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GNTX.OQ - Q2 2026 Gentex Corp Earnings Call

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**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

**Josh O'Berski** *Gentex Corp - Vice President of Investor Relations*

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Joseph Spak** *UBS AG - Analyst*

**Davis Baker** *Baird - Analyst*

**James Picariello** *Exane Bnp Paribas - Analyst*

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

**Mark Delaney** *Goldman Sachs Group Inc - Analyst*

**David Whiston** *Morningstar Inc - Analyst*

**Rajat Gupta** *J.P. Morgan - Analyst*

## PRESENTATION

**Operator**

Good day, and thank you for standing by. Welcome to the Gentex reports second quarter 2026 financial results conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Josh O'Berski, Vice President of Investor Relations.

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**Josh O'Berski** - *Gentex Corp - Vice President of Investor Relations*

Thank you. Good morning, and thank you for joining us today for our second quarter 2026 earnings conference call.

I'm Josh O'Berski, Gentex's Vice President of Investor Relations. And with me today are Steve Downing, President and CEO; Neil Boehm, COO and CTO; and Kevin Nash, Vice President of Finance and CFO.

Please note that a replay of this conference call webcast along with edited transcripts will be available following the call in the Investors section of our website at ir.gentex.com. Many of the statements made today during the call are forward-looking and reflect our current expectations.

These statements involve a number of risks and uncertainties, both known and unknown, including those described in our press release issued this morning and in our annual report on Form 10-K for the year ended December 31, 2025, as well as general economic conditions.

Actual results may differ materially from those expressed or implied in these forward-looking statements if risks or uncertainties materialize or if our assumptions prove to be incorrect.

Ahead of our prepared remarks, I would like to remind the investment community that we will be hosting our invite-only Analyst and Investor Day on August 27 in Zeon Michigan.

During the event, we will be doing facility tours showcasing some of our new products and prototype vehicles and showcasing the infrastructure that has been going into place to support the expected product line growth over the coming years.

If you are interested in attending, please e-mail me or reply to attend at Josh oberski@gentex.com or sign up at ir.gentex.com.

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

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

Thank you, Josh. For the second quarter, Gentex reported net sales of $651.3 million, down 1% from $657.9 million in the second quarter of last year. Automotive revenue declined approximately 3% year-over-year, reflecting lower revenue in Europe, Japan, Korea and China, which was largely offset by strength in North America.

Our results continue to demonstrate the value of our strategy to grow through technology expansion, increasing content per vehicle and diversification.

While mirror unit shipments and automotive revenue came in below our beginning of quarter forecast, performance benefited from strong North American demand, higher vehicle content in Europe and continued growth from our nonautomotive product lines.

In Europe, new driver monitoring and in-cabin monitoring system launches continued gaining traction and helped offset the impact of a significant decline in base interior mirror shipments for the international market. In China, revenue remained under pressure as ongoing tariff-related market disruptions contributed to a 20% year-over-year decline.

Outside of automotive, revenue from the company's other products category provided meaningful growth. Premium Audio revenue increased 16% year-over-year to $51.7 million, while aerospace, biometrics, fire protection and automotive aftermarket revenue collectively increased approximately 12%.

Nonautomotive revenue represented approximately 14% of total company revenue during the quarter, reinforcing the benefits of the company's diversification strategy and confidence in long-term opportunities to expand both our technology portfolio and revenue base.

Gross margin for the second quarter was 37% compared to 34.2% in the second quarter of last year, representing an increase of 280 basis points.

Gross margin benefited from approximately $18 million of IEEPA tariff reimbursements received during the quarter that reduced cost of goods sold as well as favourable product mix. These benefits were partially offset by higher commodity costs and lower overall sales levels compared to the prior year.

In total, the company received approximately $38 million of IEEPA tariff reimbursements during the quarter of which roughly $18 million reduced cost of goods sold and favourably impacted gross margin.

Excluding that benefit, gross margins still improved sequentially by approximately 50 basis points from the first quarter of 2026 despite lower automotive revenue and ongoing non-IEEPA tariff costs and significantly higher precious metals costs.

The sequential improvement was driven by favourable product mix, disciplined operational execution and improving profitability within the company's other products category. Consolidated operating expenses for the second quarter were $99.7 million compared to $106.8 million in the second quarter of last year.

The decrease was primarily driven by severance costs recorded in the prior year period. On a non-GAAP basis, adjusted operating expenses were $99.3 million compared to $97.5 million in the prior year period. Income from operations for the second quarter was $141.3 million, up 19% from $118.5 million in the second quarter of last year.

On a non-GAAP basis, adjusted income from operations was $141.7 million compared to $130.3 million in the prior year period. The effective tax rate for the quarter was 16.5% compared to 17.2% in the second quarter of last year.

Net income attributable to Gentex was $114.7 million, up 19% from $96 million in the second quarter of last year. On a non-GAAP basis, net income attributable to Gentex was $122.9 million compared to $110.9 million in the prior year period.

Diluted earnings per share were $0.54 compared to $0.43 in the second quarter of last year. On a non-GAAP basis, adjusted diluted earnings per share were $0.58 compared to $0.50 in the prior year period.

While revenue came in below our forecast, disciplined execution across the business enabled Gentex to deliver record second quarter earnings per share of $0.54, an increase of 26% over the second quarter of last year.

The company's strategy remains focused on identifying new growth opportunities despite the challenging market conditions, expanding and stabilizing gross margins, tightly managing operating expenses and deploying capital in a disciplined manner.

Management believes this approach will continue to support earnings growth, strong cash generation and long-term shareholder value creation while also funding investments in the broadest portfolio of new products, technologies and market opportunities in the company's history.

I will now hand the call over to Kevin for further financial details.

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

Thank you, Steve. Looking at the segment revenue. Automotive net sales were $560.1 million in the second quarter, down from $578.1 million in the second quarter of '25.

The quarter-over-quarter decrease primarily reflects lower light vehicle production and reduced base auto-dimming mirror unit shipments. Despite these headwinds, favourable product mix, new technology launches and continued content gains with customers were able to partially offset the decline.

Premium audio. Net sales from the premium audio category were $51.7 million in the second quarter compared to $44.5 million in the second quarter of '20, an increase of approximately 16%.

Growth was driven primarily by strong performance from the Power Systems and Anko brand. supported by new product introductions and continued demand across premium audio categories. Other products.

Net sales from the other products category, which includes aerospace products, fire protection devices, medical technologies, biometric solutions and automotive aftermarket products were $39.4 million, which was a 12% increase compared to the second quarter of '25.

This growth was primarily driven by strong performance in aerospace products as well as continued growth in biometric and accessory product revenues.

Share repurchases. During the second quarter of 2026, the company repurchased 2.7 million shares of its common stock at an average price of $24.48 per share for a total of $66 million.

And year-to-date, the company has repurchased 5.9 million shares for a total of $137.6 million at an average price of $23.13 per share. And as of June 30, 2026, the company has approximately 29.9 million shares remaining available for repurchase pursuant to its previously announced share repurchase plan.

Turning to the balance sheet. Our comparisons today are based on June 30, 2026, versus December 31 of '25. Starting with liquidity, cash and cash equivalents were $233.4 million at quarter end, up from $145.6 million at year-end.

And short-term and long-term investments totalled $247.9 million compared to $278.4 million at the end of 2025. Accounts receivable was $386.3 million on June 30 compared to $368.5 million at year-end, reflecting timing of sales and collections during the quarter.

Inventories totalled $519 million on June 30, up modestly from $516.3 million at year-end. And accounts payable was $266.6 million at June 30 compared to $249 million at year-end, primarily driven by timing of payments and inventory purchases.

Cash flow -- for the second quarter, preliminary cash flow from operations was $180.9 million compared to $166.1 million in the second quarter of '25.

Year-to-date preliminary cash flow from operations totalled $318 million compared to $314.6 million in 2025. Capital expenditures for the second quarter were $19.2 million compared to $31.1 million in the second quarter of '25.

And year-to-date, capital expenditures were $36.2 million compared to $67.8 million in '25. And depreciation and amortization expense for the quarter was $25.8 million compared to $27.4 million last year.

And year-to-date, depreciation and amortization expense was $51.4 million compared to $52.9 million in 2025.

And as a result, second quarter free cash flow reached $161.7 million, an increase of approximately 20% from $135 million in the second quarter of '25. And year-to-date free cash flow totalled $281.8 million, up approximately 14% from $246.8 million in 2025.

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

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

Thank you, Kevin. In the second quarter of 2026, we continued to have strong feature launches of our automotive products. For the quarter, over 75% of the launches included advanced features in our interior and exterior auto-dimming mirrors and electronic modules.

The launch strength in the quarter was driven by HomeLink, Full Display Mirror in-cabin monitoring and advanced featured exterior auto-dimming mirrors. In this past quarter, Full Display Mirror again performed well.

We continue to see good growth and expansion of the product in markets around the world and across all types of vehicle architectures. In the quarter, we began shipping on the new Jeep Recon platform and the Infinity QX 65.

Additionally, in the quarter, we began shipping Full Display Mirror to McLaren on its new W1, to Toyota on the Century SUV and on the Subaru Trail seeker and uncharted nameplates.

Shipments through the first half of 2026 have positioned us to deliver on our estimated growth rate of 200,000 to 400,000 units over prior year that we projected at the beginning of the year.

Our driver monitoring and in-cabin monitoring systems continue to track in line with our expectations for growth over the coming years, and we're pleased to announce we began shipping to BMW on the iX3 and Tekia on the EV tube.

These are some of the most complex programs our company has ever developed, and our engineering and manufacturing teams have done a great job in successfully launching these projects.

Outside of automotive, the premium audio team has been extremely busy with new launches as well. from the limited edition runs of the KO R2 and the Odyssey addition of the Detroit Bluetooth speaker to the Heritage Series latest bookshelf speakers, the Rebellion, the team at Klipsch continues to move the market forward in blending style and performance.

At Angio, the Muse high-power amplifier and limited edition 80th anniversary Creator series powered monitors offer premium design, smart features and versatile connectivity. The audio community has shown substantial support and excitement around these new products.

Now for a quick progress update on manufacturing products outside the United States. Many of our international customers are focused on derisking their supply base by increasing the amount of localized production in each region where they operate.

This has created headwinds for our international growth. Specifically, several of our European customers are requiring manufacturing locations in the region to support their vehicles that are built and sold in Europe.

In support of these requests, Gentex is in process of setting up a plant in Morocco to provide components to our customers in Europe.

While discussions are still underway regarding the product output of this plant, initial requests from our customers would include base electrochromic mirrors and advanced electronic modules.

We have signed a letter of intent, selected the location for our plant, have received the Moroccan government support in creating the entity and are making progress in support of a targeted start of production in 2028.

The second quarter highlighted the company's ability to execute across a broad range of strategic growth initiatives while maintaining cost discipline. Gentex continues to support an expanding number of advanced technology launches, including Full Display Mirror, driver and in-cabin monitoring systems and dimmable device programs, while remaining focused on operational efficiency.

As these technologies gain further market adoption, investments in innovation, automation and process improvement are expected to support future growth while effectively managing operating expense levels. This includes our effort to expand in Morocco.

We believe with our operating discipline and the structure we are establishing in Morocco that the shift in manufacturing will not create a large increase in operating expenses and with core technologies still coming from our existing facilities, we don't see this transition creating excess capacity in our core facilities.

Innovation is a core strength of Gentex and we're driving launches to market today. We continue to innovate across the organization to position us for growth in the future.

So while automotive production environment for 2026 appears to be stagnant, the team at Gentex is setting the stage for a busy and exciting future.

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

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

Thanks, Neil. The company's light vehicle production assumptions for the third quarter of 2026 and calendar years 2026 and 2027 are based on the mid-July 2026 mobility global outlook for North America, Europe Japan, Korea and China.

Based on this outlook, global light vehicle production is expected to decline approximately 2% in the third quarter of 2026 compared to last year and approximately 3% for the full year.

While global light vehicle production is currently expected to be relatively flat in 2027, the company expects continued weakness in the company's primary automotive markets of North America, Europe and Japan, Korea. with any forecasted growth in light vehicle production coming from emerging markets.

Forecasted vehicle production volumes for the third quarter of 2026 and calendar years 2026 and 2027 are shown in our press release from this morning.

Based on actual results through the first six months of 2026, the updated mobility global light vehicle production forecast and the company's expectations for its automotive, premium audio and other products category, the company is updating certain elements of its full year 2026 guidance.

The updated guidance reflects the anticipated impact of all known tariffs effective as of yesterday. Consolidated revenue is still expected to be between $2.65 billion and $2.75 billion.

We are raising gross margin guidance and now estimate it to be between 34.5% and 35.5% for the year. We are lowering our operating expenses budget to be between $405 million to $415 million for the year.

We are lowering our tax rate estimate to be between 16% and 17%. We are also lowering our capital expenditures estimate to be between $115 million and $125 million for the year. Depreciation and amortization is still expected to be between $100 million and $110 million for the year.

Based on the mid-July 2026 Mobility Global light vehicle production forecast and the company's expectations for automotive, premium audio and other products revenue, the company continues to expect calendar year 2027 revenue to be in the range of $2.8 billion and $2.9 billion.

As we enter 2026, we knew geopolitical challenges would continue to pressure our business in China and we also expected ongoing headwinds within our base mirror business.

As a result, we anticipated that revenue growth would be more subdued than what we've historically delivered. Despite those challenges, the execution of our team has been some of the best I have seen during my time leading this company.

Across the organization, we continue to launch, develop, invent and commercialize new technologies at a pace unmatched in our history, while maintaining a relentless focus on profitability, operational efficiency and capital discipline.

Concurrently, we have worked hard together with the VOXX team to improve VOXX's financial performance and we are well on our way to achieve the profitability targets we established post-acquisition.

Similar to the Gentex team, the VOXX and Pac teams have recently developed several new product categories and developed business relationships with attractive long-term growth potential to become meaningful contributors to our overall profitability only 15 months after the acquisition.

Together, we are proving to be formidable competitors in our relevant industries. Our continued focus on quality, operational excellence, gross margin expansion, operating expense management and capital allocation have enabled us to deliver strong earnings performance despite a challenging environment.

Looking ahead, we believe the company is well positioned to have a solid second half of 2026, with growth continuing into 2027 and 2028.

Many of the investments we have made over the last several years in new products and technologies including dimmable visors and sunroofs, our fourth-generation FDM, DMS and ICMS and advanced manufacturing capabilities and other market expansion opportunities are expected to begin contributing more meaningfully to revenue growth.

When combined with our focus on operational excellence and financial discipline, we believe these investments will drive future growth to create significant long-term shareholder value.

Additionally, I would like to take just a few minutes to provide a quick update on the progress we have made since the last quarter on our electronics contract manufacturing initiative.

As we discussed in the last quarter conference call, increased interest in localized manufacturing has created new headwinds and opportunities within our markets.

Neil provided some commentary earlier on the actions we are taking to address the headwinds associated with exports to our international customers.

However, in the United States, these geopolitical influences have helped Gentex gain attention for the exceptional manufacturing work our teams do, especially as it relates to electronics manufacturing.

As a reminder, Gentex currently manufactures between 40 million and 50 million electronic modules each year for the automotive market, fire protection industry, aerospace industry and the medical device industry. We believe we are uniquely qualified to help grow this type of manufacturing in the US.

We believe that by the end of next quarter, we'll be able to announce that we have secured our first award for our advanced electronics manufacturing with start of production targeted for late 2028 to early 2029.

We are still in active discussions for additional programs with various customers and believe we are well positioned to win additional business.

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Joseph Spak, UBS.

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**Joseph Spak** - *UBS AG - Analyst*

Thanks, good morning, everyone. Just maybe a couple of questions here to start. The $38 million IEEPA benefit you mentioned, I know you took 18 that helped gross margin this quarter. So the 20 that went to the balance sheet -- do you have that coming through gross margin in the back half of the year and your updated gross margin guidance?

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

Not -- I mean that goes against inventory. So it reduced what was still held in inventory as of the February 24 date. And we did stop expensing future tariffs as of that point, but everything else was held. So it's really an effective reduction of inventory.

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**Joseph Spak** - *UBS AG - Analyst*

Okay. So it was really just the $18 million in the quarter that sort of that's helping the gross margin guidance. Okay.

I guess, secondly, like you mentioned -- you alluded to this like interior Europe mirrors like really, really soft, probably the lowest in over a decade ex the COVID quarter was over 1 million units lower year-over-year. I know you've talked about losing some business there, which probably ties into some of the Moroccan discussion.

But is there anything else going on there? And how should we think about a good level for that interior European mirrors business going forward?

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

Well, you got two distinct factors. I'd say the vigor of the two was really the China impact. That business has obviously -- since the beginning of the geopolitical issues and the tariff for -- that business has been on a very steady decline. And so that -- and that is primarily base interior auto-dimming mirrors that are impacted in the China market. And then the second one was we did have some loss programs on the Volkswagen side of the business.

And if you look at some of our European customers, they're also struggling with their volumes as well. And so those -- really those three factors are the biggest drivers of that drop.

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**Joseph Spak** - *UBS AG - Analyst*

Okay. And maybe if I could just sneak one more in. The EMS win, good to hear. Any -- can you give us any sort of revenue opportunity associated with that land? Or maybe talk a little bit more about what that product really is that you're making?

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

Yes. Both of the BMW and the Kia are different implementations of it. The BMW has a module that's being placed on the bottom of the mirror. It will have different mirror features that will be tied to it, some of which we haven't announced at, same for the Kia implementation. It's -- that one is a little different in that we're supplying the camera and the emitters as well.

So we have an opportunity to really expand on those features now that we have that core technology in there. And from a revenue side, I think this year is still not significant. I think it's going to be roughly maybe $50 million to $60 million, I think, was this year is. Back half of this year and into next year is when it starts becoming more meaningful.

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**Joseph Spak** - *UBS AG - Analyst*

Sorry, that's the -- you're talking about the DMS, right?

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

DMS Sorry. I just talk about DMS. You were talking about the DMS and manufacturing -- we need better across... Did you say your question again for me, just so I didn't.

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**Joseph Spak** - *UBS AG - Analyst*

Sorry, yes, the -- let's just say the electronics opportunity that you sort of have highlighted in the past, you clearing everything else. Can you talk about any revenue opportunities associated with that?

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

Yeah. The first award we believe, will be probably between $100 million and $200 million. That's the one that we're working on right now. And then from there, we expect the numbers to get larger as we go out beyond '29 into '30, pretty significantly larger. You got a whole DMS conversation there. You weren't expecting fourth question.

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**Joseph Spak** - *UBS AG - Analyst*

Thank you.

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**Operator**

Davis Baker, Baird.

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**Davis Baker** - *Baird - Analyst*

Hey guys, thanks for taking the questions. For starters, can you walk us through the customer conversations supporting your Morocco investment? Just do you have any committed customer frameworks there. And then how can you help us kind of scale production at a higher level?

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

Yeah. So yes, we have several customer commitments already. And that's really with us just securing the facility and not even able to show what it is. The first step in that is going to be a transition of final assembly products from what we're doing here in the US to the Morocco facility.

So it will be really just replacing what we're already doing in a different location for final this was honestly being pushed really hard by our European customer base that we needed to find a solution to help support their business in Europe locally.

And so after a pretty exhaustive study, what we arrived on was from a physical location, we felt pretty confident this is the right move for us right away, that was met very well with customer support.

So we're continuing to see not only focus on existing business that they want to move there, but also new programs that may have been in question for getting an award. Now our customer base has a renewed interest and focus on making sure that we can continue that business growth going forward.

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**Davis Baker** - *Baird - Analyst*

Okay. That's helpful. And then second, can you give us just a high-level update on the internal large-area device efforts setting up production in Zealand, if I remember correctly?

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

Yeah, exactly. We've made some really good progress over the last 6 months as we've been able to get our own different parts of the process. We were doing some contract manufacturing or some outside companies who are supporting us with some contract manufacturing to create the films. We've been able to bring a good portion of that internally and have been able to get the performance and quality of that to a pretty good spot right now. We've been building some parts running through testing at this stage, testing is still looking really good.

So we're think we're getting over the big hill of problems and kind of on the down slope to be able to start really executing the product.

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**Davis Baker** - *Baird - Analyst*

Okay. And then last one for me. Just Investor Day coming up in August, just any previews or teasers that you can give us just before that?

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

Yeah. I think the -- to your question, which is a good lead-in to your second, part of what we're going to do is spend some time actually walking you through the facilities that we put in place and the process that's in place for both visors and large area devices, there's obviously been a huge tech push.

This is an incredibly challenging technology to Neil's point, we feel like we've actually answered a vast majority of those questions and solved a lot of those technical challenges, and we're happy to show what does that facility look like. It's a world-class facility, and we're excited to show that to you and kind of let you see the -- not only the ability to build one, but with the facilities that we're putting in place, the ability to start to scale this at higher volumes as we're further ahead and long that than probably what we've implied on the calls.

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**Davis Baker** - *Baird - Analyst*

Great, thanks guys, I'll leave it there.

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

Thanks Davis.

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**Davis Baker** - *Baird - Analyst*

Thank you.

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**Operator**

James Picariello, BNP Paribas.

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**James Picariello** - *Exane Bnp Paribas - Analyst*

Hey guys. My first question is just on the China revenue, just to square that up, what is the expectation for the full year at this point? Last year it was roughly $150 million, the year prior $200 million. we could see the first half comp. Is there a point of stabilization here with maybe some improvement in the second half? Or is it still in decline?

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

No, it's still in decline. I would say if I had to split all one right now, I'd say it's probably right around $100 million would be where we'll end the year.

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**James Picariello** - *Exane Bnp Paribas - Analyst*

Okay. Got it. And then just thinking about your revenue targets to next year, right, 5.5% growth thereabout. Within that, is China still in decline?

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

Yeah. We're expecting China to continue to decline.

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**James Picariello** - *Exane Bnp Paribas - Analyst*

Okay. Okay. Just on other products, you referenced some very encouraging sequential growth. really across the portfolio. My question is, your total revenue for that -- for the all-in other was down by just $3 million, it's flattish. So what within there did not grow sequentially low double digits?

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

Primarily, within that, it would have been the automotive aftermarket within the VOXX portfolio. That was down a bit, but we have a that's really a seasonal thing. If you look at what it was last year versus now, we still expect decent growth out of that category, but that was one area that didn't perform as well.

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**James Picariello** - *Exane Bnp Paribas - Analyst*

Okay, thank you.

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

Thanks James.

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**Operator**

Josh Nichols, B. Riley.

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

Yeah, thanks for taking my questions. One, just to dive a little bit deeper into the margin. I mean, pretty impressive margins, even though the revenue was light and stripping out the $18 million, you were still up 50 bps. I guess is 35% type gross margin going to be a floor you think, going forward? And how you think about how that margin is likely to be exiting this year as we move into '27 later?

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

I wouldn't say it's a floor. I would say that probably that 34% to 35% is kind of the sweet spot. I mean if you look at the weighted average, the growth in some of these new emerging technologies they're not -- they're going to be slightly below corporate average, some of them just because it is a more competitive set -- but if you look at the growth opportunities as we start talking about visors and some of the other new technologies, those do have a slightly better margin profile. So it's really about that weighted average of how those products kind of come in.

Obviously, with some of the pressure in the emerging markets, China, for instance, those obviously, the lack of revenue there obviously helped degrade margins as well.

So what we're trying to do is offset those losses and find new products to replace them with that are at or around our corporate average margin. And so we feel very confident.

If you look at that growth trajectory -- it's not just about what is that -- it's not that we're not offsetting the losses and problems in the business with wins. It's just how quickly can you do those and how quickly can you ramp them at high volume and more importantly, with good yields.

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

Thanks, and then last question for me. Looking at the out year, I mean, targeting about 7% growth, you're not really getting much light vehicle production and China is expected to be down, just could -- maybe you could articulate a little bit your thoughts about the building blocks, how much of that growth is driven by FDN, but also presumably some significant DMS ramp as well, maybe tiny bit of contribution from dimmable glass in the second half of next year and how you kind of get to that out your target for growth.

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

Yeah. Well, I think, Josh, first of all, thanks for asking that question that way. We didn't go into it too much in our prepared comments, but if you look at next year, what we're anticipating from an LVP standpoint in our primary markets and our midpoint of our guidance, we're talking about a high single-digit outperformance to the underlying market again, which is where we've been there for quite a few years.

And so I think at times, I think that kind of gets washed out a little bit just because the quarter was a hair lighter than we anticipated. And by that, we mean -- I mean, sales actually came in about $30 million light of what we are anticipating for the quarter.

And so when you look at our year, we're continuing to see that strength. That outperformance is really going to be driven by a couple of factors you just called out.

So FDM growth, DMS and ICMS growth a little bit in the back half will be -- start to be driven by some visor sales. But really, it's going to be a whole portfolio of products and not -- and also including what we're expecting out of the PAC team and the audio side. both and Onkyo has some strong product potentials.

And so we're looking at these as all growth drivers of the business. And quite frankly, like we mentioned, it's growth that if we didn't have the losses in China and part of what's happening in Europe, we'd be talking about double-digit growth rates over market conditions.

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

Yeah, thanks for laying that out for me, appreciate it.

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

Yeah, thanks, Josh.

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**Operator**

Mark Delaney, Goldman Sachs.

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**Mark Delaney** - *Goldman Sachs Group Inc - Analyst*

Yes, good morning, thank you very much for taking the questions. I wanted to ask another 1 on the European market dynamic and what your expectations are between now and 2028, when you're able to begin shipping out of Morocco.

And you mentioned some challenges you've already seen in the European market today. But as you think about design wins and share between now and that 2028 time frame, are you expecting additional pressure in terms of your participation within the European market because you don't have the Moroccan site yet?

Or is this more something you just got to get done and that's sufficient visibility and you would not anticipate share loss before 2028?

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

You're exactly right. The conversations we've been having with our customer base there and the plans we put in place basically kind of fend it off those risk factors. If we hadn't made that plan and put that plan in place, then there would have been risk of continued losses there.

But with our plan, we feel very comfortable and our customers do that we have an active plan that we'll execute well on, and they're definitely it's not slowing down or creating more headwinds right now.

The only real headwinds we're really going to experience in Europe is what we just started to see now, which is, a, our European customer base are having -- there's difficult market conditions for them. And so obviously, that flows down to us.

And then secondly, if you look at the continual -- there is a little bit more on the Volkswagen side that we'll continue to see a little bit of volume challenges just from that loss program.

**Mark Delaney** - *Goldman Sachs Group Inc - Analyst*

Understood. And maybe give us an update on your ability to better sell to the Chinese OEMs as they are going into Europe.

I know your business in China has been challenged. But as the Chinese OEMs are setting up European-based operations, where are you in those discussions to begin selling into the European OEMs and then maybe helping to mitigate that dynamic of them taking some share from the European customers in Europe?

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

Yeah. Well, two factors there. Number 1 is, obviously, once we're in a Western environment, the playing field is much more level. And so we feel very comfortable in our ability to compete there.

And then secondly, plant in Morocco gives us another operating advantage, one that we did not have before and the ability to get products into Europe in a tariff -- more tariff-friendly manner also just from an overall logistics standpoint, shorter supply chain and the ability to be closer to the customer base geographically, really starts to put us in a better position than what we have been historically.

**Mark Delaney** - *Goldman Sachs Group Inc - Analyst*

And are those discussions with the Chinese companies? I mean, are those already underway?

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

Yes. It was existing customers. So if you look at most of what we've been dealing with on the Chinese OEM side, these are customers that we are supplying to domestically in China already.

And so our teams on the ground in China still have those relationships with those OEMs and continue to share with them what our plans are for how we're going to be better geographically suited to support the European market.

**Mark Delaney** - *Goldman Sachs Group Inc - Analyst*

Thanks so much, I'll pass it on.

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

Thank you.

**Operator**

David Whiston, Morningstar.

**David Whiston** - *Morningstar Inc - Analyst*

Yes, good morning, Just on the IP refunds. I'm just curious, is there more of those coming throughout '26 and maybe even '27? Or is substantially all the already refunded?

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

We're working on kind of a Phase 2 approach where we were paying it through the supplier. That's probably a little bit lower probability. So our teams are working on some incremental refund, but this is the lion's share of it. that you should realize. So anything else is going to be incremental, but they're really small. Yes, it's really small.

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**David Whiston** - *Morningstar Inc - Analyst*

And on the CapEx guidance change was going down, I was just curious if that -- those -- that difference got pushed to '27? Or is it just not happening?

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

No. A little bit of it will slide, but we feel pretty comfortable with where we're at. I mean, the good news of slightly lower volumes is that we don't need as much capital in order to maintain our capacity. And so that was an advantage. Not a whole lot is going to slide into '27.

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**David Whiston** - *Morningstar Inc - Analyst*

Okay. And just lastly on the Morocco facility. Just can you talk a bit about what were the key variables in choosing there versus perhaps a low-cost European nation in Eastern Europe?

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

Yes. You go through the whole list of factors that you consider geopolitical risk factors from where they're at, cost increases, long-term estimates on what inflation is expected to be in each of those regions.

Then you look at duty and trade agreements that are in place, not only between Morocco or Eastern Europe and the rest of the EU, but also between these countries in the US. And so how do you get parts going -- flowing potentially both ways at the lowest duty and tariff rate possible.

Obviously, you look at power and reliability of energy, and so you start looking through not only the geopolitics, but you look through which countries have their own power source, their own ability to replicate that power and give you stable power supply.

You look at incentive programs and what each of the countries offer and from an incentive standpoint. And then you look at social costs and what do we expect the role of social cost to be in each of the regions.

And so based on all these factors, when we kind of look through everything, we looked at Morocco, it was a clear winner for us. may not be for everyone, but it's something that we looked at and thought it was going to be a good fit for us longer term.

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**David Whiston** - *Morningstar Inc - Analyst*

Okay, thanks guys.

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

Thanks, David.

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**Operator**

(Operator Instructions) Rajat Gupta, JP Morgan.

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**Rajat Gupta** - *J.P. Morgan - Analyst*

Alright, great, thanks for taking the question. Just wanted to follow up on the revenue guidance in the second half, given some of like the challenges into national -- just wanted to get a take of what's giving the confidence in the second half reacceleration. Anything you can point to regionally program-wise, that's helping that? And I have a quick follow-up.

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

Yes. Thanks, Rajat. That's a great question. Really, what we're looking at and why we feel confident in the second half is we believe most of the headwinds that we experienced in the first half are already well known and documented for the second half of the year.

On the flip side of that, though, there are some pretty strong product launches that Neil mentioned during his presentation that we expect to help drive additional revenue in the back half.

So we're talking about additional FDM -- additional OEMs, additional nameplates on FDM, but then also really, we're starting to ramp pretty strong in the back half of the year on some of those DMS and ICMS launches.

And so those factors right there are really going to be the key drivers of what we believe will drive growth in the back half.

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**Rajat Gupta** - *J.P. Morgan - Analyst*

Understood. And just maybe following up on the commentary and the China export commentary and like share loss and stuff like that. Is it -- I mean, obviously, you're still contemplating good revenue growth in '27. Is the assumption embedded in the second half and next year that Europe as the market gets worse before it gets better? Or this is kind of like a new baseline assumption that you're taking into account in the guidance?

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

Yeah. No. So we're not assuming much help on LVP in Europe. And we're expecting that there will be some continued base EC issues. What we are counting on is some additional content in the European market, both through DMS, ICMS and FDM growth with our European customers.

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**Rajat Gupta** - *J.P. Morgan - Analyst*

Just last clarification on gross margin. If we adjust for the $18 million benefit, it does look like the overall gross margin guidance for the year is -- or these gross profit dollars guidance for the year is slightly lower than before. curious, am I just splitting hairs there? Is there anything to read into that? Anything to call out on that front?

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

Yeah. I mean I think it's splitting, to your point, I mean we tend to guide in a range. But if you're looking at just the midpoint, I mean, there may be some variation or slightly reduction, but I think there's opportunity on both the upside and downside. But with the launches of the cadence mix strength, those are the things that tend to drive margins up and then we leverage our overhead costs. So I think there's still higher end of the range is still in play.

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

Well, and I think if you look at it, and obviously, as we're preparing for this, we knew midnight last night was going to bring some type of a change as it related to tariffs.

And so we tend to be a little conservative because this marry go around has gone round and round and up and down a bunch of times. So it's hard to predict.

We also -- we know there's some headwinds coming in the back half of the year, too. If you look at shortages on the electronics side, look at raw material costs, I mean, these are all things that they are headwinds in the back half.

We think our -- to Kevin's point, we think our revenue growth and our operational efficiency will help us offset most of those. But there's just a lot of unknowns as we head into the back half. And so we're probably a little conservative on that guide as well.

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**Rajat Gupta** - *J.P. Morgan - Analyst*

Understood, no, fair enough, and thanks for all the candid color and good luck. Thanks for that.

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**Operator**

Thank you. I would now like to turn the call back over to Josh O'Berski for any closing remarks.

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**Josh O'Berski** - *Gentex Corp - Vice President of Investor Relations*

Thank you, everyone, for your time and questions today. This concludes our conference call.

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**Operator**

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.

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