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Operator^ Ladies and gentlemen, thank you for standing by, and welcome to the Garmin Ltd. First Quarter of 2020 Earnings Conference Call. (Operator Instructions) As a reminder, today's program may be recorded. I would now like to introduce your host for today's program, Teri Seck, Manager of Investor Relations. Please go ahead.

Teri Seck^ Good morning. We would like to welcome you to Garmin Ltd. First Quarter 2020 Earnings Call. Please note that the earnings press release and related slides are available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock. An archive of the webcast and related transcripts will also be available on our website.

This earnings call includes projections and other forward-looking statements regarding Garmin Ltd. and its business. Any statements regarding our future financial position, revenues, earnings, gross margins, operating margins, future dividends, market shares, product introductions, future demand for our products and plans and objectives are forward-looking statements. The forward-looking events and circumstances discussed in this earnings call may not occur, and actual results could differ materially as a result of risk factors affecting Garmin. Information concerning these risk factors is contained in our Form 10-K and first quarter 2020 Form 10-Q filed with the Securities and Exchange Commission. In particular, there is significant uncertainty about the duration and impact of the COVID-19 pandemic. This means that results could change at any time, and any statement about the impact of COVID-19 on the company's business results and outlook is the best estimate based on the information available as of today's date.

Presenting on behalf of Garmin Ltd. this morning are Cliff Pemble, President and Chief Executive Officer; and Doug Boessen, Chief Financial Officer and Treasurer.

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

Clifton Albert Pemble^ Thank you, Teri, and good morning, everyone. First quarter of 2020 continued the strong momentum we experienced in the back half of last year. Revenue increased 12%, resulting in a new record for the first quarter. Gross margin was stable to last year, and operating margin expanded, resulting in operating income growth of 17%. Late in the quarter, the landscape changed as the COVID-19 outbreak became a global pandemic and governments responded with drastic measures to slow the spread of the virus. This resulted in unprecedented economic changes affecting every company, and Garmin is no exception. Accordingly, we are withdrawing our fiscal 2020 guidance. However, we are optimistic for the long-term as the markets we serve and the products we offer are well positioned to succeed in a post pandemic world. I'll explain why we are optimistic in just a moment. But first, I want to share a few insights on how Garmin is approaching the most significant health and economic crisis of our time.

First, I'll highlight our business priorities. The global awareness of the coronavirus is recent, but its impact was felt much earlier when parts of Asia were dramatically affected by its emergence and rapid spread. Since the beginning, employee safety has been our top priority, starting in Asia and expanding as the virus spread to other regions of the world. Most of our employees can work from home. And we've taken steps to protect those who continue to work within our facilities. Our employees adapted to these new circumstances with speed and resilience, and I'm super proud of their response to this challenge.

Our second priority has been to strengthen our supply chain. In the early days of the virus outbreak, our supply chain teams were working hard to ensure we would not be affected by the widespread industrial shutdowns that were occurring in Asia. I'm pleased to report that our supply chain is healthy, and we've not missed any opportunities due to COVID-19-related disruptions. This is remarkable considering the unprecedented disruption occurring in global supply chains.

Our third priority is to focus on opportunities. The crisis is often defined by its challenges, but we are looking through the lens of opportunity. We've accelerated efforts to increase our mix of online sales with business partners and on garmin.com. We have plenty of inventory, allowing us to capture market share.

And finally, we'll be using this opportunity to refine our product road map priorities to make sure we have the right products now and after the crisis fades.

Next, I will talk about the leadership model we've embraced during this time of global crisis and unprecedented disruption. First, we choose to think positively. In the constant rumble of negative unthinkable headlines, there are positive thinking, things happening all over Garmin. All of us wonder what the new normal will be. No matter what happens, I feel good about the markets we serve and the product lines we offer. We believe every business segment has a bright future.

Second, we are responding accordingly. We recognize the world is facing the most significant health and economic crisis of our time. We understand it could take some time before the global economy recovers from the effects of the virus and the actions taken to control its spread. With this in mind, we're taking pragmatic steps to maintain our strong financial position.

And finally, we're focused on the long term. In this dynamic environment, aiming at what we see today will only cause us to miss the target. Instead, we're aiming for where we want to be when the crisis fades. Paraphrasing our company mission, we aspire to be an enduring company by creating superior products that are an essential part of our customers' lives. Our vision is to be a globally respected leader in every market we serve. We expect to emerge from this crisis as a stronger and more capable company. This isn't the first global crisis we faced, and it won't be our last. During each test, past and present, we rely on a set of unique strengths that help us through times of crisis.

First, our highly diverse business model provides a rich set of opportunities and reduces our reliance on single markets and product lines. Each market we serve and each product line we offer has an important role to play, both now and in the future. We are also well diversified geographically with roughly half of our revenue generated in the Americas, 1/3 in Europe and the remainder from Asia Pacific. Our revenue diversity will help us capture opportunities as the pandemic evolves from region to region.

Second, we are a vertically integrated company. We control our own supply chain and are not overly reliant on outside partners to produce and distribute our products. This gives us a high degree of flexibility, efficiency and effectiveness while operating in a highly dynamic business environment.

And finally, we have a strong balance sheet with no debt and over $2.6 billion in cash and marketable securities.

We're often asked why we maintain such a strong balance sheet, and our answer remains the same. Our balance sheet provides stability to our investors through our commitment to an attractive dividend and allows us to invest for the future when others are pulling back.

In summary, our balance sheet is the cornerstone of our ability to face a crisis such as this. With these things in mind, I'd like to spend a few minutes providing a market update for each of our segments.

Fitness had a strong quarter, driven by advanced wearables and our Tacx indoor bike trainers, which continue to experience strong demand during the current stay-at-home orders. A positive outcome of this crisis is the increasing focus on personal fitness, health and wellness. People recognize that good health is an important defense against contracting the virus. And they're looking for tools that can help them improve their health. Our fitness products are highly relevant today and will remain so in the future.

Marine posted a strong first quarter, driven by our strong lineup of chartplotters and game-changing sonar technology. We were recognized as Supplier of the Year by Independent Boat Builders, Inc. for the second year in a row, and our sponsored anglers swept the top 3 spots at the recent 2020 Bassmaster Classic. Boating is an active lifestyle pursuit that promotes family time, relaxation and a sense of freedom. In the long term, we believe that the current crisis will increase consumer interest in boating and fishing. Certain restrictions have prevented some boats from coming out of storage as planned, which could impact the marine season. Once restrictions are eased, we expect to see strong demand for our products. Regardless of how things play out, we believe compelling innovation is driving market share gains, and we will continue to deliver innovation for the future.

Outdoor posted strong operating results driven by adventure watches. Time in the outdoors is highly compatible with healthy social distancing. And we believe that interest in outdoor activities will increase in the future. We already have a great lineup of products that support a broad range of outdoor activities. And in coming months, we will strengthen our position by introducing compelling new products and new categories.

Aviation delivered strong operating results for the first quarter. We saw additional growth in the ADS-B category but at a lower rate than last year, which was expected. Retrofit systems were strong, while OEM categories were roughly flat. The aviation market has been significantly impacted by the pandemic and economic damage caused by measures to contain the spread.

First, travel has been brought to a near standstill by stay-at-home orders and international border closings. This has impacted both commercial and general aviation. Business confidence has been shaken by stock market volatility and rapidly declining economic activity. From history, we know that aviation takes longer to recover from severe economic shocks. Even so, we are optimistic about the future. We believe more people will seek transportation options that are secure, flexible and convenient. These are the enduring qualities that general aviation has been known for throughout the decades. We are ready for this opportunity with industry-leading cockpit systems for every aircraft from light sport airplanes to large business jets. We will continue to invest for the future. And disruptive new cockpit technologies are on the way.

Revenue from auto decreased 17% in the first quarter, and the segment was essentially breakeven. The first quarter of the year is seasonally slower for our consumer products, and some of our top-performing OEM products are at a mature point of their life cycle. As I mentioned earlier, people will seek transportation options that are secure, flexible and convenient. For this reason, we believe personal autos will remain an important part of the future. To prepare for this opportunity, we've been making significant progress transforming ourselves to be a Tier 1 auto supplier. New vehicles are launching this year with Garmin hardware and software solutions, which will lead to revenue growth for the OEM category.

In addition, we will be introducing new specialty product categories that will appeal to automotive adventurers.

Finally, I want to make a few remarks about our plans for guidance. The impact of the coronavirus and the economic damage caused by efforts to contain its spread are unprecedented. The ultimate outcome remains unpredictable, causing us to withdraw our fiscal 2020 guidance, as I mentioned earlier. While the long-term is difficult to predict, we want to share insights on what we have seen so far in Q2.

On a consolidated basis, our April sales are trending about 40% lower than last year, as many retailers have curtailed operations and consumer activity has been severely limited by government restrictions. We expect these trends to continue throughout the second quarter as restrictions remain in place across much of the globe. We anticipate being profitable in Q2, provided that our revenue development follows the trends we've been seeing so far. We've taken near-term measures to defer discretionary expenses, prioritize uses of cash for critical CapEx and acquisitions, and we've sharpened our focus in R&D. We look forward to providing annual guidance once economic volatility subsides and when consumer behaviors are better understood after restrictions are eased and the crisis passes.

That concludes my remarks. Next, Doug will walk us through additional details on our financial results. Doug?

Douglas Gerard Boessen^ Thanks, Cliff. Good morning, everyone. I'd like to begin by reviewing our first quarter financial results, move to comments on the balance sheet, cash flow statement and taxes. We posted revenue of $856 million for the first quarter, representing a 12% increase year-over-year. Gross margin was 59.2%, a 20 basis point increase from the prior year. Operating expense as a percentage of sales was 38.5%, a 70 basis point decrease from the prior year. Operating income was $177 million, a 17% increase year-over-year. Operating margin was 20.7%, a 90 basis point increase from the prior year. Our GAAP EPS was $0.84 and pro forma EPS was $0.91.

Next, to look at our first quarter revenue by segment, we achieved record first quarter revenue of $856 million, with 4 of our 5 segments posting double-digit growth. As seen in the charts, we have a diversified business model from both a segment and geography perspective.

Looking next, operating expenses. First quarter operating expenses increased by $29 million or 10%. Research and development increased $19 million year-over-year, investments in engineering resources, incremental costs associated with recent acquisitions. Advertising expense decreased approximately $1 million from the prior year quarter. SG&A increased $10 million compared to prior year quarter, but decreased as a percentage of sales to 16%, 60 basis point decrease compared to the prior year. Increase was primarily due to personnel-related expenses, incremental costs associated with recent acquisitions. As Cliff mentioned, we're implementing expense control measures to defer discretionary spending and sharpening our focus in R&D.

A few highlights on the balance sheet, cash flow statement and taxes. We ended the quarter with cash and marketable securities of approximately $2.6 billion and no debt. Accounts receivable decreased sequentially to $500 million on a seasonally strong fourth quarter, increased year-over-year in line with first quarter sales. Inventory balance increased on both a sequential year-over-year basis as we have been preparing for the seasonally strong second quarter. We are aligning production levels and inventory with anticipated demand. However, we expect incremental increases in inventory in the near term as it takes time to scale supply chain around near-term demand.

During the first quarter of 2020, we generated free cash flow of $185 million, $50 million increase for the prior year quarter. We took another look at our capital expenditures and now expect 2020 annual cap expenditures to be approximately $140 million. 2 key capital expenditure projects for 2020 were the Tacx manufacturing facility and the auto OEM manufacturing facility in Europe. Also during the quarter, we paid dividends of $109 million. Turning an attractive dividend to our shareholders is one of current priorities for cash.

In the first quarter of 2020, we reported an effective tax rate of 9.3% compared to 15.7% in the prior year quarter. The decrease is primarily due to the migration of intellectual property ownership from Switzerland to United States.

This concludes our formal remarks.

Teri Seck^ Thank you all for joining us today. Doug and I are available for callbacks, and we hope you all stay safe and healthy. Bye.

Operator^ Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day