

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TOM2.AS - Q3 2014 TomTom NV Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2014 / 1:00PM GMT



CORPORATE PARTICIPANTS

Bisera Grubestic *TomTom NV - IR Officer*

Harold Goddjin *TomTom NV - CEO*

Marina Wyatt *TomTom NV - CFO*

CONFERENCE CALL PARTICIPANTS

Marc Hesselink *ABN AMRO Bank - Analyst*

Alexandre Peterc *Exane BNP Paribas - Analyst*

Marc Zwartsenburg *ING Financial Markets - Analyst*

Andrew Humphrey *Morgan Stanley - Analyst*

Stuart Jeffrey *Nomura - Analyst*

Francois-Xavier Bouvignies *UBS - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the TomTom third-quarter 2014 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. Ms. Grubestic, please go ahead.

Bisera Grubestic - *TomTom NV - IR Officer*

Thank you, operator. Good afternoon, and welcome to our conference call, during which we will discuss our operational highlights and financial results for the third quarter of 2014.

With me today are Harold Goddjin, TomTom's CEO; and Marina Wyatt, TomTom's CFO. You can also listen to the call on our website and a recording of the call will be available shortly afterwards. And as usually, I would like to point out that 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 hand over to you.

Harold Goddjin - *TomTom NV - CEO*

Thank you very much, Bisera. Welcome, ladies and gentlemen. Thank you for joining us today.

We reported a solid set of results in this third quarter and we generated strong cash from operations. Group revenue was EUR235 million in the quarter, and the gross margin was strong at 57%. EBIT was at EUR8 million, and fully diluted adjusted earnings per share of EUR0.07.

Marina will provide further information on the financials, but I will discuss some key operational highlights per business unit.

Our consumer business did well in the third quarter. We continued to see lower rates of decline in both the European and North American PND markets, and our European market share for the quarter was around 51%; North America market share was around 15%. ASPs were relatively flat this quarter.

We introduced a new TomTom START PND, and TomTom START makes our latest technology accessible to more drivers by providing them with access to lifetime maps, smarter routing at entry-level prices.

Our sports business continued to grow in the third quarter. We continued to strengthen the awareness of our cardio GPS watch also as a result of a successful international marketing campaign. We are on track with the expansion of our sports' distribution network.

We further extended our sports product range with the launch of the TomTom golf watch in the third quarter. This sports watch uses GPS positioning to automatically recognize nearby courses, calculate the distance to the next hole, keeps scorecards, and more. The watch contains maps of over 34,000 golf courses across the globe.

Moving on to the automotive business unit. We continue to make good progress in delivering our connected navigation system components. Bookings for this year so far are above EUR170 million, which together with earlier secured orders will support growth in our automotive business from 2016 onwards. This level of order intake is substantially higher than order intake in previous years, and is a good indication that our software services and [component] strategy in automotive is taking hold.

Our new map-making technology is foundational to continuous updating, and puts TomTom in a leading position to provide advanced map features required for highly automated driving. In this quarter, we announced a partnership with Volkswagen Research to join forces for the development specifications of map content and services for highly automated driving.

We also announced a partnership with Bosch to integrate our navigation technology and maps into Bosch Advanced Driver Assistance Systems, and that gives drivers an electronic horizon.

In licensing, we extended our location-based services product portfolio with an online turn-by-turn navigation service for business customers. This new product enables mobile device vendors and web service providers with online mapping and navigation applications that do not require an offline map. The TomTom service includes TomTom maps, traffic navigation software, along with easy to use software development kits.

Today we also announced the latest version of TomTom Traffic which now alerts drivers about weather-related delays and calculates routes based on actual and predicted weather conditions. By factoring in expected weather conditions, we're giving drivers more knowledge about the road ahead, better travel time estimates and better routing. We are the first player in the industry to use real-time weather information for more accurate route calculation.

Let's move on to our maps. Our transitional map production platform is designed to make better maps at lower cost. As we develop the technology, we will be able to publish up-to-date and accurate maps on a continuous basis. The launch of MultiNet-R map format in the third quarter was, therefore, a very important milestone for us, as it's our first commercial product derived from this new platform. MultiNet-R is also an advanced product that's easy to compile by our partners and is designed for incremental map updates.

Finally, I'd like to move on to our telematics business unit. We continued to see strong growth in telematics in the third quarter. The number of subscriptions increased by 34% year on year and reached 414,000 by the end of the quarter.

Organic growth was strong at 28% year on year, and I'm also pleased to see the integration of Coordina and DAMS Tracking, two acquisitions we made this year, is developing according to our plans.

Telematics launched a new series of driver terminals in September. The PRO 8 driver terminals are obviously connected to WEBFLEET platform, but for the first time also provide open APIs. So our software partners can extend the functionality of the driver terminal for customer specific use cases that are not covered by the standard WEBFLEET functionality.



The new driver terminals also come with a ready-to-use device management platform. So device owners or fleet owners and software developers have all the tools to efficiently manage a large number of connected driver terminals in the field.

Telematics today also announced a partnership with Signal Iduna to launch a new telematics car insurance product for young drivers in Germany. The partnership underpins once again that TomTom telematics is the technology partner of choice, not only for fleet management, but also for the insurance industry.

Our software-as-a-service business applications allow insurance companies to create innovative products and services to help people to drive greener, safer and more efficiently.

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

Marina Wyatt - *TomTom NV - CFO*

Thank you, Harold. I shall now review the financial results.

We generated revenue of EUR235 million in the third quarter, which was 4% lower compared to the same quarter of last year. We saw strong growth from telematics which was partly offset by a decrease in consumer. Our automotive and licensing revenues were flat year on year.

Consumer revenue decreased by 10% year on year to EUR153 million. Within consumer, automotive hardware and PND revenue were lower, partially offset by growth in sports revenue.

The EMEA PND market declined at a lower rate than we've seen in recent previous quarters at around 6% year on year. The North American market decline for PNDs was also lower at around 16%.

Sports revenue developed well in the third quarter and we expect this growth to continue. Automotive revenue was EUR26 million in the third quarter, which was flat year on year.

Our automotive business is in transition and this is expected to continue throughout 2015. But as Harold mentioned earlier, our order book for this year so far is above EUR170 million, which together with earlier secured orders, will support growth in automotive from 2016 onwards.

As these new contracts also sometimes include lifetime maps and lifetime traffic components, the IFRS recognition of this automotive revenue in our financials will include deferral elements in the future.

Licensing revenue for the quarter was flat year on year at EUR27 million. Telematics revenue grew by 34% year on year, and within telematics, subscription revenue grew by 32%.

Growth of 39% in hardware revenue included the introduction of the new PRO PND devices and the PRO 8 series driver terminals towards the end of the quarter.

We reported a strong gross margin for the quarter of 57%, an increase of 1 percentage point year on year. The increase was partly due to higher gross margins on certain hardware products, and partly due to a provision release. Excluding the provision release, the gross margin would have been 54.6% compared to 54% in the third quarter of 2013.

Towards the end of the quarter, the dollar strengthened significantly against the euro. And assuming this trend continues, our gross margin in the fourth quarter will be negatively impacted by this compared to the fourth quarter of last year to the tune of somewhere between 1 and 2 percentage points.

Operating expenses for the quarter were EUR125 million, in line with the same quarter last year.

Year on year, we increased our marketing expenses, driven by advertising campaigns launched around sport and traffic within our consumer business.

We accelerated the amortization of some legacy navigation technology, resulting in a non-recurring year-on-year increase in our amortization of technology and databases line.

SG&A expenses in the quarter were lower than in the same quarter last year, in part due to a one-off reduction in costs. However, the G&A portion of these costs is structurally lower than it was last year.

EBIT for the quarter was EUR8 million. We delivered a net result of EUR6 million, which translated into adjusted EPS of EUR0.07 on a fully-diluted basis.

We finished the quarter with a net cash position of EUR104 million. We generated EUR68 million from operating activities. Capital investments were EUR22 million and largely related to investments in our new map production platform and the connected navigation system components for the automotive industry.

Let's now move on to our 2014 outlook. We've updated the revenue outlook for 2014 to between EUR930 million and EUR950 million, and our previous revenue guidance was for at least EUR925 million. Our outlook for fully-diluted adjusted earnings per share of at least EUR0.25 is unchanged.

Operator, we'd now like to start with the Q&A session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Marc Hesselink, ABN AMRO Bank.

Marc Hesselink - ABN AMRO Bank - Analyst

My questions are related to automotive and [licensing]. Firstly, if we look into the steps to be taken to more automated driving, where you have the crucial element is also the map, how do you see that? What are the crucial steps to be taken and how do you fit in? Especially also taking into the relation the recent deals that you announced.

And secondly, if we look into the map where it is right now, the investments that you need to do to have it ready for automated driving, so more detail, is that significantly higher than it is right now, or are they still to be taken, or what's going to change there?

And then finally, if you're looking to the products that you have right now and if you compare them to the competition, how do you stack up -- how do you differentiate from the competition? How do you see that versus the others?

Harold Goddjin - TomTom NV - CEO

Yes. Thank you very much. So let's first look at automated driving and what's going on there. So I had for the first time, the pleasure to drive in a car, in a Volkswagen, that was driven automatically under normal conditions, on a normal road using standard technology, standard actuators, but with cameras and a map. And I must say it worked fantastically well and reliable.

So for the first time really, you can see a clear path forward where automated driving, autonomous driving -- automated driving will go from well-regulated motorways to country lanes, and eventually, it will end up in the city as well.



There's one fundamental step which is more difficult to predict, and that is are cars then driving fully autonomous or is still the driver will be in control. I can't predict when that is going to happen, when you go to fully automated driving, but I can see a clear path forward for increased levels of driver assistance leading to automated driving.

The maps we need to make for that are indeed more detailed. So our current maps are really designed for planning and guidance, but to keep a car on the road we need different attributes.

Our efforts with Volkswagen and others in the industry are geared to understand what that map format should look like, to test that in the real -- and to test those maps in real life and also look at how we can produce and maintain those maps in a cost-effective way.

The investments to come to -- for us to develop those maps are initially not that high. We know how to do it; we need to [productize] that and we need to get that into an automated production flow.

But it is quite overseeable. I think the more challenging bit will be to keep those maps continuously up to date, because you can't drive those maps every day; you need to have more clever ways of maintaining those maps. And again, we're working with industry to see how we can do that and how we can link sensors that are into the car to the map for automated change detection and incident alert.

And some of those results are quite interesting and promising, and I think that given time, we will find ways to further automate and optimize the production and change detection process.

I hope that answers your question. So it is moving; it's going fast. There's still an element of research involved, as you would expect. But the initial results are very promising indeed.

The other question is how does that compare; how does that product compare. Well, I think the focus for us is on making those maps and maintaining those maps in a very cost-effective way, and we've got some [patents] around that; we've got some ideas how we can do that. We've got some prototyping going on.

It's difficult to get a complete picture of everything what's happening in the car industry, but we're working with the leading carmakers and Tier 1s in this field, so we've a fairly good indication that what we are doing is what the industry needs.

Marc Hesselink - ABN AMRO Bank - Analyst

Okay. One follow-up. What you're describing, is it --? When do you expect that you will really show it also in -- when you can sign contracts that are really related to automated driving and that show into your numbers? How long is that out?

Harold Goddjin - TomTom NV - CEO

Well, it's a gradual thing. So you will see more attributes coming into the map that will be priced differently. We get those 3D lane models into the map for -- not only for automated driving, but also for enhanced visualization. So it will be a gradual process, but I don't expect to see income coming through in the top line directly attributable to those elements before 2017, I reckon.

But that's also not necessary because the revenues can come earlier because of better relationships and joint development programs. We also have a better chance of winning current business in the running up to products for automated driving.

Marc Hesselink - ABN AMRO Bank - Analyst

Okay. That's clear. Thanks.

Operator

Alexandre Peterc, Exane Paribas.

Alexandre Peterc - *Exane BNP Paribas - Analyst*

I'd like to again come back a little bit on the automotive side of things. You underscored there would be a strong order intake of EUR170 million, so that I understand is the contracts you've accumulated year to date.

Can you tell us how your market share versus your biggest competitor is evolving on the basis of this figure? I suppose you do monitor that. Is it improving, and if so, why? And also, if you could explain why next year is still seen down for automotive and growth will resume only in 2016. So why such a long gap?

Thank you.

Harold Goddjin - *TomTom NV - CEO*

Yes. So I don't know what our order intake this year means for market share in the future, to be honest. That's a difficult calculation. We think our market share is around 30%, but we are clearly -- our strategy is to win market share.

So we can grow the top line through three different axes. So we think the market will grow; more and more navigation systems will end up in the high-end and in the mid-range cars. We want to gain in market share. And there are opportunities in automated driving for new and differentiated products as well.

So I think it's fair to say that we have been suffering to an extent from a product gap. We had to invest heavily in technology to prepare us for the connected car. We've been talking to the industry for some time about those investments. But in 2014, we started to see some real tangible products coming out of the development teams that have excited the market. And I think that has helped us tremendously, together with our vision on real-time mapmaking, our leading position in traffic information.

Our view on autonomy -- automated driving, has improved our credibility and our attractiveness in the market with carmakers, and we see that translating in 2014 for the first time in a much improved order intake.

EUR170 million; that is only for software, services and content. The year is not over. We expect that that number will grow in Q4 2014. And if we can continue that in the years ahead, then eventually, our revenue, our annual revenue in the automotive sector will reach that level of revenue, which is substantially higher than what we're doing today.

On the other hand, the contracts we've won in 2014 will only start to materialize in terms of revenue in the second half of 2016, and that means that our expectations for growth in 2015 are moderate. We don't know exactly where we'll come out, but I don't expect any growth in 2015. But we're hopeful and confident that in 2016 and beyond we will see increased levels of revenue in the automotive sector.

Alexandre Peterc - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Operator

Marc Zwartsenburg, ING.



Marc Swartzsenburg - *ING Financial Markets - Analyst*

First, Harold or Marina, can you update us perhaps also on the contract with [Peugeot]; timing, size, when kicking in, etc?

That's my first question.

Harold Goddjin - *TomTom NV - CEO*

I think we announced PSA contract in 2013 -- 2012. The product has not hit the market yet. It's in the pipeline. We are working together with the Tier 1 and PSA to bring the product to the market, obviously, but I can't give you more color and detail on when exactly that will happen.

Marc Swartzsenburg - *ING Financial Markets - Analyst*

Also not in terms of potential size and features, etc?

Harold Goddjin - *TomTom NV - CEO*

Well, if there's a -- so what we are supplying is a complete set of content, software, traffic information and cloud services. So it's our full portfolio of products integrated with a user interface designed by PSA. So the user interface is specific for the PSA brand and brands, and the underlying navigation technology, maps, traffic information, routing, cloud services, are provided by TomTom.

So it's a -- it was our first contract based on the new technologies. It's an important one and we are on track to deliver that. But we're not the only one in the supply chain, so it's a multi-party program.

Marc Swartzsenburg - *ING Financial Markets - Analyst*

But in terms of timing, can you -- can we expect something on this in next one or two quarters?

Harold Goddjin - *TomTom NV - CEO*

I don't want to -- because of the commercial sensitivity of this agreement, I don't want to elaborate on that.

Marc Swartzsenburg - *ING Financial Markets - Analyst*

And then a few -- well, maybe first on the PND. You say that the quarter saw finally some bottoming of the declines in the market. How do you see that continuing going forward into Q4, for instance, and beyond? Is it now -- should we see more bottoming coming? How does your pipeline look towards Q4? Can you elaborate?

Harold Goddjin - *TomTom NV - CEO*

I hand it over the -- hand this question over to Marina.



Marina Wyatt - TomTom NV - CFO

Yes. We've seen a gradual decrease in the rate of decline. So it was coming down a little bit in Q2 and we saw it more in Q3. It's difficult to predict, but I think the signs are there with the combination of slowing market decline, pricing is pretty stable. The market share is good and strong.

So there are good and stabilizing signs, but we would still going forwards predict that the market will get smaller, but at a lower rate of decline than we've seen in the past. We can't be more specific than that because we don't have a crystal ball, but that's how we see it in broad terms.

Marc Zwartsenburg - ING Financial Markets - Analyst

Do you also see mix changes versus higher and lower-end models?

Marina Wyatt - TomTom NV - CFO

Not really. I think that what we're seeing is more and more the features coming into the mid-range and people wanting the traffic and lifetime maps, and you don't get them in the real low end.

Marc Zwartsenburg - ING Financial Markets - Analyst

Of course, looking at your outlook for the full year in terms of revenues, it seems that the normal seasonal uptick from Q3 to Q4 might be a little bit less this year despite the market bottoming a bit. Is that just a matter of caution that you've taken on the seasonality, or is there something else behind that?

Marina Wyatt - TomTom NV - CFO

Well, what we see now with PND, there has been a little bit of a change in how the PND is bought. And the biggest month of the year in the PND are leading into the summer driving months, whereas a few years ago, it was very geared toward Q4. So now in a sense from the point of view of the actual market, it's the end of Q2/early Q3 is the biggest period, and then Q4 is the second biggest period. So there's still an up lift in, if you like, Q3 to Q4, but it's not nearly as marked as it used to be.

Marc Zwartsenburg - ING Financial Markets - Analyst

And a few technicalities. The exchange rate result; what do you expect for Q4 in that respect, given the movements in the dollar?

Marina Wyatt - TomTom NV - CFO

Yes. So when the dollar strengthens, it -- because of the fact that the components in our bill of materials for our consumer products are dollar-denominated, that does have a negative impact on our gross margin.

So what we saw towards the end of Q3 was a marked strengthening of the dollar against the euro. And if the exchange rate continues where it is today, if that continues through Q4, that is going to reduce the Group's gross margin by between 1 and 2 percentage points. We'll have to see how it develops in the fourth quarter.

Marc Zwartsenburg - ING Financial Markets - Analyst

And the result below the EBIT --?

Marina Wyatt - TomTom NV - CFO

And sorry, just to be clear, fourth quarter compared with the exchange rate that we saw last year. So that's how we will see the impact.

Marc Swartzsberg - ING Financial Markets - Analyst

So 1 or 2 percentage points versus last year's Q4?

Marina Wyatt - TomTom NV - CFO

Yes.

Marc Swartzsberg - ING Financial Markets - Analyst

And the exchange rate results below the EBIT line?

Marina Wyatt - TomTom NV - CFO

Yes. So below the EBIT line, we do have a limited amount of hedging of our ForEx, but it's -- we don't usually see big numbers down there. So --

Marc Swartzsberg - ING Financial Markets - Analyst

So [2 million moves there] in the fourth quarter?

Marina Wyatt - TomTom NV - CFO

No. Again, I don't have a crystal ball on that, but I don't expect it.

Marc Swartzsberg - ING Financial Markets - Analyst

Okay. And then on the tax rate, should we still expect around 10% for the year? And also, can you give us a bit of guidance for the next years?

Marina Wyatt - TomTom NV - CFO

Yes. We're expecting around -- it should be around 10% this year. So we are lower than the corporate tax rate that you would expect, but that is because of the high level of proportion of our costs that are R&D related and the grants that are available for them.

So around 10%. It depends -- next year there or thereabouts, but it depends a little bit on geographical mix of our business, so you know that can vary a little bit. But fundamentally, we are lower because of those grants that we get.

Marc Swartzsberg - ING Financial Markets - Analyst

And last question on -- basically related to cash and shareholder-friendly stuff. We noted that the dividend is not going to be -- you changed the dividend policy. But is there any chance that in -- say, if you reach a certain threshold in excess cash that you might be looking first to share buybacks before you would consider even a dividend?



Marina Wyatt - *TomTom NV - CFO*

I don't want to make any further comments on this matter. What we were doing today was just honoring a commitment we made at the AGM to say what our dividend policy was, and we reiterated what we had said at the AGM. Nothing more than that.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Clear. That's all my questions. Thank you very much.

Marina Wyatt - *TomTom NV - CFO*

Thanks.

Operator

Andrew Humphrey, Morgan Stanley.

Andrew Humphrey - *Morgan Stanley - Analyst*

Just a couple on the autos business, if I may. Clearly, the strength in orders that you've seen there this year are a suggestion that the transition towards real-time mapping updates and a more portable platform have stood you in good stead as far as manufacturers are concerned, but I have a couple of questions on it.

Firstly, what further milestones, orders, catalysts, should we look for on that business in 2015, I guess in terms of qualitative way points towards more revenue growth?

And secondly, you mentioned the impact of revenue deferrals during 2015. Clearly, in terms the top line, we've seen that being a little bit disruptive in PNDs in the past, and I think there have been a few challenges to understand that. Could you maybe talk through 2015 and how you see shape of the autos business developing there?

Harold Goddjin - *TomTom NV - CEO*

Yes. So more than in any of our other businesses perhaps, the revenue generated in automotive is a trailing indicator. And the real leading indicator is order intake, of course, because of the length of the contracts.

So the strategy for 2015 obviously is to win further deals that become available in the market. And I think, first of all, there will be other contracts coming up. And I think our positioning to win those contracts is strengthening over time with further maturity of the components and the products that we bring to the marketplace.

So I am looking forward to next year also when some -- when more of our products will go to production. I think our product portfolio looks good and strong, and I'm looking forward to 2015 and winning more deals.

Because of the connected car, a larger proportion of our product portfolio is service based and service orientated. So our cloud services, our traffic, our online routing technologies, are all delivered to the car industry as a service, and that runs over multiple years. And hence, the effect on income recognition and the applicable accounting rules that we need to adhere to will make us deferring some of the revenue associated to our automotive contracts.



Perhaps, Marina, you can say a bit more.

Marina Wyatt - *TomTom NV - CFO*

Yes. Let me do that. How it will work is -- we'll particularly see it in contracts for traffic and contracts for maps where you have multi-year contracts with updates. And the typical rule of thumb will be that if we're supplying traffic, say, for three years, and the car is sold at the beginning, we will defer that revenue. The revenue, the unit price that we get for traffic, will be deferred over three years.

It's a little bit -- in the consumer business, we have a set percentage, a number of years that we can inform you about, and we have done so. In automotive, it's going to be a little bit more contract by contract because the length of the contract years can vary.

So we have that coming, but we will do our best to give you as much clarity as we can do at the time about how much is the deferral element so that you can see what's going on.

Andrew Humphrey - *Morgan Stanley - Analyst*

Sure. Maybe if I can follow up and ask that a slightly different way. If that, the EUR170 million of order intake that you've mentioned so far, what proportion of your current autos revenue does that relate to, and how much of that could be cannibalized if it's being recognized over three years rather than up front?

Marina Wyatt - *TomTom NV - CFO*

So what that EUR170 million represents is the value of those deals over the lifetime of those deals; so how much money will we get, based on estimates over the contract life for those contracts. So that's what that is. And so that will be recognized over a number of years.

Andrew Humphrey - *Morgan Stanley - Analyst*

And in terms of what impact -- I guess to the extent some of these are replacement deals of revenue you're recognizing and have in place, can you say what that refers to, or what percentage I guess that refers to?

Marina Wyatt - *TomTom NV - CFO*

Not really. We were giving this indicator more with a view that if you can see that over a nine-month period we're booking EUR170 million, and that number should increase on an annual basis, if we can keep that going, you can see we're building a growing business there compared with the run rate that we have today. That was really the indicator we were giving by saying that

Andrew Humphrey - *Morgan Stanley - Analyst*

Okay. That's great. Thank you.

Marina Wyatt - *TomTom NV - CFO*

Okay.

Operator

Stuart Jeffrey, Nomura.

Stuart Jeffrey - Nomura - Analyst

Yes; a follow-up on that EUR170 million, [please]. When I think back historically, maps I think from Tele Atlas from around EUR40/EUR50 a go, so as I look at that EUR170 million, is there any way of giving us a better sense of what is for the underlying map and therefore an upfront revenue versus what might be deferred?

And then also perhaps dig into the constituents of the value per vehicle that you're getting these days. How meaningful are the --? If the map is, say, at a similar price, are your services coming in within that price point, or is there scope, or are you seeing tangible evidence of significant ASP upside within that dynamic?

Harold Goddjin - TomTom NV - CEO

Yes, Stuart. It's difficult to give you a breakdown of how that EUR170 million is put together, but it is -- but there's no hardware involved. It's maps and map updates, traffic information, and it's software, and then it's cloud services. Those are the constituents. And it's difficult to break it out, quite frankly. I can't do that now.

But it's obvious that if you only do the map, you get [X], but the components are priced separately. So ASPs per car is higher when you have a more complete product than when you only do one part of the [product line].

Stuart Jeffrey - Nomura - Analyst

Is there a way of just saying how meaningful that upside is?

Harold Goddjin - TomTom NV - CEO

I struggle to quantify how meaningful that is. It is meaningful. We're investing a lot in it as well. I don't underestimate -- investments that's going on in services and traffic are substantial, and software. It's not just the map. But we feel that we're doing the right thing here and that there will be a good payback on those investments. We will be able to invoice those components separately.

Stuart Jeffrey - Nomura - Analyst

Okay. Thanks. And just --

Marina Wyatt - TomTom NV - CFO

And indeed, we do. Some of the contracts are traffic-only contracts. Some of the contracts are a bundle of two or three of those elements. So the map still today commands the highest value of the three, but there is also significant value in the others as well. On a standalone basis they make a good return as well.

Stuart Jeffrey - Nomura - Analyst

Thanks. Just quickly on the market share comments on in-dash. You say you think you have won 80%. And obviously, Nokia has just been advertising that they've won 80% of the cars shown off at the Paris motor show. I know it's not a perfect analogy, but how would you look at -- how can you

see underlying market share trends evolving? And why should we not look at some of those headline claims as evidence that maybe you're being put under some market share pressure?

Thanks.

Harold Goddjin - *TomTom NV - CEO*

Well, the -- as I said, so the best indicator I can give you is our win rate currently. So we feel that we're doing well in winning those deals [that are available]. We don't win them all. Arguably, that's also not -- that wouldn't be realistic. But the win rate we are currently enjoying is higher than what we've traditionally seen, and that translates in hard contracts with substantial value associated and attached to them.

And it's not just the function of map, of map quality, but it's really a market strategy we've chosen where we offer our components and elements as separate building blocks. That was for us a breakthrough. When we packaged traffic service like that we really saw an enormous amount of traction by making it universally available on all vehicles.

So if -- I think in the coming years, about 80% of European cars that will come to the market will have TomTom Traffic, for instance, if it's IP-based. There are very few contracts we didn't win.

So we can lead in traffic. We're doing the right things in our software, which is modular. We're doing the right things in our cloud services. So we feel that we're on the right track, and I think the order intake that we enjoyed this year is evidence of -- substantiates that claim.

Stuart Jeffrey - *Nomura - Analyst*

Great. Thank you.

Operator

(Operator Instructions). Francois-Xavier Bouvignies, UBS.

Francois-Xavier Bouvignies - *UBS - Analyst*

I have a couple, if I may. So the first one is on the sports revenue. You mentioned a strong growth in sports revenue, and I was wondering how do you see it going forward into Q4 and into next year.

And as a consequence, there was a higher marketing expense, so I was wondering how is it going into next year as well. Do you think it's going to stay like this?

And finally, I wanted to talk about Apple and Android who released a new product with CarPlay and Auto Android (sic). So how do you see this competition going forward?

Thank you very much.

Harold Goddjin - *TomTom NV - CEO*

Yes, Francois, so on the sports side, we've done well so far, the first report, and we expect a good Q4. There's a lot of [testing] going on. I think we will see good growth in sports. Of course, we need to see -- we don't have a crystal ball, but the indications are positive. Retailers are responding positive as well.



And the sports watches in general get better acceptance. There's more use in the market. They see how that works and more people enjoy the benefits of heart-rate monitoring without a chest band, which is a real benefit.

And that is a strong sales argument, simple sales argument as well, and we see that translated into very high market share, especially in specialized shops where we're outselling most of our competitors now. Not everywhere, but especially the good, well-trained specialist shops, we see that happening. And that is a good indicator for the potential success.

Francois-Xavier Bouvignies - *UBS - Analyst*

The growth will be the same next year?

Harold Goddjin - *TomTom NV - CEO*

Yes. Again, so it's going well; it's growing fast. We have new products in the pipeline. We're investing in our sports category. We will see new and exciting products coming along next year. So we are planning for further strong growth in 2015.

Marina Wyatt - *TomTom NV - CFO*

On the marketing spend, we -- overall this year, we are spending more than we spent last year on marketing. The campaigns are more phased through the year this year. And last year, we had a very big increase in the fourth quarter. But we have spread it more through the year this year, but overall, the amount of investment is up. And next year, we are planning to continue with that.

Francois-Xavier Bouvignies - *UBS - Analyst*

Thank you.

Operator

(inaudible), Kempen.

Unidentified Participant

I have one question. Given obviously the product launches in consumer with PND, and also the sports products, and obviously the catch-up on the automotive side, the new products, and the fact that you have the new map platform in place, what is your expectations in terms of R&D spending going forward maybe into next year, both from a P&L and also from a cash flow perspective? You would think that that may come down somewhat given the investments that you've done in the products that you've developed this year.

Thank you.

Marina Wyatt - *TomTom NV - CFO*

It's a little bit early to start talking about exactly what we will invest in next year. You've seen some themes. Highly automated driving it is one of the themes. More investment in sport is one of the themes. We will during -- the course of next year, we will be transitioning in full to our new mapping platform as well.

So some areas will be reducing in spend; some will be investing more. But we'll give more flavor of that when it comes to the Q4 results. It's a little bit early just now.

Unidentified Participant

Okay. Thanks.

Operator

(inaudible).

Unidentified Participant

Apologies. I just joined the call because I'm travelling at the moment, so apologies if you already answered these questions. First one is: Can you elaborate a bit on your partnerships with Volkswagen and Bosch in terms of automated driving and exactly why they chose you and how the map at a deeper level will be integrated into the automobile to help with automated driving?

And secondly, on telematics, can you please talk about your new car insurance deals and the kind of growth curve you're expecting there; and whether you're in talks with other insurance companies and how the insurance industry is generally starting to move on this, please?

Harold Goddjin - TomTom NV - CEO

Yes. So the -- let me elaborate a bit on the Volkswagen. We did touch on it earlier in the call. I'm not going to -- I don't think it's -- won't repeat everything, but the collaboration with Volkswagen is aimed to develop cars that can drive by themselves, autonomous driving. And we are working with Volkswagen to look for the specifications for the map that are needed, provide those maps in test environments, and make maps over larger geographical areas where more extensive testing can happen with a view to then take those maps into production.

Unidentified Participant

Can I ask? Is basically --? Am I correct in assuming that the map is critical for self-driving cars and automated driving?

Harold Goddjin - TomTom NV - CEO

Yes. It's a critical element. It's not the only element, but it is a critical element. So a lot of the positioning, the driving, is done by sensors, cameras, radar, Lidar, depending on which technology is chosen. But what those sensors have in common is that they have a limited horizon. They don't know what's happening when merging traffic is coming in, when there is a sharp corner coming, when there is an exit -- when you're approaching an exit. And there's other elements where you need a 3D map for to make the positioning accurate.

So it's a necessary ingredient. It needs to be a slightly different map than what we currently have. So those are, I think -- I hope that answers your question.

Unidentified Participant

Thank you. And on the insurance, on the car insurance side?

Harold Goddjin - *TomTom NV - CEO*

Yes. It's one of those interesting things. So the car -- the insurance market is looking for better risk profiling, especially for high-risk groups, younger drivers. They want to offer them affordable insurance but also want to encourage those young drivers to drive responsibly.

Technology can help there. We are involved with a number of those products. It's growing. It's gaining acceptance and creating interest with both drivers and insurance companies. But I think it's also fair to say that this market is at an early stage and it's difficult to predict how big it can be and where it will end.

But there seems to be some traction where more drivers and more insurance companies are getting used to the idea and offer differentiated products, especially to younger drivers.

Unidentified Participant

Many thanks.

Bisera Grubestic - *TomTom NV - IR Officer*

With this, we can close the Q&A part of this call for today. I would like to thank you all for joining us this afternoon. And if you have any follow-up questions at a later time, please don't hesitate to give us a call. 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.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

