Trimble offers digital solutions for civil construction combined with rugged, field-proven hardware to transform work across the project lifecycle for engineers and contractors. Solutions include planning and design software, precision machine control, site positioning systems, mobile technologies and real-time connectivity that deliver significant improvements in productivity.

1st Quarter Earnings Conference Call Prepared Remarks

May 1, 2019

Trimble Corporate Participants

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

Trimble
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 May we will be attending the JP Morgan Global Technology, Media and Communications Conference on May 14 in Boston as well as the Goldman Sachs Industrials and Materials Conference on May 15 in New York.

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

Steven W. Berglund – President and CEO

Good afternoon.

We delivered, in most respects, the quarter we anticipated three months ago. Compared to prior year, revenue of $805 million was up 8.0 percent, annualized recurring revenue of $1.07 billion was up 30 percent, adjusted EBITDA of 21.4 percent was up 60 basis points, and trailing 12-month free cash flow was up 38 percent. We continue to expect that growth and profitability metrics will be relatively stronger in the second half of the year than the first half.

The quarterly results provide further evidence of the ongoing transition of the Trimble business model towards increased software content—with a growing proportion of that in the form of subscriptions. Although the change is taking place through relatively small quarterly increments, the aggregated multi-year effect is transformational.

Rob will speak more specifically to the rest of the year but a summary view is that the Building and Infrastructure and Transportation segments both continue to operate in healthy markets, the Geospatial segment is challenged by slower OEM demand, and Resources and Utilities is currently constrained by a U.S. agricultural market, which is suffering from trade dispute induced uncertainty.

Although revenue growth was at the low end of our strategic growth model, ignoring exchange rate effects, we believe the fundamentals continue to support our long-term expectation of 9 to 12 percent of combined organic and inorganic revenue growth. This optimism is driven by our estimate of the penetration still available to us in our targeted markets, which allows us to expect higher growth than standard GDP or industry-specific growth metrics.

Innovation remains our principal mechanism to achieve market penetration and above-average growth. Our three points of emphasis on innovation are to increase our reliance on platform technologies that have utility across the company, to use those platforms to create solutions that are targeted at individual vertical markets and to discipline that innovation within our management construct of 3-4-3, which places equal weighting on performance in the next three months, the next year and the next three years.

Our innovation consists of a combination of transformative point solutions, which are targeted at individual operations within the workflow and on comprehensive information solutions that unify office and field workflows. Beyond that, our competency in both hardware and software allows us to create value by integrating the physical and digital worlds into unique solutions.

This strategic agenda was advanced through a number of actions in the quarter. Although the list is not complete, it is representative of Trimble's ability to bring together different elements to create unique and powerful solutions.

- In the Buildings and Infrastructure segment the recent e-Builder and Viewpoint acquisitions continue to enable our objective of reinventing project delivery in construction by transforming work flows through a constructible model. The two acquisitions are now embedded within an integrated Trimble market concept, which is delivering a continuous flow of incremental functionality to the market.
- The Buildings and Infrastructure segment also had two significant product launches. One was the beta release of WorksManager, which is cloud software that creates a two-way inter-link between the digital design in the office and machines in the field. The other meaningful product announcement was the XR10 with HoloLens 2. This is a mixed-reality device in a hard hat that allows an on-site construction worker to utilize mixed reality and Trimble's unique construction workflows on the worksite. Both technologies emphasize Trimble's comfort in both the digital and physical worlds—a source of relative advantage.
- In the Resources and Utilities segment, we released our first version of Autosync software and firmware that synchronizes materials management and the management of the farm implement. This allows us to leverage the installed base of field displays to provide common guidance lines, boundaries and operational information across all connected devices.
- In the Transportation segment, we re-organized and integrated the mobile and enterprise businesses in a unified, more cost-effective organization with the expectation of accelerated progress. We have now completed the process of combining the PeopleNet, TMW and ALK brands into the Trimble identity.
- The Transportation segment also had a significant product release, Trimble Pulse Telematics, in February. It connects data from the field to the back office enabling workflow optimization for technicians providing field services.
- In the Geospatial segment, we expanded the vehicle-based mobile mapping portfolio that was successfully launched in 2018. By introducing a lower-priced version, we have expanded our addressable market to mid-sized surveying and engineering firms and state departments of transportation.

In the last two quarters' calls we identified a number of emerging watch list issues that might impact us. There were four issues, identified as we left the fourth quarter, which provide us with inherent upside if the trajectory changes—since we embedded a level of conservatism in our forecast to account for their impact.

The first was the impact of trade policy, which continues to create significant uncertainty for U.S. farmers and a resulting reluctance to invest. This hesitancy to invest impacted our Resources and Utilities segment performance in the quarter, which was partially offset by better performance in other regions. A China/U.S. trade agreement is likely to create clarity for U.S. farmers and provide us with immediate upside potential.

The second issue was Brexit, which remains an unresolved issue, although deferred. Although the Brexit effect is hard to pinpoint, in what was a generally upbeat quarter for us in Europe, the uncertainty is impacting the appetite for investment to some degree. Beyond Brexit, the European export economy is exposed to a slower Chinese economy. To the extent that these issues impact decisions on new investment in plant and infrastructure, it impacts us as well.

The third watch list item was the combination of slower Chinese growth and intensification of Chinese government policies that create explicit preferences for Chinese companies over non-Chinese companies. Our first quarter revenue in China was down significantly year to year, primarily as the impact of slower economic conditions on our Chinese OEM sales and, secondarily, as a result of the mandated preferences for Chinese-sourced products. The relative silver lining is that our downside exposure to China is limited as it represented less than 2.5 percent of total company revenue in the quarter. The rest of Asia, outside of China, grew more than 10 percent and is off setting much of the Chinese impact. We continue to believe in China as a long-term growth market and believe that clarified trade expectations can provide us with a net upside.

The fourth watch list item was OEM demand which, as we anticipated, was a drag on the first quarter. This is a mixed bag. On the one hand, we are encountering some short-term headwinds in our more traditional OEM markets in timing and embedded components. On the other hand, we are establishing significant new OEM partnerships in construction and agriculture. Our improving profile was evident at Bauma, the world's largest construction show, where we were present as part of the machine solution in 20 OEM booths. Recent press releases of new or extended OEM partnerships have included Kobelco, Liebherr, Doosan and Volvo. Strategically, our primary market focus is not on OEMs but remains on the end user, which accounted for approximately 85 percent of our 2018 revenue. The logic is that those end users—principally farmers, contractors, and trucking fleet operators—live in a mixed fleet universe and it is important that OEMs operate within in an inter-operable, hopefully Trimble-centric, technology ecosystem.

Another positive external consideration remains a U.S. infrastructure bill—albeit with a still unclear probability. Both political parties support the concept of a significant increase in infrastructure spending but both are struggling with finding a funding mechanism. If a bill should pass, we expect that it will contain elements that will promote more cost-effective spending through an emphasis on digital construction. Passage of a bill would have an immediate "move the needle" impact on results in multiple reporting segments.

In summary, despite some uncertainties, we remain on track strategically and anticipate strengthening organic performance during the rest of 2019.

Let me turn the call over to Rob.

Robert Painter – Senior Vice President and CFO

Thanks Steve and good afternoon everyone.

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

Starting with the topline, first quarter total revenue was a little less than $805 million, growing 8 percent year over year. Breaking that down, currency translation subtracted 2 percent, and acquisitions added 7 percent. Organic growth was 3 percent. ARR, or annualized recurring revenue, grew to $1.07 billion in the quarter, up 30 percent year over year, and up in the low-teens organically.

Gross margin in the first quarter was 58 percent, up 90 basis points, which came from a combination of M&A and organic growth, while the adjusted EBITDA margin was 21.4 percent in the first quarter, up 60 basis points year over year. Operating income dollars increased 8.3 percent to $152.9 million with operating margins of 19 percent. While operating income dollars increased, net income was essentially flat on a year-over-year basis and earnings per share at $0.45 was also flat year over year. This was a result of higher interest expense and the increase in our non-GAAP tax rate from 19 percent to 20 percent.

For additional context, on a trailing 12-month basis, revenue is up by 15 percent, EBITDA margins have expanded by 220 basis points, and EPS has increased 23 percent.

Cash flow from operations was $148 million, up 78 percent year over year, and up 35 percent on a trailing 12-month basis. Free cash flow, which represents cash flow from operations minus capital expenditures, was $133 million in the quarter, and was up 38 percent on a trailing 12-month basis. Cash flow growth in the quarter was driven by operating income growth, favorable working capital dynamics and lower acquisition expenses as compared to the first quarter of 2018.

Moving to the balance sheet, our business model continues to be asset light. Deferred revenue was $464 million, up 29 percent year over year. This correlates to the increasing recurring revenue mix in the business. Net working capital, inclusive of deferred revenue, stands at 3 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 $1.89 billion and net debt of $1.68 billion, representing 2.31 times net debt to adjusted EBITDA on a trailing 12-month basis. Less than a year ago, we stated that we would de-lever to under 2.5 times within 24 months of our acquisition of Viewpoint, and we have achieved that in less than 12 months due to strong cash flow and EBITDA progression over the past few quarters, as well as by continuing to pay down the debt itself. As evidence, we paid down an additional $73 million of debt in the quarter and have reduced our gross

debt by approximately $300 million since we closed the Viewpoint acquisition in the third quarter of 2018. For perspective on our liquidity, we have borrowing capacity on virtually all of our $1.25 billion revolver. The point is that our business model works, our balance sheet is resilient and well designed with well staggered maturities on the debt and ample liquidity should we ever need it. In addition to the repayment of debt, in the quarter we also repurchased $40 million of our stock.

From an overall financial performance perspective, I would like to highlight and emphasize three metrics from the quarter. First, our annualized recurring revenue continues to demonstrate strong and consistent growth, reflecting the ever-increasing software and subscription content within our business mix. Second, the growth in our free cash flow demonstrates our technology-orientation and the asset-light centricity of our business model. Third, our ability to de-lever rapidly following a large acquisition such as Viewpoint, further evidences the cash generation capability of our business model.

Moving to slide 7, we have revenue details at the reporting segment level. Overall, revenue was in line with expectations. As is the case in every quarter, there were puts and takes. We continued to see softness in the OEM portion of our Geospatial business, particularly in China. We also saw continued softness in the North American agriculture market, which has been adversely impacted by the trade situation with China, and finally, we experienced discrete delays in project completion sign-offs that postponed the capture of revenue in the quarter.

In terms of where we performed better than expected, I'd like to highlight Buildings and Infrastructure as well as Transportation. In Buildings and Infrastructure, we outperformed in the aftermarket in both civil and building construction. Two notable highlights… first, the subscription transition in the SketchUp business has been successfully received, with a better than expected mix of subscriptions, which negatively impacted short-term revenue, but was then partially offset by higher than expected unit growth. Second, our Viewpoint and e-Builder acquisitions were in-line with expectations. Subscription bookings growth continued to be strong, and ARR for the two businesses combined was up approximately 20 percent year over year.

In Transportation, the truck routing, mapping and navigation business was a standout performer, in a quarter with a difficult prior year comparison.

Moving to slide 8, our overall geographic revenue mix remained relatively unchanged on a year-over-year basis. We experienced growth of 10 percent in North America, driven by construction growth in the U.S. In Europe, we experienced growth of 10 percent, with general growth across the region, including the UK. In the Asia-Pacific region, we saw a slight headwind of negative 1 percent, driven mostly by difficult conditions in China, while other major regional markets were up. And lastly, in other regions we were up 3 percent, including contributions from our recent acquisition of Veltec in Brazil.

Please now turn to slide 9 for a review of our revenue mix, by type, which is presented on a trailing 12-month basis. Software, services, and recurring revenue continued to grow, up 28 percent, with organic growth rates in the low teens. This now represents 53 percent of total Trimble revenue. Within that, recurring revenue, which includes both subscription as well as maintenance and support revenues, grew 29 percent year over year, and now represents 31 percent of total Trimble revenue. Software and services grew 27 percent year over year, and hardware has grown at a low single-digit rate, reflecting in large part the recent headwinds in our OEM-related businesses as well as difficult comparisons in Transportation from the phase one implementation of the Electronic Logging Device (ELD) mandate a year ago. Lastly, I would like to mention that, starting this quarter, we have disclosed additional revenue details on the summary tables provided on our Investor Relations website. These revenue details correspond to the numbers on this slide.

Next, let's turn to slide 10, where we have the operating income details by segment. In short, the operating income results are consistent with the revenue commentary, with Buildings and Infrastructure as the strongest performer. Resources and Utilities and Geospatial margins reflected, and were impacted by, the aforementioned revenue dynamics, while Transportation margins were largely in-line with expectations and are expected to expand in the second half of the year.

Moving now to guidance on slide 11. Overall, we continue to see the year playing out as we discussed in last quarter's earnings call, with organic growth, margins, and earnings growth improving throughout the year, coupled by a continued shift toward software and subscription revenues.

For the second quarter, we expect revenue of $850 to $880 million and EPS of $0.52 to $0.56 per share. The second quarter revenue range implies total company growth of 8 to 12 percent, with organic growth in the 3 to 7 percent range plus 7 percent from acquisitions, less 2 percent from FX due to the strengthening of the U.S. dollar.

Our second quarter organic growth guidance reflects an expected improvement from the first quarter, which does not assume macro-level improvements and is driven by two factors. First, the second quarter is traditionally the strongest quarter for Civil Construction. Second, in Transportation, we will have lapped the ELD-related installation surge. One comment on cash flow for the second quarter. Please note that while we accrue interest quarterly, the cash interest payments take place in the second and fourth quarters.

For the full year, we are reaffirming the view we discussed last quarter expecting full-year company growth in the 6 to 10 percent range, with organic growth of 4 to 7 percent, 3 to 4 percent from acquisitions, and a negative 1 percent from currency impacts. We continue to expect organic revenue growth and operating margins to improve through the year, with EPS growth in the high single-digits for the full year, with double-digit EPS growth in the back half of the year. From a revenue seasonality perspective, let's step through the sequential quarters. We expect second quarter revenue to be the highest revenue in the year, which is normal given that it represents the peak of the construction season. In the third quarter, we expect slightly lower sequential revenue, reflecting an expected seasonal summer dynamic. Finally, we expect fourth quarter revenue to be sequentially above third quarter revenue, in part because 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.

From a cash flow perspective, the strong first quarter reinforced our expectation that cash flow from operations and free cash flow will grow faster than net income during 2019, and that cash flow from operations will exceed net income. From a capital allocation standpoint, we expect we will continue to de-lever, while selectively evaluating buyback and M&A, based on market conditions and available opportunities.

In closing, the guidance for the second quarter and the full year reaffirms our previous guidance for the first half of 2019 as well as the overall year.

Let's now take your questions.