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TOM2.AS - Q4 2022 TomTom NV Earnings Call

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## CORPORATE PARTICIPANTS

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

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## CONFERENCE CALL PARTICIPANTS

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**Harry Blaiklock** UBS Investment Bank, Research Division – Equity Research Analyst

## PRESENTATION

**Freek Borst** - TomTom N.V. - Investor Relations

Good afternoon, everyone, and welcome to our conference call during which we will discuss our operational and financial highlights for the fourth quarter of 2022. With me today are Harold Goddijn, our CEO; and Taco Titulaer, our CFO. 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 and outlook from Taco. We will then 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.

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

Thank you very much, Freek, and welcome, ladies and gentlemen. Thank you for joining us today. I will discuss the operational highlights of the quarter and give an overview of our strategic priorities. We recorded robust growth in revenue in the fourth quarter. Enterprise performed in line with expectations and Automotive showed strong growth. The Automotive business showed an outperformance versus the car production volumes in our core markets, as it has throughout the year. Our Automotive product portfolio is gaining strength and has enabled us to win major contracts in 2022. Order intake was at a record high and resulted in an Automotive backlog of EUR 2.4 billion at the end of the year.

Our new Maps Platform is maturing, in line with expectations, with first customer shipments expected to happen in Q2 this year. We announced our new Maps Platform during our Capital Markets Day in November. That platform allows for standardization and integration of new data sources and a new way of working, which will lead to richer and fresher maps that are more efficient to produce. And to encourage the industry to standardize on our new Maps Platform, we have decided to open source the base road network and the specifications of the map. This will, over time, allow for frictionless data exchange, and wider availability of data for further integration into our proprietary maps products and into our services. We have joined forces with Amazon, Meta, and Microsoft to advance this initiative and market reception, so far, has been encouraging.

We aspire to further grow our market share in Automotive based on a superior maps product, a strong portfolio of services, and a large number of cars sending signals to our servers. Electrification, new safety legislation, and ongoing progress in ADAS and automated driving will provide us with further opportunities.

We expect our new maps to be an important driver of growth outside of Automotive over the midterm. We will offer significant improvements in quality and richness, which will enable us to extend our success in the Automotive market to a much broader variety of customers. Especially in the Enterprise segment, we expect positive effects from standardization and our open-source initiatives. We are confident that we have a solid foundation in place and aim for continuous top line growth and further optimization of our processes. Taco will elaborate further on this after going over the financial highlights of the quarter and the full year. This concludes my part of the presentation and I'm now handing over to Taco.

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

Thank you, Harold. I'll provide some comments on the 2022 financials and also discuss the outlook. We will then proceed to the Q&A. In the fourth quarter, we reported group revenue of EUR 139 million. That's 21% higher than the same quarter last year. Location Technology revenue increased by 30% to EUR 118 million. Let me go through the revenue business by business. We reported Automotive IFRS revenue of EUR 77 million in the quarter, representing a 64% year-on-year increase. This increase was partly the result of the evolution of our Automotive products, from a predominantly onboard offering including updates, to a combination of API-based updates and services, and an initial onboard map. This evolution led to a change in the timing of IFRS revenue recognition, improving reported revenue this quarter.

Automotive operational revenue increased by 16% year-on-year to EUR 82 million. This marks an outperformance compared to the car production trends in our core markets, being Europe and North America. In our core markets, car production growth was roughly 10%. Our outperformance resulted from market share gains and a further increase in take rates. Enterprise revenue decreased by 7% year on year to EUR 40 million. The decline was anticipated and was related to some contract renewals reflecting decreased usage and thus lower contract values. Lastly, Consumer revenue decreased by 13% year-on-year to EUR 21 million. Our gross margin was 87% in the fourth quarter, compared with 82% in the same quarter last year. The improvement in our gross margin is the result of a higher proportion of software and content revenue in our total revenue mix. Operating expenses were EUR 125 million, a decrease of EUR 4 million compared with the same quarter last year. This decrease resulted from lower personnel expenses in our Maps unit. Before moving to the outlook, let me reflect on our full-year results.

We reported group revenue of EUR 536 million for the year, a 6% increase compared to 2021. Location Technology revenue increased by 11% to EUR 436 million, while our Consumer business declined by 11%. In addition, Automotive operational revenue grew 11% year on year, outperforming the growth of car production in our core markets of 7%. Free cash flow was negatively impacted by working capital movements at the end of the year. For the full year, free cash flow was an outflow of EUR 29 million. Lastly, our net cash position was EUR 304 million at the end of the year.

Having discussed the results for 2022, let me take a more forward-looking perspective. I'll start with our Automotive backlog and then move on to our 2023 outlook and our 2025 ambition. As already announced at our Capital Markets Day last November, our Automotive backlog increased strongly in 2022, resulting from a record order intake during the year. At year-end, our Automotive backlog was approximately EUR 2.4 billion, up from EUR 1.9 billion at the end of 2021. Our Automotive backlog is the sum of the expected IFRS revenue from all awarded deals. As such, the backlog decreases on revenues recognized, and increases when new deals are awarded. It also increases or decreases when customers revise their forecasts for car production volumes.

To provide additional transparency on Automotive revenue expectations, we give an indication of how the backlog will materialize in revenues over time. Most of the reported Automotive revenue for 2023 will be the outcome of the current backlog. Reported revenue for later years will be based on a combination of new deals and our backlog. We provide an update on our backlog annually, with our full year results. Our backlog supports our outlook and ambition for the coming year, presented on the next slide.

For 2023, we expect top-line growth to continue, with group revenue between EUR 540 million and EUR 580 million. A strong increase in Automotive revenue is expected to offset declines in both our Consumer and Enterprise businesses. In addition, we envision our Enterprise business to show growth again from Q4 2023 onwards. Location Technology revenue is expected to be between EUR 455 million and EUR 485 million in 2023. This includes a positive impact from the evolution of our Automotive products and related change in revenue recognition of around EUR 40 million. In terms of free cash flow, we increased our cash flow guidance from breakeven to between 0% and plus 5% of our group revenue for 2023. We should note here that our free cash flow guidance excludes the charges related to the restructuring we announced in June 2022. Of the EUR 26 million restructuring charge, we paid EUR 12 million in 2022 and expect to pay the remainder fully this year. This brings me to our ambition for 2025 as presented on the next slide.

We reiterate our midterm Location Technology revenue ambition of EUR 600 million in 2025. This ambition is based on our strong Automotive backlog and significant opportunities in Enterprise. The new Maps Platform that we introduced at the Capital Markets Day will bring significant improvements for our customers. The change in Automotive revenue recognition resulting from the evolution of our products, will also have an impact on 2024 and 2025 revenues, though the impact in 2025 is expected to be minimal.

Lastly, it is important to note that we want to realize our growth ambition in a profitable way. As revenue growth will lead to operating leverage, we envision to generate free cash flow of 10% of group revenue by 2025. Operator, we would now like to start the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

Thank you.

(Operator Instructions)

We'll now take our first question. This is from the line of Marc Hesselink from ING.

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### Marc Hesselink - ING Groep N.V., Research Division - Research Analyst

First, on your comment that the first feedback is encouraging on the new Maps Platform. Could you maybe tell a bit more? Like what are the clients saying? And maybe split it a bit between Automotive and Enterprise? And then link to that to Enterprise, I mean, that's probably the area where you can most quickly, actually win business. Any expectations on that? When such things can fall?

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

Yes. So, Marc, a good moment to test the temperature of our direction and our products was at CES, the computer show in Las Vegas. And I've been working the floor there for four days. There was a massive interest in what we're trying to do, trying to understand the implications for our customers' business and the industry. Overall, overwhelmingly positive reactions, varying from: "That makes sense," to: "Should I become a member of Overture, and how do I do that?" That kind of thing.

And I think it's important, also for clarity in the market, that there is a standard emerging. I think that is what customers have been waiting for, maybe, even if they didn't know it. Because the adoption of a location-based service platform is a costly enterprise, and you don't want to be locked in if you can avoid it. And I think this initiative will fly. I think the expectations are high. And I do believe it will lead to much better products and a more efficient way to get there. And the reactions that I got from our customers were also in that line. So, very encouraging indeed. People want to have sample data, and so on, and so forth.

Not only from the Enterprise segment, I have to say. Also, the interest from Automotive, the more conservative part, perhaps, of our customer portfolio, showed a keen interest to understand what the implications are, and will be, and can be for their business and their own data strategy, including data strategies for autonomous driving.

So, I was pleased with the effect. We will start shipping to a limited number of customers in Q2, our new map. That is great. We will have some customer-facing applications up and running in the first half of this year, where we can show the whole stack, including the services, the maps, and how it all comes together. So, it feels like there is momentum. There's tailwind. We're dedicated to capture that. There's a lot going on, on the sales and marketing side as well, in order to capitalize on the momentum that we're seeing in the marketplace.

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### Marc Hesselink - ING Groep N.V., Research Division - Research Analyst

Thanks. And then the second question is actually on Automotive. So, you've been outperforming the automotive production in your markets in, I think, the full year '22, and especially in the fourth quarter. But if I look at the guidance for next year, it seems more like you're guiding towards being somewhere in line -- if I look at operational revenue -- in line with those forecasts. But I do assume that take rates will continue to go up and you're also probably still going to take some share. So, what's behind that?

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

Taco, can you give some insight?

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

Do you mean the current year, or 2024?

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**Marc Hesselink** - ING Groep N.V., Research Division - Research Analyst

Sorry, '23. To be clear, for '23, if I do the calculation on operational revenue, it seems like you're guiding for something like mid to a little bit higher growth, for Automotive operational revenue, and that seems a bit close to the car production expectations? While actually, last year, so in '22, you clearly outperformed that. And, so what's -- is it just being a bit conservative this early in the year? Or are there reasons why you should not outperform in '23?

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

No, I think we will do better. It's always a bit of a discussion which view you have for EU and North America. But on the data we rely on, we see a 7% increase in the combined market. And we, ourselves, think that operational revenue can grow between 10% to 15%. So, we continue to see that growth. So, the data that we're looking at for like-for-like shows a 7% increase in car production volumes. And that's a little bit dependent on which countries you include and don't include.

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**Marc Hesselink** - ING Groep N.V., Research Division - Research Analyst

Okay. And final question is actually on the competitive dynamics. You also mentioned CES. I think your competitor HERE also launched a new platform over there. It seems a bit like your previous platform, the transactional map-building platform. But what's your view on that? Did they make a step-change in the quality of their product? And is that changing the dynamics a bit for you?

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

I find it really hard to read that announcement, to be honest. I don't have a view. I think we will only know by the second half of next year before those products that are built on that platform will come to market. So, it's really hard for me to comment on what's going on there and what the expected results of that investment are going to be. I can't say.

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**Operator**

Thank you. We'll now take our next question -- from the line of Emmanuel Carlier from Van Lanschot Kempen.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

I missed the first 5 minutes of the call, so I hope my questions have not been answered yet in that part. But the first question I have is on Consumer. So, if I look at the guidance, then the midpoint of the guidance used to be EUR 75 million revenues in 2023. And now with the upgraded guidance, it is EUR 90 million. So, what has made you more positive?

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

Well, it's quite simple. We were quite conservative going into Q4. Q4 was solid, and that also gave us the basis to be more optimistic for the current year.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

And do you now expect that this product line, going forward, will drop rather at the 10% level per annum, instead of the 10% to 15%? Or is it just that 2023 is kind of a one-off?

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

I think 10% is a good way to look at it, yes.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

Yes. Okay. And then the second question is also on the guidance. So, within Location Technology revenues, you have a EUR 40 million tailwind from the accounting change and you have a EUR 20 million headwind from FX, but could you give a bit more disclosure on the assumptions on FX? Is it based on the FX rate of yesterday at the close? And do you perform any hedging?

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

So, it is based on 1.09, versus parity. Parity was the situation where we were at during Q3. Then, Enterprise is roughly 75% and Automotive is 35%, I would say, dollar denominated. We don't do a lot of hedging, no.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

What is the reason for that, if I may ask?

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

Well, that has evolved over time. In the past, we performed a lot of hedging. The reality is that those contracts tend to be very expensive as well. And so the benefit is, over the longer term, not that large.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

Okay. And then finally, a question on free cash flow. So, the free cash flow was softer than expected in Q4, although I guess you had pretty good visibility. So, it looks a little bit like nothing has really changed in terms of free cash flow, but that you have a little bit of a shift from lower free cash flow in 2022, related to working cash flow -- so, a lower inflow -- and that that inflow will now come in 2023. So, all in all, it looks like Consumer is just a little bit better offsetting the negative impact of FX. And on free cash flow, if you combine 2022 and 2023, the outlook is actually unchanged. Is that a correct summary?

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

Well, I would say there are three factors playing a role here. One is indeed that -- as you can see in our balance sheet in our press release, the level of prepayments has gone up to a level that we haven't seen, normally, at the end of the year. So, normally, it's EUR 25 million. It's now roughly EUR 36 million.

That is just that we see some opportunities of vendors that give us a discount if we pay all at once, and we pursue those opportunities. The same with payments, our commitments to vendors, that is historically low. So, indeed, those two trends will benefit cash flow generation in 2023.

On the other hand, the fact that the dollar is weaker than originally assumed will not benefit our cash generation, because we are long in the dollar. So, a weaker dollar, net-net, does not have a positive effect on our cash flow. But if you compare the October situation with the January situation, we are tighter with spend and cost control, and that's also resulting in more cash generation for this year.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

And what is making you more confident on the cost structure? Is that because you could negotiate, with your workers, lower salary increases? Or is that more because...

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

I wouldn't qualify it that way. I think the salary increases that we are seeing this year are higher than what we've ever seen before. So no, it is more third-party spend and overall headcount. It's not salary-related for sure.

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**Emmanuel Carlier** - Kempen & Co. N.V., Research Division - Research Analyst

And with respect to the salaries, what I have often read in the Netherlands is that, in order to have a more smooth impact on the earnings, you kind of -- if you have 10% inflation -- you go through the kind of mechanism whereby maybe the salaries of the employees go up by 5%, for example, this year and the other 5% will be realized next year. Is that something that is taking place at TomTom as well?

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

I'm not at a liberty to comment on the structures that we have agreed or want to give our employees at this point.

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**Operator**

We'll now take our next question. This is from the line of Tim Versteeg from ABN AMRO.

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**Tim Versteeg** - ABN AMRO - ODDO BHF B.V. - Equity Sales

Thank you. Do you hear me?

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

Yes, we can.

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**Tim Versteeg** - ABN AMRO - ODDO BHF B.V. - Equity Sales

Okay, thank you. I have a question more related to the statements about the Automotive segment. Can you say something about the competitive landscape and the development in market shares there?

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

Yes. So, yes, it's not so easy. This is not a fast-moving business. You know the drill about long lead times. And what we see is that, let's say, the traditional competitive landscape -- it looks like we are coming out as the winner, let's put it that way. The number of companies that are active in the full-stack is shrinking. And we have a strong portfolio. We have a lot of customers. So, we can spend also -- we continue to improve the quality of our products. There's investments, of course, to keep up to date, also, with the new generation of electrical vehicles. That's a demanding exercise, to get drivers of electric vehicles all the information they need.

And we get a lot of signals back from our clients. So, from the cars that we are equipping with software, we also get location. It's all anonymized, of course. And we get other data, we get sensor observations, sensor data, which in turn help us to improve our products. So, this is kind of a flywheel that we have seen turning, that helped us to gain an important position in traffic information. That seems to now also happen in the navigation stack.

So, I think that's good. We will see positive impacts from a better maps product that will hit the market this year. Customers are excited about that. I think our brand reputation has also improved as a result of the announcements that we've made and the wins we've been able to lock in. So, that's a good situation. But we're also in a market that is, kind of, trying to figure out how exactly to be successful in software. So, there are still moving parts. But the partnerships we are forging now give us good insights in what customer requirements are, how they will develop. So, we feel that we're well-informed, close to where the action is taking place. We have a solid foundation in terms of current products, and more to come. So, it's really ours to mess up, I think. I hope that gives you a bit of color on how we see our position developing.

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**Operator**

(Operator Instructions)

We'll now take our next question. This is from the line of Harry Blaiklock from UBS.

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**Harry Blaiklock**- UBS Investment Bank, Research Division – Equity Research Analyst

So, the first is just on the backlog growth that you saw last year. Are you able to provide some detail on whether that's market growth or kind of share gains as well? Just any color that you can give there would be great.

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

Shall I take that one?

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

Yes.

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

It is both. So, we have seen new logos in this list that we haven't been supplying before. So, I would qualify that as future market share gains. But there are also some extensions. So, the most notable one is Stellantis. It's a combination of both. And to add to that, there is also an increase in take rates. So, the assumptions that underly this order intake run with way higher take rates than what we've seen before.

**Harry Blaiklock**- UBS Investment Bank, Research Division – Equity Research Analyst

Got it, thank you. And then the second one is just on Enterprise revenue. And you mentioned you expect growth in Q4 of this year. I wonder whether you could elaborate a bit on what's driving that timing, how much visibility you have? Is it contract renewals or new revenues from the Maps Platform starting to come through? Any color would be great.

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

Well, that is just – well it's not accounting -- but there is a major contract that reduced their spend as of Q4 last year. That will affect the P&L for four quarters in a row. And that effect will wear out as of Q4 this year. The underlying revenue of Enterprise, excluding this contract, is increasing. So, if you take out this effect, then Enterprise is growing again. And that will happen as of Q4 2023.

**Freek Borst** - TomTom N.V. - Investor Relations

Since there are no further questions, I'd like to thank you all for joining us this afternoon. Operator, you may now close the call.

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