

Trimble Inc. (TRMB)

\$44.18 (As of 01/21/20)

Price Target (6-12 Months): **\$46.00**

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 ride on well-performing segments. Robust Buildings and Infrastructure unit continue to drive the top line on the back of strengthening building and civil construction businesses. Benefits from e-Builder and Viewpoint buyouts are positives. Strong organic growth in Transportation segment driven by mapping, navigation and truck routing businesses is a tailwind. Estimates have been stable lately ahead of the company's Q4 earnings release. However, the company has mixed record of earnings surprises in recent quarters. Trimble's position in China can come into question owing to the impact of U.S. trade policy. Trade tensions are resulting in slowdown in OEM demand and sluggish spending by U.S. farmers. Also, unfavorable foreign exchange fluctuations pose risks. The stock has underperformed the industry over a year.

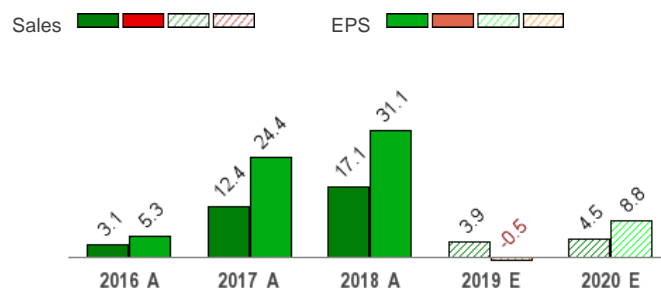
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.25 - \$35.00
20 Day Average Volume (sh)	738,562
Market Cap	\$11.0 B
YTD Price Change	6.0%
Beta	1.99
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Electronics - Miscellaneous Products
Zacks Industry Rank	Top 27% (68 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	-2.8%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/05/2020
Earnings ESP	1.6%
P/E TTM	22.8
P/E F1	21.0
PEG F1	2.0
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	822 E	886 E	826 E	827 E	3,374 E
2019	802 A	855 A	784 A	786 E	3,229 E
2018	742 A	786 A	795 A	786 A	3,108 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.50 E	\$0.58 E	\$0.52 E	\$0.52 E	\$2.10 E
2019	\$0.45 A	\$0.53 A	\$0.48 A	\$0.47 E	\$1.93 E
2018	\$0.44 A	\$0.50 A	\$0.49 A	\$0.48 A	\$1.94 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 01/21/2020. The reports text is as of 01/22/2020.

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 \$3.12 billion of revenues in 2018 from its four organized business segments.

Building and Infrastructure (34.8% of 2018 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.

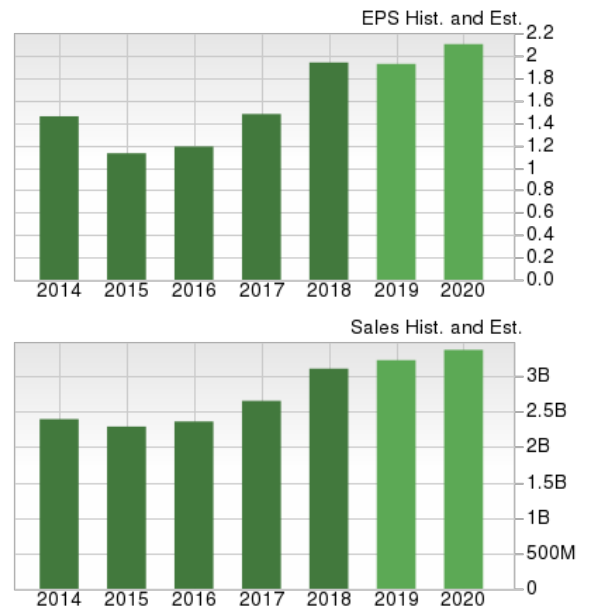
Geospatial (23.1% of 2018 revenues) offers geographic information system (GIS), and survey product lines. The segment caters to the need of government, survey and engineering customers.

Resources and Utilities (18.1% of 2018 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% of 2018 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.

The company had approximately 11,287 employees worldwide as of Dec 31, 2018.



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 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.

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 Q3 Earnings Beat Estimates, Revenues Down Y/Y

Trimble Inc. reported third-quarter 2019 non-GAAP earnings of 48 cents per share, beating the Zacks Consensus Estimate by 1 cent. However, the figure declined 2% year over year and 17.8% sequentially.

Per management, non-GAAP revenues decreased 2.5% year over year and 8.3% on a sequential basis to \$784.3 million. Moreover, the company's GAAP revenues came in \$783.9 million, down 1.4% from the prior-year quarter and 8.3% from the previous quarter.

This was primarily due to weakness in the market conditions. Moreover, sluggish performance of Resources and Utilities and Geospatial segments during the reported quarter.

Nevertheless, the company witnessed solid momentum across Buildings and Infrastructure and Transportation segments during the third quarter.

Product revenues (59% of GAAP revenues) totaled \$458.8 million, down 8.2% on a year-over-year basis. Services revenues (21% of revenues) came in at \$168 million, up 7.3% year over year. Subscription revenues (20% of revenues) improved 13% from the year-ago quarter to \$157.1 million.

Management expects market uncertainties to continue acting as a headwind in the ongoing quarter.

However, the company remains optimistic about its cost control strategies, which are expected to aid profitability in the near term. Further, the company's acquisitions remain a major positive and are likely to aid the stock rebound in the long haul.

Segments in Detail

Buildings and Infrastructure: This segment generated \$309.8 million sales, accounting for 39.5% of the company's non-GAAP revenues, improving 4.7% on a year-over-year basis. Notably, strong performance by civil construction businesses drove year-over-year sales in this segment. Further, positive contributions from e-Builder and Viewpoint buyouts contributed to the results. The company also experienced robust growth in software business. Moreover, the segment experienced solid momentum in North America and Europe during the third quarter.

Geospatial: Sales from this segment were \$155.1 million, accounting for 19.8% of total revenues. The figure decreased 16.3%, compared with the year-ago quarter primarily owing to the U.S.-China trade war. Further, macro-economic headwinds in China led to slowdown in OEM demand, which affected the segment's top line in the reported quarter. Additionally, sluggish performance of this segment in North America remains a headwind.

Resources and Utilities: The segment generated sales of \$121.1 million, accounting for 15.4% of total revenues. The figure declined 9.1% on a year-over-year basis. The segment witnessed weak performance in North America in the third quarter. Further, the ongoing U.S.-China trade tensions resulted in sluggish spending by U.S. farmers, which in turn led to a weakened U.S. agriculture market. This also impacted the top-line within this segment.

Transportation: Sales from this segment went up 4.2% from the year-ago quarter to \$198.3 million, accounting for 25.3% of total revenues. Strong momentum of the segment across North America and Europe contributed to the results. However, the company was hurt by rising spending related to ELD conversion.

Operating Details

In the third quarter, non-GAAP gross margin came in at 57%, contracting 90 bps year over year owing to unfavorable revenue mix.

Adjusted operating expenses accounted for 36.4% of non-GAAP revenues, contracting 70 bps compared with the year-ago quarter.

Further, non-GAAP operating margin came in at 20.7%, which contracted 10 bps year over year.

Balance Sheet

As of Sep 27, 2019, cash and cash equivalents were \$184.6 million, down from \$199.6 million as of Jun 28, 2019. Inventories were \$290.1 million, up from \$287.9 million in the previous quarter.

Long-term debt was \$1.514 billion at the end of the third quarter, compared with \$1.513 billion at the end of the second quarter.

Further, the company generated \$137 million of cash from operations and \$121 million of free cash flow during the reported quarter.

Additionally, the company repurchased shares worth \$121 million in the third quarter.

Guidance

For fourth-quarter 2019, Trimble anticipates non-GAAP earnings between 46 cents and 50 cents per share.

The company expects GAAP revenues between \$768 million and \$798 million. Further, it anticipates non-GAAP revenues between \$770 million and \$798 million.

For 2019, management anticipates non-GAAP earnings between \$1.91 and \$1.95 per share.

The company revised the guidance for non-GAAP revenues downward from \$3.255 billion-\$3.315 billion to \$3.215 billion-\$3.245 billion. Further,

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-2.84%
EPS Surprise	2.13%
Quarterly EPS	0.48
Annual EPS (TTM)	1.94

guided range for GAAP revenues moved south from \$3.251 billion-\$3.311 billion to \$3.209 billion-\$3.239 billion.

Recent News

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.

On **Nov 11, 2019**, Trimble unveiled GFX-350™ display and NAV-500™ guidance controller which will strengthen its agriculture solutions portfolio.

On **Nov 5, 2019**, Trimble unveiled a Global Navigation Satellite System (GNSS) surveying solution namely Trimble® R12 GNSS receiver. This will aid the company in gaining traction among the surveyors who work in challenging GNSS environments. Moreover, the new solutions will strengthen its Geospatial segment's offerings.

On **Oct 7, 2019**, Trimble collaborated with collaboration with Pana-Pacific, which offers technology to the commercial trucking industry. The latter has added Trimble's Video Intelligence solution to its product offerings through this partnership. The move will aid Trimble's presence in the transportation sector.

On **Oct 3, 2019**, Trimble entered into a definitive agreement to acquire Azteca Systems in a bid to bolster its capabilities in the enterprise asset management (EAM) space. Notably, Azteca Systems, doing business as Cityworks offers robust office, cloud and mobile EAM software solutions.

On **Sep 16, 2019**, Trimble rolled out 3D laser scanning system called Trimble X7 which features specialized field software, in an effort to expand its 3D Scanning portfolio. Further, it provides intuitive workflows and high-speed 3D laser scanning.

Valuation

Trimble shares are down 1.4% in the six-month period but up 23.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 13.6% and 15.8% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 48.2% and 34.5%, respectively.

The S&P 500 index is up 11.3% in the six-month period and 25.1% in the past year.

The stock is currently trading at 20.81X forward 12-month earnings, which compares to 17.63X for the Zacks sub-industry, 23.1X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.64X and as low as 15.15X, with a 5-year median of 22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 21.69X 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	20.81	17.63	23.1	19.13
	5-Year High	33.64	18.75	23.1	19.34
	5-Year Low	15.15	12.4	16.87	15.17
	5-Year Median	22	15.9	19.24	17.44
P/S F 12M	Current	3.25	1.22	3.74	3.56
	5-Year High	4.12	1.48	3.74	3.56
	5-Year Low	1.75	0.58	2.3	2.54
	5-Year Median	2.83	1	3.01	3
EV/EBITDA TTM	Current	17.75	15.6	12.71	12.38
	5-Year High	20.44	18.4	12.71	12.86
	5-Year Low	9.34	8.32	7.68	8.48
	5-Year Median	15.3	11.13	10.52	10.67

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 27% (68 out of 255)



Top Peers

FARO Technologies, Inc. (FARO)	Outperform
Garmin Ltd. (GRMN)	Outperform
Autodesk, Inc. (ADSK)	Neutral
Avid Technology, Inc. (AVID)	Neutral
Cubic Corporation (CUB)	Neutral
Deere & Company (DE)	Neutral
TOPCON CORP (TOPCF)	Neutral
AGCO Corporation (AGCO)	Underperform

Industry Comparison Industry: Electronics - Miscellaneous Products				Industry Peers		
	TRMB Neutral	X Industry	S&P 500	ADSK Neutral	FARO Outperform	GRMN Outperform
VGM Score	B	-	-	C	D	D
Market Cap	11.01 B	260.22 M	24.43 B	43.09 B	945.04 M	19.92 B
# of Analysts	9	2	13	10	1	5
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.00%	2.27%
Value Score	C	-	-	F	F	D
Cash/Price	0.02	0.09	0.04	0.02	0.15	0.07
EV/EBITDA	21.97	6.35	14.00	621.04	34.89	20.33
PEG Ratio	2.02	1.69	2.06	1.86	NA	3.21
Price/Book (P/B)	3.99	1.82	3.39	NA	2.57	4.55
Price/Cash Flow (P/CF)	17.21	10.22	13.69	353.32	35.83	25.01
P/E (F1)	21.17	20.94	19.00	70.62	NA	23.57
Price/Sales (P/S)	3.41	0.98	2.68	13.85	2.42	5.55
Earnings Yield	4.75%	4.75%	5.26%	1.41%	-0.33%	4.24%
Debt/Equity	0.58	0.11	0.72	-8.92	0.04	0.01
Cash Flow (\$/share)	2.57	1.09	6.94	0.55	1.52	4.02
Growth Score	B	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	12.45%	1.00%	10.60%	NA	-17.14%	8.15%
Proj. EPS Growth (F1/F0)	9.16%	14.11%	7.57%	174.55%	76.32%	2.69%
Curr. Cash Flow Growth	25.63%	-0.51%	14.00%	-149.98%	21.75%	24.18%
Hist. Cash Flow Growth (3-5 yrs)	2.20%	2.02%	9.00%	-21.89%	-1.74%	6.09%
Current Ratio	1.00	1.94	1.23	0.60	3.32	2.64
Debt/Capital	36.79%	19.08%	42.99%	NA	3.65%	0.97%
Net Margin	9.97%	0.40%	11.15%	4.74%	-1.71%	21.79%
Return on Equity	15.63%	5.83%	17.16%	-113.06%	2.98%	18.73%
Sales/Assets	0.55	1.02	0.55	0.64	0.76	0.65
Proj. Sales Growth (F1/F0)	4.49%	0.00%	4.05%	27.06%	1.42%	4.33%
Momentum Score	A	-	-	C	F	B
Daily Price Chg	0.09%	0.00%	-0.27%	1.29%	-1.99%	1.57%
1 Week Price Chg	4.85%	1.52%	2.29%	0.51%	2.76%	2.63%
4 Week Price Chg	4.44%	1.85%	2.13%	6.49%	7.52%	2.18%
12 Week Price Chg	11.68%	3.81%	6.99%	34.51%	14.32%	14.42%
52 Week Price Chg	24.24%	13.08%	21.25%	40.83%	31.80%	49.26%
20 Day Average Volume	738,562	18,113	1,415,064	1,024,076	70,128	657,255
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.20%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-4.19%	-1.48%	-0.34%	-2.83%	-117.56%	5.80%
(Q1) EPS Est Mthly Chg	-0.45%	0.00%	0.00%	0.00%	NA	0.00%

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.

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