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PRESENTATION

Freek Borst - TomTom NV - Investor Relations

Good afternoon, all. Welcome to our conference call. Today, we will be discussing the operational and financial highlights for the second quarter of 2024. With me today are Harold Goddijn, our CEO, and Taco Titulaer, our CFO. Starting off, Harold will discuss the quarter's operational developments. After that, Taco will provide insights into our financial results as well as our outlook. 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.

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Thank you very much, Freek, and welcome, ladies and gentlemen. Thank you for joining us today. As usual, I will go briefly over the key operational highlights and the progress and then Taco will provide further information on the financials. We saw the commercial launch of TomTom Orbis Maps with global coverage in the first half of this year, and these maps are better in all dimensions. They're fresher, richer, and easier to produce.

TomTom Orbis Maps forms a solid foundation for the strengthening of our competitive position. We now see commercial traction in both the Enterprise and the Automotive business, with early wins in both private and public sectors. Microsoft decided to adopt TomTom Orbis Maps for their location technology needs. The product will be deployed across Bing, Microsoft 365, Power BI, and Azure assets. The market will see this as a strong endorsement of our products and strategy, which will translate into a boost in sales funnel conversion.

I would also like to highlight our recent contract with the Australian Government. Governments need to have access to location technology to navigate crisis situations, perform security functions, for planning purposes and much more. Now, the public sector is relatively new to TomTom, but we can play here thanks to our new maps and strategy, significantly expanding our addressed market.

And our products have been selected by more companies during the quarter. Qualcomm has chosen us to deliver maps in support of their new asset tracking platform. Moody's is integrating our location data into their insurance geocoder, an analytical tool that helps financial institutions. And ride-hailing company Bolt will use our new TomTom Orbis Maps-based traffic data to improve their operations worldwide. Overall, we are happy to see commercial traction in Enterprise with the conversion of sales opportunities into contracts.

Short-term downward revisions in car production volumes and delays in new model introductions have resulted in a less predictable market environment. However, our position in Automotive is strengthening, and the sales funnel is expanding. With that, I'd like to hand over to Taco.

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Thank you, Harold. I will now provide some insight into our financials and outlook. And after that, we will move on to your questions. In the second quarter of 2024, group revenue decreased by 3% year on year to EUR152 million. Location Technology revenue ended at EUR129 million, a small uptick from the same quarter last year. I will briefly touch on revenue business by business, starting with Automotive.

Automotive operational revenue came in at EUR89 million, a decrease of 2% year on year. This year-on-year decrease was partly driven by a one-off included in the comparative year. Correcting for this effect, underlying Automotive operational revenue increased. Automotive IFRS revenue was EUR87 million, representing a modest year-on-year decline.

Our Enterprise revenue grew by 11% year on year, coming in at EUR41 million. In part, this increase resulted from a newly signed contract to support the Australian Government. Owing to the specific nature of deals in the government sector, a larger share of revenues recognized upfront with the deal contributing meaningfully to revenues this quarter. Without the contribution from this deal, Enterprise revenue saw a limited sequential increase. Lastly, Consumer revenue decreased by 17% year on year to EUR23 million, in line with our expectations and internal planning. Do note that last year, our Consumer segment was remarkably strong, making this comparison more difficult. For the full year, we expect the Consumer business to contract with a little over 10%.

Second-quarter gross margin was impacted by the release of non-recurring engineering costs at the start of production of some customers' programs. The main one being Volkswagen Group, where we work together with CARIAD to integrate our navigation software. As such, the gross margin came in at 80%, below the 83% recorded in the same quarter last year. Excluding the effects of these non-recurring engineering costs, our gross margin would have been comparable to the gross margin in the previous quarter. For the full year, we expect our gross margin to be around 85%, which is similar to last year.

Operating expenses in the second quarter were EUR126 million, marking a decrease of 5% year on year that resulted mainly from a one-off release in personnel expenses related to our short-term compensation plans. Additionally, we had lower depreciation and amortization charges. Then, free cash flow was an outflow of EUR5 million in the second quarter versus inflow of EUR3 million in the same quarter last. The decrease in free cash flow primarily reflects lower EBITDA, as well as some working capital effects. Payments related to the restructuring that we announced in the fourth quarter of 2023 also had a negative impact. These payments are not separately adjusted for, and are absorbed in our free cash flow.

At quarter end, our net cash position stood at EUR258 million compared to EUR284 million at the end of the previous quarter, and EUR315 million at the end of last year. The decrease in our net cash position was driven primarily by the cash out related to our EUR50 million share buyback program. In the second quarter, we purchased 3 million shares for a consideration of EUR18 million, thereby completing the program. In all, we bought back 7.8 million shares and intend to cancel the majority of them later this year.

Having covered our results, let's move on to our outlook. We have revised our expectations based on developments we witnessed in the first half of 2024. In the automotive industry, projections for car production volumes were revised downwards and new model introductions were delayed. To reflect lower Automotive operational revenues, we now expect full-year revenues to come in at a lower end of our guidance. Consequently, we are adjusting our free cash flow guidance downward. We now expect full-year free cash flow to be between 1% and 5% of Group revenue.

In addition, as the market environment in Automotive has become less predictable, and we experienced longer-than-anticipated sales cycles in Enterprise, we will not be able to realize our financial ambition by 2025. We will provide guidance for 2025 with the publication of our full-year 2024 results.

To wrap things up, I would like to leave you with some of the key takeaways for today. First, as Harold also mentioned, we see that TomTom Orbis Maps is maturing, which is bolstering the strength of our product and vision. The proof points are now there. Microsoft has adopted the new maps and we see momentum in Enterprise more broadly picking up.

In Automotive, as mentioned, predictability on the short- to mid-term has diminished. However, long-term trends related to automated driving, advanced safety, and electrification remain intact, even if delayed. As such, even though it will take longer for revenue growth and resulting operating leverage to materialize, we're confident we're on the right track. And with that, we're now ready to address any of your questions. Operator, please start the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Marc Hesselink, ING.

Marc Hesselink - ING FM - Analyst

Yes. Thank you. My first question is on Enterprise. As you said, it had quite some traction over the quarter, also some announcements with press releases during the quarter. But you also say that the ramp up is going a bit slower than expected. How do you mean that it’s slower? Do you still expect an aggressive ramp, but at a later stage? Or is it going to be more of a gradual growth business over the next few years?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Yeah, it’s hard to answer that, Marc. What we're seeing is that everything we'd hoped for is happening. So, a broader addressable market, a more competitive product, and a better position in the market. That means that customers are taking what we're doing very seriously, listening carefully, trying things out, and so on and so forth. So, the fundamentals look good. Compared to our original ambition, that we articulated during the Capital Markets Day, we are clearly behind in terms of the translation into revenue. But I think the underlying arguments and business case are still intact, but it will take a little bit longer.

Marc Hesselink - ING FM - Analyst

Okay. And is it correct that, also, the reason why the sales cycles were a bit longer was that you still had to finish some parts of your product? And I guess they are now fully in place. So, should, from now on, the sales cycles be a bit quicker? Or is it just something you underestimated, that these sales cycles are long?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Well, the launch of the global product was slightly delayed. So, that was kind of the starting point for everybody to start looking at it in earnest. I think the total transition, and it is a complex transition, if you start making maps in a new way. We had a history of 35 years of mapmaking via the old way. And we had, of course, a lot of software programs and software products connected to that map. Transferring all that is not a trivial task, but we are getting through that via a diligent and concentrated effort. More and more is coming available. We’re reaching maturity across the board, both in maps, maps platform, and application software, but we're not quite there yet. There's still quite a bit of work to do, but it is progressing in line with our expectations.

Marc Hesselink - ING FM - Analyst

Okay. Thanks. Second question is on Automotive. Clearly, the market is a bit slower. I mean, that’s no surprise, I think. But can you maybe talk a bit what’s happening underlying? Like, what you’re seeing on new RFQs, the dynamics there, the competitive dynamics?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

So, we see two things, a short-term downward provision of production numbers and also some delays in new products, new vehicles, and their SOP dates. Now, a delay in SOP does not necessarily need to be a problem if you are the incumbent, but if you are winning market share, of course, then the transition from the old supplier to the new supplier will take more time. And that's hitting our top line in this case as well, with two of our customers introducing models later than that we had initially anticipated. So, it's a combination of those two effects.

If I look at our position in the market and our credibility in the market, I think all the signs are on green. We're talking to more customers, a lot of customers that we have not been speaking to for some time. There are great opportunities opening up for contract wins. The engagements we have are healthy, at the right seniority level within the companies as well. So, I'm happy with the credibility we have gained, the interest in TomTom Orbis Maps, but also the interest in the Overture Maps Foundation and what it means for the long-term shape of the location industry.

So, compared to a couple of years ago, we're playing at a higher level. More strategic, more opportunities opening up. I think what we're also witnessing is a renewed interest in everything that has to do with self-driving. And then not Level 5, perhaps, but there is now a greater degree of consensus and technological maturity in the lower levels of self-driving, L2, L2+, L3. We noticed a significant interest for our next generation of ADAS and self-driving products. So, there as well, I think the trends are looking favorable.

It's a little bit frustrating, of course, that this year is slower than we had hoped for in terms of sales, especially in the automotive industry. But I think fundamentally, what we've seen, the feeling we have in the product teams and the sales teams, is that our relative position is strengthening going forward.

Marc Hesselink - ING FM - Analyst

Okay. Clear, thanks. And final question is on the free cash flow guidance. You pushed down on the guidance range for revenue, but the free cash flow is actually quite a bit lower. Can you maybe help me understand that? Are there also some big items that maybe shift into next year that help explain that relatively big decrease in the free cash flow relative to the revenue?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Well, it's a very leveraged business. So, a small miss in the top line can result in a significant miss, relatively speaking, in the cash flow line. That is I think what you see. I don't think there's anything cynical here. It's just revenue that is coming in slower and at the lower end of our earlier expectations, and that is resulting in weaker-than-anticipated cash generation.

Marc Hesselink - ING FM - Analyst

Okay, clear. Thanks.

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Yeah, thank you.

Operator

Andrew Hayman, Independent Minds.

Andrew Hayman - Independent Minds - Analyst

Yes. I was just looking at one of your recent presentations in May. And there you showed your direct peers as being Google, HERE, Mapbox, Zenrin, and then some local players. You were just talking a little bit about the competitive dynamics, but maybe a little bit more detail would be interesting.

And maybe to give it something specific. I saw that Mapbox announced that they won some business from Toyota recently. Why would Toyota do business with Mapbox versus you? I mean, in the past, you've had a relationship with Toyota.

And then similarly, we see that BMW and VW are coming through as clients. In some ways, that's quite surprising. You would expect them to be predisposed to use HERE. So, what's the trigger for them to go with you? Is it the fact that they start with Traffic, for example, and then that opens the door to sell them additional aspects of your offering?

And then maybe just tied to this, are the auto companies a bit resistant to be tied too closely to one mapping company, and they are quite happy to use multiple sources, or shift occasionally between the map providers? Thank you.

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

Thank you very much. Indeed, if you identify the competitive environment, you see the companies you just mentioned, so it's HERE, Mapbox, Google, and then depending, in some countries, we have strong local competition. We all have a slightly different business model, slightly different product offering, but by and large, we're fishing in the same pond, with a slightly different approach, I think, to technology, product, and integration.

So, our focus is clearly on having a superior map. I think that is an important part of your competitive position. And not only the quality but also the cost that you need to make to produce those maps. I think we are class-leading in that combination of map content per dollar. And I think that will carry us through mid-term, long-term challenges, because if you have that well organized, you have a strong competitive position regardless of what's happening.

Second, we are building very much a standardized technology and Navigation SDK that we use internally, and we license to our customers for them to integrate our maps, technology, routing, and traffic, and whatnot. So, that's very much the path we are taking. Now, if you look where the relative strengths of our competitors are, and you mentioned Mapbox' deal with Toyota, Mapbox has a strong position in rendering, the way you display the map on the screen, but they're not so competitive in terms of map content. So, what you often see is that Mapbox has a contract for rendering, but then uses others' data in automotive use cases.

I don't want to say too much about competition. You would need to ask them. But I think, as I also said in my introduction, the feeling is that we are on the right track in terms of competitive position, mostly because of the kind of engagement we see now from major carmakers with our technology stack and our product strategy.

Andrew Hayman - Independent Minds - Analyst

Good. Thank you.

Operator

(Operator Instructions) Maarten Verbeek, The IDEA.

Maarten Verbeek - The IDEA! - Analyst

Good afternoon. It's Maarten Verbeek from The IDEA. I would like to get back to the longer-than-anticipated sales cycles within Enterprise. When TomTom presented its full-year results, roughly half a year ago, it mentioned that it takes some six months from first contact to first revenue. So, how much has that changed? Is it now an expectation of nine months or even one year? And attached to that question, you also provided some insight about your sales funnel, and with how many mid- to large-size customers you were on speaking terms with for signing up a new contract. Could you give an update with respect to your sales funnel?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Well, on the first comment, what we said, I think, is that the time between people engaging with us and asking for sample products, and the time you have a contract and can receive revenue coming in, that will take six to nine months, I would say. I think there are various ways to make first contact, but of course, it takes often some time to find the right individual and also to have the right use case in place to provide sample data.

And, as Harold already said earlier, for a lot of players out there, it was a prerequisite that we had a global map before they would do their due diligence and go into it deeply. So, I think the product has become more mature, better ready for testing and adoption, and that will enable these sales cycles to happen. And your second question what was that?

Harold Goddijn - TomTom NV - Chief Executive Officer, Member of the Management Board

It was on the funnel.

Maarten Verbeek - The IDEA! - Analyst

The sales funnel. Roughly a year ago, you gave some insight into with how many mid- to large-size customers you were on speaking terms with terms for signing up new contracts?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Yes. I mean, even with a customer like Microsoft, or with any other customer, the potential can be a lot larger than the initial contract. So, it tends to start small with one use case in certain regions, et cetera. And then over time that cooperation develops and deepens, et cetera.

So, in the funnel, in terms of the number of prospects we are engaging with, you're talking about hundreds of candidates. And some are relatively small, and some have the potential to grow to become bigger prospects over time. But that is hard to call. We have, within in our clientele, some large customers that take a relatively small portion of our product stack and the other way around as well. So, it takes time to develop that cooperation.

Maarten Verbeek - The IDEA! - Analyst

Okay. Thank you.

Operator

Tim Ehlers, Kepler Cheuvreux.

Tim Ehlers - Kepler Cheuvreux - Analyst

Yes. Hi, thanks for taking my question. I have a question with regards to the free cash flow, just to get a better feeling on the moving parts there and also on the outlook for the year. Could you give some insights on the working capital movements that we can expect? Is that something you've seen in the first six months that was unusual and not necessarily planned, or was it just normal seasonal pattern and the working capital is moving as you would expect it in the beginning of the year?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

So, I find this probably one of the hardest elements of the financial statements to plan and predict. So, we look at normal metrics, DSOs, and we look at our historical patterns. But time over time, things trend slightly differently, and they can come in a little bit later or a little bit earlier in the quarter. I don't think there's anything structurally or fundamentally different than normal. So, I wouldn't read too much into it.

Tim Ehlers - Kepler Cheuvreux - Analyst

Okay, thanks. And then also just for a better understanding on the profitability and eventually the free cash flow then. So, if we would exclude the one-off costs that occurred in Q2. You mentioned that the gross margin would be approximately the same as in Q1. Did you see any other effects on the profitability other than the operating leverage that you mentioned, which eventually led you to lower the guidance.

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

So, let's start with gross margins. Gross margin was 80%. If you'd correct for certain one-offs in our cost of sales, the normal gross margin would be 85% or 86%. That's also the run rate, which we plan for the full year, so also the guidance for the full year. That is the main element. There are some one-offs related to restructuring, but we don't treat them as one-offs, so we don't exclude them from the numbers. So, back to the free cash flow. We expect free cash flow to be positive in the third and the fourth quarter, where it was negative in the first and the second quarter.

Tim Ehlers - Kepler Cheuvreux - Analyst

Okay. Great. And then you mentioned in one of the previous analyst calls that the goal is to go towards a 90% gross margin?

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Yes. That is just a factor of Consumer becoming a smaller part of the mix. So, Consumer has hardware and so the cost of sales are higher there, meaning that Consumer's gross margin is probably 45%-ish. So, the less Consumer in the mix, the higher the gross margin for the overall group will become.

Tim Ehlers - Kepler Cheuvreux - Analyst

Okay. Clear. Thanks for that. That's it for me.

Taco Titulaer - TomTom NV - Chief Financial Officer, Member of the Management Board

Yeah. Thanks.

Operator

(Operator Instructions)

Freek Borst - TomTom NV - Investor Relations

As it appears there are no further questions, I would like to thank you all for joining us this afternoon.