Eastman Kodak: Anything To Like About 4Q22?

Mar. 27, 2023 4:39 AM ET**Eastman Kodak Company (KODK)**4 Comments3 Likes

Summary

- Kodak relatively recently reported 4Q22 results. In fact, Kodak has managed some decent outperformance since my last article.
- Is this outperformance based in actual company performance and fundamentals, or just a perception of the company having done better than expected?
- The company is still down double-digits from my first stance. I revisit my thesis for Kodak, and give you my stance on where the company could go in 2023.

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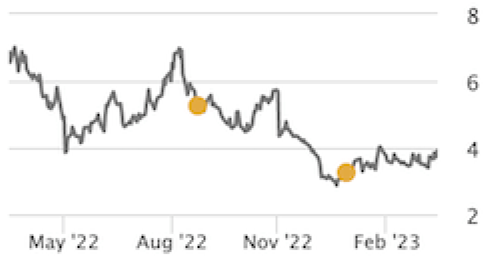
Dear readers/subscribers,

Eastman Kodak (NYSE:KODK) has always been a difficult investment, especially with a 1-year share price performance despite the recent surge, of almost negative 43%. My first article on the company came out in September of last year, and while most companies seem to have outperformed since then, this one has not. Kodak is still down more than 25% from that particular article and thesis.

About This Article

Ticker Covered	KODK
Analyst's rating at publication	Hold
Price at publication	$5.32
Change	-26.32%
S&P 500 change	1.00%

Analyst's rating history



Analyst's full rating history »

KODK IR (KODK IR)

Kodak is one of the "worse" companies in the sector, and in this article, I will shine a bit of light on this underperformance and where the company is, comparably and in terms of its market situation.

Let's look at 4Q22 and see how it influences things.

Revisiting Kodak - Time to reaffirm my "HOLD"?

Generally, I believe that any company can become a "BUY" at a certain price - unless the company only consists of debt once everything is paid off. To say that Kodak doesn't have any value is going too far.

The 4Q22 results, including the full-year results, came in relatively positively. Revenue decreased only by 1% despite ongoing pressure, gross profit is up, and GAAP net income was actually positive - the company managed to eke out a $7M 4Q22 profit, ending with around $217M of cash on the books. On an annual basis, revenue increased by 11%, GM was mostly flat and again, positive GAAP net income with a 2% increase year-over-year.

The company is successfully launching new products according to its strategic plan, which I've been through in some of my earlier articles. The first step here was stabilizing the company's floundering balance sheet, which I believe that the company has actually managed now. Some operational efficiencies have also been realized, and Kodak is investing in its growth-oriented business arms, including advanced Materials &Chemicals.

The company, as of 4Q22, debuted the KODAK PROSPER ULTRA 520 Inkjet Press and KODACHROME Inks. Part of the danger when a company has been beaten down for too long is that investors miss when things are likely to actually turn around - when we can make some profit off the company. That's why I follow a company like Kodak, to make sure to highlight when it's time to maybe start pushing cash to work.

With the stabilization of its balance sheet now finished, reorganization finished into Kodak One and focusing on what Kodak actually is able to do well, the company may, in the not-so-distant future position itself as an attractive investment.

The company's 2022 was **heavily** influenced by supply chain disruptions, shortages in both material and labor and significantly increased costs for those labors and materials.

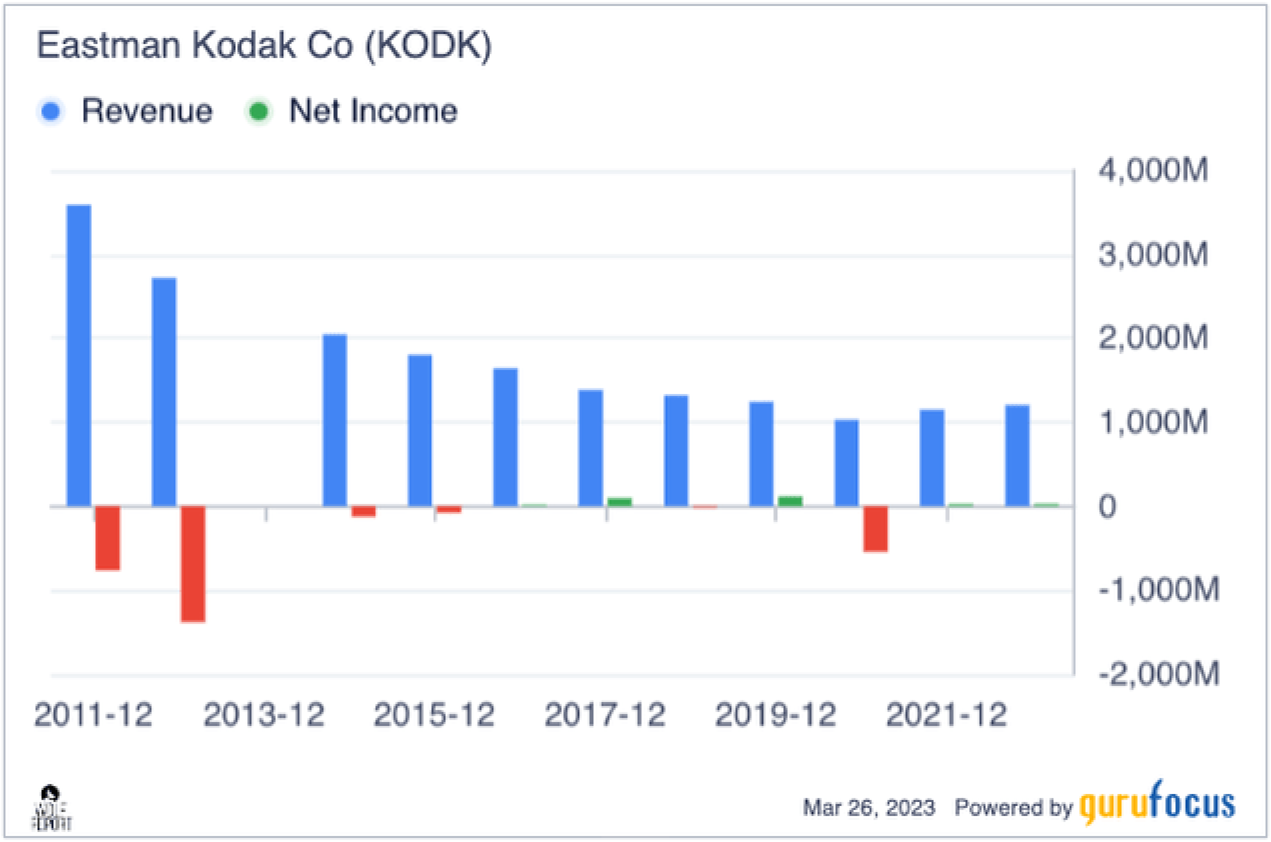
However, it's important to provide readers with the perspective that Kodak **is actually delivering here.** With the company's new products in digital and inkjet technology, the company has been able to make unnecessary traditional printing plates, which in the industry is not a small thing.

The company is still **most assuredly** in its transformative stage - 2023 isn't going to be a massive change to that. We're starting to see **glimpses** of what the company might be able to do, including delivering positive adjusted operational EBITDA for 4Q22 as well as for the full year.

($ millions)	Q4 2022	Q4 2021	(Decline) / Improvement $	(Decline) / Improvement %
Consolidated Revenue	$305	$307	($2)	-1%
Add: Unfavorable Impact of Foreign Exchange [2]	$19			
Adjusted Consolidated Revenue	$324	$307	$17	6%
Gross Profit	$43	$33	$10	30%
Add: Unfavorable Impact of Foreign Exchange [2]	$4			
Adjusted Gross Profit	$47	$33	$14	42%
Net Income (Loss)	$7	($6)	$13	217%
Changes in Fair Value of Embedded Derivative Liability Features	($2)	($4)		
Legal Settlements	($1)			
Asset Impairments	$1			
Non-Cash Changes in Workers Compensation and Employee Benefit Reserves	($2)			
Adjusted Net Income (Loss)	$3	($10)	$13	130%
Operational EBITDA [1]	$7	($8)	$15	188%
Less: Non-Cash Changes in Workers Compensation and Employee Benefit Reserves	($2)			
Less: Favorable Impact of Foreign Exchange [2]	($1)			
Adjusted Operational EBITDA	$4	($8)	$12	150%

KODK IR (KODK IR)

However, on a high level, these glimpses are still just that - glimpses and signs, not actual turnaround trends. Debt, while stabilized, is still higher than company cash, and the company's trend in terms of revenue/income is still barely positive.



KODK rev/net income (Gurufocus)

The company, in terms of its return metrics, is still value-destructive and has been for years - though the value destruction in terms of the return on capital invested in relation to the cost of that capital on an average, is not as bad as it was in 2020, and has been improving. Moreover, the company is now more than just "debt", with stockholder equity going positive, and has grown for a few years now.

KODK remains a bit of a "fish out of water", given the trends in traditional printing, with most of its revenues (59%) from the traditional printing sector. However, just like I would invest in the last company manufacturing horse carriages **at the right price (**because I know someone will always want carriages for the right occasion), so do I remain not negative about investing in the last physical printing expertise company - **again, at the right price.**

I also expect the Advanced Materials and Chemical businesses as well as digital printing, to actually grow and eventually overtake the traditional segment for the company. They currently make up around 33% together, and I expect this to grow to 40-45% in the next few years. This should also improve the COGS percentage, as well as other operating expenses due to further efficiencies.

What I would be willing to state at this time is that Kodak has **slowly turned its ship around.** It's an oil tanker in a puddle, and they've actually managed to turn the boat. This is clear to me based on:

- Slowly improving revenues, cash flows, and earnings.
- Step-by-step improving equity, debt, and cash levels.
- A market which, frankly, the company more or less "owns", because let's face it who else but Kodak with the expertise is still in this part of the game?
- Management executing on stated objectives for the past 2 years.

The recent issues on a global scale have caused the company's revenue growth/reversal to stall somewhat - growth rates are down. It's also clear and should be clear to you as well, that at this point the company does not compare favorably to almost anything, and can be said to be in decline or "Low" in terms of fundamental quality when comparing it to almost **anything.**

But there are positives.

The margins are expanding - slowly - and despite the issues we see. Going by the filings and using methods like the Beneish M-Score, we can also determine that the company is a very unlikely manipulator - the improvements we see are real. The company is not manipulating its Gross margin index, asset quality index, sales growth, or Depreciation, isn't seeing inflating SG&A despite new product launches, and despite increases in profits, we aren't seeing increases in Accruals to a degree that would worry me.

With this out of the way, and fundamentals also being covered by my last articles, the earnings for the year were a mark in the positive column for the company, and we can look at valuation.

Kodak Valuation - the problem is Macro

When I say that the problem is macro, what I mean is that if the company had delivered this performance in any other macro than the one we're currently in, I'd likely be a lot more open.

I've already stated that the company did well and, as a result, has become more attractive - the problem is that **almost everything** has become more attractive in the past 2 months or so. I'm less inclined to buy quality in a smaller, lesser business if I can get AAA quality even with a somewhat lower upside but higher safety.

And that's mostly where we are today.

Kodak's peers, as they usually are described, make little sense given that Kodak mostly does what other companies are leaving behind. Thus, comparing them to businesses like Cintas (CTAS), Sodexo, Thomson Reuters or others makes little sense as I see it - yet this is where they are usually put, in context.

We can also clearly state that multiples in terms of EBIT, EBITDA, Revenue, and P/E and P/S-ratios all imply either some sort of attractive valuation seen to company history or to industry or not much overvaluation.

Further, in the positive column, we actually have some activity both on the insider and on company "BUY" fronts. Not only have we seen some insider buying activity both in 2022 and 2023 - in fact, significantly more buying than selling, the same is true for asset managers and knowledgeable investors. The implication is not wanting to be left out of potential profits. Tudor Investment Group, Caxton and Point72 are among those that have bought company shares. It should be noted though, that all of these operate with a significantly diversified portfolio, and none of them bought especially much. All of the holders of shares do so at significantly low amounts - so the impact this has, even if positive, should be limited.

Few analysts follow this company, so we don't really have an estimate from analysts for where this might go, beyond that it "might" go up further.

Also, note that KODK is still at CCC+ in terms of credit - making it a "No-go" for most investors here.

We can see that from certain perspectives involving positive growth rates, we **may** get results that imply the current share price is fair, or even undervalued. But even if we were to work under such assumptions, this completely disregards the fact that this company is a no-yielding, CCC+ rated business. We also don't know how long it will take before this becomes a workable business, rather than a series of ideas and legacy segments.

I said in one of my previous pieces that things are going the right way. Well, things are most definitely still going the right way - and the pace at which they do seems to be improving.

I believe sometime in 2023-2025, we may come so far that I can offer a "Speculative Buy" rating on this stock at a certain price. But for now, even with these positives in hand, and even with certain perspectives of viewing the stock implying an "Undervalued" valuation at around $5 PT, giving us an upside from $3.92 here, I would say that's still going in too early, and being somewhat too positive.

I also wouldn't go into this as any sort of short-term plays, as all of the 5-14 day RSI's and momentum indicators are showing that this company is worse than over 85% of all the companies in the industry - and that obviously includes players that aren't CCC+ rated and have a dividend.

With that in mind, here is my updated thesis for Kodak.

Thesis

My thesis for Kodak is the following:

- Kodak is an impressive business - **if we looked at it in 1995.** Today, it's a company with a mix of remaining legacy assets and segment ideas that it aims to expand. It's shown some decent progress on this expansion - but I would wait until we see even clearer signals of this.

- I believe the company can be bought once any sort of turnaround and clarity is present here - and once we're looking at some sort of BB-rating.

- Until then, the company is a "HOLD" if you believe in it and own it, otherwise, I'd avoid or "SELL" Kodak.

Remember, I'm all about:

1. Buying undervalued - even if that undervaluation is slight, and not mind-numbingly massive - companies at a discount, allowing them to normalize over time and harvesting capital gains and dividends in the meantime.

2. If the company goes well beyond normalization and goes into overvaluation, I harvest gains and rotate my position into other undervalued stocks, repeating #1.

3. If the company doesn't go into overvaluation, but hovers within a fair value, or goes back down to undervaluation, I buy more as time allows.

4. I reinvest proceeds from dividends, savings from work, or other cash inflows as specified in #1.

Here are my criteria and how the company fulfills them (*Italicized*)

- This company is overall qualitative.

- This company is fundamentally safe/conservative & well-run.

- This company pays a well-covered dividend.

- This company is currently cheap.
- This company has a realistic upside based on earnings growth or multiple expansion/reversion.

Yes - to be clear - the company fulfills none of my current investment criteria.

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