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TOM2.AS - Q2 2018 TomTom NV Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, welcome to the TomTom Second Quarter 2018 Results Conference Call. (Operator Instructions) Please note that this conference is being recorded. I will now turn the call over to your host for today's call, Bruno Priuli, Investor Relations Officer. You may begin.

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 second quarter 2018.

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 it over to you.

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

Thank you, Bruno. Welcome ladies and gentlemen, and thank you for joining us today. Our positive start to 2018 carried through into the second quarter. Automotive continued to grow strongly and gross margin further strengthened and as a result, there's been a year-on-year gross profit growth and strong cash generation.

We further improved our map production system during the year. Higher degrees of automation and machine learning resulted in faster cycle times and lower operational cost. We also significantly extended our map coverage and map quality. Taco will provide further information on the financial highlights and the financial outlook for 2018 later during his presentation and I will discuss the key operational highlights for the quarter.

TomTom EV (electrical vehicle) services won the best E mobility product and services award at the CLEPA Innovation Awards. Electrical vehicle services help drivers to make informed decisions about when and where to charge their vehicles. We now cover more than 45,000 charging stations with real-time availability information globally. We're happy to announce that Microsoft Azure Maps are now offered for general availability. Our maps APIs help Microsoft customers to access robust mapping capabilities that can be integrated in a wide range of applications.



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In June, the global consulting firm Frost & Sullivan named TomTom Telematics, the European Fleet Telematics Company of the Year. Our connected car services solutions for leasing and rental companies and the complete overhaul of the WEBFLEET system attracted praise for our products. Our Telematics business continues to present double-digit growth in subscriptions. We surpassed 848,000 fleet management and connected car subscribers at the end of the quarter and that is an increase of 11% year-on-year.

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

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

Thank you, Harold. Let me make a couple of comments on the financials. In the second quarter of 2018, we reported revenue of EUR 231 million, which is 21% higher sequentially, driven by both Automotive and Consumer. Year-over-year, the revenue was 9% down driven by Consumer and Enterprise, partly compensated by the increase in Automotive and Telematics.

Let me go through the 4 businesses one by one. Automotive revenue was up by 28% in the quarter and 20% up year-to-date. For the year as a whole, we expect Automotive to grow with a similar percentage as we saw in the first half. Full year revenue expected to reach EUR 230 million versus EUR 196 million last year. Automotive is the main driver of our overall revenue guidance uptick from EUR 800 million to EUR 825 million.

Enterprise revenue was down by 22% in the quarter and 16% down year-to-date. For the year as a whole, we expect Enterprise to decline with a high single-digit percentage. This is a result of the H1 2017 one-off effect and a weaker dollar versus last year.

Telematics revenue was up by 7%, equal to its performance year-to-date, and we also expect this trend to continue for the rest of the year. The recurrent subscription revenue year-on-year increased by 7% to EUR 34 million.

Consumer revenue decreased by 24% in the quarter and 25% in the first half. For the year as a whole, we expect the decline to be even a bit steeper reaching close to 30%.

Gross margin was again solid. And year-to-date, we are above 70% now. And as the mix of our revenue in the second half of the year will continue to lift gross margin, we feel comfortable in raising our gross margin guidance from close to 70% to at least 70% for the full year.

Total operating expenses for the quarter was EUR 141 million. We expect this to be the run rate for the remainder of the year. Year-over-year, we see a decline of marketing, though, on the other hand, we see growth in the money we spent on sourcing map content and our mapping platform. EBITDA increased by 26% in the quarter and 28% year-to-date.

EBIT in the quarter was EUR 25 million and the operating margin of 11%. The adjusted earnings per share was EUR 0.05. Together with EUR 0.10 we reported in Q1, we have now EUR 0.15 year-to-date, which makes us comfortable with raising the guidance to at least EUR 0.30 for the full year. Year-to-date, we increased our cash position with EUR 34 million. We now have EUR 155 million of cash, and we have no debt. We expect the second half of the year to be even more cash generative.

Last comment is about our deferred revenue position. Main trends here are in Consumer and in the Automotive lines. Consumer is down EUR 20 million to now EUR 107 million and Automotive is up with EUR 65 million to now EUR 136 million. This trend will continue.

On the next slide, we have Automotive. Automotive is our second largest revenue stream behind Consumer and Automotive is growing strongly. As already explained, we expect to grow this with close to 20% this year. There is a difference between the revenue we invoice and the revenue we report. The latter tends to be lower as we follow the new IFRS 15 accounting. And let me discuss that here as well.

As a rule of thumb, for a large part of the Automotive map contracts, we recognize 70% to 80% of the total contract value during the selling period and 20% to 30% during the service period. The 70% to 80% is spread over the month in the selling period as a straight line revenue constraint. The lower of either cumulative invoice revenue or cumulative straight-line revenue can be recognized. If the cumulative straight-line revenue is lower than the cumulative invoice revenue, the difference between the 2 is added to the balance sheet as deferred revenue.



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Every quarter, we assess the expected total contract value of all our Automotive customers. This can mean that we have to release deferred revenue when the gap between cumulative straight-line revenue has narrowed as a result of an increase of the projections.

On the slide as shown before, we highlight operational revenue of Automotive. Operational revenue is the reported revenue plus the net change in the deferred and unbilled revenue positions. Then the last slide, the outlook of 2018 already discussed, but here to summarize, we are increasing our guidance for the full year due to a higher demand from our Automotive customers. We now expect it to deliver full year revenue of around EUR 825 million and gross margin of at least 70%. Previous full year guidance was around EUR 800 million and a gross margin close to 70%.

OpEx is expected to be around EUR 550 million. The both effects will increase the adjusted earnings per share to at least EUR 0.30 in 2018.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will now take our first question from Francois Bouvignies of UBS.

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

The first one I had was on the Apple news recently that they were building their own maps now. So I have a simple question really. If you were to lose this customer of yours, what would be the impact on TomTom, both financially and operationally? Would be very interesting to know. If you were to lose it completely, of course.

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

Well, Francois, I can be very short on that. We're not going to comment on that. It is not in our interest and it's not our strategy to lose this customer obviously.

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

Okay. And if for example, on the operational side, I mean, how important is the data from Apple, all the iPhones to -- for your maps and live traffic. Is it something that it is really competitive advantage in your view?

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

Don't want to comment on that.

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

Okay. Okay. No worries. I understand. So the other question I had is on the Automotive bookings, just wanted to have some qualitative comments. How do you see the bookings trends, especially versus 3 months ago? Any change in terms of takeup in penetrations or ASPs, anything you could point out?

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

Yes. Francois, I think we are tracking according to plan. We don't give the actual numbers for order intake per quarter. The reason is that, that it is -- it can be quite lumpy and it's not indicative for what can happen over the year. So we'll give you a full update in -- with the February results.

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

Okay. And the trend that you saw in the U.S., do you see that continuing with other customers, or it's too early to say?

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

Well, it's too early to say. Working hard to deliver the product, of course. We made good progress there. But we're not shipping, and we are not -- to that particular customer, we're not shipping yet. That will take some time before you can see that happening and translating into the top line. But the firm's running according to plan, I mean, there's no -- it's all going on well.

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

Okay. Okay. And maybe I had another question on the free cash flow for this year. I mean, last time you said that we could expect like EUR 80 million if I remember correctly. How should we think now given the trend that you see in the Automotive and your cash flow generation? How should we think about the full year free cash flow?

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

Yes. The -- what we indeed said is that we estimated the free cash flow can be anywhere between EUR 70 million or EUR 80 million for the full year. We had an exceptionally strong H1, delivering close to EUR 35 million of free cash flow, and we're even more optimistic about the second half. So there's definitely room for upside on the previous number that we gave. So it will be good if we end the year with a number starting with a 2 for our cash balance.

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

Okay. And maybe as a last one on my side. How is it evolving your HD Maps development? Is there any contract that we should expect in the second half of the year? How do you see that trending?

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

Yes. So the -- on the engineering side and on the software side, things are going well. We have a number of what we think are exciting cooperation agreements with a number of Tier 1 sensor makers to further develop those products. We feel that we have a better understanding where the market is going that has not yet translated in large awards for HD Maps. But beginning of next year, a truck maker will start using HD Maps for motor management applications. Not strictly speaking an HD application or a self-driving application, but the data we deliver there are directly derived from an HD Map product. And it has high accuracy on lanes, on curvature, on traffic signs in order to operate the power train of the truck so it can reduce full fuel consumption by a significant amount. So that's a good application, a good example of where a map of HD quality is actually going into production. I think the auto industry is moving forward with the level 2 and level 3 levels of automation. That means mostly that technology is now being prepared for driving autonomously on closed-access roads or motorways where the computer needs to do all the tasks of accelerating, braking, overtaking, braking in front of an exit. That is now a problem that seems to be solved and going into production in the not-too-distant future and for those type of applications, we are quoting HD Maps as we speak.

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

And how do you monetize this HD Maps? Is it like traditional maps or you do it differently?

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

No, it is different because those maps need to be delivered in real time over the life cycle of the car and that means that there is a yearly subscription fee to enable the functionality.

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

Okay. And the value of the contract, do you have any idea how is it compared to a traditional maps? I mean, how more expensive it is to have the HD Map versus a traditional map for your customers?

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

Yes. That's a bit early. Currently, I think the market is looking, trying to figure out where those prices are exactly. I don't want to elaborate on the exact pricing, but it is a significantly higher amount per car than what we charge for standard maps, navigation data maps. And that is also because it's an annual fee, an annual subscription fee to the service.

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

And when you say significantly higher, I mean, can you give us a magnitude? Because I mean, it could be 2x, 5x, 10x, I don't know. I have no idea. So I just wanted to tell you...

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

Yes. It's a little higher than what we charge for navigation data maps. But you need to bear in mind that the addressable market initially will be small as well. But the money, the fees we're talking about are significantly higher than what we're currently charging for maps and map update services or traffic services.

Operator

We will now take our next question from Martijn den Drijver of NIBC.

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

I just wanted to go back to Automotive growth, very strong. Can you elaborate a little bit on what is driving that? Is that the PSA Citroën contracts further ramping up? Is it an acceleration in take rates? Is it a product sales mix change for more maps relative to traffic? Can you elaborate a little bit on that? And I know you don't want to give an update on order intake, but to build on the previous question, can you talk a little bit of what you're seeing in the RFQs and RFPs in this quarter relative to the previous quarter? And then, the third question, I didn't really understand the drop in profitability in Enterprise. There's EUR 10 million less in sales and there's a EUR 10 million drop in EBIT, last year going from also on a yearly comparison, we had a EUR 5 million pickup in sales, but we didn't see the same pickup in EBIT. So what's the difference this year? And the fourth and final question, it's a bit odd one. But what are the current roles of Corinne, Peter Frans and Pieter Geelen, the founders, within Consumer or TomTom as a whole? Are they still involved or not at all?



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

Okay. So first question. What is driving the uptick in Automotive revenue? That's a direct result of order intake in previous years. It's plain and simple. So we've booked those numbers in the past years, increasing total numbers of revenue growth, of order intake and you see they're translating over time into revenue and that's what you see.

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

Harold, order intake can be -- sometimes you also announce smaller contracts. So I'm just trying to determine is it take rate, is it PSA Citroën? Is it sales mix? I appreciate that order intake has been up, but a little bit more granularity on that please.

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

No. It is mainly, if I can add to that, it is mainly take rate. So the driving force is indeed the orders that we have secured 2 or 3 years ago. If you see in the rollout that most of the time, due to the success of our own application that the OEMs are getting more excited and then the take rate goes up.

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

Okay. No significant change in the sales mix?

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

No. No, I wouldn't say that. On your specific question on profitability of our Enterprise and Automotive, if I can take that one as well. There are 2 things here. One is that Automotive and Enterprise receives intercompany payment for maps, software and services, mainly from Consumer and that is all in a declining trend obviously, but the decline is growing more rapidly over the last year. So the difference, the ballpark numbers where you need to think of is that on an annual basis, the contribution from Consumer to Automotive and Enterprise is down from EUR 30 million to EUR 20 million. The other thing is that we have staff and overhead costs like real estate and facilities and IT and HR and legal, what have you. These are allocated to the 3 business units based on either a people key or a revenue key. And also there you see a big drop in Consumer and consequently, an increase in Automotive and Enterprise while Consumer has less people as their share or revenue contribution has also declined. And that's helping Consumer in that these costs are -- they're part of the bills taken up by Automotive and Enterprise.

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

Okay. Okay. And maybe to go back to Automotive because I also had a question on the RFQs and RFPs. In Automotive relative to previous quarters, is there any change in volume...

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

Well, we're not going to comment on any specific per quarter. The reason why we don't do that is that it's very lumpy. It can be seasonal or things get pulled forward or delayed, and it's very hard to read any trend from that. What Harold already discussed is that we see that the type of RFQs is becoming more hybrid, meaning that next to ND maps, navigation data maps that are used by the driver himself or herself to drive from A to B. It is more and more also that the OEMs ask for that application to have also in form of HD mapping for the highways. And that's a good trend because we are in a good position because we can offer both and there are not a lot of companies that can offer both to the OEM segment. So, so far so good. There's no change in outlook, and we're excited to see the year develop.



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

Okay. And the fourth question, about Corinne, Peter Frans and Pieter Geelen?

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

Yes. What do you want to know there?

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

Well, they used to be very involved in Consumer. Peter Frans and Pieter were always about, about the Consumer product, the GUI, the interface, how to optimize that? But obviously, Consumer is of much more -- less relevance. I'm not even aware of their activity levels. Corinne is not involved with Consumer anymore so?

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

No -- Corinne, that's correct. So Corinne has handed over her role of Managing Director to Mike Schoofs, who is running that business unit at the moment. She still involved with the business, representing the company, has a big influence on specific topics within the companies in the areas of HR, education, training. Peter Frans is also still very much involved, especially on the product side. Pieter has been less active recently but Corinne and Peter Frans are still very much engaged.

Operator

We will now take our next question from Marc Zwartsenburg of ING.

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

A couple of questions left. To start with the Automotive guidance, Taco, you mentioned that you see same sort of growth for Automotive for the full year as what you saw in the first half. Does it mean that they're facing in the second half, the acceleration is a little bit less? Should I read it like that compared to the second quarter? And is that just a phasing effect from order intake, or can you give a bit more color on the phasing of that?

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

Well, we started the year. No, I wouldn't read it that way. So we started the year with an implicit guidance that Automotive would grow with up to 15%. With the new guidance, we have changed that to 20%. There was a specific release in Q2 from the balance sheet as the total contract value of certain customer has gone up due to more optimistic foresight and that led to the 28% increase in Q2. But for the year as a whole, we have increased our guidance, and we haven't changed our forecast for H2.

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

Okay. And then, on the Consumer business, there you say, well we expect a further or a faster deceleration in the second half, what is driving that? Is that because you do less marketing? And how should we see that for next year? Would that be the run rate also for going into '19?



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

Well, also here, I think, we haven't -- now here we have not changed our guidance. So we started the year with indicating a 30% decline for Consumer as a whole or close to 30%. We stick with that guidance. H1 has been strong and that was also the result of tradition. Q2 is the driving season, so it is the most important quarter for Consumer. And in the second half, the decline will be a bit stronger than what we experienced during the first half. But for the year as a whole, we stick with the guidance we gave at the start of the year, and we estimate that the Consumer would -- the decline would pull roughly 30% for the whole. Is that the run rate for years to come? As always, we will give a new update in February. What you need to bear in mind, in 2018 specifically that the decline is also influenced by no sports revenue in the mix anymore in 2018, which was still down 2017.

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

Okay. Is there some caution building that in your second half guidance? Or is it really based on a bit of expectation...

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

It's balance. As always, very balanced. Yes.

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

And then on the cost base, I still and Martijn also referred to it. Maybe to understand what's going on in the EBITDA of Automotive and Enterprise. If I try to isolate it a bit, what Consumer must have done in terms of OpEx decline, it seems to me that year-on-year, in the first half the OpEx is down almost EUR 55 million or so, in that range, based on stable gross margin. You just referred to a EUR 10 million lower intercompany payment from Consumer to Automotive. But then still this...

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

There are obviously -- there are obviously -- yes, sorry Marc. There are obviously 3 things. This intercompany payment for products and an intercompany payment for corporate services, but the real driving factor is obviously the decision that we made last year to stop with our sports activities and that has led to significantly lower marketing, with also less people on the Consumer segment.

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

Yes. That was my second point. The marketing is down EUR 50 million, and I have EUR 10 million, EUR 15 million, EUR 25 million and I'm still missing quite a big chunk. Is there something else that I should be taking into account there in terms of cost allocation?

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

No. No. It's just people. People as well, less people.

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

And then on the OpEx, looking a bit further out, you said the run rate of Q2 is a better market for the second half. How should we think about 2019? I know it's early, but still roughly what Consumer will do as the decline will continue in Automotive based on your order book will start to further grow further and the rest is not that exciting to be hugely wrong on it. But how should we think about the OpEx in '19?



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

Well, yes, the easy answer is, obviously, you have to wait for February, but let me give a bit of color here. So we're building our position in Automotive. And not only with the market share that we're taking for ND maps and the traditional maps for the driver but also for the future towards HD mapping. With having apart from very important European customers, we now also have American OEMs and Asian OEMs in the mix. That means that our group footprint needs to be excellent everywhere, not only in Europe but also North America. So the requirements for a deeper and wider coverage is there. And next to that with the emerge of HD mapping and autonomous driving, we need to continue to reduce cycle time, reduce the latency of our map quality and that needs fast and big investment in engineering and automation. That is the new normal for Automotive and Enterprise combined and that is the trend that we've seen starting in this year, in 2018. On the other hand, I agree. So the cost in the other segments, mainly Consumer, there is probably that, that will go down further.

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

So marketing spend will go down further and then the investment in R&D should gradually go up a bit further from here. Is that -- that's how we should think about it?

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

Yes. Yes. And SG&A is also -- that depends on which segment you're looking at. But for Consumer, as a whole, the spend will go down, yes.

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

Okay. And then on a bit, the strategic thinking about the cash position, your EUR 155 million on the balance sheet, you have quite some excess cash but also you don't know what the future will bring in HAD. But can you share us a bit maybe Harold, what your thoughts are? Strategically why you need to maintain and want to keep all options open towards the future in terms of thinking about keeping the cash position and what kind of perhaps unforeseen investments you might need in that direction? If you'd share us your thoughts perhaps there.

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

Yes. So we're looking at that cash position every year. We come and the general meeting is a good moment to discuss what we're going to do with that cash. Taco just said that he wants to end -- we want to end the year with about EUR 200 million cash on the balance sheet. I think that's a good number. What we're going to do with that cash is, again, up for discussion in the general meeting, but it's good to have a bit of firepower. We get more and more clarity on what's needed for self-driving technology. The market is moving forward. I think we are looking good in that space, and it's good to have a level of flexibility. It would allow us to go faster if we think that is appropriate.

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

Would it be along the lines of investments or more like buying a sort of technology that you might want to have?

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

It -- either way, I don't know the answer. What I do know is that it's getting clearer what it is we need to do, how far we are with, you know, the technology. We're quite excited about the progress we've made and all of the new stuff that's been developed in the -- over the last 2 years in the sense of computer vision technologies and processing data, machine learning. That's all coming to a level of maturity now where it is ready for prime time and the customers can see that. We're also a little bit driven by the speed of our customers, obviously. But when the time is there, we



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want to be able to pull the trigger and go as fast as we need to go to take a leading position in HD mapping. And in that context, I think, it's wise to keep a little bit of firepower.

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

Okay. And then the final one. Taco, can you give a bit of an indication for the deferred revenues you expect to see in the P&L in the second half? Is that EUR 35 million to EUR 40 million or more or less?

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

The rule of thumb is that Consumer declines deferred revenue with EUR 5 million every quarter. Automotive increases with EUR 15 million to EUR 20 million in every quarter. And Enterprise has a more seasonal -- shows a more seasonal pattern.

Operator

(Operator Instructions) We will now take our next question from Wim Gille of ABN AMRO Bank.

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

Wim Gille, ABN. I've got a couple of questions. First of all, if I look at the Telematics uptake from new users, you did EUR 17k in the first quarter to EUR 22k in the second quarter. It seems a bit that you are kind of on a slow start in that area. Is there any kind of specific reason for that? Because we assume that kind of you guys increase your skill, as you'll be able to onboard more accounts in that area and you should accelerate on that space a little bit. The second question is on Automotive. I mean, I'm duly aware that in the year-over-year comparison, Automotive -- operation revenues in Automotive are growing on a year-over-year basis. But if I look back in the past 3 quarters, you did about EUR 76 million in the fourth quarter of '17, EUR 78 million in the first quarter of '18 and only EUR 71 million in the second quarter of '18. So how should I look at that? Is it kind of something that should grow on a quarter-by-quarter basis as the adoption increases? Or is this a bit of a lumpy seasonal element in here as well, given the fact that it's kind of a nascent business line. Give a bit more feeling on how I look at this number? Third question is on Google Maps. They announced quite a spectacular price increase a couple of weeks, months ago, and they implemented this week. What did you see in terms of engagement on the Enterprise segment? Do you see kind of a noticeable increase in inquiries? And how should I look at that, also taking into account that Microsoft Azure is now available? Should we see kind of an inflection point in the Enterprise revenues that we haven't seen for a while? Those would be my first 3 questions. And then I've got some more follow-ups, but maybe start with these 3.

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

Yes. Wim, So Telematics was growing I think in terms of 15% to 12%. We'd like to see that number grow and grow faster. There's a couple of things that are happening. We've just renewed the whole back end and that is -- that's a good thing. It also creates space now for innovation. If you go through those big technology transitions and invariably, innovation suffers a little bit because you're replacing old for new. That's behind us. Successfully transitioned to a more productive platform. I think that in itself will be positive for our customers, but also for further innovation and market penetration. And I hope that, that number will grow a bit faster than what we have seen in the past. The second element for Telematics is that we've done a little groundwork for what we call connected vehicle, so not a pure Telematics operational solution, but more a connected car solution for leasing companies, insurance companies and others. A lot of work has been done there. There's quite a lot of exciting contracts that either have been signed or are on the verge to be signed and that will gradually lead to a faster growth and acceleration in the connected car space. One caveat there is that the ARPU in the connected car space is lower than what you've seen in Telematics solutions. But I think in the mix, we should be aiming for an acceleration in growth in Telematics business. I think Taco, if you can take the question about the Automotive growth and the developments with that over time.



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

Yes. No, I wouldn't read too much into it. Again, there is the quarterly investment although the contract has an impact as well. And it can also be related to just with operational availability of certain mobiles and commercial promotions, et cetera. So everything is going according to plan there.

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

And then last then on Google Maps. Yes, we are obviously aware that Google increased their prices significantly. It was a -- for a lot of developers very emotional time. They didn't feel that they were treated well in many cases and invariably that leads to exploring other opportunities. We have seen significant increase in our own API store. We believe that also through Microsoft's Azure platform, there's an increase in interest in the APIs and what we have to offer, and we think that will lead to a growth for our map APIs in the future. Now we'll be little bit cautious because it takes time for those transitions to happen. You need to be designed in. Those applications then need to start working. But we see increased levels of traffic, both on our own API store as well as in the API store that's part of the Azure environment.

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

Very good. Then a couple of questions. On the OpEx side, I'd like to go back to the Automotive space. I mean, assuming kind of more or less stable gross margin in Automotive and Enterprise, which is very high anyway. It has seemed -- it appears that the OpEx in Automotive and Enterprise increased somewhere to the tune of EUR 20 million for this half year alone. You already gave us one piece of the puzzle, which is a EUR 5 million increase due to -- by internal transfers, but can you give us the other pieces of the puzzle as well in terms of what the additional overheads allocated to the Automotive team is, plus the investments that you're making because you're expanding outside of the European Union more into kind of other areas as well. And is that a kind of a permanent thing, a sticky thing? Or is -- are there also kind of one-off costs involved for onboarding new clients essentially?

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

Well, if you look year-over-year, the intercompany explains actually most of it. So again, transfer pricing has had a EUR 5 million negative effect. So that means that the money that they get from Consumer is EUR 5 million. On annual basis, that's EUR 10 million. And the OpEx allocation has also gone up, with approximately EUR 10 million in the first half. So that's together, EUR 15 million.

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

And then are these trends to be extrapolated as Consumer continues to dwindle? Or is most of the overhead now already...

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

No, not in magnitude obviously. So the reduction in size in Consumer from -- is a one-off and it will continue to decline maybe, but you will not see these big shifts. This is just made bigger because the difference between where we are now today with Consumer compared to last year is at maximum. Last year, at the same time, Consumer had a lot more people and a lot more revenue. So that is influencing those allocation keys.

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

Very fair. And then, at last, small question. You bought out the minority stake in TomTom Africa. I think in the annual report, you also I think closed TomTom South Africa, but TomTom Africa is also in the South Africa. So I mean, I know it's a very small market for you guys and the capital employed is like, what, EUR 2 million or so. But what are you doing there and why?



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

This -- we, this joint venture position was created 10 years ago. We had a minority shareholder positioning of -- they still have owned to 24%. It was always in our interest to gain full control, but it took some time to agree on the price, and we were very happy that, that finally happened. So we now have full control, and we can -- we believe we can accelerate with our plans for Africa.

Operator

(Operator Instructions) There are no questions in the telephone queue at this time.

Bruno Priuli - *TomTom N.V. - Investor Relations Officer*

Okay. Well, since there are no further questions, I would like to thank you all for joining us this afternoon. If you have any follow-up questions, please don't hesitate to give us a call. Operator, you can close the call.

Operator

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

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