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TOM2.AS - Q2 2015 TomTom NV Earnings Call

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**Youssef Essaegh** *Barclays - Analyst*

**Marc Hesselink** *ABN AMRO Bank - Analyst*

**Andrew Humphrey** *Morgan Stanley - Analyst*

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen. Welcome to the TomTom second quarter 2015 earnings conference call. (Operator Instructions). Please note that this conference is being recorded.

I will now turn the call over to your hostess for today's conference, Georgia Vlachou, from the Investor Relations department. You may begin.

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**Georgia Vlachou** - *TomTom NV - IR*

Thank you, operator. Good afternoon and welcome to our conference call, during which we will discuss our operational highlights and financial results for the second quarter of 2015. With me today are Harold Goddjin, our CEO; and Marina Wyatt, our CFO.

You can also listen to the call on our website and a recording of the call will available shortly afterwards. As usual, I would like to point out that the Safe Harbor applies.

We will start today's call with Harold, who will discuss the key operational developments, followed by a more detailed look at the quarterly financial results from Marina. We will then take your questions.

And with that, Harold, I would like to hand over to you.

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**Harold Goddjin** - *TomTom NV - CEO*

Yes, thank you, Georgia. Ladies and gentlemen, welcome. Thank you for joining us on today's earnings call.

We generated Group revenue of EUR265 million in the quarter, which is 5% up year on year. Our gross margin was 51%, which is 5% below past year as the strengthening of the dollar adversely impacted our second quarter results.

Marina will provide further information on financials and the outlook for the full year of 2015 later during this presentation. I will discuss the key operational highlights per business unit.

Consumer production revenue in Q2 was roughly flat, year on year. This was driven by a low single-digit decline of PND and related content and services revenue, offset by a mid double-digit increase of sports revenue.

Automotive hardware revenue decline was due to the phasing out of our automotive hardware contracts. In Q2, we also saw a unit decline of 7% of the European PND market, whilst the North American markets declined by 19%. Our market share in both areas was flat to modestly up. We strengthened our ASP as our product mix in the quarter was skewed towards higher priced products.

In the quarter our sports business launched the TomTom Bandit action camera. It's the first action camera with a built-in media server. That means its footage can be edited on the camera, which makes it easier and faster to share video clips.

The Bandit camera introduction was well covered by the press and received a number of awards. The TomTom Bandit started to ship towards the end of the quarter.

We continued to broaden our offering in the PND category with the introduction of the new GO PND devices with lifetime maps and lifetime speed cameras. We also launched TomTom MyDrive, which is a portal and application designed to seamlessly connect user data like destination favorites and routes across multiple devices.

Our automotive businesses contracted, as anticipated, and newly booked business continued at levels which will support a growing business from 2016 onwards. We will disclose the year-to-date booking number at the end of our Q3 results.

We further extended our global partnership with Fiat to deliver our maps, LIVE services and connected navigation in the Uconnect infotainment systems it the new Fiat 500. We announced a partnership with Luxoft to integrate Navkit into their automotive infotainment solution.

Also during this quarter, we announced a renewal and extension of our global agreement with Apple for maps and related information.

And to conclude, we acquired the map of Australia from our long partner, Sensis, which is a former subsidiary of the incumbent telecoms operator, Telstra.

On this slide about our map-making platform, we give you a brief update on the progress we are making. Our new platform is -- it will be possible to continuously update the map using transactions with automatic quality checks. And updates of the map will be available to customer applications as soon as those transactions have been completed.

This helps us to dramatically reduce the time between change detection and publishing a new map, which we can do also incrementally to deliver real-time maps. Some customer applications, such as automated driving, place a high premium on being up to date with the latest real-world changes.

We expect to have fully replaced our map-making system with the transaction-based platform before the end of this year.

And now telematics. By the end of the quarter we had over 500,000 vehicles subscribed to our WEBFLEET platform, which is a 28% increase year on year.

In June, telematics held its annual international developers' conference from WEBFLEET connect, and IT professionals and software developers joined forces to encourage innovation in connected applications and integrations built around our WEBFLEET platform.

To date, we have more than 600 third-party solutions and applications connected to our WEBFLEET platform.

The integration of the two acquisitions we made last year are developing according to plan.

This concludes my part of the presentation, and I'm now handing over to Marina.

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**Marina Wyatt** - *TomTom NV - CFO*

Thank you, Harold. I shall now begin a more detailed look at our quarterly financial results. We generated revenue of EUR265 million in the second quarter. Our telematics, licensing and sports businesses grew well and more than offset the reduction in PND and automotive revenue.

At constant currency, revenue would have been EUR253 million, up from EUR252 million last year. Consumer revenue overall for the quarter was EUR165 million, which was 2% down compared to the same quarter last year.

PND revenue was down 3%, and that compares with a blended volume market decline of 11%. Automotive hardware was down by 12%, and sports revenue increased by a mid double-digit percentage.

Our automotive business generated revenue of EUR26 million in the quarter, compared to EUR31 million in the same quarter last year. This decline was expected and, as Harold mentioned, was due to the phase-out of certain contracts.

Licensing revenue was up 42%, compared to the same quarter last year, and the increase included a EUR5 million catch-up from Q1.

Telematics revenue in the quarter was EUR35 million, which was a 37% increase compared to Q2 2014. The recurring subscription revenue for the quarter increased by 34% year on year, and our monthly ARPU for subscriptions was flat year on year.

The strengthening of the dollar adversely impacted our second quarter results, like it did in the first quarter. Our gross margin was 51%, which is 5 percentage points lower compared with the 56% we reported for Q2 2014. The gross margin for Q2 2015 at constant currency was 57%, which was actually 1 percentage point higher than last year.

Total operating expenses for the quarter were EUR134 million, which is EUR4 million above the same quarter of last year, and that was mainly because of higher R&D and marketing expenses which were partially offset by lower amortization of technology and databases.

Total operating expenses included a positive one-off as a result of a litigation settlement, which was partially offset by additional ForEx charges and higher costs related to the share-based employee incentive schemes as a result of the appreciation of the share price.

Overall for the full year, these trends are expected to result in modestly higher R&D expenses, both in OpEx and CapEx. We expect the quarterly run rate for OpEx overall to remain at similar levels to what we have seen in the second quarter for the two quarters for the remainder of the year.

The net result for the quarter was a gain of EUR2.5 million and the adjusted net result on a post-tax basis was EUR12.4 million. And this translated into adjusted earnings per share of EUR0.05 for the second quarter.

The end of the quarter, we reported a net cash position of EUR77 million. The cash flow used in investing activities during the quarter was EUR44 million and this included our recent acquisition of the mapping company in Australia.

During the quarter, 3 million stock options related to our long-term employee incentive programs were exercised, which resulted in a EUR16 million cash inflow.

And finally, let's turn to the outlook for 2015. Today, we are reiterating our guidance for the full year. We continue to expect revenue to grow this year to around EUR1 billion. We expect to see growth in three of our four business units, so not in automotive, where we expect a modest decline ahead of growth next year.

We're now expecting the level of investment both in CapEx and OpEx in our core technologies to be modestly higher than last year, mainly explained by FX and the higher costs related to our employee incentive programs.

We continue to expect adjusted earnings per share of around EUR0.20.

So that concludes the formal part of the presentation. Operator, could we now hand over for questions?

## QUESTIONS AND ANSWERS

**Operator**

Certainly. (Operator Instructions). Gareth Jenkins, UBS.

**Gareth Jenkins** - *UBS - Analyst*

Yes, just a couple, if I could, or a few if I could? Firstly, on sports revenues, I guess versus your original expectations of doubling this year, can you talk about how you expect the rest of the year to play out? Do you see an acceleration there driven by the products and the investment you've made in SG&A?

And then just secondly on auto backlog. I think you will, typically, give this maybe once a year, but could you just give us some sense of how that's been progressing as well and whether you still feel confident in the 2016/2017 time horizon, given that backlog? Thank you.

**Marina Wyatt** - *TomTom NV - CFO*

Yes, let me handle the first question and then Harold will talk about automotive and the backlog there.

On the sports revenue side, so what we've said is we have grown in the second quarter by a mid double-digit percentage which, after various conversations, I think everybody understands what that means.

What we see in the second half is that we will have a greater contribution from new products, so, for example, at the moment, the accident cam has only just started shipping and TomTom, although we don't preannounce new products, but we have a track record of bringing new products into the market.

So I think that, together with continuing to expand our presence in sport, we have invested in the first half in media campaigns as well and seasonality will, naturally, draw us to having a stronger second half on sport.

We expect the growth to accelerate in the second half of the year, so we're satisfied with how we're going. It's particularly going well in Europe, I would say, but more to come in the second half.

**Harold Goddjin** - *TomTom NV - CEO*

Okay. Thank you. And on the auto order intake is developing according to plan. We expect significant order intake this year, same levels or higher than we had last year. And we're planning to give you an update at Q3 numbers later this year.

**Marina Wyatt** - *TomTom NV - CFO*

Yes, we will quantify the order book then, at Q3, just to give an idea as we go into the end of the year. But we don't want to give this number out every quarter because of the lumpy nature of the automotive order book, but we will quantify it. But it's going fine, it's on track.

**Gareth Jenkins** - *UBS - Analyst*

That's great. Thank you.

**Operator**

Youssef Essaegh, Barclays.

**Youssef Essaegh** - *Barclays - Analyst*

Actually, my question was just asked by Gareth, although I can add a few follow-ups. You've mentioned before that the ASP of the sports watches was basically more or less EUR100, based on the volume shipments and the revenue that you reported. Have you seen any pressure on this number? And what about the gross margin?

**Marina Wyatt** - *TomTom NV - CFO*

I think that there is a cycle with sports watch products, as with other consumer products. So over time, and in preparation of new products coming to market, we will bring prices down. But I think that's the main trend that we see, nothing more than that.

What was your other question, sorry?

**Youssef Essaegh** - *Barclays - Analyst*

Well, I was asking you about the gross margin, but it seems to be going (multiple speakers) what you said on the ASP (multiple speakers).

**Marina Wyatt** - *TomTom NV - CFO*

Yes, exactly. I think the gross margin in sports products is stronger, in the watches is stronger and for PND, so over the average gross margin for consumer, and we continue to see that.

**Youssef Essaegh** - *Barclays - Analyst*

Thank you. Can I ask you a quick one telematics? You said previously that you would be doing less acquisitions in 2015 than you did in 2014. Are you still looking to make acquisitions this year?

**Marina Wyatt** - *TomTom NV - CFO*

We have a team that is dedicated in the telematics organization to searching out for acquisitions for us and they're continuing to do that. The comment that we made was more to say that we've made three acquisitions; we do see more consolidation going on in this market. We have a disciplined approach to making such acquisitions. There continue to be targets out there, but it gets harder. So there may be acquisitions, there may not be acquisitions, we couldn't commit, but the strategy is unchanged.

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**Youssef Essaegh** - *Barclays - Analyst*

Thank you. So if I may, one very final one still on telematics? The growth of WEBFLEET subscribers is, on one side, new subscribers, but it's also people that come from the acquisitions that you have migrated to the WEBFLEET platform. Can you tell us what's the mix or how much do you still have to go with the acquisitions you did last year on that?

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**Marina Wyatt** - *TomTom NV - CFO*

So overall, the subscriber base is up 34%, and the majority of that is organic but there is some contribution from the acquisitions. So I think the acquisitions would be in the mid -- sorry, the organic growth of the installed base is in the mid 20%s and the rest comes from acquisitions.

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**Youssef Essaegh** - *Barclays - Analyst*

Thank you very much.

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**Operator**

Marc Hesselink, ABN AMRO.

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**Marc Hesselink** - *ABN AMRO Bank - Analyst*

My first question is, the Nokia HERE selling process, do you see an impact in your automotive business at the moment? Are people delaying decisions there or anything around that?

And secondly is a bit speculative but if, indeed, what's now the recent speculation that the German car makers would acquire Nokia HERE, do you want to speculate on what that would be for your business, what kind of impact that would have?

And the second question is on the market share of new contracts in automotive; do you still have the feeling that you're winning market share, as you said in the first quarter?

And then finally on pricing in automotive, you're clearly stating that the value of your products is increasing. It's a little bit of a long-term story, but do you believe that, over time, you will be able to raise prices in the automotive side, given that you're providing much more value to a connected car and Highly Automated Driving?

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**Harold Goddjin** - *TomTom NV - CEO*

Yes, so I think it's more or less business as usual in the automotive sector for the moment. But I think what did help us, the process that HERE is involved is that we got a lot of attention and a lot of interest in our underlying platform and our capabilities.

We go through a massive transition. We've been able to position it more clearly now and have been able to go through a number of in depth presentations about our technologies. And we got a very good response for that, so I think it has helped us to establish ourselves as a good vendor and a good alternative in the automotive industry, and a credible player. That puts us as a credible alternative both to car makers but also to technology companies, and I think that's a positive.

What will happen to HERE is unclear; I don't want to speculate. There's no point doing that, so I'll leave that for later when we have more visibility on what's going to happen, who the new owners of HERE are going to be and, importantly, how they're going to play it.

If I look to your third question, so Highly Automated Driving, yes, there's a lot of interest there. We've done a number of test coverage areas with our high definition maps that we're sharing with a lot of car makers for evaluation, for testing; a lot of positive feedback coming from there.

We are motoring ahead, covering the highest road classes in North America and Europe. We plan to have that available as a commercial product by the end of 2016.

We see intermediate applications between Highly Automated Driving and steps in between where those new maps are going to be deployed, which is good for us. It gives us a way to grow into that business and evolve our product roadmap. So there's a lot of activity development going on, and a lot of interaction with the car industry, to see how we need to progress our product roadmap.

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**Marc Hesselink** - *ABN AMRO Bank - Analyst*

Okay. And the second question there on market share in automotive on current contracts?

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**Harold Goddjin** - *TomTom NV - CEO*

Yes, so we saw a good uptake in 2014; I think that trend is continuing. I see healthy order intake levels in the first half of this year and I'm confident that, in the second half of the year, we'll continue on that path and that we'll have another good year of order intake. And as Marina said earlier, we will quantify that when we give our Q3 results.

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**Marc Hesselink** - *ABN AMRO Bank - Analyst*

Okay. Thank you.

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**Operator**

Andrew Humphrey, Morgan Stanley.

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**Andrew Humphrey** - *Morgan Stanley - Analyst*

Just a couple from me, if I may? Firstly, I wanted to ask a bit more about autos orders. Clearly, you've given data points there previously and will do again. I just wanted to ask about your order booking policy. Are you typically booking the entirety of an estimated size of order for a multiyear contract, based on adoption rates, uptake with particular customers? Or what's your booking policy on the auto side?

And my second question is just on OpEx actually, if you could just run through the points you highlighted on OpEx trajectory of the remainder of this year. And maybe talk about which of the areas really you're targeting in terms of additional investment and how the trajectory looks there, based on your preliminary views on how 2016 might develop.

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**Harold Goddjin** - *TomTom NV - CEO*

Yes, so first on booking policy. Typically in the automotive industry, we respond to RFQs, and RFQs are quite detailed in the vehicle line that needs to be covered, the expected volumes, introduction date, end date of such a contract. And that gives us a quite accurate view on the total value of a contract, over time.

Typically, when we win an order, you can start shipping between 12 and 24 months from taking the order, and the average runtime of a contract is three to four years. So if we do an order intake, when we publish that number, the typical runtime of such an order is for three to four years and it starts being visible on the top line between 12 and 24 months after we have concluded that agreement and won that deal. Did that answer your question?

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**Andrew Humphrey** - *Morgan Stanley - Analyst*

Yes, that's great. Thank you.

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**Marina Wyatt** - *TomTom NV - CFO*

Okay, just the trajectory on OpEx, so we've reported EUR134 million of OpEx in the second quarter. And looking at what we're expecting for the other two quarters of this year, we expect OpEx to be at relatively similar levels.

There will be a bit of a change in the mix. R&D was particularly high this quarter, for reasons I've mentioned, and I expect that to come down. It will still be above the level we saw in Q1, but down from where it is in Q2.

On the other hand, G&A costs will go up because they have been flattered by the credit on the litigation side in Q2. But overall, we expect things to be roughly [a wash] for the rest of the year.

Our major areas that we have been investing in this year have been in -- on the R&D side, have been very much on the new mapping platform where we are going through the transition to the new platform, as we speak, and that will continue throughout the rest of this year.

And the other major area of investment is in the components that we are developing and upgrading for the connected car environment.

So those are the major two that we have been investing in and are highly committed to getting those completed so that that will help us as we go forwards for next year. So those are the main things.

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**Andrew Humphrey** - *Morgan Stanley - Analyst*

That's great. If I can just follow up briefly on the R&D side in particular? I think you mentioned previously that, while you've been rolling out the transaction on mapping platform, you've been bearing double R&D costs in some areas for supporting two platforms. Should we basically think about you recycling any potential savings on that front you make into speeding up developments of HD maps and those sorts of things next year? Or how should we be thinking about the R&D trajectory?

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**Harold Goddjin** - *TomTom NV - CEO*

Well, the new mapping platform is designed to be faster and cost effective. And it's designed to apply a higher level of automation, machine learning, statistical analysis. It's what we do already with probe data, so we collect probe data on a large scale, use it for map making. And we want to extend that to other information that we automatically collect from cars, sensors, but also from the community, without any compromise on quality, obviously.

That will help us to make better maps, make them faster and at lower cost. At the same time, the requirements for maps will go up, so more attributes, higher level of accuracy, more information.

So it's a balancing act between higher levels of automation and efficiency and, at the same time, meeting future requirements of our customers both in the automotive industry and from the tech companies. Where that exactly the right balance is, we'll find out, but I don't expect overall, despite higher efficiency levels in the map-making process, that we will reduce our investment in platform development, or operations for our map-making process.

Our aim is to win market share and to grow the top line and use the funds generated as effective and efficient as possible to make the best possible map at the lowest possible cost.

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**Andrew Humphrey** - *Morgan Stanley - Analyst*

Okay, that's helpful. Thank you.

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**Operator**

Vikram Kumar, TT International.

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**Vikram Kumar** - *TT International - Analyst*

I just want to ask a few strategic top-down views on the mapping industry. Just with this real time map-making platform, I'm trying to understand the new addressable markets it's unlocking.

So for example, obviously with automotive, I guess my first question would be, three to five years from now, how big could the addressable market be in terms of the mapping software going into the automotive industry? Right now I'm guessing it's about 600 million tangible addressable market; what could that be, three to five years hence?

Second question, and I guess that also ties in to the strong uplift you're seeing year on year, half on half, in licensing, what are the new areas real time map making is going to unlock from -- is it ecommerce, is it search? Just more that kind of strategic thinking on the three to five year view, because tied into that it's just a view on -- obviously, with Nokia HERE going on you're seeing potentially rumored very high values of map assets, much higher than your entire market cap.

The question is, it would be easy, or potentially very lucrative, to create shareholder value by going down that path, depending on what happens. At the same time, if there is a vision that there's significantly more value to be driven from owning this asset over this tech cycle of three to five years, it's good to keep hold of the asset.

So just anything that you can address around those three points would be very interesting, please.

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**Harold Goddjin** - *TomTom NV - CEO*

It's a broad topic and a broad set of questions obviously you're raising there. I think the total addressable market is higher than what you -- today it's already higher than the number you mentioned, and we expect that addressable market to go up in value, going forward.

And that's both driven by tech firms who want independence from other map makers, or other vendors; want to protect their user data and have an independent product offering, from Google in particular. We see renewed interest from those companies and a willingness to invest in location-based services platforms and offerings, so we expect growth coming from that space.

There is growth coming from the GIS type of applications; intelligent cities, more awareness for traffic and transport what have you. We see good growth opportunities there.

And then finally, we see good growth opportunities in the automotive space and that is really coming from two directions, and in TomTom's case from three directions.

First of all, we see that, despite the introduction of brought-in navigation like you get on smartphones, we see that the attachment rates for built-in navigation are going up. We see new use cases emerging where maps are part of the overall infrastructure of the car, the electronic infrastructure, so for adaptive cruise control, for lane level guidance, for helping to switch the gearbox in an efficient, fuel efficient way, ultimately leading to more advanced forms of automated driving.

And then the last element where we think we can grow, again especially in the motor space, is that we win market share from our biggest competitors there.

So there is a broad area for us to play with an overall good outlook. And we feel good that we have transitioned to a new technology platform so we can capture a larger part of the upcoming opportunities as well.

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**Vikram Kumar** - *TT International - Analyst*

Okay. And just in terms of telematics, I know you mentioned this TomTom CURFER, TomTom LINK 100, they seem more geared towards fleets. What's the timeline on these kind of products being rolled out to passenger vehicles for insurance purposes, or just help people become better drivers, or whatever?

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**Harold Goddjin** - *TomTom NV - CEO*

Yes, that's a good point. The core of telematics business, of course, is business to business; that is really to optimize the use of mobile assets and to improve customer service and the overall integrity of the business. So that's an important application.

But next to that, there is [recoverance] on the business development, there are two big areas of interest. One is insurance, so driver-based, behavioral-based insurance premiums and risk assessment. That's gaining some traction and we're making progress there. I wouldn't say we've cracked the code, but there's more and more evidence that technology is preparing itself for mainstream prime time application. We have a reasonable position in that space and we're expanding there.

The second area is really connected car in the consumer sense. We've got a couple of pilots running there, we're investing in some product development there, and I think that in 2016 we will see the first large scale applications coming to the market for connected car applications.

There's a lot going on there; it's a bit early to say how big the opportunity is and how fast it can go, but there's definitely a lot of interest from the industry for these type of applications.

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**Vikram Kumar** - *TT International - Analyst*

Thank you.

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**Operator**

Peter Olofsen, Kepler Cheuvreux.

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**Peter Olofsen** - *Kepler Cheuvreux - Analyst*

I had a question on the gross margin erosion that you witnessed in the quarter; I guess it's mostly on the consumer side. Are you taking any initiatives in terms of pricing or bill of material reduction that could really help you to recover some of the gross margin decline in the second half of the year?

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**Marina Wyatt** - *TomTom NV - CFO*

Yes, absolutely, of course we are. It's a big impact on us and the brunt of the impact is felt in our consumer business unit, absolutely. But on the other hand, it's difficult to just take products and put up prices overnight.

We need to take the opportunities, and the opportunities that are presented as we bring new products to market, and look at the pricing then and adjust accordingly in order to get the margins to where they need to be.

So I think there are two fronts: there is the pricing of products and also the underlying bill of material costs for our products, and that's where we also look at our existing products as well. So this is going to take some time to adjust to, but already you see, as new products start to play more of a contribution in our results as we go through the year, that that will start to have a positive impact.

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**Peter Olofsen** - *Kepler Cheuvreux - Analyst*

Okay. Thank you.

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**Operator**

Marc Zwartsenburg, ING.

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**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

A few questions left. First on the camera, I know it's very premature because you've just started shipping, but can you give us any color on expectations on what it can contribute, say over the next six months, because I think you mentioned we expect still the sports category to double in terms of revenues; is that including in that also contributions from the camera?

And what are the expectations going forward, so in 2016 what kind of volumes should we expect? And can you also give us any guidance on the margins; is it similar to the sports watch, it's also that the gross margin is better than on PNDs as well?

Then my second question, can you give us also the organic growth rate ex-ForEx and ex-PNDs; is that a number you have at hand that you can give us?

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**Marina Wyatt** - *TomTom NV - CFO*

Okay. So first of all, in terms of looking at sports products and I think the camera was your first question. So the camera in Q2 is basically -- it contributed only a tiny amount to Q2; not really on the radar because it's only started shipping in May.

And yes, clearly, as we go through the rest of the year, we are expecting it to make a bigger contribution to the numbers, but it's a new category for us, so we need to see how that develops. But we are, of course, expecting that to contribute towards the higher growth in the second half.

We sell an action camera, but there are also a whole range of accessories that go with that. And so we look at that sort of family as a whole in terms of driving a margin for that category. It's relatively competitive, but overall, when you put all of that package together, that makes a decent margin for us.

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**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

Would you say that the sports category, is that EUR300 million the doubling of, say, the sports watch contribution of EUR50 million to EUR100 million, would you now include the camera in your guidance, or should we see it as separately?

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**Marina Wyatt** - *TomTom NV - CFO*

No, it's separately included.

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**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

And in terms of size because I think you mentioned that you say, okay, we have a track record of coming to the market with a new product, but in terms of size of the market, the camera versus sports watch, what kind of number should we think about for, say, next year, because we know the sports watch took off really fast?

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**Marina Wyatt** - *TomTom NV - CFO*

I think we need to -- yes, but when we introduced it we were also giving the message let's see how it goes, and see how it builds. And I would say we need to adopt the same approach with the camera. So we can't give predictions for next year at this point.

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**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

Okay, clear.

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**Marina Wyatt** - *TomTom NV - CFO*

Okay. And your next question, could you just remind us please?

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**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

Yes, the organic growth if you exclude say the ForEx impact, but also if you exclude the PND category that's still declining, could you give me the organic growth rate of all those excluding those elements?

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**Marina Wyatt** - *TomTom NV - CFO*

In consumer?

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**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

No, of the Group.

**Marina Wyatt** - *TomTom NV - CFO*

Overall in the Group. We've said organically we as a Company, so excluding on a constant currency basis our revenue was up year on year by a small amount, so I think by EUR1 million. Clearly, within that, we had PND declining overall by 3%.

So if we take out PND, clearly the organic growth rate is higher, but I'm afraid I don't have the exact split of the ForEx impact by product category in front of me, but we can get it to you. It will go a bit higher.

**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

But the decline of 3 percentage points you mentioned, that's including ForEx I presume?

**Marina Wyatt** - *TomTom NV - CFO*

Yes.

**Marc Zwartsenburg** - *ING Financial Markets - Analyst*

Okay. All right, that's it. Thank you very much.

**Operator**

Alexandre Peterc, Exane BNP Paribas.

**Alexandre Peterc** - *Exane BNP Paribas - Analyst*

I just wanted to ask you a little bit about margins in licensing and in telematics. From what I see in H1, you had a slight decline from 32.5% to 27% EBIT margin in telematics. Is there anything special going on there; is it attributable basically to the hardware that you sell within telematics as well, so there's this pressure from FX and that would then explain why EBITDA margins are actually quite flat, a little bit down?

And then secondly, on licensing, here I'd just like to understand because to me it looks like the business should scale quite well as revenue growth returns to more normal levels. You now have 24%, 25% growth in H1, and I don't see any scale effect that would benefit your EBIT that is negatively same level, and the EBITDA margin as well is also down a little bit. So if you could just clarify those points for me? Thank you so much.

**Marina Wyatt** - *TomTom NV - CFO*

Yes, I think the impact that we see in telematics is very much caused by the acquisitions. So in the EBITDA, we're stripping out the amortization effect from the acquisitions; that's most of the [DA] that you see there.

So I think when you strip those out, that chart has gone up because we've made more acquisitions, and we're amortizing them. That's why it looks relatively flat. So that's kind of telling you that in underlying terms the telematics EBIT margins are pretty much intact.

What I would say is, when we make acquisitions we do end up with a slightly inefficient operating cost structure that we have to work through and takes a bit of time to work through as we assimilate the acquisitions. So that is really explaining what is going on in telematics.

In licensing, your point about revenue has increased significantly in licensing, but we've not seen that translating through to the EBIT line, is purely because, as we've already said, we're investing at a higher level in our map.

And when we prepared the segment note, any unabsorbed costs of the map that are not absorbed within the consumer business, or elsewhere, end up being apportioned in the automotive and licensing businesses. So all the costs of the map get portioned out, and we apportion them on a simple metric which is driven mainly by revenue. So the fact that licensing did better also meant that it absorbed more of the mapping cost.

So the way to read it is just automotive and licensing together are bearing the lion's share of the cost of the map and we need to continue to increase revenue in those two business units in order to turn that bottom line profitable.

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**Alexandre Peterc** - *Exane BNP Paribas - Analyst*

Can I just ask you a follow-up? Is there a point in time where you think you will be able to stop growing the cost base in map making alongside the revenue base; i.e., will we see scale effects at some point?

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**Marina Wyatt** - *TomTom NV - CFO*

Yes, I think we are very focused, we need to make sure that we have the product we want at the quality level we want. We've been incredibly focused on delivering, and we continue to be, on delivering the mapping platform. But there's also a need to continue to upgrade the content.

We see that it's important to continue to invest at high levels in our map, and we also see that revenues, as we go forwards, are increasing, and will continue to increase as we win new business. So I think there's a bit of making sure we're as efficient as we can be in our costs, but maintaining the quality of the product, but really the real drive is to drive more revenue.

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**Alexandre Peterc** - *Exane BNP Paribas - Analyst*

Okay. Thanks.

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**Operator**

(Operator Instructions). Hans Slob, Rabobank.

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**Hans Slob** - *Rabobank Equity Research - Analyst*

My question is on the licensing business. Even stripping out the EUR5 million impact in Q2, the licensing sales were still pretty strong. Maybe could you explain the underlying drivers for your licensing business? And should we also expect a higher run rate for your licensing business as you have extended and expanded your relationship with Apple, so maybe a little bit more color on that subject?

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**Marina Wyatt** - *TomTom NV - CFO*

Yes, so we've got EUR5 million in Q2 that should be apportioned to Q1, as you look at your quarterly comps, going forwards. And then if you strip out that EUR5 million from Q2, that should give you a decent feel for the run rate, going forward, in the licensing business.

And, indeed, what you'll see that's running quite a bit higher than it was last year. And without being specific about customers, that is due to new customer wins coming in, including the Apple contract that we announced in May.

**Hans Slob** - *Rabobank Equity Research - Analyst*

All right. So let's say, going forward, we should strip out the EUR5 million and take that as a run rate for your next quarter.

**Marina Wyatt** - *TomTom NV - CFO*

Yes, absolutely.

**Hans Slob** - *Rabobank Equity Research - Analyst*

All right. Thanks.

**Operator**

Thank you. There are no further questions in the queue at this time.

**Georgia Vlachou** - *TomTom NV - IR*

Thank you, operator. I would like to thank you all for joining us this afternoon. If you have any follow-up questions at a later time, please don't hesitate to give us a call.

Thank you all very much. Operator, you can close the call.

**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.