

Garmin Ltd. (GRMN)

\$89.38 (As of 03/05/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/16/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Garmin reported strong fourth-quarter results. Strong performance of fitness, outdoor, marine and aviation segments aided results. Garmin is currently riding on product line expansion. It witnessed solid demand for wearables during the reported quarter. Also, solid momentum in the OEM category and benefits from the Tacx buyout were tailwinds. We believe strong focus on continued innovation, diversification and market expansion will aid Garmin's business growth in the near term. 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.

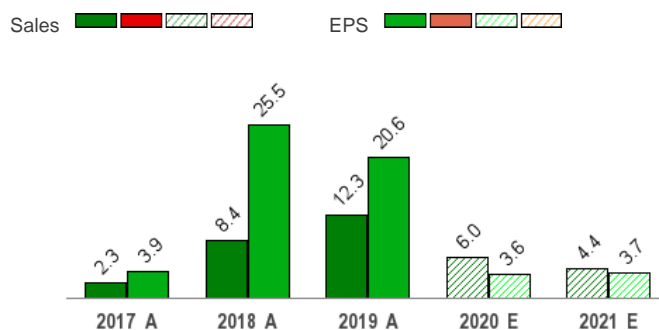
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$105.58 - \$74.29
20 Day Average Volume (sh)	1,066,083
Market Cap	\$17.0 B
YTD Price Change	-8.4%
Beta	1.00
Dividend / Div Yld	\$2.28 / 2.6%
Industry	Electronics - Miscellaneous Products
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.0%
Last Sales Surprise	10.4%
EPS F1 Est- 4 week change	8.0%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	20.1
P/E F1	19.4
PEG F1	2.6
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,157 E
2020	838 E	1,011 E	987 E	1,143 E	3,983 E
2019	766 A	955 A	934 A	1,102 A	3,758 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$1.35 E	\$1.34 E	\$1.41 E	\$4.78 E
2020	\$0.86 E	\$1.23 E	\$1.23 E	\$1.32 E	\$4.61 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 03/05/2020. The reports text is as of 03/06/2020.

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.

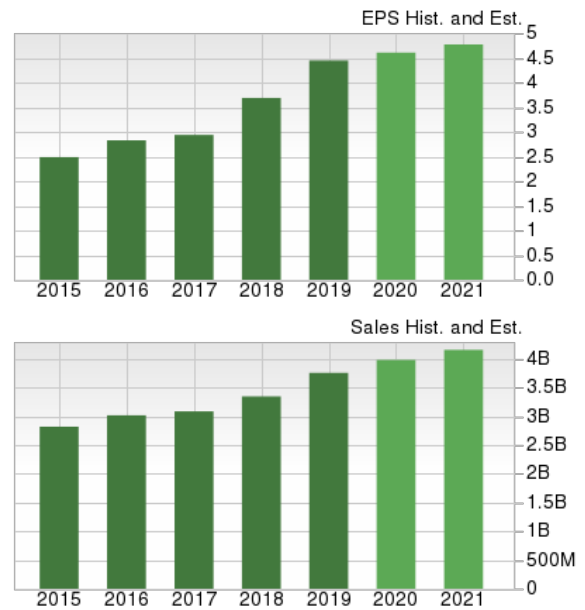
The company's diverse portfolio of handheld, portable and fixed-mount GPS-enabled devices provides geographical location and navigation data using the GPS satellite system

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).

Reasons To Sell:

- ▼ 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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The secular decline in PNDs, macro headwinds, slowing economy, increasing competition and pricing pressures are negatives.

Last Earnings Report

Garmin's Q4 Earnings & Revenues Surpass Estimates

Garmin Ltd. reported fourth-quarter 2019 pro-forma earnings of \$1.29 per share, beating the Zacks Consensus Estimate of \$1.00. Moreover, the figure improved 26% on a year-over-year basis and 1.6% sequentially.

Net sales came in at \$1.102 billion, up 18% from the year-ago quarter and 18% sequentially. The top line also outpaced the Zacks Consensus Estimate of \$998.6 million.

Strong performance of its fitness, outdoor, marine and aviation segments drove the year-over-year top-line growth.

Management is focused on continued innovation, diversification and market expansion to explore growth opportunities in all business segments.

Segmental Revenues

Outdoor (27% of net sales): The segment generated fourth-quarter sales of \$294.8 million, improving 16% year over year. The year-over-year increase was primarily driven by robust demand for Garmin's adventure watches.

Fitness (34%): This segment generated sales of \$372.5 million, which increased 34% from the year-ago quarter. This can be primarily attributed to its well-performing advanced wearables. Further, positive contributions from the Tacx buyout aided top-line growth.

Aviation (18%): The segment generated sales of \$193.1 million, improving 22% on a year-over-year basis. This can be primarily attributed to the well-performing OEM and aftermarket systems.

Marine (11%): Garmin generated sales of \$115.8 million from this segment, increasing 22% on a year-over-year basis. The company witnessed growing demand for chartplotters, advanced sonars and the revolutionary new Force trolling motor during the reported quarter, which in turn drove the segment's topline.

Auto (10%): This segment generated sales of \$126 million, down 15% from the prior-year quarter. The decline was mainly due to shrinking of the personal navigation device market and lower year-over-year OEM sales.

Operating Results

In the fourth quarter, gross margin was 58%, which contracted 90 basis points (bps) from the year-ago period.

The company's operating expenses of \$363 million were up 11% from the prior-year quarter. However, as a percentage of revenues, the figure contracted 210 bps year over year to 32.9%.

Operating margin of 25.1% in the reported quarter expanded 120 bps year over year.

Balance Sheet & Cash Flow

At the end of the fourth quarter, cash, cash equivalents and marketable securities came in \$1.40 billion, higher than \$1.28 billion in the third quarter.

Inventories were \$752.9 million compared with \$749.8 million in the third quarter. We note that the company had no long-term debt in the reported quarter.

At the end of the fourth quarter, it generated free cash flow of \$208 million.

2020 Guidance

For 2020, Garmin issued its guidance for pro-forma earnings of \$4.60 per share.

The company expects revenues to be \$4 billion.

It expects gross and operating margins to be 59.2% and 23.5%, respectively, for 2020.

Quarter Ending 12/2019

Report Date	Feb 19, 2020
Sales Surprise	10.38%
EPS Surprise	29.00%
Quarterly EPS	1.29
Annual EPS (TTM)	4.45

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 up 24.3% in the six-month period and 20.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 12.3% and 22.1% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 25% and the sector is up 27.8%.

The S&P 500 index is up 16% in the six-month period and 20% in the past year.

The stock is currently trading at 19.25X forward 12-month earnings, which compares to 15.57X for the Zacks sub-industry, 21.09X for the Zacks sector and 17.89X 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 \$94 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	19.25	15.57	21.09	17.89
	5-Year High	24.06	18.75	22.04	19.34
	5-Year Low	11.82	12.4	16.87	15.18
	5-Year Median	19.12	15.8	19.33	17.46
P/S F12M	Current	4.24	1.32	3.49	3.24
	5-Year High	5.35	1.48	3.58	3.4
	5-Year Low	2.13	0.58	2.3	2.54
	5-Year Median	3.44	1.06	3.05	2.99
EV/EBITDA TTM	Current	17.03	12.71	11.27	10.93
	5-Year High	19.37	18.4	12.61	12.88
	5-Year Low	5.78	8.32	7.68	8.48
	5-Year Median	13.8	11.37	10.55	10.79

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Samsung Electronics Co. (SSNLF)	Outperform
Fitbit, Inc. (FIT)	Neutral
Fossil Group, Inc. (FOSL)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Honeywell International Inc. (HON)	Neutral
Trimble Inc. (TRMB)	Neutral
GoPro, Inc. (GPRO)	Underperform

Industry Comparison Industry: Electronics - Miscellaneous Products				Industry Peers		
	GRMN Neutral	X Industry	S&P 500	AAPL Outperform	FIT Neutral	GOOGL Neutral
VGM Score	D	-	-	D	F	C
Market Cap	17.04 B	191.61 M	21.47 B	1,281.67 B	1.49 B	903.61 B
# of Analysts	5	2.5	13	11	2	14
Dividend Yield	2.55%	0.00%	2.04%	1.05%	0.00%	0.00%
Value Score	D	-	-	D	D	C
Cash/Price	0.08	0.13	0.05	0.09	0.33	0.13
EV/EBITDA	14.35	5.43	12.81	16.19	-8.86	15.54
PEG Ratio	2.64	1.56	1.88	2.05	NA	1.47
Price/Book (P/B)	3.69	1.58	2.95	14.31	2.96	4.49
Price/Cash Flow (P/CF)	18.54	10.91	11.75	19.20	NA	18.93
P/E (F1)	19.39	18.98	17.19	21.57	NA	24.18
Price/Sales (P/S)	4.54	0.89	2.32	4.79	1.04	5.58
Earnings Yield	5.16%	5.16%	5.81%	4.64%	-5.40%	4.14%
Debt/Equity	0.01	0.11	0.70	1.04	0.14	0.07
Cash Flow (\$/share)	4.82	0.89	7.01	15.26	-0.64	69.45
Growth Score	D	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	10.62%	1.55%	10.85%	9.54%	NA	24.24%
Proj. EPS Growth (F1/F0)	3.60%	10.02%	6.27%	14.19%	34.31%	10.60%
Curr. Cash Flow Growth	19.85%	-1.71%	6.07%	-3.74%	82.30%	12.62%
Hist. Cash Flow Growth (3-5 yrs)	7.04%	1.39%	8.52%	7.40%	-19.33%	19.91%
Current Ratio	2.95	1.94	1.23	1.60	1.46	3.37
Debt/Capital	1.02%	19.08%	42.57%	50.97%	12.23%	6.83%
Net Margin	25.35%	0.48%	11.69%	21.49%	-22.35%	21.22%
Return on Equity	19.26%	3.76%	16.66%	60.19%	-35.35%	18.66%
Sales/Assets	0.66	0.99	0.54	0.80	1.06	0.62
Proj. Sales Growth (F1/F0)	5.99%	0.00%	3.90%	8.22%	2.18%	17.54%
Momentum Score	B	-	-	F	C	D
Daily Price Chg	-4.31%	-1.98%	-3.79%	-3.24%	-2.63%	-4.84%
1 Week Price Chg	-8.48%	-9.05%	-12.06%	-12.68%	-0.93%	-9.72%
4 Week Price Chg	-8.66%	-11.88%	-10.92%	-9.93%	-5.12%	-10.92%
12 Week Price Chg	-8.59%	-8.61%	-8.10%	7.91%	-5.41%	-2.50%
52 Week Price Chg	7.67%	-1.96%	4.09%	69.81%	9.57%	14.24%
20 Day Average Volume	1,066,083	33,856	2,483,920	44,414,352	6,055,647	2,007,562
(F1) EPS Est 1 week change	-0.13%	0.00%	0.00%	-0.51%	0.00%	-0.31%
(F1) EPS Est 4 week change	8.01%	0.00%	-0.06%	-1.17%	-10.47%	-0.51%
(F1) EPS Est 12 week change	7.58%	-2.27%	-0.42%	3.90%	-14.14%	-0.57%
(Q1) EPS Est Mthly Chg	0.23%	0.00%	-0.29%	-9.94%	-16.13%	-0.46%

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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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