TRANSCRIPT

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CORPORATE SPEAKERS:

Teri Seck
Garmin Ltd.; Director of Investor Relations
Clifton Pemble
Garmin Ltd.; President & Chief Executive Officer
Douglas Boessen
Garmin Ltd.; Chief Financial Officer & Treasurer

CORPORATE SPEAKERS:

Joseph Cardoso
JPM; Analyst
Erik Woodring
Morgan Stanley; Analyst
Unidentified Participant
Barclays; Analyst
Benjamin Bollin
Cleveland Research Company; Analyst
David MacGregor
Longbow Research; Analyst
Ivan Feinseth
Tigress Financial Partners; Analyst
Noah Zatzkin
KeyBanc Capital Markets; Analyst
Ronald Epstein
Bank of America; Analyst

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PRESENTATION:

Operator^ Hello, everyone. Thank you for joining us. And welcome to the Garmin Limited Fourth Quarter and Full Year 2025 Earnings Conference Call.

After today's prepared remarks, we will host a question-and-answer session. (Operator Instructions)

I will now hand the call over to Teri Seck, Director of Investor Relations.

Please go ahead.

Teri Seck^ Good morning. We would like to welcome you to Garmin Ltd.'s Fourth Quarter and Full Year 2025 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 morning's earnings call includes projections and other forward-looking statements regarding Garmin Limited 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 introductions, foreign currency, tariff impacts, 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 filed with the Securities and Exchange Commission.

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 Clifton Pemble.

Clifton Pemble^ Thank you, Teri. And good morning, everyone.

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As announced earlier today, Garmin achieved another quarter of outstanding financial results, driven by strong broad-based demand for our products.

Consolidated revenue increased 17% to more than $2.1 billion, which is a new fourth quarter record and our first quarter to exceed $2 billion.

We experienced strong double-digit revenue growth in three business segments, reflecting the strength of our highly diversified business model. Gross margin was comparable to the prior year at 59.2% while operating margin expanded 60 basis points to 28.9%. This resulted in record fourth quarter operating income of $614 million, up 19% year-over-year and record pro forma EPS of $2.79, up 16%.

2025 was another year of remarkable growth and achievement for Garmin, with record consolidated revenue, record operating income and record revenue for all business segments.

We attribute this strong performance to our strategic focus on market diversification and creating superior products that are essential to our customers' lives. This approach has been a winning strategy for us since we were founded more than 36 years ago.

Consolidated revenue increased 15% to $7.25 billion, which is a new annual record and up nearly $1 billion over 2024. Gross margin of 58.7% was comparable to 2024, which is a significant achievement, considering the impact of generationally high tariff structures that took effect early in the year.

Operating margin expanded by 60 basis points to 25.9%, resulting in record full year operating income of nearly $1.9 billion, up 18% year-over-year.

Before sharing our full year outlook, I want to provide insights on what is important to us when considering forward-looking guidance.

Our primary objective is to deliver the best result for Garmin on a consolidated basis. There are many factors that influence individual segment results.

We have said before that the diverse nature of Garmin's business gives us multiple paths to achieving consolidated goals. This makes individual segment growth targets less relevant, especially when viewed in isolation.

With this in mind, we will continue to provide consolidated guidance measures and we will provide qualitative forward-looking insights for segments when it is helpful to do so, but we will no longer emphasize individual segment growth targets.

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This approach aligns with our primary objective to deliver the best results for Garmin on a consolidated basis.

With this in mind, we anticipate 2026 to be another year of strong top and bottom line growth.

We expect revenue to increase approximately 9% to $7.9 billion, and we expect operating income to exceed $2 billion for the first time.

Many are wondering how industry-wide memory constraints will affect us.

Our guidance considers everything we know about the supply chain environment including recent cost pressures on memory components.

It's our practice to continually seek efficiency throughout our entire supply chain by leveraging our vertically integrated business model and scale to optimize our cost structure.

We've always used inventory as a business tool, and we have intentionally increased inventory levels of certain components and products to ensure we can meet long-term demand.

We also have strong relationships with our suppliers and are working closely with them to meet the expected demand for our products.

While no one wishes to see supply chain challenges, we believe we are well prepared.

Our strong results and positive outlook give us confidence to propose an annual dividend of $4.20 a share, reflecting a 17% increase over the current dividend amount which will be considered by shareholders at the upcoming annual meeting.

In addition, our Board of Directors recently approved a $500 million share repurchase program, effective through December 2028.

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. 2025 was another exciting year of growth, as customers embrace the healthy active lifestyles our brand represents.

For the year, Fitness revenue increased 33% to $2.36 billion, surpassing $2 billion for the first time, and was driven by wearables as we continue to benefit from both market share gains and market growth.

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Gross margin was 60%, a 130 basis point improvement over the prior year.

Operating income increased 50% year-over-year to $726 million, and operating margin expanded 360 basis points to 31%, reflecting both improved gross margin, and operating leverage.

During the quarter, we announced our collaboration with healthcare payments provider, TrueMed to assist customers using pretax health savings account and flexible savings account funds for qualifying purchases of select Garmin products.

We recently published our annual Garmin Connect data report, which shows that on average, our users increased activity levels by 8% during the year, reflecting a high level of engagement with our products and app platforms.

At the 2026 consumer electronics shows, the Venue 4 and the Forerunner 970 received innovation awards for novel features in digital health and fitness, and we announced exciting enhancements to our premium Connect Plus service with nutrition tracking and insights powered by AI-based active intelligence to help users achieve nutrition goals.

Looking forward, we expect another year of strong performance for fitness driven by demand for our current product lineup and contributions from new product introductions.

We also expect that the Fitness segment will be our strongest contributor to 2026 consolidated growth.

Moving to Outdoor full-year 2025 revenue increased 5% to $2.05 billion, also exceeding $2 billion for the first time. Growth in outdoor was primarily driven by adventure watches with a full year of contributions from the highly successful fenix 8 series that was launched in 2024 followed by the launch of the fenix 8 Pro with inReach technology in September of 2025. Gross and operating margins were 66% and 34%, respectively, resulting in operating income of $690 million.

During the quarter, we launched the inReach Mini 3 Plus satellite communicator with voice, text and photo sharing. This compact and rugged communicator offers essential SOS safety features and reliable communication that explorers can use to stay connected with loved ones while venturing beyond cell phone coverage.

And with up to two weeks of battery life in the 10-minute tracking mode, the inReach Mini 3 Plus can be used on multi-day trips without added worry of battery charging.

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Several outdoor products also received CES Innovation Awards, including the fenix 8 Pro MicroLED version, BlazeEquine Wellness System and the Descent S1 Buoy, which highlights our commitment to exploring new product categories and developing groundbreaking innovation.

Looking forward, we expect full year growth in Outdoor to accelerate in 2026 compared to 2025, driven by a significant number of new product introductions.

We also expect stronger performance in the back half of the year due to the timing of product launches.

Looking next at Aviation, full-year 2025 revenue increased 13% to $987 million, with growth contributions from both OEM and aftermarket product categories. Gross and operating margins expanded year-over-year to 75% and 26%, respectively. Operating income increased 22% to $257 million.

During the quarter, we launched the D2 Air X15 and the D2 Mach 2, our latest aviator smartwatches with cockpit connectivity and advanced aviation, health, fitness and smartwatch features.

We announced that the Garmin G5000H cockpit system was selected for the Brazilian Air Force UH-60 Black Hawk helicopter, part of a growing list of military modernization programs based on our advanced commercially available integrated cockpit systems.

On December 20, 2025, our Autoland system was used by a customer for the first time, returning the aircraft and crew safely to the ground following rapid depressurization while operating in instrument flight conditions over the Rocky Mountains. This incident illustrates how our cockpit systems can improve the safety margins of flight.

We are very proud of our aviation team for creating our award-winning Auto LAN technology.

Looking forward, we expect aviation revenue will continue to grow in 2026, in line with historical norms.

Turning to the Marine segment. Full-year 2025 revenue increased 10% to $1.18 billion, driven by growth across multiple categories led by chartplotters. Gross and operating margins were 55% and 21%, respectively, resulting in operating income of $251 million.

We recently introduced the flagship GPS Map9000xsv lineup to further strengthen our offerings in the chartplotter category. The GPS Map9000xsb offers stunning 4K resolution displays, 5 gigahertz WiFi networking and industry-leading sonar performance.

Also during the quarter, we launched Garmin OnBoard, a versatile man overboard and engine cutoff system that uses wireless technology, offering users freedom to move around the boat while still enjoying the protection of this important safety system. Garmin OnBoard was selected as the winner of the 2025 DAME Design Award in the Safety and Security Award category at the recent Metstrade Marine exhibition in Amsterdam.

During 2025, we received multiple awards, including being named Most Innovative Marine Company by Soundings Trade Only for the third consecutive year, NMEA Manufacturer of the Year for the 11th consecutive year, and we received the National Boating Safety Award for the fifth consecutive year. This is an unprecedented level of industry recognition, and we attribute our success to the outstanding products we offer and our strong commitment to serving customers.

In 2026, we expect Marine segment growth to be consistent with the prior year based on improving market conditions.

Moving finally to the auto OEM segment. Full year 2025 revenue increased 9% to $665 million, primarily driven by growth in domain controllers. Gross margin was 17%, and the operating loss was $49 million for the year.

At the recent Consumer Electronics Show, we introduced our next-gen unified cabin domain controller that adds digital key capability, seat-specific audio and video and an AI system designed to make vehicle interactions more conversational and powerful.

We also announced our collaboration with Meta to explore new ways of interacting with the vehicle.

We continue to achieve important milestones leading up to the launch of our next domain controller program.

I'm pleased to report that this program is with renowned global automaker, Mercedes-Benz, and will broadly apply across their portfolio of passenger car models with significant volumes ramping up in 2027.

In 2026, we expect revenue to decrease year-over-year, as we have reached the peak of BMW domain controller volumes and a certain legacy programs approach end of life.

We expect operating losses to narrow in 2026, as we shift certain auto OEM R&D resources to accelerate product roadmap development in other segments.

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That concludes my remarks.

Next, Doug will walk you through additional details on our financial results. Doug?

Douglas Boessen^ Thanks, Cliff. Good morning, everyone.

I'd like to begin by reviewing our fourth quarter and full year financial results, provide comments on the balance sheet, cash flow statement, taxes, our 2026 guidance.

We post a revenue of $2.125 billion for the fourth quarter, representing a 17% increase year-over-year. Gross margin was 59.2% comparable to the prior year.

Operating expense percentage sales was 30.3%, a 60 basis point decrease.

Operating income was $614 million, 19% year-over-year increase.

Operating margin was 28.9%, a 60 basis point increase from the prior year.

Our GAAP EPS was $2.73, and pro forma EPS fell $0.79, a 16% increase from the prior year pro forma EPS.

Looking at our full year results.

We posted revenue of $7.246 billion, representing a 15% increase year-over-year. Gross margin was 58.7% comparable to the prior year.

Operating expense as a percentage of sales was 32.9%, a 50 basis point decrease.

Operating income was $1.876 billion, 18% increase.

Operating margin was 25.9%, a 60 basis point increase from the prior year.

Our GAAP EPS was $8.59, pro forma EPS was $8.56, 16% increase on prior year pro forma EPS.

Next, look at our fourth quarter revenue by segment and geography.

During the fourth quarter, we achieved record revenue on a consolidated basis.

We achieved double-digit growth in three of our five segments led by the fitness segment with 42% growth. Followed by marine segment with 18% growth, aviation segment with 16% growth.

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By geography, the Americas region achieved strong double-digit growth of 21%, resulting in quarterly revenue exceeding $1 billion for the first time.

EMA region, APAC region had 14% and 8% growth, respectively.

For full year 2025, we achieved record revenue on a consolidated basis and record revenue for each of our five segments.

Our geography, we achieved 18% growth in EMEA, 40% growth in Americas and 12% growth in APAC.

Looking next, operating expenses. Fourth quarter operating expenses increased by approximately $80 million or 14%. Research and development increased by $36 million, primarily due to personnel-related expenses.

SG&A increased by $44 million, primarily due to increased advertising and personnel-related expenses.

A few highlights on the balance sheet, cash flow statement, dividends and share repurchase. We ended the quarter with cash and marketable securities of approximately $4.1 billion. Accounts receivable increased sequentially and year-over-year to approximately $1.3 billion due to strong sales in the fourth quarter.

Inventory balance increased year-over-year to approximately $1.8 billion.

For our fourth quarter of 2025, we generated free cash flow of $430 million, a $30 million increase from the prior year quarter.

For the full year 2025, we generated free cash flow of approximately $1.4 billion, $124 million increase from the prior year.

Our full year 2025 capital expenditures were $270 million, an increase of $77 million over the prior year.

For 2026, we expect free cash flow to be approximately $1.4 billion, approximately $400 million of capital expenditures. The expected year-over-year increase in capital expenditures primarily due to a new manufacturing facility in Thailand, we expect to be operational in early 2027.

During 2025, we paid dividends of approximately $664 million.

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Also we announced our plan to seek shareholder approval for a $0.60 increase in our annual dividend beginning with the June 2026 payment. This is a 17% increase from our current annual dividend $3.60. (inaudible) a cash dividend of $4.20, $1.05 per share per quarter. 2025, we purchased $181 million of company shares.

Also our Board of Directors recently approved a $500 million share purchase program through December 2028 to replace the remainder of the previous $300 million authorization.

Our full year 2025 pro forma effective tax rate was 17.4% compared to 16.7% in the prior year.

Increase in the current year effective tax rate is primarily due to the 2025 U.S. tax legislation, which changed capitalization requirements of certain R&D costs, resulting in a decrease in certain U.S. tax deductions and credits.

Turning next to our full-year 2026 guidance.

We estimate revenue approximately $7.9 billion increased approximately 9% for 2025.

We expect gross margin to be approximately 58.5%, a 20 basis point lower than our 2025 gross margin due to higher product costs, partially offset by favorable segment mix.

We expect an operating margin of approximately 25.5%. 2026 pro forma effective tax rate is expected to be 16%, 140 basis point decrease compared to 2025.

Expected year-over-year decrease in 2026 pro forma effective tax rate, primarily due to an increase in certain U.S. tax deductions, [saw that] certain provisions in 2025 U.S. tax legislation which came effective 2026. This results in expected pro forma earnings per share approximately $9.35, a 9% increase over 2025 pro forma earnings per share. This concludes our formal remarks.

Teri Seck^ Thanks everyone, for joining us today.

As usual, Doug and I are available for callbacks.

And we hope you have a great day.

Bye.

Operator^ This concludes today's call. Thank you for attending.

You may now disconnect.