Garmin Ltd. (GRMN)

Updated May 15th, 2019 by Josh Arnold

Key Metrics

Current Price:	$78	**5 Year CAGR Estimate:**	4.8%	**Volatility Percentile:**	60.3%
Fair Value Price:	$67	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	92.7%
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Growth Percentile:**	35.5%
Dividend Yield:	2.9%	**5 Year Price Target**	$85	**Valuation Percentile:**	28.4%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	21.4%

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 produces $3.5 billion in annual revenue and has a $15 billion market capitalization.

Garmin reported Q1 earnings on 5/1/19 and results beat expectations on broad-based strength. Total revenue came in at $766 million, a first quarter record, and an 8% increase over the prior year period. Excluding the Auto business, total revenue would have risen 12%. As the quarter stood, Outdoor revenue was up 7%, Aviation rose 17%, Marine rose 18%, Fitness increased 9%, and Auto fell 10% as Garmin continues to struggle with the business that was once core to its existence.

Gross margins came in at 59%, a small decline against the 60% mark from the year-ago period. Strong cost discipline salvaged operating margins, however, as that metric posted a fractional decline from 20% to 19.8% year-over-year. Combined with the revenue gain, operating income rose 6% on a dollar basis, which helped see earnings-per-share reach $0.73 on an adjusted basis, a 7% gain over the comparable period last year.

After a strong Q1, Auto results notwithstanding, we're reiterating our estimate of $3.70 in earnings-per-share for 2019. The Auto business remains a long-term headwind to the company's top line expansion, but the other four businesses are performing very well and we are optimistic.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$3.50	$2.36	$2.67	$2.78	$2.73	$3.00	$2.49	$2.83	$2.94	$3.69	***$3.70***	***$4.71***
DPS	$0.75	$1.50	$2.00	$1.80	$1.80	$1.92	$2.04	$2.04	$2.04	$2.12	***$2.28***	***$2.91***
Shares	200.3	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2	188.0	***190.0***	***185.0***

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. Garmin updated guidance for 2019 with expectations of only modest earnings-per-share growth in 2019. After a very successful year in 2018, it appears the company's growth will slow down this year. We expect 5% annual earnings growth through 2024, while dividends are expected to grow at the same rate each year. Garmin announced a 7.5% dividend increase along with fourth-quarter 2018 financial results, bringing its payout to $2.28 annually.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	7.4	13.6	12.6	15.1	14.6	18.1	17.4	15.7	18.0	17.2	***21.1***	***18.0***
Avg. Yld.	2.9%	4.7%	5.9%	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	***2.9%***	***3.5%***

In the past 10 years, Garmin stock held an average price-to-earnings ratio of 15; 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, in our view, shares of Garmin are overvalued today. A contracting price-to-earnings ratio could reduce annual returns by 3.1% per year over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

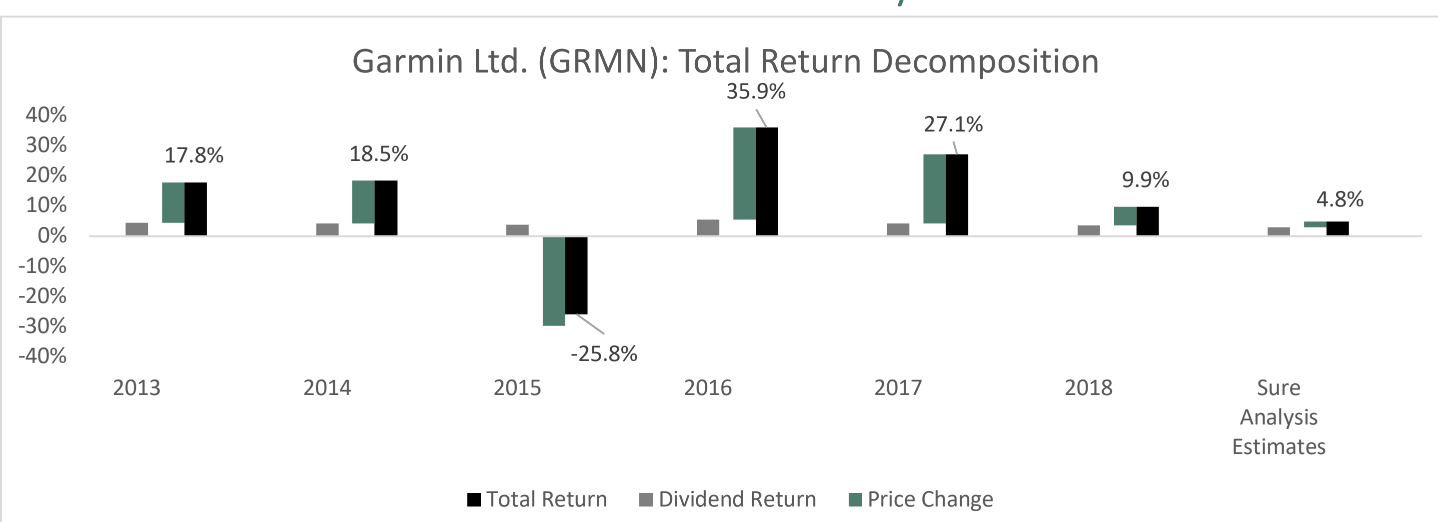
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	21.4%	63.6%	74.9%	64.7%	65.9%	64.0%	81.9%	72.1%	69.4%	57.5%	***62%***	***64%***

The dividend appears secure, with a payout ratio of around 60%. 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 related to widespread smartphone adoption. 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 nearly 20% of total revenue, and should remain a drag on Garmin's growth. Also, the benefit of tax reform that helped fuel earnings-per-share growth last year will not be a long-lasting catalyst. Garmin stock should be viewed favorably for its dividend, but after a strong rally over the past three years, the stock appears to be overvalued. As a result, we expect annual returns of 4.8% for Garmin over the next five years. This is a weak expected rate of return and as a result, we rate shares as a sell.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	2946	2690	2759	2716	2632	2871	2820	3046	3122	3347
Gross Profit	1444	1346	1339	1438	1407	1604	1539	1689	1798	1980
Gross Margin	49.0%	50.1%	48.5%	53.0%	53.5%	55.9%	54.6%	55.4%	57.6%	59.1%
SG&A Exp.	420	432	486	509	468	519	562	588	603	634
D&A Exp.	96	95	95	90	79	77	78	86	86	96
Operating Profit	786	637	554	604	574	691	550	633	684	778
Operating Margin	26.7%	23.7%	20.1%	22.2%	21.8%	24.1%	19.5%	20.8%	21.9%	23.3%
Net Profit	704	585	521	542	612	364	456	518	709	694
Net Margin	23.9%	21.7%	18.9%	20.0%	23.3%	12.7%	16.2%	17.0%	22.7%	20.7%
Free Cash Flow	1038	735	777	640	573	445	196	609	509	759
Income Tax	105	-7	63	82	41	360	111	121	-12	129

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3828	3989	4471	4819	4880	4693	4499	4525	4948	5383
Cash & Equivalents	1092	1261	1287	1231	1179	1196	833	847	891	1202
Accounts Receivable	874	747	607	604	565	570	531	527	591	570
Inventories	310	388	398	390	382	420	501	485	518	562
Goodwill & Int. Ass.	214	185	247	233	219	218	246	305	410	417
Total Liabilities	992	939	1215	1287	1220	1290	1154	1107	1096	1220
Accounts Payable	203	132	164	131	147	149	179	172	170	205
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	2836	3050	3257	3532	3660	3403	3345	3418	3852	4163
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	20.8%	15.0%	12.3%	11.7%	12.6%	7.6%	9.9%	11.5%	15.0%	13.4%
Return on Equity	27.8%	19.9%	16.5%	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%
ROIC	27.8%	19.9%	16.5%	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%
Shares Out.	200.3	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2	188.0
Revenue/Share	14.65	13.58	14.15	13.84	13.40	14.78	14.76	16.09	16.54	17.64
FCF/Share	5.16	3.71	3.99	3.26	2.92	2.29	1.03	3.22	2.70	4.00

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