

TomTom

Strong order intake for Automotive

Due to the stronger USD we have lowered our gross margin and EPS estimates for TomTom. The medium term growth outlook is improving due to strong growth for its Telematics, Sportswatch and Traffic activities, and the strong order intake for its Automotive unit. In spite of the short term USD headwinds, we maintain our positive stance on TomTom, with a revised share price target of EUR 7.00. Buy.

Forecast	2013	2014E	2015E	2016E
Sales (EURm)	963	950	948	975
EBITDA (EUR m)	142	130	127	154
EBIT before exceptionals (EUR m)	26	20	13	30
Recurring net income (EUR m)	59	62	49	64
EPS Recurring New (EUR)	0.26	0.28	0.22	0.29
EPS Recurring Old (EUR)	0.26	0.30	0.30	0.33
P/E	16.5	20.8	26.5	20.0
EV/EBITDA	6.1	8.9	8.8	6.9
FCF Yield (%)	14.7	1.9	2.3	4.7
Dividend Yield (%)	0	0	0	0

Source: Company data, Rabobank International

Year to December, fully diluted

EPS to fall in 2015, to recover strongly in 2016

After the 14Q3 results and the strong increase for the USD vs the Euro, we updated our financial model for TomTom. Based upon an expected negative USD impact on the gross margin and a scenario with flat sales and flat SG&A, R&D and marketing costs, we expect EPS to fall 21% in 2015. Mainly due to the stronger USD we also cut our 2014 EPS forecast from EUR 0.30 towards EUR 0.28. Due to the strong order intake for the Automotive unit, TomTom's growth and earnings outlook for 2016 has clearly improved. As a result we expect 2016 EPS to recover with 32%.

High USD sensitivity

As 80% of TomTom's cost of goods sold is priced in USD, the strong increase for the USD vs the EUR could have a possible 100-200bps negative impact on the 2015 gross margin, as many components simply become more expensive. As a rule of thumb, a 10% increase of the USD vs the EUR, has a 100-200bps impact on the gross margin. Although the shift towards higher margin content sales, higher margin consumer sales (sport watches), and high margin telematics subscription sales are an offsetting factor, we nevertheless expect the gross margin for TomTom to decrease 100bps in 2015.

Strong order intake for TomTom Automotive

In the short term, we expect Automotive sales to decrease 10% in 2015 towards EUR 100m due to the phasing out of old contracts. A key positive is that year to date, TomTom Automotive received orders with a value over EUR 170m. This order book is much higher than in the same period last year, indicating that TomTom Automotive has strong traction at the client side. The strong year to date order intake, together with earlier secured orders like the important PSA contract, will support growth in automotive from 2016 onwards. As these new contracts sometimes include lifetime maps and lifetime traffic components, the IFRS recognition of this automotive revenue in TomTom's financials will include deferral elements in the future. We now expect 15% sales growth for TomTom Automotive's unit in 2016.



Rabo

Rating	Buy =
Price target (12m)	EUR 7.00 ▼
Price 04-Nov-2014	EUR 5.73
Up-/downside	22.1%

Communications Equipment

Netherlands

Market capitalisation

EUR 1,272m

Avg (3month) daily turnover

1,091,638

Reuters

TOM2.AS

Bloomberg

TOM2.NA

Web site

www.tomtom.com

Share Performance

	1m	3m	12m
TomTom	-13.4	5.4	-1.1
AEX	-1.8	2.0	2.7

Agenda

None --

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Partnerships with Volkswagen and Bosch

The recent partnerships with Volkswagen (driverless cars) and with Bosch (advanced driver assistance systems) are clear illustrations of TomTom's increasing relevance in the Automotive industry. On 29 September 2014 TomTom announced a partnership with Bosch Softec to integrate its navigation technology and maps into Bosch's Advanced Driver Assistance Systems (ADAS). Bosch expects ADAS revenues to reach EUR 1bn by 2016. On 2 October 2014, TomTom and Volkswagen Group Research signed a Memorandum of Understanding to collaborate for the development of Highly Automated Driving (HAD) systems. Volkswagen and TomTom will jointly develop the digital map that is essential for automated driving.

Mapping assets become strategically important

These important partnerships could substantially increase the long term value of TomTom's mapping assets. Industry observers expect the big profits to accrue to the companies behind the software and electronic content underneath. Car makers and the leading suppliers are investing heavily to build up their software capabilities. TomTom could therefore also become a likely take-over target for Automotive OEM's (Bosch, Harman, Continental, Denso, etc).

Medium term growth outlook is improving

The medium term growth outlook for TomTom is improving due to strong growth for its Telematics, Sportswatch and Traffic activities, and the strong order intake for its Automotive unit. In spite of the short term USD headwinds, we maintain our positive stance on TomTom, with a revised share price target of EUR 7.00.

Financial Information

Financial Information								
Fiscal year ends 12/2014	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Income Statement (EUR mln)								
Revenues	1,521	1,273	1,057	963	950	948	975	994
Cost of sales	-777	-634	-502	-442	-425	-433	-436	-435
Gross profit	744	640	555	521	525	515	539	560
Operating costs	-558	-552	-484	-495	-506	-502	-509	-517
EBITDA	287	214	181	142	130	127	154	173
Depreciation	-15	-34	-27	-36	-29	-33	-39	-45
EBITA (before exceptionals)	272	180	154	107	101	94	115	128
Exceptional items	0	0	0	0	0	0	0	0
Amortisation of goodwill & other ITA	-78	-85	-84	-81	-90	-85	-85	-85
EBIT	186	87	70	26	20	13	30	43
Net financial result	-35	-16	-10	-5	-2	-1	-0	0
Other pre-tax items	-17	-0	1	0	0	0	0	0
EBT	134	71	61	21	18	12	30	44
Income taxes	-26	2	69	-4	5	-1	-3	-4
Minority interests	-0	-1	-0	-1	-1	-1	-1	-1
Other post-tax items / participation	0	0	0	3	0	0	0	0
Extraordinary Items & Discontinued Operations	0	0	0	-0	-0	-0	-0	-0
Net income	108	-438	129	20	22	10	26	39
Extraordinary Items & Amortisation	48	560	-40	39	39	38	38	38
Net income recurring (cash)	156	122	89	59	62	49	64	77
Balance Sheet (EUR mln)								
Cash & Cash equivalents	306	194	164	258	284	314	375	450
Current assets	447	304	313	196	194	193	199	203
Tangible fixed assets	39	33	27	26	98	160	218	273
Goodwill	855	382	382	382	382	382	382	382
Other Intangible assets	0	0	0	0	0	0	0	0
Other non-current assets	976	886	839	816	816	816	816	816
Total Assets	2,623	1,799	1,724	1,678	1,773	1,864	1,990	2,123
Short-term debt	204	384	74	74	74	74	74	74
Current liabs	842	656	572	556	547	546	557	565
Long-term debt	384	0	173	99	99	99	99	99
Other non-current liabs	52	50	66	94	93	93	95	97
Minority interest	0	0	0	2	4	4	5	5
Total equity	1,142	708	838	854	956	1,058	1,185	1,321
Total liabs & equity	2,623	1,799	1,724	1,678	1,773	1,864	1,990	2,123
Net debt	282	190	83	-84	-110	-140	-201	-277
Invested capital	3,650	3,584	3,593	3,448	3,529	3,591	3,642	3,691
Invested capital excl. hitorical goodwill	750	684	693	548	627	689	740	789
Off balance lease liabilities	0	0	0	0	0	0	0	0
Net pension assets	0	0	0	0	0	0	0	0
Cash Flow Statement (EUR mln)								
Operating income	186	87	70	26	20	13	30	43
Depreciation & Amortisation	93	119	111	117	119	118	124	130
Other non-cash Items	0	-11	-11	-11	0	0	0	0
Change in Working Capital	-17	-14	-81	99	-6	-0	5	4
Change in Provisions	-7	-2	16	28	-1	-0	3	2
Cash taxes	-26	2	69	-4	5	-1	-3	-4
Cash interest	-35	-16	-10	-5	-2	-1	-0	0
Cash impact associates & minorities	-17	1	1	4	1	1	1	1
Other cash exceptionals / cash flow assets held for sale	0	0	0	0	0	0	0	0
Operating cash flow	165	137	153	254	126	125	159	175
CAPEX	65	74	52	85	101	95	97	99
Acquisitions & Disposals	0	0	0	-7	9	0	0	0
Other Investments	-40	-81	-51	-20	0	0	0	0
Cash Flow from Investments	25	-7	1	58	110	95	97	99
Cash dividend	0	0	0	0	0	0	0	0
Change in Equity	0	0	0	-518	0	0	0	0
Change in Bank Debt	-202	-204	-137	-74	0	0	0	0
Other adjustments	0	0	0	0	0	0	0	0
Cash Flow from Financing	-202	-204	-137	-592	0	0	0	0
FX effect	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Change in Cash	-61	-61	15	-394	17	30	61	75
Free Cash Flow	141	144	152	189	25	30	61	75

Source: Rabobank International

Financial Information								
Fiscal year ends 12/2014	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Per share items								
Shares outstanding (avg. mln)	221.7	221.9	221.9	221.8	221.9	221.9	221.9	221.9
Shares outstanding fully diluted (avg. mln)	221.7	221.9	221.9	221.8	221.9	221.9	221.9	221.9
Share price (average)	5.8	4.7	3.5	4.3	5.7	5.7	5.7	5.7
EPS reported	0.49	-1.97	0.58	0.09	0.10	0.05	0.12	0.17
EPS recurring	0.70	0.55	0.40	0.26	0.28	0.22	0.29	0.34
FCF per share	0.63	0.65	0.69	0.84	0.11	0.13	0.27	0.33
Book value per share	5.14	3.19	3.78	3.82	4.26	4.71	5.28	5.88
Dividend per share	0	0	0	0	0	0	0	0
% Growth								
Revenues	2.8	-16.3	-17.0	-8.9	-1.4	-0.3	2.9	2.0
Organic revenue growth	2.8	-16.3	-17.0	-8.9	-1.4	-0.3	2.9	2.0
EBITA	-10.5	-33.9	-14.2	-31.0	-4.9	-7.0	22.2	11.5
Organic EBITA growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net income recurring	7.4	-21.8	-27.2	-33.6	4.9	-21.4	32.8	19.4
Dividend per share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Margins & returns								
Gross margin	48.9	50.2	52.5	54.1	55.3	54.3	55.3	56.3
EBITDA margin	18.9	16.8	17.1	14.8	13.7	13.4	15.8	17.4
EBITA margin (before exceptionals)	12.3	6.9	6.6	2.7	2.1	1.3	3.1	4.4
Net recurring margin	10.2	9.6	8.4	6.1	6.5	5.1	6.6	7.7
ROE	9.4	-61.8	15.4	2.3	2.3	1.0	2.2	2.9
ROIC	4.5	2.4	2.9	0.6	0.4	0.3	0.7	1.1
ROIC excl. historical goodwill	21.5	12.3	15.0	3.3	2.6	1.7	3.8	5.1
EVA spread (ROIC - WACC)	-3.1	-5.5	-5.3	-7.8	-7.9	-8.0	-7.6	-7.3
Valuation								
Enterprise Value (mln)	1,529.2	1,211.6	851.1	866.3	1,153.1	1,123.6	1,063.1	988.4
P/E recurring (x)	8.2	8.5	8.9	16.5	20.8	26.5	20.0	16.7
P/FCF (x)	9.1	7.2	5.2	5.1	51.5	43.0	21.1	17.1
P/B (x)	1.1	1.8	1.5	1.5	1.3	1.2	1.1	1.0
Dividend yield (%)	0	0	0	0	0	0	0	0
Free Cash Flow Yield (%)	11.0	11.3	12.0	14.7	1.9	2.3	4.7	5.8
EV/Sales (x)	1.0	1.0	0.8	0.9	1.2	1.2	1.1	1.0
EV/EBITDA (x)	5.3	5.7	4.7	6.1	8.9	8.8	6.9	5.7
EV/EBITA (x)	8.2	13.9	12.1	33.3	58.4	89.1	35.4	22.8
EV/Invested capital	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3
EV/FCF (x)	10.9	8.4	5.6	4.6	46.1	37.5	17.4	13.1
Leverage & ratios								
Net debt/EBITDA	1.0	0.9	0.5	-0.6	-0.9	-1.1	-1.3	-1.6
Interest cover	8.2	13.6	17.3	31.5	73.8	201.8	465.3	-618.3
Solvency (Equity / Total assets)	43.5	39.4	48.6	50.9	53.9	56.7	59.6	62.2
Working capital as % of revenues	-12.1	-13.3	-8.4	-19.5	-19.1	-19.1	-19.1	-19.1
CAPEX/revenues	4.3	5.8	4.9	8.8	10.6	10.0	10.0	10.0
Dividend pay-out ratio (%)	0	0	0	0	0	0	0	0
Inventory period days	19.3	22.8	19.0	16.4	16.1	16.1	15.8	15.9
Trade debtor days	72.0	70.3	57.8	50.2	44.1	43.9	43.2	43.4
Trade creditor days	50.3	48.0	34.7	31.5	31.4	31.2	30.8	30.9
Cash cycle	40.9	45.2	42.1	35.1	28.8	28.7	28.3	28.4

Source: Rabobank International

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