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KODK - Q4 2016 Eastman Kodak Co Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak's fourth-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, today's conference may be recorded. I would like to introduce your host for today's conference, Mr. Bill Love. Sir, please go ahead.

Bill Love - *Eastman Kodak Company - Director of IR & Treasurer*

Thank you, Michelle, and good afternoon, everyone. My name is Bill Love and I'm Eastman Kodak Company's Treasurer and Director of Investor Relations. Welcome to the fourth quarter 2016 Kodak earnings call.

At 4:15 PM this afternoon, Kodak filed its annual report on Form 10-K and issued its release on financial results for the full-year and fourth-quarter of 2016. You may access the presentation and webcast for today's call on our Investor Center at investor.Kodak.com.

During today's call, we will be making certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. All forward-looking statements are based upon Kodak's expectations and various assumptions. Future events or results may differ from those anticipated or expressed in the forward-looking statements.

Important factors that could cause actual events or results to differ materially from these forward-looking statements include, among others, the risks, uncertainties and other factors described in more detail in Kodak's filings with the US Securities and Exchange Commission from time to time. There may be other factors that may cause Kodak's actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to Kodak or persons acting on its behalf, apply only as of the date of this presentation and are expressly qualified in their entirety by the cautionary statements included or referenced in this presentation.

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 with 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 David Bullwinkle, Chief Financial Officer of Kodak. Jeff will provide some opening remarks, his perspective on Kodak's financial performance and guidance for 2017.

Then Dave will summarize fourth-quarter 2016 results, provide an update on cost reductions, and review cash performance before we open it up to questions. I will now turn the call over to Kodak's CEO, Jeff Clarke.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you, Bill. Welcome, everyone, and thank you for joining the Q4 investor call for Kodak.

I am encouraged by the progress made in 2016. We have improved our operational efficiency, reduced costs and significantly improved the Company's capital structure. We continued progress toward a healthier and more balanced product portfolio, with notable growth in SONORA plates and FLEXCEL NX packaging, and we will continue to leverage our technologies and growth opportunities in 2017.

While I am pleased with our progress, we were short on two of our 2016 goals. During 2016, we used cash of $22 million after adjusting for currency and debt prepayments, net of preferred stock proceeds versus our objective to generate between $10 million and $30 million of cash.

The variance to our target was driven by the timing of working capital, non-cash items and EBITDA and the deconsolidation of the utilities infrastructure at Eastman Business Park. Dave will share more specifics with you in his remarks.

We continue to work towards the disposition of our PROSPER business, but have not yet entered into a binding sale agreement. There are multiple global parties interested in PROSPER, and in order to maximize the value we have been patient as prospective buyers work to develop their most competitive bid for the business.

We announced in December the sale process was delayed, and has taken longer than we had originally anticipated. As I have said in the past, PROSPER is a complex business with great technology. But still requires additional investment in its next-generation ULTRASTREAM platform, which has added to the time needed in the sale diligence and negotiating process.

PROSPER had a strong year, and is now better positioned for the sale process. Annuities grew 40%, and EBITDA improved 11% inclusive of our increased investment in ULTRASTREAM.

Our focus for the PROSPER business is on developing the next-generation ULTRASTREAM platform with solutions that place writing systems in original equipment manufacturers and hybrid applications And the continued placement of PROSPER 6000 presses and components in suitable high-volume applications. For competitive reasons, we will not comment further on the sales process.

The Company has made good progress in 2016 across many areas. We entered 2017 with a much stronger balance sheet as a result of the repayment of the entire second lien debt during the fourth-quarter of 2016.

While we were short on our 2016 cash projection, I'm pleased we have gone from a cash use of $161 million in 2015 to a use of $29 million in 2016 when adjusting for debt prepayment net of preferred stock proceeds. Again, a use of $161 million in 2015 down to a use of $29 million in 2016.

Now I'd like to highlight four notable achievements in 2016. For the full year 2016, we delivered $144 million of operational EBITDA. Which when adjusted for $12 million of currency headwind for the year would have been $156 million. Second, our packaging business continues to demonstrate strong growth, with an increase in FLEXCEL NX revenues of 13% on a constant currency basis and FLEXCEL NX plate volume growth of 16% compared to prior year.

Third, our PROSPER business also continues to exhibit strong growth in annuity revenues which is the key measure of success in this business. Year-over-year improvement in annuity revenues was 40%, driven primarily by the improved mix of higher performing PROSPER 6000 presses. Fourth, we significantly improved our balance sheet by reducing the face value of our debt from $685 million to $402 million through the issuance of a $200 million Series A Preferred Stock, and a paydown of $82 million from existing cash on the balance sheet.

Through the remainder of the call today, I will talk about the Company and divisional results for the full year 2016 as well as our guidance for 2017. Dave will then follow with more details on the fourth quarter, updates on cost reductions and cash flow performance, after which we will welcome your questions.

Kodak delivered net earnings for the year $16 million, an improvement of $91 million year over year. After excluding for lower depreciation and amortization expense of $40 million and increased pension income of also $40 million, operating performance improved by $11 million year over year.

Starting on slide 5. For the full year 2016, revenue was $1.543 billion, down 10% from 2015 and within our full-year guidance of $1.5 billion to $1.7 billion. We delivered $144 million of operational EBITDA, which when adjusted for currency was $156 million as noted earlier.

Our quality of earnings improved meaningfully in 2016. Operational EBITDA improved year over year in our print systems, Micro 3D Printing & Packaging, and our Intellectual Property Solutions Divisions while we effectively managed the expected declines in the Enterprise Inkjet and Consumer and Film divisions.

Our Software Solutions Division saw declines during a transitional year, but we expect it to move to double-digit growth in operational EBITDA in 2017. I will discuss each of these in more detail shortly.

Slide 6, illustrates Kodak's improving quality of earnings. Here, we present the impact of the expected runoff in the Consumer Inkjet business as we did in our previous earnings calls. Given the expected decrease in the installed base of printers, we continue to see a reduction in earnings contributions from this business.

When adjusting for the decline in the Consumer Inkjet business, full-year operational EBITDA on a constant currency basis improved by $7 million or 6% year over year. The improvement is primarily due to stronger performance in MPPD in PSD. We've also provided results for PROSPER on slide 6, I will discuss PROSPER in more detail after discussing our divisional results.

Now I'll talk about the business by division which is presented on slide 7, for 2016. All year-over-year comparisons will be discussed on a constant currency basis as shown in the bottom section of the slide.

Starting with the Print Systems Division, full-year revenues were $1 billion, a decrease of $87 million or 8% compared to 2015. Our operational EBITDA increased by $7 million or 7% compared to prior year.

For the year, overall plate volume is down 2% year over year, in line with the overall market decline. Machine volume declines in emerging economies, particularly Latin America. These declines have been driven by protectionist policies in unfavorable economic conditions. Developed markets grew plate volumes by 1%.

We continue to see solid growth in our environmentally advantaged process free SONORA plates, which grew by 9% for the full year. When you adjust for weakness in Latin America, SONORA Plate volume improved by 18% for the full year. SONORA now accounts for 15% of our total plate unit sales in 2016, and we expect continued growth in 2017.

Price erosion for the year was 5%. While we realized a benefit from lower aluminum costs for the full year, the fourth-quarter benefit was not as large as the year-over-year change in the first nine months of 2016 as aluminum prices began to rise in the fourth quarter. This will unfavorably impact 2017.

Moving on to the Enterprise Inkjet Systems Division. The division results presented on slide 7 represent the results for the Versamark systems due to the classification of PROSPER as a discontinued operation. The prior-year results are resented on a comparable basis.

For 2016, EISD revenues were $76 million, and 8% decline over 2015. Operational EBITDA for 2016 was $19 million, a decline of $1 million compared to 2015. Operational EBITDA declined at a slower rate than revenue due to good cost control.

The Micro 3D Printing & Packaging Division includes FLEXCEL NX Systems and Plates, as well as touch sensor films with copper mesh technology. For the year, revenues were $132 million, an improvement of 6% from 2015. Operational EBITDA was $12 million, an improvement of $8 million compared to the prior year.

For the Packaging business, operational EBITDA before corporate costs increased by $7 million, primarily driven by higher FLEXCEL NX Plate revenues. As I said earlier, for the year, FLEXCEL NX revenues increased by 13% and FLEXCEL NX Plate volume grew by 16% compared to the prior year, reflecting consistent growth in all regions. As expected, declines in revenue from legacy packaging products of approximately $3 million also impacted the overall top-line growth for this division.

I am particularly pleased with Kodak's FLEXCEL NX packaging business which is our strongest performing product set. Based on data on the flexible packaging market from Smithers Pira, a packaging, paper, and print industry market research firm, the flexible packaging market is expected to grow at a compounded annual growth rate of 4% from 2017 to 2022. Kodak's 2016 FLEXCEL NX Plate volume growth of 16% is four times this market projection.

In Micro 3D Printing, we progressed quite favorably on several customer technical evaluations, including positive results on environmental reliability testing for both a tier-1 global display integrator and a global brand customer. We're working to drive increased production orders in 2017. In the industrial touch display markets, we have entered in the final design selection phase on two product sizes.

Additionally, we continued advancing our technical platform to enable product features for consideration in the tablet and notebook computer markets. The investment in this program is relatively small given the market opportunity.

The Software & Solutions Division includes PRINERGY workflow software as well as Kodak technology solutions. For the year, SSD revenues were $86 million, down $24 million versus last year. Operational EBITDA of $4 million declined by $4 million also from the prior year.

We view this as a transitional year for SSD. Revenues for Kodak technology solutions were down $21 million, primarily due to delayed timing of government service contracts in Latin America.

In addition, as we shared with you on previous calls, we divested our D2L and Kodak Security Solutions business during 2016. Those divestitures resulted in year-over-year revenue reductions of $5 million.

PRINERGY workflow software was down slightly compared to the prior year due to the commercialization of our investments which were previewed earlier this year at Drupa, creating the delay in customer conversion in 2016. With our product enhancements now fully available, we expect double-digit percentage growth in workflow software license revenue in 2017.

The Consumer and Film Division includes consumer inkjet printer cartridges, motion picture, industrial films and synthetic chemicals as well as our consumer products group which includes licensing of the Kodak brand. For the year, revenues for CFD were $216 million, down 17% from the prior year driven primarily by a $31 million expected decline in consumer inkjet [fairness].

Operational EBITDA for CFD was down $33 million for the year. Driven by a reduction in CIJ and industrial films, where we have a concentrated customer set as well as a decline in brand licensing due to the timing of contracts. We will continue to see variability in the CFD business results, due to the timing of motion picture productions, industrial film orders, consumer product releases, and on brand licensing businesses which also varies due to the scalability of new licensees.

2016 was also a year were we invested in CFD. Including the Kodak Super 8 and future camera platforms as well as resources to support the future growth of brand licensing in consumer products.

The Intellectual Property Solutions Division includes the Company's research lab, as well as intellectual property licensing not directly related to other business divisions. For the year, operational EBITDA was a negative $14 million, a reduction in the loss of $8 million from the negative $22 million in 2015. The improvement is the result of the reprioritization of our research programs. The division expanded its efforts in new materials development for 3D printing and light-blocking materials throughout 2016, which will continue into 2017.

Continuing on to our final division, Eastman Business Park. Full-year 2016 revenues were $15 million, an increase of $2 million from the prior year. Operational EBITDA was $2 million, flat with the prior year.

We've made progress in improving the financial profile of this division. By the end of 2016, we increased our total tenants in the business Park to 57 from 47 at the end of 2015. We've also increased our rented space by 110,000 square feet to 1.5 million square feet or 8% higher in 2016.

On slide 8, we provide results for the PROSPER business which is presented within discontinued operations. Full-year 2016 PROSPER revenue was $94 million, an improvement of 6% and an EBITDA loss improved by $3 million. On a standalone basis, PROSPER EBITDA was a negative $13 million, an improvement of $11 million from the loss of $24 million in 2015.

The improvements are the result a better deal quality on presses and revenue growth in annuities. Offsetting the PROSPER improvements is our continued investment in the next-generation ULTRASTREAM platform. We're focused on aligning the structure of this business with our focus on ULTRASTREAM, components and presses for high-volume applications.

Slide 9, illustrates the acceleration of recurring revenues as our installed base grows. Our Prosper business model requires investments to expand the installed base of presses, with profitability achieved over time through the sale of annuities. For 2016 and 2015, recurring revenues grew by 40% and 24% respectively.

Moving to slide 10, for a summary of 2016. The sale of our PROSPER business is taking longer than expected, however, we are pleased with progress achieved in the business. We expect a standalone PROSPER business, excluding continued investments in ULTRASTREAM, to be profitable in 2017.

The Company recorded GAAP net income for the first time since 2013. We have significantly improved our capital structure with repayment in full of the second lien term loan. Our quality of earnings improved, with notable growth in PROSPER annuities and volume increases in SONORA Process-free Plates and FLEXCEL NX Packaging Plates.

We improved our year-over-year end cash flow by $132 million net of debt repayments and preferred stock proceeds. While we were short on our projected cash generation, we delivered revenue within in our guidance and achieved operational EBITDA at the high end of our guidance on a constant currency basis.

Now to update you on our 2017 financial targets. On slide 11, we're providing our 2017 guidance on revenues of $1.4 billion to $1.5 billion and operational EBITDA of $130 million to $145 million. We expect to see a year-over-year unfavorable foreign exchange impact of $45 million in revenue, and $5 million in operational EBITDA based on January rates. The operational EBITDA to the guidance represents a 3% to 15% improvement on a comparable basis versus 2016 adjusted for the year-over-year impact of foreign exchange and the expected reduction in Consumer Inkjet EBITDA.

This guidance is on a continuing operations basis, which includes the expected declines in Consumer Inkjet EBITDA, aluminum price increases, pricing pressure in PSD, declines in industrial films, and excludes the improving financial profile of the PROSPER business. Despite these items, we have plans for continued productivity improvement and a larger mix of growth engine revenues.

Kodak's largest division, PSD, faces economic headwinds in 2017, and we expect to see a decline year over year in EBITDA. We expect continued challenging competitive industry pricing, and a headwind in 2017 due to a $12 million year-over-year increase in aluminum costs compared to 2016. We expect double-digit percentage improvements in operational EBITDA in our Packaging business and our unified workflows solutions business.

We also expect strong performance in brand licensing, and in the commercialization of intellectual property. Each contributing high single-digit to low double-digit EBITDA contribution in 2017. I'll now hand it over to Dave to discuss Q4 performances, the update on cost reductions and cash flow. Dave?

David Bullwinkle - *Eastman Kodak Company - CFO*

Thanks, Jeff, and good afternoon. Today, the Company filed its Form 10-K for the year ended December 31, 2016 with the Securities and Exchange Commission. I recommend you read this filing in its entirety.

As noted in Jeff's opening remarks, revenues was within our guidance and operational EBITDA was at the high end of our guidance on a constant currency basis. We fell short of our expected cash generation target, and I will walk you through the cash usage in more detail shortly. First, some important updates and notable items in the quarter and 10-K filing.

As illustrated on slide 13, during the fourth quarter, we closed on the $200 million issuance of Series A Preferred Stock to funds managed by Southeastern Asset Management Inc. With proceeds from this issuance and existing cash, we repaid in full the $262 million of senior secured second lien term loans. The repayment of this expensive debt will save the Company $17 million in cash on an annual basis.

Through this investment, we lowered Kodak's weighted average interest rate by nearly 200 basis points and improved our capital structure and operational flexibility. We have reported the preferred stock as, mezzanine equity, on our balance sheet. Further details of the terms of the preferred stock outstanding and the associated accounting is included in Note 18, Redeemable Convertible Series A Preferred Stock in our Form 10-K.

Also during the quarter, it was determined Kodak was no longer the primary beneficiary of Red Rochester LLP. In 2013, Kodak sold certain utilities and related facilities, entered into a utility supply and servicing arrangement with Red and had accounted for Red as a variable interest entity which required consolidation of its financial statements with Kodak's.

As a result of this determination, Kodak is required to deconsolidate Red's financial statements. The deconsolidation of Red resulted in a loss of $15 million, representing the difference between the carrying value of the net assets sold to Red and Red's equity in those assets. Additional information on the Red deconsolidation can be found in Note 1, Summary of Significant Accounting Policies in our Form 10-K.

Now for the GAAP financial results for the year. On slide 14, as we reported in our earnings release, net earnings for 2016 on a GAAP basis were $16 million compared to a net loss of $75 million in 2015, an improvement of $91 million. Diluted earnings per share for the year were $0.28 compared to a loss of $1.91 in 2015.

The impact of the Red deconsolidation, as I mentioned earlier, was a $15 million loss recorded in other operating expenses net. Excluding this item, the year-over-year improvement in net earnings was $106 million. The increase in both net earnings and earnings per share was driven by improved business performance, as well as a reduction in depreciation and amortization expenses and an increase in income from pension plans on a net basis. Note 24, Segment Information in our Form 10-K provides a full reconciliation of our segment measure of operational EBITDA to consolidated earnings from continuing operations before income tax.

On slide 15, for reference and information, we're presenting the divisional results for the fourth quarter ending December 31, 2016 and 2015. My comments will be on a constant currency basis as reflected at the bottom section of the slide.

Please note, prior-period results have been recast to remove the impact of the PROSPER discontinued operations and are presented on a comparable basis. I will focus on the aggregate results and provide some highlights.

For the fourth-quarter 2016, revenues were $404 million, down 7% on a constant currency basis from the prior-year period. We delivered operational EBITDA of $46 million, which when adjusted for currency was $49 million in the fourth-quarter of 2016, a decline of $10 million or 17%.

This decrease is primarily attributable to CFD, which includes the expected decline in Consumer Inkjet, investments made for the Super 8 Camera platform and lower cost absorption in our industrial film business. These declines were partially offset by growth in our Packaging business and lower costs in Micro 3D Printing.

We saw an improvement of $4 million or 13% in revenues in MPPD in the fourth quarter, driven by the increase in FLEXCEL NX Plate revenue. This resulted in an increase in operational EBITDA for the division of $6 million.

We expect continued growth in FLEXCEL NX in 2017. We also expect solid growth in our environmentally advantaged process-free SONORA Plates, where we achieved Q4 2016 volume growth of 16% which will assist in offsetting headwinds in PSD in 2017.

Now for an update on our cost reduction programs. On slide 16, we present operating costs or total SG&A and R&D on a GAAP basis. During 2016, we continued our progress in reducing operating expenses by $36 million from $248 million in 2015 to $212 million in 2016. Approximately $15 million of this change is due to increased non-cash pension income in 2016 versus 2015. The remainder is primarily driven by reductions in head count.

Since December 31, 2013, operating expenses has been reduced by 53%, for a total savings of $239 million. During this same three-year period, corporate costs have declined by $57 million or 43% from $132 million to $75 million.

The key driver of these cost improvements is increases in productivity due to reductions in Company headcount, down 31% over the same three-year period. We will continue to maximize efficiencies within our cost structure throughout all areas of the Company through continuous streamlining and simplification efforts.

Moving on to the Company cash performance. As shown on slide 17, the Company ended the quarter with $434 million in cash, which includes $1 million in discontinued operations, a decrease of $56 million from the end of the third quarter.

This decline includes $64 million of cash used to repay debt, net of preferred stock proceeds. Excluding net cash used for debt repayments, the negative impact of currency translation on cash and the deconsolidation of Red, the Company generated $20 million of cash in the fourth quarter.

On the slide, you can see cash generated from net earnings declined in the fourth-quarter of 2016 versus 2015 by $15 million. In addition, cash generated from balance sheet changes have decreased by $14 million year over year for the fourth quarter. Working capital generated $39 million of cash in the fourth-quarter of 2016. However, due to the proportion of sales in December, cash used by accounts receivables was higher than expected in the current quarter.

On slide 18, we're presenting the comparison of full-year 2016 and 2015 cash flow which illustrates the reduction in cash usage in 2016. This aligns with the statement of cash flows included in our Form 10-K. As shown on the slide, excluding net cash used for debt repayments, the negative impact of currency translation on cash and the deconsolidation of Red, the Company used $19 million of cash in 2016. A significant improvement in cash flow versus 2015.

For 2016 on a year-over-year basis, we reduced our cash usage by $52 million. $82 million of this improvement is from cash used in operating activities on a GAAP basis.

As you can see, the main cash drivers for the year-over-year cash flow improvement were cash generated from net earnings, balance sheet changes driven by working capital, and reductions in reorganization and legacy payments which are included in the Decrease and Liabilities Excluding Borrowings line item on the statement of cash flows.

Included in the balance sheet changes presented is an $18 million year-over-year improvement in cash provided by working capital. We define working capital as trade accounts receivable, inventory, and trade accounts payable. For 2016, working capital reflected a source of cash of $54 million including items in assets and liabilities held for sale and the impacts of foreign exchange. Receivables generated $37 million in cash, of which $25 million was from trade accounts receivable. While inventory generated $16 million and accounts payable was also a source of $13 million of cash for the period. The working capital metrics primarily reflect the impact of the Company's decline in revenues, and modest improvements in working capital management.

You may note, we have included a new line item in our statement of cash flows in the Form 10-K. In order to provide greater transparency into our working capital items, we have separated the change in accounts payable from other liabilities.

The decrease in liabilities excluding borrowings is driven primarily by lower crude employment-related liabilities, deferred revenue, worker's compensation, customer rebates and contingent consideration related to the sale of a business and other decreases in liabilities. Further description of these changes can be found in Note 6, Other Current Liabilities, and Note 7, Other Long-Term Liabilities in our Form 10-K.

Year-over-year net cash used in investing activities also declined by $30 million primarily due to increased cash release from restricted cash of $18 million, and an $11 million increase in proceeds from asset sales in 2016. Capital expenditures of $41 million in 2016 included investments of $18 million made by Red prior to it's deconsolidation in December of 2016.

The net cash used in the financing activities reflects the repayment of $7 million of first lien term loans. And the repayment in full of $275 million of second lien term loans from cash proceeds from the issuance of series A preferred stock, a Dutch auction executed in the third quarter and cash on hand.

Over the past year, the Company has delivered a significant improvement in cash management and cash flow. As presented on slide 19 for the period from Q1 of 2015 through Q4 2015, cash declined by $161 million, excluding debt payments. This compares to cash used of $29 million in 2016, which represents an improvement of $132 million.

This improvement is driven by higher net income, cash generated from working capital changes, reduction in reorganization costs, restructuring cash payments and legacy cash uses which we discussed earlier. I am encouraged by the significant year-over-year improvement in our use of cash. The repayment of our second lien debt in full will reduce the use of cash for interest payments going forward, and we expect to generate cash in 2017.

Finally, as disclosed in our Form 10-K, we remain in compliance with our covenants under our credit agreements. In particular, the Company's EBITDA used in the secured leverage ratio as calculated on the first lien term loan credit agreement, exceeded the EBITDA necessary to satisfy the covenant ratio by $81 million. To summarize, the Company's 2016 performance reflects good execution in productivity initiatives, improving quality of earnings and an improved capital structure and significant lower cash usage on a year-over-year basis.

Turning to 2017. We expect continued growth in full-year revenues and earnings for Kodak's growth engines, as well as productivity and cost improvements across our business. Like in 2016, we expect seasonality to skew stronger performance to the second half of the year in revenue, operational EBITDA, and cash. Similar to 2016, we expect to use cash in the first half of 2017.

The first quarter will be our most difficult year-over-year comparison, due to the size of the expected decline of the base of Consumer Inkjet, lower revenue and cost absorption in industrial films and competitive price pressures in PSD. Q1 of 2017 is projected to be a heavier use of cash this year than in 2016, driven by greater use of cash primarily for inventory and working capital and investments for capital expenditures primarily related to the Packaging line.

As shown on slide 20, our cash outlook for 2017 is a range of flat to a generation of $10 million. The sources of cash generation are operational EBITDA of $130 million to $145 million and working capital of approximately $30 million. We expect cash to be used for legacy items of $32 million, which includes foreign pension and workers compensation payments. Interest and dividend payments of $40 million, capital expenditures of $35 million, cash income taxes outside the US of $20 million, PROSPER and ULTRASTREAM of $2 million (sic - see slide 20 "$20 million"), restructuring payments of $8 million and other items of $6 million.

Turning to slide 21. It is important to note Kodak's 2017 cash outlook is not indicative of the Company's underlying cash flow and earnings power. The Company is managing through the continued strength of the US dollar. Also, aluminum prices have reached their highest point in the last 5.5 years. At current levels, these equate to a negative impact of approximately $17 million to our plan compared with 2016.

PROSPER and ULTRASTREAM are expected to consume about $20 million of cash in 2017. We're also making a strategic capital investment to expand manufacturing capacity for FLEXCEL NX packaging. 2017 capital for this program is expected to be $13 million.

Adjusting for these items would indicate a cash flow range of $50 million to $60 million. This is more indicative of the core cash flow power of Kodak.

Before I open the call up to questions, Kodak is planning to have an investor and analyst day in New York later this year. We will let you know logistics and details in the near future.

We will now open the call to your questions. Michelle, please remind participants of the instructions to ask questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Gary Ribe, MACRO Consulting.

Gary Ribe - *MACRO Consulting Group - Analyst*

I know you guys said you cannot talk too much about the Prosper process, but you guys put a one-year timeline on it to begin with and we're bumping up right against that now. Do you guys have any idea as to how long it will take you guys to really finish this up? The trade press is leaking various rumors and stuff and I realize you cannot say too much. But is there some timeline were you hope to get back to investors?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes, again, I'm not going to say anything different than what I said in the remarks. But maybe to give you back and -- this is a bit of a predictability issue, and then there's a question of us making decisions along the way that can maximize the value. So I'm very pleased that we have made those decisions, and that gives us the best opportunity for the highest valuation of Prosper.

But if you go back to when -- a little over a year ago when we first raised this issue, this opportunity to sell Prosper announced it, I remind you that it was due to unsolicited inbound interest. So we were in the middle of that process that has continued.

Then we made the strategic decision and announced it to investors, customers and employees. In part, because it was very strategic and material, and second because there was the major trade show Drupa that was coming up in June.

And every four years, this is the World Series/Olympics of the industry. And very, very ideal place to showcase the Prosper technology, and also expand the bidder list, and in fact that was successful in getting more people interested.

As you saw my remarks, this is a business that loses money today. It is making great progress, and were also investing significantly in next-generation. So it is not an easy business for due diligence, there's a lot of complexity in it and there are multiple parties involved.

So the reason that it has not happened is because we want to get the best value for the business, and we continue to march down that path. And I believe from a predictability perspective that it was the right thing to give that estimate at that time, that was our best information. It turned out that when Drupa happened in June, several more people came into the mix.

Next question Gary? Did you another one?

Gary Ribe - *MACRO Consulting Group - Analyst*

Yes, so just to summarize, are you pleased with how the process is going at this point?

Jeff Clarke - *Eastman Kodak Company - CEO*

I will be pleased when the money is in the bank.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay, got it. Just to go to the plates business, it is another year where you are seeing some intense competition and so forth. Can you comment on the potential for any industry consolidation?

Jeff Clarke - *Eastman Kodak Company - CEO*

I can't comment on that Gary. Obviously there are a lot of players out there, there's some regional players and three major players. So today, we are out just doing as best we can to compete.

As we said, there was about a 5% price decline over the year. That was a lot with some positive news last year on aluminum, and significant positive news on our ability to consolidate factories. We were able to take the supply out of the industry, and ultimately that is the consolidation that happens in a non-organic way.

In other words, when the industry realizes that there is simply too much passed before us to continue to drive the appropriate earnings and return on cost of capitals that are required for this business. So I cannot comment about any inorganic, but on an organic basis we're going to continue to drive productivity improvements, we're going to continue to invest capital, do so continue to differentiate our product set and that will allow us to continue to hold or gain share.

Gary Ribe - *MACRO Consulting Group - Analyst*

Got it, okay. Appreciate you guys taking my questions. Thanks.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you, Gary. Michelle, next question please.

Operator

(Operator Instructions)

Jeff Clarke - *Eastman Kodak Company - CEO*

All right, then we had the one question and I'm not hearing any more. So let me summarize again and thank everyone for joining the call. First of all, -- do we have another call?

Operator

Peter Rabover, Artko Capital.

Jeff Clarke - *Eastman Kodak Company - CEO*

We do? Sorry, Peter, I did not think you were there.

Peter Rabover - *Artko Capital - Analyst*

No, I just clicked on. So it's just a bigger picture question. But you have been over three years out of bankruptcy, and I think we went from a cost-cutting phase to a growth phase and the stock price has been the same. At what point do change your strategy and just realize that things are not working?

I think everybody is aware and you are aware internally that some of the parts is probably worth more than the current stock price, and obviously you have two new Board members that probably feel the same way. So what are the data points where you would feel like, hey look, all this investment stuff is not worth it and we are better off selling this Company to interested parties?

Jeff Clarke - *Eastman Kodak Company - CEO*

First off, thank you, Peter, for your question. We are continuing to streamline the Company. So while we're not going to be making the absolutely significant 30%, 40% cuts that we had in the past, we're going to continue to run this Company with better cost performance.

In terms of selling the pieces off, as noted, we have streamlined our investments in Micro 3D Printing. We believe that there is a modest investment stream going forward with a large payoff. Effectively the Company over the last really 7, 8 years has invested about $50 million in this technology.

We think with a single-digit millions, where we are at the product line, it makes sense to continue that loss given the prospects of the technology and the pipeline we now have. So in terms of selling that piece off, we think that is a good organic continued investment.

Prosper is obviously the most notable example where we have curtailed investment and changed the strategy, to your point, and looked to monetize the asset. So that was an investment of the Company of hundreds and hundreds of millions of dollars. It now had again, a 40% growth in annuities, so it is beginning to pay off. In my remarks, I noted that Prosper if we weren't investing in next generation, Prosper would still have a life of 10 to 15 years, would be profitable now.

But in talking to the bidders of the business, particularly Drupa and other investors or other potential buyers, people are very excited about ULTRASTREAM. It is a continued investment. That's a continued investment as we noted this year, and that is one we think will allow us to sell the business forward.

So on that one, we're sticking with the strategy. We're going to continue to invest in ULTRASTREAM. We streamlined the Prosper business to profitability, and we will continue to try and sell Prosper to the highest bidder.

In terms of the core PSD business, there is not much investment going into this. So this is running the business as is effective as we can.

I urge you, before you make the assessment that the strategy is not working, that the year-over-year improvements have been monumental from a company burning hundreds of millions of dollars a year down to essentially breakeven in cash. And now of course to drive shareholder value further, we need to demonstrate the ability to generate cash, not just make year-over-year improvements against a very difficult hole we were in.

I think Dave's comments at the end really reflect that the strategy will work. At least to the point of when we are not facing the highest aluminum prices in 5.5 years, and when the dollar is very strong. Of course the strategy there we're working well and it growth engines.

So this business, and maybe this is part of your question, but the Packaging business is doing exceptionally well. And perhaps its value is not fully seen by investors, given all of the other things happening at Kodak. And that is why we try to highlight to investors the importance of this business and how well it is doing.

And it is doing exceptionally well, and will continue to exceptional. Double-digit top line, double-digit bottom line, differentiated technology, growing at four times the rate of a market. A market that is one of the faster growing markets in the entire printing industry. Our software business, we expect to have double-digit growth in, and SONORA continues to be the fastest growing rapid [start] plate in the industry.

So of course we will look at strategic alternatives when they arise. Of course we believe that an industry needs to consolidate, and we will be aware of those opportunities. But we believe we are executing very well, given the cards we hold. And we believe that each of these businesses that I referred to, these four growth businesses, are improving significantly year over year and that is enhancing the underlying value of the Company.

So I'm sorry it's was a long answer, but is was a complex question, Peter. Thank you very much for it. Next question please.

Peter Rabover - *Artko Capital - Analyst*

No, I understand. Not really a follow up, I guess it has just been frustrating for the last few years as a shareholder to see slower progress than expected.

I guess that is just my comment on that. I am curious whether with the new Board you expect some changes to the strategy?

Jeff Clarke - *Eastman Kodak Company - CEO*

I expect that the current Board and new members of the Board will continue to be pragmatic with the Company's opportunities to increase shareholder value inorganically and organically. I would not expect significant changes to the investment streams for Packaging, for software and for our graphic arts business.

Peter Rabover - *Artko Capital - Analyst*

Okay, fair enough. I'll get off the call now. Thank you.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thanks you for joining the call and for your questions, Peter. Next question please.

Operator

I'm showing know further questions at this time.

Jeff Clarke - *Eastman Kodak Company - CEO*

I want to thank everyone for joining the call. Let me summarize again, about four more points here.

Kodak was profitable on a GAAP basis in 2016. That is the first time since 2013. If you adjust for some of the technicalities around coming out of bankruptcy including the sale of an [elixir] property, it's actually the first GAAP profit the Company has had in a decade.

The Company's performance represents increased quality of earnings. To Peter's comment, I wish it was showing up significantly faster. But it is a significant improvement in the quality of earnings as we runoff the Consumer Inkjet business.

We're executing well on key areas. SONORA plates, the FLEXCEL NX Packaging business, and the growth of annuities in the Prosper business. Cash flow has performed significantly better year over year, along with quality of earnings. And as Dave took you through, 2017 is the year where we need to manage through some significant aluminum pricing and foreign exchange headwinds.

The indicative cash flow the Company is stronger than our projections. 2017 is the year we're going to have to expect -- were we expect to year-over-year improvements on comparable operational EBITDA and cash flow, and continued strong revenue and market share growth in our leading product areas, including FLEXCEL NX, software and PRINERGY. Thank you again for your questions today and for your support of Kodak.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone have a great day.
