Trimble Construction One™ is a connected, cloud-based construction management platform that drives speed, efficiency and accuracy at each phase of the construction project lifecycle. The SaaS platform connects solutions from pre-construction through project completion, keeping financials current and data connected—all in a single integrated package—for simpler project management and better informed business decisions. Trimble Construction One allows contractors to connect how they "Plan, Do and Manage" their construction projects and associated data for greater returns.

Third Quarter 2021 Earnings Conference Call Prepared Remarks

November 3, 2021

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, 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. **I'll begin on page 2** with the key messages we want to convey today.

In the third quarter, our team once again delivered outstanding results and did so within an incredibly difficult supply chain environment. We exceeded our expectations and delivered record ARR of $1.36 billion, up 8 percent year over year and up 11 percent on an organic basis, total revenue growth of 14 percent, EBITDA margin of 25.9 percent and trailing twelve month operating cash flow of $784 million. We achieved record third quarter levels of revenue in many of our businesses, with another exceptionally strong quarter in machine control in civil construction, guidance in agriculture and survey & mapping. Our results demonstrate the strength of the underlying market recovery and the quality of our execution against our Connect & Scale 2025 strategy. Our results also demonstrate the quality of the Trimble team, and I want to give a special shout-out to all our colleagues, led by Leah Lambertson, who are helping us manage through the supply chain challenges. On the basis of this collective strength, we are raising our annual earnings guidance despite a tightening supply chain environment.

Let's start with market conditions, where the overall landscape remains robust. Construction backlog is healthy, especially in residential and infrastructure, translating to strength in our Geospatial and Buildings & Infrastructure reporting segments. We remain optimistic that the infrastructure bill will ultimately be passed in the United States, which would bolster our long-term outlook in our construction and surveying businesses, starting at some point in 2023. We have been and are building product and go-to-market capabilities ahead of this opportunity. I'm especially proud of the role Trimble has played in leading policy advocacy in support of technology adoption, most specifically around Advanced Digital Construction Management Systems, which provide State Departments of Transportation with access to funding to help them accelerate adoption of proven digital design and construction technologies. We will continue our commitment and support to the nation's Federal Highway Administration and State Departments of Transportation in their pursuit of achieving sustainable and state-of-the-art project delivery.

In Agriculture and Forestry, commodity price strength continues to translate into customer buying power and our backlog remains strong. We are tracking inventory levels of major ag products, which remain in a healthy position and provide some line of sight to continued farm financial strength, which we see as an important counterbalance to rising input costs. On the policy front, we have been advocating for a legislative proposal called SB2750 Precision Agriculture Loan Program Act in the United States that provides low-cost loans to farmers to incentivize adoption of precision ag technologies. Outside the United States, we also see positive conditions, including ongoing subsidies, and we are beginning to see more policies that promote the use of technology to increase environmental sustainability.

In Transportation, we had another quarter of solid bookings growth, improved customer retention and higher operating margins. In September, we announced a strategic relationship with Proctor & Gamble, which will shape the development of an agile procurement collaboration platform, and will in turn complement our existing set of supply chain-focused solutions. Success looks like expediting contracting and onboarding processes to increase the velocity of business transactions while enabling more efficient movement of freight. I'm also pleased to report that we were the first major technology provider to certify in Canada for the Canadian ELD mandate—evidence of the positive shift in product delivery in the business. On the downside, supply chain is especially disruptive to the operations of many of our trucking customers and will likely constrain our ability to see our execution progression flow through the near-term P&L.

Let's turn to page 3 and talk about some notable progression of our Connect & Scale 2025 strategy seen through the lens of the Trimble Operating System—capturing strategy, people and execution. To set context, our strategy is an industry platform strategy that manifests in bringing the best of Trimble together with ecosystem partners to transform industries that support how we live, what we eat and how we move. On the heels of COP26, we are also convinced we can have a profoundly positive impact on addressing climate change through the use of technology.

As a proof point of our strategy, we are excited to have announced on October 27 the formation of a strategic partnership with Microsoft to build, market and sell our industry cloud platforms and solutions that connect people, technology, tasks, data, processes and industry lifecycles. Our initial focus will be to build the Trimble Construction Cloud powered by Microsoft Azure. Importantly, we will also partner on joint go-to-market strategies to globally deliver these cloud innovations.

As an additional strategic proof point, at our annual user conference for our Viewpoint construction management software business, we announced the transition of Viewpoint's branding to Trimble. At this user conference, we also launched Trimble Construction One, **as shown on page 4**, which extends the capabilities of Viewpoint's current SaaS software suite with new and exciting capabilities from other parts of the Trimble software portfolio. In addition to the Viewpoint financial and operational management capabilities, Trimble Construction One incorporates Trimble's estimating and detailing solutions as well as Trimble's advanced project management offering in a single integrated package, which is now being sold by multiple Trimble Divisions. Our direction is clear—we will continue to expand the capabilities of the Trimble Construction One platform for our civil and buildings customers to further connect the physical and digital worlds across construction field and office workflows.

On people, we continue to be recognized as a top company culture; and Fast Company recognized us as a best workplace for innovators. In an increasingly competitive job market, melding Trimble's mission with our innovative culture is top of mind for our talent attraction and retention efforts. As evidence of the attractiveness of Trimble, in September we hired Jennifer Lin as Chief Platform Officer and Poppy Crum as our Chief Technology Officer—both world-class talent who see and believe in our vision and the potential of Trimble.

On execution, we continue to innovate. Our MX50 mobile scanner launched in the third quarter, as did a beta release of SketchUp for iPad; and we continue to enhance the capabilities of our best-in-class high accuracy correction services, which enable positioning down to centimeter levels globally. We are investing heavily in our own digital transformation, which will provide the system and process fuel to deliver our increasingly connected solutions in an efficient and scalable way.

Before I turn the call over to David, I want to talk about how we are operating and leading in the current environment, which presents both volatility and unprecedented opportunity. For years, we have talked about our 3-4-3 operating model. 3 months, 4 quarters, 3 years. I see the role of Trimble leadership as being stewards of capital allocation on behalf of our shareholders where we balance short-term realities with long-term possibility. As we move towards closing out 2021 and into 2022, we will continue to support the incremental investments we are putting towards our digital transformation, autonomy and infrastructure opportunities. We have high conviction that these investments will create new, sustainable and differentiated long-term growth opportunities for Trimble, and we remain bullish on the long-term secular opportunity for digital technology to make our customers more successful, productive and sustainable. We will have the courage to look through near-term supply chain disruptions and the upfront costs of our digital transformation, and to hold ourselves accountable to progressing our Connect & Scale strategy.

David, over to you.

David Barnes, CFO

Thank you, Rob. **Let's start on slide 5** with a review of third quarter results. Third quarter revenue was $901 million, up 14 percent on a year-over-year basis. Currency translation added 1 percent and divestitures subtracted 2 percent for a total organic revenue increase of 15 percent.

Gross margin in the third quarter was 58.7 percent, down 10 basis points year over year, reflecting several factors including higher product and freight costs in our supply chain, offset by increased pricing and lower discounting. Adjusted EBITDA margin was 25.9 percent, down 90 basis points year over year, driven by higher operating expenses and investments in the business. Operating margin was 23.8 percent, down 40 basis points year over year, but still up over 300 basis points versus the pre-COVID third quarter of 2019. Operating expenses last year were unusually low in a number of areas including compensation expense. Net income dollars increased by 10 percent and earnings per share increased by $0.06 to $0.66 per share.

Our third quarter cash flow from operations was $166 million, and free cash flow was $156 million. Cash flow was down modestly year over year in the quarter as we are purchasing inventory in response to strong demand and supply chain shortages. Operating cash flow is up 23 percent on a year-to-date basis, with a conversion ratio to net income above 1.1 times. Our net debt declined $88 million in the quarter, and our net debt to adjusted EBITDA ratio fell to 0.9 times. During the third quarter, we repurchased 100 million dollars of common stock.

At the end of the quarter, we had the entire $1.25 billion available on our revolving credit facility and approximately $513 million in cash. Our balance sheet is strong, and we are well positioned to invest in our business, both organically and through acquisitions that will accelerate the implementation of our strategy.

Turning now to slide 6, I'll review in more detail our third quarter revenue trends. As mentioned earlier, our ARR was up 8 percent in aggregate, and was up 11 percent organically on a year-over-year basis. The 11 percent rate excludes the impact of foreign exchange and our recent divestitures of Iron Solutions, Manhattan Real Estate Solutions and Construction Logistics. All three of these divested businesses had a recurring revenue component but were in areas outside of our strategic roadmap. Our non-recurring revenue streams grew with hardware up 18 percent year over year and perpetual software growing 19 percent. Our hardware growth was driven by strong performance in civil construction, geospatial and agriculture. Our hardware growth contributed to perpetual software growth as some of our hardware offerings are bundled with perpetual software.

From a geographic perspective, North American revenues were up 11 percent. In Europe, revenues were up 18 percent. Asia Pacific was up 5 percent year over year, and the rest of world was up 33 percent, driven principally by strong demand from the agriculture sector in Brazil.

Next on slide 7, we highlight some of the key metrics that we follow; and I'll start with ARR. While total company ARR grew 11 percent organically on a year-over-year basis, ARR excluding Transportation grew at a mid-teens rate in the quarter. Net working capital, inclusive of deferred revenue, continued to be negative, representing approximately minus 2 percent of revenue on a trailing twelve month basis, notwithstanding an acceleration in purchases of component inventory during Q3.

Research and development on a trailing twelve month basis was 15 percent of revenue, and our deferred revenue grew 17 percent year-over-year.

Our backlog at the end of the third quarter was $1.6 billion, up from $1.5 billion a quarter earlier and up over 30 percent year over year. While growth in our backlog is an indicator of momentum in the business, it is also reflective of the shortages and extended delivery times that we are experiencing for many key components in our hardware products. Of our $1.6 billion in backlog, just under $340 million relates to our hardware offerings, up from about $100 million in hardware backlog a year ago and $38 million higher than the end of Q2. We expect supply chain constraints for many key components to extend well into 2022.

Let's turn now to slide 8 for additional detail on each of the reporting segments. Buildings and Infrastructure revenue was up 12 percent on an organic basis. Revenue growth was strong in both our Building and Civil Construction businesses, and organic ARR was up in the high teens in the quarter. Geospatial revenue was up 23 percent on an organic basis, driven principally by strong performance in our core branded survey equipment. Margins were up 60 basis points due to both revenue growth and operating cost control. Resources and Utilities revenue was up 23 percent on an organic basis. We experienced double-digit growth in each of our precision agriculture and positioning services offerings. Margins in Resources and Utilities contracted 330 basis points, and were hardest hit by product cost inflation in the quarter.

Financial results in Transportation showed progression in a number of areas. Revenue was up 3 percent on an organic basis year over year, but grew less than we expected due to supply chain challenges both in our operations and our customers' businesses. Margins expanded 410 basis points year over year.

Turning now to page 9 for our updated outlook for the full year. We are raising our expectation for full-year revenue, with a new range of $3.59 billion to $3.64 billion, representing growth for the full year in the mid-teens and single-digit, year-over-year growth in the fourth quarter. End market demand is even stronger than we thought it would be a quarter ago, but supply chain constraints will likely cause our backlog to remain at or above the increased levels from the end of Q3.

ARR growth at the company level is trending as we anticipated driven by strong bookings and subscription transition, and we expect organic ARR growth of greater than 10 percent in the fourth quarter and a strong entry point going into 2022.

Gross margins in the fourth quarter are likely to be about flat sequentially with the third quarter. An increasing mix of software will have a favorable impact on sequential gross margin trends, but this benefit will be offset by an anticipated decline in hardware margins. In aggregate, we now expect that the net impact of accelerating hardware cost inflation and our recent price increases will be modestly negative to hardware margins in Q4.

Building off our strong third quarter results, our outlook for operating margins continues to improve and we now expect operating margins for the full year 2021 will be above 2020. Operating margins in the fourth quarter of this year will likely be lower than the fourth quarter of 2020, driven both by higher hardware component costs year on year and by higher operating expense, as OpEx was unusually low in 2020 and we are now ramping up investments against our strategy. Our outlook for full-year earnings per share is increased to $2.61-$2.69, representing growth of approximately 17-21 percent year over year.

We continue to expect operating cash flow greater than 1.1 times net income, and free cash flow greater than 1 times net income, reflecting the strong cash generative aspects of our business model.

I'd like to comment briefly on the outlook in the fourth quarter for our Transportation segment. As Rob mentioned earlier the leading indicators for this business are strong—with growing bookings of recurring solutions, sequentially improving customer retention in our mobility business and increasing signs that our connected transportation strategy is resonating with customers. Nevertheless, factors related to the global supply chain and the extraordinary pressure on the Transportation industry will negatively impact our business momentum in the short run. Our OEM business will be constrained by customer manufacturing challenges. And the aftermarket business will be slowed by the fact that trucking companies are reluctant to take assets off the road for technology upgrades at a time of high transportation prices and extraordinary asset utilization. We believe that these constraints will be resolved over time and we remain confident in the turnaround of this business. But the pace of improvement of revenue, ARR and profitability will be lower than we had earlier projected.

With regard to 2022, we don't plan to give detailed guidance until our year-end earnings release, but we can characterize some of the drivers that we see now and their expected impact on revenue, ARR, and margins.

Demand across our end markets remains strong, and we believe that strength will sustain at least through the end of 2022. Our customers' need for digital solutions to optimize their workflows has never been stronger, and these customers have the money and the desire to invest.

We expect organic ARR growth to accelerate in 2022, building off the momentum we have now and aided by continued model transitions and the growing sale of connected recurring solutions.

The supply chain environment remains our biggest challenge, and that challenge is predicted to be with us for several more quarters. From a cost perspective, we anticipate that inflation in our hardware businesses will be sustained through the first quarters of 2022, driven both by higher component costs and higher costs of getting product shipped to our manufacturers and distribution centers. It is the goal of our pricing strategy to offset the impact of inflation on our hardware gross margins, and that pricing strategy continues to evolve.

Rob referenced in his remarks the investments we are making against our digital transformation; we anticipate that as we get through this investment cycle in 2022—and as our software businesses continue their transition to recurring revenue models—our operating leverage will be lower in 2022 than we expect over the longer term. The investments we are making in our digital transformation are at the core of unlocking the potential of our platform strategy, and we expect to end 2022 with business processes and systems that will accelerate our ability to transform the way we go to market and the way our customers do their work.

With that, I'll turn it over to the operator for Q&A.