

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

KODK - Q4 2019 Eastman Kodak Co Earnings Call

EVENT DATE/TIME: MARCH 17, 2020 / 9:00PM GMT



MARCH 17, 2020 / 9:00PM, KODK - Q4 2019 Eastman Kodak Co Earnings Call

CORPORATE PARTICIPANTS

David E. Bullwinkle *Eastman Kodak Company - CFO & Senior VP*

James V. Continenza *Eastman Kodak Company - Executive Chairman & CEO*

Paul Dils

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Eastman Kodak Q4 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Paul Dils. Thank you. Please go ahead, sir.

Paul Dils

Thank you, and good afternoon, everyone. I am Paul Dils, Eastman Kodak Company's Chief Tax Officer and Director of Investor Relations. Welcome to Kodak's Fourth Quarter 2019 Earnings Call.

At 4:15 p.m. this afternoon, Kodak filed its annual report on Form 10-K and issued its release on financial results for 2019. You may access this presentation and the 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 those expressed in the forward-looking statements. Important factors that could cause actual events or results to differ materially on these forward-looking statements include, among others, the risk, uncertainties and other factors described in more detail in Kodak's filings with U.S. 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 only apply as of the date of this presentation and are expressly qualified in their entirety by the cautionary statements included or referenced in this presentation. Kodak undertakes no obligation to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

In addition, this 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 are Jim Continenza, Kodak's Executive Chairman; and David Bullwinkle, Chief Financial Officer of Kodak.

I will now turn the call over to Jim.

James V. Continenza - *Eastman Kodak Company - Executive Chairman & CEO*

Thank you, Paul. Welcome, everyone, and thank you for joining the fourth quarter investor call for Eastman Kodak.

Turning to Slide 4. 2019 was a breakthrough year for Kodak. We ended the year 2019 with \$233 million of cash and cash equivalents, flat when compared to 2018. The first time in several years, we haven't burned \$90 million to \$100 million. We expected to burn close to \$140 million to \$160 million. And we really inked down -- took out appropriate cost, shut down divisions that were not profitable. We got focused on what we do best



MARCH 17, 2020 / 9:00PM, KODK - Q4 2019 Eastman Kodak Co Earnings Call

and what's in our DNA. And part of that settlement was we completed of Flexographic Packaging Division, the issuance and sale of \$100 million, aggregate principle amount of a 5% secured convertible note due in 2021, repaid in full \$395 million of the first lien term loans, established a strategic relationship with the People Republic of China and Lucky HuaGuang Graphics. We're going to call this growth in profitable revenue or smart revenue. You'll hear it referred to sometimes in the future. Volumes for KODAK SONORA Process-Free Plates grew by 22%. Again, Kodak continue to be great stewards of the environment also. And annuities revenues for KODAK PROSPER grew by 5%.

All this is key steps as we start to realign new organization that we've been talking about. Before we could get into the new organization, we have to stabilize the balance sheet and the foundation of the business and focus on what we do. In the amortization structure for 2020, we'll leverage our technologies in core print, advanced materials and chemicals. That is what Kodak does. So when I asked what does Kodak do? One more time, print, advanced materials and chemicals. Effective January 2020, Kodak will report results based on the following structure: print business, which comprises of traditional print segment and digital print and software; advanced materials and chemicals; brand segment. Those are the 3 areas that we report.

Turning to Slide 6. Our new simplified structure will better align with our customer needs by providing a 1 Kodak. We've been saying it for a while, and we've now got there. Customer first experience and better allow us to continue to focus on generating free cash flow and reducing operating expense while serving a customer needs better. When I say customer first, it does not mean our employees aren't important. They're equally as important. But we are going to make sure that everything we do is around the customer from product development to service, to help them become more profitable. We want to be a key strategic partner for them. Kodak is committed to the film business, the chemical business and the print industry.

Annual revenue -- annual R&D spend of \$25 million for our print business continuing our commitment to build on our heritage. That will be equipment held technologies, substrates, inks and software. We will continue to do business with over 200 with over half of the top 400 printers in the U.S. A big statement. So the top 400 printers, we're doing business with over half of them.

Kodak is focused on customer needs by providing simplicity. We said we make the complicated easy. Making technologies accessible is our DNA. When you walk around the halls of Kodak, I don't care who you stop, somewhere, they've been involved in digital print or print optics, graphics, inks in this technology. It's who we are. And the key asset is we probably have. 3,000 to 4,000 people who are well-versed in this industry. It's really what we do best.

Kodak technologies are easier to use which increase productivity and reduces need of training. Productivity, many printers have been squeezed on margins and they need to win every minute and every dollar out of their traditional business. Kodak can help streamline workflow, increase productivity and profitability. We're going to grow -- overall, the industry is shrinking, we're going to grow overall. Because the shrinking people are focusing on packaging, short run label, variable data. Said differently, there's now the opportunity with digital and analog and plates and crossed. There are more runs being done that are short-term runs on plates. And the short-term runs on digital are easier to switch and convert over and now becoming cost-effective. So as smaller runs become more of the standard in print and printing organization, digital becomes more of the player.

The future is digital and Kodak is doubling down, shrinking volume and margins in traditional print threatens the survival of many printers. They've got to become more efficient, more flexible, faster and leaner. Increasing demand for short runs, faster turnaround, increasing the opportunity with variable data in direct mail, newspaper, packaging, which is critical and other applications. Growth of the packaging segment is an opportunity it represents for digital. So when I say that, we currently -- you're going to get more detail on this, launch the first digital package printer. For printers today, Kodak solutions is the smart investment. No one else offers what Kodak brings to the table. Deep industry expertise, decades of experience, a complete portfolio of superior products that help increase productivity and drive growth and innovation.

Introduction of new products and capabilities. You'll see over the next 6 to 12 months, we're launching several new products in the digital line and also in the SONORA line there'll be an enhancement, including the previously announced UTECO Sapphire EVO press machine, which is a game changer, and it's a co-branded machine between UTECO and Kodak. It's a great example how Kodak is helping to lower cost and drive efficiency and providing innovation. The first flexible packaging for us uses continuous inkjet technology. There'll be another machine also coming out, which will be a wide format. So we're using both stream and Ultrastream heads. Environmentally friendly, utilization of industry-compliant water-based



MARCH 17, 2020 / 9:00PM, KODK - Q4 2019 Eastman Kodak Co Earnings Call

pigments, inks, allowing excellent print for various qualities of substrates, leaving the door wide open for applications such as food, beverage and personal care.

Again, this is groundbreaking. When you look at how long it takes to change in the packaging industry from plates on different run, it's literally a PDF file. And quality is unbelievable and the speeds are getting better and better. We're excited about the breakthrough. We've put a lot of money into it and so has UTECO. He's been a great partner. And we've placed a few other machines, and they've done very well out of the shoot.

We're well aware of the coronavirus and the business impacts. We are taking everything to follow best practices and safety for our employees. [Denise Goldberg] is on this call. She's been leading in-charge for the company, if you have any questions later. But we are addressing it. And we are on top of it. We have calls daily. We are up to the minute notifications and changes as you guys know. And but we're going everything we can do to keep our employees safe and our customers and our partners.

With that, I'm going to turn it over to Dave to discuss the 2019 financial results. Dave?

David E. Bullwinkle - Eastman Kodak Company - CFO & Senior VP

Thanks, Jim, and good afternoon. Today, the company filed its Form 10-K for the year ended December 31, 2019 with the Securities and Exchange Commission. As always, I recommend you read this filing in its entirety.

The company generated positive cash flow in the fourth quarter of 2019 and had breakeven cash flow for the full year 2019, which reflects benefits from working capital improvements and individual transactions, which occurred during the year. The company will remain focused on cash generation in 2020.

I'll now share further details on the full company results, operational EBITDA and cash flow for 2019. Please note the results of Flexographic Packaging Division have been reported as discontinued operations in 2019 and the comparable 2018 periods, due to the sale of the division in April of 2019. Additionally, certain amounts have been reclassified for the current and prior year period due to assets held for sale reporting requirements related to the HuaGuang transaction.

On Slide 7, as we reported in our earnings release, net income for 2019 on a U.S. GAAP basis was \$116 million compared to a net loss of \$16 million in 2018. The 2019 results include a net gain on sale of the FPD business of \$214 million; noncash changes in workers' compensation and legal reserve adjustments of \$3 million; expense of \$4 million related to trade name impairments and the related changes in the fair value for the derivatives embedded in the Series A preferred stock; and convertible notes of \$42 million. The 2018 results include \$11 million associated with noncash changes in workers' compensation and legal reserves and a benefit of \$16 million related to the Korean withholding tax refund. The 2018 results also include expense of \$13 million related to a trade name impairment, driven by the sale of FPD. Excluding the impact of these current and prior year items, the 2019 adjusted net loss was \$49 million compared to a loss of \$30 million in the prior year.

Turning to Slide 8. For 2019, we reported revenues of \$1.242 billion compared to \$1.320 billion in the prior year for a decline of \$78 million. Adjusting for the unfavorable impact of foreign exchange of \$27 million and the license revenue received from the HuaGuang transaction of \$13 million, revenue declined by \$64 million compared to the prior year. Operational EBITDA for 2019 was \$12 million compared to \$1 million in 2018. Excluding the favorable impact of foreign exchange and aluminum costs, license revenue received from the HuaGuang transaction and adjusting for the increase in workers' compensation reserves, operational EBITDA decreased by \$8 million from the prior year.

We delivered strong full year performance in our key growth engines. On a year-over-year basis, volumes for SONORA Process Free Plates grew by 22%, and the annuity revenue for PROSPER grew by 5%. We also continue to invest in future growth areas, Ultrastream and Advanced Materials.

Moving on to the company cash performance presented on Slide 9. Cash, cash equivalents and restricted cash for 2019 increased by \$23 million compared to a decrease of \$102 million in the prior year. Restricted cash and cash included in assets held for sale increased by \$23 million as compared to a decrease of \$7 million in the prior year. The current year includes \$14 million for the establishment of an escrow in China to secure various ongoing obligations under the agreements for the strategic relationship with HuaGuang, \$19 million funding related to the ABL, primarily



MARCH 17, 2020 / 9:00PM, KODK - Q4 2019 Eastman Kodak Co Earnings Call

due to the sale of FPD, remaining cash prepayment of \$3 million received in the U.S. for services and products provided by the company to the buyer of FPD, which was secured by a corresponding restricted cash deposit in China, offset by a decrease of \$15 million of cash included in assets held for sale as of the prior year-end. There was no change in cash and cash equivalents in 2019 compared to a net decrease of \$95 million in the prior year. We continue to evaluate opportunities to eliminate or release restricted cash in 2020 and to benefit from our cash positions around the world. As of the year-end 2019, restricted cash globally is \$57 million.

During 2019, cash provided by operating activities was \$12 million driven primarily by cash used from net earnings of \$42 million, offset by cash generated from balance sheet changes of \$54 million, including a change in working capital of \$57 million and a decrease in other liabilities of \$10 million. Accounts payable increased by \$25 million, inventory decreased by \$11 million and accounts receivable decreased by \$21 million. Cash provided by investing activities was \$311 million during 2019 as compared to a use of \$22 million in prior year. The current year included proceeds from the sale of FPD and the HuaGuan transaction. Cash used in financing activities was \$298 million for 2019 compared to a use of \$11 million in the prior year. The current year includes \$395 million of cash used for the full repayment of the senior secured first lien term credit agreement, partially offset by the issuance of secured convertible notes of \$100 million.

Finally, as disclosed in our Form 10-K, we remain in compliance with the covenants under our credit agreement.

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

Operator

(Operator Instructions) I am not showing any questions at this time.

James V. Continenza - Eastman Kodak Company - Executive Chairman & CEO

Great. Well, thank you, everyone, for dialing in. Again, it was one of our best years in a long time, and it's starting the foundation of the new Kodak and we're excited in the path we're going. So thanks again for dialing in. We appreciate it. Take care and stay safe. Bye-bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.