



*Transcript of
Garmin Limited (GRMN)
Third Quarter Earnings Call for 2008
October 29, 2008*

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Participants

Dr. Min Kao, Chairman & CEO
Cliff Pemble, President & COO
Kevin Rauckman, CFO & Treasurer
Andrew Etkind, General Counsel
Kerri Thurston, Investor Relations Officer

Presentation

Operator

Good morning. My name is Kendra. I will be your conference operator today. At this time I would like to welcome everyone to the Q3 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 section. If you would like to ask a question during the time simply press *1 on your telephone keypad. If you would like to withdraw your question press the # key. Thank you. Ms. Thurston, you may begin Ma'am.

Kerri Thurston – Garmin Limited - Investor Relations Officer

Good morning. We'd like to welcome you to Garmin Limited's Q3 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 webcast does include slides which can be viewed during the call. An archive of the webcast will be available until November 28th 2008, a telephone recording will be available to business days following this call, and 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 shares, production introduction, 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 10K for the fiscal year ended December 29th 2007, filed with the Securities and Exchange Commission.

Attending on behalf of Garmin this morning 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 as General



Counsel. The presenters for this mornings call are Clifton Pemble and Kevin Rauckman. At this time I would like to turn the call over to Clifton Pemble.

Cliff Pemble – Garmin - President & COO

Good morning. As you have read from our press release this morning, Garmin achieved record Q3 revenues driven by double-digit consolidated revenue growth. Financial highlights from Q3 include revenue growth of 19% to \$870 million with solid double-digit revenue growth in the automotive and Outdoor Fitness segments. We generated growth in both North America and Europe, where we experienced revenue growth of 29% and 10% year over year respectively. Gross margins came in at 44% which is down 150 basis points sequentially and down 260 basis points year over year, but exceeded our earlier expectations as ASP declines moderated and price reductions were largely offset by lower product cost. We also achieved strong operating margins of 25%.

Some notable business highlights for the quarter include expansion of our worldwide leadership position in the PND market with approximately 54% share in North America, and greater than 20% share in Europe. Consolidated shipments exceeding 3.9 million units in the quarter resulting in a year over year growth rate of 43% across all of our business segments. While the growth rate is down from what it was a year ago, this remains an impressive growth rate for any consumer electronics category. The Outdoor/Fitness segment continues to outperform our original expectations on the strength of our new products combined with increased interest in outdoor activities.

Turning next to segment highlights, in the automotive and mobile segments, revenue grew 21% driven by strong unit growth and moderating price declines. We continue to have the most popular line up of products in the more rapidly growing US market. According to NPD Garmin has the top three PNDs in the country, as well as seven of the top ten, and our market share for the quarter was nearly three times that of our nearest competitor. As previously mentioned, revenues from the outdoor fitness segment continue to outperform our expectations with 35% growth. Thanks to our strong product lineup and growth in the market and capturing market share from our competitors. We also saw continued growth in our aviation segment. Revenues grew 9% as shipments to OEM offset weakness in portable and retrofit markets. Finally, marine revenues fell 8% as the segment continues to be affected by high fuel prices and economic conditions which have slowed the entire marine industry. However, overall weakness was offset by improved market share and gains we are seeing in the OEM and dealer installed markets.

Many of you are wondering how we view the evolving economic situation. As I noted earlier, the PND market has slowed year-over-year, with Europe slowing more dramatically. We now estimate that the US and European market sizes to be approximately 20 million units each, representing industry growth of approximately 60% in North America and 20% in Europe. While these growth rates are down from that of a year ago and have been further impacted due to the recent economic crisis, the PND market is still growing at a healthy pace in comparison to other categories. We are working diligently to manage our business with efficiency as the market matures and is affected by negative economic conditions around the world. Efforts

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include scaling operations and advertising to better match the market demand levels. In addition, we plan to reduce inventory levels approximately \$150 million by the end of 2008. We believe these efforts will position us to grow our profitability in 2009, and enable us to leverage our strong balance sheet going forward.

While growth has slowed, on a more positive note the pricing environment has tempered leading to a year-over-year blended ASP decline of 17%. ASP has remained stable or risen in our outdoor fitness, aviation, and marine segments on a year-over-year basis. PND ASP declines continue, but are in line with our earlier forecast. Reductions in product costs have occurred according to plan which has helped us reduce the downward pressure on gross margins. Our Marine and Aviation segments remain under strong pressure due to the unfavorable economic conditions and high fuel prices. While these segments are currently not performing as well as we had hoped, we are generally pleased with our results given the severe impact that the financial crisis has brought to these markets. So far we have sustained modest growth in our Aviation business as we have launched new OEM customers and increased content to existing customers. In our Marine segment, revenue growth is flat year-to-date but we see opportunity to invest in new products innovations that will position us for growth and new opportunities as the economic cycle runs its course.

Turning next to product launches, in Q3 we introduced two exciting new product families just in time for the holiday season. The first of the product introductions was the nüvi 2x5T series which adds free ad-sponsored lifetime traffic and bluetooth handsfree connectivity, and represents an ideal combination of features at a value price point. In the upper end of our product family, we introduced the nüvi 7x5T series which delivers lane assisted navigation with graphical junction views and 3D building information. The 7x5T also includes versions with free ad-sponsored lifetime traffic as well as a version with more premium content offerings from MSN Direct including fuel prices, local events, news and stock prices. Both of these products have received excellent reviews and build on our award-winning portfolio that recently received the top award in the 2008 JD Power and Associates portable navigation device usage and satisfaction study. This award highlights the strength of Garmin's product portfolio, form features, and UI. We were also pleased to see that Consumer Reports rank Garmin's flagship nüvi 880 as the best choice in their recent test of 49 models. In addition, Garmin has six of the top ten units in the Consumer Reports ranking.

In addition to our retail PND business, Garmin has been diligently capturing opportunities in the auto OEM space. I want to highlight a couple of specific relationships. Suzuki is offering our nüvi as standard equipment in the 2009 SX4 which represents the first value price vehicle to offer navigation as a standard feature. The Garmin nüvi is fully integrated into the dash through a flip-up mount providing both in dash utility and portability. In addition, the system is integrated electronically in to the audio system for high quality voice prompts and bluetooth handsfree calls. Some of you may have seen the advertising that going on with Suzuki which prominently features our nüvi and we are very pleased with the relationship with Suzuki. We have also developed a similar solution with Nissan that is being offered as optional equipment on a 2009 Nissan Rogue and Pathfinder.

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In the aviation market, we began delivery of the new G600 retrofit PFD during Q3. This unique product combines the best of two important cockpit functions; primary flight display and multifunction display maps. During Q3 we also began shipping the new prodigy flight deck to Embraer which is based on our G1000 integrated cockpit system. We are pleased to be a part of Embraer's Light Jet program which is already generating a strong response from customers. Aviation International News recently reported that Embraer has a combined order book of over 800 Phenom VLJs all of which will be equipped with the G1000 based prodigy system.

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Many of you have questions concerning progress in our nüvifone program. As we stated in the press release this morning, the nüvifone development remains on track for launch in the first half of 2009. We have signed letters of intent and agreements with some key carriers around the world, and we will provide specifics closer to the launch date. As we look at the competitive landscape in the smartphone area, we remain excited by the breadth and depth of LBS capabilities on the nüvifone which are superior to any other device on the market today.

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Finally, I wanted to provide you with an update on our full year guidance. While we remain convinced that we offer the most compelling and differentiated products across our market segments, we also recognize that some markets are slowing as a result of challenging economic conditions. In addition, weaker international currencies add additional pressure on our revenues and margins. In light of these factors we are revising our full year guidance to revenue of \$3.6 billion U.S. dollars, representing growth of 13% over 2007 and EPS of \$3.78 per share including the gain from the sale of Tele Atlas shares which is essentially flat over 2007. I will now turn the call over to Kevin who will discuss financial results in detail, as well as revise forecasts. Thank you.

Kevin Rauckman – Garmin – CFO & Treasurer

Thanks Cliff. Good morning everyone. I want to walk through in detail starting with Q3 income statement. We did announce revenue of \$870 million for Q3 and net income of \$171 million. So our earnings per share were \$0.87 when we exclude the FX gain, that's a 19% top line growth during the period, and a 2% earnings per share decline when excluding foreign currency. The unfavorable \$0.05 EPS impact due to FX was a loss of \$12.7 million related to the FX during Q3. Gross margins came in at 44.3%, better than expected due to the moderation of the ASP decline during the quarter. We saw significant material cost reductions and operating efficiencies across our business. Gross margin would have been nearly flat sequentially without the effects of the weakening Euro. Operating income during Q3 was flat at \$214 million compared to Q3 of last year. The 24.6% operating margin we posted was down from 29.4% last year, but still better than expected. This was driven by a gross margin coming down 260 basis points during Q3 and advertising down 50 basis points. Our other SG&A was down 120 basis points; however, \$9 million of the year-over-over increase in SG&A was due to the integration of our acquired European distributors. R&D was also down 50 bits during the quarter.

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Our units shipped grew 43% 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 \$226 per unit, down only 3% from the second quarter and 17% from the year ago quarter.

The non-GAAP measures reported today include net income excluding the effects of foreign currency. The year-to-date FX loss does not reflect a gain associated with the tender of our TA shares. This impact was \$0.05 per share unfavorable as I said before during the period.

Looking next at the revenue by segments. During Q3 we experienced 21% revenue growth within the Auto-Mobile segment while the unit growth in that segment was 54%. Our outdoor fitness segment also experienced double-digit revenue growth of 35% compared to Q3 of 2007, with the fitness category leading the way. Our aviation segment achieved a 9% revenue increase during the quarter. Marine segment revenues declined 8% compared to Q3 of 2007. In total, as I mentioned, our revenues were up 19% for Q3.

During Q3 North American revenue was up 29% while our European business increased to 9% during the quarter. Our Asia-Pacific region sales declined 21% primarily due to timing of several sales programs during the period. We do continue to expect healthy double-digit growth in our APAC markets going forward.

Unit growth in North America exceeded that of Europe as the North American PND market grew at 80% year-over-year on a unit basis. We experienced 54% unit growth from our PND products with North America leading the way. By the end of Q3 the Auto/Mobile segment now represents 72% of our business, up two percentage points from Q3 of 2007. Because of the stronger growth in North America during the quarter, that geographic region represents 67% of our total quarterly business. Europe accounted for 29% of our total revenue. The low end unit sales of PNDs continue to account for approximately 80% of the total units within that segment. The low end revenues of PNDs account for approximately 70% of our total revenue.

Moving next to margins by segment. Our Q3 Auto/Mobile gross margin and operating margin were 38% and 20% respectively. Gross margin would have been flat sequentially excluding the effects of foreign currency. Gross margin of 38% was inline with expectations, as ASPs have declined 26% and costs have declined 20% on a full year basis. Our Q3 PND ASP was up in the US but slightly down in Europe due to the Euro weakness. 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 38% in Q3 to the mid 30% range in Q4 assuming Q4 ASP's decline approximately 20% year-over-year during the quarter. Our Q3 Outdoor/Fitness gross margin was 63%, up 11% over last year due to favorable product mix and an increasing ASP. Operating margin also increased year-over-year to 44%. We continue to target long-term margins in this Outdoor/Fitness segment at 55% and 35% respectively.

Q3 Aviation gross margin was 65% inline with prior year but down sequentially due to changes in our warranty program. This change also fell through to operating margin which was 34% for the quarter. We continue to target long-term margins in the Aviation segment at 65% and 35%.

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Our Q3 Marine gross margin was below the long-Term target of 55% at 49%, due to the weakness in the marine industry. In turn, operating margin was also low at 24% versus a long-term target of 35%. Full year margins remain inline with these targets of 55% and 35% and we will manage the business to maintain those in Q4.

Moving next to operating expenses. Our Q3 total operating expenses were down 4% or \$7 million from Q2 of this year. R&D increased \$12 million year-over-year in dollar terms, and as I mentioned earlier was up 50 basis points to 6.1% of sales. We now employ over 1 700 engineers and engineering associates worldwide. Our advertising spending increased \$12 million over the year ago quarter and 50 basis points of the percentage of sales from 5.3% to 5.8% in Q3 this year. We expect advertisement spending to increase in Q4 holiday selling season both in absolute dollars, and as a percentage of sales. Other other SG&A increased 120 basis points to 7.8% of sales from 6.6% a year ago. The majority of this increase was due to the integration of the European distributors that we have acquired since this period last year. We expect that our Q4 SG&A expenses will remain flat with Q3, but we do continue to monitor the business needs in these functions.

I want to reiterate that we have a debt-free balance sheet so we continue to see strength on that front. We entered the quarter with cash and marketable securities of just over \$850 million. Our accounts receivable was essentially flat on a sequential basis at \$678 million, as sales fell only slightly from the second quarter. Our accounts receivable accounted for approximately 68 days of sales.

Inventory balances increased \$43 million to \$699 million as we prepare for the holiday selling season. At the end of Q3 our inventory is made up of the following categories: \$151 million in raw materials; \$45 million in WIP and assemblies; \$531 million in finished goods; and \$28 million in reserves. Product availability remains a top priority for Garmin, as it has contributed to our success. However, given the shorter product life cycle of PNDs we are seeing, we are trying to manage our inventory carefully with plans to reduce inventory by \$150 million at the end of the year. It is still our goal to have adequate inventory to support customer needs, but we intend to carry the right level and mix of inventory to minimize risk of obsolescence. We often ask about retail channel inventory. At the end of Q3 retail inventory has become more lean as retailers look to reduce their inventory exposure and delay cash expenditures.

I can review the cash flow statement briefly. The cash flow from operations during Q3 was \$232 million. We spent \$31 million of capital expenditures. Our free cash flow was quite strong during Q3 with \$202 million. Cash flow used in investing was \$17 million during Q3 made up of the \$31 million of Cap-ex, \$18 million of acquisitions of businesses and intangibles, offset by \$32 million net redemption of marketable securities during Q3. Cash flow from financing was \$304 million use of cash, and we earned an average of 3.8% on all cash and marketable securities during the quarter.

I am sure that you noticed that Garmin repurchased over 8.1 million shares using the \$306 million of cash during the quarter. We repurchased 6.6 million shares in the first half using \$318 million for a total purchase during the year of 14.7 million shares.

There remain approximately 200,000 shares available for repurchase under the June

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2008 board authorization. In addition, this morning we announced that the board has approved the repurchase of an additional \$300 million of shares to be repurchased between now and the end of 2009. Garmin intends to be an active buyer of those shares as business and market conditions warrant. Our diluted shares outstanding declined to 208 million due to the shares we purchased during the period.

Finally, our new forecast for 2008 now includes revenue at \$3.6 billion representing a 13% year-over-year growth and operating margins at 24%. We expect our earnings per share excluding foreign currency to come in at \$3.78 per share. Cap-ex remains at \$120 million invested this year, our tax rate remains at 19% and our average diluted shares throughout the whole period of 2008 are 211 million. This assumes approximately 202 million shares in Q4 2008.

Here is a little bit more detail on the segments. We now expect our Auto-Mobile segments to produce \$2.655 billion revenue this year, up 13%, outdoor fitness \$425 million which is up 25% year-over-year, our Marine business remains flat at \$204 million and our Aviation business will come in at \$316 million, about a 7% increase over last year.

Thank you for your attention to the formal comments in our presentation this morning. At this point we want to open it up for any questions that you might have.

Operator

I would like to remind everyone if you would like to ask a question please press *1 on your telephone keypad, again that is *1 if you would like to ask a question. The first question comes from the line of Vivek Arya.

<Q>: Thank you. Good morning Cliff and Kevin. I have a couple of questions. How should we think about PND growth in 2009 US versus Europe, do you think there is a possibility that they could be negative PND volume growth next year? If yes would that be a macro issue, a competitive issue against smartphones or do you think you are not getting people to upgrade their devices as frequently?

Cliff Pemble – Garmin - President & COO

Well I think that it is probably a little too early to tell, especially given that a big portion of the deliveries for our market is going to take place now in Q4, so I think we are waiting to see how that goes and we have long-term optimism that the category can still continue to grow meaningfully. But again, we are looking towards Q4 to see how things go.

<Q>: I see. Your strategy in the PND side seems to be very different from what Tom-Tom had in the sense that they are really emphasizing their connected services, but you have instead chosen to focus on the nüvifone as really your connected device capability. So what do you think about your strategy versus what Tom-Tom is pursuing?

Cliff Pemble – Garmin - President & COO

Well I think that we have started a strategy with nüvifone that we think is unique and different, and we were definitely getting a lot of positive reactions to that. We remain

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open to all product categories though so we have not ruled anything out in the way we would go forward.

<Q>: If you look just at the smartphone side, you have competitors like Apple and Rim who have effectively set \$199-\$249 retail price point for smartphone devices. Do you think that the nüvifone will be competitive in terms of the features and pricing against those devices?

Cliff Pemble – Garmin - President & COO

We think so. I think there will be a range of pricing of course depending on devices that are in the market. But we believe our device will be priced like other smartphones in the category and will be embraced by carriers through subsidy.

<Q>: Kevin, just a clarification on the guidance. You said it excludes the impact of FX. Is that excluding even for Q3 or is that just for Q4. I just wanted to make sure that I understand.

Kevin Rauckman, Chief Financial Officer and Treasurer

Any time that we give earnings per share guidance, it always excludes the foreign currency gain or loss that we recognize on the other income part of our P&L so it excludes that portion of the income or loss.

<Q>: So the \$0.05 you said you had missed for Q3 that is excluded from this?

Kevin Rauckman, Chief Financial Officer and Treasurer

That's correct.

<Q>: Okay, thank you.

Kevin Rauckman – Garmin – CFO & Treasurer

Thank you.

Operator

Your next question comes from the line of Amir Rozwadoski.

<Q>: Thank you very much for taking the question. In truth of the looking at your visibility into Q4 demand trend, and Cliff you had mentioned certainly that you have got a wad of shipments depending on a lot of shipments for Q4, can you guys give us a little bit of color in terms of linearity this quarter and how you saw selling trends moving into September/October and where you think your visibility stands at this point going into Q4.

Kevin Rauckman – Garmin – CFO & Treasurer

I think what we have seen just recently, and the reason we had to drop our numbers from our earlier guidance was October. We definitely saw a slow down and so we saw behavior a little bit less than what we had anticipated going into the quarter. We have been asked over the last several months what kind of experience are we having with retailers even in September. It appears that the retail channel is wanting to limit their own risk and carry less inventory so we didn't see a big impact in September but

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we have seen a slow down in October. We feel like we have put out a number that is achievable given pretty big promotional programs for Black Friday and the rest of Q4.

<Q>: Kevin would you say that going into this holiday season you're visibility is better or perhaps less than prior holiday seasons?

Kevin Rauckman – Garmin – CFO & Treasurer

Well I think that we work very carefully with all retail channels and we have good feedback consistently. Quite honestly what we don't know is what the consumers are willing to do on some of these big programs around Thanksgiving. We have orders, we have backlog, we don't have everything wrapped up but we never do every year so it is pretty consistent with past years. It is pretty consistent with past years, its just that we are looking at real pressures based on the economy and we are trying to factor that in to our expectations.

<Q>: Within that mix, your low-end/high-end mix, how should we consider the balance of low versus high-end for Q4 based on your guidance?

Cliff Pemble – Garmin - President & COO

We look at low and high and would not expect a significant change. We are already selling 80% at fairly low prices, so we will continue to see that level of sales in Q4 as we go forward.

<Q>: Great. Last question if I may. And looking beyond 2008, the factors that we are considering for how the demand environment shakes out is possibly geographic expansion, replacement selling as well as higher penetration. In looking at your priorities for driving growth or unit shipments in 2009, which should we consider as the leading factor still?

Cliff Pemble – Garmin - President & COO

I think we consider all of those. We are looking at every opportunity in everything you listed.

Kevin Rauckman – Garmin – CFO & Treasurer

I think the one point on penetration is that we still have a relatively low penetration rate even as we exit this year. At the end of Q3 the US or North American penetration is in teens, probably 15% and may be a little above 20% in Europe. So there is still room for growth, but as Cliff said we need to go after all opportunities.

<Q>: Thank you very much for taking the question.

Kevin Rauckman – Garmin – CFO & Treasurer

Thank you.

Operator

Our next question comes from the line of Mark Sue, RBC Capital Markets

<Q>: Thank you. Given the current backdrop, how shall we look at gross margins for the holiday level for the PND segment? I ask because it still seen as very fluid and if

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competition does increase to what level will you respond? Is there a floor, can a 20% ASP decline accelerate at 25-30% or would that be unlikely?

Kevin Rauckman – Garmin - CFO & Treasurer

I think we are expecting strong sales in the holiday season, 80% sequential growth from Q3 to Q4 on the PNDs. Margins will probably be, as I mentioned mid 30s on gross margin and we were at 38% at the end of Q3. By the time we exit the year we still should get some operating leverage with a higher volume. So our estimate right now would be mid 30s on gross and still close to 20% in Q4 on PND.

<Q>: Is there is a floor where you say, well we can't really cut pricing to stimulate demand?

Cliff Pemble – Garmin - President & COO

There are price points that we would just say we cannot go below. We want to make a reasonable margin, we want to grow market share, we want to take on the increased market penetration, but yes there is a certain point that we are not going to quantify but there is a limit.

<Q>: Kevin separately, the provisions for obsolete inventories is usually \$12-17 million on a given quarter and I think it was just \$1 million this time. Any thoughts on why the reserve wasn't higher this time?

Kevin Rauckman – Garmin – CFO & Treasurer

Well as I stated on various past conference calls, we look at the actual inventory that we hold and we don't have a lot of old excess inventory that is not moving. We have some SKUs, but mostly what we have in house, our product will be selling very well through the holiday season. So we literally look at the reserve on a quarter-by-quarter basis and make appropriate reserves.

<Q>: Lastly, Kevin on the nüvifone, is there a volume level that makes that segment profitable, or shall we look at it a different way in terms of how we look at our unit assumptions next year and nonprofits to the overall company?

Kevin Rauckman – Garmin – CFO & Treasurer

We have stated in past conference calls and other conversations that we expected the nüvifone gross margins to be may be a little below our PND but pretty close in the 30-35% range. I think you should just model that into whatever you are looking at.

<Q>: That's helpful. Thank you and good luck gentleman.

Kevin Rauckman – Garmin – CFO & Treasurer

Thank you.

Operator

Your next question comes from the line of John Bright, Avondale Partners.

<Q>: Thank you Kevin. On your inventory, I think in the prepared remarks you talked about reducing inventory levels by \$150 million by the end of the year. Give us some

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thought process on how you are going to go about doing that. Secondly, on the more focused advertising spending, very important to Garmin, how do you describe 'more focused' in your advertising spending?

Kevin Rauckman – Garmin – CFO & Treasurer

Okay let me start first with the inventory level. I think what we are assuming here is that we are cutting down on the production volume in Q4 given the slow down in the overall macro environment. We don't anticipate any kind of staff reductions although we are limiting some of the overtime and contract workers that we typically use in Taiwan factories during Q4. That is going to help us by cutting back on the production volume from what we had earlier anticipated. Other than that, it is just working very diligently product by product to have the right product and build the right product so it is ready for the market place. From an advertising point of view, we do anticipate a pretty substantial advertising increase. We are doing TV ad campaigns currently in the U.S. market and some other focused markets that will continue to offer cooperative advertising with our major customers. There is the continuous press and radio media that we will spend. I think we are committed to investing in advertising to drive demand in the near-term. We will watch it very carefully and try to get operating leverage within our business.

<Q>: You also talked about continuing material cost reductions particularly in the PND market. May be you can give us some color on specifically what materials you are getting the cost reductions from?

Kevin Rauckman – Garmin – CFO & Treasurer

I think that it is across the board. We have seen about a 20% building material cost reduction this year which is right on track with what we have been saying all year. There are no major surprises there. The key products are the ones that make up the major part of our BOM, and that is displays, flash memory, GPS chip sets, and the license fees that we pay within our product.

Operator

Your next question comes from the line of Richard Valera, Neeham & Company.

<Q>: Thank you. If I could just revisit the nüvifone gross margin question again. I think when you introduced the phone Kevin, you had been thinking about low 30% gross margins for nüvifone. It seems that the smartphone environment has gotten more price competitive since, with things like the \$199 iphone among others, yet you still seem to have a similar gross margin target. Is that due to component cost reductions since then or is there any other factors that would enable you to keep those gross margin targets the same in what would appear to be a tougher environment?

Kevin Rauckman – Garmin – CFO & Treasurer

Rich I think the end user pricing for various smartphones that are on the market right now is a little bit hard to process because of the high subsidies that come along with some of those. But what we are seeing in terms of what we can estimate at real ASPs to the various competitors is that our nüvifone should be priced competitively. And the margin target that we gave you is where we feel comfortable.

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<Q>: I am sure that you can not give us the actual subsidy number, but can you give us a sense of how much visibility to have to what level of subsidy the carriers are willing to give you. Apple gets a certain level of subsidy that may be higher than any one else perhaps. Do you have a sense of what kind of subsidy level you can expect and that you are basing your gross margin assumptions on?

Cliff Pemble – Garmin - President & COO

Well again I think you also have to factor in what is the end user price to really come up with the total picture. Certainly, we are not ready to go there yet in terms of providing details that illustrate the breadth of situations going on out there. In some countries you can get an iPhone for free. Certainly, we know that Apple is not a charity organization. There are definitely higher levels of subsidies that go along with certain countries and certain products. We recognize that brand strength and product strength factor into that. In some of the cases they were talking about which was great, but we do feel we have a strong product and carriers are enthused about offering our products.

<Q>: Kevin the revision to the 2008 revenue guidance, can you give us a sense of how much of that was from currency?

Kevin Rauckman – Garmin – CFO & Treasurer

Well I think what we have seen is about an 100 basis point impact in Q3 down from earlier periods and we are already seeing that again in Q4. We have factored in U.S./Euro currency movement at least another 100 basis points again in Q4 to take that into account.

<Q>: Finally, I just wanted to clarify, did you say 202 million was the share count to expect for Q4.

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Kevin Rauckman – Garmin – CFO & Treasurer

Yes I did.

<Q>: Okay. Thanks very much.

Operator

Your next question comes from the line of Jonathan Goldberg, Deutsche Bank.

<Q>: Hi guys! I just want to clarify, with your agreements with the carriers on the nüvifone, will it be subsidized?

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Kevin Rauckman – Garmin – CFO & Treasurer

We are not providing details at this time. We will announce those closer to the launch date.

<Q>: Okay. I just want to talk about PNDs. Can you give me an estimate of last year what percentage of the auto units returns business? That sort of shipped or ordered post Black Friday?



Kevin Rauckman – Garmin – CFO & Treasurer

I don't know that we can quantify that, but I do know that we had gone into the quarter expecting about \$1 billion dollars in sales across our business and we did \$1.2 billion. We definitely exceeded our earlier expectations, so it is going to be somewhere between that number of 100-200 million in sales that came out as we went through the year. I would not say that was just all after Black Friday, but it had to do with consumer demand as we went through the quarter last year.

<Q>: But it is safe to say that a fair amount of orders came in post Black Friday or as a result of Black Friday.

Kevin Rauckman – Garmin – CFO & Treasurer

Yes.

<Q>: Are you assuming that kind of ramp for this years post-Black Friday?

Kevin Rauckman – Garmin – CFO & Treasurer

I think that we feel like the new guidance that we have given has taken into account a weaker economy, so again we have many orders already in our backlog, but we are not being too aggressive on what the rest of Q4 will do.

<Q>: Okay. Then just looking at the overall PND market, you are talking about 60% growth for U.S. units this year and 20% in Europe. That is down from triple digits in the U.S. last year and 80% last year in Europe. Tom-Tom yesterday had some pretty conservative but similar numbers. To me, it is a pretty sharp slow down to go from 80% to 20% and from triple digits to sixty. Are we going to have 20% unit growth you think next year in PND unit in the U.S.?

Kevin Rauckman – Garmin – CFO & Treasurer

Well we are not prepared to give 2009 guidance, but I do not see any reason why we shouldn't see at least 20% unit growth next year.

<Q>: It is still a pretty steep slowdown.

Kevin Rauckman – Garmin – CFO & Treasurer

I think it is going to be a slowdown. I think the benefit next year will, ASPs as we have seen recently are moderating and we do not expect the pricing to come down nearly at the level as what we have seen this year. So next years market will be a little different market, with higher penetration rates as we go into the year, but still unit growth and less ASP decline next year.

<Q>: You are premising that the moderation in ASP declines on what?

Kevin Rauckman – Garmin – CFO & Treasurer

I think a couple of factors. The absolute price point is much lower than it was at this point last year. I think the operating margins on many of our competitors are getting very thin if not zero, so that is going to help us I think from having to be overly aggressive on price. I think some of the other competitors in the market are saying

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the same thing, so I do not believe that is anything unusual from what expectations are on ASP next year.

<Q>: Thank you.

Operator

Your next question comes from the line of Yair Reiner, Oppenheimer & Company

<Q>: Thank you and good afternoon. First Kevin, can you walk us through how the dollar strengthening is negatively impacting gross margins. Though it seems at least from a components purchasing point of view, it should be a tail wind.

Kevin Rauckman – Garmin – CFO & Treasurer

I will not go through all the complexities, but we actually have a natural hedge in our business that has an impact on the sales side due to the weakening euro because of approximately 25% of our invoices are in the euro currency. We do have a benefit from the manufacturing costs due to the U.S. dollar movement in the period as it is strengthened versus the Taiwan dollar, but the net impact is still negative when you compare the revenue versus the cost. I quantify that number at about 100 basis points just Q3.

<Q>: Looking at 2009, setting aside the FX impact, given what you are saying in terms of components pricing, competition and price erosion, do you now believe that gross margins in the PND business will be up, down or flat next year?

Kevin Rauckman – Garmin – CFO & Treasurer

I think we will end the year at about the mid 30. I think we could still see a slight reduction next year as prices come down may be a little bit more than cost, but not nearly the same decline as what we have seen in 2008. Again, I think we will see a moderation of price but we will not see a 20% cost decline. It will be at or may be a little below our ASP decline. We should still see margins of about 30% next year in the PND business.

<Q>: Looking at your implied Q4 guidance for Aviation, it looks like you are projecting a pretty big sequential drop off. I was wondering if you can help explain that and then explain whether if it is a one time impact we should see a rebound in Q1 2009.

Cliff Pemble – Garmin - President & COO

Yes I think that we are seeing, as we mentioned in the comments some significant pressure on the Aviation market. There are a number of factors across our business because we serve so many different segments of that. We are hearing reports from the field where people are saying that they are putting off buying decisions and in some cases may be not taking delivery of aircraft, but we do think that it is somewhat temporary. Some people are even saying that after the election may be there will be more clarity. So there are some of those natural factors that are coming into peoples minds as they pause a little bit right now during the economic situation.

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<Q>: In terms of Cap-ex, obviously over the last couple of years you have been building capacity, now it seems like you are at least approaching the point of topping off. What shall we model in terms of maintenance cap-ex for the business?

Kevin Rauckman – Garmin – CFO & Treasurer

Well we guided to \$120 and that did include some expansion of production lines in Taiwan. I think the maintenance should be between \$60-\$70 million dollars a year without any kind of facility expansion.

<Q>: Great. Thank you.

Operator

Your next question comes from the line of Peter Friedland, Soleil Group.

<Q>: Hey guys. On the nüvü one what is a reasonable volume expectation for 2009?

Kevin Rauckman – Garmin – CFO & Treasurer

We have said, and we still maintain, that over the first twelve months after we release the product if we could get a million units out of the door that would be acceptable to us. We have nothing at this point that would change that number.

<Q>: As far as working capital, what are you looking at for 2008 and 2009 as far as negative working capital?

Kevin Rauckman – Garmin – CFO & Treasurer

I don't know that I can quote a number for the full year, other than we are expecting as I mentioned the inventory to be reduced so that is going to help us on working capital. As we go into next year I think we'll see less of a drag on our cash flow from operations due to inventory because we are really trying to manage that as best as we can. We still expect strong cash flow from operations as we go all the way through 2009.

<Q>: What is the currently interest rate you are getting on cash?

Kevin Rauckman – Garmin – CFO & Treasurer

We mentioned 3.8% is what we achieved in Q3.

<Q>: Is that still the right number or has that come down?

Kevin Rauckman – Garmin – CFO & Treasurer

It has come down some but I am not prepared to quantify what that is right now.

<Q>: Okay. Thank you.

Operator

Your next question comes from the line of Jim Duffy, Thomas Wiesel.

<Q>: Thanks. Hi everyone. Big picture question. There is a lot of evidence that we are moving beyond the period of hypergrowth in PNDs. You have mentioned the

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penetration rates in the U.S. and Europe. In Garmin's crystal ball how do you see this market evolving? Looking out 2-3 years in, and how you are planning the business accordingly to be well positioned to capitalize on the new dynamics in the market?

Cliff Pemble – Garmin - President & COO

I think we continue to look at expanding opportunities as we mentioned earlier, both in terms of existing markets as well as emerging markets. I think with the turmoil going on in the Auto OEM space, there is some potential upside to PNDs as people who are perhaps not buying new cars and not equipping them with expensive equipment, may be more inclined to purchase a navigation device for their vehicle. We are focusing on features, content, services and merging markets going forward.

<Q>: Is your principal strategy in this category a market share game in PNDs or is there some sort of category changing dynamic you expect that you are positioning yourself for?

Cliff Pemble – Garmin - President & COO

Well again maintaining market share is very important to us. We intend to continue to focus our goals on about where we are at in the markets going forward, and again taking advantage of emerging opportunities.

<Q>: Kevin, a question on the advertising spending and the philosophy there. You had said in Q4 opposite percentages sales, is that on a sequential basis, or on a year-to-year basis?

Kevin Rauckman – Garmin – CFO & Treasurer

It is on a sequential basis and actually it is on both. We have probably spent somewhere around \$80 million in advertising in Q4 which is significantly increased from Q3. This is due to our TV ad campaigns.

<Q>: Then looking out into 2009, do you expect advertising to be a source of leverage for the business or would you expect to continue it at similar rates as a percent of revenue?

Kevin Rauckman – Garmin – CFO & Treasurer

Again we haven't give 2009 guidance, but we would expect advertising to be growing at about the same rate of sales. We might get a little bit of leverage but we honestly have not put into play what our specific strategies are on advertising in 2009 yet. We play that a quarter or two in advance of what we really need to commit to.

<Q>: Very good. Good luck this holiday season.

Operator

Your next question comes from the line of Jeff Evanson, Dougherty & Company

<Q>: Good morning. Cliff we have seen new smartphones like the Apple phone and the Android phone. Both generate a lot of enthusiasm through their developer communities generating apps for those handsets. I can see a lot of opportunities for Garmin, I would be curious to know what you are contemplating on that front.

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Cliff Pemble – Garmin - President & COO

I think I initial focus is to provide a lot of the functionality and apps that a lot of the developers are focusing on out there right now, but integrating them into nüvifone in such a way that it's seamless [INAUDIBLE] device. I think going forward, we will be open-minded in terms in terms of offering devices that will have an open platform, but initially our focus is been to offer a turn-key LBS.

<Q>: Kevin I have a couple of questions for you. I would be curious to know how big a percentage of Auto-Mobile is OEM this year and what do you think it can be next year? How big can that opportunity be for you?

Kevin Rauckman – Garmin – CFO & Treasurer

I think it is a very small number this year. Cliff talked about Suzuki and Nissan that definitely only in single digits as a part of our Auto/Mobile segment. I think what you would see in the future is that it is going to take us a couple of years to get equal revenue there because of the long development cycle for some of these new products in-dash. I would not expect 2009 to have a meaningfully larger percentage of our total Auto/Mobile segment. 2010 we could see a nice increase as we get into more business there.

<Q>: So in 2009 could it break double digits percentages of mix there?

Kevin Rauckman – Garmin – CFO & Treasurer

I would say probably not at this point.

<Q>: Okay that's helpful. My second question is a follow up to your comment that you made about at least 20% unit growth in PNDs in 2009. By my calculations that is an acceleration from what I'm seeing for Q4 year-over-year growth. Do you have some kind of a recovery you're making into your 2009 thinking at this point?

Kevin Rauckman – Garmin – CFO & Treasurer

Again, it is very difficult from visibility to have some sort of expectations about what the economy is going to do, but I think we are basically playing that out to both market share gains and also the fact that penetrations are still at a reasonably low level. Also the fact that we're going to be seeing more of a replacement market as we get into year 2 or year 3 after purchase.

<Q>: Okay. Thank you very much.

Operator

Your next question comes from the line of Scott Sutherland, Wedbush, Morgan Securities.

<Q>: Great. Thank you and good morning. To follow up on that last question, looking at your guidance for the Auto-Mobile it looks like down year-over-year for Q4. When you look at 2009, not getting into guidance, what do you see as pivot points? Do you think that you guys need a recovery in consumer demand? Do you think that

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just less price pressures, some of the smaller players may be get whittled out of the market for you to see a recovery in revenue in that segment?

Kevin Rauckman – Garmin – CFO & Treasurer

I think we need both. I think we need a stronger economy, and I think that we need less competitive pressures as we see a shake out after Q4.

<Q>: You guys have talked about your advertising spend, and you've talked about the channel inventories. As you look at Q4, some of your big box stores and some of your partners out there, what kind of advertising do you see them promoting. Do you think that navigation is still going to be one of the top categories that they are going to push out there?

Kevin Rauckman – Garmin – CFO & Treasurer

We absolutely do. The PND and navigation is still one of the fastest growing categories and they are still putting money in of their own. In store merchandising, point of sale which is very important, cooperative advertising with flyers every week which is important and they work augmenting network TV ad spending.

<Q>: Great. Thank you.

Operator

Your next question comes from the line of Paul Coster, JP Morgan.

<Q>: This is actually Sandeep [INAUDIBLE] on behalf of Paul. I have just a couple of quick questions. Would you have any estimate on how much of your sales right now are replacements and how much is new sales? Where do you see those replacements going up in a couple of years?

Kevin Rauckman – Garmin – CFO & Treasurer

This one is a difficult number to nail down, but we believe that the replacement market at this point is somewhere around 20% of our sales. We have maintained that pretty much all year. It could be picking up some in the next twelve months again as the market starts to mature and we move from hypergrowth into steady growth.

<Q>: You talked about the economy having to recover and then some of the smaller players being shaken out. On the second point of some of the weaker players, is there something that Garmin is going to be doing in terms of the pricing strategy to kind of catalyze that, or do you think that the normal course of these price declines given the financial situation that they are in will take care of that and you will be able to gain market share?

Kevin Rauckman – Garmin – CFO & Treasurer

Yes we think that it is the fact that many of our competitors we believe are selling at very thin margins and we are going to be reasonable in our prices. As I've mentioned we have already go that planned price for Q4 promotions, but clearly there is not going to be as many PND suppliers next year because of the profitability in that segment for some of these guys.

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<Q>: Then lastly on the nüvifone, I know that you don't want to say whether or not you are going to have a subsidy yet, but if you were to have a subsidy what exactly is going to be distributed mostly? Because a Blackberry or an Apple iPhone you are looking at the data access for web and email. Is it going to be web and email, and then are you going to have a specialized GPS real time service sort of thing, or what I guess would make the carriers want to give you the subsidy?

Cliff Pemble – Garmin - President & COO

Well again Sandeep, we're not providing details right now so we will give those closer to when we launch the device for the carrier.

<Q>: Thank you.

Operator

Your next question comes from the line of J.B Groh, D.A. Davidson.

<Q>: I think in the past you guys have given a percentage of sales from new products. I did not hear that. I don't know if I just missed it or if you didn't give it, if it something that you're willing to give out.

Kevin Rauckman – Garmin – CFO & Treasurer

We really de-emphasized that because so many of our products now are new and innovative, so it is a big number but we really haven't quantified that.

<Q>: So since your product life cycle has shortened up you're not giving that anymore. Okay. Kevin I think I heard you say 202 million shares outstanding.

Kevin Rauckman – Garmin – CFO & Treasurer

Yes.

<Q>: The margins on outdoor and fitness; those are really strong on an operating basis. Is that mostly driven by what is going on with new product development? What sort of plans do you have to sustain those and develop other great products in that area?

Kevin Rauckman – Garmin – CFO & Treasurer

I think it will be new fitness products in particular, and even some more outdoor, but it is driven by a pretty strong volume and also the new product introduction that we brought to the market.

<Q>: How much more can you do there? You have come out with some stuff that I don't think people would have thought would have been applications. What else are you working on in that area that you can talk about?

Kevin Rauckman – Garmin – CFO & Treasurer

You know that we can't tell you about product family.

<Q>: I know. Thank you for your time.

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Operator

Your final question comes from the line of Ben Bollin, Cleveland Research.

<Q>: Good morning. My first question, when you look at your retail partners, what is your take right now as to the emphasis they are placing on the category in terms of the number of points of sale, the shelf presence or the absolute SKU expansion on a number of products that they are featuring? How would you say it compares to last year at this time?

Kevin Rauckman – Garmin – CFO & Treasurer

Without a doubt, as I mentioned, it is a hot category. It will still be one of the pushes for the holiday season when you look at shelf space and number of SKUs, clearly there more SKUs now this year than there were last year, and those have ramped up throughout the year. They are committed again to the advertising and promotional activity within the stores trying put traffic and drive a number of consumers through the store. So I think absolutely most of the retailers are committed. It depends on which retailer we are talking about, but most of them really want to see this product this year.

<Q>: My second question. When you look at replacement in general, what would you say the average life of a PND device is now? Where do you see that going over the next year or so?

Cliff Pemble – Garmin - President & COO

I think it is probably difficult to really quantify that. I think our estimates are somewhere in the 3-5 year category depending on the product. I think as the product comes down in price that product life probably shortens naturally, because people are probably more willing to purchase a new unit as features change and capabilities are enhanced. But that is kind of our general view right now.

<Q>: My last question, when you look at the holidays thus far, not necessarily even the visibility you are getting from customers but when you look at the promotions that you are seeing the emphasis other competitors are placing on their holiday sales, how would you say that the promotional environment this holiday will compare with what you saw last year at this time?

Cliff Pemble – Garmin - President & COO

I think there are a lot of deals lined up for Black Friday so you are going to see a very strong promotional emphasis for PNDs for the holidays. Is that the nature of your question in terms of surrounding the sales activity or were you referring to advertising?

<Q>: Yeah, in terms of you know the absolute rebates or promotions that competitors are placing on the devices relative to last year at this time?

Cliff Pemble – Garmin - President & COO

Well again, we probably don't know exactly the competitors are doing. We know what we are doing and we have a strong line up of great promotions.

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<Q>: Thank you

Kevin Rauckman – Garmin – CFO & Treasurer

Pretty consistent with last year. Okay, I think that is the end of the Q&A. Thank you all for your questions and we will look forward to talking to you in the future.

Operator

Thank you for your participation in today's teleconference, this concludes today's conference, you may disconnect at this time.

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