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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Craig N. Carlozzi *BulwarkBay Investment Group, LLC - Founding Partner and Portfolio Manager*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak Q1 2018 Earnings Conference Call. (Operator Instructions) And I would now like to introduce your host for today's conference, Mr. Bill Love. Sir, you may begin.

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

Thank you, Sondra, and good afternoon, everyone. I am Bill Love, Eastman Kodak Company's Treasurer and Director of Investor Relations. Welcome to Kodak's First Quarter 2018 Earnings Call. At 4:15 p.m. this afternoon, Kodak issued its release on financial results for the first quarter 2018 and will file its quarterly report on Form 10-Q tomorrow. You may access the presentation and webcast for today's call on our Investor Center at investor.kodak.com.

During today's call, we'll 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 these anticipated or expressed in the forward-looking statements. Important factors that could cause actual events or results to differ material 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.

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 Investor Center at investor.kodak.com.

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

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

Thanks, Bill. Welcome, everyone, and thank you for joining the Q1 investor call for Kodak. On the call today, I'll talk about the company and divisional results for the first quarter 2018 and our 2018 full year forecast. Dave will then follow with more details on net earnings, a cost reduction update, discussion of cash flow and our 2018 cash outlook, after which we'll welcome your questions.

First, I'd like to highlight the progress we're making on the execution of our key growth strategies. We're pleased with the continuing strong demand in our SONORA Process Free Plates, which grew 21% year-over-year. We continue to see strong growth in our Flexographic Packaging Division, which includes a 15% volume growth in FLEXCEL NX Plates. Additionally, annuities revenue for KODAK PROSPER grew 8% in the first quarter of 2018. In 2018, we'll continue to invest in advanced technologies, including ULTRASTREAM and our advanced materials technology, as they will provide strong growth in the future. Additionally, we will continue to invest in the expansion of our Weatherford, Oklahoma plant to meet strong demand from our FLEXCEL NX customers. We are on plan to deliver full year performance with the expected of guidance range of revenues of $1.5 billion to $1.6 billion and operational EBITDA of $60 million to $70 million.

On Slide 5, Kodak delivered first quarter revenues of $357 million, flat when compared to the prior year quarter. Operational EBITDA for the quarter was $1 million, down $5 million compared to the first quarter of 2017 or a negative $6 million on a constant currency basis. When adjusted for higher aluminum costs and impacts of foreign exchange, Kodak's operational EBITDA increased by $2 million. When we further adjust for the expected $3 million decline in our legacy consumer inkjet business, the year-on-year adjusted operational EBITDA improvement is $5 million. This increase in operational EBITDA reflects the impact of Kodak's cost-cutting efforts, operational improvements and the strengthening of our product portfolio. Our cash balance declined in Q1 2018 by $31 million, which was $25 million less when compared to the prior year quarter. Dave will discuss the key drivers of our cash flow for the quarter later.

Now I'd like to talk about the business by division, which is presented on Slide 6, for the first quarter of 2018 results, with comments supporting the performance on Slide 7. All year-over-year comparisons will be discussed on a constant currency basis, as shown on the bottom section of Slide 6.

Starting with the Print Systems Division. First quarter revenues were $216 million, a decrease of $11 million or 5% compared to 2017. Operational EBITDA for the Print Systems Division declined by $6 million. When excluding the impact of higher aluminum cost of $8 million, PSD improved by $2 million when compared to the prior year quarter. Plate price erosion in the first quarter was 2%, and overall plate volume was also down 2% year-over-year. The plate volume decline is in line with the overall market decline. Plate price actions, manufacturing cost improvements and lower operating expenses offset the impact of plate price erosion and decline in plate volume. We will continue to see solid growth in our -- we continue to see solid growth in our environmentally advantaged KODAK SONORA Process Free Plates, which grew 21% year-over-year. SONORA now accounts for 21% of our total plate volume.

Our 2018 outlook includes continued growth in SONORA and the introduction of SONORA X and NEXFINITY, a new color electrophotographic press. We tested SONORA X in over 160 printers across 28 countries using over 200 different presses and many different types of inks and substrates. SONORA X achieved long run lengths on a large variety of offset printing applications, particularly in challenging print environments such as ultraviolet. Our test proved our process-free plate performs as well in terms of handling productivity and resolution capabilities as an unbaked process plate. Most printer applications can now switch to the process-free without any compromises in performance. PSD is a foundational business to Kodak which consistently contributes significant revenues and cash generation.

We've excluded a slide -- we've included, excuse me, a slide in the appendix presenting historical metal, London Metal Exchange aluminum prices over the last 7 years. The LME euro price continues to trade at a 7-year high. The impact to 2018 will be a year-over-year headwind of $22 million. As a result of continued increases in the cost of aluminum and other raw materials used in plate manufacturing, we plan to take additional plate price actions. Further details will be announced prior to the end of the second quarter.

Moving on to the Enterprise Inkjet Systems Division. EISD first quarter revenues were $31 million, a decline of $8 million compared to the prior quarter. Operational EBITDA for the first quarter of 2018 was breakeven, a decline of $1 million compared to the prior year quarter. The change in revenue and operational EBITDA was driven by the expected decline in our legacy consumables and equipment placements. For the quarter, PROSPER annuities increased by approximately 8%, and VERSAMARK annuities declined by 23%, which is consistent with our expectation. Additionally, we continue to invest in ULTRASTREAM in the first quarter. As I discussed in our prior quarter review, we expect continued growth in our PROSPER annuities, investment in ULTRASTREAM and a decline in VERSAMARK in 2018.

EISD and Uteco announced the commercial availability of a new Uteco Sapphire EVO digital press, which utilizes Kodak's PROSPER stream inkjet technology to offer economical, variable printing and production speeds on flexible substrates in the packaging market. This is the first in the industry with water-based, environmentally friendly inks at production speeds.

For the quarter, Flexographic Packaging Division revenues were $37 million, a $2 million increase over the prior year quarter. The increase in revenue was the result of volume improvements in FLEXCEL NX consumables due to a larger installed base of FLEXCEL NX CTP systems. Operational EBITDA was $7 million, flat compared to the prior year quarter, driven primarily by volume improvements in FLEXCEL NX consumables, offset by the increased investment in product development, marketing and sales activities. FLEXCEL NX revenues increased 12%, and FLEXCEL NX plate volume grew 15% compared to the prior year quarter. 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. We'll continue to invest in new product development, infrastructure and expansion of our Weatherford factory.

For the first quarter of 2018, SSD revenues were $20 million, down $2 million compared to the prior year quarter. Operational EBITDA was breakeven in the first quarter of 2018, similar to the prior year quarter. The decline in revenue was primarily due to the timing of license agreements, and operational EBITDA results reflect improvements in SG&A. We continue to make focused investment in packaging and digital software and cloud and analytics services.

First quarter revenues for our Consumer and Film Division were $48 million, down $2 million when compared to the prior year quarter, driven primarily by an expected volume decline in consumer inkjet consumables due to lower sales of ink into a smaller installed base of CIJ printers and lower volume in industrial films and chemicals. This is offset by higher volume in motion picture film and higher brand licensing revenues. For the quarter, motion picture film revenues increased 18% when compared to the prior year quarter. Brand licensing revenue was $2.5 million for the quarter, which equates to an annualized run rate of approximately $10 million. Operational EBITDA for CFD was a negative $6 million, down $3 million for the quarter, driven by the expected decline in volume for this consumer inkjet business. We expect to see continued variability in the CFD business results this year due to the one-off industrial film orders, the timing of motion picture productions and our brand licensing business, which varies due to the timing and scalability of the licensees.

In AM3D, operational EBITDA improved $4 million compared to the prior year quarter. The improvement was largely due to actions taken to sharpen our focus on investments. AMD (sic) [AM3D] will focus on light-blocking materials, printed electronics and advanced materials.

Continuing to our final division, Eastman Business Park. First quarter 2018 revenues were $4 million, flat with the prior year quarter. EBP rental income helps absorb the fixed cost of other business units.

Turning to Slide 8. We recently announced the retirement of Brad Kruchten, President of the Print Systems Division. I'd like to thank Brad for his contributions for his many years of service and for placing our Print Systems Division in a solid position for the future. John O'Grady has succeeded Brad as President of PSD. John joined Kodak in 1997 and has held various positions, including managing regional business development opportunities and strategic go-to-market operations throughout the company. In 2016, John was appointed General Manager of Worldwide Sales and PSD, where he managed sales, service and regional marketing for the Print Systems Division on a worldwide basis. Most recently, John served as President of the Consumer and Film Division. We'll announce John's successor for CFD in the near future. I'm confident John's extensive experience with PSD and strong relationships with both PSD employees and our customers will help ensure a smooth transition.

Now turning to Slide 9. I'll 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% of total revenues, which is a 4 point improvement from the prior year quarter. These businesses grew 9% when compared to the prior year quarter. Our strategic other businesses, which include plates, CTP and service, NEXPRESS and related toner business, other packaging products, film, Eastman Business Park, IP licensing, now represents 62% of our total revenues. As we've stated in the past, these businesses provide consistent revenues and strong cash flow for the company. The planned declining businesses, which include consumer inkjet, VERSAMARK and DIGIMASTER, now account for 8% of total revenues. As we stated in the past, these are product lines where a decision was made to stop new product development and to manage an orderly expected decline in the installed product and annuity base.

To summarize, in Q1, Kodak achieved year-on-year improvements in our comparable operational EBITDA and cash flow; continued strong execution in SONORA, FLEXCEL NX and the PROSPER growth engines; continued investment in ULTRASTREAM technology with the expectation to bring the product to market in 2019; continued productivity improvement; plate pricing strategies, which will mitigate high costs of aluminum.

I'll now turn it over to Dave.

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

Thanks, Jeff, and good afternoon. Today, the company issued its earnings release for the quarter. As Bill mentioned, the company will file its Form 10-Q for the quarter ended March 31, 2018, with the Securities and Exchange Commission tomorrow, May 10. As always, I recommend you read this filing in its entirety.

As Jeff noted, our first quarter performance is consistent with our expectations, and we are pleased with growth in key product areas. I will share further details on the company -- full company results and update on our cost structure, more details on our full year operational EBITDA, and cash flow results and outlook.

First, an important update and notable item in the first quarter reporting. During the first quarter of 2018, the company segment measure was changed to exclude amortization of prior service costs and credits, which, due to the adoption of ASU 2017-07, are no longer reported in the same line as other compensation costs arising from services rendered during the period. We have recast the prior year to present our results on a consistent basis. The appendix to this presentation provides revised information for 2017 on a quarterly basis by division.

Now for the GAAP financial results for the first quarter. On Slide 11, as we reported in our earnings release, the net loss for the first quarter of 2018 on a GAAP basis was $25 million compared to net earnings of $7 million in the first quarter of 2017, a decline of $32 million. The first quarter of 2018 results include $14 million of expense related to changes in the fair value for the embedded derivative for the Series A preferred stock. The prior year quarter included a $12 million, one-time depreciation and amortization expense catch-up for PROSPER, partially offset by the $22 million favorable impact from the revaluation of the embedded derivative associated with the Series A preferred stock. Adjusting for these items, the year-over-year change is an $8 million reduction in net earnings.

On Slide 12, we are presenting a year-over-year operational EBITDA bridge for the first quarter results and our full year 2018 guidance of $60 million to $70 million for operational EBITDA. As presented, we expect unfavorable impacts of $22 million related to increased aluminum costs and $1 million related to foreign exchange impacts in 2018. Our expected declines in consumer inkjet and VERSAMARK are projected to have an $18 million unfavorable impact on full year 2018. Changes in our product mix and pricing will result in an $11 million favorable impact to the full year. This includes continued growth in FLEXCEL NX, SONORA and PROSPER as well as transitions to revenue in our investment areas. Finally, implemented cost reductions and manufacturing improvements will provide a $53 million favorable impact to the full year 2018. Approximately 80% of these improvements are the result of headcount reductions, most of which have been fully implemented. Additional manufacturing productivity savings include improvements in waste and yield, logistics costs and material and services purchasing.

Now for an update on productivity, as shown on Slide 13. In 2018, year-over-year cost improvements are expected to be $53 million. This represents savings of $41 million related to position eliminations and $12 million related to manufacturing improvements. Additional opportunities are being identified for cost actions related to simplification and automation activities. As of April 30, 2018, current headcount was 5,625, down from 6,028, excluding positions which have been notified for exit from the company. This represents a reduction of 403 positions year-over-year.

Moving on to the company cash performance presented on Slide 13 -- 14, excuse me. The company ended the first quarter with $333 million in cash, cash equivalents and restricted cash, a decrease of $36 million from December 31, 2017, which was within our expectations and consistent with the information I provided on our last earnings call in March. Cash and cash equivalents reported on the balance sheet were $313 million, down $31 million from $344 million at December 31, 2017. During the quarter, cash used in operating activities was $27 million, driven primarily by our seasonal build in inventory of $27 million and lower trade accounts payable of $6 million, a decrease in liabilities excluding trade payables of $9 million, partially offset by $30 million of cash from lower receivables. Cash used in operating activities decreased by $26 million compared to the first quarter of 2017, primarily related to a decline of $10 million in cash flow from net earnings and an increase of $36 million in cash flow from balance sheet changes, as presented. Cash used in investing activities was $10 million in the first quarter of 2018, as compared to a use of $4 million in the prior year period. Capital investments were higher by $5 million in 2018 related to higher payments for CapEx related to the Weatherford plant and lower proceeds from asset sales that occurred in the comparable period of 2017. Cash used in financing activities was $4 million in the quarter compared to $3 million in the prior year period, primarily reflecting the dividend payment on the Series A preferred stock.

Moving to Slide 15. Our cash outlook for 2018 is cash generation in a range of $20 million to $30 million on an unlevered basis and a use of $20 million to breakeven on a levered basis. Our projected cash balance at year-end 2018 prior to debt repayments will be $320 million to $340 million. The sources of cash generation are operational EBITDA of $60 million to $70 million, proceeds from several small asset sales of $20 million, cash from working capital of approximately $5 million, ABL cash collateral requirement reduction of $5 million, and $10 million of other items. We expect cash used for legacy items of $47 million, which includes foreign pension, workers' compensation payments, continued consideration related to the sale of the business and long-term disability. $29 million of expense related to these items is included in operational EBITDA. Therefore, the incremental amount of $18 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 $34 million, net cash income taxes outside the U.S. of $13 million and restructuring payments of $15 million. Finally, we remain in compliance with our covenants under our credit agreements. In particular, the company's EBITDA used in secured leverage ratio as calculated under the first lien term loan credit agreement exceeded the EBITDA necessary to satisfy the covenant ratio by $25 million.

To summarize, the company's first quarter 2018 performance was what we expected and reflects continued good execution in our key product areas, including PROSPER, SONORA and FLEXCEL NX. For the balance of 2018, we expect continued growth and full year revenues and earnings for Kodak's growth engines. We will also be focused on delivering return on our investments for profitable growth. As in 2017, we expect seasonality to skew stronger performance to the second half of the year in revenue, operational EBITDA and cash.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And I'm showing no questions at this time.

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

Well, thank you very much. I appreciate everyone listening on. As always, if you have questions, Bill Love, our Investor Relations Director, is available. And I want to thank you again for joining the Q1 call for -- I'm sorry, I've been waved that the question has come in. Operator?

Operator

Our first question comes from the line of Craig Carlozzi with Bulwark.

Craig N. Carlozzi - *BulwarkBay Investment Group, LLC - Founding Partner and Portfolio Manager*

Regarding some of the strategic initiatives that you'd discussed in the past, are those -- is there any update there that you can provide for the color?

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

All I can say, Craig, as you would expect, I can't give any specifics on those but that we continue to look at the overall portfolio of Kodak and different M&A opportunities to both build scale and to divest assets to delever.

Craig N. Carlozzi - *BulwarkBay Investment Group, LLC - Founding Partner and Portfolio Manager*

Compared to, say, 90 days ago, would there be any reason to expect the time line has either extended or truncated with the process?

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

Yes, Craig, I can't get into specifics on them. I can just say general until we have something to formally announce.

Craig N. Carlozzi - *BulwarkBay Investment Group, LLC - Founding Partner and Portfolio Manager*

Okay, but it is ongoing?

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

The review of our portfolio is ongoing on a very thorough basis.

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*

My first question is in your 2018 updated cash outlook, you guys showed $20 million of proceeds from potential asset sales. Can you just give us some sense of what they are? Or is there anything in particular?

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

There are multiple nonstrategic asset monetizations. Last quarter or last time we spoke, we were presenting $18 million. So we've adjusted the values slightly given where we are. But other than that, we don't have any real specifics to provide at this point.

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

An example would be, for example, an unutilized real estate building.

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

Understood. And on Page 9 of your presentation, you sort of break down your businesses in 3 segments. Is there a way for us to sort of try to figure out what the profitability attached to these 3 buckets is?

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

Yes. Why don't I just give you some general perspective? So SONORA is our flagship, most differentiated product in our plate business. We have historically been able to price that anywhere between 5% and 15%. You can use a 10% on average premium to other plates, and that is because of the benefits the plate gives in terms of using fewer chemicals, lower electricity and less labor than other plates that do not have the capabilities of SONORA around not using chemicals, being chemical-free. So that would be the most profitable product within our -- in our graphic arts -- graphic plates business. PROSPER, as you know, is our enterprise inkjet business. And that business is primarily a business which drive -- which is annuity-based at this stage. We're not selling a significant number of presses in our 65-unit installed base. So there are 2 elements of profitability there. One is off the -- in printing systems. These are heads that are in a hybrid fashion. They're profitable. When we sell the heads, they're profitable just in terms of the ink they use and they're profitable in terms of refurbishment of the head. And then obviously, as you expect, the ink profitability on the -- on sales into PROSPER are quite high. The third element of our business is our FLEXCEL NX business. And you can determine the value of that by looking at the portfolio of FLEXCEL NX, which, you see, is our highest percentage of revenue margin business. And then you can even look at that and understand that the FLEXCEL NX portion of that has even higher profitability than the unit as a whole, which has some legacy businesses that have less margin. Software and Solutions, overall, that business is breakeven this quarter, but the software portion of that is quite profitable, particularly the maintenance area. And the solutions are losing money at this stage as we are making some investments and transforming the Kodak solutions business. Brand licensing is a very high-profitable business. Brand licensing has very low cost and is a royalty-based business. We mentioned that, that has a $10 million run rate at this stage, and you should think of the incremental margins on that being very high. There's a small group that manages that portfolio and seeks new brand licensees, but it's over an 80% yield on the royalties there. And the last one is advanced technologies, which is an investment center at this stage. So once the products get to profitability, they are more profitable than the overall portfolio for Kodak.

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

Understood. And just -- I know this is maybe a bit too early to comment on, looking at your overall portfolio seems like the declining businesses are now a relatively small component of overall business. As we move into 2019, again, the question then becomes, where is EBITDA going to in '19? And can you guys be free cash flow positive? And obviously, the refi of your term loan will be coming up in '19 as well. So directionally, can we assume that the business is going to be more profitable in '19?

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

Yes, we expect the business to be more profitable in '19, and we expect to be cash flow positive in 2019.

Operator

And now I'm showing no further questions.

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

Well, again, thank you all for joining the call, and I appreciate your time.

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.
