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CMB International Global Markets | Equity Research | Initiation

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# Lumentum (LITE US)

## Scaling AI through light; initiate at BUY

**We initiate coverage on Lumentum with a BUY rating and TP of US$1,070, based on 35x FY28E P/E.** We view the Company as one of the few pure-play AI optical platform leaders positioned across the highest-value bottlenecks of next-generation AI datacom interconnect: InP lasers, optical circuit switch (OCS) and co-packaged optics (CPO)/external laser source (ELS). The investment case is not about optical transceiver share alone, but Lumentum's ability to monetize the scarce layers that enable AI clusters to scale: Qualified light sources, optical fabric control and external laser-source platforms. We forecast the Company's revenue to grow 81%/98% YoY in FY26E/27E, with non-GAAP GPM expanding to 46%/51%, driven by capacity-constrained InP lasers, OCS volume ramp, 800G/1.6T optical module growth and ultra-high power (UHP) laser/ELS contribution.

- **Lumentum is not a single-cycle optical module story.** Its AI exposure spans multiple architectures: electro-absorption modulated laser (EML) for 800G/1.6T pluggables, continuous wave (CW) lasers for SiPh, UHP/ELS for CPO, and OCS for AI fabric reconfiguration. With the optical roadmap still evolving, the winning architecture may differ by speed, reach and customer system design. Lumentum's advantage is that it monetizes the common bottlenecks across these paths rather than relying only on final module shipment share.
- **Growth engines are staggered into 2028.** We see InP lasers as the near-term capacity-constrained driver, supported by tight supply and long qualification cycles. OCS should contribute more visibly from 2H26/2027 as hyperscaler deployments scale, while CPO/ELS provides medium-term upside as optics moves closer to ASICs and XPUs. This staggered ramp is important: it reduces dependence on a single product inflection and creates a more durable earnings bridge from today's 800G/1.6T cycle toward future scale-up optical architectures.
- **Premium valuation supported by EPS acceleration**. We forecast FY28E non-GAAP EPS of US$30.6 and value the Company at US$1,070 per share by applying 35x P/E, slightly higher than its AI optical peers average of 32.1x CY27 P/E. We believe the valuation is supported by improving revenue quality as growth shifts toward qualification-heavy, capacity-constrained products with better margin potential than commodity module assembly.
- **Key risks**: InP ramp delays, OCS shipment delays, CPO/ELS adoption uncertainty, module pricing pressure, customer concentration and geopolitical/export-control risk.

### Earnings Summary

| (YE 28 Jun) | FY24A | FY25A | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| **Revenue (US$ mn)** | 1,359 | 1,645 | 2,976 | 5,887 | 9,176 |
| **YoY growth (%)** | (23.1) | 21.0 | 80.9 | 97.8 | 55.9 |
| **Gross margin (%)** | 33.0 | 34.7 | 45.8 | 51.2 | 52.0 |
| **Operating profit (US$ mn)** | 37.8 | 160.1 | 855.5 | 2,094.3 | 3,419.4 |
| **YoY growth (%)** | (88.9) | 323.5 | 434.4 | 144.8 | 63.3 |
| **Adjusted net profit (US$ mn)** | 75.2 | 146.4 | 736.8 | 1,827.4 | 2,969.0 |
| **YoY growth (%)** | (76.1) | 94.7 | 403.3 | 148.0 | 62.5 |
| **P/E (Adjusted) (x)** | 769.3 | 419.6 | 112.3 | 45.3 | 27.9 |

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Initiate)**

| | |
|---|---|
| **Target Price** | **US$1070.00** |
| **Up/Downside** | **25.4%** |
| **Current Price** | **US$853.26** |

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**Stock Data**

| | |
|---|---|
| Mkt Cap (US$ mn) | 66,383.6 |
| Avg 3 mths t/o (US$ mn) | 4,414.6 |
| 52w High/Low (US$) | 1053.09/82.47 |
| Total Issued Shares (mn) | 77.8 |

Source: FactSet

**Shareholding Structure**

| | |
|---|---|
| Vanguard | 11.5% |
| FMR | 7.0% |

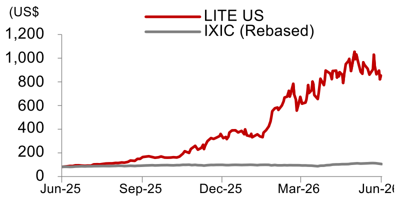
Source: Bloomberg

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -19.0% | -15.4% |
| 3-mth | 27.0% | 14.6% |
| 6-mth | 129.3% | 115.0% |

Source: FactSet

**12-mth Price Performance**




Source: FactSet

# Investment thesis

## Pure-play AI optical platform across bottleneck layers

Lumentum is one of the few pure-play AI optical platform leaders positioned across the most supply-constrained and qualification-heavy layers of next-generation AI interconnect: InP lasers, OCS, and CPO/ELS. The investment case is not about optical transceiver share alone, but the Company's ability to monetize the scarce layers that enable AI clusters to scale: qualified light sources, optical fabric control and external laser-source platforms. As AI networks move from simple 800G/1.6T module upgrades toward larger scale-out and scale-up fabrics, value capture is increasingly shifting toward products where reliability, power efficiency, customer qualification and capacity availability matter more than final module assembly. This gives Lumentum a broader and more defensible exposure than module-only suppliers, as it can benefit across multiple architecture paths, such as EML pluggables, SiPh transceivers, OCS-enabled optical fabrics and future CPO/ELS deployments.

## Multiple optical revenue engines to drive earnings resilience

The Company's earnings resilience comes from the fact that its AI exposure is **not tied to one optical architecture or a single module cycle**. The Company sits at the common bottleneck across multiple roadmaps, including qualified light sources and optical switching. Electro-absorption modulated laser (EML) supports the near-term 800G/1.6T pluggable cycle; continuous-wave (CW) lasers monetize SiPh adoption; UHP/ELS extends the laser franchise into CPO; and OCS gives Lumentum exposure to AI fabric reconfiguration beyond transceiver content.

These engines also have different timing, creating a more durable earnings ramp. **InP lasers** provide the near-term capacity-constrained growth driver; **OCS** should contribute earnings more visibly from 2H26/2027 as hyperscaler deployments scale; and **CPO/ELS** provide medium-term upside as optics moves closer to ASICs and XPUs. This makes the investment case broader than a simple 800G/1.6T volume story: even if one architecture evolves faster than expected, the Company can still capture value through another layer of the optical stack.

## Improving earnings quality from AI capex tailwinds, mix shift and operating leverage

We believe Lumentum's earnings visibility is improving as AI optical demand broadens from a transceiver upgrade cycle into a system-level infrastructure buildout. Hyperscaler capex is driving demand for higher bandwidth density, lower latency, better power efficiency and more flexible optical fabrics, expanding Lumentum's opportunity beyond high-speed modules into **InP lasers, OCS, DCI and CPO/ELS**.

More importantly, this growth should carry better margin quality than prior optical cycles. Incremental revenue is increasingly tied to qualification-heavy and capacity-constrained products such as EML/CW/UHP lasers, OCS and external light-source platforms, rather than lower-margin module assembly alone. Together with internal sourcing, higher utilization and operating leverage, this mix shift should support EPS acceleration and justify Lumentum's premium valuation framework, in our view.

## Initiate coverage on Lumentum (LITE US) with BUY; TP at US$1,070

We initiate coverage on Lumentum with a **BUY** rating and target price of **US$1,070**, based on **35x FY28E non-GAAP P/E**. We view Lumentum as one of the few pure-play AI optical platform leaders positioned across the most supply-constrained and qualification-heavy layers of next-generation AI interconnect, including **InP lasers, OCS and CPO/ELS**.

We forecast its revenue to grow **81%/98% YoY in FY26E/27E**, driven by InP capacity expansion, OCS volume shipments, 800G/1.6T optical module ramp-up and increasing (ultra-high power) UHP laser/ELS contribution. We expect non-GAAP GPM to expand to **46%/51% in FY26E/27E** and further to **52% in FY28E**, supported by mix improvement, better capacity yield and operating leverage. We forecast FY28E non-GAAP EPS of **US$30.6**, and applying **35x P/E**, slightly above its AI optical peer group average of 32.1x CY27 P/E, we derive our TP of **US$1,070**.

# Company overview

## A pure AI optical platform provider

**We initiate coverage on Lumentum as one of the few pure-play AI optical platform leaders with exposure across the core bottlenecks of next-generation AI interconnect.** The investment case should not be framed around optical transceiver share alone. Instead, we believe the Company should be analyzed through three higher-value layers of the AI optical stack: **EML/CW lasers for 800G/1.6T pluggables and SiPh transceivers, OCS for dynamic AI fabric reconfiguration, and UHP/ELS for CPO.** These products sit where scarcity, reliability and qualification matter most, giving the Company a broader and more defensible AI optics exposure than module-only suppliers.

This positioning matters because the optical module market is becoming increasingly competitive, while value capture is moving upstream into components that are harder to second-source. Lumentum still maintains limited exposure to optical modules through past Cloud Light (a Hong Kong-based optical module manufacturer) acquisition, but we view this as complementary rather than central to the investment case. The company's core value is its ability to convert **InP capacity, laser qualification and optical switching backlogs** into durable revenue growth and margin expansion. In this sense, the Company sits between pure module vendors and full-stack photonics platforms.

**Figure 1: The Company's development history**

| Period | Strategic phase | Key milestones | Implications |
|---|---|---|---|
| **Pre-2015** | JDSU heritage: Telecom optics foundation | Lumentum originated from JDSU's communications and commercial optical products business. The separation was intended to create two focused companies, with Lumentum holding the optical communications and commercial lasers business. | Built the company's core photonics DNA: optical networking, lasers, wavelength selective switch (WSS)/reconfigurable optical add-drop multiplexer (ROADM) and high-reliability telecom components. |
| **2015** | Independent photonics company | Lumentum separated from JDSU, with the spin completed around Aug. 1, 2015 | Became a focused optical and photonic products company, rather than a segment inside a broader test/measurement and telecom equipment group. |
| **2016–2018** | Scale-up in 3D sensing and optical components | Lumentum benefited from growth in vertical-cavity surface-emitting laser (VCSEL)-based 3D sensing while continuing to serve telecom/datacom optical markets. | Expanded from telecom optics into high-volume consumer photonics, proving ability to ramp precision lasers at scale. |
| **2018** | **Oclaro acquisition:** Broadening telecom/datacom optics | Lumentum announced and completed the acquisition of Oclaro in 2018; the deal was valued at approximately US$1.8bn and expanded Lumentum's optical communications portfolio. | Strengthened high-speed optical communications exposure and added scale, customers and product breadth in lasers, components and modules. |
| **2022** | **NeoPhotonics acquisition:** Coherent and high-speed photonics | Lumentum completed the acquisition of NeoPhotonics in Aug. 2022; NeoPhotonics brought differentiated products and technology in high-speed optical communications. | Added coherent, photonic integrated circuit (PIC) and high-speed optics capability, helping reposition Lumentum toward higher-value telecom/DCI (datacenter interconnect) and cloud networking. |
| **2023** | **Cloud Light acquisition:** Re-accelerating cloud transceiver exposure | Acquired Cloud Light for approximately **US$750mn**; Cloud Light brought advanced optical modules for cloud datacenter and automotive sensing applications | Repositioned Lumentum more directly into high-speed cloud/datacenter transceivers, complementing its upstream laser and photonics capabilities. |
| **2023 - 2025** | Portfolio transition: From cyclical telecom/3D sensing to cloud optics | The company faced weaker telecom and 3D sensing cycles while increasing focus on cloud/datacenter demand, high-speed EML, CW lasers and optical switching. | Revenue mix shifted away from legacy growth drivers toward AI/datacenter optical bottlenecks. |
| **2026 onward** | AI photonics platform: EML, CW/UHP, ELS and OCS | Lumentum's OFC 2026 presentation frames four growth engines: cloud transceivers, OCS, scale-out CPO and scale-up CPO. It also highlights >8x EML shipment expansion since FY20, 50%+ EML capacity addition by end-CY26 vs. end-CY25, and OCS ramping toward a >US$1bn 2027 run-rate. | Lumentum is now positioned less as a conventional optical component vendor and more as a scarce light-source and optical-switching supplier for AI infrastructure. |

Source: Company data, CMBIGM

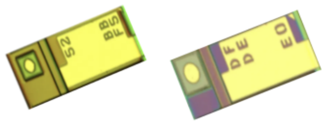
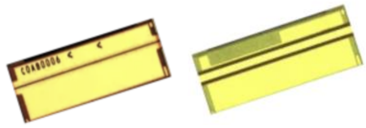
Lumentum's strategic evolution has followed a clear path: **Telecom optics heritage, high-speed photonic components, cloud transceiver exposure, and AI optical bottlenecks**. The company began with deep optical communications and wavelength-management capabilities inherited from JDSU, including lasers, WSS/ROADM and high-reliability telecom components. Then, Oclaro acquisition broadened its telecom/datacom portfolio, while NeoPhotonics added coherent, PIC and high-speed photonics capability. Cloud Light acquisition afterwards reintroduced more direct exposure to high-speed cloud transceivers. **However, the strategic direction is not a simple move downstream into module assembly. Instead, the Company has retained a component-led identity, using transceivers mainly to strengthen customer access and cloud roadmap visibility.**

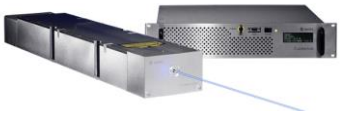
The company's current data-center portfolio reflects this repositioning. **EML lasers** provide near-term exposure to 400G/800G/1.6T single-mode pluggables. **CW lasers** allow the Company to monetize SiPh adoption as light generation separates from modulation. **UHP lasers and ELSFP** extend the light-source franchise into CPO/NPO (near-packaged optics) architectures, where external, serviceable laser sources become increasingly important. **OCS** adds a system-level optical switching platform for AI fabrics, giving the Company exposure beyond module content into topology reconfiguration and bandwidth allocation.

## The Company's business segments and product portfolio

The Company's revenue is largely divided into two sub-categories: **Components** and **Systems,** where Components include EML/CW/UHP lasers, pump lasers, integrated tunable laser assembly (ITLA) and other photonic components. Systems include optical transceivers, OCS, ELS-related modules and selected subsystem products.

**Figure 2: The Company's product categories**

| Product family | Description | What it is / used for |
|---|---|---|
| **Datacenter products** | | |
| **EML lasers** |  *100G, 200G PAM4 CWDM lasers* | ■ High-speed InP laser + modulator; used in 400G/800G/1.6T single-mode pluggable modules |
| **CW lasers** |  *70mW, 100mW* | ■ Continuous light source with proven scalability for 200G/lane, supporting 400G DR4/FR4, 800G DR/FR 4/8, and 1.6T DR/FR 4/8 SiPh optical engines in SiPh transceivers and CPO |
| **UHP lasers** |  *1311nm w/ up to 350mW* | ■ Ultra-high-power CW laser; used as the light source for CPO/NPO optical engines |
| **Optical transceivers** |  *800G 2xDR4 OSFP, 1.6T 2xDR4 OSFP* | ■ Pluggable optical modules; used for high-speed scale-out data-center connectivity |
| **OCS R300** |  *High-radix 300x300 OCS* | ■ High-radix optical circuit switch; used for large-scale AI fabric reconfiguration<br>■ AI/ML training and inference fabrics (east west heavy traffic) |
| **DCI, metro, long-haul, submarine** | | |
| **Tunable DWDM** |  *Tunable SFP+ optical transceiver* | ■ Coherent/(dense wavelength division multiplexing) DWDM transceiver; used for DCI, metro and long-haul optical transport<br>■ Supports 9.95–11.3 Gbps data rates and link distances up to 80 km |
| **nITLA / ITLA tunable laser** |  *Ultra-narrow linewidth nano-integrable tunable laser assembly* | ■ Narrow-linewidth tunable laser; used as coherent light source for high-capacity optical networks<br>■ Ideal source for next-generation 100/400/800G coherent systems<br>■ Approximately 40% smaller than its industry leading µITLA |
| **Pump laser** |  *2x900mW 980nm pump modules* | ■ 980nm pump laser; used inside optical amplifiers |

| | | |
|---|---|---|
| **Industrial Laser** | | |
| **High-Power Q-Switched Diode-Pumped UV and Green Lasers** |  | ■ Precision manufacturing, battery, display, semiconductor and metal processing |
| **Sensing VCSEL** | | |
| **400 W 905 nm Multi-Junction VCSEL Array** |  | ■ 3D sensing, LiDAR and in-cabin monitoring |

Source: Company data, CMBIGM

The strategic transition in the Company's past track record has helped shape Lumentum's new growth drivers, which carry higher revenue quality than legacy telecom and low-margin module exposure. InP lasers benefit from constrained qualified capacity and long customer qualification cycles; OCS is tied to system reliability and customer-specific deployment rather than commodity module ASPs; and CPO/ELS shifts the Company from selling laser chips alone toward higher-value external light-source platforms. The key margin debate is therefore not only whether revenue grows, but whether mix shift, internal sourcing and capacity utilization can move the company toward structurally higher profitability.

## The Company's competitive advantage

We believe Lumentum's competitive advantage lies in **where it captures value in the AI optical stack**. The optical module market is becoming increasingly competitive, with Chinese module leaders and EMS players adding capacity aggressively. By contrast, qualified InP lasers, high-radix OCS and external light-source platforms remain harder to replicate due to process know-how, reliability requirements, long customer qualification cycles and constrained capacity. This supports Lumentum's positioning as a higher-value AI optical platform supplier, rather than a commodity module vendor.

- **Bottleneck positioning, not module assembly.** Lumentum's core moat is qualified InP light-source capacity across EML, CW and UHP lasers. These products are constrained less by assembly scale and more by yield, optical performance, reliability and customer qualification, placing Lumentum closer to the scarce layer of AI optics.
- **Architecture-resilient exposure.** Lumentum can monetize multiple optical roadmaps: EML for pluggables, CW for SiPh, UHP/ELS for CPO and OCS for dynamic optical fabrics. This reduces dependence on a single technology path and makes the investment case more durable than a simple 800G/1.6T module cycle.
- **System-level expansion with better revenue quality.** OCS and CPO/ELS move Lumentum beyond discrete components into higher-value optical infrastructure. These products are more tied to system reliability, deployment stickiness and customer architecture than module ASP competition, supporting stronger margin potential as AI optical networks scale.

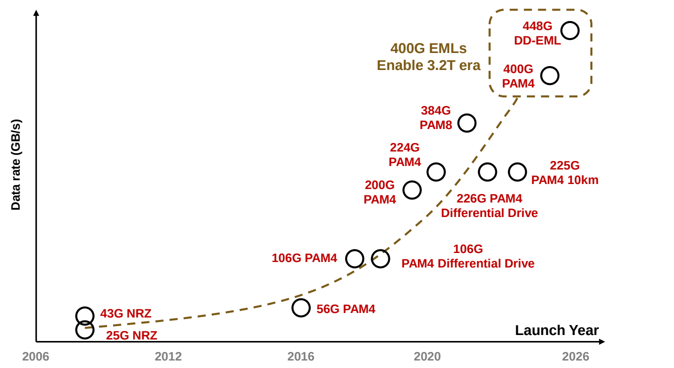
# Major growth pillars

## First growth pillar: InP laser platform

### Monetizing a multi-year bottleneck behind AI optics

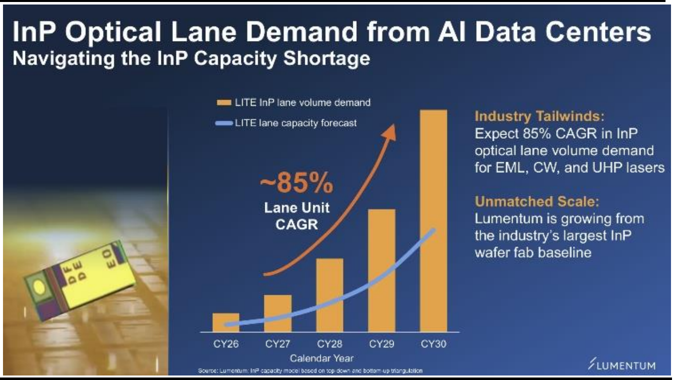
Lumentum's most immediate growth pillar is its **InP laser platform**, spanning EML, CW, UHP, pump lasers and integrable tunable laser assembly (ITLA). In AI datacenters, EML gives the company exposure to high-performance 800G/1.6T pluggables, CW lasers monetize the shift toward SiPh optical engines, and UHP lasers extend the same light-source platform into CPO/NPO architectures. The key point is not whether EML or SiPh wins in isolation, but that every major AI optical roadmap still requires qualified InP light sources. As AI clusters scale, the bottleneck is shifting from basic module assembly toward laser performance, yield, power efficiency and qualification, all areas where the Company's InP platform becomes increasingly strategic.

**Figure 3: Increasing bandwidth for high-speed lasers**




Source: Company data, CMBIGM

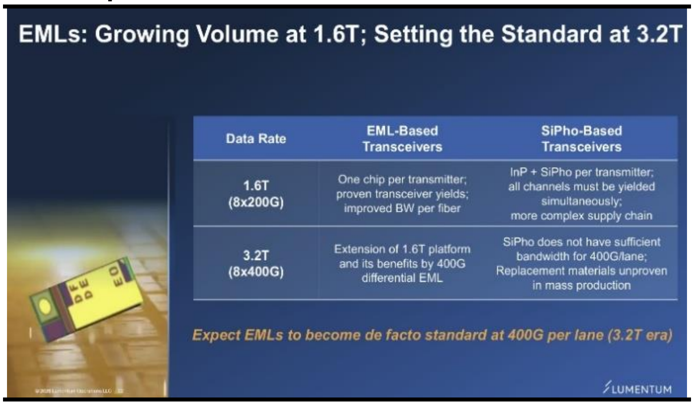
**Figure 4: Growing InP S/D imbalance from surging AIDC optical demand**




Source: Company data, CMBIGM

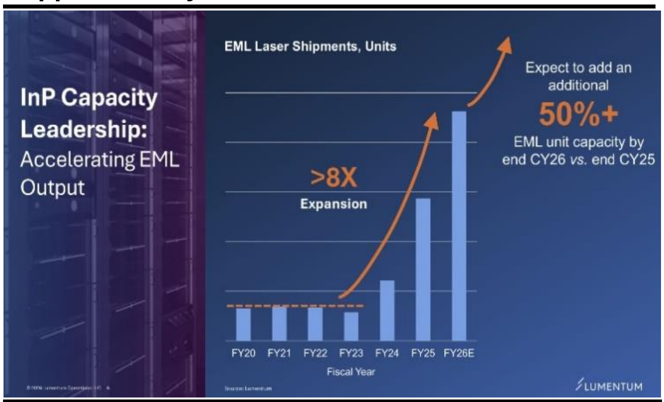
**We believe the laser roadmap should be framed as coexistence plus value migration, rather than a linear EML to SiPh substitution.** At 1.6T, SiPh adoption should accelerate as module vendors seek higher bandwidth density, lower power and relief from EML supply tightness, shifting part of Lumentum's opportunity from EML toward CW lasers. However, at 3.2T, advanced EML may regain strategic importance if 400G/lane performance and yield become the gating factors.

**Figure 5: Mgmt. expects EML-based modules to drive 3.2T shipments**




Source: Company data, CMBIGM

**Figure 6: The Company's leading InP capacity to support multi-year resilience**

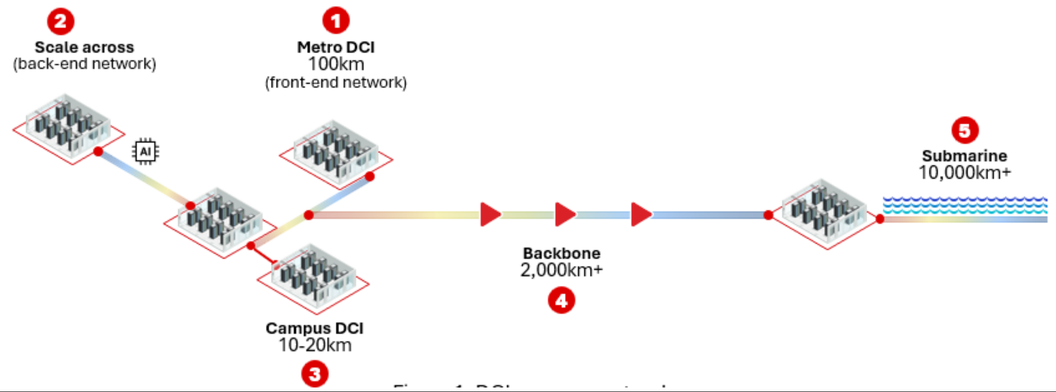



Source: Company data, CMBIGM

**The investment implication is that InP tightness should be viewed as a multi-year capacity and qualification bottleneck, not a short-term shortage.** CW supply could remain tight through 2027E before easing in 2028E as new capacity ramps, while 200G EML and UHP lasers should remain more defensible due to higher performance requirements and longer qualification cycles. The strongest long-term value should accrue to suppliers that remain relevant across multiple architectures, including EML pluggables, SiPh transceivers and CPO/ELS, rather than those exposed to only one technology path. This is where Lumentum stands out by not simply betting on EML or SiPh, but monetizing the common requirement across all architectures.

Additionally, we believe DCI adds a resilience layer to Lumentum's InP laser thesis. AI scale-out remains the main growth driver for EML, CW and UHP lasers, but DCI is becoming increasingly relevant as AI workloads extend beyond a single facility. We view DCI as an underappreciated extension of the AI optical interconnect opportunity, particularly as training infrastructure moves from single-site scale-out toward multi-campus scale-across architectures.

**Figure 7: DCI use case**




Source: Ciena, CMBIGM

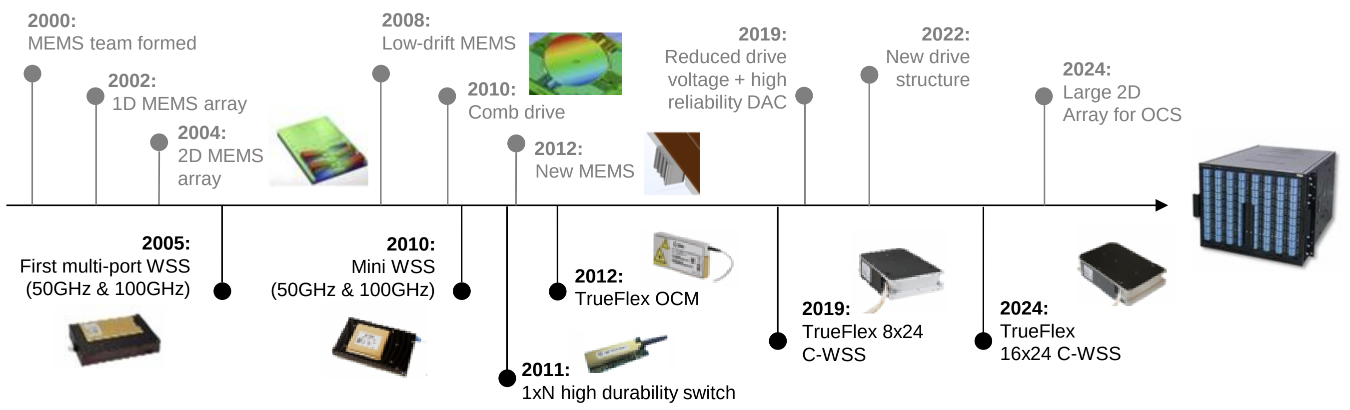
For Lumentum, DCI creates a separate high-value demand layer within its InP and photonics portfolio. Pump lasers support optical amplification, ITLAs provide narrow-linewidth tunable sources for coherent transmission, and WSS/photonic line-system components enable flexible wavelength routing. While DCI may not bring explosive demand growth as short-reach AI optics, it reinforces the breadth and resilience of the Company's platform by adding a qualification-heavy revenue stream outside pure datacenter transceivers.

## Second growth pillar: Optical circuit switch (OCS)

### From optical switching to AI fabric control

We view OCS as Lumentum's second major growth pillar starting in 2H26, moving the Company beyond component-level light sources into system-level AI fabric infrastructure. As AI clusters scale, the networking bottleneck is no longer only about adding bandwidth, but about **allocating bandwidth dynamically across large accelerator fabrics**. AI workloads are increasingly east-west heavy and dominated by large flows, making fixed electrical switching topologies less efficient. OCS enables software-defined optical path reconfiguration, improving utilization, topology flexibility and fault tolerance while avoiding repeated optical-electrical-optical conversion. **In our view, this positions OCS as an AI fabric layer rather than a conventional optical component.**

**Figure 8: The Company had developed decades of expertise in MEMS-based optical switching**

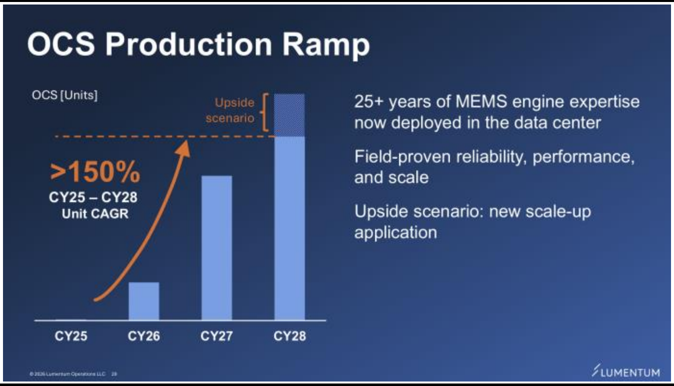



Source: Company data, CMBIGM

OCS has a smaller TAM than pluggable optics, but potentially higher system importance. Optical modules scale with every link and refresh with each bandwidth generation, while OCS is deployed more selectively as a shared optical fabric layer. Because OCS is largely wavelength- and data-rate-transparent, its upgrade cycle is driven more by radix, insertion loss, reliability and software control than by optical module speed migration. This partly explains why OCS TAM is structurally smaller, but also why the installed base can be stickier once deployed.

We believe the investment implication is meaningful as OCS should be less exposed to module price pressure and more tied to system reliability, customer-specific qualification and deployment stickiness. **The main risk is not demand visibility, but execution on manufacturing capacity, customer qualification, on-time delivery, etc.**

**Figure 9: Lumentum's OCS volume forecast**



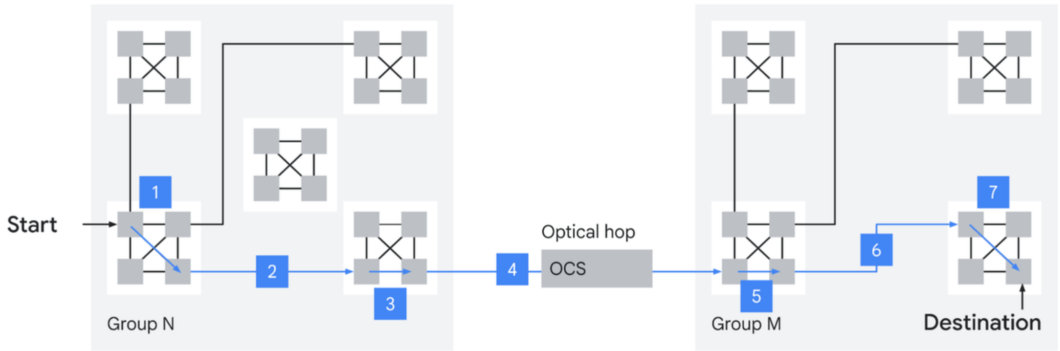

Source: Company data, CMBIGM

**Figure 10: Lumentum's OCS sales forecast**


Source: Company data, CMBIGM

**Google's latest TPU architecture provides external validation for Lumentum's OCS product direction.** In Google Cloud's 2026 TPU 8i architecture, copper remains the preferred medium for localized short-reach connectivity, but the final pod structure scales to 36 groups and up to 1,024 active chips linked through OCS, while keeping maximum chip-to-chip latency within seven hops. This is an important architectural signal that OCS is moving closer to the accelerator-network hierarchy, rather than remaining a peripheral datacenter transport tool.

**Figure 11: Maximum seven-hop ICI network diameter via OCS on TPU 8i pod**




Source: Google, CMBIGM
Note: ICI – inter-chip interconnect

**OCS also has a refresh profile different from optical modules.** Transceivers refresh with each bandwidth generation, while OCS is largely wavelength- and data-rate-transparent. Its upgrade cycle is driven more by radix, insertion loss, reliability and software control. This partly explains why OCS TAM is smaller than pluggable optics, but also why the installed base can be stickier once deployed.

## Third growth pillar: CPO/ELS

### Extending the laser platform into co-packaged optics (CPO) and external light-source (ELS) platform

CPO/ELS is Lumentum's medium-term architecture upside. Pluggable optics will remain the near-term volume engine, but as AI clusters move from single-rack to multi-rack and larger XPU domains, copper becomes increasingly constrained by reach, power and bandwidth density. CPO addresses this by moving optical engines closer to the switch ASIC or XPU, while ELS keeps the laser source external, serviceable and thermally manageable. For Lumentum, the key opportunity is not the full CPO system, but the UHP laser and ELS layer.

**Figure 12: Extending CPO from scale-out networks into scale-up compute fabrics**


Source: Company data, CMBIGM

**Lumentum's roadmap shows CPO developing in stages.** Phase 0 starts with scale-out CPO, mainly linking switches. Phase 1 moves into scale-up CPO, connecting multiple racks into a larger compute cluster. Phase 2 pushes optics deeper into the rack and backplane. The key message is that CPO is not simply replacing pluggable modules; it is helping AI systems expand beyond copper's reach, power and bandwidth-density limits. This shifts value toward optical engines, UHP lasers and serviceable external light-source modules.

**Figure 13: Scale-out CPO to start in CY27**


Source: Company data

**Figure 14: Scale-up CPO to start by late-CY27**


Source: Company data

**Recent developments make CPO/ELS a near-term validation catalyst, not just a long-term option.** The Company introduced higher-power light-source products for CPO, including its 800mW SHP (super high power) laser at OFC 2026, and mgmt. disclosed an incremental multi-hundred-million-dollar UHP laser order for optical scale-out applications, with shipments expected in 1H CY27 and an initial shipment inflection in 2H CY26. We therefore see a clearer catalyst path: **UHP shipment ramp in 2H26, order conversion in 2027, and broader ELS/CPO adoption in 2027 and beyond.** This supports modeling CPO/ELS as a medium-term revenue driver with visible near-term validation milestones, rather than a purely speculative architecture transition.

# Financial analysis

We forecast Lumentum's revenue to grow **81%/98%/56% YoY in FY26E/FY27E/FY28E**, reaching **US$3.0bn/US$5.9bn/US$9.2bn**. The revenue ramp is likely supported by three major drivers: **1) InP capacity expansion**, which drives Components revenue from **US$2.0bn in FY26E to US$4.7bn in FY28E**; **2) OCS volume shipments**, with revenue ramping toward a **US$250mn quarterly run-rate by 4QFY27E** as hyperscaler AI cluster deployments scale; and **3) 800G/1.6T optical transceiver growth**, supported by capacity expansion and resilient pricing amid EML supply tightness.

We expect non-GAAP gross margin to expand from **34.7% in FY25 to 45.8%/51.2%/52.0% in FY26E/FY27E/FY28E**. The key drivers are mix shift toward higher-value InP lasers, OCS ramp, 800G-to-1.6T product transition within Systems, internal sourcing, and cost improvement from the six-inch InP wafer transition. Faster growth in lower-margin transceiver SKUs could partially offset this, but we believe higher laser content, OCS contribution and improving utilization should keep the margin trajectory positive.

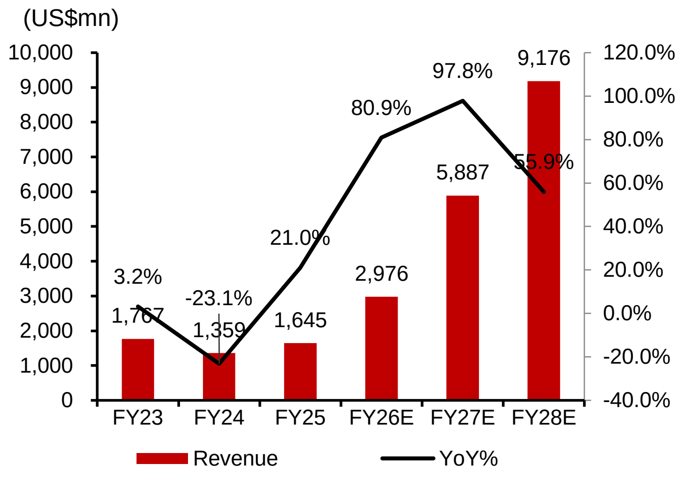
We model non-GAAP R&D at **8.4% of revenue in FY27E**, tapering to **8.0% in FY28E**, while absolute R&D dollars continue to rise to support the CPO, 1.6T and EML roadmap. With revenue scale and mix improvement, we expect non-GAAP operating margin to expand from **28.7% in FY26E to 37.3% in FY28E**.

**Figure 15: The Company's financials**

| (FY, US$mn) | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|
| **Revenue** | **1,359** | **1,645** | **2,976** | **5,887** | **9,176** |
| *YoY%* | | *21.0%* | *80.9%* | *97.8%* | *55.9%* |
| COGS (non-GAAP) | 910 | 1,074 | 1,614 | 2,875 | 4,400 |
| **Gross profit (non-GAAP)** | **449** | **572** | **1,362** | **3,012** | **4,776** |
| *Gross margin* | *33.0%* | *34.7%* | *45.8%* | *51.2%* | *52.0%* |
| R&D (non-GAAP) | 260 | 256 | 300 | 495 | 736 |
| SG&A (non-GAAP) | 151 | 155 | 206 | 422 | 620 |
| **Operating income (non-GAAP)** | **38** | **160** | **856** | **2,094** | **3,419** |
| *OP margin* | *2.8%* | *9.7%* | *28.7%* | *35.6%* | *37.3%* |
| - Total other income/expense net, non-GAAP | 2.3 | 8.0 | 51.6 | 93.0 | 135.0 |
| **Pre-tax income (non-GAAP)** | **80** | **175** | **882** | **2,188** | **3,556** |
| Tax (non-GAAP) | 5 | 29 | 146 | 361 | 587 |
| *Tax rate* | *6.4%* | *16.5%* | *16.5%* | *16.5%* | *16.5%* |
| **Net income (non-GAAP)** | **75** | **146** | **737** | **1,827** | **2,969** |
| *YoY%* | | *94.7%* | *403.3%* | *148.0%* | *62.5%* |
| *Net margin* | *5.5%* | *8.9%* | *24.8%* | *31.0%* | *32.4%* |
| Diluted shares (mn) | 67.8 | 72.0 | 97.0 | 97.0 | 97.0 |
| **Diluted EPS (non-GAAP, US$)** | **1.11** | **2.03** | **7.60** | **18.84** | **30.61** |

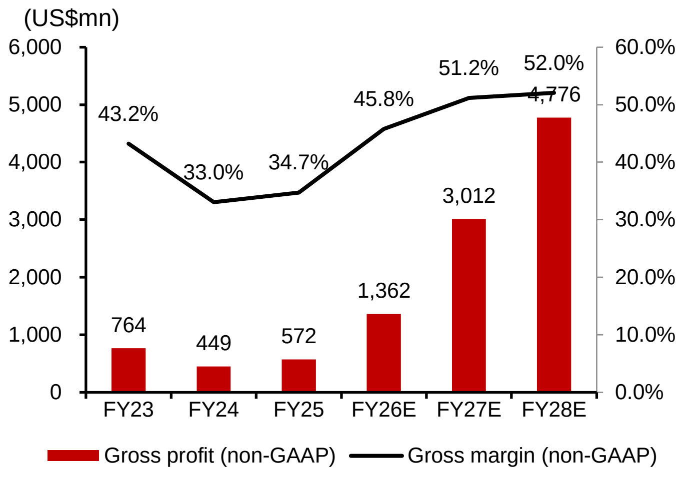
Source: Company data, CMBIGM estimates

**Figure 16: Revenue and growth**




Source: Company data, CMBIGM estimates

**Figure 17: Gross profit and GPM%**




Source: Company data, CMBIGM estimates

**We forecast Lumentum's non-GAAP GPM to expand from 34.7% in FY25 to 45.8%/51.2%/52.0% in FY26E/FY27E/FY28E, driven by scale, mix shift and better fixed-cost absorption.** Our margin forecast is built bottom-up by splitting non-GAAP COGS into variable and fixed components. Fixed COGS rises as Lumentum adds transceiver capacity, but declines as a percentage of revenue as sales scale. We assume variable COGS at 42.0-44.0% of revenue in FY27E/28E to reflect the faster growth of lower-margin Systems and cloud transceivers.

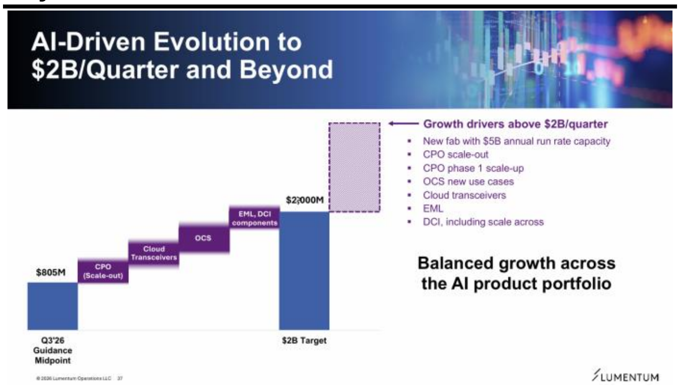
**Figure 18: Gross margin forecast**

| COGS forecast (US$mn) | FY26E | FY27E | FY28E |
|---|---|---|---|
| *Variable COGS % of revenue* | *47.2%* | *43.9%* | *42.7%* |
| Fixed COGS | 210.0 | 290.0 | 485.0 |
| Non-GAAP COGS = Variable + Fixed | 1,614 | 2,875 | 4,400 |
| ***non-GAAP GM%*** | ***45.8%*** | ***51.2%*** | ***52.0%*** |

Source: Company data, CMBIGM estimates

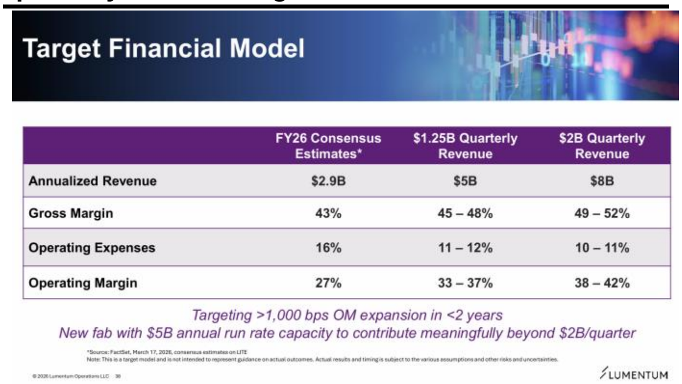
Our assumptions are anchored to management's OFC 2026 target model, which indicates non-GAAP GPM of 45-48% at ~US$5bn annual revenue and 49-52% at ~US$8bn annual revenue. We expect Lumentum to approach these thresholds by mid-FY27E and mid-FY28E, respectively, supported by higher InP laser utilization, OCS ramp, 800G/1.6T module scale-up, and increasing contribution from DCI, pump lasers, narrow-linewidth lasers and UHP/ELS.

**Figure 19: AI-driven evolution to US$2bn/quarter and beyond**




Source: Company data

**Figure 20: The Company's financial estimates by quarterly revenue targets**



Target Financial Model

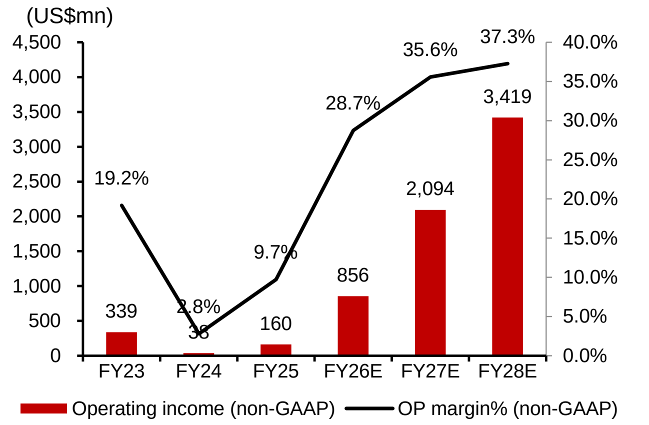
| | FY26 Consensus Estimates* | $1.25B Quarterly Revenue | $2B Quarterly Revenue |
|---|---|---|---|
| Annualized Revenue | $2.9B | $5B | $8B |
| Gross Margin | 43% | 45 – 48% | 49 – 52% |
| Operating Expenses | 16% | 11 – 12% | 10 – 11% |
| Operating Margin | 27% | 33 – 37% | 38 – 42% |

*Targeting >1,000 bps OM expansion in <2 years*
*New fab with $5B annual run rate capacity to contribute meaningfully beyond $2B/quarter*

LUMENTUM

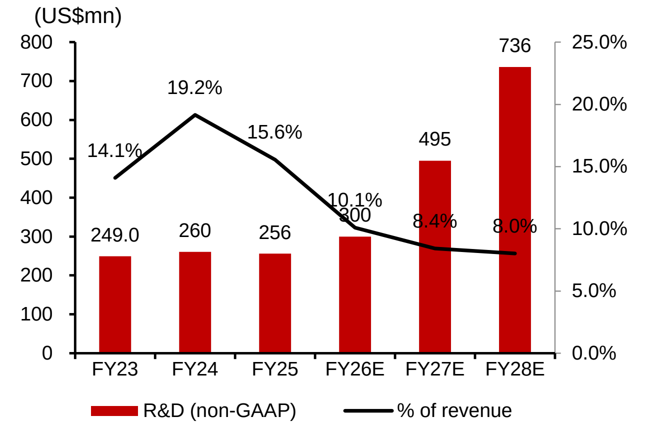
Source: Company data

Figure 21: Operating income and margin




Source: Company data, CMBIGM estimates

Figure 22: R&D expenses and % of revenue




Source: Company data, CMBIGM estimates

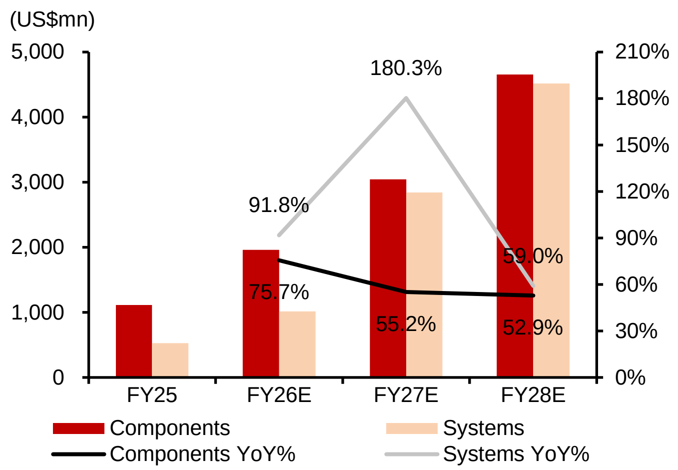
We expect **Components** and **Systems** revenue to grow at **61%/105% CAGR from FY25 to FY28E**, respectively. Components should scale from **US$1.1bn in FY25 to US$4.7bn in FY28E**, driven by EML, CW, UHP, pump lasers and narrow-linewidth lasers, supported by InP capacity expansion and the 3-inch to 6-inch wafer transition. Systems should scale from **US$529mn in FY25 to US$4.5bn in FY28E**, driven by OCS adoption and cloud transceiver ramp, with ASPs supported by tight EML supply. As a result, Systems' revenue share should rise from **32% in FY25 to 49% in FY28E**, reflecting Lumentum's expansion from components into higher-value AI optical infrastructure.

**Figure 23: Revenue by segment**

| Segment | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|
| *US$mn* | | | | |
| **Components** | **1,116** | **1,962** | **3,044** | **4,656** |
| *YoY%* | | *75.7%* | *55.2%* | *52.9%* |
| *%* | *67.9%* | *65.9%* | *51.7%* | *50.7%* |
| **Systems** | **529** | **1,014** | **2,842** | **4,520** |
| *YoY%* | | *91.8%* | *180.3%* | *59.0%* |
| *%* | *32.1%* | *34.1%* | *48.3%* | *49.3%* |
| **Total revenue** | **1,645** | **2,976** | **5,887** | **9,176** |

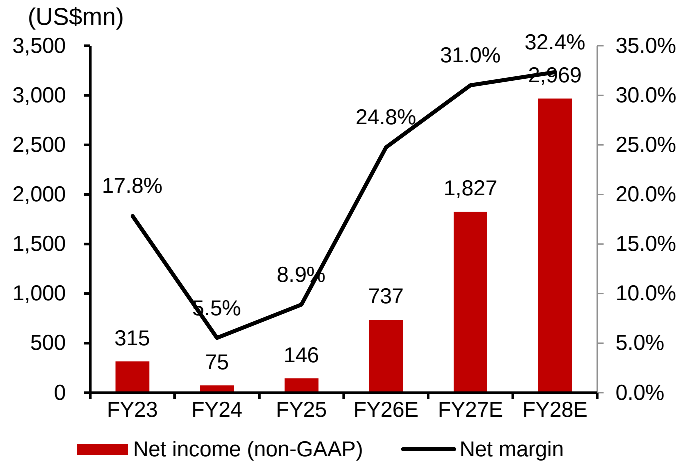
Source: Company data, CMBIGM estimates

**Figure 24: Components and Systems rev and growth**




Source: Company data, CMBIGM estimates

**Figure 25: Net income and margin**




Source: Company data, CMBIGM estimates

# Valuation and risks

## Initiate at BUY with TP at US$1,070, based on 35x FY28E P/E

**We apply 35x P/E (slightly higher than its peers' average of 32.1x in CY27) to FY28E non-GAAP EPS of US$30.6 to derive our TP of US$1,070.** We use FY28E because it should better reflect Lumentum's normalized earnings power after the initial AI optical ramp, including expanded InP capacity, OCS volume contribution, 1.6T module scale-up and early CPO/ELS commercialization. FY26E/FY27E are still transition years, with heavier capacity ramp, customer qualification and mix shift underway; therefore, we believe FY28E provides a more appropriate base for valuing the Company's multi-engine AI optical platform.

### Figure 26: The Company's peers valuation

| | | P/E (x) | | EPS (US$) | | Revenue YoY% | | GPM% | |
|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Ticker** | **CY26E** | **CY27E** | **CY26E** | **CY27E** | **CY26E** | **CY27E** | **CY26E** | **CY27E** |
| Coherent | COHR US | 52.6 | 36.7 | 6.74 | 9.66 | 31.1 | 33.0 | 39.9 | 40.9 |
| Marvell | MRVL US | 65.0 | 40.7 | 3.89 | 6.20 | 38.0 | 46.5 | 58.7 | 57.6 |
| Applied Opto. | AAOI US | 137.2 | 30.6 | 1.28 | 5.73 | 125.4 | 161.7 | 31.7 | 35.0 |
| Fabrinet | FN US | 36.9 | 30.8 | 15.71 | 18.83 | 33.6 | 18.6 | 12.3 | 12.4 |
| Ciena | CIEN US | 66.2 | 44.8 | 6.57 | 9.70 | 32.8 | 27.0 | 44.8 | 45.3 |
| Sumitomo Elec. | 5802 JT | 18.2 | 20.1 | 3.56 | 3.20 | -0.7 | 3.8 | 20.0 | 20.9 |
| Mitsubishi Elec. | 6503 JT | 24.7 | 20.8 | 1.38 | 1.64 | 1.9 | 6.6 | 32.0 | 32.5 |
| | ***Average*** | ***57.3*** | ***32.1*** | ***5.59*** | ***7.85*** | ***37.4*** | ***42.5*** | ***34.2*** | ***35.0*** |
| | **Ticker** | **FY28 P/E (x)** | | **FY28 EPS** | | | | **Target Price** | |
| **Lumentum** | **LITE US** | **35x P/E** | | **US$30.6** | | | | **US$1070** | |

Source: Bloomberg data as of 10 Jun 2026, CMBIGM

## Risks

1) InP capacity ramp slower than expected due to substrate, MOCVD or yield constraints;
2) OCS shipment ramp slower than expected due to manufacturing, qualification or customer timing;
3) Geopolitical tension, escalating export restrictions, intensifying market competition;
4) Optical module competition pressures Systems segment margins;
5) Customer concentration and order softness.

# Appendix

**Figure 27: The Company's management profile**

| Name | Title |
|---|---|
| Michael E Hurlston | President/CEO |
| Vincent Retort | Pres:Cloud Networking R&D & Business Ops |
| Dr Wupen Yuen | Pres:Cloud & Networking |
| Wajid Ali | Exec VP/CFO |
| Michael Brooker | Exec VP/Chief Transformation Officer |

Source: Company data, Bloomberg, CMBIGM

**Figure 28: The Company's shareholding structure as of 5th Jun, 2026**

| Holder Name | % of Outstanding (%) |
|---|---|
| Vanguard Group Inc/The | 11.52 |
| FMR LLC | 7.04 |
| Blackrock Inc | 6.74 |
| State Street Corp | 3.91 |
| JPMorgan Chase & Co | 3.78 |
| Geode Capital Management LLC | 2.73 |
| Capital Group Cos Inc/The | 2.37 |
| UBS AG | 2.33 |
| WT Asset Management Ltd | 1.77 |

Source: Bloomberg, CMBIGM

# Financial Summary

| INCOME STATEMENT | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 28 Jun (US$ mn)** | | | | | | |
| **Revenue** | **1,767** | **1,359** | **1,645** | **2,976** | **5,887** | **9,176** |
| Cost of goods sold | 1,004 | 910 | 1,074 | 1,614 | 2,875 | 4,400 |
| **Gross profit** | **764** | **449** | **572** | **1,362** | **3,012** | **4,776** |
| **Operating expenses** | **424** | **411** | **411** | **506** | **918** | **1,356** |
| SG&A expense | 175 | 151 | 155 | 206 | 422 | 620 |
| R&D expense | 249 | 260 | 256 | 300 | 495 | 736 |
| **Operating profit** | **339** | **38** | **160** | **856** | **2,094** | **3,419** |
| Other income | 30 | 43 | 15 | 27 | 94 | 136 |
| **Pre-tax profit** | **369** | **80** | **175** | **882** | **2,188** | **3,556** |
| Income tax | 54 | 5 | 29 | 146 | 361 | 587 |
| **After tax profit** | **315** | **75** | **146** | **737** | **1,827** | **2,969** |
| **Adjusted net profit** | **315** | **75** | **146** | **737** | **1,827** | **2,969** |

| BALANCE SHEET | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 28 Jun (US$ mn)** | | | | | | |
| **Current assets** | **2,778** | **1,590** | **1,717** | **3,951** | **4,836** | **7,706** |
| Cash & equivalents | 859 | 437 | 521 | 1,956 | 1,855 | 3,502 |
| Account receivables | 246 | 195 | 250 | 545 | 966 | 1,447 |
| Inventories | 409 | 398 | 470 | 751 | 1,253 | 1,917 |
| Prepayment | 110 | 110 | 120 | 145 | 208 | 285 |
| Contract assets | 1,155 | 450 | 356 | 555 | 555 | 555 |
| **Non-current assets** | **1,854** | **2,342** | **2,501** | **2,710** | **3,482** | **3,966** |
| PP&E | 490 | 573 | 726 | 1,076 | 1,970 | 2,556 |
| Right-of-use assets | 77 | 73 | 28 | 27 | 27 | 27 |
| Deferred income tax | 116 | 11 | 210 | 198 | 198 | 198 |
| Intangibles | 459 | 618 | 465 | 330 | 208 | 105 |
| Goodwill | 695 | 1,056 | 1,061 | 1,066 | 1,066 | 1,066 |
| Other non-current assets | 17 | 13 | 11 | 14 | 14 | 14 |
| **Total assets** | **4,632** | **3,932** | **4,219** | **6,662** | **8,319** | **11,672** |
| | | | | | | |
| **Current liabilities** | **634** | **269** | **393** | **1,789** | **1,140** | **1,826** |
| Short-term borrowings | 312 | 0 | 11 | 1,093 | 17 | 186 |
| Account payables | 169 | 126 | 225 | 437 | 753 | 1,149 |
| Other current liabilities | 87 | 77 | 111 | 189 | 253 | 322 |
| Lease liabilities | 14 | 13 | 11 | 13 | 13 | 13 |
| Accrued expenses | 51 | 52 | 35 | 58 | 104 | 156 |
| **Non-current liabilities** | **2,643** | **2,705** | **2,691** | **1,644** | **2,238** | **2,057** |
| Long-term borrowings | 2,500 | 2,503 | 2,563 | 1,498 | 2,092 | 1,911 |
| Obligations under finance leases | 48 | 43 | 24 | 19 | 19 | 19 |
| Other non-current liabilities | 95 | 159 | 105 | 127 | 127 | 127 |
| **Total liabilities** | **3,276** | **2,975** | **3,084** | **3,433** | **3,378** | **3,883** |
| | | | | | | |
| Share capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital surplus | 1,692 | 1,835 | 1,987 | 3,648 | 3,895 | 4,204 |
| Retained earnings | (341) | (887) | (861) | (426) | 1,039 | 3,578 |
| Other reserves | 4 | 9 | 9 | 7 | 7 | 7 |
| **Total shareholders equity** | **1,356** | **957** | **1,135** | **3,229** | **4,941** | **7,789** |
| **Total equity and liabilities** | **4,632** | **3,932** | **4,219** | **6,662** | **8,319** | **11,672** |

| CASH FLOW | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|
| **YE 28 Jun (US$ mn)** | | | | | | |
| **Operating** | | | | | | |
| Depreciation & amortization | 256 | 290 | 257 | 265 | 328 | 466 |
| Tax paid | (38) | 78 | (218) | 18 | 0 | 0 |
| Others | 94 | 203 | 62 | (145) | (276) | (342) |
| **Net cash from operations** | **180** | **25** | **126** | **574** | **1,517** | **2,663** |
| | | | | | | |
| **Investing** | | | | | | |
| Capital expenditure | (129) | (133) | (231) | (435) | (1,100) | (950) |
| Acquisition of subsidiaries/ investments | (862) | (705) | 0 | (38) | 0 | 0 |
| Others | 116 | 724 | 147 | (159) | 0 | 0 |
| **Net cash from investing** | **(874)** | **(114)** | **(84)** | **(631)** | **(1,100)** | **(950)** |
| | | | | | | |
| **Financing** | | | | | | |
| Net borrowings | 599 | 0 | 77 | 3,254 | 0 | 0 |
| Proceeds from share issues | 0 | 14 | 16 | 14 | 20 | 20 |
| Share repurchases | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (336) | (347) | (51) | (1,824) | (538) | (86) |
| **Net cash from financing** | **263** | **(333)** | **42** | **1,493** | **(518)** | **(66)** |
| | | | | | | |
| **Net change in cash** | | | | | | |
| Cash at the beginning of the year | 1,290 | 859 | 437 | 521 | 1,956 | 1,855 |
| Others | (431) | (422) | 84 | 1,436 | (101) | 1,647 |
| **Cash at the end of the year** | **859** | **437** | **521** | **1,956** | **1,855** | **3,502** |
| **GROWTH** | **2023A** | **2024A** | **2025A** | **2026E** | **2027E** | **2028E** |
| **YE 28 Jun** | | | | | | |
| Revenue | 3.2% | (23.1%) | 21.0% | 80.9% | 97.8% | 55.9% |
| Gross profit | (13.5%) | (41.2%) | 27.3% | 138.3% | 121.2% | 58.6% |
| Operating profit | (35.6%) | (88.9%) | 323.5% | 434.4% | 144.8% | 63.3% |
| Adj. net profit | (29.8%) | (76.1%) | 94.7% | 403.3% | 148.0% | 62.5% |
| **PROFITABILITY** | **2023A** | **2024A** | **2025A** | **2026E** | **2027E** | **2028E** |
| **YE 28 Jun** | | | | | | |
| Gross profit margin | 43.2% | 33.0% | 34.7% | 45.8% | 51.2% | 52.0% |
| Operating margin | 19.2% | 2.8% | 9.7% | 28.7% | 35.6% | 37.3% |
| Adj. net profit margin | 17.8% | 5.5% | 8.9% | 24.8% | 31.0% | 32.4% |
| **GEARING/LIQUIDITY/ACTIVITIES** | **2023A** | **2024A** | **2025A** | **2026E** | **2027E** | **2028E** |
| **YE 28 Jun** | | | | | | |
| Current ratio (x) | 4.4 | 5.9 | 4.4 | 2.2 | 4.2 | 4.2 |
| **VALUATION** | **2023A** | **2024A** | **2025A** | **2026E** | **2027E** | **2028E** |
| **YE 28 Jun** | | | | | | |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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