Thank you and good afternoon everyone. Welcome to today’s conference call to discuss Coherent’s results from its second 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,” or “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.
Conference Call Prepared Remarks
Coherent, Inc. Reports Second Fiscal Quarter Results
John Ambroseo, President and Chief Financial Officer

Thanks, Bret.

Good afternoon everyone and welcome to our second fiscal quarter conference call. Coherent delivered another record-setting quarter and we are seeing very strong demand across all our end markets. The outstanding operating results have translated into significant cash generation and we have started to voluntarily pay down the debt associated with the Rofin acquisition. I also want to commend Kevin, Bret and their teams for completing the repricing of the Euro-denominated debt. Kevin will provide you with the details during his remarks.

**Microelectronics**

The microelectronics market remains on a very positive trajectory. New system and service orders for FPD applications were robust and benefited from the number and screen size of devices being addressed by OLEDs, larger capacity investments by Chinese manufacturers at Gen5 and above, and high fab utilization, which supports higher service demand. In addition to annealing, we have been qualified for other laser-based, process steps. For example, we received almost $20 million of orders in the second quarter for ultrafast and CO\textsubscript{2} lasers used in OLED film cutting.

The FPD outlook is rapidly evolving. The current data being provided by end customers (i.e., panel manufacturers) is at the high end of our model and would necessitate capacity expansion in fiscal 2018 at our laser system test facility in Göttingen, our refurbishment center in Osan and our optics fabrication site in Richmond.

The semi capex market remains in high gear and sequential order growth was well into double digits. Similar to the most recent quarters, 3D NAND, logic, node transitions and utilization rates fueled the demand. Recent public reports by other industry participants as well as those from market research firms suggests this trend is likely to continue through the rest of the calendar year.
The API market continues its recovery, leading to double-digit, sequential order growth. The mix between infrared and ultraviolet is similar to prior quarters meaning that we haven’t seen a change in feature size. This leads to the conclusion that these are pure capacity orders.

**Materials Processing**

We had a breakout quarter in materials processing with bookings that more than doubled from the prior year period. Nearly every application and technology contributed to the outcome. Orders for ultrafast lasers and subsystems, including our first revenue synergy from the Rofin transaction, sharply increased on demand from automotive and machine tool OEMs. We followed-up Q1’s record result in medical device manufacturing with another record in Q2. Consumer goods manufacturing was very robust for packaging, converting and marking using infrared and ultraviolet lasers. Additive manufacturing also did well, especially for polymer materials. We maintain our long-term conviction for this application because additive manufacturing simply makes sense.

After resolving some initial quality issues, we are making steady progress in high power fiber lasers. Our first full quarter of engagement led to double digit order growth, most of which came from cutting and battery welding applications. The prospect list for high power fiber lasers is expanding steadily. As the interest converts to orders, we will expand capacity for components, integration and testing. Our work to insource diode production is on schedule and we expect to have first articles by the end of the fiscal year. We are currently spending about $10 million per year on chips for semiconductor laser modules including those used in our fiber lasers. Switching to internal supply would result in very high flow-through to the bottom line. As a reminder, this would be incremental to our net synergies goal.

**Instrumentation and OEM Components**

Instrumentation and component orders rose significantly on a sequential basis led by record demand from instrumentation customers where we capitalized upon a design win for a next generation sequencer as well as maintaining our market-leading position in cytometry. Bookings for medical OEM lasers and components were also up sharply from aesthetic and surgical applications. In addition to these positive results, we are enthusiastic about several near-term opportunities including large format optics for ground-based astronomy, semiconductor lasers in aesthetic surgery and fiber, diodes and fiber lasers in aerospace and defense.
**Scientific**
Orders for research lasers were solid in what is usually a seasonally weak quarter. We did really well in ultrafast amplifiers used in physical sciences’ research with the largest contribution coming from China. Biological imaging is a consistent performer with roughly 60% of sales and orders in this area coming from neuroscience applications. We expect higher power and performance lasers like our Monaco™ and Fidelity™ to become more prevalent as the market shifts to functional studies that interrogate tens or hundreds of neurons at a time and seek to penetrate deeper in tissue using longer probe wavelengths.

**Integration Update**
We’ve made good progress on integration and remain on track to meet our schedule and synergies commitment. More importantly, my colleagues have not let the integration interfere with taking care of our customers. I can assure you this is no small feat and I’d like to recognize their hard work and dedication.

**Wrap**
With the arrows pointing up and to the right, we are in a terrific position to grow the business. We are confident that our technology investments are well–aligned with markets and there are further revenue synergies in laser-based tools and subsystems.

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 Second Fiscal Quarter Results
Kevin Palatnik, Executive Vice President and Chief Financial Officer

Thanks, John.

Today, I’ll first summarize fiscal second quarter 2017 financial results then move to the outlook for fiscal Q3 2017. 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 second quarter 2017 financial results for the company’s key operating metrics were:

- Total Revenue of $422.8 million dollars,
- Non-GAAP Gross Margin of 48.4%,
- Non-GAAP Operating Margin of 26.3%,
- Adjusted EBITDA of 29.3%, and
- Non-GAAP EPS of $2.91

Sales
Net sales for fiscal second quarter were $422.8 million dollars, an increase of $77 million dollars or approximately 22% sequentially. Sales came in above our previously guided range as a result of the strength across all four markets Coherent serves, with sales in the Microelectronics and Materials Processing markets providing the largest contributions. Please note that Q2’17 includes a full quarter of Rofin sales, of which, the significant majority is included in the Materials Processing market of our ILS segment.
Our revenue mix by market for Q2’17 was Microelectronics 49.9%, Material Processing 30.1%, OEM components and instrumentation 13.0% and Scientific & Government 7.0%. Geographically, Asia accounted for 59% of revenues in the second quarter, the US 19%, Europe 18% and rest of the world 4%. Asia includes one territory with revenues greater than 10% of total sales.

Other product and service revenues for the fiscal second quarter of 2017 were $109 million 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, virtually the same percentage as last quarter.

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 second quarter revenues.

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

Fiscal second quarter non-GAAP gross profit, excluding stock-based compensation charges, intangibles amortization, purchase accounting and restructuring was $204.8 million dollars. At 48.4% of sales for the quarter, non-GAAP Gross Margin came in above the high-end of the guided range. This is primarily a result of our product mix, with a heavier weighting of ELA products and services and lower warranty costs.

Non-GAAP Operating Margin was 26.3% for the fiscal second quarter and was also above the guided range as a result of the compounding effect of higher gross profits along with lower than expected operating expenses. Adjusted EBITDA was 29.3% in fiscal Q2.

**Balance Sheet**

Turning to the balance sheet, non-restricted cash, cash equivalents and short term investments were approximately $433 million dollars at the end of fiscal Q2, an increase of approximately $73 million compared to the end of last quarter as a result of higher net income and f/x benefit, along with a myriad of smaller items. During the quarter, we made a voluntary 30M Euro payment against our outstanding debt, consistent with our priority of using excess cash flow to de-lever the balance sheet. In addition, as John noted, we took advantage of the tighter credit market in Europe and repriced the outstanding principal of our debt of approximately 637M Euros to EURIBOR + 225 bps which translates to a 3.0% interest rate, a decrease from 4.25%. 
International cash, primarily in Europe, was $306 million or approximately 71% of the total cash and short term investment balance. Approximately 35% of the total cash and short term investments is denominated in dollars.

Accounts receivable DSO was 54 days, a decrease of 9 days sequentially.

The net inventory balance at the end of the second quarter was approximately $388 million dollars. Virtually flat sequentially.

And Capital spending for the quarter was $14.2 million or 3.3% of sales. We expect this current spending rate to increase in the second half of our fiscal year.

**Fiscal Second quarter 2017 guidance**

Now, I’ll turn to our outlook for our third fiscal quarter of 2017.

Revenue for fiscal Q3 is expected to be in the range of $450 to $470 million dollars.

We expect fiscal Q3 non-GAAP Gross Margin to be in the range of 47% to 50%. Non-GAAP gross margin excludes intangibles amortization of approximately $11.3 million, inventory step amortization of approximately $4.8 million and stock compensation costs estimated at $700K. Non-GAAP Operating Margin for fiscal Q3 is expected to be in the range of 27% to 30%. This excludes intangibles amortization estimated at a total of $15.0 million, inventory step amortization of $4.8 million and stock compensation expense of a total of approximately $7.1 million.

Other income and expense is estimated to be an expense in the range of $8 to $9 million dollars, primarily related to interest expense and amortization of the debt issuance costs. 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 Q3 2017, to be approximately 30%.

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

With regard to our participation at upcoming conferences, we’ll be presenting at Benchmark’s Investor conference on June 1st in Chicago, the Stifel Technology conference in San Francisco on June 5th, the Citigroup Small & Midcap conference in New York on June 8th and the CJS Securities conference in New York on July 11th.

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