

<b>STOCK DATA 9.28.07</b> (in millions USD except per share data)	
Ticker	GRMN
Shares Outstanding	218.8
Market Cap.	\$26,499.6
TEV	\$27,167.3
TEV/EBITDA	\$28.66
Forward P/E	\$21.06
Target Price	\$134.71
<b>Current Price</b>	<b>\$119.40</b>

We recommend Garmin as a weak **BUY** for the following reasons:

- The Automotive/Mobile segment is growing at a staggering rate of 103% YTD and we project this growth to continue through the holiday season and at 75% through the next fiscal year.
- The company has successfully developed segmentation strategies that identify the needs of the market and continue to offer products that appeal to a diverse customer base.
- Our target price of \$134.71 shows that the current price of \$119.40 is undervalued by 13% and our sensitivity analysis shows that even if our assumptions are inaccurate the stock is still currently trading below our conservative price target of \$121.72.

## Segment Overview

### Segments

Garmin operates four business segments: Marine, Automotive/Mobile, Outdoor/Fitness and Aviation. Revenue growth over the past four quarters and four years has been strong and is shown in figure 1. Note, in 2005, Garmin increased the number of divisions from two to four through expansion of the Consumer Products division. Significant growth can be seen in the Automotive/Mobile segment due in part to Garmin's strong position in the market combined with increased consumer demand for portable navigation devices. Garmin holds approximately 50% of the market in North America. The Company continues to segment the market and added two products to their line targeted at the cost conscious consumer during the second quarter of this year. This combined with the continued focus of adding valued features to their existing lines should position the segment for the upcoming holiday season. The Aviation, Outdoor/Fitness and Marine segments show steady increasing growth that should continue as more products with advanced features continue to be released.<sup>1</sup>

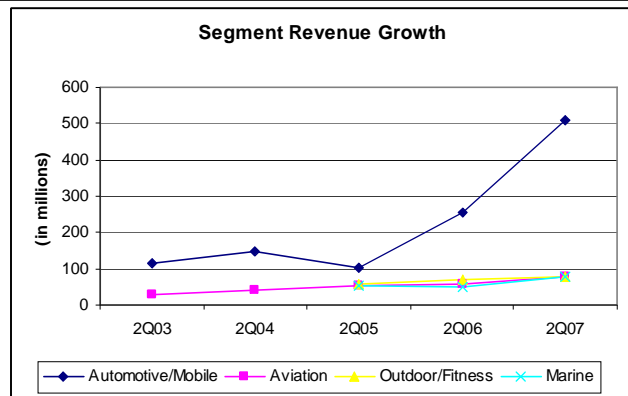


Figure 1- Revenue growth by segment over the past 4 years<sup>2</sup>

As shown in figure 2, gross margins by segments have remained relatively consistent over the past 2 years (margins for 2003 and 2004 are company totals-therefore not useful for comparison). As the Company releases and ships new products, margins improve. Overall, Garmin has been efficient in turning a profit on their products company wide.

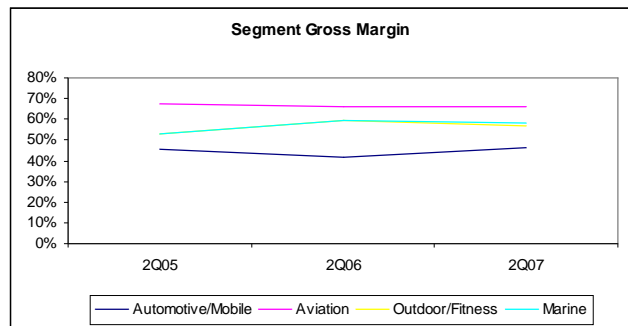


Figure 2- Gross margin by segment over the past 4 years<sup>2</sup>

Figures 3 and 4 show the percentage of revenue and operating income per segment. Over the past three years, the Automotive/Mobile segment has become a larger part of the company's total revenue and income. As the product mix changes to more of an Automotive/Mobile focus, corporate gross margins will decrease slightly. This segment has historically lower margins compared to the other three and as the focus continues to increase in the Automotive/Mobile segment, corporate margins will decrease as well.

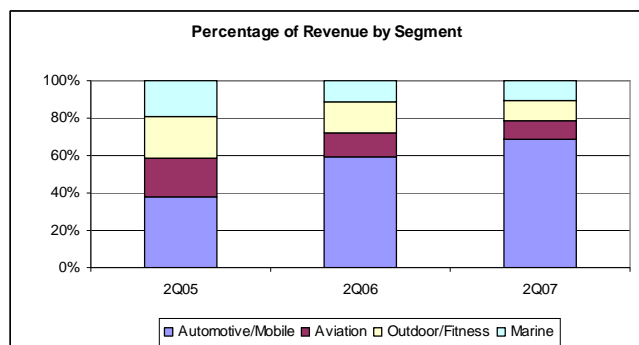


Figure 3<sup>2</sup>

<sup>1</sup>Garmin Second Quarter Earnings Release August 1, 2007 p. 1-3.

<sup>2</sup>Garmin Second Quarter Earnings Release August 1, 2007, August 2, 2006, July 27, 2005, July 28, 2004, July 30, 2003.

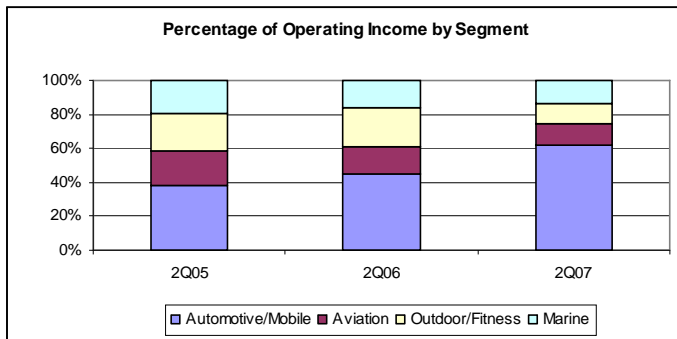


Figure 4<sup>2</sup>

### Our Estimates vs. Management

Garmin's management remains optimistic about the second half of 2007. They expect to see revenue to exceed \$2.8 billion and EPS to exceed \$3.15. They also anticipate revenue growth rates for the Automotive/Mobile, Marine, Outdoor/Fitness, and Aviation segments to be 80%, 20%, 10% and 30%, respectively. Furthermore, they expect operating margins for the 2007 fiscal year to be approximately 27%.<sup>1</sup>

We expect revenue to be approximately \$3.1 billion for 2007 and EPS to be \$3.76. We expect to see a slightly higher operating margin, 28.8%, for the full year of 2007.

### Strengths & Weaknesses

Garmin faces a number of challenges. The company will suffer if there is a decrease in demand for their products or a shift in demand to low-end products. Also an increase in competition could eat up large margins, decrease profitability, and increase price erosion. Garmin is growing at such a staggering rate that management may lack the capability to maintain this growth. Increases in component costs are a further challenge for Garmin that would reduce margins. On the flip side, Garmin has several strengths. They occupy over 50% of the PND market share. They are the leading worldwide provider of communication, navigation, and information devices. The types of products produced by their segments differ widely which creates a diverse customer base.<sup>5</sup> The Company's focus on segmenting the market will allow them to continually identify gaps in the navigation system market which will identify new customers.

### Segment Growth Estimates

The driving segment of Garmin's revenue growth is the Automotive/Mobile division. This segment had similar revenues as the other three as recently as three years ago but had larger revenues than the other segments combined in 2006 and is expected to have nearly ten times the revenue of any other segment in 2007. While the triple digit growth seen in the Automotive/Mobile segment recently is not expected to continue, growth rates of 75%, 60%, 40% and 30% were used for the forecasted period. In addition, gross margin for the coming year is forecasted to be 45%.

The Fitness/Outdoor, Marine, and Aviation segments are all expected to continue to grow at 10%-15% annually. Gross margin in these segments for FY2007 is projected to be 55%, 53%, and 63% respectively. While these are great growth rates in

and of themselves, the fact that the Automotive/Mobile segment is growing so quickly and is such a large segment of their revenue, the overall company growth rate is forecasted to be between 25%-50% annually.

## Valuation Analysis

### Intrinsic Valuation

The intrinsic value of the company was calculated to be \$134.71 per share using a five year growth model and discounting all future cash flows to present value at a WACC of 10%. The moderately high WACC is because all of their cost of capital is from equity lending. The terminal value of the company was calculated by taking the ending EBITDA and using a TEV/EBITDA multiple of 22 to value the company and discounting that back to present time. This is lower than the current TEV/EBITDA multiple of 28 because future growth prospects are expected to decline in that time period. This DCF analysis indicates that Garmin is undervalued by approximately 13% at the current price of \$119.40.

Intrinsic Value	
WACC	10.0%
NPV of Future FCF	\$ 3,515.27
Terminal Value	\$ 25,285.23
Cash-Debt	\$667.7
Total Equity NPV	\$ 29,468.17
Units Outstanding	218.8
<b>Price</b>	<b>\$ 134.71</b>

Figure 5 – Intrinsic Value of GRMN is calculated to be \$134.71 per share.

### Sensitivity Analysis

A sensitivity analysis was performed to determine the criticality of the WACC and terminal multiple estimates. It found that should the WACC be 12% and the terminal value trade at 18 times EBITDA, the company would be worth \$121.72 per share. This adds a level of confidence that even if estimates are inaccurate the stock is still trading in line with its value.

WACC/Ending Multiple	18	20	22	24	26
8%	\$121.72	\$133.02	\$144.33	\$155.64	\$166.95
9%	\$117.61	\$128.51	\$139.41	\$150.31	\$161.21
10%	\$113.69	\$124.20	<b>\$134.71</b>	\$145.22	\$155.73
11%	\$109.95	\$120.08	\$130.21	\$140.35	\$150.48
12%	\$106.36	\$116.14	\$125.91	\$135.69	\$145.47

Figure 6 – Sensitivity analysis showing that even if assumptions are inaccurate, stock still trading fairly.

## Non-GAAP Measures

There are three measures that management believes should be reported under non-GAAP measures. The first, net income per share (EPS) excluding foreign currency: management believes that reporting EPS before the non-cash impact of converting the U.S dollar to New Taiwan dollar will enable the investors to evaluate precisely the company's performance between different periods without being affected by the exchange rate.<sup>3</sup> The second, free cash flow: management also believes that the amount of cash available for investing and provided by operations is a good measure for the financial strength of the company.<sup>3</sup> The third,

<sup>3</sup> Garmin Form 10-Q 2007 10-Q Report p. 3, 4.

return on invested capital (ROIC): Garmin calculates ROIC by dividing net operating profit after taxes by operating invested capital. ROIC can be used to assess Garmin's potential to be a quality investment by determining how well Garmin's management is able to allocate capital into its operations. It is a good reflection of how effectively a company can use the money invested in its operations. Garmin's ROIC increased from 65% in 2005 to 69% in 2006. Adding this to the fact that ROIC is higher than 10% WACC indicates that Garmin is making good decisions when it comes to its investment opportunities. In fact, ROIC is considered a more efficient measure than ROA and ROI by some analysts. ROI is a simple and flexible measure. However, this flexibility can be used to manipulate the costs associated with the return on specific investment. On the other side, ROA is mostly dependent on the industry.

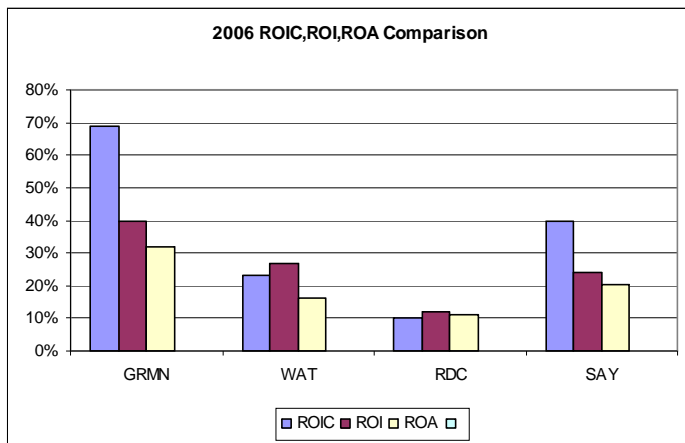


Figure 7-Sources: [www.finance.yahoo.com](http://www.finance.yahoo.com), Garmin 2006 10-k Report

To analyze Garmin's investment returns we picked Waters Corp. (WAT), Satyam Computer Services Ltd. (SAY), and Rowan Companies Inc. (RDC) to compare to Garmin based on their similarity in revenue size and revenue growth. Shown in figure 7, Garmin outperformed all of these companies in all of the three investment measures.

## Analyst Expectations

Analyst expectations of revenue and earnings vary widely which has resulted in a plethora of target prices which is outlined in figure 8. Morgan Stanley has a pessimistic view of Garmin which is reflected in their target price of \$62. Their target price represents the lower bound of the consensus expectations. Their view is driven by an expected shift in consumer demand to low-end PND products and increasing component costs which will decrease gross margins. Although Garmin increased its market share from 53% to 57% in August 2007, Morgan Stanley is focused on the overall decrease in market share from August 2006 of 65%.<sup>4</sup> CIBC World Markets views Garmin with an optimistic view which is reflected in their target price of \$120. Their target price represents the upper bound of the consensus expectations. They believe Garmin should outperform its sector during the next 12 to 18 months and that the resilience of Garmin's general manager is unappreciated and potential share gains are not fully realized by investors. CIBC expects Garmin's PND strength to

<sup>4</sup> Garmin: US PND Data Modestly Negative for Garmin as Price Erosion Accelerated. Morgan Stanley September 19, 2007. p. 1.

drive gains though their competitive edge in terms of market segmentation, form factor, and retail shelf space. Also they expect new channel growth in Europe to further spur share growth.<sup>5</sup> To obtain consensus expectations Thomson One estimates were also considered. These expectations include nearly 20 analyst opinions. Thomson's mean target price is \$99 with a high of \$130 and a low of \$60. Mean revenue for 2008 and 2009 is expected to be \$3,902MM and \$4,524MM respectively ('08 high: \$4,532MM, '08 low: \$3,386MM; '09 high \$5,399MM, '09 low \$3,820MM). Mean EPS for 2008 and 2009 is expected to be \$3.99 and \$4.40 respectfully ('08 high 4.65, '08 low 3.28; '09 high 5.10, '09 low 3.59).<sup>6</sup> Even the most optimistic estimates pale in comparison to our view of Garmin. We expect a target price of \$134.71 with revenues from 2008 and 2009 of \$4,976MM and \$7,521MM respectfully.

Analyst Metrics					
	EPS		Revenue (in MM)		Target Price
	2008	2009	2008	2009	
ThomsonOne <sup>6</sup>	3.99	4.4	3902	4524	99
Morgan Stanley <sup>4</sup>	3.98	4.05	3796	4354	62
CIBC <sup>5</sup>	4.22		3967		120
Group 2	5.75	7.86	4976	7521	131

Figure 8

Since September 2005 Garmin has met or exceeded mean earnings expectations.<sup>6</sup>

EPS Surprises		
	Mean Expectation <sup>6</sup>	Actual <sup>6</sup>
2Q07	0.74	1.00
1Q07	0.58	0.59
4Q06	0.58	0.87
3Q06	0.50	0.50
2Q06	0.47	0.55
1Q06	0.33	0.43
4Q05	0.35	0.44
3Q05	0.31	0.34

Figure 9

## Recommendation

As illustrated in our analysis, we expect Garmin to continue to grow in all of four of its segments driven by the Automotive/Mobile segment. Based on our valuation, we believe that as a whole, Garmin will grow between 25% and 50% annually. Furthermore, we think Garmin is positioned well in most of the industry segments and expect the Company to continue its position as the leader in the industry. Our expected price of \$134.71 implies that Garmin is undervalued by approximately 13% as of the September 28, 2007 share price of \$119.40. Because of its strong performance YTD and the potential for high growth in the coming quarter, we rate Garmin as a weak **BUY**.

<sup>5</sup> Garmin: 2H Puzzle Pieces fall into place; Rising Estimates and Target Price. CIBC World Markets. September 16, 2007. p. 1-4.

<sup>6</sup> <http://www.thomsononeim.com>. September 29, 2007.

Garmin (GRMN) (in millions except per share data)																		
	2003	2004	2005	2006	2007	2008	2009	2010	2011									
Revenue																		
Outdoor/Fitness	\$	222.04	\$	236.94	\$	285.36	\$	301.09	\$	331.20	\$	364.32	\$	400.76	\$	440.83		
Marine	\$	165.51	\$	158.26	\$	166.64	\$	198.47	\$	228.24	\$	262.48	\$	301.85	\$	347.12		
Auto	\$	203.47	\$	403.42	\$	1,089.09	\$	2,327.07	\$	4,072.37	\$	6,515.79	\$	9,122.11	\$	11,858.74		
Aviation	\$	120.55	\$	171.53	\$	229.16	\$	299.42	\$	344.33	\$	378.76	\$	416.64	\$	458.30		
Net Revenue	\$	572.99	\$	762.55	\$	1,027.77	\$	1,774.00	\$	3,126.05	\$	4,976.14	\$	7,521.35	\$	10,241.35	\$	13,105.00
Operating Expenses																		
Outdoor/Fitness	\$	(103.11)	\$	(112.15)	\$	(121.72)	\$	(135.49)	\$	(149.04)	\$	(163.95)	\$	(180.34)	\$	(198.37)		
Marine	\$	(75.82)	\$	(77.31)	\$	(73.69)	\$	(94.27)	\$	(108.41)	\$	(124.68)	\$	(143.38)	\$	(164.88)		
Auto	\$	(107.88)	\$	(225.78)	\$	(613.90)	\$	(1,279.89)	\$	(2,239.80)	\$	(3,583.69)	\$	(5,017.16)	\$	(6,522.31)		
Aviation	\$	(43.16)	\$	(64.51)	\$	(77.47)	\$	(82.30)	\$	(112.28)	\$	(129.12)	\$	(142.04)	\$	(156.24)	\$	(171.86)
Cost of Goods Sold	\$	(242.45)	\$	(351.31)	\$	(492.70)	\$	(891.61)	\$	(1,621.93)	\$	(2,626.38)	\$	(4,014.34)	\$	(5,497.12)	\$	(7,057.43)
Profits																		
Outdoor/Fitness	\$	118.94	\$	124.79	\$	163.64	\$	165.60	\$	182.16	\$	200.38	\$	220.42	\$	242.46		
Marine	\$	89.69	\$	80.95	\$	92.95	\$	104.20	\$	119.83	\$	137.80	\$	158.47	\$	182.24		
Auto	\$	95.59	\$	177.64	\$	475.19	\$	1,047.18	\$	1,832.57	\$	2,932.11	\$	4,104.95	\$	5,336.43		
Aviation	\$	77.39	\$	107.02	\$	151.69	\$	187.14	\$	215.21	\$	236.73	\$	260.40	\$	286.44		
Gross Profit	\$	330.54	\$	411.24	\$	535.07	\$	882.39	\$	1,504.11	\$	2,349.76	\$	3,507.01	\$	4,744.23	\$	6,047.57
R&D	\$	(43.71)	\$	(61.58)	\$	(74.88)	\$	(113.31)	\$	(195.53)	\$	(305.47)	\$	(455.91)	\$	(616.75)	\$	(786.18)
SG&A	\$	(59.84)	\$	(78.99)	\$	(122.02)	\$	(214.51)	\$	(407.18)	\$	(646.90)	\$	(1,128.20)	\$	(1,965.75)		
Operating Income	\$	227.00	\$	270.67	\$	338.17	\$	554.56	\$	901.40	\$	1,397.39	\$	1,922.90	\$	2,591.28	\$	3,295.64
Net Interest Income	\$	6.94	\$	9.38	\$	19.54	\$	35.86	\$	44.18	\$	48.59	\$	53.45	\$	58.80	\$	64.68
Foreign Currency	\$	(6.70)	\$	(24.82)	\$	15.27	\$	0.60										
Other Income/Expense	\$	(1.30)	\$	(0.02)	\$	(0.37)	\$	3.54										
Income Before Taxes	\$	225.94	\$	255.21	\$	372.60	\$	594.55	\$	945.57	\$	1,445.99	\$	1,976.35	\$	2,650.08	\$	3,360.31
Tax Rate		20.9%		19.4%		16.5%		13.5%		13.0%		13.0%		13.0%		13.0%		13.0%
Taxes	\$	(47.31)	\$	(49.51)	\$	(61.38)	\$	(80.43)	\$	(123.30)	\$	(187.98)	\$	(256.93)	\$	(344.51)	\$	(436.84)
Net Income	\$	178.6	\$	205.7	\$	311.2	\$	514.1	\$	822.3	\$	1,258.0	\$	1,719.4	\$	2,305.6	\$	2,923.5
Gross Margin		57.7%		53.9%		52.1%		49.7%		48.1%		47.2%		46.6%		46.3%		46.1%
Operating Margin		39.6%		35.5%		32.9%		31.3%		28.8%		28.1%		25.6%		25.3%		25.1%
Profit Margin		31.2%		27.0%		30.3%		29.0%		26.3%		25.3%		22.9%		22.5%		22.3%
Fully Diluted Units Outstanding		108.9		108.8		109.2		203.2	\$	218.8	\$	218.8	\$	218.8	\$	218.8	\$	218.8
Net Income/Share	\$	1.64	\$	1.89	\$	2.85	\$	2.53	\$	3.76	\$	5.75	\$	7.86	\$	10.54	\$	13.36
Depreciation	\$	10.22	\$	13.07	\$	18.69	\$	21.54	\$	23.69	\$	26.06	\$	28.66	\$	31.53	\$	34.68
Amortization	\$	9.89	\$	21.53	\$	24.90	\$	22.94	\$	22.94	\$	22.94	\$	22.94	\$	22.94	\$	22.94
Deferred Income Tax	\$	(4.21)	\$	(7.95)	\$	8.83	\$	(35.06)										
Cash	\$	274.33	\$	249.91	\$	334.35	\$	337.32	\$	379.21	\$	482.13	\$	564.14	\$	755.93	\$	958.07
Current Assets	\$	539.93	\$	636.97	\$	801.17	\$	1,169.08	\$	1,611.64	\$	2,458.86	\$	3,356.65	\$	4,497.77	\$	5,700.54
Current Liabilities	\$	104.43	\$	176.27	\$	195.49	\$	337.68	\$	474.01	\$	723.19	\$	987.25	\$	1,322.87	\$	1,676.63
EBITDA	\$	247.10	\$	305.27	\$	381.77	\$	599.03	\$	948.02	\$	1,446.39	\$	1,974.50	\$	2,645.75	\$	3,353.26
Cash Taxes Paid	\$	(51.51)	\$	(57.46)	\$	(52.55)	\$	(115.49)	\$	(123.30)	\$	(187.98)	\$	(256.93)	\$	(344.51)	\$	(436.84)
Change in NWC	\$	(13.89)	\$	49.63	\$	60.54	\$	222.75	\$	264.34	\$	495.12	\$	551.72	\$	613.71	\$	646.86
Capital Expenditures	\$	70.35	\$	78.15	\$	28.61	\$	129.41	\$	189.60	\$	289.28	\$	345.54	\$	463.01	\$	586.82
FCF	\$	139.12	\$	120.03	\$	240.07	\$	131.39	\$	370.78	\$	474.02	\$	820.32	\$	1,224.52	\$	1,682.73

#### Relative Metrics

F P/E (2008)	21.06
P/S (2008)	5.33
TEV/EBITDA	28.66

#### Total Enterprise Value

Price	\$121.14
# shares	218.8
Market Cap	\$26,499.6
Cash-Debt	\$667.7
TEV	\$27,167.3