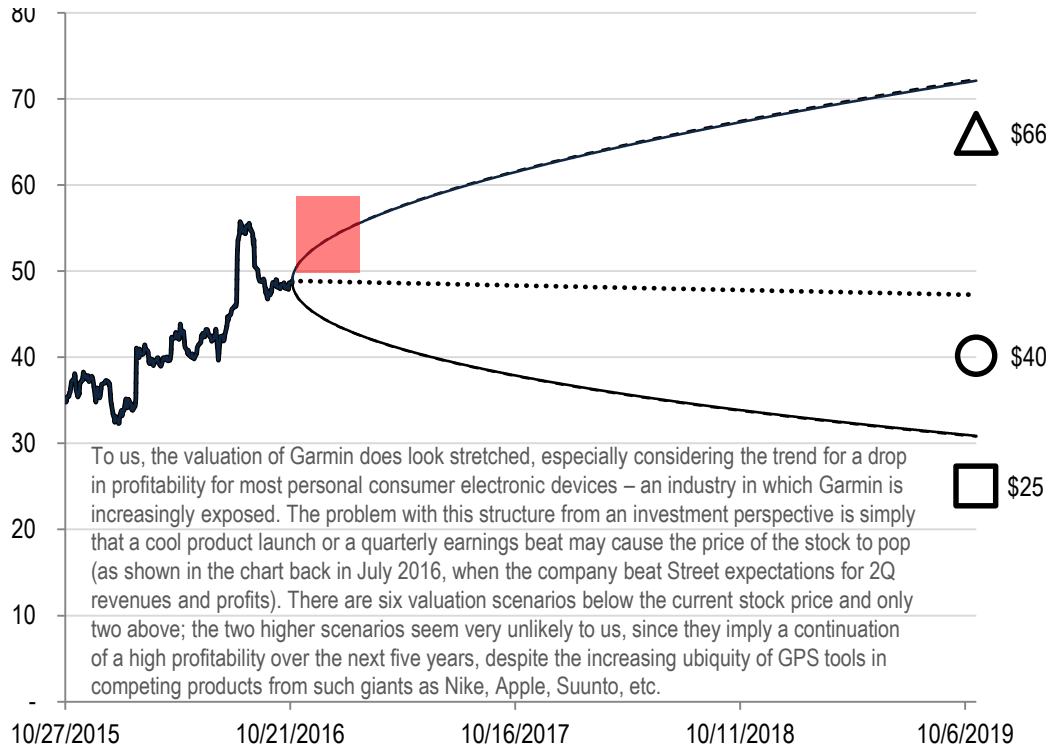


| B / S | P / C / S | Strike | Exp. | Premium |
|-------------------|-----------|--------|------------|----------|
| Sell | Call | 50.00 | JAN 20 '17 | \$1.91 |
| Buy | Call | 57.50 | JAN 20 '17 | (\$0.22) |
| Short Call Spread | | | JAN 20 '17 | \$1.69 |

IOI Tear Sheet : Garmin (GRMN)

Bearish Call Spread (Low Conviction)

Data as of 27 October 2016



To us, the valuation of Garmin does look stretched, especially considering the trend for a drop in profitability for most personal consumer electronic devices – an industry in which Garmin is increasingly exposed. The problem with this structure from an investment perspective is simply that a cool product launch or a quarterly earnings beat may cause the price of the stock to pop (as shown in the chart back in July 2016, when the company beat Street expectations for 2Q revenues and profits). There are six valuation scenarios below the current stock price and only two above; the two higher scenarios seem very unlikely to us, since they imply a continuation of a high profitability over the next five years, despite the increasing ubiquity of GPS tools in competing products from such giants as Nike, Apple, Suunto, etc.

IOI's Take

Garmin pioneered the widespread retail use of GPS in cars. The business boomed as automakers included GPS tools in new cars and many consumers bought after-market GPS units. As mobile phones began to incorporate GPS functionality, Garmin's auto market began the process of rapid decline. At the same time, GPS-enabled fitness watches' growth exploded. Garmin's revenues appear stagnant but declining auto sales are offsetting large fitness increases. Profitability has fallen for most of its products and the profit drop is starting for the fitness segment as well. Value depends on entrance of strong competitors and low-priced products.

Drivers

| | |
|--------------------------------|--|
| S-T Revenue Growth | Fitness product sales are quick, offsetting weakness in Autos. Outdoor/Fitness now largest, fastest growing sgmnt. Proj: +7% (Best), +3% (Worst) |
| S-T Profitability | Fitness profitability dropping, likely due to increased competition. Proj: +22% (B), +15% (W) |
| Investment Level / Eff. | 15% of OCP spent on Investments, more lately. Mid-2000s investments destroyed value. Proj (med-term growth): +7% (B), -5% (W) |

Balance Sheet None found.

Valuation & Return

Valuation Uncertainty: Medium

| | Low | Likely | High |
|---------------------------------|-----|--------|------|
| Stock Fair Value (\$) | 26 | 42 | 57 |
| Stock Return (%) | -50 | -19 | 10 |
| Option Period Return (%) | 23 | 23 | -100 |
| Option Annual Return (%) | 139 | 139 | -100 |

Historical Metrics

| | Historical Median | |
|--------------------|-------------------|---------|
| | 5-year | 10-year |
| Revenue Growth (%) | -1 | -2 |
| Profit Margin (%) | 21 | 22 |
| Med-term Growth | -4% | -16% |

Market Risk

Short-term market / price risk will center on new product releases and on Garmin's revenues and profits returning to growth after escaping the overhang of the auto business. We're willing to take this risk longer term.

