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Third Quarter 2026 Earnings

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CORPORATE SPEAKERS:

Teri Seck
Garmin Ltd.; Director, Investor Relations
Clifton Pemble
Garmin Ltd.; President and Chief Executive Officer
Douglas Boessen
Garmin Ltd.; Chief Financial Officer and Treasurer

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Benjamin Bollin
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Ronald Epstein
Bank of America; Analyst

PRESENTATION:

Operator^ Hello, everyone. Thank you for joining us and welcome to the Garmin Limited's Third Quarter 2026 Earnings. (Operator Instructions)

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I will now hand the conference over to Teri Seck, Director of Investor Relations. Please go ahead.

Teri Seck^ Good morning. We would like to welcome you to Garmin Limited's third quarter 2026 Earnings Call.

Please note that the earnings press release and related slides are available at Garmin's Investor Relations site on the Internet at www.garmin.com/investors.

An archive of the webcast and related transcript will also be available on our website.

This earnings call includes projections and other forward-looking statements regarding Garmin Ltd. and its business. Any statements regarding our future financial position, revenues, segment growth rates, earnings, gross margins, operating margins, future dividends or share repurchases, market shares, product introductions, foreign currency, tariff impacts, future demand for our products and plans and objectives are forward-looking statements.

The forward-looking events and circumstances discussed in this earnings call may not occur, and actual results could differ materially as a result of risk factors affecting Garmin. Information concerning these risk factors is contained in our Form 10-K filed with the Securities and Exchange Commission.

Presenting on behalf of Garmin Ltd. this morning are Cliff Pemble, President and Chief Executive Officer; and Doug Boesson, Chief Financial Officer and Treasurer.

At this time, I would like to turn the call over to Cliff Pemble.

Clifton Pemble^ Thank you, Teri, and good morning, everyone.

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As announced earlier today Garmin achieved another quarter of record-breaking financial results and a continuation of the positive trends we've been experiencing over the long term.

Consolidated revenue increased 12% to nearly $2 billion, with gross margin of 63.3%. We experienced a robust expansion in consolidated gross and operating margins, the majority of which is attributable to favorable segment mix and lower product costs.

Margins also benefited from tariff refunds of $33 million recognized in the third quarter. Even when excluding this benefit, our gross margin performance was impressive by any historical comparison, reflecting the strength of our product lines and the efficiency of our vertically integrated business model.

Through strong operational execution, we delivered significant leverage to the bottom line. Operating income increased 34% to $612 million and pro forma EPS increased 39% to $2.76.

With most of 2026 behind us and considering the momentum we are experiencing entering the important Q4 holiday season, we anticipate delivering another record year of double-digit growth in revenue and profits.

We now anticipate revenue of $8.15 billion, an increase of $100 million over the prior guidance, and an increase of 12% over the prior year. We expect gross margin of 61% for the full year which assumes higher cost for raw materials, particularly memory, which I will expand upon in a moment.

We further expect an operating margin of 29% and an expansion from our prior estimate and a tax rate of 16.5%, which is unchanged from my prior estimate. These assumptions result in pro forma EPS of $10.80, an increase of $0.80 over the prior guidance and a 26% increase over the prior year.

Before covering segment highlights, I want to provide additional context on supply chain matters.

As previously mentioned, our results will soon reflect the higher cost of memory and other raw materials, which have increased significantly since last year, driven by both high demand and limited supplies.

Our results have benefited from our safety stock of memory purchased at lower prices. New supplies are being purchased at current market prices, which are significantly higher than last year. This represents a headwind going forward and drives higher inventory amounts on our balance sheet.

Additionally, our inventory strategy is focused on product availability, which translates to higher inventory levels of certain critical components and from time to time, we make prepayments to secure additional supplies.

While it's too early to offer a comprehensive outlook for 2027, we expect our consolidated gross margin profile will return to a historical range, primarily due to higher memory costs. We believe a return to historical gross margin levels represents impressive performance given the unusual supply chain circumstances affecting many companies.

As we formulate our 2027 plan, we will look for every opportunity to offset this headwind by leaning heavily on our vertical integration and scale of operations and through strategic and selected mitigations which we have successfully used in the past.

Doug will discuss our financial results in greater detail in a few minutes, but first, I'll provide a few remarks on the performance of each business segment.

Starting with fitness. Revenue increased 16% to $694 million, a new third quarter record, primarily driven by broad-based wearable growth. Gross and operating margins expanded to 63% and 33%, respectively, resulting in operating income of $231 million.

During the quarter, we launched the Circa Smart band, a screenless wearable offering rich wellness and fitness insights that expands our addressable market for wellness devices. Initial demand for Circa has been very strong and feedback from customers has been positive.

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We recently announced the next-generation edge cycling computers. The Edge 1060 features a built-in microphone and speaker for hands-free voice control, and the easy-to-use Edge XPLORE3 is designed for riders of all levels.

The Fitness segment has achieved outstanding performance throughout the year, and we expect this trend to continue in the fourth quarter. We are very pleased with these results and expect that the Fitness segment will be the strongest contributor to our full year consolidated growth.

Moving to outdoor. Revenue increased 20% to $597 million, primarily driven by strong demand for adventure watches following the launch of the fenix 9 series. Gross and operating margins expanded to 68% and 39%, respectively, resulting in operating income of $233 million.

During the quarter, we launched the fenix 9 and the fenix 9 Pro series, with an all-titanium watch case option and the largest available AMOLED screen in our flagship adventure watch lineup.

We also launched the Garmin Drive navigators that feature high-resolution ultra-wide displays and an elevated all-new user experience.

Looking forward, we expect growth momentum to continue in Q4, primarily driven by the fenix 9 series, resulting in improved full year growth rates when compared to 2025.

Looking next at Aviation, revenue increased 5% to $253 million, with growth primarily driven by OEM product categories. Gross and operating margins expanded to 78% and 26%, respectively, resulting in $66 million of operating income.

We recently announced that the G1000 integrated flight deck for the iconic King Air aircraft has surpassed 1,000 systems in the field, marking a significant milestone as one of the most successful retrofit flight deck programs in aviation history.

We also announced that more than 2,500 aircraft are now equipped with our revolutionary Autoland system. Autoland is available in more than 15 models from piston powered aircraft to twin-engine jets, bringing added peace of mind to a growing number of pilots and passengers across the aviation industry.

Just this quarter, Pilatus aircraft and Epic aircraft announced the certification of government Autoland on the PC-12 Pro and the E-1000 airplanes.

During the quarter, we introduced the G2000 Prime, bringing prime flight deck functionality to the high-performance piston and electric aircraft market.

Also during the quarter, we announced the certification of an all-glass retrofit cockpit for the original Cessna Citation jet.

And finally, we made important updates to Garmin Pilot, adding Smart Charts coverage for Canada and Mexico as well as mobile clearance delivery, which allows pilots to obtain clearances electronically through the Garmin Pilot app.

We are pleased with the performance of Aviation during the first three quarters of the year, and we expect fourth quarter year-over-year growth to be similar to that of Q3.

Turning to the Marine segment. Revenue increased 16% to $310 million with broad-based growth across multiple product categories led by sonar products following the launch of LiveScope 2 sonar systems. LiveScope is widely considered to be one of the most consequential innovations in modern fishing electronics. LiveScope 2 builds on this legacy of disruptive innovation by offering improved range and unprecedented image clarity.

Gross and operating margins expanded to 64% and 30%, respectively, resulting in operating income of $94 million. The primary driver of margin expansion was the tariff refund recognized during the quarter, although margins improved even when excluding this benefit.

During the quarter, we expanded our sailboat product lineup with the GMI 40 instrument display and the Smart Drive steering actuator. We also launched the JL Audio A60 head unit series and the M200 speaker system.

We were recently named Manufacturer of the Year by National Marine Electronics Association for the 12th consecutive year, an honor that's particularly meaningful because it reflects the opinion of the broader NMEA community for innovation, product quality, service and support.

We also received six Product of Excellence awards for multiple product categories as selected by NMEA dealers, certified installers in the industry professionals.

We are pleased with the performance of Marine during the first three quarters of the year and believe we are on track to achieve full-year growth that is consistent with the prior year.

Moving finally to the Auto OEM segment revenue decreased 20% to $132 million, primarily driven by domain controllers. Gross margin was 16%, and the operating loss narrowed year-over-year to $12 million as we shifted R&D resources to other segments. We expect fourth quarter revenue to decrease year-over-year, consistent with Q3 as domain controllers continue to decline as expected.

We look forward to the launch of our next major domain controller program with Mercedes-Benz, which we expect will drive significant growth in 2027.

Wrapping up, I'm very proud of what our team has accomplished. We delivered strong growth, expanded profitability; we invested in future innovation and introduced new products across nearly every segment of our business.

We look forward -- as we look forward, our product portfolio is very strong, and we are confident in the opportunities that lie ahead. We believe success is driven by our commitment to create products that are essential to our customers and supporting them with industry-leading quality, reliability and innovation.

So that concludes my remarks. Next, Doug will walk you through additional details on our financial results. Doug?

Douglas Boessen^ Thanks, Cliff. Good morning, everyone.

I'll begin by reviewing our third quarter financial results, provide comments on the balance sheet, cash flow statement, taxes, updated guidance. Posted a [ph] revenue of $1.986 billion for the third quarter, representing a 12% increase year-over-year.

Gross margin was 63.3%, 420 [ph] basis point increase in the prior-year quarter. This was primarily due to favorable segment mix, lower product costs due to the weakening of the Taiwan dollar, approximately $33 million in refunds of previously paid tariffs.

Operating expense as a percentage of sales was 32.5%, 80 basis-point decrease.

Operating income increased 34% to $612 million. Operating margin expanded to 30.8%, a 500-basis point increase compared to the prior-year quarter. Our GAAP EPS was $2.80, and our pro forma EPS is $2.76.

Next, we look at our third quarter revenue by segment and geography.

During the third quarter, we achieved consolidated double-digit growth, led by the Outdoor segment with 20% growth, followed by the Fitness, Marine segments with 16% growth.

By geography, we achieved growth in all three regions, led by 15% growth in Americas, followed by 12% growth in EMEA and 4% growth in APAC. APAC sales growth is lower than America's EMEA due to the challenging market conditions in China. Excluding China, APAC sales growth would have been more comparable to the other regions.

Looking next at operating expenses. Research and development expenses increased $26 million, approximately 9%, primarily driven by personnel-related expenses.

SG&A expenses increased $30 million, approximately 10%, primarily driven by personnel-related expenses and advertising expense.

A few highlights on the balance sheet, cash flow statement and taxes. Ended the quarter with cash and marketable securities of approximately $4.1 billion. Accounts receivable increased year-over-year to approximately $1.1 billion, while on the strong sales in the third quarter.

Inventory increased year-over-year and sequentially to approximately $2.3 billion. We're executing our strategy to increase inventory of certain components to mitigate the risk of supply constraints. Also, the cost of certain components has increased significantly year-over-year.

During the third quarter of 2026, we generated free cash flow of $293 million, $132 million decrease from the prior-year quarter. Decrease is primarily due to an increase in on-hand inventory, prepayments of inventory to secure future delivery strategic components, primarily offset by improved operating results.

Capital expenditures for the third quarter 2026 were $101 million, approximately $40 million higher than the prior quarter. We expect full year 2026 free cash flow to approximately $1.1 billion, capital expenditure of approximately $500 million. Decrease in our free cash flow estimate compared to the previous estimate is primarily due to increase in on-hand inventory, repayments or inventory.

During the third quarter of 2026, we paid dividends of approximately $202 million and purchased $41 million of company stock. At quarter end, we had approximately $47 million remaining share repurchase program authorized through December 2028, for an effective tax rate of 18.1% compared to 21.2% in the prior quarter. Decrease in effective tax rate is primarily driven by an increase in U.S. deductions due to certain [ph] provisions of the U.S. tax legislation enacted in 2025, should become [ph] effective in 2026.

Turning next to our full year guidance. Based on our performance during the first three quarters of 2026 and our positive outlook for the fourth quarter, we now estimate revenue of approximately $8.15 billion compared to our previous guidance of $8.05 billion. The result of

year-to-date performance, we have increased our gross margin to approximately 61%, which is 130 basis points higher than our previous guidance, and is 230 basis [ph] higher than our full year 2025 gross margin.

We expect higher memory costs to impact the fourth quarter, which has been factored in our full year gross margin guidance.

We received the majority of our expected tariff refunds, and our updated gross margin guidance only includes the benefit of share refunds already recorded in the year-to-date results.

We expect our operating margin to be approximately 29% to 200 basis points higher than our previous guidance.

Also, we expect a pro forma effective tax rate of 16.5%, (inaudible) with our previous guidance.

We expect pro forma earnings per share is approximately $10.80 compared to our previous guidance of $10.

This concludes our formal remarks. Christy [ph], could you please open the line for Q&A?

Teri Seck^ Thank you all for joining us today.

As typical, Doug and I are available for call backs, and we hope you have a nice day. Bye.

Operator^ This concludes today's call. Thank you for attending.

You may now disconnect.