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TOM2.AS - Q1 2018 TomTom NV Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the TomTom First Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded.

I'll now turn the call over to your host for today's conference, Bruno Priuli, Investor Relations Officer. You may begin.

Bruno Priuli *TomTom N.V. - Investor Relations 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 first quarter 2018.

With me today are Harold Goddijn, our CEO; and Taco Titulaer, TomTom's CFO.

You can also listen to the call on our website, and a recording of the call will be available shortly afterwards.

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 financial results from Taco. We will then take your questions.

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

Harold C. A. Goddijn *TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO*

That's great. Thank you very much, Bruno. Welcome, ladies and gentlemen, and thank you for joining us today.

We started the year with a solid set of results. Nearly 70% of our revenue is now derived from Data, software & services and that's boosting our gross margin. Automotive operational revenue in the quarter amounted to EUR 78 million and that is an increase of 42% compared to the same quarter last year.

Taco will provide further information on the financial highlights and the financial outlook for 2018 later during this presentation. I will discuss some of our operational highlights for the quarter.



We announced in the quarter that both Hyundai and Kia expanded their Connected Car Services to include our On-Street and Off-Street Parking information, electrical vehicle services and Fuel Prices. The services will be available on all new Hyundai cars produced for Europe starting from November 2018. For Kia drivers, it will be available starting with the next generation of Kia Ceed and gradually will be applied to the whole model range by 2019. We also announced the expansion of several of our Connected Car Services.

Our electrical vehicle service was launched in North America. We built a model for route-based range calculation and availability of electrical charging points along the route or close to the final destination of an electrical car. The service is a key component in managing so-called range anxiety for drivers of electrical vehicles.

On-Street Parking service was expanded to 100 European cities. We calculate the likelihood of finding a parking space close to the destination and route drivers in the last mile along those roads where the likelihood of finding a parking place is statistically the highest. This service has the potential to reduce in-city traffic resulting from drivers searching for a parking spot.

In relation to ADAS and Autonomous Driving, we started a collaboration with Elektrobit that's focused on demonstrating electronic horizon-based functionalities, including features such as curve-speed warnings, fuel-efficient driving and range determination. The joint project will combine TomTom AutoStream and Elektrobit's EB robinos Predictor to establish an easy-to-use demonstrator for the automotive market.

Our Telematics business continues to present double-digit growth, and we surpassed 826,000 subscribers at the end of the quarter. This represents a 14% increase year-on-year. Telematics launched its completely redesigned WEBFLEET platform in the quarter. WEBFLEET has been rebuilt with new features: a fresh, faster user experience that includes advanced analytics. The new interface facilitates faster development and deployment of new applications, more powerful APIs for third-party application development. A new range of TomTom PRO driver terminals were also launched in the quarter.

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

Taco J. F. Titulaer - *TomTom N.V. - Member of Management Board & CFO*

Thank you, Harold. Let me make a couple of comments on the financials.

In the first quarter of 2018, we reported revenue of EUR 192 million, which is 10% lower compared with last year and in line with the guidance for the full year.

Automotive, Enterprise and Telematics delivered a combined year-on-year revenue growth of 4%.

Automotive revenue was up with 11% to EUR 50 million. The increase mainly came from the ramp-up of existing contracts. The deferred revenue position of Automotive increased to EUR 128 million at the end of the quarter, that's doubling year-on-year. This contributed to our strong cash generation during the period.

Enterprise revenue in the quarter was EUR 30 million compared to EUR 33 million in the same quarter last year. The decline was mainly caused by weaker U.S. dollar.

Telematics revenue was up with 7% to EUR 43 million. The recurring subscription revenue year-on-year increased by 8% to EUR 33 million.

Consumer revenue decreased by 28% to EUR 69 million. Close to 80% of our revenue is PND-related with the remaining revenue being split between Automotive, hardware, sports, and navigation apps.

Nearly 70% of our revenue in the quarter now comes from data, software & services.



Gross margin was strong at 70%, increasing by 7 percentage points year-on-year. At a constant-currency rate for the U.S. dollar and the pound, Q1 2018 gross margin would have been 67%. We provide more details on this in the press release.

Total operating expenses, OpEx, for the quarter was EUR 127 million, which is EUR 8 million lower compared with the same quarter last year. The decrease in R&D, SG&A and marketing is driven by Consumer. The decline partly offset by increased investment in research and development in our navigation technology, including our map platform.

EBITDA increased with 30%, year-on-year to EUR 44 million. EBIT was EUR 7 million positive.

The net results adjusted for movement of deferred and unbilled revenue and deferred cost of sales on a post-tax basis was EUR 23 million, which translates in an adjusted earnings per share of EUR 0.10. This compares to a EUR 7 million loss and an adjusted earnings per share of minus EUR 0.03 in Q1 2017.

At the end of the quarter, we reported a cash position of EUR 129 million and deferred revenue position combined of EUR 275 million.

On the next slide, we see the strong growth in operational revenue. As shown throughout last year, this slide highlights the operational revenue of Automotive. Operational revenue is the reported revenue plus net change in the deferred and unbilled revenue positions. As we sell products to Automotive that includes multi-year update and/or subscriptions, some of the revenue is deferred. Automotive operational revenue in the quarter amounted to EUR 78 million, an increase of 42% year-on-year. This compares to 32% growth in Q1 2017 versus Q1 2016.

Order intake from the past years will continue to contribute to strong growth of our Automotive business in the coming years. It will deliver growth to our recognized IFRS revenue, but it will also continue to increase the deferred revenue position.

Then, the next slide on the outlook 2018. We are reiterating our outlook. We expect revenue of around EUR 800 million, a gross margin close to 70%, an adjusted earnings per share of around EUR 0.25 and OpEx and CapEx combined, excluding potential acquisitions, of around EUR 700 million.

As mentioned in our Q4 and full year 2017 earnings call, we needed additional time to evaluate the impact of the new accounting on our Automotive contracts. We have now gone through all the contracts and are able to give an outlook for the revenue CAGR. We expect the combined revenue of Automotive, Enterprise and Telematics to grow at a CAGR of around 12.5% between 2016 and 2020.

Operator, we would now like to start with the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Wim Gille from ABN AMRO.

Wim Gille - *ABN AMRO Bank N.V., Research Division - Head of Research & Equity Research Analyst*

I have a couple of questions. First of all, if we look at the Telematics business, results were actually quite in line for the quarter with one exception is that the number of net additions in terms of number of users was only 17,000, which seems a bit light in historical perspective. So can you bit explain what's happening there and if we should expect kind of a ramp-up in the quarters to come? Then in terms of the adjustment in the guidance in terms of the CAGR that you are looking for in the coming years, it is now down from 15% growth to 12.5% growth. Can you explain to me how that works exactly with the accounting change, is the balance going into deferred revenues? Or how should we look at that? And also can you give us a bit of a mix on how to look at it, as in strong growth in Automotive, decent growth in Telematics and stable Enterprise or how should I look at that mix? Those would be my first 2 questions.



Taco J.F. Titulaer - *TomTom N.V. - Member of Management Board & CFO*

Yes, Wim. Thank you. Let me start with the second question, so the CAGR. So the CAGR is based on 3 different revenue streams: one is Enterprise, second is Telematics and the third one is Automotive. If you compare our estimates from 2016 -- end of 2016 with where we are today, there have been some changes. Let me start with Enterprise. Enterprise, back in 2016, had a stronger dollar than what we see today and that has its effects. It doesn't have the effects from the starting position, so it doesn't change the 2016 revenue number for Enterprise, but it has its effects for the coming years because we work with an exchange rate that is materially lower. Then Telematics, we've seen that Telematics reported 4% revenue growth last year. We have indicated to the market with the full year results that we estimate that it will beat itself this year slightly better, maybe 5% this year. But again, here, the assumptions that we had back in 2016 were probably more positive because we relied then on 2015, 2016. And now that we know what 2017 has delivered to Telematics and what we know, what we think 2018 will deliver, that has its effects on Telematics modeling. Then on the positive side, we see Automotive. Automotive in 2016 was one of the indications that we used to extrapolate revenue for Automotive plus, of course, order intake. Back in 2016, we were close to order intake of EUR 300 million. The year after, we realized EUR 400 million. So when we have to do the calculation, the math again, for this year, we were probably a bit more optimistic about Automotive. But there's also some change in the nature of the contract where, in 2016, the reported revenue was very much coming from a traditional way of supplying maps to the automotive industry. That doesn't mean that it doesn't include map updates. Today and also in the near future, we see close to 100% adaptation of that map update structure. That means that you need to defer more revenue than you used to in the past. So it is due to the new accounting, but it's also due to the new deal structure. Again, the operational revenue -- the expectation for operational revenue early 2018 is better than the operational revenue that we had in 2016. But the nature of the contract has its effects on the reported revenue. Also tying in to your comment about your first question on Telematics, that is the result of the slowdown that we experienced last year, that's also continuing early this year. We have a list of actions that we're taking and rolling out. Our goal is to get back to double-digit growth. That is not foreseen for this year, though.

Wim Gille - *ABN AMRO Bank N.V., Research Division - Head of Research & Equity Research Analyst*

Okay. And in Telematics, are you guys winning market share, losing market share? How should I look at that?

Taco J. F. Titulaer - *TomTom N.V. - Member of Management Board & CFO*

That is a very relevant question. The fact of the matter is that independent research is bit lacking in this industry and often very late, so it takes now close to 12 to 18 months before we get market share data from the research houses that monitor this market. Based on that data, we're definitely not losing market share. I think there is some consolidation happening in the market, that's true. So the number of players is -- the list of players is getting shorter. That said, we are, by far, the dominant player in EU.

Operator

(Operator Instructions) Our next question comes from Francois-Xavier Bouvignies from UBS.

Francois-Xavier Bouvignies - *UBS Investment Bank, Research Division - Technology Analyst*

The first one I had is on the Automotive and maybe some qualitative comments on the bookings that you see this year. So if you remember, correctly, you said in Q4 that you were seeing the number of deals lower in '18 than '17. Is it still the case? How is it evolving for the quarter? Is there any change to these statements? And also you said in Q4 that we are not losing customers and adding new one, and I wanted to ask you if it was still the case this year, how you feel about that? And I have other questions.



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Harold C. A. Goddijn - *TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO*

Yes, so to the best of -- so our sales people, account people and market people are trying to calculate as well as they can this total addressable market for this year and we expect that the total addressable market for 2018 is smaller than it was in 2017. That's all a hard number we can give you here. Things change during the year, new opportunities pop up. Other opportunities are postponed, carried over to next year. But the general feeling we have is that it will be smaller. Now it doesn't say much about our win rate, difficult to predict. I give you guidance there that's not part of the guidance. But I think the overall addressable market for 2018 is lower than it was last year. And then for the second question, can you repeat it, please? I'm not sure I got it.

Francois-Xavier Bouvignies - *UBS Investment Bank, Research Division - Technology Analyst*

You said in Q4 that you didn't lose any customers and you added even new ones. I was just wondering if you feel the same about this year? How is it looking?

Harold C. A. Goddijn - *TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO*

Again, difficult to say. Those are binary events. I can't give you any further information there. But it's true that, in 2017, we didn't lose customers and we made some wins. So I hope that pattern will continue. But I can't give you any guidance there, obviously.

Francois-Xavier Bouvignies - *UBS Investment Bank, Research Division - Technology Analyst*

Okay. And on the HD Maps maybe, do you see maybe the first contracts coming this year? Or how should we think about the timeline?

Harold C. A. Goddijn - *TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO*

Well, this year, we will launch -- or one of our customers will launch a product that is dependent on HD Maps. It's not high volume, but it's kind of indicative of things happening. So in this particular case, our maps are used in a truck and then the map is used for cruise control. And the idea is that if you know exactly what the route looks like and where you need to stop and where you have curves and what have you, you can optimize the power management of the truck and that results in actually quite significant fuel reduction, especially in hilly terrain. And numbers quoted by our customers are ranging to -- going up to 5% fuel savings. So there, we use an HD Map. It has the maximum speed data, it has the crossings, the stop signs, it has the traffic lights, the curves and all the information used to manage that cruise control in the powertrain. And that is also the type of application that we're looking for when we're talking into more advanced adaptive cruise control. So that is an example where we're going through the different levels of automation, and I think it's fair to say that the bulk of the applications will not be Level 5 fully automated driving in the short term, but will be Level 2.5, Level 3, and gradually moving up to higher degrees of automation going forward.

Francois-Xavier Bouvignies - *UBS Investment Bank, Research Division - Technology Analyst*

Okay. And as a question maybe on -- if you could clarify on the confusions with the rate of news, I think, that you were having to look for opportunities. Just your comment on this and maybe clarify if there is anything you can do?

Harold C. A. Goddijn - *TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO*

Yes, so I'd like to stress normally rumors we don't comment on. This time, it was very specific, share price started to move, so we have to come out with a statement. But the fact of the matter is that those rumors were not based on fact and not true. So I'm quite happy to repeat that here, that there was nothing of that nature going on.



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Francois-Xavier Bouvignies - UBS Investment Bank, Research Division - Technology Analyst

Okay. And the other question I had is on your gross margin and then the deferred revenue. So if you look at the gross margin in Q1, it seems quite strong even -- I mean, also because of the currency. But don't you feel that the 70% -- close to 70% for the full year is a bit too conservative at this stage, especially given the mix that you're gaining more and more positive through the year?

Taco J. F. Titulaer - TomTom N.V. - Member of Management Board & CFO

Yes, I'll take that question. Yes. So I don't want to make Q1 -- so we're very happy with Q1. Q1 was a good quarter on multiple elements of the EBITDA, cash generation, and indeed, also including gross margin. Gross margin was held by currency that we give detailed split of that in our press release. But that said, this was a strong gross margin. You could ask the same question about the adjusted earnings per share of EUR 0.10, that is also a strong start to the year. And if you compare that with the full year guidance, there might be room, too, for upside. But we want to take the coming months to do a proper assessment of how we see the year progressing and we give an update in July with our H1 results.

Francois-Xavier Bouvignies - UBS Investment Bank, Research Division - Technology Analyst

Okay. And on the deferred revenues, I mean, when you talk about these adjusted net results, I mean, if you look at the net move, you had like EUR 21 million. If I remember correctly, you said in Q4 that you would expect the '17 number of EUR 24 million to double in '18. First, I mean, do you -- is it still the case? And if it's the case, how should we think about the phasing because part of that is complicated to forecast obviously, we don't have any visibility on when you're going to get this. So given that you had EUR 21 million already in Q1, how should we think about the next quarters?

Taco J. F. Titulaer - TomTom N.V. - Member of Management Board & CFO

You were referring to EUR 20 million?

Francois-Xavier Bouvignies - UBS Investment Bank, Research Division - Technology Analyst

So in 2017 -- in 2017, I think EUR 24 million of net deferred and you said in the conference call that you expected this number to double in '18, is that right?

Taco J. F. Titulaer - TomTom N.V. - Member of Management Board & CFO

For the full year. Yes, we stay with that statement. Yes.

Francois-Xavier Bouvignies - UBS Investment Bank, Research Division - Technology Analyst

And you say more than double and you had EUR 21 million in Q1 already versus EUR 24 million in the full year '17. So I was just wondering how should we think about the phasing, I mean, you are obviously in a very strong start of the year.

Taco J. F. Titulaer - TomTom N.V. - Member of Management Board & CFO

Yes, that's true. But there are a couple of things. So Consumer, we expect -- I expect the release to grow, not significant but it will grow quarter-over-quarter. And the other thing is that we need Enterprise, there was -- that's related to timing of payment and of sending invoices. If you compare the net effect in Q1 2017 with the net effect in Q1 2018, there's a EUR 10 million difference and that is just timing. I couldn't call seasonality because you compare Q1 with Q1, but it has to do with timing. So we stay with the statement again, Q1 is a strong start of the year. I don't want to make it smaller than it is, but we need a bit of more time to do a proper update of our outlook.

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Francois-Xavier Bouvignies - *UBS Investment Bank, Research Division - Technology Analyst*

Okay. And in terms of phasing, I mean, should we expect a particular quarter with the -- I mean, if you look at last year, you had in Q3 a big release in the net move. It should be -- should we think about the same pattern this year?

Taco J. F. Titulaer - *TomTom N.V. - Member of Management Board & CFO*

Yes, yes. Okay, thank you.

Bruno Priuli *TomTom N.V. - Investor Relations Officer*

If there's no additional questions, I would like to thank you all for joining us this afternoon. If you have any follow-up questions, please don't hesitate to give us a call. Operator, you can close the call.

Operator

Thank you. This concludes today's presentation. Thank you for your participation. You may now disconnect.

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