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Analysis: Investors tired of waiting for Kodak to develop

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By Liana B. Baker

NEW YORK (Reuters) - Its name was once synonymous with home photography. Now, Eastman Kodak is struggling just to stay in the picture.

The American icon, which coined the once-ubiquitous "it's a Kodak moment" catch phrase, has labored for years to convince Wall Street it can turn a profit as it shifts toward digital technology and away from its ailing film business.

But after incurring restructuring charges for more than a decade, missing financial targets and trading at a low share price, investors' patience has worn thin. It last made an annual profit in 2007.

"Kodak's transition to digital is the never-ending story," said Gregg Abella, co-principal of Investment Partners Group, which owns more than 200,000 shares. "I'm blown away that there hasn't been a shareholder revolt."

When asked to respond, a Kodak spokesman referred to Chief Executive Antonio Perez's remarks at a meeting with investors on February 3 at the New York Stock Exchange. Kodak "will complete the transformation of this company to a sustainable and profitable digital company by 2012," Perez said.

"The closer we get to that date, the stronger we feel that we are tracking into that," he added.

At least one participant was unsatisfied with that response. When time had run out for investors to put questions to management, he demanded that Chief Executive Antonio Perez stay on stage to field more questions.

When Perez answered that management had to go to meet with other shareholders, the participant replied, "I'm a shareholder! You guys have no credibility. Zero."

Kodak stock, which hovered in the $90 range in 1997, currently trades at $3.65, a 40 percent drop over the past 12 months after it missed its own targets. The company declined to comment on its share price.

Investors like Abella have tired of Kodak's promises.

"Every year, the company says 'We're going to get there, we're going to be profitable' and every year, it seems to be two years out. No shareholder has an infinite amount of patience," Abella said.

Analysts like Cross Research's Shannon Cross said investors are alarmed by the amount of cash the company is spending and its share price. The company is projecting to lose about $300 million in cash this year, excluding sales proceeds from certain assets, she estimated, and much of it will go to investments in its inkjet printer business.

"Investors are frustrated with Kodak because management hasn't been able to meet the targets that they set and the cash burn rate has been high and the stock has declined significantly," Cross said.

PATENTS IN FOCUS

In 2003, Kodak embarked on a pricey restructuring plan intended to transform it into a company that makes products for digital photography and printers. It suspended its dividend and slashed more than 70 percent of its employee base to 18,800.

The company's revenue in its consumer and commercial inkjet, packaging and business services segment, rose 18 percent in 2010. But for now, these operations only make up 10 percent of overall revenue.

By 2013, Kodak forecast a return to profit and for the revenue in these growth areas to double and reach $2 billion.

But many investors see Kodak's value in its lucrative portfolio of intellectual property. It has more than 1,000 patents in its trove and in 2010, it made an estimated $630 million from its licenses, according to Argus Research.

For 2011, it forecast intellectual property revenue between $250 million to $350 million but analysts say this revenue is unpredictable because it often comes in one-time payments.

Investors also have trouble figuring out the value of the patent portfolio since the company will not disclose details about it.

In January, the company's shares plummeted after a patent judge ruled in favor of Apple Inc and BlackBerry maker Research In Motion Ltd in a patent infringement suit brought by Kodak.

OPTIONS

For now, Kodak has enough cash to pay off its debt payments of $50 million per year for the next two years, analysts say. In 2013, it has $350 million in debt payments due.

But, "if things keep getting worse in 2011, 2012, and then they have difficulty with a refinancing in 2013, bankruptcy could be an option down the road," said Jerry Mozian, a restructuring expert at the firm Kinetic Advisors.

In an e-mailed response, a Kodak spokesman repeated, "We have sufficient resources and the financial flexibility necessary to fully implement our strategy and deliver shareholder value."

Mozian added that Kodak should be looking "at every single avenue," including putting itself up for sale or selling parts of its business, like its IP portfolio.

He said that its technology, international presence and distribution system could make it an attractive takeover target.

When Kodak was facing cash problems in the third quarter of 2009, it raised $700 million, including a $400 million investment from private equity firm Kohlberg Kravis Roberts.

Mark Kaufman, an analyst who specializes in distressed equity at Rafferty Capital Markets, said KKR could take Kodak private, but that it was unlikely since it would distract Kodak's management from getting new products on the market.

Companies like Canon Inc or Hewlett-Packard might be interested in buying Kodak for its inkjet businesses, Kaufman said.

Don Hodges, a portfolio manager at Hodges Funds, bought shares of Kodak about a year ago for his Pure Contrarian Fund, which focuses on stocks "that have been beaten down and given up on by Wall Street." For now at least, Hodges said he will hold on to his 1,097,000 shares.

"I'm willing to ride with Kodak a while longer because the pressure should be tremendous on their management, but if they don't respond to this kind of pressure, I don't know what it's going to take," Hodges said.

(Reporting by Liana B. Baker; Editing by Kenneth Li and Derek Caney)