



The Silver Word

Eastman Kodak Company

Eastman Kodak is in sound financial health and very dedicated to their shareholders. The company knows how to exercise discipline when it comes to financial management and continues to expand its business by aggressively pursuing partnerships with companies that compliment its business segments. However, nothing really stands out as particularly dynamic, as it appears Kodak is just doing what it needs to do to survive. Hence the sluggish stock price performance this year.

With over 80,000 employees worldwide, Eastman Kodak Company develops, manufactures and markets imaging products. The company consists of four divisions: Consumer Imaging, Kodak Professional, Health Imaging, and a segment that serves the motion picture and television industries.

Kodak's range of products includes cameras, chemicals, copiers, equipment, films, paper, photo and picture CD's, printers, scanners and software. Kodak also offers online shopping, third party digital imaging solutions as well as services in image networking, reselling and product support. The consumer imaging sector continues to represent slightly over 50% of the company's revenues while the health imaging sector has been on an increasing trend, representing 15% of 1999 revenues, up from 11.4% a year ago. Health Imaging products include medical films, chemical, and processing equipment and are used to capture, store, process, print and display images and information for healthcare professionals.

Kodak has formed various alliances since the beginning of the year. In February, Kodak and Hewlett-Packard announced the formation of a global joint venture that develops photofinishing solutions and offers retail customers a wide range of digital-imaging capabilities for both traditional photographic and digital film. Kodak is aligning with AT&T to combine Kodak's imaging network services with AT&T's data and Internet protocol services. Kodak and SPACE.com announced in April a strategic Internet marketing alliance that will launch two space-themed digital photo applications.

May was a particularly busy month for the company. Information Architects, providers of XML-based dynamic content aggregation and syndication solutions, agreed to supply the technology infrastructure to support Kodak's interactive television service. The service, developed jointly by Kodak and Scientific-Atlanta, will allow cable TV subscribers to send and view photographs through television. Secondly, Kodak acquired the outstanding shares of PictureVision, Inc., which will operate as a wholly owned Kodak subsidiary. PictureVision's photo sharing infrastructure hosts millions of digital images stored on Kodak PhotoNet online and AOL's "You've Got Pictures". The services allow customers to bring an undeveloped roll of film to a photo lab with the

developed photos accessed over the Internet. Thirdly, Plasmon, a leader in optical and tape automation and the Kodak's document imaging division for China, signed a strategic distribution agreement which will focus on selling complete imaging and archival storage solutions to key Chinese customers in banking, finance, insurance, telecom and government.

With 1% insider stock holdings, the company is extremely loyal to its shareholders. Kodak is currently offering shareholders participation in the *Eastman Kodak Shares Program* in which one can purchase shares with a minimal investment of \$150. In addition, the company recently granted stock options to non-management employees that awarded a non-qualified stock option to purchase 100 shares of common stock at the 3/13/00 closing stock price. From a financial perspective, the dividend payout has been roughly 40% in 1998 and 1999, reaching a high of 74% in the first quarter of 1999. Even when earnings were at a low of \$0.02 per share in 1997 (due to restructurings), Kodak maintained their annual dividend of \$1.76.

In addition, it is clear that Kodak knows how to manage its money. The company exceeded its 1998/1999 \$1.25 billion cost reduction commitment by \$50 million. Long-term debt to equity declined from 23.9 in 1998 to 12.6% in 1999 and close to \$1.5 billion was returned to shareholders through stock repurchases and dividends.

However, 1999 revenues increased a meager 5% in 1999 to \$14.1 billion from 1998. Earnings remained flat at \$1.4 billion and earnings were \$4.38 per share, up only \$0.08 per share from a year ago. Cost reductions did drive first quarter 2000 net income by 51% to \$289 million and earnings per share to \$0.93 per share from \$0.59 per share in the year ago quarter; however, first quarter revenues were flat. Even with workforce reductions, this was not enough to counteract the declining market share in the consumer and professional film sectors. In addition, sales were adversely impacted by currency exchanges, primarily due to the effects of the euro dollar.

Although the company remains confident for 6-7% sales growth next year, Kodak states that revenue growth might be slashed by as much as 3% if the euro's weakness continues. This sounds like a lame excuse to me. Kodak had better act quickly to carve out some new market niches and accelerate its profits.

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