

## Lumentum Holdings

## Short-term datacom headwinds, industrial + telco digestion cap upside

Reiterate Rating: UNDERPERFORM | PO: 45.00 USD | Price: 58.77 USD

## Inventory digestion, product transition limit n-t upside

Q2 in line, Q3 miss as Lumentum Holdings (LITE) deals with telco/industrial inventory digestion, though also impacted by customer product transitions (Google/high speed transceivers) and export restrictions on networking products (\$40-\$50mn annual headwind). Commentary also implies Q4 exiting year at \$325-\$330mn run rate vs. consensus outlook >\$400mn. We still see LITE in position to capture share in AI high speed transceivers (800G/1.6T), with recovery in telco/industrial markets in calendar 2H24/1H25 another catalyst. However, medium-term pressure difficult, with 1) Visibility into recovery limited, with uncertainty about scale/timing of demand rebound, 2) Pause in ramp of 800G+ transceivers at Google caps upside through Jun/Sep, and 3) Even as LITE rebounds, getting gross margin beyond low/mid-40s could prove difficult, as revenue will be driven by price competitive transceiver market (Coherent, Innolight competition) and less from other markets (Apple/3D sensing). Net-net, we reiterate Underperform, take FY24/25E sales to \$1.4bn/\$1.7bn (down 6%/12% vs. prior), EPS to \$1.07/\$2.49 (down 26%/34% vs. prior). We keep our \$45 PO though on 12x CY25 PE (11x prior), closer to 14x median, as we focus more on recovery potential with model possibly accounting for trough earnings.

## Likes: Growing cloud exposure, M&amp;A synergies

1) CloudLight's 90%+ exposure to 400G+ products enhances LITE's datacenter exposure (datacom just 10%-15% of organic datacom/telco exposure), which should accelerate company growth after short-term headwinds (and could improve long-term multiple from historical median); 2) Acquisition synergy target raised to \$100mn from \$80mn (\$60mn already realized), which should support some floor in gross/operating margins despite current revenue headwinds.

## Risks: Product transition/China, inventory, margin

1) CloudLight's largest customer (Google) demand slowing in June/Sep amid a product transition (~\$30mn datacom headwind in June). Networking sales also impacted by export regulations (\$10-\$12mn headwind per quarter); 2) Industrial tech sales tracking down \$40mn in MarQ (~50% QoQ decline) on seasonally slow consumer and macro/inventory corrections over the next 6 months; 3) gross/operating margin (32.6%/3.5%) down roughly 2200bp/3000bp from peak (Sep-21), and more reliance on transceiver business (and less 3D sensing) makes it unlikely margin profile returns to previous levels.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.06	4.56	1.07	2.49	3.99
GAAP EPS	2.68	(1.93)	(5.22)	(3.79)	(2.61)
EPS Change (YoY)	3.8%	-24.8%	-76.5%	132.7%	60.2%
Consensus EPS (Bloomberg)			1.45	3.72	4.26
DPS	0	0	0	0	0
Valuation (Jun)					
P/E	9.7x	12.9x	54.9x	23.6x	14.7x
GAAP P/E	21.9x	NM	NM	NM	NM
EV / EBITDA*	13.8x	19.1x	149.4x	54.2x	22.8x
Free Cash Flow Yield*	9.3%	1.3%	0.5%	-1.9%	0.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 10.

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## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,463.6	1,373.4
2025E Rev (m)	1,946.2	1,703.2
2026E Rev (m)	2,204.0	2,007.4
2024E EPS	1.45	1.07
2025E EPS	3.78	2.49
2026E EPS	5.04	3.99

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## Stock Data

Price	58.77 USD
Price Objective	45.00 USD
Date Established	9-Oct-2023
Investment Opinion	B-3-9
52-Week Range	35.35 USD - 65.16 USD
Mkt Val (mn) / Shares Out (mn)	3,938 USD / 67.0
Free Float	98.7%
Average Daily Value (mn)	67.58 USD
BofA Ticker / Exchange	LITE / NAS
Bloomberg / Reuters	LITE US / LITE.OQ
ROE (2024E)	5.7%
Net Dbt to Eqty (Jun-2023A)	144.0%
ESGMeter™	High

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See page 4 for a glossary

# iQprofile<sup>SM</sup> Lumentum Holdings

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.5%	7.5%	0.8%	4.0%	7.2%
Return on Equity	23.3%	19.3%	5.7%	15.3%	26.0%
Operating Margin	30.8%	19.2%	2.8%	10.3%	15.0%
Free Cash Flow	368	51	20	(75)	10

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.6x	1.7x	0.1x	0.4x
Asset Replacement Ratio	0.5x	0.5x	0.4x	0.5x	0.5x
Tax Rate	15.4%	NM	3.1%	NM	NM
Net Debt-to-Equity Ratio	31.2%	144.0%	197.7%	194.8%	164.4%
Interest Cover	6.6x	9.6x	1.1x	4.8x	10.5x

## Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,713	1,767	1,373	1,703	2,007
% Change	-1.7%	3.2%	-22.3%	24.0%	17.9%
Gross Profit	883	764	451	572	731
% Change	-0.5%	-13.5%	-40.9%	26.8%	27.8%
EBITDA	467	337	43	119	283
% Change	-32.3%	-27.9%	-87.2%	175.8%	137.9%
Net Interest & Other Income	(2)	30	46	24	24
<b>Net Income (Adjusted)</b>	<b>449</b>	<b>312</b>	<b>72</b>	<b>170</b>	<b>277</b>
<b>% Change</b>	<b>-2.0%</b>	<b>-30.6%</b>	<b>-76.9%</b>	<b>136.4%</b>	<b>62.6%</b>

## Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	199	(132)	(351)	(259)	(181)
Depreciation & Amortization	167	256	239	170	201
Change in Working Capital	(91)	(137)	103	(62)	(89)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	184	192	132	161	189
Capital Expenditure	(91)	(129)	(103)	(85)	(110)
<b>Free Cash Flow</b>	<b>368</b>	<b>51</b>	<b>20</b>	<b>-75</b>	<b>10</b>
<b>% Change</b>	<b>-43.7%</b>	<b>-86.1%</b>	<b>-61.1%</b>	<b>NM</b>	<b>NM</b>
Share / Issue Repurchase	(544)	(176)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	852	461	(150)	(150)	(50)

## Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,290	859	380	455	715
Trade Receivables	262	246	214	296	363
Other Current Assets	1,587	1,673	1,266	1,031	697
Property, Plant & Equipment	361	490	566	566	577
Other Non-Current Assets	663	1,365	1,941	1,856	1,755
<b>Total Assets</b>	<b>4,162</b>	<b>4,632</b>	<b>4,367</b>	<b>4,205</b>	<b>4,108</b>
Short-Term Debt	410	312	320	320	320
Other Current Liabilities	307	322	319	405	349
Long-Term Debt	1,466	2,500	2,352	2,202	2,152
Other Non-Current Liabilities	105	143	218	218	218
<b>Total Liabilities</b>	<b>2,287</b>	<b>3,276</b>	<b>3,208</b>	<b>3,144</b>	<b>3,039</b>
<b>Total Equity</b>	<b>1,875</b>	<b>1,356</b>	<b>1,159</b>	<b>1,060</b>	<b>1,069</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,162</b>	<b>4,632</b>	<b>4,367</b>	<b>4,205</b>	<b>4,108</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

## Company Sector

Semiconductors

## Company Description

Lumentum is an industry-leading provider of optical and photonic products defined by revenue and market share addressing a range of end-market applications including Optical Communications and Commercial Lasers for manufacturing, inspection and life-science applications. Lumentum primarily sells components/modules for datacom/telecom applications, but also has unique 3D sensing/lasers servicing smartphone, automotive, and industrial applications. LITE is headquartered in San Jose, CA.

## Investment Rationale

We rate Lumentum Underperform. Over the years, LITE has raised its margin profile to the higher end of optical peers and positioned itself to benefit from emerging optical component/equipment upgrades. Still, the company now faces numerous headwinds (3D sensing share loss, hyperscaler softening, utilization risk) that can pressure sales and profitability. We see potential sales CAGR and margin expansion lagging the industry in the medium-term.

## Stock Data

Average Daily Volume 1,149,946

## Quarterly Earnings Estimates

	2023	2024
Q1	1.69A	0.35A
Q2	1.52A	0.32A
Q3	0.75A	0.28E
Q4	0.59A	0.13E

## Summary of estimate changes

### Exhibit 1: Summary of estimate changes

We reset CY24 estimates as LITE deals with multiple macro and idiosyncratic issues

	Sales (\$mn)			EPS (Non-GAAP)		
	Old	NEW	delta	Old	NEW	delta
Sep-23	\$318	\$318	\$0	\$0.35	\$0.35	\$0.00
Dec-23	\$365	\$367	\$2	\$0.30	\$0.32	\$0.02
Mar-24E	\$378	\$365	(\$13)	\$0.30	\$0.28	(\$0.03)
Jun-24E	\$403	\$324	(\$79)	\$0.50	\$0.13	(\$0.37)
<b>FY24E</b>	<b>\$1,464</b>	<b>\$1,373</b>	<b>(\$90)</b>	<b>\$1.45</b>	<b>\$1.07</b>	<b>(\$0.38)</b>
<b>YoY%</b>	<b>-17.2%</b>	<b>-22.3%</b>	<b>-6.2%</b>	<b>-68.1%</b>	<b>-76.5%</b>	<b>-26.2%</b>
Sep-24E	\$470	\$353	(\$117)	\$0.84	\$0.30	(\$0.54)
Dec-24E	\$502	\$407	(\$95)	\$0.98	\$0.58	(\$0.40)
Mar-25E	\$475	\$454	(\$21)	\$0.88	\$0.72	(\$0.16)
Jun-25E	\$499	\$490	(\$9)	\$1.08	\$0.89	(\$0.18)
<b>FY25E</b>	<b>\$1,946</b>	<b>\$1,703</b>	<b>(\$243)</b>	<b>\$3.78</b>	<b>\$2.49</b>	<b>(\$1.29)</b>
<b>YoY%</b>	<b>33.0%</b>	<b>24.0%</b>	<b>-12.5%</b>	<b>160.2%</b>	<b>132.1%</b>	<b>-34.1%</b>
<b>CY24E</b>	<b>\$1,753</b>	<b>\$1,449</b>	<b>(\$304)</b>	<b>\$2.63</b>	<b>\$1.28</b>	<b>(\$1.35)</b>
<b>YoY</b>	<b>22.0%</b>	<b>0.7%</b>	<b>-17.4%</b>	<b>31.5%</b>	<b>-36.4%</b>	<b>-51.2%</b>
<b>CY25E</b>	<b>\$2,020</b>	<b>\$1,950</b>	<b>(\$70)</b>	<b>\$4.29</b>	<b>\$3.67</b>	<b>(\$0.62)</b>
<b>YoY</b>	<b>15.2%</b>	<b>34.6%</b>	<b>-3.5%</b>	<b>63.2%</b>	<b>185.8%</b>	<b>-14.5%</b>
<b>CY26E</b>	<b>\$2,284</b>	<b>\$2,175</b>	<b>(\$109)</b>	<b>\$5.16</b>	<b>\$4.89</b>	<b>(\$0.27)</b>
<b>YoY</b>	<b>13.1%</b>	<b>11.6%</b>	<b>-4.8%</b>	<b>20.2%</b>	<b>33.3%</b>	<b>-5.2%</b>

Source: BofA Global Research, company reports

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## Summary of FQ2 results

### Exhibit 2: Summary of DecQ results

LITE sales/EPS for DecQ came roughly inline with street expectations

	Dec-22	Sep-23	Dec-23						
			Guidance	Consensus	BofAe	Reported	Delta	QoQ	YoY
<b>Sales (\$mn)</b>	<b>506.0</b>	<b>317.6</b>	<b>\$365 (\$350-\$380)</b>	<b>363.4</b>	<b>365.0</b>	<b>366.8</b>	<b>0.9%</b>	<b>15.5%</b>	<b>-27.5%</b>
QoQ%	-0.2%	-14.3%		14.4%	14.9%	15.5%			
Cloud and Networking	382.9	229.7	Up QoQ	277.5	281.5	286.7	3.3%	24.8%	-25.1%
Industrial Tech	123.1	87.9	Down QoQ	80.0	83.5	80.1	0.1%	-8.9%	-34.9%
<b>Non-GAAP Gross Margin%</b>	<b>44.9%</b>	<b>34.9%</b>		<b>33.1%</b>	<b>32.0%</b>	<b>32.6%</b>	<b>(50)</b>	<b>-222</b>	<b>-1223</b>
Non-GAAP Gross Profit	227.0	110.7			116.8	119.7		8.1%	-47.3%
R&D (Non-GAAP)	64.4	61.0			64.8	68.3		12.0%	6.1%
SG&A (Non-GAAP)	45.9	39.1			40.7	38.4		-1.8%	-16.3%
Opex Total (Non-GAAP)	110.3	100.1			105.4	106.7		6.6%	-3.3%
Operating Income (Non-GAAP)	116.7	10.6		12.7	11.4	13.0		22.6%	-88.9%
<b>Op Margin % (Non-GAAP)</b>	<b>23.1%</b>	<b>3.3%</b>	<b>3% (2%-4%)</b>	<b>3.5%</b>	<b>3.1%</b>	<b>3.5%</b>	<b>5</b>	<b>21</b>	<b>-1952</b>
Financial Income	5.1	16.8			12.5	12.3			
Tax expense (Non-GAAP)	17.7	4.0			3.5	3.6		-10.0%	NA
Tax rate (Non-GAAP)	14.5%	14.6%			14.5%	14.2%		0	NA
Net Income (Non-GAAP)	104.1	23.4			20.4	21.7		-7.3%	-79.2%
<b>Diluted EPS (Non-GAAP)</b>	<b>\$1.52</b>	<b>\$0.35</b>	<b>\$0.30 (\$0.25-\$0.35)</b>	<b>\$0.30</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>9.1%</b>	<b>-7.8%</b>	<b>-78.8%</b>
Diluted Shares	68.6	67.0	67.4		67.4	67.4		0.6%	-1.7%

Source: BofA Global Research, Bloomberg

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# Summary of FQ2 Outlook

## Exhibit 3: Summary of DecQ guidance

LITE guided sales/EPS below Street amid multiple headwinds

	Dec-23	Mar-24E				Delta	QoQ	YoY
	Reported	Old BofAe	Cons	Guidance	New BofAe			
<b>Sales (\$mn)</b>	<b>366.8</b>	<b>377.9</b>	<b>379.0</b>	<b>\$365 (\$350-\$380)</b>	<b>365.0</b>	<b>-3.7%</b>	<b>-0.5%</b>	<b>-4.8%</b>
QoQ%	15.5%	3.5%	3.8%		-0.5%			
Cloud and Networking	286.7	315.3	301.2	Up QoQ	325.0	7.9%	13.4%	10.9%
Industrial Tech	80.1	62.6	71.8	Down 40mn QoQ	40.1	-44.2%	-50.0%	-55.7%
<b>Non-GAAP Gross Margin%</b>	<b>32.6%</b>	<b>33.0%</b>	<b>33.5%</b>		<b>33.0%</b>	<b>(51)</b>	<b>37</b>	<b>-777</b>
Non-GAAP Gross Profit	119.7	124.7			120.5		0.6%	-22.9%
R&D (Non-GAAP)	68.3	69.3			69.7		2.0%	12.2%
SG&A (Non-GAAP)	38.4	42.9			38.4		0.0%	-10.3%
Opex Total (Non-GAAP)	106.7	112.2			108.1		1.3%	3.0%
Operating Income (Non-GAAP)	13.0	12.5	17.0		12.4		-4.7%	-75.9%
<b>Op Margin % (Non-GAAP)</b>	<b>3.5%</b>	<b>3.3%</b>	<b>4.5%</b>	<b>3.5% (2%-5%)</b>	<b>3.4%</b>	<b>(110)</b>	<b>-15</b>	<b>-1001</b>
Financial Income	12.3	11.5			9.6			
Tax expense (Non-GAAP)	3.6	3.5			3.2		-11.5%	-63.8%
Tax rate (Non-GAAP)	14.2%	14.5%			14.5%			
Net Income (Non-GAAP)	21.7	20.5			18.8		-13.4%	-63.7%
<b>Diluted EPS (Non-GAAP)</b>	<b>\$0.32</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$0.28 (\$0.20-\$0.35)</b>	<b>\$0.28</b>	<b>-14.0%</b>	<b>-14.0%</b>	<b>-63.3%</b>
Diluted Shares	67.4	67.7		67.8	67.8		0.6%	-1.3%

Source: BofA Global Research, Bloomberg, JunQ = June quarter.

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# Summary of Balance Sheet and Cash Flow

## Exhibit 4: Summary of cash and inventory position

Net cash decreased QoQ, while inventory days also decreased

	2023	3Q23	4Q23	1Q24	2Q24	QoQ	YoY
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23		
<b>Total Cash</b>	<b>\$1,680</b>	<b>\$1,667</b>	<b>\$2,014</b>	<b>\$1,944</b>	<b>\$1,224</b>	<b>-37.0%</b>	<b>-27.2%</b>
ST Debt	\$421	\$426	\$312	\$316	\$320		
LT Debt	\$1,900	\$1,901	\$2,500	\$2,501	\$2,502		
Total Debt	\$2,321	\$2,327	\$2,812	\$2,817	\$2,821		
Net Cash	(\$641)	(\$660)	(\$798)	(\$872)	(\$1,597)		
<b>Net Cash/Share</b>	<b>(\$9.34)</b>	<b>(\$9.60)</b>	<b>(\$11.63)</b>	<b>(\$13.02)</b>	<b>(\$23.70)</b>	<b>82.0%</b>	<b>153.8%</b>
DSO	59.4	66.0	60.4	63.0	61.6		
DPO	59.4	71.6	58.6	55.0	52.7		
<b>Inventory \$</b>	<b>\$331</b>	<b>\$278</b>	<b>\$246</b>	<b>\$220</b>	<b>\$248</b>	<b>12.9%</b>	<b>-24.9%</b>
Inventory Turns	3.4	2.5	2.6	2.1	2.4		
<b>Inventory Days</b>	<b>106.3</b>	<b>148.1</b>	<b>141.7</b>	<b>175.2</b>	<b>153.0</b>	<b>-12.7%</b>	<b>44.0%</b>
Cash Conversion days	106.3	142.6	143.5	183.3	161.9		
<b>Cash Flow from Ops</b>	<b>\$95</b>	<b>\$15</b>	<b>\$49</b>	<b>(\$2)</b>	<b>\$34</b>	<b>-1569.6%</b>	<b>-64.4%</b>
Capex	(\$40)	(\$29)	(\$36)	(\$58)	(\$15)		
<b>Free cash flow</b>	<b>\$55</b>	<b>(\$15)</b>	<b>\$13</b>	<b>(\$60)</b>	<b>\$19</b>	<b>-131.9%</b>	<b>-65.2%</b>

Source: BofA Global Research, company reports

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## Glossary:

LITE = Lumentum

COHR = Coherent

AI = artificial intelligence

GM = gross margin





# Exhibit 5: LITE – Income Statement (\$mn)

We model LITE EPS down close to ~\$1.07 in FY24

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	FY23	FY24E	FY25E	CY23	CY24E	CY25E
P&L Model (\$mn)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24E	Jun-24E	Sep-24E	Dec-24E	Mar-25E	Jun-25E	Jun-23	Jun-24E	Jun-25E	Dec-23	Dec-24E	Dec-25E
<b>Revenue</b>	<b>\$507</b>	<b>\$506</b>	<b>\$383</b>	<b>\$371</b>	<b>\$318</b>	<b>\$367</b>	<b>\$365</b>	<b>\$324</b>	<b>\$353</b>	<b>\$407</b>	<b>\$454</b>	<b>\$490</b>	<b>\$1,767</b>	<b>\$1,373</b>	<b>\$1,703</b>	<b>\$1,439</b>	<b>\$1,449</b>	<b>\$1,950</b>
QoQ (%)	20%	(0%)	(24%)	(3%)	(14%)	15%	(0%)	(11%)	9%	15%	12%	8%						
YoY (%)	13%	13%	(3%)	(12%)	(37%)	(28%)	(5%)	(13%)	11%	11%	24%	51%	3%	(22%)	24%	(21%)	1%	35%
Cost of sales	283	315	253	263	223	281	269	247	264	293	328	348	1,114	1,019	1,233	1,020	1,072	1,370
GAAP Gross profit	201	166	112	90	77	64	75	56	68	92	104	120	569	272	384	342	291	494
<b>Non-GAAP Gross Profit</b>	<b>\$244</b>	<b>\$227</b>	<b>\$156</b>	<b>\$136</b>	<b>\$111</b>	<b>\$120</b>	<b>\$120</b>	<b>\$100</b>	<b>\$113</b>	<b>\$138</b>	<b>\$152</b>	<b>\$169</b>	<b>\$764</b>	<b>\$451</b>	<b>\$572</b>	<b>\$523</b>	<b>\$472</b>	<b>\$688</b>
Total GAAP Opex	188	188	163	146	158	169	170	157	151	157	163	168	685	654	640	636	636	676
<b>Non-GAAP Opex</b>	<b>\$107</b>	<b>\$110</b>	<b>\$105</b>	<b>\$102</b>	<b>\$100</b>	<b>\$107</b>	<b>\$108</b>	<b>\$97</b>	<b>\$95</b>	<b>\$98</b>	<b>\$100</b>	<b>\$103</b>	<b>\$424</b>	<b>\$412</b>	<b>\$396</b>	<b>\$414</b>	<b>\$399</b>	<b>\$415</b>
GAAP Operating income	14	(22)	(51)	(56)	(81)	(105)	(95)	(101)	(83)	(66)	(59)	(48)	(116)	(382)	(255)	(293)	(345)	(181)
<b>Non-GAAP Operating income</b>	<b>\$137</b>	<b>\$117</b>	<b>\$51</b>	<b>\$34</b>	<b>\$11</b>	<b>\$13</b>	<b>\$12</b>	<b>\$3</b>	<b>\$18</b>	<b>\$40</b>	<b>\$52</b>	<b>\$66</b>	<b>\$339</b>	<b>\$39</b>	<b>\$176</b>	<b>\$109</b>	<b>\$73</b>	<b>\$273</b>
Interest income/(expense)	(9)	(9)	(9)	(9)	(10)	(10)	(9)	(9)	(10)	(10)	(10)	(8)	(36)	(37)	(37)	(38)	(37)	(33)
Other income/(expense), net	14	4	11	20	21	13	12	10	10	10	10	8	49	57	38	66	42	34
interest and other income/(expense), net	5	(5)	3	11	12	4	4	1	0	0	0	0	13	20	1	28	6	1
Non-GAAP interest and other, net	2	5	9	13	17	12	10	7	6	6	6	6	30	46	24	52	29	24
GAAP Pretax income	19	(27)	(49)	(45)	(69)	(102)	(92)	(100)	(83)	(65)	(58)	(48)	(102)	(362)	(254)	(265)	(339)	(180)
Non-GAAP Pretax income	139	122	61	47	27	25	22	10	24	46	58	72	369	85	200	160	102	297
GAAP Tax expense	19	5	(9)	15	(1)	(2)	(3)	(5)	(3)	1	2	4	29	(11)	5	2	(9)	20
Non-GAAP Tax expense	20	18	9	7	4	4	3	1	3	7	8	10	54	12	29	23	15	44
GAAP Net income	(0)	(32)	(39)	(60)	(68)	(99)	(89)	(95)	(80)	(66)	(61)	(52)	(132)	(351)	(259)	(267)	(330)	(200)
<b>Non-GAAP Net Income</b>	<b>\$119</b>	<b>\$104</b>	<b>\$52</b>	<b>\$40</b>	<b>\$23</b>	<b>\$22</b>	<b>\$19</b>	<b>\$9</b>	<b>\$20</b>	<b>\$40</b>	<b>\$49</b>	<b>\$62</b>	<b>\$315</b>	<b>\$73</b>	<b>\$171</b>	<b>\$137</b>	<b>\$88</b>	<b>\$254</b>
GAAP Basic EPS (available to CS)	-\$0.01	-\$0.46	-\$0.57	-\$0.88	-\$1.02	-\$1.47	-\$1.32	-\$1.40	-\$1.18	-\$0.97	-\$0.89	-\$0.76	-\$1.93	-\$5.22	-\$3.79	-\$3.94	-\$4.87	-\$2.90
GAAP Diluted EPS (available to CS)	-\$0.01	-\$0.46	-\$0.57	-\$0.88	-\$1.02	-\$1.47	-\$1.32	-\$1.40	-\$1.18	-\$0.97	-\$0.89	-\$0.76	-\$1.93	-\$5.22	-\$3.79	-\$3.94	-\$4.87	-\$2.90
<b>Non-GAAP Diluted EPS</b>	<b>\$1.69</b>	<b>\$1.52</b>	<b>\$0.75</b>	<b>\$0.59</b>	<b>\$0.35</b>	<b>\$0.32</b>	<b>\$0.28</b>	<b>\$0.13</b>	<b>\$0.30</b>	<b>\$0.58</b>	<b>\$0.72</b>	<b>\$0.89</b>	<b>\$4.56</b>	<b>\$1.07</b>	<b>\$2.49</b>	<b>\$2.02</b>	<b>\$1.28</b>	<b>\$3.67</b>
Basic shares (GAAP)	68.1	68.3	68.6	68.3	66.7	67.2	67.5	67.7	68.0	68.2	68.5	68.7	68.3	67.3	68.3	67.7	67.8	68.8
Diluted shares (GAAP)	68.1	68.3	68.6	68.3	66.7	67.2	67.5	67.7	68.0	68.2	68.5	68.7	68.3	67.3	68.3	67.7	67.8	68.8
Diluted shares (Non-GAAP)	70.6	68.6	68.7	68.6	67.0	67.4	67.8	68.1	68.3	68.6	68.8	69.1	69.1	67.6	68.7	67.9	68.2	69.2
<b>Non-GAAP Margins</b>																		
Gross margin	48.2%	44.9%	40.8%	36.7%	34.9%	32.6%	33.0%	31.0%	32.0%	34.0%	33.5%	34.5%	43.2%	32.9%	33.6%	36.3%	32.6%	35.3%
Opex	21.1%	21.8%	27.4%	27.6%	31.5%	29.1%	29.6%	30.1%	27.0%	24.1%	22.1%	21.0%	24.0%	30.0%	23.3%	28.8%	27.5%	21.3%
Operating margin	27.1%	23.1%	13.4%	9.1%	3.3%	3.5%	3.4%	0.9%	5.0%	9.9%	11.4%	13.5%	19.2%	2.8%	10.3%	7.6%	5.1%	14.0%
Tax-rate	14.5%	14.5%	14.5%	14.5%	14.6%	14.2%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.6%

Source: BofA Global Research, company reports

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**Exhibit 6: LITE – Segment Model (\$mn)**

We model material declines in in sales amid inventory digestion period

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	FY23	FY24E	FY25E	CY23	CY24E	CY25E
Segment Model (\$mn)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24E	Jun-24E	Sep-24E	Dec-24E	Mar-25E	Jun-25E	Jun-23	Jun-24E	Jun-25E	Dec-23	Dec-24E	Dec-25E
<b>Revenue (\$mn)</b>																		
Cloud and Networking	360	383	293	287	230	287	325	286	290	325	374	411	1,323	1,127	1,400	1,096	1,226	1,612
Industrial Tech	147	123	90	84	88	80	40	38	63	82	80	78	445	246	303	343	222	338
<b>Total</b>	<b>\$507</b>	<b>\$506</b>	<b>\$383</b>	<b>\$371</b>	<b>\$318</b>	<b>\$367</b>	<b>\$365</b>	<b>\$324</b>	<b>\$353</b>	<b>\$407</b>	<b>\$454</b>	<b>\$490</b>	<b>\$1,767</b>	<b>\$1,373</b>	<b>\$1,703</b>	<b>\$1,439</b>	<b>\$1,449</b>	<b>\$1,950</b>
<b>QoQ (%)</b>																		
Cloud and Networking	28%	6%	(23%)	(2%)	(20%)	25%	13%	(12%)	2%	12%	15%	10%						
Industrial Tech	5%	(16%)	(27%)	(7%)	4%	(9%)	(50%)	(5%)	65%	30%	(2%)	(2%)						
<b>Total</b>	<b>20%</b>	<b>(0%)</b>	<b>(24%)</b>	<b>(3%)</b>	<b>(14%)</b>	<b>15%</b>	<b>(0%)</b>	<b>(11%)</b>	<b>9%</b>	<b>15%</b>	<b>12%</b>	<b>8%</b>						
<b>YoY (%)</b>																		
Cloud and Networking	67%	43%	20%	2%	(36%)	(25%)	11%	(0%)	26%	13%	15%	44%	31%	(15%)	24%	(14%)	12%	31%
Industrial Tech	(37%)	(31%)	(40%)	(40%)	(40%)	(35%)	(56%)	(55%)	(29%)	2%	100%	106%	(37%)	(45%)	23%	(39%)	(35%)	52%
<b>Total</b>	<b>13%</b>	<b>13%</b>	<b>(3%)</b>	<b>(12%)</b>	<b>(37%)</b>	<b>(28%)</b>	<b>(5%)</b>	<b>(13%)</b>	<b>11%</b>	<b>11%</b>	<b>24%</b>	<b>51%</b>	<b>3%</b>	<b>(22%)</b>	<b>24%</b>	<b>(21%)</b>	<b>1%</b>	<b>35%</b>
<b>% of total</b>																		
Cloud and Networking	71%	76%	76%	77%	72%	78%	89%	88%	82%	80%	82%	84%	75%	82%	82%	76%	85%	83%
Industrial Tech	29%	24%	24%	23%	28%	22%	11%	12%	18%	20%	18%	16%	25%	18%	18%	24%	15%	17%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: BofA Global Research, company reports

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**Exhibit 7: LITE – Balance Sheet (\$mn)**

LITE will need to use its cash position to effectively pay down debt over time

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	FY23	FY24E	FY25E	CY23	CY24E	CY25E
Balance Sheet(\$mn)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24E	Jun-24E	Sep-24E	Dec-24E	Mar-25E	Jun-25E	Jun-23	Jun-24E	Jun-25E	Dec-23	Dec-24E	Dec-25E
<b>ASSETS</b>																		
Cash and cash equivalents	605	592	549	859	862	469	322	380	325	255	285	455	859	380	455	469	255	464
Short-term investments	1,020	1,088	1,118	1,155	1,083	755	755	755	755	755	755	455	1,155	755	455	755	755	455
Accounts receivable, net	341	331	278	246	220	248	261	214	213	246	274	296	246	214	296	248	246	304
Inventories	366	367	410	409	428	472	443	393	420	468	450	459	409	393	459	472	468	435
Prepayments and other current assets	107	115	108	110	99	118	118	118	118	118	118	118	110	118	118	118	118	118
Total current assets	2,438	2,493	2,464	2,778	2,692	2,062	1,899	1,859	1,831	1,841	1,883	1,783	2,778	1,859	1,783	2,062	1,841	1,777
Net property, plant and equipment	478	488	483	490	512	582	571	566	566	566	566	566	490	566	566	582	566	572
Operating lease right-of-use-assets, net	89	85	82	77	69	81	81	81	81	81	81	81	77	81	81	81	81	81
Goodwill	694	698	696	695	695	1,055	1,055	1,055	1,055	1,055	1,055	1,055	695	1,055	1,055	1,055	1,055	1,055
Other intangible assets	576	540	498	459	435	731	693	660	642	622	599	575	459	660	575	731	622	524
Deferred tax asset	101	100	116	116	128	130	130	130	130	130	130	130	116	130	130	130	130	130
Other assets	11	15	15	17	15	15	15	15	15	15	15	15	17	15	15	15	15	15
<b>Total Assets</b>	<b>4,387</b>	<b>4,418</b>	<b>4,354</b>	<b>4,632</b>	<b>4,545</b>	<b>4,656</b>	<b>4,444</b>	<b>4,367</b>	<b>4,321</b>	<b>4,311</b>	<b>4,330</b>	<b>4,205</b>	<b>4,632</b>	<b>4,367</b>	<b>4,205</b>	<b>4,656</b>	<b>4,311</b>	<b>4,154</b>
<b>LIABILITIES</b>																		
Accounts payable	206	206	199	169	135	163	156	143	144	161	198	229	169	143	229	163	161	170
Accrued payroll and related expenses	62	61	41	39	41	50	50	50	50	50	50	50	39	50	50	50	50	50
Accrued expenses	53	62	60	51	59	66	66	66	66	66	66	66	51	66	66	66	66	66
Current Debt (including convertible notes)	420	421	426	312	316	320	320	320	320	320	320	320	312	320	320	320	320	320
Operating lease liabilities	14	14	14	14	12	15	15	15	15	15	15	15	14	15	15	15	15	15
Other current liabilities	48	51	29	48	31	45	45	45	45	45	45	45	48	45	45	45	45	45
Total current liabilities	803	814	769	634	594	658	651	638	640	657	694	725	634	638	725	658	657	666
Convertible notes (non-current)	1,900	1,900	1,901	2,500	2,501	2,502	2,352	2,352	2,352	2,352	2,352	2,202	2,500	2,352	2,202	2,502	2,352	2,202
Other Debt (non-current)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating lease liabilities (non-current)	58	57	53	48	41	53	53	53	53	53	53	53	48	53	53	53	53	53
Deferred tax liability	25	26	18	3	13	68	68	68	68	68	68	68	3	68	68	68	68	68
Other non-current liabilities	76	77	76	91	86	98	98	98	98	98	98	98	91	98	98	98	98	98
Total Liabilities	2,861	2,875	2,816	3,276	3,234	3,378	3,221	3,208	3,209	3,226	3,263	3,144	3,276	3,208	3,144	3,378	3,226	3,086
Total stockholders' equity	1,526	1,544	1,538	1,356	1,311	1,278	1,223	1,159	1,112	1,084	1,066	1,060	1,356	1,159	1,060	1,278	1,084	1,068
<b>Total Liabilities and SE</b>	<b>4,387</b>	<b>4,418</b>	<b>4,354</b>	<b>4,632</b>	<b>4,545</b>	<b>4,656</b>	<b>4,444</b>	<b>4,367</b>	<b>4,321</b>	<b>4,311</b>	<b>4,330</b>	<b>4,205</b>	<b>4,632</b>	<b>4,367</b>	<b>4,205</b>	<b>4,656</b>	<b>4,311</b>	<b>4,154</b>

Source: BofA Global Research, company reports

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**Exhibit 8: LITE – Statement of Cash Flows (\$mn)**

We model FCF margins more muted through the next several years

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	FY23	FY24E	FY25E	CY23	CY24E	CY25E
Cash Flow (\$mn)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24E	Jun-24E	Sep-24E	Dec-24E	Mar-25E	Jun-25E	Jun-23	Jun-24E	Jun-25E	Dec-23	Dec-24E	Dec-25E
<b>Cash flows from operating activities :</b>																		
Net income	(0)	(32)	(39)	(60)	(68)	(99)	(89)	(95)	(80)	(66)	(61)	(52)	(132)	(351)	(259)	(267)	(330)	(200)
Depreciation and amortization	57	63	58	79	57	65	65	53	35	41	45	49	256	239	170	258	193	195
Share based compensation expense	47	37	33	32	32	35	34	31	33	38	43	46	148	132	161	132	137	184
(Gain) Loss on sales and dispositions of PPE	0	7	0	1	1	0	0	0	0	0	0	0	9	1	0	3	0	0
Amortization of Debt Discount and issuance cost	6	6	6	6	5	0	0	0	0	0	0	0	24	5	0	17	0	0
Other non-cash expense	2	13	13	(17)	(6)	0	0	0	0	0	0	0	11	(6)	0	(10)	0	0
Changes in assets and liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts receivable, net	(12)	10	53	32	26	(28)	(12)	47	0	(32)	(28)	(22)	83	32	(82)	83	2	(58)
Inventories	(25)	(12)	(44)	(1)	(17)	(44)	29	50	(27)	(47)	17	(8)	(82)	18	(66)	(106)	4	32
Prepayments and Other current assets	(2)	(12)	5	4	7	(19)	0	0	0	0	0	0	(4)	(11)	0	(2)	0	0
Accounts payable	(41)	(4)	1	(30)	(28)	28	(7)	(13)	1	17	37	31	(74)	(20)	86	(29)	(2)	9
Accrued payroll and related expenses	(15)	(1)	(20)	(2)	2	10	0	0	0	0	0	0	(36)	11	0	(10)	0	0
Accrued expenses and other liabilities	17	20	(13)	(9)	(4)	23	0	0	0	0	0	0	15	19	0	(4)	0	0
Other items	(14)	0	(38)	13	(10)	64	0	0	0	0	0	0	(39)	53	0	29	0	0
<b>Net cash provided by operating activities</b>	<b>21</b>	<b>95</b>	<b>15</b>	<b>49</b>	<b>(2)</b>	<b>34</b>	<b>20</b>	<b>72</b>	<b>(38)</b>	<b>(50)</b>	<b>53</b>	<b>45</b>	<b>180</b>	<b>123</b>	<b>10</b>	<b>96</b>	<b>5</b>	<b>162</b>
<b>Cash flows from investing activities :</b>																		
Purchases of property, plant and equipment	(23)	(40)	(29)	(36)	(58)	(15)	(16)	(15)	(18)	(20)	(23)	(24)	(129)	(103)	(85)	(138)	(69)	(103)
Purchase of businesses, net of cash acquired	(861)	(1)	(0)	0	0	(705)	0	0	0	0	0	0	(862)	(705)	0	(705)	0	0
Purchase of short-term investments	(80)	(248)	(393)	(310)	(149)	0	0	0	0	0	0	0	(1,030)	(149)	0	(852)	0	0
Sales of short-term investments	317	184	370	275	228	294	0	0	0	0	0	300	1,146	521	300	1,166	0	300
Proceeds from sale of PPE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investing activities	0	0	0	0	(3)	0	0	0	0	0	0	0	0	(3)	0	(3)	0	0
<b>Net Cash provided by investing activities</b>	<b>(647)</b>	<b>(105)</b>	<b>(52)</b>	<b>(71)</b>	<b>18</b>	<b>(426)</b>	<b>(16)</b>	<b>(15)</b>	<b>(18)</b>	<b>(20)</b>	<b>(23)</b>	<b>276</b>	<b>(874)</b>	<b>(439)</b>	<b>215</b>	<b>(531)</b>	<b>(69)</b>	<b>197</b>
<b>Cash flows from financing activities :</b>																		
Repurchase of common stock	(36)	0	0	(140)	0	0	0	0	0	0	0	0	(176)	0	0	(140)	0	0
Issuance of common stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Repayment of debt	(1)	(5)	0	(133)	0	0	(150)	0	0	0	0	(150)	(139)	(150)	(150)	(133)	(150)	(150)
Issuance of debt	0	0	0	599	0	0	0	0	0	0	0	0	599	0	0	599	0	0
Payment of withholding taxes related to RSUs	(22)	(4)	(7)	(4)	(13)	0	0	0	0	0	0	0	(37)	(13)	0	(23)	0	0
Proceeds from employee stock plans	0	6	1	9	0	0	0	0	0	0	0	0	15	0	0	9	0	0
Other financing activities	0	(0)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net cash used in financing activities</b>	<b>(59)</b>	<b>(4)</b>	<b>(6)</b>	<b>332</b>	<b>(13)</b>	<b>0</b>	<b>(150)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(150)</b>	<b>263</b>	<b>(163)</b>	<b>(150)</b>	<b>313</b>	<b>(150)</b>	<b>(150)</b>
Change in Cash	(685)	(13)	(43)	310	3	(392)	(147)	58	(55)	(70)	30	170	(431)	(479)	75	(123)	(214)	210
Cash at beginning of period	1,290	605	592	549	859	862	469	322	380	325	255	285	1,290	859	380	592	469	255
<b>Cash at end of period</b>	<b>605</b>	<b>592</b>	<b>549</b>	<b>859</b>	<b>862</b>	<b>469</b>	<b>322</b>	<b>380</b>	<b>325</b>	<b>255</b>	<b>285</b>	<b>455</b>	<b>859</b>	<b>380</b>	<b>455</b>	<b>469</b>	<b>255</b>	<b>464</b>

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH





## Price objective basis & risk

### Lumentum Holdings (LITE)

We assign LITE a \$45 PO based on 12x CY25E P/E, at the lower end of its 9x-18x historical range, justified given opportunities from potential catalysts (merger with NeoPhotonics, AI/datacom, macro rebound) that could drive sales/EPS acceleration from trough levels in the longer-term.

Downside risks are 1) delays in industrial and telco rebound, 2) delayed upgrades made by hyperscaler/telecom network slowing rollout of emerging high speed optical equipment, 3) competitive pressures in optical communications market weighing on price/margin, 4) consistent M&A weighing on long-term multiple.

Upside risks are 1) quick rebound in cloud activity, 2) more resilient iPhone sales trends as well as limited share loss, 3) gross margin resilience if demand comes in better than expected.

## Analyst Certification

I, Vivek Arya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Advanced Micro Devices, Inc	AMD	AMD US	Vivek Arya
	Analog Devices Inc.	ADI	ADI US	Vivek Arya
	Applied Materials, Inc.	AMAT	AMAT US	Vivek Arya
	Arm Holdings	ARM	ARM US	Vivek Arya
	Broadcom Inc	AVGO	AVGO US	Vivek Arya
	Cadence	CDNS	CDNS US	Vivek Arya
	Camtek	CAMT	CAMT US	Vivek Arya
	KLA Corporation	KLAC	KLAC US	Vivek Arya
	Lam Research Corp.	LRCX	LRCX US	Vivek Arya
	M/A-Com	MTSI	MTSI US	Vivek Arya
	Marvell Technology Group Ltd.	MRVL	MRVL US	Vivek Arya
	Microchip	MCHP	MCHP US	Vivek Arya
	Micron Technology, Inc	MU	MU US	Vivek Arya
	Nova	NVMI	NVMI US	Vivek Arya
	NVIDIA Corporation	NVDA	NVDA US	Vivek Arya
	NXP Semiconductors NV	NXPI	NXPI US	Vivek Arya
	onsemi	ON	ON US	Vivek Arya
	Synopsys	SNPS	SNPS US	Vivek Arya
<b>NEUTRAL</b>				
	Advanced Energy Industries	AEIS	AEIS US	Duksan Jang
	Allegro MicroSystems	ALGM	ALGM US	Blake Friedman
	Axcelis Technologies	ACLS	ACLS US	Duksan Jang
	Coherent Corp	COHR	COHR US	Vivek Arya
	GlobalFoundries	GFS	GFS US	Vivek Arya
	Intel	INTC	INTC US	Vivek Arya
	Lattice Semiconductor	LSCC	LSCC US	Blake Friedman
	Texas Instruments Inc.	TXN	TXN US	Vivek Arya
<b>UNDERPERFORM</b>				
	Ambarella	AMBA	AMBA US	Vivek Arya



**US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Credo Technology	CRDO	CRDO US	Vivek Arya
	Lumentum Holdings	LITE	LITE US	Vivek Arya
	Qorvo Inc.	QRVO	QRVO US	Vivek Arya
	Skyworks Solutions, Inc.	SWKS	SWKS US	Vivek Arya
	Teradyne	TER	TER US	Vivek Arya
	Wolfspeed Inc	WOLF	WOLF US	Vivek Arya

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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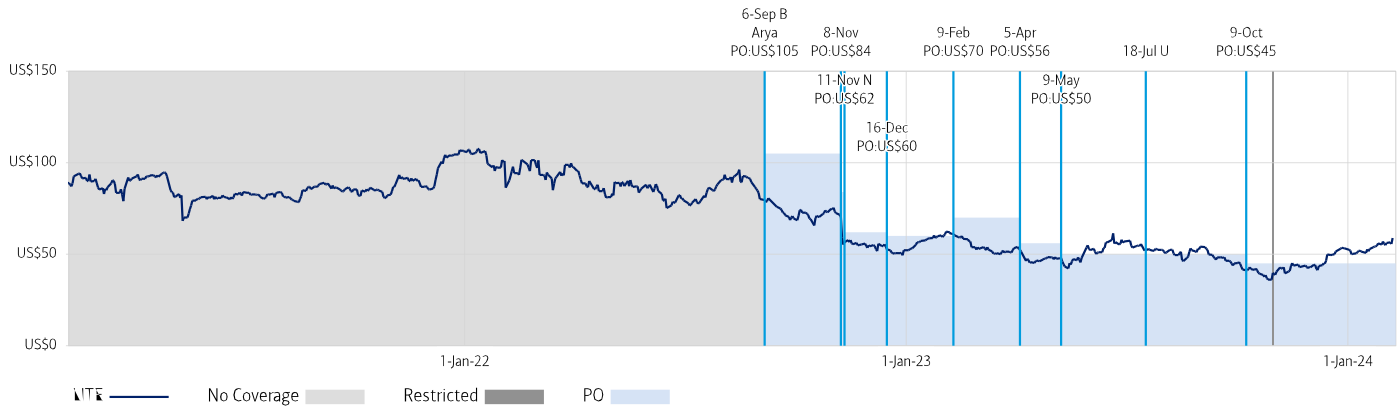
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### Lumentum (LITE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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