MANAGEMENT DISCUSSION SECTION

Operator: Please standby, we're about to begin. Good day, everyone, and welcome to the Garmin Fourth Quarter 2011 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the call over to Ms. Kerri Thurston. Please go ahead, ma'am.

Kerri R. Thurston, Manager-Investor Relations

Thank you. Good morning. We'd like to welcome you to Garmin Limited's Fourth 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 December 2 and 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 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 25, 2010 filed with the Securities and Exchange Commission. Our 2011 10-K will be filed on February 29.

Attending the call on behalf of Garmin Limited this morning are Dr. Min Kao, Chairman and Chief Executive Officer; Cliff Pemble, President and Chief Operating Officer; and Kevin Rauchman, 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 A. Pemble, President, Chief Operating Officer and Director

Thank you, Kerri, and good morning, everyone. As we announced earlier this morning, Garmin delivered strong results in the fourth quarter with consolidated revenues increasing 9% year-over-year to $910 million. This growth was broad-based with each of our business segments contributing. Gross margins improved year-over-year, up 240 basis points to 47.7%. Revenue growth combined with improved gross margins resulted in both operating income and EPS growth.

Operating income for the quarter grew 8% while pro forma EPS came in at $0.96, a 16% improvement over the prior year. As a group, our traditional market segments of Aviation, Marine, Outdoor and Fitness contributed 61% of our total operating income for the quarter. And revenue from these segments grew nearly 19%. We sold 6.1 million units in the quarter which was flat year-over-year. Auto PND unit volume was down slightly, however, this was offset by higher volumes in Outdoor, Fitness and Marine. We generated $213 million in free cash flow during the quarter resulting in a cash balance of just under $2.5 billion.

Looking at highlights for the full year, consolidated revenue increased 3% as new product categories, increased market share and emerging market opportunities delivered results that exceeded the expectations we established at the beginning of the year. As a group, our traditional market segments grew 14%, contributing $1.2 billion in total revenue for the year. Revenue growth in these segments combined that the strong margin profiles generated 71% of our operating income.

We delivered over 15.8 million units in 2011, a decline of only 1% year-over-year. Weakness in the North American PND market was partially offset by stronger PND shipments to the EMEA and APAC markets. Unit growth in the Outdoor, Fitness and Marine markets also helped close the gap.

From a geographical perspective, the EMEA region grew 19% outpacing all other geographies. All market segments contributed to the growth including PND. We generated $784 million of free cash flow in the year which was partially used to fund our quarterly dividend and to complete numerous acquisitions aimed at further diversifying our revenue base.

Next, we will review each of our business segments highlighting 2011 performance, outlook for 2012 and a summary of long-term strategic initiatives.

Starting with the Marine segment, we reported year-over-year revenue growth of 12% driven by improved market conditions and share gains across our product portfolio. We experienced strong market share gains in the OEM segment and expanded our presence in the inland market with the introduction of our new Echo Fishfinders.

During the year, we expanded our product portfolio with sonar and autopilot solutions that brought new innovation to the Marine market and enhanced our ability to serve the sail and large boat markets. Throughout the year, we invested heavily in the Marine segment with increased research and development and the build out of additional support infrastructure to serve our growing base of OEM customers. This has compressed margin in the near term. However, we are confident that these investments are critical to growing revenue and market share going forward.

For 2012, we are targeting revenue growth of 5% to 10% in the Marine segment as market conditions continue to improve and as recent OEM wins and product introductions provide revenue contributions for the full year. At last week's Miami Boat Show, we announced the relationships with Teleflex and Viking both of which will target the larger boat market and will contribute to revenue in 2012.

2012 will also be a year of significant investment as we develop products and opportunities that will contribute to growth in 2013 and beyond. In the coming years we seek to increase our share in the mid to large size boat category. Leveraging our relationships with Volvo Penta, we will create equipment that will embed us deeper into the boat with innovative new engine and navigation displays. In addition, we will be working to expand our share of the inland market through innovative content and technologies leveraging the recently announced acquisition of Interphase.

Turning next to Aviation, we reported year-over-year revenue growth of 9% which we view as a significant accomplishment in light of the ongoing challenges facing the general aviation industry. The General Aviation Manufacturers Association reported a 10% decline in aircraft shipments through the first three quarters of 2011. This decline is in addition to the already depressed shipment levels of 2009 and 2010. Despite the ongoing negative trends, revenues generated from OEM customers were relatively flat for the year outperforming the general market.

During 2011, we've made significant progress in securing wins in the Part 23 and Part 25 business jet market. Cessna selected our G3000 system for the Citation M2, the Part 23 aircraft that will enter the market in 2013. Additionally, Cessna selected the G5000 for the Citation Latitude, the Part 25 aircraft that will enter the market in 2015.

We also made additional inroad into the OEM helicopter market where our primary flight display system was integrated into the Bell 407GX.

Last year, we introduced the GTN 650 and 750 which are the first panel-mounted products to feature touchscreen operation. These new products have been well-received by the markets and were a significant contributor to the growth we experienced in 2011.

In 2012, we are targeting revenue growth of 5% to 10% in the Aviation segment as recovery for the industry continues to lag that of the overall economy. We are hopeful that the OEM market will stabilize in 2012. However, we do not expect to see meaningful growth from OEMs this year. Despite this soft outlook, we see many opportunities in the years ahead and we will continue to invest in certifications with our business jet partners that will result in significant growth opportunities when the market begins to recover in 2013 and beyond.

In light of these opportunities, our growth initiatives are focused on continued development of our G3000 and G5000 platforms with OEM partners, which will be the foundation of growth in 2013 and beyond; Identifying and capitalizing on additional retrofit opportunities; further expansion into the helicopter market with recent announcements at the Heli-Expo naming Garmin as the standard avionics provider on the Bell Relentless, which we'll launch in 2016 and an optional avionics provider on two Eurocopter models launching in 2013. And we are well positioned for opportunities created by the FAA's transformation of the national airspace system from a ground-based system of air traffic control, to the satellite-based system of air traffic management.

In the Outdoor segment, we reported year-over-year revenue growth of 14%, which was primarily driven by new product introductions, expansion into new categories and contributions from recent acquisitions.

A few highlights from the year include the acquisitions of Tri-Tronics which expand our offerings to include training devices for both sports dogs as well as household pets, capturing significant share in the GPS enabled golf category with unique product such as our Approach S1 golf launch, and offering a range of products and price points was something for every customer. Our new Montana series is a premium device offering advance features and improve versatility over existing handheld in the market. While our totally refreshed eTrex series is perfect for customers looking for a more basic device and it's been well received by the market.

Looking at 2012, we expect revenue growth of 5% to 10% driven by ongoing momentum from recently introduced products and we will leverage opportunities in the dog training markets through the Tri-Tronics acquisitions. Our growing market share in the GPS enabled golf category presents an opportunity to expand our distribution channels both domestically and abroad as more shops lists to stock our products.

Long term we will create new opportunities by identifying adjacent markets and product categories as we have done in the past. We will maintain our focus on utility, content and innovative form factors to engage both new and repeat customers in the segment.

In the Fitness segment we reported year-over-year revenue growth of 24% as the market expanded and we maintained our leadership position in the GPS enabled fitness category. We remained focused on offering a broad range of products appealing to both elite athletes as well as recreational participants. We refreshed our premium Forerunner product line in 2011 with the 610 touchscreen launch. This product offers unmatched utility, ease of use and innovation and has been very well received by athletes around the world. In the cycling market, we introduced the Edge 200, which appeals to value-oriented cyclists who wish to experience the benefits of GPS-enabled cycling computers.

In 2012, we are targeting revenue growth of 20% to 25% in the Fitness segment. One of our key initiatives for the year is the completion of the Vector power meter, which we expect to deliver this summer. Across each of the fitness categories we serve, we plan to offer a broad range of products that appeal to all athletes.

Looking beyond 2012, we believe the Fitness segment will continue to grow as society becomes increasingly aware of the important role that fitness plays in the pursuit of a healthy lifestyle. We will focus on delivering compelling and useful products to the market with a complete solution including devices, wireless connectivity, measurement sensors and a well-developed Web portal. We will continue to build the Garmin Connect community which has logged over 1.5 billion miles by delivering a satisfying and complete user experience that complements our devices and our mobile applications. We plan to increase our share in the cycling market by offering a broad range of innovative products and by leveraging opportunities created by the Vector power meter. And longer term, we seek to capitalize on the possible opportunities within the wellness space where we can leverage our knowledge of hardware, software and connectivity.

Turning to the Auto/Mobile segment, we are pleased with our financial performance in light of the ongoing challenges in the PND market with revenues up 4% for the quarter. For the year, we posted a 5% revenue decline while maintaining strong profitability.

When normalizing for the deferral of high margin revenues associated with bundled PNDs, our full year 2011 operating margin in this segment was 17%. In addition, we grew our market share during the year thereby strengthening our position. Notably, we exited 2011 with greater than 60% share in North America and approximately 30% share in the EMEA.

In 2011, we introduced a simplified family of nüvi products offering something for every lifestyle and budget beginning with the Essential series followed by the Advanced series and finally the Prestige series. This new product family was well received by both our retail partners and consumers during the holiday shopping season.

Also in 2011, we acquired Navigon. We will continue the integration of Navigon in 2012 building from the foundation that made the acquisition important to us - their OEM customer base and well respected technology, their European PND market share, and their strength in the mobile application space.

Looking at highlights from the Auto OEM market, we were pleased to be recognized by J.D. Power and Associates with the highest customer satisfaction with factory installed navigation during our first year of eligibility. The Garmin navigation system in the 2011 Dodge Charger ranks first with the Chrysler 300 system ranking third. This recognition confirms that consumers value a seamless navigation experience that is intuitive and feature rich - an experience that Garmin has successfully delivered to our markets for over 20 years.

Additional programs announced and delivered during the past year include the Volkswagen Up compact vehicle where Navigon was selected as the exclusive provider of navigation and Suzuki Grand Vitara and SX4 which feature a semi-installed version of our nüLink 2390 connected navigator.

Looking ahead, we expect PND unit deliveries to continue to decline in 2012, driving revenues down 7% to 10%. We will look for opportunities to grow in emerging markets and to profitably gain market share to offset the continued declines we foresee in the North American and European markets.

We will continue to invest in Auto OEM opportunities in 2012, leveraging our broad capabilities as an OEM and consumer electronic supplier. In addition, mobile applications provide a near-term opportunity for growth as the smartphone segment continues to expand. And we will realize a full year of contributions from Navigon's popular smartphone applications.

Beyond 2012, we will be focusing on expanding our Auto OEM business through additional program wins as navigation becomes an integral part of the dashboard and maximizing profitability in the PND market as the market leader.

Given our revenue outlook and growth expectation for each segment, we are projecting revenues of $2.7 billion to $2.8 billion in 2012 with gross margins stable to slightly increasing from 2011 levels. We are projecting operating income between $520 million and $540 million, with operating margins of 19% to 20%. The decline in operating margins is a result of increased investments and strategic long-term growth initiatives mentioned earlier. Factoring in an effective tax rate of 13% results in forecasted 2012 earnings per share of $2.45 to $2.60.

In summary, we are pleased to have delivered strong results in the fourth quarter highlighted by revenue growth in each business segment and geographical area we serve. During 2011, we were able to increase our share in several key markets, we delivered desirable new products and were able to leverage growing market segments in order to achieve better than anticipated results.

Looking forward, we see significant opportunities ahead as we anticipate improving economic conditions and we are well-positioned to serve with a strong lineup of new products. With confidence in our business and the improving conditions we see around us, we are pleased to announce our proposal to increase our quarterly dividend to $0.45 per share which will be considered at our Annual Shareholders' Meeting in June. Kevin will provide more details on our dividend proposal in just a moment.

Finally, I wish to take this opportunity to thank our dedicated associates for their efforts during the past year. While there were many uncertainties around us, you maintained your focus and worked hard to make 2011 a great year. Thanks so much for your contributions. This concludes my remarks. I'll turn the call over to Kevin who will walk us through the financial results in more detail. Kevin?

Kevin S. Rauckman, Chief Financial Officer and Treasurer

Thanks, Cliff. So good morning, everyone. I'd like to begin the financial update with a walk-through of our income statement followed by a review of our margins and then conclude with our balance sheet and cash flow position.

For Q4, we posted revenue of $910 million with net income of $166 million. Our pro forma EPS was $0.96 per share which excludes the foreign currency loss. Our revenue represents an increase of 9% year-over-year. Gross margin came in at 47.7%, which was a 240 basis point improvement from the prior year.

For the first time in six quarters, we experienced year-over-year operating income expansion growing from $185 million to $200 million. Operating margin was 22%, flat from the prior year. The components of our operating margin were gross margin being 240 basis points favorable, offset by our advertising which was 90 basis points unfavorable, up $12 million on a year-over-year basis as we utilized TV advertising in the holiday quarter combined with increased coop expenses. SG&A was 80 basis points unfavorable, up $14 million on a year-over-year basis due primarily to the acquisitions. R&D was 70 basis points unfavorable, up $13 million on a year-over-year basis due primarily to acquisitions as well.

Our pro forma EPS of $0.96 represents a 16% increase year-over-year driven by increasing revenues and a slightly lower effective tax rate. Our units shipped were flat year-over-year as 6.1 million units were delivered during the quarter and our total company average selling price was $150 per unit, up 9% from 2010 driven by product mix.

For the full year, we posted revenue of $2.76 billion with net income of $521 million. Our pro forma EPS was $2.73 per share which also excludes our foreign currency losses. Our revenue increased 3% year-over-year while our pro forma EPS decreased 5% when excluding FX and a $0.50 per share one-time tax adjustment we posted in 2010.

Our gross margin of 48.5% was a 150 basis point decline over the prior year due to warranty adjustments during 2010 which contributed 160 basis points. Operating income fell 13% to $554 million compared to $637 million in 2010.

Our operating margin was 20.1%, down 360 basis points from 23.7% last year. Gross margin was 150 basis points favorable, advertising 10 basis points unfavorable, advertising was 10 bps favorable and flat on a year-over-year basis. SG&A was 170 basis points unfavorable, up $53 million on a year-over-year basis driven primarily by acquisitions, web-based commissions, product support and legal costs. R&D was 50 basis points unfavorable up $22 million on a year-over-year basis due primarily to the acquisitions.

So our pro-forma EPS of $2.73 with a 4% decrease year-over-year on increasing revenue and slightly lower effective tax rate offset by declining gross and operating margins. Units shipped were down 1% year-over-year as 15.8 million units were delivered during the year. The decrease in North American PND volume was partially offset by growth in other geographies and our other segments. Our total company average selling price was $175 per unit, up 4% from 2010 due to product mix.

The non-GAAP measures that we reported represent net income per share excluding the effects of foreign currency translation and the one-time tax adjustments both in Q3 as I've mentioned. The Q4 2011 GAAP impact from foreign currency loss was $0.11, the Q4 2010 GAAP impact from foreign currency loss was $0.15. The full year 2011 GAAP impact from foreign currency loss was $0.06 while the 2010 loss impact was $0.38 offset by a $0.50 gain related to the large one-time tax adjustment.

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 fourth quarter and full year 2011 and 2010.

First, in the current quarter, we deferred approximately $0.26 of EPS into future periods compared to $0.19 in the fourth quarter of 2010. Most of these revenues and costs will be amortized straight line over a three-year period. For the full year, we deferred approximately $0.66 of EPS in 2011 compared to $0.42 in 2010.

While we are deferring revenue according to U.S. GAAP, we are collecting the cash at the time of sale which is reflected positively in our statement of cash flows which I'll review in a minute.

In total, our revenues increased 9% for the quarter. During Q4, we experienced a 4% revenue increase within the Auto/Mobile segment as volume declines were offset by improved pricing due to product mix. Our Outdoor segment posted accelerating growth at 35% due to pent-up demand for new products and market share gains within the GPS-enabled golf market. The Fitness segment continued to grow with a 17% revenue increase when compared to Q4 2010 on the strength of our Fitness products during the holiday quarter. Aviation segment revenues increased 1% compared to Q4 2010 as retrofit growth was largely offset by program contributions related to our business jet cockpit wins. And Marine segment revenue increased 16% compared to Q4 2010 as well, as the aftermarket and OEM markets improved for Garmin.

During Q4, all geographies were stable or growing with EMEA posting the strongest growth at 28%. For the full year, EMEA grew 19% while Asia Pacific grew 13% same period. These geographies were partially offset by a 7% decline in the Americas driven by the PND volume declines.

For 2011, the Americas represent 55% of revenue, EMEA increased from 31% of total revenue in 2010 to 36% in 2011, and Asia from 8% to 9% in the same period.

The auto/mobile segment represented 64% of our total revenue during the fourth quarter down from 67% in Q4 2010. Outdoor grew to 13% of revenues in the quarter, from 11% a year-ago.

The operating income contribution of the Outdoor and Fitness segments increased to 30% and 20% respectively, or 50% of our total business. In total the traditional segments contributed 61% of our fourth quarter operating income.

On a full-year basis, Auto/mobile revenue contribution declined from 62% to 58% in 2011 with gains in Outdoor, Fitness and Marine which contributed 13%, 11% and 8% respectively.

The operating income contribution of the Automobile segment shrank at 29% in 2011 compared to 39% a year-ago. Our traditional segments contributed 71% of the full-year operating income with strong gains in both our Outdoor and Fitness segments.

On a full-year basis, Automobile revenue contributed -- contribution decline from 62% to 58% in 2011 with gains in Outdoor, Fitness and Marine which contributed 13%, 11% and 8% respectively. The operating income contribution of the Automobile segment shrank at 29% in 2011 compared to 39% a year-ago. Our traditional segments contributed 71% of the full-year operating income with strong gains in both our Outdoor and Fitness segments.

Looking next at the margin by segment, our fourth quarter Automobile gross margin and operating margin were 38% and 13% respectively. The year-over-year improvement in gross margin was primarily driven by improved average selling prices due to product mix, shifting toward higher price bundled offerings. Operating margins in the quarter were 13% or 20% when adjusted for deferrals. This is slightly higher than the normalized operating margin of 19% for fourth quarter of 2010.

Q4 Outdoor gross margin was 68% consistent with Q4 of 2010. Operating margin was 49%, a decline from 53% of the year-ago quarter, due to increased allocation of advertising and SG&A expenses to this segment.

Q4 Fitness gross margin was 64% stable from the year-ago quarter, and operating margin was 43% again consistent to the year-ago quarter, as both revenue and expense growth were evenly paced.

Q4 Marine gross margin was 60% compared to 63% in the year-ago quarter as product mix shifted toward lower margin product. Operating margin was 22%, down from 29% a year ago driven by the gross margin decline and increased R&D and SG&A expenses to support our long term Marine OEM strategy.

Finally, Q4 Aviation gross margin was 65% down from 70% in Q4 of 2010 due to OEM program contributions. Operating margin was 18% for the quarter, down from 26% in the prior year due to the decline in gross margin and increased R&D expense associated with our new OEM program that will begin to contribute to revenue in 2013.

Moving next to the balance sheet, we ended the quarter with cash and marketable securities of almost $2.5 million. Our account receivable balance increased sequentially to $607 million due to sales growth during the holiday quarter. Accounts receivable accounted for approximately 81 days of sales when calculated on a trailing four quarters compared to 101 days of sales in the fourth quarter of 2010. We've already collected approximately $350 million of our year-end balance.

Our inventory balance has decreased to $398 million on a sequential basis at the close of fourth quarter. Our days of inventory metric was 102 days compared to 119 in the fourth quarter of 2010. We ended the quarter with the following amounts and number of days of inventory: $129 million in raw materials representing 31 days; $52 million in work in process and assemblies were 13 days; and $246 million in finished good, or 58 days of inventory, and we closed the year with $29 million in inventory reserves. You'll also notice on our balance sheet that we show a $78 million dividend payable to be paid on March 31, 2012.

We continue to generate strong cash flow across our business as cash from operations was $225 million during the quarter. Our CapEx spending was $12 million during Q4. Therefore, we generated free cash flow of $213 million. Cash flow invested during the fourth quarter was $164 million including the $12 million in CapEx and $157 million net purchase of marketable securities offset by a $4 million gain on the sale of property plant and equipment. Financing activities were $160 million use of cash during Q4 due primarily to the dividend payments we made on both September 30 and December 31. We earned an average of 1.5% on all cash and marketable securities balances during the quarter and our full year operating cash was $822 million with free cash flow of $784 million.

We expect our strong free cash flow generation to continue into 2012 and with it, we plan to continue to fund a strong dividend. As Cliff mentioned, we will ask shareholders to approve a $0.45 per share quarterly dividend at our June Annual Meeting representing a 4% yield at a stock price of $45. We will also continue to pursue acquisitions in adjacent niche markets or tuck-in technologies which fit with our core markets. As has been our practice, acquisitions will be evaluated by technology, values compatibility and strategic fit within Garmin.

Our tax rate for the full year 2011 was 10.8%. We do expect the 2012 rate to be approximately 13% and the increase in this forecasted effective tax rate is attributable to revenue mix by different tax jurisdictions.

And finally Cliff has reviewed our 2012 guidance but I will just further highlight that we have four solid growth segments and we will continue to invest for long term growth across the entire business. Our strong profitability and market diversity position us well for both 2012 and the future. This concludes our formal remarks for the morning.

