Corning | Citi Global TMT Conference | September 4, 2025

Asiya Merchant:

Good morning, everyone. Day two of Citi's Global TMT Conference. I am Asiya Merchant. I cover the tech hardware and tech supply chain here at Citi Research. So really excited to have Corning here. I have Ed here, the CFO of Corning. We have Corning's IR and members from the other management team as well in the audience. Corning's been a great stock and this fireside here is questions that I've prepared. I'm going to leave some time for Q&A. However, I do request if you can please raise your hand so we can bring the mic to you. So I'm going to turn it over to Ed first. He has some prepared comments and then we'll get started.

Ed:

Good morning, everyone. So first of all, it's great to be here today. Thanks for joining with us. I just want to note that I may make some forward-looking statements today and that you should review our filings on our website to see potential reasons that actual results may differ materially from the perspectives that I offer. So look forward to your questions and thanks for joining.

Asiya Merchant:

All right. So I'll kick it off. We've been asking all our companies, especially companies like Corning that reported a very strong quarter with calendar 2Q. You guys are guiding to slight acceleration as well on the year-on-year growth rates. You're tracking well ahead of your risk-adjusted springboard plan. I think it's closer to the internal plan that you have with your management. Just as you sit here in calendar 3Q and you reflect on all the puts and takes that were to the demand, let's say six months ago. I mean, there was tariffs, there was AI rolling off, there was a whole bunch of other stuff, currencies, FX, all that stuff. You guys had yen exposure. How do you think about how demand has evolved over these past few months relative to what your expectations are and as you're sitting here in calendar 3Q?

Ed:

Yeah, thanks. So if I think about our markets broadly and in general state, we came into the year thinking we would see growth in optical communications, some growth in specialty materials or mobile consumer electronics space, and certainly some growth in display. And I think we haven't seen a significant change in the end market demand, certainly not in display or in specialty materials. Automotive, a flattish market for light duty vehicles and down for heavy duty, and again, I don't think much has changed from the beginning of the year. The place that I would say is stronger or maybe has surprised us a little bit to the upside is in optical communications. In the carrier space, we've seen carriers essentially deplete all of the inventory they've had, which means they're buying now to their demand level and we're starting to see their demand or their deployment levels go up a little bit. So that's a little better maybe than when we started the year. I also think, of course in the gen AI space, we've just seen that demand continue to accelerate and grow. So as I think about the back half of the year, six months later, the demand environment I would say is better than we would've said coming into the year.

Asiya Merchant:

And there's always concerns about regulatory stuff. I mean, we've heard a lot about China, US, geopolitical conflicts. Just if you can shed some light on that because I do know you have obviously fabs in China. How do you guys think about your exposure to China just broadly speaking, given the context of geopolitical?

Ed:

I think a good way to think about Corning is, first of all, we tend to locate our manufacturing facilities where our customers are. It's acted as a nice buffer or insulated us very much from the tariffing environment. We've talked about that direct impact being very minimal. One to 2 cents in the second quarter is a good way to think about a $10 to $15 million of net income for us. Because of that, we tend to operate in an environment where the customers are making the products that we sell into are being made in that particular jurisdiction. So the geopolitics are less impactful for us really across the board. And we also are serving all of those markets. We actually have a big business that sells into China, certainly in display, consumer electronics and autos.

And I don't think the environment has really impacted end market demand. So I talked a little bit about how we're seeing that demand really hasn't changed that much other than an optical accelerating. I don't think anything in terms of tariffs or just geopolitics has really changed the demand environment for us.

Asiya Merchant:

All right. Since you talked about domestic manufacturing, I think over the summer you guys obviously had a positive announcement as it relates to your demand for domestic manufacturing. You talked about where you're seeing strength there and you specifically talked about that Apple's making investments in your plant in Kentucky, I believe, yes, where there is a lot of display glass right now that's being manufactured. I mean, when we saw that press release, we're like, okay, you already do a lot for Apple, obviously you're on all the iPhones, et cetera. But just high level, help us understand how that's incremental to your business here because they've made investments for the long-term here for you.

Ed:

Maybe stepping back, we have 34 advanced manufacturing facilities in the United States. Really the only one of our markets that isn't served out of the United States is the LCD, the display business, that's primarily an Asian-based business, China-based business. So we've actually seen an increase in inquiries and demand for our US assets across the board. I'm sure we'll talk a little bit about solar. We're certainly seeing demand there.

You saw the Apple announcement and maybe just a couple of comments on that announcement. So Apple's committed $2.5 billion for us to make all of their cover glass and the glass for their watches. So cover glass for smartphones and the glass for their watches in our Kentucky facility, which is a significant increase in volume coming out of that facility. It allows us to invest in capital, in technology, and they're funding a lot of that investment for us. It also allows us to increase our workforce in the US and to leverage an asset that wasn't fully utilized. So all that is good.

But the thing that I think is probably the most important thing is we're setting up an innovation center so we'll co-innovate with Apple for future glass compositions, future devices. It allows us to essentially be really close to a very important customer and they're very invested in this facility. We'll move capacity to the US. We can use that capacity in other places, for example, in auto glass or for other consumer electronics customers out of Asia. So I think it's actually good financially for us in the short

term and midterm, but it's also really good in the long term because of the innovation component of that investment.

Asiya Merchant:

Okay. And just on that, does it free up R&D dollars that obviously Corning invests in, like you mentioned, auto glass, solar, optical, does it free up R&D dollars that would've gone towards this consumer electronics to these other ventures that you have?

Ed:

Yeah, I think it's a good way to think about it. We like to invest long-term, so regardless of the economic cycle, we try to preserve our R&D dollars, and even to some extent, our capital dollars. So we spend about $1 billion a year in R&D regardless of the economic environment because we want to make sure that we're ready for the next technological node in whatever industry we're serving or in certain industries where today we're not necessarily participating. So to the extent, we can have customers co-innovate and help fund some of that, yes, it definitely allows us to take those dollars and put it in other places.

Asiya Merchant:

Okay. Just before we talk a little bit more about optical, just want to understand recent geopolitical. I know you mentioned it hasn't been a much bigger this thing, but I think there was a press release or something out there yesterday about China-US optical. Is this something, I know your exposure to China and optical is probably negligible or very, very low, and you can correct me there, but on display, because you have fabs in China right next to your major panel customers, does this dynamic get affected by-

Asiya Merchant:

... customers. Does this dynamic get affected by any of the anti-dumping that's coming for optical?

Ed:

No, that announcement was specifically around optical fiber and that dumping duty has been in place before. They're just updating it. And the most important thing is we're making what we sell predominantly locally. So there's really not an exposure for us in any material way from that duty. It doesn't really change our environment or our outlook at all.

Asiya Merchant:

And just to be clear, your exposure on optical fiber to China is...

Ed:

Not that significant.

Asiya Merchant:

Yeah. Okay. That's what I remember.

All right. Switching to optical. That's been obviously a great story for you guys here. You've seen some M&A in this business recently. We hosted Amphenol earlier yesterday as well. So just help us

understand how material is this AI opportunity for Corning? Obviously you've seen very strong growth. How sustainable is this growth over the next few years?

Ed:

Yeah, maybe if I go back a little bit. We have an optical communications business that has two segments: enterprise and carrier.

Our enterprise segment is predominantly data centers. If you go back to 2023, it was about 1.3 billion or so in sales. Last year that business grew about 50%. So 2 billion or so enterprise business. That growth was all driven by Gen AI data centers. That's the sort of way to think about it.

First half of this year, that level of growth continues. In fact, actually we're growing at a higher rate than that in the first half of 2025, and we expect that growth to continue at a very good clip. We'll end the year with more than a 3 billion enterprise business. So that kind of growth is what we're seeing today, and I think we have pretty good visibility for the next year to two years and I would expect the growth to continue.

We put out a growth figure for this business maybe 16 months ago that was 25% over a four-year window. We upgraded that to 30%, and we've been outperforming that. So at some point in time, we'll come and update how we think about it. We don't want to change that outlook quarterly, but clearly we've undershot the opportunity size there.

Now, I also think if you want to think midterm and long term, there's a couple ways to think about it. First of all, what's driving the growth is what we call scale out, which is essentially just building larger data centers with bigger Gen AI clusters, more GPUs. That's what's really driving our growth. That's going to continue certainly for the next several quarters, years, and so on.

But there's an opportunity for scale up, which is optical replacing copper in the racks, kind of the early phases of co-packaged optics, and then you have generations of technology after that. We also see that as a significant opportunity, at least as big an opportunity as our existing enterprise business. So the ability to double or triple that enterprise business by the end of the decade or certainly as you go into the beginning of the next decade.

So I think there's a significant amount of growth ahead of us. Now, I always want to be thoughtful that it won't be a straight line of growth. We won't necessarily see 50% quarter over quarter or year over year every single quarter, but we think the market opportunity is significant. And that is really all inside the data center, and that's part of our enterprise business.

We also see growth outside the data center. Data center interconnect or long haul connecting data centers over long distances, we include those sales in our carrier segment. So it's still Gen AI related driving growth, but not part of that enterprise growth math I just shared.

Asiya Merchant:

Okay. Again, just talk about within the data centers, you have increased need for connectivity. As we transition, there's GPUs, there's a new GPU every year, there's also ASICS, anything you can help us understand about the content variability between the two, as well as does each iteration of GPU drive more connectivity content?

Ed:

Yes. In a Gen AI data center, what's driving the scale outgrowth today is a combination of more GPUs and the fact that to run a neural network, you need to actually connect every GPU to every other GPU. So it creates a web of connectivity. So there's sort of a content per device if you want to think about it

that way. There's an increase in content per device for us, and you actually have more devices or more GPUs being installed. So as those technology generations increase, that also increases the amount of fiber connectors that need to go into the data center.

When you get into co-packaged optics, which is again generations from now, in terms of technology, we see the increase coming additionally in just more fiber because today some of that connectivity is copper. So you're increasing the market opportunity because of the number of GPUs, the technology within the GPUs, and then the fact that that technology moves optics closer and closer to the box or eventually inside the box.

Asiya Merchant:

So AI has been a great tailwind for Corning and for a lot of the other companies as well, but it's also very lumpy. And you can see a lot of companies talk about transitions that are happening in GPU level that ends up eventually being a tailwind, but in the near term could result in maybe underutilization of certain assets. So how do you manage that on the optical side for your business, any kind of lumpiness, and what are you thinking about as we're doing these transitions with every chip iteration?

Ed:

Yeah. Generally, philosophically, we want to have all our assets full. That's kind of our mode. It's expensive to melt glass or to make fiber. So we want to put capacity in when we know we can sell it out. And we also philosophically look to get assistance from our customers to actually add capacity. So we've kind of made our business model a lot about making sure others have a vested interest in filling our capacity, whether it's in the form of some kind of a take or pay contract or cash upfront to help us put assets in. That's just philosophically how we think about it.

In optical communication specifically, we have different types of capacity. We have connectorization, which is what goes on the end of the fiber cables. That capacity is not that expensive, and we really don't want to run out of that. So we're willing to take a little bit more risk and ensure we can capacitize. In fact, with the new products we introduced for GEN AI, smaller fibers, smaller cables, and smaller connectors, we're actually continuing to ramp that capacity. It's in our current run rate, because again, the demand has exceeded our expectations if I go back, let's say, a year, year and a half ago when we introduced these products.

When we add cable, or we add fiber in particular, the cost of doing that is a little bit higher. So we'll be very thoughtful about adding the next tranche of capacity, and we'll look to de-risk it in some way, getting assistance to fund that capacity, or ensuring that that capacity is sold out. Right now, we're not necessarily planning to do that, but when we do that, we'll share our thoughts a little bit with you all on how we expect to sort of de-risk it.

Asiya Merchant:

Because right now you're still ramping like you talked about?

Ed:

Yeah.

Asiya Merchant:

Okay. On the other side, on the DCI side, it was very interesting at your investor day where you showed where the data centers were previously just located in certain regions. Now they're being spread out across various geos, various cities, just because of power needs. Just if you can click on that.

I think the Fiber World Association had some very interesting comments on how big that business could be, and I know you've talked about it at your investor day as well. So can you elaborate on how big this opportunity could be? It obviously sits within your carrier portion of your optical, but just if you can... because this is something that's new and that's not just the typical fiber to the home broadband that carriers...

Asiya Merchant:

That's new and that's not just the typical fiber to the home broadband that carriers are deploying. Yeah.

Ed:

Yeah. I think a simple way to think about it is it's essentially building a new long haul network across the United States. We first started talking about it about a year ago, a little over a year ago, we signed a deal with Lumen. Lumen is well positioned because they have conduit in the ground connecting a lot of major hubs across the United States, and we're supplying them with a set of products that allows them to install two to four times the amount of fiber in those conduits as they normally would given the typical size of that long haul cable with the advent. So we essentially took the products we invented for inside the data center and converted that to outside the data center. Now we've actually seen that business continue to ramp, and we didn't really size it until pretty recently. We would say it's at least a billion dollar opportunity for us by the end of the decade. And to give you some perspective, we just started shipping products in Q1 of this year, sales 25 million or so. We doubled our sales in Q2. We'll significantly increase our sales in Q3 and then we'll continue to ramp to that run rate over the next several quarters years. We definitely think there will be additional customers in this space, if you will. The end users are typically the hyperscalers that are putting in these large data centers. So I think the market opportunity is significant. We have the right technology, we're well positioned to serve it, and I think we'll continue to see that drive growth. And as you mentioned, it's in our carrier segment, so it's not part of that sort of size I gave for the enterprise business.

Asiya Merchant:

If we can talk a little bit about margins before we go into some of the other segments. There is room for margin expansion clearly on the optical side as we see it, especially as you're ramping utilization and some of your fabs. So just help us understand what's the margin potential that we could see on the optical segment?

Ed:

Yeah, I mean maybe for total Corning, we put out a target of 20% operating margin. We're getting pretty close to that target. If you take our Q3 guide and you reverse engineer in operating margin, we're getting pretty close to that level of margin. A lot of that expansion. When we first put out the target, we were about 16%. So just to give you some perspective of the increase, a lot of that has come from our optical business as sales has significantly increased. It's also come as we filled capacity that was not being utilized, which gives us a great leverage point. In optical in particular, we measure net income margin and our net income margin is in the mid-teens and I think there's room for that business to get to a 20% net income margin, which will continue to be accretive to Corning as we go forward.

Asiya Merchant:

Okay. Solar, that's another one where you are seeing some benefit from domestic manufacturing. People don't know a lot about solar. I think generally when you talk Corning, you talk display optical autos. So just help us understand what's the benefit that Corning has because you have this domestic manufacturing, you have polysilicon, and how big could this business be?

Ed:

Yeah, so maybe for those that haven't followed, we have a business that makes polysilicon. We supply two industries, the semiconductor industry and the solar industry. That business, about a billion dollars or so, about half is for semiconductor and the rest for solar. We have been ramping and adding polysilicon capacity specifically for the solar space that's starting to come online here in the back half of 2025. We're also moving downstream in the supply chain to make ingots and then those get cut into wafers. That's the next process step and making a solar module. We'll sell those wafers to cell makers and then those cells go into modules. That's the supply chain in solar. So just to give you a sense of what we do, we actually had a minority interest in this polysilicon business and we were opportunistic and were able to get the majority of that business in 2020.

The ingots and wafers will also start to come online in the back half, probably fourth quarter, and then really ramping as we go into 2026. So our run rate, about a billion dollars a year, 250 million a quarter, we expect to grow that to about a two and a half billion dollars business by the end of 2027. Think of that as run rate end of 2027. So significant growth opportunity. From our current run rate in the solar space, we're seeing a lot of other companies bring their capabilities, cell-making in particular to the U.S. There's been a number of announcements for solar manufacturers that are going to build facilities in the U.S. That's good for us. We'll be the only ingot wafer maker in the U.S. So having cell makers here is good. We recently announced a partnership with T-One, which makes solar globally, but they don't manufacture in the U.S. They're going to manufacture cells and modules in the U.S., and we also have an agreement with a company called Saniva. Same thing, they're making cells in the U.S.

So we believe there's a great opportunity for us to get into the supply chain, which is what we like to do. And then eventually we can innovate and we think this is a space where we can bring our innovation capabilities to continue to drive the life of a module, the cost of a cell or whatever it might be down and make the U.S. competitive. I think it's important.

Two other points. I think it's important to note that there's probably 40 to 50 gigawatts of installed solar capacity in the U.S. every year. So it's a huge market. We will not have capacity to serve anywhere near that level of the market, so we don't necessarily need the market to grow to be really successful. And then I think the other thing that is important to notice, it's a very low cost of energy, so it's the lowest installed cost, more or less of energy. So the U.S. needing energy, we think this remains as a very critical source as we grow the power supply in the U.S. And then the OBBB, which was passed I guess now a couple of months ago, actually has some incentives in there. For the incentives that matter to us, the production tax credits, those all remain in that OBBB as they were prior to that new legislation.

Asiya Merchant:

Okay, that's an important point. So the installed capacity you don't think could be negatively impacted by any of the legislation that went around?

Ed:

No. We actually see the industry capitalizing in the U.S. That's what we're seeing. So we think what's driving that is the cost of importing has gone up significantly. So it makes manufacturing in the U.S.

more competitive. And I think because it's a low cost of installed energy, it's actually relatively quick to install large amounts of capacity relative to other sources. We see this as being a critical energy supply for the indefinite-

Asiya Merchant:

And just on margins. How does that compare to your other segments and how does that factor into your target for operating margins?

Ed:

Yeah, I think when this business is fully ramped, we should be at or above the Corning level of profitability.

Asiya Merchant:

Okay. All right. I'll ask one more on display and then we can open it up to questions. Display goes a lot into TVs, consumer electronics, laptops, etc. There's this... And you guys are one of the leading manufacturers of display. You guys have successfully navigated through all the yen exposure. So just help us understand the concept of pull forward, how that's affected you guys on display. How do you see it for the back half of this year? And you guys sound pretty confident on these net income margins for the display. So what's driving the sustainability despite all the lumpiness with pull forwards perhaps and all the moving yen pieces?

Ed:

Yeah, maybe I'll break it apart. I think with respect to demand, I said at the beginning, our view on the retail market in display hasn't changed much. We don't think there's going to be much unit growth.

Ed:

We don't think there's going to be much unit growth year over year. TV unit's been relatively flat the last several years, but what drives growth in the market is screen size and that continues to grow, give or take an inch a year, which actually adds low to mid-single digit growth of glass into the industry. So that's how the market grows for us and that affords us an opportunity to grow this business even though units are relatively flat. We've navigated a lot of things including panel making, moving from places like Japan, Korea, Taiwan to China, which took place over the last four or five years. And I think you've got a relatively stable panel making environment now with that predominantly being in China.

And as you mentioned, we're located very close to our customers. We have three large gen, 10.5 glass manufacturing facilities in China. We're the market leader, lowest cost and highest, best technology. And I think that allows us to sort of create a stable environment, manage our supply, keep supply and demand relatively tight. Our competitors are not very profitable so they tend to try to do the same thing. So it's allowed us to raise price in a weak yin environment. We've hedged out for '25 and '26. We've got some hedges in place beyond '26. So our goal is really to maintain our profitability at that 25% and have this business grow a little bit every year. And so far we've executed that in '24 and '25 quite nicely.

Asiya Merchant:

Okay. And on the mobile consumer electronics where you also have covered glass and touched glass there any interesting products that you see on the horizon that thinks that there's great innovation that's going on here that would increase the demand in that segment?

Ed:

Yeah. So, we're always innovating and I think the things, maybe shorter term you could see more foldable phones. I mean I think the adoption of that, I'm not the right person to determine whether consumers ultimately adopt that, but to the extent that's adopted, I think that's a great opportunity for us. We're well positioned to take advantage of that. ARVR probably out I think several years. I don't think you're going to necessarily see significant adoption, but that's certainly an area that's opportunity for us. And then I think there's a lot of dialogue happening now and a lot of work on the innovation side on what are the next GenAI user interfaces, what are the devices that ultimately either replace or supplement smartphones? And we're also well positioned and working on a lot of technology there.

So I think there's a nice pipeline of innovation and of course we continue to innovate for existing devices and I mentioned the Apple relationship earlier. So for us, we always want to bring new glass compositions and ceramic compositions to those devices to make the devices better, to help our customers meet whatever their needs are. So I think there's good innovation there. We can't really talk about what our customers are specifically doing, but we feel like the specialty materials business has a nice growth trajectory. So it's a spring overall in our springboard plan that is actually now starting to grow.

Asiya Merchant:

Okay. All right. Let me ask if there's any questions in the audience. I have one.

Speaker 1:

Thanks. Amphenol is doing an acquisition of the CommScope fiber optic business that I think will bring them into more competition with you and scale out inside the AI data center. They've done a good job consolidating the scale up copper market. Just any thoughts on their entrance into that market to scale out?

Ed:

Yeah, I think CommScope is a competitor today. We know them very well. We compete across all applications, carrier and enterprise with them. So I don't think it necessarily changes the environment for us in a significant way.

Asiya Merchant:

Any other? We one more here.

Speaker 2:

I know there's tremendous growth coming in the data centers, but whatever happened to BEAD?

Ed:

BEAD is actually still in place. And there are a number of states that are slowly leveraging the BEAD program to do rural broadband deployments. We are participating in some of those. I think it's clearly

much slower in terms of the deployments than we might've said several years ago. I think the good news, whether it's BEAD or otherwise, our customers have committed to continuing to deploy fiber. A lot of the large telcos have recently talked about accelerating their deployments for fiber. I mentioned earlier that we're starting to see that a little bit now. So I think if I take data center interconnect out of the carrier business and I think of the legacy carrier business, I think that could be a mid to high single digit grower over the next several years. Some of that will be BAAD. I don't know that BEAD's going to be as huge a catalyst maybe as we might've said several years ago, but I think there's enough opportunity despite that.

Asiya Merchant:

A little bit on capital allocation. I know I always bug you on that one. So you guys have obviously a lot of demand, so you have to balance off of my cash flow that I generate, how much do I put into CapEx? Obviously there is maintenance CapEx, but how much more can I put into growth CapEx and how do I balance that and at the same time make sure shareholders are happy with the returns?

Ed:

Yeah, so our approach to capital allocation is to ensure that we always can invest for organic growth. That's our primary vector for where we want to deploy our capital. We think it creates the most value and generally our shareholders are confirming that for us. So we do that. We preserve our research development dollars and we spend capital when we can. And as I mentioned earlier, we've really tried hard to de-risk the capital aspect of that because that's when it gets pretty expensive when you start to put capital in the ground. So we're going to continue to do that. We always want to maintain a strong balance sheet. We actually have a pretty strong balance sheet today, an investment grade balance sheet, so to the extent we ever need to do anything with our balance sheet, we'll prioritize that as well. Primarily because we want to invest over long cycles, so we never want to be over levered at any point in time.

Then we take that remaining cash and we like to reward shareholders. We have a very nice dividend. We pay out almost a billion dollars a year on our dividend and we are committed to paying that dividend. We haven't increased it the last several years because I'd like to grow our cash flows and move the payout ratio down a little bit, maybe more like a 50% payout ratio on the dividend, but at some point we'll certainly look to do something there. And then of course we'll continue to buy back shares. We started buying back shares about five quarters ago and we'll continue to do that as we go forward with our excess cash.

Now, I didn't talk about M&A. I mean we're organic growers, so that's our primary vector, but we certainly won't rule out looking at there's something for us to be opportunistic on, but not transformational M&A.

Asiya Merchant:

Great. We're almost up here on time, so I would like to thank Ed here. Thank you to Corning and good luck with the rest of your meetings.

Ed:

Yeah, thanks Asiya. Thank you all.