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Presentation

Operator

Good morning. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the Garmin Ltd. First Quarter 2023 Earnings Conference Call. [Operator Instructions] Thank you. Teri Seck, Director of Investor Relations, you may begin your conference.

Teri Seck

Manager of Investor Relations

Good morning. We would like to welcome you to Garmin Ltd.'s First Quarter 2023 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 transcript 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, segment growth rates, earnings, gross margins, operating margins, future dividends or share repurchases, market shares, product introduction, 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 or 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 filed with the Securities and Exchange Commission. In particular, there is significant uncertainty about the duration and impact of 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

President, CEO & Director

Thank you, Teri, and good morning, everyone. As reported earlier today, consolidated first quarter revenue came in at \$1.15 billion, which is down 2% from the prior year. Four of our 5 business segments posted double-digit revenue growth driven by new product introductions and solid demand trends, which mostly offset an expected decline in outdoor.

Gross margin improved to 56.9%, driven primarily by lower freight costs. We generated \$197 million in operating income, down 14% from the prior year and operating margin came in at 17.2%. We feel positive about our first quarter results, which are consistent with the expectations we communicated in February. As such, we are maintaining the full year guidance issued in February, calling for revenue of \$5 billion and EPS of \$5.15.

It's important to remember that Q1 is typically the lowest seasonal quarter of our financial year and much of the year lies ahead of us. Our diversified business model offers many different paths to achieve our goals and we believe we are on track to do just that.

Before turning the call over to Doug, I'll provide highlights by segment and a summary of what we see ahead. Starting with fitness, returned to growth with revenue increasing 11% to \$245 million, driven by strong demand for advanced wearables, especially running watches introduced during the past year. Gross and operating margins were 49% and 4%, respectively, resulting in improved year-over-year operating income of \$11 million. During the quarter, we launched the Forerunner 265 and Forerunner 965, which

combine advanced training metrics, recovery insights and everyday health stats with a vibrant sunlight readable AMOLED display that does not sacrifice battery life.

Moving to outdoor. Revenue decreased 27% to \$329 million, primarily due to year-over-year declines in the adventure watch category as we passed the 1-year anniversary of the highly successful fenix 7, epix and Instinct 2 launch. Gross and operating margins were 62% and 23%, respectively, resulting in operating income of \$77 million.

Our adventure watches are known for the rugged dependability, long battery life and rich biosensing capabilities that enable their use in demanding applications. During the quarter, we announced that the fenix 7 will be worn on the upcoming Polaris Dawn space light mission to provide insights into the impact of space travel on the human body.

Also during the quarter, we launched new handheld devices with the introduction of the GPSMAP 67 series and eTrex SE. These versatile handhelds offer longer battery life, improved positional accuracy and global communication via inReach satellite technology. We recently announced the DRIVE 53 GPS navigator featuring a high-resolution capacitive touchscreen display, a fresh new design and built-in traffic options to simplify the drive.

We also announced the zumo XT2, a rugged motorcycle navigator that's built for adventure, with a larger and brighter 6-inch sunlight-readable display.

We expected the first quarter of the year to be challenging in comparison to the outstanding performance of the prior year. We believe these trends will moderate as we introduce new products throughout the remainder of the year.

Looking next to the aviation segment, revenue increased 22% to \$214 million, with contributions from both OEM and aftermarket product categories. Gross and operating margins were strong at 72% and 27%, respectively, resulting in operating income of \$58 million. During the quarter, we announced additional certifications for our GFC autopilots, which expands our addressable market, bringing the performance and safety enhancing benefits of our flight control technology to more aircraft models.

We also recently attended the Embraer Suppliers Conference, where we were named best supplier in the categories of systems as well as services and support for our G3000 flight deck in the Phenom 100EV and 300E aircraft. In addition, we were named the best of the best supplier to the entire Embraer organization. We also received an operational excellence award from Airbus Helicopters. These prestigious awards are an affirmation of our reliable performance during the supply chain crisis and reflect our strong commitment to providing the best products and outstanding service to our customers.

I'm very proud of what our aviation team has accomplished and believe there is much more we can achieve in this market. We are pleased with how our aviation segment has performed so far this year.

The supply chain disruptions of the prior year appear to be mostly behind us, while demand for new aircraft and retrofit systems remains resilient.

Marine segment delivered another quarter of impressive results with revenue increasing 10% to \$279 million, primarily due to the timing of spring promotions. Gross and operating margins were 54% and 26%, respectively, resulting in operating income of \$72 million. During the quarter, we expanded our strong lineup of chartplotters with the introduction of the ECHOMAP UHD2 series, which are preloaded with premium Garmin Navionics+ cartography and offer wireless data sharing of live sonar and navigation information with other chartplotters on the boat. Also during the quarter, we were recognized as the leader in navigation and sonar categories by Best Marine Electronics and Technology and for the fifth consecutive year, received a 2023 Top Product Award from Boating Industry Magazine.

Moving finally to the auto OEM segment. Revenue increased 11% to \$81 million, primarily driven by increased shipments of domain controllers to BMW. Gross margin was 28%, and we recorded an operating loss of \$20 million driven by ongoing investments as new programs move into production. During the quarter, we began deliveries of domain controllers for the 2024 BMW X5 and X6 from our Olathe, Kansas

facility, which represents an important milestone in expanding our manufacturing capability to serve world-class automakers.

We also expanded our footprint in the 2-wheel market with the launch of an entertainment system for additional models of Yamaha sport touring motorcycles.

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

Douglas Gerard Boessen

CFO & Treasurer

Thanks, Cliff. Good morning, everyone. I'll begin by reviewing our first quarter financial results, provide comments on the balance sheet, cash flow statement and taxes.

We posted revenue of \$1.147 billion for the first quarter, representing 2% decrease year-over-year. Gross margin was 56.9%, 40 basis point increase from the prior quarter. Increase was primarily due to lower freight costs.

Operating expense as a percentage of sales was 39.7%, 270 basis point increase. Operating income was \$197 million, a 14% decrease. Operating margin was 17.2%, 230 basis point decrease. Our GAAP EPS was \$1.05, and pro forma EPS was \$1.02.

Next, look at our first quarter revenue by segment and geography. In the first quarter, we achieved double-digit growth in 4 of 5 segments, led by the aviation segment with strong growth of 22%, followed by the fitness, auto OEM segments with 11% growth and the marine segment with 10% growth. Outdoor segment declined 27%, primarily due to lower revenue from adventure watches as they compare against a strong first quarter of 2022 launches.

By geography, 7% growth in Americas was more than offset by a 12% decline in APAC, a 10% decline in EMEA, both were negatively impacted by foreign exchange rates during the quarter.

Looking next at our operating expenses. First quarter operating expense increased by \$22 million or 5%. Research and development increased approximately \$12 million year-over-year primarily due to engineering personnel costs. SG&A increased approximately \$13 million compared to prior year quarter, primarily due to increases in personnel-related expenses, information technology costs. Our advertising expense decreased approximately \$4 million, primarily due to lower co-op advertising.

Key highlights from the balance sheet, cash flow statement and taxes. We ended the quarter with cash and marketable securities of approximately \$2.7 billion. Accounts receivable increased year-over-year, but decreased sequentially to \$611 million following the seasonally strong fourth quarter.

Inventory increased year-over-year and decreased sequentially to approximately \$1.5 billion as we continue to work to optimize inventory levels. We anticipate 2023 ending inventory balance to be relatively flat year-over-year, expected declines in our consumer inventory were offset by expected increases associated with growth in our auto OEM business.

For the first quarter of 2023, we generated free cash flow of \$232 million, [\$160 million] increase from prior year quarter, primarily due to lower use of cash and purchases of inventory.

Capital expenditures for the first quarter of 2023 were \$47 million, approximately \$13 million lower than the prior year quarter. For the first quarter of 2023, we paid dividends of approximately \$140 million. Also, we purchased \$41 million of company stock and approximately \$53 million remaining at quarter end, the share purchase program, which is authorized through December 2023.

We reported an effective tax rate of 8.8% compared to 10.3% in the prior year quarter. Decrease in the effective tax rate is primarily due to favorable income mix by tax jurisdiction.

That concludes our formal remarks. Rob, can you please open the line for Q&A?

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