Trimble's breakthrough 3D scanning total station provides fast and efficient data capture for surveying, engineering and geospatial professionals. The Trimble SX12 merges high-speed 3D laser scanning, Trimble VISION™ imaging technology, high-accuracy total station measurements and a high-power laser pointer into familiar field and office workflows for surveyors. It is an ideal solution for boundary and land title surveys; topo stakeout and surface inspections; underground mine surveys; roadway and corridor surveys; and civil infrastructure as-builts.

Second Quarter 2021 Earnings Conference Call Prepared Remarks

August 4, 2021

Trimble Corporate Participants

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

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 second quarter, our team delivered outstanding results. We exceeded our expectations and delivered record ARR of $1.35 billion, up 11 percent year over year, total revenue growth of 29 percent, EBITDA margin of 26.4 percent and trailing twelve month operating cash flow of $798 million. We achieved record levels of revenue in many of our businesses, with exceptionally strong performance in machine control in civil construction, guidance in agriculture, and survey and mapping. Our results demonstrate the quality of our strategy and our business model. On the basis of this strength, we are raising our guidance for the year.

Turning to market conditions, the overall landscape is generally robust. Construction backlog is healthy, especially in residential and infrastructure. We remain optimistic that an infrastructure bill will ultimately be passed in the United States, which would further improve our long-term outlook in our construction and surveying businesses. In Agriculture and Forestry, commodity price strength is translating into customer buying power. In Transportation, market strength has shifted back to carriers, and this, in addition to improved execution, is translating into solid bookings growth. As discussed last quarter, we are investing in product development and go-to-market efforts around infrastructure, and are stepping up investments in our agriculture business, all while continuing to invest in our Trimble cloud platform and our autonomy efforts.

Our team is highly focused on executing our Connect & Scale 2025 strategy, which centers on building industry leading cloud platforms. Our strategy differentiates at the intersection of the physical and digital worlds. As an example, our hardware businesses allow us to capture data and execute work in the field, while improving the efficiency and efficacy of workflows between the office and the field. At Trimble, we develop strategies with an "end game backwards" mindset. We balance short-term and long-term deliverables with our 3-4-3 operating model. 3 months. 4 quarters. 3 years. This is worth noting as quarterly comparables are skewed with COVID-19 and supply chain disruptions. We have to be able to see through the performance of any given quarter and play the long game, which we continue to believe presents a compelling secular opportunity. We are focused on metrics such as ARR, backlog, EBITDA and cash flow as much as we focus on revenue and EPS. The combination of these metrics presents a more holistic picture of our performance.

Let's turn next to page 3 for some proof points that the Trimble Operating System—capturing strategy, people and execution—is producing results.

Starting with strategy, we continue to execute on revenue transition opportunities. In Buildings & Infrastructure, our structural steel, concrete, mechanical, electrical and plumbing businesses are hitting their stride with their business model transformations. Bookings, ARR growth and new logo wins are evidence that the team is expanding the addressable market. In Transportation, our recurring bookings were up significantly year over year, also evidence that the conversion is working. On the divestiture front, we closed the sale of Manhattan Software in the second quarter and Iron Solutions early in the third quarter. Since January of 2020, we have divested or exited 8 businesses. We are focused on building out industry leading, and cloud connected, technology platforms that enable customers to transform workflows by connecting Trimble and third-party capabilities.

On people, I am pleased to report that our leadership team was recognized by our employee base as one of the top leadership teams in a global culture survey. We were also recognized as a top performing company for women and diversity. And our engineering team ranked as a global leading team. I'm proud of my colleagues and our purpose-driven culture. It's this team that is transforming the way the world works. In addition, we strengthened our board of directors with the announcement that Ann Fandozzi will join our board in the next couple of weeks.

On execution, we continue to innovate. During the quarter, we announced an autonomy partnership with HORSCH, we extended our machine control platform to soil compactors, and we introduced our infrastructure BIM collaboration software in North America. In addition, one of the proof points we monitor is cross-sell annual contract value. Early wins in construction and transportation increase our conviction that we are on the right track with our bundled offerings.

Turning to page 4, I am excited to announce that earlier today we launched Trimble Ventures, our corporate venture capital arm, with a commitment of $200M of capital. Our objective is to co-invest in Series A through Series D rounds in emerging technologies as well as in companies that will extend our industry platforms. Our co-heads of Trimble Ventures include our Treasurer, Phil Sawarynski, and Ron Antevy, co-founder of our e-Builder business.

In closing, it was the second quarter last year where we faced the initial, and biggest, uncertainty with COVID-19. While the virus, and its variants, still remain highly concerning around the world, I want to step back and reflect on an early principle we established, which is, we said we would emerge from the pandemic on a stronger relative competitive footing than when we entered the pandemic. Our results demonstrate we are doing exactly this. My gratitude to my 11,000 plus Trimble colleagues and our global partners and customers. We’ve got this!

David, over to you.

David Barnes, CFO

Thank you, Rob.

Let's start on slide 5 with a review of second quarter results. Second quarter revenue was $945 million, up 29 percent on a year-over-year basis. Currency translation added 3 percent and divestitures subtracted 1 percent, for a total organic revenue increase of 27 percent. Customer demand was healthy, rebounding across all of our end markets at a rate stronger than we anticipated.

Gross margin in the second quarter was 58.2 percent. Gross margins were down 70 basis points year over year driven by the shift in mix in our business, with a higher percentage of hardware this quarter, and the onset of product cost inflation given the disruptions we are seeing in our supply chain, partially offset by lower discounting. Adjusted EBITDA margin was 26.4 percent, up 70 basis points, driven by higher revenue. Operating income margins expanded 110 basis points to 24.2 percent. As expected, our operating costs were up meaningfully from the second quarter of last year, when we had unusually low compensation expense and a very tight focus on cost control in light of the COVID lockdowns. Net income increased by 40 percent, and earnings per share increased by 20 cents to 72 cents per share.

Our second quarter cash flow from operations was $201 million, demonstrating the continued strong cash flow generation of our business. Operating cash flow again exceeded net income in the quarter. Free cash flow was $190 million. Our net debt decreased over $225 million in the quarter, and our net debt to adjusted EBITDA ratio fell to 1. At the end of the quarter, we had the entire $1.25 billion available on our revolving credit facility and approximately $484 million in cash. With our strong balance sheet we are well positioned to continue to invest in our business—both organically and inorganically.

Turning now to slide 6. I'll review in a bit more detail our second quarter revenue trends. As noted earlier, our ARR was up 11 percent in the quarter, with organic ARR growth of approximately 10 percent. Excluding our Transportation segment, Trimble ARR grew at a high-teens rate in the quarter. Encouragingly, ARR trends in Transportation improved, with segment organic ARR approximately flat versus a year earlier. Our nonrecurring revenue streams experienced strong growth relative to the second quarter of 2020, during which our business was most negatively impacted by the COVID-19 shutdowns. Our hardware revenue grew 47 percent year over year, driven by strong performance in civil construction, geospatial and agriculture.

From a geographic perspective, North American revenues were up 23 percent. In Europe, revenues were up 41 percent. Currency fluctuations positively impacted growth in Europe by about 9 percent, with the balance coming from catch-up on project activity which had slowed in 2020, fiscal stimulus measures, and recovering demand in many end markets. Asia Pacific grew 19 percent year over year, driven by strong growth in Australia and New Zealand. The rest of world, which includes Brazil and Argentina, was up 49 percent year over year, driven principally by strong demand from the agriculture sector.

Next, on slide 7, we highlight some of the other key metrics that we follow. Net working capital, inclusive of deferred revenue, was negative this quarter, representing approximately -2 percent of revenue on a trailing twelve month basis. Our deferred revenue grew 14 percent year over year.

An important story this quarter is the growth of our backlog. Total backlog at quarter end was approximately $1.5 billion. Of that total approximately $300 million relates to unfilled orders for hardware products. This compares with hardware backlog of about $100 million at the end of the second quarter last year, which is a more typical level for our business. In this time of both exceptionally strong customer demand and increasing supply chain pressures our operations team did an extraordinary job, which enabled our record year-on-year hardware revenue growth of 47 percent.

Turning now to slide 8 for additional detail on each of the reporting segments.

Buildings and Infrastructure revenue was up 22 percent on an organic basis. Revenue growth was strong in both our building and civil construction businesses, with hardware revenue across the segment up greater than 40 percent. Segment margins were down 40 basis points due primarily to revenue mix. Across our recurring software offerings in this segment bookings were strong—up approximately 25 percent versus a year ago.

Geospatial revenue was up 48 percent on an organic basis. We saw a rebound in demand across nearly all the end markets for our geospatial offerings, and our new products are generating significant customer enthusiasm. Operating margins were up 430 basis points due to strong revenue growth and the success of new products.

Resources and Utilities revenue was up 32 percent on an organic basis. Revenue growth was strong in precision agriculture and positioning services. Margins expanded 160 basis points.

Top line results in Transportation met our expectations. Revenue was up 9 percent on an organic basis year on year. The drivers of revenue growth were improved trends in both our mobility and enterprise businesses. Margins declined 170 basis points on a year-over-year basis due to increased mix of low margin hardware and increasing operating costs, but margins improved sequentially over first quarter levels. We remain confident that we are on track for continued sequential improvement as the year progresses.

Turning now to our outlook for the full year—our performance in the second quarter and the strength of our backlog give us the visibility and confidence to raise our outlook for the year. I'll point out that supply chain constraints continue to present us with meaningful uncertainty, as the availability of some critical components remains unpredictable. The outlook I'll describe represents our best sense of this dynamic environment. I'll also point out that comparisons versus the quarters of 2020 are difficult to draw meaning from, as the impact of the onset of COVID—and the recovery following market reopenings—created large swings last year. We will focus more on the sequential evolution from the second quarter through to the second half.

We are raising our outlook for full year revenue to between $3.55 and $3.65 billion. Demand remains resilient across all of our end markets, but our hardware revenues will likely be constrained by our ability to source key components. Note that this new revenue range incorporates our divestitures, including the recent divestitures of our Manhattan Software and Iron Solutions businesses. Divestitures will reduce our revenue growth in 2021 by a little over 100 basis points but are reflective of our increasing focus on platforms, which connect the workflows in our key end markets.

Sequentially, we expect that revenue in the second half will be well above 2020 levels but below the levels we realized in the first half of 2021. The expectation of lower revenue in the second half versus the first half is entirely driven by constraints in our supply chain. We expect to end the year with hardware backlog at levels similar to the end of the second quarter.

Given our strong bookings trends across our recurring software businesses we expect organic ARR growth of approximately 10 percent for the full year.

We anticipate that second half gross margins will be down approximately 50-100 basis points below second half 2020 margins—due to the net impact of product mix and cost pressures partially offset by price increases. We are implementing price increases across many of the product lines impacted by the recent inflationary spike, but overall the net impact on gross margins will still be adverse year over year for both the back half and full year 2021. We expect to experience the greatest gross margin pressure in the third quarter, as we won’t realize the full benefit of our price increases until the fourth quarter.

Our outlook for operating margins has improved, as the leverage from higher revenue more than offsets the impact of mix shift, increasing product cost inflation, and the investments we are making in support of our strategy. We now expect that operating margin for the full year 2021 will be comparable to 2020. Note that our software business model transitions from perpetual to recurring are accelerating in the back half of the year. These transitions will adversely impact operating margins by 150-200 basis points in the second half of 2021.

Our outlook for full year earnings per share is increased to $2.45 - $2.65 per share.

From a cash flow perspective, given our strong performance in the first half of 2021 we expect cash flow from operations for the full year of greater than 1.1 times non-GAAP net income, with free cash flow comfortably exceeding non-GAAP net income.

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