## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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**Jeremy David** *Citigroup - Analyst*

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

## PRESENTATION

**Operator**

Good day, everyone, and welcome to the Garmin third-quarter 2014 earnings call. Today's call is being recorded. At this time, I'd like to turn the conference over to Kerri Thurston, Director of Investor Relations. Please go ahead.

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

Good morning. We'd like to welcome to you to Garmin Ltd.'s third-quarter 2014 earnings call. Please note that the earnings press release and the related slides are available on Garmin's Investor Relations site on the Internet at 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, 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 filed with the SEC.

Presenting on behalf of Garmin Ltd. this morning are Cliff Pemble, President and CEO and Doug Boessen, CFO and Treasurer. Also joining us today is Kevin Rauckman, who continued to provide support throughout third quarter. 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 announced earlier today, Garmin reported strong third-quarter results that included growth in revenue, operating income, and pro forma EPS. Consolidated revenues increased 10% year over year with double-digit growth in each of our non-auto/mobile segments.

Aviation, fitness, marine, and outdoor revenues grew 24% on a combined basis and contributed 56% of total sales in the quarter. Gross and operating margins were 56% and 25%, respectively, a year-over-year improvement driven by segment mix. Operating income grew 16% with non-auto/mobile segments generating 70% of total operating income.

In the third quarter, we executed our previously announced inter-Company restructuring which resulted in $308 million of tax expense. This one-time expense drove a GAAP net loss per share of $0.76.

After adjusting for foreign currency losses and one-time events, we generated $0.76 of pro forma EPS in the quarter, representing an increase of 10% over 2013. A reconciliation of our pro forma EPS is provided in the appendix to these slides.

So next, I'll highlight segment specific results and initiatives. Looking first at the fitness segment, revenue grew 43% on a year-over-year basis with strong contributions from activity trackers and running products. We delivered gross and operating margins of 64% and 32%, respectively.

While gross margin increased from last year, the operating margin was essentially flat due to investments in advertising leading into the holiday season. Even with these investments, we generated operating income growth of 38% in the quarter.

We recognize the competition isn't standing still and neither are we. We continue to innovate and broaden our product portfolio. In the third quarter, we launched Vivosmart, an activity tracker that also delivers smart notifications from an iOS or Android smartphone.

In addition, we announced the Forerunner 920XT, our next generation multi-sport product that incorporates advanced running dynamics and connected features, including smart notifications and live tracking. Finally, we announced the Connect IQ software developer's kit.

This exciting initiative will allow developers and partners to build apps and customizations that will expand the utility and attractiveness of our devices. We look forward to seeing all the possibilities to be explored through Connect IQ.

Turning next to outdoor, revenues increased 19% in the quarter with recently launched products in golf, dog tracking and training, and wearables contributing to the strong quarter. Gross and operating margins remained strong at 65% and 42%, respectively, in the segment.

Due to the strong performance in the third quarter, we now anticipate outdoor will generate full-year revenue growth in the mid-single digits. In addition, we will continue to explore and innovate in the outdoor segment to drive long-term growth in our current markets as well as other adjacent categories.

In aviation, we posted revenue growth of 19% with all product categories contributing to the strong performance. Gross and operating margins remained strong at 73% and 29%, respectively. Operating income grew 25% in the quarter, ahead of revenue growth, due to gross margin improvement.

We have continued to complete certifications that represent market share gains in both the business jet and helicopter markets. Two recent examples are the Cessna CJ3+ with the G3000 system, and the Enstrom 480B with G1000H system.

Beyond OEM share gains, we are also pursuing additional aftermarket opportunities. At the NBAA show last week, we announced a new standalone ADS-B solution for the business jet market that significantly reduces the cost and complexity of complying with the FAA next gen mandate.

This solution will be available for popular business jets like the Citation 560, the Beechjet 400A, and the Learjet 60 with others to follow. In addition, we announced the availability of a number of avionics enhancements for our existing King Air retrofit certifications.

And finally, I'd like to highlight that the photo on this slide shows the G5000 retrofit solution as installed in our Beechjet 400A. Our flight test program is under way and we anticipate final certification to be completed in late 2015.

Revenue in the marine segment grew 12% in the quarter driven by the third-quarter acquisition of Fusion. As planned, we delivered higher gross and operating margins in the quarter which allowed us to generate 32% operating income growth.

We continue to focus on product innovation, highlighted by the announcement of our 2015 product lineup which includes new chart plotters, multi-function displays, radars, and auto pilots. We believe these products further differentiate us from the competition, and should provide the foundation for another year of growth in 2015.

In our auto/mobile segment, revenues decreased 5% in the quarter as PND industry volumes continued to decline per expectations. Profitability of the segment continues to be strong with operating margins of 17%. In addition, we continue to build market share with NPD reporting our highest yet US market share for third quarter at 84%, an improvement from 78% in third quarter of 2013.

Recently, we announced our partnership with Honda on their 2015 Civic and CRV models to be delivered in Europe, Russia, and South America. Garmin will be providing integrated navigation software with many of our signature features such as lane guidance, photoReal junction views, and predictive routing. This program win highlights the quality and reliability of our industry-leading navigation solutions, which we will continue to leverage as we build market share in the infotainment industry.

Finally, with three quarters of the year behind us, we're revising our full-year guidance to reflect our outlook for the remainder of the year. We now anticipate revenue of approximately $2.85 billion, at the high end of prior guidance. In addition, we anticipate strong full-year margin performance with gross and operating margins at 56%, and 24%, respectively, consistent with prior expectations.

Our prior guidance called for a pro forma effective tax rate of 15%, which was based on a number of assumptions including the extension of the US R&D tax credit. Since this tax credit has not yet been authorized by Congress, we've removed it from our assumptions until there's more clarity around this item.

So as a result of all these factors, we're increasing our pro forma EPS guidance to approximately $3.10, representing full-year growth in the high teens.

These expected strong results in 2014 further validate our strategy of diversification and multi-pronged growth. Our 2014 results will provide the foundation upon which we can drive continued category expansion and market share gains to ensure long-term growth.

That concludes my remarks. Next, Doug will discuss additional details of our financial results. Doug?

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

Thanks, Cliff. Good morning, everyone. I'd like to begin by reviewing our financial results and provide summary comments on the balance sheet and cash flow statement.

We posted revenue of $706 million for the third quarter. As previously highlighted by Cliff, our revenue represents a 10% increase year over year. Gross margin was strong at 56%, a 160 basis point increase from prior year, driven primarily by favorable segment mix.

Operating margin was 25%, an increase of 130 basis points from the prior year. This is a result of the gross margin favorability of 160 basis points, partially offset by operating expense growth of 11%, or $22 million. Pro forma effective tax rate increased to 21%. We'll discuss the tax rate in more detail later.

Adjusting for the foreign currency loss, tax impact of inter-Company restructuring, the tax benefit of the release of material reserves, pro forma EPS was $0.76. This represents a 10% increase year over year.

We shipped 3.7 million units during the quarter, up 12% from 3.3 million last year. Total Company average selling price was $192 per unit, down 2% from $196 third quarter of 2013, driven primarily by fitness product mix.

Next, we'll review how our third-quarter revenue breaks down by segment. We experienced double-digit growth in four of our five segments. Looking at the charts on this page, the auto/mobile segment represented 44% of our total revenue during third quarter of 2014, down from 49% in the prior year. Fitness grew to 16% of revenue in the current period, compared to 13% in the prior year.

These charts illustrate our profitability mix by segment. Our non-auto/mobile segments delivered 70% of operating income in the quarter, up from 64% in the prior-year quarter.

Looking next at year-over-year gross margin, total Company gross margin improved to 56% due to positive segment mix and stable or improving margins in most segments. Total operating margin improved to 25% due to the increased gross margin performance.

As previously mentioned, third-quarter operating expense increased by $22 million, or 11%, on a year-over-year basis, while increasing 30 basis points percent of sales. R&D increased $11 million year over year and 30 basis points to 14% of sales. We continue to invest in innovation and grow our engineering workforce with increasing resources focused on compelling new aviation, fitness, and outdoor products.

Our advertising expense increased $7 million over the prior-year quarter, represented 4.7% of sales, a 60 basis point increase. Additional spending was focused on fitness and outdoor to support new product categories. We will continue to manage advertising cost by segment with near-term focus on market share growth in wearables.

SG&A was up $4 million compared to the prior-year quarter, decreasing 60 basis points percent of sales, to 12.8%. We continue to manage these costs closely to gain operating leverage when possible.

Our pro forma effective tax rate for third quarter of 2014 was 21%, compared to 15.7% in third quarter 2013. The pro forma tax rates exclude tax expense associated with the inter-Company restructuring in 2014 and the tax benefit from material release of reserves in both 2013 and 2014.

The increased tax rate was primarily driven by unfavorable income mix by tax jurisdiction, expiration of some Taiwan tax incentives, and expiration of the US R&D tax credit. We now expect our full-year tax rate to be 17% given the anticipated delay in approval of the US R&D tax credit.

We ended the quarter with cash and marketable securities of almost $2.8 billion. Accounts receivable decreased sequentially to $470 million as a result of seasonally lower sales in the third quarter. Year over year, accounts receivable was basically flat resulting in improvement in days sales outstanding.

Our inventory balance increased to $466 million on a sequential basis as we build inventory for the holiday season.

We continue to generate strong free cash flow across our business. Excluding the $78 million cash tax payment related to the inter-Company restructuring, cash from operations was $220 million, and capital expenditures were $18 million, resulting in free cash flow generation of $202 million during the quarter. We also repurchased $79 million of the Company stock during the third quarter, completing our current repurchase authorization. With our dividend and stock repurchase activity during 2014, we will return approximately $600 million of cash to our shareholders.

This concludes our formal remarks. Tim, can you please open the line for questions? Thank you.