IPG Photonics Corporation
Third Quarter 2025 Conference Call Prepared Remarks

Operator:

Good morning, and welcome to IPG Photonics' third 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 third 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. 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, November 4, 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.

Third-quarter revenue was at the top end of our expectations, flat sequentially and up 11% year-over-year excluding divestitures. There were a number of positive factors that drove the results this quarter. Stronger demand in battery production, driven by e-mobility and stationary storage, supported higher sales in welding. With our adjustable mode beam laser, weld monitoring and beam delivery solutions, we continued to win orders with some of the largest battery and automotive manufacturers across multiple regions. General industrial demand was stable compared with the prior quarter and our cutting revenue was essentially flat and consistent with the past several quarters. We began shipping the new generation of our high-power rack-integrated lasers to cutting OEM customers globally. These next-generation lasers use our new higher power diodes, have a smaller footprint and lower manufacturing costs. Demand in additive manufacturing applications was very strong, and we won new business with our single-mode lasers tailored for that application. Cleaning continued to grow, supported by the cleanLASER acquisition. Outside of industrial applications, we delivered year-over-year growth and built momentum toward longer-term value creation through new product introductions and new business wins. One exciting example of this is the growing interest in our CROSSBOW directed energy solution, which I'll touch on shortly. I'm also pleased to share that we've received FDA clearance for the next generation of our thulium medical laser systems. This is an important step for the business, and we expect shipments to start by the end of the fourth quarter. I'll provide more detail on this milestone later in the call.

Our financial results improved in the quarter as we increased gross margin, managed operating expenses, and delivered adjusted EBITDA and adjusted earnings per share at the top end of our expectations. Order activity remained healthy, with book-to-bill of approximately one. While uncertainty in the demand environment persists, leading indicators such as PMIs continue to show improvements, and we remain cautiously optimistic going into the year-end.

Now, I'd like to take a step back and offer some broader perspective on the longer-term trajectory of our business and the progress we're making on our strategic initiatives. Over the last 17 months, I have been methodically working to transform the organization, creating a disciplined, high-performance culture that is fully prepared to take on the opportunities that lie ahead of us. This transformation involves moving IPG from a founder-led approach to a team-led operating model that can support further growth. Last quarter, I highlighted some of the additions I had made to strengthen our executive leadership team – this top talent has brought deep expertise and fresh perspective, and they are already having a significant impact on our execution.

The results we're delivering today show that the strategy we outlined earlier this year is taking hold and is beginning to drive meaningful improvement across our businesses. Our progress reflects disciplined execution, sharper focus, and stronger alignment around our growth priorities. The steps we've taken to streamline operations, strengthen decision making, and accelerate product development are translating into better performance and greater consistency across the business. Our focus remains on sustaining this momentum, balancing operational discipline with investment in innovation to position IPG for long-term, profitable growth.

The powerful combination of innovation and execution is driving progress across our key growth initiatives. Our fundamental strategy is based on converting incumbent processes and applications to our differentiated laser-based solutions. This enables us to expand existing laser use cases, create new laser applications, and extend our reach into new high-growth applications such as medical, micromachining and directed energy. These are large opportunities with the potential to significantly expand our addressable market.

We continue to strengthen our position in core industrial applications such as welding and cutting by focusing where differentiation matters most and where our technology delivers a clear performance or cost advantage. This is evidenced by our business wins and positions us to outpace the market as industrial production recovers. We're also moving up the value chain with our world-class laser applications capability that enables us to integrate our fiber lasers into differentiated subsystems and systems to solve our customers' most challenging problems. This approach allows us to capture a greater share of customer spend and deepen long-term partnerships. We have already demonstrated these benefits in welding, which has become our largest application. Our unique solutions enable safer and more reliable welding processes for thin foils and alloys used in advanced batteries for EV and stationary storage applications. We are also accelerating the adoption of lasers in other large industrial applications, displacing incumbent technology. By combining our laser technology with deep applications expertise, we are solving complex challenges for our customers where precision and efficiency matters most. Laser cleaning is a great example of this approach. Customers convert to laser cleaning from conventional abrasive or chemical methods because our laser solution offers greater speed and control, is easy to automate and provides a safer and environmentally superior outcome. Lasers will continue to be adopted, driven by these advantages, and we are leading the change, accelerating broader implementation across the industry.

Finally, we are penetrating new, non-industrial applications and markets where laser-based solutions also offer clear cost-benefits and superior outcomes relative to incumbent approaches. We are focused on medical, micromachining and directed energy verticals where our innovative laser-based solutions provide strong competitive advantages. I'm pleased to report that we're making meaningful progress across each of these opportunities.

In medical, we have been making strategic investments in urology applications. Our thulium lasers provide a superior solution for eliminating kidney stones and have demonstrated improved results versus legacy laser processes. On previous calls, I discussed a new customer we won earlier this year that has helped to drive strong revenue growth in the business in 2025. I am happy to report another major milestone on today's call: FDA clearance and the upcoming launch of our next generation urology system. This new system incorporates our proprietary StoneSense™ and advanced pulse modulation technologies, which deliver improved precision and control, continuing to enhance results in kidney stone removal procedures. Shipments are expected to begin in the fourth quarter. This marks another important step in expanding our medical portfolio and demonstrates how our innovations continue to advance patient care and broaden our reach beyond industrial applications. We're executing against a clear roadmap that we believe will drive significant revenue growth, including recurring consumables revenue, over the next two to three years.

Last quarter we discussed CROSSBOW, a scalable and cost-effective laser defense system that can neutralize the threat of smaller Group I and Group II drones. CROSSBOW is a disruptive, turnkey, directed energy system enabled by our single-mode lasers, systems expertise and our high-volume manufacturing capabilities. CROSSBOW can operate as a standalone system or can be integrated into layered defense architectures. This system was showcased during two recent defense shows: DSEI in London and AUSA in Washington, DC. Interest was high from both defense and commercial customers for protection of critical military and civilian assets. We are working on converting leads into orders and are having conversations with multiple potential customers. We're proud to announce the opening of our new IPG Defense customer center and production facility in Huntsville, Alabama, which is dedicated to supporting the CROSSBOW product line. Over the last few months, there have been multiple examples of large international airports that were forced to shut down all flights due to the incursion of drones. We are optimistic that our solution can become a standard approach across many situations and scenarios to deal with these ever-increasing threats.

We believe this growth strategy best aligns our differentiating laser technology, market leadership, and deep applications expertise to solve the most challenging problems, and enables us to deliver a compelling value proposition that makes IPG a trusted partner in the industries we serve.

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.

Revenue from materials processing increased 6% year over year, driven by higher sales in welding, additive manufacturing applications, cleaning, and micromachining, partially offset by lower sales in marking and divestitures while cutting revenue remained nearly flat. Revenue from applications other than materials processing increased 20% driven by higher sales in medical and advanced.

Our emerging growth products performed well in the quarter, increasing on a year-over-year basis but declining slightly sequentially and accounting for 52% of sales in the third quarter, down from our record high of 54% in the prior quarter.

Moving to the revenue performance by region on slide 5.

Sales in North America decreased by 16% sequentially but were up 8% year over year. Sequentially, sales declined due to the timing of some large orders in welding and advanced applications while year-over-year growth was driven by higher revenue in advanced applications and medical as well as improved cutting and cleaning sales.

Sales in Europe increased 11% sequentially, and 4% year over year excluding $7 million in divestitures. The sequential increase was driven by higher sales in welding, cutting and additive manufacturing while the year-over-year improvement was driven by the acquisition of cleanLASER as well as higher sales in cutting and additive manufacturing.

Revenue in Asia increased 5% sequentially and 15% year over year driven by higher welding sales in China, Japan and Korea as a result of stronger demand and business wins in battery applications. Our differentiated solution including the combination of our AMB laser, weld process monitoring and beam delivery, is improving yields and battery safety and driving adoption by major battery manufacturers in the region.

Moving to the financial performance review on slide 6.

Revenue came in at the top of our expectations at $251 million, flat sequentially and up 8% on a year-over-year basis, or 11% excluding divestitures. Foreign currency increased revenue by approximately $3 million or 1% this quarter.

GAAP gross margin was 39.5% and adjusted gross margin was 39.8%, above our guidance, and was driven by improved manufacturing cost absorption and a decrease in inventory provisions, partially offset by higher cost of products sold and increased shipping costs on a year-over-year basis. The impact of tariffs was 140 basis points, in line with our expectations. We continue to work on mitigating tariffs but the impact will likely continue in the fourth quarter.

Operating expenses were flat sequentially but above last year's level, primarily due to the investments we are making to support our strategy and strengthen our organization, which Mark highlighted earlier on this call.

GAAP operating income was $8 million and our adjusted EBITDA was $37 million, slightly above the top end of our guidance. GAAP net income was $7 million, or $0.18 per diluted share. Adjusted earnings per diluted share was $0.35 in the third quarter, at the top end of our guidance.

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 $870 million, $30 million in long-term investments, and no debt. During the third quarter we spent $21 million on capital expenditures and $16 million on repurchasing IPG shares, supporting our balanced capital allocation framework of investing in growth and returning cash to shareholders. As expected, operating cash flow started to improve significantly in the second half of the year, more than offsetting capex and driving positive free cash flow in the quarter. Looking ahead, we will likely come in well below $100 million in capex this year due to the timing of expenditures for our major investment in Germany. We still expect capex to decrease to about 5% of revenue and free cash flow to improve once the project is complete, but the timing of this project may keep next year's capex at approximately the same level as in 2025.

Moving to our outlook on slide 8, for the fourth quarter of 2025, we expect revenue of $230 million to $260 million and adjusted gross margin between 36% and 39%, including a potential impact of tariffs of about 140 basis points. With investments in the growth of our business and strengthening the organization, including leadership, we expect our operating expenses to remain elevated between $90 million and $92 million in the fourth 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 $21 million and $38 million.

In summary, we are pleased to see further signs of continuing revenue stabilization coupled with margin improvement while investing in our strategic initiatives. We continue to 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.

I will now turn the call back to Mark.

Mark Gitin:

Thanks, Tim.

In closing, we are encouraged by the progress we've made and energized by the scale of the longer-term opportunity ahead. We believe we have strong growth opportunities driven by our differentiated solutions that have been successfully winning business even in a subdued industrial environment. As general industrial activity recovers, this positions us well to outgrow the market. Our market leadership, applications expertise and complete solutions enables us to drive adoption of lasers, replacing incumbent technologies, and expanding the addressable market. We are excited that our growth initiatives in medical, micromachining and defense are already showing meaningful progress and driving incremental revenue. While we are cautiously optimistic about the demand environment, we continue to transform the company to create value for our customers and shareholders in the longer term.

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.