



Corning Incorporated | Citi - 2024 Global TMT Conference | September 5, 2024

Asiya Merchant:

Start. My name is Asiya Merchant. I cover the technology, hardware and tech supply chain here at Citi. Welcome to day two of our global TMT conference. Very thrilled to have Ed Schlesinger. He's the CFO of Corning. We also have members of the investor relations team here in the audience. Of course, this session is for Citi clients only. I'm going to be turning it over. I have a set of prepared questions that I'll be going through and of course from the audience we'll be asking. If you have any questions, please do raise your hand. We'll bring the mic over to you. Let me turn it over to Ed.

Ed Schlesinger:

Yeah, actually I just want to make a safe harbor statement before we start. I will be making some forward-looking statements today. You should review our filings on our website to see potential reasons that actual results may differ material from, materially from the perspectives that I offer. So great to be here today and look forward to chatting with you all.

Asiya Merchant:

All right, Ed, I have a bunch of prepared questions. Let's start with that. Corning's exposed to a variety of end markets here. Now we're sitting in calendar third quarter. Maybe as you think about how the market has evolved versus your expectations, let's say a couple of quarters back, and as you think about it over the next six to nine months, what are you looking for?

Ed Schlesinger:

Yeah, maybe I will go back to the end of last year. We were in sort of what I would call a cyclical downturn. Essentially in all of our markets, we called the bottom of that downturn in macro for Corning as Q1. We said that would be our lowest quarter, and the cyclical downturn was both end market driven in terms of consumer demand as well as supply chain driven inventory built up in various different parts of the supply chain. So as we went into the year, we expected Q1 to be the low and then we expected markets to inflect up from that point, we didn't necessarily lay that out at the beginning of the year, but I would say there are markets that have recovered faster than we might've thought. Optical communications is a good example. We saw a significant amount of growth in the second quarter, primarily driven by gen AI, and that actually was ahead of what we would've expected as we started the year, and I think that'll continue over the next six to nine months, 12 months.

We have pretty good visibility there. In display, we expected panel maker utilization to inflect up. We were definitely at a very low point in the fourth quarter and first quarter, and that happened as well in the second quarter. Pretty strong second quarter, and that continues into the third quarter as well. And we've embedded all that in our third quarter guidance. I would say in our other markets it's mixed. For example, heavy duty diesel in our automotive market. We're actually now seeing a downturn in that part of the market. The good news is we're growing despite that and we've again reflected that in our guidance. That maybe became a little more of an impact earlier than we might've expected as we started the year. And the good news is again, that'll be a cycle and we'll get through that and that'll kind of drive growth in later into the next several years.

Asiya Merchant:

Great. Back in June, you introduced the Springboard plan, \$3 billion incremental high confidence plan. You also have \$5 billion that you've laid out that would not be risk adjusted. So what was the driver behind introducing this plan? And there's a fairly big delta between the two. The question I get from investors is what's kind of baked into that delta, if you can help explain that.

Ed Schlesinger:

Yeah. So back in October, back at our third quarter earnings call, we started to talk about reaching the bottom and having an opportunity to add \$3 billion of sales. The way we explained it was Q4 would be sort of the base, that quarter was \$3.25 billion. So you annualize that, roughly \$13 billion. We'd have an opportunity to add \$3 billion plus in sales over the next three years, and we started sharing that with investors. I think partly because we were convicted, we felt really good about the opportunities we saw, but also we hadn't provided long-term guidance in quite a while, sort of through the pandemic in that post pandemic period. And then we've been building out this framework over time and in June, as you mentioned, we shared a view that went out five years, an \$8 billion opportunity again off of that base year run rate over a five year period of time.

If you kind of pull that in a little bit to three years, a \$5 billion opportunity with this \$3 billion high confidence plan. The way to think about the five or the eight is that's our bottoms up plan. So we roll that up, we look at all the opportunities we have, we look at what we expect to happen in our markets, our innovation adoption, our ability to supply our customers where we think we'll win and so on. And that sort of frames out the five and the eight. And where we have high confidence is around that three.

We run a number of probabilistic models and we sort of think about how investors should think about it. We think a three year timeframe is a reasonable investment cycle and we want to give you a high confidence view on how we think about things. Now, a lot of things could happen that get us above that \$3 billion. And if I think about where we are in Q2 cumulatively we're tracking at about \$1.3 billion higher run rate from our base year. So we're actually well above sort of where we might've expected to be on that trajectory towards \$3 billion. A lot of milestones, a lot of things have to happen to get to that \$5 billion, but our intention is to use this framework to explain how we think about ourselves to investors as we go forward.

Asiya Merchant:

And in that springboard plan, I believe you also have new market access platforms. Just if you could double click on what those are. And does that mean there is more capacity that needs to be if you were to go towards the newer market access platforms?

Ed Schlesinger:

So today we serve five market access platforms, display, optical communications, mobile consumer electronics, environmental, which is automotive and life sciences, and we're building out a new market access platform in the solar space. We're also, we have an auto glass business that today is not part of our environmental business. We'll move that business into that market access platform, and we have a pharmaceutical packaging business, and we'll move that into our life sciences market access platform.

We'll kind of reconfigure all that as we go into 2025. So we'll share more about the solar opportunity over the next few quarters. We've got a bunch of work underway and we'll share more about that with investors as we go forward. From a capacity perspective, as part of this springboard plan, what we've said is that we have the capacity and technical capabilities, and you can think of that as cost, like engineering, OpEx and so on to support the \$3 billion plus in sales. And in my view, probably the \$5 billion in sales. So our capacity or our CapEx expectations, which this year are to be around the level of our depreciation, I think includes the spending that we'll need even for that new map, certainly in this window of this three-year window of time.

Asiya Merchant:

But you did talk a little bit about OpEx as well because that's a question that investors also have. So you're saying the OpEx is also right size too?

Ed Schlesinger:

Yeah. I would say our current OpEx run rate, as I think about Q2, Q3 is a pretty good level to think about. Our goal would be to expand our margins significantly as we continue to grow. We've been doing that. We're significantly above the trough. From a gross margin perspective, we've improved our margins about four points despite still having some inflation embedded in there that we absorbed over the pandemic period and actually wage inflation certainly embedded in both gross margin and in our OpEx. And we also want to leverage at the operating line in addition to leveraging gross margin. Second quarter is a good example. We expanded our gross margin from the first quarter by one point, we expanded our operating margin by two points. So our goal would be to grow sales at a faster rate, hold our OpEx at a relatively consistent level, and we should be able to expand our operating margin.

Asiya Merchant:

Great. You talked a little bit about the company already tracking ahead of your 2Q at your 2Q level ahead of where you think you want to be. How much visibility do you have that this momentum sustains itself? You talked a little bit about it, but just if you could clarify further, how much visibility do you have that you just kind of inch up from that \$3 billion towards the \$5 billion?

Ed Schlesinger:

Yeah, I mean for sure. We'll continue to sort of provide a perspective on the three and the five as we go forward. I would say with respect to visibility, we feel really good about the next several quarters. We guided Q3, we go up from Q2 and Q3. It won't be a straight line and it won't be all at the same slope every single quarter. I think in the different markets we serve, I think we have pretty good visibility. In optical, we have pretty good visibility going out several quarters. Again, next six to 12 months, I think we feel pretty good about continuing to be able to grow and accrete up to that level. And if we feel confident enough that we're above the three, we'll share that perspective.

Asiya Merchant:

All right. Optical, given that I think about half that growth that you're talking about, the incremental is coming from optical. You've indicated there that within optical, the enterprise portion of your business, which is roughly about a third I think of your optical is going to be about 25% CAGR. Can you help us understand, is that driven by AI? Is that just some normalization that's happening in that business as well? Is that just new data centers, if you can help us understand on that one.

Ed Schlesinger:

Yeah, so our enterprise business, if you think about 2023, is about \$1.3 billion. So just to give you the sort of magnitude of the size of that business. So we split our optical business between enterprise and carriers. The remainder of that are optical businesses in the carrier space. We expect that enterprise business to grow 25%. For the next four years, we actually put that target out in June. So a 25% CAGR from 2023 to 2027. So that would imply we more than...

Ed Schlesinger:

2023 to 2027, so that would imply we more than double that business over that time period just to sort of size out the opportunity.

Embedded in the enterprise space is the data center business and we are seeing a significant amount of growth related to AI in the data center space. That'll be the primary driver of that growth. I think there will be growth in other places. And the thing I would say is the Gen AI opportunity for us is a lot about data center operators building out a back end network in addition to their front end network to support their Gen AI opportunity to build their large language model to train those models. Those data centers, those back end data centers require connection to the front end.

They also house a much more powerful processing opportunity so GPUs. The GPUs need to be connected to each other, not just rack to rack, but GPU to GPU. So a significant amount more fiber, a significant amount more cable and connectors. We've invented new fibers, new cable, new connectors that allow that to happen in a smaller space with a lot more connectivity. And that's what's really providing the opportunity for us. And so we saw those new products start to ship in Q2. That was part of what drove our Q2 sales above the range that we had provided from a guidance perspective at the beginning of the quarter.

Asiya Merchant:

Okay. And then, maybe just this opportunity specifically, what is Corning's competitive differentiation within this opportunity that you laid out regarding Gen AI and the new connectors that you've talked about?

Ed Schlesinger:

Yeah, so we are the only end-to-end fiber cable connectivity company in the world. We have the largest sort of US, outside of China based fiber manufacturing capability. We control the access to that fiber. That gives us an advantage to the competition.

Additionally, we've invented new products, as I just mentioned, that put us ahead of where the competition is in this space and provide cost and efficiency benefits to customers. As they build out their data centers, space becomes an issue. We've shrunk the size of the cables and the connectors significantly. And they have a lot more fibers and connections in that smaller space. So I think that gives us a huge advantage over our competition. It also creates a little bit of a moat around our business.

And we have longstanding relationships with a lot of the large players in this space, but there also are a lot of new players in this space and we're continuing to win business in that respect as well. So I feel pretty good about our ability to do well in this space.

Speaker 2:

Do you have a sense of your market share in that space yet?

Ed Schlesinger:

Yeah, we don't that information, but yes. We're a dominant player in the space, but we don't disclose that information.

Speaker 2:

Maybe for regular fiber-

Asiya Merchant:

Can you bring the mic please? Yeah.

Ed Schlesinger:

I'm sorry, can you repeat that?

Speaker 2:

Maybe just to frame it in your regular fiber business, what do you have like 40% market share globally or something?

Ed Schlesinger:

We don't disclose that information publicly.

Speaker 2:

Okay.

Asiya Merchant:

All right.

Speaker 3:

On this topic, can you talk a bit about the Lumen deal and how that's structured?

Asiya Merchant:

That was good. Next question. Yeah, actually before you jump even to Lumen, just talk about the carrier side of the business because I think that Lumen's... is it in between carrier and enterprise? You talked a little bit about it on your earnings call, so maybe for those who may not be familiar with what's going on with the Lumen, you could outline that.

Ed Schlesinger:

Yeah, so the way to think about it is enterprise is inside the data center for us. And then, typically, we sell to carriers. Carriers have their plants, they have outside plant, and they do fiber to the home and other applications, 5G, et cetera.

The Lumen deal actually is data center interconnect. So it is four data centers, Gen AI data centers in particular, but it's actually outside the data center. I see that as a new market opportunity perhaps, for us beyond even the Lumen deal. And I can talk a little bit about the Lumen deal. We have not included that... So in the 1.3 billion business I talked about and the CAGR I gave, the Lumen deal is not included in that. We're not thinking about that right now as sort of being inside the data center, or inside our enterprise business. But it is related to Gen AI. And I understand that people really want to track that. So we will give that some thought and think about how we can provide more of a Gen AI perspective on how that impacts our business in totality, including things that might be data center interconnect, which would be outside the data center.

And I'm sure you've all read the Lumen deal, I won't talk so much about their deal, but they actually have a significant opportunity to connect large data centers or hyperscalers across the United States because the data centers will require so much processing power that they will connect them together to create these large networks. We are going to provide Lumen with the cabling to be able to do that.

We've also invented a new cable that actually doubles to quadruples the opportunity for them to fit fibers in their existing conduit. So they have an existing network of conduit that connects long haul or city to city opportunity and we will allow them to retrofit, if you will, their existing conduit with a much smaller cable that allows a lot more bandwidth in there. So that's what the opportunity is.

They've reserved about 10% of our fiber capacity. So you can sort of think about that as roughly 10% of our sales. In terms of the size of the opportunity, it's a multi-year opportunity, so it's incremental to the way we were thinking about our enterprise business. It's one of the reasons why we feel confident about the next several quarters.

Asiya Merchant:

So sorry, so the Lumen deal, I know it's not factored into your third quarter outlook as well, I guess, because the revenue opportunity is unlikely to materialize in third quarter and it's going to start more in calendar '25, is that it?

Ed Schlesinger:

Yeah, it's possible we ship a little in the fourth quarter, but I think you should think of it as 2025, 2026, 2027 versus 2024.

Asiya Merchant:

Right. And it's built into your high-confidence springboard plan?

Ed Schlesinger:

Yeah so we get this question a lot and maybe the way I'm going to answer it is in the \$5 billion opportunity, I think it's included in that. When we think about how big optical could be, and it's a significant portion of that 5 billion, you should think of it in there.

In the 3 billion, we're really not being that specific. We're sort of running a bunch of different scenarios and probabilities on how we think we have the ability to provide you with a high-confidence view to make investment decisions. At some point in time, we may be running well ahead of that and we will share that view. So when I think about the 3 billion, we're not really thinking about exactly how much of that comes from optical versus display versus life sciences, et cetera. We have a view of that in the \$5 billion plan, but not so much in the \$3 billion plan.

Asiya Merchant:

All right.

Outside of Lumen though, maybe if we can just talk about the rest of the carrier side of the business.

Ed Schlesinger:

Yes.

Asiya Merchant:

What's going on there? Is there some sort of mean reversion to the kind of chart that you share in your earnings deck?

Ed Schlesinger:

Yeah, so at the onset I mentioned we were sort of in this cyclical downturn. Carriers were part of that as we sort of exited 2023, supply chain inventory driving a lot of that. They were buying less than they were depleting inventory that they had built up. We've seen that start to dissipate. I would say we're mostly through that, but certainly not completely through that.

So our sales have gone up in the carrier space as we progress through the year, probably at a slower pace than we might've thought at the beginning of the year. But we are seeing that inflect up and we expect to continue to see that inflect up.

Additionally, BEAD, which will start to kick in 2025 also probably happening a little slower than we would've thought maybe a couple of years ago when the plan was put in place is beginning to gain momentum and we expect that to drive additional deployments as we go into 2025, which will drive carrier growth '25, '26 and beyond that time window. So carrier is definitely moving in the right direction, positive, but certainly not driving as much growth as we might've expected in this short-term window here. So I think the good news is that's an opportunity in the future to fill out optical in that \$5 billion space.

Asiya Merchant:

Do the US elections have any impact on the BEAD, or the outcome of the US elections have any impact to the BEAD funding?

Ed Schlesinger:

I don't think so. Although, the reason I would say no is because it benefits every state red states, blue states benefit. A lot of the states that are currently filing for funding in BEAD and winning those funds and actually starting to deploy are states that would be Republican states. So I don't think it has an impact.

Asiya Merchant:

All right.

I'm going to switch it to some of your other businesses. Display, I get a lot of questions on that. It's obviously, a big profitable side of your business. The net income margins there are higher than your other businesses. You did talk in your last earnings call about pricing negotiations going on with those. Obviously, investors want to know what's going on there and just your ability to pass through price increases just given the TV demand outlook.

Ed Schlesinger:

Yeah, so just to rehash maybe where we are or what we shared, I think, it was back in May, is we're in the process of implementing a currency based price adjustment across our customer base hedge the end. We have hedges in place for 2025 and beyond. Our hedges are not at our current core rate of 107, but they're much better than the spot rate. Spot rate has been coming down, but our hedges are better than the current spot rate. And our goal is to, in combination with our price adjustments and our hedges...

Ed Schlesinger:

In combination with our price adjustments and our hedges, maintain our level of profitability in the display business. And you can think of that as the average of the last several years, maybe last five years, net income percent of sales in display. So, that's our objective.

And when I think about the display business, we're the technology leader, we're the cost leader, we're the market leader. We expect to maintain our cost position. So that takes care of price, that takes care of costs. So what's left is really volume and I think about volume as being driven by screen size. We're not expecting unit growth necessarily in display. Units have been relatively flat over the last several years, but we are expecting the average screen size to go up. It goes up an inch or so a year. That adds a few points of growth of glass into the market. So we expect display volume to grow over this next several year time period. We expect to maintain our profitability through these price adjustments and to maintain our strong cost position.

Asiya Merchant:

Within that springboard planet, what's the contribution of display? I think I do see a little sliver line that's attributed to display. So are you expecting off the base level that display revenues, not just profitability grows?

Ed Schlesinger:

Yeah, I think the way to think about display is you go back to that Q4 2023 base and from a run rate perspective, I do think display could increase if volume increases over that time period, we could see revenue growth from that. But I think the most important thing is our ability to maintain our profitability, which then allows all the other growth that we get in this plan to live through. And so if we're successful and we'll share an update on the pricing with investors when we are through the process. If we're successful with all that, I think that actually underpins a lot of the growth that we'll see in other places.

Asiya Merchant:

And just near term, there's a lot of just with third quarter and even into 4Q, I think panel makers talking about bringing down some utilization to just manage inventory levels. Just any updated thoughts on that?

Ed Schlesinger:

Yeah, I think if I start with the market, it's pretty flattish. I think units will be pretty flat. I do think there'll be a little bit of growth overall and I'm thinking year over year '24 versus 2023, that'll be driven by average screen size going up to some extent.

Paddle maker utilization tends to be a little higher in the second and third quarter, maybe the fourth quarter. So you can't really think about it quarter to quarter, you have to think about it on an annualized basis year over year. And I think what we're seeing so far this year and into the third quarter is about what we expected and I think it keeps the market in a pretty good place relative to the expected demand.

Asiya Merchant:

All right, just reaching out to the audience. Any questions before we jump into some of the other segments? Questions? Okay.

Auto, you talked a little bit about that. It's in your environmental side of the business and plus you have the auto glass, which is part of your springboard, which is incremental. So just first talking about what's already in the springboard and then sorry, what's already in the baseline and then the incremental that you're talking about here?

Ed Schlesinger:

Yeah, in the auto space we have our legacy environmental business, which is filters and substrates. That business will continue to perform well. We're seeing a small downturn in heavy duty, so that's impacted us here in the short term.

The opportunity in that space is the U.S. has implemented new rules. The EPA has implemented new rules which require gas particulate filters on automobiles starting in 2027. We should start to see sales in 2026 as the '27 model years get built out. So that should drive growth in that business towards the end of the three-year window, but then beyond that window. In auto glass, we have a triple-digit sized auto glass business. I'll explain it a little bit in a second. And we expect that business to triple over this window of time, so from the beginning of '24 through the end of 2026. So a nice amount of growth coming in that auto glass space.

We serve the inside of the vehicle displays, think of large form factor displays and other glass inside the car. That's the interior glass is the primary revenue driver today and will be the primary growth driver over the next few years. We also do exterior glass for the outside of the vehicle and then specialty glass for applications like LiDAR or other autonomous driving applications. Those opportunities I think will come as well probably later in the time cycle and maybe beyond this three-year window of time.

Asiya Merchant:

I know in the past warnings talked about your current content, including GPFs being around maybe 40%, 45% and then getting up to a hundred dollars of content per vehicle. That includes perhaps this auto glass and does it include LiDAR and all these exterior opportunities as well?

Ed Schlesinger:

Yeah. The hundred dollar per car opportunity includes the environmental business, GPFs. It also includes the interior vehicles, the exterior vehicles and LiDAR. We see that as the addressable opportunity for us. We've been accreting up, we have a very strong position in the environmental space and we're building out a business in the auto glass space. And I think the nice thing about the auto glass space is it's not really driven by the market, it's driven by the adoption of technology. We don't need more vehicles. It doesn't necessarily matter whether they're BV or they're ice vehicles. It's just the technology adoption displays, autonomous driving connectivity that drive the need for our products into the vehicle. So I think that will be the big driver of how we go from where we are to that hundred dollar opportunity.

Asiya Merchant:

And just given the greater content growth, there is obviously chatter about auto still being weak, just how you think about, I know you talked about more of a three-year timeframe, '23 to '26. Just given the dynamics that we're seeing right now in autos being perhaps a little bit weaker as an end market, is there any difference between which geos adopt the interior auto glass or any particular drive trains that are more likely to adopt the interior auto glass?

Ed Schlesinger:

I would say more autos is good, just in general, more cars is good. But I think it's mostly about the changing the way the cars drive, autonomy is the best example. I think as cars become more autonomous, the need for products that help control the car, things of that nature are really what's going to drive the technology adoption. Large interior displays, you see that more and more in vehicles, certainly in high-end vehicles, but you're now starting to see that in vehicles all the way through the value chain. I think that's really the driver. So the market being weak I don't think has an impact on our ability to grow in that space.

Asiya Merchant:

And just your competitive positioning here, anything that you can share about how you guys are versus some of your other peers or competitors in this space? Is there a lot of competition in the auto glass space?

Ed Schlesinger:

Yeah, there's certainly competition. We have a cold form technology, which allows us to make these large form factors at a much lower cost. So that gives us a technological advantage on an interior display. So if there's form required, if there's size required, that actually is a competitive advantage for us.

Asiya Merchant:

Okay. Maybe switching to mobile consumer electronics, that's another one within the specialty semi. Maybe if you could talk about what's going on there? It's a business that's fairly cyclical. You have new form factors that come through and you see a big step-up in your specialty semi sales. It's a fairly profitable part of your business, so what's going to be the next driver there?

Ed Schlesinger:

Yeah, maybe starting with the markets, we serve two markets, I mean more than two, but primarily two. We have an advanced optics business, which is primarily directed at the semiconductor space. And we have a guerrilla business, which is directed at mobile consumer electronic devices like phone, smartphones, tablets, PCs, et cetera. On the guerrilla side, the markets have been relatively muted units. There's not much unit growth. We're not expecting much unit growth this year. We've grown that business significantly faster than the market over the last decade because we've added content. So dollars per phone has gone up significantly, as an example. We'll continue to do that. We're not expecting any new significant innovation adoption in 2024, but we do have some things that'll kick in a little bit later in our springboard plan. New form factors, bendable glass, think of foldable in that space.

On the semiconductor side, we have actually been growing that business quite nicely. We primarily serve the semiconductor equipment manufacturers with specialty glass, and we expect that to continue to grow over time as that market continues to grow. So 2024, I would say we haven't seen a lot in our springboard plan, but there's an opportunity in '25, '26 and beyond that for mobile consumer electronics to contribute more than it is contributing today.

Asiya Merchant:

Okay.

Ed Schlesinger:

I think there was one question.

Asiya Merchant:

Oh, I'm sorry. Can you just bring the mic here please?

Speaker 4:

In the fiber business, especially in these innovative new fiber, whether it be the stuff for Lumen that's smaller, and also the backend fiber inside the enterprise data centers, is it fair to assume that that's significantly better gross margin because of all the innovation you're bringing to the table?

Ed Schlesinger:

Yeah, I think to the extent we can provide an end-to-end solution. The way to think about it is we make fiber, we sell fiber, we make cables, we sell cables, we make solutions or connectors. Those solutions are generally higher margin opportunity for us than if we're selling base fiber or base cable. So you should think about it that as we grow that business, our margin should improve.

Ed Schlesinger:

... like that as we grow that business, our margin should improve.

Asiya Merchant:

Have a question there.

Speaker 5:

Just with respect to the 5 billion target and then I guess the 3 billion target in between, right? Can you give us a sense of how much of that is going to come from BEAD and how much of that is going to come from gen AI?

Ed Schlesinger:

So, so far gen AI contributed a fair amount and we expect it to continue to do that in the foreseeable future. BEAD will kick in 2025.

I would be cautious to provide specificity because it's taken longer for BEAD to deploy. I think there is a huge opportunity for us, hundreds of millions of dollars of incremental sales that come from BEAD. Exactly when that starts and kicks in is hard to call. So it may go beyond this three- year window of time, and it may come faster depending on how the states and their particular carriers wind up doing the deployments.

Speaker 6:

Well for the inside the data center fiber, do you sell that directly to like the cloud service providers or do you sell it to the equipment OEMs or...

Ed Schlesinger:

Yeah, our customers are the hyperscalers themselves. Yeah.

Speaker 7:

Is there a way to think about the relative size of the optical opportunity within the data center versus between data centers?

Ed Schlesinger:

There probably is a good answer to that question, but I'm going to... I'll tell you what. I will think about that and we'll come back to you on that one, if that's okay. Yeah? Yeah, I think it's probably a little early for us to size the data center interconnect opportunity, but we'll come back and answer that question.

Asiya Merchant:

All right. Maybe we can talk about capital allocation, Ed. I know investors have been asking about capital allocation. It's been a while since you've had your investor day. You started to buy back shares, I think in calendar 2Q. Just how do we think about the fact that you're kind of holding capex relatively flattish, you're going to be generating free cashflow with sales growth. How should we think about capital allocation?

Ed Schlesinger:

Yeah. So our capital allocation approach starts with investing for organic growth. We're an organic grower. That's how we see ourselves. We think that creates the most value for shareholders over the long term.

The good news, as you mentioned, is we have capacity in place so we don't need to make significant capital investments. We also have the technical capabilities, so the other cost in place. So we don't have to make significant investments there, which should mean as we grow, we generate more cashflow. I think that's good.

Second, it's important for us to maintain a strong balance sheet. We like having an investment-grade balance sheet. We invest over long cycles of time, so we never want to have a time period where we can't make investments.

Again, I think the good news here is we have a strong balance sheet. We are investment grade, so we don't have to do a lot of work on our balance sheet. So that leaves deploying capital to shareholders, we pay a very nice dividend. We'll continue to pay that dividend.

And we started buying back shares in the second quarter. We've continued to do that in the third quarter and our plan will be, as we're successful on Springboard, we'll continue to accelerate that. We have not articulated any specificity on exactly what we're going to do, but certainly we intend to continue to buy back shares.

Asiya Merchant:

On the market access platform, the new market access platform, you talked a little bit about the solar. Can you expand on that a little bit? I know you have Hemlock. How should we think about, are you planning to grow that business? What are some of the drivers for growth and profitability in that business?

Ed Schlesinger:

Yeah, we plan to come back in the next few quarters and share a little bit more about this map. We have a few other milestones and things we want to get done, and we'll then kind of talk a little bit more about it.

We think it's a nice opportunity for investors, it's a nice opportunity for us and investors. There's a lot of incentives in the IRA and in the CHIPS Act that we are using to help build out the business. So we'll share a little bit more about that over the next several quarters.

Asiya Merchant:

All right. And I know investors do still ask about yen. I know you talked a little bit about that. When should we expect an update on what the new yen rate is?

Ed Schlesinger:

Yeah. So we're in the midst of doing our display price increase. We have hedges in place, as I mentioned. They're not at our current core rate, but they're certainly better than the spot rate.

When we're done with the display price increase, we'll provide an update. Certainly before we get to 2025 on how we think about both display price and yen.

Asiya Merchant:

Great. We have a couple more minutes. Any other questions from the audience?

Ed, if you were to step back and kind of think about your market share positioning in each of your core markets, how should we think about that? I'm sorry, is there another question there? Oh, I'm sorry, I didn't see your hand there.

Speaker 8:

That's all right.

Asiya Merchant:

Okay.

Speaker 8:

Can you just talk about whether or not the Supreme Court ruling on the Chevron doctrine or whatever it's called, affects the, you mentioned, for example, the EPA putting in the new regulations regarding the filters and the technology content in autos. Do you expect pushback from automotive manufacturers and other customers on those kinds of regulatory interventions that increase the technology content in cars and other applications of your products?

Ed Schlesinger:

Yeah. We'll come back to you on that one.

Asiya Merchant:

Just about your market share positioning across some of your end markets or technology offerings, if you step back and think about it, display, I think you guys have said you feel comfortable you're not exceeding share despite the price increases. I guess there were some questions on optical as well. If you just step back and think about how you're thinking about your market share positioning across some of your core technology offerings.

Ed Schlesinger:

Yeah, I think the best way to think about us is that our goal is to be the market leader, the technology leader, and the lowest cost producer in the markets we serve. And that is generally the case across most of the markets where we compete. So we work hard to achieve all three of those things.

I don't see anything today that is deteriorating us in any particular space and we'll continue to obviously work hard to improve market positions as we continue to grow.

Asiya Merchant:

All right. Thank you. That about wraps it. Thanks a lot, Ed. Thanks

Ed Schlesinger:

Thank you.

Asiya Merchant:

All right. Take care.