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CORPORATE PARTICIPANTS

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

Freek Borst TomTom N.V. - Investor Relations

CONFERENCE CALL PARTICIPANTS

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

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

Nigel van Putten Kempen & Co. N.V., 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 First Quarter 2022 Earnings Conference Call. (Operator Instructions). Please note that this conference is being recorded today. I will now turn the call over to your first host for today's conference, Freek Borst from Investor Relations. You may begin.

Freek Borst - TomTom N.V. - Investor Relations

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 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

That's great. Thank you very much, Freek, and welcome, ladies and gentlemen. Thank you for joining us today. I will briefly go over our key operational highlights and progress, after which Taco will provide further information on the financials.

We had a solid start to the year with all our businesses performing in line with our expectations. Deal activity in Automotive this year continues to be strong with several high-quality deals on the table. The automotive industry is increasingly moving to connected and advanced driver-assistance services, many of them taking up a more active role in developing software. We can team up with those organizations to help execute their strategy. We feel we are well positioned to play a significant role with our maps, navigation software, traffic, and developer SDKs.

Our digital cockpit platform, TomTom IndiGO, is a good showcase of our capabilities in connected software solutions. It serves as a proof point of the richness and versatility of our offerings. TomTom IndiGO helps open the door for us and discuss providing products and services to the next-generation car lines. As for cars hitting the road with TomTom services soon, we're happy with the imminent launch of the Nissan Ariya. It's the latest flagship electric crossover from Nissan, set to be launched with advanced infotainment and driver assistance features, supported by our technology.

In Enterprise, the adoption of Location Technology is progressing as well. Firms are increasingly relying on Location Technology for the streamlining of operations and improvement of their offerings. We strive to capitalize on this and work closely together with new and existing customers. For instance, during the quarter, we teamed up with Webfleet Solutions to offer a comprehensive mobile offering for fleet managers and drivers. In Automotive, we've teamed up with the MIH Consortium, which is a Foxconn initiative to help develop the next-generation of electrical vehicles, autonomous driving and mobility service applications. We will contribute our extensive knowledge in digital cockpit and navigation user experience for EV drivers.

Looking ahead, we are reiterating our financial guidance for 2022 and 2023. We closely monitor the current geopolitical and economic developments. We are, however, confident in the strength of our business, financial position and strategy, and we are proceeding with investments as planned.

And with that, I hand over the floor and the microphone to Taco.

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

Thank you, Harold. As Harold already mentioned, we are monitoring the possible effects of the emerging uncertainties. Our latest estimate for Automotive operational revenue growth is 10% compared with last year. It is down from 15%, which we gave at the start of the year. Nevertheless, we are reiterating our guidance and proceeding with the expenses and investments as planned. We expect that group revenue will be between EUR 470 million and EUR 510 million in this year, and Location Technology revenue is expected to be between EUR 380 million and EUR 420 million.

Moreover, the planned increased expenses, which center around our application layer and the further automation of our mapmaking platform, are expected to lead to a negative free cash flow of around 5% of group revenue in 2022. In 2023, we foresee a return to revenue growth, with group revenues expected to be between EUR 500 million and EUR 550 million, and Location Technology revenue between EUR 425 million and EUR 475 million. We do expect that some of the expenses we have planned for 2022 to lead to a decrease in spending from 2023 onwards, leading to positive free cash flow generation. We expect free cash flow as a percentage of group revenue of at least 5% in 2023.

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

QUESTIONS AND ANSWERS

Operator

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

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

I have 2 quick ones, if I may. Can you maybe first talk about the deal activity. So despite some uncertainty around maybe the supply, how should we think about the activity in terms of deals out there? And how do you see your position in terms of market share? I know it's a bit early in the year, but if you can give a bit of flavor of how the year started in terms of deals, that would be helpful.

And second of all, I mean, you have been investing a lot in the application layer. Harold, when do you think we're going to see some evidence of return on this investment in a meaningful way? I mean, are we talking about something that is beyond 2023? Or is it something that we can see maybe even this year or next year? You got some wins already a bit in the application, but I'm talking more like significant deals, if you like, that would really move the needle.

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

Yes. Thank you, Francois. Yes, so deal activity is good. We think -- there's quite a few RFQs out this year and that is positive. It's a bit early to comment on win rate and resulting market share in the future. But the overall activity is good. The supply situation is unlikely to influence the launch of new cars. What we see is that production volumes are somewhat depressed also compared to last year, but we see that most carmakers have successfully managed the shortage of cars by increasing their margins. And from what we hear from our customers, and what we read, of course, in the financial press is that the carmakers are producing less, but profits have not been affected.

Yes. So second question, application layer. So we -- you can broadly separate our technology investments in two areas: one for the database -- the map database, and the other one for the application layer. We are well underway to deliver on our ambition to increase the level of automation in the map database, and we do think that will lead to cost reductions in '23 already.

On the application layer, there's also opportunity for further harmonizing the product portfolio. And we can, as a result of the applications going into cloud, simplify our product offering -- harmonize and streamline that product offering. So, we also expect there to -- we don't expect any investment increases there and there may be room, even, for some harmonization.

When that new application layer will start to deliver significant revenue is -- it is too early to discuss that. We feel good about the trajectory. We feel good about the products that are coming out of the teams, and we do think that will lead to significant opportunities in the Enterprise world and a strong -- and good momentum in building presence in the Enterprise market, across more target customers than we can currently address and also potentially in more territories than we can currently address. Yes, so I would like to leave it at that, if that's okay, Francois?

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

Yes. You mentioned Enterprise, but also Automotive, I would imagine, I mean, or is it less fit for this market? I just wonder why...

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

No, Automotive, it also applies to Automotive. So, you see -- so we see a harmonization between Enterprise and Automotive in terms of the technology and the products. There was historically a big divergence between Enterprise applications and Automotive applications. And the reason for that is that the Automotive applications were mostly running embedded, with embedded maps, embedded software. All that is going into the cloud. It's a strong momentum there. And that means that we can simplify the product portfolio, harmonize it around cloud service and cloud-based applications, that have applications both in the Enterprise world and in the Automotive domain. And for Automotive, it's a transition. So, it's more -- it's not that we are opening up new market segment necessarily. But what you see is that the automotive industry is moving from embedded also now online and online delivery of maps, routing, search, traffic. Traffic was already online. But you see a significant shift towards cloud-based services over the last couple of years.

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

Okay. And if I may have a quick follow-up. I mean -- in terms of autonomous driving and Level 4 or 5, I know it's maybe far away, but nevertheless, the development is moving and you see different kinds of approach. The Tesla approach with a camera-based only, you see that Toyota maybe as well. I know some -- I mean, not Toyota, but a development area of Toyota opening up for the camera-based approach. How HD Map fits today to these autonomous driving developments? I mean, how are you seeing the need for HD Maps? And I'm asking because it's been a few quarters, you talk a bit less about that. I know since the COVID, you had some delays of projects and maybe that will take a bit longer. But nevertheless, how's HD Maps development -- when you look at the OEMs' road map for automation, full automation or even Level 4, or 3, or 3, plus if we see? How is the HD maps opportunity status for TomTom?

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

Yes so the -- if we look at the level of automation, then you have to come to the conclusion that full automation Level 5 is still far out. At the same time, what you see is that automation, let's say, the step-by-step incremental level of automation that we call ADAS is really taking off. So, it looks like the automotive industry found a path to the self-funding way of -- to increase levels of automation. The ADAS functions are typically paid for, so the big difference between the moonshot approach, that's obviously taking up enormous amounts of capital -- and the automotive industry is very successful in a more gradual approach in bringing higher levels of automation into the vehicle.

And we see that also in the deal activity that's going on, there's an increased level of demand for ADAS-level safety features. And that includes HD Maps, high-definition maps, for cruise control, automated overtaking, speed control, and so on and so forth. So, there is an increased level of activity in what you could also dub ADAS plus, of which HD Maps are a part.

Operator

The next question comes from the line of Marc Hesselink from ING.

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

Good afternoon. I have 3 questions. Firstly, the Foxconn MIH Consortium, can you explain that maybe a bit more in depth. How significant can that be? What can be the impact on volume for your market shares? Or is that still a bit too early to say what's that going to be? The second...

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

Yes Marc -- sorry, go on.

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

Yes. No, no, please, go ahead. Please.

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

Yes. So, if you look at that MIH initiative, that is business development. So, they are pioneering a new way of manufacturing, bringing in a network of suppliers and participants to make the manufacturing part of automotive companies look more like what Foxconn and others have pioneered in the electronics space. Different, but they are trying to apply some of the business principles also to car making. And that's an interesting concept. And we want to be part of that, we want to see how that goes. We want to see what the take-up is, what the potential is. No immediate business to be expected, but strategically important to be at the table, to see what's going on and help influence that business model going forward.

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

So does that imply that your products are going to be completely compatible with whatever these guys are going to produce? And is that then exclusive to TomTom or will all the others also be at the table?

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

Well, we have a very comprehensive product portfolio now, perhaps deeper than any of our competitors. It starts with IndiGO as a platform product. New SDKs that make it simple and easy to integrate navigation functions and other location-based services. Better ADAS content and ADAS software. So, we can bring a full package of infotainment and ADAS functionality as part of a complete solution.

So in that respect, we are very well positioned. That's a part as well that's missing. I don't think there are many other companies who can offer that, other than companies like Google. And it offers a fast, capital-light way to develop great end-user experiences. And I think that's a missing bit -- part in that ecosystem. We can provide that, and we want to closely follow what's going on in that space, and understand that space, and work on developing business opportunities as a result of that.

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

Okay. That's clear. Second question is on the progress that you're making on the map automation push in this year, which should result in a lower content cost for the years after. How is that going? Is that push going as planned? And is there still maybe a bit of execution risk in the coming year? Or are you fairly confident on that?

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

So we're confident in the progress we're making. It is not just about cost. It's also about a better product, a product that's richer, covers more countries, and can answer more use cases. A product that's fresher, automatically maintained in many cases. We can't automate everything, but a large portion of mapmaking can benefit from much higher automation than what we have currently -- what we are currently achieving. And we are on track to deliver that technology. And we also anticipate that the benefits of that technology will come through in 2023 in two ways, a better product, but also a more efficient way of producing it.

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

Okay, thanks. And the final question is on the -- what are you seeing on the competitive landscape? Is it broadly similar to the past? Do you see changes in that landscape? And then maybe related to that, what are you seeing from OpenStreetMap? Is that something that carmakers are seriously considering? Thanks.

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

No, we don't see significant changes in the competitive landscape. So, on the OSM side, I think there's been efforts going on for over 5 years to use OpenStreetMap in in-car solutions. But so far, they have failed to play that role in a high-quality type of application. And there are good reasons why that is the case, consistency, vandalism, but also the type of content that you need to have to power those high-quality, high-impact applications is not there. So we are keeping, obviously, a close eye on what's going on there. But so far, we have not seen adaptation of that map in those high-quality applications, if you like.

Operator

The next question comes from the line of Nigel van Putten from Kempen.

Nigel van Putten - Kempen & Co. N.V., Research Division - Analyst

Hi, good afternoon. I was late in the call. So sorry, I might ask some questions that have already been answered in the prepared remarks. But first off, you alluded that the carmakers are producing less, yet profits haven't been affected. Now if I'm correct, you're only exposed to the number of cars produced. So how is that looking? I think last quarter, you said, for your addressable market, it was high teens. What is the outlook for automotive production now? And how do you see sort of Automotive operational revenue versus that for the year? That's the first question.

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

Yes, Nigel, thank you. It was -- early in the year, we estimated that our operational revenue would grow at 15%, 1-5. Two months later, also due to the input that we received from industry analysts, but also from our account managers, we have changed that to 10%. So operational revenue of Automotive is expected to grow with 10% year-over-year. That did not have an effect on our guidance. Guidance is, of course, IFRS reported. There is a mitigating effect in the translation from operational revenue to IFRS revenue in Automotive. And on the other hand, Consumer and Enterprise had both a strong start of the year, a bit stronger start of the year than we planned for. So, all in all, it's a bit of a wash.

Nigel van Putten - Kempen & Co. N.V., Research Division - Analyst

Yes, got it. Actually, it's a nice segue into my next question. That is, of course, the guidance for the year has been on IFRS revenue. But if you look at sort of operational revenue for Location Technology as a whole, is that still -- is that also flat for the year? Or should we expect that to be down relative to 2021?

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

No, we have reiterated the -- sorry, what was your question, operational revenue for Location Technology as a whole?

Nigel van Putten - Kempen & Co. N.V., Research Division - Analyst

Yes, it was basically Location Technology as a whole. Yes, as a whole, yes, because I mean -- specifically referring to the quite negative movement in deferred liabilities...

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

We don't go to that level of detail. But we -- there is, of course, some tailwind in Enterprise related to the much stronger dollar than what we saw at the start of the year. So Enterprise will, as we see now, will overperform our earlier predictions. And Automotive will underperform our earlier predictions. But altogether, it's kind of there, or thereabout.

Nigel van Putten - Kempen & Co. N.V., Research Division - Analyst

Yes, that's clear. Just moving down the P&L then to OpEx. Not -- let's say, last year, the first quarter was the low point and then it increased as the year progressed. How should we model that this year?

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

For OpEx?

Nigel van Putten - Kempen & Co. N.V., Research Division - Analyst

Yes. OpEx. I think you guided, quite specifically, for EUR 510 million. Now, if I annualize the first quarter, I get above that. And then if I look at history, then actually, I think I should have probably modeled sequential growth or increase in OpEx. So just making sure that there is some mitigating effect.

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

I think the best estimate is where we are in Q1, maybe a bit of decline towards the end of the year. But -- yes. So, it will not see the same pattern as we saw last year.

Nigel van Putten - Kempen & Co. N.V., Research Division - Analyst

Okay. That's clear, thanks. Last question on automation, a follow-up on Marc's question. To what extent is that in-house you're developing? I think last quarter, you said, it has to do with computer vision, cloud technology, AI, machine learning. Now, do you have all that capability in-house? Or do you, for example, partner with Qualcomm, which I think you're already doing, and they have like a hardware-software set that you can then apply to your mapmaking? Just to get a feel on how you're going to achieve those savings and that automation.

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

Yes. We have most of those skills in-house, but it's also that the supporting technology, the software that is available to perform those functions is getting better and also getting production-ready. So it's a bit of a mix of platform technologies that can be deployed, some of them are open source, some of them are commercial packages. There's real progress in understanding what's possible and limitations. And we have, in those areas, built up competencies over the last 2 years that -- to develop those systems and get those systems operational.

Operator

The next question comes from the line of Wim Gille from ABN-ODDO.

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

Yes, a very good afternoon. I got a few questions. First, can you give me a bit more feeling on the deal with Maxar Technologies that you mentioned in the press release. So, what's in it for you, for them and for your customers? Second question is, to come back to kind of the investments that you're doing in both the application level -- layer as well as the map layer. Can you remind us a little bit on the amount of cost savings, roughly speaking, that we should be penciling in for 2023 compared to 2022 on the OpEx side, and whether that's a net or a gross number?

And with respect to the, let's say, application layer, you're investing both in the Automotive part as well as in the Enterprise part. Looking at the Enterprise part, and -- your current customer base is almost entirely driven by uncompiled maps, whereas you are looking forward to compete in -- more against the solutions that Google is currently offering to their clients, which essentially means that you need to go more towards an API-based or a cloud-based system. So how far are we? And how far did the Microsoft contract already -- that was already signed a few years ago, already bring you down this journey? And how confident are you that your product suite that you're developing today will be sufficiently good to actually convince clients to move from Google to your application?

And how should we look at the phasing of the revenues within Enterprise? Obviously, your Apple contract was renegotiated. So, you will see a bit of a dip in Q4 on the revenues. But as of when should we expect new customers to basically make up the gap that Apple is leaving then?

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

Yes, Wim, let me start and then I hand over to Harold for the difficult questions. Maxar is satellite imagery. We use that for two reasons. One is as a second, third source to make maps. So we do map collections, use third parties, use our MoMa imagery and then we can complement that with satellite images to see what we want to correct -- if that's correct or not. And the other use case is that we actually implement it in our applications. So, if we ship a map, it forms another layer and that people can change their viewing. Do they want to look at rendered map, or do they want to look at photos?

On the cost savings, yes, the numbers that you can work with are the numbers in our press release on the second page. Based on that, you can assume certain level of cost savings. More details, I don't want to give at this point. As you know, we are planning to host a Capital Markets Day. Date isn't confirmed yet, but it will be either end of Q3 or early Q4, and be sure that we will give a lot more detail on the benefits that we see for next year.

And then I want to hand over to you, Harold, for the -- the question about the -- where we are on the journey of offering more API-based maps instead of uncompiled maps.

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

Yes. So Wim, yes, that is also going in line with plans and expectations. We have currently a version one of the Navigation SDK that we are testing with customers in beta programs. We signed up an Automotive client as well for the Navigation SDK, which is also a sign of -- a good sign for us. We will, in the coming months, launch that Navigation SDK publicly. That is an important product for us because we are -- we have kind of a right to play in that space. Our navigation is class leading in many ways, in terms of routing in terms of traffic information. We -- our customers like what we have done so far. It provides them a great level of flexibility, a great level of -- and the developer productivity as a result of that -- of using that SDK can go up massively. So typically, it takes a day before you have an application up and running.

And that is, of course, new for us, and it will be a corner -- flagship product in our developer product portfolio. It's the first one to go to market, and we're very excited about the -- that we are there. We're happy with the first customer feedback that we have received, and it will be an important product in our product portfolio going forward. Typically, it takes some time before that turns into volume. But we expect to start seeing some positive results from Navigation SDK in 2023 and beyond. A bit difficult to say how fast that will go and how significant the revenue is, but important point for us is that we plant the flag here. We have a cornerstone, lighthouse product out there, around which we will further develop our capabilities in the developer market.

Freek Borst - TomTom N.V. - Investor Relations

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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