

Laser Focused on Growth

\$COHR is all in on AI datacenter buildout, restructuring the business to capture every bit of momentum. With a competitive edge in innovation, refined segments, and financial restructuring, the company looks to be the front-runner of datacenter optics. **We initiate with a BUY rating and a one-year PT of \$133.**

Thesis 1 Given the recent macro conditions surrounding immense expenditure and expectations from AI-driven infrastructure, Coherent has found an opportunity to specialize and leverage its networking segment that is directly linked to datacenter buildout. Coherent, according to their 2025 analyst & investor day, will be doubling down on their efforts toward AI datacenter optics. CEO Jim Anderson expressed how important it is to get their Optical Circuit Switch (a much faster light based “traffic controller” for AI data centers that saves energy in comparison to using electricity) out to markets and available to capture the AI cluster buildout as fast as they possibly can. With a clear target set, Coherent will be shutting down or divesting all projects that have low ROI and are underfunding their core growth and profit engines, leaving only the growth and profit engines left. Specifically, Silicon Carbide finished products will be cut, making only the base layers and leaving it up to other companies to build them themselves. Nine facilities have been exited over the past 18 months with more planned, part of streamlining and refining segment focus. This will make way for Coherent’s plans of focusing on higher margin products like datacenter components and industrial lasers/materials.

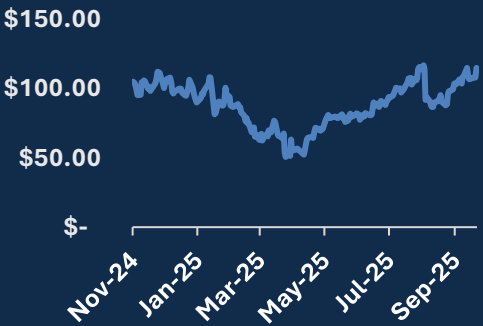
Thesis 2 Along with the restructuring of their product portfolio, Coherent has announced financial restructuring. In the next 3-4 years they are targeting a 10-15%+ CAGR. Plans to lower fixed costs will streamline SG&A and target higher operating margins. This also comes with exiting low margin segments of the business. The focus is now fully on those higher margin, fast-growing markets. They also plan to deleverage by paying down their debts with free cash flow. \$386M of debt has already been repaid in FY25 YTD, Coherent is not “just talk” about their debt repayment. In addition to a much clearer path for their market in AI datacenters, raising margins and growing earnings could be very attractive to investors.

Company Overview Founded in 1966, Coherent (\$COHR) was established as one of the earliest manufacturers of lasers designed for industrial and medical applications. Through II-VI’s acquisition of Coherent (taking on the Coherent name) and well-funded R&D, Coherent is now one of the largest photonics and materials companies in the world (\$18bi market cap). Coherent has an extremely diverse line of products that reaches into many different markets. Engineered crystals and materials (used in biomedical devices, precision laser processing, and aerospace & defense), optics and coatings (used in consumer electronics, aerospace & defense, laser systems, and semiconductor manufacturing), semiconductor lasers (used in high-speed internet infrastructure, data centers, chip manufacturing, and industrial lasers), and silicon carbide substrates (used in electric vehicles, power electronics, and renewable energy) are just some of the core products that are manufactured and sold by Coherent. Coherent’s competitive edge lies in its commitment to continuous innovation and its broad portfolio of technologies that complement emerging and high-growth industries such as electric vehicles and data centers, all developed through robust R&D efforts. The company has a heavy reliance on international sales, with \$2.09B (44% of all sales) coming from countries outside of North America (Europe, China, and Japan being the largest).

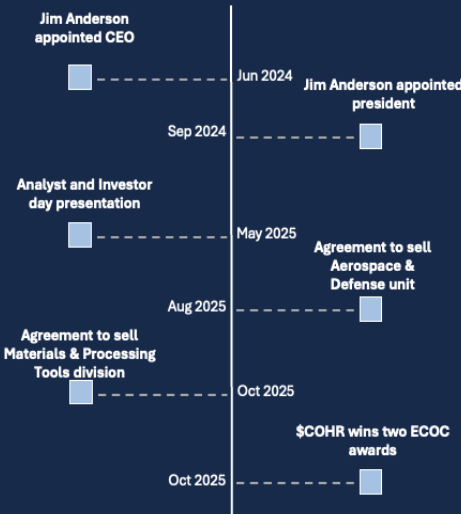


| | |
|-----------------|--------------------|
| TICKER: | \$COHR |
| RATING: | BUY |
| PRICE: | \$114.65 |
| PRICE TARGET: | \$133.00 |
| MARKET CAP: | \$26,196mm |
| 52-W RANGE: | \$45.58 - \$114.65 |
| IMPLIED UPSIDE: | 21.0% |

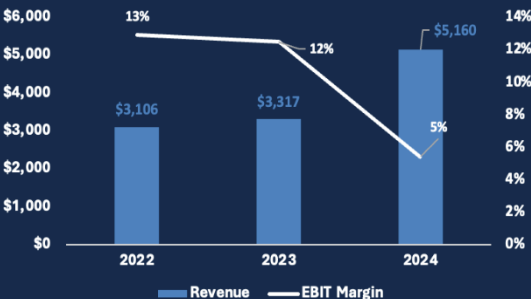
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1 COHR is heavily betting on the growing importance of artificial intelligence and datacenters as key drivers for future demand. Seemingly the correct decision, however, should there be any slowdown in datacenter rollout, COHR will also face a slowdown in demand. With its broad product portfolio and exposure to multiple markets, COHR is well positioned to weather downturns in most sectors; however, a significant slowdown in AI demand would still pose a notable risk.

Risk 2 COHR’s competitive edge lies in their ability to invest in innovation and deploy it quickly. If for any reason they fail to turn their significant R&D and capital investments into tangible returns, COHR will lose this edge over their industry. While this strategy has delivered results to date, execution risk remains should innovation slow or market adoption lag.

Catalysts Near term catalysts for COHR include continuous innovation and financial restructuring paying off. COHR has been able to stay on top of the competition with the ability to innovate and deploy new technologies quickly. This has opened the booming AI datacenter market doors for them and puts them ahead of the competition. COHR has also announced plans to tweak how the finances are structured, promising growth and margin increases.

Valuation

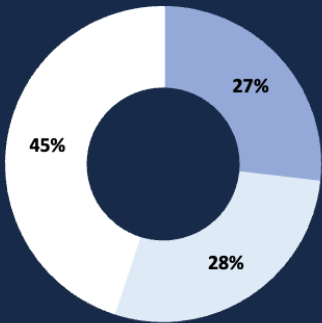
| DCF Analysis (\$mm) | | | | | | | |
|---------------------|--------------------|----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | FY2024 12/31/24 | FY2025 12/31/2025 | FY2026 12/31/26 | FY2027 12/31/27 | FY2028 12/30/28 | FY2029 12/30/29 | FY2030 12/31/30 |
| Stub | | 0.86 | 1.86 | 2.86 | 3.86 | 4.86 | 5.86 |
| Discount Period | | 0.07 | 0.64 | 1.64 | 2.64 | 3.64 | 4.64 |
| Revenue | 4,708 | 5,750 | 6,680 | 7,686 | 8,755 | 9,866 | 10,995 |
| Revenue Growth | -9% | 22% | 16% | 15% | 14% | 13% | 11% |
| Lasers | 1,401 | 1,500 | 1,650 | 1,803 | 1,956 | 2,107 | 2,255 |
| Materials | 1,474 | 1,550 | 1,736 | 1,923 | 2,105 | 2,279 | 2,438 |
| Networking | 2,342 | 2,700 | 3,294 | 3,961 | 4,694 | 5,480 | 6,302 |
| EBIT | 123 | 551 | 935 | 1,115 | 1,313 | 1,529 | 1,759 |
| EBIT Margin | 3% | 10% | 14% | 15% | 15% | 16% | 16% |
| Tax Expense | 11 | 25 | 37 | 45 | 53 | 61 | 70 |
| Effective Tax Rate | 9% | 5% | 4% | 4% | 4% | 4% | 4% |
| NOPAT | 112.06 | 526.00 | 897.79 | 1,069.93 | 1,260.71 | 1,468.12 | 1,688.91 |
| D&A | 560 | 520 | 688 | 792 | 902 | 1,016 | 1,133 |
| Capex | 347 | 350 | 481 | 553 | 630 | 710 | 792 |
| Changes in NWC | 40 | 50 | 0 | 0 | 0 | 0 | 0 |
| UFCF | 285 | 646 | 1,105 | 1,308 | 1,532 | 1,774 | 2,030 |
| PV of FCF | | 641 | 1,031 | 1,097 | 1,154 | 1,200 | 1,233 |

Our base case DCF valuation for Coherent Corp (COHR) assumes steady revenue acceleration driven by AI datacenter demand, silicon carbide adoption, and higher-margin optical networking products. The model projects a revenue CAGR of about 15% through FY2030 and gradual margin expansion as restructuring and divestitures improve efficiency. We apply a 9.0x EV/EBITDA exit multiple, consistent with peers in the semiconductor and photonics space. These projections reflect Coherent’s strengthened balance sheet, focused portfolio, and improving profitability following recent divestitures.

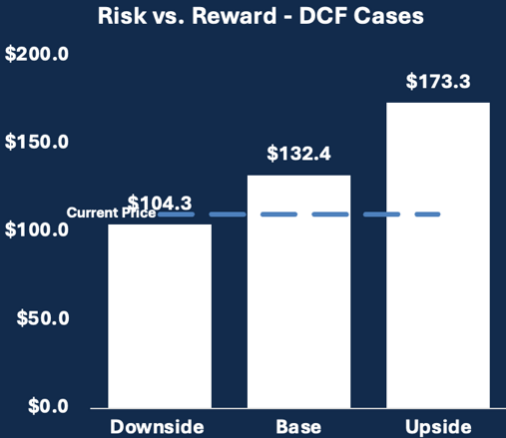
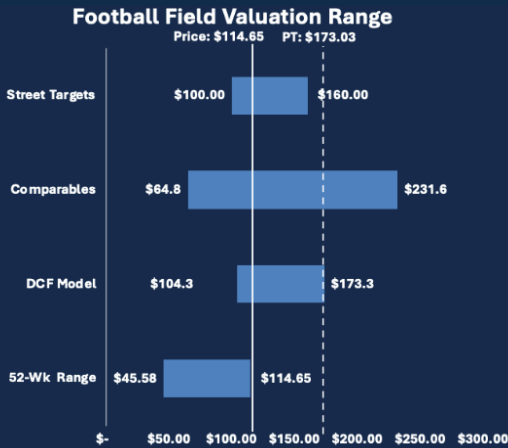
Conclusion

We rate Coherent Corp a BUY rating, given the increasing demand for compute in the AI race. AI datacenter buildout is continuing to push demand for COHR products and they have not been slow to capatilize on the oppurtunity. An already solid business in COHR will see even more growth in the next year. **We intiате \$COHR with a BUY rating and a PT of \$133 in the next year, representing 21% upside in the next year.**

Revenue Segments



| Terminal Value | |
|----------------------------|----------|
| Exit Multiple Method | |
| 2034 EBITDA | \$2,892 |
| EV/EBITDA Exit Multiple | 10.0x |
| Terminal Value | \$28,918 |
| PV of Terminal Value | \$17,562 |
| PV of Projection Period | \$6,355 |
| PV of Terminal Value | \$17,562 |
| Implied TEV | \$23,918 |
| (-) Debt | \$3,910 |
| (+) Cash | \$909 |
| Implied Equity Value | \$20,917 |
| Diluted Shares Outstanding | 157 |
| Implied Share Price | \$133.10 |
| Upside/Downside | 21.0% |



| Income Statement (\$mm) | 2024A | 2025E | 2026E | 2027E | 2028E | CAGR% |
|-------------------------|--------|--------|-------|-------|-------|-------|
| Revenue | 4,708 | 5,750 | 6,680 | 7,686 | 8,755 | 16.8% |
| EBITDA | 683 | 1,071 | 1,623 | 1,906 | 2,215 | 34.2% |
| EBIT | 123 | 551 | 935 | 1,115 | 1,313 | 80.7% |
| NOPAT | 112 | 526 | 898 | 1,070 | 1,261 | 83.1% |
| Margin & Growth Data | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
| EBITDA Margin | 14.5% | 18.6% | 24.3% | 24.8% | 25.3% | 21.5% |
| EBIT Margin | 2.6% | 9.6% | 14.0% | 14.5% | 15.0% | 11.1% |
| Revenue Growth | -8.8% | 22.1% | 16.2% | 15.1% | 13.9% | 11.7% |
| EBIT Growth | -56.0% | 347.3% | 69.7% | 19.2% | 17.8% | 79.6% |
| Valuation Metrics | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
| P/FCF | 91.8x | 40.6x | 23.7x | 20.0x | 17.1x | 38.6x |
| EV/Sales | 5.6x | 5.1x | 4.4x | 3.8x | 3.3x | 4.4x |
| EV/EBITDA | 42.8x | 27.3x | 18.0x | 15.3x | 13.2x | 23.3x |
| FCF Yield | 1.1% | 2.5% | 4.2% | 5.0% | 5.8% | 3.7% |

Comparable Companies

\$mm

| Ticker | Mkt Cap | EV | P/E LTM | Revenue LTM | EBITDA LTM |
|--|----------|----------|---------|-------------|------------|
| Ciena Corporation (NYSE:CIEN) | \$26,739 | \$26,935 | 193.4x | \$4,542 | \$835 |
| Sunny Optical Technology (Group) Company I | \$10,341 | \$7,973 | 22.7x | \$5,488 | \$896 |
| Lumentum Holdings Inc. (NasdaqGS:LITE) | \$14,153 | \$15,884 | 539.5x | \$1,645 | \$597 |
| Vishay Intertechnology, Inc. (NYSE:VSH) | \$2,275 | \$2,837 | -25.8x | \$2,928 | \$356 |
| Coherent | \$20,716 | \$26,553 | -253.9x | \$5,810 | \$1,481 |

| Ticker | LTM EV/EBITDA | Gross Margin | EBITDA Margin | EBIT Margin | 1 Yr Rev Growth | Rate LF |
|--|---------------|--------------|---------------|-------------|-----------------|---------|
| Ciena Corporation (NYSE:CIEN) | 32.2x | 41.6% | 8.6% | 5.6% | | 13.0% |
| Sunny Optical Technology (Group) Company I | 8.9x | 19.6% | 12.9% | 7.1% | | 7.8% |
| Lumentum Holdings Inc. (NasdaqGS:LITE) | 26.6x | 33.0% | 3.9% | (11.5%) | | 21.0% |
| Vishay Intertechnology, Inc. (NYSE:VSH) | 8.0x | 19.7% | 9.1% | 1.6% | | (6.4%) |
| Coherent | 17.9x | 35.4% | 19.0% | 9.5% | | 23.4% |

| | | | | | | |
|-----------------|--------|-------|-------|--------|--|-------|
| High | 32.25x | 41.6% | 19.0% | 9.5% | | 23.4% |
| 75th Percentile | 26.59x | 35.4% | 12.9% | 7.1% | | 21.0% |
| Average | 18.73x | 29.9% | 10.7% | 2.5% | | 11.8% |
| Median | 17.93x | 33.0% | 0.0% | 5.6% | | 13.0% |
| 25th Percentile | 8.90x | 19.7% | 8.6% | 1.6% | | 7.8% |
| Low | 7.96x | 19.6% | 3.9% | -11.5% | | -6.4% |

Coherent

| | | |
|--|-----------|---------------|
| Implied Enterprise Value (25th Percentile) | \$ | 13,178 |
| Implied Enterprise Value (Median) | \$ | 26,553 |
| Implied Enterprise Value (75th Percentile) | \$ | 39,392 |

| | | |
|---------------------------------------|-----------|---------------|
| Implied Share Price (25th Percentile) | \$ | 64.76 |
| Implied Share Price (Median) | \$ | 149.87 |
| Implied Share Price (75th Percentile) | \$ | 231.57 |

Weighted Average Cost of Capital (\$mm)

| | |
|-------------------------------|---------------|
| Market Risk Premium | 4.33% |
| Beta | 1.83 |
| Risk Free Rate | 4.39% |
| Cost of Equity | 10.72% |
| Weighted Average Cost of Debt | 5.00% |
| Tax Rate | 4.00% |
| Cost of Debt | 0.62% |
| Total Equity | \$26,196 |
| Total Debt | \$3,001 |
| Equity/Total Capitalization | 87.01% |
| Debt/Total Capitalization | 12.99% |
| WACC | 11.35% |

Downside Case: Slower demand in AI datacenters and weaker margins limit revenue growth.

Upside Case: Strong AI datacenter and photonics demand.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.