## CORPORATE PARTICIPANTS

**Kerri Thurston** *Garmin Ltd. - IR Director*

**Cliff Pemble** *Garmin Ltd. - President, CEO*

**Doug Boessen** *Garmin Ltd. - CFO, Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Simona Jankowski** *Goldman Sachs - Analyst*

**Mark Sue** *RBC Capital Markets - Analyst*

**James Faucette** *Morgan Stanley - Analyst*

**Charlie Anderson** *Dougherty & Company - Analyst*

**Jeremy David** *Citigroup - Analyst*

**Ben Bollin** *Cleveland Research Company - Analyst*

**Tavis McCourt** *Raymond James & Associates, Inc. - Analyst*

**Will Power** *Robert W. Baird & Co., Inc. - Analyst*

**Brad Erickson** *Pacific Crest Securities - Analyst*

**Andrew Spinola** *Wells Fargo Securities, LLC - Analyst*

**Kristine Liwag** *BofA Merrill Lynch - Analyst*

## PRESENTATION

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**Operator**

Good day, ladies and gentlemen, and welcome to the Garmin Ltd. first-quarter 2015 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference call is being recorded.

I'd like to introduce your host for today's conference, Kerri Thurston, Director of Investor Relations. Please go ahead.

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**Kerri Thurston** - ***Garmin Ltd. - IR Director***

Thank you. Good morning everyone. We'd like to welcome you to Garmin Limited's first-quarter 2015 earnings call. Please note that the earnings press release and the related slides are available at Garmin's Investor Relations site on the Internet at www.Garmin.com/stock. An archive of the webcast and a 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, 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 which was filed with the SEC.

Presenting on behalf of Garmin Limited this morning are Cliff Pemble, President and CEO, and Doug Boessen, CFO and Treasurer. At this time, I will turn the call over to Cliff.

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**Cliff Pemble** - ***Garmin Ltd. - President, CEO***

Thank you, Kerri, and good morning everyone. As announced earlier this morning, Garmin reported solid first-quarter revenue and margin performance. Consolidated revenue was flat year-over-year in what is typically a seasonally weak quarter. Revenue from aviation, fitness, marine and outdoor grew 9% on a combined basis. These segments contributed 63% of total revenue and 80% of the operating profit in the first quarter.

Gross margin improved year-over-year to 59% while operating margin came in at 19%. The slight reduction in the operating margin from the prior year reflects continued investments in advertising and R&D.

The stronger US dollar has created a headwind for most businesses, including ours. We estimate that recent currency movements reduced our revenue by approximately $38 million, and operating income was reduced by approximately $11 million. As everyone can appreciate, these are meaningful amounts that would have otherwise resulted in growth for our business. Please note that our pro forma calculations do not account for these factors, but we wanted to mention it for clarity.

Strong margins combined with the lower effective tax rate resulted in $0.55 of pro forma EPS in the quarter, which is flat on a year-over-year basis. We are maintaining the guidance we issued early in the year as our performance thus far is consistent with our expectations.

Doug will discuss our financial results in greater detail in a few minutes, but first I will walk through a few highlights for each business segment.

Beginning with the fitness segment, revenue grew 31% on a year-over-year basis with strong contributions from activity trackers, multisport and cycling products. We delivered gross and operating margins of 63% and 26% respectively. Operating margin was lower on a year-over-year basis, reflecting an increase in R&D and advertising investments during the quarter, as planned. As you are aware, the fitness market is highly competitive, and thus requires additional R&D investments in order to bring innovations to market faster. In addition, we are deliberately investing in our point-of-sale presence as we roll out new products and prepare the way for our spring advertising campaign.

In cycling, we announced the Vector 2 and 2S, our latest pedal-based power solutions. These new vectors simplify the installation process and deliver advanced cycling metrics that are useful for improving cycling efficiency.

Fitness has been an exciting growth driver for our business in recent quarters and we believe there are more opportunities to capture. We are well-positioned with our current product breadth and depth, and will continue to invest for future growth and expansion.

Looking at outdoor, revenues declined 10%, which fell short of our expectations as the currency situation disproportionately impacted both fitness and outdoor due to the geographic revenue profile of these segments. Additionally, we experienced some supply constraints which affected our results. Despite these headwinds, gross and operating margins remain strong in the segment at 66% and 31% respectively, allowing us to deliver operating income growth on lower revenue.

Finally in outdoor, we announced the VIRB X and XE, an all new family of action cameras. These cameras deliver unique immersive experience through G-Metrix, which adds insightful context to any video. In addition, our updated VIRB mobile application provides the ability to create, edit and publish videos on the go. We are excited about the capabilities of these new cameras and believe they offer unique differentiators in which we can grow in the category.

Turning next to aviation, we posted revenue growth of 2% as we faced a more challenging comparable from Q1 2014 when the segment grew 19%. While gross and operating margins remain strong, operating profit declined on a year-over-year basis due to R&D growth supporting future revenue opportunities.

During the quarter, we announced enhancements to our ADS-B product offerings. Our current lineup offers the most comprehensive set of solutions across a range of price points and aircraft categories. We believe we are well positioned to capitalize on modernization mandates around the globe which are rapidly approaching.
We continue to support numerous OEM partners in the development and certification of multiple aircraft and helicopter platforms, which will result in future growth opportunities when these platforms reach the market.

Looking next at marine, revenue grew 7% in the quarter, driven by the recent acquisition of Fusion. Our organic business was relatively flat on a year-over-year basis as we started delivering our new products in the latter part of the quarter. Profitability improved in the first quarter, which resulted in operating income growth of 20% for the segment. While industry activity remains below historic levels, we recognize that innovation is essential to deliver long-term improvements in market share and profitability. We will continue to invest in the category to deliver compelling innovation to the recreational marine market.

In our auto segment, revenues were down 11% in the quarter with PND industry volumes declining in line with expectations. On a year-over-year basis, amortized revenue declined, creating a headwind that is not correlated to the underlying business. As we've mentioned before, this segment delivered solid profitability as we continue to experience gains in global market share on the strength of our product portfolio.

As indicated in our February guidance, we expect the market to decline 10% to 15% on a global basis during the year. We will focus on growth opportunities in OEM, trucks, RVs, dash cameras and other specialty automotive products to partially offset lower consumer PND volumes.

Finally, I want to highlight the recent introduction of nuviCam, which is the first PND to offer advanced alerts such as forward collision and lane departure warnings. NuviCam also includes an integrated dash camera that saves video images whenever a crash or user initiated event occurs. We are excited to deliver these advanced features to the PND market and we anticipate offering similar products to OEM customers in the future.

So that concludes my remarks for the morning. Doug will now walk us through our Q1 financials in more detail. Doug?

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**Doug Boessen** - ***Garmin Ltd. - CFO, Treasurer***

Thanks Cliff. Good morning everyone. I'd like to briefly review our financial results, then move to summary comments on the balance sheet and cash flow statement.

We posted revenue of $585 million for the quarter with pro forma net income of $106 million. Pro forma EPS was $0.55 per share, excluding the FX loss. Within the quarter, we faced significant exposure to foreign currency fluctuations, which resulted in a revenue headwind of $38 million, or 6.5% of revenue. Taking into consideration the offsetting benefits, FX negatively impacted EPS for the quarter by approximately $0.05 or 9% of pro forma EPS. In addition, amortization of deferred revenue is now a year-over-year headwind, negatively impacted revenue by $14 million, pro forma EPS by approximately $0.05. Excluding these headwinds, revenue growth would've been 9%, pro forma EPS growth of 18%.

Gross margin was strong at 59%, a 210 basis point increase from prior year, driven by favorable segment and product mix. Operating margin was 19%, a 150 basis point decrease from the prior year. We look at operating expenses by category on a later slide.

Effective tax rate decreased to 12.3% in the current quarter compared to 16.6% in the prior year due to an improved income mix outlook for 2015 as compared to our outlook at the end of Q1 2014. We still anticipate a full-year tax rate of 16% to 17%. The first quarter tax rate was positively impacted by at least $5 million of tax reserves as a percentage of lower pretax income.

In the quarter, we shipped over 3 million units, a 22% increase. Reduced average selling price in the quarter is due to product mix, FX, and reduced contribution from deferred revenue. We did not see any significant price reductions on like-for-like products.

Next we'll look at how our first-quarter revenue breaks down by segment. The Auto segment represented 37% of our total Q1 2015 revenue compared to 42% in Q1 2014. We continue to diversify our revenue base with growth in fitness, marine, and aviation.

I'd like to now briefly discuss gross margin, which increased to 59%, as segment and product mix was favorable during the quarter. Looking at year-over-year changes by segment, outdoor marine posted significant improvement with reduced discounting and favorable product mix. Fitness gross margin declined slightly to 63%, remains strong with a full portfolio of products that continue to perform well. Total corporate operating margin was 19% as operating expense growth outpaced revenue growth. Excluding the headwinds from FX, amortization of deferred revenue, operating margin would've been flat.

Next we'll look at operating expenses. First-quarter operating expenses increased by $22 million or 10%. This is a 360 basis point increase as a percent of sales. Research and development increased $10 million year-over-year and 160 basis points to 18.1% of sales. We continue to invest in innovation, growing our engineering workforce, and increasing resources focused primarily on aviation, fitness and outdoor.

Our advertising expense increased $3 million over the prior-year quarter, represented 4.7% of sales, a 50 basis point increase. Additional spending was focused on fitness investments in point-of-sale presence with key retailers to produce long-term revenue results and preparation for the launch of spring wearables advertising campaign.

SG&A was up $9 million compared to prior quarter, increasing 150 basis points as a percent of sales to 16.9%. Increased spending was driven primarily by legal costs, IT expenses, and product support costs as our customer base continues to grow rapidly.

Just a few quick highlights from the balance sheet and cash flow statement. We ended the quarter with cash and marketable securities of $2.7 billion. Accounts Receivable decreased sequentially to $426 million following the holiday quarter. Our inventory balance increased to $470 million as we have built inventory levels to support the launch of new product categories in preparation for a seasonally stronger second quarter.

We continue to generate strong free cash flow across our business with $64 million generated during the first quarter of 2015.

During the quarter, we paid dividends of $92 million, repurchased $16 million of Company stock with $284 million remaining for purchase through December 2016.

This concludes our formal remarks. Ashley, if you'd open the line for Q&A.