IPG Photonics Corporation
First Quarter 2025 Conference Call Prepared Remarks

Operator:

Good morning, and welcome to IPG Photonics' first quarter 2025 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. Let me remind you that statements made during the course of this call that discuss management's or the company's intentions, 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, 2024 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, May 6, 2025 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'll now turn the call over to Mark.

Mark Gitin:

Thanks, Eugene. Good morning, everyone. We had a solid start to the year with continued signs of stabilization in the business and modest upticks in demand across some of our markets. I'll begin today with a quick look at our first-quarter results and the overall demand environment then walk through the progress we're making on our long-term strategy, what's working, where we're focused. Also, I will talk about how we're adapting to global trade dynamics and touch on the steps we are taking to minimize risk and maintain flexibility in a shifting environment. After that, I will turn it over to Tim to provide financial details, and then we'll open the call for questions.

Starting with the first quarter, revenue came in above the midpoint of our guidance, reflecting business conditions generally consistent with the past few quarters, helped by early traction in key areas that are central to our strategy. Our bookings improved sequentially and book-to-bill was the strongest we've seen in more than two years. Welding revenue continued to show signs of stabilization, with share gains in e-mobility. While cutting revenue remained challenged, orders increased as business in Japan, Europe and the U.S. started to normalize. We also saw strong results in some other materials processing applications, including cleaning, which benefited from the cleanLASER acquisition, and solid growth in additive manufacturing.

I'm very encouraged to see the momentum we are starting to build in our medical, micromachining and advanced applications. We're gaining traction with key customers across several of these initiatives, and we're beginning to see a positive impact on revenue. In our medical business, we added a new urology customer this year, which contributed to the strong revenue performance in the quarter. Urology is a multi-billion-dollar market where our superior solutions are well positioned to replace legacy systems. We're currently developing the next

generation of our thulium fiber laser urology systems, with a launch planned later this year, positioning us for additional growth in 2026 and beyond. We also launched a new product in micromachining and secured new business that nearly doubled our revenue in that area this quarter. This is a large market with significant long-term potential, and we're actively working on a strong product roadmap to continue gaining share. In advanced applications, we reached a major milestone with one of our key customers, six months ahead of schedule. We look forward to sharing more on this program in the future.

Many of these wins are a direct result of our differentiated technology, product expertise, and the team's ability to address customers' most difficult requirements. Given the operating leverage in our financial model, revenue from these programs is expected to drive a meaningful bottom-line impact in the years ahead. These are early wins and while they're not yet large enough to fully offset the headwinds in our more mature cutting applications, they are solid first steps. These and other strategic programs are targeting $5 billion in TAM and offer hundreds of millions of dollars in revenue opportunities for IPG over the next several years.

Turning to the near-term outlook, our first-quarter book-to-bill ratio was solidly above one. We were encouraged by improving trends across several markets and regions heading into the second quarter. In fact, our revenue guidance today would have reflected sequential growth if not for the impact of recently imposed tariffs. The guidance reflects approximately $15 million in potential shipment delays to customers. These are not cancellations; we will fulfill these orders as we optimize production across our global footprint. We're continuing to evaluate the dynamic operating environment and are leveraging the flexibility of our global manufacturing and supply chain to minimize the impact of tariffs. We've demonstrated this agility before—most notably when we successfully navigated the loss of access to our Russian operations following the invasion of Ukraine. Looking ahead, our strong manufacturing base in North America positions

us well, especially as reshoring drives renewed investment in local, automated industrial production.

We continue to benefit from strong relationships with customers around the world. During my recent trip to Asia, I met with many of our top customers, and in those conversations, one message came through clearly: a shared commitment to deeper collaboration. Our customers place a high value on IPG's technology, as well as our quality, reliability, and global technical support, which they view as critical to their own success. As a valued partner and a global leader in fiber laser solutions, we remain focused on investing in R&D and applications expertise. Our engineering teams are developing innovative solutions, including lasers, subsystems, and systems, to meet evolving customer needs across materials processing, medical, and other strategic opportunities. One example is our recently announced partnership with AkzoNobel to apply laser technology to cure powder coatings. This novel solution provides advantages in energy efficiency, process speed and space utilization, with the potential to replace large industrial curing ovens.

As we navigate near-term headwinds, we're staying agile and leaning into the foundational strengths that set IPG apart. We have one of the strongest balance sheets in the industry, with over $900 million in cash and no debt. This financial strength gives us the flexibility to move quickly and strategically—a key advantage in today's environment. It allows us to pursue acquisitions that enhance our market position, expand our technology portfolio, and accelerate our entry into high-growth markets. A great example is our acquisition of cleanLASER late last year, which is already contributing to our growth. We will continue to look for targeted, high-impact acquisitions that align with our strategy and create long-term value.

In closing, while tariff-related uncertainty remains, we're energized by the progress we're making against our strategic priorities. We're encouraged by the early signs of momentum and remain confident in our ability to navigate the current environment while staying focused on the significant long-term opportunities ahead.

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 the financial review on slide 4.

Revenue came in above the midpoint of our guidance in the first quarter at $228 million, which is a roughly consistent level for the third consecutive quarter. Revenue was down 10% year over year due to lower revenue in materials processing and the impact from the divestiture of our Russian operations, offset by growth in medical and advanced applications, and a contribution from the cleanLASER acquisition. Foreign currency reduced revenue by approximately $5 million or 2% this quarter. Revenue from materials processing decreased 14% year over year, primarily due to lower sales in cutting and welding, partially offset by higher revenue in additive manufacturing and micromachining. Revenue from other applications increased 25% driven by higher sales in medical and advanced applications.

GAAP gross margin was 39.4%, an increase of 70 basis points year over year. Adjusted gross margin was 40.0%, above the top end of our guidance range. The year-over-year improvement in gross margin, despite lower revenue, was driven by a decrease in inventory provisions and unabsorbed costs, partially offset by higher cost of products sold. I am pleased to see that our effort to right size inventory in the last year is reflected in our margins and our level of gross margin reflects the value that we deliver to customers.

Operating expenses were above last year's level and our guidance range, primarily due to the investments we are making in key areas that our central to our strategy, which Mark highlighted earlier on this call. Sequentially, $7.5 million of the increase in operating expenses was due to an

increase in stock compensation, normalized variable compensation accruals as well as employee benefits, which are typically higher in the first quarter.

GAAP operating income was $2 million and our adjusted EBITDA was $33 million, at the top end of our guidance.

GAAP net income was $4 million, or $0.09 per diluted share. Adjusted earnings per diluted share, which include stock-based compensation, but exclude amortization of intangibles, other acquisition-related charges, foreign exchange loss and discrete tax items were $0.31 in the first quarter, also above the midpoint of our guidance range.

Looking at the revenue trends by application on slide 5 - we saw demand stabilizing in welding and saw growth in demand for handheld welders and increased sales in e-mobility applications in China. Cutting revenue was weak both year over year and sequentially across most regions, but customer inventories continued to normalize and purchasing activity showed some improvement with the introduction of our new high-power low-cost rack-mounted platform. Mark already highlighted strong results in our key applications in the quarter, so I won't go over them again. Our emerging growth products performed well in the quarter, increasing to more than 50% of sales, driven by a wide variety of products.

Moving to the revenue performance by region on slide 6. Sales in North America decreased 7% sequentially and were down 12% year over year. Materials processing revenue was down year over year, but more stable sequentially. Medical revenue increased year over year, but it fluctuates on a quarterly basis and was down sequentially. We expect medical to be strong in the second quarter and the overall outlook for this key strategic area is positive.

Sales in Europe declined 11% sequentially and 28% year over year where higher revenue in cleaning, driven by cleanLaser acquisition, and growth in additive manufacturing was more than offset by lower cutting and welding revenue, as well as divestitures.

Revenue in Asia increased 5% sequentially and 8% year over year benefiting from stronger sales in additive manufacturing, micromachining, advanced applications and medical. As I mentioned, we also saw some recovery in e-mobility demand in China during the quarter.

Moving to a summary of our balance sheet and cash flow on slide 7, we ended the quarter with cash, cash equivalents, and short-term investments of $927 million and no debt. Cash provided by operations was $13 million and capital expenditures were $25 million during the first quarter. As a reminder, our cash flow generation is usually lower in the first quarter due to the payment of variable compensation and the timing of tax payments.

Moving to our outlook on slide 9, for the second quarter of 2025, we expect revenue of $210 million to $240 million. As Mark mentioned our revenue guidance range is approximately $15 million lower than it would have been due to the timing of shipments affected by the tariffs. We anticipate adjusted gross margin to be between 36% and 38%, with approximately 150 to 200 basis points impact from tariffs included in this guidance. We are addressing this impact with adjustments in our supply chain, optimizing our manufacturing to serve different regions and selective pricing actions, which will substantially offset the impact of tariffs in the future.

As we previously communicated, investments in the growth of our business and strengthening the organization will continue to drive elevated levels of operating expenses throughout 2025. In the second quarter, our operating expenses are expected to be between $86 million to $88 million. We anticipate delivering adjusted earnings per diluted share in the range of -$0.05 to $0.25, with approximately 43 million diluted common shares outstanding. Our adjusted EBITDA is expected to be between $16 million to $31 million.

In closing, we are pleased to see signs of demand improvement in key areas. As a broader recovery takes place and we begin delivering on our new product strategy, we believe we have significant operating leverage in our model. In the meantime, our continued cash generation and strong balance sheet are a tremendous advantage in the current environment.

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.