In a world of fluctuating fuel costs and just-in-time delivery, organizations that have fleets of vehicles and mobile employees require intelligent transportation solutions, which enable them to track, schedule, route, analyze, maintain, communicate and respond in real time. Trimble offers an ecosystem of innovative and integrated fleet enterprise and mobility solutions that enable cleaner, safer and more profitable operations.

2nd Quarter Earnings Conference Call Prepared Remarks

July 31, 2019

Trimble Corporate Participants

Steven W. Berglund – President and CEO
Robert Painter – Senior Vice President and CFO
Michael Leyba – Director of Investor Relations

TRANSFORMING THE WAY THE WORLD WORKS

Presentation

Michael Leyba – Director of Investor Relations

Thank you. Good afternoon everyone and thanks for joining us on the call. I'm here today with Steve Berglund, our CEO, and Rob Painter, our CFO.

I would like to point out that our earnings release, and the slide presentation supplementing today's call, are available on our website at www.Trimble.com, as well as within the webcast, and we will be referring to the presentation today. In addition, we will also be posting our prepared remarks on our investor relations website at investor.trimble.com shortly after the completion of this call.

Turning to slide 2 of the presentation, I would like to remind you that the forward-looking statements made in today's call, and the subsequent question and answer period, are subject to risks and uncertainties.

Trimble's actual results may differ materially from those currently anticipated, due to a number of factors detailed in the company's form 10-K and 10-Q, or other documents filed with the Securities and Exchange Commission.

The non-GAAP measures that we discuss in today's call are fully reconciled to GAAP measures in the tables from our press release. With that, **please turn to slide 3** for an agenda of the call today.

First, Steve will start with an overview of the quarter. After that, Rob will take us through the remainder of the slides, including an in-depth review of the quarter, our guidance and then we will go to Q&A.

I would also like to briefly mention that during the month of September, we will be attending the JP Morgan All-Stars Conference on September 18 in London.

Please turn to slide 4 and I will turn the call over to Steve.

Steven W. Berglund – President and CEO

Good afternoon.

Last November we reported strong third quarter 2018 results but noted a number of issues worth monitoring, which were broadly categorized as “discrete,” “geopolitical” and “trade.” In the last nine months, these effects have intensified and were material in our most recent quarter. They are mostly unique effects that are neither classically cyclical nor secular. Although leading to some disappointment in the short term they do not impact our long-term strategic or business models.

Offsetting the negativism is our continuing strong progress on the fundamentals, including the conversion of the business model into higher recurring revenue levels, strong cash flow, ongoing innovation and our success with recent acquisitions. In addition, our core revenue performance in the Buildings and Infrastructure and Transportation segments remain good.

Let me recite three factors, which are creating this drag on results:

The first is broadly geopolitical. U.S. trade policy continues to create significant uncertainty for U.S. farmers and a resulting reluctance to invest. This hesitancy is impacting our Resources and Utilities segment revenue performance, although we are maintaining margins. A China/U.S. trade agreement, which looked probable a few months ago, and more uncertain now, would create clarity for U.S. farmers and provide us with immediate upside potential. This uncertainty in agriculture is being compounded by distortions in worldwide commodity inventories and regional droughts.

Other politically driven decisions have resulted in a number of puts and takes. Outside the U.S. we have encountered abrupt political decisions or declared political intent—one example being the cancellation of the Mexico City airport and another being the declared skepticism around the HS2 rail project in the UK by the new government. Obviously, Brexit is the most dramatic event in the political realm. Brexit uncertainty combined with slowing international trade is causing a hesitation to make new investments in European plant and infrastructure—which impacts us.

Against this backdrop of uncertainty, there have been some countervailing, positive political developments as well. For example, the U.S. multi-year budget deal will significantly improve our ability to pursue projects that require federal funding. In addition, although the U.S. infrastructure bill, which was a stretch possibility at a trillion dollar level last quarter, is no longer a real possibility, the America's Transportation Infrastructure Act of 2019, which was introduced in the Senate earlier this week, increases funding by 27 percent over FAST Act levels. Although the legislation may not be enacted this year, it is a sign of an improving bi-partisan consensus around infrastructure. The additional positive effect for us, beyond the possibility of increased spending levels, is that the proposed legislation contains specific funding to promote digital construction. Beyond the federal efforts, we are also seeing increased dynamism from the states in funding infrastructure renewal—with growing enthusiasm for digital construction. So far in 2019, five states have raised gas taxes to help fund increased infrastructure spending.

The second factor is China. This takes the form of declining growth and an intensification of Chinese government policies that create explicit preferences for Chinese companies over non-Chinese companies. As a result, our first half Chinese revenue was down approximately 40 percent year to year. Given that our Chinese revenue is now only two percent of total company revenue, the short-term downside is limited. Current conditions are nonetheless unfortunate because they make it unclear when China may return to its role as a source of long-term growth.

The third factor impacting us is OEM demand, which was an aggregate drag on the second quarter. Our more traditional OEM markets in timing, subsystems and embedded components are being impacted by lower Chinese demand and an inventory overhang at a major customer. In addition, demand from our agricultural OEM partners is being impacted by lower demand in the U.S. which is, in the short term, also being impacted by high inventory in the channel. On the positive side, we continue to establish or extend significant new OEM partnerships in construction and agriculture, driven by the need to integrate the machine into the workflow of the connected construction site and the connected farm.

The present, more negative, environment will require us to sharpen our execution, which will emphasize:

- a commitment to the financial model
- a commitment to our long-term strategy
- and a commitment to exiting this period with an improved competitive position

Over the last 20 years, Trimble management has faced similar periods of ambiguity and consistently emphasized these same principles—with a resulting acceleration of performance coming out of the slow period. The balance required to do this is consistent with our core 3-4-3 philosophy, which places equal weight on short-term and long-term results.

Our commitment to maintain and extend our financial model includes a combination of prioritized efforts to capture incremental revenue, optimize the business portfolio and to control costs. For example, by re-directing efforts to upsell our substantial installed user base we can potentially generate additional revenue and loosen our linkage to new equipment sales. Portfolio evaluation is a constant activity within the company but the current uncertainty will place special emphasis on under-performing product lines that are not core to our strategy. Cost control is implicit in our culture and we will methodically look to take structural cost out. For example, we have recently consolidated our autonomy and cloud activities—both to speed outcomes and to ensure cost effectiveness.

In pursuing improved cost effectiveness we will not compromise our three-year core innovation road map—which remains compelling. Beyond our overall focus on transforming workflows in construction, agriculture and transportation through technology, we are intensifying our efforts in focused areas such as autonomy, mixed reality and the cloud. Although we have a role to play in on-road autonomy by providing precise position, our bigger play is in off-road autonomy. Although selected sensor development will be part of our contribution, our primary focus will be on the higher value objective of integrating autonomous machines and tools into the management of the construction or farm site.

I'll let Rob speak to the details. The second quarter, and most probably the third quarter, represent a pause in our secular progression—with a modest rebound expected in the fourth quarter. Nothing has changed structurally or strategically and we remain on course in achieving our objectives.

Rob.

Robert Painter – Senior Vice President and CFO

Thanks Steve.

Let's start on slide 5 with a review of the second quarter results.

Starting with the topline, second quarter total revenue was $856 million, up 8 percent year over year. Breaking that down, currency translation subtracted 2 percent, acquisitions added 7 percent and organic growth was 3 percent. ARR, or annualized recurring revenue, grew to $1.1 billion in the quarter, up 28 percent year over year, and up organically in the low teens.

Gross margin in the second quarter was 56.9 percent, down 40 basis points, which was driven by revenue mix in the quarter. Adjusted EBITDA margin was 23.1 percent in the second quarter, up 10 basis points year over year. Operating income dollars increased 7 percent to $175 million with operating margins of 20.4 percent. Net income was up 3 percent on a year-over-year basis, and earnings per share of $0.53 was up 4 percent year over year, driven by revenue growth, while being offset by higher interest expense and the increase in our non-GAAP tax rate from 19 percent to 20 percent.

For context, on a trailing 12 month, or TTM basis, revenue is up almost 12 percent, EBITDA margins have expanded by 170 basis points, and EPS has increased over 13 percent.

Cash flow from operations was $178 million in the quarter, up 22 percent year to date. Free cash flow, which represents cash flow from operations minus capital expenditures, was $154 million in the quarter, up 24 percent year to date. Cash flow growth has been driven by EBITDA growth and favorable working capital dynamics as our business continues to move towards higher levels of software and recurring revenue content as well as lower M&A expenses and lower tax payments.

Moving to the balance sheet, deferred revenue was $452 million, up 27 percent year over year. This correlates to the increased recurring revenue mix in the business. Net working capital, inclusive of deferred revenue, stands at less than 2 percent of revenue on a trailing 12-month basis.

Next, a few comments on debt and liquidity. We closed the quarter at a gross debt level of just over $1.74 billion and net debt of $1.54 billion, representing 2.08 times net debt to adjusted EBITDA on a TTM basis. We paid down over $150 million of debt in the quarter and have reduced our gross debt by approximately $450 million since we closed the Viewpoint acquisition in the third quarter of 2018. Our S&P credit rating was recently updated to reflect a stable outlook, which we were pleased to see. With our strong cash flow and full availability of our $1.25 billion revolving credit facility, we remain well positioned to weather any economic disruptions and to continue our disciplined capital allocation strategy.

Looking at slide 6, from an overall financial performance perspective, the two standout metrics from the quarter include the $1.1 billion in ARR, which continues to demonstrate strong and consistent growth. And the 24 percent growth in our free cash flow year to date

Moving to slide 7, we have revenue details at the reporting segment level. Overall, revenue was in line with expectations, albeit towards the lower end of the guidance range. Like many other companies, we experienced a significant late quarter slowing trend across some of our businesses and markets. Of note, we continued to see softness in the OEM portion of our Geospatial business, particularly in China. We also experienced continued softness in the North American agriculture market, which continues to be adversely impacted by the trade situation with China, as well as impacts from droughts in Brazil and Australia.

In terms of where we performed better than or according to expectations, I'd like to highlight Buildings and Infrastructure as well as Transportation. In Buildings and Infrastructure, we performed well in the aftermarket in both our civil and building construction businesses. Our SketchUp transition continues to proceed as planned and our Viewpoint and e-Builder acquisitions continue to be in-line with expectations. In Transportation, we had broad-based growth across the portfolio.

Turning to slide 8, we experienced growth of 17 percent in North America, driven by construction and transportation growth in the U.S. In Europe, we experienced growth of 6 percent, driven by construction, transportation and agriculture. In the Asia-Pacific region, we saw a headwind of negative 16 percent, driven primarily by difficult conditions in China, while other major regional markets were mixed on a year-to-date basis. For context, on a TTM basis, revenues in the Asia-Pacific region, excluding China, are up 7 percent year over year. Lastly, in other regions we were flat year over year.

Please now turn to slide 9 for a review of our revenue mix, by type, which is presented on a TTM basis. Software, services and recurring revenues continued to grow, up 27 percent, with organic growth rates in the low teens, and now represent 55 percent of total Trimble revenue. Within that, recurring revenue, which includes both subscription as well as maintenance and support revenues, grew 31 percent year over year, and now represents 32 percent of total Trimble revenue. Software and services grew 22 percent year over year, and hardware contracted by 3 percent, reflecting in large part the recent headwinds in our OEM-related businesses, particularly in China. Finally, I would like to reiterate that we now disclose additional revenue details on the summary tables provided on our investor relations website. These revenue details correspond to the numbers on this slide.

Moving to slide 10 for operating income by segment. Of note, Geospatial margins were primarily impacted by the weakness in our OEM components business in China, whose effects were partially offset by operating expense reduction within Geospatial during the quarter. In Transportation, margins were negatively impacted by spend associated with increased customer support to engage our customers through the software conversion to Electronic Logging Device (ELD) compliance. The standout positive performer in the quarter was Buildings & Infrastructure.

Let's close with guidance and **move to slide 11**. First, a comment on how our management of the business translates into our financial model.

Strategically, we develop end-game visions and strategies. Tactically, Steve reviewed our 3-4-3 model, where we simultaneously assess and balance the model across a timeframe of 3 months, 4 quarters and 3 years.

At our 2018 investor day, we put forward a model that will produce 23 to 24 percent EBITDA margins by 2021. We reiterate our commitment to being well within this range in 2021. Working backwards from 2021, current EBITDA margins on a TTM basis are 22.8 percent. Three comments. First, we will continue to migrate business models towards subscription. Second, we will continue to invest in R&D initiatives such as autonomy and cloud. Third, we will manage our cost structure as well as under-performing parts of the portfolio to position ourselves to meet our long-term commitments.

With that in mind, third quarter and 2019 annual guidance has been reduced to reflect the trends we saw at the end of the second quarter, which we expect to impact demand through the second half of the year. With the prevailing uncertainty, we believe the prudent path forward is to derisk the revenue model and to plan accordingly around that.

For the third quarter, we expect revenue of $789 to $819 million and EPS of $0.45 to $0.49 per share. The third quarter revenue range implies total company growth of minus two percent to plus two percent, with flat organic growth at the midpoint, plus about a point of growth from acquisitions and a negative point of growth from FX due to the continued strengthening of the U.S. dollar.

For the full year, we expect revenue of $3.255 to $3.315 billion, which represents total growth for the year of four to six percent and organic growth of two to four percent, and EPS of $1.91 to $1.99 per share. This implies a fourth quarter where we expect organic growth to modestly rebound. Our assertion is that the second half of the year is more indicative of the environment than a discrete quarter, as we see a pause in the third quarter that will naturally draw down inventory. Further, our fiscal year this year is 53 weeks, which includes an extra week in the fourth quarter. For this same reason, we would expect operating margins to be strongest in the fourth quarter, given that the fourth quarter normally has the highest proportion of software-related revenues, and the extra week will bring in an extra week of recurring revenue with healthy margins.

Projecting a cautious tone for the third quarter and second half of the year, we anticipate the following three discrete aspects:

- One, the combination of drought in Brazil and Australia coupled with trade impacts in the U.S. make for a challenging environment in the Agriculture business
- Two, we expect our OEM-centric businesses, which represent a minority of our revenue, to continue to face headwinds in uncertain macros
- Third, our Transportation customers who are migrating to full ELD software functionality have, in aggregate, backloaded their ELD conversions, meaning our support costs will run higher the next two to three quarters. We will not let our customers down and are committed to their successful migrations.

On the other hand, we are optimistic in a few specific areas as well:

- One, we expect continued growth in ARR, providing us further visibility and predictability into our business
- Two, from a cash-flow perspective, the strong first half of the year has reinforced our expectation that cash flow from operations and free cash flow will comfortably exceed net income during 2019, and that cash flow from operations will exceed net income
- Three, we expect that cost containment measures that we have begun in the third quarter will begin to materialize in the fourth quarter and into 2020

Let’s now take your questions.