



# GARMIN®

**Q3 2017 Earnings – November 1, 2017**



# Safe Harbor Statement

These materials include projections and other forward-looking statements. These statements are based on the current expectations of Garmin Ltd. and are naturally subject to uncertainty and changes in circumstances. Forward-looking statements include, without limitation, statements containing words such as "proposed" and "intends" or "intended" and "expects" or "expected." Any statements regarding the Company's GAAP and pro forma estimated earnings, EPS, and effective tax rate, and the Company's expected segment revenue growth rates, consolidated revenue, gross margins, operating margins, currency movements, expenses, pricing, new products to be introduced in 2017, statements relating to possible future dividends and the Company's plans and objectives are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. These factors include those discussed or identified in the filing by Garmin Ltd. with the U.S. Securities and Exchange Commission in its Annual Report on Form 10-K. Garmin Ltd. does not undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

# Business Update

Cliff Pemble  
President and CEO

# 3rd Quarter Financial Overview

Revenue growth and improved gross margins contribute to operating income growth

- Consolidated revenue of \$743 million, up 3%
- Outdoor, aviation, marine and fitness segments combined grew 9% and contributed 75% of total revenue
- Gross and operating margin improved to 58.4% and 22.8%, respectively
- Operating income growth of 6%
- GAAP EPS of \$0.78 and pro forma EPS of \$0.75

# Outdoor

## 3<sup>rd</sup> Quarter Business Review

- Robust revenue growth of 31%, as a result of the strong demand for wearables
- Solid growth of our subscriptions business
- Gross margin and operating margin of 64% and 37%, respectively
- Operating income growth of 38%

## Market/Product Update

- Entered the dive computer market with the introduction of the Descent dive watch
- Introduced the Impact bat swing sensor, our first product for the baseball market
- Focus on the wearable opportunity and new product categories



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# Aviation

## 3<sup>rd</sup> Quarter Business Review

- Strong revenue growth of 16%, driven by growth in OEM and aftermarket categories
- Gross margin and operating margin of 73% and 27%, respectively
- Operating income growth of 12%



## Market/Product Update

- Announced the TXi series of touchscreen flight displays with engine monitoring solutions
- Began shipping the GFC 600, our first aftermarket autopilot solution
- Focus on opportunities in ADS-B and market share gains



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# Marine

## 3<sup>rd</sup> Quarter Business Review

- Solid revenue growth of 10% driven by growth in our chartplotter and fishfinder products
- Honored with nine awards by NMEA, including Manufacturer of the Year
- Gross margin and operating margin of 58% and 24%, respectively

## Market/Product Update

- Acquired Navionics, a leading provider of electronic marine content and applications
- Announced the 2018 lineup of marine electronics, including updated echoMAP and STRIKER products
- Focus on product innovation and gaining share in the inland fishing market



# Fitness

## 3<sup>rd</sup> Quarter Business Review

- Revenue decline of 12% driven by the rapidly declining market for basic activity trackers and the timing of new product introductions
- Strong growth of our running products
- Gross margin and operating margin of 58% and 20%, respectively

## Market/Product Update

- Launched the Disney branded vívofit jr. 2 that began shipping very late in the quarter
- Launched several new wearables including the vívoactive 3, vívosport and vívomove HR
- Focus on growth opportunities in wearable devices



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# Auto

## 3<sup>rd</sup> Quarter Business Review

- Revenue declined 12%
- Strong growth in OEM and niche categories
- Global PND market share remains strong
- Gross margin and operating margin of 44% and 8%, respectively



## Market/Product Update

- Leverage opportunities in new categories such as Speak and eLog
- Focus on disciplined execution and optimizing profitability



# 2017 Guidance Update

	Update	Prior
Revenue	~ \$3.07B	~ \$3.04B
Gross Margin	~ 57.5%	~ 57.5%
Operating Margin	~ 21.5%	~ 21%
Tax Rate (Pro Forma)	~ 21.5%	~ 22%
EPS (Pro Forma)	~ \$2.90	~ \$2.80

# 2017 Revenue Guidance by Segment

	Updated Growth	Prior Growth
Outdoor	~27%	~25%
Aviation	~13%	~10%
Marine	~10%	~10%
Fitness	~(7%)	~(5%)
Auto	~(15%)	~(17%)

# Financial Update

Doug Boessen  
CFO and Treasurer

# Q3 Income Statement

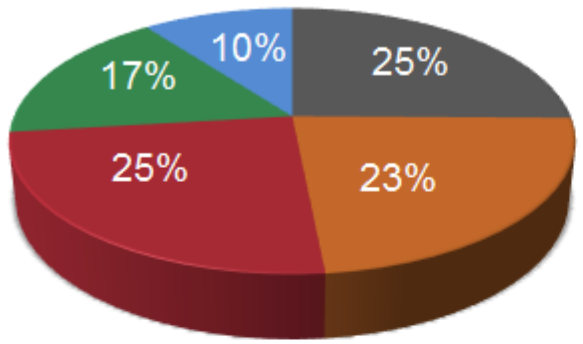
(\$ Millions)	Q3 2017	Q3 2016	Change
<b>Revenue</b>	<b>\$743</b>	<b>\$722</b>	<b>3%</b>
Gross Profit	434	406	7%
<b>Gross Margin %</b>	<b>58.4%</b>	<b>56.2%</b>	<b>220 bps</b>
Total Operating Expense	264	246	7%
Operating Income	170	160	6%
<b>Operating Margin %</b>	<b>22.8%</b>	<b>22.1%</b>	<b>70 bps</b>
Other Income	16	(10)	
Income Tax	(39)	(25)	
<b>Net Income (GAAP)</b>	<b>147</b>	<b>125</b>	<b>18%</b>
<b>Net Income (Pro-Forma)</b>	<b>141</b>	<b>141</b>	
<b>EPS (GAAP)</b>	<b>\$0.78</b>	<b>\$0.66</b>	<b>18%</b>
<b>EPS (Pro-Forma)</b>	<b>\$0.75</b>	<b>\$0.75</b>	

# Q3 Revenue

Revenue by Segment			
(\$ M)	Q3 2017	Q3 2016	Change
Outdoor	\$185	\$141	31%
Aviation	125	107	16%
Marine	77	70	10%
Fitness	167	189	(12%)
Auto	189	215	(12%)
<b>Total</b>	<b>\$743</b>	<b>\$722</b>	<b>3%</b>

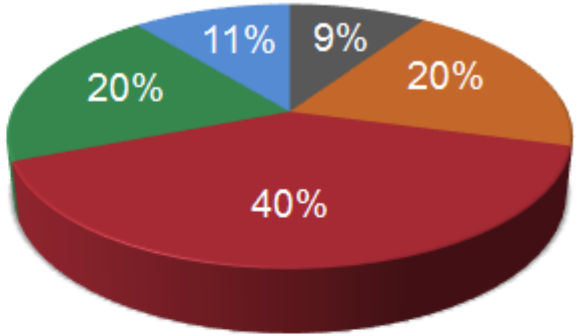
# Q3 Revenue & Operating Income

**Q3 2017 Revenue**



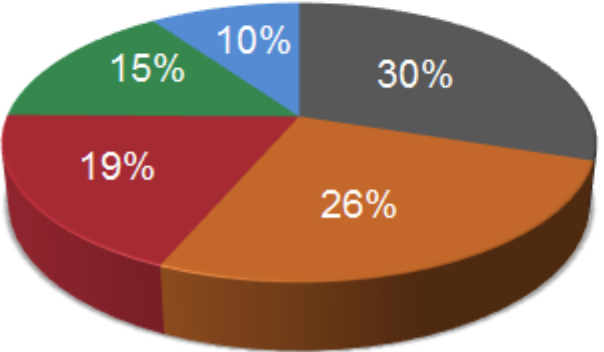
■ Auto ■ Fitness ■ Outdoor ■ Aviation ■ Marine

**Q3 2017 Operating Income**



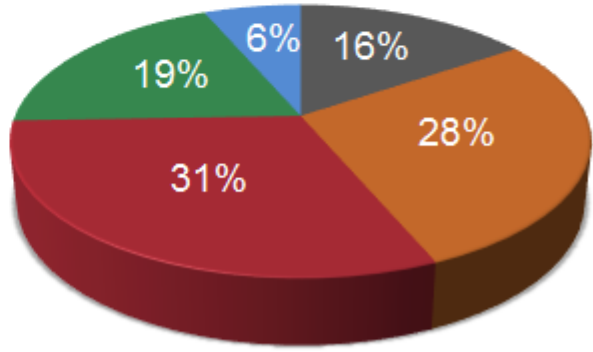
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**Q3 2016 Revenue**



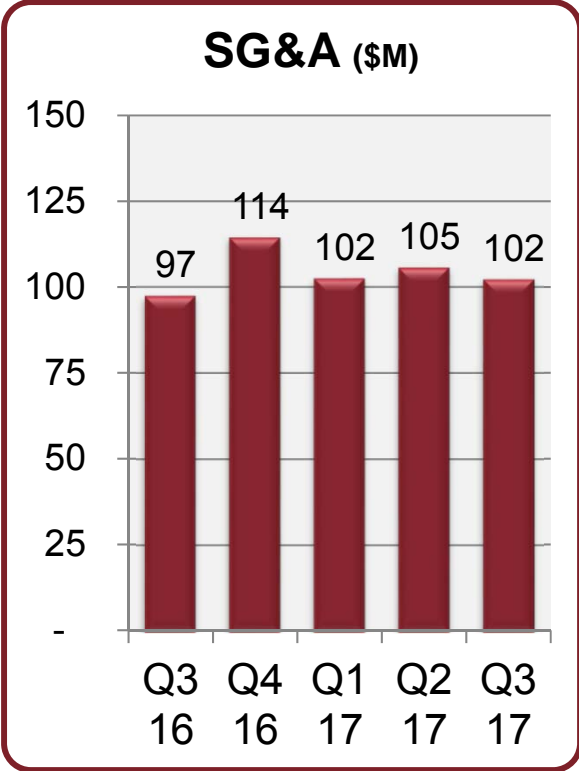
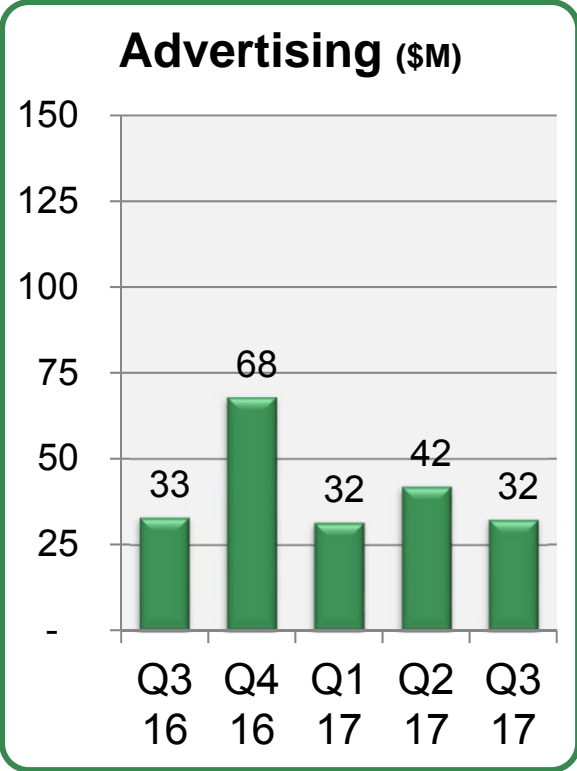
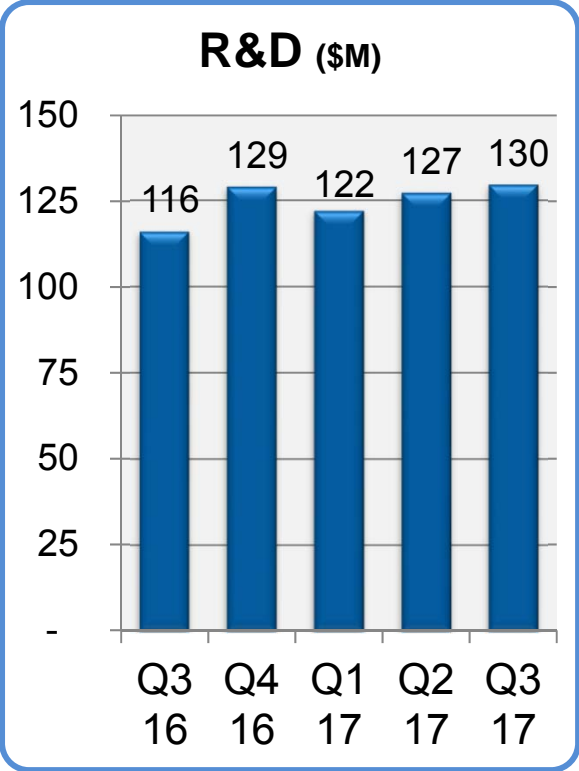
■ Auto ■ Fitness ■ Outdoor ■ Aviation ■ Marine

**Q3 2016 Operating Income**



■ Auto ■ Fitness ■ Outdoor ■ Aviation ■ Marine

# Operating Expenses





# Balance Sheet/Cash Flow

## **Balance Sheet**

- Ended quarter with approximately \$2.4 billion of cash and marketable securities
- Accounts receivable decreased sequentially due to seasonal trends and was relatively consistent year-over-year
- Inventory balance increased on a sequential basis as we prepared for the fourth quarter and was higher year-over-year due to new product launches

## **Cash Flow**

- Generated \$153 million of free cash flow in Q3 2017
- Repurchased approximately \$11 million of company stock in Q3 2017
- About \$1 million remaining in the share repurchase program, authorized through December 31, 2017

# Taxes

- Q3 2017 effective tax rate of 20.8% compared to an effective tax rate of 16.5% in Q3 2016
  - The increase is primarily due to the Company's election to align certain Switzerland tax positions with evolving international tax initiatives and income mix by tax jurisdiction
  - Partially offset by the release of income tax reserves
- Updating our full year 2017 pro forma effective tax rate guidance to ~21.5%



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**Q3 2017 Earnings – November 1, 2017**



# Appendix

## November 1, 2017

## Pro forma effective tax rate

The Company's income tax expense is periodically impacted by discrete tax items that are not reflective of income tax expense incurred as a result of current period earnings. Therefore, the effective tax rate and income tax provision before the effect of such discrete tax items are important measures to permit consistent comparison between periods. In fiscal 2016, there were no such discrete tax items identified.

	13-Weeks Ended		39-weeks Ended	
	September 30, 2017		September 30, 2017	
	\$	ETR <sup>(1)</sup>	\$	ETR <sup>(1)</sup>
U.S. GAAP income tax provision (benefit)	\$38,643	20.8%	(\$54,372)	(10.8%)
Pro forma discrete tax items:				
Revaluation of deferred tax asset <sup>(2)</sup>	-		168,755	
Tax expense from share-based award expirations <sup>(3)</sup>	-		(7,275)	
Total pro forma discrete tax items	-		161,480	
Income tax provision (Pro Forma)	\$38,643	20.8%	\$107,108	21.3%

<sup>(1)</sup> Effective tax rate is calculated by taking the Income tax provision (benefit) divided by Income before taxes, as presented on the face of the Condensed Consolidated Statements of Income.

<sup>(2)</sup> In first quarter 2017, a \$169 million tax benefit was recognized resulting from the revaluation of certain Switzerland deferred tax assets. The revaluation is due to the Company's election in February 2017 to align certain Switzerland corporate tax positions with international tax initiatives. As this revaluation is not reflective of income tax expense incurred related to the current period earnings, and therefore affects period-to-period comparability, it has been identified as a pro forma adjustment.

<sup>(3)</sup> Following adoption in fiscal 2017 of Accounting Standards Update No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), the Company may periodically incur tax expense resulting from stock options and stock appreciation rights (SARs) expiring unexercised. New grants of stock options and SARs no longer comprise a significant component of the Company's compensation arrangements. As the tax expense from expired awards is not related to current period earnings or compensation activities, and affects period-to-period comparability, it has been identified as a pro forma adjustment.

## Pro forma net income (earnings) per share

Management believes that net income (earnings) per share before the impact of foreign currency gains or losses and certain discrete income tax items, as discussed above, is an important measure in order to permit a consistent comparison of the Company's performance between periods.

	13-Weeks Ended		39-weeks Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net income (GAAP)	\$147,413	\$125,054	\$556,175	\$374,209
Foreign currency gains / losses <sup>(1)</sup>	(8,579)	19,421	13,808	30,003
Tax effect of foreign currency gains / losses <sup>(2)</sup>	1,782	(3,204)	(2,948)	(5,654)
Discrete tax items <sup>(3)</sup>	-	-	(161,480)	-
Net income (Pro Forma)	\$140,616	\$141,271	\$405,555	\$398,558
Net income per share (GAAP):				
Basic	\$0.79	\$0.66	\$2.96	\$1.98
Diluted	\$0.78	\$0.66	\$2.95	\$1.98
Net income per share (Pro Forma):				
Basic	\$0.75	\$0.75	\$2.16	\$2.11
Diluted	\$0.75	\$0.75	\$2.15	\$2.10
Weighted average common shares outstanding:				
Basic	187,616	188,692	187,902	189,027
Diluted	188,490	189,238	188,671	189,376

(1) The majority of the Company's consolidated foreign currency gains and losses are typically driven by movements in the Taiwan Dollar, Euro, and British Pound Sterling in relation to the U.S. Dollar and the related exchange rate impact on the significant cash, receivables, and payables held in a currency other than the functional currency at one of the Company's subsidiaries. However, there is minimal cash impact from such foreign currency gains and losses.

(2) The tax effect of foreign currency gains and losses was calculated using the effective tax rate of 20.8% and the pro forma effective tax rate of 21.3% for the quarter and year-to-date ended September 30, 2017, respectively, and an effective tax rate of 16.5% and 18.8% for the quarter and year-to-date ended September 24, 2016, respectively.

(3) The discrete tax items are discussed in the pro forma effective tax rate section.

## Free Cash Flow

Management believes that free cash flow is an important financial measure because it represents the amount of cash provided by operations that is available for investing and defines it as operating cash flow less capital expenditures for property and equipment.

	13-Weeks Ended		39-weeks Ended	
	September 30, 2017	September 24, 2016	September 30, 2017	September 24, 2016
Net cash provided by operating activities	\$198,750	\$212,995	\$462,577	\$492,366
Less: purchases of property and equipment	(45,399)	(13,544)	(85,211)	(42,157)
Free Cash Flow	<u>\$153,351</u>	<u>\$199,451</u>	<u>\$377,366</u>	<u>\$450,209</u>

### ***Forward-looking pro forma tax rate***

Forward-looking pro forma effective tax rate and forward-looking pro forma net income (earnings) per share are calculated before the effect of certain discrete tax items. Management believes certain discrete tax items may not be reflective of income tax expense incurred as a result of current period earnings. Therefore, in order to permit consistent comparison between periods, the effective tax rate and earnings per share before the effect of such discrete tax items are important measures. In fiscal 2017, management believes certain discrete tax items recognized on a GAAP-basis have an effect on comparability between periods:

The fiscal 2017 pro forma effective tax rate excludes certain tax effects from share-based compensation as a result of ASU 2016-09. The Company is unable to reasonably estimate these amounts on a forward-looking basis due to the dependency of this item on the underlying share price of the Company. The fiscal 2017 pro forma effective tax rate excludes the \$7.3 million tax expense resulting from the expiration of share-based awards as discussed in the pro forma effective tax rate section above. The impact of this discrete tax item was \$0.04 per share for the 39-weeks ended September 30, 2017.

The fiscal 2017 pro forma effective tax rate excludes the \$168.8 million income tax benefit resulting from the revaluation of certain Switzerland deferred tax assets as discussed in the pro forma effective tax rate section above. The impact of this discrete tax item was (\$0.90) per share for the 39-weeks ended September 30, 2017.

While management expects the above to have a significant impact on comparability, management is unable to determine whether or not additional significant discrete tax items will be identified in the fourth quarter of 2017.

### ***Forward-looking pro forma earnings per share (EPS)***

In addition to the discrete tax items discussed in the forward-looking pro forma effective tax rate section above, our 2017 pro forma EPS excludes foreign currency exchange gains and losses. The estimated impact of such foreign currency gains and losses cannot be reasonably estimated on a forward-looking basis due to the high variability and low visibility with respect to non-operating foreign currency exchange gains and losses and the related tax effects of such gains and losses. The impact of such foreign currency gains and losses, net of tax effects, was \$10.9 million, or \$0.06 per share for the 39-weeks ended September 30, 2017.