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# **Garmin Ltd.** NYSE:GRMN

## *Earnings Call*

*Wednesday, April 30, 2025 3:30 PM GMT*

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# Call Participants

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*CFO & Treasurer*

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# Presentation

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## Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Garmin Limited First Quarter 2025 Earnings Conference Call. [Operator Instructions] I will now hand today's call over to Teri Seck, Director of Investor Relations. Please go ahead.

## Teri Seck

*Director of Investor Relations*

Good morning. We would like to welcome you to Garmin Ltd.'s First Quarter 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](http://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 share, 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-Q and 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 outstanding financial results during the first quarter of 2025 in a continuation of the positive business trends we've been experiencing over the longer term. Consolidated revenue increased 11% to \$1.54 billion, a new first quarter record with 3 business segments delivering double-digit growth. Gross and operating margins were 57.6% and 21.7%, respectively, resulting in record first quarter operating income of \$333 million, up 12% year-over-year and pro forma EPS of \$1.61, up 13% year-over-year.

We're off to a great start, and we are very pleased with these results. While it is not our normal practice, we are updating our full year 2025 guidance to reflect first quarter results and our current assessment of markets and the global trade environment. Doug will discuss our financial results and updated guidance in greater detail in a few minutes. But first, I'll provide remarks on tariffs followed by an update for each business segment.

The global trade environment is very dynamic due to recent changes in U.S. trade policy, which is affecting every business, especially those with extensive global supply chains. It appears that higher tariffs and more complex trade structures will be a normal part of business going forward.

While the situation remains fluid, we have established assumptions about tariff structures that are most likely to impact Garmin and have reassessed our 2025 guidance using these assumptions. It's important to note that approximately 25% of our revenue is generated in the U.S. market from products manufactured outside of the U.S., primarily in Taiwan.

Our assumptions include a 10% baseline tariff on all products manufactured outside of the U.S., including those manufactured in Taiwan. Many of our products are temporarily exempt from tariffs, but we have not

assumed any benefit from these temporary exemptions, reflecting conservatism in our assumptions. We will benefit from these exemptions as long as they remain in place. We are also assuming an incremental 145% tariff on products and materials imported into the U.S. directly from China.

While we do not source a significant amount of material directly from China for U.S. production, the reciprocal tariff amplifies the impact. The current trade environment has weakened the U.S. dollar relative to other currencies, which benefits our revenue and margin. Approximately 40% of our revenue is generated in non-U.S. dollar currencies, and we expect the benefit to partially offset the direct impact of tariffs. We are pursuing mitigations some of which have already been established, while others will take more time. We are not ruling anything out, and we intend to be strategic and selective with these actions.

Given the current trade environment and potential impact on consumers, our guidance assumes a modest reduction of demand moving forward. Using these assumptions, we estimate the growth impact from tariffs on our 2025 results prior to any mitigations will be approximately \$100 million of increased costs. However, our 2025 pro forma EPS is unchanged at \$7.80 as the expected benefit from foreign exchange and planned mitigations offset the impact of tariffs on earnings. While the current trade environment has created headwinds and increased uncertainty in the market, we remain optimistic because of our strong product lines and the resilience of our vertically integrated highly diversified business model.

Turning now to business updates, starting with Fitness. Revenue increased 12% to \$385 million with growth led by strong demand for advanced wearables. According to the latest data provided by IDC, we were the only global smartwatch provider that grew in 2024, reflecting increased market share. Gross and operating margins were 57% and 20%, respectively, resulting in operating income of \$78 million.

During the quarter, we announced Garmin Connect+ premium service offering AI-based health and fitness insights, enhanced live tracking and exclusive achievement badges. We recently announced the vívoactive 6, our newest health and fitness smartwatch with an even brighter AMOLED display, more than 80 preloaded sports apps and access to Garmin Coach training plans. Given the first quarter performance of the Fitness segment and the expected benefit from foreign currency shifts, we are raising our revenue growth estimate to 15% for the year.

Moving to Outdoor. Revenue increased 20% to \$438 million with growth driven primarily by adventure watches. Gross and operating margins were 64% and 29%, respectively, resulting in operating income of \$129 million. During the quarter, we launched several new products across multiple categories, including wearables or adventure sports, dive and golf.

One noteworthy launch is the new Instinct 3 Adventure watch series, which now includes versions with the bright AMOLED display. We also released our annual 2024 inReach SOS report, highlighting the importance of Garmin Response which coordinates emergency response services in more than 200 countries and territories and supports rescue efforts in more than 210 languages. The Emergency Response Coordination Center is an important part of what differentiates our inReach SOS service from others. We are pleased with the strong performance of the Outdoor segment so far this year. Looking forward, we expect growth to moderate as we reach the anniversary of the highly successful fenix 8 launch and considering the possibility that economic uncertainty could reduce demand for certain products. With these things in mind, we are maintaining our revenue growth estimate of 10% for the year.

Looking next at Aviation, revenue increased 3% in the first quarter to \$223 million driven by growth in OEM product categories. Gross and operating margins were 75% and 22%, respectively, resulting in operating income of \$48 million.

During the quarter, Pilatus aircraft announced the new PC-12 Pro, featuring our G3000 Prime flight deck, which with deliveries expected to begin later this year. Pilatus also selected the G3000 Prime for the PC-7 MKX military training aircraft demonstrating versatility to serve both civilian and military applications. The G3000 Prime flight deck is truly extraordinary and significantly raises the bar for modern cockpit system technology. We were also named Supplier of the Year by Cirrus Aircraft, reflecting our commitment to create the best products and provide outstanding service to our customers. Given the first quarter performance of the Aviation segment, we are maintaining our 5% revenue growth estimate for 2025.

Turning to the Marine segment, revenue decreased 2% to \$319 million, primarily due to the timing of promotions. Gross and operating margins improved to 58% and 27%, respectively, resulting in operating income of \$87 million. During the quarter, we launched the Force Pro trolling motor with multi-band GPS for improved control, reverse thrust capabilities and a built-in sonar transducer. Also during the quarter, we were named 2025 Supplier of the Year for the second consecutive year by Independent Boat Builders, Inc. for providing outstanding service, support and dedication to its owner network. Given the first quarter performance of the Marine segment and continued softness in the overall market, we now expect 2025 revenue will be flat versus the prior year.

And moving finally to the auto OEM segment. Revenue increased 31% to \$169 million, with growth primarily driven by increased shipments of domain controllers to BMW. Gross margin was 18%, and the operating loss narrowed to \$9 million. During the quarter, Honda Motor Company announced the 50th anniversary model of the iconic Gold Wing motorcycle featuring a complete infotainment solution from Garmin. Given the first quarter performance of the auto OEM segment, we are now maintaining our 7% revenue growth estimate for 2025.

That concludes my remarks, and 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, taxes, updated guidance. Total revenue of \$1.535 billion for the first quarter, representing an 11% increase year-over-year. Gross margin was 57.6%, a 50 basis point decrease from the prior quarter. Decrease was primarily due to segment mix. Operating expense as a percentage of sales was 35.9%, 50 basis point decrease. Operating income was \$333 million, a 12% increase. Operating margin was 21.7% comparable to the prior year quarter. Our GAAP EPS was \$1.72, pro forma EPS was \$1.61.

Next, look at our first quarter revenue by segment and geography. In the first quarter, we achieved double-digit growth in 3 of 5 segments, led by the auto OEM segment 31% growth, followed by the Outdoor segment 20% growth, the Fitness segment with 12% growth. By geography, we achieved growth in all 3 regions, led by 23% growth in EMEA, followed by 9% growth in APAC, 4% growth in Americas.

Looking next on operating expenses. First quarter operating expense increased by \$48 million or 10%. Research and development increased approximately \$26 million. SG&A increased approximately \$22 million compared to prior year quarter. Both increases are primarily related to personnel-related expenses.

A few highlights on the balance sheet, cash flow statement and taxes. We ended of the quarter with cash, marketable securities approximately \$3.9 billion. Cash receivable increased year-over-year due to strong sales, but decreased sequentially to \$787 million following the seasonally strong fourth quarter.

Inventory increased year-over-year sequentially to approximately \$1.6 billion. In our first quarter of 2025, we generated free cash flow of \$381 million, a \$21 million decrease from prior year quarter. Capital expenditures for the first quarter of 2025 were \$40 million, approximately \$7 million higher than prior year quarter. We still expect full year 2025 free cash flow to approximately \$1.1 billion, capital expenditures approximately \$350 million. In the first quarter of 2025, we paid dividends of approximately \$145 million, purchased \$27 million of company stock. At quarter end, we had approximately \$210 million remaining share repurchase program, which authorized through December 2026. Reported an effective tax rate of 14.5% compared to 15.6% in the prior year quarter, decreased in the current quarter is primarily due to increased tax benefits from stock-based compensation.

Turning next to our full year guidance. We estimate revenue of approximately \$6.85 billion compared to our previous guidance of \$6.8 billion. The increase is primarily due to the expected net favorable foreign currency impacts, partially offset by modest weakening of demand.

Point of reference, the foreign currency impact. Approximately 40% of our sales denominated in non-U.S. dollar currencies and the euro is about half of the non-U.S. dollar currencies, resulting in a benefit

to revenue as the U.S. dollar weakens relative to other major currencies. We expect gross margin to be approximately 58.5%, 20 basis points lower than our previous guidance of 58.7% to an estimated \$100 million of increased costs from tariffs, mostly offset by expected favorable foreign currency impacts and planned mitigations. We expect an operating margin of approximately 24.8% compared to our previous guidance of 25%. Also, we expect a pro forma effective tax rate of 16.5% to unchanged from our previous expectations. This results in an expected pro forma earnings per share of approximately \$7.80, which consists of our previous guidance.

This concludes our form remarks. Tamika, can you please open the line for Q&A.

**Operator**

At this time, there are no further questions. I will now hand today's call back over to Teri Seck for any closing remarks.

**Teri Seck**

*Director of Investor Relations*

Thank you all for joining us today. As typical, 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 joining. You may now disconnect your lines.

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