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Market Cap:	25.9 B
Enterprise Value:	25.0 B
EV/EBITDA	39.0x
Forward P/E	30.23
Current Price:	\$119.40
Intrinsic Price:	90-120

We place a **HOLD** recommendation on Garmin for the following reasons:

- Wide range of intrinsic values (\$90-\$120) illustrates difficulties in accurately pricing in growth opportunities.
- Gains in market share are offset by decreasing margins as gross margins have decreased from 54% in 2004 to 49% in 2006.
- Future growth rates are contingent on public's acceptance and continued use of new products.

Overview

Garmin

In 1989 Min Kao and Gary Burrell founded Garmin. It was taken public on the NASDAQ Exchange in 2000. The primary function of Garmin Ltd is the research and development, manufacture, and marketing of both personal and commercial products that use GPS technology. Garmin operates in several international markets, although 61% of total revenues come from the North American market. Garmin operates in four primary segments. The four segments include: automotive/mobile, aviation, marine and outdoor/fitness.¹

As of 2nd Quarter 2007	Outdoor	Marine	Automotive	Aviation
Gross Margin	57%	58%	46%	64%
Operating Margin	37%	42%	29%	37%

Automotive/Mobile Segment

The automotive and mobile section of Garmin represents the best growth in any of the four segments with a second quarter year-over-year growth of 99%. The function of this segment is to produce personal navigation devices (PND) used primarily in cars. The popular Nuvi and Street Pilot models account for the majority of revenues for this segment. Gross and operating margins are 46% and 29% respectively, both improvements from the previous quarter. Garmin maintains the number one

position for PNDs in the United States and with a new focus on international expansion, Garmin's position has been increasing overseas as well.

Outdoor/Fitness Segment

Garmin's Outdoor and fitness segments produce products that are geared toward hunting, hiking, and personal fitness tracking using GPS technologies. Although first quarter year-over-year growth was down, the second quarter posted a 9% year-over-year gain.²

Aviation Segment

The aviation segment produces GPS based devices used for small, personal aircrafts to large commercial planes. The second quarter y-o-y was 39%, and projected 2007 growth is 30%, an estimate that was increased by Garmin in their second quarter earnings call.³ One of the key drivers for revenues in the aviation segment is for Garmin to be the key navigation device by many airlines and plane manufacturers.

Marine Segment

Garmin's marine segment manufactures marine products based on GPS technology that ranges from chartplotters on commercial vessels to fish finders on an individual's boat. Revenues for the marine segment increased 59% y-o-y in the second quarter. The company's projects the marine segment to grow 20% in 2007.⁴

Product Mix

Approximately 61% of Garmin's sales in 2006 came from its automotive/mobile segment. This number has increased dramatically over the last few years because of the increased consumer demand of these products coupled with the introduction of over 70 new products.⁵ According to the 2006 annual report, units sold increased 78% y-o-y. Even though sales increased in each segment from 2004 to 2006, they were disproportionately high for automotive causing other segment's contribution to revenues to decrease.

Management's states that the increased percentage of revenues for the automotive segment is due to a better understanding by consumers of the benefits of using GPS systems. Our expectation is that this trend will continue, and by 2011 the automotive segment will produce 85% of Garmin's revenues. The following chart demonstrates the higher proportion of sales

¹ 8/1/07. Garmin 2nd Quarter Earnings Call.

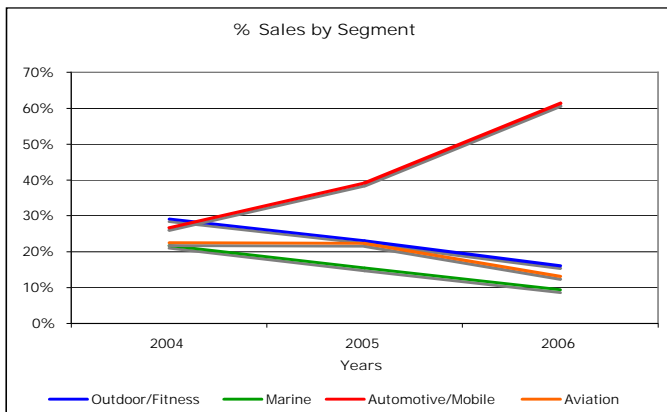
² 8/1/07. Garmin 2nd Quarter Earnings Call.

³ 8/1/07. Garmin 2nd Quarter Earnings Call.

⁴ 8/1/07. Garmin 2nd Quarter Earnings Call.

⁵ 10-K. 2006. Pg. 46.

that the automotive segment has achieved over the last three years, along with the decreasing percentage of sales revenue of the other segments.



Segmented Pro Forma

Garmin's four segments have experienced very different growth rates over the last several years, and we project that this tendency will continue in the future. We forecast that the automotive segment will continue to be the fastest growing revenue driver for Garmin with sales growth of 100% y-o-y for 2008. We have projected growth in the other segments to be steady based off of past years' growth. We expect gross margin to decrease over time, and to get closer to the market average. We created a chart to show our expected revenues and gross margins for FY 2007 and presented it below.

Segmented Data 2007 E		
	Sales	GM %
Outdoor/Fitness	\$336	54.0%
Marine	\$177	53.0%
Automotive	\$2,178	44.0%
Aviation	\$265	65.0%

Management describes revenues as being cyclical and having a dependence on introduction of new products. In the annual report management sounds excited when talking about the future of their automotive products.⁶ Our growth estimates mirror management's view of the future of their segments.

Our pro forma income statement shows a product mix that becomes more heavily weighted in the automotive segment. Eventually, we feel that the automotive segment may produce as much as 85% of total revenue. This will cause the corporate gross margin to decrease due to the fact that the automotive segment has the lowest gross margin of all the segments.

⁶ 10-K. 2006. Pg. 7.

In Garmin's case, there is an inverse relationship between corporate revenue growth and gross margins. As illustrated above, corporate revenue growth relies heavily on growth in the automotive sector, which would mean a decrease in gross margins. The cost of the new products increases, and Garmin is forced to lower prices and stay competitive. This causes overall revenues for the company to increase while gross margins shrink.

Strengths/Weaknesses

Strengths

Garmin offers a diverse product mix that enables their users to use their device for all means of travel and in 2006 Garmin introduced 70 new products. Currently, Garmin has GPS devices available for air travel, road travel, hiking and devices that sync with smart phones – to name a few. As the applied technology market matures, Garmin's strong product mix secures Garmin's approximate 50% U.S. market share (motley fool). In addition, Garmin continues to move forward in the European market by acquiring distributors in France, Italy, Germany and Spain in attempts to increase their market share in Europe.⁷

Partnerships are an integral part of Garmin's business. In 2006 Garmin reached partnership agreements with the following retailers: Wal-Mart, Target, Sears, Office Depot, Ritz Camera and Best Buy Canada, respectively.⁸ Also, agreements were reached with multiple European auto manufacturers which is a sure sign of Garmin's continued focus in European markets. The partnership agreements aide Garmin in brand recognition and consumer awareness.⁹

Weaknesses

The greatest challenge that Garmin faces is increased competition in the automotive GPS market. The increase in competition from TomTom and Magellan leads to a decrease in gross profit because Garmin is forced to lower prices while costs remain the same. Since 2004, Garmin's gross profit has dropped 4%,¹⁰ and competition in this market is only growing.

Another concern of ours is the recent development of cell-phone based navigation. This new concept could have a huge negative impact on future sales for Garmin's largest segment. Cell-phone based navigation is a concern on two fronts. First, it is very inexpensive; Verizon is offering navigation for \$10 a month or \$3 a day.¹¹ Second, it is more convenient than larger navigation devices by providing users easier access to navigation through their phone while traveling, rather than carrying around a Garmin GPS.

⁷ www.reuters.com. 9/29/07

⁸ 10-K. 2006. Pg. 11

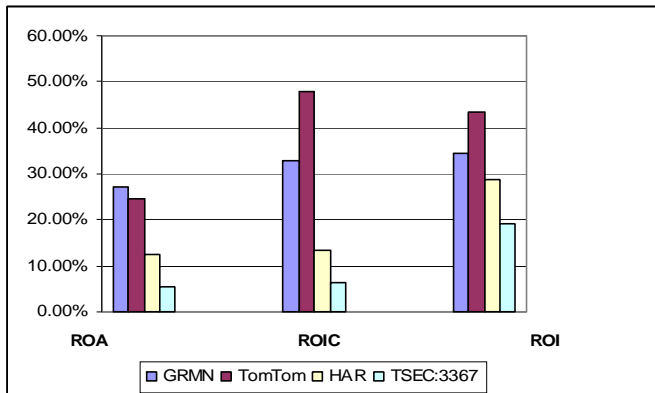
⁹ 10-K. 2006. Pg. 4

¹⁰ 10-K. 2006. Pg 44.

¹¹ www.pcmag.com. 9/29/07

Non-GAAP Measurements

We used three non-GAAP measurements to compare Garmin to three competitors. We used TomTom, Harman International and Inventec Appliances Corp. based off comparable revenues and a similar product mix. As shown below in the graph, Garmin outperformed Harman and Inventec considerably in 2006 with a ROIC of 32.97% compared to 13.39 and 6.38%, respectively. In addition, Garmin is just trailing TomTom in ROIC and ROI with metrics of 32.97% and 34.5% compared to 47.77% and 43.43% for TomTom.



Most analyst consider ROIC to be a more superior measurement than ROI for multiple reasons. ROIC depicts how well management is allocating their capital. Coupling Garmin's WACC of 12.7 % and their ROIC of 32.97% indicates that Garmin is making sound investments. Also, ROIC applies the balance sheet and income statement to arrive at the metric.¹² The advantage to using both statements is that it takes into account both quantitative and qualitative factors. As stated above, ROI is easily manipulated. One way managers can manipulate ROI is through allocating costs which will in turn lead to higher net income and a more desired ROI.¹³

Valuation

Relative Valuation

With Garmin operating in four major segments, we felt that a relative valuation was appropriate. However, Garmin's growth rates over the last three years and have well outpaced its competition in all segments, causing it to sell at a premium when compared to its competition.

Relative Valuation					
Segment	Comp.	Weight*	F P/E	P/S	EV/EBIT
Outdoor/Fitness	TomTom	15.2%	23.63	3.10	11.00
Marine	Cobra	7.2%	40.00	0.26	3.65
Auto/Mobile	TomTom	66.3%	23.63	3.10	11.00
Aviation	Rockwell	11.3%	18.78	2.87	13.52
<i>Weighted Average</i>		<i>100.0%</i>	<i>24.26</i>	<i>2.87</i>	<i>10.76</i>
Garmin			30.23	11.64	33.56

The P/S ratio of Garmin is significantly higher than its competition because of its higher operating margin of 31%. Rockwell Collins has an operating margin of 18% and Cobra has an operating margin of 5.5%. The P/E premium placed on Garmin is due to higher growth expectations and the expectation that Garmin will continue to beat consensus estimates. Analysts are calling for Garmin to grow at 20% annually over the next five years, while Rockwell Collins and TomTom are expected to grow at 16.5% and 18% respectively. Garmin beat the consensus EPS estimates in Q4 2006 and Q2 2007 by 50% and 30% respectively. Investor's expectations of this continually happening pose a significant risk to the premium on the stock's valuation.

Discounted Cash Flow Analysis

We also performed a DCF analysis for Garmin, arriving at a share price of \$90.82. This represents a discount of 26% when compared to the current share price, thus indicating that Garmin's stock is overvalued. Selected forecast numbers are displayed below:

	2007E	2008E	2009E	2010E	2011E
Revenues	\$1,514,321	\$2,213,734	\$2,954,617	\$3,525,948	\$4,155,066
COGS	\$1,130,986	\$1,872,223	\$2,736,177	\$3,515,160	\$4,357,258
EBIT	\$887,285	\$1,358,257	\$1,876,152	\$2,329,395	\$2,850,435
NOPLAT	\$767,502	\$1,174,892	\$1,622,871	\$2,014,926	\$2,465,627
FCF	\$708,361	\$1,081,031	\$1,522,261	\$1,886,912	\$2,308,165

After forecasting the following numbers we present valued them using a discount rate of 12.7%, our calculated WACC. To calculate this figure we utilized the CAPM equation, assuming the 10-year T-bond yield as our risk free rate, a market risk premium of 7.5% and a beta of 1.18. In order to calculate the terminal value we assumed a 3.5% terminal growth rate.

Conclusion

Overall Garmin is a strong company with a lot of future growth potential. That being said, we feel that the majority of this growth has already been priced into the stock's current value. Therefore we place a **HOLD** recommendation on Garmin. Though the stock may appreciate slightly in the coming months, we do not feel that it will be enough to warrant purchasing more shares. Still, it is a solid investment that complements our portfolio's goals nicely, deterring us from recommending a sell.

¹² Motley Fool."The Magic of ROIC." 9/30/07

¹³ www.nysscpa.org/cpajournal. 9/30/07