**Conference Call Prepared Remarks**
**Coherent, Inc. Reports Third Fiscal Quarter Results**
**Bret DiMarco – EVP, General Counsel & Corporate Secretary**

Thank you and good afternoon everyone. Welcome to today's conference call to discuss Coherent's results from its third quarter of fiscal 2017.

On the call we have John Ambroseo, our President and Chief Executive Officer and Kevin Palatnik, our Executive Vice President and Chief Financial Officer.

I would like to remind everyone that some information provided during this call may include forward-looking statements, including, without limitation, statements about Coherent's future events, anticipated financial results, business trends and the expected timing and benefits of the integration of our recent Rofin-Sinar transaction. These forward looking statements may contain such words as "expects," "will," "anticipates," "intends" or referred to as "guidance." These forward looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict and may cause actual results to vary significantly. These forward looking statements reflect beliefs, estimates, and predictions as of today, and Coherent expressly assumes no obligation to update any such forward looking statements.

For a description of risks and uncertainties which could impact these forward looking statements, you are encouraged to review Coherent's periodic SEC filings including its most recent Form 10-K, Form 10-Q and Forms 8-K.

I will now turn the call over to John Ambroseo, our President and Chief Executive Officer.

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**John Ambroseo, President and Chief Financial Officer**

Thanks, Bret.

Good afternoon everyone and welcome to our third fiscal quarter conference call. We have a very simple story for Q3: Record revenue, record profits and sustained strong demand. All our attention is on execution.

Microelectronics bookings delivered another terrific result. ELA systems led the way with multiple large format tool orders. ELA service continues to grow as more systems move from warranty to the service pool. Pull along orders were again in the $20 million range for OLED film cutting using $CO_2$ and ultrafast lasers and SmartCleave™ glass cutting systems also based upon ultrafast technology. The current backlog pretty much takes us through fiscal 2018. Future orders will be scheduled for shipment in fiscal 2019 as new fab come online. As a reminder, our own capacity expansion at our integration facility in Gottingen, our refurbishment center in Osan and our optics fab in Richmond is necessary to meet delivery requirements in fiscal ’19 and beyond as well as supporting continuous growth in service.

Semiconductor capex has been an extended streak. Three factors are driving utilization and investment. Memory prices remain very high and manufacturers are adding capacity to meet demand. High utilization of larger nodes for IoT devices such as sensors has revitalized the service business and is driving capacity expansion at legacy nodes. Finally, growth at leading nodes translates into inspection tool sales. Based on multiple market research sources, it appears the streak will continue well into fiscal 2018.

There are some interesting opportunities in the advanced packaging market. The emergence of wafer-level packaging (WLP) has rekindled laser direct imaging. Outsourced semiconductor assembly and test providers or OSATs, where wafer-level packaging resides, are quite keen to structure down to 2 micron features to provide density and speed and potentially capture higher margins. UV lasers such as our

Paladin™ product are well-suited to support this feature size in a high through-put environment. The next generation of smart phones will utilize more system-in-package (SiP) devices and lasers are one of the core technologies to produce SiPs. Manufacturers are evaluating a number of different laser-based processes for SiP production and we expect decisions to be finalized in 6-9 months.

Demand in materials processing applications remains robust. We did very well in high power fiber lasers with high double-digit, quarter-on-quarter growth in bookings and shipments. The largest applications were battery welding and metal cutting. System configurations ranged from 1-8 kilowatts. We are shipping everything we can manufacture and are working diligently to expand capacity. We launched our new 3 kilowatt module at Lasers Munich. The response from customers was quite good, particularly from China and Europe. We will begin shipments of the 3 kilowatt module late this quarter or early next quarter.

Ultrafast lasers are making further inroads in materials processing since they are very effective at cutting mixed material and/or multilayer stacks without damage or delamination. Applications will grow as the power increases and the wavelength coverage broadens.

Marking, engraving and components orders were up sharply. Marking and engraving customers in Asia and Europe saw an upswing in their business. This translated into orders for several products including our C and J-Series $CO_2$ lasers. We are a key component supplier of fibers and diodes for manufacturers of low to mid-power fiber lasers.

The laser tools business again performed well. Orders from Tier 1 automotive component manufacturers for marking and manufacturing workstations were solid and complemented laser bookings for powertrain welding and surface treatment. Marking tools and rails (i.e., subsystems including lasers, optics and/or beam motion) orders for consumer electronics were good as were bookings for medical device manufacturing workstations.

Our instrumentation and components business continues to march up and to the right. The bioinstrumentation market is experiencing good demand with more subsystem business that increases technology and dollar content for us. The medical OEM market is increasing on consumables for lithotripsy and lasers for disease management of the eye. The defense and aerospace market has become a larger part of this vertical following the Rofin acquisition and is growing at a good rate. The key applications are ground and space-based telescopes, laser gyroscopes, and directed energy applications.

There have been no significant changes in applications or funding trends within the scientific research market, although the competitive landscape is evolving. It appears multiple competitors are retrenching or exiting this space, which may be due, in part, to the success of our Astrella™ platform. The multiphoton imaging and optogenetics markets continue to adopt new reagents that require a range of powers and wavelengths from existing and emerging laser sources, which is driving investment amongst a group of laser manufacturers. We believe our current and future products will enable us to remain a leader in this space.

I'll now turn the call over to Kevin Palatnik, Coherent's Executive Vice President and Chief Financial Officer.

## Conference Call Prepared Remarks
## Coherent, Inc. Reports Third Fiscal Quarter Results
## Kevin Palatnik, Executive Vice President and Chief Financial Officer

Thanks, John.

Today, I'll first summarize fiscal third quarter 2017 financial results then move to the outlook for fiscal Q4. I'll discuss primarily non-GAAP financial results and ask that you refer to today's press release for a detailed description of our GAAP results, as well as a reconciliation between GAAP and non-GAAP financial results. The non-GAAP adjustments relate to stock-based compensation expense, amortization of intangible assets, purchase accounting, acquisition related costs, restructuring costs, and the related tax adjustments. The full text of today's prepared remarks and trended GAAP and non-GAAP supplemental financial information will be posted on the Coherent Investor Relations website. A replay of this webcast will also be made available for approximately 90 days following the call.

**Highlights of the Quarter**

Fiscal third quarter 2017 financial results for the company's key operating metrics were:

- Total Revenue of $464.1 million dollars,
- Non-GAAP Gross Margin of 48.5%,
- Non-GAAP Operating Margin of 27.9%,
- Adjusted EBITDA of 30.6%, and
- Non-GAAP EPS of $3.36

**Sales**

Net sales for fiscal third quarter were $464.1 million dollars, an increase of $41 million dollars or approximately 10% sequentially. Sales came in above the midpoint of the previously guided range, with sales into the Microelectronics and Materials Processing markets providing the largest contributions.

Our revenue mix by market for Q3'17 was Microelectronics at 52.1%, Materials Processing 30.7%, OEM components and instrumentation 10.8% and Scientific & Government 6.4%. Geographically, Asia accounted for 61% of revenues in the fiscal third quarter, the US 17%, Europe 18% and rest of the world 4%. Asia includes two territories with revenues greater than 10% of total sales.

Other product and service revenues for the fiscal third quarter of 2017 were $121 million dollars or approximately 26% of sales. Other product revenue consists of spare parts, related accessories and other consumable products and was 23% of sales. Revenue from services and service agreements was approximately 3% of sales.

We had one customer in South Korea, an integrator to large flat panel display manufacturers, that contributed more than 10% of the company's fiscal third quarter revenues.

**Gross Profit, Gross Margin, Operating Margin, EBITDA**

Fiscal third quarter non-GAAP gross profit, excluding stock-based compensation costs, intangibles amortization, purchase accounting and restructuring was $224.9 million dollars. At 48.5% of sales for the quarter, non-GAAP Gross Margin came in at the midpoint of the guided range.
Non-GAAP Operating Margin was 27.9% for the fiscal third quarter and was slightly below the midpoint of the guided range as a result of expenses related to the repricing of our debt, FX or currency changes and a myriad of smaller items. Adjusted EBITDA was 30.6% in fiscal Q3.

**Balance Sheet**

Turning to the balance sheet, non-restricted cash, cash equivalents and short term investments were approx. $472 million dollars at the end of fiscal Q3, an increase of approximately $39 million compared to the end of last quarter, primarily as a result of higher net income, FX along with a number of smaller items. During the quarter, we made a voluntary 45M Euro payment against our outstanding debt, consistent with our priority of using excess cash flow to de-lever the balance sheet.

International cash was $338 million dollars or approximately 71% of the total cash and short term investment balance. Approximately 36% of the total cash and short term investments is denominated in dollars.

Accounts receivable DSO was 54 days, no change from the prior quarter.

The net inventory balance at the end of the third quarter was approximately $403 million dollars, an increase of $15 million primarily due to f/x.

And Capital spending for the quarter was $15.8 million dollars or 3.4% of sales. We expect this current spending rate to increase in fiscal Q4.

**Fiscal Fourth quarter 2017 guidance**

Now, I'll turn to our outlook for our fourth fiscal quarter of 2017.

Revenue for fiscal Q4 is expected to be in the range of $465 to $485 million dollars.
We expect fiscal Q4 non-GAAP Gross Margin to be in the range of 47% to 50%. Non-GAAP gross margin excludes intangibles amortization of approximately $11.8 million dollars and stock compensation costs estimated at $900K.

Non-GAAP Operating Margin for fiscal Q4 is expected to be in the range of 26% to 29%. This excludes intangibles amortization estimated at a total of $14.6 million dollars and stock compensation expense of a total of approximately $7.1 million dollars.

Other income and expense is estimated to be an expense in the range of $6 to $7 million dollars, a reduction from prior quarters, recognizing the benefit from our debt repricing. We do not include transaction gains and losses related to future changes in foreign exchange rates in our outlook.

We expect our non-GAAP tax rate for fiscal Q4, to be in the range of 31% - 32%.

And, finally, we are assuming weighted average outstanding shares of 24.9 million for the fourth quarter.

With regard to our participation at upcoming conferences, we'll be presenting at Needham's Industrial Technology day on August 3rd in New York and the Jeffries conference in Chicago on August 30th.

I'll now turn the call back over to the operator for a Q&A session.