Kodak Prepares to Terminate U.S. Pension, Book Gain of More Than $500 Million

WSJ wsj.com/articles/kodak-prepares-to-terminate-u-s-pension-book-gain-of-more-than-500-million-d0cfb621

November 25, 2024

Kristin Broughton

Nov. 25, 2024 9:30 am ET

Eastman Kodak, based in Rochester, N.Y., said its pension plan has $3.5 billion in assets and $2.3 billion in liabilities. Photo: Mike Bradley/Bloomberg News

Eastman Kodak is preparing to terminate its U.S. pension plan to unlock value from the fund, whose value soared as a result of strong market performance and contributions made years ago when the company was a household name in print photography.

The pension covers some 35,000 participants, and the move could ultimately result in a cash gain of as much as $585 million that Kodak would use to reduce debt and invest in its business, executives said. A final decision on whether to terminate the pension plan is subject to board approval.

The company is moving forward with the effort to wring cash from its pension because the plan is significantly overfunded and the company feels the squeeze from high interest rates, executives said.

Kodak would book an after-tax cash gain of between $530 million and $585 million following a series of moves that involve selling illiquid assets held by the plan, settling liabilities, terminating the plan, and then replacing it with a new one for employees. It could take more than a year for the company to complete the process, the company said.

"The intent is to strengthen the health of the business," said Chairman and Chief Executive Jim Continenza.

Kodak operates a defined-benefit plan, in which retirees receive payouts that have been funded by the company. Such plans, once a staple of corporate benefits, have dwindled in popularity over recent decades in favor of defined-contribution plans, in which employees contribute to their own retirement accounts.

After photography largely moved from print to digital, Kodak struggled to find its footing. The company in 2012 filed for bankruptcy, and sold assets and exited from unprofitable business lines. It later took detours such as moving into cellphones and digital currency. Kodak now generates revenue by selling commercial printing products; film, including for motion pictures; and specialty industrial chemicals.

Kodak had $214 million in cash on its balance sheet as of Sept. 30. Its pension plan has $3.5 billion in assets, boosted by market performance and contributions made by previous executive teams, and $2.3 billion in liabilities, according to the company. Kodak paid $14 million in interest expenses during the latest quarter; by comparison, it generated a profit of $18 million.

All liabilities under the plan would need to be settled for Kodak to terminate the plan. The company's U.S. pension plan covers about 2,000 current employees. The company has roughly 4,000 employees worldwide.

Kodak Chairman and CEO Jim Continenza. Photo: Jamie Germano/Rochester Democrat & Chronicle/Reuters

Kodak retirees would receive an annuity from an insurance company. Current employees, as well as former employees who haven't yet reached retirement, would be given an option to either receive a lump sum of their balance, or an annuity once they retire. Plan participants wouldn't see a change in the value of the benefits that have been promised to them, executives said.

"It really won't look different to them," Continenza said.

Kodak expects to put a new retirement plan in place for current employees if it terminates the pension. The company hasn't yet determined whether it would provide a defined-benefit or defined-contribution plan, such as a 401(k). The company would need to have a new plan designed and in place within about a year, executives said.

In a significant step toward a termination, Kodak agreed to sell private-equity and other illiquid assets held by the pension plan, according to a regulatory filing Monday. The largest buyer, Mastercard Foundation, a philanthropic organization established by the credit-card company, agreed to purchase interests with a net asset value of $764.4 million, while four additional unnamed buyers agreed to purchase $87.3 million, the filing said.

Kodak’s pension plan also holds hedge-fund investments with a net asset value of $917.2 million, and is in the process of redeeming a majority of those investments, according to the filing.

A replacement retirement plan would have assets totaling between $220 million and $245 million, according to the filing. That amount should be enough to cover benefits for current employees without additional cash contributions from the company, the filing said.

The company has $460 million in long-term debt, mostly made up of a term loan with an interest rate of 12.5%. Under the terms of the credit agreement, the company is required to reduce its principal balance to $200 million if it receives cash proceeds of this size from its U.S. pension plan.

The company could use additional cash to reinvest in the business, executives said. That could include capital investments, including in the company’s ongoing push to produce pharmaceutical chemicals.

“The key is to continue to strengthen the shareholders’ value of the company,” Continenza said.

Write to Kristin Broughton at Kristin.Broughton@wsj.com

Appeared in the November 26, 2024, print edition as 'Kodak Looks to Tap U.S. Pension Windfall'.