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PRESENTATION
Operator
Good day, ladies and gentlemen. Welcome to the TomTom Third Quarter 2013 Earnings Conference Call. (Operator instructions.) Please note that this conference is being recorded.

I will now turn the conference over to Bisera, IR Officer. You may begin.

Bisera Grubesic  TomTom NV - Investor Relations
Thank you, Jack. Ladies and gentlemen, good afternoon, and welcome to our conference call during which we will discuss our financial results for the third quarter of 2013. With me today are Harold Goddjin, our CEO, and Marina Wyatt, our CFO.

This call is being broadcast live on our website, and a recording of the call will be available shortly afterwards. And as usually, I would like to point out that Safe Harbor applies.

Following recent feedback from our analysts covering TomTom, we have decided to change the setup of our presentation, with the aim to structure this call in a time-efficient manner. We will highlight key operational and financial developments for the quarter in our introduction, which shall take a maximum of 15 minutes, where after we will take your questions. As a consequence, we aim our analyst call to last 45 minutes as of this quarter and going forward.

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 and the financial outlook for the remainder of the year from Marina. We will then take your questions.
And with that, Harold, I would like to hand over to you.

**Harold Goddjin - TomTom NV - CEO**

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

Overall, our performance for the third quarter was solid. We generated group revenue of EUR244 million and delivered a strong gross margin of 56% in the quarter. We achieved cash flow from operating activities of EUR71 million, and we have further strengthened our balance sheet position, reaching a net cash position of EUR52 million.

As already explained by Bisera, Marina will provide further information on the third quarter financial highlights and the outlook for the remainder of the year later during this presentation. I will concentrate on the key operational highlights.

The PND market in -- the size of the PND market in Europe was 2.3 million units in the third quarter. That’s approximately 15% lower compared to Q3 2012, in line with our expectations and the trends seen in the first half of the year. Our Q3 2013 PND revenue in Europe was flat compared to the same quarter last year as the decline of the market was partially offset by an increase in market share to more than 50%, and by strengthening of our ASPs.

We made the new generation PNDs fully available across Europe. The PND market size in North America was 1.1 million units in the third quarter, and that is 28% lower compared to Q3 2012. We’ve chosen not to participate in highly discounted promotional activities in our market share, as a result was weak at 17% in the third quarter.

After initial introduction earlier this year, consumers started shipping our new GPS sports watch in the US in July, accompanied by a communications campaign launched in September. Following a further (inaudible) rollout, our sports watches are now available in 21 countries globally.

In October, we also launched a new advertising campaign, “Quicker Journeys When You Need Them,” which is emphasizing the benefits of dynamic routing and of our real-time traffic information, one of our core assets. We launched this radio and billboard campaign mid-October in our core markets at the beginning of this week.

In automotive and licensing, we continue to make inroads into the automotive market, although revenue is affected by ongoing low car sales. In September, our real-time traffic information services was added to additional Daimler cars, and we started shipping our navigation application into Sony’s second-generation in-dash infotainment system. We also entered a partnership with Ford for future TomTom iOS and Android navigation applications will connect to Ford’s Sync in-dash multimedia system.

In addition, the Renault R-Link built-in infotainment system was ranked as the best in-dash information system available in a study performed by SBD, which is an independent automotive research consultancy firm. R-Link was received consistently -- scored consistently high scores for a balance of ease of use and feature richness.

We are in the process of completely renewing the mapping platform and our mapmaking tools. We are moving into a real-time mapmaking process, and this covers the whole chain of community input and validation, but also distributing that content to a broad range of client applications. The new platform allows us to manage and handle customer feedback in near real-time. In other words, if we detect a change in the road network, we can distribute this change to customer devices in near real-time. Our PND map share service now delivers more updates as a result of this new system.

All updates are, of course, done in a quality checks transaction system, whatever source we are using, and those transactions can and are used to generate incremental updates. Over the last nine months, we multiplied the number of map share changes with a factor eight, and this number will continue to go up as the system matures.
In August, business solutions acquired Coordina. It’s the number one fleet management service provider in Spain. They have a broad local sales network, well-established local service hub. More than two-thirds of business solutions revenue is now recurring subscription-based revenue generated by an install base of 310,000 WEBFLEET subscribers. The industry dynamics for WEBFLEET continue to be very favorable. The system delivers short payback periods for our customers that prove to be very sticky and, as a result, we are enjoying very low churn rates. The market is still fragmented and under-penetrated.

And this concludes my part of the presentation. I would now like to hand over to Marina.

**Marina Wyatt** - TomTom NV - CFO

Thank you, Harold, and I shall now begin a more detailed look at our quarterly financials.

The results that we delivered for the third quarter were particularly strong at the gross margin level, which flowed through to the operating result. Consumer revenue decreased by 12% year-on-year to EUR151 million. Year-on-year, we reported flat PND revenue in Europe as the decline in the PND market was partially offset by an increase in market share to more than 50% and by a strengthening of our average selling prices. We saw a decrease in PND revenue in North America, which was driven in the main by the smaller market size.

Revenue from fitness products, although still a small revenue stream relatively, more than doubled compared to the same quarter last year, largely driven by our new ranges of GPS sports watches. In the automotive segment, the industry continues to face low car sales in Europe, which is impacting revenue. As such, we reported revenue of EUR44 million in the third quarter, a decrease of 11% or EUR5 million compared to the same quarter of last year.

In licensing, revenue was 17% lower compared to the same quarter last year. The decline came mainly from lower GIS, so government and small business-to-business type revenue, partially related to the timing of contracts signed in the previous year. Business solutions continues to perform well and generated revenue of EUR21 million in the quarter, which is an 11% increase year-on-year.

Following the acquisition of Coordina, business solutions counted 310,000 WEBFLEET subscriptions at the end of the quarter. The installed base of subscriptions grew by 39% compared with Q3 2012. Business solutions continued to grow its recurring revenue base, which represented around two-thirds of total revenue. The level of hardware decreased as a percentage of the overall revenue mix in business solutions.

At the gross margin level, we reported a strong gross margin in the quarter of 56%, which is an increase of one percentage point year-on-year. The increase was partly due to higher margin PND sales in the EMEA region and partly due to a number of provision releases. Excluding the provision releases, the gross margin would have been 54% compared to 52% in the previous year. FX had little impact on the gross margin, although revenue at constant currencies would have been a few million euro higher.

Total operating expenses for the quarter amounted to EUR124 million, an increase of EUR5.4 million year-on-year. This increase was mainly the result of higher SG&A expenses and stock compensation expenses, partly offset by lower marketing costs. Marketing expenses are also partially phased out to the fourth quarter when they will be substantially higher compared to Q3, and this increase is caused by the communications -- the new communication campaigns, which Harold explained earlier.

The effective tax rate, we reported a group net income tax of EUR2 million in the third quarter, which was a decrease of EUR4.5 million compared to last year. The effective tax rate in the third quarter was 15% compared to 22.7% in the corresponding quarter of last year. The lower effective tax rate for the quarter was mainly caused by one-off releases of tax provisions following the completion of tax audits.

The net result was EUR11 million compared to EUR22 million last year, and an increase of EUR3.7 million compared to the second quarter of 2013. Adjusted EPS was EUR0.10 in Q3 and compares to EUR0.14 in the same quarter last year. The adjusted EPS year-to-date was EUR0.20 compared to EUR0.27 last year. At the beginning of the year, I explained that the deferred revenue relating to lifetime traffic and lifetime maps would negatively impact adjusted EPS this year, and indeed year-to-date this impact is included in that adjusted EPS.
During the quarter, we generated cash from operations of EUR71 million compared to EUR50 million in the third quarter of last year. The increase was mainly driven by higher working capital from other liabilities. We reported total deferred revenue for the quarter of EUR115 million in the balance sheet, which was EUR22 million up compared to last year. And this increase is a combination of higher deferred revenue relating to lifetime maps and traffic in PNDs, and also to some extent due to higher deferred revenue on certain licensing contracts.

Capital investments during the third quarter equaled EUR24 million, which is EUR12 million higher than the same quarter last year. Maps continue to be our largest area of investment, and we also saw increased activity in customer-specific automotive projects and in our core navigation software development. Additionally, we acquired Coordina in Spain. We further strengthened our balance sheet with net cash of EUR52 million at the end of the quarter, which is an increase of EUR46 million compared to the second quarter and EUR205 million compared to Q3 2012.

Turning now to the outlook, as a result of the year-to-date adjusted EPS performance, and based on our expectations for the fourth quarter, we've increased our adjusted EPS outlook for the full year. On the revenue side, we expect now to deliver full year revenue which is towards the upper end of our previously given guidance of between EUR900 million and EUR950 million, and we expect to deliver adjusted EPS of around EUR0.25, and our previous guidance was around EUR0.20.

This concludes the formal part of the presentation. And Operator, we'd now like to start with the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator instructions.) Stuart Jeffrey, Nomura.

Stuart Jeffrey - Nomura - Analyst

Hey, thanks very much. I have more of a sort of background question. Given that Nokia's Here unit is (inaudible) to be making a lot more noise now that it's a bit more visible, I was wondering if you could just give us a bit more of a backdrop on your licensing business, and automotive in particular, to give us a sense of where you stand and how you think your market share's been trending in the face of what might be a bit more of a aggressive marketing campaign out of Nokia.

Harold Godijn - TomTom NV - CEO

Yes, Stuart, thank you. Yes, it's difficult for me to comment on the other map maker. There's some [flux] in that market, that's for sure. I don't think we've seen the end game. So, it's more scenario thinking than anything else, and I don't think we've seen the end game. So, it's more scenario thinking than anything else, and I don't want to engage in scenario thinking in this call. But, it's clear that things are happening in the industry.

I think our strategy for automotive customers is to win market share with a combination of components. Traffic information is one of those components, maps, but also maps in run-time version that we can upgrade incrementally, as well as software and -- navigation software, routing engines, dynamic routing, and so on and so forth. So, we have a richer and a broader portfolio than we've had before.

We see evidence in the marketplace that that strategy is gaining traction and interest from car makers. I think the fact that we launched the PND based on the new software system has helped us to create visibility for that new technology. I think the overall market reception has been positive. I think the strategy resonates. It is the type of product and approach that car makers are expecting from us.
You will also see less -- and we’ve communicated that earlier -- less emphasis on hardware sales in the automotive sphere. We are closer than ever before to tier one hardware vendors that are serving the OEs, as well. And we expect to be able to close deals on the back of that and move forward in increasing our market share.

Hope that answers your question.

**Stuart Jeffrey - Nomura - Analyst**

Yes. I was just wondering if you had any sort of market share statistics that you were able to share. I think a few years ago we might have -- now take perhaps I think 70% market share of in-dash mapping, and [telly app] is 30%, but I haven’t really been able to see any stats that sort of track that since. And just something to give a little bit of momentum dynamic behind what you’re seeing would be great.

**Harold Godijn - TomTom NV - CEO**

Yes. It’s difficult to come up with accurate and reliable market share numbers. I don’t think there’s an industry body or the research firm that’s covering that. I don’t think that we have been able to move the dial significantly in our favor so far.

**Stuart Jeffrey - Nomura - Analyst**

Thank you.

**Operator**

[Frances Menua], Modern Family.

**Andrew Hirashia - Modern Family - Analyst**

Hi, it’s [Andrew Hirashia], but thanks for taking my question.

I wanted to kind of ask a bit about the consumer business in particular. I think flat revenues in European PNDs is a pretty strong performance, we can all agree, and obviously you’re seeing growth in fitness. But, the overall revenue in that division is down.

I wanted particularly -- clearly the US is part of that, but I wanted to also focus on how bundling lifetime traffic and lifetime maps with I guess the bulk of your more recent device sales is impacting other subscription streams of revenue in that business. So, could you give us an indication of how much that particular line of business is down year-on-year, and I guess kind of how material that is to the division versus, say, the decline in US PNDs?

**Harold Godijn - TomTom NV - CEO**

Yes. So, just to refresh everybody’s memory, so the new platform, so the (inaudible) devices, are all coming with lifetime maps and lifetime traffic. We have two -- for the traffic service, we have two different products, one that come with a built-in modem and SIM card, and the other devices come with Bluetooth connectivity. So, if you connect to a phone, you get access to the Net, and then you can download traffic information and do the dynamic routing.
That is well received by the market. People like it. In terms of reporting our revenue, we're only recognizing hardware sales, and we're deferring the revenue for the services. So, there is, in deferred revenue, on the balance sheet you will see the total amount of deferred revenue related to services, you will see that specified. So, in the currency terms, we continue to defer revenue.

There is a large (inaudible). As you know, we sold [35] million PNDs over -- in the history. A lot of those devices -- units are still used, and a lot of those customers are still, especially in the holiday time and when driving season starts, updating their devices both with new software and new maps. That is still a very significant revenue stream, but we expect that revenue stream to decline over time.

I think, as a result of our new strategy, we have been able -- partly because of that new strategy of bundling those services, we have been able to strengthen our market position in our core market, and that has resulted in market share gain. So, I think (inaudible) is correct. That is delivering the results we expected. Over time, the external revenue from services will decline, but will we continue to defer service revenue as part of a unit sale.

And Marina has more information if you want what -- to what are demands to what the actual numbers are.

Andrew Hirashia - Modern Family - Analyst
Okay, maybe you can follow up a bit on that offline then. Maybe kind of just a follow-up on the US business, then, in that case. You mentioned kind of promotional activity in Q3, and you're not participating. Has that come earlier than you would have expected in previous years? I mean, normally you would expect to see that around Q4 and the holiday season. I mean, is there something particular happening in that market? Is there a risk that the -- I guess the aggressive behavior with this that we're seeing there could be more structural?

Harold Goddjin - TomTom NV - CEO
Well, I think it's a tough marketplace in North America, and we accepted a slight drop in market share in return for better margins. We are turning that North American operation into -- we've turned it into a profitable business again. I think it's important, North America market, also for sports activities. It's gone well. It's started to contribute visibly to our performance there. The products for -- PND products in Europe have been well received, and we're also looking forward to introducing them to the North America market, as well, and start defending and expending our PND markets in North America as a result of that.

Marina Wyatt - TomTom NV - CFO
But, I don't think structurally we're seeing a different US market. It is characterized by quite a lot of promotional activity on an ongoing basis. We have just traded a bit of market share for profitability in terms of how we've approached the market.

Andrew Hirashia - Modern Family - Analyst
Okay, thank you very much.

Operator
Peter Olofsen, Kepler.
Peter Olofsen - Kepler Cheuvreux - Analyst

Good afternoon. First of all, a question on business solutions, taking into account there was a small acquisition. It seems that the growth rate was a bit light. Was that due to some lumpiness in hardware sales, or are you seeing a slowdown in that particular business? And then, a question on the licensing business, where you say in the presentation slides that [the new map] product platform is starting to deliver. How will that show in the numbers? Will it lead to lower R&D cost, or how will that translate into the results?

And then, final question on the one-offs. I understand there was release of provisions both in the cost of sales and in the income tax. Just to understand how much of the EPS guidance (inaudible) comes from these one-offs, could you quantify the absolute amount of these provision releases?

Harold Goddjin - TomTom NV - CEO

Okay, thank you. Let me take the first question about business solutions. So, there's a couple of factors there. In our core markets, especially in Europe, we've been -- so we have different sales models depending on territory. So, in Europe, we do the whole sale, and we own the customer, we invoice the customer, so on and so forth. Some other territories, South Africa, Australia, North America, [we last in] technology but partnering with industry players to get volume in that market.

On the whole, if you look at organic growth year-on-year, we added about 27% more subscriptions year-over-year. If you include the Coordina acquisition, the growth was 39%. So, the underlying gross subscriptions is going in line with expectations, about double the rate of the industry growth. We're gaining market share. We're strengthening our position, and we do all that on a very clean technology base that remains scalable. So, all that's going according to plan.

What was slightly disappointing in Q3 was the amount of hardware we managed to sell in the form of link boxes, navigation devices, fleet terminals, other hardware that go with a WEBFLEET subscription. So there, the number was slightly lower.

Marina Wyatt - TomTom NV - CFO

Yes, and I think there's also a bit of a change in the mix of the hardware being sold that is influencing that. So, the hardware can be a PND. The hardware can be a link box, and depending on the mix there, that can impact the amount of hardware proportionally in local mix. So, there was some impact from that.

I'll answer the question about adjusted EPS, and then we need to come back to the one on maps. But, on the adjusted EPS, yes, so we had a two percentage point impact on the gross margin from release of provision, and some impact also on the tax charge. And overall, that had an impact of between EUR0.01 and EUR0.02 on the adjusted EPS.

It would be very helpful if you could just repeat the question on maps for us, as well.

Peter Olofsen - Kepler Cheuvreux - Analyst

Yes. On one of the slides in the presentation, you highlighted that the new map production platform is starting to deliver. I have the impression that that will lower the cost to maintain the map database. Is that indeed the case? And if so, how will that show in your numbers? Will it lead to lower R&D costs, going forward?

Harold Goddjin - TomTom NV - CEO

Well, the map production platform will do two things. It will make our map operation a lot more efficient so we can do more with the same amount of money, or the money we spend on map maintenance will have a bigger impact on map quality, so there's one important consequence of that.
But, probably more important is that we now have a mechanism to deliver those map improvements to customers much faster, and that’s especially true in the automotive industry.

So, the way that currently works is you buy a car. There’s a navigation system, and then if the map gets outdated, or [where] you start feeling it’s getting outdated, you go to the dealer, buy a new CD-ROM, and then stick it in the dashboard. Then, hopefully you would get the recent version of the map. And that is inefficient. It’s, quite frankly, not what consumers are expecting these days of technology. They want that -- there’s changes by the time they are detected to show up in their car in near-real time. So, we see big improvements there in efficiency, in usability, in ease of use.

And a third element I would like to mention is that the whole meaning of community input will get a new meaning. If a car driver sees something that has changed, you can report that. We can make sure that that change will show up in the dashboard of the car a day or two days later, and that is also a big plus, and will make it much more cost-effective to detect change -- fix changes in the road network.

What that will mean over time for the level of spend on map-making, I don’t know that yet. But, one thing is for sure, we will get a whole lot more efficient, and we’ll be able to deliver a much better end user experience as a result of it.

Peter Olofsen - Kepler Cheuvreux - Analyst

Okay, that’s fair. Thank you.

Operator

Alexander Peterc, BNP Paribas.

Alexander Peterc - BNP Paribas - Analyst

Hi, thanks for taking my question, and congratulations for good results. I'd like to ask a question about cash allocation. You now no longer have any debt issued, of course. Other companies in your sector have decided to start distributing some dividends. What is your long-term plan for cash utilization? Would you like to use it for acquisitions? And if that's the case, in which area, or would you also consider starting to return cash to shareholders? Thanks.

Marina Wyatt - TomTom NV - CFO

Thanks, Alexander. Long-term is a long time in this industry. I mean, we're doing well with our cash flow. As you can see, we are in the market for acquisitions in business solutions because we believe that we can -- for the right acquisitions, we can deliver a good return there and increase the value of the business solutions business.

I'm still building towards higher levels of cash. They're relatively low at the moment, and they need to go a significant distance before we can say we're over on that. But, I think we need cash for our operations. We need cash for acquisitions, and we're moving forward in that direction. But, I can't make any further comment, I'm afraid.

Alexander Peterc - BNP Paribas - Analyst

Can I also just ask as a follow-up, I know you’ve already talked about the US market, but at what point is this market too small, and your market share too small, for you to stop competing in it, on the PND side, I mean? I mean, I know that the fitness and outdoors is interesting [for you guys], but PND is now like, what, one-third of what it used to be, like, four or five years ago? Is this market really of much appeal to you at this stage? Thanks.
Harold Godijn - *TomTom NV - CEO*

Yes, I don't want to give you an absolute number, but obviously we're watching this situation closely. We've turned black numbers again also in the PND business. And we will continue with this distribution of PND sport watches and as the discipline, going forward.

Alexander Peterc - BNP Paribas - Analyst

Okay, thanks a lot.

Operator

Marc Zwartsendburg, ING.

Marc Zwartsendburg - ING - Analyst

Yes, good afternoon, Harold and Marina. Thanks for taking my questions. First, a question on the gross margin. Just to confirm, you mentioned that ForEx had a little impact in the quarter, but then I think you also mentioned a few millions higher or lower due to -- on constant currency. Could you, first of all, clarify that, what the gross margin would have been excluding the ForEx?

And then, looking out to Q4, the mix is improving. What do you expect to see in terms of gross margin development into Q4, and perhaps also into next year with ASPs improving and the mix improving? That's my first question.

And then, my second question on the cash flow, strong cash flow in Q3, last year also [quiet on] cash inflow in Q4. You see deferred revenues kicking in. Can you first of all give a bit more color on the cash flow in Q3, what's driving it, and what we can expect for Q4 and in terms of cash flow this year? Thank you.

Marina Wyatt - *TomTom NV - CFO*

Yes. Firstly on the FX, to clarify, there is a slide in the presentation deck, in the appendix, that sets it out more clearly. But, broadly speaking, the impact of the major currencies on our gross margin percentage in Q3, if we stated that on constant currency, was negligible. So, there's little impact there. But, on the top line, because of the weaker dollar, our revenues, if they've been translated at rates from last year, our revenues would have been a few million higher. But, gross margin percentage, little impact.

Just in terms of the Q3 cash flow, the two things really driving the Q3 cash flow are the stronger operating result and also the positive inflow from working capital. And the drivers behind the positive inflow from working capital come in, if you like, the other liabilities line from the increased deferred revenue and also from certain increased accruals. So, deferred revenue, where the revenue will be released into the P&L over the next few years, and then some accruals which will turn into cash. And those are the two impacts there.

Marc Zwartsendburg - ING - Analyst

And could you perhaps shed a bit of light what we can expect in Q4 in that respect? Will we see similar or higher cash inflow like last year, or are there moving parts there that are different?
Marina Wyatt - TomTom NV - CFO

Yes. I mean, the key things that impact Q4 are the level of operating results, and you can read that through from looking at our adjusted EPS guidance. And then, on the working capital side, what I would expect there is that the impact will be very much smaller in Q4. So, read into that you won’t see a cash flow performance like you’ve seen in Q3. But, I think overall we’re very happy with how cash flow’s developed this year.

Marc Zwartenburg - ING - Analyst

(Inaudible.) Thank you very much.

Operator

[Josef Assaya], Barclays.

Josef Assaya - Barclays - Analyst

Hi, thank you for taking my question. Actually, I have three questions, but it’s short ones. So, the first one is regarding the market. If you can give us an update on what you think of the market for PNDs is, going forward. So, clearly it’s down 20%-ish this year -- sorry, this quarter year-on-year. How do you -- seeing progressing the next few quarters?

And the second one is if you can remind us of the current portion of deferred revenue from the live services in your P&L at the moment. And then, the third one is if you can just tell us how the changing retail landscape is having an impact on the way you manage your distribution channels for both PNDs and the new products, and how does that imply for your inventory management. Thank you.

Marina Wyatt - TomTom NV - CFO

Just in terms of the PND market, going forward, I think that at this point it’s difficult for us to give estimates of how that will develop in 2014. I mean, there’s a couple of things we should think about, looking firstly as our new products become more and more widely rolled out, and we’ll see more of that as we go through Q4. Also, clearly the impact of the advertising campaign, which is the first one we’ve done for a while. So, we need to look at how both of those develop, and we’ll take a view and give indications to you at the time of our Q4 results.

There was also a question about deferred revenue. And so, what Harold talked about before is that, in the deferred revenue balance, we are now deferring lifetime maps and lifetime services. When we sell the new generation of PNDs, or PNDs indeed bundled with lifetime maps or lifetime -- and-or lifetime traffic, we’re deferring anything from between 10% and 30% of the selling price at the time of making the sale. That ends up in the deferred revenue balance, and then that gets released through the P&L over a four-year period. So, that’s how that works. So, what you’re going to see, as that sort of ramps up, a gradual build-up of the deferred revenue balance.

The deferred revenue that we used to have in the balance sheet in the past, I mean, that’s still unwinding and will take some time to unwind, but that tended to be released over shorter periods.

Josef Assaya - Barclays - Analyst

For instance, in the third quarter results, there is basically no deferred revenue from the previous generation of live traffic licenses.

Marina Wyatt - TomTom NV - CFO

No, there would be -- there will be a small amount being released through, because we -- but it’s relatively small.
Okay, thank you.

Hans Slob, Rabobank.

Marina Wyatt - TomTom NV - CFO

Yes, let me take the working capital question first of all. Inventory is pretty low. It’s come down a lot. I don’t think there's an awful lot more that we can get out of that now. For receivables and creditors, that will reflect the level of business. It’s pretty tight, so I don’t think the underlying statistics will change too much on that. Deferred revenue will continue to build over the next few quarters.

Hans Slob - Rabobank - Analyst

Yes. And so, the balance of that would be more neutral or a slight outflow, you believe?

Marina Wyatt - TomTom NV - CFO

I would sort of plan on working capital being relatively neutral as we go forward.

Hans Slob - Rabobank - Analyst

Okay, thanks.

Marina Wyatt - TomTom NV - CFO

It can vary by quarter, but in terms of the heavy lifting, in terms of what we can do with those balances, I think they’re as tight as they can be.

Hans Slob - Rabobank - Analyst

Yes, clear. And on the licensing business?

Marina Wyatt - TomTom NV - CFO

Yes. Sorry, could you just repeat the question?
Hans Slob - Rabobank - Analyst

Yes. Well, the licensing business was really weak in Q3. It dropped 17%. Should we expect a decline with the same order for Q4, or do you expect an improvement?

Marina Wyatt - TomTom NV - CFO

There’s two parts to the licensing business, and that’s outside automotive. There’s a consumer licensing business, and there is also a licensing business which is a smaller part that is sold into governments and smaller businesses. Quarter-on-quarter, I think we will probably -- let me just double-check, but my feeling would be we’d see some modest improvement in that, but it’s not going to be a lot.

Hans Slob - Rabobank - Analyst

Okay, thanks a lot.

Operator

Johannes Schaller, Deutsche Bank.

Johannes Schaller - Deutsche Bank - Analyst

Yes, thank you for taking my question. Just two if I could. So, the first one on the European PND situation [where you] basically said revenues were already flat year-on-year in this quarter. Just if we could get a bit of an outlook here how we should be thinking about this, going forward, do you think you can actually grow revenues again in the European PND space? I mean, given you had just a few new product launches offering lifetime maps as well, is there maybe a bit of a positive, let’s say, one-off impact in here at the moment, or is that business really structurally much better than it was a few quarters ago?

And then, just quickly coming back to cash flow, just if you could help me understand, if you defer 10% to 30% of the ASP of a PND with lifetime maps, shouldn’t we not really expect more positive working capital inflows coming through over the next quarters from these deferred revenues? Because you seem to point to a rather kind of balanced picture for the next few quarters. Thank you.

Marina Wyatt - TomTom NV - CFO

Yes, let me just deal with the working capital question, first of all. I did say the deferred revenue will continue to increase over the next few quarters. Lifetime maps and lifetime traffic, yes, I’ve given an indication of the amount that gets deferred. The average is a lot lower on the deferral than 30%, so that balance will grow over the next few quarters by a few million each quarter.

But, I think, if you look at the other move -- the other items in the working capital, all I’m saying is they are running pretty much as tight as they can, and they will fluctuate somewhat between quarters. So, I don’t want to plan on -- I don’t want us to be planning on significant input coming from working capital as we go forward, given the performance we’ve had to date. But, deferred revenue will continue to benefit by a few million.

Johannes Schaller - Deutsche Bank - Analyst

That’s very clear, thank you.
Marina Wyatt - TomTom NV - CFO
Okay, I think your second question was about the PND market.

Johannes Schaller - Deutsche Bank - Analyst
In Europe specifically, yes.

Marina Wyatt - TomTom NV - CFO
In Europe. I mean, when we look at the underlying market, it's down. It's not down worse than we expected. It is down. But, there is quite a different picture between geographical markets. And so, when we look at some of the northern European markets, the bigger ones for PND, what we're seeing is lower levels of decline than we see in some of the Southern European markets.

So, what things can happen, going forward? Well, a recovery in the macroeconomic situation in some of the Southern European markets would have a positive impact. Our market share's grown quite a lot, and so we've had uplift from that.

So, I think, other than that, it's really looking at the impact of the advertising campaign, the impact of our new products as they roll out more widely. Can they give us the ability to improve the market overall, and can we improve our market share further. So, those are the factors we're playing with. But, as I said, until we've got through Q4, and until the time of our full year results, it's difficult to give color on exactly how that all mixes together right now.

Johannes Schaller - Deutsche Bank - Analyst
Okay, thank you very much.

Operator
Wim Gille, ABN AMRO.

Wim Gille - ABN AMRO - Analyst
Yes, hi. I've got two questions. First of all, related to your comment on your US market share, you said that -- and you're planning to start defending the US market share in a similar way as you've done in Europe, by let's say doing the lifetime maps and traffic, et cetera, there as well. But, can you give us a bit more color on the timing on when exactly are you planning to start defending that market share, because it's starting to become a bit of a worrying picture in the US. So, that will be very helpful.

Also, can you give me an indication on the percentage of units, PND units that you're selling that actually have an integrated SIM card at the moment, and how that developed over the past two, three quarters, please?

Harold Goddijn - TomTom NV - CEO
Yes, Wim. So, the -- thank you for the question. So, I think the situation in the US looks a little bit better than it [did], partly because the sports products are doing well, and the margins that we make on our PND products are healthier. So, we're looking at a profitable business in the US, but it remains a challenging market environment, especially for personal navigation devices. The market is down quite significantly.
So, the longer-term outlook for the PND market in the US remains challenging. We will bring the new products to the North American market as well. They’ve done very well for us in Europe. I expect positive effect from that North American market, as well, but that is not to suggest that we can turn the tide for the market as a whole.

Wim Gille - ABN AMRO - Analyst

And when exactly are you going to introduce the new products in the US?

Harold Goddjin - TomTom NV - CEO

We haven’t announced that, Wim, at this stage, and we will do that when we can [announce] it. Sorry [for that].

Wim Gille - ABN AMRO - Analyst

No problem. And the second question about the percentage of devices that have an integrated SIM card developing over the past couple of quarters?

Harold Goddjin - TomTom NV - CEO

Yes. So, that’s a low percentage. Those are really the high-end devices. They sell at EUR349, and that’s really niche products that we sell to drivers that use it a lot, travel internationally. It’s a fantastic product, but the absolute volumes in the segment are relatively small.

Wim Gille - ABN AMRO - Analyst

Okay, thank you.

Operator

Arun Rambocus, Kempen.

Arun Rambocus - Kempen - Analyst

Yes, good afternoon. Thanks for taking my questions. Two left. Again, a follow-up on the consumer business and the differences in trading conditions between North America and Europe. I mean, I’m just trying to understand why a similar situation as we see in North America wouldn’t happen in Europe. What is really different between those two marketplaces, and why are you so successful in Europe, and we see the reverse in North America?

And the second question is sort of on your guidance, sort of a quantitative question. Marina, as you mentioned, SG&A expenses were substantially higher year-over-year. So, what should we plug in our models going into the fourth quarter? Similar question for marketing expenses. Can you give us a number on those two particular items in the cost base? Thank you.

Harold Goddjin - TomTom NV - CEO

Yes. So, the markets are different, so PNDs in Europe start earlier. It’s been wider adopted in Europe also because of the nature of the road network and difficulties of finding addresses. The install base in Europe is (inaudible), so it’s a better -- that product expands [its] way into more cars. In
Europe, more people are upgrading, are happy with the user experience they get. And so, there’s a larger replacement market, a stronger brand, and we are actively encouraging repeat sales, as you can imagine.

I think the other factor is in Europe that we need to take into consideration is that consumer confidence has been very low. We’ve suffered from that tremendously, especially in Southern Europe. We could get a little bit of tailwind also in Southern Europe if the sentiment changes. There is a very direct correlation between consumer confidence and the number of products we sell.

In North America, the install base is smaller. The market started later, turned earlier, and so we see different market conditions.

**Arun Rambocus - Kempen - Analyst**

So, there hasn’t been -- you don’t fear a price war across Europe as you see in North America, basically?

**Harold Goddjin - TomTom NV - CEO**

Well, I think the prices in Europe especially are stabilizing. We’ve seen higher ASPs year-on-year in Europe. We also see that ASPs in North America are declining a lot less faster than they have done in the past, also some level of stabilization is taking place there. But, yes.

**Marina Wyatt - TomTom NV - CFO**

Okay. And question about -- you had questions about costs in the fourth quarter. The major delta in costs in the fourth quarter is in marketing, where the run rate will be significantly increased to what we’ve seen in the other quarters of the year because of the above-the-line campaigns that Harold talked to. So, that’s really the thing that will make a big difference to the OpEx. Otherwise, it’s there or thereabouts. G&A will probably come down a bit, but marketing will be significantly higher.

**Arun Rambocus - Kempen - Analyst**

Thank you.

**Operator**

Martijn den Drijver, SNS Securities.

**Martijn den Drijver - SNS Securities - Analyst**

Yes, good afternoon, one question, actually. Harold, in June, in an article you mentioned that it would make sense to split the B2B from the B2C business, and that not doing that [actually] has explained the share price at that point in time. You also mentioned that you’re reviewing all options, possibly including a spin-off of the business solutions division. Today we’re at EUR6, a little over that. Do you still feel the same, or has anything changed?

**Harold Goddjin - TomTom NV - CEO**

Well, first of all, I never made those comments. I think they were an expectation by a journalist from another journalist that never said that. So, I want to be firm there. What I’ve indicated is that there are various options for the business, but nothing has been specified, and we’re running the business as a (inaudible) concern with the -- and the strategy is there to [state that]. So, I’ve never said that, and I’m not saying that today.
Nevertheless, we are running -- we have four businesses. They're operating in their own environment with their own competition and in their own industries. Some of it are doing very well. We've seen -- particular in the business solutions space, we've seen some companies emerging with very high valuations, and I think that tells you something about the value of business solutions, but it doesn't say anything how we want to play that, going forward.

**Martijn den Drijver** - SNS Securities - Analyst

Okay, so no immediate plans, or even starting to look at options like the ones that -- like MiX Telematics or Fleetmatics have done?

**Harold Godijn** - TomTom NV - CEO

As I've said -- what I've said, and I think that makes it clear, we keep all our options open. It's a nice business. We can grow aggressively. And we know from previous IPOs that it's a valuable business, or potentially a very valuable business.

**Martijn den Drijver** - SNS Securities - Analyst

All right. Thank you very much.

**Bisera Grubesic** - TomTom NV - Investor Relations

Operator, are there any other questions?

**Operator**

We appear to have no questions at this time.

**Bisera Grubesic** - TomTom NV - Investor Relations

Thank you, Operator. I would like to thank you all for joining us this afternoon for the third quarter results call. If you have any follow-up questions at a later time, please don't hesitate to give us a call. Thank you all very much. Operator, you can close the call now.

**Operator**

Ladies and gentlemen, this does conclude the TomTom Third Quarter 2013 Results Conference Call. Thank you for participating, and you may now disconnect.