

Trimble Inc. (TRMB)

\$45.18 (As of 06/08/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Trimble continues to gain on well-performing segments. Robust Buildings and Infrastructure unit continues to drive the top line on the back of strengthening civil construction businesses. Benefits from e-Builder and Viewpoint buyouts are positives. Further, solid momentum across mapping, navigation and truck routing businesses is a tailwind for the Transportation segment. Also, rising demand for aftermarket products and correction services in the agricultural sector remains positive. The company remains optimistic regarding cost control strategies and acquisition strength. Notably, the stock has outperformed its industry on a year-to-date basis. However, Trimble continues to anticipate persistent headwinds in the global economy owing to coronavirus pandemic. COVID-19 induced crisis situation is hurting the freight demand which is a negative.

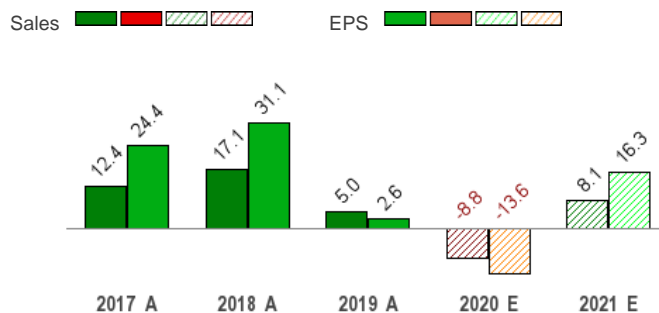
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.67 - \$20.24
20 Day Average Volume (sh)	1,311,379
Market Cap	\$11.3 B
YTD Price Change	8.4%
Beta	1.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Electronics - Miscellaneous Products
Zacks Industry Rank	Bottom 23% (193 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.5%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/29/2020
Earnings ESP	0.0%
P/E TTM	22.3
P/E F1	26.3
PEG F1	2.5
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	815 E	797 E	788 E	847 E	3,218 E
2020	792 A	695 E	712 E	784 E	2,978 E
2019	802 A	855 A	784 A	824 A	3,264 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.47 E	\$0.47 E	\$0.56 E	\$2.00 E
2020	\$0.49 A	\$0.37 E	\$0.39 E	\$0.48 E	\$1.72 E
2019	\$0.45 A	\$0.53 A	\$0.48 A	\$0.53 A	\$1.99 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/08/2020. The reports text is as of 06/09/2020.

Overview

Based in Sunnyvale, CA, Trimble Inc. is an original equipment manufacturer (OEM) of positioning, surveying and machine control products. Its product portfolio is centered on the integration of real-time positioning or location technologies with wireless communications and software or information technologies.

The company leverages Global Positioning System (GPS), Global Navigation Satellite Systems (GNSS), augmentation systems and other systems based on optical and laser technologies, in order to provide real-time position.

Notably, Trimble generated \$3.27 billion of revenues in 2019 from its four organized business segments.

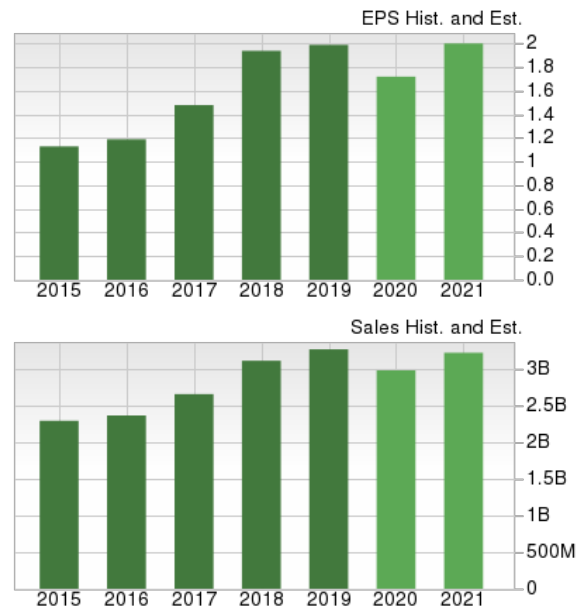
Building and Infrastructure (38.5% of 2019 non-GAAP revenues) comprised of building construction, and civil engineering and construction businesses. End customers of this segment include surveyors, architects, engineers, contractors and operators.

Geospatial (19.8% of 2019 revenues) offers geographic information system (GIS), and survey product lines. The segment caters to the need of government, survey and engineering customers.

Resources and Utilities (17.5% of 2019 revenues) primarily caters to the agricultural market by serving the customers engaged in forestry, utilities and agriculture. The company's offerings in the agriculture sector include information management solutions, guidance and positioning systems, automated and variable-rate application and technology systems.

Transportation (24.2% of 2019 revenues) segment serves the customers engaged in transportation, automotive, logistics and field service management activities. The company offers enterprise and mobility solutions for long-haul trucking industry. Further, it offers comprehensive fleet and transportation management, analytics, routing, mapping, reporting, and predictive modeling solutions for logistics market.

The company sells its products in over 100 countries through direct channels, joint ventures, representatives, dealers and other channels. Further, Trimble has manufacturing, logistics and development operation in countries like the United States, the U.K., Sweden, Germany, New Zealand, Canada, Finland, the Netherlands, China and India.



Reasons To Buy:

- ▲ Trimble is one of the **leading players** in the GPS market, specializing in positioning, surveying and machine control. Trimble's solutions lead to better asset utilization and thereby increase the operational efficiency of its customers. So the demand for these solutions should continue to increase. Trimble is highly focused on its software and services portfolio, revenues from which have been growing rapidly in recent years. The increased volumes of software it is selling is building the effectiveness of its products and also expanding its margins. The GPS section of the electronics sector serves the engineering and construction, agriculture, transportation and fleet management, automotive, military, avionics, communications, handsets and OEM markets. The use of GPS technology continues to increase in each of these end markets. The location of underground materials, wires and cables make location-based services (LBS) increasingly important in the engineering & construction and communications markets due to significant time and cost savings. Maintenance of equipment and detection of faults is also easier using GPS technology. Location of equipment and materials in agriculture is also a secular growth market for Trimble.
- ▲ Over time, Trimble has transformed its **technological focus** from hardware-driven point solutions to integrated work process solutions. During the past several years, the company has been spending an average of 14-15% of revenues on R&D to ensure that its vertical markets could receive quick and cost-effective solutions. The company has made software and services an integral part of its growth strategy. Its open application programming interface (API) philosophy and open vendor environment speeds up the process of adoption of its software offerings. Professional services that allow customers to optimize and integrate Trimble's offerings with their environment offer an additional growth opportunity. We believe the company will continue to improve its recurring revenues from these solutions over time.
- ▲ Trimble develops fully-integrated product platforms that result in strong revenues and margins. The product portfolio includes higher-end commercial products that have high barriers to entry. Moreover, since productivity gains become a primary concern when finances are tight, the company's specialized products ensure much more sustainable and stable demand when there are macro pressures on the economy. Management's focus on innovation has led to pricing power and growing software content, which are the main reasons for Trimble's attractive gross margins.
- ▲ Trimble has an aggressive **merger and acquisition strategy**. Over the past few years, the company have added a large number of companies as well as important assets of several others to complement its current business and capabilities. These acquisitions are small in comparison to Trimble, so there have been no integration issues. Rather, the acquisitions have helped the company to build a comprehensive portfolio, enter new markets and generate additional revenue. Trimble is likely to continue benefiting from its recent buyouts of Viewpoint and e-Builder. We expect acquisitions to remain an important driver for the company in the years to come.

Product enhancements and introductions, robust GPS technology, improving mix of software and services revenues, and acquisition benefits are positives.

Reasons To Sell:

- ▼ The company is penetrating in **emerging markets** with its entry-level products, which typically carry lower margins. However, revenues from emerging markets are likely to grow as a percentage of the mix. While margins have been benefiting from cost control initiatives, the larger percentage of revenues coming from emerging markets will be an offsetting factor.
- ▼ Its nature of business makes Trimble vulnerable to **foreign exchange risk**. A significant part of the company's operations are international and thus appreciation or depreciation of the U.S. dollar versus other currencies could impact the company's financial results.
- ▼ Trimble faces **competition** in all of its markets and considering the growing adoption of GPS-based systems and the under-penetration in its served markets, the company could see an increase in the number of new competitors. While brand name and market position could protect revenues for a while, pricing pressure would ultimately be inevitable, pulling down its margins.
- ▼ Trimble also has a leveraged balance sheet. At the end of first-quarter 2020, the company's net debt was \$1.8 billion compared with \$1.7 billion at the end of fourth-quarter 2019. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates. Notably, debt-to-total capital was 36.2% as of Mar 31, 2020 which increased from 34.6% as of Dec 31, 2019.

Going forward, declining oil prices, exchange rates and deferred revenue accounting effects will be major headwinds. Growing caution in Europe also remains a concern.

Last Earnings Report

Trimble Q1 Earnings & Revenues Beat Estimates

Trimble reported first-quarter 2020 non-GAAP earnings of 49 cents per share, beating the Zacks Consensus Estimate by 19.5%. The bottom line also improved 8.9% year over year but declined 7.5% sequentially.

Per management, non-GAAP revenues decreased 1% year over year and 3.9% on a sequential basis to \$794 million.

Further, the company's GAAP revenues came in \$792.3 million, which surpassed the Zacks Consensus Estimate of \$783 million. However, the figure was down 1% from the year-ago quarter and 3.8% from the prior quarter.

The top line was impacted by weakness in the overall demand environment owing to the coronavirus pandemic. Further, sluggishness in the Geospatial and Transportation segments remained a headwind during the reported quarter.

Nevertheless, the company witnessed strong performance by Resources and Utilities and Buildings and Infrastructure segments in the first quarter. Further, acquisition benefits remained tailwinds.

Product revenues (58.5% of GAAP revenues) totaled \$463.8 million, down 5% on a year-over-year basis. Services revenues (20.5% of revenues) came in at \$162.4 million, up 2% year over year. Subscription revenues (21% of revenues) improved 7.8% from the year-ago quarter to \$166.1 million.

Trimble continues to anticipate persistent headwinds in the global economy owing to coronavirus pandemic. Consequently, the company has refrained from providing guidance for the remaining 2020.

Nevertheless, the company remains optimistic regarding cost control strategies, which are expected to aid profitability in the near term. Further, the company's acquisition strategy remains a major positive and is likely to aid the stock rebound in the long haul.

Segments in Detail

Buildings and Infrastructure: This segment generated sales of \$296.9 million, accounting for 37.4% of the company's non-GAAP revenues, improving 1% on a year-over-year basis. Notably, strong performance by civil construction business drove year-over-year sales in this segment despite coronavirus-induced disruptions.

Geospatial: Sales from this segment were \$146.2 million, accounting for 18.4% of total revenues. The figure decreased 9.3%, compared with the year-ago quarter primarily on account of weak demand due to decline in oil prices. Further, coronavirus induced shelter-in-place protocol remained a headwind. Additionally, decreasing dealers' inventories were concerns.

Resources and Utilities: The segment generated sales of \$180.3 million, accounting for 22.7% of total revenues. The figure improved 13% on a year-over-year basis. Although coronavirus outbreak impacted the company's OEM business negatively, solid customer demand courtesy of the anticipation of shutdowns in distribution and manufacturing facilities drove the segment's top line. Further, rising demand for aftermarket products and correction services in the agricultural sector was a positive.

Transportation: Sales from this segment went down 9.8% from the year-ago quarter to \$170.6 million, accounting for 21.5% of total revenues. Coronavirus-induced crisis situation hurt the freight demand. Further, challenges associated with implementation of the ELD mandate in Trimble's telematics business remained headwinds.

Operating Details

In the first quarter, non-GAAP gross margin came in at 59.1%, expanding 110 basis points (bps) year over year.

Adjusted operating expenses accounted for 38.8% of non-GAAP revenues, expanding 10 bps compared with the year-ago quarter.

Further, non-GAAP operating margin came in at 20.3%, which expanded 90 bps year over year.

Balance Sheet

At the end of first-quarter 2020, cash and cash equivalents were \$216.8 million, up from \$189.2 million at the end of fourth-quarter 2019. Inventories were \$327.2 million, up from \$312.1 million in the previous quarter.

Long-term debt was \$1.7 billion at the end of the first quarter, compared with \$1.6 billion at the end of the fourth quarter.

Further, the company generated \$155.7 million of cash from operations compared to \$122 million in the previous quarter.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	1.19%
EPS Surprise	19.51%
Quarterly EPS	0.49
Annual EPS (TTM)	2.03

Recent News

On **May 28, 2020**, Trimble rolled out new capabilities for its Community Load Match platform with the help of Kuebix. Notably, the solution now allows shippers to find available carriers for their truckload shipments seamlessly. It also allows them to utilize improved map visualization of Trimble MAPS.

On **May 18, 2020**, Trimble sold its REF TEK seismic monitoring portfolio which was a part of its Geospatial segment, to Xeos Technologies.

On **May 6, 2020**, Trimble sold its HarvestMark business which was a part of its Resources and Utilities segment, to iFoodDecisionSciences.

On **Apr 30, 2020**, Trimble unveiled an automatic screed control system namely Roadworks 2D Paving Control Platform for asphalt pavers which allows paving contractors to minimize the waste of expensive asphalt material.

On **Apr 16, 2020**, Trimble rolled out an optimized dispatch solution for the transportation industry called Trimble Dispatch Advisor. The move will expand the offerings of the company's Transportation segment.

On **Jan 13, 2020**, Trimble joined forces with Geotab and integrated its Video Intelligence solution with Geotab Marketplace. The company strives to save drivers from false claims with latest move. This is expected to enhance Trimble's offerings to the light- and medium- duty fleets which in turn will strengthen its transportation business.

On **Jan 9, 2020**, Trimble agreed to acquire a transportation management system (TMS) provider, Kuebix, for an undisclosed amount. This will allow Trimble to develop a single logistics platform wherein shippers, carriers and intermediaries can work in collaboration with each other.

Valuation

Trimble shares are up 8.3% in the year-to-date period and 4.3% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 12.2%, the same in the Zacks Computer & Technology sector are up 8.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 9.2% and 24.3%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and 11.9% in the past year.

The stock is currently trading at 24.5X forward 12-month earnings, which compares to 18.8X for the Zacks sub-industry, 25.28X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.64X and as low as 11.65X, with a 5-year median of 22.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 25.49X forward 12-month earnings.

The table below shows summary valuation data for TRMB

Valuation Multiples - TRMB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	24.5	18.8	25.28	23.35
	5-Year High	33.64	18.8	25.28	23.35
	5-Year Low	11.65	12.4	16.72	15.23
	5-Year Median	22.34	15.59	19.28	17.49
P/S F12M	Current	3.66	1.22	3.85	3.63
	5-Year High	4.12	1.48	3.85	3.63
	5-Year Low	1.58	0.58	2.32	2.53
	5-Year Median	2.88	1.08	3.11	3.02
EV/EBITDA TTM	Current	24.11	17.24	12.4	11.97
	5-Year High	25.45	18.4	12.72	12.85
	5-Year Low	9.31	8.22	7.57	8.25
	5-Year Median	15.6	12.81	10.73	10.81

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (193 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
FARO Technologies, Inc. (FARO)	Outperform	1
Autodesk, Inc. (ADSK)	Neutral	3
AGCO Corporation (AGCO)	Neutral	3
Avid Technology, Inc. (AVID)	Neutral	4
Cubic Corporation (CUB)	Neutral	4
DeereCompany (DE)	Neutral	3
Garmin Ltd. (GRMN)	Neutral	3
TOPCON CORP (TOPCF)	Neutral	3

Industry Comparison Industry: Electronics - Miscellaneous Products				Industry Peers		
	TRMB	X Industry	S&P 500	ADSK	FARO	GRMN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	B	-	-	C	C	C
Market Cap	11.28 B	170.66 M	23.56 B	51.18 B	1.05 B	18.97 B
# of Analysts	9	3.5	14	10	1	5
Dividend Yield	0.00%	0.00%	1.8%	0.00%	0.00%	2.30%
Value Score	C	-	-	D	D	D
Cash/Price	0.02	0.12	0.06	0.03	0.16	0.08
EV/EBITDA	20.28	6.02	13.19	110.05	-21.38	16.08
PEG Ratio	2.44	2.06	3.18	1.53	NA	4.36
Price/Book (P/B)	3.64	1.95	3.19	NA	3.32	3.84
Price/Cash Flow (P/CF)	17.30	8.76	12.52	111.16	34.74	20.60
P/E (F1)	25.58	24.40	23.31	60.76	95.77	32.07
Price/Sales (P/S)	3.47	0.93	2.51	14.95	2.86	4.93
Earnings Yield	3.81%	3.72%	4.15%	1.64%	1.04%	3.12%
Debt/Equity	0.58	0.12	0.76	-14.65	0.04	0.01
Cash Flow (\$/share)	2.61	1.09	7.01	2.10	1.71	4.82
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	16.99%	-1.06%	10.87%	NA	-17.75%	13.16%
Proj. EPS Growth (F1/F0)	-13.51%	-9.59%	-10.76%	37.74%	117.32%	-30.43%
Curr. Cash Flow Growth	0.92%	-4.56%	5.48%	280.74%	13.79%	19.85%
Hist. Cash Flow Growth (3-5 yrs)	3.41%	3.79%	8.55%	8.91%	-4.05%	7.04%
Current Ratio	0.97	1.71	1.29	0.79	2.90	3.75
Debt/Capital	36.71%	18.58%	44.75%	NA	3.87%	1.06%
Net Margin	15.79%	0.38%	10.59%	8.91%	-20.98%	25.30%
Return on Equity	15.44%	3.49%	16.26%	-230.16%	1.43%	19.38%
Sales/Assets	0.52	0.94	0.55	0.63	0.74	0.65
Proj. Sales Growth (F1/F0)	-8.78%	0.00%	-2.62%	14.23%	-14.98%	-11.78%
Momentum Score	A	-	-	D	F	C
Daily Price Chg	0.13%	0.00%	1.55%	-0.09%	-1.41%	2.87%
1 Week Price Chg	15.34%	7.24%	7.51%	11.09%	7.02%	7.05%
4 Week Price Chg	21.75%	12.43%	15.61%	26.63%	10.21%	22.85%
12 Week Price Chg	86.54%	32.35%	38.10%	57.69%	39.95%	40.15%
52 Week Price Chg	4.85%	0.78%	3.66%	41.42%	24.30%	23.86%
20 Day Average Volume	1,311,379	54,951	2,648,536	1,765,887	94,200	1,148,652
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-18.11%	0.00%	-12.30%
(F1) EPS Est 12 week change	-15.21%	-15.21%	-15.97%	-21.75%	-48.33%	-32.84%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-17.24%	0.00%	-12.97%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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