Seeking Alpha
Transcripts | **Technology**

IPG Photonics Corp (IPGP) CEO Valentin Gapontsev on Q3 2019 Results - Earnings Call Transcript

Oct. 29, 2019 4:18 PM ET | 1 Like
by: SA Transcripts

Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.07 misses by $-0.14 | Revenue of $329.14M (-7.64% Y/Y) misses by $-7.79M

Earning Call Audio

Subscribers Only

00:00 -58:28

IPG Photonics Corp (NASDAQ:IPGP) Q3 2019 Earnings Conference Call October 29, 2019 10:00 AM ET

Company Participants

James Hillier - VP, IR

Valentin Gapontsev - Founder, Chairman & CEO

Timothy Mammen - SVP & CFO

Conference Call Participants

Joseph Wittine - Edgewater Research Company

Thomas Diffely - D.A. Davidson & Co.

Andrew DeGasperi - Berenberg

James Ricchiuti - Needham & Company

Mark Miller - The Benchmark Company

Nikolay Todorov - Longbow Research

Krish Sankar - Cowen and Company

Operator

Good morning, and welcome to IPG Photonics Third Quarter 2019 Conference Call. Today's call is being recorded and webcast. At this time, I would like to turn the call over to James Hillier, IPG's Vice President of Investor Relations, for introductions. Please go ahead, sir.

James Hillier

Thank you, Doug, and good morning, everyone. With us today is IPG Photonics' Chairman and CEO, Dr. Valentin Gapontsev; and Senior Vice President and CFO, Tim Mammen. The statements made during the course of this call that discuss management's and the company's intentions, expectations or predictions of the future are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause the company's actual results to differ materially from those projected in such forward-looking statements. These risks and uncertainties include those detailed in IPG Photonics' Form 10-Q for the quarter ended June 30, 2019, and other reports on file with the Securities and Exchange Commission. Copies of these filings may be obtained by visiting the Investors section of IPG's website, or by contacting the company directly. You may also find copies on the SEC's website.

Any forward-looking statements made on this call are the company's expectations or predictions only as of today, October 29, 2019. The company assumes no obligation to publicly release any updates or revisions to any such statements. For additional details on our reported results, please refer to the earnings press release and the Excel-based financial data workbook posted in the Investor Relations website. We'll post these prepared remarks on the Investor Relations website following the completion of the call.

With that, I'll now turn the call over to Valentin.

Valentin Gapontsev

Good morning, everyone. Our third quarter results were in line with our expectations. Despite the challenging macroeconomic backdrop and competitive landscape in China, we demonstrated good progress with ultra high power fiber lasers, new exciting products, accessories and complete laser system. In terms of prior-year competition is the China cutting market resulted in a greater-than-average price declines that outstripped growth in units and power. However, we continue to invest in new unique products and applications to substantially enhance our competitive position and to reduce products cost.

Along these lines, we are pleased to receive a first volume order through IPG lasers with high peak power capability. HPP products capital deliver in peak energy twice the average power of the wavelength. This unique capability increases piercing and speed, improved cut quality, delivers cleaner more controlled drilling of thicker materials and reduced scrap by enabling closer nesting of parts.

In another example with our differentiated solutions, our Adjustable Mode Beam lasers have now been accepted for a variety of welding application in multiple regions. AMB permits for the broadest range of beam tunability, simplifies the cut and allows for the elimination of external optics. The spatterless welding capability of our AMB laser is particularly beneficial in electric vehicle battery production.

We continue to see encouraging feedback from customers evaluating the performance of our 20-kilowatt lasers using IPG high-power cutting tests. This solution significantly improves cutting speed for thin sheet metals over 15 kilowatt laser power, while increasing the range of materials thickness up to 6 centimeters that can be processed using the technology. That's another example of our differentiated portfolio.

IPG offers the highest brightness, so 15 micron core diameter fiber. That fiber lengths up to 20 meters. In the 6-kilowatt wavelength, this provides our customers with more than 70% higher productivity in cutting thin metals versus the competing laser in 100 microns fiber. Competitors in China do not offer the similar solution. At the low end of cutting market, we will be introducing a new series of low cost lasers that will be significantly enhance our competitive position and margin profile for this product.

Our ability to supplement leading laser solutions with high-power optical heads, is a key differentiator versus our major competitors. Marrying this capability with LDD, our patented real-time growth monitoring solution, provides us with a unique offering in the welding market, one that can enable greater use of laser-based welding in automated production environment. Global automotive supplier Brose announced recently, they are investing in our direct world measurement technology to increase manufacturing efficiency. We are broad -- we recently received a significant order for battery welding, that leverages this leading edge weld sensing and monitoring solution with our lasers and scanners. We are seeing strong customer interest for other opportunities as well.

Outside cutting and the welding, we took orders for several products at industry leading power levels. Chief among these was a 120-kilowatt fiber laser order from a leading European Research Organization. This marks the most powerful CW fiber laser IPG has ever sold. We also took an order for 100-kilowatt CW fiber laser for another research application. These two laser represents approximately $6 million of revenue in the fourth quarter. In addition, we took orders for 60 and 50 kilowatt CW laser, along with multiple 5 and 10-kilowatt single mode lasers. Collectively, these products represent power levels and beam precision unmatched by competition.

We continue to make progress in new product areas as well. Third quarter sales of newer laser products and systems into emerging applications grew 8% year-over-year, and were 19% of total revenue, up to -- up from 16% 1 year ago. Sales within our medical laser business nearly doubled year-over-year, driven by recent FDA approval for our thulium fiber lasers solution in urologic applications. System sales increased 14% year-over-year, excluding Genesis, driven by strong growth in IPG multi-axis and laser cube system, ILT systems for medical device manufacturing and sales of our cinema projection systems. Sales of ultrafast pulsed lasers were growing year-over-year also, as we continue to put or pursue 50-plus watts project across a wide range of microprocessing applications. We believe that our forthcoming introduction of new 100 picosecond laser and new femtosecond product will help expand our presence in this market.

Despite the challenge in environment, we continue to demonstrate progress in driving adoption of our laser technology in our core markets, and in new product areas that expands our addressable market opportunity. Sales to our dedicated workforce, total optical power shipped exceeded 13 megawatts in the third quarter, a testament to the acceptance of our fiber laser technology in the market. We remain confident in IPG's ability to execute during this period and emerge from the downturn in a strong competitive position, one with ample long-term opportunities to make our laser technology the tool of choice in manufacturing.

With that, I will turn the call over to Tim.

Timothy Mammen

Thank you, Valentin, and good morning, everyone. Revenue in the third quarter declined 8% year-over-year to $329 million. Revenue from materials processing applications decreased 8% year-over-year, and revenue from other applications increased 5%. Revenue in China decreased 24% year-over-year, and represented approximately 37% of total sales. As we had expected, performance was impacted by weaker demand due to the U.S.-China trade conflict and greater-than-average price declines. Overall, price declines in Q3 moderated from the prior quarter. In Europe, revenue decreased 10% year-over-year, primarily due to softness in cutting additive manufacturing and marking, partially offset by growth in welding. The demand environment in Europe remains very challenging, evidenced by weakening trends among key indicators of macroeconomic health in the region.

In North America, revenue increased 32% year-over-year, driven by the acquisition of Genesis. Excluding Genesis, sales in North America increased 2% year-over-year, with strong growth in welding, surgical and cutting applications, offset by declines in our Menara communications business.

Sales in Japan were flat, with growth in welding and marking offset by weaker performance in cutting. Sales in Korea decreased 8% year-over-year, but increased 10% sequentially, as strength in battery welding was offset by softness in cutting and marking. Q3 revenue in Turkey decreased 20% year-over-year, given macroeconomic pressures in the region. Sales of high-power CW lasers decreased 19% year-over-year and represented approximately 56% of total revenue. Reduced revenue from high-power CW lasers and cutting and, to a lesser extent, welding, was partially offset by strength in other materials processing applications. Pulsed laser sales decreased 4% year-over-year, with growth in high-power pulsed lasers offset by reduced sales from marking applications.

System sales increased 124% year-over-year, including Genesis, and 14% year-over-year, excluding Genesis, driven by growth in systems for welding and other materials processing applications. Medium power laser sales decreased 38% on softness in additive manufacturing and the transition to kilowatt scale lasers in cutting, while QCW sales declined 32% year-over-year due to softness in fine welding for consumer electronics versus the year-ago period.

Other product sales increased 28% year-over-year, driven by growth in beam delivery accessories and service revenue. Gross margin of 46.4% declined 830 basis points year-over-year. Compared with the year ago period, less favorable absorption of manufacturing expenses and foreign exchange reduced gross margin by 270 basis points. The acquisition of Genesis reduced gross margin by 170 basis points. Higher inventory reserves reduced gross margin by 150 basis points and lower product pricing and other factors reduced gross margin by approximately 240 basis points. In light of the current macroeconomic challenges, competitive landscape and our increasing systems revenue, we believe it is appropriate to moderate our target gross margin range to 45% to 50%. We are responding to the current business environment challenges with a multipronged strategy of product cost reduction, implementing differentiating features on our core products and leveraging the largest R&D investment in the laser industry to launch leading edge laser products for new markets. These measures, in conjunction with modest market recovery, should increase the company's industry-leading margin profile as compared with our current expectations for the fourth quarter.

Third quarter operating income was $74 million or 22.5% of sales. Excluding a foreign exchange loss of $1 million, operating margin was 22.8%. Excluding foreign exchange, operating expenses as a percentage of sales increased 410 basis points year-over-year due to lower revenue, acquisitions and investments in engineers, salespeople and IT systems. Net income was $57 million, and earnings per diluted share were $1.07. Foreign exchange losses reduced EPS by $0.01. If exchange rates relative to the U.S. dollar had been the same as 1 year ago, we would've expected revenue to be $8 million higher and gross profit to be $4 million higher. The effective tax rate in the quarter was 26%, which included certain discrete tax items. We ended the quarter with cash, cash equivalents and short-term investments of $1.08 billion and total debt of $43 million.

Effective operational execution resulted in cash provided by operations of $92 million during the quarter. Capital expenditures were $21 million in the quarter and $108 million so far this year. As part of our operational review, we are reducing our annual outlook for capital expenditures to less than $150 million from prior guidance of $170 million to $180 million. We also expect the level of capital expenditures to moderate next year. During the quarter, we repurchased 181,000 shares for $24 million. During the fourth quarter, IPG began implementing a cost reduction program in response to continued global macroeconomic, competitive and geopolitical headwinds. The company expects to reduce annualized operating expenses by approximately $30 million, with the full impact being achieved as it exits the fourth quarter of fiscal 2019. IPG is performing its annual assessment of goodwill impairment, which occurs in the fourth quarter each year. While this process is not yet complete, the company currently expects for the impairment charges will be recorded in the fourth quarter, primarily related to the communications business. The goodwill and other long-lived assets within the communications business that are subject to assessment total approximately $60 million.

Turning to guidance. As widely reported, demand for industrial automation equipment remains subdued. This market softness impacted our third quarter book-to-bill ratio, which was under 1 and below normal seasonality. Looking forward, we will rely on our core scientific strengths and strong cash flow to optimize investment in strategic initiatives critical to the long-term success of the company, including a greater mix of high-power lasers, differentiated features and new solutions. Furthermore, we intend to focus on our highly trained workforce on our new leading edge higher margin products as they gain market acceptance, while reducing the resources deployed to manufacture lower-margin products. When combine with the planned cost reductions, we believe this strategy will enable us to better compete today and to capitalize on the eventual rebound in end market demand.

For the fourth quarter of 2019, we expect revenue of $270 million to $300 million. We expect our fourth quarter tax rate to be approximately 26%. We anticipate delivering earnings per diluted share in the range of $0.55 to $0.95. Our EPS guidance range includes approximately $0.02 impact from restructuring charges in the fourth quarter. This guidance excludes any EPS impacts from charges that might arise from our annual assessment of goodwill impairment. As discussed in the safe harbor passage of today's earnings press release, actual results may differ from our guidance due to factors, including but not limited to, goodwill and other impairment charges, product demand, order cancellations and delays, competition, tariffs, trade policies and general economic conditions. Our guidance is based upon current market conditions and expectations, assumes exchange rates referenced in our earnings press release and is subject to risks outlined in the company's reports with the SEC.

With that, Valentin and I will be happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from the line of Joe Wittine of Edgewater Research.

Joseph Wittine

I was hoping you could provide further details on the product cost reduction strategies, specifically, what is different with these new initiatives compared to what I consider the company's persistent focus on building materials reductions? And if you could talk to approach on board, presumably new lower prices in products, I think that would be interesting?

Timothy Mammen

First of the question, Joe, products, did you say cost product initiative or development?

Joseph Wittine

Correct. The cost...

Timothy Mammen

Overall, the company continues to really execute and pursue its continued excellence around taking cost out of products. Sometimes this can result in fundamental changes in product design. It also can focus on lateral thinking in terms of bill of materials, types of materials, the amount of power that we get out of individual optical components, redesigning electrical and mechanical components. So we just haven't stopped pursuing these initiatives across a broad base set of products that we've introduced to the market, whether it be the lower end of the kilowatt-scale lasers, transitioning some of those cost benefits to the higher end of the market, and even in the introduction of some of the newer products. Pursuing those initiatives in conjunction with the ultrafast technology and its robustness and compactness, looking at the ways to reduce and enhance the value of systems that are being sold. So it's also not just a cost reduction initiative, it also focuses on the different processes and technology that can be delivered in conjunction with the lasers. In that respect, Joe, your attention to some of the progress we've made with selling the real-time monitoring capability in conjunction with the scanners and the high-power lasers, where there's a tremendous amount of value being delivered to the end customer, and that's being reflected in the pricing that we've been able to obtain. So it's no fundamental change. It's just a continued pursuit of what we believe we're very good at doing.

Valentin Gapontsev

And we introduced now the 10 new devices, which were new application each of them. All of the device don't have any [indiscernible] in the market, much higher quality and new -- open new application, absolutely. So our target year in about 3 years, 50% of new business made with new application, not just -- before we forecasted metal products and only with -- we still build pipe, but we make a high-power laser here. Of course now, in our new business model, more than 50% of total revenue will grow from our application. This compensate our books due to price thereof in laser. With the new models, we offer now new opportunities for product detail for further growth.

Joseph Wittine

And then as a follow-up, I was wondering if you could see competitively what you're seeing in ultrahigh power? And how you expect competition to try going forward? There's been a story that you've been pretty insulated at certainly 8-kilowatt-and-above and even at 6-kilowatt-and-above? So how do you expect that to change over the course of the next year? Do you think there are core technological difficulties that some of the low-price competitors continue to struggle with or will they continue to inch up and therefore the onus is on IPG to do the same?

Valentin Gapontsev

Clearly, it's still 5-kilowatt, 10-kilowatt, the competition go against [indiscernible] stocks. They're additive. They don't have competitive solutions for such power. We have a 1 kilowatt, 2 kilowatt, maybe 3 kilowatts in the areas, when -- this is where they come with the very best quality lasers they want the market share, especially in China, when the Chinese government making every -- all support -- making China product practical, without the help of government, when they're not able to compete even in this area. Probably have 6 kilowatt product that it sells, neglected if they don't have any opportunity to compete with our lasers. And the degradation time of our check of the laser -- newest laser. Sure, it's practical. It's come earlier. They are working only a few months, though it did many times reported so on quality is extremely well. So they're not real products, only noise in marketing the time. Creates much noise.

Joseph Wittine

And one click clarification, Tim. Is any of the $30 million of cost reductions included within the fourth quarter EPS guidance?

Timothy Mammen

Some small benefit factored in on a pro rata basis through some -- a little bit less on the manufacturing, some of the operating expenses. But the full benefit really will come through at the end of the year.

Operator

Our next question comes from the line of Tom Diffely from D.A. Davidson.

Thomas Diffely

It sounds like in your earlier comments that you're seeing some relative strength in welding versus cutting? And I'm wondering, when you look at the softness in the industrial market today, what's driving that difference?

Timothy Mammen

So yes, certainly, there's been some significant wins on the welding side. It often happens in this way, it's part macroeconomic weakness, it can be a time when companies look at how to improve processes by driving improvements in productivity and quality, they want to enhance what they're doing, and then their demand cycles can be weakest, some of the focus on the R&D and development side is in that area. In other instances, some of this is coming from transitions in industrial manufacturing output. So for example, battery welding, not just in China, but in different countries around the world as it's a very significant growth driver of welding applications, and we expect it will continue to be so. And some of those investments, by the way, are also -- it's interesting, we've also called this out previously. Even when the automotive cycle can appear to be weak on the outside. Some of the investments that go into the welding programs and automotive program actually pick up a bit.

Thomas Diffely

Okay. That's helpful. And you also mentioned that some of the other material processing applications were fairly healthy. How big is that category? What are the biggest pieces of that category right now?

Timothy Mammen

So the main ones would be in, obviously, the welding side. The weaker ones in the quarter are cutting and additive manufacturing, those continued good growth in some of the cleaning applications, which we've highlighted over multiple years. We expect to be a very strong growth driver of revenue, particularly with higher power pulsed lasers, which is where we have a significant advantage. I mean, when you think about the definitions, joining, separating or abrasive processes, so it's the joining and abrasive processes that we're stronger in this quarter. Outside the material processing, the defense revenue is strong, the medical revenue was strong. Those are 2 key drivers on that side outside of materials processing.

Valentin Gapontsev

Regarding the welding application, it's -- I said before, I can repeat, it's much more complicated than cutting. Cutting it's everyday, but you can buy just laser with some little things that you trying to introduce in markets. But welding, practically, is for each product, each part should be developed a different technology, different preparation and so on, with different metals and lasers and so on. So it's an absolutely new business model. Before, we sold for patch application, such as the retail, and lasers were only in customer trying to develop themselves a welding processes. It was not very efficient and growing very small. Now we changed the business model. Now we're going and designing with many various areas, where you watch customers' program -- multiyear program of change in development, automation of the welding, all processes in their preparations.

We have then such customers different areas and welding -- and we develop together with them full change in technology and welding technology in their platform. It -- we're going the same way as many of the mature company for automotive industry, the aerospace industry, agricultural industry, so it's much more complicated new model. It seems much more perspective, such way we believe next 2 to 3 years, welding applications will grow dramatically. And nobody able to compete serious in the case with us, no changes in any other. The process is much more complicated now that benefit in our advantage. We have in-house practical or optical solutions outside accessories, out of electronic solutions, and also we made for these companies prototype machines, more than 20 different types of machines, where this machine we produced prototype and markets supply to customer, but you make them forecast the area, which throws them a huge opportunity with transfer technology in terms of welding IPG process. Only IPG-patented process.

Operator

Our next question comes in the line of Andrew DeGasperi with Berenberg.

Andrew DeGasperi

Maybe first, could you provide us, if I missed it, I'm sorry, the 6-kilowatt of overmix in terms of percent of high-power revenue? And specifically, could you maybe tell us how pricing has held up in the 6- to 10-kilowatt?

Timothy Mammen

So the 6-kilowatt is approximately 50% of total high-power sales. Pricing has been more resilient at those levels, basically because the competitive advantage, to some degree, as pricing changes on a per kilowatt basis at the lower level, it does feed through. But it's generally been better at those levels. Certainly on a sequential basis, it was pretty good at the higher power levels.

Andrew DeGasperi

Got it. And just generally speaking, are you seeing a substitution effect, where maybe someone who wanted to purchase an 8 kilowatts goes with the 5 kilowatts because their uptime is not as high as with customers?

Timothy Mammen

No. We haven't really seeing that change. If anything, in this quarter, some of the sales of the 5 and the 4 were a bit lower, and the mix of the 1, 2, 3 was a bit higher, and then you have the strength of more than 6 kilowatts.

Valentin Gapontsev

Keep in mind, the 5-kilowatt for us, not even 6, 5 for us in kilowatts, we control 70% to 80% marketing situational change. Up to now, we control 70% to 80% sales of this market in total. Our competition, therefore, was adherent, for example, with Russian or Trump and not Chinese. But yes, all these companies now practical when losing market, because with new price level twice in the 1 kilowatt power, they're not able -- they don't want to compete in this market and it wasn't practical. We remain the only supplier of such kinds of laser, which really dominated the market practically. 1 to 2 kilowatt, our new solution will draw potential with material cost. We introduced now in the market also 3 to 4 kilowatts unit. The Chinese doesn't have any similar competitive we see ways that deal with solution. So practical, with softer offer pricing, you started to increase again, and we already done work with this also by way of market segment, it never works in our business here. But with the 1- to 3-kilowatt also, we are done with our share in the market. Now we drop to 40%, now our 33% to 60% we have the opportunity to make this short lived.

Andrew DeGasperi

Got it. And one last question for me is, I notice in your release, you mentioned some consolidation at some point. Maybe, can you explain that along with your gross margin trajectory? Is that going to change at this point? Or should we expect that the stay at that 45 to 50 the that medium term?

Valentin Gapontsev

Our target always, we promise it will support by the 15-plus percent gross margin and 25% to 30% net income. Our targeted total results and prolonged in future work, and we make everything too, and we believe next year, we'll return back to these numbers.

Operator

Our next question comes from the line of Jim Ricchiuti with Needham & Company.

James Ricchiuti

I know that mix can impact gross margins as well as volume, obviously, but I'm just wondering that the gross margin range that you're talking about, the 45% to 50%, is there a way to think about what level of quarterly revenues we need to be at to see those kind of margins at the high end?

Timothy Mammen

So let's step back a bit, Jim. First of all, if you look at actually just last quarter, the number being in 3 30, If you strip out the inventory being a bit higher, the under absorption, you guys should actually be close to 50%. So if you recover those 2 amounts, getting back above the 3 50, 3 60, probably you see it towards the top end of that range. If you see mix benefits starting to flow-through, for example, increased sales of higher power lasers, increased sales of newer products, the ultrafast, the UV, higher power pulse lasers, accessories, those will be a benefit. If you saw tremendous growth, obviously, in systems, accessories, these will be a benefit. If you saw tremendous growth, obviously, in systems, even though we targeted improving the system's gross margin before we will see some dilution of that impact. I think in order to get back above the 50%, you still have to see a very significant growth in rebound in the total business. And the numbers we run still show that being in the $380 million to $400 million revenue range. In the last quarter, as I mentioned on the previous question, we did see, relatively speaking, quite a high mix of the 1- and 3-kilowatt lasers in the less than 6-kilowatt range, and that probably had a bit of an impact as well coming into this quarter despite under absorption of fixed cost, you've got these ultra high-power lasers were shipping, and maybe some benefit related to that. So there's some very positive stuff, you see the product mix shift going towards where our real capability is being able to recover some of the gross margin in conjunction with the market rebound.

James Ricchiuti

That's helpful, Tim. Can you quantify the price pressure that you experienced in the quarter in the sub-6-kilowatt category?

Timothy Mammen

The price pressure sequentially wasn't that much. It was pretty much the same pricing, if anything, it was more of an impact related to FX sequentially. But just a mix, if you look at the less than 6 kilowatts, it was quite heavily weighted in the quarter to the lower end of the market. In fact, if you look at our relative change in China revenue compared to one of our biggest competitors in China, we actually think we picked up some share in the quarter relative to that performance. They've talked about their China revenue being down closer to 35% in the quarter, and we were down 26%, clearly, Han's, one of our main customers, was weak, where the other customers in China are actually held up, relatively speaking, okay. So that will be another positive in terms of competitive dynamics.

James Ricchiuti

Are you seeing any variability around bookings by region? Or was it below 1 pretty much across the board?

Timothy Mammen

It was weak across-the-board. The U.S. was strong, backlog in the U.S. was very strong. Europe continues to be weak. Japan is a struggle at the moment. Overall tone in Korea, given the diversity of applications, is a bit better. Then you've obviously got a lot of geopolitical stuff going on in Turkey and Western Asia, which was a bit of a challenge. So we're grappling with weak macro in a whole bunch of different locations that's -- I mean, it's similar to what everybody else on the industrial markets has alluded to, a couple companies that reported over the last couple of days, the challenges they're facing and the tone of their commentary was right in line with what we're seeing.

Operator

Our next question comes from the line of Mark Miller with The Benchmark Company.

Mark Miller

Any impact of tariffs? Have you seen any pull-ins or push-outs in the quarter as far as tariff concerns?

Timothy Mammen

The trade war and tariff issues continued to make decision-making within the whole business environment very uncertain, and that's the biggest issue that people face. There's a lot of talk, Mark, about people starting to make investments in manufacturing capacity outside of China in companies like -- countries like Vietnam, other Southeast Asia, and even India. But that's a longer-term trend, right? Building a factory and making a capital equipment investment isn't something that happens in 1 or 2 months. There's certainly talk about that being a driver in the medium to longer term as people reconfigure some of their supply chains. But we have no particular impact in the quarter, anything being pulled in and the macroeconomic uncertainty was really what drives our lack of visibility at this time -- the general macroeconomic uncertainty, which is exacerbated, I think, by the China trade war and tariff situation.

Mark Miller

We heard from a couple sources that, in China, besides pricing mix, the Chinese manufacturers actually would prefer -- they seem to prefer, I mean, more local salespeople in China rather than buying a laser that might have superior reliability, which might not have the same number of representatives in sales in China. Do you agree with that? Or do you contest that?

Valentin Gapontsev

With OEM customer, clearly when you have good quality lasers we don't have any big change in China, although OEM Chinese, old and new one, use our laser. Regarding the sales to companies, which is a huge portion of the market for the moment in China, so they're different from the government policy, create this policy of Chinese brands, and so all this limited to all they pass now a requirement to buy in-house, to buy a local manufacturing. So this government policy is not that successful, someone -- one or two steps back. It's -- without such support, all this [indiscernible] full bankruptcy immediately. Full bankruptcy immediately. This government policy but -- should not be a long time. IPG, what's included in the strategic technology by the Chinese government 20 years ago, they risked huge money to the price for raises. And so only recently started from where we enter with some the real commodity not thrown in that. But as they support to buy in-house. But it's temporary. While China will talk a big market, but now forecast the market itself to grow fast. India, for example, growing now, it started to grow very fast, because we're very small. Another Asian countries, Arab countries, is now going to South America where it's a huge market to offset.

So we'd now really changed our policy and also change inside. But even Chinese market I will look in to say we are in very good position in the future, because they're not able to compete with the quality. The same, I must say up to now, sales of cars in China, nobody able to compete with BMW. [Indiscernible] cars, they make use of own but high-end cars they use from check outside the markets. And that's the same story here with us.

Timothy Mammen

And Mark, just specifically on that, we have a very broad based footprint in China of sales and service people that is unparalleled, probably within the laser industry. We have not shied away from making these investments very broadly geographically within the shied away from making those investments very broadly geographically within the company.

Valentin Gapontsev

Also, which we are introducing in the market now, is medical products and China might not -- the Chinese never have now any similar year, 1 7 years is 5 years. So the way now signed in big West contract for medical application, Chinese customers, for example, there are many others you talk of. There really aren't in Chinese markets worth their new weight in products. Nobody in the world, not only in China, nobody in the world we have near the time we have something similar. So it's new market for us. We'll have to go because as low-power where we're in, it can be with it becoming commodities. It's not more high-tech. It's also, with time, [indiscernible] each product has brought an [indiscernible] start in high-tech, which really is high profit, but at the end of [indiscernible], that's going down, and because it's a lot of copies. So we introduced new solution. It's our policy, and we were very successful in there. Now we've changed our product aligned with new much more sophisticated new application and new quality and, in most cases, unique. Nobody can really compete to stay nearby.

Operator

Our next question comes of the line of Nick Todorov with Longbow Research.

Nikolay Todorov

Tim, the spread in the EPS guidance of $0.40 is wider than typically $0.20 or $0.30 that you have here. So can you talk about the underlying drivers of that? Is it the lack of visibility? Or is it mostly tied to the goodwill impairment charges that you said were not included in line?

Timothy Mammen

No, it's got to get there with a goodwill impairment charges is just that these revenue levels, you see a greater degree of deleveraging, relative to the ability to adjust expenses, right? We have made a good start to reducing and making cost adjustments and reductions, but we're not going to dismantle the entire manufacturing capability of the company at this point in time and the investment in employees and training and all of the company at this point in time and the investment in employees and training and all of the other advantages that have made IPG a leader within the market. At these revenue levels, you just struggle to get an accretive business model going. You need to get that recovery coming back up to 3 33 to 43 50. And as we've shown in the last couple of quarters, even this last quarter, you get pretty solidly above $1 in earnings, right? At the lower levels, particularly if you get to the bottom end of that range, 2 70, you're dealing with a different set of issues. And it's -- there's 2 or 3 companies that have announced in the last two days, where exactly the same issues faced them around their business model and the level of expenses that they carry at the moment. So that's really where it is. It's just the mechanics of the business model.

Nikolay Todorov

All right. Okay. And then on the buyback, can you please update us on how much you have left? And can you talk about if and why not to get more aggressive here, given where the stock price is? And given how much cash you guys have on the balance sheet? And I'm just curious to know what kind of your plans are to do with that cash here in medium- to short-term?

Timothy Mammen

So first of all, we continue to have wide-ranging discussions around capital allocation. The focus is obviously on funding. The most important part of our investments is R&D, capital expenditures, the remaining amount on the buyback at the moment I think is about $100 million. At lower valuations, we have in the past and would going forward probably buy back ahead of dilution, but that is a specifically antidilutive buyback that is being put in place and was approved at the April board meeting we had. So we'll continue to evaluate things on a regular basis in how to enhance and refine our capital allocation policy. We want to maintain a very strong balance sheet, but we've also come a long way from where we were 2 or 3 years ago. We think that there will be opportunities that continue to arise as we develop product for the newer markets and start to grow sales there that we want to have the firepower to pursue over the coming periods.

Nikolay Todorov

Okay. And last question for me. Can you just talk about relatively the profile -- or the gross margin profile of that have the optic power lasers, as we talked about getting some tractions with orders in China. Is that relatively in that 45% to 50% range? Or is the margin profile that laser is a little bit below that?

Timothy Mammen

The higher power stuff?

Nikolay Todorov

The high peak power?

Timothy Mammen

Oh, yes. That has very strong margin profile on optic. The product -- the margin of the product is significantly above the 45% to 50%. What takes you down to those levels is the underabsorption of the manufacturing expenses and other period costs. So HPP lasers, for example, as well as the 100-, 120-kilowatt the 50-kilowatt lasers, 60-kilowatt lasers, the single-mode lasers, high-power pulsed lasers, these all of our products that have very high and strong margin profiles, because the competitive dynamics are very different.

Operator

Our next question comes in the line of Krish Sankar with Cowen and Company.

Krish Sankar

Valentin or Tim. First of all, if you look at the geographic constraint, it looks like most geographies, except the U.S., seems to have either macro or competition issues? I'm just kind of curious, based on your [indiscernible] do you expect this jump in the U.S. to continue? Or do you think that would be the next year to drop?

Timothy Mammen

We're still, as I said order flow in the U.S. has continued to be robust, strong. There's a diversity of applications here, which is only probably equaled in Korea, which is the other area where I said that you tend to see continued relatively robust side. Competitively, the issues are based primarily in China. So it's more the macro in Europe and Japan that affect things. Now there [indiscernible] it tends to give an insight into what will happen in the U.S. is as good as yours. I look at all the same data points and all the same discussion points, and what the Federal Reserve is expected to do. It's clearly though the strongest economy in the world at the moment, and it depends whether a soft landing or even -- not even a landing, a touchdown is achieved or not and how that proceeds into next year, where you have an election cycle going on and a whole host of other things. My crystal ball is not any better than yours around that situation.

Krish Sankar

Got it. And just another quick follow-up. As we look at over the last 10-plus years, you guys had technology leadership and the lowest cost and not a whole lot of competition. So 50-plus-percent gross margin makes a lot of sense. Now we have competition, systems more in the mix. Just kind of curious whether 45 or 50 are better than most of your peers, but if I look at the markdown like 5 years out, is 45 to 50 still the right way? Or do you think it should be more in the low 40s for the gross margin?

Timothy Mammen

I think Valentin answered that question earlier. We're focusing on really leading edge technologies, processes, applications and moving -- the real strategy is to shift away from the more competitively driven areas of the market to deliver value to the end customer. And if we execute around that, we will be back in a position of significant technology leadership and targeting getting back to the 50% gross margins that we had historically. So there's a lot of execution, but there's also a significant amount of R&D that's going into that. And by the way, momentum in different product introductions in areas that we're starting to actually achieve, whether it be in the higher power levels, on the more integrated welding solutions or the ultrahigh power lasers within the medical, year-to-date, are very strong, sales of green lasers, the ultrafast product. These are all products that are extremely sophisticated, have very significant technology advantages, but there's also amount of execution that's required to get into really growing those sales. As Valentin said, the target is to grow the company to up to 50% of revenue from nonmetal applications. And if you succeed in that regard, you return to being a very dominant leader within the industry.

Valentin Gapontsev

This application is in the Europe and the U.S., not in China. So our dependence from China situation, we will decrease very much.

Operator

Our next question is the final question, and it's a follow-up from Joe Wittine with Edgewater Research.

Joseph Wittine

I just wanted to ask on -- kind of your midterm outlook for 2 applications. One, EV battery projects going forward, are there any large projects within your forecast time line? Or are we getting past larger projects and that demand is more durable? And then second, on the QCW side, I'm curious on your thoughts for 2020, the potential for significant 5G-driven retooling? The QCW run rate was down by about half from the peak from a few years back, so I'm not sure if it's too early, but I'm curious if you think you get a nice recovery on the C cycle next year?

Timothy Mammen

[Indiscernible] actually it tends to be project-driven, Joe, but it is pretty broad based, it's not just China investment. There's European investment going on, there's some European investment that drives China, you've got significant investment in battery going on in Korea. But it's still uneven from period to period, but it's a significant driver and we continue to think that this is a decade-long investment cycle, right? If electric vehicles are really going to transition to being 40% or 50% of the total vehicle demand and output, the amount of investment that is required in the next decade continues to grow significant. The welding, cleaning processes are very sophisticated in that area. That, in conjunction with some of the capabilities around LDD, puts us probably at the forefront of that market as compared to any of the other suppliers within the market. On the consumer electronics as compared to any of the other suppliers within the market. On the consumer electronics side, it's just we don't have any significant feedback or information on where the demand cycle will be next year, even with 5G potentially being a growth driver. It's a bit early on that. We'd expect to know something towards the end of the first quarter or during the first quarter.

Operator

That concludes our question-and-answer session. I'd like to hand the call back to management for closing comments.

Timothy Mammen

Thanks for joining us this morning, and for your continued interest in IPG. We look forward to speaking with you over the coming weeks and in our next quarter's call. Have a great day, everyone.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.