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KODK - Q1 2015 Eastman Kodak Company Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak Q1 Earnings Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will be given at that time. (Operator Instructions) I would now like to turn the call over to Mr. Dave Bullwinkle. You may begin, sir.

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### Dave Bullwinkle - *Eastman Kodak Company - Director, Investor Relations*

Thank you. Good afternoon. My name is Dave Bullwinkle, Director, Global Financial Planning And Analysis and Investor Relations for Kodak. Welcome to the First Quarter 2015 Kodak Earnings Call. At 4 PM this afternoon, Kodak filed its quarterly report on form 10Q and issued its release on financial results for the first quarter of 2015. 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 10K 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 our quarterly performance, a review of our new division structure, and an update on the outlook for the Company. Then John will take you through our cost reduction updates, additional details in our first quarter results, and cash flow results and outlook before we open it up to questions.

As this is our first reporting on the new division structure, we will be spending more time describing each of the divisions and reviewing the full year 2014 results under this structure. The remarks on this call will be longer than previous calls. We will extend longer than one hour if necessary to take your questions.

I will now turn this over to Kodak's CEO, Jeff Clarke.

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**Jeff Clarke** - Eastman Kodak Company - CEO

Thanks, Dave. Welcome, everyone. And thank you for joining the Q1 investor call for Kodak. On the call today I'll provide you with some comments on Q1 2015 and review our divisional finance results for the first time since we put the new organization in place at the beginning of 2015. I'm pleased to provide increased transparency to Kodak's business. I will also update you on our expectations for the year.

As Dave mentioned, our prepared remarks will be longer than usual as we're covering divisional results for the first time for the full year 2014. I encourage you to get comfortable and relax for a bit. Let's get started.

Looking at slide 5, for the total Company, revenue of \$427 million for the quarter is a \$61 million decrease from the prior year. More than half of this reduction is a result of foreign exchange. On a constant currency basis, revenue in Q1 2015 reflects a reduction in \$26 million or 5% versus Q1 2014. The remaining decrease is driven by a \$15 million reduction in consumer inkjet printer cartridge sales and a \$9 million non-recurring intellectual property revenue for the first quarter of 2014.

Within the quarter, year over year growth in key product lines included SONORA plate volume growth of 94%, FLEXCEL NX plate volume growth of 27%, and PROSPER revenue growth of 23%. Total Company operational EBITDA for the quarter was \$12 billion, an improvement of \$5 million or 71% over the \$7 million in operational EBITDA in Q1 of 2014. This is a significant year over year improvement.

On slide 6 we present operational EBITDA on a comparable basis, the same way we provide guidance for 2015, excluding non-recurring IP revenue in the first quarter of 2014 and the negative impact of foreign exchange, operational EBITDA improved by \$21 million year over year. This is a strong start to the comparable improvement of \$33 million to \$53 million which we guided to for the full year.

This results were ahead of our expectations for the quarter and we're encouraged with the start of the year. John and I will provide more detail on the quarter throughout our discussion with you later on the call.

2015 is a pivotal year for the Company. Kodak is in the midst of a transformation. We're building new growth businesses based on our technology and the value of the Kodak brand while at the same time managing and orderly decline of our more mature businesses. Enabled by our new divisional organization as shown on slide 7, we are creating an EFT and entrepreneurial set of operations and reducing our cost structure to be appropriate for our scale and portfolio of businesses.

When we last spoke in March we provided you with a summary of our portfolio which illustrated each of our businesses at the different stages of their life cycle. Let's begin with a review of our new divisional structure in the 2014 results by division.

Could we move to the next slide? We now have seven business divisions. Let me take you through each one and provide context of where they are in their life cycle and contribution to the Company. I'm referencing divisions on slide 8. The print systems division includes plates, including SONORA, equipment service, computer to plate devices, electro photographic printing solutions, and OEM toner. This is Kodak's largest business. It's foundational for us and represents over half our revenue.

In 2014, revenue for the print systems division was approximately \$1.25 billion and operational EBITDA was \$93 million, also representing over half of our earnings. PSD is a flat to slow growing business with an attractive business model, approximately 80% of PSD's revenues are of a recurring or consumable nature. This provides predictable revenue and cash flows to the Company. Within the print systems division we will continue to convert our customers to the successful SONORA product. We expect SONORA growth of greater than 50% in 2015. For the first quarter, SONORA plate volume increased by 94%.

In the last six months ending March, we gained over 1,000 new customers choosing SONORA, bringing total customers using SONORA plates to 2,274. SONORA process free plates yield dramatic environmental benefits for customers without sacrificing quality or output. SONORA plates remove the need for the plate processor, eliminating the associating chemicals, water, and energy. SONORA's customer acceptance and exceptional growth is a result of significant differentiation versus our plate competitors.

One of our customers is China-based Shengtong Printing. They serve customers in the book, journal, and pharmaceutical packaging markets in China and Europe. Through adoption of Kodak SONORA process free plates, the Company has seen immediate improvements with consistent color reproduction, a lower environmental impact, as well as time and cost savings. Here's what Shengtong's general manager has to say a few months ago about their use of SONORA plates.

Quote, for us green printing is a fundamental social responsibility. Sustainable processes secure the future of our business as well as the environment. We're proud to be among the earliest adopters of Kodak's SONORA plates in China, proving that process free plates as part of a holistic green approach to commercial printing can deliver both high quality and serious environmental benefits. We know that many other printers in the region are now making plans to follow our lead. End quote.

Within the print systems division, also is electro photographic printing solutions which includes sale of our NEXPRESS and DIGIMASTER presses as well as related service and consumables. This is a proven technology for customers which are common to the plates business and provides the ability to develop and grow our customers' business using Kodak technology.

For the print systems division in total for 2015 on a constant currency basis we expect revenue to be flat. It will be down 10% due to the impacts of foreign currency. We expect operational EBITDA to improve over the 2014 levels with productivity improvements and cost reductions offsetting increased aluminum costs, competitive pricing impacts and foreign exchange. This business is core for Kodak and is healthy.

Next let me discuss the enterprise inkjet systems division. This division includes Kodak PROSPER systems and components, Kodak Versamark systems and components, print on demand solutions or as we call it, PODS, and ink and service annuity. For 2014 revenue in this division was \$185 million and operational EBITDA was a negative \$44 million. For 2014 PROSPER drove the loss in EBITDA as we continued to invest in this disruptive technology and scale our install base. Versamark in 2014 represented approximately 60% of the revenue of the enterprise inkjet systems division.

This profitable legacy business will decline while we continue to drive scale in our PROSPER business. By the second half of 2015, PROSPER will represent the majority of revenue in this division driven by placement of presses, S-series and systems, and related PROSPER annuities. Our PROSPER inkjet systems business is still early in its lifecycle and we're well on our way to building a business with good scale and profitability, placing equipment with direct customers as well as enrolling a base of OEM partners.

After launching the PROSPER product in 2010, our install base reached 39 systems by the end of 2014. For 2015 we expect to ship 25 systems. Again, that's 39 from 2010 to 2014 and 25 this year, a significant acceleration in growth. In fact, in first quarter, we completed five additional placements and currently have contracts completed for an additional five PROSPER systems. With the scale we achieved in 2014, as well as the placements we expect to make during 2015, we will see annuities growth of greater than 30% for the year. For the first quarter, annuities grew 23% and page volume was up over 46%.

During the past few years printing companies have looked to gain a competitive advantage by streamlining processes and integrating the latest innovations. An example of this customer is Wiland Direct which is a global leader in high volume, high quality variable direct mail production. Wiland and Kodak have been working together for a decade to continually advance the efficiency, speed, and quality of direct mail Wiland delivers for its customers and increased customization through variable data printing. This is a form of on demand digital printing that allows elements to be changed from one piece to the next without stopping.

A little more than two years ago Wiland began using the PROSPER 5000 press for variable data printing and the Company set a mission to transform its customer to more than 95% variable data production. Wiland is looking to further build on its transformation with this recent commitment to the PROSPER 6000 color press to satisfy increasing demand for quick turnaround and four color variable direct mail solutions.

For 2015 we expect PROSPER to become the majority of the revenue in this division. Operational EBITDA before corporate SG&A for this division will be at or near breakeven, an approximately \$30 million year over year improvement. This marks a meaningful shift from investment to growth in this business.

Now, let's talk about micro 3D printing and packaging division which includes FLEXCEL NX systems and plates, legacy packaging solutions, and touch sensor films through silver mesh and copper mesh technologies. Our packaging business with the FLEXCEL NX offering 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.

In 2014 revenue in this division was approximately \$130 million. We did not recognize any significant micro 3D printing revenue in 2014. The operational EBITDA of a negative \$1 million reflects the earnings contribution from packaging offset by the investment of approximately \$20 million in developing the micro 3D printing business.

Our FLEXCEL NX technologies are continuing to resonate with customers. Let me cite Packaging Products Corporation of Kansas City. They are now able to regularly print at 150 line screen instead of 120 or 133 line screen previously used for most of their work. This means in the words of PPC, products packaging looks more realistic, appealing, consistent with the product inside.

Further advantages of our FLEXCEL NX system is the reduction in the number of colors per job without sacrificing quality, reduced press downtime, and faster run speeds, and reduced waste ink consumption. PPC says the efficiencies gained within the use of FLEXCEL NX plates has enabled printing costs to be reduced by 40% to 50%. For 2015, FLEXCEL NX, we expect annuity volume growth of greater than 25% year over year driven by the install base of over 400 systems at the end of 2014. For the first quarter of 2015 FLEXCEL NX plate volume grew by 27% year over year. For 2015 we expect the install base to grow by about 20%.

Within micro 3D printing, we're developing touchscreen solutions in two technologies -- silver mesh and copper mesh. As we discussed on our call in March, we reached production level quality with our silver halide technology and expect modest levels of revenue this quarter. In addition, we're adding production lines in our facility in Shenzhen -- I'm sorry, in Xiamen, China which will be online by the end of 2015. We are excited to grow this business and are adding sales and business development resources in anticipating of ramping our growth.

Early last week we announced Kodak is committed to moving forward independently with the development of copper mesh touch sensor technology following the end of our partnership with UniPixel. Kodak will perform a comprehensive review of the market and sales opportunities for this technology. The business continues in its startup phase where progress is harder forecast than in Kodak's more established businesses.

In 2015 we've continued growth in packaging as well as the transition from investment to commercialization of product and revenue and micro 3D printing. We expect continued growth in this division and improved operational EBITDA.

Continuing on to the software and solutions division which includes Kodak, Unified Workflow Solutions, and Kodak Technology Solutions. For 2014, this division had revenue of approximately \$108 million and operational EBITDA of \$3 million. Within this division the majority of revenue is generated by our Unified Workflow software business. The Unified Workflow software business includes Kodak PRINERGY Workflow, the leading print industry for workforce management.

In March we announced a new general manager of the Unified Workflow software business, Alan Brown. Alan brings 25 years of experience in the print industry, including software engineering and executive positions at Hewlett-Packard and Xerox and extensive software experience in product development and operational excellence. He will be a great asset as we continue to strengthen our software business.

Last week Kodak announced we're delivering PRINERGY Workflow 7, the latest advancement of the Company's workflow automation software. Also in this division is Kodak Technology solutions which has a mandate to continually ensure these advances in the material science and digital technologies Kodak has to offer are being monetized. We expect modest growth in this division in 2015 in both revenue and operational EBITDA driven by the performance of the Unified Workflow Solutions and the new PRINERGY product release as well as cost reductions in the remaining business.

Our fifth division on this slide is the consumer and film division which includes motion picture and commercial films including synthetic chemicals, consumer inkjet solutions, and brand licensing. In 2014 the consumer and film division delivered revenue of about \$350 million and operational

EBITDA of \$66 million. Within this division the consumer inkjet business serves the existing install base of Kodak's consumer inkjet printers by providing replacement ink cartridges to those customers.

As a reminder, Kodak ceased selling printers in 2013 and we expect continued reduction in revenue and earnings from this business. Our entertainment imaging and commercial films business has also experienced continuing declines. However, we've created cooperative agreements based on the support of the movie studio industry in order to continue providing movie studio film, products, and services. After losses in 2014, we expect the entertainment and commercial films business to be break even in 2015.

Brand licensing revenue is also reported in this division based on the strength of the Kodak brand, opportunities exist for continued growth in this area. For 2015, for this division, we expect continued reductions in revenue and operational EBITDA.

Intellectual property solutions division includes the Company's research lab as well as intellectual property licensing not directly related to the other business divisions. For 2014 revenue in this division included two significant non-recurring licensing agreements which resulted in \$70 million in revenue. IP licensing transactions will be summed up as revenue will usually fall in quarters in which we reach agreements.

We expect Kodak research lab expense of approximately \$25 million in 2015. We do not predict when revenue transactions might occur but expect multiple licensing opportunities over the next several years.

The Eastman Business Park division provides real estate services for external tenants within the industry park in Rochester, New York. This division is focused on the development of the park with the objective to increase occupancies of the facility both from an internal perspective as well as through attracting external companies as tenants of this unique offering. The Eastman Business Park is a site of 1,250 acres and 16 million square feet of building space and rail support including 17 miles of track.

There are 55 companies with 4,500 employees on the site today with Kodak, 16 of which are in clean technology areas, including sustainable and renewable energy generation and creation. Revenue for this division represents third-party rental payments. 2014 amounts are reclassified to revenue for comparability. We expect modest revenue growth and increased utilization of the facility in 2015.

In addition to the new divisional structure we have also provided visibility into the corporate G&A which is an area we are highly focused on for improved efficiency. This area includes cost of shared functional support including information systems, finance, human resources, legal, and corporate marketing. By moving to the divisional structure I outlined above, we will remove overlap and enhance accountability, creating simplification and aligning benefits with market practice. We made meaningful progress in 2014 and expect to achieve about a 20% reduction for 2015 from the \$118 million of spending in 2014.

We're pleased at the progress we've made implementing this new divisional structure. We're starting to see the benefits which we expected implementing this new organization, a Company which is faster moving, more competitive, entrepreneurial, predictable, and accountable. In his remarks, John will take you through the details of the division performance for the quarter.

Now, let me review our outlook for 2015. As shown on slide 9, our expectations for 2015 performance are unchanged from what I shared with you in March. We anticipated revenue between \$1.8 billion and \$2 billion. And operational EBITDA between \$100 million and \$120 million. After adjusting for foreign exchange and non-recurring IP, 2015 operational EBITDA is an improvement of approximately 50% to 80% year over year on a comparable basis and demonstrates both significant progress we're making from a cost structure point of view and the continued and accelerating growth we're seeing in many of our strategic product areas.

As an aside, 2014 operational EBITDA has been revised for comparability and increased from \$154 million to \$158 million. On our call in March I took you through a number of factors which impact and are included in our guidance. To summarize those, foreign exchange reduces revenue by approximately \$140 million. That's a year over year number. Aluminum costs will reduce operational EBITDA versus last year, versus 2014, by about \$20 million. We expect continued declines in our mature businesses, entertainment, commercial film, and consumer inkjet. Growth in the remainder of the portfolio and year over year operating expense of greater than \$100 million or about 25% which offsets the negative effects of foreign exchange, aluminum, and non-recurring IP.



Moving to slide 10, we expect sustainability of our earnings in 2015 will markedly improve over the last two years. The earnings contribution from the Company's portfolio of business, excluding film and consumer inkjet in 2013 was about 45%. In 2015, we expect the contribution of these businesses to provide approximately 90% of our EBITDA as depicted on the slide. We expect significant growth for the year in PROSPER, FLEXCEL NX, and micro 3D printing to help drive this shift in mix. We expect revenue growth of 30% to 40% in 2015 versus 2014 for this group in total.

I'd like to summarize the state of Kodak today. We are streamlining and reengineering 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 even greater value to customers. We're well on our way to positioning Kodak as an engine for growth.

In summary, 2015 is a pivotal year in the transformation of Kodak to a sustainable, profitable Company. I'm incredibly excited about our plans for 2015 and confident that 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?

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**John McMullen** - Eastman Kodak Company - CFO

Thanks, Jeff. And good afternoon. Today the Company filed its form 10Q for the quarter ended March 31, 2015 with the SEC. I recommend that you read this filing in its entirety. This is the first reporting on the Company after announcing our new division structure in December 2014. In my remarks I will take you through some housekeeping items, provide an update on our cost reduction programs, discuss the divisional results for the first quarter, provide you with details of the use of cash in the first quarter, and update you on our full year expectation for cash.

First, the housekeeping items. As we indicated in our last earning calls, we have recast the quarters of 2014 with the new divisional structure. This information is included in the investor presentation as an appendix. Jeff took you through the annual 2014 numbers earlier in the call. In addition, our segment measure and our form 10Q has been changed to be aligned with how we are measuring the new divisions. Segment earnings or loss in the form 10Q is equal to operational EBITDA by division. You will also find operational EBITDA before corporate SG&A and the corporate SG&A allocated to each division disclosed as part of our MD&A in the form 10Q. We will continue to provide this level of transparency going forward.

When we last spoke in March I provided an expectation regarding linearity in 2015. Let me reiterate what I said. During 2014 the weighting of our 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 the cost of aluminum 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 print systems 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.

Now I'd like to update you on the status of our cost reduction programs. As we shared with you on our March call we expect greater than \$100 million in operational SG&A and R&D cost reductions for the full year of 2015. As you can see on slide 12 we have made significant progress in the first quarter towards this objective.

Based on actions taken through the end of the first quarter, the reduction in operational SG&A and R&D was \$35 million year over year for the quarter and the annual run rate of savings is approximately \$80 million. Headcount has been reduced by approximately 20% year over year and benefit reductions which were effective at the beginning of 2015 will provide \$10 million in annual savings and operating expenses. These improvements are the result of continued actions, including headcount reductions, reduced overhead costs, savings from global benefit changes, facility consolidations, and renegotiates of vendor contracts.

We 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. We have made significant progress in this area and we will continue to take actions as appropriate based on the business model needs of each of our divisions.



Now I'll take you through the divisional results for the quarter. Moving to slide 13 and beginning with the print systems division, revenue decreased by \$34 million from \$288 million in 2014 to \$254 million for the first quarter of 2015. This is due to the impact of foreign exchange.

Operational EBITDA was \$13 million for the quarter, up from \$12 million in the prior year. Within PSD, total plate volumes increased by 2% year over year driven by a 94% increase in SONORA plate volume. Due to the strength of SONORA, we are adding capacity in our Columbus, Georgia plant while we exit our Leeds facility in the UK. The new Columbus line is now able to provide SONORA plates and we have begun customer testing in order to start selling SONORA from the Columbus plant in the third quarter.

In the enterprise inkjet solutions division, revenue decreased by \$9 million from \$48 million in 2014 to \$39 million for the first quarter of 2015. Operational EBITDA was negative \$13 million for the quarter compared with negative \$12 million in the prior year. This reduction is due to the decrease in the legacy Versamark business as well as the impact of a large PROSPER printhead sale in the first quarter of 2014.

We also continued to make significant progress in our PROSPER install base in the first quarter. We ended the first quarter with 44 units in the install base, up from 39 units at year end 2014. In addition, our pipeline remains strong. We continue to expect system placements of greater than 25 units for the full year and we are off to a good start through Q1.

PROSPER page volumes were up in total by 46% in the quarter versus the prior year. This is a metric we track as it is a key indicator of annuity growth going forward. Within the quarter, PROSPER annuities grew 23% year over year.

In the micro 3D printing and packaging division, revenue increased by \$2 million from \$29 million in 2014 to \$31 million for the first quarter of 2015. On a constant currency basis, revenue improved by \$5 million year over year or 17%. Operational EBITDA was breakeven for the quarter, an increase from negative \$2 million in the prior year.

Our FLEXCEL NX products continue to perform well. In the quarter, FLEXCEL NX plate volume improved by 27% year over year. The growth associated with the packaging business was offset by the continued investment in the micro 3D printing business. As Jeff indicated, we have two technology areas which we are investing in to develop products for touchscreen sensors, silver mesh and copper mesh. Our expectation for modest levels of revenue in Q2 2015 for touch sensors remains unchanged.

Let me briefly provide some color on the remaining divisions. Software and solutions revenue for the first quarter of 2015 was \$28 million, an increase of \$4 million year over year. Operational EBITDA also improved by \$3 million from negative \$1 million in the first quarter of 2014 to \$2 million in the first quarter of 2015. The division benefited from a government contract within the quarter. This combined with the impacts of cost reductions and business mix and workflow solutions resulted in the improvement in operational EBITDA.

The consumer and film division delivered revenue in the first quarter of 2015 of \$72 million, a decrease of \$14 million or 16% compared with the first quarter of 2014 due to the expected reduction in consumer inkjet and motion picture film. Operational EBITDA improved by \$8 million year over year from \$10 million in the first quarter of 2014 to \$18 million in the first quarter of 2015. The improvement in operational EBITDA was due to improved inventory management and manufacturing cost reduction in entertainment and commercial films. The favorable impact of inventory management in the first quarter should not be viewed as a run rate benefit for this division going forward. We expect decreasing operational EBITDA as the year progresses due to the reduction in consumer inkjet revenue.

Our two other divisions are the intellectual property solutions division and the Eastman Business Park division. The intellectual property solutions division had no revenue in the first quarter of 2015, down \$9 million from the first quarter of 2014 due to non-recurring revenue in the prior year. Operational EBITDA in this division was negative \$7 million, a reduction of \$7 million versus Q1 of 2014, again due to the non-recurring IP revenue in 2014.

The Eastman Business Park division was essentially flat year over year for the quarter. Revenue for Q1 2015 was \$3 million and operational EBITDA was negative \$1 million. As Jeff mentioned in his remarks, the objective of this division is to increase occupancy of the Eastman Business Park through attracting external companies as tenants of this unique offering.

To summarize the results of the divisions overall, we exceeded our expectations, we are pleased with the performance for Q1. Now, let's focus on cash.

As shown on slide 14, the Company's liquidity remains strong with ending cash for the quarter of \$609 million. This reflects a decrease in cash of \$103 million from year end 2014. This was consistent with our expectations in the linearity built into our 2015 plan.

As you can see on the slide, during the quarter, the Company used cash primarily for interest expense and debt repayments, reorganization of legacy payments related to our Chapter 11 and reemergence process, capital expenditures, including cash usage associated with our commercial business, restructuring employee severance payments, cash used for prepayments and royalties, year to date negative impact of foreign exchange rates on cash, cash used for working capital, cash pension payments, and other individually insignificant cash items.

To summarize the quarter performance, we continue to make significant progress in key 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.

Now I'd like to provide you with our outlook for cash in 2015, given the revenue and operational EBITDA expectations Jeff provided.

On slide 15, we continue to 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.

Let me provide you with a refresh of what we shared as drivers of cash performance back in March. In addition to operational EBITDA, between \$100 million and \$120 million, we expect to generate cash from working capital of at least \$50 million. Key uses of cash in 2015 include interest and debt repayments 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.

Before handing it back to Jeff and in closing, we've made very good progress in the first quarter of 2015 and will continue to take the actions necessarily to drive further simplification, speed of execution, and efficiency where appropriate throughout 2015. We're also pleased with both the individual performance in the divisions and overall performance of the Company in our first quarter of execution with a new structure. Like Jeff, I am very excited with the many opportunities for Kodak and our ability to move to sustained growth and profitability for the Company going forward.

I'll now turn it back to Jeff for closing comments.

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**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'm pleased with the 50% to 80% improvement we'll see in operational EBITDA for 2015 on a comparable basis.

On our March call, we provided you with some information regarding an operational EBITDA goal for 2016. While we're not providing guidance for 2016, based on the proportion of earnings for the second half of 2015, and the mix change from the film and consumer inkjet business to core and growth businesses in the remainder of the Company's portfolio, we feel an operational EBITDA of approximately \$175 million is a reasonable goal for 2016.

Contributing to this is the following -- continued stability and profitability within the print systems division, increasing scale in the PROSPER systems and annuities, continued growth in the micro 3D printing and packaging, continued growth in the software and solutions division, continued year over year run rate of cost structure improvements in 2015, as well as additional reductions in corporate SG&A to a target level of \$80 million. That's down from \$118 million that you saw last year.

We'll now be happy to take your questions. Dave?

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**Dave Bullwinkle** - *Eastman Kodak Company - Director, Investor Relations*

Thanks, Jeff. Michelle, we are now ready to open the Q&A session. Please provide callers with the instructions for asking questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Shannon Cross, Cross Research.

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**Celeste?Santangelo** - *Cross Research - Analyst*

Hi. Good afternoon. Actually this is Celeste for Shannon. I had a couple of questions today. I wanted to start with the PROSPER press systems. You talked about adding five and then five additional agreements. Were these still five separate customers or people purchasing multiples? Are they new customers or existing? And generally what's the time from agreement to installation?

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

All excellent questions, Celeste. So, in the first quarter, the systems were with two customers, a significant set of shipments and revenue recognition to our OEM partner, BOPS, and to a different customer. For the five in contract but not yet delivered, those are for all individual customers. So, overall I'd say seven customers over the -- for the ten systems.

And in terms of how long does it take, that depends on what the application is. For the BOPS systems, because that's integrated into a complex process, the BOPS systems, those will take longer. Those should be -- some of those systems should be printing significant ink in the second half of this year, others may creep into the fourth quarter or even year after. Typically we see probably a six to nine month timeframe from the time a system is shipped to a customer and installed and to when they start printing at the speeds that we start seeing significant annuity growth.

During that time, they're testing the system, they are running commercial jobs, but it takes awhile for two things to happen. One, to get the local operators at the print shops become comfortable with the speed and the application as possible by this very complex machine. Remember this machine can print up to a billion pages a year. So, this is a significant technological implementation. And second of all, it takes awhile for the commercial part of the printer to build enough business that they can feed this extraordinary machine. So, the combination of those take awhile. That's why over several years we've been working with Wiland and now they are our largest page provider. So, once they start getting the volume, then it works.

Thanks, Celeste.

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**Celeste?Santangelo** - *Cross Research - Analyst*

And I had a question on the plates business.

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

Sure. Go ahead, Celeste.



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**Celeste?Santangelo** - *Cross Research - Analyst*

It looked like revenue was down although volumes were up. Could you just talk about maybe pricing and currencies, what kind of impact they had?

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

Yes. I mean currency was more than half of the decline and we continued to have an ability to have favorable mix on pricing because of the SONORA growth. SONORA is priced higher than our traditional plates. But there is good pricing competition on the non-store plates, the traditional digital plates. It's a very competitive market.

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**Celeste?Santangelo** - *Cross Research - Analyst*

Okay. And then just a question on the micro 3D. Could you talk about maybe what you saw from currencies, what kind of impact you saw?

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

Okay. So, on micro 3D we had no material revenues. So, currency wasn't a problem. Expenses are primarily in the US. So, no currency impact on that. And you question on the other part of the division, on packaging, our largest business is in Europe so there was a headwind from currency on the packaging part of the micro 3D division.

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**Celeste?Santangelo** - *Cross Research - Analyst*

Okay. And then for software and solutions? Do you think that maybe additional cost cuts could happen there?

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

You know what? I think we've done some significant reengineering there over the last year. This -- in software and solutions, this is a business with a very strong product set. We're just coming out with printer D7 which is a differentiated offering versus the dot releases that went between 6 and 7. It is a product that is well -- it's well distributed. It's got strong market share. I think we're really focusing on organic growth and investments in the go to market in this business and cost cuts.

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**Celeste?Santangelo** - *Cross Research - Analyst*

Okay. Great. And then just lastly on the -- how should we think about the Hollywood film agreement benefiting EBITDA within the consumer and film division?

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

Well, it did. One of the key parts of the Q1 results and one of the key accomplishments over the last year has been really a reengineering of our film business. This was a business that had a very difficult first quarter of last year. It was a very large loss. And it's improved since then. And as I mentioned, we see this business as being break even by the end of the year here. And so part of that is commitment for volume from the major studios. And also a much better inventory management by our team and better manufacturing work.



So, it was very important to the turnaround for multiple reasons, mainly because it allowed us to know and load our factories in a fashion because we know that we have a set of demand. But remember that's a very complex division because while we have motion picture film and that certainly gets a lot of the press, we also have a very strong archival film business that's growing because you can archive digital as well as traditional film and we have a very strong industrial business in film with printed circuit boards where that is declining a much -- than we've seen in particularly the print side of the film. So, we're seeing some good initiatives on this business turning around and we think it's an important business going forward.

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**Celeste Santangelo** - Cross Research - Analyst

Great. Thank you very much.

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**Jeff Clarke** - Eastman Kodak Company - CEO

Thank you, Celeste. Next question, please? Or next set of questions maybe?

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**Operator**

Alex Yaggy, Cortina Asset Management.

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**Alex Yaggy** - Cortina Asset Management - Analyst

Hi. Good evening, everyone. I just wanted to ask a couple quick questions around first UniPixel and then PROSPER. Now that the UniPixel agreements has I guess ceased to exist can you explain what that means for you financially? Because at least as I understand it they had some costs that they were running through their system and you were relying upon their customer base to start to monetize that to the back half of the year.

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**Jeff Clarke** - Eastman Kodak Company - CEO

Right. So, financially the biggest impact is that the prior agreement with UniPixel which has ended but has a 90 day notice period that we're 15 or 20 days into, the biggest impact is that deal had a sharing of the revenues at roughly a 50-50 basis. And going forward, nearly all the revenues will go to Kodak. So, the biggest impact for this program is that Kodak has complete control over the program now and we'll reap all of the economic upside of the program short of a modest royalty to UniPixel. So, it's very good news for Kodak from the perspective.

On the cost side, it will mean increased costs. So, as you can tell in the numbers, Kodak was spending a little over \$1 million a month investing in this program, down from about \$1.5 million last year. The decrease is because we achieved significant progress on the program. And where we're going to need to -- so, for the next 80 days, UniPixel is contractually required still to contribute its portion of the expense sharing and after that, Kodak will have to pick up most of the expense. But most of the expense at that point from an engineering perspective will be completed and so there's not a significant increase because a lot of that work will be behind us. Where we will need to invest in terms of new, will be we'll need to purchase the equipment from UniPixel, from the partnership.

And the second piece is we're going to need to add sales resources. Because the way the partnership -- the partnership was multifaceted but in kind of shorthand, UniPixel was responsible for the go to market and market sizing and the customer pipeline and development and Kodak did certainly some heavy lifting on the technical and engineering side. And Signal Intelligence, we're going to have to invest some additional resources on the go to market side as well as pick up the entire build post the notice period for our engineering as we go forward.



**Alex Yaggy** - Cortina Asset Management - Analyst

Okay. And I think the expectation was that you'd start to see some revenues in the back half of the year. Is that still reasonably the case? Or do you have to go out and develop a new potential customer base in order to do that without UniPixel?

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**Jeff Clarke** - Eastman Kodak Company - CEO

Well, the existing customer base shifts over the existing pipeline. We -- in this business, I have found that startup businesses that have significant technical advancement in them, particularly with new sets of customers that are trying a new product for the first time, you need to be very circumspect when you make a forecast. So, yes, I expect we will shift some revenue in the second half of the year but it's going to be modest as this is a program that has been many years in development.

It's a significant advancement beyond some of the other technologies in the market and so it will take longer to adopt. So, we're going to be conservative as we make projections going forward in this business. We're committed to the technology. We like that we have control of the program. But we're going to be conservative when making forecasts on this. We have taken the risks and opportunities into our guidance projections for this year.

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**Alex Yaggy** - Cortina Asset Management - Analyst

Okay. Thank you. And then just quickly on the PROSPER. If you have five new customers, five new going out this quarter, five contracted, can you just talk a little bit about the economic -- the machines? How you get paid over time? What the annuity is per machine kind of on average and search engine we can talk about you two, three years down the road what kind of revenues you'll be generating from there.

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**Jeff Clarke** - Eastman Kodak Company - CEO

It's going to differ by application. Where we have the richest set of annuities is in the OEM market. And so the BOPS partnership related to pricking packaging starting with corrugated and moving to other types of packaging will be quite lucrative because of the amount of the concentration of ink that's used in that industry. Color is important. So, versus transaction types. PROSPER can do both.

So, if we're moving into heavy color applications, newspaper printing, that type of application is going to have less profitability than more color applications. So, it differs significantly. But as a rule of thumb, you should think about somewhere around \$0.5 million a year in ink consumables for each system and as I said you should plan if you're doing some modeling here, a six to nine month delay between that kicking in at that level and from the shipment recognition of the system.

So, at a high level we've given you guidance here. We expect the division to breakeven before corporate costs which is a \$30 million improvement year over year. And I want to emphasize that there are two parts of that improvement. There's an amount larger than that \$30 million of improvement with PROSPER while at the same time the Versamark base which is quite profitable today, declines. So, you've got two moving lines there. So, PROSPER is going to have significant economic impact and favorable economic impact this year compared to last year for the Company.

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**Alex Yaggy** - Cortina Asset Management - Analyst

Good. Thank you.

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**Jeff Clarke** - Eastman Kodak Company - CEO

Thank you. Next question, please?

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**Operator**

(Operator Instructions) Amer Tiwana, CRT Capital Group.

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**Jack Chan** - CRT Capital Group - Analyst

Hi. This is Jack Chan in for Amer. A couple of questions. For print systems division, what was the impact of aluminum costs. Do you guys have any other hedges in place?

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**Jeff Clarke** - Eastman Kodak Company - CEO

Yes. For the quarter we have -- are we giving the number for the quarter?

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**John McMullen** - Eastman Kodak Company - CFO

A rough number for the quarter. Roughly the cost impact, the way we provided the guidance, it's about \$6 million in the first quarter, \$5 million to \$6 million probably in the first quarter was the aluminum impact built in on a year over year basis.

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**Jack Chan** - CRT Capital Group - Analyst

And for the full year, John?

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**John McMullen** - Eastman Kodak Company - CFO

For the full year, roughly \$20 million.

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**Jeff Clarke** - Eastman Kodak Company - CEO

So, it's a headwind. What we're looking at improving the overall bottom line of our print system division in '15 over '14 and that is overcoming the \$20 million aluminum costs that you referenced.

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**Jack Chan** - CRT Capital Group - Analyst

Right. And do you guys have any hedges for aluminum? Or none whatsoever?

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**John McMullen** - Eastman Kodak Company - CFO

Yeah, we do hedge a percentage of our aluminum purchases over time through the course of the year. It's not 100% but we do put on hedges on kind of a rolling quarter basis. And those are factored into our assumptions in terms of what we already saw and what we already knew in 2014 relative to 2015.

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**Jack Chan** - CRT Capital Group - Analyst

Got it. My next question is on the leverage. Any thoughts on refinancing the term debt? Any feelings on the right level of leverage on a gross basis for the Company going forward?

**John McMullen** - Eastman Kodak Company - CFO

Clearly we are always watching the market in terms of opportunities for us going forward. So, there's no change for us versus where we were last year. So, we will pay attention to the market and what opportunities are there for us. I think over time, do we want to be operating with less debt as a Company? You know, sure. And I think you'll see over the next couple of years as the Company moves and opportunities and decisions will be made, we'll talk a lot more about what we think the appropriate capital structure should be for the Company on a longer-term basis.

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**Jeff Clarke** - Eastman Kodak Company - CEO

One of the reasons that we wanted to increase the transparency for divisions is so people would understand the stability of the profitability of the PSD business for Kodak. As you can see, it's more than half our revenue, half our profitability. We're able in a relative slow growth or no growth market, we're able to maintain or increase our EBITDA in this business.

And so that's very important for the leveraged thought. This is a business that again is a portfolio that has a very stable component of our operating structure and it allows us to have some of the growth businesses that are more volatile that would not be as -- you would not be able to put as much leverage on. So, a key part of our portfolio is a heavy annuity based business in PSD and as we build some of the digital imaging and packaging annuities, you'll see our ability to keep this leveraged. And as John said, you always want to revisit where the best capital structure is. But this is a Company that can handle debt pretty easily.

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**Jack Chan** - CRT Capital Group - Analyst

Great. The next one I had was on working capital. I know you anticipate striking \$50 million this year but any thoughts longer-term on reducing the amount there and extracting more efficiencies?

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**John McMullen** - Eastman Kodak Company - CFO

Yeah. I think for us certainly as the Company -- as we've shown over the last couple of quarters as the Company gets stronger and we get further away from the Chapter 11 process, I think our ability in general in the marketplace relative to working capital improves. I think also within that our own disciplines around working capital, I think the divisional structure from a predictability point of view, our ability to forecast, our ability to understand the inventory requirements of the Company going forward is a big help.

We haven't disclosed and I won't get into the absolute numbers at this point but we have a cash conversion cycle that I think we can improve over time and certainly we have some goals this year around that built into our assumption of working capital improvements. I think they're reasonable goals. I think there's more for us over time.

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**Jack Chan** - CRT Capital Group - Analyst

Thank you.

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**Jeff Clarke** - Eastman Kodak Company - CEO

Thank you, Jack. Anything else?

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**Jack Chan** - CRT Capital Group - Analyst

Have you guys scheduled an analyst day?



**Jeff Clarke** - *Eastman Kodak Company - CEO*

We are going to be working with some of you to understand what the best timing for you is. It would probably be in the early summer. Dave, do we have any update on that?

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**Dave Bullwinkle** - *Eastman Kodak Company - Director, Investor Relations*

No. That's the timeframe we're still looking at.

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

We'll let you know soon on that.

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**Jack Chan** - *CRT Capital Group - Analyst*

Okay. Thank you very much.

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

Thank you, Jack. Are there any other questions?

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**Operator**

There are no further questions.

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**Jeff Clarke** - *Eastman Kodak Company - CEO*

Well, thank you very much. I appreciate everyone's time. I guess I had predicted this might go over an hour but we snuck it in. So, I thank you all and I look forward to talking to you next quarter. Again, I'd like to just share how excited I am about our execution in the new divisional structure. We're seeing a lot of progress and a lot of the right tone here. And so, I'm pleased. And thank you, all, for your time.

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**Operator**

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

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