Trimble and HORSCH are collaborating on developing solutions that enable autonomy in agriculture with the goal of building a future for autonomous machines and workflows in the industry. The collaboration extends beyond autonomously controlling machines, such as the self-propelled crop protection sprayers, to full workflow automation from the office to the field.

First Quarter 2021 Earnings Conference Call Prepared Remarks

May 5, 2021

Trimble Corporate Participants

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

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 first quarter, we exceeded our expectations and delivered record ARR of $1.32 billion, up 9 percent year over year, total revenue growth of 12 percent, EBITDA of 26 percent and trailing twelve month operating cash flow of $745 million. Our results demonstrate the quality of our business model and an improving macroeconomic backdrop. They also highlight the strength of our Connect & Scale 2025 strategy. On the basis of this competitive strength and the nature of opportunities we see in the market, we plan to scale up investments in targeted areas of the company. At the same time, we are also raising our guidance for the year.

Turning to page 3 and the end-market backdrop, the common thread across the industries we serve is delivering products and services that connect the physical and digital worlds. The industries we serve are large, global, underserved and underpenetrated with technology. As our end markets digitize, we are able to connect the office and the field with our hardware and software offerings in a manner that delivers productivity, quality, safety, transparency and environmental sustainability.

In Buildings & Infrastructure, we exceeded expectations in the business, leveraging our strong market position and continuing the conversion of our business models. The segment now stands at approximately 65 percent software-related revenue. In Geospatial, the business experienced the strongest year-over-year growth we have seen since we created the reporting segment in 2017. Global demand is healthy and the innovation that the team has delivered has strengthened our competitive position. In Transportation, we met the P&L expectations we had for the segment in the quarter. Bookings in our Mobility business improved to their best level since early 2019. Bookings in our Transportation Enterprise software business were strong—with subscription bookings more than double the level of first quarter 2020. We remain confident that we will deliver demonstrable improvement in revenue, margins and ARR trends in the second half of the year. In Resources & Utilities, the commodity price backdrop is providing global tailwinds to the business and we delivered growth well ahead of our expectations.

Let's turn next to **page 4** for some proof points on the Trimble Operating System—capturing strategy, people and execution.

On strategy, we continue to execute on revenue transition opportunities. Our Tekla Design & Engineering software business announced its shift to subscription that went into effect in March. "Different but better" is our tagline and I think that sums it up well, which is to say it's more than just change—it's progress. Our Mechanical Electric Plumbing business also continued its subscription conversion, and as mentioned, we saw a strong level of recurring bookings in our transportation enterprise business. Finally, I'd like to note that we closed the divestiture of the Manhattan real estate software business early in the second quarter and we wish the team well with its new home.

On people, I am pleased to report that we ranked #15 out of 15,000 companies in a 2021 Best Global Culture survey. I also want to announce that our CTO, Tom Fansler, retires at the end of the second quarter. Two of our other business leaders, Ron Antevy and Bryn Fosburgh, will assume new roles starting in the third quarter. Ron will operate as an entrepreneur in residence, driving innovation efforts, and Bryn will act as our interim CTO. I'm pleased to say that we promoted from within for Ron and Bryn's current responsibilities for the e-Builder and overall construction businesses, respectively.

On execution, we released our sustainability report a few weeks ago. I'm incredibly proud of the work of the team on this important initiative. Our teams also continue to innovate. We launched a civil construction estimating software package, we released a combination of our Loadrite payload management system with our earthworks grade control platform, we launched a new TSC5 data controller, and we released a new SX12 scanning total station, which is an update to our successful SX10 instrument. The SX12 now supports additional applications in tunneling and underground construction.

With respect to increasing investments in the business, we see Connect & Scale as being synonymous with an industry platform strategy. We want to play offense and invest now for the mid- to long-term opportunities that we see in the market. We see a generational opportunity out of a North American infrastructure bill and a strong commodity price backdrop in the agriculture market. We will invest in product development and go-to-market efforts around infrastructure, and will step up investments in our agriculture business, all while continuing to invest in our Trimble cloud platform and our autonomy efforts.

A quick update on our plans for an Investor Day. We have concluded that an in person meeting at our Colorado facility—where much of our leadership team is based—is the best way to facilitate the kind of in-depth interaction that many of you want from an Investor Day. We will hold the meeting in the Spring of 2022, by which time the environment for business travel should be greatly improved. We also plan to hold one or two interactive virtual sessions with investors on specific topics of broad interest later this year.

In closing, I'm as confident and optimistic about Trimble as ever. We have the right team pursuing a compelling strategy in attractive markets. It won't be easy and it won't be linear, but nothing worth achieving is.

David, over to you.

David Barnes, CFO

Thank you, Rob. Let's start on **slide 5** with a review of first quarter results. First quarter revenue was $887 million, up 12 percent on a year-over-year basis. Currency translation added 3 percent and divestitures subtracted 1 percent, for a total organic revenue increase of 10 percent.

Gross margin in the first quarter was 58.4 percent. Margins were down 70 basis points year over year driven primarily by product mix. Adjusted EBITDA margin was 26.1 percent, up 340 basis points, driven both by higher revenue and strong cost control. Operating income margins expanded 330 basis points to 23.6 percent. Net income dollars increased by 36 percent and earnings per share increased by $0.17 to $0.66 per share.

Our first quarter cash flow from operations was $228 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 $218 million. We paid down $158 million of debt in the quarter and our net debt to adjusted EBITDA ratio fell to 1.3 times. At the end of the quarter, we had the entire $1.25 billion available on our revolving credit facility and approximately $265 million in cash. With our strong balance sheet we are well positioned to continue 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 a bit more detail our first quarter revenue trends. As mentioned earlier, our ARR was up 9 percent in the quarter. Our nonrecurring revenue streams also grew, with hardware growing 17 percent and perpetual software growing 11 percent. Our hardware growth was driven by strong performance in civil construction, geospatial and agriculture. Our hardware growth also 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 9 percent. Excluding Transportation, revenues in North America grew 15 percent. In Europe, revenues were up 16 percent. Roughly half of our Europe growth was driven by currency, with the balance coming from catch-up on project activity slowed in 2020, fiscal stimulus measures, and recovering demand in many end markets. Asia Pacific had the best performance in the quarter, up 17 percent, driven by strong growth in Australia and Japan. The rest of world, which includes Brazil and Argentina, was up 5 percent year over year, driven principally by strong demand from the agriculture sector.

Next, on **slide 7**, we highlight some of the key metrics that we follow. Annualized recurring revenue was $1.32 billion in the first quarter, up 9 percent on a year-over-year basis. Organic ARR growth was approximately 7 percent. Excluding our Transportation segment, Trimble ARR grew at a mid-teens rate in the quarter. Net working capital, inclusive of deferred revenue, was negative this quarter, representing approximately—1 percent of revenue on a trailing 12-month basis.

Research and development on a trailing 12-month basis was 15 percent of revenue. Our deferred revenue grew 12 percent on a year-over-year basis, and our backlog, excluding the impact of the real estate software business divested early in the second quarter, was $1.4 billion, up 17 percent versus prior year. While growing backlog is obviously an indicator of strong momentum in the business, I'll note here that backlog at quarter end was unusually high in part because Trimble, like so many manufacturers in this recovering economy, is experiencing shortages and extended delivery times for many key components of our hardware products. Our operations team is hard at work to expedite delivery of products which are in short supply, but we do expect to manage challenges with both cost inflation and extended lead times of select hardware product lines in the quarters to come.

Turning now to slide 8 for additional detail on each of the reporting segments. Buildings & Infrastructure revenue was up 13 percent on an organic basis. Revenue growth was strong in both our building and civil construction businesses. Segment margins were up 760 basis points due to higher margin revenue mix and cost control.

Geospatial revenue was up 22 percent on an organic basis, driven principally by strong performance in our core, branded survey equipment business. Margins were up 590 basis points due to strong revenue growth and cost control.

Resources and Utilities revenue was up 10 percent on an organic basis. We experienced double-digit growth in each of our precision agriculture, positioning services and agriculture software offerings. Margins expanded 190 basis points, driven by increased revenue and cost control.

Top line results in Transportation were consistent with our expectations. Revenue was down 6 percent on an organic basis year on year, and margins declined 450 basis points. The drivers of revenue and margin decline are broadly consistent with those we have highlighted previously. Revenue and margins were roughly stable sequentially when compared with the fourth quarter of last year, and leading indicators provide encouraging signs for the recovery ahead. As Rob mentioned, bookings were very strong in both our mobility and enterprise software businesses. Our product performance is improving and our sales pipeline is stronger than it has been in nearly two years. We remain confident that we are on track to improved performance later this year.

Moving to slide 9, I'll provide an update to our outlook for this year. Given our outperformance in the first quarter, our growing backlog and increasing confidence in our business trends, we are raising our revenue forecast range by $100 million to $3.4 - $3.5 Billion. I'll note here that the biggest risk we have to our revenue outlook for the next couple of quarters is the supply environment for critical hardware components.

We expect that revenue growth will be strongest in the second quarter as we lap the worst period of the COVID lockdowns in 2020, with more moderate growth in the back half of the year and especially in the fourth quarter.

We continue to expect organic ARR growth in the high single digits with improving trends as the year progresses.

From a profitability perspective we continue to expect that EBITDA margins will come in between the levels of 2019 and 2020. Margins for the balance of 2021—and especially in the second half of the year—are likely to come down from the levels we achieved in the first quarter for a number of reasons. First, we expect some operating expense acceleration as the year progresses and the environment for business travel opens up. Second, we are accelerating investments that Rob mentioned earlier. These investments include spending on our digital transformation and cloud infrastructure and higher R&D on our autonomy projects and our agriculture product offerings. And third, we are seeing growing cost pressure in our hardware costs of goods across a broad range of commodities. We are adapting our pricing and discounting strategies to reflect these cost pressures but still anticipate some adverse impact on our gross margins.

We continue to expect that software business model transitions from perpetual to recurring will impact revenue growth and operating margins by approximately 150 basis points.

Our earnings per share outlook is raised to $2.30 - $2.50. This reflects the revenue and operating margin trends I mentioned earlier and a modestly higher tax rate outlook than we had anticipated a quarter ago.

From a cash flow perspective, we expect cash flow from operations of approximately 1.1 times net income, with free cash flow exceeding net income.

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