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Earnings Call

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Presentation

Operator

Thank you for standing by and welcome to the Garmin Limited Third Quarter 2024 Conference Call. [Operator Instructions] I'd now like to turn the call over to Teri Seck, Director of Investor Relations. You may begin.

Teri Seck

Manager of Investor Relations

Good morning. We would like to welcome you to Garmin Limited's Third Quarter 2024 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 Limited and its business.

Any statements regarding our future financial position, revenue segment growth rates, earnings, gross margins, operating margins, future dividends or share repurchases, 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 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. Presenting on behalf of Garmin Limited 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 announced earlier today, Garmin delivered another quarter of impressive financial results as our products resonate with customers and we leverage growth opportunities across market segments and geographies. Consolidated revenue increased 24% to \$1.59 billion a new third quarter record and we achieved record revenue in all 5 business segments. Gross margin expanded 300 basis points to 60%.

Operating income increased 62% year-over-year and operating margin expanded 640 basis points to 27.6%, reflecting both the higher gross margin as well as favorable operational leverage across the business. We reported pro forma EPS of \$1.99, up 41% year-over-year. Some are wondering how we have consistently delivered strong results when the financial health of the consumer is the subject of intense debate. The straightforward answer is that there is no single profile of the Garmin customer.

And therefore, our results are not strictly correlated to broad generalizations of consumer behavior. Our business is highly diversified in many dimensions, from market segments to product categories within segments, each targeting different consumers. Additionally, our business is global in nature, allowing us to leverage growth opportunities wherever they exist.

And finally, our products offer essential utility and unique differentiators that separate them from ordinary discretionary items. Another factor in our strong performance is that our products are clearly resonating with customers. For example, our market share in marine increased as measured by organic Garmin sales versus our competitors. Additionally, our market share in advanced wearables increased. According to the most recent IDC data, covering shipments through June of 2024, Garmin's global market share in advanced wearables increased over 200 basis points year-over-year and we were the only global brand experiencing growth in shipments.

According to IDC, we are now the #2 advanced wearable brand in Europe and globally, we are #3. These are remarkable outcomes considering the highly competitive and fragmented nature of this market. We believe this is a direct reflection of the strength of our products and brilliant execution by our global team. Given our strong performance for the first 3 quarters of the year, we are updating our full year 2024 guidance. We anticipate revenue of approximately \$6.12 billion and pro forma EPS of \$6.85.

Doug will discuss our financial results and outlook in greater detail in a few minutes but first, I'll provide a few remarks on the performance of each business segment. Starting with Fitness. Revenue increased 31% to \$464 million, with all categories contributing to growth and notably as our running and advanced wellness products resonate with customers. Gross margin was 61%, a 710 basis point improvement over the prior year, driven by lower product cost [Audio Gap] mix.

Operating income nearly doubled year-over-year and operating margin expanded by more than 1,000 basis points to 32%, reflecting both higher gross margin and favorable operating leverage in the segment. During the quarter, we celebrated the 10th anniversary of Garmin Health, which leverages our extensive wearable portfolio and high-quality sensor data to support corporate wellness, population health and patient monitoring initiatives. We also hosted the annual Garmin Health Summit to recognize innovative digital health solutions that utilize Garmin products. Given the strong performance of the Fitness segment [Audio Gap]

Moving to Outdoor. Revenue increased 21% to \$527 million, driven primarily by adventure watches following the highly successful launch of the new fenix 8 series. Gross margin was 68%, a 570 basis point improvement over the prior year quarter and was favorably impacted by lower product costs and a higher mix of revenue from adventure watches. Operating income increased 53% year-over-year and operating margin expanded 820 basis points to 40%, reflecting both higher gross margin and favorable operating leverage in the segment.

During the quarter, we launched the highly anticipated fenix 8 series as well as the Enduro 3. The fenix 8 series features a brilliant AMOLED display, cutting-edge features, a built-in speaker, microphone and an LED flashlight across all models. The Enduro 3 weighs only 63 grams that offers rich features for endurance athletes, along with class-leading battery life up to 320 hours in GPS tracking mode and up to 3 months in smartwatch mode using built-in solar charging technology.

We also launched the inReach Messenger Plus, our first satellite communicator to offer photo and voice messaging expanding our customers' ability to stay in touch while roaming in areas of limited or nonexistent cellular coverage. Given the strong performance of the Outdoor segment in the third quarter and the positive response following the recent fenix 8 series launch, we are raising our 2024 revenue growth estimate to 13%. Looking next at Aviation, revenue increased 3% to \$205 million, driven primarily by aftermarket product categories. Gross and operating margins were 75% and 22%, respectively, resulting in operating income of \$44 million, a decrease of 10% year-over-year, driven by increased R&D spending to develop new products [Audio Gap] and certify new aircraft platforms.

We recently announced our new G3000 PRIME, which redefines the integrated flight deck experience with edge-to-edge [Audio Gap] touch screens and a highly flexible open architecture that seamlessly adapts to serve a broad and dynamic market. Textron Aviation recently announced that the G3000 PRIME will be included in the upcoming CJ4 Gen3 business jet. During the quarter, we announced an important new safety feature called Runway Occupancy Awareness, which uses ADS-B information to help reduce the risk of runway incursions and provide added confidence for pilots navigating busy and complex airports.

Garmin is the first to bring Runway Occupancy Awareness to market. Also during the quarter, our co-founders, Dr. Min Kao and the late Gary Burrell were enshrined into the National Aviation Hall of Fame. This tremendous honor celebrates their pioneering work, developing products that revolutionized the aviation industry. The Aviation segment has performed as expected so far this year and we are maintaining our estimate of flat revenue for the full year 2024.

Turning to Marine, revenue increased 22% to \$222 million, primarily driven by new revenue from JL Audio. Excluding JL Audio, revenue increased approximately 7%, which is ahead of the industry trends pointing to share gains in the market. Gross margin was 55%, a 290 basis point improvement over the prior year

quarter and was favorably impacted by lower product cost. Operating income increased 59% year-over-year and operating margin expanded 390 basis points to 17%, reflecting both higher gross margin and favorable operating leverage in the segment.

During the quarter, we received several awards, including being named the 2024 Manufacturer of the Year by the National Marine Electronics Association for the 10th consecutive year, along with 6 Product of Excellence awards for a total of 63 over the last decade. We were also recognized as the #1 Most Innovative Marine Company for the second consecutive year by Soundings Trade Only, a leading publication for the recreational boating industry. Soundings Trade Only considered both the strength of our products as well as our culture and business practices, which makes this recognition especially meaningful to us.

Last week, we announced the acquisition of Lumishore, a leader in marine LED lighting solutions, which broadens our product portfolio and enhances our ability to seamlessly integrate technologies on the boat. The Marine segment has performed as expected so far this year and we are maintaining our growth estimate of 15% for the full year 2024.

Moving finally to the Auto OEM segment. Revenue increased 53% to \$169 million, primarily driven by growth in domain controllers. Gross margin was 20% and the operating loss narrowed to \$1 million as efficiencies improved with higher sales volumes. During the quarter, we successfully launched the Garmin-designed domain controllers across all remaining BMW car lines. Our Auto OEM segment has performed as expected so far this year. However, it has been widely reported that the outlook of major automakers is softening. With this in mind, we are lowering our full year 2024 revenue growth estimate to 40%.

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 third quarter financial results, provide comments on the balance sheet, cash flow statement, taxes and updated guidance. Posted revenue of \$1.586 billion for the third quarter, representing a 24% increase year-over-year. Gross margin increased to 60%, 300 basis point increase due to lower product costs and favorable product mix in certain segments.

Operating expense as a percentage of sales was 32.4%, 350 basis point decrease. Operating income was \$437 million, a 62% increase. Operating margin was 27.6%, a 640 basis point increase to achieve leverage on our strong sales and improved gross margins. Our GAAP EPS was \$2.07 and pro forma EPS was \$1.99. Next, look at our third quarter revenue by segment and geography. During the third quarter, we achieved record revenue on a consolidated basis for each of our 5 segments. We achieved double-digit growth in 4 of our 5 segments, led by The auto OEM segment with 53% growth. The Fitness, Marine and Outdoor segments have 31%, 22% and 21% growth, respectively.

By geography, we achieved double growth across all 4 regions, led by the EMEA region with 40% growth, followed by the APAC region with 18% growth and the Americas region with 15% growth. Looking next at operating expenses. Third quarter operating expense increased by \$56 million or 12%. Research and development and SG&A each increased approximately \$28 million. Year-over-year increases were primarily due to personnel-related expenses.

A few highlights on the balance sheet, cash flow statement and taxes. Ended the quarter with cash and marketable securities of approximately \$3.5 billion. Accounts receivable increased both year-over-year sequentially to \$922 million, following strong sales in the third quarter. Inventory balance increased year-over-year sequentially to approximately \$1.5 billion. In the third quarter of 2024, we generated free cash flow of \$219 million, [\$19 million] decrease from the prior year quarter. Capital expenditures for third quarter 2024 were \$39 million, approximately \$7 million lower than the prior year quarter.

We expect full year 2024 free cash flow to be approximately \$1.1 billion, capital expenditures approximately \$250 million. During the third quarter of 2024, we paid dividends of approximately \$144

million and purchased \$20 million of company stock. At quarter end, we had approximately \$270 million remaining in the share repurchase program, which is authorized through December 2026. [indiscernible] effective tax rate of 17.9% compared to pro forma effective tax rate of 7.2% in the prior year quarter. Increase in effective tax rate is primarily due to the increase in the combined Switzerland tax rate in response to global minimum tax requirements.

Turning next to our full year guidance. Estimated revenue approximately \$6.12 billion compared to our previous guidance of \$5.95 billion. We expect gross margin to be approximately 58.5%, it's higher than our previous guidance of 57% due to year-to-date performance. We expect an operating margin of approximately 24% compared to our previous guidance of 21.3%. Also, we expect a pro forma effective tax rate of 16.5%, which is higher than our previous guidance of 16% to projected full year income mix by tax jurisdiction. This results expect a pro forma earnings per share of approximately \$6.85, an increase of \$0.85 to the previous guidance of \$6.

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

Operator

That concludes our question-and-answer session. I will now turn the call back over to Teri Seck for some final closing remarks.

Teri Seck

Manager of Investor Relations

Thank you all for joining the call. Doug and I are available for callbacks and we hope you have a great rest of your day. Bye.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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