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Presentation

Operator

Good morning, and welcome to the Garmin Ltd. Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Teri Seck, Director of Investor Relations. Please go ahead.

Teri Seck

Manager of Investor Relations

Good morning. We would like to welcome you to Garmin Ltd. Fourth Quarter 2023 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/stock. An archive of the webcast and related transcripts 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, revenue segment growth rate, earnings, gross margins, operating margins, future dividends or share repurchases, market shares, product introduction, 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 Boessen, Chief Financial Officer and Treasurer.

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

Clifton Albert Pemble

President, CEO & Director

Thank you, Teri, and good morning, everyone. As announced earlier today, Garmin delivered outstanding results in the fourth quarter with strong growth in consolidated revenue and profit.

Consolidated revenue increased 13% to nearly \$1.5 billion, representing a new fourth quarter record with three business segments delivering double-digit growth. Gross and operating margins expanded year-over-year to 58% and 23%, respectively, resulting in operating income of \$340 million, up 27% for the year. This resulted in pro forma EPS of \$1.72, up 27% over the prior year.

We entered 2023 cautiously optimistic, but as the year continued, we experienced better-than-expected momentum in multiple segments, which resulted in a record-breaking year. Consolidated revenue increased 8% to \$5.2 billion, which is a new annual record. Operating income increased 6% to nearly \$1.1 billion, and operating margin came in at 21%.

During the year, component lead times and availability continued to normalize, while shipping bottlenecks eased. These factors, combined with healthy demand for our products, reduced inventory levels and boosted free cash flow to nearly \$1.2 billion. We believe current inventory levels are appropriate and expect inventory will grow from this point forward at a rate that is roughly in line with sales.

Looking forward, we have a robust lineup of recently introduced products, and additional product launches are planned throughout the year. We anticipate 2024 consolidated revenue will increase approximately 10% to \$5.75 billion.

Our results and outlook for the year give us the confidence to propose an annual dividend of \$3 per share, an \$0.08 increase over the prior dividend amount, which will be considered by shareholders at

the upcoming annual meeting. In addition, our Board of Directors recently approved a \$300 million share repurchase program over the next 3 years.

Before moving on to the performance and outlook for each business segment, I want to mention the recognition we received recently from Forbes who ranked Garmin #2 on their list of Best Large Employers in America. We're honored to be recognized for creating a best-in-class workplace. Garmin associates are passionate about what we do, and we share a deep commitment to serving customers and each other.

Moving next to segment highlights. Fitness revenue increased 21% for the year, with growth across all product categories, led by strong demand for our new running watches. Full year growth and operating margins were 33% and 17%, respectively, and operating income more than doubled to \$232 million.

At the recent Consumer Electronics Show, the Venu 3 was recognized with three awards, including best of innovation for outstanding engineering. With its rich wellness and fitness features, bright display and long battery life, the Venu 3 is indeed a best-in-class product.

Looking ahead, we have a strong lineup of recently introduced running, cycling and wellness products and expect to launch additional products during the year to support growth. With this in mind, we expect fitness revenue will increase approximately 7% for the year.

Moving to outdoor. Revenue decreased 4% for the year, as solid performance in the second half of the year could not fully offset the weaker first half. Full year gross and operating margins were 63% and 30%, respectively, resulting in operating income of \$515 million.

During the fourth quarter, we expanded our lineup of underwater diving products with the introduction of the Descent G1 Solar-Ocean Edition, our first-ever product made with recycled ocean-bound plastics. We also launched the new Descent Mk3 dive watch and the Descent T2 transceiver with enhanced SubWave communication technology that enables diver-to-diver messaging and tank pressure monitoring on the wrist.

For over 2 decades, our eTrex series of handhelds have been an essential product for outdoor adventures. We recently launched the eTrex Solar, our first handheld GPS with solar charging technology. This new handheld can operate indefinitely using only the power harvested from the sun, which is a game changer for hikers, explorers and off-the-grid adventurers. Looking ahead, we expect that our strong outdoor product road map will result in revenue growth of 7% for the year.

Looking next at aviation. Revenue increased 7% for the year to \$846 million, a new record driven by growth in OEM product categories. Full year gross and operating margins were 74% and 27%, respectively, resulting in operating income of \$226 million, up 6% over the prior year.

During the quarter, our G3000 Integrated Flight Deck was selected by Embraer backed Eve Air Mobility for its electric vertical takeoff and landing aircraft. Eve Air Mobility joins a growing list of advanced air mobility companies who have selected our state-of-the-art cockpit systems.

More recently, Garmin was ranked #1 in for the 20th consecutive year in Professional Pilot's 2024 avionics manufacturers products support survey. This accomplishment is the direct result of the strong commitment and hard work of our aviation team and the investments we have made in this business.

In recent years, the aviation segment has experienced growth in OEM equipment categories driven by an increased interest in private air travel. We expect this trend to continue in 2024, as aircraft makers work through historically high back orders. On the other hand, we expect softer aftermarket sales in the coming year. With these things in mind, we expect aviation revenue to be approximately flat to the prior year.

Turning next to the marine segment. Revenue increased 1% to \$917 million, a new record, and included approximately \$42 million of revenue from the recently acquired JL Audio business. Excluding JL Audio, revenue from marine decreased approximately 3% for the year.

The marine market has slowed in 2023, with many players reporting double-digit revenue declines, but we outperformed by capturing market share from our competitors. Full year gross and operating margins were 54% and 20%, respectively, resulting in operating income of \$179 million.

During the fourth quarter, we launched the ECHOMAP Ultra 2 chartplotter series designed with premium sonar, mapping and wireless networking capability. We also launched the GSD 28 sonar with rapid return technology for higher-resolution imaging in deepwater. These innovations demonstrate why our marine segment is performing so well in an otherwise soft market.

Looking forward, we expect marine revenue will increase approximately 10% for the year, with growth driven by JL Audio which is expected to be about 15% of total marine sales.

Moving finally to the auto OEM segment. Revenue indeed 49% to \$423 million, a new record, with growth primarily driven by increased shipments of domain controllers to BMW. Full year 2023 gross margin was 23%, and our losses narrowed progressively throughout the year, ending at just under \$10 million for the fourth quarter.

Many are wondering what lies beyond the BMW programs that are currently fueling our growth. I'm pleased to report that during 2023, we were awarded a new multiyear contract with another premium automaker to supply domain controllers on a global basis starting in 2027. This is projected to be the single largest award in the history of our auto OEM business, expanding our market share and customer base for domain controllers.

We're also winning new business in other categories. We recently announced our motorcycle entertainment solution was selected by Yamaha Motors for certain motorcycles and smart scooters. This award adds to the already strong business we have with Yamaha across both 2-wheel and marine vehicles.

I'm proud of the progress our auto OEM team has made in 2023. Looking ahead, we expect revenue to increase approximately 50% as deliveries of domain controllers continue to ramp up, and we expect to reach profitability on a quarterly basis in the back half of the year.

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

Douglas Gerard Boessen

CFO & Treasurer

Thanks, Cliff. Good morning, everyone. I'd like to begin by reviewing our fourth quarter and full year financial results, provide comments on the balance sheet, cash flow statement, taxes and 2024 guidance.

We posted revenue of \$1.483 billion for the fourth quarter, representing a 13% increase year-over-year. Gross margin was 58.3%, increased 130 basis points for the prior year quarter, primarily due to lower freight costs.

Operating expense as a percentage of sales was 35.3%, 120 basis point decrease. Operating income was \$340 million, 27% year-over-year increase. Operating margin was 23%, 250 basis point increase from the prior year.

Our GAAP EPS was \$2.82. Pro forma EPS was \$1.72, a 27% increase from the prior year pro forma EPS.

Looking at the full year results. We posted revenue of \$5.228 billion, representing an 8% increase year-over-year. Gross margin was 57.5%, a 20 basis point decrease from the prior year.

Operating expense as a percentage of sales was 36.6%, comparable to the prior year. Operating income was \$1.92 billion, 6% increase. Operating margin was 20.9%, a 20 basis point decrease from the prior year.

Our GAAP EPS was \$6.71. Pro forma EPS was of \$5.59, a 9% increase from the prior year pro forma EPS.

Next we look at our fourth quarter revenue by segment and geography. During the fourth quarter, we achieved record consolidated revenue and double-digit growth in 3 of our 5 segments.

By geography, Americas, EMEA regions achieved double-digit growth of 13% and 19%, respectively, while the APAC region achieved growth of 4%. For the full year 2023, we achieved 8% consolidated growth, with

record revenue in 3 of our 5 segments. By geography, we achieved 8% growth in Americas, 9% growth in EMEA and 5% growth in APAC.

Looking next, operating expenses. Fourth quarter operating expenses increased by \$46 million or 10%. Research and development increased approximately \$22 million year-over-year, primarily due to engineering personnel costs.

SG&A increased approximately \$21 million compared to the prior year quarter primarily due to increase in personnel-related expenses, in addition to the JL Audio business. Advertising expense increased approximately \$4 million primarily due to higher co-op advertising.

A few highlights on the balance sheet, cash flow statement, dividends and share repurchase. We ended the quarter with cash and market securities of approximately \$3.1 billion. Accounts receivable increased sequentially and year-over-year to \$815 million due to seasonally strong sales in the fourth quarter.

Inventory balance decreased year-over-year to \$1.3 billion to execute our strategy, to optimize inventory, reductions in our consumer inventory, more than offsetting the increase associated with our auto OEM business and the addition of JL Audio inventory.

During the fourth quarter 2023, we generated free cash flow of \$470 million, \$108 million increase from the prior year quarter, primarily due to lower use of cash purchases of inventory. For the full year 2023, we generated free cash flow of \$1.183 billion, \$639 million increase from the prior year, which was primarily due to a lower use of cash purchase of inventory, which we do not expect to repeat in 2024.

For 2023, our capital expenditures were \$194 million, a \$51 million decrease compared to the prior year. In 2024, we expect free cash flow to be approximately \$750 million and approximately \$375 million of capital expenditures. In 2024, we expect to continue to make investments in platforms for growth, clean facilities and IT-related projects.

In 2023, we paid dividends of approximately \$559 million. Also we announced our plan to seek shareholder approval for an increase in our annual dividend beginning with the June 2024 payment. Proposal is a cash dividend of \$3 or \$0.75 per share per quarter, which is a 3% increase from our current quarterly dividend of \$0.73 per share.

In 2023, we used \$99 million of cash to purchase company shares, completing the previous \$300 million share repurchase program. Our Board of Directors recently approved a \$300 million share repurchase program, which is authorized through December 2026.

Our full year 2023 pro forma effective tax rate was 8.5% compared to 7.9% in the prior year. Fiscal 2024 pro forma effective tax rate is expected to be 15.5%, a 700 basis point increase over the prior year. Expected year-over-year increase in the 2024 pro forma tax rate is primarily due to increases in the combined Switzerland tax rates, impact of implementation of global minimum tax requirements.

Turning next to our full year guidance. We estimate revenue of approximately \$5.75 billion, an increase of approximately 10% for the prior year. We expect gross margin to be approximately 56.5%, 100 basis point year-over-year decrease, which is primarily due to segment mix as auto OEM becomes a large percentage of our business.

We expect an operating margin of approximately 20%, and the full year pro forma effective tax rate is expected to be approximately 15.5%. This results in expected pro forma earnings per share of approximately \$5.40.

This concludes our formal remarks. Julianne, can you please open the line for Q&A?

Teri Seck

Manager of Investor Relations

Thank you all for joining us this morning. Doug and I are available for callbacks, and we hope you have a great day. Bye.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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