# Risk management for corning inc

Business, Risk Management

Corning Inc., established about 150 years back, is a diversified technological company having three broadly defined operating segments: Telecommunications, Advanced Materials and Information Display. Headquartered in New York, Corning had revenue of $4. 6 billion and net income of around $520 million in 1999. The telecommunication Division accounted for around 70% of the total revenues. Corning was the world's largest manufacturer of optical fiber and amplifiers, with a market share of 50%.

Within the telecommunication division the Photonics business was growing at triple digit annually. The non-telecommunication divisions were also performing at impressive rates. As well, Corning was also the largest producer of flat glass panel for LCDs and had a 60% world market share. In addition Corning's biotechnology related products were experiencing a healthy demand and this sector was expected to see a steady growth during the next few years. At the time of offering the worldwide market for optical fiber was in a sold out stage and Corning had pre-sold the next 18 months of its entire fiber manufacturing capacity. The demand for Photonics products was also increasing and Corning responded by expanding the capacity for Photonics six fold over the next 18 months.

Corning Inc. shares were currently trading at $71. 25 which was around 94 times 200 earnings and 75 times projected 2001 earnings compared to an average of 30 times for S&P 500. Lately, Corning was considering acquisition of Pirelli S. P. A.'s 90% interest in Optical Technologies, Pirelli's optical components and devices business. In order tofinancethe acquisition Corning was issuing $2. 7 billion in zero coupon convertible debentures priced at

$741. 923 per $1000 principal amount. Corning was also conducting a separate public offering of 30 million shares of its common stock at $71. 25 a share.

Strengths and Weaknesses of the firm Strengths: 1) They own 50% of the optical fiber market, twice that of its nearest competitor 2) They own 60% of the world's market share of LCD 3) Access to man power, technologyand capital, which represent barrier to entry 4) Corning is well diversified in several market segments 5) Shock price went from a low of $10. 40 to a high of $113. 30 in six years 6) Current Debt-to-Equity ratio is low at 26.
2% Weaknesses: 1) 70% of their revenues come from one particular segment: telecommunication, where their customer base is restricted to few key players in the industry. Any adverse relation with anyone of these players, may affect the performance of Corning significantly

2) Beta has increased from 0. 87 to 1. 53 in six years 3) Stock price is overvalued " past month has been 94 times estimated 2000 earnings and 75 times estimated 2001 earnings, compared with an average of around 30 times for the S & P 500. 4) Low credit rating, bonds have to be sold at a discount Major Issues The market for the products manufactured by Corning depends largely on the telecom service providers and their customer base seems to be highly concentrated. If Corning looses a major customer in this segment its sales will be affected badly. Moreover the telecom division is heavily dependent on the capital spending and the ability of the service providers to raise and invest capital in the infrastructure development. Any downturn in the industry will severely affect the performance of Corning.

Although Corning considered otherwise but many industry experts felt that an excess in fiber capacity was emerging in the optical fiber industry. In spite of such warnings Corning is investing heavily in developing additional capacity. If the actual downturn occurs before the gestation period of Corning's investments the company will loose large amounts ofmoney. Moreover, an overcapacity in the industry will lead Corning to face pricing pressure further reducing its margins.

The telecom division of Corning grew during the last couple of years on the basis of expansion by the major US carriers like MCI, Sprint, AT&T, and their customer base was largely restricted to these few key players. Now the major investment in this sector in the US was likely to slow down which would result an overcapacity of Corning in its manufacturing units. In order to overcome this Corning has to shift its focus to overseas markets. Although the overseas markets were expected to be strong, the overseas service providers were much smaller compared to their US counterparts and were considered riskier.

Finally, the market for Corning's products was characterized by rapidly changing technologies, evolving industry standards and frequent new product introductions. Corning's success was heavily dependent on the timely and successful introduction of new products, upgrades of current products to comply with emerging industry standards and ability to address competing technologies and products. If this is not achieved it could have a negative impact on the company's performance.

In addition to selling debentures, Corning is going to be issuing 30 million shares, which means Corning is chasing after the same investment dollar. This is primarily done by Corning to reduce the cost of capital by providing an increased upside to debt holders. In the past year, the volatility of Corning stock has increased which makes the call option more valuable. But Corning appears to be issuing converts at a time when both its share price and stock market valuations are at historic highs.