MARKET REPORT

Looking Back—and Ahead—at the Laser Market

For laser and optics companies, revenues and net income continue to climb, but soft stock prices reflect widespread investor uncertainty, Optica’s Tom Hausken writes.

The COVID-19 pandemic challenged laser companies to maintain profits despite supply chain and workforce disruptions. The hope was that the challenges would be transitory, but ongoing lockdowns, energy shortages and geopolitical conflict continue to tangle supply chains, while inflation and slowing spending threaten laser sales. Here, we look at the state of laser companies from two perspectives.

Reviewing revenues and profits
Generalizing across laser suppliers is difficult because every company is on a different path. Companies employ different strategies, whether it’s fabless manufacturing versus vertical integration or targeting a regional market versus competing globally. The largest companies are diversified across a range of products. And most laser companies are privately held and keep their financial statements private, so measuring the entire industry is a challenge.

We can nonetheless learn from studying a selection of laser and optics companies. Here, we reexamine companies featured in OPN’s April 2022 Market Report—Coherent, Corning, IPG, Jenoptik, MKS, nLight, Novanta and II-VI—with Lumentum added in. We’ve also used an estimate for Coherent’s financial data for the second calendar quarter (Q2) of 2022, and adjusted for some significant financial events, including II–VI’s acquisition of Finisar in 2019 and two special expenses for Coherent. (Note: After the end of Q2 2022, II–VI announced that it had completed its acquisition of Coherent and that the newly merged company would be called Coherent. The data here reflect results for the two companies as separate entities.)

The first figure on p. 21 shows how the aggregate revenues of the companies dipped in early 2020 as the world went into pandemic lockdowns. But revenues quickly recovered, and results for 2021 ended up 21% greater than 2019. While these numbers include some acquisitions and
divestments during the period, it is nonetheless reassuring considering the magnitude of the pandemic.

Most important to investors are profits. The first figure also shows the selected companies’ aggregate net income, which is the profit that can be distributed to investors. Net profits dropped to near zero in Q4 2019, as laser sales to China faded from previous highs. Profits fell further when pandemic shutdowns delayed vendors from shipping products, but they recovered as shipments returned.

The margins—the ratio of profit to revenue—offer a guide to profitability. The gross margins for specific companies continue to range from about 25% to 50%, but the average has stayed within a tight range around 40%. The operating and net profit margins have also improved since late 2019 and early 2020. For this limited group of companies, it appears that supply chain constraints have not driven profits down, and in fact, most of the companies appear slightly healthier in late 2021 than they were in 2019.

Stock prices look forward

A look at the equity prices of the publicly traded companies tells a different story. Stock prices provide an investors’ perspective on our sector and how it compares to other classes of investments. While company financial statements only report on the past, equities are forward looking; their prices are presumed to indicate investors’ expected future returns on investment. Even so, stock prices reflect many factors, particularly earnings reports, interest rates and customer sentiment.

The second figure shows the average of the normalized stock prices of the selected laser and optics companies compared to two indexes, from 2020 to mid-2022. The average price peaked in early 2021 but began declining later that year. This suggests that investors may be expecting lower profits for these companies. Notably, the NASDAQ Composite Index also declined this year amid rising interest rates and fears of a recession.

The figure also shows the NASDAQ Capital Market Index, which comprises early-stage public companies, including some selling lidar subsystems and quantum technology. The index reflected strong growth in late 2020, followed by a decline beginning in 2021 that erased the gains over the period. It has been a difficult market for many companies.

It’s hard to generalize across our industry based on stock prices, however. The stock prices of specific companies only vaguely track the average shown in the figure. At this writing, the companies’ gains and declines range from +65% to –35% over the period, and the prices may have changed dramatically by the time this article is published.

Key takeaways

Laser and optics companies are vulnerable to threats of recession, but our industry is highly diversified and resilient. Lasers sell into many vertical markets, each with its own dynamics—one product segment may be selling well (such as semiconductor manufacturing tools), while another is slowing (such as China’s manufacturing sector). For most of our selected group of companies, the revenues and profit margins remain steady.

The direction of these companies’ stock prices has been very different, tracking the indexes’ peaks in 2020 and dramatic declines this year. And there is wider variation in specific companies’ stock prices than there has been for profits. This shouldn’t be surprising, considering that many factors affect the stock market.

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