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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to TomTom's First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded.

I would like to turn the call over to your host for today's conference, Megan Daniell, Investor Relations Officer. You may begin.

Megan Daniell - TomTom N.V. - IR Officer

Thank you, operator. Good afternoon, and welcome to our conference call during which we will discuss our operational and financial highlights for the first quarter of 2021.

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.

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

Well, thank you, Megan, and welcome, ladies and gentlemen. Thank you for joining us today. I will briefly go over the key operational highlights for the quarter, after which Taco will provide further information on the financials as well as the financial outlook for the year.

We had a positive start to the year, and we showed solid progress in product development and attracting new customers. We launched TomTom Navigation for Automotive, which is our next-generation cloud-native, but also full hybrid, navigation solution. It's a unique product that lives mostly in the cloud, but also provides for an on-board map, which makes for a reliable user experience under all conditions, also when a data connection's unavailable.

With this release, we are bringing the user experience to a new level, and we are simplifying our operations. There's extensive support for electrical vehicle functionality and the new system offers flexible delivery through easy-to-use SDKs and APIs so that it can easily be integrated in any in-vehicle infotainment system. The product will be deployed by multiple leading carmakers.

The Mitsubishi Outlander showcases the new Mitsubishi new MI-PILOT, which incorporates TomTom ADAS map, specifically the information on road curvature and speed limits. This information allows the car's ADAS functions to actively adapt the vehicle speed, improving both driver safety and comfort.

We made progress in expanding our geographic database, which now includes nearly 450,000 charging points, and this enhances our offering for the fast-growing EV market. Using this information, we can now deploy routing technology that can optimize your route to save energy and guide EV drivers to compatible available charging stations within reachable range. This will reduce travel time and reduce range anxiety.

In the Enterprise segment, we closed new contracts and expanded our reach in both Fleet Logistics and On-demand mobility segments. We enjoyed a significant increase in the use of our maps APIs. Progress is particularly relevant when you look at the market opportunities we're targeting on the next slide.

We see location becoming an essential part of an ever-growing number of applications. By some estimates, 20% of all applications have a location element. Whilst our roots are in vehicle-based applications, which is technically the most demanding application, we see it as our role in the future to enable a much broader set of customer requirements.

We have early success in the Enterprise sector and we have managed to build a long list of triple A customers who rely on our content and technologies to bring location to their applications and platforms. We have a very talented technical team at work to improve the geographical coverage, attribution and freshness of our database on the one hand; and build leading services, like applications, APIs and SDKs on top of the data. And we see significant opportunity to accelerate those capabilities by using new sources and designing highly automated processes for quality control data ingestion, which eventually lead to a much richer database that we can build and maintain at lower cost.

As a result, we are building a rich set of products that offer our customers a powerful platform with tools, but also the freedom to innovate, while staying in control of customer and application data.

This concludes my part of the presentation. Thank you for your attention. I'm handing over to Taco.

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

Thank you, Harold. I will make some comments on the financials and outlook, and then we will go to the Q&A.

First quarter, we reported group revenue of EUR 131 million. Location Technology reported revenue of EUR 105 million, a year-on-year increase of 15%. Increase was offset by lower revenue from Consumer.

Let me go through the revenue business-by-business. Automotive IFRS revenue was EUR 63 million, an increase of 26% compared with the same quarter last year. The strong year-on-year increase in IFRS revenue is because of low comparative quarter. Q1 2020, included revisions to the estimated total contract value of some contracts to account for the impact of COVID-19. Automotive operational revenue was EUR 74 million in the quarter, a decrease of 8% year-on-year, mainly because of lower car production volumes. Automotive operational revenue is directly related to car production volumes.

Enterprise revenue increased by 2% from the same quarter last year, reflecting increased revenue from existing customers.

In the first quarter, Consumer revenue decreased by 34% to EUR 26 million, reflecting decreased demand as lockdowns across Europe continued.

In the first quarter, gross margin was 81%, in line with expectations and reflects lower hardware revenue in our sales mix. OpEx were EUR 121 million, a decrease of EUR 60 million compared with the same quarter last year. The decrease is mainly because of lower amortization as the Tele Atlas database acquired in 2008 was fully amortized in 2020. Excluding the impact of depreciation and amortization, underlying OpEx showed a year-on-year decrease of around 8% as a result of cautiously managing costs. The increased gross margin and lower OpEx resulted in a positive EBITDA margin of 6%, an improvement of 10 percentage points year-over-year.

The free cash flow for the quarter was an outflow of EUR 4 million, a decline of EUR 80 million compared to the same quarter last year. There are 3 main reasons for the year-on-year decline. The first is less cash collections in the quarter because of lower opening trade receivable balance when compared with the opening balance in Q1 2020. Secondly, we had a low operational gross profit in the quarter. Finally, these decreases were partly offset by lower variable personnel expenses in the quarter.

We reported a net cash position of EUR 352 million at the end of the quarter. Net cash decreased as a result of lower free cash flow and because of purchases of shares made under the share buyback program. During the quarter, we purchased over 2 million shares for a total consideration of EUR 17 million. The program has a remaining repurchase amount of EUR 16 million, which we expect to complete in the second quarter.

On the last slide, the outlook 2021. We are reiterating our full year outlook. For 2021, we expect group revenue to be between EUR 520 million and EUR 570 million and Location Technology revenue between \$420 million and EUR 450 million. We will continue to see year-on-year declines in our OpEx, driven by the decline of total D&A from EUR 285 million in 2020 to between EUR 70 million and EUR 75 million in 2021. Excluding D&A, our R&D OpEx is expected to grow to around EUR 330 million for the full year.

We started the year with a cash outflow. There's some seasonality in our cash flow, which is weighted to the second half of the year, particularly the last quarter of the year. This is due to the timing of certain customer payments. We are reiterating our guidance to generate free cash flow of around 6% of group revenue for the year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Marc Hesselink from ING.

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

Yes. Three questions. Firstly, the Enterprise client that you won over the quarter, could you explain a bit more, like why did you win this contract? And was that being the alternative to Google? Or was there anything particular why you were chosen for this one?

Second question is the launch of the TomTom Navigation for Automotive. How will this ramp in your business? How many clients are already taking this? And how do you expect it to evolve over the coming years?

And the third question, the semi shortage in the automotive chain. You're being paid when the car is being produced, so how is this impacting you? And do you see it yourself? Or is this more something that should you see in the sector? And you expect it to impact you as well, but you're not really seeing it yourself?

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

Yes, Mark, thank you. Yes. So the customer in the Enterprise sector I was referring to is in the mobility On-demand sector. Can't disclose the name. But in mobility On-demand, it's very important that you have control over your core technology to allocate drivers to cars and passengers and whatnot.

Those are hard mathematical problems, you need to have a good tool set and good data to tackle that. Those companies typically spend an awful lot of time and effort and energy on optimizing those algorithms because they do have a direct effect on service levels, customer perception and so on and so forth.

We can provide those companies with the tools they need to build those services and to optimize their operations. And the tools we're providing is, of course, the maps and navigation attributes, but also speed profiles, traffic information, routing algorithms, POIs and so on and so forth. That is a combination of those data and tools is what we believe pulled this particular customer over the line into the TomTom family.

Second question about TomTom Automotive Navigation. So fairly unique. We are now, according to our own estimate, the largest vendor of software in vehicles. And we have built a -- of course, it's our heritage. We have invented the category at the time, the navigation category. We have built on our heritage.

This is the last iteration, which solves a hard problem for carmakers, and that is availability. So everybody wants to go online, that's fine. What do you do when an online connection is not available? And that can happen when the car is out of reach in the parking garage or in areas where there is no mobile phone coverage whatsoever, and you still want that car to work properly. And this hybrid solution offers a very elegant solution to this problem, and we're very happy that 2 of our customers have decided to move to this next generation for future implementation.

Last question, if I understood it correctly, Mark, is how did chip, silicon shortages in the automotive supply chain affect us. Is that the correct interpretation of your question?

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

Yes. If you're actually seeing that, yes.

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

Yes. So we have seen it. It's anecdotal, we don't have hard numbers. But we have seen reduced demand and shortages compared to the original plans from our OEM customers. As a result of 2 effects, combined effect of a pandemic that is there for longer and more severe than we had already anticipated at the beginning of the year, but also chip shortages.

How exactly -- how big the problem is, it is not that easy to distill. It's anecdotal. We know it's happening, but we don't know how severe the effect is. But yes, it did have a negative impact on the number of cars that were produced during the quarter.

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

Okay. Clear. Maybe a short follow-up on the Navigation for Automotive, 2 clients using it. How expect -- do you expect this to ramp for other clients? Given that it's a superior solution, do you expect quick adoption by those clients?

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

Yes. Typically, carmakers will go for the latest and the greatest. So I see a good future for this line. The early sign up by the customers I referred to will help us also, of course, to harden the product, see it operating in the wild, which will help both from a product design development perspective as well as credibility perspective.

So I see a good future. And I expect that, over time, this line in our navigation portfolio will overtake all our other products in the automotive space. How long that will take is less certain. There is inertia. You know as well as I know that design cycles are notoriously long in the automotive world. But definitely, yes. Over time, this will overtake everything else that we're doing.

Operator

Your next question comes from the line of Francois Bouvignies from UBS.

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

My first question was a follow-up actually on this Navigation for Automotive and cloud-native solutions. So how do you price and how do you sell this product in terms of business model? Would be very interesting to know how the value is compared to the old products. And maybe, yes, how do you price that to the customer? Would be very helpful to understand.

The second question is on the automotive market. We are post in a pandemic, or hopefully, post pandemic era. So I was wondering how you see the market in terms of deals available for the market as a whole from a qualitative perspective. And how you see the position there. Because we see a lot of, like we talk every quarter, the newcomers and especially Google. Do you see them getting some market share over you in the near future or at the moment as we speak? So that's my second question.

And the last one, I will ask after, maybe. If you don't mind.

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

Yes. Pricing, let's start there. So we have a lot of customers, a lot of products, in the automotive industry. Not every client is taking the full stack of what we're doing. So some customers take traffic information, other customers take maps and other customers take the whole full stack, which is a combination of software services, content, integration services where needed. And I think part of the strategy is to include and stack those services and those products to a full stack navigation product, which we can -- for which we can command better prices and for which we have better pricing power.

So as a result of the success of this version of our software, we hope that we can convince more of our clients to go full stack for the TomTom solution. And that will have a positive effect on unit price, so value per car shipped, which is a good thing.

If I look at the overall type of money that's available for a full stack solution, I don't expect the total value to go up significantly. I think that has been stable for quite some time. What I've said and what we see, again, is that the overall price is relatively stable, but we need to throw in more stuff in order to justify that price. So there's a constant battle to deliver more services, better user experience. And in return, we see good ability to hold on to pricing and pricing that. So I think that's the way to look at it.

But a good product and a good software product which delivers a good user experience is the most important thing we can achieve in order to improve pricing power. And we see positive results of this move to full hybrid and full stack.

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

And Harold, just if I may, I mean, how much is full stack, I mean, of your products? I mean, can you give any numbers around that to get an idea of maybe what the opportunity is in terms of percentage of your customers today? I mean, could be in value or units. Whatever you have would be helpful to know.

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

I don't have that. But I can definitely have a look if that a type of information we can make available. I don't know, to be honest. I have a number in my head. I can't disclose it at this stage. We need to have a look at that.

But it's definitely true that not all of our clients are taking the full stack. Just to give you an example, we have, in traffic information in Europe, about 80% market share; in North America, we have about 40% market share in the automotive sector. And that's more -- much more market share than we have in full stack solutions.

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

Okay. That's clear.

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

Yes, and are we post-pandemic? I really don't know. To be honest, when we started the year, I hoped that we will be post-pandemic now. We're not. And I think the general expectation is that, that will happen before the summer. But I'm not going to bet the shop on that, to be honest.

And we still see negative impact for our business of the results of the pandemic. I think for the workforce, it's starting to be difficult. I think we got through it really well, and our people showed a lot of resilience and engagement has been extraordinary and collaboration has been really good.

But now I think we are entering a period where it starts to get less cool to work from home. And I think we need now to go and prepare for a period when we start seeing each other, where we have a free flow of ideas, exchange of information, when we start seeing customers and so on and so forth.

So I really hope that in a couple of months from now, we can see that happening. That's important. It's important that we get more detail on what our customers are thinking and doing and how they're planning. And it's important also that car sales will go up. I think there is pent-up demand. I think we can see a strong recovery when everything is back to normal. And I can't wait for that moment to happen. But we're not in that period yet.

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

And in terms of deals available? I mean -- and your position in terms of winning rate, in a way? How...

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

Yes. difficult to say. I'm always careful, I don't want to speculate. It's lumpy. You win or you lose, you never know.

If I look at the overall opportunity this year, I think there is significant amount of business available, I think we're well positioned. But I prefer to give you information on our win rate when the deal is done, won or lost. But it's not a good way of looking at the business on quarter-to-quarter, which deals you win. It's just not the nature of the work we're doing. So I think I feel comfortable giving regular updates about the overall product and order backlog and whatnot. But it's much harder to give you a steer on our ability to win those deals.

There's enough around this year, that's not a problem. We're working hard. We're powering on all cylinders. I think we're building a good reputation for product, for service, for being a reliable partner to our Automotive customers as well as to our Enterprise customers. And I think that when it comes to nominations, all those things will play in favor, but we can only do that when we've actually won that nomination.

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

Okay. That's very clear. And maybe if I can squeeze one last one is, I asked you this question last year, if I remember correctly, it's around Enterprise. And in the last 2 years, you have been very active, I would say, and maybe more than people expected maybe yourself because you compete, obviously, much more with Google in this market than in Automotive. And you have been winning a few deals recently in the last 2 years, and you announced furthermore with this new mobility On-demand customer that you can't disclose.

So I'm going to ask you the same question, really, is, do you see any structural change in the last 2 years? It seems that the business is accelerating for you. So just trying to understand, what is behind that? First, if it's true. Do you feel that way as well? And second of all, why is that? Is it because of TomTom products? Is it because of Google? Anything you can share would be helpful about your insight. And I will stop here.

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

Yes, sure, Francois. Look, location is terribly important, and it's becoming more and more important. And there's a lot of applications and services that, in one way or another, depends on navigation -- or location. And that's not going to stop.

Now of course, Google is a formidable competitor with a distinct business model which makes it hard to compete. But where we can compete significantly, where we can make a real difference, is in 2 areas.

First of all, we are providing a much more flexible service. If you want Google services, you need to take their APIs, and that's what it is, and you can't do anything. And for a lot of companies, that's just not good enough. They need a lot more flexibility, what we call, they need freedom to be able to innovate. And they need to be in control. We're part of primary processes that have a direct impact on customer experience, operational efficiency and profit as a result. So you need to be able to offer that level of flexibility.

And the second thing where we have a distinct business model, is that we don't care for application data or customer data. We're not competing. We're not using that information to compete or gain market insight to compete at a later stage. And that gives peace of mind. And that allows us to do to strike deals and have relationships with our customers that are difficult to develop if there's always a hidden agenda or the possibility for a hidden agenda.

So those are 2 big parts of where we can differentiate and how we can compete.

Now the third element is that we want to build a much better product, and I think we can. There's a lot happening in underlying technology, cloud technology, in computer vision, in availability of all sorts of sources that we can use to build and maintain that map; deeper collaboration with our customers who are willing to share their data with us at a platform level and want us to offer an alternative to the companies we just mentioned.

So our ability to process that get a hand on that information that's increasingly available, harmonize it, standardize it, do the quality control, deploy those new technologies that will make it easier to collect data from vehicles, from smartphones and so on and so forth. The combination of that should take us into a world where mapmaking becomes a more automated process.

We have achieved a high degree of automation, but it's mostly automation of manual tasks. And we are going into an area where it's the other way around. Where there are so much data and sources available that can be integrated, that really ask for a rethink of how we put data together in the database. And that should help us to build a database that's richer in content, fresher, that covers more geographies and that can, as a consequence, be used for a lot more applications than we can serve today. That is where we're working on, and I'm happy with the progress we're making in that field.

Operator

(Operator Instructions) Our next question comes from the line of Anne van Lie Peters from ABN AMRO Bank.

Anne van Lie Peters – Senior Equity Sales ABN AMRO Bank.

It's Anne van Lie Peters from ABN AMRO Bank. I'm calling on behalf of Wim Gille, who cannot make it today. Apologies for that.

I looked at the results. And I think also from previous discussions, you have a very strong balance sheet. Sort of what does your ideal balance sheet look like?

And moreover, also in terms of the expected cost in a post-COVID world, how would you see sort of your expenses evolve in the coming, yes, 1 year, 1.5 years, ahead?

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

Yes. Thank you. On the balance sheet, yes, we're in the middle of a buyback program, of which, 2/3 has been completed and 1/3 is still to go. We'll take stock after that has happened, but there are no immediate plans after that.

So what is our ideal balance sheet base? We're quite comfortable with the situation that we're in now. And again, we don't have any immediate plans to launch another buyback or scheduled dividends or anything like that.

On the cost structure, the like-for-like, you see material decline compared to last year that is very much related to the fact that, last year, we were not in the dynamic phase. Or at least 2/3 of that quarter, we were still in the clear, and there were quite a lot of marketing and travel and other things going on. So that is -- that explains the reason why OpEx was low in the first quarter.

As Harold already explained, answering some of the other questions, is that as a company, we will start to ease policies around marketing activities and travel, et cetera. So we expect that in the coming period that, the cost will go back to more normal, and that will start to have an effect as of Q2. But everything in line with our previously made expectation on cash generation and our free cash flow yield.

Megan Daniell - TomTom N.V. - IR Officer

Operator, if there's no further questions, I would like to thank you all for joining us this afternoon. And operator, you may close the call.

Operator

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

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