Garmin Ltd. (GRMN)

Updated October 31st, 2018 by Bob Ciura

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	5.0%	**Volatility Percentile:**	65.3%
Fair Value Price:	$55	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	82.0%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Growth Percentile:**	30.2%
Dividend Yield:	3.3%	**5 Year Price Target**	$70	**Valuation Percentile:**	20.2%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	16.0%

Overview & Current Events

Garmin is a technology company based in Switzerland. It manufactures navigation, communication, and information devices and applications that are enabled by GPS. Its business segments are as follows: Auto, Aviation, Marine, Outdoor, and Fitness. The Auto segment offers auto navigation products for vehicles. The Aviation segment includes navigation, communications transmitters and receivers, multi-function displays, electronic flight instrumentation systems, automatic flight control systems, and traffic advisory systems. The Marine segment includes products for recreational boats. The Outdoor segment makes products for outdoor activities, while the Fitness segment makes products designed for activity tracking.

Garmin reported second-quarter financial results on October 31st. Total revenue increased 8% for the quarter, as fitness, marine, aviation and outdoor product sales collectively increased 16%, and now represent 80% of total revenue. These products helped offset a 16% sales decline for the company's automotive segment. Adjusted earnings-per-share increased 30% in the second quarter, due to revenue growth as well as a significant boost from tax reform.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.48	$3.50	$2.36	$2.67	$2.78	$2.73	$3.00	$2.49	$2.83	$2.94	***$3.05***	***$3.89***
DPS	$0.75	$0.75	$1.50	$2.00	$1.80	$1.80	$1.92	$2.04	$2.04	$2.04	***$2.12***	***$2.71***
Shares	200.4	200.3	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2	***188.0***	***188.0***

Garmin has engineered a major turnaround due to structural changes in the technology industry. Garmin rose to prominence due in large part to its automotive GPS devices. However, GPS devices for the automotive industry were rendered virtually obsolete with the advent of the smartphone. Consumers realized there was little need for an external GPS device for their cars when the mapping applications of most smartphones would suffice. As a result, Garmin has restructured itself around the aviation, marine, outdoor, and fitness markets, and has had success in those categories. We expect 5% annual earnings growth through 2023, while dividends are expected to grow at the same rate each year.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.1	7.4	13.6	12.6	15.1	14.6	18.1	17.4	15.7	18.0	***21.3***	***18.0***
Avg. Yld.	1.8%	2.9%	4.7%	5.9%	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	***3.3%***	***3.9%***

In the past 10 years, Garmin stock held an average price-to-earnings ratio of 14.5; on this basis, the stock looks significantly overvalued today. However, it is worth noting that the 10-year average includes a very low valuation multiple in 2009, at the depth of the Great Recession. We believe this year should be excluded, as the company will likely hold a higher valuation in most economic environments. We estimate a fair value price-to-earnings ratio of 18. Still, shares of Garmin are presently overvalued. A contracting price-to-earnings ratio could reduce annual returns by 3.3% per year over the next five years.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

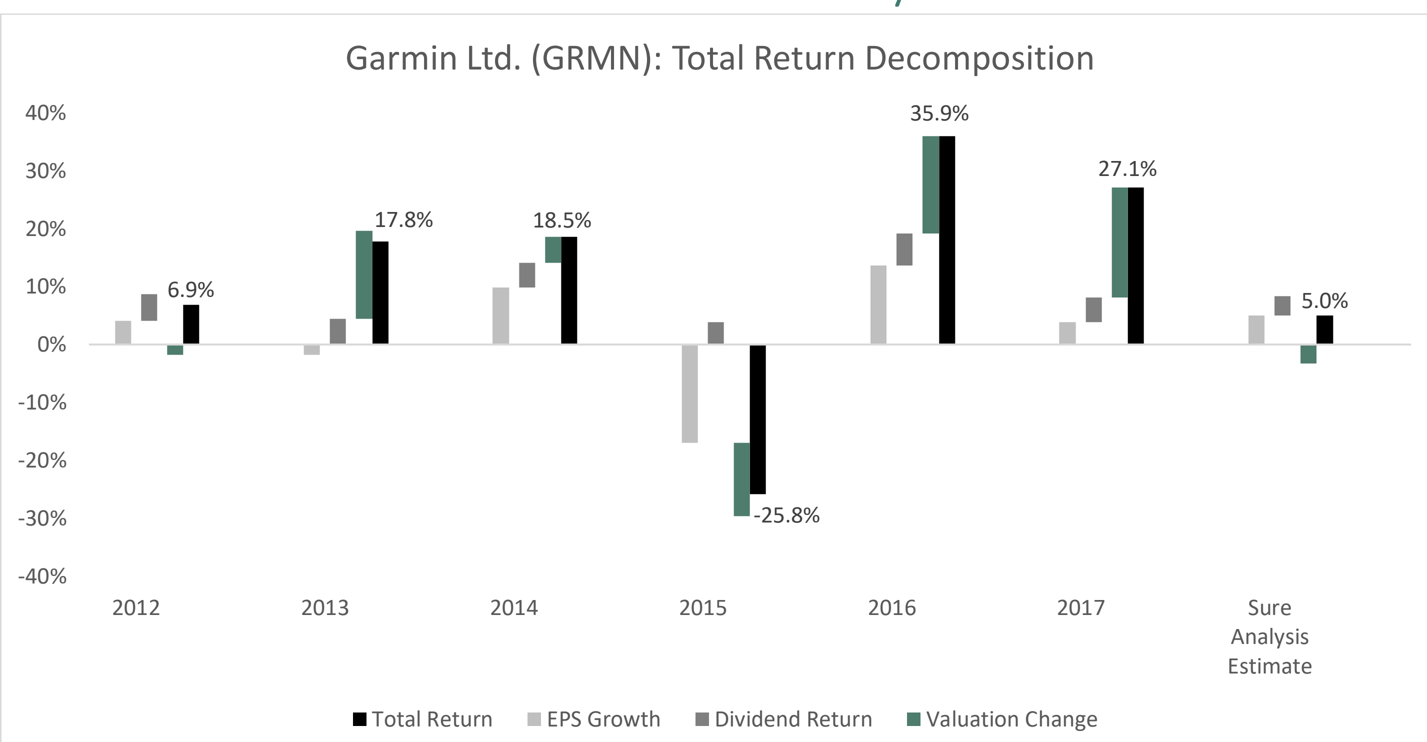
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	52.9%	37.7%	33.8%	29.9%	29.8%	28.8%	34.2%	34.2%	37.1%	35.6%	***35.5%***	***35.5%***
Debt/A	24.1%	25.9%	23.5%	27.2%	26.7%	25.0%	27.5%	25.7%	24.5%	24.1%	***24.0%***	***24.0%***
Int. Cov.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	***N/A***	***N/A***
Payout	21.6%	21.4%	63.6%	74.9%	64.7%	65.9%	64.0%	81.9%	72.1%	69.4%	***69.5%***	***69.6%***
Std. Dev.	53.0%	53.0%	30.2%	17.5%	27.3%	24.1%	24.9%	17.1%	35.1%	14.3%	***14.5%***	***14.5%***

Garmin has strong marks in terms of safety and quality, due largely to its healthy financial condition. The company has a strong balance sheet, with no long-term debt. This means the interest coverage ratio cannot be computed, which is very positive for the stock. The dividend also appears secure, with a payout ratio under 70%. However, Garmin does not possess many notable competitive advantages, which are hard to come by in the technology sector. Technology is a highly competitive and rapidly-changing industry. Garmin lost its advantage in automotive GPS devices when trends changed. We also do not believe Garmin would be highly resistant to recessions, when consumers typically reduce spending on aspirational technology products.

Final Thoughts & Recommendation

Garmin is a financially-healthy company with a strong balance sheet. Still, Garmin continues to work through the deterioration in the automotive GPS device market. Automotive sales still represent 20% of total revenue, and should remain a drag on Garmin's growth. Garmin stock should be viewed favorably for its dividend, but after a strong rally in 2016 and 2017 the stock appears to be overvalued. As a result, we expect annual returns of 5.0% for Garmin over the next five years. We recommend investors sell Garmin and invest in a technology stock with better return prospects.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3494	2946	2690	2759	2716	2632	2871	2820	3019	3087
Gross Profit	1554	1444	1346	1339	1438	1407	1604	1539	1680	1783
Gross Margin	44.5%	49.0%	50.1%	48.5%	53.0%	53.5%	55.9%	54.6%	55.6%	57.8%
SG&A Exp.	485	420	432	486	509	468	519	562	588	603
D&A Exp.	78	96	95	95	90	79	77	78	86	86
Operating Profit	862	786	637	554	604	574	691	550	624	669
Operating Margin	24.7%	26.7%	23.7%	20.1%	22.2%	21.8%	24.1%	19.5%	20.7%	21.7%
Net Profit	733	704	585	521	542	612	364	456	511	695
Net Margin	21.0%	23.9%	21.7%	18.9%	20.0%	23.3%	12.7%	16.2%	16.9%	22.5%
Free Cash Flow	736	1038	735	777	640	573	445	196	609	509
Income Tax	182	105	-7	63	82	41	360	111	119	-13

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	2934	3828	3989	4471	4819	4880	4693	4499	4525	5010
Cash & Equivalents	696	1092	1261	1287	1231	1179	1196	833	847	891
Accounts Receivable	741	874	747	607	604	565	570	531	527	591
Inventories	425	310	388	398	390	382	420	501	485	518
Goodwill & Int. Ass.	231	214	185	247	233	219	218	246	305	410
Total Liabilities	709	992	939	1215	1287	1220	1290	1154	1107	1208
Accounts Payable	160	203	132	164	131	147	149	179	172	170
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	2226	2836	3050	3257	3532	3660	3403	3345	3418	3802
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	23.5%	20.8%	15.0%	12.3%	11.7%	12.6%	7.6%	9.9%	11.3%	14.6%
Return on Equity	32.0%	27.8%	19.9%	16.5%	16.0%	17.0%	10.3%	13.5%	15.1%	19.2%
ROIC	32.0%	27.8%	19.9%	16.5%	16.0%	17.0%	10.3%	13.5%	15.1%	19.2%
Shares Out.	200.4	200.3	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2
Revenue/Share	16.58	14.65	13.58	14.15	13.84	13.40	14.78	14.76	15.94	16.36
FCF/Share	3.49	5.16	3.71	3.99	3.26	2.92	2.29	1.03	3.22	2.70

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.