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TOM2.AS - Q3 2015 TomTom NV Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the TomTom third quarter 2015 results analyst 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, Bisera Grubestic, Head of Treasury and Investor Relations. You may begin.

Bisera Grubestic - *TomTom NV - Head of Treasury and 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 third quarter of 2015. With me today are Harold Goddjin, our CEO; and Taco Titulaer, our CFO.

You can also listen to the call on our website. And a recording of the call will be available shortly afterwards. And, as usual, 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 Taco. We will then take your questions.

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

Harold Goddjin - *TomTom NV - CEO*

Well, thank you very much, Bisera. Welcome, ladies and gentlemen. Thank you for joining us on today's earnings call.

We generated Group revenue of EUR254 million in the quarter, and that is up 8% year on year. This is in line with our plan to deliver growth in the second half of 2015.



Taco will provide further information on financials and the outlook later during his presentation. I will now discuss our key operational highlights per business unit.

Our consumer activities held up well, through a combination of a resilient growth of our PND and niche categories in the drive segment, and growth in the sports products.

In Q3, we saw a unit decline of 8% in the European PND market, whilst the North American markets declined by 20%. Our market share in Europe and North America improved year on year.

We continued to strengthen our ASP, as our product mix in the quarter was skewed towards higher-price models.

In the quarter, we made further inroads in diversifying our consumer business. We extended our sports product range with the launch of a new generation of sports and fitness watches, with integrated music player and 24/7 activity tracking.

We continued to broaden our offering in niche markets with the introduction of TRUCKER 5000, which is specifically designed for drivers of large vehicles.

We also announced a number of new contracts with our BRIDGE business-to-business drive terminal, amongst others, with Daimler regarding FleetBoard's transport management services; with ASAP, which is a solution for field force automation in the utility sector. There was a Scandinavian company, called Frogne, who developed an advanced fiscal taxi meter; and Tech Mahindra developed a business-to-business ADAS-connected car solution.

Our automotive business developed as anticipated, owing to the phasing out of certain contracts.

Our location technologies are gaining significant interest in the automotive industry, as reflected in level of bookings we secured this year, which so far exceeds EUR250 million. This level of order intake is substantially higher than in previous years, which is a good indication that our strategy in automotive is taking hold.

Our business will continue to require high levels of investments, both OpEx and CapEx, in the near future. This is needed to support delivery of the new business won, and sustainable future growth of TomTom.

In the quarter, we announced a number of new contract wins with Fiat, Alfa Romeo, and SsangYong Motors.

We also announced a partnership with Bosch to collaborate in the area of mapping technologies for highly automated driving.

And we extended our product portfolio with RoadDNA, which offers precise location technology for automated driving.

And we also launched a HAD map of Germany, covering complete autobahn network.

I will give you a quick update on where we are with our new mapping platform. With our new mapping platform, our map is updated continuously, using transactions with automatic quality control.

An update is available to customer applications, as soon as a transaction is completed. This helps us to dramatically reduce the time between change detection and publishing a new map, which we can also do incrementally now to deliver real-time maps.

Some customer applications, in particular, automated driving, place a high premium on being up to date with the latest real-world changes.

For most countries, our maps are already being maintained on our new transactional map-making system. And we will be fully deployed towards the end of this year.

And now, telematics. By the end of the quarter, we reported 522,000 vehicles subscribed to our WEBFLEET platform, which is a 26% increase year on year.

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

We also announced a partnership with Pon, who is the Dutch importer for Audi, Volkswagen, and Porsche. Under this partnership, we are developing and implementing systems for the connected car. We are making information about the car, like engine status; maintenance information; fuel consumption; driver behavior, available to drivers who can share that information with others, including dealerships.

This concludes my part of the presentation. I would now like to hand over to Taco.

Taco Titulaer - *TomTom NV - CFO*

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

We generated revenue of EUR254 million in this quarter; that's 8% higher compared with the same quarter last year. And that compares with the 3% growth that we saw in the first half of the year.

Consumer revenue was up 5% year over year in the quarter, compared with a decline of 2% that we saw in the first half of the year. The increase is the result of a resilient PND business, and a growth in our sports activities.

Automotive revenue was flat year over year in the quarter, compared with a 17% decline we saw in the first half of the year. As Harold already mentioned earlier, our order book for this year, so far, is above EUR250 million, which, together with earlier-secured orders, will support growth in automotive from 2016, onwards.

Licensing did very well; it was up 32% year over year in the quarter, compared with 27% growth in the first half of the year. The year-on-year increase we have seen throughout the year is driven by both existing accounts, as well by new accounts.

Telematics revenue was up 12% year over year, compared with a 30% increase we saw in the first half of the year. This was driven by a relative weak sales during the summer months, and a normalized performance at the end of the quarter. We expect the fourth quarter as a whole to show stronger growth than what we reported over the third quarter.

Overall, we delivered a solid set of results for the quarter. However, the strong dollar continues to considerably impact our results, like it did in the first half of the year.

Our gross margin was 53% in the quarter, which is 4 percentage points lower compared with the 57% we reported for Q3 2014.

The gross margin for Q3 2015 at constant currencies was 58%, which was actually 1 percentage point higher than last year.

Total OpEx for the quarter was EUR130 million, which is EUR5 million above the same quarter of last year. And that's driven by the growth of our workforce and higher marketing, which was partly offset by lower amortization of technology and databases as we had a one-off last year.

We expect the quarterly run rate for OpEx in the fourth quarter overall to be mostly up to what we have seen in the third quarter.

We delivered a net result of EUR2 million, which translates in the adjusted earnings per share of EUR0.05 on a fully diluted basis.

And if you add the movements in our net deferred revenue and deferred cost of sales year over year of close to EUR40 million, you take off 25% corporate income tax and divide it by the total number of shares, you could add EUR0.13 to the adjusted earnings per share.

We finished the quarter with a net cash position of EUR94 million, compared with EUR77 million last quarter, and compared with EUR104 million last year.

We generated EUR47 million from operating activities.

Capital investments equaled EUR31 million, and largely related the investments in our new map production platform and the connected navigation system components for the automotive industry.

Let's now move on to our outlook, on slide 7. 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 year on year, ahead of growth in 2016.

We expect the level of investments, both CapEx and OpEx, in our core technologies to be modestly higher than last year.

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

That concludes the formal part of the presentation. Operator, we would now like to start with the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Alexander Peterc, Exane.

Alexander Peterc - Exane BNP Paribas - Analyst

I would just like you to clarify the EUR0.13. Is that the quarter or the nine months? And is that just pertaining to the deferred revenue situation? Just like to understand that really well.

And then, the second question would be regarding your operating leverage in automotive and in licensing. If you could spell out to us a little bit how EBIT should evolve in those areas moving forward into next year. Will we see more operating leverage in licensing and auto, and why? Thank you.

Taco Titulaer - TomTom NV - CFO

The EUR0.13 adjusted earnings per share is on a full-year basis, so not specifically for Q3. There are some -- the reason why we take the full-year perspective is that there are some seasonal trends. And also, we have some accounts that pay once a year for the coming 12 months, so then you see a fluctuation in the deferred revenue line, as we have seen if you go from Q2 to Q3.

If you compare Q3 now with Q3 last year then the net addition to our deferred revenue, and if you deduct the deferred cost of sales, is EUR39.5 million. If you take out the corporate income tax of 25%, you arrive at EUR29.6 million. And then you divide it by two into 36 million or 37 million shares, and then you get to the EUR0.13 cents. So that is a EUR0.13 that you could add to the overall adjusted earnings per share for the full year, so not specifically on Q3.

The second question was operational leverage in automotive and licensing. We need to -- it's a bit too early to give guidance for 2016 and 2017, and beyond, but what you need to realize is that the automotive bookings will have an effect on our OpEx levels.



Some contracts will require upfront investment in our map content and technology; that's more the case with automotive than it is with licensing. But we more and more view automotive and licensing as a group. And we will see operational leverage -- that some of that operational leverage will be invested in the short term to give an excellent product to our new customers in automotive.

Alexander Peterc - *Exane BNP Paribas - Analyst*

Excellent. Thank you.

Operator

Marc Hesselink, ABN AMRO.

Marc Hesselink - *ABN AMRO - Analyst*

I would like to know your view on what happened in the competitive landscape. Obviously, HERE being sold to the consortium of the carmakers; but also, in the market stories about Apple or (inaudible) Uber making some kind of proprietary map for themselves. How do you see that, going forward? And what will be your position in there? And how can you compete with these players? Or will there be a competitor for some of them?

Secondly, related to that, your views on market shares. I think you're winning market share at the moment with current trends, but what are your trends? And what are your discussions that you're currently having with the automotive clients?

And a final question is also a bit related to the costs. When you have the migration done on the year end, the investments that you spare on your old platform, will you completely reinvest that into the new platform? Those were the three questions.

Harold Goddijn - *TomTom NV - CEO*

Okay, thanks, Marc. Yes, so competitive landscape, obviously, things are changing with the planned acquisition of Nokia HERE by the German carmakers. But it is, for me, too early to give you an indication what the net result of that is going to be. I prefer to wait until we have more clarity what is going to happen, and how the German carmakers are going to play it.

Currently, the transaction is not yet consumed. There are still, what is it, the regulatory approvals' needed, and after that it will take some time before the dust has settled and before we get that visibility on that. So I'm not going to comment now what I think the net effect of that is going to be.

Yes, competitive landscape beyond Nokia HERE, I think in the field of highly automated driving there's a lot of experimentation going on. We know of carmakers that have done proprietary stuff for test tracks in terms of mapping. We're talking to those guys. We are comparing notes.

I think there is a sense that this needs to be done professionally on a large scale. And I think we are well positioned, given where we are already with our HAD investment technologies and standardization, that we have a role to play in that space.

But again, also in the area of highly automated driving, it will take at least, I would say, 18 months, 24 months before we have more clarity on what it is exactly the industry will need from us, and how those business models around highly automated driving going to develop.

But I can tell you there is a lot of activity going on, both in Europe, North America, and in Asia, around the topic. And, as you can imagine, we are party to quite a few of those discussions going on.

Your last question, if I understand it correctly, is OpEx related to the creation of our new map-making platform.



Marc Hesselink - ABN AMRO - Analyst

And maybe I can take that one. We are well advanced in migrating all our countries to our new platform; that's a transaction-based platform. We aim to have concluded that transaction by the end of the year. A lot of these countries are already -- a lot of the countries are already edited on the new platform, like the US, to just name one.

It does not mean that investment will stop on January 1. It will take time to further improve the platform and add features and quality rules and what have you. So I think that the investors will continue in 2016, but, indeed, will start to decline in the second half of 2016.

That said, the enormous success that we have shown in the order book in automotive will lead to additional investments, both in CapEx and OpEx. So some of the reduction in specific investments that we will see from investment in our technology will shift to investments that we need to make in the delivery of the new products to our new automotive clients.

Marc Hesselink - ABN AMRO - Analyst

That's clear. Maybe just one follow up on the automotive order intake. You're winning market share, but there's also the buying is getting bigger quite quickly. Can you give a bit of a split what is the most important driver of your order intake that's more than 3 times as big as your sales at the moment?

Harold Goddjin - TomTom NV - CEO

You mean if it is the buyer, or it is the market share?

Marc Hesselink - ABN AMRO - Analyst

Yes, what's the main driver at the moment for the strong order intake?

Taco Titulaer - TomTom NV - CFO

Yes, the main driver for the ordering is market share. We're winning more deals.

Harold Goddjin - TomTom NV - CEO

On the [pie] question, the traditional use case for maps is entertainment, and the take rate is 25%, 30%. And that is not fundamentally changing in the coming years, not this decade.

Next decade, you can talk about different use cases for the map, for highly automated driving and self-driving cars, and what have you, and the take rates go from 25%, in theory, to 100%, and that will, indeed, quadruple the pie. But the order intake that we're seeing today is not related to that: that is the more traditional use case at, as we call, entertainment maps for navigation.

Marc Hesselink - ABN AMRO - Analyst

Okay, very clear. Thanks.



Operator

Hans Slob, Rabobank.

Hans Slob - Rabobank Equity Research - Analyst

First question is what percentage of your automotive bookings are with Volkswagen?

Second question is could you give an update on the insurance telematics initiatives?

Third is will the strong automotive bookings also likely drive further sales growth for TomTom automotive in 2017?

Harold Goddjin - TomTom NV - CEO

Yes, currently, supplying Volkswagen in North America, it's relatively small compared to our total revenue, is -- that's a relatively small number. I can't disclose the exact number. And in the -- so I think that answers your question. There's not a lot else that we have in our forecasts, in our plans with Volkswagen for the moment.

The second question, what's going on in telematics on the insurance side, well, it's quite interesting. There is -- it's been long in the making. We've done a lot of trials and a lot of smaller deals.

We start to see some traction in the insurance market, the usage-based insurance. I wouldn't say it's mass. I wouldn't say it's going to overtake the market by storm, but we see higher levels of activity. We see some traction taking place in that space.

In our telematics revenue, it is still a modest amount of revenue that is generated through insurance telematics.

Your third question was do you see further growth beyond 2016, and the answer is yes.

If you look at, for instance, our order intake for 2015, this year, which is currently, or was at the end of the quarter, EUR250 million, that will only start to be visible in the top line, on average, two years after the moment a deal is done. So you won't see any positive contribution of those orders in 2016; that will only start in 2017.

So, yes, we anticipate continued strong top-line growth in the automotive segment beyond 2016.

Hans Slob - Rabobank Equity Research - Analyst

Thanks. Many thanks.

Operator

Marc Zwartsenburg, ING.

Marc Zwartsenburg - ING Financial Markets - Analyst

First, starting with the Q4 and your outlook, I'm seeing your working capital increase. Should we see, based on, say, the inventory buildup, your working capital needs a stronger consumer segment in Q4 than is normally seasonally the development from Q3 into Q4? That's my first question.



Then, perhaps also on Q4, I'm looking at exchange rate impacts, so below the EBIT line. Exchange rate was really still quite negative. Should we expect, say, a more zero result there because the ForEx comps are getting more normal year on year? Or should we expect a plus? Can you give us a bit more guidance on that line?

Then, on OpEx, and that's for Q4 and beyond, I think, Taco, you mentioned that OpEx should be modestly up in Q4. Is modestly up sort of similar seasonality we saw last year, say, a EUR5 million, EUR6 million increase; and then, beyond that you're saying, okay, we're going to see some more OpEx investment because of the development of the order book in automotive.

Are we talking then more about a EUR10 million or EUR20 million uptick in SG&A? Could you give us a bit more feel for what we should expect there?

And then, on automotive, if I may continue, we see now -- what market share, because it's been asked by, Marc, I believe, do you think you currently have, based on your order book? Because we know that your market share is 25%, 35% just on actual revenue, but where are we in terms of order book, if you take that into account?

And then, perhaps also following up on the diesel impacts on the German car makers, and perhaps the consortium, do you see any developments in terms of how the other OEMs react to that?

Because you talk to, I presume, all your OEMs that are in the market. Do you see any different sort of stance towards TomTom now that HERE is bought by the consortium, and on the back of that also involved in the diesel scandal? Could you perhaps share us a bit what's behind the scenes you feel is going on? That's it for now.

Harold Goddjin - TomTom NV - CEO

So, I started to write down your questions when you talked about Q4. What was the first question?

Marc Zwartsenburg - ING Financial Markets - Analyst

The first question was about the consumer segment. We know that the Q4 is always a stronger seasonal quarter, but should we now see a stronger seasonal impact because of the new product launches and the fact that your working capital is up, which, I assume, has to do with inventory build up? So, should we expect stronger seasonal uptick in Q4 than normally in the consumer segment? It was the first one.

Harold Goddjin - TomTom NV - CEO

PND, the seasonality in PND has shifted, right? Years ago seasonality was that Q4 was very strong, and now it's shifting more to Q2, it's more towards the holiday season.

With new products, like sports watches and action cameras, etc., you go towards the Q4 as a stronger quarter. And, indeed, so I think, in absolute terms, the pick up this year what we expect in consumer will be a bit higher than what we saw last year.

Marc Zwartsenburg - ING Financial Markets - Analyst

Okay, clear.



Taco Titulaer - *TomTom NV - CFO*

So, the next question is exchange rates. The average euro/dollar exchange rate last year was 1.25. So that's still a bit higher or softer dollar than what we are currently trading at. So, the dollar rate is now 1.30.

We're doing our best to deal with the new reality, but it will still have an effect. The strengthening of the dollar was so big that it will take more than a year to completely recover from that, and you could question if you can completely recover from that.

Marc Swartzsberg - *ING Financial Markets - Analyst*

Yes, now you're talking probably about the gross margin, that you can perhaps improve it within the channel. But I was referring to the exchange rate result below the EBIT in relation to your EPS guidance, if you get another hit, say of EUR3 million on your exchange rate.

Taco Titulaer - *TomTom NV - CFO*

No, no, no. That is not necessary related to the dollar, it can also be related to the other currencies.

Marc Swartzsberg - *ING Financial Markets - Analyst*

Yes. What do we expect there?

Taco Titulaer - *TomTom NV - CFO*

We tend to hedge -- or we hedge the US dollar and the pound. But other currencies, like the South Africa rand, devaluated a lot in Q3 and that had an effect on our [FRMG common] expense. So those are more incidental items that I don't expect to re-occur.

OpEx will go up with the same -- as we saw last year; in absolute terms, a little bit less, probably, but it will see similar trends.

Then, your question was about automotive investments for next year?

Marc Swartzsberg - *ING Financial Markets - Analyst*

No. Also on OpEx, for next year you say maybe you get some extra costs for the order book build up in automotive, all that. But what kind of impact should we see on the OpEx line? Shall we see, say, versus last year you probably are now looking at just north of EUR10 million of an increase year on year on a full-year basis? Should we expect EUR20 million for next year to take into account that you have more costs related to the order book?

Taco Titulaer - *TomTom NV - CFO*

I would really like to defer that question to February. A bit too early to comment on that.

Marc Swartzsberg - *ING Financial Markets - Analyst*

Okay.



Taco Titulaer - *TomTom NV - CFO*

We first need to see where 2015 will end, and then we can make a proper analysis on what kind of a year-on-year increase we can expect.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay, yes.

Harold Goddjin - *TomTom NV - CEO*

Market share automotive, yes, that's a tough one to say what our future market share is going to be. I think that's where the question boils down to. That would require a certain insight also in the order book of our main competitors, which we don't have.

But I think the trend is definitely positive. Two years ago, our order intake was, I think, EUR130 million, last year it was EUR220 million, or EUR170 million around the same time. Now that's gone up to EUR250 million, so we are on the positive trend. And I think there is more to come.

I think what we are doing is seen as relevant, innovative, and strategically correct. We've seen that translated in orders already, and I think we are in a good position to continue that trend.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay. Harold, you mentioned that you were at EUR170 million same time last year, you ended at EUR220 million. Is that the normal seasonality through a year? Or is there nothing you can say about seasonality? When do these deals really come in? On a set date, for instance?

Harold Goddjin - *TomTom NV - CEO*

No, that is the difficulty with automotive. It is rather binary whether a deal -- it is not a linear process. So that's also why I'm very reluctant to give you any indication for Q4 the order intake, because it can really -- it can be quite lumpy. So --

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Can you share, perhaps, whether the pipeline in tendering is very busy or --?

Harold Goddjin - *TomTom NV - CEO*

Yes, the levels of activity are good. There's no doubt about that. We have the interest, we have the ear. As I said, we're doing innovative things.

We're leading in traffic, which is increasingly important, and bedded in more cars now than ever before. Certainly, in Europe we have [80%] market share, which is very good. So things are happening, and that gives us confidence that we will be able to continue the trend.

Marc Zwartsenburg - *ING Financial Markets - Analyst*

Okay, clear. Thank you. And the final one on the diesel impact and the moves --



Harold Goddjin - TomTom NV - CEO

Yes, the diesel impact, the Dieselgate is -- I think more in general terms, I think the industry is worried and concerned about not in relation to maps, but more in general what Dieselgate will eventually bring to the industry. I think everybody is watching that very, very closely, and also nervously. But I don't see a direct link between Dieselgate and our position in the mapping market.

Marc Zwartsenburg - ING Financial Markets - Analyst

You don't think there's an effect, because Dieselgate and the consortium being involved, that others want to keep away from that?

Harold Goddjin - TomTom NV - CEO

No, I don't see that.

Marc Zwartsenburg - ING Financial Markets - Analyst

Okay.

Operator

Martijn Drijver, SNS Securities.

Martijn Drijver - SNS Securities - Analyst

Well, after the long list of Marc, I only have one question left. When we talk about the investments in the map for automotive clients, what you just mentioned is one of the reasons for the higher OpEx and CapEx, can you elaborate a little bit on what types of investments you actually need to make?

Because we've always been, or I've been, assuming that you weren't much behind, or maybe not even at all behind, Nokia HERE in terms of the quality of your maps for the automotive market. So maybe you can shed some light on where that delta is coming from; and how you can actually catch up; and whether that can be done in one year, or should we think about a multi-year process?

Harold Goddjin - TomTom NV - CEO

Yes, I think the focus is -- so we do two things. We design and develop systems to create maps, let's say, we're building the infrastructure, the factory; and then, we operate that factory in creating content.

What we see, and what we expect, is that the demand for accuracy and freshness will go up in the coming years, and that, that factory needs to be able to handle that. We can't just build new factories and add a lot of operators: that would not be the right strategy. The right strategy is to rely more than in the past on machine learning, on processing, sensor-derived observations, and our ways of automated map making.

If we look at our mapping platform, we've this year we're finalizing a big milestone, and that is moving over from old to new. You will see, and we will see, ongoing investment in further automation.

We are working actively, for instance, with tier ones, and also with OEs, to extract live information, or information from the vehicle live, and ingest that in the map, process that automatically and then give that back. So that's the type of investment that will continue to happen.



So, relatively speaking, we continue to invest at relatively high levels in the tools in automation and in machine learning. And the quality and the accuracy of the map will benefit from that, and without having too high operational expense because that is not what the market can or want to afford.

Martijn Drijver - SNS Securities - Analyst

So, effectively, you're saying that your map-making process, as you have it today, will ensure that the additional investment that you need in 2016 are some sort of a one-off? After that, you can have maps that are equal to Nokia, so you don't have this catch-up investment?

Harold Goddjin - TomTom NV - CEO

Well, it's an ongoing game. As I said, the requirement and the demand on maps will go up. But we strongly believe that the one who can make those maps faster and at lower cost is the business that's going to win.

Martijn Drijver - SNS Securities - Analyst

Okay.

Harold Goddjin - TomTom NV - CEO

And the efforts are designed around that strategy: do more automated, do that at lower cost, do that faster. Get higher granularity and detail, but at constant cost, if you like.

Martijn Drijver - SNS Securities - Analyst

Okay. Thank you.

Operator

Youssef Essaegh, Barclays.

Youssef Essaegh - Barclays - Analyst

I have two questions. The first one is on the consumer business. Initially, the strategy was to make a broad portfolio of SatNavs. That was very successful for years, but now it seems like that your business is evolving more and more towards smaller and more niche products.

I was thinking, do you expect to keep pushing in that direction, or eventually to rationalize a little bit the various directions you've been exploring recently?

Harold Goddjin - TomTom NV - CEO

Yes, it is a good question. We feel good about our -- the progress we've made in sports, in particular. That is -- that took a while, but we're growing now, we're gaining in momentum. We're gaining also, crucially, credibility in that space, and we think we can turn it into a very significant revenue stream. So we're good about that, and we will continue along that path.

I think with the camera it is a bit earlier. We've just launched that. Similarly, it will take some time before that sticks, and before we can see significant revenue coming through.

We are busy now in developing those product categories, and that has our full focus. And we will see what that -- whether that needs changing in the future, or not. But for the moment, I think the traction we're having in sports products is okay, satisfactory, and we have a big opportunity with the camera ahead of us. We will continue to work on that, and develop that further.

Youssef Essaegh - *Barclays - Analyst*

Thank you. Elsewhere in the business, I just wanted to just check your views on the automotive business. Sorry, another one on automotive, but I'm sure it's going to be different.

If you look at HERE today, they have a 80% share of what's out there, maybe gaining a bit of share. But HERE being the leader, achieved more or less 10% underlying EBIT margin, and we're talking about eventually getting somewhere into the low to mid-teens as things like automated cars and more of these high-end services around map starts to roll out.

So my question is, especially if you become aggressive on this market as well and try to gain share, where do you see the kind of margin that you can achieve, knowing that HERE comes 80% market share with 10% EBIT margin? If now you too, even with the added [sort of] services, what sort of margin in industry do you think we're going to see in the long term?

Harold Goddjin - *TomTom NV - CEO*

Well, as I said earlier in my previous comment, I think the one who is going to make the best maps at the lowest cost is going to win, and that is our strategy.

And if you look at cost effectiveness, I think we are a lot more cost effective already than competition. We'll continue to add efficiency through automated map making, and that is where we want to be. So I don't want to compare our cost structure to cost structure of HERE, at all.

Youssef Essaegh - *Barclays - Analyst*

If you're -- putting it slightly differently, if you achieve the same kind of market share that HERE have had historically, you see yourself basically with a much higher margin than the 10% they've been doing?

Harold Goddjin - *TomTom NV - CEO*

We -- our aim is to do it at much lower cost.

Youssef Essaegh - *Barclays - Analyst*

Okay. Thank you.

Operator

Francois-Xavier Bouvignies.

Francois-Xavier Bouvignies - UBS - Analyst

I just have two questions. The first one is on sports revenues. Can you give us an update on your guidance, because I think you mentioned you would double the revenues in 2015. So how's it going? And what is the growth this quarter for sport revenues? How should we think about next year?

And the second one is on telematics. Obviously, Q3 was a bit lower than expected, so I wanted to have your thoughts on Q4. And how should we think about next year, given the strong growth you had this year? Thank you very much.

Taco Titulaer - TomTom NV - CFO

Yes, let me take the sports question. When we started the year, we had set ourself an impressive target to double our revenue in sports.

Now, 10 months into the year we're very positive, and enthusiastic still. But also, we suffered from some launch delays, so the action cam was launched a couple of months later. And also, with our sports watches we launched them towards the end of Q3, where initially we hoped to launch them earlier in the third quarter. If you add that all up, I think doubling the revenue for the full year is a bit of a stretch.

The revenue that we've seen in Q3 is good, but that did not involve the new products yet, because they only started shipping for a couple of days in -- at the end of the quarter.

So, Q4 will be deciding. So far, so good, enough demand. And we're working hard to meet all the demand. But in the second half of the Q4, we will really have more insight about the sell through, but so far so good for sport.

Francois-Xavier Bouvignies - UBS - Analyst

And just a follow up on this. We saw, for example, Garmin, which is doing also sports [revenues] fitness, and they recently lowered their guidance from 25% to 15%, showing a tough environment in this area. Do you see anything of this kind, as well?

Taco Titulaer - TomTom NV - CFO

I think we're in a different position, because we are introducing new products and we are expanding all our range. So I'm not pointing at the market or competition, competitive pressure at this point; it's more the launch dates of our products have had the biggest influence so far.

Francois-Xavier Bouvignies - UBS - Analyst

Okay, thanks. And on telematics?

Harold Goddijn - TomTom NV - CEO

Telematics, I think telematics is good. The good news about Q3 was that September was good. The not so good news about Q3 is that July and August were not so good.

But the September performance gives us confidence that we have a more normalized quarter again in the fourth quarter, where we will see revenue at the levels that we've seen in the second quarter, some of the level that we saw in the third quarter.

I don't think there is anything fundamental here. It's a bit the effect of the strong second quarter, where our distributor partners had a bit too much hardware at hand and we had to wait until that sold through. But that happened at the end of the quarter.

Francois-Xavier Bouvignies - *UBS - Analyst*

And any color on next year? Given the [stronger] that you have with acquisitions, so I was wondering what type of costs we should look at?

Taco Titulaer - *TomTom NV - CFO*

It's a bit too early. It's a bit too early. I would rather wait with answering that question that I have the full results, and then I can have a better estimate. Otherwise, I have two variables, right? I don't know exactly what 2015 is, and I don't know what 2016 is, so that makes it a bit hard.

But I can -- I see growth, I can say that, for 2016; but how big the growth will be, that answer has to wait until February.

Francois-Xavier Bouvignies - *UBS - Analyst*

Great. Thank you very much.

Operator

(Operator Instructions). Vikram Kumar, TT International.

Vikram Kumar - *TT International - Analyst*

I'd like to ask a strategic question regarding the automotive and licensing business. And I'm trying to get a sense of what the tangible addressable market you believe you could face in those businesses going out, say, three, four, five years in that obviously it's fine to be investing. I think there's a huge opportunity for you guys to go for.

As you said, your order growth has already hit EUR250 million in autos, and that's market share-driven, but before we get any inflexion from the growth of semiautonomous and autonomous vehicles.

So I'd just like your internal projections or -- not internal projections, sorry, I rephrase that. How you're thinking about it in terms of the market opportunity you're targeting on a three-, four-, five-year view.

And the reason I'm thinking that is part of it comes down to how one values your mapping assets with variations I've seen from the analysts from EUR400 million, EUR500 million [which is today's] revenue base to comparable to where the Nokia HERE valuation was.

So I think to square that circle, maybe understanding the longer term tangible addressable market, and how you think that can really develop in automotive and licensing through 'til the end of the decade, please.

Harold Goddjin - *TomTom NV - CEO*

That's a tough one. We have reasonable visibility of what's happening to, let's say, the traditional map product, which is used for navigation, embedded in entertainment systems.

If you look at those, the market development also, not just projected by ourselves, but also by others, that is likely to go, so market penetration, despite some brought-in products, like Apple, CarPlay, and Google, have a product as well.

I think the industry is fully expecting that the penetration and attachment rate for embedded navigation will continue to go up, because already you see integration of maps with security/safety systems in the car [and] those type of applications are gaining traction in the marketplace as well.

And, surprisingly, the attachment rate currently is relatively slow. People think it's 100%, but in reality it is about 25%, 26% of cars that are now coming with a car navigation system built in. So there's a room for growth.

Now, if you look at the new types of mapping for highly automated driving, that is uncertain. Uncertain is exactly the introduction dates; the growth; the acceptance by ordinary people of those new technologies; the cost at which they will come to the market initially. So there's a lot to learn and a lot to explore in the coming years.

But I think it's fair to say that all mainstream established players are looking to have self-driving cars in the marketplace. They will start on the motorways; they will learn, and they will continue to refine those systems. Maps are needed for that.

We are well positioned to play a role there. But, quite frankly, I cannot give you an indication how that will financially pack out, other than that there is a huge opportunity to have. But how, when, and how fast is much harder to predict.

Vikram Kumar - *TT International - Analyst*

But theoretically, in terms of the attachment rate, I know earlier on Taco said we haven't quite seen the pickup yet from these more autonomous or semiautonomous features but attachment rate theoretically could reach 100% as and when more -- well, semiautonomous features comes endemic in all cars. Any sense of the timeframe? Is that towards the end of the decade, maybe, we start moving to that sort of level?

Harold Goddjin - *TomTom NV - CEO*

No, that is far too early. I think 2019 you will see the first cars come to the market.

Vikram Kumar - *TT International - Analyst*

Okay.

Harold Goddjin - *TomTom NV - CEO*

And that will be niche. And then the next question is how quickly will that be accepted by users, and how quickly prices for those systems will come down before they can become mainstream?

Vikram Kumar - *TT International - Analyst*

Okay, fine. And just in terms of your order growth this year, so you're doing about 50% order growth in your auto business this year. I know it's lumpy, but there's obviously structural trend growth there. Is it going to remain in this 20%, 30%, 40%, 50% growth level going out, do you think? Or is it too early to -- you don't want to forecast that?

Harold Goddjin - *TomTom NV - CEO*

No, again, I don't want to forecast that at this moment.



Vikram Kumar - *TT International - Analyst*

Okay. Fair enough.

Harold Goddjin - *TomTom NV - CEO*

There's change going on in the industry as well, that we are all aware of. It will take some time for that news to settle and for everybody to come to grips with the new situation and then place his bets.

Vikram Kumar - *TT International - Analyst*

Okay.

Operator

There are no further questions in the queue.

Bisera Grubestic - *TomTom NV - Head of Treasury and 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 me a call. And thank you all very much. Operator, you can close the call.

Operator

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

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