Garmin Ltd. (GRMN)

Updated February 26th, 2020 by Josh Arnold

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$17.5B
Fair Value Price:	$83	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/13/20[1]
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	03/31/20[2]
Dividend Yield:	2.7%	**5 Year Price Target**	$96	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	7.0%

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 produces $4 billion in annual revenue and has a $17.5 billion market capitalization.

Garmin reported Q4 and full-year earnings on February 19th and results beat expectations on the top and bottom lines. Revenue for the year came to $3.8 billion, a 12% increase over the prior year and a new record for the company. The fitness, aviation, marine and outdoor segments collectively saw an 18% year-over-year increase in the top line, which was partially offset by a 14% decline in the company's automotive segment.

Gross margin improved slightly year-over-year, adding 40bps to 59.5%. Operating margin – thanks to cost controls – rose 190bps in total to 25.2% of revenue for 2019. That helped boost operating income 21% year-over-year to $946 million as the combination of higher revenue and better margins produced strong results.

Earnings-per-share on an adjusted basis were up 21% to $4.45, which is also a record. Garmin guided for revenue of $4 billion for this year, gross margin of 59.2%, operating margin of 23.5%, and adjusted earnings-per-share of $4.60.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.36	$2.67	$2.76	$2.73	$3.00	$2.49	$2.83	$2.94	$3.66	$4.45	***$4.60***	***$5.33***
DPS	$1.50	$2.00	$1.80	$1.80	$1.92	$2.04	$2.04	$2.04	$2.12	$2.24	***$2.44***	***$3.11***
Shares[3]	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2	189.5	191.2	***193***	***200***

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.

As a result, Garmin has restructured itself around the aviation, marine, outdoor, and fitness markets, and has had success in those categories. After a very successful year in 2019 where earnings followed another successful performance in 2018, it appears the company's growth will slow down this year. We expect 3% annual earnings growth through 2025 as the automotive business continues to shrink, but is offset by growth in other segments. Dividends are expected to grow at a slightly faster rate, and we see the payout rising to $3.11 per share by 2025, following the most recent increase of 7%.

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[1] Estimated date

[2] Estimated date

[3] Share count in millions

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.6	12.6	15.1	14.6	18.1	17.4	15.7	18.0	17.2	18.6	***20.0***	***18.0***
Avg. Yld.	4.7%	5.9%	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	***2.7%***	***3.2%***

In the past 10 years, Garmin stock held an average price-to-earnings ratio of 16.1; on this basis, the stock looks significantly overvalued today. However, more recently, shares have been valued at higher multiples. While the 20 times earnings shares trade for today is too high, we see fair value at 18 times earnings given the company's growth in non-automotive markets.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	64%	75%	65%	66%	64%	82%	72%	69%	58%	50%	***53%***	***58%***

The dividend appears secure, with a payout ratio of around 53%. During the Great Rescission in 2008-2009, the company saw earnings drop, but the company managed to continue to pay out its dividends. We do not believe Garmin would be highly resistant to recessions, when consumers typically reduce spending on aspirational technology products.

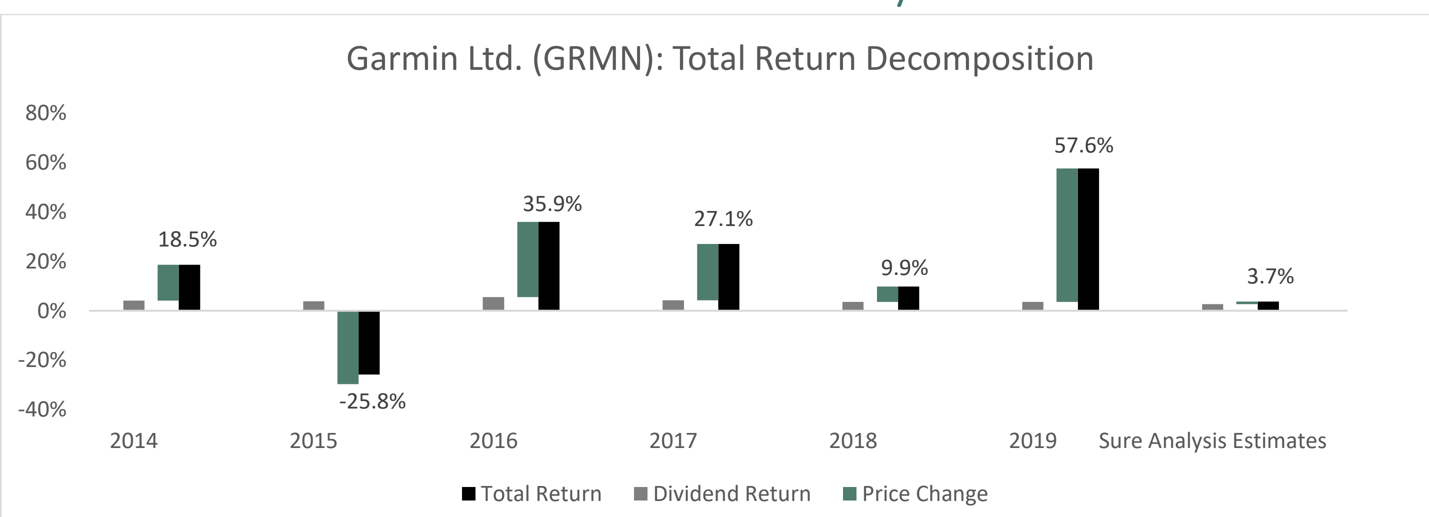
Garmin does not possess many notable competitive advantages, which are hard to come by in the technology sector. Technology is a highly competitive and rapidly-changing industry. Garmin lost its advantage in automotive GPS devices when trends changed related to widespread smartphone adoption. However, the company has been investing heavily in non-automotive markets to fuel future growth.

Final Thoughts & Recommendation

Garmin is a financially healthy company with a very strong balance sheet, and decent growth. Still, Garmin continues to work through the deterioration in the automotive GPS device market. Automotive sales still represent nearly 15% 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 over the past three years, the stock appears to be overvalued. As a result, we expect annual returns of 3.7% 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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2690	2759	2716	2632	2871	2820	3046	3122	3347	3758
Gross Profit	1346	1339	1438	1407	1604	1539	1689	1798	1980	2234
Gross Margin	50.1%	48.5%	53.0%	53.5%	55.9%	54.6%	55.4%	57.6%	59.1%	59.5%
SG&A Exp.	432	486	509	468	519	562	588	603	634	683
D&A Exp.	95	95	90	79	77	78	86	86	96	106
Operating Profit	637	554	604	574	691	550	633	684	778	946
Operating Margin	23.7%	20.1%	22.2%	21.8%	24.1%	19.5%	20.8%	21.9%	23.3%	25.2%
Net Profit	585	521	542	612	364	456	518	709	694	952
Net Margin	21.7%	18.9%	20.0%	23.3%	12.7%	16.2%	17.0%	22.7%	20.7%	25.3%
Free Cash Flow	735	777	640	573	445	196	609	509	759	578
Income Tax	-7	63	82	41	360	111	121	-12	129	35

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3989	4471	4819	4880	4693	4499	4525	4948	5383	6167
Cash & Equivalents	1261	1287	1231	1179	1196	833	847	891	1202	1028
Accounts Receivable	747	607	604	565	570	531	527	591	570	707
Inventories	388	398	390	382	420	501	485	518	562	753
Goodwill & Int. Ass.	185	247	233	219	218	246	305	410	417	660
Total Liabilities	939	1215	1287	1220	1290	1154	1107	1096	1220	1373
Accounts Payable	132	164	131	147	149	179	172	170	205	241
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	3050	3257	3532	3660	3403	3345	3418	3852	4163	4793
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	15.0%	12.3%	11.7%	12.6%	7.6%	9.9%	11.5%	15.0%	13.4%	16.5%
Return on Equity	19.9%	16.5%	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%
ROIC	19.9%	16.5%	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%
Shares Out.	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2	188.0	190.9
Revenue/Share	13.58	14.15	13.84	13.40	14.78	14.76	16.09	16.54	17.64	19.68
FCF/Share	3.71	3.99	3.26	2.92	2.29	1.03	3.22	2.70	4.00	3.03

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