IPG Photonics Corporation
Third Quarter 2026 Conference Call Prepared Remarks

Operator:

Good morning, and welcome to IPG Photonics' third quarter 2026 conference call. Today's call is being recorded and webcast. At this time, I would like to turn the call over to Eugene Fedotoff, IPG's Senior Director, Investor Relations, for introductions. Please go ahead with your conference.

Eugene Fedotoff:

Thank you, and good morning, everyone. With me today is IPG Photonics' CEO, Dr. Mark Gitin and Senior Vice President and CFO, Tim Mammen. On today's call, Mark will provide a summary of our third quarter results as well as the overview of demand environment and then walk you through the progress we're making on our long-term strategy. After that, he will turn it over to Tim to provide financial details. Let me remind you that statements made during this call that discuss our expectations or predictions of the future are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause the company's actual results to differ materially from those projected in such forward-looking statements. These risks and uncertainties are detailed in our Form 10-K for the period ended December 31, 2025 and other reports on file with the Securities and Exchange Commission. Any forward-looking statements made on this call are the company's expectations or predictions as of today, November 3, 2026 only, and the company assumes no obligation to publicly release any updates or revisions to any such statements. During this call we will be referencing certain non-GAAP measures. For more information on how we define these non-GAAP measures and a reconciliation of such measures to the most directly comparable GAAP measures, as well as additional details on our reported results, please refer to the earnings press release, earnings

call presentation and the financial data workbook posted on our investor relations website. We will also post these prepared remarks on our website after this call. With that, I will now turn the call over to Mark.

Mark Gitin:

Thanks, Eugene. Good morning, everyone.

Our third quarter revenue increased 15% year over year, making it the fourth consecutive quarter of double-digit revenue growth, with both Industrial Solutions and Advanced Solutions contributing to the results. Our adjusted EBITDA and adjusted EPS also improved. This reflects continued progress in executing our strategy - driving sustainable, profitable growth through technological leadership, product innovation, operational excellence, and disciplined capital allocation. Customers continued to adopt our differentiated solutions across several strategic growth markets. We saw strong growth in our Industrial Solutions, particularly in welding applications, where our laser technology, beam delivery, process monitoring, and applications expertise provide meaningful competitive advantages. We remain focused on helping customers improve productivity, quality, and manufacturing economics through advanced laser-based integrated solutions. We have also made good progress in Advanced Solutions, driving our laser and photonics technologies into attractive high-growth markets.

Let’s look more closely at revenue by application and the meaningful progress we are making on our strategic growth initiatives.

Starting with Industrial Solutions, revenue increased 12% year over year, driven by strong growth in welding and additive manufacturing applications. Across these and other markets, we are strengthening our leadership by expanding laser adoption, displacing incumbent technologies, and moving up the value chain with differentiated subsystem and system solutions.

Our welding revenue benefited from higher demand in battery manufacturing, general industrial, and consumer electronics in the third quarter. The production of advanced batteries for electric vehicles and stationary energy storage systems involves a range of demanding welding

requirements that significantly impact battery performance, safety, and manufacturing efficiency. Our solutions are critical for high-capacity battery applications used in energy storage, supporting global electrification and growing energy infrastructure buildout, including for data centers. We are a leader in this space and are excited about the long-term trajectory for battery growth. At the same time, we are encouraged by the strong growth in our welding solutions in other areas such as consumer electronics and industrial markets.

In additive manufacturing, we saw increasing momentum as customers continued to adopt this technology for industries such as aerospace, medical device manufacturing and consumer electronics. Our beam-shaping and multi-beam technologies, high beam stability and applications expertise are delivering improvements in throughput and cost per part. This quarter, we secured new business in Europe that we expect to meaningfully contribute to our additive manufacturing revenue in 2027.

Moving to Advanced Solutions, revenue improved 33% year over year and 15% sequentially, as we continued to expand our technology leadership into attractive, high-growth markets, focusing on medical, defense, semiconductor and micromachining. Revenue growth in semiconductor and defense applications were the major drivers behind our results this quarter.

In semiconductor applications, revenue continued to accelerate and more than doubled year over year. As device complexity increases and feature size decreases, semiconductor manufacturers are investing in advanced process technologies to meet growing demand for GPUs, high-performance computing and high-bandwidth memory. With our differentiated laser solutions, we are a critical supplier to a number of top-tier wafer equipment manufacturers where we are qualified for their next-generation lithography, metrology, and inspection tools.

Defense revenue was also a large contributor to the year-over-year growth in Advanced Solutions in the third quarter, as we shipped most of the Lockheed Martin order for

CROSSBOW™. The remaining shipments will be delivered in the fourth quarter, and we are actively pursuing multiple additional opportunities. We remain encouraged by customer engagement and the growing recognition of our expanded portfolio of CROSSBOW directed energy systems as an effective, ready-to-ship, and cost-efficient solution for countering evolving UAS threats. While this market remains in its early stages and revenue can be lumpy in the short term, we believe our technology leadership, decades of directed energy laser expertise, and commercial laser and systems manufacturing capabilities enable us to establish leading positions in these opportunities.

Moving to Medical, our business continued to perform well during the quarter, supported by strong customer demand, new product shipments, and ongoing adoption of our technologies across multiple applications. We are building on our long history of medical innovation and laser expertise by expanding our leading thulium fiber laser platform with next-generation systems for urology applications.

Last quarter, we announced the acquisition of Lumibird Medical, an important milestone in the execution of our strategy to expand our business in attractive, high-margin medical markets. The addition of Lumibird Medical creates a scaled medical laser platform with leading positions in ophthalmology and urology, expands our medical addressable market to more than $2 billion, enhances our Advanced Solutions portfolio, and strengthens our long-term growth and profitability profile.

The acquisition is expected to close in the fourth quarter. We are pleased with the initial integration planning and preparation and are excited about the long-term opportunities to leverage our complementary technologies, application expertise, commercial capabilities, and innovative culture to drive future value creation. I look forward to working with the Lumibird Medical team to accelerate growth and innovation across our medical business.

In summary, we achieved another quarter of double-digit year-over-year growth, above the midpoint of our guidance range. Customer demand for our unique solutions has strengthened across most markets. Orders also remained strong, with book-to-bill of approximately one. We continue to make meaningful progress on our strategic objectives, delivering profitable growth and creating sustained long-term shareholder value.

Finally, I am pleased to announce that we plan to host an Investor Day on Tuesday, March 2, 2027, in New York City. We look forward to sharing a deeper view of our strategy and long-term financial targets. Details will be announced soon. Please mark your calendars and plan on joining us for this event.

With that, I will now turn the call over to Tim.

Tim Mammen:

Thank you, Mark, and good morning, everyone. My comments will generally follow the earnings call presentation, which is available on our investor relations website.

I will start with revenue trends by application on slide 4.

Industrial Solutions revenue increased 12% year over year and 1% sequentially in the third quarter, driven by growth in welding and additive manufacturing applications.

Advanced Solutions revenue increased 33% year over year and 15% sequentially on strong growth in defense and semiconductor applications.

Sales of our emerging growth products accounted for 52% of our total revenue in the third quarter, down from 58% in the prior quarter due to product mix.

Moving to revenue performance by region on slide 5.

North American revenue was up 14% sequentially due to increased sales in defense, medical, cleaning, cutting, and additive manufacturing. Revenue increased 33% compared with last year, primarily on growth in welding and defense applications.

European sales declined 1% year over year due to lower cutting and welding revenue, partially offset by increased revenue in additive manufacturing and semiconductor applications. Revenue was up 4% sequentially, driven by improved cutting and welding revenue as well as continued growth in semiconductor applications.

Revenue in Asia was flat sequentially and increased 14% year over year, driven by growth in welding.

Moving to a detailed review of financial performance on slide 6.

Total revenue was $288 million, up 15% year over year and 3% sequentially. Foreign currency benefited revenue by approximately 1% this quarter compared to the same period in the prior year.

GAAP gross margin was 40.7% and adjusted gross margin was 41.0%, above the top end of our guidance range. We recorded a $5 million net benefit from tariff refunds that had a positive impact on gross margin of approximately 170 basis points in the quarter. Lower cost of product sold helped margins in the quarter but was offset by lower fixed cost absorption on a year-over-year basis due to a significant build in inventory last year.

Total adjusted operating expenses were $91 million, below our guidance range. While we are focused on controlling our expenses, we still expect operating expenses to increase modestly going forward due to our continued investments in multiple growth opportunities.

GAAP operating income in the quarter was $21 million, and GAAP net income was $20 million or $0.47 per diluted share. Adjusted operating income was $27 million, and adjusted net income was $26 million, with adjusted earnings per diluted share of $0.61. Adjusted EBITDA was $52 million. Both adjusted EPS and adjusted EBITDA came in at the top end of our expectations, but also benefited from the $5 million in net tariff refunds. Excluding the tariff refund, both adjusted EBITDA and adjusted EPS improved year over year and sequentially and were above the midpoint of our guidance.

Moving to a summary of our balance sheet and cash flow statement on slide 7, we ended the quarter with $926 million in cash, cash equivalents, and short-term investments with no debt.

Cash flow from operations continued to improve, reaching $46 million in the third quarter.

We spent $17 million on capital expenditures in the quarter, bringing year-to-date CapEx to $54 million. Our CapEx remains elevated this year due to investments in our major fiber

manufacturing facility in Germany. Excluding the German investment, we expect CapEx to be at about 5% of revenue going forward.

Moving to our outlook on slide 8.

For the fourth quarter of 2026, we expect revenue of $265 million to $295 million. While we are seeing some moderation in battery capacity additions in China after several strong quarters, we are very pleased with demand trends across other markets and regions, which are reflected in our book-to-bill of approximately one. Adjusted gross margin is expected to be between 37% and 40%, as we are not anticipating a meaningful benefit from tariff refunds. We estimate adjusted operating expenses in the range of $91 million to $94 million. For the fourth quarter, we expect to deliver adjusted earnings per diluted share in the range of $0.30 to $0.60, with approximately 43 million diluted common shares outstanding. Our adjusted EBITDA is expected to be between $33 million and $50 million. This guidance does not assume any contribution from the acquisition of Lumibird Medical.

In summary, we are pleased with our third quarter results, with growth in revenue and bookings, as well as improvement in EBITDA and adjusted EPS. We believe that we are well positioned to continue improving our performance. We are seeing solid long-term demand trends across our markets and are gaining traction on initiatives to expand margins even as we continue to invest in the growth opportunities ahead.

I will now turn the call back to Mark.

Mark Gitin:

Thanks, Tim.

We are pleased with our performance through the first three quarters of the year driven by growth in both Industrial and Advanced Solutions. Our recently announced acquisition of Lumibird Medical accelerates our strategic evolution and considerably expands our Advanced Solutions portfolio into higher growth and higher margin medical applications. We continue to execute our growth strategy, supported by operational excellence and an innovation engine that unlocks significant areas of opportunity. As we continue along this path, I am increasingly confident in our ability to achieve above-market growth, expand margins, and deliver lasting value for our customers and shareholders.

With that, we will be happy to take your questions.

Eugene Fedotoff:

Thank you for joining us this morning and for your continued interest in IPG. We will be participating in several investor events this quarter and are looking forward to speaking with you again soon. Have a great day, everyone.