

GARMIN INTERNATIONAL, INC.

**Moderator: Kerri Thurston
May 6, 2009
10:00 am CT**

Operator: Good morning and welcome to today's webcast. All lines have been placed on mute and this event will be recorded.

There will be a verbal Q&A session at the end of today's presentation. At that time, the operator will instruct you on how to ask a live question.

To go to full screen mode, press the enlarge slides button on your console. To go back to normal mode, simply exit out of that window.

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Again today's event is being recorded. We'll pause for a moment to initiate the recording.

Ladies and gentlemen please stand by.

Welcome to the First Quarter 2009 Earnings call for Garmin Limited. At this time, I would now like to turn the event over to Kerri Thurston. Please go ahead.

Kerri Thurston: Good morning.

We'd like to welcome you to Garmin Limited First Quarter 2009 Earnings call.

Please note that a copy of the Press Release concerning this Earning's call is available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock

Additionally, this call is being broadcasted live on the Internet. Please note that this webcast does include slides, which can be viewed during the call. And an archive of the webcast will be available until June 8, 2009 and a telephone recording will be available two business dates following this call.

A transcript of the call will be available on the website within 48 hours under the Events Calendar Tab.

This Earnings call includes projections and other forward looking statements regarding Garmin Limited and its business. Any statements regarding our future financial position, revenues, earnings, market share, product introductions, future demand for our product and objectives are forward looking statements.

The forward looking events and circumstances discussed in the Earning's call may not occur and actual results could differ materially as a result of risk factors affecting Garmin.

Information concerning those risk factors is contained in our Form 10K for the fiscal year ended December 27, 2008 filed with the Securities and Exchange Commission.

Attending today's call on behalf of Garmin Limited are Dr. Min Kao, Chairman and Chief Executive Officer, Cliff Pemble, President and Chief Operating Officer, Kevin Rauckman, Chief Financial Officer and Treasurer, and Andrew Etkind, General Counsel.

The presenters for this morning's call are Cliff Pemble and Kevin Rauckman.

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

Cliff Pemble: Good morning.

As you've read from our Press Release this morning, Garmin announced First Quarter Results that reflect the very difficult macro economic conditions facing the company.

As we noted in February, we expected 2009 to be the most difficult year in our history and it's definitely started out that way. Against this backdrop, we do see positives in our financial performance.

While revenues fell 34%, our consolidated gross margins were 45%, as higher margin business segments contributed a higher percentage of the revenue.

EPS, while down significantly, was 25 cents per share, excluding the effects of foreign currency and we were able to generate \$286 million of free cash flow and remain a debt free company.

From a business prospective, we have continued to outpace the competition, as our global PND market share increased 2% in fourth quarter to 37% and our North American market share remained above 50%.

Our outdoor fitness segment posted year over year revenue growth of 13% driven by growth in the fitness category. We also increased our penetration at OEM's across the marine, automotive and aviation segments, as OEM's recognized the strength and value of our product offering. I'll discuss these in further detail in a few minutes.

Reviewing our business by segment, in the automobile segment our revenue declined 43% in the first quarter, as retailers around the world have been reducing their inventory levels. We also experienced a steep, but we believe, temporary decline in ASPs, as price protection was offered to major retailers to help clear inventories.

On a sell in basis, North American units declined 5% year over year, but the declines in Europe were much steeper at 32% year over year.

The outdoor fitness segment continued to post growth with revenues up 13% over the prior year. Our product line up, in both outdoor and fitness, continues to outperform the competition, resulting in further market share gains and penetration.

Revenues from our aviation segment declined 31% in the quarter, much as we anticipated going into the year. The decline was across the entire product line impacting OEM, retrofit, and portable products.

And finally, revenues from the marine segment declined 32%, as we faced the ongoing downturn affecting the entire marine industry. On the positive side, we have secured a number of new OEM relationships, which will help offset the revenue declines in the retail side of the marine business.

While the overall economic news has been mostly negative, we do see some positive indications. For example on the automobile segment, it is important to note that retail sell through in the North American markets continue to grow on a year over basis.

As retail inventory levels have reached the low point, we expect sell in to the channel to trend more in line with sell through. This combined with improving ASP's will positively impact revenues and margins in this segment going forward.

We do expect a full year decline in units in Europe, due to the market maturity and economic slow down affecting that region.

As we look at the non-PND segments, we expect growth in the outdoor fitness segment to slow for the remainder of the year, due to the strength of this segment in 2008. We remain excited about the Forerunner products coming to market in the second quarter and additional product introductions throughout the year, which will help offset slowing growth in the category.

In aviation and marine, we'll be focusing on stabilizing our revenues and margins, as we continue to win new OEM partners and complete additional certifications of the G1000 as a retrofit solution.

In spite of the economic impacts on our business, our strategy remains intact. We are focused on long term growth opportunities and product innovation to further expand our market leadership in navigation and communications.

Next, I'd like to brief you on some recent product introductions. We recently introduced a new family of nüvi products, the 1200 and 1300 series with an updated form factor and new features. The ultra slim design of this new product family is 25% thinner than the previous generation products making these devices even more portable. These devices also offer pedestrian navigation enabled through CityXplorer maps, which can be purchased and downloaded by the user.

After downloading, the nüvi can be used for navigating the public transit system in select cities around the world. In addition, we introduced the Nuvi 1490T, which combines a five inch screen with the new slimmer form factor and it's perfect for customers who wish to have a larger screen without sacrificing portability. The 1490T offers premium features, such as traffic, lane assist with junction view, and the ability to download CityXplorer maps.

And finally, in the automobile segment, we were pleased to announce our OEM relationship with Chrysler. Garmin has been selected to provide in dash navigation for the 2011 Model Jeep Grand Cherokee. The navigation will be combined with Chrysler's U-Connect radio on a six and a half inch touch screen display. This is an exciting collaboration that started sometime ago and we look forward to helping Chrysler rebuild and grow their business in the future.

We recently introduced two new products in our fitness category. The Forerunner 310XT was specifically designed with the tri-athlete in mind. The 310XT is waterproof to a depth of 50 meters and has an optional quick release bracket, so it can be easily moved from bike to the wrist. It also incorporates our ANT + technology, providing wireless connectivity to a heart rate monitor, foot pod, power meter, third party fitness equipment and the user's PC or Mac.

In addition, we introduced a new model in our Forerunner family, the 405CX. Based on the feedback from our customers, the 405CX offers two primary upgrades, improved caloric computations and improved comfort. The caloric computations are based on algorithms developed by exercise scientists and world class athletes providing improved accuracy. Comfort has been enhanced through the choice of two formfitting wristbands to accommodate both large and small wrist sizes.

We have made several important OEM announcements in early 2009.

On the marine front, we have announced relationships with Edgewater Power Boats. Garmin has been selected to be the exclusive navigation provider on Edgewater's full line of power boats.

Next is Fairline Boats. Fairline is equipping their boats with the Garmin Marine network, which includes our 15 inch touch screen chart plotter, high definition radars, VHF radios, and the recently released GHP10V autopilot. This equipment will be standard on the 2010 yacht range.

And finally, there is Gulf Craft, Inc. We will provide a full range of products to Gulf Craft for the 2010 line of Silvercraft and Oryx's brand fiberglass boat yachts.

Our aviation footprint continues to expand as well.

We have recently announced expanded relationships with Piper on the Meridian, a 6 seat, turbo prop aircraft and Cirrus on the Vision SF50 personal jet, which is in development. And finally, there's King Air. We recently achieved supplemental type certification for Garmin's G1000 in the King Air 200 and B200 aircraft for the retrofit market.

And finally, turning to Nuvifone.

We can report that we have made significant progress in the testing and certification of the devices in preparation for carrier and retail launches. We remain confident in the appeal of location centric devices for the smart phone market and are actively working on distribution and pricing arrangements.

At this time, I would like to turn the call over to Kevin, who will provide a more detailed look at our first quarter results.

Kevin Rauckman: Thanks Cliff. Good morning everyone.

I wanted to walk down the financial results for the first quarter, starting with the income statement. You can see that we recognized revenue in Q1 of \$473 million, net income of \$49 million, which represents an earnings per share of 25 cents per share, excluding foreign currency loss.

So we see a 43% top line decline and a 64% earnings per share decrease excluding the FX. Our effective tax rate did remain consistent with the first quarter of '08 at 19% during the period.

Gross margin came in at 44.9%, which was better than expected, due to the increased contribution of our higher margin of outdoor fitness, aviation and marine segments.

However, operating income fell 66% to \$58 million, compared to \$173 million in 2008.

Our operating margins of 13.3% were down from 26% last year, as revenues fell. The gross margins moved 330 basis points unfavorable. Our advertising expense was 40 basis points favorable and down \$15 million on a year over year basis. Other SG&A, 470 basis points unfavorable, as our costs in this area were flat on a year over year basis and R&D was unfavorable by 510 basis points, with an increase of \$6 million year over year.

The unit shipped during Q1 declined 13% year over year, as the 2.4 million units shipped were delivered during the quarter. Strength in outdoor fitness was offset by declines in all the other segments and our total company average selling price was \$181 per unit, down 24% from the same period in 2008. However, this was up 10% from the \$165 ASP we announced in the fourth quarter of '08.

So clearly our financial results were primarily impacted by the reduction in sales, both sequential and year over year. We did decrease our operating expenses by \$56 million sequentially, but this was not enough to offset the significant declines in sales.

However, we believe that the first quarter marks the low point for operating margins during 2009 and with increased sales volumes during the remainder of the year, profitability will improve.

The non-GAAP measures that we reported this morning include net income excluding the effects of foreign currency. This impact was one cent per share unfavorable during the period and two cents per share unfavorable for Q1 2008.

During Q1 we experienced a 43% revenue decline within the automobile segment, while the shipments declined in that segment 16%. Our outdoor fitness segment continued to grow with a 13% revenue increase, when compared to Q1 of '08 with the fitness category continuing to drive the growth. Aviation segment revenues fell 31%, compared to Q1 2008 with declines in all portions of the business, the OEM, retrofit and portable products. Marine segment revenues fell 32%, compared to the first quarter of '08. In total our revenues declined 34% during the first quarter.

During Q1 all geographies slowed on a year over year basis due to the impact of the continued world wide economic slowdown. Unit shipments in North America were almost double that of Europe, however, the North America PND market for Garmin still shrank by 5% in the first quarter on sell in basis.

The automobile segments represents 59% of our total business during Q1 2009 and this was down from 68% in 2008. Outdoor fitness grew to 18% of revenues in the quarter, a seven percentage point increase from 2008.

Revenues by geography were relatively stable, as all geographies experienced similar declines in revenue. The low end unit sales of PND accounted for

approximately 85% of the total. The low end revenues of our PND's account for approximately 80% of the total.

So this 85%, 80% relationship product mix compares to 80% and 70% respectively during Q1 '08.

Looking next at margins by segment.

Our Q1 automobile gross margins and operating margins were 32% and 2% respectively. Margins were negatively impacted by the ASP decline, which was a result of price protection credits offered to our retail partners and significant channel inventory reductions. Margins are expected to improve in Q1, as pricing rebounds and volumes improve.

Our first quarter outdoor fitness gross margin was 61%, up 8% over last year, due to product mix and slight increase in our average selling price. Operating margins also increased year over year to 35%, which was up eight percentage points, but down 2% sequentially due to lower volumes.

Q1 aviation gross margin was 69%, up 5% from prior year and 2% sequentially, due to product mix. And the operating margin within our aviation segment was 24% for the quarter, primarily due to flat research and development costs on a lower volume.

Our Q1 marine gross margin improved to 60%, as product mix improved. Operating margins, however, were down from the year ago quarter at 28% as sales and unit volumes declined. These margins are improved from our fourth quarter 2008, due to seasonality within the segment.

Looking next at our overall operating expenses.

Our Q1 operating expenses were down \$9 million on a year over year basis, from \$147 million in the first quarter of '08 to \$137 million in first quarter of '09, but increased 940 basis points as a percentage of sales, due to the revenue decline.

As I mentioned earlier, R&D increased \$6 million year over year and was up 510 basis points to 12.6% of sales. We now employ almost 1,800 engineers and engineer associates world wide and remain committed to protecting product innovation in the future.

Our ad spending decreased \$15 million over the year ago quarter and 40 basis points as a percentage of sales from 5.7% to 5.3% in the first quarter of '09. We will continue to manage our advertising expense, based on the macroeconomic conditions.

Other SG&A was flat compared to year ago quarter, but increased 470 basis points to 13.7% of sales from 9% a year ago, as our sales declined. On a sequential basis, other SG&A declined \$23 million, due to the fourth quarter bad debt expense incurred by the company.

Moving next to the balance sheet.

We ended the quarter with cash and marketable securities of over \$1.2 billion.

Our accounts receivables decreased on a sequential basis to \$420 million, as we collected on sales made during the holiday quarter. Accounts receivable accounted for approximately 47 days of sales, down significantly over 2008.

Our inventory balances continued to decrease and came down \$72 million to \$353 million, as we continue to focus on inventory on production management. Our days of inventory metric decreased from 79 days at the end of 2008 to 73 days at the end of Q1, primarily in our finished goods inventory.

At the end of Q1, we hold \$137 million in raw materials, which is 26 days of inventory, \$35 million in (wip) and assemblies for seven days of inventory, \$209 million in our finished goods inventory of 40 days, and we hold \$28 million in inventory reserves.

While pleased with our level of inventory reduction, we anticipate it will increase in Q2 as we move into a busier selling season. We will continue to manage the supply chain appropriately, given our economic conditions, and it is our goal to have adequate inventory to support customer needs. However, we intend to carry the right level and mix of inventory to minimize risk of obsolescence.

Retail channel inventory has become very lean, as retailers continue to reduce their inventory exposure and conserve their cash. We believe that channel inventory will not go lower than we end in Q1.

Moving onto cash flow.

We had another solid quarter of cash flow and saw \$299 million in cash from operations during the period. We spent \$13 million on Cap ex resulting in free cash flow during Q1 of \$286 million.

We invested \$66 million during the period, again \$13 million of Cap ex, \$52 million net -purchase of marketable securities and \$1 million acquisitions of business and intangibles.

Cash flow from financing was a \$2 million use of cash during the period and we earned an average of 1.8% on all cash and marketable securities balances during Q1.

Finally, Garmin repurchased 117,600 shares during the quarter using \$2 million of cash and as a reminder, repurchased 17.1 million shares during 2008, using approximately \$672 million.

Our current authorization allows for \$256 million to be repurchased through the end of December 31, 2009. And Garmin intends to be an active buyer of those shares as business and market conditions warrant.

As I mentioned earlier, our tax rate for the quarter was 19% and we currently expect this to be the rate for the full year of 2009.

So that's the financial summary for our first quarter at this point. As customary, we'd like to open up the lines for any questions that you might have.