MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone and welcome to today's Garmin Limited First Quarter 2011 Earnings Call. As a reminder today's call is being recorded. And now at this time I'd like to turn the call over to Miss Kerri Thurston. Please go ahead, ma'am.

Kerri R. Thurston, Director-Investor Relations

Thank you, Allen. Good morning. We'd like to welcome you to Garmin Limited's First Quarter 2011 Earnings Call. Please note that a copy of the press release concerning this earnings call is available at Garmin's Investor Relations site on the Internet at www.garmin.com/stock. Additionally this call is being broadcast live on the Internet. Please note that this webcast does include slides which can be viewed during this call. An archive of the webcast will be available until June 3, 2011. A transcript of the call will be available on the Web site under the Events Calendar tab.

This earnings call includes projections and other forward-looking statements regarding Garmin Limited and its business. Any statements regarding our future financial position, revenues, earnings, market shares, product introductions, future demand for our products 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 for the year ended December 25, 2010, which was filed with the Securities and Exchange Commission in February.

Before beginning the call I wanted to make you aware that we have posted a supplemental schedule on our Web site at the IR Events Calendar entry for Q1 earnings. The schedule provides the segregated 2010 quarterly financial data for our Outdoor and Fitness segments which were previously combined. This will assist you in modeling for the remainder of 2011.

Attending today's call on behalf of Garmin Limited are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and Chief Operating Officer; and Kevin Rauckman, Chief Financial Officer and Treasurer. Presenting today are Cliff and Kevin. At this point I'll turn the call over to Cliff.

Cliffton A. Pemble, President and Chief Operating Officer

Thank you, Kerri, and good morning, everyone. Thanks for joining our call. As you've read from our press release this morning Garmin's first quarter results include 18% revenue growth and pro forma earnings per share growth of 13%. All business segments contributed to revenue growth. The Auto/Mobile segment achieving 20% revenue growth and our traditional segments of Aviation, Marine, Outdoor and Fitness posting 16% revenue and 10% operating income growth on a combined basis.

Strong revenue growth coupled with lower effective tax rate allowed us to post $0.43 of pro forma EPS which is a 13% increase over first quarter of 2010. We sold 2.5 million units during the quarter which is an 18% increase over prior year levels driven primarily by the Fitness and Auto/Mobile segments. In addition, we generated $200 million in free cash flow during the quarter resulting in a cash and marketable securities balance of just under $2.3 billion.

Next we will take a closer look at the first quarter performance within each business segment as well as provide a market and product update.

Beginning with our Marine segment, we posted strong revenue growth of 24% as the industry is in recovery mode and sales are seasonally stronger heading into the boating season. Operating income grew 69% to $15 million as both gross and operating margins improved in the segment. We are excited to see our 2010 OEM announcements contributing to the growth and look forward to building on the momentum.

Throughout 2011 we will continue to invest in research and development to expand our OEM presence. We will begin to leverage our strategic alliance with Volvo Penta, and new product offerings will target the large boat market such as the recently announced GSM23 and 24 Black Box Digital Sonars which provide dramatically better performance through improved target separation and bottom tracking.

We are confident we are well positioned for the future in the Marine market with strong product offerings and improved market share as the industry continues in recovery mode.

Next, turning to aviation we reported year-over-year revenue growth of 5% which is in line with our full-year expectations. The recovery of the OEM market continues to lag that of the broader economy particularly for single engine and turboprop aircraft. Our growth was driven by higher end product sales within our retrofit and portable markets. Operating income declined 6% due to a slight decline in gross margins and increased research and development spending. While we hoped to deliver growth in operating income in this segment, increased investment in research and development is required to complete certification of our new integrated flight decks on a number of aircraft platforms. This investment will be the foundation for growth in 2013 and beyond.

Looking ahead, we expect to see some improvement in the OEM market in the second half of the year. We also expect new product launches such as the GTN 650 and 750 to be a significant contributor to our growth initiatives this year. These innovative new systems build on our highly successful GNS 430 and 530 product line and are the first panel mounted products to offer touch screen controls in the cockpit, setting a new standard for ease of use and performance in general aviation avionics.

Also announced in the first quarter was the G2000 integrated flight deck which builds on everything that pilots love about our G1000 systems while integrating new advanced features not previously available, including touch screen controls. In addition, we had a number of notable OEM wins in the helicopter market including MD and Bell Helicopters and after market certifications for Robinson and Eurocopter. We anticipate that these new OEM opportunities and after market certifications will begin to contribute revenue later this year.

In the outdoors segment we posted revenue growth of 12% and operating income growth of 2%. Note that this is the first quarter where we have separated the results for our fitness and outdoor segments. The operating income growth was impacted by lower gross margins and higher operating cost which Kevin will discuss in more detail.

Contributing to growth in the first quarter were the GPSMAP 62, a high end handheld that was introduced last summer, and our Astro Dog Tracking system which continues to grow in popularity with hunters in both North America and Europe. We continue to focus on long term growth opportunities by regularly updating our product lines with exciting new capabilities and by exploring new adjacent product opportunities such as our recently launched GTU 10 tracking system.

Next we look at our rapidly growing fitness segment which recorded 30% revenue growth and 9% operating income growth. Similar to the outdoor segment, operating margins were impacted by lower gross margins and increased operating cost. We were particularly pleased to see our strong demand for high end cycling products in the European market where the 2011 cycling season is off to a great start. We expect growth to continue for the remainder of 2011 as the global penetration of GPS enabled running and cycling devises grows and Garmin maintains our market leadership.

Our newest product introduction in the running segment, the touch screen Forerunner 610 is expected to further expand our strong market position with serious runners. It offers an innovative design recognized by red dot and is packed with the best in class features.

Turning next to the automobile segment, in the first quarter we reported revenue growth of 20% driven primarily by OEM products and sales of the remaining mobile handset inventory. We are pleased that the PND category did grow slightly over the depressed levels experienced in the first quarter of 2010. Profitability in the quarter was negatively impacted by low volumes and the deferral of high margin revenues but we do expect profitability to improve as the year progresses.

At the Geneva Auto Show in February, Garmin had strong positioning with five auto manufactures including Fiat, Aston Martin, Mini, Peugeot and Honda. Garmin is positioned as a Tier 1 supplier on the Aston Martin Virage where we provide a customized version of our GVN 54 Black Box Navigation system, the Fiat Lancia Thema is based on the Chrysler 300 and features the uConnect system.

In addition, we announced the opening of an office in the Detroit area dedicated to serving Auto OEM customers. The office will be lead by Matthew Munn, an industry veteran with 25 years of Tier 1 experience and a wealth of knowledge in the Auto OEM market. We are excited about our expanding presence in Detroit as it will help us better serve existing opportunities and will be a key part of winning new opportunities in the future.

And finally in the PND market, we introduced a new line of truck products, the dezl Navigator Series. The dezl is specifically designed for over-the-road trucking customers providing unique content and features such as the National Truck and Trailer Services Breakdown directory as well as fuel and mileage logging capabilities.

While we experienced both revenue and unit growth in the PND market during the first quarter, this growth was largely due to relatively easy comparables from Q1 of last year. Market trends do remain negative and we do not expect this growth to continue. As previously forecast, we expect full-year segment revenue to decline 20% which includes the impact of revenues we must defer as part of our map and traffic content programs. However, we are focused on improved profitability over Q1 levels as the year progresses.

As we look forward to the remainder of the year, we plan to build on our strong market leadership position in the PND market. Canalys reported Garmin's Q4 2010 global market share at 38% which was a sequential improvement from Q3 of 2010. We are confident we can gain share in both Europe and emerging markets as the market continues to consolidate.

Finally, I'd like to recognize our associates, many of whom listen to this call. So thanks for your hard work and dedication which enabled us to achieve these results. This concludes my update for Q1 and Kevin will now walk us through the details of first quarter. Kevin?

Kevin S. Rauckman, Chief Financial Officer

Well thanks, Cliff, and good morning, everyone. During this portion of this morning's call I'd like to begin by walking through the income statement, then move to both segment revenue and margin, talk about our operating expense during the quarter and finally end with the balance sheet and the cash flow.

So first on the income statement, we posted revenue of $508 million for the quarter with net income of $96 million. Our pro forma EPS was $0.43 per share which excludes a $12 million foreign currency gain. The revenues represent an increase of 18% year-over-year. Our gross margin came

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in at 46.9% which was a 670 basis point decline from the prior year. Gross margin strength in the prior year quarter was primarily related to the refined warranty estimates that reduced our costs by $22 million or 510 basis points. Deferral of high margin revenues accounted for an additional 70 basis points of gross margin decline during the quarter.

Our operating margin was reported at 14.7% down 460 basis points from 19.3% last year. This margin was driven by gross margin which was 670 basis points unfavorable. Advertising was 10 basis points favorable but up $3 million on a year-over-year basis. SG&A costs which were 130 basis points favorable, up $4 million on a year-over-year basis due primarily to our product support and marketing costs. And finally R&D which came in at 60 basis points favorable, up $8 million on a year-over-year basis due to head count additions during the second quarter of last year.

Our pro forma EPS of $0.43 represents a 13% increase year-over-year drive by revenue growth and a reduction in our effective tax rate to 1.5% compared to 18% in the prior year.

Finally, our units shipped were up 18% year-over-year as 2.5 million units were delivered during the quarter. Total company average selling price was $201 per unit, basically flat from $202 in the prior year.

The non-GAAP measures that we reported this morning represent net income per share excluding the effects of foreign currency translation. This impact was $0.06 per share unfavorable during Q1 of 2011 and $0.19 per share favorable for Q1 2010.

As mentioned in the fourth quarter a larger percentage of our PNDs now include lifetime map updates and we must defer revenue on these units according to U.S. GAAP. This table summarizes the net impact of the deferral and amortization of revenue and related costs in the first quarter of 2011 and 2010. In the current quarter we deferred approximately $0.09 of EPS into future periods compared to $0.05 in the first quarter of 2010. While we are deferring revenue according to U.S. GAAP we are also collecting the cash each year which has reflected positively in the statement of cash flows that I will review shortly.

Moving next to revenue by segment and geography, beginning in Q1 2011 we've now reported on five segments with the previously combined Outdoor/Fitness becoming two independent segments. This decision reflects the ongoing growth in both markets and the management structure within our organization. During Q1 we experienced a 20% revenue increase within the Auto/Mobile segment driven primarily by growth in our OEM business and sales of remaining Mobile handset inventory. However, PND revenue grew at 3% during the period.

Our Outdoor segment continued to grow with a 12% revenue increase when compared to Q1 of 2010. Fitness revenues grew 30% when compared to Q1 2010, and global penetration in both Running and Cycling continues. Marine segment revenues increased 24% compared to Q1 2010 as our OEM wins contributed to solid growth heading into the boating season. And finally, Aviation segments revenues increased 5% compared to Q1 of 2010. So in total, revenues increased 18% during the quarter.

Looking at the results by geography, we posted double-digit growth in all three regions with Europe and Asia outperforming the North American markets. There was no significant change in the mix of our revenues between the regions compared to 2010.

The Auto/Mobile segment represented a similar percent of revenues in both Q1 of 2011 and 2010, but the profitability of the segment changed due to the positive warranty entry in Q1 of 2010. Therefore, Auto/Mobile contributed only 3% of our operating income in Q1 2011 compared to 20% in the year-ago quarter. Each of the other segments contributed similar percentages of revenue when comparing 2011 to 2010, but each contributed more operating income than the prior year.

The largest increase was Marine which contributed 20% of the operating income this year compared to only 11% in 2010.

We expect our operating income to continue to be weighted toward our non-Auto/Mobile segments going forward, but not as dramatically as we have seen in Q1. We expect the operating margins for Auto/Mobile to improve as we progress through the year due increased volume leverage.

Looking next at our margin by segment, Q1 Auto/Mobile gross margin and operating margin were 31% and 1% respectively. This was a significant decline to 2010 levels due to the 2010 warranty refinement and the deferral of high margin revenues.

Q1 Outdoor gross margin was 62%, a decline from 65% in Q1 of 2010, again driven by the 2010 warranty refinement. Operating margin was 37%, a decrease from 41% in the year-ago quarter due primarily to the gross margin decline. We expect improved margins as volumes increase in the second quarter within the Outdoor segment.

Q1 Fitness gross margin was 60%, a slight decline due to gross margin of 62% in Q1 2010, again due to the 2010 warranty refinement. Operating margin was 27%, a decrease from 33% in the year-ago quarter due to the gross margin decline and the allocation of additional resources and associated costs in this high growth segment. Similar to Outdoor, we expect margin improvement with volume growth in the second quarter.

Q1 Marine gross margin came in at 65% compared to 59% in the year-ago quarter. Operating margin was 30% up from 22% a year ago driven primarily by the gross margin increase due to product mix and improved leverage of operating expenses due to the strong revenue growth in the segment.

And finally, our first quarter Aviation gross margin was 69%. Operating margin was 26% for the quarter, flat sequentially and down from 29% in Q1 of 2010. The year-over-year decline was primarily driven by increased R&D costs as we work toward certification of a number of new products on numerous aircraft platforms.

Our Q1 operating expenses increased $16 million on a year-over-year basis to $164 million, but decreased 200 basis points as a percentage of sales due to the revenue growth. R&D increased $8 million in Q1 due to head count increases in the second quarter a year ago, but decreased 60 basis points to 14% of sales. Our ad spending increased $3 million over the year-ago quarter and decreased by 10 basis points as a percentage of sales. The increase was driven by cooperative advertising due to the volume growth in Q1. SG&A increased $5 million compared to the year-ago quarter but decreased 130 basis points to 14% of sales. As previously mentioned the increased expense was primarily related to product support and marketing costs.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of nearly $2.3 billion. Our accounts receivable decreased to $435 million as we collected on sales from the seasonally strong fourth quarter. Accounts receivable accounted for approximately 58 days of sales when calculated on the trailing four quarters compared to 52 days of sales in first quarter of 2010.

Our inventory balances increased slightly to $411 million on a sequential basis as we move into the seasonally stronger second quarter. During Q1 we increased our raw materials in response to the earthquake and tsunami in Japan. Our days of inventory metric was 119 days, consistent with inventory days at the end of 2010. We continue to take steps to slow production levels and ensure that working capital is maximized in 2011. We ended Q1 with the following amounts and number of days of inventory: $135 million in raw materials or 36 days; $42 million in work in process and assemblies or 12 days; and $265 million in finished goods or 71 days. We ended the quarter with $31 million in inventory reserves.

We do expect to show a dividend payable on our balance sheet at the end of Q2 assuming we receive shareholder approval at our upcoming June annual meeting.

As Cliff mentioned, we continue to generate strong cash flow across our business as cash from operations came in at $208 million during Q1. We spent $7 million on CapEx during the quarter; therefore, we generated free cash flow of $201 million. Cash flow from investing represented a $275 million use of cash during the quarter with the primary drivers being the net purchase of marketable securities and the $7 million in CapEx. Financing activities provided $4 million of cash during Q1, and we earned an average of 1.3% return on all cash and marketable security balances during Q1.

We expect our strong free cash flow generation to continue throughout 2011. We propose to use a portion of the cash flow to fund the dividend that will be decided at our June 3 shareholder meeting representing approximately $310 million use of cash in 2011. We also continue to focus on possible tuck-in acquisitions which fit with our core markets or serve adjacent markets. We've recently announced the acquisition of our distributor in the emerging market of South Africa. As has been Garmin's practice, acquisitions are evaluated by technology, value compatibility and strategic fit within Garmin.

As I mentioned earlier, our tax rate for Q1 was 1.5%. The change in the effective tax rate and the decrease in income tax expense were driven by the release of reserves related to the expiration of certain statutes for Garmin Europe and lower U.S. reserves provided in 2011 following favorable audits in both 2010 and 2011. We now expect our 2011 full year tax rate to be approximately 12%.

And I'd like to conclude at this time on 2011 guidance. At this time we are reiterating our full year 2011 guidance. Our revenue range is still expected to be between $2.4 billion and $2.5 billion with earnings per share expectations between $2.25 and $2.50 per share. We will continue to watch business trends throughout our seasonally strong second quarter and update guidance as necessary at that point.

This concludes our formal remarks for the morning.

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