Trimble Connect for HoloLens: *Merging digital information in the context of the physical world allows field workers to perform with greater speed and accuracy.*

4th Quarter and Year End 2018 Earnings Conference Call Prepared Remarks

February 6, 2018

Trimble Corporate Participants

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

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Presentation

Michael Leyba – Director of Investor Relations

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

I would also like to briefly mention that during the month of February, we will be attending the Goldman Sachs Technology and Internet Conference on February 12 in San Francisco, as well as the Morgan Stanley Technology Media and Telecom Conference on February 25, also in San Francisco.

With that, **please turn to slide 4**, and I will turn the call over to Steve.

Steven W. Berglund – President and CEO

Good afternoon.

In most respects the fourth quarter and total year 2018 results represent record levels in Trimble's 40-year history and provide a strong platform for 2019 and beyond. Fourth quarter revenue grew by 13.1 percent and total year revenue by 18.2 percent. The changing company model, with growing software and services, was reflected in a significant gross margin improvement—which expanded 4.2 points in the quarter and 2.3 points for the year with a gross margin of 58 percent for the total year. Together with tight cost control, this improvement drove a remarkable operating leverage of 56 percent in the quarter and a strong 36 percent for the total year. As a result, operating margin grew 4.6 points in the quarter and 2.8 points for the total year.

On the surface, the quality of our financial model compares favorably to the levels we achieved in 2013 and 2014—before we encountered the negative impact of agricultural and energy commodity price changes. In reality, the portfolio of today represents significantly more balance, resiliency and growth potential. In particular, we are much less reliant today on the resources and utilities and geospatial segments. In 2013, the combined revenue of those two segments accounted for 53 percent of the company total; in 2018 it was 41 percent. More importantly, during the same period the two segments moved from 65 percent of total operating income in 2013 to 46 percent. The portfolio is also demonstrating rapid progress in business model conversion with over 50 percent of 2018 revenue coming from software and services. This change is reflected in our closing 2018 annualized recurring revenue (ARR) balance of over one billion dollars.

Clearly, 2018 was a year in which the stars were well aligned:

- every vertical market generated revenue and margin growth and demonstrated strategic progression;
- almost every region produced robust growth;
- and our OEM sales added incremental growth to our core end-user markets.

The year was also notable for the substantial progress we made in creating the strategic end state in the Buildings and Infrastructure segment with the acquisitions of e-Builder and Viewpoint. These aggressive actions reinforce a unique position around a strong bundle of value in the construction market—with an enhanced position in project management, extensive relationships with project owners and an information backbone that enables real-time access to all the information needed to operate a construction enterprise.

We received validation of this strategy in the fourth quarter through our flagship users' conference, Dimensions. We had more than 4,800 participants—with over 2,000 of them attending our offsite, hands-on demonstration area with 60 machines from 28 OEMs. We took the opportunity to demonstrate operational examples of autonomous compactors and dozers as well as numerous examples of practical mixed reality and machine learning. There are some pictures from the conference shown on today's agenda slide as well as a hyperlink that shows the technology in use.

Beyond the objective merits of the e-Builder and Viewpoint acquisitions, I am gratified by their rapid engagement with, and intense participation in, our efforts to execute a unified strategy. Together, we continue to discover both strategic and budgetary synergies, which create a much augmented ability to establish a unique and enhanced solution for the construction industry.

As we noted last quarter, the relatively unique positive environmental alignment in 2018 began to show some cracks as the year came to a close. The fourth quarter provided some key points to watch in 2019, including the impact of trade policy on U.S. farmers, reduced or deferred demand from the U.S. government, the combined effects of Brexit and slower Chinese growth on European exports and growth, and reduced demand from OEMs. Two additional effects impacting 2019 will be the accounting effects of our accelerating conversion to subscription models and the impact of the stronger dollar. Pending better clarity we have adopted a generally conservative forecasting stance on these issues for 2019—with potential upside if any of these issues are resolved early. Rob will speak more specifically to each of these points.

A point of differentiation between us and many companies that have reported recently is that we are not attributing a change in growth trajectory to the Chinese market. Although Chinese revenue growth was disappointing in 2018, partly as a result of the reaction to U.S. trade policy, other regions have grown much more rapidly than China in the last few years and current Chinese revenues in 2018 represented less than 3 percent of total revenue—with diminished potential impact on the aggregate result. Resolution of trade tensions will create a net upside for us.

We remain committed to the long-term model we described last year—with organic growth of 6 to 9 percent per year over a cycle, plus an additional 3 percent per year from acquisitions. Our targeted operating leverage can be expected to convert this revenue growth into increasing EBITDA margins. This view on growth is shaped by our central strategic concept of "performance to potential," which focuses on the penetration of underserved markets. This moves us beyond simple considerations of GDP or industry growth and leads to the expectation of growth rates larger than standard economic or industry metrics—with increased resistance to cyclical downturns. Our strategic focus remains on the end user, not on OEMs—which represented approximately 15 percent of 2018 revenue. Our OEM strategy is either opportunistic or an element of a more extended go-to-market strategy.

We remain bullish on the Building and Infrastructure segment with some puts and takes regionally. We continue to see the civil engineering end-user market as a double-digit growth worldwide market, supported by a generally positive economy and reinforced by our initiatives in under-penetrated market segments and machine types. We are also marginally more optimistic than we were three months ago that the U.S. Congress could move on an infrastructure bill. The growth outlook for vertical construction also remains attractive although we are faced with two factors more impactful to that business than other Trimble businesses—one being unfavorable exchange rate effects in 2019 and the other being the multi-year revenue accounting effects as we convert more of the business to a subscription model.

The Resources and Utilities segment's short-term outlook will be determined, to some extent, by the duration of the U.S./Chinese trade dispute. U.S. farmers are demonstrating nervousness about the effects of lower Chinese demand for agricultural products and are showing some hesitancy about investing in their operations without more clarity. Longer term we are confident about the agricultural market potential—driven by worldwide demographics, the potential of variable rate technology and the convergence of hardware and software into complete workflow solutions.

The Transportation segment's short-term outlook is positive, driven, in part, by the second phase of the Electronic Logging Device (ELD) mandate. We anticipate longer-term growth as we address the industry's remaining challenges—including the improvement of transparency between the shipper and fleet operators. We also have additional growth potential available through worldwide expansion.

The Geospatial segment may have more moderate growth prospects than the other segments but, nonetheless, has meaningful three-year growth potential driven by the technology replacement cycle, the creation of new classes of product through innovation, alternative business models featuring hardware as a service and the inclusion of Trimble technology in autonomy solutions.

Our view on the regions also remains generally positive. We view our U.S. markets positively through 2019, with a qualification relative to the trade-induced ambiguity in agriculture. Europe, although still producing double-digit organic growth, is accumulating more questions and our outlook has become somewhat more conservative. Russia remains a country with significant potential but brings with it some volatility and challenges. Brazil is a significant and attractive market for us, currently driven by agriculture but with new potential in transportation, enabled by our Veltec acquisition. Although too soon to tell, the Brazilian regime change has potentially improved three-year prospects for construction. India had a very strong 2018 and we expect the country to be a significant contributor to results in the next three years. Africa is a small contributor at this point, and is inherently a complex market, but with meaningful three-year potential. China is a significant three-year question, pending improved clarification of trade policy and rules of engagement.

In summary, we are coming out of the most successful Trimble year ever with excellent strategic positioning, significant market momentum and an organization focused on performing to our potential.

Let me turn the call over to Rob.

Robert Painter – Senior Vice President and CFO

Thanks Steve. In my commentary, I will review the results for both the fourth quarter and the total year of 2018 before closing with guidance.

Starting on slide 5, fourth quarter total revenue was $793 million on a non-GAAP basis, up 13 percent year over year, and at the lower end of our guidance range. Breaking that down, currency translation subtracted 1 percent and acquisitions net of divestitures added 10 percent. Organic growth was 4 percent. ARR, or annualized recurring revenue, grew to $1.05 billion in the quarter, up 36 percent year over year.

Gross margin in the fourth quarter was 59.5 percent, up 420 basis points year over year, reflecting favorable pricing dynamics, as well as favorable product mix, which was driven both organically and inorganically. Gross margin was clearly a standout dynamic in the quarter. For the year, we delivered a 230 basis point year-over-year improvement in gross margins.

The adjusted EBITDA margin, which includes income from our joint ventures and equity investments, was 23.6 percent in the fourth quarter, up 430 basis points year over year. Operating income dollars increased 43 percent to $172 million, with operating margins increasing 460 basis points to 21.7 percent. Our non-GAAP tax rate declined from 23 percent to 19 percent year over year, driven by U.S. tax reform. Net income was up 31 percent and non-GAAP earnings per share in the fourth quarter were $0.48 cents, up 11 cents, or 30 percent, year over year.

Commensurate with our low capital intensity and attractive cash generation profile of the business, deferred revenue was up 40 percent year over year, and net working capital, inclusive of deferred revenue, was approximately 3 percent of our trailing twelve month revenue. Cash flow from operations was $102 million, down 5 percent year over year, which was driven by the timing of a $30 million cash interest payment. Otherwise, cash flow from operations would have been up year over year.

We closed the quarter at a gross debt level of over $1.9 billion, and net debt of just under $1.8 billion, representing about 2.5 times net debt to adjusted EBITDA on a trailing 12-month basis, which is more than 3 quarters ahead of our original deleveraging plan. If a full 12 months of EBITDA from e-Builder and Viewpoint were incorporated, that metric would be lower still. Our balance sheet remains demonstrably strong, and provides us with flexibility to simultaneously consider a range of capital allocation actions. We expect to continue to de-lever and pursue modest share buybacks, while having dry-powder deployable for attractive acquisition opportunities. During the fourth quarter, we also completed the acquisition of Veltec and we repurchased 1.1 million Trimble shares.

Let’s next put the fourth quarter into context of the overall year, as the performance in any singular quarter is incomplete, by definition. **Turning to slide 6**, when looking at the total year for additional perspective, we view 2018 as a very strong year. Revenue grew 18 percent overall and 9 percent organically. Gross margins expanded 230 basis points to 58 percent. With approximately 36 percent operating leverage for the year, operating margins expanded 280 basis points to 20.6 percent. EBITDA margins expanded 240 basis points to 22.6 percent. And EPS grew 49 cents, or 34 percent, to $1.94 cents, exceeding the guidance ranges that were previously provided at our analyst day and during our third quarter earnings call. Lastly, our 2018 cash flow from operations was up 13 percent on a year-over-year basis and near $500M, driven by the growth in net income and deferred revenue, partially offset by increased working capital.

Turning to page 7, the eight listed metrics are financially representative of our identity as a technology company. From revenue mix, growth, contracted backlog and our low capital intensity, our metrics demonstrate the strength of the Trimble financial model.

Turning now to slide 8, let’s go through the revenue details at the reporting segment level, which are presented on a year-over-year basis.

Buildings and Infrastructure delivered 7 percent organic growth, with double-digit growth in the building construction business and the civil construction business down slightly. Our BIM-centric building construction businesses continued growth across the portfolio and across all major regions. In civil construction, the discrete negative impact was from U.S. government sales, which we expect to continue into the first part of 2019. The underlying end-user field sales growth remained strong in the business, reflecting the strength of our distribution network and new product introductions.

Geospatial delivered 3 percent organic revenue growth, with end-user demand exceeding this number and OEM-centric businesses slightly down.

Resources and Utilities was flat on an organic basis. Our OEM business was up based on new OEM partners. Variable rate technology was also up. The end-user business was down and is a story of geography. North and South America were up, both benefiting from go-to-market actions. Whereas Asia Pacific was down, driven by the drought in Australia. And our Europe business had a tough comp as well as some discrete issues in Ukraine. Put in context of the year, the business had a solid year of growth.

Finally, the Transportation business produced 4 percent organic growth, with growth in subscription revenues above this level, offset by lower new unit hardware demand that drove the comparable number in the fourth quarter of 2017.

Moving next to slide 9, let’s give an update on our Viewpoint and e-Builder acquisitions. Steve covered the strategic rationale in his commentary and how these capabilities are enabling us to strengthen our reach to contractors and owners, as we link the constructible model to project delivery. Both businesses have outperformed expectations since acquisition, including strong bookings growth in 2018 that provides us a high degree of visibility into 2019 financials. In the e-Builder business, we moved Trimble’s program management solutions under the e-Builder management team to rationalize our product and go-to-market strategies. In the case of Viewpoint, the transition from license to subscription is ahead of plan. The customer-driven strategy of selling an integrated Office Team and Field offering, which is packaged as Viewpoint ONE, is demonstrating that general contractors value having mobility and project delivery capabilities bundled with their construction management system. Further, we announced a transfer of the MEP business from Viewpoint into the larger Trimble MEP business to help us drive a unified workflow between the job costing system resident in an ERP solution with the estimating and constructible design capabilities of the Trimble MEP software. Looking at our combined capabilities, we are driving customer success by integrating workflows, and we have made tactical progress to motivate joint-selling efforts across the businesses.

Slide 10 provides an overview of the geographic revenue mix. Between the relative strength of the U.S. economy and the North American centricity of recent acquisitions, we again see the portfolio mix tilting towards North America in the quarter. The trailing 12-month performance reflects the strength we’ve also seen out of Europe. In Asia-Pacific, Steve commented earlier on China, and I commented on the impact of the drought in Australia. India outperformed both in the quarter and for the year. In Rest of World, Brazil was the standout performer.

Let's turn to slide 11 and look at our trailing 12-month revenue mix, by type. We grew to a level of 52 percent, or $1.6 billion dollars, of software, services and recurring revenue, and 48 percent hardware. This is a significant milestone for Trimble, as this is the first year we have crossed the 50-percent threshold. Within the software revenue elements, recurring revenue, which is mainly comprised of subscription revenue and support and maintenance agreements, stands at $935 million, or 30 percent of total revenue. Software and services, which is mainly comprised of perpetual and term licenses as well as professional services, represents $680 million of revenue. Each software-oriented revenue type grew double digit, with hardware growing high single digit, reflecting strength across the entire business, in addition to acquisitions.

Moving now to slide 12, let's go through the operating income details at a reporting segment level. Operating income growth drivers were similar across each of the reporting segments, where gross margins expanded based on product mix and pricing. When combined with operating expense management, this enabled us to significantly expand our operating margins in every reporting segment and over 460 basis points at a Company level, as compared to the fourth quarter of last year.

I will now close with guidance, which excludes the impact of any future acquisitions or divestitures. Overall, we believe the company is positioned for solid growth in 2019 following a very strong 2018, with a continued shift toward software and subscription revenues and margin expansion ahead of the target model we set out at investor day. The margin expansion we are seeing reflects the resiliency of our model and the actions we have taken over the last few years to balance our market exposure, exit non-core activities, shift our business towards software, and control our operating expenses.

Turning to page 13, for the first quarter, we expect non-GAAP revenue of $795 to $820 million and EPS of $0.44 to $0.48 cents per share.

The first quarter revenue range assumes total company growth of 7 to 10 percent, with organic growth in the 3 to 5 percent range, plus 6 to 7 percent from acquisitions, less 2 percent from FX due to the strengthening of the U.S. dollar. The earnings per share range also incorporate an updated 20 percent non-GAAP tax rate, reflecting our expectation on geographic profitability mix.

To bridge this revenue range against our long-term model, as Steve discussed, our strategic focus as a Company is centered around end users, where we believe the growth drivers are secular in nature. Throughout 2018, the growth of our end-user businesses fit the target model, and we expect this demand pattern to continue into 2019. In the first quarter, three discrete elements moderating total company revenue growth expectations include: 1) Government orders and our OEM-centric businesses; 2) Agriculture weakness in some markets, which we largely attribute to trade and tariff considerations; and 3) the acceleration towards subscription revenue, primarily in our construction business and secondarily in our transportation business. In fact, our SketchUp business has officially launched their subscription model today. This revenue conversion is definitively the right thing to do for the business and we believe will further fuel our ARR growth.

With the first quarter as context, our current 2019 full-year view estimates total company growth at 6 to 10 percent; with organic growth in the 4 to 7 percent range, plus 3 to 4 percent growth from recent acquisitions, less 1 percent from FX impact. Please note that in the second half of 2019 that Viewpoint flips to the organic category and positively moves the needle on the total company organic growth. With the incremental uncertainties we mentioned, our view is that the prudent course of action is to remain cautious here at the beginning of the year and continually assess patterns as we progress through the year. We expect gross margins overall to be slightly up on a year-over-year basis and we expect to manage operating expenses to deliver 25 to 30 percent operating leverage. We expect a strong year from a cash-flow perspective, with cash flow from operations above non-GAAP net income, and reduced working capital. We currently anticipate about half of our cash flow will be directed towards debt paydown, which would keep us well ahead of our de-leveraging plan. On that basis, we expect interest expense to decrease as we progress through the year, with overall interest expense in the range of $80 million. Equity income is expected to grow to approximately $35 million. Under those assumptions, and using a 20 percent non-GAAP tax rate for the year, we expect EPS growth in the high-single digits for the full year, delivering single-digit growth in the first half of the year, and double-digit growth in the back half of the year. Were it not for the subscription conversion, operating leverage and EPS growth would be higher.

Let me close as Steve began. 2018 represented a record year of performance for Trimble and provides a strong platform for 2019 and beyond.

Let's now take your questions.