Morgan Stanley | RESEARCH

UPDATE

November 3, 2026 03:15 AM GMT

Lumentum Holdings Inc | North America

LITE FQ1 / Acquisition Announcement - Read-Throughs into our Coverage

MRVL/LITE underscores the strategic value of scarce optical assets, reinforced by LITE's strong results and NPO/CPO momentum. We see strategic rationale, although surprised about timing ahead of key ramps. Scarcity value of assets a positive for COHR; see more as a headwind for CIEN longer term.

What was announced. Following last week's Bloomberg report, Marvell (covered by Joe Moore) and Lumentum announced a definitive agreement on Monday, November 2, under which MRVL will acquire LITE in an all-stock transaction (see our first-take note). LITE shareholders will receive 4.5 MRVL shares for each LITE share, implying a transaction enterprise value of approximately $115bn, or $1,132 per LITE share, and a 23.9% premium to unaffected October 28 price. MRVL and LITE shareholders will own approximately 67% and 33% of the combined company, respectively, on a fully diluted basis. Management expects the transaction to close in 1H CY28, with Matt Murphy remaining CEO and Chairman and three LITE directors, including CEO Michael Hurlston, joining MRVL's board. MRVL expects more than $1bn in annual run-rate cost synergies, primarily from COGS, and non-GAAP EPS accretion in the first year following closing. Management expects a 1H CY28 close, with potential regulatory extensions through August 2028. We do not see another buyer given the size of the transaction.

Our initial perspective remains largely unchanged, with the transaction highlighting the strategic importance of optical technology and manufacturing capacity. We see rationale in combining MRVL's optical DSPs, switching and connectivity solutions with LITE's laser technology, InP manufacturing assets and growing NPO/CPO and OCS opportunities. LITE's recent earnings momentum and > $5bn in NPO/CPO commitments further highlight the value of its assets, though the sold out conditions through FY28 leave little unknown. Given deal approval not expected until the 1H'CY28, focus in the interim to be around ramping OCS / CPO capacity to be able to hit >$5bn targets.

Read-through to our coverage – supply tightness likely to persist, with mixed implications for COHR. For CIEN, LITE is a key component supplier for pump lasers and narrow line width lasers. While some of that bottleneck should clear over the next year and a half during the approval process, MRVL is a major competitor to CIEN on the ZR pluggables side, making relying on a competitor for supply of key products awkward (similar dynamics existed for NOK / Infinera when Acacia was acquired by Cisco). For COHR, from a strategic perspective, the transaction further validates the importance and scarcity value of COHR's optical technology and

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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	**$1,000.00**
Shr price, close (Nov 2, 2026)	$684.40
Mkt cap, curr (mm)	$69,603
52-Week Range	$1,143.00-184.20

Fiscal Year Ending	06/26	06/27e	06/28e	06/29e
ModelWare EPS ($)	6.55	19.44	33.28	45.95
EPS ($)**	8.68	25.19	38.82	51.28
Div yld (%)	-	-	-	-

framework
** = Based on consensus methodology

QUARTERLY EPS ($)

Quarter	2026	2027e Prior	2027e Current	2028e Prior	2028e Current
Q1	1.10	-	4.57a	7.49	8.42
Q2	1.67	4.96	6.04	8.62	9.69
Q3	2.37	5.55	6.83	8.98	10.07
Q4	3.23	6.33	7.71	9.53	10.60

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

manufacturing assets. This is offset by competitive dynamics on transceivers. We also don't have a sense of how much MRVL would like to get the transceiver assembly business, but definitely consolidates more of the BOM of a transceiver with one vendor, a headwind for the space.

F1Q27 margin upside, a second major NPO/CPO win and strong F2Q guidance. LITE reported revenue of $1.263bn (+25.5% Q/Q), ~0.6% above consensus but below the ~$1.28bn buyside bogey. Non-GAAP GM of 53.2% was ~170bps above consensus and in line with buyside expectations, while operating margin of 42.3% was ~250bps above consensus and ahead of the ~41% buyside bogey. EPS of $4.57 was ~9% above consensus and ahead of buyside expectations of $4.40-$4.45. Key incremental disclosure was a second major NPO/CPO win backed by >$5bn in purchase commitments, providing further validation of customer demand for next-generation optical scale-up architectures (though we would note the company had already alluded to this in media appearances during the quarter). Management also highlighted pump lasers and OCS as the leading growth contributors, with significantly improved OCS demand visibility supporting the potential for a multi-billion-dollar annual revenue stream. For F2Q, revenue guidance of $1.60bn was ~7% above consensus and at the high end of the $1.55bn-$1.60bn bogeys, implying ~ $350mm of sequential growth. EPS guidance of $6.05 was ~19% above consensus, with non-GAAP operating margin guidance of 45-46% pointing to another ~270-370bps of sequential expansion as the business continues to scale.

Risk Reward – Lumentum Holdings Inc (LITE.O)

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

PRICE TARGET $1,000.00

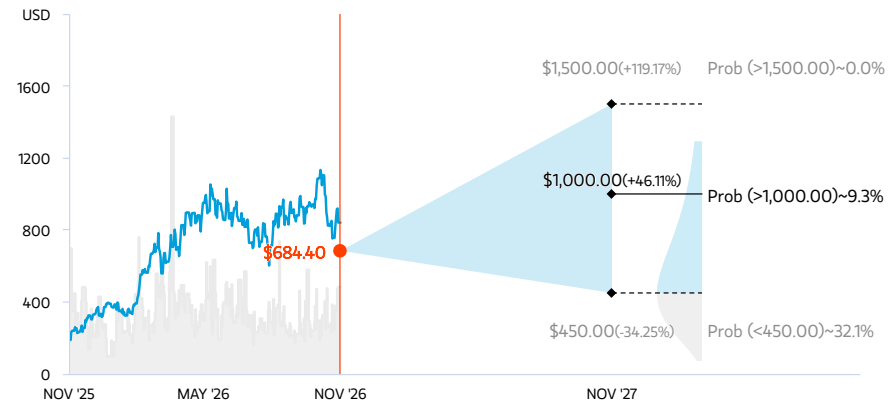
25x CY28 P/E of ~$40. ~25x is a premium to historical trading range given AI growth outlook

Consensus Price Target Distribution $600.00 — $1,157.04 — $1,500.00

MS PT

Mean

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



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

Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 2 Nov 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

87% Overweight
13% Equal-weight
0% Underweight
MS Rating

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $1,500.00

~30x CY28 Bull Case Earnings Power (~$50)

CPO penetration greater than expected. LITE able to achieve ~$50 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 $1,000.00

~25x CY28 P/E (~$40)

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 $450.00

15x CY28 Bear Case Earnings Power (~$30)

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)

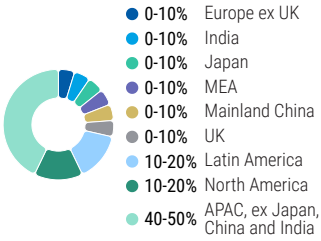
KEY EARNINGS INPUTS

Drivers	Jun 2026	Jun 2027e	Jun 2028e	Jun 2029e
Total Revenue ($, mm)	3,014	6,224	10,027	13,318
Gross Margin (%)	46.0	52.2	53.6	53.8
Operating Margin (%)	29.8	41.2	43.8	45.2
EPS Growth Y/Y (%)	322.1	143.2	64.2	32.9

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



View explanation of regional hierarchies here

MS ALPHA MODELS

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

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
- CPO / NPO ramp faster than expected

RISKS TO DOWNSIDE

- EML pricing falls given oversupply on reduced AI demand
- CW takes share from EML
- Cloud Light hurts ability to improve margins
- Pushout in CPO timing

OWNERSHIP POSITIONING

Inst. Owners, % Active	53.9%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	30.6%

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 2027e

Sales / Revenue ($, mm)	5,614	6,224 / 6,273	7,221
EBITDA ($, mm)	2,339	2,790 / 2,787	3,534
Net income ($, mm)	1,812	2,186 / 2,170	2,685
EPS ($)	17.92	21.10 / 21.54	25.27

◆ Mean ◆

Valuation Methodology and Risks

Marvell Technology Group Ltd (MRVL.O)

~46X CY27e Base Case MW EPS $6.54, a premium to high growth AI semis

Risks to Upside

- AI opportunities (Inphi optical businesses) realize earlier than expected
- Cloud custom silicon projects are larger than expected
- The storage market recovers

Risks to Downside

- AI opportunities are smaller than expected
- The strength we estimate for Storage and Networking surprise to the downside
- Enterprise DC and Networking continue to weigh on results

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

