THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TOM2.AS - Q4 2018 TomTom NV Earnings Call

EVENT DATE/TIME: FEBRUARY 06, 2019 / 1:00PM GMT

CORPORATE PARTICIPANTS

Bruno Priuli *TomTom N.V. - IR Officer*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

Martijn P. den Drijver *NIBC Bank N.V. (ESN), Research Division - Head of Research*

Peter Olofsen *Kepler Cheuvreux, Research Division - Analyst*

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

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to TomTom's Fourth Quarter and Full Year 2018 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded.

And I would now turn the conference over to your host for today, Bruno Priuli, Investor Relations Officer. You may begin.

Bruno Priuli - *TomTom N.V. - IR Officer*

Thank you, operator. Good afternoon, and welcome to our conference call, during which we will discuss our operational highlights and financial results for the fourth quarter and full year 2018.

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

Yes, thank you, Bruno. Thank you, and welcome, ladies and gentlemen. 2018 was an important year for TomTom as we decided to divest Telematics to become a more focused-location technology company with clearer priorities and a simplified operating model. This resulted in the sale of Telematics to Bridgestone for a purchase price of EUR 910 million.

We're delighted to have found in Bridgestone a buyer that recognizes and respects the talent and skills in the team and intends to foster and grow the Telematics business further. At the same time, we can focus on remaining business and develop our location technology business to its full potential.

The transaction with Bridgestone is subject to customary closing conditions, including the relevant regulatory approvals, consultation with employee representative bodies and the approval of TomTom's shareholders. We expect to close the transaction in the second quarter of 2019.

The majority of the proceeds, EUR 750 million in total, will be distributed to shareholders by means of a capital repayment combined with the share consolidation. We expect the capital repayment to be executed in the third quarter of 2019.

We continue to strike important partnerships and collaborations with other technology leaders and the recent extension of the partnership with Microsoft is another proof point of the competitiveness of our product portfolio. Our location technologies and map data were chosen to power all of Microsoft's consumer-facing services. And this is an extension on the 2016 agreement that covers the partnership for developer-facing products and services.

At CES, we announced a new collaboration with DENSO. Our HD Map will work in combination with DENSO's in-vehicle sensors, such as cameras and radars, to power the localization, perception and path-planning functions for a complete autonomous driving system. On adaptation, we will have a system in place that allows to start collecting crowd-sourced camera data for map maintenance and map creation purposes.

Automotive operational revenue continues to show strong growth, totaling EUR 317 million in 2018, a year-on-year increase of 31%. The increase is mainly due to new contracts that started during 2018 and higher volumes from existing contracts. We expect Automotive revenue to continue to grow.

New order intake exceeded EUR 250 million in 2018. It was a good year. We converted most of the opportunities that were available to us. But as previously indicated, there were fewer RFQs in the market compared to 2017. The level of bookings across previous years is a good indication that we're on the right path.

In the next slide, I'll give you a short update on our strategic priorities. To keep the positive momentum, we'll accelerate our investments in strategic areas whilst generating cash. The investment areas are: a further improvement in the efficiency and sophistication of our mapmaking system; class-leading products and services for the automotive markets, and that includes maps for automated driving; and finally, Maps APIs for developer products.

Following the developments of 2018 in the automotive markets, we are in active discussions with carmakers to develop in-vehicle continuous releasable software that we think end users will prefer to use over mobile phone direct systems. We're excited with the progress we've made and excited with the opportunities that are ahead of us.

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

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

Thank you, Harold. Let me make a couple of comments on the financials and then we go to the Q&A. As we're in process of divesting Telematics, we have provided full disclosure on continuing, discontinued and total operations, including the reconciliation between continued and discontinued operations in the appendix.

The consolidated statements of income and balance sheet is provided for continuing operations only. The net assets and liabilities of Telematics are presented in a separate line named assets and liabilities held for sale.

In 2018, we reported revenue of EUR 687 million, which is 7% lower compared with last year. The decline is due to our Consumer business. Location Technology revenue increased 12% year-on-year to EUR 372 million.

Let me go through the business one by one. Automotive revenue totaled EUR 245 million, a 25% growth year-on-year, mainly due to new contracts that started during 2018 and higher volumes from existing customers.

As already explained by Harold, Automotive operational revenue increased by 31% year-on-year to EUR 317 million and is now our largest operational revenue stream.

Enterprise revenue was EUR 127 million, which is 7% lower compared to last year. The decline is mainly caused by a revenue recognition of one-off in 2017. Consumer revenue decreased by 23% year-on-year to EUR 315 million.

Gross margin in 2018 was strong at 69%, increasing by 9 percentage points year-on-year.

Total OpEx for the year were EUR 472 million, a EUR 45 million increase year-on-year. Both years were impacted by one-off items. In 2018, we recorded the one-time gain of EUR 22 million from litigation settlements, and 2017 operating expense included a EUR 41 million restructuring cost and asset disposals. Excluding these one-off items, the underlying operating expenses showed a modest year-on-year increase following a higher spend in our map activities.

2018 EBITDA increased by 63% year-on-year to EUR 142 million, with an EBITDA margin of 21%. At the end of 2018, the group has no outstanding bank borrowings and reported a cash position of EUR 252 million.

Our deferred revenue position is now EUR 281 million. Automotive and Consumer maintained their trends, meaning with Automotive up with EUR 74 million to now EUR 172 million and Consumer down EUR 25 million to now EUR 91 million.

I would now like to comment on the 2018 guidance in the next slide. We beat our guidance for 2018. Revenue for total operations, which includes Telematics, totaled EUR 861 million in 2018, more than 7% higher than the initial guidance of EUR 800 million for the year. Both our Automotive business as well as our Consumer business outperformed our initial expectations.

As our operations improved and our revenue derived from data, software and service increased, we're also able to have a better gross margin for the total operations, reaching 71%, just above the 70% outlook initially forecasted. Adjusted net result for the full year from total operation was a profit of EUR 83 million, which translates into an adjusted earnings per share of EUR 0.36. This is EUR 0.11 above the initial outlook of around EUR 0.25.

Let's now move on to our guidance for 2019 on the next slide. In 2019, Location Technology revenue is expected to grow by around 15% year-on-year. The increase is explained by high take rates and a ramp-up of existing contracts in Automotive business and the recently announced extension of partnership with Microsoft, which has a positive impact for the Enterprise business.

Consumer is expected to continue to decline with more than 20% year-on-year. We expect gross margin to be at least 70% in 2019.

In terms of OpEx and CapEx, we have decided to accelerate spend by around 10% year-on-year to further improve the efficiency of our mapmaking system and advance our competitive position in a constantly changing market.

Adjusted earnings per share will now also be adjusted for acquisition-related amortization on a post-tax basis. And we expect the adjusted earnings per share of around EUR 0.15 in 2019. And for comparison purposes, the 2018 adjusted earnings per share from continuing operations in the new definition totaled EUR 0.32. Part of the year-on-year decline is explained by the continued decline of the Consumer business, which has approximately EUR 0.10 impact year-on-year.

We're also introducing free cash flow as a percentage of revenue as a new KPI in our outlook this year. We expect to generate free cash flow before financing activities of around 10% of revenue.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Francois Bouvignies.

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

My first question is on your Automotive bookings. And especially for 2019, could you give us some color on how do you think 2019 as a market overall? I'm not talking about TomTom specifically, but how is it trending versus '18 and '17, to get a sense of the dynamic that you see there?

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

Yes. We can see -- it's always difficult, of course, to make an exact prediction of total value of RFQs that will come to the market. But we do believe that the total opportunities to which we can participate and pitch will be higher than in 2018.

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

And versus '17, I mean, which was a very good year, do you think it's going to be the same kind of magnitude or...

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

It's hard to say. So 2017 was an extraordinarily good year. Of course, there's an order intake of EUR 400 million so a good conversion rate, good success rate. It's hard to say. I think the total opportunities will increase compared to 2018, and there's potential for higher order intake than in 2018.

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

Okay. And if we look back a bit in 2018, I guess one of the big highlight is the Google Android Auto is coming and getting some deals. Do you expect them to get further deal in 2019? Or they're still relatively quiet, or I mean, you don't see that as pushing hard into 2019?

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

Well, it's difficult to make general comments on that. What we do see is that carmakers are actively engaging with us to see what the future of in-car navigation/infotainment should look like. There is a willingness to explore new routes, there's a willingness to explore new business models, and there's a willingness to explore new UX concepts that pay tribute to what's happening in the vehicle. And there is also a desire to stay in control over the user interface. So we've noticed that, that has led to a number of interactions with carmakers, explorationary sessions to look at what's possible. And I think we will come up with some interesting ideas in 2019.

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

But if you look at, I guess, when you said in Q3 that it was a wake-up call for the industry, I mean, do you see as well a change of behavior since Google got some new contracts? Meaning that you feel your customers are also exploring more Android Auto than in the past because it's something that shakes up the industry?

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

Well, I think that what I said it's a wake-up call, I think we see that translated now in interactions with the auto industry. So -- and a question then is what is the alternative? What can we do? What are the options? Obviously, we can keep going in the way we are going, but are there other operating models for the auto industry together with the suppliers to come to a different way of delivering software into the dashboard? I think that's very exciting, and I think that's happening because of what I described last year as a wake-up call.

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

Okay. And maybe one word on your HD Map. How should we think about your contracts in HD Maps? Can you give us more clarity of -- should we expect the contracts in the auto bookings in HD Map this year? What kind of business model and ASP should we look at for this HD Map?

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

Yes, I think we -- it will be very disappointing if we don't do deals in the HD Maps space this year. So I -- we have a number of opportunities lined up. I think it'll happen this year for delivery in -- towards the end of 2021, 2022, I think we will see TomTom HD Maps showing up in some systems for automated driving.

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

And do you think there's going to be meaningful contract sizes for your auto bookings, like visible? Or it's too early?

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

That will be visible. It will be relative to the traditional business, it will be a small number, but it's certainly meaningful and is the beginning of a new line of products if you like. And what we would like to see, of course, that, that take up will kind of developalong the lines of we've seen for traffic, where you have a relatively slow start, but once you have -- once it's accepted and it works, then theadaptation rate will go up quickly. And I think that will happen. I think we're in a good position to land some of those deals and to start translatingour market -- our product position also in a real market position.

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

And how should we think about the business model then? I mean, if you get closer to signing some contracts, is it like subscription per kilometer, per use? How should we think about that?

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

You should think about it as an annual fee for having access to that feed per vehicle.

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

Per vehicle. And in terms of the ASP per car, I mean, previously, you said it was significantly higher. Can you give more color now whether it means significantly higher?

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

Yes. I think it will be higher. What you also will see is that, initially, it will end up in Level 2 systems. And then depending on the technical advance, more and more of that feed will be used, and you get a higher level of fidelity in the map data and in the reliability of the map data. So I think it will be -- it's difficult to say exactly where it will end. But I think it will be a significant fee per car per year that will grow quite quickly over the next years.

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

And do you see Google as well in this market with HD Maps or not really...

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

Well, they seem to be taking a different route. And that is more the robo-taxi approach, which is fundamentally different from what the car industry is trying to achieve. So in the robo-taxi context, you're talking about reduced, limited geographical area. And also, per car, a very high investment into hardware technology. And that's okay because those cars are then used for -- with a much higher intensity than a normal car. For the car industry, you need to follow a different model because there's no way to charge for -- to end users for a lot of hardware. So it needs to be -- it needs to follow a different path. So I think -- for the immediate future, I don't think -- we don't see any signs that Google is entering that market space. So I think we have a clear runway here for years to come. We're not the only ones in HD Maps. Obviously, it is still a competitive market. But I think that we are designing our products along a different path than what you see in the robo-taxi sphere, and those markets will stay separate for quite some time.

Operator

We will now take our next question, and this comes from the line of Peter Olofsen.

Peter Olofsen - *Kepler Cheuvreux, Research Division - Analyst*

It's Peter Olofsen with Kepler Cheuvreux. My first question is around the combined OpEx and CapEx, where we have seen the total investments trending up in recent years, and based on your guidance, there will be a further step up in 2019. Are you comfortable with the level foreseen for 2019? And will it stay at that level? Or may we see even a further increase beyond 2019? And then Enterprise, where the extension of the Microsoft contract will drive further growth in 2019, how should we look at the revenue dynamics there? Will it gradually ramp during the year, or will there already be a meaningful impact in the first quarter?

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

I'd like to take those, if it's okay, Harold. Let's start with the latter, Enterprise, that Enterprise contracts are normally value-based and then most of the time, spreads out of the lifetime of the contract on a linear basis. So to come back on that question, you will see the benefits of the discussed tailwinds already happening in Q1 in its full extent. And then it will find a new normal if you like. On OpEx and CapEx, there are 3 things happening here. One is that it's our decision to invest more than we have done in the past in our mapmaking capabilities, in our capacity to continuously release software, in our quality of our services like traffic. And with signing up important automotive but also increasingly Enterprise customers at this -- our role and our job and our willingness to spend more in these areas. The second, the mix between OpEx and CapEx is a reaction of the fact that we have more and more platform approach where our content and our software is continuously releasable. So before, you had a more staggered approach where you say, "Well, I'm working on a new software release, and as long as I'm working on the software release, I capitalize it, and after that, I will start to amortize it." These will become one. And that will mean that I expect that in -- it already happened in '18, but it will continue in '19 and probably also in 2020, that mix between what is classified as OpEx and CapEx will continue to change where more and more will be seen as OpEx. Then -- and now there are element that we need to take more to so that also the IFRS 15 and IFRS 16 accounting led to reclassifying some of the work and of course, that are normally seen as CapEx as now as contract assets. These are released via the cost of sales line, but there's a bit of technical element in this. The second part of your question was -- is if we foresee this trend to continue. As always, I would say, well, it's a bit early in the year to already start to talk about 2020. But on the other hand, we hope that if we can continue to sign up more customers, that we also have the room to continue to invest more in our platform, but for a proper update, I'm afraid you have to wait 12 months.

Operator

And we will now take our next question, and this comes from the line of Wim Gille.

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

Wim Gille, ABN. I got a couple of questions. First on the Automotive business. In order to have a bit of a feeling on how to compare the EUR 250 million order intake versus the EUR 400 million that we reported in 2017, could you give us a bit of a feeling what the level of RFQs was in '18 versus '17, i.e., you reported a decline of roughly 1/3 in your own order intake? Is that in line with the decline that we've seen in the general market? And can you give us a bit of a feeling on how you feel your market share has developed in 2018 with respect to the order intake compared to 2017? That will be my first question. The second question is also on the orders in the Automotive space. HERE International already announced that they won 2 contracts -- traffic contracts for Daimler and Audi somewhere in January. Both companies were previously traffic clients of TomTom. So can you give us a bit of a feeling what happened in these 2 specific cases? That is my second question. And then my third question will be on the OpEx versus CapEx discussion. If I look at your accounts for the fourth quarter, I see only EUR 9 million in CapEx in the fourth quarter versus a previous run rate of high EUR 20 million. So is it correct to assume that the fourth quarter results already fully reflect the shift from CapEx to OpEx?

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

Can I start with the last question?

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

Yes.

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

So Q4, yes and no. So yes, indeed, that is a reflection of our continuous assessments on how to classify our spend, and it is also driven by industry standards, but also what we see -- what's happening with peers is that there's trend if you move towards software-as-a-service or product-as-a-service business, then at a certain moment, then the mix between OpEx and CapEx is changing, and we think we're getting there. And in Q4, we have done a specific assessment that led to reclassification of some of the spends that affected especially Q4. So I would not use the Q4 run rate as a run rate for full year because then 4 x EUR 9 million, it doesn't bring you to EUR 55 million, as we have guided for full year, but it is indeed a clear indication of the new trend. Then on the...

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

May I -- just to fully clarify this, so I do understand the EUR 55 million divided by 4 is whatever EUR 13 and a bit million. But if I look at kind of how you kind of positioned it in your press release, how you compare the EUR 55 million to a number of EUR 77 million, but that's not entirely correct because if I want to compare apples with apples, the EUR 77 million number in the old accounting or the old way of looking at your spend would not have been EUR 77 million but would be closer to EUR 97 million, excluding Telematics. I.e., if I look at kind of the underlying change in OpEx versus CapEx, the shift is probably more that you are shifting somewhere between EUR 40 million and EUR 50 million from CapEx to OpEx in the new guidance. Is that the correct way of looking at it?

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

Yes. It's a correct way to see it.

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

On the order intake?

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

On the order intake, your question was about the opportunity that was there in the market in 2017 and 2018. I think that the market opportunity was a lot bigger in 2017. So we have comparable win rates both in '17 and '18. I want to point out that we have gained market share in Enterprise. I think that is the call out that in Automotive 2018, our market share stayed relatively flat.

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

Very good. And then Daimler and Audi?

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

Yes. I think the -- I've read the news as well. We are still supplying Daimler and Audi, but we are expecting, indeed, that in the future that the opportunity to sell our traffic products to those 2 customers will be limited. I don't think they will go away completely. Our traffic product is better and has a different geographical coverage as there are certain countries where we offer traffic, and there is no competing offer from HERE. So I think we'll continue to supply those customers but not 100% anymore.

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

And that's been reflected in your outlook?

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

Yes. It's reflected in our outlook.

Operator

And we will now take our next question, and this comes from the line of Martijn den Drijver.

Martijn P. den Drijver - *NIBC Bank N.V. (ESN), Research Division - Head of Research*

Martijn den Drijver, NIBC. The first question is on Automotive in the outlook. I know it's a combination of Automotive and Enterprise. But assuming significant growth for Enterprise, it seems like your outlook for growth in 2019 for Automotive is subdued, I would say, let's say, 10%, 12%. Is that just due to a lumpiness of contracts? Is that due to a loss of contract and loss of share of wallets? It can't all be due to the accounting of such contracts. So that would be my first question. The second question is about mapmaking progress -- process. You're say -- indicated you're going to invest in further efficiency. The current platform has reached maturity. What exactly are you going to invest in? And what's going to be effect in terms of the speed and freshness? And when will it take effect? And what will that do to OpEx? And a more difficult question related to that is, how do you think you stack up versus HERE at the moment? And what you -- and in your relations, what you're going to do? How do you stack up? Third question, has there been some sort of impairment in the fourth quarter because D&A was high? I know it is usually very high in the fourth quarter, but it was really high in this particular quarter. So maybe you can give some guidance as what to expect for D&A in 2019, just to get that clear. And my fourth question and final question is, there has been -- there have been a few new entrants in much-talked-about Mapbox, DeepMap. I know they're not in automotive, although they're making some noises about automotive. But where do you see these competitors? Do you see them as a real threat? And what are you doing to deal with that? I'd like your comment on that.

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

Okay. Let me take the financial ones if I still remember them. The amortization in -- or D&A in 2018 was EUR 141 million. D&A, especially in Q4, was indeed a bit higher than the run rate that we saw throughout the year, it was EUR 41 million. So -- but that's not -- that's quite normal because the -- in Q4, you do deep assessment of everything on your balance sheet. And that sometimes tends to -- lead to a bit more D&A, but I don't think it is out of the order. I mean, at the end of Q2, we had EUR 35 million. And now we -- at the end of Q4, we had EUR 41 million. So it's not significantly different. In 2019, we expect our D&A to be lower, trending with also decline in investments. So that we expect that to be roughly EUR 130 million. And the D&A in 2017 was EUR 160 million. So you had EUR 160 million in '17, EUR 141 million in '18 and then EUR 130 million in 2019. Going back on your question on the difference between IFRS revenue, Automotive and operational revenue, what you -- yes, what you need to bear in mind is, indeed, what's happening on the balance sheet. So deferred revenue was, at the end of 2017, EUR 50 million for Automotive, that grew to EUR 72 million. So that's an increase of EUR 22 million. And we expect that the increase will be bigger in absolutes in 2019. So that it will be at least EUR 30 million. So that also has an effect.

Martijn P. den Drijver - *NIBC Bank N.V. (ESN), Research Division - Head of Research*

Okay. But there's no contract loss already taken into account in the guidance for 2019?

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

No.

Martijn P. den Drijver - *NIBC Bank N.V. (ESN), Research Division - Head of Research*

Okay. All right. The other question was with regard to the mapmaking process.

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

Yes. So what you see in the mapmaking process is that -- so mapmaking used to be a very labor-intense activity where you had to go out and collect data, process the data. The nature of mapmaking is changing fundamentally. More and more data is available in open-source format. And it is our ability to process and harmonize the data quickly and cost effectively that is driving the efficiency of that mapmaking process. There are new technologies becoming available, image recognition, artificial intelligence that are both -- used both for traditional mapmaking but also for high-definition mapmaking where you can achieve fantastic improvements in efficiency, but of course, you need to invest in engineering and in software capability. So the trend you see in mapmaking is that more and more is automated, and we are reducing labor manual -- manual labor. And we are shifting to software engineering to automate more tasks of mapmaking. Now what you see as a net result is that our maps are getting richer and cover more geographical area. The productivity is going up significantly. But at the same time, the demand for accuracy and attributes of maps is also going up. So it's a bit of a -- you need to achieve those higher levels of automation and efficiency in order to keep up with the customer expectations as well.

Martijn P. den Drijver - *NIBC Bank N.V. (ESN), Research Division - Head of Research*

But is this a 1-year program? Is this a 3-year program?

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

This will never stop. There will always be ways to improve, to go faster, to be more efficient. I think we have a big chunk of work behind of this in laying the foundation of a transactional mapmaking system, which is very unique in the industry, that's there. But the real efficiency gains can still be achieved by further automation of the process of mapmaking itself.

Martijn P. den Drijver - *NIBC Bank N.V. (ESN), Research Division - Head of Research*

And last question on this subject. How do you think you stack up versus HERE? Are you trailing? Are you in front in this particular...

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

No. I think in terms of efficiency and speed, I think we are leading. You see that also in the recent contract win of the Bing Maps. You see that with all deals as well. The speed at which we can do things and the transactional nature of our mapmaking platform, the quality of the data are all in - we're in a very good shape. And we don't lose anything because of map quality, is to contrary when we win, it's often because of the way we -- how we deliver maps and how fast we can react, flexibility of introducing new sources that customers often care about. So it's a very flexible, cost-effective and fast system. And I think that's what our customers like.

Martijn P. den Drijver - *NIBC Bank N.V. (ESN), Research Division - Head of Research*

Right. And the last question on competitive pressure or what you see with Mapbox, DeepMap and other new entrants?

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

Yes. It is -- you see that's happening. You see the open-source activities as well. And of course, we follow that closely. We see if there are lessons to be learned and how we need to react and move. So we definitely keep an eye on it. We're not always competing. We're also collaborating. I think in terms of the core SD Map and HD Map, we're in very good shape, and we don't need to be worried about anybody, but we also can't sit still and pretend that the world's not happening. So it is a dynamic place. It's a competitive world. And -- but I think our team and our products and our technologies are all in good health and very competitive.

Operator

And we will now take our next question, and this comes from the line of Marc Hesselink.

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

My first question is on Automotive. I think in the last couple of years, throughout the years, the result of Automotive has been much stronger than thought at the beginning of the year. Can you explain what has been driving that? Have take rates been increasing faster? Have the volumes been higher? And also taking that into account for the guidance that you gave on Automotive for full year '19, what kind of assumptions do you imply there, especially now that we see maybe a bit of a slowdown in the Automotive sales numbers? The second question is, again, coming back on that extra investments. Just to understand it correctly, the opportunities that you see while you do that extra investment. Is that something that you need to do to -- versus your competition? Or is it something that opens up new possibilities to generate extra revenue? I.e., is it -- will be a driver of extra growth going forward, or is it something you simply have to do to keep up your product? The third question is on the -- to square the free cash flow guidance that you're giving with the profitability, especially now that you say that the D&A will be lower in 2019. On my coverage, that implies that you, again, need very large number of deferred revenues to make up for that -- to make up for the difference. Is that correct? Or the inflow from deferred revenues be higher than it was in 2018?

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

Okay. First, Automotive. Automotive, obvious, indeed, you're right. So when we started 2018, we were -- we had a more modest outlook for Automotive than the 25%, which we delivered. I think the biggest driver for this acceleration comes from take rates. So not so much car volumes or market share gains of our customers, especially the take rates tend to be higher. And we have used the updated take rates also when we constructed the 2019 guidance. So we're not using the take rates that we initially thought realistic when we designed the order intake. On the free cash flow, it's indeed you're right. So there's a mismatch between IFRS net results and what's happening in deferred and unbilled revenues. As already indicated is that there's big increase in deferred revenue expected in Automotive of EUR 100 million plus if you like. On the other hand, Consumer will see a decline of roughly EUR 25 million. So the net result is the deferred revenue in 2019 is expected to grow with EUR 75 million. And that's together with the difference between amortization and CapEx creates the bridge to IFRS net results towards free cash flow. On the opportunities that we see ahead, there are both quality improvements and new opportunities. On the quality improvements level, you could think of the fact that we're the dominant supplier of traffic throughout Europe. That comes with higher responsibilities on the availability 24/7 but also on quality, the 2 x 9, 3 x 9 quality levels that you need to uphold, that means that we need to make investments to create that. Other areas where we're investing is to have continuously releasable software as a product for the Automotive market available, and that also requires new specific investments.

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

Okay. Then I have one follow-up. I think when I was at CES, I really watched the story that all the Level 2 functionality that was growing very quickly now, but that Level 3 was far more difficult also from a regulatory perspective and was maybe being pushed out a bit. What would that do for your business? Is the Level 2 already enough for you to sell your HD Maps? Or would it also mean that your opportunity is being pushed out?

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

No. I think the maps are used also Level 2, Level 2.5. Everything that sits between 2 and 3 starts using maps. So that opportunity is still there.

Operator

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