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How an Iconic Company Destroyed Shareholder Value

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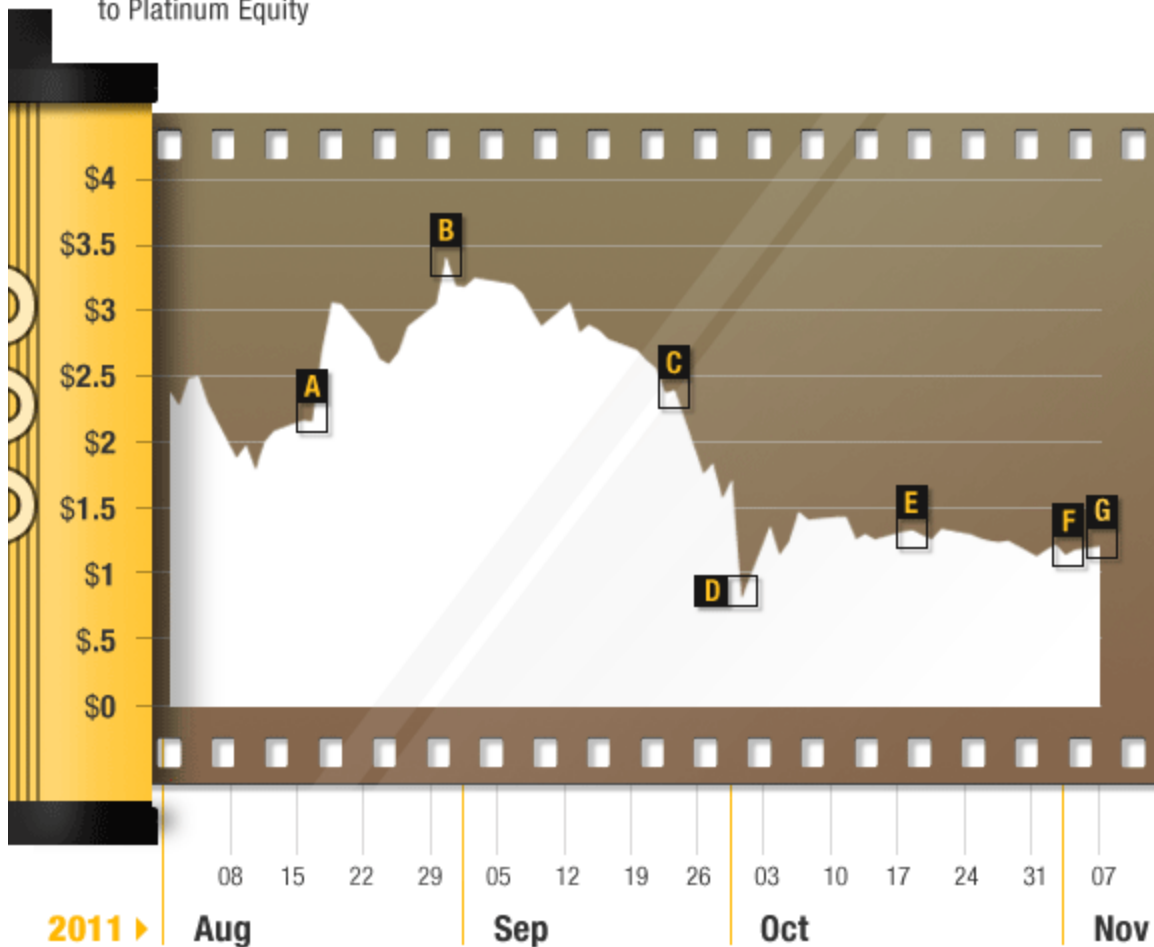
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If only a picture were worth more than a thousand words, then maybe **Eastman Kodak** (NYSE: [EK](#)) could cash in on something more than the hopes and dreams of its patent value. As it stands, though, Kodak is burning cash as it limps toward the corporate graveyard in a less-than-picture-perfect finish.

The past few months have been a gut-wrenching time for shareholders:

Kodak's Developing Problem

- A** MDP Capital group speculates Eastman's Patents worth 3 Billion. Almost 5x Eastman's market value
- B** Eastman shares close at high of \$3.24
- C** Unexpected decision to tap credit line for \$160 million sends shares tumbling
- D** Shares bottom ahead of earnings as bankruptcy concerns persist
- E** Shares rise almost 5% on news of laser-projection patent sale to Imax
- F** Kodak releases earnings and says 2012 survival depends on ability to sell patents or issue debt. Shares trade as much as 12% lower during the day
- G** Kodak Sells Image sensor solutions business to Platinum Equity



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Initially, investors saw a ray of hope with MDP Capital's bold \$3 billion patent valuation estimate. But the enthusiasm was clearly misplaced, as MDP was riding the high of the patent-mania following Google's purchase of **Motorola Mobility** (NYSE: [MMI](#)) , which made patent holders like Kodak and **InterDigital** (Nasdaq: [IDCC](#)) look like gold mines. Now that the dust has settled, both InterDigital and Kodak's share prices continue downward, and people are less enthusiastic about patents as a company's savior. Even when Kodak's patent sale to **IMAX** (NYSE: [IMAX](#)) looked like a promising sign of things to come, it ended up being just a drop in the bucket.

These sales do bring in much-needed capital, but the shedding of patents leaves behind a company with less focus and a diminished position. In Kodak's case, it's still relying on two declining industries -- personal printers and digital cameras. Although printer sales have ticked up recently, both of these markets are projected to shrink going forward.

Dusting off the Kodachrome

Kodak's erosion is nothing new, though. Fellow Fools have been [writing about its impending doom](#) for quite a while, and with good reason. Shares have lost half of their value over the past three months, but they're down more than 95% over the past five years. Kodak did away with its dividend back in 2009, eliminating any sure income that shareholders may have been banking on.

The real problems started with the mismanagement of Kodak's transition out of film and its failure to continue innovating. The company realized some initial success with digital cameras -- it was ranked No. 1 in domestic sales for 2005 and captured a 25% market share. But as the digital-camera business turned into a highly commoditized, low-margin race to the lowest price, Kodak found it difficult to keep pace, and its product innovation fizzled. The company controlled just 7.4% of the digital-camera market in 2010, down from 8.8% the year before.

Failed history lesson

CEO Tony Perez, a former **Hewlett-Packard** (NYSE: [HPO](#)) executive, seems determined to take on his former employer at its own game by pushing Kodak heavily into inkjet printers. He's poured hundreds of millions of dollars into the business and banked the company's future on the rejection of the traditional model of selling printers for cheap and replacement ink cartridges for an arm and a leg. Kodak is doing the opposite by charging more for printers and less for ink. The problem is that HP has cemented its position as top dog. In 2010, it held an impressive 44% market share in commercial and consumer printers. Though Kodak has extensive printing technology under its belt, its printers don't sport any major technological breakthroughs and have received lackluster reviews.

Kodak isn't the only company trying to undermine HP with this model. **Xerox** (NYSE: [XRX](#)) has also set its sights on the printer king by offering more expensive printers but cheaper ink. Though Xerox has more experience in the world of inkjet printers, I'm not thrilled about its chances of unseating HP, or even capturing a large market share.

With more content moving digital, people will continue to print less, taking the bite out of expensive cartridge replacements. And I'm willing to bet that consumers will still buy the cheapest printer without considering the long-term continued cost of ink -- a decision that will continue to favor the veteran HP while hurting Kodak and Xerox.

How to play it

Kodak built its name and fortune on innovation. The company became admired by defining industries and technologies, not showing up late to the party with warm beer. By losing its innovative touch, Kodak went from being ahead of the ball to being rolled over by it.

If you're investing in a company that rests on the laurels of innovation, take a look at where it's moving today. Consider the creative juggernauts like Apple, **3M** (NYSE: [MMM](#)) , and Google. They're consistently pushing the envelope on new designs and new products. A true tablet market didn't exist until Apple created one. Post-it notes didn't exist until 3M developed them, and people wouldn't have dreamed that a search-engine company would map the world and help us navigate with our cell phones until Google did it. Investors need to worry if they start to see a beloved company enter into a stagnant market without an innovation ace up its sleeve. The warning bells should ring especially loud when former innovators stop creating and instead create value by selling the intellectual property to all their old ideas.

Continued innovators

For a look at a few companies that do have one of those innovation aces up their sleeves, I invite you to

check out The Motley Fool's new special free report, "[Your Credit Card May Soon Be Worthless. Here's Why...](#)" The companies outlined in this report will redefine the way people purchase goods in the future and can redefine your portfolio's performance in the process. Enjoy a [free copy](#) on me!

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