# Lumentum (LITE US)

## 1QFY27 earnings: Optical & margin growth drive earnings; MRVL deal reshapes outlook

Lumentum reported 1QFY27 revenue of US$1.263bn, up 25.5% QoQ / 136.5% YoY, in-line with Bloomberg consensus. Non-GAAP EPS reached US$4.57, up 41.5% QoQ/315.5% YoY, exceeding Bloomberg consensus. Non-GAAP GPM expanded 280bps QoQ to 53.2%, while OPM increased by 570bps QoQ to 42.3%. Earnings growth substantially outpaced revenue growth in 1QFY27, demonstrating strong operating leverage. **Maintain BUY with TP adjusted to US$1,212 (29x FY28E P/E vs. 35x prev.) as we raise revenue forecasts by 1.8%/8.1% and GPM forecasts by 3ppts/2.2ppts in FY27/28E, respectively. The revisions are driven by resilient pricing and enhancing operating efficiency.**

- **Systems lead growth with NPO/CPO win strengthening order visibility.** Components revenue increased 16.1% QoQ to US$754mn in 1QFY27, while systems revenue rose 42.4% QoQ to US$508mn. Systems contributed 59% of the sequential revenue increase, lifting segment share to 40.3% from 35.5% in 4Q. Mgmt. identified pump lasers and optical circuit switches (OCS) as the leading growth contributors, alongside GPM improvement in optical modules. Lumentum also secured its second major NPO/CPO win, backed by purchase commitments exceeding US$5bn. Together, these developments broaden its growth drivers across optical transmission and switching, while the NPO/CPO commitments provide greater visibility into future demand.
- **2Q guidance points to further earnings acceleration.** Mgmt. guided 2Q revenue of US$1.575-1.625bn (24.7-28.7% QoQ) and non-GAAP EPS of US$5.90-6.20 (29.1-35.7% QoQ). Non-GAAP OPM is expected to expand to 45-46% (270-370bps QoQ), extending 1Q's profitability improvement. We view the guidance as evidence of sustained near-term growth momentum, with successful production ramps and delivery execution key to achieving both the revenue increase and further margin expansion.
- **Marvell (MRVL US, NR) to acquire Lumentum in an all-stock deal.** Marvell agreed to acquire Lumentum at a fixed ratio of 4.5 MRVL shares per LITE share, implying approx. US$115bn EV and US$1,132 per share at reference prices, a 23.9% premium to unaffected levels. LITE shareholders would own approximately 33% of the combined company, with completion expected in 1H28, subject to approvals. **We see potential benefits from closer electrical-optical integration, while the fixed exchange ratio links the consideration's value to MRVL's share price.**
- **Maintain BUY with lower target multiple to reflect weaker risk appetite.** We retain a standalone earnings-based valuation for Lumentum, supported by its optical growth outlook and improving profitability, while monitoring the implied value of Marvell's fixed-ratio share consideration. We lower our target multiple to 29x FY28E P/E from 35x, in line with its one-year historical average forward P/E, to reflect investors' reduced appetite for AI exposure and rotation toward non-AI sectors. **Risks include** weaker AI capex, regulatory risks, geopolitical uncertainties, etc.

### Earnings Summary

| (YE 28 Jun) | FY25A | FY26A | FY27E | FY28E | FY29E |
|---|---|---|---|---|---|
| Revenue (US$ mn) | 1,645 | 3,014 | 6,799 | 11,652 | 14,652 |
| YoY growth (%) | 21.0 | 83.2 | 125.6 | 71.4 | 25.8 |
| Gross margin (%) | 34.7 | 46.0 | 55.0 | 55.0 | 53.3 |
| Operating profit (US$ mn) | 160.1 | 897.0 | 3,110.3 | 4,913.7 | 5,882.8 |
| YoY growth (%) | 323.5 | 460.3 | 246.7 | 58.0 | 19.7 |
| Adjusted net profit (US$ mn) | 146.4 | 782.3 | 2,657.0 | 4,193.6 | 5,055.1 |
| YoY growth (%) | 94.7 | 434.4 | 239.6 | 57.8 | 20.5 |
| P/E (Adjusted) (x) | 332.9 | 78.9 | 26.0 | 16.4 | 13.4 |

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

| | |
|---|---|
| **Target Price** | **US$1212.00** |
| (Previous TP | US$1230.00) |
| **Up/Downside** | **77.1%** |
| **Current Price** | **US$684.40** |

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**Stock Data**

| | |
|---|---|
| Mkt Cap (US$ mn) | 62,006.6 |
| Avg 3 mths t/o (US$ mn) | 1,546.1 |
| 52w High/Low (US$) | 1133.40/188.36 |
| Total Issued Shares (mn) | 90.6 |

Source: FactSet

**Shareholding Structure**

| | |
|---|---|
| Vanguard | 11.2% |
| Blackrock | 10.1% |

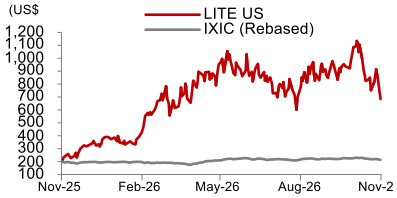
Source: Bloomberg

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -36.9% | -32.6% |
| 3-mth | -12.2% | -10.6% |
| 6-mth | -28.0% | -28.9% |

Source: FactSet

**12-mth Price Performance**




Source: FactSet

## Marvell (MRVL US, NR) acquisition: Stronger integration potential with shareholder value tied to execution

**Fixed-ratio transaction; completion expected in 1H28.** Marvell agreed to acquire Lumentum through an all-stock transaction, offering 4.5 MRVL shares per LITE share (link). At the unaffected closing prices on 28 October, the consideration implied approximately **US$1,132 per share**, **a 23.9% premium**, and an enterprise value of approximately **US$115bn**. LITE shareholders would retain approximately 33% of the combined company on a fully diluted basis. Completion remains subject to shareholder and regulatory approvals and customary closing conditions.

- **Integration could deepen Lumentum's role in next-generation optical designs.** Combining Lumentum's lasers, transceivers and OCS with Marvell's interconnect, switching and custom silicon capabilities could allow optical products to be designed alongside the chips they connect. We see potential for earlier involvement in customer architectures and more opportunities to supply multiple technologies within a single platform as optics extends into scale-up and package-level connectivity. Lumentum's InP manufacturing capabilities also become strategically important as it coordinates optical manufacturing, semiconductor design and packaging, which could all improve production planning and support complex product ramps.
- **Shareholders retain growth participation, while valuation becomes linked to MRVL.** Mgmt. expects more than **US$1bn in annual run-rate cost** synergies and first-year non-GAAP EPS accretion for Marvell. For LITE shareholders, we believe the relevant question is whether the combined company can deliver greater value than Lumentum could independently, after integration costs and risks. The fixed exchange ratio preserves participation in that upside but leaves the **dollar consideration exposed to MRVL's share price**. We therefore expect LITE's valuation to increasingly reference 4.5 times MRVL's share price, adjusted for completion risk and timing, while standalone earnings execution remains important in assessing the value Lumentum contributes.

**Implications for laser peers, independent module manufacturers, and integrated players:**

- **Laser peers – moderately positive:** Sumitomo Electric (8053 JT, NR), Mitsubishi Electric (6503 JT, NR) and qualified smaller suppliers could benefit as module manufacturers diversify laser sourcing to reduce dependence on a supplier with a competing module business. However, additional orders will depend on product qualification and available capacity.
- **Independent module manufacturers – slightly negative:** Innolight (300308 CH, BUY) and Eoptolink (300502 CH, NR) could face longer-term margin pressure if tighter coordination of silicon, lasers and modules strengthens the combined company's bargaining position. Component access and involvement in future designs are the key concerns, although manufacturing expertise and customers' preference for multiple suppliers provide important offsets.
- **Integrated players – near-term neutral:** Broadcom (AVGO US, NR) benefits from its established silicon-optics platform, while Coherent's (COHR US, BUY) internal laser and module capabilities offer resilience. Both could attract customers seeking alternative suppliers, but in different areas. Connectivity silicon and integrated solutions for Broadcom, and optical components and modules for Coherent. Longer term, these opportunities must be weighed against stronger competition from the combined company.
- **Bottom line: CSPs retain significant influence.** Ultimately, CSPs' purchasing scale, supplier qualification and capacity commitments give them substantial influence over component allocation, although they cannot eliminate physical shortages. They may welcome tighter integration that improves performance and delivery but are less likely to favor arrangements that restrict supplier choice or weaken their bargaining power.

**Figure 1: Earnings revision**

| | New | | | Old | | | Diff (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| US$mn | FY27E | FY28E | FY29E | FY27E | FY28E | FY29E | FY27E | FY28E | FY29E |
| Revenue | 6,799 | 11,652 | 14,652 | 6,678 | 10,778 | 14,697 | 1.8% | 8.1% | -0.3% |
| Gross profit (non-GAAP) | 3,743 | 6,414 | 7,813 | 3,479 | 5,695 | 7,692 | 7.6% | 12.6% | 1.6% |
| Net profit (non-GAAP) | 2,657 | 4,194 | 5,055 | 2,225 | 3,583 | 4,849 | 19.4% | 17.0% | 4.3% |
| EPS (non-GAAP) | 26.3 | 41.8 | 51.1 | 21.8 | 35.1 | 47.5 | 20.7% | 19.1% | 7.5% |
| **GPM (non-GAAP)** | 55.0% | 55.0% | 53.3% | 52.1% | 52.8% | 52.3% | 3 ppt | 2.2 ppt | 1 ppt |
| **Net margin (non-GAAP)** | 39.1% | 36.0% | 34.5% | 33.3% | 33.2% | 33.0% | 5.8 ppt | 2.7 ppt | 1.5 ppt |

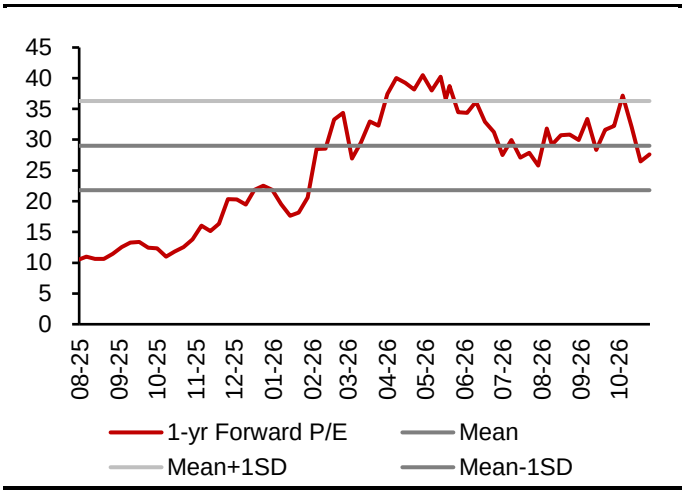
Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs. BBG consensus**

| | CMBI estimates | | | Consensus | | | Diff (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| US$mn | FY27E | FY28E | FY29E | FY27E | FY28E | FY29E | FY27E | FY28E | FY29E |
| Revenue | 6,799 | 11,652 | 14,652 | 6,435 | 10,114 | 14,259 | 5.7% | 15.2% | 2.8% |
| Gross profit (non-GAAP) | 3,743 | 6,414 | 7,813 | 3,396 | 5,436 | 7,777 | 10.2% | 18.0% | 0.5% |
| Net profit (non-GAAP) | 2,657 | 4,194 | 5,055 | 2,305 | 3,856 | 5,556 | 15.3% | 8.8% | -9.0% |
| EPS (non-GAAP) | 26.3 | 41.8 | 51.1 | 22.6 | 36.7 | 51.6 | 16.4% | 14.0% | -1.1% |
| **GPM (non-GAAP)** | 55.0% | 55.0% | 53.3% | 52.8% | 53.7% | 54.5% | 2.3 ppt | 1.3 ppt | -1.2 ppt |
| **Net margin (non-GAAP)** | 39.1% | 36.0% | 34.5% | 35.8% | 38.1% | 39.0% | 3.3 ppt | -2.1 ppt | -4.5 ppt |

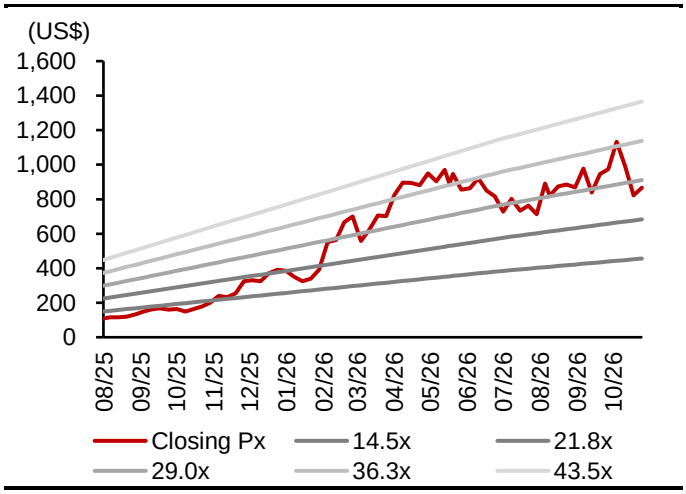
Source: Bloomberg consensus, CMBIGM estimates

**Figure 3: P/E chart**




Source: Company data, CMBIGM estimates

**Figure 4: P/E band**




Source: Company data, CMBIGM estimates

# Financial Summary

| INCOME STATEMENT | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun (US$ mn)** | | | | | | |
| **Revenue** | **1,359** | **1,645** | **3,014** | **6,799** | **11,652** | **14,652** |
| Cost of goods sold | 910 | 1,074 | 1,627 | 3,056 | 5,238 | 6,839 |
| **Gross profit** | **449** | **572** | **1,387** | **3,743** | **6,414** | **7,813** |
| **Operating expenses** | **411** | **411** | **490** | **633** | **1,500** | **1,931** |
| SG&A expense | 151 | 155 | 185 | 230 | 597 | 817 |
| R&D expense | 260 | 256 | 305 | 402 | 904 | 1,113 |
| **Operating profit** | **38** | **160** | **897** | **3,110** | **4,914** | **5,883** |
| Other income | 43 | 15 | 40 | 72 | 109 | 171 |
| **Pre-tax profit** | **80** | **175** | **937** | **3,182** | **5,022** | **6,054** |
| Income tax | 5 | 29 | 155 | 525 | 829 | 999 |
| **After tax profit** | **75** | **146** | **782** | **2,657** | **4,194** | **5,055** |
| **Adjusted net profit** | **75** | **146** | **782** | **2,657** | **4,194** | **5,055** |

| BALANCE SHEET | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun (US$ mn)** | | | | | | |
| **Current assets** | **1,590** | **1,717** | **4,162** | **5,711** | **8,962** | **11,772** |
| Cash & equivalents | 437 | 521 | 2,044 | 2,002 | 3,409 | 5,408 |
| Account receivables | 195 | 250 | 520 | 1,163 | 1,836 | 2,118 |
| Inventories | 398 | 470 | 692 | 1,275 | 2,111 | 2,503 |
| Prepayment | 110 | 120 | 212 | 563 | 898 | 1,035 |
| Contract assets | 450 | 356 | 695 | 707 | 707 | 707 |
| **Non-current assets** | **2,342** | **2,501** | **3,146** | **3,784** | **4,336** | **5,053** |
| PP&E | 573 | 726 | 1,159 | 2,053 | 3,076 | 3,869 |
| Right-of-use assets | 73 | 28 | 29 | 27 | 27 | 27 |
| Deferred income tax | 11 | 210 | 531 | 367 | 0 | 0 |
| Intangibles | 618 | 465 | 327 | 204 | 101 | 25 |
| Goodwill | 1,056 | 1,061 | 1,069 | 1,070 | 1,070 | 1,070 |
| Other non-current assets | 13 | 11 | 30 | 63 | 63 | 63 |
| **Total assets** | **3,932** | **4,219** | **7,308** | **9,494** | **13,298** | **16,825** |
| | | | | | | |
| **Current liabilities** | **269** | **393** | **2,481** | **2,831** | **3,689** | **4,093** |
| Short-term borrowings | 0 | 11 | 1,597 | 1,337 | 1,334 | 1,331 |
| Account payables | 126 | 225 | 567 | 1,074 | 1,747 | 2,078 |
| Other current liabilities | 77 | 111 | 238 | 310 | 440 | 494 |
| Lease liabilities | 13 | 11 | 14 | 14 | 14 | 14 |
| Accrued expenses | 52 | 35 | 65 | 96 | 153 | 177 |
| **Non-current liabilities** | **2,705** | **2,691** | **183** | **324** | **315** | **306** |
| Long-term borrowings | 2,503 | 2,563 | 41 | 54 | 45 | 36 |
| Obligations under finance leases | 43 | 24 | 20 | 17 | 17 | 17 |
| Other non-current liabilities | 159 | 105 | 122 | 254 | 254 | 254 |
| **Total liabilities** | **2,975** | **3,084** | **2,664** | **3,155** | **4,004** | **4,399** |
| | | | | | | |
| Share capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital surplus | 1,835 | 1,987 | 12,430 | 11,846 | 11,007 | 9,536 |
| Retained earnings | (887) | (861) | (7,796) | (5,513) | (1,720) | 2,884 |
| Other reserves | 9 | 9 | 10 | 7 | 7 | 7 |
| **Total shareholders equity** | **957** | **1,135** | **4,644** | **6,340** | **9,294** | **12,426** |
| **Total equity and liabilities** | **3,932** | **4,219** | **7,308** | **9,494** | **13,298** | **16,825** |

| CASH FLOW | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun (US$ mn)** | | | | | | |
| **Operating** | | | | | | |
| Depreciation & amortization | 290 | 257 | 265 | 354 | 478 | 602 |
| Tax paid | 78 | (218) | 18 | 190 | 367 | 0 |
| Others | 203 | 62 | 7,482 | (523) | (620) | 48 |
| **Net cash from operations** | **25** | **126** | **829** | **2,305** | **4,019** | **5,253** |
| **Investing** | | | | | | |
| Capital expenditure | (133) | (231) | (517) | (1,125) | (1,398) | (1,319) |
| Acquisition of subsidiaries/ investments | (705) | 0 | (38) | 0 | 0 | 0 |
| Others | 724 | 147 | (299) | (13) | 0 | 0 |
| **Net cash from investing** | **(114)** | **(84)** | **(854)** | **(1,138)** | **(1,398)** | **(1,319)** |
| **Financing** | | | | | | |
| Net borrowings | 0 | 77 | 3,254 | 0 | 0 | 0 |
| Proceeds from share issues | 14 | 16 | 9 | 15 | 20 | 20 |
| Share repurchases | 0 | 0 | 0 | (353) | (1,148) | (1,853) |
| Others | (347) | (51) | (1,122) | (54) | (86) | (102) |
| **Net cash from financing** | **(333)** | **42** | **1,548** | **(1,208)** | **(1,214)** | **(1,935)** |
| **Net change in cash** | | | | | | |
| Cash at the beginning of the year | 859 | 437 | 521 | 2,044 | 2,002 | 3,409 |
| **Cash at the end of the year** | **437** | **521** | **2,044** | **2,002** | **3,409** | **5,408** |

| GROWTH | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun** | | | | | | |
| Revenue | (23.1%) | 21.0% | 83.2% | 125.6% | 71.4% | 25.8% |
| Gross profit | (41.2%) | 27.3% | 142.6% | 169.9% | 71.4% | 21.8% |
| Operating profit | (88.9%) | 323.5% | 460.3% | 246.7% | 58.0% | 19.7% |
| Adj. net profit | (76.1%) | 94.7% | 434.4% | 239.6% | 57.8% | 20.5% |

| PROFITABILITY | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun** | | | | | | |
| Gross profit margin | 33.0% | 34.7% | 46.0% | 55.0% | 55.0% | 53.3% |
| Operating margin | 2.8% | 9.7% | 29.8% | 45.7% | 42.2% | 40.1% |
| Adj. net profit margin | 5.5% | 8.9% | 26.0% | 39.1% | 36.0% | 34.5% |

| GEARING/LIQUIDITY/ACTIVITIES | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun** | | | | | | |
| Current ratio (x) | 5.9 | 4.4 | 1.7 | 2.0 | 2.4 | 2.9 |

| VALUATION | 2024A | 2025A | 2026A | 2027E | 2028E | 2029E |
|---|---|---|---|---|---|---|
| **YE 28 Jun** | | | | | | |

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

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| | |
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