Garmin Ltd. (GRMN)

Updated May 28th, 2022, by Josh Arnold

Key Metrics

Current Price:	$106	**5 Year CAGR Estimate:**	9.5%	**Market Cap:**	$19 B
Fair Value Price:	$112	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/16/22
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	06/30/22
Dividend Yield:	2.8%	**5 Year Price Target**	$150	**Years Of Dividend Growth:**	5
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 about $5.5 billion in annual revenue and has a $19 billion market capitalization.

Garmin reported first quarter earnings on April 27th, 2022, and results were better than expected on both the top and bottom lines by small margins. Adjusted earnings-per-share were $1.11, one penny ahead of estimates. Revenue was up 9.3% to $1.17 billion, which was $30 million ahead of expectations. The revenue was a record for the company, and Garmin noted three segments posted double-digit growth.

Gross margin was 56.5% of revenue, while operating margin was 19.5%. However, operating income was $229 million, a decline of 8% year-over-year.

The fitness segment saw revenue decline 28% year-over-year as the company lapped an extremely strong pandemic period that saw unsustainable revenue. The outdoor segment posted a 50% increase in revenue due to strong demand for adventure watches. The aviation segment saw 1% revenue growth driven by growth in the OEM category. Marine revenue soared 21% year-over-year on strong, broad-based growth. The auto segment grew 11% driven by OEM and consumer products growth.

Our estimate is $5.90 in earnings-per-share for this year after Q1 results, unchanged from our prior estimate.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.76	$2.73	$3.00	$2.49	$2.83	$2.94	$3.66	$4.45	$5.14	$5.82	***$5.90***	***$7.90***
DPS	$1.80	$1.80	$1.92	$2.04	$2.04	$2.04	$2.12	$2.24	$2.40	$2.68	***$2.92***	***$3.73***
Shares[1]	195.6	195.2	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	***193.0***	***193.0***

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 widespread adoption 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 posted outstanding growth in 2020. We expect 6% annual earnings growth through 2027 as all the company's segments are growing, and management continues to provide bullish guidance. Dividends are

[1] Share count in millions

expected to grow at a slower rate, and we see the payout rising to $3.73 per share by 2027, following the most recent increase of 10%.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.1	14.6	18.1	17.4	15.7	18.0	17.2	18.6	18.9	24.6	***18.0***	***19.0***
Avg. Yld.	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.5%	1.9%	***2.8%***	***2.5%***

In the past 10 years, Garmin stock traded with an average price-to-earnings ratio of ~17; on this basis, the stock looks overvalued today. However, more recently, shares have been valued at higher multiples. Shares trade at 18 times earnings estimates for 2022, under our fair value of 19 times earnings. We see the stock as slightly undervalued at the moment, following months of weak performance from the share price. The yield is now back up to 2.8% as a result of the lower price and higher payout.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	65%	66%	64%	82%	72%	69%	58%	50%	47%	46%	***50%***	***47%***

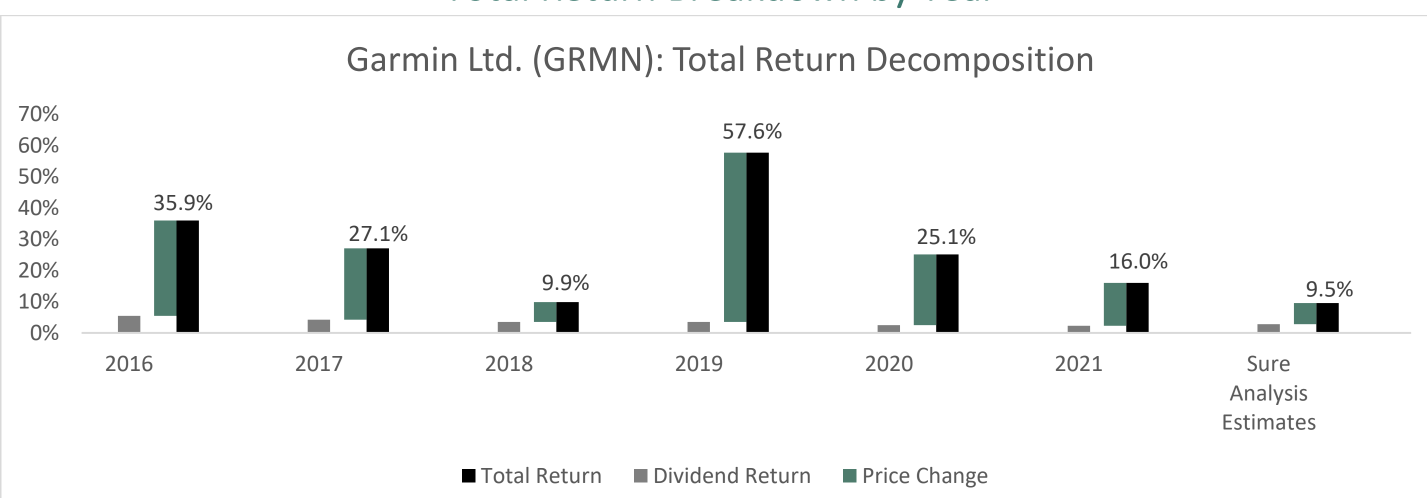
The dividend appears secure, with a payout ratio of 50% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividend. We do not believe Garmin would be resistant to a prolonged recession when consumers reduce spending on aspirational 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. The company has turned the corner on growth, successfully lapping the pandemic period. Following Q1 results, total annual returns are estimated at 9.5%. We see the valuation as helping our lower growth estimate of 6%, and given the valuation has improved, we're reiterating Garmin at a hold rating.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,716	2,632	2,871	2,820	3,046	3,122	3,347	3,758	4,187	4,983
Gross Profit	1,438	1,407	1,604	1,539	1,689	1,798	1,980	2,234	2,481	2,890
Gross Margin	53.0%	53.5%	55.9%	54.6%	55.4%	57.6%	59.1%	59.5%	59.3%	58.0%
SG&A Exp.	509	468	519	562	588	603	634	683	721	832
D&A Exp.	90	79	77	78	86	86	96	106	127	155
Operating Profit	604	574	691	550	633	684	778	946	1,054	1,219
Operating Margin	22.2%	21.8%	24.1%	19.5%	20.8%	21.9%	23.3%	25.2%	25.2%	24.5%
Net Profit	542	612	364	456	518	709	694	952	992	1,082
Net Margin	20.0%	23.3%	12.7%	16.2%	17.0%	22.7%	20.7%	25.3%	23.7%	21.7%
Free Cash Flow	640	573	445	196	609	509	759	578	948	703
Income Tax	82	41	360	111	121	(12)	129	35	111	125

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,819	4,880	4,693	4,499	4,525	4,948	5,383	6,167	7,031	7,854
Cash & Equivalents	1,231	1,179	1,196	833	847	891	1,202	1,028	1,458	1,498
Accounts Receivable	604	565	570	531	527	591	570	707	849	843
Inventories	390	382	420	501	485	518	562	753	762	1,228
Goodwill & Int. Ass.	233	219	218	246	305	410	417	660	829	791
Total Liabilities	1,287	1,220	1,290	1,154	1,107	1,096	1,220	1,373	1,515	1,740
Accounts Payable	131	147	149	179	172	170	205	241	259	370
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Shareholder's Equity	3,532	3,660	3,403	3,345	3,418	3,852	4,163	4,793	5,516	6,114
LTD/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.7%	12.6%	7.6%	9.9%	11.5%	15.0%	13.4%	16.5%	15.0%	14.5%
Return on Equity	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%
ROIC	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%
Shares Out.	195.6	195.2	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8
Revenue/Share	13.84	13.40	14.78	14.76	16.09	16.54	17.64	19.68	21.82	25.81
FCF/Share	3.26	2.92	2.29	1.03	3.22	2.70	4.00	3.03	4.94	3.64

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