

Garmin Ltd. (GRMN)

\$79.81 (As of 05/01/20)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: A

Summary

Garmin reported strong first-quarter results. Strong performance of fitness, outdoor, marine and aviation segments aided results. Garmin is currently riding on product line expansion. We believe strong focus of Garmin on continued innovation, diversification and market expansion to explore growth opportunities in all its segments aided its business growth. Also, solid momentum in the OEM category and benefits from the Tacx buyout were tailwinds. Notably, the stock has underperformed its industry in the past year. However, weak personal navigation device market remains a headwind for the company's auto segment. Further, macroeconomic headwinds and seasonality are risks.

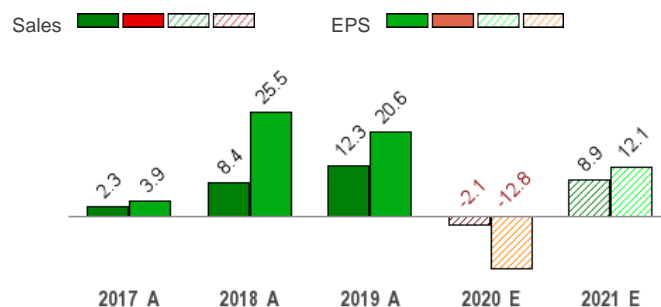
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.58 - \$61.04
20 Day Average Volume (sh)	1,124,871
Market Cap	\$15.2 B
YTD Price Change	-18.2%
Beta	0.97
Dividend / Div Yld	\$2.44 / 2.8%
Industry	Electronics - Miscellaneous Products
Zacks Industry Rank	Bottom 47% (134 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.3%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-2.6%
Expected Report Date	07/29/2020
Earnings ESP	-30.5%
P/E TTM	17.2
P/E F1	20.6
PEG F1	2.8
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,006 E
2020	856 A	911 E	927 E	1,120 E	3,679 E
2019	766 A	955 A	934 A	1,102 A	3,758 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.84 E	\$1.05 E	\$1.28 E	\$1.36 E	\$4.35 E
2020	\$0.91 A	\$0.64 E	\$1.05 E	\$1.22 E	\$3.88 E
2019	\$0.73 A	\$1.16 A	\$1.27 A	\$1.29 A	\$4.45 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

Olathe, Kansas-based, Garmin, Ltd. is an original equipment manufacturer (OEM) of navigation and communication equipment that incorporate the global positioning system (GPS)-based technology.

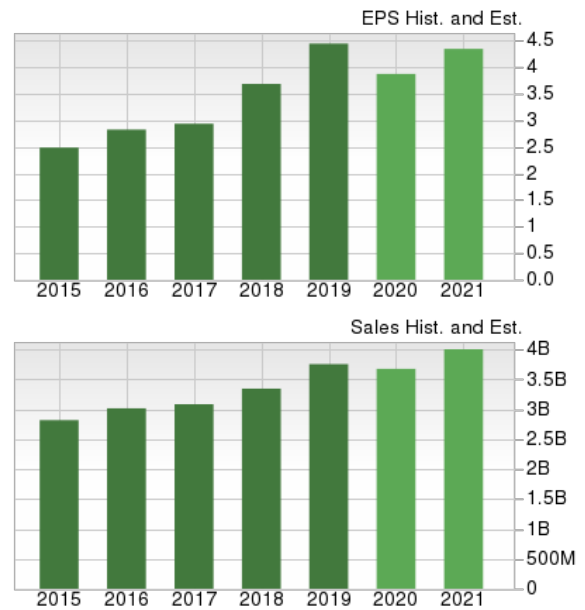
The company's diverse portfolio of handheld, portable and fixed-mount GPS-enabled devices provides geographical location and navigation data using the GPS satellite system

Garmin reported revenues of \$3.758 billion in 2019. The company report operations under five segments—Outdoor, Fitness, Marine, Auto and Aviation, which generated 24%, 28%, 14%, 15% and 19% of revenues, respectively.

Outdoor products currently include handhelds, wearables, golfing devices, dog tracking/training devices and action cameras. The Fitness segment offers running and cycling products of various kinds and includes platforms for connecting and sharing data with others. Marine products include chartplotters, fishfinders, sounders, autopilot systems, radars, instruments, radios, handhelds and wrist-worn devices, sailing and entertainment products. Auto offers personal navigation devices (PNDs), infotainment solutions and mobile applications. Aviation offers integrated avionics or flight decks; panel mounted navigation, traffic, audio, transponder, weather and other products; portable and wearable solutions; and mobile apps.

Products are manufactured at its Xizhi, Jhongli and LinKou facilities in Taiwan, its Yangzhou facility in China and its Olathe, Kansas and Salem, Oregon facilities in the U.S. They are sold through a big network of independent dealers across 100 countries globally.

Garmin products are distributed through a hybrid sales channel system that utilizes a network of distributors and retailers. They are also sold directly to OEMs that integrate the GPS capability into their end product.



Reasons To Buy:

▲ The **Fitness business** has continued to grow over the last few years. Management has gradually built the product portfolio, through both internal development efforts and acquisitions. Strength in this segment continues to be driven a focus on location-enabled wearables and growing engagement on the Connect IQ App store. The Connect IQ App store has numerous apps, watch faces and widgets. Also, music providers like Spotify, Deezer and KKBOX and others have been added to Connect IQ App Store. Further, the company's new music-enabled wearables gaining traction in the market. The company is also seeing opportunity to increase penetration in Europe. Given the steady introduction of new products, the mix of products continues to improve, thus offsetting the impact of low average selling prices characteristic of this highly competitive market and ensuring continued improvement in segment profitability.

Garmin's focus on delivering innovative products across all business segments, namely fitness, marine and outdoor, and contribution from acquisitions remain positives.

▲ Garmin has a very strong **Outdoor business** where it continues to introduce new products and extend the functionality of current products. One example is Garmin Elevate, which can be used along with some Outdoor products for better golfing or dog tracking. To date, both the golfing and dog tracking and training product lines have done really well. The DeLorme acquisition is helping creation of consumer-type tracking devices that can connect with satellites for communication and navigation. So its addition to segment revenue is likely to be a long-term positive. Further, growing adoption of adventure watch namely fenix 5 Plus series along with the launch of Instinct and Descent is driving revenues within this segment. Further, increasing inReach subscriptions are also tailwinds.

▲ The company has been making some significant investments in the **Marine business** that helped it grow a solid product line. The acquisition of Japan-based Active Corporation which is a developer of crowdsourcing boating platform popularly known as ActiveCaptain is contributing well. Garmin has developed a very promising product called Quickdraw Contours that enables boaters to create maps of their lakes and storing them right on the devices. They are also able to share these with others through the Quickdraw Community platform, which leverages the cloud to create these maps as HD images and share this user-generated information. The product is now available for inland waterways and should enable the company to pick up some market share. Further, the company's sonar system called Panoptix LiveScope creates realtime video-like images underwater, is gaining traction in the marine industry. Overall, chartplotters such as GPSMAP and echoMAP, fish finders, cartography and entertainment product lines are all contributing significantly to Marine segment revenues. The company's strategy has been to build a strong position for itself through product introductions and strategic partnerships. Individual and recreational purchases (retail sales) aside, Garmin also has signed on some important accounts (OEMs). Garmin has supplemented these efforts with acquisitions that have made significant contributions.

▲ The **Aviation business** is strong with Garmin solutions remaining popular at both OEM after-market customers. Last year, gross margin from this segment stayed over 75%. The company's initiatives to expand its portfolio and enhance existing product lines are therefore positive. With its 345 families of ADS-B transponders, Garmin is well positioned to take advantage of the FAA mandated transition to more efficient transponders (air traffic management systems).

Risks

- Despite significant reductions for a number of years, Garmin's **PND business** remains a big part of its business. The secular decline in this business is offsetting, at times almost entirely, the growth in its other segments. Management has shifted focus to in-dash solutions where revenue is necessarily deferred in some cases. This adds to the weakness caused by the cannibalization of this market by smartphones. Further, management was late to grasp the changing trends, which increased competition in the space. This is a pity given the leadership position it has always enjoyed in the PND market. Management expects the PND market will continue to decline this year, which will naturally remain a drag on the company's business.
 - One of the main problems that Garmin is increasingly likely to see is **ASP/volume pressure in wearables**. As Garmin ships a growing number of wearables, these devices are likely to compete with products from Fitbit and Apple Watch, especially the Watch because it can do a whole lot more. Garmin caters to a niche market of professionals, so it can afford to charge a premium for a high-quality product. But as soon as professionals start preferring their Apple products, there will be pressure on the company to lower prices. Conversely, Garmin will never be able to serve the general purpose wearables market with a premium product. So this is a negative for volumes, necessitating its success in the niche it serves. Second quarter results seem to indicate that Garmin is succeeding with its strategy, but the game definitely isn't over yet. So increased pressure on R&D dollars /margins at Garmin can't be ruled out.
 - Each of the business segments experience **seasonality**. The PND business (auto/mobile) experiences stronger demand in the fourth quarter, driven by the holiday season. The outdoor and fitness segments usually decline in the first quarter from the holiday driven sales in the fourth quarter and thereafter increases every quarter. Aviation is driven less by seasonality than customer product sales, although typically, the second and third quarters are stronger. Marine is also a seasonal business, with the latter half of the year softer than the former due to weather conditions. Seasonality causes wide fluctuations in revenue and profit and makes forecasting difficult. Also, if the company misses a seasonal window when targeting customers, it could lead to share losses. The OEM strategy will mitigate the impact of significant fluctuations and possible share losses across the business.
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Last Earnings Report

Garmin's Q1 Earnings & Revenues Surpass Estimates

Garmin Ltd. reported first-quarter 2020 pro-forma earnings of 91 cents per share, beating the Zacks Consensus Estimate by 8.4%. Moreover, the bottom line improved 25% on a year-over-year basis but declined 29.4% sequentially.

Net sales came in at \$856.11 million, which surpassed the Zacks Consensus Estimate of \$838.4 million and increased 12% from the year-ago quarter. However, the top line decreased 22.3% sequentially.

Strong performance delivered by the company's fitness, outdoor, marine and aviation segments drove year-over-year revenues.

However, sluggishness in its auto segment remained a concern.

The company has withdrawn full-year 2020 guidance on account of uncertainty prevailing in the market due to coronavirus pandemic.

Nevertheless, Garmin's strong focus on continued innovation, diversification and market expansion to explore opportunities across all business segments remains a major positive.

Segmental Details

Outdoor (20.5% of net sales): The segment generated sales of \$175.1 million during the reported quarter, improving 14% year over year. The year-over-year increase was primarily driven by robust demand for Garmin's adventure watches.

Fitness (26.1%): This segment generated sales of \$223.6 million, which increased 24% from the year-ago quarter. This can be primarily attributed to its well-performing advanced wearables. Further, positive contributions from the Tacx buyout contributed to the top line.

Aviation (22%): The segment generated sales of \$188.6 million, improving 10% on a year-over-year basis. The company's varied product categories remained a major positive.

Marine (19%): Garmin generated sales of \$163 million from this segment, increasing 22% on a year-over-year basis. The company witnessed solid momentum across chartplotters and advanced sonars during the reported quarter, which in turn drove the segment's revenues.

Auto (12.4%): This segment generated sales of \$105.8 million, down 17% from the prior-year quarter. The decline was primarily due to shrinking of the personal navigation device market and lower year-over-year OEM sales.

Revenues by Geography

Americas: Garmin generated sales of \$427.4 million from this region during the reported quarter (50% of net sales), up 13% year over year.

EMEA: This region generated sales of \$299.9 million in the first quarter (35%), up 15% on a year-over-year basis.

APAC: The company generated sales of \$128.8 million from this region (15%), improving 2% from the year-ago quarter.

Operating Results

In the first quarter, gross margin was 59.2%, which expanded 20 basis points (bps) from the year-ago period.

The company's operating expenses of \$329.5 million were up 9.7% from the prior-year quarter. However, as a percentage of revenues, the figure contracted 70 bps year over year to 38.5%.

Operating margin of 20.7% in the reported quarter expanded 90 bps year over year.

Balance Sheet & Cash Flow

As of Mar 28, 2020, cash, cash equivalents and marketable securities came in \$1.44 billion, higher than \$1.40 billion as of Dec 28, 2019.

Inventories were \$790.2 million compared with \$752.9 million in the fourth quarter. We note that the company had no long-term debt in the reported quarter.

Further, the company generated \$225.9 million of cash from operations during the reported quarter compared with \$234.4 million in the prior quarter.

At the end of the first quarter, it generated free cash flow of \$185 million.

Further, Garmin paid dividend worth \$109 million to the shareholders in the first quarter.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	2.11%
EPS Surprise	8.33%
Quarterly EPS	0.91
Annual EPS (TTM)	4.63

Recent News

On **Jan 21, 2020**, garmin launched a GPS smartwatch, Approach S62. Notably, the new sleek watch is designed for golfers. It offers high-sensitivity GPS golf accuracy and takes care of users' fitness activities. The new watch comes with a larger display and longer battery life. It is a 1.3-inch color touchscreen, which is 17% larger than the previous model.

On **Jan 20, 2020**, Garmin introduced a multisport GPS smartwatch — tactix Delta — for outdoor enthusiasts. The device has a 1.4-inch display size and on-device music storage, allowing the user to download up to 2,000 songs.

Valuation

Garmin shares are down 16.8% in the year-to-date period but up 1.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 24.9% and 2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 10.4% but the sector is up 6.9%.

The S&P 500 index is up 16% in the year-to-date period and 0.2% in the past year.

The stock is currently trading at 18.2X forward 12-month earnings, which compares to 15.54X for the Zacks sub-industry, 23.05X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.06X and as low as 11.82X, with a 5-year median of 19.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$85 price target reflects 19.3X forward 12-month earnings.

The table below shows summary valuation data for GRMN

Valuation Multiples - GRMN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.2	15.54	23.05	20.81
	5-Year High	24.06	18.75	23.05	20.81
	5-Year Low	11.82	12.4	16.71	15.19
	5-Year Median	19.12	15.53	19.23	17.44
P/S F12M	Current	4.04	1.17	3.52	3.3
	5-Year High	5.35	1.48	3.59	3.44
	5-Year Low	2.13	0.58	2.32	2.54
	5-Year Median	3.48	1.07	3.1	3.01
EV/EBITDA TTM	Current	14.77	13.96	11.38	10.76
	5-Year High	20.22	18.4	12.85	12.87
	5-Year Low	5.73	8.22	7.56	8.27
	5-Year Median	13.88	12.2	10.63	10.78

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Bottom 47% (134 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Neutral	3
Fitbit, Inc. (FIT)	Neutral	3
Fossil Group, Inc. (FOSL)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
GoPro, Inc. (GPRO)	Neutral	4
Honeywell International Inc. (HON)	Neutral	4
Samsung Electronics Co. (SSNLF)	Neutral	3
Trimble Inc. (TRMB)	Neutral	3

Industry Comparison Industry: Electronics - Miscellaneous Products				Industry Peers
	GRMN	Industry	S&P 500	NA
Zacks Recommendation (Long Term)	NA	-	-	NA
Zacks Rank (Short Term)	NA	-	-	
VGM Score	-	-	-	-
Market Cap	NA	NA	20.61 B	NA
# of Analysts	NA	NA	14	
Dividend Yield	NA	NA	2.11%	%
Value Score	NA	-	-	-
Cash/Price	NA	NA	0.06	NA
EV/EBITDA	NA	NA	11.87	NA
PEG Ratio	NA	NA	2.47	NA
Price/Book (P/B)	NA	NA	2.67	NA
Price/Cash Flow (P/CF)	NA	NA	10.66	NA
P/E (F1)	NA	NA	19.01	NA
Price/Sales (P/S)	NA	NA	2.10	NA
Earnings Yield	NA	NA	5.05%	NA%
Debt/Equity	NA	NA	0.72	NA
Cash Flow (\$/share)	NA	NA	7.01	NA
Growth Score	NA	-	-	NA
Hist. EPS Growth (3-5 yrs)	NA	NA	10.88%	NA
Proj. EPS Growth (F1/F0)	NA	NA	-7.32%	NA
Curr. Cash Flow Growth	NA	NA	5.92%	NA
Hist. Cash Flow Growth (3-5 yrs)	NA	NA	8.55%	NA
Current Ratio	NA	NA	1.23	NA
Debt/Capital	NA	NA	43.84%	NA
Net Margin	NA	NA	11.08%	NA
Return on Equity	NA	NA	16.44%	NA
Sales/Assets	NA	NA	0.54	NA
Proj. Sales Growth (F1/F0)	NA	NA	-1.42%	NA
Momentum Score	NA	-	-	-
Daily Price Chg	NA	NA	-2.39%	NA%
1 Week Price Chg	NA	NA	-1.74%	NA%
4 Week Price Chg	NA	NA	17.07%	NA%
12 Week Price Chg	NA	NA	-18.53%	NA
52 Week Price Chg	NA	NA	-9.82%	NA
20 Day Average Volume	NA	0	2,641,413	0
(F1) EPS Est 1 week change	NA	NA	0.00%	NA
(F1) EPS Est 4 week change	NA	NA	-6.62%	NA
(F1) EPS Est 12 week change	NA	NA	-13.28%	NA
(Q1) EPS Est Mthly Chg	NA	NA	-11.97%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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