

TomTom

Sportswatches: doubling after doubling after doubling

Our field research point towards continued strong demand for TomTom's Cardio GPS Sportswatch with the built-in heart rate monitor. The retailer feedback is very positive highlighting ease of use and the advantage of the built-in heart rate monitor. We expect the number of TomTom sport watches sold to jump from 0.3m in 2013 towards 0.5m in 2014 and revenues to double towards EUR 60m in 2014.

Forecast	2013	2014E	2015E	2016E
Sales (EURm)	963	960	961	974
EBITDA (EUR m)	142	139	157	166
EBIT before exceptionals (EUR m)	26	28	42	50
Recurring net income (EUR m)	59	68	67	74
EPS Recurring New (EUR)	0.26	0.30	0.30	0.33
EPS Recurring Old (EUR)	0.26	0.30	0.30	0.33
P/E	16.5	20.3	20.7	18.9
EV/EBITDA	6.1	9.2	7.8	7.1
FCF Yield (%)	13.6	0.3	3.4	4.4
Dividend Yield (%)	0	0	0	0

Source: Company data, Rabobank International

Year to December, fully diluted

Taking market share in a growth market

The GPS sports watch market is a clear growth market due to: 1) increasing trend for a healthy lifestyle, 2) increased and improved features and capabilities of the devices, allowing to measure own performance more precisely and easily, 3) social media applications, which allow to download compete and share work-out experiences. TomTom estimates that the GPS sport watch market is growing 20-25% per annum (units sold). There are some 70-80m people in Europe and North America who are running 2 to 3 times a week. The estimated penetration of GPS sport watches in this population is 10-20%. Assuming an estimate of 15% penetration, the GPS Sportwatch market could be estimated at 10.5-12.0m dedicated Sport watches. Based upon our estimate that TomTom will sell 0.5m GPS Sportswatches in 2014, this calculation would indicate that TomTom's market share is still only 5%, offering room to take further share from player like Garmin, Polar and Adidas for instance.

Apple Watch is not a major short term threat

The launched Apple Watch is incorporating a lot of health and fitness functionality. Nevertheless, we do not see the launch of the Apple Watch as a major short term threat for TomTom's GPS Sportwatch business. A disadvantage of the Apple Watch, in our view, is that when using it for Sports you also need to take with you your iPhone. This is because the Apple Watch does not have GPS functionality within. In addition, the data transfer between the iPhone and the Apple Watch is done through Bluetooth, so this uses a lot of battery power. An advantage of the TomTom GPS Cardio Sportwatch (which we tested ourselves) is the long battery life, its ease of use, its built-in GPS and especially the very accurate heart rate monitor. The built-in heart rate monitoring is done via an optical sensor located on the underside of the watch's face, so without a chest strap. Our latest retail checks point towards continued strong demand for TomTom's Cardio GPS Sportswatch with the built-in heart rate monitor. Based upon our field research the retailer feedback is very positive, especially highlighting its ease of use and the advantage of the built-in heart rate monitor. We continue to expect the number of TomTom sport watches sold to jump from 300k in 2013 towards 500k in 2014 and sales to double from EUR 30m in 2013 towards EUR 60m in 2014.



Rabo

Rating	Buy =
Price target (12m)	EUR 7.40 =
Price 10-Sep-2014	EUR 6.20
Up-/downside	19.4%

Communications Equipment

Netherlands

Market capitalisation

EUR 1,376m

Avg (3month) daily turnover

949,745

Reuters

TOM2.AS

Bloomberg

TOM2.NA

Web site

www.tomtom.com

Share Performance

	1m	3m	12m
TomTom	17.2	12.5	22.0
AEX	7.4	0.7	11.3

Agenda

29 October

14Q3 results

Analysts

Hans Slob

+31 (0)30 712 4472

hans.slob@rabobank.com

Rabobank International GFM

Equity Sales +31 30 216 9101

Equity Sales Trading +31 30 216 9123

www.rabotransact.com

Doubling after doubling after doubling...

We estimate that TomTom's sport watch business has doubled for two years in a row: from an estimated EUR 7.5m sales level in 2011 towards an estimated EUR 15m in 2012, and towards an estimated EUR 30m in 2013. As TomTom's Sportwatch business is growing with triple digits, it is not easy to make multi-year projections. Based upon our rather conservative projections, TomTom's fitness business has the potential to grow towards EUR 90m in 2016, accounting for almost 10% of total sales. Based upon gross margins of 65% and EBIT-margins of 30%, estimated EBIT for the sport watch business could jump from EUR 3.9m in 2013 towards EUR 17.6m in 2016. The only thing we can say is that TomTom has surprised many skeptics with its success in the GPS Sportwatch category. The very strong retailer feedback clearly confirms our positive view on TomTom's GPS Sportwatch business. Ongoing strong market share gains and the introduction of new fitness and health products could give upside to our conservative growth estimates for the Sportwatch business.

Figure 1: Financial model TomTom sport watch business (2011E-2016E)						
	2011E	2012E	2013E	2014E	2015E	2016E
# sport watches sold	93,750	187,500	300,000	500,000	600,000	700,000
ASP for TomTom (excl. VAT, before retail mark-up of 35%)	80	80	100	120	125	130
Total estimated revenues	7.5	15	30	60	75	91
y-o-y sales growth		100%	100%	100%	25%	21%
Sales breakdown						
Nike+ SportWatch GPS Powered by TomTom	7	14	18	15	10	5
TomTom Runner			5	6	3	0
TomTom Multi-Sport			5	8	4	0
TomTom Runner Cardio				11	23	35
TomTom Multi-Sport Cardio				18	30	45
Other (accessories)	1	1	2	4	5	6
Total	8	15	30	60	75	91
Gross margin estimate	65%	65%	65%	65%	65%	65%
Gross profit estimate	4,9	9,8	19,5	37,1	48,8	58,5
EBIT-margin	0%	10%	20%	30%	30%	30%
EBIT estimate	0,0	1,0	3,9	11,1	14,6	17,6

Source: Company data, Rabobank International

Topline growth has returned

TomTom's successful entry into the GPS Sportswatch category makes the TomTom investment case more attractive. After the "transition/transformation" years, an easing decline for PND sales and strong growth for the fitness and telematics businesses has finally led to group revenues growing again, driving a clear rerating for the shares. We also expect a recovery for the Automotive business in 2015 due to the PSA contract. We maintain our Buy and our EUR 7.40 share price target.

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	960	961	974	979
Cost of sales	-777	-634	-502	-442	-429	-417	-426	-418
Gross profit	744	640	555	521	531	544	548	561
Operating costs	-558	-552	-484	-495	-502	-502	-499	-508
EBITDA	287	214	181	142	139	157	166	174
Depreciation	-15	-34	-27	-36	-29	-34	-39	-44
EBITA (before exceptionals)	272	180	154	107	110	124	127	130
Exceptional items	0	0	0	0	0	0	0	0
Amortisation of goodwill & other ITA	-78	-85	-84	-81	-80	-77	-77	-77
EBIT	186	87	70	26	28	42	50	53
Net financial result	-35	-16	-10	-5	-2	-2	-2	-2
Other pre-tax items	-17	-0	1	0	0	0	0	0
EBT	134	71	61	21	27	40	48	52
Income taxes	-26	2	69	-4	3	-7	-8	-9
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	29	33	39	42
Extraordinary Items & Amortisation	48	560	-40	39	39	35	35	35
Net income recurring (cash)	156	122	89	59	68	67	74	77
Balance Sheet (EUR mln)								
Cash & Cash equivalents	306	194	164	258	263	311	372	439
Current assets	447	304	313	196	206	211	214	215
Tangible fixed assets	39	33	27	26	99	161	220	274
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	1,766	1,881	2,004	2,126
Short-term debt	204	384	74	74	74	74	74	74
Current liabs	842	656	572	556	532	533	537	539
Long-term debt	384	0	173	99	99	99	99	99
Other non-current liabs	52	50	66	94	94	94	95	96
Minority interest	0	0	0	2	4	4	5	5
Total equity	1,142	708	838	854	963	1,110	1,232	1,355
Total liabs & equity	2,623	1,799	1,724	1,678	1,766	1,881	2,004	2,126
Net debt	282	190	83	-84	-89	-137	-199	-266
Invested capital	3,650	3,584	3,593	3,448	3,556	3,623	3,679	3,731
Invested capital excl. hitorical goodwill	750	684	693	548	655	722	777	829
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	28	42	50	53
Depreciation & Amortisation	93	119	111	117	109	111	116	121
Other non-cash Items	0	-11	-11	-11	0	0	0	0
Change in Working Capital	-17	-14	-81	99	-34	-5	2	1
Change in Provisions	-7	-2	16	28	-0	0	1	1
Cash taxes	-26	2	69	-4	3	-7	-8	-9
Cash interest	-35	-16	-10	-5	-2	-2	-2	-2
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	106	144	159	165
CAPEX	65	74	52	85	102	96	97	98
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	111	96	97	98
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	-4	48	61	67
Free Cash Flow	141	144	152	189	4	48	61	67

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	6.2	6.2	6.2	6.2
EPS reported	0.49	-1.97	0.58	0.09	0.13	0.15	0.18	0.19
EPS recurring	0.70	0.55	0.40	0.26	0.30	0.30	0.33	0.34
FCF per share	0.63	0.65	0.69	0.84	0.02	0.21	0.27	0.30
Book value per share	5.14	3.19	3.78	3.82	4.29	4.94	5.49	6.03
Dividend per share	0	0	0	0	0	0	0	0
% Growth								
Revenues	2.8	-16.3	-17.0	-8.9	-0.4	0.1	1.3	0.6
Organic revenue growth	2.8	-16.3	-17.0	-8.9	-0.4	0.1	1.3	0.6
EBITA	-10.5	-33.9	-14.2	-31.0	3.3	12.5	2.3	2.9
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	16.3	-1.6	9.4	4.4
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	56.6	56.3	57.3
EBITDA margin	18.9	16.8	17.1	14.8	14.5	16.4	17.0	17.8
EBITA margin (before exceptionals)	12.3	6.9	6.6	2.7	3.0	4.4	5.1	5.4
Net recurring margin	10.2	9.6	8.4	6.1	7.1	7.0	7.6	7.9
ROE	9.4	-61.8	15.4	2.3	3.0	3.0	3.2	3.1
ROIC	4.5	2.4	2.9	0.6	0.6	1.0	1.1	1.2
ROIC excl. historical goodwill	21.5	12.3	15.0	3.3	3.6	5.1	5.5	5.5
EVA spread (ROIC - WACC)	-3.1	-5.5	-5.3	-7.8	-7.7	-7.4	-7.2	-7.1
Valuation								
Enterprise Value (mln)	1,529.2	1,211.6	851.1	866.3	1,277.7	1,230.4	1,169.6	1,102.7
P/E recurring (x)	8.2	8.5	8.9	16.5	20.3	20.7	18.9	18.1
P/FCF (x)	9.1	7.2	5.2	5.1	342.7	29.1	22.7	20.7
P/B (x)	1.2	1.9	1.6	1.6	1.4	1.2	1.1	1.0
Dividend yield (%)	0	0	0	0	0	0	0	0
Free Cash Flow Yield (%)	10.2	10.5	11.1	13.6	0.3	3.4	4.4	4.8
EV/Sales (x)	1.0	1.0	0.8	0.9	1.3	1.3	1.2	1.1
EV/EBITDA (x)	5.3	5.7	4.7	6.1	9.2	7.8	7.1	6.3
EV/EBITA (x)	8.2	13.9	12.1	33.3	44.9	29.2	23.6	20.7
EV/Invested capital	0.4	0.3	0.2	0.2	0.4	0.3	0.3	0.3
EV/FCF (x)	10.9	8.4	5.6	4.6	314.4	25.7	19.1	16.4
Leverage & ratios								
Net debt/EBITDA	1.0	0.9	0.5	-0.6	-0.6	-0.9	-1.2	-1.5
Interest cover	8.2	13.6	17.3	31.5	78.9	73.0	86.4	108.3
Solvency (Equity / Total assets)	43.5	39.4	48.6	50.9	54.5	59.0	61.5	63.7
Working capital as % of revenues	-12.1	-13.3	-8.4	-19.5	-16.0	-15.5	-15.5	-15.5
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	17.2	19.1	19.9	20.0
Trade debtor days	72.0	70.3	57.8	50.2	43.8	43.8	43.5	43.7
Trade creditor days	50.3	48.0	34.7	31.5	31.2	31.2	31.0	31.1
Cash cycle	40.9	45.2	42.1	35.1	29.8	31.7	32.5	32.6

Source: Rabobank International

Disclaimer Appendix

GFM Equity Research Global disclaimer

The information and opinions in this document were prepared by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., trading as Rabobank International, and hereby acting through its GFM Equity Research department, and/or its Representatives (defined below) (jointly referred to as "**Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.**") independently and without knowledge or cooperation whatsoever of the company mentioned in this document (this company referred to as the "**Company**").

For the purpose of this disclaimer, "**Representatives**" means all officers, employees, directors, agents and advisors of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. has no authority whatsoever to give any information or make any representation or warranty on behalf of the Company or any person in connection with any potential offerings or other transactions of the Company. In particular, the opinions and projections expressed in this document are entirely those of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and are given as part of its normal research activities and not as a manager or underwriter of any offering or as an agent for the Company or any other person.

This document is wholly indicative and solely for information purposes and is published to assist the stated recipient (the "**Recipient**") and does not carry any right of publication or disclosure other than to the Recipient. Neither this document nor any of its contents may be distributed, reproduced or used for any other purpose without prior written consent of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. Furthermore, the Recipient may not use the information contained herein for any other purpose than considering a contemplated transaction.

This document does not purport to contain all information the Recipient may desire, and is not to be relied upon as authoritative or taken as a substitute for the exercise of judgement by any Recipient. In all cases, the Recipient should conduct its own analyses or other verification of all the information, such as, but not limited to opinions and data set forth or referred to in this document and will bear the responsibility for any costs and expenses the Recipient may incur in doing so. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. has not independently verified any of the public information contained herein. The Recipient is advised to independently review and/or obtain independent professional advice and draw its own conclusions regarding any contemplated transaction.

Notwithstanding that Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. has used (public) information it believes to be reliable, no representation or warranty (express or implied) is made as to its accuracy, completeness or correctness. Also, the information in this document is subject to change. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. has no obligation to update any person (defined above) on any changes. For these reasons, the information in this document cannot be relied upon, no rights can be derived from it and no liability (direct or consequential loss) whatsoever attaches to it in any manner. Please note, that the returns on investments which have been achieved in the past do not serve as a warranty for the future.

Further, this document is not a prospectus or information memorandum whatsoever of the Company, it does not constitute an offer or invitation and should not be construed as an offer of sale or subscription to, or as a solicitation for an offer to buy or subscribe to any securities or derivatives.

This document may be distributed to one or more parties at the same time.

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (through another department) may have a long or short position in any of the securities issued by the Company, or any related investment, at any time, and may make a purchase, and/or sale of any of the securities issued by the Company, or any related investment, from time to time in the open market, or otherwise, in each case either as principals or as agents. Persons connected with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. or other entities of the group to which it belongs may provide or have provided corporate finance and/or other services to the Company.

This information may only be distributed outside the Netherlands in the following jurisdictions to the following persons:

Distribution in the United Kingdom is limited to: (i) UK persons who are authorised or exempted within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom; (ii) UK persons described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001; or (iii) UK persons who have been categorised as a so-called market counterparty or intermediate customer in accordance with the rules of the Financial Services Authority.

Distribution in Canada is only possible if (i) distribution exceeded in accordance with applicable federal, provincial and territorial securities laws; and (ii) if the document is made available by a person who is authorized to distribute such securities in the applicable Canadian jurisdiction.

Distribution in the United States is limited to so-called major U.S. institutional investors, as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Such U.S. institutional investor that desires to effect transactions in any security discussed in this document has to effect transactions through Rabo Securities USA Inc., a U.S. broker dealer subsidiary of Coöperatieve Centrale Raiffeisen-Boerenleenbank BA, which is a member of the FINRA.

Please note that this document is from the Netherlands. Therefore, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. makes no representation that the information and opinions provided in this document are appropriate or available for use in other jurisdictions. If the Recipient uses this document in other jurisdictions (described above), the Recipient is responsible for compliance with applicable local laws. As aforesaid, no representation or warranty (express or implied) is made as to the accuracy, completeness or correctness of the information or opinions and Coöperatieve Centrale Raiffeisen Boerenleenbank B.A. does not accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

This document is governed by Dutch law. The competent court in Amsterdam, The Netherlands has exclusive jurisdiction to settle any dispute which may arise out of or in connection with this document and/or any discussions or negotiations based on it.

Information on our recommendation structure, distribution of recommendations, and complete disclosure information on companies covered by Rabobank International Equity Research is available at <http://equityresearch.rabobank.com/disclaimer/>.