

GARMIN INTERNATIONAL, INC.

**Moderator: Kerri Thurston
July 30, 2008
10:00 am CT**

Operator: Good morning. My name is (Bobbi Jo) and I will be your conference operator today.

At this time, I would like to welcome everyone to the Q2 2008 Earnings Call for Garmin Limited. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session.

If you would like to ask a question during this time, simply press star then the number 1 on your telephone keypad. If you have already done so, please press the pound sign now. Then press star-1 again to ensure your question is registered.

Thank you.

Ms. Kerri Thurston, you may begin your conference.

Kerri Thurston : Good morning.

We'd like to welcome you to Garmin Limited's second quarter 2008 earnings call. Please note that a copy of the press release concerning this earnings call is available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock.

Additionally, this call is being broadcast live on the Internet. Please note that this web cast does include slides, which can be viewed during this call. An archive of the web cast will be available until August 30, 2008.

A telephone recording will be available two business days following this call, and a transcript of the call will be available on the web site within 48 hours at www.garmin.com/stock 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 shares, product introduction, and future demand for our products, 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 for the fiscal year ended December 29, 2007 filed with the Securities and Exchange Commission.

Attending this call on the behalf of Garmin Limited this morning are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and

Chief Operating Officer; and Kevin Rauckman, Chief Financial Officer and Treasurer.

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

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

Cliff Pemble: Good morning.

As you've read from our press release this morning, Garmin achieved another record quarter of revenue. Financial highlights from Q1 include revenue growth of 23% to \$912 million with double-digit growth in Automotive, Outdoor/Fitness, and Aviation.

Both North America and Europe experienced year-over-year revenue growth of 27% and 19% respectively. Gross margins for the quarter were 46%, which is down 2% sequentially and also down 5% year over year, but exceeded our earlier expectation. We also achieved strong operating margins of 26%.

Some notable business highlights for the quarter -- independent market research indicates we have strengthened our market share to 55% in North America and approximately 20% in Europe, which further solidifies our worldwide leadership position in the PND market.

Total unit shipments exceeded 3.9 million in the quarter, resulting in a year-over-year growth rate of 54%. Our Auto/Mobile segment growth continues to outpace overall market growth as brand awareness and product differentiation benefit Garmin.

The Outdoor/Fitness segment outperformed our expectations due to higher demand for new devices like the Edge and the Colorado series, along with a new Forerunner 405.

Finally, we completed the acquisition of our Belgian and Finnish distributors, the sixth and seven distributors acquired to date, in line with our strategy to improve European market share and presence.

As you have read in our press release, we continue to see challenges associated with macroeconomic conditions. Even in the face of weakening consumers spending, we were pleased to report double-digit revenue growth in three of our four business segment.

In Automotive and Mobile segment, revenues grew 24% as the market continues to expand and our products continue to gain market share. Aviation revenues grew 15% as the OEM market achieved strong growth that was offset by weakness in retrofit and portable products. Revenues from the Outdoor/Fitness segment grew 54% as customers embraced our compelling new products.

And finally, Marine revenues fell 11% year over year. Q2 of 2007 included pipeline sales of our new chart plotter lineup and thus was a tough comparison. But higher fuel prices and overall economic conditions weakened the entire higher marine industry and affected our results as well.

We would now like to update everybody regarding our view of in the current market and economy trends impacting Garmin's diverse business segments.

As has been widely discussed, the PND market is not growing as fast as in prior years as the market matures. However, the PND market remains one of

the fastest growing categories with consumer electronics and we continue to see strong opportunities in the segment as the global market continues to expand, penetration rates climb, and replacement market begins to develop.

Garmin continues to experience strong market share in North America. According to (NPD), our market share averaged 55% during the quarter. Year over year we experienced a 25% decline in ASP, which is in line with our full year expectations, but less than that experienced in Q1, which as you recall was caused by channel clearing and competitors leaving the market.

We have been able to largely offset the decline in ASP through component cost reductions and improved operating efficiency.

As I previously mentioned, the marine industry has been negatively impacted by the economy and specifically by high fuel prices. We are seeing a similar impact to the aviation segment as demand for retrofit and portable products has weakened and some aircraft manufacturers are scaling back their production plans.

As I mentioned earlier, we recently completed the acquisition of our Belgian and Finnish distributors, which are the sixth and seventh distributor acquisitions we have completed to date.

We now own distributors covering approximately 70% of the European market and they are clearly helping to increase our market share and serve customers better than we were able to do in the past.

Additionally, we expect to complete the acquisitions of our distributors in Austria and Portugal during Q3.

As mentioned in last quarter, we are establishing local offices in emerging markets, which have strong growth potential. On July 1, we launched the Garmin-owned Australian sales office to directly serve that growing market and are anticipating strong results in the second half of the year.

We also established an office in China to better support our in-country distributor in this growing market.

Turning next to product updates, in the second quarter, we began delivering the nüvi 800 series to our dealers and distributors. These devices feature cutting edge speech recognition capabilities that are activated by users through a push-to-talk wireless remote attached to the steering wheel.

The 800 family offers many other high end features, including MSN Direct, Bluetooth, mp3 and audio book players, travel features, and premium points of interest. The nüvi 800 is quickly gaining a reputation for offering the best speech recognition capability on the market today.

The newest addition to the nüvi family is the 500 series, which was announced last week. The nüvi 500 series are waterproof, multi-mode devices preloaded with both road and topographic maps, making them perfect for driving, cycling, boating, or walking.

The nüvi 500 uses our Garmin Connect photo portal, where users can select scenic destinations from millions of geo-located photos provided by Google's Panoramio. In addition, boating enthusiasts can add BlueChart marine maps, making the nüvi 500 the most versatile device on the market today.

In the Aviation segment, we recently have completed certification of our revolutionary new Synthetic Vision System. We believe this technology will

transform the way in which critical attitude and situational information is presented to the pilot.

Synthetic vision provides accurate displays of terrain, flight hazards, traffic, flight path markers, and highway-in-the-sky symbology so that the pilot can maintain an unparalleled situational awareness even when flying in conditions of reduced visibility or darkness.

We are pleased to welcome Cirrus Design as our newest OEM customer. Cirrus chose to offer the most advanced integrated cockpit features in the Cirrus prospective system, including dual AHRS and air data and the Synthetic Vision System.

In addition, the Cirrus prospective cockpit offers several unique features designed to assist the pilot in high workload environments, including custom controllers and new autopilot functions.

In the Outdoor segment, we recently started delivering the new Oregon series of outdoor handheld devices, which combine a touch-screen interface with preloaded maps, making this the ultimate outdoor handheld.

This waterproof device also integrates our HotFix technology, which provides faster time to first fix even in challenging signal environments commonly found in the outdoors.

The Oregon is compatible with our heart rate monitors and speed and cadence sensors and can exchange data with other Oregon and Colorado users over its wireless data link.

During the second quarter, Garmin became a title sponsor of Team Garmin Chipotle, which recently completed the Tour de France. We are excited to be associated with an elite cycling team dedicated to clean competition and rigorous drug testing.

The team is utilizing our Edge 705 for both training and racing, while the team bus and support cars are guided by the nüvi 770. The team exceeded expectations throughout the tour with numerous top ten stage finishes and Christian Vande Velde fifth place finish overall. We look forward to many future successes with this young team.

Next I want to provide an update on our progress on nüvifone development. As we stated in our press release this morning, the mobile network operator launch of the phone will not occur in 2008 as we earlier anticipated, but we look forward to US and European carrier announcements in 2009.

While we had hoped to have carrier launches in the fourth quarter, implementing carrier-specific requirements has taken longer than we anticipated.

We continue to be very pleased with carrier interest in the device and we remain completely committed to bringing a device like no other to the mobile community.

Finally, while Kevin will provide details regarding our updated full year forecast, I did want to briefly touch on our revised outlook.

Our revised guidance calls for revenue of approximately \$3.9 billion and EPS of approximately \$4.13, which includes a 27 cent gain from our Tele Atlas shares tendered in 2008.

While this falls short of earlier expectations, our revised guidance delivers 23% growth in revenues and 9% growth in EPS despite a weaker worldwide economy and increases in our tax rate.

We will continue to focus on product innovation, which will drive growth in the years to come.

With that, I'll turn the call over to Kevin.

Kevin S. Rauckman: Thanks Cliff. Good morning, everyone.

I wanted to walk you through the details of our second quarter income statement results, giving you guys a little bit more detail on the revenue by geography and segments, talk a lot about the margins in our business, and finally end up with some additional financial details on the balance sheet and cash flow.

So on the second quarter income statement; we announced revenue of \$912 million, net income of \$256 million, and then earnings pre share of \$1.19 per share.

This represents 23% top-line growth and 21% EPS growth, including the gain on the TA shares. We did see a favorable 1 cent earnings per share impact due to the FX gain of approximately \$900,000 during the second quarter. So excluding the FX gain, our earnings per share grew 18%.

Gross margin of 45.8% was better than expected due to the moderation of the ASP decline as Cliff mentioned, material cost reductions that we've continued to experience, and other operating efficiencies in our business.

We did see a \$3 million decrease in operating income compared to the second quarter of '07. However, our operating margin was 26.2% for the quarter, down from 32.5% last year but better than expected.

We achieved the 26.2% operating margin through gross margin being unfavorable year over year by 470 basis points. Advertising was favorable 120 basis points. Our other SG&A was unfavorable by 210 basis points. However, most of this increase, \$15 million of the year-over-year increase was due to integration of our five European distributors since this time last year. R&D was also unfavorable at 80 basis points during the quarter.

Our unit shipments grew some 54% year over year as over 3.9 million units were delivered during the quarter on the strength of our Auto/Mobile segment. Average selling price was \$233 per unit, 8% down from \$238 in the first quarter and 20% below the second quarter of '07.

The non-GAAP measures that we recorded included net income excluding the effects of foreign currency. And the FX gain does not reflect the gain associated with the tender of our TA shares. This FX impact was 1 cent per share favorable during second quarter.

During Q2, we experienced 24% revenue growth within the Auto/Mobile segment while the unit growth in that segment was 65%. Marine segment revenues declined 11% compared to Q2 of '07. Our Aviation segment achieved a 15% revenue increase during the quarter. Our Outdoor/Fitness segment also experienced double-digit revenue growth of 54% compared to the second quarter of '07 with the Fitness category leading the way.

In total, our revenues grew 23% during the second quarter, which represents growth in our global PND market share. Our total revenues are up 28% on a year-to-date basis with the Auto/Mobile and Outdoor/Fitness segments leading the way.

During the second quarter, North American revenue was up 27% while our European business increased 19% during the quarter. Our APAC region sales declined 6% during the period due to the planned transition from our distributor in Australia to selling Garmin products directly in that country.

Unit growth in North America exceeded that of Europe as North American PND market grew at a 100% year over year. We experienced 65% unit growth from our PND products, with North America as I said leading the way at nearly 100%.

As the Auto/Mobile segment remained the highest growth business at Garmin, it now represents 69% of our total business during the quarter, up one point from second quarter of '07.

Because of the stronger growth in North America during the quarter, - that geographic region represents 63% of our total quarterly business. Europe now accounts for 34% of our total revenue.

The low end unit sales of PND continued to account for approximately 80% of our total PND business. The low end revenues of the PND account for approximately 70% of the total Auto/Mobile segment.

During the second, quarter our Aviation and Outdoor/Fitness gross margins increased to 73% and 57% respectively due to product mix. Operating margin for these segments also grew on the strength of the gross margin with

Aviation at 44% and Outdoor/Fitness at 38%. We continue to target long-term margins in these segments at 65% and 35% and 55% and 35% respectively for the Aviation and Outdoor/Fitness segments.

Q2 Auto/Mobile gross margin and operating margin were 39% and 20% respectively, down 100 basis points compared to the first quarter of '08 when excluding the benefits we saw in foreign currency. Gross margin of 39% was in line with expectations and ASP declined 24% and cost declined 20% compared to the second quarter of '07.

Q2 Marine gross margin was on target at 56% compared to 58% a year ago. Operating margin was also in line as expectations of 34%. This was down from 42% at the same quarter last year when we benefited from new product introductions in this segment.

We continue to expect PND price declines of approximately 25% during 2008 offset by projected raw material cost reductions of approximately 20%. As a result, we expect our PND margins to decline from 39% in the second quarter to the mid 30% range in late 2008. However, due to increased volume in the second half of 2008 we expect to achieve sizable operating profit expansion within the Auto/Mobile segment.

Moving next to our operating expenses for the quarter, R&D increased \$16 million year over year and was up 80 basis points to 5.9% of sales. We now employ over 1700 engineers and engineering associates worldwide.

Our ad spending increased only \$1.5 million on the year-ago quarter, but on a percentage of basis, advertising was down 120 basis points to 6.4% of sales. We expect ad spending to decrease slightly in the third quarter, but then again increase in the fourth quarter holiday selling season.

Other SG&A increased 210 basis points to 7.3% of sales from 5.2% a year ago. As I said earlier, the majority of this increase was due to the integration of five European distributors that we have acquired since this period last year.

We expect that our SG&A expenses will increase slightly in each remaining quarter of 2008, but we'll continue to monitor the business needs in each of these business functions.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of just over \$1 billion. Our accounts receivable increased sequentially from the first quarter to \$680 million on a heels of a much stronger sales quarter and accounts for approximately 60 days of sales at the end of the quarter.

Our inventory balances decreased to \$656 million following the spring selling season, and our days of inventory metric decreased from 98 days at the end of the first quarter to 88 days at the end of the second quarter, primarily in our finished goods inventory.

So at the end of Q2, we have the following levels of inventory and days. We have \$173 million in raw material, which account for 22 days of inventory, \$57 million in WIP, 8 days of inventory, \$458 million in finished goods, which was approximately 58 days of inventory, and finally we have \$32 million in our inventory reserves at the end of the period.

As we've stated in the past, product availability continues to be a top priority for Garmin and has contributed to our success. However, given the shorter product lifecycles of PND products, we're still working to manage our inventory carefully and it's our goal to have adequate inventory to support our

customer needs. But we intend to carry the right level and mix of inventory to minimize the risk of obsolescence.

Evaluating the retail channel inventory at the end of the second quarter, we believe that inventory in the channel continues to be lean as the sell-through of most of our products was strong in the second quarter.

Our cash flow from operations during Q2 was \$88 million. CAPEX invested was \$53 million. Free cash flow, therefore, was \$34 million.

The cash flow provided by investing was \$146 million during the second quarter, which was made up of the \$53 million of CAPEX, primarily due to the Taiwan product line purchases that we entered in the quarter, \$209 million net redemption of marketable securities, and \$10 million use of cash due to the acquisition of businesses and intangibles.

Our cash flow from financing was \$223 million use of cash during the second quarter primarily made up of \$228 million use of cash on our stock buyback and a generation of \$5 million cash due to the issuance of stock options during the period. We earned an average of 3.6% on all cash and marketable securities during the quarter.

Touching next on equity, Garmin repurchased over 5.2 million shares during the period as I mentioned a \$228 million use of cash. Subsequent to the close of the quarter, however, the company purchased the remaining 3.4 million shares under a Rule 10b5-1 plan. There remain 5 million shares available for repurchase and Garmin intends to be an active buyer of the shares as business and market conditions warrant.

Our diluted shares outstanding declined to 215.6 million shares due to the shares repurchased during the period.

And finally, giving a little bit more detail on our full year outlook, you notice we did bring down the revenue expectations to at least \$3.9 billion for the year, which is a 23% top-line growth for 2008.

We still expect our operating margins to come in at 25% for the year and our earnings per share excluding the FX of \$4.13, which would be 9% growth rate for the year.

For the full year, we expect CAPEX to be \$120 million. As discussed in our last earnings call, the tax rate is now 19% across our business and we expect an average diluted share count for the full year to be 214 million shares.

Looking at our segment revenue expectations, given the reduction in our earlier guidance to \$3.9 billion, we now expect our Auto/Mobile segment to increase 25% to \$2.9 billion-plus.

Our Outdoor/Fitness segment, we've actually raised guidance there up to 30% growth for the year to little over \$400 million. And as Cliff mentioned in his comments on both Marine and Aviation due to the economy and fuel prices, we expect Marine to be essentially flat and Aviation now to grow 15% for the full year.

So that ends our formal comments. At this point, we'd like to open it up for any questions that you may have.