Corning (GLW)

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- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

Corning – business, brand and moat

- Specialty glass and ceramics
  - Manufactured bulb for Edison's lamp
  - Manufactured CRTs for TVs
  - LCD glass
  - Optical fiber
  - Diesel exhaust filters
  - Laboratory equipment
- Business segments
  - 45% sales Display Technologies, 13% Environmental Technologies, 30% Telecommunications, 5% Life Sciences, Specialty Materials
- R&D based: 10% on R&D
  - Patents

Corning – business, brand and moat issues

- Complicated structure
  - 50% owner of Samsung Corning Precision Glass LCD, 50% owner of Dow Corning silicone products, 50% owner of PCC architectural and industrial glass
- Slowdown in LCD, optical telecom, automotive markets
- Resource intensive: energy + raw materials
- Lawsuits and bankruptcies:
  - Dow Corning breast implant exposure
  - PCC asbestos exposure
  - Possibly accounted for

Is it a good business?

- Losses 2001-2004: NOT Graham stock!
- ROE:
  - 25.90 21.50 4.00 -101 -27.80 -4.10 -56.70 10.40 25.60 22.60 22.90 22.8
- Margins
  - 12 36 37 47
  - Not reliable due to complex structure and lawsuit payments/adjustments
  - >1/2 of earnings from affiliates
- Strong balance sheet
  - Zero debt (~3B cash – ~1.5B debt)
  - ~13B net tangible assets, ~0 net current assets
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash) – same as ROE

Is it a good business?

- $625M in stock buyback 9 mo 2008
- 2% dividend yield - low
- Cash flow neutral after buybacks/dividends 2008 9 months

Is business cheap?

- ROE 20%
- Earnings in 10 years = ROE*Equity*$(1+\text{ROE})^9$ = $13.8B
- Market cap = $13.8B x P/E (15) = $207B
- Rate of return = ~27% after tax (calculations omitted)
- If we assume 15% ROE: 19%

Is business cheap?

- Discounted cash flow
  - Current earnings of 3B
  - 5% growth for 5 years, leveling after that
  - 10% discount -> $37B valuation
  - 20% discount -> $18B valuation

- Owner's yield = earnings / (market cap + debt - cash)
- 3B / (15B + 1.5B – 3B) = 23%