MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone and welcome to the Garmin Ltd. First Quarter 2012 Earnings Conference Call. Please note that today's call is being recorded and now I would like to turn the conference over to Kerri Thurston, Director of Investor Relations. Kerri, please go ahead.

Kerri Thurston, Director, Investor Relations

Thank you and good morning everyone. We would like to welcome you to Garmin Ltd's first quarter 2012 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 the call. An archive of the webcast will be available until June 1st, and a transcript of the call will be available on the website under the events calendar. This earnings call includes projections and other forward-looking statements regarding Garmin Ltd. and its business. Any statements regarding our future financial position, revenues, earnings, market share, 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 31st, 2011, filed with the Securities and Exchange Commission.

Attending on behalf of Garmin Ltd. this morning are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and Chief Operating Officer, and Kevin Rauckman, Chief Financial Officer and Treasurer. The presenters for this morning's call are Cliff and Kevin.

At this time I'd like to turn the call over to Cliff.

Clifton Pemble, President and Chief Operating Officer

Thank you, Kerri and good morning everyone. As we announced earlier this morning, Garmin delivered revenue and pro forma EPS growth in the first quarter. Consolidated revenues increased 10% year-over-year to $557 million, with each of our business segments contributing. Our traditional markets of Aviation, Marine, Outdoor and Fitness, contributed 14% revenue growth and 50% of the total revenue mix.

Gross margins improved to 51% from 47% in the prior year. Operating margins also improved 150 basis points to 16%, with our traditional markets providing 80% of the operating income mix in the quarter. Revenue growth combined with improved margins, resulted in both operating income and pro forma EPS growth. Operating income for the quarter grew 21% or $16 million, while pro forma EPS came in at $0.45, a 5% improvement over the prior year. We sold 2.7 million units in the quarter, up 7% year-over-year.

Next, I'll walk you through the financial and strategic highlights segment by segment.

Starting in the Marine segment, revenue grew 9% as the overall industry showed signs of improvement. The mild winter experienced throughout much of the US may have triggered an early start to the Marine season. Growth was broad-based across our product portfolio. An area of strategic focus in the Marine segment is to strengthen our position in the OEM space through product portfolio expansion and strategic alliances.

As we have mentioned in the past, 2012 will be a year of significant investment as we pursue opportunities that we believe will lead to growth in 2013 and beyond. The near term impact will result in some level of margin compression. However, we expect to see this reverse as revenue growth accelerates in the future.

In Aviation, we posted revenue growth of 5% with both the retrofit and OEM markets contributing. However, OEM recovery still lags the broader economy and we expect this condition to continue throughout the year.

During the quarter, we supported the successful first flight of the Cessna M2, which includes the Garmin G3000 cockpit system. This certification project, along with several others, continues to make good progress and we anticipate the program will contribute to revenue growth in 2013 and beyond.

These programs are very complex and require a higher level of R&D investment compared to what we have seen in the past. While this investment does compress our margins in the near-term, we're confident that the investments we're making now will lead to growth in the future.

The Outdoor segment performed well in the first quarter, with 16% revenue growth and 4% operating income growth. Revenue improvement was primarily driven by new categories such as GPS enabled golf products as well as dog tracking and training.

In the Golf market, we continue to expand our product offerings with the new Approach S3. This touch screen watch provides an integrated digital score card and shows the layout of the greens with the ability to easily relocate the pins.

Throughout 2012, we will focus on creating new opportunities in adjacent markets and product categories as we have done in the past. We will also pursue utility, content, and innovative form factors to capture both new and repeat customers.

Turning now to the Fitness segment, revenue grew 26% and operating income grew 34% on a year-over-year basis. This strong performance was partially driven by the successful launch of our latest multisport device, the Forerunner 910XT. This product has been well-received and is expected to continue to perform well at the high end of the market as we enter triathlon season.

We continue to believe the Fitness category offers significant opportunity for growth going forward. In response to this opportunity, we are focused on delivering innovation in both running and cycling to drive broader adoption of GPS technology across a range of price points.

Our Auto/Mobile segment was strong again in the first quarter, delivering revenue growth of 6%. This growth was primarily related to global market share gains in PND, sales of mobile applications, and amortization of previously deferred revenues that Kevin will discuss in a moment.

During the quarter, we announced our first factory installed infotainment relationship with Suzuki. We will be providing a complete infotainment head unit with enhanced features and an intuitive user interface to a number of Suzuki models in both North America and Europe, along with a number of additional regions. This represents a significant milestone for Garmin as we seek to build relationships and credibility in the Auto OEM industry.

While we are pleased with the first quarter results in the Auto/Mobile segment, we don't expect this trend to continue in the longer term as PND represents a substantial portion of the revenue mix and the size of the PND market continues to shrink. We anticipate that the PND market will decline approximately 10% on a global basis for the full year. However, we expect our margins to improve throughout the remainder of the year, as volumes increase from the seasonally low first quarter.

Our strategic focus in the PND market is to profitably aggregate additional market share through innovations and by delivering the best navigation experience in the vehicle.

With the Suzuki announcement, we took another step forward in building our OEM presence. However, we also recognized that this is just the beginning as it relates to broader OEM market opportunities. We will continue to develop these opportunities which will contribute to revenue growth in the years to come.

Before turning to call over to Kevin, I wanted to highlight another important milestone that was announced this morning. We are pleased to report we have surpassed the 100 million units sold mark. Since our humble beginnings in 1989 we have delivered quality products to motorists, pilots, boaters, runners, cyclists, hikers, hunters and geocachers around the globe. We sold our first product in 1991, our millionth in 1997, 25millionth in 2007 and now over 100 million in 2012. It has been an incredible journey so far and we are excited about our future.

At this time I'd like to turn the call over to Kevin who will walk us through the financial details. Kevin?

Kevin S. Rauckman, Chief Financial Officer and Treasurer

Thanks, Cliff. Good morning everyone. I'd like to begin by reviewing our income statement and margin results then move to the balance sheet and cash flow statements and then conclude with a few comments regarding our full year 2012 expectations. But first, we posted revenue of $557 million for the quarter with net income of $87 million. And our pro forma EPS was $0.45 per share, which excludes the foreign currency loss.

Our revenue represents an increase of 10% year-over-year, and our gross margin came in at 51%, which was a 410 basis point improvement from the prior year. Operating margin was 16%, up 150 basis points from the prior year. The key components of this were the favorable gross margin of 410 basis points, offset by advertising which was 30 basis points unfavorable and up $4 million on a year-over-year basis. SG&A was 180 basis points unfavorable, up $17 million on a year-over-year basis. Our R&D was 40 basis points unfavorable, up $10 million on a year-over-year basis. Each of these expense categories will be discussed further on a later slide.

Our pro forma EPS of $0.45 represents a 5% increase year-over-year driven by increasing revenues, improved gross and operating margins, offset by a higher effective tax rate. The first quarter 2011 effective tax rate of 1.5% provided an additional $0.06 of diluted EPS.

And finally units shipped increased 7% year-over-year as 2.7 million units were delivered during the quarter. Our total company average selling price was $205 per unit, up 2% from Q1 of 2011, driven primarily by our segment mix.

According to U.S. GAAP we must defer revenue on certain products. And this table summarizes the net impact of the deferral and amortization of revenue and related costs in the first quarter of 2012 and 2011. In the current quarter, we recognized on a net basis approximately $1 million of previously amortized revenues resulting in no EPS impact during the quarter. In the first quarter of 2011, we deferred net revenue of $22 million or $0.09 of tax affected EPS.

While we are deferring revenue according to U.S. GAAP we are collecting cash at the same time of sale as reflected in our statement of cash flows. We now expect to have a negative revenue and EPS impact due to deferrals in the upcoming quarters, but do not expect the impact to be as significant as the amounts that we deferred in 2011.

In total our revenues increased 10% during the first quarter with all segments contributing to the growth. During Q1 we generated a 6% revenue increase within the Auto/Mobile segment as volumes increased due to our 2011 acquisition of Navigon and we continue to gain market share. ASPs also increased slightly driven by the recognition of previously deferred revenues.

Our Outdoor segment posted strong revenue growth at 16% due primarily to market share gains within the GPS enabled golf market and the acquisition of Tri-Tronics in the back half of 2011.

The Fitness segment continues to grow with a 26% revenue increase when compared to Q1 of 2011 on the strength of new product introductions, particularly the Forerunner 910XT for the triathletes market.

Aviation segments revenues increased 5% compared to Q1 2011, with single-digit growth in both aftermarket and OEM.

In our Marine segment revenues increased 9% compared to Q1 of 2011 as both the aftermarket and OEM markets improved for Garmin.

During Q1 all geographies posted growth with EMEA posting the strongest growth at 16%. For Q1 2012, the Americas represented 53% of revenue compared to 55% in Q1 of 2011. EMEA increased from 34% of total revenue a year ago to 36% in Q1 of 2012, while Asia was consistent at 11% of total.

The Auto/Mobile segment represented 50% of our total revenue during the quarter, down from 52% in Q1 of 2011. And Fitness grew to 13% of revenues in the quarter, an increase from 11% in 2011.

Due to the improved profitability of Auto/Mobile in Q1 of 2012, the operating income contribution of the segment increased to 20% from only 2% in the prior year. The traditional segments of Outdoor, Fitness, Aviation and Marine contributed 80% of our Q1, total 2012 operating income.

Looking next at margins, Q1 Auto/Mobile gross margin and operating margin were 39% and 6% respectively. This year-over-year improvement in gross margin was primarily driven by the amortization of previously deferred high margin revenue and product mix. Operating margin in the quarter was 6%, with gross margin improvement offset by increased SG&A and R&D expenses, focused on Auto OEM. Q1

Outdoor gross margin was 61%, down slightly from Q1 of 2011. Operating margin was 34%, a decline from 37% in the year-ago quarter, due primarily to increased allocation of our SG&A expenses to this segment.

Q1 Fitness gross margin, 61%, up slightly from the year-ago quarter. Our operating margin in this segment was 29%, again, up slightly to the year-ago quarter as revenue growth outpaced our expense increases.

Q1 Marine gross margin was 60% compared to 65% in the year ago quarter as product mix shifted toward lower margin products. Operating margin was 16%, down from 29% a year ago, driven by the gross margin decline, increased R&D expenses to support our long-term Marine OEM strategy, as well as cooperative advertising with our Marine partners.

And finally, the Q1 Aviation gross margin came in at 68%, down slightly from 69% a year ago. Operating margin was 23% for the quarter, down from 26% in the prior year, due primarily to the declining gross margin and increased R&D expense associated with our new OEM programs that will begin to contribute revenue in 2013.

Q1 operating expenses increased by $30 million on a year-over-year basis from $164 million up to $193 million in Q1 of 2012, and increased 260 basis points as a percentage of sales. A large portion of the increase was due to the acquisitions that I will highlight. Sequentially, operating expenses declined in all three categories.

First, R&D increased $10 million year-over-year in the quarter and 40 basis points to 14% of sales as head count increased with our recent acquisitions, and we continue to invest in several OEM opportunities. Our ad spending increased $4 million over the year ago quarter, with an increase of 30 basis points as a percentage of sales to 4% in Q1 of 2012. This was largely driven by additional costs associated with our acquired entities and cooperative advertising and promotional activities in our Marine and Aviation segments. SG&A increased $17 million compared to the year-ago quarter, with an increase of 180 basis points to 16% of sales. The increase is primarily attributable to our acquisitions and to increased legal fees.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of over $2.5 billion. Our accounts receivable decreased sequentially to $430 million due to the seasonality of the first quarter. AR accounted for approximately 56 days of sales when calculated on a trailing four quarters, compared to 81 days of sales in the fourth quarter of 2011 and 58 days of sales in the year-ago quarter.

Our inventory balances increased slightly to$ 407 million on a sequential basis, at the close of first quarter. Our days of inventory metric was 102 days, compared to 102 in the fourth quarter and 119 days in the first quarter of 2011. We do not currently show a dividend payable as the $1.80 per share requires approval of our shareholders on June 1st at our annual meeting.

We continued to generate free cash flow across our business, as cash from operations was $122 million during Q1. We spent $6 million on CapEx during Q1, therefore, our free cash flow during the quarter was $116 million. Cash flow invested during Q1 was $55 million, including the $6 million in CapEx and $43 million net purchase of marketable securities.

Our financing activities were a $74 million use of cash during the quarter due primarily to the dividend payment on March 31st. And overall we earned an average of 1.5% on all of our cash and marketable securities balances during the quarter.

We expect our strong free cash flow generation to continue in 2012 and with it we plan to continue to fund a strong dividend. We will ask shareholders to approve a $0.45 per share quarterly dividend at our June annual meeting.

We'll also continue to pursue acquisitions in adjacent niche markets or tuck-in technologies which fit our core markets. As has been our practice in the past, acquisitions will be evaluated by technology, value compatibility, and a strategic fit within our company.

Tax rate for the quarter was 12.8%, and we expect our 2012 rate to be approximately 13% for the full year.

Finally, as a reminder, we provided our full year 2012 guidance in February and we're not updating guidance at this time as our Q1 trends were generally in line with our own expectations and it is the seasonally weakest quarter of our fiscal year. We will plan to review and update 2012 guidance following our Q2 results.

This concludes our formal remarks.