Coherent (COHR US)

Optical buffet for AIDC; initiate at BUY

BUY (Initiate)

Target Price	**US$465.00**
Up/Downside	**31.1%**
Current Price	**US$354.77**

We initiate coverage on Coherent with a BUY rating and TP of US$465, based on 31x FY28E non-GAAP P/E. We view Coherent as a differentiated full-stack AI photonics platform, with exposure across optical transceivers, InP devices, DCI, CPO/NPO, OCS, etc. Near-term growth is anchored by the 800G/1.6T optical transceiver ramp and internal 6-inch InP capacity expansion, while DCI/scale-across, CPO/NPO, OCS and Multi-Rail add incremental revenue streams beyond the core module cycle. We forecast revenue to grow 22%/54%/36% YoY in FY26E/27E/28E, primarily driven by Datacenter & Communications, and expect non-GAAP GPM to expand to 39%/42%/44% over the same period.

- **The core thesis is Coherent's ability to convert AI optical demand into revenue and margin through internal InP, module scale and system-level photonics.** We believe the Company is well positioned because it controls multiple scarce layers of the optical stack, including InP EML/CW lasers, photodetectors, passives, transceivers, DCI modules, CPO/NPO optical-engine content and OCS systems. As AI networks scale from 800G/1.6T pluggables toward scale-across DCI and scale-up optical architectures, value capture is moving toward suppliers that can secure components, qualify products and manufacture at scale. We believe Coherent's 6-inch InP ramp, downstream module footprint and broader system portfolio should support both revenue growth and margin resilience.
- **Coherent differs from module-only and laser-centric peers by monetizing AI optics across full supply chain.** Compared with pure module players, Coherent has stronger upstream component control; compared with laser-centric suppliers, it has broader exposure across modules, coherent DCI, optical subsystems and system-level products. This gives the Company multiple growth paths as hyperscalers secure long-term optical supply for AI infrastructure.
- **Initiate at BUY with TP of US$465, based on 31x FY28 P/E.** We believe the multiple is supported by Coherent's improving growth visibility, internal InP leverage, mix improvement and expanding AI optical infrastructure exposure.
- **Key risks include**: Slower hyperscaler capex, weaker-than-expected 1.6T adoption, execution risk in 6-inch InP and module capacity ramp, CPO/NPO or OCS deployment delays, pricing pressure, and slower Industrial recovery.

Earnings Summary

(YE 30 Jun)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	4,708	5,810	7,061	10,858	14,815
YoY growth (%)	(8.8)	23.4	21.5	53.8	36.4
Gross margin (%)	36.0	37.9	39.4	41.9	43.6
Operating profit (US$ mn)	709.5	1,036.9	1,444.4	2,507.0	3,747.9
YoY growth (%)	na	46.1	39.3	73.6	49.5
Net profit (US$ mn)	381.2	692.6	1,065.8	1,945.6	2,961.3
YoY growth (%)	(32.8)	81.7	53.9	82.6	52.2
Diluted EPS (US$)	1.67	3.53	5.41	9.88	15.03
P/E (Adjusted) (x)	212.4	100.5	65.6	35.9	23.6

Source: Company data, Bloomberg, CMBIGM estimates

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Stock Data

Mkt Cap (US$ mn)	69,393.0
Avg 3 mths t/o (US$ mn)	1,798.5
52w High/Low (US$)	426.89/77.37
Total Issued Shares (mn)	195.6

Source: FactSet

Shareholding Structure

Vanguard	12.0%
FMR	11.6%

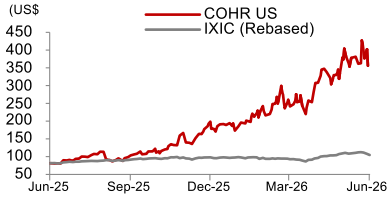
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-6.6%	-2.5%
3-mth	41.1%	27.4%
6-mth	78.7%	67.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Investment thesis

Full-stack AI photonics platform

Coherent is evolving from a diversified photonics company into a full-stack AI optical infrastructure platform, with exposure across **InP devices, optical transceivers, DCI (datacentre interconnect), CPO (co-packaged optics)/NPO (near-packaged optics), OCS (optical circuit switch), Multi-Rail and thermal solutions**. Its investment case is not just about 800G/1.6T module growth, but about monetizing AI optical demand across components, modules and systems as networks scale across **scale-out, scale-up and scale-across** architectures.

The Company's advantage lies in breadth and integration. Coherent can supply finished transceivers, InP EML(electro-absorption modulated laser)/CW (continuous wave) lasers, photodetectors, passive optics, external laser sources, optical-engine assemblies, coherent DCI modules and system-level products. This gives it broader revenue exposure than module-only suppliers and less dependence on a single product cycle.

Multiple revenue engines supported by internal InP and scale-across expansion

We see Coherent's growth driven by three main layers. First, **800G/1.6T transceivers** remain the core near-term revenue engine, supported by strong hyperscaler demand and internal InP supply. The 6-inch InP ramp strengthens capacity, cost structure and margin resilience across EMLs, CW lasers and photodiodes.

Second, **DCI and scale-across** expand Coherent's opportunity beyond intra-datacenter modules. As AI workloads spread across multiple sites, Coherent can benefit from ZR/ZR+ transceivers, coherent optical components and Multi-Rail systems, with Multi-Rail adding a new systems revenue layer from CY27, per mgmt.

Third, **CPO/NPO, OCS and thermal solutions** add incremental revenue streams beyond pluggables. CPO/NPO increases content around switch/xPU platforms; OCS adds software-defined optical switching for topology reconfiguration; and thermal solutions leverage Coherent's materials capability to address AI power-density constraints.

Improving earnings quality from mix and internal sourcing

Coherent's earnings quality should improve as Datacenter & Communications becomes a larger share of revenue and internal sourcing becomes more visible. The key margin levers are 6-inch InP cost benefits, higher internal component supply, stronger 1.6T mix, and new subsystem/system products such as CPO/NPO, OCS and Multi-Rail. Industrial remains a stabilizing cash-flow base, with incremental relevance from advanced materials and thermal solutions.

Initiate coverage on Coherent (COHR US) with BUY; TP at US$465

We initiate coverage on Coherent (COHR US) with a BUY rating and target price of US$465, based on 31x FY28E non-GAAP P/E. We forecast revenue to grow 22%/54%/36% YoY in FY26/27/28E, driven mainly by Datacenter & Communications. Growth should be supported by the 800G/1.6T ramp, internal InP expansion, DCI/scale-across growth, and incremental contribution from CPO/NPO, OCS and Multi-Rail. We believe 31x FY28E P/E is justified by Coherent's improving growth visibility, vertically integrated supply chain and mix/margin improvement potential.

Company overview

A vertically integrated photonic platform solution provider

Coherent has undergone multiple development stages, and its current strategy is the result of decades of capability accumulation rather than a single product cycle. The Company's roots in **engineered materials and precision optics** were strengthened by subsidiary **Finisar's optical communications platform** and later broadened by **legacy Coherent's laser and industrial photonics assets.** While this history created a complex portfolio, it also gave Coherent a differentiated position across the photonics stack, spanning compound semiconductor lasers, optical components, transceivers, OCS, CPO/NPO and industrial laser systems. We believe the key strategic transition is that Coherent is now moving from post-merger integration and portfolio simplification toward a more focused AI photonics growth phase, with Datacenter & Communications becoming the main driver of revenue acceleration and re-rating.

Figure 1: The Company's development history

Year	Milestone	Strategic importance
1971	II-VI founded	Established Coherent's core DNA in engineered materials, optics and vertical manufacturing. This remains the foundation for its full-stack photonics model.
2013	CoAdna / WSS capability added	Built early optical switching and ROADM (reconfigurable optical add-drop multiplexer) capability, creating the technical base for today's OCS opportunity.
2016	Anadigics and EpiWorks added	Strengthened compound semiconductor and epitaxy capability, supporting Coherent's later expansion in VCSELs (vertical-cavity surface-emitting lasers), EMLs, CW lasers and InP/GaAs platforms.
2019	**Finisar acquired**	**Transformed Coherent into a major optical communications platform, adding datacom transceivers, telecom components, WSS (wavelength selective switch), pump lasers and optical amplifiers.**
July 2022	**Coherent acquired**	**Combined II-VI's materials/networking strengths with legacy Coherent's lasers and optics, creating a broader photonics platform across datacenter, communications and industrial markets.**
2023	AI/ML datacom demand emerged as a major growth driver	Marked the start of Coherent's AI optics narrative, as high-speed datacom transceivers became increasingly driven by AI cluster bandwidth demand.
2024	Portfolio streamlining and investment refocus	Shifted the story from post-merger complexity to disciplined growth, with investment redirected toward core growth engines and non-core assets reduced.
2025	**Strategic focus narrowed to Datacenter & Communications and Industrial**	Clarified the forward framework: **Datacenter & Communications as the primary growth/re-rating driver**, Industrial as a stable cash-flow and advanced manufacturing platform.
2025-2026	1.6T in production; 3.2T / 6.4T in development; InP capacity tripled	Extended the AI optics story from an 800G cycle into a multi-generation upgrade path, supported by internal laser capacity and vertical integration.
2026 and onwards	OCS moved from initial revenue contribution to production deployment; new growth engines added: CPO/NPO, multi-rail and thermal solutions	Signaled Coherent's move beyond modules/components into system-level AI network architecture, with OCS becoming a potential standalone revenue line. Expanded Coherent's AI infrastructure opportunity from scale-out transceivers into scale-up and scale-across photonics, reinforcing its full-stack platform positioning.

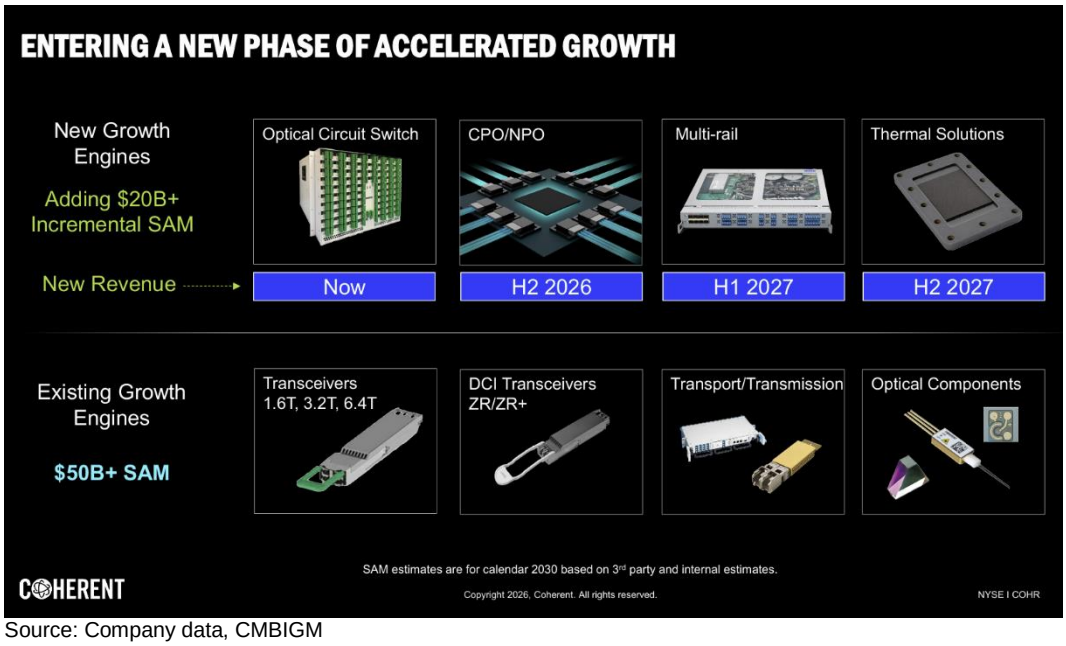
Source: Company data, CMBIGM

The Company's competitive advantage

Coherent's differentiated advantage is not just that it owns scarce optical components, but that it combines **upstream InP / laser capability, high-volume transceiver manufacturing, passive optics, DCI transport, OCS, CPO/NPO and industrial materials** under one platform. This gives the company more ways to convert AI bandwidth growth into revenue than a narrower laser-centric supplier or a pure-play optical transceiver participant.

- **From component scarcity to platform breadth:** Coherent's advantage is broader in that it can monetize the same AI optical cycle through **transceivers, EMLs, CW lasers, photodetectors, passives, OCS, DCI and eventually CPO/NPO assemblies**.
- **Manufacturing scale across the full chain:** Coherent has both upstream 6-inch InP expansion and downstream module manufacturing capacity across Wuxi, Malaysia and Southeast Asia. This makes its edge not only lasers but **that it can turn scarce optical devices into qualified modules and systems at scale**.
- **More diversified future optionality:** Beyond 800G/1.6T, Coherent has credible exposure to **scale-across DCI, multi-rail transport, liquid-crystal OCS and thermal materials**. That gives it a wider AI infrastructure roadmap, while Industrial provides an additional stabilizing base rather than being purely dependent on datacenter laser cycles.

Figure 2: Coherent's future product line-up – building for accelerating growth



Source: Company data, CMBIGM

The Company's product portfolio

Coherent is a diversified photonics company, but its forward strategy is increasingly organized around two core end markets:

1. **Datacenter & Communications** and **Industrial**. We believe this segmentation better reflects the company's current investment debate. **Datacenter & Communications** is the primary growth and re-rating engine, driven by AI bandwidth expansion, high-speed transceivers, InP lasers, CPO/NPO, OCS and scale-across connectivity.
2. **Industrial** remains a stabilizing platform, supported by semiconductor/display capital equipment, precision manufacturing, advanced materials and instrumentation, with incremental relevance to AI through thermal management and advanced materials.

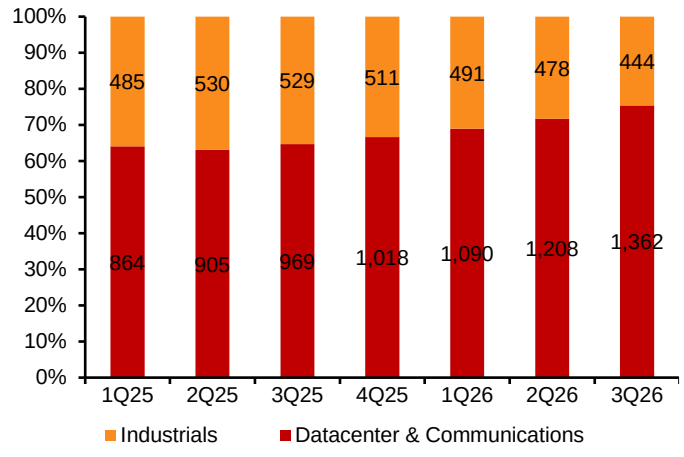
Figure 3: The Company's key Datacenter and Industrial product portfolio

Segment	Product category	Key products	Use case	Strategic relevance	Demo
Datacenter & Communications	**Optical transceivers**	Datacom, telecom transceivers	Scale-out AI networks, DCI, telecom links	Main near-term revenue driver from 800G / 1.6T ramp.	
	Optoelectronic devices	InP lasers, GaAs VCSELs, photodiodes, ICs	Optical engines inside modules, CPO/NPO and DCI	Core bottleneck layer; supports supply security and margin control.	
	Communication components	Receivers, dynamic components, subassemblies, passives, pump lasers	Modules, optical engines, transport systems	Broadens value capture beyond final modules.	
	Optical circuit switch	OCS systems	AI cluster topology reconfiguration	Moves Coherent into system-level AI networking.	
	Wavelength management	Amplifiers, optical monitoring, passive modules, line cards, multi-rail	DCI, telecom, scale-across networks	Supports distributed AI datacenter connectivity.	
	Interconnect cables	Active optical cables, direct attach cables	Short-reach datacenter links	Useful adjacency, but less differentiated.	
	Optical instruments	Test and monitoring instruments	Network deployment and diagnostics	Supports customer deployment; not a core re-rating driver.	
Industrial	**Semiconductor & display capital equipment**	Lasers, optics, advanced ceramics, SiC, diamond windows, line-beam systems	Lithography, inspection, annealing, display backplane processing	Highest-quality industrial exposure; tied to semi/display process complexity.	
	Precision manufacturing	Fiber lasers, CO2 lasers, ultrafast lasers, laser processing heads	Cutting, welding, marking, ablation	Broad industrial base across electronics, EV, medical and general manufacturing.	
	Advanced materials	SiC, ceramics, diamond / Thermadite materials, thermal materials	Semi tools, thermal management, high-performance systems	Differentiated materials layer; supports industrial and AI thermal adjacencies.	
	Life sciences / instrumentation	Scientific lasers, optics, filters, laser engines	Diagnostics, imaging, spectroscopy, research tools	Stable niche markets; supports diversification.	
	Service and installed base	Laser services, parts, maintenance, repair	Industrial laser uptime and support	Recurring, lower-volatility revenue stream.	

Source: Company data, CMBIGM

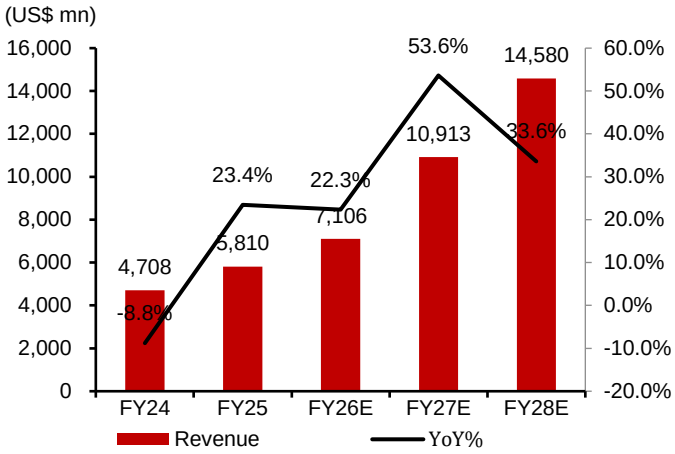
The Company's revenue growth was largely driven by its datacenter and communications expansion, which made up more than 75% of total revenue in 3QFY26.

Figure 4: Coherent's revenue breakdown from 1Q25 to 3Q26



Source: Company data; financial year ends in June

Figure 5: Coherent's revenue and growth



Source: Company data, CMBIGM estimates

Key growth drivers

First driver: High-speed optical transceivers capacity ramp-up supported by its internal InP supply

Coherent's most visible near-term growth driver is the high-speed optical transceiver ramp, but the more important change is that the basis of competition is moving upstream. In the 400G/800G cycle, module vendors could still differentiate mainly through manufacturing scale, delivery discipline and cost execution. As the market moves to **1.6T** and eventually **3.2T/6.4T**, the bottleneck increasingly shifts toward scarce optical building blocks, including **high-performance EMLs, CW lasers, photodetectors, isolators and precision passive optics**. In this context, we believe Coherent's transceiver business should not be viewed simply as a module assembly platform, but as a vertically integrated optical-engine platform.

Demand visibility supports this shift. The Company indicated that it is largely booked through **CY26 and CY27**, with some orders already extending into **CY28** and long-term agreements reaching toward the end of the decade. This suggests hyperscalers are not merely placing tactical short-cycle orders; they are securing multi-year optical supply ahead of increasingly complex AI cluster deployments. For Coherent, the key question is therefore less about whether demand exists, and more about how quickly internal capacity can convert backlog into shipments.

Coherent's InP footprint is central to that conversion. The Company has a distributed InP platform across the US and Europe, including legacy **3-inch InP** capacity in Fremont, California and multiple **6-inch InP** platforms in Sherman, Zurich and Järfälla. The strategic value of this footprint is not only capacity expansion, but also control over the most constrained components in the 1.6T optical supply chain: **100G/200G EMLs, InP CW lasers and photodetectors**. Sherman appears to be the most important US scale-up platform for datacom optics and future CPO/NPO demand, while Zurich and Järfälla add European scale and redundancy for next-generation optical devices.

Figure 6: The Company's InP capacity

Location	Production platform	Capacity expansion plan
Fremont, California, USA	Legacy **3-inch InP lines**; operating for 20+ years	Mature InP technology base, supports process know-how and legacy/specialty products.
Sherman, Texas, USA	**6-inch InP lines**; operating for 20+ years	Key US scale-up platform for datacom optics, 100G/200G EML, InP CW lasers, and future CPO/NPO demand.
Zurich, Switzerland	**6-inch InP lines**; Coherent's largest compound semiconductor fab / core InP production hub	Main high-volume InP manufacturing base, supporting multiple InP device types across datacom, telecom, and optical components.
Järfälla, Sweden	Newest **6-inch InP platform**	Incremental European expansion site, adding future capacity flexibility and regional redundancy for 1.6T, 3.2T, and CPO/NPO-related products.

Source: Company data, CMBIGM

The margin implication is equally important. In a conventional module model, aggressive capacity expansion can dilute margin if ASP pressure outpaces cost reduction. Coherent has a better setup because the 1.6T mix shift, higher internal laser sourcing, 6-inch InP cost advantages and broader self-sufficiency can partially offset normal module price erosion. We therefore view internal sourcing as both a **supply assurance lever** and a **gross-margin protection lever**, giving Coherent a stronger position than pure optical module assemblers as volumes scale.

This advantage extends beyond InP lasers. Coherent controls a broad set of components used inside pluggable optical modules, including **VCSELs, EMLs, CW lasers, silicon photonics, GaAs/InP detectors, isolators, lens arrays, optical mux/demux, thermoelectric coolers (TECs), laser drivers and transimpedance amplifier (TIAs)**. These components perform different functions, but together they define optical performance, module yield, reliability and cost. The key takeaway is that Coherent owns many of the components that tend to become bottlenecks as data rates rise, rather than relying entirely on external suppliers for the optical engine.

Figure 7: Coherent controls most of the critical parts in a pluggable optical module

Capability	Product	Use
Assembly and Test	Components and Modules	Module assembly, optical alignment, calibration, reliability screening and final high-speed test.
Sources	GaAs VCSELs	Light source for short-reach, multimode transceivers. Mainly used where link distance is short and low cost / low power matter.
	InP EMLs	Integrated laser + modulator for high-speed single-mode transceivers. Key for 800G/1.6T DR/FR/LR modules.
	InP CW Lasers	Continuous-wave light source for silicon photonics transceivers. The SiPh chip performs modulation; the CW laser supplies optical power.
	Silicon Photonics	Photonic integrated circuit for modulation, optical routing and coupling in SiPh-based transceivers.
Detectors	GaAs Detectors	Photodetectors for short-reach / multimode receive paths.
	InP Detectors	Photodetectors for high-speed single-mode receive paths.
Passive Optics	Isolators	Block back-reflected light from entering the laser, improving laser stability and reliability.
	Lens Arrays	Couple light between lasers, detectors, SiPh chips and fibers.
	Optical Multiplexer / Demultiplexer	Combines or separates optical lanes / wavelengths inside the module.
Thermal Control	Thermoelectric Coolers	Controls laser temperature to stabilize wavelength and output power.
Integrated Circuits	Laser Drivers	Drive the laser or modulator with high-speed electrical signals.
	TIA	Converts photodiode current into voltage on the receive path.

Source: Company data, CMBIGM

Final module manufacturing is the last step in the capacity chain. Coherent operates a diversified optical module footprint across **China and Southeast Asia**, including **Wuxi, Malaysia and Vietnam**. Wuxi, inherited through the Finisar acquisition, appears to be the most mature high-speed optical module platform, with volume production capabilities for **800G and 1.6T** products. Malaysia remains the key high-volume transceiver manufacturing base and should gradually scale 1.6T capacity over the next two years, per our estimate, while Vietnam adds incremental photonics component, advanced optics and supply-chain diversification support.

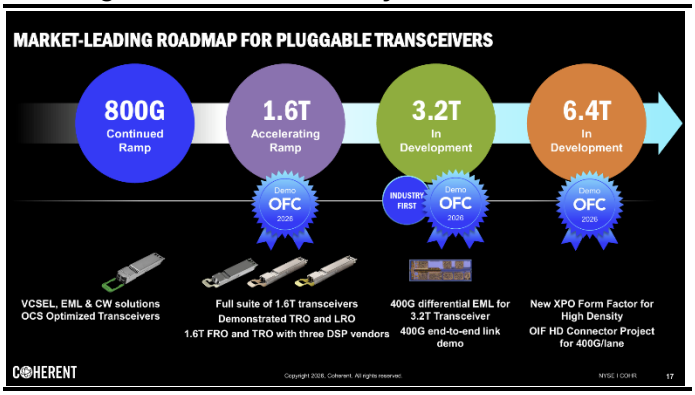
Figure 8: The Company's optical transceiver capacity

Location	Role in 1.6T optical module ramp
Wuxi, China	Core capacity and module manufacturing base with dedicated 1.6T ramp visibility, moving from small-batch trial production in 2025 toward larger-scale output in 2026.
Malaysia: Ipoh / Perai	Existing high-volume transceiver manufacturing base, historically important for 400G/800G and broader datacom modules. 1.6T capacity is being planned / introduced, but ramp appears slower than Wuxi.
Vietnam: Nhon Trach	Newer manufacturing expansion node for optical modules and communications products.

Source: Company data, CMBIGM

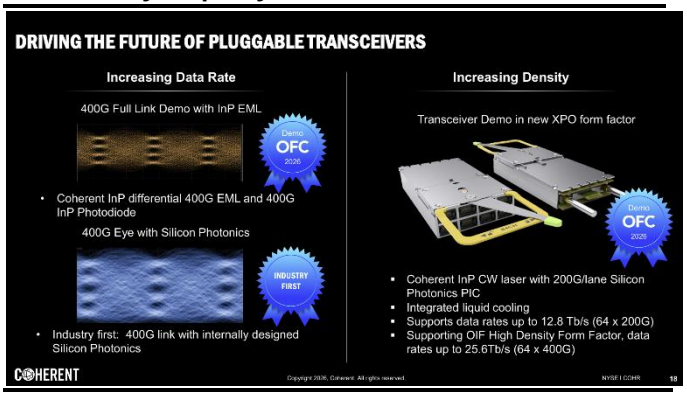
Overall, we believe Coherent is better positioned than pure optical module players because it combines module manufacturing scale with upstream control of critical optical components. This matters more as the industry moves from 800G to 1.6T and beyond: the competitive bottleneck is no longer only who can assemble modules, but who can secure and integrate the lasers, detectors, passives and thermal-control components needed to build those modules reliably at scale.

Figure 9: Coherent's pluggable optics roadmap, evolving from 800G all the way to 6.4T



Source: Company data

Figure 10: Coherent is preparing for the next speed-and-density leap beyond 1.6T

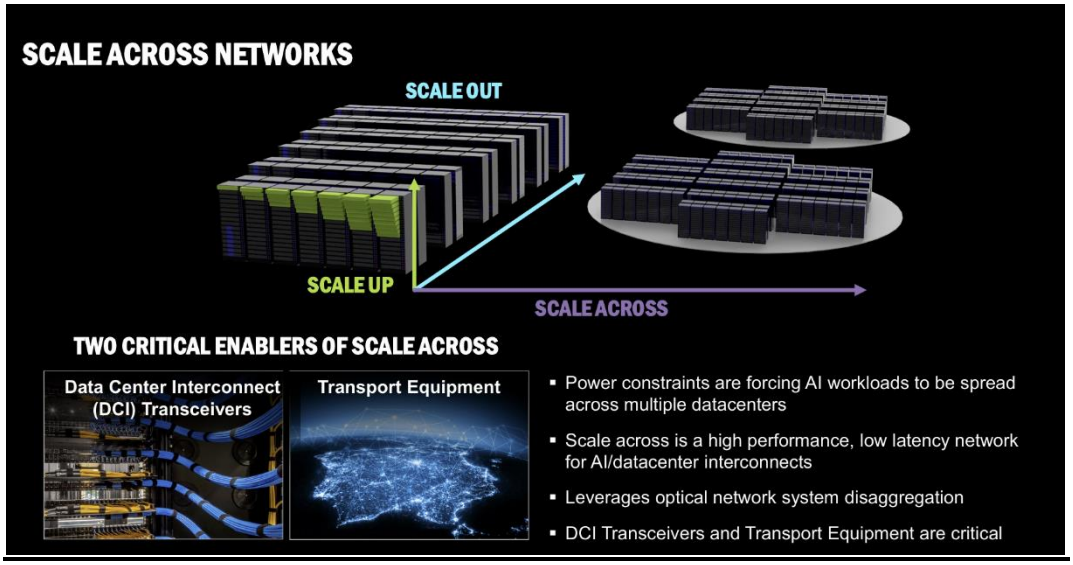


Source: Company data

Second driver: DCI and scale-across expand optical module demand beyond the AI cluster

Coherent's second revenue driver is **scale-across connectivity**, where its DCI ZR/ZR+ portfolio extends the optical module opportunity from intra-datacenter networking to high-capacity links between distributed datacenters. While 800G/1.6T datacom modules address scale-out bandwidth inside AI clusters, DCI modules address a different bottleneck: AI workloads are increasingly distributed across multiple sites due to power availability, land constraints and compute-density limits. This turns inter-DC connectivity from a traditional telecom upgrade cycle into an AI infrastructure requirement.

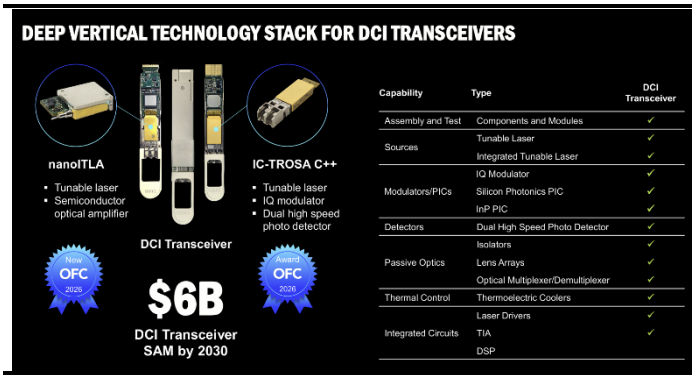
Figure 11: Scale-across connectivity presents a new growth engine



Source: Company data

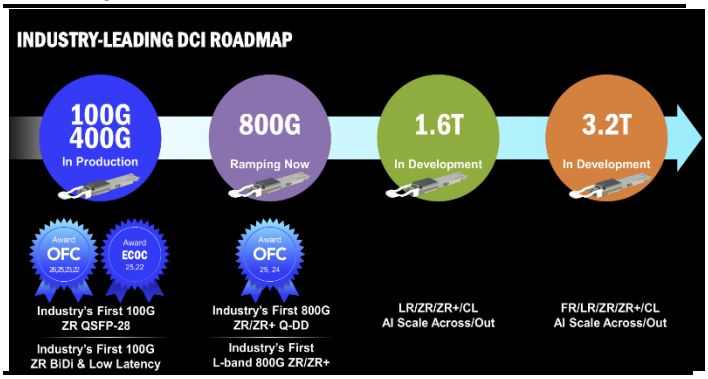
Coherent is well positioned because its DCI exposure is not limited to finished transceivers. Its roadmap shows a deep DCI stack covering **tunable lasers, integrated tunable lasers, IQ modulators, SiPh photonic integrated circuits (PICs), InP PICs, high-speed photodetectors, passives, TECs, drivers, TIAs and digital signal processors (DSPs)**. In practice, this means Coherent can capture value across both the DCI module and the coherent optical engine inside it. The company sizes **DCI transceiver serviceable available market (SAM) at US$6bn by 2030**, with 800G ZR/ZR+ ramping now and 1.6T / 3.2T in development.

Figure 12: Coherent's deep vertical technology stack for DCI transceivers



Source: Company data

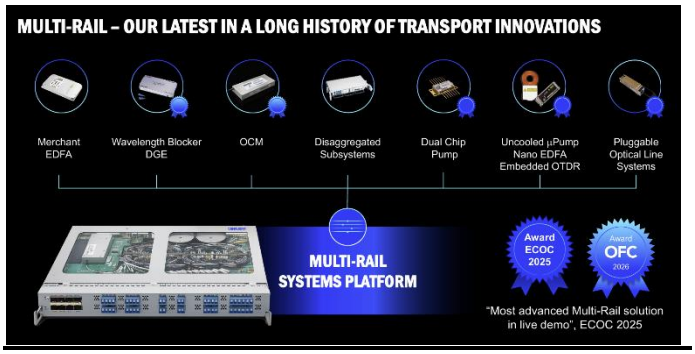
Figure 13: Coherent holds an industry-leading DCI roadmap



Source: Company data

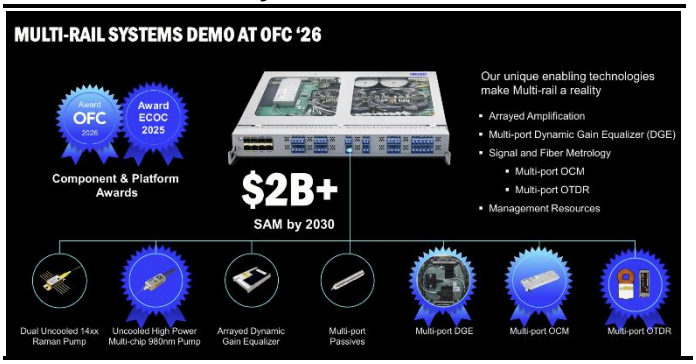
Beyond DCI modules, **Multi-Rail adds a separate systems-level revenue opportunity**. Rather than simply increasing transceiver speed, **Multi-Rail improves transport capacity within the same power and real-estate envelope by integrating line-system functions**. We view this as an incremental revenue layer on top of DCI with initial revenue expected from **H1CY27** and a separate **US$2bn+ SAM by 2030, per mgmt..**

Figure 14: The Company's achievements in Multi-Rail development



Source: Company data

Figure 15: Coherent is forecasting a US$2bn SAM by 2030 for Multi-Rail systems



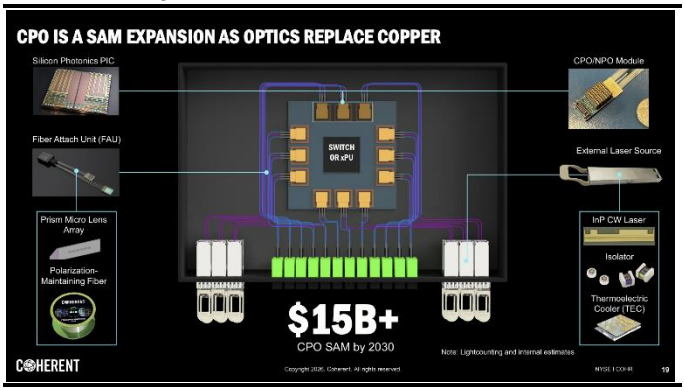
Source: Company data

In our view, scale-across strengthens Coherent's optical module thesis in two ways: 1) DCI provides a current growth base that still leverages Coherent's internal photonics stack, including InP tunable lasers, InP PICs and photodetectors. 2) Multi-Rail gives the company a path to monetize higher-value transport systems as AI datacenters become more geographically distributed. This broadens Coherent's revenue exposure from **modules inside the cluster** to **modules and systems between clusters**, adding another layer of growth beyond the 800G/1.6T cycle.

Third driver: CPO/NPO, OCS, and thermal solutions to further lift growth ceiling

While Coherent's near-term growth remains anchored by the 800G/1.6T transceiver ramp, CPO/NPO creates a new layer of optical content around the switch or xPU architecture. The opportunity is not limited to high-power CW lasers. Coherent can also supply external laser source modules, isolators, TECs, fiber attach units, micro-lens arrays, polarization-maintaining fiber and related optical-engine assemblies. This changes the revenue model from selling front-panel modules to monetizing multiple enabling components inside the CPO optical engine and external light source assembly. Management expects initial scale-out CPO revenue in 2HCY26, with scale-up CPO revenue expected to begin afterwards, giving the business a clearer commercialization timeline beyond the current pluggable cycle.

Figure 16: Coherent expects CPO SAM to reach US$15bn+ by 2030



Source: Company data

Figure 17: Coherent has the broadest and deepest solution set for CPO/NPO

Source: Company data

In CPO/NPO, Coherent's differentiated angle is breadth of optical-engine content rather than pure laser leadership. **The Company can participate through InP CW lasers and external laser sources, but also through fiber attach units (FAUs), micro-lens arrays, polarization-maintaining fiber, isolators, TECs, silicon photonics-related components and CPO/NPO modules**. This makes Coherent more of an optical subsystem supplier, while Lumentum's CPO positioning appears more concentrated around ultra-high power (UHP) laser chips and external laser source (ELS).

Figure 18: Coherent has an extensive role in CPO supply chain

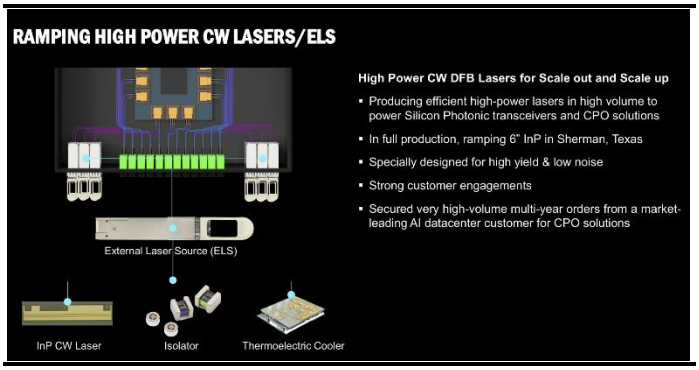
Capability	Product	Use in CPO
Assembly & Test	Components and modules	Optical-engine assembly, alignment, validation and system test.
Sources	GaAs VCSELs	Short-reach light source for selected NPO/CPO architectures.
	InP EMLs	Not typical for CPO; CPO usually uses CW lasers plus external modulation.
	InP CW Lasers	Continuous-wave light source for ELS or CPO optical engines.
	Silicon Photonics	Modulation, routing and coupling inside the optical engine.
Detectors	GaAs Detectors	Receive-side detection for short-reach optical links.
	InP Detectors	High-speed receive-side detection for single-mode links.
Passive Optics	Isolators	Block back-reflections into the laser.
	Lens Arrays	Couple light between lasers, PICs, detectors and fibers.
	Optical Mux / Demux	Combine or split wavelengths / optical lanes.
Thermal Control	Thermoelectric Coolers	Stabilize laser and engine temperature.
Integrated Circuits	Laser Drivers	Drive lasers or modulators.
	TIA	Convert photodiode current into voltage.

CPO-specific	External Laser Source	Supplies optical power to the CPO engine.
	Polarization-maintaining Fiber	Preserves polarization from ELS to engine.
	Fiber Attach Unit	Couples light between PIC / engine and fiber.

Source: Company data, CMBIGM

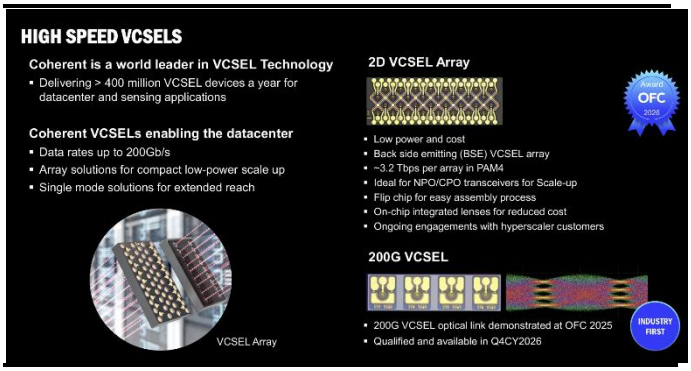
Coherent's CPO/NPO exposure is architecture-diversified compared to its peers. It is developing SiPh + InP CW laser, VCSEL-based NPO and 400G InP CPO engine solutions. This reduces dependency on a single CPO architecture and improves customer coverage as scale-out and scale-up designs evolve.

Figure 19: Coherent's high power CW lasers/ELS solutions for CPO/NPO



Source: Company data

Figure 20: Coherent's high-speed VCSEL solutions for CPO/NPO

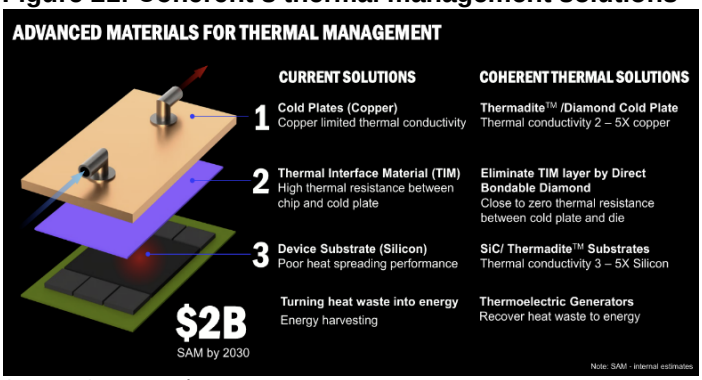


Source: Company data

Beyond CPO/NPO, Coherent's new growth engines also include **optical circuit switch (OCS) and thermal solutions**, which address different AI infrastructure constraints. OCS targets topology reconfiguration and xPU utilization, while thermal solutions address rising power-density and cooling limits. Together with CPO/NPO, these products expand Coherent's revenue opportunity beyond optical modules into higher-value subsystem and system-level infrastructure.

Coherent's OCS strategy is built around **digital liquid crystal technology**, which it argues offers a more scalable system architecture for large AI clusters. The main selling points are not only optical switching performance, but also no moving parts, low-voltage operation, simple control loops and low power consumption. Coherent supports this reliability claim with field data from wavelength selective switch (WSS) deployments, with over **160k WSS units deployed**, **30.3bn liquid-crystal device hours**, **and less than 3% of reported failures attributable to liquid crystal**, including deployment in undersea networks where reliability requirements are high.

Figure 21: Coherent's thermal management solutions



Source: Company data

Figure 22: Coherent's OCS solutions

Source: Company data

Financial analysis

We forecast the Company's revenue to grow by **22%/54%/36% YoY in FY26/27/28E**, primarily driven by the rapid expansion of its **Datacenter & Communications** segment. The growth is supported by three layers: **1) 800G/1.6T transceiver ramp**, backed by strong AI datacenter demand and improving internal InP supply; **2) scale-across growth**, including DCI ZR/ZR+ transceivers and Multi-Rail systems as AI workloads become increasingly distributed across datacenters; and **3) incremental revenue streams from CPO/NPO, OCS and thermal solutions**, which expand Coherent's content beyond standard pluggable modules. We expect Industrial to recover more gradually, serving mainly as a stabilizing cash-flow base rather than the primary growth driver over the forecast period.

We also expect enhanced gross margins and improving product mix on high-speed transceivers, improving yield, resilient pricing power amid supply shortage, etc. We expect **the Company's GPM to steadily expand from 38% in FY25 to 39%/42%/44% in FY26-28E.**

Figure 23: Coherent's financial forecast

(FY, US$mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**4,708**	**5,810**	**7,061**	**10,858**	**14,815**
YoY%	*-8.8%*	*23.4%*	*21.5%*	*53.8%*	*36.4%*
COGS (non-GAAP)	3,012	3,608	4,276	6,310	8,362
Gross profit (non-GAAP)	**1,696**	**2,202**	**2,784**	**4,548**	**6,452**
Gross margin	*36.0%*	*37.9%*	*39.4%*	*41.9%*	*43.6%*
R&D (non-GAAP)	441	554	672	1,000	1,376
SG&A (non-GAAP)	545	611	668	1,041	1,328
Operating income (non-GAAP)	**710**	**1,037**	**1,444**	**2,507**	**3,748**
OP margin	15.1%	17.8%	*20.5%*	*23.1%*	*25.3%*
- Total other income/expense net	232.3	167.3	128.5	105.0	92.0
Pre-tax income (non-GAAP)	**477**	**870**	**1,316**	**2,402**	**3,656**
Tax (non-GAAP)	*98.5*	*184.0*	*250.1*	*456.4*	*694.6*
Effective tax rate	20.6%	21.2%	*19.0%*	*19.0%*	*19.0%*
Net income (non-GAAP)	**381**	**693**	**1,066**	**1,946**	**2,961**
YoY%	*-32.8%*	*81.7%*	*53.9%*	*82.6%*	*52.2%*
Net margin	*8.1%*	*11.9%*	*15.1%*	*17.9%*	*20.0%*
Diluted shares (mn)	152.6	155.5	197.0	197.0	197.0
Diluted EPS (US$)	**1.67**	**3.53**	**5.41**	**9.88**	**15.03**

Source: Company data, CMBIGM estimates

We forecast the Company's revenue mix to shift decisively toward Datacenter & Communications over our forecast horizon, transforming the group profile from a diversified photonics franchise into one anchored by AI infrastructure demand.

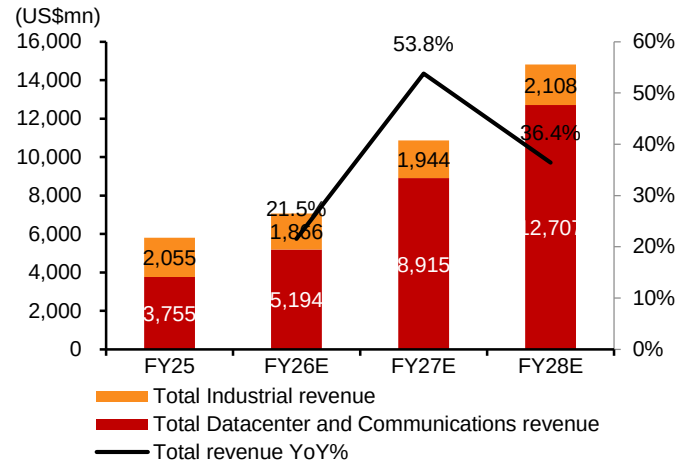
Figure 24: Revenue by segment

Segment	FY25	FY26E	FY27E	FY28E
(US$mn)				
Datacenter and Communications	**3,755**	**5,194**	**8,915**	**12,707**
YoY%		*38.3%*	*71.6%*	*42.5%*
%	*64.6%*	*73.6%*	*82.1%*	*85.8%*
Industrials	**2,055**	**1,866**	**1,944**	**2,108**
YoY%		*-9.2%*	*4.1%*	*8.4%*
%	*35.4%*	*26.4%*	*17.9%*	*14.2%*
Total revenue	**5,810**	**7,061**	**10,858**	**14,815**

Source: Company data, CMBIGM estimates

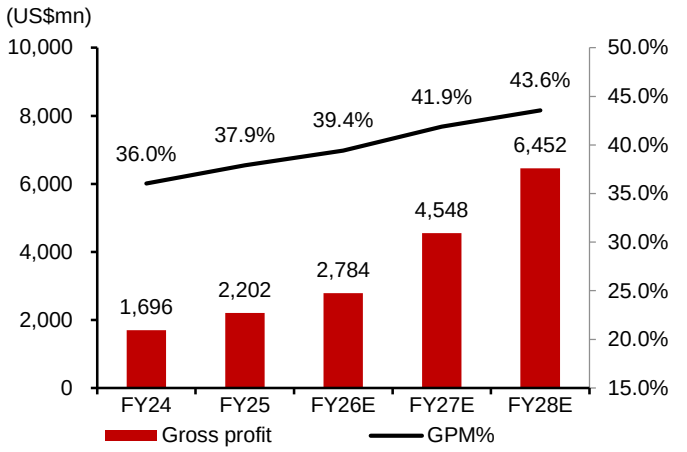
We project Datacenter & Communications revenue to grow from US$3.8bn in FY25 to **US$5.2bn/8.9bn/12.7bn in FY26/27/28E**, lifting the segment's contribution to group revenue from **65% to 86%** over the period. Demand visibility is well above historical norms, supported by record bookings, an order backlog extending into CY28, and long-term agreements (LTA) stretching to the end of the decade.

Figure 25: Revenue by segment and growth



Source: Company data, CMBIGM estimates

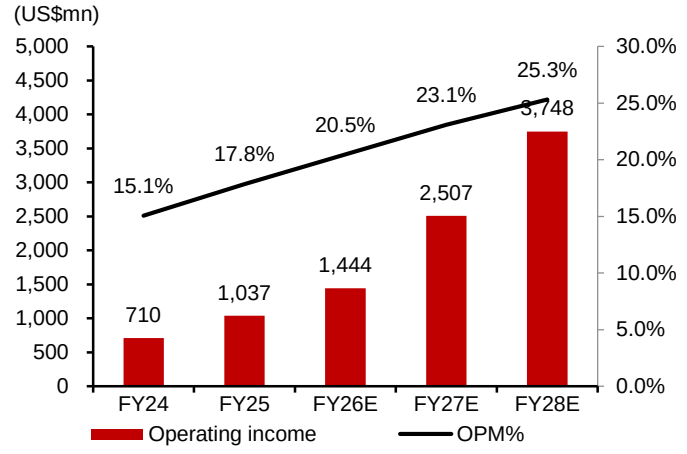
Figure 26: Non-GAAP gross profit and GPM%



Source: Company data, CMBIGM estimates

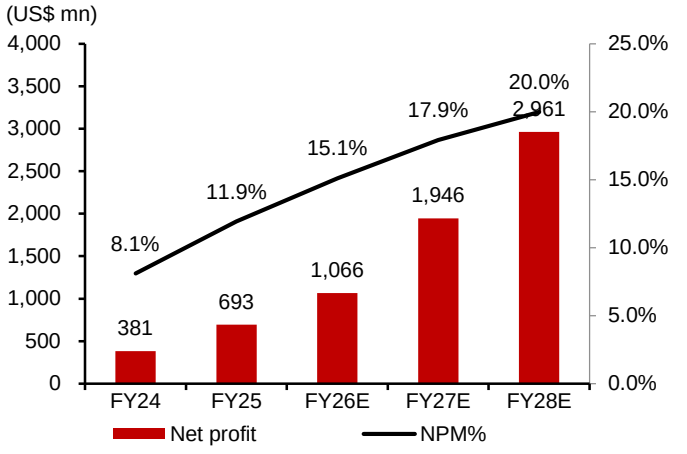
We forecast non-GAAP operating profit to grow from US$1bn in FY25 to US$1.4bn/2.5bn/3.8bn in FY26-28E, reflecting GPM accretion from the 6-inch InP transition toward mgmt.'s 42% long-term target, combined with disciplined Opex growth and improving operating leverage. We also forecast non-GAAP net income to grow from US$693mn to US$1.1bn/1.9bn/3.0bn in FY26-28E.

Figure 27: Non-GAAP operating income and margin



Source: Company data, CMBIGM estimates

Figure 28: Non-GAAP net profit and margin



Source: Company data, CMBIGM estimates

Valuation and risks

Initiate at BUY at US$465, corresponding to 31x FY28 P/E

We benchmark Coherent against a global peer set of optical interconnect players, which trade at an average **CY27E P/E of 31.4x**. Coherent stands out for its vertically integrated manufacturing platform across InP devices, optical components, transceivers and system-level photonics, giving it stronger supply-chain control than pure module players. We believe its ongoing **6-inch InP capacity ramp**, expanding 800G/1.6T roadmap, and broader exposure to DCI, CPO/NPO, OCS and Multi-Rail should support sustained revenue growth and mix improvement. Demand visibility is also underpinned by resilient hyperscaler capex and multi-year optical supply commitments.

We apply a **31x P/E to Coherent's FY28E (end in June, 2028) earnings to derive a target price of US$465 per share**. We believe the multiple is further supported by Coherent's transition from a diversified photonics supplier to an AI-driven optical infrastructure platform, with earnings growth increasingly backed by long-dated hyperscaler demand, internal component leverage and new system-level revenue streams. Our target multiple represents a slight discount to peers' average of 31.4x to account for potential near-term margin dilution as its 800G/1.6T transceiver capacity rapidly ramps.

Figure 29: The Company's peers valuation

		P/E (x)		EPS (US$)		Revenue YoY%		GPM%	
Company	**Ticker**	**CY26E**	**CY27E**	**CY26E**	**CY27E**	**CY26E**	**CY27E**	**CY26E**	**CY27E**
Lumentum	LITE US	65.2	36.3	13.09	23.53	103.4	66.0	47.5	50.6
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
Innolight	300308 CH	48.2	29.3	3.44	5.67	144.6	53.6	43.9	44.5
Eoptolink	300502 CH	41.7	28.8	1.86	2.69	113.1	48.7	48.3	48.1
	Average	***55.9***	***31.4***	***5.64***	***8.58***	***65.8***	***48.1***	***37.7***	***38.6***
	Ticker	**FY28 P/E (x)**		**FY28 EPS**		**Target Price**			
Coherent	**COHR US**	**31x P/E**		**US$15.0**		**US$465**			

Source: Bloomberg data as of 10 June 2026, CMBIGM estimates

Key risks

Slower hyperscaler capex, weaker-than-expected 1.6T adoption, execution risk in 6-inch InP and module capacity ramp, CPO/NPO or OCS deployment delays, pricing pressure, and slower Industrial recovery.

Appendix

Figure 30: The Company's management profile

Name	Title
James R Anderson	President/CEO
Sherri R Luther	CFO/Treasurer
Dr Julie Sheridan Eng	Chief Technology Officer

Source: Company data, Bloomberg, CMBIGM

Figure 31: The Company's shareholding structure (as of 5 June, 2026)

Holder Name	% of Shares Outstanding
Vanguard Group Inc	11.99
FMR LLC	11.56
Blackrock Inc	6.63
NVIDIA Corp	3.98
State Street Corp	3.96
Invesco Ltd	3.11
Geode Capital Management LLC	2.68
Morgan Stanley	1.41
WT Asset Management Ltd	1.37
UBS AG	1.33

Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US$ mn)						
Revenue	**5,160**	**4,708**	**5,810**	**7,061**	**10,858**	**14,815**
Cost of goods sold	3,176	3,252	3,767	4,251	6,282	8,335
Gross profit	**1,984**	**1,696**	**2,202**	**2,784**	**4,548**	**6,452**
Operating expenses	**1,655**	**987**	**1,165**	**1,340**	**2,041**	**2,704**
SG&A expense	1,156	545	611	668	1,041	1,328
R&D expense	500	441	554	672	1,000	1,376
Operating profit	**(37)**	**710**	**1,037**	**1,444**	**2,507**	**3,748**
Pre-tax profit	**(356)**	**477**	**870**	**1,316**	**2,402**	**3,656**
Income tax	(96)	99	184	250	456	695
After tax profit	**(260)**	**381**	**693**	**1,066**	**1,946**	**2,961**
Net profit	**568**	**381**	**693**	**1,066**	**1,946**	**2,961**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US$ mn)						
Current assets	**3,252**	**3,660**	**3,927**	**6,920**	**9,813**	**13,408**
Cash & equivalents	833	926	909	1,787	2,871	5,142
Restricted cash	0	174	9	42	42	42
Account receivables	902	849	964	1,326	2,072	2,626
Inventories	1,272	1,286	1,438	2,270	3,333	4,103
Prepayment	245	425	607	671	671	671
Other current assets	0	0	0	825	825	825
Non-current assets	**10,459**	**10,829**	**10,984**	**10,861**	**11,179**	**11,706**
PP&E	1,782	1,817	1,878	2,439	2,758	3,285
Right-of-use assets	0	0	0	0	0	0
Deferred income tax	38	41	53	72	72	72
Intangibles	3,815	3,503	3,205	2,958	2,958	2,958
Goodwill	4,513	4,464	4,471	4,402	4,402	4,402
Other non-current assets	312	1,003	1,377	989	989	989
Total assets	**13,711**	**14,489**	**14,911**	**17,781**	**20,993**	**25,114**
Current liabilities	**1,079**	**1,344**	**1,795**	**2,267**	**3,364**	**4,187**
Short-term borrowings	75	74	188	9	9	9
Account payables	405	631	847	1,425	2,083	2,580
Other current liabilities	486	507	594	0	0	0
Lease liabilities	38	41	42	52	52	52
Accrued expenses	74	91	124	780	1,220	1,546
Non-current liabilities	**5,403**	**5,199**	**4,635**	**4,118**	**3,958**	**3,798**
Long-term borrowings	4,235	4,026	3,499	3,135	2,935	2,735
Obligations under finance leases	141	162	165	179	179	179
Other non-current liabilities	1,028	1,010	971	804	844	884
Total liabilities	**6,482**	**6,542**	**6,430**	**6,385**	**7,322**	**7,984**
Share capital	3,781	4,858	5,056	10,747	11,112	11,597
Capital surplus	0	0	0	0	0	0
Retained earnings	944	665	584	311	2,220	5,194
Other reserves	2,503	2,052	2,487	0	0	0
Total shareholders equity	**7,229**	**7,575**	**8,128**	**11,058**	**13,333**	**16,791**
Minority interest	0	371	354	339	339	339
Total equity and liabilities	**13,711**	**14,489**	**14,911**	**17,781**	**20,993**	**25,114**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun (US$ mn)						
Operating						
Depreciation & amortization	682	560	554	560	550	510
Change in working capital	125	416	416	416	416	292
Others	(172)	(430)	(336)	(573)	1,147	2,666
Net cash from operations	**635**	**546**	**634**	**403**	**2,113**	**3,467**
Investing						
Capital expenditure	(436)	(347)	(441)	(706)	(869)	(1,037)
Acquisition of subsidiaries/ investments	(5,489)	0	0	0	0	0
Others	(4)	(4)	27	401	0	0
Net cash from investing	**(5,929)**	**(351)**	**(414)**	**(1,050)**	**(869)**	**(1,037)**
Financing						
Net borrowings	3,615	(229)	(435)	(50)	(200)	(200)
Proceeds from share issues	24	42	50	30	120	120
Share repurchases	0	0	0	0	0	0
Others	(83)	945	(66)	(20)	(80)	(80)
Net cash from financing	**3,556**	**758**	**(452)**	**1,436**	**(160)**	**(160)**
Net change in cash						
Cash at the beginning of the year	2,582	833	1,100	918	1,829	2,913
Exchange difference	(4)	(1)	76	(2)	0	0
Others	(1,745)	268	(258)	913	1,084	2,270
Cash at the end of the year	**833**	**1,100**	**918**	**1,829**	**2,913**	**5,184**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Revenue	55.6%	(8.8%)	23.4%	21.5%	53.8%	36.4%
Gross profit	50.1%	(14.5%)	29.8%	26.4%	63.3%	41.9%
Operating profit	na	na	46.1%	39.3%	73.6%	49.5%
Net profit	12.5%	(32.8%)	81.7%	53.9%	82.6%	52.2%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Gross profit margin	38.4%	36.0%	37.9%	39.4%	41.9%	43.6%
Operating margin	(0.7%)	15.1%	17.8%	20.5%	23.1%	25.3%
Return on equity (ROE)	9.8%	5.2%	8.8%	11.1%	16.0%	19.7%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
Current ratio (x)	3.0	2.7	2.2	3.1	2.9	3.2

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 30 Jun						
P/E (diluted)	118.3	212.4	100.5	65.6	35.9	23.6

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

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