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Vice President, CFO

Financial Overview & Strategy

November 15, 2005

Financial Overview & Strategy Agenda

- Recent Financial Results
- Financial Position & Cash Flows
- Value Creation & Use of Cash
- Business Model Evolution

Financial Overview & Strategy Agenda



- **Recent Financial Results**
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Q3 2005 Key Highlights

- **Strong revenue growth of 15.2% to \$298.6 million**
 - Very broad based growth in Flash, Optical and Magnetic products
 - Growth in all regions led by Europe & APAC
- **Gross Margin of 23.6%**
 - Up 0.8 points from Q3 2004 driven by higher optical margins and higher utilization of the TeraAngstrom Coater
 - Down 1.4 pts from Q2 2005 driven by Optical
- **SG&A lowest in company history at 11.3% of sales driven by**
 - Benefits from restructuring program
 - Gain on sale of property of \$1.0 million
 - Seasonal reductions in variable sales and marketing expense
- **Operating income of \$23.6 million was above expectations**
- **Cash from Operations of \$21.3 million for the quarter, \$47.3 YTD**
 - Working Capital unchanged from Q2
 - DSO flat to Q2 at 46 days
 - DOS remained consistent with Q2 at 68 days

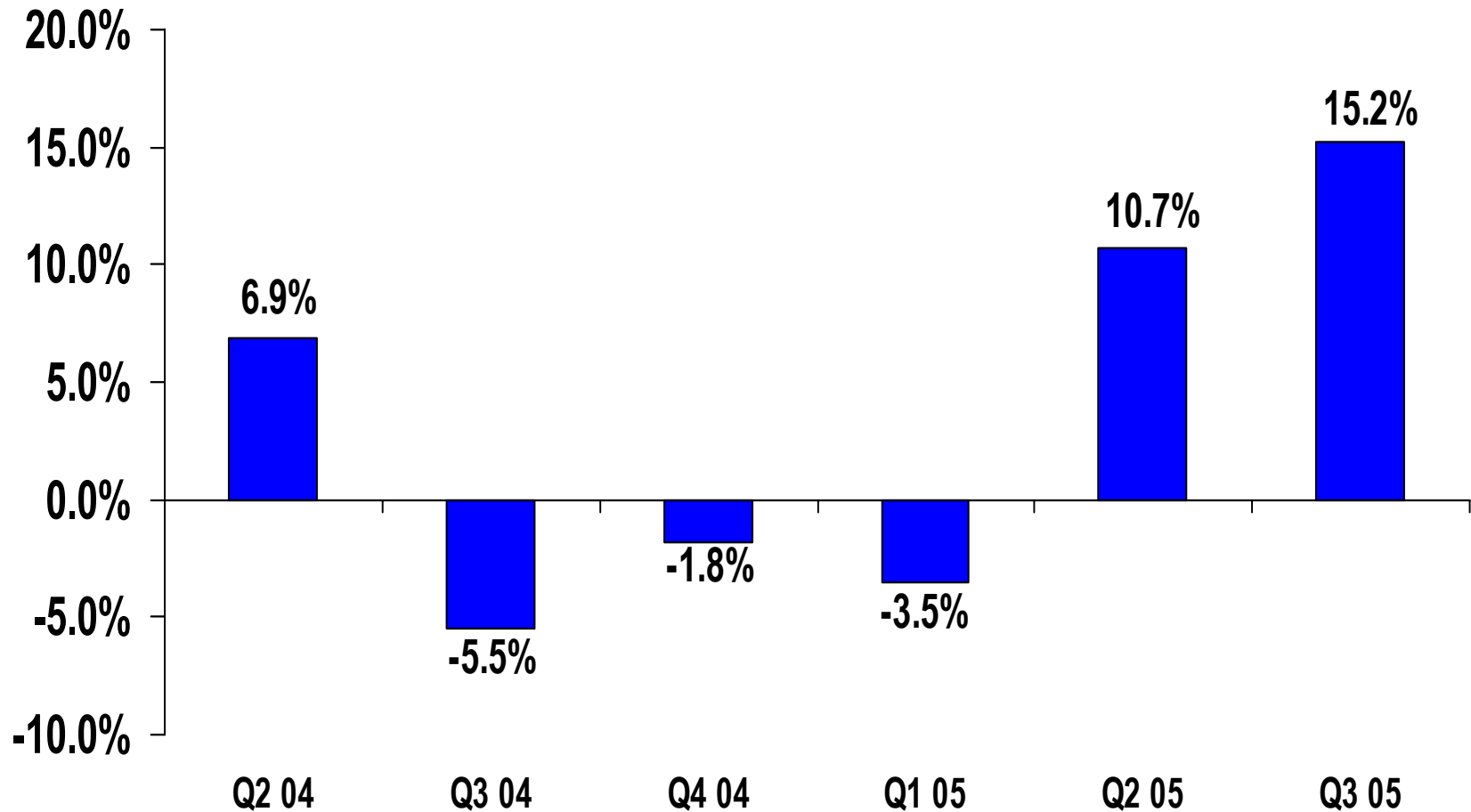
Summary P&L (\$ Millions)

Continuing Operations excluding Special Items

	<u>Q2</u> <u>2004</u>	<u>Q3</u> <u>2004</u>	<u>Q4</u> <u>2004</u>	<u>Q1</u> <u>2005</u>	<u>Q2</u> <u>2005</u>	<u>Q3</u> <u>2005</u>
Sales	\$ 272.3	\$ 259.3	\$ 315.8	\$ 315.0	\$ 301.5	\$ 298.6
Growth %	6.9%	-5.5%	-1.8%	-3.5%	10.7%	15.2%
Gross Margin	67.1	59.0	71.6	82.3	75.2	70.5
GM %	24.6%	22.8%	22.7%	26.1%	25.0%	23.6%
Operating Expenses	56.0	52.3	50.4	51.0	51.4	46.9
% to sales	<u>20.6%</u>	<u>20.2%</u>	<u>16.0%</u>	<u>16.2%</u>	<u>17.1%</u>	<u>15.7%</u>
Operating Income	\$ 11.1	\$ 6.7	\$ 21.1	\$ 31.3	\$ 23.8	\$ 23.6
% to sales	4.1%	2.6%	6.7%	9.9%	7.9%	7.9%
EPS	\$ 0.22	\$ 0.24	\$ 0.41	\$ 0.90	\$ 0.46	\$ 0.48

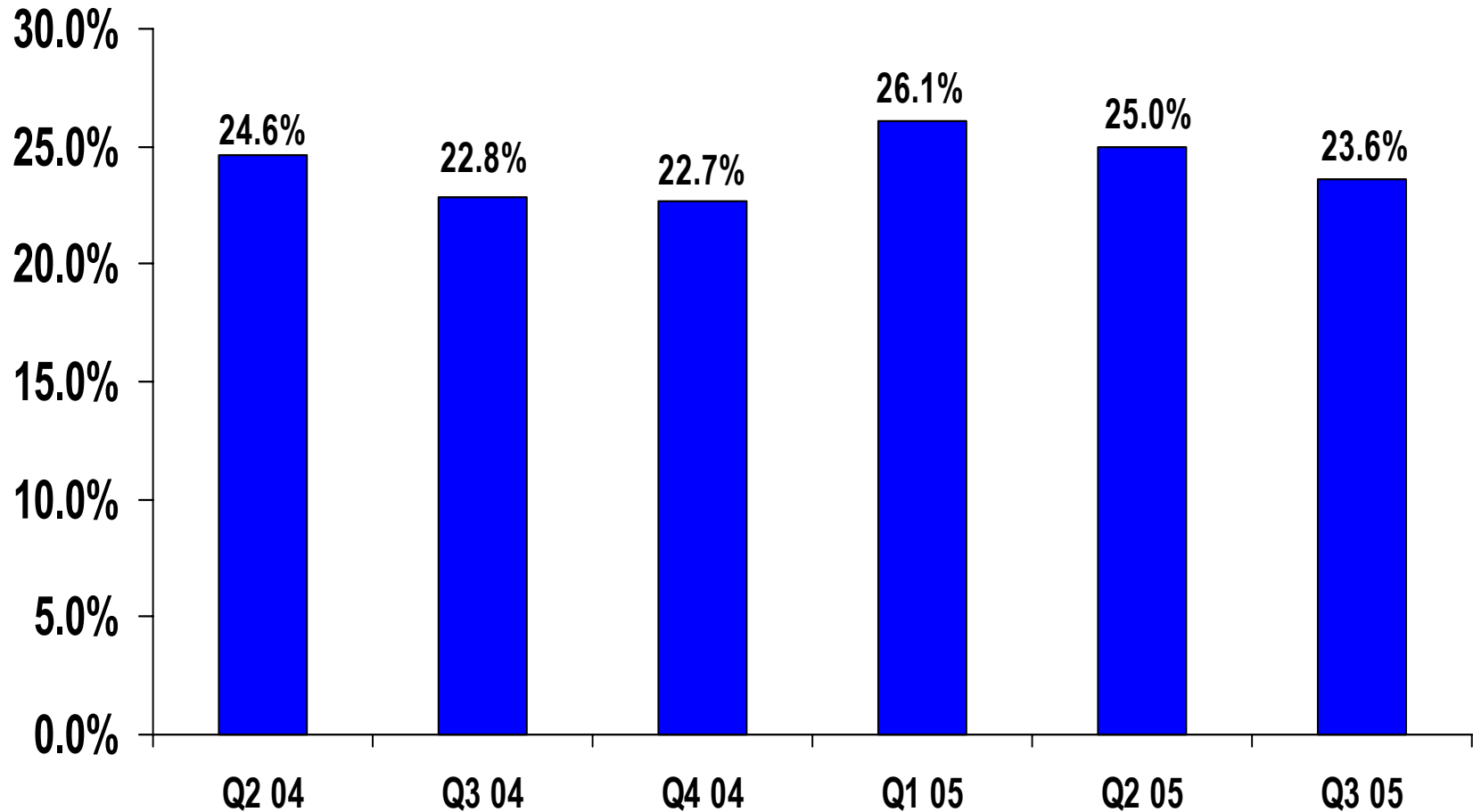
Imation Revenue Growth

A Positive Trend



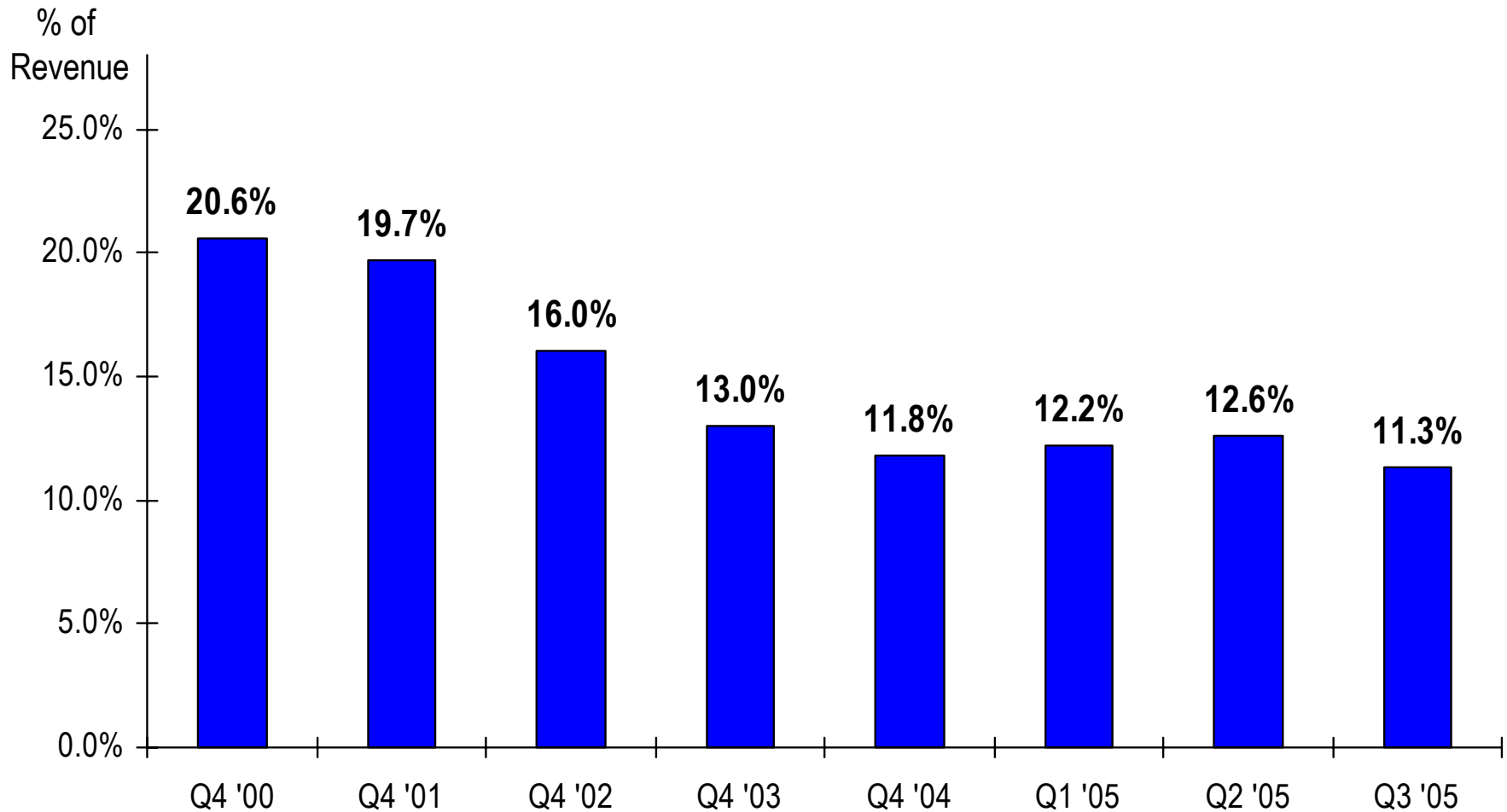
Imation Gross Margin %

Gross margin has been maintained in a range of 23% to 26%



SG&A % *

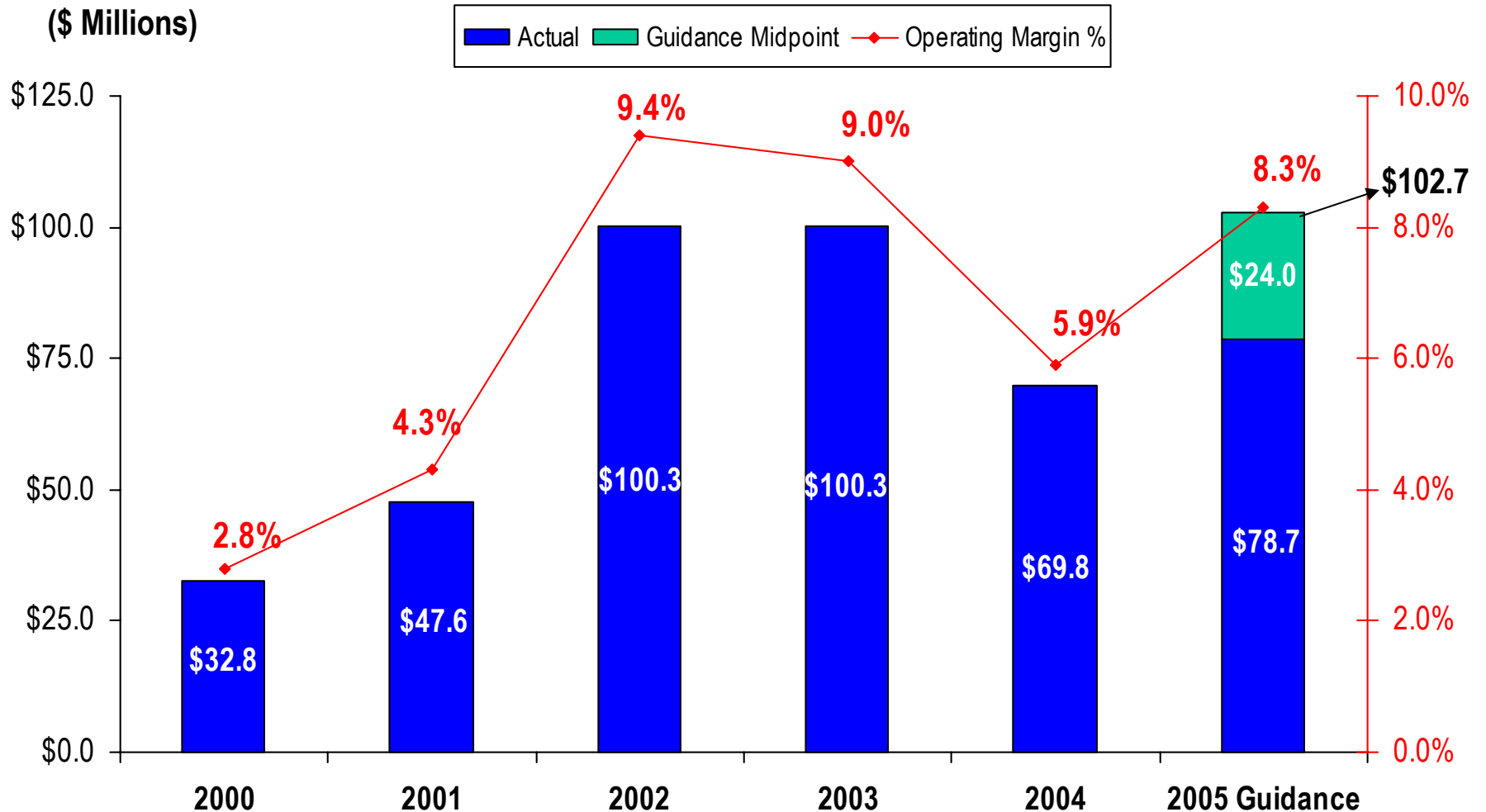
Down over 15 points - A Key Driver in our Evolving Business Model



* Adjusted for special items (see chart titled Reconciliation of Reported Results to Adjusted Results)

Operating Income *

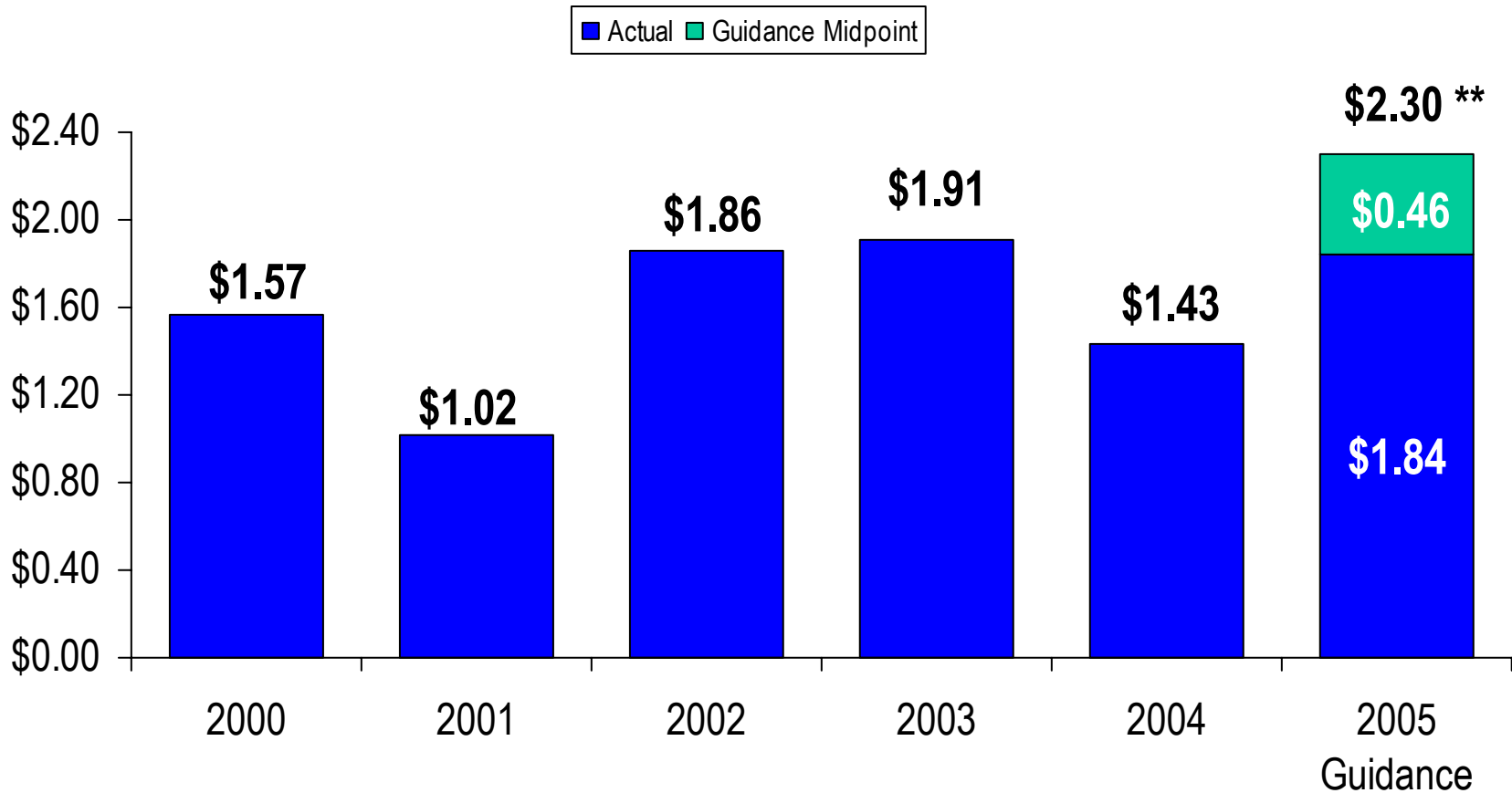
Regained earnings momentum in 2005 demonstrates the resiliency of the business model



* Adjusted for special items (see chart titled Reconciliation of Reported Results to Adjusted Results)

Earnings Per Share*


The Company has been able to generate solid earnings growth over time



* Continuing Operations excludes special items (see chart titled Reconciliation of Reported Results to Adjusted Results)

** Includes a \$0.35 per share tax benefit recognized in the first quarter of 2005.

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Balance Sheet

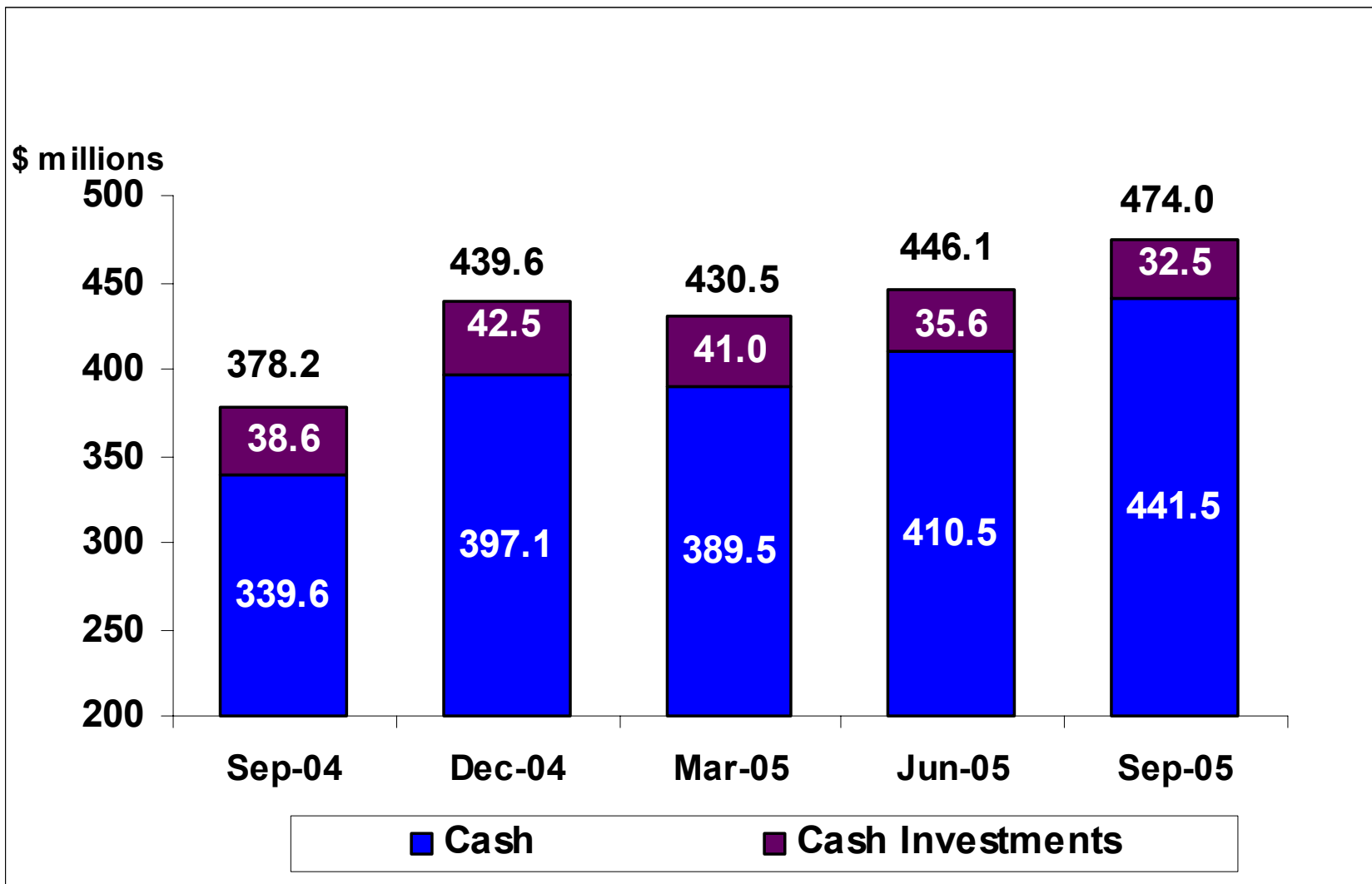
Imation's financial condition remains strong, with significant liquidity to support growth opportunities

(\$ Millions)

	Year-end 2004	Q3 2005
<u>Assets</u>		
Cash & Equivalents	397.1	441.5
Accounts Receivable - Net	181.0	176.9
Inventories	131.3	167.1
Other Current Assets	76.6	79.5
Total Current Assets	786.0	865.0
Net PP&E	214.4	197.5
Other Assets	110.2	72.6
Total Assets	1,110.6	1,135.1
<u>Liabilities & Equity</u>		
Accounts Payable	128.2	129.3
Accrued Payroll	11.7	20.4
Short-term Debt	--	--
Other Current Liabilities	135.3	100.0
Total Current Liabilities	275.2	249.7
Other Liabilities	48.6	46.6
Long-term Debt	--	--
Total Equity	786.8	838.8
Total Liabilities & Equity	1,110.6	1,135.1

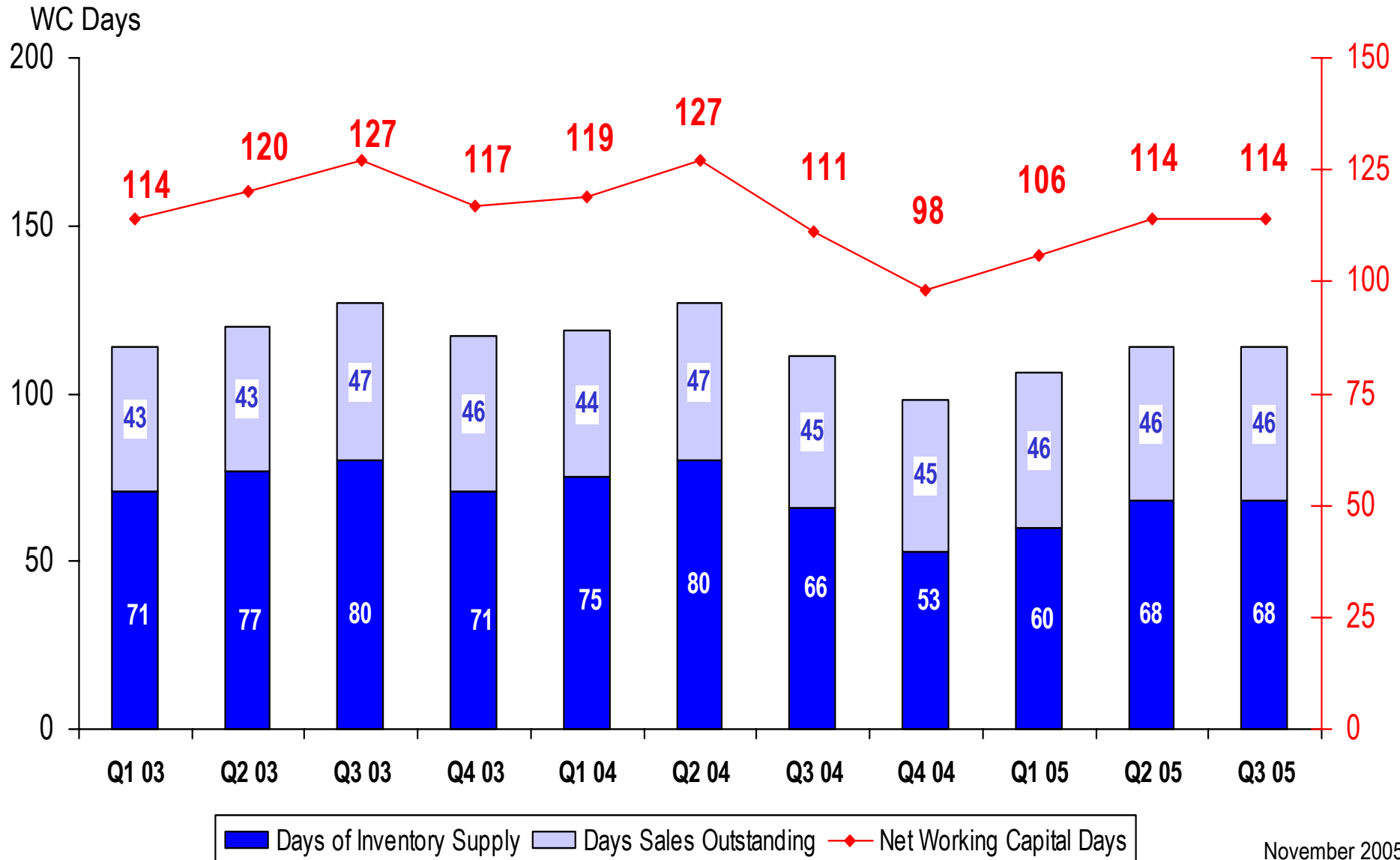
Cash & Investments

Cash & Liquid Investments Continue to Increase



Working Capital Days

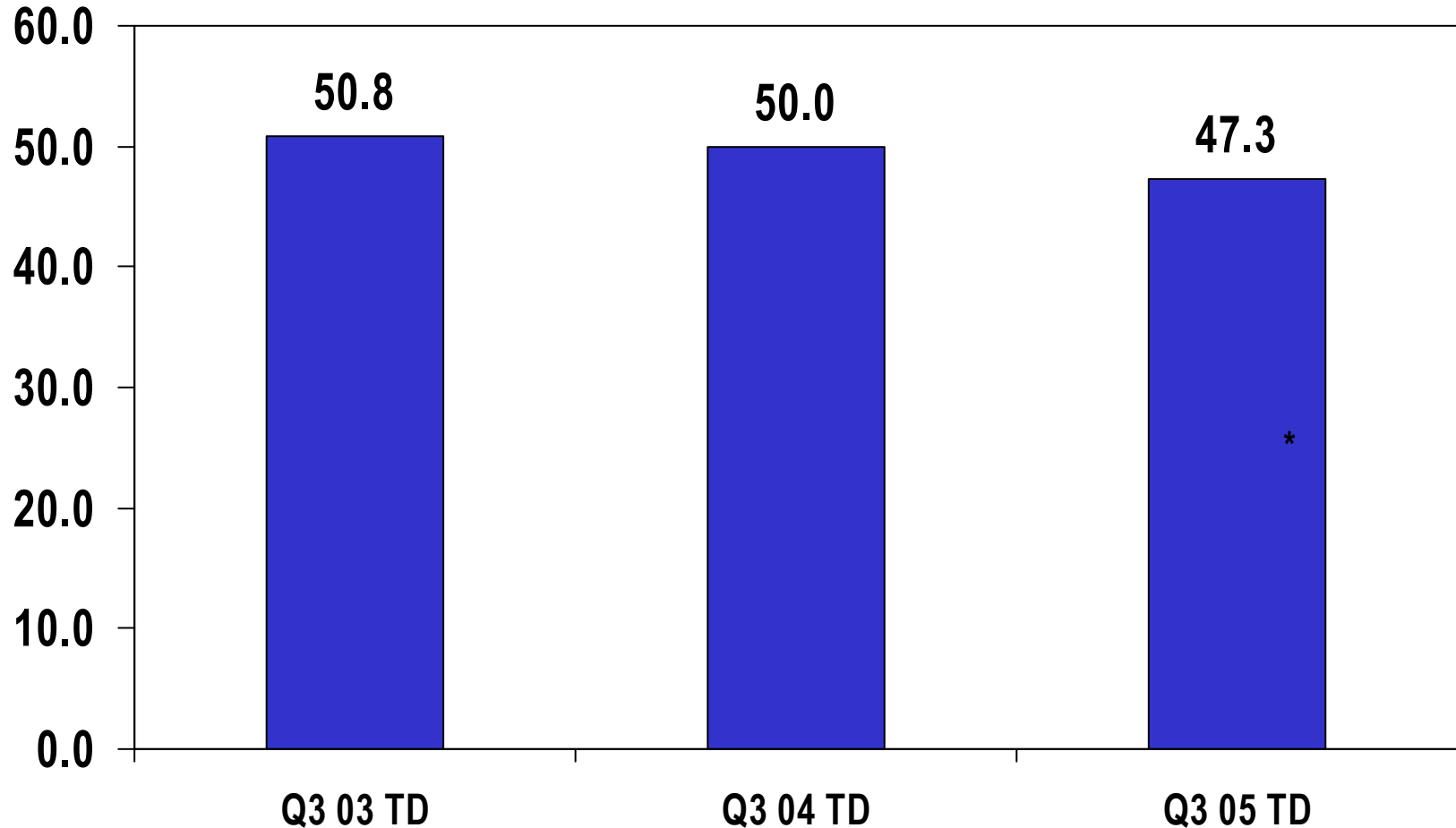
Working Capital remains a focus – Lean initiatives a driver for further improvement



Cash Flow from Operating Activities (9 Mos YTD)

Cash generation has been significant and consistent

\$ Millions



* Includes a penalty of \$20.9 million to settle Jazz Photo litigation

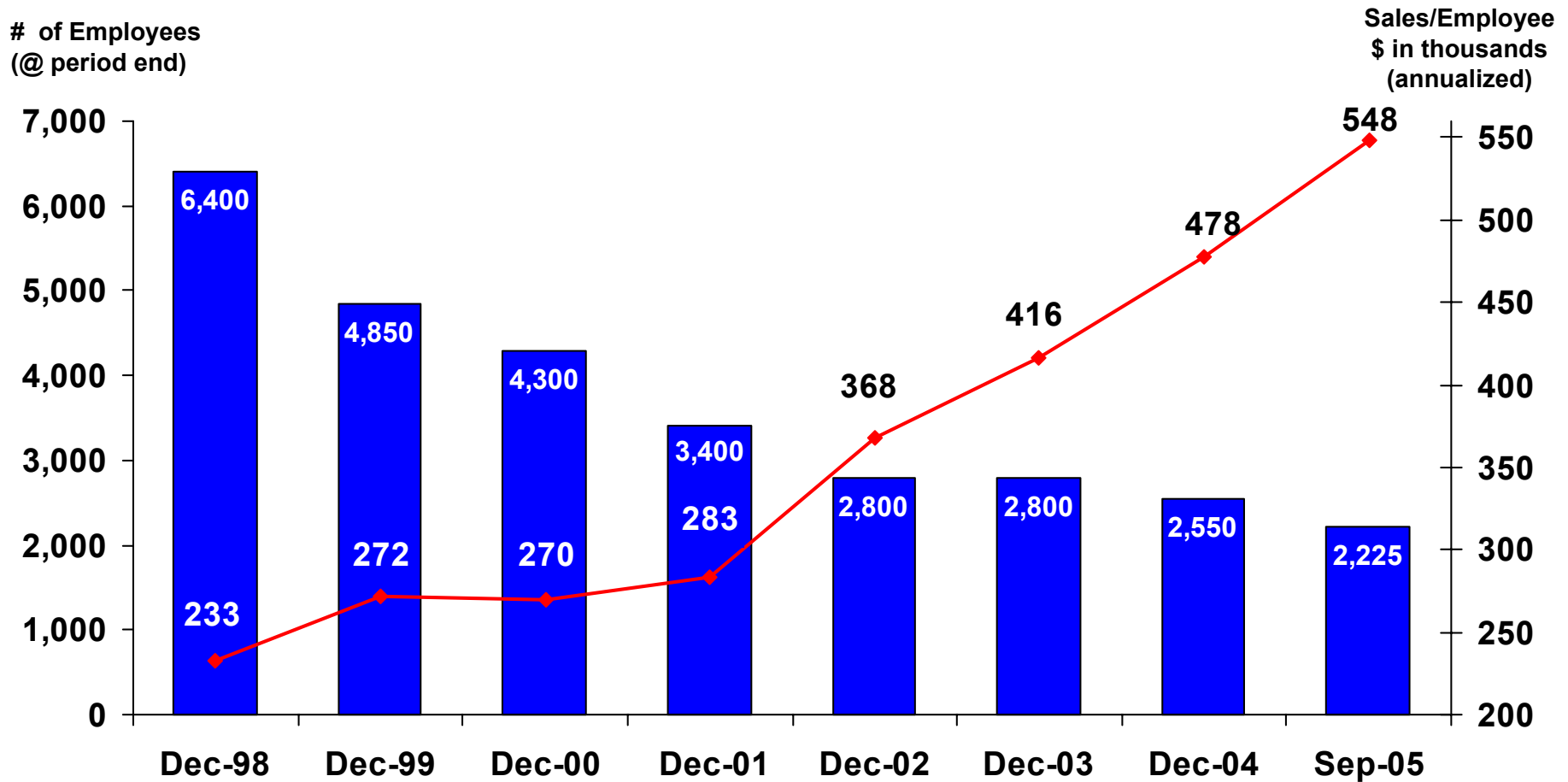
Cash Flows

Cash generation has funded Capex, Stock Repurchases and Dividends


(\$ in millions)	9 Months	
	<u>2004</u>	<u>2005</u>
Cash Flows From Operating Activities		
EBITDA	\$83.3	\$108.5
A/R, Inventory, and A/P	(\$13.1)	(44.9)
Other operating activities	(20.2)	(16.3)
Cash Flows From Operating Activities	50.0	47.3
Capital expenditures	(28.4)	(14.7)
Cash Investments	(25.6)	7.5
Treasury Stock Purchases	(75.5)	(15.9)
Dividends Paid	(9.8)	(11.6)
Exercise of Stock Options	16.8	18.6
Specialty Papers Proceeds	-	16.0
Other	0.7	(2.8)
Change in cash and equivalents	(71.8)	44.4
Cash and equivalents--beg of period	395.7	397.1
Cash and equivalents--end of period	\$339.6	\$441.5

Employee Count and Productivity

Sales growth coupled with Divestitures & Restructuring have fueled a significant rise in productivity



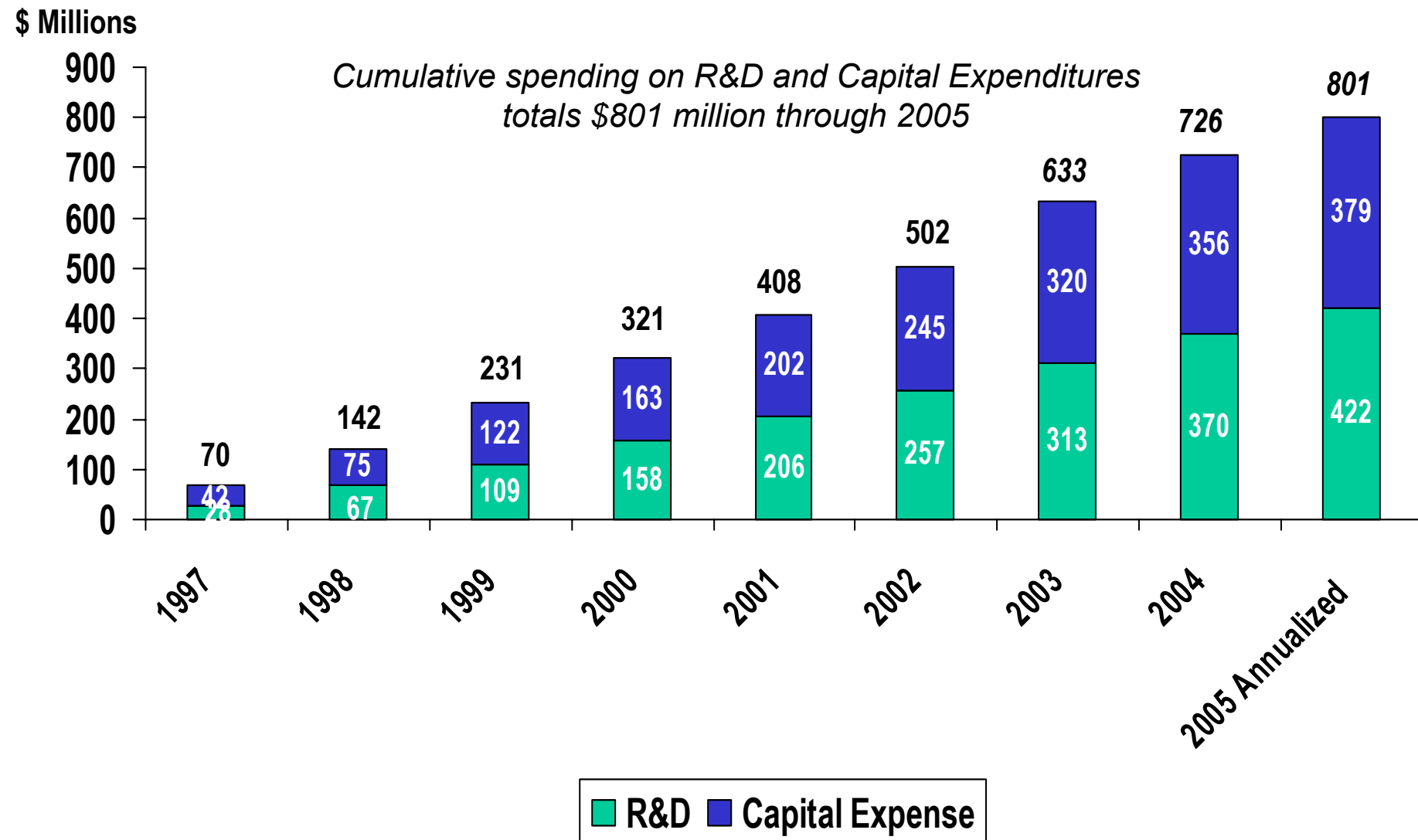
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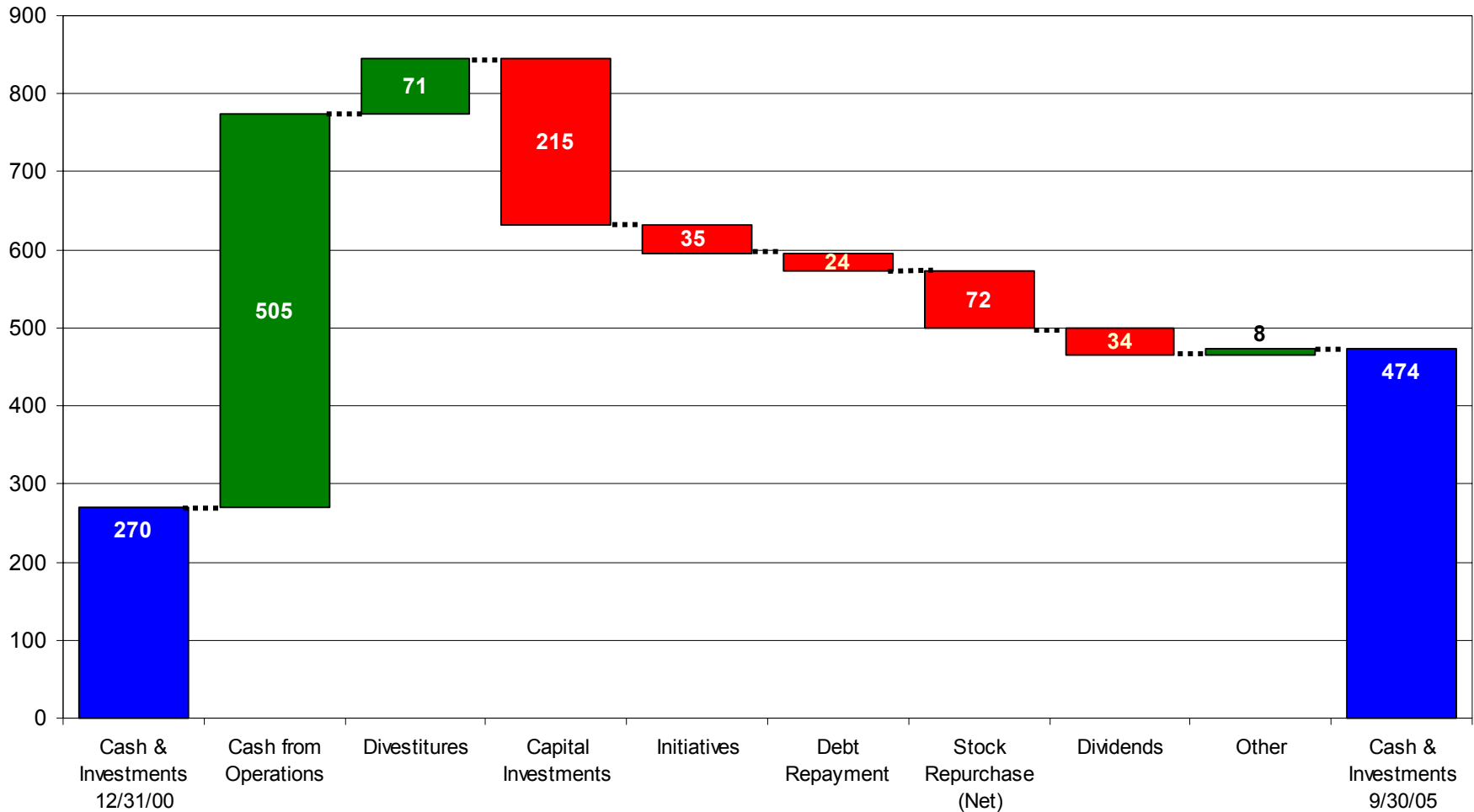
Uses of Cash Focus on Creating Value

- **Internal Organic Growth Opportunities**
 - Significant and continuing R&D and capital investments
 - \$50+ million Tera Ångstrom™ technology investment
- **M&A and Other Strategic Alliances**
 - Examples over the last several years:
 - \$20 million Exabyte distribution agreement and equity
 - \$15 million EMTEC asset purchase
 - \$5 million MBI joint venture
 - \$10 million O-MASS & other technology investments
- **Efficient Return of Cash to Shareholders**
 - Share repurchase
 - \$106.3 million since the beginning of 2004 (3 million shares)
 - Remaining authorization of 3.3 million shares
 - Dividends
 - \$24.8 million since the beginning of 2004
 - Additional \$0.12 per share approved for Q4 2005

Imation is Committed to Profitable Growth




Historically, Cash from Operations has Funded Investments and Stock Repurchase While Still Increasing Cash by Over \$200 Million



A Consistent Approach to Investment Decisions

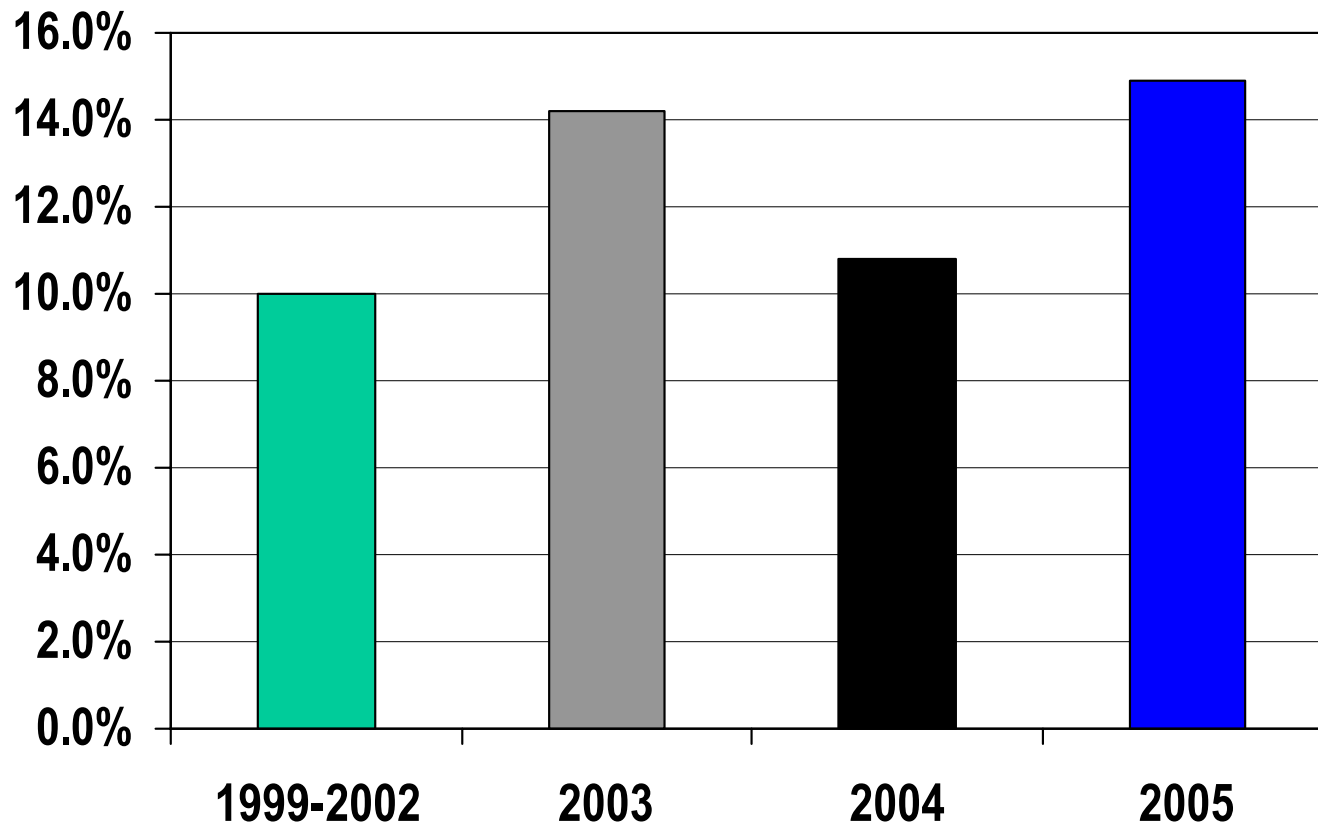
- **The main yardstick we use to measure value creation opportunities:**
 - Cash returns in excess of weighted average cost of capital
- **Risk evaluation is a critical step that receives significant attention**
 - Management takes a diligent and prudent approach managing risk in their investment decision making process
 - With the benefit of hindsight, “No” has been the correct answer to many past opportunities
- **We measure our success over time based on Return on Invested Capital**
 - While the Company’s business model has changed over time (lower gross margin, but lower operating expenses)
 - ROIC has continued to improve (with the exception of the Optical issues in 2004)
 - Stable operating margins
 - With a continued focus on asset utilization

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Return on Invested Capital

How We Measure Our Long-Term Success



Taxes have been adjusted to a normalized rate

Return on Invested Capital

How We Measure Our Long-Term Success

Success Factors

Sourced Products

Mfg Products

- Differentiation
- Channel Coverage & Expertise
- Effective Sourcing Relationships

- Maintain & Improve Technology
- Leverage TeraAng Investment
- Maintain Strong OEM Relationships
- First-to-Market

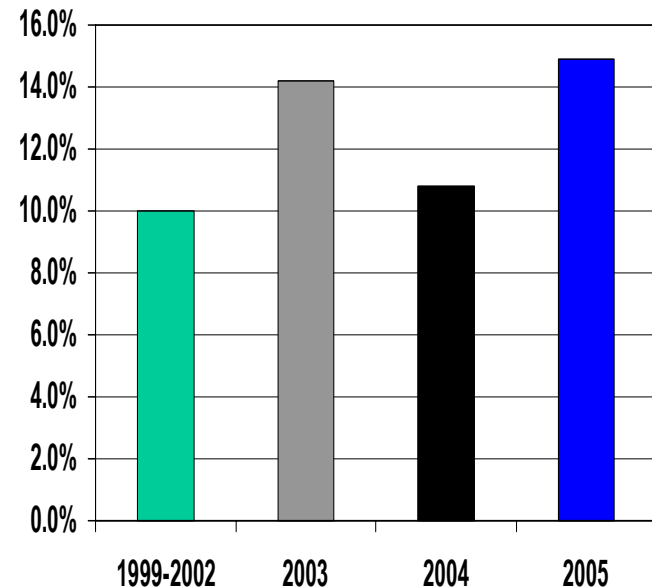
- Shortened Supply Chain
- Greater Velocity
- Effective Sourcing Relationships
- SKU Management

- Lean Transformation
- Managing Product Life Cycle

After-Tax Profit Margin*

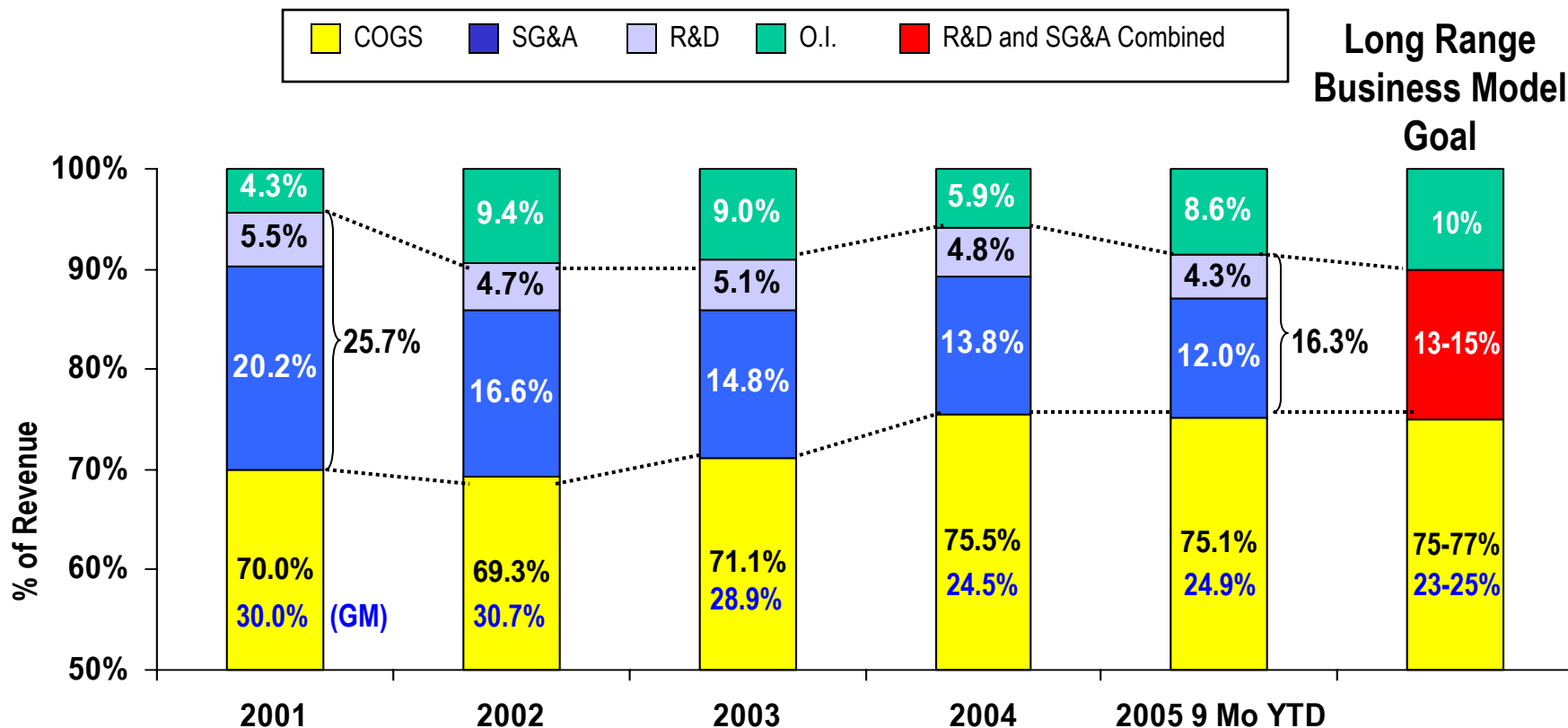
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Asset Turns (Invested Capital)



*Taxes have been adjusted to a normalized rate

Reduced Operating Expenses Has Delivered Sustainable Profits on Lower Gross Margins



Reconciliation of Reported Results to Adjusted Results

The As Adjusted results are provided solely to assist in an investor's understanding of the impact of these special items on the comparability of the Company's operations. The adjusted information should not be construed as an alternative to the reported results determined in accordance with accounting principles generally accepted in the United States of America.

(\$ in millions, except per share data)	2004		2003		2002		2001	
	Reported	Adjusted (1)	Reported	Adjusted (2)	Reported	Adjusted (3)	Reported	Adjusted (4)
Net revenues	\$1,219.3	\$1,219.3	\$1,163.5	\$1,163.5	\$1,066.7	\$1,066.7	\$1,119.3	\$1,119.3
Gross profit	299.9	299.9	334.7	334.7	327.8	327.8	335.4	336.0
Selling, general and administrative	163.9	163.9	166.3	166.3	176.9	176.9	232.0	226.3
Research and development	56.9	56.9	57.0	57.0	50.6	50.6	62.1	62.1
Litigation	--	--	(1.0)	--	(6.4)	--	--	--
Restructuring and other	25.2	--	(7.2)	--	(4.0)	--	46.1	--
Operating income (loss)	53.9	79.1	119.6	111.4	110.7	100.3	(4.8)	47.6
Income (loss) from continuing operations before cumulative effect of accounting change	42.3	56.6	81.8	76.3	73.2	66.5	(0.8)	35.6
Diluted earnings (loss) per common share, continuing operations before cumulative effect of accounting change	\$1.19	\$1.59	\$2.25	\$2.10	\$2.05	\$1.86	(\$0.02)	\$1.02

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- 1) The year ended December 31, 2004 includes restructuring and other charges of \$25.2 million. The restructuring charges are primarily for cash severance payments. The charges also included approximately \$6 million for non-cash asset impairments.
- 2) The year ended December 31, 2003 includes the reversal of a reserve taken in 2002 for a litigation issue in Spain that was favorably settled during 2003 and a gain of \$11.1 million primarily related to outstanding transition services payments for the color proofing and color software business sold in 2001 and a \$0.7 million reversal of previously recorded charges due to lower than expected costs of restructuring, offset by a \$4.6 million impairment of a loan to a contract manufacturer.
- 3) In 2002, the Company recorded a net litigation benefit due primarily to the May 29, 2002, legal settlement with Quantum and Maxell, net of certain associated legal expenses. The Company also recorded adjustments of reserves of \$5.8 million from the Company's previous restructuring programs as the result of lower than expected costs offset by new charges of \$1.8 million.
- 4) In 2001, the Company recorded special charges of \$0.6 million in cost of goods sold and restructuring and other charges of \$48.0 million. Selling, general and administrative expenses (SG&A) includes \$5.7 million of amortization related to software that was abandoned. Restructuring and other also includes a \$1.9 million pre-tax gain on the sale of the Company's color proofing and color software business.

Thank you!