

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

TOM2.AS - Q2 2025 TomTom NV Earnings Call

EVENT DATE/TIME: JULY 15, 2025 / 11:00AM GMT

CORPORATE PARTICIPANTS

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

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

Freek Borst TomTom NV - Investor Relations

CONFERENCE CALL PARTICIPANTS

Marc Hesselink ING Groep NV - Equity Analyst

Tim Ehlers Kepler Cheuvreux SA - Analyst

Thijs Berkelder ABN Amro Bank NV - Analyst

Andrew Hayman Independent Minds - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to TomTom's second-quarter 2025 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. Please go ahead.

Freek Borst - TomTom NV - Investor Relations

Thank you, operator, and good afternoon, everyone. Welcome to our quarterly conference call. Over the course of today's call, we'll be reviewing the key operational highlights and financial results for the second quarter and first half of 2025, together with our CEO, Harold Goddijn; and our CFO, Taco Titulaer. Harold will start us off with an update on our strategic progress, followed by Taco, who will present an overview of the financial performance and our outlook.

After their prepared remarks, we will open the line for your questions. As always, please note that Safe Harbor applies.

And with that, Harold, Let me pass it over to you.

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

Thank you very much, Freek. Good afternoon, everybody, and I appreciate you joining us today. As usual, we'll start with the strategic and operational updates for the second quarter, and then I hand over to Taco for the financials. Over the past few years, we've made significant investments in our technology stack. Investments that are now strengthening our competitive position. We've rebuilt our mapmaking platform from the ground up, and we have upgraded our application layer.

And this foundation has allowed us to introduce modular products that are easier to integrate, easier to customize and easier to scale. They deploy faster, deliver a superior user experience and help our customers achieve faster time to value. We are now bringing these solutions to market through a scalable framework, supporting our shift towards a product-led operating model. As part of this transition, we have realigned our organization and are reducing around 300 roles across TomTom.

These decisions are never easy, but we are confident that simplifying our structure, increasing agility and sharpening our focus, will better position us for long-term success. The timing of our product transition aligns well with a major industry shift. The automotive sector is undergoing structural changes. Vehicles are becoming software-defined and carmakers are accelerating their software strategies. Our tech stack is built to meet these evolving needs. And our strategy is resonating.

At Auto Shanghai, for instance, we had strong engagement with multiple Chinese OEMs. We're also seeing continued momentum in our Enterprise business. There is growing demand across industries for location-based tools that optimize processes and support smarter decision-making. At the same time, we are expanding our product portfolio to unlock more value for customers.

Just last week, we launched the Model Context Protocol Server. That's a tool that enables AI agents to generate accurate location-aware output by interacting directly with our data and our APIs. This is a great example of how AI is not just powering our operations, but also driving product innovation.

In summary, we are now more focused, we're more innovative and more aligned with the needs of our customers. And with a strong foundation and a clear strategic direction, we are well-positioned to capture long-term opportunities, even as near-term market conditions remain uncertain. And while short-term headwinds impacted our top line in recent months, the progress we've made give us confidence, and that's why we are raising our guidance. Taco will talk you through the details.

And with that, I hand it over to you, Taco. Thank you.

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

Yeah. Thank you, Harold. Before turning to the outlook, I'll start with some insights into our financial performance. We'll move on to your questions directly after my prepared remarks.

Group revenue for the second quarter was EUR146 million, down modestly from EUR152 million in the same period last year. Location Technology revenue totaled EUR126 million, representing a marginal year-on-year decrease that was driven by a variety of transitory factors, as Harold already pointed to.

To explain, let me briefly touch on performance business by business, starting with Automotive. Automotive operational revenue saw a year-on-year decrease of 13% to EUR77 million. This decrease reflected lower car volumes at some of our customers and across the market more broadly, as well as the ramp down of some car lines to which we are supplying. Automotive IFRS revenue came in at EUR86 million, as the significant decrease in operational revenue was offset by a release of deferred revenue as well as an upward adjustment of expected volumes under certain contracts, which increased total contract values and thereby benefited reported revenues. On a half-year basis, the trends of Automotive IFRS and operational revenue are much more aligned, as IFRS revenue typically shows a more stable pattern, while operational revenues can be influenced by periodic swings that are neutralized when looking at longer periods of time.

Enterprise revenue was EUR40 million. While we saw slight sequential growth at constant currencies, the weakening dollar, impacting more than 75% of our Enterprise revenue, offset this. Compared to the same period last year, revenue declined by 4%, largely due to the contribution from the Australian Government contract in Q2 last year. As we mentioned before, the public sector is a relatively new target market that our Orbis Maps opens up for us. Deal flow in this sector tends to be somewhat binary. And when deals close, a relatively large portion of revenue is recognized upfront due to the structure of the contracts. This dynamic created a base year effect in the second quarter. We continue to see good opportunities and remain committed to expanding our public sector presence.

Lastly, Consumer revenue declined by 15% year on year to EUR20 million.

During the second quarter, we realized a strong gross margin of 88%, up from 80% last year. The year-on-year increase in gross margin primarily resulted from the fact that substantial releases of non-recurring engineering costs were included in cost of sales last year, related to the start of production for certain customer programs. As we transition towards a more product-led operating model, we expect our gross margin to further improve.

Our second quarter operating expenses were EUR148 million, reflecting a significant year-on-year increase. This increase mainly had to do with the inclusion of EUR25 million restructuring provision, related to the organizational realignment that Harold also mentioned. As a result of the realignment, we expect a reduction in complexity and greater efficiency to start benefiting our operating margin from next quarter onwards. On an annualized basis, savings from the restructuring are expected to be up to EUR35 million.

If we normalize for the impact of the restructuring provision, operating expense for the quarter were marginally lower. The underlying decrease reflects the capitalization of our HD map development costs and lower amortization charges, partly offset by a one-off reversal of some previously-capitalized contract costs, as customers change their program requirements and start to take up more modular in-vehicle software.

Free cash flow was an inflow of EUR14 million in the quarter, a sharp improvement from the outflow of EUR5 million last year, driven by favorable working capital movements. Our net cash position at the quarter end was EUR267 million, up from EUR257 million last quarter and EUR264 million at the end of 2024.

Having covered our results, let me touch on our outlook. As Harold noted, some factors weighed on our top line development in recent months. These factors remain present today. Despite this, our first half performance was ahead of our initial expectations. As such, we expect our top line to reach the upper end of our initial guidance and are upgrading our outlook accordingly. We now expect full year Group revenue of between EUR535 million and EUR565 million, while Location Technology revenue is expected to range between EUR465 million and EUR490 million.

We're also raising our free cash flow guidance to around 5% of Group revenue at the midpoint of the guided range. The fundamentals of our business remain sound. We're beginning to see how the reduced complexity, increased agility and sharpened focus of our product-led model position us well for long-term success. And with that, we're now ready to take your questions.

Melanie, please start with the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Marc Hesselink, ING.

Marc Hesselink - ING Groep NV - Equity Analyst

My first question. So, you have now announced a realignment following, actually, more of a technology transition and the change to the new platform. Can you picture maybe what's next on the technology side? Was this a big one-off change, which is now behind us? Or do you expect ongoing technology improvements, platforms improvement, more of a unified platform for all of the clients and maybe even in the future, you can have more cost savings because of the simplification in the long run?

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

Marc, yes, thank you for asking that question. You're right. We are in that transition. That has not been fully realized. We continue to sharpen that product portfolio, sharpen the standardization. And that will continue to help us becoming a more efficient company.

We also expect in the future that customers will move away from our legacy platforms to the new technology stack and that in itself will also help. And we keep automating all sorts of functions in support, in billing, in contracting. So, this is a longer-term initiative that will further improve the operational efficiency of the organization going forward.

Marc Hesselink - ING Groep NV - Equity Analyst

Okay. And is that something that you can quantify? How much is still linked to legacy costs?

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

No, I can't quantify that, but it is an important movement. A lot of people working on technology are involved in that standardization process and that prioritization process and will increasingly deliver simplification and efficiency going forward.

Marc Hesselink - ING Groep NV - Equity Analyst

Okay. Great. And my second question is actually on the growth profile. I mean obviously a lot of things moving around at the moment as well. I think underlying, if you adjust for the US dollar, you're now a bit on a mid-single-digit growth in the Enterprise side of the business.

I would say, with Automotive, once we move out of this uncertain period, you're probably also somewhere around mid-single-digit growth. Is that a fair number for the medium term? Or are there significant upside or downside risk to that?

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

Well, so I think the way to look at it, Marc, is that -- I think it's fair to say that our competitive position is strengthening, especially in Automotive. We see some evidence there as well, of discussions with OEMs and potential customers that go really well. We feel good about that.

The nature of the automotive industry dictates that before that translates into invoicing and revenue, there's always a lag. It's quite some time between that. But I think we're on the right track for sustained growth in the automotive sector. But at the same time, it will take some time before you see that materializing.

In the Enterprise world, we're growing, certainly at constant currencies. We're not growing as fast as I had hoped. But also there, there are some good indicators of stuff on the horizon. I think particularly in the government sector, there's quite a bit of potential.

And we see also more traction in what we call the self-service segment of our operation, where developers independently find their way to our APIs and SDKs and start using them in their applications. That is, for the moment, still a relatively small part of our revenue, but we see good potential there as well.

Marc Hesselink - ING Groep NV - Equity Analyst

Great. And if you link the two, right, is the realignment purely technological? Or did it also have to do with, maybe, revenue growth being a little bit less than you expected?

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

No, I think the realignment is really a consolidation. We've been spending significant capital on that product transition that is now coming to an end, and we start seeing the benefits from a simpler and better product portfolio. That triggered us to start looking at how we go forward with the workforce. It's in combination with improved developer productivity and new tools that are deployed. All that triggered us to have a hard look at the composition of our workforce, and that resulted in the organization that we are discussing now. The goal is to get a simpler operation, more agile, faster time to market, faster time to value.

Operator

(Operator Instructions) Tim Ehlers, Kepler Cheuvreux.

Tim Ehlers - Kepler Cheuvreux SA - Analyst

Thank you for taking my questions. The first one would be about the restructuring. And you mentioned that, unfortunately, you had to reduce your workforce by approximately 300 people. Could you maybe explain a little bit the new structure after that, and where you took these cuts and where maybe you still want to grow in terms of employees?

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

I think it's fair to say that we're continuously adapting and optimizing the composition of our workforce. The restructuring took place mostly in the platform products organization, supporting functions in the back office, and that's where most of the roles became redundant.

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

So, maybe I can add to that. It is not in the geographical data R&D line. So, there, over the coming quarters, you will see little changes there. It is mainly, as Harold said, in the application layer R&D line and then also in the sales and G&A lines.

Tim Ehlers - Kepler Cheuvreux SA - Analyst

Okay. Great. That's very insightful. Then I will move on to my next question. It's a follow-up question. The cash flow and also the upgrade in the guidance. Could you explain a little bit where that comes from? I mean you had a very strong free cash flow generation in the second quarter, thanks to working capital effects. Are these working capital effects also behind the increased guidance? And how should we look at that also going forward?

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

Well, no, we based our guidance on the midpoint of the previous guidance. So, the previous guidance was lower, the midpoint at least. So, that is one effect. And the other effect is that the restructuring will lead to an annualized saving of EUR35 million. So, you could say that half of that will be realized in the second half of this year as well, because the added cash flow guidance that we gave for the full year excludes the restructuring charges.

Operator

(Operator Instructions) Thijs Berkelder, AAOB.

Thijs Berkelder - ABN Amro Bank NV - Analyst

Thijs Berkelder, ABN AMRO ODDO BHF. I have a question on potential future revenues. Can you maybe quantify a bit more what we should expect from the government sector in the, let's say, coming 12 months. Additionally, can you maybe quantify the Chinese car manufacturers? I would say there are hundreds of Chinese car manufacturers. Can you maybe give a bit more feeling for what kind of size of manufacturers we're talking about?

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

Yeah. Maybe I can. So, let's start with your last question on the Chinese brands. We definitely don't talk to all 100 of them, but we talk to the big ones, for sure. And as Harold also mentioned, we were present at the Shanghai Motor Show this year, and also last year. So there's an ongoing discussion.

What we like about those discussions is that they subscribe to our product-led strategy and it's the way they work as well. So, that means fast sales cycles and fast product-to-value.

That said, there is what you already mentioned. There are a lot of players and they all want to get in at the same time. So, we need to be a little bit cautious on the potential of these new customers, but it is definitely happening. It's not a question of if, more a question of when. Today, the revenue that is generated from the Chinese export market is relatively low. It's a single-digit number of millions a year in the Automotive sector.

In Enterprise, what we've seen is that the new Orbis Map is resonating very well with the governmental sector or the defense sector, if you like. And that is for a number of reasons. We can provide the map and they can run it on their own servers, at their privacy. And it's not that we need to control their access or which analyses they are making. So, there's a high level of privacy and independence that goes with that. The range of these deals can be a couple of hundreds of thousands to double-digit millions.

They tend to be for three years or so. But the sales cycles are relatively new to us, and we need to invest in those sales cycles and to understand them better. And what was already mentioned is that these decisions are often very binary. They happen or they don't happen. And we don't have a long track record there, apart, of course, from the deal that we signed with the Australian government and a handful of other, much smaller deals. But the sales funnel is filling up nicely, because there is a lot of interest, from different countries and different governmental bodies, for this product.

Freek Borst - TomTom NV - Investor Relations

As there seem to be no additional questions, I want to thank you all for joining us -- sorry, question just popped up. Operator?

Operator

Andrew Hayman, Independent Minds.

Andrew Hayman - Independent Minds - Analyst

Thanks for taking my questions. Just the cash flow was, and you touched on this a little bit, but the cash flow was very good in the quarter, and a lot of that came in from the receivables. I was just wondering if you could provide some details as to why there was that, I think it was a bit over EUR20 million, drop in receivables this quarter.

And then on the restructuring, you mentioned it a bit, that in terms of the R&D side, it's the application side where the cutting is happening rather than the geographic R&D component. And is that because the geographic has come down quite noticeably recently, and you're now at the level that you need, despite mapmaking becoming more automated?

And then just -- sorry, go ahead.

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

Yes. Do you want to first go through all your questions? Or do you want us to start answering them first?

Andrew Hayman - Independent Minds - Analyst

I just got one last one, so --

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

Okay. Yes, go ahead.

Andrew Hayman - Independent Minds - Analyst

Then, maybe, you emphasized the product-led operating model. Just maybe to help me there. How would you describe your operating model before you moved to this product-led approach?

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

Perhaps I'll take the last question?

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

Yes. Okay. So, three years ago, exactly around the same time during our Q2 results, we announced a major restructuring in the mapping area. So, that's the geographical R&D part. That was on the back of us shifting from the, between air quotes, old way of mapmaking to the, between air quotes, new way of mapmaking. And that was the foundation of Orbis Maps.

That was, in a sense, not so much a customer-led to product-led transition. That's more of a reassessment of how the new technologies and the new content that's available in the world can unlock faster, higher-quality, and lower-cost map production.

That unit is in a state that it needs to further accelerate, and will further accelerate. There's a huge opportunity out there, especially related to the new applications that are now being developed in the automotive sector for, as we call them, HD maps for more autonomous driving, and what have you. And there, we see a lot of interest from our customers. Next to the traditional product used by the driver itself, to drive from A to B, with all the services and traffic, the next step is also to create maps that will be used by the car for higher safety levels and more autonomous driving. And there, we want to double-down our investments, and we're not making changes.

The transition from being customer-led to product-led has the biggest effect in the application layer, and also further down in the funnel, so to speak, towards sales, but also the support units. The more of one singular product you deliver, the less support is needed and the faster you can deliver the product to the market. So, that's the reason why the maps unit was excluded from this realignment, and we focused the alignment on the other units.

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

Yeah. And then on product-led versus customer-led. I think what we've seen in the past, in particular in the car market, was a broad range of operating systems and screen sizes and requirements. And also software that had to run on systems that were not connected. And that means that there's a lot of custom work for every development. Large teams and sometimes multiple years of custom software design and development. That is now behind us.

We see a standardization on operating system. We see online connectivity and a willingness of carmakers to also upgrade software during the lifetime of the vehicle. And that means that we can move now to a product-led way of operating. We design a comprehensive software stack that can still be customized, but within the parameters of that product itself. You ship that product and the time to integrate it is then reduced from years to months.

And during the life cycle of a vehicle, you can upgrade the software, which means that quality and bug fixing are also done in a completely different way. A more modern way, a more efficient way.

You add all that together and you look at a complete different way of designing and developing products and a more efficient process. At the end of the day, the biggest winner is the consumer because the quality of our products is going up dramatically, and it's now much easier to meet end-user expectations. So, what customers are used to on a mobile phone, they now also can get that in the dashboard of a car, plus all the other features. So, it's a better product, more cost-effective to make, more cost-effective to maintain, more-cost effective to integrate in the vehicle.

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

Yes, and Andrew, I also realize that I didn't answer your first question on the cash flow movements. It's indeed so that our receivables was a bit lower. If you compare it to the start of the year, it was EUR25 million lower. On the other hand, our payables was lower as well, but not with the same amount. So, on balance, it was favorable to us.

I wouldn't read too much into it. At least I don't. And the focus is that we think we can generate more cash during the year. It was break-even, or zero, free cash flow. And now, if you take the mid-point of our revenue and you take 5% of that, you arrive at EUR27.5 million of free cash flow. And I think that is a bit of the midpoint of the bell curve of expectations. At the end, working capital is always hard to predict. But this is where we think we can land at the year-end.

Freerk Borst - TomTom NV - Investor Relations

As there seem to be no additional questions, I want to thank you all for joining us this afternoon. Operator, you may now close the call.

Operator

Thank you. This concludes today's presentation. Thank you for participating. You may now disconnect.

DISCLAIMER

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

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

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

©2025, Refinitiv. All Rights Reserved.