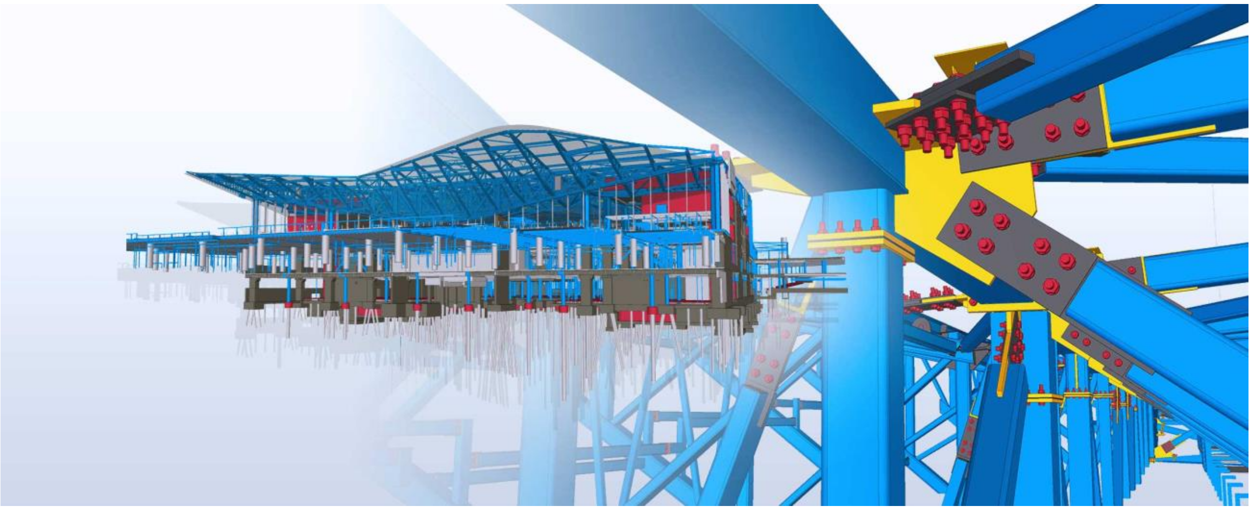

T2 Alliance, Helsinki Airport: The broad usage of Trimble's Tekla Building Information Modeling (BIM) technologies made the challenging Helsinki Airport Terminal 2 extension project possible. The approximately 1-billion-euro project was a cooperation between Ramboll Finland, Finavia Corporation, SRV Rakennus, ALA Architects Ltd, Arkkitehtitoimisto HKP, and Gravicon. The project included a new 450,000 square-meter apron, 16 new wide-bodied plane parking positions, and 4,800 new parking spaces for cars. Finavia, the owner of the project, achieved the BREEAM Excellent sustainability certification.

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Third Quarter 2022 Earnings Conference Call Prepared Remarks

November 2, 2022

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, our presentation is available on our website; and we ask that you refer to the safe harbor at the back. Our financial commentary today will reflect non-GAAP performance metrics, including organic growth comparisons, which will relate to the corresponding period of last year, unless otherwise noted.

Let's begin on page 2 with our key messages. Total revenue in the quarter was $885 million, up 6 percent, yet short of our own higher expectations. Annualized recurring revenue met our expectations and grew 16 percent to a record level of $1.55 billion. Gross margin finished at a record level of 60.9 percent, *exceeding* our expectations. ARR and gross margin are the two-highlight metrics of the quarter. Software, services and recurring revenue comprised 60 percent of revenue in the quarter, and 57 percent on a trailing twelve-month basis. EBITDA margins of 25.8 percent and earnings per share of $0.66 also exceeded our expectations in the quarter.

While ARR performed extraordinarily well in the quarter, demand for hardware and associated software fell short, especially late in the quarter. We expect this will continue through the fourth quarter. While detecting the signal through the noise is difficult at the moment, we attribute the weaker hardware demand to two factors. First, we see a relative weakening of overall sentiment, especially in Europe and in other regions negatively impacted by the strength of the US dollar. Second, we see our dealers, in aggregate, moderating their inventory levels in the back half of the year. This reflects their current sentiment, and also factors in some good news from our supply chains, which began to ease up and offer shorter lead times on our products.

We see many parts of the global economy through the industries we serve. If we look at the overall economic indicators, I'd say that, in aggregate, the indicators went from great to good. In agriculture, farm income remains high, but so does inflation. In construction, the overall indices are still net positive, but interest rates are beginning to have a negative impact on residential work, and inflation is eating into the increased funding from the US bipartisan infrastructure bill. In transportation, although spot rates in the truckload market have softened due to normalizing demand, freight volumes remain steady along with contract rates. Higher fuel prices continue to inflate overall transportation costs, yet trucking margins have remained relatively healthy due to the strength of freight demand.

Managing through these challenging economic and geopolitical landscapes presents a higher level of operational complexity. What is not complex is leading with guiding principles, which for us are threefold. First, we will take actions to exit an expected period of macroeconomic weakness on a stronger competitive footing. Second, we will continue to allocate capital to key areas of the business, such as our digital transformation. Third, we will increase our operational and cost efficiencies and work to reduce our own complexities and redundancies. With that in mind, I will comment on the business through the lens of our operating system, encompassing strategy, people and execution.

Let's start with strategy. On September 7, we held an investor day, where we walked through our Connect and Scale strategy and how it manifests as an industry cloud strategy. We talked about the unifying elements of Trimble and the market opportunity in front of us to digitize and connect some of the most important industries on the planet. We also discussed how our digital transformation will enable connected sales of solutions across a growing portion of our business and shared examples where we are already winning with connected solutions in the market. Finally, we talked about capital allocation and our commitment to transform more of our solution offerings to ratable revenue models, which we firmly believe offers customers more value while expanding the size of our addressable markets. ARR, EBITDA and cash flow are key metrics for us in the coming years.

In the last couple of weeks, we exhibited at the Intergeo geospatial conference and Bauma construction trade shows—both in Germany, both well attended, and both with high levels of customer engagement. On November 7 through 9, we will hold Trimble Dimensions, our engineering & construction user conference, where we expect over 5,000 customers and partners to come together to connect and inspire transformation in our industry.

Moving to people, on October 6 we announced that we changed our corporate headquarters to Westminster, Colorado. We've also made some leadership changes. In July, Ron Bisio took over responsibility for our Transportation business. Last week, we announced that Peter Large will take responsibility for all of our construction assets, software and hardware, across civil and building construction. Our Chief Digital Officer, Mark Schwartz, will take over responsibility for most of our construction software assets, and Patty Boothe will take over responsibility for our civil construction business. We now have single points of accountability to deliver outcomes in construction, agriculture and transportation.

Finally, on the topic of execution, let's review this in the context of our reporting segments. In Buildings and Infrastructure, we acquired Bid2Win on September 9, which is a great fit for our strategy. Bid2Win extends our software capabilities to estimating and operations in the heavy civil construction industry. At the segment level, ACV bookings growth in the quarter exceeded the level of ARR growth, giving us visibility to continued growth. We also continue to see success in cross-selling and up-selling new and existing logos with our early version of Trimble Construction One. We will continue to expand and automate this offering in the months to come. In Geospatial, I spent three weeks in the Asia-Pacific region in September and met face-to-face with many customers there. I saw first-hand how they are using our surveying and mapping instruments and software-driven workflows to build the largest infrastructure projects under development in New Zealand and Australia. In Transportation, the business achieved double-digit operating income margin this quarter, for the first time since the fourth quarter of 2019. While we still have a lot of work to do, it is worth noting that we are headed in the right direction. In Agriculture, we announced that we signed an agreement to acquire Bilberry, which we expect to close in the fourth quarter. Bilberry specializes in selective spraying systems utilizing artificial intelligence and machine learning for sustainable farming. We also signed an agreement with CLAAS to develop a next-generation precision farming system for their tractors, combines and forage harvesters. We launched our next generation GFX high-resolution touchscreen displays, targeted towards farmers that operate mixed fleets. These GFX displays are compatible with over 10,000 vehicle models across more than 40 equipment brands, and they are ISOBUS-compatible, which allows one display for ISOBUS implements, regardless of manufacturer.

Overall, Trimble customers see technology as an increasingly important tool to manage the inflationary and labor shortages they face and to achieve their sustainability commitments. Our bundled solutions represent a unique competitive strength as we compete for our share of the growing industrial technology market.

I'll now turn the call over to David to review our financial results and outlook in greater detail.

David Barnes, CFO

Thank you, Rob.

Let's start on slide 5 with a review of third quarter results. Third quarter revenue of $885 million was up 6 percent organically. Changes in foreign exchange rates reduced revenue by 4 percent, while divestitures net of acquisitions also reduced revenue by 4 percent. Pricing drove slightly over half of our year-on-year organic revenue growth. Software and recurring revenue continued to grow at a strong rate as reflected by the sequential acceleration of our organic ARR growth. Ongoing transitions of software models from perpetual to recurring—principally in our Transportation and Buildings and Infrastructure segments, contributed to our ARR momentum but reduced revenue growth in the quarter by approximately 100 basis points. Hardware revenues grew modestly on an organic basis, enabled by reduced lead times and improving throughput from our supply chain. Supply chain constraints continue to be dynamic in nature, but our team made good progress in the quarter working around these constraints and executed well in a challenging and unpredictable environment. Bookings for hardware products from our dealers declined sequentially from prior quarters and came in below our expectations, reflecting a softening demand environment in some of our end markets and lower dealer inventories.

Gross margin in the third quarter was a record 60.9 percent, up 220 basis points year over year, driven by an increasingly favorable business mix and the improving net impact of pricing and slowing input cost inflation. Adjusted EBITDA and operating margins were essentially flat year over year, and well above pre-COVID levels. Strong gross margins and lower accruals against our annual incentive plans fully offset the year-on-year impact of spending against our strategic initiatives. Net income dollars decreased by 3 percent and earnings per share were flat year over year at $0.66 per share.

Our trailing twelve-month cash flow from operations was $440 million, and free cash flow was $389 million, both of which are down versus prior year. As we outlined in our last earnings call, inventory dynamics and a change in the US tax law are adversely impacting our cash flows in 2022. Our inventories are well above the levels we held before the supply chain shortages emerged in 2021, as we have been buying to support improved hardware lead times. And a provision in the US tax law has resulted in the amortization of R&D costs for tax purposes beginning in 2022, which has meaningfully impacted the timing of tax payments. We expect both of these unusual factors will reverse in 2023, which will yield significant increases in cash flow and a more normalized relationship between earnings and cash flow going forward. Note that the underlying working capital dynamics of our business remain strong, with essentially zero net working capital even at our temporarily higher levels of inventory. Notwithstanding a reduction in backlog from improved hardware lead times, we enter the fourth quarter with $1.5 billion in backlog, $1.3 billion of which supports future software, services and recurring revenue. We ended the quarter with leverage—measured as net debt to EBITDA—of 1.4 times, giving us a resilient capital structure and the flexibility to invest where we see opportunity. This quarter we funded our acquisition of Bid2Win and completed $90 million in share repurchases.

Turning now to slide 6, I'll review in more detail our third quarter revenue trends. On this and the next few pages I will focus on organic growth rates—excluding the impact of acquisitions, divestitures and currency fluctuations. ARR was up 16 percent, with strong bookings in construction and healthy net retention across our portfolio. Our non-recurring revenue streams grew modestly, with hardware up 3 percent year over year. As Rob mentioned earlier, our non-recurring revenues were below our expectations, driven by weaker end market demand in some markets—especially in Europe—and growing caution among our dealers on how much inventory they want to hold.

From a geographic perspective, North American revenues were up 10 percent. In Europe, where the macro-economic outlook contracted the most, revenues were down 3 percent. Asia-Pacific was up 4 percent, and the rest of world was up 21 percent.

Next on slide 7, we highlight some of the key metrics that we follow. ARR in Buildings and Infrastructure, Geospatial, and Resources and Utilities all grew at mid-teens or above rate, while Transportation ARR growth was high-single digits and improved sequentially.

Let's turn now to slide 8 for additional detail on each of our reporting segments. Buildings and Infrastructure revenue was up 12 percent. Revenue growth was strong across our software businesses in this segment, while our Civil Construction hardware revenue benefited from improved supply chain throughput. Segment ARR was up in the twenties in the quarter. Geospatial segment revenue was up 1 percent over a very strong performance in the third quarter of 2021. Resources and Utilities revenue was up 9 percent, driven by improved throughput from our supply chain, strong demand from OEM customers, and continued growth in our positioning services. Financial results in Transportation showed progression in a number of areas. ARR growth and margins both improved for the fourth quarter in a row. We continue to progress in the conversion of our Transportation Enterprise software business to recurring revenue models.

Turning now to slide 9, I'd like to provide our updated financial outlook for 2022. I'll start with ARR. Driven by our momentum in bookings and sustained high levels of net retention, our outlook for ARR growth is unchanged from what we shared with you last quarter. We continue to expect organic ARR growth of approximately 16 percent.

Turning to revenue, we now project organic revenue growth of 6 percent to 8 percent for the full year, which is 300 basis points below the outlook we shared with you in August.

For the full year we expect that changes in foreign exchange rates will reduce year-on-year revenue growth by 3 percent, while divestitures net of acquisitions will also reduce revenue by 3 percent.

We expect operating margins for the full year of approximately 23 percent, which is consistent with the range we shared with you in August. Our outlook for gross margins has improved, driven both by an improving business mix and a more positive outlook for pricing and costs. We project that our improving gross margins and strong operating cost control will offset the adverse impact of lower leverage on our fixed costs.

Our forecast for income from equity investments is approximately $28 million and net interest costs are estimated to be approximately $66 million. Our tax rate guidance is a range of 18 percent to 18.5 percent.

Taken in aggregate, we now expect full year 2022 non-GAAP earnings per share to be between $2.61 and $2.67 per share.

From a cash flow perspective, we now expect the ratio of free cash flow to non-GAAP net income to be 0.5 to 0.6 times for the year, with the primary impacts continuing to be Section 174 tax payments and inventory dynamics. We continue to expect to deliver 2023 free cash flow well above non-GAAP net income as these factors reverse.

From a segment perspective, in the fourth quarter we expect organic growth rates to moderate in the Buildings and Infrastructure, Geospatial, and Resources and Utilities segments driven entirely by lower year on year revenues from hardware. In the Transportation segment, we expect the growth rate to improve sequentially. ARR growth should remain relatively consistent with recent trends in each of our segments.

We expect to issue 2023 guidance in February, but at this point we anticipate a 2023 outlook for double-digit ARR growth and strong cash flow generation.

Rob, I'll turn it back over to you.

Rob Painter, CEO

Thanks David.

Let me acknowledge that global market conditions have become more difficult. I also think perspective is important. ARR at $1.55 billion and up 16 percent is a remarkable achievement and puts us in the upper echelon of technology companies. Our survey, agriculture and civil construction hardware revenues, when factoring in our current 2022 forecast, have grown at a compound annual growth rate of over 13 percent since 2019. The data we have suggests that we have gained share in each of these end markets over the last three years, and we remain pleased with our performance and the strategic health of these businesses.

Looking forward, we will stay true to our 3-4-3 model, simultaneously balancing a view on 3 months, 4 quarters and 3 years. In the short-term, we will more tightly manage headcount and discretionary costs, while continuing to transform our business models. In the mid-term, we are planning for persistent economic uncertainty, and we will be sharper on our capital allocation to invest in key areas of the business—without cutting into any muscle. In the long-term, the durability of our business is stronger than ever, and our markets are inflecting with the adoption of digital technologies. This remains our moment to Connect and Scale and we are as committed as ever to this strategic journey.

Operator let's open the line to questions