

| Stock Data                                     |             | Exchange: NASDAQ |      |
|--|-------------|------------------|------|
| Company  | Garmin Ltd. |                  |      |
| Ticker   | GRMN        |                  |      |
| Recommendation                                 | SELL        |                  |      |
| Date   | 4/1/2009    |                  |      |
| <b>Current Price (4/01/09)</b> \$22.07         |             |                  |      |
| <b>Target Price (12/31/09)</b> \$19.04         |             |                  |      |
| <b>52-Week Range</b> \$14.40 - \$56.94         |             |                  |      |
| <b>Shares Outstanding (Million)</b> 200.39     |             |                  |      |
| <b>Market Cap (Billion)</b> \$4.65             |             |                  |      |
| <b>Total Enterprise Value (Billion)</b> \$3.94 |             |                  |      |
| Automotive Segment                             |             | TOM2             | GRMN |
| Forward P/E (t+1)                              | 6.13        | 3.46             |      |
| 2008 Gross Margin                              | 47%         | 39%              |      |
| 2008 Operating Margin                          | -48%        | 21%              |      |
| Marine Segment                                 |             | RAY              | GRMN |
| Forward P/E (t+1)                              | 7.07        | 0.80             |      |
| 2008 Gross Margin                              | 49%         | 54%              |      |
| 2008 Operating Margin                          | 16%         | 29%              |      |
| Outdoor/Fitness Segment                        |             | COBR             | GRMN |
| Forward P/E (t+1)                              | 1.20        | 2.27             |      |
| 2008 Gross Margin                              | 31%         | 58%              |      |
| 2008 Operating Margin                          | 3%          | 38%              |      |
| Aviation Segment                               |             | HON              | GRMN |
| Forward P/E (t+1)                              | 9.65        | 1.48             |      |
| 2008 Gross Margin                              | 47%         | 67%              |      |
| 2008 Operating Margin                          | 18%         | 36%              |      |
| Comparables:                                   |             |                  |      |
| Automotive- TomTom (TOM2)                      |             |                  |      |
| Marine- RayMarine (RAY)                        |             |                  |      |
| Outdoor/ Fitness- Cobra (COBR)                 |             |                  |      |
| Aviation-Honeywell Aerospace (HON)             |             |                  |      |

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.<sup>1</sup>

### Economic Overview

We believe that the current economic crisis will last through the middle of 2010 with a small recovery seen starting in the 4th Quarter of 2009. 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.

### 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.

Garmin's cost structure is highly geared toward their automotive segment, which is the driving force behind their business. Roughly 76% of their selling, general and administrative costs and 41% of their research and development costs are in the automotive segment.

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

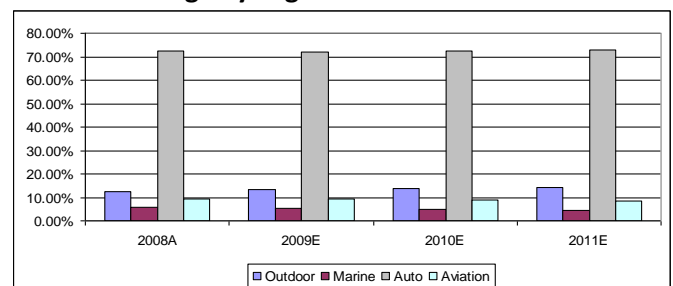
### Investment Thesis

- It is our opinion that the company does not have a competitive advantage in its largest segment the automotive segment.
- The GPS industry is maturing and large growth seen in the past will not be sustainable due to increased competition.
- We expect the company to keep their dividend payout ratio consistent around 20%, which we forecast to result in a 38% dividend cut through 2009.
- We forecast their free cash flow to be drop by 48% through 2011.

### Company Overview

Garmin Ltd. is a company with expertise in global positioning system (GPS) enabled hardware and

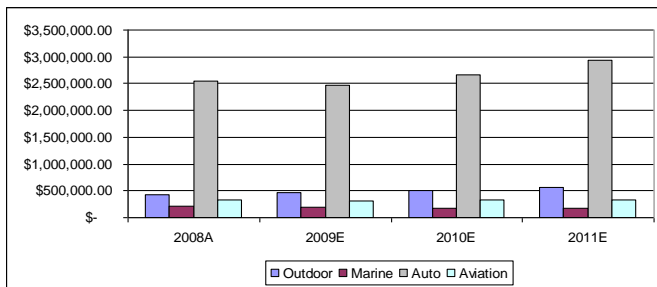
### Sales Percentage by Segment



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

<sup>1</sup>[http://idea.sec.gov/Archives/edgar/data/1121788/000114420408011821/v104888\\_10k.htm](http://idea.sec.gov/Archives/edgar/data/1121788/000114420408011821/v104888_10k.htm)

**Revenue Growth**

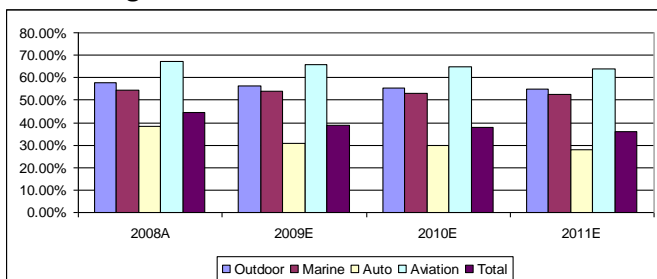


We forecast that sales will decrease slightly in 2009 due to lower volumes of consumer discretionary spending and increased competition in the industry.

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. However, this will likely be a miniscule percentage of sales and most likely will not affect their overall business.<sup>2</sup>

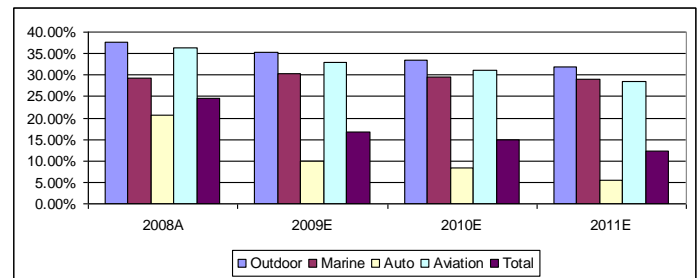
We forecast an increase in sales in 2010 and 2011 as a majority of cars on the road do not currently have a GPS system installed. We do believe the industry has the capability to grow albeit not at growth rates previously seen in the industry.

**Gross Margins**



Overall, we expect total gross margins to fall in 2009, 2010 and 2011. 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. We believe that this downward pressure on gross margin is a key driver in our sell rating.

**Operating Margins**



We also believe that operating margins will also decrease over the next three years. This will further reduce the profitability of the GPS industry.

**Valuation**

To determine our target price, we used multiple valuation techniques including a relative, discounted cash flow and dividend discount valuations. We believe that the most appropriate method to value the stock price of Garmin Ltd. is by using the discounted cash flow technique because of the large amount of cash they have on their books. Based on our estimates we have calculated a target price of \$19.04 for 12/31/2009. We therefore believe that the stock is currently overvalued by 13.7%.

| DCF Key Assumptions          |         |                        |        |
|------------------------------|---------|------------------------|--------|
| 2009 Revenue Growth          | -1.43%  | Growth Perpetuity Rate | 2.00%  |
| 2009 Gross Profit Growth     | -13.71% | WACC                   | 10.23% |
| 2009 Operating Income Growth | -33.59% | Market Return          | 8.00%  |

According to our forward looking estimates of the company's revenue and margins, we believe the company will have declining free cash flows through 2011:

| Free Cash Flows (millions) |           |            |           |           |
|----------------------------|-----------|------------|-----------|-----------|
|                            | 2008A     | 2009E      | 2010E     | 2011E     |
| EBITDA                     | \$ 940.4  | \$ 643.0   | \$ 617.3  | \$ 571.2  |
| - Cash Taxes               | \$ 134.4  | \$ 135.8   | \$ 137.1  | \$ 138.5  |
| - Capex                    | \$ 119.6  | \$ 119.6   | \$ 125.6  | \$ 138.2  |
| - Δ NWC                    | \$ (64.7) | \$ (101.9) | \$ (98.8) | \$ (95.9) |
| = Cash Flow                | \$ 751.1  | \$ 489.6   | \$ 453.4  | \$ 390.5  |

<sup>2</sup> <http://www.thestreet.com/story/10464100/2/first-look-garmin-nuvifone.html>

The main driver in our decrease in cash flow from 2008 to 2009 is a drop in EBITDA. This is primary due to our forecasted drop in operating income.

### Sensitivity Analysis

To test how our assumptions of 2009 Gross Margin and Growth Perpetuity Rate affected the target price of Garmin Ltd. we performed a sensitivity analysis.

| Δ Gross Margin | Growth Perpetuity Rate |          |          |
|----------------|------------------------|----------|----------|
|                | 1.0%                   | 2.0%     | 3.0%     |
| -13.7%         | \$ 17.03               | \$ 19.04 | \$ 21.60 |
| 0.0%           | \$ 17.95               | \$ 19.95 | \$ 22.51 |
| 15.0%          | \$ 18.95               | \$ 20.96 | \$ 23.52 |

From this analysis we conclude that if we were to use a 3% Growth Perpetuity Rate the stock would be fairly valued. This would also be true if a gross profit growth of 15% were used in lieu of our forecasted decline.

### Relative Valuation

We performed a relative valuation which concludes the stock is currently overvalued by 64%. We conducted our relative valuation by multiplying each of Garmin's segmented 2009E earnings per share by a comparable company's forward P/E ratio. We derived each segment's earnings per share by applying weights based on segmented operating income and then multiplying those weights by total earnings per share.

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.

| Intrinsic Price Calculation |          |            |                  |        |
|-----------------------------|----------|------------|------------------|--------|
|                             | Aviation | Automotive | Outdoor/ Fitness | Marine |
| Comparable P/E              | 9.65     | 6.13       | 1.20             | 7.07   |
| Garmin 2009E EPS            | 0.45     | 1.06       | 0.70             | 0.25   |
| Segment P*                  | \$4.38   | \$6.52     | \$0.84           | \$1.74 |
| Cumulative P*               | \$13.49  |            |                  |        |
| Current Price               | \$22.07  |            |                  |        |
| % Overvalued                | 64%      |            |                  |        |

### Company Earning Surprise

| Period | EPS    | Revenue | Net Income |
|--------|--------|---------|------------|
| Dec-08 | 1.42%  | -1.85%  | -0.53%     |
| Dec-07 | 5.36%  | 5.49%   | 6.03%      |
| Dec-06 | 13.82% | 5.11%   | 12.53%     |

Source: Thompson One Analytics (4/01/09)

Until the most recent year end the company consistently met or exceeded the expectations of analysts. In 2008, the company for the first time did not meet or exceed analysts' expectations of revenue or net income. We believe this is a negative sign for future performance of Garmin.

### Dividend Information

|                       | 2008A   | 2009E   | 2010E   | 2011E   |
|-----------------------|---------|---------|---------|---------|
| Dividend Per Share    | \$ 0.75 | \$ 0.49 | \$ 0.47 | \$ 0.43 |
| Dividend Yield        | 3.91%   | 2.50%   | 2.00%   | 1.67%   |
| Dividend Payout Ratio | 20.51%  | 20.00%  | 20.00%  | 20.00%  |

We forecast that Garmin Ltd. will continue to pay a dividend over the next three years. We do, however, believe that the company plans to maintain a consistent dividend payout ratio of around 20%. This will cause Garmin to cut their dividend per share from \$0.75 per share to \$0.47 per share in 2009. This reduces the return to shareholders in the form of dividends by 38%.

### Conclusion

We can see a time in the near future where every car on the road has a gps system installed. However, we forecast that this growth will be done without the large margins once seen by the industry. We believe the GPS industry is maturing and the large margins once seen by the industry will decrease rapidly in the next few years. Based on this assumption we forecast a large drop in the free cash flow of Garmin Ltd.

### Recommendation

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