

Garmin (GRMN)

Recommendation: Buy

Recent Price \$59.37

Target Price \$60.76

Industry: Communication Equipment

Analyst: Jennifer Traynor

Report Date: 5/2/2007

Highlights

- Large-cap growth stock with a market cap of \$11.68 billion.
- Garmin has the number one GPS market share of 50% in the U.S. and the number two GPS market share in Europe of 16.7%
- Consumer demand for GPS products will continue to increase as technology improves and produces new and innovative products.
- High historical ROIC, ranging from 39.4% to 47%, which is significantly higher than its 11% WACC.
- Garmin's revenue is likely to grow 35% per year for the next five years.
- Target price of \$60.76, is based on a P/E multiple valuation using a P/E of 19.6.
- The major risks that could cause Garmin not continue on its positive trajectory are: decreasing profit margin, sustainable revenue growth and increasing competition.

Key Statistics and Ratios

Garmin has been consistently outperforming the communication equipment industry and the S&P 500 in ROA, ROE, sales growth, gross margin, and net profit margin in the past five years.

Ratios	Garmin	Industry	S&P 500
ROE - 5Yr. Avg.	30.38%	6.00%	18.21%
ROA - 5Yr. Avg.	25.71%	2.99%	6.84%
Sales - 5Yr. Growth Rate	35.04%	19.82%	13.29%
Gross Margin - 5Yr. Avg.	52.46%	45.71%	44.32%
Net Profit Margin - 5Yr. Avg.	29.39	4.59	12.31
P/E Ratio	23.06	25.25	20.65
EPS - 5Yr. Growth Rate	35.04%	37.33%	22.21%
Dividend Yield - 5Yr. Avg.	0.01%	0.41%	1.85%

Company Overview

Garmin Ltd. designs, manufactures and markets portable, fix-mount and hand held Global Positioning Systems (GPS) devices. The company's stock is currently trading on the NASDAQ. It operates in four segments: mobile/automotive, marine, aviation, and

recreational. Products include automotive navigation systems with map information, GPS enabled sonar depth finders for recreational boating and fishing, aviation systems, and GPS enabled cellular phone software. Garmin has the number one GPS market share of 50% in the U.S and the number two GPS market share of 16.7% in Europe and is currently attempting to increase their market share in Asia by opening two manufacturing plants, both over 230,000 square feet. Garmin products sell in approximately 100 countries and are distributed through a network of about three thousand independent dealers. According to an S&P 500 report, Garmin's top management believes that its marine, automotive, recreational, and aviation product lines will continue to drive their sales and revenue in the future. Garmin has partnered with companies such as Honda, XM Satellite Radio, and MSN Direct to offer innovative and competitive products. In November 2006, Garmin acquired Dynastream Innovations, a Canadian company specializing in the field of personal monitoring technology. In January, Garmin acquired Digital Cyclone, Inc., which provides personalized weather intelligence for wireless devices, and EME TecSat, which is a third-party map developing company that uses Garmin's technology. Also, Garmin recently announced that it will be sponsoring a NASCAR team, has made agreements with many rental car companies to use Garmin products, entered into an agreement with Honda Europe to begin using Garmin products, and aired its first ever Super Bowl commercial this year.

Industry Analysis

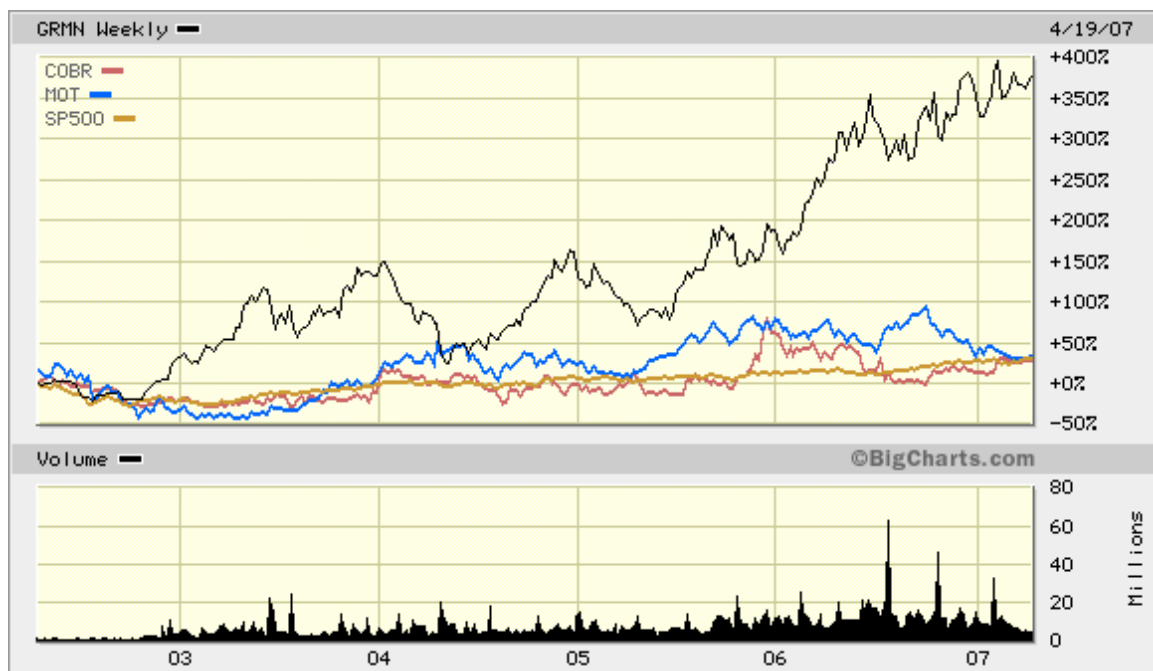
The demand for consumer electronics is going to be driven by advances in GPS technology. According to research report released April 9 by the Consumer Electronics Association, consumer interest in GPS technology is increasing dramatically. Consumers are wanting the latest and greatest technology that is available. As GPS technology improves each year, providing new and improved products, consumers are going to be demanding these products. GPS devices will continue to gain popularity as old technologies fade and new technologies enter the market. The CEA report also states that only 18 percent of online consumers own GPS devices. However, nearly 24 percent of online consumers are expected to purchase a GPS device within the next year, spending on average \$410. This means that sales could reach \$4.1 billion in 2007. Assuming Garmin maintains its number one GPS market share in the United States of 50%, the company will possibly see an increase of \$2 billion in sales.

Valuation

Using a DCF model, Garmin's current per share intrinsic value is \$71.42, which is \$12.05 above the current price of \$59.37. This price was forecasted assuming 35% sales growth for the first five years, tapering down to 17% in 2016 and implementing a 7% horizon value growth rate. The model includes a WACC of 11% (S&P 500 reports). The assumptions underlying the DCF model are intended to be modest. First, analysts five year sales growth forecast is 36.9%, 1.9% higher than the growth rate used in the model. Second, the COGS was set slightly above the previous five year average to account for the possibility of Garmin experiencing a reduction in profit margins. Garmin's target price of \$60.76 is based on a P/E multiple valuation using a P/E of 19.6, which are lower than the industry average. I defaulted to the P/E multiples valuation as the final target price as it was the more conservative valuation estimate (compared to the DCF estimate).

Financial Health

Garmin has experienced strong growth over the last five years. Last year alone, Garmin's sales grew 72.6% and I have forecasted them to have a growth rate of 35% for the next five years. This growth rate has been drawn on the assumption that Garmin's penetration into the market and the new innovative products that it produces will continue to drive up sales. Garmin also has a strong ROIC. Historically, it has ranged from 36.5% to 47% which is significantly higher than the 11% WACC. Based on the assumptions that Garmin will continue to have high sales growth that contributes to tangible free cash flows, this trend is forecasted to continue for as long as the next ten years. ROIC is forecasted to be 40% and above for the next six years. After that, it will taper down to 28.2% in 2016. Garmin has outperformed the industry and the S&P 500 in sales growth on average over the last five years. Garmin's five year sales growth average of 35.04% is 19.2% higher than the industry average and 23.6% higher than the S&P. Below is Garmin compared to the S&P 500, Cobra, and Motorola.



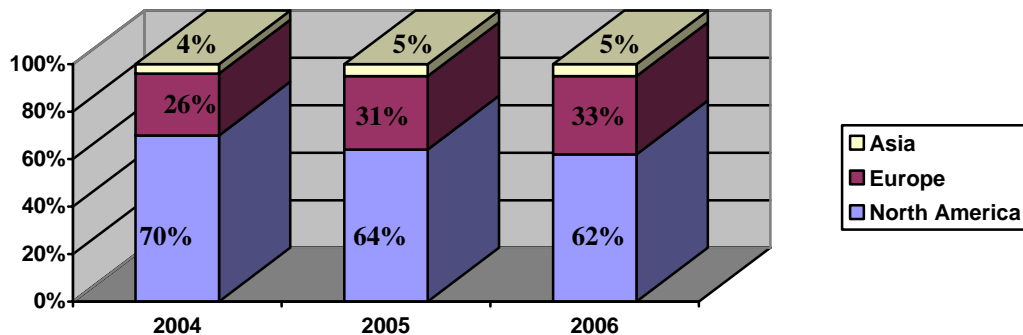
Source: BigCharts.com

Garmin has also outperformed the industry and the S&P in net profit margin. Garmin's five year net profit margin of 29.39% is 24.8% higher than the industry average and 17.08% higher than the S&P. Using the assumptions made in the DCF model, Garmin's forecasted P/E ratios for the next five years are: 20.72, 17.01, 13.88, 11.24, and 9.43. Garmin has said that they expect revenue to exceed \$2.5 billion and EPS to exceed \$2.70 in 2007. Garmin has also been steadily increasing EPS over the last five years by an average of 39.9% each year and is forecasted to continue this growth.

Profitability and Cash Flows

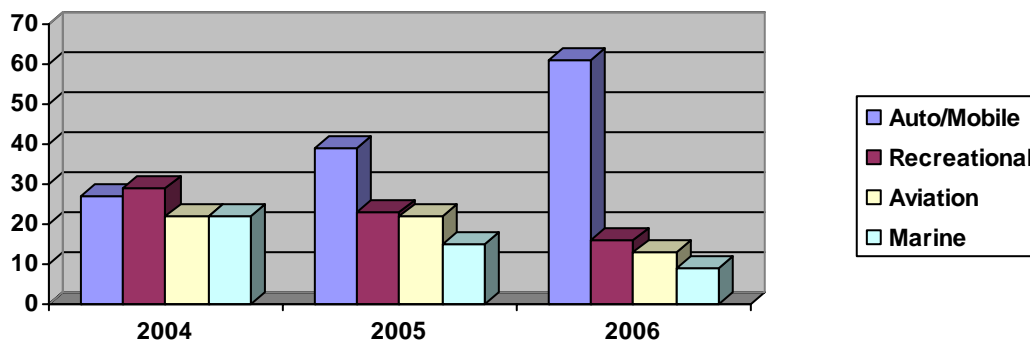
Garmin's revenue can be broken down into three geography areas and four product segments. As you can see, Garmin has increased its market share of GPS devices in both

Europe and Asia. The decrease in the U.S. market it not considered too threatening to the company’s profitability because the still have a much higher percentage of the GPS market than any of its competitors.



Revenue by geography

Garmin has been steadily increasing its revenues in the auto/mobile segment. The other segments have decreased slightly. However, with the new products that Garmin has currently brought to the market, it is hoping to regain popularity in those segments again. According to a news release on February 14, 2007 by Garmin, top management anticipates aviation revenue to increase by 20%, marine revenues to increase 20%, recreational to increase 20%, and auto/mobile to increase 50% in 2007.



Revenue by segment

Garmin’s five year gross margin average is 52.46%, 6.75% above the industry five year average. Garmin has increased free cash flows three out of the last four years from \$39 million in 2003 to \$212 million years in 2006. Garmin is forecasted to continue this trend, with FCF reaching as high as \$1,243 million in 2016 (if all model assumptions hold – see spreadsheet analysis included at the end of this report). Garmin’s MVA in 2006 was \$13,992.7 million with an EVA of \$366 million. Assuming Garmin’s ability to continue to produce a high ROIC above the WACC, MVA is forecasted to increase for the next three years to \$15,150.82 million and taper down to \$2,188.63 million in 2016. EVA is forecasted to increase each year for the next ten years from \$513 million to \$3,582 million in 2016. If Garmin is able to achieve these numbers, they will be consistently creating wealth for the company which would increase shareholder’s equity.

Products

Garmin developed over 70 new products and brought them to the market during 2006. The GPSMAP 496 is an aviation GPS product that offers airport diagrams, navigation, traffic, weather, terrain, preloaded maps, and entertainment information. The Edge 305 with cadence and heart rate is one of the products geared toward athletes and fitness devotees. The Edge 305 includes a self-calibrating wireless speed/cadence sensor, a wireless heart rate monitor, plus a barometric altimeter. The Garmin nüvi 680 is the first portable GPS navigation device to incorporate MSN Direct services. These services include local traffic reports, local gas prices, current weather conditions and forecasts, and local movie times. These new products will be able to be sold at a higher margin because they are the first of their kind to the market. If demand is high, as predicted by the top management in the Feb. 14 news release, Garmin will realize a large profit and will increase sales growth. Garmin is currently working on the GRC 10 which a handheld remote designed specifically for the GDL 69A, a remote sensor that receives broadcasting from XM weather and satellite radio. The company also currently announced the additions to the nüvi product line. Nüvi 200, nüvi 250, and nüvi 270 are all entry level GPS navigation devices designed for you vehicle that offer the benefits of a top of the line in-dash system at a lower cost.

Recently Released Products	
nüvi 680	Released to the market in early 2007
GPSMAP 496	Released to the market in December 2006
Edge 305	Released to the market in June 2006
Products in the Pipeline	
GRC 10	Anticipated to be released in June 2007
nüvi 200, 250, 270	Anticipated to be released later in April 2007

Research and Development

Garmin spent \$113.31M to Research and Development (R&D) in 2006 and is forecasted to allocate 7.3% of their sales to R&D compared to 2% by TomTom, one of its leading competitors. This is where Garmin earns its competitive edge. By focusing on R&D, Garmin was able to penetrate the market with 70 products in 2006. They have designed the first portable GPS navigation device to incorporate MSN Direct, a cellular phone software application that delivers an array of tools and health tips to the consumer, and the world's first aviation GPS receivers to be fully certified to FAA TSO-C129, Class A1 standards. To get this certification by the Federal Aviation Administration, Garmin had to have the minimal standards of an en route, terminal, and non-precision approach (except localizer, localizer directional aid (LDA), and simplified directional facility (SDF)) navigation capability.

Risks

Garmin's does face some risks that may cause them to under perform. One is competition. As GPS devices gain in popularity, other companies have entered that market to share in the profitability. These companies are also offering their products at prices much lower than Garmin. However, Garmin has been anticipating this competition and has worked on offering products at a lower price by reducing costs associated with production. Also, they bring new products with the newest technology to the market as quickly as possible. According to James Peters, CFA, this is where Garmin has a competitive advantage because the engineering and manufacturing process are vertically integrated which reduces product introduction lead times. By lowering costs to stay competitive with the market, there is a risk that Garmin will see a decline in margins. Garmin plans on facing this problem mainly by obtaining yield improvements and cost reductions in manufacturing of current products and incorporating innovative features in their new products that can be sold at a higher price.

Management

Garmin's top management all have held multiple positions within the company. Many worked their way up to the positions that they hold now. They are dedicated to the company and this is reflected in the success Garmin is experiencing. The experience of the management team in the GPS market is a strong positive factor in Garmin's success.

Garmin Management	
<u>Min H. Kao</u> Chairman of the Board Aug. '05 Chief Executive Officer Aug. '02 President Jan. '99	<u>Clifton A. Pemble</u> Director of Garmin Ltd. Aug. '04 Director of Dynastream Inn. Dec. '06 Director of Engineering '03-'05
<u>Kevin S. Rauchman</u> Chief Financial Officer Aug. '00 Treasurer of Garmin Ltd. Aug. '00 Director of Finance of Garmin Int. Jan. '99	<u>Gary V. Kelley</u> Vice President of Marketing '05 Director of Marketing '92-'05 Director of Garmin Ltd. '93-'04
<u>Andrew R. Etkind</u> General Council Aug. '00 Secretary of Garmin Ltd. Aug. '00 General Counsel of Garmin Int. Feb. '98	<u>Brian J. Pokorny</u> Vice President of Operations '05 Director of Operations '97-'05 Production Planning Manager '95-'97

Recommendation

I am rating Garmin a BUY, based on a target price of \$60.76 FY07, above average sales growth, sustainable ROIC above the WACC, and new and innovative technology. Also, based on the DCF model and the P/E multiples valuation model, Garmin is currently undervalued at a price of \$59.37. According to analysts, interest in GPS technology is expected to increase. Consumers are going to keep coming back to buy the latest and greatest technology. Garmin has been able to sustain the number one GPS market share despite increasing competition. Revenues have been increasing for the past five years and Garmin is looking to increase revenues in Europe and Asia.

Year-by-year growth revenue	35%	35%	35%	35%	35.00%	30.00%	25.00%	20.00%	18.00%	17.00%
Forecasted Income Statements -- 10 Years										
year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total revenue	2,394.9	3,233.1	4,364.7	5,892.4	7,954.7	10,341.1	12,926.3	15,511.6	18,303.7	21,415.3
Cost of goods sold	1,149.6	1,551.9	2,095.1	2,828.3	3,818.2	4,963.7	6,204.6	7,445.6	8,785.8	10,279.4
Gross profit	1,245.3	1,681.2	2,269.6	3,064.0	4,136.4	5,377.4	6,721.7	8,066.0	9,517.9	11,136.0
SG&A	261.2	352.7	476.1	642.7	867.7	1,128.0	1,409.9	1,691.9	1,996.5	2,335.9
Research & Development	173.8	234.7	316.8	427.7	577.4	750.6	938.2	1,125.9	1,328.5	1,554.4
Depreciation/Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense (income), operating	0.0	0.1	0.1	0.2	0.2	0.0	0.2	0.2	0.4	0.1
Non-recurring expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	810.3	1,093.8	1,476.7	1,993.4	2,691.3	3,498.8	4,373.4	5,248.0	6,192.6	7,245.7
Interest income (expense), non-operating	28.6	38.6	52.1	70.4	95.0	123.5	154.4	185.3	218.7	255.8
Gain (loss) on sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income, net	(4.4)	(5.9)	(8.0)	(10.8)	(14.6)	(18.9)	(23.7)	(28.4)	(33.5)	(39.2)
Income before tax	834.5	1,126.5	1,520.9	2,053.0	2,771.7	3,603.4	4,504.1	5,404.9	6,377.7	7,462.3
Income tax	153.8	207.6	280.3	378.4	510.9	664.2	830.2	996.3	1,175.6	1,375.5
Income after tax	680.7	918.8	1,240.5	1,674.6	2,260.8	2,939.2	3,673.9	4,408.6	5,202.1	6,086.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
U.S. GAAP adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income before extraordinary items	680.7	918.8	1,240.5	1,674.6	2,260.8	2,939.2	3,673.9	4,408.6	5,202.1	6,086.8
Extraordinary items, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income after extraordinary items	680.7	918.8	1,240.5	1,674.6	2,260.8	2,939.2	3,673.9	4,408.6	5,202.1	6,086.8
Total adjustments to net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic weighted average shares	216.7	216.9	217.1	217.3	217.5	217.8	218.0	218.2	218.4	218.6
Basic EPS excluding extraordinary items	3.1	4.2	5.7	7.7	10.4	13.5	16.9	20.2	23.8	27.8
Basic EPS including extraordinary items	3.1	4.2	5.7	7.7	10.4	13.5	16.9	20.2	23.8	27.8
Diluted weighted average shares	214.5	210.2	206.0	201.9	197.8	193.9	190.0	186.2	182.5	178.8
Diluted EPS excluding extraordinary items	3.2	4.4	6.0	8.3	11.4	15.2	19.3	23.7	28.5	34.0
Diluted EPS including extraordinary items	3.2	4.4	6.0	8.3	11.4	15.2	19.3	23.7	28.5	34.0
Dividends per share -- common stock		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	680.7	918.8	1,240.5	1,674.6	2,260.8	2,939.2	3,673.9	4,408.6	5,202.1	6,086.8

Forecasted Balance Sheets -- 10 Years										
year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets										
Cash & equivalents	428	540	835	1,236	1,775	2,721	4,876	6,490	9,363	12,849
Short term investments	168	226	306	412	557	724	905	1,086	1,281	1,499
Receivable, total	387	522	705	952	1,285	1,671	2,089	2,506	2,958	3,460
Inventory, total	404	545	736	993	1,341	1,744	2,179	2,615	3,086	3,611
Prepaid expenses	45	61	83	112	151	196	245	294	347	405
Other current assets, total	99	133	180	243	328	427	533	640	755	884
Total Current Assets	1,531	2,028	2,844	3,949	5,437	7,482	10,827	13,631	17,790	22,708
Property, plant and equipment (net)	423	571	771	1,042	1,406	1,828	2,285	2,742	3,235	3,785
Goodwill	0	0	0	0	0	0	0	0	0	0
Intangible	0	146	198	267	360	468	585	702	828	969
Long term investments	108	146	198	267	360	468	585	702	828	969
Notes receivable -- long term	710	958	1,293	1,746	2,357	3,065	3,831	4,597	5,424	6,346
Other long term assets, total	23	31	42	57	77	100	125	150	177	207
Other assets, total	0	0	0	0	0	0	0	0	0	0
Total Assets	2,795	3,882	5,347	7,327	9,998	13,410	18,238	22,524	28,283	34,986
Liabilities and Shareholders' Equity										
Accounts Payable	161	217	293	395	534	694	867	1,041	1,228	1,437
Payable/accrued	0	0	0	0	0	0	0	0	0	0
Accrued expenses	145	195	263	356	480	624	780	936	1,105	1,292
Notes payable/short term debt	0	0	0	0	0	0	0	0	0	0
Current portion of LT debt/Capital leases	0	0	0	0	0	0	0	0	0	0
Other current liabilities	159	214	289	391	527	685	857	1,028	1,213	1,419
Total Current Liabilities	464	626	845	1,141	1,541	2,003	2,504	3,005	3,545	4,148
Long term debt, total	0	2	1	2	2	1	2	3	4	1
Deferred income tax	13	17	23	31	42	55	68	82	97	113
Minority interest	0	0	0	0	0	0	0	0	0	0
Other liabilities, total	0	0	0	0	0	0	0	0	0	0
Total Liabilities	477	645	869	1,175	1,585	2,058	2,574	3,090	3,647	4,262
Preferred stock (redeemable)	0	0	0	0	0	0	0	0	0	0
Preferred stock (unredeemable)	0	0	0	0	0	0	0	0	0	0
Common Stock	1	1	1	1	1	1	1	1	1	1
Additional paid-in-capital	83	83	83	83	83	83	83	83	83	83
Retained earnings (accumulated deficit)	2,234	3,152	4,393	6,068	8,328	11,268	14,941	19,350	24,552	30,639
Treasury Stock	0	0	0	0	0	0	0	0	0	0
ESOP Debt Guarantee	0	0	0	0	0	0	0	0	0	0
Other equity, total	0	0	0	0	0	0	0	0	0	0
Total Shareholders' Equity	2,648	3,595	4,866	6,571	8,861	11,831	15,549	19,983	25,224	31,374
Total Liabilities and Shareholders Equity	2,795	3,882	5,347	7,327	9,998	13,410	17,600	22,524	28,283	34,986
Total common shares (diluted)	214	210	206	202	198	194	190	186	182	179
Total preferred shares outstanding	0	0	0	0	0	0	0	0	0	0
AFN (interactive with 3 items below)	0	0	(0)	(0)	0	0	0	0	(0)	0
Adjustment to LT Debt	0	1	(1)	1	(0)	(1)	1	1	1	(4)
Buy Back Common Stock to Fund AFN	330	358	388	419	448	478	523	549	588	651
Set Balance Sheet Cash Lower to Fund AFN	428	540	835	1,236	1,775	2,721	4,876	6,490	9,363	12,849

GRMN

values in millions (except per share items)

Historical Ratios and Valuation Model						Forecasted Ratios and Valuation Model -- 10 Years									
year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liquidity															
Current	5.83	5.17	3.61	4.10	3.46	3.30	3.24	3.36	3.46	3.53	3.74	4.32	4.54	5.02	5.47
Quick	5.12	4.24	2.73	3.08	2.66	2.43	2.37	2.49	2.59	2.66	2.86	3.45	3.67	4.15	4.60
Net Working Capital to Total Assets	0.56	0.51	0.41	0.44	0.44	0.38	0.36	0.37	0.38	0.39	0.41	0.46	0.47	0.50	0.53
Asset Management															
Days Sales Outstanding	45.73	52.69	52.71	60.73	83.02	58.98	58.98	58.98	58.98	58.98	58.98	58.98	58.98	58.98	58.98
Inventory Turnover	8.09	5.92	4.92	5.14	6.55	5.93	5.93	5.93	5.93	5.93	5.93	5.93	5.93	5.93	5.93
Fixed Asset Turnover	6.25	5.47	4.44	5.74	7.07	5.66	5.66	5.66	5.66	5.66	5.66	5.66	5.66	5.66	5.66
Total Asset Turnover	0.66	0.67	0.68	0.75	0.94	0.86	0.83	0.82	0.80	0.80	0.77	0.71	0.69	0.65	0.61
Debt Management															
Long-Term Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Debt to Total Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Times Interest Earned	N/A	N/A	N/A	N/A	N/A										
Profitability															
Gross Profit Margin	54.8%	57.7%	53.9%	52.1%	49.7%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%
Operating Profit Margin	38.1%	39.6%	35.5%	32.4%	31.3%	33.8%	33.8%	33.8%	33.8%	33.8%	33.8%	33.8%	33.8%	33.8%	33.8%
Net After-Tax Profit Margin	30.7%	31.7%	27.0%	29.7%	29.0%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%	28.4%
Total Assets Turnover	0.66	0.67	0.68	0.75	0.94	0.86	0.83	0.82	0.80	0.80	0.77	0.71	0.69	0.65	0.61
Return on Assets	20.2%	21.2%	18.4%	22.4%	27.1%	24.4%	23.2%	23.2%	22.9%	22.6%	21.9%	20.1%	19.6%	18.4%	17.4%
Equity Multiplier	1.11	1.16	1.25	1.20	1.16	1.06	1.08	1.10	1.12	1.13	1.13	1.17	1.13	1.12	1.12
Return on Equity	22.4%	24.5%	22.9%	26.9%	31.4%	25.7%	25.6%	25.5%	25.5%	25.5%	24.8%	23.6%	22.1%	20.6%	19.4%
EPS (using diluted shares and excluding extraordinary items)	0.66	0.83	0.94	1.40	2.35	3.17	4.37	6.02	8.30	11.43	15.16	19.34	23.68	28.51	34.04
DPS (dividends per share)	0.00	0.25	0.25	0.25	0.00										

A	B	C	D	E	F										
Valuation Metrics Trend Analysis (NOPAT, EVA, MVA, FCF and Capital in millions)						Forecasted Valuation Metrics -- 10 Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NOPAT (net operating profit after tax)	139	180	218	277	480	661	892	1,205	1,626	2,195	2,854	3,567	4,281	5,051	5,910
ROIC (return on invested capital)	39.4%	36.5%	37.5%	36.8%	47.0%	49.4%	50.5%	48.3%	46.8%	45.8%	42.9%	36.5%	34.6%	31.0%	28.2%
EVA (economic value added)	100	125	154	194	366	513	696	928	1,241	1,663	2,116	2,481	2,907	3,241	3,582
FCF (free cash flow)	N/A	39	130	106	212	344	462	480	645	873	1,002	431	1,685	1,118	1,243
Weighted Average Cost of Capital					11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%
Net Operating Working Capital (NOWC)	277	388	410	573	769	914	1,196	1,720	2,431	3,388	4,818	7,497	9,635	13,074	17,191
Operating Long Term Assets	74	105	172	179	251	423	571	771	1,042	1,406	1,828	2,285	2,742	3,235	3,785
Total Operating Capital	352	493	581	752	1,020	1,337	1,767	2,491	3,472	4,794	6,646	9,782	12,377	16,310	20,976

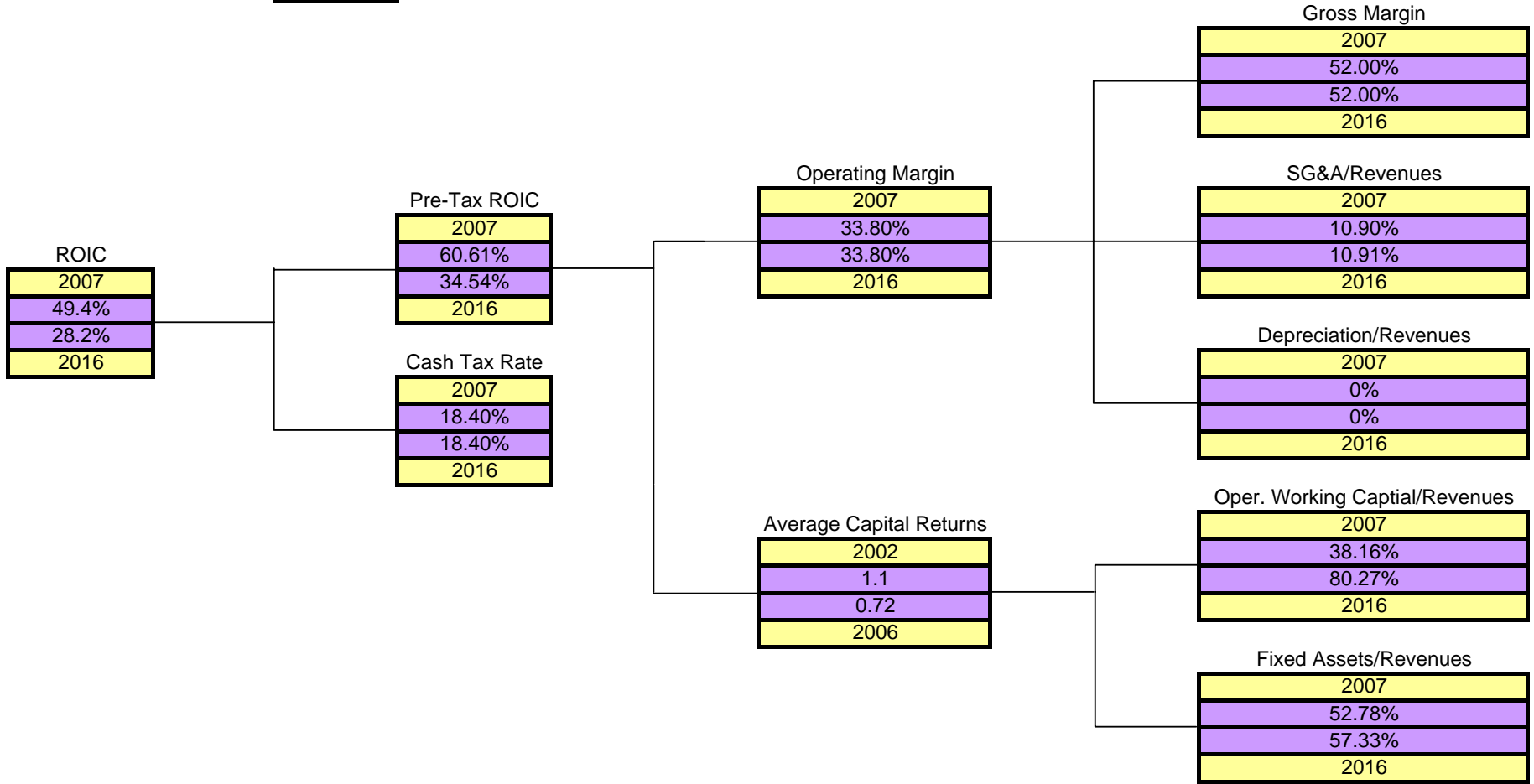
Valuation (in millions where appropriate) - through year 2016												2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Long-term Horizon Growth Rate (user-supplied)												7.00%										
PV of forecasted FCF, discounted at 11.1%												\$ 15,630	\$ 17,021	\$ 18,449	\$ 20,016	\$ 21,593	\$ 23,116	\$ 24,680	\$ 26,988	\$ 28,299	\$ 30,321	\$ 33,563
Value of Non-Operating Assets												\$ 410	\$ 596	\$ 766	\$ 1,141	\$ 1,648	\$ 2,332	\$ 3,445	\$ 5,781	\$ 7,576	\$ 10,644	\$ 14,348
Total Intrinsic Value of the Firm												\$ 16,041	\$ 17,617	\$ 19,215	\$ 21,157	\$ 23,241	\$ 25,448	\$ 28,125	\$ 32,769	\$ 35,874	\$ 40,966	\$ 47,911
Intrinsic Market Value of the Equity												\$ 16,021	\$ 17,617	\$ 19,213	\$ 21,156	\$ 23,239	\$ 25,446	\$ 28,124	\$ 32,767	\$ 35,872	\$ 40,961	\$ 47,910
Per Share Intrinsic Value of the Firm												\$ 71.42	\$ 79.36	\$ 87.77	\$ 97.18	\$ 106.97	\$ 116.85	\$ 127.30	\$ 142.05	\$ 151.99	\$ 166.18	\$ 188
MVA (market value added)												\$ 13,992.71	\$ 14,373.15	\$ 14,853.99	\$ 15,150.82	\$ 15,022.23	\$ 14,255.21	\$ 12,849.45	\$ 11,439.21	\$ 8,315.41	\$ 5,096.78	\$ 2,188.63

Weighted Average Cost of Capital Calculation				
Item	Value	Percent	Cost	Weight Cost
ST Debt (from most recent balance sheet)	0	0.00%	7.00%	0.00%
LT Debt (from most recent balance sheet)	0	0.00%	8.50%	0.00%
MV Equity	191,420	100.00%	11.00%	11.00%
Weighted Average Cost of Capital				11.00%

Capital Asset Pricing Model	
Risk Free Rate	4.80%
Beta	1.17
Market Risk Prem.	7.00%
Cost of Equity	12.99%

Forecasted ROIC: Decomposition and Drivers

Firm Ticker: **GRMN**



GRMN

Piotroski's Financial Fitness Evaluator

	Value	Score	Rationale
Net Income	514	1	Score 1 point for positive net income.
Free Cash Flow	212	1	Score 1 point for positive free cash flow.
ROA (% change NI/%change TA)	1.43	1	Score 1 point if % increase in NI > % increase in total assets.
Earnings Quality (EBIT/NI)	1.08	1	Score 1 point if EBIT > NI
Total Assets to Total Liabilities	5.59	1	Score 1 point if % increase in TA > % increase in TL
Working Capital (Current Ratio)	-0.64	0	Award 1 point if Current Ratio at least is as large as last year.
% Change Shares Outstanding (Diluted)	0.28%	1	Award 1 point if total dilluted shares increased by less than 2%.
Gross Margin	-2.40%	0	Award 1 point if gross margin increased last year.
Asset Turnover (% change sales/%change assets)	1.49	1	Award 1 point if sales increased faster than total assets
Total Liabilities to EBITDA	0.61	1	Award 1 point if ratio is less 5.0.
Total Liabilities to Operating Cash Flow (EBIT)	0.61	1	Award 1 point if ratio is less than 4.0.
Total Score (11 = maximum)		9	