



# Corning Inc. (GLW)

Updated July 26<sup>th</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	10.0%	<b>Market Cap:</b>	\$28 B
<b>Fair Value Price:</b>	\$33	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	08/30/23
<b>% Fair Value:</b>	103%	<b>5 Year Valuation Multiple Estimate:</b>	-0.7%	<b>Dividend Payment Date<sup>1</sup>:</b>	09/28/23
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$48	<b>Years Of Dividend Growth:</b>	12
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## Overview & Current Events

Tracing its roots back to 1851, Corning has proven to be an innovative business that has stood the test of time. Edison's light bulb was encased in Corning glass in 1879, the company was producing cathode ray tubes for televisions in the 1940's, made significant improvements in optical fiber in the 1970's, and has been the Corning Gorilla Glass of choice for your smart phone since 2007. Today the \$28 billion company operates in five segments: Display Technologies, Optical Communications, Specialty Materials, Environmental Technologies, and Life Sciences.

On July 25<sup>th</sup>, 2023, Corning reported second quarter 2023 results for the period ending June 30<sup>th</sup>, 2023. For the quarter, Corning reported \$3.5 billion in core sales, down 7% from one year ago. Optical Communications – the largest revenue segment – saw sales decrease by 19% year-over-year. Display Technologies and Environmental Technologies revenues rose 28% and 6%, respectively. Meanwhile, Life Sciences, Specialty Materials, and Hemlock and Emerging Growth Businesses declined -26%, -13%, and -10%, respectively.

Core net income equaled \$388 million or \$0.45 per share, compared to \$350 million or \$0.41 per share in Q2 2022.

The company saw its core operating margin rise 200 basis points sequentially to 17.5%, as a result of pricing and productivity-improvement actions.

Corning also provided a financial outlook for Q3 2023, anticipating \$3.5 billion in core sales and \$0.41 in core EPS.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.34	\$1.73	\$1.00	\$0.98	\$1.48	\$1.78	\$1.76	\$1.39	\$2.07	\$2.09	<b>\$1.88</b>	<b>\$2.76</b>
<b>DPS</b>	\$0.39	\$0.40	\$0.48	\$0.54	\$0.62	\$0.72	\$0.80	\$0.88	\$0.96	\$1.08	<b>\$1.12</b>	<b>\$1.44</b>
<b>Shares<sup>2</sup></b>	1,399	1,271	1,130	926	858	788	776	761	875	857	<b>850</b>	<b>805</b>

Note that the historical earnings-per-share prior to 2018 use GAAP numbers. The company also reports "core" non-GAAP EPS, which can vary significantly from GAAP earnings. This is material to how you view the business. In 2020 core earnings equaled \$1.39 – a number that we feel better reflects the underlying earnings power of the business – whereas reported earnings equaled \$0.54. Moving forward we will continue to focus on core earnings power.

Corning has had an unspectacular earnings growth past but has better growth prospects ahead, 2020 results amid the pandemic notwithstanding. The company enjoys a leading position in fiber-optic cables, LCDs, screens, and specialty glass. Smart phone glass will continue to be an important part of the business but increased optical fiber usage from areas like the internet of things, 5G mobile technology and autonomous driving could be large demand drivers down the line. We are forecasting 8% annual earnings growth over the intermediate term.

We also expect share repurchases to drive bottom line results over the intermediate term.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.9	11.8	20.3	21.6	19.7	17.0	17.6	20.1	19.7	16.7	<b>18.1</b>	<b>17.5</b>
Avg. Yld.	2.7%	2.6%	1.8%	2.6%	2.1%	2.4%	2.6%	3.2%	2.4%	2.8%	<b>3.3%</b>	<b>3.0%</b>

Given the company's lumpy earnings-per-share past, it has been difficult to peg a "fair" valuation on the security. Over the past decade shares have traded with an average P/E ratio of about 17.5, varying greatly from 11 to 22 times earnings. We believe 17.5 times earnings is more or less fair for the security, given the reasonable growth prospects of the industry coupled with uncertainty as to whether or not Corning can capture its "fair share" of that growth. At the current valuation of 18.1 times estimated earnings, a small valuation tailwind is implied.

Meanwhile, the dividend ought to aid results as the company continues to focus on increasing this payout.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

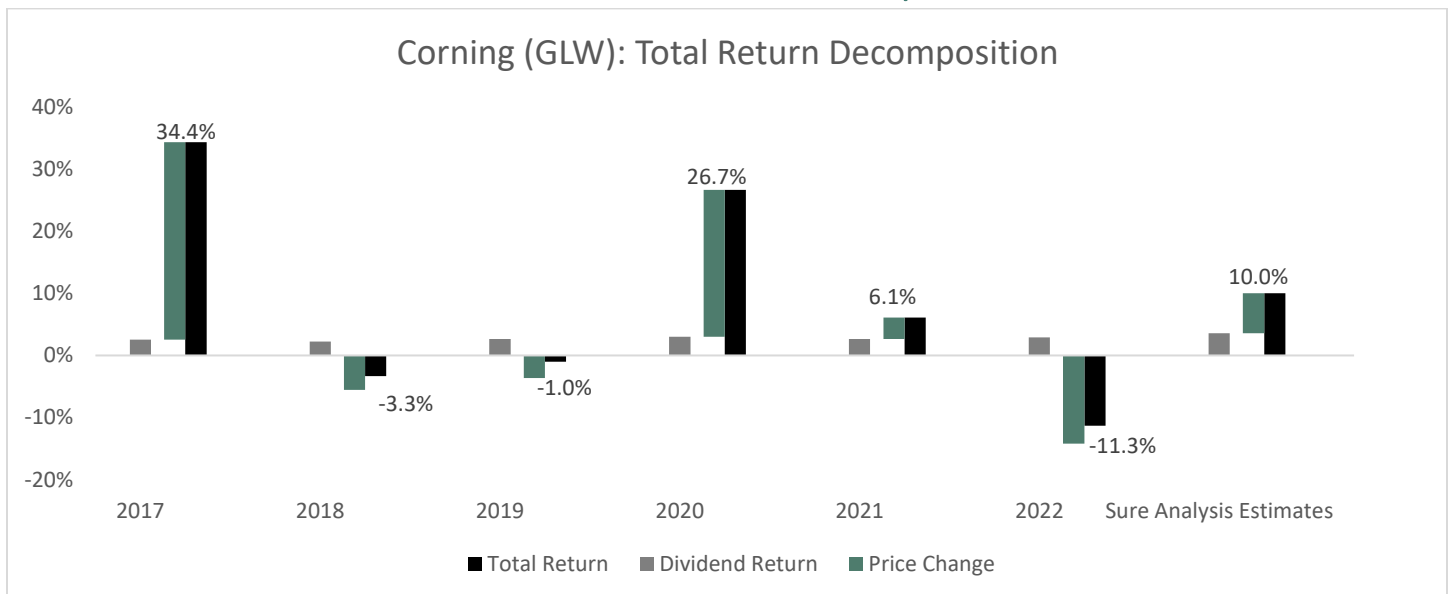
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	23%	48%	55%	42%	40%	45%	63%	46%	52%	<b>60%</b>	<b>52%</b>

Corning enjoys competitive advantages in its businesses due to its patented manufacturing process, cost advantages, elevated R&D spending, and leading relationships with the best technology firms on the planet. This does not guarantee success; the company's products are still components of powerful brands and not powerful brands themselves, but the switching costs for Corning's customers are high.

## Final Thoughts & Recommendation

Shares are up 4% year-to-date. Corning enjoys an enviable position as a top supplier in a variety of growing technology industries. However, in the last decade or so, the business has put together only an average history – and this was during a time when smart phone adoption was booming. It is not yet clear that Corning will boom right alongside the next wave to come. We forecast 10.0% annual total return potential stemming from 8.0% growth and the 3.3% starting yield, offset by a potential valuation headwind. We are upgrading GLW from hold to buy on stronger total return prospects.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	7819	9715	9111	9390	10116	11290	11503	11300	14082	14189
<b>Gross Profit</b>	3324	4052	3653	3763	4020	4461	4,035	3531	5063	4506
<b>Gross Margin</b>	42.5%	41.7%	40.1%	40.1%	39.7%	39.5%	35.1%	31.2%	36.0%	31.8%
<b>SG&amp;A Exp.</b>	1126	1202	1508	1462	1473	1799	1,585	1747	1827	1898
<b>D&amp;A Exp.</b>	1002	1200	1184	1195	1158	1293	1,503	1520	1481	1452
<b>Operating Profit</b>	1457	2002	1322	1501	1608	1575	1,306	509	2112	1438
<b>Operating Margin</b>	18.6%	20.6%	14.5%	16.0%	15.9%	14.0%	11.4%	4.5%	15.0%	10.1%
<b>Net Profit</b>	1961	2472	1339	3695	-497	1066	960	512	1906	1316
<b>Net Margin</b>	25.1%	25.4%	14.7%	39.4%	-4.9%	9.4%	8.3%	4.5%	13.5%	9.3%
<b>Free Cash Flow</b>	1768	3633	1579	1407	200	609	44	803	1775	1011
<b>Income Tax</b>	512	1096	147	-3	2154	437	256	111	491	411

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	28478	30063	28527	27899	27494	27505	28898	30780	30154	29442
<b>Cash &amp; Equivalents</b>	4704	5309	4500	5291	4317	2355	2434	2672	2148	1671
<b>Accounts Receivable</b>	1253	1501	1372	1481	1807	1940	1836	2133	2004	1664
<b>Inventories</b>	1270	1322	1385	1471	1712	2037	2320	2438	2481	2904
<b>Goodwill &amp; Int. Ass.</b>	1542	1647	2086	2373	2563	3228	3120	3768	3569	3423
<b>Total Liabilities</b>	7267	8411	9664	9939	11724	13619	15901	17330	17609	17167
<b>Accounts Payable</b>	771	997	934	1079	1439	1456	1587	1174	1612	1804
<b>Long-Term Debt</b>	3293	3263	4462	3902	5128	5998	7740	7799	6861	6911
<b>Shareholder's Equity</b>	21162	19279	16488	15593	13398	11492	10607	10960	12333	12008
<b>D/E Ratio</b>	0.16	0.15	0.24	0.22	0.33	0.43	0.60	0.59	0.56	0.58

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	6.8%	8.4%	4.6%	13.1%	-1.8%	3.9%	3.4%	1.7%	6.3%	4.4%
<b>Return on Equity</b>	9.2%	12.2%	7.5%	23.0%	-3.4%	8.6%	8.7%	4.8%	16.4%	10.8%
<b>ROIC</b>	7.9%	10.0%	5.6%	16.4%	-2.3%	5.2%	4.7%	2.5%	9.4%	6.8%
<b>Shares Out.</b>	1,399	1,271	1,130	926	858	788	776	772	844	857
<b>Revenue/Share</b>	3.99	6.81	6.78	8.21	11.30	12.00	12.80	14.64	16.68	16.56
<b>FCF/Share</b>	0.90	2.55	1.18	1.23	0.22	0.65	0.05	1.04	2.10	1.18

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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