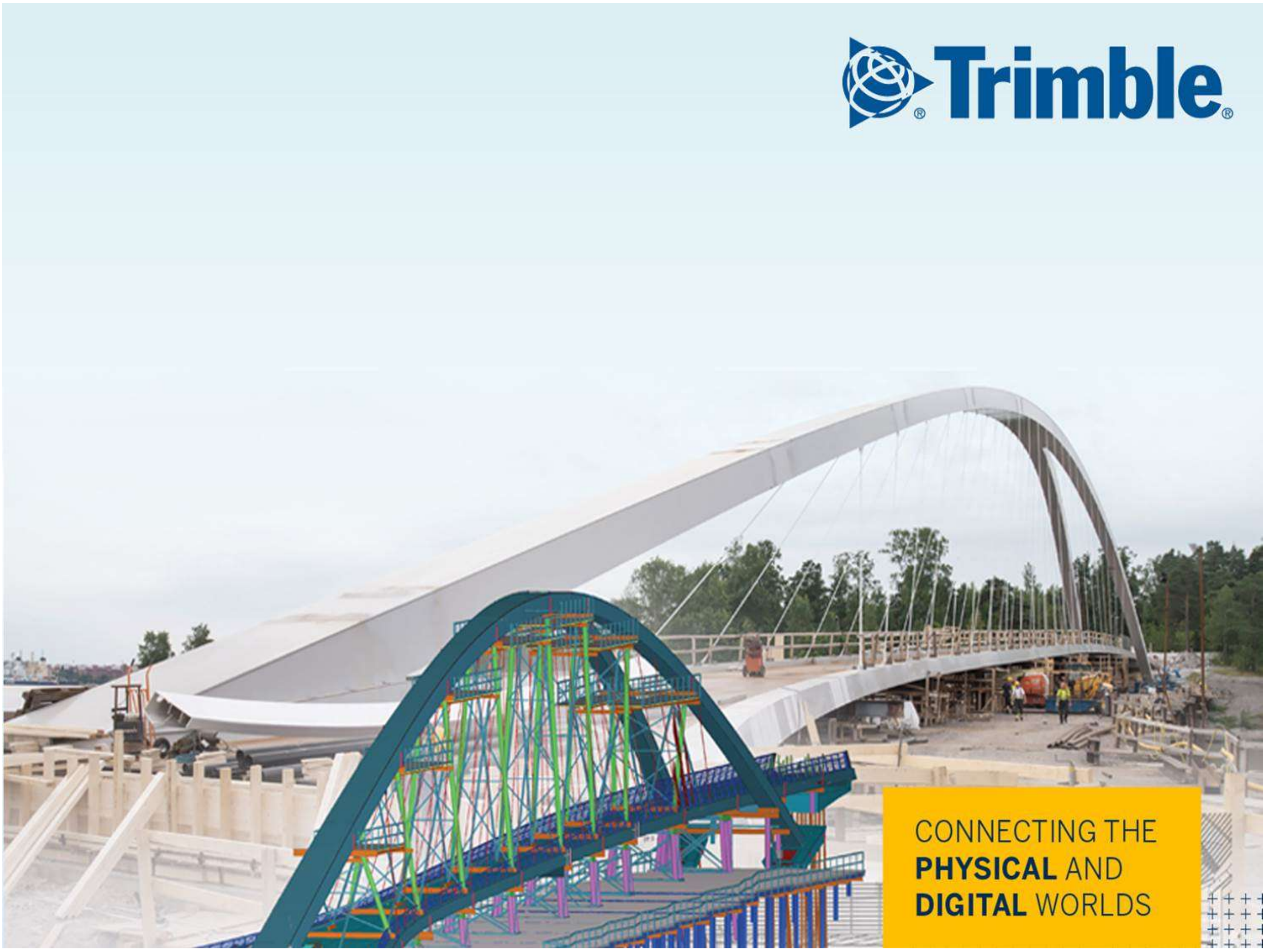

2nd Quarter 2018 Earnings Conference Call Transcript

August 1, 2018

Trimble Corporate Participants

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

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. 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 we will be attending the Raymond James SMID Cap Growth Conference on August 21 in Chicago, and the JP Morgan All-Stars Conference on September 18 in London.

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

Steven W. Berglund – President and CEO

Good afternoon.

I will start by commenting on the quarter's results and then report on progress on some of the themes we laid out at the Investor Day in May. I will loosely follow the content starting on slide 4.

This quarter's narrative remains more or less the same as those of the last year - emphasizing strength across both businesses and regions. Reported revenue growth was 19 percent, with organic revenue growth remaining in double digits. Reported non-GAAP operating margins improved by 2.6 points versus the second quarter last year.

An even more positive perspective is to look at our fundamental operating performance without the effects of acquisitions made in the last year. This organic view reflects year to year non-GAAP operating margin expansion of over 3 points and operating leverage of over 45 percent. This operational strength reinforces our view that we are both leveraging current market success into a more robust financial model, while we simultaneously add strategic muscle through internal developments and selective acquisitions.

A current consideration revolves around tariff actions and the associated rhetoric. Although we have been negatively affected by the imposition of U.S. tariffs on imports from China, the effect is not material to overall results. If the environment continues to shift, we are well positioned to deal with changing circumstances. Our robust international supply chain will enable us to flex and mitigate effects. In addition to managing the supply chain, we will also be able to adapt to shifts in international demand patterns. For example, if Brazil replaces the U.S. as the provider to China for certain agricultural crops, we will be able to benefit from the ramp-up of Brazilian farms.

Another point of general observation is that the Trimble portfolio has a healthier balance than at any point in Trimble's history and will be resilient in the face of downturns for specific industries. That said, when we look at our major franchises, we see no signs of pending slowdown in the market for construction technology, particularly as our direct exposure to machine sales has declined, in a relative sense, with increased software content. Agricultural indicators relating to commodity prices and new machine sales remain down from historical levels and do not present many obvious downside possibilities. Trimble's transportation market, which is currently strong, is generally resistant to industry cycles, because technology implementation tends to be driven by multi-year decision making and fleet technology upgrades are not directly tied to new truck sales. The geospatial segment, when compared to 2015, has a lower relative exposure to oil and gas and a generally more diverse book of business.

At the Investor Day, we laid out the path for achieving long term annual growth in the range of 9 to 12 percent. These levels of growth result from our central role in pioneering the digitization of targeted large and mature industries. Our market leadership is enabled by our unique capability to connect the physical and digital worlds, together with our deep domain knowledge. This combination allows us to provide highly innovative solutions explicitly tailored to our targeted markets.

We believe we have the elements in place to execute our strategy. Our priority is therefore on execution and our objective is to "perform to our potential." At the Investor Day, we quantified the size of our addressable markets and the significant opportunity available to us to penetrate these markets. Our internal measures of success are therefore focused on progress in market penetration, rather than a more budgetary view of incremental improvement. The other internal execution focus is around a concept we call 3-4-3 which refers to the time periods of three months, four quarters and three years. It is intended to avoid the incrementalism of a quarterly focus and to ensure that our three year execution carries equal importance with current quarter results.

Our execution focus includes six elements.

- The first is our continuing focus on markets and product lines that can produce growth and profits. Our continuous evaluation of the sources of success has resulted in an ongoing pruning of under-performing product lines and initiatives that cannot be fixed in a reasonable time period. Although these activities have been incremental and generally fall below the materiality radar screen, the aggregate effect has contributed to margin improvement and will contribute more in the future.

- The second execution element is a focus on achieving tangible benefits from cross company collaboration. One benefit of collaboration is in sharing technologies and products to leverage our scale and expertise. The other benefit is the creation of unique market opportunities. Let me provide two practical examples - one opportunistic, the other more strategic. We have owned ALK since 2013 and include its results within the transportation segment. ALK provides maps with extended attributes, generally targeted at commercial transportation applications. Since virtually all Trimble businesses require maps of one type or another, ALK has become a provider of maps to most other Trimble businesses and enabled us to regard the map as part of a unique and differentiated solution. An alternative, more strategic, example of the potential of collaboration exists within Brazilian agriculture. I was recently in Brazil and visited both large farms and plantation forests. The scale of these operations is accurately described as gigantic. Without any meaningful government support, these operations are directly exposed to market forces and must rely heavily on technological innovation to remain competitive. This need for technology extends beyond farming operations to elements of infrastructure, logistics and processing, and will result in a need for solutions from all four Trimble segments. By providing a complete and unified technology strategy to these operators, Trimble can achieve both a special relationship and a significant competitive advantage.

- The third point of execution focus is on implementing the 3-4-3 program and closely linking three year end game objectives to current actions. We are evolving, and emphasizing, a management process that focuses on the link of future outcomes to current actions. We are using strategic planning and execution tools, such as Hoshin, throughout the organization to achieve appropriate levels of transparency and discipline.

- The fourth execution element is a pro-active effort to transition our business models. The most obvious initiative, which Rob will highlight, is the intention to transition more businesses to a subscription model. Beyond the move to subscriptions, other related elements include a more comprehensive reliance on cloud based architectures, bundled pricing and hardware as a service.

- The fifth point of execution focus is achieving effective leverage from our recent acquisitions, most notably Mueller, e-Builder and Viewpoint. Mueller, which has been in the portfolio for a year, is performing as expected with significant efforts underway in collaborative product development and market initiatives. It is clear that Mueller has been able to access market segments that were previously denied to it by leveraging the Trimble presence. On the other side, Trimble has achieved greater access to agricultural OEMs through the historical Mueller network.

  The early signs are that the combined elements of e-Builder, Viewpoint and existing Trimble construction software are performing on or above target. More importantly, all three organizations have identified significant market upsides that are available through collaboration. With the completed acquisition of Viewpoint, we are now engaged in developing and deploying a comprehensive plan of action.

- The sixth point of consideration is innovation - which is at the heart of any future Trimble success. We spent approximately 14 percent of revenue on R&D during the trailing 12 months and expect to maintain it at that relative level to feed revenue growth and operating leverage. Our innovation efforts are targeted at the ongoing transformation of the construction, agriculture and transportation industries with emerging opportunities to include new technology classes, such as augmented reality, autonomy and blockchain, in those solution sets.

Before turning the call over to Rob, let me emphasize that in many ways the relative operating performance in the quarter represents the most impressive performance in Trimble's history and is a credit to Trimble's employees' commitment to improve. We expect to follow with more quarters of strong performance.

Rob…

Robert Painter – Senior Vice President and CFO

Thank you all for joining us today. Our second quarter performance was strong and ahead of expectations. Looking at our results for the first and second quarters, we remain favorably positioned in the market and we are raising guidance for the year.

Let's start on slide 7 with a review of the second quarter results.

Topline and bottom line results came in ahead of plan, meeting or significantly exceeding expectations in all reporting segments.

Second quarter total revenue was about $786 million, up 19 percent year over year. Breaking that down, currency translation added about 2 percent and acquisitions added about 5 percent. Organic growth was approximately 12 percent.

Second quarter gross margins were 57.1 percent, up 180 basis points year over year, reflecting favorable product mix as well as favorable pricing dynamics.

During investor day we said we would start to introduce some new metrics to investors. Adjusted EBITDA is now on this table and is relevant as it captures the income from our joint ventures and equity investments. We delivered EBITDA of 22.7 percent in the second quarter, up 200 basis points year over year. Operating income dollars increased 36 percent to approximately $160 million, with operating margin increasing 260 basis points to 20.4 percent. Our non-GAAP tax rate declined from 23 to 19 percent year over year, reflecting U.S. tax reform. Our net income was up about 36 percent and non-GAAP earnings per share in the second quarter were $0.50 cents, up 14 cents, or 39 percent, year over year.

Reflecting the strong cash flow profile of the company, deferred revenue was up 16 percent year over year, and net working capital including the deferred revenue was less than 3 percent of trailing twelve month revenue. Cash flow from operations was approximately $185M and was up 24 percent year over year.

To cover our debt profile, in anticipation of the July 2 deal closure of Viewpoint, in the month of June we entered into new credit facilities and raised $900 million of bonds. In connection with the closing of Viewpoint, we drew down on those credit facilities. We currently stand at gross debt of $2.2 billion, and net debt of $1.9 billion, which represents 3.2 times net debt to adjusted EBITDA on a trailing 12 month basis, which is ahead of plan and favorable relative to what we previously communicated. We retained our investment grade rating and we remain committed to de-levering the balance sheet.

Turning now to slide 8, let's go through the revenue details at the reporting segment level.

Revenue was up double-digit organically in each segment, with building and infrastructure leading the way with about 15 percent organic growth and the other three reporting segments each posting about 10 percent organic growth. In short, all reporting segments and all major geographies continued to perform. Furthermore, our recent acquisitions, including e-Builder, collectively performed ahead of expectations. Recognizing that the performance of any individual quarter alone is incomplete, we will also start sharing trailing twelve month performance looking back both 1 and 3 years. In short, on a three year basis, our performance fits the growth model we talked about at investor day, with clear acceleration over the last year.

Slide 9 provides the geographic revenue mix in the Company.

The Mueller acquisition, in combination with organic growth in Europe, shifted our mix towards Europe this quarter as compared to same quarter last year. On a longitudinal basis, our addressable market analysis points towards attractive penetration opportunities outside of North America, and we seek to further diversify this revenue base in the years to come.

While we are talking about geographies, let me add a little color to Steve's comments on trade and tariffs related to China. From a tariff perspective, we estimate our exposed revenue to U.S. imports from China to be less than one quarter of one percent. From a trade perspective, China represents less than 5 percent of company revenue. While our institutional view is that tariffs and obstacles to trade are a definitive negative, we feel the current situation is within our ability to manage.

Let's turn to slide 10 and look at our revenue mix by type, on a trailing 12 month basis.

Our revenue mix is comprised of 52 percent hardware and 48 percent, or $1.4 billion dollars, of software, services and recurring revenue. That $1.4 billion breaks down into recurring revenue and software & services revenue. Recurring revenue, which is mainly comprised of subscription revenue and support & maintenance agreements, is now over $790 million on a trailing 12 month basis, or 27 percent of total revenue. Software & services, which is mainly comprised of perpetual and term licenses, as well as professional services, represents $590 million of revenue on a trailing 12 month basis. Each revenue type continues to grow double digit, reflecting strength across the entire business.

The move towards software and recurring revenue streams is one of the topics that we are most often asked about our business. At investor day we said that with the inclusion of Viewpoint that we believe we will cross the 50 percent threshold in 2018 and that by 2021 we would have approximately 55 percent, or over $2 billion in revenue from software, services and recurring. These numbers are highlighted on slide 4.

From a software revenue mix perspective, we continue to see more of our software moving towards subscription business model offerings. For example, we've previously disclosed that our SketchUp business will move to SaaS starting at the end of this year. And products such as our Tekla Structures software in Buildings and TMW in Transportation have subscription add-on offerings. We've identified a number of areas where we will intensify the pivot towards subscription. As we assess the pace and impact of the conversion, we will refine and communicate any associated impacts on our mid to long range business model.

Moving now to slide 11, let's go through the operating income details at a reporting segment level.

At a company level, operating income was 20.4 percent with operating leverage of 34 percent. Excluding acquisitions, operating income was over 21 percent, with operating leverage of greater than 45 percent. Drivers of margin expansion 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 expand our operating margins.

Parallel to the commentary on revenue, we are also disclosing our trailing twelve month operating income performance, looking back both 1 and 3 years. Just like revenue, on a three year basis, our performance fits the growth model we talked about at investor day, with clear acceleration over the last year.

Turning to slide 12, the seven metrics listed here are financially representative of our identity as a technology company. From revenue mix, growth, contracted backlog and our low capital intensity, our metrics conform to those of technology companies. Beginning in the third quarter, we anticipate beginning to disclose annualized recurring revenue as an additional important software metric.

Turning to slide 13, the most non-linear event of 2018 for Trimble has been the capital deployment put towards acquiring e-Builder and Viewpoint. In addition to Mueller, these represent our largest outlay of capital in our history. Steve already commented on positive performance we've seen from Mueller over the past year.

The e-Builder acquisition closed in February, and we remain very bullish on the business and the market opportunity. Revenue and profitability have exceeded our plan thus far. The market is validating the strength of the business, as evidenced by subscription bookings growing over 30 percent on a year to date basis, which also positions the business to extend its performance into next year. Customers are validating the technology, as measured by double digit increases in the usage of the product, as well as a net retention ratio that exceeds 100 percent.

The Viewpoint acquisition closed on July 2, and the business comes into Trimble with momentum. The Viewpoint business already has over 70 percent recurring revenue and has been pivoting to a subscription based model with its Office Team and Field offering. Greater than 70 percent of new bookings in the second quarter were subscriptions and the subscription bookings have grown approximately 70 percent on an YTD basis. Coming into Trimble, the revenue and profitability are ahead of our previously disclosed expectations. Customers continue to validate the attractiveness of the combination and are already showing us possibilities we previously did not see, such as integration of data feeds from our transportation business into the construction ERP systems. The Office Team and Field strategy of providing a strong value proposition of an extended construction management solution is taking hold, with a high attach rate of Team and Field solutions on top of the core Office technology. In addition, product innovation continues, with drawing functionality recently released, which increases the strength of the project management offering in the Team solution.

To anchor this momentum back to strategy, when we did both of these deals, we framed that we saw competitive dynamics moving fast and that we could be spectator or participant. The last weeks and months of M&A activity in the space have validated this hypothesis and affirmed acquisition premiums. When we combine Trimble's field and constructible model workflows with Viewpoint's construction management software and e-Builder's strength managing capital programs for owners, we believe we have the ingredients for a disruptive industry platform which can enable true construction project information transparency between owners, general contractors, and trade contractors. We now have a construction business with over $1 billion in annual pro-forma run rate revenue, with more than 60 percent of that revenue being software related.

Let's now close with guidance on slide 14. We are moving the company to a non-GAAP revenue guidance measurement. When we publish our third quarter actuals, we will also be updating our first and second quarter non-GAAP actual results to reflect this common measurement. This measurement will eliminate the noise associated with negative purchase accounting effects that are most pronounced with software acquisitions and will enable us to provide increased transparency to the underlying performance of the business.

As mentioned at the beginning of my remarks, looking at our results for the first and second quarters, we remain favorably positioned in the market, and as such, we are raising guidance for the year.

For the third quarter, we expect non-GAAP revenue to be between \$795-\$825 million and EPS between \$0.43 and \$0.47 per share.

For the year, we are raising guidance to \$3.14 to \$3.19 billion, up from previous levels of \$3.12 to \$3.17 billion. And we are raising EPS to \$1.81 to \$1.89 per share, up from \$1.72 to \$1.82 per share.

Three comments:

First, the annual range does not include the anticipated benefits of non-GAAP revenue adjustments in the first and second quarters.

Second, whereas foreign currency translation represented a tailwind to year over year revenue in the first half of the year, at current rates we expect the second half of the year to have a minor negative impact to revenue, which is reflected in our updated guidance. Currency translation does not materially impact our EPS guidance.

Third, the Viewpoint impact. We expect to add a little under \$50 million of non-GAAP revenue in each of the third and fourth quarters, with operating margins in the 20 percent range. Including the incremental interest expense of \$12-\$13 million per quarter, we expect the net impact to be slightly dilutive to EPS in the short-term. We believe we are on a path to achieve earnings accretion ahead of plan in 2019.

Let’s now take your questions.