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Corning Incorporated (GLW) CEO Wendell Weeks on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.44 beats by $0.04 | Revenue of $2.97B (-2.50% Y/Y) beats by $94.8M

Earning Call Audio

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Corning Incorporated (NYSE:GLW) Q3 2019 Earnings Conference Call October 29, 2019 8:30 AM ET

Company Participants

Ann Nicholson - Vice President, Investor Relations

Wendell Weeks - Chairman & Chief Executive Officer

Tony Tripeny - Executive Vice President & Chief Financial Officer

Jeff Evenson - Executive Vice President & Chief Strategy Officer

Conference Call Participants

Peter Zdebski - Barclays

Brian Yun - Deutsche Bank

Meta Marshall - Morgan Stanley

Wamsi Mohan - Bank of America

Steven Fox - Cross Research

Samik Chatterjee - JPMorgan

George Notter - Jefferies

Tejas Venkatesh - UBS

Operator

Welcome to the Corning Incorporated Quarter Three 2019 Earnings Call. It is my pleasure to turn the call over to Ann Nicholson, Vice President of Investor Relations.

Ann Nicholson

Thank you, Shawn. And good morning, everyone. And welcome to Corning's third quarter 2019 earnings call. With me today are Wendell Weeks, Chairman and Chief Executive Officer; Tony Tripeny, Executive Vice President and Chief Financial Officer; and Jeff Evenson, Executive Vice President and Chief Strategy Officer.

I'd like to remind you that today's remarks contain forward-looking statements that fall within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements involve risks, uncertainties and other factors that could cause actual results to differ materially. These factors are detailed in the company's financial reports.

You should also note that we will be discussing our consolidated results using core performance measures, unless we specifically indicate our comments related to GAAP data. Our core performance measures are non-GAAP measures used by management to analyze the business. A reconciliation of core results to the comparable GAAP value can be found in the Investor Relations section of our website at corning.com.

You may also access core results on our website with downloadable financials in the Interactive Analyst Center. Supporting slides are being shown live on our webcast, we encourage you to follow along. They're also available on our website for downloading.

Now, I'll turn the call over to Wendell.

Wendell Weeks

Thank you, Ann. And good morning, everyone. This morning, we reported results in line with the early update we released in September. Sales were $3 billion. Net income was $397 million and EPS was $0.44. While challenges unfolded throughout the quarter, our results and expectations are consistent with our September update.

We are not immune to the types of challenges facing us and many other companies this earning season. But I think we are more resilient than at any other time in our history and we are taking actions on the things within our control.

We're adjusting our cost and capacity, while at the same time maintaining focus on key growth initiatives. We continue to invest in technology and innovate with industry leaders across our markets as we pursue the rich set of opportunities outlined in our 2020 to 2023 Strategy & Growth Framework.

I'd like to share a few other important notes on the quarter. The favorable pricing environment in the display market continued, as third quarter glass prices in Display Technologies were consistent with the second quarter.

Environmental Technologies grew sales 20% year-over-year as the company's gasoline particulate filter solution propelled sales well above the underlying auto industry growth rate.

Specialty Materials and Life Sciences also grew faster than their underlying markets as adoption of Corning's new technology continued.

Of course, we're living in uncertain times. We see it in the headlines about trade disputes, political unrest and China's economy. Amid this uncertainty, you may be wondering why we continue to be confident that we will grow over the next four years. Part of our confidence stems from the relevance of our technology leadership and the tangible customer commitments that support our build projects.

We're also confident, because we're not just counting on everybody buying more stuff. Instead, we're putting more Corning into the products that people already buy. This provides a mechanism for us to grow even when spending in the end market category is down.

There is no clearer example than in automotive. In the third quarter, we grew sales in Environmental 20%, in a market that is expected to be down 3% this year. Our growth is driven by increasing sales of our proprietary gasoline particulate filters, which traps fine particulate and which track fine particulates and help reduce harmful engine emissions. From a financial perspective, GPS increased Corning's opportunity per car by $30.

These types of content place create a path for growth even when underlying unit demand is flat or declining, as our environmental results are demonstrating. We expect to double our sales to the auto industry by 2023. By adding AutoGrade grade interior glass solutions to GPS, we increased our opportunity per car by another $25 to about $70 in total. That's up almost a factor of five versus just two years ago and additional products will further increase our opportunity.

So we're not counting on more cars being sold, we're driving more Corning into each car. In short, a big part of Corning's story over the next four years is a content story. We see it playing out in Mobile, Consumer Electronics, Display, Optical Communications and Life Sciences Vessels, as well as Automotive. Because we're capturing significant technology substitutions, we have sales drivers beyond just end market growth.

Let's look at how we advanced our strategy in each market access platform in the third quarter. In Optical Communications, we continue to be impacted by capital spending reductions in both the carrier and enterprise markets. Despite this near term weakness, we are confident in our ability to outperform the passive optical market over time.

As you've seen with fiber-to-the-home and corporate data centers, Corning is the unquestioned technology and market leader. We delivered on those opportunities and we are well positioned for the next waves of growth as 5G and hyperscale data centers drive the optical signal closure to the edge.

Our near term goals in Optical Communications are to align cost with demand and to continue advancing our product portfolio through co-innovation. We made progress in both areas during the quarter.

Verizon and Corning are co-innovating and are manufacturing a technology center in Hickory, North Carolina. Engineers from both companies are using Verizon’s 5G ultra-wideband service and Corning's optical fiber and cable innovations to explore the capabilities of 5G in a manufacturing environment.

Our work will demonstrate 5G's ability to revolutionize the way, goods and services are produced, as the technology enhances capabilities like machine learning, augmented reality and virtual reality.

Corning is also co-innovating on the 5G with Intel. We’re making future 5G in building networks scalable and easy to install. Our innovations will allow for faster adoption of 5G features as they are standardized.

Shifting to hyperscale. Corning and Facebook are demonstrating how to meet ever increasing bandwidth demand through Space Division Multiplexing or SDM. Internet content providers like Google and Facebook are making SDM their primary strategy for increasing capacity between their data centers across the globe. In short, this technology boosts the number of fibers in submarine cable and multiplies Corning's opportunity per cable by up to four times.

In Mobile Consumer Electronics, we’re well on our way to doubling sales despite a maturing smartphone market. Apple announced that it is awarding $250 million from its Advanced Manufacturing Fund to Corning. This builds on the $200 million we received from Apple's fund in 2017. Both investments support Corning's state-of-the-art glass processes equipment and materials integral to the delivery of next-generation consumer devices.

In the third quarter we continued to lead the industry as our innovations were adopted on more and more devices. Apple announced phones with the toughest glass ever used on a smartphone and we saw the launch of multiple laptops, convertibles and tablets with Gorilla Glass. Corning continues to win in new device categories with nine wearable launches in quarter three, four featuring Gorilla Glass DX and DX+.

Gorilla Glass DX delivers improved optics while DX+ improved optics while DX+ also provides scratch resistant approaching the finest watches. Both maintained the superior drop performance of Gorilla Glass.

Moving to the automotive market. As I already noted, our goal is to double sales by 2023. In the third quarter, we continued ramping production capacity in Hefei, China to meet committed demand for both our Auto Glass Solutions and our gasoline particulate filter products. We're making great progress, building a $500 million plus GPF business, and we expect over $200 million in 2019 sales.

Our Auto Glass Solutions business continues to build its order book. At next month's Guangzhou Auto Show, the industry's first shaped dual-display module with a single covered glass part will be on display in the GAC Aion LX, an electric vehicle. The module's cover glass is produced using Corning's 3D ColdForm Technology.

In Life Sciences vessels, we have some very exciting news. The FDA has approved Corning Valor Glass for use as a primary packaging for an already marketed drug produced by a leading pharmaceutical company.

This approval makes Valor Glass, the first and only fundamentally new glass composition to be approved by the FDA since the advent of borosilicate glass more than 100 years ago.

This approval also marks a major milestone in our strategy to build a long-term multi-billion dollar franchise and the success provides another step on our journey to create a new higher standard in pharmaceutical glass packaging.

Overall, we continue making good progress with our development partners and interest and engagement with other major pharmaceutical manufacturers continues to grow as well.

In Display, our goal is to stabilize returns. In the near-term, retail demand continues to track to our expectations with TV viewing area growing year-to-date through August. Set makers are purchasing panels more conservatively; apparently due to a macro uncertainty, which drove panel maker utilization reductions in the third quarter. This caused the panel makers to purchase less glass in the third quarter.

We expect this supply chain adjustment to be temporary and for panel maker utilization to increase in the first half of 2020. We remain confident in our long-term strategy, because our growth driver is large-sized TVs, which are most efficiently produced by our customers on Gen 10.5 fabs. Our leadership in Gen 10.5 glass supports medium and longer term volume growth, despite temporary supply chain adjustments.

And we have great news about pricing. We now expect full year glass price declines of a low single-digit percentage compared with our previous guidance of a low to mid-single digit percentage.

You can see that across our markets, OUR strategic investments are well-aligned with major trends and our relationships with industry-leading customers are creating new opportunities. Of course, we understand our current environment and we'll continue to navigate thoughtfully through any headwinds that may arise.

Now let me turn the call over to Tony for more details.

Tony Tripeny

Thank you, Wendell and good morning. In the third quarter, Corning took steps to offset recent market headwinds. In Display Technologies we aligned capacity to demand.

In Optical Communication, we idled capacity and reduced capital spending to reflect our customers near-term infrastructure investment plans. And across the company, we reduced operating expenses to align with near-term sales projections.

While we experienced these headwinds and took steps to offset them, it is important to note that even in these challenging markets we grew sales year-over-year and faster than the underlying markets in Environmental Technologies, Life Sciences and Specialty Materials.

It is also important to note that while we were taking these steps, we continue to advance our long-term growth initiatives, investing in technology and innovating with customers to capture future commercial opportunities.

Now before I get into the details of our performance and results, I want to note that the largest difference between our GAAP and core results come from charges related to capacity realignment in Display Technologies and Optical Communications.

Other differences between our GAAP and core results come from a non-cash, mark-to-market adjustment for our currency hedge contracts and a change in our tax reserves.

With respect to mark-to-market adjustments, GAAP accounting requires earnings translation hedge contracts and foreign debts settling in future periods to be marked-to-market and recorded a current value at the end of each quarter even though those contracts will not be settled in the current quarter. For us, this impacted GAAP earnings in the quarter and quarter three by $72 million.

Now to be clear, this mark-to-market accounting has no impact on our cash flow. Our currency hedges protect us economically from foreign rate fluctuations and provide higher certainty for our earnings and cash flow, our ability to invest for growth in our future shareholder distributions.

Our non-GAAP or core results provided additional transparency into operations by using a constant currency rate aligned with the economics of our underlying transactions.

We're very pleased with our hedging program and the economic certainty it provides. We received $1.7 billion in cash under our hedge contracts since their inception more than five years ago.

That brings me to our results and outlook. For the third quarter, sales were $3 billion. Net income was $397 million and EPS was $0.44. Operating cash flow in the quarter was $864 million. As we said in July, we built working capital in the second half. We also said, we expected to reduce working capital in the second half.

Sorry, as I said in July, we built working capital in the first half. We also said we expected to reduce working capital in the second half and we did reduce working capital in Q3 and expect to further reduce it in Q4.

Now let's look at the detailed segment results and outlook. In Display Technologies, third quarter sales were $793 million and net income was $185 million. Net income was down year-over-year, primarily driven by the lower volume. Third quarter volume was down high single-digit sequentially and prices were consistent with the second quarter, both as expected.

Now there is no change in our outlook in terms of volume. Retail demand is tracking to our expectations with TV viewing area growing year-to-date through August and preliminary data for September is also encouraging. The industry, however, remains conservative on inventory and panel maker utilization is expected to stay at current levels in the fourth quarter.

Consequently, we expect our fourth quarter glass volume to be down mid-single digits sequentially. That said, we expect this current supply chain adjustment to be temporary. We expect panel maker utilization to increase in the first half of 2020 over the second half of 2019.

Glass pricing in the fourth quarter continues to be positive. We expect prices to decline only slightly sequentially, which is equivalent to down low-single-digits year-over-year.

For the full year, our volume outlook remains consistent with our September 16th update. We expect our volume to be up slightly year-over-year, which is higher than the glass market driven by the ramp of our Gen 10.5 facility in Hefei.

In terms of price, our outlook is more favorable than our previous guidance. We are revising our full year price guidance to low single-digit declines from prior expectations of low- to mid-single digit declines and we expect that the favorable pricing environment will continue into 2020.

Now three factors drive our view. First, we expect glass supply to continue to be balanced to demand or even tight. For Corning, we are aligning our capacity with demand. We are also pacing our Gen 10.5 capital projects to align with panel maker's schedules.

Second, our competitors continue to face profitability challenges at current pricing levels. And third, display glass manufacturing requires periodic investments in existing capacity to maintain operations. Glass prices must support acceptable returns on those investments.

In summary, we are experiencing a temporary supply chain correction. However, retail TV viewing area is growing and expected to create more demand for display glass, especially at Gen 10.5. As the leader in Gen 10.5, we expect to capture most of the growth and we expect the favorable pricing environment to continue.

Results in Optical Communications were consistent with our September update. In the third quarter sales were $1 billion and net income was $127 million. Our third quarter sales and net income were down versus last year. These results reflect overall market weakness including the spending decisions of several major carrier customers.

For the full year, we continue to expect sales to decline in the 3% to 5% range as previously guided. We have taken actions to align our cost to our current sales reality including idling capacity, pacing capital projects and reducing operating expenses to align with near term sales projections.

At the same time, we continue to innovate to improve network speed, cost and capacity and to secure long-term agreements with major industry players, sustaining our confidence and our ability to outperform and deliver long-term growth.

In Environmental Technologies, third quarter sales were $397 million up 20% year-over-year and ahead of expectations driven by continued adoption of gasoline particulate filters and strong demand in the heavy duty diesel market. Net income grew 32%, driven by strong operational performance and successful ramping of additional GPS capacity in China.

We are well on our way to building a greater than $500 million gasoline particulate filters business. With a market-leading product, we continue to earn a majority position globally as automakers award platforms to make Euro 6 and China 6 regulations. Sales are accelerating as Euro 6 regulations are in full effect and automakers are preparing for China 6 implementation in 2020.

Our Hefei plant start-up is ahead of schedule and has been key to delivering incremental sales and net income. As a result we continue to expect GPF sales to exceed $200 million in 2019 and to grow robustly thereafter.

Our strong performance is expected to extend into the fourth quarter with sales growth up by a low teen percentage year-over-year.

Given a strong second half we now expect full year sales to be up by a mid-teen percentage compared to our previous guidance of a low teen percentage. In Specialty Materials third quarter sales were $463 million and net income was $92 million. We were pleased with strong sales from our new innovations as Wendell noted.

However, our overall sales growth was muted because our Gorilla Glass shipments in China were lower due to the current trade environment and Advanced Optic sales were down on semiconductor market weakness.

From a profitability standpoint some of our newer innovations start initially at lower margins and could not offset the loss of higher margin Gorilla Glass and AO products. We anticipate these issues will improve over time as the trade situation is resolved the semiconductor market returns to growth and we reduce cost on newer innovations as we come up the learning curve.

For the fourth quarter, we expect sales to be approximately flat year-over-year. We expect full year sales growth again despite a smartphone market that is down year-over-year. This growth is driven by adoption of new innovations, including premium cover glass innovative parts products including DX Plus for wearables.

Life Sciences third quarter sales were $256 million up 11% year-over-year. Net income was $41 million, up 37%. For both the fourth quarter and the full year, we expect sales to be at mid-single digits Year-over-year.

In summary, our third quarter performance was impacted by changes in the display and optical markets and we took actions to lower our cost to align with those lower sales. We now expect the full year price decline in display to improve to a low single-digit percentage.

We grew sales in Environmental, Specialty Materials, and Life Sciences year-over-year and faster than their underlying markets and we delivered strategic milestones with Apple's investment and FDA approval of Valor Glass.

Now, let’s turn to the consolidated P&L. Gross margin in the third quarter was 39% as expected. Last quarter we talked about the Gen 10.5 facility and I'd like to give you an update. We continue to make progress coming up the learning curve and improving our low cost in our Gen 10.5 plant which should lead to further improvement in 2020.

We are excited about our Gen 10.5 projects because they enable us to capture the majority of the market growth and will growth and will ultimately provide the step-change in glass manufacturing. For the rest of our P&L, there has been no change in our guidance.

Gross margin is expected to be approximately 39% in the back half. SG&A and RD&E are expected to be just under 14% and approximately 8.5% of sales respectively for the year. And capital expenditures are expected to be approximately $2 billion.

Moving to additional outlook details, we expect other income, other expense to be approximately $260 for the full year. Full year gross equity earnings are expected to be approximately $230 million, predominantly from Hemlock Semiconductor and we expect our effective tax rate for 2019 to be approximately 20%.

In closing, we acted quickly in the third quarter to address changing market conditions. We met our revised targets. We continued our actions to advance our long-term growth plans and we remain confident in our strategy.

We are operating on the strong foundation that we built over the last four years and we're making progress in key areas as evidenced by our ongoing customer announcements. This makes us confident in our ability to achieve the objectives we laid out in our 2020 to2023 Strategy & Growth Framework.

With that, let's move to Q&A. Ann?

Ann Nicholson

Thanks, Tony. Okay Sean, we're ready for our first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is going to come from the line of Asiya Merchant [ph] Pleases go ahead.

Unidentified Analyst

Hi, good morning, everyone and congratulations on a well-executed quarter given the macro environment. I just have a quick - two quick questions for both Wendell and Tony. The multiple growth drivers that you talk about, obviously they are coming into play as we talk about Valor and auto interior glass, et cetera. When should we expect Corning to demonstrate like growth margin leverage from these initiatives in your P&L?

And then secondly, just given the macro environment as well and the expect - the revised expectations for 2019 as you announced in September, I mean, should we expect revenue growth for 2020 to sort of come towards your strategic outlook, which was around 6% to 8% revenue growth CAGR? Thank you.

Wendell Weeks

So I think from our gross margins standpoint I mean, clearly, what's happened to us in gross margin is really all about volume. We have lower volume in the back half than what we were expected and it's going to take greater volume for us to recover that gross margin. But once that volume occurs then our gross margin is going to increase.

And in terms of these innovations, specifically it depends on when those innovations come, but when they do come, they will come with incremental gross margin favorable gross margin for us.

Tony Tripeny

We could all be on the - it's a really good question and it will be the interaction of - we invest usually with very strong customer commitment and we need to put it in place ahead of the time when the demand comes on stream, and in almost all of our cases we're building bespoke proprietary equipment. So as those plants fill and as we work our way through those learning curves, we'll see that leverage.

We'll add as we go through the year, next year, put more information for folks that are trying to model all those to try to be helpful on how do we think about these new innovations as they become a bigger and bigger part of our revenue growth story over time. It's a fair request.

Wendell Weeks

And then in terms of 2020 obviously, we're not giving guidance for that. But the reason we chose compounded annual growth rates in our Strategy & Growth Framework is that we knew there would be times of economic headwinds like we're experiencing now when we not likely to have that level of sales growth and there will be times when there's either really great adoption of our technology or economic tailwinds where that will be greater. So you really should think about those objectives just as we intended them to be which is over a four-year period.

Ann Nicholson

Thanks, Asiya. Next question.

Operator

Thank you. Our next question is going to come from the line of Peter Zdebski from Barclays. Please go ahead.

Peter Zdebski

Hello. This is Peter on for Tim Long. I wanted to ask about Environmental and the outperformance there. Obviously, GPF [ph] has been doing very well. How should we think about going into 2020 though, the more conventional parts of that business, the heavy duty diesel for example? And then I have a follow-up.

Wendell Weeks

We’re not giving guidance on 2020 on today’s call. But clearly there have been macroeconomic headwinds that have impacted both the automotive market and appeared to beginning to impact the heavy-duty diesel market in North America.

Of course at the same time in China there are new regulations that are going effect on heavy-duty diesel. So you have to factor that in an addition plus the adoption on the GPF continues to grow into 2020 because that’s actually when the regulations become in effect in China.

Peter Zdebski

That's helpful. Thanks. And then just to touch on Optical. It looks like the performance was a little bit better than the low teens that you had guided for. Is that – are you seeing any kind of nascent strength in the service spend there or you factored that you would point to?

Wendell Weeks

Let me address both optical and then also use it as a bit of an example of the more general forecasting approach. So as you noted in your earlier question, we tend to grow much faster than our underlying markets as customers adopt more of our innovations in their in their products. And this has been true in the Opt Co, Life Sciences, Gorilla and Auto over the last four years where our growth rate has been significantly higher than that of the underlying markets we serve. And that's a good thing.

But it also means that from a forecasting perspective, we need to be right about both the underlying market and the rate of adoption of specific technologies at specific customers in a specific time frame. This can be difficult.

During quarter three, we heard from some key customers that they plan to reduce their spending on our products below their existing run rates and our expectations. We in turn lowered our expectations across those industries and we initiated actions to adjust our cost and capacity accordingly.

Now as we finish the quarter, some customers exceed that assumed take rate and we performed better. That being said, our approach for the remainder of the year is the same and we're reaffirming our guidance at this time. Is that helpful to you, sir?

Peter Zdebski

That's helpful. Thank you.

Operator

Thank you. Our next question will come from the line of Brian Yun from Deutsche Bank. Please go ahead.

Brian Yun

Thanks for taking my question. I wanted to ask about the Automotive Gorilla Glass opportunity. I saw a recent product announcement kind of highlighting Gorilla Glass Windshield as an option on the new Ford F-150. It sounds like there's going to be multiple new product announcements sort of inline with commercial trucks.

So, my question is, are you seeing an uptick in the exterior glass interest. And if you could just update us on the broader interior automotive glass opportunity, that would be helpful.

Wendell Weeks

Thank you for the question. So the answer is yes. We're continuing to see a momentum building on XT. However, at the same time, the very strong positive upside has been demanding for our new technologies in interior and we've been shifting more of our resources because the key to innovation is, you have to go really towards those positive surprises, towards interior.

And we continue to build both our order book and momentum there. We were especially excited about being able to demonstrate our proprietary ColdForm Technology in a commercial offering that I talked about for GAC and we expect to have more momentum there as well. So right now, we're beginning to scale our plant that we just put in place in Hefei, China and we're really excited about our opportunities.

That being said, much like you point out on exterior. The way the car industry works is we will get a nomination well before the sales actually begin. And s sometimes, when you're watching the press, there can be some time delay and delayed gratification in seeing what the customers says, or when we say we're building our order book, and the time period when that revenue shows up. Did I get to the core of your question?

Brian Yun

Yeah. Absolutely, thank you.

Operator

Thank you. Our next question it will come from the line of James Faucette from Morgan Stanley. Please go ahead.

Meta Marshall

This is Meta Marshall for James Faucette. James, are you on? Just a question on - it's going to expand upon - you mentioned changing timing to the pacing of additional glass facilities. I just wanted to know if there is anything formal around kind of some of the change in timing there. And then second on the impact of Valor Glass. Just any timing or additional milestones we should expect there?

Wendell Weeks

So I think in terms of the pacing of the Gen 10.5 facilities you really need to go to each of the customers on what they are planning to do, but the important thing is we're lockstep with them, and we're adjusting dollar pacing and consistent with what they're doing.

Tony Tripeny

And on Valor I would expect us to continue to build momentum we are. The nature of that industry is one where confidentiality agreements abound. And so when we announce it is largely dependent on how on our customers want to handle that topic. They're interesting position because what we have on offer here is a superior packing, from both the patient safety and productivity standpoint, yet at the same time, for a long period of time this new ascendant technology will live side by side with the older technology.

So what our customers have to work through as they manage through their change process in the customers, they don't want to be in a position of sort of which customers get the new technology, which can't be old and how all that works out.

So everyone is better served until such time as we build up enough momentum that we build up enough capacity in a thoughtful way, we're working with regulators and our customers that this can be talked about in a more easy fashion.

Meta Marshall

Thanks.

Operator

Thank you. We have a question from the line of Rod Hall from Goldman Sachs. Please go ahead.

Unidentified Analyst

Hi. This is RK on behalf of Rod. Thanks for taking my question. I wanted to ask on display. I know you're not giving guidance for 2020, but given this slowness in the second half, can we expect glass volume growth better than the mid-single digit growth you talked about in the past?

And should we think about this recent draw down in inventory as a reset to appropriate levels or our panel markers and that maker's being overly cautious if retail demand continues to hold?

Tony Tripeny

So you’re right. We're not going to give 2020 guidance, but I think the way that you should think about what happens is what’s really happening from a retail demand standpoint, because at the end of the day that’s what's going to drive this market. It's going to drive what's going to drive panel maker utilizations and it's not only just a number of TV sets that are being sold, but the size of those TV sets, and as both Wendell and I said, I mean, we haven't really changed our perspective on the market for the rest of the year for the full year. And in fact, things are coming a little bit better than what we originally expected. But equally maybe even more important than that is what's happening with TV sizes. 65-inch TVs are growing greater than 40% on a year-over-year basis and 75-inch TVs are growing greater than 60% on a year-over-year basis.

So we believe in the fundamental drivers of what's happening in this business and what's really happening right now is caution with the panel makers in the supply chain with the set makers in the supply chain because of all the trade uncertainties and we think that gets itself work through the rest of this year and in the first half of next year volume's going to be better than the back half of this year.

Wendell Weeks

Correct. I think the core of your question is really good in that if you haven’t changed your long-term end market view, as Tony just went through, then as you take a look at supply chain corrections where you grow in some periods, the supply chain grows faster than that end market and some period slower.

So really, you're sort of asking exactly when does that correct and when does that growth rate accelerate. And I think in Tony's answer, you see that we do expect in the first half of 2020 right that to be above that in the back half of 2019.

That being said, sort of the core of what we do is not to try to call sort of specific quarters and specific time periods around supply chain. It is a worthy exercise, but we tend to be focused more on that long-term market and to get our capacity in the appropriate spot to be able to serve our customers.

Unidentified Analyst

That's super helpful. Thanks for that. Could you also comment on visibility in the Optical segment? Any color on thing you expect spending to resume?

Wendell Weeks

Yes. In Optical, here's one of those that's a good example of having grown so much faster than the underlying market. As we entered this year, we would see a number of signals that the end market would be going down. And then - but at the same time, we saw adoption of our new technologies at some specific customers more than offsetting them sort of underlying heartbeat.

And I think this probably led us to being able to believe as long as that continued, we could ride out this temporary dip in the end market for Optical without having much impact on us. That turned out not to be true as some specific customers who are adopting this strong tech changed some of their timing and capital plans.

That being said, though it’s very hard to recall the exact timing by quarter or even by year, we remain more confident than ever that the fundamental drivers for the demand of our technology will become increasingly ascended. IG is going to take the wireless network for being a fiber poor network to a very fiber rich network. Our innovations in hyperscale are going to push that optical signal closer to the edge and use more of our product.

So over the long-term, we see a set of demand that is higher for glass, because densification of networks is occurring that will lead to glassification. And if we do our job well, we will capture our unfair share of that.

Unidentified Analyst

Great. Thank you.

Operator

Thank you. Our next question will come from the line of Wamsi Mohan from Bank of America. Please go ahead.

Wamsi Mohan

Yes. Thank you. I want to ask a clarification on Display. In your press release you talked about aligning capacity in display to demand. When you - are you primarily just shifting the timing of maintenance of class tanks here.

And if that is the case, wouldn't that automatically mean that as you sort of complete the maintenance and bring those tanks up, you should start to see margins start to recover perhaps as quickly as late this year or early next year?

Wendell Weeks

So let’s separate the two sort of questions. First is what we’re going to do around our capacity matching to demand both in macro and regionally. You are right that our tanks are modular and we always have available to us, that ability to manage the timing of when we bring up tanks. We have other tools that we frame to bear on managing our capacity as well to better match to particular customer demand in particular regions and we will do that.

Overlaying all that though is just sort of the simple driver which is right now the gross margin pressures primarily being driven by volume, right? And as volume comes back as we look to the supply, we should see gross margins also come back and those are interrelated between capacity and demand right, because they just help you on how much leverage you have on that particular number.

But the core of the piece here is I think if you come to a point of view on when you expect the supply chain correction to be done and when we expect volume to come back you will have a good idea of the timing of the improvement in gross margins sir.

Wamsi Mohan

Wendell, just a follow-up on that. Would you say that are there any dynamics now I mean, you've just spoken about this in the past about how Chinese New Year for instance has changed the seasonality. Anything that you see that changes the seasonality this year going from 4Q to 1Q if we just exclude the supply chain-related disruption?

Wendell Weeks

Not really, Wamsi. I mean, I think that from an overall standpoint there is a little bit of standpoint as you go throughout the year. But to build for Chinese New Year's a lot of that building has to happen in the fourth quarter. And so I think it's really – there is nothing really different I think this year with respect to kind of the end retail market. What is different is - what's happening in the supply chain and obviously going through a temporary supply chain correction in the back half of this year.

Wamsi Mohan

Okay. Thanks, Tony.

Operator

Thank you. We have a question line of Steven Fox of Cross Research. Please go ahead.

Steven Fox

Thanks. Good morning. Two questions, please. First, Tony on the gross margins. So if I understand correctly the difference between originally doing 40% and then doing 39% in the quarter is volumes, but then when we think ahead to Q4 can you just sort of explain the puts and takes to the flat 39%? I think you still had some quarter-over-quarter volume pressures. Pricing is a little bit better on LCD and then the impact of capacity shifts. And then I have a follow-up.

Tony Tripeny

Steve, you got it exactly. I mean I think it's those things and - we think that the back half gross margin is going to be around 39% and I think you hit on the things that are trade-offs in that calculation.

Steven Fox

And next is in net neutral or help - or how does that play out?

Tony Tripeny

It always - it's essentially a net neutral. I mean, essentially what you are looking at is since we are taking actions and each of the businesses have their own dynamics as it comes to the sales numbers, but fundamentally we think we're in the same place where we were on September 16 which is the back half of 39%.

Steven Fox

Okay. Thanks. And then Wendell just on the Optical. You just made a comment that it's hard to call the timing by quarter even by year. Understanding, obviously, that the construct for more demand is there.

Is there any kind of green shoots or anything you would point to that would give us confidence that maybe you've seen the worst of the cuts for optical and that we could sort of build our models over what we're seeing in the second half or is it still that early and too hard to call? Thanks.

Wendell Weeks

That's an excellent question, Mr. Fox. I think, we're still early. I'd like to work our way through a little more time here and work through some of the changes that we're making to improve our ability to get better acuity on these items. Certainly, we see a lot of green shoots. If green shoots are taking in the form of incredibly strong interest in what it is, we can do in 5G and what it is we can do with hyperscale.

That being said, we also see this as an industry different particular customer, sort of, working their way through their broad strategy their broad financial management challenges because at the core here is an investment strategy that are pretty significant decisions for them. So I’d like to get a little more time before we update you on that point of view if you don't mind, sir.

Steven Fox

No. Appreciate the all the color. Thank you.

Operator

Thank you. We have a question from the line of Samik Chatterjee from JPMorgan. Please go ahead.

Samik Chatterjee

Hi. Thanks for taking the question. I wanted to ask relative to the 2020-2023 plan. And you mentioned you're feeling comfortable still about the 6% to 8% revenue growth target that you issued at that Investor Day. Just wanted to ask more relative to the investment plans outlined during -- in the plan of like $10 to $12 billion of investments in growth as well as the $8 billion to $10 billion of returns.

Should we now think of those being a bit more back-end loaded in terms of that time horizon? Or are you still feeling very comfortable in terms of the CapEx trajectory, for example of $6 billion to $8 billion or should we think of them being towards the lower end of that horizon of that time - of that guidance.

And then, if I can just follow-up on the cash flow as well. Can we get some visibility into the cash flow for the fourth quarter given that looks like for the first nine months you’re lower on the operating cash flow by $900 million from last year, and then some offsets here on the lower CapEx? But how should we think about kind of free cash flow outlook for the year?

Tony Tripeny

Okay. In terms of the cash flow, let me start with that question. As I talked about in the July call, our operating cash flow is seasonal. I mean it is lower in the first half of the year and a stronger in the back half of the year.

And what we talked about was the working capital build that we did in the first half of the year and the expectations that both operating cash flow would improve in the third quarter and inventory would come down or working capital would come down.

And that's exactly what happened and that caused us to be positive from a free cash flow standpoint in the third quarter. And we expect that improvement to continue into the fourth quarter as we have further improvements in working capital. So, I think from a full year standpoint, we expect to be positive from a free cash flow standpoint.

In terms of the investments and the way to think about that over a period of time, of course, a lot of those investments is, Jeff described on IR day, really depend on the customer commitments and the timing from a customer commitment standpoint.

But that being said, we're not giving guidance on 2020, but I think given the environment we're in today, capital spending probably isn't going to be as high in 2020. But as you go out over time, it really is driven a lot by what happens from a customer commitment standpoint.

Samik Chatterjee

Thank you.

Operator

Thank you. We have a question from the line of George Notter from Jefferies. Please go ahead.

George Notter

Hi. Thanks, guys. I wanted to ask about the FDA approval with Valor Glass. I guess I'm curious about when you think that might start to generate revenues for you. And then, certainly,

I'm curious about how many other drugs or manufacturers you guys have in the pipeline marching towards FDA approval at this point. So, any color there would be great. Thanks.

Wendell Weeks

So as exciting as this approval is and as necessary. We are still in the beginning of an industry that moves very thoughtfully for very good reason. So, I would say we should keep our expectations low and for the near term not having any significant impact on us. It is very confirmatory for our long-term revenue opportunities and our ability to really bring life-changing innovation to market.

But from a financial modeling standpoint, I will continue to caution and say exercise greater strength at such time as we believe it becomes important to start modelling this end, we will articulate that.

Ann Nicholson

Shawn, we have time for one more question.

Operator

Thank you. Then our final question is going to come from the line of Tejas Venkatesh from UBS. Please go ahead.

Tejas Venkatesh

Thank you. This is Tejas Venkatesh. Can you talk to the hyperscale spending trends you're seeing? The enterprise portion of Optical, which includes hyperscale, appears to decelerate after growing 30% plus in the first half. So just curious, what you're seeing in the second half? Thank you.

Wendell Weeks

I think we're seeing consistent with some of those external, the various external benchmarks that you're looking at. Our particular dynamics all depend on what you compare to, right.

So if I look, delta to last year, right, we can have a different sort of answer than the total market different because we grew so much faster than the total market, right. So, we can have dynamics that in the near-term, at any given quarter can be a little different than that market.

But over the sweep of time, I think the right way to think about it is, those signals in the external market that you're looking at, they impact us too. And over the sweep of time, we should do better than the overall markets, just to the ascendancy of our technology. Does that answer your question, sir?

Tejas Venkatesh

It does. Thank you so much, Wendell.

Ann Nicholson

Thank you, Tejas and thank you everybody for joining us today. Before we close, I wanted to let you know that, we'll be at the Barclays Global Technology Media and Telecommunications Conference, on December 12 and the Citi 2020 Global Technology and Media and Telecommunications West Coast Conference - West Conference on January 8.

Finally a replay of today's call will be available on our site, starting later this morning. Once again, thank you for joining us. And Shawn, that concludes our call. Please disconnect all lines.

Operator

Thank you. That does conclude the conference for today. Thank you for your participation. You may now disconnect.