

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TOM2.AS - Q2 2017 TomTom NV Earnings Call

EVENT DATE/TIME: JULY 19, 2017 / 12:00PM GMT



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

CORPORATE PARTICIPANTS

Bisera Grubescic *TomTom N.V. - Head of Treasury and Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

Andrew Edward Humphrey *Morgan Stanley, Research Division - Analyst*

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

Henk Slotboom *The Idea-Driven Equities Analyses Company*

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

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

Sander van Oort *Kempen & Co. N.V., Research Division - Analyst*

Shyam Kumar *Kuvari Partners*

PRESENTATION

Operator

Good day, and welcome to the Second Quarter 2017 Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Bisera. Please go ahead.

Bisera Grubescic - *TomTom N.V. - Head of Treasury and Investor Relations*

Thank you, operator. Good afternoon, and welcome to our conference call, during which we will discuss key highlights and financial results for the second quarter. With me today are Harold Goddijn, our CEO; and Taco Titulaer, our CFO. You can listen to the call on our website, and a recording of the call will be made available afterwards. And as usually, I would like to point out that Safe Harbor applies. We will start today with Harold. He will discuss key highlights of the quarter, and that will be followed by a more detailed look at the financial results from Taco. And after that, we will take your questions.

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

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

Thank you, Bisera, and welcome. Our strategy is to build on our leading position in navigation technologies and to provide location content, software and services to business customers. We are developing a growing, high-margin and recurring revenue stream. Combined Automotive, Licensing and Telematics revenue grew this quarter by 18% year-on-year, which was ahead of our expectation. We continued to strengthen our network of customers and partners to support our position in Autonomous Driving and smart mobility. We have seen lower-than-planned hardware revenue this quarter, and that is mostly because of disappointing Sports sales. The wearables market has fallen short of expectations, and because of this and because we want to focus on Automotive, Licensing and Telematics businesses, we are reviewing strategic options for our Sports business. This resulted in a noncash impairment charge of EUR 169 million in this quarter.

Today, we announced that we aim to launch a share buyback program of up to EUR 50 million and that is equal to around 2.5% of the total issued share capital. This program reflects our confidence in our strategy and the future of TomTom. I'm very pleased to announce that we will propose to appoint Bernd Leukert to our Supervisory Board. Bernd is a member of the Executive Board of SAP and also a member of the Supervisory Board



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

of German Research Center for Artificial Intelligence. He has an impressive track record in software and product development, and we're delighted that he is committing to our company. This concludes my part of the presentation. I'm now handing over to Taco.

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

Thank you, Harold. Let me make a couple of brief comments on the financials, starting with the impairment. The underperformance in Sports resulted in a noncash impairment charge of EUR 169 million in the quarter. There is no goodwill related to consumer left. The remaining goodwill on our balance sheet is EUR 255 million, of which EUR 192 million is related to Automotive and Licensing and EUR 63 million is related to Telematics.

Let me now discuss the business units and the rest of the P&L. The Q2 revenue was EUR 253 million, that is 4% lower compared to last year. Automotive, Licensing and Telematics combined grew by 18% year-on-year, and that is ahead of our expectations. Automotive was up 39% to EUR 48 million. The increase was driven by the ramp-up of a new contract that went live last year, but it was also driven by the success of our customers in the market. Licensing revenue grew 16% year-on-year to EUR 39 million. The year-on-year increase included a catch-up that was recorded in the second quarter of this year. Telematics revenue was flat year-over-year, EUR 40 million. Recurring subscription revenue saw an increase of 7%, and then Consumer saw a decrease of 20% year-over-year to reach EUR 126 million.

Consumer products declined by 18%, and Automotive hardware revenue declined by 31%.

If you look at the gross result, gross result increased by 11%. Gross margin was strong at 63% and increased by 8 percentage points year-on-year. For the second part of this year, we expect gross margin to remain at the same level as what we saw in the first half. Our revenue goal will be lower year-over-year. So with the same gross margin will result in a lower gross result in our second half of the year. The operating expenses for the quarter were EUR 151 million, that is EUR 18 million higher compared with a year ago. Last year, however, included a one-off gain from a pending customer case. Excluding this one-off gain, operating expense for the quarter increased by 8%, mainly driven by higher expenses on our long-term employee incentive plan and higher amortization expenses. For the second half of the year, we expect the OpEx to be lower than in H1 and also lower than H2 last year. Biggest contributor to this decline is marketing. EBITDA grew by 4% year-over-year to EUR 45 million. EBIT was EUR 9 million, excluding impairment charge, versus EUR 13 million last year. The net result adjusted for acquisition-related expenses, impairments and gains on a post-tax basis was EUR 21 million, which translates to an adjusted earnings per share of EUR 0.09 on a fully diluted basis. And this compares to EUR 23 million and an adjusted earnings per share of EUR 0.10 in Q2 last year.

At the end of the quarter, we reported a net cash position of EUR 82 million. We expect to generate cash in the second half of the year and even assuming the EUR 50 million share repurchase.

Now let me go to Slide 4. As shown in the previous quarter, this slide is showing operational revenue of Automotive. Operational revenue is the reported revenue plus the net change in the deferred revenue position. As we sell products to Automotive that include multi-year updates and/or subscriptions, some of the revenue is deferred. Operational revenue in the quarter amounted EUR 60 million, an increase of 43% compared to last year. The total deferred revenue on our balance sheet is EUR 220 million, and the main contributors are consumer, which is slowly declining and is now at EUR 125 million. You have Automotive at EUR 86 million, and that position has doubled since last year. We expect Automotive to continue to grow strongly also in the second half of the year.

Slide 5, the full year outlook. To conclude, I would like to give you an update on our outlook for 2017. As mentioned before, hardware revenues were lower than planned because of disappointing Sports sales. As a result, we updated our revenue outlook. We now expect to deliver full year revenue of around EUR 925 million. Adjusted earnings per share of around EUR 0.25 remains unchanged. We expect the combined revenue of the Automotive, Licensing and Telematics business to grow to around 15% year-on-year in 2017. And then, we expect a level of investments, that is both CapEx and OpEx, to show a modest increase compared with 2016. This excludes acquisitions.

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



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

QUESTIONS AND ANSWERS

Operator

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

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

I have a couple, if I may. So the first one is on your OpEx trend, given what you announced on the Sports revenue, and you expect the OpEx declining year-over-year in H2. How should we think about beyond, I mean, 2017? Is it changing your plan of OpEx development, obviously, for the longer years? If I remember correctly, last quarter, you said that the OpEx will -- I mean, will be growing in the next few years, but nowhere near the 15% CAGR for the non-Consumer business. So I just wanted to have an update on this, given what you said on the Sports. The second one is on the Automotive markets. How should we think about the reference for growth for this year for the overall markets. Again, in the next 2 quarters -- last 2 quarters, Q4 and Q1, you said that the overall size of the market would be higher than 16% or just to having a bit on this. Nothing related to your bookings. I imagine you don't want to comment on that. And I have a last one, if I may, just after that.

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

Yes, do you want to ask that last question as well? Or...

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

Yes, yes. I can. So the last one is on your HD Maps discussion. As it's now in the market available, I just wanted to have a sense of when do you think you can start having them in your bookings? Anything about the pricing discussion with your customers? Any color on that would be very helpful.

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

Okay, I suggest I take the first question and then leave the comments about the order intake and the HD Maps to Harold. OpEx. Indeed, OpEx was up with 11% in the first half. We expect OpEx to come down in the second half, to be modestly up for the full year. The main driver of the decline that we expect in H2 is marketing. We spent EUR 80 million of marketing in 2016. We think that, that number is going to be around EUR 60 million in 2017. We need to look at strategic options as we said in our press release for what we want to do with the Sports business. And with that, it is way too early to make any comment or give any color on the OpEx development beyond this year.

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

The order book for Automotive is, we won't discuss the order book as you rightly said in this call, but it's also true that the available business in the year as a whole is bigger than it was in 2016. Now that doesn't say anything about our win rate or where we are. But there are more contracts to be won almost in 2017 than in 2016. If I look at HD Maps and the discussions there, it's still early days. I think notable developments are that Baidu will use our mapmaking platform for the creation of HD Maps. That is important because that gives a unified map product to software developers that can be applied to -- for cars both in the Western world and in China. And I think that is good news for software developers that they have one standard that they can work towards. And we're also pleased that it is a good acknowledgment by Baidu about the state of our platform and tools for HD driving -- for self-driving. Now is the market developing? RFQs are coming our way for HD Maps, not necessarily for Level 5 self-driving applications, but increasingly for Level 2 and Level 3 self-driving -- yes, self-driving, Autonomous Driving or assisted driving application. So for any applications that software developers and our customers are looking for are lane-level guidance, but also more sophisticated adaptive cruise control and other safety features that are based on our HD Map, including some applications for motor management, where a few savings can be achieved by having a better understanding of the road ahead and shifting the gear box and the power of the engine in anticipation of what's going to happen. There is an expectation that, that can reduce fuel consumption. So there is a quite a range of applications developing ahead of Level 5 self-driving, which is good. We are quoting for those businesses and trying to win those businesses. So we start to see the emergence of market



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

for highly detailed maps. I won't say anything about pricing. I think that's too early. But we do see some applications being developed for these type of products.

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

When you say it's too early, does it mean that maybe you won't -- you don't expect to sign any contract with HD Maps in '17? Or -- just trying to understand what you mean by that.

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

Well, so if you say -- so the full specification of HD Maps is designed to make self-driving Level 5 a technical possibility. That we don't see happening before 2020, 2021, but we do see a market for these type of products and derived products emerging for applications that are going to happen earlier. And for those businesses, we are quoting, and we hope to win some business as well. And that will help to establish that product category. We can develop this -- and we can develop this from there on.

Operator

We will now take our next question from Marc Hesselink from ABN Amro.

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

My first one is also a follow-up on that -- the available business in Automotive. So far -- I understand you cannot give like exact success rate. But what do you think you are taking your share fair of the market? Are you winning share? Or is it too early to tell on that one?

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

No, I think it's too early to tell. But what I can tell is that we feel good about our product portfolio and the state of our technology. And we can see that we are motoring in that space. And on the application side, definitely, there is a bit of a -- I think we look strong there, given recent announcements of products, and we're happy. I think on those -- especially, on the application side, we're looking strong. So we have confidence that we will further progress our standing in the Automotive world and continue to grow that business. I can't say much more at this stage. But other than that, we feel good about where we are with our product portfolio.

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

Okay. That's clear. And the second question is more on general on the space like the ecosystem in the Autonomous Driving. Obviously, you're announcing quite some partnerships. Your competitor, HERE, has been announcing a lot of partnerships. How do you see this market evolving now? Is it going to be like a 2-player kind of markets? I also heard sometimes stories that there was -- will be like a winner-types all kind of market. What is your feel on that one? Who will be the driver of this ecosystem? Will it be the software players or the car companies? What is your updated feel on that one?

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

Well, I think the currency is still coming to terms with the challenges ahead of them. We see also some developments, partnerships happening. We see great level of excitement. It's a hot space now, the car tech space, in general. But as usual, it's far too early to declare who is going to win, what the structure of the industry is going to be. I don't think it will be a one-winner-takes-all market. There is still different opinions about the technologies that need to be applied, fundamental architecture of that software and how that all is going to work. So there's still a lot to fight for and a lot to be

JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

explored and decided. So it's too early, it's too early. What we see is a couple of general trends. So software developers believe that Maps will be inevitable, unique one. Otherwise, it's getting too complex to keep driving cars safe. I think that's a big lesson that we've learned in the last 2 years. There is progress about what a self-driving car can do. But it's also true that we haven't cracked the problem completely. So there's still a lot to be invested and to go for in this space. And that's true for everybody who is exposed to this market.

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

Okay. Clear. And final question is on Baidu. You mentioned, I think, in the press release when you announced the Baidu's contract that there will not be extra cost related to it. Baidu is going to use your platform, and I think you're going to use their knowledge on the artificial intelligence. How does it work? Is it purely an R&D working together that you both take your part of the share of the costs? Or is there also revenues in there because they're using your platform?

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

No, it is a -- so we are providing enabling technology to create HD Maps. So databases and -- database structures and technologies and tools. Baidu will populate the databases through camera observations and doing editing on the database. And we can generate license fee when HD Maps are sold in China to certain customers. So it's a fairly well defined partnership. It's not going to generate massive amount of money in the short term, but I think the important message we're giving here is that there is a product that you can use both in Europe and in North America and in China. And TomTom is setting the specification standard for the product. I think that's the core message we want to get across to our partners in the car industry.

Operator

We will now take our next question from Andrew Humphrey from Morgan Stanley.

Andrew Humphrey - *Morgan Stanley, Research Division - Analyst*

I've got a few, if I may. The first is on the Consumer business. You -- I tell you it's too early to kind of talk in detail about what you're strategic options might be. But I think in the past, you've indicated that part of the reason for keeping a U.S. PND business alive was to provide some shared overhead for -- or you viewed it as an opportunity on the consumer side. Does that change in the light of today's announcement? My second question is on Telematics. I think last November, you talked about opportunities in the leasing space with replacement vehicles or insurance fleets. Any more color on that would be great. My third question is around the Bosch agreement. I'd like to ask how the localization technology you're looking to develop with Bosch compares to your own technology in that department and what you previewed last November. And then finally, on the buyback, clearly, we are certainly in the early innings of an arms race in terms of developing technology around Autonomous Driving and mapping, which has the possibility of requiring multiple years of spending. Any color on how that plays into your thinking with regard to the buyback will be great.

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

Yes. So we said on the Sports side that we are evaluating strategic options. We're not doing that on the PND side. PND side is different. It's very much aligned with our technologies. It's cash generative. Gives strong position there. We're generating cash from that product category. And I think that TomTom is the best -- by far the best owner of that asset going forward. So nothing is changing there. So we have to face the reality that PND remains a declining product category. And that's fine. We can live with that. Telematics, Leasing connect with cars. So you can, broadly speaking, separate Telematics product portfolio in 2 different product categories: one category for fleet management, where you sell your products to a business that's operating a fleet; and the other category is Connected Car services, where you sell your products or services to OEMs, dealers, leasing companies. That last category is new. We see good potential there. We've signed a couple of deals there that have great potential. Volumes are high, but ASPs or ARPU are much more competitive. So it's high volume, low price. We started to ship in that category. And that needs to ramp up, but it takes some time to embed it and get your operations right. Then we'll have you. But the first results are there, and the first contributions



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

to the top line from that Connected Car business are starting to come through in the P&L. But it will take some time before it starts to become a material income stream. Lastly, the Bosch agreement is about -- sorry, there's more -- 2 more questions. One is about Bosch agreement. And Bosch have developed a radar technology that is quite -- that is an advancement in innovative radar technology for self-driving. What we are doing together with Bosch is creating a, let's say, a fingerprint of the road of that radar image that we align with our HD Map or the HD Map is to ground through. And by having that radar overlay of the HD Map, the radar in the car can accurately help the positioning of the car, where it is and the direction of travel and so on and so forth. So we are helping Bosch to get that product aligned and create it. And that will help -- the ability of the product will help Bosch also to sell it in the automotive industry both as a sensor and a methodology for positioning. Lastly, Autonomous Driving, the HD Map itself, how is it going and how much money do you think you need for that, if I understand your question correctly, we've always said that it's difficult to create an HD map. But it's different than a standard map. Most of it -- we are working hard to develop the technologies that can help us to create that map to a large degree of automation. And that's where R&D and research is coming in through a combination of computer vision and artificial intelligence. We think we can achieve very high degree of automation for the creation of that HD map. So it's really technology innovation game rather than a Brute Force game. And we feel good about the progress we're making there.

Andrew Humphrey - Morgan Stanley, Research Division - Analyst

Okay. Maybe just to follow up on that. And I think some of you've touched some in the past in mapping. I guess, kind of when you're signing agreements today, particularly, on the Automotive side, are you able to incorporate elements of those agreements that are allowing to start harvesting that data around the HD Map more efficiently? Or are you waiting on a cheaper LIDAR or newer technologies to become available before you can start doing that in earnest?

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

No, there's a lot of -- there is a kind of a marketplace starting to emerge, driven by the desire of carmakers to license the data, do something meaningful data they collect from vehicles, that's one development. But there are, also, active negotiations going on of building a closed-loop technology that will find its way into production vehicles. But they're too early to comment on that, but we see that as an essential part of the equation, where you have a large fleet of relatively cheap sensors connecting processing data and validating databases that have already been published and constructed. I would see that as an integral part of the challenge.

Operator

We will now take our next question from Henk Slotboom from The Idea.

Henk Slotboom - The Idea-Driven Equities Analyses Company

I know the experts on TomTom is working the few [dices] with this TomTom watch. But the question I had relates to the impairments. Could you share some background information on the timing of the impairment. And normally, we tend to see these kinds of impairments at the end of the fiscal year, and this comes somewhere during the half year. Could you please tell me -- yes, provide some color on that?

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

Yes, sure. Indeed, the -- you do that annually, but you do it also if there is a triggering event. And we started with our Sports business in 2011, and since then, we have seen growth year-over-year to reach [revenue] over EUR 100 million at the end of 2016, with growth level of more than 50%. That said, the -- we were not able to make profit at those levels, and we knew that we had to grow our business further to at least EUR 200 million to start to be breakeven or to start to make profits. We -- in our expectations for 2017, we didn't think we would reach that level already in 2017, but we would get there somewhere in 2018. But when we saw the first quarter results coming in, they weren't great, but we felt that, that would be more a temporary event. But then after a marketing campaign in Q2 and still no growth year-over-year, we decided early July that we couldn't go on this



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

way. And that in itself was the so-called triggering event that led to the review of the impairment model and led to the full impairment of the goodwill at the end of Q2.

Operator

(Operator Instructions) We will now take our next question from Shyam Kumar from Kuvari Partners.

Shyam Kumar *Kuvari Partners*

Just a couple of questions. In terms of the auto revenue growth of 39%, which is very good, can you -- beyond your end customers' volumes, which I know you commented was strong, can you kind of break out what's driving this high level of growth in terms of take-up rate, the extent to which take-up rates themselves are increasing? What is driving that increase in take-up rates, please? Whether it's car companies offering navigation and traffic standards or the extent to which it is customers -- end customers choosing to take on products, such as lane-departure warnings, that require the map and traffic, please?

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

So the growth is, obviously, a function of contract wins, generally speaking, in the past. We gave you those numbers of order intake in -- over the last 3 years, if I'm correct. That is what's driving it. So it's a market share. For us, it's the biggest driver of the market share. Now we do -- did a little bit better than we anticipated and that is mostly because car sales were strong with a combination of higher take rates. We had some very favorable news from Peugeot. They have a car of the year. Those things help to sell more, and it makes everything a little bit easier. So those are the 2 big drivers. Where take-up rates are exactly in our customer base at the moment, we don't have a reliable number for that. But we will -- we think it's growing to about 30% across the range of old cars, but that's a very rough number, and it's not been verified and cannot be independently verified either. But I'll make a point to have a look what take-up rates are according to industry's analysts and where they expect them to go.

Shyam Kumar *Kuvari Partners*

And what's driving the increase in take-up rates? Is it some of these new applications we talked about, the Level 2-type stuff? Or is it just -- what is driving it, please?

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

What is this driving is higher take rate. Customers are asking for the flexibility and the equipment levels are being pushed down to their mid-range. The technology is getting better. Traffic and dynamic routing are increasingly seen as essential tools in a car because it's getting better. It does help save time. People start to expect good-quality routing and traffic information in the car and rely on it more. I think those are the key drivers. And connectivity is becoming standard as well. It's not just driven by navigation, although we have a big part in there because of traffic information. But there is a general trend towards Connected Car for multiple purposes. And we're benefiting from that because the additional costs to bring navigation services into the vehicle are going down as a result of that. So it's getting easier. Technology is better, easier to integrate, maturing rapidly, demand is there. And especially, dynamic routing is increasingly seen as a must-have.

Shyam Kumar *Kuvari Partners*

Just in terms of HD Maps, you mentioned that there were potential RFQs. Now in terms of the amount of actual roadways, you have maps with an HD Map. It's, I guess, relative low lower. So I guess, what I'm trying to understand is, I understood your point on the technology. But as RFQs come through and you have to deliver the HD Map, how populated does the HD Map have to be in terms of coverage to start winning -- to deliver potential RFQs? And how are you going to get there, please?



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

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

Well, we do have extensive coverage of HD Map. We have the major roads, sort of the closed-entry roads, so highways, motorways, where the technology will be deployed first. We've covered that for North America and Western Europe. So you can do meaningful applications today with HD Maps and are available in those key markets, where we cover 100% of the highest road crosses. So there is really something that we have on offer and that carmakers can buy. And we see RFQs coming through, where there are requirements for HD Maps, as I said in my earlier remarks. So the product is there. It's working. It's good, and it will increasingly be deployed in kind of applications that will come in before full self-driving will be a reality.

Shyam Kumar *Kuvari Partners*

Interesting. It was a strong number plus that you can defend. I understand there were some catch-up payments, but are there any interesting underlying dynamics driving that growth, new verticals, new need for mapping, Internet of Things? Or is it just phasing of revenues from your current customer base?

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

No, I think it's -- what you see is real. There's bigger application from our key customers. We've disclosed those lists. I think the next growth needs to come from the online services that we are developing now with Microsoft's Azure platform that is on schedule. We expect to launch that after the summer. So don't expect anything big in the second half of this year in terms of revenues. But relaying the foundation for additional revenue stream location-based services and whatnot available to us before that Microsoft deal. So we are excited about that. And the technologies we're deploying there are maturing rapidly. So all that is really exciting, not just for us counting the money, but also for the engineers. A lot of new opportunities, lot of innovation happening there that keeps everybody excited and innovating. So yes, I like what we're doing in that space. And I think in -- when we give our guidance for 2018, we will start to be able to give a little bit of color on the opportunity from those -- that type of services.

Operator

We will now take our next question from Sander van Oort from Kempen.

Sander van Oort - *Kempen & Co. N.V., Research Division - Analyst*

Two, if I may. First of all, on the partnerships you signed more recently, to what extent are these unique partnerships? Or is it both parties also have the opportunity to maybe team up with all the industry players at a later stage? And the second question is also related to a former question, which you commented that not all notes have been cracked for Autonomous Driving today. So I was wondering, is it TomTom that needs to solve these challenges internally? Or it just a matter of finding the right partner to have to find the right solution and get to the next stage?

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

Yes. So those -- most of those parties are not exclusive. And that wouldn't make sense either. I figure there's very few people in a position now to place bets. That's not how it works. People want to work together, but also keep their options open. I think that's healthy and good. And that is kind of the pattern we see in this industry for a long time. Self-driving is going to be a reality? Yes, and still lot of things happen. Things need to happen on our side. Things need to happen on the OEs side. Things need to happen on the Tier 1 side. Things need to happen on the regulatory side. Still a complex puzzle we're putting together here. But this is a significant amount of resource committed now to making this technology a reality.



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

Operator

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

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

Some phone issue, so maybe some questions are asked, but I'll ask them anyway. To start with Telematics, can you give us your few or what the growth prospects are for this business in, say, the medium to longer term. But also, when can we expect, say, that we see you in higher growth path again going back into your business? So that on the growth side. And then also, how do you see this business developing in terms of investments that are needed to keep the product up to stand out and to cope with competition, et cetera? So this is my first question.

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

Yes, I think the underlying industry dynamics and characteristics are still very favorable for Telematics services. So our customers are making money, short return on investment. We are, by far, the leader now in Europe. We are operating across all European countries in all languages. I think we have a good opportunity in Connected Car services, what I explained earlier. So we need to figure out how we can go back to growth. I think it's possible to foster growth. We're growing, of course, but we don't grow with 30% per annum anymore, and that's not good. I think the market can grow faster than what we currently -- rate that we are currently growing at. There's a couple of things, things that are specific. So we made big investments in the platform. And if you go through a -- that's mostly a transition from Flash technology to more modern HTML technology that gives us all sorts of advantages. But it's also true that in a time you're working on, on those transitions that innovation tends to slow down before you go faster again. So we're sitting towards the end of the period. We have launched now a version of the new platform that's been well received. I think by the end of this year, that transition will be completed. And then we have all of that in a row again, and innovation will go faster as a result of that. So that's one thing. The other thing is that we've made considerable commitments to the Connected Car platform technology over the last 2 years. We started to sign up customers at the end of 2016, and we now see a period where we start to roll out those technologies to our customers. And I expect that, that will accelerate in the coming period. So I think that we have a positive influence on growth numbers again, but I also feel that we need to do more. What it is exactly is -- I don't want to elaborate on that, but I think there is a bigger opportunity than what we can show today in our growth numbers.

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

Would that require significant investments to deliver that?

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

No. I think the big investment relative to the size of Telematics has been made in transitioning the applications from HTML -- from Flash to HTML. Most of the technologies from the platforms or from the acquisitions we've done in the last couple of years have been absorbed. It's not 100% done, but bulk of the work to bring everything in line on one platform is behind us, with the exception of Finder, but also there. Finder is a Polish acquisition we did last year or 2 years ago.

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

December 2015.



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

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

December 2015, to be exact. And -- but also, Finder has started to stop selling the legacy platform and start selling now the new platform that's based on HTML5. So it is bit of a transition, bit of cleaning the kitchen. Whether that explains it completely or not, I'm not 100% sure. But I think we can -- we need to get those growth numbers up in the second half and also in 2018.

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

And in terms of acquisitions, now that you do this share buyback, do we -- should we also read that as no acquisitions in Telematics? Or are they so small that it could still fit in the growth strategy there? Or are the targets just too expensive that you've given up on that?

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

Well, we don't -- we're not -- especially, money and valuations are high. But there's still consolidation taking place. And there are opportunities to buy that kind of smallish, medium-sized companies at reasonable prices. And if they -- those opportunities happen, we quite happily do that and -- but we -- there is enough financial room to do that, and so that's nobody's [] a change in strategy. But it's getting hard to find those targets, to be totally clear. There are still -- they're offered to us every now and then, but it is not getting easier.

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

Clear. Then on the PND side, how do you look to the PNDs in the sense that how long can you, given current declines, still remain cash positive in this business?

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

Well, quite some time. So there's couple of things happening. The PND market as a whole is declining. But -- so that's clearly a negative. But within a category, we see some niche products that are growing for motorcycles and trucks and that kind of stuff, and that's quite profitable. We see that ASPs are going up, and we also see that our market share is going up. And we do that with relatively little investment. And that -- and we can do that because we are benefiting from all the other developments we're doing for location-based services for car industry, and I'd like to see this as just another vertical in our product portfolio. That's very well aligned. And it brings you something other that is quite valuable, which is a softer benefit and that is direct contact with an end-user who tells us what works, what doesn't work, what they like, what they don't like. And I think that's valuable for us as a company to have that, so we don't have to rely on our Automotive customers, who have their own interpretation of what customers want. I think it's good to have that direct link for better understanding how the market works, what people are expecting. And most importantly, we're generating cash there. Let's...

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

So it still finances part of your mapping R&D, so to speak. But at some stage, you will hit, say, a sort of threshold that you get to a sort of tipping point that, given the declines, that it is difficult to remain cash positive on that front or you still allocate cost to -- enough cost to PNDs. Is that point, say, one year, 2 years or 3 years from now? Or can you give us sort of an indication when you might hit that? And -- because I can't imagine that EBITDA is cash negative, that you have to take also a decision perhaps on PNDs?

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

No, I don't want to speculate on that. I don't think that, but it's...



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

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

(inaudible) given the current declines, just model...

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

Yes, it did decline, but it's going slower than it has been. There may be some pleasant surprises there, I don't know. We'll see. We keep a close eye on the profitability. It should not distract us. It should run its own course. But for the moment, I think, it's a -- we're the right owner, and there's considerable benefit of playing in that space for us, although it is less strategic, of course, than it used to be in the heydays of personal navigation.

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

Sure. Sure. Maybe I'll back off of saying we're the best owner, but you're now looking for perhaps an exit for sports category in one way or the other. What if a potential buyer comes along and says, okay, it is sports category, but also the PNDs, we're interested in a package deal, we can be open to such a scenario?

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

We will. Every proposal we -- that the market is making we will listen to and evaluate it. I don't see that happening. I see the likelihood of that scenario is highly unrealistic. But if someone has a plan, we will listen. But I don't expect that to happen in old terms.

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

Okay. Okay. And then on the sports category. You say we're in a current strategic process. Does it -- is there also an option possible in such a scenario to just close it, because you seem quite confident to close it somewhere this year -- can't say you will provide us with an update on the Q3. I think it was your outlook as part of it on the OpEx guidance some indication that you might not invest more into marketing, for instance. But the fact that you're quite confident in closing it, does it also mean that if you don't find a buyer or whatever car parts a new owner would be interested, that if that doesn't, in the end, go through, that you might also consider just closing the business for -- and taking a charge against, perhaps, cash inflow for working capital that you say can close it at a minimum amount and we stop with the business. Is that also a possible scenario?

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

Well, what we said is the business is not developing according to plan, and we don't see a reasonable path to profitability. And the conclusion is that we needed our options now. But we will need this quarter to figure out what it is. And I think I'm quite confident that by Q3, we will have much better picture of what that evaluation has yielded. And I don't want to go much further than that. I don't think that will be helpful. But what we're signaling today is that the market is disappointing. We need to look at it. We can't carry on as we are going at the moment.

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

Sure. Can I ask how many people work, for instance, for the sports category in total with variables?

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

No. I don't -- we haven't disclosed that number



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

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

And then one on the order book. Can you give us an update on your success and -- because you mentioned that there are more RFQs this year in the market? Can you give us perhaps a bit of an update how successful you are in that front? And whether the RFQs are still there? And whether you're perhaps on track to meet last year's order book? Anything -- any color you can give there?

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

No, I can't give you any color. The general picture is that the total number of orders available is bigger than it was last year.

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

And that's still the case.

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

I beg your pardon?

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

And that is still the case, currently.

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

Yes, that is still the case. So there's more to win or to lose in this year than the last year. We are, obviously, involved in those RFQs. We think that will be decided this year, but that we come with an update. I'm looking at Taco. Normally, we do it, I think, in Q3.

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

No, what we said at the start of the year is that we would go to annual updates.

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

Annual updates. We said we go to annual updates. So I think that's better as well, because those deals are quite lumpy, and they happen or they don't happen. Often they are postponed or don't fall exactly in a period that you thought they would fall. So at the end of the year, we give you an update what the order book is.

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

Okay. Now that I'm asking those, these things can change, and they might disappear from the RFQs. But that's still unchanged, then we get an update at the end of the year. That's how we should read into.

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

Yes.

JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

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

Okay. Then a final question on the share buyback. Can you perhaps share with me the rationale to announce with the H1 figures?

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

Well, there are 3 reasons. Number one is that with this, we want as a comprehensive management team to give a signal to the market that we very much believe in our strategy and our future. The second is that when we look at our cash generation in the coming short-term period that even with -- when we consider the buyback of EUR 50 million worth of shares, we still think we generate cash in the second half of this year. And the third reason is that there is this availability as we have this ESOP plan, the employee share option plan, and we have ongoing commitments to future transactions, and we can build a pool of shares that can create a hatch for future execution of those options. And that will be done on a tax-efficient way.

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

How many dilution -- what kind of dilution is currently on the current share price in -- on the balance sheet?

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

Well, if you would divide the EUR 50 million by the share price of yesterday's, it was 2.4% dilution.

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

So it's exactly the amount of the share buyback. So it's matched?

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

No. Oh, you mean, the number of options that are outstanding? That is a bit higher. That's higher. So there are EUR 6.3 million options outstanding at this point. So that is roughly 2.7%.

Bisera Grubestic - *TomTom N.V. - Head of Treasury and Investor Relations*

Thank you, Mark. I would like to thank everybody for joining us in this afternoon. We will end the call. I would like to ask the operator to close the call.

Operator

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



JULY 19, 2017 / 12:00PM, TOM2.AS - Q2 2017 TomTom NV Earnings Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.