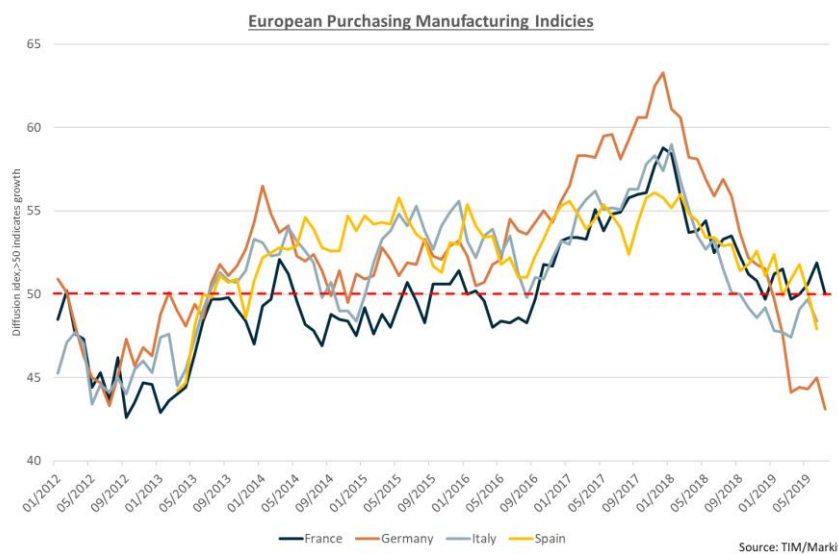




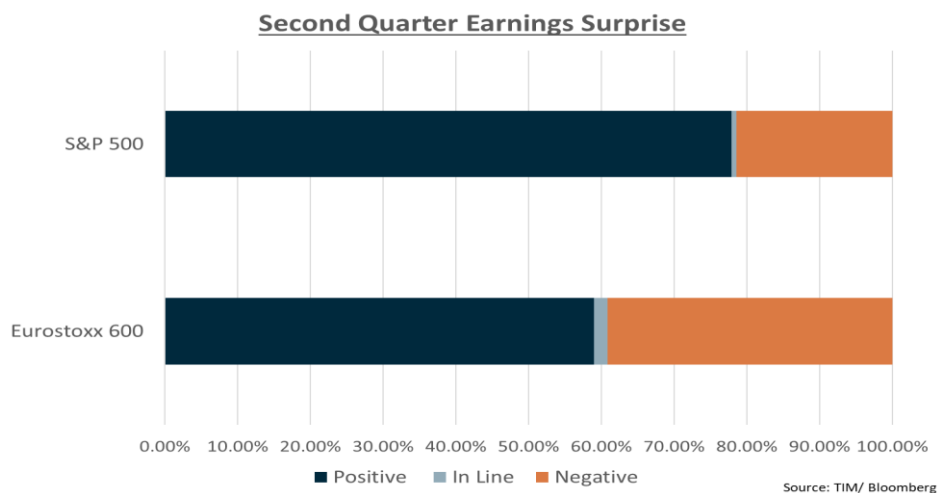
July 2019

“A person can find anything if he takes the time, that is, if he can afford to look. And while he’s looking, he’s free, and finds things he never expected.”- Tove Jansson

With the reporting season well underway, management teams are coming out of their closed periods, revealing how they see the global economy and how it pertains to the prospects for their particular industry or company. The results have been quite varied with numerous profit warnings from the chemical, automotive and industrial sectors, while other sectors have been steadfastly upbeat. Active fund management and stock selection is paramount in these situations as the number of companies that enable capital preservation and growth has become significantly smaller than at this point last year.



Analysts’ forecasts changed in recent months (with a little help from corporate guidance, where 4/5ths of those who give full-year estimates have indicated a year-on-year decline in earnings per share) to suggest that earnings in the S&P 500 would drop by 2.8% on average in the second quarter. However, well over halfway through the reporting season, almost 80% of US companies have beaten these lowered numbers whilst in Europe the number is closer to 60%.



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VT Tyndall Global Select Fund

Commentary

July 2019



Despite slowing macro-economic data, which ultimately led the US Fed to cut rates for the first time in 11 years, and the UK seemingly careering towards a hard Brexit, equity markets rose to new all-time highs. The VT Tyndall Global Select Fund rose by 6.32% over the month, the largest single month rise since October 2015 and brings the year-to-date returns to 26.23%.

Following their capital markets day on 9th May, we initiated a position in The Belgian display technology company, Barco. The company is the market leader in cinema projection, wireless meeting room technology and displays for healthcare diagnostics. It has a net cash balance sheet and is growing its operating margins through scale and investing in research and development that results in market leading technology defended by a strong portfolio of patents.

The company operates with three divisions, each of which have two main activities. Entertainment comprises of Cinema and Venues & Hospitality, in which the company sells state of the art projectors, image processing services and LED based displays for not only fixed location cinemas, arenas and museum but also concerts, shows and sporting events.

In the cinema field the company is at the forefront of the shift from traditional bulb based projection to RGB laser technology that not only gives greater image quality but cost savings (over time, given the €100,000-€300,000 price tag, or €40,000-€45,000 for the lower end laser phosphor models; by comparison traditional xenon based projectors cost c.€30,000) owing to no replacement bulb requirement, lower down time and up to 50% lower energy consumption. Light bulb replacements alone amount to c. €3,000 per annum so the total potential savings over a ten-year period are significant.

The Total Cost of Ownership (TCO) is important to Cinema operators given the long replacement cycles that the industry generally experiences. We believe that we are at the start of a new replacement cycle in the Western world as it seeks to differentiate itself from the streaming options such as Netflix by offering greater image quality, immersive sound and 3D. China and Latin America have been faster adopters of the shift to laser technology, but recent Barco wins with Kinopolis, Cineworld and the growth in IMAX, with which it has an exclusive agreement, suggests that the West is now playing catch up.

Leading Cinema Chains and Primary Projector Suppliers ex China

Country	Company	Screens	Supplier
USA/ UK	AMC (Odeon)	11,091	Christie
UK/USA	Cineworld (Regal)	9,539	Barco
USA	Cinemark	5,957	Christie, Barco
Mexico	Cinépolis	5,251	Barco
South Korea	CGV	3,459	Barco
Europe/ Taiwan	Vue (Cinemaxx)	2,006	Sony
Worldwide	IMAX	1,849	Barco
Canada	Cineplex	1,676	Christie, Barco
Indonesia	21 Cineplex	1,115	Christie, Barco
France/ Switzerland	Gaumont Pathé	1,099	NEC, Barco
Belgium	Kinopolis	850	Barco

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Source: Company Data, TIM

There are approximately 182,000 cinema screens worldwide and Barco's capture rate has grown from 41% to 50% in the past six years. The industry is oligopolistic in nature with Barco, Christie, NEC and Sony accounting for almost the entire market.

The Enterprise segment is split between Control Rooms and Corporate. For control rooms the company provides screens and software capable of displays output from multiple input sources for end markets such as air & transport traffic control, police control rooms amongst many others.

Barco rear projection cube wall



Source: Company reports

Barco UniSee



Source: Company reports

For the corporate sector the company has developed a device known as ClickShare, enabling employees to easily connect from any device to the screen in a meeting room in a wireless manner. Barco has a 40% share in this market, which is growing >10% per annum and generates the highest margin of all their three divisions; the nearest competitor, Creston, commands a 10% share.

Although small, we are enthused in education-based offshoot of Clickshare, WeConnect, where additional features on top of the basic hardware are sold on a subscription basis and thus the division is experiencing a high and growing percentage of recurring revenues. We see remote learning and web-based education as a market with strong structural growth. The company offers solutions for classrooms, lecture halls and virtual classrooms alike.

The final division is Healthcare, which is split between Diagnostic and Surgical. The company specialises in providing screens that are capable of offering precise calibration where the performance is assessed by regulatory bodies, creating a significant barrier to entry.

Barco Diagnostic product



Source: Company reports

The surgical displays are used in operating theatres, giving surgeons precise images in HD or 4K resolution. The company also innovates with products such as its Demetra range, which are handheld scanners that help dermatologists detect skin cancer. Given that the CEO's prior role was CEO of General Electric's software and solutions for their Healthcare business, we would not be surprised if we see further developments in this field and a greater emphasis on SaaS solutions that would increase the recurring revenues and margins for the business.

Barco Surgical product



Source: Company reports

Barco lists the three leading imaging companies, namely Siemens Healthineers, Philips and GE, which account for 73% of the market, amongst its customers. Chinese healthcare expenditure has grown at over 15% CAGR in the past 20 years and in the past 10 years the number of hospitals has grown by two thirds to over 25,000. Barco has invested heavily in the region with a R&D and production plant in Suzhou and is experiencing double digit growth in connected displays' which they believe will underpin growth in this division; given the conservative nature of the management we believe that their targets may see upgrades in the years to come.

Given the strong positioning in each of its markets, margin opportunities combined with a strong balance sheet that can finance further investment in adjacent technologies we felt that the investment

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T Y N D A L L

case was compelling. The company was trading on a Free Cash Flow yield in excess of 5% and delivers a through the cycle Return on Invested Capital of approximately 25%. Although the shares have traded well since our initial investment, we will continue to look for the opportunity to increase the position size in the future.

As ever, if any investors have any questions or would like any further information, please feel free to ask.