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KODK - Q1 2016 Eastman Kodak Co Earnings Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Eastman Kodak Quarter One 2016 Earnings Conference Call. (Operator Instructions).

I would now like to turn the conference over to Mr. David Bullwinkle.

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

Thank you, Christine. Good afternoon. My name is David Bullwinkle, Director of Global Financial Planning and Analysis and Investor Relations for Kodak. Welcome to the First-Quarter 2016 Kodak Earnings Call.

At four-fifteen PM this afternoon, Kodak filed its quarterly report on Form 10-Q and issued its release on financial results for the first quarter of 2016. 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. 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 those forward-looking statements include, among other, the risks and uncertainties described in more detail in Kodak's annual report on form 10-K for the year ended December 31, 2015, in Kodak's report on Form 10-Q for the quarter ended March 31, 2016, and in other filings Kodak makes with the US Securities and Exchange Commission from time to time.

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

In addition, the release just issued in 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 within the presentation on our website at 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 for the Company. Then John will take you through a cost reduction update, additional details of 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 CEO, Jeff Clarke.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thanks, Dave. Welcome, everyone, and thank you for joining the Q1 investor call for Kodak. Today we will share with you the progress we're making toward improving the performance of the Company, but first I'd like to discuss the strategic and product decisions we announced in our last call.

The last time we spoke, we announced strategic and product decisions with regard to our Prosper and silver touch sensor businesses. These decisions reflected discipline of our investment and portfolio management, enabled by our divisional structure.

As a result of our commitment to complete the sale of Prosper, we're now presenting the business as an asset available for sale, beginning with this quarter's reporting. We have recast the prior period to present our results on a comparable basis. John and I will be highlighting those changes throughout the remainder of our discussion.

With regard to sales process, interest in the technology and business remains strong. Due to the confidential nature of the process, we do not intend to provide further details on the sale.

We see significant opportunities in our growth businesses -- Sonora, Flexcel NX, software and solutions, and micro 3D printing. In addition, we continue to optimize our portfolio and commercialize our material science technology in new lines of business with opportunities for growth.

On the call today, I will talk about the company results for the first quarter of 2016 and provide you an update on our 2016 guidance. John will then follow with more details on our guidance, including a cost production update and cash flow performance, after which we will welcome your questions.

Now moving on to our results. Starting on slide 5, we delivered first-quarter operational EBITDA of $29 million compared to $31 million in the first quarter 2015. Operational EBITDA improved by $1 million year over year on a constant currency basis. The prior-period results have been recast to remove the impact of Prosper, discontinued operations, and are presented on a comparable basis.

While operational EBITDA increased by $1 million on a constant currency basis, the quality of the earnings improved markedly. To illustrate this, let's look at slide 6.

Here we are presenting the impact of the expected decline in the consumer inkjet business. This is a business at the end of 2012 where we ceased the sale of consumer printers. As a result, we continued to sell the profitable replacement inkjet cartridges to the installed base of printers. Given the expected decrease in the installed base of printers, we have seen a continuing reduction in earning contribution from this business. Despite this reduction, operational EBITDA is still up by $1 million year over year on a constant currency basis.

When adjusting for the decline in the consumer inkjet business, operationally but on a constant currency basis, grew by 50% year over year based on the increasing proportion of revenue from growth and other strategic businesses. We continue to make operational improvements to offset this reduced profitability with the progress we've made in remaining portions of our product portfolio.

For additional information, we've provided the results for Prosper on this slide as well. You can see the significant improvement in the profitability of the business. This reflects solid execution during the sale process and continued demand by customers for these products.

Now I'll talk about the business by division, which is presented on slide 7, for the first quarter of 2016. Operational EBITDA improved in several of the Company's divisions, which offset the continued expected decline in the consumer inkjet business profit within the consumer and film division. As I discuss each division, I will also provide some highlights regarding the technologies that Kodak will highlight at drupa 2016.

Drupa occurs in the second quarter and is often referred as the Olympics of the printing industry. Drupa occurred last four years ago, and is a global show where industry participants showcase their latest technologies. The second quarter will include an incremental investment of several million dollars for Kodak to participate in this important industry and customer event.

As a result of new technologies and enhancements to be demonstrated at drupa 2016, customer decisions may be delayed, consistent with the impact of prior drupas. In addition, the availability of products, including new technologies, may alter customer buying patterns as they review and evaluate their investment requirements. Typically this phenomenon adds variability to the second quarter and full year for a year in which drupa occurs. We're monitoring this very closely as we progress to the second quarter and year.

Now on to the division details for Q1. Starting with the Print Systems Division, the first-quarter revenues were $231 million, a 9% decline compared to 2015. Operational EBITDA was $18 million, $5 million or 38% better than the same period a year ago. On a constant currency basis, PSD revenues declined by 7% while operational EBITDA improved by 46%.

For the quarter, Sonora plate volume grew by approximately 3%. This slower growth is primarily due to the weakness seen in Latin America as a result of higher charges to import product into countries like Brazil and the overall economic situation. Excluding the Latin America region, Sonora plate volume improved by 11% year over year. Second-quarter growth is expected to recover to midteen percentage growth. Excluding the Latin American region, Q2 growth is estimated at close to 20%. Overall plate volume is stable year over year.

In addition to the Sonora growth, we saw success of two of our new products, Libra and Electra Max, which have expanded the application sets of our plates. Libra offers a low chemistry violet plate used in newspaper applications, and Electra Max expands our product set to work better with UV inks by offering greater chemical resistance, which is necessary through the chemical cleaning processes used with UV process. Sonora and these two products grew 27% year over year excluding Latin America, and 15% in total.

While plate volume is stable, we've seen price erosion of 6%. This is larger than we've seen in prior periods. But when you adjust for the benefit from the reduction of the cost of aluminum, this pricing change and the aluminum is consistent with recent periods.

In the midst of these pressures in revenues, we were able to deliver year-over-year improvement in operational EBITDA for PSD. As you're already aware, we have fully converted the America Sonora plate manufacturing to our Columbus, Georgia facility from our Leeds operation in the UK. We anticipated between $20 million and $25 million of annualized productivity gains from the Leeds closure, and we are now realizing the benefits of this action.

In addition, SG&A has improved by approximately $4 million year over year due to continuing efforts to simplify and streamline the business.

Also within the PSD division is our electrophotographic printing solutions, or EPS business, where we have our Nexpress and Digimaster products.

In the quarter, we placed 14 Nexpress units, consistent with our expectations. In 2016, we'll continue to focus on improving our profitability in the Nexpress business by driving productivity and cost improvements across the entire EPS portfolio. We will showcase our new Kodak Nexpress ZX3900 digital production color press at drupa 2016. The new press supports thicker paper and use of synthetic substrates, which will open up new opportunities for printers.

We will also be previewing a new Nexpress platform. The new Nexpress platform will be capable of delivering peak quality over longer runs with less operator effort. Our expertise in imaging and material science will also be on display at drupa where we will launch a new Kodak Nexpress opaque white to dry ink. This new specialty dry ink provides increased productivity and a higher quality short run production for applications such as packaging, signage, labels, and invitations.

Moving on to the Enterprise Inkjet Systems Division. The division results presented on slide 7 represent the results for the Versamark systems, due to the classification of the Prosper business as an asset available for sale. The prior-year results are presented on a comparable basis.

For the first quarter of 2016, EISD revenues were $20 million, down from $23 million in the same period last year. Operational EBITDA for the first quarter of 2016 was $5 million, a decline of $2 million compared to the prior-year period. The decline in revenues and operational EBITDA reflects the reduction in revenues and earnings contribution from the Versamark legacy product.

As shown on slide 8, first-quarter 2016 results for the Prosper business, which is presented within discontinued operations, represent significant improvement year over year. Total Prosper annuity growth was 36%. For the first quarter, we placed 3 new Prosper systems with a further 6 systems contracted for delivery or in the process of installation. We are now at an installed base of 58 units, and have a line of sight to 9 units installed or pending at this point in the year. This is a reflection of the strength of this technology in the market.

Prosper component sales unit volume grew by more than 50% year over year and includes several orders placed by one of the largest global printers based in North America. And that order came after our March 15th announcement to sell the Prosper business.

Based on the growth described above, as well as consumables and equipment mix, EBITDA for the business improved from a negative $16 million to a negative $6 million, or a 63% improvement year over year for the first quarter. We will continue to invest in the development of Prosper and Ultrastream, the next generation inkjet writing system, during the sale process. Ultrastream will greatly expand the market reach of this technology. This is an exceptional technology and product set highly valued by the printing industry. Prosper and Ultrastream technology will be demonstrated at drupa.

Moving back now to slide 7 for the Micro 3D Printing and Packaging Division, which includes the Flexcel NX systems and plates, as well as touch sensor films with copper mesh technology. For the first quarter, MPPD revenues were flat year over year on a constant currency basis. Operational EBITDA improved $3 million on a constant currency basis. The improvement in this division represented the growth in the Flexcel NX packaging business, as well as lower investment in micro 3D printing as we shift from research commercialization.

The Flexcel NX packaging business has shown continued momentum. Flexcel NX revenue increased by 5% on a constant currency basis, and we placed 20 CTP units in the quarter. Flexcel NX plate volume grew at a lower rate than previous periods due to economic headwinds in Latin America where we have a strong installed base. Excluding Latin America, Flexcel NX revenue increased by 13% on a constant currency basis.

As expected, declines in revenues from legacy packaging products of about $1 million also impacted the overall topline growth for the business.

Flexcel NX plates have enabled our customers to drive substantial efficiencies in their printing operations -- greater than 20% in some cases -- while improving consistency and quality of the packaging they deliver to their brand clients.

At drupa, we'll be introducing the Kodak Flexcel NX System '16. This new system builds on our award winning and very successful NX Advantage technology. New systems features include Advantage edge definition; a Kodak patented technology which controls ink flow at the edge of objects, resulting in a cleaner print and greater visual edge definition. In addition, we'll showcase the future roadmap of Flexcel NX platform with a focus on quality, efficiency, and environmental stewardship.

In micro 3D printing, as I indicated earlier, we're moving ahead with a focus on copper mesh touch sensors. After investing in micro 3D printing for the past several years, we're close to shifting to revenues. Let me get more specific on our activities to date and our expectations for the remainder of the year.

In the first quarter, we began supporting several customer technical evaluations, receiving feedback on our product features that they are suitable for all-in-one and industrial applications. Further, targeted customers have validated our technology roadmap to expand our addressable markets into broader categories in the future.

In Q2, we expect to complete the manufacturing readiness for two active opportunities. This positions us for low levels of initial revenue, and will offer tangible evidence of our technology that our technology is integrated into these products. We are also working with a lead industrial integrator on a commercial point of sale application with targeted introduction in the second half of 2016.

Beyond those development partnerships, we have delivered evaluation samples to potential customers and begun working on specific designs for 5 to 10 of them. Depending on the application, the evaluation, design, and sale cycles can last up to 2 to 3 quarters. We expect some of these trials will result in customer design wins in the second half of 2016. As I indicated on our March call, we have been circumspect with respect to the level of revenue and earnings from this technology in our 2016 guidance.

The Software and Solutions Division includes the Prinergy Software workflow software, as well as Kodak Technology Solutions. For the first quarter of 2016, SSD revenues were $22 million, down from $28 million in the same period last year. On a constant currency basis, revenues declined by $5 million or 18%. Operational EBITDA was flat at $2 million.

The revenues decline in this division represents lower revenues in the Kodak Technology Solutions, or KTS, based on the timing of customer contracts, which is partially offset by growth in Unified Workflow Solutions or UWS. UWS posted a 6% revenue growth in constant currency year over year.

Operational EBITDA was flat year over year due to lower revenues in KTS, offset by growing revenues and cost improvements from improved efficiency in UWS. UWS continues to demonstrate operational excellence while making strategic investments to expand the software product portfolio into packaging, digital, and cloud. Overall, we continue to see healthy metrics in this business with year-on-year improvement in bookings across all regions versus the same period last year.

At drupa, we'll demonstrate technology improvements within our workflow solutions platform. We recently announced improved software solutions which include Kodak Prinergy Workflow, Kodak Insite Prepress Portal, Kodak Colorflow software, Kodak Preps Imposition software solutions. The new cloud-based features of Prinergy will improve efficiency, quality, and flexibility with new proprietary functions.

The Consumer Film Division includes consumer inkjet printer cartridges, motion picture, commercial films, and synthetic chemicals, as well as our consumer product group, which includes the licensing of the Kodak brand. For the first quarter, revenues were CFD were $56 million, down 22% from $72 million. And operational EBITDA declined from $18 million to $7 million, driven by a 41% reduction in consumer inkjet revenue. For the fifth quarter in a row, film recorded a profitable quarter on the basis of operational EBITDA before corporate costs.

We continue to develop new opportunities in film and consumer product businesses. We anticipate continued reduction in revenues and earnings from the consumer inkjet printer cartridge business in 2016, which will lead to a reduction in CFD revenue and operational EBITDA as we saw in the fourth quarter.

The Intellectual Property Solutions Division includes the Company's research labs, as well as intellectual property licensing not directly related to other business divisions. In the first quarter, operational EBITDA was a negative $4 million, an improvement of $4 million from negative $8 million in the first quarter of 2015. This improvement is a result of reprioritization in research programs. Based on actions already taken, we've reduced the 2016 run rate of expenses by $6 million year over year.

In addition, given our pipeline to monetize IP activities, we expect to cover the majority of research costs within IPSD with single to double-digit revenues. I'd like to provide you some additional details on the areas we're working within on our pipeline.

First, we have recently signed a JDA, joint development agreement, with Carbon 3D. We have two projects related to this JDA already in progress. We expect more progress -- more projects, excuse me, from Carbon 3D.

Two, light-blocking materials. Kodak small particle technology can be applied to the back panels of curtains and other products to block sunlight. This is a replacement technology for complex manufacturing process, and we are in discussions with two mills, expecting a supply agreement within the next two quarters.

Third, antimicrobials. We've signed an MOU with a smart fabric company to do integrated antimicrobials. At drupa, we'll be demonstrating our silver sulfate embedded in fibers. In addition, we've embedded antimicrobials into plastic sheets. This means we can make antimicrobial covers for smartphones, tablets, countertops, et cetera. We'll be illustrating this technology as well at drupa.

This represents a sampling of the exciting technologies which we're progressing to partnership or commercialization. We'll continue to show progress in these areas throughout 2016.

Continuing on to our final division, Eastman Business Park. First-quarter 2016 revenues were $4 million, an improvement of $1 million from the $3 million in the prior-year quarter. Operational EBITDA was breakeven, up from negative $1 million in 2015, primarily due to the reduction in operating costs. The overall operating efficiency of the park is improving, and we have a healthy pipeline of potential tenants.

I will conclude this section with some brief comments on cash. For the quarter, we delivered significant improvement in our cash flow performance. John will cover this in detail in his remarks. We continue to expect to deliver an increasing cash for the year between $10 million to $30 million.

Now to update you on our 2016 financial targets. On slide 9, we are reiterating our 2016 guidance for revenues of $1.5 billion to $1.7 billion, and increasing the operational EBITDA range from $130 million to $150 million to a range of $135 million to $150 million.

We expect to see a year-over-year unfavorable impact of foreign exchange of approximately $30 million in revenue and $6 million in operational EBITDA, based on the January rates when we set our goals for the year.

As I shared with you earlier, 2016 will have a unique seasonal impact and overall result because of drupa. We will incrementally invest several million dollars in the second quarter to showcase new technologies.

With regard to our guidance, John will take you through details of the impacts of the discontinued operations recast of the prior year and explain the year-over-year change in detail.

To summarize what I shared throughout my remarks, the first-quarter performance represents an improving quality of earnings, offsetting the reduction in profit in the consumer inkjet business. We're executing well in the Prosper business. The momentum created provides the opportunity to realize the greatest value through the sale process. Cash flow performance has improved significantly year over year as the quality of earnings has improved.

I'll now hand it over to John to discuss Q1 performance, updates in cost reductions, and cash flow. John.

John McMullen - *Eastman Kodak Company - EVP and CFO*

Thanks, Jeff, and good afternoon, everyone. Today, the Company filed its Form 10-Q for the quarter ended March 31, 2016 with the SEC. I recommend you read this filing in its entirety.

As Jeff noted in his opening remarks, we are pleased with our first-quarter performance. I'll now provide a little more detail on the quarter.

As we reported in our earnings release, the net loss for Q1 2016 on a GAAP basis was $15 million compared to a net loss of $54 million in 2015, an improvement of $39 million year over year. 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.

Let me provide an update on our cost reduction programs. As you can see on slide 11, we continued our progress in reducing our cost structure by $7 million in the first quarter. Based on the first quarter's run rate alone, this would suggest an annual reduction of approximately $25 million.

The key driver of these difficult but necessary cost improvements was company headcount, down approximately 10% year over year. Including the Q1 2016 reduction, on a cumulative basis since the beginning of 2014, we have reduced total Company headcount by approximately 30%.

We continue to see opportunities for further efficiencies within our cost structure, both at the divisional level and across global functions. And we will continue to take actions as appropriate.

Now, let's focus on cash. As shown on slide 12, the Company ended the quarter with $513 million in cash. This reflects a cash use of $34 million during Q1 2016. As Jeff mentioned previously, this represents a significant improvement in year-over-year cash use; an improvement of $69 million. As we've also mentioned in previous earnings calls, we typically see our largest cash use during the first quarter of the year.

During the first quarter of 2016, the Company used cash primarily for interest expense and debt repayments, the funding of planned cash tax payments, cash used related to discontinued operations, cash in support of the Company's ABL borrowing base, capital expenditures, customer rebate payments, and employee severance payments. These cash uses were partially offset by cash generation from operations, including working capital and non-recurring and net litigation proceeds.

I will now also take a few minutes to discuss the significant $69 million year-over-year reduction in our use of cash. I'm pleased to report that $68 million of the $69 million Q1 year-over-year cash improvement is due to lower cash used in operating activities. As you can see in slide 13, main cash drivers for the year-over-year cash improvement were cash generated from continuing and discontinued operations, including an $11 million improvement from Prosper; improvements in restructuring-related payments; and non-recurring net litigation proceeds.

In addition, as we mentioned in our Q1 2015 earnings call, the prior-year quarter included reorganization and legacy payments related to our Chapter 11 filing and emergence process. In Q1 2015, approximately $23 million was used for reorganization and legacy payments compared to 0 in Q1 of 2016.

In summary, we are pleased with our cash management in the first quarter of 2016, and we continue to project cash generation for the year between $10 million to $30 million.

Next, I'll walk you through the 2015 full-year comparison to our 2016 financial targets. The recast of the 2015 results to reflect discontinued operations results in an increased operational EBITDA. The previously reported operational EBITDA for the year ending December 31, 2015 was $122 million. As shown on slide 14, the recast to remove the Prosper business results in 2015, and the associated overhang costs for both Prosper and silver touch sensor businesses, resulted in increased operational EBITDA of $48 million. When recast for these items, the resulting 2015 operational EBITDA is $170 million.

Adjusting for the impact of the expected reduction in consumer inkjet, which is a significant year-over-year reduction of approximately $30 million, plus the anticipated negative impact of foreign exchange of $6 million, the 2015 baseline operational EBITDA is $134 million, compared to our increased guidance range for 2016 operational EBITDA of $135 million to $150 million. This represents improvement on a year-over-year basis of 1% to 12%.

It is important to note that this recast reflects the best information we have available to us, but is subject to change and will be finalized with our filing of our audited financial statements in our 2016 10-K.

Finally, as Jeff mentioned earlier in his remarks, we expect our second-quarter results to be impacted by the incremental investment to participate in drupa. And as a result of the new technologies enhancements to be demonstrated at drupa, this may have an impact on customer buying patterns.

The recent implementation of our more focused portfolio and continued productivity gains positions us well to meet our objectives for 2016. I'm particularly pleased with the first-quarter cash results. With these Q1 operational EBITDA and cash flow results, we believe we are off to a good start for the year relative to typical seasonality and our overall increased full-year guidance range.

I'll now turn it back to Jeff before we open up the call to your questions.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thanks John. We're happy to hear your questions now. Operator, please remind callers of the instructions for asking questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Trent Porter, Guggenheim Securities.

Trent Porter - *Guggenheim Securities LLC - Analyst*

I have three, if I can sneak them in. The first one, you talked about industrial applications for micro 3D, your copper mesh, and also about expanding your addressable markets. And so on the industrial applications, I was wondering if you could just give some examples for what kinds of industrial applications and sort of the addressable market there.

And then expanding addressable markets, have you -- as I recall, there were sort of technical hurdles or barriers to addressing the smaller format such as tablets and smartphones. Have you crossed those barriers? Is that a potential addressable market? And then I think I'll ask the other two after.

Jeff Clarke - *Eastman Kodak Company - CEO*

Trent, I'll take these two, and my guess is we'll have more time for you. So industrial apps, as you know, our first implementation is touch screen sensors. We believe that we are going to be able to also print our RFID tags, eventually print batteries and other types of logic. So there are multiple industrial apps that we see our underlying cooper mesh technology moving into.

In terms of expanding addressable markets, in this case, as we've mentioned before, the first market is really an all-in-one machine, an all-in-one device, or a large screen that -- large television screen or a large interactive screen in classrooms or offices. And the reason is today, copper needs to be plugged in rather than -- because its battery usage. And so it hasn't cut over into the markets like tablets and eventually handheld phones.

We're making progress. And so in terms of expanding addressable markets, we now are looking at some of the tablet devices as a copper solution. So the answer is, yes, we made progress, and we do see moving into battery operated as opposed to plug in devices, such as kiosks and et cetera, going forward. But the best application today is the cost we bring, the resolution we bring, the conductivity we bring in plug-in devices. But tablets are coming.

You got one more, Trent?

Trent Porter - *Guggenheim Securities LLC - Analyst*

I had a couple more that are just sort of similar. They're going to be easy. So the first one is, I had been thinking previously that Nexpress and Versamark were sort of in decline. But it sounds, from your comments, it sounds like you see opportunity in Nexpress, and so I was just wondering if you could just qualitatively expand on that. Is it profitable today, and where do you see the opportunities at? How excited should we be about that?

And then the next thing, Flexcel NX, I think your Investor Day last year you showed the annuity was about $73 million. I think it's probably a little bigger than that. But I was wondering if you could talk about is that -- what would the profitability of Flexcel NX, if it were stripped out by itself, be today?

And then is the economics or the profitability of the growth trajectory changing or accelerating with the rollout of your wider format Flexcel NX, and how is that going, how is the traction there? And that's it for me.

Jeff Clarke - *Eastman Kodak Company - CEO*

Okay, several questions. So Nexpress is a strategic growth platform for us. It is one of the best high-end digital printers in the world. It prints copy table books, art prints, very very sophisticated packaging, and is a staple in over 1,000 customer sites. So it's a great product.

It hasn't grown significantly over the last couple years. You see that in drupa we're going to announce a couple new products. We're looking at reinvigorating the Nexpress. This is an important digital press for us. It's one that has unique features because of its ability to do extra bay and dimensional inks and white inks.

So it's a really special platform. It's a unique product. And while it hasn't grown a lot in the past, we are looking at it as a growth engine, although we don't define it as that. We put it in the PSD. But it's an important product for us, and it is profitable, to answer your question.

The other product set that we have is a black and white press called Digimaster. That is one that is clearly being, facing a lot of competition under more traditional toner type machines from our competitors, and we view that as really a legacy platform for us.

Versamark is a drop-on-demand technology inkjet platform, and it is also profitable. All three of these product sets are profitable. And Versamark is, as you can see, it's a fairly good sized business for us. It has some very nice dynamics in terms of profitability, as you see we're now breaking it out. But it is a business that is generally in decline, and we view it as a legacy product. We will not be making significant new investments in either Digimaster or Versamark, whereas we're going to make new investments in Nexpress.

With regard to Flexcel NX, this is a great business. You asked about the profitability we broke out in 2015 -- it came in at roughly $22 million -- and I certainly expect it to be well above that. I'm sorry, in 2014 it was $22 million. It was $30 million in 2015. And it certainly could approach between $35 million to $40 million in 2016 as a standalone.

Flexcel NX, the packaging market is one of the fastest growing markets. It's a really standout product. It has technological and patent protection, differentiation, and we're really pleased with that business.

Thanks for your questions, Trent. Let's move on to the next question, please.

Operator

Shannon Cross, Cross Research.

Shannon Cross - *Cross Research - Analyst*

My first question is just with regard to how we should think about currency for the year. I think you mentioned that you're looking at it from where January was. And maybe I was incorrect in that, but clearly --

Jeff Clarke - *Eastman Kodak Company - CEO*

Yes, that's right.

Shannon Cross - *Cross Research - Analyst*

-- some of the moves that have happened.

Jeff Clarke - *Eastman Kodak Company - CEO*

John will take it.

John McMullen - *Eastman Kodak Company - EVP and CFO*

Hey, Shannon. So right now, based on where we are versus January rates, we're expecting about a $30 million headwind to revenue and $6 million to operational EBITDA for the year, from what we can see now.

Shannon Cross - *Cross Research - Analyst*

Right, but currencies have moved substantially. So you're -- I'm just trying to understand. I'm sorry if this is --

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Jeff Clarke - *Eastman Kodak Company - CEO*

That's -- when did you measures that, Dave? Was that a couple weeks ago, a week ago?

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

Yes, it's roughly a couple weeks ago. What we have going on right now, Shannon, is basically that you would recognize that the euro is helping us slightly versus January rates. And we've seen an improvement in the yen versus the dollar. So we do have some concentration of costs, for instance in our packaging business, in the yen. So that's why you're kind of seeing improvement with an offset from the yen.

Shannon Cross - *Cross Research - Analyst*

Okay. And then I'm curious, from a pricing perspective, I know you talked about some aggressive pricing, or a bit more that you're used to, in the plate business. What are you seeing from the Japanese? Because the hope is that with the yen strengthening like it has, that perhaps they realize there's not as much room to be as aggressive. But I'm curious if there's been any sort of movement there, or if this is just sort of the normal we have to live with.

Jeff Clarke - *Eastman Kodak Company - CEO*

I assume you mean our large, unnamed Japanese competitor in the print business, right?

Shannon Cross - *Cross Research - Analyst*

Yes.

Jeff Clarke - *Eastman Kodak Company - CEO*

You know, this is a competitive industry. And so I do believe that our European competitor was more aggressive when there was a weakness in the euro last year. And I would expect that -- everyone has to report their results and deliver, so a strengthening yen, all things equal, should help us there.

That said, all of our competitors are -- when you're going for an available deal on plates, a multiyear deal, let me tell you, the customers do very well. And I think the 6% year-on-year decline will require us to continue to drive productivity.

And I'm really pleased with the performance of PSD in this space. As you see, even while facing this headwind, which drove our revenue down 9%, we were able to have, on a constant currency basis, a 46% improvement in operational EBITDA.

So, this is not going to change over the next couple years. We're going to see competitive market out there. The currencies will impact people. But it's going to be competitive, and we're going to have to continue to drive better products, differentiated products. We have a very nice -- I know we'll see you at drupa, Shannon, and we have a very nice portfolio right now with Sonora and some movements into the newspaper and packaging markets with our new product sets.

That product differentiation has in the past muted some of the overall pricing that happens particularly at the low end of the plates and low-quality plates. So, I think there are lots of moving parts here; not just the Japanese yen.

Shannon Cross - *Cross Research - Analyst*

Okay, great. And then just actually on Prosper, given you've announced a sale -- and I know you don't want to talk about the sale specifically -- but can you talk a bit about what customers have said, if there's concerns, if they're actually happy because it means they'll be with potentially, I hate to say it, but a stronger balance sheet, for instance -- who knows who you're going to sell it to -- but a larger company? Or is there any trepidation for them in terms of purchasing? And also just how are you sort of communicating with the employees what their future's going to hold?

Jeff Clarke - *Eastman Kodak Company - CEO*

I'm really pleased with how we've executed through a complex announcement. This is a new technology. It's one that while it certainly has an installed base now of 58 systems out there, there -- when you bring on new customers, they are concerned about who is going to own it. And this is something we've managed through. As I mentioned, we've got 9 line of sight to 9 in our pipeline, and we're doing very well on the 50% growth around the imprinting systems.

So I'm very pleased with how we've excited this. It's been a lot of time meeting with customers, a lot of time face to face and on the road to do this. We think at drupa, a lot of our customers and prospective buyers are going to look at Prosper in a very close way.

In terms of the employee base, I think they're doing very well. I think they view Kodak as a good employer to them. And no company's going to buy Prosper that isn't going to really be serious about this business. So I think the employees will ultimately have a good home to go to.

And one of the other things that I want to -- I'm making very clear to our customers and employees, we're investing significantly in this. This is an important product set that has momentum. Q1 was a terrific quarter, and just enhances the value of this for the ultimate owner.

So we're going to invest through this. We are going to continue to have our engineering roadmap with Ultrastream move forward. And we're excited to talk about this in a lot more detail at drupa.

Shannon Cross - *Cross Research - Analyst*

Great. Thank you so much.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you, Shannon.

THOMSON REUTERS

Operator

Peter Rabover, Artko Capital.

Peter Rabover - *Artko Capital - Analyst*

Got a couple questions. So, there was an announcement yesterday that you guys sold a small piece of your software business. Can you talk about that?

Jeff Clarke - *Eastman Kodak Company - CEO*

Sure. D2L was a very small business for us. It was really designing -- it was kind of a workflow software for kind of that managing advertising and brand campaigns and managing certain digital and other assets for agencies or companies that do that. It's a business that hasn't grown for a lot of years for us. It's a very complex sale. And it's a business that was not strategic for us.

The buyer is very interested in expanding investment in this and buying up some other companies in the space. And we weren't willing to go do that kind of rollup and reinvestment in this space. For us, it's a niche market that really, nice market, but a niche one that was a bit distracting for us.

The team's very good. The team's based in Connecticut and they're very good, and I think it's going to be a good home for them. The revenue, EBITDA, and cash price of this is all de minimis.

Peter Rabover - *Artko Capital - Analyst*

Okay. So you guys didn't -- you can't talk about how much you got for it?

Jeff Clarke - *Eastman Kodak Company - CEO*

It's de minimis, and it -- our agreement on the sale was not to disclose the details.

Peter Rabover - *Artko Capital - Analyst*

Okay, fair enough. Other couple of questions on Prosper. It looks like you guys have $109 million of working capital with this business. Is that the right way to look at it?

Jeff Clarke - *Eastman Kodak Company - CEO*

I think I add up to 58. Maybe if you look at the balance sheet in the K -- so it's like you got $139 million of assets and $32 million of liabilities. You've got $13 million -- this is page 19 of the K, for those of you who printed it out when we released it about an hour ago. So you've got 65 of receivables and inventories, and then you've got PP&E of 36 and intangibles of 38. So, I'd call it 65, and then I'd back out of that 65 million to 6 of payables and you're around to about 58.

Peter Rabover - *Artko Capital - Analyst*

Okay. Fair enough. Thanks. And then on the last call, you guys said that you guys had 6 Prosper machines that got pushed out to Q1, but you only recognized 3. So is that just a longer sales process, or how should we think about the other 9 that you're talking about?

Jeff Clarke - *Eastman Kodak Company - CEO*

I covered this a bit in my remarkets. We actually didn't recognize the revenue of any in Q1, but because they were, two of them were commercial capital and one was a rental agreement.

And so those -- and this kind of talks to one of the strategies I talked about last time is customers buying these machines often want to pay for them by the page over the 10 or 12-year life, and that takes a lot of balance sheet to do. And so while these are great systems, and they're going to be very profitable installed and ink sales and service and so forth, we didn't get all the revenue upfront. That's why the revenue for Prosper went down, even though all the metrics on it improved so materially.

As I mentioned, we have 9 units that we've got line of sight to. And these are ones that we've signed agreements on, but we don't recognize revenue on them until they're installed and accepted by the customer.

So none of those that I've referred to, in fact, no system since post the announcement has gone off our pipeline or been delayed. So I'm very pleased. You would have expected, and I frankly expected some tough headwinds on this. But the people who are committed to Prosper are keeping their commitments. We're marching through the installation process. And if you go back to page 8 of the deck -- maybe we can put page 8 of the deck up -- and you can see we outlined that with the asterisks at the bottom of the page. So, again, I'm feeling good with where we are with Prosper momentum.

Peter Rabover - *Artko Capital - Analyst*

I have a couple more, I'm sorry.

Jeff Clarke - *Eastman Kodak Company - CEO*

Fire away, Peter, sure.

Peter Rabover - *Artko Capital - Analyst*

Can you guys talk about your -- the debt and what your plans are for that? I know this is -- in your K, you guys have that window between second and third year, which we're in between December, to pay down the second lien. And what are the -- are you still waiting for the Prosper sale to take down as much debt as you can? How should we think about your balance sheet for, I guess going forward?

John McMullen - *Eastman Kodak Company - EVP and CFO*

I think first of all, you should know -- we've talked about this in prior calls -- but we're always looking at what the opportunities would be for us relative for our debt structure going forward.

Clearly we want to, with a sale of Prosper, that's an opportunity for us, catalyst to bring our capital structure down, if that's the decision. And possibly, as the markets continue to improve, the opportunity to refinance as well is out there for us. So, we'll keep you posted on a quarter-by-quarter basis, but we're watching this every week.

The markets have improved over the last month or so, so we'll keep watching. And then obviously the sale of the business by Prosper could play into that as well.

Peter Rabover - *Artko Capital - Analyst*

I guess why do you need to refinance at all? Why can't -- I know you have a lot of cash in the US. You're going to get some money for Prosper, and you guys don't really pay taxes, so why have debt?

Jeff Clarke - *Eastman Kodak Company - CEO*

We don't like the interest rates.

John McMullen - *Eastman Kodak Company - EVP and CFO*

No, it would be nice. You think about the interest expense related to our debt of roughly $66 million a year, and --

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Peter Rabover - *Artko Capital - Analyst*

No, no, I understand it's a high rate. I'm just saying, why do you need debt at all? Why do you need to go refinance? Why can't you just pay it all off?

Jeff Clarke - *Eastman Kodak Company - CEO*

Well first of all, we have more debt than cash.

John McMullen - *Eastman Kodak Company - EVP and CFO*

We have more debt than we have cash.

Jeff Clarke - *Eastman Kodak Company - CEO*

And we do need money around in different -- we operate in 40 countries where we need cash and so forth.

I think another way of perhaps answering your question is why do we need so much cash on the balance sheet, and what opportunities do we have to selectively pay it down? What we would -- and as John said, we look at that all the time. And we will do that when it is the right time to do it.

However, there is a waterfall here that we've got to address in terms of both asset sales and others. And you could find that, our loan agreements, et cetera, in Section 2.07 if you want. Or you can take it offline with Dave if you want to kind of dig into it.

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

But also, another way to think about it is that our optionality improves over time as we continue to improve our cash performance. And this quarter was a good example on a year-over-year basis of the change we're seeing from a cash flow point of view. So, obviously our optionality and the amount of cash that we will require going forward, as we continue to improve operationally, our flexibility grows as well.

Peter Rabover - *Artko Capital - Analyst*

Okay, great. Just two small questions. You guys had $4 million in IPSD expense for the quarter. Is that kind of a run rate you think going forward?

Jeff Clarke - *Eastman Kodak Company - CEO*

Roughly, of expense. But we do -- I mentioned several opportunities there.

Peter Rabover - *Artko Capital - Analyst*

Right.

Jeff Clarke - *Eastman Kodak Company - CEO*

We also have several partnerships where -- that are in the pipeline where people will pay us plus for those research services. So, stay tuned.

Peter Rabover - *Artko Capital - Analyst*

Okay. And what was the capacity of the business park I guess at quarter end, including [use]?

Jeff Clarke - *Eastman Kodak Company - CEO*

It's about --. We can handle a lot of new tenants. So if you got someone, please send it our way. There's about 20% of the space that could be leased with modest leasehold improvements. With investment leasehold improvements, there is more -- there's several hundred acres that could be designed to suit. And it is one of the rare, completely off the grid, completely functional water, sewer, electric power, steam power, et cetera, and synthetic labs and support. So it's a great industrial park, and it's inexpensive. So if you got anyone, send them our way.

Peter Rabover - *Artko Capital - Analyst*

Great. Okay, I'll jump off. Thanks for answering all my questions.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you, Peter. Next call, please.

Operator

Gary Ribe, MACRO Consultant.

Gary Ribe - *MACRO Consulting Group - Analyst*

I guess I just had a couple. I guess getting to Peter's point a little bit about the cap structure. You probably have some insight into the Prosper sale process. You've got some working capital there and whatever else. I'm not going to ask you to opine on that.

But if you look at your ratios and your covenants, could you tender for some of the debt now? Say you tendered for $100 million. That's $7 million in interest that you don't pay. Wouldn't that be pretty accretive to your cash flow on the year? And wouldn't it be better to try to do that now while the debt's at a discount as opposed to after you close a deal and everybody realizes, hey, you guys got money.

John McMullen - *Eastman Kodak Company - EVP and CFO*

I think what I'd say to you, I'll just be a little additive to the other answer, is that we're circling around this from all angles, and that's certainly an angle that we've looked at. And so -- and I can't talk about relative to Prosper, but your question is specific to that, and that's certainly something that we look at. But I can't go much further than that on that.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay. I can appreciate that. Yes, I just have one more follow up, if you don't mind. The $10 million to $30 million of cash flow, that's not really factoring in asset sales or anything?

Jeff Clarke - *Eastman Kodak Company - CEO*

It's not factoring in big asset sales. So it would not include Prosper or anything substantial. There are a couple like this recent one that we had line of sight of. Again, it's a de minimis number. So I'm not going to say it's not going to have any asset sales in there, but it certainly doesn't have Prosper or anything significant.

Gary Ribe - *MACRO Consulting Group - Analyst*

Okay. Thanks a lot, guys.

Jeff Clarke - *Eastman Kodak Company - CEO*

Thank you, Gary. Next question.

Operator

Jen Ganzi, NewMark Capital.

Jen Ganzi - *NewMark Capital LLC - Analyst*

Just to talk a little bit about your guidance that you've raised the low end by $5 million. Is that just -- is that more related to taking Prosper out of the mix, or is it more because you're seeing better I guess performance in the beginning of the year?

Jeff Clarke - *Eastman Kodak Company - CEO*

There are a lot of moving parts on why we brought the guidance up. But in general, it had to do with the quality of earnings that we saw in the first quarter. The fact that there was no collateral damage associated on our other businesses from Prosper.

And so we have been a little cautious because we weren't quite sure. You announce something like this and then you spend a lot of time explaining it to your customers as opposed to telling them the rest of your business. And it turned out that we were able to manage that quite well. So that's the primary reason why we brought up the midpoint and low end of the guidance.

Jen Ganzi - *NewMark Capital LLC - Analyst*

Okay, got you. And just kind of going back to some of the applications that you were talking about for your growth businesses, how should we think about the timing of some of those deals you had mentioned? I guess with the super dark curtains and things like that, would we be seeing any of those revenues in EBITDA this year or is it more of a 2017 event? I just want to get a sense of timing on those initiatives.

Jeff Clarke - *Eastman Kodak Company - CEO*

I mentioned that we expect to cover a good portion of the $4 million run rate, $16 million annual expense, of our research labs with these types of transactions. So yes, we do expect to sign several deals this year. I won't get specific on it. I did mention in the high singles, even double digit of revenue on this. And so yes, we're close to signing some deals here, and I think these will be important.

Jen Ganzi - *NewMark Capital LLC - Analyst*

Okay. But they're more like 2017 in terms of when we'd start seeing cash flow to us from them. Is that the way to think to the investor community?

Jeff Clarke - *Eastman Kodak Company - CEO*

When these deals come in -- typically would expect on the IPSD side, what we would typically expect is that there would be a long-term agreement signed with the research labs by parties, whether that be in the case of antimicrobials, a royalty agreement and a supply agreement. In the case of some of the particle technology that goes into light blocking, that would be, again, a royalty stream and perhaps an upfront payment.

So each one of these deals can take a different complexion. So, it's -- and we're in the process of doing that. We'll do the right long-term thing for the Company here in terms of not just selling some of these things right off, and making sure that we get the full value. That said, we're open to a balance of upfront payments and royalty streams.

Jen Ganzi - *NewMark Capital LLC - Analyst*

Okay, got you. And then just looking at the remaining EISD business, and I guess looks like everybody's going to be focusing on the Nexpress and investing in that, now that Prosper is being -- well, I guess after Prosper being sold. I guess it declined slightly this year. Is that something that you think can return to growth post the sale of Prosper? How do you think about the trajectory of that EISD segment ex-Prosper?

Jeff Clarke - *Eastman Kodak Company - CEO*

Versamark, which is in that division, is a legacy business that will be declining somewhere between 20% and 30% a year. And so that is a business that we saw a good decline last year and that will continue as it's replaced by other technologies.

In terms of, just to be clear, the Nexpress business and the Digimaster business are within PSD. And so all that's a --

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Jen Ganzi - *NewMark Capital LLC - Analyst*

Okay, so that's a service --

Jeff Clarke - *Eastman Kodak Company - CEO*

Not the inkjet press, but the toner-based press.

Jen Ganzi - *NewMark Capital LLC - Analyst*

Okay. So really, so EISD is just -- is that's really just the Versamark that's [a finale] decline --

Jeff Clarke - *Eastman Kodak Company - CEO*

It is. It means Enterprise Inkjet Systems Division -- sorry for all the acronyms -- and so that is our last enterprise inkjet business, other than Prosper which has been discussed.

Jen Ganzi - *NewMark Capital LLC - Analyst*

Got you. And then just final question. I know that at the Investor Day back in October you had given some preliminary projections, guidance, whatever you want to call it on 2017, based off of your thoughts of what 2016 were going to look like. But it sounds like things are maybe going a little bit better than you had anticipated.

So do you have updated thoughts on 2017 based on what you've been seeing so far in 2016, and with regards to the separation of Prosper and how that affects the rest of your business? Is there anything you could talk to, just maybe even in broad strokes to us at this point?

Jeff Clarke - *Eastman Kodak Company - CEO*

Remember -- and so I'm not going to give any new guidance at all. Or that wasn't guidance; that was direction. But we do looking forward to talking about the future at the right time.

But to remind everyone on the call, we said that there would be about $180 million to $210 million of 2017. But $25 million of that was associated with Prosper and/or the micro 3D business. So if you just dive some of that and bring it down for those, then that would be offset somewhat by kind of the momentum we're seeing in other areas. But I don't want to get into specifics on that.

Jen, thank you very much, and appreciate everyone taking the time. We're on the hour here. So I appreciate the time and questions. And if there's any follow up, Dave Bullwinkle will be available for your calls. And I look forward to talking to all of you in next quarter. Thank you very much.

John McMullen - *Eastman Kodak Company - EVP and CFO*

Thanks, everybody.

Operator

This concludes today's conference call. You may now disconnect.