CORPORATE PARTICIPANTS

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Cliff Pemble *Garmin Ltd - President & CEO*

Doug Boessen *Garmin Ltd - CFO & Treasurer*

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

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James Faucette *Morgan Stanley - Analyst*

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PRESENTATION

Operator

Good day, everyone, and welcome to the Garmin Limited fourth-quarter 2014 earnings conference call. As a reminder, today's call is being recorded. And at this time, I'd like to turn the call over to Kerri Thurston. Please go ahead.

Kerri Thurston - ***Garmin Ltd - IR Manager***

Thank you, and good morning, everyone. We'd like to welcome you to Garmin Limited's fourth-quarter 2014 earnings call.

Please note that the earnings press release and related slides are available at Garmin's Investor Relations site on the internet at www.garmin.com/stock. An archive of the webcast and the related transcript will also be available on our website.

This earnings call will include 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, which will be filed with the SEC later today.

Presenting on behalf of Garmin Limited this morning are Cliff Pemble, President and Chief Executive Officer, and Doug Boessen, Chief Financial Officer 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 announced earlier today, Garmin reported fourth-quarter revenue growth of 6%. And strong gross margin performance, which contributed to another quarter of pro forma EPS growth.

Outdoor, Fitness, Aviation and Marine revenues increased 23% on a combined basis, which more than offset an 11% decline in Auto/Mobile. The non-Auto/Mobile segments represented 58% of our revenue in the holiday quarter.

Gross margins improved, year over year, to 54%, driven by the revenue mix shifting towards our higher-margin segments, and due to the recognition of higher margin revenues that were previously deferred.

Operating margin declined slightly to 22%, as we made significant investments in advertising. These investments were consistent with our strategy to grow our share in the Activity Tracker market, through higher consumer awareness and improved representation at retail.

Looking briefly at our full-year performance, we delivered four consecutive quarters of revenue growth, and strong margin performance resulting in pro forma EPS growth of 18%. On a combined basis, our growth segments contributed over $1.6 billion in revenue for the year or 57% of the total, and generated 69% of our operating income. Gross and operating margins improved to 56% and 24%, respectively, allowing us to generate over $3 of pro forma EPS for the first time since 2009.

This is a major accomplishment made possible by our growth initiatives, and the dedication of Garmin associates around the world. For the full year, we returned over $600 million to shareholders via our quarterly dividend and share repurchase program in 2014.

Next, I'll review each of our business segments, highlighting 2014 performance, our 2015 outlook, and a brief summary of long-term, strategic initiatives.

Starting first in the Fitness segment, we reported year-over-year revenue growth of 60%. Activity Trackers led the way, but our core categories of Cycling and Running also delivered impressive results. Though competition is intense in this high growth area, our portfolio of differentiated products delivered stable gross and operating margin of 63% and 34%, respectively.

For the full year, we secured approximately 15% share in the highly competitive Activity Tracker market. We believe this is a significant accomplishment, especially considering the short time we've been in the market, and it's one we can build upon in 2015 and beyond. In 2015, we are targeting revenue growth of approximately 25% on top of the impressive growth of 2014.

At CES, we introduced the Vivofit 2 and the Vivoactive, expanding our family of products targeting the Activity Tracker market. The Vivoactive is a smart watch for the active consumer, combining smart alerts and daily activity tracking with key features for runners, cyclists and golfers.

The Vivoactive is expandable through our connect IQ open API, which will be discussed shortly. This product won numerous awards at CES and was praised for its versatility, ultra thin form factor and long battery life, which differentiates it from the rest of the market.

We also introduced the Vivofit 2, which features a backlit display, audible alerts and an exciting collection of band options that will appeal to a broad range of consumers. We are encouraged by the recent performance of the Fitness segment, and we look forward to another exciting year of new product introductions and growth.

Looking beyond 2015, we believe that numerous opportunities exist within the fitness and wellness domain, and we will continue to pursue these, as global consumers become increasingly health conscious. We will focus on delivering innovative products to the market, offering a complete experience via compelling form factors, wireless connectivity and sensors.

We will deliver a best-in-class experience to our Garmin Connect community with support for a broad range of activities, social networking, couching, and partnerships, with companies like Strava and MyFitnessPal. We will expand on the essential nature of our products through third-party apps, offered via connect IQ. The screen captures depicted here illustrate a few of the unique applications being designed for our active lifestyle customers. Finally, we will target additional share in the growing Activity Tracking market by delivering industry-leading utility and form factors that meet the needs of a diverse set of consumers.

Looking next to Outdoor, we reported year-over-year revenue growth of 4%. Wearables, dog tracking and training, and action cameras contributed to this growth. The Outdoor segment continued to generate strong gross and operating margins in 2014 at 62% and 35%, respectively.

This represented a slight decline in margins compared to 2013, due to product mix and advertising investment. However, we expect the margin profile for Outdoor to stabilize in 2015.

Exiting 2014, we recognized that the segment was not as strong as we had hoped, as we faced headwinds due to unfavorable dynamics in the golf industry, the mature nature of the handheld market, and our niche status in the action camera market. Looking at 2015, we expect growth in wearables, dog tracking and training, and action cameras to be offset by declines in our traditional handheld business, and ongoing negative trends industrywide in golf.

Despite these trends, we're excited about recent product introductions with the fenix 3 and the epix, which were also well received at CES, and we expect to introduce more new products as the year progresses.

Beyond 2015, we will focus on new opportunities in adjacent markets and product categories to further expand our addressable market as we have successfully done in the past. We will make additional investments in the growth areas of wearables and action cameras to broaden our product line and drive market share gains.

We will support these initiatives with appropriate advertising and sponsorships, like the recently announced partnership with Red Bull, featuring the VIRB Elite as the official action camera of the Red Bull Air Race World Championships. In addition, we will utilize connect IQ to enhance utility and differentiate our unique product portfolio.

Turning next to Aviation, we reported year-over-year revenue growth of 14%, driven by strength in both OEM and aftermarket product categories. Operating income increased 22% for the year, ahead of revenue growth, as both gross and operating margins improved. In 2014, we launched Garmin Avionics on additional Part 25 aircraft, and this trend will continue in 2015.

For the 11th consecutive year, Garmin has ranked number one in Avionics product support by Professional Pilot magazine. And as many of you know, this world-class support is a key ingredient for success in the aviation market, and particularly so in the demanding Part 25 aircraft category. I congratulate our team on earning this award once again, which is a testament to the amazing way in which we care for our customers.

In 2015, are targeting revenue growth of approximately 10% in the Aviation segment, with growth in both OEM and aftermarket product categories. We will continue to support numerous partners in the completion of aircraft and helicopter certifications.

In early January, Garmin and Gulfstream announced that Garmin will be providing the certified ADS-B solution for the G150 model aircraft. We are pleased to add Gulfstream to our growing list of OEM partners.

Longer term, our Aviation growth initiatives are focused on continued development of our G3000, G5000and G5000H platforms with OEM partners, which is the foundation for long-term, market share expansion: identifying aftermarket opportunities, as well as commercial off-the-shelf opportunities within the military and government sectors that leverage our core capabilities; developing unique technologies that address gaps in our product portfolio; and, finally, capitalizing on opportunities created by the FAA's transformation of the National Airspace System and other global initiatives and mandates.

Moving next to Marine, we reported year-over-year revenue growth of 11%, including our second-half acquisition of Fusion. Gross margin was steady at 52%, while operating margins improved to 11%.

The pricing environment in Marine electronics remains highly competitive, which has pressured segment profitability. Despite this challenge, we posted improved operating margins, and our operating profit grew 42% over the previous year.

For 2015, we're targeting revenue growth of approximately 10% in the Marine segment, driven by recent product introductions and the full-year contribution of Fusion. We will remain focused on gaining market share, while managing costs and driving efficiencies to improve long-term profitability.

In the long term, our objectives include increasing our market share in recreational boating, with specific emphasis on opportunities in the fishing and sailing markets. We will capitalize on acquisitions made in recent years to further diversify our product portfolio.

In addition, we plan to grow our OEM market share by leveraging our full range of products including chart plotters, radar, sonar, autopilots and entertainment systems. As previously mentioned, we will execute with discipline to improve our profitability of our Marine business over the long term.

And looking, finally, at the Auto/Mobile segment, revenues declined 5% for the full year, as lower PND revenues were partially offset by market share gains, growth in OEM, and contributions from deferred revenue.

According to our estimates, we held approximately 45% market share in 2014 on a global basis and achieved 86% share in the fourth quarter in the US market, representing yet another quarter of market share gain.

Though industry headwinds were challenging, segment margins improved, due to the contribution of deferred revenue and we generated over $215 million of operating income for the year. We secured additional OEM relationships in 2014, including the announcement with Honda on the Civic and CRV in specific geographies.

Looking at 2015, we expect the PND market to continue along its current trajectory, and we also expect to recognize less, deferred revenue versus the prior year. These factors lead to a forecasted revenue decline of approximately 15%. We will focus on market share, leadership and maximizing profitability in PNDs, as we have successfully done for many years.

We believe we will continue to gain momentum in the expanding [infotainment] market, as customers embrace increasing levels of in-dash technology, and OEMs search for partners, that can deliver unique value to the market.

Beyond 2015, we will focus on expanding our auto OEM business through: additional program wins; delivering innovative in-vehicle technology in both aftermarket and OEM applications; managing the profitability of the segment as the PND market continues to decline; and capitalizing on niche opportunities in areas such as motorcycle, over-the-road trucking and RV.

As you can see, we are excited about the opportunities ahead of us in 2015. However, in addition to the market headwinds I've highlighted, we also face significant revenue headwinds in the near term, due to the rapid strengthening of the US dollar. With this in mind, we are projecting revenues of approximately $2.9 billion, with stable gross margins at 56%.

We are projecting operating income of approximately $675 million, with operating margins of approximately 23%, as we continue to grow our R&D investment and manage other expenses in line with revenues.

Factoring in an anticipated, effective tax rate of 16% to 17%, 2015 pro forma earnings per share is expected to be approximately $3.10, or flat, compared to 2014. Note that the FX situation negatively impacted our revenue and EPS guidance by about 300 basis points.

Given the strength of our 2014 results, we will propose an increased dividend at our upcoming annual meeting, and we will participate in share repurchases as market conditions warrant. We believe these actions will result in stronger returns for our shareholders over the long term.

That concludes my remarks, Doug will now walk through our Q4 and full-year financials in more detail. Doug?

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

Thanks, Cliff. Good morning, everyone.

I'd like to begin by reviewing our fourth-quarter and full-year financial results, then move to comments on the balance sheet, cash flow statements, taxes, and 2015 guidance. We posted revenue of $803 million for the fourth quarter, representing a 6% increase year over year, even with headwinds created by the weakening of the euro. Gross margin was strong at 54%, a 170 basis point increase from prior year driven by segment mix and favorable impact from deferred revenue.

Operating income grew by 2% to $176 million. Operating margin was 22%, a decrease of 80 basis points from the prior year. This is the result of gross margin favorability, of 170 basis points, that was more than offset by operating expense growth of 15% or $33 million, due to increased spending in both advertising and research and development. With a pro forma effective tax rate of 19%, adjustments for the foreign currency gain, the tax benefit from the release of material reserves, our pro forma EPS was $0.77. This represents a 1% increase, year over year.

We shipped 5.1 million units during the quarter, up 14% from 4.5 million last year. Total Company average selling price was $157 per unit, down 7% from $169 in the prior-year quarter, primarily due to fitness product mix.

Looking at full-year results, we posted revenue of $2.87 billion for the year, representing a 9% increase, year over year. Gross margin was strong at 56%, a 240 basis point increase from prior year, driven by segment mix and a favorable impact from deferred revenue.

Operating income increased 20% to $691 million compared to $574 million in 2013. Operating margin was 24%, an increase of 230 basis points from the prior year. This is a result of gross margin favorability of 240 basis points that was slightly offset by operating expense growth of 10% or $81 million, due to increased spending in both advertising and research and development.

Our 2014, pro forma, effective tax rate was approximately 17%, which was in line with 2013. After adjusting for the foreign currency loss, the tax impact of the inter-Company restructuring, and a tax benefit from the release of material reserves, our pro forma EPS was $3.10. This represents an 18% increase, year over year. Units shipped were up 9% from 15.2 million units delivered during the year.

Next, we'll review how our fourth-quarter revenue breaks down by segment. We experienced growth in three of our five segments, led by Fitness with 70% growth. Looking at the charts on this page, the Auto/Mobile segment represented 42% of our total revenue during the fourth quarter of 2014, down from 49% in the prior year. Fitness grew to 25% of revenue in the current period, compared to 16% in the prior year.

These charts illustrate our profitability mix by segment. Our non-Auto segments delivered 68% of operating income in the quarter, flat to the prior-year quarter. Drilling down on year-over-year gross margin, total Company, gross margin improved to 54%, due to positive segment mix and improved margins in Auto/Mobile.

Aviation and Marine posted the only sizable gross-margin declines. Both were negatively impacted by product mix, as Cliff discussed, bringing us further pressure due to competitive pricing dynamics. Total operating margin was 22%, down slightly from the prior quarter, due to increased advertising spend offsetting the strong gross-margin performance.

Looking briefly at full-year metrics, revenue contribution for 2014 shifted away from the Auto/Mobile segment, which represented 43% of our total revenue during 2014, down from 49% in the prior year.

Fitness grew to 20% of revenue for the full year, compared to 14% in the prior year. We generated 69% of operating income in our non-Auto/Mobile segments during 2014.

As previously mentioned, fourth-quarter operating expense increased by $33 million or 15%, while increasing 250 basis points as a percent of sales. Research and development increased $9 million, year over year, and 50 basis points, to 12.6% of sales. We continue to invest in innovation and grow our engineering workforce by increasing resources focused primarily on Aviation, Fitness and Outdoor.

Our advertising expense increased $19 million over the prior-year quarter, and represented 6.7% of sales, a 210 basis point increase. Additional spending was focused primarily on Fitness to support new product categories. We will continue to manage advertising costs by segment, with a near-term focus on market share growth in wearables.

SG&A was up $4 million compared to the prior-year quarter, decreasing 10 basis points as a percent of sales, to 12.3%. We continue to manage these costs closely to get operating leverage when possible.

We ended the quarter with cash and marketable securities of almost $2.8 billion. Accounts receivable increased both sequentially, and year over year, to $570 million, as a result of the higher holiday sales volume in 2014.

Our inventory balance decreased to $420 million on a sequential basis to close the fourth quarter, as we exited the stronger holiday quarter prepared for the seasonally lower first quarter. Year over year, we are maintaining adequate inventory levels to support new product categories [and a] sufficient supply of raw materials.

We continue to generate strong free cash flow across our business, with $127 million generated during the fourth quarter and $528 million for the full year. Our dividend and stock repurchase activity during 2014 returned over $600 million of cash to our shareholders.

Our pro forma effective tax rate for fourth-quarter 2014 was 19.1%, compared to 20% in the fourth quarter of 2013. The pro forma tax rate in fourth quarter of 2014 excluded the tax benefit for material releases of reserves. The pro forma effective tax rate decline was driven by the favorable impact of the approval of a 2014 R&D tax credit, which was largely offset by unfavorable income mix by tax jurisdiction, resulting from foreign currency fluctuations, as well as reduced tax incentives in Taiwan. There was no material change in our full-year, pro forma, effective tax rate between 2013 and 2014. We expect our full-year tax rate for 2015 to be between 16% and 17 %, relatively consistent with prior years.

We announced, this morning, that we plan to seek shareholder approval for an increased dividend beginning with the June 2015, calendar quarter. The proposal is $0.51 per share, per quarter, or $2.04 annually, an increase from our current quarterly rate of $0.48 per share.

We also announced that the Board of Directors authorized the Company to repurchase up to $300 million of the Company's shares, as market and business conditions warrant through December 31, 2016.

Cliff reviewed our 2015 guidance, but I'd like to further highlight that we anticipate growth in three segments in 2015, and expect our non-Auto segments to represent over 60% of our revenue in 2015. As highlighted in our guidance, we will continue to invest in 2015 for long-term growth opportunities across the entire business, positioning us to continue to generate significant shareholder returns.

Aaron, could you please open the line for Q&A?