

Infoimaging

A New Platform for Economic Expansion

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Good morning, everyone. Thank you.

It's a pleasure to be here to talk about a topic that I'm genuinely passionate about.

In fact, when I talk about Kodak's vision of our industry, I feel a bit like the character in the movie *The Graduate* who's doing his best to evangelize the wave of the future. You know the scene.

At a pool party, this middle-aged family friend corners young Benjamin and sums up his advice in a single word: "Plastics."

As I've encountered graduates this summer, it's taken some restraint to resist giving them my own advice on the opportunity before us: "Infoimaging."

Let me explain my reasoning. Think back to the late 1960s -- assuming you were alive then. Who would have thought -- four decades later -- doctors would be implanting plastic replacement joints? Or using plastic for facial reconstructions? Thanks to the incredible expansion in creative applications, the plastics industry today represents nearly \$140 billion.

But that's pocket change compared to the \$385 billion infoimaging industry -- and the platform it provides to drive future economic growth.

That total includes the \$212 billion Digital Visual Communication Market that Ron Glaz mentioned earlier, which is a subset of infoimaging. The \$385 billion total also includes traditional imaging products and services, on-demand printing, and digital networked copiers.

Infoimaging has the potential to profoundly change how people and businesses communicate and work together. And to create tools that can bring world-class medical treatment to every corner of the globe. Make virtual reality less virtual and more real. Bring families closer together.

Unlike plastics, infoimaging is a new concept for most people. It's not even in the dictionary, yet. We think of it as the opportunity to expand and enhance communications through the convergence of image science and information technology. It's a new lens for viewing our businesses – one that helps us identify opportunities to innovate and creatively solve a vast array of customer needs.

While still emerging, infoimaging is real today. I'll get into more detail later.



First, I'd like to step back and provide some context for my remarks. I want to talk about a few men whose vision went profoundly beyond the bounds of markets and categories -- and ended up reshaping the way people live and work. The men were Gottlieb Daimler, Karl Benz, Henry Ford, Arthur, Roy Allen, and Richard Hollingshead.

Now, I trust you're familiar with the first three. Daimler and Benz are credited with inventing the first gasoline-powered automobiles, and Henry Ford was the first to automate their production. These are critical accomplishments, and ones very similar to the role that Kodak founder George Eastman played in developing the technologies that made cameras and film everyday products.

Today, however, I ask you to consider the lesser known names. These are the individuals who pioneered new industries that were built around the automobile.

Hienemen, for example, opened the first motel in San Luis Obispo, California in 1925 -- as a stopping point between Los Angeles and San Francisco. "Motel," of course, represents the "convergence" of motoring and hotels -- and was probably as unfamiliar then as the word infoimaging is today. The second pioneer, Roy Allen, opened his first root beer stand in Lodi, California in 1919. His idea became the A&W Root Beer chain, the first drive-up restaurant offering car service. And Richard Hollingshead is credited with inventing the drive-in movie in 1933.

Now, I grant that the drive-in movie has gone the way of full-service gas stations. But the motel and fast food businesses -- and a host of others -- continue to thrive today. Think of drive-up banking, convenience stores, strip malls, and so on. All because the automobile opened up opportunity for new growth.

In fact, motels and fast food are just a few of the industries that have grown up around the automobile. And while car sales in the U.S. today total more than \$700 billion, if you add related industries like auto repair and maintenance, gas stations, tire sales, insurance and car rentals, sales exceed \$1.1 trillion.

The little root beer stand evolved into a \$73 billion business in drive-through restaurant sales. Motels command a sizeable chunk of the \$97 billion hotel and motel industry.

Today, we're standing at a similar threshold in the imaging and information technology industries. There's room for growth and innovation in each of these industries. All we have to do is imagine. But when you look at the opportunity presented by the convergence of the two, the potential is almost limitless. Convergence means a more complex industry. But within this new framework, we expect to discover new ideas and applications -- some we can't even imagine today.

I think everyone would agree the Internet is the automobile of the 21st century. It continues to transform critical parts of our lives -- from how we communicate to how we do business. That said, I'd like to look at the perspective we've gained over the past four years.

As managers, we've seen it all during this period. We experienced exhilaration in the early Internet boom. And while some ventures were ill-conceived, the sense that we had a blank slate for re-thinking every aspect of our businesses was energizing. It gave all of us a sense of urgency, a feel for consumers' rising expectations. And, I believe it made us sharper and more productive.

The bust is equally instructive. If we didn't know this before the past two years, we certainly know it today: Almost anyone can look brilliant in boom times. It's the tough times -- and by that I mean periods like the last two years -- that separate the winners from the also-rans.

I took away five key lessons from this period.

The first is that vision and passion are critical. I think this is the best legacy of the Internet boom. The energy and excitement gave everyone a wake-up call and helped us invigorate our businesses and people.

The second lesson is that profits matter. Enough said.

Third, people buy benefits, not technology. There's no industry that needs to focus on this more than our own. Too many digital camera manufacturers, for example, tout things like megapixels. But consumers don't care about megapixels. They simply want a camera that makes it easy to take and share great pictures.

Lesson four is: Rome wasn't built in a day. While speed-to-market and agility are critical, great companies, technologies and brands aren't built overnight. Home Depot is the fastest growing retailer and one of the most admired companies in the U.S., but the journey to 1,400 stores and \$54 billion in revenue has taken almost 25 years.

Even eBay, which might feel like an overnight sensation, has taken years to build. Their success is a testament to the combination of a great insight -- that the Internet is the perfect place for forming communities around buying and selling -- along with great management and an unrelenting commitment to customers.

The company turns seven this fall -- a veteran by dot.com standards -- and will cross the billion dollar threshold this year. Tremendous growth and success, by any measure, but it hasn't happened overnight.

The fifth lesson is that in order to take full advantage of new opportunities, you can't go it alone. Alliances -- sometimes with our top competitors -- are necessary. And they're smart. No single company has the resources or the breadth of technology to do everything well in infoimaging. The business model is horizontal rather than vertical. For example, the typical PC may have IBM or Dell on the nameplate, but house Intel components.

Now how do we apply some of these key lessons to drive economic growth?

When we talk about infoimaging, we're talking about three inter-related markets.

LESSONS

- Vision and passion are critical.
- Profits matter.
- People buy benefits ... not technology.
- Rome wasn't built in a day.
- You can't go it alone.



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The first market is devices – products that capture and digitize images and information.

In other words, digital cameras, scanners, printers, PDAs, wireless devices and interactive TV. Note -- we're not including computers for gaming systems in this category.

Devices account for nearly half of the infoimaging industry. And although they have a fast cycle time and often have tight profit margins, they provide the greatest value when they're linked to the second and third segments of infoimaging -- infrastructure and services/media.

Infrastructure represents another 14 percent of the infoimaging industry. This includes the back-end hardware and software that allows images to be stored, edited and distributed.

The third segment is services and media, which allow images to be shared and preserved. This \$148 billion segment includes photo printing; document preservation; and all kinds of media like inkjet paper, CDs, film and photo paper.

Let's now look at how infoimaging delivers new benefits in both commerce and everyday life.

One of the most compelling examples made headlines worldwide. You may have heard about Dr. Jerri Nielsen, the American physician working in Antarctica when she discovered a lump in her breast. Unable to leave the South Pole until seven months later, Dr. Nielsen was diagnosed and treated through a remarkable set of circumstances and technology. Supplies were air-dropped from the U.S. National Guard.

And a colleague was able to connect a camera, a computer and microscope to email images of the cancer cells to a doctor in Indiana, who directed Nielsen's treatment.

Infoimaging is also at work when a dentist uses a digital camera to show "before" and "after" photos of a recommended procedure. And it's in action when proud parents email photos of their newborn along with the name and vital stats to friends and family within hours of the birth.

Again, while technology plays a key role in infoimaging, it's important to remember that people are buying the capabilities technology makes possible. The patient whose disease is diagnosed faster doesn't care about pixels or bandwidth. Neither does the grandmother who receives an email photo of her new grandson.

These are the considerations we had in mind when developing Kodak's EasyShare camera and docking system. When we asked consumers about digital cameras, they told us two things.

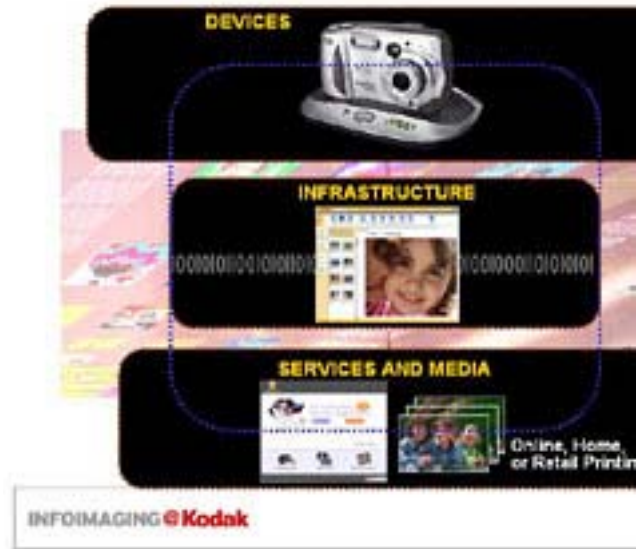
- First, they felt like they had to be engineers to get the pictures from the camera to their computers.
- Second, they hated having to remember to recharge the batteries.

If you've used an EasyShare system, you know we've solved both problems, and more.

I'm pleased to report the industry is beginning to follow Kodak's lead in digital cameras, most notably Hewlett-Packard and its new Instant Share camera. Who said imitation was the sincerest form of flattery?

EasyShare is also a great infoimaging example – one that combines all three segments in one easy-to-use system.

- The camera and dock are devices...
- that connect to infrastructure (a personal computer, EasyShare software and the Internet) . . .
- to produce services and media (online photo storage, printing at home, printing from home and printing at retail).



This is infoimaging at work, driven by Kodak’s promise, “You Press the Button, We Do the Rest.”

Another lesson I highlighted earlier is the formation of strategic alliances. Kodak has teamed up with a number of key players over recent years with the understanding that our combined strengths will produce new growth faster.

A good example of such an alliance is NexPress, a joint venture by Kodak with Heidelberg, one of the world’s foremost providers of printing and graphic arts equipment. The centerpiece product is a digital color printer for commercial printers and digital trade shops. The product leverages Kodak image science and digital technology, with Heidelberg’s global presence in the printing and publishing equipment market.



The quality of the printing is so superior that when we first previewed the printer, we had to physically remove the covers to prove that we hadn't secretly loaded the machine with a few reams of offset-printed sample pages.

Another example is digital cinema, which will eventually revolutionize the theatre business. Kodak is currently working with IBM and JVC on a digital cinema operating system that will play an important role. Today, employees at your local theatre have to manually splice in the trailers and ads on every copy of every movie shown. This process takes about an hour and a half for each film. You can do the math for the typical multiplex. With digital cinema technology, it's a couple of mouse clicks for the entire theatre chain.

We're still in the early stages, but the response is very positive. Theatre owners tell us the system is intuitive and easy to use – they can immediately see the benefits it brings to their operations. As the technology moves forward, however, there are infrastructure investment issues that need to be addressed before digital cinema comes to a theater near you.

Another alliance driving growth is Phogenix Imaging, a joint venture that blends Kodak's image science and photofinishing expertise with Hewlett-Packard's thermal inkjet technologies. We compete fiercely with H-P in digital cameras. And we collaborate with them with equal passion on the Phogenix DFX digital photofinishing system.

DFX prints digitally instead of optically – with no chemicals or plumbing required. This means the mini-labs can be installed in virtually any retail location – for about half the cost of traditional mini-labs. We think DFX will fuel strong growth in the \$7 billion retail photofinishing segment.

The final example relates to digital photography. Did you know that people with digital cameras take many more pictures than people who use film cameras? In fact, anywhere from 40-60 percent more. But they print less than 20 percent of the pictures they take. Printing digital images is simply too complicated.

Kodak has joined with the International Imaging Industry Association and other companies to create technical standards that make printing digital images easier. Known as the Common Picture eXchange Environment, the initiative will make it possible for consumers to order prints of their digital images from any photofinisher.

Looking at these examples, you can see the growth opportunity enabled by infoimaging -- by the convergence of imaging and information technology. All we have to do is imagine the possibilities. And this applies to a wide range of businesses, in addition to those I just mentioned.

At Kodak, we intend to go after this opportunity by focusing our resources on four strategies to drive growth in the coming months and years:

1. Expanding the benefits of film;
2. Driving output;
3. Making digital products and services easier; and
4. Building new business in new markets.



If I've done my job this morning, those critical few strategies sound familiar by now.

Most of the examples that I've discussed, not surprisingly, involve Kodak and the steps we're taking to drive growth through infoimaging. But infoimaging is not a Kodak initiative. It's the future of imaging.

For example, Fuji sums up its mission as, and I quote: "Exploring the furthest reaches of technology and continuing towards a dynamic imaging and information future."

Carly Fiorina has described Hewlett Packard as, quote, "a technology company that participates in printing and imaging and enterprise computing and devices and networking and services ... to deliver solutions in a way that is truly unique."

Whatever we call it, infoimaging is the future. Tomorrow's leaders – and Kodak intends to lead the pack – will be those that innovate and creatively solve customers' needs through this lens.

So far, my remarks have centered on tangible opportunities for growth through infoimaging. Now let's look at the future.

Imagine your home providing instant access to valuable resources – exactly when you need them. Need help with a marinade for grilled chicken? Open a door to a virtual chef who can walk you through the process.

Had a grueling day at work? Open your drapes to look out on your favorite vacation spot.

The world of commerce will be similarly transformed. When you go to your favorite retailer one day, you'll find 3D mannequins that look exactly like you. You'll see what clothes look best, and which shoes are most comfortable. Then you'll be able to send your selections for custom manufacturing.

Thanks to infoimaging, doctors will be able to tailor your home environment to improve – and monitor -- your health. Architects will be able to project life-size images of their designs – on location. Students will be transported and immersed in virtual history, or space, or the arts.

Obviously, there are a lot of issues to work through. We aren't there ... yet. But with vision, focus and innovation, infoimaging will revolutionize the world around us and do it for the better.

We've just begun to explore the potential of infoimaging, both at this conference and in our businesses.

As we look ahead to grow our businesses through infoimaging, I encourage us all to remember some of the lessons from our recent past.

- We need to be quick and agile, while building our businesses for the longer-term.
- We need business models that deliver sustainable value for our key stakeholders.

• Be quick and agile, while building our businesses for the long term.

• Develop business models that deliver sustainable value for key stakeholders.

• Collaborate even as we compete.

• Envision breakthroughs

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- We need to collaborate and partner with one another even as we compete vigorously.

- And most important, we need the passion to envision breakthrough products and services, just as George Eastman imagined everyday photography and Arthur Heinemen dreamt of a roadside motel.

These are the insights that lead to a fundamental redefinition – and expansion – of the businesses that we’re in. And that create entirely new industries.

I want to thank you for your time today. And I’d like to leave you with one final thought.

Alan Kay, the great computer visionary, once observed that, “the best way to predict the future is to invent it.”

Collectively, we have the power to do that. Given the advances we’ve made in imaging and information technology, we’re at an exciting juncture. The future holds incredible potential ... not just to build our businesses and drive growth, but to fundamentally improve people’s lives. And it’s our future to invent.

Thank you.