Set for profitable growth

Taco Titulaer – TomTom – Chief Financial Officer

Hello. The last presentation of today. I'm Taco Titulaer, TomTom's CFO. I've been with the company since the IPO in 2005. And I'm going to talk about the market that we playing in business by business, talk about the outlook, and walk through the P&L – revenue, gross margin, OPEX, and free cash flow. And I end with ESG.

So, first, the market size. The market we play in, it's €3 billion, and it's growing. That €3 billion is divided as €2 billion coming from Enterprise and €1 billion from Automotive. As you've heard from Antoine and Mike, we foresee growth for both Automotive and Enterprise. Now, let me go to the market developments and outlook business by business.

So, first, Automotive. As Antoine mentioned, we anticipate growth in the Automotive market over the coming years, which is partly explained by recovery of car production, as explained on this slide. In recent years, car production has been hampered by lockdowns and supply chain issues. But following some delays, production is now forecast to gradually pick up, and we expect to beat the 2019 levels in the year 2025. In addition, navigation take rates are expected to increase from around 40% today, to 50% in 2025, due to several trends. Increased vehicle connectedness and electrification mean that vehicles will increasingly rely on software, and this is pushing software-defined vehicles, and this is pushing the take rates.

We have the right products and services to capitalize on this, and that is explained by our backlog that we have announced today. We have grown our backlog from €1.9 billion at the end of last year to €2.4 billion today. Our backlog underpins our outlook for the Automotive business and gives us good visibility regarding growth in this segment. We increased our backlog by winning multiple significant deals this year, a sign that OEMs like what they see. On top of that most OEMs are taking a new approach to sourcing for our maps and our services, as explained by Antoine. This closer collaboration will mean that our business model is more sustainable and will also lead to greater innovation. And this should result in more reliable and recurring revenue streams.

Over to Enterprise. Enterprise is also growing market, but more importantly, we think that we can significantly grow our market share here. The Enterprise market is fragmented, spanning various segments and use cases. The reliance on location technology will only grow, as location technology can now be leveraged easily and is of sufficient quality to be able to streamline operations. The breadth of the Enterprise market makes it the largest we operate in, but it's also the one that is less developed. As I explained earlier, at the start of this year when we announced our full-year results, but also with our Q3 results, we have a large customer that will use our product less, starting this quarter. And that will have an effect up until Q3 next year, as of which we envision Enterprise to grow again. So, market players are typically strong in non-Automotive features and the easy integration of the map into various applications. Historically, our investment have been concentrated on Automotive features, but we're changing that with what we have announced today.

Okay, over to our revenue. So what is shown on this slide is a mix of what we already announced earlier this year. And so that is for this year, our revenue, and also for next year. Additionally, we have announced today our ambition to grow our revenue to €600 million, based on our strong order backlog in Automotive and large opportunities that we see in Enterprise.

Over to gross margin. So, as we have transitioned ourselves from a hardware company – 10 years ago we used to have just over 50% for our gross margin, and that has now moved to 80%. We expect that to grow further, although that growth will be limited. And that is because of two things. One, the effects of changing from a hardware company to software company – most of those effects are behind us. And the other thing is that, as our products and services will be increasingly online, it means that cost of sales will come in from cloud usage. So, we still think that there is some runway here and we think that in the midterm we can go up to 85%. Also important to mention here is that gross margin can fluctuate quarter by quarter. And that's related to if you do specific work for Automotive. We capitalize that and release that at once as cost of sales. So, that can have big effects in a quarter. For the longer term, our gross margin will be above 80%, and like I said, will go towards 85%.

Now, on our OpEx. What you see here on this slide is our OpEx expense, of course, mainly also for R&D, sales, and marketing. As explained by Mike, we think that we will need to expand our sales capacity in Enterprise, and we will do so. In R& D, we have broken it up into two segments, one is the application layer and the other is geographical data. We expect the spent that we have on our application layer to go up. Geographical data as a whole will still stay flat, although if you zoom in, what we spent on operations will continuously go down, due to a continuous trend toward automation. And those costs are in engineering, so the cost of engineering will go up. Also, to go in a little more detail. We have stopped capitalizing a few years ago. So, that means that our CapEx is at a lower level. The only things that we capitalize are lease assets and some IT stuff that we have in house. But over time, the CapEX and D&A – they will reach parity. We expect that in a couple of years from now. And that parity will be around €20 million. And as explained before on the gross margin slide, we also have amortization through our cost of sales related to contract assets, but that will not hit the OpEx.

Over to free cash flow. Not new, this has already been communicated with our Q3 results, but we expect this year to have a negative free cash flow of -2% of group revenue. We expect that to improve next year on the back of growing revenue from Automotive. A lot of the previous presenters introduced flywheel. I will introduce my flywheel for finance. More revenue will lead to operating leverage, will lead to more profits. And with more profit, we can do greater things. And that is also why the title of the presentation is "Profitable growth." So, what we're announcing today is about growth, but it's very important to realize that we, as the management team, want to do this in a profitable way. So, the target is to have a 10% free cash flow yield by the year 2025.

On capital allocation, our balance sheet is strong, we don't have any debt. So, we have a little bit over €300 million of cash. Some of that cash is, of course, used to run our business, to fund our bank accounts. The rest, with the benefit of hindsight, is needed to be ready for an unplanned events like pandemics and supply chain issues, but also to make sure that we can be independent. What we have done in the last years, is that we have bought back shares. But that is purely to prevent the dilutive effects of our share option plans – RSU plans, that we have internally. We have enough treasury shares in house to compensate for that for the coming years. So, I don't expect to buy back any shares in 2023. If we reach that level of profitability, and it is sustainable, and there's kind of a short- to mid-term outlook that we can continue on that path, we will we think and rediscuss capital allocation. But for now, we do not have any short term plans.

On ESG, we have identified five themes. So, the team has worked hard and interviewed a lot of people – not only employees, but also customers and suppliers. And we've identified five themes, which we think are important to track and to report on. They are on the slide. First and foremost, we think that with our technologies, we can reduce congestion, and we can bring people quicker to their destination. And the side-effect of this, is that it will reduce emissions. Two of the themes are people-related. As explained by Eric, Johan, and everyone before me, the most expensive asset, but also the greatest asset that we have, are people. And so that is also why we want to focus on that. So here's, we want to be an employer of choice.

We measure that with biannually, or twice per year – we do an engagement score. And we also focus on diversity and inclusion. Cyber is important. We have a target that we want to have our engineers certifiably trained, so that when they built their products, they have security and privacy in mind. And lastly, CO2 emissions. We want to become carbon neutral by the year 2030.

To summarize, so, today, on the back of this huge increase of our a backlog, we have given our guidance for 2025 to reach €600 million euros of revenue. We have a great new product offering that will benefit Automotive a lot, but increasingly also Enterprise, because it will open great opportunities. And we have set ourselves a target for free cash flow yield of 10%, to be reached in year 2025. And with our ESG themes and targets, we want to all do that responsibly. That concludes my prepared remarks, and I want to hand it over to Claudia for the Q&A.