



# GARMIN®

**Q2 2018 Earnings**  
**August 1, 2018**

# 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 Garmin's revenue, operating earnings, pro forma tax rate and pro forma EPS for fiscal 2018, Garmin's expected segment revenue growth rates, margins, currency movements, expenses, pricing, new products to be introduced in 2018 and Garmin'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

# 2nd Quarter Financial Review

- Consolidated revenue of \$894 million, up 8%
- Fitness, marine, aviation and outdoor segments on a combined basis grew 17% and contributed 80% of total revenue
- Gross and operating margin of 58.5% and 24.3%, respectively
- Operating income of \$218 million, growth of 4%
- GAAP EPS of \$1.00 and pro forma EPS of \$0.99
- Raising guidance on strong first half 2018 results

# Fitness

## 2<sup>nd</sup> Quarter Business Review

- Robust revenue growth of 24% driven by growth of our advanced wearables and cycling
- Gross and operating margin of 56% and 23%, respectively
- Operating income growth of 40%

## Market/Product Update

- Launched the vívoactive 3 music, expanding our music offering into the advanced wellness category
- Launched several new cycling products including the Edge 130, Edge 520 Plus and Varia RTL510



**GARMIN**

# Marine

## 2<sup>nd</sup> Quarter Business Review

- Robust revenue growth of 24%, driven by growth across multiple product categories and our Navionics acquisition
- Gross and operating margin of 59% and 21%, respectively
- Operating income growth of 14%

## Market/Product Update

- Announced the Panoptix LiveScope, the first and only live scanning sonar for recreational fishing
- Selected as the exclusive marine electronics supplier to Sportsman Boats



# Aviation

## 2<sup>nd</sup> Quarter Business Review

- Robust revenue growth of 23%
- Gross and operating margin of 74% and 34%, respectively
- Operating income growth of 34%

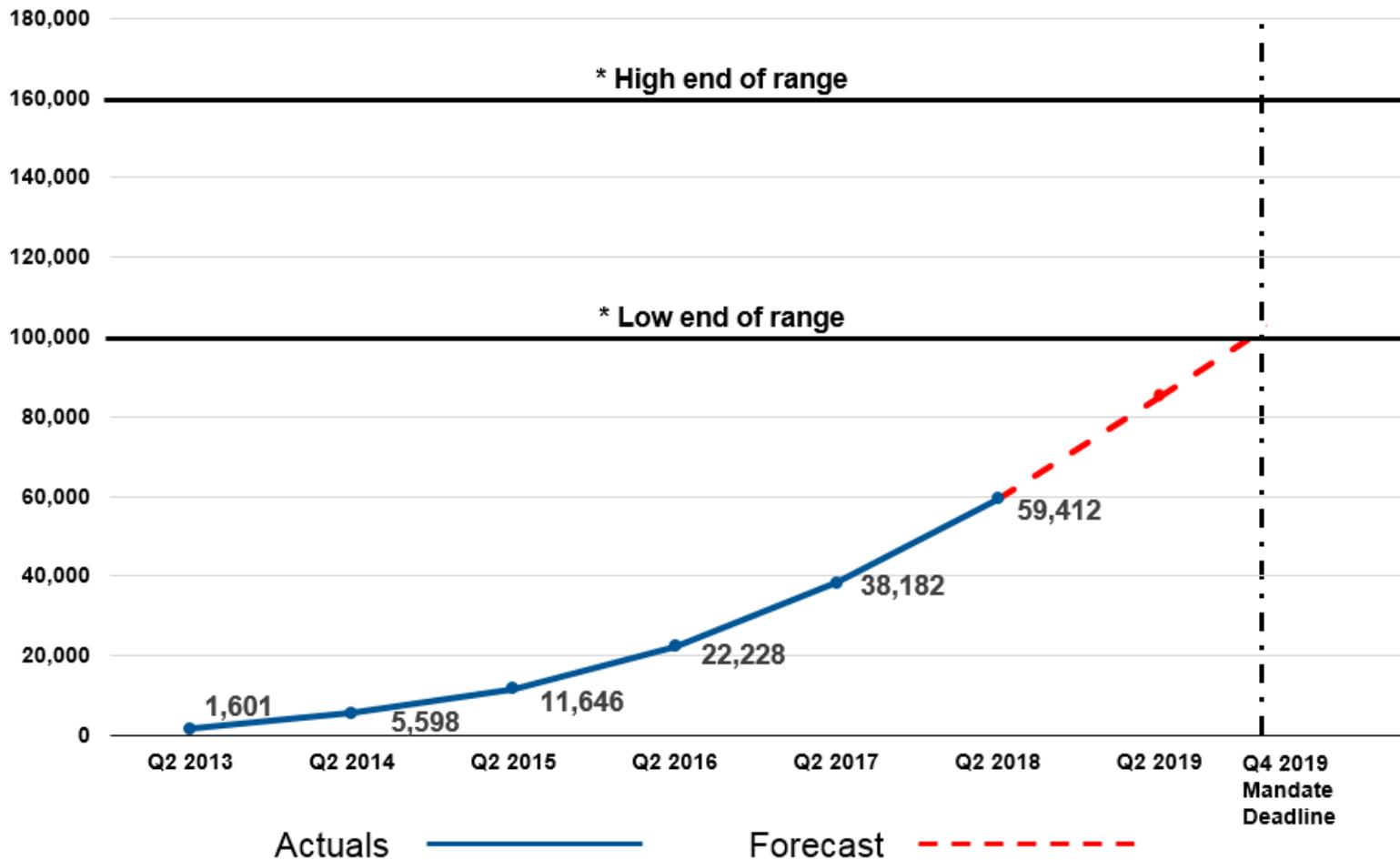
## Market/Product Update

- Selected by Tactical Air Support to provide tandem integrated flight deck to their fleet of supersonic F-5 fighter aircraft
- Introduced the G3000H integrated flight deck for the Part 27 turbine helicopter market



# ADS-B Update

## All US Aircraft Equipage



\* High and low ranges per FAA estimates

# Outdoor

## 2<sup>nd</sup> Quarter Business Review

- Revenue growth of 4% with growth across all product categories
- Gross margin and operating margin of 64% and 36%, respectively

## Market/Product Update

- Launched the fēnix 5 Plus series adding music, Garmin Pay and color mapping to all three watch sizes and expanding our sensor technology with the addition of Pulse Ox to the fēnix 5X Plus
- Launched the inReach Mini, a compact satellite communicator



# Auto

## 2<sup>nd</sup> Quarter Business Review

- Revenue declined 19%
- Gross and operating margin of 42% and 7%, respectively

## Market/Product Update

- Global PND market share remains strong



# 2018 Guidance

	<b>2018 Updated</b>	<b>2018 Prior</b>
Revenue	~\$3.3 B	~\$3.2 B
Gross Margin	~58.5%	~58.5%
Operating Margin	~21.5%	~21.0%
Tax Rate (Pro Forma)	~17.5%	~19.0%
EPS (Pro Forma)	~\$3.30	~\$3.05

# 2018 Guidance

Segment	Updated Revenue Growth	Prior Revenue Growth
Aviation	~18%	~13%
Marine	~15%	~18%
Outdoor	~13%	~13%
Fitness	~10%	~0%
Auto*	~(17%)	~(17%)

\* Guidance for the auto segment revenue growth assumes the adoption of the new revenue recognition standard in 2018 and restatement of 2017 amounts.

# Financial Update

Doug Boessen  
CFO and Treasurer

# Q2 Income Statement

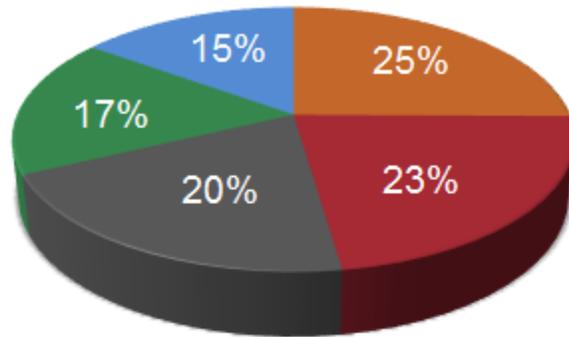
(\$ Millions)	Q2 2018	Q2 2017	Change
<b>Revenue</b>	<b>\$894</b>	<b>\$831</b>	<b>8%</b>
Gross Profit	523	484	8%
<b>Gross Margin %</b>	<b>58.5%</b>	<b>58.2%</b>	<b>30 bps</b>
Total Operating Expense	306	275	11%
Operating Income	218	210	4%
<b>Operating Margin %</b>	<b>24.3%</b>	<b>25.2%</b>	<b>(90 bps)</b>
Other Income	19	25	
Income Tax Expense	(46)	(57)	
<b>Net Income (GAAP)</b>	<b>190</b>	<b>177</b>	<b>8%</b>
<b>Net Income (Pro-Forma)</b>	<b>188</b>	<b>172</b>	<b>9%</b>
<b>EPS (GAAP)</b>	<b>\$1.00</b>	<b>\$0.94</b>	<b>6%</b>
<b>EPS (Pro-Forma)</b>	<b>\$0.99</b>	<b>\$0.91</b>	<b>9%</b>

# Q2 Revenue

Q2 Revenue by Segment			
(\$ M)	2018	2017	Change
Fitness	\$225	\$181	24%
Marine	135	109	24%
Aviation	153	124	23%
Outdoor	202	195	4%
Auto	180	223	(19%)
<b>Total</b>	<b>\$894</b>	<b>\$831</b>	<b>8%</b>

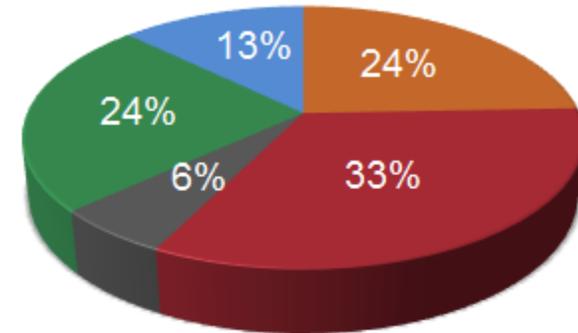
# Q2 Revenue & Operating Income

## Q2 2018 Revenue



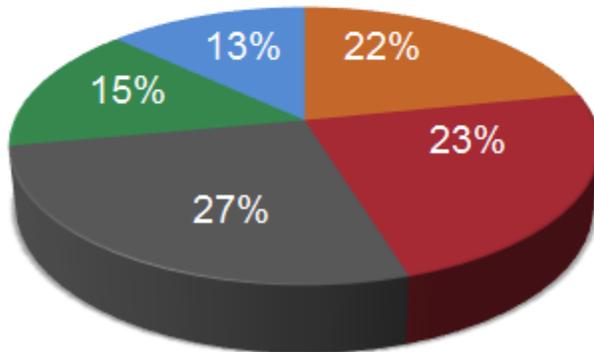
■ Fitness ■ Outdoor ■ Auto ■ Aviation ■ Marine

## Q2 2018 Operating Income



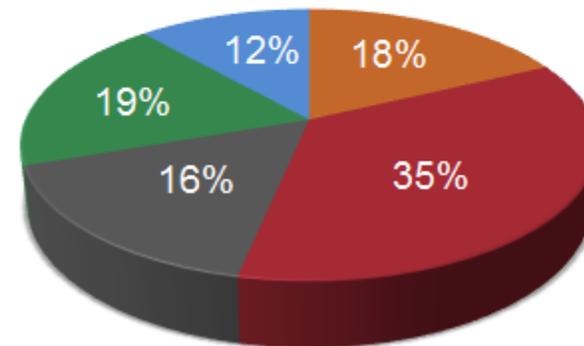
■ Fitness ■ Outdoor ■ Auto ■ Aviation ■ Marine

## Q2 2017 Revenue



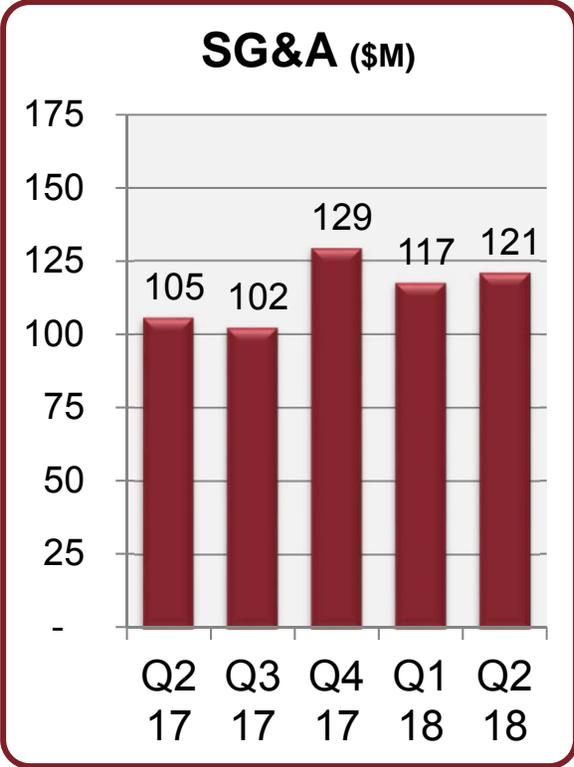
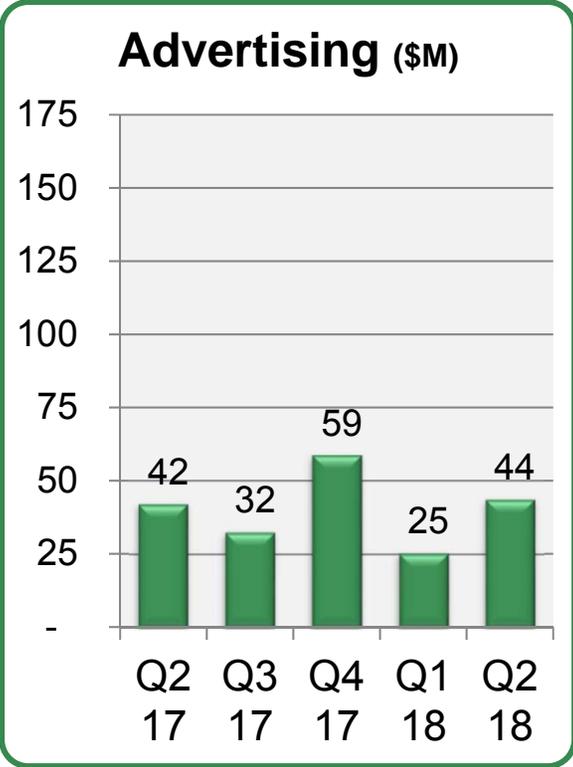
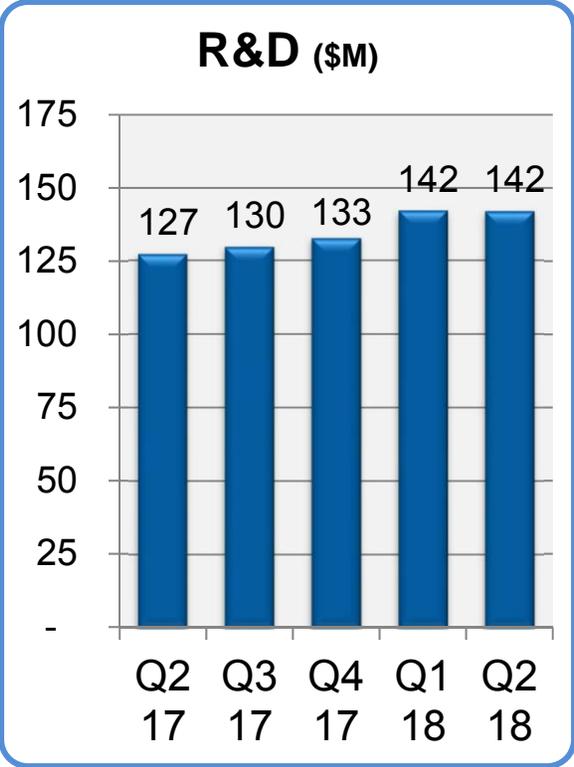
■ Fitness ■ Outdoor ■ Auto ■ Aviation ■ Marine

## Q2 2017 Operating Income



■ Fitness ■ Outdoor ■ Auto ■ Aviation ■ Marine

# Operating Expenses



# Balance Sheet / Cash Flow

## **Balance Sheet**

- Ended quarter with approximately \$2.4 billion of cash and marketable securities
- Accounts receivable increased sequentially, as expected, following the seasonally strong second quarter
- Inventory decreased on a sequential and year-over-year basis

## **Cash Flow**

- Generated \$157 million of free cash flow in Q2 2018

# Taxes

- Q2 2018 effective tax rate of 19.4% compared to pro forma effective tax rate of 21.4% in Q2 2017
  - The decrease is primarily due to the benefits from U.S. tax reform
- Updating our full year 2018 pro forma effective tax rate guidance to ~17.5%



# GARMIN®

Q2 2018 Earnings

August 1, 2018

# Appendix

## August 1, 2018

## 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 income tax provision before the effect of such discrete tax items are important measures to permit consistent comparison between periods. In fiscal 2016, there were no such discrete tax items identified.

	13-Weeks Ended		26-Weeks Ended	
	July 1, 2017		July 1, 2017	
	\$	ETR <sup>(1)</sup>	\$	ETR <sup>(1)</sup>
U.S. GAAP income tax provision (benefit)	\$ 57,348	24.5%	\$ (92,680)	(28.7%)
Pro forma discrete tax items:				
Switzerland corporate tax election <sup>(2)</sup>	-		168,755	
Tax expense from share-based award expirations <sup>(3)</sup>	(7,275)		(7,275)	
Total pro forma discrete tax items	(7,275)		161,480	
Income tax provision (Pro Forma)	\$ 50,073	21.4%	\$ 68,800	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 primarily from the revaluation of certain Switzerland deferred tax assets. The revaluation is due to the Company's election in the first quarter of 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, it has been identified as a pro forma discrete tax item.

<sup>(3)</sup> Following adoption in fiscal 2017 of Accounting Standards Update No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), the Company may periodically incur tax expense resulting from stock options and stock appreciation rights (SARs) expiring unexercised. New grants of stock options and SARs no longer comprise a significant component of the Company's compensation arrangements. As the tax expense from expired awards is not related to current period earnings or compensation activities, it has been identified as a pro forma adjustment.

## Pro forma net income (earnings) per share

Management believes that net income (earnings) per share before the impact of foreign currency gains or losses and certain discrete income tax items, as discussed above, is an important measure in order to permit a consistent comparison of the Company's performance between periods.

	13-Weeks Ended		26-Weeks Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income (GAAP)	\$ 190,342	\$ 176,979	\$ 319,715	\$ 415,382
Foreign currency gains / losses <sup>(1)</sup>	(2,647)	(15,110)	(3,463)	22,387
Tax effect of foreign currency gains / losses <sup>(2)</sup>	513	3,229	624	(4,773)
Pro forma discrete tax items <sup>(3)</sup>	-	7,275	-	(161,480)
Net income (Pro Forma)	\$ 188,208	\$ 172,373	\$ 316,876	\$ 271,516
Net income per share (GAAP):				
Basic	\$ 1.01	\$ 0.94	\$ 1.70	\$ 2.21
Diluted	\$ 1.00	\$ 0.94	\$ 1.69	\$ 2.20
Net income per share (Pro Forma):				
Basic	\$ 1.00	\$ 0.92	\$ 1.68	\$ 1.44
Diluted	\$ 0.99	\$ 0.91	\$ 1.67	\$ 1.44
Weighted average common shares outstanding:				
Basic	188,542	187,757	188,432	187,974
Diluted	189,461	188,492	189,377	188,691

(1) The majority of the Company's consolidated foreign currency gains and losses are 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 losses.

(2) The tax effect of foreign currency gains and losses was calculated using the effective tax rate of 19.4% and 18.0% for the quarter and year-to-date ended June 30, 2018, respectively, and a pro forma effective tax rate of 21.4% and 21.3% for the quarter and year-to-date ended July 1, 2017, respectively.

22 (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 less capital expenditures for property and equipment. Management believes that excluding purchases of property and equipment provides a better understanding of the underlying trends in the Company's operating performance and allows more accurate comparisons of the Company's operating results to historical performance. This metric may also be useful to investors, but should not be considered in isolation as it is not a measure of cash flow available for discretionary expenditures. The most comparable GAAP measure is cash provided by operating activities.

	<u>13-Weeks Ended</u>		<u>26-Weeks Ended</u>	
	<u>June 30,</u>	<u>July 1,</u>	<u>June 30,</u>	<u>July 1,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net cash provided by operating activities	\$223,873	\$143,432	\$438,063	\$263,827
Less: purchases of property and equipment	(66,736)	(14,275)	(93,072)	(39,812)
Free Cash Flow	<u>\$ 157,137</u>	<u>\$ 129,157</u>	<u>\$ 344,991</u>	<u>\$ 224,015</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 as a result of current period earnings. Therefore, in order to permit consistent comparison between periods, the tax rate and earnings per share before the effect of such discrete tax items are important measures. At this time management is unable to determine whether or not significant discrete tax items will be identified in fiscal 2018.

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

In addition to the discrete tax items discussed in the forward-looking pro forma effective tax rate section above, our 2018 pro forma EPS excludes foreign currency exchange gains and losses. 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 \$0.01 for the 26-weeks ended June 30, 2018.