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GNTX.OQ - Q2 2025 Gentex Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

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

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

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

Thank you. Good morning and thank you for joining us today for our second-quarter 2025 earnings conference call. I'm Josh O'Berski, Gentex, Director of Investor Relations.

And with me today are Steve Downing, President and CEO; Neil Boehm, COO and CTO; and Kevin Nash, Vice President of Finance and CFO. Please note that a replay of this conference call webcast, along with edited transcripts will be available following the call in the Investor Section of our website at ir.gentex.com.

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

If one or more of these risks are uncertainties materialize or if our underlying assumptions or estimates prove to be incorrect, actual results could differ materially from those expressed or implied in our forward-looking statements. I'll now hand the call over to Steve Downing for our prepared remarks. Steve?

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

Thanks, Josh. Gentex completed its acquisition of VOXXX on April 1 of this year, and we did our best in the press release from this morning to provide information for both what we call core Gentex, meaning without VOXX; and consolidated Gentex, which includes financial performance

for both Gentex and VOXX. Additionally, in an effort to not repeat this caveat throughout the call, it is important to remember that for any year-over-year or quarter-over-quarter comparisons, the second quarter of last year does not include VOXX.

In the second quarter of 2025, consolidated net sales were \$657.9 million, which represents a 15% increase over the second quarter of last year. Core Gentex' revenue for the quarter was \$579 million, which represents a 1% growth rate versus last year on a decline of 2% in light vehicle production in our primary markets. VOXX revenue for the second quarter was \$78.8 million.

Given the overall weak light vehicle production in our primary regions, we are very pleased with our sales levels this quarter. This is particularly notable given the impact that tariffs and counter-tariffs have had on demand for our products, especially in the China market.

Overall, sales into China for Gentex during the quarter were approximately \$33 million compared to our beginning of year forecast of \$50 million to \$60 million for second quarter sales. Despite revenue headwinds related to tariffs and reduced sales into the China market, the company more than offset these challenges through strong growth and Full Display Mirror and other advanced features, along with incremental revenue from the VOXX acquisition.

Our consolidated gross margin for the quarter was 34.2%, up from 32.9% in the second quarter of last year. Core Gentex' gross margin was 35.3%, a 240-basis-point improvement versus last year. Sequentially, we saw a 210-basis-point improvement in core gross margin, reflecting the continued success of our margin improvement initiatives. The improvements were driven by purchasing cost reductions, favorable product mix, and operational efficiencies, although they were partially offset by tariffs that were not reimbursed during the quarter.

Additionally, on an adjusted basis, consolidated gross margin was 34.6%, when excluding \$2.5 million purchase accounting adjustment related to the VOXX acquisition. During an incredibly difficult operating environment, this quarter's gross margin performance is a testament to the hard work and discipline the entire team has put into our margin improvement effort.

Operating expenses for the quarter were \$106.8 million, up from \$73.7 million last year, primarily due to the VOXX acquisition. VOXX accounted for \$23.9 million of that increase, plus \$1.5 million in acquisition-related costs on the VOXX side and \$600,000 in costs relating to severance expenses for VOXX.

Core Gentex's operating expenses were \$80.7 million up from \$73.7 million, but this included expenses of \$1 million in acquisition-related costs for Gentex, and \$6.2 million in early retirement incentives for core Gentex. When we adjust for these one-time items, Core Gentex' operating expenses were down slightly versus last year, which is in line with our expectation, strategy, and execution of the work we have been doing on our cost reduction program.

Consolidated income from operations was \$118.5 million compared to \$114.9 million last year. However, core Gentex' operating income was \$123.8 million, up 8% year-over-year. Additionally, when adjusted for the one-time expenses mentioned previously, core Gentex' operating income was \$130.9 million, a 14% increase over last year.

Our effective tax rate for the quarter was 17.2%, up from 15.1% last year, primarily due to lower stock-based compensation tax benefits and a reduced form derived intangible income deduction. Consolidated net income for the quarter was \$96 million, up 12% from \$86 million last year. On an adjusted basis, net income was \$105.8 million, a 23% increase versus last year.

Consolidated earnings per share were \$0.43, up 16% versus last year. When we adjust earnings per share for the one-time expenses mentioned previously, EPS was \$0.47, a 27% increase over last year.

I will 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. Gentex Automotive net sales were \$566.5 million in the second quarter of '25, which were negatively affected by the company's lower than expected sales into the China market due to the impact of counter-tariffs, but were more than offset by increased advanced feature mirror sales.

Net sales from Gentex' Other product lines, which includes dimmable aircraft windows, fire protection products, medical devices, and biometrics, were \$12.5 million in the second quarter of '25, compared to \$13.6 million in the second quarter of '24.

And as previously mentioned, VOXX net sales contributed \$78.8 million during the second quarter of 2025. The company continues to work through post-acquisition transition with a focus on aligning product strategies, optimizing customer relationships, and identifying operational synergies across both businesses.

During the second quarter of 2025, the company repurchased 5.7 million shares of its common stock at an average price of \$22.13 per share for a total of \$126.2 million. And year-to-date, the company has repurchased 8.8 million shares for a total of \$202.2 million at an average price of \$22.97 per share.

And on July 16, '25, the company announced a new share repurchase authorization from the Board of Directors of an additional 40 million shares, representing more than 18% of the company's outstanding shares as of June 30, '25. This new authorization is in addition to the company's existing repurchase authorization.

And with this new authorization, as of today, the company now has approximately 40.6 million shares authorized for repurchase under the 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, today's comparisons are figures as of June 30 versus December 31, '24. These numbers include the initial purchase accounting estimates from the VOXX acquisition as of April 1. And while they reflect our best estimates, they may be subject to change throughout the measurement period.

Starting with liquidity. Cash and cash equivalents were \$119.8 million, down from \$233.3 million at year end, primarily as a result of the VOXX acquisition and share repurchases during the quarter. Short-term and long-term investments totaled \$290.1 million compared to \$361.9 million at the end of '24. These investments include both fixed income securities and our equity and cost method holdings.

Total accounts receivable stood at \$372.9 million. Of that, \$317.5 million was attributable to Gentex, and \$55.4 million came from the VOXX acquisition. The increase in core Gentex receivables was primarily driven by higher sequential sales and the timing of the sales within the quarter.

Total inventories were \$473.3 million with \$380.9 million representing core Gentex inventory. That's down from \$436.5 million at year end, largely due to reductions in raw material inventory. The remaining \$92.4 million inventory is tied to the VOXX acquisition.

And consolidated accounts payable was \$212.6 million. And within that, core Gentex accounts payable was \$156.3 million, down from \$168.3 million at the end of '24, primarily due to lower inventory purchases during the quarter. And the remaining \$56.3 million reflects payables associated with VOXX. And as it relates to cash flow, the company is still in the process of finalizing operating cash flow metrics for the quarter, and we'll provide those details in its upcoming Form 10-Q filing.

Capital expenditures for the second quarter of 25 were approximately \$31.1 million compared to \$31.8 million in the same period last year. And year-to-date, capital expenditures totaled \$67.8 million, up from \$63.6 million in the first half of '24.

And depreciation and amortization expense for the second quarter was approximately \$27.4 million, including \$0.8 million attributable to VOXX, and \$26.6 million related to Gentex. This compares to \$23.9 million in the second quarter of '24. And on a year-to-date basis, depreciation and amortization total of \$52.9 million compared to \$47.9 million in the prior year period.

I'm now handing the call over to Neil for a product update.

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

Thank you, Kevin. In the second quarter of 2025, we had 18 net new nameplate launches of our interior and exterior auto dimming mirrors and electronic features. Over half of these launches in the quarter included advanced feature content, with Full Display Mirror and HomeLink being the primary technologies introduced. The launch cadence has been strong over the past several quarters, and the teams have been doing an outstanding job to make them successful.

Now for an update on Full Display Mirror. In the second quarter, Full Display Mirror launched on the Cadillac CELESTIQ, Ferrari 296 GTB, Genesis GV60, Hyundai Ioniq 9, and the Mitsubishi Outlander. These new launches bring our total number of nameplates launched to 139.

With six months of actual performance and improved visibility around program launches, we now expect Full Display Mirror unit shipments for the full year of 2025 to increase by approximately 150,000 to 300,000 units compared to 2024. Interest in the Full Display Mirror product family remains strong even in a challenging production environment, particularly in North America.

In addition to the growth in units in 2025, we continue to anticipate announcing an additional OEM customer for Full Display Mirror later this year. Full Display Mirror has been one of Gentex' primary growth drivers, and we remain fully committed to its continued advancement. We're actively investing in next generation camera and display technologies, new feature content, and a deeper focus on user experience to ensure the platform remains at the forefront of the market.

Another product focus area for us has been large area devices. In the second quarter, our teams made strong progress in optimizing initial production lines for large area applications, like sunroofs and visors, and advanced key technical aspects such as dimming speed and film durability. Our customers remain highly engaged and we're working closely with them to align product capabilities with their evolving expectations. For larger area devices, our target is to bring this technology to production within the next 24 months.

Turning to VOXX, now that we've completed our first full quarter working alongside their teams, we're focused on gaining a deeper understanding of their product lines, cost structures, and operational opportunities. The various technology and product platforms this acquisition brings, like iris-based biometrics and the Premium Audio Group, will create some new and unique product opportunities, and we're excited to engage into these areas going forward.

We've taken a deliberate approach to not rush the integration so that we can ensure alignment across departments. As with our core Gentex technologies, we're focused on balancing quality, cost, performance, and design, and I remain optimistic that our ability to enhance each of these metrics across our expanded portfolio.

Finally, we're excited to announce that we began shipments of our new PLACE product line through a major big VOXX retail partner during the quarter. PLACE is a suite of advanced multifunctional smoke and carbon monoxide alarms designed to elevate home safety, comfort, and security through room-specific intelligence.

The system is managed via an intuitive mobile app and features an industry-first low frequency sounder, engineered to improve alarm effectiveness for deep sleepers, children, and individuals with hearing impairments. It also aligns with emerging safety standards, including updated residential codes recently adopted in states like California.

As a long-standing leader in commercial fire protection and sensing technologies, the launch of PLACE marks a significant milestone in our strategy to bring cutting-edge, accessible home safety solutions directly to consumers and further expand Gentex' presence in a rapidly growing smart

home market. Gentex is an innovation-driven technology company. Our focus on R&D over the past several years has enabled us to generate a strong pipeline of both automotive and non-automotive products and technologies, and we're excited about the potential they have to help drive our growth into the future.

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. Our light vehicle production forecast for the third quarter and the remainder of the year is based on the mid-July 2025 S&P Global Mobility Outlook for North America, Europe, Japan, Korea, and China. For the third quarter of 2025, global light vehicle production is expected to be relatively flat compared to the third quarter of last year, while light vehicle production in our primary markets is projected to be down approximately 1% for the quarter.

In the fourth quarter, global production is expected to decline by approximately 6%, with similar declines anticipated for our primary markets. For the full-year 2025, light vehicle production in our primary markets is now expected to be down 3% year-over-year, with North American production projected to fall by approximately 4% compared to last year.

Based on this updated production outlook, our first-half performance, reduced demand in China due to the recently implemented counter tariffs, and the expected contribution from the VOXX acquisition, we are revising our full-year 2025 guidance. This updated guidance reflects the anticipated impact of all known tariffs effective as of today.

We now expect consolidated revenue, including VOXX, to be in the range of \$2.44 billion and \$2.61 billion, which is higher than our previous estimate of \$2.15 billion and \$2.32 billion without VOXX.

Revenue from Gentex' primary markets is expected to be in the range of \$2.1 billion and \$2.2 billion. Revenue from the China market is projected at \$100 million to \$125 million. And VOXX revenue is estimated to contribute between \$240 million to \$280 million.

Consolidated gross margin, including VOXX, is expected to be between 33% and 34%. Core Gentex without VOXX is now expected to be between 34% and 34.5%, which is a significant improvement from our prior range of 33% to 34%. VOXX's gross margin is anticipated to be in the range of 27% to 29%.

Consolidated operating expenses, excluding severance, are expected to be between \$370 million to \$390 million. Core Gentex operating expenses are expected to remain unchanged at \$300 million to \$310 million. VOXX operating expenses are projected to be between \$70 million and \$80 million, excluding severance.

Our effective tax rate is now expected to be in the range of 16% to 17% versus our previous estimate of 15% to 17%. Capital expenditures remain unchanged at \$100 million to \$125 million for the year.

And lastly, consolidated depreciation and amortization is expected to be between \$91 million and \$98 million. This includes \$90 million to \$95 million for Gentex and \$1 million to \$3 million for VOXX.

The second quarter began with a flurry of activity that has not slowed down. We closed the VOXX acquisition on April 1 and then moved very quickly into a chaotic period of global trade uncertainty that lasted for the entire quarter and remains unresolved.

It was, nevertheless, a very productive quarter as we continue to make progress on our path toward improved profitability. Our teams are performing at a very high level and our operational efficiency is improving significantly versus the same time last year.

These improvements played a key role in driving strong revenue and profitability improvements, despite revenue reductions in the domestic China market and the lower-than-expected light vehicle production in our primary markets. Over the next several quarters, the company will continue executing the margin improvement initiatives that are targeted to get the core margin profile in line with our long-term target of 35% to 36%.

We are working on those targets. While we're working on those targets, we are also working with the VOXX team to ensure the combined organization is appropriately structured to support long-term profitability and shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Luke Junk, Baird.

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

Hi, thanks for taking the questions. Steve, maybe if we could start with just the underpinnings of gross margin, certainly, I think one of the big stories this quarter. And just curious to get your thoughts on the factors that are now within your controls.

We're starting to see the gross margin improvement effort internally really showing up in the P&L and continuing to work on that versus something of the uncertainty that's still out there, be it in industry production volume, [product mix]. And then my gut -- it feels like you turned the corner on getting your arms around the margin trend. Is that how you feel as well?

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

Yeah. I'd say, I mean, honestly, if you go back over this, it's been a little over two years that we've been working on margin improvement, really, since the forced electronics cost increases that we incurred post-COVID. But since that time there was a lot of other factors. Obviously, the labor crisis and other factors on the industry that caused some problems.

So it felt like over the last two years, every time we made progress, there was some type of headwind that reset the bar lower. This quarter really starts to show the work that's been going on. And it read through all the way through the income statement, which I think is a really positive sign to your point.

And just kind of walk through that a little bit. The way we categorize this, we'd say, there's a negative -- there was a negative in the quarter between pricing and tariffs of 50 to 100 basis points. We're kind of the negatives on margin.

But then, there were several positives, but the biggest ones were PPV. So our savings from our supply base, that was 100 to 150 basis points. And then labor and overhead savings were 150 to 200 basis points positive.

So when you start looking at those trends, we don't see those reversing in the second half of the year. If you look at the pricing from the commodities that we buy, those should be locked in for the rest of the year. And then if you look at the labor and overhead, as long as revenues stay in this range, we should have a very efficient -- and our operational efficiencies are definitely showing the signs of improving the steps that we look at in terms of predicting how are we going to do in the second half of the year.

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

And then just switching gears to China. Certainly, it's coming up in the guidance relative to now, less bad tariff situation. But just curious how you're thinking about China strategically, incrementally? I mean, clearly the market is open again to some extent but still a challenging market with respect to competitiveness, payment terms, et cetera.

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

Yeah, I mean for us, the biggest challenge in the China market is because almost all of those sales are exports out of the US into the China market, the threat of those counter-tariffs, when they got over 100%, basically, had all of our customers in China reconsidering what to do with our product. And on a large degree, it's either some of it got resourced to local suppliers, but the vast majority of it just they punted on the technology itself and just removed it from the vehicle.

And that's also in keeping two things. It's not just the tariffs, it's also the decreasing profitability for OEMs in the domestic China market. A lot of them -- and this is well-documented obviously in that industry, but there's been a lot of challenge with their profitability. And so some of the content and features are starting to get squeezed out from a product planning standpoint.

And so we're relooking at that China market, trying to determine, how do we find a way to grow there? In this market, the way, in the current uncertainty as it relates to tariffs and counter-tariffs, we haven't found that winning formula yet.

But like we've always said, that market does tend to be a little lower than average margin profile. And so there is definitely some help there as that business shrunk. It's not obviously helpful on the revenue side, but it does help on the margin side.

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

Got it. And then, lastly, Neil, just hoping to get a little more commentary on large area devices mid-year. So I guess what you're sharing today sounds like good news in terms of engineering on locks and aligning to what customers are expecting. But for that view to bring production within the next 24 months, could there be some conservatism in there, potentially?

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

There could be a little bit. The team's done an amazing job these last, I'll say, the last six months this first part of the year getting processes improved to get the visual characteristics, performance, all the above on the product and technology to customer level that can really help us accelerate bringing it to market.

So there could be -- I mean, 24 months, I think is a pretty safe window. I think we should be able to achieve something sooner than that. But there's a lot of variables that are still in line in achieving the product that the end customer is looking for.

So still working really hard. Team's doing a phenomenal job. But feel pretty comfortable that within those 24 months, we should be able to get there.

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

Okay. Well, I'll stay tuned. I'll leave it there. Thank you.

Operator

Joseph Spak, UBS.

Joseph Spak - UBS AG - Analyst

Hey, team. Good morning, everyone. A couple of questions, I guess, on VOXX, now that you've had another quarter to adjusted this and it's in the guide.

Obviously, the EBIT is break even this year. It looks like it's a \$100 million annualized OpEx run rate. How should we think about that level on a go-forward basis in terms of either synergies or cost savings that could come out as we think about the next couple of years?

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

Yeah, if you look at the overall OpEx on the VOXX side, we know there's some synergies in combining the two organizations. Part of that is you have two separately publicly traded companies going down to one. We know that that'll bring about a lot of those.

We also know, as Neil's team engages with their engineering teams, there's definitely some overlap and some synergies that we think we can accomplish there. The same thing with the back-office side of the house, we definitely know that working together, we can definitely find ways to be more efficient.

One of them will take a little longer, but that's also ERP integrations. Our system, we believe, is a more efficient system that will help with the workload that's manually required today inside of the VOXX system that we believe we can help with.

So this is a 12- to 18-month process but definitely want to get that OpEx on a percentage basis. Probably won't get all the way to the Gentex level but definitely closer to that -- percentage sales, yeah, on a percentage sales.

Joseph Spak - UBS AG - Analyst

Yeah. It's a percentage sales. Okay. So over a couple of years, you think that's a reasonable --

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

Yeah, very much so.

Joseph Spak - UBS AG - Analyst

Yeah. Okay. And then just keep sticking on VOXX, like I know, with the Audio side of the business, when you talked when you first bought it at the height of tariff uncertainty, there was maybe some decisions that had to be made about sourcing from China versus other alternatives.

And that seemed more clear when tariffs were 145% or higher. Maybe less clear at current levels. I know it's not like we have full tariff certainty yet, but do you have any harder views of what you what you plan to do there or when you think the decision would be made?

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

Yeah. So, the Audio teams, so primarily Klipsch, but Klipsch and Onkyo teams have done a phenomenal job of proactively getting sourcing decisions made to reduce that risk. So in that case in particular, now, as a consumer electronics company, they have a lot more flexibility than an automotive supplier does for sure.

And so a lot of those, they've already made decisions with the existing supply base of how to reduce the risk and exposure to tariffs out of the China market. And so they're actively pursuing relocation of manufacturing in their supply base currently.

I would expect that within 12 months, basically, that most of those transitions will have been handled already. And so to your point, it will be nowhere near that 100% that was threatened and worrisome.

They're, obviously, based on trade deals that are happening between the US and the rest of the world, there will be some remnant of tariffs that will exist for the long period. But it'll be significantly lower than what that 100% risk factor was.

Joseph Spak - *UBS AG - Analyst*

Yeah. Last one for me just on the core Gentex Mirror business. I think like second quarter production did certainly come in better that benefited from you. We're seeing some signs of softening schedules in the back half.

Do you think there was any -- like, would you classify it as any, like, pull forward or shifting in timing? Or -- I guess, how do you view the cadence of the production 2Q through the balance of the year?

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

Yeah, it was like if you look at Q2 and what we're seeing in Q3, we think Q3 is going to be very similar to Q2. I think the softening is really going to happen in Q4. And that's -- if you look at our primary markets, North America, and Japan, Korea markets are the ones that are probably on a year-over-year basis and Q4, are going to be down the most.

If you look at it, there was some pull forward a little bit. We did push back on that with our customers. In other words, what they were looking for was some shipments ahead of trade deadlines.

We just worked with them very openly about, well, we could do that for you, but you're going to -- we're going to incur a tremendous amount of costs on the overtime side. If that's something you need us to do, we'll do, but we got to talk about the expense associated with that. And most of our customers made decisions based on that delta cost basis of whether or not they wanted us to pull ahead schedules.

So I don't think it was as much as what has been speculated. There definitely was a little bit. But I wouldn't say it was a significant portion of our revenue was a pull forward from the back half of the year in the Q2.

Joseph Spak - *UBS AG - Analyst*

Okay. Great. Thanks so much, guys.

Operator

James Picariello, BNP Paribas.

Unidentified Participant

Hey, guys. This is Jake on for James. Now that you've had a chance to have a full quarter owning VOXX and really dig into the business, how do you think about what portion of VOXX revenue should be considered non-core and could be divested versus what you guys definitely want to pull into the core business?

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

Well, I think if you look at that total business, right? I mean it really breaks up into, really, two separate buckets, right? In terms of revenue, you have the Premium Audio. And part of the reason we're excited about Premium Audio is Neil referenced our PLACE launch. And that move into what we're trying to do is expand our HomeLink brand into home automation.

And so both our PLACE product and the Klipsch and Onkyo brands were part of that strategy of how do we combine that business and start to become a bigger player in the home automation space, and start to leverage our manufacturing capability in home electronics as well. And so I look at that and say, that was really part of what we were really attracted to in the acquisition of VOXX.

The other two pieces are really very similar piece of business to what we do. So you have an OEM piece of the business that VOXX on the electronic side handles. And then they have an automotive aftermarket business.

And so they've done distribution for us for a long period of time and we're very familiar with what their distribution model looks like. As we sit here today, both of those are still interesting pieces of business for us where we look at that and say, hey, how can we -- we know we can help improve the overall profitability of those businesses.

And so we want to leverage our supply base on the cost reduction side from a bill of materials standpoint. But then also look at how can we get those products to market quicker at a lower OpEx?

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

And then the one last piece is the biometrics, which has always been part of our growth path for -- in the Mirror growth. And we got -- we're getting our hands on the underlying algorithm through that acquisition. So the EyeLock piece is more of a longer-term strategy, but being able to own that technology was important, too.

Unidentified Participant

All right. Thanks, guys. And then I just wanted to quickly follow up on China. How should we think about the first half, second half split? And then what does the run rate look like going forward into 2026 and beyond?

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

Yeah, if you look at -- the first quarter was almost a normal quarter for us, really, in terms of exports into China. I think that was at \$43 million, I believe, and then \$33 million. I would say, probably, in the back half, you're probably more like \$25 million per quarter roughly.

And then after that, I mean, who knows? But if a deal gets done that's sub-50% tariff rates, then I would say, it's probably \$75 million to \$110 million book of business for us going forward versus the \$240 million, \$250 million we're anticipating this year.

Operator

Josh Nichols, B. Riley.

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

Yeah. Thanks for taking my question. Great to see the margin and the revenue bump coming in here.

I know, I think last quarter, things have been shifting a lot with the tariffs and whatnot. Mix was a big question, right, last quarter. And clearly, mix has become a pretty big tailwind for this quarter. You've seen FDM, other advanced feature mirrors move higher.

I'm curious, like, what's changed a little bit and what you're hearing from your customers for how they're focusing on mix for some of these higher value products? And what continues to be a little bit of challenging, like the co-production market?

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

Yeah, I think, overall, what you're seeing is kind of return to where we were a couple of years ago where OEMs were focused on profitability, knowing that overall light vehicle production isn't probably going to be what anyone would like. But based on that, how do you -- that does tend to shift part of the upper half of the production volume into higher mix for us. That's good.

At the same time, though, you'll see some OEC declines and that's obviously negative on the margin profile side. And so there is some good news in there, but there's also -- there also is some decontenting and some focus on cost from an OEM standpoint that have negatively impacted our OEC volumes.

And so it's not all positive tailwinds. We actually fought through some additional headwinds. And so the financial performance, given that full context, was actually very, very good.

When you look at losing that type of OEC volume on a year-over-year basis, that is a pretty negative, both operationally, but also on the overall margin profile. And so while there is some definitely trend towards FDM and increased take rates on advanced features, the outside portion of the book of business is definitely struggling a little.

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

And then just to touch on, like, VOXX real quick. I think at a high-level, you mentioned it's running around break even today. But when you look at the opportunity for margin expansion, I think the guidance for VOXX is like 27% to 29%.

This year, you guys, your core business is running the best-in-class numbers 34%-plus this year. Like, how much do you think that those margins for VOXX could improve over the next like 12 to 24 months?

As you mentioned, probably not to the level that you guys are operating at the core business, given the nature of it. But I'm just curious how much that synergies and operating leverage is going to be coming through the gross margin line for VOXX?

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

Yeah. I would say I don't know about -- given the industries. I think on the Klipsch side, you have -- you can improve it in a quicker environment because of the cycle on how quickly those products are redesigned. And that tends to be reset the margin profile of consumer electronics quicker and every one of those redesigns gives you an opportunity to improve bill.

The automotive side, obviously, takes a little longer. But I would say, if you're looking out two years or so, I think 200 to 300 basis points of improvement in the gross margin is absolutely achievable.

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

And then last question for me. You touched on the dimmable glass, a very big opportunity there. Good to see the progress the company has been making on that front.

On driver monitoring, a little bit more near-term revenue opportunity. Any updates on that? I know you expect to do a little bit of revenue this year and -- but that could ramp to be more material over the '27, '28 type time frame?

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

Right. Yeah. Exactly. So we start -- our second customer will go to production here in late Q3, early Q4. And then the additional -- and actually, there's -- customer two will be late Q3, early Q4.

Customer three will be late Q4, early Q1 of next year. And then the fourth one will also be early first half of 2026 with, as you said, volumes will be ramping up over the next couple of years. Really, '27 into '28 is when it becomes more significant or substantial.

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

Appreciate the context. Thanks.

Operator

(Operator Instructions) Ronald Jewsikow, Guggenheim Securities.

Ronald Jewsikow - *Guggenheim Securities LLC - Equity Analyst*

Yeah, good morning and thanks for taking my question. Maybe -- yeah, good morning. Maybe starting on just the FDM growth, the increase in the guide.

Any color on what's driving the roughly 5% upside versus prior shipment expectations? I guess one unpack, like, I don't think it's probably like vehicle production volumes or is it take rates? Is it launches coming quicker than expected? Just what you're seeing.

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

It's really a combination of both of those. I'd say the launch cadence and both take rates, I mean, we have line of sight to what this could be. I think we're a little bit more pessimistic on LVP in the first half of the year than what actually happened.

And so with that, we were -- like, we had talked at the beginning of the year that we thought there was a little bit more risk factors there. Given the strong first half of the year and the launches that Neil referenced in the second half, our confidence is starting to increase in us hitting those numbers, primarily based on what's already happened this year.

But then also, even with the lower production volumes, if you look at how we're laid out across those OEMs and what those take rates could look like, we think there's a little less risk factor now than what we thought at the beginning of the year. And so yeah, I think take rates continue to trend positive and then the launches have not slowed down.

And I think that's one of the big improvements in the back half of this year. OEMs are still committed to their product launch cycles and we're hitting those.

Ronald Jewsikow - *Guggenheim Securities LLC - Equity Analyst*

Okay. No, that's super helpful color. And want to maybe double tap or it might be triple or quadruple at this point on the China guide. I guess, what is the reason in your estimation that the China market is not bouncing back, I think, post-tariff relief to pre-tariff levels?

Is local competition filling the void? Was there enough inventory in the channel already that OEMs we're able to use that? Or is there just the content thing at certain OEMs as a result of tariffs?

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

Yeah, if we were -- all three of them are true, but the single biggest one is decontending. If you look at it, and this is really driven by the profitability of the OEMs in that market right now being squeezed very, very tight.

A lot of them -- and you've seen the announcements on negative margin profile for several OEMs and others struggling just to break even. A lot of it has been driven by decontending and trying to get the cost per vehicle down.

There has been a little bit of replacement on local competition, but I would say that's a much, much smaller percentage of the business loss in China is driven by that. More of it's driven by decontending.

Ronald Jewsikow - *Guggenheim Securities LLC - Equity Analyst*

Okay. That's helpful color. And if I could just squeeze one more in. On the tariffs or the net tariff costs that weren't reimbursed this quarter, it seems like it was maybe \$4 million to \$5 million of net costs -- sorry?

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

It's about \$2.7 million.

Ronald Jewsikow - *Guggenheim Securities LLC - Equity Analyst*

Okay. Do you expect those to be reimbursed in the second half, or is that just assumed as leakage in the guide?

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

No. The team's very clear that our expectation is that we're going to get at least all -- most if not all of that reimbursed.

Ronald Jewsikow - *Guggenheim Securities LLC - Equity Analyst*

Okay. No. That's super helpful and I really appreciate you taking my questions.

Operator

David Whiston, Morningstar.

David Whiston - Morningstar Inc - Analyst

(technical difficulty) In terms of the core company getting that gross margining target to 35% to 36%, what major activities still need to be done to get to that level?

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

Right now if mix stayed the same, I would tell you, we're there. But we have additional things that we had kicked off that we're still working on. That includes some product redesigns.

Definitely -- it all started -- if you go back to when the cost increases happened on the electronics piece, there were several things that we began working on. Some of those redesigns, we're still working on that we haven't fully executed yet. There's obviously continuous improvement on the manufacturing piece: throughput, yield, scrap cost, those types of things.

Also one of the things that we always work on is replacement of products. And that can mean that can mean different things, right? So some of our incoming bill materials are impacted by tariffs from different regions, so looking for alternative supply. And so we're constantly looking at those saying, how do we de-risk the business to make sure we get to this margin profile and stay at it for a longer period of time.

David Whiston - Morningstar Inc - Analyst

Okay. Thanks. And then on your supply chain, how much exposure do you guys have to rare earths and magnet materials from China upstream?

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

I would say on the rare earth side, there's quite a bit of exposure on the coding side for core Gentex, right? There's a lot on the precious metal side and our codings, especially.

Obviously with the Klipsch acquisition, magnets became a much bigger piece of -- magnets weren't a problem for us pre-acquisition. But obviously, that is something that the Klipsch team and the Premium Audio team has been working really hard on to make sure that does not become an issue for them and their ability to deliver to their customer base.

I would say they've done a really good job of de-risking that supply as much as humanly possible in this environment. Not that it's completely risk free, but right now, we feel like we have a very good plan of how to make sure to maintain supply of magnets for their speaker products.

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

Yeah. Thanks, man.

Operator

Thank you. And I'm currently showing no further questions at this time. I'd like to hand the call back over to Josh O'Berski for closing remarks.

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

Thank you, everyone, for your time today. As a reminder, we will be at SEMA in November. If any investors are interested in joining us, please reach out. But this concludes our conference call. Have a great weekend.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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