



Garmin Ltd. (GRMN)

Updated November 27th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$116	5 Year CAGR Estimate:	2.1%	Market Cap:	\$22 B
Fair Value Price:	\$86	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/12/21
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Dividend Payment Date:	03/31/21
Dividend Yield:	2.1%	5 Year Price Target	\$114	Years Of Dividend Growth:	3
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 \$22 billion market capitalization.

Garmin reported third quarter earnings on October 28th, 2020 with both the top and bottom lines soaring past estimates. The company reported revenue of \$1.1 billion, up 18% year-over-year, and more than \$200 million better than expectations. The Marine segment posted revenue of \$165 million, up 7%, Fitness was up 24% at \$328 million, Outdoor was up 15% at \$335 million, Auto was down -24% to \$129 million, and Aviation was down -14% to \$151 million. Every segment beat consensus estimates apart from the perpetually struggling Auto segment, which we believe will eventually shrink down to essentially no revenue as Garmin's products continue to become outdated in that segment. However, very strong growth elsewhere continues to work well for the company's top line.

Gross margin equaled 60.2% of revenue and operating margin came to 28.6% of revenue, more than 600bps better than expectations for 22.3%. Earnings-per-share came to \$1.58 on an adjusted basis, up 24% year-over-year. We've updated our estimate of earnings-per-share to \$4.75 following blockbuster Q3 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	\$4.75	\$6.36
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
Shares¹	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, Garmin is vastly outperforming expectations in a tough environment, and should post nice earnings growth in 2020. We expect 6% 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%.

¹ 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	24.4	18.0
Avg. Yld.	4.7%	5.9%	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.1%	2.7%

In the past 10 years, Garmin stock traded with 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 24.4 times earnings estimates for 2020, well above our fair value of 18 times earnings. While Garmin's fundamentals are improving, we don't see 24 times earnings as a sustainable valuation.

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%	51%	49%

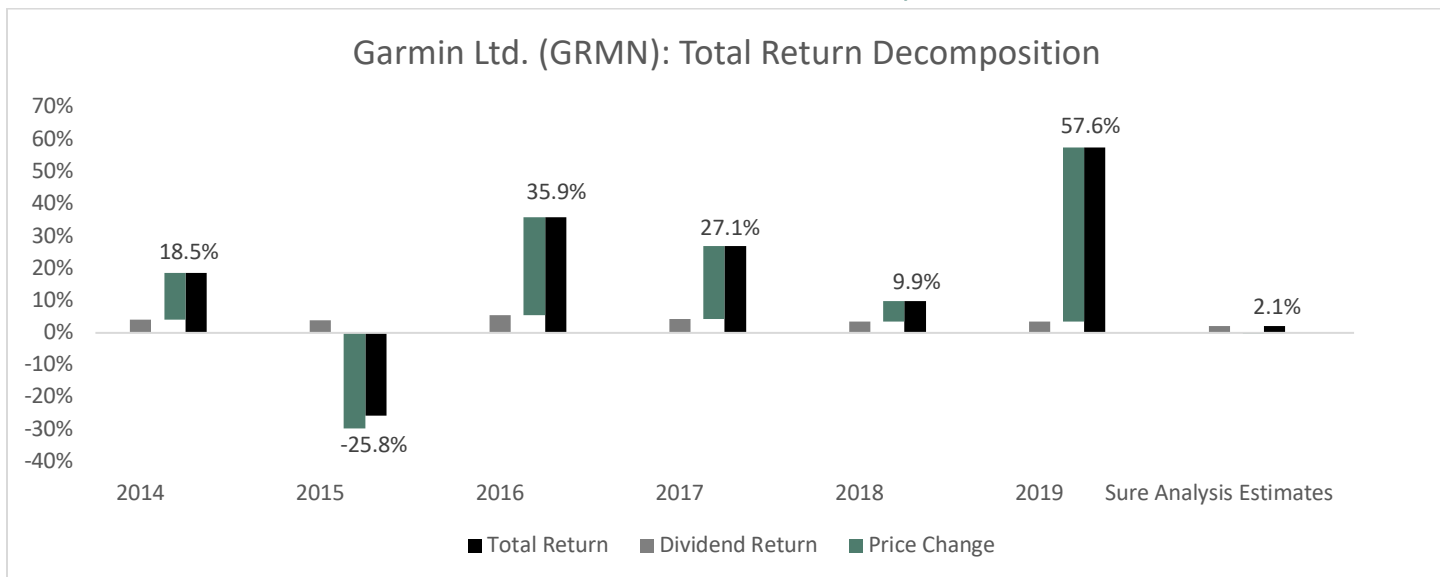
The dividend appears secure, with a payout ratio of 51% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividends. We do not believe Garmin would be resistant to a prolonged recession, when consumers reduce spending on aspirational 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, and we note its leadership in Aviation and Marine products.

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 2.1%. We see the valuation as offsetting much of the company's growth and are moving the stock from hold to 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.

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