Trimble blends performance and simplicity with new X7 3D laser scanning system. The innovative high-speed system simplifies use, increases efficiency and provides confidence in the field to capture digital data for surveying, construction and forensics.

3rd Quarter Earnings Conference Call Prepared Remarks

October 30, 2019

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.

First, Steve will start with an overview. 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.

With that, I will turn the call over to Steve.

Steven W. Berglund – President and CEO

Good afternoon.

This will be my 83rd, and final, quarterly conference call. To put things in context, my first call for Trimble for the first fiscal quarter of 1999, reported revenue of 68.8 million dollars and operating income of 3.7 million dollars.

Today, I will leave the discussion of the quarter to Rob and I will focus on today's CEO succession announcement.

Rob's appointment represents the outcome of a multi-year process. Virtually every board meeting for years has featured a discussion and evaluation of talent—with an emphasis on individuals with short- and long-term CEO level capabilities. The evolution of the company has made this a dynamic process—as the company has changed, so has the CEO specification. This progression has included the shift from product to solutions, the increasing role of software, and most recently, the emphasis on recurring revenue and services.

As a result of the process the board came to the conclusion that an inside candidate would generally be preferable for two reasons. First, we are a relatively complex company with a nuanced strategy and growing numbers of common platforms that would be a challenge for an outsider to assimilate. Second, our company culture is central to our success and it was important to find an individual that represented both the continuity of that culture while acting as an agent of healthy change.

Both the board and I believe we have found the right blend in Rob. In his 13 plus years with Trimble he has performed a number of roles that have ranged from the strategic to the operational. In his last almost four years as CFO he has developed a deep understanding of Trimble's opportunities and challenges. He has also been a champion for a number of needed initiatives including the conversion to SaaS, improved rationalization of our portfolio and margin expansion. Another important consideration is that he is well known to the financial community—and trusted. As indicated in the press release, we expect to fill the CFO role in the near future with a veteran CFO.

As executive chair, I do not expect to play a direct role in company operations. Rob and I have developed a flexible range of targeted activities that will enable me to support him. Activities will include leveraging the external network I have established over 20 years and playing targeted roles to help develop specific strategies, initiatives and people. Beyond that, I hope to be able to provide him generally useful advice as he settles in.

Let me now turn the call over to the soon to be third CEO in Trimble's history.

Robert Painter – Senior Vice President and CFO

Thank you Steve.

I'll say a few words on the transition and then get back to the business. I joined Trimble 13 years ago because of our mission to transform the way the world works. What we do is substantive and inspiring; I feel a real sense of purpose. I appreciate both the people around the world who work here and the endless opportunities that are available to learn and contribute. Looking forward, my message is one of optimism. We are poised to continue leading the digitization of the end markets we serve. Our fundamentals are strong: our people, our strategies and our technologies. There is nowhere else I'd rather be.

I also want to express my gratitude to Steve, the Board, and my fellow Trimble colleagues for the vote of confidence. Steve joined Trimble in 1999 when we had $271 million in revenue. We're now over $3.2 billion in revenue. Our enterprise value when Steve joined was about $150 million. As of today, that stands at over $11 billion. His financial track record speaks for itself and his leadership legacy, which runs deep, has set a solid foundation for years to come. On behalf of 11,500 Trimble colleagues, we thank Steve for his 20 years of service. The bar is set high.

As for what comes next, I will say just a few words here today, as we don't transition until January, and we have a fourth quarter to deliver. Our overall focus will be to prepare Trimble for an era of increased connectivity. This includes respecting 40 years of approaches that got us to this point in addition to taking a fresh look at the portfolio, along with the strategy, structure and systems in our businesses.

Now to the business of the quarter. I'll start by summarizing the quarter in three aspects, starting with an overall *financial narrative* on the third quarter results. Revenue fell short of our expectations and EPS came in ahead of expectations. The market environment is challenging and revenue was largely impacted by the same factors we've been talking about over the last couple of quarters. Revenue mix, including ARR or annualized recurring revenue, remains attractive and cash flow was strong. That, combined with cost control, *and* lower incentive compensation expense, delivered EPS slightly above expectations, which demonstrates that our team is reacting to the environment. *Structurally speaking*, in the last few weeks, we have implemented over $30 million of annualized structural cost reduction, which we will see the full benefits of by the second quarter of 2020. We have also exited, or are in the process of exiting, a small number of discrete efforts and businesses. In aggregate these portfolio actions are not financially material; however they do increase our focus and sharpen the impact of resource allocation. *Strategically speaking*, we will continue to execute on our long-term plans with an intention to exit any period of uncertainty on a stronger competitive footing. To say it another way, short-term results do not change the fundamentals of our strategy or the long-term financial model. Our mission remains the same to transform the way the world works. Our vision remains the same to deliver products and services that connect the physical and digital worlds. And our financial model ambitions remain the same to profitably grow the business while creating sustainable competitive advantage.

Let's get into the *financial details,* **starting on slide 5**. Starting with the topline, third-quarter total revenue was $784 million, down 2.5 percent year over year. Breaking that down, currency translation subtracted 1 percent, acquisitions added 1 percent, and organic growth was down 2.5 percent. ARR was $1.1 billion in the quarter, up 9 percent organically.

Gross margin in the third quarter was 57.0 percent, down 90 basis points, which was primarily driven by revenue mix in the quarter. Adjusted EBITDA margin was 23.0 percent in the third quarter, flat year-over-year. Operating income dollars came in at $162 million with operating margins of 20.7 percent. EPS at

$0.48 was ahead of expectations. EPS was down 2 percent year over year, driven by revenue and partially offset by lower operating expenses and lower interest expense.

For context, on a trailing twelve month, or *TTM*, basis, revenue is up 6.5 percent; EBITDA is up over 12 percent; EBITDA margins have expanded by 120 basis points; and EPS has increased 7 percent.

Cash flow from operations was $137 million in the quarter, up 17 percent, and up 20 percent year to date. Free cash flow, which represents cash flow from operations minus capex, was $121 million in the quarter, up 21 percent, and up 23 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, as well as lower M&A expenses and lower tax payments.

Moving to the balance sheet, deferred revenue was $419 million, up 15 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 3 percent of revenue on a TTM basis. Net debt to adjusted EBITDA is 2.13 times on a TTM basis. In the third quarter, we repurchased $121 million of Trimble shares. With $496 million of free cash flow on a TTM basis, and full availability of our $1.25 billion revolving credit facility, we are well positioned to weather any economic disruptions and to continue our disciplined capital allocation strategy.

Moving to reporting segment details and starting with revenue on **slide 7**, for context, last quarter we called out three challenges; including our OEM sales with a significant influence from the China market, the impact of the trade dispute on the agriculture market, and short-term pressures in the transportation market coming at the tail end of the Electronic Logging Device (ELD) conversion. These factors largely played out again, albeit amplified as compared to our expectations, with a combined impact of government orders pushing out of the quarter and a higher mix of subscription bookings pushing us below the expected range. Total company organic revenue growth was -2.5 percent. Within that, the discrete impact of OEM results reduced our growth by approximately 2 percent in the quarter. Buildings and Infrastructure, or B&I, was largely in line with expectations, as was Viewpoint, e-Builder and the majority of our software businesses. To illustrate this, recurring revenue in the B&I reporting segment was up in the mid-teens.

Moving to slide 8 for operating income by segment, performance largely correlated to the revenue factors. Of note, Geospatial margins were primarily impacted by the weakness in our OEM components business in China. Transportation margins were negatively impacted by spend associated with increased customer support to engage our customers through the software conversion to ELD compliance, as well as continued compression on hardware margins. Further, we are seeing bookings on our enterprise business starting to shift towards subscription. This dynamic is great for the long-term metrics, yet a drag on short-term profitability, as we saw in the quarter. The standout positive performer in the quarter was B&I. Speaking overall, the team demonstrated an ability to manage variable costs as the environment became more uncertain throughout the quarter. This was a result of managing net attrition and tactically executing on cost-reduction activities. In addition, at the company level, incentive compensation expense was lower compared to the prior year quarter by more than $15 million. Our incentive compensation plans reflect our pay for performance culture and are tightly aligned with the financial performance at the divisional and company levels.

Turning to slide 9 and overall geographic commentary, we experienced a decline of 3 percent in North America, where B&I and Transportation grew but were more than offset by Resources & Utilities and Geospatial. In Europe, we experienced growth of 1 percent, driven primarily by the B&I segment. In the Asia-Pacific region, we saw a headwind of negative 18 percent, driven primarily by difficult conditions in China, while other major regional markets were mixed on a year-to-date basis. Lastly, in other regions we were up 27 percent year over year, driven largely by growth in Brazil.

Please now turn to **slide 10** 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 20 percent, with organic growth rates in the high teens, and now represent 56 percent of total Trimble revenue. Within that, recurring revenue, which includes both subscription as well as maintenance and support revenues, grew 25 percent year over year, and now represents 33 percent of total Trimble revenue. Software and services grew 14 percent year over year, and hardware contracted by 7 percent, reflecting in large part the recent headwinds in our OEM related businesses, particularly in China.

Returning to slide 4, let me next overlay a strategic lens onto the financial and structural commentary. The fundamentals of Trimble remain strong. Our markets and the value proposition of our solutions provide a compelling context. Our people, our innovation pipeline and our go-to-market capabilities are enablers of our competitive advantage. Our business model produces compelling cash flow and enables us to assert our strategy. *Three categories of comments to build on this…*

First, we will responsibly use our balance sheet to pursue compelling acquisitions. In the third quarter, we acquired 3LOG in the Forestry business. 3LOG is a leading supplier of timber management software solutions, and is a strong complement to our forestry business. On October 18, we acquired Cityworks as part of our utilities business. Cityworks is a leading provider of enterprise asset management software for utilities and local government and its solutions address the global challenges associated with maintaining and replacing aging utility, transportation, and infrastructure assets. We believe this platform is extendible across Trimble. Combined, the acquisitions represent a purchase price of slightly over $200 million, with the majority associated with Cityworks in the fourth quarter. Both businesses are in the Resources & Utilities reporting segment and we expect approximately $40 million of combined revenue contribution next year. The businesses are 100 percent software and services, with significant and growing recurring revenue streams and we expect profitability for these acquisitions above the Trimble average.

Second, we will continue to transition license software businesses to subscription business models. We won't chase short-term optics at the expense of long-term value creation. We will also experiment with hardware as a service models.

Third, we will continue to invest in our customer relationships and in innovation. As evidence, in the third quarter we held three user conferences with the e-Builder, Viewpoint and Transportation teams that had over 3,500 collective attendees.

On the innovation front, in the last few weeks, we launched WeedSeeker 2 in agriculture. WeedSeeker is a spot spray system that senses if a weed is present and signals a spray nozzle to deliver a precise amount of chemical—spraying only the weed and not the bare ground. The value proposition includes reduction of input costs, increased yield on crops, and lower environmental impact.

In our survey business within Geospatial, we launched the Trimble X7 3D laser scanner, which we believe leapfrogs the market in terms of performance and value. In addition, the focus on ease-of-use for the X7 scanner and the accompanying Trimble Perspective software has already opened new customer segments, such as public safety.

We are also investing in autonomy, which we generally think of as automation, as a next phase to link the industry continuums we serve in construction, transportation and agriculture. Much of the IP and know-how for automation comes from our Geospatial segment. Our industry knowledge and intimacy with the workflows of our industries enables us to automate an industry process as well as a machine, a tool or a tractor. We believe we are uniquely advantaged to revolutionize this automation because of our industry and technology competencies.

Finally, we appointed a chief data officer in September, as connecting the data within our lifecycles is an important part of our strategy going forward. Overall, we are optimistic about our ability to deliver a compelling set of connected innovations.

Let's close with guidance and **move to slide 11**. First, a reminder that at our 2018 investor day, we put forward a model that will produce 23 to 24 percent EBITDA margins by 2021, We reaffirm our commitment to being within this range in 2021. For context, current EBITDA margins on a TTM basis are 22.8 percent.

Working backwards to 2020, it would be premature to talk at any level of specificity, but it is safe to say that we are preparing for the revenue environment to continue to be challenging given the relative economic and political instabilities. We plan to play offense on our strategy while making progress towards our business model targets.

Finally, working backwards again to fourth quarter guidance, we expect non-GAAP revenue of $770 to $800 million and non-GAAP EPS of $0.46 to $0.50 per share. The fourth quarter revenue range implies total company growth of -3 percent to +1 percent, with -1 percent organic growth at the midpoint, plus about 1 percent growth from acquisitions and one percent of headwind from FX. Note that our fourth quarter this year is a 14-week quarter, and the extra week is expected to bring an additional 2.5 points of growth. Please further note we expect restructuring charges of $12 million, which goes in line with the greater than $30 million of annualized cost reductions we mentioned.

Projecting a balanced tone for the fourth quarter, I'll highlight a few areas of caution and optimism:

We are cautious on a few fronts...

- *One*, similar conditions in Agriculture, pressures on OEM businesses, and the tail end of the ELD conversion push
- *Two*, Brexit uncertainty and potential follow-on impacts
- *Three*, the aggregate weight of trade related uncertainty

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

- *One*, continued growth in ARR, and our strong cash flow generation, which provides visibility and liquidity in the business model
- *Two*, we expect that cost-reduction and containment measures that we have implemented will begin to show in the fourth quarter and more so as we come into 2020
- *Three*, we believe customers are ready for the innovations that we can uniquely deliver, and we believe our investments in customer-driven innovations are done in a context of managing short- and long-term pressures and opportunities

Let's now take your questions.