

**THE WALL STREET
JOURNAL.****September 16, 2007 Sunday 7:39 PM EST****Will cellphones give Garmin competition?****BYLINE:** Herb Greenberg, MarketWatch <mailto:hgreenberg@marketwatch.com>.

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SAN DIEGO (MarketWatch) -- The trick for growth companies is trying to figure out when the growth is about to end. That little exercise is more of an art than a science, and has stung more than its share of investors who have either held on too long only to watch the stock price fall, or made a prematurely bearish bet against a company's rising fortunes.

There is no better example of this than Garmin Ltd. (GRMN) , best known for its global-positioning systems and portable navigation devices. For more than a year, the company has confounded critics who thought it was vulnerable to competition and falling prices, which it is. Or should be.

But so far, in the face of rapidly falling prices and mushrooming competition, Garmin's performance has continued to set its own course, with its stock more than doubling in the past year. The company is doing so well that six weeks ago, in reporting its last quarter, management boosted earnings and revenue forecasts for this year. "Our products are consistently better, easier to use and have better functionality that is pretty much the secret sauce," says investor-relations director Polly Schwerdt.

So why, in the face of this, would anybody gamble that reality is catching up with Garmin? Well, for one thing, while sales and earnings are forecast to be higher than original expectations, the guidance for operating margin an important measure of how

much money a company really makes was unchanged. And by year's end, margins are expected to fall in the fast-growing auto-mobile sector, which last quarter generated 68.4% of Garmin's revenue.

That should be no surprise: Garmin hasn't been shy about telling investors on its earnings conference calls that prices for personal navigation devices, part of the auto-mobile sector, are falling and will continue to do so. According to market-research firm IDC, this year's average selling price is 30% lower than last year's and 46% below 2005's. Prices are falling so rapidly that Morgan Stanley analyst Aaron Husock believes that with component prices expected to rise, second-half earnings per share will miss analyst estimates.

But that is only part of the story. The other part, which is arguably more compelling, has to do with competition. And not just any competition, but the stealth-like growth of navigation software on cellular telephones, a business that didn't exist several years ago. It was spawned after the government required all cellphones to come equipped with some form of location-determination equipment; that led chip makers, such as Qualcomm Inc. (QCOM), to include global-navigation technology in their chips.

While most U.S. cellphone services offer GPS, none is promoting it more actively than Verizon Communications (VZ), which offers wireless monthly and day-use rates. While not disclosing the number of users, Lee Daniels, vice president for consumer-product development, says, "We wouldn't be putting money into advertising if we weren't getting a return on our investment."

One hint of how well cellphone navigation is doing comes from closely held *Networks in Motion*, which provides navigation software to Verizon and others. This year, it forecasts 3.5 million paid users of cellphone-navigation software from all suppliers, including itself. That is roughly half the projected sales for all portable navigation devices an increase from one million users, and a 20% share, in 2006.

The bigger question is whether cellphone-navigation devices are taking share from portable devices or boosting the entire market. Depends on the type of user, says H.P. Jin, chief executive of TeleNav, which competes with *Networks in Motion*. "Low-usage people will prefer the cellphone," he says. But both he and Doug Antone, CEO of *Networks in Motion*, stop short of saying cellphones will steal significant share from the likes of Garmin. "There will certainly be some of that," Antone says, "but the market is so robust, so dynamic," that for now he believes both sides of the industry will continue to expand.

As for Garmin, Schwerdt says her company believes cellphone navigation is "complimentary and in most cases not a replacement" for portable navigation devices. At least, not yet. The trick for growth investors will be to figure out when, if ever, it will be.



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