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GNTX.OQ - Q3 2025 Gentex Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Gentex third quarter 2025 financial results conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Josh O'Berski, Director of Investor Relations. Please go ahead.

Josh O'Berski - *Gentex Corp - Director, Investor Relations*

Thank you. Good morning, and thank you for joining us today for our third quarter 2025 earnings conference call. I'm Josh O'Berski, Gentex's Director of Investor Relations. And with me today are Steve Downing, President and CEO; Neil Boehm, COO and CTO; and Kevin Nash, Vice President of Finance and CFO. Please note that a replay of this conference call webcast along with edited transcripts will be available following the call on the Investors section of our website at ir.gentex.com.

As a reminder, many of the statements made during today's call are forward-looking statements that reflect our current expectations. These statements are subject to a number of risks and uncertainties, both known and unknown, including those detailed in our second quarter 2025 earnings press release and our annual report on Form 10-K for the year ended December 31, 2024 as well as general economic conditions.

If one or more of these risks or uncertainties materialize or if our underlying assumptions or estimates prove to be incorrect, actual results could differ materially from those expressed or implied in our forward-looking statements.

On a quick programming note, I would also like to call attention to the fact that Gentex will be hosting investor visits at SEMA and in San Francisco and Los Angeles, the week of November 3. If you are interested in attending, please connect with me after this call.

I'll now hand the call over to Steve Downing for our prepared remarks.

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

Thank you, Josh. For the third quarter of 2025, the company reported consolidated net sales of Gentex and VOXX of \$655.2 million, an 8% increase compared to net sales of \$608.5 million in the third quarter of last year, which did not include VOXX. VOXX contributed \$84.9 million of revenue while Core Gentex revenue was \$570.3 million in the third quarter of 2025, which was a 6% decline versus the third quarter of last year. This is in comparison to light vehicle production in the company's primary markets that increased by approximately 2% versus the third quarter of last year.

In terms of regional performance for the third quarter, North American OEM revenue increased approximately 5% quarter-over-quarter, supported by robust production schedules and increased content per vehicle.

In Europe, revenue declined approximately 14% quarter-over-quarter. The decrease was driven by customer-specific production challenges and a weaker regional vehicle mix. In Europe, light vehicle production volumes moved to lower trim level vehicles that do not typically include higher-end Gentex features. In China, revenue totaled approximately \$34 million, down 35% compared to the third quarter of last year. The decline reflects the ongoing impact of tariff and counter tariff actions.

Despite the regional headwinds, Gentex delivered solid results through disciplined execution and incremental contributions from the VOXX acquisition. For the third quarter of 2025, the company's consolidated gross margin was 34.4% compared to a gross margin of 33.5% for the third quarter of last year, which did not include VOXX.

The core Gentex gross margin was 34.9%, representing 140 basis points increase compared to the third quarter of last year. The core gross margin improvement was driven by favorable North American customer and product mix, purchasing cost reduction and continuing operational efficiencies. The ongoing improvement in gross margin reflects the company's disciplined focus on cost control and productivity improvements. However, the gross margin was negatively impacted by approximately 90 basis points due to incremental tariffs in the quarter that were not offset through customers.

Despite the incremental impact of tariffs on our business, the company has improved the overall gross margin to levels not seen in several years. Consolidated operating expenses during the third quarter of 2025 were \$102.8 million compared to operating expenses of \$78.3 million in the third quarter of last year, which did not include VOXX.

The increase was primarily due to the VOXX acquisition, which accounted for \$23.7 million of the increase. Gentex's operating expenses, excluding VOXX, were \$79.2 million in the third quarter of 2025, compared to \$78.3 million during the third quarter of last year. The increase in core Gentex operating expenses included \$1.1 million in acquisition-related costs and Gentex-specific severance expenses.

Consolidated income from operations for the third quarter of 2025 was \$122.3 million compared to income from operations of \$125.7 million for the third quarter of last year, which did not include VOXX.

Gentex's income from operations, excluding VOXX, was \$119.7 million in the third quarter of 2025, representing a 5% decrease versus the third quarter of last year. Total other loss was \$1.8 million during the third quarter of 2025 compared to income of \$19.7 million in the third quarter of last year. The reduction was primarily due to a \$14.9 million gain included in the third quarter of last year related to the fair value adjustment of the company's original investment in VOXX.

During the third quarter of 2025, the company had an effective tax rate of 16.3% compared to an effective tax rate of 15.7% during the third quarter of last year. The quarter-over-quarter change in the effective tax rate was primarily driven by lower tax benefits related to stock-based compensation compared to the third quarter of last year as well as a reduced benefit from the foreign-derived intangible income deduction.

Consolidated net income attributable to Gentex for the third quarter of 2025 was \$101 million, supported by higher overall sales levels, gross margin expansion and cost improvements. Net income in the third quarter of last year was \$122.5 million. The quarter-over-quarter change was primarily due to the onetime gain in the prior period resulting from the fair value adjustment of the company's original investment in VOXX.

Consolidated earnings per diluted share attributable to Gentex for the third quarter of 2025 were \$0.46 compared to earnings per diluted share of \$0.53 for the third quarter of last year, which did not include VOXX. Though VOXX was not consolidated in the third quarter of 2024, earnings per diluted share for that quarter were positively impacted by the onetime gain in the company's original investment in VOXX.

I'll now hand the call over to Kevin for some further financial details.

Kevin Nash - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Kevin Nash VP of Finance, CFO, Treasurer & Chief Accounting Officer

Thanks, Steve. Gentex's automotive net sales were \$558 million in the third quarter of 2025 compared to \$596.5 million in the third quarter of '24. The lower quarter-over-quarter automotive sales were largely the result of lower shipments of auto-dimming mirrors into Europe and China in the third quarter compared to the third quarter of last year. However, the lower unit shipments were partially offset by strong growth and advanced feature mirror sales in North America.

Net sales from Gentex's other product lines, which includes dimmable aircraft windows, fire protection products, medical devices and biometrics were \$12.3 million in the third quarter of '25 compared to \$12 million in the third quarter of '24. VOXX net sales contributed \$84.9 million during the third quarter of '25. The company continues to work through post acquisition transition with a focus on aligning product strategies, optimizing customer relationships and identifying operational synergies across both businesses.

During the third quarter '25, the company repurchased 1 million shares of its common stock at an average price of \$28.18 per share. for a total of \$28.3 million. And year-to-date, the company has repurchased 9.8 million shares for a total of \$230.5 million at an average price of \$23.50 per share. And as of September 30 of '25, the company has approximately 39.6 million shares remaining available for repurchase pursuant to its previously announced share repurchase plan.

Turning to the balance sheet. Our comparisons today are based on September 30, 2025 versus December 31 of '24. Starting with liquidity. Cash and cash equivalents were \$178.6 million, down from \$233.3 million at year-end. This decline was primarily driven by the VOXX acquisition and share repurchases, partially offset by operating cash flow. Short-term and long-term investments totaled \$267.2 million compared to \$369 million at the end of '24. These investments include both fixed income, securities and our equity and cost method holdings.

Accounts receivable stood at \$384.7 million compared to \$295.3 million at year-end. Of that, \$320.4 million was attributable to Gentex and \$64.3 million to VOXX. The increase in Gentex receivables was mainly due to higher sequential sales and the timing of those sales within the quarter.

Inventories totaled \$498.8 million, of which \$386.9 million represented core Gentex inventory, down from \$436.5 million at year-end, largely due to reductions in raw material inventory. The remaining \$111.9 million reflects VOXX inventory. And consolidated accounts payable was \$252 million compared to \$168.3 million at year-end, including \$169.8 million for Gentex and \$82.2 million for VOXX.

Preliminary cash flow from operations for the third quarter was \$146.9 million compared to \$84.7 million in the same period last year, primarily due to changes in working capital. And year-to-date operating cash flow was \$461.6 million, up from \$343.8 million for the first nine months of 2024, also primarily due to changes in working capital compared to the prior period.

CapEx for the third quarter was approximately \$35.6 million versus \$31.8 million last year, bringing year-to-date capital expenditures to \$103.8 million, slightly higher than the \$102.9 million last year. And depreciation and amortization expense for the third quarter was approximately \$25.9 million compared to \$22.9 million in Q3 of '24. And on a year-to-date basis, depreciation and amortization totaled \$78.8 million, up from \$70.9 million in the prior year.

I'll now hand the call over to Neil for a product update.

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Thank you, Kevin. The third quarter of 2025 was another strong launch quarter. In the quarter, over 55% of the launches were advanced interior and exterior auto-dimming mirrors and electronic features. Similar to previous quarters, HomeLink and Full Display Mirror were the primary technology introduced. The launch cadence has been strong over the last several quarters, and I appreciate the team's focus on execution to make them successful.

Full Display Mirror sales continue to be a key performer in Q3. Demand remains strong, and we are confident in our ability to sell 200,000 to 300,000 more units of FDM in 2025 compared to 2024, as we've previously stated. In the face of delayed or canceled EV platform launches, ICE and hybrid applications continue launching with Full Display Mirrors and consumer demand for our feature remains strong.

A few notable FDM launches this quarter include the Ford Bronco, marking the first non-van launch of FDM at Ford. And the continued adoption of FDM in Europe on the DS No. 8 and the Vauxhall Combo. Additionally, we saw the rollout of FDM at Volvo as a dealer-installed accessory available on the majority of their lineup. Customer interest for dimmable sunroofs and visors continues to grow, and our teams have been working incredibly hard to continue moving this product from single unit production into more mass scale capability. As noted in prior calls, this is an incredibly complex and challenging manufacturing process.

To date, we've been utilizing partners to execute part of the process while we get our larger scale production equipment in-house and operational. The target is to have this in-house operation running in late Q1 to early Q2 2026. As with any new product or process launch, there will be challenges. But with the manufacturing capability we have at Gentex, I remain confident in the team's ability to bring this product into the market in the next 1.5 years.

Now for a quick update on driver and in-cabin monitoring product area. We continue to make great progress with our driver monitoring and in-cabin systems and remain on track to launch with three additional customers by the middle of 2026. The acquisition of Guardian Optical Technologies in 2021 set the stage for Gentex to be a premier player within this industry, and we've continued to grow our capabilities since the acquisition.

These systems require substantial integration and coordination with our customers, and our teams have achieved high marks for their progress from our next launch customer. As we mentioned in the press release from this morning, we have been very focused on improvements of the Gentex -- of the core Gentex operating structure over the last two quarters.

We've successfully executed early retirement incentives that were designed to lower operating expenses while not impacting our ability to continue to invest in technologies and products that will propel Gentex forward over the next several years.

Additionally, since the closing of the acquisition of VOXX at the beginning of the second quarter, the teams have been working hard on the consolidation of systems, tools, back-office support, purchasing and logistics. So far, we've made great progress.

As we look into the final quarter of 2025, there will be an even stronger focus on efficiency and optimization with a goal of having most plans implemented in the first half of next year. The VOXX teams have done a great job keeping the business moving in the right direction, and now we'll begin to collaborate deeper to drive longer-term improvements into the operation.

As an innovation-driven technology company, the focus on R&D over the last several years has enabled us to generate a strong pipeline of both automotive and nonautomotive products and technologies. Now we need to keep the focus on the execution of these products and move them forward into production to support our growth objectives.

I'll now hand the call back over to Steve for guidance and closing remarks.

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

Thanks, Neil. The company's light vehicle production forecast for the fourth quarter of 2025 and full years 2025 and 2026 are based on the mid-October 2025 S&P Global Mobility outlook for North America, Europe, Japan, Korea and China. Global light vehicle production for the fourth quarter of 2025 is expected to decline approximately 4% versus the fourth quarter of last year.

Full year 2025 production in the company's primary markets is expected to be down 1%, while production in North America and Europe is projected to fall approximately 2% in 2025 compared to last year. Based on the updated light vehicle production forecast and actual results for the first nine months of 2025, reduced demand in the China market, stemming from recently implemented counter tariffs and the expected incremental sales contribution from the VOXX acquisition, the company is making certain changes to its full year 2025 guidance. The following updated guidance reflects the anticipated impact of all known tariffs effective as of October 23 and can also be found in our press release from this morning.

Consolidated revenue for 2025, including VOXX, is expected to be in the range of \$2.5 billion and \$2.6 billion. Consolidated gross margin is anticipated to be between 33.5% and 34%. Consolidated operating expenses, excluding severance, are forecasted at \$380 million to \$390 million. The effective tax rate is expected to be 16% to 16.5%. Capital expenditures are projected at \$115 million to \$125 million. Depreciation and amortization is expected to total \$96 million to \$99 million.

The third quarter is best summarized as a continuation of the underlying economic environment of the last 1.5 years. Light vehicle production levels in our primary markets have improved versus previous forecast, but any progress is in contrast to the declining production levels experienced over the past few years. Additionally, the previous two quarters were impacted by mix weakness in Europe, Japan and Korea, as well as continued headwinds in China due to the ongoing tariff environment.

While core Gentex revenue in the third quarter of 2025 was lower compared to last quarter and the third quarter of last year, our strong business discipline and operational focus enabled us to deliver another meaningful improvement in gross margin.

The company's focus on business discipline, expense management and operational improvements has helped improve margins despite incremental tariff headwinds that were not reimbursed during the quarter. As we move into the fourth quarter, our teams will be focused on bringing the same type of improvements to the VOXX organization to ensure the combined entity is structured to support sustainable profitability and create shareholder value.

That completes our prepared comments for today. We can now proceed to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Luke Junk, Baird.

Luke Junk - *Robert W. Baird & Co Inc - Analyst*

Steve, maybe if we could just start with the growth headwinds in Europe. Just trying to tease out how much of that was temporary, I would guess, some JLR-related impacts in the quarter versus things that might be more sticky in terms of true mix. And then as you kind of step into the fourth quarter for the company overall, any incremental trim mix impacts that you might anticipate?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

Yes. I think -- if you look at the temporary impact, that was really probably \$5 million, \$6 million in revenue headwinds from one of the OEM shutdowns in Europe. So pretty minor there. If you look at the rest of it, it's really about mix. And really, what we're talking about is the only real

growth. Most of the CD&E vehicles in Europe during the quarter were down pretty significantly. I think A and B, specifically B, I believe, was the only thing that really grew and that's where the strength was in the European market. And as you know, we struggle a little bit with content or at least the same level of content on those vehicles versus what we see in the CD&E segment.

Luke Junk - *Robert W. Baird & Co Inc - Analyst*

And then into 4Q, other than the temporary piece, anything you'd expect to change in trim mix Europe or, I guess, North America, too?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

No. I would say -- I wouldn't say it would probably be quite as drastic as what we saw in Q3 in terms of trim mix. But definitely, there -- I think with some of the economic challenges in the EU right now, we're definitely seeing a little lighter content than what we have been seeing over the last 18 months to two years. And so some of it, I think, will continue into Q4, but I think Q3 was definitely probably a hair overdone in terms of that -- how much that changed in one quarter.

Luke Junk - *Robert W. Baird & Co Inc - Analyst*

Got it. Gross margin, yes, I appreciate the color on the tariff impact this quarter. Just be curious how you're thinking about approaching recovering those costs into the fourth quarter and ultimately into next year. And in terms of the fourth quarter specifically, is there anything incremental that you'd have a line of sight to in terms of costs that you need to recover?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

No. I think what you're seeing right now, Q2 tariffs, we actually recovered probably 70%, 80% of the tariff costs of Q2 in Q3, and so what you're seeing is a step up in overall tariff from Q2 to Q3. We haven't been reimbursed those yet. We would expect to get most of that reimbursed in Q4, but there's definitely a lag effect as the tariffs have been ramping up over the last few quarters. Unfortunately, there's a lag and how -- when you incur the expense versus when you can recover it.

Luke Junk - *Robert W. Baird & Co Inc - Analyst*

Got it. And then last question for me, just lots of discussion around Nexperia, of course. Just curious to the extent that you have any direct supply chain exposure there, Neil, and then just what you're hearing from customers real-time.

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Yes, absolutely. Yes, Nexperia, there is -- we do have some supply that we utilize from Nexperia. We do have some in-house inventory available. We've got -- unfortunately, if you go back a few years, we've been through this fire drill a few times on finding alternate supply, designing alternates in and doing it in a fast and expeditious way. So we are exercising that muscle again to find alternates and get the solutions moving to minimize any impact.

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

We're not expecting any significant impact in Q4, though.

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

No.

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

At least not from our side. Obviously, OEM exposure could create challenges from other suppliers, but --

Operator

Joseph Spak, UBS.

Joseph Spak - *UBS AG - Analyst*

Maybe to sort of just follow up on some of the European commentary, I know you mentioned sort of the different sort of segment levels, but it also sounds like there's maybe just overall more pressure in that market. And I guess I'm just wondering is in some of those higher segments that you mentioned where you tend to have more content, are you seeing any change in ordering patterns from your customers? Like any consideration to decontent you to maybe make some of those vehicles more affordable? Or is this really just a period where you mentioned AB vehicles really outperform some of those larger vehicles?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

No, Joe, it's definitely both. I mean you're seeing some decontenting on higher-end vehicles as well as OEMs look to try to get overall cost points lower. And obviously, as tariffs have impacted OEMs, they're looking for other creative ways to try to get their cost structure lower. So unfortunately, optional content does become in scope for some of them. I would say it's kind of a mix between both of those, both what the vehicle mix is and segmentation changing and then also some decontenting to avoid -- to help lower cost structure.

Joseph Spak - *UBS AG - Analyst*

Okay. And then just maybe on the implied fourth quarter gross margin. I just want to -- it looks like maybe seasonally, the step down looks a little bit greater, if I'm doing my math right. And I just want to understand what's really sort of considered in that, whether there's still some -- I mean, I know you sort of just talked about some trouble getting reimbursements. Anything considered on like semi tariffs or anything else we should be thinking about?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

No, if you look at the real impact and the step down, it's a couple fold. Number one is as a percent of total revenue, VOXX is going to be higher, which will have a little bit of a head -- put a little bit of a headwind on the overall weighted margin. And then the real big factor in the second half is the lower sales levels that we usually see in Q4, especially around the holidays. And so there's not like any structural changes or anything wrong with the cost structure. We actually think Q4 margin, if revenue were exactly the same, we would expect Q4 from a margin perspective to be very, very similar to Q3.

Joseph Spak - *UBS AG - Analyst*

Maybe just one last quick one. Sorry, if I missed this in the prepared remarks, but is there any update on FDM, especially since I know at least here in the U.S., we're seeing some likely lower demand for EVs. And I think like that was, I'd say, an above-average sort of feature on EVs versus sort of ICE vehicles. And so just how you're thinking about that, especially headed into '26?

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Yes, absolutely. Actually, Q3 was really good growth in FDM again. It's been strong and Q4 still looks really strong. So we -- I think last quarter, Q2 said we'd be 150,000 to 300,000 units above where we were in 2024. And so we just moved that to be 200 to 300 for the end of the year. So we still see us exceeding 2024 numbers by 200,000 to 300,000 units.

Joseph Spak - *UBS AG - Analyst*

Okay. And any preliminary views into next year on that?

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Not really. I mean, there's --

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

We're expecting to continue to grow, though.

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Yes, it's not -- we see growth. Absolutely.

Kevin Nash - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

We'll give formal guidance coming in fourth quarter.

Operator

Josh Nichols, B. Riley.

Josh Nichols - *B. Riley Securities Holdings Inc - Analyst*

Good to see the revenue and margin guidance for the year moving to the upper end of the range despite some of the European headwinds that you talked about. I just want to drill down a little bit into VOXX. We're about two quarters in now. Any updates on like synergy integration and the realization. Are you still on target to achieve those synergy levels that you previously kind of talked about 18 months after the close?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

Yes, absolutely. I think if you look at the first -- through two quarters already, if you look at the overall numbers, it shows in this quarter that we -- that VOXX organization is positive on the net income side and accretive on the EPS side. And so that will be -- that was a little ahead of schedule, quite frankly. In that regard, we know the next couple of quarters, especially, there's a lot of work that has to happen to try to figure out where there's any redundancy or overlap between our two organizations.

We're starting to really make great progress with that organization. And looking forward to what the next 12 to 18 months can look like. But there's no doubt in the overall cash generation side of what we think that business can look like that we don't see any reason why we can't achieve those original targets.

Josh Nichols - *B. Riley Securities Holdings Inc - Analyst*

Yes. And then just one follow-up, looking a little bit further out. Regarding the dimmable sunroofs and visors, you talked about, I think you said you expect to have those in market within 18 months, but operationally running in the first half of next year. What's left to be done in terms of achieving commercial viability for those today to really bring those to market? I'm just curious where you are or what's left to do? I know there's a lot of technicals that go into getting that OEM certified and just want a little bit of an update.

Neil Boehm - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Yes. Those are still some of the bigger challenges, the requirements of taking that technology into automotive and meeting the environmental temperature, all of the above process requirements as well as when you have really large pieces of glass with a darkened surface, it's easy to see small issues in the process that the dimming materials put down. So that's the big part of the Q1 into Q2 of next year as we are getting that capability in-house so that we can get better control on that process quality.

So with those, I think those are some of the biggest hurdles that we still got in front of us. There's a lot of little challenges that we fight every day, but the team has been doing a great job keeping those down and trying to get focus on some of these bigger ones.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan Chase & Co - Analyst*

Is there any update you can provide on the place sort of retail consumer fire protection business? I realize it's only been a few months now in the Home Depot stores, but curious what -- any early feedback might be?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

Yes. I think probably the most telling portion of that has been so far, the consumer feedback has been really good in terms of ease of install, app integration, what that looks like, ease of use. So I mean, that was our big focus right away. Wasn't just the overall sales levels, but the real focus was, hey, really for our first time going direct-to-consumer with something especially that's feature-rich and app-heavy, how do we make -- do we do a good job executing that app and the interaction side.

And so far, I mean, fingers crossed, that all looks like it's going really well in that launch initially. And we never expected necessarily DIY to be a big home run in terms of sales volume. And so the growth over the next couple of years is really going to be focused on how do we get direct to builders, how do you start working on additional channels beyond just big box retail. And so that's where the team is actively focused right now is, first focused on making sure the product was robust and the app was robust.

And then secondly, we got to start focusing and looking at how do we get into additional channels that are, quite frankly, new for us. But one of the things we have going for us in this regard is the -- some of the synergies on the VOXX side of the business. They have a lot more experience than we do in terms of how to market direct-to-consumer these type of products. And so we're working really hard with that team on how do we take advantage of the skill sets that they have to help us with the sales channels of that product.

Ryan Brinkman - JPMorgan Chase & Co - Analyst

Okay. And then just lastly, on the VOXX side, you got one question already about the, I guess, the opportunity from consolidating sort of the Gentex and VOXX people and systems and public company costs. Maybe just remind us of the targets there and of the cadence, too, because it seems like so far, like a lot of the early retirement announcements have been really on the Gentex side. Is that fair to say?

And in terms of the size of the opportunity, is it as simple to just kind of look at the relative difference in the gross margin profile and the operating margin profile of the two businesses and say that, that much can really be achieved? Or how much can you achieve and over what period of time? And what have you achieved so far?

Steven Downing - Gentex Corp - President, Chief Executive Officer, Director

Yes, I'll start with the overall target when we kind of got into this. We believe, given that level of revenue that it was absolutely possible to achieve kind of \$40 million or so in free cash flow off of their business on a per annual basis. And that's still our goal. We've kind of targeted that to be in about 18 months post acquisition. And we still believe we're on the same timetable to make that happen. I'll let Kevin jump in with a few of the -- what we've kind of accomplished already and where we're at currently.

Kevin Nash - Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer

Yes. So if you look at some of the audit costs, I mean, we have reduced that overlap, insurance costs, I mean, you're -- between those two, you're in the low \$2 million to \$3 million a year, plus you have some of the executive team overlap, those team -- they had run off. But they had already accounted for that prior. So that's why I don't see some of the severance expense coming from those things or the transition expense. But all told, we're over \$10 million of annualized savings when you add up all the different things, and we continue to make progress beyond that every quarter.

Operator

James Picariello, BNP Paribas.

Unidentified Participant

This is [Srikanth] on for James. You guys put a pretty great gross margins in the quarter, especially considering some of the headwinds you saw in Europe. So how should we think about that really going to next year? Are these sustainable? Or are there any other puts and takes we should keep in mind?

Steven Downing - Gentex Corp - President, Chief Executive Officer, Director

Yes. I think as we head into next year and like we joke all the time, this is a big fingers cross moment as well. Hopefully, tariffs stabilize from this year going into next year. That would be the one big variable that obviously we can't control and don't really have a lot of insight into other than what's publicly available currently.

The other ones start to become more normal puts and takes. So you got pricing at the beginning of the year to our customer base and then what we can get out of the supply chain. Historically, for us, if we can try to offset or make those offset each other, then we got a really good opportunity to maintain the margin profile. And that's what our current stance is heading into next year is that we believe that if we could get up to this kind of high 34%, 35% range on gross margin leaving this year, that we'd be in really good shape to maintain that heading into next year. And we still believe that what our outlook looks like.

And that obviously factors in, in terms of overall sales levels and some of the things that are a little unpredictable right now in terms of what happens geographically and with our primary customers all over the world. But as we stand here today, we feel like we're in a really good spot that we've executed most of the cost control mechanisms we needed to internally to get to where we had predicted we would end this year at.

And so as we're -- the disciplines there, the efficiencies that we put in place. These are not onetime experiences. I mean these are recurring benefits that we'll see rolling forward. And so if I had to do a way too early version of what the margin will look like next year, I'd say it's really close to where we're at right now.

Unidentified Participant

That's helpful. And then it's nice to see you guys have some good news point to in China. Do you think there's more room for improvement, should the trade situation stabilize a little bit more?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

Yes. I would never say that it couldn't. I would say, right now, as we look at the China market, there's definitely a trend from OEMs there to go with domestic suppliers over international suppliers. And so we're seeing that trend kind of play out longer term. And so we're constantly looking at new products and saying, hey, it's a real market, significant. How do we try to make sure we have the right product offering to be competitive in that space. But I think there'll be a little more headwinds as we head into the next 18 months in the China market. And so we're kind of preparing ourselves for that.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs Group Inc - Analyst*

I was hoping to circle back to the content challenges in trim mix issues that the company was speaking about that you've seen in the European market. I guess, first on that topic, as you think about what you've seen, especially the decontenting element and even in some of those CDE segment vehicles. As you think about that category, are there steps you think Gentex can take to get back to growth over market within Europe even with those -- within those segments? Or is it going to be more a function of you just need the market to recover for that category vehicle?

Steven Downing - *Gentex Corp - President, Chief Executive Officer, Director*

No, there's definitely -- I think there's definitely features. If you look at some of the new technology we've been working on, getting those into the marketplace, in-cabin monitoring, driver monitoring and then longer term, the stuff that Neil is referencing in terms of visors and large area devices, those products, in particular, have ASPs that are well above our current ASP and all have the potential to help us outgrow the marketplace even if it is in a declining market.

And so one of the reasons why you've seen such a focus on higher end tech over the last couple of years is preparing for these types of moments. I mean, I think this one is a little more drastic than even we had anticipated a couple of years ago in terms of the total impact of trade relations and what that's done from a margin compression standpoint for us. And so we're trying to make sure we have the right skills, the right products to make sure that we can find a growth opportunity.

And what we assume to be initially is probably just a flat market but it's actually become more of a declining market than what we even anticipated. And so the team stays really focused, and that's why you see us continuing to double down on the new tech development because that's the only really way to grow in this market currently.

Mark Delaney - Goldman Sachs Group Inc - Analyst

And then just in terms of the breadth of the challenge, I mean, is it one or two OEMs in Europe where you've seen this effect? Or is it kind of a wider range of your customers there have been looking to find savings and you've seen the decontenting?

Steven Downing - Gentex Corp - President, Chief Executive Officer, Director

It's really -- it kind of comes down to a couple of OEMs. I mean everyone's been impacted in terms of -- a lot of OEMs have been impacted in Europe based off their volume and overall trim level, like what they're building and how -- what price point of vehicles they're selling. But the decontenting, I think, is really limited to a couple of OEMs in the European market.

Mark Delaney - Goldman Sachs Group Inc - Analyst

Okay. And then I guess on this topic, kind of assuming on a global perspective, I mean, cost challenges and tariffs, I mean that's not isolated to Europe. And so I'm curious, do you think there's the risk or have you heard anything from customers this kind of thing may happen in Asia or the US? It sounds like it's only been in Europe, but I'm hoping to kind of think about whether this would or would not occur elsewhere?

Steven Downing - Gentex Corp - President, Chief Executive Officer, Director

Yes. I mean, it's possible. I mean it's really -- that becomes more a function of where the vehicles end up, I believe, it's not just limited to European OEMs per se, but they definitely have -- they have more exposure to the overall European end market. I mean if you look at our primary customers in Asia, you're looking really at Honda and Toyota as the bulk of that revenue. And fortunately for us, both of those OEMs have held up very well through all this. And so we continue to find growth opportunities with both those OEMs.

Mark Delaney - Goldman Sachs Group Inc - Analyst

Got it. That's actually my question, nice to see the progress this year with the FDM growth and everything you're working out with the large dimmable area devices, we'll keep an eye on that going forward.

Operator

David Whiston, Morningstar.

David Whiston - Morningstar Inc - Analyst

On guidance, is there any chance of material upside in light of the October 17, the proclamation expanding the parts rebate on US assembly? Or is that pretty much all baked in?

Steven Downing - Gentex Corp - President, Chief Executive Officer, Director

No. I think from a supply standpoint, I don't think it's going to change or impact a whole lot of what you're seeing. I mean if anything, what it does allow us to do, hopefully is it should lessen some of the controversy on tariff recoveries.

David Whiston - Morningstar Inc - Analyst

Okay. And then I guess, could you talk a bit about what's the resistance on FDM for the automakers that haven't yet adopted it? Are they just waiting for future vehicle programs and they know they want to do it? Or are there still some cost or logistical issues beyond that?

Steven Downing - Gentex Corp - President, Chief Executive Officer, Director

Well, you definitely always have the cost side. I mean, that's one that's -- with every OEM that we've been successful with, it's one of the obstacles you have to get past. Beyond that, I think the slow adopters at the beginning were the German OEMs. And I think that was really the only real hold out. If you look at most other OEMs, they had adopted the product to some level. The biggest challenge right now is how do you get it beyond small take rates into more mass market.

And the teams have made some real good progress on that in terms of what does standard equipment look like or close to standard equipment on high-level vehicles and have an optional content on lower-end vehicles. And that's where we're starting to see a lot of the revenue growth come from. It's not just pure number of nameplates you're on. It's more about what are those take rates.

Operator

I'm showing no further questions at this time. I would now like to turn it back to Josh O'Berski for closing remarks.

Josh O'Berski - Gentex Corp - Director, Investor Relations

Thank you, everyone, for your time and questions. We hope you have a great weekend. This concludes our call.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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