Corning Inc

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Samik Chatterjee: Good morning. Thank you, everyone, for joining. I'm Samik Chatterjee, and I cover the hardware and networking equipment companies at J.P. Morgan. I have the pleasure, and we're really thankful for the company making it an annual event, of hosting both Wendell and Ed, here from Corning. Thank you both for coming to the conference and really, again, always a pleasure to have you every year.

What I'll do is I'll hand it over to Wendell to go through some of his prepared remarks, but before I do, there would be potentially forward-looking statements. If you have questions on that front, please go look up Corning's website. Anne is here in the room. She can help you with any forward-looking statements as well. With that, Wendell, over to you.

Wendell Weeks: Thank you, Samik. Hello, everyone. It's always great to be here with you. Now, at this very conference last year, I walked through the fundamental elements of our Springboard plan to accelerate our revenue and earnings growth by adding more than three billion dollars in incremental annualized sales by the end of 2026.

Now, what we've said then was that we already have the required production capacity and technical capabilities in place to deliver the sales growth. The cost and capital are already reflected in our financials. Therefore, we expect to deliver very powerful incremental profit and cash flow, leading to our earnings growing much faster than sales.

As I said, because of our confidence in the plan, we started buying back shares in the second quarter of 2024. Here we are together again. What a difference a year makes. Since we last met, we've made tremendous progress.

In 2024, we grew adjusted free cash flow of 42 percent for the full year. We repurchased over a quarter of a billion dollars worth of our shares. We plan to continue buybacks in 2025.

Earlier this year, we actually upgraded our high-confidence Springboard plan by a billion dollars to now add more than four billion dollars in annualized sales and to achieve an operating margin of 20 percent by the end of 2026.

A few weeks ago, we reiterated our commitment to delivering this upgraded plan on our first quarter earnings call.

We also reported continued strong execution in quarter one. Year over year, we grew core sales 13 percent to $3.7 billion. We grew EPS 42 percent to 54 cents more than three times the rate of sales growth.

We expanded operating margin by 250 basis points to 18 percent. We expanded our ROIC by 300 basis points to almost 12 percent. Now interestingly, if you take a look at our quarter two guide and you compare it with our springboard starting point of quarter four of 2023, we expect EPS to be up about 50 percent, and our stock is also up about 50 percent over that same period.

Now, when we deliver our four billion dollar high confidence plan and our 20 percent operating margin target, we will grow EPS 100 percent from our springboard starting point.

We have plenty of growth ahead and we're well positioned for upside variance to that plan, and that is going to be my main topic today.

That's because, given the strong start to springboard and the great growth opportunities we have in front of us, investors are actually asking us less and less about our ability to execute and more and more about how global uncertainty could impact Corning's ability to deliver that plan.

The news we've witnessed just over the past few days is a great example of that uncertainty. At Corning, our approach to uncertainty is to position ourselves for upside variance.

On our quarter one earnings call a few weeks ago, we shared with you how we handle downside risk. First of all, on tariffs, we said that our long-standing philosophy to locate our manufacturing operations close to our customers serves as a natural hedge against tariffs and mitigate the financial impact.

Our quarter two EPS guidance included the minimal financial impact of the then very high 100 percent plus tariffs between the US and China, which was only one to two cents. Of course, the situation is already looking up based on what we've all learned so far this week.

We also shared that the impact of a potential economic slowdown was already built into Springboard as part of the $2 billion risk adjustment we made at the corporate level to translate our $6 billion internal plan into our $4 billion high confidence investor plan.

We modeled the impact of different slowdown scenarios on our growth plan, including a shock case using the worst downturn in the last 25 years, and we were well within our risk adjustment. Now these were just a couple of the many reasons we reiterated our high confidence plan despite the current global uncertainty.

Now thankfully, uncertainty is actually a two-sided distribution. Today, I want to turn to the other side. The significant potential upside variance to the Springboard plan. I'm going to give you three examples. I'm going to start with Jet AI.

First, in our enterprise business, where we report sales for inside the data center, we saw a record $2 billion in sales last year. In March, we upgraded our 2023 to 2027 enterprise sales CAGR from 25 to 30 percent. Now the primary technical driver behind that growth is what the industry calls the scale out of the network.

Now that basically means that hyperscale customers are scaling out the GPU clusters with more and more connected AI nodes of server racks, or simply put, larger neural networks. Because each AI node is connected to the others in the cluster by fiber, this creates more volume for corning, and that is what is primarily reflected in the 30 percent enterprise sales CAGR.

Our upside variance to that growth rate inside the data center is driven by what the industry calls the scale up of the network as hyperscalers create more capable nodes that move from less than 100 GPUs per node today to hundreds of GPUs per node in the future. Historically, an AI node has been within a single server rack.

As hyperscalers scale up, AI nodes are shifting to stretch across multiple server racks. This causes the distance to link these GPUs within the node to get longer. This will cause the links to reach about 100 gigabit per second meter, what we call the electrical to optical frontier line, which roughly marks the point where fiber connections become more techno economical than copper.

Now to help understand the size of this upside opportunity created by crossing that frontier, a single Blackwell like node has more than 70 GPUs with more than 1,200 links using more than two miles of copper. As that node scales up, those two miles will be replaced by fiber connections, and those miles will grow over time as more and more GPUs are included in the AI node.

Additionally, as data rates rise with more capable GPUs, our upside increases further. This opportunity alone is two to three times the size of our existing $2 billion enterprise business if we are successful technically. We're working with key customers and partners as we speak today on making that future a reality.

Now you'll often hear folks in the industry talk about co package optics or CPO. That is one of the key technologies that enables this scale up with optics. In fact, just yesterday, we announced a collaboration with Broadcom to accelerate their processing capacity with co-package optics. You're going to hear a lot more about this area in the near future. That's one.

Another example of upside variance tied to gen AI is playing out in our carrier business. We've been studying this space for some time. We have been seeing that most long-haul routes were approaching their maximum data rate capacity, creating a need for many new high-bandwidth, low-latency links between cities and data center campuses. This essentially requires a rebuild of long-haul networks.

Density, it turns out, is every bit as critical outside the data center as inside. To create a denser solution, we took our core innovations from inside the data center, applied them to this outside plant density challenge. We introduced a new technology connecting data center campuses. In the industry, this is referred to as DCI, or data center interconnect.

We shared last year that we'd reached an agreement with Lumen Technologies to provide our new-gen AI fiber and cable system that enables Lumen to fit anywhere from two to four times the amount of fiber into their existing conduit. The agreement reserved 10 percent of our global fiber capacity for 2025 and 2026.

We have fully commercialized this product set. We now have three industry-leading customers adopting the technology. Now, that being said, we are just in the very, very beginning of this new market. We expect this business to scale rapidly, reaching a billion-dollar opportunity for us by the end of the decade.

Now, I'll turn to my third example of upside variance, which is solar. At our March IR event, we shared our low-risk, high-return strategy to re-enter the solar market. We generated over a billion dollars in cash from 2020 to 2024 in this platform. We expect 2025 to be another year of positive cash flow.

We funded the expansion of our manufacturing assets with the growing cash flow generated from the assets we acquired for less than 10 cents on the dollar, customer funding, and government support, all while generating positive cash flow every year. As a result, we have now built a platform for rapidly accelerating growth.

We made process advancements to serve a higher-end chip segment in semiconductors. We are on track to double our semiconductor business by the end of the decade.

We activated idle assets to serve the need for domestic solar polysilicon. We added the capability to transform our polysilicon into higher value domestically made solar wafers, all integrated together on our campus in Michigan. We now have committed customers for 100 percent of that capacity available in 2025, and 80 percent of our capacity for the next five years.

Now, because we have built this platform so quietly while growing our cash flow, our new solar map has not garnered much attention from investors relative to the significance of the opportunity. Let me quantify this sum for you.

In quarter one, we generated $200 million of sales in the map. We expect to triple that run rate by 2027, adding $1.6 billion of new annualized revenue to Corning's earnings power. I hope that can help everyone understand the upside potential of that new map.

To wrap things up, we have built a high-confidence Springboard plan that is well-positioned to provide investors with upside variance. With that, I'll be delighted to unpack this more with Samik and take some questions.

Samik: Thank you. Amazing. Since you talked about the macro already, I won't go in too much into that.

Would it suffice to say, given some of the announcements over the weekend, or Monday, in terms of how you're thinking about the macro is a lot more improved relative to where I probably think your thinking was during the time of the earnings call?

Wendell: It certainly seems that the probability of using that risk adjustment in the near term appears less.

That being said, when we build Springboard to provide investors a high-confidence plan, we always try to build into that four billion an economic cycle. If we don't build that in, then I can't give you a super high confidence plan. Yes, it does make it much more likely that we'll be at the six than the four if that's what you're asking.

Samik: Great. I'll start off and we'll focus on solar. Before I do that, you did mention on the earnings calls as well that due to the tariff policies, you're seeing early signs of stronger demand for your US-made innovations. Unpack that, and how much of that has come in on your solar business versus where else are you seeing that in your broader portfolio?

Wendell: We're actually seeing it across our platforms. In optical, we're seeing both new and existing customers look to take advantage of our US-origin assets.

We're unique in the world, which is the two largest and lowest cost fiber facilities in the entire world are both in North Carolina and they're both ours. We have that supported by cable and connectivity. That is a unique asset.

With tariff pressures and increasing push for domestic content, we're seeing a large number of folks approach us for access to those platforms. Some will be significant enough that you'll see announcements in the coming months.

We're also seeing similar type behavior in our life science platforms. We're seeing similar type behavior in solar, as you say. We're seeing similar type behavior in our mobile consumer electronics businesses as people seek to source more locally.

We're still sorting through the size of this and, if it's an existing customer, how much is moving from one of our other sources. If it's a new customer, then that's found revenue. We're still working our way through it. It's too early to embed in our plans, but it is a source of upside variance.

Samik: I'll follow up on that. Obviously, there's one part of it, which is how much of that is a incremental or new customer versus existing? Also, where does your capacity stand today to even onboarding a new customer?

Wendell: It all depends on what the product set is. We still have the capacity in place to support that Springboard plan without having to add significant amounts of capital. That was really the core of Springboard.

Basically, there was an ability for us to create an entire Corning in terms of earnings within the four walls of our existing footprint as we filled up that capacity in our enhanced productivity. That still is all in place.

The key thing that will trigger whether or not we need more capacity, will be how quickly do we get to that 100 percent growth from the original EPS at Springboard. The quicker we get there, the more likely it is that we'll add to our capacity sets, depending on the products.

Where you'll hear rumors of our tightness, which I know you run into, is on these new gen AI products, where because of the uniqueness of our product set, we are experiencing more demand than we can keep up with. It is not a capacity situation at large. It is turning our production for these new product sets and getting the productivity of those new product sets up.

That's what's causing that, and we're getting more share than we counted on originally. That's why you always...when people complain that they can't get enough from us, what you hear, that's what it is. We're out of capacity. It's just that product that's having explosive demand. Does that make sense?

Samik: Yes. Let's move to solar. I do want to take the opportunity to ask you to dive into that opportunity a bit more. It's obviously your newest one. I agree. It hasn't got the investor attention, particularly in terms of the magnitude that you're talking about.

Maybe just outline your strategy there, your thinking about what the driver for growth is, and then we'll go maybe a bit deeper into the solar business.

Wendell: The driver for solar is super simple. The strategy is super simple. Let's do the strategy. We'll just do the driver first. The driver is there's 50 gigawatts. Think of a gigawatt as being about the equivalent of a nuclear power plant. There was 50 gigawatts of solar capacity installed last year, in the US. Hardly any of it came from the US, so it's all imported. Very small amount is made here.

We looked at that opportunity and said, "You know what? That is not going to stand." Since it's the fastest growing and it's the largest incremental adds of capacity, people are going to want at least some US source. That then plays to the strategy piece, which is we saw we had the ability to get assets fundamentally for free, that we could then activate, turn into solar.

And because of our deep engineering and technical capabilities, we could move up the value chain to basically be able to displace what largely comes in from China-based suppliers into this market.

All we're seeking to do is basically take share. We're not counting on solar to grow. We're just counting on us taking share with the domestic production. Therefore, when we say we've signed up for customers to take 80% of our capacity, just so far, for the next five years, that is showing you how we feel about where we are in that process.

Samik: The financial strength of solar companies sometimes comes into question, and there's also uncertainty around government policy. I think we've seen some over the weekend. Can you tell us about the risk profile to your solar business -- customers, financial risk, technology, and government policy, most importantly, which seems to change very frequently?

Wendell: I think the right way to think about this is, and Ed did this pretty well at our IR event, is we feel there's relatively low risk to the revenue because we've already signed up for it. Now we've got to bring up these assets. Making wafers is new to us, so we've got to ramp those up and sell them.

The real impact of government policy will be, what will the relative profitability of those assets be? There are scenarios of government policy where that profitability will be well above Corning's average. There are scenarios in government policy where it can be a little below Corning's average.

One way or the other, we're highly confident they will make more money for Corning investors with this solar platform than we would without it. Then, the question is, back to upside variance, how much more can we make?

If you were to take a look at the current mark that cleared the ways and means, it's very advantageous in that current mark for us, but it's politics. We'll see how the whole thing works out, but that's a matter of how much upside there is for us in profit. Would you think that's fair?

Ed Schlesinger: I would agree. I also think, if you go back to Wendell's point about the number of new installations, how impactful solar is, we don't see that necessarily changing. It's a low cost of energy. It's a critical source of energy. The most important thing that's changing is it's onshoring.

For us, it makes it a higher probability of our ability to sustain the business and be a critical part of the supply chain, so there are no US wafer makers today. We will be the only US wafer maker.

To the extent it helps with someone else's cost, someone who's making a cell or a module, that makes our capacity that much more valuable to them for things like domestic content, and so on.

Wendell: If government, for instance, chooses instead to tariff to get domestic as opposed to an approach of tax credits, they'll work its way out in price.

We'll make the money, but then what the margin percent is if you get it in price is a little different than getting it in a credit. That's what's moving you around between where are you relative to our average profitability. Does that make sense?

Samik: Yeah, got it. A lot of investors I talk to think about the two-and-a-half billion 2028 target as going from zero to two and a half and see that as a very steep ramp.

Good that you shared what you're doing already, but dive a bit deeper into the one billion run rate that you have for that business. What are you doing exactly there versus the incremental one and a half, where that comes from, and what share does that imply of the total market?

Ed: Today, our business is about 50/50 semiconductor-grade polysilicon and solar polysilicon. We restarted assets that had been idled, as Wendell described, back in around 2021, and we've ramped the solar component. When we took Hemlock, it was semiconductor poly. We've grown that from half a billion to a billion over the last four years or so.

We're adding more poly capacity. That's coming online this year. That will be a good hunk of what we see impacting us in the back half. Then, we're adding the ability to make ingots and wafers, which will also come online, but it'll be a little bit slower. It's newer technology, and it's starting from zero to where we are.

That's what's driving the growth from the billion. It'll be predominantly in solar. Semi capacity, semiconductor poly sales for us will also continue to grow. We expect that to double over, let's say, the next five, six years or so. You'll see nice growth there, but a lot of the growth will come from the solar side.

The only other thing I would say is that what will allow us to be able to get to that two-and-a-half billion dollar run rate is mostly the domestic supply chain being built out here.

You saw an announcement from us. We signed up with Suniva and Heliene. They're actually building out capacity. When you take our ability to supply the US, it's 20 percent of the installed base. That would be a share target for us, something along those lines.

Wendell: When we're fully ramped.

Ed: When we're fully ramped, yeah.

Samik: Let me ask you one on optical. Then, I'll open it up to the audience, see if there are any questions. You mentioned you have raised the optical enterprise CAGR target at the investor day from 25 to 30. The question which you've got, I'm sure, from investors as well is more about visibility into the next year.

What is the visibility that your customers are now willing to provide you, particularly given that your capacity-constrained on some of these gen AI products? I'm assuming you get a longer visibility on those than others. How would you characterize 2026 or early indications for 2026 shaping up?

Wendell: We get very good visibility. Having products people really want improves customers' willingness to share, we find. [laughs] We have pretty good visibility. Most of the dynamics is around when you hear different things in the industry, we will experience them differently because of the breadth of our footprint.

What happens with a given hyperscaler or a given player in gen AI if they let go of some leases someplace here or do something like that there is it is more about who's going to get those gen AI loads. One way or the other, they tend to find their way back to us.

We have to worry less about which players we're aligned with and how each individual player is doing in that particular piece of the industry as we do on, how is GPU growth working in the scale-out piece? Are the clusters becoming bigger? Yes. Really good, easy visibility for that.

It's probably one of the most studied things in the world is how many GPUs they're going to sell every year. There you go, there's that. The real uncertainty, we just haven't built into the plan, which is, does a brand-new link fall to optical?

That's why we didn't put the scale up piece in the 30, because that is a technological node that has yet to occur. It would have to occur, which takes a new ecosystem built, it would have to get adopted, and our solutions would have to get adopted, so we just don't count on that until we hit the node. Does that make sense?

Samik: Yes. Let me see if anyone in the audience has a question. This one here.

Audience Member: Sure. What are you seeing [inaudible]. Are you having any manufacturability issues with it and is there any margin or pricing uplift from that technology?

Wendell: There is an inside-baseball question. [laughs] [indecipherable] that's some arcade stuff, man. Good for you. For those of you who don't know, this is a technology that's been studied for many years. I worked on it personally when it was photonic bandgap fibers.

What it's seeking to capture is that the speed of light through air is about 30 percent faster than the speed of light through glass. There are situations that could potentially emerge in gen AI where that 30 percent matters.

Today, with high-speed traders and things like that, what we do is we will straighten out, we'll use very high-performance fiber, and we literally just straighten out the links so that the light doesn't travel as far. Then, they locate relatively close, and that is their advantage for people who play in that microsecond sort of game.

There are technical futures in which gen AI believes that you could end up with clusters that are going to span enough distance that need to be synced, depending on where you put the shards. You'd want to have lower latency, and that 30 percent will matter.

Technically, I don't know. 30 percent, in everything that's in a network, 30 percent, playing around with the speed of light in air versus glass, I'm not convinced has a super-powerful value problem.

That being said, of course, we'll do it. [laughs] That's what we do.

If it does happen, that is complex enough and different enough that it'll be a new fiber cable connectivity system that we will be a significant player in, and that will have a different pricing entirely. Wow, I wasn't expecting that question. Good for you. [laughs]

Samik: Maybe when staying with optical, you talked about the carrier side of the business, DCI being a big driver of the growth there. Maybe pass that out in terms of your outlook for growth in DCI versus what has traditional carriers been doing.

Is it still a bit depressed to what you would expect at the current levels, and do you see a catch-up there eventually as well?

Wendell: What we see in our traditional carrier business is their deployments are relatively steady. What happened is during the pandemic, they built up inventories well above their deployment levels. What they're doing is they've been drawing that down, which caused a lot of people in that industry, suppliers to that industry, for that to go through a cyclical downturn.

What we're now seeing is that that inventory looks like, and from our analysis and direct discussions with them, that they will now start purchasing much closer to the deployment levels. We're seeing that in our order books, and we think the ground is there for this business to start growing nicely this year.

Samik: Last question, and I'll make a hard pivot here to mobile consumer electronics. Rather than talk about the industry, your primary customer there, there's a lot of innovation supposedly coming on foldables, and there's also need to go support the customer in additional regions, given their exit from China.

How are you feeling about the basket of opportunities there? What are you more excited about?

Wendell: I never talk about anybody who lives in the area code of Cupertino.

[pause]

[inaudible] [laughs]

Samik: I will wrap it up there because we don't have time. Thank you. Thanks for coming to the conference.

Wendell: Always a pleasure, my friend.
