# Garmin Ltd. (GRMN)

*Updated August 3rd, 2020 by Josh Arnold*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $96 | **5 Year CAGR Estimate:** | 4.8% | **Market Cap:** | $18.9 B |
| **Fair Value Price:** | $73 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 09/13/20[1] |
| **% Fair Value:** | 132% | **5 Year Valuation Multiple Estimate:** | -5.4% | **Dividend Payment Date:** | 09/30/20[2] |
| **Dividend Yield:** | 2.6% | **5 Year Price Target** | $107 | **Years Of Dividend Growth:** | 2 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | D | **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 $3.7 billion in annual revenue and has a $18.9 billion market capitalization.

Garmin reported second quarter earnings on July 29th, with results beating expectations on both the top and bottom lines. Total revenue was off -9% from the year-ago period, falling to $870 million. Fitness was once again the star performer in the company's portfolio, sporting a 17% gain in year-over-year revenue to $295 million. Marine revenue was up 4% year-over-year to $158 million, but Outdoor revenue was down -2% to $206 million, and Automotive revenue plummeted -46% to $85 million. Aviation revenue also suffered, falling -31% to $126 million. The Automotive and Aviation segments both suffered from huge declines in demand for new vehicles, as a result of factory shutdowns attributable to COVID-19.

Gross margins declined 100bps year-over-year, while operating margins plummeted 510bps to 21.7% of revenue. Adjusted earnings-per-share declined -22% to 91 cents. We've boosted our estimate of earnings-per-share for this year to $4.03 after stronger than expected Q2 results.

## 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 | ***$4.03*** | ***$5.92*** |
| **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 end this year, at least temporarily. We expect 8% 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 | ***23.7*** | ***18.0*** |
| **Avg. Yld.** | 4.7% | 5.9% | 4.3% | 4.5% | 3.5% | 4.7% | 4.6% | 3.9% | 3.4% | 2.7% | ***2.6%*** | ***2.9%*** |

In the past 10 years, Garmin stock held an average price-to-earnings ratio of 16.1; on this basis, the stock looks overvalued today. However, more recently, shares have been valued at higher multiples. Shares trade at 23.7 times earnings estimates for 2020, well above our fair value of 18 times earnings. Earnings are slightly lower this year than they otherwise would have been thanks to reduced Aviation and Automotive demand, but we see this as temporary.

## 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% | ***61%*** | ***53%*** |

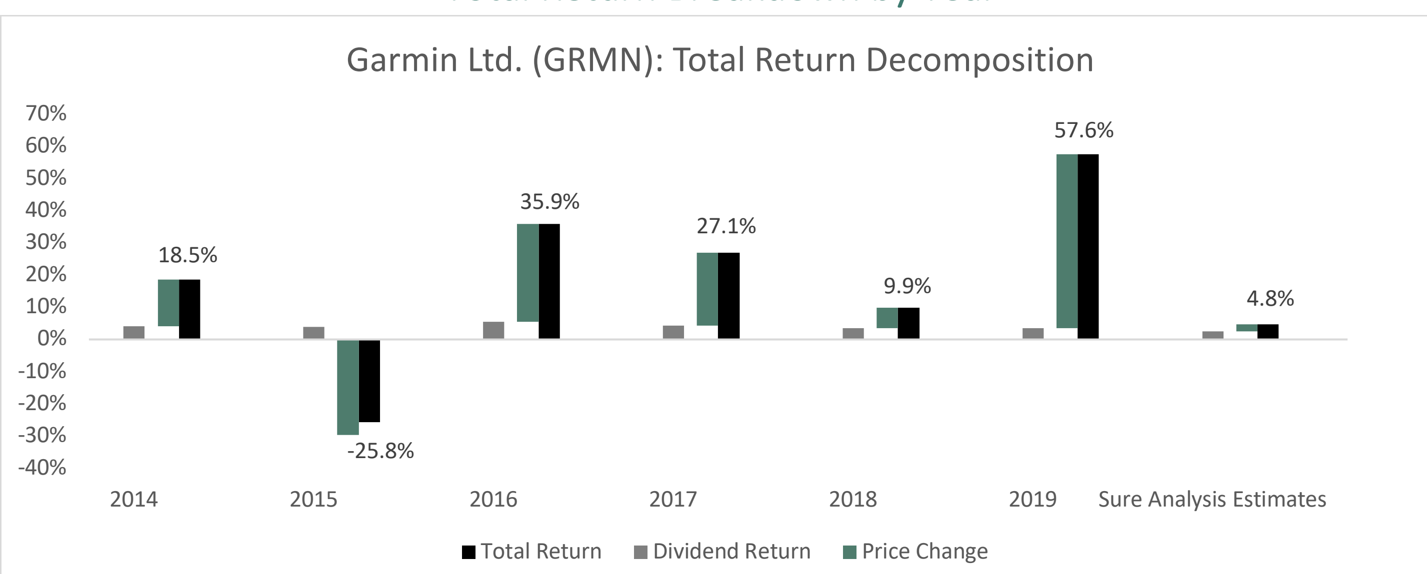
The dividend appears secure, with a payout ratio of 61% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividends. We do not believe Garmin would be resistant to a prolonged recession, when consumers reduce spending on aspirational 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 more than 10% of total revenue and should remain a drag on Garmin's growth, particularly in 2020. Garmin stock should be viewed favorably for its dividend, but after a recent rally in the stock, total returns are estimated at just 4.8%. We see the valuation as offsetting much of the company's growth and are reiterated the stock at a hold rating.

## 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.*