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TOM2.AS - Q1 2023 TomTom NV Earnings Call

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

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## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to TomTom's First Quarter 2023 Results Conference Call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to your host for today's conference, Freek Borst, Investor Relations. You may begin.

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

Thank you, operator, and good afternoon, everyone. Welcome to our conference call during which we will discuss our operational and financial highlights for the first quarter of 2023. With me today are Harold Goddijn, our CEO, and Taco Titulaer, our CFO. We will start today's call with Harold, who will discuss key operational developments, followed by a more detailed look at the financial results and outlook from Taco. We will then take your questions. As usual, I would like to point out that Safe Harbor applies.

And with that, Harold, I would like to hand it over to you.

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

Yes. Thank you very much, Freek, and welcome ladies and gentlemen, good morning, good afternoon. Thank you for joining us today. I will briefly go over the key operational highlights and progress, after which Taco will provide further information on the financials. We had a good start to the year. The Location Technology business continued to gather momentum and showed robust growth. We've been consistently outperforming the growth of car production volumes in our core markets for some time now, and this trend continued in the first quarter.

We reached a substantial milestone as well, as we now power more than 10 million automated vehicles with our advanced driver assistance systems solutions. Those systems are important to ensure driver safety and comfort, and we are proud to be an important part of that. There continues to be a healthy demand for our maps, our software, and our services, beyond the automotive industry as well. For example, our navigation software development kit, which helps businesses integrate our services into their products, is gaining traction in markets like fleet and logistics, ride-hailing, and food delivery.

Also in Enterprise, we extended our partnership with SAP. Our Maps APIs are integrated with SAP HANA Spatial Services, the cloud-based solution that helps companies access, combine, and process geo-tagged data. It enables SAP customers to use more advanced mapping services, adding context and visualization to location data.

Looking ahead, we expect that our new Maps platform, which we announced last year will enable us to make further inroads in the Enterprise and Automotive markets. The new maps will add significant value and create new opportunities for our customers and partners. They will provide global coverage, rich attributes, and fast data integration, thereby enabling a wider variety of use cases.

We are on track for a phased launch across geographies and markets and will add features to support increasingly sophisticated use cases. In anticipation of the start of roll-out, we have increased our sales and marketing efforts during the quarter. And with that, I'd like to hand over to Taco.

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

Thank you, Harold. Now I will provide insights on our Q1 financials and our outlook for the year, followed by a Q&A session. Our group revenue for the quarter was EUR 141 million, a 10% increase compared to the same quarter last year.

Location Technology revenue saw a 12% growth, reaching EUR 118 million. Let's break down our revenue business by business, beginning with automotive.

Automotive operational revenue reached EUR 84 million in Q1, compared to EUR 68 million in the same quarter last year, marking a robust 22% year-on-year increase. Our performance exceeded car production growth of approximately 11% in our core markets of Europe and North America, driven by higher take rates and market share gains.

Automotive IFRS revenue saw a 34% year-on-year increase to EUR 81 million. The increase can partially be attributed to the change in IFRS revenue recognition for new maps subscription contracts, which we disclosed last quarter. On the other hand, Enterprise revenue declined by 17% year-on-year, settling at EUR 37 million. This anticipated decrease is due to contract renewals at lower values. Consumer revenue remained stable year-on-year at EUR 23 million.

Our gross margin improved to 86% in Q1, up from 85% in Q1 of 2022, driven by a higher proportion of high-margin software and content revenue in our overall revenue mix. Operating expenses decreased to EUR 118 million, a reduction of EUR 11 million compared to the same quarter last year. Excluding depreciation and amortization, operating expenses dropped by EUR 8 million. The reduction in spending stems from efficiencies realized in our geographical data R&D, partially offset by ongoing investment in our application layer and increased sales and marketing efforts.

Free cash flow for the quarter was positive at EUR 10 million, a significant improvement compared to the outflow of EUR 23 million in the same quarter last year. This figure excludes the one-off proceeds from the sale of our equity interest in Cyient and restructuring-related payments. The improvement in free cash flow is the result of a stronger operating result and lower investments in intangible assets compared to the same quarter last year.

Our net cash position at the end of the quarter was EUR 321 million, up from EUR 304 million at the end of last year, benefiting from the one-off proceeds of Cyient equity interest divestment.

With our Q1 results covered, let's move on to our outlook, as presented on the next slide. We had a strong start to the year and are confident reiterating our guidance today. We continue to project positive free cash flow for 2023, supported by top line growth. Group revenue for the full year is anticipated to be between EUR 540 million and EUR 580 million. We expect robust growth in Automotive revenue to counterbalance the projected declines in both Consumer and Enterprise revenues. Location Technology revenue is forecast to range between EUR 455 million and EUR 485 million in 2023.

It's essential to highlight our commitment to achieving growth in a profitable manner. Our free cash flow is projected to be between 0% and 5% of group revenue for 2023. The guidance excludes charges related to the restructuring announced in June 2022. Of the total restructuring charge, EUR 12 million was paid in 2022 and EUR 4 million in Q1 of 2023. We expect to pay the remaining EUR 8 million over the upcoming quarters.

Operator, we are now ready to begin the Q&A session.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And your first question comes from the line of Harry Blaiklock from UBS.

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

Good afternoon, thanks for taking my questions. So, the first is just on full-year guidance. So, with Q1 reported and the strong results that you've achieved, it now seems to imply limited sequential growth throughout the year. And that's in the context of the Enterprise drag ending in Q4 and then auto production recovering as well. So, it looks like you're seeing a bit of a slowdown throughout the year. I was just wondering whether you could give some color on the reason behind that?

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

Yes. So, if you look at our Q1 performance and you compare that with consensus that was collected by ourselves from the analysts, you see that we outperformed, mainly in Automotive, but also in Consumer, and we disappointed in Enterprise. If you compare these results also with our internal planning, our budget -- Automotive was in line with budget. So yes, it was up year-over-year, but it was projected to go up with these amounts. So that, in itself, is for us not a trigger to increase the overall guidance.

What we see for the full year is that the reported revenue that we saw in Q1 for Automotive is a good indicator for the rest of the year. So, I agree with you that it is fairly flat -- maybe in Q3 a little bit softer, and in Q4 a little bit higher. The reason for that is that we saw some -- maybe catch-up demand in the first quarter, higher production volumes. And we rely on the data that we get from our customers, and this is what it's telling us.

So, I don't think it is a slowdown in any way, but it's just more of an overperformance in the first quarter. In Enterprise -- it was slightly soft compared to budget, and also compared to consensus. That is a factor of the softer dollar than where we thought we were at the start of the year. And in Consumer, there is a slight overperformance.

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

Got it. One quick follow-up and then another question, if I may. Just a quick follow-up to that is -- just in terms of the production growth that you're assuming for the year. What level are you assuming for that, for Automotive?

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

So based on aggregation of different sources, including our own sources, where we think of our core markets as the EU and North America, we project a 7% increase for the full year. That is the market. And it was 11% in the first quarter.

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

Okay. And one last one, if I may. Just in terms of the market share gains you made in Q1 in Automotive, I wondered whether you could provide some color on what's been driving that, and any feedback you've got from customers, why they've chosen your solutions over competitors'?

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

So, one is, for example, the contract that we announced last year with Hyundai-Kia. That's a market share gain. We were not providing to them before. Also, the decision by Hyundai-Kia to make navigation no longer an option, but a standard element of the car that is produced, that drives both our market share and our take rate. So, Hyundai-Kia is a big element of that outperformance, compared to car production units.

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**Operator**

(Operator Instructions) And your next question comes from the line of Wim Gille from ABN AMRO ODDO BHF.

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

From me, a few questions. First, on the SAP HANA announcements that you made. Is this just a normal extension of an existing contract? Or are you really deepening the relationship and selling new functionality that allows you to increase your share within the SAP HANA ecosystem? So, if you can give a bit more detail on what's changed versus, let's say, the existing contract that you had in place?

Second, on the new mapmaking platform. You are now live in the Netherlands for some of the functionalities. Can you give us a bit more feeling to what extent – or what the speed is of the rollout, both regionally throughout Europe as well as, let's say, when you expect to have the full functionality of the new base map or new mapmaking platform available in Europe, throughout the coming months or quarters?

And then lastly, I'd like to have a bit of feeling how the discussions are going with Automotive clients, whether you expect any new sign-ups on the back of the new mapmaking platform already this year. Or if that is due to the lead times in this industry a bit more for 2023. Likewise, for Enterprise, which obviously has a much shorter lead times than the Automotive space.

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

Yes, Wim, thank you. This is Harold here. So, the SAP HANA extension is indeed an extension with new functionalities that we're introducing there. So, that is a bigger contract and a more intense, deeper integration into their platform.

New maps yes. It's happening. It's on schedule. We're happy about the performance of the new platform. The first maps that will become available are covering the United States, Great Britain, and the Netherlands. They look good, and extensive end-user testing will commence shortly. Those maps are currently in alpha release for internal scrutiny. And there is still quite a bit of work to do to iron out some edge cases, as you would expect. But it is just work we need to get through. And we're confident that we will start launching the new map in selected markets and for selected use cases in Q2 of this year. And then the further rollout for the rest of the world will follow shortly after that. And yes, I think it looks good. We have issued sample data to some of our key customers for evaluation purposes. So, that's happening as well.

Then, Automotive clients and the interest in the new mapping platform and whether that leads to new contracts or not. It's a bit early to be honest. But what we do see is significant interest in the new platform. And also, what we see is some OEMs planning to become a partner in the Overture Foundation. And I think the what our customers say is that they like the idea -- they like the idea of having a standardized base map on which they can themselves also put information. That's a functionality that's not really readily available right now. They see that as a good path forward, and there is significant interest, also from what you would expect to be the more conservative OEMs. That's what we see.

Enterprise. Shorter lead times, but also there, we need to be really ready with the commercial launch. It's not quite there, as I said. But also there, traction for the SDK, the Navigation SDK. And the Navigation SDK provides a seamless path to integration of the new maps platform. You can start with the old maps and then, over time, switch seamlessly to the new maps platform. And we see that that's a valued property of the Navigation SDK. And we see traction for that SDK in Enterprise markets. Again, it takes time, it needs to be integrated, needs to be rolled out. So, it's important that we close those deals. Significant impact on revenue will take a bit longer, but that's also in line with our expectations.

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

Maybe as two small follow-ups. First, on the SAP HANA. Obviously, it's a huge ecosystem. So, is this something that we will see in the Enterprise revenues going forward? And if so, which quarter will the new contract, or the improved contract terms, commence? And secondly, if you look at Enterprise --and I appreciate it's difficult to give a bit of feeling about timing, and new contracts, and what have you. But is it fair to assume that based on your current expectations, we should be able to see year-over-year growth in Enterprise again as of the fourth quarter of 2023?

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

So, yes, that's what we expect. Growth again as of Q4, in the Enterprise segment, is what we are planning for. Coming back on this SAP contract, that's available now, it's integrated into the platform. But we need to see, of course, how it's taken up by the SAP customers and how it will be used in practice. That's not entirely clear to us yet, and we will get that clarity over time.

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

So, is it more kind of a contract based on API calls? Or?

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

Exactly, it's volume based. No, it's volume based. Yes, indeed.

**Operator**

(Operator Instructions) And the next question comes from the line of Marc Hesselink from ING.

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

The first question is actually a little bit on the dynamics that you're seeing in the industry. You're launching your new map platform. There are also some stories out that maybe some of the German OEMs are looking to make deeper partnerships with, maybe, the likes of Google and Apple. What are the things that you're hearing? What kind of moves are people making? And what does it mean for your relative position versus HERE and Google, and maybe even Apple?

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

Yes. It's a good question. So, a key part of our strategy and our planning is that the world needs a mapping platform, next to Google. Google has a phenomenal product. It's used on mobile phones extensively. But there are also limitations, both with regards to the business model, the data consumption, and whatnot. And the world needs a platform on which it can innovate, can bring data together.

And obviously, our strategy is to become that alternative. If you need more than a standard API, if you want to integrate self-driving maps, or ADAS maps, if you want to integrate the data you're collecting yourself, as a user, then you need more flexibility. And that in itself will enable innovation.

Our strategy is to become, over time, a clear alternative to what is there, and become in that free-market segment, the leader in location technology. And I think that resonates. Our customers tell us that too. They want to have a choice. They want to be able to innovate. They like what they see -- our intent. And I can see in the interactions with our customers, in the type of questions we get, the type of interaction we're having, that this is met with considerable support. Does that answer your question, Marc?

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

Yes, it does. Maybe then as a bit of a follow-up. Those stories that are out there that maybe some of the German OEMs, which are hopefully not with you but with your competitor, are thinking about, or maybe getting closer to, using software from Silicon Valley guys. Is that something that you also hear? I mean, do you see those kinds of movements in the industry?

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

Yes. We've seen, of course, the announcement of Mercedes. That's not a customer of ours. It's a customer of HERE, obviously. But that does put out a strong signal that we, as an industry, need to work hard to create that alternative. And we're not completely there yet. But the route to having a competitive and competing platform with the associated services and SDKs is now truly within reach.

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

Okay, clear, thanks. The second question is more financial. Your EBITDA in the quarter was actually quite a bit better than I expected. And there will be moving parts in the coming quarters. But is the level of EBITDA that you had in the first quarter -- is that something that you can also achieve in the coming quarters?

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

Well, yes, EBITDA is a factor of EBIT and DA. I think DA will be fairly stable. But I don't think that the EBIT will be as strong in the rest of the year. So, the answer is no. The OpEx that we recorded in the first quarter will go up in the quarters that we have in front of us -- Q2, Q3, Q4. So, there was a release in the OpEx, but it's also a factor of the new merit that will kick in by the end of Q1 and further also in Q2, Q3, Q4. So, EBITDA for the rest of the year, the other quarters will be lighter -- lower.

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

Okay, clear. And then maybe to go a little bit further down into the free cash flow, and also related to your guidance. If I make the calculation, even including a bit more cost in the coming quarters, I tend to get a little bit above the 5%. Also, taking into account that you're now actually also receiving some interest on your cash position -- is this something that you take into account for your guidance, that you will continue to receive that interest?

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

Yes, sure. So, we have roughly EUR 300 million in cash or long-term deposits. The split between cash and long-term deposits is then one-third to two-third. So, two-thirds is in long-term deposits. On those deposits, we get a 3% yield, roughly --3% plus. And that is part of our free cash flow. It's nice, but it will not significantly change anything. For the free cash flow, we continue to focus on 0% to 5%. Based on where we are now, it might be closer to 5% than 0%, yes.

**Operator**

(Operator Instructions) And your next question comes from the line of Maarten Verbeek from The Idea.

**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Equity Analyst

It's Maarten Verbeek, The Idea. Firstly, you have sold your interest in Cyient. We do see that in the cash flow statement. However, when I compare that amount to your book value, there is a difference. So, I was just wondering if you had a financial impact in your P&L account selling this interest?

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

The answer is no. The whole transaction doesn't influence the P&L. The difference between the book value that you see on the balance sheet, the balance sheet of the 31st of December 2022, is that we compared it to the market value. Cyient is a listed stock, so we just took the share price at that time. In the meantime, the share price went up in the first quarter. So, that compares the difference between the EUR 15 million proceeds and the EUR 13 million you see in the book value. But it didn't have any impact on our P&L.

**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Equity Analyst

Okay, thank you. And then, on Consumer, surprisingly good performance this first quarter. Flat. Do you have some particular reasons why it was so strong? And secondly, you also guided for Consumer, that you expected it to be 10% lower – decrease compared to last year. Do you still reiterate that, or have you become a little bit more positive on consumer?

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

I'll let Harold answer the first question. But on the guidance, it's indeed that we stick to roughly EUR 90 million for the full year.

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

Yes. And then on sales, we have sales of personal navigation devices which are still going down. But we are now addressing a more hard-core group with more specialized users, where that demand decrease is lower. Think about truck drivers, and specialized products that are still in demand in the market. And the decline is partially offset by some growth in downloadable applications for smartphones that are paid for.

**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Equity Analyst

Okay. And lastly, in the fourth quarter, due to IFRS changes regarding revenue recognition in Automotive, you had some EUR 9.6 million additional revenue. How much was that in the first quarter of this year?

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

So, the delta between reported revenue, Automotive, and operational revenue was EUR 3 million, roughly. I think for the full year, the delta is expected to be something like EUR 10 million. On a normal basis, that would have been EUR 40 million or so. So, the delta is then EUR 30 million.

*Note: Mr. Titulaer is referring here to the movement of Automotive gross deferred revenue, as detailed on p.4 of TomTom's [First Quarter 2023 Results](#). Further information on the change in revenue recognition for new Automotive maps subscription contracts can be found on p.2 of TomTom's [Fourth Quarter and Full Year 2022 Results](#). The positive impact of this change on full-year 2023 revenue is expected to be around €40 million.*

**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**

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

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