Garmin Ltd. (GRMN) CEO Cliff Pemble on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Slides

EPS of $1.27 beats by $0.30 | Revenue of $934.38M (15.35% Y/Y) beats by $65.36M

Earning Call Audio

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Garmin Ltd. (NASDAQ:GRMN) Q3 2019 Earnings Conference Call October 30, 2019 10:30 AM ET

Company Participants

Teri Seck - Head of Investor Relations

Cliff Pemble - President & Chief Executive Officer

Doug Boessen - Chief Financial Officer & Treasurer

Conference Call Participants

Charlie Anderson - Dougherty & Company

Robert Spingarn - Credit Suisse

Ben Bollin - Cleveland Research

Paul Chung - JPMorgan

Nick Todorov - Longbow Research

Ivan Feinseth - Tigress Financial Partners

Erik Woodring - Morgan Stanley

Robert Spingarn - Credit Suisse

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Garmin Limited Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today Teri Seck, Head of Investor Relations. Please go ahead.

Teri Seck

Good morning. We would like to welcome you to Garmin Limited's third quarter 2019 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 transcript will also be available on our website.

This earnings call includes projections and other forward-looking statements regarding Garmin Limited and its business. Any statements regarding our future financial position, revenues, earnings, gross and operating margins, and future dividends, market shares, product introductions, 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 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.

Cliff Pemble

Thanks, Teri and good morning, everyone. Earlier today, Garmin reported another strong quarter of revenue growth up 15% to $934 million. Aviation, fitness, outdoor and marine collectively increased 24% and contributed 85% of total revenues.

Gross margin improved to 60.7%. Revenue growth and expanding margins resulted in significant operating leverage in the business. Operating income increased 33% year-over-year to $261 million and operating margin expanded to 28%. This resulted in GAAP EPS of $1.19 and pro forma EPS of $1.27 in the quarter.

We are pleased with our performance in the first three quarters of 2019 and these strong results give us confidence to raise our full year guidance, which I'll explain in a moment. Doug will discuss our financial results in greater detail in a few minutes. But first I'd like to provide a few brief remarks on the performance of our business segments.

Starting with the Aviation segment. Revenue increased 28% driven by growth in both OEM and aftermarket systems. Gross and operating margins remained strong at 74% and 35%, respectively resulting in operating income growth of 30% over the prior year.

Growth in OEM systems was driven primarily by the recent certification of a Citation Longitude featuring our G5000 integrated flight deck. However, the strength was broad-based as other aircraft platforms also contributed to the growth.

Growth in aftermarket systems was driven by strong ADS-B sales and the recently certified G5000 integrated flight deck with the Citation XL and XLS. During the quarter the G1000H NXi was certified in the Bell 407GXi helicopter representing the first IFR certification for this advanced helicopter flight deck.

I'd like to highlight this morning's Autoland announcement. This new safety technology is designed to return an aircraft and its passengers safely to the ground in the event a pilot is unable to do so. We believe Autoland is a disruptive new technology that will change the way people think about safety in general aviation aircraft. Autoland will soon be available as part of the G3000 integrated flight deck on the Cirrus Vision Jet and the Piper M600 pending final FAA certification.

Turning next to the fitness segment. Revenue increased 28% primarily driven by growth in wearables and contributions from Tacx. Gross and operating margins were 52% and 20%, respectively resulting in operating income growth of 33% over the prior year.

At IFA, which is Europe's leading consumer electronics trade show we now a sweeping update to our line of consumer wearable products including new versions of the vívoactive series in two sizes, the vÍvomove 3 hybrid smartwatch series and the all-new Venu smartwatch featuring a brilliant AMOLED color touchscreen display, comprehensive health and fitness features and long battery life. We also announced the Tacx NEO 2T smart trainer featuring enhanced drive design and performance analytics to simulate an outdoor ride as realistically and quietly as possible.

Turning next to the outdoor segment. Revenue increased 23% on a year-over-year basis with growth in multiple product categories led by adventure smartwatches. Gross and operating margins improved year-over-year to 66% and 41% respectively resulting in strong operating income growth for the segment. At the recent UTMB trail running event, we launched the fenix six adventure smartwatch series with larger displays and innovative performance features.

We also introduced the fenix 6X Pro Solar, the first of its kind with our exclusive solar harvesting technology. We have often mentioned that inReach technology has been a growth driver for the outdoor segment and that was definitely the case in this most recent quarter.

I'm pleased to report that inReach recently passed a significant milestone facilitating over 4,000 SOS incidents, since its launch in 2011 demonstrating the crucial importance of satellite-based 2-way messaging wherever our customers need assistance. We believe inReach has room to grow in the future as more people recognize its potential to change outcomes and save lives.

Turning next to the marine segment. Revenue increased 9% as we saw solid sales across multiple product categories led by chartplotters. Gross and operating margins improved year-over-year to 60% and 19% respectively resulting in strong operating income growth for the segment.

During the quarter, we were named Manufacturer of the Year by the National Marine Electronics Association for the fifth consecutive year reflecting the strength of our innovative products and our leading market position. We were also named the exclusive marine electronics provider by both Regulator Marine and Sea Hunt solidifying our leadership in the premier center console boats market.

Looking finally at the auto segment, revenue decreased 17% primarily driven by declines in our OEM business and the ongoing PND market contraction. Our global market share position in the PND category remains very strong. Gross and operating margins improved year-over-year to 48% and 15% respectively resulting in operating income growth of 39%. During the quarter, we began shipping the Overlander all-in-one navigation device, which is the new product category designed for the growing community of overland adventure enthusiasts.

So in summary, we're very pleased with the results in the first three quarters of 2019. Given this strong performance, we're raising our projected full year revenue to approximately $3.65 billion. We're maintaining our full year gross margin at approximately 59.5% and raising our full year operating margin to approximately 24.3%. We're also updating our full year pro forma effective tax rate to approximately 16%, resulting in pro forma earnings per share of approximately $4.15.

So looking quickly at guidance by segment, we've increased growth expectations for aviation to 20%, fitness to 16% and the outdoor segment to 11%. Guidance for the auto and the marine segments are unchanged.

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

Doug Boessen

Thanks, Cliff. Good morning everyone. I'll begin by reviewing our third quarter financial results some comments on the balance sheet, cash flow statement and taxes. We posted third quarter revenue of $934 million, representing 15% increase year-over-year. Gross margin was 60.7%, 130 basis point increase from the prior year.

Operating expense as a percentage of sales was 32.7%, a 240 basis point decrease from the prior year. Operating income was $261 million, a 33% increase year-over-year. Operating margin was 28%, a 380 basis point increase from the prior year. Our GAAP EPS was $1.19 and our pro forma EPS was $1.27, a 27% increase from the prior year.

Next, we'll look at third quarter revenue by segment. We achieved record third quarter revenue of $934 million. Consolidated revenue grew 15%, led by solid double-digit growth in our aviation, fitness and outdoor segments. Also, marine segment had solid growth of 9% during the quarter. On a combined basis, aviation, fitness, outdoor and marine were up 24% compared to the prior year quarter.

Looking next at third quarter revenue and operating income. On a combined basis, aviation, fitness, outdoor and marine segments contributed 85% of total revenue in third quarter 2019 compared to 80% in the prior year quarter. Aviation grew from 18% to 20%, fitness grew from 24% to 26% and outdoor grew from 26% to 28%.

You can see from the chart to illustrate our profit mix by segment. Combined basis, the aviation, fitness, outdoor and marine segments delivered 92% operating income in the third quarter of 2019 and 2018. All five segments had strong year-over-year increases and operating income dollars improved operating margins.

Looking next at operating expenses. Our third quarter operating expenses increased by $21 million or 7%. As a percentage of sales, operating expenses were 32.7% in the third quarter of 2019, 240 basis decrease in the comparable quarter last year. Research and development increased $10 million year-over-year due to investments and engineering resources.

Our advertising expense was up $2 million from the prior year quarter, due to higher outdoor and fitness expenses, partially offset by lower expenses in the auto segment. SG&A was up $10 million from the prior year quarter, but decreased as a percentage of sales.

Increase was primarily due to personnel-related expenses incremental costs associated with recent acquisitions. A few highlights on the balance sheet and cash flow statement. We ended the quarter with cash and marketable securities of approximately $2.5 billion.

Accounts receivable decreased sequentially due to seasonal trends and increased year-over-year to $558 million due to strong third quarter sales. Inventory balance increased sequentially to $750 million prepared for the seasonally strong fourth quarter.

The year-over-year increase is due to timing of new products, acquisition of tax and efforts increase date of supply to support our increasingly diversified product lines. During the third quarter 2019, we generated free cash flow of $158 million.

During third quarter of 2019, we report an effective tax rate of 11.6% compared to effective tax rate of 8.5% in the prior year quarter. Increase in effective tax rate is primarily due to lower income tax reserve releases in the third quarter of 2019. Also, we've updated our guidance for the full year pro forma effective tax rate to approximately 16%.

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

Question-and-Answer Session

Operator

[Operator Instructions] And our first question coming from the line of Charlie Anderson with Dougherty & Company. Your line is open.

Charlie Anderson

Yeah. Thanks for taking my questions and my congrats on a really strong quarter and outlook. Cliff, I want to start with aviation. You mentioned some of the strength in OEM. I wonder if maybe you could just sort of speak to the pipeline of opportunity there, sort of the order book as we think about ADS-B will cycle down at some point and the ability of OEM to potentially offset some of that cycling down? And then, I've got a follow up.

Cliff Pemble

Okay. Good morning, Charlie. Yes. In terms of OEM, as reported last quarter in the GAMA results, General Aviation Manufacturers Association, there's been strength across the categories of business jets that were on, as well as strength in the piston aircraft, particularly addressing the training market. So that's driving continued momentum into Q3 and beyond.

We see those opportunities as ongoing, because particularly in the training market the need for pilots is very acute and the demand for aircraft trainers is high. In terms of ADS-B and its impact, it's definitely a growth driver for us. But even absent that particular category, we saw strong growth in the business. We're gaining confidence that going forward the cockpit modernization efforts that we're seeing across the fleet and demand for new aircraft should lead to positive results for the segment.

Charlie Anderson

Great. And then, for my follow up, I think, wearables business is doing very well for you right now. I wonder if maybe you could speak to what you're seeing in terms of unit growth versus ASP increases as you moved up market here and the trajectory of continued ASP increases in the future from your standpoint? Thanks.

Cliff Pemble

Yeah. We're definitely seeing unit growth in the business. So the market is expanding and we're taking share as people recognize the value of our solutions and the capability of our products. We do see some ASP benefits as well as we introduce higher end products like the fenix six line with unique features as well as MARQ, so there's a positive impact there as well.

Charlie Anderson

Great. Thanks so much.

Cliff Pemble

Thank you.

Operator

And our next question is coming from the line of Robert Spingarn with Credit Suisse. Your line is open.

Robert Spingarn

Hi. Good morning.

Cliff Pemble

Good morning.

Robert Spingarn

Really just strong numbers across-the-board and particularly on the operating margin. I wanted to ask you Doug, you talked about the various categories in your slide number 16. And while these are maybe moving around on an absolute basis, they seem to be fairly low historically on a percentage of sales basis. And I was wondering if you could talk to the trends there? R&D is a bit lower than it's been. It sounds like maybe we back end that a little bit and then the other two categories as well. How sustainable is this level of overhead?

Doug Boessen

Yes. Sure. It's great. So I'll give you a little bit of perspective on our operating structure and you said between our advertising SG&A and R&D. So thinking about it on a full year basis as a percentage of sales, what we're thinking about as it relates to advertising, we anticipate advertising as a percentage of sales to be relatively flat year-over-year.

So with that, we will be spending more advertising dollars this Q4 than we did last Q4. And that's primarily a function of just having new product launches. So we will be very targeted in our advertising depending upon what those product launches are.

As it relates to SG&A, thinking about SG&A full year percentage of sales anticipate that to be relatively flat year-over-year also. What we have in there is a piece of that is due to acquisitions. The other piece of it is just general a merit other type of inflational type of increases we have in SG&A.

Thinking about R&D, as a full year percentage of sales, we would -- right now we look at that probably about 50 basis points lower than this year than last year. From a dollar standpoint, there will be an increase. The situation there is that we are capitalizing some of our R&D expenses. There are certain auto OEM contracts that include contractual guarantees for reimbursements of R&D expenses.

So in those cases R&D expense are capitalized they're put on the balance sheet until that cash is received from our OEM receipt. And I should say the expense structure that -- depending upon what kind of different product launches we have, and kind of advertising some of that will fluctuate quarter-over-quarter. But right now, we're getting some nice leverage due to our sales also.

Robert Spingarn

I was going to ask you if you look at the non-auto R&D, are you at a point here where that decreases over time as a percentage of sales? Like you just said on scale you're at some kind of a critical mass where it doesn't have to track at this point with the growth in sales.

Doug Boessen

I really think it's a function of that top line sales we have. So here's what I would say. We'll continue to invest in R&D, as we continue to have new products over a period of time, and some of those we will invest before the products come in that situation, but we'll continue to invest appropriately to support our diversified line of products over a period of time as we go through.

Robert Spingarn

Okay. And then just quickly Cliff for you. I wanted to ask about M&A. And I often focused on capital deployment. There's a couple of things out there. I just wondered if you could comment on them. The possibility out in the last 24 hours that Google could be looking at Fitbit, and how that might change the dynamics in the industry? And then also at the same time I think United Technologies has talked about, or maybe in some kind of a situation where it may have to sell GPS navigation business as part of its upcoming transaction with Raytheon. Can you comment on your interest in those types of properties?

Cliff Pemble

Yes. So we've seen the speculation obviously around Fitbit and Google. It's really hard to say what we can think about that without any kind of formal announcement and whether or not it's even a real thing.

We believe that Fitbit's customer base is very different from ours and our product focus is also different. So it's not something that we believe impacts us and we're not worried about it.

In terms of other opportunities, we look at every opportunity basically in terms of what it can bring to Garmin both in terms of technology or product lines. So we would evaluate any of those opportunities based on that and what we can achieve with it going forward.

Robert Spingarn

Would military be of interest since it really hasn't been a big historical focus for you?

Cliff Pemble

I think generally the military and defense is an area of interest and potential growth for us. We've been focused on adapting our off the shelf products into those opportunities rather than doing full custom bid development, kind of, work. So those are the opportunities we're mostly focused on.

Robert Spingarn

Right. Thank you both.

Cliff Pemble

Yeah. Thank you, Robert.

Operator

Our next question is coming from the line of Ben Bollin with Cleveland Research. Your line is open.

Ben Bollin

Good morning, everyone. Appreciate you taking my question. Could we start -- within fitness and outdoor, could you walk us through a little bit where you think you are in the rollout of new products? It still looks like there's some expanded lead times. Where do you think you are in channel inventory, supply, overall tightness as far as raw materials? And then I have a follow-up.

Cliff Pemble

Yeah. So in terms of product introductions, we're mostly set for the remainder of the year. So we have a very strong lineup going into Q4. With any new product announcement, ramping up is always a challenge for any company. So we're in the process of doing that and that's part of the inventory situation with us as well as we build inventory to build these products and deliver them during the fourth quarter.

Ben Bollin

Second one. Looking at inventory, you continue to expand the SKU count. Is there a way to think about what is normal for inventory into the future? And then within the new product launches themselves, are there any particular pieces parts that you have not been able to source, or you're having any yield issues, anything of significance that would extend availability into next year?

Cliff Pemble

Yeah. So definitely we are taking a different approach to some of these markets by offering unique kinds of products, especially appealing to people who want to differentiate themselves rather than wearing the same kind of product. So that does lead to higher SKUs. It does lead to higher levels of inventory and that's something that we use as a tool in the business.

We've seen some normalization of these amounts because we're focused on safety stock in the inventory and reducing risk, making sure that we can deliver the products that we want to deliver to the market especially during the selling season.

So in terms of yields and things like that, I mean -- again like I mentioned as new products ramp there are initial challenges, but our factory is working very hard and the product is flowing to the market.

Ben Bollin

And the last question I have is as it relates to automotive, any update on the timing of the BMW China opportunity or the broader BMW Tier 1 status? And when does the company begin to make some of the investments either in new facilities or greater headcount as you support that big or long-term opportunity as a Tier 1 vendor? Thank you.

Cliff Pemble

Yeah. So the China opportunity will be ramping up starting in later 2020 and into the 2021 model year. So that's what we've been preparing for in the first phase of this opportunity with BMW.

In terms of making additional investments for our business that comes after that opportunity we're in that process right now. We've been hiring additional people in the automotive segment to support that business and we're in the process of selecting new sites that will produce the product especially in the European markets.

Ben Bollin

Thank you.

Cliff Pemble

Thank you.

Operator

Our next question is coming from the line of Paul Chung with JPMorgan. Your line is open.

Paul Chung

Hi, guys. Thanks for taking my question. So first off, just on aviation margins, you're seeing a nice step-up in operating margins kind of over the course of the last three years some scale benefits on ADS-B and your core business I assume. So your gross margins have been pretty steady, but if you could kind of expand on what's behind that step-up there? And do you expect that mid-30% range to stand as we look beyond fiscal year 2019? And then can you also kind of help us size the ADS-B opportunity in Europe and the runway there and your kind of expectations for overall demand next year after the deadline in the U.S.? And I have a follow-up. Thanks.

Cliff Pemble

Yes. So in terms of the operating margin in aviation, we're experiencing some solid leverage in the business as the revenues have outpaced our need to grow expenses. I would say that, we would still like to hire more people, engineering people in aviation in order to be able to support ongoing opportunities that are going on there, but we're managing and it is giving us some leverage in the business.

In terms of the expectations for the profit, I mean, at these kinds of investment levels and these kinds of revenues obviously we should be able to be pretty predictable in terms of our operating profit. But as the business changes we'll of course adjust and evaluate. For ADS-B, we're expecting that the opportunity will of course begin to flatten. That's inevitable as we go into the fourth quarter and into next year, but we do see spillover business into next year particularly the first half as shop capacity still remains limited so there's mostly linear output from shops right now, and there's still more aircraft that need to be equipped.

There are new opportunities as you pointed out, so Europe is one of those and also Canada is evaluating their compliance as well. Both of these I would say are interesting to us. But obviously the majority of the aircraft and the opportunities have been in the U.S. based ADS-B but they'll be nice enhancers for the coming years.

Paul Chung

Okay. Thanks. And then on – second question on free cash flow. Looks like you got a bit larger-than-normal inventory drag this quarter and kind of less accounts receivable uplift than usual. You already mentioned, it's a combination of new products and tax probably ahead of seasonally strong 4Q. But just wanted to get your thoughts on free cash flow to kind of end the year should we expect slightly more outsized 4Q than usual? And do you have any estimate on where you think inventory balances will be in 4Q or is it too early days? Thank you.

Doug Boessen

Sure. As it relates to free cash flow for the full year, we would estimate our full year free cash flow to be around $575 million. That includes CapEx estimate for the full year of about $125 million. And regarding inventory, yeah, inventory is up year-over-year Q3, would expect that to be up at year-end compared to year-end last year also. We expect to probably be up around 25% year-over-year due to some of the things that Cliff mentioned just making sure that we do have ample days of supply to support diversified product lines we do have.

Paul Chung

So in that $525 million is that more of a timing of kind of working cap and you expect maybe slightly more normalization in the first half of 2020 or how should we think about that? Thank you.

Doug Boessen

Yeah. So – sorry, $575 million. So its $575 million we anticipate for the full year. So with that as it relates to working capital those are – as it relation to 2020 we'll kind of look at that and get planning cycle for that. But as inventory, we mentioned we do anticipate, there to be some level of inventory that's going to be higher on a year-over-year basis just due to having more inventory to support our ongoing business.

Paul Chung

Thank you.

Operator

Our next question coming from the line of Nick Todorov with Longbow Research. Your line is open.

Nik Todorov

Good morning, guys. Congrats on great results. Really impressive. I have a couple of questions. So the implied 4Q EPS guidance looks soft which is not atypical for you guys. So is that a function of typical conservatism or is there a shift in operating expense dollars from 3Q to 4Q? I think that you talked about maybe increasing – having relatively higher advertising expenses or there's something else that drives that what looks on the front and the headline relative soft 4Q EPS.

Doug Boessen

Yes. As we mentioned, yes, the advertising we would expect those to be higher in the Q4 period of time just to new product launches and such that we'd have there.

Nick Todorov

Okay. And if we can shift gears to fitness, can you provide us some color on the gross margin there, which I was a little bit surprised given the revenue ramp up and the strength there. I understand tax is dilutive here, but is there anything else besides that affecting margins? And can you give us some color on the sell-through of the new products. And specifically, Forerunners, I noticed that they were not highlighted in your remarks and presentation. And I know those were a core part of your portfolio and relatively new here in 2019. And – yes, that's the question there on fitness.

Cliff Pemble

Yes. So we're preparing to be very promotional in fitness in Q4, particularly in the advanced wellness products that are more of the consumer variety that are sold through the mass market outlet, so we're prepared for that. And in terms of specifics on product lines, definitely our new products have done very well.

There's a lot of interest and excitement around those. The Forerunners have been doing very well and the sell-through is meeting our expectations, so we have no concerns there.

Nick Todorov

Okay. And lastly, Doug just a follow up and clarification on the free cash flow. So it seems like you brought down the CapEx plan from $150 million to $125 million. Yet free cash flow it seems is also going down. Is the delta coming up just from higher working capital headwind?

Doug Boessen

Yes. Correct. Our working capital is what that headwind is that's causing the overall free cash flow to come down just increased inventory, as well as you will see the receivables up year-over-year. That's just a function of having higher sales but it's really a function of working capital, primarily in the inventory we talked about.

Nick Todorov

Okay. Got it. Thanks guys. Good luck.

Cliff Pemble

Thank you.

Operator

Our next question is coming from the line of Ivan Feinseth with Tigress Financial Partners. Your line is open.

Ivan Feinseth

Thank you for taking my call and a big congratulations on another great quarter.

Cliff Pemble

Thanks, Ivan.

Ivan Feinseth

And congratulations on the launch of this new Autoland. Can you give us some idea of what the incremental cost is added to a plane?

Cliff Pemble

I think it's something that gets sold through the OEM provider. So in many cases on these more advanced aircraft that we're targeting they contain the systems that are needed to be able to do the function, particularly like auto throttle, although there are some additional control elements that are needed. But in general, that's something that will be sold through and priced on their end.

Ivan Feinseth

And is this only available as a build into a brand-new plane, or can existing planes or will eventually existing planes be able to get this upgrade?

Cliff Pemble

There is a significant amount of complexity that goes along with the system. And so building it into the aircraft at design and production of new aircraft is the best way to do that. It's technically possible to bring it into other aircraft but I think that's something we have to evaluate on a case-by-case basis.

Ivan Feinseth

And so it's available in two planes right now, right, the Piper and the Cirrus? Did you work with both or either of those two companies in the development of this?

Cliff Pemble

Yes. So the Cirrus SF50 and the Piper M600 are the first two platforms. We have been working with both manufacturers to implement and certify the system. And they are in the final process of the aircraft level certification for the function and should be a feature then that they would offer in their 2020 model years.

Ivan Feinseth

And you're going to be this will be available do you have any kind of exclusive deal with these two -- you're going to be able to work with other manufacturers integrate this as well, right?

Cliff Pemble

Yes. It's definitely something that can be offered as part of our G3000 systems. And even beyond we can do the G5000 as well. But it's something that's part of our core technology offerings for Garmin.

Ivan Feinseth

All right. Congratulations again. Thank you.

Cliff Pemble

Thanks, Ivan.

Operator

Our next question is coming from the line of Erik Woodring with Morgan Stanley. Your line is open.

Erik Woodring

Hey good morning guys. Congrats on quarter here. So I just want to get back to the aviation segment for a second. I know that in the past, we've talked about kind of this 100,000 to 150,000 aircraft runway for ADS-B upgrades. As – through the beginning of October we're kind of past that 100,000 threshold. So at the low end of this -- of the range you would imply, we're kind of through ADS-B at the high end. It implies, we could have up to five more quarters of kind of strong ADS-B growth.

And obviously the implications for the model are huge because there's other retrofit work that can be done. So I'm just curious from your perspective how we should be thinking about the ADS-B runway going forward, as we kind of head into 2020 thinking obviously about the January deadline?

Cliff Pemble

Yes. I think, it's probably somewhere in between the two scenarios you outlined. Definitely as you pointed out, we have reached the low bar if you will on the number of aircraft that we'd equip. There's probably still an additional 25% of the fleet that remains in question in terms of what kind of equipment they would select or if they even equip or if aircrafts are retired which is also a scenario that's playing out for some kinds of aircraft. But we do think that the reality lies somewhere in between and we're planning on continued activity into the first half of 2020.

Erik Woodring

Okay. That's helpful. Thanks. And then if we just shift to kind of outdoor and fitness. Obviously, huge product launches this quarter. Just curious if you could give any color on kind of what percentage of growth was a result of the new product launches available for the last month of the quarter versus legacy products that were available for call it the entirety of the quarter?

Cliff Pemble

Yes. Outdoor was probably the one that was most impacted by product announcements within the quarter with the Fenix 6, so it did have a very positive impact on the outdoor segment. In general in fitness our new products that we introduced the running products in Q2 as well as the new activity trackers in Q3 also had a positive impact on the quarter.

Erik Woodring

And is there any way that you could detail or just break out kind of one if tax is performing in line with expectations? And then two, kind of what percent of fitness tax is it still kind of contributing half of the growth this year that you expected more less? Just any color there would be great? Thanks.

Cliff Pemble

Yes. So tax is meeting our expectations so they're right in line with what we expected. The growth of the other categories was better than we expected. So it meant that for the quarter the majority of our growth was actually organic within the segment but still tax met its expectations.

Erik Woodring

Thanks.

Operator

And our next question is coming from the line of Robert Spingarn with Credit Suisse. Your line is open.

Robert Spingarn

Hi, just want to come back on ADS-B a little bit. And I hear what you're saying Cliff about the eventual fate that we're all trying to time. But one thing that, we learned from United Technologies earlier this earnings season was they are probably running at about 4 times to 5 times their maintenance level of sales on ADS-B.

They are somewhere between $250 million and $300 million. And I think they said the normal numbers around $60 million to $70 million. I just wanted to see if you're seeing the same kind of magnitude? I understand that you're targeting to some extent smaller aircraft or much higher volumes of smaller aircraft. But is there any context you can give us regarding this? Because obviously we're all very focused on what the fate looks like in terms of quantifiable numbers?

Cliff Pemble

Yes. So definitely there is difference as you pointed out in the business models between the two companies and -- so I think some of the multiplier that you mentioned could be due to that. I would say that for us again, if we subtracted the impact of the ADS-B we still had very strong growth in our aftermarket business.

And I attribute that to the fact that we have got great products and some of them don't even have anything to do with ADS-B such as our autopilot systems for example and also our aftermarket cockpits for things like the Excel and the XLS.

So the dynamic is a little bit different. There definitely is an argument to be made that as people are motivated to upgrade to ADS-B they're also upgrading the other equipment. And we said that before, it's difficult to quantify how much of that is interrelated. And there is quite a bit of cockpit equipment that needs modernization. Many cockpits are decades old and the equipment now that is offered in the market is compelling and allows people to upgrade their aircrafts into newer safer, more reliable equipment. So we see that dynamic continuing even when ADS-B peaks and fades.

Robert Spingarn

Okay. And then just sticking with aviation while I'm still here, why do you get an idea how we should think about the OE side. You talked about it earlier. In earlier question you talked about the ramp, you've got the longitude here. And I think you made some positive comments about the OE side. From where we sit we see a very flattish overall OE market that is driven in some part probably for Garmin on new introductions.

But overall, unit volumes are fairly flat. And I would say there's not a lot of increase in demand. But in the context of that, I wanted to get a sense of how small that business is relative for you to the overall aviation business, given how strong your aftermarket and retrofit components are? In other words, should we worry too much about the OE side if it is indeed flat?

Cliff Pemble

Well, I feel like our OEM business is actually targeting the sweet spot of where aviation is right now. The -- as I mentioned in other questions, the trainer market is something that will see continued demand for several years to come as the pilot shortage is reckoned with in the industry, and as there's significant demand for trainer aircraft to train these pilots.

And then, the class of aircraft that we're on is kind of the midsized business jet on down. And so, again that's where this is kind of a sweet spot right now, particularly in this economy as these tend to be -- tend to tilt more towards owner flown or the fractional areas which has been a very strong area for us.

So, we see continued opportunity in the OE side. You asked the question about how significant, is it relative to the overall segment. And as we remarked in the past, the segment is roughly split evenly between retrofit and OEM. So, OEM is definitely a strong influencer in our business, and we see opportunities going forward that will continue.

Robert Spingarn

Is there a reasonable way to split OEM into its varied components, whether it's piston versus jet along those lines or trying your aircraft versus trainers?

Cliff Pemble

Yeah. I think if you look at the public information that's available for the industry through GAMA, they detail that out pretty well, but we have a strong market share across all of those platforms.

Robert Spingarn

So, you would track those numbers?

Cliff Pemble

We do track those numbers, yes.

Robert Spingarn

Okay. Thanks so much.

Cliff Pemble

Yes, thank you so much.

Operator

And our next question is coming from the line of Nick Todorov with Longbow Research. Your line is open.

Nick Todorov

Just a few follow-ups. One on auto line, it sounds like it's a product that -- it has a little bit more heavy on the software side. Is that correct, A?

And if it's correct how should we think about the margin contribution to the overall aviation segment? I'm assuming that should be accretive, but are you willing to provide any color on that? Thanks.

Cliff Pemble

I think in terms of margin percentage, we don't see any impact from that. We see this as an opportunity to provide additional content onto the aircraft platform which in turn leads to profit dollars. So, that's our view.

Nick Todorov

Okay. And quickly on Fenix. I know it's pretty early Cliff, but can you give us some sense on how you sell-through relative to your expectations? And specifically are you willing to talk about mix within Fenix or would suggest that you're seeing some benefit from customers mixing up and buying higher end Fenix watches. So, if you can give us any color there that would be helpful. Thanks.

Cliff Pemble

Yes. We are pleased with the sell-through and we're working very hard to deliver on the backlog that we have in that product. We are seeing people step-up to the higher end versions particularly the larger Fenix 6X and interest in 6X Pro Solar is also very strong. So, there's a lot of positives in the Fenix line that are driving our business.

Nick Todorov

Thanks.

Cliff Pemble

Yes, thank you.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back over to Teri Seck for closing remarks.

Teri Seck

Thank you everyone. As usual Doug and I will be available for callbacks throughout the day. Have a good one. Bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may all disconnect. Everyone, have a great day.