GARMIN INTERNATIONAL, INC.

Moderator: Ardara Yballa
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10:00 am CT

Operator: Good day, ladies and gentlemen and welcome to the Q4 2008 Earnings Call for Garmin Limited. Today's event is audio broadcast, so you may listen through speakers, although you will need to control the volume to your speakers or computer system.

Should you require any technical issues, please use the help button on your screen for options and troubleshooting. This event is in listen-only mode at the time. However after the presentation has completed, we will give instructions for verbal questions.

Thank you for attending today's Webinar for the Q4 2008 Earnings Web cast. And at this time, it is my pleasure to turn the call over to Kerri Thurston, Investor Relations. You may go ahead.

Kerri Thurston: Good morning. We would like to welcome you to Garmin Limited's Fourth 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 March 23, 2009. 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 under the events calendar tab.

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

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 and our quarterly report on Form 10-Q.

Attending on behalf of Garmin Limited 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, General Counsel.

The presenters for this morning's call are Cliff Pemble and Kevin Rauckman. At this time, I'd like to turn the call over to Kevin.

Kevin Rauckman: Thanks, Kerri. Thank you for joining us this morning on short notice. Before we get into the details of our Q4 earnings, I want to provide a brief explanation of why we issued our earnings this morning rather than on Wednesday.

During our final review of Q4 results, we found certain adjustments for sales programs and price protections that pushed our earnings per share results below our earlier stated guidance.

We elected to immediately announce our Q4 earnings and accelerated our conference call by two days in order to accomplish this.

At this point, I'd like to turn the call over to Cliff to provide our business update this morning.

Clifton Pemble: Thank you, Kevin. Good morning. As you read from our press release this morning, Garmin announced fourth quarter results with strong margins, increasing market share and significant reductions in our inventories.

Financial highlights from 2008 include revenue growth of 10% to almost $3.5 billion, with revenue growth in all segments of the business. This represents Garmin's 18th consecutive year of revenue growth.

A significant highlight for 2008 is our gross margin performance of 44.5%, which is down just 150 basis points from 2007. Our 2008 operating margin was 24.7%, which is a 380 basis point decline from 2007, but exceeded our earlier expectations.

Bill of material cost reductions helped offset most of the PND price declines that occurred during the year.

Excluding foreign currency, our earnings per share fell 3% to $3.69 per share, which includes the gain from the sale and tender of our Tele Atlas shares.

Throughout 2008, we've maintained our strong cash position with free cash flow generation of $743 million, which was enhanced by the significant reduction in inventory during the quarter.

This cash flow allowed us to fund our stock repurchase plan, pay a 75 cents per share dividend and remain a debt free company.

Some notable business highlights for the year include, while we await the final fourth quarter market share reports, we believe that we have expanded or worldwide leadership position in a PND market from 35% in Q3 of 2008. We believe our share approximated 50% in North America and greater than 20% in Europe.

As a reminder, on a worldwide basis, our market share was about 30% in 2007.

Consolidated shipments were almost 17 million units for the full year, resulting in a year-over-year growth rate of 38% across all of our business segments. Unit growth was led by our Auto/mobile segment with full year growth at 45%.

Turning next to segment highlights, in the Automotive and Mobile segment our revenues grew 8% for the year driven by continued unit growth and moderating price declines when compared to 2007.

We experienced unit growth of 62% in North America for the full year, although it slowed significantly in the second half. European PND unit growth for the full year was 16%. This unit growth was offset by an ASP decline of 26%, which is down from the 35% declines we experienced in 2007.

For the full year, revenues from our Outdoor/Fitness segment grew 26%, which outperformed our expectations thanks to our strong lineup of new products and specific strength in the fitness market.

We also saw growth in our Aviation segment, though again, the first half of 2008 was much stronger.

Revenues grew 10% in 2008 as shipments to new and existing OEM partners offset weaknesses in the portable and retrofit markets.

And finally, Marine revenues grew 1% in 2008 as the segment continues to be affected by high fuel prices that were present earlier in the year and economic conditions which have slowed the entire marine industry.

Given how hard the marine industry has been hit by the economic downturns, our ability to generate growth in this segment is a tribute to the strength of our product portfolio and our market share gains throughout the year.

As the economic crisis continues to play out, we realize that 2009 will be one of the most difficult years in our history. In the Automotive segment, we estimate that units will be flat in 2009 on a global basis due to the reduced levels of consumer spending and increased levels of penetration particularly in Europe.

We are focused on managing our business appropriately in light of these market realities. Our strong margins and significant reduction of inventory in the fourth quarter validate our ability to use vertical integration to appropriately scale our business in real time.

We also anticipate that ASP declines will moderate in 2009 as additional competitors exit the market and retail channel inventories decline resulting in less margin pressure.

Our Outdoor/Fitness, Aviation and Marine segments will be under significant pressure in 2009 due to the unfavorable economic conditions facing consumers. While these segments are not likely to grow in 2009, we will continue to focus on market share gains and profitability, which will allow us to outperform competitors in these respective markets.

In addition, we will continue to make prudent investments in research and development and introduce new product innovations that will position us for growth and new opportunities as the economic cycle runs its course.

At the recent CES Show, we introduced new products and industry leading features. The first of the new offerings was nüMaps Lifetime, which offers consumers the ability to update maps and points of interest quarterly for the lifetime of the device for a single fee. This ensures the customers are traveling with the most current maps.

In addition we introduce ecoRoute, which is a free software update available for many nuvi models that assist drivers with fuel efficient navigation by offering a less fuel routing option. ecoRoute also calculates the fuel cost associated with a trip and a carbon footprint.

At the upper end of our product family we introduced the nüvi 8x5 Series, which delivers two of our more popular high-end features, Lane assisted navigation with graphical junction views and speech recognition.

The 8x5 T Series also includes MSN Direct Version 3, which provides graphical weather, flight status, traffic, gas prices and more.

Other introductions at PES included the Approach G5 and Zümo 660. The Approach G5 represents Garmin's first touch screen handheld designed specifically for the golf course.

By combining our Oregon Form Factor with thousands of preloaded course maps, we expect to gain significant market share in this growing business.

The Approach G5 is differentiated by the touch screen, the number of preloaded courses available without a subscription or fee and the ability to plan shots using a drop and drag approach on the touch screen.

The Zümo 660 is new motorcycle device that integrates the nüvi form factor with motorcycle specific features including oversized touch screen buttons and waterproof casing.

In addition, the Zümo 660 features advanced routing capability, lane assist with junction view and 3D buildings.

In the aviation market we began delivery of the GPS Map 695 and 696 during the fourth quarter. These devices represent Garmin's newest portable offerings and build off the popular 496. New features and capabilities include a 7 inch screen, airways, electronic charts and expanded weather. While only available in the last half of the fourth quarter, the 695 and 696 have already proven to be popular.

In the marine market, we introduced the GPS Maps 600 Series and GHP 10 Auto Pilot. The GPS Maps 640 specifically is preloaded with City Navigator and Bluechart G2 marine charts, making it an all in one marine navigator and automotive navigator.

The device can also be paired with the GXM 40 antenna, making it XM capable for weather, radio and traffic. The GHP 10 Autopilot was released in October to great reviews. It incorporates our patented shadow drive technology, which automatically disengages the autopilot if the helm is turned allowing for quick manual maneuvers without manually disengaging the autopilot. It is also able to be controlled wirelessly with the GHP 10 remote control.

With regard to the nuvifone, we continue to look forward to the launch of the Garmin-Asus G60 in the next few months as we discussed during our February 4th announcements regarding our strategic alliance with Asus.

In addition, we introduced a second device in the nuvifone family at Mobile World Congress recently. The Garmin-Asus M20 will utilize Windows Mobile and will be released in the first half of 2009. We will provide further updates on carriers on pricing as launch dates approach.

At this time I would like to turn the call over to Kevin who will provide a more detailed look at our fourth quarter and 2008 results.

Kevin Rauckman: Thanks Cliff. Again, I'd like to - as typical go through Q4 and full year and we'll talk a little about 2009 at the end of this section of the call.

You saw the press release this morning that we announced revenue of $1.05 billion during the quarter, net income of $158 million and an earnings per share result of 93 cents per share excluding foreign currency. Revenue was negatively impacted by approximately $38 million due to continued weakness of the euro and other foreign currencies.

So our overall revenue decline was 14% and our EPS came down 29% excluding FX.

We also announced that our effective tax rate was 22.8% during the quarter compared to 11.7% in the fourth quarter of '07 resulting in a negative EPS impact of 11 cents per share.

Unfavorable 15 cent EPS impact was due to the foreign currency loss of $40 million during the fourth quarter of '08.

Our gross margins of 41.1% were better than expected due to material cost reductions and operating efficiencies in the business. Operating income was down 25% to $236 million compared to the fourth quarter of '07.

We announced 22.6% operating margin, which was down from 25.7% last year. Overall, our operating margins were generated from a gross margin of 70 basis points unfavorable; our advertising expense was 100 basis points favorable. Other SG&A was unfavorable by 250 basis points and this was made up primarily of the increase year-over-year of the integration of our European distributors that were acquired, $7 million due to increase in our Germany and Italy subsidiaries and we also announced a $14 million Circuit City write-off due to their bankruptcy.

R&D was unfavorable 90 basis points during the quarter.

Overall, in the fourth quarter, units shipped grew 15% as almost 6.4 million units were delivered on the strength of our Automobile segment. The total company average selling price was $165 per unit, down 27% from the third quarter and 25% from the fourth quarter of '07.

Moving next to the full year income statement, our revenue reported was $3.5 billion, net income of $733 million and an earnings per share of $3.69 per share excluding FX.

So we recognized a 10% top line growth during the year and a 3% earnings per share decrease excluding foreign currency. For the full year, our effective tax rate was 19.9%, which compares to 12.6% a year ago resulting in a negative EPS impact of 31 cents per share.

We also saw an unfavorable 21 cent EPS impact due to the foreign currency loss of $35.3 million during 2008.

For the full year, gross margin of 44.5% was better than expected due to moderation of ASP declines, material cost reductions and overall operating efficiencies. Therefore our operating income fell 5% to $862 million compared to $907 million in 2007.

Operating margin was 24.7%, down from 28.5% a year ago, but better than expected. Gross margin was unfavorable at 150 basis points, advertising was favorable for the full year at 50 basis points and other SG&A was unfavorable by 190 basis points.

Approximately $46 million of our SG&A was due to the integration of the European distributors and a year-over-year increase in bad debt in total of about $20 million. R&D was unfavorable for the full year by 90 basis points.

Units shipped grew 38% year-over-year as over 16.9 million units were delivered during the year on the strength, again, of our Auto/mobile segment.

Total company average selling price for 2008 was $206 per unit, down 20% from 2007.

The non-GAAP measures that we reported this morning include net income excluding the affect of foreign currency; the full year FX loss does not reflect the gain associated with the tender of our TA shares.

This FX impact was 15 cents per share unfavorable during the fourth quarter and 21 cents per share unfavorable for fiscal 2008.

Breaking down our revenue by segments, during the fourth quarter, we experienced a 17% revenue decline within the Automobile segment while the unit growth in that segment was positive 18%.

Our Outdoor/Fitness segment continued to grow with a 5% revenue increase when compared to the fourth quarter of '07. Our Fitness category continued to lead the way in that overall segment.

Aviation segment revenues fell 5% compared to the fourth quarter of '07. Marine segment revenues were flat compared to last year's fourth quarter. In total, our revenues declined 14% during the fourth quarter.

For 2008, the Automobile segment revenue grew 8% while the unit growth in that segment was 45%.

Our Outdoor/Fitness segment outpaced growth in all other segments with a 26% revenue increase compared to '07.

Aviation segment revenues increased 10% and our Marine business was up 1% compared to 2007. Overall, our revenues increased 10% in 2008 and we were pleased with our ability to post growth in every segment within our business.

During the fourth quarter all geographies slowed on a year-over-year basis due to the impact of the worldwide economic slowdown. On a full year basis we were able to post growth in all geographies with North America growing most rapidly at 13%.

Unit growth in our North America business exceeded that of Europe as the North American PND market grew at 62% for the full year on a unit basis and Europe at 16% for the full year.

The Automobile segment represented 79% of our total business during the fourth quarter and 73% for the full year. This is down 1 percentage point from 2007 when Automobile represented 74% of our revenues.

Since there was stronger growth in North America during the quarter, that geographic region represented 73% of our total fourth quarter business. Europe accounted for 24% of our total revenue. And on a full year, North America accounted for 67% of our revenues.

The low end unit sales of PNDs accounted for approximately 85% of total units and the low end revenues of PND accounted for approximately 80% of the total revenues.

Moving next to margins, our fourth quarter Automobile gross margin and operating margin were 36% and 20% respectively. The gross margin of 36% was better than expected with a full year ASP decline of 26% offset by cost declining 21% on a full year level.

Our fourth quarter Outdoor/Fitness gross margin was 56%, up 3% over last year due to product mix and an increasing ASP.

The gross margin did decline on a sequential basis due to promotional pricing during the holiday season. Operating margin also increased year-over-year to 37%. We continue to target our long-term margin in this Outdoor/Fitness segment of 55% and 35% respectively.

Fourth quarter Aviation gross margin was 67%, down slightly from the prior year but up sequentially due to product mix. Operating margin was 33% for the quarter due to increased advertising costs on lower volumes.

We continue to target long-term margins in this segment of 65% and 35% and did achieve this for the full year with gross and operating margin at 67% and 36% respectively.

And finally, our fourth quarter Marine gross margin was below the long-term target of 55% at 52% due to the continued weakness in the industry. In turn, operating margin was also low at 23% compared to a long-term target of 35%.

These margins are consistent with the fourth quarter of '07 due to seasonality in the segment. Full year margins for Marine were 55% and 29% respectively.

We will mange the business to maintain margins near our long-term target of 55% and 35% going forward.

Fourth quarter operating expenses were down slightly on a year-over-year basis from $196 million in the fourth quarter of '07 to $194 million in the fourth quarter of '08, but they did increase 240 bps as a percentage of sales.

R&D increased $2.7 million year-over-year in dollar terms and was up 90 basis points to 4.8% of sales. We continue to employ over 1700 engineers and engineering associates worldwide.

Our ad spending decreased $21 million over the year ago quarter and 100 basis points as a percentage of sales from 6.8% to 5.8% in the fourth quarter. We were pleased with our decisions relative to advertising spending and the benefit it provided to operating margins for the period.

Other SG&A increased 250 basis points to 7.9% of sales from 5.4% a year ago. This increase was due to the write-off of our Circuit City receivable and the integration of our European distributors that we have acquired since this period last year.

We expect that our SG&A expenses will stabilize at approximately $70 million per quarter in 2009.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of just over $973 million. Our accounts receivable increased on a sequential basis to $741 million as sales increased during the holiday quarter. AR accounted for approximately 77 days of sales. We have now collected $530 million of this balance during the first quarter of 2009.

Our inventory balances decreased $274 million to $425 million as we exited the holiday selling season.

Our days of inventory metrics decreased from 105 days at the end of the third quarter to 79 days at the end of the fourth quarter, primarily in our finished goods inventory.

At the end of 2008 we have $151 million in raw materials, which make up 27 days of inventory, $29 million in wip and assemblies, making up five days of inventory and $269 million in our finished goods, which represents 47 days of inventory.

We carry $23 million in inventory reserves at the end of 2008. We're extremely pleased with our level of inventory reduction and will continue to manage the supply chain appropriately given the economic conditions. It's our goal to have adequate inventory to support customer needs, however we intend to carry the right level and mix of inventory to minimize the risk of obsolescence.

Retail channel inventory has become more lean as retailers look to reduce their inventory exposure and conserve their cash during this economy.

Looking next at cash flow, cash flow from operations during the fourth quarter was $350 million. We spent only $9 million on CapEx during the fourth quarter and our free cash flow during Q4 was approximately $340 million.

Cash flow from investing was $31 million source of cash made up of a $9 million use of cash on CapEx, $50 million net redemption of marketable securities and approximately $10 million use of cash on the acquisition of businesses and intangibles.

Finally, the cash flow from financing was $194 million use of cash during the fourth quarter made up primarily of the $150 million dividend payment during December, $47 million of our stock buyback and $3 million positive cash issuance of stock options.

We earned an average of 3.9% on all cash and marketable securities balances during the quarter.

Garmin repurchased over 2.4 million shares using $47 million of cash during the quarter. We repurchased 17.1 million shares during the year, using approximately $672 million. Current authorization allows for $258 million to be used to repurchase shares through December 31 of 2009 and Garmin intends to be an active buyer of those shares as business and market conditions warrant.

Our diluted shares outstanding declined 9% to 202 million due to the shares repurchased during the year.

And finally, spending a little bit of time on 2009, we do recognize that 2009 is going to be a difficult year and we're prepared to manage our business accordingly. While economic conditions are very challenging and are affecting most of our markets, we continue to see opportunities to invest selectively and grow our business through new product development and market share gains.

Our goal is to maintain healthy margins and a strong balance sheet during the year. In addition, we will continue to manage our inventory carefully in order to scale it to the proper level to support our business in light of these challenging economic conditions, to continue to closely monitor the global economic developments and our business situation.

And we're evaluating making adjustments in certain areas of our business in order to increase cost efficiency and match operations to market demand over the near to intermediate term.

In light of the uncertainties and dynamic conditions we will not offer specific guidance for 2009 until the outlook for the year becomes clearer.