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KODK - Q3 2016 Eastman Kodak Co Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak third-quarter 2016 earnings conference call. (Operator Instructions). As a reminder, today's conference may be recorded.

I would like to introduce your host for today's conference, Mr. Bill Love. Sir, please go ahead.

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

Thank you, Michelle, and good afternoon, everyone. My name is Bill Love and I am Treasurer of the Eastman Kodak Company and Director of Investor Relations. Welcome to our third-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 third quarter of 2016. You may access the presentation and webcast for Kodak's call on our Investor Center at investor.Kodak.com.

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

Important factors that could cause actual events or results to differ materially from these forward-looking statements include, among others, the risks, uncertainties, and other factors described in more detail in Kodak's filings with the US Securities and Exchange Commission from time to time.

There may be other factors that may cause Kodak's actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to Kodak, or persons acting on its behalf, apply only as of the date of this presentation and are expressly qualified in their entirety by the cautionary statements included for reference in this presentation.

In addition, the release just issued and the presentation provided contains certain measures that are deemed non-GAAP measures. Reconciliations to the most directly comparable GAAP measures have been provided with the release and 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 Dave Bullwinkle, Chief Financial Officer of Kodak. Jeff will provide some opening remarks, his perspective on Kodak's financial performance, and an update on the outlook for the Company. And then Dave will summarize recent capital structure developments; take you through year-to-date September 30, 2016, results; a cost reduction update; and cash performance, before we open it up to questions.

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

Jeff Clarke - *Eastman Kodak Company - CEO*

Thanks, Bill. Welcome, everyone, and thank you for joining the Q3 investor call for Kodak. Today I'm pleased to share details of the Company's improving performance.

Kodak delivered net earnings in Q3 of $12 million, an improvement of $33 million year-over-year. Net income for the first nine months of 2016 improved by $103 million, driven by improved operations. After excluding lower depreciation and amortization expense of $31 million, an increased pension income of $29 million, operating performance improved by $43 million year-over-year.

In the third quarter, we delivered $35 million of operational EBITDA. For the first nine months of 2016, we delivered $98 million of operational EBITDA, which positions us well to meet our full-year guidance.

In addition, in the first nine months we reduced cash usage by 70% from $191 million in 2015 to $57 million this year, which includes cash of $20 million to repay debt.

On the call today, I'll talk about the Company and divisional results for the third quarter of 2016. Dave will then follow with the year-to-date 2016 results, a cost reduction update, and cash flow performance, after which we will welcome your questions.

Before we move on to our financial results, I'd like to take a few minutes to discuss the Series A preferred stock issuance which we announced on November 7.

We have signed a purchase agreement with Southeastern Asset Management, Inc. for the issuance of $200 million of Series A convertible preferred stock, with a 5.5% dividend per annum and maturity of five years. The preferred shares are convertible into shares of common stock at a price of $17.40, which represents a premium of 20% to our closing share price of $14.50 per share on November 4, 2016.

We intend to utilize the proceeds of the issuance, along with cash on hand, to prepay in full the $262 million of outstanding second lien term loans, which will result in an annual cash savings of $17 million.

This transaction strengthens our capital structure and enhances our financial flexibility. When Kodak emerged from bankruptcy in 2013, its highly leveraged capital structure included an expensive second lien term loan with an interest rate of 10.75%. Our improved performance since our emergence has allowed us to attract a sophisticated investor who sees the inherent value in Kodak. We're very pleased that Southeastern has committed to make this significant investment and demonstrated its confidence in Kodak's future.

Turning to the sale of our PROSPER business, the sale process continues, and we expect to make an announcement by the end of 2016, with a close targeted for the first half of 2017. For competitive reasons, we will not comment further on the sale process.

On our second-quarter earnings call, we discussed global economic headwinds; in particular, the impact the strengthening yen had on our packaging business. We will continue to monitor the economic situation. Despite these challenges, we continue to see significant opportunities in our growth businesses.

Now moving on to our third-quarter results, starting on slide 5. We deliver third-quarter operational EBITDA of $35 million, down $12 million compared to the third quarter of 2015, or $9 million on a constant currency basis. Year-to-date operational EBITDA is $98 million; solid progress against our full-year guidance.

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

When adjusting for the decline in the consumer inkjet business, Q3 operational EBITDA, on a constant currency basis, declined by $3 million or 8% year-over-year. This decline is primarily due to investment in CFD and SSD for growth opportunities; and a $3 million negative compare versus the prior-year period, when we recognized a gain from the termination of the relationship with UniPixel.

On a year-to-date basis, operational EBITDA, on a constant currency basis after adjusting for CIJ, grew by 16% year-over-year. We continue to make operational improvements to offset this expected reduction in the consumer inkjet business profitability, with the progress we've made in the remaining parts of our divisional portfolio.

We have also provided the results for PROSPER on slide 6. I will discuss PROSPER in more detail after discussing our divisional results.

Now we will talk about the business by division, which is presented on slide 7, for the third quarter of 2016. Starting the print systems division, third-quarter revenues were $250 million, a 10% decline compared to 2015, which is similar to the decline we saw in the first half of 2016. Excluding the weakness in Latin America, the year-over-year decline was 8%, which is also the decline we saw in the first half. Our operational EBITDA declined by $2 million compared to the prior-year quarter as we continued to manage through specific regional softness.

For the quarter, overall plate volume was down 4% year-over-year. While overall unit sales in developed markets have been stable, we've seen volume declines in emerging economies within Latin America and Asia. These declines have been driven by unfavorable political and economic environments, including protectionist policies in Latin America and political unrest in Turkey.

We continue to see solid growth in our environmentally advantaged SONORA plate, which grew by 9%. SONORA's growth was impacted by 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 American region, SONORA plate volume improved by 16% 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 of our plates. Together with SONORA, these products accounted for 20% of our total plate unit sales.

Price erosion in Q3 was consistent with the first half, or 6%. While we continue to see a benefit from lower aluminum costs, it was not as large as the year-over-year change in the first half of 2016. We expect these trends to continue through the remainder 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.

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 the PROSPER business as a discontinued operation. The prior-year results are presented on a comparable basis.

For the third quarter 2016 and 2015, EISD revenues were $18 million. Operational EBITDA for the third quarter of 2016 was $4 million, an increase of $2 million compared to the prior-year period. Operational EBITDA improved year-over-year due to reduced costs.

The micro 3D printing and packaging division includes FLEXCEL NX systems and plates, as well as touch sensor films with copper mesh technology. For the quarter, revenues were $34 million compared to $32 million in the prior-year period, or a 6% improvement. Operational EBITDA, however, decreased by $2 million, driven in part by the unfavorable impact of foreign exchange.

On a constant currency basis, operational EBITDA, before corporate costs for the packaging business, increased by $2 million, primarily driven by higher FLEXCEL NX plate and CTP revenues.

For the quarter, FLEXCEL NX revenues increased by 17%, and FLEXCEL NX plate volume grew by 13% compared to the prior-year quarter, reflecting consistent growth in all regions. Year to date, FLEXCEL NX units increased 15% compared to the prior year. As expected, declines in revenues for legacy packaging products of approximately $1 million also impacted the overall top-line growth for the business.

I'm particularly pleased with the packaging business, which is our strongest performing product set. Despite headwinds from foreign exchange rates, FLEXCEL NX continues to deliver strong revenue and volume growth, driven by the value proposition which provides substantial efficiencies to the printing operations of our customers.

Micro 3D printing operational EBITDA, before corporate costs, decreased $1 million as compared to the prior-year quarter, which included a prior-period $3 million gain due to the termination of the relationship with UniPixel. In micro 3D printing, we are focused on copper mesh touch sensors. We are supporting several customer technical evaluation, and have shipped sensors and recognized revenue from an Asian OEM customer for an all-in-one application.

We continue to make progress in advancing the technology, and expect expansion in our customer base. We're improving the sensor technology through thinner line and bezel width and thinner substrates, which will broaden the addressable market into tablet and notebook computers. The continued investment in this program is relatively small, given the market opportunity.

The software and solutions division includes PRINERGY's workflow software as well as Kodak technology solutions. For the third quarter of 2016, SSD revenues were $20 million, down from $30 million in the same period last year. Operational EBITDA declined by $1 million, down from $2 million in the prior year.

Revenues for Kodak technology solutions were down $9 million, primarily due to the delayed timing of government service contracts in Latin America. PRINERGY workflow software was down $1 million in the quarter when compared to the same quarter in the prior year.

The consumer and film division includes consumer inkjet printer cartridges, motion picture, industrial films, synthetic chemicals, as well as our consumer products group, which includes the licensing of the Kodak brand.

For the third quarter, revenues for CFD were $54 million, down 16% from $64 million, driven by a $9 million expected decline in CIJ revenues. Operational EBITDA for CFD was down $11 million in the quarter, driven by a $6 million reduction in CIJ, as well as an R&D investment of $3 million supporting the Kodak Super 8 camera and future film camera platforms. We expect the Super 8 to be available for sale in the first half of 2017, which will generate a solid return for the full year of 2017.

During the quarter, Kodak and Bullitt Group [had] built a photography-led smartphone, which we launched in Europe in December. We're excited about this brand licensing opportunity, and expect to realize a modest royalty stream as units begin to be sold.

We will continue to see variability in the CFD business results this year due to the one-off industrial film orders, timing of motion picture film productions, and our brand licensing business, which varies due to the timing and scalability of new licensees.

In addition, CFD will have a difficult compare in the fourth quarter due to the expected decline in CIJ, a $4 million brand license payment realized last year, continued investment in our film camera platform, and a slowdown in our industrial film business.

The 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 third quarter, operational EBITDA was a negative $3 million, an improvement of $1 million from a negative $4 million for the third quarter of 2015. This improvement is a result of a re-prioritization of our research programs.

We have made good progress executing on our previously discussed pipeline. As announced last quarter, we signed contracts with Carbon3D and eApeiron, and continue to develop those relationships 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 prior calls, Kodak's small particle technology can be applied to the back panels of curtains to block sunlight. This is a replacement technology to simplify an existing industrial manufacturing process. We expect to recognize revenue in the fourth quarter with this product, based on sales to a major domestic mill. We are also ramping up our manufacturing capacity for expected volume in 2017.

Continuing on to our final division, Eastman Business Park. Third-quarter 2016 revenues were $4 million, an increase of $1 million from the prior-year quarter. Operational EBITDA was $1 million, an increase of $1 million from the prior year. The overall operating efficiency of the park continues to improve and we have healthy pipeline of potential tenants.

During the third quarter, Recycled Energy Development announced the completed sale of the Eastman Business Park utilities facility to Ironclad Energy Partners, a joint investment vehicle with Stonepeak Infrastructure Partners. Ironclad is sufficiently capitalized to complete the natural gas conversion of existing coal facilities and ensure the EBP utilities comply fully with federal and state environmental standards. This transaction will improve the economics for Kodak and tenants of the park to purchase utilities. This is a significant development in efforts to revitalize Eastman Business Park.

On slide 8, we provide third-quarter and year-to-date 2016 results for the PROSPER business, which is presented within discontinued operations. For the quarter, PROSPER EBITDA declined by $6 million, primarily due to the costs related to underperforming presses and losses related to placement of four PROSPER presses in Q3.

On a year-to-date basis, revenue grew by 11%. However, profitability of this business was down $1 million due to the Q3 items and $3 million of drupa trade show expenses. This also reflects continued investment in ULTRASTREAM during the sale process; and strong, continued demand for PROSPER products.

Annuity revenues, which is the key measure of success in this business, improved year-over-year by 41%, driven primarily by the improved mix of higher-performing Prosper 6000 presses. Our PROSPER business model requires investments to expand the installed base of presses, with profitability achieved over time to the sale of annuities.

Slide 9 illustrates the acceleration of recurring revenues as our installed base grows. For the trailing 12-month periods ending Q3 2015 and Q3 2016, recurring revenues grew by 23% and 36%, respectively. As I stated previously, we will continue to invest in the development of PROSPER and ULTRASTREAM, the next generation inkjet [rating] system, during the sale process. ULTRASTREAM will greatly expand the market reach of this technology.

To summarize, the results of the third quarter reflect solid performance despite the geographic and economic landscape facing our business. We expect the trends which I discussed in PSD and CFD to continue through the fourth quarter. We also expect growth in SONORA, packaging, and IPSD, which will contribute year-over-year improvements.

On slide 10, we are reiterating our 2016 guidance for revenues of $1.5 billion to $1.7 billion, and operational EBITDA range from $135 million $150 million. We expect to overcome $6 million of currency EBITDA headwind when compared to the Company's guidance. In other words, our guidance holds despite the headwind of $6 million of currency.

I will now turn it over to Dave to discuss first-half performance, updates in cost reductions, and cash flow. Dave?

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

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

Before I continue with our financial results, I'd like to discuss two additional items. First, the registration statement on Form S-3 discussed on our last call, which was filed in August with the SEC to register an aggregate of $1.2 billion in debt and equity securities, has been declared effective by the SEC. The filing is available on the SEC website for your reference.

Second, on Monday, November 7, 2016, we signed a purchase agreement with Southeastern Asset Management Inc., and funds managed by Southeastern, for the sale of $200 million of Series A convertible preferred stock of the Company.

As presented on slide 12, the preferred shares are convertible into common stock at a price of $17.40, and have an annual dividend of 5.5% paid on a quarterly basis. The preferred has a mandatory redemption in cash at par on its fifth anniversary. It also includes a mandatory conversion option at the Company's election if shares trade above $21.75 for 45 days in a period of 60 consecutive trading days after two years from its issuance.

The holders of the preferred stock are entitled to vote on all matters common shareholders vote on. In addition, the initial holders of the preferred stock have a non-transferable right to nominate Kodak Board members proportional to their shareholding on an as-converted basis.

With proceeds from this issuance and existing cash, we will repay in full the $262 million of senior secured second lien term loans. The repayment of this expensive debt will save the Company $17 million in cash on an annual basis. This investment will improve our capital structure and operational flexibility. We expect to close this transaction in November of 2016. We look forward to having funds managed by Southeastern Asset Management as investors in Kodak.

Moving on to slide 13, I will provide more detail on the third-quarter and year-to-date results. As we reported in our earnings release, net earnings for Q3 2016, on a GAAP basis, was $12 million compared to a net loss of $21 million in 2015, an improvement of $33 million. For the year-to-date period, net earnings were $5 million compared to a net loss of $98 million in 2015, an improvement of $103 million.

This is driven by improved business performance, as well as the 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 to net earnings.

On slide 14, for reference and information, we are presenting the divisional results for the nine months ended September 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 Company results.

As shown, we delivered operational EBITDA of $98 million compared to $112 million in the first nine months of 2015. On a constant currency basis, operational EBITDA declined by $5 million or 4%. We are more than offsetting the $17 million 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. We are well positioned to deliver the guidance we have provided for the full year.

Now for an update on our cost reduction programs. On slide 15, we present operating costs, or total SG&A and R&D, on a GAAP basis. During the third quarter, we continued our progress in reducing operating costs by $9 million. The key driver of these cost improvements continues to be Company headcount reductions, down approximately 7% year-over-year.

Including the Q3 2016 reduction, on a cumulative basis since the beginning of 2014, we have reduced total Company headcount by over 30%, and operating expenses by greater than 50%. We will continue to maximize efficiencies within our cost structure throughout all areas of the Company.

Moving on to the Company cash performance. As shown on slide 16, the Company ended the quarter with $489 million in cash, a decline of $24 million from the end of the second quarter. This decline includes $18 million of cash used to prepay debt. On a year-over-year basis, the cash usage improved by $30 million, or $47 million adjusted for debt payments.

Excluding cash used in discontinued operations and debt prepayments, the Company generated $2 million in the third quarter.

As presented, in the quarter, the Company used cash primarily for debt prepayments and interest expense, capital expenditures, tax payments, discontinued operations, reorganization, other legacy payments, and restructuring-related payments. These cash uses were partially offset by cash generated from operations, including working capital changes.

The reduction of debt in the quarter included the prepayment of $5 million of first lien term loans from the net cash proceeds received from the eApeiron transaction, and $13 million of second lien term loans through a Dutch auction.

On slide 17, we are presenting the major contributors to the reduction in cash usage. This aligns to the statement of cash flows included in our Form 10-Q. On a year-over-year basis, we reduced our cash usage by $134 million. $111 million of this improvement is from cash used in operating activities on a GAAP basis. As you can see, the main cash drivers for the year-over-year cash flow improvement were cash generated from net earnings, which includes a reduction in restructuring costs.

Also a driver of significant cash flow improvement were balance sheet changes driven by working capital, and reductions in reorganization and legacy payments. In addition, cash flow improved from the release of restricted cash and exchange rate changes, which were partially offset by the cash used to repay debt. Included in the balance sheet changes presented is a $46 million year-over-year improvement in working capital.

For the year-to-date period, working capital reflected a source of cash of approximately $15 million. Including items in assets and liabilities held for sale, and the impacts of foreign exchange, accounts receivable generated $35 million in cash, while inventory consumed $9 million, and accounts payable used $11 million of cash 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 $40 million to $45 million, primarily from the reduction of inventory due to the higher seasonal sales expected in the fourth quarter.

Over the previous eight quarters, the Company has delivered a significant improvement in cash management and cash flow. As presented on slide 18, for the period from Q4 2014 through Q3 2015, cash declined by $219 million, excluding debt repayments. This compares to cash used of $10 million for the period of Q4 2015 through Q3 2016, which represents an improvement of $209 million. This improvement is driven by the reduction in reorganization costs, restructuring cash payments, and legacy cash uses. We are pleased with our cash management efforts.

In 2016, we projected cash generation between $10 million to $30 million, excluding debt prepayments. Adjusting for debt prepayments, including our intention to prepay and retire the second lien term loans, we expect a year-end cash balance of approximately $470 million to $490 million. This includes cash used for debt prepayments and related costs of approximately $85 million for the full year.

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 the secured leverage ratio as calculated under the term loan credit agreements, exceeded the EBITDA necessary to satisfy the covenant ratios by $30 million.

As disclosed in the 10-Q, the secured leverage ratio will be improved after repayment of the second lien term loans in full. The net impact expected from preferred stock issuance and repayment of debt is an increase in EBITDA headroom of approximately $73 million. This is calculated by dividing the $200 million preferred stock investment in the Company by the required 2.75 secured leverage ratio.

To summarize, the Company's performance through September reflects good execution and productivity initiatives, improving quality of earnings, and solid improvements in cash flow performance.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

So, I'm curious. You've cut a ton of costs, obviously, and you went over of 30% headcount and 50% of operating costs. How much further do you think you can shrink the business? Clearly PROSPER will go, and that will be some -- obviously it's discontinued now. But just in general, at what point do you think you hit the bottom, and then can start focusing more on stabilizing in growth over time, at least on a constant currency basis? Or do you think 2017 will be another year of pruning?

Jeff Clarke - *Eastman Kodak Company - CEO*

Well, I think first of all, I want to remind you that the costs that we've taken out has been almost all productivity improvements. The portfolio is pretty much the same. And so it really is a series of reengineering the way we were doing business, becoming more competitive in each of our businesses. Obviously closing a factory and delivering the same amount of plates, from a volume perspective effectively, with four factories rather than five factories, running our administrative operations more efficiently, et cetera.

The piece that has declined the most rapidly is the one we talk about a lot, which is our consumer inkjet business. And before the bankruptcy, that decision was made to stop selling the printers. So that's been a very lucrative runoff of cartridges, but there's not much cost associated with it.

So, effectively, what you're seeing is a significant improvement in the quality of recurring revenues and earnings at a time when some of our businesses are legacy business -- what we call Digimaster, which is a black-and-white electrophotographic product; our legacy business VERSAMARK; and most notably, the CIJ business.

As they go through their normal declines, we have to get our cost structure ahead of it. And that's why the year-over-year improvements look so good, is we've gotten -- we've taken costs out faster than those declines have happened. We see the opportunity to continue to take more cost out, but not at the same rates. Obviously in really 2 1/2 years, we've taken about a third of the population out. This year it's an additional 7%, as Dave noted. And we do see opportunities, going forward, to improve productivity in every one of our businesses.

But we're also seeing growth. And I think that's the fundamental, underlying point of your question. In our packaging business, in the green and new product sector within our graphic arts business, in our CTP business, and in some of our new technologies that are coming out of IPSD, including the touchscreen sensors, we're seeing growth. And over time you'll see that curve. We illustrate that to you today with the quality of earnings page; but, over time, you will see more as we go into 2017 and 2018.

Shannon Cross - *Cross Research - Analyst*

And can you talk a little bit about the FLEXCEL business, because it's clearly doing fairly well? Just in terms of -- I don't know, opportunity, what you are seeing in competition, what you are hearing through your customers, how we should think about maybe what would make it accelerate, or what you worry about in the business. Just if you could give us an update, thank you.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you. No, it's a terrific business; and it is, as I mentioned, our highest-performing business. It's one of our most differentiated products. What it does is it has a -- it's a system that has a very high technology CTP which uses our SQUARESPOT technology, which took years and years to engineer and to create. And it's unique in the industry. That get us a much better image that we put on the FLEXCEL plate. And then a lot of FLEXCEL plates that our competitors put out our pretty commoditized.

In our case, we put a thermal imaging layer, a very sophisticated thermal imaging layer, on top of the rubber plates. And that gets you significant savings on across many elements. First of all, it gets you better resolution, less waste, cleaner lines. But most importantly for the printer, even better than that, it uses less ink, less electricity, less water, and improves the efficiency of the operation. So it's not only a product that gives you a better printing on packaging, a visually distinctive, better product; but it does it at lower cost.

And that's why the business is getting such share. We think the FLEXCEL market is a good market, growing about 5% a year. As I mentioned, we grew 17% in revenue this past quarter. Our plate volume grew 13%. So, we're growing at least 2 to 3 times the market. And the reason is it's a much better product.

We also have new innovations. As you remember, at drupa, we announced a water wash, a solvent-free plate, that is going to be -- add additional differentiation to a product that, frankly, our competitors have not yet come up to.

So, we're optimistic about the business. We see continued growth. The business has solid year-over-year performance in both EBITDA and in revenue. And in terms of growing faster, I think some of these new products could help; and also lapping some seasonal weakness that we've had in certain areas also could help.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you. And then just for Dave, on the working capital side, or generally speaking I guess cash flow, clearly you'll need to see an improvement in inventories in fourth quarter, which you are talking about. What other key areas should we watch, from a cash flow perspective, for fourth quarter in order for you to hit your targets?

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

Yes, it's primarily going to be in inventory. We expect to see less reduction in receivables in the fourth quarter. Again, it's the seasonal highest quarter of the year, so we will probably build some receivables. At least, that's what our projections would suggest.

And the other area we need to make solid progress, which we've made throughout the year, is in AP from a DPO perspective. We need a little bit of improvement in the fourth quarter, and we expect to see that.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you.

Operator

Peter Rabover, Artko Capital.

Peter Rabover - *Artko Capital LP - Analyst*

Congratulations on improving the capital structure. Pretty happy about that. Dave, quick question for you. You guys have $37 million of restricted cash on the balance sheet. Is that part of your $470 million to $490 million guidance? Or is that used to pay down second lien at all? Can you talk about that a little?

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

Yes, sure. On a year-to-date basis, we released I think right around $13 million on a net restricted cash. Most of that was due to the ABL amendment which we completed in May, or in the second quarter. The cash guidance does not anticipate any significant release of that restricted cash.

Peter Rabover - *Artko Capital LP - Analyst*

Okay. Great. And about a year ago, during your Analyst Day, you guys gave guidance for 2017, or I guess different phrase that you guys used. Do you guys have any update on that number?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes, we called it a direction; and, no, we're not going to give 2017 guidance or direction today. We're going to talk about the quarter. We're going to go execute on Q4, and we'll be giving you guidance at some point early in 2017.

Peter Rabover - *Artko Capital LP - Analyst*

Okay. Jeff, so I guess one of my first investments ever was 16 years ago when you were the CFO of Compaq, and that deal -- $25 billion deal -- took six months to close. And when you were the CEO of Cendant, then the Travelport deal took about 60 days to close. So, maybe from the backward perspective, can you tell us why it's taking so long to close the PROSPER deal?

Jeff Clarke - *Eastman Kodak Company - CEO*

Well, thank you for the compliment on fast closing of the Compaq deal. But just so you're clear, that was one of the largest proxy fights in history. It actually took about a year and a half to close, but we negotiated a very well and got a definitive deal done pretty fast. But it's been deeply in my memory as well. Again, I stated I wasn't going to talk about it, so I'm going to be circumspect in my comments because we are in a competitive sale process.

But I remind you of some of the things I said earlier, which -- if you remember, in May, we had the largest trade show in industry. Every four years, there's a trade show called drupa. And one of the things we talked about was that we were going to have a working PROSPER model there that people who were interested in the technology could look at. And there was a lot of interest that came out of drupa. And so, while we announced that this was for sale a little bit earlier, the fact is is a lot of the attention and the buyer profiles for this came out of that show, which is about four months ago.

So I said we were going to have an answer by the end of the year, so I think I'm going to hopefully to go -- maybe, and I might miss the Compaq thing by one month, using your calculation (multiple speakers) using my calculation, a year early.

Peter Rabover - *Artko Capital LP - Analyst*

Okay. Fair enough. And more of a bigger question, now that you guys have a little bit better of a balance sheet and your Board is going to be comprised of sophisticated investors who are usually looking for asset sales and some sort of realization, maybe can you talk about your strategic vision for the Company or direction you guys have? A lot of different assets, and some of them don't really make sense to keep holding. So I'm just curious what your vision is.

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes, of course. So, obviously our vision is to be a leader using science as a differentiator in the printing and packaging and imaging businesses. And we have two great examples of that. One is PROSPER, which is the fastest press made, which we hope to have a significant realization on. And the other is the packaging business I just talked about before. Both are significantly differentiated in the marketplace because of our underlying science that has created truly differentiated products on both an environmental perspective, a visual output perspective, as well as efficiency for the printers.

We also, as part of that vision, believe that we can provide deeper solutions than anyone else in the industry. And that's part of our software strategy with PRINERGY. And when you put these together, no one can compete with Kodak in terms of bringing significantly differentiated products out, and the underlying software to run the operations. So that's what we want to do. And we made the decision that we have enough in our portfolio that we can drive good growth and improvement in profitability without PROSPER.

And so that is why that product is up for sale. The derivative of that means that we are very committed to the print business. And in that print business, the fastest-growing part of that is our printing on packaging. The second-fastest part of that will be -- call us sometimes if you recall back last fall at the analyst meeting, we called at our growth engines, the second fastest growing area is our environmentally sensitive differentiated plates we call SONORA.

And the third part is our software and services strategy. So that's the core of what we do. We also, because of this great brand and history of Kodak, have the ability to go prosecute significant profits off of our consumer and film business. And that business has had nice year-over-year improvements. We continue to see good opportunities. And we're investing modestly in that area.

And then the last piece that's core to the vision and again one of the reasons we feel it's all right to give up such a product that's growing as fast, and is doing as well as PROSPER, is our micro 3D printing area.

In micro 3D printing, again, significant differentiation using our research and science for differentiation. So, I think what you're seeing here is you're seeing a company that is working through a portfolio to make it better in recurring revenue to attack the printing and imaging industry with differentiation and being investor-friendly. When we feel that there's a product that we can sell and use that either to pay down debt or to reinvest in other areas, we are positioned to do that.

Peter Rabover - *Artko Capital LP - Analyst*

Okay. So you think your current -- thank you for that answer. So you think your current portfolio is a good, strategic fit for the Company. And you are not seeing any potential assets that you need to jettison, aside from maybe Eastman business card. But I'm not even sure how that fits in.

Jeff Clarke - *Eastman Kodak Company - CEO*

Jettison is such a pejorative term.

Peter Rabover - *Artko Capital LP - Analyst*

I apologize, yes.

Jeff Clarke - *Eastman Kodak Company - CEO*

We believe that we have some very strong assets of value. You saw a couple things on the edges earlier this year. We had a partnership with Alibaba Corporation, creating a new company of which we are part owner and they are part owner, called eApeiron.

And eApeiron is a partnership of which we have taken cash in, taken some equity, had a long-term brand license and other benefits to Kodak for our security printing business that helps them with some of the brand protection services that they need for counterfeiting, and so forth.

We also exited a small software business. So we are going to, on the edges, look to divest things. And we're significantly divesting one of the fastest-growing and most strategic parts of the portfolio, from a year ago, called PROSPER. So I think we are exercising the portfolio management opportunities in the Company. We do believe that the rest of the portfolio are keepers, and that there's new things coming in the pipeline through our research and micro 3D printing.

But as always, we are open to strategic opportunities. And we evaluate them all the time. And when we have another one on the list, we will let you know.

Peter Rabover - *Artko Capital LP - Analyst*

Okay. Maybe the last one. You talk about it a lot, like the Kodak camera and the -- I hope I'm saying it right, the eApeiron partnership. Do you guys have any financial comments around those actions? Any guidance on how much you are looking to get out of those, long-term?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes. So, no, we are not providing guidance on those, but I will give you a ballpark. So, relative to eApeiron -- sometimes e-appearin, so as I had to get there and a lot of people struggle with our name -- it is, again, a partnership between Alibaba and Kodak that is strategic at many levels. The first implementation of that is around security printing. We also have a research partnership, a brand licensing partnership, and a distribution partnership that we are prosecuting. As you know, Alibaba is a very strong company with great footprint, and we're very pleased with that opportunity.

So, that is -- in that case, that will -- that started out with $6 million of cash coming into our Company, of which we used to repay debt. And going forward, as that business builds, we see other opportunities. I'm not going to quantify it, at this point, because it's early. But a partnership between Kodak and as big a company as Alibaba, with that many different initiatives, can be a significant opportunity.

The second partnership that you didn't mention, but I will, is the one with Carbon, sometimes known as Carbon3D. They are one of the leading companies in 3D printing. And with them, we have a strategic relationship and a supply relationship with them where we research products for them, and then we build materials and chemicals for them. And I won't go into the details of that. But that -- as Carbon grows -- Carbon today has very small revenues, but a significant valuation in the private markets, and significant momentum in the space -- we will be one of their closest scientific and partners.

This is a bit of a Kodak inside strategy in 3D printing. And then we talked about the cameras. So, you may have seen, this fall, we came out with a phone that has a -- one of the best camera. That's a brand licensing opportunity. So this is one where there's no investment from Kodak, very minimal investment with ad -- and as such, we get a royalty when those phones are sold. And so, it depends how many phones are sold, but it could be meaningful if this becomes -- it gets even a small portion of the very large market for smartphones.

And in terms of Super 8 camera, we view that as an opportunity to continue to sell film into small -- into schools, and to develop a new set of filmmakers. Again, it's a modest investment. And it's one that -- when we come out with the camera next year, we expect to make money on the camera and obviously have annuities as well on the film. So again, these are relatively small now. But they leverage our brand; they don't take a lot of capital; and they are pretty much all upside.

Peter Rabover - *Artko Capital LP - Analyst*

Okay. Well, thank you. I appreciate the color. I'll let somebody else take more questions. I look forward to the PROSPER deal announcement.

Operator

(Operator Instructions). Gary Ribe, MACRO Consulting.

Gary Ribe - *MACRO Consulting Group - Analyst*

Just curious, on the packaging division, I know that you are running the expenses through 3D through there. Can you give us just a sense of year-to-date what that is?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes. So, I believe I had it for the quarter.

Dave, do you have it for the year?

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

Yes, I can -- I do; I've just got to find it.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay.

Jeff Clarke - *Eastman Kodak Company - CEO*

On a before SG&A basis, we're showing $13 million of operational EBITDA. And that would equate to being about $20 million of packaging operational EBITDA, before corporate costs, and about an investment of $7 million year-to-date in micro 3D printing.

Gary Ribe - *MACRO Consulting Group - Analyst*

Got it. Okay.

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

Just to add, the revenue you see is all packaging revenue, just to reiterate that. So, roughly $20 million on the revenue you are seeing on a year-to-date basis.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay, great. I know that you don't want to comment too much on the PROSPER stuff. But would you just the willing to -- I'm not going to ask for any details -- but would you describe it as competitive, at this point?

Jeff Clarke - *Eastman Kodak Company - CEO*

I would.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay, good. And first priority for cash that might come in, is that a debt repayment? Is it still a first lien?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes. I expect that, should we get a sale of PROSPER, we will use that to pay down debt. Let's leave our options open. But that is currently -- as long as nothing else comes into the view, that would be what we would be doing.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay. That's great. I don't have any more questions. I don't want to take up any more time. Thanks, guys.

Operator

Amer Tiwana, Cowen and Company.

Amer Tiwana - *Cowen and Company - Analyst*

I just had a quick question on the cost side. In terms of your raw materials, what are you seeing, if you can give us some color?

Jeff Clarke - *Eastman Kodak Company - CEO*

So, in terms of our supply, without question, the biggest material we buy is aluminum. And we have a year over -- this quarter, for example, the year-over-year benefit to our business was about $5 million on aluminum price, on a year-over-year basis. And so recently we've seen a little bit of an uptick after what had been a fairly nice reduction in that.

And then there's multiple components of the aluminum. There's the raw aluminum; and then there is the -- effectively a series of financial overheads associated with the buying process. Those financial overheads, which we are in litigation with some banks on -- those have dissipated quite significantly. So we're trading much -- you can really look more at the classic litho aluminum market for that.

In terms of other commodities, there aren't significant other commodities that impact us. Obviously we still buy some silver for the film business. We have chemicals associated with our chemical business that supports both our overall customer business, but also some of the partnerships and supply arrangements we have with Alaris and CareStream, former parts of Kodak. But the big one for us is aluminum, and I think I described that.

Amer Tiwana - *Cowen and Company - Analyst*

Understood. And in terms of the potential proceeds, you said one of the priorities could be debt repayment. Just in terms of the landscape, is there something that you think you could use the capital for, in terms of any interesting areas that you would potentially look to deploy capital, if you don't use it for debt repayment?

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes, there's none in the bailiwick right now. We have been very disciplined on getting this Company fixed. As I mentioned, we've got a lot of products that we're prosecuting today. We have the PSD business in both CTPs and in the traditional plates, with two new offerings of plates that have come out. In electrophotographic, we continue to have the NEXPRESS platform, which is a solid product. We have the software businesses. We have some internal growth and expansion in new products there.

So we don't see the need for a lot of acquisitions. That doesn't mean that we won't always scan and look. And we are aware of things that happen in the market. We've got a good biz dev people and bankers aren't shy to call us. So, we'll continue to look at it. But we're pretty comfortable with our portfolio now. And as such, one of our priorities has been to pay down debt and to get recurring cash back into the Company, and get out of what is a fairly expensive debt structure.

Obviously the investment from Southeastern is pivotal to us being able to pay down the second lien. But that first lien is still expensive. And so we'd like to opportunistically look at market opportunities to change that vehicle, but also pay it down as we can.

Amer Tiwana - *Cowen and Company - Analyst*

Thank you very much.

Operator

Thank you. And I'm showing no further questions at this time.

Jeff Clarke - *Eastman Kodak Company - CEO*

Well, thank you, everyone. I appreciate you joining the call. Just to summarize, the Company was profitable on a GAAP basis in the third quarter. The Company's performance represents improved quality of earnings. We continue to execute well on the PROSPER business and continue to be very focused on that process. And the cash flow performance of the Company has improved significantly this year, along with the quality of earnings. We continue to expect the guidance that I gave you before overcoming some of the currency headwinds.

Thank you for your time. Appreciate it.

Operator

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