



Garmin Ltd. (GRMN)

Updated November 10th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$115	5 Year CAGR Estimate:	6.4%	Market Cap:	\$22 B
Fair Value Price:	\$100	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/14/23 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	12/30/23
Dividend Yield:	2.5%	5 Year Price Target	\$140	Years Of Dividend Growth:	5
Dividend Risk Score:	D	Retirement Suitability Score:	F	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 just over \$5 billion in annual revenue and has a \$22 billion market capitalization.

Garmin posted third quarter earnings on November 1st, 2023, and results were better than expected on both the top and bottom lines. The company posted \$1.41 in adjusted earnings-per-share, which was 13 cents better than expected. Revenue was up more than 12% year-over-year to \$1.28 billion, and was \$70 million ahead of estimates. The company noted four of its five segments produced record revenue in Q3.

Gross margin and operating margin were 57% and 21.2%, respectively, in the third quarter. On a dollar basis, operating income was \$270 million, up 13% year-over-year. Operating cash flow was \$357 million, and free cash flow was \$312 million.

Guidance was updated to \$5.25 in adjusted earnings-per-share, which now includes the closing of the JL Audio acquisition. Revenue is now expected to be \$5.15 billion, and we've updated our estimate accordingly.

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	\$5.25	\$7.36
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
Shares²	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 7% 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%.

¹ Estimated date

² 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	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	21.9	19.0
Avg. Yld.	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.5%	1.9%	3.2%	2.5%	2.7%

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 21.9 times earnings estimates for 2023, just above our fair value of 19 times earnings. We see the stock as slightly overvalued at the moment, as earnings have held up better than the share price. The yield is now at 2.5%, and could rise slightly over time as the valuation declines.

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%	56%	51%

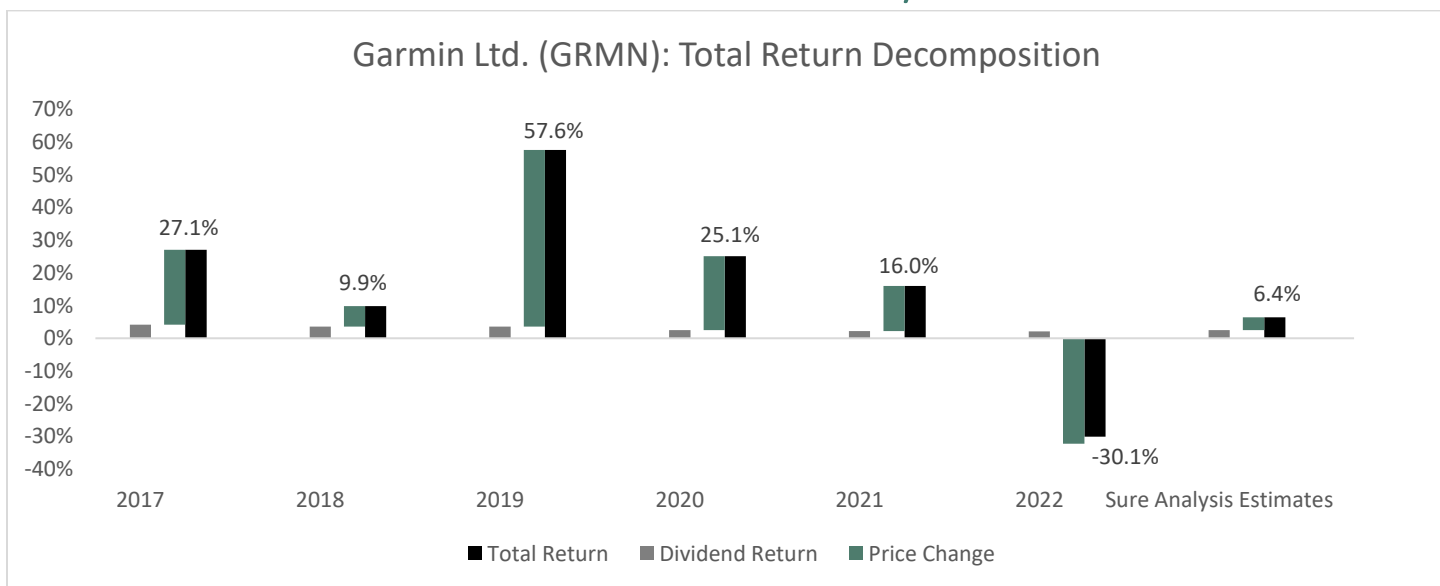
The dividend appears secure, with a payout ratio of 56% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividend. We do not believe Garmin would be resistant to a prolonged recession when consumers reduce spending on discretionary 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 Q3 results, total annual returns are estimated at 6.4%. We see the valuation as a headwind to total returns, while our growth estimate of 7%, and yield of 2.5% 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.

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