



# GARMIN®

## Q1 2017 Earnings - May 3, 2017



# Safe Harbor Statement

These materials include projections and other forward-looking statements. These statements are based on the current expectations of Garmin Ltd. and are naturally subject to uncertainty and changes in circumstances. Forward-looking statements include, without limitation, statements containing words such as "proposed" and "intends" or "intended" and "expects" or "expected." Any statements regarding the Company's GAAP and pro forma estimated earnings, EPS, and effective tax rate, and the Company's expected segment revenue growth rates, consolidated revenue, gross margins, operating margins, currency movements, expenses, pricing, new products to be introduced in 2017, statements relating to possible future dividends and the Company's plans and objectives are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. These factors include those discussed or identified in the filing by Garmin Ltd. with the U.S. Securities and Exchange Commission in its Annual Report on Form 10-K. Garmin Ltd. does not undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

# Business Update

Cliff Pemble  
President and CEO

# 1st Quarter Financial Review

**First quarter revenue growth and improved gross margins contribute to double digit operating income growth**

- Consolidated revenue of \$639 million, up 2%
- Marine, outdoor, aviation and fitness segments combined grew 12% and contributed 75% of total revenue
- Gross and operating margin improved to 58.3% and 18.2%, respectively
- Operating income growth of 12%
- GAAP EPS of \$1.26 and pro forma EPS of \$0.52
- Maintaining 2017 guidance

# Marine

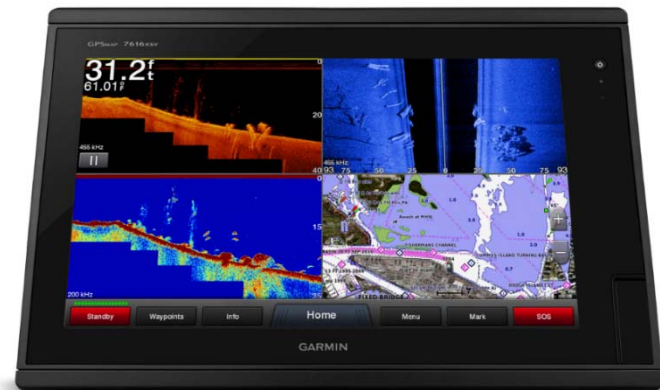
## 1<sup>st</sup> Quarter Business Review

- Robust revenue growth of 26% with growth across multiple product categories
- Gross margin and operating margin of 57% and 17%, respectively
- Operating income growth of 76%



## Market/Product Update

- Began shipping the latest GPSMAP chartplotters
- Additional market share gains in the inland fishing market





# Outdoor

## 1<sup>st</sup> Quarter Business Review

- Strong revenue growth of 20%; led by demand for wearables
- Gross margin and operating margin of 63% and 30%, respectively
- Operating income growth of 24%

## Market/Product Update

- Began shipping the highly anticipated fēnix 5 adventure watch series late in the quarter and expect continued channel fill through the second quarter
- Began shipping the first Garmin branded inReach satellite communication technology handheld



# Aviation

## 1<sup>st</sup> Quarter Business Review

- Solid revenue growth of 16% driven by aftermarket products
- Gross margin and operating margin of 74% and 31%, respectively
- Operating income growth of 27%

## Market/Product Update

- Began shipping the G1000 NXi, the next generation integrated flight deck
- Continued work with our OEM partners in the completion of aircraft and helicopter certifications and system enhancements
- Capitalize on ADS-B and global regulatory mandate opportunities



# Fitness

## 1<sup>st</sup> Quarter Business Review

- Revenue decline of 3% driven by the rapidly maturing market for basic activity trackers
- Gross and operating margin of 56% and 13%, respectively
- Operating income growth of 11%



## Market/Product Update

- Launched the Forerunner 935 advanced multisport watch and introduced the ultra-slim vivosmart 3 with all-day stress tracking
- Focus is on growth opportunities in advanced wearables





# Auto

## 1<sup>st</sup> Quarter Business Review

- Revenue declined 19%
- Gross and operating margin of 44% and 4%, respectively
- Global PND market share remains strong

## Market/Product Update

- Began shipping the next generation Drive series PNDs and introduced the Dash Cam 45 and 55, high-quality recording in a compact form factor
- Focus on growth opportunities in OEM and innovative camera solutions



# Financial Update

Doug Boessen  
CFO and Treasurer

# Q1 Income Statement

(\$ Millions)	Q1 2017	Q1 2016	Change
<b>Revenue</b>	<b>\$639</b>	<b>\$624</b>	<b>2%</b>
Gross Profit	372	340	9%
<b>Gross Margin %</b>	<b>58.3%</b>	<b>54.5%</b>	<b>380 bps</b>
Total Operating Expense	256	236	8%
Operating Income	116	104	12%
<b>Operating Margin %</b>	<b>18.2%</b>	<b>16.6%</b>	<b>160 bps</b>
Other Income	(29)	4	
Income Tax	150	(19)	
<b>Net Income (GAAP)</b>	<b>238</b>	<b>88</b>	<b>170%</b>
<b>Net Income (Pro-Forma)</b>	<b>99</b>	<b>92</b>	<b>7%</b>
<b>EPS (GAAP)</b>	<b>\$1.26</b>	<b>\$0.46</b>	<b>171%</b>
<b>EPS (Pro-Forma)</b>	<b>\$0.52</b>	<b>\$0.49</b>	<b>7%</b>

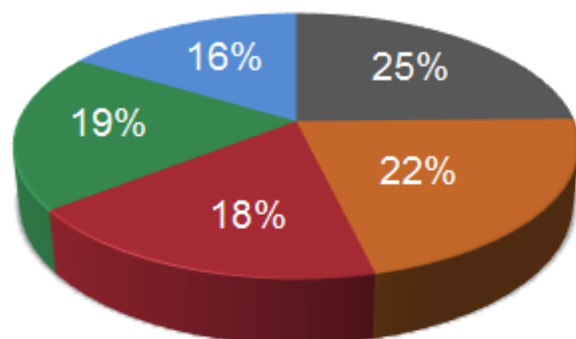
# Q1 Revenue

Q1 Revenue by Segment			
(\$ M)	2017	2016	Change
Marine	\$104	\$83	26%
Outdoor	116	97	20%
Aviation	123	106	16%
Fitness	138	142	(3%)
Auto	158	196	(19%)
<b>Total</b>	<b>\$639</b>	<b>\$624</b>	<b>2%</b>



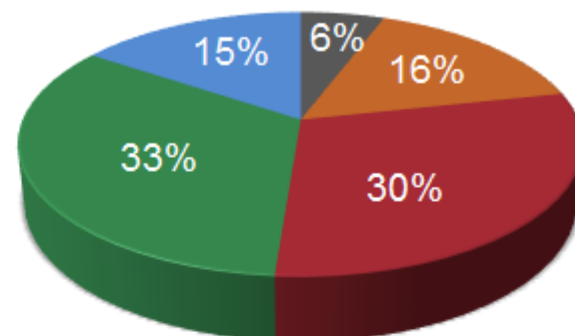
# Q1 Revenue & Operating Income

**Q1 2017 Revenue**



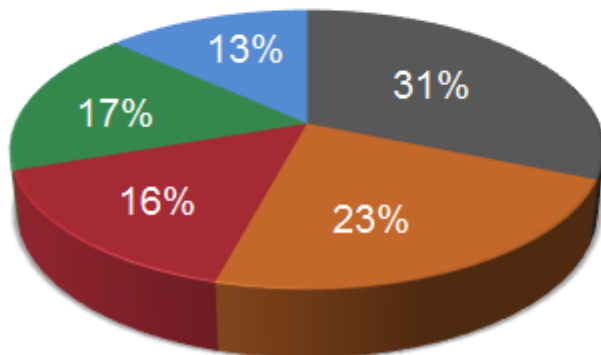
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**Q1 2017 Operating Income**



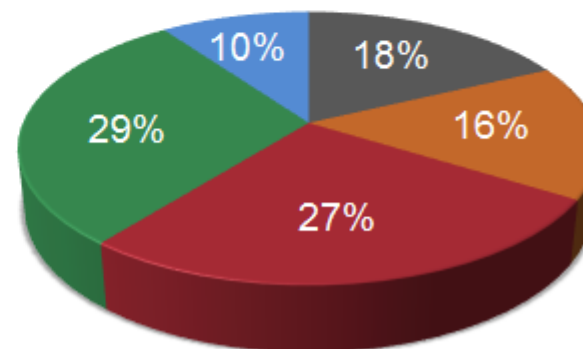
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**Q1 2016 Revenue**



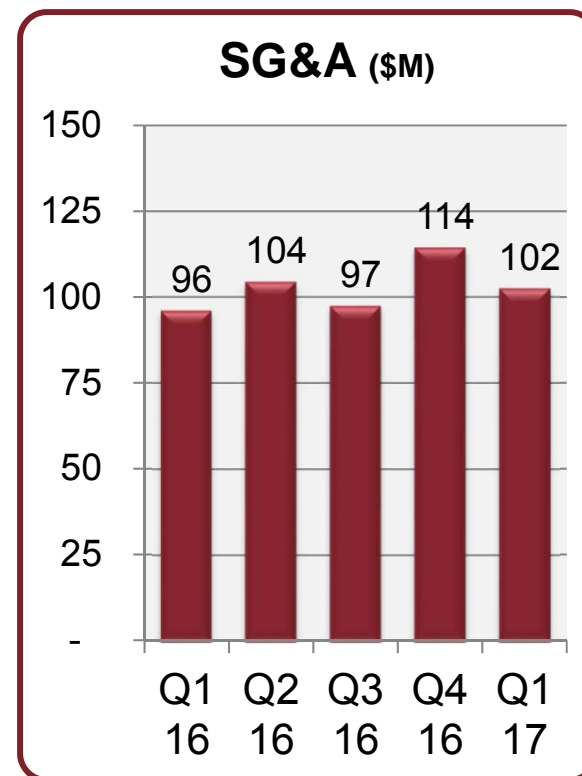
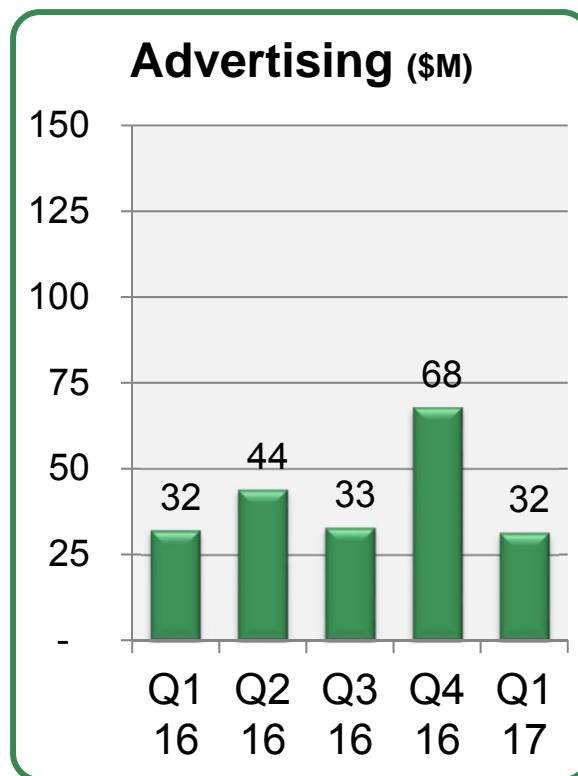
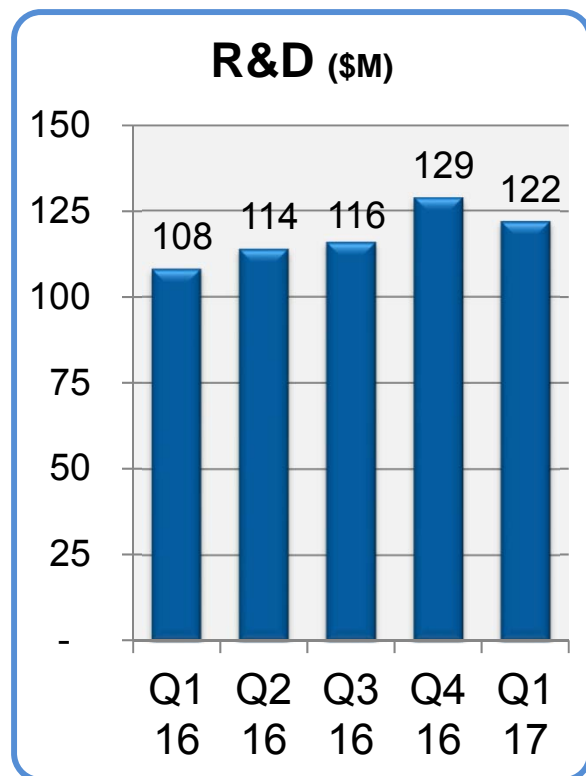
■ Auto ■ Fitness ■ Outdoor ■ Aviation ■ Marine

**Q1 2016 Operating Income**



■ Auto ■ Fitness ■ Outdoor ■ Aviation ■ Marine

# Operating Expenses



# Balance Sheet/Cash Flow

## **Balance Sheet**

- Ended quarter with approximately \$2.3 billion of cash and marketable securities
- Accounts receivable declined sequentially as expected following the seasonally strong fourth quarter
- Inventory balance increased on a sequential and year-over-year basis in preparation for the seasonally strong second quarter

## **Cash Flow**

- Generated \$95 million of free cash flow in Q1 2017
- Repurchased approximately \$28 million of company stock in Q1 2017
- Approximately \$47 million remaining in the Share Repurchase Program, which was extended through December 31, 2017
- Management expects to repurchase Company stock during 2017 as business and market conditions warrant

# Taxes

- Reported a \$150 million income tax benefit
  - Includes a \$169 million income tax benefit due to the revaluation of certain Switzerland deferred tax assets
- Excluding the \$169 million income tax benefit, the Q1 2017 pro forma effective tax rate of 21.3% compared to 18.1% in Q1 2016
  - The increase is primarily due to the Company's election to align certain Switzerland tax positions
- Maintain our full year 2017 pro forma effective tax rate guidance of ~22%





# GARMIN®

## Q1 2017 Earnings - May 3, 2017



# **Appendix**

## **May 3, 2017**

## Pro forma effective tax rate

The Company's income tax expense is periodically impacted by discrete tax items that are not reflective of income tax expense incurred as a result of current period earnings. Therefore, the effective tax rate and tax provision before the effect of such discrete tax items are important measures in order to permit consistent comparison between periods. In fiscal 2016, there were no such discrete tax items identified.

**Garmin Ltd. And Subsidiaries**  
**Effective tax rate (Pro Forma)**  
(in thousands, except effective tax rate (ETR) information)

	<b>13-Weeks Ended</b>	
	<b>April 1,</b>	
	<b>2017</b>	
	<b>\$</b>	<b>ETR<sup>(1)</sup></b>
GAAP income tax (benefit) provision	(\$150,120)	(171.2%)
Discrete tax items:		
Revaluation of deferred tax asset <sup>(2)</sup>	168,755	
Total discrete tax items	168,755	
Income tax provision (Pro Forma)	\$18,635	21.3%

<sup>(1)</sup> Effective tax rate is calculated by taking the Income tax provision divided by Income before taxes, as presented on the face of the Condensed Consolidated Statements of Income.

<sup>(2)</sup> In first quarter 2017, a \$169 million tax benefit was recognized resulting from the revaluation of certain Switzerland deferred tax assets. The revaluation is due to the Company's election in February 2017 to align certain Switzerland corporate tax positions with international tax initiatives. As this revaluation is not reflective of income tax expense incurred related to the current period earnings, and therefore affects period to period comparability, it has been identified as a discrete tax item.

## Pro forma net income (earnings) per share

Management believes that net income (earnings) per share before the impact of foreign currency gain or loss and certain discrete income tax items, as discussed in the Pro Forma Effective Tax Rate section, is an important measure in order to permit a consistent comparison of the Company's performance between periods

	13-Weeks Ended	
	April 1, 2017	March 26, 2016
Net Income (GAAP)	\$237,812	\$88,092
Foreign currency losses <sup>(1)</sup>	37,497	4,839
Tax effect of foreign currency losses <sup>(2)</sup>	(7,969)	(876)
Discrete tax items <sup>(3)</sup>	(168,755)	-
Net income (Pro Forma)	\$98,585	\$92,055
Net income per share (GAAP):		
Basic	\$1.26	\$0.46
Diluted	\$1.26	\$0.46
Net income per share (Pro Forma):		
Basic	\$0.52	\$0.49
Diluted	\$0.52	\$0.49
Weighted average common shares outstanding:		
Basic	188,333	189,497
Diluted (GAAP)	189,031	189,651

(1) The majority of the Company's consolidated foreign currency gains and losses are typically driven by movements in the Taiwan Dollar, Euro, and British Pound Sterling in relation to the U.S. Dollar and the related exchange rate impact on the significant cash, receivables, and payables held in a currency other than the functional currency at one of the Company's subsidiaries. However, there is minimal cash impact from such foreign currency gains and losses.

(2) The tax effect of foreign currency gains and losses was calculated using the pro forma effective tax rate of 21.3% and an effective tax rate of 18.1% for the first quarters of 2017 and 2016, respectively.

(3) The discrete tax items are discussed in the Pro forma Effective Tax Rate section above.



## ***Free Cash Flow***

Management believes that free cash flow is an important financial measure because it represents the amount of cash provided by operations that is available for investing and defines it as operating cash flow less capital expenditures for property and equipment.

	<b>13-Weeks Ended</b>	
	<b>April 1, 2017</b>	<b>March 26, 2016</b>
Net cash provided by operating activities	\$120,395	\$129,387
Less: purchases of property and equipment	(25,538)	(13,908)
Free Cash Flow	<u>\$94,857</u>	<u>\$115,479</u>

## ***Forward-looking pro forma tax rate***

Forward-looking pro forma tax rate and pro forma earnings per share are calculated before the effect of certain discrete tax items. Management believes certain discrete tax items may not be reflective of income tax expense incurred related to current period earnings. Therefore, in order to permit consistent comparison between periods, earnings per share before the effect of such discrete tax items are an important measure. In fiscal 2017, management believes certain discrete tax items will be recognized on a GAAP-basis, that will have an effect on the EPS comparability between periods:

- The fiscal 2017 pro forma EPS excludes certain tax effects from share-based compensation as a result of Accounting Standards Update No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting (“ASU 2016-09”), which may have a material effect on the GAAP-basis effective tax rate. However, the Company is unable to project these amounts due to the dependency of this item on the underlying share price of the Company. The tax effect of ASU 2016-09 was immaterial for the 13-weeks ended April 1, 2017.
- The fiscal 2017 pro forma EPS excludes the \$169 million income tax benefit resulting from the revaluation of certain Switzerland deferred tax assets as discussed in the Pro Forma Effective Tax Rate section above. The impact of this discrete tax item was (\$0.89) per share for the 13-weeks ended April 1, 2017.

While management expects the above to have a significant impact on comparability, management is unable to determine if additional significant discrete tax items will be identified in fiscal 2017.

## ***Forward-looking pro forma earnings per share (EPS)***

In addition to the discrete tax items discussed in the forward-looking pro forma tax rate section above, our 2017 pro forma EPS excludes foreign currency exchange gains and losses.

As discussed in the Pro Forma Net Income (Earnings) Per Share section, management believes that net income (earnings) per share before the impact of foreign currency gains or losses is an important measure in order to permit a consistent comparison of the Company's performance between periods. The estimated impact of such foreign currency gains and losses cannot be reasonably estimated on a forward-looking basis due to the high variability and low visibility with respect to non-operating foreign currency exchange gains and losses and the related tax effects of such gains and losses. The impact of such foreign currency gains and losses, net of tax effects, was \$0.16 per share for the 13-weeks ended April 1, 2017.