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CORPORATE PARTICIPANTS

Josh O'Berski *Gentex Corporation - Director of IR*

Kevin C. Nash *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Neil Boehm *Gentex Corporation - CTO & VP of Engineering*

Steven R. Downing *Gentex Corporation - President & CEO*

CONFERENCE CALL PARTICIPANTS

Aileen Elizabeth Smith *BofA Merrill Lynch, Research Division - Analyst*

Christopher Ralph Van Horn *B. Riley FBR, Inc., Research Division - Analyst*

David Lee Kelley *Jefferies LLC, Research Division - Equity Analyst*

David Whiston *Morningstar Inc., Research Division - Strategist*

James Albert Picariello *KeyBanc Capital Markets Inc., Research Division - Analyst*

Peter Cobos *Broad Bay Capital Management Lp - Senior Analyst*

Ryan J. Brinkman *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Gentex Reports Third Quarter 2019 Financial Results Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to turn the call over to Josh O'Berski. Please go ahead, sir.

Josh O'Berski - *Gentex Corporation - Director of IR*

Thank you. Good morning, and welcome to the Gentex Corporation Third Quarter 2019 Earnings Release Conference Call. I'm Josh O'Berski, Gentex Director of Investor Relations, and I'm joined by Steve Downing, President and CEO; Kevin Nash, Vice President of Finance and CFO; and Neil Boehm, Vice President of Engineering and CTO.

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This conference call contains forward-looking information within the meaning of the Gentex safe harbor statement included in the Gentex Reports Third Quarter 2019 Financial Results press release from earlier this morning and as always, shown on the Gentex website. Your participation in this conference call implies consent to these terms.

Now I'll turn the call over to Steve Downing, who will give the third quarter of 2019 financial summary. Steve?

Steven R. Downing - *Gentex Corporation - President & CEO*

Thank you, Josh. For the third quarter of 2019, the company reported net sales of $477.8 million, which was an increase of 4% compared to net sales of $460.3 million in the third quarter of 2018.

The 4% growth was accomplished despite global light vehicle production declining approximately 3% in the third quarter of 2019 when compared to the third quarter of 2018.

The actual global light vehicle production levels also worsened in excess of 3% for the third quarter of 2019 when compared to IHS Markit's mid-July forecast. For much of the year, actual light vehicle production levels have fallen well short of estimates and this trend unfortunately continued in the third quarter of 2019.

The lower-than-expected vehicle production was despite the fact that the third quarter of 2019 had easier comparisons than last year. Additionally, the GM strike limited sales by 2% in the quarter. Our total growth rate of 4% means that we effectively outperformed our underlying markets by 7% to 9% during the third quarter of 2019.

For the third quarter of 2019, the gross margin was 37.7%, which improved when compared with a gross margin of 37.6% for the third quarter of 2018.

The gross margin in the third quarter of 2019 was negatively impacted by tariffs that in total represented 110 basis points of headwind.

On a quarter-over-quarter basis, the tariff impact on the gross margin for the third quarter of 2019 was 50 basis points higher than the tariff impact in the third quarter of 2018.

In total, the gross margin in the third quarter of 2019 improved 10 basis points versus the same quarter last year, despite the fact that the impact of tariffs created a 50 basis point headwind on gross margin versus last year.

The gross margin performance was driven by a mid-single-digit growth rate, positive product mix, better-than-expected purchasing cost reductions, and the team's success in mitigating some of the escalating costs related to tariffs that have been impacting the company.

Operating expenses during the third quarter of 2019 were up 15% to $52.2 million when compared to operating expenses of $45.6 million in the third quarter of 2018. Operating expenses ran slightly ahead of our expectations for the third quarter of 2019, but we believe the fourth quarter will be more in line with the growth rates from the first half of 2019 and within our annual guidance range.

The increases in operating expense in the quarter were driven by headcount and other resources required to fund development and launch of new products; travel and other resources associated with mitigation of tariffs; increased legal and professional fees associated with a minor acquisition of new technology; and our ongoing focus on tax planning.

Income from operations for the third quarter of 2019 increased 1% to $128.1 million when compared to income from operations of $127.4 million for the third quarter of 2018.

Net income for the third quarter of 2019 increased by 1% to $111.9 million compared to a net income of $111.3 million in the third quarter of 2018.

Earnings per diluted share for the third quarter of 2019 increased 5% to $0.44 when compared to $0.42 for the third quarter of 2018, primarily as a result of a 6% reduction in diluted shares outstanding from share repurchases due to the continued execution of the company's previously disclosed capital allocation strategy.

During the third quarter of 2019, the company repurchased approximately 3.6 million shares of its common stock at an average price of $27.07 per share for a total of $96.6 million of share repurchases.

To date, for calendar year 2019, the company has repurchased approximately 11.4 million shares of its common stock at an average price of $23.11 for a total of $262.7 million of share repurchases.

As of September 30, 2019, the company has approximately 22.5 million shares remaining available for repurchase pursuant to its previously announced share repurchase plan. The company intends to continue to repurchase additional shares of its common stock in the future, in support of the previously disclosed capital allocation strategy, but share repurchases may vary from time to time and will continue to take into account macroeconomic issues, market trends and other factors that the company deems appropriate.

I will now turn the call over to Kevin for the third quarter financial details.

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Thanks, Steve. Automotive net sales in the quarter of 2019 were $464.3 million compared with automotive net sales of $449.2 million in the third quarter of 2018.

The 3% quarter-over-quarter growth in automotive sales was driven primarily by strength in Full Display Mirror unit shipments and an 18% quarter-over-quarter increase in exterior auto-dimming mirror unit shipments.

This growth in revenue partially offset by previously announced product headwinds of approximately 350 basis points when compared to the same period last year. Additionally, the third quarter of 2019 was impacted by approximately 200 basis points in lost sales due to the GM strike.

Other net sales in the third quarter of 2019, which includes dimmable aircraft windows and fire protection products were $13.5 million, an increase of 22% compared to other net sales of $11.1 million in the third quarter of 2018, primarily as a result of increased dimmable aircraft window shipments.

During the third quarter of 2019, the company's effective tax rate was 15%, which is up slightly from 14.7% for the third quarter of 2018. However, this rate is down from the 16.4% tax rate for the first half of 2019. The effective tax rate was driven below the statutory rate in both quarters due to the foreign-derived intangible income deduction, tax planning strategies and discrete benefits related to stock-based compensation.

Now for a balance sheet update. The following balance sheet items represent a comparison versus December 31 of 2018, which are also included in today's press release.

Cash and cash equivalents were $260.2 million compared to $217 million. The increase is primarily due to cash flows from operations, which was partially offset by share repurchases, dividend payments and capital expenditures.

Short-term investments were $207.2 million, up from $169.4 million, and long-term investments were $103 million compared to $138 million. Fluctuations in the 2 were driven by changes in fixed income investment maturities within the portfolio. Accounts receivable increased $39.6 million to $253.1 million, primarily due to the higher sales in the quarter and timing of sales within each of the quarters.

Inventories as of September 30 increased by $13.4 million to $238.7 million. Accounts payable increased by $2.5 million to $95.3 million and other current liabilities increased $10.6 million to $86.9 million, primarily as a result of increases in accrued wages.

Now for some cash flow highlights. Cash flow from operations for the third quarter of 2019 were $110.5 million compared with $105.8 million during the third quarter of '18. And year-to-date, cash flow from operations for -- was [$383.9] million for 2019 when compared with $398.2 million in 2018. The differences in each of the periods were primarily due to changes in working capital.

Capital expenditures for the third quarter of 2019 were $11.2 million compared with $16.9 million in the third quarter of '18. And year-to-date, 2019 capital expenditures were $56.7 million compared with $68.8 million in 2018.

And depreciation and amortization for the third quarter was $26 million compared with $24.8 million in the third quarter of '18. And year-to-date, depreciation and amortization was $79.3 million compared with $80.1 million in 2018.

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

Neil Boehm - *Gentex Corporation - CTO & VP of Engineering*

Thank you, Kevin. In the third quarter of 2019, there were 16 net new nameplate launches of our interior and exterior auto-dimming mirrors and electronic features. Of the total launches, approximately 60% had advanced features. The percentage of new launches with an advanced feature was slightly higher than our current ratio of advanced feature products to base auto-dimming products. Advanced feature launches in the quarter were led by new launches of HomeLink, where there were 7 net new nameplate launches.

During the third quarter, we launched base interior auto-dimming mirrors on 5 new nameplates for domestic China OEMs. These nameplate launches represent further penetration of our core auto-dimming technology into the China market.

During the third quarter, there was 1 new nameplate launch for Full Display Mirror, and we continue to forecast that we'll be launching 7 additional nameplates in the fourth quarter.

We're also excited to announce that during the third quarter we were able to secure our 10th OEM customer for Full Display Mirror.

Our final launch update for today is in regards to our aerospace business. During the third quarter, we made our first production shipments of electronically dimmable windows to Boeing for the 777X program. This program represents our second commercial aircraft program. And while our dimmable window technology is optional on the 777, we're excited about the successful launch. The 777 launch is the first aerospace program for Gentex where we were sourced as a Tier 1 supplier into the aerospace industry. This launch is a testament to the hard work of our chemistry, engineering and manufacturing teams because not only did we achieve full certification as an aerospace supplier, but we also accomplished this while launching our brand-new Generation 3 dimmable technology. We believe that the launch of the 777 and our status as a Tier 1 supplier in aerospace will continue to provide growth opportunities for us.

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

Steven R. Downing - *Gentex Corporation - President & CEO*

Thanks, Neil. Today, we provided revenue and margin guidance in our press release specifically for the fourth quarter of 2019 due to the GM strike and the estimated impact this will have versus our previously forecasted fourth quarter revenue and gross margin.

The following information reflects the company's best estimate of the impact of the General Motors strike as well as changes to IHS Markit's estimate for light vehicle production in the fourth quarter. We are using order changes over the last several weeks from GM as the basis of our calculation, and we estimate the impact to be approximately $7 million to $8 million in lost sales per week of the strike.

Given the lost sales to date for the fourth quarter of 2019 and our estimate of additional lost sales before the strike ends, the company now estimates that the revenue will be between $430 million and $455 million for the fourth quarter of 2019.

Based on the updated net sales guidance, the company is estimating that the gross margin for the fourth quarter will be between 35% and 36%. Our full year estimates for calendar year 2019 are based on the mid-October IHS Markit light vehicle production forecast; current forecasted product mix; expense growth estimates; actual performance through the first 9 months of 2019; and estimates regarding the impact of the GM strike.

Given these inputs, the company updated certain of its previously announced annual guidance ranges, which were published this morning in our press release and are summarized below. Net sales between $1.84 billion and $1.87 billion; gross margin between 36.6% and 37%; operating expenses between $198 million and $200 million; tax rate between 16% and 16.5%; capital expenditures between $90 million and $100 million; and depreciation and amortization between $104 million and $107 million.

Lastly, 2020 light vehicle production forecasts have continued to worsen as the year has progressed. However, the company is making no changes to its previously announced net sales estimates for calendar year 2020, which is estimated to be over and above the foregoing 2019 net sales estimates in the range of 3% to 8%.

The third quarter of 2019 was a challenging vehicle production environment, but the company delivered growth that outperformed our underlying market by approximately 7% to 9%.

Our third quarter growth rate was very strong given the industry headwinds and the Gentex product-specific headwinds that serve to limit our growth. Additionally, our gross margin on a year-over-year basis was exceptional and increased by 10 basis points year-over-year despite a 50 basis point increase in the margin effect of tariffs.

The entire team at Gentex delivered solid results due to our focus on the sales growth, cost discipline that led to margin stability, tariff offsets and tax efficiencies.

This hard work, combined with our disciplined approach to capital allocation, led to a 5% increase in EPS for the quarter. As we move into the fourth quarter, we are expecting to remain in a tough production environment due to ongoing issues in light vehicle production levels globally and the impact of the strike at GM.

Overall, we remain optimistic that the growth of our core technologies will continue to provide growth rates above global vehicle production levels in 2020.

As we execute the strategies we have put in place for next year, we believe they will deliver sales and margin performance throughout the year that when combined with the execution of our capital allocation strategy, will continue to create value for our shareholders.

In closing, we'll be exhibiting at NBAA from October 22 through the 24; at SEMA, from November 5 through the 8; and at CES from January 7 through the 10. As always, please know that you are all welcome to come see us at these shows to experience our products and to see the progress we are making with our technology. If you are interested in visiting us at any of these events, please feel free to contact Josh O'Berski to schedule a time.

Thank you for your time today, and we can now proceed to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Van Horn of B. Riley FBR.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Congrats on another strong quarter. So it seems like the lower guidance on this gross margin is roughly 50 basis points on the top line. Could you maybe break that out? Is it mainly due to the strike? Is it also some of the production estimate changes? And then how do you view maybe that GM production being made up, if at all, in the fourth quarter and maybe into 2020?

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes. I think if you look at the majority of that gap is driven by the lower sales on a year-over-year basis, so -- especially versus what we are forecasting coming into -- coming -- looking at Q4 before the strike happened. So the vast majority of that is due to the overall lower sales level, and then obviously the mix change given what we have at GM and the business that we have there, which is -- which does bolster gross margins.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. And then the production from GM that there was sort of loss during -- due to the strike, do you see that being made up?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

IHS is really looking at probably making that up over most of 2020, based on what we've seen from IHS. They were running pretty full tilt building into that strike. So we don't expect a ton of volume coming back in Q4. But maybe we'll get some luck and they'll be able to do that. But I think IHS is modeling recovery in 2020.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. Great. Got it. And then how about volumes for Full Display Mirror? You had mentioned in the past, 500,000 number. Any sort of commentary around that?

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes. We still believe even with the strike and GM being kind of our launch and one of our largest customers for the product that we'll still be above that number for the year.

Christopher Ralph Van Horn - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. Got it. And then last one from me, for now, on the aerospace side, $13.5 million really strong number, continues to kind of go up here. Do we think about that as kind of a runway going forward? Was there anything during the quarter that was a significant order? Or how do we think about that business right now?

Steven R. Downing - *Gentex Corporation - President & CEO*

There's a little extra volume, given the 777 launch. So it's kind of a system fill for that new launch. So that'll probably -- that could be little higher than the normalized run rate.

The one thing that we do see is there are pretty -- there are some natural fluctuations in volumes throughout the year in the aerospace industry or at least on the Boeing business. So I wouldn't necessarily try to model it flat, but I would say that there should be a slight step up, both on the 787 production volumes as they've grown and they've gone to the longer version of the 787. That's obviously more windows on that plane so that's helped, and then the launch of the 777 should help over time as well.

Operator

Our next question comes from John Murphy of Bank of America.

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

This is Aileen Smith on for John. First question, can you provide any more detail around the company-specific product headwinds that you cited in the press release? It doesn't sound as if this is related to GM. So can you give any insight as to what's going on there or whether it's isolated to any one product or geography?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Thanks, Aileen. Yes, this is the stuff we've been talking about for a couple of years now. Really the biggest impact, probably 2/3 of that impact is related to the driver assist feature with Mobileye rolling off and continuing to cause headwinds. Another 100 basis points of that is really related to SmartBeam. And then the last little bit is additional legacy features, Compass and microphone that we've also talked about is kind of rolling off over a -- or had a little bit of headwind on the Compass side. But it's really the same story that we've been talking about all year. And then with the drop in the North American production throughout the year, it's kind of exacerbated itself a little bit.

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

Great, that's helpful. And second question, can you walk us through your operational response to the GM strike? Specifically, at what week into the strike did you get adjustments to purchase orders? And were you able to build inventory at all through the strike to avoid taking production downtime? Or did your production go down nearly 1 for 1 with GM?

Steven R. Downing - *Gentex Corporation - President & CEO*

No. So -- well, 2 things. When the strike happened immediately, we continued to ship for a few days versus when the strike occurred. So the impact to our Q3 was a little less but it will be a little bit more, and that's what we're modeling in Q4 is that if -- because we know the strike started but then we continued to ship for a few days in Q3, we're expecting that once GM comes back online, there will be another few days where we won't need to ship because we -- they already have the inventory that we shipped in Q3. So that's why we're modeling a little larger impact in Q4 than what was in Q3 plus the total number of days down in Q4 is obviously higher. Sorry, Aileen, you asked that second part of that question?

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

No. The second part of the question was just were you taking production down nearly 1 for 1 (inaudible)

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes. No -- sorry, we had not -- we did not have to take our production down. If you look at the growth in the third quarter, we still grew 4% on growth with other customers and in the other parts of the business. So we didn't have any like temporary layoffs or sending workers home for lack of work because we were quite busy in the quarter despite the issues with GM.

Aileen Elizabeth Smith - *BofA Merrill Lynch, Research Division - Analyst*

Okay, great. And last question, can you describe how your teams are managing what's been a constant erosion in intra-quarter production schedules? We're now about a year or over a year into this deteriorating trend. So is it just a function of being a bit more conservative in your internal production assumptions versus what you're seeing in terms of customer releases?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Yes. I think it's an ongoing battle. We continue to build our schedules on a weekly basis based on our releases. Fortunately, for us, we have had growth throughout the year so it has stemmed down a little bit of -- if you look at our [indiscernible] it has lightened from if you go back 18 months, kind of slowed down some of that need for capacity growth on a longer-term basis. But we continue to be in a tight labor market, and so our teams are fully staffed and working over -- at around 80% to 100% of capacity already.

So it's been -- we just had to shift and be flexible about what we're building. And we've been accustomed to that being in the automotive industry for a long time. So it's just continuing to keep a close eye on order changes and if there are magnitude increases, and our teams have done a fantastic job of managing through that.

Steven R. Downing - *Gentex Corporation - President & CEO*

And I think Aileen, if you look at what one of the biggest concerns you have is obviously not being able to keep up with order changes. So you're spot on. I mean, there's a lot of chaos that occurs when these types of changes are happening. Given what we build in our approach, we are able to carry a little extra inventory so we try to model out what we think is going to be needed, build ahead a little bit just to make sure we can support our customers.

Operator

Our next question comes from James Picariello of KeyBanc Capital Markets.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

So just going back to the GM strike impact. I mean, if we just do the really simple math of $7.5 million a week for the year, I mean, that would annualize GM as a customer close to 20% of your total sales. So I mean, it's my understanding that GM was less than 10% last year, so just wondering if you could help bridge that.

Steven R. Downing - *Gentex Corporation - President & CEO*

Sure. If you look at the $7 million to $8 million, so the $7.5 million midpoint there, we know that's a little higher than on a full annualized run rate because of the launch of GM vehicles in the back half, especially the launch of some of the new trucks and SUVs. So we know they tend to run a little richer product mix when those new vehicles are launching. And for us, that higher ASP is really driven by our Full Display Mirror launches with GM. And so when you look at -- if you look at an overall basis, what GM was last year on a percent of sale versus the model going forward, they are going to have an uptick in their overall percentage of our total business, given the number of vehicles we're shipping FDM on currently for GM.

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Yes. If you follow what we've talked about publicly, a little -- right around half of our nameplates of the Full Display Mirror are with General Motors. So that's why the impact in Q3 and Q4...

Neil Boehm - *Gentex Corporation - CTO & VP of Engineering*

Was pretty severe and pretty noticeable.

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Yes. And we've had a lot of strength in outside mirrors and they are a [high] level of HomeLink. So when you put the content per vehicle up against other OEMs, it's stacked up right up there.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Got it. And how many weeks for the strike are you baking in for the fourth quarter?

Steven R. Downing - *Gentex Corporation - President & CEO*

Basically, what we modeled in was 4 full weeks in October.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Yes, got it. Okay. And then just on the sustained strength in the domestic exterior mirror shipments, I mean, I just -- and also, we're also seeing a pickup now internationally in the quarters. I was just wondering, I thought maybe the rough estimate was, as you lap the last year's share gain win domestically, that the exterior mirrors would be up maybe mid- to high single digits. But clearly, there was sustained strength in the growth rate. So can you just kind of talk about what drove that and what your expectation is in the fourth quarter?

Steven R. Downing - *Gentex Corporation - President & CEO*

I think when you -- yes, when you look at it, it definitely was higher than we expected for the quarter in terms of that percentage growth in outside mirrors. When we modeled going forward though -- remember, a lot of that was driven by some takeover business and some OEM issues where they were struggling with deliveries from another supplier. So one of the things that we are focused on was making sure we supported those customers and those deliveries. As you move forward, we wouldn't expect those growth rates to continue at those levels. We think those would much more moderated in 2020.

James Albert Picariello - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Okay. I'd just take one small one. You mentioned in the release, the -- some legal and professional fees tied to a new technology that you acquired. Can you just speak to that real quick?

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes. It was something that we've been interested in for a while. I'd prefer not to mention what the exact technology is. It's actually a phased acquisition that will take a period of a couple of years before that will play out completely. But it's definitely a materials play and something that the company has been interested in a long time. We think it is, longer term, 5 to 10 years out, something that's very interesting to us and could help enable a lot of the products that we're working on.

Operator

Our next question comes from Ryan Brinkman of JPMorgan.

Ryan J. Brinkman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

I think that the mid-October IHS forecast update assumed that the GM-UAW workers would return to their jobs on November 1, which was probably a prudent consumption when they made that forecast. And you just mentioned that you assumed 4 weeks of stoppage in October. Although shortly after their forecast was released is when GM and the union reached their tentative agreement. So what is your current, as of today, thought process as to when those workers do return to their jobs, maybe mid-next week or so? And if that's the case then, could there be some upside to the softer Q4 outlook that you released today?

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes. So we're -- so 2 factors there. One of them, yes, I would assume that's what we were kind of predicting based on the announcement yesterday and then looking at -- then looking at our information, we would have guessed that they will hopefully be back to work sometime mid- or late next week. But remember, because in Q3 when the strike occurred, GM continued to release parts from supply base so we shipped for a few days even though the strike was already underway in September. We're expecting that it'll take a couple of days after they're back to work before they start accepting shipments again from the supply base. So that would put us kind of into next week, maybe at the beginning of the following week before we believe we'll be shipping with GM again.

Ryan J. Brinkman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay, that's helpful. And then just lastly, I wanted to ask about, there's been so many developments, potential developments on the China trade and tariff front just in the last couple of months here. How are you viewing the current -- was it roughly 110 or so basis point headwind relative to tariffs? How do you think that's going to evolve as we move into next year?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

That's a great question. We keep -- our supply chain teams do a great job of staying on top of that. Obviously, whenever Trump tweets that there's a trade deal, on the surface, we follow up and then it looks like on the back end, they're still modeling potential increases. We have List 3 scheduled to increase in January up to 30%. There's List 4A, which our guys call the Christmas list, that's potentially out there but has been delayed.

We're -- as Steve talked about on his previous calls, we are evaluating all of our options as it relates to international trade. As we also alluded to, our exports to China are starting to become as big of an impact as our imports of raw materials coming in from China. So we're [forming] our strategy currently and glad to be sharing that, if things continue to escalate. Hopefully -- obviously, we would hope that this would all get settled out and we'd have reduced cost, but we are certainly being impacted, as you saw in the quarter, that 110 basis points, that will continue to ramp up further in 2020 if nothing changes.

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes, we would expect a slight increase in 2020 versus what we've encountered so far in 2019 based off what's in place right now. The important part to notice there, if you look at the dollar amounts, our purchasing and logistics teams have done a great job of offsetting a lot of those. The tariff -- annualized tariff run rate would be much higher if we hadn't made a lot of the changes we've made from the supply side. So we continue to look at that. And I would say modeling 2020, we're modeling just slightly over that 110 basis points of headwind for next year.

Operator

Our next question comes from David Kelley of Jefferies.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

Just wondering if you could provide some more color on the elevated OpEx in the quarter. I think you referenced product development and some launches. Were there any specific callouts in Q3 and do you expect that to normalize going forward?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Yes. I think if you look at the breakdown -- half to 2/3 of that is wage-related because of all the launch activity we have going on. We talked about Full Display Mirrors. We have another 8 launching -- or 7 launching in Q4. Next year is a busy year. So we are staffed to -- for that build, but we're focused on new technologies and so there's been a focus on building that out.

But like we called out in the press release, to avoid some of these tariffs that is not -- that does come at a cost, so our business development teams, some of our leadership teams have been traveling to our suppliers in some of those cases. So there's costs elevated there. Some of the smaller things that we didn't talk about really were we are having elevated freight costs we've had all year. So those, we didn't call out in the press release. But all those things are kind of additive. But the biggest piece is supporting the engineering development activities that we have going on now and to support growth in the future.

David Lee Kelley - *Jefferies LLC, Research Division - Equity Analyst*

Okay, great. And then maybe to switch gears a bit and maybe another market outlook question. Your 2020 guidance here is unchanged. Can you talk about what you're seeing in Europe currently? I mean, clearly, there are a number of moving parts, just thinking about regulations coming down the pipe next year that although don't directly impact you guys, but just from a customer relationship standpoint, any thoughts on kind of the changing production outlook and -- as it relates to your European exposure?

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes, absolutely. If you look at -- we do very well with our European customers so it's something that we watch very closely. Probably the most concerning part about the forecast, the IHS updates has been that a lot of the German OEMs are showing some weakness in their production both in '20 and beyond. And so we keep an eye on that. When we look at all those IHS updates, we still believe we'll be in that 3% to 8% range next year. So it's obviously a little concerning. You hate to see your customer struggle, but it's one of the things that we watch very carefully and keep our eye on. But as of right now, we haven't seen anything that would imply that we need to change our guidance for 2020.

Operator

(Operator Instructions) Our next question comes from David Whiston of Morningstar.

David Whiston - *Morningstar Inc., Research Division - Strategist*

In the press release, you called out some purchasing cost reductions being better than expected. Are you able to speak a little more specifically how you went about getting that?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Yes. That's a great question. If you remember when we talked about 2019 in the beginning of the year, IHS was still running pretty strong growth. And so there was a lot of constraints on the passive electronics. With the slowdown, we got a little bit of help from that. But we also tasked the teams to go back to work with the suppliers and they delivered. So that's been a positive benefit for us on a lot of the different commodities. And then the last piece is we -- some of our precious metal costs that we talked about were not as much of a headwind as what we had initially projected. So all in all, that's really the driver of all the better purchasing cost reductions.

David Whiston - *Morningstar Inc., Research Division - Strategist*

And you mentioned going upstream to suppliers. Is that purely a price discussion or are there other ways you guys can help your costs out without having to try and squeeze them on price?

Kevin C. Nash - *Gentex Corporation - VP of Finance, CFO, Treasurer & CAO*

Yes. So I mean, it's -- the way that we approach this with all of our suppliers is we work to have a relationship. And knowing that we grow, we go on a journey with them to say that, if you're going to come along for this ride, we have expectations. But we'll promise you that we'll provide you volume and growth and ability to have their growth with us. And so we've had a different focus over the last 18 months to really engage with them on a different level.

Steven R. Downing - *Gentex Corporation - President & CEO*

One -- I think internally, one of the things that's really helped us is we invest a lot into our process development and industrial engineering applications. What that's allowed us to do is help offset some of those precious metal costs by reducing our usage. In other words, being more efficient with the process of how we do it, and there's been a lot of inventions that have taken place that have allowed that to occur. Given the precious metal increases that we've seen, the team's been working on this for a couple of years now and some of those really hit home this year and that's definitely helped our cost bases significantly.

David Whiston - *Morningstar Inc., Research Division - Strategist*

Okay, that's helpful. Shifting gears over to EVs. Is -- in terms of things like programs like the Bolt and you're going to have a lot more BEVs coming to market from a lot of your customers going forward. Is there any major challenge in integrating your mirror into a BEV compared to an internal combustion vehicle or is it actually even easier?

Neil Boehm - *Gentex Corporation - CTO & VP of Engineering*

No, that's not -- there's not any major challenges. I think from a -- it's a standard, still got a 12-volt area section that we would be utilizing like many other components. And so from a standard mirror integration, that would be very simple and common to a standard combustion engine.

Steven R. Downing - *Gentex Corporation - President & CEO*

I think what's interesting about a battery electric vehicle that most people don't think about though is when you talk about a vehicle having to package batteries, it does reduce the cabin changes in order to hit the efficiencies they're looking for in the range. Typically, the roof lines come down, the -- where the seats are move up. It does tend to shrink like rear windows in the design of the vehicles, which makes some of our new technology maybe even more applicable on a BEV vehicle than what it would be on a traditional ICE.

David Whiston - *Morningstar Inc., Research Division - Strategist*

Okay. And last question on -- just an update on how difficult or easier is it compared to a few years ago to get software engineering talent to come out to Western Michigan versus choosing to go to California or the East Coast?

Neil Boehm - *Gentex Corporation - CTO & VP of Engineering*

Yes. I think that's going to forever be a challenge. I mean, I can't say that we have an issue right now. The team's been doing a great job in the recruiting process. We've changed how we've gone through in the method and the types of people that we're bringing in to do software. Always will be a challenge from -- in competition with other companies as well as the West Coast. But right now, we're doing really well sustaining and hiring and adding additional heads as are needed.

Operator

Our next question comes from Peter Cobos of Broad Bay Capital.

Peter Cobos - *Broad Bay Capital Management Lp - Senior Analyst*

With respect to the 2020 guidance of plus 3% to plus 8%, so it looks like in 2019, you had something like a $9-or-so million headwind from the GM strike in the third quarter, and you're talking about a $30 million headwind in the fourth quarter. And it also sounds like that volume probably comes back in 2020.

So if I look at 2019 having a $40-or-so million headwind from the strike and 2020 having a $40 million tailwind, that's a nice kind of percentage growth rate change you'll have next year. So my question is like you're not really changing your 2020 guidance. So like if the strike hadn't happened, would you have had to lower your 2020 outlook? Or why shouldn't your 2020 outlook from a growth rate perspective be higher now than it was when you kind of gave that guidance in the third quarter?

Steven R. Downing - *Gentex Corporation - President & CEO*

Yes. No, we wouldn't have had to change our guidance if it weren't -- if you look at just the strike issue by itself. What I would say is you have 2 kind of offsetting trends happening: number 1 is sales pushing from '19 -- some of the sales pushing from '19 in '20. Our historical experience with issues like this is that not 100% of those sales don't come back the following year. It's, in other words, like some of what's been missed by GM will probably just be [fallout] permanently. And that's really just based off how consumers consume. And the fact if GM vehicle weren't available, they may have purchased something else or wait or move on.

The other part of it though, really what's been the offsetting portion for 2020, is the drop in IHS guidance globally. And if you look at that, I mean, you're talking the last few months especially, I think it's somewhere in the neighborhood of 3 million or 4 million vehicles that have come out of the global vehicle production estimates for 2020 in the last 3 to 4 months. And so that forecast has been changing pretty drastically. And so those would be the kind of the offsets, right? So if you would see some pushout of '19 into '20 sales, which is a positive, and then you'd see a little bit of a reduction from estimates dropping in global light vehicle production.

Operator

There are no further questions. I'd like to turn the call back over to Josh O'Berski for any further remarks.

Josh O'Berski - *Gentex Corporation - Director of IR*

Thank you. As Steve mentioned, we have a handful of analysts coming to visit our booths during SEMA and CES, and if anyone is interested in attending, please let me know. Thank you for your time and questions. This concludes our call. Have a great weekend.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.