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TOM2.AS - Q1 2024 TomTom NV Earnings Call

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## 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

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**Andrew Hayman** Independent Minds Ltd. - Analyst

**Wim Gille** ABN AMRO - ODDO BHF B.V. - Analyst

**Marc Hesselink** ING Financial Markets (Netherlands) - Analyst

**Nikos Kolokotronis** Van Lanschot Kempen N.V. - Analyst

**Maarten Verbeek** The Idea-Driven Equities Analyses Company - Analyst

## PRESENTATION

**Freek Borst** - TomTom NV - Investor Relations

Good afternoon, everyone. Welcome to our conference call. Today, we will discuss the operational and financial highlights for the first quarter of 2024. With me today are Harold Goddijn, our CEO, and Taco Titulaer, our CFO. Starting off, Harold will discuss first-quarter operational developments, after which Taco will provide a more detailed look at the financial results and 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.

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

Yeah, thank you. Thank you very much, Freek. And good day, ladies and gentlemen. Thanks for being with us today. I'll give you a brief overview of the key operational highlights and progress, and then Taco will delve into the financial details.

Our revenue in the first quarter of 2024 was comparable to that in the same period of last year. While the Location Technology top line showed no significant growth, we made substantial progress in maturing our product offering and expanding our business development activities.

The rollout of our new TomTom Orbis Maps proceeded as scheduled during the quarter, and we now have achieved geographical global coverage. We are offering a global mapping product. The new maps boast advanced visualization capabilities, an appealing design, and feature much-improved POI, search, and routing quality.

The introduction of the new maps has enabled us to broaden our market reach, catering to a wider range of use cases and industries, resulting in an expanded sales funnel and increased commercial momentum. We've observed a growing variety of use cases for our products and services. During the quarter, we announced partnerships with Enterprise customers across diverse industries and sectors, supporting a wide range of applications. And these partnerships include ventures in railroad logistics, insurance technology, location-based marketing, electric vehicle charging, and more.

Our new mapping platform allows easy integration of data from other users and producers of geographical data. And as previously communicated, the establishment of the Overture Maps Foundation with AWS, Meta, and Microsoft, has been instrumental in facilitating interoperability and defining the specifications of our databases. We are very pleased to see some prominent companies joining us and our Overture co-founders during the quarter.

Overture is now gearing up for the first releases. With the successful progress of both the TomTom Orbis Maps rollout and the Overture initiative, we remain on track to achieve our strategic goals.

And with that, I will pass it over to Taco.

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

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

Group revenue for the first quarter decreased by 1% year on year, coming in at EUR139 million. Our Location Technology revenue came in at EUR119 million, comparable to the revenue in the same quarter last year.

Let me break down our revenue and discuss it business by business, starting with Automotive. Automotive IFRS revenue was EUR83 million, a modest year-on-year increase of 3%. Automotive operational revenue decreased by 6% year on year to EUR79 million. This decrease partly reflects lower car production at some of our customers. Further, a difference in phasing of ramp-ups and ramp-downs of certain car lines negatively impacted the quarterly Automotive operational revenue as well.

Our Enterprise business recorded revenues of EUR35 million, a decrease of 4% year on year. We expect a gradual conversion of our sales funnel to lead to increasing revenues later this year and in 2025. Lastly, Consumer revenue was EUR21 million, a decrease of 9% year on year. Gross margin in the first quarter was 86% comparable to the same quarter last year.

First-quarter operating expenses were EUR125 million, an increase of 6% versus the same quarter last year. Quarter over quarter, we saw a decrease in operating expenses, also when correcting for the EUR10 million restructuring expense recognized last quarter. This decrease demonstrates our continuous efforts in keeping costs under control.

Free cash flow was an outflow of EUR9 million this quarter, compared with an inflow of EUR10 million in the same quarter last year. First-quarter free cash flow was affected by the annual bonus payments, as well as a payment of the charges related to the restructuring we announced in the fourth quarter of 2023. These restructuring-related payments are not separately adjusted for and are absorbed in our free cash flow.

We ended the quarter with a net cash position of EUR284 million, down from EUR315 million at the end of the year. This decrease mainly reflects a EUR20 million cash-out related to our EUR50 million share buyback program. This program, which is aimed at reducing our share capital, was 64% completed by quarter-end.

Having covered our results, let's move on to our outlook. Though top-line development was flat in the first quarter, we did see encouraging signs from a product and business development perspective. We are reiterating our guidance that we gave at the start of the year.

For full-year 2024, we continue to expect group revenue between EUR570 million and EUR610 million, and Location Technology revenue between EUR490 million and EUR520 million. Free cash flow is expected to be higher than 5% of group revenue. For 2025, we are also reiterating our midterm Location Technology revenue ambition of EUR600 million and midterm free cash flow targets of 10% of group revenue.

Operator, we are now ready to address any questions from our listeners. And thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Andrew Hayman, Independent Minds.

**Andrew Hayman** - Independent Minds Ltd. - Analyst

Yes, just a few questions for you. In terms of operational Automotive revenue. It was down 9% in the quarter, and you highlighted lower auto production volume and the phasing of some car lines. How comfortable are you that it is simply a phasing issue and not an issue with, let's say, a model that's important to TomTom?

Then maybe a second question on the Automotive side and looking a bit longer term. A couple of the stories that are getting a lot of attention at the moment are a pushback on EVs is one, and then on the other hand, there's also, let's say, a bit more excitement with autonomous driving, particularly from Tesla. I was wondering, looking mid-term, how you see those two factors impacting TomTom.

And then maybe on Enterprise, the movement in deferred revenue is a positive EUR10.8 million, and you highlight that that's the timing of invoicing being a factor. But I was wondering what's behind that. Is that new clients that's pushing that up? Or is it a larger -- more business with an existing customer? Yeah, that's it. Thank you.

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

Yes, let me address -- you said 9% -- it is 6% down, operational revenue, Automotive. We think that later in the year the trend between market development and operational revenue will reverse. And hopefully, in the fourth quarter, we can do better than the market. That is at least where we expect the trends to develop towards.

But indeed, this quarter was not good. That was related to a relative underperformance of the customers that we serve compared to the market as a whole, and had to do with timing of end-of-production and start-of-production on various contracts. So that is just more a timing thing, and the expectation is that that will recover itself towards the second half of the year.

EV and autonomous driving are two trends that will increase take rates. For both, we see lots of development and business development. It's indeed true that the increase, as a percentage of sales, of EV is slowing down. That's not something that we can influence. I don't think it's structural either. It's a temporary thing. But again, both are beneficiary for the take rates as a whole.

Your last question on deferred revenue within Enterprise, that is just normal seasonal patterns on payment behaviors of large customers. I wouldn't read too much into it.

**Andrew Hayman** - Independent Minds Ltd. - Analyst

Okay, thank you.

**Operator**

Our next question comes from the line of Wim Gille, ABN AMRO - ODDO BHF.

**Wim Gille** - ABN AMRO - ODDO BHF B.V. - Analyst

I've got two questions. First, looking at the Enterprise decline in revenues, we've seen Enterprise revenues coming down for a number of quarters as the Apple contract was renegotiated already Q4 2022, so this is no longer an issue. So, can you give us a bit more feeling on what caused the decline in Enterprise in this particular quarter and how we should look at the remainder of the year? I know you have a fair amount of discussions going on with the new TomTom Orbis Maps, but when will growth in Enterprise resume? Is that already Q2? Or is it more weighted towards the second half?

And then with respect to the Automotive operational revenues, I had a bit of a bad connection with the previous person asking the question, so could you repeat the answer there? Basically, what I want to know is, what's the decline of 6%? What is driven by a decline in car production, and what part is driven by the phase-out of Renault, which is not fully compensated by the phase-in of Volkswagen? And when would you expect the phase-in of Volkswagen to be higher than the phase-out of Renault? Is it going to be Q2, Q3? Do you have any visibility there?

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

Yes, I think most questions are for me, but please comment, Harold, if you want to add. Enterprise decline, there is a single large customer who is building mapping capacity themselves. That contract is declining year over year, and it continues to decline. So the phase-out will continue for another year or so. So you see year-over-year a decline, sort of starting in Q4 of 2022, and it will continue into Q4 of 2025. It's a phased decline. So that explains why there is no year-on-year growth in Enterprise yet.

To address your second question about when do we expect an increase in Enterprise. We expect a sequential increase in Enterprise to start in Q3. We expect a year-over-year increase in Enterprise to start in Q4.

To come back on Andrew's question, I think it is, I would say 50-50. I can't comment on the specification you gave yourself, but I will not deny it either. But it is half the underperformance of our customers compared to the market, and half the phase-out and phase-in.

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**Wim Gille** - ABN AMRO - ODDO BHF B.V. - Analyst

And when would we expect the phase-in to compensate, or be bigger, than the phase-out?

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

We expect that overall that the contribution of the new customer will be bigger than the loss of the old customer. That effect will start to play Q4, Q1, that timeframe.

But again, what I also said to Andrew, in our estimates, we think that -- if you compare our operating revenue with market trends. So the market trend is quite stable in Q1. The expectations of the industry analysts is that that will continue to be the case in Q2, and then we see a little bit of improvement in Q3 and Q4 -- more improvement in Q4. But similarly, we think that operating revenue will improve for TomTom. And the expectation is that we could do better in the fourth quarter than the market.

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**Operator**

Our next question comes from the line of Marc Hesselink from ING.

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**Marc Hesselink** - ING Financial Markets (Netherlands) - Analyst

First question is on TomTom Orbis Maps. You're seeing increased momentum in the sales funnel. I'm just wondering if this is mainly smaller clients, or is it also some really big clients, so that just one client would be moving the needle?

Linked to that, on the TomTom Orbis Maps, you're now moving all the traditional contracts, I think, to the TomTom Orbis Maps platform. Could you provide an update, like how much percent is already on the new platform? When you expect this to be fully moved? And when it is fully moved, can you maybe talk about the impact, both commercially and also on the cost level, when that is done?

And the second question is on the Overture initiative. Obviously, really big names in there. Just trying to get my head around on these. They all have their own mapping teams and doing a lot of stuff themselves. They take a lot of data from the open source. What kind of layers would they then take from TomTom on top to, for you, as an opportunity, really monetize it? Thank you.

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

Yeah, Marc. Thank you. Yeah, the sales funnel is really a mixture of different-sized companies. There's some very significant opportunities, both on the Automotive side and on the Enterprise side. But there is also a large number of smaller opportunities that are opening up because of the TomTom Orbis Maps database and new APIs and SDKs that we are publishing on top of that database. So it's really a mixed bag of bigger numbers and a lot of smaller numbers.

So then, moving customers from the existing platform to TomTom Orbis Maps. That's not happening at scale. And I don't think that will happen. I think that, if you look at what's happening in the auto industry, a lot of our customers that have started with TomTom Genesis Maps will continue on the TomTom Genesis Maps database and continue to use that for a number of years into the future. The switching of software and data in an in-car environment is notoriously hard. And at the end of the day, carmakers are not that interested in doing that once the car has left the factory.

But what we have achieved is that TomTom Orbis Maps is now, let's say internally, our master database. And all the changes that we achieve, and upgrades and extensions of the data, that we achieve in our TomTom Orbis Maps mapping platform will automatically, to a large extent, flow through to the legacy database, the TomTom Genesis Maps database. In that way, we keep the TomTom Genesis Maps database fresh, we keep it up to date at minimal cost, mostly using automated processes. But all the innovation, and new data types, and the geographical expansion will really materialize on the forward-looking products and on the TomTom Orbis Maps platform. Does that answer your question?

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**Marc Hesselink** - ING Financial Markets (Netherlands) - Analyst

Yeah, it's clear. I think then, is it fair to assume that a lot of your clients will stay also when they renew the contract, they will stay on TomTom Genesis Maps? Or is a renewal a typical moment when they will shift to TomTom Orbis Maps?

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

No, it's mostly tied to the introduction, or launching, of new car models. And with some of our large customers, we are aiming to introduce TomTom Orbis Maps beginning of '25, for SOPs that are happening around that timeframe, or a bit later, I would say. So those are customers who are currently using the TomTom Genesis Maps database, but where the TomTom Orbis Maps database will feature in new car models.

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**Marc Hesselink** - ING Financial Markets (Netherlands) - Analyst

Okay, clear. And the other question on the Overture, those clients?

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

Yeah, so there's a couple of things happening that are important to the industry. We are trying to set a standard. There is no standard for mapmaking and there is no interoperability. And if you look at the requirements now and into the future, to keep up with those demands and use cases, you need to have more partners contributing to the data. To facilitate that, we publish a standard base map, which is really quite bare. But it's an important canvas on which other companies can match their own content. That can be an HD layer, or it can be a POI dataset, or it can be visual aspects, 3D buildings, photorealistic data, that you can all attach to the map in a way that makes it easy and cheap to do that.

With the base map itself, you can't do that much. A lot of essential attributes are missing there. So if you want to have industry-strength routing or search or whatnot, then that base map itself is not going to help you. You will need to upgrade to a commercial version of that map.

And of course, we are concentrating ourselves on standardizing OSM data, making that quality-controlled, then making that harmonious so it works everywhere, and we have all sorts of data related to addressing, related to POIs, related to the road conditions, and speeds, and all that kind of stuff. There's a whole stack of data on top of that, that make, in combination, the map that can be used in real-world applications.

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**Marc Hesselink** - ING Financial Markets (Netherlands) - Analyst

Okay. And those clients will then pick and choose a few layers from TomTom, add their own layers, and then that is...

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

That's a possibility. It depends a little bit on the type of customer and the size of the customer. You need to be a sizeable company if you want to do a lot on the layer-level yourself. So the majority of our customers will take the final product that they can license from us.

But other customers, like a large ride-hailing company, want to augment that database with what they have learned from their drivers and their customers, like pick-up points, or how buildings, or cafes, or restaurants are referred to by customers. That's knowledge that a ride-hailing company will accumulate. And the TomTom Orbis Maps structure and Overture standardization and classification on how you do all that, makes it really simple to actually do that and achieve that. You call it conflation. This is notoriously difficult in the industry, and we're making that easy for the industry as a whole.

On top of that, there's a whole range of open-source tools. We published that database in a format that has wide industry support. There's a lot of developers who know how to work with that format. There's a lot of open-source tools that can help you to lower your overall cost of ownership of a location platform. I think that one of the key elements of the commercial story, is that this will grow, and it will grow faster than any other map ecosystem. And that there is already widespread support for the data format, and that will only accelerate and accumulate over time, which eventually will lead to a far superior mapping platform than anything else that is out there.

And that is one of the key elements for potential customers that go through a non-inconsiderable amount of pain, if you want to switch from a location platform. That's a big decision, typically, for a company. But the idea that you are on a winning platform that will grow and is well-supported by the industry, both on the data side and on the tooling side, that is very appealing and a very strong sales argument. And certainly, over time, that argument will grow in strength. And if we provide more proof points and show that more customers are taking that effort to change from location provider that, again, will help us to faster convert our sales funnel and for our sales force to become more effective.

So we are in the early days. I think that what's important for us as a team is that we see that the strategy, as we had designed it in 2019, is working. We see the effects, certainly in the pipeline, the discussions we have within the sales funnel, and the variety of customers that we're talking to, to whom we have never spoken in the past. All are key indicators, leading indicators for us that that strategy that we have developed and implemented is working.

So from that perspective, we are on track. Strategically, it is working as we had hoped and expected. So now I'd say, yes, it's a matter of converting all those opportunities that are opening up to real contracts going forward. But I think both in the auto industry, as well as in the Enterprise segment, that strategy is clear, it resonates. And I definitely believe it will give us an edge going forward for years to come.

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**Marc Hesselink** - ING Financial Markets (Netherlands) - Analyst

Great. Thanks for the elaborate answer. I'll leave it here.

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

Yes, thank you.

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**Operator**

(Operator Instructions) Our next question comes from the line of Nikos Kolokotronis, from Van Lanschot Kempen.

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**Nikos Kolokotronis** - Van Lanschot Kempen N.V. - Analyst

Thanks for taking my questions. So first, on TomTom Orbis Maps. Can you give us a bit more color on how you expect the typical sales cycle to look like under the new maps, in terms of timeframe and the time that it's going to take for the testing process and eventual conversion to sales?

And my second question is on the funnel of TomTom Orbis Maps. So it's building up well. Can you comment on what are your communications with the companies in the funnel and at what stage in the sales cycle you are, on average, with these companies? And if you could comment separately on large accounts versus small ones? Thank you.

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

Yeah, so Nikos, thanks for the questions. So first question about conversion, now, what does that look like and how long does it take? It's a bit of a mixed bag. So customers who know us from the past, whom we have been dealing with in the past, and to whom we introduced our plans and strategy say: "Yeah, I get it. I understand it. And I like what you're doing." It doesn't take that much to convince that type of customer, and we can substantiate it with statistics and analytics that it's demonstrably, objectively better than anything else that is available. So that's an easy sell.

That doesn't mean that everybody starts to run to convert, but it does mean that when they're up for renewal or they're up for a new introduction, or a new launch, or a new program, the default choice is for TomTom Orbis Maps, and it doesn't require a lot of extra work for us. So that's one extreme. So customers that understand it, know what we're doing. They can see the results and they are taking an interest in the metrics that we are now starting to share with those customers.

On the flip side, there is a type of customer that we know can use the data, but to whom we are unfamiliar. There, it takes longer. There, you need to go through a very different type of sales cycle, where you have to introduce yourself first, and that takes longer. You need to introduce yourself, and then you need to introduce your strategy, and then you need to introduce your product, and that takes longer.

But also there, once we are engaging and when there is a sales opportunity or a product replacement opportunity, it's fair to say that also those type of customers show an interest in what we're doing. And there again, in that environment, at least strategically, those customers understand what we're trying to do and like that idea, the direction of travel. But it takes more time to convince, and you need to provide more proof points.

I think there's a couple of large customers who will start converting and introducing TomTom Orbis Maps on their own platforms. That will, in itself, be an important proof point for everybody else to get easily convinced that TomTom Orbis Maps has reached maturity and is ready for prime time. So that's kind of where we are in terms of that whole commercial journey.

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**Nikos Kolokotronis** - Van Lanschot Kempen N.V. - Analyst

Okay. Thank you.

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**Operator**

Our next question comes from the line of Maarten Verbeek, from The Idea.

**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Analyst

It's Maarten Verbeek from The Idea. Firstly, you mentioned that a large Enterprise client was starting to build its own map, and that that would give some negative pressure on your Enterprise revenue. To get a bit of a feel for the underlying development for Enterprise, how much sales do you expect to lose from this client, compared to last year's level, in the next two years?

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

Yeah, Maarten, I fully understand your question, but I can't comment on it, apart from what I already answered to Wim, being that we expect a sequential increase in our Enterprise revenue as of Q3, and a year-on-year increase in our Enterprise revenue as of Q4. More details, I can't provide. Also client confidentiality.

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**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Analyst

And also, to get a bit of feel for the underlying free cash flow, last year, you took the almost EUR10 million restructuring charge. You stated that would be consumed in the first half of this year. Is it still the case? And could you also give some kind of -- could you inform us how much you have used, how much you've spent of that provision in the first quarter?

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

Yeah, the lion's share of that was paid out in the first quarter.

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**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Analyst

And more or less the remainder will be executed in the second quarter?

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

Yeah, there's always a long tail for individuals. But indeed, I think after the second quarter, 90% of that will have been paid.

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**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Analyst

And lastly, since you expect some tough quarters in Automotive. According to your backlog, the breakdown, you expected revenue of Automotive to be in the neighborhood of EUR350 million for this year. Has that changed, now that we have entered into April?

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

No, it hasn't. Of course, there is some lost revenue in Q1 that will not be recouped later in the year, but there's also a fair amount of revenue that will come later. So overall, it might be a couple million below where we thought the middle of the bell curve could end up, but it is still within that range. And so the EUR350 million is a very fair estimate.

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**Maarten Verbeek** - The Idea-Driven Equities Analyses Company - Analyst

Thanks very much.

**Freerk Borst** - TomTom NV - IR

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

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