

Corning Incorporated (GLW)

\$27.96 (As of 02/21/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: D

Summary

Corning reported decent fourth-quarter 2019 results wherein the top line and the bottom line surpassed the respective Zacks Consensus Estimate. 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 for future growth. It is extending performance under its 2020-2023 Strategy & Growth Framework. However, 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.

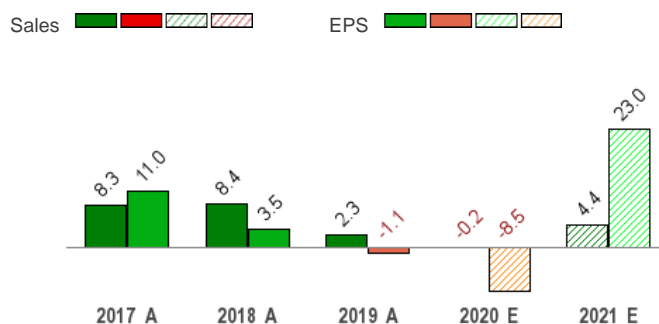
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.34 - \$26.55
20 Day Average Volume (sh)	5,688,105
Market Cap	\$21.4 B
YTD Price Change	-4.0%
Beta	1.20
Dividend / Div Yld	\$0.88 / 2.9%
Industry	Communication - Components
Zacks Industry Rank	Bottom 16% (213 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	6.4%
EPS F1 Est- 4 week change	-11.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	16.0
P/E F1	17.4
PEG F1	1.9
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,735 E	2,887 E	3,099 E	3,135 E	12,140 E
2020	2,590 E	2,801 E	3,152 E	3,094 E	11,630 E
2019	2,850 A	2,986 A	2,969 A	2,851 A	11,656 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.41 E	\$0.46 E	\$0.52 E	\$0.62 E	\$1.98 E
2020	\$0.22 E	\$0.33 E	\$0.49 E	\$0.57 E	\$1.61 E
2019	\$0.40 A	\$0.45 A	\$0.44 A	\$0.46 A	\$1.76 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 02/21/2020. The reports text is as of 02/24/2020.

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.

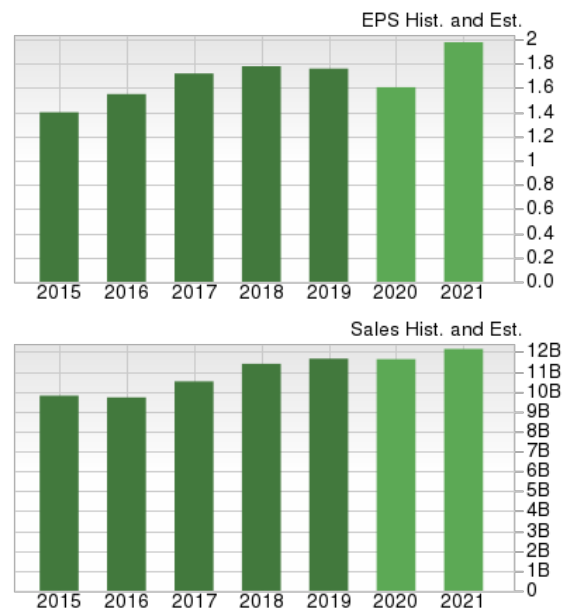
The **Display Technologies** segment (28.6% of total sales in fourth-quarter 2019) includes glass substrates that are commonly found in liquid crystal display (LCD) TVs, notebooks and flat-panel desktop PC monitors. The company's specialty, active-matrix substrates improve the brightness and sharpness of images.

The company's **Optical Communications** (32.5%) 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** (13.4%) 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 (16.3%) 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 (9.2%) 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:

▲ Through 2023, Corning expects to deliver 6-8% compound annual sales growth and 12-15% compound annual earnings per share growth while investing \$10 billion to \$12 billion in RD&E, capital, and mergers and acquisitions. It also plans to expand operating margin and ROIC, and deliver \$8 billion to \$10 billion to shareholders, including annual dividend per share increase of at least 10%. To deliver its goals, the company expects to add an incremental \$3 billion to \$4 billion in annual sales and improve profitability by the end of 2023. 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.

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

▲ 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.

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 Q4 Earnings & Revenues Top Estimates, Fall Y/Y

Corning reported decent fourth-quarter 2019 results, wherein the top line and the bottom line surpassed the respective Zacks Consensus Estimate. However, revenues and earnings decreased on a year-over-year basis.

In 2019, Corning successfully delivered on its 2016-2019 Strategy and Capital Allocation Framework goals. It returned more than \$12.5 billion to shareholders over four years, including a 67% increase in dividends per share, while investing to advance longer-term growth initiatives.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	6.37%
EPS Surprise	4.55%
Quarterly EPS	0.46
Annual EPS (TTM)	1.75

Net Income

On a GAAP basis, net income for the December quarter declined to \$32 million or 1 cent per share from \$292 million or 32 cents per share in the year-ago quarter, primarily due to lower operating income and equity in losses of affiliated companies. For 2019, net income was \$960 million or \$1.07 per share compared with \$1,066 million or \$1.13 per share in 2018.

Quarterly core net income came in at \$406 million or 46 cents per share compared with \$539 million or 59 cents per share in the prior-year quarter. The bottom line, however, beat the Zacks Consensus Estimate by 2 cents.

Revenues

Fourth-quarter GAAP net sales were down 7.2% year over year to \$2,817 million. This reflects the material impact of changing market and customer dynamics in Optical Communications and Display Technologies business segments. For 2019, GAAP net sales were up 1.9% year over year to \$11,503 million.

Quarterly core sales decreased to \$2,851 million from \$3,081 million recorded in the year-ago quarter. The top line, however, surpassed the consensus estimate of \$2,680 million.

Quarterly Segment Results

Net sales from the **Optical Communications** segment, which accounts for the lion's share of total revenues, declined 22.6% year over year to \$903 million reflecting overall market weakness due to customers' project spending decisions, primarily in carrier networks. The segment's net income was \$62 million compared with \$165 million in the prior-year quarter, impacted by lower volume and reduced production to decrease inventory.

The company expects full-year 2020 sales to decline by 5-10% as the lower level of sales experienced in the second half of 2019 continues throughout the first half of 2020. It expects first-quarter 2020 sales to be down nearly 25% year over year, implying strong project spending in first-quarter 2019. It anticipates year-over-year growth in sales and profit to resume in the second half of 2020 driven by projects for 5G, fiber-to-the home and hyperscale data center deployments.

Net sales from **Display Technologies** were \$795 million compared with \$899 million in the year-earlier quarter due to lower glass volume and prices. For 2020, the company anticipates its display glass volume to grow by a mid-single digit percentage, similar to the mid-single digit growth expected in the display glass market. It expects glass price declines to remain moderate, down mid-single digits for the full year. The segment's net income was \$180 million compared with \$240 million in the prior-year quarter.

Specialty Materials' net sales were up 13.5% to \$453 million, supported by innovations and strong demand for premium glasses. The company expects high-single digit year-over-year sales growth in 2020. The segment's net income was \$94 million compared with \$87 million in the prior-year quarter.

Environmental Technologies' net sales increased 17.2% to \$374 million, primarily driven by gasoline particulate filter (GPF) adoption. The segment's net income was \$64 million compared with \$42 million in the prior-year quarter. On a year-over-year basis, management expects sales to increase by a mid-single digit percentage in both first-quarter and full-year 2020.

Net sales from **Life Sciences** were up 7.6% to \$256 million, as the business continued to outpace market growth. The segment's net income was \$38 million compared with \$29 million in the prior-year quarter. On a year-over-year basis, sales are expected to increase by a mid-single digit percentage in both first-quarter and full-year 2020.

Other Details

Quarterly cost of sales increased 7.1% year over year to \$1,963 million. Gross profit declined to \$854 million from \$1,202 million due to lower revenues and higher cost of sales. Core gross profit was \$1,054 million compared with \$1,297 million recorded in the prior-year quarter, with respective margin of 37% and 42%.

Cash Flow & Liquidity

In 2019, Corning generated \$2,031 million of net cash from operating activities compared with \$2,919 million in 2018. As of Dec 31, 2019, the specialty glass maker had \$2,434 million in cash and equivalents with \$7,729 million of long-term debt compared with the respective tallies of \$2,355 million and \$5,994 million a year ago.

Going Forward

While sales growth in 2019 did not meet long-term targets, the company outperformed the underlying markets and expects to build momentum

throughout 2020. It remains confident in its 2020-2023 Strategy & Growth Framework goals.

Through 2023, Corning expects to deliver 6-8% compound annual sales growth and 12-15% compound annual earnings per share growth while investing \$10 billion to \$12 billion in RD&E, capital, and mergers and acquisitions. It also plans to expand operating margin and ROIC, and deliver \$8 billion to \$10 billion to shareholders, including annual dividend per share increase of at least 10%. To deliver its goals, the company expects to add an incremental \$3 billion to \$4 billion in annual sales and improve profitability by the end of 2023.

Recent News

On Feb 20, 2020, Corning announced that it is working with Qualcomm Technologies — a subsidiary of Qualcomm Incorporated — to develop 5G mmWave infrastructure systems for enterprises and public venues. The 5G systems are designed to combine Qualcomm Technologies' 5G and mmWave technology with Corning's small-cell expertise to deliver affordable and easy-to-install 5G-ready networks indoors. The relationship will enable Corning to implement new functionality around concurrent beamforming, advanced scheduling and other features necessary to support the characteristics of indoor environments.

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 the company'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 down 20.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 6.2% over the past year, but stocks in the Zacks Computer and Technology sector are up 24.8% in the same time frame.

The S&P 500 Index is up 18.6% in the past year.

The stock is currently trading at 2.01X trailing 12-month book value, which compares to 3.19X for the Zacks sub-industry, 5.63X for the Zacks sector and 4.61X 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 1.71X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$30 price target reflects 14.93X 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	2.01	3.19	5.63	4.61
	5-Year High	2.51	3.5	5.8	4.68
	5-Year Low	1.04	1.03	3.13	2.85
	5-Year Median	1.71	2.38	4.24	3.62
P/E F12M	Current	16.83	24.01	22.26	19.09
	5-Year High	20.04	32.75	22.26	19.34
	5-Year Low	10.62	14.43	16.87	15.18
	5-Year Median	15.45	21.14	19.32	17.47
P/S F12M	Current	1.82	1.92	3.7	3.51
	5-Year High	2.98	2.93	3.7	3.51
	5-Year Low	1.72	1.73	2.3	2.54
	5-Year Median	2.27	2.12	3.02	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (213 out of 255)



Top Peers

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

Industry Comparison Industry: Communication - Components				Industry Peers		
	GLW Neutral	X Industry	S&P 500	ANET Neutral	ATUS Neutral	PLT Neutral
VGM Score	C	-	-	D	C	C
Market Cap	21.35 B	162.11 M	24.03 B	17.09 B	18.29 B	586.14 M
# of Analysts	6	3.5	13	12	7	4
Dividend Yield	2.86%	0.00%	1.76%	0.00%	0.00%	4.09%
Value Score	B	-	-	D	C	A
Cash/Price	0.11	0.13	0.04	0.16	0.01	0.29
EV/EBITDA	9.85	9.85	14.08	45.75	10.64	19.70
PEG Ratio	1.87	1.76	2.08	1.37	NA	NA
Price/Book (P/B)	2.00	2.21	3.29	5.90	8.02	1.00
Price/Cash Flow (P/CF)	6.98	13.29	13.42	23.42	6.82	1.61
P/E (F1)	16.87	33.92	19.00	25.59	36.21	5.39
Price/Sales (P/S)	1.86	1.46	2.64	7.39	1.87	0.33
Earnings Yield	5.76%	2.75%	5.26%	3.91%	2.75%	18.53%
Debt/Equity	0.72	0.02	0.70	0.03	10.76	2.76
Cash Flow (\$/share)	4.01	0.37	7.03	9.54	4.27	9.12
Growth Score	C	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	5.91%	8.34%	10.84%	51.02%	NA	10.76%
Proj. EPS Growth (F1/F0)	-8.71%	-7.57%	7.09%	-10.27%	283.00%	-46.78%
Curr. Cash Flow Growth	3.88%	7.62%	6.72%	22.40%	6.97%	219.80%
Hist. Cash Flow Growth (3-5 yrs)	-1.86%	13.58%	8.25%	57.99%	NA	24.06%
Current Ratio	2.12	2.34	1.22	5.81	0.70	1.42
Debt/Capital	37.29%	2.42%	42.37%	2.79%	91.50%	73.37%
Net Margin	8.35%	1.54%	11.56%	37.20%	1.42%	-9.69%
Return on Equity	14.29%	6.38%	16.80%	27.00%	13.32%	19.10%
Sales/Assets	0.41	0.77	0.55	0.63	0.29	0.57
Proj. Sales Growth (F1/F0)	-0.22%	1.73%	3.90%	2.47%	3.95%	1.21%
Momentum Score	D	-	-	F	F	D
Daily Price Chg	-1.17%	0.00%	-0.83%	-2.11%	0.38%	2.02%
1 Week Price Chg	3.29%	0.00%	1.65%	-3.58%	3.50%	-1.93%
4 Week Price Chg	-5.38%	-0.80%	-0.37%	-2.87%	0.94%	-54.50%
12 Week Price Chg	-4.74%	1.04%	3.74%	14.24%	12.82%	-42.20%
52 Week Price Chg	-18.96%	-11.29%	14.14%	-17.39%	38.47%	-70.38%
20 Day Average Volume	5,688,105	37,118	1,992,841	827,558	7,650,815	1,596,604
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.29%	-0.35%	0.00%
(F1) EPS Est 4 week change	-11.64%	0.00%	-0.02%	-2.54%	-7.25%	-22.73%
(F1) EPS Est 12 week change	-13.31%	-5.93%	-0.17%	-2.54%	-5.93%	-22.73%
(Q1) EPS Est Mthly Chg	-38.79%	-10.15%	-0.48%	-1.20%	-8.54%	-555.00%

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	C
Momentum Score	D
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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