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TOM2.AS - Q4 2023 TomTom NV Earnings Call

EVENT DATE/TIME: FEBRUARY 02, 2024 / 12:00PM GMT

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Andrew Hayman Independent Minds - Analyst

Marc Hesselink ING FM - Analyst

PRESENTATION

Freek Borst - TomTom NV - IR

Good afternoon, everyone, and welcome to our conference call. Today, we will be discussing key highlights from the fourth quarter and full-year 2023, together with Harold Goddijn, our CEO; and Taco Titulaer, our CFO. Harold will kick off the call, providing an overview of our operational highlights and strategic priorities for the year ahead. Following Harold, Taco will provide detailed insight into the financial results and outlook. After that, we will take your questions.

As usual, I would like to point out that Safe Harbor applies. And with that, Harold, I would like to hand it over to you.

Harold Goddijn - TomTom NV - CEO

Yeah. Thank you very much, Freek. Ladies and gentlemen, welcome and thank you for joining us today. I will provide an overview of our 2023 progress and strategic objectives for this year, after which Taco will delve into the financial details.

2023 marked a significant milestone for TomTom as we advanced towards our strategic goals. We've achieved revenue growth in Location Technology, we've bolstered profitability, and we've successfully launched our new maps platform. During the fourth quarter, we commenced the commercial rollout of our TomTom Orbis Maps. Initially targeting our primary markets in Europe and North America, we're now expanding geographical coverage and introducing new features to enhance the map further. Our new maps now encompass an industry-leading 86 million kilometers of transportation networks, many new data types, and are also powering our new SDKs and state-of-the-art map display solutions.

We are encouraged by the interest from customers and prospects in our maps platform. They value the open nature, the standardized format, and the enhanced coverage, richness, and freshness of our maps. An indicator of the rising interest was our notable presence at CES in Las Vegas in January, where we experienced a substantial increase in visits and engagement. We've developed a substantial sales funnel with our new maps, and we aim to expedite the conversion of prospects into customers in the quarters and years ahead.

Product innovation remains the cornerstone of what we do, exemplified by our collaboration with Microsoft to develop an AI-based conversational system. We are investing in the potential of generative AI and are redefining the interaction model between drivers and their vehicles. Generative AI will offer a more intuitive, safer, and productive driving experience, and we are building this technology as standard in our Digital Cockpit, our open, modular in-vehicle infotainment platform.

We will continue to harness the new technologies and capabilities to drive innovation and enhance efficiency. I'm delighted by the progress we've achieved in 2023. The priorities for 2024 entail capitalizing on the robust deal activity with both the Automotive and Enterprise sector, and I'm confident that these efforts position us well for sustained revenue growth and enhanced cash generation for years to come.

Thank you very much. I'm handing over to Taco now.

Taco Titulaer - TomTom NV - CFO

Thank you, Harold. Now I would like to provide some insights into our financials. First, I'll talk about the financial results for the quarter and our full-year performance. Then I'll cover our Automotive backlog and outlook. After that, we will take your questions.

For the fourth quarter, we reported group revenue of EUR143 million, 3% higher than the same quarter last year. Location Technology revenue grew by 7% from EUR118 million to EUR125 million. Let me go through the revenue business by business.

For the fourth quarter, Automotive IFRS revenues totaled EUR88 million, having increased year on year by 14%. Automotive operational revenue for the quarter settled at EUR83 million, 1% higher than in the same quarter last year. Further, our Enterprise business recorded revenues of EUR37 million, improving marginally from the previous quarter. Lastly, Consumer revenue was EUR18 million, representing a 15% decrease year on year.

Our gross margin was 88% in the fourth quarter, a one percentage point increase from the same quarter last year. This improvement partially resulted from a higher proportion of high-margin Location Technology revenue in our total revenue mix. Operating expenses were EUR137 million in the fourth quarter, an increase of EUR12 million compared with the same quarter last year. This increase mainly reflects a one-off restructuring charge of EUR10 million related to the further optimization of our R&D activities. Correcting for the impact of this restructuring, operating expenses increased by EUR2 million year on year.

Having covered our fourth-quarter performance, let me touch on the full-year results before moving on to the Automotive backlog and the outlook. In 2023, we recorded group revenue of EUR585 million, 9% higher than in 2022. Location Technology revenue grew significantly year on year, rising 12% to EUR491 million. Let me discuss underlying movements business by business.

Automotive IFRS revenue in 2023 saw a sharp 32% increase to EUR342 million. This increase was driven by higher car production, higher take rates, and market share gains. In addition, Automotive revenues were positively impacted by a change in the way we identify performance obligations for new maps subscription contracts, resulting from the evolution of our Automotive products. If we exclude these effects, the year-on-year increase in Automotive IFRS revenue is estimated at 16%.

Automotive operational revenue showed a 16% year-on-year increase outperforming the 11% growth of car production in the core markets of Europe and North America. Fueled by market share gains and take rate increases, we outperformed car production trends in our core markets in all but the last quarter of the year.

Our Enterprise revenue decreased by 16% to EUR148 million as a result of some contract renewals reflecting lower usage. With TomTom Orbis Maps now launched and market interest on the rise, we expect to gradually convert our extensive sales funnel over the coming periods as already mentioned by Harold. Lastly, Consumer revenue decreased by 6% year on year, settling at EUR94 million. For full-year 2023, our gross margin was 85%, representing a one percentage point year-on-year increase that mainly resulted from the previous mentioned change in our revenue mix.

Operating expenses decreased by EUR32 million in 2023 to EUR516 million. Normalized for restructuring charges, the year-on-year decrease in operating expenses was EUR14 million. This decrease mainly results from reduced depreciation and amortization charges as well as the realization of efficiency gains being offset by inflationary pressures.

Free cash flow for the year, excluding the charges related to the maps realignment announced in June 2022, was EUR32 million. This marks a sharp improvement of EUR63 million compared to last year. This is driven by operating leverage resulting from marked revenue growth and a stable cost base. Having covered our results, let's move on to the Automotive backlog.

Our Automotive backlog rose to a record EUR2.5 billion, up from EUR2.4 billion at the end of 2022. Our Automotive backlog is the sum of the expected average revenues from all deals that have been awarded. Accordingly, the backlog decreases when revenue is recognized and increases when we win new deals. Its value also changes when customers revise their forecast of car production volumes. The increase in our backlog we saw in 2023 resulted from a robust order intake, partially offset by downward revisions of expected near-term car production volumes of some customers.

To provide added clarity on our Automotive revenue expectations, we give an indication of how the backlog will materialize in revenues over time. Most of the reported Automotive revenue for 2024 will be the outcome of the current backlog. Reported revenue for later years will be based on the combination of new deals and our backlog. We will provide an update of our backlog annually with our full-year results.

Our record Automotive backlog and the significant market interest in TomTom Orbis Maps supports our outlook and our ambition as presented on the next slide. We delivered a solid set of results in 2023, meeting our upgraded guidance and making good progress towards our strategic goals. For next year, we are cautiously optimistic. We have a strong Automotive backlog and a substantial sales funnel for TomTom Orbis Maps.

Considering the typical sales cycle on the Enterprise segment, we anticipate a gradual increase in conversions to signed contracts throughout the year. Therefore, we expect Location Technology revenue to continue to grow to between EUR490 million and EUR520 million. Group revenue is expected to be between EUR570 million and EUR610 million. Importantly, we also expect a further improvement in our free cash flow to more than 5% of group revenue.

Good to note is that the EUR10 million cash-out related to the reorganization we announced in the fourth quarter of 2023 will be absorbed and will not be separately adjusted for. For 2025, we're reiterating the ambition we communicated at our 2022 Capital Markets Day. We aim to generate Location Technology revenues of EUR600 million and free cash flow of 10% of group revenue.

Operator, we are now ready to address any questions from our listeners. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Dear speakers, there are no question for today.

Freerk Borst - TomTom NV - IR

All right. As it appears there are no questions. I'd like to -- oh, I think there's a question now.

Operator

Yes, just came through. Just give me a moment. Thank you.

Freerk Borst - TomTom NV - IR

Thank you.

Operator

The question comes from the line of Andrew Hayman, from Independent Minds.

Andrew Hayman - Independent Minds - Analyst

Yeah, just a few questions for you. The gross margin was very strong in the quarter, and that was mix. But I mean, the mix should be quite healthy going forward also. So, I was wondering how you expect the gross margin to progress in 2024?

The second question, just on the pricing environment for the Orbis map. You're offering much more detail with these maps, are you able to reflect that in the prices that you're getting? Then, a third question, do you expect to be profitable in each and every quarter in 2024? Yeah, I'll leave it at there.

Taco Titulaer - TomTom NV - CFO

Okay. Thanks Andrew. Let me cover the gross margin and the net results questions, and then I leave the second question to Harold. Our gross margin was indeed better - 85% in 2023 and 84% in 2022. I think it will gradually improve further and eventually reach 90%-ish. When that will happen is not completely clear, but let's say roughly 1 basis points a year for the coming years.

On our net results, unfortunately, I don't think that we will be reporting black numbers from an IFRS point of view. We do think that free cash flow will be strong this year, although also there will be seasonal patterns, like the effects of the reorganization that we announced in the fourth quarter of 2023 will be visible in the first half of the year. But for the year as a whole, we will be comfortably free cash flow-positive.

Harold, the question on the prices?

Harold Goddijn - TomTom NV - CEO

Yeah, Andrew, as a result of the new maps interest, we have not changed our pricing strategy. We do believe that have a stronger proposition that is not reflected in a change in our pricing strategy itself.

Andrew Hayman - Independent Minds - Analyst

Okay. Thank you very much.

Operator

(Operator Instructions) The next question comes from the line of Marc Hesselink, ING.

Marc Hesselink - ING FM - Analyst

I have a couple of questions, and I think they are a bit related, so I'll ask them at the same time. You're positive on the traction in Enterprise that also led to the meetings that you had at CES. Can you maybe explain a bit how that sales funnel looks like and what kind of discussions are you currently at? And how long would you expect that, from the current funnel discussions, to see signed orders and then, after that, see it coming into the revenues?

The second one is linked to the market share expectation that you have in Automotive. I think over the last couple of years, including '23, you nicely won market share. For the coming periods, maybe it's a bit mixed. I think you're still winning some market share especially going into '25. But also, maybe the Renault contract losing some share. How do you see those two moving together?

And then the third one is, I think, linked to the first two. The midterm ambition to get to the Location Technology outlook. How do you see that building up, because you need a quite significant step-up in '25? And where do you see the risks and opportunities in those step-ups?

Taco Titulaer - TomTom NV - CFO

Do you want to comment on the sales funnels, and I'll do the other one?

Harold Goddijn - TomTom NV - CEO

Yeah. So Marc, let me comment on the sales funnel. So, our new maps are richer, have more coverage, more attributes, and are capable of answering more business problems, and business opportunities and use cases. So, the potential market for Orbis maps is larger than the potential market for our legacy product. In the beginning of our Orbis development and towards the end of our Orbis development, we've, of course, reached out to existing customers with a view to prepare them for switching from the legacy product to the new product. And simultaneously, we have -- or a little bit later actually, I should say, towards the end of the year in Q4, we started to reach out to customers that are not existing customers because we didn't have the right product.

We have in '23 significantly expanded our sales force and our sales scope and capabilities in the Enterprise market, and started to reach out to customers that were not on our existing customer panel. And that last activity, also there you can make a split in the type of customers we are addressing. But net-net, we got in contact with a large number of new logos, new companies that we have not been working with before who showed interest in the application of our new product, and that accumulated in a very significant sales channel -- valuable sales funnel, I should say. Now it's time for us in '24 to start converting that. We know, of course, from experience that sales cycles are long, but nevertheless, we see some very encouraging signs.

Also coming back from CES in Vegas, I thought the feedback we received was very positive. It was very busy. We had double the amount of visits this year as compared to last year. Positive feedback in terms of the strategy. So, the open-source component and standardization is what people like and what customers like, as well as the actual product and how it has been put together.

So, yeah, I think there is significant opportunity ahead of us. I think we will start to see that materializing in wins throughout the year. It will take a bit longer before we see it in the P&L. But in the second half of this year, we should start to see some green shoots into the revenue, and we need to lay the foundation for continued and accelerated growth in this segment for 2025.

So, that's the way we look at it. Then, market share Automotive. Market share Automotive, I think, we've done well in the last couple of years. I think we're doing well in China. We've added quite a big number of new logos for China export. They don't currently amount to a large sum of money in the order backlog, but still there's potential for significant growth from this segment in the years to come.

And furthermore, market share wins will be also linked to new logo wins also in 2024, so we need to see what that will yield. But again, given the response we had at CES and various key customers I've been talking to, I see further opportunities to increase our position and our strength in the Automotive segment.

Taco Titulaer - TomTom NV - CFO

Yeah, maybe I can comment to that as well. So, if you look at the industry analysts, and their projections for the market development in this year and the year to come, then for both years they expect so-called flat growth. So, minimal growth of only low single-digit percentage. If you compare that with our operational revenue development that we plan, then that will also be kind of the case for 2024 for us. But we expect much higher increase of operational revenue in 2025, indicating market share wins. So, those are deals that we already signed but that will come to market in 2025.

Marc Hesselink - ING FM - Analyst

Okay, thanks. I think you gave a good indication on the third question and the building blocks to get to that '25 guidance. If I look to the backlog split over the coming years, then it suggests that, '25, automotive is going to be high single-digit growth. So, like really, is that correct? One. And two, this is a very significant step-up in Enterprise then in '25, to get to that ambition?

Taco Titulaer - TomTom NV - CFO

Yeah, rounded numbers, what you could get from our guidance for 2024 and 2025 is that we expect roughly a step-up of, again, rounded numbers, EUR100 million from 2024 to 2025 for both Automotive and Enterprise combined. Half of that is expected to come from Automotive. It is for a large part fueled by the backlog that's also shown on the slide that we have provided where you saw a breakdown of the phasing of the backlog for the coming years. For Enterprise, that increase needs to come from bringing in those new logos.

Marc Hesselink - ING FM - Analyst

Okay. Thank you.

Operator

(Operator Instructions)

Freerk Borst - TomTom NV - IR

As it appears, there are no further questions. I'd like to thank you all for joining us this afternoon.

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