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KODK - Q3 2019 Eastman Kodak Co Earnings Call

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CORPORATE PARTICIPANTS

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

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

William G. Love *Eastman Kodak Company - Director of IR & Treasurer*

PRESENTATION

Operator

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

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

William G. Love - *Eastman Kodak Company - Director of IR & Treasurer*

Thank you, Skyler. Good afternoon, everyone. I am Bill Love, Eastman Kodak Company's Treasurer and Director of Investor Relations. Welcome to Kodak's Third Quarter 2019 Earnings Call.

At 4:15 p.m. this afternoon, Kodak filed its quarterly report on Form 10-Q, and issued its release on financial results for the third quarter of 2019. 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 on 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 referenced in the presentation materials and described in more detail in Kodak's filings with the 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 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. 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, 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 are Jim Continenza, Kodak's Executive Chairman; and Dave 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, Bill. Welcome, everyone, and thank you for joining the third quarter investor call for Kodak.

On September 1, 2019, the company established a strategic relationship in the People's Republic of China with Lucky HuaGuang Graphics Company. The transaction includes the sale of Kodak's offset printing plates facility in Xiamen, China, a supply agreement to help Kodak fulfill its customer

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demand and intellectual property agreement under which Kodak licensed its plate technology to HuaGuang to expand the market in China. This transaction will leverage the combination strengths of HuaGuang's market share -- leader market share and Kodak's world-class technology.

Together, we expect to accelerate the conversion of KODAK SONORA Process-Free Plates in China, Hong Kong, Taiwan and Macau.

We'll pause here for a minute. As we have been stating for the last couple of calls, we're moving to one Kodak. We're going to look at build it, buy it, partner, what makes the most sense for the company to help satisfy and serve our customers and establish leaderships in the market. We are thrilled about this combined opportunity. We are over there, met with them. They want to do more together and so we. We're going to look at China as one of our growth areas. And this, again, is leveraging their strengths and ours.

When we look at going ahead in 2020, the company will focus on generating cash and simplifying its organization structure, which will provide better alignment with our customers. We're moving to a customer-first model. With that, that means our employees and customers are the focus of what we have to focus -- our employees and customers are what we will focus on delivering world-class service, innovation and leading-edge technologies. We're going to leverage our Advanced Materials technology in our Core Print and Film business. We will continue to innovate in both areas. We're going to eliminate and delay product development for noncore programs and products. We're reducing our operating expenses. We're going to grow profitable revenue.

The volume of KODAK SONORA Process-Free Plates grew 22%. The annuities revenue for Kodak PROSPER grew -- Inkjet grew 5%.

Again, as we keep stating and just so we're clear, we're going to move to generate free cash flow. We're going to put a customer-first model work backwards. We are going to continue to innovate in the areas of our strength, Advanced Materials and focus on core products. That's why we're really clear where the company is going.

With that, I'm going to turn this over to Dave to discuss the 2019 third quarter year-to-date financial results.

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

Thanks, Jim, and good afternoon. Today, the company filed its Form 10-Q for the quarter ended September 30, 2019, with the SEC. As always, I recommend you read this filing in its entirety.

Before we begin, I would like to mention that we recently announced the retirement of Bill Love, Corporate Treasurer and Director of Investor Relations, effective January 6, 2020. Bill has made significant contributions to Kodak's transformation and has been a valuable member of the finance leadership team. Congratulations, Bill.

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

Well, Dave, Dave, Dave.

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

Yes.

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

I'd also like to thank Bill. I've known Bill for several years. And when we went through our restructuring, he came out -- I don't know if it would have been possible without what he -- the work he did. It was incredible. And the contributions he made to the company will never be forgotten. So Bill, thanks for everything. I want to personally thank you, and every shareholder should be thanking you also.



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William G. Love - Eastman Kodak Company - Director of IR & Treasurer

Thank you, both. I very much appreciate it.

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

Matthew Ebersold, Assistant Treasurer; will assume the role of Corporate Treasurer, and Paul Dils, Chief Tax Officer; will assume the additional role of Director of Investor Relations.

As Jim previously mentioned, on September 1, 2019, the company finalized the establishment of a strategic relationship with Lucky HuaGuang Graphics Company Ltd in the People's Republic of China. The deal included the sale of Kodak's offset printing plates facility in Xiamen, China, a supply agreement help Kodak fulfilled its customer demand and an IP agreement under which Kodak licenses its plates technology to HuaGuang to expand the market in China. This transaction will leverage the combined strength of HuaGuang's market leadership and Kodak's world-class technology, which, together, are expected to accelerate the conversion to KODAK SONORA Process-Free Plates in China, Hong Kong, Taiwan and Macau.

On September 12, 2019, the company adopted a tax asset protection plan and adopted a complementary protective amendment to its certificate of incorporation. The purpose of these protections is to restrict and deter certain transfers of common stock in order to preserve the tax benefits of the company's U.S. net operating losses and foreign tax credits. The protections will expire on November 15, 2019, when the risk of losing the tax benefits under applicable tax rules is significantly reduced.

I will now share further details on the full company results, operational EBITDA and cash flow for the third quarter and 9-month period ending September 30, 2019. Please note the results of FPD have been reported as discontinued operations for the third quarter and year-to-date September 30, 2019, and the comparable 2018 periods due to the sale of the division. Additionally, certain amounts have been reclassified for the current and prior year periods due to assets held for sale reporting requirements related to the HuaGuang transaction.

On Slide 5, as we reported in our earnings release, net loss for the third quarter of 2019 on a U.S. GAAP basis was \$5 million compared to net income of \$19 million in the prior year quarter. For the 9 months ending September 30, 2019, the reported net income was \$178 million compared with net loss of \$2 million for the 9 months ended September 30, 2018. Excluding the impact from the net gain on sale of the Flexographic Packaging Division -- excuse me, of \$5 million, workers' compensation and legal reserve adjustments of \$2 million and the related changes in the fair value for the derivatives embedded in the Series A preferred stock and convertible notes of \$4 million, the net loss for the third quarter of 2019 was \$4 million compared to a net income of \$4 million in the prior year quarter. The adjusted year-to-date loss on this basis for 2019 was \$29 million compared to a loss of \$10 million in the prior year period, which primarily reflects reduced noncash pension income and nonrecurring costs of completing the FPD sale.

Turning to Slide 6. For the third quarter of 2019, we reported revenues of \$315 million compared to \$329 million in the prior year quarter for a decline of \$14 million. Adjusting for the unfavorable impact of foreign exchange of \$5 million and license revenue received from the HuaGuang transaction of \$13 million, revenue declined by \$22 million compared to the prior year quarter.

Operational EBITDA for the quarter was \$14 million compared to \$9 million in the prior year quarter. 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 \$9 million.

Through September 30, 2019, we reported revenues of \$913 million compared to \$979 million in the prior year period for a decline of \$66 million. Adjusting for the unfavorable impact of foreign exchange of \$25 million and license revenue received from the HuaGuang transaction of \$13 million, revenue declined by \$54 million compared to the prior year period.



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Operational EBITDA for the year-to-date period was \$7 million compared to a negative \$2 million in the prior year period. 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 declined by \$8 million.

We delivered strong year-to-date 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 of ULTRASTREAM and Advanced Materials.

Moving on to the company's cash performance presented on Slide 7. The company ended the third quarter with \$225 million in cash and cash equivalents, a decrease of \$8 million from December 31, 2018, and an increase of \$27 million from June 30, 2019 cash balance of \$198 million when adjusted for the assets associated with Kodak's offset printing plates facility in Xiamen, China being reported in assets held for sale.

Cash, cash equivalents and restricted cash for the 9 months ended September 30, 2019, increased by \$12 million compared to a decrease of \$113 million in the prior year period.

Restricted cash and cash included in assets held for sale increased by \$20 million as compared to a decrease of \$7 million in the prior year period. The current year includes the remaining cash prepayment of \$8 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. This restricted cash in China is being released periodically as services and products are provided to the buyer. Additionally, there was an increase of \$14 million related to the impact on the ABL from the sale of FPD assets.

The company also established an escrow of \$14 million in China to secure various ongoing obligations under the agreements for the strategic relationship with HuaGuang. The net decrease in cash and cash equivalents was \$8 million through September 30, 2019, compared to a net decrease of \$106 million in the prior year period, representing significant improvement in cash flow.

We continue to evaluate opportunities to reduce restricted cash and to benefit from our cash positions around the world.

For the 9 months ending September 30, 2019, cash used in operating activities was \$4 million, driven primarily by cash used from net earnings of \$36 million, partially offset by cash generated from balance sheet changes of \$32 million, including a change in working capital of \$25 million and a decrease in other liabilities of \$5 million.

Accounts payable increased by \$13 million, inventory increased by \$18 million and accounts receivable decreased by \$30 million. We continue to expect ongoing improvement in working capital.

Cash provided by investing activities was \$315 million during the 9-month period ended September 30, 2019, as compared to a use of \$16 million in the prior year period. The current year included proceeds from the sale of the Flexographic Packaging Division and the HuaGuang transaction.

Cash used in financing activities was \$295 million year-to-date 2019 compared to a use of \$10 million in the prior year period. The current year included \$395 million of cash used for the full repayment of the senior secured first lien term credit agreement, partially offset by the issuance of the secured convertible notes of \$100 million.

Finally, as disclosed in our Form 10-Q, we remain in compliance with covenants under our credit agreements.

We will now open the call to your questions.

Operator

(Operator Instructions) And I'm not showing any questions at this time.



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

Well, again, I'd like to thank everyone for joining the call, and we appreciate your support. Thank you, everyone. Have a good evening.

Operator

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

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