Kodak Aims to Tilt Investor Mood

By BEN DOBBIN 02.07.08, 12:40 AM ET

ROCHESTER, N.Y. - Antonio Perez has one big barrier to overcome as **Eastman Kodak Co.** retrenches for the digital age: skepticism on Wall Street.

"We're going to prove them wrong," the photography icon's chief executive told The Associated Press with a hint of frustration on the eve of Thursday's annual meeting of analysts and institutional investors.

"There is obviously negativity, which I understand. If the sentiment is negative, it doesn't change from one day to the next. It's our job to keep delivering again and again and again until we get the credibility. That's all there is."

In December, the picture-taking pioneer completed a four-year, $3.4 billion overhaul aimed at transforming itself from the world's biggest film manufacturer into a leader in digital photography and commercial printing.

Ten of 11 key analysts, uneasy about whether the revamped business model can translate into financial well-being, rate Kodak's shares neutral or advise selling them. The stock skidded to a 30-year low of $16.66 two weeks ago but has since climbed above $18.

"Investors are signaling through the stock price that they're not fully buying Kodak's growth story yet," said George Conboy of Brighton Securities, a money-management firm in suburban Rochester.

The revolution in digital imaging compelled Kodak to unload major analog operations and slash its payroll to 26,900 from 64,000 in 2003. It also required the 127-year-old company to invest billions to compete with far bigger consumer electronics rivals such as **Sony Corp.** (nyse: SNE - news - people) and **Hewlett-Packard Co.** (nyse: HPQ - news - people)

"We have created 10 key digital product lines, and most of them are new," said Perez, 62, a native of Spain who ran HP's digital printing operations before moving to Kodak in 2003 and succeeding Dan Carp as the helm in June 2005.

"We had a minimal presence in digital businesses in 2003 ... and we finished 2007 with $6.6 billion in digital revenue and made $176 million" in digital profits, he said. "Compared to any reference I can think of, that is an amazing success."

In all of 2007, Kodak earned $676 million, compared with losses of $601 million in 2006 and $1.4 billion in 2005 that were loaded down with hefty restructuring costs.

At Thursday's meeting in New York, Perez will outline another four-year strategy.

"This will be the first year we have positive revenue growth" - a 7 percent to 10 percent rise in digital sales offset by a 12 percent to 14 percent drop in film revenue, Perez said.

"The combination of those will give us 1 or 2 percent growth, maybe 3," Perez said, adding that the digital wing - from cameras, retail kiosks and photo books to inkjet printers and intellectual property licensing deals - will account for about 70 percent of overall sales and 60 percent of profits in 2008.

By 2011, Kodak's sales should rise to about $12 billion from $10.3 billion in 2007, he said.

While Perez has drawn praise for tackling a complex and perilous turnaround head-on - "he cut film (costs) faster and deeper than anyone prior to his arrival," said **Citigroup** (nyse: C - news - people) analyst Matt Troy - Kodak has hardly quelled speculation among industry watchers that it might be headed for a breakup someday.

"They don't know anything about the company," Perez retorted. "Why would you do that? I don't see any good financial reason to do that."