IPG Photonics Corporation
First Quarter 2026 Conference Call Prepared Remarks

Operator:

Good morning, and welcome to IPG Photonics' first 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 first quarter results as well as the overall 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, May 5, 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.

First quarter revenue exceeded our expectations, increasing 17% year over year. We continued to see improved demand for our laser solutions, particularly in battery manufacturing and medical applications, which drove our strong performance in the quarter. We maintained a disciplined focus on our growth initiatives across all of our markets, delivering solid first quarter results and building momentum for future growth.

Before looking more closely at our first quarter sales performance, I would like to highlight our updated revenue reporting framework, which better aligns with our strategic growth initiatives, making it easier to understand and track our progress. It also provides a clearer separation between our industrial and non-industrial revenue streams, giving better visibility into our focus areas and splitting the business into two distinct buckets with unique performance and growth profiles. This reporting combines applications into two categories: Industrial Solutions and Advanced Solutions.

Today, most of our business is in Industrial Solutions where we are building on our strong foundation, expanding our addressable market by displacing incumbent technologies, and enhancing our value proposition by offering differentiated system and subsystem solutions. This includes applications such as cutting, welding, cleaning, additive manufacturing, and other industrial offerings.

In the first quarter, Industrial Solutions revenue accounted for 86% of total sales, increasing 21% year over year as our design wins took hold and general industrial demand improved. Welding, cutting, marking, and cleaning applications drove higher revenue. Welding and cutting, our two largest applications, posted double-digit growth, benefiting from solid demand and new orders from battery manufacturing. Sequentially, Industrial Solutions revenue was relatively flat and outperformed typical seasonality, driven by business wins in cutting and additive manufacturing.

In Advanced Solutions, which is another important driver of our future growth, we are applying our laser technologies and applications expertise, solving challenging problems for customers. Advanced Solutions serves markets such as medical, defense, micromachining, semiconductor manufacturing, and others that present strong growth opportunities and collectively represent a $5 billion TAM. We have already established a solid presence in these markets and are excited about the opportunities that lie ahead.

Advanced Solutions represented 14% of our revenue in the first quarter and declined modestly year over year. Revenue growth in medical and semiconductor applications was offset by lower micromachining sales due to cyclical demand in solar cell manufacturing. Sequentially, revenue declined due to lower medical sales following an exceptionally strong fourth quarter of 2025. We were particularly encouraged by increased sales in semiconductor applications as we gained traction with large equipment manufacturers.

Total bookings were strong in the quarter, with book-to-bill firmly above one for the second consecutive quarter. This gives us confidence in our outlook and points to robust demand for our solutions despite elevated levels of macroeconomic uncertainty. We see this strong demand and remain focused on executing our key growth initiatives across Industrial Solutions and Advanced Solutions: building upon our strong foundation in industrial innovation and expanding our leadership in laser technology into new high-growth applications such as medical, micromachining, and defense. While our initiatives target a wide range of opportunities, our path to success is consistent: leveraging differentiated laser technology and deep applications expertise to deliver clear performance advantages that incumbent approaches cannot match.

Together, these initiatives represent compelling opportunities to meaningfully expand our addressable market and support sustained long-term growth.

In Industrial Solutions, welding revenue is growing, driven by our advanced capabilities for battery manufacturing across both electric vehicles and stationary storage applications. Global stationary storage deployment is growing rapidly to support data center energy requirements and is gaining an increasing share of battery manufacturing. These batteries use larger cells with thicker busbars, requiring higher power lasers and process monitoring. This aligns directly with our strengths. Our unique combination of adjustable mode beam lasers, advanced beam delivery, and real-time process monitoring ensures weld quality and sets us apart from the competition.

Beyond lasers and subsystems, we continued to make meaningful progress in our systems business, which posted another strong quarter. We are moving up the value chain by integrating our fiber lasers into differentiated, complete systems, which together with our applications expertise, enables us to tackle complex problems that incumbent technologies cannot address. This approach allows us to deepen our partnerships with customers across a wide range of markets from welding to cleaning.

Turning to Advanced Solutions, we continued to make progress with our growth strategy by targeting opportunities across defense, medical, and micromachining applications.

In February, we announced that Lockheed Martin placed a $10 million follow-on order for CROSSBOW™, our scalable, cost-effective, high-energy laser defense system for countering Group I and Group II drone threats. Shipments for that order are expected to begin in the second quarter. We also showcased CROSSBOW at the 2026 AUSA Global Force Symposium in Huntsville, Alabama, where we engaged with defense industry leaders on how our solutions can address escalating drone threats at a significantly improved cost-exchange ratio. CROSSBOW continues to generate interest from potential customers, and we are gaining traction on converting that interest into orders.

In medical, revenue grew significantly year over year, driven by sales to a new customer, as our solutions continue to deliver clinically meaningful outcomes. We are advancing our innovation roadmap and expect several new product approvals and introductions in 2026 and 2027. We have a very strong backlog for 2026, giving us excellent visibility into full-year revenue that points to another good year in medical.

In semiconductor, revenue grew this quarter as we ramped up new lithography, metrology and inspection business with large semiconductor equipment manufacturers. This market is being driven by accelerating adoption of AI, which is fueling demand for GPUs and high-bandwidth memory chips. We continue to advance our product development and are working closely with customers on design-in opportunities, supported by the clear performance advantages of our solutions.

Our strategic progress is enabled by the organizational changes and investments we have made. We have streamlined operations, strengthened decision making, and accelerated product development, translating into better performance and greater consistency across the business. While our entrepreneurial and innovative spirit remains at the heart of IPG, we are building the operating discipline required to scale these capabilities effectively.

In summary, our team delivered another quarter of year-over-year growth as customer demand for our differentiated laser solutions continued to strengthen across our markets. We are making meaningful progress on our strategic objectives, outperforming the market and creating lasting value for our customers and shareholders.

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.

Industrial Solutions revenue increased 21% year over year in Q1, driven by growth in welding, cutting, cleaning, and marking. This was partially offset by lower revenue in additive manufacturing. On a sequential basis, revenue was basically flat, down 1%, as lower revenue in welding and additive manufacturing was largely offset by growth in cutting and marking. Cleaning revenue was flat.

Advanced Solutions revenue decreased 5% compared with last year as growth in medical and semiconductor was offset by lower revenue in defense and micromachining. Revenue was down 13% quarter over quarter on lower medical sales from a very strong fourth quarter. Micromachining, semiconductor, and scientific revenue all improved sequentially.

Sales of our emerging growth products continued to increase and accounted for 53% of total revenue in the first quarter, consistent with the prior quarter. Following our annual review, we made a slight adjustment to the product list. Many of these products are benefiting from growth in battery manufacturing and the medical market.

Moving to revenue performance by region on slide 6.

North American revenue increased 27% compared with last year, driven by growth in welding, cutting, additive manufacturing, and medical applications. Sequentially, revenue was down 4% due to declines in cleaning and medical, partially offset by strength in welding, cutting, additive manufacturing, and micromachining.

European sales were up 4% year over year, driven by cutting, and down 13% sequentially, versus a strong fourth quarter due to lower sales in welding, cleaning, and additive manufacturing.

Revenue in Asia improved 14% year over year, driven by strong demand in welding, cutting, marking, and cleaning applications, which primarily benefited from capacity additions for battery manufacturing. Revenue was flat quarter over quarter.

Moving to the financial performance review on slide 7.

Total revenue was $265 million, up 17% year over year, marking our second consecutive quarter of double-digit sales growth. Foreign currency benefited revenue by approximately 4% this quarter compared to the same period in the prior year.

GAAP gross margin was 37.5% and adjusted gross margin was 37.8%. Adjusted gross margin came in close to the midpoint of our guidance range and improved sequentially. Gross margins benefitted year over year from lower inventory provisions due to improved inventory management. While product margins have been stable over the last few quarters, we did experience headwinds from tariffs compared to the first quarter of 2025. We continue to target improvement in product margins based on pricing and cost reduction initiatives that are starting to take hold. Underabsorbed expenses continue to run at a higher level than we are targeting in the medium term, and we have specific initiatives underway to improve our operational efficiency. We expect the impact from tariffs to persist in 2026 and continue to work on ways to offset their impact, including cost reduction and pricing initiatives.

Total GAAP operating expenses were $107 million. This includes a $13.5 million payment and license related to an agreement with Trumpf Laser Systemtechnik, settling all patent litigation between us worldwide. The license will have an immaterial impact on our future results.

Excluding the settlement payment, litigation expenses, amortization of intangibles and other acquisition related expenses, adjusted operating expenses were approximately $91 million as we continue to invest in our strategic initiatives to drive future growth.

GAAP operating loss in the quarter was $8 million, and GAAP net income was $2 million or $0.04 per diluted share. Excluding one-time items, FX and amortization, adjusted operating income was $9 million, and adjusted net income was $13 million, with adjusted earnings per diluted share of $0.29. Adjusted EBITDA was $35 million. Both adjusted EPS and adjusted EBITDA came in above the midpoints of our guidance ranges.

Moving to a summary of our balance sheet and cash flow on slide 8, we ended the quarter with $813 million in cash, cash equivalents, and short-term investments. We had $71 million in long-term investments and no debt.

Cash used in operations was $5 million. The first quarter is typically weaker for cash generation as it is impacted by annual bonus payments.

During the first quarter, we spent $16 million on capital expenditures, below the expected run rate given our CapEx budget of $90 to $100 million this year, due to the timing of investments in our major fiber manufacturing facility in Germany. Excluding the German investment, underlying CapEx is running at about 5% of revenue, and we expect to maintain this level going forward.

Moving to our outlook on slide 9, orders remained strong with book-to-bill staying firmly above one.

For the second quarter of 2026, we expect revenue of $260 million to $290 million, and we expect adjusted gross margin between 37% and 40%, including an ongoing impact from tariffs of about 150 basis points. We estimate adjusted operating expenses in the range of $92 million to $95 million in the second quarter and anticipate that these expenses will likely increase moderately during the year to support opportunities to further accelerate our key growth initiatives. For the second quarter, we expect to deliver adjusted earnings per diluted share in the range of $0.25 to $0.55, with approximately 43 million diluted common shares outstanding. Our adjusted EBITDA is expected to be between $32 million and $48 million.

In summary, we are pleased with our first quarter results, with both bookings and revenue moving in the right direction. The underlying strength of the business is good to see, but we would like to remind you that we do face tougher comparisons in the second half of 2026 relative to a strong second half in 2025. Although first quarter gross margin was a little light given the level of revenue, we continue to strive for margin increases through cost reductions, pricing initiatives, and reducing underabsorbed costs. While we are monitoring freight costs that may be influenced by geopolitical developments in the Middle East, our direct exposure to petrochemicals and energy markets is limited, and our vertical integration provides resilience against potential adverse impacts arising from conflicts in the region.

I will now turn the call back over to Mark.

Mark Gitin:

Thanks, Tim.

As Tim said, we are pleased with the strong start to the year, reflecting robust demand for our solutions despite elevated macroeconomic uncertainty. While we are closely monitoring current geopolitical events and have yet to see an impact on demand for our solutions, we remain cautiously optimistic in our outlook. We focus on what we can control - executing on our growth strategy, supported by operational excellence and an innovation engine that continues to unlock significant areas of incremental opportunity. This foundation gives us confidence in our ability to achieve above-market growth 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.