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Vol. 6 Issue 11 April 30-May 6, 2001

GPS Devices

GARMIN Ltd.
NASDAQ - GRMN

WSCR #103862
KEVIN RAUCKMAN
Chief Financial Officer

Interview by Lynn Fosse
Editor in Chief

**Mr. Kevin
Rauckman**

I joined GARMIN Ltd. as Director of Finance in January 1999 and was named treasurer and chief financial officer in August 2000. I came to GARMIN from Allied Signal where I served as director of finance of an aerospace division of Allied that became Honeywell. Prior to that, I was finance manager at Unisys, a computer consulting and service firm, where I spent about eight and a half years in corporate finance. I attended the University of Kansas and received an MBA

available by the U.S. government for commercial use in 1983 and is a worldwide navigation system that enables the precise determination of geographic location using established satellite technology.

"At GARMIN we design, develop, manufacture and market a diverse family of hand-held, portable and fixed mount Global Position System-enabled products and other navigation, communications and information products under the GARMIN brand name. Each of our Global Positioning System products utilizes our proprietary integrated circuit and receiver designs to collect, calculate and display location, direction, speed and other information in forms optimized for specific consumer uses."

Unique

"At GARMIN, we like to think that we enhance people's lives by developing innovative and easy-to-use products that simplify navigation, communications and

markets and our ability to receive a signal and integrate it with mapping, which is something that we do very well.

"Our primary market segments include the consumer segment, which includes marine, recreation, automotive and cellular products and the aviation segment, which addresses the handheld and panel mount product for the general aviation market. Approximately one-third of our revenues are generated in the aviation segment and two-thirds from the consumer segment."

Aviation products

"The aviation segment of our business is focused on general aviation, which are small single or twin-engine piston driven aircraft. Our product integrates a GPS product, radio or communication device and transponder into an aviation stack that allows a pilot flying into low visibility conditions to know exactly where their aircraft and the nearest runways are at any given time. It also has a very good mapping capability that gives the pilot visuals on the roads and streams below them so that the pilot always has a good visual picture of where the plane is at any given time."

Planes equipped with GPS

"Not all planes are equipped with GPS systems today, especially in the general aviation market. Approximately three-quarters of the products that we sell into the general aviation market are in the aftermarket, which is when an individual that personally owns an aircraft goes to their local aviation dealer to have a GARMIN product(s) installed into the cock-

pit. We also sell to the airplane manufacturers, which is the OEM market and currently GARMIN is standard on the aircraft of New Piper, Raytheon Beach, and Mooney as they are being manufactured."

Marketing

"Our strategy in marketing to the aviation community has been to approach the successful manufacturers in the aviation market. We also have very strong, long-term dealer relationships with many aviation dealers of which there are 700 to 750. GARMIN has built a strong brand name in the aviation segment and has very strong market share in that segment, and that is how we currently distribute our products."

Consumer side

"In the consumer segment a dealer network of approximately 2,500 dealers sell our products in the overall consumer segment, which includes our marine, recreation and automotive applications. For example, we sell through Wal-Mart, which has been our customer since the mid-90s and is a substantial dealer for us. Wal-Mart buys some of our hand-held and Fishfinder products for the marine business and sells them into the retail market.

"We also sell through consumer electronics stores like BestBuy and CompUSA. We are always looking for strong nationwide distributors that can get our products out to the market and we have a large base of dealers that we sell through as well. On the marine side, we have been with several large dealers for many years that focus on marine applications."



in Finance as well as an Undergraduate in Business and Accounting."

GARMIN Ltd.

"GARMIN Ltd. is a leading worldwide provider of navigation, communications and information devices, most of which are enabled by Global Position System technology. The Global Positioning System was first made

information for the aviation, boating, driving and outdoor recreational markets. What sets us apart from the competition is the fact that we are committed to making ongoing and substantial investments in research and development. Our other strengths include the fact that we have built an integrated design, manufacturing and distribution capability that is diversified across many

Market potential

"For the past five years our sales have been increasing at about 26% and we have seen explosive growth over the past few years in the new products that we have brought out, particularly in the aviation market, but also in the consumer market. Our new products have been selling very well as GPS technology has become better known and more mainstream in the consumer electronics segment."

Cycles

"GARMIN is an 11 year old company and has never experienced anything like the economy that we are probably going into so it is hard for us to predict exactly how a softening economy will effect our company. In the consumer segment, the price points for our eTrex product line on the low end are \$100 to 300 and we believe that if a consumer really wants the GPS technology they are going to buy it at that price point. There may be some impact on or business due to a slowing economy, but at these price points, I do not believe that our business will slow too much. That said it is hard for us to predict exactly what a slowing economy would mean to us right now."

Cost to use the GPS System

"In the past, the Global Positioning System was primarily used for national security purposes and until 2000, the government had a system in place that dithered the GPS signal and made it less accurate because of national security purposes. In May of 2000 President Clinton took the selective availability system off the GPS System and allowed the accuracy to be within ten meters. In terms of the system itself, GARMIN doesn't pay anything to use the GPS System, which is fully maintained by the Department of Defense and we do not anticipate any type of user fees in the future."

"The products that we have developed are basically receivers that receive the signals; so it is a passive device and in fact it would be difficult for the government to even determine who is using the GPS satellite. In fact the government completed a study a couple of years ago and realized that it would be very costly to determine who was using the GPS signal and have therefore never

tried to put a user fee on it. We expect the GPS system to become much more standard in the United States and to be fully maintained long into the future."

Barrier to entry

"Certainly other companies can decide to become players in the market, although there are some barriers to entry. Garmin has a good head start on any competitors entering the market since we have been in the market for many years and we do have intellectual property rights on several differ-

feel that there are consumers that will like the integration of GPS and wireless technology."

Markets

"GARMIN is an international company with approximately 70% of our sales being generated domestically, 25% in the European community and the remainder in Asia and Australia. We were fortunate early on in our company history to have built strong dealer relationships in the States as well as in Europe and today have coverage in pretty much every coun-

"Each of our Global Positioning System products utilizes our proprietary integrated circuit and receiver designs."

— KEVIN RAUCKMAN

ent products. Currently we have 38 U.S. patents issued and approximately 40 that are pending so we have pretty strong intellectual property rights on the products that we have developed."

Partnerships

"Although we have had discussions with the U.S. automakers in the past, we do not currently have any agreements or relationships with them, but the automotive market is one that we are pursuing currently with a portable product. We just announced a portable GPS product for the automotive market called the StreetPilot III, which is a portable product that is easily mounted on the dashboard of a car and offers turn-by-turn directions as well as voice guidance. Our solution for the automotive market to this point has been portable, but the auto OEMs obviously are looking for an in-dash solution long-term and we have been in discussions with them in that regard."

Decision to enter the cellular market

"Recently GARMIN introduced a GSM cell phone that will be sold into the European market combined with our GPS technology. We will begin production of that product in the second half of 2001 and we expect to be able to sell into the European market as we

try in Europe, which has done well for us and we expect that to continue into the future."

Changing technology

"The way that we are able to keep up with technology is by being very committed to ongoing R&D, which we have heavily invested in historically and our current goal is to continue to invest 25% of our revenues into R&D. We view ourselves as an engineering-driven company and our innovation has been the key to our success. We want to continue to innovate by bringing on brand new products like expanding into the wireless arena and also adding new features to our older products and making them easier to use."

Introducing new products

"2001 is an unusual year in terms of the number of new products that we will be launching in that we will be introducing approximately 25 new products for the first time this year, which is actually quite high. We introduced 23 new products over the past two years so you can see that 2001 is a very significant year for us. We don't have any goals with regard to bringing on a specific number of new products every year, but we are committed to the technology and the growth of that tech-

nology and will continue to bring out new products every year. The way that we view the consumer market is that we have a development cycle between 18 and 24 months and with that we would expect to come out with new products every 18 to 24 months."

eTrex

"The basic eTrex product was a handheld GPS product that was priced at about \$125 and sold into BestBuy, Wal-Mart and other consumer electronic dealers. It was a very basic GPS product that gave location, but did not have any mapping capabilities on the display. If you were a hiker, you could put in a 'way point' that would mark where your car was located as well as different points along the way so that the hiker could always find his or her way back because the product would do a backtrack."

"We realized that there were many other features for the outdoor/recreational user such as digital compass and a barometric altimeter so that a person hiking in the mountains could see their vertical profile of how far or fast they had climbed. We have also increased the functionality of the mapping at the high end of the eTrex products, which allows the user to get street level detail on their display as well as points of interest such as hotels and restaurants."

Manufacturing

"GARMIN has two manufacturing plants. Our consumer products are primarily manufactured in our Taiwan factory, which is a relatively low-cost manufacturing plant where all of our high volume products are made. We purchase from key suppliers in the world to get the best cost for those products and have approximately 700 employees in Taipei that are very efficient. We actually own the technology for the GPS chips and we contract manufacture with companies like IBM and Texas Instruments that actually provide the GPS chip to us."

"All other manufacturing, final assembly and test is done in our factory in Taiwan. We also have an FAA certified manufacturing plant in the Kansas City area, which handles our aviation manufacturing. Between those two factories, we feel that we have very strong manufacturing capabilities and we have invested heavily over the past two years in our facilities to give us the capability to grow well in the future."

Inventory control

"We have always wanted to have a comfortable level of inventory so that we could respond quickly to customer demand. Today we still hold quite a bit of inventory of the raw materials that it takes to build the product as well as levels of finished goods so that if a BestBuy or Wal-Mart or any other dealer orders significant volume, we can respond to their needs quickly. We are not just-in-time inventory, but we have been blessed with a very strong cash flow out of operations, which allows us to maintain our inventory levels."

Product life cycle

"Historically our products have had a four-year life cycle on average so that depending on the product and market, we can either phase product out or let it go obsolete after four years. On the other hand, if a product sells well, we can infuse it with additional features to enhance the product and sell it beyond the four-year lifecycle. Throughout our history we have produced and manufactured 85 to 90 products and right now are selling approximately 50 unique products."

Deciding take GARMIN public

"Last year our co-CEOs, Gary Burrell and Dr. Min Kao, evaluated the opportunity to take the company public and we secured investment bankers for the process in the second quarter of 2000. During the middle of the fourth quarter, we had to decide whether we should forge ahead or not since it was a difficult market, but because we had achieved strong results throughout the company's 11-year history, we decided to go forward with the IPO.

"We had been very good at growing revenues, had strong net income growth, a very strong bal-

ance sheet, plenty of cash and very strong margins so from a financial point of view, we were in good shape and felt we could sell our story well even in a difficult market. We chose to move forward and went public on December 8, 2000 pricing up from \$14 to 20 the first day and our stock has remained fairly stable since in the range of \$17 to 25. We feel that the IPO was a success and GARMIN has done very well in the months following it."

Management and employee ownership

"The management and employees of GARMIN own just under 50% of the company's outstanding stock. Both Gary and Min, our



Co-CEOs, own a substantial amount of the stock and during the IPO we offered stock to our employees for the first time."

Attracting and retaining qualified employees

"In the past it has been a challenge to recruit quality people because we have very high standards for the associates that we recruit. That said, we have actually been quite successful in retaining our employees particularly in the engineering side of the business where we are recruiting on an ongoing basis. We are always looking for highly qualified people that have had success in their careers and we also do a lot of on-campus recruiting at some of the stronger engineering schools where we look for people with strong grades and proven academics. In fact, we have been

quite successful at recruiting and retaining a very high percentage of those people."

Growth strategy

"At this point, we are still evaluating the economy to see how that is going to impact, but as I mentioned earlier, we have grown sales on average 26% and net income at 46% over the past five years so we have been on a very successful growth curve. We believe that the GPS market will continue to grow in the near future at 20%. The numbers that we have given as guidance this year are a \$400 million forecast on revenue this year, which is approximately 16% growth over 2000. We believe that the overall GPS market

is going to continue to grow and obviously with the strong market share that we have in the consumer and aviation segments, that we are going to be key players.

"With regard to acquisitions, we are selectively evaluating companies at all times and in fact one of the reasons that we went public was to potentially acquire companies that could give us a boost in technology or capabilities faster than we could through internal development. We have looked at several companies already since we have gone public and are evaluating several more, although we do not have anything to report now in that regard."

Cash and/or credit

"Currently GARMIN has \$260 million in cash and is a low debt company in that we only have about \$48 million in debt so from a cash and credit perspective, we

are in very good shape right now."

Attracting potential investors

"Over the past decade, we have proven that we can be extremely successful in the market and we are a market leader in the GPS field, which we believe will allow us to grow into some new markets. For example we have made an announcement on a license agreement with Palm that will eventually bring us into the GPS PDA market so that will be another application of the GPS technology that will allow us to continue to grow our business.

"I think it is really a factor of continuous innovation, the fact that we have proven ourselves financially to be a successful business overall and that we are in a growth business that would attract potential investors to GARMIN. Investors are obviously looking for opportunities that can provide them with growth in the future and at GARMIN we have strong margins, a strong cash position and are well positioned for the future, which is what I would be interested in personally as an investor."

Motivation

"What has motivated me since joining GARMIN two years ago is the fact that this is a very fast-paced business that has extraordinary opportunities going forward with the new technology. My motivation comes in trying to keep up with the pace of the business and to make the numbers that we have given guidance on now that we are public. Every day we are looking to make sure that the business is on track and the fact that we have been able to make the gross margins and operating margins that we have communicated is definitely what motivates me."



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