



Garmin Ltd. (NDAQ: GRMN)

Healthy Business Heading in the Right Direction



Huy Pham, *Senior Analyst*

BCom 2023

Feb 2021

Executive Summary



Company Analysis

- **Business Model:** Garmin offers a range of wearable GPS-based devices and navigation, sensor-based technology products. The company operates internationally in five segments: Auto, Aviation, Fitness, Marine and Outdoor. Flagship products include smartwatches, chart plotters, aircraft display equipment and auto manufacturer solutions
- **Key Strategies:**
 - Industrial, performance-driven products design
 - Value creation through vertically integrated business model
 - Accretive acquisitions
 - Heavy investments into the Auto OEM solutions recently

Investment Theses

- **Thesis 1:** Stable cash flow, generous dividends and robust EPS growth backed by sticky customer base and favorable tax position
- **Thesis 2:** Vertical integration and diversified revenue streams enable margin expansion while mitigate operational risks
- **Thesis 3:** Solid financials allow capacity to pursue complementary M&A and capture industry tailwinds

Industry Analysis

- **Consumer Wearables (Fitness/Outdoor)**
 - The market is dominated by Apple (50% market share), following by Samsung and the rest is fragmented
 - Historical 3Y CAGR = 30.85%, Projected 5Y CAGR = 19.6%
 - The industry benefited in 2020 due to the health awareness among consumers and increasing disposable income
- **Industrial Transport Equipment (Auto/Aviation/Marine)**
 - Highly competitive market with many suppliers
 - Sharp downturn in Auto and Aviation, while Marine thrives due to rising boat sales and market share gain in 2020
 - All segments, except Aviation expect strong growth in 2021

Valuation & Target Price

- We value Garmin using a **weighted average of DCF using FCFE and forward SoTP P/E multiple**, assigning a 50/50 weight respectively. This valuation method takes into consideration the common industry practice, as well as the company's relatively debt-free capital structure
- Based on our **target price of \$135.82**, we recommend a **HOLD** rating for GRMN at current price of \$128.05, with an **implied return of 6.04%**

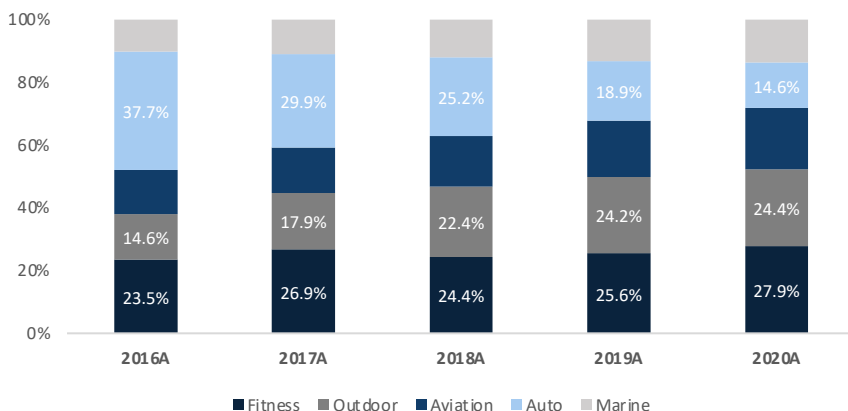
Company Overview

A Diversified Business Protected by High Barrier to Entry Markets

- Garmin Ltd. (NDAQ: GRMN) was founded in 1989, headquartered in Switzerland
- Offered wearable products to consumers and specialized devices to original electronics manufacturers (OEMs) globally
 - Consumer products: Smartwatches, hand-held GPS map, cycling computers and other sport trackers
 - Industrial products: Auto infotainment system, marine chart plotters, SONAR devices and autonomous aviation system
 - Auto Personal Navigation Devices (PND) have been a drag on sales due to the overall decrease of the industry
 - Garmin has been investing in Auto OEM Solutions in recent years to replace Auto PND
- Target retail customers are health-conscious, athletic and have active outdoor lifestyle, thus willing to pay more
- Industrial products are delivered directly to OEMs, allowing higher margin
- The majority of sales comes from America and EMEA region, accounting for 85% of total revenue

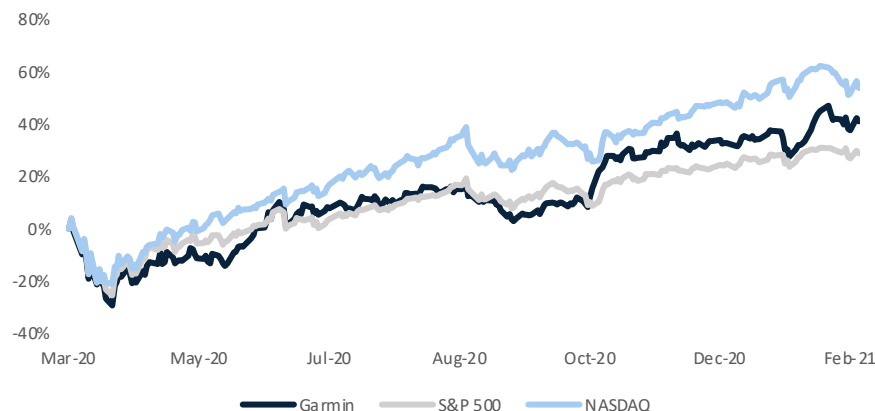
Revenue Contribution

Shift the focus from Auto PND to Fitness & Outdoor over the decade



1Y Share Price Performance

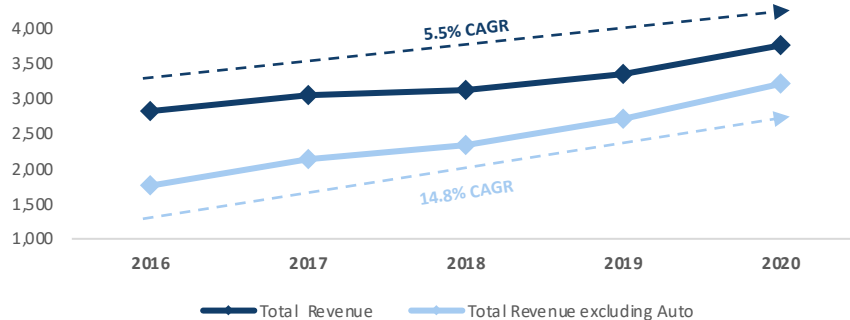
In line with S&P while lagging NASDAQ



Company Overview

Key Financial Metrics

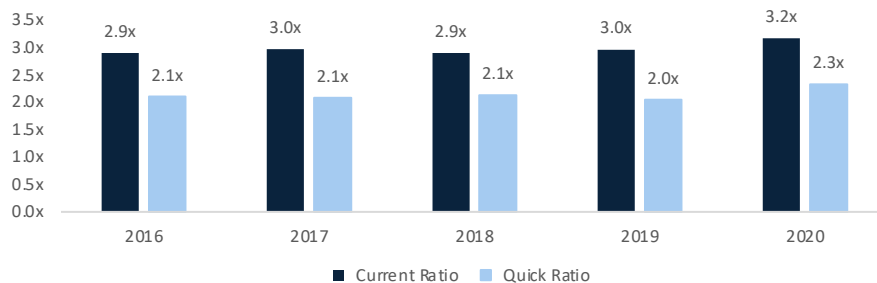
- Revenue growth in all sectors except Auto has been strong



- Fitness and Outdoor were the most profitable segments in 2020

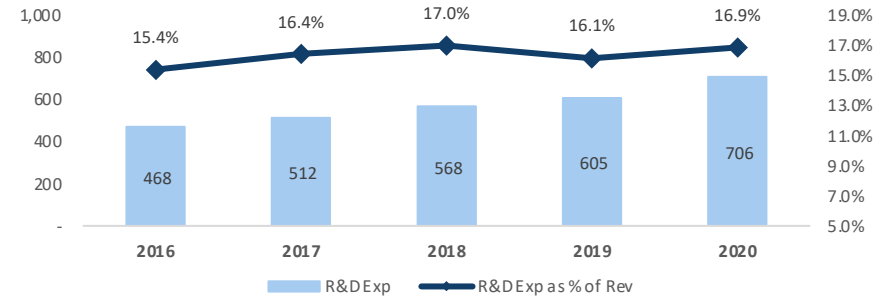
2020	Fitness	Outdoor	Marine	Aviation	Auto	Total
Gross Margin	52.9%	65.6%	58.4%	72.7%	44.9%	59.3%
Op. Margin	45.7%	59.6%	45.7%	30.3%	-9.1%	42.5%

- Consistently maintain a strong balance sheet



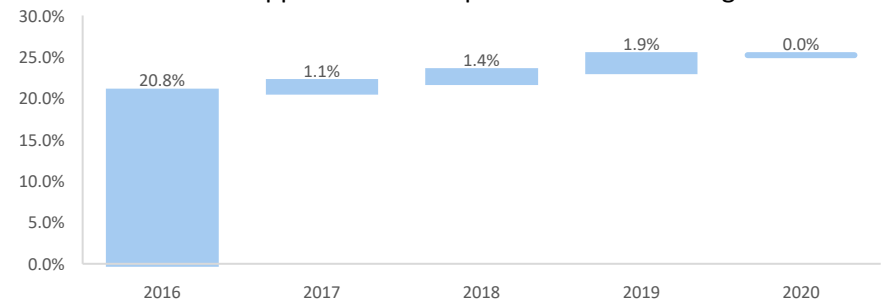
Competitive Advantages

- Product Innovation** achieved through aggressive in-house development as R&D accounts for the biggest part of SG&A
 - ⇒ Garmin smartwatches have battery life of 7-21 days, compared to Fitbit (6 days), Samsung (2.5 days), Apple (18 hours)
 - ⇒ First option when it comes to fitness and outdoor activities due to its activity tracking accuracy and precise GPS application



- Vertical Integration**

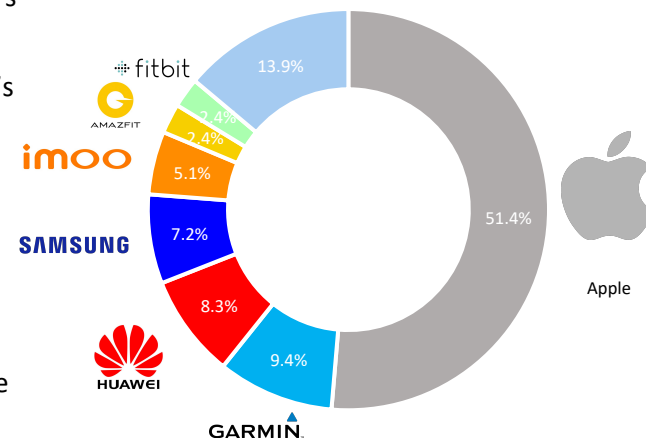
- Garmin designs, manufactures and distributes its products
- Manufacturing location in the US, Europe and Taiwan provides the flexibility of supply chain
- Offers opportunities to optimize and raise margins



Industry Overview – Consumer Products

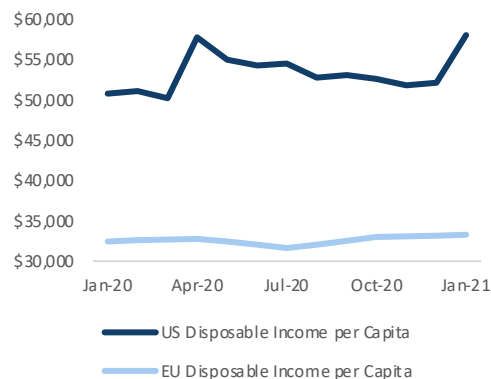
High Growing Market With Opportunity to Steal Market Share

- The global smartwatch market is currently at \$21.5B as a result of strong growth in recent years and is expected to sustain it in the near future
- Apple is traditionally been the leading player but target a broader customer base than Garmin's targeted market
- Despite having less than 5% market share in terms of shipment, Garmin accounts for 9.4% of revenue share in the first half of 2020
- Firms within the industry competes on pricing power and cost optimization
- Market growth opportunities are in acquisitions or geographical expansion of APAC
- The industry benefits from the mega trends in tech including 5G, IoT and Garmin is in favorable position given its expertise in sensor-based technology

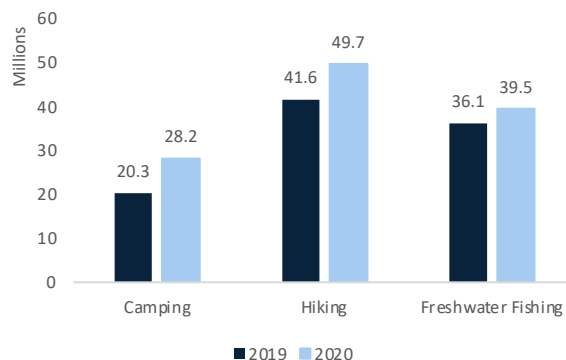


Positive Outlook From Both Cyclical and Secular Trends

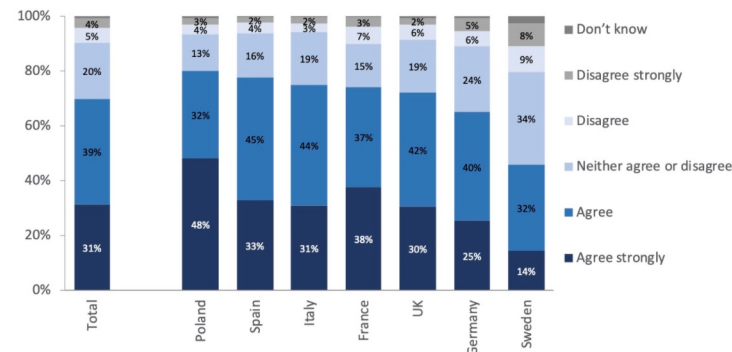
Increasing disposable income and the trend towards healthy lifestyles through outdoor activities led to unique tailwinds for Garmin



Recorded surge in outdoor activity among American



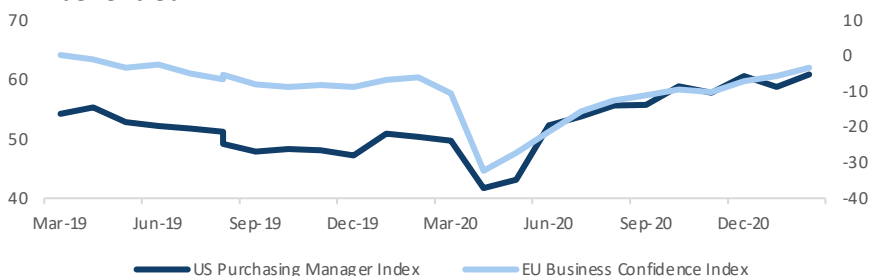
Majority of European agree they will continue with outdoor activities post-COVID



Industry Overview - Industrial Products

Macro Forces – Expecting Recovery

- Industrials are heavily hit by COVID-19 but manufacturers are regaining confidence as the US PMI and EU confidence rebounded
- However, the supply chain disruption caused by COVID still affect manufacturers, especially in semiconductors and raw materials
- Agility and stability are key for recovering in 2021, which uniquely benefit Garmin



Avionic Solutions – The Slow Rebound

- The global market for avionic solutions is currently at \$41B
- The recovery for Aviation start in 2022 with a 5Y CAGR of 9.25% due to the current trough
- The market is highly fragmented with many suppliers serving two big clients: governments and manufacturers
- High barrier to entry due to FAA standards, CAPEX spending and long-term relationships with manufacturers
- Garmin focused specifically in the civil aircraft market, allowing it to maintain a strong position with 80% market share

Auto PND and Auto OEM – The New Page

- **Auto PND**
 - Garmin is a dominant player in the field with its GPS products for various vehicles
 - The industry has been declining at the pace of ~15% YoY
- **Auto OEM - Infotainment System**
 - Garmin is a new player in the industry with major competitors are Alpine Electronics, Continental, Panasonic
 - Inflection point is expected next year, with strong growth coming in the H2 2021
 - Growth opportunities in adoption rate of auto touch screen and electric vehicles, but indicators are still major OEM contracts

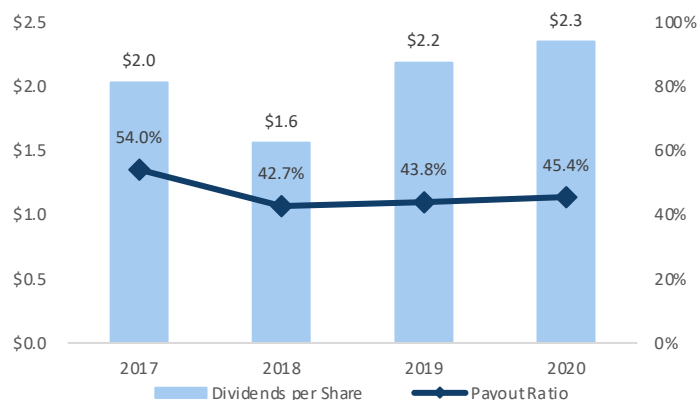
Marine Electronics – Unexpected Winner

- The global market for marine electronics is currently at \$12B, dominated by a few players: FLIR Systems, Furuno Electric, Johnson Outdoors
- Garmin marine products have received multiple awards recently
- Garmin's targeted markets are fishing vehicles and recreational yachts, which accounted for 45% of the total market
- => The increasing recreational marine activity was an unique tailwind for Garmin
- Boat sales are expected to sustain in 2021 as manufacturers continue to fill backlog orders from 2020

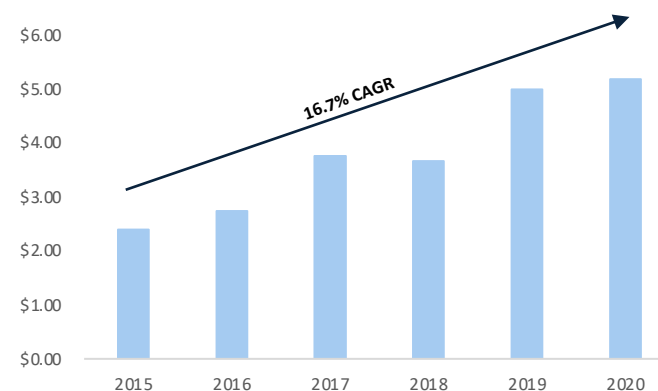
Thesis 1: Consistently Create Value For Shareholder

Consistent Dividend Payout and EPS Growth Backed By...

Always paying positive dividends and still maintain over 40% payout ratio even after compensation plan restructure

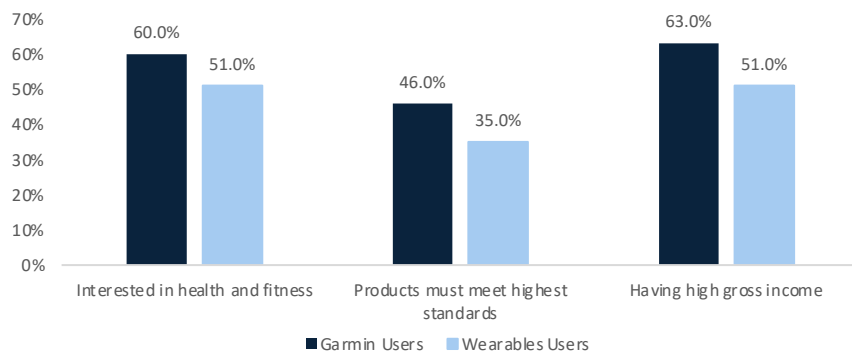


Robust EPS growth backed by both organic growth and acquisitions



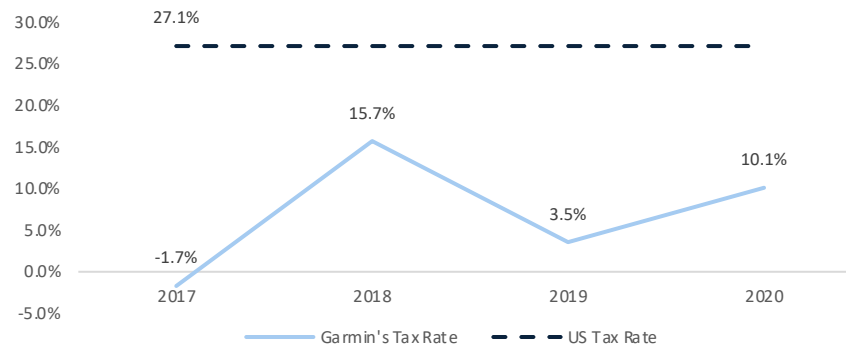
Strong Customer Base

Defined market with a sticky customer base who focuses on health and fitness, product quality and willing to pay the premium



Unique Tax Favours

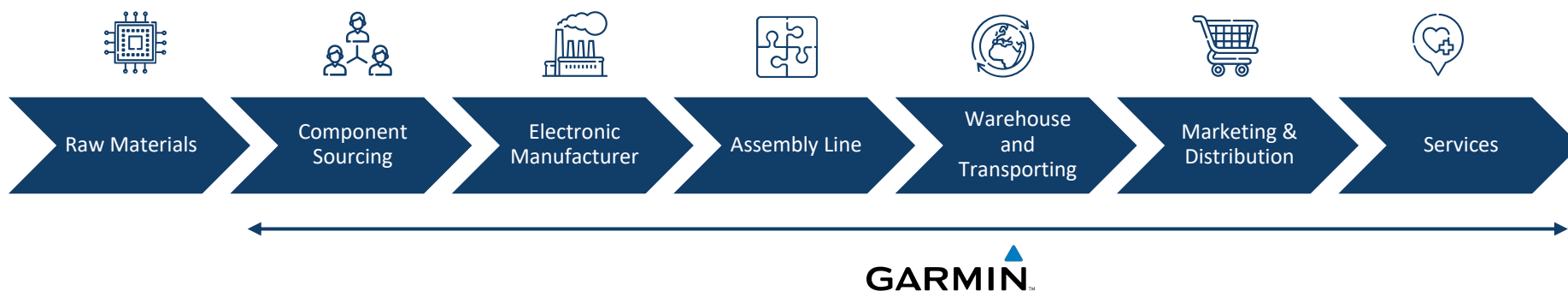
Tax benefits coming from operations in Switzerland, expected to continue in upcoming years by management



Thesis 2: Vertical Integration, Horizontal Expansion

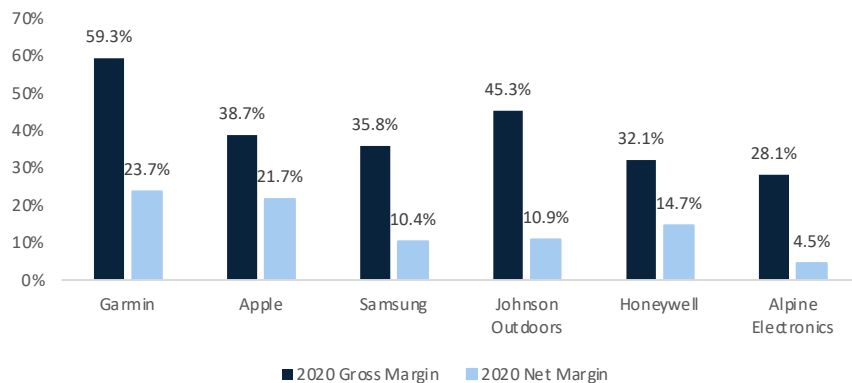
Vertically Integrated Business Model

Garmin has total control of most of its supply chain, operates in high value-added segments and has manufacturing facilities worldwide...



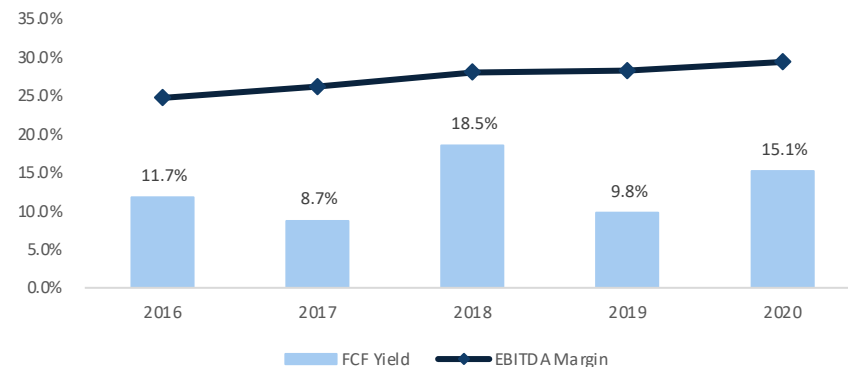
Lead to Cost Savings and Flexibility

... which benefited Garmin substantially during the pandemic and in the recovery phase



Diversification Mitigates Operational Downside

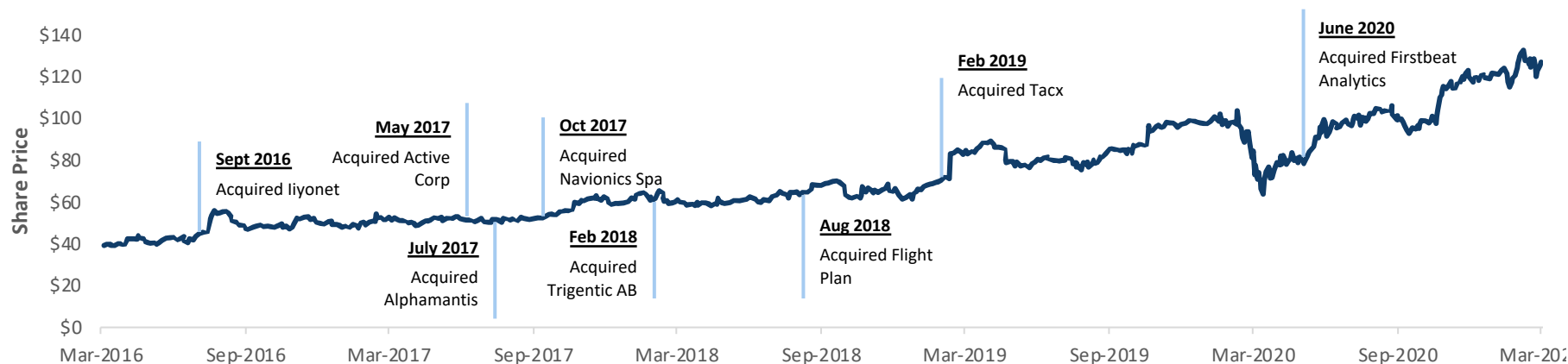
Historical positive cash flows with above 20% EBITDA margin



Thesis 3: M&A to Leverage Industry Tailwinds

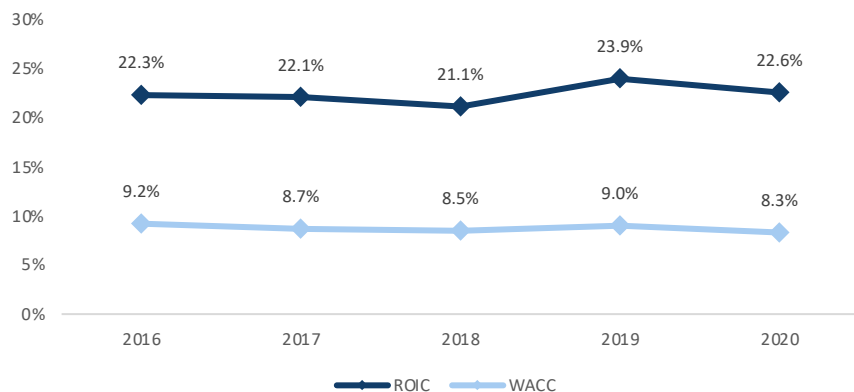
Solid Financials and Management Experience with Inorganic Growth

With \$3B cash in hand and no debt constraint, Garmin is set to carry on its M&A strategy



Stellar Track Record of Buying & Building

Successful acquisitions and integration led to consistently high ROIC



Industry Trends Present Huge Opportunities

- Current trends of health-focused lifestyle and IoT are tailwinds for Garmin to utilize its strengths in high quality and sensor technology
- Firstbeat Analytics acquisition boost Garmin's data-driven fitness programs and gain complete control over its algorithm
 - Potential to generate significant recurring subscription revenue in the future
- Garmin was able to go debt-free in 2020, while its competitors all took on large debts

Intrinsic Valuation - DCF

Free Cash Flow

Revenue 5Y CAGR 10.9%

Operating Margin 26.5%

CAPEX as % of Revenue 3.6%

Cost of Equity 8.06%

	2020A	2021E	2022E	2023E	2024E	2025E
EBIT * (1-t)	948	990	1,124	1,258	1,392	1,534
+ Depreciation & Amortization	127	133	140	146	153	163
- CAPEX	(185)	(183)	(181)	(201)	(222)	(244)
- Change in NWC	(59)	94	(84)	(84)	(85)	(91)
Free Cash Flow to Equity (FCFE)	831	1,034	999	1,119	1,239	1,363
- Interest x (1-t)	-	-	-	-	-	-
+ Net Borrowings	-	(21)	(21)	(21)	(5)	2
Free Cash Flow to Equity (FCFE)	831	1,013	978	1,098	1,233	1,365
Years to Discount		0.12	1.12	2.12	3.12	4.12
Cost of Equity		8.06%	8.06%	8.06%	8.06%	8.06%
Discount Factor		0.99	0.92	0.85	0.79	0.73
PV of FCFE		1,003	897	931	968	992

Perpetuity Growth

Perpetual Growth Rate	2.50%
Grown to Perpetuity Cash Flow	1,499
Terminal Value	26,954
PV of Terminal Value	19,585
Terminal Value as % of Equity Value	80.34%
PV of 2021 - 2025 FCFE	4,791
Equity Value	24,376
Diluted Shares Outstanding	191
Fair Share Price	\$127.56

Exit Multiple

P/E Exit Multiple	21.00x
Terminal Year Earnings	1,710
Terminal Value	35,915
PV of Terminal Value	26,096
Terminal Value as % of Equity Value	84.49%
PV of 2021 - 2025 FCFE	4,791
Equity Value	30,888
Diluted Shares Outstanding	191
Fair Share Price	\$161.63

Relative Valuation

Sum of the Parts P/E Multiple

Consumer Wearables	Ticker	Market Cap (\$M)	P/E LTM	P/E NTM	EPS Growth LTM	EPS Growth 3Y CAGR	EPS Growth NTM	Profit Margin LTM
Apple Inc	NASDAQ:AAPL	2,034,885.10	32.9x	27.61x	14.98%	33.80%	17.08%	21.73%
Samsung Electronics	KOSE: A005930	484,697.10	21.2x	14.88x	(13.77%)	42.70%	21.32%	11.02%
Casio Computer Co	TSE:6952	4,560.40	59.1x	22.73x	(27.04%)	-29.30%	(64.84%)	3.71%
Xiaomi Corp	SEHK:1810	1,799.30	31.6x	11.19x	-	1277.90%	-	2.81%
Globalstar Inc	AMEX:GSAT	81,203.00	25.6x	28.98x	-	38.10%	101.22%	8.28%
Peer Median		521,429.0	34.08x	21.08x	(8.61%)	272.64%	18.70%	9.51%
Peer Average		81,203.0	31.60x	22.73x	(13.77%)	38.10%	19.20%	8.28%

Industrial Transport Equipment								
Raytheon Technologies Corp	NYSE:RTX	118,039.70	NM	21.03x	-	6.20%	-	(6.22%)
Panasonic Corporation	TSE:6752	30,478.20	18.8x	15.68x	5.30%	-32.50%	(38.44%)	2.69%
FLIR Systems Inc	NASDAQ:FLIR	7,289.30	34.8x	23.10x	27.61%	-2.90%	26.98%	11.05%
Mitsubishi Corporation	TSE:8508	44,107.40	14.7x	12.16x	(9.94%)	-55.40%	(33.30%)	2.66%
Honeywell International Inc	NYSE:HON	151,987.90	32.5x	27.71x	49.78%	11.10%	(20.10%)	14.64%
Peer Median		70,380.5	25.20x	19.94x	18.19%	(14.70%)	(16.22%)	4.96%
Peer Average		44,107.4	25.65x	21.03x	16.46%	(2.90%)	(26.70%)	2.69%

Blended Median		295,904.7	29.64x	20.51x	4.79%	128.97%	1.24%	7.24%
Blended Average		62,655.2	28.63x	21.88x	1.34%	17.60%	(3.75%)	5.49%

Garmin Ltd	NASDAQ:GRMN	24,592.00	24.80x	24.60x	11.20%	1.50%	3.60%	23.70%
------------	-------------	-----------	--------	--------	--------	-------	-------	--------

Risks & Catalysts

Catalysts

1. Major contracts with auto manufacturers

- Since the manufacturing OEM is still in the turnaround phase, its profitability should be gauged by major contracts
- Contracts with premier auto manufacturers signal sustainability of the auto OEM segment

2. Higher than expected growth in subscription services

- Management has been investing in the digital ecosystem on its products
- Though now undisclosed, a strong revenue stream from fitness subscription services can attract strong interests from the street

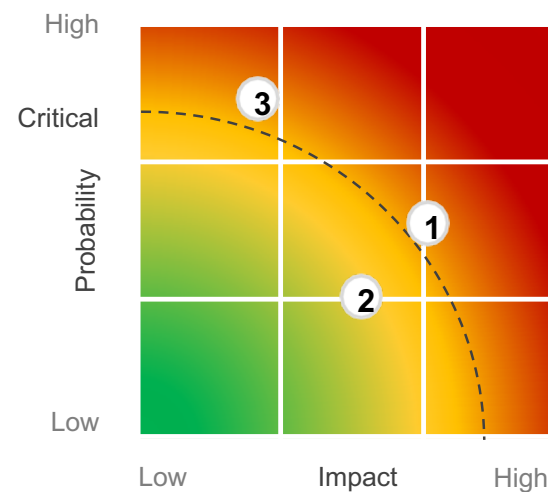
3. M&A Announcements

- Financials are set to carry out an acquisition
- Market had responded positively to all acquisitions for the past 3 years and the stock is up on average of 13.5% within 2 weeks

4. Slower than expected vaccine distribution

- The slower vaccine distribution will actually benefit Garmin as it keeps people at home for longer and continue to explore sports and adventurous activities

Risks



1. Changing Customer Preferences

- Sticky customer base
- Chinese brands have historically fail to gain large market share in NA/EMEA

2. Exchange Rate risks

- Economies are more stable after 2020 with most stimulus are finished

3. Semiconductor shortages

- Good inventory control
- Vertical integration

Appendix



APPENDIX

[Appendix 1: Garmin Products](#)

[Appendix 2: Management](#)

[Appendix 3: Analyst Ratings](#)

[Appendix 4: Key Assumptions](#)

Appendix 1: Garmin Products

Exhibit 1: Fitness and Outdoor Products



Lily™



Instinct® Solar



Venu® Series



Approach® G80



GPSMAP® 66 Series

Exhibit 2: Auto, Aviation and Marine Products



Garmin Drive™ Series



ECHOMAP Ultra Series



GTM™ 750XI



GFC 500™ Digital Autopilot

Source: Company Website

Appendix 2: Management

Min-Hwan Kao, Founder and Chairman

- Co-founded Garmin, served as Director from 1990 to 1999 served as CEO from 2000 to 2012
- Decades of experience in the electrical engineering field
- B.S from National Taiwan University and a Ph.D and M.S from University of Tennessee (all Electrical Engineering)



Clifton Pemble, CEO and President

- CEO of Garmin since 2013 and President since 2007
- Been with Garmin from 2004
- Background heavily focused on engineering
- B.A. in Mathematics and Computer Science from MidAmerica Nazarene University



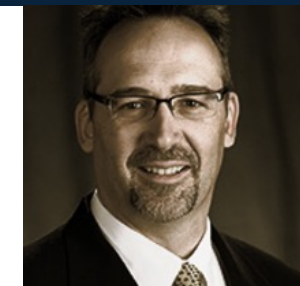
Douglas Boessen, CFO

- CFO of Garmin since 2021
- Served in multiple corporations in executive positions, all in corporate finance
- MBA from Northwestern University and B.S. from Central Missouri State University



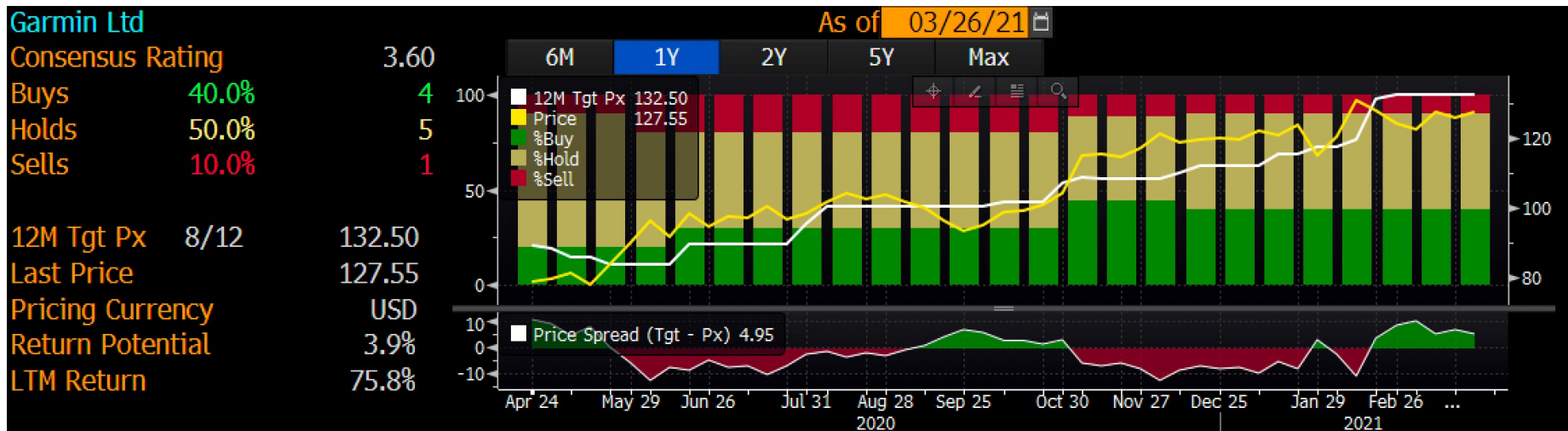
Patrick Debois, Vice President of Operation

- Joined Garmin since 2011
- Over 20 years of experience in the computer industry, including time with Dell in their product development
- B.S from George Mason University



Appendix 3: Analyst Ratings

The Street Says YES



Appendix 4: Key Assumptions



Key Assumptions			
Operating Assumptions	2020A	2021-2025E	Justification
Fitness Revenue CAGR	25.7%	11.4%	Historical 5Y CAGR for Fitness is 14.8%. Revenue is expected to grow strong in 2021 then slow down to around 10% in the long-term, driven by increase in sales volume of smartwatches
Outdoor Revenue CAGR	22.9%	11.0%	Historical 5Y CAGR for Outdoor is 22.4%. Revenue is expected to slow down in the future as the segment becomes more matured and the temporary surge of outdoor activities from COVID normalize
Aviation Revenue CAGR	(15.4%)	11.6%	Historical 5Y CAGR for Aviation is 9.3%. Revenue is expected to decline going into 2021 and rebound as travels are picking up, which lead to the need of aircraft navigation system maintenance
Auto Revenue CAGR	(16.1%)	9.2%	Historical 5Y CAGR for Auto is (15.4%). The inflection point was due to Garmin's heavy investment in the segment in recent years and is expected to grow given major contracts with auto manufacturers
Marine Revenue CAGR	29.1%	12.6%	Historical 5Y CAGR for Marine is 18%. The segment is still not fully mature and has more growth potential. Sales are also more predictable, driven by backlog of boat orders from major boat manufacturers
Total Revenue CAGR	11.4%	11.3%	Historical 5Y CAGR for total revenue is 8.2%. Growth within the next five years are expected to come from the consumer electronic segments
COGS as % of Sales	59.3%	59.5%	Gross margin to stay in line with historical rates as the company is able to retain pricing power through its high-tier market and Garmin has maintained this margin for years
SG&A as % of Sales	25.2%	26.5%	Expect to increase in the next 2 years due to R&D expenses into Auto OEM segment, but normalize and increase in later years given the benefit of online sales
Working Capital as % of Sales	16.0%	14.1%	Little change in WC as the integrated model allows Garmin to control this well. The slight drop was due to decrease in AR as % of Sales compared to in 2020, when manufacturers delay its payment due to COVID
CAPEX as % of Sales	4.4%	4.0%	We expect CAPEX as % of Sales would stay around 4%, similar to historical pattern
Leverage Ratio	NM	NM	We don't expect Garmin to take on debt without update from management
Effective Tax Rate	10.1%	15.0%	Expect to stay at ~10-12% for next 3 years given management projection, then inflate to 20% afterwards