Trimble Inc.

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Chad Dillard: Hi, good afternoon, everyone. Is it afternoon? It is. All right. Well, thank you for joining us. My name is Chad Dillard. I'm the lead analyst here at Bernstein covering the machinery sector as well as electrical infrastructure. And today I'm really pleased to have Trimble on the stage with me, and joining me from Trimble is the CEO, Rob Painter. Thanks for having us.

So the format of today, we're just going to have a fireside chat. We'll begin with Rob just giving a real brief overview of Trimble. And if you have any questions from the audience, there should be a link floating around, entering your question on Pigeonhole, and I'll make sure to get those questions answered. So maybe I'll pass it over to you, Rob, to give a quick intro on Trimble, and then we'll dive right in.

Rob Painter: Yes, feed the world, move the world, build the world. That's the why of Trimble. That's the purpose of Trimble. Company was founded in 1978 by Charlie Trimble. I'm the third CEO in the 47-year history of the company.

We're applying technologies, really geospatial-centric technologies, in end markets such as engineering, construction, and transportation and logistics. We've had a big transformation in the business over the last few years, but we'll come to that. Today, traded on the S&P 500, very technology forward.

Chad Dillard: Great. So we were just talking before it started that you've been at the helm for 5 years. It's been quite the journey. So I'd love to get your sense for how--maybe you could describe to everybody just what the path has been and talk about what could potentially be next as the company evolves further.

Rob Painter: Yes. So I have a 19-year history with the company, growing up through many parts of the business, particularly in the construction technology side of the company, with CFO from 2016 to 2019. So a unique vantage point coming into the role that I came into in 2020 and absolute privilege to be able to do this job and to be able to be in an event like this.

Over the last 5 years, we've had a foundational transformation of the business. And just to put some quant around the last 5 years, we've moved from about 50% software company

5 years ago to 75% software. We moved from one-third ARR as a percent of total revenue to two-thirds percent. Today we sit at over $2.1 billion of ARR that grew 17% organically in the first quarter. That's pretty rare territory.

We've had a structural improvement in the gross margins, 1,200-basis-point increase in gross margins in the last 5 years, around the 70% gross margin mark today. That's translated into a 500-basis-point improvement in EBITDA over that timeframe.

We've spent a lot of time simplifying and focusing the business and the portfolio. We've done 23 divestitures over the last 5 years. That amount's against seven acquisitions over that same timeframe. So the simplification in focus, this has provided clarity into the business. Durability shows up in that business model. And by the way, we're also very asset light. That tends to sometimes be lost in the story.

We're on negative working capital, CapEx less than 1% of revenue. So that's the durability meets the momentum that we have in the business. And we see that playing through the results that we have in the company. Coming out of that strength we had in 2024 played into a strong set of first quarter numbers.

So our strategy, we call it connect and scale. Connect--connect users, data, stakeholder across these industry lifecycles we're serving. Connect them in a way that's transformed our business models, like actually how we productize, how we've converted more to subscription models. To enable that and scale is fundamentally about making ourselves easier to do business with.

Chad Dillard: So now let me narrow it down to the last 2 years or so. So since then, you've made some radical changes on your go-to-market strategy, thinking about Trimble Construction One, your sales force reorganization, a few other things. So I'd love for you to talk about some of the results that you're seeing and more specifically, talk about what you can do now that you couldn't before.

Rob Painter: Okay, so there's a few things we can unpack out of that. So I'll narrow in on our AECO segments. We have three reporting segments today. That's been another part of our simplification is being able to simplify how we present to the external world. Actually, you could say how we run the business as well.

Two of the three are engineering construction focused. So what we call field systems is primarily like the hardware-centric businesses we have at Trimble. And AECO, if you don't know the acronym, architects, engineers, construction, and owners. When we think about these last couple of years, and I'll center on the AECO software business here for the next few minutes. Think about, and by the way, this business must be about $1.4 billion ARRs about the guide that we have for that segment this year, so a scaled business.

We believe the magic happens at the intersection of product and go-to-market. So on the product side, we've greatly simplified how we think about the solutions we have. We do a lot of things at Trimble. We see that as virtue within the industries that we serve. And at the same time, you have to make that accessible by the customers to unlock potential.

I see the world a lot through bundles. So think solution offerings, think collections, think suites of technology, think prepackaged offerings. And so we have a commercial framework we call Trimble Construction One. We have over 20 purpose-built bespoke bundles that we can take to different personas within the market that removes friction from a productization perspective. We intersect that with the go-to-market work.

By the way, when you simplify the offerings you take to market, that makes it easier for the sellers to actually sell, taking friction away from them. And at the level of go-to-market transformation, we moved to named account selling models. So in the past, we might have sent multiple salespeople in to talk to Dillard Construction. Today we have one person who owns that account, Dillard Construction, who's tasked with bringing the best of Trimble to that.

So it's clarity in how we go to market. It's simplification in how we productize. It's simplification as well and expansion through the transition of business models, moving from the perpetual to the subscription. Everywhere we've done that at Trimble, we've seen expansion of the TAM come alongside of that. And that's narrowed the valleys through any kind of transitions we've had as the expansion of the markets. And then further narrowed any valleys because as we've moved into those transitions and moved to selling product bundles, we've actually been able generally to increase, let's say, the pricing and the value to the customers through that model. So the intersection of product and go-to-market is everything and enabled by the underlying systems and processes and people.

Chad Dillard: Got you. So I think you talked about excluding your architecture business. I think you have somewhere around 60,000 clients or so, 30,000 of which have either two or fewer instances of your software.

Rob Painter: Good memory.

Chad Dillard: So how do you think about expanding that? You know, taking two to three, three to four, and then for that incremental dollar of revenue that you generate from there, what does that look like from returns or a margin perspective? Is it better than what it was before?

Rob Painter: So there's a few questions within that question. I'll come at it this way. In that construction software business, we see $1 billion of cross-sell opportunity that sits within the portfolio. Clearly, that looks like moving customers from two solutions to three, three to four, four to five, and dot-dot-dot. And we see an enormous greenfield opportunity, as evidenced by the numbers that you articulated and the pattern recognition or the heuristics you can run against our own customer database. I say we've got the ability now to really access that to understand a certain profile customer, how they benefit when they're using multiple technologies from Trimble. And when you understand that pattern recognition, then you can just simply query how many other companies look like this. That's the underlying data.

From that analysis, let's call it top-down analysis, then you understand how to create the product offerings to best suit that customer base, and then you can align your go-to-market practices. Also the marketing side--not just the sales, but the marketing motions to go tap into that--how you actually reach and create pipeline. All right, so those are all important factors and how you go after that large cross-sell and upsell opportunity.

And I look at the 19% growth, ARR growth, we had in the first quarter. It's not 19% on a small base. It's 19% on over $1 billion, well over $1 billion, just in that segment on the loan. So this is happening at scale.

Now ARR is like the scoreboard. What's the thing that happens before ARR? It's the bookings. And we'll think about ACV bookings, annual contract value bookings that drive that. And within those ACV bookings, the new bookings that drive the continued growth, we see about two-thirds of those coming from existing customers and one-third from our new customers. So we can see it in the data that we have that the motions are working and allow us to start, be chipping away at that opportunity to serve the market to its full potential and unlock the value that the customers are asking us to deliver.

Chad Dillard: Got you. So on that $1 billion, how do you think about the adoption curve and when you hit that full run rate of $1 billion across all?

Rob Painter: Okay, so now we'll be breaking into aspects of the time curve. So we held an investor day in December here in the city, and we put forward a 3-year model for the company where we believe we can continue to grow that top line ARR in the teens for the foreseeable future, given what we see in front of us. And that is just working at a slice of that $1 billion opportunity within construction. I believe by the time that we've unlocked the full potential of that $1 billion is that there's another compelling set of numbers, especially in the data in an AI-forward world, given the unique corpus of data that we have access to at Trimble. Completing the thought probably from the last question, too, at the business model level, we for sure think about the incremental margins that we can generate.

So we seek to continue to deliver profitable growth as we grow that. As, obviously, the gross margin profile of the company has increased, that provides a set of degrees, I should say, of freedom, and that all baked into the incrementals that we set a 30% to 40% range of incrementals over the next 3 years. So do that math playing it forward, call it 100 BPS-ish of gross margin and the same on the bottom line improvement as a baseline expectation.

Chad Dillard: So let's talk a little bit more about products. Let's stay with the AECO business. So you've talked about five core sets of software suites. Can you give some hard examples on how each of those deliver greater productivity for the customers that you serve?

Rob Painter: Yes. So let's first look at the quantum of what we're doing in this AECO software business, repeating at architects, engineers, construction owners. Each one of those businesses independently has over $200 million of ARR. So this is a pretty diverse set of businesses that we have that are each scaled capabilities on their own. I think that's important context to have. Okay, before I go further, repeat the question.

Chad Dillard: Yes, so just maybe you can talk about some of the hard examples. If you look over the five software suites, which is how it drives productivity.

Rob Painter: Okay, so if we take each one of those pieces, I tend to think of a shopping mall analogy is the one that I'll tend to use. And if you think of a shopping mall, you have anchor tenants in the mall and then we have the retail fill-in, right? So I think we can all get that visual. And then if you keep that visual, you have the kiosks that can be in the middle of the hallway in the shopping mall. And that to me represents in a way the portfolio that we have.

Okay, so what do I mean by that? Okay, the anchor tenants. For us that looks like ERP, construction ERP. It looks like construction project management. We are scaled in architecture and design. Conceptual design actually, really, is the capability through a product called SketchUp.

We're scaled--that ERP, by the way, comes from a business called Viewpoint that we had acquired a number of years ago. That's an important part of the whole nucleus of a Trimble Construction One offering. If I look in steel detailing engineering design analysis, Trimble tech less structures, steel and concrete. We have an anchor tenant in what we're doing for mechanical, electrical, plumbing contractors, from design, to estimating, to 3D content, to pricing engines that feed those estimating engines. This is an anchor tenant.

And for owners, we manage their capital programs. Over $1 trillion dollars of construction are managed through our capital program management that feeds that owner side. So those are the--to me, those represent the anchor tenants. And what our customers are trying to solve in construction are multifaceted. But ultimately they're looking to do their business better, faster, safer, cheaper, greener.

Construction runs on very thin margins. What we know is the data will tell us that 80% of projects are late and 40% are over budget. And in a room like this, if I ask people how many have ever done a construction project, most hands will go up. I say leave your hands up if that construction project was done flawlessly and on time and on budget, and I almost never see a hand that stays up.

So there's a visceral appreciation, usually, for the challenges that this industry faces and what digitization can bring when you drive communication, coordination, and collaboration into this industry. We're helping it digitize, thereby delivering the productivity at the intersection, really, of sustainability. This is the value proposition you get.

You're using our technology. This isn't shelfware. These are systems of record. This is software that you're using all day, every day, so very, very integral to how the business operates. Asterisk, doubly important if you're worried about a macro environment, then it helps to understand that we're the system of record, not the "nice to have." I call it the value delivery on those anchor tenants.

The retail fill-in, I call those smaller products that we have in each of that A, E, the C and the O. And that kiosk that I described in that shopping mall analogy, think of those as tuck-in acquisitions that we've done. Really, they may have been former companies. To us, we've seen them as features that fit into the broader product suites that we take to market.

Chad Dillard: So of those five products, what are the beachheads? What drives the greatest pull-through?

Rob Painter: On the cross-sell pull-through?

Chad Dillard: Yes.

Rob Painter: One that's driven the most dollar amount of cross-sell pull-through has been at the intersection of ERP and project management. And that's pulling through--actually, they're both pulling each other through. For sure, ERP pulls project management through. ERP is pulling civil estimating through that. So from a dollar perspective, where we've had the beachhead of the construction management system or that ERP, that's pulling in a great deal of products. Where we already have design, once you've designed something, guess what? You need to estimate it. So when we have the design and the estimating capabilities, those pull together nicely.

I'll give you one more as we've just been talking about the AECO software. But from a customer standpoint, they're not going to care that you've got an AECO segment and a field systems segment. If you're if you're a contractor, you can be working with both parts of our business, so it's just Trimble to a customer.

So think about a BIM, we call it a BIM-to-field workflow. So the models that can be designed today and engineered today, but designed today, if you're doing steel design in our models, it's accurate down to the level of the anchor bolt. This isn't a pretty picture telling you what the design intent is of this hotel we're in. It's designed down to the level of the anchor bolt. Now overlay models of that precision for mechanical, electrical, plumbing, steel, concrete. You can eliminate the rework before it ever happens because you've built it virtually before you built it physically.

That same design specificity, when you come to do what's called the layout in this building, because every single thing, if you took the--if we could take the ceiling off, every single point in here is precisely positioned, or it's meant to be precisely positioned. We can take with our field instrumentation that we have those digital models, and we can bring them out to the field and do the layout and put everything exactly where it's supposed to be. And when you do that, guess what? You're driving a job to be on time. Guess what? If you do that, you're driving a job to be on budget. Thus, the unlock and the productivity and eliminating the rework.

Chad Dillard: Got it. So now let's talk about just a relative positioning. So like some of the other companies that come up are Autodesk, Procore, Bentley Systems. So we heard about your bundling and the five key product streams that matter. Could you contrast what you're offering versus those competitors, and what differentiates you in terms of how you go to market and when?

Rob Painter: So I have big respect for all three of those businesses and the leaders of all three of those companies. We all know each other in the industry. We're more--in my opinion, we're more often peers than we are competitors. That's for sure an aspect of co-ompetition.

That's not just a cute word. Actually, I think it's very true that what we see in our world, and you see it in many technology landscapes as well.

What differentiates Trimble ultimately is the breadth and depth of what we're doing. We talk about delivering products and services that connect the physical and the digital worlds. And this physical-digital is something that I think we all probably hear more and more about these days. I'd say the difference, we can actually do it.

We've got a $1.4 billion business in that construction software. We've got a $1.4 billion business in that field, out in the field. So whether it's the surveyors, people doing mapping, geolocations, machine control guidance, and simple construction, we have a very unique ability to actually connect the pieces of Trimble across the full life cycle connecting the stakeholders. That's the thing that's the most unique. And that, we believe, provides ability to move customers from delivering task productivity to systems productivity. And I'm going to stop and cough.

So what we'll see is sometimes customers are asking us to work together, the peers or the competitors in the industry, to help them unlock movement of data. Like this interoperability of data and openness of data is a pretty big deal in the construction technology. Maybe it's true in every industry, but the one that we live in, that's in transportation.

It is something that needs to be done is to be able to move that data. Because just like if, for all of you who have done that construction project, you can imagine the ecosystem or the network of subcontractors who had to come together to help make your project turn into reality. Well, that also mirrors the technology landscape. There's a fragmentation because there's so many different players that have to come together to make the magic work.

Chad Dillard: So let's talk about the macro. So just given, obviously, everything that's happening, can talk about how customers in your AECO business are navigating the uncertainty? Maybe you can contrast what you're seeing in large versus small customers, federal versus state and local and private customers.

Rob Painter: So on the call a few weeks ago, we said opportunity mixed with uncertainty. I really do think there's--you can have both. To me it's a legitimate juxtaposition. Our customers by and large have backlog. If you take the US as an example--we do business in 170 different countries, so I could have a 170 answers to this. But if you take the US, think about the last few years. We've had the Bipartisan Infrastructure Law, we've had the CHIPS Act, we've had the Inflation Reduction Act. We have reshoring and onshoring that had already been happening before Liberation Day.

This is a compelling backdrop. Our customers by and large, not everywhere, but our customers by and large have backlog, have healthy backlog. And in many cases, finding labor is the bottleneck to actually working that backlog down. So we see a healthy backdrop. I'm giving you a US example, but actually globally. And that feels about right. Again, we grew 19% in the first quarter. I promise you that this is in construction software.

I promise you put-in-place construction is not growing 19%. It's growing in the low single digits. So we see healthy backlog amidst that uncertainty. But you take that uncertainty, like I give you an example, what has that unlocked? Well, that's unlocked more talk of, in this country, of reshoring and onshoring. That's unlocked conversations in a place like, in a country like Germany, about EUR0.5 trillion of infrastructure spend that I haven't heard them talk about before.

And there's Europeans talking about spending more in defense if they need--if the posture becomes one of more self-reliance, you're going to have to build to do a lot of that. We can help make that build happen more productively and more sustainably. Thus, you can see opportunity within the uncertainty in the macro from where we sit.

Chad Dillard: Got you. So I guess here's what I'm trying to get at. How has Trimble's cyclicality changed? Let's just compare this to construction spending, for example. Today versus 2 to 3 years ago, or even maybe 2020 was the last time we saw a sharp downturn.

Rob Painter: Best data points I can give you are two-thirds of our revenue is recurring today. Three-quarters of our revenue is software. It's a more durable business model than we've ever had. We grew our software business and construction software business in the heat of COVID there. It would have been around the second quarter of 2020. We grew in the second quarter of 2020.

I don't think we're facing that moment right now, so there's a durability in the business model. So we have for sure looked at past cycles that we've seen in the world. Fundamentally we see ourselves as a secular with a cyclical undertone. It would be naive not to see any cycle in a market. But fundamentally, this is a secular digitization of technology. And back to the peers and in the industry, most all of us have been growing. And that to me, that's an evidence point, a data point, therein of the secular adoption of the tools.

So put all that together, and we feel good about where we are. And I didn't finish answering your, I guess your last question. You asked about large and small and contractors. Sorry about that. And for sure, we see differential levels. We've seen that of late with the public sector. Now, we expected the US federal sales for us to be lower this year. And guess what, that's played out. It's probably even a little bit lower still.

But we had that planned from the beginning of the year. So I don't feel like we have to alter any, in this case a guidance, to adjust for that. Because I think we called that one pretty much right. What we've seen is for some of our largest customers that represent less than 10% of our revenue, they've moved slower on the buying cycles.

What's the word we're all using now? Uncertainty. So they've moved slower in the buying cycles, but they haven't stopped buying cycles. And I can go back to the evidence of that as we see it in our net retention ratios. We see it in the ACV bookings that we talked about in the quarter as well. So some of those cycles have slowed.

At the same time on the other side of the market, we've seen the small and mid-market grow even faster than we expected. So we got to where--in fact, we got ahead of where we expected, with one part a little bit down and the rest a bit up.

And this is always going to be true. We're always going to have something that's doing a little bit better or worse than a plan within the business and across different geographies.

Chad Dillard: So in your investor day, I think you have a slide that shows the addressable market of AECO growing by high single digits. But if you look at how you're guiding your segment growth, it's mid-teens. So what's driving the outgrowth? Are you embedding some share gains or is there something else?

Rob Painter: I think it's a little bit of all of the above. If you do the stack to a net retention ratio--and I assume if you're in the room, you understand that retention ratio--you're going to start with your gross retention, which is to say the churn, the starting point minus the churn. From there you have pricing and then you have cross-sell and you have upsell to build to the stack of that net retention. We're getting the cross-sell and the upsell. That's a part of the outperform against the market growth.

We've got segments within that AEC and the O. The A is growing above the average of the segment, above that 19. The O has been growing a little bit slower than that, and the E and the C are right about that average. So also it's sometimes it's about which, what the mix of the product is that moves that number up. I think the execution from the team has been terrific.

I go back to that the magic happened at the intersection of product and go-to-market. You've got to get the two right; it's hand in glove. I've certainly had learnings in my career of having one or the other and suboptimizing a potential. The magic happens when you can get them both right and you're designing a product to fit inside a go-to-market motion. And I give our team a lot of credit for the execution against the potential.

Chad Dillard: So what are the growth opportunities of Trimble Construction One on the international stage? And do you think you need M&A to accelerate that strategy, or can you do it more organically?

Rob Painter: So Trimble does business in 170 different countries today, so we are emphatically global in our view. The AECO software business is close to 60% in North America today. The global economy is not 60% North America. So we absolutely see compelling opportunities around the world.

We see India winning as the trade war or conflict, whatever you want to call it with China. I think India looks to be the winner on the other side of that. So that economy is a good economy. Super. I think the Middle East is very underserved by us and the whole technology landscape today and there's really good opportunities there.

But Europe is the next, not surprisingly, biggest market for us. And of course, Europe isn't Europe. I mean, the most advanced construction in the world happens in the Nordics. And so much of that nature of what they construct and how they construct it and how they apply technology to that is able to feed a lot of what we do around the world. So very bullish on the opportunities we have outside of the US. And we have different capabilities, market to market. Not every technology we have is a fully global capability.

Our hardware businesses tend to be extremely global. Architecture and design software is extremely global. That steel concrete design engineering package I talked about, that's extremely global. The ERPs are not. They tend to be very regional.

So my reframe would be back to that anchor tenant in the shopping mall and an attractive part of the nucleus of our bundled Trimble Construction One offering, I would see an opportunity to better serve that system of record, that ERP, let's say, in Europe. Now we have a choice. Do we want to build by partner in order to do that? I wouldn't say that we need to do M&A; I might say we want to. So I would just reframe. The word is that in context of the market opportunity in front of us and the capabilities that we have, if there are attractive capabilities in markets that could accelerate our growth and our ability to serve that market and those customers, I want to posture to lean into that.

Chad Dillard: So moving over to your field systems business, the most recent renegotiation of your Caterpillar JV has probably unlocked some more opportunity for other partnerships. So with that in place now, what can you do now that you couldn't before? And what would you say about the roadmap for that business, given that change?

Rob Painter: So our field systems business, just to set the context for that if I may, it's about a $1.4 billion business. It was like a third, a third, a third of survey and mapping technology, of civil construction, like machine guidance technology, and then what we call advanced positioning technologies. So we can sell, they're called corrections that provide centimeter-level accuracy, for example, of position. It's a software business.

In the civil construction business, we have a joint venture with Caterpillar. Actually, in the survey business we have a joint venture with Nikon. In the building construction business we have a joint venture with Hilti. And as you know, in agriculture we have the joint venture with AGCO.

Caterpillar, we've had over a 20-year joint venture with Caterpillar, super proud of that relationship that we've had for decades. Now about every 7 years, we reformed or renegotiated, reworked the joint venture agreement to reflect the game on the ground at that point and the strategic, say, priorities of the mother companies in that. So it's a healthy exercise. So it's something that we've done a few times over the years. So in this latest rev of it, we have one simple principle, and we've turned work backwards from a set of principles. The principle is increase the level of technology adoption in the market.

Okay, with that in mind, I'm just speaking for ourselves. At Trimble, we're very much oriented to serve the mixed fleet. I'd say picture any civil contractor that can come to mind to you, and do this when you're driving down the road and you see contractors working. They operate mixed fleets. Our strategy is to serve the mixed fleet.

Okay, so if you agree on a goal to increase the adoption of technology in the market, it stands to reason you need to work better with all OEMs, you need to have broader sets of product capabilities to reach the entirety of the market because there's still low penetration, and you need to be able to take it to market. And it should sound like a familiar formula because I'm getting to that product meets the go-to-market. On the go-to-market side with serving the OEMs if you took--were you at Bauma, by the way?

Chad Dillard: I was.

Rob Painter: Oka, okay. So at Bauma, our technology was on over 20 OEM booths. So not just talking about partnership, we were on 20 different OEM booths. So these OEM relations are--relationships, excuse me--are very important to us. I'd like to think they're very important to the OEMs as well because they are looking to make sure they play well into the technology ecosystems that their customers have, and that forms the basis of why we would have those relationships. The nature now of, post the latest turn of the joint venture, gives us more degrees of freedom in how we work with those OEMs, so we can better service the opportunities that they have. We can meet them where they are on their own technology journey, so that's a good thing.

From a productization standpoint, we think there's a huge market that's underserved in more mid-machine types. So think of that BCP that you would know. So small mid-machine types, small mid-contractors. We think that we have differential technology that we could, where we can meet the needs of those that may be more interesting to us. Or I think that we've got degrees of freedom on the productization side.

And on the go-to-market side, when we work with those OEMs, and we've announced, I think it's four of these so far with Komatsu and John Deere dealers, the dealers, the ability to serve technology to them at their dealerships so that they can put at a--for example, a John Deere dealership, the ones that we've signed up, I should say, our technology there at that dealership at the cold face on that John Deere brand of equipment. So it's opened up degrees of freedom on how we can better serve those customers and those dealers for the mixed fleet to increase the adoption of the technology.

Chad Dillard: So when I think about the mixed fleet and I pair that with scale, it naturally leads my mind towards the rental channel. So what opportunity would Trimble have through scaling its technology on the rental side?

Rob Painter: Okay, so we definitely have rental customers. By the way, as you know, the OEM dealers, many of them have very, very important rental. The dealers have very important rental businesses. And then of course, there's independent, fully independent rental markets.

Further is depending on where you are in the world, there's markets like the UK, which is extremely rental driven. And I'm sure you know this, many of you, as well. So there are markets where you want to be more forward with rental because that's how business is done more so than buying or leasing equipment. And so markets like the UK, you're going to have a different set of rental outlets or firms that you want to move with than maybe I'd say the US or Australia.

It is an interesting and compelling market. Where we think we can do well in rental is that they often want portability of the technologies. So if the rental company values portability of the technology, which means they don't want to put it on every single piece of equipment and they want to be able to continue to use it, let's say, after maybe the machine has turned, that's in our favor to do that. That's not true equally around the world, but it's an important market segment.

I think about that at go-to-market more than I--I don't think it's necessarily a different product that you need to take to the rental market. It's like an additional channel of how you reach them. Now when we work with the OEM dealers and they have their own rental, you're there by definition. So it really, your question plays more to the truly independent rental houses.

Chad Dillard: Any sense for us how much your addressable market expands now that you're able to work with multiple OEMs?

Rob Painter: Oh, it's a great question. Actually from a mechanical standpoint, the addressable market I would see as the same size because it's the same amount of machines. And so it's really, to me, it's less about the size of the market. But the insight in your question is how much more quickly can we reach it by virtue of that. And we had that in mind when we put the goalpost out at the investor day, so I wouldn't see that as a fundamental inflection.

What might be equally or more interesting for me to add onto that is that subscription conversion that we've done in our software businesses. It's been really, really successful for us. We're pursuing that in our hardware businesses as well. And so we have an offering in our hardware, one of them that we call it Works Plus. So think that as a machine controlling guidance or think of it as hardware as a service or guidance as a service.

This is one where we're seeing that we're expanding the size of the addressable market because you're making it more affordable and accessible to access the technology we have. We're seeing where we're having, we're competitively displacing folks out there, true competitors in that business. Because economically, it's easier for them to do when they move to the as-a-service model than if you had to, right, make that big huge CapEx outlay right upfront. And it's a value proposition that we're delivering. We call it, it's technology assurance that we deliver to the customer so we can keep sensors up to date, latest and greatest, so they get a better value proposition on that. Now think about it if you turn the hardware into a service, how much easier and more compelling it is for us to attach software capabilities we have around that.

And then in this respect, we think about machine site enterprise. Yes. You want to win at the machine? Yes, that's good. What's better than winning at the machine? Win at the site, the job site. What's better than winning at the job site is win at the enterprise because the enterprise could be configured at multiple job sites. And so now you're taking the full technology stack of Trimble and helping customers unlock these multiple levels of value.

Chad Dillard: We've got some audience questions, so I'm going to slide over here. So considering your market share in construction ERP in North America being 35% to 40%, I believe, where do you see new logo wins coming from?

Rob Painter: At the moment we see them moving down market, so think the mid-sized contractors. I wouldn't say the smallest of the small, but we'll continue to develop revs of the technology to take us further down market. As you go down market with that motion, you also need to have a go-to-market motion that scales with that, right? If you're going into a small market, you can't park person on a plane. Every time you do that, you might have more inside sales that you need to do that. So you need to map the two together.

But we're still doing very well at that mid-large market, winning logos. The cross-sell, upsell, the bundles help do that. And I hate to call it down market because that sounds derogatory, just a smaller side of the market.

Chad Dillard: Yep. Next question. Can you provide more details about SketchUp? How much ARR and what rate is it growing in your 3-year targets? And what are the margins of this business?

Rob Painter: So each pillar of that AECO is over $200 million ARR business. So SketchUp is the main product in their architecture and design suite. Gosh, we've had, and it's growing faster than the segment average. So do that math. That means over 19%.

We're on probably 5 years, so call it 20-plus quarters of more than 25% growth. So the business and the leaders of that business have done just a terrific job working the opportunity on a global level. So we have direct selling or e-commerce selling at the enterprise level. We sell direct; we have channel partners around the world as well. So it's a multi-tiered ecosystem of how we take that technology to market.

In many levels we're able to integrate things that we do in that conceptual design with SketchUp into the rest of the technology stack that we have. It's a terrific business. Over a million paid users of the technology, tens of millions of registered users. It shows up in, if you have kids in high school here in the US, they're probably using it at school. So it's a strong EDU reach that we have in that. There's an extremely rich content database, a 3D warehouse that we have. And just start to think about, okay, what could be possible, dot-dot-dot, with all that content.

Chad Dillard: Got it. So let's talk about AI. What can you tell us about your AI adoption in terms of internal as well as external processes? Has it helped you gain more share of wallet? Can you elaborate examples? And maybe just even before that, just lay out your roadmap.

Rob Painter: I'm impressed that it took you 43 minutes to ask AI. You're probably supposed to ask that in the first 43 seconds. Okay. I have a two by two. We had this in our call a few weeks ago. On one axis, I see internal and external uses of AI, and on the other axis, cost and revenue generating activities. And there's four unique motions that if you think about on that two by two. From an internal perspective, I guess if I go across the quadrant, we think external facing could look like better serving our customers. So think this like the chatbots and the customer support. Okay, AIs help, by the way. The thematic here is efficiency and productivity internally and unlock differentiation on the customer-facing side. I think that's the short answer.

The longer answer is we see the productivity and code development from our R&D team. The logical question after that is do you drop that productivity to the bottom line, or do you use it to continue to invest to stay ahead? Right now we want to posture more to continue to develop on there while still generating the op leverage that we've committed to.

So customer support, I talked about that. We see it accelerating our sales and marketing motions as well. Like Agentic approach, this isn't just talk, it's real of how we can better prepare our sellers, how we're generating marketing motions. We've done a lot of work underneath the covers of Trimble in the last few years, like the wiring, the plumbing of the company that's allowing us to unlock insights to then automate motions.

It's recording the phone calls, and this is--sometimes it's not our own technology. Sometimes it's third party. We record all the sellers' phone calls and you provide coaching algorithms back to them. And then we discovered once you did that, you could run another query on that and discover the cross-sell and upsell opportunities that came through the conversation that the seller didn't pick up in real time and that's unlocked real revenue.

The stuff is real. I think it's pretty exciting and compelling on, I'll call it, a lot of these, the internal facing. And then the really fun stuff probably to talk about in an audience like this is where we see customer value. Think about those design packages and then moving more to natural language prompting for design. That's not a fairy tale. You can actually start to do that.

Think rendering in those same design packages. We call it SketchUp diffusion. In the ERP, it's automated invoice processing. And so we're taking what took days or a day down to minutes for a very tedious workflow that a customer has. In our field systems business, we collect an unbelievable amount of data, like about 80 petabytes of data that we've collected on behalf--our customers have collected using the tools.

Data is not the problem these days, it's information. And so feature extraction out of large datasets. That could be if you're doing in our mobile mapping data collection on a--do an asphalt profiling. Okay, pull out the cracks in the road and then they're geolocated so you know where they are. And now think, okay, once you've done that, what could you do? We could feed that to--what we do with state departments of transportation to feed their asset inventory systems and their maintenance systems to then do the work orders out to the crews in the field. That's a good slice of what is already happening at a customer-facing level.

Chad Dillard: So where's it easiest to deploy AI across the A versus the E, the C and the O?

Rob Painter: Yes.

Chad Dillard: All of it.

Rob Painter: Yes, all of the above.

Chad Dillard: Got you, okay. Let's see. Oh, yes, so how is your sales force segmented? By size of customer? Do you sell direct through the channel? Are there more software upgrades to sell into the existing client base?

Rob Painter: Our transportation business and our ACO business are almost--not entirely, but almost exclusively direct selling, and our field systems business is almost entirely through a global channel. So that's the distinction that matters there. With the sellers, they're named account--direct sellers, I should say--named account model. And so that segmentation has a region and a size primarily. So we can do some segmentation as well in industry, but it's more size and location as the primary basis. And then their charge is to bring the Trimble house to best serve that customer. That's the direct side and the unlock.

Chad Dillard: So let's actually hop over to margins. So right now you're doing somewhere around about 70% gross margins. Targeting on your medium-term outlook, somewhere in the mid-70s, and then I think there's an aspiration of getting towards 80% by the middle of the next decade. So what would you need to change in your business? Just walk me through the bridge to get to those goals.

Rob Painter: We said by 2027, we think we can be about 74% gross margin, and then in the next 10 years, closer to that 80%. We believe that can happen organically just by running our plays and adjust it as to say the mix differential, the growth within the portfolio. The software is growing faster than the hardware. But that mix alone, that should lead to continued structural improvement. And to anchor that to the moving from 58 to 70% gross margins over the last 5 years. It isn't a fairytale make believe. We've actually done it, so continue to run and execute. So there's not an act of God required or something inorganic to do this.

Chad Dillard: Got you. So just good, old-fashioned growing the software business faster than hardware?

Rob Painter: Yes.

Chad Dillard: Okay, all right. So I probably have one last question. So through the lens of returns, talk about how you decide to allocate capital between investment in R&D plus CapEx versus acquisition. And then how do you think about hurdle rates and the payback periods in the world of construction software?

Rob Painter: Okay, in 45 seconds, here we go. I believe shareholders pay me, pay us as management, to be capital allocators. That means put capital to its highest and best use. First, of course we want to invest organically back into the business. That's not a problem. We've got bookends. We want to continue to maintain investment grade. We said we want to put about a third of free cash flow at a minimum back into or into a stock buyback. Now you're double-clicking down to the inorganic. We favor the tuck-ins over transformational. We favor the software businesses where we have the strongest way to win across the portfolio. And we measure those returns with through an ROIC lens and then an EPS accretion lens. Nailed it.

Chad Dillard: Boom. Thanks, Rob, appreciate it.

Rob Painter: You bet. Thank you.