Garmin Ltd. (GRMN)

Updated March 10th, 2024, by Josh Arnold

Key Metrics

Current Price:	$142	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$27 B
Fair Value Price:	$102	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/14/24
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.5%	**Dividend Payment Date:**	03/31/24
Dividend Yield:	2.1%	**5 Year Price Target**	$143	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Sell

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 under $5 billion in annual revenue and has a $27 billion market capitalization.

Garmin posted fourth quarter and full-year earnings on February 21st, 2024, and results were very strong on both the top and bottom lines. Adjusted earnings-per-share came to $1.72, which was 32 cents better than expected. Revenue was up 13% year-over-year to $1.48 billion, and beat estimates by $60 million.

Gross margin was 58.3% of revenue, up from 57% a year ago. Operating margin increased even more than that, adding 250 basis points to 23% of revenue. On a dollar basis, operating income soared 27% higher from last year's Q4, coming in at $340 million.

The Fitness segment saw a 22% gain in the top line in Q4, as growth in all categories contributed to the top line beat. The Aviation segment saw a 4% decline in revenue from aftermarket weakness.

For the year, revenue came to $5.23 billion, up 8% from 2022. Adjusted earnings-per-share finished at $5.59, up about 9% from the prior year.

We start 2024 with an estimate of $5.35 in earnings-per-share as margins will be in focus despite higher revenues. Garmin also boosted its payout by about 3%, marking what will be its seventh consecutive year of dividend growth.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.00	$2.49	$2.83	$2.94	$3.66	$4.45	$5.14	$5.82	$5.13	$5.59	***$5.35***	***$7.50***
DPS	$1.92	$2.04	$2.04	$2.04	$2.12	$2.24	$2.40	$2.68	$2.86	$2.92	***$3.00***	***$3.83***
Shares[1]	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	191.6	191.8	***192***	***193***

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. We expect 7% annual earnings growth through 2029 as there's a relatively low base for 2024, and Garmin's top line strength has been quite sustainable. Dividends are expected to grow at a slower rate, and we see the payout rising to $3.83 per share by 2029, following the most recent increase of 3%.

---

[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.

Garmin Ltd. (GRMN)

Updated March 10th, 2024, by Josh Arnold

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.1	17.4	15.7	18.0	17.2	18.6	18.9	24.6	18.0	23.0	***26.5***	***19.0***
Avg. Yld.	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.5%	1.9%	3.2%	2.3%	***2.1%***	***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 26.5 times earnings estimates for 2024, just above our fair value of 19 times earnings. We see the stock as quite overvalued at the moment, as the share price has risen much more quickly than earnings estimates. The yield is now at 2.1%, and could rise over time as the valuation declines.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64%	82%	72%	69%	58%	50%	47%	46%	57%	52%	***56%***	***51%***

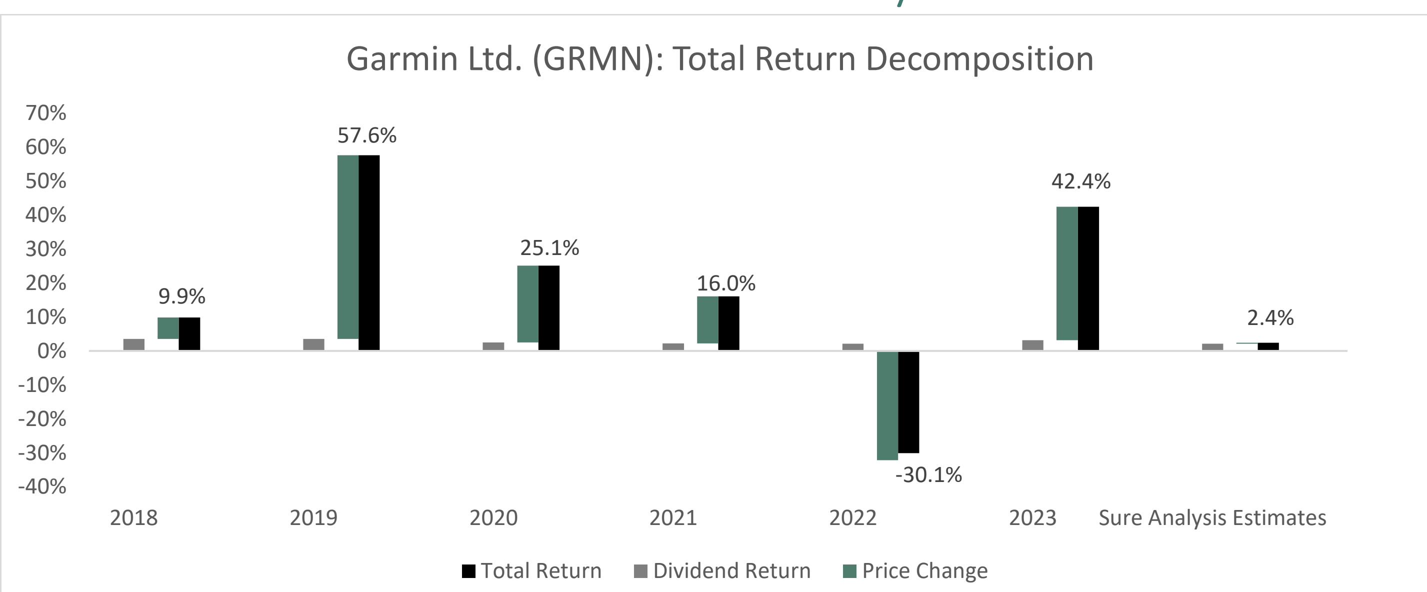
The dividend appears secure, with a payout ratio of 56% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividend. We do not believe Garmin would be resistant to a prolonged recession when consumers reduce spending on discretionary 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 2023 results, total annual returns are estimated at 2.4%. We see the valuation as a big headwind to total returns, while our growth estimate of 7%, and yield of 2.1% are insufficient for anything other than a sell rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Garmin Ltd. (GRMN)

Updated March 10th, 2024, by Josh Arnold

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,871	2,820	3,046	3,122	3,347	3,758	4,187	4,983	4,860	5,228
Gross Profit	1,604	1,539	1,689	1,798	1,980	2,234	2,481	2,890	2,807	3,005
Gross Margin	55.9%	54.6%	55.4%	57.6%	59.1%	59.5%	59.3%	58.0%	57.8%	57.5%
SG&A Exp.	519	562	588	603	634	683	721	832	944	1,008
D&A Exp.	77	78	86	86	96	106	127	155	164	178
Operating Profit	691	550	633	684	778	946	1,054	1,219	1,028	1,092
Operating Margin	24.1%	19.5%	20.8%	21.9%	23.3%	25.2%	25.2%	24.5%	21.2%	20.9%
Net Profit	364	456	518	709	694	952	992	1,082	974	1,290
Net Margin	12.7%	16.2%	17.0%	22.7%	20.7%	25.3%	23.7%	21.7%	20.0%	24.7%
Free Cash Flow	445	196	609	509	759	578	948	703	542	1,181
Income Tax	360	111	121	(12)	129	35	111	125	91	-89

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,693	4,499	4,525	4,948	5,383	6,167	7,031	7,854	7,731	8,604
Cash & Equivalents	1,196	833	847	891	1,202	1,028	1,458	1,498	1,279	1,693
Accounts Receivable	570	531	527	591	570	707	849	843	657	815
Inventories	420	501	485	518	562	753	762	1,228	1,515	1,346
Goodwill & Int. Ass.	218	246	305	410	417	660	829	791	746	795
Total Liabilities	1,290	1,154	1,107	1,096	1,220	1,373	1,515	1,740	1,527	1,592
Accounts Payable	149	179	172	170	205	241	259	370	212	254
Long-Term Debt	---	---	---	---	---	---	---	---	0	0
Shareholder's Equity	3,403	3,345	3,418	3,852	4,163	4,793	5,516	6,114	6,204	7,012
LTD/E Ratio	---	---	---	---	---	---	---	---	0	0

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.6%	9.9%	11.5%	15.0%	13.4%	16.5%	15.0%	14.5%	12.5%	15.8%
Return on Equity	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%	15.8%	19.5%
ROIC	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%	15.8%	19.5%
Shares Out.	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	193.0	192.1
Revenue/Share	14.78	14.76	16.09	16.54	17.64	19.68	21.82	25.81	25.18	27.22
FCF/Share	2.29	1.03	3.22	2.70	4.00	3.03	4.94	3.64	2.81	6.15

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