

Lumentum Holdings Inc. NASDAQ: LITE

Equity research update · Optical components and modules · Fiscal year ends late June · Prepared 5 September 2026

WATCHLIST	68 / 100	\$881.26
RECOMMENDATION	OVERALL SCORE	PRICE (4 SEP CLOSE)

40.7x	+108%	\$1.07bn	\$1,148	7.6%
Forward P/E, FY27E	FY27E revenue growth	Net cash	Street target	14-day ATR

1. Where the price stands against the published levels

The August report on Lumentum set a Watchlist rating with a single, explicit condition attached: the case for an upgrade needed a price rather than another datapoint. Three and a half weeks later the price has done something more interesting than simply going up. The stock reached \$999.67 intraday, roughly 8% above the \$927 level the shares were indicated at when that report was written, then gave the move back. It closed on 4 September at \$881.26, about 5% below the indicated post-earnings level and 12% below its own late-August high.

Over the same weeks the forward earnings estimate moved the other way. The August report built its own fiscal 2027 estimate of \$20.50 per share from management's first-quarter guidance, because a consensus reflecting the raised outlook did not yet exist. It does now: twenty-one analysts carry a fiscal 2027 non-GAAP figure averaging \$21.64 on revenue of \$6.28 billion, which is 5.6% above the estimate this coverage constructed and 8% above the revenue assumption behind it. The street, having had time to work through the quarter, landed above rather than below the internal number.

The two movements compound. A price 5% lower against an earnings base 5.6% higher takes the forward multiple from roughly 45 times to 40.7 times. That is the first genuine multiple compression this name has produced since coverage began, and it happened without any deterioration in the business. It is also, on its own, not enough.

Measure	August report	Now (4 Sep 2026)	Direction
Forward P/E on FY27E	~45.2x (own est. \$20.50)	40.7x (consensus \$21.64)	–4.5 turns
Reference price	~\$927 indicated	\$881.26 close	–4.9%
FY27E revenue	\$5.80bn (own estimate)	\$6.28bn (consensus, 21 analysts)	+8.3%
FY27E non-GAAP EPS	\$20.50 (own estimate)	\$21.64 (consensus)	+5.6%
Consensus price target	\$820–\$1,300 spread	\$1,148 average, 26 analysts	High now \$1,400
Analysts at Hold or worse	3 of 24	4 of 26, no Sell ratings	Two new Buy starts
Short interest, % of float	n/a in prior report	8.16% (7.27m sh, from 8.55m)	Covering
Probability-weighted fair value	\$861.50 (–7% vs price)	\$901.85 (+2.3% vs price)	Crossed above

Sources: Lumentum fiscal Q4 2026 results release, 11 August 2026; S&P Global Market Intelligence consensus via StockAnalysis.com, retrieved 5 September 2026; price from Alpha Vantage, close of 4 September 2026. Forward multiples and the probability-weighted fair value are this report's own calculations.

2. What has actually changed since the last report

Nothing the company itself has said. Lumentum has filed no results, no guidance revision and no material announcement since 11 August; the only filings in the interval are insider Forms 4 and the Rule 144 notices that accompany them. The changes are therefore external, and there are four worth recording.

Two new sell-side initiations, both constructive. Deutsche Bank started coverage on 31 August at Buy with a \$1,200 target, framing Lumentum and Coherent as the pick-and-shovel layer of AI hardware. Evercore ISI began the same day at Outperform with \$1,100. Neither is a rerating of the fundamentals so much as a widening of the audience, but the direction of the drift matters: Strong Buy ratings have gone from 14 in April to 17 now, Hold from five to four, and there is still not a single Sell. The consensus target of \$1,148 sits 30% above the price.

A sector drawdown with a capital-structure cause. On 1 September the AI-optics complex sold off after Applied Optoelectronics announced a \$600 million equity offering, and Lumentum fell more than 5% in sympathy. This is the fourth such episode since mid-July, alongside declines of 9% on 28 July, 7% on 10 August and 6% on 28 August, each driven by group positioning rather than by anything specific to this company. The pattern is the single most useful thing to understand about owning this stock: the business is compounding steadily and the share price is not, because the marginal holder is trading a theme.

Sustained insider selling, but of a particular kind. Roughly \$54 million of stock has been sold by officers and directors since 19 August across eight separate filings, and Rule 144 notices have been filed on most trading days through 4 September. On the face of it that is a discouraging signal. It is not, or at least not much of one: every one of these disposals runs under a Rule 10b5-1 plan adopted well in advance, on dates ranging from November 2025 to May 2026, and the recent cadence reflects a share price up more than fivefold in a year hitting the price or date triggers written into those plans. Executives diversifying on a schedule they set before the stock moved is a different fact from executives choosing to sell today. Insiders still hold only 0.62% of the company, which is the more durable criticism.

A regulatory development that cuts Lumentum's way. The FCC has proposed restrictions on Chinese-manufactured data-centre equipment, a subject the chief executive addressed publicly on 12 August. If adopted, the measure works directly against the competing indium phosphide capacity that the August report identified as a moderate risk. It is a proposal rather than a rule, so it does not yet justify moving that risk assessment, but it is the first development in months that points at the bear case rather than away from it.

3. Valuation

Lumentum remains expensive on every trailing measure and the trailing measures remain the wrong ones to use. The fiscal 2026 GAAP loss of \$92.96 per share is an artefact of the \$7.8 billion non-cash charge on equitising part of the convertible notes, and enterprise multiples built on trailing EBITDA of \$800.7 million describe a revenue base the company has already guided past. What the stock costs is best expressed against the year the market is actually buying.

Measure	Value	Comment
Market capitalisation	\$79.05bn	89.70m shares outstanding at \$881.26
Enterprise value	\$77.98bn	Net cash of \$1.07bn, or \$11.90 per share
Forward P/E, FY27E	40.7x	On consensus non-GAAP EPS of \$21.64
Forward P/E on high estimate	34.9x	Street high \$25.27; the bull case is not free
Forward P/E on low estimate	46.3x	Street low \$19.05; limited dispersion
EV / FY27E revenue	12.4x	Consensus revenue \$6.28bn
PEG on FY27E growth	0.38x	Cheap on growth, dear in absolute terms
Trailing FCF yield	0.38%	TTM FCF \$300m against \$451m of capex
Hardware sector median forward P/E	~21.8x	Lumentum trades at roughly 1.9x the median

Valuation inputs from S&P Global Market Intelligence via StockAnalysis.com as at 5 September 2026; ratios recomputed against the 4 September close of \$881.26.

Two observations follow. The first is that the free cash flow yield of 0.38% is the number that keeps this rating at Watchlist rather than something warmer. Operating cash flow of \$751 million was almost entirely consumed by \$451 million of capital expenditure as the company expands indium phosphide wafer capacity and converts the Greensboro site, which management expects to contribute revenue from early calendar 2028. Consensus has free cash flow reaching \$1.14 billion in fiscal 2027, which would take the yield to a more respectable 1.4%, but that requires the capacity build to stop consuming what the operating margin generates. Until it does, the earnings are real and the cash is spoken for.

The second is that the dispersion in analyst estimates is narrow while the dispersion in price targets is not. Fiscal 2027 earnings estimates run from \$19.05 to \$25.27, a range of about 30%, but targets run from \$820 to \$1,400, a range of 71%. The street agrees on the earnings and disagrees violently about what to pay for them. That is the same structural argument this coverage has made twice now, and it is why the multiple, not the forecast, is where the risk sits.

Macro conditions that bear on this business. Lumentum's demand line is close to insensitive to interest rates. Its orders come from hyperscaler and telecom capital budgets funded out of operating cash flow at companies with no financing constraint, and the binding limit on revenue is wafer capacity rather than customer affordability. The multiple is another matter entirely. This is one of the longest-duration earnings streams in the hardware market, and the discount rate applied to it has been moving against the stock. The ten-year Treasury yield touched 4.814% on 2 September, its highest since November 2023, and closed near 4.79%. Core PCE inflation ran at 3.3% year-over-year in July with headline at 3.7%, and August payrolls came in at 162,000 against a 58,000 forecast with prior months revised up by a combined 55,000. Federal Reserve Chair Kevin Warsh used Jackson Hole to argue that underlying inflation has not meaningfully improved, and futures now price better-than-even odds of a quarter-point increase at the 15–16 September meeting. A 40x multiple is a bet on the denominator as much as the numerator, and the denominator is currently rising.

4. Risks

Risk	Probability	Severity	Assessment
Valuation de-rating	Moderate	High	At 40.7x forward the stock still discounts sustained execution. The compression from 45x helps, but a single guidance disappointment compresses the multiple faster than earnings grow into it. Realistic drawdown 35–45%.
Multiple compression from rates	Moderate	High	A ten-year at 4.8% and a Federal Reserve with a hike priced for mid-September is the worst combination for long-duration hardware earnings. This has risen in importance since the August report.
Sector positioning shocks	High	Moderate	Four group drawdowns of 5–12% since mid-July, most recently on a peer's equity raise. None had anything to do with Lumentum's own results.
Customer concentration	Moderate	High	The 1.6T ramp rests on Tier 1 hyperscale custom cluster roll-outs. A programme delay at one account removes a quarter of expected sequential growth.
Free cash conversion	High	Moderate	Trailing FCF yield of 0.38% on \$451m of capex. Earnings compound faster than cash for as long as the capacity build runs.
Competing InP capacity	Moderate	Moderate	Chinese indium phosphide fabs continue to come to market. The proposed FCC restriction on Chinese data-centre equipment works against this, but it is a proposal rather than a rule.
Continued dilution	Moderate	Moderate	Shares outstanding are up 7.2% year-over-year at 89.70m. Further equitisation would again trade balance-sheet risk for per-share claims.

5. Technical position

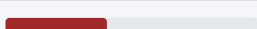
The chart has deteriorated since the August report, which is the honest reading even though the fundamentals have not. The stock ran to \$999.67 in late August, failed there, and has since traded back below its own 20-day average of \$883.89. The MACD crossover that the August report described as constructive has completed and reversed: the histogram now reads -6.01 , having been $+15.42$ before the release. Relative strength at 51.8 is almost exactly where it was, which tells you the pullback has been orderly rather than forced.

Two items in the table below are new. A two-hundred-session price history is now available, so the 200-day average can be computed for the first time in this coverage. At \$685.22 it sits 22% below the current price, which is the arithmetic consequence of a stock up 557% over twelve months and is not a support level in any useful sense. And the 14-day average true range has fallen from 9.7% of price to 7.6%. That is a meaningful reduction in realised volatility, though it still implies a routine daily range of roughly \$67.

Indicator	Value	Read
Close (4 Sep 2026)	\$881.26	Alpha Vantage; the price of record throughout this report
SMA 20 / 50 / 100	\$883.89 / \$816.39 / \$860.09	Price sits just below the 20-day, above the 50 and 100
SMA 200	\$685.22	Computable for the first time; 22% below price
EMA 20 / 50	\$871.02 / \$847.14	Both below price — the medium-term trend is intact
RSI (14)	51.8	Neutral. Was 52.5 into the August print
MACD (12,26,9)	16.30, signal 22.31, hist -6.01	Bearish crossover completed; was $+15.42$ in August
ATR (14)	\$66.81 (7.6% of price)	Down from 9.7%, but still an extreme reading
Volume, 20d vs 50d average	4.62m vs 4.63m	Participation flat; no distribution signature
20-session range	\$784.47 – \$999.67	The late-August high is the immediate overhead reference
60-session range	\$594.84 – \$999.67	The late-July base at \$594.84 still defines the structure

All indicators computed by this report from a 300-session Twelve Data daily series of unadjusted closes through 4 September 2026. Percentage distances are measured against the \$881.26 price of record.

6. Scorecard

Dimension	Score	Comment and change since 12 August
Business Quality	 8/10	Unchanged. Scarce indium phosphide capacity, a genuine AI-optics franchise.
Financial Strength	 7/10	Unchanged. Net cash \$1.07bn, but a 0.38% free cash flow yield on heavy capex.
Competitive Advantage	 8/10	Unchanged. Proposed FCC restrictions on Chinese equipment are supportive but not yet a rule.
Management	 8/10	Unchanged. No new evidence in the interval; the guidance beat still stands.
Growth Potential	 9/10	Unchanged. Consensus has FY27 revenue +108% and EPS +150%.
Valuation	 5/10	Improved from 4. Forward multiple 40.7x against ~45x, on a higher and now street-corroborated base.
Risk (10 = lowest risk)	 5/10	Unchanged. Lower realised volatility offsets a more hostile rate backdrop.
Technical Setup	 4/10	Reduced from 5. Failed at \$999.67, price below the 20-day, MACD crossover reversed.

Scored 1–10, where 10 is always best, including Risk. Weighting: Business Quality 12.5%, Financial Strength 12.5%, Competitive Advantage 12.5%, Management 10%, Growth Potential 15%, Valuation 17.5%, Risk 12.5%, Technical Setup 7.5%. Weighted result 68.25, reported as 68 / 100 against 67 / 100 in the August report. The previous scorecard already ran on this direction convention, so no restatement was required before comparing.

7. Recommendation

Verdict: Watchlist. Unchanged from August, and for a narrower reason than last time.

The August report said the upgrade needed a price rather than another datapoint. Part of that price has arrived. The forward multiple has compressed by four and a half turns, the earnings base is now corroborated by twenty-one analysts rather than constructed internally, the probability-weighted fair value has crossed from 7% below the price to 2.3% above it, and two further houses have initiated at Buy. Every one of those movements is in the right direction.

What has not arrived is enough of it. A weighted fair value 2.3% above the price is noise on a stock whose average day covers 7.6%, and it rests on a base case that pays 40 times earnings for a business converting only a third of its operating cash flow into free cash flow. The technical setup has weakened rather than strengthened: the stock failed at \$999.67 and sits below its 20-day average with a reversed MACD. And the discount rate is moving the wrong way, with a Federal Reserve that has a rate increase better than evenly priced for mid-September. Buying a 40x multiple into a hiking meeting is a choice that needs a larger margin of safety than 2%.

The published levels below have been recomputed rather than carried forward. The August upgrade zone of \$700–780 was anchored to a 20-day average of \$770.59; that average is now \$883.89, so the technical half of that anchor no longer exists and reusing the number would be an error. What survives is the valuation discipline behind it: the August report was willing to pay 34 to 38 times forward earnings. Applied to the consensus estimate of \$21.64 rather than the internal \$20.50, that same discipline gives \$736 to \$822. The zone below is set there, not shifted upward to follow the price.

Level	Price	Basis
Upgrade-to-Buy zone	\$740 – \$820	34–38x consensus FY27E EPS of \$21.64 — the same multiple range the August report was willing to pay, applied to the higher base. The upper bound coincides with the 50-day average at \$816.39.

Level	Price	Basis
Aggressive accumulation	\$600 – \$660	28–30x forward, and the late-July base at \$594.84. Would require a broad AI-hardware de-rating rather than a company-specific event.
Thesis-break level	Weekly close below ~\$590	Unchanged from August. Loses the entire post-July base, at which point the market is pricing a cycle turn rather than a valuation adjustment.
First trim level	~\$1,090	The May 2026 high of \$1,085.68, and roughly 50x consensus FY27E. Structural resistance the stock approached but did not reach in late August.
Second trim level	~\$1,300	Rosenblatt's reiterated target and near the upper end of the street range, which now extends to \$1,400. Reaching it would require the bull case substantially in hand.
Position sizing if entered	2–4% of portfolio	Justified by a 14-day ATR at 7.6% of price and a beta of 1.54, not by conviction.

What would change the view	Condition
Upgrade to Buy	A retracement into \$740–820 that holds, or fiscal Q2 guidance at or above roughly \$1.45bn when it arrives in November. Either would restore the margin of safety the August analysis required.
Upgrade without a price move	Free cash flow conversion improving materially as the capacity build passes its peak, taking the forward free cash flow yield toward 1.5%. This is the one fundamental development that would justify paying today's multiple.
Downgrade toward Avoid	Non-GAAP gross margin rolling back below 45%, evidence that a Tier 1 hyperscaler has qualified a second indium phosphide source at scale, or a slip in the optical circuit switch or pump laser ramps.
Macro condition worth watching	A sustained further rise in long-term yields alongside firm core inflation, which compresses long-duration hardware multiples irrespective of anything Lumentum reports.

8. Scenario analysis

Case	Prob.	FY27E rev.	FY27E EPS	Multiple	Fair value	Narrative
Bull	30%	~\$7.0bn	~\$25.27	50x	\$1,264	Capacity lands early, the 1.6T and optical circuit switch ramps run ahead of plan, near-packaged optics orders compound.
Base	50%	~\$6.28bn	~\$21.64	40x	\$866	Consensus is met and the multiple holds where it currently sits. This is close to the prevailing price.
Bear	20%	~\$4.8bn	~\$15.00	30x	\$450	AI-optics digestion, a hyperscaler programme slips, competing capacity lands and the multiple resets with it.

Probabilities sum to 100%. The probability-weighted fair value is \$901.85, computed as $0.30 \times \$1,264$ plus $0.50 \times \$866$ plus $0.20 \times \$450$, and checked in code against its own inputs. That is 2.3% above the 4 September close of \$881.26. Bull and bear earnings figures use the published high and a reset base respectively; the multiples applied are this report's own assumptions.

9. Final verdict

Would this be bought with personal capital today, at \$881? Not yet — but the gap between the price and the level at which the answer changes is now the smallest it has been across three reports.

The pattern worth naming is this. In July the stock traded at roughly 44 times forward earnings and the answer was no. In August it reported an exceptional quarter, the earnings base rose sharply, the price rose with it, and the answer was still no because the multiple had not moved. Three weeks later the price has fallen 5% while the consensus estimate

has risen 5.6%, and the multiple has finally compressed to 40.7 times. Nothing about the business explains that. It is entirely the work of a sector that has now sold off four times since mid-July on positioning, most recently because a smaller competitor raised equity. An investor who is patient with this name is being paid in multiple compression rather than in price, and that is the correct way to be paid when the starting multiple is the problem.

The case against acting today rests on three specifics rather than on general caution. The free cash flow yield is 0.38%, because the capacity expansion that underwrites the growth also consumes it; consensus expects that to resolve in fiscal 2027, and until it begins to, the earnings are an accounting claim on cash the company is spending. The weighted fair value sits 2.3% above the price, which on a stock with a 7.6% average daily range is not a margin of safety in any meaningful sense. And the rate backdrop has turned actively unhelpful, with the ten-year at its highest since late 2023 and a Federal Reserve chair who has said plainly that he does not believe underlying inflation has improved.

The upgrade condition is therefore unchanged in substance and slightly relaxed in arithmetic: \$740 to \$820, which the stock traded through as recently as the middle of August and which represents the same 34 to 38 times forward earnings this coverage has been willing to pay throughout. Anyone who already holds the position has no reason from this analysis to sell; the fundamentals are intact, the street is drifting more positive, and \$1,090 remains the first level at which trimming is sensible.

What would invalidate the constructive long-term view has not changed. The entire case rests on the claim that scarcity in indium phosphide is structural rather than cyclical. Non-GAAP gross margin falling back below 45% would say it was cyclical, and the analysis would need rebuilding from the beginning.

Sources and scope. Lumentum fiscal Q4 and full-year 2026 results release (11 August 2026), which remains the company's most recent reported quarter; SEC Forms 4 and Rule 144 notices filed between 19 August and 4 September 2026; consensus estimates, analyst ratings and balance-sheet statistics from S&P Global Market Intelligence via StockAnalysis.com, retrieved 5 September 2026; published analyst actions from Deutsche Bank (31 August), Evercore ISI (31 August), Morgan Stanley (24 August), Rosenblatt Securities (19 August) and Wolfe Research (12 August); moomoo news, notice and research feeds and the moomoo stock digest, both retrieved 5 September 2026; a 300-session Twelve Data daily price series through 4 September 2026, from which every technical indicator in this report was computed directly; Alpha Vantage for the 4 September closing price of record; and United States macroeconomic releases through 4 September 2026 covering payrolls, core PCE, ISM services and Federal Reserve communications. No earnings call has taken place since the fiscal Q4 2026 call covered in the August report, so no new transcript was applicable. Forward multiples, scenario fair values, the probability-weighted fair value and the recomputed price levels are this report's own calculations and are labelled as such rather than presented as company figures.

Disclaimer. This document is independent research prepared for educational and informational purposes only. It is not investment advice, a solicitation, or a recommendation to buy or sell any security, and the author is not a registered or licensed financial advisor. Optical and AI-hardware equities are highly volatile and you could lose a substantial portion of any capital invested. Data is drawn from public sources and company filings as of 5 September 2026 and may contain errors. Always conduct your own due diligence and consult a licensed professional before investing.