What Is GPS?

- Global Positioning System
- Uses 3 satellites to track an object
- Example: roadside assistant, hiking equipment, fleet management, electronic tolling
**Trimble = GPS**

- Develops, manufactures, sells GPS technology
- 4 industry Segments
- 2 business Units:
  - Precision Positioning Group (PPG)
  - Mobile and Timing Technologies Group (MTT)

---

**Sales & Marketing**

- Sales force located in 15 countries
- Domestic sales = 48% of total revenue
- Some products are country-specific
- Alliances and OEM relationships to penetrate certain markets
PPG

- **High-end, value-added markets**
- **Key strategy: interoperability**
  - Combining GPS with other technologies
- **Product example:**

MTT

- **High-volume applications**
- **Fleet management market**
- **Telecommunications infrastructure**
- **Product example:**
The Battlefield

Non-GPS technologies

- Principle competitive factors:
  - Product properties
  - Size of installed base
  - Vendor reputation
  - Financial resources

Solectron

Philips VDO, Nortel, Caterpillar, CNH Global

TRMB

Motorola, Rockwell, JRC, Magellan, Sony
Plenty of Risks

- Dependent on Solectron
  - Recently worked out their differences
- Holds 280 US patents, 18 foreign patents that expire 2005 and thereafter
- Dependent on GPS demand
- Diminishing margins
  - Current gross margin > 50%
- Chipset replacing complete systems

Plenty of Potential

- Agreement with Solectron
- > 180 US and foreign pending patents
- Strong growth in demand
- US Government’s support
- Strong industry sales growth
  - Currently $2 billion
  - $10 billion by 2005
Acquisition of Spectra

- Expected to add $51 mil in revenue in Q3 and $56 mil in Q4
- Grow at roughly 9% per annum
- Synergies
  - Economies of scale in R&D
  - Cross-marketing

(Source: Banc of America Securities)

Basic Facts & Figures

- Average 5-year gross margin > 50%
- Revenue growth has not been phenomenal: 9.6% for past 5 years
- Income growth to jump to 18.7% next 5 years (Source: Yahoo! Finance)
Relative Analysis

<table>
<thead>
<tr>
<th>Metric</th>
<th>TRMB Dec-99</th>
<th>Industry Dec-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>21.4</td>
<td>4.2</td>
</tr>
<tr>
<td>ROA</td>
<td>11.9</td>
<td>2</td>
</tr>
<tr>
<td>Price/Book</td>
<td>4.88</td>
<td>7.44</td>
</tr>
<tr>
<td>PE</td>
<td>26.4</td>
<td>316.7</td>
</tr>
<tr>
<td>Price/Sales</td>
<td>1.81</td>
<td>3.36</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>3.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>2.9</td>
<td>1.2</td>
</tr>
</tbody>
</table>

P/E – What Is It?

\[
P = \frac{\text{Expected EPS} \times 1}{(r - g)}
\]

\[
P/E = \frac{\text{Actual EPS} \times (1 + g)}{(r - g)}
\]

*Growth rate must be long term sustainable growth.*
PE Analysis

\[ \text{PE} = \frac{(1 + g)}{(r - g)} \]

- \[ 24 = \frac{(1 + .06)}{(.1035 - .06)} \]
- \[ 46 = \frac{(1 + .08)}{(.1035 - .08)} \]

Time Value of Money

Today \[ \rightarrow \] Tomorrow
FCFE Discount Model

\[ PV = \text{Sum of all expected future CF} / \text{Discount Rate} \]

Intrinsic Value from FCFE

- Assumed stable stage growth rate = 7%
- Where high growth rate = 18%
  - Intrinsic value = approximately $34
- Where high growth rate = 25%
  - Intrinsic value = $44.00
Rating: Buy

- Value from PE = $38
- Value from FCFE = $44
- Our price target = $35 - $40
- Recommended entry point = $20
- Price as of 9/22 = $30.00