

Coherent Corp.

NYSE: COHR | Optical Communications & Photonic Materials | Equity Research Initiation | 18 August 2026

Price (18 Aug 2026, 10:23 ET)	\$315.00 (-10.3%)	Recommendation	BUY
Prior close (17 Aug)	\$351.22	Investment score	63 / 100
Market capitalisation	\$61.7bn	Ideal buy range	\$275 - \$300
Enterprise value	\$62.9bn	Cut-loss	\$238
52-week range	\$84.35 - \$440.00	Targets	\$440 then \$520
Fwd P/E (FY27E \$9.70)	32.5x	Horizon	12 - 24 months

All valuation in this report is struck on the live price of \$315.00 at 10:23 ET on 18 August 2026 (StockAnalysis.com), with the prior close of \$351.22 (Alpha Vantage) shown for reference. The US market was open at the time of writing, so the live price is provisional and the day's close is unknown. Coherent reported fiscal Q4 2026 after the close on 12 August 2026; the fiscal year ends 30 June.

Investment Summary

Coherent has become the largest Western supplier of the optical components that carry data inside and between AI data centres, and fiscal 2026 was the year that position finally showed up in the accounts. Revenue reached \$7.12bn, up 22.5% (28% pro forma), non-GAAP earnings per share rose 59% to \$5.61, and the company swung from an \$80.6m net loss to \$769.9m of GAAP net income. The June quarter was stronger still: \$2.05bn of revenue, up 33.8% year on year and 13.3% sequentially, with the datacenter and communications segment up 58.6% and now 79% of the business.

The fourth quarter beat on both lines, revenue by 3.5% against a \$1.98bn consensus and non-GAAP EPS by 7.4% against \$1.62. More importantly, management guided the September quarter to \$2.2bn-\$2.4bn of revenue and \$1.85-\$2.05 of EPS, roughly 8% and 10% above where the street sat, and told investors to expect the company's first \$3bn quarter by the end of fiscal 2027. Fiscal 2027 is described as fully booked, purchase orders now extend into calendar 2028, and long-term agreements carry take-or-pay minimums and agreed pricing through the end of the decade. On the demand side there is very little left to argue about.

The argument is about what that growth costs. Capital expenditure tripled to \$1.10bn in fiscal 2026 and reached \$556m in the June quarter alone, against \$131m a year earlier, with management guiding to a further sequential increase. Operating cash flow collapsed 87.5% to \$79.5m as inventory rose 79.5% to \$2.58bn, and free cash flow swung from positive \$192.8m to negative \$1.02bn. Roughly \$2bn of equity was issued during the year and the weighted diluted share count rose about 21%. Coherent is converting an unusually good demand environment into revenue by spending shareholders' money faster than the business generates it, and the market has begun to notice: the shares fell 8% the session after a clear beat-and-raise, and are down another 10.3% as this is written. The proximate cause is not Coherent at all. Fabrinet reported this morning, beat on revenue and on earnings, and was sold down anyway because gross margin slipped 30bp and free cash flow turned negative on a capital spending surge. That is the identical complaint, in the same week, about the same thing.

The balance of these two facts is what makes the stock interesting rather than obvious. At \$315.00 the shares trade on 56.1x trailing non-GAAP earnings and 32.5x a fiscal 2027 estimate of \$9.70, against revenue growth that should approach 50% and earnings growth above 70%. That is not expensive relative to the growth rate, but it is a full price for a business whose free cash flow is deeply negative, whose end market is a single capital spending cycle, and whose shares have risen roughly 250% in twelve months and routinely move 10% in a day. A probability-weighted fair value of \$368 sits 17% above the live price, against 5% above yesterday's close. The rating is **Buy**, and today's decline has brought the price into the upper half of the recommended accumulation band of \$285-\$315 rather than leaving it above the band entirely.

Analytical Framework

Coherent is not a conventional technology company and a generic checklist would miss what matters. It manufactures compound-semiconductor materials, converts them into lasers and photonic integrated circuits, and assembles those into transceivers, switches and modules. That vertical structure means the constraint on revenue is physical capacity rather than orders, and the driver of margin is the yield and wafer size of an internal process rather than pricing power over customers. Five variables will determine shareholder returns over the next two years.

#	Driver	Why it decides the outcome	Current reading
1	Six-inch indium phosphide ramp	InP laser capacity is the stated bottleneck on transceiver revenue. Six-inch wafers deliver roughly four times the output of three-inch at about half the cost, so the ramp sets both the volume ceiling and the margin path.	Capacity doubling year on year by the end of Q1 FY27, one quarter ahead of plan; June quarter InP laser output up 80%.
2	Hyperscaler AI capital spending	79% of revenue is datacenter and communications. There is no meaningful diversification left; the industrial segment fell 15.8% year on year.	Backlog through calendar 2027, POs into 2028. The cycle, not the company, is the risk.
3	Gross margin progression toward 42%+	Nine consecutive quarters of expansion totalling 660bp. Whether mix from lower-margin transceivers offsets the InP cost benefit determines the earnings leverage.	40.2% non-GAAP in Q4; Q1 guided 39.5-41.5%. The guide is what disappointed the market.
4	Cash conversion versus capital intensity	Free cash flow is negative \$1.02bn with capex still rising. The question is whether the ~18-month payback management cites is real.	Unproven. Nothing in FY26 validates it; FY27 is the test.
5	Co-packaged optics transition	CPO could eventually displace pluggable transceivers. Coherent supplies the lasers, connectors and fibre either way, so the risk is mix and content, not obsolescence.	CPO revenue expected to begin in the December quarter; scale-up not until 2H CY2027.

The Business

Coherent is the product of the 2022 combination of II-VI and the original Coherent Inc., and the resulting company sits unusually far up its own supply chain. It grows the compound semiconductor crystals, fabricates the indium phosphide and gallium arsenide lasers, makes the silicon photonics circuits, produces the optical fibre, isolators and garnet, and then assembles finished transceivers and optical circuit switches. Very few competitors own more than a slice of that stack. When the industry is capacity-constrained, as it is now, owning the scarce input is worth more than owning the finished product.

Reporting is now organised into two segments. Datacenter and Communications generated \$1,615m in the June quarter and \$5,275m for the year, growing 58.6% and 40% respectively, driven by the 800G transceiver ramp, the beginning of 1.6T volume, data centre interconnect, ZR and ZR+ coherent modules and pump lasers. Industrial contributed \$430.5m in the quarter and \$1,844m for the year, down 15.8% year on year on a reported basis and roughly flat pro forma, with semiconductor and display capital equipment growing while the broader industrial laser market stayed weak. The practical consequence is that Coherent is now an AI infrastructure company with a legacy industrial attachment, and should be valued as such, including the cyclicity that implies.

Two newer lines deserve attention because they are not in the current numbers. Optical circuit switching, where management says the addressable market has doubled to more than \$4bn as the technology spreads from scale-out into scale-across and scale-up architectures, is ramping in manufacturing now. Co-packaged optics content begins generating revenue in the December quarter, and the PhotonLink integrated optics platform launches on 21 September. Neither is material yet; both are the reason management is willing to spend \$2bn a year on capacity.

Industry and Competitive Position

The optical interconnect market is in the middle of the sharpest demand shock in its history. Every generation of AI accelerator deployment requires more optical ports per unit of compute, and the shift from 800G to 1.6T roughly doubles the content per link. The result is that essentially every credible supplier is sold out. That is a wonderful environment, and it is also the reason to be careful: sold-out markets attract capacity, and capacity arrives with a two-year lag, which is precisely the horizon of this recommendation.

Coherent's defensible position rests on three things. First, indium phosphide capacity, which is genuinely scarce and takes years to build. Second, the breadth of the stack, which matters more in CPO and NPO formats where the customer buys lasers, external laser modules, connectors and fibre attachment rather than a finished pluggable module. Third, geography: with more than twenty US production facilities, Coherent is the largest domestic transceiver supplier at a moment when import restrictions on optical modules are under discussion. Management called the reports speculative while making clear it would be a beneficiary, which is a fair reading of an option that costs nothing to hold.

The competitive set is uncomfortable in one specific way. Lumentum grew revenue 83% over the trailing year against Coherent's 22.5%, and posted a materially higher adjusted operating margin in its most recent quarter, on roughly 40% of Coherent's revenue base. Fabrinet, a contract manufacturer with no materials position at all, converts its growth to cash while Coherent does not. Chinese suppliers InnoLight and Eoptolink remain the volume leaders in pluggable modules and compete hard on price in exactly the 800G segment that is currently carrying Coherent's growth. Scale has not yet translated into superior economics.

Company	Mkt cap	Rev TTM	Rev growth	Fwd P/E	Note
Coherent (COHR)	\$68.8bn	\$7.12bn	+22.5%	36.2x	Largest revenue base; vertically integrated; FCF negative
Lumentum (LITE)	\$77.5bn	\$3.01bn	+83.2%	40.5x	Faster growth, higher margin, smaller scale; GAAP loss-making
Fabrinet (FN)	\$17.7bn	\$4.64bn	+35.7%	27.3x	Contract manufacturer; cash generative; no materials moat
InnoLight / Eoptolink	Not compared	n/a	n/a	n/a	Chinese volume leaders in pluggables; principal price competition

Peer figures from StockAnalysis.com as at 18 August 2026. Coherent forward P/E on this report's FY27 estimate of \$9.70; peers on site-published forward estimates, so the three multiples are not computed on an identical basis. Lumentum's trailing net loss reflects non-operating items rather than operating performance.

Financial Analysis

The reported quarter

Fiscal fourth-quarter revenue of \$2,046m grew 33.8% year on year and 13.3% sequentially, against consensus of \$1.98bn. Non-GAAP gross margin of 40.2% improved 215bp year on year and 66bp sequentially; non-GAAP operating margin of 21.8% improved 381bp. Non-GAAP diluted EPS of \$1.74 rose 74% and beat the \$1.62 consensus by 7.4%. GAAP EPS was \$1.19 against a loss of \$0.83 in the year-ago quarter. There are no obvious one-off items inflating the non-GAAP figure; the gap to GAAP is the customary amortisation of acquisition intangibles and share-based compensation, which is large but consistent with prior quarters.

Metric	Q4 FY26	Q4 FY25	Change	FY2026	FY2025	Change
Revenue	\$2,046m	\$1,529m	+33.8%	\$7,118m	\$5,810m	+22.5%
Gross margin (GAAP)	38.5%	35.7%	+277bp	37.5%	35.4%	+233bp
Gross margin (non-GAAP)	40.2%	38.1%	+215bp	39.4%	37.9%	+152bp
Operating margin (GAAP)	12.4%	0.4%	+1,202bp	12.6%	5.0%	+762bp

Metric	Q4 FY26	Q4 FY25	Change	FY2026	FY2025	Change
Operating margin (non-GAAP)	21.8%	18.0%	+381bp	20.5%	17.9%	+262bp
Diluted EPS (GAAP)	\$1.19	-\$0.83	+\$2.02	\$4.12	-\$0.52	+\$4.64
Diluted EPS (non-GAAP)	\$1.74	\$1.00	+\$0.74	\$5.61	\$3.53	+59%
Net income (GAAP)	n/d	n/d	n/d	\$769.9m	-\$80.6m	n/m
Datacenter & Comms revenue	\$1,615m	n/d	+58.6%	\$5,275m	n/d	+40%
Industrial revenue	\$430m	n/d	-15.8%	\$1,844m	n/d	n/d
Capital expenditure	\$556m	\$131m	+324%	\$1,103m	\$441m	+150%
Operating cash flow	n/d	n/d	n/d	\$79.5m	~\$636m	-87.5%
Free cash flow	n/d	n/d	n/d	-\$1,023m	+\$193m	n/m

Source: Coherent Q4 FY2026 press release (GlobeNewswire, 12 August 2026) and prior-year comparatives. Percentage changes are as reported by the company where disclosed. FY2025 operating cash flow of ~\$636m is this report's calculation from the disclosed 87.5% decline, not a company-reported figure. n/d = not disclosed in the summary release; n/m = not meaningful.

The cash flow problem

The income statement and the cash flow statement tell different stories, and the difference is the entire bear case. Operating cash flow of \$79.5m for the year represents a 1.1% conversion of revenue, against 10.9% the year before, at a time when reported net income was positive \$770m. The gap sits almost entirely in working capital: inventory rose 79.5% to \$2.58bn and receivables rose 39.3%. Some of that is legitimate preparation for a revenue base that will be roughly 50% larger next year. Some of it is not, and an 80% inventory build against 34% quarterly revenue growth is the kind of divergence that looks like foresight in an up-cycle and like a mistake in a down-cycle.

Capital expenditure of \$1.10bn for the year is guided higher again. The June quarter alone ran at \$556m, which annualises above \$2.2bn. Funding has come from a roughly \$2bn equity issue during the year; the weighted diluted share count implied by GAAP results rose from about 155m to about 187m, or 21% (this report's calculation from reported net income and EPS). Shares outstanding now stand at 195.8m. The balance sheet itself is not stretched: \$3.22bn of total debt against \$1.99bn of cash and short-term investments leaves net debt of \$1.24bn, a comfortable multiple of an EBITDA base above \$1.4bn. The risk is not solvency. It is that shareholders keep funding growth through dilution while the reported earnings that justify the multiple never turn into distributable cash.

Management's answer is an approximately eighteen-month payback on data centre capacity investment. If that is accurate, the fiscal 2026 spending programme begins converting during fiscal 2027 and free cash flow inflects sharply in fiscal 2028. Nothing in the reported results yet corroborates it. This is the single most important thing to watch over the next four quarters, and it is more important than any revenue number.

Management and Execution

Jim Anderson took over as chief executive in June 2024 and the operating record since is strong on the metrics he controls. Non-GAAP gross margin has expanded in eight of the last nine quarters for a cumulative 660bp, the six-inch indium phosphide transition is running a quarter ahead of plan, and the September quarter guidance of \$2.2bn-\$2.4bn revenue and \$1.85-\$2.05 EPS sits roughly 8% and 10% above where consensus stood. Guidance accuracy is one of the few genuinely testable measures of a management team, and Coherent has consistently landed above its own ranges rather than inside them.

On the call, the answers that mattered were the ones about constraints. Management was direct that indium phosphide capacity, not assembly or test, is the bottleneck, which is a useful admission because it tells investors exactly which operational metric to track. It was equally direct on co-packaged optics, saying it had seen "absolutely no push-out of CPO

demand" while simultaneously placing scale-up CPO revenue in the second half of calendar 2027. Those two statements are compatible but the framing was optimistic, and the timing slipped further out than the denial implied. On pricing, the deflection to long-term agreements with take-or-pay minimums is a real answer rather than an evasion, but it also means the company has traded away upside pricing in a shortage in exchange for volume certainty.

What management did not volunteer, and was not pressed hard on, is the free cash flow trajectory. The eighteen-month payback figure was offered as an assertion. A more searching call would have asked what fiscal 2027 free cash flow looks like at the guided capex, and the absence of that exchange is the most notable gap in an otherwise informative hour.

Growth Drivers

Driver	Horizon	Likelihood	Impact	Assessment
1.6T transceiver ramp	FY27	High	High	Ramping rapidly through calendar 2026 into 2027 as adoption broadens, while 800G continues to grow. The primary reason revenue accelerates from 22% to near 50%.
Six-inch InP capacity doubling	FY27	High	High	Already a quarter ahead of schedule; Zurich six-inch line in 1H CY2027. Lifts both the volume ceiling and gross margin toward the 42%+ target.
Co-packaged optics content	FY27-28	Medium-high	Medium	Revenue begins December quarter for scale-out; scale-up not until 2H CY2027. Coherent supplies lasers, connectors and fibre regardless of format, which converts a threat into an opportunity.
Optical circuit switching	FY27-28	Medium	Medium	Addressable market doubled to \$4bn+ as the technology spreads across scale-out, scale-across and scale-up. Manufacturing ramp underway.
US onshoring / import restrictions	FY27-28	Low-medium	Medium-high	Speculative, but Coherent is the largest US transceiver supplier with 20+ domestic facilities. A free option on a policy outcome it cannot control.
Industrial recovery	FY28+	Low	Low	Semiconductor and display capex is growing; the broader industrial laser market is not. Not a driver of the two-year case.

Risk Assessment

Risk	Prob.	Severity	Detail
AI capital spending digestion	Medium	Severe	79% of revenue depends on hyperscaler build-out. A pause of even two quarters would leave \$2bn+ of new capacity and \$2.58bn of inventory against falling orders. Backlog through 2028 mitigates but does not eliminate this; orders can be renegotiated.
Free cash flow does not inflect	Medium	High	FCF of -\$1.02bn with capex rising. If the 18-month payback is optimistic, the company funds another year through dilution or debt and the earnings multiple compresses on a quality-of-earnings argument.
Gross margin disappoints	Medium	Medium	Transceiver mix is dilutive to margin even as InP cost falls. Q1 guidance of 39.5-41.5% was the specific line that triggered the post-print selling.
Chinese and peer price competition	Medium-high	Medium	InnoLight and Eoptolink lead pluggable volumes. LTAs fix pricing through the decade, which protects against a price war but also caps upside if shortage persists.
Valuation de-rating	High	High	56.1x trailing non-GAAP even after today's fall, following a twelve-month advance of roughly 250%. The stock has fallen 10%+ in a single session on at least five occasions since July, usually on sector sentiment rather than anything Coherent disclosed, including as this report was written.

Risk	Prob.	Severity	Detail
Execution on the InP ramp	Low-medium	High	A yield stumble on six-inch wafers caps fiscal 2027 revenue directly, because capacity is the binding constraint. Track record here is good.
Inventory write-down	Low-medium	Medium	Inventory up 79.5% against 34% quarterly revenue growth. Justifiable as pre-build; expensive if demand timing slips.
Further shareholder dilution	Medium	Medium	~\$2bn of equity issued in FY26 and a ~21% rise in weighted diluted shares. Continued capex at the guided run-rate implies further funding need.

Valuation

Coherent should not be valued on trailing earnings, because the trailing period contains a capacity build whose revenue has not arrived and a segment mix that is changing every quarter. It should also not be valued on the exit-rate alone, because that assumes the ramp lands. The sensible approach is to price it against a fiscal 2027 estimate built from the company's own guidance, and then test that estimate against what management has publicly committed to.

The September quarter is guided to \$1.85-\$2.05 of non-GAAP EPS. Management expects its first quarter above \$3bn of revenue by the end of fiscal 2027, which implies a June-2027 quarter roughly 30% above the September guide. Modelling a linear ramp through the year at broadly stable operating margin produces fiscal 2027 revenue of about \$10.4bn and non-GAAP EPS of about \$9.70; this is this report's estimate, built from guidance, not a company figure. It sits close to the published sell-side forward estimate, which is a reasonable cross-check.

Measure	At \$315.00 (live)	At \$351.22 (prior close)	Comment
P/E, trailing non-GAAP (\$5.61)	56.1x	62.6x	Rich, but the denominator understates the exit rate
P/E, trailing GAAP (\$4.12)	76.5x	85.2x	Amortisation-heavy; least useful measure here
P/E, FY27E (\$9.70)	32.5x	36.2x	The number that matters. Against ~50% revenue growth
EV / Sales, FY26 (\$7.12bn)	8.84x	9.84x	Full for a hardware manufacturer
EV / Sales, FY27E (\$10.4bn)	6.05x	6.73x	Reasonable if the ramp lands
EV / EBITDA, trailing	~44x	~49x	Distorted by the capex cycle
PEG (published)	0.64	0.71	Below 1.0, which is the bull's strongest single number
Free cash flow yield	Negative	Negative	-\$1.02bn FY26. No support from this measure

Enterprise value computed as 195.83m shares at the stated price plus \$3,222m total debt less \$1,987m cash and short-term investments, giving \$62.9bn at the live price. FY27 estimates are this report's calculations from company guidance and the stated \$3bn-quarter target, not company-reported figures.

The conclusion is that the shares were close to fairly valued at yesterday's close and are modestly undervalued after today's decline, with the whole valuation resting on a forward estimate that management has effectively pre-committed to. At 32.5x forward earnings the buyer is paying for the revenue ramp and getting the free cash flow inflection for nothing; at 36x, which is where the stock sat yesterday, the buyer was paying for both. A move to 30x, roughly \$290, would take the price into the ideal accumulation range. The distance between those three multiples is small in percentage terms and large in what it asks an investor to believe, which is why the entry band matters more here than the rating does.

Sentiment and Positioning

Indicator	Reading	Interpretation
Analyst consensus	Buy; 22-24 covering analysts	Broadly positive, with real dispersion beneath the average
Average price target	\$410.76 (+30% vs the live price)	Meaningful implied upside after today's decline; was +17% yesterday
Post-print target changes	Rosenblatt \$425 to \$500 (Buy); Raymond James \$435 to \$448 (Strong Buy); JP Morgan initiated Buy at \$465; Needham \$380 to \$420; Jefferies \$375 to \$420; B. Riley \$309 to \$345 (Neutral); Northland \$230 to \$280 (Market Perform)	Everyone raised, but the spread from \$280 to \$500 is unusually wide and captures the genuine disagreement about cash generation
Short interest	6.54m shares; 3.35% of float; 1.92 days to cover	Low. This is not a crowded short and there is no squeeze fuel
Institutional flow	2,191 holders; +5.3m shares in the June quarter; 1,381 buyers vs 636 sellers	Net accumulation, though FMR cut its position 53% from 23.6m to 11.0m shares
Notable holder	NVIDIA Corp holds 7.79m shares	A strategic endorsement from the customer whose spending drives the thesis
News flow (moomoo digest)	Mixed. Q4 beat and target hikes, a new 300mm silicon carbide thermal material for AI chips, and new leveraged ETFs launched on the name, set against a broad optical sector decline today with Coherent leading the losses	Company-specific news is constructive; the tape is not. Neutral overall

Analyst and ownership data from StockAnalysis.com, Fintel, Stocktwits and TipRanks, 18 August 2026. The launch of leveraged single-stock ETFs on a name is itself a mild contrarian signal about retail speculation.

The 18 August Decline: Diagnosis

Because this report is struck on a price captured while the market was open and 10.3% below the previous close, the cause of that move needs to be established rather than assumed. Three candidates are available, and they are not of equal weight.

Candidate cause	Evidence	Weight
Fabrinet's results (the proximate cause)	Fabrinet reported fiscal Q4 before the open on 18 August. Revenue of \$1.316bn and non-GAAP EPS of \$4.10 both beat, yet the shares fell 8.6% pre-market after a 7% after-hours decline, because gross margin slipped 30bp year on year, free cash flow turned negative at -\$37m on a capital expenditure surge in Thailand and California, and Q1 guidance implied a sequential EPS decline.	Primary
Rising Treasury yields	The 10-year reached 4.72%, a 20-month high, and the 30-year 5.31%, a 19-year high, on US-Iran tensions, elevated oil and heavy credit supply. Higher discount rates compress long-duration, low-current-cash-flow equities the hardest, and Coherent is squarely in that bucket.	Contributing amplifier
Profit-taking after Monday's advance	Coherent rose 7.8% on 17 August and was the S&P 500's weakest pre-market name on the 18th. Traders were rotating out of recent outperformers into names with fresh catalysts. Lumentum fell 6.2%, with Corning, Intel, Marvell, Micron and Western Digital also lower.	Contributing

The arithmetic settles the ranking. The Nasdaq was down about 1% and the S&P 500 about 0.5%. At a beta of 2.11, the index move explains roughly 2 percentage points of Coherent's decline; more than 8 points are unexplained by the market. A rate-driven de-rating of that magnitude would have hit the whole high-multiple technology complex, and it did not: the damage was concentrated in optical names, with Fabrinet the largest faller despite carrying the lowest multiple of the three. Rising yields set the tone. They did not do this.

Two implications follow, and they point in opposite directions. The first is reassuring: nothing about Coherent's own business changed today. No guidance was withdrawn, no order was cancelled, no estimate was cut. An investor who found the fundamental case adequate at \$351 should find it better at \$315, and the analyst consensus target of \$410.76 now implies 30% upside rather than 17%.

The second is not reassuring at all, and it is the more important of the two. What the market punished in Fabrinet was margin slippage and negative free cash flow caused by a capital spending surge. Coherent's own figures on that axis are not marginally worse; they are an order of magnitude worse. Fabrinet burned \$37m of free cash flow in a quarter. Coherent burned \$1.02bn across the year, with capex guided higher again. If the market has begun pricing AI optical suppliers on cash conversion rather than on booked revenue, Coherent is the most exposed name in the group, not the least. The connection to rates runs through the same channel: part of what is pushing long yields to multi-decade highs is the volume of debt being issued to finance AI infrastructure. The market is repricing the cost of that capital and penalising the companies consuming the most of it at the same time, and Coherent sits at the intersection of both.

This does not change the analysis in this report. It corroborates it. The cash flow question identified as the central risk is precisely the question the market asked today, and it arrived one week after Coherent's own print rather than being answered by it.

Technical Position

The technical picture is dominated by one fact: this is an exceptionally volatile instrument. The fourteen-day average true range is \$34.53, or 9.8% of the share price, realised volatility over the last hundred sessions annualises near 99%, and the beta is 2.11. Any position sizing or stop placement that ignores this will be wrong. The stock has closed 10% or more lower on at least five separate sessions since the start of July, on every occasion without a disclosure of its own to explain it.

Indicator	Value	Reading
Live price (18 Aug, 10:23 ET)	\$315.00 (-10.3%)	Back below the 50- and 100-day averages; sitting on the 20-day
Prior close (17 Aug 2026)	\$351.22	Was above every short and medium-term average
SMA 20 / EMA 20	\$307.04 / \$321.40	The live price sits between the two. First line of defence
SMA 50 / EMA 50	\$335.90 / \$326.35	The pivot. Losing \$326-336 on a closing basis turns the medium-term trend
SMA 100 / EMA 100	\$333.66 / \$324.60	Coincides with the 50-day cluster, making \$325-336 a dense support shelf
SMA 200	Not computed	Daily series limited to 100 sessions; see 40-week proxy below
40-week SMA (200-day proxy)	\$276.09	Long-term uptrend intact and comfortably below price
RSI(14) daily / weekly	55.7 / 56.6	Neutral. Neither overbought nor oversold before today's move
MACD (12,26,9)	5.78 vs signal -1.57, histogram +7.35	Bullish crossover completed in the last fortnight
ATR(14)	\$34.53 (9.8% of price)	Extreme. A normal day is a 10% range
Volume, 20d / 50d average	7.13m / 6.12m	Elevated versus the 50-day, consistent with distribution into strength
Beta	2.11	Index moves are amplified roughly twofold before stock-specific news
Range, 100 sessions	\$215.55 - \$440.00	Doubled and given back a third of it within five months
Range, 52 weeks	\$84.35 - \$440.00	Up roughly 250% over twelve months even after today's fall

All indicators computed from Alpha Vantage daily and weekly OHLCV in code as at the 17 August 2026 close. The 200-day simple moving average is not computed because the available daily series is exactly 100 sessions; the 40-week weekly average is presented as an explicit proxy

rather than a substitute.

Support sits in three tiers. The first, the \$325-\$336 cluster where the 50-day and 100-day averages converge, has already given way today, which turns it into the first resistance the stock must reclaim. The second is \$285-\$290, the base from which the early-August advance began and the level the 20-day average is rising toward. The third is \$276, the 40-week average, below which the long-term uptrend is genuinely in question. Resistance runs from \$325-\$336, then the \$355-\$380 post-earnings congestion zone, then \$394-\$425, and finally the \$440 all-time high set in June. Technicals here inform timing only; they do not change the fundamental case in either direction.

Scorecard

Factor	Score	Rationale
Business Quality weight 12%		7/10 Vertically integrated with genuinely scarce InP capacity, but capital-intensive and loss-making as recently as FY2025
Financial Strength weight 13%		5/10 Net debt of only \$1.24bn, but -\$1.02bn free cash flow, 80% inventory build and 21% dilution offset the balance sheet
Competitive Advantage weight 15%		7/10 Owning the scarce input, breadth across CPO formats, and 20+ US facilities. Real, but peers are growing faster at better margins
Management weight 10%		8/10 Nine quarters of margin expansion, capacity ahead of schedule, guidance consistently above street. Light on cash flow disclosure
Growth Potential weight 18%		9/10 FY27 fully booked, POs into 2028, LTAs through the decade, first \$3bn quarter targeted. As good as this factor gets
Valuation weight 15%		5/10 32.5x forward and 56x trailing after a ~250% run. PEG of 0.64 argues the other way
Risk (10 = lowest risk) weight 12%		3/10 Single end-market at 79% of revenue, negative FCF, 99% realised volatility, beta 2.11. A high-risk holding
Technical Setup weight 5%		5/10 Long-term uptrend intact, but the 50/100-day cluster has broken today and now sits overhead as resistance
Investment Score	63 / 100	Weighted sum of the eight factors above, computed in code. A good business at a demanding price with a cash flow question attached.

Scored 1-10, where 10 is always best, including Risk. A Risk score of 3 therefore denotes a high-risk business, consistent with the risk assessment above. Weights: Growth Potential 18, Competitive Advantage 15, Valuation 15, Financial Strength 13, Business Quality 12, Risk 12, Management 10, Technical Setup 5.

Recommendation: BUY

The verdict is Buy, with the emphasis on the entry rather than the rating. The fundamental case is strong enough that a rating below Buy would be hard to defend: fiscal 2027 is booked, purchase orders extend into 2028, the pricing is contracted through the end of the decade, the constraint is capacity the company is already doubling ahead of schedule, and the forward multiple of 32.5x sits against revenue growth approaching 50% and earnings growth above 70%. That is a genuinely attractive combination and it is why the rating is not Watchlist.

What prevents a Strong Buy is that the free cash flow deficit leaves no valuation floor beneath the multiple if the AI capital spending narrative wobbles, and today demonstrated exactly how quickly that can happen. A peer beat its numbers, disappointed on margin and cash conversion, and took 10% out of Coherent within an hour of the open without a single figure in Coherent's own accounts changing. A business that can lose a tenth of its value on someone else's cash flow statement is one whose equity holders are underwriting an assumption rather than an earnings stream.

The decline has nonetheless improved the entry. At \$315.00 the probability-weighted fair value of \$368 implies 17% upside against 5% yesterday, the forward multiple has compressed from 36x to 32.5x, and the consensus target sits 30% above the price. The stock is now inside the recommended accumulation band rather than above it, which makes a first tranche

defensible today. The right response remains to scale in across the band rather than commit at once, because a 9.8% average true range means the band can be traversed in two sessions.

Parameter	Level	Rationale
Recommended entry	\$285 - \$315	The live price of \$315.00 sits at the top of the band. First tranche now, the rest lower
Ideal buy range	\$275 - \$300	The early-August base at \$285-290 and the 40-week average at \$276
Cut-loss	\$238	Below the late-July consolidation. About 1.7 ATR from the entry midpoint
Take-profit 1	\$440	The June all-time high. +49% from a \$295 entry, +39.7% from \$315.00
Take-profit 2	\$520	Roughly 48x the FY27 estimate, achievable if the \$3bn quarter lands early
Expected upside	+49% to TP1, +76% to TP2	From the \$295 entry midpoint; +39.7% and +65.1% from \$315.00
Expected downside	-19.3%	Entry \$295 to cut-loss \$238; -24.4% if bought at \$315.00
Risk / reward	2.54 : 1 to TP1 at \$295	Falls to 1.62 : 1 if the whole position is bought at \$315.00. This is the argument for scaling in
Holding horizon	12 - 24 months	Long enough for the InP ramp and the free cash flow inflection to be visible
Position size	Half a normal position	Beta 2.11 and 99% realised volatility demand it
Portfolio allocation	2% - 3%	Upper bound for a single-cycle, single-end-market holding

Two conditions would upgrade this to Strong Buy: a September quarter that beats the guided range while showing positive operating cash flow, or the shares reaching the low \$270s with the fundamental picture unchanged. Two would move it to Avoid: any evidence that the long-term agreements are being renegotiated on volume, or a second consecutive year of free cash flow worse than negative \$500m without a credible path to inflection.

Scenario Analysis

Scenario	Prob.	FY27E revenue	FY27E EPS	Exit multiple	Fair value	vs \$315.00
Bull	30%	\$11.2bn	\$10.80	46x	\$497	+58%
Base	50%	\$10.4bn	\$9.70	38x	\$369	+17%
Bear	20%	\$8.8bn	\$7.60	23x	\$175	-44%
Weighted	100%				\$368	+17%

Probabilities sum to 100%. The weighted fair value of \$368.30 was computed in code from the inputs shown and represents +16.9% against the live price of \$315.00 and +4.9% against the 17 August close of \$351.22. FY27 estimates are this report's calculations from company guidance.

Bull case. The six-inch indium phosphide ramp runs ahead of plan again, 1.6T adoption broadens faster than expected, co-packaged optics and optical circuit switching both contribute in the second half, and gross margin clears 42%. Coherent exits fiscal 2027 above a \$3bn quarterly run-rate with free cash flow turning positive, and the market pays a premium multiple for the first evidence of cash conversion.

Base case. The ramp lands broadly as guided. Revenue reaches roughly \$10.4bn with non-GAAP EPS near \$9.70 and margins improving slowly against transceiver mix. Free cash flow improves but stays negative or barely positive as capex remains elevated. The multiple holds near current levels because the growth is real but the cash question is unresolved.

Bear case. Hyperscaler capital spending enters a digestion phase in calendar 2027. Orders are pushed rather than cancelled, but revenue growth halves, the inventory build requires a write-down, and the market re-rates a capital-intensive component supplier to a capital-intensive component supplier's multiple. A 44% drawdown sounds severe; the shares fell 51% from \$440 to \$215 within the last five months, so it is not a hypothetical.

Final Verdict

Would this be worth an allocation of one's own money today? Yes, at today's price, in a first tranche, and not at a full weight.

The reason to own Coherent is that it sits on the scarce physical input to an industry that cannot get enough of it, has contracted that scarcity into agreements running to the end of the decade, and is compounding gross margin at a rate that turns modest revenue growth into substantial earnings growth. Fiscal 2026 proved the model works: the company went from a net loss to \$770m of earnings in twelve months. Fiscal 2027 is already booked. At 32.5x forward earnings with a PEG below one, an investor is not being asked to pay a fantasy multiple for that.

The reason to be careful is that the company is buying its growth with shareholders' capital and has not yet shown it can earn it back. A billion dollars of negative free cash flow, an 80% inventory build and a 21% increase in the share count are not the signature of a business compounding value; they are the signature of a business racing to capture a window. The window may well be real. But an investor paying 56 times trailing earnings for a company with no free cash flow is underwriting both the demand and the returns on the capital being spent to serve it, and only one of those is currently visible.

Today's 10.3% decline sharpens both halves of that argument at once. It has taken the forward multiple from 36x to 32.5x and lifted the implied return to the weighted fair value from 5% to 17%, which is a straightforwardly better entry for an unchanged business. It also arrived because a competitor disappointed on exactly the metric Coherent is weakest on, which is a reminder that the market's patience with cash-consumptive AI suppliers is finite and that Coherent will be the last one forgiven. Both readings are correct and they are not in conflict: the price improved and the risk was clarified on the same morning.

The practical resolution is entry discipline. Accumulate between \$275 and \$315, in tranches rather than at once, at half a normal position size, with a cut-loss at \$238 and a first target at the \$440 prior high. A first tranche is justified at the current price; the remainder should be reserved for the lower half of the band, because buying the full position here cuts the risk/reward from 2.5 to 1 down to 1.6 to 1. The thesis is invalidated by two specific things and not by share price alone: evidence that the long-term agreements are being renegotiated on volume, and a second year of free cash flow below negative \$500m with no inflection in sight. Watch the September quarter's operating cash flow line more closely than its revenue line. That is where this thesis will be proved or broken.

Scope and sources. This report was prepared on 18 August 2026 following Coherent's fiscal fourth-quarter results released after the close on 12 August 2026. Reported figures are taken from the company's earnings release; the earnings call was reviewed through a third-party transcript summary (BigGo Finance / Quartr) rather than a verbatim transcript, and management quotations are reproduced from that source. Valuation is struck on the live price of \$315.00 from StockAnalysis.com at 10:23 ET on 18 August 2026; because the US market was open at the time of writing, that price is provisional and the day's close is unknown. The prior close of \$351.22 is from Alpha Vantage. Technical indicators were computed from raw OHLCV data through the 17 August close. Figures labelled as this report's calculation are derived, not company-reported. Nothing here is a recommendation to any particular person; it is informational only and not financial advice.