Technology is making it possible to connect, collaborate and automate a variety of tasks in the construction workflow that used to only be possible manually. Not only does automation remove steps from processes, it also reduces human errors and facilitates data sharing to improve productivity and efficiency, ultimately transforming the way we work.

4th Quarter Earnings Conference Call Prepared Remarks

February 12, 2020

Trimble Corporate Participants

Robert Painter – President and CEO
David Barnes – Senior Vice President and CFO
Michael Leyba – Director of Investor Relations

TRANSFORMING THE WAY THE WORLD WORKS

Presentation

Michael Leyba – Director of Investor Relations

Good afternoon everyone and thanks for joining us on the call. I'm here today with Rob Painter, our CEO, and David Barnes, 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, Rob will start with an overview of the quarter and the year. After that, David will take us through the remainder of the slides, including an in-depth review of the quarter, and the year, our guidance and then we will go to Q&A.

I would also like to briefly mention that we will be attending the Morgan Stanley Technology Media and Telecom Conference on March 2 in San Francisco.

With that, please **turn to slide 3**, and I will turn the call over to Rob.

Robert Painter – President and CEO

Good afternoon everyone.

The focus of my comments today will be on Trimble's direction going forward.

For baseline context, our fourth quarter revenue came in well ahead of expectations, as did EPS. More importantly, annualized recurring revenue (ARR) was $1.13 billion, up 6 percent, and free cash flow was $516 million on a trailing twelve-month basis, up 23 percent. Revenue and EPS were at record levels for 2019.

This represents my first call as CEO. Steve Berglund is now our executive chairman and Börje Elkholm, CEO of Ericsson, has joined our Board of Directors.

In addition, David Barnes is in place as our new CFO. David is off to a strong start and is focused on helping us both transform our business models and put in place the enabling mechanisms to efficiently and effectively scale on a global basis.

As I take over as CEO, I have the benefit of having been with the company for 14 years, in both operating and executive leadership roles. I continue to believe with great conviction in the strength of the Trimble business model. I am also mindful that it is important to refine strategy when macro or competitive dynamics shift in meaningful ways.

From an investor lens, our objective is to allocate capital and resources with an owner/operator mindset. That looks like:

1) Executing a compelling strategy that drives unique customer value, thereby creating and sustaining competitive advantage.

2) Pursuing business models that create lifetime customer value; *and*

3) Putting shareholder capital and management bandwidth to work in the highest return areas that is ultimately measured by free cash flow.

What has stayed the same since we put our business model forward at investor day in May of 2018 is three-fold:

1) Our end markets are fundamentally attractive at a secular level—they are large, global markets that are undergoing digital transformation.

2) Our solutions deliver substantial return on investment, as measured by productivity, quality, safety, transparency and environmental sustainability.

3) Our differentiation, which happens at the intersection of the physical and digital worlds. That is, our technology stack enables hardware, software and services that allow us to connect work from the office to the field, and back.

Overall, we believe strongly that our business will create compelling returns over a cycle. What played out differently than we anticipated a couple of years ago was the emergence of trade disputes as well as the influx of private capital into some of our end markets. On the positive side, what played out better has been the acceleration of software and ARR as a percent of our overall revenue mix, as well our product innovation achievements.

As I come into the CEO role, my aim is to make the right long-term decisions that unlock sustainable shareholder value. In our last call, we said we would take a fresh look at our portfolio, strategy, structure and systems, while respecting 41 years of what got us here. On that note, I think we are off to a strong and credible start.

We have launched a new strategy that we refer to as “Connect & Scale 2025.” We will connect the industry lifecycles we serve. We will accelerate our move towards subscription business models, both in software and hardware. We will connect our solutions into bundled offerings. And we will begin to enable a data strategy that we believe we are uniquely positioned to fulfill.

Our strategy challenges us to reinvent ourselves—whether that be through business model transitions or making <u>disciplined</u> strategic bets on further shaping industry transformation. Our markets are dynamic and changing fast—and we will lead. We will also allocate capital in our underlying systems to help us efficiently and effectively scale.

As proof points that we are in motion on the strategy, four examples:

- *First* - We said we would take a fresh look at the portfolio. In the last four months we exited 3 businesses. While financially immaterial to Trimble, they do increase our focus.
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- *Second* - We said we would take a fresh look at the organizational structure. I moved from having 10 business operational direct reports to 5. We did this by bringing together the assets within our Construction, Geospatial, Resources and Transportation franchises. This structure enables our industry lifecycle strategy, breaks down organizational silos and helps us approach our markets more holistically. One leader. One unified direction. We also stood up a fifth franchise business for Autonomy—where we brought together a number of efforts across Trimble under one umbrella.

- *Third - Innovation*. In the fourth quarter we launched a number of notable solutions, including some of the following that are also shown on **slide 7**.

    - We started shipping the XR10, which is a mixed-reality device purpose-built for integration into an industry-standard hardhat for use in construction environments. The XR10 enables users to overlay Constructible Building Information Models (BIM) and other digital project data onto the physical context of the jobsite—truly connecting the physical and digital worlds
    - In Geospatial, we began shipping our X7 3D Laser scanner, which opens up a category in surveying and construction that was previously missing. We also launched our new

    R12 GNSS receiver, which allows surveyors working in challenging GNSS environments to reduce both the time in the field and increase accuracy up to 30 percent.
    - Weedseeker 2 in Agriculture launched and it spot sprays weeds and provides growers up to 90 percent savings in input costs when targeting and treating herbicide resistant weeds.
    - In our Construction software business, we won a number of new logos that included a solutions bundle with Viewpoint One and Tekla Structures—in this case, we are integrating prefabrication and shop planning through Tekla with purchasing and project costing through Viewpoint.

- *As a fourth example* - To highlight our willingness to reinvent ourselves by putting the spotlight on our recent acquisitions on **slides 5 and 6**, starting with Kuebix, which we closed on January 14. Kuebix provides a platform that we believe accelerates the reinvention of our transportation strategy and business model. The fundamental problems underlying the transportation industry include tight operating ratios, driver turnover and poor resource utilization. The Kuebix investment thesis is three fold:

    - 1) To extend the Kuebix cloud-based community of shippers, carriers and intermediaries to include Trimble's carrier customers representing approximately 1.3 m assets, enabling dynamic and optimal planning, execution and freight matching
    - 2) Expand the addressable market by more than $2.5 billion dollars
    - 3) Significantly accelerate our delivery of a multi-tenant carrier transportation management system in the cloud
    - Overall the strategic thesis is compelling. In the short term, the acquisition will be dilutive to Transportation reporting segment margins and company earnings per share. The proof points in 2020 of our execution will be increasing the size of the shipper community, connecting carrier capacity, accelerating transaction volume through the platform, and accelerating our next-gen carrier SaaS platform.

- We also <u>announced</u> three acquisitions in the fourth quarter

    - In our Utilities business we acquired Cityworks—whose core strength is an enterprise asset management software platform for utilities and local governments, which include mobile, IoT and infrastructure lifecycle solutions. The combination will provide a comprehensive digital platform—with real-time asset intelligence, workflows and analytics—for transforming the way governments and utilities prioritize infrastructure maintenance and construction investments.
    - In addition, we announced the acquisition of two virtual reference station networks that add over 1.1 million square kilometers to Trimble's correction services coverage in Canada and New Zealand. Our subscription-based VRS correction services are accessible to customers around the world who rely on high-accuracy corrections to increase productivity and reduce operational costs. The correction services are ideal for professionals in agriculture, geospatial and construction as well as emerging high-accuracy applications, such as on-road positioning for passenger vehicles.

- The common thread of these acquisitions is that they are all software businesses that connect industry lifecycles.

Our leadership team is committed to the new direction of our "Connect & Scale 2025" strategy. Over the next couple of quarters our team will cascade the strategy deeply into the businesses by applying the Trimble Operating System framework, which calls on us to continually focus on all three dimensions of strategy, people and execution. These build on each other to create a high performing organization. The natural question that emerges is what this implies for both our long-term financial model. Our aim is to hold an analyst day to update the view on the long-term model in the second half of the year, and then in the fourth quarter use our Dimensions User Conference as a solutions demonstration and education venue. What we can share now is that we will look towards metrics that reflect the transition of our business to an increasingly subscription-based digital model. You will see some of these metrics on **slide 4,** such as ARR and cash flow. Our recognized revenue and EPS are important, yet increasingly incomplete, measures of progression.

Last, a couple of comments on company performance:

- In the Transportation reporting segment, the results are not to our standard. We have work to do and we have a plan. In our Mobility business, meeting the demands of the Electronic Logging Device (ELD) mandate proved to be harder than originally expected. We elected to write software both for our older hardware technology as well as our newer hardware platforms. Supporting multiple platforms has proven to be a larger than anticipated R&D and customer migration support effort. This resulted in higher expenses and customer churn, which is negatively impacting margins and ARR. We've got a plan to get the performance back on track—and it begins with delivering upon our customer commitments. We have brought in a number of new leaders in the business and we are more proactively migrating customers from old technology platforms to new technology platforms. The nature of the business is that we have long subscriber lifetimes. It is therefore in our interests to take short-term financial pain to upgrade customers to newer technology platforms in order to preserve the lifetime value of our customer relationships. Between the acquisition of Kuebix and working on the Mobility business, we anticipate 2020 profitability roughly in line with 2019 profitability. Our commitment is to make progress in 2020 that puts us on a course to deliver 2021 profitability closer in line to the Trimble model.

- In the other reporting segments, revenue exceeded expectations, led by solid performance in all of Buildings and Infrastructure as well as Geospatial.

- On EPS, performance exceeded expectations, with robust performance in Buildings and Infrastructure, Resources & Utilities, and Geospatial.

Let me now turn the call over to David.

David Barnes – Chief Financial Officer

Thanks, Rob.

In my commentary, I will review the results for both the fourth quarter and the full year of 2019 before closing with guidance.

Starting on slide 8, fourth quarter total revenue was $827 million on a non-GAAP basis, up 4.3 percent year over year and above our guidance range. To break that down, currency translation subtracted 1 percent and acquisitions, net of divestitures, added 1 percent. Organic growth was 4 percent, with approximately 3 percent growth from the impact of the 14th week. ARR, or annualized recurring revenue, grew to $1.13 billion in the quarter, up 6 percent year over year, and was up 5 percent on an organic basis.

Adjusted EBITDA, which includes income from our joint ventures and equity investments, was $193 million, with a margin of 23.4 percent. Operating income dollars increased 4 percent to $178 million, with operating margins of 21.6 percent, essentially flat versus prior year. Our non-GAAP tax rate was 19 percent, also flat on a year-over-year basis. Net income was up close to 10 percent, and non-GAAP earnings per share in the fourth quarter were 53 cents, up 5 cents or over 10 percent year over year.

Fourth quarter cash flow from operations was $122 million, up 20 percent year over year, while cash flow from operations for the full year was $585 million, also up 20 percent year over year. Free cash flow, which we define as cash flow from operations minus capital expenditures, was $108 million for the quarter, and $516 million for the year, each measure up 23 percent year over year.

Consistent with changes in tax laws and to align with our international business operations, a non-U.S. intercompany transfer of intellectual property, completed in the fourth quarter, resulted in a one-time GAAP tax benefit for the fourth quarter of 2019. Our fourth quarter 2019 non-GAAP rate remained consistent with the prior year and we expect that our 2020 non-GAAP rate will be 17 to 18 percent.

Our balance sheet remains strong and provides us with flexibility to simultaneously consider a range of capital allocation actions. We expect to continue to de-lever and pursue modest share buybacks while having dry powder deployable for attractive acquisition opportunities. During the fourth quarter, we completed the acquisitions of Cityworks and Can-Net. We did not repurchase shares.

Turning to Slide 9, when looking at the full year for additional perspective, we view 2019 as a year that presented both opportunities as well as challenges. Revenue grew over 4 percent overall and 2 percent organically. Operating margins for the year contracted 20 basis points to 20.4 percent, reflecting margin dynamics in Transportation as well as impacts from subscription transitions. EBITDA margins expanded 10 basis points to 22.7 percent. And EPS grew 5 cents or 3 percent to $1.99, exceeding the guidance ranges that were previously provided during our third quarter earnings call. Lastly, our 2019 free cash flow was strong, driven by the growth in EBITDA, working capital management, and lower acquisition expenses.

Turning now to slide 10, let's go through the fourth quarter revenue details at the reporting segment level, which are presented on a year-over-year basis.

Buildings and Infrastructure delivered 10 percent organic growth, with high single-digit growth in both the Building and Civil Construction businesses. Approximately 4 percent of growth came from the 14th week. Our e-Builder, Viewpoint, and Civil Engineering businesses each experienced double-digit growth in the quarter.

Geospatial improved sequentially relative to the third quarter, and was down 5 percent year over year on an organic basis, an improved trend from recent quarters, despite a modest reduction in distributor inventory levels. Segment revenues benefitted by approximately 1 percent from the 14th week. As discussed previously, our revenues derived from OEMs in China were down significantly year over year creating a continued year-over-year headwind to the reporting segment.

Resources and Utilities was up 1 percent on an organic basis. Approximately 2 percent came from the 14th week. Segment revenue was up about 6 percent on a year-over-year basis, benefiting from the inclusion of Cityworks, whose revenue stream largely consists of term licenses and software maintenance, which provides a predictable revenue stream.

Lastly, the Transportation business produced a little less than 5 percent organic growth in the quarter. Approximately 4 percent came from the 14th week.

We note that all of our segments other than Geospatial have grown at double-digit compound rates over the last three years.

Moving on to slide 11. Let's go through the operating income details at a reporting segment level. Fourth quarter operating income for Buildings and Infrastructure grew 26 percent year over year, with margins expanding 370 basis points to 29.0 percent. Geospatial experienced margin expansion as well, with operating income margins expanding 200 basis points, despite a slight contraction in revenue. Resources & Utilities operating income grew 8 percent, expanding margins by 40 basis points. Transportation operating income contracted as a result of dynamics that Rob described earlier, and margins were 14.8 percent for the quarter.

Please turn now to **slide 12** for a review of our revenue mix by type, which is presented on a trailing twelve-month basis. Software, services and recurring revenues continue to grow, up 15 percent, with organic growth in the high single digits and now collectively represent 57 percent of total Trimble revenue. Within that, recurring revenue, which includes both subscription as well as maintenance and support revenues, grew 19 percent year over year, and grew approximately 17 percent excluding the 14th week. Recurring revenue now represents 34 percent of total Trimble revenue. Software and services grew 9 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.

On slide 13, I will now close with guidance, which excludes the impact of any future acquisitions or divestitures, and assumes stable exchange rates.

We approach 2020 with optimism about our business model and long-term prospects, while still cognizant of some challenging market conditions in the short run. We enter the year with $1.13 billion in annual recurring revenue and a high degree of confidence that subscription and other recurring revenue will continue to grow at a healthy pace. We also have strong broad-based momentum in our Buildings & Infrastructure segment, and we expect a positive year for the Geospatial segment, which was impacted in 2019 by OEM and China related weakness and which will benefit in 2020 from new product introductions. Profitability will also benefit from structural cost reduction activities that we implemented in the second half of 2019. However, in the short term we are cautious about a number of factors. The agricultural market remains challenged, and we do not believe that the Phase 1 trade deal will have a meaningfully positive impact on our agricultural business in 2020. So our Agricultural business plans for this year reflect a continuation of the market conditions we have seen since the beginning of the implementation of tariffs. In addition, Rob discussed the challenges related to ELD in our Transportation business. Finally, we are actively monitoring the potential impact the coronavirus could have. Our business with customers in China represents about 2 percent of Trimble revenue, and this business will be heavily impacted in Q1. First quarter results will also be impacted by delays in our China-based supply chain and to a lesser extent by projects and commercial activity indirectly related to the Chinese economy. Our plans assume a resumption of more normal activity in the coming days and weeks, although there is obvious uncertainty in how quickly the coronavirus contagion will be controlled. If the contagion spreads further and recovery efforts are delayed, the impact on our business would grow.

For the first quarter, we expect non-GAAP revenue of $780 million to $810 million and earnings per share of 40 to 45 cents. The first quarter revenue range assumes total company growth of -3 to +1 percent, with organic growth in the -4 percent to flat range, plus a little over a point from acquisitions, with a little under a negative point from FX. Our cautious outlook in Q1 reflects an estimate of an approximately 3 percent negative year-over-year impact to revenue growth from coronavirus, and includes costs associated with meeting the demands of the ELD mandate.

Our current full-year view of 2020 total company growth is estimated at +1 percent to +4 percent, with organic growth in the flat to +3 percent range. Currently, we expect organic revenue growth to improve as we go through the year. We expect ARR growth in the high single digits overall for the year, with growth rates increasing through the year. Organic growth in the fourth quarter of 2020 will be negatively impacted, on a year-over-year comparison basis, by about 3 percent, due to the 14th week in fourth quarter 2019, and that has a little less than a point negative effect on the year.

From a profitability standpoint, our earnings per share full-year guidance is for flat to mid-single digit EPS growth, which incorporates a number of factors. We expect margins to expand in many of our businesses, driven by growth and software mix as well as recent cost reduction activities. Tempering that margin growth are the short-term negative profitability impacts from subscription transition, incremental costs primarily in the first half of the year to upgrade customers to newer technology platforms related to the ELD mandate, and the Kuebix acquisition, which is expected to be modestly dilutive in 2020. From a cash flow perspective, we expect to follow up a very strong 2019 with operating cash conversion of greater than 1.1X non-GAAP net income. Interest expense should trend down as we go through the year, as we currently expect to dedicate a significant portion of cash flow to debt paydown.

With that, I'll hand it back over to Rob.

Robert Painter – President and CEO

Thanks everyone for taking the time to be with us today.

I want to close by acknowledging the efforts of our 11,500 global Trimble colleagues for delivering a solid 2019.

2020 will be an important year as we lay the foundation for our “Connect & Scale 2025” strategy. My message to investors is the same as our employees — “We’ve Got This.” We appreciate your support.

Operator, let’s please open up the line for questions.