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**OVERVIEW:**

Company Summary

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**John Joseph Murphy** *BofA Securities, Research Division - MD and Lead United States Auto Analyst*

**Mark Trevor Delaney** *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

**Michael Joshua Nichols** *B. Riley Securities, Inc., Research Division - Senior Analyst of Discovery Group*

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## PRESENTATION

**Operator**

Good day, and thank you for standing by. Welcome to the Gentex Reports Third Quarter 2023 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.

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

Thank you. Good morning, and welcome to the Gentex Corporation Third Quarter 2023 Earnings Release Conference Call. I'm Josh O'Berski, Gentex's Director of Investor Relations, and I'm joined by Steve Downing, President and CEO; Neil Boehm, CTO; and Kevin Nash, Vice President of Finance and CFO. This call is live on the Internet and can be reached by going to the Gentex website at ir.gentex.com. All contents of this conference call are the property of Gentex Corporation and may not be copied, published, reproduced, rebroadcast, retransmitted, transcribed or otherwise redistributed. Gentex Corporation will hold responsible and liable any party for any damages incurred by Gentex Corporation with respect to any unauthorized use of the contents of this conference call.

This conference call contains forward-looking information within the meaning of the Gentex safe harbor statement included in the Gentex Reports Third Quarter 2023 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 get us started today. Steve?

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

Thanks, Josh. Before we jump into the quarterly summary, I wanted to take a few minutes to discuss the war in Israel. As you may be aware, Gentex made an acquisition in early 2021 of Guardian Optical Technologies based in Tel Aviv. And since that time, we have been growing our technology presence in Tel Aviv, which is primarily focused on using AI to create innovative products focused on driver and in-cabin monitoring. We have also recently partnered with a company named ADASKY, which is also headquartered in Israel.

We remain close contact with our team and partners in Israel and are thankful to report everyone on those teams along with their immediate families are safe as of our latest report. It is important to note, however, that while our team is safe, several of our team members and partners have already experienced loss of friends and extended family members. As a Gentex team, we continue to keep our employees and partners and our thoughts and prayers and are constantly looking for ways to show our support for their safety and the safety of their families and friends.

For the third quarter of 2023, the company reported net sales of $575.8 million compared to net sales of $493.6 million in the third quarter of 2022, a 17% quarter-over-quarter increase. For the third quarter of 2023, global light vehicle production in North America, Europe, Japan, Korea and China, increased approximately 5%, compared to the third quarter of 2022. While the last few years have been negatively impacted by labor and supply chain issues that limited our ability to meet customer demand, the last several quarters have improved significantly. The growth in the third quarter is a continuation of the unit and content growth we experienced during the first half of this year and is indicative of the success of our technology platforms, including the launch rates and increased take rates of our Full Display Mirror products.

In terms of performance metrics, our unit growth in the third quarter outperformed the underlying market by 5%, while our revenue beat the market by 12%. For the third quarter, the gross margin was 33.2%, compared to a gross margin of 29.8% for the third quarter of last year. The third quarter gross margin increased by 340 basis points on a quarter-over-quarter basis as a result of the higher sales levels, improvements in freight and tariff-related costs cost recoveries and price increases from customers and improvements in product mix. However, some of these improvements were partially offset by increased raw material costs, labor costs and scrap and yield loss increases as compared to the third quarter of last year.

When compared to the second quarter of this year, the gross margin in the third quarter improved from 33.1% to 33.2%. We continue to make progress on our margin recovery plan that we estimated would take until the end of 2024 to complete.

In the 6 months following the close of the first quarter, we have seen gross margins expand 150 basis points as the gross margin grew from 31.7% during the first quarter of 2023 to 33.2% in the third quarter. Obviously, I'm very pleased with the progress made so far in calendar year 2023, but we still have an incredible amount of work to do in the fourth quarter of this year and in 2024 in order to accomplish our goal of achieving a gross margin of 35% to 36% by the end of next year.

Our focus for the next 18 months will be on achieving improvements in our material costs and supply chain expenses, but will also include targeted improvements in our operations by increasing throughput, lowering scrap and yield loss and reducing overtime expenses.

Operating expenses during the third quarter increased by 14% to $69 million, compared to operating expenses of $60.4 million in the third quarter of last year.

Operating expenses increased quarter-over-quarter, primarily due to staffing and engineering related professional fees, which were partially offset by lower outbound freight expenses. Our operating expenses are trending in line with our expectations, with increases primarily focused on R&D as we continue to add technical capabilities and bandwidth to support the increased level of launch activities while also continuing to expand our research into new technologies. The amount of work that our team has accomplished in our advanced research areas is promising and will ultimately lay the groundwork for growth in future years. R&D expenses are expected to continue at an elevated pace for the rest of this year and throughout calendar year 2024, as we invest in innovative products and technologies, new business awards and VAVE initiatives for cost optimization of our bill of materials.

Income from operations for the third quarter was $122.4 million, a 41% increase when compared to income from operations of $86.8 million for the third quarter of last year. During the third quarter, the company had an effective tax rate of 15.9%, which was primarily driven by the benefit of the foreign derived and tangible income deduction. Net income for the third quarter was $104.7 million, compared to net income of $72.7 million for the third quarter of last year, which represents a 44% increase. The increase in net income was primarily the result of the quarter-over-quarter increases in net sales and operating profits. Earnings per diluted share for the third quarter were $0.45, a 45% increase compared to earnings per diluted share of $0.31 for the third quarter of last year.

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

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

Thanks, Steve. Automotive net sales in the third quarter were $564.5 million, a 17% increase compared with $480.9 million in the third quarter of '22. Auto-dimming mirror unit shipments increased by 10% during the third quarter compared to the third quarter of '22. Other net sales in the third quarter, which includes dimmable aircraft windows and fire protection products, were $11.3 million compared to other net sales of $12.7 million in the third quarter of '22. Fire Protection sales decreased by $5.3 million for the third quarter compared to third quarter of '22, while dimmable aircraft window sales increased by $4 million for the third quarter of '23 compared to last year.

Share repurchases. During the third quarter of '23, the company repurchased 0.8 million shares of its common stock at an average price of $32.41 per share. As of September 30 of '23, the company has approximately 18 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 will vary from time to time and will take into account macroeconomic issues, market trends and other factors the company deems appropriate.

Shifting over to the balance sheet. The balance sheet comparisons mentioned today are as of September 30, 2023, as compared to December 31 of '22. Cash and cash equivalents were $260.6 million compared to $214.8 million. Short-term and long-term investments combined were $290.1 million, up from $225.3 million, which includes fixed income investments as well as the company's equity and cost method investments. Accounts receivable was $351.1 million, up from $276.5 million due to the increase in sales levels. Inventories were $395.5 million, down from $404.4 million, and accounts payable increased to $171.4 million, up from $151.7 million.

Taking a look at preliminary cash flow items for the quarter and year-to-date. Third quarter of '23 cash flow from operations was $125.9 million, which was an increase from $47.1 million in the third quarter of '22. The increase was due to increases in net income and shifts in working capital. Year-to-date cash flow from operations was $367.7 million, an increase from $241.8 million in '22, also due to increased net income and changes in working capital.

Capital expenditures for the third quarter were $31.1 million compared with $50.5 million for the third quarter of last year. There were approximately $15 million worth of expenditures accrued but not paid as of September 30. And year-to-date capital expenditures were $121.4 million compared with $108.5 million for year-to-date '22. When including the accrued but [on-take] capital expenditures, CapEx for the calendar year is approximately $136 million. And lastly, depreciation and amortization for the third quarter was $22.2 million compared with $23.2 million for the third quarter of '22. And year-to-date, D&A was $71 million compared with $73.3 million for year-to-date '22.

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

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

Thank you, Kevin. In the third quarter of 2023, we again experienced a high level of product launches. For the quarter, there were 28 net new nameplate launches of interior and exterior auto-dimming mirrors and electronic features net of previously disclosed product headwinds. Additionally, during the third quarter, over 70% of the net launches contained advanced features, led by Full Display Mirror, HomeLink, and advanced featured exterior mirrors.

Now let's focus on Full Display Mirror. Full Display Mirror continues to gain momentum with our customers through increased launches, which has been driven by consumers, and that has led to increased volumes and take rates. In the third quarter, Full Display Mirror volume performance continued to be strong. And through the first 9 months of 2023, we have shipped approximately 1.75 million units. At the end of the second quarter, we increased our 2023 annual estimate of Full Display Mirror unit shipments to be approximately 500,000 units higher in calendar '23 compared to calendar year '22.

Based on our current forecast, we believe our goal for 2023 is very achievable if there aren't any significant impacts due to the ongoing strikes at our OEM customers. As we covered last quarter, over the last 2 years, we've incurred significant product cost increases due to the state of electronic markets, supply chain issues and labor constraints. But we are now at a point where we're turning our focus on optimizing designs, looking for similar quality but lower cost components and leveraging the supply base in an effort to drive cost out of our bill of materials.

As we enter the fourth quarter of 2023 and prepare our plans for 2024, the purchasing, development and launch teams have started the process of identifying components and products where we need to make a change to help in this effort. In some situations, this process will drive us to create new long-term partnerships, and some of our current suppliers may lose volume or be displaced completely. Our strategy is very simple, work with key suppliers and partners to find win-win scenarios. And if this means we need to move to or create new partners, then that's what we'll be executing. The first wave of these redesigned projects will be kicked off here in the fourth quarter and several more in early 2024. This activity is important for us to achieve the long-term financial goals of the company, and we'll be applying the appropriate resource focus to these projects to make them happen.

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

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

Thanks, Neil. The company's current forecast for light vehicle production for the fourth quarter of 2023 and full years 2023 and 2024 are based on the mid-October 2023 S&P Global Mobility forecast for light vehicle production in North America, Europe, Japan, Korea and China. Light vehicle production in these markets is expected to increase 4% for the fourth quarter of 2023 as compared to light vehicle production for the fourth quarter of last year. For calendar year 2023, light vehicle production in these markets is forecasted to increase 9% compared to calendar year 2022. Fourth quarter 2023 and calendar years 2023 and 2024 forecasted vehicle production volumes from S&P Global Mobility are shown in our press release from today. Based on this light vehicle production forecast, the company is providing updated guidance estimates for calendar year 2023.

Revenue for 2023 is expected to be between $2.2 billion and $2.3 billion. Gross margins for the year should be between 32.5% and 33%. Operating expenses are still expected to be between $260 million and $270 million. Given year-to-date performance, we are lowering the high end of our estimated annual tax rate for the year, which is now forecasted to be between 15% and 15.5%. Given the long lead times of capital projects, capital expenditures are now expected to be between $200 million and $215 million for the year and depreciation and amortization is expected to be between $95 million and $100 million for the year.

Additionally, based on the company's current forecast for light vehicle production for calendar year 2024, which is currently estimated to increase by 1% as compared to 2023, the company expects calendar year 2024 revenue to be between $2.45 billion and $2.55 billion. The company is on pace for a record-setting revenue this year, which has been aided by tailwinds from the relief of the supply chain constraints along with strong demand for outside mirrors and advanced electronic features.

Our outgrowth versus the market demonstrates that our product strategy is succeeding with our customers and consumers. At the same time, progress on the path toward improved profitability continues, as we execute the additional cost improvement initiatives that will enable us to accomplish our plan of reaching a 35% to 36% gross margin range by the end of 2024. While gross margin improvements have continued throughout 2023, the sequential improvement from the second quarter to the third quarter of this year was subdued by certain product mix issues that will hopefully subside as we move into the fourth quarter and next year. The fourth quarter will likely be impacted by the UAW strikes from both a revenue and margin perspective, but we remain confident in our ability to continue to grow revenue while improving our margin profile throughout the end of this year and into 2024.

That completes our prepared comments for today, and we can now proceed to questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And our first question will come from the line of Luke Junk from Baird.

Our next question will come from the line of John Murphy from Bank of America.

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**John Joseph Murphy** - *BofA Securities, Research Division - MD and Lead United States Auto Analyst*

Just a question on the fourth quarter guide or implied EPS. It seems like there's a fairly wide range. And I'm just curious why that is as a result of not knowing what's going on with the UAW strike at the moment. Hopefully, it's getting resolved soon? Or is there something else that's going on?

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

No, it's just about the risk. I mean, obviously, as we're preparing this and working through it even last night, some of the news, obviously, could be encouraging. But at the same time, what we're having to estimate is assuming that the exposure to the Detroit 3 continues for a while longer. And so that's what's in our estimates is making sure we consider that fact.

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**John Joseph Murphy** - *BofA Securities, Research Division - MD and Lead United States Auto Analyst*

Okay. And then just a second question. When you're seeing mix improve and then volumes rising, the opportunity set or the potential to get margins back potentially faster than you're expecting seems a lot more plausible than it may have been 6 months ago. As you think about the progression to your ultimate gross margin targets, what are the key drivers to getting there? Are they internal or external? And if external gets much better than you may expect right now as the strike gets resolved and volumes continue to surprise to the upside, could we get there potentially a little bit faster?

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

I don't think we'll get there faster. And the reason why I say that is a lot of the -- you're absolutely right, John. The growth is the key and the sales volumes and mix have to be right. And so even assuming those factors, one of the things that we have to remember and one of the things we're working through and the reason for Neil's comments in the prepared comments, was really focused on saying, hey, a lot of the products, if content is coming, that's where a lot of the cost increases happen, we're on advanced feature products. So whereas historically, that's always been a great part of product mix. It also means we have some work to do to get the bill materials back in line with where we expect it to be in order for that to have the read-through and the total financial performance that we were hoping for previously.

So -- whereas we have our plan, there is a lot of work, and that's why Neil kind of made those comments during his prepared comments, was about there's some work that needs to be done. In other words, just selling isn't going to be enough on its own. We have engineering work and obviously some bill materials improvements that have to be made in order for us to achieve those.

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**Operator**

Our next question will come from the line of Josh Nichols from B. Riley.

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**Michael Joshua Nichols** - *B. Riley Securities, Inc., Research Division - Senior Analyst of Discovery Group*

Since we haven't talked about it in a little bit, clearly, you're benefiting from increased penetration rates for your interior and exterior auto-dimming mirrors. Any commentary about where that stands today? Or if not, could you at least kind of discuss a little bit about what you're seeing in penetration rates in some of these emerging markets, like China? And how that compares to where you are with more established markets in the U.S. and Europe?

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

Yes. I think if you look at outside mirrors, especially, there's been a lot of growth in Asia, including the China market. But really outside mirror take rates have been increasing pretty much globally. And so we've done really well with that product line. And beyond that, I think the next biggest one you'd look at on the take rate side would be Full Display Mirror. Obviously, the number of launches that we've been talking about over the last couple of years have grown significantly. But even inside of those programs that we've already launched, the take rates have changed quite a bit in that same time period meaning that we're moving from -- typically moving from base auto-dimming mirrors to Full Display Mirror. So both of those trends have been very positive for us over the last couple of years. And we're -- based on what we're seeing, we don't see that changing anytime soon.

**Michael Joshua Nichols** - *B. Riley Securities, Inc., Research Division - Senior Analyst of Discovery Group*

And then just to follow up on that. Clearly, the Full Display Mirrors have very nice ASP contribution relative to other mirrors. How does it stand though on the margin? I know that there's been some cost pressures there? Is it above the corporate average or below? Or I'm just curious how that's going to impact the business going forward because that's become an increasingly large percentage of the revenue growth.

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

Yes. I would say right now, we're actually slightly below corporate average. And the reason for that is some of the factors we talked about just a couple of minutes ago with that was -- a lot of those products took the brunt of cost increases, especially on the high-end electronics side. And so that's why we're going to be focused on a lot of those products as we move through this year and through next year, making sure that we're getting cost optimized designs in place to help get those back in line so that they're closer to corporate average margin profile.

Like we said, there's an engineering effort that has to take place and then a launch effort and validation. And so they don't have an immediate impact, but we know it sets the stage very well for the next 18 months to 2, 3 years in terms of total financial performance.

**Michael Joshua Nichols** - *B. Riley Securities, Inc., Research Division - Senior Analyst of Discovery Group*

And then last question for me, then I'll let someone else take a turn. But I know, obviously, hard to frame, right, the UAW impact, it's still going on, some good potential news, right? From Ford, we see if that spills over to the other automakers in the U.S. But fair to say that while there's a relatively large or wider guidance range for 4Q that you're not anticipating any impact for '24, so still that 10% growth that you're forecasting, there's nothing really built in for any headwinds there that's more back to normal operating environment. Is that true?

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

Yes, that's our assumption. So if we're looking at a -- if this year comes in anywhere close to S&P's estimate for fourth quarter auto production and a 1% growth rate above that in 2024, we feel pretty comfortable we can produce the numbers inside of that revenue range.

**Operator**

And our next question will come from the line of Mark Delaney from Goldman Sachs.

**Mark Trevor Delaney** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Yes. First, I was hoping you could double click a little bit more in depth around both price and cost. You talked about perhaps an opportunity to go after some of the input costs that you've been seeing in some of the inflation that your company has been dealing with maybe is subsiding. If you can talk a little bit more broadly as you think about '24, but then extend that as well as how you're thinking about pricing? And as you start to negotiate with your OEM customers, you've been able to secure some recoveries, does the pricing dynamic get perhaps more difficult in '24 in particular, some of these OEMs have higher labor costs now? And how does that maybe net with the margin improvement targets that you laid out?

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

Yes. Thanks, Mark. What I would say is on the recovery side, we've been working really hard on that over the last 18 months, and the team has done an amazing job of positioning us well with OEMs to negotiate most of those deals. There's still some residuals that will happen in Q4 and beyond. But we're probably 80% of the way through that with our customers. And that's why we now are talking about the focus, which we had always known would be wave 2 of our work and improving margins was going to be focused on internal costs and supplier costs.

So our focus there has been, like, to Neil's point, isn't just purely economics all the time. It's also engineering our way into more cost-efficient solutions. And so the team has been already actively working in the space. The next 18 months, though, is going to become a lot more effort and focus on redesigns and on making sure that we have the right product partners from a supplier standpoint and cost-efficient solutions. So it is going to become more difficult in the second year of going after it because this isn't just a negotiation piece, this is going to be a lot of engineering work that's required in order to accomplish these improvements.

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**Mark Trevor Delaney** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Okay. Got it. And maybe you could also talk a little bit more on what you're seeing by the key region in terms of the production schedules and particularly internationally in areas like Europe and China, one of the other Tier 1s talked about seeing some potential macroeconomic impact on European and China schedules. And especially as you guys have a '24 target out there, we get to understand what the trajectory in the production schedules may be as you look at those key regions.

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

Yes. I think for sure, if you look at Europe, I mean, it's -- historically, it's tended to trend pretty similarly with North American market in terms of macroeconomic issues. And so I wouldn't see any real change in Europe versus what we're seeing already in North America, and that's really affected mostly by interest rates currently. So what the underlying economic condition of the country and the region where you're participating? And then what is the lasting impact of cost of money? And how does that impact consumers' buying habits? And so I think those will be the biggest factors both in North America and Europe. China is a little different. There's been an extreme amount of volatility in that marketplace. I mean, we've done well through that. But we also understand that there's a lot of pressure on the OEMs right now. There are some concerns around profitability with those OEMs. And so that's one of the things that we look at and pay a lot of attention to is what is the financial stability of the customer base as well. And I think our biggest concern there would be in the China market, not in the rest of the world.

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**Operator**

Our next question will come from the line of James Picariello from BNP Paribas.

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**James Albert Picariello** - *BNP Paribas Exane, Research Division - Research Analyst*

Just wondering if you could speak to the rising or the increasing -- still increasing raw material costs. That was called out as a headwind for us in the quarter, and in particular, on chip semis pricing, what the backdrop looks like there as we think about next year? And then my follow-up question would be to Neil. My apologies, I had to join the call late, and I just cut the tail end of the redesign effort. If you could just elaborate a little bit on that. I might have a follow-up to the redesign topic as well.

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

Sure. Go ahead.

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

Yes. So on the chip pricing, that's really something that we had some already negotiated stuff that happened in the first -- towards the end of the first quarter, really in the second quarter. So we didn't see the full brunt of that headwind really into the third quarter. So it was something that was we had briefly talked about it last quarter, but it kind of offset some of the other positive things that we had going on. So I think that was just a little bit of the noise on the bill materials side. But it's really -- it's not nearly as much as what we had already planned, but kind of offsetting some of the positive things that we saw really balancing through the third quarter.

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

Yes. And we still are seeing a couple of suppliers that are still asking for some increases. So part of my prepared comments was around looking at products and components and finding alternate solutions or design strategies as the next phase. So as we get into Q4 here and into 2024, we're in the process of identifying the products and the components that we need to focus on in order to help remove cost out of the build material, especially as Steven mentioned a little bit ago, especially on some of the higher content products like Full Display Mirror, where you have a lot more technology. Those are the areas that took a lot more financial burden with the cost increases over the last 2 years.

**James Albert Picariello** - *BNP Paribas Exane, Research Division - Research Analyst*

Got it. That's helpful. But can that -- can the redesign effort -- could that potentially lead to additional RD&E and just resource investment on behalf of you guys to really take that to the finish line? Or is that strategy and the investments that are needed pretty well contained?

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

Yes, absolutely. I mean there's definitely a step-up in terms of the R&D requirements in order to achieve those. It is contained inside of our guidance. And really, what we're talking about is a redirection. And as we move into 2024, the growth in both the top line but also in the engineering base of the business, a good portion of that is going to be focused on redesign efforts.

**Operator**

And our next question will come from the line of Ryan Brinkman from JPMorgan.

**Ryan Joseph Brinkman** - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

I see you're essentially reiterating the full year outlook despite the headwind from UAW strike. So are you able to quantify an impact to date from the strikes? What is now embedded in the updated guide for the full year? And then could guide remain unchanged versus the time of 2Q earnings, something have to track better, right, by an equivalent amount to offset the strike headwinds? So what do you say track better? Or did you maybe contemplate some strike impact? Or how should we think about this factor?

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

Well, I'd say -- and we'll start with Q3, it was a very modest impact in Q3. If you look at the plants that were impacted and the portions of OEMs, very modest impact to us. As we've moved through -- as Q3 -- our Q4 started, basically, we were running sub $1 million a week impact, obviously, with the latest announcements over the last few days, including some of the GM plant shutdowns. Those are plants that are more impactful to us. And so we've gotten to the range where we could be talking about if things didn't change from where they're at right now, $2 million to $2.5 million a week in lost revenue is about what we would be facing.

And so as we move forward, obviously, depending on the breadth and scope of the shutdowns, we'll determine how much and how long will ultimately drive what the total impact is to the company. And so we do believe we're well inside of that range with the guidance that we gave. If you look at our -- if you look at the normal cyclical nature of Q3 move to Q4, by the end of the year, you normally expect a little bit of trail off around the holidays. But normally, October is a very strong month, and there's been no reason to believe that's not consistent. We've actually been doing very well and staying very busy throughout October despite some of these challenges. The question will become, how long does this run? Is it beyond October through November? And which OEMs are able to settle the disagreement?

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**Ryan Joseph Brinkman** - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. Great. And then relative to the reference in the release and then in the prepared remarks to about the last several quarters having improved significantly from a supply chain perspective, I think this is benefiting gross margin in a couple of different ways. You've got a mix improvement because I think earlier some of your shortages were impacting your more advanced higher profit features. Then you've got the leverage of the fixed portion of COGS from the higher sales that, that allows and maybe you've got some lower premium freight or logistics in there, too. How would you sort of bucket those areas of supply chain-related margin tailwind? And then how important is any one of these areas, continued improvement there, continuing to progress towards the targeted 35% to 36% by the end of next year or other areas more important, like I don't know, manufacturing cost efficiencies I heard on the call today about some sort of vendor cost reduction program, et cetera? What's the right way to think about that?

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

Well, yes, I think the single biggest impact, given the improvement in the supply side has been really freight and duties and tariff related, especially expedited freight costs like you mentioned. So that was the single largest impact. Part of it is pricing from the supply base, but really it's more so focused on how much expediting freight we had to do in order to keep up with demand from our customer base when things were constrained. So that's improved significantly. So that's obviously helped provide a tailwind to margin profile.

As we talk about moving into the next -- fourth quarter and really next year, if you look at the key focus areas, it's going to be really the higher sales levels and then obviously improved bill of material costs and then lastly, the factors that we mentioned on the operational side. So you're going to be talking about total throughput, scrap and yield loss costs and then limiting the amount of overtime. And so if we can handle those areas, those would be the key areas beyond obviously maintaining product mix and the higher sales level. Beyond that, though, operationally, and once we achieve those targets, that's what's going to equip us to be able to get back to that 35%, 36% range by the end of next year.

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**Operator**

And our next question will come from the line of Ron Jewsikow from Guggenheim.

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**Ronald John Jewsikow** - *Guggenheim Securities, LLC, Research Division - Associate*

Yes. I guess just first, were there any retros or out-of-period pricing benefits this quarter just as we think about modeling?

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

There was a few million, probably about $4 million, $5 million in kind of recoveries in the quarter related to settlement of negotiations.

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

Not all of it was onetime in nature, but sure.

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**Ronald John Jewsikow** - *Guggenheim Securities, LLC, Research Division - Associate*

Okay. Okay. Are you using the strike to help build up some slack in the system or kind of buffer in your supply chain and maybe shifting back to more favorable modes of freight for both inbound and outbound and/or reduce over time?

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

Yes. That was exactly the plan. Depending on the length and severity of the strike is to use this as an opportunity to replenish finished goods inventory back to more sustainable levels and also, obviously, hopefully find a way to get production scheduling back in line so that we can limit over time and some of the reactionary expenses that you face, given customer order changes.

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**Ronald John Jewsikow** - *Guggenheim Securities, LLC, Research Division - Associate*

Okay. That's helpful. And then just high level, like Europe and North American production was down something in the range of 10% to 12% sequentially. But your revenues kind of adjusting for the pricing commentary you gave are roughly flat quarter-over-quarter. I guess like key takeaway is FDM take rates are moving higher or overall product take rates? Or kind of what would you -- how would you bridge the gap? Because those are your 2 core markets or 2 largest markets and you still had roughly flat revenue performance.

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

Yes, you're exactly right. If you look at continued growth in FDM, obviously, there's been some tailwinds on outside mirrors as well. Overall product content, even though volumes have dropped some in that space, like if you look at what the overall dollar content has done very well during that time period, allowing that outperformance versus the market.

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**Operator**

(Operator Instructions)

And our next question will come from the line of Luke Junk from Baird.

And I see no further questions in the queue. I'd like to turn the call back over to Josh O'Berski for closing remarks.

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

All right. Well, that concludes our call. Thank you, everyone, for the time and questions. We'll look forward to chatting in the near future. Have a great weekend.

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**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.