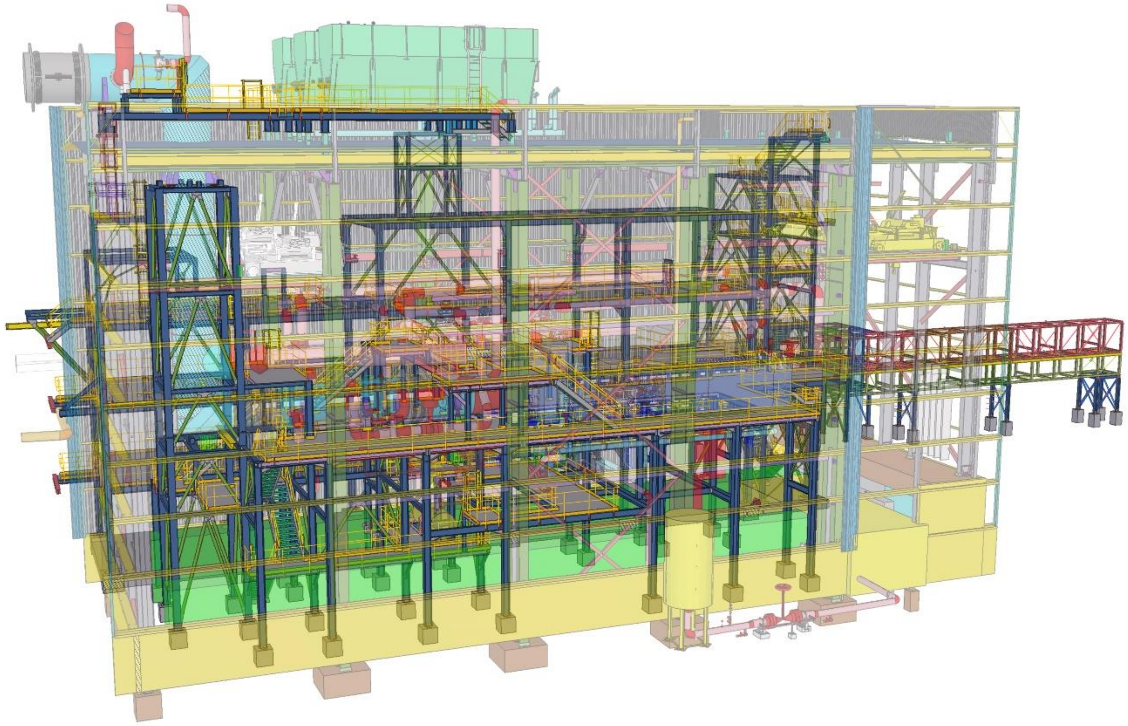

Pierrefonds Waste Management Plant, France: The creation of the Pierrefonds waste separation facility on the island of La Réunion (off the coast of East Africa) is a multi-year, 230-million-euro project by a consortium of specialist firms led by industrial contractor CNIM. The plant will promote a circular economy and is a crucial project for the island's energy transition. The design created in Tekla Structures, using Tekla Model Sharing, combines units for the sorting and processing of recyclable materials, digestion of biowaste and will generate renewable electricity.

Fourth Quarter 2022 Earnings Conference Call Prepared Remarks

February 8, 2023

Trimble Corporate Participants

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

Trimble
Transforming the Way the World Works

Presentation

Rob Painter, CEO

Welcome everyone. Before I get started, our presentation is available on our website; and we ask that you refer to the safe harbor at the back. Our financial commentary today will reflect non-GAAP performance metrics, including organic growth comparisons, which will relate to the corresponding period of last year, unless otherwise noted.

The Trimble 3-4-3 operating model simultaneously balances a view on looking forward 3 months, 4 quarters and 3 years. As I think about framing today's commentary on 2022, I think there is a parallel to look back 3 months at our fourth quarter, 4 quarters to look back at the year 2022, and 3 years back to 2020 when we began our Connect and Scale journey. Covid, supply chain disruptions and net divestitures over these last three years has created a dynamic that makes it challenging to discern the signal from the noise in any given quarter, especially when looking at the year over year trends; whereas the long baseline reveals the definitive patterns of progression.

As I reflect on the fourth quarter of 2022, **let's begin on slide 2** with our key messages, which are consistent with the commentary from the prior quarter. Our key growth metric is annualized recurring revenue, which met our expectations and grew 16 percent to a record level of $1.60 billion.

Congratulations to the team for delivering this record performance, which compares to $1.19 billion of ARR at the end of 2019. Total revenue for the year was a record $3.68 billion, up 7 percent over 2021, and up 6 percent compounded since 2019, growing through COVID and business model transitions. Total revenue in the quarter was $857 million, flat with last year, and towards the lower end of our guidance range. The delta between the ARR and total revenue performance reflects a slowdown in hardware sales through our dealer partners, as dealers continued to sell through their inventory while processing mixed macroeconomic sentiment. For perspective, over the last three years, the sum of our civil, agriculture and survey hardware and related software has grown at a 12 percent compound annual growth rate, with agriculture growing above and survey growing below this baseline.

Gross margin finished at a record level of 61.8 percent, exceeding our expectations, reflecting software mix, the cumulative impact of model conversions and abating supply chain disruptions. For the year, we achieved a 60 percent gross margin, a record annual level, up 170 basis points year over year, which compares to 57.7 percent gross margin in 2019. EBITDA margin of 24.3 percent met our expectations in the quarter and ended at 25.0 percent for the year, up 210 basis points as compared to 22.9 percent in 2019. Finally, earnings per share of $0.60 was exactly at the midpoint of our guidance for the quarter.

Moving to slide 3, let's look at the progression of our Connect and Scale strategy through the lens of our reporting segments, beginning with Buildings and Infrastructure. The big event for the team was our Trimble Dimensions+ user conference in November, where we had over 5,700 attendees from the global engineering and construction industry, which provided a great forum to reconnect with our customers and partners. We launched many new innovations, including the Trimble Construction Cloud, powered by Microsoft Azure, which is an industry cloud built to streamline construction projects by connecting users, data and workflow. We also announced extensions of our machine control technology platform to new OEMs and new machine types—further expanding our reach to connect the physical and digital worlds. The highlight financial achievement in the quarter was delivering over 20 percent organic growth in ARR, in addition to record levels of ACV software bookings and record levels of cross-sell bookings. We also had a strong start for our newly acquired Bid2Win business, where we've had some early cross-sell wins. As we have previously discussed, we continue to allocate incremental capital towards our own digital transformation, as well as our go-to-market efforts, which are generating strong interest from our customers and partners and demonstrating encouraging signs of internal productivity and efficiency. The work we are doing in this business will be highly leveraged across the entirety of the company.

In Geospatial, revenue was down further than expected, as dealers moderated their inventory levels in the face of softening demand and macro uncertainty. Looking at the indicators, we see softness in residential, and while a portion of the expansion of infrastructure is getting consumed by inflation, underlying optimism remains in the market. For perspective, I look at the three-year CAGR that I talked about on slide 2 in order to calibrate the long baseline performance. Strategically speaking, in 2022 we continued to launch new innovations in GNSS, 3D laser scanning and handheld data collectors, and we achieved a double-digit increase in ARR as our business model strategy takes hold.

In Transportation, we delivered revenue and ARR growth in line with expectations, in addition to delivering the fourth quarter in a row of operating margin expansion. Connect and Scale progression also came in the form of continued development of connected workflows, such as Connected Maintenance, Connected Locations and Engage Lane. The big story, of course, in the fourth quarter was the announcement of the Transporeon acquisition. To refresh memories, Transporeon operates a leading cloud-based transportation management platform, powering a global network of 145,000 carriers and 1,400 shippers. The platform integrates with more than 3,000 systems and powered more than 25 million transactions in 2022. For me, this is the very definition of a Connect and Scale business. I had a chance to spend a few days in Europe with Stephan Sieber and the Transporeon team in January, and my level of conviction of strategic and cultural fit has only increased. We are still working through regulatory approvals and expect to close the deal in the first half of this year. We are excited to get to work together.

In Resources and Utilities, revenue and ARR growth were led by our positioning services, utilities and forestry businesses. Our definition of utilities covers our work with electrical and water utilities, but our positioning services business can also be thought of as a utility, in this case, precision GPS as a utility. In October, we announced that we crossed a hurdle of 34 million hands-free miles driven with General Motors and their Super Cruise™ program. Our precise GPS technology enables a vehicle to maintain its lane position in various environments, and we are working on several other Tier 1 and OEM program opportunities. Moving to agriculture, revenue was flat year over year, and up when excluding Russia and Ukraine. The three-year, double-digit CAGR growth on slide 2 is instructive for calibrating the long baseline growth of the agriculture business. With a product lens on Connect and Scale, we are now bundling our guidance hardware, software and our positioning services—providing both easier access to the technology and a better value proposition for our customers. With a go-to-market lens on Connect and Scale, users and customers are at the center of our strategy. In pursuit of this strategy, we announced this week that we are taking a different approach to our go-to-market relationship with CNH Industrial. Moving forward, our distribution to aftermarket customers, after a 12-month transition period, will be done entirely through independent dealer partners, with the product bearing the Trimble brand. Less than 20 percent of our revenue in the Resources and Utilities segment goes through CNH to their dealer network today. We expect to maintain this revenue and address aftermarket demand and the needs of farmers through our direct relationships with our independent dealer network. This evolved approach to distribution will also enhance our ability to offer OEM brand agnostic solutions to customers to help them orchestrate their field operations with mixed fleets of equipment. Our new approach to aftermarket distribution will improve our ability to sell our full range of technology solutions to aftermarket customers—including guidance, selective spraying, variable rate application, water management and our Connected Farm works center software solution. Our evolving strategy will also enhance our ability to cooperate with OEMs across the industry for their needs for factory-fit equipment.

Let me now turn the call over to David to take us through the numbers.

David Barnes, CFO

Thank you Rob.

Starting on slide 4, I'd like to begin my financial commentary this quarter by discussing organic growth trends across the components of our business. As Rob mentioned earlier, our recurring revenue businesses grew strongly year on year in the fourth quarter, with ARR up 16 percent. The strength of our recurring revenue offerings in a weakening and uncertain macroeconomic environment validates our focus on the continued evolution of our business model.

While our recurring revenue streams were strong in the fourth quarter, revenues of hardware and related software were down. Organic hardware revenue was down 13 percent versus prior year and came in below our expectations. The factors driving the slowdown in our hardware business in the fourth quarter were consistent with what we described in our third quarter call. During the fourth quarter our dealers continued to reduce their inventory levels—reflecting both our improving supply chain execution and uncertainty in the future economic outlook. The drop in demand was most pronounced in our Geospatial segment, as our surveying end customers ordered less than they did earlier in 2022. Hardware backlog reduced sequentially during the quarter as expected.

From a geographic perspective, revenues were up modestly on an organic basis in both North America and the Rest of World—with strong trends in Latin America—but were down in Europe and in Asia Pacific. Year on year, Europe trends were meaningfully impacted by the loss of business in Russia and Ukraine and were up 1 percent organically excluding that impact.

With that as a backdrop, I'd like to turn now to our total financial performance for the fourth quarter and full year 2022. **Starting on slide 5**, fourth quarter revenues of $857 million were flat on an organic basis, and down 8 percent when including the impact of foreign currency and acquisitions and divestitures. Gross margin was up 400 basis points, reflecting both the accelerating mix shift toward software and the positive net impact of our price increases and moderating cost inflation. EBITDA margin was up 20 basis points and operating margin was down 20 basis points, as increases in our gross margin largely offset higher spending against our Connect and Scale strategy (especially our digital transformation) and higher spending on travel and trade shows. Diluted earnings per share were $0.60.

Looking at cash flow, both cash flow from operations and free cash flow were, as expected, down year on year—with the single biggest factor being the amortization of R&D for tax purposes. We did not repurchase any shares during the quarter, and do not plan to restart our repurchases until we are well on the way to de-levering following the issuance of debt to fund the Transporeon acquisition.

Turning to slide 6 and results for the full year 2022, we achieved success across a number of critical dimensions. Organic revenue grew by 7 percent. Gross margin improved by 170 basis points—reflecting the positive impact of our ongoing mix shift. EBITDA margin was 25 percent, even as we restored spending across a number of areas that had been constrained during the Covid pandemic and as we accelerated investments against our strategy. Cash flow was down year on year principally as a result of an increase in our inventories and a change in US tax legislation—both of which we expect to normalize over time. As we move to complete the Transporeon acquisition, we take this on with a strong balance sheet. Working capital remains negative. Our year end net debt to EBITDA ratio stood at 1.4X and the ratings agencies maintained our bond ratings and stable outlooks following the announcement of the transaction.

Turning now to our quarterly and annual results by segment on page 7. Speaking to the fourth quarter, Buildings and Infrastructure achieved organic ARR growth of over 20 percent and recurring bookings growth in the high teens. Sales of civil construction hardware were down year on year by just over 10 percent, leading to organic revenue growth for the segment of 2 percent. Dealers continued to reduce their inventory levels, and end market demand moderated. Segment margins at 25 percent were down year on year, impacted by lower civil construction revenue, our Dimensions user conference, subscription transition and Connect and Scale investments.

Revenues in the hardware centric Geospatial segment were down 12 percent year on year on an organic basis, driven principally by declining dealer inventory levels and softer end market demand across the surveying sector. Segment revenues were also pressured by lower shipments to US Federal customers, which vary meaningfully from quarter to quarter and can be difficult to predict. Segment margins remained over 25 percent despite these headwinds.

Revenues in our Resources and Utilities segment were up 6 percent organically driven by growth from Cityworks and positioning services sold to agriculture customers. Our agriculture revenue was impacted by the loss of business in Russia and Ukraine—with an estimated year-on-year impact of minus 5 percent to the segment in the fourth quarter. Segment margins improved in the quarter sequentially and versus prior year, coming in just under 36 percent.

Our fourth quarter results in the Transportation segment reflect improvement across a number of dimensions. Organic revenue grew 5 percent, driven by higher year-on-year sales of Enterprise and Maps software solutions. ARR for the segment grew at a mid-single digit rate in the quarter. Revenue trends in our mobility offerings improved sequentially from prior quarters, driven in part by higher sales to our largest OEM customer. Operating margins of 14.5 percent were the highest since 2019, and reflect strong performance by our team in managing costs.

Let's turn next to our guidance for 2023 on slide 8. The projections I will share with you today exclude the impact of our pending acquisition of Transporeon.

Starting with ARR, we expect organic ARR growth at a mid-teens level in 2023. Our strong outlook for ARR growth is grounded in the solid bookings momentum we achieved in 2022, the potential for accelerated cross sell as our digital transformation rolls out to a growing portion of our business, and the essential role that our software plays in our customers' operations.

Our outlook for revenue, excluding future acquisitions and divestitures, is $3.7-$3.8 billion, reflecting an expectation of organic growth in the range of 2 percent to 5 percent. As a reminder, divestitures of businesses in 2022 will impact total reported revenue growth trends, with the biggest impact in the first half of the year. Our cautious outlook for 2023 organic revenue growth is rooted in an expectation of continued dealer inventory reductions over the next several quarters, and softer end market demand in an environment of limited GDP growth. We expect revenue from hardware and related software will be down in the low single digits organically for the year, offset by strong recurring revenue growth.

From a margin perspective, we expect that gross margins will improve by over 200 basis points as our business mix continues to shift in the direction of higher margin software. We expect a modest increase in operating margins, as we invest against our strategy in an environment where organic revenue growth is harder to come by. I'll note here that our leadership teams have been working hard over the last several months to adapt our spending plans to the current economic climate. Allocating capital against our strategic priorities is always a major focus for us—and the need for sharp focus is never higher than in a time of weak economic growth. We are confident that we can continue to progress against our strategy within the constraints of our operating plan.

Income from equity investments is expected to be relatively flat with 2022, and net interest expense is forecast at approximately $70 million. Netting this out, we project to achieve earnings per share in the range of $2.66 to $2.86.

We expect that cash flow will grow significantly in 2023 driven in part by reductions in inventory levels. We expect free cash flow for the year of approximately 1X non-GAAP net income. Our cash flow forecast for this year now assumes that amortization of R&D costs under Section 174 of the US tax code will not be repealed within a time frame that will allow us to recover the accelerated tax payments that we made in 2022. While we believe that there is bipartisan support for this change, we are less confident than we were a quarter ago that this legislation will pass soon enough to help us this year. By way of reminder, this issue impacts the timing of tax payments and has an immaterial impact on our tax rate. If Section 174 is repealed within the next several months, our free cash flow would benefit by approximately $150M. Note that our cash flow guidance excludes the impact of transactional costs related to the pending Transporeon acquisition.

While we are not offering quarterly guidance, a few factors are likely to impact the sequential evolution of our financial results as the year progresses. We expect organic revenue to be down in the first quarter and flat in the first half of the year, reflecting the strong growth in hardware and related offerings that we saw in the first half of 2022. We expect organic revenue to be up in the mid- to high-single digits in the second half of the year. Influenced by these revenue growth patterns, we expect operating and EBITDA margins to be relatively flat in the first half of the year, and up in the second half. While we expect mid-teens organic ARR growth for the year, growth in the first half is likely to be slightly lower driven by planned churn from a small number of customers. We expect ARR growth to improve sequentially through the year.

From a segment perspective, we expect organic revenue growth for the year in the Building and Infrastructure, Resources and Utilities, and Transportation segments, with the strongest growth in Buildings and Infrastructure. Revenues in the Geospatial segment are expected to decline for the year, with the highest levels of organic decline in the first quarter as we lap strong numbers from the first quarter of 2022. Geospatial trends through 2023 will continue to be impacted by reductions in dealer inventory levels and ongoing softness in demand in a number of the segment's end markets. We expect margins to be stable in Buildings and Infrastructure and Resources and Utilities. We project growth in Transportation margins, while Geospatial margins will be down modestly for the year.

Back to you Rob.

Rob Painter, CEO

Let me thank our colleagues, customers and partners for their support and their work in our strategic and financial progression. I'm proud to say that we continue to win culture and innovation awards, and proud to announce that we received approval of our emissions reduction targets by the Science Based Targets Initiative. Our objective is a 50 percent reduction in scope 1, 2 and 3 emissions by 2030. In addition, we released our first task force on climate related financial disclosures report. In 2022, our highlight financial metrics were ARR growth and gross margin expansion. Our 2022 ACV bookings give us confidence that we can continue to grow ARR at a double-digit rate in 2023. Hardware demand remains the hardest revenue stream to predict. While the signals are mixed, and even a bit confusing in the short-term, the long-term secular attractiveness remains. Our ability to uniquely connect the physical and digital worlds provides a guiding light for our business and remains the foundation of our right to win in our served markets. We have surgically reduced our expense structure and moderated spending across the Company to ensure discipline and focus in an uncertain environment. What remains certain is our conviction to grow our business by focusing on our customers and continuing to execute our Connect and Scale strategy.

Operator, let's now open the line for questions.