IPG Photonics Corporation
Second Quarter 2026 Conference Call Prepared Remarks

Operator:

Good morning, and welcome to IPG Photonics' second 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 second 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, August 4, 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.

Second-quarter revenue was above the midpoint of our guidance, increasing double digits year over year and growing sequentially. Both Industrial Solutions and Advanced Solutions grew quarter over quarter, and adjusted gross margin and adjusted EPS came in above our expectations.

Bookings also improved in the quarter, and book-to-bill remained above one. Growth in both revenue and bookings points to sustained demand for our products across our end markets.

Revenue growth was led by strength in Industrial Solutions, primarily in welding applications, as we continued to benefit from increased demand and business wins for our solutions in battery manufacturing. Cleaning and additive manufacturing also contributed to the year-over-year growth. Advanced Solutions revenue improved sequentially, driven by strong growth in semiconductor applications as we are making progress with large semiconductor equipment manufacturers. We are also seeing strong interest in our directed energy defense system, CROSSBOW™. Overall, in Advanced Solutions we continue to execute on our long-term strategic initiatives and believe that we have numerous opportunities for growth.

The growth we achieved in the second quarter also demonstrates that we are making progress on our two clearly defined strategic growth initiatives. The first is strengthening our leadership in Industrial Solutions by expanding laser adoption, displacing incumbent technologies and further moving up the value chain with differentiated system and subsystem solutions.

Welding drove much of the Industrial Solutions growth in the quarter. Demand in battery manufacturing remains strong across both electric vehicles and stationary storage, which supports data center energy requirements. Following our strategy to further move up the value chain, I am excited to report that our subsystems revenue increased significantly this year. Our unique combination of adjustable mode beam lasers, advanced beam delivery, and real-time process monitoring enables unmatched welding speed and quality. We are also making these subsystems easier to integrate and adding computer vision and artificial intelligence into the solutions. These advantages helped drive recent wins with two major global automotive manufacturers.

Additive manufacturing revenue remained strong in the quarter and grew significantly year over year. Demand is accelerating, as our newest solutions enable the displacement of conventional metal machining. Winning here takes precise laser parameters, partnership with OEM customers, and deep applications expertise. Our latest generation of lasers with proprietary beam shaping capabilities increases process speeds by approximately 1.5 to 2 times, translating directly into higher productivity and lower total cost per part for customers.

Our second strategic growth initiative is expanding our leadership in laser and photonics technologies in attractive markets and applications in Advanced Solutions, including medical, directed energy, micromachining, and semiconductor. We are leveraging core capabilities to target applications where precision, accuracy, control, efficiency, and reliability matter most and are pursuing those opportunities both organically and through acquisition. This strategic initiative is addressing over $5 billion of TAM, and we are expecting $100s of millions in revenue over the longer term. Let me tell you about the progress we are making and the encouraging signs we are seeing towards realizing this potential.

On July 16, we entered into a binding offer to acquire Lumibird Medical, a global leader in diagnostic and treatment systems for ophthalmology. We believe this acquisition will allow us to achieve four things. First, it accelerates IPG's strategic evolution by meaningfully expanding our Advanced Solutions revenue into attractive, higher margin medical markets with durable demand, strengthening the quality of our business mix. Second, it delivers on our commitment to improve profitability through the addition of a high-margin business that we expect will be accretive to gross margin, EBITDA and adjusted EPS in the first year. Third, it creates a scaled medical laser platform by combining our leading urology business with Lumibird Medical's leading ophthalmology business, increasing our addressable medical market by approximately $1 billion. And fourth, it expands our long-term value creation opportunity by combining complementary technologies, commercial capabilities and applications expertise to drive innovation and unlock future growth. We are very excited about this opportunity, which we expect to close in the fourth quarter of 2026.

In our medical business, bookings and backlog remain strong, and we expect shipments to increase in the second half of the year. Looking forward, we remain confident in long-term demand growth for our urology systems and fibers. We are also advancing our innovation roadmap, with new product approvals and introductions expected in 2026 and 2027.

Our strongest performance within Advanced Solutions was in semiconductor applications as we continued to win new business with large semiconductor equipment manufacturers due to the differentiated value that we deliver. Our solutions for lithography, metrology, and inspection are gaining traction, increasing our exposure to this high-growth market, driven by an acceleration of AI-related demand for GPUs and high-bandwidth memory chips. We continue to advance our product development by working closely with customers on design-in opportunities supported by the clear performance advantages our lasers and photonics solutions offer.

In our defense business, we began shipping Lockheed Martin's order for CROSSBOW this quarter. We will be shipping more units in the third quarter and continuing to engage with potential customers, working to convert their interest into orders. We recently participated in a defense event at White Sands Missile Range, demonstrating CROSSBOW capabilities to multiple agencies in demanding real-world environments. The system continues to be broadly tested in various scenarios domestically and overseas and has proven to perform reliably in harsh conditions. We remain optimistic about the current developments in the directed energy market and believe that our systems provide effective solutions with a favorable cost-exchange ratio to address the increasing threats from Group I and II drones.

Along with making progress on our strategic growth initiatives, we are also transforming into an organization positioned to maximize the growth and profit opportunities ahead through the One IPG Operating Model. We are streamlining operations, strengthening decision making, and accelerating product development, translating into better performance and greater consistency across the business.

In summary, the global IPG team delivered another quarter of sequential and year-over-year growth as customer demand for our unique solutions has strengthened across our markets. Orders also grew, keeping our book-to-bill above one, and we reported significant increases in adjusted gross margin, and adjusted EPS. We are making meaningful progress on our strategic objectives, positioning us to continue to deliver profitable growth and create sustained shareholder value.

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 16% year over year in the second quarter, driven by growth in welding, marking, cleaning, and additive manufacturing. On a sequential basis, revenue was up 4%, primarily due to strength in welding and cleaning.

Advanced Solutions revenue decreased 9% compared with last year as growth in semiconductor applications was offset by lower revenue in micromachining and defense. However, Advanced Solutions revenue improved 10% quarter over quarter on growth in semiconductor and sequential improvement in micromachining applications.

Sales of our emerging growth products continued to increase and accounted for 58% of our total revenue in the second quarter, up from 53% in the prior quarter. Strong growth in our lasers and solutions for battery manufacturing processes drove the increase.

Moving to revenue performance by region on slide 6.

North American revenue decreased 2% compared with last year due to lower revenue in cutting, defense, and medical applications. Sequentially, revenue was up 1% due to increased marking and defense sales.

European sales were up 5% year over year and 1% sequentially, driven by increased sales in cleaning and additive manufacturing, partially offset by a decrease in cutting.

Revenue in Asia increased 19% year over year and 8% sequentially, driven by strong growth in welding applications, which benefited from higher demand in battery manufacturing.

Moving to the financial performance review on slide 7.

Total revenue was $279 million, up 11% year over year, marking our third consecutive quarter of double-digit year-over-year sales growth. Foreign currency benefited revenue by approximately 2% this quarter compared to the same period in the prior year.

GAAP gross margin was 40.4% and adjusted gross margin was 40.7%, above the top end of our guidance range. We recorded a benefit from tariff refunds of approximately $4.7 million that had a positive impact on gross margin of approximately 170 basis points in the quarter. Lower inventory provisions and product cost continued to provide a positive benefit, while manufacturing cost absorption remains below the level we are targeting in the medium term.

Total adjusted operating expenses were $91 million, excluding $17.6 million in impairment of long-lived assets related to the sale of our Belarussian operations and other one-time items. Adjusted operating expenses declined sequentially and came in slightly below our guidance range, as we benefited from a German R&D tax credit of $1.8 million in the quarter. Overall, we expect operating expenses to modestly increase going forward due to our continued investments to drive growth.

GAAP operating income in the quarter was $5 million, and GAAP net income was $5 million or $0.12 per diluted share. Adjusted operating income was $24 million, and adjusted net income was $25 million, with adjusted earnings per diluted share of $0.58. Adjusted EBITDA was $49 million. Both adjusted EPS and adjusted EBITDA came in above the top end of our guidance range.

Moving to a summary of our balance sheet and cash flow on slide 8, we ended the quarter with $871 million in cash, cash equivalents, and short-term investments. We had $33 million in long-term investments and no debt.

Cash flow from operations was $38 million in the quarter, improving significantly from the first quarter.

During the second quarter, we spent $21 million on capital expenditures, bringing year-to-date CapEx to $37 million. Our CapEx outlook remains $90 to $100 million for this year, including 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 above one.

For the third quarter of 2026, we expect revenue of $265 million to $295 million and adjusted gross margin between 37.5% and 40.5%, factoring in the 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 third quarter and 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 $35 million and $51 million.

In summary, we are pleased with our second quarter results, with growth in revenue and bookings, as well as improvement in gross margin 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 over to Mark.

Mark Gitin:

Thanks, Tim. We are pleased with the strong start in the first half of the year, driven by sustained industrial demand and the progress we are making with our key strategic initiatives. Our announced acquisition of Lumibird Medical accelerates our strategic evolution and significantly expands our Advanced Solutions portfolio into higher growth and higher margin medical applications. We continue to execute on 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.