Connecting the physical to the digital worlds, the Trimble® SiteVision™ system—an outdoor GNSS-enabled augmented reality (AR) solution—simplifies complex concepts by allowing users to visualize and blend digital models with real-world environments. City planners can visualize a new building design in the exact spot it is to be erected; a work crew could identify the exact position of underground cables or pipes before digging; an electric utility can confirm placement of poles and lines with customers and crews; or a construction supervisor could assess the progress of heavy equipment by visualizing actual work performed against the site plan.

2nd Quarter Earnings Conference Call Prepared Remarks

August 5, 2020

Trimble Corporate Participants

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

Presentation

Robert Painter – President and CEO

Good afternoon 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.

Despite difficult circumstances in the second quarter, our team rose to the occasion. I'm deeply grateful for the ingenuity and commitment to outcomes demonstrated by my colleagues and our worldwide network of partners over these last few months. What I said on our call in May remains true today. That is, we "will" get through this crisis. We "are" well positioned to endure the macroeconomic shock. And we "will" emerge stronger on the other side of this. Our belief in our long-term strategy remains undiminished.

Slide 2 lists the five key messages we want to convey today.

First, our resilience, the quality of our strategy and the strength of our financial model enabled us to outperform our own expectations in the second quarter. ARR, at $1.21 billion, adjusted EBITDA margins at 25.7 percent and deferred revenue at $531 million were clear highlights. Our shift to a more hardware connected, software-centric and recurring revenue business model is paying off.

Second, the decisive financial and strategic actions we took in March have put us in a position to restore employee pay as of August—and senior executive pay shortly thereafter. I thank all my colleagues for their professionalism and demonstrated commitment. These last few months have strengthened our culture.

Third, we take our responsibility to address racial injustice and climate change seriously. Speaking personally, I have a heightened sense of awareness that has strengthened my resolve to leverage our platform to lead Trimble to a different place. We have been public in our stance against racial injustice. We established a diversity equity and inclusion working group, representing both senior leadership in Trimble as well as advocates appointed from within the organization. We have also donated money through our Trimble Foundation to causes that align with our values. And we remain humbled to know that we have a lot more to do. With respect to climate change, we are pleased to have named Leah Lambertson, our head of Operations, to a larger role where she now has additional responsibility as Head of Sustainability for Trimble.

Fourth, we reiterate our focus to execute on our Connect & Scale 2025 strategy. We will balance cost containment and investment in innovation during the downturn. We are connecting the industry lifecycles we serve—such as construction, agriculture, utilities and the transportation supply chain. By reporting segment, in a context of unprecedented conditions, we were satisfied with our progress in the quarter in three of our four segments. While we remain convinced of both the long-term market opportunity of our supply chain strategy as well as the viability of our strategy, we are currently performing below our potential in our Transportation segment. Earlier in the year, I set expectations of demonstrable financial recovery in the beginning of 2021. Given the environment and circumstances, we now believe the recovery will take longer than anticipated. In addition to the difficult macro and pandemic effects, which have suppressed demand, there are three discrete topics that impact our near-term results in Transportation. First, our acquisition of Kuebix, as we announced in February, remains strategically important but is currently dilutive. Kuebix takes us to the shipper market, which is key to our connected supply chain strategy. Second, we continue to execute a subscription business model transition in our enterprise business; and in our mobility business we launched a Hardware-as-a-Service offering. We have high conviction on these model transitions. Third, we continue to work through our electronic logging device (ELD) product delivery commitments in our mobility business and are offering incentive programs to customers to upgrade older technology. Overall, we will take near-term actions to enhance our competitive position and will measure the success of our actions by delivering profitable ARR growth, enterprise bookings and by growing the size and transaction volume in the shipper community.

We are pleased that in our other three segments, Buildings and Infrastructure delivered solid ARR growth, offset by expected disruptions in our hardware sales and new perpetual software bookings. While we see projects coming back on line, we also see uncertainty into 2021 for new projects and we are closely monitoring the impact of stimulus measures. Geospatial did an exceptional job managing expenses and finding available revenue opportunities in the quarter. And Resources and Utilities was led by growth in our utilities business and positioning services business, and by relatively positive performance in the aftermarket agriculture business.

Our fifth and last point—while short-term market uncertainty remains high, our long-term market conviction remains strong. We see green shoots in many of our markets and we believe the second quarter will mark the bottom of our revenue decline. Nevertheless, uncertainty prevails, and we do not believe it would be prudent to provide guidance for the balance of the year.

I will turn the call over now to David to take us through the numbers.

David Barnes – Chief Financial Officer

Thank you Rob.

Let's start on **slide 3**, with a review of second quarter results. Second quarter revenue was $735 million, down 14 percent on a year-over-year basis. Currency translation subtracted 1 percent, and acquisitions and divestitures added 2 percent, for a total organic revenue decrease of 15 percent.

Gross margin in the second quarter was 58.9 percent, up 200 basis points year over year driven primarily by improved revenue mix. The introduction of higher margin new products and lower discounting also had a positive impact. Adjusted EBITDA margin was 25.7 percent, up 250 basis points year over year, driven both by improvements in gross margin and strong cost control. Operating income margins also expanded 260 basis points to 23.1 percent. Net income dollars decreased by 2 percent on a year-over-year basis, while earnings per share fell by 1 cent to $0.52 cents per share.

Moving to slide 4, our second quarter cash flow from operations was $147 million, demonstrating the strong cash flow generation of our business. Operating cash flow exceeded net income in the quarter. Free cash flow was $135 million. We paid down over $140 million of debt in the quarter, and the net debt to adjusted EBITDA ratio fell to 2.2 times. At the end of the quarter, we had $1.2 billion available on our revolving credit facility and approximately $200 million in cash. In addition, we have no scheduled principal payments on our debt until July 2022. Our access to liquidity therefore remains strong. Given our strong and improving capital structure we are open to acquisition opportunities that will accelerate the implementation of our strategy. We anticipate continued prioritization of debt reduction in the allocation of free cash flow, but will consider a modest return to share repurchases.

Now turning to slide 5 that highlight some of the key metrics we are following. First, I want to note that we have redefined our ARR metric. ARR now includes the annualized value of term licenses. Under GAAP the revenue from term licenses is recognized up front rather than ratably, and for that reason term licenses are excluded from the recurring revenue line that we report each quarter. But term licenses are renewable and recurring in nature and therefore share the fundamental economic characteristics of subscriptions—so we believe that including term licenses in our ARR definition provides a more complete picture of our recurring business. Note that with this change we have restated the ARR measure in prior periods, and that information is available in the financial summary document on our Investor Relations website. ARR was $1.21 billion in the second quarter and grew 6 percent versus prior year. Organic growth of ARR was 3 percent. Net working capital, inclusive of deferred revenue, represents approximately 1 percent of revenue on a trailing twelve months basis, demonstrating the working capital efficiency of our business. Through this period of proactive cost management we have continued to invest in key growth initiatives. One indicator of our investment posture can be seen in our R&D spending. Our trailing twelve months R&D is nearly 15 percent of revenue, and we believe our focus on innovation will enable us to emerge from this recession stronger than we entered it.

Finally, I'll note progress against two metrics that point to the health of our business going forward. Deferred revenue is up 17 percent versus the end of the second quarter a year ago, and our backlog ended the second quarter at $1.2 billion, also up from the level of a year ago. As a reminder, backlog represents contractual commitments that will be recognized as revenue in the future. Most of the backlog represents the unrecognized value of subscription and maintenance agreements, but it also includes over $200 million from non-recurring revenue businesses. We expect the substantial majority of that backlog to convert to revenue in the next twelve months. Both of these metrics give us enhanced visibility into our revenue trends in the coming quarters.

Moving to slide 6, I'll elaborate a bit on Rob's earlier comments about the increasing diversity and resilience of our revenue base. Recurring revenues made up 39 percent of total Trimble revenue in the quarter, and grew by over 4 percent even in an extraordinarily difficult economic environment. Of our major sources of recurring revenue only Transportation saw a decline in the quarter, for reasons Rob mentioned earlier. Our other major sources of recurring revenue—including Viewpoint, e-Builder, Building construction software and positioning services collectively saw recurring revenue growth of greater than 10 percent in the second quarter. These offerings are essential to the continued operation of our customers' businesses even in the toughest of times.

By contrast, our non-recurring revenues, including hardware, perpetual software and professional services, experienced meaningful year-on-year declines in the second quarter. These businesses were adversely impacted by project suspensions, OEM factory shutdowns and restricted access to our clients' facilities. While many of these restrictions eased late in the second quarter, our overall non-recurring business remains meaningfully below year-ago levels as we enter the third quarter.

Looking at geography, the results in the quarter were largely correlated with impacts from COVID in terms of shutdowns and the pace of reopening. The COVID-related dynamics in North America and Europe were similar, with business conditions very poor in April and improving through the quarter. North America was down 17 percent and Europe was down 13 percent, with a significant difference being North America's higher weighting in the Transportation segment. Asia Pacific was the best performer in the quarter, up 1 percent. Rest of World was down 19 percent, driven principally by difficult business conditions in Brazil and the weakening of the Brazilian currency.

Turning now to **slide 7**, we take a deeper look at each of the reporting segments.

Buildings and Infrastructure revenue was down 12 percent on an organic basis. Recurring revenue growth was particularly strong in Viewpoint, eBuilder and SketchUp. Hardware, perpetual software license and professional services revenues were down greater than 20 percent in the quarter. Segment margins expanded 400 basis points due to higher margin revenue mix and cost reductions.

Geospatial revenue was down 11 percent on an organic basis, with non-recurring revenue down in the mid-teens and recurring revenue experiencing growth. Margins were up 680 basis points.

Resources and Utilities revenue was down 13 percent on an organic basis. Growth from the utilities business, including Cityworks, helped offset some of the decline in agriculture revenue. Margin expansion of 440 basis points was driven by improved revenue mix and cost reductions.

Transportation revenue was down 24 percent on an organic basis and margins declined 710 basis points. The adverse trends in the Transportation segment were driven by the factors Rob mentioned earlier.

Turning to slide 8 and the outlook for the third quarter, we continue to face significant uncertainty in the demand trends in our core markets driven by the risk of COVID-related restrictions and the broader impact of the pandemic on the economy. Therefore, we lack the visibility in the business that is needed to put forth a guidance range. However, I can provide some color on trends that we are seeing in our business and the markets we serve. Overall, we expect that revenue in the third quarter will be down on a year-over-year basis, albeit at a rate of decline more moderate than we experienced in the second quarter. We anticipate that revenues in the Resources and Utilities segment will grow in the third quarter versus prior year due to the relative resilience of these end markets, the fact that we are comparing against a tough 2019, and the addition of Cityworks. We project that revenue in both the Buildings and Infrastructure and Geospatial segments will be below prior year. The Transportation segment will experience the greatest revenue declines in the third quarter driven by the same factors, which adversely impacted second quarter performance.

Looking at our trends by revenue type, we anticipate continued growth in recurring revenues due to the resilience of these offerings and the ongoing conversions to subscriptions across our software businesses. By contrast, our non-recurring revenues are likely to continue to decline in the third quarter, albeit at a slower rate than we experienced in the second quarter.

We expect gross margins to continue their expansion on a year-over-year basis due to increased software mix, although we don't expect that gross margins will remain as strong as we experienced in the second quarter. Turning to Operating Expense, note that spending in the second quarter was extraordinarily low across our business. We anticipate that operating expense will be higher in the third quarter than in the second quarter. We estimate that the revenue and margin dynamics will result in year-over-year decremental margins in the mid-30s. I'll add here that we remain committed to maintaining healthy operating margins going into 2021. Our view is that 2021 will be characterized by only slow and gradual economic recovery.

We continue to evaluate our business portfolio and look to exit those businesses which are peripheral to our strategy or don't meet our financial objectives.

In terms of cash, we expect cash flow to be down on a year-over-year basis in the second half due to the drop in revenue and EBITDA. Nevertheless, we continue to expect operating cash flow will exceed non-GAAP net income for the full year, and we expect slightly lower capital expenditures for the year.

Now, I'll turn it back to Rob.

Robert Painter – President and CEO

Let me close by talking about key elements of Connect & Scale 2025 and our progress in the quarter, which I will describe in four elements.

- First, connecting solutions across our industry lifecycles. Two examples here. In Transportation, we announced further integration with Keubix between shippers and the Trimble carrier network. In construction, we press released a win with SNCF in France to manage railway construction assets and building construction data.

- Second, delivering breakout innovation that connects the physical and digital worlds. We launched a couple of analytics offerings in our construction business, leveraging our content and project jobsite data to enable customers to optimize project delivery. Near and dear to me, the Government of Nepal completed fieldwork for measuring Mt. Everest's height using Trimble GNSS equipment.

- Third, accelerating our business model transformation. In Transportation, we began offering hardware as part of subscription bundles. In our utilities business, we announced an IoT Solutions-as-a-Service offering for remote monitoring of water and wastewater infrastructure. And here in the third quarter, we will introduce our machine control Platform-as-a-Service initiative, which we announced earlier in the year at ConExpo.

- Fourth, we are taking actions that enable us to efficiently and effectively scale our business. We divested a small seismic business in the quarter, we have shrunk our real estate office footprint by 30 offices year to date, and we have increased our spend and focus on our digital fulfillment systems initiative.

With that, I would like to thank everyone for taking the time to be with us today; and a special thank you to our global Trimble colleagues.

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