

Garmin Ltd

GRMN (US: NASDAQ)
Update as of August, 16th 2008

Current Price: ~\$37.21/share

Company Report Update:

In my original summary of Garmin Ltd I described how the position I had in the company was sold in September '05 for \$36.50/share due to the fact that the company was getting too highly valued for my tastes. Interestingly enough at the time of the article just one year later the shares were up more than 30% in spite of what I considered a 'crazy' valuation.

Well, flashing forward two years, Garmin has grown their revenues by 100% and profits at nearly the same rate. The shares breached a high of \$120/share at one point only to fall all the way back to the mid \$30's today. Amazingly, in the 3 years since I sold, the business outperformed even my wildest dreams of what they could have accomplished, but the shares trade at a price almost identical to the sale price. I think this is a striking testament to market psychology and proof of the irrationality that is present at times in the stock market. The same business threats have existed for Garmin since 2004. Cell phones were known to be a long term threat to their core GPS business. Now the iPhone is out with GPS that for many will provide their main mapping needs. The incredible thing here is not that the iPhone has GPS (if it didn't this year, it would have next year), but the fact that Garmin's valuation has changed by tens of billions of dollars in just a short time while nothing material has happened. It also goes to show that when you sell for a rational reason (overvaluation), you can feel stupid for a long time even though the decision may have been a wise one.

Interestingly enough, Garmin's stock is back to price levels where the market is predicting the end of its relevance as a business. This is when opportunity knocks. I'll be digging back into Garmin to see if a purchase at these levels would be a wise investment. Good things come to those who wait!

(The original investment report on Garmin Ltd is included below in its entirety)

Garmin Ltd

GRMN (US: NASDAQ)

Report as of November, 15th 2006

Investment Success

First Purchase: May of 2004 @ ~\$14.50 (split adjusted)
Last Sale: Sept of 2005 (Sold 100% of shares) @ ~\$36.50/share
Current Price: ~\$49.08/share

Company Background:

Garmin Ltd is the world's largest Global Positioning System (GPS) device manufacturer. Garmin has operations in Taiwan and Kansas. The company was a pioneer in GPS based technology for consumers and has been growing at >20% for more than 20 years. Garmin is controlled largely by its founders who collectively own >40% of the voting stock.

Investment Thesis:

When Garmin was trading around \$14.50/share in May of 2005, the market value of the entire firm was just under \$3.2 Billion (based on 218 million shares outstanding). For this \$33 Million price tag, you could get a company with the following characteristics:

- 1) Heavy insider ownership with no selling to speak of even though the stock was trading as much as 2x higher only a few month earlier
- 2) Earning power of ~\$160 Million in 2004
- 3) Strong Balance sheet - \$280 Million in excess cash
- 4) #1 brand in the huge and rapidly growing GPS market
- 5) Strong engineering culture - impressive product innovation
- 6) A business that has consistently generated returns in excess of 20% on their *assets* and produces net profit margins above 25%

Why was the Stock so Cheap?

Several reasons contributed to Garmin shares selling at a discount, and there was a good chance that within a reasonable timeframe, the market would see through these issues and value the company at a fair price.

- 1) In 2004, Garmin was targeting expanding its consumer and automotive businesses quickly, and the analysts were concerned that the margins in those business segments were going to be lower and drag down overall profitability.
- 2) There was a fair amount of concern that Cell phones would be integrating GPS services, competing with Garmin, and eroding their profits
- 3) In the most recent Quarterly profit release Garmin reported a small earnings decline that seemed to confirm the #1 and #2 worries listed above and the stock (which had already come down from \$30 to \$20) dropped from \$20 to less than \$15

Laying the Concerns to Rest:

However, with a little digging, all of these concerns could be laid to rest.

- 1) Management mentioned that the margin hit that they took in the quarter were due to product mix alone, not to increasing pricing pressure. Due to the fact that management had always dealt with shareholders honestly in the past and that they owned such a large stake in the business and we not selling... there appeared to be no reason to not believe their justification for the earnings miss.

- 2) A quick bit of research on the web and in advertisements showed that Garmin's products were by far the biggest selling in their categories. The GPS market would undoubtedly get more competitive in the future, but there were no immediate signs that Garmin was losing its lead.
- 3) Garmin was currently supporting Revenue growth of 30% and net margins in excess of 25% (some of the highest of any company in America) and even if those numbers were cut by a quarter (which was not at all likely), the company would still be a fair investment at the new reduced price.

All these reasons led me to believe that the price depression for Garmin stock was temporary in nature and the shares would likely gain in future quarters as the company continued to execute on its business plan.

Conclusion:

Garmin at \$14.50/share offered a chance to buy a world class company, at a substantial discount to its earnings power, which was owned and operated by shareholder friendly management. In September of 2005, the shares traded for around \$36.50 each, yielding a total return of over 130% in two and half years, and we liquidated the position that we had due to the fact that the price no longer offered an attractive discount to the future opportunities of the company. After our sale, the shares have continued to appreciate and now trade for \$49.08/share. While today the company is just as great as it has been in the past, the current price of the shares is not as attractive, and the growth potential of the market and competition also make the shares a bit less attractive. We would gladly invest in Garmin again if the opportunity presents itself again at an attractive price.

NOTE: Benjamin R Hacker did not own any shares of Garmin Ltd at the time of this writing. This is not an offer to buy or sell securities. Each individual's investment situation is different, and not all investments are suitable for everyone.