CORPORATE PARTICIPANTS

Kerri Thurston *Garmin Ltd - Director of IR*

Cliff Pemble *Garmin Ltd - President & CEO*

Doug Boessen *Garmin Ltd - CFO and Treasurer*

CONFERENCE CALL PARTICIPANTS

Brad Erickson *Pacific Crest Securities - Analyst*

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Garmin Limited second quarter 2015 earnings call.

(Operator Instructions)

As a reminder, this conference may be recorded. I would now like to introduce your host for today's conference, Kerri Thurston, Director of Investor Relations. Ma'am, you may begin.

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

Thank you. Good morning, everyone. We would like to welcome you to Garmin Limited's second 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/doc. An archive of the webcast and the related transcripts will also be available via 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 share, product introductions, future demand for our product 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 is 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'll turn the call over to Cliff.

Cliff Pemble - ***Garmin Ltd - President & CEO***

Thank you, Kerri, and good morning, everyone.

As previously announced, Garmin reported second-quarter revenue which was down only slightly year-over-year, despite significant downward pressure caused by a stronger US dollar. In the quarter, we shipped over 4 million units, representing an 8% increase over the prior year.

Unfavorable currency movements continue to impact many global companies, and we are no exception. We estimate that unfavorable currency movements reduced revenue by approximately $59 million in the quarter, which effected revenue growth, margins and EPS. Note that our pro forma calculations do not account for these factors, but we offer this commentary to highlight the underlying strength of our business.

Revenue from aviation, fitness, marine and outdoor grew 11% on a combined basis. These segments contributed 61% of the total revenue, and 73% of the operating profit in the second quarter.

Gross margin was 54%, and operating margin came in at 22%. The reduction in margins from the prior year reflects a combination of factors. Including downward pressure from unfavorable currency movements, a more competitive pricing environment, and continued investments in advertising and R&D. These factors combined with a higher effective tax rate resulted in GAAP and pro forma EPS of $0.72 in the quarter.

Doug will discuss our financial results in greater detail in a few minutes, but first I'll provide a few comments on each business segment.

Beginning with the fitness segment, revenue grew 5% on a year-over-year basis which is slower than both first quarter and the year-ago quarter. Looking closer, prior-year growth reflected significant sell-in activity due to new product launches, which were not repeated in 2015. Additionally as I mentioned last time, currency headwinds disproportionately impact fitness and outdoor due to the geographical revenue mix. In summary, while the growth rates slowed in the second quarter, we believe that the underlying foundation of the segment is solid.

Gross and operating margins were 56% and 21% respectively. Gross margin was impacted by unfavorable currency movements, and product mix shifting towards lower margin products, while operating margin was further impacted by increased R&D and advertising investments, which we believe position us for long-term success.

In the second quarter, we began deliveries of the Forerunner 225, which incorporates risk-based heart rate. We are pleased with the initial demand for this exciting new running watch. Finally we introduced an exciting range of cycling products that offer new utility for enhanced performance, and safety for the cycling community.

Looking at outdoor, revenue grew 4%, due to improved product supply and strong demand for our wearable devices. Gross and operating margins were relatively stable, allowing us to deliver operating income growth of 6%. While gross margin was comparable to last year, it was negatively impacted in the second quarter of 2014, due to an inventory reserve.

As I just mentioned, our wearable devices have performed well in 2015, and our flagship product is the fenix 3. This device appeals to a broad range of customers, from those looking for multi-sport features to those who are more interested in style. We see growth opportunities in the outdoor wearable category, and we are making additional investments to capitalize on the opportunity.

During the quarter, we introduced touch screen technology into our best selling eTrex Series. In addition, we introduced a new model of our Rino communicator product series. We expect these products will perform well in the back half of 2015.

Turning next to aviation, we posted revenue growth of 5%, driven by growth in after-market sales. While gross and operating margins remained strong at 73% and 27% respectively, operating profit declined slightly on a year-over-year basis due to R&D investments supporting future revenue opportunities.

Last quarter, the General Aviation Manufactures Association reported that deliveries of new aircraft fell 15%, led by a 19% drop in piston aircraft deliveries. In addition, deliveries of helicopters fell 18%.

Despite this near-term weakness, we continue to see long-term opportunities in the market and are supporting numerous OEM partners in the development and certification of multiple aircraft and helicopter platforms.

Looking next at marine, revenue grew 41% in the quarter. Driven by the strength of our 2015 product line up, and contributions from our Fusion marine entertainment division, which was acquired in July of 2014.

These strong results far exceed industry trends and demonstrate that we are gaining market share with our new chartplotter combos, and game-changing technology like our Panoptix real-time sonar imaging system.

In the auto segment, revenues were down 15% in the quarter, with P&D industry volumes declining in line with expectations. On a year-over-year basis, amortized revenue declined, creating a headwind that was not correlated to the underlying business. We believe that our market share is stable in the US, and has increased in Europe.

As we have highlighted in prior quarters, we continue to focus on growth opportunities in OEM, trucks, RVs, dash cameras and other specialty automotive products to partially offset lower consumer P&D volumes. In the quarter, we expanded our truck portfolio with the introduction of the dezlCam, which is a premium all-in one trucking navigator with an integrated dash cam. The dezlCam also offers important truck routing and warning features that provides significant utility and value to the trucking community.

Having passed the halfway point for 2015, we are updating our full-year guidance. We continue to anticipate revenues of approximately $2.9 billion, which is unchanged from previous guidance, despite the approximately $160 million of negative currency impact due to the stronger US dollar. Our growth outlook has been adjusted in marine and aviation, where we now expect 15% and 5% growth respectively. Prior estimates were 10% for both segments. We expect gross margin to be in the range of 54% to 55%, down slightly from previous guidance due to unfavorable currency movements, and in anticipation of competitive pricing dynamics in the back half of the year. We expect operating margin to be in the range of 20% to 21%, which includes the additional R&D and advertising investments as outlined earlier. Finally, we anticipate pro forma EPS of approximately $2.65, which also reflects a higher anticipated tax rate for the full year. While it's disappointing to provide downward revision to our guidance, we believe that the underlying business trends remain positive and our investments in R&D and advertising are expected to result in new revenue opportunities and long-term growth.

That concludes my remarks for the morning. Doug will walk us through additional details on the financial results. Doug?

Doug Boessen - ***Garmin Ltd - CFO and 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 $774 million for the quarter, with GAAP and pro forma net income of $138 million. Our GAAP and pro forma EPS was $0.72 per share.

During the quarter, we faced significant exposure to foreign currency fluctuations, which resulted in a revenue headwind of $59 million or 7.6% of revenue.

In addition, deferred revenue amortization is now a year-over-year headwind and negatively impacted revenue by $12 million.

Gross margin declined to 54%, a 300 basis point decrease from prior year.

Operating margin was 22%, a 660 basis point decrease from the prior year.

Finally, the effective tax rate increased to 20.6% at current quarter, compared to 12.8% in the prior year. This created further earnings pressure of $0.07. We'll discuss gross margin, operating expenses, and effective tax rate, in more detail later.

Next, we will look at how our second-quarter revenue breaks down by segment. The auto segment represented 39% of our total second-quarter 2015 revenue, compared to 45% in the second quarter of 2014. We continue to diversify our revenue base, with marine increasing to 13%, and fitness increasing to 21%, our total second-quarter 2015 revenue.

I'd like to discuss gross margin next, which decreased to 54% driven largely by the currency headwind, which reduced revenues by $59 million on a constant currency basis.

Looking at year-over-year material changes by segment.

Auto was negatively impacted by the FX reduced revenues, and reduced contribution from amortization of high margin, deferred revenue and costs.

Fitness gross margin declined due to the FX reduced revenues, competitive pricing dynamics and product mix shifting toward the activity tracker category in the current quarter.

Outdoor gross margin was flat year-over-year, as the impact of FX reduced revenues was offset by the prior-year inventory reserve accrual.

Marine gross margin was down slightly, as the currency impact on revenues was largely offset by the positive product mix due to successful introduction of our 2015 line up of products.

Total corporate operating margin was 22%, as operating expense growth outpaced revenue growth.

Looking next at operating expenses. Second-quarter operating expenses increased by $27 million or 12%. This is a 360 basis point increase as a percent of sales.

Research and development increased $11 million year-over-year, or 150 basis points to 14.1% of sales. We continue to invest in innovation, with increasing resources focused primarily on aviation, fitness, and outdoor. Our advertising expense increased $11 million over the prior-year quarter, and represented 5.9% of sales, 140 basis point increase. The additional spending was focused on fitness and marine with investments in media, point-of-sale presence with key retailers, and co-op advertising. SG&A was up $5 million compared to the prior quarter, increasing 70 basis points as a percent of sales to 12.6%. 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 over $2.4 billion. Accounts receivable increased sequentially to $502 million, following the seasonally stronger second quarter.

Our inventory balance decreased to $458 million, as we exited the seasonally strong second quarter but remains higher than 2014 to support new product categories.

During the second quarter of 2015, we generated free cash flow of $64 million after adjusting for the $183 million tax payment associated with our inner Company restructuring, which was initiated in 2014. Also during the quarter, we paid dividends of $92 million and repurchased $41 million of Company stock, with $243 million remaining for purchase through December 2016.

Finally, as I mentioned previously, our effective tax rate increased to 20.6% in the current quarter, compared to 12.8% in the second quarter of 2014. The increased tax rate was primarily a result of forecasted income mix by tax jurisdictions, which is negatively impacted by the overall reduction in forecasted taxable income, and the result in catch up expense for the first quarter.

In addition, the current year release of tax reserves associated with the expiration of statute of limitations was $1.6 million, compared to $5.2 million in the prior year. Our full year effective tax rate is now expected to be 18% to 19% due to the change in income mix by tax jurisdiction. Consistent with last year, the full year effective tax rate forecast assumes the passage of the R&D tax credit.

This concludes our formal remarks. Amanda, can you please open the line for Q&-A?