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KODK - Q2 2018 Eastman Kodak Co Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak Q2 2018 Earnings Conference Call. (Operator Instructions) And I would now like to introduce your host for today's call, Mr. Bill Love. Sir, you may begin.

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

Thank you, Sandra, and good afternoon, everyone. I am Bill Love, Eastman Kodak Company's Treasurer and Director of Investor Relations.

Welcome to Kodak's Second Quarter 2018 Earnings Call. At 4:15 p.m. this afternoon, Kodak filed its quarterly report on Form 10-Q, and issued its release on financial results for the second quarter of 2018. You may access the presentation and webcast for today's call on our Investor center at investor.kodak.com.

During today's call, we will be making certain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. All forward-looking statements are based 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 U.S. Securities and Exchange Commission from time to time.

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

Kodak undertakes no obligation to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

In addition, the release just issued and the presentation provided contains certain measures that are deemed non-GAAP measures. Reconciliations to the most directly comparable GAAP measures have been provided with the release and within the presentation on our website in our Investor Center at investor.kodak.com.

Speakers on today's call are Jeff Clarke, Chief Executive Officer of Kodak; and David Bullwinkle, Chief Financial Officer of Kodak. Jeff will provide some opening remarks, a review of Kodak's second quarter financial results and divisional performance; and then Dave will summarize net earnings for the second quarter, provide updates on operational EBITDA and cost reductions, and review cash performance before we open it up to questions.

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

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Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Welcome, everyone, and thank you for joining the Q2 investor call for Kodak. On the call today, I will talk about the company and divisional results for the second quarter of 2018, and our 2018 full year forecast. Dave will then follow with more details on net earnings, a cost reduction update, a discussion of cash flow and our 2018 cash outlook. After which, we will welcome your questions.

I'd like to start by discussing the progress we're making in several significant initiatives to strengthen our capital structure, including addressing the 2019 -- I'm sorry, addressing the September 2019 maturity of the company's first lien term loan.

First, we are engaged in a process to sell our Flexographic Packaging Division. This is a strong business, generating $150 million of revenue and $33 million of operational EBITDA over the last 12 months. We have already received strong interest in this business from multiple potential strategic and financial buyers.

Second, we've entered into a nonbinding letter of intent with a lender with a significant stake in our existing first lien term loan. The agreement would provide for a $400 million 18-month loan and permit us to approach the sales process in a thoughtful way and achieve maximum value for our shareholders. Due to confidential and sensitive nature of these transactions, we will not elaborate further at this time.

Third, we've initiated actions to further reduce cost with an expected annual savings of $40 million.

Let me discuss Kodak's decision to sell the Flexographic Packaging Division. Kodak has been evaluating monetization opportunities in the last several years in order to deleverage the company and maximize value for our shareholders. FPD has performed exceptionally well for the last 5 years and is an excellent example of Kodak bringing disruptive innovation to the marketplace. FPD is demonstrating continued strong growth, and we believe this is the right time to monetize this valuable asset.

As I said, for the last 12 months, FPD reported revenues of $150 million and operational EBITDA of $33 million. During this period, FPD has demonstrated strong growth, with 9% revenue growth and 18% operational EBITDA growth. FPD currently employs a staff of approximately 300 people.

Following this transaction, Kodak's improved capital structure will allow us to increase our focus on demonstrated growth engines of SONORA, Enterprise Inkjet, Workflow Software and Brand Licensing, while continuing to invest and provide solutions across commercial printing, film and advanced materials industries.

The company has included the disclosure of going concern assessment in its Q2 Form 10-Q filing. I am confident about the company's ability to complete the sale of its Flexographic Packaging Division and repay the term debt. However, these plans are not solely within Kodak's control and, therefore, are not even probably under U.S. GAAP accounting. Later in the call, Dave will cover the company's liquidity, capital structure, and disclose the disclosure of going concern and GAAP reporting requirements.

Now I will review the company's second quarter results. On Slide 5, Kodak delivered second quarter revenues of $372 million, down from $381 million in the prior year quarter. Operational EBITDA for the quarter was $9 million, down $3 million compared to the second quarter of 2017. When adjusted for higher aluminum costs of $7 million, Kodak's operational EBITDA increased by $4 million or 33% when compared to the prior year quarter. When we further adjust $1 million of expected decline of our legacy consumer inkjet business, the year-on-year adjusted operational EBITDA improvement is $5 million. This increase in adjusted operational EBITDA reflects the impact of Kodak's cost-cutting efforts, operational improvements and the strengthening of its product portfolio.

Now I'll talk about the business by division, which we presented on Slide 6 for the second quarter 2018 results, with comments supporting each division's performance on Slide 7. All year-over-year comparisons will be discussed on a constant currency basis, as shown at the bottom of Slide 6.

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Starting with the Print Systems Division. Second quarter revenues were $227 million, a 7% decline compared to 2017. Operational EBITDA declined by $6 million compared to the prior year quarter as the result of higher aluminum cost and continued industry pricing pressures. When excluding the higher impact of higher aluminum cost of $7 million, operational EBITDA was an increase of $1 million compared to the prior year quarter as a result of the impact of cost improvements, partially offset by plate price erosion and declining unit sales. Plate price erosion in the second quarter was approximately 2%. On June 27, we announced additional plate price increases to address the high aluminum supplier cost environment, which we are currently facing. With this action, we expect plate prices to be flat year-on-year during the second half of 2018.

We've included a slide in the appendix presenting historical London Metal Exchange aluminum prices over the past 7 years. The LME euro price continues to trade at levels well above the average of the past 7 years. The impact of aluminum cost and associated tariffs in 2018 will be a year-over-year headwind of $26 million.

For the quarter, overall plate volume is down 5% year-over-year. This increased rate decline was a result of a strategy shift with several large dealers. We continue to see solid growth in our environmentally advantaged SONORA Plate, with a 19% year-over-year growth.

During the second quarter, PSD expanded testing of its new SONORA X Process Free Plates to 315 accounts, of which over 100 are now in continuous supply. Also in the second quarter, (inaudible) sales doubled when compared to the prior year quarter. NEXFINITY, our new color electrophotographic press, accounted for approximately 30% of the second quarter sales.

Moving down to the Enterprise Inkjet Systems Division. For the second quarter 2018, EISD revenues were $33 million, a decline of $3 million compared to prior quarter due to the expected decline in our legacy consumables. Operational EBITDA for the second quarter was $1 million, flat compared to the prior year quarter, reflecting cost improvements, partially offset by legacy consumables. For the quarter, PROSPER annuities were flat and VERSAMARK revenues declined by $2 million, which is consistent with our expectation. Additionally, we continue to invest in ULTRASTREAM, the next-generation technology in the second quarter. This investments focus on the ability to place ULTRASTREAM writing systems in original equipment manufacturers and hybrid applications. Evaluation kits are available now, and with product availability still on track for commercialization in 2019 and meaningful impact to the business starting in 2020.

For the Flexographic Packaging Division, revenues for the quarter was $38 million, flat compared to the prior year quarter, primarily result of volume improvements in FLEXCEL NX consumables due to the larger installed base of FLEXCEL NX CTP systems, offset by the expected decline in revenues from other packaging products and the timing and mix of FLEXCEL NX equipment placements compared to the prior year quarter. Operational EBITDA was $9 million, an increase of $1 million when compared to the prior year quarter, primarily reflecting volume improvements in FLEXCEL NX consumables, offset by the investment in product development, marketing and sales activities. For the quarter, FLEXCEL NX revenue has increased 4%, and FLEXCEL NX plate volume grew 8% compared to the prior year quarter. We continue to invest in new product development, infrastructure and the expansion of our Westworld, Oklahoma factory to fulfill the increased demand for FLEXCEL NX plates. The plant is expected to begin production in early 2019.

For the Software and Solutions Division, revenues for the quarter were $20 million, a decrease of $2 million compared to Quarter 2 2017. The decline was a result of lower volume in United -- unified workflow solutions, primarily in workflow licenses and professional services. Operational EBITDA was a negative $1 million, flat when compared to the prior year quarter, primarily driven by lower manufacturing cost offsetting volume declines in unified workflow solutions.

We continue to make -- invest -- focused investments in packaging and digital workflow software as well as cloud and analytic services, which are important enhancements to our portfolio offerings.

For the quarter, revenues in our Consumer and Film division were $48 million, flat compared to the prior year quarter, driven primarily by higher volume in the industrial films and chemicals and higher revenues in brand licensing, offset by expected decline in consumer inkjet consumables due to lower sales of ink into a smaller installed base of consumer inkjet printers and lower volume in motion picture due to timing of productions. Operational EBITDA for CFD was a negative $4 million, flat when compared to the prior year quarter due higher brand licensing revenue and lower SG&A, partially offset by expected decline in consumer inkjet and unfavorable cost in industrial film and chemicals.

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In the second quarter, we also announced that Eric Mahe will take the role of President of CFD in addition to this current role of President of SSD. Eric will bring in innovative entrepreneurial to his new role of leading CFD.

The Advanced Materials and 3D Printing Technology Division operational EBITDA improved by $2 million compared to the prior year quarter. This improvement was a result of cost actions taken to sharpened and our focus on investments. AM3D will focus on light-blocking materials and printed electronics.

Continuing to our final division, Eastman Business Park, revenue operationally did not change significantly for EBP when compared to the prior year quarter. EBP rental income helps absorb fixed cost and other business units.

Now turning to Slide 8. I will provide an update on our overall portfolio. The growth engines, which includes SONORA, PROSPER, FLEXCEL NX, Software and Solutions brand licensing and advanced technologies now account for 30% total revenues, which is a 2 point increase in the prior year quarter. These businesses grew 5% when compared to the prior year quarter. Our other strategic businesses include plates, CDP and service, NEXPRESS and related toner business, other packaging products, film, Eastman Business Park and IP licensing, continue to represent 63% of our total revenues. As we stated in the past, these businesses provide consistent revenues and strong cash flow for the company. The planned decline in businesses which include the consumer inkjet VERSAMARK and DIGIMASTER, account for 7% of our total revenues. As we stated in the past, these are product lines with the decision was made to stop new product development and management quarterly expect the decline in installed product annuity base.

Moving to Slide 9. We want to provide an update to our 2018 guidance. 2018 full year revenue remains within expected guide in its range of $1.5 billion to $1.6 million. Our 2018 operational EBITDA guidance is revised to $55 million to $60 million. This change reflects a $4 million due to the impact of increased aluminum supplier cost and $4 million related to the timing of commercialization of new products and brand licensing agreements, offset by cost reductions. We expect to generate cash in the second half of 2018 with projected year and cash balance of between $300 million and $310 million. Our overall full year cash use is now revised to use of between $35 million and $45 million. This is a result of changes in working capital, the timing of asset sales and other impacts of $15 million, $11 million related to foreign exchange and aluminum cost, and $4 million related to the timing of the commercialization of new products and brand licensing agreements, offset by cost reductions. For the second half of 2018, our priorities will be focused on the sale process for the Flexographic Packaging Division, improving efficiency of our operations to the announced restructuring actions and continuing to deliver growth in our strategic areas.

I'll now turn it over to Dave to discuss details in net earnings and cash flow performance.

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

Thanks, Jeff, and good afternoon. Today, the company filed its Form 10-Q for the quarter ended June 30, 2018, with the Securities and Exchange Commission. As always, I recommend you read this filing in its entirety. As mentioned in our press release and explained by Jeff, Kodak has included a disclosure regarding its going concern assessment in its second quarter Form 10-Q filing. Please need Note 1 to the financial statements contained in the company's 10-Q to see the precise disclosure and plan mitigating actions.

As a summary, we plan to reduce operating cost significantly to improve liquidity, refinance the existing term loan and sell the Flexographic Packaging Division to mitigate this uncertainty. We are optimistic about the potential sale of our Flexographic Packaging Division as well as the anticipated refinancing of the company's term debt. However, these plans are not solely within Kodak's control and are not deemed probable under U.S. GAAP accounting rules. Therefore, we have provided the disclosure in our quarterly Form 10-Q filing.

I will now share an overview of our liquidity position, further details on the full company results and update on our cost structure and cost action plans for 2018. I will also discuss the cash flow results and our full year operational EBITDA and cash outlook.

Starting with the liquidity overview on Slide 11. Kodak's cash balance as of June 30, 2018 is $275 million, a decrease of $38 million for the second quarter of 2018. We expect to generate cash in the second half of 2018. Our projected year-end 2018 cash balance is a range of $300 million to $310 million. Under the first lien term credit agreement, our outstanding debt of $395 million matures on September 3, 2019. We have retained

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UBS Investment Bank as our financial adviser for the sale of the Flexographic Packaging Division. Kodak also announced it entered into a nonbinding letter of intent for a $400 million, 18-month loan, which would enable the company to pursue the sale of FPD in a thoughtful manner in order to achieve maximum value for our shareholders. The proceeds from the sale will first be used to repay this loan, which would significantly improve the company's capital structure. In addition, we have initiated actions, which will result in $40 million of incremental annualized cost savings. I will provide additional details later in my remarks regarding these actions.

Now for the GAAP financial results for the second quarter. On Slide 12, as we reported in our earnings release, the net income for the second quarter of 2018 on a GAAP basis was $4 million, flat compared with the second quarter of 2017. For the 6 months ending June 30, 2018, the reported net loss is $21 million compared with net income of $11 million for the 6 months ended June 30, 2017. Excluding the impact of changes in the value for the derivative embedded in the Series A preferred stock and depreciation and amortization expense related to PROSPER asset remeasurement in the prior year, net earnings improved $7 million for the quarter and declined $1 million for the year-to-date period on a year-over-year basis.

Turning to Slide 13, we are presenting our divisional results for the 6-month period ending June 30, 2018 and 2017. Through June 30, 2018, operational EBITDA was $10 million compared to $18 million in the prior year period. On a constant currency basis, operational EBITDA declined by $9 million. Further excluding the impacts of aluminum costs, operational EBITDA increased by $6 million or 33% year-over-year. The declines of $12 million in PFD, mainly driven by pricing pressures in aluminum costs; $1 million in EISD as a result of the expected decline in VERSAMARK revenue and earnings; and $3 million in CFD, driven by expected declines in consumer inkjet systems and unfavorable costs in the industrial films and chemicals were partially offset by $1 million improvement in FPD as a result of growth in FLEXCEL NX Plate volumes and $6 million in AM3D operational EBITDA due to cost actions taken to sharpen our focus on investments announced in November of 2017.

On Slide 14, we are presenting an operational EBITDA bridge from the second quarter results to our updated full year 2018 guidance of $55 million to $60 million. As presented, we expect unfavorable impacts of $26 million related to increased aluminum and associated tariff costs. Our expected declines in consumer inkjet and VERSAMARK are projected to have a $16 million unfavorable impact on full year 2018. Changes in our product mix and pricing will result in an $8 million unfavorable impact to the full year. Finally, implemented cost reductions and manufacturing improvements will provide a $65 million favorable impact to the full year.

Now for an update on productivity, as shown on Slide 15. In 2018, year-over-year cost improvements are expected to be $65 million. This represents savings of $50 million related to position eliminations and $15 million related to manufacturing improvements. When we last spoke on our Q1 earnings call, we expected $53 million of total cost savings year-over-year. We have accelerated our efforts to capture incremental efficiency and productivity savings of $12 million this year. These additional opportunities will provide an annualized savings of approximately $40 million from pre-revenue areas and reductions in operating costs from mature businesses. The impacts on 2019 will be approximately $30 million, in incremental cost savings year-over-year. The company expects to eliminate approximately 325 positions in these areas. Nonheadcount-related cost reductions will be approximately $5 million.

Moving on to the company cash performance presented on Slide 16. The company ended the second quarter with $293 million in cash, cash equivalents and restricted cash, a decrease of $76 million from December 31, 2017. Cash and cash equivalents reported on the balance sheet were $275 million, down $69 million from $344 million at December 31, 2017, and down $38 million from $313 million as of March 31, 2018.

During the first half, cash used in operating activities was $49 million driven by -- driven primarily by our seasonal bills and inventory of $34 million and lower trade AP of $11 million, a decrease in liabilities excluding trade payables of $22 million, partially offset by $31 million of cash from lower receivables. The decrease in the company's liabilities, excluding cash in 2017, primarily related to a decline of $6 million in cash flow from net earnings, and an increase of $31 million in cash flow from balance sheet changes as presented. Cash used in investing activities was $16 million in the first half of 2018, compared with a use of $14 million in the prior year period. Cash used in financing activities was $8 million in the quarter, compared to $7 million in the prior year period, primarily reflecting the dividend payment on the Series A preferred stock.

Moving on to Slide 17, our cash outlook for 2018, prior to any refinancing actions, is a range of cash used of $5 million to breakeven on an unlevered basis and a use of $35 million to $45 million on a levered basis. Our projected cash balance at year-end 2018 prior to debt repayments is in the range of $300 million to $310 million. The sources of cash generation are operational EBITDA of $55 million to $60 million, proceeds from several small asset sales of $11 million, cash from working capital of approximately $3 million, and ABL cash collateral requirement reduction of $5 million.

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We expect cash used for legacy items of $45 million, which includes foreign pension contributions, workers compensation payments, contingent consideration related to the sale of a business and long-term disability payments. $29 million of expense related to these items is included in operational EBITDA. Therefore, the incremental amount of $16 million has been presented as an adjustment to EBITDA in order to reconcile to projected cash flow. Additional usage of cash in 2018 will be related to interest and dividend payments of $37 million, capital expenditures of $30 million, net cash income taxes outside the U.S. of $17 million, and restructuring payments of $15 million. We will prosecute opportunities to generate cash from nonstrategic asset sales, greater efficiency and productivity in our operations and working capital opportunities in order to improve the company's cash performance and liquidity.

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 first lien term loan credit agreement, exceeded the EBITDA necessary to satisfy the covenant ratio by $19 million.

To summarize, the second quarter 2018 performance, the company's use of cash primarily reflects the seasonal build of working capital and the seasonal nature of the company's earnings. We expect to generate cash over the remainder of the year and to address the September 2019 maturity of the term loan. To strengthen our liquidity, we have initiated actions to reduce operating costs, including driving greater efficiencies and investment spending and operations of our mature businesses.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Nathaniel August with Mangrove Partners.

Nathaniel Hall August - *Mangrove Partners - President and Portfolio Manager*

I have several questions. So the first question I have is, your balance sheet shows $275 million in cash on it. And I was hoping you could help me understand, how much of that is readily available to the company? And then how much of it is difficult for you to access, maybe overseas, and difficult to repatriate or in some other way difficult for you to access?

Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Today, obviously, we have $80 million over in China, that is more difficult, but they didn't go through the other items.

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

Sure. As Jeff mentioned, we have about $80 million in China, which is more difficult to access. At the end of the quarter, we had roughly $137 million, I believe, in the U.S. and the remainder between the $80 million in China, $137 million in the U.S. is in, primarily, in Europe and in Japan and in Latin America. Each of those areas of the world, we have been successful in accessing cash through intercompany dividends and loans through repatriation to the U.S. So we believe we have adequate ability to access that cash, other than China with the $80 million.

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Nathaniel Hall August - *Mangrove Partners - President and Portfolio Manager*

My second question is, could you tell me, when you measure your covenant compliance with regards to your term loan, do you measure it based on the operational EBITDA as presented in the presentation that you give to us? Or do you measure it based on an adjusted EBITDA only of restricted subsidiaries?

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

The covenant calculation is based on the credit agreement definitions. So we measure the covenant compliance based on the covenant EBITDA as required under the credit agreement. So it's not the same measures operational EBITDA, it has several adjustments to arrive to that covenant EBITDA.

Nathaniel Hall August - *Mangrove Partners - President and Portfolio Manager*

And to be clear, is that only measured in restricted subsidiaries?

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

We would exclude -- we do exclude operations in unrestricted subsidiaries, yes.

Nathaniel Hall August - *Mangrove Partners - President and Portfolio Manager*

Could you then please detail for me how over the last 12 months -- what changes, if any, there have been between restricted and unrestricted subsidiaries, and absent those changes, how covenant EBITDA would or would not have changed?

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

I do believe we disclosed that in our Form 10-Q and the sufficient detail in the liquidity and capital resources section. So I'll direct you there. The exclusion of unrestricted subsidiaries is disclosed there.

Nathaniel Hall August - *Mangrove Partners - President and Portfolio Manager*

So would it be correct of me to think that on a constant scope, that if you have not changed restricted as compared to unrestricted subsidiaries, you would in fact not be in compliance with your covenants?

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

We are in compliance with our covenants as permitted by the credit agreements and the adjustments that are afforded to us in that credit agreement.

Nathaniel Hall August - *Mangrove Partners - President and Portfolio Manager*

Okay, that doesn't seem to answer my question. My last question is, if you could please tell me when the strategic process for selling the FPD division began?

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Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Yes, this is Jeff. We're not going to disclose details of this. Union Bank o Switzerland, UBS, our banker, is running a very robust process. I'll remind you that there was compelling inbound indications of interest from multiple parties, strategic and financial, but we're not going to go into the timing of the process. And I'm sure you understand that from competitive reasons.

Operator

And our next question comes from the line of Amer Tiwana with Cowen and Company.

Amer Khan Tiwana - *Cowen and Company, LLC, Research Division - MD and Analyst*

I just wanted to dig in a little bit about this -- you mentioned that you have a nonbinding letter of intent for $400 million, 18-month loan. Is that going to be effective soon? Or is this going to -- I mean, I'm just trying to understand when will you exercise this, and can you do this deal now? Or is it -- are you going to wait until some point later, and can you just give me some color here?

Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Yes, Amir, we will actually not going to provide any color on this other than what has been disclosed. And that is because of confidentiality provisions associated with the nonbinding term sheet. So unless -- we're restricted by that, and again, as you would expect, there's several competitive reasons during this process why we would be very limited in our disclosure.

Amer Khan Tiwana - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. And maybe you can just comment on whether -- I'm just trying to understand from the perspective of timeline, if you were to refire term loan, which is due next year, let's say also to the maturity date, would that give you an additional 18 months? Or how should I think about timeline?

Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Yes, yes. I mean, today, if you look at the August -- excuse me, September 3, 2019, we're just under 13 months from that. Obviously, with an 18-month duration, it would give us additional time. And again, we're not going to go into when that would -- that term loan would start versus the LOI. We're not going to go into that detail at this point.

Amer Khan Tiwana - *Cowen and Company, LLC, Research Division - MD and Analyst*

Okay. Moving on to this aluminum issue is starting to be meaningful. You made some comments in your prepared remarks. Can you just give me some more color on what have you done to mitigate that? And how should we think about it on a go-forward basis?

Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Okay, as a reminder, we're at a $15 million impact, if you go back to Page 14, a $15 million impact of aluminum in the first half. We're expecting about $11 million impact of tariffs and aluminum, which $9 million is aluminum and $2 million are tariffs. And so we're expecting, in total, for the year, a headwind of $26 million. And that's quite material, obviously. Last year, I think it was closer to $14 million. And so we're talking about a $40 million impact to the company over the last couple of years here. Next year, we can't predict where aluminum is going to go, but we do buy forward contracts and so forth with -- for -- kind of with the aluminum suppliers themselves. So have a good sense of what is hedged and what is not hedged. And going into next year, I believe where some -- at today's prices, we've got an exposure of about -- headwind of about, only about $4 million next year. And so while it's been quite over the last couple of years, and particularly, this year with the $26 million, assuming it stays at current

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prices, it's not going to be as much of a headwind next year. But I can't predict whether it's going to go up or down, and it gets very expensive to hedge or buy these forward contracts outside of really above the 6- to 9-month window. So we are balancing the insurance cost of locking in some of the prices versus the stability we'd like to have at it. The biggest operational thing we're doing is we're raising our prices, and we're trying to pass on some of these aluminum cost price into the marketplace. And as I mentioned in my remarks, we've had 2 price increases announced, and that will also impact next year's view on pricing. And as I said in the remarks, we do expect, for the first time in many, many years, to have flat pricing in the second half of the year rather than price deterioration on our plate business. And we've had -- this year -- this quarter, with just down 2% on a year-over-year basis, it's one of the lowest price decreases that we've -- price pressures that we've had. So we are finding some ability to pass this on to our customers.

Amer Khan Tiwana - *Cowen and Company, LLC, Research Division - MD and Analyst*

Got it? Last question. Without going into the sales process, you mentioned that the Flexographic division is about $150 million of revenue and $33 million of EBITDA. What are some of the comps we can look at to try to think about the valuation here?

Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

First of all, Flexo Packaging is performing exceptionally well. If you -- let's go back 3.5 years to give you a sense of the business. And I remind you that the performance of the business is being driven by our category that's called FLEX NX. This is the innovative thermal imaging layer driven product that is allowing us to gain market share in this industry and to grow. Also in the $150 million is about $33 million of legacy packaging that actually masks the true strength of the business. So when I gave you the numbers on a trailing 12-month basis of a 9% growth in FLEXCEL packaging and revenue, and an 18% growth in EBITDA, if you look at just the FLEX NX, which is, frankly, what the buyer will be buying, because it's now 70 -- over 70% of the business and growing rapidly. That's growing at 14% versus the 9?%. So if you look at the trailing 12 months, the FLEX NX portion grew at 14%. The legacy packaging is down 7% that equals to 9%. To put that in even more perspective, over the last 3.5 years, the FLEX NX portion has gone from $78 million of revenue up to $116 million of that $150 million, which is up 49% in 3.5 years. While the overall profit, including the declining legacy piece of EBITDA has gone from $13 million to $33 million. So this is a business that is scaling rapidly. It has great business dynamics, over 90% of the revenues are recurring, and it comes from the plate consumables, CTP contracts and spares. It's a closed system, and so, it's very much has a lot of significant amount of moat around it per se. So this is -- the Flexo Packaging businesses is a highly attractive business, with great fundamentals, expanding markets margins, and it's a business that we've just invested in a brand new factory for. So it's got capacity for the buyer out to the next at least half decade. So this is going to become very attractive and I think the multiples of the business that's underlying engine is growing at 14% that has -- in 3.5 years gone from $13 million to $33 million of EBITDA and we see continued projections going forward at that level. This will command a strong and high multiple.

Amer Khan Tiwana - *Cowen and Company, LLC, Research Division - MD and Analyst*

Understood. And can you talk a little bit about market share here for this business?

Jeffrey J. Clarke - *Eastman Kodak Company - CEO & Director*

Yes. So the overall packaging business -- or packaging printing business, it's hard to get your arms around because it's a fragmented business. But most people in the industry think it's growing about 3% to 4%. So with us growing 14% in the FLEX NX, you see quite a bit of market share gain. We've only really been in this business about 7 years, and we think today that we win about 1 of every 3 CTPs, and we're now up to what we think is somewhere around 15% to 20% market share. We're winning in 2 ways. We're waiting by reducing the cost of the printer. We're doing it by improving the resolution on packaging, but we're also doing it by shifts. We not only are winning in the traditional Flexo market, but we're shifting from offset revere as well. So we've got multiple ways that we went in this business, and that's why it's such an attractive business. I think we have time for one more question. It seems we don't have anymore questions. Thank you, everyone. I appreciate it. For the second half of 2018, our priority is going to be focused on the sale process for Flexographic Packaging. It's also going to be on improving efficiencies of our operations, the announced

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restructuring actions where we want to end up with $40 million additional annualized cost on top of the $65 million that we expect to achieve this year, and of course, continue to deliver growth in our strategic areas. I want to thank everyone for participating on the call. Have a good day.

Operator

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

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