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Feb 18, 2020

Garmin Ltd. (GRMN)

$98.18 (As of 02/17/20)

Price Target (6-12 Months): **$103.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/16/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C | Momentum: D	

Summary

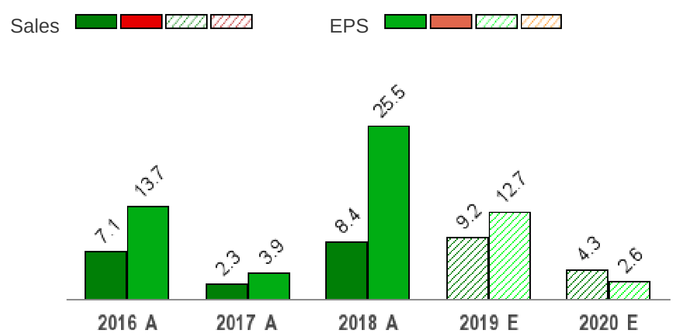
Garmin is currently riding on product line expansion. Further, solid momentum across the company's fitness, marine, outdoor and aviation segments continues to drive its top-line growth. We believe strong focus of Garmin on continued innovation, diversification and market expansion to explore growth opportunities in all its segments will continue to aid its business growth. Chartplotters, advanced sonars and cartography among the new products are gaining traction in the market. Notably, shares of Garmin have outperformed the industry it belongs to in the past year. However, Garmin's weak personal navigation device (PND) market remains a concern. Further, macroeconomic headwinds and seasonality are risks.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$102.42 - $70.86**
20 Day Average Volume (sh)	**659,499**
Market Cap	**$19.4 B**
YTD Price Change	**0.6%**
Beta	**0.90**
Dividend / Div Yld	**$2.28 / 2.3%**
Industry	**Electronics - Miscellaneous Products**
Zacks Industry Rank	**Top 23% (58 out of 255)**
Last EPS Surprise	**35.1%**
Last Sales Surprise	**8.2%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/19/2020**
Earnings ESP	**0.0%**
P/E TTM	**23.5**
P/E F1	**23.0**
PEG F1	**3.1**
P/S TTM	**5.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020					3,813 E
2019	766 A	955 A	934 A	999 E	3,655 E
2018	711 A	894 A	810 A	932 A	3,347 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.86 E	$1.20 E	$1.18 E	$1.08 E	$4.27 E
2019	$0.73 A	$1.16 A	$1.27 A	$1.00 E	$4.16 E
2018	$0.68 A	$0.99 A	$1.00 A	$1.02 A	$3.69 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 02/17/2020. The reports text is as of 02/18/2020.

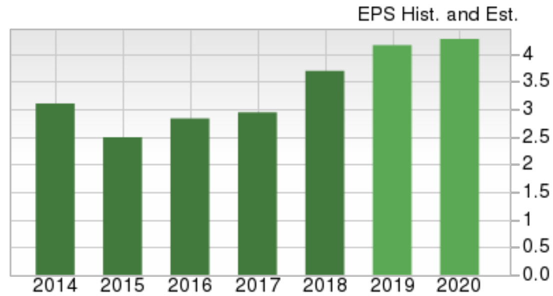
Overview

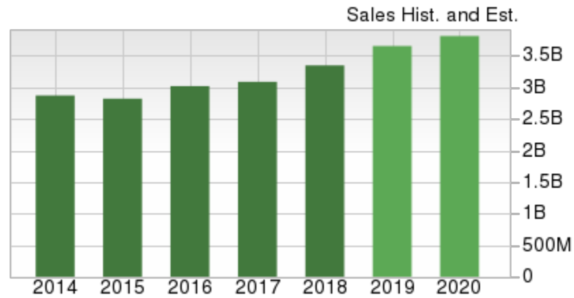
Olathe, Kansas-based, Garmin, Ltd. is an original equipment manufacturer (OEM) of navigation and communication equipment that incorporate the global positioning system (GPS)-based technology.

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 $3.35 billion in 2018. The company report operations under five segments—Outdoor, Fitness, Marine, Auto and Aviation, which generated 24%, 26%, 13%, 19% and 18% 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. However, no single customer generated over 10% of its revenue in 2018. The top ten customers have been accounting for 22-24% of total sales since 2018.

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-enebaled wearables gaining traction in the market. Gross margin from this segment came in 55% in 2018. 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. Gross margin from this segment stood at 65% in 2018.

▲ 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 Qickdraw 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. Gross margin from this segment stood at 59% in 2018. 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). Transition to the ADS-B transponders must be completed by 2019.

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.

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

- 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.

Last Earnings Report

Garmin's Q3 Earnings & Revenues Surpass Estimates

Quarter Ending	09/2019
Report Date	Oct 30, 2019
Sales Surprise	8.16%
EPS Surprise	35.11%
Quarterly EPS	1.27
Annual EPS (TTM)	4.18

Garmin Ltd. reported third-quarter 2019 pro-forma earnings of $1.27 per share, beating the Zacks Consensus Estimate of 94 cents. Moreover, the figure improved 27% on a year-over-year basis and 9.5% sequentially.

Net sales came in $934.38 million, up 15% from the year-ago quarter but down 2.1% from the third quarter. The top line outpaced the Zacks Consensus Estimate of $863.92 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 its business segments.

Segmental Revenues

Outdoor (28% of net sales): The segment generated third-quarter sales of$258.3 million, improving 23% year over year. The year-over-year increase was primarilydriven by robust demand for Garmin's adventure watches.

Fitness (26%): This segment generated sales of $243.1 million, which increased 28% from the year-ago quarter. This can be primarily attributed to its well-performing running wearables. Further, positive contributions from the Tacx buyout were positives.

Aviation (20%): The segment generated sales of $187.6 million, improving 28% on a year-over-year basis. This can be primarily attributed to the well-performing OEM and aftermarket systems. Further, the company's solid momentum in the OEM category contributed to the impressive results.

Marine (12%): Garmin generated sales of $107.7 million from this segment, increasing 9% on a year-over-year basis. The company witnessed growing demand for chartplotters during the reported quarter ,in turn driving the segment's topline.

Auto (14%): This segment generated sales of $137.7 million, down 17% from the prior-year quarter. The decline was mainly due to shrinking of the personal navigation device market.

Revenues by Geography

Americas: Garmin generated sales of $439.1 million (47% of net sales) from this region during the reported quarter, up 19% year over year.

EMEA: This region generated sales of $344.01 million (37%), up 12% on a year-over-year basis.

APAC: The company generated sales of $151.3 million (16%) from this region, increasing 14% from the year-ago quarter.

Operating Results

In the third quarter, gross margin was 60.7%, which expanded 130 basis points (bps) from the year-ago period.

The company's operating expenses of $306 million were up 7.4% from the prior-year quarter. However, as a percentage of revenues, the figure contracted 240 bps year over year to 32.7%

Additionally, operating margin of 28% in the reported quarter expanded 380 bps year over year.

Balance Sheet & Cash Flow

At the end of the third quarter, cash, cash equivalents and marketable securities came in $1.28 billion, higher than $1.06 billion in the second quarter.

Inventories were $749.8 million compared with $648.1 million in the second quarter. We note that the company had no long-term debt in the reported quarter.

At the end of the third quarter, the company generated cash flow of $189 million from operating activities. Free cash flow totaled $158 million.

2019 Guidance

For 2019, Garmin has raised its guidance for pro-forma earnings from $3.90 to $4.15 per share.

Further, the company also upwardly revised its view for revenues from $3.6 billion to $3.65 billion.

This upward revisionis primarily attributed to rise in growth estimates for revenues in aviation, fitness and outdoor segments. For aviation, growth is now projected at 20%, higher than the previous estimate of 17%. Further, growth estimate for fitness jumped from 13% to 16%.

Additionally, the percentage of decline in the auto segment remains unchanged at 15%.

Further, the company expects gross and operating marginsto be 59.5% and 24.3%, respectively, for 2019.

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 25.6% in the past six-month period and 38.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 14.6% and 22.4% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is up 31.5% and the sector is up 29.4%.

The S&P 500 index is up 23.2% in the past six-month period and 20.7% in the past year.

The stock is currently trading at 22.79X forward 12-month earnings, which compares to 17.21X for the Zacks sub-industry, 23.15X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.02X and as low as 11.82X, with a 5-year median of 19.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $103 price target reflects 23.95X 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	22.79	17.21	23.15	19.35
	5-Year High	24.02	18.75	23.15	19.35
	5-Year Low	11.82	12.4	16.87	15.18
	5-Year Median	19.1	15.9	19.32	17.47
P/S F12M	Current	5.07	1.33	3.79	3.58
	5-Year High	5.33	1.48	3.79	3.58
	5-Year Low	2.13	0.58	2.3	2.54
	5-Year Median	3.43	1.04	3.02	3
EV/EBITDA TTM	Current	18.05	15.29	13.02	12.31
	5-Year High	18.33	18.4	13.02	12.85
	5-Year Low	5.78	8.32	7.68	8.47
	5-Year Median	13.63	11.33	10.53	10.7

As of 02/14/2020

Industry Analysis **Zacks Industry Rank:** Top 23% (58 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
GoPro, Inc. **(GPRO)**	Neutral
Honeywell International Inc. **(HON)**	Neutral
Trimble Inc. **(TRMB)**	Neutral

Industry Comparison Industry: Electronics - Miscellaneous Products

Industry Peers

	GRMN Neutral	X Industry	S&P 500	AAPL Outperform	FIT Neutral	GOOGL Neutral
VGM Score	D	-	-	C	F	B
Market Cap	19.45 B	244.44 M	24.61 B	1,421.81 B	1.47 B	1,043.80 B
# of Analysts	5	2.5	13	11	3	14
Dividend Yield	2.32%	0.00%	1.78%	0.95%	0.00%	0.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.07	0.09	0.04	0.08	0.33	0.12
EV/EBITDA	19.81	6.23	14.06	17.98	-8.73	18.26
PEG Ratio	3.14	1.72	2.09	2.25	NA	1.69
Price/Book (P/B)	4.44	1.80	3.29	15.88	2.49	5.18
Price/Cash Flow (P/CF)	24.41	10.25	13.65	21.29	NA	21.87
P/E (F1)	23.07	20.69	19.21	23.59	NA	27.72
Price/Sales (P/S)	5.42	0.89	2.70	5.31	0.98	6.45
Earnings Yield	4.35%	4.77%	5.19%	4.24%	-3.74%	3.61%
Debt/Equity	0.01	0.11	0.71	1.04	0.12	0.07
Cash Flow ($/share)	4.02	1.09	6.92	15.26	-0.37	69.45
Growth Score	C	-	-	B	F	A
Hist. EPS Growth (3-5 yrs)	8.15%	1.55%	10.85%	9.54%	NA	24.24%
Proj. EPS Growth (F1/F0)	2.69%	10.02%	7.17%	15.87%	32.39%	11.44%
Curr. Cash Flow Growth	24.18%	-0.51%	8.56%	-3.74%	-19.61%	12.62%
Hist. Cash Flow Growth (3-5 yrs)	6.09%	2.38%	8.36%	7.40%	-19.33%	19.91%
Current Ratio	2.64	1.94	1.23	1.60	1.65	3.37
Debt/Capital	0.97%	19.08%	42.91%	50.97%	10.65%	6.83%
Net Margin	21.79%	0.40%	11.81%	21.49%	-12.27%	21.22%
Return on Equity	18.73%	5.83%	16.86%	60.19%	-21.76%	18.66%
Sales/Assets	0.65	1.02	0.54	0.80	1.08	0.62
Proj. Sales Growth (F1/F0)	4.33%	0.00%	3.85%	9.54%	2.13%	17.81%
Momentum Score	D	-	-	D	C	A
Daily Price Chg	-0.12%	-0.01%	0.06%	0.02%	-1.23%	0.35%
1 Week Price Chg	-0.77%	0.00%	2.47%	3.40%	1.84%	3.23%
4 Week Price Chg	-0.29%	-4.23%	0.59%	3.08%	-2.58%	4.73%
12 Week Price Chg	0.10%	-0.04%	6.98%	24.02%	-3.89%	16.81%
52 Week Price Chg	37.53%	1.76%	16.62%	90.25%	-0.77%	34.50%
20 Day Average Volume	659,499	32,525	2,020,569	31,657,334	4,545,993	1,850,667
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.23%	-2.36%	0.51%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	4.73%	-5.76%	0.06%
(F1) EPS Est 12 week change	0.99%	0.00%	-0.17%	5.50%	3.26%	0.19%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	5.29%	-1.61%	-0.75%

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	C
Momentum Score	D
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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