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TOM2.AS - Q2 2023 TomTom NV Earnings Presentation

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## CORPORATE PARTICIPANTS

**Freek Borst** TomTom N.V. - Investor Relations

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

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

## CONFERENCE CALL PARTICIPANTS

**Harry Blaiklock** UBS Investment Bank, Research Division - Analyst

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

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

## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to TomTom's Second Quarter 2023 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 conference, Freek Borst, Investor Relations. You may begin.

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**Freek Borst** - TomTom N.V. - Investor Relations

Thank you, operator, and good afternoon, everyone. Welcome to our conference call, during which we will discuss our operational and financial highlights for the second quarter of 2023.

With me today are Harold Goddijn, our CEO, and Taco Titulaer, our CFO. We will start today's call with Harold, who will discuss key operational developments, followed by a more detailed look at the financial results and outlook from Taco. We will then take your questions. As usual, I would like to point out that Safe Harbor applies.

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

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

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

Our Location Technology business performed well in the second quarter, showing continuing momentum and good growth. We are consistently outperforming car production trends in our core markets, thanks to our strong product offering in maps, traffic, and routing. After a strong first half of the year, we increase our outlook for revenue and free cash flow for 2023.

Outside of Automotive, we're also helping customers to innovate. A recent example of this is our expanded partnership with analytics leader Alteryx. We now power their new cloud-based solutions, so an even broader user base benefits from TomTom location intelligence.

The roll-out of our new maps is progressing according to schedule. We delivered the new maps to key partners in important verticals like ride hailing, fleet and logistics, and automotive for testing and validation, and the reception has been overwhelmingly positive. Our new maps are setting new benchmarks on all metrics. And thanks to our new mapping platform, the pace of improvement on these metrics is higher than what we have seen in the past.

The first release focuses on visualization, search, and routing, especially targeting ride-hailing, on-demand delivery, fleet and logistics. And as we roll out the platform, we will unlock increasingly sophisticated features such as advanced 3D visualization, electric vehicle search and routing, rich truck and bus attributes, and improved HD information.

I also would like to highlight the progress we made through the Overture Maps Foundation, which we founded together with AWS, Meta, and Microsoft. Overture has now released its Data Schema and Global Entity Reference System during the quarter. These are the foundations of what we are building and they encompass the technical specifications that define how geospatial data will be structured and how additional data can be added to the base map. We are creating the specifications to connect Overture's open-based data sets with the proprietary geospatial data of organizations that are joining and using Overture. Soon, TomTom customers will start to benefit from fast integration of data released by the Overture Foundation.

And with that, I'm now handing over to Taco.

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

Thank you, Harold. Now, I would like to provide some insights into our financials and outlook for the year. After that, we will move on to your questions.

Group revenue for the quarter increased by 18% year-on-year to EUR 157 million. Our Location Technology revenue reached EUR 128 million, representing an increase of 22% compared to the same quarter last year.

Let us break down our revenue business by business, starting with Automotive. Automotive operational revenue was EUR 90 million in the second quarter compared to EUR 71 million in the same quarter last year. This marks a significant increase of 28% year on year. Our performance exceeded car production growth of around 15% in our core markets, being Europe and North America, supported by continued increases in take rates and market share gains. Automotive IFRS revenue increased by 52%, from EUR 60 million to EUR 91 million. Part of this increase can be attributed to the change in IFRS revenue recognition for new maps subscription contracts, which started in Q4 2022, as well as a one-off increase from royalties related to previous periods.

Moving to our Enterprise business, which saw stable quarter-on-quarter performance. Enterprise revenue settled at EUR 37 million. And lastly, Consumer revenue increased by 4% year on year to EUR 28 million.

Gross margin in the second quarter was 83%, equal to our gross margin in the same quarter last year. For the full year, we expect gross margin to be around 84%.

Operating expenses were EUR 133 million in the quarter. This reflects a decrease of EUR 32 million year on year, as last year's operating expenses included a restructuring charge of EUR 31 million. Excluding the impact of this restructuring charge, our operating expenses decreased by EUR 2 million. This reduction resulted from lower depreciation and amortization, and realized efficiencies following last year's restructuring, partially offset by inflationary pressures.

Free cash flow was an inflow of EUR 3 million this quarter. This marks an improvement compared with the same quarter last year, reflecting a higher operating result in our Location Technology business. In the second quarter, restructuring-related cash out totaled EUR 6 million. Including these payments, free cash flow was an outflow of EUR 3 million.

Having covered our results for the quarter, let us move on to our outlook. We had a good first half of the year with our business performing better than our initial expectations. As such, we are upgrading our guidance today. We now expect group revenue for the full year to range between EUR 570 million and EUR 600 million. Location Technology revenue is anticipated to be between EUR 480 million and EUR 505 million. It's relevant to mention that for the second half of the year, we expect year-on-year comparisons of our performance to be affected by base year distortion related to the strength of the dollar last year, as well as the change in revenue recognition for new maps subscription contracts, which started in Q4 of 2022.

On top of the upgrade to our revenue guidance, we are increasing our free cash flow guidance as well. We now anticipate free cash flow to be around 5% of group revenue for the full year. This guidance excludes charges related to the restructuring announced in June of 2022. Of the total restructuring charge, EUR 12 million was paid in 2022 and EUR 10 million in the first half of 2023. The remaining EUR 2 million, we expect to pay over the upcoming quarters.

To conclude, I want to emphasize our commitment to achieving profitable growth and enhancing shareholder value. We're excited about positive trajectory set for the remainder of the year.

Operator, we're now ready to address any questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question today is from the line of Harry Blaiklock from UBS.

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**Harry Blaiklock** - UBS Investment Bank, Research Division - Analyst

You delivered some really strong performance in Auto, with an acceleration in growth versus Q1. It seems like it was driven by pretty significant share gains. I was wondering whether you could provide a bit more color around the drivers of those share gains.

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

Yes. So, it's really an effect of a strong order book and programs that we're rolling out. You see, as part of these contracts, more and more car lines being equipped with our technology. And I think that explains most of the momentum that we're seeing. And I think, on the whole, the market seems to be a bit stronger than we had anticipated in the beginning of the year. So, the overall volume of car sales has not disappointed.

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**Harry Blaiklock** - UBS Investment Bank, Research Division - Analyst

Got it. And you mentioned it there, but I was wondering whether you could provide a bit more color around the Automotive backlog and orders, how that's developed this quarter? I assume it's at a level which helps give you confidence in the new guidance?

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

Yes. So, we're happy with how the order book is developing. We're happy with the total funnel, both in Automotive and in Enterprise, I have to say. But especially in Automotive, the funnel is sizable, substantial. We expect not the whole funnel to materialize in 2023, some that will be taken over to 2024. But the total market that is available seems to be significant.

Order intake so far has been in line with our expectations. But as you know, the order intake can be quite lumpy. One or two deals can make a significant difference, and that's the reason why we publish and communicate about total order intake in the beginning of next year. I think February is the date where we give you a new update of the order intake and the total backlog.

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**Harry Blaiklock** - UBS Investment Bank, Research Division - Analyst

Got it. That's very helpful. And one last one, if I may. Just on the new maps platform, it sounds like you've been getting great feedback. I was wondering whether you can provide any examples of what you've been hearing from customers?

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

So, I'd like to split that in two sections, two market segments that we're addressing. We have our existing customers who are using our existing map, and they're happy with the move because they think it makes sense. They see a richer attribution. They see better visualization. They like the idea of the Overture partnership. And the generic comments that we get from our customers is that it's clearly the way to go. So that is very encouraging.

There's a second segment of customers that we cannot address today based on our current technology. That's a sizable market segment, and we're very active in developing the funnel there as well. And those are companies that we have not been able to talk to based on the old technologies, forever. And from that second sector of potential customers, there's also a lot of activity and a lot of excitement. And that's the sector where we also have planted demo files, trial files, and the response so far has been very encouraging.

So, I think net-net, our expectation is that we are improving our market position with existing customers, including Automotive, and that we are adding a completely new sector that we have not been able to address before. Now, I don't think that potential will materialize in 2023 in terms of higher revenue. I do think we will be able to announce a number of deals before the end of the year. But before you can see that in the revenue numbers, my expectation is that we will have to wait for '24 and that we will be able to start growing in the Enterprise segment significantly in 2024, but also the years after that.

**Operator**

This is from the line of Marc Hesselink from ING.

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

The first question is a bit of a follow-up on the strong results for the Automotive. You mentioned already the market share gains and maybe also some higher production volumes. What are you seeing on the take rates? Have those also been steadily moving up? Maybe also mentioning in this respect, the dynamic a bit of, in the previous year, it was the high-end cars that were still being produced. And now, maybe it's more the lower end. Do they also tend to have still the attach rates going up there?

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

Yes, we see attachment rates going up, and there are two significant drivers for that. First of all is legislation. So, there's more and more legislation that requires the car to be smart, with speed assist, cruise control, hazard warnings, traffic information. There's new legislation in the making that will give carmakers additional points if they integrate those types of technology into their cars. So, that has an impact on the take rates. So, if you want to have, as a carmaker, a high NCAP rating, then there is an incentive to start working with the type of data that we are producing.

The other driver is electrical vehicles. We see at the moment, in EV cars, 100% attachment rate. I don't think that will continue to be 100% forever. That may end up somewhere like 90%, or 85%, or something like that. But for the moment, all electric vehicles have navigation, EV routing, access to online charging point information, service sites, range calculation, and so on and so forth. So, although the percentage of EV cars shipped is still low, we do start to see some effects of EV cars becoming more popular now.

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

Okay. Clear. Then maybe can you help me a bit on the trajectory that you're seeing '23, '24, '25, going to your '25 guidance for Location Technology. This year seems to be relatively strong, even despite the Enterprise contract that you lost. I think the guidance for '25 is also strong. You need quite a step up, quite some growth.

Also maybe, some more recent announcements mention that maybe production volumes will see a bit slower growth into '24. Is it fair to assume that next year, also with the progress that you're making on the open-source method, maybe you grow a little bit slower and the growth picks up really again in '25?

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

That's difficult to say. I think Automotive is good and is fairly predictable, and there is no indication that we need to change anything in our assumptions. If anything, they are a little bit better than we had anticipated. So, I think that's still intact and on schedule.

The funnel, and the funnel is the identified targets for our new map in Enterprise, is filling up quite nicely. So, we do see a lot of leads and potential for those new maps. Now, that needs to be converted into business. It's harder to predict how long it will take. Whether it will go faster or slower, I don't know. But I think what we can say is that the funnel and the interest for our new map is growing very quickly and has been growing very quickly in the first half of this year. We will start converting that into real contracts in the second half of '23 with some revenue expected to come in in '24.

And so, it's harder to predict what kind of momentum we can achieve in that sector because we don't have a lot of historical data. But qualitatively, I can say that market expectations and market reactions have been very encouraging indeed. And a large number of companies, I said it in my opening remarks, a large number of companies that are in that funnel are companies that we could not address with our products in the past, because essential data were missing, visualization was not at the required level, or there were key countries where our coverage was of an insufficient level. We're fixing all that, and that gives us a lot of optimism for the Enterprise business.

What we've also seen is that we can much faster add data to the new database. So, the rate of improvement what we've seen so far of the geographical database has increased significantly, and that is because there are more sources and super sources available. So, vehicles are giving us all sorts of data, including data on signposts and lanes and whatnot. And the other reason is that all those signals can be processed in near real time at a very high speed and can then be added to the database. So, we expect a steeper line of increase in terms of the number of the coverage, but also the data types that we are providing our map. And lastly, I would like to point out that the cost of doing that has come down significantly as a result of our transition to the new map platform.

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

Okay. Do I summarize that then correctly that you're very confident on getting that business, the new Enterprise business, the new Automotive business, but that the exact timing might be a bit more '24, maybe a bit more '25. Is that correct?

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

Yes, I'm very confident that a number of those named opportunities that we have in our funnel will translate into business.

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

Okay. Clear. And one small final follow-up is that, on the order intake that you said is in line with your expectations, are there any significant share gains in there? Or is it more winning the existing contracts?

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

No, I think that's a bit of both. So, it is new business with existing customers and new programs, but there are also new opportunities that we've been able to close. And if I look at the total addressable market for '23, '24 in terms of contract wins, there are a number of new potential customers in that list as well.

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**Operator**

(Operator Instructions) This is from the line of Wim Gille from ABN AMRO.

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

Two questions from my end. If we look at the dynamics in terms of, let's say, your outlook on Automotive revenues. There's obviously, let's say, a driver in there, which is called European car production, and then we have the take rates, and basically your market share. I think we can all get a bit of a feeling there. But can you, broadly speaking, give us an indication on where you expect automotive car production to end up in 2024 compared to 2023, what you basically currently see? And then help us get a bit of a feeling on what the potential Automotive revenues can be, taking into account take rates and market share gains? That would be my first question.

The second question is on the cost side. Obviously, we've seen quite an encouraging drop off in the cost when you basically implemented the new mapping platform. A lot of that has been reversed now in Q2, basically due to inflation, which was expected and within the guidelines that you provided earlier on. But how should we model the cost base going forward? Is this kind of the new level? Or should we expect ongoing efficiencies in the geographic data layer? What do you see going forward in terms of wage inflation? So, a bit of a feeling on how to model that going forward would be helpful.

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

Yes. Hi Wim, it's Taco. I'll take your first and probably also your second question. So, first of all, if you look at the markets that are most relevant for us, so that is the EU and North America. We look at industry data, so, this is a no overlay from our side, then the market is expected to grow with roughly 10% this year, and that will slow down to 2% to 4% next year. So, the growth in the market will decline. There's still growth next year, but at a slower pace.

Then your second question about geographical data and the application layer. What you've seen in the second quarter is that, now, the application layer has become a bigger part of the R&D spend. What we expect is that the mix will continue to diverge, so that application layer will grow faster than the other one.

Your question if we could also see geographical data coming down, that depends, of course. That depends on a number of factors. It depends on customer acquisitions and the specific needs and specific sources that we need to unlock or not, but it's also one of the boundary conditions that we've set ourselves is profitable growth as well. So, on the one hand, there is an infinite amount of data requests that we can maintain, but that we also want to service as long as we can go to that 10% yield that we aim to achieve in 2025.

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

Very good. And then maybe on the Automotive revenues for 2024 and beyond. So, what do you guys expect in terms of, let's say, the growth? We have the market growth in terms of car production, but there's two other sources of growth, which is an increase in the take rate, which in all likelihood is going to expand further, especially with electrification taking place as well as market share gains. And obviously, this year, you had a particular market share gain on the back of Kia and Hyundai. But how do you look at that development for 2024, 2025?

And maybe can you say something about the order intake. I fully get that you will update us in February on where the order book stands. But based on the wins that you had so far, is your market share going to increase going forward based on the year-to-date wins? Or did you more or less get what your current market share reflects?

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

Yes. So, if you split Automotive and Enterprise and look in the years ahead of us, and that's very much relating to timing of signatures in Enterprise and when that revenue actually comes in. Then we expect next year, Automotive, the growth to be a single-digit percentage, probably a low single-digit percentage also due to one-offs this year, which make a comparable difference. So, a low single-digit increase that year, and the year after probably going back to a double-digit increase in Automotive. In Enterprise, we expect a double-digit increase already next year, but the main increase in Enterprise is expected in 2025, both in absolute as well as in percentage. And your second question was...

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

Could you repeat on Enterprise?

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

Yes, sorry?

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

Could you repeat on Enterprise? So, double-digit in 2024?

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

Yes. So, let's 10% next year and then a significantly bigger growth in 2025 in Enterprise, mainly due to unlocking the market potential via our new mapping platform.

And your second question was on the market share gains. Based on the order intake, what we have achieved this year, it will benefit us, but it's not that we have signed up a huge game-changer this year from the competition at this point. So, that might come, but it's not based on the current order intake.

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**Operator**

Thank you. There are no further questions at this time, so I will hand back to the speakers.

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**Freerk Borst** - TomTom N.V. - Investor Relations

Thank you. Since there are no further questions, I'd like to thank you all for joining us this afternoon. Operator, you may now close the call.

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**Operator**

Thank you. This concludes today's presentation. Thank you for participating, and you may now disconnect. Speakers, please standby.

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