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# EDITED TRANSCRIPT

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## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to the TomTom Third Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I would now like to turn the call over to your host for today's conference, Bruno Priuli, Investor Relations Officer. Please begin.

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### Bruno Priuli

Thank you, operator. Good afternoon, and welcome to our conference call during which we will discuss our operational highlights and financial results for the third quarter 2017. With me today are Harold Goddijn, our CEO; and Taco Titulaer, TomTom's CFO. You can also listen to the call on our website and a recording of the call will be available shortly afterwards. As usual, I would like to point out that safe harbor applies. 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.

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

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

That's great. Thank you, Bruno. Welcome, ladies and gentlemen, and thank you for joining us today. I would start with an update on our Consumer Sports business. We communicated earlier that we would initiate a strategic review for our Sports business. That review is ongoing. But in the meantime we have reduced our cost and are now in maintenance mode. Our customers, both existing and new ones, will continue to be served. We've just launched major updates to our mobile app and website that have been very well received. But of course, [our costs are now aligned] -- and given a short period of adjustment, we will return to black numbers by the end of Q4. The review for assessing our longer term options is in full swing, and we expect to give an update at our full year results or earlier if possible. The PND business is cash-generative, and we will continue to provide a valuable platform for consumer insight and location data. By the end of this year, our Consumer business will represent less than half of total revenue and less than 30% of our gross profit. Our strategy is to build on a leading position in maps applications and services where location is important. Year-to-date, combined revenue of Automotive, Licensing and Telematics grew by 17% year-on-year. As you can see, our business is shifting towards higher gross margins, better predictability and more upfront cash.



I'll start with a more detailed view on Telematics. So the Telematics business reached 785,000 subscribers by the end of the quarter, and that is a 17% increase year-on-year. In the quarter, Telematics was recognized as Europe's largest provider of fleet management solutions by research firm, Berg Insight. This is the third year running that we have led the European market. Telematics launched an open beta version of the New WEBFLEET 2018 application suite and that offers a fresh modern user interface in our main fleet management solution. In the Connected Car services segment, we announced a contract with LeasePlan. This is an important partnership. We can bring value to large corporate fleet owners with, what we think, are short times for return on investment.

I'll now move on to Automotive. Automotive had a very strong Q3. Revenue growth was over 50% year-on-year. And year-to-date, we deferred a net amount of EUR 36 million of Automotive revenue. For the whole year, we are expecting a 40% revenue growth year-on-year. 2017 is a important year for Automotive, and this will continue in 2018. We're seeing a lot of RFQs coming in. And in most RFQs, we are asked for global brand and car model agnostic offering. This means that we're seeing more requests for system sales where we can provide a best-in-class product and services offering, where we integrate traffic, online map update services and more. We'll give an update on our order intake for 2017 early February when we publish our full year results.

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

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

Thank you, Harold. Let me make a couple of brief comments on the financials. In Q3, revenue totaled EUR 218 million. Automotive, Licensing and Telematics combined grew by 18% year-on-year. Automotive revenue was up by 51% to EUR 47 million. This increase was driven by a combination of higher take rates and more customers versus last year. Our expectations for full year have gone up to 40% growth year-over-year for this business unit. Licensing revenue was flat year-on-year with EUR 34 million, and Telematics' revenue was up with 8% year-on-year-- to EUR 39 million. The recurrent subscription revenue for the year increased 7% to EUR 32 million. Consumer revenue decreased 29% year-on-year to just south of EUR 100 million. The majority of revenue, roughly 80%, is PND related, Sports represent approximately 10%, and so does Automotive hardware, also 10% of consumer revenue. Gross margin was very strong in the quarter with 65%. This is an increase of 5% points year-on-year, as we see the continued growth of recurrent data software service businesses and a decrease of dependency on hardware products. We expect gross margin to be north of 62% for the year as a whole. Total operating expenses for the quarter was EUR 147 million, that's EUR 3 million higher compared with a year ago. But if we exclude the one-off restructuring charge of EUR 12 million, the expenses -- the OpEx decline was EUR 9 million year-over-year. We expect this trend of lower marketing expenses to continue during the last quarter of the year. Our OpEx in the fourth quarter is expected to be down with roughly 10% year-over-year. EBITDA decreased by 6% year-on-year to EUR 31 million, and EBIT was a loss of EUR 6 million in the quarter. The net results adjusted for acquisition-related expenses and restructuring charges and gains on a post-tax basis was EUR 19 million, which translates in an adjusted earnings per share of EUR 0.08 on a fully diluted basis. This compares to EUR 12 million and an adjusted earnings per share of EUR 0.05 in Q3 last year. At the end of the quarter, we reported the net cash position of EUR 102 million.

Then I'll continue on Slide 4 to have a look on the Automotive numbers. As shown in the last couple of quarters, this slide highlights the operational revenue of Automotive. Operational revenue is the reported revenue plus the net change in the deferred revenue position. As well as we see -- as we sell products to Automotive that include multi-year updates and our subscriptions, some of the revenue is deferred. Automotive operational revenue in the quarter amounted to EUR 55 million, an increase of 54% compared to last year. The total deferred revenue on our balance sheet is EUR 240 million. The main contributors are Consumer and Automotive. Consumer represents half of it, EUR 120 million, but is declining. And Automotive represents EUR 94 million and that represents doubling since last year. In the year, so year-to-date, Consumer released its deferred revenue position with EUR 30 million. But on the other hand, Automotive increased the deferred position year-to-date with over EUR 35 million. Consumer deferred revenue will continue to decrease, while Automotive will continue to grow. And that growth will even -- is even expected to be stronger in the quarters to come. This effect will not be visible in our short-term -- in short-term in the P&L, though best reflected in the balance sheet and the cash flow statements. The consequence of this change in nature of our business is that we're becoming more and more a software business. In Q3 2017, almost 65% of our revenue was derived from data software and services, which results in a more predictable income stream and provide higher gross margins.

Let me conclude my comments on Slide 5. We're updating the guidance for the full year. So due to the continued headwinds in Consumer Sports, we now expect to deliver full year revenue of around EUR 900 million. The adjusted earnings per share of around EUR 0.25 remains unchanged.

We now expect the level of investment, CapEx and OpEx combined, to show only a marginal increase compared with 2016, and that is excluding acquisitions and restructuring charges.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We can now take our first question from Francois Bouvignies from UBS.

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

The first one I had, it was on the Consumer business and the Sports revenue -- Sports division review. What -- can you narrow a bit the list of option you have after the third quarter. Is the sale still possible? Anything more around the work you've done in Q3? Where you are now and what should -- could we expect at the end of Q4 when you update? The second one is the -- I mean, kind of a housekeeping question. But on the Automotive bookings, can you give a bit of sense of how the market is evolving, still higher than last year for the market? And your market share there, how is it going? And also your HD Maps offering. Any update on when we should see it in the bookings? And the final one is on the Telematics. Just maybe, if you look at Q3, you had a bit of a one-off strike with correctly your release positive. So the underlying is still below what you reported in the last few years. Is it possible to update on the road map on this market? And should we expect an acceleration into next year or continuing low single-digit growth going forward?

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

Okay. Let me -- so let's have a look at the Sports business. So we announced a strategic review. What we do -- what we have done in the meantime is bringing the cost down and we're in maintenance mode now. And that means that we are serving our customers and retailers, but we're not investing in new product and we've cut our marketing expense write down. In the meantime, we continue to look at options that are available to us. There's a lot of good assets in the business as well. And we've been approached by a number of parties, who've asked us to have a look at their business. That review is in full swing. I hope that I -- that by the full year results, we can give you further insight and further information and perhaps earlier. But that we'll -- we're not fully in control of that process. Your second question was on Automotive bookings. So it's a potentially big year in Automotive. There's a lot of business coming to the market, as I referred to in my opening remarks. And we'll give you an update, on how successful we've been, when we do our full year numbers as we said earlier. So last question...

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

Just sorry -- it's just a follow-up on the Automotive. On your market share position, do you feel that you are taking share? Or -- and the HD Maps as well. I was just wondering if you could give us -- if you saw any progress in the quarter or when you -- we should see it coming through in your bookings?

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

Yes, so I don't want to comment on market share before we give you an overview of the order intake. But we feel good. We feel in a good position. That doesn't mean we're going to win everything. But the teams are constant. But there's a binary decision. So it's very difficult to say anything before it's been awarded or not been awarded. So you need to forgive me that I can't elaborate more than what we said so far. On HD Maps, we see increased activities in terms of RFQs. There are now a number of RFQs coming to the market where we start seeing some meaningful volume, and that is for Level 3 automation. There's various -- there's 5 levels of automation. And this is -- we first start a little bit at Level 3, so that is kind of



an uptick of where we were. And what we see from those RFQs is that carmakers are planning to start shipping those cars in 2020, 2021. And the sourcing procedures, technical specifications, commercial conditions, the discussions we have with potential customers for those products and technologies are intensifying.

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

And on the pricing on those -- on these HD Maps, as you see the volume coming through, how should we think versus traditional? I don't expect you to give me the exact price, of course, but can you give us a sense of the increase you have versus your traditional maps with HD Maps at the moment with your contract?

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

Yes. So again, this is early days. I think the interesting thing that we're seeing is that the quotes are asked for a -- on a yearly basis. So there's a per year, per car subscription fee for the HD Maps service that is increasingly the way that the market is going and where we're asked to respond full. In other words, give me a monthly or yearly fee per car for providing me an up-to-date HD Map. And that is different from what we're doing now. Now everything is wrapped up in the price -- in total price that we charge when a car is coming from the line. So it's a one-off fee. And you can then summarize happening as because of procurement systems, financial systems and so on and so forth. But for Connected Cars and HD Maps, we see a trend towards a yearly subscription. And the amount per -- the amount that we're looking at now is significantly higher than what we are charging for standard definition maps where the volumes are significantly low. And that's the way to look at it at the moment. Did that answer your question?

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

Yes, that's great. And the Telematics one, just maybe, it would be nice to have an update because it's true that the growth has been slowing down a bit, where the underlying, and I was just wondering if we -- is it fundamental, basically? How should we expect a recovery in some point?

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

Well, that's a bit early to say. I think underlying growth and volume is still good, 70% is what we have seen so far this year. Top line growth is behind that. There are a number of reasons for that. It's too early to say whether the -- number of (inaudible), let's say, why ARPUs have come down slightly. Whether they will repeat themselves in 2018 and beyond is not clear yet. So we need to wait until we -- when we make predictions for 2018. I think the interesting thing is that next to our Telematics business, we're starting to see income coming through from the Connected Car services. And the announcement we made today with LeasePlan is a significant one in that respect. So we see a desire from car service providers like lease companies to have data available from the vehicle so they can run their business better and can offer new services and new products to their customers and all the potential stakeholders like insurance companies. That's a interesting development. We've been preparing the ground for that from a product perspective and a technical perspective. We've been preparing the ground from a commercial perspective as well. And this is the first significant announcement we can make in that respect, and I expect more to follow. And that will provide a new type of income in the years to come for different customer and a different application. And the way to look at the financial applications, it's hard to model that now. But you're typically talking about much higher volumes for these type of deals at lower ARPUs.

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

And the fact that it's -- you know you see more Connected Car, do you see a risk of disintermediation, where that -- the barriers to entry are a bit lower. So given your high market share, you could see some dilution of market share given the easy access to the data.

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

Well, now, that's what we are seeing. And the reason for that is that the car service provider like lease companies and insurance companies are, by definition, multi-brand, multi-model. And there is no way you can get a dataset out of vehicles that you can compare and that you can aggregate and dice and slice. So the -- for the moment, and that will we'll -- and when I say for the moment, for the next 5 years and maybe even beyond that, I think, it's very difficult to get -- you will still need to do a awful lot of work to get to the actual data out of the vehicle and out of the platform. And we don't see at this moment a trend towards disintermediation. The -- but it is an important question. So you have 2 kind -- 2 slides to disposal, how do you get the data, that's one thing. And then the next question is, how do you unify the data and how do you make products and services and information out of that data? The second bit, of course, is -- will never go away. There will always be a requirement for data aggregation, standardization and turning that into meaningful information. And that's -- that is a core of what Telematics is doing.

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**Operator**

And we can now take our next question from Andrew Gardiner from Barclays.

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**Andrew Michael Gardiner** - *Barclays PLC, Research Division - Director*

I had a question about some of the incremental detail you've given us in the press release regarding CapEx. Clearly, you've been guiding for the full year. But now you actually -- you've sort of broken down some of the different buckets there to help us understand where you're spending. Can you sort of help us think forward into 2018, perhaps not quantified, specifically, I know you're not giving 2018 guidance today, but just in terms of the moving parts in CapEx, where you see increased need for investment or where we might be able to see sort of greater leverage from the investment level that you've had over the last couple of years? That would be helpful.

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

If I may, I'll take that question. But what you'll see is that the -- especially, in the mapmaking platform, that will be the driver of future automation. So the aim for our transactional platform is to reduce the level of manual touch to improve the cycle time and the time to market of changes. And the more you can automate, the better that is. So I expect that the mapmaking platform investments will continue to be the highest of this list. And I don't expect that to come down in the short term. Map content can also be a factor of investment. But that is related to -- we see our -- the mix of customers is improving, is changing. We get new customers in mix, but it can also be that their footprint is different than the existing footprint that we serve. And that can lead to additional one-off investment in certain areas or certain layers of the maps. And that is reflected in the map content. Over a longer term -- I don't specifically point it to 2018, but in the longer term, I expect the bulk of the CapEx to be seen in the mapmaking platform.

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**Andrew Michael Gardiner** - *Barclays PLC, Research Division - Director*

Okay. Thank you, Taco. Just another one, if I could. I was interested in some of the comments you were making, Harold, regarding the RFQs for Level 3 systems. I'm just wondering if you can provide your perspective on how well prepared you think the industry, at large, is for that sort of shift towards increased autonomy, not necessarily full autonomy, of course, but sort of the step-up towards Level 3. How ready do you think the OEMs or the Tier 1s are for these systems? You know the question, it's a very hot topic, but I'd be interested in sort of your perspective as to how to sort of put it crudely sort of the nuts and bolts all come together and sort of the readiness of the industry?

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

Yes, this is a hard question to answer. And you can look -- and you understand that also if you talk about the time line, so 2020, 2021, and we're trying to solve collectively very hard engineering challenges. And experience tells you that you cannot exactly predict by which time you have corrected. The consensus is that by 2021 -- if and I look at the road maps of different OEs that by 2021, significant steps are going to be made

towards high levels of automation than what we're seeing today. And it's there that the full spec of our HD Maps comes to its full fruition. There are already derived functionalities that we are licensing today at small-scale, arguably, but you see that happening. But the full spec and the full product potential will come to life in that time frame that I just mentioned, 2021. Whether the industry would get there or not is a guess. You will see some delays. You will see, maybe, some companies who are front running that date. But the overall ambition of most carmakers is to make that stamp in some of their cars in 2021.

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**Operator**

And we can now take our next question from Martijn den Drijver from NIBC.

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

Just a couple of follow up questions on the Automotive. When we talk about lane level traffic information, can you provide a bit more granularity on the markup in terms of pricing relative to normal traffic solutions, not talking euros, but maybe some indication in terms of percentages? And the second one is relating to the Mercedes contract. Two questions, actually. Was that order in before the acquisition by BMW, Audi, Daimler or not? And the second one is, does it include also the more higher-end SUV types vehicles like the GLA, the GLC, the CLE because I'm not clearly sure about that. Then the second question relates to the restructuring charge in Sports. Is that all cash or is there also some noncash element to that? And the third question also relates to Sports. Hypothetically speaking, if you find no buyer for these activities, then you still have to look for a different type of solution. And we'll look at it from today, how many months of revenue do you still have in the retail channel? And realistically, how long would it take for you to end supplier contracts that are necessary specifically for this category? Just to give us a sense on of how long this activity could still possibly remain within TomTom?

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

So, well, we've got to split the -- thank you for the questions. I hope we wrote it down correctly. But -- and I'll ask...

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

I can repeat them.

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

Taco to take on some of the other ones. So lane level traffic was your first question. You know, don't expect revenue uptake from that. It is part of our product offering to stay competitive ahead of the game. It's one of the ways how we capitalize on the enormous amount of product that we have. It will give us a competitive advantage. But don't think about it -- think about it in terms of our overall position, number of cars connected territories and market share that you can cover moat in price per unit. I don't think that will be right.

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

Okay. Got it.

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

But it will strengthen our overall position. It's not -- it's a bit of a future. It's not something that is really important that we're working on, it will happen over the next couple of years, especially, when we've better positioning of the vehicles. And now, it's in many cases, very hard to decide on what lane a car is in. We don't have that information, but, obviously, that will change with self-driving cars. Then we'll know exactly where those



cars are. There's already use cases. For instance, in America, you have high HOV lanes, they drive at a different speed than other lanes there. It makes sense to have that traffic information available. And that's where we make it available first. And it is an overall indication that we're progressing the quality to personalize the product further than where we are. I think the other exciting bit about traffic is the broader geographical footprint that we have now that is often for OEs who want to standardize one traffic provider. The absolute amount of coverage you can offer is often an important factor in a decision whether to grant that contract to us or to someone else. On Daimler, I don't want to elaborate on that. We have -- it's a North American deal. It will go to A, C, B and E-class vehicles for North America. And...

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

Yes, but there's a big difference between those modules in volumes and those -- the models that I mentioned. The SUV types are much higher volume than the standard models. So it makes a big difference if you have them or you don't have them.

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

Yes, for the commercial, the way we talk about the size of those deals is in the aggregated number. I don't want to talk about specific contracts. But we give you the accurate number for order intake and the aggregate number for, of course, revenue. And that is -- and I cannot possibly go any deeper than that. But it's a significant contract. And it is important as well because it adds to our footprint in North America. And we've seen, over the years, consistent improvement of our North American database, both in Canada, USA and Mexico. And we're very happy with that. We come out tops in many independent tests for navigation. A lot has happened in addressing in POIs. It's a very competitive product. We're shipping it now also with a lot of other leading North American car vendors. So that is -- that's an important development for Automotive. So we're happy that we could get a good amount there.

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

And if I may take the last questions. So on the restructuring and also Consumer Sports specific, as already mentioned, is that the revenue coming from Sports in the quarter was roughly 10% of the overall consumer contribution. That's one. The other thing that we have said is that if you would make an sports-specific P&L, then you will have something that is not possible currently. But we aim and we have conviction that we can go back to black numbers before the year-end. Any prediction on how much revenue or how much products are still in the channel or on our books, et cetera, I don't want to go into those details. But I can say about the EUR 15 million restructuring -- or EUR 15.4 million restructuring, roughly EUR 3.6 million is in the cost of sales and those are inventory provisions. And then, the remaining is in the OpEx line, of which, a bit north of EUR 8 million is severance accruals. But we also have some fixed assets write-off of EUR 1.5 million to mention one more cash element, et cetera.

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**Operator**

(Operator Instructions) We can now take our next question from Marc Hesselink from ABN AMRO.

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**Marc Hesselink** - *ABN AMRO Bank N.V., Research Division - Analyst*

Firstly, could you talk about the Automotive growth path going into the next year? I think your visibility for next year is already pretty good, also for the year after. We've seen the growth number being pushed higher than you initially thought. What are you seeing for the next 2 to 3 years. I mean, is it going to accelerate further? The second question is on your OpEx, going also into the next years. Do you have the feel now that you are taking your cost measures in Sports, also looking consequently at the cost in your mind, in general, that your OpEx in the next few years that, that it will change significantly, either on the upside or on the downside? And then the final one, you mentioned on the LeasePlan contract that you expect more to follow. Would it be in the same categories, also, lease companies or can it also be -- also specifically talking broader than that?



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

Harold, if you can take the last question, I'll do the first question.

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

Yes, so the last one is easy, Marc. So, yes, we expect more leasing companies to come in -- to come through. But also, there's potential for other type of businesses to come on that platform. So we see it as a very promising activity that we're doing. And it's not the first time that we hear -- we started exploring, developing, I think, 2 years ago. And I think, the market sees data as important, and an important tool for driving business, developing products and services. The car industry doesn't want to be left behind. There's a big issue in standardizing the data, getting the data in the first place, do something meaningful with it. Leasing companies are very well positioned to do that because they can bring real scale into those programs. They can really industrialize it, do it on a large-scale, throw resources at it in a way that they -- that the return on investment is higher as well, if you do all those investments over a large or installed base. So we're pretty excited by the whole thing.

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

Yes, it is not the time to talk about 2018. But that probably doesn't satisfy of your question. But let me give you 2 trends that we -- how we see 2018 is that, one, is, I don't think we can repeat the 40% growth rate that we saw in 2017. So yes, growth, but not at 40% level. And for the net addition, so the ballpark number that you need to work with for the net addition with deferred revenue Automotive is roughly EUR 50 million this year. I expect the net addition to deferred revenue next year to be even bigger than that. On the OpEx, our business model is changing and we defer it. So cash will become a more important indicator of progress than it was before, also, because of the IFRS accounting, where lots of revenue is not seen yet. The OpEx number for next year is -- there will indeed be some relief coming from consumer. On the other hand, it's also related to commitments that we have made in the Automotive industry, either in CapEx or direct commitment, CapEx in previous year that we now find back in amortization. Overall, OpEx going up next year, not very likely. But with that, I want to defer this question to February.

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**Marc Hesselink** - ABN AMRO Bank N.V., Research Division - Analyst

Okay, thanks. Can I have one follow-up on the deferred revenue part? If I do it -- maybe that's too simplified, but if I do a calculation as to EUR 35 million you're adding to that as something like 90% gross margin, do a tax over that, that would add some \$0.10 cents to EPS, if you would be able to put it into P&L to correctly -- is that correct or...

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

That is correct, yes.

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**Operator**

And we can now take our next question from Marc Zwartsenburg from ING.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

Couple of questions. To start with the Sports category. Can you give us, Harold, an idea of the loss that you roughly are going to make in 2017? Just to get a feel for the swing since you mentioned that you're going to be writing black figures as of Q4, to get a sense for the swing for next year. That's my first question.

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

No, I don't -- I really can't do that, unfortunately. We haven't disclosed that number. We have done -- so we lost money, yes. We stopped the bleeding. By the end of the year, it's black numbers and then try to put it to history as soon as we can.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

No, that's what we're done trying to do because we already decided that it's -- that we're going to phase it out or -- and take another decision on it. So going forward, it is then important for us to know what roughly the loss and the bleeding has been because then we can also properly adjust our models going forward. I think that's a big positive, stopping the bleeding. And that's why we want to get a bit of feeling. This is a public call, so the disclosure issue should not be a problem.

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

I get that. But I would like to wrap this all up. There's a lot of moving parts. I would like to wrap this all up in February 2018 while we give you information how to look at 2018 and how does different things are moving together and in combination. I don't want you to -- I don't want to give a number, you add it on to the net profit for 2018, I don't think that's right. There's more going on. So I'm not sure we would really help you understanding how that exactly works. So I would prefer, given that uncertainty, the flux we're going through, to give you a number in February 2018. So you can -- you have what you need for the moment.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

Well that was really because I see -- I see quite conflicting stuff in the market on this. And to be fair, what is difficult then to understand if we say there's a small -- there's a lot and we write black figures that we just have the delta next year that is -- is there anything else that I'm overlooking then that should repeat into your account.

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

Well, I can add to that. There are other trends as well, right. So Consumer in itself is not only Sports, it is -- as we have reported the half-year numbers that it is more or less breakeven Consumer as such. So if you then work out what Sports is not contributing that you would add the rest to PNDs and Automotive hardware. But the latter 2 categories will decline in 2018 as well, right. So...

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

But that's my second question, but...

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

So -- and Harold kind of expected you to have that second question follow-up question. And then we go into a much more disclosure than we already have done before and we don't want to do that.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

Okay. Maybe then on PNDs, can you give us any indication of the declines in PNDs currently in Q3 and how that compares to the previous quarters?

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

Well, I can tell you what the market -- so what we've seen in the market is that the decline is roughly 25%, and that is on the standard PNDs. So it's not specialized products for caravans and motorcycles and larger streams. But the classic PND is declined with 25%. Our market share is fairly stable-to-up. Sometimes means that -- and the ASPs are fairly stable as well. So over a longer period, you can expect our decline also to be 25%, if the prices are stable and the market share is stable. But per quarter that can change because sometimes we sell a bit more into the channel or sometimes we sell a little bit less in the channel. But there is -- the PND transaction -- transitions are going according to plan.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

And is that trend rather stable in terms of decline or is it accelerating a bit?

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

No, it is rather stable. It is what I said. So it's 25% in Q3 and it's also what we've seen year-to-date, also in Q2 and Q1.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

Okay. And for next year, on the PND business, do you expect that you can still manage out costs quickly enough to keep up with the revenue decline or will it eat in a bit on the margin, can you give us an indication on that?

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

There is a plan, yes.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

You manage out the costs in line with the top line because that would still imply quite a significant cost reduction in the PND business.

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

Yes.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

So that's managed.

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

There'll be replans to do that. We'll make it. And there is -- and we can do it also from people perspective. We have a lot of flexibility allocating people, employees in different parts of the business, and there's a lot of growth in our area. So by making that easy, we have also more options to keep everything aligned. And we're pretty confident that the Consumer business will contribute significant amount of cash next year.



**Marc Zwartsenburg** - *ING Groep N.V., Research Division - Head of Equity Research*

Okay. And then on the OpEx line, can you give us an indication what we should expect in terms of cost increases in the Automotive business. What kind of investments you need on the OpEx line there?

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

Well, there is -- there's not a huge amount for ongoing contracts. So for contracts, there is a variable part that we call NREs, nonrecurring engineering charges, that is all manageable. Some customers have asked us to expand coverage in certain areas where our map is underdeveloped, we're doing that. I think the biggest investments and adjustment both in engineering is probably going to come from the HD Map. So the HD Map, there is a lot of work going on in optimizing the processes. Our goal is to have a fully automated process for creating HD Maps. We think we can get there. There's quite some manual work at the moment. But if we can do that fully automated then it becomes a much more manageable and industrial process. But we need to spend some money in getting there over the next few years, and it's mostly in software engineers charges. Otherwise, there's no big swings from where we are today other than that the map is continuing to increase in quality. We're doing that. So we are kind of in control over that OpEx expenditure. And we can let it -- we don't need to do big things in order to win the next deal or something like that. That's not how we look at the business.

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**Marc Zwartsenburg** - *ING Groep N.V., Research Division - Head of Equity Research*

But if you pencil in, say, mid single-digit growth for your Automotive OpEx, then that will be okay.

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

I beg your pardon.

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**Marc Zwartsenburg** - *ING Groep N.V., Research Division - Head of Equity Research*

If you put in, say, single-digit increase in your OpEx for Automotive, that will be already okay?

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

We don't want to go there.

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

I don't know that.

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

Let's have the -- let's bundle all the 2018 questions and let's reask them in February.

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**Marc Zwartsenburg** - *ING Groep N.V., Research Division - Head of Equity Research*

It's now budgeting time, I thought.

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

Yes, indeed.

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

Yes, yes, yes. So we're looking at exactly the same spreadsheet as you are.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

Yes, certainly and that's why I'm asking.

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

I don't think there's already yet.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

Okay. I'll send over mine then later today.

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

Later, we can compare.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

And then a final one. On the RFQs, how -- it sounded a bit like that the bigger volume RFQs are still coming in, in Q4 and going forward. Is that correct that so far has been more of the small stuff and the really bigger ones are now coming in, is that how I should take your remarks of RFQs?

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

I'm a bit careful here. Because we -- what we've seen is some delay from original planning from the Automotive customers. So you never know how long that is -- the plan was to have more clarity by Q3, that is kind of pushed out to Q4. And it's -- and whether they won't happen in Q4 or in 2018, we can also not say that with absolute level of certainty. There is a fair amount of flux in the time lines of the customers of the OEs.

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**Marc Zwartsenburg** - ING Groep N.V., Research Division - Head of Equity Research

So it's correct to say that in the first half of first 3 quarters, it was quite small, then everything comes together in Q4 or Q1 next year? And that the RFQs, in terms of amount, like you referred to previously, are still high, and that's why you're convinced about...

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

I don't want to -- as I said, let's wait then we can -- we're not creating chaos. We wait until February 2018 to give you the number. We gave you as much color around the numbers as we possibly can.

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**Marc Zwartsenburg** - *ING Groep N.V., Research Division - Head of Equity Research*

Okay. You sounded quite confident. I thought that maybe there's already some in the bag and that's all quite promising, that's how I took your remarks.

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

Okay. Thank you.

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**Operator**

And we can now take our next question from Francois Meunier from Morgan Stanley.

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**Francois Auguste Roger Meunier** - *Morgan Stanley, Research Division - MD*

It's been a while I've not been on your call, so hopefully I will ask interesting questions. Yes, so the PND market, of course, is not doing so well this year again. So what is the scale of TomTom in the U.S. or North America today and probably 2018? Is it worth keeping investing in that market or is it better to shut it down or just retract from that particular market and just concentrate on maybe Europe, just to save a bit of money? That's the question. As an owner of the company, Harold, what do you think would make sense of maybe spinning off completely the PND business just so that, maybe, it's a bit clearer, like in terms of cost, what is allocated to the maps and what's allocated to the hardware? And if someone comes around and wants to make a bid on one of the other business that would be quite easy. And the third question is not about 2018 budget, it's really about the Level 3 maps you were talking about before. So if I look on the internet, the new Audi A8 is already Level 3. So I'm a bit confused that you're saying like there is now a new type of RFQ coming up for 2021, 2022, while there is already a Level 3 car on the market. And also, I understand you like to talk about the price of those maps per car, but like to some extent, is it better to look at it as kind of an overall price. So basically like if you have prices today, you have units, timing is piece, it's maybe, I don't know, EUR 20 million or something. And then when it moves to HD, you have a much higher price per map but because the units are very low then maybe it's also EUR 20 million. So if you could elaborate on that when you discuss with the OEMs, how does that work? How do you charge? Is it really per car or is it more like a software-type of deal?

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

Yes, so -- okay, so Telematics, first. So Telematics, we have -- so Telematics is mostly European play. Let's be clear. I think it's about 90% of the revenues Telematics have generated is in Europe. We have that presence in North America. It is not very big, but it's also not -- it's growing quite nicely, not costing us anything, just keeps us in the game there. I don't see any benefit of closing that. We stay close to the market and understand the developments, you never know. And I don't think it's distracting management from what they need to do in that core markets. So I'm quite happy with what's going on there. I think for your other question, do you want to spin it off or not, it's an interesting question. What we...

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

Sorry, the question was for PNDs, I think, not Telematics.

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

PND? Yes, right.

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**Francois Auguste Roger Meunier** - *Morgan Stanley, Research Division - MD*

For PNDs, yes. But I just -- because it's interesting as well I just let you talk.



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

Yes, okay. It's a wrong answer, but it's an interesting answer.

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

Sorry, I didn't get that. I thought you were referring to the Telematics market.

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**Francois Auguste Roger Meunier** - *Morgan Stanley, Research Division - MD*

No, it's, okay.

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

Yes, okay. So for PNDs, it's slightly different. But PND is very -- quite a complex business itself. We would need to accept discount if you want to sell that, I don't think that's the right thing. Would be a huge distraction. I think it's better to run it as we're running it. And I think, we, at the moment, are the best owner of the asset, and it will decline. We need to review what's going on there. But I'm confident it is the right thing for us to do, all the PND business. I really believe we're the right owner. And there are some intangible benefits as well, staying close to end-users, understand their preferences. Next question, Level 3 maps. Yes, Level 3 maps, Audi is claiming to be a Level 3 car. I don't know whether that's true or not. What we internally define as Level 3 is probably a higher level automation than what Audi is providing today. But I don't know the details of what an Audi car can do and what it cannot do. What I do know is that HD Maps are coming into play with those higher degrees of automation. And that is -- and the request for those type of maps, for these types of applications, we see volume coming through, according to the RFQs, in '20 and '21.

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**Francois Auguste Roger Meunier** - *Morgan Stanley, Research Division - MD*

Okay. And what about the pricing? Is it like really per car or is it more like kind of a license fee, like a software?

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

It will be a service fee per car per year. I think that's the most likely outcome.

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**Francois Auguste Roger Meunier** - *Morgan Stanley, Research Division - MD*

Okay. And in terms of units time ASPs because it's fewer units, higher price. Is it the kind of same size of "contract?"

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

Well, initially the units will be lower. But you -- the take rate will be much higher, right. So if you have a certain brand and model that will go with Level 3 or Level 4 eventually, then the take rate will be close to 100% for that model. Also when the -- what the carmakers are asking for quotation to give a much broader, wider range of volumes than you would typically see in normal cars. That's also an indication that they don't exactly know how many of those cars will be sold, the price. There's still quite a bit of work going on to narrow that down. Lack of experience means also that the projections have a wider range than what you typically see in more established car markets where they're quite accurate in their planning and projections.



**Operator**

We can now take our next question from Francois Bouvignies from UBS.

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

Just last one because we didn't talk about licensing, and just wanted to have a quick word on this licensing, especially, given what you saw in Q2. You talked about Microsoft and Baidu, you seem very excited about these opportunities. Can you give us, maybe, an idea onto when Baidu, for example, will come through in your P&L in licensing and Microsoft as well? So maybe the outlook for licensing would be great, given the trend that we see.

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

Yes. So in the quarter, we've seen some negative impact from the exchange rate, you've seen that. So the last proportion of our licensing income is dollar-denominated. The -- with Microsoft we're going into execution fairly quickly. I expect to be live with APIs that are licensed through user platform. In Q4, there will be hardly any volume in Q4, but at least the product will be available as of then. That's my expectation. From there, we need to grow that business. And it's typically a business where it's quite expensive to acquire customers because once you have them, they tend to use service more and for quite a long period of time. So we'll need to see how that develops. But generally speaking, we're excited about this. Those products, we think we can reach a reasonably large audience at low-cost with a high-quality service, especially if you look at some of our APIs are world-class, in the areas of routing, traffic, and -- but also the other APIs that you're quoting are really matured really, really nicely in the last 2 years. So -- and that partnership with Microsoft is developing nicely. We're excited about the prospect of bringing it live. Baidu is different story. That is a technology share. The initial income in the first 3 years will be very small. It's more a remuneration for engineering efforts and what have you. But the broad -- but the potential income is generated when we start licensing maps or Baidu starts licensing HD Maps for China. It's important for us that we have this deal because we can -- we'll be able to offer a unified product across multiple continents. And especially for China, that's fairly unique. Software developers are working on self-driving cars. We'll have access to HD Maps of a uniform spec and uniform quality. And that will help us to both win in North America, Europe, but also in China. But don't expect big revenue coming through in the next 2 to 3 years.

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**Operator**

We can now take our next question from Shyam Kumar from Kuvari Partners.

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**Shyam Kumar**

I have just 3 quick questions. Just to belabor the point, just on Sports, I get the point it's going to be breakeven or back in the black here for Q4 of this year. But, I guess, if volumes take a step down next year, if there would have been in the cost to kind of make sure that we stay in the black or at least in breakeven. That's question one. Just on Telematics. And maybe you can finish the talk you were saying in response to Francois question on scope to dispose that possibly and also just in terms of the ARPU (inaudible), just to understand the dynamic there between low roaming charges, less hardware and the mixed effects in terms of the Connected Car?

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

Yes, so the answer to your first question, i.e., will you stay in the black or at least breakeven. If you could do it in sell Sports, which is next year, the answer to that question is yes, we will.

Yes, so don't expect ongoing losses in that part of business in 2018 going forward. Yes, Telematics is an interesting one. We're kind of in the crossroad here. And so we see wider implications for the complete product portfolio that we're doing. So Telematics itself was quite a -- and is quite a specific services aimed at fleet managers who own 5 to 2,000 cars, something in that range, they have a drop rate of fleet effectively. We're now shifting



more towards -- or a part of the business, an additional part of the business is directed to Connected Car. And Connected Car has wider implications. We saw some initial traction in that marketplace. And it will be great if you can find out a good way to broaden the overall product portfolio where we can address the needs of carmakers, car service providers in a broader sense with a broader and richer product portfolio. I see opportunities for synergy in the space coming our way.

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**Shyam Kumar**

Okay. So when you say synergy, do you mean what in terms of developing your own product portfolio or merging your business with someone else's?

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

No. I see it as enriching our own product portfolio for navigation and location-based services with Connected Car services.

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**Shyam Kumar**

Okay, fine. And then just that point in terms of the ARPU?

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

Yes. The ARPU for those type services is low -- lower than what you are used to from us in Telematics services, significantly lower. But the volumes are significantly higher. It's a way to look at it.

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**Shyam Kumar**

Okay. Okay. But, I guess, just in terms of the lower ARPU rates you guys are seeing at the moment year-on-year, how much of that is due to kind of less hardware in the mix, less roaming charges coming down versus the mix shift for Connected Car?

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

Yes. So we've seen 2 events, one-off events -- 1 one-off event, that is the abolition of roaming charges. We've had an effect on our pricing because part of the pricing was country roaming dependent. We couldn't do that anymore and we didn't want that anymore and as a result the overall ARPU has come down. I don't know exactly the effect of that. But it's between EUR 0.25, EUR 0.50 per month per car something around along those lines. That's one effect. Two, the second effect is that we see less hardware sales because increasingly hardware is becoming a part of subscription fee. So the one -- so that has a quite significant effect on the top line.

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**Shyam Kumar**

Okay. Okay.

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

Bigger effect on the top line, but not so much, of course, on the subscription part, the recurring part.

**Bruno Priuli**

As we have no further questions, I would like to...

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**Operator**

Sorry, there are no further questions on the line. So I'd now like to turn the call back to the host for any additional or closing remarks.

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**Bruno Priuli**

Thank you, operator. I would like to thank you all for joining us this afternoon. If you have any follow-up questions at a later time, please don't hesitate to give us a call. Thank you all very much. Operator, you can close the call, please.

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**Operator**

Thank you. That concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

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