

FINAL TRANSCRIPT

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Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

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PRESENTATION

Operator

Welcome to the conference call and results of Barco.

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

Hi, ladies and gentlemen. Thank you for joining us again today for some more explanation and [comment] of the results of our full-year 2010 results. With me here, and I am JP Tanghe responsible for Investor Relations of Barco; with me here is our CEO, Eric Van Zele and our CFO, Carl Peeters. We will try to answer all your questions tonight that you may have regarding the results and I will give the floor now to Eric. Eric?

Eric Van Zele - *Barco NV - President and CEO*

Okay, thank you, Jean Pierre. Good afternoon, everybody. We will do this in three steps. We'll talk about the second half, a couple of brief slides and then move on to the year, Barco's 2010 performance, and finish it off with some comments about each of the groups and divisions and then about where we see the organization and the Company going forward into this year 2011.

On slide number two I have summarized my views on the second half with an order intake of EUR463 million, which is 45% better than last year and record shipments of EUR529 million or 61% better than 2009. I think we can safely say that Barco is growing rapidly and strongly in both orders, but in this particular case also shipments. Remember we have to admit that supply chain issues were hampering our ability to ship. This is, of course, not the case now with shipments of EUR529 million, largely driven by very, very solid performance in our manufacturing units of [Kuna] and China for Digital Cinema.

EBIT for the second half of the year stood at 6.4% in contrast with the 3% in the first half and are constantly progressing. We actually see on the internal figures that the performance in the last quarter, the best quarter of Barco, EBIT was actually pushing ahead past 7%.

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Global leadership, I think, in the second half for Barco was confirmed with EUR179 million of shipments during the second half of '10, which is 2.3 times as much as the first half, very, very solid record shipments.

Global leadership in Medical also confirmed with the FIMI acquisition, the relationship with Philips contributing rather strongly to the growth, organic growth at 21% and overall growth at 52%, so Fimi contributed quite substantially.

Total shipments to FIMI amounted to EUR46 million for the year. Growth in all other divisions combined, and this is a new element, when we make exception in the figures of DC, the Digital Cinema and Medical, then we do actually see in the second half that both orders and shipments for all other divisions in the aggregate combined grew at 21% on orders and 19.4% shipments, which is beginning to illustrate that Barco is firing again on more than two cylinders. We will talk about that a little bit more as we progress in the presentation, but most of the divisions are recovering quite nicely and are making good progress.

Supply chain issues have now largely been resolved. That is true for DC as a whole, Digital Cinema as a whole. We will talk a little bit later about some much less concerning but nevertheless some supply chain restrictions that we are currently experiencing in Control Rooms, but more on that little bit later.

And then during the second half we have also completed a strategic portfolio analysis, which are the businesses we want to be in, which ones are the businesses we want to invest in and we have actually regrouped our activities. I have a slide on that later on. And we have embarked in a new Barco structure, which will also affect the way we report about Barco's results in 2011.

So on slide number three you can see the key figures for the second half. Order book has actually gone from EUR331 million at the end of 2009, peaking into EUR515 million, thereabouts at the end of the third quarter and coming down again because of the fact that we were able to push shipments up and also from China and from Belgium upping the shipments in Digital Cinema quite substantially bringing the backlog down, still a very high backlog. Still concerning for us because customers still have long wait times for projectors, but things are getting better and incoming orders are now somewhat lower than run-rate wise and our ability to ship. So you should see continued progress on that score.

For the rest I think I have commented on most of the numbers. The EBITDA figure for the second half stood at 60.6%, which, if I've calculated this correctly, should be in the neighborhood of actually 11.5% EBITDA for the second half of the year.

Net income was slightly higher than EBIT, EUR34 million EBIT. You know that EBIT for the year was EUR45 million so no need to emphasize that the second half was a very strong contributor to the year result. And, as you can see, net income was slightly higher than EBIT and that is because we had tax carry-forward losses in most of our European, Belgium in particular entities and we actually had a tax refund in the United States.

Income statement for the second half, notice that the gross profits are back to normalized levels, 31.1% in the second half, actually 32% for the year, back where we need to be. I think the other numbers speak for themselves.

Moving into slide number five, again only second half compared to second half '09. EBIT up EUR52 million starting from a negative EUR18 million, helped by currency. Compared to last year currency has actually helped us substantially. Volume, of course, is the biggest contributor with EUR67.3 million additional EBIT, only in the second half, and then better margins and pricing mix, favorable mix. Really what you see is that Digital Cinema is actually performing better, both on the margin as well as on the EBIT line than most people would have expected, and Digital Cinema, believe it or not is now in terms of profitability our most profitable division.

Indirect operations, up EUR5.6 million, that has to do with additional investments in capacity, mainly in India and China, as we are moving most of our activities in control rooms to India and we are expanding our activities in projector businesses in China.

R&D cash expense up EUR7.8 million, sales and marketing expenses up EUR11.7 million, perhaps remembering or pointing out that sales and marketing expenses are somewhat linked to order intake. Our sales people are commissioned so, since the orders



Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

were so strong, commission payments obviously were high as well. I have to say also that most of the bonus accruals for the Company happened in the second half. Actually most of them happened in the last quarter, so that is also reflected through the various categories of expenses noted on the slide.

And in other we will talk about that a little bit more when we talk about the discontinuation of some activities in LED that we have decided to stop. In other we have actually booked a number of provisions that have to do with the discontinuation of the custom built LED businesses. Those businesses, or those activities, were EBIT negative in the year and not only have we decided to stop them, but we have booked all necessary provisions to deal with all the remnants of the past and go forward with a clean slate.

Okay, moving into the year on slide number six, this was a year of unprecedented growth for Barco with 58% growth in orders to EUR978.3 million incoming orders and let me just remember or put a caveat on that that this does not include the frame agreements, the long-term frame agreements, we have the big players in Digital Cinema.

Organic growth of 50% almost, 49.7%, very robust growth in sales to EUR897 million, or a percentage growth of 40.6%, as you have heard earlier in my presentation, largely due to the strong shipments in the second half, organic component of that being 32.3%. It is worth noting that EUR897 million in shipments is some 20% higher than Barco's sales in 2007, the best year ever at Barco. And if I'm not mistaken we were at something like EUR725 million in 2007.

Okay, gross profits back to the historic levels of 32%, EBITDA breaking through the 10% threshold for the year, 11.5% in the second half, EBIT at EUR45.1 million or 5% on sales. Free cash flow ever so slightly negative, meaning all of the growth has been financed with profits and we have made approximately EUR5 million has to do with the purchase of technology licenses in the space of 3D capabilities, more on that to come when you visit with us on the 18th, where we show some of the new capabilities when you are here. So really all of that has to do with working capital needs, net financial cash position of the Company still debt free and positive at EUR8.9 million.

I should add that, from my vantage point, the Company in the second half of the year, if you add up the numbers that I've shown you earlier, has actually seen its indirect costs dip below the 30% level and it is worthwhile noting that in 2007 our indirect costs, as a Company, were at 41%. So through the last two years we have learned to support a much bigger business, a business that is some EUR300 million in sales larger than it was in 2007 with essentially the same costs or actually slightly down from where were. So in percentage points we've taken 10% of cost out of the Company and we intend to keep it that way. 30% or less in total indirect expenses is an important KPI, key performance indicator, for us going forward.

Key figures for 2010 shown on slide number seven, as you can see, incoming orders have grown by EUR360 million. I don't think I will see that in my career very often and sales shipments were up as much as EUR258.9 million. EBITDA up to EUR98.8 million and EBIT EUR45.1 million, net income EUR43.6 million, free cash flow at ever so slight negative EUR7 million.

When you look at the geographic breakdown, this is orders, Europe, Middle East, Africa, Latin America growing 46%, North America growing 94%. That's of course largely because of Digital Cinema but Asia Pacific region growing again 40%. They were already the fastest growing region in 2009 and they added another 41% to their order book in 2010.

Shipments slightly different picture with European, Middle East, Africa, Latin America region growing at 29%, North America 66% but picking up because we're driving the backlog down as for example, the cinema market deployment is now in full swing and Asia Pacific region growing at 31% in shipments.

When you look at the income statement per semester, you can see that EBIT in the second half was at 6.4% and shipments in the second half at EUR528 million and total -- I don't if it is true for the full half -- but you should be able to add up indirect expenses or do we not show that, guys? Anyway, just a touch below the 30% level.



Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Okay, going into the Waterfall for the year, of course big driver on sales EUR89.7 million additional EBIT generated because of volume. Currency has helped us on an annualized basis to the tune of 6.8% so in constant currency our results would have been slightly worse. Mixed cost pricing 14.5% helped in the positive sense and then a number of investments in indirect operations. Most of them happened in the second half with China now fully up and running and India also growing rapidly. We have more than 500 people in both operations now, both in India and In China and both of them are doing very well.

R&D cash expenses up EUR11 million, sales and marketing costs up EUR20 million year-on-year but relative to the growth and that is actually much in line with what you would expect, G&A EUR7.3 million. Other includes the exit costs on LED, custom built LED. When you look at the stoppage of custom built LED between losses booked in VLS operational losses and one-time provisions, let's call it exit costs, then the two combined amounts to about EUR10 million of non-recurring losses or expenses going into the 2011 year.

Stock write offs, EUR11.3 million and better than the year before and capitalized development net also EUR8.8 million better.

Income statement then on 12, I think I've covered most of the lines. Perhaps you will have some questions about that later on.

Moving into cash and balance sheet on slide 13, inventories up EUR84 million, not surprising with the ramp up that we have seen, EUR230 million, but I would say all of that is sold, so we're not worried about obsolesce issues, but we do recognize that 2.3 turns on a business like this is not amongst the best in class so we're keeping a watchful eye on this.

Negative free cash flow somewhat related to the high working capital needs associated with high inventories and if you make abstraction of the technology licenses that we have paid for, advance payments actually to the tune of EUR5 million, then the rest of the cash flow was essentially neutral, cash neutral.

Trade Payables up EUR57 million with receivables up EUR66 million, of course driven by the very strong shipments at the end of this year and washing each other out.

Robust, very robust, operating cash flows of EUR95 million, largely used to invest in our growth, growth in working capital of EUR47 million. Company is still financially healthy, no debt, EUR8.9 million positive.

Results for the quarter for the Group as a whole, here you can see the spike in order intake that happened in the first quarter and in the second quarter largely related to very big intakes for Digital Cinema and then the blue shipments six months later remember in our previous conversations I always told you that it would take six months for us to pick up the supply chain from component to ship projector.

The cycle here is about six months and that is clearly visible on this slide number 14 with particularly in the fourth quarter evening out the spike of the second quarter.

You can also see EBITDA numbers there by quarter listed on the bottom of the page.

When we move into 15, until now because this is about to change, I had structured the Company under two Senior Vice Presidents. One, Carl Peeters responsible for Monitoring, Control & Medical and then the other one, Filip Pintelon, responsible for Media, Entertainment & Simulation. We have moved Carl Peeters into the CFO function and Filip Pintelon into COO function and we have actually taken a slightly different approach to the organizational structure of the Company, which I will show in a couple of minutes.

So this is the old format reporting, where you can see results per group second half '09 versus second half '10 and full year 2009 versus '10. Of course, one group is driven by the success of Medical and the other group is driven by the success of Digital Cinema.



Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

When we look only at the Media Entertainment & Simulation group, then you can see even more clearly the spike, that really dramatic upswing, uptick in orders, incoming orders, in the first and the second quarter leveling off a little bit. Remember the frame agreements, the long-term frame agreements, are not in here. Nevertheless, we see the incoming quarters level off for Digital Cinema or for Media, Entertainment & Simulation combined leveling off in the neighborhood of EUR120 million per quarter with shipments pushing very strongly in the fourth quarter because of Digital Cinema.

On the next slide, 17, I am happy to share with you our conviction that we are now the world leader in Digital Cinema with a market share approaching 40%. When I talk market leader I am talking about 2010, not about the installed base in the different regions. But if we look at who got the orders and who got maximized the shipments, then Barco is clearly in number one in all regions.

We're very happy to report that our China manufacturing unit near Beijing is now fully operational and contributing quite strongly to the shipments. Shipments in Digital Cinema for the year exceeded EUR256 million, EUR179 million of which happened in the second half of the year, so that is a good indication of the incredible ramp up that happened in finally materialized in the second half of this year. Remember we came from EUR35 million in 2008, surpassed or took the EUR100 million cap in shipments in 2009 and actually went into shipments of EUR256 million in 2010, capacity now exceeding that order of magnitude quite handsomely.

Important to note is that most of the shipments, two-thirds of our shipments, happened after April when we converted to the Series 2 projector, which is the 4K ready projector and that machine is easier to manufacture, more reliable, more performant and clearly viewed as the best projector in the industry, as we speak.

Also, our vendor financing vehicles have helped to secure orders, although I have to say that the percentage of business that we have shipped under vendor financing programs is actually quite small.

(technical difficulty)

Eric Van Zele - Barco NV - President and CEO

Okay hopefully you can hear us again. We dropped off thanks to our service provider I suppose. In the meantime, Carl has pointed out to me that I needed to make sure that there was no misunderstanding on my statement of indirect costs. Indirect costs were ever so slightly above 30% in the third quarter but below 30% in the fourth quarter despite the fact so many bonus.

(multiple speakers)

Eric Van Zele - Barco NV - President and CEO

Okay are we okay? I am going to continue on slide 17 with some comments about VLS, the division as you know fully incorporates three activities, a projector activity, a lighting activity, LED activity. The LED activities had (inaudible) LED walls made by element labs. We have some noise on the line here.

Those will be continued but the custom built LED systems, the LED strips were designed also to use outside the buildings. Those will be discontinued and those were the one-time costs that I made do when I talked about the EUR10 million in total for the year that was booked in the perspective.

Simulation, we're doing well with orders growing rapidly. I think you will remember that we told you last time that we had introduced a new capability, a full dome 360 degree capability. That technology is meeting with enthusiastic market demand in the division growing [rapidly] but returning also to (inaudible).

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

(technical difficulty)

Eric Van Zele - Barco NV - President and CEO

Monitoring, Control and Medical on slide 18 you see a much more progressive growth pattern, both in orders and in shipments again with the progression like orders shown on the bottom.

Medical division continues to grow strongly, global leadership position, organic growth of 17% year-on-year, FIMI adding 35% or a total growth of 52% in the division.

Traffic and Surveillance recapturing market share through the introduction of a new LED product line, new LED cubes meeting with high demand and I made reference to that earlier in my commentary. Here our capacity still is not up with demand so partly because we moved manufacturing from Carzua Europe coming to Noida, India but mainly because we can't get enough LED out of our suppliers who are struggling with some supply chain issues. Hopefully those will go away quickly and we will be able to serve our customers but the Company -- the new product line is really meeting with very good demand.

Avionics doing better than expected or better than forecasted with shipments 61% better year-on-year, [retrofit] systems contributing to that positive result.'

Defense, particularly new aircraft and new equipment, sales has been soft in 2010 and we have seen some margin pressure in that division as well.

Going into slide number 20, here I am showing the new structure of the Company, the Company as we have launched it as per the beginning of the month. This is not a restructuring. There is absolutely no layoffs. It's just a re-grouping of the activities with basically four core divisions. Much of this will be explained in much more detail when you come visit us. We will allow you to speak to each of the leaders of these divisions and see the product, give you a view on the strategic path they are going.

But the Entertainment division now basically is less DC centric since we have moved all projector business into that Entertainment division and we've called it Entertainment rather than Digital Cinema because we really want to enlarge, broaden the footprint, the technology and product platforms to include multimedia capability, not just video. That's why we bought some of these technology licenses that I made reference to earlier. We're rapidly moving into the direction of being an integrated system supplier with integrated media server capability, etcetera, also for DC but not limited to DC. The whole of the front end projector activity is grouped into the Entertainment division.

Healthcare division, we've changed its name from Medical. Also that division is moving away from just being the world's leader in radiology and homography solutions into point-of-care healthcare, broader product range, also moving into surgical applications and, in fact, also into the physicians' office including dental applications, so a division from which we expect strong growth and in which we also continue to invest quite happily.

Both the Entertainment group and the Healthcare group are businesses that now are what I would call A plus divisions, divisions that beat our 10-10-20 targets more than double-digit growth, more than double-digit EBIT and more than 20% return on capital employed. Both Entertainment and Healthcare are doing that hands down.

Control rooms, on the other hand, is still I would say is an A minus or a B plus division, still has a ways to go to get there but is well on its way, particularly if we can capitalize on the opportunity for LED cubes with coming to grips with the supply chain issues. Then that division will resume strong growth and should therefore see ongoing improvements in profitability.

And then the last group, Defense and Aerospace, we've combined those two divisions into one, took out some costs and, as you know, we've also been much more reluctant to invest in long-term programs and put R&D expenses on the balance sheet

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

so a much more rigid approach there but Defense and Aerospace is also positioned to come near or at the 10-10-20 targets in 2011. So maybe we should give them an A minus.

And then there is a number of Venture activities. Really Ventures is not the right word but call it emerging growth opportunities for Barco, activities that we have put under the leadership of Luc Vandembroucke, a Senior Barco veteran and where our approach is more that of the Silicon Valley start-ups, activity is around LED. Design is the company we acquired that excels in development of content software applications to put on these screens, LED and other High End Systems is the lighting organization out of Austin, Texas. Orthogon is the air traffic control software applications out of Bremen, Germany. And Silex, Silex is a small, technical capability close to the University of [Luvan Maneurve] in [Wavert, Belgium] where a small group of people is working very hard on chip designs and on advanced video algorithms, compression algorithms.

So these five activities have been -- separated out really isn't the right word but they will get a separate treatment. These activities are not at 10% EBIT. The LED activities were part of Entertainment or VLS, as we called it yesterday division. They were money losing in 2010. We've cut out the money losing part. We've cleaned up everything that had to do with the custom built LED activities, including the starts that were written off in that process and we have basically discontinued that activity. So what is left of LED is the conventional LED walls, the high resolution LED walls that are much more profitable and ahead of competition and also the former element labs activities in California that are quite successful and growing quite nicely.

So expect good things from the Ventures, definitely no losses anymore. That is no longer an option for them

Okay I think that ends my presentation. Perhaps on the note that our Board has decided to propose the payment of a dividend of EUR1 per share. As you know, we have picked up again after two years of not paying a dividend. We've picked up the old policy of setting the stage for several years to come in a predictable way, at least inflation adjusted going forward and starting at the EUR1 per share base level.

So, if you don't mind, I am going to leave it at this and open it up for questions.

QUESTIONS AND ANSWERS

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

You know the routine I guess. (Operator Instructions). So we are waiting for your first question.

Emmanuel Carlier - ING Financial Markets - Analyst

Can you hear me?

Eric Van Zele - Barco NV - President and CEO

Emmanuel, go ahead.

Emmanuel Carlier - ING Financial Markets - Analyst

I have a question on the digital cinema so it seems like EBIT margins were really high in the fourth quarter, around 17%. I understand that you want to invest in a broader range in digital cinema, so not only on the digital cinema projectors but also some kind of 3D technology. This will, of course, affect your margins but I am just wondering if you could give some more flavor

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

on what kind of investment you would make, if you have done so in the fourth quarter already and what kind of sustainable margins in Digital Cinema that you expect?

Eric Van Zele - Barco NV - President and CEO

Essentially we expect that industry to move away from just a cinema or a film centric business model to a multimedia capable model including advertising content, sports events, music and even high end conferencing capabilities for corporations when they have big meetings across the ocean, for example. So these theaters are becoming much more than just film projection theaters and the Barco solution set will address all their needs, including data storage, including satellite connectivity, including security, including all servers for all processing capability all integrated into the Barco solution set, including networked capabilities and including other media let's say than video.

This is not something that we have invented. It's simply the way the market is going and we want to continue to lead in that respect so we'll stay ahead of the curve. Another example, Emmanuel, would be also technology investment that we are making is in laser capability. We are showing some of that on our show in LA this week, both 3D sound, 3D vision but also laser projection. That is a very new technology, as you know, for which we also acquired a number of technology licenses. So those would be two examples of technology investments that are ongoing in this space.

Emmanuel Carlier - ING Financial Markets - Analyst

And do you intend to create more recurring revenues or do we just believe that people will replace the projectors and other kinds of technology sooner?

Eric Van Zele - Barco NV - President and CEO

No we actually -- we believe that the DC boom is certainly not over yet. The world has converted probably not even 20% of the installed large screen theater base. We foresee 2011, '12 and probably also '13 at that very high level but we also see that industry going into different directions and we just want to continue to be part of that as well. I don't know if that answers your question. It depends a little bit which part of the world you're in. China will have a different approach to the United States but for us we are trying to find the right balance between being market leader, staying ahead of everybody by making the right choices and the right investments, on the other hand, creating shareholder value and being very profitable. This division is very profitable and we'll continue to do so.

Emmanuel Carlier - ING Financial Markets - Analyst

And what kind of EBIT margins do you believe that will be reachable in 2011 and '12 then because the fourth quarter seems really high?

Eric Van Zele - Barco NV - President and CEO

My personal philosophy is that if you really squeeze too much profit out of this in the short time basis, then you're probably compromising the long-term. It isn't easy to be a market leader without making investments, so I would suspect that everything over 15% is probably compromising the future too much, so 12% to 15% range would be my best guess at this point.

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Emmanuel Carlier - *ING Financial Markets - Analyst*

Okay thanks and then a second question is on the VLS and digital signage division so there it was an EBIT loss of around EUR10 million for the full year I guess and you have mentioned -- you have discussed the profession but I would like to have maybe a good view on what part of the EBIT loss is really due to extraordinary costs and what kind is really organic?

Eric Van Zele - *Barco NV - President and CEO*

Well, the EBIT loss that you have calculated is the operating loss. What we have provisioned for under other is provisions for potential exit costs or write offs outside the reporting period.

Emmanuel Carlier - *ING Financial Markets - Analyst*

Okay thank you.

Eric Van Zele - *Barco NV - President and CEO*

Incidentally, the activities, the losses that you have mentioned in VLS, are not just related to LED but there was also some losses in the high end systems lighting division so we are cleaning up both of them and have actually discontinued the money losing part of LED.

Stefaan Genoe - *Petercam - Analyst*

Stefaan Genoe from Petercam. I've got perhaps first a follow-on on the last topic on the high end systems, the lighting unit. I may remember it was an acquisition of some years ago and you've put it in the Ventures units. Does this probably mean that you're going to divest this unit in the near future?

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

The question was, Stefaan, if we put this in the separate Venture Group that's being done to divest it in the near future. Well, the reason that they are put together in that group and there is, of course, a variety of profiles within that same group but definitely all of them in our opinion have a capability to grow but also deserve their dedicated attention for it not covered by or not blocked by larger divisions, so that's the reason why you put it separately in that cluster of ventures to allow it also to grow.

That's the first intention also and, as Eric was indicating before, the reality is or the objective is definitely not to lose money this year on even more. These units also have to grow into direction of a 10-10-20 objective, just like the other divisions. The difference is that they have a much bigger distance to cover, so that's also the reason why they are put there to give specific attention to that element.

Stefaan Genoe - *Petercam - Analyst*

So you believe you can get High End Systems profitable or let's say out of the red in 2011?

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

In 2011 it's definitely the objective to not lose some money on that yes.



Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Eric Van Zele - Barco NV - President and CEO

Yes if we wouldn't believe that we wouldn't stay in the business. We would divest, so this is an accelerated program to give them more focus, remove all the excuses or boundary conditions. We will give them more of an entrepreneurial charter and more autonomy but, at the same time, we are raising the bar and we are expecting them to be profitable or other options will be considered. But our going in assumption is that we can drive all of them to the 10-10-20 targets. And we actually discontinued the operations for which we didn't think it was possible.

I should add that the operations we discontinued and when we meet each other on the 18th of February I can show you some of that. It is not just a matter of performance, it's also a matter of cost and competition. There are many lookalike systems available at very low margins from China in that me too space and we have decided not to compete in those, so we are quite rigorous. We have taken a very hard look at the portfolio. We have recognized that we needed more visibility on some of these start-up activities so we are separating them out from mainstream to make sure that we can monitor their progress much more closely. We've cut out the activities that were money losing and have provisioned for everything we can possibly think of to stop these activities without any penalties going forward and, with what is left, we believe that we can reach 10-10-20.

Stefaan Genoe - Petercam - Analyst

You can reach 10-10-20 and you also said in the black the ventures combined in 2011, did I understand that well?

Eric Van Zele - Barco NV - President and CEO

No let me be specific about that. When you take the core divisions on page 20, the color divisions, the Fans, Control Rooms, Healthcare and Entertainment, these divisions combined must meet the 10-10-20 target in 2011. They represent 90% of the Company. The Ventures initial charter was to absolutely clean up their act, stop the losses, get everything that is unprofitable out of the portfolio, right size and then grow, so depending on how rapidly they grow they will go from a no contribution let's say ever so slightly better than breakeven, to the 10% but it will be volume driven. It will no longer be cost driven because they have been right sized.

Stefaan Genoe - Petercam - Analyst

I do understand the separation of High End and if it doesn't meet objectives that in the end it could go out. On the other end Design is a more recent acquisition. I thought there were quite some synergies with the digital signage. I would rather have expected it to be included in the entertainment unit with the creating synergies with digital signage. Why isn't that the case?

Eric Van Zele - Barco NV - President and CEO

Because the content management capabilities of Design are important for all of the other divisions, not just entertainment so they have actually performed very well in the second half of the year. Design was quite profitability and it's growing handsomely so they are not part of the ventures because of any profitability issue. They are part of the ventures because we believe that they will benefit from their current entrepreneurial approach more by in a standalone environment with an inter company pricing relationship with the established divisions rather than being integrated. Let me argue with you that High End Systems was a very good company until we took it over and tried to push it into one of the big divisions, thereby basically destroying the ecosystem.

So please do not read ventures as troubled companies, that we see them as growth investments. The problematic point part of them has been shut down and eliminated and what is left is actually an emerging growth opportunity for the Company.

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Stefaan Genoe - *Petercam - Analyst*

Okay that's clear. On one of the previous questions did I understand well that you answered by saying that the digitalization rate on Digital Cinema I would say for the 100,000 triple S [screen] is close to 20%?

Eric Van Zele - *Barco NV - President and CEO*

Yes the numbers fluctuate a little bit. It is at least 20%, probably in the 20% to 25% range. The total number of big screens that need to be converted from analog to digital is more in the neighborhood of 140,000 to 150,000, not 100,000, so there's still a very long run to go.

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

We'll go more into detail there on the Analyst and Investor Day next week, where we will give latest update of numbers.

Eric Van Zele - *Barco NV - President and CEO*

Our internal information is that the DC momentum, and we will show you some numbers on that on the Analyst Day, will continue in 2011 and definitely still in 2012, maybe as of 2013 the conversion rate may slow down a little but even that is far from clear.

Stefaan Genoe - *Petercam - Analyst*

Considering this if I look at the production and sales volume of Q4 you were above 100,000 in Q4. Thus, does this mean that we can raise the bar for from I would say the previous run rate of 75,000 to closer to 100,000 on a quarterly basis in 2011?

Eric Van Zele - *Barco NV - President and CEO*

Yes. From a capacity point of view the answer is definitely yes. Of course, some of the orders needed to get to those kind of numbers are not yet in the order books, so a word of caution on the expectations but if the market does what we expect it to do then our capability to serve that market is now indeed in the neighborhood of the EUR400 million mark including, of course, our capability in China.

Stefaan Genoe - *Petercam - Analyst*

Yes but the orders are there for Q1 already?

Eric Van Zele - *Barco NV - President and CEO*

Yes.

Stefaan Genoe - *Petercam - Analyst*

Okay and then perhaps a final question, if we look at the full-year numbers of the TSM unit, and in the first half numbers and we do some reverse engineering, I've got the impression that in H2 the profitability of traffic surveyors and monitoring and also from the defense is much lower than in H1. Is that right and if so can you explain what are the main reasons?

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Eric Van Zele - Barco NV - President and CEO

Can you talk about these?

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

Yes, Stefaan, you have two questions there, one about TSM, one about defense. Let's start with the latest with the last one, defense. Your interpretation is correct. Defense did not perform well in the second half. I think a number of reasons; first of all, their sales did not realize as we planned for, so the volume was not reached.

Secondly, to me it's actually even more important, the gross profits didn't come in as planned. Reasons are mostly to be seen in cost control and execution of customer projects. I mean in this sector in this division we have many let's say specific customer projects and the margins were not realized. We had too high a cost in that. In the meanwhile, we are taking decided actions on that, as a matter of fact. Division also has a new leadership since a couple of months now and we are installing also more rigorous cost control on an execution of projects.

And then finally, we also next to that they had some higher costs in OpEx. That's explaining defense. Generally market to conclude on defense I have to make also that the lower sales part we had to do with reduced investments from some governments in the military area spending.

Then, to some back on the TSM, there on that area I think we are enjoying good order intake in the second half of the year, continued also for LED powered cubes. As you might remember in previous calls or explanations we have indicated that the division was seriously hit in 2009 by the economic downturn and also beginning 2010 we were still suffering within the second half. They were breaking through with their new line of LED powered cubes. The point is that they are and you heard that story, for example, for DC with here we have the same challenge in supply chain. I mean the ramp up is that high that some suppliers cannot follow our rhythm of ramping up and that has been let's say limiting their capability to deliver.

Next to that also, that's on the revenue side. The gross margins are stable so I mean I think we can show that we are good in margins but that these have some higher expenses because they are investing in operational efficiency. They are starting up also in India and also -- yes that's actually they're the most important reason for these.

Stefaan Genoe - Petercam - Analyst

Okay that would -- if I understand you well that would mean that DSM would gradually improve profitability in 2011, while for Defense costs are being monitored and handled but it depends a bit on the sales which where the outlook might not be that brilliant. Is that--?

Eric Van Zele - Barco NV - President and CEO

Yes let me perhaps add something to this. The blue, green and yellow divisions are commercial markets. We have separated defense and avionics out but we have combined them to capture scale economies and to reduce their cost base. Also, we have installed our U.S. country manager as Senior Vice President for this Division, so the plan going into 2011 for defense and the other space is actually quite bullish and they are ever so close to meeting the 10-10-20 targets. That's why I gave them an A minus, whereas Entertainment and Healthcare are A pluses.

Control Rooms, the driver is volume. We have a product. We have start. We have moved manufacturing from Carzua to Noida, so the costs are down, substantially down. The move costs and all the transition costs have been taken into the 2010 results, so going forward their profitability should be good. The only question there is how fast can we ramp up the supply chain and



Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

there I think the issues, you should see betterment probably as of the second quarter more than the first quarter because it takes -- as usual, it takes six months for this company, this supply chain to react to that kind of a step up in demand.

Stefaan Genoe - *Petercam - Analyst*

I assume that the relocation of production to India control rooms and the integration of defense and aerospace to combine I would say the functions they have in common. There that would -- must have implied several millions of cost in 2011, which are taken in the EBIT line?

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

Yes that's correct. In 2010 you mean, not '11, and yes we have taken those into the results.

Stefaan Genoe - *Petercam - Analyst*

Okay thank you very much.

Arnaud Goossens - *Exane BNP Paribas - Analyst*

It's Arnaud Goossens from Exane.

Arnaud Goossens - *Exane BNP Paribas - Analyst*

I missed quite a long part of the first of the conference call so I just had a question regarding the provision. Can you just remind or repeat eventually what the provision is and how much it is and where would we find it in the accounts?

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

Yes I think the question that I will repeat it, is the question about the other expenses that you'll see or have seen in the Waterfall. And that's referring to what you see on the balance sheet as other expenses of EUR7.5 million. In those are a combination of financial expenses also so that is not, of course, related to provisions but indeed also some provisions, bad debt provisions, for example, that are included in the EUR7.5 million. Some of them are indeed related, as Eric was indicating, to stopping customized LED activities in the LED division.

Arnaud Goossens - *Exane BNP Paribas - Analyst*

Okay so yes it's in the P&L. I can see it okay. Another question I had is regarding your SG&A and I noticed that in the second half you managed to cut it very substantially and if my calculations are correct you're now at something like 18%, whereas you were even lower, close to 17% in the second half, down from 22% in 2009.

Eric Van Zele - *Barco NV - President and CEO*

Did you hear my comment about indirect cost?

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Arnaud Goossens - *Exane BNP Paribas - Analyst*

Nope.

Eric Van Zele - *Barco NV - President and CEO*

You must have missed it in the call. What I said was that in 2007 Barco was a smaller division, size of somewhere in the neighborhood of EUR725 million, EUR730 million, don't remember exactly but, in any case, much smaller than what we are now but with the same cost structure. The cost structure, indirect costs, at that point were 41% on revenues. Of course, gross margins were higher as well, so when you look at the last two years we have consistently brought the breakeven point of the Company down by bringing those operating expenses down and we are now forecasting -- actually we were there in the fourth quarter and we are planning to go into the next year, into this fiscal year, with a cost structure which is 30% or lower so total SG&A, R&D and manufacturing overhead related expenses combined will be more than 10 points lower than they were two years ago.

Arnaud Goossens - *Exane BNP Paribas - Analyst*

Okay so that's entirely sustainable I guess.

Eric Van Zele - *Barco NV - President and CEO*

It is sustainable. We did it because remember two years ago we said we must be competitive even in more commercial markets. The Entertainment division is not as profitable as the Military business, the difference in gross margin points is quite substantial, so when you enter into these markets you have to adjust your cost structure to the realities of a volume, a more competitive volume business. We have done so successfully because otherwise the Digital Cinema business wouldn't be as profitable as it has become.

Arnaud Goossens - *Exane BNP Paribas - Analyst*

Another question is on Medical Imaging because I noticed -- well, if my model is correct, that's the fourth quarter seems to have been extremely strong. Can you comment a bit more on that?

Eric Van Zele - *Barco NV - President and CEO*

In Medical or in general?

Arnaud Goossens - *Exane BNP Paribas - Analyst*

In Medical Imaging.

Eric Van Zele - *Barco NV - President and CEO*

No not particularly, Medical did well in the fourth quarter but there is no reason, nothing peculiar happened other than the fact that Philips is a very good user of our systems and both FIMI as well as the Quad tag based activities of Medical performed very well.

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Arnaud Goossens - Exane BNP Paribas - Analyst

Okay so there's no -- I mean how do you say, acceleration in organic growth?

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

Just like the other divisions, also they had indeed a very strong fourth quarter but it is not let's say extraordinary or a spike or something. I think Medical continues to perform quite consistently and so there is nothing extraordinary effect there.

Eric Van Zele - Barco NV - President and CEO

But, all in all, organic growth in Medical was a bit higher in the second half than in the first.

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

Yes.

Eric Van Zele - Barco NV - President and CEO

Yes but no particular reason.

Arnaud Goossens - Exane BNP Paribas - Analyst

The last question I have is with regard to the licenses because I heard you mention that you've paid I think something like EUR5 million in licenses. Can you be more specific on exactly what that is? I mean, I heard that you're moving into new fields let's say but can you be more specific on these licenses in exactly what it involves?

Eric Van Zele - Barco NV - President and CEO

We will make an announcement about that on the 18th. There are some reasons why we cannot be more specific at this stage because the other party wants to announce it at the same time as we announce it but we have bought some technology platforms that will enable our DC capability into multimedia 3D applications, including sound and data. Well, data of course is not 3D but including integrated solutions for that and this will be discussed in much more detail when we see you week after next.

Arnaud Goossens - Exane BNP Paribas - Analyst

And was that expensed or capitalized in the balance sheet or is it in the 2010 accounts?

Eric Van Zele - Barco NV - President and CEO

It's fully in the results because it was an advance payment on licensing so it's in the P&L.

Arnaud Goossens - Exane BNP Paribas - Analyst

Okay thanks a lot.

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Nico Melsens - KBC Securities - Analyst

It's Nico Melsens with KBC Securities. First of all, a question on the custom built LED system business that you're going to discontinue, maybe I missed it but can you tell us what the related sales were in 2010 and what the EBIT result was of that business?

Eric Van Zele - Barco NV - President and CEO

If you are -- well, first of all, the sales figure would be in the neighborhood of EUR10 million but the more important part is that when you look at the exit costs, which we have booked plus the losses that we have made on this activity, then the total impact in the P&L for 2010, both in the other column as well as in the EBIT reporting would be cumulative EUR10 million, non-recurring let's say. And we are not discontinuing. We have discontinued.

Nico Melsens - KBC Securities - Analyst

You have already done that and you have incurred all the costs associated with that?

Eric Van Zele - Barco NV - President and CEO

Right, right. We have provisioned for everything we could possibly anticipate so it's done. It's finished. It's over with.

Nico Melsens - KBC Securities - Analyst

Okay very good thank you. Then on one of the first slides you said we completed our portfolio analysis. The activities have been re-grouped. We've got a new Company structure, a new reporting structure. Should we expect this structure to remain in place for let's say at least a three-year coming years because of the last few years have been quite a lot of reorganization, saw the reporting structures and so on. Is this more or less the blueprint that you would use for the coming years?

Eric Van Zele - Barco NV - President and CEO

I am going to say yes but I am going to keep the liberty of changing it again when it doesn't perform to expectations.

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

So, Nico, really changed over the last four years only once, which was two years ago.

Nico Melsens - KBC Securities - Analyst

This is the second time then?

Eric Van Zele - Barco NV - President and CEO

I think this is more in line with strategy but we had to take a hard look at our portfolio and be clear about strategy and direction before we came up with this structure so I would expect that this is stable but change is the only constant in the universe.

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

What you can say about it, Nico, is that of course it will give more visibility than probably we can give in the current structure that we just used up till now.

Nico Melsens - KBC Securities - Analyst

Definitely, definitely and we're very happy about that. just one final question, just referring to that slide number 20, where you gave the new groups or new segments, did I understand correctly that you said that the combination of all let's say the colored parts, the big ones, will reach the 10-10-20 targets in 2011 already, either separately or as a combination of all the four? Is that correct or did I misinterpret that?

Eric Van Zele - Barco NV - President and CEO

Well, will, there are no certainties in this world so I cannot confirm the word will but have submitted budgets that indicate that they would, yes.

Nico Melsens - KBC Securities - Analyst

The internal budgets for each division separately?

Eric Van Zele - Barco NV - President and CEO

No combined.

Nico Melsens - KBC Securities - Analyst

Just combined, the combination of the all four?

Eric Van Zele - Barco NV - President and CEO

I have given guidance by saying that Entertainment and Healthcare are ahead of the pack so they are A plus. Control Rooms is a B plus going to A and Defense and Aerospace is an A minus. A good year for Defense and Aerospace would be that they actually meet the 10% EBIT but if they miss it it will be every so slightly. We've really cleaned up our act there and captured a lot of synergies and scale economies by putting those two divisions together, so I am quite bullish on Defense and Aerospace.

Entertainment, of course, is carried by the success in Digital Cinema and that will continue in 2011. Healthcare is driven by the industry and is broadening the footprint so I expect solid performance from them and Control Rooms I think Control Rooms and Simulation demand is up both for simulators as well as for control rooms, LED powered cubes but there we must resolve some supply chain issues because demand really far exceeds capacity right now, not so much in Barco but with our suppliers.

The part that had to do with Barco was the move from [Carzua] to Noida. That's pretty much complete so Noida is up and running but the supply chain that goes with that particularly on the LED, new technology LED capabilities, there the supplier is struggling with the ramp up, very similar to what we saw in Digital Cinema a year ago, so it will take three to six months for that to completely go away and before that issue goes away Control Rooms and Simulation cannot meet 10% EBIT. They can only do it I would say at best in the second half of the year.



Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

And then the story on the ventures is that they do represent less than 10% of the Company in turnover last year but, given the right levels of focus and autonomy, we expect them to grow quite rapidly, so they start from a no loss basis but where will they end up towards the end of 2011 I don't know. It depends really on how rapidly they grow.

Nico Melsens - *KBC Securities - Analyst*

Okay that's very clear. Thank you very much.

Stefaan Genoe - *Petercam - Analyst*

Stefaan Genoe with Petercam. I've got a follow-on question. On the -- did I understand well that on the question of the licenses you said that the EUR5 million payment was taken in OpEx in the year. Otherwise stated, if you would not have bought those licenses your EBIT would have been EUR5 million higher?

Eric Van Zele - *Barco NV - President and CEO*

Yes that's correct. Let me double check with Carl.

Carl Peeters - *Barco NV - CFO*

I didn't hear the question.

Eric Van Zele - *Barco NV - President and CEO*

The question is do the prepayments we made on the different technology licenses, were they actually booked in the P&L or is it just a cash impact?

Carl Peeters - *Barco NV - CFO*

It's a cash impact.

Eric Van Zele - *Barco NV - President and CEO*

It is cash impact.

Stefaan Genoe - *Petercam - Analyst*

Okay that's clear thank you.

JP Tanghe - *Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer*

Any other questions?

Feb. 09. 2011 / 3:30PM, BAR.BR - Full Year 2010 Barco N.V. Earnings Conference Call

Eric Van Zele - Barco NV - President and CEO

If not, we will conclude the call here and we will -- we thank you for being so patient with us, or rather with our provider. I think we will not be so patient with the provider and make sure that next time it's a bit more smoothly.

We hope also to see all of you next week at our Investor and Analyst Day next week, Friday the 18th. Now you can still let us know that you want to attend and we will give you all assistance needed in case you need recommendation or transport. All the best for now and hope to hear you soon again. Bye.

JP Tanghe - Barco NV - President Corporate Communications, Investor Relations, Corporate Marketing and Compliance Officer

Thank you.

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