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## Q2 2021 Garmin Ltd Earnings Call

EVENT DATE/TIME: JULY 28, 2021 / 2:30PM GMT

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**Douglas Gerard Boessen** *Garmin Ltd. - CFO & Treasurer*
**Teri Seck** *Garmin Ltd. - Manager of IR*

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to the Garmin Ltd. Second Quarter 2021 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to your host, Teri Seck, Manager of Investor Relations. Please go ahead.

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**Teri Seck *Garmin Ltd. - Manager of IR***

Good morning, everyone. We would like to welcome you to Garmin Ltd.'s Second Quarter 2021 Earnings Call. Please note that the earnings press release and related slides are available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock. An archive of the webcast and related transcript will also be available on our website.

This earnings call includes projections and other forward-looking statements regarding Garmin Ltd. and its business. Any statements regarding our future financial position, revenues, earnings, gross margins, operating margins, future dividends, market shares, product introductions, future demand for our products and plans and objectives are forward-looking statements. The forward-looking events and circumstances discussed in this earnings call may not occur, and actual results could differ materially as a result of risk factors affecting Garmin. Information concerning these risk factors is contained in our Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. In particular, there is significant uncertainty about the duration and impact of the COVID-19 pandemic. This means that results could change at any time, and any statement about the impact of COVID-19 on the company's business results and outlook is the best estimate based on the information available as of today's date.

Presenting on behalf of Garmin Ltd. this morning are Cliff Pemble, President and Chief Executive Officer; and Doug Boessen, Chief Financial Officer and Treasurer.

At this time, I would like to turn the call over to Cliff Pemble.

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**Clifton Albert Pemble** ***Garmin Ltd. - President, CEO & Director***

Thank you, Teri. Good morning, everyone. As announced earlier today, Garmin reported record revenue and operating income for the second quarter. Consolidated revenue increased 53% over the prior year and exceeded $1.3 billion. We experienced strong double-digit growth in all 5 business segments. Profitability in the quarter was also strong. Operating margin expanded to 28% and operating income increased 97% to $371 million.

There are 2 important things to consider when looking at our Q2 performance. First, Q2 of 2020 was negatively impacted by the onset of the COVID-19 pandemic, which reduced consumer demand and disrupted our retail partners. As a result, a portion of the current period growth is attributable to the unusual comparable from the prior year. Second, the compound annual growth rate from 2019 to 2021 was 18% for the period, which is very much in line with recent trends during quarters less impacted by the dynamics of the pandemic. We believe this indicates that the underlying market is healthy and continues to grow.

To meet the growing demand for our products, I'm pleased to report that later this fall, we plan to open a fourth production facility in Taiwan, which will approximately double our capacity. This is part of a multiyear initiative to improve our capacity and prepare for opportunities that lie ahead. Also, we entered a new phase of our Olathe facility expansion to convert the former warehouse building into additional office space. These projects follow the recent completion of other notable investments, including a new production facility for Tacx cycling trainers, our new auto OEM production facility in Europe and the expansion of our Olathe facility to include auto OEM production.

Given our strong performance in the first half of the year, we're updating our full year guidance. We now anticipate revenue of approximately $4.9 billion, up 17% over the prior year, with double-digit growth expected in each of our 5 business segments. In a moment, Doug will provide more details on our financial results and updated guidance. But first, I'll provide a few brief remarks on the performance and outlook of our business segments.

Starting with fitness. Revenue increased 40% to $413 million, with growth across all categories, led by cycling products and advanced wearables. During the quarter, we celebrated Global Running Day with the launch of 2 new running watches, the Forerunner 55 and the Forerunner 945 LTE. The Forerunner 945 LTE is noteworthy because it includes built-in connectivity and leverages the safety monitoring capability of our recent GEOS acquisition. We also launched the Venu 2 smartwatch in 2 sizes, which will enhance the appeal of these devices across a broader range of customers. Given the strong performance of the fitness segment, we're raising our revenue growth estimate to 17% for the year.





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Moving to outdoor. Revenue increased 57% to $323 million, with growth across all categories, led by adventure watches. During the quarter, we launched our smallest dive watch, the Descent Mk2S, featuring multiple dive modes, multisport training and smartwatch features for everyday use. Given the strong performance of the outdoor segment, we are raising our revenue growth estimate to 17% for the year.

Looking next at aviation. Revenue increased 43% to $181 million and we experienced growth in both OEM and aftermarket categories. Revenue in the quarter was comparable to the levels achieved in the second quarter of 2019, which is significant considering the impact ADS-B had on 2019 performance. During the quarter, Autoland was awarded the prestigious Robert J. Collier Trophy as the year's greatest achievement in the fields of aeronautics or astronautics. Autoland is the first certified autonomous system designed to activate during an emergency to safely fly and land the aircraft without human intervention.

We also announced the acquisition of AeroData, a leading provider of performance information for commercial aircraft serving more than 135 airlines worldwide. AeroData broadens our presence in commercial, and we look forward to building on their success. We're pleased with how the aviation segment has recovered from the impact of the pandemic and the completion of the ADS-B mandate. We now expect full year revenue to increase approximately 10%.

Turning next to the marine segment. Revenue increased 66% to $262 million, with growth across multiple categories led by chartplotters. During the quarter, we announced support for Mercury's SmartCraft engines, expanding the list of engines compatible with our display systems. We also launched the MSC 10 marine satellite compass, which provides precise position and heading information without the interference challenges associated with traditional magnetic compass systems. The marine segment is off to a great start in 2021, and we expect that demand will continue to be strong throughout the remainder of the year. With this in mind, we expect full year revenue to increase approximately 27%.

And looking finally at auto. Revenue increased 74% to $148 million, with growth contributions from both consumer categories and new OEM programs. During the quarter, we launched our first connected dash cam with Live View monitoring and premium subscription-based cloud storage. Given the strong start to the year, we now expect the auto segment to increase approximately 15%.

In summary, we're very pleased with our performance so far, which gives us confidence to raise our guidance for the year. In addition, we are investing for the future by expanding both our production capacity and office facilities, so we are well positioned to seize opportunities that lie ahead.

That concludes my remarks. Next, Doug will walk you through additional details on our financial results and our updated guidance. Doug?

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**Douglas Gerard Boessen *Garmin Ltd. - CFO & Treasurer***
Thanks, Cliff. Good morning, everyone. I'll begin by reviewing our second quarter financial results,

provide comments on the balance sheet, cash flow statement, taxes and our updated guidance. We posted revenue of $1.327 billion for the second quarter, representing a 53% increase year-over-year. Gross margin was 58.8%, a 50 basis point decrease from the prior year quarter. Operating expense as a percentage of sales was 30.9%, a 670 basis point decrease in the prior quarter. Operating income was $371 million, a 97% increase. Operating margin was 28%, a 630 basis point increase. Our GAAP EPS was $1.64 and pro forma EPS was $1.68.

Next, we look at our second quarter revenue by segment and geography. We have a highly diverse business model, provide a rich set of opportunities and reduce our reliance on single markets and product lines. Fitness is our largest segment, contributing 31% of the sales in the second quarter, followed by outdoor at 24%. During the second quarter, we achieved double-digit growth in all of our segments, led by auto with 74% growth. By geography, the Americas region contributed about 1/2 of our revenue with the remaining coming from EMEA and APAC. We achieved double-digit growth in all 3 regions, led by strong growth of 72% in APAC, followed by 53% in Americas and 46% in EMEA.

Looking next at operating expenses. Second quarter operating expenses increased by $83 million or 25%. Research and development increased $35 million year-over-year, primarily due to engineering personnel costs across all of our segments. SG&A increased $34 million compared to the prior year quarter, a decrease as a percentage of sales of 12.5%, a 270 basis point decrease compared to the prior year. Increase in SG&A was primarily due to increases in personnel-related expenses and information technology costs. Advertising expense increased approximately $14 million due to higher spend in the fitness and outdoor segments.

A few highlights on the balance sheet, cash flow statement and taxes. We ended the quarter with cash and marketable securities of approximately $3.2 billion. Accounts receivable increased sequentially and year-over-year to $737 million due to strong second quarter sales. Inventory balance increased sequentially and year-over-year to $939 million, primarily due to raw material requirements. During the second quarter of 2021, we generated free cash flow of $120 million, a $22 million decrease from the prior year quarter. Our capital expenditures for the second quarter were $110 million. We expect full year 2021 free cash flow to be approximately $750 million and capital expenditures of approximately $400 million to be invested in expansion projects that Cliff previously mentioned. During the second quarter of 2021, we reported an effective tax rate of 14.8% compared to the prior year quarter GAAP tax rate of 6.8% and pro forma tax rate of 14%.

Turning next to our full year guidance. We estimate revenue of approximately $4.9 billion, an increase of 17% from the prior year, with double-digit growth in each of our segments. We expect gross margin to be approximately 58.5%, which is lower than our previous guidance of 59.2% due to higher supply chain costs. We expect an operating margin of approximately 23.8%. Also, we expect pro forma effective tax rate of 11.5%, which is higher than our previous guidance of 10.5% due to income mix by jurisdiction. This results in pro forma earnings per share of approximately $5.50.

This concludes our formal remarks.

**Teri Seck** ***Garmin Ltd. - Manager of IR***

Thank you so much for your time and have a great day. Bye.

**Operator**

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. Have a great day. You may all disconnect.