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GNTX.OQ - Q4 2024 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 reports fourth quarter and year-end 2024 financial results. (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 - Marketing and Investor Relations*

Thank you. Good morning and thank you for joining us today for our fourth-quarter 2024 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 and edited transcripts will be available after the call in the Investors section of our website located at ir.gentex.com.

As a reminder, many of our comments today contain forward-looking statements based on current expectations. These forward-looking statements are subject to known and unknown risks, including those set forth in our fourth quarter 2024 earnings release, press release and our annual report on Form 10-K for the year ended December 31, 2023, as well as other general economic factors. Should one or more of these risks or uncertainties materialize or underlying assumptions or estimates prove incorrect, actual results may vary materially from those that we express today.

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

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

Thank you, Josh. For the fourth quarter of 2024, the company reported net sales of \$541.6 million a decrease of 8% compared to net sales of \$589.1 million for the fourth quarter of last year. Light vehicle production decreased by 6% quarter-over-quarter in the company's primary markets of

North America, Europe and Japan and Korea. Compared to the beginning of the quarter forecast, production weakness in the company's primary markets combined with a weak vehicle build mix that resulted in revenue being much lower than we initially anticipated for the quarter. The combination of these two factors resulted in a revenue shortfall of approximately \$45 million to \$50 million versus the company's beginning of quarter forecast.

During the fourth quarter, there was significant weakness in our primary markets that impacted both light vehicle production volumes and product mix during the quarter. We believe the number of our OEM and Tier 1 customers look to improve their incoming inventory levels during the quarter and build a weaker mix of vehicles versus the trends we have seen over the last several quarters. As an example, approximately one-half of our revenue shortfall in the fourth quarter came from lower-than-expected Full Display Mirror unit shipments. Unfortunately, these changes all occurred within the quarter, causing a significant variance from our beginning of quarter forecast with most of the change happening in November and December.

The gross margin in the fourth quarter of 2024 was 32.5% compared with a gross margin of 34.5% in the fourth quarter of last year. The decrease in gross margin in the fourth quarter was primarily due to the lower-than-expected sales levels, weaker product mix and the inability to leverage overhead costs. These factors more than offset the positive tailwinds from purchasing cost reductions that were achieved throughout calendar year 2024. The gross margin during the fourth quarter was significantly lower than our anticipated margin performance for the quarter. But when we model the gross margin impact from lower than forecasted revenue due to the lower vehicle production, and the lower Full Display Mirror shipments, we would have had a quarter very similar to the margin in the fourth quarter of last year.

Operating expenses during the fourth quarter of 2024 were up 22% to \$86.5 million due to staffing and engineering-related professional fees with total operating expense for the quarter also impacted by intangible asset impairment charges of \$8.9 million related to a technology acquired in 2020. Our operating expenses for the fourth quarter and full year 2024 have been elevated as we expand our engineering capability to focus on the many new product launches currently underway and to help support the R&D activity necessary to execute our product road maps. It is worth noting that operating expenses, net of the impairment charges for the quarter grew at the lowest rate of the year.

Income from operations for the fourth quarter of 2024 was \$89.8 million compared to income from operations of \$132.8 million for the fourth quarter of last year. During the fourth quarter of 2024, the company had an effective tax rate of 10.3%, which was driven by the foreign-derived intangible income deduction, provision to return adjustments and other discrete benefits. In the fourth quarter of 2024, net income was \$87.7 million compared to net income of \$116.9 million in the fourth quarter of last year.

Earnings per diluted share in the fourth quarter of 2024 were \$0.39 compared with earnings per diluted share of \$0.50 in the fourth quarter of last year. For calendar year 2024, the company's net sales were \$2.31 billion, an increase of 1% compared to net sales of \$2.3 billion last year, representing the highest annual sales in company history despite light vehicle production that decreased this year by more than 4% in the company's primary markets. The company's revenue outperformance versus the underlying market was driven primarily by growth in FDM unit shipments.

For calendar year 2024, the gross margin was 33.3% compared to a gross margin of 33.2% last year. Gross margin improvements were primarily the result of supplier cost reductions and lower freight costs -- though these benefits were largely offset by weaker than expected product mix, higher labor costs and the inability to leverage fixed overhead costs due to the lower than forecasted revenue for the year.

Despite the many headwinds that impacted revenue and gross margins this year, we were able to continue to make improvements to the gross margin profile of the company. The improvements made this year, combined with our targeted improvements for 2025, provide the road map and plan to achieve a target of approximately 35% gross margin by the end of 2025. For calendar year 2024, operating expenses increased 17% and to \$311.4 million compared to operating expenses of \$266.9 million last year. Net of the impairment charges discussed previously, the total operating expense for the year was in line with our forecasted operating expenses.

The company has been investing heavily in engineering capability over the last few years in order to support the elevated rate of launches driven by customer awards to accelerate our research and development activity necessary to execute the new technologies and product road map showcased at CES and to fund R&D activity required to achieve product redesigns in support of our cost improvement initiatives. The plan for 2025

is based on a much lower growth rate in operating expenses for the year as we believe the new baseline of engineering spend is sufficient to support our current engineering initiatives.

For calendar year 2024, the company's effective tax rate was 14.3% compared to an effective tax rate of 15.2% last year. The decrease in the tax rate in 2024 was primarily driven by an increased benefit from the foreign-derived intangible income deduction and R&D tax credits compared to last year. Net income for calendar year 2024 was \$404.5 million compared to net income of \$428.4 million last year. Earnings per diluted share for calendar year 2024 were \$1.76 and compared to earnings per diluted share of \$1.84 last year.

Thank you, and 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*

Thank you, Steve. Automotive net sales during the fourth quarter of '24 were \$531.3 million compared to \$578.7 million in the fourth quarter of '23. And for calendar year '24, Automotive net sales were \$2.26 billion compared to \$2.25 billion in '23. For the year, FDM shipments increased 21% to 2.96 million units, which more than offset a 6% decrease in Automotive Mirror unit shipments compared to '23. Other net sales in the fourth quarter of '24, which includes Dimmable Aircraft Windows, Fire Protection products, and Medical products were \$10.3 million, a decrease of 2% compared to other net sales of \$10.5 million in fourth quarter of '23.

Fire Protection sales increased by 5%. Dimmable Aircraft Windows decreased by 23% for the fourth quarter of '24 when compared to the fourth quarter of '23, and Medical product sales were \$0.6 million in the fourth quarter for the eSight product that launched in the third quarter of '24. Other net sales for calendar year '24 were \$48.6 million compared to other net sales of \$44.6 million in calendar '23. Fire Protection sales increased 4% year-over-year, while Dimmable Aircraft Windows increased by 9% in '24 compared to '23 and Medical product sales were \$1.4 million for calendar year 2024.

Share repurchases. The company repurchased 604,000 shares of its common stock during the fourth quarter at an average of \$30.54 per share. And for the year ended December 31, 2024, the company repurchased 6.4 million shares of its common stock at an average price of \$32.20 per share for a total of \$206.1 million. And as of December 31, 2024, the company has 9.4 million shares remaining available for repurchase from the previously announced plan. Shifting over to the balance sheet. The balance sheet conversions mentioned today are as of December 31, 2024, compared to December 31, 2023.

Cash and cash equivalents were \$233.3 million compared to \$226.4 million. Short-term and long-term investments combined were \$361.9 million, up from \$299.1 million which includes fixed income investments as well as the company's equity and cost method investments. Accounts receivables \$295.3 million, down from \$321.8 million due to the size and timing of sales during the fourth quarter. Inventories were \$436.5 million, up from \$402.5 million, and accounts payable decreased to \$168.3 million, a decrease from \$184.4 million. Preliminary cash flow items; fourth quarter 2024 cash flow from operations was \$154.4 million compared to \$169.6 million in the fourth quarter of last year. In calendar year 2024 cash flow from operations was \$498.2 million compared to \$537.2 million in calendar year '23.

Capital expenditures for the fourth quarter were \$41.7 million compared with \$62.3 million for the fourth quarter of last year and calendar year 2024 expenditures were \$144.7 million compared to \$183.7 million for calendar year '23. And lastly, depreciation and amortization for the fourth quarter was \$23.8 million compared with \$22.3 million for the fourth quarter of '23, and year-to-date, depreciation and amortization was \$94.7 million compared with \$93.3 million for year-to-date 2023.

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. Earlier in January, Gentex participated in the 2025 Consumer Electronics Show. This shows about innovation and technology, and it's a great place for us to showcase our current and future technologies and products to customers and consumers. It's a chance for us to get our road map over the company in front of people to help them see where we're headed.

This year, we had three different booths supporting Gentex technologies. At the Venetian Expo Center, we had two booths, one booth was supporting and demonstrating our Medical Wearables, eSight, and the second booth was demonstrating our Connected Smoke Detector product lineup that we've named Place. A satellite boost, we're in the middle of the relevant technology areas and provided us with some great customer and consumer insight and feedback. The main Gentex booth was located at the West Hall of the Las Vegas Convention Center. At this booth, we demonstrated products and technologies for all of our major verticals of automotive, aerospace, medical and consumer-facing products.

Again, this year, like in past years, we had multiple vehicles and product demonstrators at the booth to help people get a real feel for our product strategy and direction. There were several new demonstrators and properties for CES 2025. The large area device demonstrators stood in the middle of the booth space, and help to demonstrate the functionality of a Large Dimming Films. This allowed people to see for the first time our dimming technology on plastic substrate in sunroof-sized parts.

Next to the large area device property, there was a new demonstrator showing our partner, Solis and their wireless power and meta technology in an automotive use case. The demonstrator with a door of a vehicle that displayed how power and data could be delivered to the door wirelessly. With no wire harness of connectors, power was delivered to activate the window movement and dimming of the window. A wireless connection to the outside mirror demonstrated how a camera could be powered and the video transmitted by this exciting new technology.

Also at the booth, we had a complete in-vehicle demonstration of the next-generation HomeLink uniting the Connected Car in the Smart Home. This vehicle allowed for the demonstration of multiple device activation methods of RF long-range Bluetooth and cloud-based. It also helped us to show the different levels of vehicle integration like hard buttons, soft buttons or through Apple Car Play and Android Auto. The all new app has improved device training and seen creation while the new API solutions allow for control of the garage door from the car or a phone app.

We're truly excited about the opportunities this new generation of HomeLink can bring to Gentex. To demonstrate our improvements in strategy with driver monitoring systems, we showed an updated simulator in a product panel that displayed the different hardware and software combination we've been sourced by four different OEMs. Between these two properties, we are able to show how we can compete today with different technical solutions to meet each OEM's needs.

The last update for CES is about other Dimming products. At the show, we demonstrated for the first time a Dimming Visor with an integrated display and Small Dimming Glasses. The Visor With Display was a concept we used at the show to gauge interest in the technology and to talk with customers about what type of information would make sense to be positioned in this area. Overall, this concept was very well received and we'll continue to work on refining the details of the product going forward. In regards to the Dimming Glasses, this was a great concept that allowed us to show how our dimming technology could be applied in different use cases beyond mirrors, windows, sunroofs and visors.

Now for a quick update on launches in Full Display Mirror. In the fourth quarter of 2024, we had another busy launch quarter with over 60% of our launches being advanced features. HomeLink and Full Display Mirror were the biggest drivers of the launches. We're excited to announce that in the fourth quarter of 2024, we began shipping Full Display Mirror on the Renault Master and Volkswagen transporter. Both Renault and Volkswagen are new OEM customers for Full Display Mirror.

In addition to these two nameplates, there were seven additional nameplates with previous OEMs, bringing our total launch nameplates to 133. Full Display Mirror units came in lower than forecasted for the fourth quarter of '24, as was mentioned earlier, we had an incredible growth year and shipped 2.96 million units in calendar year '24, and achieved our goal of shipping at least 500,000 units more than 2023. This product continues to gain interest from luxury brands to volume brands around the world, and we're well positioned to keep this technology moving.

Gentex is an excellent innovation and technology company, and we've done a great job in improving our product portfolio and getting projects to market. As we enter 2025, we need to keep our focus on innovation. But it's clear that we need to increase our focus on building material

reductions and improvements in efficiency that can have an immediate impact on our financial performance. This increased focus has begun and the teams are driving to get improvements in place to help get our margins back in line with our goals.

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 current forecast for light vehicle production for calendar year 2025 and 2026 and are based on the S&P Global Mobility mid-January '25 forecast for light vehicle production in North America, Europe, Japan, Korea and China and are detailed in our press release. Light vehicle production in these markets is expected to decrease by approximately 1% for calendar year 2025 versus last year, while light vehicle production in our primary markets of North America, Europe, Japan, and Korea is expected to be down over 2%.

For calendar year 2026, light vehicle production in North America, Europe, Japan, Korea, and China, is forecasted to grow by approximately 2% compared to light vehicle production estimates for 2025. The company's guidance excludes any impact from the company's pending acquisition of VOXX International Corporation which remains subject to certain regulatory and VOXX shareholder approvals. Based on this light vehicle production forecast and our estimates for Aerospace, Fire Protection and Medical sales, the company is providing guidance for calendar year 2025 as follows.

Revenue for the year is expected to be between \$2.4 billion and \$2.45 billion. Gross margins for the year are expected to be between 33.5% and 34.5%. Operating expenses are expected to be between \$310 million and \$320 million. Our estimated annual tax rate is forecasted to be between 15% and 17%. Capital expenditures are expected to be between \$125 million and \$150 million and depreciation and amortization are now forecasted to be between \$85 million and \$90 million. Additionally, based on the mid-January 2025, S&P Global Mobility light vehicle production forecast, as well as the company's estimates for Aerospace, Fire Protection and Medical sales, the company currently expects calendar year 2026 revenue to be between \$2.55 billion and \$2.65 billion. Despite the industry's optimism at the beginning of the year, calendar year 2024 brought a challenging operating environment for much of the year, driven by lower-than-expected light vehicle production in our primary markets.

Despite these challenges, the company has been able to continue outperforming the underlying market and create year-over-year growth. These headwinds significantly impacted our overall revenue estimates, which makes margin expansion very difficult. Despite this, the team's work and focus on margin improvement allowed us to make a modest year-over-year improvement in gross margin as well. As we look into 2025, light vehicle production estimates indicate that our largest markets are poised to shrink even more. However, even in the face of a smaller end market, we are forecasting revenue growth in 2025 that at midpoint of revenue guidance suggests a 7% outgrowth versus our primary markets. This growth can only be accomplished by launching and new products and technology. The commitment we have made to invest in and develop engineering capabilities and new technologies is beginning to provide the signs of what we hope to be a long-term sustainable outperformance versus the underlying market that can generate shareholder returns for long into the future.

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 to start with, if we could double-click on the vehicle mix impacts in the quarter. Looking at this, you gave guidance in late October and the last couple of months of the year had that short fall, you said of around \$45 million to \$50 million. As you just diagnosed what happened

in the quarter? How do you delineate between impacts that are maybe more tied to year-end inventory rebalancing both base mirror and maybe some FDM impacts in there as well versus vehicle mix factors that might linger into '25 here. And based on what you're seeing in January, any changes in the business that can better answer that question as well?

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

Yes. Thanks, Luke. That's a good question. I think if you look at the primary portion of the miss, I would say probably about half of that, we think, is inventory adjustments -- that won't go into next year. And the reason why we believe that is to your point, when we look at the first few weeks of shipment in '25 and -- what we're seeing for -- through the rest of the quarter, it would indicate that this is not -- that portion of the problem won't be lingering. There is probably a \$20 million, \$25 million reduction in our Q1 estimates that we're seeing that's based on a little bit of us being conservative about product mix issues.

Typical this time, at this point in the cycle is you have a combination of factors, a lower production, lower sales based on economic conditions. But then the one that's harder to calculate because it's data like -- this doesn't really track in the North American market really well is what is the average sale price of a vehicle? And so, we're just starting to dig in and get some data around that area.

But one of the things we're definitely seeing is that the highest end of the vehicles, I mean, for the last two years, really, 70% vehicles that were sold in North America were very high content features. And we're starting to see a little bit of weakness on that side. And that's probably the other half of the revenue loss that we saw in the quarter was really driven by that. Just content on a per vehicle basis wasn't the same as what we've seen in the last two years.

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

Got it. And then switching to kind of how that filters through the P&L. Obviously, mix has impacts on gross margin, but you mentioned in the release that if not for mix and where volume shook out in the quarter that you would have been probably more flat on a year-over-year basis for gross margin?

And -- just trying to square that with the '25 gross margin guidance on a seasonal basis, especially in the near term, given that the first quarter usually sees some sequential gross margin pressures as [price] and whatnot -- come in with recovery thereafter. Any reason to think that maybe that would be a little flatter trajectory to start the year given just the weight that was on the 4Q comp specifically for gross margin?

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

Yes. I would say the normal cyclical nature of the gross margin performance throughout the year will still be the case next year. But we're expecting the overall margin in Q1 to step up versus Q4 because the sales level should be better. If you look at what our Q1 guidance is and really for the rest of the year, that full year guidance, this basically implies that Q1 has to be significantly better than what Q4 was from a pure revenue standpoint, and so that's really what the margin recovery will be focused on.

If you look at \$50 million roughly and you say, hey, contribution margin of at least 40% on those level of sales, you can kind of model what you would see Q1 to be even if it does hit what we thought Q4 was going to be from an overall revenue perspective, that was really the headwind that hit the hardest on the margin performance. There really wasn't anything underlying in the business that we would say would structurally [raw] that caused that margin deterioration other than just the lack of sales.

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

Understood. And then just last question for me. I'm not sure how much you can say right now, but VOXX still pending closure of that deal, of course. But I don't know if you can speak to just a high level, maybe a couple of strategic imperatives once you close the deal just in terms of key action items that investors should expect here in 2025?

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

Yes. Right now, what we're tentatively looking at just based on the timing of both regulatory approvals and then VOXX shareholder approvals, we're probably looking at towards the end of Q1 as a target close date. So as we move through the next couple of months, we'll obviously be submitting more information and communicating with shareholders about how we're coming on that schedule and time line. And then obviously, once the close happens, we'll be talking about other disclosures that we'll be making about the future of that business? What does it look like? What estimates do we have or what revenue impact that will have for us going forward.

Operator

Joseph Spak, UBS.

Joseph Spak - UBS Equities - Analyst

I want to touch on, again, some of the content and maybe some of what you're seeing in the quarter and really how you're thinking about this going forward, because obviously, FDM and content, it was a big part of the -- it was a big part of the growth story here. So your '25, '26 guide, if I'm looking at it correctly, kind of implies some slowing content growth the further you go out and I just want to understand what you're assuming? Are you assuming that vehicle mix doesn't recover or graves? And is that because of vehicle affordability and maybe even like what an FDM target for '25 and '26 is embedded in your outlook?

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

Yes. If you look at really what we're focused on and what -- really what's impacting and kind of slowing that growth outperformance versus the underlying market. That's really as evidenced in the last couple of quarters when you see both base auto-dimming inside and outside mirrors have actually shrunk in the last few quarters. And a lot of that has to do with weakness in the China market and some of our other major OEMs pulling back on overall production levels. And so those headwinds, FDM, HomeLink and some of the other growth we've seen on advanced features are more offsetting those.

But as we go forward, like to your point, some of the growth rates in those advanced features may not be enough to offset them to which we were able to outperform by, say, 8% or 9% versus the underlying market. That kind of 6%, 7%, though, we look at over the next couple of years and believe that is very achievable from an out-performance versus the underlying market. If you look at FDM in particular, our forecast right now for '25 would suggest probably 300,000 or so unit growth in FDM for this year. And so that's kind of what we're [modeling] our capacity and financial model around.

Joseph Spak - UBS Equities - Analyst

Okay. That's helpful. And I guess just maybe diving even a little bit deeper to '25. You get production down one. I think you just said outgrowth of about 7 points would suggest -- if I'm doing the quick math, right, it seems like you're saying like a 1% FX headwind. Is that about right?

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

I think when you look at it, it's really -- when we talk about the outperformance, this is in our primary market. So you're looking at Europe, North America and the Japan Korea market because that still makes up a large portion of our revenue. And so when you look at those markets, those are really down over 2%. And so when you do the math, that's where the 7% outperformance comes from.

Joseph Spak - *UBS Equities - Analyst*

Okay. So just -- the FX headwind in the sales guidance is that --

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

Most of sales is denominated in US dollar. Less than 10% of our sales are denominated in foreign currencies. I mean, in China, it's about 9%, 10% of sales, and that is the stuff that is denominated in RMB. So there may be a little bit of a headwind there as well.

Joseph Spak - *UBS Equities - Analyst*

Okay. So then maybe can you just help us understand like for that 7 points of growth, let's say, for '25? If we -- like one, is it possible to sort of understand, I guess, what -- how customer mix plays within that or I guess relative to minus one industry vehicle production? And then also, like of the outgrowth component what we say is the mix between just three units and content or product mix?

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

Yes. Well, first, I'd say, first, before we get into the customer mix, I talk about geographic mix. And so if you look at the markets that have been most impacted over the last 12 months, it's really Europe and North America and Japan, Korea have been very severely impacted.

If you go forward into '25, you start to see some lingering effects of that. There's not a natural recovery, especially in the European market to the extent to which to get back to where they used to be. And so those obviously create some headwinds for us. We have to get content on a per vehicle basis to offset those overall lower levels of production that those three primary markets have gone through the last few years.

In addition to that, though, your point about certain OEMs is absolutely right. Obviously, there's some OEMs that are very much struggling. Some of those have been great customers of ours for a while. And so those have had a disproportionate impact on the negative side of our ability to grow as those customers have struggled with their product lineup and favorability.

Obviously, there's been a huge impact to the profitability of certain OEMs as they've committed to EV executions that have not been accepted by the marketplace the way they expected. That's definitely caused some headwinds for us too, both in our anticipated launches of what we're going to get with those with those growth opportunities, but also now on the back side of that, which is causing cost pressure on -- as those OEMs try to offset the investments that they've made and are obviously being rewarded in the marketplace for those investments.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Maybe first to pick up on your comments about CES and all the products you had there, I know you're meeting with a number of your customers. Now that you've had time to potentially get more feedback from those customers and continue to engage. Can you share a bit more on any areas

you're getting particular momentum in? And especially if you could talk to you around the Large Dimmable Devices, you're making some progress being able to work on the technology there. So it would be -- especially -- interested on that product, too.

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

Yes. The show is really good for us from an overall product strategy in a direction and getting multiple customers, obviously, global customers to see the different technologies and how we're showing them was, again, really successful.

I would say a couple of the areas that were -- some of the highlights are the ones that I touched on, the Large Dimming demonstrator showing plastic substrate films with the dimming technology laminated between glass was really positively seen help to demonstrate how the technology has evolved from just being between glass like a standard mirror to actually being on a plastic substrate. So that one was really successful. And I think we're gaining some momentum on large area devices coming out of that.

Another one was the Solis, our partner Solis and the Wireless Power, the ability to, in some situations, to not have connectors and harnesses that go through openings, but wireless-ly powered data, and wireless-ly do power and data was actually a really, really well received, and we're -- a lot of interest gaining in different use cases in automotive as well. Those would be the two that really stepped up.

Obviously, we've got a lot of other ones like our HomeLink product, the NextGen System that I talked about, a lot of customers interested in that again, depending regionally, I would say some of our Asian-based customers had a lot of interest in that and the elution of the HomeLink line product as we look forward, gained a lot of momentum, too.

Mark Delaney - *Goldman Sachs - Analyst*

And just in terms of the customer engagement, I mean do you feel like you're close with new bookings for some of those products?

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

Yes. A couple of them. Yes, I think some of those concepts, keep in mind that we're demonstrating the idea of the concept to gauge interest as well. I would say on larger devices, I think we've got a couple of projects that will be that we're moving forward with from a development side that within the next couple of years, we're looking to bring those to market.

On Dimming Visors, we're getting close. I think that's probably another 12 to 24 months to really get that into an execution phase and get that moving in vehicles. Solis, the power -- Wireless Power is a little too early. The first time demonstrating and showing concepts. I think there's some interest in it. We're obviously working with them to promote it, but there's a little more -- the sales cycle and that's still in process.

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

On the other side, on the DMS, Driver Monitoring and Cabin Monitoring side, what was nice to be able to show there was we actually showed the four unique OEM executions we're currently launching. one just started into production. The other three will be launching over the next 12 to 18 months. So it was good to be able to show not only the state that you have you -- have some awards with OEMs, but actually show the physical product and what those will look like.

Mark Delaney - *Goldman Sachs - Analyst*

Okay. And just on the financials, maybe you could detail a little bit more of your expectations. Not only for your own cost downs, but pricing assumptions this year with customers and suppliers relative to some of the typical levels. And -- could you talk about how far you are with the negotiations on that front and securing what you need to in order to hit that 35% gross margin target exiting the year?

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

On the pricing to our customer side, we're modeling about 100 to 150 basis points of headwinds from pricing to we believe we can offset that or more than offset that on the supplier side based on the contracts that we have negotiated. I think we talked about this just a little earlier on the last question, but there is a timing impact of that number. We don't see that until Q2, just given the level of inventory and law that we carry.

But there -- so obviously, the difference between those two hits harder in Q1. But then as we start to get the supplier cost down to roll through our financials in Q2 and beyond is when we start to feel the positive impact of that.

Beyond that -- higher sales levels will obviously help, and then to Neil's comments that he made in his prepared section. We are -- a lot of focus on building material reduction based on engineering work to help over those bill of materials, and then operational efficiency internally. We know that labor has gotten more expensive over the last several years. And so we have some very specific plans on how to make sure we're raising throughput to help offset that higher labor cost.

Operator

Ron Jewsikow, Guggenheim Securities.

Ron Jewsikow - *Guggenheim Securities LLC - Analyst*

Yes. On the mix issues cited for the fourth quarter, on the surface level, interior near shipments were quite a bit weaker than the next year mirror shipments relative to the third quarter. And implied ASPs were also pretty healthy, which suggests, I think FDM is probably pretty stable as a percentage of the mix. I guess -- were there mixes within the mirror shipments? Or was it more related to HomeLink or something else? Because the split of mirror shipments doesn't really screen like mix was a material headwind, at least based on the exterior versus interior splits?

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

Yes. Well, the bigger mix issue there was just the fact that they were down. The significance of the drop in overall mirror shipments and especially -- especially if you look at the OEC sales, that obviously hurts disproportionately on the margin side. And so if you look at those, that's really when we talk about mix. The mix of FDM was solid.

There was, to your point, though, as North America weakens, you do see some of the North American specific features, things like Compass and HomeLink and other features that start to get negatively impacted because of weakness in the North American market. What's unique about FDM is it's not geographically biased as much as some of our other feature sets. So you can produce solid growth profile between Europe, North America, Japan or Korea in that space.

The other aspect of mix that was negative was the geographical mix associated with our China business. So there was quite a bit of weakness in the China market. We continue to expect there to be a lot of cost pressures and weakness in that space in terms of overall volumes.

And then lastly, I think when you look at some of the growth opportunities and what we are expecting from an overall outside mirror shipment, Tesla volumes didn't come close to where we thought they were at the beginning of the year, especially in Q4. And so that definitely had a negative impact on our overall OEC shipments as well.

Ron Jewsikow - *Guggenheim Securities LLC - Analyst*

Okay. That's helpful. And then on the commentary that FDM was a sizable, I think you might have said half of the revenue short fall this quarter. I guess based on implied ASPs, again, that they were pretty stable versus the third quarter, does that imply your base expectation was that FDM

contribution to the business was expected to accelerate in the fourth quarter and either because of kind of channel dynamics or mix that didn't really play out?

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

Yes, that's correct. We are expecting a higher growth rate in Q4 on FDM. Neil mentioned a couple of the launches. But then there was a couple of existing OEMs that we're talking about deploying at higher take rates. And just given some of the struggles they were facing, they either slowed down or pushed out those increased take rates.

Ron Jewsikow - *Guggenheim Securities LLC - Analyst*

Okay. And then if I could just sneak in one more. On the 2025 guide, I know you tend to you and your team tend to like to take -- like to take a conservative advance relative to S&P Global Mobility on production. Is that still the case? Or do you think expectations now as they're set are it more reasonable?

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

No. I think -- I mean, I think they finally came to grips a little bit more like what we -- back to our -- a little more pessimistic position on -- especially Europe and North America at the time. We continue to think that there's still going to be some struggles -- in those three markets.

I think, unfortunately, a lot of the growth that the industry has seen over the last few years has really been strictly driven by the China production environment. And we have obviously definitely a much lower exposure to China than we do the rest of the world from a production standpoint. And so we continue to have a little bit more of a pessimistic take on light vehicle production in North America, Europe and Japan and Korea.

Operator

James Picariello, BNP Paribas.

James Picariello - *BNP Paribas Exane - Analyst*

Just revisit the dynamics that drove the fourth quarter downside mainly driven by the lower OEM sales mix and the key customer underperformance. I know this has already been asked, but just how are you bridging to or thinking about that 6 points of outgrowth now embedded in the 2025 guide? It does sound as though FDM remains a key driver of that outperformance. Your key customers similar to the fourth quarter, have lower build mix or maybe slightly lower take rates for FDM. I assume you have visibility into new customers or customers that recently launched on FDM that you'll be growing substantially with this year. Can you kind of provide some color on that with respect to the 6 points of outgrowth?

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

Yes. Thanks, James. When you look at the overall growth, you're absolutely right. One of the building blocks for that performance in '25 will be continued growth in FDM. Neil mentioned the two new OEMs that we're launching with. Obviously, we have some other OEMs that we've launched within '24 -- '23 and '24. They're still rolling out on new vehicles. And so those will continue to provide the tailwind behind the growth rate in that product lineup. We do see some growth, like we mentioned before, some of the later in we'll have some DMS and In-cabin Monitoring System launches. And so those will also provide tailwinds.

If you look at '25 as a whole, we also -- hopefully, we'll get back to some tailwinds on the OEC side of the business versus the headwinds that we've been facing here for the -- a good portion of '24. And so when we look at individual OEM customers, some of them went through a really rough --

tough time during '24 as well. And so there hopefully will be some recovery from those OEMs as well in terms of not only how they're doing but then the content that they're buying from us as well.

So we look at a combination part of the reason why we give those comments in the prepared section is to point out that a lot of the growth that we're focused on in '25 and '26 is going to be driven by content. We're not expecting a whole lot of help from total light vehicle production. In fact, we're going to have to offset a lot of headwind there.

There will be some -- obviously, some unique OEM mix, some OEMs that have been struggling are doing really well. We think there'll be some more consistent performance between them versus their historical position of each other. But for the most part, this is all -- most of this growth is being driven by content growth in our primary markets.

James Picariello - *BNP Paribas Exane - Analyst*

Got it. That's very helpful. And just apologies if I missed this, but any thoughts on seasonality for the year? Particularly just to start the year in the first quarter, given the choppiness that we obviously saw in the fourth quarter, just high level how to think about maybe the first quarter or first half? And when -- as we consider the VOXX acquisition, is that still expected to close at some point within the first quarter? And just any thoughts you'd be willing to share on the \$40 million to \$50 million -- cost synergy, cost improvement for that business, the timing of that?

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

Yes. So I'll start with the VOXX close. We're targeting into Q1. It's kind of the tentative time line we have right now based on waiting on regulatory approvals and shareholder approval and just the normal timing of when that can be accomplished. So that's kind of what our target is right now. Imagine kind of very into Q1 is kind of what we're targeting right now. If you look at your first part of your question, James -- seasonality.

I would say, yes, I think the first half of the year from a seasonality standpoint is going to be really unique, but I think that one is going to be mainly tied to what is happening with North American trade agreements. There's obviously a lot of our customers build cars both in Canada and Mexico and what impact would the tariffs or right of tariffs have on overall vehicle production in those countries. And so that one, I think, is going to cause a little bit of chaos here in the first half of the year, which is to be understood.

I don't think that other than that, I don't think there's going to be a ton of abnormal seasonality that we're expecting for I think it's going to be a pretty normal year in terms of the cadence. And then you had a third question.

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

The last one on the \$40 million to \$50 million in cost savings, really, the first part of the acquisition is really getting to know the team. Looking at duplicate costs where we have both being a public company. I mean some of those costs go away right away, things like insurance and SEC and auditors and those things. And then beyond that is really looking at the strategic part of the business.

And leveraging our spend, we're a bigger company, bigger electronic spend. They buy a lot of electronics. And then longer term, looking at strategic places where we can become a manufacturer of some of the stuff that they make. That's really some of the larger points, but that's going to take 18 to 24 months to kind of get through a lot of that.

Operator

Josh Nichols, B. Riley.

Josh Nichols - *B. Riley Securities - Analyst*

It seems like most of the questions about the near-term stuff have probably been tackled. Thinking a little bit further ahead. So I think '26 sales up a little bit over 7%, 500 bps to 600 bps about performance relative to the light vehicle production estimates. One, is there much built into that in terms of the new technology offerings in dimmable glass, what you've also been doing for Driver and Cabin monitoring or have you been pretty conservative on the expectations for that because those are newer technologies aren't really generating much revenue today?

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

Yes. The '26 -- part of the '26 growth is going to be -- continue to be driven by Full Display Mirror and Driver Monitoring and In-Cabin Monitoring launches, along with kind of our existing portfolio of products. There's really not much in there from a revenue standpoint on -- from large area devices.

Josh Nichols - *B. Riley Securities - Analyst*

Got it. And then historically, if you look back some number of years, right, the company was able to do -- I think you touched on it earlier, like 800 basis points to 1,000 basis points of growth relative to light vehicle production. And I know you've talked about there are some headwinds, so you're still able to do 500 bps to 600 bps. But -- do you think that there's a path to getting back to that high single-digit percentage of outperformance? And like what is that going to be? Is it going to be Driver Monitoring? Or will it be when you have Driver Monitoring, but you're also layering in some large area in Dimmable Devices? I'm just curious your longer-term thoughts about the opportunity that you see with some of these new technologies that you had on display at CES.

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

Yes, I think you're exactly right. I think you'd be looking out several years before that type of outgrowth becomes a possibility just given the market dynamics and conditions that we're experiencing right now. But to your point, once you start launching Driver Monitoring and In-cabin Monitoring and then you start talking about large area devices at full scale, those start to drive the potential for higher growth rates.

Operator

Ryan Brinkman, JPMorgan.

Ryan Brinkman - *JPMorgan - Analyst*

It seems like the customers which underperformed the industry production in 4Q might have just happened to have been those that disproportionately order your Full Display Mirrors. Is that the right way to look at it, that these were actions that the customers took across their lineup? I just wanted to check that it wasn't also maybe like a customer mix like a cement mix phenomenon, as opposed to customer because we've also been hearing that maybe automakers are finding customers that are interested in more affordable vehicles, like Chevy Trax as opposed to a Traverse or maybe lower spec models within a given vehicle like a base versus more low-conversion. I just through -- as given FDM's greater prevalence on higher spend EV vehicles.

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

Yes. No, there was absolutely both of those factors playing. And there's no doubt, if you look at especially the Europe market, I believe, and portions of the North American market where D&E segment vehicles were disproportionately lower. A, B, and parts of C segment in some of these markets actually did okay. But the painful part was really around C, D, and E in our primary markets. And so, to your point, yes, there was definitely more volume going into lower-level vehicles, not only lower segment vehicles, but lower-cost vehicles even inside of some of those segments.

So like I said, it's difficult in the North American market to get your hands on good data on ASP or what the average sale price of a vehicle is. But what the date we're seeing is that there definitely was a trend towards less expensive vehicles in the quarter.

Ryan Brinkman - *JPMorgan - Analyst*

Okay. And I'd love to get your perspective on the extent to which you think that might continue into 2025? And then just overall, when you think about that 300,000 unit increase in FDM shipments that you referenced earlier, how important might customer or segment mix of production B versus contributing to that number, the overall change in industry production or maybe most importantly, I would imagine that the launch activity that you have a plan for FDM in '25?

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

Yes. No, it becomes very important. There's no doubt. If you look at the cost of that product, how it's packaged on vehicles. And then also which OEMs are you participating on, trying to make the more we launch the better -- the better we are able to handle the mix issue between OEMs. And what I mean there is that at the beginning of this process when we first started creating this product, we are only exposed at two or three OEMs, meaning if those OEMs didn't do well, we were in trouble from a product launch standpoint. As we start to roll out into more volume brands, you start to get a little bit more protection as it relates to which OEMs are winning in the marketplace. And how does this product have growth opportunities beyond just the luxury segment.

And so we're doing -- as we launch and continue to increase the number of OEMs we're supporting with this product that actually helps secure the downside of the business a little bit and gives you multiple ways to be able to win or at least compete in the space. But there's no doubt if the trend were to continue of lower-cost vehicles, it would definitely hurt that forecast. What we're seeing is we tend to take a pretty conservative approach. We feel like that 300,000 units is achievable given our customer mix. It's not an overly aggressive target by any stretch. But we are mindful of the fact that there's a lot of economic factors happening right now, especially in our primary markets.

Ryan Brinkman - *JPMorgan - Analyst*

Okay. That's helpful. And then just lastly, how should we think about capital allocation following the VOXX acquisition, particularly with regard to the amount or cadence of buyback?

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

I think as we roll through and hopefully as the close happens, it will definitely impact a little bit our capital allocation strategy and how much cash diverting towards share repurchases. But given the size of the acquisition, we don't think that will really slow us down for a long period of time. We look at the business and what our plans are to help improve profitability.

Our goal is, as we -- like Kevin mentioned, in the 18- to 24-month window as we digest that acquisition and start making improvements to that underlying business we should be able to get back to that level of share repurchases probably even before that time period. But then more importantly, if we're successful in the integration, it will actually provide additional capital that we can use towards our capital allocation strategy.

Operator

(Operator Instructions) David Whiston, Morningstar.

David Whiston - Morningstar, Inc. - Analyst

Just staying on the buyback topic from a different perspective. Your stock is looking really cheap now, especially in line of today. Does that make -- you're also talking about weak production in '25. So does that make you more apprehensive? Or does it maybe fire up to want to do buybacks even more because it is soft -- that unusually the levels?

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

Well, thanks for the -- thanks for pointing that one out. David. No, it's a very fair point, though. I mean one of the things -- from our perspective, we look at a long-term horizon of how the company is positioned, our growth trajectory, what we think our profitability will look like over a three-, four-, five-year period. And this price is disproportionately lower than what we think. I mean, yes, we get the quarter, we understand it wasn't great, but the market does tend to overreact, that tends to put us in a position that we would tend to want to get more aggressive, not less.

So when we look at this, we step forward and say, take a quarter out of it, even '25 performance if we hit these numbers, is going to be back to a level of cash generation that's very good, given the underlying market conditions and '26 would be even better. So as a general rule, we look at these downturns as opportunities to buy typically -- like we did mention, though, is we do have the VOXX acquisition that's still pending. And so it will be a balance between how do we fund the VOXX acquisition at the same time as take advantage of market conditions like these. Because we don't feel like this price point is indicative of what our growth and profitability trajectory looks like.

David Whiston - Morningstar, Inc. - Analyst

Okay. And then going back to the tariff comment you made earlier when you talked about the downstream impact. What about upstream? Are a lot of your raw materials really not coming from Canada and Mexico because they're coming from Asia due to technology components? And then related, is -- does your guidance have any tariff impact in it?

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

So our guidance right now, there was some tariffs that were effective for January 1, but that was only a couple of million dollars. Most of our raw material imports are from Asia, but there is some exposure to Mexico in that, I'll say, \$5 million to \$10 million range a worst-case scenario if the -- if there is a 25% tariff on Mexico, it's Mexico, primarily, there's not really anything from Canada, but there's nothing in our guidance for that yet to be determined -- tariff that is not in effect yet.

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

The one that was effective on January 1, though, is in our numbers.

Operator

I'm not showing any further questions at this time. I would now like to turn it back over to Josh for any closing remarks.

Josh O'Berski - Gentex Corp - Marketing and Investor Relations

Thank you, everyone, for your time today. I appreciate the questions and follow-ups. If there's anything else that you need, please don't hesitate to reach out. But otherwise, have a great weekend.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.

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