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KODK - Q2 2015 Eastman Kodak Co Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Eastman Kodak Q2 earnings conference call.

(Operator Instructions)

As a reminder, this conference may be recorded. I would now like to introduce your host for this conference, Mr. Dave Bullwinkle. Sir, you may begin.

Dave Bullwinkle - *Eastman Kodak Company - Director of Global Financial Planning and IR*

Thanks, Earl. Good afternoon. My name is Dave Bullwinkle, Director, Global Financial Planning and Analysis and Investor Relations for Kodak. Welcome to the second-quarter 2015 Kodak earnings call. At 4 PM this afternoon, Kodak filed its quarterly report on form 10-Q and issued its release on financial results for the second quarter of 2015. 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 United States Private Securities Act of 1995. These forward-looking statements are subject to a number of uncertainties or risk factors which are clearly described in the Company's 10-K and which are qualified by the Safe Harbor provisions in our filings. We advise listeners to read these important cautionary statements in their entirety, as any forward-looking statement needs to be evaluated in light of these important risk factors or uncertainties. 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 John McMullen, Chief Financial Officer of Kodak. Jeff will provide some opening remarks, his perspectives on the quarterly financial performance and an update on the outlook of the Company. Then John will take you through a cost reduction update, additional details in our second-quarter results, and cash flow results and outlook before we open it up to questions. I will now turn this over to Kodak's CEO, Jeff Clarke.



Jeff Clarke - Eastman Kodak Company - CEO

Thanks, Dave. Welcome, everyone, and thank you for joining the Q2 investor call for Kodak. I start by giving you an overview of the quarter and our outlook for the rest of the year. John McMullen will follow with more details and then, of course, we will be welcoming for your questions.

Before we look at Q2, I want to address something I'm sure is on your minds. We are well aware the stock has traded down since the beginning of the year. We obviously do not manage for stock price. However, we are doing the right things to create shareholder value. We are building the foundation for a profitable future for Kodak by reengineering the organization, reducing cost structure and investing in key growth opportunities.

We've improved transparency with the divisional structure. We are executing well and we are ahead of our internal plan for the first half and are maintaining the guidance we gave you for 2015. We expect this will help build investor confidence which, over time, should translate into increased value for our shareholders. We have scheduled an investor and analyst meeting in October to better enable you to understand the Company and provide an expanded form for your questions. John will cover this further in his remarks.

Now on to Q2 performance. First let me say I am pleased with our Q2 results. We met our expectations for the quarter and came in ahead of our internal plans for the first half of 2015. Go to slide 5, please. On slide 5, revenues for Q2, 2015 totaled \$458 million for the quarter, a 13% decrease from the same period in 2015. More than half of this reduction reflects the impact of foreign exchange. On a constant currency basis, revenues in Q2, 2015 declined by 5% versus Q2, 2014.

The remaining decrease was driven by the expected and continued decline in legacy consumer and jet printer cartridge sales and nonrecurring intellectual property revenues realized in the second quarter of 2014. Once adjusted for foreign exchange and these items, revenues were essentially flat. Total Company operational EBITDA for Q2 was \$23 million, or 5% of revenues. In the same period in 2014 operational revenue was \$24 million, also 5% of revenues.

Slide 6, please. We reiterate our guidance for 2015. Adjusting for the foreign exchange impact as well as nonrecurring IP revenues, our baseline 2014 operational EBITDA was \$67 million. As we have guided you previously, we expect 2015 operational EBITDA to be in the range of \$100 million and \$120 million.

On slide 7, we present operational EBITDA on a comparable basis, in the same way we've provided guidance for 2015 and our Q1 results. Operational EBITDA is essentially flat on a year-over-year basis as reported. When adjusted for the non-recurring IP revenues of \$9 million in Q2, 2014 and a foreign exchange impact of \$8 million, the results represent a comparable improvement of \$16 million year over year. And on a year-to-date basis, operational EBITDA is \$35 million, or 4% of revenues, up from \$31 million and 3% in the first half of 2014. When adjusted for nonrecurring IP revenues of \$18 million in the first half of 2014 and the adverse foreign exchange impact of \$12 million, we show year-over-year improvement of \$34 million compared to the first half, 2014. We are on track to achieve comparable improvement of \$33 million to \$53 million in operational EBITDA, which we guided to for the full year.

As discussed in March, when we provided you with guidance for 2015, Kodak's established businesses are typically nonlinear and second-half loaded. In addition, we have strategic businesses which are ramping up. So in total, we guided to a split of roughly 25% of operational EBITDA in the first half and roughly 75% in the second half. We have a big second half ahead of us and a stronger-than-expected first half performance is helpful. Within the quarter, year-over-year growth key product lines included SONORA plate volume growth, 66%, FLEXCEL NX plate volume growth of 39% and Prosper revenue growth of 23%.

As I said to you before, 2015 is a pivotal year for the Company. Kodak is in the midst of a transformation. We are building new growth businesses based on our technology and the value of the Kodak brand while at the same time, managing an ordering decline of our mature business. Enabled by our new divisional organisation, we are creating an efficient and entrepreneurial set of operations and reducing our cost structure to be appropriate for our scale and portfolio of business.

Slide 8 please. Now let's look at highlights of the quarter, division by division. For the print systems division, this is Kodak's largest business, representing over half our revenues and our mix. PSD is a stable, predictable and profitable business. Approximately 80% of PSD's are of a recurring

or consumable nature. This provides predictable revenues and cash flows for the Company. Q2 was the fifth executive quarter of volume growth for overall plates business.

PSD revenues for Q2 were \$282 million. This represents a 12% decline compared to Q2, 2014. Continuing the pattern established in Q1, the vast majority of the decline is due to unfavorable foreign exchange rates, with some modest impact from continued competitive pricing. On a constant currency basis, PSD revenues declined by 2% and operational EBITDA for PSD improved by 15%.

PSD's key growth product is SONORA, our process free plates. We have more than 200,700 SONORA customers, up 19% sequentially from 200,274 at the end of the first quarter. This technology is being enthusiastically adopted by printers worldwide. Globally, we expect SONORA growth greater than 50% in 2015. In the second quarter, SONORA plate volume increased by 66%. SONORA process free plates reduce the environmental impact of printing processes without sacrificing quality or output. SONORA plates remove the need for the plate processor [eliminated] associated use of chemicals, water and energy and saving time and cost to customers. SONORA's customer acceptance and growth is result of significant differentiation versus our plate competitors.

Later this week, Brad Kruchten, President of PSD, and I will be in Columbus, Georgia, for the opening of our new SONORA production line. We are producing SONORA plates in Europe, Asia and the US. The opening of the new manufacturing line in Columbus marks the completion of our plan to improve manufacturing operation -- manufacturing operational and logistics efficiencies. The optimization of our plate factories from 5 to 4 and regional sourcing of all products will drive cost savings equivalent to two points of gross margin for the division. I am very pleased with the smooth execution of the complex plate manufacturing plant closure in the east UK and transition of product production lines to our global factories.

Another marker of the growth SONORA during the second quarter was Kodak's launch of SONORA XJ for the Japanese market last month. We are already signing up new customers for this product. The Japanese market is exacting, with requirements for extremely high quality print and consistency of plates as well as demand for environmentally responsible applications. These are great drivers for the SONORA technology capabilities.

As an added bonus, the SONORA XJ is proving ideal for UV printing, which will enable us to tap into a growing trend in the printing industry in Japan and beyond for use of UV in paging implications. Also within the print systems division is our electrophotographic digital print business. In Q2, we saw a 6% increase in the number of NEXPRESS units placed versus a year ago.

Next, I will discuss the enterprise inkjet systems division. As you know, the lead growth product for this division is the Kodak PROSPER system. For Q2, EISD revenues totaled \$45 million, down 4% from the same period a year ago. On a constant currency basis, EISD revenues improved 4% versus last year. Operational EBITDA was a negative \$5 million compared to the negative \$12 million in Q2 of 2014 for an improvement year over year of \$7 million. On a constant currency basis, operational EBITDA improved \$9 million.

While we saw strong momentum with our PROSPER system, we saw faster than expected decline in the sales of the legacy Versamark product, where we expect rising PROSPER revenues to equal or overtake legacy Versamark revenues in the second half of 2015. PROSPER has continued to gain momentum in the marketplace, with 5 new systems placed during the quarter for total of 10 systems so far this year. We are well on our way toward hitting our goal of 25 systems placed this year. PROSPER is also bringing in more annuity revenues.

In Q2, we surpassed 1,000 PROSPER print head installations with a sale of 52 during the quarter. In the second quarter, total PROSPER consumables increased by 17%. The value of PROSPER technology was recognized by the Printing Industries of America with the prestigious Intertech Technology Award. In fact, Kodak is the only recipient to win multiple 2015 Intertech Technology awards with the new FLEXCEL NX advantage features also being recognized for industry leading technology.

Now let's talk about the micro 3D printing and packaging division, which includes FLEXCEL NX systems and plates and touch sensor films with silver mesh and copper mesh technologies. For the division, revenues for the quarter were \$34 million, up 3% versus Q2 of last year. On a constant currency basis, NPPD revenues improved by 15%. Operational EBITDA turned positive at \$4 million compared to zero in the same period a year ago. On a constant currency basis, operational EBITDA improved by \$5 million year over year. We saw strong growth in the packaging business with the FLEXCEL NX offering during the quarter. With 21 systems installed in Q2, our NX base grew over 440 units. We continue to focus on placing



larger format units which will provide more than double the consumables revenues of the smaller format units. In May, we launched a new set of features FLEXCEL called the NX advantage.

Switching now to micro 3D printing, we are developing touch screen solutions in two technologies, silver mesh and copper mesh. The silver mesh technology is now producing some modest revenues on test products sold to potential high volume customers. We are in negotiation with these customers and expect to see additional revenues in Q3. We are adding production lines in our facility in Xiamen, China, which will be online by the end of 2015. We are excited to grow this business and are adding sales and business development resources in anticipation of ramping our growth.

Kodak is also moving ahead with the development of copper mesh technology. I am pleased to say we have achieved technical and manufacturing milestones over the last 90 days. We are achieving consistent production yields in the 80% to 90% range. We're also encouraged by early feedback on optimal performance of our copper mesh technology to lead customers in the industry, automotive, point of sale and all in one segments. Over the next year, we will continue to improve optical features in order to expand our reach into the tablet market. We are building a pipeline of opportunities which we expect to realize in 2016 and 2017.

Continuing on to the software and solutions division, which include Kodak Unified Workflow Solutions, Q2 revenues of \$27 million were flat versus the same period last year and operational EBITDA of \$1 million was up from zero last year. On a constant currency basis, revenues improved 7% and operational EBITDA improved by \$2 million year over year. The increase was largely attributed to Unified Workflow Solutions performance in the North American market, which is boosted by the launch of new products, Prinerigy 7 and Insight 7, both software solutions designed to automate production sites and increase efficiencies.

Next is the consumer and film division, which includes consumer inkjet solutions, motion picture and commercial sales, including synthetic chemicals and brand licensing. For Q2, revenues for CFD were \$66 million, down 24% from the same period a year ago. Operational EBITDA declined to \$8 million from \$15 million. The consumer inkjet business serves the existing install base in Kodak's consumer inkjet printers by providing replacement ink cartridges to those consumers. We expect continued reduction in revenues and earnings for this highly profitable annuity business.

Our entertainment imaging and commercial films business is declining but film volume is above our expectations. In addition, for the second quarter in a row our film business has been profitable. In the brand licensing sector, during the quarter Funai, a new Kodak brand licensing partner, introduced a low priced printer and inkjet cartridge pack, which is now being sold at Walmart in the US and Tesco in the UK. Kodak will receive royalties from these sale, but takes no working capital risk with this partnership. At the intellectual property solution division, we continue to actively explore multiple opportunities for IPSD's relations and transactions. In Q2, 2014, we had nonrecurring revenues of \$9 million from IP transactions. There were no licensing transactions in the Q2 2015 and R&D expenses were \$7 million.

Eastman Business Park, which is focused on the development of the 1250-acre park encompassing more than 100 buildings, 16 million square feet of space and over 50 miles of integrated roads and rail here in Rochester, with more than 58 companies now operating in the Park, its profit contribution in the Company has improved year over year. Q2 revenues were \$4 million, with an improvement of \$2 million in operational EBITDA compared to the same period last year. The highlight of the quarter for EBP was the signing of a collaboration agreement with Oak Ridge National Laboratory, the largest science and energy laboratory for the US Department of Energy. We will work with Oak Ridge to accelerate commercialization and manufacturing of next generation battery and energy storage devices and materials. The collaboration has the potential to make EBP a separate piece in domestic development of clean energy technologies.

I will now hand it over to John. John?

John McMullen - Eastman Kodak Company - CFO

Thanks, Jeff. Good afternoon. Today the Company filed its form 10-Q for the quarter ended June 30, 2015, with the SEC. I recommend that you read this filing in its entirety. As Jeff noted in his opening remarks, we are pleased with our second-quarter results and the overall first-half performance for the Company. I will now provide a little more detail on several areas of our second-quarter performance.



As we reported in our earnings release, the net loss for the quarter on a GAAP basis was \$23 million compared to a net loss of \$62 million in Q2 of 2014, an improvement of \$39 million, which reflects the continued progress we are making with the Company's overall financial performance. This information is taken directly from the Company's consolidated statement of operations in the 10-Q. We are pleased with the year-over-year improvement.

Next, let me provide an update on our cost reduction programs. As we shared with you on our May call, we expect greater than \$100 million in operational SG&A and R&D cost reductions for the full year of 2015. As you can see on slide 10, we have made significant progress in the first and second quarters towards this objective. Based on actions taken through the end of the second quarter, the reduction in operational SG&A and R&D was \$35 million year over year. On a year to date basis, operational SG&A and R&D have declined \$70 million year over year. Finally, on a run rate basis, the reductions made and actions taken year to date would yield a full-year savings of approximately \$95 million with no further actions.

As you can see, we have made great progress in achieving our goal of greater than \$100 million in operating expense cost reductions with two quarters of our fiscal year remaining. Key drivers of these difficult but necessary cost improvements are Company head count, which has been reduced by approximately 18% year over year and benefit reductions effective at the beginning of 2015, which provide approximately \$20 million in annual operating expense savings. We continue to focus on opportunities to further reduce our cost structure going forward by driving a simpler, more efficient and more execution oriented organization, consistent with the new divisional structure. We made significant progress to date and we will continue to take actions as appropriate based on the business model needs of each of our divisions.

Now let's focus on cash. As shown on slide 11, the Company's liquidity remains strong, with ending cash for the quarter of \$576 million. This reflects a \$33 million decrease in cash from Q1 of 2015. During the quarter, the company used cash primarily for interest expense and debt repayments, capital expenditures, employee severance payments, working capital, funding of planned cash tax payments and pension plans, the negative impact of foreign exchange and reorganization and legacy payments related to our Chapter 11 and re-emergence process. It's important to note within the cash results we continue to face an unplanned headwind from foreign exchange impacts.

Year to date, our cash position has been reduced by \$9 million as a result of negative foreign exchange impact. To summarize, second-quarter cash results were as expected versus our internal plans and reflects solid first-half operational EBITDA performance and good cash management. It is also important to note that the second-quarter ending cash balance is consistent with the linearity built into the 2015 plan and we continue to expect positive cash flow from operations for the second half of 2015 and a year-end cash balance between \$630 million and \$650 million. Where we land within this range could be effected by full-year foreign exchange impact, which we will provide updates on in the third- and fourth-quarter results.

In summary for the quarter, we are pleased with the Company's continued progress. We are executing very well within the new divisional structure and we are making the progress necessary in our key businesses to drive future growth. We are also bringing our cost structure to where it needs to be to provide the capacity to invest for growth while returning the Company to sustained profitability and cash generation going forward.

As Jeff mentioned in his remarks, we are excited to be hosting an investor and analyst event in October. At this event, here are some of the topics we intend to include. First, the Company's view of our current and future business models, both at the Company level and individually for each division, the growth engines of the Company today as well as future growth opportunities, our overall earnings and cash flow potential on a longer term basis, a view of what we believe to be the optimal capital structure for the Company going forward, our capital allocation priorities and an overview of both existing technology in our pipeline as well as future technology opportunities. We look forward to sharing more details of this event in the very near future. I will now turn it back to Jeff for closing comments.

Jeff Clarke - Eastman Kodak Company - CEO

Thank you, John. In summary, I am pleased with the second-quarter performance. Kodak's business is nonlinear and heavily weighted in the second half of the year. We are ahead of our internal plans and well positioned to meet the 2015 guidance we provided to you in March, revenues of \$1.82 billion to \$2 billion and operational EBITDA of \$100 million to \$120 million. Looking forward, we continue to be on track for meeting our goal of operational EBITDA of \$175 million for 2016. We will now be happy to take the questions. Dave?

Dave Bullwinkle - Eastman Kodak Company - Director of Global Financial Planning and IR

Thank you, Jeff. Earl, we are now ready to open the Q and A session. Please remind callers of the instructions for asking questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Shannon Cross from Cross Research. Your question, please?

Shannon Cross - Cross Research - Analyst

Thank you very much. I have a couple of questions. The first is on PROSPER. I'm curious as to what you are seeing in the pipeline. You said you are confident in the 25 this year. Where are they going, how many are around boxed and just any more color you can give us on what you are seeing in terms of end demand for PROSPER.

Jeff Clarke - Eastman Kodak Company - CEO

Sure, Shannon. First of all, the 25 that you refer to is our goal for the year. We believe we will meet that. It is -- those are just the presses for the OEM and the commercial presses. The rest of the PROSPER is, of course, the imprinting systems or print heads that go into hybrid systems and we are well on track for a very strong year on that as well and as I mentioned, we have over 1,000 in place today, and then the service and consumables part of the PROSPER business.

But in terms of the presses -- again, for context, in the first four years of this program, we sold 39 presses. I am very pleased that in the last six months we sold 10. For the remaining 15, we have a pipeline [front wall] with well over 35 machines, as a front wall pipeline. And it is really a matter now of both executing on those from a sales perspective over the second half of the year. As you might expect, most of those -- most of the remaining 15 would be more in the fourth-quarter timeframe, but we are off to a very good start this year.

In terms of application, the vast majority of these are into traditional print markets. The box machines that we have, have been recognized within the 10 and there is a possibility of 1 or 2 more OEM in that 15 number. But think of it as 13 of those being traditional commercial presses. In terms of application, primarily applications continue to be distributed newspaper, printing for direct mail, and traditional commercial inkjet printing for books and pamphlets, et cetera. So kind of down the middle for commercial printing.

Shannon Cross - Cross Research - Analyst

Great, and then, John, maybe you want to talk about the cash flow expectations for second half in terms of moving to positive cash flow. What are the key drivers? Clearly EBITDA improvement, but is there something we should look for in working capital? What are you looking for there? Thanks.

John McMullen - Eastman Kodak Company - CFO

Sure, Shannon, thanks. I think as we move into the third quarter -- first of all, I want to reiterate that where we are from a cash point of view through the first half is very consistent with the way we planned the ramp of cash flow throughout the quarters of the year, so we are on track vis-a-vis our plans for the first half. As we move into the third quarter, we will begin to approach positive cash flow from operations. I would rule out our possibility



to get there from a cash flow from operations point of view but we will also, in the third quarter, have what will be probably our largest out flow from a nonoperating point of view in terms of reorganization and legacy items that we identified in the overall cash outlook for 2015.

So once we get that behind us, along with the operational EBITDA ramped that we have in the second half and working capital improvements that we are driving through the organization this year and through the first half and the second half, and also at some level a declining outflow from a restructuring point of view in terms of restructuring dollars going out versus where we have been over the last 12 months, these are the things that turn us back to positive cash flow and put us in a position to begin to generate cash by the end of the year and going forward.

Jeff Clarke - Eastman Kodak Company - CEO

To give you a sense also, to drill on the working capital, our inventories ended at net inventory balance of about \$380 million. That build really is in support of the sequential growth into the third quarter and the sequential growth in the second half of the fourth quarter, the traditional seasonal drive there and also the building of the 15 machines for PROSPER and continued growth in the packaging space. I think if you look at the balance sheet, you will see we are building an inventory which uses cash and we should recognize that in a normal seasonal fashion in the second half of the year. To put a number on what John talked about, this one time, which was always in our plan, but this one-time reorganization element for really to finalize a split of our China Alaris business is about \$12 million to \$15 million, right, John?

John McMullen - Eastman Kodak Company - CFO

That's correct.

Jeff Clarke - Eastman Kodak Company - CEO

That is expected that, that will be a cash use in the third quarter based on current timing.

Shannon Cross - Cross Research - Analyst

Great. Thank you very much.

John McMullen - Eastman Kodak Company - CFO

Thank you.

Operator

Thank you. Our next question comes from Gary Ribe from Macro Consulting.

Gary Ribe - Macro Consulting - Analyst

Thanks, guys, for taking my question. I'll start -- you guys had announced some price increases in graphics. I was just wondering if that was plates and that sort of thing and what drove that? Was it aluminum or something else?



Jeff Clarke - Eastman Kodak Company - CEO

Yes, so, we continue to face significant price pressure in the plates business. The price pressure this year is about 3.5% down. So overall, when you look at our mix of our business, we are down about 3.5% on plates. When you adjust out the SONORA mix, because we priced SONORA higher because it delivers more for the customer, we have about a 4% headwind on pricing. Net-net, graphics plates are down 4% at the level the customer receives them.

Any of the price increases that you have seen are on particular flavors of plates, because we have a lot of plates at different periods in their life cycle. At certain times, it makes sense to increase prices to try to encourage customers to move to newer technologies due to different competitive pressures in different segments against our major competitors. In general, the overall pricing is down. This 3% to 4% is consistent with prior years. This is the kind of year-on-year improvement that we pass on to the customer which we offset by strong manufacturing efficiencies, et cetera.

Gary Ribe - Macro Consulting - Analyst

Okay. Great, I appreciate that. I guess a follow-up question unrelated, I don't know if you guys are thinking about refinancing or if -- that some of the debt, do you view the market open to you or are you waiting to show a little bit more progress in your plan? Do you guys have any color on that?

Jeff Clarke - Eastman Kodak Company - CEO

Of course I think we have shown some good progress in our plan. We are ahead of our plans apples-to-apples basis, significant improvements year on year. We are very pleased with our execution relative to our plan. We will be opportunistic around the capitol structure. That is the only appropriate thing to say.

Gary Ribe - Macro Consulting - Analyst

Okay. I think that's it for me. Thanks.

Jeff Clarke - Eastman Kodak Company - CEO

Thank you, Gary.

Gary Ribe - Macro Consulting - Analyst

Yes.

Operator

Thank you.

(Operator Instructions)

Our next question is from Amer Tiwana from CRT Capital. Your question, please?



Amer Tiwana - CRT Capital - Analyst

Good evening. The first question I have is around your strategic businesses. If you could just go through the PROSPER business and the packaging business in terms of your competitive landscape, similar to what you talked about in your plates business, can you talk about pricing and can you talk about how the competitive landscape is? Is it similar to what you saw at the start of the year or has that changed?

Jeff Clarke - Eastman Kodak Company - CEO

Sure. Let's go piece by piece. Let's start with SONORA. We really view the growth of the Company coming today out of our SONORA business within our plates business, our FLEXCEL NX business within our packaging business and PROSPER business within our inkjet business. On top of that micro 3D printing will be a significant opportunity for us in the coming years. We really have four core growth engines within Kodak. Let's take it one at a time.

On SONORA, again, 66% growth, continued significant differentiation in the marketplace. We have -- we charge a pricing premium to our plates and our competitor plates because of the robustness of the product and because of the product's cost savings to the printer when they can eliminate chemicals, labor, energy, et cetera. It's a very strong ROI sale and it allows us to charge a premium for SONORA. We continue to pass that premium into the marketplace.

We will be selective in areas where we think we can unseat a competitor and we might bring the SONORA price down in that case, but for the most part, we hold price on SONORA because it is a significant ROI head to head versus the competition and even against our existing install base of plates. That is one where we don't mind impingement against our base because we move into a system that is very high renewal rates and significant differentiation. So, very pleased with SONORA.

As we mentioned, there are some new products. We haven't been able in the past to participate in the Japanese market, which is well suited for SONORA. With the XJ version, this opens up a significant new market for us. And on top of it, we can take the XJ version and we can sell it around the world for packaging applications (inaudible) as I mentioned in my remarks. The dynamics of this growth business has improved because of our regional strategy. We make the XJ out of our Xiamen, China, plant, which is lower cost than our Tokyo plant and lower cost than our other plants around the world. Our ability to manufacture SONORA, continued new versions of SONORA in China and expand SONORA to the North America market, are really important for us because they lower our distribution cost and that allows us to earn more and hold price.

Moving to FLEXCEL NX, this product is doing extraordinarily. We are talking 39% growth year over year, strong growth in CTPs as well. A very differentiated product. This is a market that grows somewhere between 4% and 7% packaging versus faster than traditional print. When we growing consistently in the 30% to 40% in our plates with 39% this year, we are very pleased how that business is doing.

In terms of PROSPER, PROSPER is up 23%. This business is differentiated. We are at the crossover point. There has been many years of losses in PROSPER. The product is significantly differentiated in that it's faster and has more -- provides more volume from a scale perspective. It can really change the way a printer runs its business. It can allow printers to get into new businesses like direct mail or localized print of demand-sensitive things like newspapers.

We are very pleased with the growth of this. It's on track. Again, starting out with 39 systems over four years to be on track for 25 this year is a significant achievement. We are very pleased with how the growth engines are going. Thank you for the question.

Amer Tiwana - CRT Capital - Analyst

Sure. In terms of your page growth for PROSPER, can you talk about where it was? Secondly in terms of your heads, what is the growth that you expect there?

Jeff Clarke - Eastman Kodak Company - CEO

Yes, so you saw a little over 50 heads sold this quarter on a base coming in the quarter of about [950]. When you get that kind of growth, it than shows we are on track of a similar or better number than the [200] range that we did last year. When these heads go in, they go in at a nice gross margin, a very profitable gross margin. There is annuities on the replacement of the heads over time and some components of the head as they get refurbished and then there is (technical difficulty) ink that we jet through the heads. We're very pleased with that portion of the business because every element of that portion of the business is profitable from the get-go. Obviously, as we've talked about before how the PROSPER systems will often take a loss selling a system with an ROI in the next couple of years based on a closed system that has ink and service of these sophisticated systems coming from Kodak. That part of the business is doing well.

Amer Tiwana - CRT Capital - Analyst

Understood. If I can ask one more follow-up question, in terms of -- I know you said that you will talk about this at your analyst or investor day, but just broad brush strokes, if we think about your -- take the midpoint of your EBITDA this year at \$110 million and this sort of expectation for next year is \$175 million, can you give us some sort of a bridge, not precise numbers, but maybe buckets of where that incremental improvement is going to come from, whether it's -- what percentage is cost saves and what percent is coming from the growth businesses and lastly, what is the impact from the businesses that are slowing down? If you could help us there, I think that would greatly be appreciated.

Jeff Clarke - Eastman Kodak Company - CEO

Okay. Again, we are not giving guidance into 2016, so I will keep this at high level remarks. Some of the things we said in the past is, as you go through our detailed disclosures, we share with you the contribution before corporate cost reach of our divisions and then the corporate cost, the infrastructure cost to the Company. We've had very good progress driving that cost down from a little over \$120 million in 2014 to what will be somewhere between, somewhere under \$100 million, around \$98-ish million in 2015. We expect that number to go down another \$20 million, roughly.

From a cost perspective, we will continue to find opportunities to drive additional efficiencies in our Company. Another 20% out of the overhead structure of the Company is in the cards for us, based on (inaudible) than we have now and plans and programming that we are doing around reengineering our operations for simplicity and finding the right level of corporate infrastructure with our divisions. So, that is one.

The next point is that we expect, going into next year, we expect each of our businesses to improve. The PSD business will improve because it will have additional SONORA mix, aluminum prices will be less of a headwind and, perhaps, a tail wind for us if they stay at the levels we are at now, continued progress around our next press business. We think we can see a nice improvement in the PSD business. One of the biggest shifts will be, obviously, in our inkjet business. PROSPER, as we shared with you this year, we expect PROSPER to come in roughly PROSPER and the (inaudible) our EISD business, to come in roughly break even before corporate costs.

That is a material move. In fact, if you look year over year this quarter, the biggest improvement we had of \$9 million year over year for the quarter was in the EISD business. As PROSPER continues to grow and those placements continue to print, both for the OEM, the head and new presses, we see that moving into solid profitability. Then the packaging business continues to have strong momentum, as does -- and we expect at some point soon starting to get a contribution from the micro 3D printing. That is as much detail we are going to give on that and obviously we look to talking in more detail in October.

Amer Tiwana - CRT Capital - Analyst

Sure. I appreciate the answer. One housekeeping question, I see that \$7 million from the IP business. You said it was R&D, if I heard it correctly. What is it for and is that recurring, nonrecurring? How should we think about that?



Jeff Clarke - Eastman Kodak Company - CEO

Yes, so, when we took -- last quarter when we took all the analysts, or all the people on the call through the divisional structure, we shared with you that we have an intellectual property division. That division last year, for example, had \$70 million in realized intellectual property revenues. We had about a little over \$30 million of research and development that offset that for a net roughly of about \$40 million. We are running at a run rate of about \$7 million to \$7.5 million a quarter of corporate research and development. That supports -- and that is recurring and that is in this line. Every quarter you will see that, and that will be offset in certain quarters, should we have intellectual property licenses, et cetera, or sales of those technologies and so forth. That goes for our core research labs but it is also applied in -- significantly, in areas like micro 3D printing, extensions of micro 3D printing, work around developing new inks, around developing new toners and the core research that we'll share with you in October that we believe will drive growth for the next three to five years.

Amer Tiwana - CRT Capital - Analyst

Thank you very much. I really appreciate it.

Jeff Clarke - Eastman Kodak Company - CEO

You are welcome.

Operator

Thank you. Next question comes from Peter Rabover from Artco Capital. Your question, please.

Peter Rabover - Artco Capital - Analyst

Hey, guys, thanks for taking my call. I appreciate it. Could you guys maybe talk about your building the, I guess, the Business Park and how you view that as part of the Company and, I guess, the occupancy cost? I think I saw an article that it had 125 megawatt power plant in there as well. Color around that would be great. Thanks.

John McMullen - Eastman Kodak Company - CFO

Yes, sure, this is John. We are really excited about the park. There is a real opportunity for us to grow our tenancy in the park. It's a great fit for the types of opportunities that certainly Rochester would like to bring into the state. You are talking about a 1250-acre technology park. You are talking about 16 million square feet of space. Jeff mentioned the pure miles of rail and roadways.

But I think we have the building structures, we have the tools, we have our Kodak research lab resident there, goes all the things that you would want to provide the opportunity for the kind of businesses that we see coming into the park, clean energy, clean battery type businesses, biotech, things that will be great opportunities going forward for the park. As you know, we have taken a very different position the last three to six months. We are running this business as a division, we're running it as a P&L.

You will note on the results that we provided, the second quarter that we are showing an operational EBITDA profit for the park. Great pipeline of tenant opportunities coming forward. We have a great support structure in the local community. The government has been helpful for the park for many years. We have a lot of people behind us for the future success of the park. It's an asset of the Company and we see a lot of opportunity going forward for it. We are going to run it like a business.



Peter Rabover - *Artco Capital - Analyst*

Okay. 16 million square feet, what is the occupancy now?

Jeff Clarke - *Eastman Kodak Company - CEO*

Kodak operates about 4 million of those square feet, primarily in our vast film, synthetic chemicals, toner manufacturing, ink manufacturing business. There's also a series of recovery businesses, solvent recoveries, et cetera, that Kodak runs. That is about 4 million of the 16 million. The 58 other companies that operate within the park use a pretty much similar amount, about 4 million. And then there's about 8 million square feet of space. Some needs retrofit, some can be moved into today. A lot of the leasehold improvements would be provided by investors and/or government agencies.

We, this week, have signed, finalized a 200,000 square foot lease. I talked about the opportunities with Oak Ridge. You may have seen if you follow New York state politics or science politics that the -- that there is a plutonics center awarded to Rochester and certainly there will be many opportunities for spin off companies or part of the plutonics infrastructure, such as the labs and clean rooms and so forth to be in Eastman Business Park. Those details are still being finalized.

We are very excited about the upside of this park. It has effectively been under managed. A lot of the people who were working on the park, when the company went (technical difficulty) organisation, many of the people in the park were left or were terminated and the park was for sale for a long time. As such, there wasn't as much effort on rebuilding the park into a profitable entity. If you wanted to sell it, it's much easier to do if it's throwing off a lot of cash (technical difficulty) cash. We are pleased with the park and thank you for the question.

Peter Rabover - *Artco Capital - Analyst*

Okay. Maybe can you -- I want to follow-up, did I catch that right, that there was a 125-megawatt power plant on the park?

Jeff Clarke - *Eastman Kodak Company - CEO*

There is a company called Red that prior to bankruptcy or during bankruptcy, I wasn't here at the time, there was a partnership formed with them. The assets of the power plants belonged to a third-party entity called Red. And there is lots of details, you can look them up on their web site. It's kind of a co-op model. Kodak is (technical difficulty) user of that power. The tenants would be the second largest user. That is a separate entity from Kodak, from an ownership perspective. There is some variable accounting associated with it, but it is de minimus for the operational things that we talk about.

Peter Rabover - *Artco Capital - Analyst*

Okay. I just wanted to make sure you don't own a 125 power mega plant that we don't know about. Can I just follow-up with one more question on the pension? Wait, I do want to go back to the park. What do you guys see that as part of your capital structure? Is there potential to refinance your debt level at a more -- mortgage the park at lower interest rates? Any thoughts around that?

Jeff Clarke - *Eastman Kodak Company - CEO*

Right now the park is a significant set of assets. Most of those assets have been -- are well under their replacement cost or well under their initial cost. And the plan for the park is to get it to operate profitable, to fill it up, to realize that there is significant economies to scale on the park that accrue to all of our businesses there and our tenant businesses. Right now we have got and under utilization issue. We're still throwing off positive EBITDA at it, as you can see because of some of the important reengineering and cost actions we have taken as well as new tenants. So, I wouldn't expect until we get the park more attractive to an outside party that we would be able to refinance off it.

Peter Rabover - *Artco Capital - Analyst*

Okay. That's fine. I appreciate the color on this. The follow-up would be on pension. I saw a reduction. I assume that has to be with the severance, letting go of head count. Maybe you guys can comment on what you guys are planning on doing with any with that? Then a housekeeping question on what the current asset value is versus the 10-K, if you can provide that? If not, not a big deal.

John McMullen - *Eastman Kodak Company - CFO*

Let me -- we have small out flows from the US pension plan in terms of severance. They were not material in the last one to two quarters. I am not exactly sure of what numbers you are looking at. Maybe I can come at it from a little bit of a different angle for you. In terms of when you look at the US pension plan from a funded status, we are well into the mid to high 90[%], depending when you look at this in terms of funded status. From a pension plan point of view, we are in excellent shape. The disbursements that we noted and you may see on the slides in the deck that we went through in the scripts, you see a small amount related to pension funding. That is primarily due to requirements that we have from an international pension point of view because it's -- the US pension plan is not a cash use for us and hasn't been for a long time.

Peter Rabover - *Artco Capital - Analyst*

Right. Okay. I was going to ask what the -- if you can provide the asset value today versus the 10-K time, if that's possible.

John McMullen - *Eastman Kodak Company - CFO*

We do that annually. Thanks.

Peter Rabover - *Artco Capital - Analyst*

Okay, great. Thank you so much. I appreciate your time.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you.

Peter Rabover - *Artco Capital - Analyst*

Bye.

Operator

Thank you. Our next question comes from [Remin Shagine] from HSH Private Equity. Your question, please. Your line is open. Check your mute button.

Remin Shagine - *HSH Private Equities - Analyst*

My question has been answered already, thank you. Prior guy asked the questions about the business park. I appreciate it. Congratulations on the continued improvements on the earnings. Congratulations, guys.



Jeff Clarke - Eastman Kodak Company - CEO

Thank you very much.

Operator

Thank you. Our next question comes from John Korver from Bennett Management.

John Korver - Bennett Management - Analyst

Congratulations on the quarter. I hear the growth in the four segments that you highlight. I am a little concerned and I would like you to comment about the fall off that is embedded in your projections on consumer and film, the inkjet and the film business. How does that shape in the second half of the year versus the first half? And when you talked about doing better than your internal projections in the first half, are you -- is some of that in this segment?

Jeff Clarke - Eastman Kodak Company - CEO

Yes. So, consumer inkjet is -- I remind you, because not all the callers are probably fully up to speed on the history here, so, Kodak had a very large investment placing inkjet printers, consumer inkjet printers and then realized that, that business was not going to be profitable in the model of selling consumer inkjet printers at a loss and making it up on the cartridges. The Company today is in the very lucrative position of having very high margin inkjet cartridges to sell into a base, but without having the cost of selling new printers out in the marketplace. So on the roughly \$40 million of first-half consumer inkjet revenue, the operational EBITDA on that is very high, well over 50%.

The challenge of the business, while we certainly love the operational EBITDA, the challenge of it is, is that business is declining about 40% a year and will continue to do so and it may even have a stair step decline, because at some point while the product is available on Amazon and they will carry it, I think, as long as there's the last printer out there, certainly retail stores may not want to devote the shelf space to it at some point when the business goes down to the next level. This business is going to decline and eventually decline to zero. But in the first half of the year it was a significant contribution. But you can see on the segment, the segment information, let's go back to the slide so you can see the year over year on it, it's quite a decline on a year-over-year basis and that is the same as we had for some period. Here we are.

And so that business, the volumes are declining at the rate we had expected. Where we mentioned we are seeing better than internal plans is on the film side. The Company made a decision to stay in the film business. We have hired some new sales people and we are getting good return on those sales people. We see opportunities to continue to sell origination film. Print film, for projection, that continues to be down significantly because of the digital transformation of movie theaters. We think like adjacent technology like vinyl for audio, we think at some point that will flatten out and there will end up being a series of theaters that will continue to project film, but that will be nowhere near the business that it was a long time ago.

But origination film, we think, is a business that can grow again because of the unique differentiation of origination film and on top of it, we are revitalizing consumer film making, such as the super 8 product and super 16 and it's the 50th anniversary of super 8 this year and we are toting that to young professionals. The film business, we think, can be profitable, but it will not be a significant contributor to a company the size of Kodak. There are lots of advances of how it helps other businesses because of the use of shared assets, such as the film used for touch screen sensors, but it won't be -- this is not going to be a center piece of the Company like it was for a century.

John Korver - Bennett Management - Analyst

The other question that I had was, you touched briefly on micro 3D and that is really a segment for 2016. You are continuing to explore both silver and copper solutions in this technology. Is there -- can Kodak afford to do both?



Jeff Clarke - Eastman Kodak Company - CEO

We can. One of the reasons is that most of the investment is in stock. The equipment has been bought to manufacture these. The technology, after many years of investment, the technology is effectively paid for. There is some manufacturing yield improvement activities and modest investments to continue to try and value engineer and cost drive manufacturing down, but the significant capitol expenditures are pretty much behind us on this and the technology works.

The other reason why it's important is copper, as you guys know, is a lot less expensive than silver. We believe that copper will have a unique opportunity for low cost applications. Today we are getting higher transmission levels, higher resolution and a result of that, better battery life for devices using the silver technology. But the trade off is you pay a little bit more for that. Still attractive versus technical, the incumbent (inaudible) but silver today has the high transmission levels where on the copper, we have lower transmission levels. In other words, it doesn't work as well on mobile devices because the batteries discharge faster. That's why at this stage we are focusing on the very large markets of all-in-one computer screens, things are plugged in, kiosks, industrial and automotive.

So those are the applications for copper and by Q1 of next year, we expect to get transmission levels where we can enter the tablet market with a copper solution and that is a significant technological advancement. We believe both technologies address different markets at this time and will address them for a long time. Investments are made and now it's really around business development, a little bit of continued engineering and, frankly, getting our sales pipeline out there to execute.

John Korver - Bennett Managment - Analyst

Thank you.

Jeff Clarke - Eastman Kodak Company - CEO

Thank you.

Dave Bullwinkle - Eastman Kodak Company - Director of Global Financial Planning and IR

I think we have time for one more question from the next caller.

Operator

Okay. Thank you. Our last question comes from Craig Carlozzi from Bulwark. Your question, please.

Craig Carlozzi - BulwarkBay - Analyst

Thank you for squeezing me in. When I hear about the various parts of your business, and congratulations on the performance and thank you for reiterating guidance, when I compare that to your liquidity and what your stock price has done in the last kind of 20 trading days, are there any covenants in your debt agreements that prohibit you from buying back stock? If not, have you considered a buyback program to some extent.

John McMullen - Eastman Kodak Company - CFO

Yes. The answer is, yes, we do have restrictions around share repurchase in our covenant structures today.

Craig Carlozzi - *BulwarkBay - Analyst*

Okay. In the term loan or the revolver or both?

John McMullen - *Eastman Kodak Company - CFO*

Both.

Craig Carlozzi - *BulwarkBay - Analyst*

Okay. Okay. Great, thank you very much.

John McMullen - *Eastman Kodak Company - CFO*

You're welcome.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you. I appreciate everyone's time today. We look forward to seeing you in October at the analyst meeting. We are excited about the second half of the year. We are confident around what we are doing. We're pleased with our execution and look forward to seeing you in October. Thank you very much, everyone.

John McMullen - *Eastman Kodak Company - CFO*

Thank you.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone have a wonderful day.

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