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KODK - Q4 2014 Eastman Kodak Co Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Eastman Kodak fourth-quarter earnings call.

(Operator Instructions)

I would now turn the call over to your host, David Bullwinkle. Please go ahead.

David Bullwinkle - *Eastman Kodak Company - Director of Global Financial Planning and Analysis & IR*

Good afternoon. My name is David Bullwinkle, Director off Global Financial Planning and Analysis and Investor Relations for Kodak. Welcome to the fourth-quarter 2014 Kodak earnings call. At 4 PM this afternoon Kodak filed its annual report on form 10K and issued its release on financial results for the fourth quarter and full year 2014. You may access the presentation and webcast for today's call on our investor center at investor.kodak.com.

During today's call, we'll be making certain forward-looking statements as defined by the United States Private Securities Act of 1995. These forward-looking statements are subject to a number of uncertainties or risk factors, which are clearly described in the Company's 10-K and which are qualified by the Safe Harbor provisions in our filings. We advise listeners to read these important cautionary statements in their entirety, as any forward-looking statement needs to be evaluated in light of these important risk factors or uncertainties.

In addition, the release just issued and the presentation provided contains certain measures that are deemed non-GAAP measures. Reconciliations to the most directly comparable GAAP measures have been provided with the release and within the presentation on our website in our investor center at investor.kodak.com.

Speakers on today's call will be Jeff Clarke, Chief Executive Officer of Kodak, and John McMullen, Chief Financial Officer of Kodak. Jeff will provide some opening remarks, his perspectives on the business performance and outlook for the Company. Then John will take you through additional details of our fourth quarter results and cash flow results and outlook before we open it up to questions. I will now turn this over to Kodak's CEO, Jeff Clarke.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thanks, Dave. Welcome everyone, and thank you for joining the Q4 investor call for Kodak. On the call today we will talk about the progress made in 2014 in transforming Kodak toward a path of sustainable growth and profitability. After 12 months here at Kodak, I'm more excited than ever about the opportunities ahead. I also recognize our success is based on the acceptance and continued growth of several new technologies in the industries we serve.

We were establishing several new growth businesses based on our technology assets and the value of the Kodak brand, while at the same time managing the decline of our mature businesses. Enabled by our new divisional organization, we are reducing our cost structure to create an efficient and entrepreneurial set of operations appropriate for our scale and the portfolio of businesses we compete in within the marketplace. We continue to benefit from the pride and resilience of our dedicated and committed workforce, while at the same time evolving where needed the mix of skills required for the Company going forward.

Kodak is the midst of a transformation. In November we provided you with a summary of our portfolio which illustrated we have businesses in different stages of their lifecycle.

Several of them are predictable, stable and have significant areas of growth while others are like startups and therefore less predictable. We also businesses which are declining in line with their lifecycle and due to the changes in their underlying technologies.

We're making progress toward predictable financial performance. In November when we last spoke to you we said we would meet our guidance in 2014. I'm pleased to say today that we met our commitment.

In addition, we will continue to provide investors with greater transparency into the Company. On the call today we'll summarize the overall performance for the fourth quarter and full year. We'll review financial performance for our strategic growth and mature businesses, and update you on our ongoing efforts to reduce costs and optimize our structure to drive increased efficiency and effectiveness throughout Kodak. We will also provide you with our outlook for 2015.

Let's begin with a review our overall 2014 performance. For the year revenue was $2.1 billion and operational EBITDA was $154 million, both within our guidance. Importantly in the fourth quarter, on an apples-to-apples comparative basis operational EBITDA improved year over year by 40%.

Within our strategic technology businesses we achieved total revenue of approximately $1.8 billion for the year. Operational EBITDA for the strategic technology businesses of $89 million improved for the full year driven by a one-time $61 million increase in nonrecurring intellectual property licensing revenue.

Now let's get into numbers for our key products. In the Graphics business for 2014, total plate volume was up 1% year over year. SONORA plate volume was up 212% year over year. This is excellent performance of this business.

Plate volume grew for the first time in several years in an overall market which is down. This is fueled by the continued acceptance of SONORA technology by our customers. The value proposition of this product is resonating. SONORA plates now represent 9% of our total plates business and provide a higher level of profitability to the Company than our traditional plate products.

As you've indicated previously, we're adding capacity for SONORA plates in our Columbus, George plant. We will begin production in the third quarter of 2015 with an additional 15 million square meters of SONORA capacity.

We also delivered continued growth in our Packaging business. For 2014 FLEXCEL plate volume grew by 38% driven by excellent acceptance of wide-format CTPs and consumable plates.

We also increased our placements in 2014 16% year over year and reached an install base of more than 400 units at year end. The FLEXCEL NX system uses our proprietary square-spot laser imaging technology to produce high-resolution imaging, which reduces waste and ink usage.

In our PROSPER product line for 2014 we installed 8 presses and are now at an install base of 39 PROSPER systems. Page volume continues to increase dramatically as a result of the install base growth and ramping customer volumes. For 2014 PROSPER page volume increased by more than 50% year over year, reaching 5 billion printed pages providing positive momentum for future annuity revenue growth.

Let me now provide an update on our startup Micro 3D printing, or functional printing business. We've made good progress throughout the year, but we did not meet the timeline assumed in our 2014 plan as discussed with you on our third-quarter call.

This is breakthrough Micro 3D science, and we remain incredibly excited about the growth opportunity touch-screen sensors and other Micro 3D applications provide to Kodak going forward. As previously discussed, within this business we're focusing on developing two technologies with our partners, Kingsbury and UniPixel.

I'd like to provide you with an update on where we are with both of these technologies. Starting with Kingsbury. The Rochester Kingsbury factory has reached production quality levels for touch-screen sensors, a significant and exciting milestone.

Product-specific samples are in the process of being assembled into touch display modules with our integration partners for testing, and will begin production in a couple weeks for products anticipated to be released in the second and third quarters of 2015. As a result of these developments Kodak is investing in additional capacity in Asia to produce sensor films utilizing Kodak's technology. The Asia manufacturing facility is targeted to go online late in the fourth quarter of 2015.

Now let me update you on our touch sensor project with UniPixel. Last quarter I told you both companies are making progress in addressing remaining technical hurdles, which have continued to date. We continue to focus on ramping yields in the end-to-end manufacturing process targeting web conveyance improvements in our plating operation.

Proof-of-concept design shows sufficient promise to extend a touchless design to an end-to-end plating [line]. We continue working with UniPixel on building the initial production quantities necessary to support lead customer assessments in the medium and large display tablet markets.

Recent low volume trials achieved favorable integration yields. These and other samples are currently under evaluation from product reliability performance in a variety of environmental conditions.

I'll conclude this section with a few comments on our mature businesses. In 2014 revenue in our mature businesses decreased 34% year over year while operational EBITDA for these businesses was $65 million for the year, a decrease of $77 million. Mature businesses exceeded our expectation for the year due to stronger retail performance for Kodak in the sale of consumer inkjet cartridges.

Now let's discuss the progress made and opportunities going forward for optimizing the organization and reducing costs while continuing to invest in the future success of Kodak. For the year we've reduced our operational SG&A by more than $65 million. As discussed previously actions taken to achieve this include headcount reductions, movement of work where appropriate to lower-cost locations, and rigorous review and renegotiation of third-party expenditures as we continue to re-engineer our cost structure.

It's important to note while we're reducing headcounts in many areas across the Company, we also continue to hire where we see the need for critical new skills in support of the many areas of growth we're investing in and focusing on for the future. As a rough metric this year, we made approximately one new hire in areas critical to the Company's success moving forward for every three headcount reductions.

As I told you before we've already implemented changes resulting in savings in global benefits expense in excess of $20 million for 2015. I'll illustrate the total operational cost improvement we expect in 2015 when I discuss our 2015 outlook shortly.

Although we made good progress in 2014, we clearly see additional opportunities to optimize our organizational structure and further improve processes. In fact, subsequent to our third-quarter investor call we announced a new organizational structure designed to make the Company faster moving, more competitive, entrepreneurial and accountable.

In 2015 we now have seven business divisions, five product divisions, an IP research division and the Eastman Business product division. As shown on Slide 9, these divisions, along with their leaders are: Print Systems division, led by Brad Kruchten. This division includes plates, including SONORA, computer plate devices, electric photographic printing solutions, and OEM toner.

Enterprise Inkjet systems division, led by Philip Cullimore. This division includes Kodak PROSPER systems, Kodak Versamark systems and print-on-demand solutions, as well as ink OEM solutions.

Micro 3D Printing and Packaging division. Phil Cullimore will also lead this group on an interim basis. Micro 3D Printing and Packaging includes FLEXCEL NX systems and plates, legacy packaging solutions and touch sensor films through the Kingsbury and UniPixel relationships.

Software and Solutions division. Eric Mahe leads this division. It will include Kodak technologies solutions, which is Kodak's go-to-market engine to prioritize and monetize Kodak innovations in partnership with the Kodak research labs, Kodak unified workflow solutions, Graham Protection Solutions, Kodak services for business and the design-to-launch solution.

Consumer and Film division led by Steven Overman, who is also Kodak's Chief Marketing Officer. The division's products includes consumer inkjet solutions, brand licensing and motion picture and commercial films, as well as synthetic chemicals.

Intellectual Property Solutions division led by Terry Taber, who is also Kodak's Chief Technology Officer. This division will include the Company's Technology Center and research activities, as well as intellectual property licensing not directly related to the other business divisions. And finally the Eastman Business Park division led by John McMullen, who is also Kodak's Chief Financial Officer.

We've also combined four regional sales organizations into two. Europe, United States, Canada. Australia and New Zealand. EUCAN; and Asian, Latin America, Middle East and Africa, ALMA. These organizations will be led by John O'Grady for EUCAN and Lois Lebegue for ALMA. As you can see, common service and backup support will be hosted in a shared service model in each region for all businesses.

The Company is also optimizing its corporate functions by eliminating overlap and enhancing accountability. We will continue to pursue greater efficiencies in these areas.

We will begin external reporting of the Company in these divisions with our first-quarter earnings. We expect to provide our investors with the 2014 quarterly results recast in this new divisional structure during our Q1 earnings call in about six weeks.

Now, before going into our 2015 outlook I'd like to provide some overarching perspective on where we are with our portfolio businesses so you can understand the progress we're making as well as the challenges we're taking head-on. Here is the big picture of Kodak today.

Let's start with the plates business. Plates and CTPs is Kodak's largest business. It's foundational for us and it represents over 0.5 of our revenue.

We've been successful over the course of the year in improving our leadership position with our SONORA offering and the underlying recurring profitability of this business for the Company. This business is core for Kodak, and it's healthy.

Our Packaging business with the FLEXCEL NX offering, which was a startup in 2009. Today Packaging is a significantly profitable business in our portfolio with double-digit market share, proving what we're able to do in large markets in relatively short order with our technology innovation.

Our PROSPER inkjet system business is early in its lifecycle, but we're well on our way to building a business with good scale and profitability, placing equipment with direct customers as well as a growing base of OEM partners. With the scale we achieved in 2014 we look forward to growing annuity revenue streams as we enter 2015.

Another related exciting area for Kodak is our Micro 3D printing business where we're developing capabilities which will revolutionize how interactive electronics are manufactured. This business is in a startup phase where our progress is still harder to forecast than in Kodak's more established businesses.

Kodak is in a unique position to apply our leadership and breakthrough material science to new market opportunities. We're simultaneously inventing and scaling up metallic deposition processes.

On the theme of innovation and ambition at Kodak early in 2014 we formed Kodak Technology Solutions which is the mandate to continually ensure the advances in material science and digital technologies Kodak has to offer are being monetized. Within each of these product lines is significantly differentiated technology based on our own core technology platforms of material science, imaging science and deposition processes.

Kodak has a portfolio of extraordinary businesses at different stages of their lifecycle, each with a significant market opportunity. We're aggressively innovating to strengthen and broaden this portfolio for sustainable growth and profitability going forward.

Now let me share with you our outlook for 2015 full year performance. Our expectations for 2015 are between $1.8 billion and $2 billion of revenue and $100 million to $120 million of operational EBITDA.

I'd like to give you my perspectives on 2015. As we discussed on our Q3 call in November, we experienced challenges in areas of our portfolio, primarily Micro 3D printing during the year. These were offset by accelerating and deepening cost reductions, strength in other areas of our portfolio and a significant level of nonrecurring intellectual property revenue of $70 million.

As we've said before, IP transactions are lumpy and difficult to predict. As a result we have not planned on a similar level of revenue from these arrangements in 2015.

In addition, like most US-based corporations, we're experienced headwinds in foreign currency. After adjusting for FX and nonrecurring IP, 2015 operational EBITDA is an improvement of approximately 60% to 90% year over year on a comparable basis, and demonstrates both the significant progress we're making from a cost structure point of view and continued and accelerated growth we're seeing in many of our key strategic product areas.

Foreign exchange will also impact our top line in 2015. At current rates revenue in 2015 will be negatively impacted by foreign exchange by about $140 million year over year. Adjusted for currency, nonrecurring IP and the expected decline in consumer inkjet, we expect revenue growth of approximately 4%.

Another area of difficulty for us in 2015 is the cost of aluminum. Within the Print Services division our plates are made of aluminum and we buy hundreds of millions of dollars of the commodity each year. While we have hedging programs in place to predict cost levels, the cost of aluminum and related processing fees has risen in comparison to 2014. We estimate the negative impact of this to be just over $20 million for 2015 versus 2014.

We expect the continued decline in mature and legacy businesses as well as the headwind from aluminum will be partially offset from solid growth in our key strategic products and cost reductions driven in large part from our new organization structure, already implemented changes in employee benefits. I'll take you through the expectations for our key strategic technology products on the next slide.

Let's look at the highlights. On Slide 11 we've presented the keys to delivering our plan for 2015. As I've indicated already, we expect to achieve significant year-over-year cost reductions.

In terms of COGS, the shift from five plants to four plants in plates along with other productivity and employment -- employee benefit changes will drive about 1 point of improvement in gross margin, which will help offset the overall company gross margin decline. In terms of operating expense, we expect greater than $100 million, or about a 25%, improvement on an operational basis. This is hard but necessary work, and I'm pleased with the execution.

Due to the new divisional structure we have good visibility into continued efficiencies beyond the $100 million. The run rate for savings for actions already taken in 2014 provides $58 million of operating expense improvement. In addition, the benefit reductions we've implemented provide an additional $10 million of operating expense savings.

We will continue reduce our operating cost by taking action including headcount reductions, movement of work where appropriate to lower-cost locations, and rigorous review and renegotiation of third-party expenditures as we continue to re-engineer our cost structure.

We're adjusting our cost structure to achieve appropriate levels consistent with the size and scope of the Company we are today and the business models for markets in which we compete. Greater cost efficiency will allow us to compete effectively today and invest for growth in the future. We will accomplish this by simplifying and streamlining our processes.

In addition to the Company's cost re-engineering, we expect accelerated growth in our key strategic products. One area of growth is our PROSPER system placements. After five years since we launched PROSPER, we ended 2014 with an install base of 39 presses. In 2015, we expect placements of approximately 25 systems, which will increase our base by over 60% in just one year, 2015. Our momentum is strong.

In fact we already have contracts completed for eight PROSPER system through mid-March. With the growth in our install base we expect improvement in annuities volume of over 30% in 2015.

In FLEXCEL NX we expect annuity growth of greater than 25% year over year driven by the install base of over 400 systems at the end of 2014. Like 2014, we expect to grow the install base by about 20% in 2015.

Within the Print Systems division we continue to convert our customers to the very successful SONORA product. We expect SONORA growth of greater than 50% in 2015, which will drive another year of total plate volume growth.

During 2014 Kodak [could] save printers approximately $91 million kilowatt hours of power, 48 million gallons of water and 317,000 gallons of chemical waste. In the last five months ending February, we've gained 825 customers in SONORA, bringing the total users to over 2000 to date, growth of over 65%.

Finally, the progress we've made in Micro 3D printing will continue and the hard work of our team and those if our partners will pay off. We expect to begin recognizing revenue in the second quarter of 2015 at modest levels as we transition to commercial production.

Overall the range of operational EBITDA presented in our 2015 outlook reflects a 60% to 90% comparable year-over-year improvement, a good baseline for growth. The sustainability of our revenue and earnings in 2015 will be markedly improved over the last two years.

Please take the time to look at Slide 12. The earnings contribution from our strategic businesses in 2013 was approximately 45%, a little less than 0.5 of the overall. We expect the contribution of our strategic businesses to provide approximately 90% of our EBITDA in 2015.

I'd like to summarize the state of Kodak today. We're streamlining and re-engineering operations for greater efficiency. We've redesigned the Company for greater transparency and accountability. We're putting in place a cost structure which gives us the freedom to compete, to invest, and to continue to innovate and provide greater value to our customers. We're well on our way to positioning Kodak as an engine for growth.

In summary, 2015 is a pivot year in the transformation of Kodak to a sustainable, profitable Company. I'm incredibly excited about our plans for 2015 and confident in Kodak's -- the Kodak comeback is well underway. I'll now turn the call over to John who will review the financial results for the quarter. John?

John McMullen - *Eastman Kodak Company - CFO*

Thanks, Jeff. Good afternoon. Today the Company filed its form 10K for the year ended December 31, 2014 with the SEC. I recommend that you read this filing in its entirety. I am pleased to share my thoughts and comments on the Company's fourth-quarter and full-year results.

On Slide 15 you'll see a summary of our consolidated results for the quarter. Total company revenue of $529 million is down 13% year over year. Gross profit improved by $11 million year over year and gross profit margin for the fourth quarter improved to 21% versus 16% for the fourth quarter of 2013.

We also continue to drive year-over-year improvements in operating costs. For the fourth quarter the reduction in our operational SG&A was $30 million. These improvements are the results of a number of actions including headcount reductions, reduced overhead costs, savings from global benefit changes, facilities consolidations, and renegotiations of vendor contracts. We will continue to focus on opportunities to further reduce our cost structure going forward by driving a simpler, more efficient and more execution oriented organization consistent with our new divisional structure.

Overall, the Company's operational EBITDA for the fourth quarter was $35 million, a year-over-year improvement of $10 million, or 40%, versus 2013 when excluding nonrecurring IP licensing revenue. The results of the fourth quarter represent improvement for the Company in its operations.

As we reported in our earnings release, net loss for the quarter was $41 million compared to a net loss of $57 million in Q4 of 2013. 2013 is a difficult compare due to the impacts of fresh start accounting implemented in September of 2013.

Looking at Slide 14. On a full-year basis when comparing our results for 2014 to the results for 2013, on an apples-to-apples basis a comparable improvement was $411 million year over year. Applying the same approach to the fourth quarter yields an improvement of $12 million year over year.

It's important to note that the $41 million loss for the fourth quarter includes $19 million in restructuring charges and reorganization costs from prior years, a $16 million charge related to a mark-down in the value of assets in Venezuela, and a $9 million charge related to an intangible asset impairment. These three charges totaled $44 million. This information is taken directly from the Company's consolidated statement of operations in the 10K and adjusts for large items in 2013 that are not comparable to results in 2014.

I'd like to take you through some of the business highlights for the fourth quarter. For the fourth quarter strategic technology businesses revenue was $445 million and operational EBITDA was $18 million. Excluding nonrecurring intellectual property licensing in Q4 of 2013, strategic treated technology businesses for the fourth quarter operational EBITDA improved by $10 million year over year.

Within our Graphics business for the fourth quarter, total plate unit volume was up 1% year over year and SONORA plate volume was up 138% year over year. For the quarter in our packaging business, FLEXCEL NX plate volume grew by 38%. As Jeff mentioned, at the end of the quarter our install base of CTPs in the FLEXCEL NX product line has now exceeded 400 units.

In our PROSPER product line we installed one additional press system in the quarter. Page volume for the quarter increased year over year by 57%. This is a positive signal for annuity growth in future periods.

Finally in our mature businesses for the quarter, revenue decreased by 21% and operational EBITDA was flat with the fourth quarter of 2013. Performance in consumer inkjet cartridges was stronger than expected in the fourth quarter. Overall we are pleased with the performance for the quarter, and we met the full-year commitments we provided you the last time we spoke in November.

Now let's focus on cash and key items on the balance sheet. The Company's liquidity remains strong, with ending cash for the year of $712 million. For the full year, cash used in operating activities improved by $530 million.

As you can see on Slide Number 17, during the year the Company used cash primarily for interest expense and debt repayments, reorganization and legacy payments related to our Chapter 11 and re-emergence process, restructuring employee severance payments, payments related to 2013 incentive compensation paid during 2014, capital expenditures including cash usage associated with our commercial business and the year-to-date negative impact for foreign exchange rates on cash. The impact of working capital movements for the year was a source of cash of approximately $50 million.

On our last call I walked you through these items for the year-to-date period ended September 30, 2014. At that time I shared with you our year-end expectations for cash at or above September levels. Excluding the negative impact of foreign exchange on cash for the fourth quarter, we ended the year very close to this expectation and are generally pleased with our performance.

To summarize the quarter and full0-year performance, we have made significant progress throughout the year in key strategic technology businesses while in parallel improving the Company's cost structure. We will continue to build on the progress we have made in both areas throughout 2015, as Jeff shared with you in his remarks.

Now I would like to provide you with our outlook for cash in 2015, given the revenue and operational EBITDA expectations Jeff provided. We continue to be comfortable with our liquidity position, but clearly see opportunities to improve our cash flow performance in 2015.

We expect to end 2015 with a cash balance between $630 million and $650 million. Within this, we expect to move to positive cash flow from operations for the second half of 2015 and going forward. Key uses of cash in 2015 include interest and debt payments of about $65 million, legacy and final reorganization payments of approximately $30 million, reinvestment in our growing businesses through capital expenditures including both direct and commercial capital of approximately $70 million, severance cash payments of approximately $50 million as we continue to drive efficiency within the new Kodak structure, and cash tax payments of approximately $20 million.

Let me also provide you with some comments relative to linearity for 2015. During 2014 when you adjust for nonrecurring IP, the weighting of first-half and second-half operational EBITDA was roughly 25% and 75% respectively. You should expect similar linearity in 2015.

One factor is the more significant impact of foreign exchange and increases in aluminum prices in the first half of the year versus the second half, based on how these trended throughout the course of 2014. Second, like 2014 and years prior, the Graphics business performance is more heavily weighted in the second half. Third, as we continue to grow our install base of our PROSPER and Packaging businesses, the annuity streams of those businesses will ramp throughout the year similar to last year.

Before handing it back to Jeff and in closing, we are taking the actions required to get to the cost structure necessary for both the current scale of our businesses and the capacity needed to invest in the many growth opportunities we see going forward. We have made very good progress in 2014 and will continue to be laser focused on the actions necessary to drive further simplification, speed of execution and efficiency where appropriate throughout 2015.

Like Jeff, I'm very excited with the many opportunities for Kodak and our ability to move to sustained growth and profitability of the Company going forward. I'll now turn it back to Jeff for some closing comments.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you, John. In summary, we continue to carefully manage an exciting portfolio of Kodak offerings and opportunities while taking the actions necessary to ensure our successful performance and continued investment in those growth areas going forward. I am pleased with the 60% to 90% improvement we will see in operational EBITDA for 2015 on a comparative basis.

Although we are not providing guidance today for 2016 and beyond, I will briefly discuss our thinking on some of the factors we're considering. We've indicated we expect positive cash flow for the second half of 2015. And we told you the linearity of the plan would result in 75% of our EBITDA, $75 million to $90 million in the second half of 2015. We also shared with you 90% of this EBITDA will come from our strategic and growing businesses in 2015.

Based on these building blocks, as well as the execution required to deliver on our 2015 guidance, we feel operational EBITDA of approximately $175 million is a reasonable goal for 2016. We'll add more color on this on our first-quarter call, and we expect to host an Analyst Day in the next several months. We'll now be happy to take your questions. Dave?

David Bullwinkle - *Eastman Kodak Company - Director of Global Financial Planning and Analysis & IR*

Thanks, Jeff. Patrick, we are now ready to open the Q&A session. Please remind callers of the instructions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

Thank you very much for taking my questions. I just had a few. The first, could you talk a little bit more about the plate business? What you are seeing in terms of pricing.

I'm curious, traditional versus SONORA plates. Are there any differences there? And what kind of -- what the competitive landscape looks like. Sure of course. Good evening, Shannon. Again, we thought we had a really good year in plates. It was effectively on our plan for the year.

We had plate growth volume for the first time since 2011. And it's very good to grow in this business. Clearly were taking market share.

Our primary competitors in this industry are Fuji and AGFA. There are several regional competitors, and there are also some competitors based in China. We believe we are gaining share against the majors and the regionals. And that's driven by a technology difference with SONORA.

We continue to be able to charge a premium for the premium SONORA product. I shared with you the savings of chemicals, the savings of water and the savings of electricity that make the value proposition so strong for SONORA.

In terms of customers, I shared earlier that in the last five months we have created almost 40% of our overall customer base. We're very pleased that we continue to get converts to SONORA and when you get that, when the process step is out, it is a system where with very high renewal rates and very high consumption of our plates. It's going well.

One of the questions that I'm sure is out there, is given the aluminum price differential, where aluminum costs are much higher than they were a year ago, are we able to pass any of this cost on to our customers? And the answer is no. This is a very competitive market.

There's a lot of capacity in the industry. And we are finding that our competitors, since they do not have a technology competitive product versus SONORA, they are tending to be very price sensitive and are eating the cost associated with the increased aluminum.

We do feel over time that aluminum will come back to a normal historic price point. It is a volatile commodity, and it's a key input into our product. And so all of our projections going forward are based on aluminum holding at this level for the rest of the year. Okay, great. And then you've restructured from a segment perspective. I'm curious, when you look -- since you've done that, and I'm sure it's taken some investigation of the various business units and that, have you come up with any potential asset sales, or are you pretty happy with the assets that you have right now?

Jeff Clarke - *Eastman Kodak Company - CEO*

We set up these into divisions, and five groupings of products in these divisions. We're pleased with the portfolio. By definition we're always going to evaluate what parts of the portfolio are growing, what parts are particularly important.

Part of the divisional structure was to provide optionality. I believe at one point many of these businesses were viewed as highly synergetic, and there is some synergy across divisions. But not as much as they are independently driven approaches to the industry.

We're going to be pragmatic, but we continue to invest in these businesses. And we are seeing, as you can see, strong growth. For example, if you look at -- if you take some of our most recent technologies within these divisions, and you look at PROSPER, the SONORA part of our plates business, FLEXCEL NX, Software and Solutions we expect to grow over 40% year on year.

And so when you are growing at that rate, and we will be approaching $0.5 billion of our revenue coming from those categories along with Software and Services. This is -- these businesses are doing well.

They're just a relatively small part of a couple billion dollar size Company. One of the goals of the divisional structure is that we can operate more entrepreneurially and that we can understand the segments. The other one is so we can give you as investors more visibility into some of the things going really well at Kodak. Thank you, Shannon.

Shannon Cross - *Cross Research - Analyst*

Okay, great, And then just a couple questions for John quickly. Could you talk a little bit about your foreign exchange rates they are using going forward, given FX is a pretty big hit?

What were your -- what is your -- I'm sorry, been a long day. What is your guidance predicated on for the euro, for instance? And then can give us a little idea on your hedging program?

John McMullen - *Eastman Kodak Company - CFO*

Yes. We are taking basically March rates and running those forward, Shannon. So we're not making predictions relative to foreign exchange rates.

We don't have a full economic hedging program within Kodak. We have some natural hedges in place from a cost structure point of view, but we don't have a full-fledged hedging program that would smooth some of this out.

Shannon Cross - *Cross Research - Analyst*

And then the last question is, can you clarify the EBITDA guidance? Is there any nonrecurring IP licensing in there? I wasn't sure. And if there's not, then obviously there's some opportunity for upside.

John McMullen - *Eastman Kodak Company - CFO*

Yes, there's a very small element. But essentially we took out on a year-over-year basis everything that reflected getting us to a more comparable basis.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you very much.

Operator

Jen Ganzi, NewMark Capital.

Jen Ganzi - *NewMark Capital - Analyst*

Hi, guys. Thanks so much for taking the questions. A follow-up on Shannon's last question about the IP licensing. Is it that you feel that there's no opportunities and nothing on the horizon to generate EBITDA from that portion of the business? Or is it just that because you have no visibility you'd rather just be conservative and assume it's $0?

Jeff Clarke - *Eastman Kodak Company - CEO*

We are working, as you would expect, on multiple avenues to monetize the intellectual property of the Company. There is nothing in the pipeline of the scale that we saw with the Asia Optical IP transactions last year, as well as some of the legal settlements.

So we believe that it is prudent to put in plans things that you can count on. And we want to make sure that when we forecast our performance going forward, these are things that we can execute to.

And there is too much variability and too much distance between some of the areas that we're targeting for license and areas that we have visibility into within this 12-month period. I wouldn't call it conservative, I wouldn't call it aggressive, I would just say right now we're out exercising lots of areas but there's nothing -- there's no big lumpy piece that we have visibility to.

That doesn't mean that there isn't great opportunity here. We have an entire division structured to do just this. So we're working it hard but we're not going to put in things that may or may not come in within the focus of this comments.

Jen Ganzi - *NewMark Capital - Analyst*

Okay, fair enough. Thanks. And I'm assuming then when you gave the $175 million goal estimate for 2016, that also does not include any nonrecurring IP licensing numbers in there?

Jeff Clarke - *Eastman Kodak Company - CEO*

Let me please clarify, it was not a estimate. It was not guidance. It was a discussion to give you a sense of some of the things that we're thinking about and the direction that we're seeing.

But to answer your question specifically, there is no lumpy piece of that. That $175 million really relates to the $75 million to $90 million of operational EBITDA we see in the second half of this year which does not have IP components in it that we believe is sustainable going forward now that 90% of our business comes from that profit pool.

Jen Ganzi - *NewMark Capital - Analyst*

Okay, that's helpful. Thanks. I guess in terms of your -- it sounds like you said that your Packaging business has been profitable. Can you give us a sense of what margins are looking like on that at this point in time? And how you expect those to on a go-forward basis, how you expect those to increase or even flat out?

Jeff Clarke - *Eastman Kodak Company - CEO*

Sure, Jen. Jen, first of all, the Packaging business has been terrific. This is a business that has gone from start-up in five years to a business that at the end of this past year was close to $130 million in total, both the FLEXCEL NX and some of the legacy pieces.

We're seeing very good margins, but particularly important we're seeing margin expansion for multiple reasons. One is the product is, as they call it, a closed system. So when we sell one of our 400 CTPs, they churn for a significant period of time. But typically these CTPs have a nine-year lifecycle and we're very young in this entire lifecycle.

Second of all, we have expanded into a wider format. And this is very important because we're getting much higher levels of plate burn. I mentioned we're in the 30% plate burn.

The plates have very high margins, in the over 30% EBITDA margins in these plates. And as the factory continues to fill, our margins go up.

We've also hit record manufacturing metrics in the Packaging business. We're hitting record levels of quality and record levels of performance to capacity. Jen, we're really pleased with where we are in the Packaging business. And we see strong margins today and expansion going forward

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Jen Ganzi - *NewMark Capital - Analyst*

Great. And then on the Graphics business, it sounds like you're expecting real strong growth next year from SONORA. Do you feel like you'll be at the point where the growth in SONORA offsets the declines from the legacy products in that division?

Jeff Clarke - *Eastman Kodak Company - CEO*

That's right. That's what we saw this year and that's what we're planning for next year. And so we added about 7 million square meters of plates last year. We expect to do a similar amount this year.

Coming from different basis, we will still end growing over 50% in 2015. And that will drive us to plate growth in aggregate. And obviously significant market share shifts.

Jen Ganzi - *NewMark Capital - Analyst*

Okay, great. Finally on the commercial inkjet solutions. It looks like that's also obviously strong growth for next year. Do you expect profitability in that business next year, or is that further out?

Jeff Clarke - *Eastman Kodak Company - CEO*

We do expect that we will move to breakeven and perhaps a little beyond. As we said, when you are shipping -- when you have 39 presses in your install base and you're adding 25 during a year, that's a big change. These are such sophisticated machines, particularly in the OEM space that it's going to take a while for them to burn.

As I mentioned, we did just last year over $5 billion A-form page equivalents, which was up over 50%. We are burning on the existing install base, and we see significant opportunity going forward.

But because these are such sophisticated systems, it does take a while to get them ramped up and going when they get to the customer site. You have to tune them specifically for the applications and so forth.

We would be at higher profitability, but when we put these presses in there's a lot of service costs, and many of these presses go in at breakeven or even a loss for the later profitability. But we are deferring some profitability in this business because we're willing to go for the longer-term plate burn -- excuse me, ink burn in this case. And effectively if we did -- we'd have a higher profit if we sold a few more systems -- fewer systems this year, but we'd rather get those systems placed so we have a much better second half and a much better 2016 and beyond.

Jen Ganzi - *NewMark Capital - Analyst*

I got it. So a lot of that, I guess at a delta between where you're seeing 2016 versus 2015, a lot of that is due to the cash flow ramp in that business?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes. I'm going to give you some perspective. You can as a rule of thumb think that we lost about $40 million last year before corporate costs on the inkjet business.

And this year when I say we're going to be at breakeven, that's a point of significant shift for us in a very important business that is at really a pivot point, go from heavy investment into starting to a monetized going forward. And then obvious when you get more sets of systems in, that looks quite good for the future.

Jen Ganzi - *NewMark Capital - Analyst*

Great. And then [I'm guessing] and then this is more of a request than a question. If it'd be possible to give us back a couple of years, sort of pro forma numbers for the seven sectors that you're going to be going forward breaking out your business lines into, that would be super helpful for us. That's it for me. Thanks.

Operator

Alex Yaggy, Cortina

Alex Yaggy - *Cortina - Analyst*

Thank you very much for taking the question. I have a quick question on the cash expectations. You laid out a lot of nice detail for 2015, but can you just give us a little bit of an indication going into 2016 how many of these are going to go away? And maybe what you think might happen with working capital going forward, if it's going to become a cash drain as you continue to grow.

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes, sure. I think -- great question. Let me talk about some of the things that I think are either going away or more variable in nature to start. I talked about legacy and reorganization payments in 2015 of approximately $30 million. That number will be materially gone by the time we get into 2016.

There might be some very low legacy-type things, but the reorganization-type payments will be gone. You can count on that. Restructuring will be a function of where we are and how we view the cost structure as we enter 2016, and that's a variable number. And we will see when we get there, but I would expect that number to be in decline, certainly as we get into 2016.

Capital expenditures are going to be a function of both direct capital, but also in terms of how we're doing and how we're choosing to go to market with businesses like the press business. We see good opportunities in the marketplace and we want to use commercial capital as a way to penetrate that marketplace. We certainly will.

From a working capital point of view, I think, sure, the growth in the business will have its impact but I see a lot of opportunity for us over time to improve from a working capital point of view our cash conversion cycle. And I'm confident in our ability to make pretty significant improvements over time there. As I made comments in my opening -- my prepared remarks, we will -- we expect to exit the year, second half cash flow positive, and we expect to continue to be cash flow positive going forward throughout 2016 on an annual basis and start being a position to rebuild and grow cash going forward.

Alex Yaggy - *Cortina - Analyst*

Thanks. And can you update us on any plans you have for the Eastman Business Park? As I recall, I think there was some effort to sell that, but I haven't heard anything in a while on that.

John McMullen - *Eastman Kodak Company - CFO*

Sure. The Eastman Business Park, and one of things we are going to do is break this out for you after our Q1 call next year -- Q1 call in about six weeks.

It's a lot of assets. This is one of the largest industrial parks in North America. It's one that operates at significant underutilization, but it's one that we're making steady progress on. There is not a -- we have yet to find -- despite significant effort to find a buyer who is willing to purchase the Park in a manner that is favorable to Eastman Kodak. There's lots of offers that have come in, but they are quite adverse to Eastman Kodak. Our job is to do a better job managing this Park and then eventually find partners, whether that be government partners, whether that be commercial partners, but do a better job managing the Park.

One of the key elements of the Park, the largest tenant of the Park is film. As many of you have probably heard, we are re-committed to film. We see this as a business that can make money over time, and should be breaking even this year for us. And we can see profitability going forward in that business as it kind of hits a sustainable level, and perhaps even gets a little bit of a bump as we readdress some of the opportunities of it, much like vinyl has.

And if you look at film, film covers a lot of the costs of the Park. And closing the film business would have been very difficult for the Park, if that had happened.

We have more tenants in the Park then Kodak employees now. And so we've made some progress. We've got a good pipeline of new tenants. But a large part of this will be working business development with local community government officials and others to try and get higher utilization out of the Park.

We will go these numbers in detail with you at the end of our first quarter. But like many parts of Kodak, the Park's been there a long time. We need to manage it better, and we are putting a lot of focus on it.

It's no longer in a kind of a shutdown, hope someone will buy it phase. It's now in a place we're going to manage this thing and we're going to run this thing efficiently, and get the right partners to go do that.

Alex Yaggy - *Cortina - Analyst*

Thank you.

Operator

(Operator Instructions)

Amer Tiwana, CRT Capital.

Amer Tiwana - *CRT Capital - Analyst*

Thanks for taking my question. I wanted to go over the guidance for 2015. And just going through the numbers there's about $63 million, as you mentioned, as the base level for 2014. How do you build up to the 2015 guidance broken between growth and the strategic business as well as what the cost reduction you are getting from SG&A and R&D? Can you help me there?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes. Let's go back to Page 11 on the webcast, if we could, which outlines the drivers of the performance. Obviously a huge driver of the performance we're talking about, as we said in improvement -- let me just go over here for one second and get the exact numbers for you. We're talking about an improvement really from $63 million to $100 million to $120 million. So a 60% to 90% improvement. If you take the midpoint of that, you're really about a $53 million improvement.

And the first bullet here says that 100% of that, more than 100% of that $53 million is based on cost savings. Taking 25% of cost out is a very formidable task. We're well on our way to doing it. I'm highly confident we will achieve that.

As we mentioned, there are things moving both ways. While we take COGS out, we improve our COGS, we take out costs and we see growth. And I mentioned earlier in the call that we have 40% growth across some of our roughly a $400 million, on it's way $500 million of revenue in key strategic areas. And that is going to have a big impact, most notably in PROSPER and in Packaging.

The reality is that we also are facing a lot of other headwinds within this. And we mentioned those. We did not mention -- when we talk about the apples-to-apples performance, we talked about not having the $70 million of nonrecurring IP and $21 million of foreign exchange, but we're also facing the aluminum hit that we talked about and pricing pressure in some of our legacy businesses. While we are doing well in PROSPER we have other legacy businesses that are still in decline.

This is a balance between growth in PROSPER, where as I mentioned that's going to be tens of millions of dollars of improvement year on year. Strong growth in our FLEXCEL business, SONORA helping us hold plate -- our profitability in our overall plates building as flat as we can on a constant currency basis with marginal growth and strong cost actions.

And then the wildcard for us, and as I mentioned earlier, we're circumspect and conservative in this Micro 3D printing. If that comes in a little earlier, that's very good news from us. If that comes in a little later, it is not as much bad news as it was in 2014 because we're not betting on new technologies that we can't demonstrate yet.

And so what you're seeing here is a more cost driven approach on balance because we have much more control over that. That said, we are very -- we have very ambitious but achievable goals in our PROSPER and FLEXCEL NX business as well as the SONORA part of our plates business.

Amer Tiwana - *CRT Capital - Analyst*

Understood. And maybe I can follow up on that issue. How much functional print in terms of your guidance is coming from functional print in terms of EBITDAR range? Is it a smart number, a big number? I know you said it's relatively hard to give guidance on that, but if you could just give us some range?

Jeff Clarke - *Eastman Kodak Company - CEO*

It's a very small number. And then that doesn't mean that we don't believe that the business is very important. This is a business that could be one of the largest producers of our profit in 2016, 2017 and 2018.

We are committed to this business. There's not a lot of additional expenditure that we're doing. Most of the technology has been done. Now we are turning the manufacturing processes, scaling the roll-to-roll processes.

But in terms of revenue contribution in these businesses, we're going to be circumspect. This is an area where perhaps I'm a little conservative, but I don't want to bet on start-up businesses in our guidance.

Amer Tiwana - *CRT Capital - Analyst*

Understood. And the last question I have is regarding your CapEx spending. You mentioned $70 million. How much of that is maintenance and how much is related to the commercial capital?

John McMullen - *Eastman Kodak Company - CFO*

It's about -- a little over 0.5 of that is maintenance and then the balance would be in commercial capital. We're going to manage that very tightly throughout the course of the year as well

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Jeff Clarke - *Eastman Kodak Company - CEO*

We're finding two things. First of all, we are seeing such growth in our Packaging business that we're going to start some of the investment that's required in the second half of this year to build a second factory. And that total factory cost will be about $15 million over a couple of years. But that's a good news. This shows great demand for our product sets.

As mentioned we are putting in a new SONORA line in Columbus, Georgia. So that is going to have a tale of some capital. We are putting capital in where it really make sense in some highly profitable businesses.

I think the difference from prior years, Kodak was significantly constrained, particularly against deep-pocketed players like Hewlett-Packard and others, around getting systems out there with commercial capital. And the payback on these is quite strong.

And so we will be careful how we do it because we watch our cash balances. We watch our return. John has done a fantastic job adding a lot of discipline around returns before we utilize capital.

But we are seeing opportunities, and a greater number of opportunities because of the growth of PROSPER. And there are certain industries, particularly in the OEM space where we can get machines out there faster if we're willing to deploy some commercial capital. The returns are pretty quick.

Amer Tiwana - *CRT Capital - Analyst*

Sure. I appreciate that. Actually, can I just sneak one last question in?

On the debt side, pretty heavy on interest payments at this point in time. Any plans on looking at the balance sheet and trying to either refi it or some other opportunities to perhaps bring down that cash outflow?

John McMullen - *Eastman Kodak Company - CFO*

Sure. Clearly that's an opportunity for us going forward. I think like we've mentioned on the past one or two calls is we're opportunistically looking at what our market opportunities are in terms of our capital structure going forward.

You can be sure if there's an opportunity for us to do something different going forward, we will be all over that. I'm very -- it's a good opportunity for us going forward and the health of our business and the great things we are accomplishing certainly will help us along the way with that.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you very much. Really appreciate -- and so I want to thank everyone for joining the call. As you can tell, John and I are pretty excited about the ability to drive real apples-to-apples improvement in this year of a 60% to 90%.

We're very excited about some of the unlocked value we're seeing by the divisional structure in terms of driving more cost out and getting better entrepreneurial performance. We're excited about many of the things we're seeing in our pipeline. And so we look forward to talking in six weeks after -- when we talk again about a little more bit of about the divisional structure, our Q1 results and talk to you again soon. Thank you again.

John McMullen - *Eastman Kodak Company - CFO*

Take care.

Operator

Ladies and gentlemen, thanks for participating on today's program. This concludes the program. You may all disconnect.
