IPG Photonics Corporation
Second Quarter 2025 Conference Call Prepared Remarks

Operator:

Good morning, and welcome to IPG Photonics' second 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. On today's call, Mark will provide a summary with a quick look at our second quarter results and the overall demand environment, 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, and then we'll open the call for questions. 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, 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, August 5, 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. Second quarter revenue came in above our expectations, increasing 10% sequentially and 2% year over year excluding divestitures - our first year-over-year revenue increase since 2022. Our results were driven by a combination of a modest demand improvement in multiple markets and geographies, as well as our continued focus on our strategy to drive profitable growth. We are investing in key strategic initiatives targeting a $5 billion TAM that offers us hundreds of millions of dollars in revenue growth opportunities, and we are starting to see results. By quickly adjusting our operations, we were also able to ship approximately $10 million out of the $15 million in customer orders that we believed were at risk of being delayed due to tariffs, and were not included in our second-quarter guidance.

Starting with our materials processing business, we saw a sequential demand improvement in welding, cutting and marking applications with some growth in e-mobility and general industrial markets. Our unmatched capabilities in lasers and welding process monitoring technologies, combined with deep application expertise continue to differentiate IPG in the marketplace. This enabled us to secure key wins in EV manufacturing, despite ongoing uncertainty in the market. In China, renewed capacity investments in battery manufacturing drove growth in our welding. On the industrial side, a stabilizing demand environment supported sequential growth in welding, cutting and marking applications. Booking trends are encouraging, with demand showing signs of improvement and book-to-bill at approximately one, on our higher second quarter revenue, as we move into the second half of the year. We have also seen improvement and stabilization in the leading indicators, such as PMIs and industrial production through June, but the demand

environment remains uncertain. We also expect demand for our products will benefit from increased onshoring and local investments in automated production.

We are also excited that early returns from our growth investments helped to drive revenue in the quarter. Our strategic focus on developing innovative lasers and photonics solutions to expand into medical, micromachining and advanced applications is showing results.

In advanced applications, we achieved another quarter of record revenue, driven by higher demand across all categories, primarily in directed energy, semiconductor, and scientific applications. Last quarter, I shared that strategic investments to grow our advanced applications business allowed us to achieve a key milestone six months ahead of schedule. I'm thrilled to announce that we've now delivered multiple units of our first, laser counter-UAV solution, CROSSBOW ™, to Lockheed Martin. This disruptive, turnkey, directed energy system is enabled by IPG's laser systems expertise and high-performance commercial single-mode lasers supported by our high volume manufacturing capabilities. CROSSBOW is a scalable and cost-effective laser defense system that can neutralize unmanned aerial threats and can operate as a standalone system or integrate into layered defense architectures. Over the past six months, both IPG and Lockheed Martin have conducted extensive field testing and customer demonstrations of CROSSBOW, validating the system's operational effectiveness against the increasing threat of smaller class, Group I and II drones. We'll be showcasing CROSSBOW this September at DSEI in London, one of the industry's leading defense exhibitions, and we anticipate strong interest from both defense and commercial customers for protection of critical military and civilian assets. This is another example of how IPG leverages our core laser and photonics technologies to address critical market needs.

Turning to our other growth initiatives - micromachining delivered strong revenue compared to the prior year, despite some shipment delays related to tariffs. This is a high-potential market for

IPG, where we see strong alignment between our technologies and the key applications of our customers. As we shared last quarter, we are also making good progress in medical with a new urology customer that is already helping to drive medical revenue growth. Looking ahead, we expect momentum to continue with additional product introductions planned for Q4 2025, 2026, and beyond as we execute on our strategic development roadmap. The traction we are seeing across micromachining, medical and our other focus areas reinforces that our teams are executing well and that these investments are laying the foundation for long-term growth.

Finally, our capital allocation strategy is an integral part of our growth strategy. As we've said before, our primary focus is on organic growth investments and strategic M&A. We expect to spend approximately $100 million on capex in 2025 to expand capacity and capture growth opportunities. Within M&A, we are evaluating tuck-in opportunities with a range of $50 million to $200 million in revenue. Our revenue and competitive position in cleaning applications has benefited from the cleanLaser acquisition that we made at the end of last year, and we continue to target companies that offer differentiated technology or market access to accelerate strategic growth initiatives. During the quarter, we continued to opportunistically return cash to shareholders, repurchasing $30 million of IPG stock, building on the one billion dollars in share repurchases over the past three years.

Since joining IPG just over a year ago, I have been focused on setting the foundation to drive profitable growth, including strengthening the organization. We achieved a recent milestone on this objective with the appointment of five key leaders, including four recent hires, to help advance our strategy and support continued global growth. These leaders have a proven track record of driving strategy and execution. They each bring distinct strengths, deep expertise, and a shared commitment to collaboration and innovation. With these new appointments to our executive leadership team, we are shaping a stronger, IPG - better equipped to execute with

speed, serve our customers with excellence, and drive our next chapter of profitable growth. I am pleased to welcome them to the team and excited about what we will be able to accomplish.

I am proud to report that we've been effectively adapting to the dynamic operating environment by leveraging the flexibility of our global manufacturing supply chain to minimize the impact of tariffs. We've demonstrated agility, shifting production across regions to better serve customers. We also continue to work on alternatives to optimize our tariff exposures. As a result, we were able to ship most of the orders that were previously anticipated to be delayed due to tariffs and longer customs processing. While new tariffs have recently been announced, our global footprint and supply chain flexibility position us well to continue meeting our customers' needs.

As I mentioned earlier, our second-quarter book-to-bill ratio was approximately one on higher revenue, and we are encouraged by signs of further demand stabilization in our business. Industrial production has been improving, and inventories at some of our cutting OEM customers have normalized, supporting a return to more typical purchasing behavior. We don't believe the recent increase in demand is driven by customers pulling orders forward in response to tariffs. That said, the demand environment continues to be sensitive to external factors, so we are approaching the second half with cautious optimism.

In closing, I am encouraged by the progress we're seeing, both in the stabilization of our core business and in advancing our strategy to drive laser adoption in markets with high growth potential . While tariff-related pressure and uncertainty persist, we remain focused on what we can control and confident in our ability to navigate this environment while executing for profitable growth.

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 5.

Revenue from materials processing decreased 6% year over year, as a result of divestitures and lower sales in cutting, welding and additive manufacturing applications, partially offset by higher revenue in micromachining and the acquisition of cleanLaser. Revenue from other applications increased 21% driven by higher sales in medical and advanced applications.

As Mark already mentioned, we saw sequential improvement in revenue in cutting, welding and marking. Welding revenue grew on customer wins and improvement in industrial demand and EV battery investments, primarily in China. Cutting revenue also grew sequentially and was nearly flat compared to the prior year as the cutting OEM business showed some stabilization in Europe and an increase in demand in Asia and North America. Marking and engraving sales were also more stable. Our cleaning revenue improved sequentially and continued to benefit from cleanLaser. Mark already highlighted strong results in our medical and advanced applications in the quarter, so I won't go over them again. Our emerging growth products performed well in the quarter, increasing to 54% of sales, driven by a wide variety of laser sources, subsystems and systems.

Moving to the revenue performance by region on slide 6. Sales in North America increased 31% sequentially and were down 4% year over year. Sequential growth was primarily driven by higher sales in medical and advanced applications as well as improved sales to cutting OEMs. Despite more stable sequential performance, welding revenue was down compared to the prior year due to soft demand from EV manufacturing in the region.

Sales in Europe were stable with less than a 1% sequential decline, and down 11% year over year excluding $11 million in divestitures. Lower cutting and welding sales as a result of soft industrial demand were partially offset by cleanLaser.

Revenue in Asia increased 4% sequentially and 14% year over year benefiting from higher sales in welding and cutting as well as advanced applications. We have continued to see a strong demand recovery in e-mobility coupled with our business wins in EV welding applications. Sales to additive manufacturing were lower in the quarter due to timing of shipments while demand remained strong.

Moving to the financial performance review on slide 7.

Revenue came in above our expectations at $251 million, up 10% sequentially and down 3% on a year-over-year basis. Foreign currency increased revenue by approximately $4 million or 1% this quarter.

GAAP gross margin was 37.3%, flat year over year. Adjusted gross margin was 37.8%, at the top of our guidance, and was driven by improved manufacturing cost absorption and a decrease in inventory provisions, mostly offset by higher cost of products sold due to geographic and product mix and increased shipping costs. The impact of tariffs was 115 basis points, which was better than our expectations.

Operating expenses were above last year's level, primarily due to the investments we are making in key areas that are central to our strategy as well as investments in strengthening our organization, which Mark highlighted earlier on this call.

GAAP operating income was breakeven and our adjusted EBITDA was $32 million, slightly above the top end of our guidance.

GAAP net income was $7 million, or $0.16 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 was $0.30 in the second quarter, above our guidance range.

Moving to a summary of our balance sheet and cash flow on slide 8, we ended the quarter with cash, cash equivalents, and short-term investments of $900 million and no debt. During the second quarter we spent $15 million on capital expenditures and $30 million on repurchasing IPG shares, supporting our balanced capital allocation framework of investing in growth and returning cash to shareholders. We now expect capex of approximately $100 million in 2025 as we expand capacity, primarily in Europe. We expect operating cash flow to improve significantly in the second half, substantially offsetting capex. Looking ahead, we expect capex to decrease significantly and free cash flow to improve next year.

Moving to our outlook on slide 9, for the third quarter of 2025, we expect revenue of $225 million to $255 million and adjusted gross margin between 36% and 38%, including a potential of a slightly higher impact of tariffs. With investments in the growth of our business and strengthening the organization, we expect our operating expenses to remain elevated and between $89 million to $91 million in the third quarter. We anticipate delivering adjusted earnings per diluted share in the range of $0.05 to $0.35, with approximately 42.5 million diluted common shares outstanding. Our adjusted EBITDA is expected to be between $22 million to $36 million.

In closing, we are pleased to see signs of continuing revenue improvement coupled with results from our strategic initiatives and believe we have significant operating leverage in our model. Our strong balance sheet gives us a significant advantage given the near-term uncertainty in the operating 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.