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PRESENTATION
Operator
Good day, ladies and gentlemen. Welcome to the TomTom Third Quarter 2018 Earnings 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, Bruno Priuli, Investors Relations Officer. You may begin.

Bruno Priuli - TomTom N.V. - IR Officer
Thank you, operator. Good afternoon, and welcome to our conference call, during which time we will discuss operational highlights and financial results for the third 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
Yes, thank you very much, Bruno, and good afternoon, good morning. We continued to make headway in both Enterprise applications -- sorry, I'll -- let me start again. We generated group revenue this quarter of EUR 220 million, which is in line with the same quarter last year. Automotive operational revenue continued to grow strongly, totaling EUR 72 million in the quarter, which is an increase of 36% compared to last year. Our gross margin strengthened further and that resulted in a year-on-year gross profit growth and strong cash generation. Taco will provide further information on the financial highlights and the financial outlook for 2018 later during his presentation.

I will now discuss our key operational highlights for the quarter. We continued to make headways in both Enterprise applications and Automotive. The Automotive environment, especially, is turbulent, with changing demographics, electrification, new forms of mobility and autonomous driving
keeping the industry busy. You’ve seen a few weeks ago that the Renault-Nissan-Mitsubishi alliance and Google announced a technology partnership to embed the Android operating system and Google applications in a limited number of cars.

Today, we disclosed that we have reached an agreement to bring the contract for TomTom to provide location and navigation content and service to Volvo as we communicated on the June 8, 2016, to an end. We have agreed with Volvo not to go into details of the termination agreement, but we also announced that the order intake for 2016 has been adjusted downwards from more than EUR 300 million to more than EUR 250 million.

It’s important to understand that we’ll continue to collaborate with both the alliance and with Volvo. For the alliance, the opportunity to provide location and navigation technology over the volume segment remains wide open, and there are further opportunities for ADAS and for self-driving services. We are also continuing to work on the Volvo Drive Me program, a research program for autonomous driving. We will collaborate with Zenuity, which is a joint venture between Volvo cars and Autoliv, with whom we are developing car-to-cloud-to-car technology.

We don’t think that Google’s “phone in the dashboard” approach will satisfy the needs of all automotive customers, and that there is a strong case for multi-display fit-for-purpose approach based on modern software practices that puts a premium on privacy and on safety. Many OEM customers have indicated that they want to stay in control of the dashboard and don’t want to hand over the proverbial keys to a third party whose strategy may not be aligned or even conflicts.

We’re pleased with the progress we’re making in mapping. Our goal is to make better maps at lower costs faster, and every month we see significant efficiency gains. More and more data is now open sourced, creating further opportunities for efficiency improvements.

Last month, we processed over 1.5 billion changes to our map, which is an all-time high. And our investments in computer vision and AI have now a material impact on our ability to process vast amounts of data with minimum human intervention. Our HD Map now covers over 400,000 kilometers of highway and interstates in Europe, the U.S. and in Japan. Our first commercial products will start shipping early 2019 in a motor management application that is designed to reduce fuel consumption for trucks.

TomTom Traffic and routing services are now available in 77 countries, powered by 550 million data sources and is now the market leader in the auto industry. We've recently announced new contracts with PSA and BMW, highlighting the quality and constant developing -- development of our connected navigation products.

PSA extended its current agreement to beyond 2020, and that means that our content and services will go into the next generation infotainment systems for all brands in all regions. With BMW, we signed a multi-year agreement to deliver traffic, routing and EV services to all BMWs, MINIs and Rolls-Royce vehicles across more than 33 countries in Europe and around the world.

Last month, we announced that we’re exploring strategic alternatives for our Telematics business. We have broad and deep interest in potential sale of the division, and the process is moving according to plan. We will provide further information in the short term. We are creating a more focused location technology business with clearer priorities and a simplified operating model. We also think that Telematics can accelerate its growth trajectory further as a separate entity. With a renewed focus on the remaining business, TomTom will continue to do what it does best, shaping the future of mobility.

In the next slide, I want to update you on the market for Autonomous Driving.

Driving automation will develop step-by-step. It will not be a big bang, and it will develop in line with the 5 levels of automation outlined by the Society of Automotive Engineers. It will be an evolution from level 1, where the driver is in full control, to level 5, where the driver is fully out of driving task. The higher the level of automation, the more vital it is to have an accurate, detailed and maintained map. But across all levels of automation, those systems can be improved or made possible by using a map often in combination with vehicle sensors like cameras, radar and LIDAR.

We are building a portfolio of purpose-made highly accurate maps to suit all levels of automation, starting with our SD Map with ADAS attributes for level 1 and 2 to HD Maps for levels 2 to 5. This concludes my part of the presentation. And I'm now 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, and then we're going to jump on to Q&A. In the third quarter of 2018, we reported revenue of EUR 220 million, in line with same quarter last year. Automotive and Telematics showed year-on-year revenue increases of 25% and 6%, respectively, while Enterprise revenue remained flat compared to the same quarter of last year.

Let me go through the businesses one by one. Automotive revenue was up to EUR 59 million, mainly due to higher take rates and a ramp-up of existing contracts. Our expectations for the full year is a bit north of EUR 230 million, a 20% growth year-on-year. Enterprise revenue was EUR 34 million, flat compared with the same quarter of last year. For the year as a whole, we expect Enterprise to decline with a mid-single digit percentage. Telematics revenue was up with 6% to EUR 43 million, mainly due to the recurring subscription revenue. The subscriber installed base increased 10% year-on-year to 861,000. We expect Telematics to grow with a single-digit percentage for the full year. Consumer revenue decreased by 14% in the quarter. For the year as a whole, we expect the decline to reach close to 25%.

Gross margin was, again, solid at 73% during the quarter, bringing the year-to-date number to 71%, and we expect to maintain the gross margin to at least 70% for the full year.

Total operating expenses for the quarter was EUR 136 million, a decrease of EUR 9 million compared with the same quarter of last year. The year-on-year comparison is influenced by the restructuring charge of EUR 12 million related to the reorganization in consumer sports booked in Q3 2017 and some one-off items in our operational expenses in Q3 2018, with a net positive effect of EUR 4 million. The underlying OpEx showed a year-on-year increase explained by higher amortization and higher investments in research and development.

EBITDA increased by 76% year-on-year to EUR 62 million, with an EBITDA margin of 28%. EBIT in the quarter was EUR 24 million, with an operating margin of 11%. The adjusted earnings per share was EUR 0.11 in the quarter, and we now have EUR 0.26 year-to-date, which makes us comfortable with raising the guidance to around EUR 0.35 for the year as a whole.

In the quarter, we increased our cash position with EUR 24 million, and we now have EUR 179 million of cash, and we do not have any debt. We expect our full year cash position to be well above EUR 200 million. Our deferred revenue position is now EUR 285 million. Automotive and Consumer maintained their trends, meaning Automotive was up EUR 76 million to now EUR 155 million and Consumer was down with EUR 24 million to now EUR 97 million.

On Slide 5, the Automotive operational revenue, we see that Automotive is now our second largest revenue stream, behind Consumer. Automotive is growing strongly and is expected to grow with close to 20% this year. As you know, there’s a difference between revenue we invoice and the revenue we report. The latter tends to be lower as we follow IFRS 15 accounting standards. As shown before, the slide highlights the operational revenue of Automotive. Operational revenue is reported revenue plus the net change in deferred and unbilled revenue positions. The Automotive operational revenue increased by 36% year-on-year to EUR 72 million.

To conclude, the outlook 2018. In Q3, we saw solid performance and a year-on-year growth in Automotive, Telematics and Enterprise plus a beat in Consumer. And in Q4, we expect both our Consumer business as well as our Auto business to perform better than what we previously expected. As a result, we have raised our full year revenue guidance to EUR 850 million, with a gross margin of at least 70% and an OpEx number of EUR 560 million. The adjusted earnings per share is expected to be around EUR 0.35.

I would also like to reinforce Harold’s message regarding the potential sale of Telematics. There is strong interest, the process is on schedule, and we’ll provide additional information in the near term, though not later than next quarter. And operator, we would now like to start with the Q&A session.
QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Andrew Gardiner of Barclays.

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

Harold, I was interested in sort of understanding a bit more about the changes you're seeing in the Automotive space. As you said, we've now seen 2 customers make the decision to move over time from your platform to that of Google. And I know you -- as you said, you don't -- you can't talk or don't want to talk in specific about the contracts. But I was just wondering if you can give us, at a higher level, some of the motivations you're hearing from the customers for moving in that direction. I suppose, also, in particular, it's interesting to see on one hand, you've got the Renault-Nissan alliance in terms of significant scale making this decision and Volvo at quite the other end of the spectrum in terms of size. So if you could perhaps sort of compare and contrast sort of what motivations of those different types of customers may be in making that transition, that will be helpful.

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

Yes, difficult for me to comment specifically on behalf of our customers, so I'm not going to go there. I want to -- there's a couple of comments I want to make, however. So in the alliance case, it's not all car models, it's a limited number of car models that will equip these Google services. And there remains a great opportunity and a great market for the volume segment of the market to be equipped with our technology -- our location technology and routing and traffic information. And on top of that, there is a wide open opportunity also for ADAS and self-driving maps. So that remains. As I said earlier, it's a busy time for carmakers. They have to battle at multiple fronts. Some of them don't have the stomach to invest in software capabilities, take their destiny in their -- or not the ability or nor the will to do that and go for packaged solution and other thing. That's what we're seeing here. And at the same time, I think it's up to the industry to look at our own practices and our own software development practices and see what we can do better to bring end-user experiences into dashboards that meet a higher level of expectation than what we have seen in the past. So there's clearly work to do. But if there is a silver lining around the developments that we're seeing now, then there is an increased awareness and willingness to engage and see what can be done and how we can offer the industry choice between solutions that are equally satisfying but following a different business model. I think we are in a good position to play a role there and that's, obviously, what we're trying to do.

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

Okay. I appreciate that additional detail. Just 1 sort of finer point in terms of modeling. Taco, I think the prior statement on CapEx budget was around EUR150 million. Is that still the same?

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

No, I think that's a bit too rich. I would guide towards, let's say, EUR130 million, EUR135 million.

Operator

We will now take our next question from Francois Bouvignies of UBS.

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

The first one, it's a bit of follow-up of the previous one from Andrew. About the higher-level perception of the business and the strategy. Harold, you already said that you are looking at the long term when you look at this business and you invest for that. And my question is very simple, is--
when you look at the acceleration trend of the market of big customers of yours like Renault and Volvo going towards Google, is there any change of your strategy? I mean, does it make you change the way you see things or how you want to invest in the business?

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

Well, I think, we've long argued for better software practices in the automotive industry, modern practices that deliver better user experience. Somehow, I think the willingness to discuss those models has improved following those discussions, and that will create an opening for us to come up with better products that we can develop more efficiently and maintain more efficiently.

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

So you don't want to -- there is no change on your strategy after Renault and Volvo? You don't think there is any change needed for your strategy?

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

No, that's not what I'm saying. I'm saying it is, obviously, a wake-up call. And not just for us, but it is a wake-up call for Tier 1s and for carmakers alike. I don't think it will be in anybody's interest or the car industry's interest if there would be one dominant monopolies in who does software for the dashboard. That's simply not going to happen. But it's also raising the standards and the expectations, and that is where we need to change tech. And that is a move that we've been advocating for some time, but now the urgency to keep pushing for that better software practices and development collaboration in the auto industry is now more urgent than ever. And I think that is a -- that's a positive development.

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

I hear. But what about TomTom? I mean, if it's a wake-up call, I mean, it's obviously important for the industry to collaborate, as you say. But for TomTom, specifically, this wake-up call, what can they do? What can you do to compete with this -- such strong player going after your biggest customers?

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

Well, of course, Google is a big beast, but the threshold for doing something meaningful with the dashboard is not that high. There's all of technology already available, and we need to come up with products that people prefer to use over their smartphone. That is a threshold. And if you then look at the car environment, the car environment is distinctly different from mobile phone applications. And there remains to be seen whether the mobile phone paradigm works in the dashboard. We think that it takes a different UI and a different way of developing software for that environment that can be very efficient and competitive. We don't have to replicate Google business, we just need to develop something together with the industry that people like using. That's the threshold. And the frustration for the Automotive industry is that they spent vast amounts of money on developing software for infotainment system and customers say, "Well, actually, I don't use it that much. I prefer to use my phone for all sorts of reasons." And that is something we need to fix, and I think we can.

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

And you said like collaboration with your customers, going to have a product out. If you think about that -- I mean, Google is getting more and more traction. How do you protect the relationship with your customers to be able to develop the products? I mean, do you need to bring the collaboration to another level? Or it's still the same?
Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO

Yes, I think -- so first of all, we need to develop products that people like to use that are charming, that are responsive, that are provide a great user interface. And then we need to provide also to the industry the business model that suits the car industry. Don't underestimate that we're much more flexible with the business model. We can tend to the requirements of OEs much better than with the standard solution that is the same for everyone. There's a big thing about privacy, what's going to happen with that data. There are all sorts of questions that will -- we don't have all the answers, but we feel that we can, at a product level, compete, provided we find a better operating model in the industry and that on the business level, we have a strong case against a more -- a big company who has its own strategy for making money. And that's where we need to differentiate, the safety, privacy, business model. And if we can get the user experience where end-users expect it to be, then that would open the market completely.

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

And this wake-up call for you and the industry, did you experience any, I mean, collaboration even more intense than in the past, since Google is pushing more with your customers and other players?

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

Yes, I think that's a fair comment. I think a lot of companies and players are scratching their heads and say, "What does this mean for us and where does this leave us and what are our options?" So you see an intensified level of discussion, openness to and willingness to engage and decide what the right operating model is going forward.

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

Okay. And just one -- another one on Telematics. Again, it's more on the strategic side and more long term. I mean, the question I have is, why now? Because you said that you have a lot of interest, but I think -- and correct me if I'm wrong, but it has always been an interesting asset. So I would be surprised that you have much more interest than in the past. And the second part of the question is, if you do something with it and put on short sale, which is a part of the options, I guess, what would do with the money? Because you have -- you will have more than EUR200 million net cash in your balance sheet at the end of the year, assuming proceed of this Telematics, I guess, it would be a lot of money. So just what's the plan?

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

Yes. So we've always been aware that, of course, the Telematics was a valuable asset, and we have had, as you say, inbound calls over -- for a number of years. We've always looked at it carefully. We looked at it again beginning of this year. We had some strategic review. We looked at further opportunities for synergy, and we came to the view that this is probably the right time to have another look. It's a larger business now than a couple of years ago, reaching EUR200 million in revenue at some point. It's growing. We completely renewed. It's in tip-top shape. We renewed the whole software suite. It's ready for further growth. And I think by separating the business, it becomes -- TomTom becomes also a clearer story and a more focused business that is easier to operate and perhaps also easier to explain what it is we're doing. So I think it's the right thing to do it now. It's gotten out of scale, the market-leading position in all the -- most European countries we're operating. And I think it's the right moment to make that move. What we will do with the proceeds, is I don't want to discuss it at this stage. We first need to do the transaction, and all sorts of things can happen. But if we have clarity about a deal and deal certainty and the proceeds, we will engage with the shareholders to discuss what's going to happen with those proceeds.

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

Do you have a precise idea already of what you would like to do with it? Or I mean, I guess -- yes, do you have a plan?
Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Yes, we -- there's all sorts of ideas, of course, and -- but I don't want to discuss them at this stage.

Francois-Xavier Bouvignies - UBS Investment Bank, Research Division - Technology Analyst
But it would be in your core business, presumably, if you want to, like, mapping and traffic, right?

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Again, I'm -- I don't want to engage at this stage.

Francois-Xavier Bouvignies - UBS Investment Bank, Research Division - Technology Analyst
I understand. And just a final one just to clarify the fact that you put Telematics in the review, given what you say, it has nothing to do with the move of the market of Renault and Volvo didn't trigger this action?

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
No. This is something that's been in the making, obviously, for quite some time. So those developments are not related.

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

Marc Hesselink - ING Groep N.V., Research Division - Research Analyst
First question is, with all these moving parts with losing the Renault contract and Volvo contract but also you're still winning contracts in the line that Renault announced and you did expansion, you announced, on PSA. What's your broad feel on what you're doing on market shares? Will you lose a lot of market share in the long run because of this move towards Google? Or is it you're winning still from HERE and, therefore, the balance is more mixed? Just a little bit of a feel on how that market is developing? And then second question is...

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Yes, so -- Marc, so market share, there's no reliable numbers, and I don't think -- yes, it's very difficult to see where Google will end. What I would say is that we're doing -- vis-à-vis traditional competition, we're doing well. We are increasing our market share. I'm also pleased to see that the overall market is expanding. So the attachment rates on new vehicles is increasing, but it's -- but I can't give you detailed numbers on exactly what our market share is and how it is developing, unfortunately.

Marc Hesselink - ING Groep N.V., Research Division - Research Analyst
Okay. And then maybe as a follow-up on that one, you said the Renault opportunity remains wide open for volume part of the market?
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Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Yes, that’s right. That’s right.

Marc Hesselink - ING Groep N.V., Research Division - Research Analyst
So that would mean that you -- understand there is still the majority of the revenue potential from Renault? Or...

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
In volume, absolutely. So this is the -- it’s only a small number of cars that will be equipped as far as we understand it as far as Renault has communicated in their press release, limited number of cars and the volume segment will remain open.

Marc Hesselink - ING Groep N.V., Research Division - Research Analyst
Okay. Then, Harold, you said the wake-up call for the industry. So what are we hearing back from other OEMs in the market, in general? Are they surprised with this move towards Google? Are they afraid? What kind of conversation do you have with the market?

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Well, there is concern. There is, of course, concern. And I think it’s -- generally speaking, I think the majority of the players want to stay in control over their own destiny. Giving away the software on the dashboard one way or another is -- that can be problematic over time, and that’s not somewhere carmakers -- most carmakers want to go. But at the same time, they also see that they’re investing significant amounts of money on software systems that fail to meet end-user expectations. And that is -- that’s where the problem is coming from.

Marc Hesselink - ING Groep N.V., Research Division - Research Analyst
Okay. And then the final question is on, if looking at the building blocks of TomTom today, I saw you have the decline in Consumer business, which actually is doing a bit better than initially thought; you have Telematics, which will be up for a strategic review; you have the, actually in the short-term Automotive business where the visibility is actually quite high, given all the order intake in the recent years. And then you have the fourth pillar, Autonomous Driving. When will that scale? Or when do you expect that, that will be a part that can take over some of the business of the rest of the pillars?

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Yes, that is -- that question is a little bit harder to answer. The RFQs that we are engaged in are envisaging the -- we can start to see some volume in 2021 and that will then be for -- so 2019, we’ll introduce our first product that's based on HD Maps, and that is remote management application for trucks, and the goal is to reduce fuel consumption. And you can do that if you know the exactly road and the curvature and the elevation, you can make smarter decisions about mapping the engine and shifting the gears, and that can result, especially in high terrain in significant reduction in fuel consumption, and we're providing data for that. That's a nice one, but niche. Another nice one that we see coming is database -- ADAS databases with speed limits for -- and if you can do that correctly, carmakers end up with a higher NCAP rating, and that's a good thing for sales and value, and the map can deliver that. And then 2021, you will start seeing adaptive cruise control that is smarter than the cruise control that you and I today have in our vehicles. I don't know if you have it, sorry, but if you have cruise control now, that cruise control, it doesn't use a map, so it can't take into account maximum speed, it can't reduce speed if you are entering an exit ramp. And with the map, you can do that. And you're also creating the total infrastructure for automated overtaking of vehicles if you have that map and you have camera available. And then from there on -- so those are the type of applications that are inside and for which we are quoting. I think it’s also fair to say that fully automated driving, level 5, where the driver is no longer in control, the vehicle is fully in control, I think that it’s further out than most carmakers wanted us to believe.
a couple of years ago. I think the problem is harder to crack, but we will see good progress on closed access roads, highways, interstates and so on and so forth.

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

Okay. And maybe as part of -- for the other side of the equation, the cost that you have to make in this pillar?

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

Yes. So that was completely clear. We have -- but I say that we know what to do to map the world, and we've done that, so the major roads in North America, Europe, Japan are all in our database and are used for testing and sample data and what have you by a number of carmakers and sensor makers. And we know how to do that. It's a highly automated process. So you need to scan the road with vehicles, and then you need to analyze data because if analyzing the data is happening, we can achieve high levels of automation there. And I mentioned in my introduction that we're using computer vision and AI, and it is those technologies that will help us to build those maps cost-effectively and to a higher level of accuracy, and we're making good progress there. There's always work to be done, but we're satisfied that we can produce them commercially, and we've done that. Getting -- fixing the maintenance issue is different kettle of fish. In an ideal world, you don't want to redrive the road network every year or every -- whatever it is, the frequency you want. You want to have a fully automated system that uses sensors in a vehicle that send information to the cloud, which is then processed and changes are then sent to the vehicle. That's the car-to-cloud-to-car cycle. We're working very hard to fix that from a technical perspective, and we're engaged with a number of sensor makers to do that and fix all that. And that looks very promising, and I think we -- that is a kind of well-defined problem, and I think we can fix that, and the boys and girls are working hard. It's exciting stuff. So there's a lot of energy and a lot of -- a lot going on there. But it also needs to be implemented on the commercial scale. And there we don't have the solution yet. Because that needs implementation of vehicle. There are costs associated to that, like data communication and so on and so forth, and that needs further work. But it is our aim, of course, to be able to maintain those maps fully in a fully automated cycle. Technically, that's possible. We think we will get there, but we don't have any view in place that gives us volume access yet to car data, but we think that will come.

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

A lot of them have already been asked, but wanted to just go back to the automotive space, again. Have you -- can you tell us a little bit about what you know about the pricing of the Google suite of solutions and if you are more aware of what that pricing is? Have you already seen reactions from your competitors or maybe even from your own account managers with regards to pricing? That would be question number one.

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

Yes, I don't want to go there, Martijn, I'm sorry. We have some encouraging -- we have some ideas, but it's not -- I can't discuss that here.

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

Okay. Why is that, if I may ask? Because it is rather critical element of how the market may move apart from market shares.
Yes, it’s a sensitive topic, and it’s also not 100% clear. We don’t have 100% visibility for the license costs and also not for data communication costs. And data communication costs, we expect them to be very high, and that’s also the noise we get from the market. But we don’t have exact information around that.

Martijn P. den Drijver - NIBC Bank N.V., Research Division - Head of Research
Okay. Then a rather technical question or it can be a technical question. If Renault goes to -- or when Renault goes to Google at least for a significant portion of its models, Nissan-Mitsubishi, will you still have access to the data that all of the installed base that still has TomTom equipment is generating? Or will you lose the data feed from that installed base as well?

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
No, that’s not what we’re planning for, no. No.

Martijn P. den Drijver - NIBC Bank N.V., Research Division - Head of Research
But the wording gives me the sense that, that’s still an open question that...

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
No, that’s not the way we see it. We continue to have access to vehicle data. And vehicle data is -- we are -- we have so much, we see nearly 1 in 6 cars driving around the globe. So that’s not a -- depending on the hour and what have you, but we have a lot of data to make accurate services and to map corrections and change detection and so on and so forth. So probably...

Martijn P. den Drijver - NIBC Bank N.V., Research Division - Head of Research
Okay. So if you were to lose that data, it will have an effect, but it won’t have a material effect in the quality and the speed of the...

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Well, I don’t think we’re going to lose that data. And it will not have an effect -- a notable effect or a measurable effect on what is it we’re doing in terms of traffic information and incident reporting.

Martijn P. den Drijver - NIBC Bank N.V., Research Division - Head of Research
Okay. Then on to something completely different: Enterprise. Obviously, if you decide to sell Telematics, then the relative importance of Enterprise increases. The performance of the division hasn’t been brilliant lately. And there’s all kinds of new competitors in that particular space, NetBox for one. What are your intentions? What are you going to do in the near term, possibly even linking that with the usage of proceeds? What are you going to do with Enterprise, now that it’s become -- it’s becoming more important?

Harold C. A. Goddijn - TomTom N.V. - Co-Founder, Chairman of the Management Board & CEO
Well, we continue to develop. It is important to realize that the technology is built to be a licensing, increasingly as APIs are generic products that are also used for Automotive products. So there’s a big overlap in product development and product design. And it reinforces -- one reinforces the
other. So on the product design and development side, we don't see much changing, and I think on the commercial side, we keep getting traction. The contract we signed with Microsoft is an important one, and we think we can grow the Enterprise business. On the back of those type of deals, there's more, but that's another -- that's an important indication of that we are developing that Enterprise business over and beyond the business of uncompiled map data. The majority of our Enterprise business is uncompiled map data, and the API applications are on top of that.

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

Now you have mentioned Azure yourself, but can you update us a little bit about how progress is in terms of developers, applications built by those developers and maybe a little bit of a road map on what to expect of TomTom and the investors can expect from that particular contract?

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

It's a bit early. We see good indications, more people testing it, taking it up, but the lead times there are pretty long. You need to wait until you are tested and validated, end up in an application, and that application it needs to be successful. So it's quite a long trajectory. But we see traction coming through, but it's from a small base, obviously. But we are -- we -- it's -- the indications are positive.

Operator

We will now take our next question from Wim Gille of ABN AMRO.

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

Wim Gille. First question will be on kind of the Telematics deal. How would you look at TomTom in terms of P&L, cash flow, profitability, etc, after Telematics? Or to be a bit more precise, is it possible that there's going to be a scenario where you will have a significant amount of money coming in that you will need in order to fund the losses in your current Automotive, Enterprise business? So that will be my first question. The second question is more on kind of the contracts or the business model as you refer to you yourself that you are competing against in Android. So if you lose, why do you lose? Is it on price? Is it that they have a better product offering? Is it they have a more interesting business model for the OEMs? What are the reasons that your clients Renault and Volvo are giving why they are switching to Android? That would be my second question.

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

Yes, Martijn, -- sorry, Wim, I'll take the first question, and I'll leave the second question for Harold to answer. Coming on the Telematics proceeds topic, if you look at 2018 and the cash that we aim to generate, we think that we can generate as much as EUR 100 million of free cash and probably a little bit more than that. My estimate is that more than half of that is contributed by the business outside of Telematics. So also for next year, if we would exclude Telematics, the premise is that the business needs to stand on its own feet. That said, we constantly look at opportunities, and if it's the right business case and the right opportunity, we want to pursue those. But that's not really correlated to the Telematics transaction. We would decline these opportunities or we would proceed these opportunities not related to the outcome of the Telematics sale.

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

So can you confirm that also for next year, you would expect kind of the cash inflow that you're seeing outside of Telematics that, that is a sustainable number for next year and possibly beyond?
Taco J. Titulaer - TomTom N.V. - Member of Management Board & CFO

It’s too early for the year 2019 outlook. I just want to say where we are now and also want to say our principle that we aim to generate cash whatever we do unless there’s a convincing business case for us. And if there’s a case, we will communicate that with the investors, obviously.

Operator

We will now take our next question from Shyam Kumar of Kuvari.

Shyam Kumar

Just so that I'm clear, the contract losses are to do with more standard navigation-type maps and functionality, but not related to the ADAS and automated driving potential, question one. Question two is, can you comment on the second part in terms of what that competitive landscape might look like vis-à-vis Google, please?

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

Yes. So Renault -- it’s important to say that Renault-Nissan is not a contract loss, it’s just business we did not win. But also, in the business that we did not win, there is an opportunity to sell ADAS data into the vehicle. So, what I said earlier, the technology and data for self-driving and safety-related applications are not part of those contracts, and they are opened up for RFQs and RFIs.

Shyam Kumar

Is that the HERE HD Map?

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

The HD Map or variant of that, depending on the level of accuracy that customers are looking for.

Shyam Kumar

Okay. So are you -- can just say, look, well, whatever, these new things is more on standard definition navigation type functionality?

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

Yes, that’s exactly what it is. It’s the -- it’s a variant of the applications that you will also find on a mobile phone.

Shyam Kumar

Okay. And how competitive is the HD Map and their related data and functions at the moment, please? Is that -- is Google coming to that area...

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

Not that we know, they have an initiative for -- that is different, that is for robot taxis. It’s a different technical problem, different business. And that is not the type of data that they’re using. It’s not used for more long distance closed-access road for automation of the vehicles.
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

It's Marc here. I have a couple of questions left. First, on Volvo, the contract, which you confirmed that the contract had a length of 4 years. Is that typically what the contract was about?

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

Well, I'm not going to go into any specifics of this contract, but the Automotive contracts tend to be 3 years.

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

And is there a cancellation fee because it's only 2 months before, I think, the contract will go live? Is there any -- because you also made some costs linked to the contracts, I presume, in terms of R&D? Is there also some claw-back of costs in the contract?

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

Well, we -- it's not standard that you're building cancellation fees in your contracts, but we made a comment in our press release on Page 4 in the operating expenses that Q3 2018, we saw some positive and negative things in our OpEx line with a net effect of EUR4 million gain. And that is all I can say about it.

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

Okay. There's not more. That's already in there. And when were you informed on the cancellation of the contract?

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

We can't comment on that.

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

It wasn't then, maybe to be more specific, before or after your press release on Telematics?

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

Well, we're not going to comment on that, but apart from that, they're not correlated.

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

And then on Telematics, how much of your general costs or headquarter costs or what have you, overhead costs, are allocated to Telematics that will stay with TomTom after it's been -- potentially been divested?
Taco J. F. Titulaer - TomTom N.V. - Member of Management Board & CFO

We have always operated Telematics as a very separate business, independent business, with their own finance, HR, IT and even offices. So it's only a very limited amount.

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

Okay. Can you specify limited? Is it EUR 10 million or is it more than that?

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

No, well, EUR 5 million more -- just it's more than EUR 5 million.

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

It's more than EUR 5 million.

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

Yes, but not EUR 10 million.

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

And how much CapEx was in the business of Telematics?

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

Telematics tends to be a CapEx-light, so that's a single-digit -- it's a low single-digit number.

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

And is there -- because you lost the contract of Volvo, that will have an impact, obviously, in your near-term revenues there. Stay, to be frank, free cash positive next year, but still, is Automotive currently sizable enough as a listed company with Consumer running down that you can -- or should you -- are you now forced to go into more an alliance, team up with large OEMs or contract companies? Is there any strategy on that part, if you've taken decision on that?

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

So I don't really answer -- is it related to Telematics, you mean?

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

Well, Telematics is out. Consumer is running down. And in Automotive, you lost Volvo. So in the near term, it will put a bit of pressure maybe on the earnings growth -- revenue growth of Automotive. And you're becoming small with a huge cash pile on your balance sheet. Is it then any reason maybe to search more active team up with larger players in the sector like OEMs or what have you to become more dominant versus a Google?
Well, we're not dismissing or we're not being naive on the trends that we're seeing, but I would say the contrary that Automotive is maturing and is getting stronger. What you'll also see in our segment reporting that it is -- the fundamentals are improving. And on a cash basis, it’s generating cash, so on an operational point of view, not reported point of view.

Operator

We will now take another question from Wim Gille of ABN AMRO.

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

Yes, sorry, my second question hasn’t been answered yet. So going back to the contracts and the contracts you didn’t win/you lost, what are you losing against? Which business model are they offering? And what are the reasons for clients to say we’re going to go for Android rather than TomTom? So is that on prices? Is it the business model? Is it the consumer experience? So can you give us a bit of feeling on what your clients are telling us there?

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

Well, I don’t think it’s on price. I think it’s on user experience. That’s the key driver for making the switch.

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

And in terms of business model? You referred to it yourself during the intro. Do they have a distinctively different business model that they can offer?

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

Well, we’re not privy to those discussions, so we don’t know the detail. But we know from what the business models on mobile phones are. And there are elements of a kickback for advertising income, but those are typically quite small. And we don’t think that the upsize of opportunity in the short term for advertising on the dashboard will allow for big revenue streams. So we don’t think it’s a cost thing. Our impression is that it’s an end-user experience decision that’s made.

Operator

There are no further questions in the queue at this time. I would like to turn the conference back to you for any additional or closing remarks.

Bruno Priuli - TomTom N.V. - IR Officer

So since there are no further questions, I’d 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.