Garmin Ltd. (GRMN)

Updated February 27th, 2023, by Josh Arnold

Key Metrics

Current Price:	$98	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$18.8 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	03/14/23[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	03/30/23
Dividend Yield:	3.0%	**5 Year Price Target**	$131	**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 billion in annual revenue and has an $18.8 billion market capitalization.

Garmin reported fourth quarter and full-year earnings on February 22nd, 2023, and results were mixed. The company managed to beat earnings-per-shares estimates by 18 cents, coming in at $1.35 on an adjusted basis. Revenue was off almost 6% from the year-ago period to $1.31 billion, which was $10 million less than expected.

Gross margin for the quarter was 57%, up from 55.5% in the year-ago period. However, operating margin fell sharply from 22.6% of revenue to 20.5% due to higher costs. Operating income on a dollar basis was down 15% to $267 million, as revenue deleveraging took its toll.

The Fitness segment saw its revenue plummet 28% year-over-year, while Aviation was the bright spot in the segment lineup, adding 27%.

We start the year with an estimate of $5.15 in earnings-per-share, with that being largely equal to 2022. We think the company's revenue and margin volatility will make it tough to boost earnings in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.73	$3.00	$2.49	$2.83	$2.94	$3.66	$4.45	$5.14	$5.82	$5.13	***$5.15***	***$6.89***
DPS	$1.80	$1.92	$2.04	$2.04	$2.04	$2.12	$2.24	$2.40	$2.68	$2.92	***$2.92***	***$3.73***
Shares[2]	195.2	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	191.6	***190***	***185***

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 2028 as it has become clear inflationary pressures are strong. Dividends are expected to grow at a slower rate, and we see the payout rising to $3.73 per share by 2028, following the most recent increase of 10%. We note the US dollar's strength is a headwind for the foreseeable future.

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[1] Estimated date

[2] Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.6	18.1	17.4	15.7	18.0	17.2	18.6	18.9	24.6	18.0	***19.0***	***19.0***
Avg. Yld.	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.5%	1.9%	3.2%	***3.0%***	***2.8%***

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 19 times earnings estimates for 2023, equal to our fair value of 19 times earnings. We see the stock as fairly valued at the moment, as earnings have held up better than the share price. The yield is now at 3% as a result of the lower price and higher payout.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	66%	64%	82%	72%	69%	58%	50%	47%	46%	57%	***57%***	***54%***

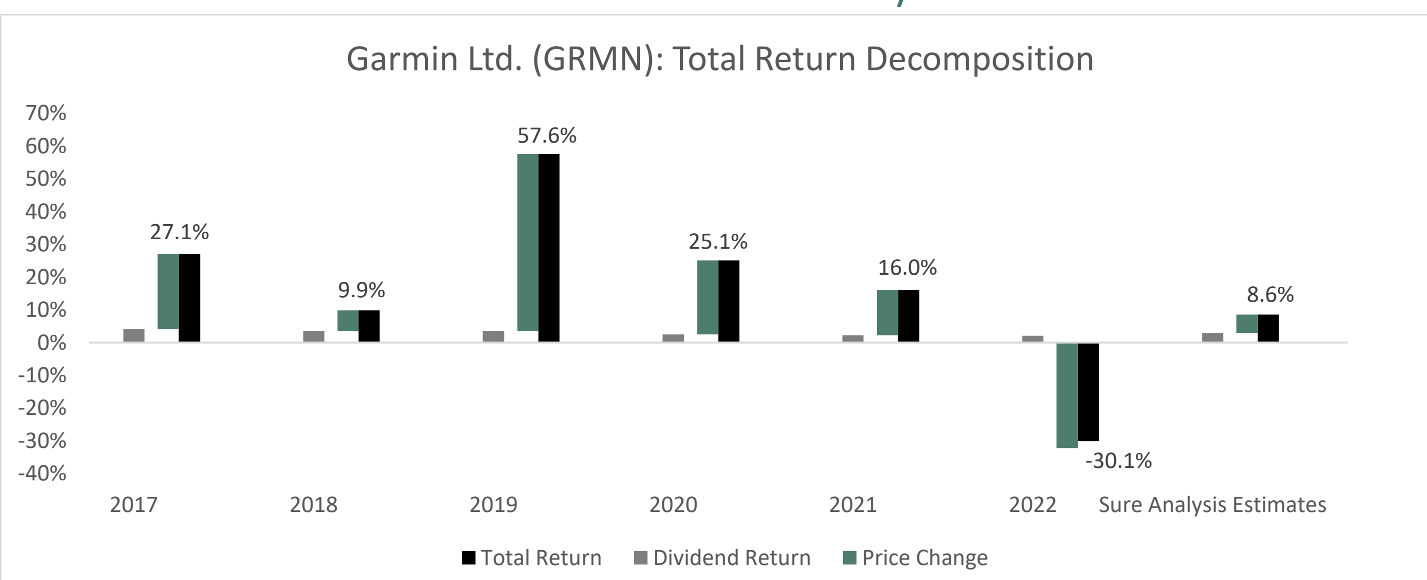
The dividend appears secure, with a payout ratio of 57% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividend. We do not believe Garmin would be resistant to a prolonged recession when consumers reduce spending on discretionary 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 Q4 results, total annual returns are estimated at 8.6%. We see the valuation as having no impact, while our growth estimate of 6%, and yield of 3% help drive returns strong enough to warrant a solid hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,632	2,871	2,820	3,046	3,122	3,347	3,758	4,187	4,983	4,860
Gross Profit	1,407	1,604	1,539	1,689	1,798	1,980	2,234	2,481	2,890	2,807
Gross Margin	53.5%	55.9%	54.6%	55.4%	57.6%	59.1%	59.5%	59.3%	58.0%	57.8%
SG&A Exp.	468	519	562	588	603	634	683	721	832	944
D&A Exp.	79	77	78	86	86	96	106	127	155	164
Operating Profit	574	691	550	633	684	778	946	1,054	1,219	1,028
Operating Margin	21.8%	24.1%	19.5%	20.8%	21.9%	23.3%	25.2%	25.2%	24.5%	21.2%
Net Profit	612	364	456	518	709	694	952	992	1,082	974
Net Margin	23.3%	12.7%	16.2%	17.0%	22.7%	20.7%	25.3%	23.7%	21.7%	20.0%
Free Cash Flow	573	445	196	609	509	759	578	948	703	542
Income Tax	41	360	111	121	(12)	129	35	111	125	91

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,880	4,693	4,499	4,525	4,948	5,383	6,167	7,031	7,854	7,731
Cash & Equivalents	1,179	1,196	833	847	891	1,202	1,028	1,458	1,498	1,279
Accounts Receivable	565	570	531	527	591	570	707	849	843	657
Inventories	382	420	501	485	518	562	753	762	1,228	1,515
Goodwill & Int. Ass.	219	218	246	305	410	417	660	829	791	746
Total Liabilities	1,220	1,290	1,154	1,107	1,096	1,220	1,373	1,515	1,740	1,527
Accounts Payable	147	149	179	172	170	205	241	259	370	212
Long-Term Debt	---	---	---	---	---	---	---	---	---	0
Shareholder's Equity	3,660	3,403	3,345	3,418	3,852	4,163	4,793	5,516	6,114	6,204
LTD/E Ratio	---	---	---	---	---	---	---	---	---	0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.6%	7.6%	9.9%	11.5%	15.0%	13.4%	16.5%	15.0%	14.5%	12.5%
Return on Equity	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%	15.8%
ROIC	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%	15.8%
Shares Out.	195.2	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	193.0
Revenue/Share	13.40	14.78	14.76	16.09	16.54	17.64	19.68	21.82	25.81	25.18
FCF/Share	2.92	2.29	1.03	3.22	2.70	4.00	3.03	4.94	3.64	2.81

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