A prosperous world requires robust infrastructure. Trimble continues to transform the industry's work across the entire planning, design, build, operating, and maintenance lifecycle. Trimble construction solutions are used in civil infrastructure projects such as roads, railways, airports, land management, marine construction, and landfills. Our solutions improve productivity, reduce waste, improve worker safety and reduce environmental impact.

Fourth Quarter 2020 Earnings Conference Call Prepared Remarks

February 10, 2021

Trimble Corporate Participants

Rob Painter – President and CEO
David Barnes – Senior Vice President and CFO

TRANSFORMING THE WAY THE WORLD WORKS

Presentation

Rob Painter, CEO

Hello everyone. Before I get started, a quick reminder that our presentation is available on our website, and we ask that you please refer to the safe harbor at the back. In addition, please note that we will be comparing against a 2019 that had a 14th week in the fourth quarter.

Let's start on **slide 2** with the three key messages we want to convey today.

First, the customer ROI of our technology and the strength of our financial model enabled us to outperform our own expectations in the fourth quarter. Our customer value proposition is rooted in productivity, quality, safety, visibility and sustainability. We are pleased to announce that annualized recurring revenue, or ARR, grew 9 percent year over year to $1.30 billion, while quarterly revenue grew 0.4 percent year over year to $830 million. Expanding gross margins and execution on costs led to an adjusted EBITDA margin of 26.1 percent, and we finished the year delivering a record $672 million of operating cash flow.

Second, executing the Connect & Scale 2025 strategy remains our focus. We are working to connect stakeholders across industry lifecycles and to transform customer workflows, while simultaneously making ourselves easier to do business with. As leaders of the business, we take our responsibility seriously to be effective allocators of capital. To this end, we will continue to invest disproportionately in our cloud and autonomy capabilities, as well as in go to market efforts to support and enable our long-term growth opportunities.

Third, our long-term market conviction remains strong. We believe the secular trends of digitization provide long-term tailwinds and we maintain our resolve to exit this crisis on a stronger competitive footing than we entered it. As we come into 2021, we are both cautious and humble to recognize market uncertainty and volatility, while also confident that we are on the right track. Comparisons against 2020, especially on a quarterly basis, will be difficult, if not irrelevant. We will reinstate guidance, at an annual level, and David will walk you through the details.

In addition, we anticipate hosting an Investor Day in the second half of the year to update stakeholders on our long-term strategy and business model. As I reflect back on our May 2018 Investor Day and put that into context of our fiscal year 2020, while revenue was clearly set back with the pandemic, we are ahead in most all other aspects. At the Investor Day, we targeted adjusted 2021 EBITDA at 23 to 24 percent of revenue. We closed 2020 at 25.3 percent EBITDA. We targeted 2021 software services and recurring revenue mix at 55 percent of total revenue. We closed 2020 at 58 percent of total revenue. We targeted the ratio of 2021 operating cash flow to non-GAAP net income at approximately 1.1 times. We closed 2020 at 1.2 times operating cash flow to non-GAAP net income. In July 2018 our net debt to EBITA ratio stood above 3 times and we said we would de-lever below 2.5 times. Today, we stand at 1.6 times. We see these as important proof points that we are on the right strategic path, that we can uniquely connect the physical and digital worlds to deliver value to our customers, and that our asset light business model works.

Turning to my commentary on the fourth quarter, we beat our own expectations in Buildings & Infrastructure, Geospatial, and Resources and Utilities. We hit our expectations in Transportation. Broadly speaking, we have seen signs of an emerging construction led recovery, we are experiencing favorable market conditions in agriculture, we see our innovation and go to market execution driving positive outcomes, and at the end of the year we benefited from government stimulus measures along with customers catching up on work. David will walk us through additional segment details.

Turning to slide 3, this shows Connect & Scale delivering customer ROI in Transportation and Agriculture. In Transportation, our Trimble® Dispatch Advisor solutions bring capabilities across our portfolio together to get the right load on the right truck with the right driver; thereby improving planning, reducing empty miles and improving utilization. In Agriculture, Zlatiya Agro is a large farm enterprise in Bulgaria that has adopted Trimble's Connected Farm™ ecosystem across 100 of their machines. This offering consists of our GFX-750™ Connected display, and Autopilot® steering along with our AutoSync™ data exchange functionality. The connected offering improves planning, process automation, and cost optimization.

I will close my commentary on **slide 4** with an ESG update—a topic of increasing importance to all of our stakeholders. As a purpose-driven company, our mission of industry transformation and our leadership culture provides a compelling ESG backdrop. In the area of environmental sustainability, I'll highlight that the primary positive impact of Trimble on greenhouse gas emission reductions and other environmental measures happens through customer application of our technology—for example, eliminating rework in construction, reducing fuel and water usage in all our end-markets and minimizing use of herbicides and pesticides in agriculture. We are also committed to developing science-based targets to further our positive impact. In the area of people and social responsibility, I'll highlight that we ranked in the top 10 percent of companies for diversity in the Comparably survey. I'm also very proud of the work of the Trimble Foundation, where we contributed a record amount of money to put to work for our philanthropic efforts. Finally, in the arena of corporate governance, our ratings with third-party firms like MSCI are strong, and we are committed to continuous improvement in our sustainability program.

David, over to you.

David Barnes, CFO

Thanks Rob. Let's begin on **slide 5**, with a review of fourth quarter results. Fourth quarter total revenue was $830 million on a non-GAAP basis, up 0.4 percent year over year. To break that down, currency translation added 1 percent and acquisitions, net of divestitures, were essentially neutral. Organic growth, excluding the impact of the extra week in the fourth quarter of 2019, was approximately 2 percent. ARR, or annualized recurring revenue, grew to $1.30 billion in the quarter, up 9 percent year over year, and was up 7 percent on an organic basis. Organic ARR growth excluding the Transportation segment was 15 percent. Adjusted EBITDA, which includes income from our joint ventures and equity investments, was $217 million with a margin of 26.1 percent, reflecting both strong gross margins and continued low operating costs. Our non-GAAP tax rate was 16 percent, down 300 basis points on a year-over-year basis. Net income was up 16 percent and non-GAAP earnings per share in the fourth quarter were 61 cents, up 15 percent year over year.

Fourth quarter cash flow from operations was $188 million, up 54 percent year over year, while cash flow from operations for the full year was $672 million, up 15 percent versus 2019. Free cash flow, which we define as cash flow from operations minus capital expenditures, was $177 million for the quarter, up 64 percent year over year, and $615 million for the year, up 19 percent versus 2019. Note that on a trailing 12-month basis operating cash flow was approximately 1.2 times non-GAAP net income. Our strong cash flow results reflect the combination of higher profit and improved working capital efficiency. With our strong cash flow in the quarter, we continued to de-lever. At year end, our net debt to trailing 12-month EBITDA was 1.6 times. Our balance sheet is strong and provides us with flexibility to consider a range of capital allocation options. We expect to continue to de-lever and pursue modest share buybacks, while having dry powder deployable for attractive acquisition opportunities.

Turning to page 6, I'd like to highlight one of the key drivers of our cash flow in the quarter—working capital. Our working capital efficiency has improved over the last 5 years. We ended the year with just over zero net working capital. This progress was driven by a number of factors, including the growth in deferred revenue from our recurring revenue businesses, reduced days sales outstanding of accounts receivable, and lower inventory levels.

Turning now to **slide 7,** I'll review in a bit more detail our fourth quarter revenue trends. As I mentioned earlier, our ARR was up 9 percent in the quarter. Our non-recurring revenue streams also grew, driven by a strong rebound in hardware sales in geospatial, civil construction, and agriculture. From a geographic perspective, North America revenues were down 8 percent, driven by declines in our Transportation business. Revenues in North America from businesses other than Transportation grew 2 percent. Europe revenues were up 9 percent, reflecting catch-up on project activity slowed earlier in 2020 and fiscal stimulus measures. Asia Pacific was the best performer in the quarter, up 13 percent, driven by strong performance in Japan. The Rest of World, which includes Brazil and Argentina, was up 10 percent year over year driven principally by strong demand from the agricultural sector.

Now turning to slide 8, I'll review briefly our full year results. Revenue for the full year 2020 contracted 4 percent overall and 5 percent organically. Gross margins for the year expanded 140 basis points, and EBITDA grew 7 percent on a year over year basis. EBITDA margins expanded 240 basis points to 25.3 percent. Operating income grew 7 percent year over year, and operating income margins expanded 220 basis points to 22.8 percent. Net income was up 12 percent and earnings per share were $2.23, up 12 percent year over year.

Next on **slide 9** we highlight a number of key metrics, which collectively give a good picture of the state of our business. I'll highlight a few metrics, which neither Rob nor I have already mentioned. In this year of strong margins we continued to invest over 15 percent of our revenue in research and development, reflecting our continued investment in areas of strategic importance during the downturn. We ended the year with a backlog of $1.3 billion, up 11 percent from year ago levels. Our deferred revenue at the end of the year was $614 million, up 13 percent from the end of 2019. The health of our backlog and deferred revenue point to improved visibility for revenue growth heading into 2021.

Turning now to **slide 10**, let's go through the fourth quarter revenue details at the reporting segment level.

Buildings and Infrastructure revenue was up 1 percent on an organic basis. Excluding the impact of last year's extra week, organic revenue for the segment would have been up approximately 4 percent. Revenue growth was double digit in both our SketchUp and Civil hardware businesses. Segment margins were up 90 basis points due to higher margin revenue mix and cost control.

Geospatial revenue was up 14 percent on an organic basis, driven principally by strong performance in our core surveying and mapping business. Revenue was up in all regions, aided by successful new products, stimulus-driven activity, and healthy project tender levels as projects which were delayed earlier in 2020 came back on line. Margins were up over 9 percentage points due to a combination of higher-margin revenue mix, lower levels of discounting, and strong cost control.

Resources and Utilities revenue was up 10 percent on an organic basis, driven principally by our precision agriculture business. Revenue growth was strongest outside the U.S., with higher commodity prices, stimulus programs, favorable weather, and a strong reception to our new products all contributing to growth in the quarter. Solid performance by our Cityworks business, which was acquired in the fourth quarter of last year, also contributed to segment revenue in the quarter. Margins expanded over 5 percentage points, driven by operating cost control.

Transportation revenue was down 22 percent on an organic basis. Excluding the impact of the 14th week in the fourth quarter of 2019, organic revenues were down by about 19 percent. Operating margins were down over 8 percentage points on a year-over-year basis. Our fourth quarter financial performance in Transportation reflects many of the same factors we have discussed in prior quarters. Customer attrition in our mobility business since late 2019 accounts for the majority of the adverse development in segment revenue, ARR, and margins. On that front there is some good news, as our product performance has improved and customer churn has declined sequentially in each of the last three quarters. Note that the ongoing subscription transition in our Transportation enterprise software business depressed revenue trends in the quarter, and the Keubix acquisition had an expected dilutive impact on segment margins. While we have more work ahead of us to improve the performance of this business, we continue to believe in the power of our connected Transportation strategy and project that the steps the team is taking now will yield improved performance later in 2021.

Turning now to **page 11**, I'd like to share with you our outlook for this year. Our planning efforts have settled on a 2021 financial outlook based on a number of key assumptions. First, we assume that public health initiatives are successful in enabling a broad reopening of constrained sectors of the economy by midyear 2021. Second, our plan is rooted in the assumption that the economy grows through the year, with 2021 GDP at least recovering to 2019 levels. Third, our projections exclude the impact of future acquisitions or divestitures.

Our most important key performance indicator will continue to be ARR. We expect organic ARR growth to end 2021 in the high single digit range, with sequential improvement as the quarters progress. ARR growth in 2021 will be driven by the combination of organic growth of our existing recurring offerings, ongoing transitions from perpetual software products, and the gradual turnaround of our Transportation business.

We project organic revenue growth in 2021 in the mid-single-digit range, with an additional 1-2 points if exchange rates remain near where they are today. That translates to a revenue range of $3.3 to 3.4 billion. Note that our revenue growth in 2021 will be negatively impacted by approximately 150 basis points from our subscription model transitions. We anticipate that EBITDA and operating margins in 2021 will be higher than 2019 but lower than 2020. Overall our gross margins this year are projected to remain stable with 2020 levels. But a number of factors are likely to cause EBITDA margins to come down somewhat when compared to the historically high levels of 2020. First, the return to a more normalized level of incentive compensation and, in the second half of this year, higher travel costs will naturally cause operating costs to grow at a rate faster than revenue. Second, we are incrementally allocating more capital—in both capex and operating expense—to the areas of focus in our Connect & Scale strategy: namely digital transformation, cloud infrastructure, and autonomy. Third, our margins will be negatively impacted by the accelerated subscription model conversions of 150 basis points.

I'll note that we project income from equity method investments to be approximately $35-$40 million, and net interest expense to be about $65-$70 million with decreasing levels as the year progresses. We project our non-GAAP tax rate to be in the range of 16 to 17 percent, and that our shares outstanding will be approximately 254 million.

Incorporating all of these factors, we expect non-GAAP earnings per share to be in the range of $2.25 to $2.45 for the full year.

From a cash flow perspective, we continue to project that both operating cash flow and free cash flow will exceed net income, as the favorable cash characteristics of our business will continue. Nevertheless, cash flow will likely be flat or decline modestly from 2020 levels, as we saw extraordinary improvement in working capital in late 2020.

A few words on the segment dynamics in our outlook: Generally we expect that each of our segments will mirror the trends I have just described, although I'll highlight a few factors specific to the individual segments. In Buildings & Infrastructure, our hardware offerings were most adversely impacted by COVID in the second quarter of 2020, so we expect growth in the second quarter of 2021 to be very strong. Our Geospatial, and Resources and Utilities businesses have a lot of momentum now and we anticipate that momentum to generate strong growth through the first half of the year with more moderate growth thereafter. In Transportation, we don't expect to see meaningful revenue growth or margin improvement until late in 2021.

We don't intend to provide quarterly guidance at this point. But I'll offer a few comments on factors that will influence our revenue and margin performance as the year progresses. Year-on-year growth in each quarter will obviously be impacted by the COVID-driven swings we have seen in 2020. We expect to grow in all four quarters, with the strongest growth rate in the second quarter, when we lap the worst period of the COVID crisis. We expect that Operating and EBITDA margins will be relatively constant across the quarters.

Rob, back to you for closing comments.

Rob Painter, CEO

As we wrap up, I would like to thank the Trimble team and our global dealer partner network for their outstanding efforts throughout 2020. We entered the crisis with an objective to exit the crisis on a stronger competitive footing—I'm proud of our accomplishments in 2020 and the progress and commitment we are making towards our Connect & Scale 2025 strategy. We enter 2021 with increased conviction in our ability to fulfill our mission to "Transform the Way the World Works." Furthermore, I'd also like to take the opportunity to acknowledge Trimble's inclusion in the S&P 500 as of January 21, a milestone for Trimble's growth and global impact. Thank you to our customers, our global dealer partners, and our employees past and present for making this possible. It has been a remarkable 42-year journey as a Company, and our best days are yet to come.

Operator, let's please go to Q&A.