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KODK - Q2 2016 Eastman Kodak Co Earnings Call

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David Bullwinkle *Eastman Kodak Company - SVP, CFO*

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Shannon Cross *Cross Research - Analyst*

Amer Tiwana *Cowen and Company - Analyst*

Peter Rabover *Artko Capital LP - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak Q2 2016 earnings conference call. (Operator Instructions) As a reminder, this call may be recorded.

I would now like to introduce your host for today's conference, Bill Love. Please go ahead.

Bill Love - *Eastman Kodak Company - Director IR, Treasurer*

Thank you, David. Good afternoon, everyone. My name is Bill Love, Treasurer and Director of Investor Relations, Eastman Kodak Company. Welcome to the second-quarter 2016 Kodak earnings call.

At 4:15 PM this afternoon, Kodak filed its quarterly report on Form 10-Q and issued its release on financial results for the second-quarter 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. 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 annual report on Form 10-K for the year ended December 31, 2015, and Kodak's reports on Form 10-Q for the quarters ended March 31, 2016, and June 30, 2016, and in other filings Kodak makes 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 for reference in this presentation.

In addition, the release just issued and the presentation provided contain 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 Investors 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 perspectives on the quarterly financial performance, and an update on the outlook for the Company. Then Dave will take you through a cost-reduction update, first-half results, cash flow results, and outlook before we open it up to your questions.

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



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Jeff Clarke - Eastman Kodak Company - CEO

Thanks, Bill. Welcome, everyone, and thank you for joining the Q2 investor call for Kodak. Today I am pleased to share our continued progress toward improving the Company's performance.

Kodak delivered net earnings in Q2 of \$8 million. In the first half of 2016 we delivered \$63 million of operational EBITDA, which positions us well to meet our full-year guidance.

In addition, in the first half we reduced cash usage from \$136 million to \$32 million and improved GAAP net income by \$70 million, driven by improved operations. The improved operations include \$20 million from lower depreciation and amortization expense and \$18 million from increased pension income.

On the call today, I will talk about the Company results for the second quarter of 2016. Dave will then follow with first-half 2016 results, cost-reduction update, cash flow performance; and after that we will welcome your questions.

Before we move on to our financial results I'd like to take a few minutes to discuss Kodak's success at drupa 2016, a large print show which occurs every four years at Dusseldorf, Germany, over an 11-day period. We launched more than 20 new products and technologies at this show, which were well received by our customers, and we exceeded our sales targets.

With the introduction of our new products and technologies, we are well positioned at the forefront of print, publishing, and packaging industries. We made a significant investment in the show which will benefit us for years to come.

Some examples of the key sales and partnerships from drupa 2016 include the 500th order of a Kodak FLEXCEL NX system; the 21,000th Computer-to-Plate sale; strategic partnerships with Komori, Konica Minolta, Ricoh, Matti Technology, and manroland web systems. Our success at drupa is a clear indication of the market's view of Kodak as a driver of value for our customers, the recognition of our broad expertise in science and technology, and the strength of our brand.

In drupa for Prosper we had six agreements, three of which closed in the second quarter, and we expect to finalize the remainder in the next few months. Our Prosper technology was well received at the show, which gives us confidence in our ability to complete a successful sale of the business, which was announced previously in the first quarter's earnings call.

With regard to the sale process, we continue to have significant interest. For competitive reasons, we will not comment further on the process.

I'll now also comment briefly about the global economic issues impacting Kodak. Relative to the United Kingdom's recent decision to leave the European Union, we're monitoring the situation in all parts of our businesses and are taking the appropriate actions to leverage the opportunities or mitigate our exposure. For context, Kodak's UK annual revenues are approximately \$90 million or about 5% of total Company revenues.

In the Latin America region, the economic environment is also having a negative impact on our business, particularly in the Print Systems Division, which I will discuss further in my review of the second-quarter results.

Despite some global economic headwinds, we continue to see significant opportunities in our growth businesses, which include SONORA, FLEXCEL NX, Software and Solutions, and Micro 3D Printing. We continue to optimize our portfolio and commercialize our material science technology in new business lines with growth opportunities as we continue Kodak's transformation.

Now moving on to the results. Starting on slide 5, we delivered second-quarter operational EBITDA of \$34 million, flat compared to the second quarter of 2015. Operational EBITDA improved by \$3 million year-over-year for the quarter on a constant-currency basis. As a reminder, the prior-period results have been recast to remove the impact of the Prosper discontinued operations and are presented on a comparable basis.



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Slide 6 illustrates the significant improvement in Kodak's quality of earnings. Here we present the impact of the expected decline in the consumer inkjet business, as we did in the first-quarter earnings call. Given the expected decrease in the installed base of printers, we continue to see a reduction in the earnings contribution from this business.

Despite this reduction, operational EBITDA improved year-over-year on a constant-currency basis. When adjusting for the decline in the consumer inkjet business, Q2 operational EBITDA on a constant-currency basis grew by 29% year-over-year, which reflects the increasing proportion of revenues from growth and other strategic businesses.

On a year-to-date basis, operational EBITDA on a constant-currency basis grew 38% year-over-year. We continue to make operational improvements to offset this expected reduction in the consumer inkjet business profitability with the progress we have made in the remaining parts of our division portfolio.

For additional information, we have provided the results for Prosper on this slide as well. On a year-to-date basis, the profitability of this business improved by \$11 million. This reflects solid execution during the sales process and strong demand for these products, which we saw at drupa. We're continuing to invest in this business for growth, including investment for drupa in Q2.

Now I'll talk about the business by division, which is presented on slide 7 for the second quarter of 2016. Starting with the Print Systems Division, second-quarter revenues were \$258 million, a 9% decline compared to 2015, which is similar to the decline we saw in the first quarter. Excluding the weakness in Latin America, the year-over-year decline was 7%, which is also the decline we saw in the first quarter.

Despite these headwinds we improved profitability by managing productivity and introducing new products. I'm pleased with the execution in this business.

Operational EBITDA was \$22 million, \$2 million or 10% better than the same period a year ago. On a constant-currency basis, operational EBITDA improved by 15%.

For the quarter, overall plate volume is down 1% year-over-year. We continue to see strong growth in our environmentally advantaged SONORA plate, which grew by 8%. SONORA's growth was impacted by the weakness seen in Latin America as a result of higher charges to import product into countries like Brazil and the overall economic situation. Excluding the Latin America region, SONORA improved by 17% year-over-year.

In addition to the SONORA growth, we saw continued success with two of our new products, LIBRA and ELECTRA MAX, which have expanded the application set for our plates. As previously mentioned, LIBRA offers a low-chemistry violet plate used in newspaper applications, and ELECTRA MAX expands our product set to work better with UV inks by offering greater chemical resistance, which is necessary due to the chemical cleaning processes used on UV presses.

While plate volume is stable, plate erosion in Q2 was consistent with Q1, or 6%. As we saw in the prior period, when you adjust for the benefit of the reduction in the cost of aluminum, this pricing change is consistent with recent periods. We expect this trend to continue through the second half of the year and are focused on balancing our objective of maintaining market share while mitigating the negative impact of price erosion through productivity improvements.

Also within the PS Division is our electrophotographic printing solutions, or EPS, business, which features our Nexpress products. We continue to focus on improving our profitability in this business by driving productivity and cost improvements. Overall profitability remains comparable to prior year even with the expected slowdown in unit installations due to the timing of drupa. Our page volume is stable year-over-year for our sizable installed base.

At drupa 2016, we previewed our new Nexpress platform, which will be capable of delivering peak quality over longer runs with less operator effort. Also introduced at drupa was our new Kodak Nexpress ZX3900 digital production color press. This new press supports thicker paper and the use of synthetic substrates, which will open up new opportunities for printers.



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Our expertise in imaging and materials science was also on display at drupa where we launched a new Kodak Nexpress opaque white ink. This new specialty dry ink provides increased productivity with higher-quality short-run production for applications such as packaging, signage, labels, and invitations.

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 an asset available for sale. The prior-year results are presented on a comparable basis.

For the second quarter of 2016, EISD revenues were \$19 million, down from \$21 million in the same period last year. Operational EBITDA for the second quarter of 2016 was \$5 million, flat compared to the prior-year period. The decline in revenues reflects this expected reduction in the Versamark product.

As shown on slide 8, the second-quarter 2016 results for the Prosper business, which is presented within discontinued operations, represent significant improvement year-over-year. Annuity revenues improved year-over-year by 35%. For the first half, Prosper EBITDA improved from a loss of \$21 million to a loss of \$13 million; and in that \$13 million is included a \$3 million investment for Q2 related to drupa.

As I stated previously, we will continue to invest in the development of Prosper and ULTRASTREAM, the next-generation inkjet writing system, during the sale process. ULTRASTREAM will greatly expand the market reach of this technology. This is an exceptional technology and product set highly valued by the printing industry.

Both Prosper and ULTRASTREAM technologies were demonstrated at drupa with success. We signed eight letters of intent for partnerships with company which intend to integrate ULTRASTREAM within their product lines.

Drupa also resulted in significant printhead sales, which illustrates the continued strength of the business during the sale process. The Prosper business is doing well, and we continue to invest as we believe it holds great promise for the ultimate buyer.

Moving back to slide 7 for the Micro 3D Printing and Packaging Division, which includes the FLEXCEL NX systems and plates as well as touch sensor films with copper mesh technology, for the quarter revenues were \$35 million, compared to \$33 million in the prior-year period, or a 6% improvement. Operational EBITDA, however, decreased by \$2 million primarily driven by the unfavorable impact of foreign exchange, the drupa investment, and increased R&D expenses. On a constant currency basis, operational EBITDA increased by \$1 million.

The FLEXCEL NX packaging business continues to show momentum. FLEXCEL NX revenues increased by 7% and we placed 12 CTP units in the quarter.

FLEXCEL NX plate volume grew 16% compared to the prior-year quarter, reflecting consistent growth in all regions including Latin America, where we had experienced slower than normal growth in the first quarter. As expected, decline in revenues from legacy packaging products of approximately \$1 million also impacted the overall top line for this business.

At drupa we introduced the Kodak FLEXCEL NX System '16. New system features include advanced edge definition, a Kodak patented technology which controls ink flow at the edge of objects, resulting in a cleaner print and greater visual edge definition.

In addition, we showcased the future roadmap of the FLEXCEL NX platform with a focus on quality, efficiency, and environmental stewardship. Our new water wash ULTRA NX was shown at the technology demonstration at drupa, generating significant interest.

In Micro 3D printing, as I mentioned in the first-quarter call, we're focused on copper mesh touch sensors. In the first quarter we began supporting several customer technical evaluations, receiving feedback indicating our product features are best positioned for all-in-one and industrial applications.



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In the second quarter, we shipped our first set to an Asian OEM customer, an all-in-one partner. Revenue recognition is expected in the second half of the year, and we continue to make steady progress in advancing the technology and expect the second half of the year to provide expansion in our customer base.

As I indicated on the May call, we have been circumspect with respect to the level of revenues and earnings from this technology in our 2016 guidance. We will continue to share our progress on developments in this technology.

The Software and Solutions Division includes PRINERGY workflow software as well as Kodak Technology Solutions. In Q2, we made a strategic divestiture of our DESIGN2LAUNCH software business to Blue Software. In addition, we announced on June 30 that we formed a strategic partnership with Alibaba Group, forming a new Company called eApeiron. eApeiron was created primarily from certain assets of Kodak coupled with an investment from Alibaba Group.

This newly formed Company utilizes Kodak's assets and expertise in materials science and imaging technology to provide technologies tailored for the retail and e-commerce, including a sophisticated tagging system offering a new -- a unique way to identify and track products throughout the supply chain. Kodak holds an equity investment in the new company.

For the second quarter of 2016, SSD revenues were \$21 million, down from \$27 million in the same period last year. Operational EBITDA declined \$3 million to a loss of \$2 million.

Decline in revenues and EBITDA year-over-year is due primarily to the delayed timing of government service contracts in Latin America, land investments, and the delayed timing of orders as a result of drupa.

The Consumer and Film Division includes consumer inkjet printer cartridges, motion picture, commercial films, and synthetic chemicals, as well as our consumer products group, which includes licensing of the Kodak brand. For the second quarter, revenues for CFD were \$61 million, down 8% from the \$66 million, while operational EBITDA improved from \$8 million to \$10 million, driven primarily by a significant industrial films customer order in the quarter, partially offset by a 39% reduction in the consumer inkjet revenues.

We will continue to see variability in the CFD business results this year due to one-off industrial film orders, the timing of motion picture film productions, and our brand licensing business, which varies due to the timing and scalability of new licensees. Excluding CIJ for the quarter, revenues improved by \$2 million in the division, driven by strong performance in the industrial films and motion picture business.

The Industrial (sic - see press release, "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 the second quarter, operational EBITDA was a negative \$4 million, improvement of \$2 million from a negative \$6 million for the second quarter of 2015.

This improvement is a result of continued efforts to reprioritize our research programs. We've made good progress executing on our previously discussed pipeline and are close to revenue recognition or cost recovery.

I'm pleased to announce we recently signed contracts with Carbon3D and with eApeiron, the newly formed company I mentioned earlier, which will result in improved profitability for the division in future quarters.

We're also making significant progress with light-blocking materials. As discussed in our first-quarter call, Kodak small particle technology can be applied to the back panels of curtains to block sunlight. This is a replacement technology to simplify an existing industry manufacturing process. We are in discussions with multiple mills, expecting revenue recognition in the second half of the year.

Continuing on to our final division, Eastman Business Park. Second-quarter 2016 revenues were \$3 million, a decline of \$1 million from the prior quarter. Operational EBITDA was \$1 million, a decline from \$1 million from the prior year. The overall operating efficiency of the park continues to improve and we have a healthy pipeline of potential tenants.



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On slide 9 we are reiterating our 2016 guidance for revenues of \$1.5 billion to \$1.7 billion and operational EBITDA range from \$135 million to \$150 million. I'll now turn it over to Dave to discuss first-half performance, updates on cost reductions, and cash flow. Dave?

David Bullwinkle - Eastman Kodak Company - SVP, CFO

Thanks, Jeff, and good afternoon. It is my pleasure to be addressing you in my new role as Kodak's Chief Financial Officer, and I'm looking forward to continuing the relationships I have developed with many of you on the call. For those who may not be familiar with my background, I will give you a brief overview.

I have been with Kodak since 2004 and I've held a number of roles of increasing responsibility in the finance organization. Most recently, I have been the Director of Global Financial Planning and Analysis as well as the Director of Investor Relations and the Vice President of Finance. Prior to Kodak, I spent two years in finance at Birds Eye Foods and six years at PricewaterhouseCoopers in its audit practice. I am a CPA and an MBA.

I have lived in the Rochester, New York, area for 24 years. My wife and I have three children, and I am active in my community and serve on the Board of the Seneca Waterways council of the Boy Scouts of America.

My objective as CFO will be primarily focused on continuing the work which we have begun with our investors, customers, and employees. Specifically, I will drive transparency through clear communication of Company objectives and measurement through delivery of results.

In addition, the Company has achieved good results in improving efficiency and productivity to improve on the operating leverage of all of its businesses. I will continue to drive progress in this area, working in all areas of the Company to deliver simplification and continuous streamlining of processes.

Today the Company filed its Form 10-Q for the quarter ended June 30, 2016, with the Securities and Exchange Commission. I recommend you read this filing in its entirety.

As Jeff noted in his opening remarks, we are pleased with our second-quarter and first-half performance. Before I continue with our financial results, I'd like to discuss two additional public filings issued today concurrent with our second-quarter Form 10-Q.

As shown on slide 11, we filed a Form 8-K with the SEC which revises the financial statements in our 2015 Form 10-K to reflect the Prosper business as a discontinued operation and to reflect the change in segment measure of profit and loss, in order to provide investors with comparable annual financial reporting.

In addition, we filed a Registration Statement on Form S-3 with the SEC to register an aggregate of \$1.2 billion in debt and equity securities, including the shares owned by certain shareholders who received shares of our common stock and warrants with registration rights in connection with our emergence from Chapter 11 three years ago. The registration of securities satisfies a contractual right of certain Kodak shareholders and also provides flexibility to the Company to facilitate potential access to the capital markets. Neither the Company nor the potential selling shareholders may sell securities under the Registration Statement until it is declared effective by the SEC.

Moving on to slide 12, I would like to provide a little more detail on the second-quarter and first-half results. As we reported in our earnings release, net earnings for Q2 2016 on a GAAP basis was \$8 million compared to a net loss of \$23 million in 2015, an improvement of \$31 million.

For the year-to-date period, the net loss reported was \$7 million compared to a net loss of \$77 million in 2015, an improvement of \$70 million. This is driven by improved business performance which Jeff highlighted, as well as reduction in depreciation and amortization expenses and an increase in income from pension plans on a net basis. The segment footnote in our Form 10-Q provides a full reconciliation of our segment measure of operational EBITDA and net earnings.



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On slide 13, for reference and information we are presenting the divisional results for the six months ended June 30, 2016, and 2015. 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.

As shown, we delivered operational EBITDA of \$63 million compared to \$65 million in the first half of 2015. On a constant-currency basis, operational EBITDA improved by \$4 million or 6%.

As Jeff indicated and presented earlier, we are more than offsetting the reduction in profit from the decline in consumer inkjet ink sales. This represents an improving quality of earnings. The improvement is driven by growth in revenues and earnings in growth engines, as well as productivity and cost improvements in the strategic businesses.

Now to provide an update on our cost-reduction programs. On slide 14, we present operating costs, or total SG&A and R&D expenses, on a GAAP basis. During the second quarter, we continued our progress in reducing operating costs by \$10 million despite the second-quarter 2016 drupa investment of \$4 million.

The key driver of these cost improvements continues to be Company headcount, down approximately 9% year-over-year. Including the Q2 2016 reduction, on a cumulative basis since the beginning of 2014 we have reduced total Company headcount by over 30%. We will continue to maximize efficiencies within our cost structure throughout all areas of the Company.

Moving on to cash. As shown on slide 15, the Company ended the quarter with \$513 million in cash, unchanged from the end of the first quarter. This reflects an improvement of \$33 million in year-over-year cash use.

During the second quarter of 2016 the Company used cash primarily for interest expense and debt repayments; cash used related to discontinued operations; reorganization and other legacy payments; employee severance payments; capital expenditures; the funding of cash tax payments; and customer rebate payments. These cash uses were offset by cash generated from operations including working capital, proceeds from our ABL amendment, and cash proceeds from our D2L divestiture and from the creation of the eApeiron partnership with Alibaba.

The proceeds from the creation of the eApeiron partnership were received in late June. In early July, the Company utilized the proceeds to reduce debt by approximately \$6 million.

For the first half of the year, working capital reflected a source of cash of approximately \$6 million. Including items in assets and liabilities held for sale and the impacts of foreign exchange, accounts receivable were reduced by \$37 million, inventory increased by \$22 million, and accounts payable were reduced by \$9 million for the period.

The working capital metrics reflect the Company's decline in revenues and the seasonal build in inventory primarily in the PSD and packaging businesses. For the full year, we expect a source of cash from working capital of approximately \$30 million to \$35 million, primarily from the typical second-half reduction of inventory due to the higher sales expected in our PSD and packaging businesses.

On slide 16, you will see the detail of the significant reduction in cash used through the first-half 2016. On a year-over-year basis, we reduced our cash usage by \$104 million.

\$74 million of this improvement is from cash used in operating activities on a GAAP basis. The main cash drivers for the year-over-year cash flow improvement were: cash generated from continuing and discontinued operations; reductions in reorganization, legacy, and restructuring payments; net proceeds from our ABL amendments; the effect of exchange rate changes on cash; and sale proceeds from our D2L divestiture and Alibaba partnership.

We are pleased with our cash management efforts in the first half of the year. In 2016, we projected cash generation between \$10 million to \$30 million, which did not include any debt repayments. In July, we made a \$6 million debt repayment which reduces this range.



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Any additional debt repayments in 2016 will further impact our projected cash generation range. Adjusting for debt repayments made through the date of this call, the range of cash generation we expect for 2016 is between \$4 million and \$24 million.

Finally, as disclosed in our Form 10-Q, we remain in compliance with our covenants under our credit agreements. In particular, the Company's EBITDA used in a secured leverage ratio as calculated under the term credit agreements exceeded the EBITDA necessary to satisfy the covenant ratios by approximately \$44 million.

To summarize, I am excited to lead the Company in a new capacity as CFO, and I look forward to continuing and developing relationships with our investors, customers, and employees. The Company's performance in the first half of the year reflects good execution and productivity initiatives, improving quality of earnings, and encouraging cash flow performance relative to our full-year expectations.

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

QUESTIONS AND ANSWERS

Operator

Shannon Cross, Cross Research.

Shannon Cross - Cross Research - Analyst

Thank you very much. Hi, and Dave, congratulations on your new role; we look forward to continuing to work with you.

My first question is what's going on in the software business? I understand you had some delayed contracts in that. But should we expect to see a bounceback? And how should we think about the second half from a software revenue standpoint?

Jeff Clarke - Eastman Kodak Company - CEO

Yes, it's a good question. I think what we need to remember when we look at Software and Services is that we have in that business the relatively steady PRINERGY software business that has primarily maintenance and new license growth; and that business has been generally pretty stable.

We expect that to grow in the second half. It was more flattish in the first half, but we do expect it to grow in the second half.

But the real movement in that business is around the timing of contracts in the service side of the business. These are primarily in South America, and these contracts are specifically around scanning information relative to elections. And the timing of this has to do with both the timing of the government and the timing, frankly, of some of the government changes that happen as governments change.

So you'll see an unsteady set of surges of some of these revenues. And that is kind of the dog -- I'm sorry, the tail wagging the dog of this overall business.

The core underlying software business is healthy. It will grow in the second half. And I think we had some nice new products in drupa that came out as well.

So I'm confident that PRINERGY is healthy and going to grow well. The timing of that, these software -- excuse me, these service contracts coming to fruition and reaching revenue recognition will continue to be variable.



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Shannon Cross - *Cross Research - Analyst*

Okay, thanks; that's helpful. Then with regard to drupa, clearly you had a very good drupa. I think drupa overall was a strong show for the commercial print industry.

I'm curious as to, given the upside relative to your expectations, how that positions second-half timing of when some of those -- I know you talked a bit about the Prosper orders -- but timing of when some of that benefit maybe on the plate business and that rolls through. Is there something that makes you more confident in your full-year numbers in that, or is it something that was closer to your plan and so perhaps not as impactful at least for the next couple of quarters?

Jeff Clarke - *Eastman Kodak Company - CEO*

I have two primary observations. The first one was we were -- during the first-quarter call back in May, we discussed with you our concerns about the delay of orders that typically happens during this period of time. And then we did see that with our Nexpress product where our year-over-year press sales did go down. Yet we got a lot of orders for second half.

And so in that sense it pushed what would've been even a press stronger Q2 a little bit into the second half. A little bit the same around CTPs.

But Prosper, as I mentioned, we're able to pull three orders across the line; we have three still we're working on. And that was a strong performance.

So the answer on the front end is I'm very pleased with the second-quarter results given the variability and expense relative to the investment in drupa. So Q2 came in stronger than we had envisioned because of some expected delays and expenses which we were able to overcome with other parts of the business.

Shannon Cross - *Cross Research - Analyst*

Okay.

Jeff Clarke - *Eastman Kodak Company - CEO*

For the second half, the answer is yes. We do believe that this improves our confidence.

We were hoping for a good drupa; it came in a little better. We're not going to adjust guidance for that because we have some other headwinds offsetting it. But in general, it was a good drupa and it should -- it does improve our confidence for the full year.

Shannon Cross - *Cross Research - Analyst*

Okay, great. Just two more questions. One, I know it's small but I'm just curious, Business Park, Kodak Business Park revenue down. Was there something, a lost tenant or something that drove that? Or how should we think about it?

Jeff Clarke - *Eastman Kodak Company - CEO*

No, no. This is the small numbers and rounding.

Shannon Cross - *Cross Research - Analyst*

Okay.



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Jeff Clarke - Eastman Kodak Company - CEO

So I think it's best to think about it on a year-to-date basis. On a year-to-date basis, revenue for the Park has gone from about \$6.6 billion -- or 6.6 million; I wish it was billion -- \$6.6 million up to \$7.3 million. So a solid 12% growth.

And profit, EBITDA, has gone from \$600,000 to \$1 million. So I think you've got to really look on a year-to-date basis to understand the strength of the business. And it's an anomaly around rounding that makes those numbers look worse than they were.

Shannon Cross - Cross Research - Analyst

Okay; that's helpful. Then, Dave, can you just talk a bit about timing with the Registration Statement? I know you said you have to wait till it's effective.

But I'm just curious as to what you're hearing from perhaps some of the people that registered, or how you are thinking about utilizing the registration.

David Bullwinkle - Eastman Kodak Company - SVP, CFO

Sure. We filed the S-3 today. The SEC will review or not review. We're not sure about that timing, specific to how long that will take to become effective. Certainly, you'll notice that on the website when it does.

With respect to the parties involved, we can't really comment on what their expectations or plans are, of course, with respect to utilizing the Registration Statement.

Shannon Cross - Cross Research - Analyst

Is there any limitation with timing on when -- by when they have to use it? I'm sorry, I don't know.

David Bullwinkle - Eastman Kodak Company - SVP, CFO

The Shelf Registration by its nature and definition is available for three years once it becomes effective, I believe. So that would be a limitation.

Of course, once we get to that end of three-year period, we can decide whether or not we're going to renew the shelf or not.

Shannon Cross - Cross Research - Analyst

Great. Well, thanks --

Jeff Clarke - Eastman Kodak Company - CEO

Just one other comment. It typically takes about two to six weeks to become effective. Two weeks would be if the SEC chose to -- didn't have a lot of comments; and typically six weeks if there had to be some comments and some adjustments to the filing.



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Shannon Cross - *Cross Research - Analyst*

Okay, great. Thank you so much.

Operator

(Operator Instructions) Amer Tiwana, Cowen and Company.

Amer Tiwana - *Cowen and Company - Analyst*

Hi, guys. Congratulations, David.

David Bullwinkle - *Eastman Kodak Company - SVP, CFO*

Thank you.

Amer Tiwana - *Cowen and Company - Analyst*

My first question is timing for Prosper. I'm sure somebody was going to ask that.

Jeff Clarke - *Eastman Kodak Company - CEO*

Okay. As I said, I'm not going to comment about Prosper; but we did say we expect it to happen this year, and so I'll stick to that. We're in August now and there's five months left in this year, so my comment would continue to be in that range.

Amer Tiwana - *Cowen and Company - Analyst*

Maybe you can talk about the process a little bit, as to how do you feel about it, how many people are in the data room, or something. More color in regards to how we should think about it.

Jeff Clarke - *Eastman Kodak Company - CEO*

I remain confident that there is a solid demand for this exceptional technology. But I'm not going to get into details.

As you might expect in a competitive process, it's very important to manage it in a way that our bankers want us to do. And so we're not going to comment publicly on it until we have a deal to announce.

Amer Tiwana - *Cowen and Company - Analyst*

Understood. Just in terms of your guidance for the full year, you've maintained it. I was wondering; you gave us some good color around things that you think are levers, such as UK, you're monitoring that, the \$90 million of revenue. What is that specifically, and what segment does that primarily fall in?

And just generally speaking, what do you feel the most comfortable with? If you were to outperform, what segments do you think would be responsible for that, or if there was under performance? I know you pointed to a couple of things, but maybe you can talk about that.



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Jeff Clarke - Eastman Kodak Company - CEO

Yes. Just to give you a little more color on Brexit and the impact on Kodak, the roughly 10% reduction in the sterling to US dollars will impact us by about \$3 million of EBITDA. So the headwind to Kodak of that event -- the currency movement of that event is about \$3 million for this year.

In terms of the mix of business of the -- again, it's roughly 5% of Kodak's business, about -- it's pretty similar to the rest of our business. About 60% of that business is in the Print Systems Division. We're a little larger than that in the Consumer and Film business; that's about 22%, 23% of it. And the rest is an Enterprise Inkjet software and Micro 3D Printing.

So the big divisions that will be impacted by that are Print Systems and Consumer and Film. But in total, we're talking about a \$3 million headwind on guidance of \$135 million to \$150 million. So I think we'll be able to work our way through that headwind.

Amer Tiwana - Cowen and Company - Analyst

Great. In terms of seasonality, historically we used to think about your first half as about 25% of your earnings; second half roughly 75%. If I look at your numbers now, it's more like 53% to 58%, roughly, according to guidance would be in the second half.

Is that because we have taken Prosper out? Or is there something else going on?

Jeff Clarke - Eastman Kodak Company - CEO

Excellent question. First of all I think it was the very strong first half, and so that's point one for us. Particularly in the Print Systems Division with a year-over-year improvement of \$9 million adjusted for currency in the first half, that was a strong half.

We would expect increased sequential half-to-half performance in PSD and in our Packaging business. Those are the two businesses that typically drive the strong second-half improvement.

The other thing that has helped us in the past when you compare first half versus second half is the continued decrease in the loss of the Prosper business. As I mentioned earlier, Prosper has improved \$11 million in the first half over last year.

It will continue to move -- to improve significantly, but that's in discontinued operations. So while that will help our cash flow second half over first half, having a lower loss in the Prosper business, it won't show up in the operational EBITDA that we report to you.

Last year, one of the big drivers of second-half performance versus first-half performance was the improvement in Prosper. The other businesses -- Software and Services Division also I do expect to have a better second half than first half on a sequential basis.

EISD, in the Versamark business had a good first half, as you know. It delivered \$10 million of operational EBITDA. That will be down in the second half, and that is just the nature of that business. We don't sell many new Versamark systems, so this is a really an ink sales into a relatively stable base.

The biggest decline we'll see in the second half that will cause the normal 25%/75% to be more 45%/60% or 50%/50%, high 50%*s*, a little bit more than that in the second half, will be the CFD division. Our Consumer business had, as you can see here, actually a better year-on-year result for the first time in many years, and that had to do with a couple one-timers and the one-timer being a strong film sale to a specific customer, and continued strength in the motion picture business. We expect those to continue to do well year-over-year, but not have significant seasonality.

But the big drop will be in the consumer inkjet business. That consumer inkjet business continues to deteriorate and will deteriorate quite materially in the second half over the first half.



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So, I think you should not be thinking 25%/75%. You should be targeting the midpoint of our range and realizing that we delivered 63% in the first half; and you can do the math for the rest.

Amer Tiwana - *Cowen and Company - Analyst*

Understood. Lastly, in terms of your Micro 3D, should we -- when do you expect to see something meaningful in terms of revenue? Should we expect that in the fourth quarter, or is that a 2017 event?

Jeff Clarke - *Eastman Kodak Company - CEO*

As I made abundantly clear last fall at the Analyst Meeting that many of you on the call were at, is this Company for many years has overpromised on some of our breakthrough new technologies and when they will be commercially successful. We really believe in the technology around copper touch screen sensors and additive manufacturing through Micro 3D Printing. We think this is a very important business.

Historically, we have judged the way but that business too aggressively, so I am not going to make the same mistake that I made earlier and other parts of our Company made even earlier than that and build this into our guidance. So as I've said in my remarks, we're circumspect on this business; it's a nice opportunity for us.

I was pleased that we have product at a partner now and that we have a robust pipeline. But it does take -- it is a long sales cycle; it is a long implementation sales cycle.

And it's a bit like an annuity business: when you get these into products, they typically stick there for a long time. But there's not that many sockets yet with them in.

So we're going to be circumspect. I'm not going to promise anything. And certainly you should not expect significant results in the second half of this year.

Amer Tiwana - *Cowen and Company - Analyst*

Thank you very much. That's all I have and good luck.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you.

Operator

Peter Rabover, Artko Capital.

Peter Rabover - *Artko Capital LP - Analyst*

Hey, guys. Congratulations, Dave. I guess I'll ask the Prosper question another way. Why is it taking so long?

Jeff Clarke - *Eastman Kodak Company - CEO*

I think we announced this in May and it's -- we announced this in March and it's early August. We're not even rounding into September.

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This is a complex product and an important product, and we want to get the sales process right. There was significant demand for this product set coming out of drupa. I think it was very important that prospective buyers had a chance to kick the proverbial tires of the product, see it in production, to hear a long list of pleased customers.

There is significant diligence associated with technology that is this significant and robust. So, the timeline I laid out then was it would take a year; I'm sticking to that timeline.

Peter Rabover - *Artko Capital LP - Analyst*

Okay, great; thanks. Maybe I guess with the S-3 registration, can you guys (technical difficulty)

David Bullwinkle - *Eastman Kodak Company - SVP, CFO*

Peter, we lost you.

Jeff Clarke - *Eastman Kodak Company - CEO*

David? I just want to check that you and the rest of the callers are still on.

Okay. I thought we were at Delta airlines for a minute there.

Peter Rabover - *Artko Capital LP - Analyst*

Can you guys hear me, or --?

David Bullwinkle - *Eastman Kodak Company - SVP, CFO*

We can, yes.

Jeff Clarke - *Eastman Kodak Company - CEO*

Hear you fine.

Peter Rabover - *Artko Capital LP - Analyst*

Hey, can you guys comment on your capital structure strategy for the S-3 filing and with the September 18 deadline to refinance one of the liens?

David Bullwinkle - *Eastman Kodak Company - SVP, CFO*

September 2018, is that what you're referring to in terms of the deadline? Just to make sure I understand your question.

Peter Rabover - *Artko Capital LP - Analyst*

No, in your K, your second lien, the expensive one, it stated you had a window of this year, up until September 18 of this year to buy it back at a --



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David Bullwinkle - Eastman Kodak Company - SVP, CFO

Oh, okay. Yes, the window -- the call premium this year is 101 until September 3 of this year on the second lien; that then reduces to 100, so at par. So we removed that premium in September of 2016, September 3.

In terms of refinancing, we continue to be opportunistic. We're certainly monitoring the market constantly to identify an opportunity to do something with that. We believe Prosper could be a catalyst to do that when that's complete as well.

Jeff Clarke - Eastman Kodak Company - CEO

Peter, do you have a follow-up question or should we move on? Okay, next question, please.

Operator

I'm showing no further questions at this time.

Jeff Clarke - Eastman Kodak Company - CEO

All right. Well, thank you, everyone. I appreciate everyone's time today. Just to reiterate really what I spoke to, maybe go back to slide 19.

The Company was profitable on a GAAP basis this quarter. Second quarter continues to represent an improving quality of earnings. Our Prosper business is executing well, and that bodes well for the sale process.

Our year-over-year cash flow performance has improved significantly, and we're maintaining the guidance that we gave in the beginning of the year. So I'm very pleased with the second quarter. I want to thank everyone on the phone for their time, attention, and support. Thank you very much.

Operator

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

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