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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Second Quarter 2022 Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Freek Borst. Please go ahead.

Freek Borst - TomTom N.V. - Investor Relations

Thank you, operator, and good afternoon everyone, and welcome to our conference call, during which we will discuss our operational and financial highlights for the second quarter 2022. With me today are Harold Goddijn, our CEO, and Taco Titulaer, our CFO.

We will start today's call with Harold, who will discuss the key operational developments, followed by a more detailed look at the financial results and outlook from Taco. We will then take your questions.

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

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

Thank you very much, Freek, and welcome, everybody, to our Q2 call. I would like to give you some operational highlights for the quarter. We performed in line with our expectations. Our Enterprise business showed good growth, mainly thanks to tailwinds from a strengthening dollar. And in the meantime, Automotive performed also in line with expectations. We recorded some important developments. We announced the realignment of our Maps unit in early June as a result of the advances we've made in the automation of our mapmaking and the creation of our new mapmaking platform. And this means we are able to offer a better fresher map while becoming more efficient at producing it. And we expect our maps to improve along three axes.

First of all, we will have better coverage, especially outside Europe and North America. Secondly, we will add more and richer s to our Maps. And thirdly, a more dynamic update mechanism will result in both fresher and more accurate maps. And as a result of this, we will widen our addressable market. We can license in more geographies, and we can serve a broader set of use cases.

This quarter, we launched our new Navigation SDK. Our aim is to make it much more productive for developers to integrate our technologies. The TomTom Navigation SDK is a modular product that combines all of our TomTom location APIs with turn-by-turn navigation to create an effective toolkit for developers in both Enterprise and Automotive. The SDK underlines our commitment to creating products that are not only of high quality, but are also easy to implement. And even though it's early days, the traction amongst developers is promising and satisfying.

This year, we signed a 3-year collaboration with the Dutch Ministry of Infrastructure and Water Management, and we will bring, together with them, improved safety features to drivers. We also secured several deals with a variety of customers in Enterprise in the quarter, underlining the versatility and competitiveness of our technology and products. In Automotive, we reach a new milestone in our partnership with Stellantis,

seeing both the Citroën C5 and Opel Astra hitting the road with our navigation stack. These models showcase our upgraded navigation solution that includes over-the-air updates to provide fresh maps and accurate navigation. And with this, I'll hand over to Taco.

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

Thank you, Harold. I'll provide some comments on the financials and outlook. Afterwards, we will proceed on the Q&A. Group revenue in the second quarter was EUR 133 million, equal to last year. We reported Location Technology revenue of EUR 105 million, that's 2% higher than the same quarter last year.

Let me briefly discuss revenue business by business. First, Automotive reported revenue of EUR 60 million, representing a year-on-year decrease of 2%. Automotive operational revenue increased with 12% to EUR 71 million. This is better than the development of the car production volumes in our core markets. We consider Europe and North America to be our core markets and compare our performance with car production in these areas.

Car production levels in Europe were roughly flat year on year, while North America saw production grow roughly 15%. Combined, production growth in our core markets was high single digits. Our outperformance was a result of market share gains. Some of the contracts we signed over the last years saw a ramp-up in production during this quarter.

Enterprise revenue increased by 8% year-on-year to EUR 45 million, benefiting from a stronger U.S. dollar as compared to last year. The exchange rate in Q2 2021 was \$1.20, exchange rate in Q2 2022 was \$1.08. Based on stable currencies, revenue was flat year on year. Lastly, Consumer. Consumer reported revenue of EUR 27 million, representing a decrease of 9% year over year.

Then on gross margin, gross margin was 83% compared with 77% in the same quarter last year. Last year's gross margin was negatively impacted by a release of customer-specific costs from the balance sheet. For the full year, we expect gross margin to be around the same level as we recorded for this quarter, i.e., 83%. This compares with a gross margin of 80% last year.

Then over to the OpEx. OpEx was EUR 165 million, that's a EUR 41 million increase compared with the same quarter last year. This increase is mainly the result of the EUR 31 million restructuring charge relating to the realignment of our Maps organization. The gross effect of this restructuring is a reduction of EUR 40 million in salaries which we will be partly offset by additional investments. Excluding the impact of restructuring charges and depreciation and amortization, OpEx rose EUR 15 million year-on-year. This increase in spending mainly resulted from intensified investment in our application layer, supporting our product roadmap.

Then over to free cash flow. In the quarter, the free cash flow was neutral compared with an outflow of EUR 16 million in the same quarter last year. Positive working capital development and a higher Automotive operational revenue contributed to the year-on-year increase in free cash flow. Lastly, our net cash position was EUR 329 million at the end of the quarter. And in the same quarter last year, our net cash position was EUR 319 million.

Having discussed the results for the second quarter, let me move to our outlook, presented on the next slide. We remain confident that we can deliver our initial guidance as provided at the beginning of the year and reiterate it today. With this said, we continue to keep a close eye on external uncertainties. Strain in supply chains could continue to affect car production. In addition, continued higher inflation may force us to increase merit, to remain an employer of choice. We expect group revenue and location technology revenue to come in relatively flat in 2022. Group revenue is expected to be between EUR 470 million and EUR 510 million, while Location Technology revenue is expected to be between EUR 380 million and EUR 420 million.

We expect revenue growth for 2023. Group revenues are expected to be between EUR 500 million and EUR 550 million, with Location Technology revenue between EUR 425 million and EUR 475 million. In terms of free cash flow, we continue to expect cash outflow of around minus 5% of group revenue for 2022, as we are proceeding with investments as planned. These investments, along with the effects of the restructuring mentioned before, are expected to lead to material efficiency gains in 2023.

Combined with the continued growth in operational revenue, we expect these efficiency gains to result in a positive free cash flow of at least 5% in 2023. The growth in operational revenue is expected to account for more than half of the total improvement in free cash flows from 2022 to 2023.

We should note that our free cash flow guidance excludes the restructuring charges mentioned before. Two-thirds of the cash outflows related to the restructuring are expected in 2022, with the remainder expected for 2023. Operator, we would now like to start the Q&A session.

QUESTIONS AND ANSWERS

Operator

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

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

Yes, thank you. My first question is actually on the automated map building process. Is it now fully automated? If you -- is there no -- or is there still incidentally, that you still need to check some stuff manually? On the -- what you mentioned, that you increased the addressable market in Enterprise because of that, can you explain that in a bit more detail? Does it mean that because your cost of making a map are so much lower that you now can move to additional geographies and that's needed to win these contracts? Or is it also about the quality that you now achieve of having it, like, fully up-to-date?

And the third part on the automated map building is actually to get a bit of a feel of the savings. The restructuring charge being EUR 31 million, on a gross level, is that also a bit the savings, and then part of that is being reinvested in the application layer? My other question is on the EU regulation on speed limits -- that needs to be built into the ADAS functionality car. How do you see that? Is that something that materially increases your addressable market? What will that do for the ASP? Your thoughts about that? Thank you.

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

Yes, Marc, thank you very much. This is Harold. Yes. So, first question, is that new mapping platform is that now fully automated? Or is there still a manual things we need to do? And the answer is, it's very hard to fully automate the map. That's also not our aim. So there will be indeed a level of activity to add data to the map database that cannot be fully automated. It doesn't mean we don't use technology for that, or software -- of course we do. But it's not an automated process from beginning to end. But we expect that over time, the proportion of automation will continue to grow and the proportion of, let's say, manual or non-automated labor will continue to decline.

Second question related to an expansion of our addressable market. Is that because of cost, or is that because of quality? And the answer is, it's because of quality. The map, as we know it, is predominantly and historically -- has grown to address the requirements of the automotive industry and navigation. And navigation is the hardest use case probably, because it really matters how accurate and up-to-date your map is. It has an immediate effect on the driver experience. So, the quality requirements on the navigation map have historically been very high, but it's also clearly defined market for that and the unit prices for navigation usage are still high. But next to that, there are other use cases where we have been less successful. Where our products are less suitable. And that has to do with applications where map display is more important. And there, I think, you want to show the parks and the railway lines, and all sorts of other stuff that are not so relevant for navigation, but are relevant for other use cases. And it is the expansion in the attributes that will open those new use cases up to us.

Last question, savings. Taco, can you say something about the savings we expect there? Or is that not something we can disclose at this stage?

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

Of the map alignment?

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

Yes.

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

Yes. No. So, completely like-for-like and excluding for effects like merit increases and additional investments -- but if you would have a complete like-for-like, savings are EUR 40 million, on an annual basis.

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

On an annual basis. Part of that money will be reinvested. Of course, now that we start to address new markets with new products, we are also looking hard at our sales capabilities and our capability to actually penetrate in that market in a short period of time with that new product portfolio. And -- so that's a clear example of what we are going to do. And also, we will continue to invest in automation going forward.

Last question, speed limits. There is a legal requirement, or there will be a legal requirement -- I think it kicks in 2024, where carmakers need to inform drivers through software, what the legal speed limit is. And indeed, that opens up revenue opportunities for TomTom. We maintain, what we call an ISA -- that is Intelligent Speed Assist, ISA-compliant database that carmakers can license from us as part of a standard navigation solution, or as part of a dedicated ISA-application.

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

Okay. Clear. Just shortly, the line broke up a little bit when you just said the number, was it 4-0? The gross savings, 40?

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

Yes, EUR 40 million, Marc.

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

Okay. Okay. And then one -- quick one on the update loop that you can do. So is it, like, now a daily update loop? Or is that hourly or weekly -- what kind of magnitude should I think?

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

It depends a little bit. It's quite a complex thing, but we can update parts of the map in near real-time. And that's useful for specific use cases. But if you look at the whole set of maps, you should think more once a week and once a day, than continuous streaming. And that's because the data needs to be converted to serve certain applications. The data itself -- database itself is updated continuously, but before you can use it, you often need to process -- do compute on that map in order to power specific applications. But the map, itself, will be kept in near real-time.

Operator

(Operator Instructions) Now by taking our next question and the question comes from the line of Johan van der Veen from AA-OB.

Johan van der Veen - ABN AMRO - ODDO BHF B.V. - Senior Equity Sales

Hello, Harold and Taco. I would like to ask you a question, mainly on the order intake in Automotive. Could you elaborate a little bit on the requests for tendering and quoting -- if they are landing as expected? And could you give a little bit of flavor there on the market share development and maybe where you are seeing the main market share gains, is it from HERE? And what's the, I would say, Google trend there you could mention?

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

Yes. Maybe I can take that. So, in Automotive, the order intake is indeed done via RFQs, and we submit RFQs for different stacks and different products that can be a map, can be navigation software, can be services like traffic, or the whole lot. So, it also depends on where we are quoting, who the competition is, and we see competition from the two names that you just provided, but also from other players. So, I can't give you one answer to that question.

Deal activity is healthy. There are a number of large orders in play. We think that we have submitted a great offer, and we are awaiting the results. Order intake, so far, has been good. But we have to wait, of course, on the year to proceed to have the final picture. But so far so good. A lot of the deal activity will slow down a little bit, of course, for the summer period, but what we've seen up until July was very busy.

Johan van der Veen - ABN AMRO - ODDO BHF B.V. - Senior Equity Sales

Okay, thanks. And could you say already something on the traction there is on your IVI software platform?

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

Yes. There is development going on internally, with third parties. Implementation is happening. The platform is maturing. So that is on what's happening today. And there are also around the IVI stack quite a few interesting discussions going on. No white smoke yet, but I think we are happy with the traction we have and how that IVI platform has been received so far.

Operator

There are no further questions. I would now like to hand the conference over to your speaker, Freek Borst, for closing remarks. Please go ahead.

Freek Borst - TomTom N.V. - Investor Relations

Ladies and gentlemen, since there are no further questions, I would like to thank you all for joining us this afternoon. Operator, you may now close the call.

Operator

This concludes our conference for today. Thank you for participating. You may now all disconnect. Speakers, please standby.

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