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KODK - Q1 2020 Eastman Kodak Co Earnings Call

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CORPORATE PARTICIPANTS

David E. Bullwinkle *Eastman Kodak Company - CFO, President of Eastman Business Park & Senior VP*

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

Paul Dils

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Eastman Kodak Q1 2020 Earnings Conference Call. (Operator Instructions)

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

Paul Dils

Thank you, Jimmy, and good afternoon, everyone. I am Paul Dils, Eastman Kodak Company's Chief Tax Officer and Director of Investor Relations. Welcome to Kodak's First Quarter 2020 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. 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 anticipated 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 measure have been provided with the release and within the presentation on our website in our Investor Center at investor.kodak.com.

Speakers on today's call are Jim Continenza, Kodak's Executive Chairman; and David Bullwinkle, Chief Financial Officer of Kodak. I will now turn the call over to Jim.

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

Thanks, Paul. Good afternoon, everyone. First off, I hope everyone is healthy and safe through the COVID-19 pandemic that we've been going through, and no tragedy has come up on you or your friends or family or loved ones.

We'd like to take this time to -- currently, we're sitting on 2020. In 2019, just remember, Kodak took drastic measures -- drastic measures in cleaning up its balance sheet. We also took great measures in focusing business in 3 primary areas: print, advanced materials and chemistry and chemicals. In doing such and making those moves, we're able to end 2020 (sic) [2019] with a strong balance sheet of \$233 million in cash and cash equivalents, for the first time in many years not losing \$100 million plus. In 2020, we are off to a great trajectory building off of the 2019 accomplishments.



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Our new simplified organization structure for 2020 better aligns us with our customer as you keep hearing "One Kodak" and "customer first." And obviously, we love our employees and they're part of this. It's just taking care of the customer, and we're all in this together. We became a functional accountable, measurable, trackable business.

In doing so, we are much better focused on cash generation and taking care of our customers. We're focused on profitable growth and revenue, reducing operating expenses, eliminating or delaying product development programs that don't yield the returns that we're looking for deem appropriate and introducing new products and capabilities going back to our DNA, which is print, chemistry, chemicals and advanced materials.

We remain committed to these industries throughout this crisis, and we're going to continue to double down the digital even more so coming in the near future. We're going to continue to invest approximately \$25 million a year in developing leading edge technologies to serve our customers' needs and thrive in the industry and be a driver and a change agent.

We're going to continue to focus on the packaging segment, which continues to grow. We have revolutionary technologies with the Uteco Sapphire EVO wide press flexible packaging machine that is powered by the Kodak ULTRASTREAM Inkjet technology. And keep in mind, there's the EVO, which is stream, and this is the ULTRASTREAM. So we're going to continue moving in that direction and also placing ahead with manufacturers that putting heads directly on the packaging line and continue to sell inks and services.

We're also launching exciting new products coming this month. There will be a press conference later in June that I'll talk about the array of products we'll be launching, including our process-free plates the new version, and groundbreaking digital print equipment and technologies that will be coming out. We're excited. We would have launched them in Germany. And obviously, with the pandemic, the show was obviously delayed for a whole year. We're still moving forward with the products and the introduction of them and launching them.

COVID-19 update. This is a hard one for us. Kodak takes this very seriously. We meet constantly day and night, morning and night to making sure that our employees were safe and our business is essential. We were deemed an essential business during the operation and did not shut down. We are leveraging our best materials and chemicals, manufacturing expertise to assist in the pandemic, not just make the Kodak products, providing IPA for such -- stays as the [anti-taser] -- using our experience in PPE to make face shields. We're also looking inside of our PCB group, making film and circuitry for ventilators, and we're going to continue to innovate other product to help out in this pandemic.

Every time these types of strategies come -- tragedies come, no one's ever seen them. We've seen a lot of things over the years, and this is something different. There's not a clear road map. In hindsight, it's incredible. All you can do is, based on the knowledge you get every day, is make decisions and that's what we're doing. But we are trying at Kodak to help serve this country and the globe by putting other products in place and making sure that we have capabilities that can help us going forward. So a lot of work is going into that.

We are reducing our costs. We took salary reductions. We had targeted furlough. We took action early on, and any government advantages in the programs, we will try to take advantage of. Unfortunately, most of the relief is geared towards small business, which Kodak doesn't apply, or most of your employees are in the U.S., which also doesn't apply. We're a global multinational company, which kind of puts us kind of that out. We don't have a lot of opportunity for government funding, which means we have to do it on our own. And again, based on the things that we've done over the last 18 months allows us to make it through and survive through this pandemic and manage and make prudent decisions.

We're ensuring the safety of our employees first. We will continue to do that. We're enforcing, obviously, safe distance, masks, sanitizers. We are going to continue to look up for our employees and make sure they're in a safe work environment. That is number one.

We're also looking up for our customers. We have sent face shields to several of our customers on us to help pace it out, not just the hospitals. We're going to continue to fulfill our customer needs and demands, and we're diligently managing our cost and cash flow. Everyone is involved in doing so. And as you can imagine, when you get into these circumstances, everything slows down, including your AR. All of us are working to help bring that money back in. And we're starting to see some advantages because our customers are -- started to get funding from the government, which is helping them pay off, so we're seeing a little turn. But again, this pandemic has never been seen before, and we're all managing through it.



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With that, I'd like to turn this over to Dave to discuss our first quarter 2020 financials.

David E. Bullwinkle - *Eastman Kodak Company - CFO, President of Eastman Business Park & Senior VP*

Thanks, Jim, and good afternoon. Today, the company filed its Form 10-Q for the quarter ended March 31, 2020, with the Securities and Exchange Commission. As always, I recommend you read this filing in its entirety.

Before we get into the details for the quarter, I would like to make a few comments regarding the COVID-19 pandemic impacts. The COVID-19 pandemic did not have a material impact on our first quarter sales. However, sales volumes in the second quarter of 2020 are expected to be negatively impacted, and collections of accounts receivable are expected to slow based on the impacts we have seen to date in collections. The company has been able to maintain our operations to serve our customers, but this may change in the future as government and other responses to COVID-19 evolve.

We have worked closely with government officials in the jurisdictions where we operate to keep manufacturing facilities open during the pandemic. Kodak has endeavored to address the recommended actions of government and health authorities to protect employees worldwide with particular measures in place for those working in plants and distribution facilities. We intend to continue to work with government authorities and implement employee safety measures so the manufacturing and distribution of products during the pandemic can continue.

However, uncertainty resulting from the pandemic could result in an unforeseen disruption to Kodak's operations or supply chain. As such, we are reducing operating costs through the use of temporary furloughs and pay reductions for employees as well as the deferral of spend while operations are negatively impacted by the COVID-19 pandemic.

Additionally, late in the first quarter, governments across the world began to respond to the COVID-19 pandemic with the introduction of economic relief programs. The vast majority of government relief packages are geared toward individuals, small businesses or to the health care industry. Kodak has implemented the government relief under which we are eligible. These are primarily in the areas of tax deferrals and job-retention assistance. The government relief had very little impact in the first quarter as most programs were not operational until the second quarter. Employee retention-related relief is available to Kodak in some countries, which includes job-retention wage subsidies, social benefits relief and payroll tax relief. Non-HR related tax relief is also only available to Kodak in some countries, which is mainly comprised of deferral of various tax payments. Kodak is ineligible for most government subsidized loan programs.

We are continuing to explore eligibility in jurisdictions such as the U.S., England and Germany. As the duration and scope of COVID-19 continues to evolve, Kodak will continue to monitor for any new government relief programs for which the company may be eligible.

I will now share further details on the company results, operational EBITDA and cash flow results for the first quarter.

Turning to Slide 5. As we reported in our earnings release, for the first quarter of 2020, we reported revenues of \$267 million compared to \$291 million in the prior year quarter for a decline of \$24 million. On a constant currency basis, revenue declined by \$21 million.

During the first quarter, volumes for SONORA Process Free Plates grew by 18%, and the annuity revenue for PROSPER declined by 4%, which was attributable to the market downturn related to the COVID-19 pandemic. We continued to invest in future growth areas of ULTRASTREAM and Advanced Materials, which will lead to the new product introductions Jim referred to earlier.

On a U.S. GAAP basis, we reported a net loss of \$111 million for the first quarter compared to a net loss of \$18 million in the prior year quarter. The 2020 and 2019 first quarter results include income of \$53 million and expense of \$1 million, respectively, related to changes in value for the derivative embedded in the Series A Preferred Stock.

The first quarter of 2020 also includes the impact of a trade name impairment for \$3 million, an increase in accounts receivable reserves of \$4 million and \$167 million noncash expense as a result of the increase in deferred tax valuation allowances outside the U.S.



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Since the exact effects of COVID-19 are difficult to predict at present, it is creating a high degree of uncertainty as to the future profitability and the individual jurisdictions around the world. As we have previously stated, the company continues to be focused on generating positive cash by managing the company on a consolidated or "One Kodak" basis and, as such, is making the individual jurisdictional results less certain. Therefore, the realizability of deferred tax assets outside the U.S. is also uncertain, which results in these valuation allowance establishments.

Excluding these current and prior year items, income for 2020 was \$10 million compared to a loss of \$17 million in the prior year quarter. Operational EBITDA for the quarter was a negative \$8 million compared to a negative \$5 million in the prior year quarter. Excluding the impact of an increase in accounts receivable reserves, operational EBITDA for the current quarter was a negative \$4 million or an increase of \$1 million from the prior year quarter.

Entering into 2020, the company had initiated actions to reduce operating expense -- expenses by approximately \$40 million for the year. These actions were expected to provide significant progress toward positive cash flow from operations for the year. However, given the uncertainty of the COVID-19 situation, we have now taken incremental cost actions and have revised our expectations to over \$60 million in annualized cost reductions. Incremental cost actions were implemented early in the second quarter of 2020. We expect these impacts to start to be visible in our second quarter results.

Moving on to the company cash performance presented on Slide 6. The company ended the first quarter with \$209 million in cash and cash equivalents, a decrease of \$24 million from December 31, 2019. Cash used in operating activities was \$41 million, driven primarily by a change in working capital of \$6 million and a decrease in other liabilities of \$27 million. Accounts payable increased by \$1 million. Inventory increased by \$26 million, and accounts receivable decreased by \$19 million compared to December 31, 2019. As I mentioned earlier, accounts receivable collections have slowed, and inventory levels are elevated compared to our expectations. We are working closely with our customers and suppliers to manage this situation.

In addition, cash used for the reduction of other liabilities includes pension payments, severance payments for restructuring actions, VAT and income tax payments and accrued interest. First quarter 2020 payments have increased for income taxes and restructuring payments, offset by a reduction in accrued interest.

Cash used in investing activities was \$1 million in the first quarter as compared to a use of \$3 million in the prior year period. Cash used in financing activities was \$3 million in the quarter compared to cash provided by financing activities of \$3 million in the prior year period.

On our last call, I indicated the company was focused on reducing restricted cash in 2020 in order to fund operations and our continued restructuring activities. In the first quarter of 2020, restricted cash was reduced by \$25 million due to our efforts, which included the amendment of our ABL facility during the first quarter. Restricted cash at the end of the quarter was \$32 million. We will continue to focus on alternatives to reduce restrictions on cash.

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

Jim and I are now happy to take your questions. Jimmy, please remind listeners of instructions.

Operator

(Operator Instructions)

Speakers, I'm sorry, no questions in the queue at this time.

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

Great. Well, thank you.



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First off, again, I want to thank everyone for joining. And I want to thank the entire Kodak team, the amount of effort that they put into this quarter. It has been unbelievable. The amount of work this pandemic has caused in the late night and everyone working for home. We are able to mobilize within a week, everyone's working from home, using Microsoft Team (sic) [Teams], using lifesize cloud, doing virtual and still making the company run. And more importantly, I really want to thank our employees who show up every day and keep the factories and keep the supply chain working. The courage it takes for them to do that and continue to help this company grow is just getting -- words can't say enough. Our -- again -- and I want everyone to stay safe. But more importantly, I just want to make sure that we recognize those that have to go to work every day in this environment and go home to their families, and we're doing everything we can to keep them safe.

So with that, thanks for joining in the call.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude your program, and you may now disconnect.

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