

Corning Incorporated (GLW)

\$29.71 (As of 01/21/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM: C

Value: B

Growth: D

Momentum: C

Summary

Increasing demand for Gorilla Glass and other fiber optic products remains key catalyst as Corning continues to innovate in the glass substrate industry. Its capability positions it to better serve the rise in demand for 8K products. The company aims to move forward in the value chain beyond glass and tap the immense potential of the automotive market, while product portfolio strength and moderating price decline bode well for future growth. It is progressing well in Strategy and Capital Allocation Framework. However, the latent trade conflict between the United States and China is a major impediment to top-line growth. Corning faces price erosion at the rate of 1-2% per quarter in the Display Technologies business. Another concern, with respect to the TV market in particular, is the concentration of market share in the hands of a few large players.

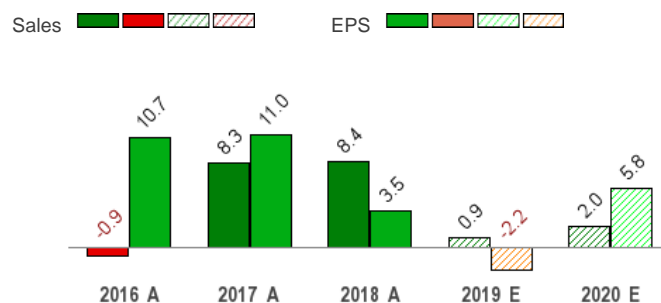
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.34 - \$26.75
20 Day Average Volume (sh)	4,271,452
Market Cap	\$22.9 B
YTD Price Change	2.1%
Beta	1.14
Dividend / Div Yld	\$0.80 / 2.7%
Industry	Communication - Components
Zacks Industry Rank	Top 35% (88 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.0%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	01/29/2020
Earnings ESP	-0.4%
P/E TTM	15.8
P/E F1	16.2
PEG F1	1.8
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,633 E	2,840 E	3,113 E	3,127 E	11,725 E
2019	2,850 A	2,986 A	2,969 A	2,686 E	11,496 E
2018	2,513 A	2,759 A	3,045 A	3,081 A	11,398 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.36 E	\$0.40 E	\$0.46 E	\$0.57 E	\$1.84 E
2019	\$0.40 A	\$0.45 A	\$0.44 A	\$0.44 E	\$1.74 E
2018	\$0.31 A	\$0.38 A	\$0.51 A	\$0.59 A	\$1.78 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

Overview

New York-based Corning Incorporated started out as a glass business that was reincorporated in 1936. The company has since developed its glass technologies to produce advanced glass substrates that are used in a large number of applications across multiple markets. Currently, Corning reports results under five operating segments.

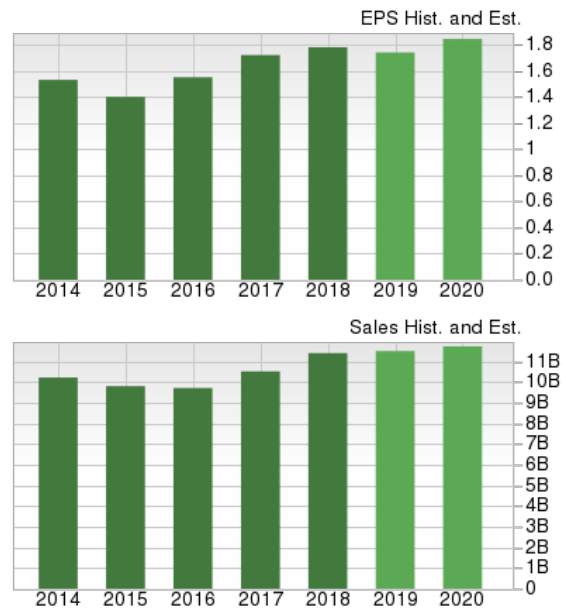
The **Display Technologies** segment (27.2% of third-quarter 2019 revenues) includes glass substrates that are commonly found in liquid crystal display (LCD) TVs, notebooks and flat-panel desktop PC monitors. The company's specialty, active-matrix substrates improve the brightness and sharpness of images.

The company's **Optical Communications** (34.5%) products may be categorized into two. The first category comprises cables. Products are typically sold to its own subsidiaries, which then distribute to end users. The second category is hardware and equipment, which comprises optical and copper connectivity products.

The **Environment Technologies** (13.6%) segment makes ceramic substrates required for mobile and stationary pollution and emission control systems. The primary users of Corning's products are automotive and diesel engine manufacturers.

Specialty Materials (15.9%) include different formulations for glass, glass ceramics and fluoride crystals that render special properties to each separate substrate, making it suitable for specific industrial and commercial use.

Life Sciences (8.8%) segment products are sold under the Corning, Costar and Pyrex brands primarily for laboratory equipment, such as microplate products, coated slides, filter plates for genomics sample preparation, plastic cell culture dishes, flasks, cryogenic vials, roller bottles, mass cell culture products, liquid handling instruments, Pyrex glass beakers, serological pipettes, centrifuge tubes and laboratory filtration products.



Reasons To Buy:

- ▲ While taking actions to offset recent headwinds, Corning remains confident in its strategy and continues to advance its long-term growth initiatives. The company is extending performance under its 2020-2023 Strategy & Growth Framework. It is focusing on its portfolio and utilizing financial strength to enhance shareholder returns. The company's capabilities are becoming increasingly vital to diverse industries, and multiple opportunities support leadership across all of its market-access platforms.
- ▲ Multiple factors should drive Corning's fiber optic solutions business over the next several years, primarily the increasing use of mobile devices that require efficient data transfer and efficient networking systems. Supporting this trend is the proliferation of clouds, which are now resulting in increased storage and even computing on a virtual plane. Since both consumers and enterprises are using the network more, there is tremendous demand for quality networking. Also, data consumption patterns are changing. For instance, there is a growing propensity to consume video content thus creating the need for faster data transfer. Since optical networks are more efficient and most of the existing networks are copper-based, the demand for optical solutions is particularly strong. Corning has several products focused on the datacenter with a portfolio consisting of optical fiber, hardware, cable and connectors that helps it to create optical solutions to meet varying customer needs.
- ▲ Corning is a leading innovator in the glass substrate industry. The company has been developing formulations that are not only suitable for imparting superior picture quality, but also taking care of their effects on the environment. Corning's generation 10 substrates use the proprietary EAGLE XG formulation, which serves both these purposes. Corning was the first glass substrate developer with the generation 10 capability. A higher generation substrate is a larger-sized substrate, which enables panel makers to reduce manufacturing costs since more panels can be built from each substrate. For example, a panel maker can make fifteen 42-inch panels from a generation 10 substrate, compared to eight 42-inch panels from a generation 5. However, the cost per square inch is more or less optimized at generation 8, unless panel sizes increase. Therefore, the generation 10 capability lowers cost for panel sizes of 65 inches or more and will simply help volumes but not provide any additional cost advantage for smaller-sized panels. Either way, Corning's capability positions it to better serve the secular increase in demand for LCD panels. The fact that LCD TVs of 45 inches or larger have been the fastest-growing segment in recent times is also a positive. This will drive demand for the larger-size panels where Corning leads the market. The company's fusion technology reduces glass thickness, enabling panel manufacturers to do away with thinning costs that are usually necessary for making slimmer, lighter and more power efficient consumer devices. In addition to these advantages, the substrate composition makes it particularly eco-friendly and thus more easily acceptable. Subsequently, the company introduced Lotus Glass and Willow Glass. The company's Iris glass also presents significant growth opportunity. We believe that the product portfolio strength along with moderating price decline bodes well for Corning in the long term.
- ▲ In order to aid growth, Corning is successfully leveraging the automotive market to disrupt the 6 billion square-foot auto glazing market based on annual consumption. Corning announced a joint venture with Saint-Goban Sekurit to develop, manufacture and sell lightweight automotive glazing solutions. Per this JV, the company will continue to produce and market Gorilla Glass and other glazers, retaining 100% ownership of the glass business. This venture allows the company to move forward in the value chain beyond glass to manufacture and sell glazing solutions with a leading producer. This also provides a low-cost path for Corning to scale Gorilla Glass glazing solutions worldwide.

Strength in fiber optics, leadership in glass substrates, environmental regulations, strong relationships and share buyback policy remain positives for Corning.

Reasons To Sell:

- ▼ A lot of the optimism around Corning's shares has been driven by its Gorilla Glass (GG) formulation. GG is an extremely tough, flexible, scratch resistant, environmentally friendly glass formulation meant for use as a protective layer (around .5 to 2 mm thick) over mobile phones, tablets, notebooks and the like. The product has been designed into numerous consumer devices, including cell phones, tablets and touch notebooks. While this gives it a very broad addressable market, nearly all of this market is currently in a slow growth phase. Therefore, the core end markets are under a lot of pressure. Although Corning continues to innovate with its Vibrant Corning Gorilla Glass, the impact of these efforts on the bottom line remains unclear as of now.
- ▼ The company faces price erosion at the rate of 1-2% per quarter in the Display Technologies business. Therefore, we expect prices to remain a drag on margins, despite an improving demand/supply situation. Although management believes that 1-2% erosion per quarter could be tackled through cost containment, we assume there would be a limit to cost control.
- ▼ End market diversification is limited at present, with the display and optical segments accounting for more than two-third of total revenues and around half the business coming from display markets. Since the Display Technologies and Specialty Materials segments are largely dependent on consumer spending, particularly on LCD TVs and mobile PCs, this further narrows down the market. Although the company is expected to benefit from massive growth in China, Chinese panel makers with whom Corning has limited relationship are entering the market. Building a significant position in China in the current environment could be a challenge, despite management's all-out efforts. Also, while GG is being met with enthusiasm, its growing contribution to revenues will increase the dependence on display markets. Another concern with respect to the display market in general and the TV market in particular is the concentration of market share in the hands of a few large players. The loss of a single customer or its decision to cut orders would have significant impact on Corning's results. The trade war between the United States and China remains a strong impediment to top-line growth.
- ▼ There is growing interest in sapphire substrates that could replace Corning's GG. Sapphire substrates are far more scratch resistant than GG and therefore less likely to break. However, it is heavier and transmits less light, so its use is relatively limited (camera lens, thumb-print scanner, high end watch covers and in a select few smartphone screens). Current manufacturing technologies are also more expensive and wasteful, but the situation could improve somewhat with volumes. Another competing technology that is a cause of concern is plastic OLED. Plastic brings with itself flexibility and practically removes all chances of breaking. However, manufacturing inefficiencies remain. Although Corning is working on glass improvements, these aren't likely to affect revenues soon while evolving technologies remain a constant threat.

Increasing cost of sales and perennial price erosion in the Display Technologies unit remain major headwinds for this specialty glass maker.

Last Earnings Report

Corning Q3 Earnings & Revenues Top Estimates, Fall Y/Y

Quarter Ending **09/2019**

Corning's third-quarter 2019 results were consistent with its earlier update, issued on Sep 16.

Net Income

On a GAAP basis, net income for the September quarter declined to \$337 million or 38 cents per share from \$625 million or 67 cents per share in the year-ago quarter, primarily due to lower operating income and lower net gain from translated earnings contract.

Core net income came in at \$397 million or 44 cents per share compared with \$476 million or 51 cents per share in the prior-year quarter. The bottom line, however, beat the Zacks Consensus Estimate by 4 cents.

Revenues

Quarterly GAAP net sales were down 2.5% year over year to \$2,934 million, which were consistent with the Sep 16 update. Core sales decreased to \$2,969 million from \$3,045 million reported in the year-earlier quarter. The top line, however, surpassed the consensus estimate of \$2,893 million.

Segment Results

Net sales from **Display Technologies** segment were \$793 million compared with \$852 million in the year-earlier quarter. Display glass volume declined by a high single-digit percentage sequentially (consistent with the Sep 16 update). The full-year 2019 price decline is expected to improve to a low single-digit percentage compared with prior expectation of a low- to mid-single-digit percentage decline. The segment's net income was \$185 million compared with \$218 million in the prior-year quarter.

Net sales from **Optical Communications** segment declined 9.8% year over year to \$1,007 million due to overall market weakness driven by customer project spending decisions, primarily in carrier networks. The segment's net income was \$127 million compared with \$168 million in the prior-year quarter. Management continues to expect full-year sales to decline 3-5% compared with 2018.

Environmental Technologies segment's net sales increased 19.9% to \$397 million, driven by sustained adoption of gasoline particulate filters and strong demand in the heavy-duty market. The segment's net income was \$79 million compared with \$60 million in the prior-year quarter. For the full year, management currently expects sales to grow by a mid-teen percentage compared with prior expectation of low-teens percentage growth.

The **Specialty Materials** segment's net sales were up 1% to \$463 million, led by healthy demand for the company's portfolio of mobile consumer electronics glass solutions. The segment's net income was \$92 million compared with \$116 million in the prior-year quarter.

Net sales from **Life Sciences** segment were up 10.8% to \$256 million. The segment's net income was \$41 million compared with \$30 million in the prior-year quarter, owing to higher sales volume and manufacturing performance optimization. Corning continues to outpace overall market growth and expects full-year sales to be up by a mid-single-digit percentage year over year.

Other Details

Cost of sales increased 7.9% year over year to \$1,917 million. Gross profit declined to \$1,017 million from \$1,232 million due to lower net sales as well as higher cost of sales. Core gross profit was \$1,156 million compared with \$1,280 million in the prior-year quarter, with respective margin of 39% and 42%.

Cash Flow & Liquidity

During the first nine months of 2019, Corning generated \$1,013 million of net cash from operating activities compared with \$1,978 million in the year-ago period. As of Sep 30, 2019, the specialty glass maker had \$971 million in cash and equivalents with \$6,225 million of long-term debt.

Going Forward

While taking actions to offset recent headwinds, Corning remains confident in its strategy and continues to advance its long-term growth initiatives. The company is extending performance under its 2020-2023 Strategy & Growth Framework. It is focusing on its portfolio and utilizing financial strength to enhance shareholder returns. The company's capabilities are becoming increasingly vital to diverse industries, and multiple opportunities support leadership across all of its market-access platforms.

Report Date	Oct 29, 2019
Sales Surprise	2.62%
EPS Surprise	10.00%
Quarterly EPS	0.44
Annual EPS (TTM)	1.88

Recent News

On Jan 7, 2020, Corning announced that it has collaborated with LG Electronics Vehicle Component Solutions to industrialize its ColdForm Technology. By working together, the companies aim to bring more economical and high-quality curved display modules to the automotive market. Corning's ColdForm Technology provides a cost-effective processing solution compared with conventional hot-formed methods while sustaining exceptional optical performance and its signature durability with AutoGrade Gorilla Glass. The company also announced that it is working with Visteon, a global leader in automotive cockpit electronics technology including digital multi-display modules, to commercialize its ColdForm Technology.

On Oct 25, 2019, Corning announced that an unnamed leading pharmaceutical manufacturer has secured green signal from Food and Drug Administration ("FDA") for its pharmaceutical packaging technology named Valor Glass. The approval for the pioneering technology reinforces Corning's commitment to provide reliable packaging standards for pharmaceutical applications essential to public health. Valor Glass is reportedly the sole glass composition to be approved by the FDA since the emergence of borosilicate glass. Leveraging Corning's in-depth knowhow and expertise in glass science for developing category-defining products, Valor Glass enhances the storage and delivery of drugs.

On Oct 21, 2019, Corning announced that it has entered into collaboration with Intel to accelerate the availability of 5G in buildings. Jointly, they will work to deliver a virtual platform for Corning's 5G network solutions powered by Intel Xeon Scalable processors and Intel FlexRAN Reference Software Architecture. The initiative will likely create a path for mobile network operators and enterprise building owners to deploy 5G solutions that meet the performance demands of their customers and enable faster adoption of 5G applications.

Valuation

Corning shares are up 1.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 16.6% and 34.6% over the past year, respectively.

The S&P 500 Index is up 25.1% in the past year.

The stock is currently trading at 2.11X trailing 12-month book value, which compares to 3.31X for the Zacks sub-industry, 5.61X for the Zacks sector and 4.54X for the S&P 500 Index.

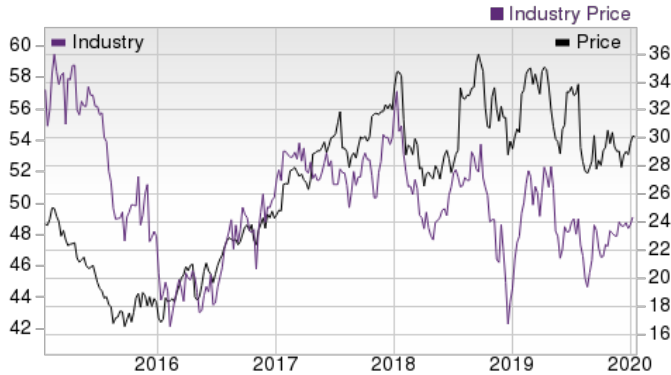
Over the past five years, the stock has traded as high as 2.51X and as low as 1.04X, with a 5-year median of 1.69X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$31 price target reflects 14.69X trailing 12-month book value.

The table below shows summary valuation data for GLW

Valuation Multiples - GLW					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	2.11	3.31	5.61	4.54
	5-Year High	2.51	3.5	5.61	4.55
	5-Year Low	1.04	1.03	3.13	2.85
	5-Year Median	1.69	2.35	4.22	3.61
P/E F12M	Current	16	22.96	23.1	19.13
	5-Year High	20.04	32.75	23.1	19.34
	5-Year Low	10.62	14.43	16.87	15.17
	5-Year Median	15.45	20.92	19.24	17.44
P/S F12M	Current	1.94	1.99	3.74	3.56
	5-Year High	3.08	2.93	3.74	3.56
	5-Year Low	1.72	1.73	2.3	2.54
	5-Year Median	2.28	2.13	3.01	3

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 255)



Top Peers

Altice USA, Inc. (ATUS)	Neutral
Harmonic Inc. (HLIT)	Neutral
Knowles Corporation (KN)	Neutral
Plantronics, Inc. (PLT)	Neutral
Spirent Communications PLC (SPMY)	Neutral
TESSCO Technologies Incorporated (TESS)	Neutral
Viavi Solutions Inc. (VIAV)	Neutral
Arista Networks, Inc. (ANET)	Underperform

Industry Comparison Industry: Communication - Components				Industry Peers		
	GLW Neutral	X Industry	S&P 500	ANET Underperform	ATUS Neutral	PLT Neutral
VGM Score	C	-	-	C	B	A
Market Cap	22.85 B	141.85 M	24.43 B	16.90 B	18.39 B	1.23 B
# of Analysts	6	4	13	11	5	4
Dividend Yield	2.69%	0.00%	1.75%	0.00%	0.00%	1.95%
Value Score	B	-	-	D	B	A
Cash/Price	0.04	0.12	0.04	0.14	0.01	0.16
EV/EBITDA	10.18	10.91	14.00	46.05	10.58	25.61
PEG Ratio	1.80	2.00	2.06	1.62	NA	NA
Price/Book (P/B)	2.11	2.89	3.39	6.36	8.80	1.86
Price/Cash Flow (P/CF)	8.02	16.22	13.69	28.02	8.11	3.37
P/E (F1)	16.28	25.16	19.00	24.65	32.71	9.55
Price/Sales (P/S)	1.95	1.62	2.68	7.18	1.89	0.65
Earnings Yield	6.19%	3.69%	5.26%	4.06%	3.05%	10.47%
Debt/Equity	0.57	0.03	0.72	0.03	11.57	2.46
Cash Flow (\$/share)	3.71	0.35	6.94	7.90	3.56	9.12
Growth Score	D	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	5.83%	6.86%	10.60%	53.22%	NA	9.61%
Proj. EPS Growth (F1/F0)	5.94%	5.66%	7.57%	-6.00%	108.22%	-37.16%
Curr. Cash Flow Growth	1.78%	2.09%	14.00%	52.91%	-15.28%	219.80%
Hist. Cash Flow Growth (3-5 yrs)	1.17%	9.29%	9.00%	65.05%	NA	24.06%
Current Ratio	1.71	2.34	1.23	5.91	0.44	1.38
Debt/Capital	32.16%	3.04%	42.99%	3.18%	92.04%	71.07%
Net Margin	10.41%	2.03%	11.15%	32.68%	3.61%	-7.13%
Return on Equity	15.19%	6.36%	17.16%	28.94%	17.04%	24.27%
Sales/Assets	0.43	0.78	0.55	0.70	0.29	0.59
Proj. Sales Growth (F1/F0)	1.99%	3.29%	4.05%	-1.38%	4.30%	4.26%
Momentum Score	C	-	-	F	C	B
Daily Price Chg	-1.16%	-0.18%	-0.27%	-0.28%	0.56%	-3.30%
1 Week Price Chg	-0.17%	2.49%	2.29%	6.95%	2.39%	2.58%
4 Week Price Chg	3.09%	2.28%	2.13%	8.11%	6.80%	14.49%
12 Week Price Chg	-1.82%	2.67%	6.99%	-10.05%	-4.75%	-23.72%
52 Week Price Chg	0.99%	-0.15%	21.25%	-0.78%	54.19%	-12.79%
20 Day Average Volume	4,271,452	52,242	1,415,064	517,231	2,904,890	423,348
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.28%	0.00%
(F1) EPS Est 4 week change	-0.27%	0.00%	0.00%	0.00%	3.26%	0.00%
(F1) EPS Est 12 week change	-3.99%	-11.42%	-0.34%	-17.44%	-4.90%	-59.08%
(Q1) EPS Est Mthly Chg	-0.93%	0.00%	0.00%	0.00%	13.89%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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