Trimble solutions help solve complex challenges across the agricultural landscape, enabling farmers to make data-driven decisions that can drive productivity, profitability and sustainability. Covering all seasons, crops, terrains and farm sizes, Trimble's Connected Farm solutions include guidance and steering; grade control, leveling and drainage; flow and application control; harvest solutions; desktop and cloud-based data management; and correction services.

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1st Quarter Earnings Conference Call Prepared Remarks

May 6, 2020

Trimble Corporate Participants

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

TRANSFORMING THE WAY THE WORLD WORKS

Presentation

Robert Painter – President and CEO

Good afternoon. COVID-19 is on the forefront of everyone's mind. Our presentation format will be different this quarter, and is structured to address topics that seem to be top of mind amongst our long-term shareholders. As always, our presentation is available on our website, and we ask that you please refer to the safe harbor at the back.

Before we start walking through the slides, we want to acknowledge that this is an extremely challenging and uncertain time for all of us—and that everyone listening has their own unique set of circumstances they are dealing with. While these calls are designed for our investors, our employees are also active listeners. In fact, over 40 percent of our employees are shareholders; as such, these updates speak to both audiences. In our current environment, we lead with a moral principle to support the health and safety of our community, including employees, customers and dealer partners. We also lead with a strategic principle to keep our business moving forward. We have customers and partners who rely on Trimble to keep their businesses running—to move the goods of commerce, to feed the global population, to build and maintain our infrastructure, and more. With heartfelt gratitude, I applaud the level of dedication and resolve from our over 11,500 Trimble colleagues, our worldwide network of dealer partners and our customers.

As a leadership team, we activated a comprehensive global business continuity plan in early March. The vast majority of Trimble is working remotely, and we are in the process of defining when and how we gradually return to our office environments. The ongoing economic impact to Trimble will correlate to when and how we and our customers establish a set of "new normal" working conditions. While it feels like we can see the light at the end of the tunnel, the fact remains that there is still a great deal of uncertainty. The essence of our planning has been to plan for the worst case scenario and hope for the best. We took early and decisive action, and I am incredibly proud of how our team has rallied together as One Trimble. We will get through this crisis. We are well positioned to endure the macro-economic shock. And we will emerge stronger on the other side of this. While we are managing to short-term realities, we are also equally focused on executing our long-term strategy.

Let's shift to the presentation.

Slide 2 has the 7 key messages we want to address today. As I've just highlighted, our team has risen to the challenge and this is Point 1. Point 2, our first quarter results exceeded expectations, demonstrating the quality of the Trimble strategy and the financial strength in the first 11 weeks of the quarter—a big thank you to the Trimble team. Point 3, our balance sheet and access to liquidity remain emphatically strong. Point 4, as we look to the past to inform the actions of today, the multi-year execution of our strategy and the transformation of our business model has established more resiliency than at any point in our history. Point 5, we took early and decisive management actions, including increasing liquidity and implementing broad-based temporary pay reductions, to fortify the business. My commitment to our Trimble team is to restore pay as soon as possible. Point 6, we are suspending guidance, and we will be as transparent as we can with the puts and takes we are seeing in the market and in our business. Point 7, the cumulative actions we have taken enable us to stay true to our long-term strategy—Connect & Scale 2025. No changes.

Moving to slide 3, the message here is that our business is essential and our team is leading. My opening comments addressed much of what is on this slide.

Before I turn it over to David, **slide 4** offers a few examples of how Trimble is helping our customers and communities during this time. In our Transportation business, our team is offering a free service to display and collect current truck stop status and amenity information. We are also offering free driver trip planning to suggest open truck stops and rest areas. Our leasing team has put together programs that are enabling customers to extend payment terms. In our communities, I would like to highlight our Cityworks team, which is offering a web-based, GIS-centric platform for local governments to manage their emergency response efforts.

David

David Barnes – Chief Financial Officer

Thanks Rob.

Turning to slide 5, non-GAAP revenue for the first quarter was $794 million, in the middle of our guidance range despite greater than anticipated weakness in demand late in the quarter as the pandemic impact widened. I'll note that Q1 revenue reflects outstanding management of the supply chain disruption coming out of China. We exceeded our initial expectations in fulfillment of customer demand despite the fact that the shutdowns in China were more severe and longer lasting than we anticipated when we issued guidance in mid-February.

Total revenue growth for the quarter was -1 percent, which included -2 percent from organic growth and approximately -1 percent from changes in exchange rates as the U.S. dollar strengthened during the quarter. Acquisitions added about 2 percent to revenue during the quarter. Our recurring revenue was strong, with annualized recurring revenue, or ARR, up 7 percent year on year and up 6 percent on an organic basis. Note that this represents about a 1 percent acceleration from ARR performance in Q4 of 2019.

Gross margins, operating margins, net income, and EPS improved versus prior year, and EPS came in well above our guidance range. Margins improved during the quarter for a number of reasons. Gross margins were higher year on year driven principally by an improvement in mix, as our higher margin software businesses performed relatively well during the quarter. Lower levels of discounting and the introduction of higher end new hardware products also improved margins. As the impending weakness in the economy became apparent we pulled back on discretionary spending (including travel and outside services) and we reduced our rate of hiring. In addition, our expense relating to incentive and commission plans was reduced meaningfully during the quarter. Note that the temporary pay reductions Rob mentioned in his remarks did not take effect until the last week of Q1—so we will see the vast majority of that cost benefit beginning in Q2.

Turning to slide 6, we are showing here revenue and profit trends by segment, and I'll touch on the factors, which are expected to drive the sector businesses going forward.

- The Resources and Utilities segment had a strong revenue and profit quarter, driven by demand in the agriculture sector for our aftermarket products and correction services. Late in the quarter our OEM business was impacted by factory shutdowns, but end customer demand proved to be solidly resilient through the quarter. Revenue trends were aided late in the quarter by customers' buying product in anticipation of shutdowns in distribution and manufacturing facilities.

- Our Buildings & Infrastructure segment had organic growth in the quarter driven by our civil business and growth in our recurring revenue offerings. The organic growth occurred despite March weakness in project starts and bookings. With some notable exceptions, most ongoing construction project activity continued despite COVID-19-related work restrictions.

- The Geospatial business got off to a strong start in the quarter driven by new products and by the timing of dealer orders. March results were much weaker, both because dealers drew down inventories and because demand began to weaken with the decline in oil prices and the implementation of shelter-in-place rules.

- Transportation revenue was weak in the quarter, driven in part by the factors we discussed in our Q4 2019 release. As you will recall, we have experienced challenges related to the implementation of the electronic logging device (ELD) mandate in our telematics business. Revenue trends weakened further in March as the COVID-19 crisis took hold. During the quarter, we made significant progress in addressing product functionality gaps, and partly as a result we are seeing lower churn coming out of the quarter. Going forward we plan to accelerate the transformation to higher performing hardware across our customers' fleets. While these steps will put continued pressure on margins this year, we believe they will position the business for stability later this year and growth as the market returns to more normal conditions. The transportation market in Q1 was in meaningful turmoil relating to the pandemic—providers to food retailers saw a significant spike in demand, while trucking companies supporting capital goods or energy markets experienced a significant reduction in freight demand. Overall our business was impacted in March by deterioration in market conditions and a decline in the number of trucks on the road. I'll note here that our MAPS business, which has a recurring revenue model, saw strong demand through the quarter.

One additional observation about the timing of revenue trends within Q1: revenue growth was strong through the first two months of the quarter and then weakened in March as the COVID-19 pandemic took hold. Revenue growth was in the high-single digits through the first two months of the quarter and then was down in the mid-teens in March.

I'd also like to comment briefly on the trends we have seen in our business after the full COVID-19 crisis hit in March. I'll start with our recurring revenue, which remains strong even in this period of facility shutdowns and economic weakness. Customer retention so far is in line with our pre-crisis experience. Our enterprise systems are critical for our clients' operations. Approximately 75 percent of our recurring revenue offerings represent field or enterprise software used day in and day out in the course of our customers' businesses—so as long as our customers remain in business and project activity continues then our products are essential. In fact usage of many of our systems has grown since the crisis intensified. We are however seeing a delay in bookings of recurring software as customers rethink their priorities and cope with facility shutdowns, but this will have only a small impact on our revenue in 2020 and we are holding our share of the new awards that are coming through.

Our non-recurring revenue businesses are, unsurprisingly, experiencing more adverse trends since the COVID-19 crisis expanded in March. Our OEM hardware businesses, which collectively make up less than 15 percent of revenue, have been significantly impacted by the shutdown of many of our customers' production facilities. Hardware sales have been adversely hampered by work restrictions at our dealers and at their customers, while much of our professional service business has been impacted by lack of access to our clients' people and facilities.

Encouragingly, we enter Q2 with over $1.2 billion of backlog. Of this amount roughly $250 million is from our non-recurring revenue businesses, up versus the same period last year. We expect the majority of that backlog to convert to revenue this year.

Turning now to **slide 7**. Our cash flow, balance sheet, and access to liquidity remain strong. During Q1 we generated $156 million of cash flow from operations, up 5 percent from prior year.

We ended the quarter with $217 million of cash. We have renegotiated terms of an outstanding term loan to extend the maturity from July of 2021 to July of 2022. As you can see from the table, we anticipate no principal due on any of our outstanding debt for the next two years. We also have over $1 billion of untapped borrowing capacity on our credit facility.

Our outstanding debt is rated investment grade by both Moody's and S&P, with stable outlooks from both agencies. Moody's just reaffirmed their rating and stable outlook in a report issued last week. We finished Q1 with financial ratios comfortably in compliance with our credit line covenants. We have a strong primary focus on ensuring credit facility compliance and access to liquidity as we model potential scenarios for our business in the coming quarters.

Our business generates significant cash flow consistently in excess of earnings—even in times of economic downturn. Our financial modeling shows that the business would continue to generate significant free cash flow even in an environment of revenue reductions significantly worse than what we saw in the global financial crisis.

In summary, our balance sheet is strong, and we have taken action to further strengthen our capital structure as the COVID-19 crisis has unfolded. The current capital structure, and the demonstrated ability of our business model to generate cash even under adverse scenarios, gives us the platform to weather the crisis and continue to execute our strategy.

Turning now to slide 8, I'd like to point your attention to several ways in which our business model has evolved since the beginning of the last two phases of real weaknesses in our end markets—the Global Financial Crisis at the end of 2008 and the commodity price declines of several years ago.

Note that in 2008 hardware represented nearly 90 percent of Trimble revenues, and that the Geospatial segment made up just under half of our business. This revenue mix left us highly vulnerable to reductions in capital spend in a number of markets—especially oil & gas. With this business mix Trimble revenue declined 15 percent in 2009.

In the last 12 years our model has evolved significantly—with hardware now making up less than half of our revenue—and our sector and geographic diversification leaves us better able to withstand any focused reduction in capital spending activity. As I noted earlier, the one third of our business with a recurring revenue model is holding up well through the first months of the COVID-19 crisis. The point here is that our business model is more resilient than ever, with a more diversified and stable revenue mix.

Turning to **slide 9**, I'll talk about efforts we have undertaken across a number of areas to fortify our business for the recession we now see coming. From a capital allocation perspective, we have taken a number of steps to ensure that our balance sheet remains strong. We have temporarily suspended our share repurchase program and put a hold on significant new acquisitions until we can see clear signs of recovery in our business and end markets. As I noted earlier, we have negotiated an extension on the scheduled maturity of an existing term loan. From a cost perspective, we have taken action on a number of fronts. These actions include an immediate reduction in discretionary spend like travel, lower forecasted payouts on our incentive plans, the elimination of our planned annual salary increase and a broad-based temporary salary reduction program. The salary reduction program, which took effect just as Q1 ended, reduces our payroll base of $200 million per quarter by approximately 10 percent. Note that the reductions were implemented in a progressive approach. Many of our front-line workers received no reduction at all, while our CEO, Board of Directors, and senior leadership team have accepted temporary reductions of 50 percent. Of the $20 million per quarter salary savings, approximately 75 percent (or $15M per quarter) will show up in operating expense with the remainder in cost of goods sold. The salary savings, when combined with our other cost reduction initiatives, have reduced our quarterly run rate of operating expenses by roughly $30 million per quarter lower than the first quarter 2020 run rate, and $50 million per quarter when compared with our pre-COVID 2020 plan.

From a supply-chain perspective, we plan to keep doing what worked well for us in Q1 as we managed the disruptions in China. Our team has shown an ability to be creative and flexible in responding to whatever disruptions we see in the market, and we will constantly readjust our plans to ensure that we meet evolving customer demand.

Now I will turn it back over to Rob to talk about our views looking forward.

Rob

Robert Painter – President and CEO

Moving to slide 10, while we are suspending our second quarter and total-year guidance, we also want to be transparent and talk about the areas where we have more and less visibility. David described a number of ways in which our business was impacted in March as the economic slowdown took hold. I'll expand on those comments and give you some thoughts on how we see our business trending in the second quarter. The overall performance of the quarter will correlate to the opening up of global economies and the return of more normalized demand patterns.

The areas of the business model where we have the most visibility and confidence includes ARR, gross margins and operating expenses. ARR represents approximately one third of our total revenue. In the second quarter, we expect this to be up in the low, single-digit range on a year-over-year basis. We would also expect to see modest gross margin expansion, as our revenue is increasingly weighted towards software centric revenue. Relative to operating expenses, David covered the cost containment actions we took.

In our non-recurring revenue businesses, new hardware demand and new logo software bookings growth has been depressed during this shelter in place time. We are digitally engaging with prospective customers and building our pipeline, but the fact remains that the rate of deal closure levels are below what we experienced at the beginning of the year.

Looking at our reporting segments and taking a view of the puts and takes in the end markets, we have a point of view on relative performance we expect across the segments. On a year-over-year basis, we expect revenue in all reporting segments to be down in the second quarter. We expect Resources & Utilities to outperform amongst the segments, driven by our correction services and utilities businesses. On the other side, we expect Geospatial to underperform amongst the segments, given the hardware centricity of the reporting segment.

Turning to our last slide. I want to step back for a moment and revisit two of the three first principles we established upfront during the crisis. We said we would protect and strengthen the core of Trimble and position ourselves to exit the crisis in a stronger competitive position. The underlying investment thesis of Trimble is stronger than ever; that is the digitization of end markets that are historically underserved and underpenetrated with technology that delivers productivity, quality, safety, visibility and environmental sustainability to our customers.

With that backdrop, our long-term shareholders expect us to deliver long-term sustainable value. We believe we have taken the responsible short-term actions to confidently weather the economic crisis, which allows us to stay focused on our Connect & Scale 2025 strategy, which we believe is more relevant than ever.

The takeaway here is that we will play offense on core elements of our strategy—in particular the transition to subscription revenue models across our business. We will also continue to invest in business processes and systems to accelerate this strategic transformation. As evidence, we are pulling forward some of our transitions into 2020 and 2021. For example, we launched our Transportation Management System as a subscription offering and we now see more than half of our new bookings being subscriptions instead of perpetual licensing offerings. As another important example, at ConExpo in February, we announced what we are calling Trimble® Platform as a Service that bundles our machine control and guidance kit along with Trimble Productivity software into a subscription offering. Customers will benefit from technology assurance and a platform that can be feature upgraded. They also benefit by converting to an opex model and being able to more easily charge machine time to specific projects. We further connect this job cost information with our Viewpoint construction ERP system and our WorksOS platform that bring together data elements from other Trimble and non-Trimble technology into a single tool to remotely manage productivity and uptime of the site. In our Agriculture business, we are now offering bundles of our guidance hardware along with our software and correction services. The aim is to make ourselves easier to do business with and do reduce friction in the buying process.

Next, our strategy guides us to further connect our industry lifecycles. As evidence of our progress in the construction market, we expect Trimble Connect to reach 10 million users in the second quarter, and we currently have over 80,000 active multi-user projects being managed in Connect. This user base provides us a platform to deepen our customer engagement over time, and more importantly than ever, provides an environment for them to continue to collaborate on projects from anywhere.

Finally, we have not pulled back our R&D efforts and we will continue our 40-plus year history of innovation. Two examples I want to share here. First, at ConExpo we announced our Earthworks 2.0 system that enables extensibility of the base platform. For example, we launched automated horizontal steering capabilities, which advance our progress on the path to autonomy. Using this platform, we demonstrated remote control capabilities and operated a set of equipment in Dayton, Ohio from the show floor in Las Vegas. Second, in our Correction Services business, the team achieved a great milestone in the quarter, completing a multi-year effort deploying our RTX Fast technology across the contiguous U.S., parts of Southern Canada and much of Western Europe. We now cover nearly 5 million square miles with RTX Fast capability, which allows users to realize one centimeter accuracy in less than one minute, via internet or satellite broadcast. RTX Fast is ideally suited for autonomous on-road and off-road applications.

To conclude, I would like to thank everyone for your time and your support, and a special thank you to our global Trimble colleagues.

Operator, let’s please go to Q&A.