

## Corning Inc

(GLW)

Price (10/13/2017) \$29.74  
Fair Value \$38.68  
52-Week Range 22.23-32.17  
Market Cap (US\$ m) \$27,200

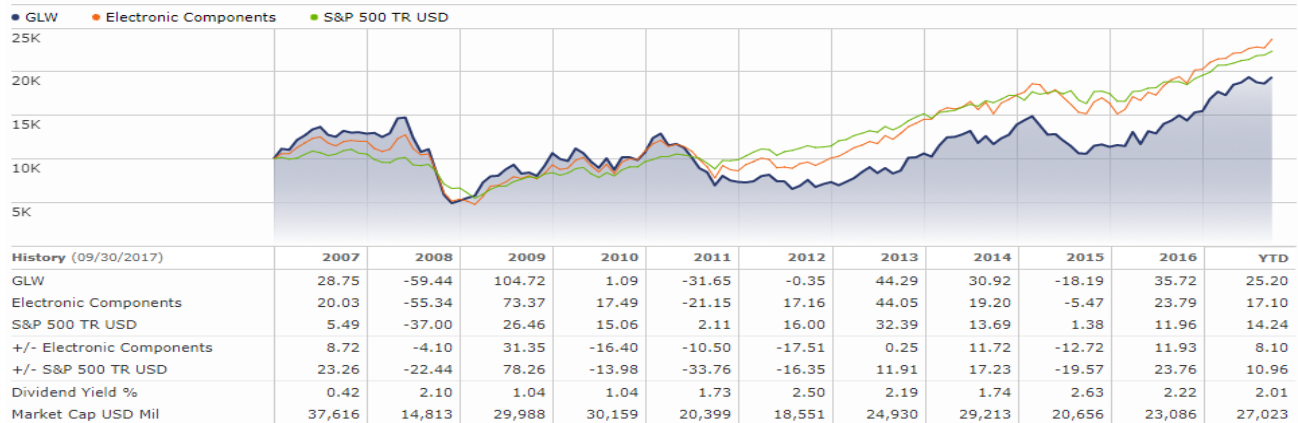
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### Company Overview

First established in 1851 as a glass business, Corning Incorporated is a leading innovator in material science. The company focuses in five main segments, Display Technologies, Optical Communication, Environmental Technologies, Specialty Material and Life Science. The two segments that look promising for Corning is the Optical Communication and Specialty Material Segments. Optical Communication will be the biggest growth driver going forward, with the demand for optic fiber increasing due to the need for faster communication networks.

Year	2015	2016	2017 TTM	2018E	2019E
EPS	1.02	3.53	2.37		
P/E	18.65	7.61	13.44	17.0	
Revenue	\$9,111	\$9,390	\$9,885	\$10,341	
P/B	1.25	1.44	1.7		
ROE	%6.94	%22.42	%13.83		
ROA	%4.23	%12.74	%7.81		

### Growth of 10,000 GLW



## Company Information

As mention before in the “Company Overview” Corning divides their business into 5 specialty segments. Those 5 segments are Display Technologies, Optical Communication, Environmental Technologies, Specialty Material and Life Science. While this company is headquartered in the United States, most of the company’s business is dealt overseas with the Asia-Pacific region being their largest market.

Their Display Technologies segment manufactures glass substrates for Liquid Crystal Displays (“LCD”) which are found in products such as television and computer monitors. Corning is the leader in market share in this area with around 40% of the total market share. Their fusion process gives them a competitive edge over their competitors with its scalability and cost-effectiveness. At the end of 2013, this segment included Samsung Corning Precision Materials and Samsung Display. They have entered a series of financial and strategic agreements to strengthen their technology and product collaboration. They continue to invest, innovate, and consolidate to improve their market penetration into the LCD market. This part of the business accounts for 34% of Corning’s sales in 2016.

With the migration from copper to optical-based systems for telecommunication networks, Corning has taken the opportunity to be a market leader in the area. This business is separated into two groups – the enterprise network and the carrier network. The carrier network focuses on optical-based communication infrastructure for high-bandwidth activities such data, video, and voice communication. The main market for this group is in North America where demand for fiber-to-the-home market continues to grow significantly with predicted double-digit net sales growth for years to come. A solid amount of capital is being invested in this segment leading to 3500 patents worldwide and 1600 in the United States. This will be one of the more competitive markets that Corning will compete in, but should maintain a solid position due to its cost advantages in intellectual property, fiber process, and large-scale manufacturing experience. This part of the business accounts for 32% of Corning’s sales in 2016.

The last segment of focus is the Specialty Materials Segment. This area provides a wide variety of products based on unique customer needs. This covers both consumer and business need making this a very flexible segment. One of the up in coming products in this segment for Corning is Gorilla Glass. This is a specialize cover glass that functions as a cover for many mobile electronics such as phones, tablets, and notebook PCs. The company projects double-digit growth for net sales in the coming years due to constant innovation which has led to 920 patents worldwide. This part of the business accounts for 12% of Corning’s sales in 2016.

These three segments together make up 78% of the company’s total sales. Any significant growth in these areas can lead to a large gain on the bottom line, especially in display and optical technologies. With a forecasted double-digit growth in these three areas, revenue should continue its trend of significant growth.

## Valuation

Corning financially has done very well with revenue growth with 6% average in the past 3-year, and another 6% average in the past 5-years. When comparing this to their peers in the industry their revenue growth is significantly greater than the industry 0.6% average. On top of their revenue growth, they have been able to maintain their strong gross margin which is hovering above 40% (TTM) while also increasing their operating margin by 21.4% (TTM) from last year. The company also a return on equity of 13.83% which is very attractive. Their return on asset percentage is also attractive at 7.81% showing managements effectiveness. They have been investing more in property, plant, and equipment than their depreciation & amortization on the (TTM) which shows. Corning has a current ratio of 3.29, which shows it can easily pay off any short-term obligation.

In 2015 Corning enacted a capital allocation framework, where they will invest \$10 billion to sustain market leadership and distribute \$12.5 billion back to shareholder through shares repurchase and an annual dividend increase of at least 10%. So far, they exceed their original estimates on their future operating cash flow and since then have raised the total amount of the money to distribute to shareholders by \$2.5 billion. This year they have been beating expectation and it wouldn't be surprising if they continue to increase their quarterly dividend percentage and increase the amount of cash return back to shareholders.

On the reinvestment side of this strategy, their main goal is to increase their portfolio of products. When looking at the balance sheet their Intangible assets have significant increase since 2014, almost doubling. They are focusing on enhancing their three core technologies in glass and ceramics science and optical physics. Through this, they will continue to increase the barrier to entry for their competitors and return maintain or increase market share. With the optical communication field being very competitive, this can set Corning as a market leader in this very large growing market. With Corning investing more than three times more than their competitor, it can be expected they will continue their dominance. They have been steadily spending over \$750 million in research in development, making the cost of competing with Corning a large and risky investment. Also, part of the strategy also involves acquisition to help expand their portfolio. In 2015 they acquired Gerresheimer's Pharmaceutical glass tubing and Samsung Electronics' Fiber optic business. These acquisitions focus on strengthening their position in the Optical and Life Science segments which have been a sturdy growth driver in the past.

Outside of their core business segments, Corning has found many opportunities for increasing the bottom line. Gorilla glass, a product from their specialty material segment has continued to help increased net sales. In their Environmental technologies segment, opportunity for growth continues due to increasing emission regulations. A Foreign market such as in Europe in China can lead to increase net sales in this segment due to changing environmental regulation in their respected governments. Also, any increase in heavy-duty and light-duty diesel trucks will increase the sales of Corning's gas particulate filters.

## Risk

While the company is very diversified when it comes to their revenue sources, they are not, of course, immune to any economic downturns. The Display Technologies segment is heavily tied to consumer discretionary market which is vulnerable to a recession. A recession would lead to a decrease in sales of LCD TVs which would lower the demand for their liquid crystal displays. Since this segment accounts for 34% of their total net sales, any setbacks can significantly affect revenue.

While the company is investing a great deal of capital in R&D and expansion, it might not result in a return on investment. The main area of concern would be the Optical Technologies segment, where there are many competitors and innovation breakthrough are short.

Corning is an international company who has a significant investment and business in Asia. Any political turmoil especially what is currently happening in North Korea can significantly affect their business. The Display Technologies segment is involved heavily in South Korea, with manufacturing residing in the country. Any conflict could cause a halt in production leading to decrease net sales.

## Management

Wendell P. Weeks has been the CEO of Corning for 12.5 years. He has been with the company for over 30 years, where he held a variety of roles. He also serves on the board of directors for Amazon and Merck & Co. He led the return to profitability for the company during the telecom industry crash through restructuring. The average tenure for the management team is 4.6 year while the average tenure for the board of directors is 10 years

## Valuation Modeling

To find the fair value of Corning I used the PE ratio. The current PE ratio is 13.5 compared to the industry average of 17.6. The price to book ratio for Corning is 1.7 compared to the industry average of 2.7. Both these ratios are below the industry average which shows that it is currently under value. It is important to note that many of Corning competitors are traded over-the-counter so they weren't part of the ratio analysis. Using the PE ratio we come to a fair value of \$38.68 which gives us a margin of safety of 30%.