenue																
Components	1,116.3	2,005.6	3,928.3	6,481.6	231.4	263.7	300.8	320.4	379.2	443.7	533.3	649.4	777.4	909.6	1,039.9	1,201.4
Systems	528.7	1,008.4	2,574.2	5,222.8	105.5	138.5	124.4	160.3	154.6	221.8	275.1	356.9	477.1	587.8	698.1	811.2
Total Revenue	**1,645.0**	**3,014.0**	**6,502.5**	**11,704.4**	**336.9**	**402.2**	**425.2**	**480.7**	**533.8**	**665.5**	**808.4**	**1,006.3**	**1,254.4**	**1,497.4**	**1,738.1**	**2,012.6**
Revenue Growth																
Revenue growth % (YoY)																
Components		79.7%	95.9%	65.0%					63.9%	68.3%	77.3%	102.7%	105.0%	105.0%	95.0%	85.0%
Systems		90.7%	155.3%	102.9%					46.5%	60.1%	121.1%	122.6%	208.6%	165.0%	153.8%	127.3%
Total Revenue Growth (YoY)	**21.0%**	**83.2%**	**115.7%**	**80.0%**	**6.1%**	**9.7%**	**16.0%**	**55.9%**	**58.4%**	**65.5%**	**90.1%**	**109.3%**	**135.0%**	**125.0%**	**115.0%**	**100.0%**
Industry Model growth				66.3%												
Revenue growth % (QoQ)																
Components						14.0%	14.1%	6.5%	18.4%	17.0%	20.2%	21.8%	19.7%	17.0%	14.3%	15.5%
Systems						31.3%	-10.2%	28.9%	-3.6%	43.5%	24.0%	29.7%	33.7%	23.2%	18.8%	16.2%
Total Revenue Growth (QoQ)					**9.3%**	**19.4%**	**5.7%**	**13.1%**	**11.0%**	**24.7%**	**21.5%**	**24.5%**	**24.7%**	**19.4%**	**16.1%**	**15.8%**
Revenue Mix																
Revenue mix % (YoY)																
Components	67.9%	66.5%	60.4%	55.4%	68.7%	65.6%	70.7%	66.7%	71.0%	66.7%	66.0%	64.5%	62.0%	60.7%	59.8%	59.7%
Systems	32.1%	33.5%	39.6%	44.6%	31.3%	34.4%	29.3%	33.3%	29.0%	33.3%	34.0%	35.5%	38.0%	39.3%	40.2%	40.3%

Source: Company filings, Bernstein estimates and analysis

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EXHIBIT 7: **Lumentum Financial Model**

Lumentum Holdings Inc - Financial Model *In US$ M unless otherwise specified*	6/30/2025 2025A	6/30/2026 2026A	6/30/2027 2027E	6/30/2028 2028E	9/30/2025 1Q26A	12/31/2025 2Q26A	3/31/2026 3Q26A	6/30/2026 4Q26A	9/30/2026 1Q27E	12/31/2026 2Q27E	3/31/2027 3Q27E	6/30/2027 4Q27E
Income Statement												
Non-GAAP Income Statement												
Revenue	**1,645.0**	**3,014.0**	**6,502.5**	**11,704.4**	**533.8**	**665.5**	**808.4**	**1,006.3**	**1,254.4**	**1,497.4**	**1,738.1**	**2,012.6**
COGS	1,073.5	1,627.3	3,021.1	4,915.9	323.5	382.9	421.5	499.4	602.1	703.8	799.5	915.7
Gross Profit	**571.5**	**1,386.7**	**3,481.3**	**6,788.6**	**210.3**	**282.6**	**386.9**	**506.9**	**652.3**	**793.6**	**938.6**	**1,096.9**
Research and development	256.0	304.8	488.9	819.3	69.0	69.9	78.4	87.5	100.4	112.3	130.4	145.9
Sales and marketing	155.4	184.9	228.8	292.6	41.5	45.0	47.8	50.6	50.2	52.4	60.8	65.4
Others	52.9	(0.0)	-	-	(0.0)	-	-	-	-	-	-	-
Opex	**464.3**	**489.7**	**717.8**	**1,111.9**	**110.5**	**114.9**	**126.2**	**138.1**	**150.5**	**164.7**	**191.2**	**211.3**
Operating Income	**160.1**	**897.0**	**2,763.6**	**5,676.7**	**99.8**	**167.7**	**260.7**	**368.8**	**501.8**	**628.9**	**747.4**	**885.5**
Other income (expense), net:	15.2	39.9	40.0	40.0	3.7	4.6	9.6	22.0	10.0	10.0	10.0	10.0
Pre-tax income	**175.3**	**936.9**	**2,803.6**	**5,636.7**	**103.5**	**172.3**	**270.3**	**390.8**	**511.8**	**638.9**	**757.4**	**895.5**
Income Tax	**28.9**	**154.6**	**462.7**	**930.3**	17.1	28.4	44.6	64.5	84.5	105.4	125.0	147.8
Effective Tax Rate %	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*	*16.5%*
Net Income	**146.4**	**782.3**	**2,340.9**	**4,706.4**	**86.4**	**143.9**	**225.7**	**326.3**	**427.3**	**533.4**	**632.4**	**747.7**
Diluted Share Count	71.6	93.4	104.5	116.9	78.3	86.1	95.2	101.1	102.3	103.5	104.9	106.3
Earnings per Share	**2.05**	**8.37**	**22.40**	**40.26**	**1.10**	**1.67**	**2.37**	**3.23**	**$4.18**	**$5.15**	**$6.03**	**$7.04**
Balance Sheet												
Assets												
Accounts Receivable, Net	250	520	1,040.6	1,512.9	307	377	442	520	648.6	774.2	898.7	1,040.6
Inventories	470	692	1,003.5	1,346.8	532	570	633	692	791.8	886.9	963.8	1,003.5
Prepayments and Other Current Assets	120	212	423.2	615.3	125	181	149	212	263.8	314.9	365.5	423.2
Total Current Operating Assets	**840**	**1,424**	**2,467.3**	**3,475.0**	**964**	**1,128**	**1,223**	**1,424**	**1,704.2**	**1,976.0**	**2,227.9**	**2,467.3**
PP&E, Net			*1,886.3*	3,264.6	795	814	964	1,159	*1,297.1*	*1,464.2*	*1,659.3*	*1,886.3*
Goodwill			1,069.3	1,069.3	31	30	27	1,069	1,069.3	1,069.3	1,069.3	1,069.3
Other Intangible Assets, Net			209.1	120.7	1,061	1,061	1,066	327	292.4	261.5	233.8	209.1
Operating Lease Right-of-Use Assets			58.4	84.9	-	-	-	29	36.4	43.4	50.4	58.4
Deferred Tax Assets			1,061.8	1,543.7	431	397	363	531	661.8	790.0	917.0	1,061.8
Other Non-Current Operating Assets			60.4	87.8	6	15	14	30	37.6	44.9	52.2	60.4
Total Non-Current Operating Assets			**4,345.3**	**6,171.0**	**2,323**	**2,316**	**2,434**	**3,146**	**3,394.6**	**3,673.3**	**3,982.0**	**4,345.3**
Cash and Cash Equivalents			2,201.1	4,748.7	772.9	657.7	2617.8	2043.5	2,041.1	2,043.0	2,090.2	2,201.1
Short-Term Investments			694.9	694.9	349	498	555	695	694.9	694.9	694.9	694.9
Restricted cash			-	-	205	206	198	-	-	-	-	-
Total Non-Operating Assets			**2,896.0**	**5,443.6**	**1,326**	**1,361**	**3,370**	**2,738**	**2,736.0**	**2,737.9**	**2,785.1**	**2,896.0**
Liabilities												
Accounts Payable			1,103.9	1,481.5	279	347	393	567	725.9	848.4	963.8	1,103.9
Accrued Payroll and Related Expenses			292.6	425.4	69	85	110	146	182.4	217.7	252.7	292.6
Accrued Expenses			*129.8*	188.7	46	39	49	65	80.9	96.6	112.1	129.8
Operating Lease Liabilities			*67.6*	98.3	37	35	32	34	42.1	50.3	58.4	67.6
Other Current Liabilities			183.0	266.1	42	43	63	92	114.1	136.2	158.0	183.0
Total Operating Liabilities			**1,776.9**	**2,460.0**	**472**	**550**	**646**	**904**	**1,145.3**	**1,349.1**	**1,545.0**	**1,776.9**
Other Non-Current Liabilities			**115.2**	115.2	111	116	121	115	115.2	115.2	115.2	115.2
Debt			*1,637.4*	1,637.4	3,244	3,287	3,282	1,637	**1,637.4**	**1,637.4**	**1,637.4**	**1,637.4**
Deferred Tax Liabilities			7.0	7.0	6	6	5	7	7.0	7.0	7.0	7.0
Total Non-Operating Liabilities			**1,759.6**	1,759.6	**3361**	**3409**	**3408**	**1760**	1,759.6	1,759.6	1,759.6	1,759.6
Stockholders' Equity												
Common Stock			0.1	0.1	0	0	0	0	0.1	0.1	0.1	0.1
Additional Paid-In Capital			12,686.1	13,082.7	1,629	1,616	3,601	12,430	12,483.8	12,542.5	12,610.7	12,686.1
Retained Earnings			(6,524.2)	(2,222.8)	(857)	(779)	(635)	(7,796)	(7,564.1)	(7,274.2)	(6,930.5)	(6,524.2)
Accumulated Other Comprehensive Income			10.1	10.1	9	9	7	10	10.1	10.1	10.1	10.1
Total Stockholders' Equity			**6,172.1**	**10,870.1**	**781**	**847**	**2,973**	**4,644**	**4,929.9**	**5,278.5**	**5,690.4**	**6,172.1**
Check			-	-	-	-	-	-	-	-	-	-
Total Liabilities and Stockholders' Equity			*9,708.6*	15,089.7	4613.1	4805.3	7027.9	7307.4	**7,834.8**	**8,387.2**	**8,995.0**	**9,708.6**
Cash Flow												
Cash flows from operating activities												
Net income	**26**	**(6,935)**	**1,272.1**	**4,301.4**	**4**	**78**	**144**	**(7,162)**	232.2	289.9	343.6	406.3
Depreciation	**104**	**129**	**155.0**	**209.6**	28	31	33	38	**32.2**	**36.0**	**40.7**	**46.1**
Amortization	152	138	117.8	88.4	34	34	34	36	34.6	30.9	27.6	24.7
Stock-based compensation	177	170	256.0	396.6	42	45	42	41	53.7	58.7	68.2	75.4
Other	(19)	7,541	-	-	4	11	(2)	7,528	-	-	-	-
Change in Working Capital	(315)	(292)	(761)	(860)	(55)	(73)	(47)	(118)	(185)	(211)	(197)	(169)
Net cash provided by operating activities	126	751	1,039.8	**4,135.6**	**58**	**127**	**204**	**363**	**167.8**	**205.0**	**283.0**	**384.0**
Cash flows from investing activities												
Capex, net	(231)	(409)	(882)	(1,588)	(76)	(84)	(85)	(164)	(170.2)	(203.1)	(235.8)	(273.0)
Acquisitions	-	(38)	-	-	-	-	(36)	-	-	-	-	-
Investing	99	(339)	-	-	8	(148)	(59)	(140)	-	-	-	-
Other	48	0	-	-	-	-	-	0	-	-	-	-
Net cash provided by/(used in) investing activiti	**(84)**	**(786)**	**(882)**	**(1,588)**	**(68)**	**(231)**	**(182)**	**(304)**	(170.2)	(203.1)	(235.8)	(273.0)
Cash flows from financing activities												
Debt and preferreds	83.5	1556.9	-	-	1,153	50	988	(633)	-	-	-	-
Common Dividends	-41.7	0	-	-	(47)	(60)	107	-	-	-	-	-
Equity Issuances and buybacks	0	0	-	-	(843)	-	843	-	-	-	-	-
Net cash provided by/(used in) financing activiti	**42**	**1,557**	**-**	**-**	**262**	**(11)**	**1,938**	**(633)**	-	-	-	-
Cash reconciliation												
Effect of exchange rate changes on cash, cash equiv	0	-	-	-	-	-	-	-	-	-	-	-
Net change in cash, cash equivalents and restri	**84**	**1,523**	**158**	**2,547.6**	**252**	**(115)**	**1,960**	**(574)**	(2.4)	1.9	47.2	110.9

Source: Company filings, Bernstein estimates and analysis

on 12-Oct-2026

EXHIBIT 8: **Coherent Operating Model**

Coherent Corp - Balance Sheet *In US$ M unless otherwise specified*	12/31/2025 2025A	12/31/2026 2026A	12/31/2027 2027E	9/30/2024 1Q25A	12/31/2024 2Q25A	3/31/2025 3Q25A	6/30/2025 4Q25A	9/30/2025 1Q26A	12/31/2025 2Q26A	3/31/2026 3Q26A	6/30/2026 4Q26A	9/30/2026 1Q27E	12/31/2026 2Q27E	3/31/2027 3Q27E	6/30/2027 4Q27E
Revenue Drivers															
Revenue															
Datacenter & Communications	**3,755.2**	**5,274.6**	**8,955.5**	**863.6**	**904.5**	**969.0**	**1,018.0**	**1,090.0**	**1,208.0**	**1,361.6**	**1,615.0**	**1,874.8**	**2,113.9**	**2,382.8**	**2,584.0**
Industrial	2,054.6	1,843.6	1,891.4	484.5	530.1	529.0	511.0	491.4	477.7	444.0	430.5	497.3	498.8	452.0	443.3
Total Revenue	**5,810**	**7,118.1**	**10,846.9**	**1,348.1**	**1,434.7**	**1,498.0**	**1,529.5**	**1,581.4**	**1,685.6**	**1,805.6**	**2,045.5**	**2,372.1**	**2,612.7**	**2,834.8**	**3,027.3**
Revenue Growth															
Revenue growth % (YoY)															
Datacenter		41.4%						23.0%	36.0%	37.0%	66.0%				
Communications		39.1%						30.7%	30.2%	45.8%	48.3%				
Datacenter & Communications		40.5%	69.8%					26.2%	33.5%	40.5%	58.6%	72.0%	75.0%	75.0%	60.0%
Industrial		-10.3%	2.6%					1.4%	-9.9%	-16.1%	-15.8%	1.2%	4.4%	1.8%	3.0%
Total Revenue Growth (YoY)	**23.4%**	**22.5%**	**52.4%**	**28.0%**	**26.8%**	**23.9%**	**16.4%**	**17.3%**	**17.5%**	**20.5%**	**33.7%**	**50.0%**	**55.0%**	**57.0%**	**48.0%**
Industry Model Growth															
Revenue growth % (QoQ)															
Datacenter					3.1%	12.2%	2.3%	4.0%	14.0%	13.0%	23.9%				
Communications					7.0%	0.4%	9.2%	11.4%	6.7%	12.3%	11.2%				
Datacenter & Communications					4.7%	7.1%	5.1%	7.1%	10.8%	12.7%	18.6%	16.1%	12.8%	12.7%	8.4%
Industrial					9.4%	-0.2%	-3.4%	-3.8%	-2.8%	-7.1%	-3.0%	15.5%	0.3%	-9.4%	-1.9%
Total Revenue Growth (QoQ)				**2.6%**	**6.4%**	**4.4%**	**2.1%**	**3.4%**	**6.6%**	**7.1%**	**13.3%**	**16.0%**	**10.1%**	**8.5%**	**6.8%**
Operating Profit Decomposition															
Statement of Operations															
Total revenue	**5,810.3**	**7,118.1**	**10,846.9**	**1,348.1**	**1,434.7**	**1,498.0**	**1,529.5**	**1,581.4**	**1,685.6**	**1,805.6**	**2,045.5**	**2,372.1**	**2,612.7**	**2,834.8**	**3,027.3**
Cost of revenue	3,595	4,311.6	6,399.7	839.5	886.7	921.2	947.4	968.8	1,028.5	1,091.4	1,222.9	1,399.5	1,541.5	1,672.5	1,786.1
Gross profit	**2,215**	**2,806.5**	**4,447.2**	**508.6**	**548.0**	**576.8**	**582.1**	**612.6**	**657.1**	**714.2**	**822.6**	**972.6**	**1,071.2**	**1,162.3**	**1,241.2**
Operating expenses:															
Research and development	553	693.4	1,084.7	124.3	137.4	141.2	149.7	147.9	158.8	178.4	208.3	237.2	261.3	283.5	302.7
Sales and marketing	611	656.3	813.5	151.8	145.7	156.3	157.3	155.8	162.3	169.7	168.5	177.9	196.0	212.6	227.1
Others	0	(0.1)	-	0.1	0.0	0.2	(0.0)	0.1	(0.1)	-	-	-	-	-	-
Total operating expenses	**1,163**	**1,349.7**	**1,898.2**	**276.0**	**283.1**	**297.4**	**307.0**	**303.6**	**321.2**	**348.1**	**376.8**	**415.1**	**457.2**	**496.1**	**529.8**
Income from operations	**1,052**	**1,456.8**	**2,549.0**	**232.6**	**264.9**	**279.4**	**275.1**	**309.0**	**335.9**	**366.1**	**445.8**	**557.4**	**614.0**	**666.2**	**711.4**

Source: Company filings, Bernstein estimates and analysis



on 12-Oct-2026

EXHIBIT 9: **Coherent Financial Model**

Coherent Corp - Financial Model	6/30/2024	6/30/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2024	12/31/2024	3/31/2025	6/30/2025	9/30/2025	12/31/2025	3/31/2026	6/30/2026
In US$ M unless otherwise specified	2024A	2025A	2026A	2027E	2028E	1Q24A	2Q24A	3Q24A	4Q24A	1Q25E	2Q25E	3Q25E	4Q25E
Income Statement													
Non-GAAP Income Statement													
Revenue	4,707.7	5,810.3	7,118.1	10,946.9	16,270.4	1,081.4	1,085.6	1,085.6	2,045.5	2,372.1	2,412.7	2,434.8	3,027.3
COGS	3,028.2	3,608.1	4,311.6	6,399.7	9,274.1	668.8	1,028.5	1,091.4	1,222.9	1,399.5	1,541.5	1,672.5	1,786.1
Gross Profit	**1,679.5**	**2,202.2**	**2,806.5**	**4,447.2**	**6,996.3**	**612.6**	**657.1**	**714.2**	**822.6**	**972.6**	**1,071.2**	**1,162.3**	**1,241.2**
Research and development	443.8	554.2	693.4	1,084.7	1,627.0	147.9	156.8	178.4	208.3	237.2	261.3	283.5	302.7
Sales and marketing	540.7	611.2	656.3	813.5	1,220.3	155.8	162.3	169.7	168.5	177.9	196.0	212.6	227.1
Others	0.2	0.2	(0.1)	-	-	0.1	(0.1)	-	-	-	-	-	-
Opex	**989.3**	**1,165.2**	**1,349.7**	**1,898.2**	**2,847.3**	**303.6**	**321.2**	**348.1**	**376.8**	**415.1**	**457.2**	**496.1**	**529.8**
Operating Income	**690.2**	**1,037.0**	**1,456.8**	**2,549.0**	**4,148.9**	**309.0**	**335.9**	**366.1**	**445.8**	**557.4**	**614.0**	**666.2**	**711.4**
Other income (expense), net	(232.3)	(167.3)	(118.1)	(167.1)	(167.1)	(37.6)	(33.2)	(29.7)	(17.6)	(44.5)	(45.2)	(41.3)	(36.1)
Pre-tax income	**457.9**	**869.7**	**1,338.7**	**2,382.0**	**3,981.9**	**271.4**	**302.7**	**336.4**	**428.2**	**512.9**	**568.8**	**624.9**	**675.4**
Income Tax	(94.2)	(184.0)	(254.7)	(452.6)	(756.6)	(51.6)	(57.6)	(64.1)	(81.4)	(97.5)	(108.1)	(118.7)	(128.3)
Effective Tax Rate %	-20.6%	-21.2%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.1%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
Non-controlling interest	2.6	7.0	12.3	6.4	6.4	1.1	2.9	3.9	4.4	0.5	3.2	1.6	1.1
Net Income	**366.3**	**692.7**	**1,096.4**	**1,935.8**	**3,231.7**	**220.9**	**248.0**	**276.2**	**351.2**	**416.0**	**463.9**	**507.8**	**548.2**
Diluted Share Count	232.84	196.04	196.47	203.52	204.97	190.7	192.8	196.4	202.2	202.7	203.2	203.8	204.4
Earnings per Share	**1.57**	**3.53**	**5.58**	**9.51**	**15.77**	**1.16**	**1.28**	**1.41**	**1.74**	**2.05**	**2.28**	**2.49**	**2.68**
Balance Sheet													
Assets													
Accounts receivable	848.5	964.1	1,343.3	1,988.1	2,982.1	1,027	1,055	1,188	1,343.3	1,557.8	1,715.8	1,861.6	1,988.1
Inventories	1,286.4	1,437.6	2,581.0	3,769.7	5,462.9	1,633	1,848	2,127	2,581.0	2,953.8	3,253.4	3,530.0	3,769.7
Prepaid and other current assets	425.1	607.4	979.0	1,448.9	2,173.4	507	592	671	979.0	1,135.3	1,250.5	1,356.8	1,448.9
Current Operating Assets	2,560.1	3,009.1	4,903.3	7,206.7	10,618.4	**3,167**	**3,494**	**3,986**	**4,903.3**	**5,646.9**	**6,219.6**	**6,748.4**	**7,206.7**
Property, plant and equipment, net	1,817.3	1,877.5	2,999.3	3,689.4	5,423.5	1,944	2,117	2,420	2,999.3	3,199.9	3,380.5	3,543.1	3,689.4
Goodwill	4,464.3	4,471.1	4,375.6	4,495.7	4,331.5	4,475	4,463	4,402	4,375.6	4,619.5	4,577.9	4,536.6	4,495.7
Intangible Assets, Net	3,503.2	3,264.7	2,884.5	2,963.7	2,855.4	3,133	3,064	2,958	2,884.5	3,045.3	3,057.8	2,969.6	2,963.7
Other Non-Current Assets	313.1	662.2	474.3	702.0	1,052.9	373	352	398	474.3	559.0	665.8	857.3	762.8
Non-Current Operating Assets	10,097.9	10,315.6	10,733.7	11,850.8	13,663.3	**9,925**	**9,996**	**10,179**	**10,733.7**	**11,414.7**	**11,582.0**	**11,727.6**	**11,858.8**
Cash and cash equivalents	925.0	909.2	1,162.0	725.6	136.1	852.8	863.7	1,592.7	1,162.0	545.3	535.2	593.0	725.6
Restricted cash, total current and non-current	863.7	723.7	606.4	606.4	606.4	700.1	685.1	633.0	606.4	606.4	606.4	606.4	606.4
Investments, short and long-term	-	-	825.0	825.0	825.0	-	-	825.0	825.0	825.0	825.0	825.0	825.0
Deferred Tax	41.0	53.4	69.4	69.4	69.4	53.9	69.1	72.1	69.4	69.4	69.4	69.4	69.4
Non-Operating Assets	**1,830.7**	**1,686.3**	**2,662.8**	**2,226.4**	**1,636.9**	**1,607**	**1,598**	**3,123**	**2,662.8**	**2,046.1**	**2,036.0**	**2,093.8**	**2,226.4**
Total Assets	14,488.6	14,910.9	**18,299.9**	**21,283.9**	**25,918.6**	**14,699**	**15,088**	**17,287**	**18,299.9**	19,107.7	19,837.6	20,569.8	21,283.9
Liabilities													
Accounts payable	631.5	847.0	1,965.4	2,783.0	4,032.9	953.9	1,118.5	1,343.4	1,965.4	2,180.6	2,401.8	2,606.0	2,783.0
Accruals and other current liabilities	597.9	718.0	879.3	1,361.4	1,952.0	692.3	683.1	708.6	879.3	1,019.7	1,123.1	1,218.6	1,301.4
Operating lease liabilities, current and non-curre	202.9	206.7	316.2	468.0	702.0	198.1	194.7	231.3	316.2	368.7	403.9	438.2	468.0
Other liabilities	225.4	259.3	198.2	293.3	440.0	229.9	208.1	198.2	198.2	229.8	253.2	274.7	293.3
Operating Liabilities	1,657.8	2,031.0	3,298.1	4,845.6	7,127.0	**2,074.1**	**2,204.3**	**2,475.5**	**3,359.1**	**3,796.8**	**4,181.9**	**4,537.4**	**4,845.6**
Debt, short and long term	4,930.2	3,886.9	3,222.2	3,222.2	3,222.2	3,307.8	3,351.9	3,193.8	3,222.2	3,222.2	3,222.2	3,222.2	3,222.2
Deferred Income Taxes	784.4	711.7	540.6	540.6	540.6	629.5	643.3	605.8	540.6	540.6	540.6	540.6	540.6
Capital Lease Obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Liabilities	**4,894.6**	**4,398.6**	**3,762.8**	**3,762.8**	**3,762.8**	**3,937.3**	**3,995.1**	**3,799.6**	**3,762.8**	3,762.8	3,762.8	3,762.8	3,762.8
Total Liabilities	**6,542.4**	**6,429.7**	**7,061.7**	**8,608.4**	**10,889.8**	6,011.4	6,199.4	6,271.0	7,061.7	7,559.6	7,944.7	8,300.2	8,608.4
Equity													
Total Mezzanine Equity	2,364.8	2,483.3	-	-	-	2,505	-	-	-	-	-	-	-
Total Coherent Corp. Shareholders' Equity	**5,210.1**	**5,644.5**	**10,903.5**	**12,340.7**	**14,694.1**	5,830	8,539	10,677	10,904	**11,213.4**	**11,558.1**	**11,934.9**	**12,340.7**
Noncontrolling interests	**371.4**	**353.5**	**334.7**	**334.7**	**334.7**	352	349	339	335	**334.7**	**334.7**	**334.7**	**334.7**
Total Equity	**7,946.3**	**8,481.3**	**11,238.2**	**12,675.4**	**15,028.8**	**8,687**	**8,888**	**11,016**	**11,238**	**11,548.1**	**11,892.8**	**12,269.6**	**12,675.4**
Book value per share	52.87	54.54	55.58	62.02	73.32	**45.56**	**46.11**	**56.09**	**55.58**	56.97	58.52	60.21	62.02
Cash Flow													
Cash flows from operating activities													
Net income	**(158.8)**	**30.1**	**786.9**	**1,165.7**	**1,946.1**	**225.2**	**143.8**	**101.7**	**236.2**	**250.5**	**279.4**	**305.0**	**330.1**
Depreciation	271.6	250.8	241.6	1,309.9	1,517.9	53.0	55.5	62.4	70.7	299.4	319.4	337.4	353.7
Amortization	288.2	302.8	280.3	275.0	268.7	69.4	70.5	70.5	69.9	69.7	69.1	68.4	67.8
Stock-based compensation	126.0	160.2	186.5	271.5	407.3	44.1	42.8	49.1	50.4	59.4	65.4	71.0	75.8
Other, Net	(85.7)	97.8	(313.6)	(701.7)	(459.6)	(187.2)	4.7	(65.2)	(65.8)	(549.7)	(55.8)	(51.5)	(44.6)
Change in Operating Assets and Liabilities	104.3	(208.1)	(1,102.2)	(756.9)	(1,130.4)	(158.6)	(259.4)	(392.3)	(291.9)	(245.9)	(187.6)	(173.2)	(150.2)
Net cash provided by operating activities	**545.7**	**633.6**	**79.5**	**1,563.6**	**2,550.1**	**46.0**	**57.9**	**(93.8)**	**69.4**	**(116.7)**	**489.8**	**557.9**	**632.5**
Sum - Total	-	-	-	-	-	-	-	-	-	-	-	-	-
Check													
Cash flows from investing activities													
Capital Expenditure and Capitalized Software Develo	(346.8)	(440.8)	(1,102.9)	(2,000.0)	(3,139.6)	(103.9)	(153.6)	(289.7)	(555.7)	(500.0)	(500.0)	(500.0)	(500.0)
Acquisitions, net of divestitures	-	27.0	429.8	-	-	391.1	(5.3)	51.5	(7.5)	-	-	-	-
Purchases of investments, net of sales	-	-	(735.6)	-	-	9.6	21.9	(807.7)	40.6	-	-	-	-
Other	(0.0)	(0.0)	(5.0)	-	-	(0.0)	(0.0)	(5.0)	0.0				
Net cash provided by/(used in) investing activit	**(350.7)**	**(414.2)**	**(1,413.7)**	**(2,000.0)**	**(3,139.6)**	**298.8**	**(136.9)**	**(1,049.4)**	**(522.6)**	**(500.0)**	**(500.0)**	**(500.0)**	**(500.0)**
Sum - Total	4.0	-	(1.0)	-	-	-	1.0	(2.0)	-	-	-	-	-
Cash flows from financing activities													
Debt proceeds net of payments	(209.8)	(383.3)	(487.3)	-	-	(317.2)	215.5	(411.9)	26.3	-	-	-	-
Equity issuance net of buybacks	42.3	49.6	2,052.4	-	-	21.3	8.8	2,021.7	0.6	-	-	-	-
Dividends	-	(11.4)	(11.4)	-	-	(11.4)	-	-	0.0	-	-	-	-
Other	925.8	(106.6)	(76.4)	-	-	(114.2)	(181.2)	244.6	(25.6)	-	-	-	-
Net cash provided by/(used in) financing activit	**758.3**	**(451.7)**	**1,477.1**	-	-	**(421.5)**	**43.1**	**1,854.3**	**1.2**	-	-	-	-
Sum - Total	-	-	-	-	-	-	-	-	-	-	-	-	-
Check													
Cash reconciliation													
Effect of exchange rate changes on cash, cash equiva	(1.2)	75.6	(7.4)	-	-	(1.3)	13.5	(14.2)	(5.4)				
Net change in cash, cash equivalents and restr	**952.1**	**(156.8)**	**135.5**	**(436.4)**	**(589.5)**	**(89.0)**	**(24.1)**	**697.8**	**(457.4)**	**(616.7)**	**(10.2)**	**57.9**	**132.5**

Source: Company filings, Bernstein estimates and analysis

on 12-Oct-2026

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VALUATION METHODOLOGY

Lumentum Holdings Inc

We apply a ~35x multiple to our estimate of $35 in FY 28 EPS, and set our price target at $1,220.

Coherent Corp

We apply a ~22x multiple to our estimate of $16 in FY 28 EPS, and set our price target at $350.

RISKS

Lumentum Holdings Inc

Greater adoption of CW+SiPh lasers eases the InP bottleneck, reducing Lumentum and Coherent's pricing power

China retaliates against US sanctions/tariffs on transceivers with export restrictions on InP, choking off supply

Optical adoption lags amid continued CPO yield issues

AI adoption decelerates, in turn leading to reduced investment in AI infrastructure

Coherent Corp

Greater adoption of CW+SiPh lasers eases the InP bottleneck, reducing Lumentum and Coherent's pricing power

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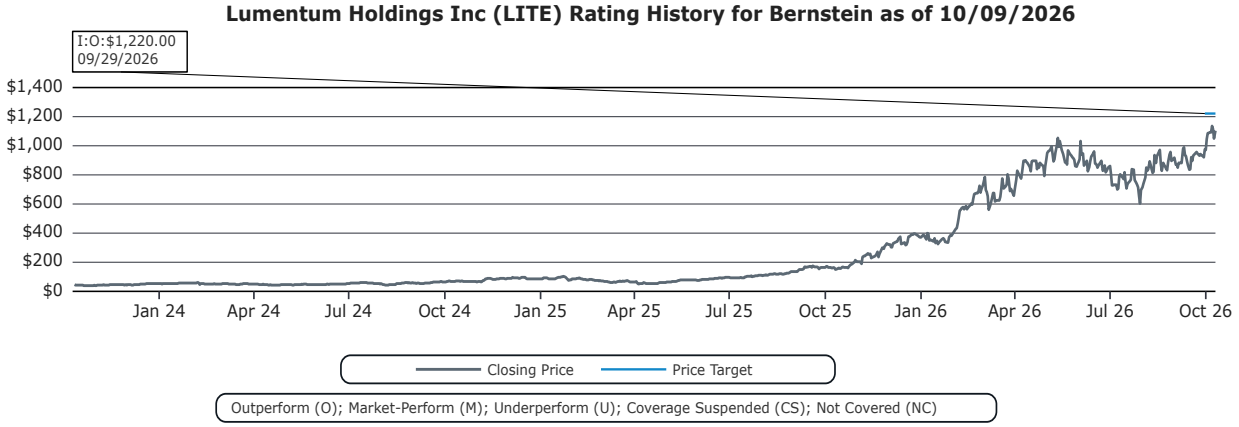
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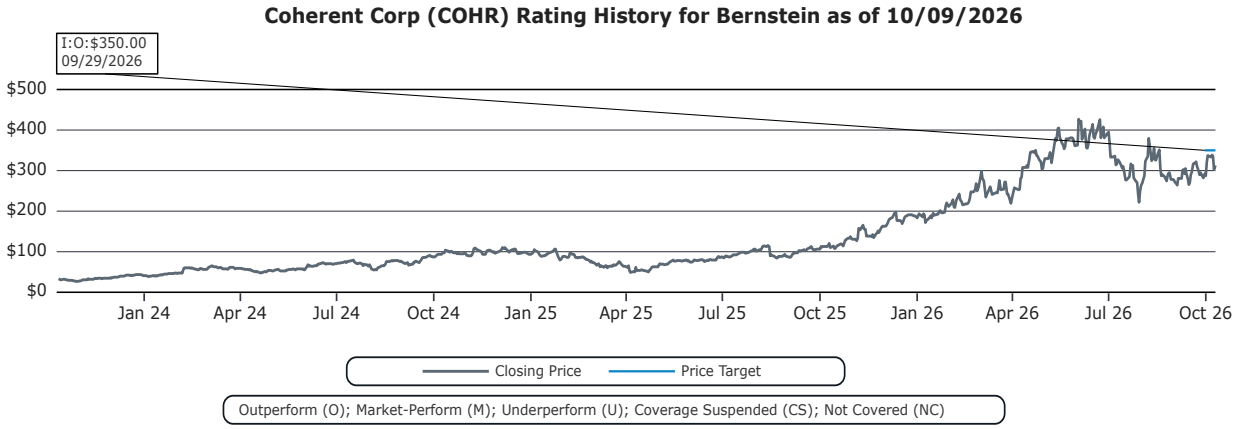
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