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Garmin Ltd. Second Quarter 2026 Earnings

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PRESENTATION:

Operator^ Hello, everyone. Thank you for joining us. And welcome to the Garmin Limited second Quarter 2026 Earnings Call.

After today's prepared remarks we will host a question-and-answer session. (Operator Instructions)

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 Second 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 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 Limited 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 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 11% to $2.02 billion.

We experienced robust expansion in consolidated gross and operating margins, the majority of which is attributable to favorable product mix.

Margins also benefited from a $21 million tariff refund recognized in the second quarter. Even when excluding this benefit, our gross margin performance was impressive by any historical comparison, reflecting the strength of our product lines, our vertically integrated business model, and exceptional execution by our global team.

Operating income increased 30% to $616 million, and pro forma EPS increased 29% to $2.81.

Our first half performance exceeded expectations and gives us confidence to raise our full year 2026 guidance.

We now expect 2026 revenue of approximately $8.05 billion and pro forma EPS of $10 per share.

Services have been an area of strategic focus in recent years with each business segment pursuing unique opportunities to grow service revenue over the long term.

We recently announced the strategic acquisition of TrainingPeaks and TrainHeroic, which are leading endurance and strength training platforms connecting coaches to athletes who wish to maximize the impact of their training effort.

We are very excited to welcome the TrainingPeaks and TrainHeroic teams to our fitness segment and look forward to all that we can accomplish together.

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 25% to $757 million, a new second quarter record driven by growth across all product categories, led by continued strong demand for advanced wearables. Gross and operating margins expanded to 64% and 37%, respectively, resulting in operating income of $277 million.

During the quarter, we launched the Forerunner 70, bringing comprehensive running features and a bright AMOLED display to our entry-level running lineup. And the Forerunner 170 with additional running and training features.

We also released our global annual global running and cycling data report that provides insights into the fitness activities of our customers and their athletic performance.

More recently, we announced the CIRQA Smart Band, a screenless wearable that offers rich wellness and fitness insights without requiring a subscription, which further expands the addressable market for our wellness devices.

The Fitness segment has achieved outstanding performance over the long term. We are very pleased with these results and continue to expect the Fitness segment will be the strongest contributor to 2026 consolidated growth.

Moving to outdoor. Revenue decreased 2% to $483 million, primarily due to consumer auto and adventure watch product categories. Gross and operating margins expanded to 69% and 34%, respectively, resulting in operating income of $164 million. The segment delivered improved profitability and operating income growth through favorable product mix and disciplined execution.

We recently expanded our golf lineup with the launch of the approach Z10, a compact laser rangefinder that sends precise distances to compatible devices, bringing a high fidelity experience to game play.

We also published our annual trends in golf data report, highlighting the participation in the sport is up and players are improving in nearly every shot category.

Looking forward, we expect to achieve stronger revenue performance in the back half of 2026 due to the timing of product launches, resulting in improved full year growth when compared to 2025.

Looking next at Aviation, revenue increased 8% to $269 million, reflecting growth in both OEM and aftermarket product categories. Gross and operating margins were 75% and 27%, respectively, resulting in operating income of $72 million.

For the 11th consecutive year, we were named Best Supplier of the Year by Embraer, who recognized us for outstanding performance as a supplier of electrical and electronic systems for their Phenom business jets. This recognition validates the long-term investments we have made to create innovative products and build strong relationships with our customers.

During the quarter, we launched the D2 Mach 2 Pro, our first Aviator smartwatch with inReach technology.

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We recently announced AXIS, an all-new family of highly integrated and scalable cockpit display solutions for a broad range of certified and experimental aircraft models. Axis combines navigation, communication, and audio functions into a single platform, reducing installation time complexity and cost while delivering a monitoring cockpit experience.

AXIS reflects decades of Garmin Innovation and sets a new standard for integrated flight displays.

We are very pleased with the performance of aviation during the first half of the year and expect to achieve continued growth throughout the remainder of the year.

Turning to the Marine segment. Revenue increased 14% to $341 million, with growth across multiple product categories. Gross and operating margins expanded to 61% and 29%, respectively, resulting in operating income of $100 million. The primary driver of margin expansion was the tariff refund recognized during the quarter, although product margins improved even when excluding this benefit.

During the quarter, we launched the Garmin Signal VHF Marine radio, which offers a color touchscreen and new features to enhance communication under water.

We recently announced the next-generation LiveScope 2 sonar system, which offers improved range and clarity over previous live scope systems. LiveScope 2 received the Best Electronics award at the recent ICOS trade show validating our superior LiveScope technology and further separating us from others in the market.

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

And moving finally to the auto OEM segment revenue increased 1% to $172 million, with growth primarily driven by domain controllers. Gross and operating margins were 22% and 2%, respectively. The gross margin expansion was primarily due to year-to-date cost recoveries that were recognized as revenue during the quarter.

Operating income was positive on a GAAP accounting basis at $3 million in the quarter, driven by improved gross profit and lower research and development expenses.

While we're excited about the positive quarter, we are expecting revenue to decline and the return to an operating loss in the back half of 2026, leading up to the launch of our next major program with Mercedes Benz in 2027.

Wrapping up, I'm very proud of what our team has accomplished.

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We delivered strong growth, expanded profitability, invested in innovation, completed a strategic acquisition and introduced new products across nearly every segment of our business.

As we look to the second half of 2026, our product portfolio is strong and we are confident in the opportunities that lie ahead.

We believe our 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.

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

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

I'll begin by reviewing our second quarter financial results, provide comments on the balance sheet, cash flow statement, taxes and updated guidance.

[Consolidated] revenue of $2.022 billion for the second quarter, representing 11% increase year-over-year. Gross margin was 62.4%, a 360 basis point increase from the prior year quarter.

Increase was primarily driven by favorable product mix and tariff refunds of approximately $21 million.

Operating expense as a percentage of sales was 32%, 80 basis point decrease. Operating income increased 30% to $616 million. Operating margin expanded to 30.4%, [or a 40] basis point increase compared to prior year quarter.

Our GAAP EPS was $2.80. Pro forma EPS $2.81.

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

During the second quarter, we achieved consolidated double-digit growth, led by the Fitness segment with 25% growth, followed by Marine segment to 14% growth.

By geography, we achieved growth in all three regions, led by 13% growth in EMEA, while by 12% growth in Americas and 7% growth in APAC.

Looking next on operating expenses. Research and development expense increased $27 million, approximately 10%, while SG&A expenses increased $25 million, approximately 8%. (inaudible) were primarily driven by personnel-related expenses.

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[A few] highlights on the balance sheet, cash flow statement and taxes.

In the quarter with cash, marketable securities approximately $4.4 billion. Accounts receivable increased both year-over-year and sequentially to approximately $1.2 billion on a seasonally strong sales in the second quarter.

Inventory increased year-over-year sequentially to approximately $2 billion.

During the second quarter of 2026, we generated free cash flow of $276 million, $148 million increase from prior year quarter.

Capital expenditures for the second quarter of 2026 were $128 million, approximately $82 million higher than the prior year quarter.

We expect full year 2026 free cash flow to be approximately $1.4 billion with capital expenditures of approximately $550 million.

During the second quarter 2026, we paid dividends of approximately $202 million and purchased $43 million of company stock.

At quarter end, we had approximately $448 million remaining share repurchase program authorized through December 2028, with an effective tax rate of 16.8% compared to 16.5% in the prior year quarter. Increase in effective tax rate primarily due to income mix by jurisdiction.

Turning next to our full year guidance. Based on our performance during the first half 2026, our positive outlook for the remainder of the year, we now estimate revenue of approximately $8.05 billion compared to our previous guidance of $7.9 billion. As a result of year-to-date performance we have increased our gross margin estimate to approximately 59.7% to 120 basis points higher than our previous guidance and is 100 basis points higher than the full year 2025 gross margin. (inaudible) results have not been significantly impacted by higher memory costs. However, we do expect higher memory costs impacted second half which has been factored into our full year gross margin guidance.

Updated gross margin guidance does not include any additional benefit related to tariff refunds beside of benefit already recorded in the second quarter.

We expect our operating margin to be approximately 27%, 150 basis points higher than our previous guidance.

Also we expect a [pro forma] effective tax rate of 16.5% with our previous guidance of 16%, increases due to income mix by jurisdiction.

We expect pro forma earnings per share of approximately $10 for our previous guidance [$9.35]. This concludes our formal remarks.

Rebecca, can you please open the line for Q&A.

I will now turn the call back to Teri Seck for closing remarks.

Teri Seck^ Thanks to all of you for joining us today. Doug and I are available for callbacks.

And we hope you have a great rest of your day.

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

You may now disconnect.