

GARMIN INTERNATIONAL, INC.

**Moderator: Kerri Thurston
August 5, 2009
9:30 am CT**

Kerri Thurston: Good morning. We'd like to welcome you to Garmin Limited Second Quarter 2009 Earnings call.

Please note that a copy of a press release concerning this earnings call is available at Garmin's Investor Relations site on Internet at www.garmin.com/stock.

Additionally, this call is being broadcast live on the Internet. Please note that this Webcast does include slides which can be viewed during the call. An archive of the Webcast will be available until September 9, 2009. A telephone recording will be available two business days following this call and a transcript to the call will be available on the Web site within 48 hours under the events calendar task.

In addition, this quarter, we will be twitting throughout the call. You can follow Jake's TweetCast at twitter.com/jakesjournal.

This earnings call includes projections and other forward-looking statements regarding Garmin Limited and its businesses. Any statements regarding our

future financial position, revenues, earnings, market share, product introductions, 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 may differ materially as the result of risk factors affecting Garmin.

Information concerning these risk factors is contained in our Form 10-K for the fiscal year until 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 all over to Cliff Pemble.

Cliff Pemble: Good morning. As you've read from our press release this morning, Garmin announced second quarter results that showed significant sequential improvement along with very strong margins. The quarter developed much as we had anticipated with strong seasonal performance in our auto/mobile, outdoor/fitness and marine segments leading to a 53% sequential revenue increase.

Along with our revenue growth, we also delivered margin improvement with growth in operating margins, 53% and 30% respectively. EPS was 83 cents excluding the effects of foreign currency and we generated \$246 million of

free cash flow leading a cash in marketable securities balance of over \$1.5 billion.

From a business perspective, we continue to lead the worldwide PND market share as our North American market share grew to 57% from 53% in the first quarter and 54% in the year-ago quarter. We delivered 3.7 million units as unit growth on a sell-in basis resumed in both the North America and Asian markets.

We also continue to deliver new products to the market which included new marine and outdoor fitness products, reinforcing our technological leadership in these segments.

Reviewing our business by segments, in the automobile segments, our revenue declined 31% versus the second quarter 2008 but increased 68% sequentially. The average selling price was down 28% year over year but increased from the first quarter as expected. On a sell-in basis, North American units increased while we experienced declines in Europe.

The outdoor fitness segments saw its first quarter of year-over-year revenue decline in over two years. The segment continued to post strong revenues and margins but could not exceed the sales level achieved in 2008 when we delivered a large number of new products to the market.

Revenues from our aviation segment declined 28% in the quarter as the industry continues to struggle with the current economic environment. While the market remains weak, we did see sequential improvement in both revenues and margins.

Finally, revenues from the marine segment declined 15%, caused by the downturn affecting the entire marine industry. However, our 2009 results are much stronger than the market due to the strength of our marine product line and we experienced a 58% sequential increase in revenues as the voting season began leading to improved operating margins.

Many of you are wondering how we view the current economic climate. While we're not seeing significant signs of economic recovery, we are starting to see some positive indicators. As I mentioned earlier, we saw PND sell in to the channel grow on a year-over-year basis in both the North American and Asian markets, along with improving ASPs and margins on a sequential basis.

We expect to see sequential increases in shipments as retailers stock their shelves for fall promotions and we'd anticipate stable pricing with some margin declines during Q3.

As we look to the non-PND segments, we expect the outdoor fitness revenues and margins to be flat sequentially and we are well positioned to take advantage of sales opportunities with our strong line up of new products.

In aviation and marine, we expect continued weakness due to the economic conditions but it does appear that we've hit a low point in both of these market segments. While some of our competitors are backing away from research and development, we are further differentiating ourselves by introducing new products that we believe will lead to increased market share and growth as these markets segments and the general economy enter the recovery phase.

We will take a closer look at some of these products in a few minutes.

Next I'd like to review some recent product introductions. We recently launched the nüvi 465T, designed specifically for long-haul navigation and delivery trucks. This device provides multiple truck profiles and features advanced routing and guidance with truck-related road restrictions such as height, width, length, weight and hazardous materials.

The nüvi 465T also offers the unique POI database consisting of the National Truck and Trailer Services Breakdown Directory which provides information related to repairs and services critical to drivers operating in unfamiliar locations.

In late second quarter, we began delivery of the nüvi 1200 and 1300 series with an updated form factor and new features. These devices are Garmin's first to offer pedestrian navigation via public transit enabled by our CityXplorer maps which can be purchased and downloaded for \$10 to \$15 per city.

We also began deliveries of the nüvi 1490T which features a bright five-inch screen, a new slimmer form factor, and advance features such as lane guidance, junction views, and Bluetooth hands-free technology. Initial demand for this product has been strong; driven by customers who appreciate a larger screen navigator with advanced features.

Turning next to outdoor/fitness, we recently introduced three exciting new products in the outdoor lineup. The Oregon 550 and Oregon 550t build on our popular Oregon touch screen series by integrating a 3.2 mega pixel auto-focus camera and a three-axis compass. The water-proof digital camera can capture pictures and landscapes for portrait orientation and geo-tag the photos for future navigation use. It also offers 850 megabytes of built-in memory along with a micro SD card slot for ample storage.

The Foretrex 301 and 401 is the new line of wearable navigators incorporating a high sensitivity GPS chipset. The 401 model incorporates an electronic compass, barometric altimeter, and wireless data sharing, as well as compatibility with Garmin's heart rate monitors and cadence sensors, resulting in a versatile GPS that can be used for multiple applications.

And finally, the new Dakota family of products brings touch-screen functionality to the mid-range price point for outdoor enthusiasts. This compact product is perfect for the whole family and offers all of the must-have features including a three-axis compass, barometric altimeter and wireless data sharing on the Dakota 20 model.

At the recent 2009 Oshkosh Air Show, we introduced a number of new aviation products. Highlighting just a few, we introduced our new GTS traffic advisory systems which feature patent-pending technology known as CLEAR CAS. This technology correlates both ADS-B and traditional radar targets to provide the most comprehensive presentation of traffic to pilots. By incorporating ADS-B into the GTS family, Garmin is positioned at the forefront of the FAA next generation modernization program.

The G500 is a new glass cockpit solution which brings the form and functionality of the G600 to smaller aircraft at a value price. The G500 provides altitude, air data, weather, terrain, and traffic information and can be upgraded to include our popular synthetic vision virtual reality display.

We also announced our first entry into the experimental and light sport aircraft market, the G3X. Based on a building-block design, the G3X is a customizable glass display system that incorporates magnetometer, altitude,

air data, engine monitoring and temperature (probe) to provide complete situational awareness for experimental and LSA aircraft.

On the marine front, we announced a number of new products to further strengthen our position in this market segment. These products include upgrades to our successful GPSMAP 400 and 500 series. These new products include a high sensitivity GPS receiver for faster, more reliable satellite acquisition and improve digital design for faster map drawing and panning speeds. In addition, most of these new chartplotters are NMEA 2000 certified for plug and play system integration.

Next we announced additions to our VHF radio lineup that target the OEM and high-end boat markets. These products are designed for easy integration with our multifunction display systems using space-saving blackbox configurations. The AIS model also features additional receivers which allows the user to track and avoid other vessels equipped with AIS transmitters.

And finally, we introduced a new open array radar, offering increased power and high definition technology for improved accuracy and precision which are highly-desired features for mid-ranged and large-sized boats.

Finally, I'd like to provide an update on the development of our nüvifone. As announced last week, we launched the G60 in Taiwan and look forward to additional launches throughout August in other Asian countries. Our partner, Asus, is also finalizing carrier launch details for the M20 in both Taiwan and Singapore.

In the United States, the G60 is currently in carrier field testing in anticipation of a Q4 launch. The G60 and M20 will be available in parts of Europe during

the back-half of the year. As we've said before, we will provide additional details as we near the launch date.

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

Kevin Rauckman: Thank you, Cliff.

As you said, I'd like to walkthrough in more detail the stronger than expected financial results for the second quarter; first spending time on income statement. You saw this morning, our revenue came in at \$669 million and we posted net income of \$162 million.

Our pro forma EPS was 83 cents per share which excludes foreign currency. Revenues grew 53% sequentially from Q1 to Q2; however, year over year, we experienced 27% top line decline and 12% pro forma EPS decline when adjusting for both the foreign currency and the 2008 Tele Atlas gain that we posted last year.

Our effective tax rate was consistent with the first quarter at 19%, gross margins were very strong at 52.6% which was a 680 basis point improvement over the prior year as our gross margins improved in all four segments. The operating income fell 16% to \$199 million compared to \$238 million in 2008. However, we posted 29.8% operating margin which was up from 26.2% last year as the revenues fell. However, the gross margin, as I said, was 680 basis points favorable.

Our advertising expenses were 130 basis points favorable and they were down \$24 million on a year-over-year basis. Other SG&A was 250 basis points unfavorable, again, down \$5 million on a year-over-year basis. And we did

see R&D increased about \$2 million on a year-over-year basis which posted a 250 basis point unfavorable on the operating margin line.

Pro forma EPS of 83 cents was an increase of nearly 60 cents sequentially on the strength of both sales and gross margins. Units shipped declined 5% year-over-year as 3.7 million units were delivered during the quarter. The decline was across all segments. Our total company average selling price was \$180 per unit which was down 23% from 2008 but flat sequentially.

Our financial results were much improved over Q1 but we continue to be impacted by the reduction in sales driven by our economic situation. We will continue to closely monitor the expenses in an effort to drive optimal results at current revenue levels.

The non-GAAP measures that we reported this morning represent net income per share, excluding the effects of foreign currency and the 2008 gain on the sale of Tele Atlas equities. This impact was 2 cents per share unfavorable during Q2 of '09 and 25 cents per share favorable for Q2 2008.

Moving next to a little bit more detail on revenue; during the second quarter we experienced a 31% revenue decline within the automobile segment while the unit volumes declined 4% in the segment. Marine segment revenues declined 15% compared to Q2 of '08 and our aviation segment revenue declined 28% during the quarter. The outdoor fitness segment saw a decline for the first time in two years with revenues falling 9% compared to Q2 of '08 with the category facing tough comparables from the year-ago quarter when we launched the Colorado, Forerunner 405 and Edge 705 products. In total, our revenue fell 27% during the second quarter as we continue to battle against weak consumer discretionary spending.

During the second quarter, North American revenue declined 24% while our European business decreased 36% during the quarter. Our APAC region sales began to grow again with a 21% increase during the period. Unit growth in North America and Asia were offset by declines in Europe and we experienced a 2% year-over-year unit decline from our PND products with North America and Asia growing, offset by the decline in Europe.

The automobile segment now represents 65% of our total business during the quarter which was down from 69% in 2008. Outdoor fitness grew to become 16% of our total revenues in the quarter, a 3% increase over 2008. Revenues in North America and Asia were 65% and 5% respectively, a 2 percentage point increase over 2008 level as Europe declined more rapidly than the rest of the world.

The low end unit sales of PND accounted for approximately 88% of the total; our low end revenues of PND accounts for approximately 80% of the total. PND product mix compares to 80% and 70% respectively during the second quarter of '08.

Moving next to margins, second quarter automobile gross margin and operating margin were 45% and 24% respectively. This is a significant improvement sequentially and year-over-year as pricing improved quarter to quarter and we also experienced material cost reductions and benefits for foreign currency fluctuations.

The second quarter outdoor/fitness gross margin was 68%, up 11% from last year due to both product mix and a decline in our material cost. Operating margin also increased year-over-year and sequentially to 47% which was up 9% and 12% respectively.

We posted strong aviation gross margins at 74% which is up 1% from the prior year and 5% sequentially, again, due to product mix and inventory management improvements. Operating margin was 32% for the quarter, an 800 basis point improvement from the first quarter due to gross margin improvement and increased revenue levels.

And finally, in the second quarter, marine gross margin improved to 59% from 56% a year ago quarter as our product mix improved. Operating margin was 35%, an improvement of 100 basis points from a year-ago quarter and 700 basis points from the first quarter of this year. Large sequential improvement was driven by higher seasonal revenue levels.

Moving next to a little bit more detail on our operating expenses, Q2 operating expenses were down \$27 million on year-over-year basis from \$179 million in Q2 '08 to \$152 million in Q2 of '09. But increased 360 basis points as a percentage of sales due to the revenue decline in our business.

R&D increased \$2 million year-over-year in dollar terms but was up 250 basis points to 8.4% of sales. We now employ over 1900 engineers and engineering associates worldwide and we remain committed to protecting product innovation. Our total headcount now stands at just under 8500 associates worldwide.

Our ad spending decreased \$24 million of the year-ago quarter and 130 basis points as a percentage of sales from 6.4% in Q2 '08 to 5.1% in Q2 '09. We intend to continue to manage advertising expense based on the overall macro economic conditions.

And then finally, other SG&A decreased \$5 million compared to year-ago quarter but increased 200 basis points to 9.3% of sales of 7.3% a year ago as

sales declines. We expect to keep these other SG&A costs relatively fixed for the remainder of 2009.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of over \$1.5 billion US. Our accounts receivable increased on a sequential basis to \$519 million as we saw sales increase 53% sequentially. Accounts receivable accounted for approximately 63 days of sales which is down from 70 days of sales in Q2 of '08.

Our inventory balances decreased \$30 million to \$323 million as we continue to focus on inventory and production management. Our days of inventory metric decreased from 73 days at the end of Q1 to 68 days at the end of Q2, primarily in the area of raw materials inventory.

At the end of the second quarter, the following levels of inventory in major categorizations; \$97 million of raw materials which comprise 19 days of inventory; \$38 million in work in process and assembly which is eight days of inventory and \$216 million in finished goods which represent 41 days of inventory. So you have \$28 million of inventory reserve at the end of the second quarter.

While pleased with the cash flow benefit of our inventory reductions, net inventory will increase in Q3 as we move into a busier selling season. We will continue to manage the supply chain appropriately given the economic conditions and it's our goal to have adequate inventories for customer needs; however, we intend to carry the right level and mix of inventory to minimize risk of obsolescence.

We did not see additional destocking in the quarter, sell-in appeared to trend with sell through and we continue to believe that retailers will hold inventories at these relatively low levels for the foreseeable future.

As we've mentioned a couple of times on cash flow, we have very strong cash flow for the period.

Cash flow from operations came in at \$256 million during the second quarter, with CAPEX of \$10 million during the second quarter and our free cash flow was \$246 million. Cash flow from investing was \$234 million use of cash during the second quarter including the \$10 million from CAPEX, \$221 million net purchase of marketable securities and \$3 million acquisition of intangibles. Cash flow from financing provided \$4 million of cash during the second quarter due primarily to the issuance of employee stock purchase plan shares.

Overall during the period, we earned an average of 1.6% on all cash and marketable security balances.

And finally, on the use of cash and taxes, due to our strong cash flow from operations during the first half of 2009, the board of directors has approved the 2009 annual dividend of 75 cents per share, which should be an approximate \$150 million use of cash during the fourth quarter.

Other uses of cash, we continue to evaluate a number of acquisition opportunities and currently, we have authorization for stock buyback which allows \$256 million to be used in this repurchase plan through the end of 2009.

As I said, our tax rate for the quarter was 19%. We currently expect it to be the rate for the full year 2009.