

Kodak Is Apple in Reverse

Apple last quarter reported a record profit of \$6 billion on fierce demand for its computers and iPhones. If the company has an opposite, it's not personal computer maker **Dell** (*DELL*¹) or smart phone maker **Research in Motion** (*RIMM*²), which together generate more than \$5 billion in yearly profits, or software giant **Microsoft** (*MSFT*³), which earns more than \$20 billion. It might be **Eastman Kodak** (*EK*⁴), which hasn't reported a yearly operating profit since 2004.

Consider: In 1997, Kodak was worth \$28 billion to Apple's \$2 billion. Today, a single quarterly profit for Apple is enough to buy all of Kodak's shares—six times over. **Apple** (*AAPL*⁸) is now the second most valuable company in the S&P 500 index behind **Exxon Mobil** (*XOM*⁹). Kodak's shares have fallen so low that at the end of 2010 the company was demoted to the S&P 400, an index of midsize companies. (It was removed from the Dow Jones Industrial Average of 30 stocks in April 2004, when insurer **AIG** was added.)

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The company that 123 years ago introduced portable cameras to the world last year sold an estimated 10.5 million digital ones. Last quarter alone, Apple sold more than 16 million digital cameras—counting only those included in its phones. Kodak chief executive Antonio Perez told shareholders at a meeting earlier this month that digital cameras are still "not an attractive market."

What is? Management points to four growth initiatives: home inkjet printers, which sell cheaply but require dear ink; high-end printers and presses for newspapers, junk mail, books and more; workflow software, used to manage commercial print jobs; and systems that print eye-catching packages for consumer goods. The company reported scattered progress last quarter. Printer and ink revenue rose 40%. Sales from the company's latest packaging system tripled. Those bright spots were easily eclipsed by plunging revenues in the company's digital and traditional photography divisions. Overall sales fell 25% and earnings, during what is typically the company's strongest quarter, plunged 95%.

In recent years Kodak has turned to an almost Apple-esque strategy to generate cash: getting paid for what it knows rather than what it does. The company owns a vast portfolio of patents. "Kodak's digital imaging patent portfolio is a reservoir of value investors appear to be overlooking," wrote Mark Kaufman, an analyst with Rafferty Capital Markets who specializes in distressed companies, in a late January note to investors. As smart phone makers, social networking sites and gaming companies have rushed to add photographic elements to their products, some might have used technology that Kodak owns a claim to, and the company is working to collect money where it can, resulting in \$1.4 billion in licensing agreements and new royalty agreements in two years.

That strategy suffered a setback on Jan. 25, when the U.S. International Trade Commission made an initial ruling on Kodak's claim that Apple and Research in Motion infringed on a patent for previewing photos on digital devices. The patent is an obvious variation on an earlier invention, rendering the claim invalid, the court said. A final decision is due in May. Kodak in a public response expressed confidence that it will ultimately prevail. The company is pursuing claims on the same technology in federal court.

Therein lays the difficulty of determining what Kodak is worth. Investors often use a company's earnings as a point of reference for its share price, but Kodak has no earnings. Management says the company will turn profitable later this year and post a full year of profits next year, but assets are perhaps more reliable as a gauge of value for the moment. The company's most valuable assets, however, consist of intellectual property that's subject to court dispute.

Rafferty Capital's Kaufman reckons the company's asset value including its intellectual property could be worth as much as \$15 a share, versus a current stock price of \$3 and change. It could take years to unlock that value if it exists, however. Kodak used \$400 million of its cash last year, ending with a balance of \$1.6 billion. Wall Street seems to have tired of waiting for the company's turnaround. Of five analysts polled by Thomson First Call (Kaufman not among them), none recommends a purchase. Fifty out of 54 analysts say to buy Apple shares.

¹<http://www.smartmoney.com/quote/DELL/>

²<http://www.smartmoney.com/quote/RIMM/>

³<http://www.smartmoney.com/quote/MSFT/>

⁴<http://www.smartmoney.com/quote/EK/>

⁵<http://www.smartmoney.com/investing/stocks/iphone-stock-curse-says-favor-att-over-verizon-1296772690759/>

⁶<http://www.smartmoney.com/investing/stocks/-1297809539353/>

⁷<http://www.smartmoney.com/investing/stocks/3-stocks-to-prosper-from-inflation-1297721232977/>

⁸<http://www.smartmoney.com/quote/AAPL/>

⁹<http://www.smartmoney.com/quote/XOM/>

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