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TOM2.AS - Q3 2024 TomTom NV Earnings Call

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CORPORATE PARTICIPANTS

Harold Goddijn TomTom NV - Chief Executive Officer, Member of the Management Board

Taco Titulaer TomTom NV - Chief Financial Officer, Member of the Management Board

Freek Borst TomTom NV - Investor Relations

CONFERENCE CALL PARTICIPANTS

Marc Hesselink ING - Analyst

Wim Gille ABN AMRO - ODDO BHF B.V. - Analyst

Nikos Kolokotronis Van Lanschot Kempen N.V. - Analyst

PRESENTATION

Freek Borst - TomTom NV – Investor Relations

Good afternoon, everyone. Welcome to our conference call. Today, we will be discussing the operational highlights and financial results for the third quarter of 2024, together with Harold Goddijn, our CEO, and Taco Titulaer, our CFO. Harold will begin by discussing the operational developments. Following that, Taco will provide insights into our financial results as well as our outlook. We will then proceed to your questions. As always, please note that Safe Harbor applies. And with that, Harold, let me hand it over to you.

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Yeah. Thank you very much, Freek, and welcome, ladies and gentlemen. Thank you for joining us today. I will take you through some of our recent developments and operational highlights, and then we hear from Taco about the financials.

We are facing a slowdown in the global automotive industry. Near-term market conditions are challenging. Carmakers are reducing inventories in certain markets and are delaying new model introductions. Combined with an overall reduction in end-user demand, this is affecting car production volumes. But despite these factors, we remain optimistic about the longer-term industry trends that call for deeper integration of our technologies into vehicles. We are witnessing growing interest in advanced safety features and automated driving technology. And to enable these trends, vehicles will increasingly rely on highly detailed, near real-time maps that support both the driver and the vehicle itself.

And there are many other use cases where technology plays a critical role. Think of live assets tracking in logistics, location-based recommendations in social media, and location informed decision-making for governments. With TomTom Orbis Maps, we now have a platform that allows us to address all of these use cases, and more.

And as a result, our Enterprise business is gaining traction. Let me give you some examples of recent wins. This quarter, we strengthened our partnership with NextBillion.ai, and that is a collaboration to provide them with data and APIs that are needed for route optimization, scheduling, and dispatch across various sectors. GfK also selected our data to power their geomarketing activities. S&P Global Mobility uses our maps and other data to enhance their automotive intelligence products, with a focus on market sizing and customer loyalty analytics.

And furthermore, IVECO has chosen our technologies. Most of their trucks, including electric models, will now come equipped with our full-stack navigation solution complete with truck-specific routing technology. And these collaborations underscore how our products support a wide range of innovative applications. And innovation is at the core of what we do.

On top of our unique platform, we're creating new and improved applications that make it easier to work with our maps and with our data.

This quarter, for example, we launched our Premium Geocoding API, aimed at tackling one of the toughest challenges in the last-mile logistics – the last 100 meters. This new API delivers precise location data, including nearby parking locations, building entrances, floor numbers, elevators, and more. And this means can make the deliveries at complex addresses with ease, leading to improved efficiencies and customer satisfaction.

Thank you. I will now hand over to Taco to discuss the financial performance.

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Thank you, Harold. I'll now share some insights into our financials and outlook. After that, we will move on to your questions. Group revenue in the third quarter of 2024 was EUR141 million, a decrease of 2% compared with the same quarter last year.

Within our Location Technology segment, we saw divergent trends in our Automotive and Enterprise business. Let me touch on them both, starting with Automotive. As Harold already mentioned, we experienced a continued weakening of the global automotive industry in the third quarter.

Combined with delays in the launch of new car models to which we are supplying, this had a negative impact on the performance of our Automotive business, including the development of our backlog. We will provide an update of our backlog with our full-year results, as it's too early to fully quantify the impact now.

Automotive operational revenue for the third quarter was EUR69 million, down from EUR85 million in the same quarter last year. Automotive IFRS revenue saw a limited decline of 5% year on year, coming in at EUR78 million.

In contrast, our Enterprise business showed good growth, with revenue increasing by 13% year on year, to EUR42 million. This can be attributed to the growing success that our existing customers are having with our location technology products, as well as the continued commercial traction that Harold already pointed to. Overall, Location Technology revenue remained stable year on year, totaling EUR120 million.

Lastly, as anticipated, Consumer revenue declined by 16% year on year to EUR21 million. Due to the larger relative contribution of Location Technology in our revenue mix, our gross margin increased to 87% for the third quarter, up from 83% in the same period last year.

Third-quarter operating expenses were EUR126 million, showing a marginal decrease compared with last year. This decrease mainly resulted from lower depreciation and amortization charges. Free cash flow was an inflow of EUR15 million, compared with an inflow of EUR13 million last year. The year-on-year increase in free cash flow is mainly a result of lower investment in property, plant and equipment.

At the end of the third quarter, our net cash position was EUR270 million, compared with EUR258 million at the end of the second quarter.

Having covered our results, let's now turn to our outlook. With free cash flow turning positive this quarter, our year-to-date free cash flow has reached break-even. Accordingly, we reiterate our free cash flow guidance and continue to expect full year free cash flow to be positive.

We're also maintaining our full-year guidance for group revenue and expect Location Technology revenue to land around the lower boundary of our guidance. And with that, we're now ready to address your questions. Operator, please start the Q&A.

QUESTIONS AND ANSWERS

Operator

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

Marc Hesselink - ING - Analyst

Thank you. First question is on Enterprise. I think nice traction with the smaller clients. And you also said that eventually you want to land also the larger clients, which have longer cycles. What still needs to happen for these larger clients to get involved as well? Do they need more testing time? Do you still have to change things on your side? Maybe a bit on what are the important hurdles to win those kinds of clients?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Yes. I think the product is there. The product is ready and is established now. I think we have a seal of approval from a number of leading technology companies that are already using those maps. So, mostly what you see is the internal organization on the clients' side. So, typically, those transitions take a lot of time and effort. That needs to be planned for, and the urgency needs to be there.

Those are typically the most important elements that lead to quite long implementation times and decision cycles. I think the credibility of the platform is no longer an issue. I think it's fair to say that we're seen as a forward-looking, modern location platform technology provider now. And it is a matter of mostly internal priorities on the customers' side.

Marc Hesselink - ING - Analyst

Great, thanks. My second question is on Automotive. Given the weakness in the end markets, how are discussions on pricing? I hear quite a lot that the OEMs are pushing on their supply chains to lower prices, especially on the EV side. Is that something that's also visible for you?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

We know it's tight. There is price pressure, undeniably. We are well protected with longer-term contracts against that. So, like for like, I think if there's no innovation taking place, you will see pressure over time.

But at the same time, we see that the requirements or maps are going up. They are deeper integrated in automation and EV functionality that is now tightly integrated in the vehicle. And those functions typically command a higher value. So, I'm not so worried for price pressure, but I acknowledge that we need to throw more into the equation to get the same value per vehicle than, let's say, two or three years ago.

Marc Hesselink - ING - Analyst

Okay, clear. My final question is on -- if you look at the moving parts for the short term, we see the weakness in automotive and the push-out of some of the EV adoption. And then you also mentioned the more longer-term positive of higher safety features for which you also require a map. When will those things inflect? When do you think that what you're currently seeing for the long term is going to be offsetting some of the more near-term weakness? Is there visibility for you, on when that can inflect? When do you expect that?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Yes. I think we've pretty good visibility what's up and coming in the next couple of years. I think, broadly speaking, around '26, '27, there will be kind of a next generation of automation into mainstream volume brands that require maps that deliver more information than what we currently deliver.

So, higher fidelity, a deeper integration in the vehicle. You will see all sorts of functionality that is linked to mapping and automated driving coming on stream. I think in the next 6 to 18 months, we will see quite a lot of activity on the procurement side. And typically, this will lead to additional revenue in the second half of '26, '27. That's kind of my internal planning.

So, I see a wall of RFIs and RFQs coming. It's quite clear where that is leading. I think we're well positioned to play a role. I think we have a very competitive product now, and I think that's recognized by the market. So I expect in the next, again, 6 to 18 months, quite a bit of deal activity taking place that will lead to shipments in '26, '27.

Operator

The next question comes from the line of Wim Gille, from AAOB.

Wim Gille ABN AMRO - ODDO BHF B.V. - Analyst

This is Wim Gille from ABN-ODDO. I got two questions. First of all, if we look at let's say, the backlog. You're going to give us a new version at the end of the year. I get that. And there are some moving components there, which are, on the one hand, the new expectations from the OEMs regarding their future sales. And then there's the order intake, and then there's the revenues.

Specifically looking at the order intake, what's the current activity that you see? And how are the win rates looking for you? Is this going to be a good year for order intake or a bad year? And is there, given the current turmoil in the market, a bit of a wait-and-see approach on that end?

The second question I would have is that most of the OEMs are in a sort of an existential fight. Does that change their narrative and their views on how they look at Google Automotive Services? Is that potentially a solution for them? Or is it the opposite -- that they would actually say, we need to get the products from TomTom and HERE, in order to differentiate ourselves even further?

And then lastly, if we look at the operational results that we see in Automotive this quarter, with a minus of 19%. There's a lot of moving parts. Some of it is market-driven like in general, low OEM volumes and your customers, predominantly Stellantis being a big one, not doing very well.

And then there's the pushout in EVs. But there's also the more, let's say, company-specific thing. One is product phasing with Volkswagen moving in and Renault, Nissan partially moving out, which is a temporary thing. And the destocking effect. So, can you try to give us a bit of an indication on what is kind of a structural underlying trend, versus what is specific to this quarter?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Let me take the question about the operational revenue and then maybe Harold can comment on the deal activity. It's true, what you said. I mean, you almost answered your own question yourself. There are various components. You have the end market that is softer, together with destocking, especially in the US, that have an effect on production levels.

I think there is also a certain effect of true-ups. So, for certain royalty reports we provide in our accounts, and then later we get the true usage reports, and they can be lower. So, some part of what happened in Q3 is also a belated effect of what already happened earlier in the year. So, if you look ahead towards Q4, I still think that there continues to be pressure on operational revenue, but not as severe as what we've witnessed in Q3. So, that will probably be more single-digit, and not double-digit.

On the order intake. So, for the backlog movements, there are indeed, as you said, three components. The first is the reported revenue in the given year, second is the order intake, and the third is the adjustments that we have to make for volumes in the future. Now, the contracts that we have in Automotive are fixed on price, but not on volume. So, what we expect will happen is that there will be adjustments on the expectations OEMs have for the future. On overall car production, but also on the mix between internal combustion and EV. And EV tends to have a higher correlation with take rates of navigation. So, if there's less EV in the mix, that also has a relative effect on the attachment rate.

So, there will be an adjustment. For now, it is too early to call that exactly, or to name that precisely, because normally, the sequence is that by year-end, you get all the updates of all our customers and then we can make a more accurate picture.

On the deal activity. Deal activity tends to be back-end loaded, and there's a lot happening in Q4. So, also there, it is early. But we also see there is that the use case is transitioning more to the vehicle, next to the driver that needs digital mapping for navigation into the vehicle. So, the use case is also more and more for the vehicle itself, for safety features and autonomous driving.

So, the type of requests and the type of RFQs is changing. I don't hear or feel that there is a market share story going on, but what we are witnessing is some delay in decision-making. That is true. But about the overall size of the order intake, it is also too early to say something. There is a lot pending at this moment, and it also highly depends on whether that falls into December or January, for us to quantify the overall size.

Wim Gille ABN AMRO - ODDO BHF B.V. - Analyst

And in terms of win rates?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Yes, on win rate, I think we're doing well. In all the discussions and all the meetings we have, there is good support for the strategy, the way we work. I feel we're on a good trend, and we are in a good position to win market share in the next 6 to 18 months. There's a lot going on.

Then, Wim, your question about GAS, Google Automotive services, and how that is affecting the market. It's not so easy to say, to be honest. I think if this trend is sustained, that you see deeper integration in the safety features, I think we have an advantage.

So, the Google product is obviously a consumer product derived from Google Maps and not specifically developed for the automotive use case. So, I think we have an edge there, on ADAS, and HD, and those types of functionalities that typically carmakers are increasingly demanding.

So, I think we're looking good. We're confident. The team is confident. As said, there's a lot of activity going on. We need to focus on what's out there, and that's what we're doing. And I feel confident that we can lay a solid foundation for the business in the next 18 months.

Operator

(Operator Instructions) The next question comes from the line of Nikos Kolokotronis, from Van Lanschot Kempen.

Nikos Kolokotronis Van Lanschot Kempen N.V. - Analyst

Thanks for taking my questions. So, obviously, there is a lot of uncertainty in the automotive market at the moment. And also with regards to the adoption of electric vehicles versus the ICE platforms. So, at your 2022 CMD, you guided for navigation take rates of 50% by 2025. So, I was wondering if you could provide some more color on how you're tracking these numbers in Q4? And what do you expect in 2025?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Yes, fundamentally, I think take rates are in an upward trend. What the exact number is today, I don't know. I think it takes a little bit of time to have all the data in front of us. But the relative mix of EV versus internal combustion engines makes a difference. And so for EV, it sounds like it's becoming more a story of when and not if. And it looks to be a little bit more delayed, and that will have an effect on take rates, indeed. What the exact number is, I can't say precisely. But it's still going up.

Nikos Kolokotronis Van Lanschot Kempen N.V. - Analyst

Perfect, thanks. And my second question is on the cash flow side of things. Because if I look at your trade receivables, they fell to EUR60 million approximately in Q3 and that number looks lower compared to levels we've seen in the last two years or so. So, I wanted to check with you whether we should expect some reversal into Q4? Or there is something more long-term, perhaps in the terms with customers or whatsoever?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

No, no, there's nothing to expect for Q4.

Nikos Kolokotronis Van Lanschot Kempen N.V. - Analyst

So, you mean no reversal? We should expect flattish, more or less, trade receivables going forward?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Yes, I think it will be around EUR60 million by year-end.

Freek Borst TomTom NV - Investor Relations

As there are no further questions, I'd 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 all disconnect.

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