Built on the powerful Trimble Connect® collaboration platform, Trimble FieldLink MR is an innovative mixed-reality app that makes construction layout faster by combining the visual context of a fully immersive 3D model with the precision of Trimble's layout instruments. The app runs on the Trimble® XR10 with HoloLens 2, a hardhat-integrated mixed-reality device. Field crews can easily visualize construction data without relying on a handheld controller for step-by-step navigation to locate each point. Visual cues presented through the mixed-reality hardhat naturally lead workers directly to each point for them to physically lay out pertinent information on the construction site.

Fourth Quarter 2021 Earnings Conference Call Prepared Remarks

November 9, 2022

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. **Let's begin on page 2** with the following key messages.

Our team once again delivered outstanding results and did so amidst ongoing supply chain difficulties, delivering total organic revenue growth of 14 percent and organic ARR growth of 12 percent in the fourth quarter. We ended the year at a record level of ARR of $1.41 billion, and 2021 EBITDA margin of 25.6 percent and operating cash flow of $751 million.

Reflecting on our 2021 results in comparison to our May 2018 investor day plan, I am proud to say our team made a great deal of progress. In May 2018, we targeted 2021 adjusted EBITDA between 23 to 24 percent of revenue. We closed 2021 at 25.6 percent EBITDA. We targeted software services and recurring revenue mix at 55 percent of total revenue. We closed 2021 at 55 percent. We targeted the ratio of 2021 operating cash flow to non-GAAP net income at approximately 1.1 times, and we closed 2021 at 1.11 times. In July 2018 our net debt to adjusted EBITDA ratio stood above 3 times and we said we would de-lever below 2.5 times. Today we stand at 1.0 times. These proof points give us conviction that we are on the right strategic path with Connect & Scale 2025, that we can uniquely connect the physical and digital worlds to deliver value to our customers, and that our asset light business model works for our shareholders.

Looking at current market conditions, the overall demand landscape remains robust, and we enter the year with record hardware backlog and record ARR. Nevertheless, we are paying close attention to three obvious market factors: interest rates, supply chain and labor market dynamics. While the overall landscape presents material short to mid-term planning challenges, what is straightforward is that global infrastructure spend is a positive catalyst for the long-term health of the business and that in difficult economic environments, our value proposition that delivers productivity and sustainability will remain a secular growth catalyst.

Moving to page 3, I'll talk about the progression of our Connect & Scale 2025 strategy as seen through the lens of the Trimble Operating System—capturing strategy, people and execution.

Starting with strategy, I'll provide three proof points of our progress in the quarter. First, we acquired Agile Assets, which provides SaaS solutions with analytical tools to manage roads, bridges, airports and rail assets, so customers can better plan, operate and report on those assets across the lifecycle. The addition of AgileAssets to Trimble's platform will add the "as-maintained" model to our "as-designed" and "as-built" data. Availability of this data within the model creates a robust Digital Twin for owners throughout the asset lifecycle, thereby providing greater predictability, sustainability and lower lifetime asset costs.

Second, we have increased our ambitions in the area of sustainability—both internally with our own carbon footprint, and externally through the commercialization of sustainability. We have submitted our Science Based Targets for review, and we plan to reduce greenhouse gas emissions in line with the Paris Agreement. In addition, our most recent score from the Climate Disclosure Project went up again, marking two increases since we first submitted in 2018—and we continue to work diligently to further improve our score. With an external lens, customers are increasingly asking us to help them think about, manage and verify carbon reductions from the productivity and efficiency gains delivered through the use of our products. We have stepped up our ambition level to meet this market opportunity.

Third, we have continued to transform our software and hardware business model offerings, which has translated into increased bookings and ARR, which in turn gives us visibility into continued growth in 2022. Our Connect & Scale strategy is a platform strategy, and we are executing that strategy, in part, by partnering to build ecosystems. As evidence, we have a new Microsoft partnership that will first focus on Construction, and we established Trimble Ventures in the third quarter, and made our first Ventures investment in the fourth quarter.

Moving to people and our operating system, I start by reflecting on our purpose in the world. We are transforming and digitizing industries that support how we live, what we eat and how we move. In a competitive labor environment, we continue to see people attracted to the *why* of Trimble. We won a couple of global culture survey awards in the fourth quarter, both for overall company culture and for diversity. We made demonstrable progress in our DEI journey in 2021 and our team continues to engage in their local and global communities, through company sponsored days of service and through our Trimble Foundation. We believe the intersection of a great workplace environment and a purpose-driven organization provides a solid foundation upon which to lead, grow and compete for talent. We were also able to recruit Ann Fandozzi to our Board in 2021; and in January, we announced the addition of Tom Sweet, Dell's CFO, to our Board. I'm encouraged by individuals of this global caliber enthusiastically joining our Board and contributing to our ongoing growth.

Moving to execution and the Trimble Operating System, we saw the benefits of ongoing innovation throughout the course of 2021. In the fourth quarter, we reached a milestone of 1 million monthly active users of Trimble Connect. With our digital transformation efforts making progress, we now have all of these users on common identity and entitlement stacks. We launched a new Trimble.com web presence in December, the culmination of a couple of years' worth of work to modernize this important vehicle. We've also stepped up our outbound efforts to tell our story and to reach important new audiences. We look forward to hosting some in-person events in 2022, such as our transportation user conference in August and our Dimensions user conference for engineering and construction in November. Finally, we see our fundamental responsibility to shareholders as being capital allocators—balancing short-term realities with long-term possibility. To this end, we divested three businesses in 2021 on top of the four divestitures in 2020. In 2022, we will disproportionately invest in areas of the Company such as the infrastructure opportunity, autonomy and our own digital transformation. We make these investments—and are accelerating the transition to recurring revenue models of a number of our software businesses—in the context of a challenging supply chain environment, which is constraining our ability to meet customer demand and adding inflationary pressures. The steps we are taking will moderate our operating leverage over the next few quarters but will move us forward in our ability to reach the full potential of our strategy.

Before I turn it over to David—a big shout-out to all 11,500 plus Trimble team members for your ongoing dedication and execution, to our global dealer partners and to our strategic partners for their efforts, and to all of you in the investment community who trust us with your capital.

David, over to you.

David Barnes, CFO

Thanks Rob.

Turning to slide 4, fourth quarter revenue was $926 million, up 12 percent versus a year ago. Organic revenue growth was 14 percent. Our strong revenue in the quarter was enabled by the outstanding performance of our supply chain and operations team, as hardware revenue grew by over 20 percent versus the fourth quarter of last year notwithstanding the extraordinarily difficult supply chain environment. Backlog of unfilled hardware orders grew in the quarter, reflecting both the strong demand in our end markets and customers' placing orders earlier than they would have in the past. Hardware backlog at the end of the fourth quarter was nearly 4 times the level of a year ago before the supply chain challenges emerged. With this strong backlog, we have unprecedented visibility into demand for our hardware offerings going into 2022.

ARR grew at an organic rate of 12 percent, driven by business model conversions, strong bookings and healthy customer retention for recurring solutions in the quarter.

Gross margins were 57.8 percent, down 90 basis points sequentially from third quarter levels and down 160 basis points from the fourth quarter of 2020. Gross margins were impacted by the mix of hardware revenue, higher inbound freight costs and our aggressive purchases of components in the broker market to support strong demand. Cost inflation was higher than our expectations, and the price increases we took in our hardware offerings did not fully offset an unexpectedly sharp spike in cost inflation in the quarter. The price increases we have taken so far this year—averaging approximately 5 percent at the list price level across most of our hardware businesses and accompanied by reduced discounting—have been accepted in the market. Given our leading position in the markets we serve we are confident in our ability to maintain attractive margins, and we continue to adapt our pricing strategy to the cost outlook. Our EBITDA margin for the quarter was 24.1 percent, while Operating income margins were 22.1 percent. As we expected, margins in the quarter were lower than the fourth quarter of 2020 but higher than Q4 of 2019. EPS was .62 cents.

We generated cash flow from operations of $155 million and free cash flow of over $140 million. Cash flow was lower than Q4 of 2020 driven by increased component inventory purchases.

Turning now to slide 5, let's step back and review performance for the full year 2021. In the face of unprecedented challenges stemming from the ongoing COVID disruptions, supply chain shortages and accelerating inflation we achieved record results across a broad range of financial metrics. Revenue grew 16 percent to a record $3.66 billion and ARR growth improved sequentially. While gross margins were down modestly due to both inflation and the high growth of our hardware revenues, EBITDA and operating margins ended the year above the levels of 2020 and at record levels in Trimble's history. Earnings per share were $2.66, up 19 percent versus a year ago. Cash flow from Operations and Free cash flow grew 12 percent and 14 percent, respectively.

Now on slide 6, from a geographic perspective, revenues were up in all regions with the highest growth rate in Europe. North America revenue in the quarter also grew at a double-digit rate.

Turning now to other key operating metrics on slide 7. I'll note that backlog ended the year at $1.8 billion. This is up from $1.3 billion a year ago. While backlog in our recurring offerings continued to grow, the majority of this increase came from hardware and year-end hardware backlog exceeded our expectations of a quarter ago.

Our results for 2021 reflect the achievement of a meaningful milestone—on a trailing twelve-month basis our software, services and recurring revenue exceeded $2 billion for the first time. Operating cash flow of over $750 million was also a record and exceeded 1.1 times non-GAAP net income.

Turning now to our results by segment on slide 8, revenue was at or above our expectations in all segments.

Buildings and Infrastructure revenue grew 14 percent versus prior year and 16 percent organically. Growth was strong across both hardware and software. Our sales of machine control solutions to civil construction customers grew by nearly 30 percent this quarter despite supply chain constraints. ARR growth in the segment was strong, with Viewpoint and eBuilder ARR together up at a mid-teens growth rate. Sketchup ARR growth was nearly 40 percent, while ARR gained momentum in our Structures and MEP software businesses as they accelerated their transitions to recurring revenue models in the quarter. We ended the quarter with strong bookings momentum across our Buildings and Infrastructure software businesses. Segment margins in the quarter were over 30 percent, representing a record fourth quarter for the segment despite cost inflation and the higher growth of hardware revenues. In Buildings and Infrastructure, our price increases more than offset the hardware cost inflation we saw in the quarter.

Geospatial segment revenue increased 15 percent overall and 16 percent on an organic basis. Demand for our core survey and mapping portfolio remains very strong across all regions driven by strong spending in residential construction, civil infrastructure and utilities. Segment revenues also benefited from shipments against several large government contracts. Operating margins were below the levels of the fourth quarter 2020 and third quarter of 2021, driven principally by a short-term mix shift. The cost inflation we experienced in this segment was largely but not entirely offset by our 5 percent price increase and lower discounting.

Resources and Utilities revenue grew 18 percent in total and 21 percent organically. Hardware backlog grew in Resources and Utilities, reflective of very strong demand across the agriculture sector. The outlook for capital investment in ag remains strong, driven by high crop prices, low inventories and high average equipment age. Segment margins were below those of a year ago, and sequentially below third quarter levels. Product cost inflation was particularly high in this segment, as the cost of many critical components in our Ag product offerings increased substantially in the quarter. In this segment, our price increases have not yet kept up with inflation, and we continue to refine our pricing strategy going forward. We anticipate operating margins in this segment in the coming year to rebound from fourth quarter 2021 levels as our price realization and mix improve.

Consistent with our expectation coming into Q4, revenues and margins in our Transportation segment were adversely impacted by supply chain challenges—both within our business and at our OEM customers. On the cost side, we experienced meaningful component inflation and high freight costs, and we incurred costs relating to realigning our product portfolio toward available components. Slow production levels at our OEM customers also constrained our revenue of both hardware and recurring services in the quarter.

The leading indicators from our Transportation business continue to give us confidence that we are on the path to better ARR and margin trends once the dynamics of the supply chain improve. We grew bookings year on year once again in Q4, and our net retention is at 100 percent. Our OEM customers are seeing stabilization in their own supply chain situation, and we expect that orders from them will pick up early this year. Finally, on the cost side we are introducing new products, which will support improved gross margins. For all these reasons we project improved performance across the Transportation segment in ARR, revenue and margins in the back half of 2022.

Turning now to slide 9, I'd like to provide our financial outlook for 2022. We expect to see continued top line momentum. Demand from our end markets remains strong, and so far, we don't see any signs of deceleration as a result of recent inflation and higher interest rates. Our backlog and forward-looking indicators of sentiment give us confidence in our prospects for ARR and revenue growth.

As Rob and I have mentioned, we expect that supply chain disruptions will continue to be with us through 2022. There are signs that the pressure on component availability will abate in the back half of the year, but our plans presume that the supply chain will not fully be restored to equilibrium until 2023.

With those factors in mind, we are initiating annual guidance for 2022. Excluding the impact of any additional acquisitions or divestitures, we project full year revenue of $3.95 billion to $4.05 billion, representing a range of growth outlooks of 8 percent to 11 percent. Our continuing transition of software offerings will present approximately 100 basis points of headwind to revenue growth. Organic ARR growth is expected to accelerate through the year to a mid-teens rate by year end.

We expect gross margins in 2022 to be comparable to or slightly better than 2021, with sequential improvement in the back half of the year. We expect that operating margins for the full year will be approximately 23 percent. Note that operating margins will be adversely impacted by the aforementioned subscription transitions, as well as investments we are making in support of our strategy and the acceleration of ARR. In aggregate, these factors present a headwind to operating margins of approximately 200 basis points.

Income from equity investments is projected to be approximately $30 million, lower than 2021 due to higher product costs in our joint ventures.Net interest expense is forecast to be approximately $65 million and we project that our tax rate will be approximately 18 percent. Netting all this out we project to achieve EPS in the range of $2.75 - $2.95. From a cash flow perspective, we project that free cash flow will once again exceed our non-GAAP net income. Our cash flow trends will be helped by the projected return toward equilibrium in the supply chain, as we anticipate needing lower component inventories by the end of the year.

While we are focusing our guidance on expectations for the full year, I'd like to provide some color on the factors we expect to drive quarterly trends in 2022. Many of the normal seasonal patterns in our business are being disrupted by the impact of the constrained supply chain, so it is most helpful to think in terms of the expected sequential development from where we ended Q4 of 2021. We expect revenue to grow sequentially through each quarter of the year, with ARR accelerating as well. From a product cost perspective, we expect to see inflation through the first half of 2022 similar to what we experienced in Q4 of 2021, with meaningful improvement in the second half. As a result, gross margins are likely to be relatively flat with Q4 of 2021 through the first half of the year and meaningfully higher in the second half. We expect that operating margins in the second half of the year will exceed the first half by approximately 150 basis points.

I'll close by noting that we are planning an investor day in Colorado this September.

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

Rob Painter, CEO

We entered the COVID crisis almost two years ago and at that time we set an objective to exit the crisis on a stronger competitive footing. I'm proud of our accomplishments in 2021 and the progress and commitment we are making towards our Connect & Scale 2025 strategy. We are a purpose-driven company serving secularly attractive markets, pursuing a differentiated strategy to connect the physical and digital worlds with a unique set of underlying capabilities. We deliver a compelling value proposition to our customers, in the form of better, faster, safer, cheaper, greener. And we deliver a compelling business model to our shareholders. No doubt we expect to operate in a turbulent environment for the foreseeable future, while simultaneously undergoing our own transformation. The last couple of years serve as evidence that this team has the courage and conviction to rise to the challenge.

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