

Corning Incorporated (GLW)

\$33.37 (As of 08/24/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

Corning reported healthy second-quarter 2020 results, with the top and the bottom line beating the Zacks Consensus Estimate. The company operates on a strong financial foundation that positions it for long-term growth, while adjusting to near-term conditions. It holds a leadership position in each of the markets addressed by its five Market-Access Platforms. In the Specialty Materials segment, it is witnessing strong demand for premium glasses. Corning is likely to benefit from its investments in product development and manufacturing capacity. However, it is facing challenges particularly in two segments, Optical Communications and Display Technologies. Sluggish end-market economic activity due to the COVID-19 pandemic is a deterrent. For the TV market, the concentration of market share among a few large players is another concern.

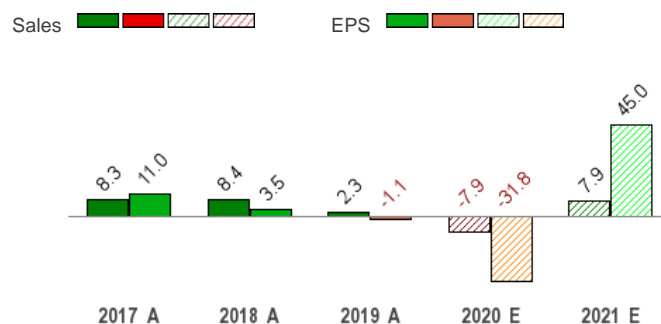
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$33.56 - \$17.44
20 Day Average Volume (sh)	4,202,243
Market Cap	\$25.4 B
YTD Price Change	14.6%
Beta	1.16
Dividend / Div Yld	\$0.88 / 2.6%
Industry	Communication - Components
Zacks Industry Rank	Top 22% (56 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	127.3%
Last Sales Surprise	8.8%
EPS F1 Est- 4 week change	14.5%
Expected Report Date	11/03/2020
Earnings ESP	6.4%
P/E TTM	24.7
P/E F1	27.8
PEG F1	15.0
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,595 E	2,812 E	3,005 E	3,077 E	11,574 E
2020	2,529 A	2,588 A	2,771 E	2,812 E	10,731 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	\$0.35 E	\$0.40 E	\$0.45 E	\$0.56 E	\$1.74 E
2020	\$0.20 A	\$0.25 A	\$0.32 E	\$0.43 E	\$1.20 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 08/24/2020. The reports text is as of 08/25/2020.

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.

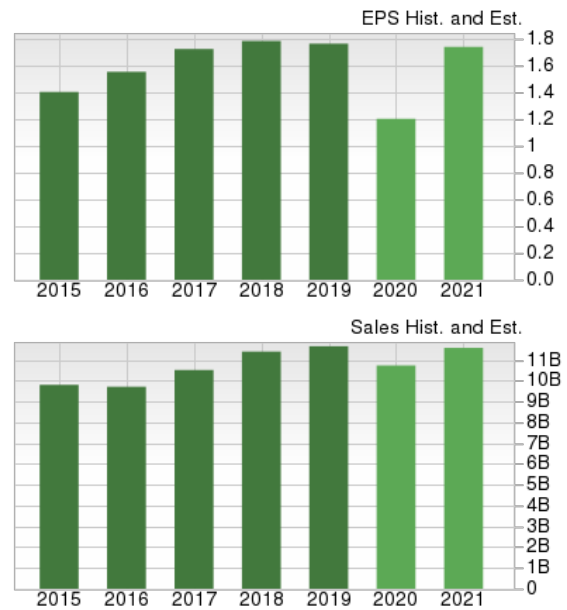
The **Display Technologies** segment (29.8% of total sales in second-quarter 2020) includes glass substrates that are commonly found in liquid crystal display (LCD) TVs, notebooks and flat-panel desktop PC monitors. The company's specialty, active-matrix substrates improve the brightness and sharpness of images.

The company's **Optical Communications** (35.1%) 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** (9%) 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 (16.5%) 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 (9.6%) 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:

▲ Corning holds a leadership position in each of the markets addressed by its five Market-Access Platforms. Through 2023, the company 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 plans to expand the 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 extended performance under its 2020-2023 Strategy & Growth Framework. It is focused on its portfolio and utilizing financial strength to enhance shareholder returns. The company's capabilities are becoming increasingly vital to diverse industries.

Corning holds a leadership position in each of the markets addressed by its five Market-Access Platforms. In the Specialty Materials segment, it is witnessing strong demand for premium glasses.

▲ 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 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 evolving 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. Corning's capability positions it to better serve the secular increase in demand for LCD panels. 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. Also, the company's Iris glass presents significant growth opportunity.

▲ In order to accelerate growth, Corning is 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. It also provides a low-cost path for Corning to scale Gorilla Glass glazing solutions worldwide.

Reasons To Sell:

- ▼ Corning faces price erosion at the rate of 1-2% per quarter in the Display Technologies business. 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. Moreover, Corning withdrew its 2020 guidance due to the economic uncertainty and disruption caused by the COVID-19 pandemic. The company is facing grave challenges particularly in two segments, Optical Communications and Display Technologies.
- ▼ End market diversification is limited at present, with the display and optical segments accounting for almost two-third of total revenues. 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 situation is a big challenge. Also, while Gorilla Glass (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 could have significant impact on Corning's results.
- ▼ 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 select smartphone screens). Current manufacturing technologies are also more expensive, 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.
- ▼ As of Jun 30, 2020, the company had \$2,158 million in cash and equivalents with \$7,797 million of long-term debt compared with the respective tallies of \$2,025 million and \$7,815 million at the end of the previous quarter. Corning currently has a debt-to-capital ratio of 0.39 compared with 0.67 of the industry. The times interest earned (TIE) ratio has declined over the past quarters to 2.1 at present relative to 1.4 of the industry. This suggests that the company is less likely to meet its debt obligations. However, it has a dividend payout rate of 62.2%. The rate has increased steadily over the past quarters, indicating that the company is rewarding its shareholders. It is to be seen whether Corning reduces its dividend in the near future due to disruptions stemming from the COVID-19 crisis.

Corning is facing grave challenges particularly in two segments, Optical Communications and Display Technologies. Sluggish end-market economic activity due to the COVID-19 pandemic is a concern.

Last Earnings Report

Corning Beats Q2 Earnings Estimates on Operational Execution

Corning reported healthy second-quarter 2020 results, with the top and the bottom line beating the respective Zacks Consensus Estimate.

In the second quarter, the company advanced multiple initiatives, including the launch of Gorilla Glass Victus and innovation with 5G industry leaders. Importantly, Corning's Valor Glass was selected by the U.S. Department of Health & Human Services and the Department of Defense to accelerate the delivery of COVID-19 vaccines.

Quarter Ending **06/2020**

Report Date	Jul 28, 2020
Sales Surprise	8.77%
EPS Surprise	127.27%
Quarterly EPS	0.25
Annual EPS (TTM)	1.35

Bottom Line

On a GAAP basis, net loss in the June-end quarter was \$71 million or loss of 13 cents per share against a net income of \$92 million or 9 cents per share in the year-ago quarter. The downside was a result of operating loss.

However, core net income came in at \$218 million or 25 cents per share compared with \$410 million or 45 cents per share in the prior-year quarter. The bottom line beat the Zacks Consensus Estimate by 14 cents, with earnings surprise of 127.3%.

Revenues

Second-quarter GAAP net sales fell 12.9% year over year to \$2,561 million. This downtick was caused by lower sales in all of its business segments, except Specialty Materials.

Quarterly core sales declined to \$2,588 million from \$2,986 million recorded in the year-ago quarter. Nevertheless, the top line surpassed the consensus estimate of \$2,386 million.

Segment Results

Net sales in **Optical Communications** declined 18.6% year over year to \$887 million. This was in line with the passive optical market decline. However, sales were up 12.1% sequentially as major carriers increased spending on cable deployments and access network projects. The segment's net income was \$81 million compared with \$158 million in the prior-year quarter.

Net sales in **Display Technologies** were \$753 million compared with \$848 million in the prior-year quarter, caused by lower glass volume and price. The segment's net income was \$152 million compared with \$213 million in the year-ago quarter.

Specialty Materials' net sales were up 13% year over year to \$417 million. The upside was driven by strong demand for premium glasses, growth in IT products due to work- and study-from-home trends as well as demand for products in the semiconductor equipment space. The segment's net income was \$90 million compared with \$67 million in the prior-year quarter, courtesy of higher sales volume.

Environmental Technologies' net sales fell 38.3% year over year to \$226 million. This was a result of vehicle manufacturers' suspended production in key markets that began in the first quarter continued for much of the second quarter. The segment's profitability was impacted by the lower sales and production volumes.

Net sales in **Life Sciences** were down 6.5% year over year to \$243 million. This was because research lab closures in EMEA and North America related to the COVID-19 pandemic more than offset strong demand for test kit consumables and other products to address the crisis. The segment's net income declined to \$31 million from \$40 million reported in the prior-year quarter due to lower sales.

Other Details

Quarterly cost of sales fell 3.7% year over year to \$1,805 million. Gross profit declined to \$756 million from \$1,065 million due to lower revenues. Core gross profit was \$863 million compared with \$1,198 million recorded in the prior-year quarter, with a respective margin of 33% and 40%. Operating loss was \$103 million against an operating income of \$374 million in the prior-year quarter.

Cash Flow & Liquidity

In the first half of 2020, Corning generated \$798 million of net cash from operating activities compared with \$124 million in the prior-year period. As of Jun 30, the company had \$2,158 million in cash and cash equivalents with \$7,797 million of long-term debt.

Going Forward

Corning holds a leadership position in each of the markets addressed by its five Market-Access Platforms. The company operates on a strong financial foundation, which positions it for long-term growth while adjusting to near-term conditions. Across its businesses, demand improved in the second quarter. The materials science innovator anticipates sales and profit growth in the third quarter.

Recent News

On Jul 23, 2020, Corning announced the introduction of its latest breakthrough in glass technology, Gorilla Glass Victus. The glass significantly improves drop and scratch performance for the first time in the Gorilla Glass family, addressing consumer demand for improved durability. Gorilla Glass has been designed into at least 8 billion devices by more than 45 major brands. Samsung will be the first customer to adopt Gorilla Glass Victus.

On Jul 15, Corning announced that it has joined forces with EnerSys to accelerate 5G deployment by streamlining the delivery of fiber and electrical power to small-cell wireless sites. Headquartered in Reading, PA, EnerSys is a global leader in stored energy solutions for industrial applications. Corning expects 5G to be a major driver of long-term growth in its Optical Communications business. The move will leverage Corning's fiber, cable and connectivity know-how together with EnerSys' technology leadership in remote powering solutions.

On Jun 9, Corning announced that it has secured government funding to augment the domestic manufacturing capacity of glass vials for vaccines. In addition to corporate social responsibilities for contributing to the overall cause of vaccination and treatment of COVID-19 patients, the federal funds are likely to help the company strengthen its position as a leading packaging provider in the healthcare segment. Corning will receive \$204 million from the Biomedical Advanced Research and Development Authority (BARDA), which forms part of the Office of the Assistant Secretary for Preparedness and Response at the U.S. Department of Health and Human Services. The BARDA funding is obtained under the White House's Operation Warp Speed Initiative that aims to develop, manufacture and distribute an effective coronavirus vaccine. The investment will facilitate Corning to scale up its manufacturing capabilities at three U.S. facilities — Big Flats, NY; Durham, NC; and Vineland, NJ — to bridge the demand-supply gap for glass containers as pharma companies accelerate clinical trials to develop therapeutic and preventative options for the respiratory illness.

On May 28, Corning announced that it has executed a long-term purchase and supply agreement for its Valor Glass with Pfizer. Corning's Valor Glass packaging solution has been designed to enable superior chemical durability and resist breakage, damage and particulate contamination. Also, Valor Glass has a low-friction exterior coating that enhances manufacturing productivity by increasing throughput and quality assurance for pharmaceutical manufacturers. The multiyear agreement provides for the supply of Valor Glass vials to a portion of currently marketed Pfizer drug products, pending regulatory approval.

On Apr 8, Corning announced that it is reorganizing its operating structure after extensive analysis and leadership review. Designed to unlock opportunities for valuable synergies, the new structure aligns executive management and business teams around five Market-Access Platforms (MAPs) — Mobile Consumer Electronics, Optical Communications, Automotive, Life Sciences and Display.

Valuation

Corning shares are up 22.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.1% over the past year, and stocks in the Zacks Computer and Technology sector are up 41.9% in the same period.

The S&P 500 Index is up 19.5% in the past year.

The stock is currently trading at 2.59X trailing 12-month book value, which compares to 3.48X for the Zacks sub-industry, 5.63X for the Zacks sector and 4.59X for the S&P 500 Index.

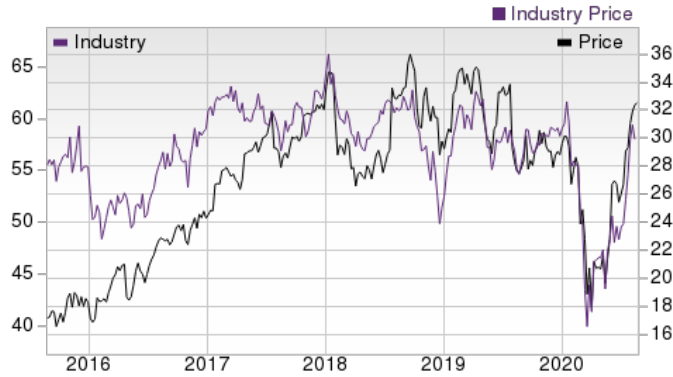
Over the past five years, the stock has traded as high as 2.59X and as low as 1.07X, with a 5-year median of 1.82X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 13.51X trailing 12-month book value.

The table below shows summary valuation data for GLW

Valuation Multiples - GLW					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	2.59	3.48	5.63	4.59
	5-Year High	2.59	3.68	5.84	4.59
	5-Year Low	1.07	1.04	3.16	2.83
	5-Year Median	1.82	2.46	4.44	3.76
P/E F12M	Current	21.56	24.27	26.8	22.83
	5-Year High	22.31	32.75	26.8	22.83
	5-Year Low	10.62	14.43	16.72	15.25
	5-Year Median	15.72	21.7	19.6	17.58
P/S F12M	Current	2.25	1.95	4.17	3.7
	5-Year High	2.88	2.93	4.17	3.7
	5-Year Low	1.18	1.52	2.32	2.53
	5-Year Median	2.21	2.04	3.14	3.05

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Acacia Communications, Inc. (ACIA)	Outperform	1
Plantronics, Inc. (PLT)	Outperform	1
Arista Networks, Inc. (ANET)	Neutral	3
Altice USA, Inc. (ATUS)	Neutral	3
Knowles Corporation (KN)	Neutral	3
Spirent Communications PLC (SPMY)	Neutral	3
TESSCO Technologies Incorporated (TESS)	Neutral	3
Viavi Solutions Inc. (VIAV)	Neutral	3

Industry Comparison Industry: Communication - Components				Industry Peers		
	GLW	X Industry	S&P 500	ANET	ATUS	PLT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	B	-	-	D	A	B
Market Cap	25.42 B	194.71 M	23.81 B	16.64 B	15.41 B	657.20 M
# of Analysts	5	3	14	11	6	4
Dividend Yield	2.64%	0.00%	1.64%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	B	C
Cash/Price	0.09	0.16	0.07	0.16	0.13	0.40
EV/EBITDA	11.35	9.86	13.37	15.68	9.29	21.22
PEG Ratio	14.80	2.07	3.02	2.74	NA	NA
Price/Book (P/B)	2.59	2.80	3.17	5.48	13.31	NA
Price/Cash Flow (P/CF)	8.33	17.29	12.77	22.93	6.25	0.66
P/E (F1)	27.53	27.81	21.72	25.08	39.38	9.11
Price/Sales (P/S)	2.38	1.48	2.48	7.66	1.57	0.41
Earnings Yield	3.60%	2.85%	4.44%	3.99%	2.55%	10.97%
Debt/Equity	0.79	0.05	0.76	0.02	21.24	-10.84
Cash Flow (\$/share)	4.01	0.18	6.93	9.54	4.27	24.52
Growth Score	C	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	4.02%	8.24%	10.41%	44.83%	NA	3.15%
Proj. EPS Growth (F1/F0)	-31.82%	-13.31%	-5.05%	-10.31%	222.22%	-43.45%
Curr. Cash Flow Growth	3.88%	-6.95%	5.20%	22.40%	6.97%	171.96%
Hist. Cash Flow Growth (3-5 yrs)	-1.86%	14.62%	8.50%	57.99%	NA	50.11%
Current Ratio	2.27	2.27	1.33	5.59	0.69	1.36
Debt/Capital	39.12%	4.83%	44.50%	2.39%	95.50%	73.37%
Net Margin	1.89%	-4.30%	10.13%	34.67%	1.91%	-52.48%
Return on Equity	11.59%	1.83%	14.66%	22.29%	14.30%	17.30%
Sales/Assets	0.38	0.72	0.51	0.53	0.29	0.61
Proj. Sales Growth (F1/F0)	-7.94%	0.00%	-1.45%	-2.48%	1.82%	-12.30%
Momentum Score	B	-	-	D	C	D
Daily Price Chg	2.77%	0.00%	1.32%	-1.68%	0.49%	-0.86%
1 Week Price Chg	0.46%	-0.35%	-1.45%	4.66%	-2.57%	-17.66%
4 Week Price Chg	8.95%	0.00%	3.38%	-10.98%	8.73%	-17.54%
12 Week Price Chg	46.75%	6.98%	7.69%	-6.74%	3.78%	26.51%
52 Week Price Chg	22.55%	0.10%	3.85%	-1.96%	-4.31%	-44.67%
20 Day Average Volume	4,202,243	99,449	1,873,293	893,874	6,339,838	802,454
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	14.50%	13.36%	1.00%	2.10%	18.71%	80.00%
(F1) EPS Est 12 week change	16.50%	15.03%	3.40%	2.10%	20.83%	-36.15%
(Q1) EPS Est Mthly Chg	12.98%	11.18%	0.00%	2.78%	18.64%	250.00%

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	C
Momentum Score	B
VGM Score	B

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.

Disclosures

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