TomTom

Delivering Growth

Tuesday 24th September 2019

List of MAIN speakers	Company	Job title
Taco Titulaer	TomTom	Chief Financial Officer

Delivering growth Slide #1

Taco Titulaer
Chief Financial Officer

My name is Taco Titulaer. I've been with the company since the IPO in 2005. And I want to take you through the financial model. I will start with revenue then touch on the gross margin. The next step is to look at the balance sheet also following up on what Harold is talking about, about the freshness of content and continuously releasable software and the implications that that has on our capitalisation amortisation practices.

Then look at our spend. How do we spend our money? What are the trends? Where we will spend more and where will we spend less? The next one is to look at automotive backlog. It's a new KPI that we have introduced today. Also touch on enterprise and then conclude with the outlook.

Successfully transitioned Slide #2

TomTom acquired Tele Atlas in 2008. We announced it in 2007. We acquired it in 2008 and if you look at where we were in the first year where we had to fully integrate Tele Atlas then a lot has changed. So, if you look at the revenue perspective ten years ago, almost 90% of our revenue was coming from hardware and today it has flipped.

More than 70% or 2/3 of our revenue is coming from software and why is that important? Because software tends to be more sticky. Where we sell software, we do that with long term contract and we have a deep integration into our customer products and the other thing that comes with software is that it has higher gross margins, mostly, and it is also the case with TomTom.

So, ten years ago our gross margin was south of 50% and today we expect gross margin to reach north of 70% for 2019 and we expect this trend to continue.

SaaS will reduce our intangible assets Slide #4

The technology that we are developing and also the product that we are selling is changing. So, the freshness of content has materially changed not only because we are able to do that, but also the new requirement of our customers is changing.

For the pure driving navigation, the freshness is different than where we look into the future where you have autonomous driving where the freshness and the accuracy of the content needs to go up significantly. And it's not only the content, but also on the application layer, we are making changes as we are moving from embedded software to continuously releasable software and this has had its effect on our capitalization practices, which we announced during our Q2 results.

So, we will capitalise less, a lot less, and what we capitalise, we put up as shorter on our balance sheet. So, the long list is now six year where it used to be beyond ten years. So, we will capitalise less, and we will amortise it also quicker. And there’s a bit of a catch up to be done, where that's related to the Tele Atlas acquisition where we were still planning to amortise for another ten years, we will do that in an accelerated manner in the next two years.

You can see that in the slideshow our intangible asset position was just shy of 700 million, but through the fast amortisation of close to 300 million, we think that we can end up just under 500 million by the end of the year. Next year, we'll do another acceleration of amortisation. So, it will bring us just above 200 and after that year, you will see a new normal of amortisation and capitalization. The D&A will obviously continue to decline, and we will at a certain point find the same value as Capex.

Investing to capture mega trends Slide #5

So how do we spend it? If you look at this slide, on the left-hand side you see what we are expected to spend in cash from a cash point of view this year. There is an increase of 17%. There's a disclaimer on the slide that we don't think this trend will continue so don't worry. We will not increase with 17% every year. But we've seen this increase.

We have made the necessary steps that are required in our application layer and also in engineering. If you zoom in more in this catchment it’s 500 million+ then roughly 2/3 of that is coming from R&D. The remaining 30% is SG&A and then 5% for marketing.

Zooming in to that R&D spend, you could divide that in the application layer that is 30% and 70% coming from content and within content, and that is what Harold already told us this morning, there's also trend towards less spend on the sourcing, to getting the sources, processing the sources. Less human touch.

More automation for faster cycle times. Lower latencies and more spending on the engineering to make all that happen. Machine learning, learning from artificial intelligence and the possibilities that that can bring us. On the right-hand side at the bottom again cash spend is expected to go up in the coming years but at a much slower pace than we have seen.

Automotive backlog Slide #6

Then automotive backlog. So, when talking to investors and our analyst, we've learned that just providing the one-year guidance and also the order intake makes it difficult to predict the future, so today, we have introduced the automotive backlog, and this will replace the order intake going forward. So, today we will announce the automotive backlog and in February will give an update and we will do that every February when we publish our full year results.

So, what you can see here is the cumulative expected IFRS revenue that will foresee in the next decade plus and a number of caveats. So, when we have an award if we have signed in a contract, it almost never happens that we have committed purchasing in there.

So, also not volumes. This is an estimate of the automotive customers, of the car sales, coupled with the take rate and the agreed pricing. So, the actual results that we will present for example, in 2021, will differ and why will it differ? Because, on one hand we will reassess the future regularly, at least once a quarter. So, what we see in our backlog can change.

And the other thing which is positive obviously is that we will add deals to the 2021 picture. That is less the case obviously for the H2 2019 because we're almost done for the year. So, this is a fair estimate of where IFRS revenue will end up in 2019.

Automotive backlog explained Slide #7

And if we then published the update in February, how to interpret the update is that if you compare it with what we set today, you look at the delta, there are 3 elements. One is the reported revenue in between so in H2, (2) the order intake and number three is the contract reassessment per contract related to IFRS 15.

Enterprise revenue Slide #8

Enterprise revenue. We don't have a backlog as already explained by Harold. This is very sticky business. Long tenor. It tends to be an all-you-can-eat fixed contract based on the size and based on the value that we bring to our customers.

But you will see shifts on one hand because lots of these customers are in US and the contracts tend to be dollar denominated so there's a Forex angle, but the other difference can be if you lose a client or if we expend or introduce new clients what we have seen this year with Microsoft.

So, that’s also the reason why the new normal of revenue is trending towards 160 for this year. And today’s revenue is the best indicator for future revenue due to the nature of contracts.

Mid & long term outlook Slide #9

Then to conclude, we're looking at the outlook. So, to start with the revenue picture. For 2018 until 2021 we expect a CAGR of 10%, bringing us to half a billion. This is location technology only so it’s excluding the revenue that that will come in from consumers and beyond that and that will be underpinned by the presentations that you will hear today as well, we see an acceleration of growth towards 15%. So, 15% is the midpoint of the 1.5 and 2 billion that’s displayed on this slide.

On cash flow, what's important for our business, also important for our customers, is that we remain profitable due to all the accounting going through the P&L and the accelerated amortisation, deferring revenue, and what have you. We focus on free cash flow and our mid-term aim is to bring that to a double-digit number.

Also, at the balance sheet, our balance sheet is very healthy combined with the additional free cash flow. We are constantly reassessing that position. Four months ago, we gave back 750 million to our shareholders. We will reassess that again next year. And that can lead, amongst other things, to a share buy-back.