February 23, 2009
Group 2
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Garmin Ltd. (GRMN)

Stock Data	Exchange: NASDAQ
Ticker	**GRMN**
Recommendation	**HOLD**
Date	2/23/2009
Current Price (12/20/09)	$15.17
Target Price (12/31/09)	$19.20
52-Week Range	$14.40 - $64.41
Shares Outstanding (Million)	202.54
Market Cap (Billion)	$2.94
Ratios	
TEV/EBITDA (FYE 2009)	4.15
P/E	13.16
Forward P/E	7.91
Dividend Yield	4.94%
Gross Margin 2008E	42.26%
Operating Margin 2008E	22.28%

We recommend a **HOLD** on Garmin Ltd. for the following reasons:

Investment Thesis

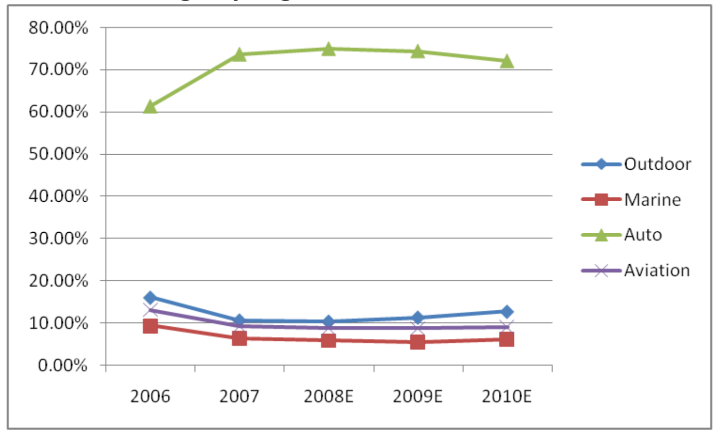
- The GPS industry is maturing and the large growth seen in the past will not be sustainable due to increased competition.
- Garmin has a healthy cost structure with no long term debt and $810 million in Free Cash Flow forecasted in 2008.
- The company has a weak dividend policy that pays out less than 20% of earnings through dividends despite their large free cash flow.
- Based on our relative P/E, discounted cash flow and forward EV/EBITDA models we have a target price of $19.20 indicating the stock is currently undervalued by 26.56%.

Company Overview

Garmin is a leading company with expertise in global positioning system (GPS) enabled hardware and software. It designs, manufactures and markets GPS device and software in four segments: general aviation, automotive/mobile, marine, and outdoor/fitness, each one of which is managed separately, because of the relative independence of the product and service in the markets. Garmin sells consumer products through its global dealer network and also offers products to original-equipment manufacturers directly. [1]

[1] http://idea.sec.gov/Archives/edgar/data/1121788/000114420408011821/v104888_10k.htm

Sales Percentage by Segment



This chart shows sales percentage of each segment. At over 70%, the automotive/mobile segment contributes the most to the sales. The outdoor/fitness segment is the second largest market comprising over 10% of total sales.

Economic Overview

We believe that the current economic crisis will last through the end of 2010 with a small recovery seen starting in the 3rd Quarter of 2010. We believe that during this time, consumer discretionary spending will deteriorate further. We are of the opinion that this will negatively impact Garmin Ltd. as they primarily sell non-essential consumer products.

We forecast that into 2009 and 2010 sales will flatten and slightly decrease due to lower volumes of consumer discretionary spending and increased competition in the industry. We believe consumers will increasingly turn to GPS systems on mobile telephones and away from in car only units. While, the company plans to release its smartphone, the Garmin Nuvifone in the first half of 2009, we believe that this product offering will not compete against the Apple iphone or similar planned products to be released by GOOGLE, Dell and Microsoft.

Cost Structure

Garmin's cost structure is very strong with respect to the current economic environment. Garmin operates with no long term debt and finances its operations through equity and a healthy free cash flow. In 2008, we expect Garmin's free cash flow to be $810 million.

Garmin's cost structure is highly geared toward their automotive segment, since it is the driving force behind

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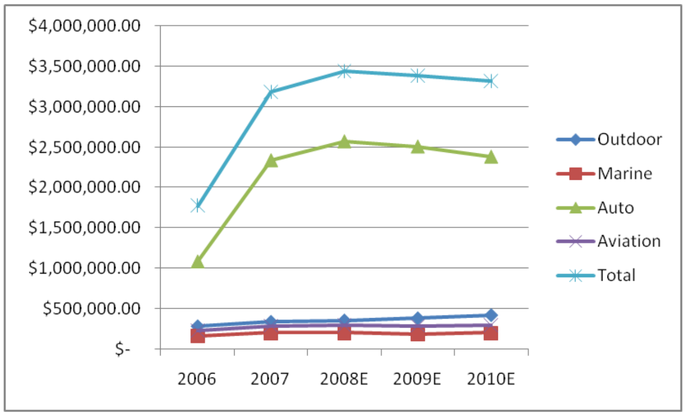
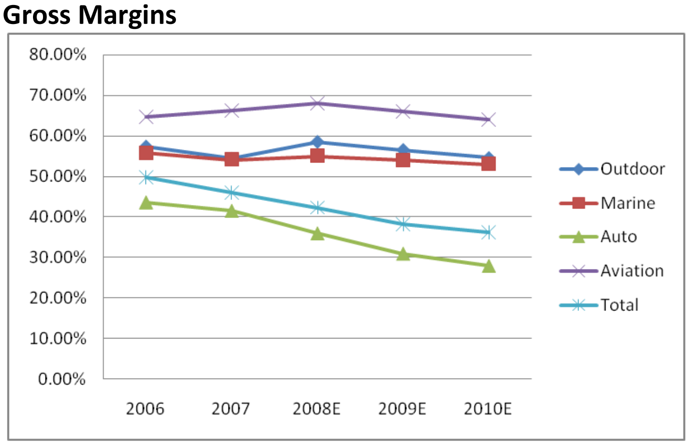
their business. Roughly 77% of their selling, general and administrative costs and 37% of the research and development costs are in the automotive segment.

Revenue Growth



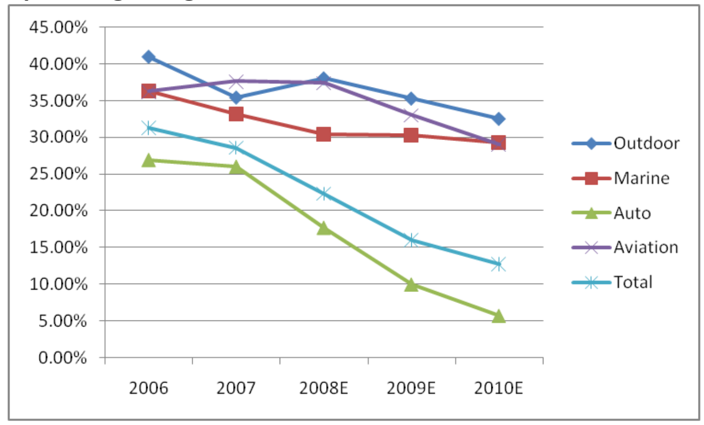
As seen in this graph the company experienced tremendous growth from 2006 to 2007 driven primarily by the Auto/Moble segment. We believe that revenue will peak in 2008 and start to decline thereafter. This is based on two factors of which the first is that we believe the industry is reaching its maturity stage in the growth life cycle. We believe this due to the large amount of competition entering the auto/mobile segment. We also believe sales will decline from highs set into 2009 based on the current economic crisis.

Gross Margins



Overall, we expect Gross Margins to fall in 2009 and 2010. This decline will be primarily driven by a fall in gross margins in the auto/mobile segment. With the increased competition in this market all manufacturers will be forced to reduce prices thereby reducing gross margins.

Operating Margins



We forecast a drop in operating margins for all segments that Garmin competes in driven primarily by a reduction in the auto/mobile segment.

Discounted Cash Flow

DCF - Intrinsic Value		
Intrinsic Value	$	22.77
Current Price	$	15.17
% Undervalued		50.09%

We performed a discounted cash flow analysis on Garmin Ltd. We used a growth rate of 1.5% in combination with a discount rate of 17.49% which is our cost of equity.

Relative Valuation

Relative Valuation		
Current Price	$	15.17
Price Target (12/30/09)	$	17.75
% Undervalued		17.01%

We performed a relative valuation which concludes the stock is currently undervalued. To perform this valuation we multiplied 2008E, 2009E and 2010E EPS by the percentage of each segments operating margin. These results were then multiplied by each segments' industry average P/E. In the case of the marine segment, we threw out the oddly high P/E ratio of Raymarine and replaced it with the industry median.

Our relative valuation also included comparing Garmin's segmental revenue to corporations that operate in those same segments. We chose Honeywell International's aerospace segment to compare with

Garmin's Aviation segment, Cobra Electronics Corporation to compare with Garmin's outdoor/fitness segment, Raymarine plc. to compare with Garmin's marine segment, and TomTom Corp. to compare with Garmin's automotive segment. We did place a heavier emphasis on the automotive segment comparison with TomTom because that segment is the driver of Garmin's business, representing around 70% of total sales.

Garmin has been performing better than the chosen competitors based on sales growth and gross margins in each of their segments. The only number that doesn't contribute to this trend is TomTom's gross margin of 44% in 2007. TomTom and Garmin have continued similar sales growth through the first 3 quarters of 2008. We believe that TomTom to be a serious risk in Garmin's most important operating segment.

Analyst Consensus & Comparison

	2008E	2009E	2010E
EPS - Ours	$ 3.27	$ 2.24	$ 1.80
EPS- Consensus	$ 3.63	$ 2.72	$ 2.34
Rev - Ours	$ 3,436.87	$ 3,376.55	$ 3,310.87
Rev - Consensus	$ 3,563.76	$ 3,284.67	$ 2,900.50
NI - Ours	$ 680.24	$ 460.01	$ 365.03
NI - Consensus	$ 781.66	$ 585.06	$ 474.25

Source: Thompson One Analytics

We have lower expectations than the analyst consensus for EPS and Net income in these three periods. While we project total revenue to be higher than analyst expectations we believe operating costs will be higher than analyst forecasts due to higher projected SG&A and R&D costs.

EPS, Revenue & Net Income Surprises

Period	EPS	Revenue	Net Income
	% Surp	% Surp	% Surp
Dec-07	5.49%	5.56%	6.18%
Dec-06	13.82%	5.11%	12.53%
Dec-05	6.32%	1.37%	0.27%
Dec-04	3.76%	2.06%	4.68%
Dec-03	1.06%	1.91%	4.22%

Source: Thompson One Analytics

A review of the char above indicates that the company has consistently met or exceeded analyst expectations. Based primarily on current economic conditions and our belief that the Garmin Nuvifone will be a failure we expect this trend to come to an end.

Dividend Information

	2005	2006	2007
Dividend Per Share	$ 0.11	$ 0.50	$ 0.75
Dividend Yield	0.34%	0.91%	0.81%
Dividend Payout Ratio	17.34%	20.99%	19.01%

Garmin does pay dividends, however they are a very small percentage of their total earnings. The yield has been less than 1% for the past three years and will likely rise based on a falling stock price. It looks like they are trying to keep their dividend payout ratio around 20% as can be seen from the dividend chart. Since dividend payout ratio is computed by dividing the dividend per share by earnings per share and we expect net income to drop over the next few years, the dividend per share will have to drop in order to keep the dividend payout ratio consistent. This negative dividend information contributes to our hold strategy

Share Repurchase Program

In June of 2008, the company approved a share repurchase program. The plan originally allowed the company to repurchase up to 10,000,000 common shares. Through the third quarter of 2008, the company has repurchased all but 200,000 of the shares authorized.[2] We expect the company to repurchase these remaining shares in the fourth quarter of 2008. Based on the current stock price, we expect the company to authorize another share repurchase program of approximately 5,000,000 shares with 3,000,000 shares repurchased in 2009 and 2,000,000 shares repurchased in 2010.

Recommendation

Based on the above analysis we recommend a **HOLD** on Garmin Ltd..

[2] http://idea.sec.gov/Archives/edgar/data/1121788/000114420408061110/v130551_10q.htm